



Actuarial Perspective of the Residual Market

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Executive Director and Actuary

RESIDUAL MARKET
FORUM
2023

Overview

Premium
Is Stable

Operating
Results
Continue to
Show Gains

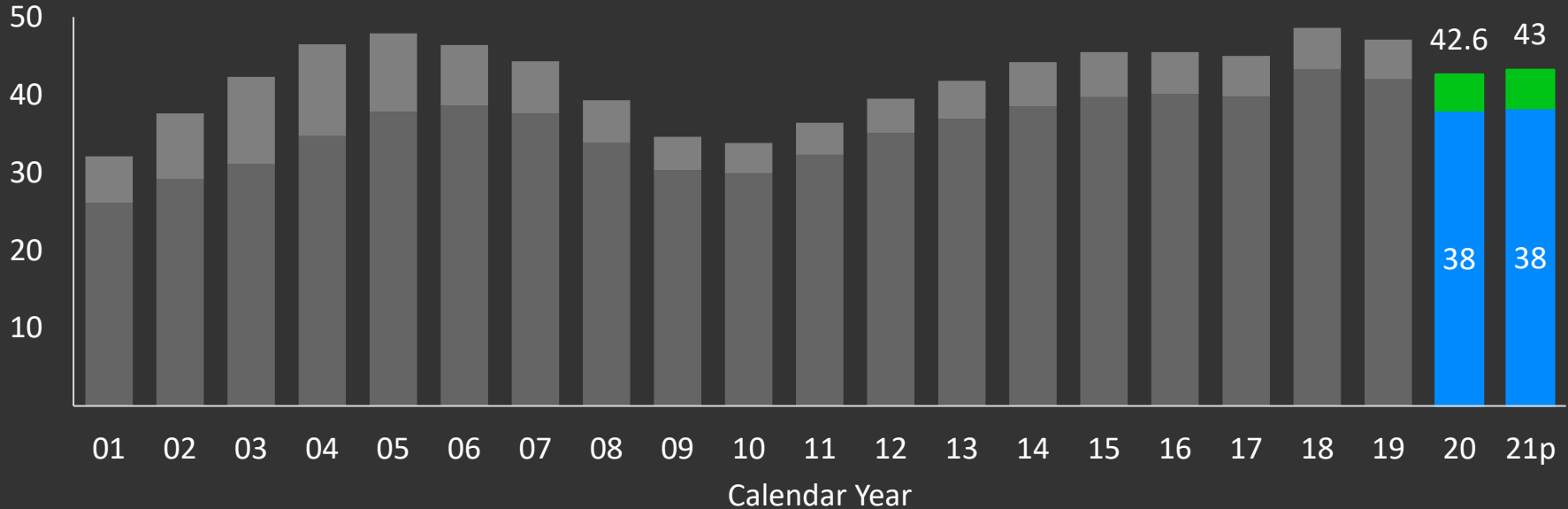
Long-Term
Frequency
Is
Declining

Severity Is
Unchanged

Workers Compensation (WC) Net Written Premium

\$ Billions

■ Private Carriers and State Funds



p Preliminary.

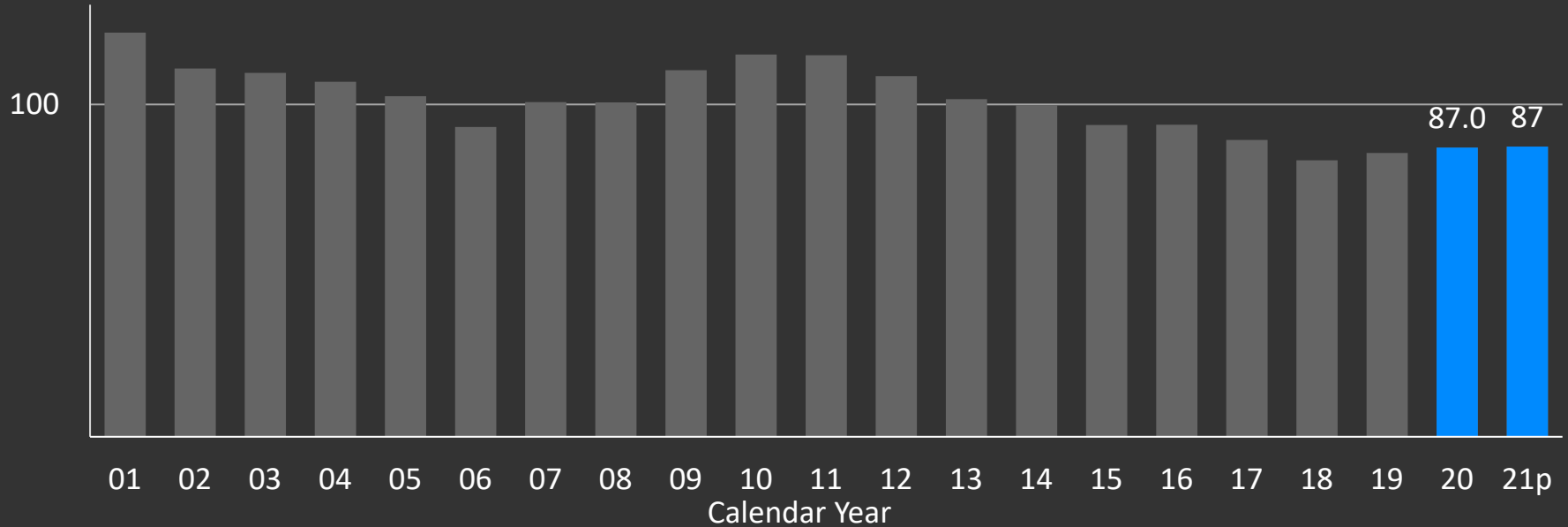
Source: NAIC's Annual Statement data; includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT.

Each calendar year total for state funds includes all funds operating as a state fund in that year.

WC Net Combined Ratio

Private Carriers

Percent

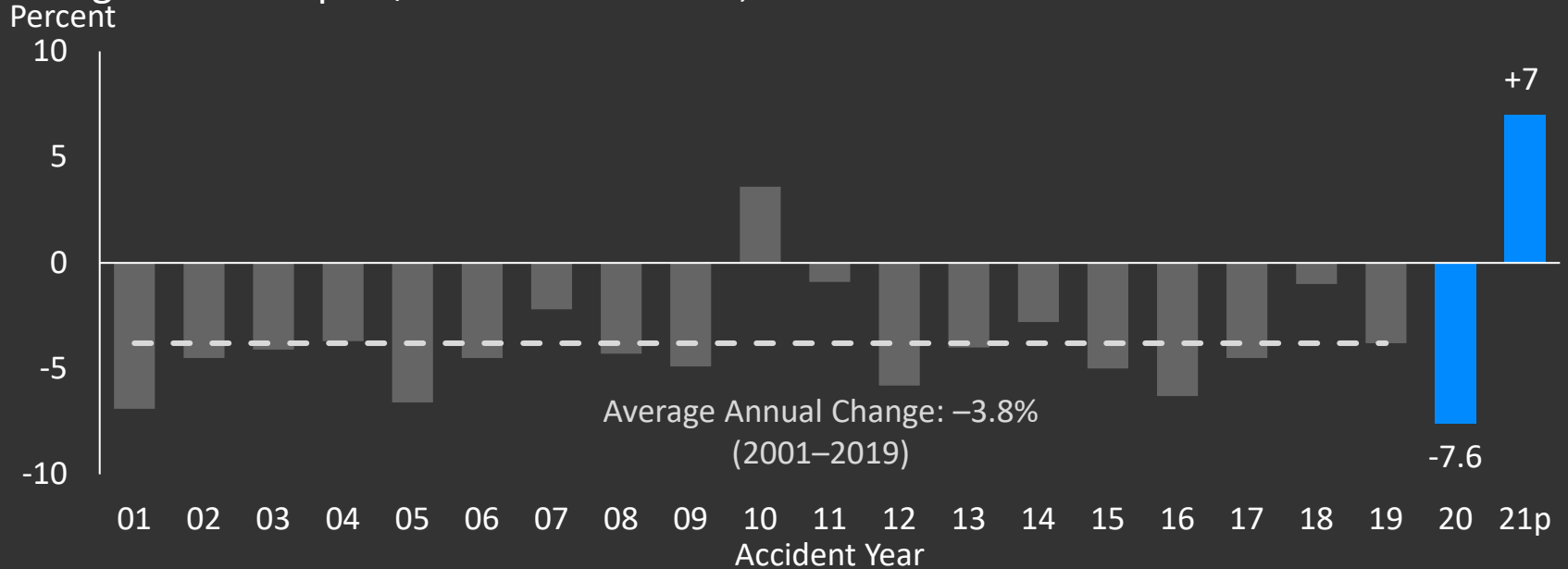


p Preliminary.

Source: NAIC's Annual Statement data.

WC Lost-Time Claim Frequency

Change in Claims per \$1M Pure Premium, Private Carriers and State Funds—NCCI States



2010–2011 and 2019–2021 have been adjusted to reflect the impact of changes in audit activity.

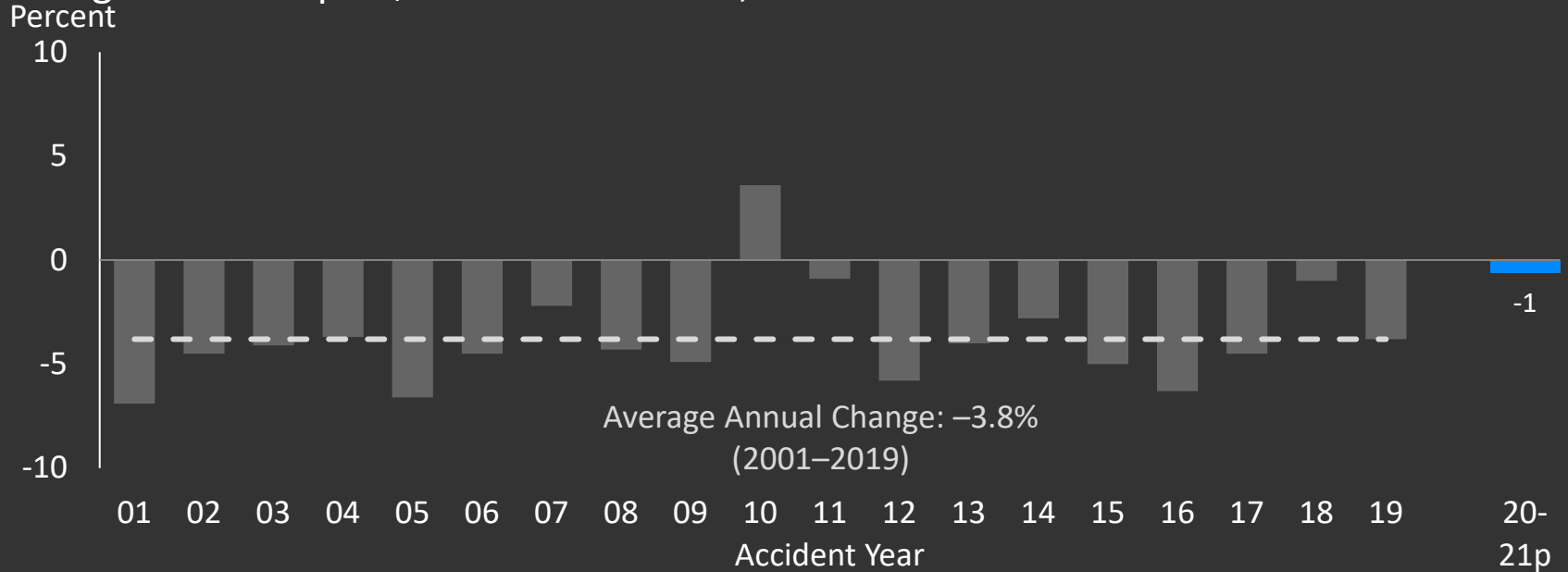
p Preliminary, based on data valued as of 12/31/2021; excludes COVID-19 claims.

Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2020.

Includes all states where NCCI provides ratemaking services; NV is excluded through 2001, TX is excluded through 2006, and WV is excluded through 2011.

WC Lost-Time Claim Frequency

Change in Claims per \$1M Pure Premium, Private Carriers and State Funds—NCCI States



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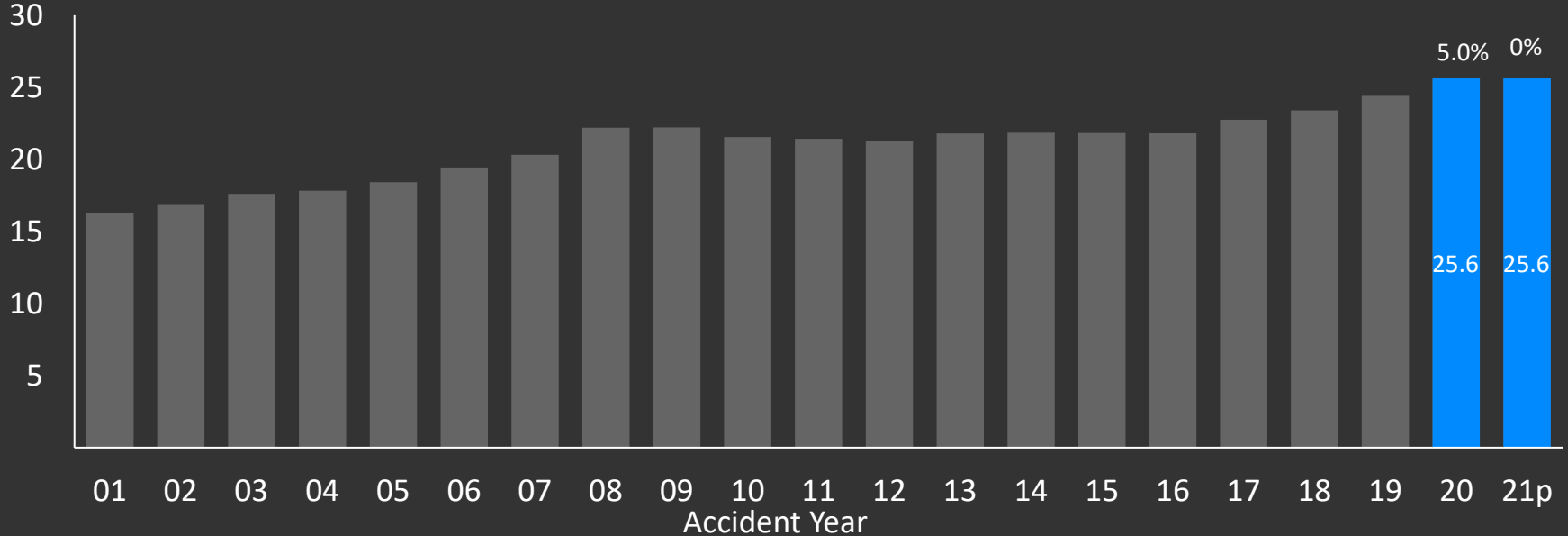
Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2020.

Includes all states where NCCI provides ratemaking services; NV is excluded through 2001, TX is excluded through 2006, and WV is excluded through 2011.

WC Average Indemnity Claim Severity

Private Carriers and State Funds—NCCI States

Severity
(\$ Thousands)



^p Preliminary, based on data valued as of 12/31/2021; excludes COVID-19 claims.

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2020.

Values displayed reflect the methodology underlying the most recent rate/loss cost filing.

Includes all states where NCCI provides ratemaking services; WV is excluded prior to 2011, TX is excluded prior to 2007, and NV is excluded prior to 2004.

WC Average Medical Lost-Time Claim Severity

Severity
(\$ Thousands)

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2021; excludes COVID-19 claims.

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2020.

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Pool Reserving Highlights

RESIDUAL MARKET
FORUM
2023

Residual Market Overview

Market shares remain low with stable pool premium

Combined ratios are near break-even

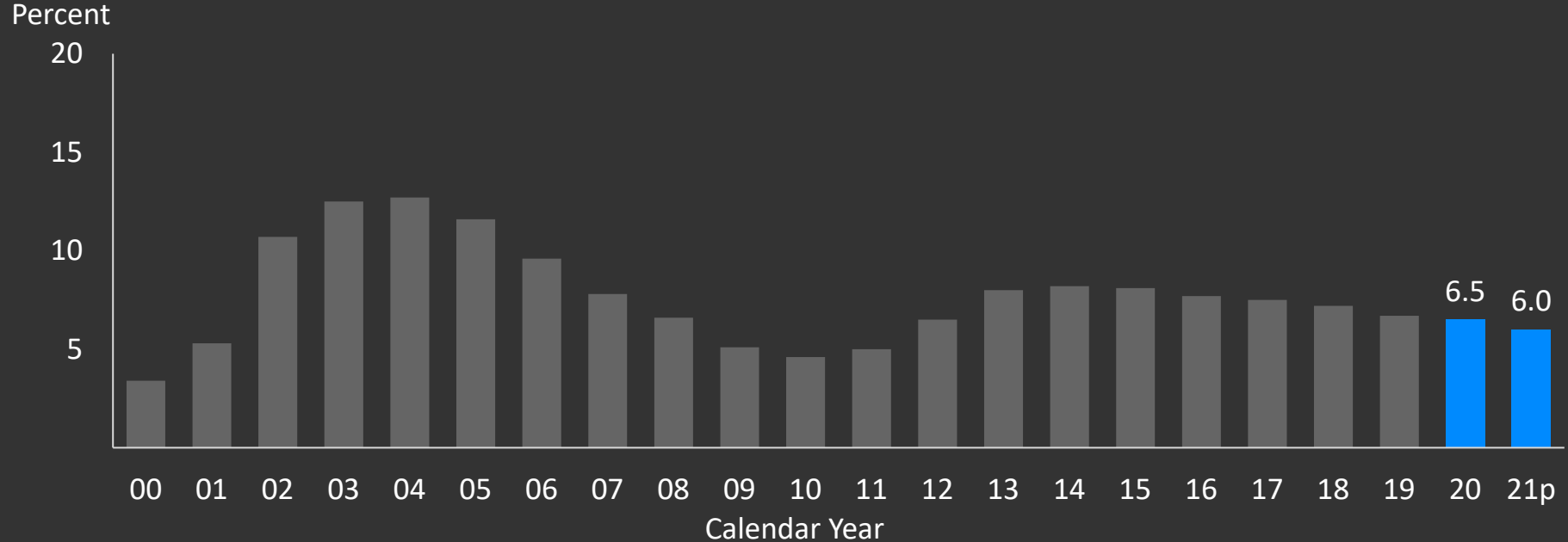
Average frequency is a decrease

Medical increasingly larger part of total loss



WC Residual Market Share

NCCI-Serviced WC Residual Market Pools



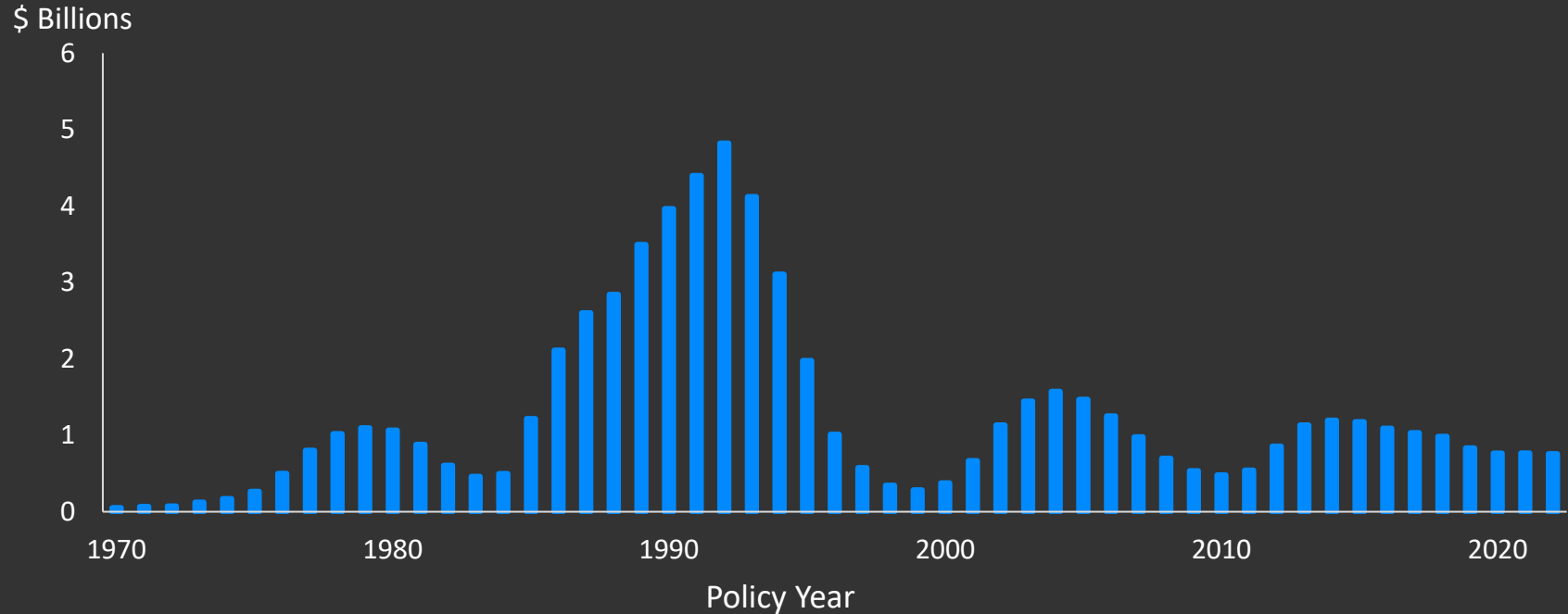
p Preliminary

Source: NCCI's *Residual Market Management Summary*

Includes Pool and direct assignment data for all NCCI-serviced WC Residual Market Pool states

Pool Premium Is Stabilizing

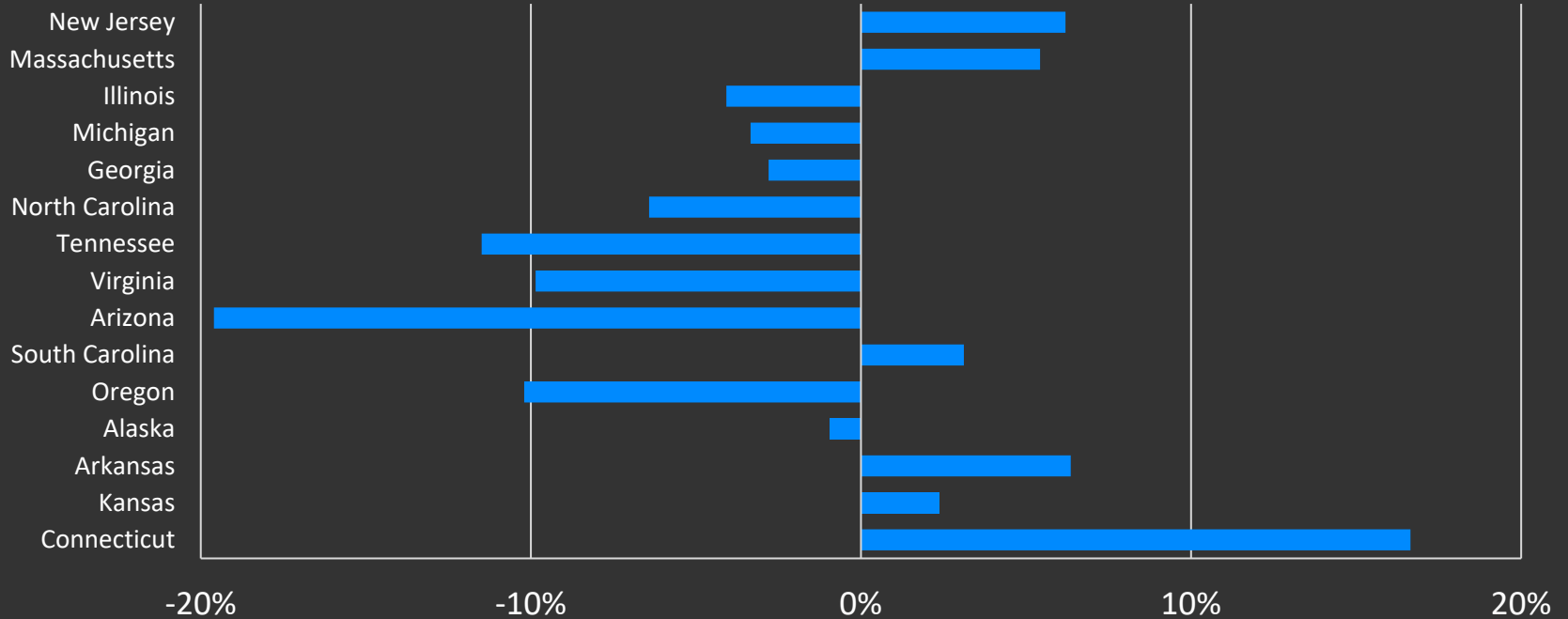
NCCI-Serviced WC Residual Market Pools



Source: NCCI's Pool Data, developed to ultimate; based on data through 9/30/2022

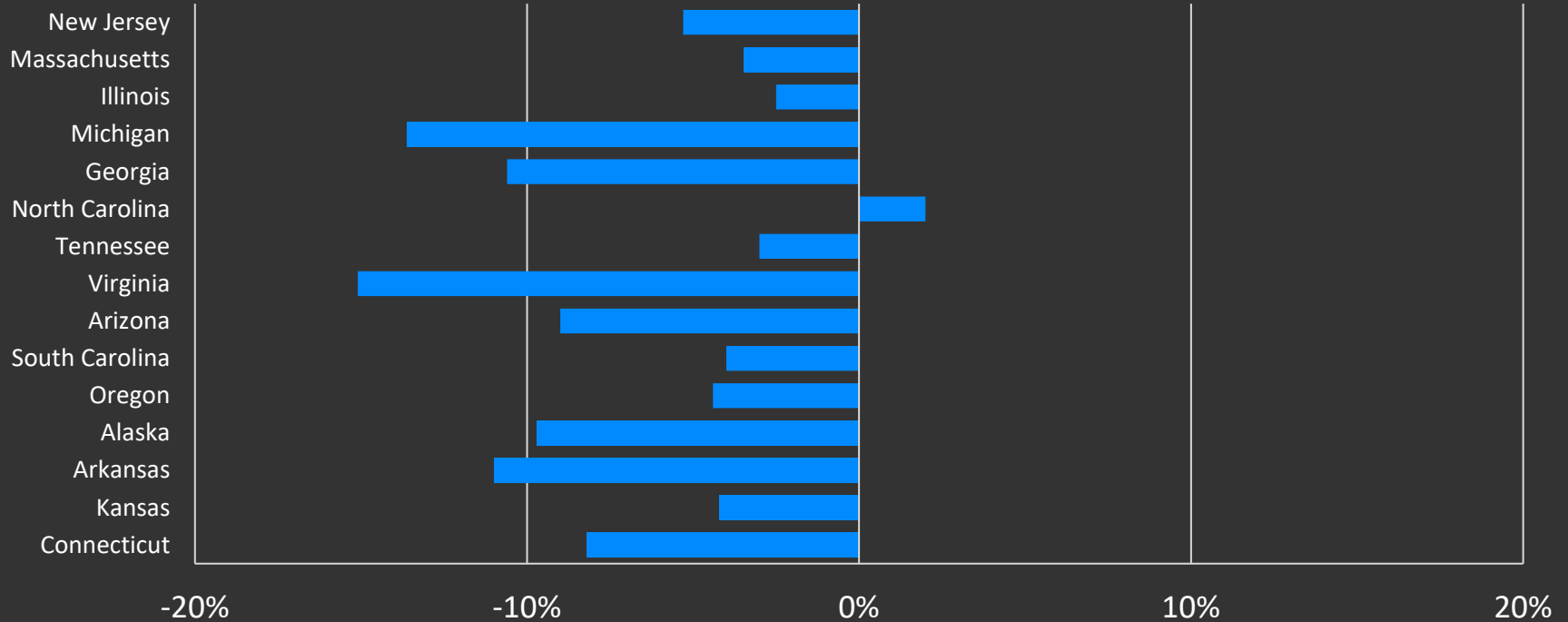
Ultimate Premium Varies Compared to Prior Year

Policy Year (PY) 2022 vs. PY 2021



Source: NCCI's Pool Data, developed to ultimate; based on data through 9/30/2022.
Includes largest 15 states by premium volume where NCCI provides Pool Administration services.

Assigned Risk Rates Decreased in 2022

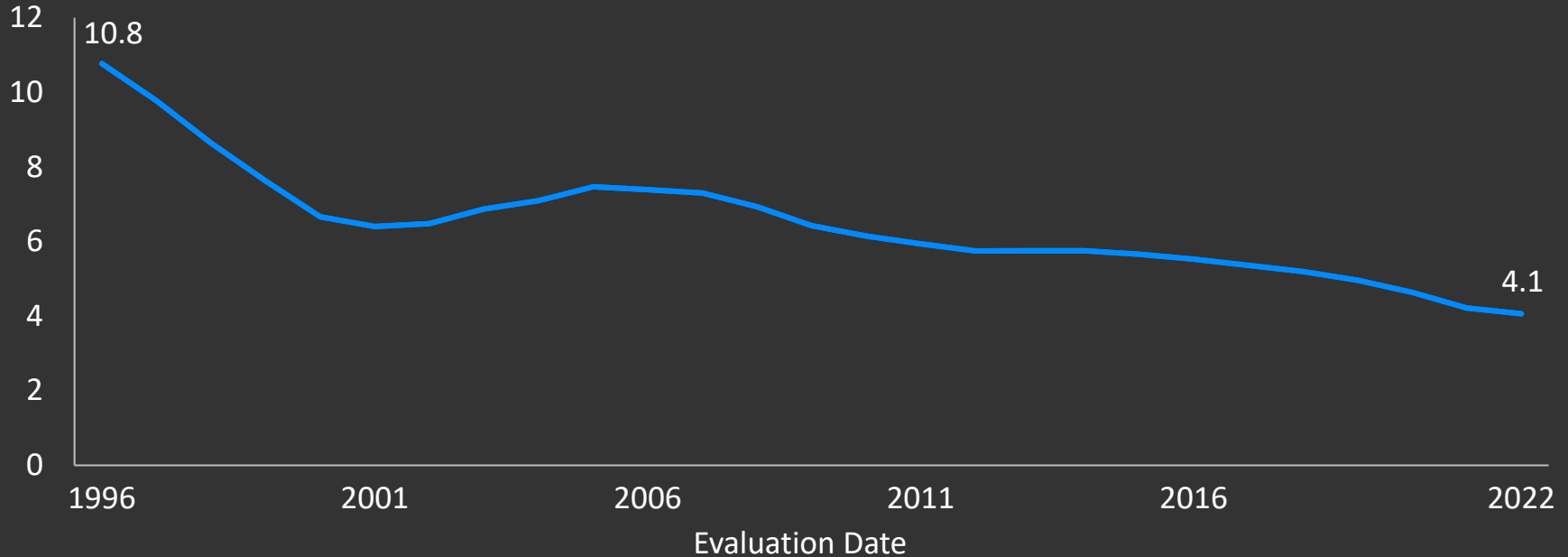


*NJ, MA, and MI are premium level changes provided by the applicable Plan Administrator.

History of Booked Loss Reserves at 9/30

NCCI-Serviced Workers Compensation Residual Market Pools
Loss Reserves (Case Outstanding + IBNR*)

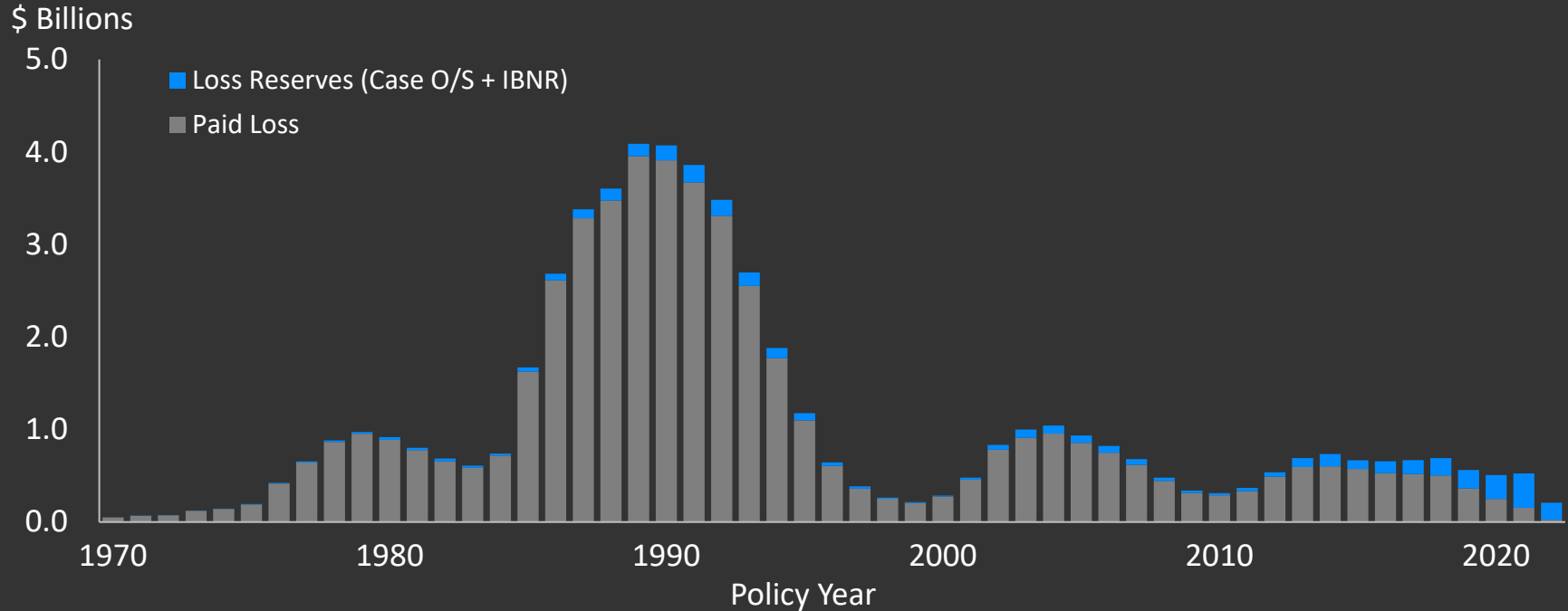
\$ Billions



*Incurred But Not Reported.

Booked Ultimate Losses as of 9/30/22

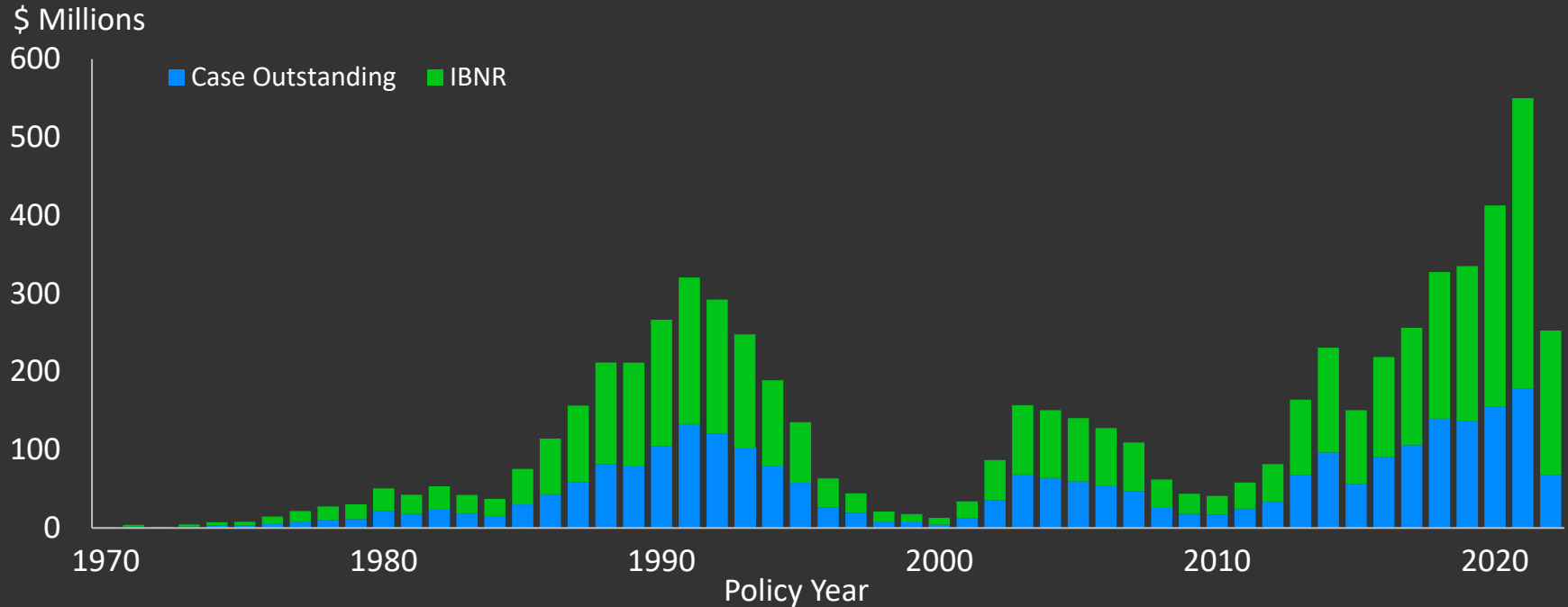
NCCI-Serviced Workers Compensation Residual Market Pools



Policy Years 2021 and 2022 are not fully earned.

Booked Loss Reserves as of 9/30/22

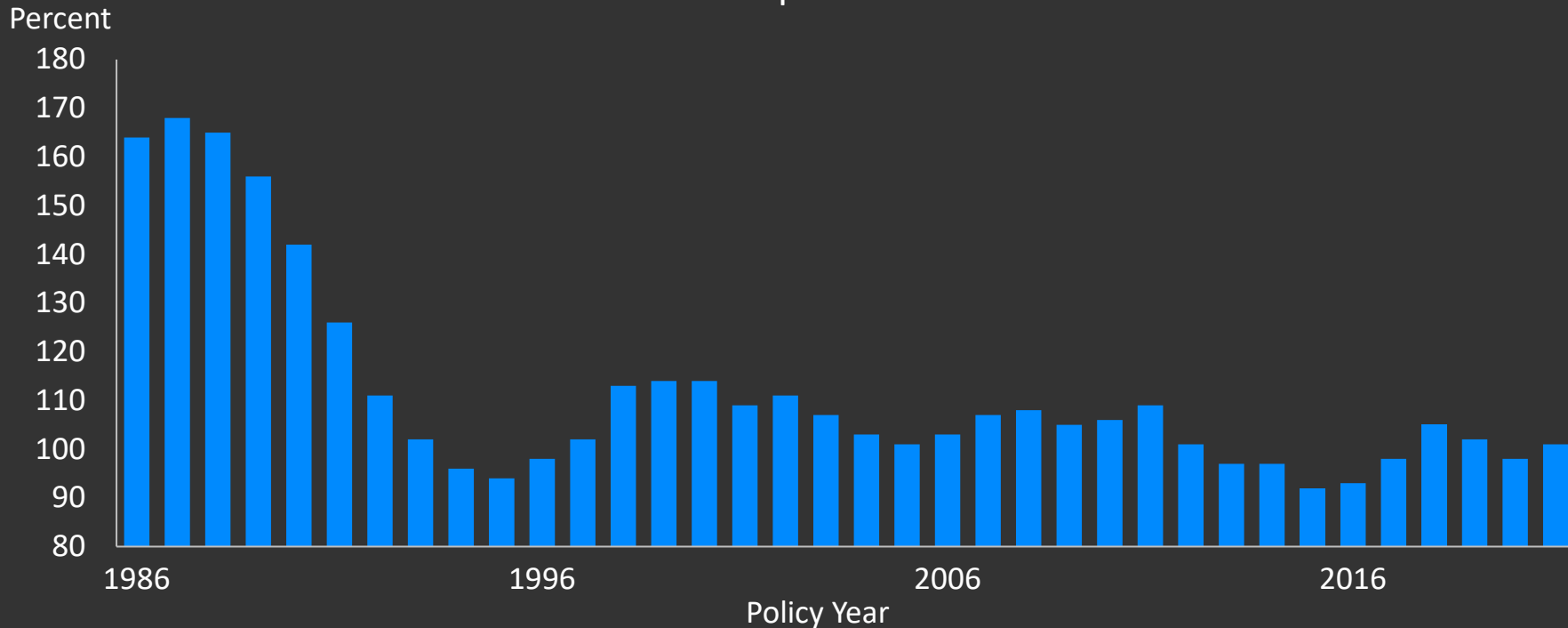
NCCI-Serviced Workers Compensation Residual Market Pools



Policy Years 2021 and 2022 are not fully earned.

Combined Ratios as of 9/30/22

NCCI-Serviced Workers Compensation Residual Market Pools

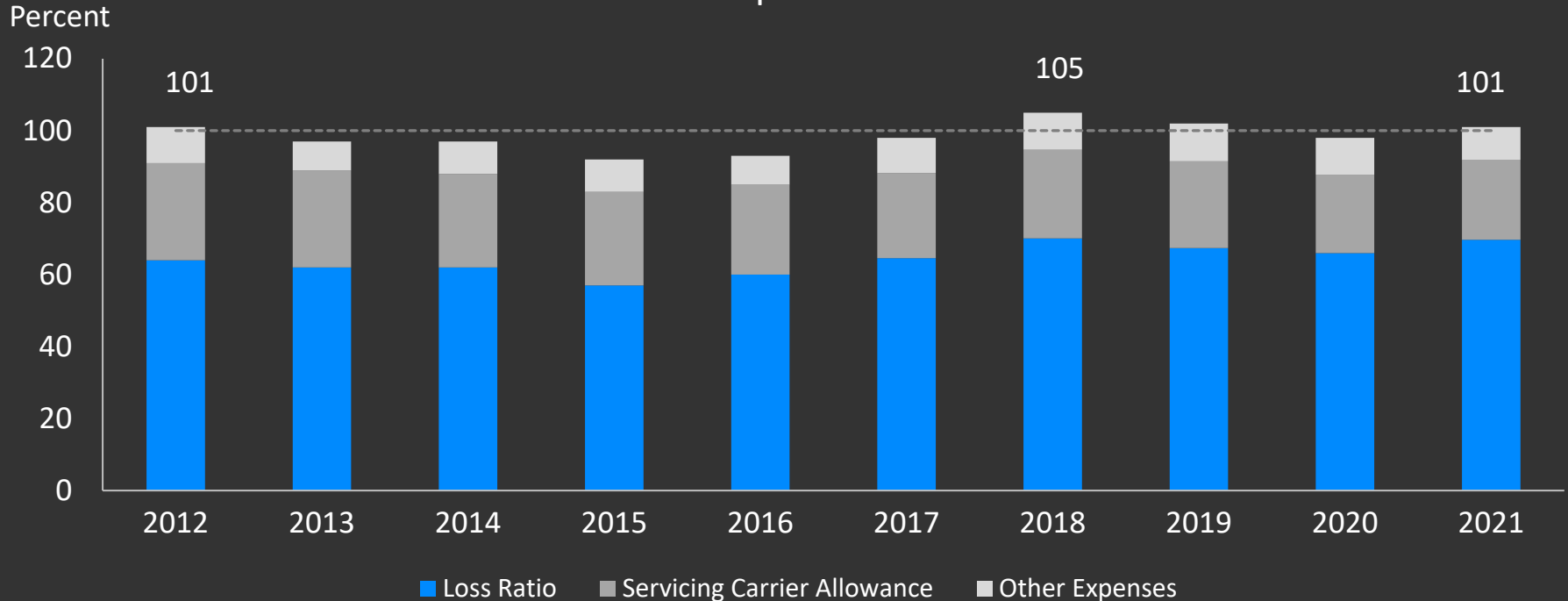


Policy Year 2021 is not yet complete.

Tennessee Reinsurance Mechanism experience is not included in the combined ratios above.

Combined Ratios as of 9/30/22

NCCI-Serviced Workers Compensation Residual Market Pools

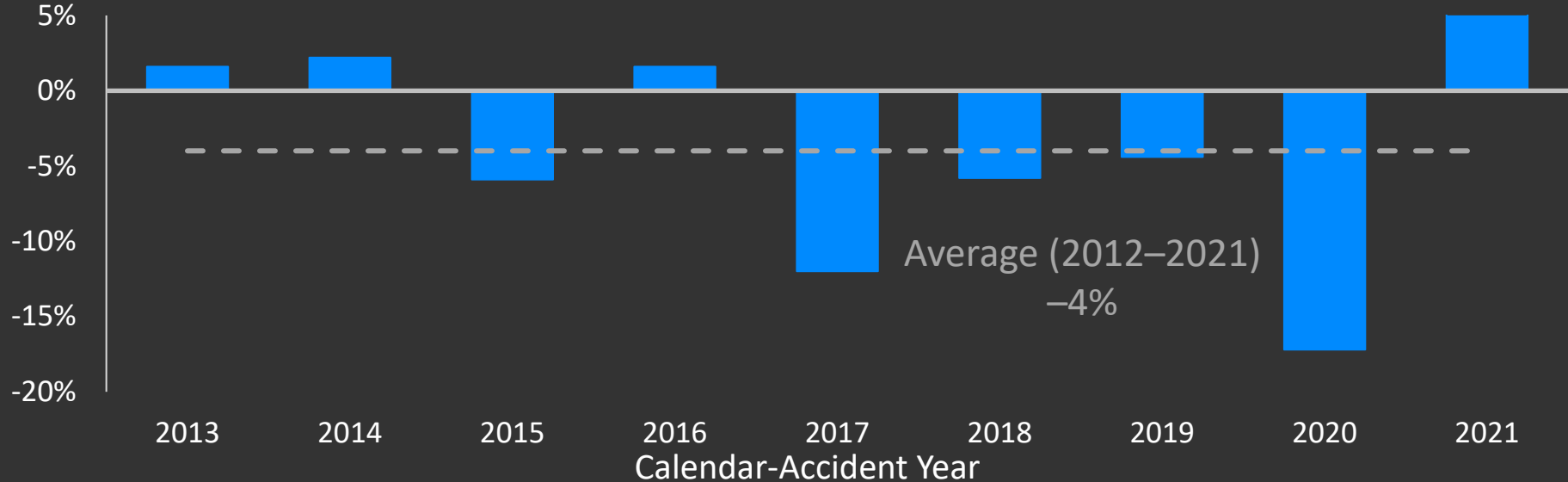


Policy Year 2021 is not yet complete.

Tennessee Reinsurance Mechanism experience is not included in the combined ratios above.

WC Lost-Time Claim Frequency

Claims per \$1M Pure Premium—NCCI Pool States



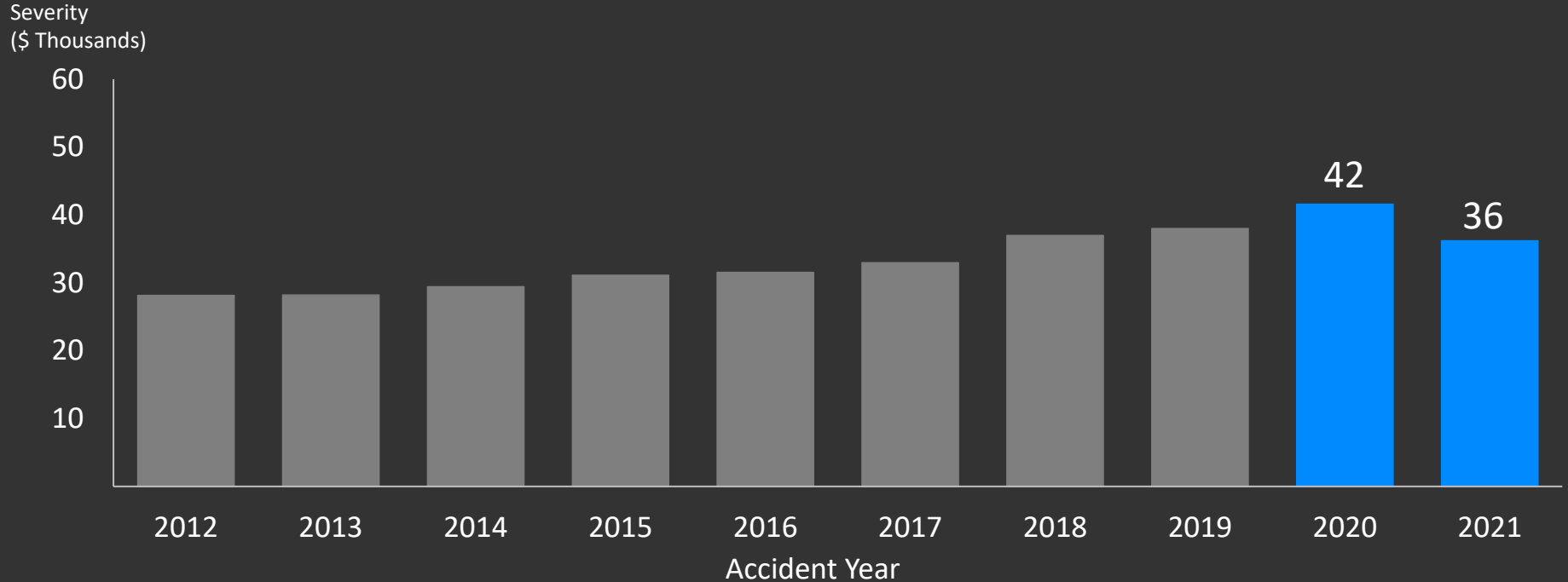
Source: NCCI's Pool data, on-leveled, developed to ultimate; based on data through 12/31/2021.

Includes all states where NCCI provides Pool Administration services; Tennessee and Tennessee Reinsurance Mechanism experience is excluded for 2012–2015.

Traumatic only.

WC Average Indemnity Claim Severity

NCCI Pool States



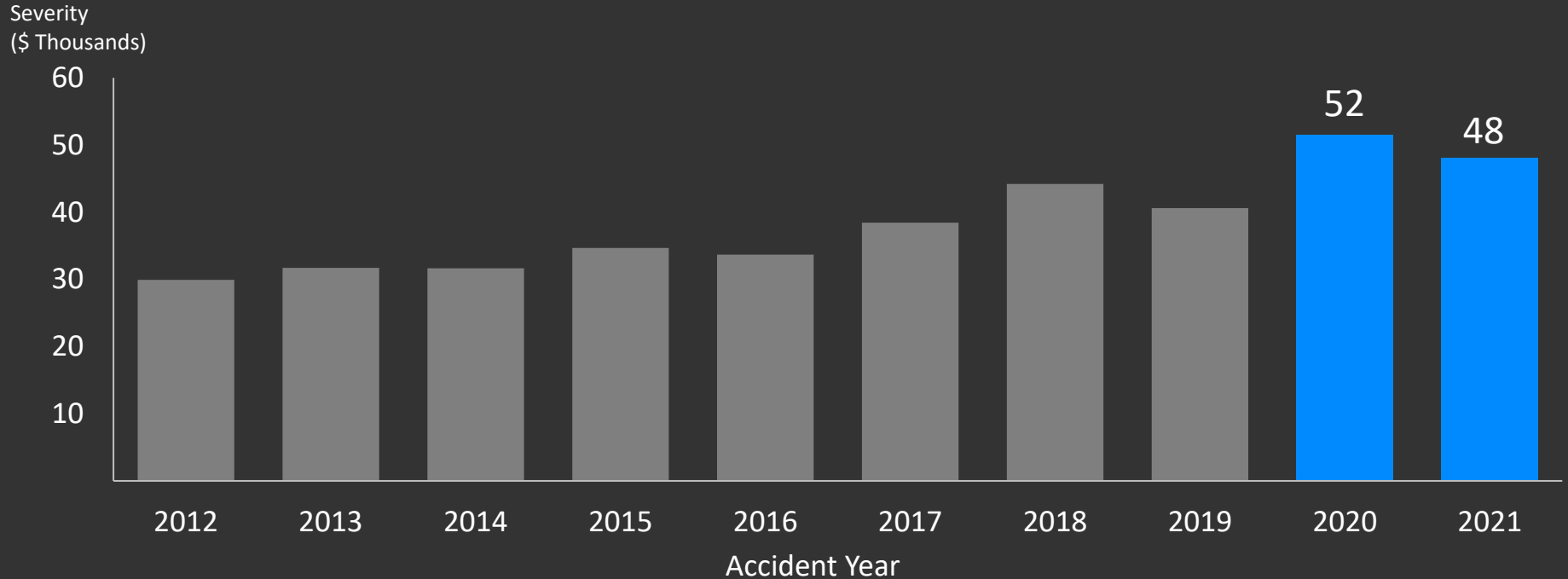
Source: NCCI's Pool Data, developed to ultimate; based on data through 12/31/2021.

Includes all states where NCCI provides Pool Administration services; Tennessee and Tennessee Reinsurance Mechanism experience is excluded for 2012–2015.

Traumatic only.

WC Average Medical Lost-Time Claim Severity

NCCI Pool States



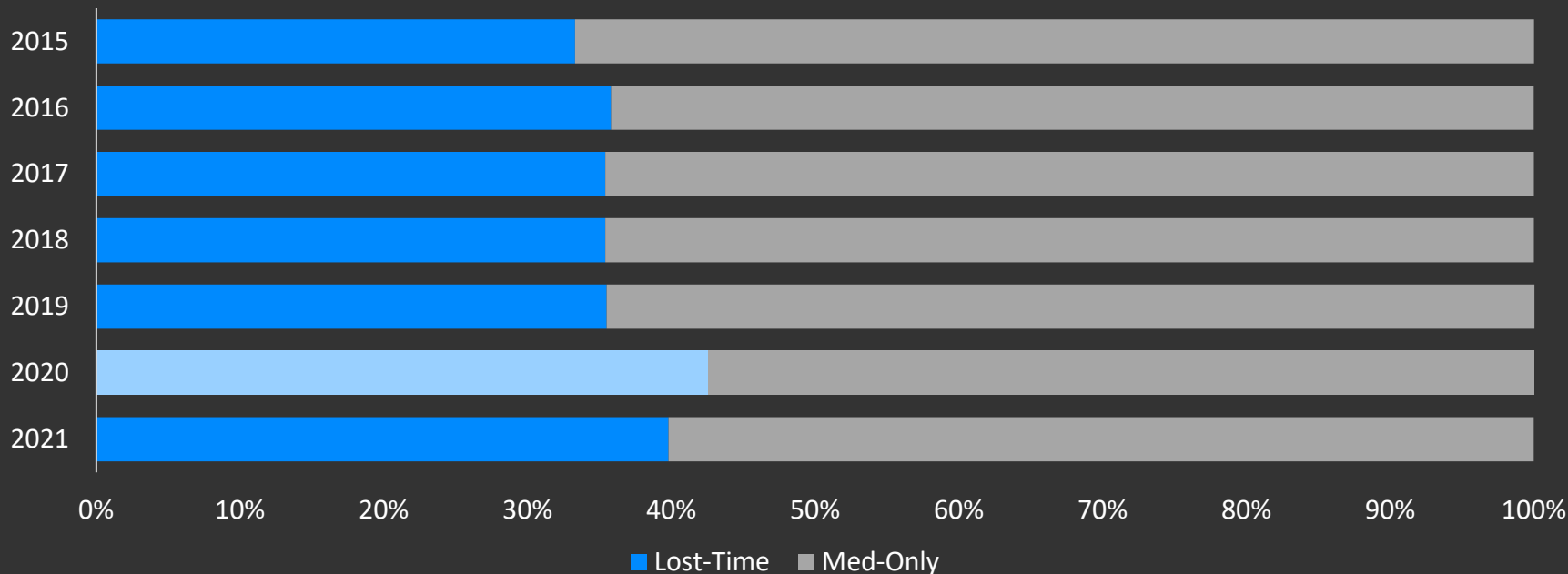
Source: NCCI's Pool Data, developed to ultimate; based on data through 12/31/2021.

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Traumatic only.

Lost-Time vs. Medical-Only Claim Counts

Age Quarter 7



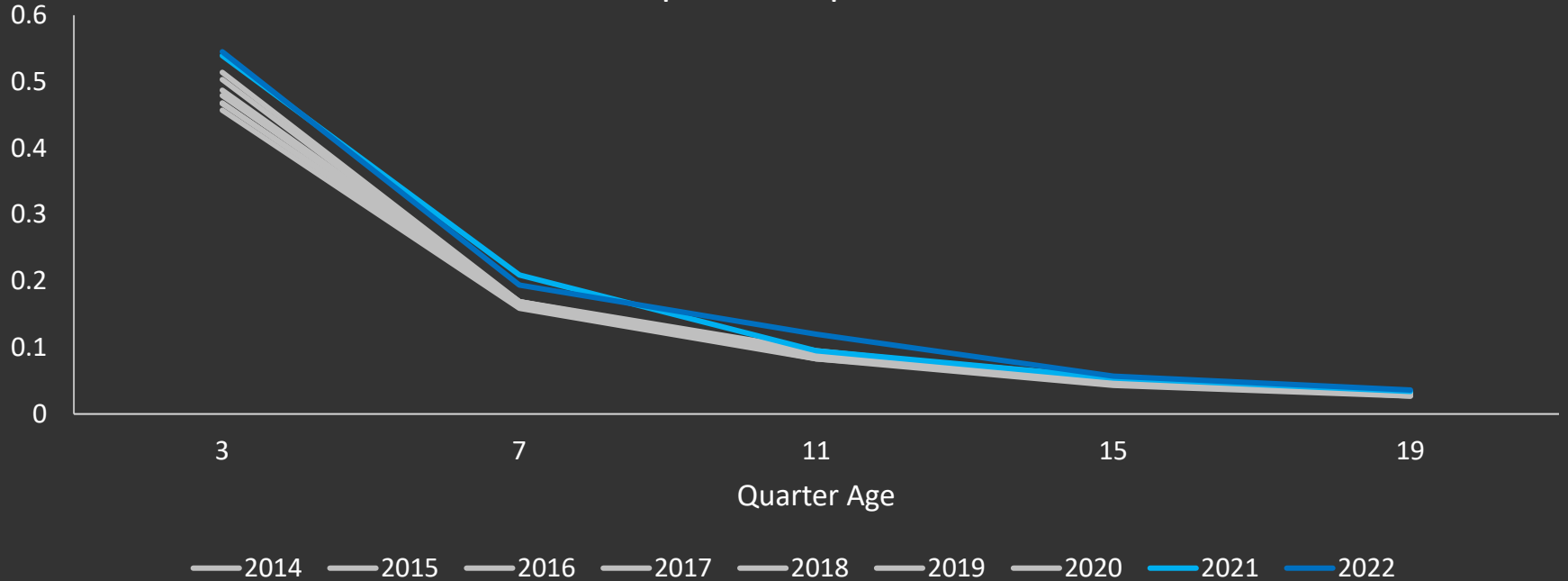
Source: NCCI's Pool Data, based on data through 9/30/2022.

Includes all states where NCCI provides Pool Administration services; Tennessee Reinsurance Mechanism experience is excluded for 2015.

Traumatic only.

Claim Count Diagnostics

Open to Reported

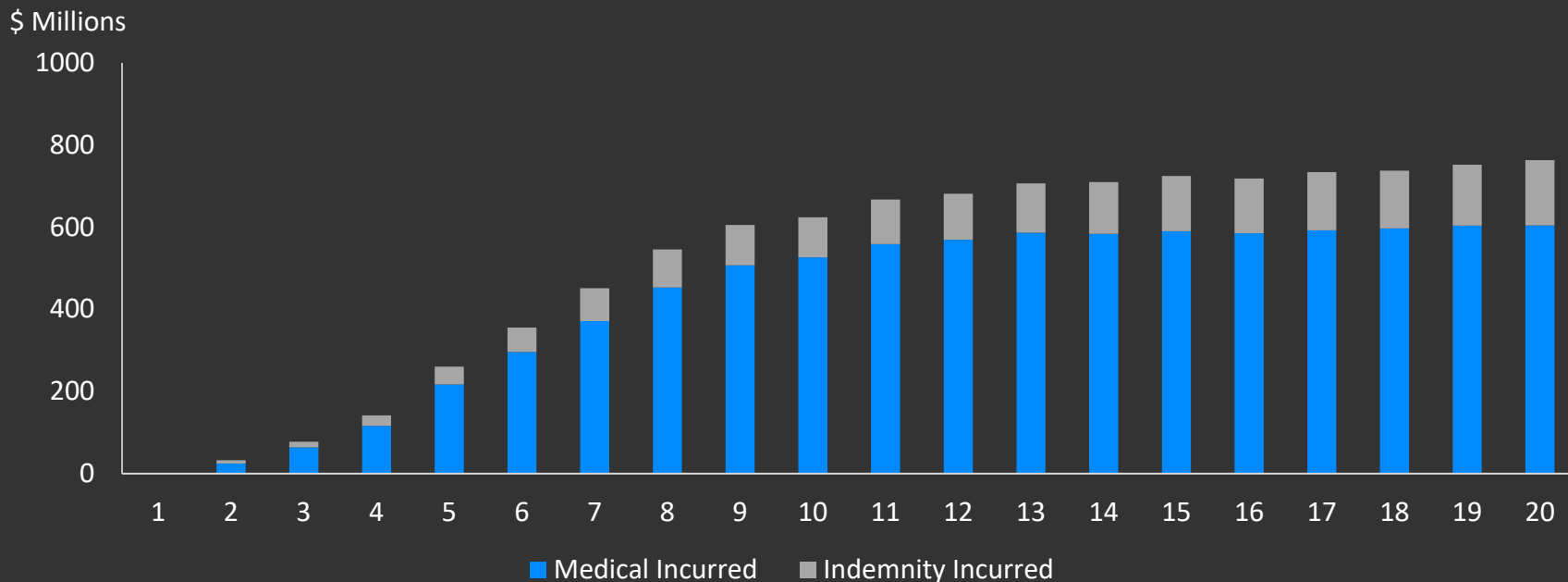


Source: NCCI's Pool Data, based on data through 9/30/2022.

Includes all states where NCCI provides Pool Administration services; Tennessee Reinsurance Mechanism experience is excluded for 2014–2015.

Large Loss Emergence

PY 2010–2017 Through Age 20

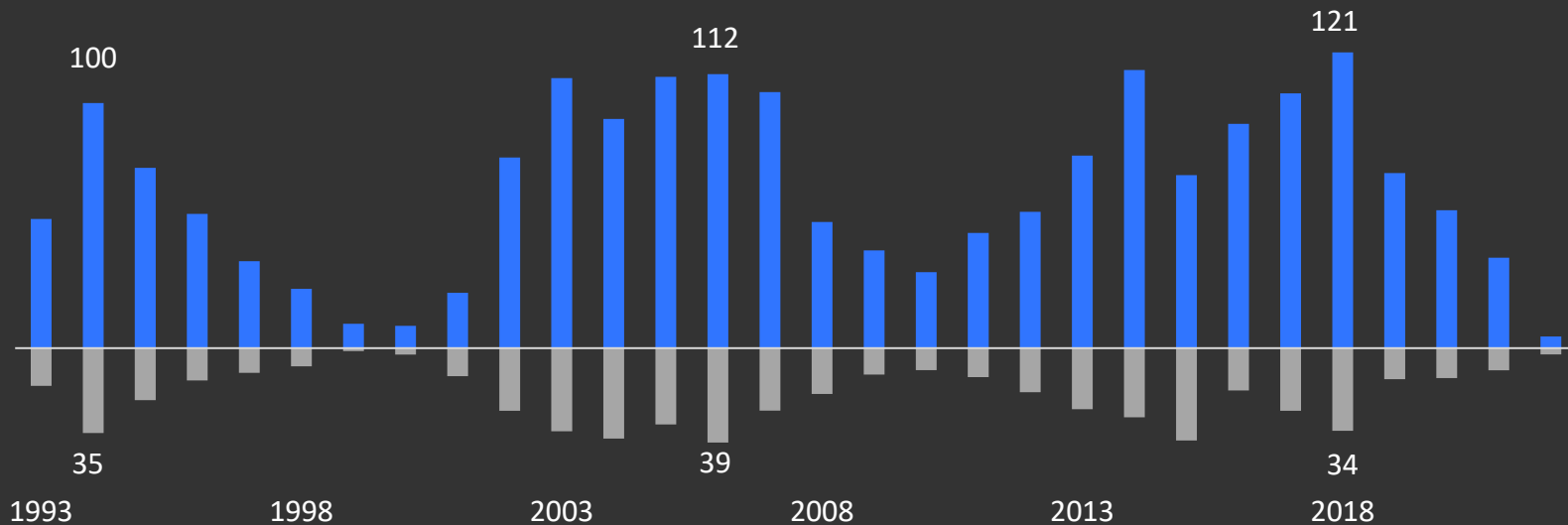


Source: NCCI's Pool Data, based on data through 9/30/2022.
Includes all states where NCCI provides Pool Administration services.
Claims with incurred total loss greater than \$1million.
Traumatic only.

Claims Over \$1M—Indemnity vs. Medical

NCCI Pool States

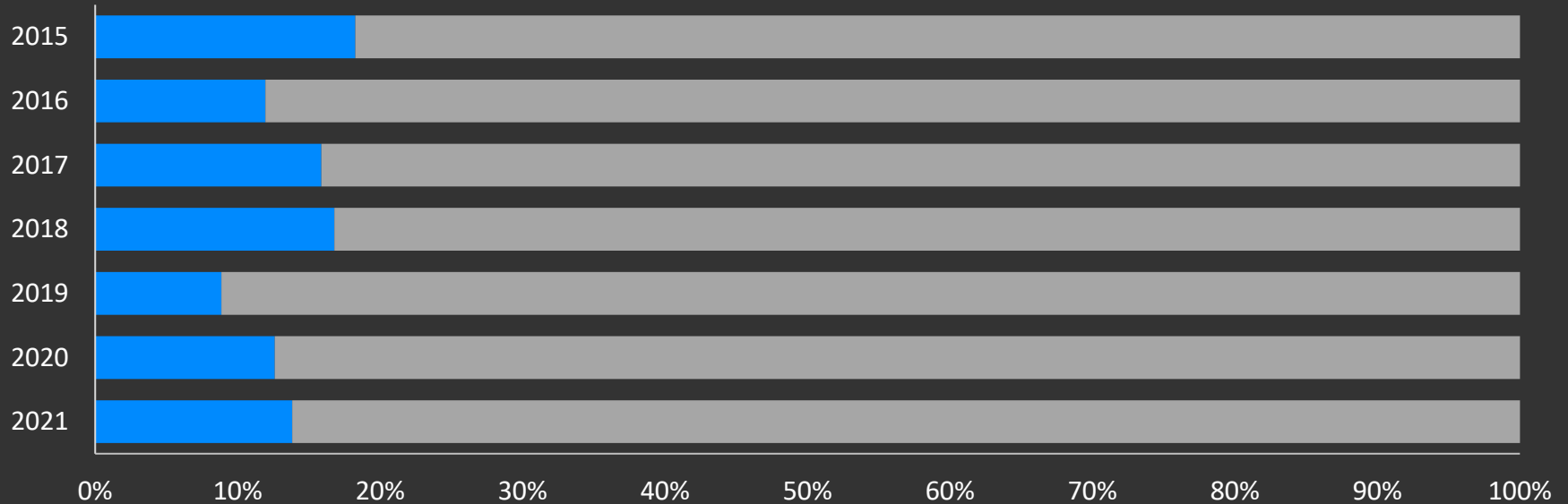
\$ Millions



Source: NCCI's Pool Data, based on data through 9/30/2022.
Includes all states where NCCI provides Pool Administration services.
Traumatic only.

Large Loss (LL) as a Percent of Total Loss

Age Quarter 7

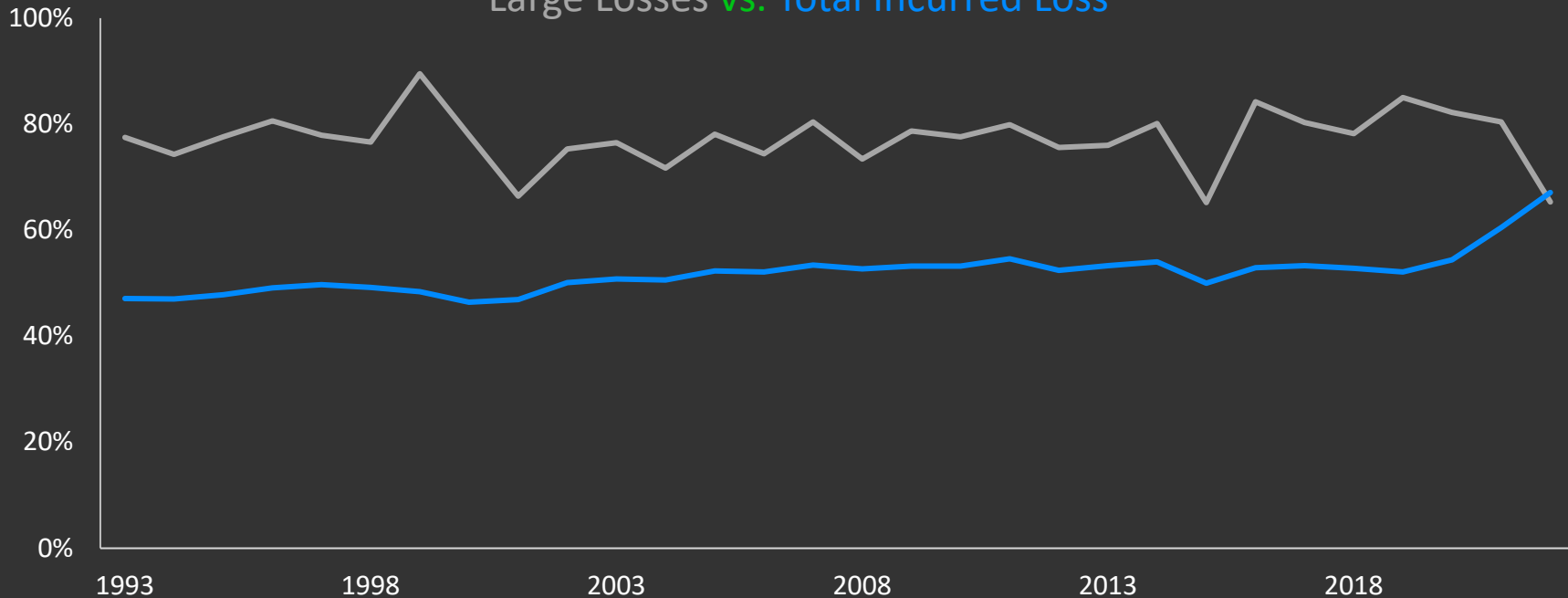


■ LL ■ Non-LL

Source: NCCI's Pool Data, based on data through 9/30/2022.
Includes all states where NCCI provides Pool Administration services.
Claims with incurred total loss greater than \$1million.
Traumatic only.

Medical Percentage of Reported Losses

Large Losses vs. Total Incurred Loss



Source: NCCI's Pool Data, based on data through 9/30/2022.
Includes all states where NCCI provides Pool Administration services.
Claims with incurred total loss greater than \$1million.
Traumatic only.

Key Takeaways

Residual Market Shares Remain Stable

Premium Consistent With Most Recent Year

Operating Results Are Close to Break-Even

Medical Is Majority of Loss