

# Workers Compensation Financial Results Update

At its **Annual Issues Symposium (AIS)** held in May 2016, NCCI presented the **State of the Line Report**—a comprehensive look at 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 2015. In this report, NCCI provides updated results for 2015 as well as preliminary estimates for Calendar Year 2016.

At **AIS 2016**, NCCI reported favorable industry results for Calendar Year 2015 in its **State of the Line Report**, based on countrywide statutory data available as of April 14, 2016.

For Calendar Year 2015, NCCI estimated workers compensation premium volume net of reinsurance to be \$39.7 billion for private carriers, along with a combined ratio of 94%. The updated data reported by the industry indicates **no change** to these preliminary estimates.

The workers compensation investment gain on insurance transactions (IGIT) for Calendar Year 2015 dipped to 10.9% of net earned premium. This decline is more than offset by the favorable combined ratio, resulting in a higher workers compensation operating gain for the year.

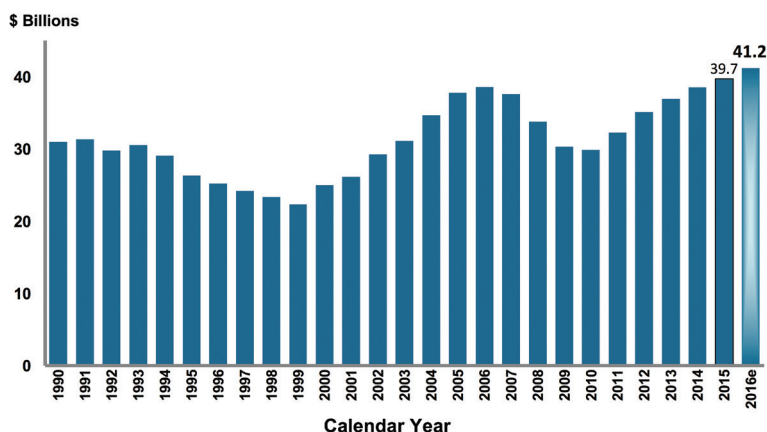
The residual market has experienced premium growth since 2010, but appears to have leveled off in the most

recent two policy years. Although the residual market more than doubled in size between 2010 and 2015, the total market share and burden on the voluntary market remained quite manageable.

NCCI has also evaluated the data reported as of midyear 2016 to provide full-year estimates for written premium volume and the combined ratio for Calendar Year 2016. While still early and subject to revision, NCCI's analysis indicates another increase in written premium volume, as well as a favorable combined ratio of 94%, consistent with the 2015 result.

NCCI projects net written premium for workers compensation will continue its upward trend in 2016 (Exhibit 1). NCCI's current estimate for 2016 net written premium is \$41.2 billion, a new high-water mark for the workers compensation line. This represents a 3.8% growth over the 2015 premium level. Our 2016 estimate is based on private carrier-reported direct written premium and the historical relationship between direct and net written premium in recent years.

**Exhibit 1** Workers Compensation Premium Continued Growth for 2016  
Private Carriers

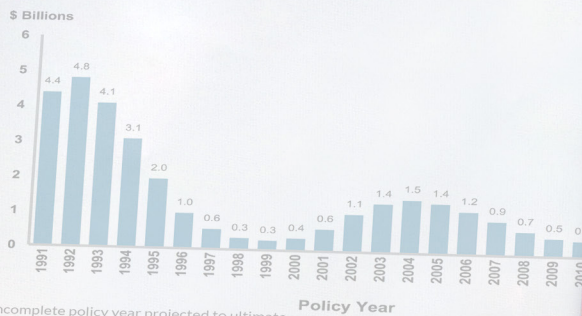


2016e, NCCI estimate based on statutory data reported through 2nd Quarter 2016  
Source: 1990–2015, Annual Statement data



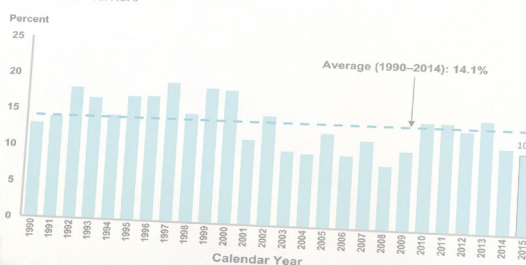
While still early and subject to revision, NCCI's analysis indicates another increase in written premium volume, as well as a favorable combined ratio of 94%.

Workers Compensation Residual Market Premium  
NCCI-Served Residual Market Pools



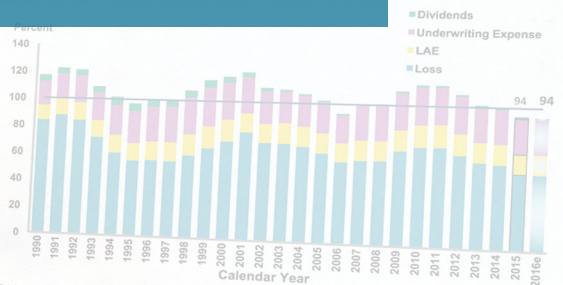
\*Incomplete policy year projected to ultimate  
Includes Policy Year 2014 for all NCCI-Served workers compensation residual market pools  
Source: NCCI

Workers Compensation Investment Gain on  
Insurance Transactions Ratio to Net Earned Premium  
Private Carriers



Source: Annual Statement data.

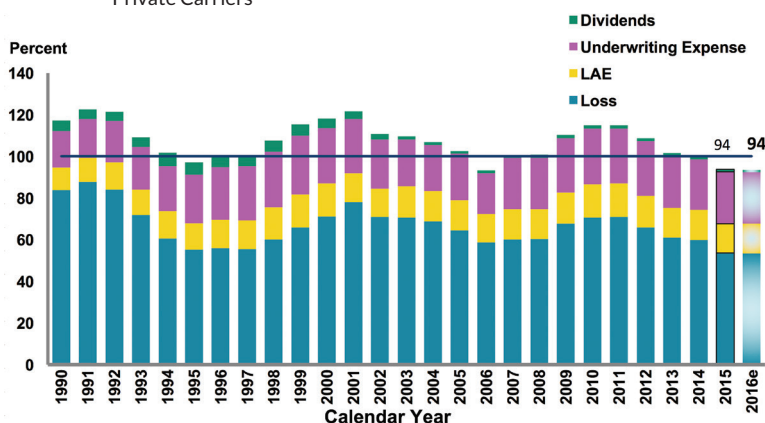
Workers Compensation Combined Ratio  
Underwriting Gain in 2016  
Private Carriers



2016e, NCCI estimate based on statutory data reported through 2nd Quarter 2016  
Source: 1990-2015, Annual Statement data



**Exhibit 2** Workers Compensation Combined Ratio  
Underwriting Gain in 2016  
Private Carriers



2016e, NCCI estimate based on statutory data reported through 2nd Quarter 2016  
Source: 1990–2015, Annual Statement data

The 2015 net combined ratio for workers compensation of 94% marked the fourth consecutive year of improvement (Exhibit 2). NCCI's preliminary estimate is that the combined ratio will hold steady at 94% in 2016. This represents three consecutive years of underwriting gains for an industry that has posted combined ratios of less than 100% in only two other years since 1990. The estimate for 2016 is based on private carrier direct calendar year incurred losses, direct earned premium, and historical net-to-direct ratios.

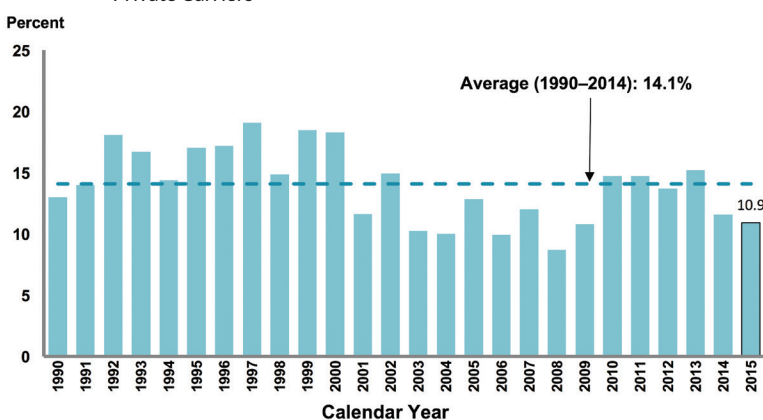
The workers compensation IGIT for Calendar Year 2015 is 10.9% of net earned premium—the lowest result since 2008 (Exhibit 3). Both the 2014 and 2015 results fall short of the long-term average benchmark of 14.1% since 1990.

The operating ratio, which combines the underwriting and investment results, is heavily influenced by both the underwriting cycle and external economic factors. The 2015 operating gain of 17.1% is driven by the favorable combined ratio realized that year (Exhibit 4).

Rates/loss costs have decreased in 2016 by 3.7% on average in states administered by NCCI. This average decrease is the result of rate/loss cost decreases that have been filed and approved in a majority of these states (Exhibit 5). The cumulative decrease over the period shown is more than 20%. This is primarily the result of improved experience driven by declines in lost-time claim frequency. The changes shown reflect both voluntary and assigned risk market approvals.

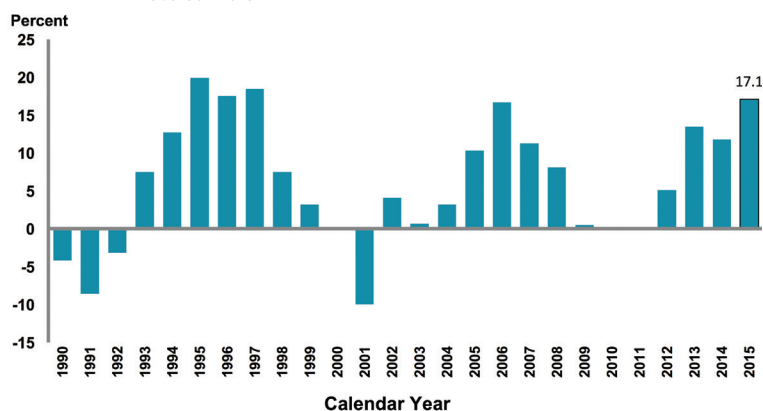
Residual market premium for 2015 is relatively flat compared to 2014 (Exhibit 6). Projections to ultimate, based on data valued as of June 30, 2016, show a negligible difference from the prior two

**Exhibit 3** Workers Compensation Investment Gain on Insurance Transactions  
Ratio to Net Earned Premium  
Private Carriers



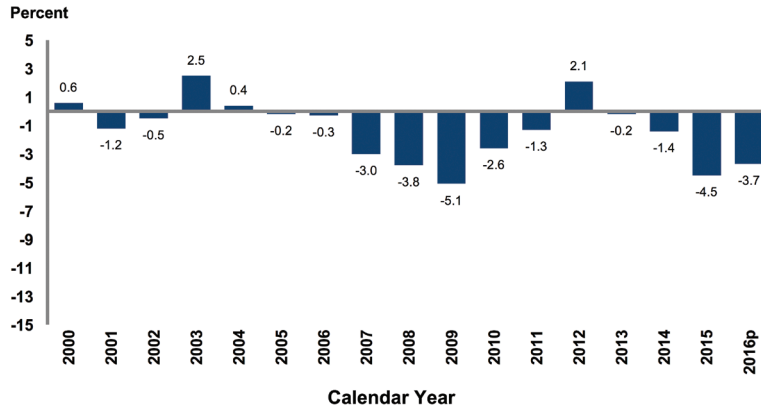
Source: Annual Statement data

**Exhibit 4** Workers Compensation Pretax Operating Gain  
Private Carriers



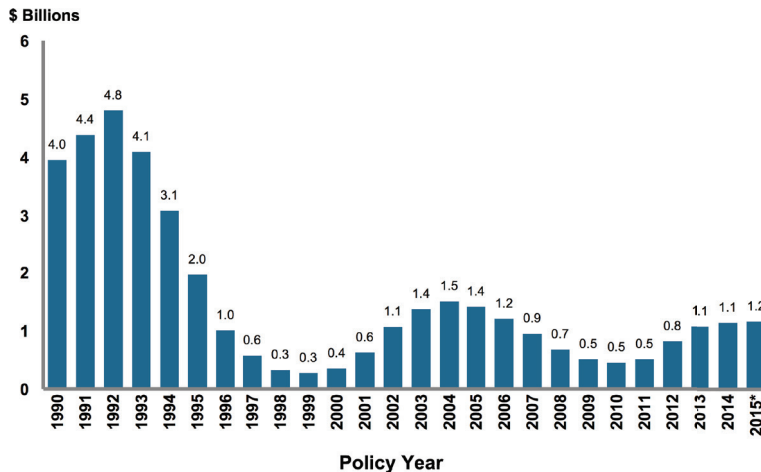
Source: Annual Statement Data  
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

**Exhibit 5** Workers Compensation Changes in Bureau Premium Level  
By Effective Year for NCCI States



Bureau premium level changes reflect approved changes in advisory rates, loss costs, assigned risk rates, and rating values relative to those previously approved in NCCI states only  
IN and NC are filed in cooperation with state rating bureaus  
p Reflects 37 of 38 states as of 9/23/2016

**Exhibit 6** Workers Compensation Residual Market Premium  
NCCI-Serviced Residual Market Pools



\*Incomplete policy year projected to ultimate  
Includes Pool data as of 6/30/2016 for all NCCI-serviced workers compensation Residual Market Pool states  
Tennessee Reinsurance Mechanism experience is excluded  
Source: NCCI, Residual Market Quarterly Results

**Exhibit 7** Workers Compensation Residual Market Combined Ratio  
NCCI-Serviced Residual Market Pools



\*Incomplete policy year projected to ultimate  
Includes Pool data as of 6/30/2016 for all NCCI-serviced workers compensation Residual Market Pool states  
Tennessee Reinsurance Mechanism experience is excluded  
Source: NCCI, Residual Market Quarterly Results

quarterly estimates. Early indications suggest residual market premium will remain stable in 2016.

The combined ratio for the Residual Market Pools serviced by NCCI increased two points in Policy Year 2015, primarily driven by a \$24 million underwriting loss that is projected for New Jersey (Exhibit 7). Despite the 2015 increase, the recent combined ratios remain favorable, demonstrating the success of the industry's continued focus on self-funded residual markets. Policy Years 2013 and 2014, in particular, boast the lowest residual market combined ratios since 1996.

The projected underwriting result for Policy Year 2015 is a loss of \$60 million. This is comparable to the results experienced over the last decade and much more favorable than the large residual market deficiencies the industry faced in the early 1990s. For most policy years, these projections reflect a slight improvement from NCCI's previous estimates shared at **AIS 2016**, which were based on data valued as of December 2015.

NCCI will continue to update its projections as new data becomes available. Please be sure to review the **Industry Information** section of [ncci.com](http://ncci.com) for the latest results, research, and discussion of key factors affecting workers compensation.