



Workers Compensation Financial Update

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

November 2014

Workers Compensation Financial Results Update

*At its **Annual Issues Symposium (AIS)** held in May 2014, NCCI presented *The State of the Line*—a comprehensive report of financial results for the workers compensation line of business. The results presented at **AIS** reflected the most up-to-date data available at the time, including NCCI's preliminary estimates for Calendar Year 2013. In this update, NCCI provides final results for 2013 and preliminary estimates for Calendar Year 2014.*

At **AIS 2014**, NCCI's State of the Line report indicated favorable industry results for 2013. Industrywide statutory data for 2013 indicates little difference between NCCI's preliminary estimates and the final results for most of the major financial measures.

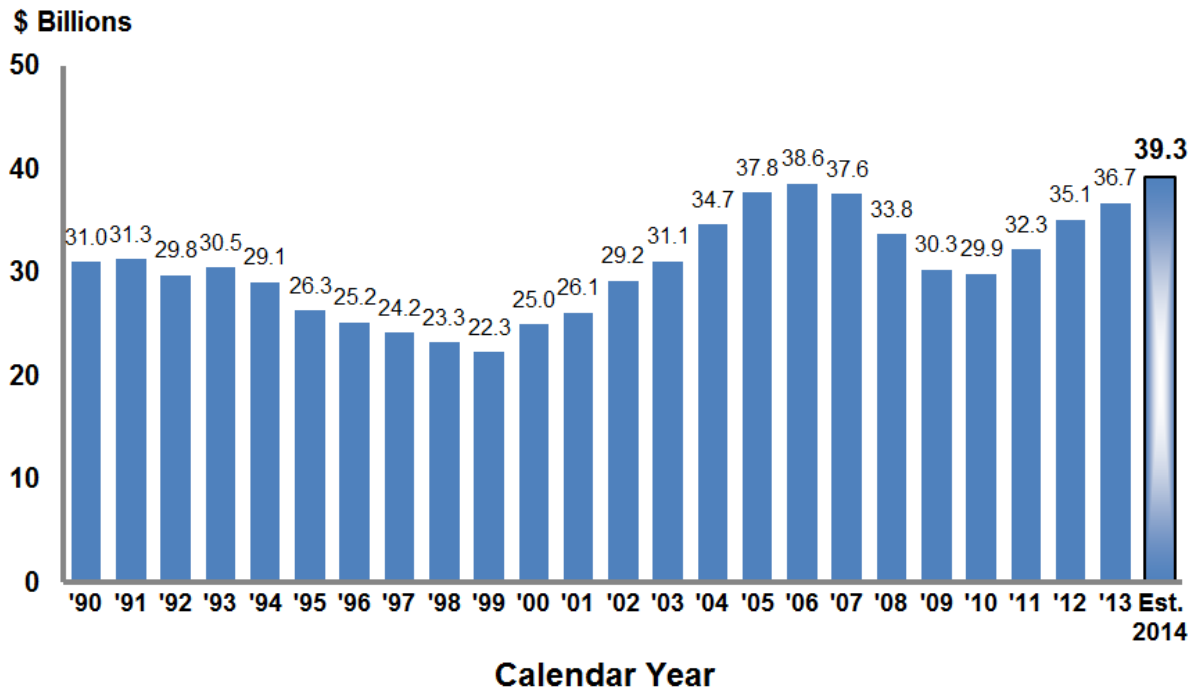
For Calendar Year 2013, NCCI initially estimated workers compensation premium volume net of reinsurance to be \$37.0 billion for private carriers. This compares to the actual data reported by the industry of \$36.7 billion. NCCI estimated an industrywide workers compensation combined ratio of 101 for 2013; actual data reported by the industry indicates a combined ratio of 101.3.

NCCI has also evaluated the data reported as of midyear 2014 to provide full-year estimates for written premium volume and the combined ratio. While still early and subject to revision, NCCI's analysis suggests continued improvement in the combined ratio as well as another increase in premium volume.

Net written premium for workers compensation is projected to continue its upward trend with 2014 marking the fourth consecutive year of premium increases. NCCI's current estimate for 2014 net written premium is \$39.3 billion. This represents growth of 7% over the 2013 premium level and a more significant increase than the 4.5% growth observed in 2013. The 2014 estimate is based on private carrier-reported direct written premium and the historical relationship between direct and net written premium over the past decade.

Workers Compensation Premium: Continued Premium Growth for 2014

Private Carriers

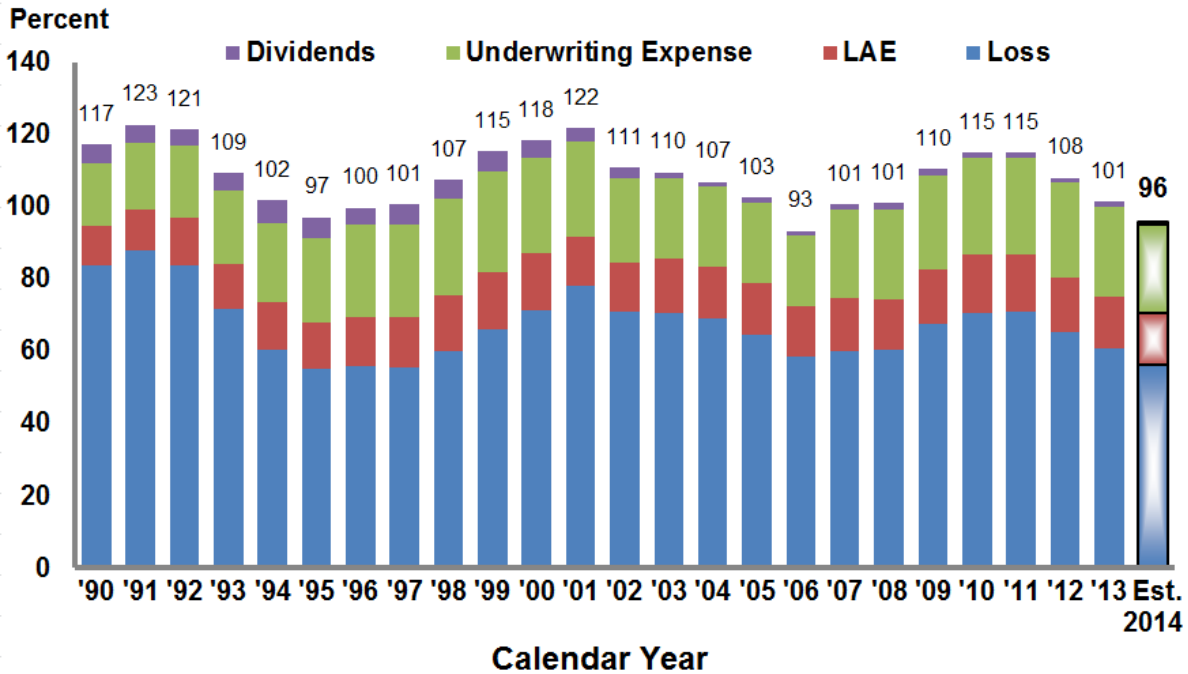


Source: 1990–2013, Annual Statement data;
2014, NCCI estimate based on statutory data reported through 2nd Quarter 2014

NCCI's preliminary estimate of the 2014 net combined ratio for workers compensation suggests a third year of improvement. NCCI's combined ratio estimate of 96, if realized, would be the industry's first underwriting gain since 2006. The estimate for 2014 is based on private carrier direct calendar year incurred losses, direct earned premium, and the historical relationship between direct and net losses and premium. The expected improvement in the combined ratio is derived from a reduction in losses as well as the previously discussed projected increase in premium.

Workers Compensation Calendar Year Combined Ratio: Another Improvement for 2014

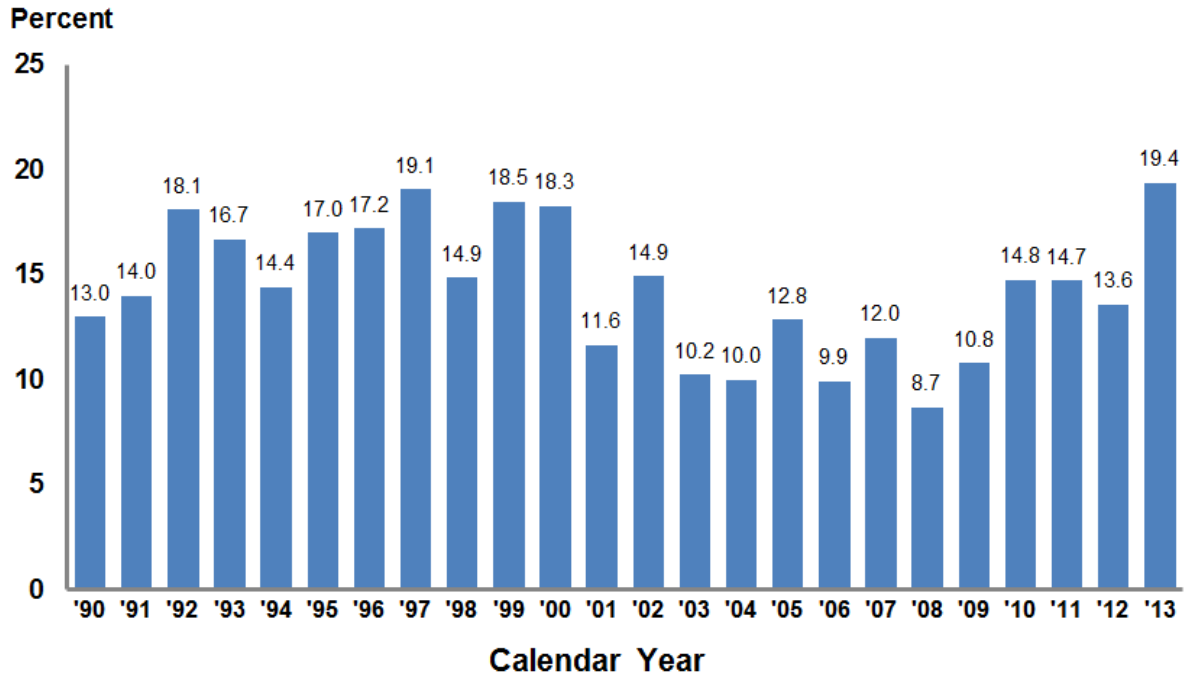
Private Carriers



Source: 1990–2013, Annual Statement data;
2014, NCCI estimate based on statutory data reported through 2nd Quarter 2014

Final reported workers compensation investment gains on insurance transactions (IGIT) for Calendar Year 2013 were higher than previously estimated. A material realized gain resulting from a single company transaction that involved corporate restructuring was the primary driver of the 4.4 point increase from the preliminary estimate.

Workers Compensation: Investment Gains on Insurance Transactions Ratio to Net Earned Premium—Private Carriers

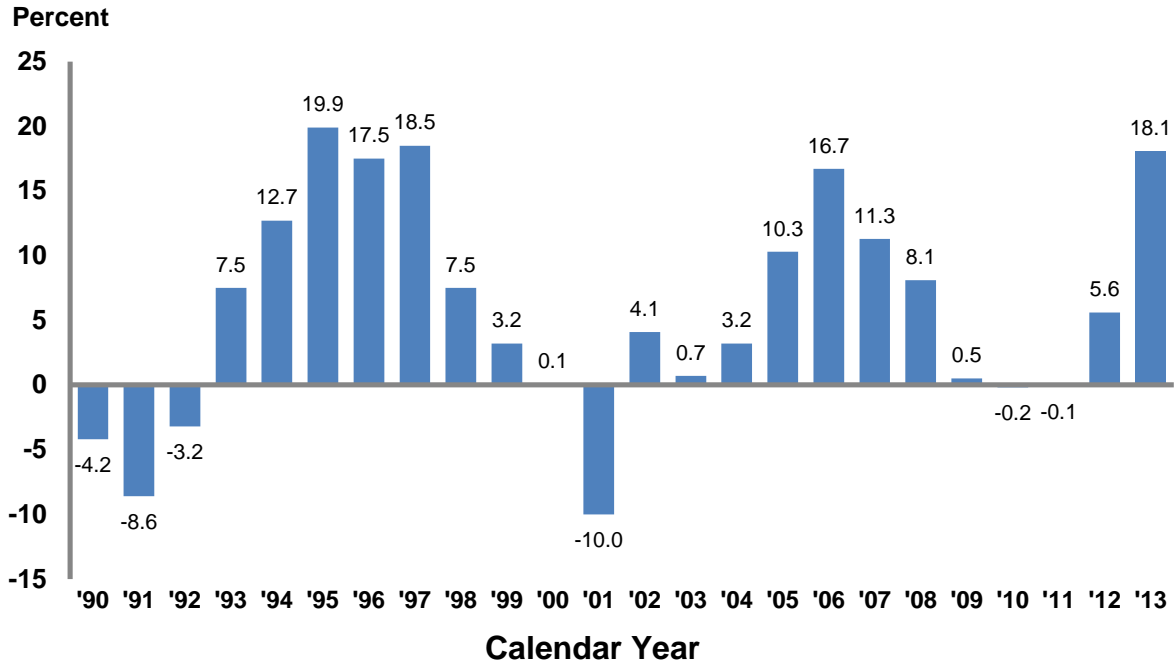


Investment Gain on Insurance Transactions includes Other Income
 1990 and 1991 adjusted to include realized capital gains to be consistent with 1992 and after
 Source: 1990–2013, Annual Statement data

The revision in the investment gain ratio also impacts the operating ratio. As presented at **AIS 2014**, NCCI estimated a sharp increase in the operating gain ratio for 2013. As a result of the IGIT revision, operating gains increased even more than originally estimated.

Workers Compensation: Operating Gain Rose Sharply

Pre-Tax Operating Gain Ratio—Private Carriers



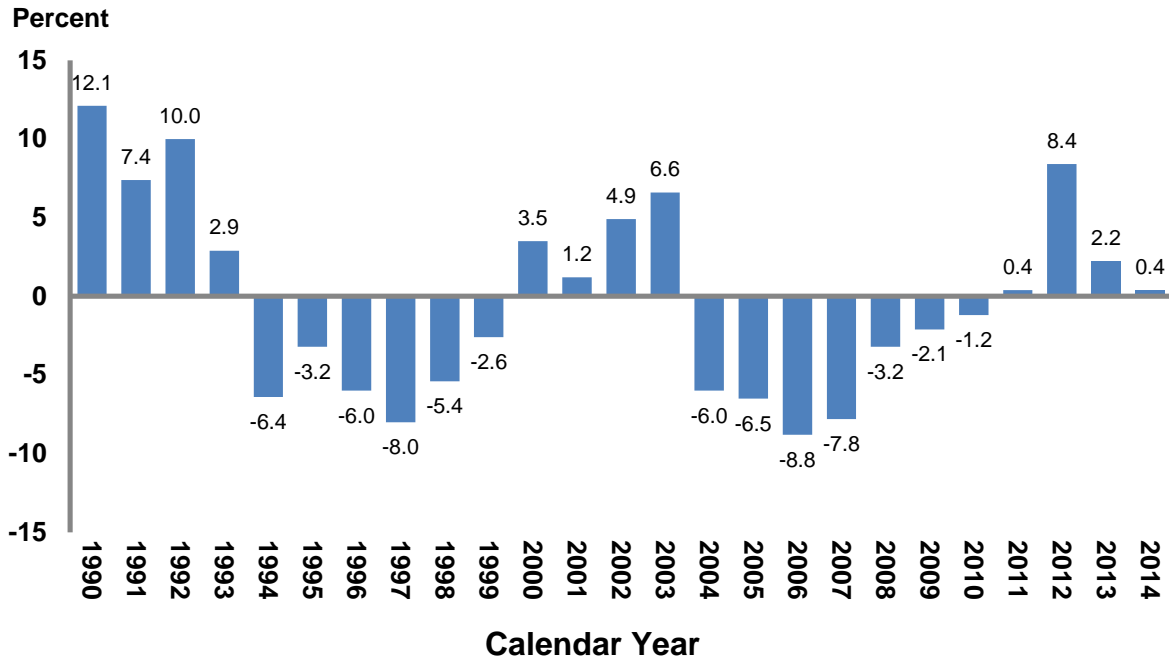
Operating Gain equals 1.0 minus (Combined Ratio less IGIT)
 1990 and 1991 adjusted to include realized capital gains to be consistent with 1992 and after
 Source: 1990–2013, Annual Statement data

On average, the changes in countrywide approved workers compensation bureau rates/loss costs were material for 2012 and modest for 2013 and 2014.

The significant increase of average bureau rates/loss costs in 2012 marked the first increase since 2003 and was driven primarily by California. This increase followed a seven-year period in which bureau rates/loss costs experienced a cumulative 31% decline. The more significant decreases during that period were also largely driven by California.

The Average Approved Changes in Bureau Rates/Loss Costs

All States

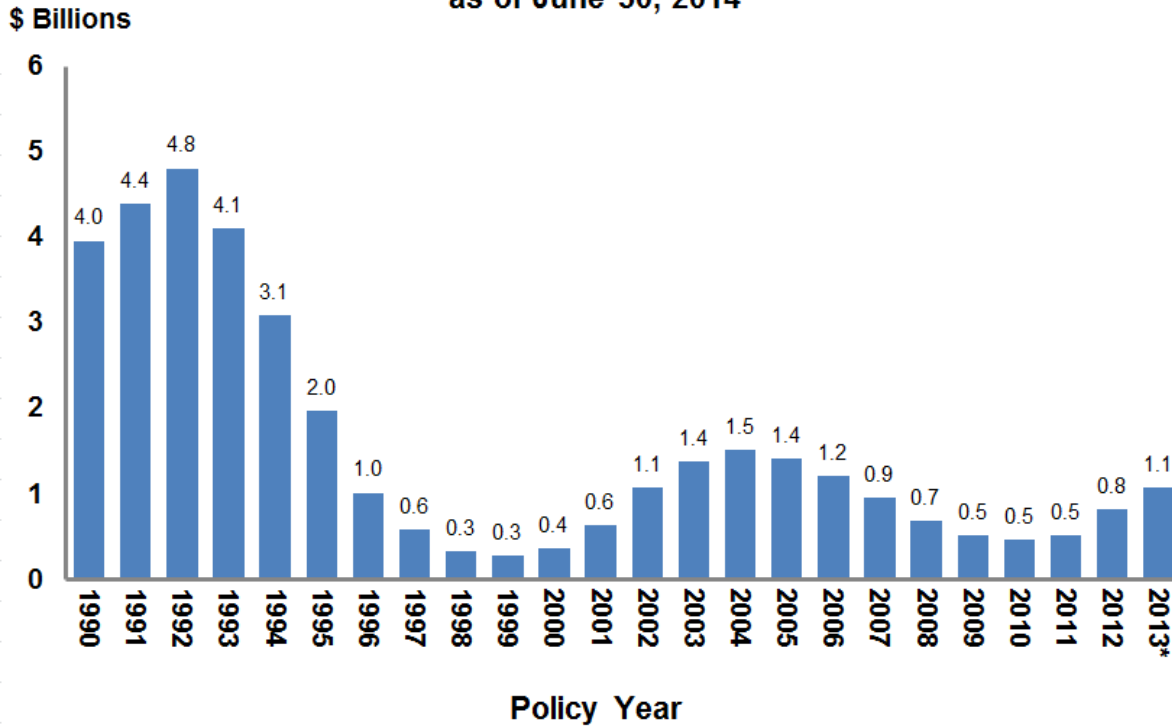


States approved through October 10, 2014
 Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization relative to the previously filed rates

Policy Year 2013 residual market premium continues to demonstrate growth over 2012, albeit at a more moderate pace than that observed for Policy Year 2012. Projections to ultimate, based on data valued as of June 30, 2014, show a negligible difference from the prior two quarterly estimates. Early indications suggest that residual market premium will continue to increase in 2014, although the rate of increase appears to be slowing.

Workers Compensation Residual Market Premium Volume

**NCCI-Serviced Workers Compensation Residual Market Pools
as of June 30, 2014**

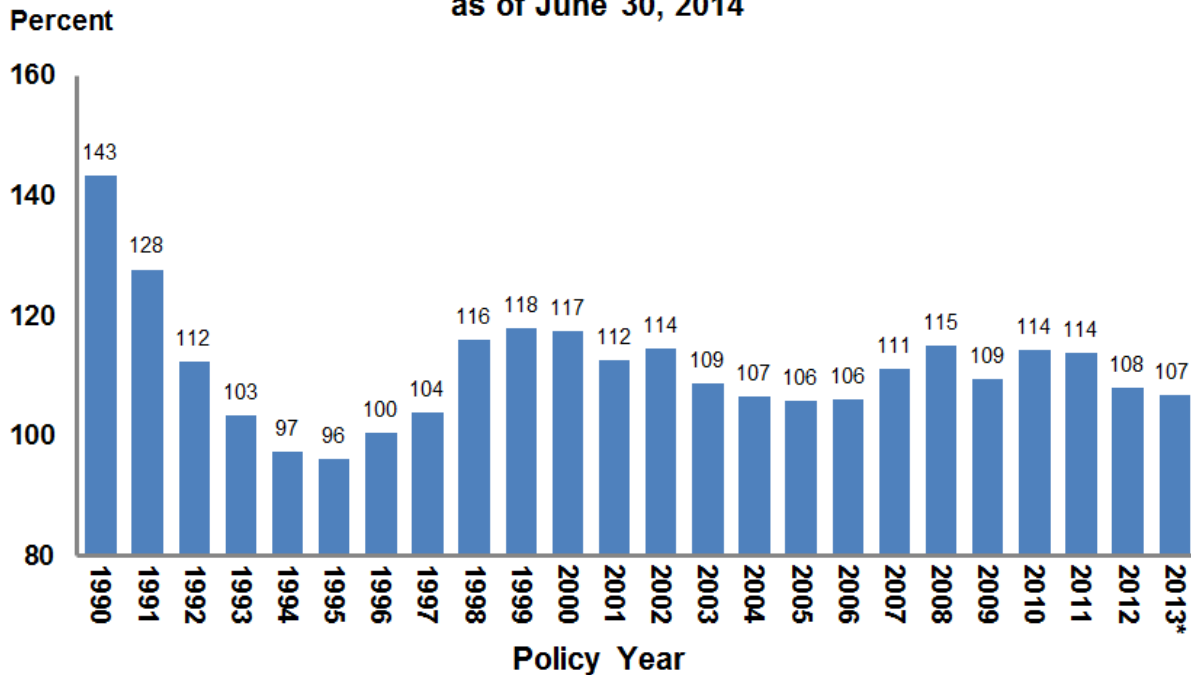


*Incomplete Policy Year Projected to Ultimate

The combined ratio for the residual market pools serviced by NCCI currently indicates a slight decline for Policy Year 2013. NCCI's earlier projected ultimate combined ratio for Policy Year 2013, based on data valued as of December 31, 2013, was 109. This estimate has been reduced to 107 based on two quarters of reporting in 2014. The projected decrease for Policy Year 2013 represents the third year of decline for the residual market combined ratio. The 2013 combined ratio is near the bottom of the range for the last 16 years of experience and demonstrates the success of NCCI's continued focus on self-funded residual markets.

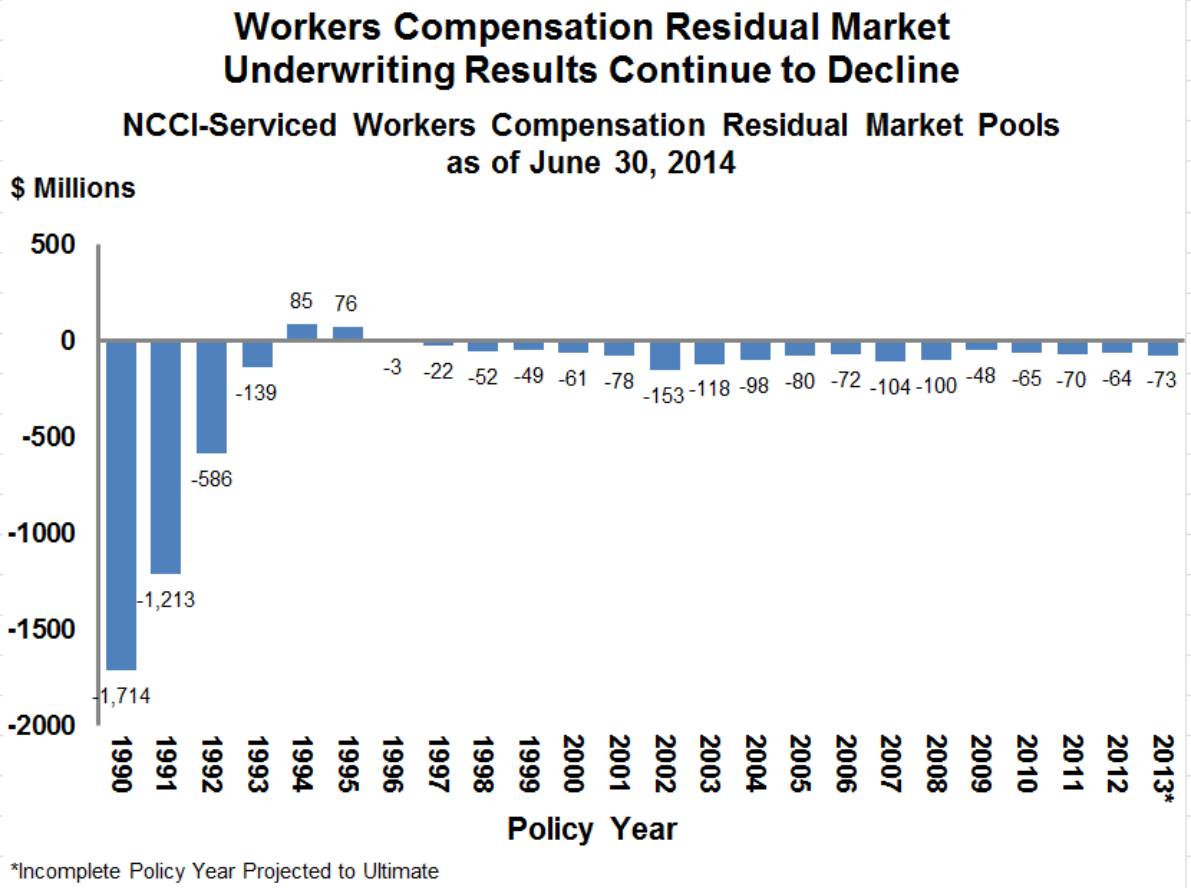
Workers Compensation Residual Market Combined Ratios

**NCCI-Serviced Workers Compensation Residual Market Pools
as of June 30, 2014**



*Incomplete Policy Year Projected to Ultimate

Despite significant residual market premium growth, the projected underwriting results for 2012 and 2013 are comparable to those experienced over the last decade and well below the debilitating levels of the early 1990s. For most policy years, these projections reflect slight improvement from NCCI's previous estimates, valued as of December 2013.



NCCI will continue to update its projections as new data becomes available. Please be sure to review the Research and Outlook section of ncci.com for the latest results, research, and discussion of key factors affecting workers compensation.



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