



# Workers Compensation Financial Update

YOUR WORKERS COMPENSATION RESOURCE—Comprehensive Data, Objective Analysis, Meaningful Results

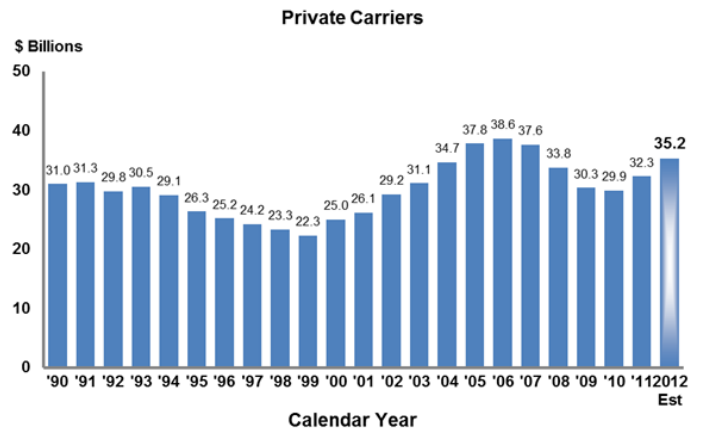
October 2012

## Workers Compensation Financial Results Update

Calendar Year 2012 is on path for a second year of growth in net written premiums for workers compensation. Current estimates for 2012 net written premiums are at \$35.2 billion, which represents 9% growth over 2011. This is an estimate based on private carrier reported direct written premium and the historical relation between direct and net written premium over the past decade. The full year estimate is based on data for the first six months of 2012.

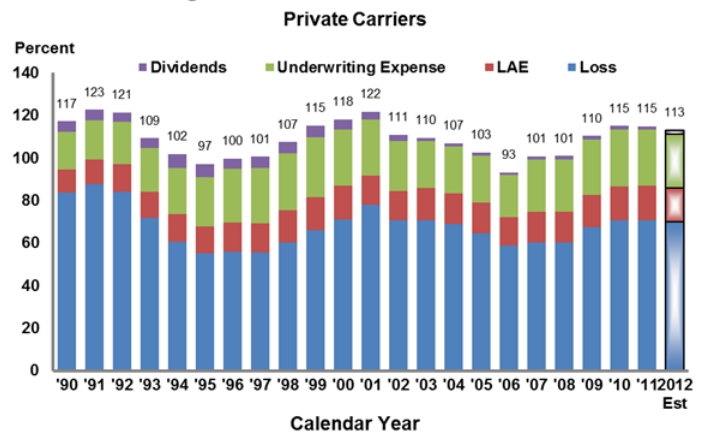
The net combined ratio for workers compensation likely has improved slightly and is currently projected to be 113 for 2012. This projection for 2012 would be the first decline in the combined ratio since 2006. The estimate is based on private carrier direct calendar period losses incurred, direct earned premium, and the historical relation between direct and net losses and premium. The full year estimate is based on 2012 data for the first six months.

**Workers Compensation Premium Volume Level:  
Premium Growth Continues for 2012**



Source: 1990-2011, Annual Statement data;  
2012 Est, NCCI estimate based on reported direct premium as of 2nd Quarter 2012

**WC Calendar Year Combined Ratio:  
Underwriting Losses Moderate for First Time in 6 Years**

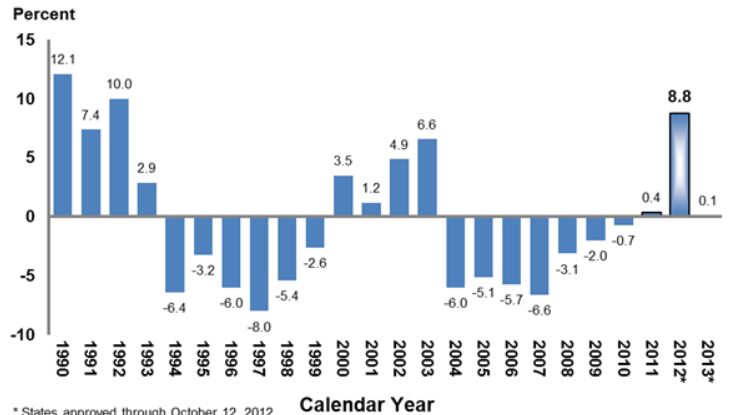


Source: 1990-2011, Annual Statement data;  
2012 Est, NCCI estimates based on projection of direct premium and incurred losses as of 2nd Quarter 2012

On average, the countrywide approved workers compensation bureau rates/loss costs were flat for 2011 and increasing for 2012, ending the seven-year period of nearly 26% declines. The more significant year-to-year changes in that period were largely driven by California. However, based on approvals to date, rate and loss cost changes will not be a materially contributing factor to 2013 results.

### The Average Approved Bureau Rate/Loss Costs

History of Average Bureau Rate/Loss Cost Level Changes

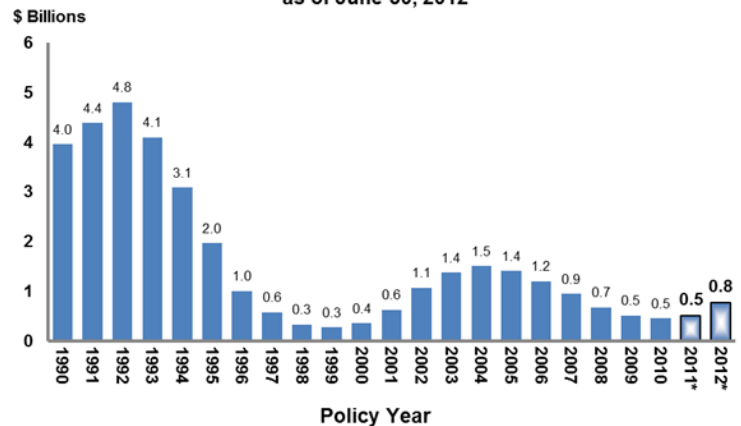


\* States approved through October 12, 2012.  
 Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization relative to the previously filed rates.  
 The countrywide change is a weighted average of individual state changes based on state premium volumes and ignoring effective dates.

Policy Year 2011 saw the first growth in residual market premiums in six years. Early indications for Policy Year 2012 show that growth accelerating to nearly \$800 million, which is a 53% increase over Policy Year 2011. Despite the pronounced growth in premiums for Policy Year 2012, the level continues to remain low relative to historic levels.

### Workers Compensation Residual Market

Premium Volume  
 NCCI-Serviced Workers Compensation Residual Market Pools  
 as of June 30, 2012

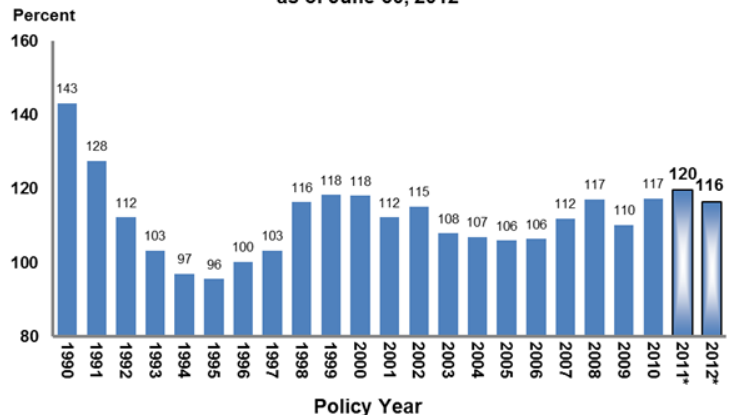


\*Incomplete Policy Year Projected to Ultimate

The combined ratio for the residual market pools serviced by NCCI reversed direction for Policy Year 2012 but remains near the top of historic levels. This policy year projection is based on data reported through the first six months of 2012.

### Workers Compensation Residual Market

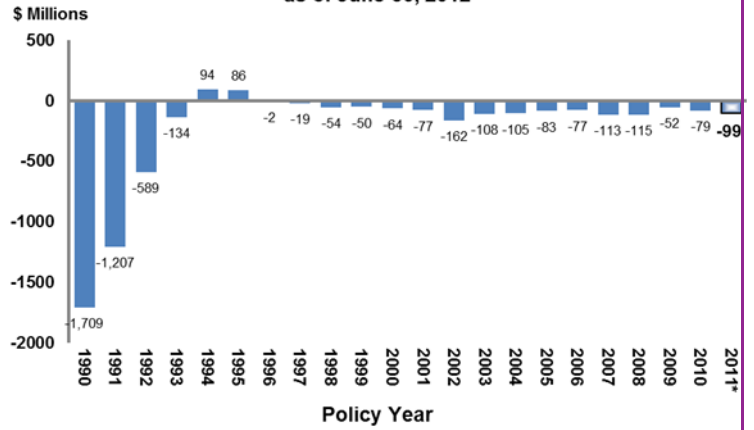
Combined Ratios  
 NCCI-Serviced Workers Compensation Residual Market Pools  
 as of June 30, 2012



\*Incomplete Policy Year Projected to Ultimate

The underwriting loss in Policy Year 2011 for NCCI-administered residual market pools is projected to deteriorate. However, these losses remain comparable to results over the last decade and remain well below the debilitating levels of the early 1990s.

**Workers Compensation Residual Market  
Underwriting Results Continue to Decline  
NCCI-Serviced Workers Compensation Residual Market Pools  
as of June 30, 2012**



\*Incomplete Policy Year Projected to Ultimate



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