# Underwriting Results by State

Based on Data Valued as of December 31, 2016

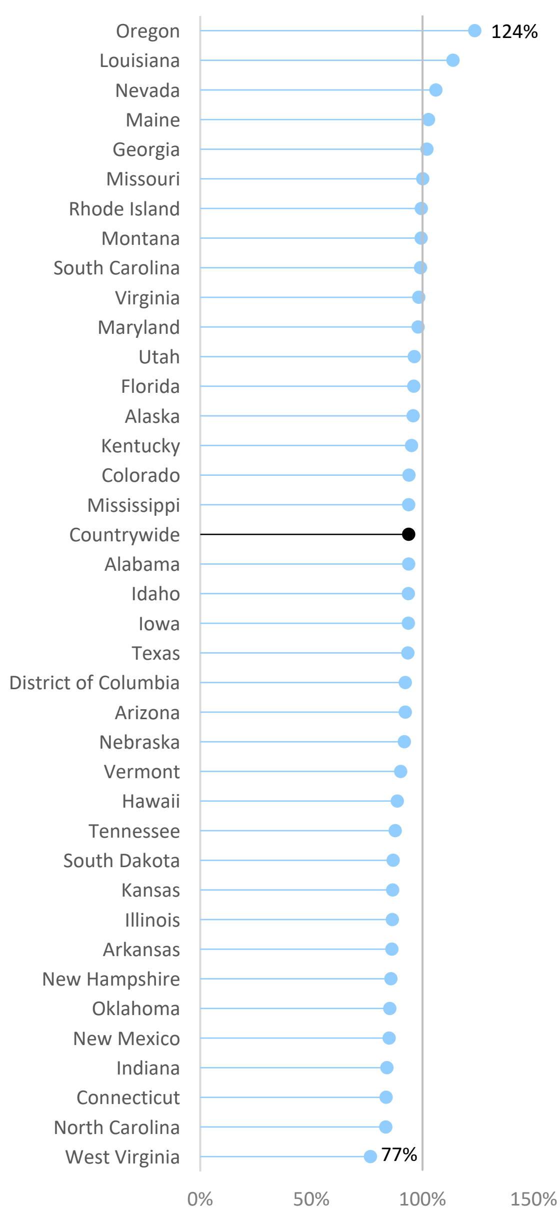
# TABLE OF CONTENTS

## EXECUTIVE SUMMARY

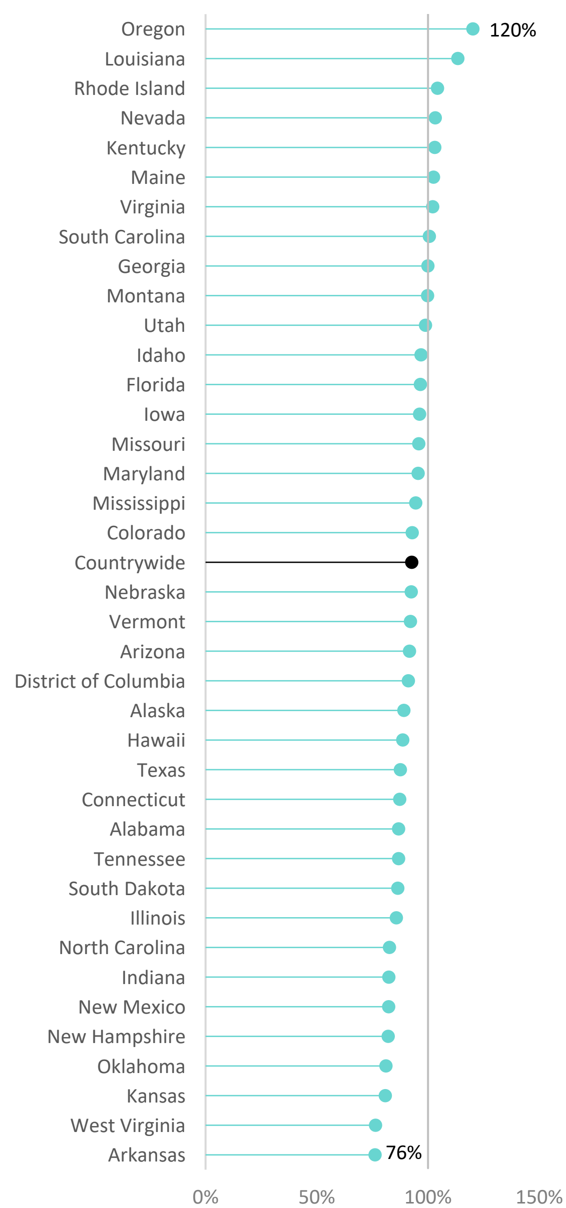
This is NCCI's annual underwriting results update based on data reported to NCCI on the Calendar-Accident Year and Policy Year Financial Data Calls. The results are provided by individual jurisdiction and based on data valued as of year-end 2016.

As shown below, there is wide variation in the observed state-specific combined ratios across the 38 jurisdictions included in this report.

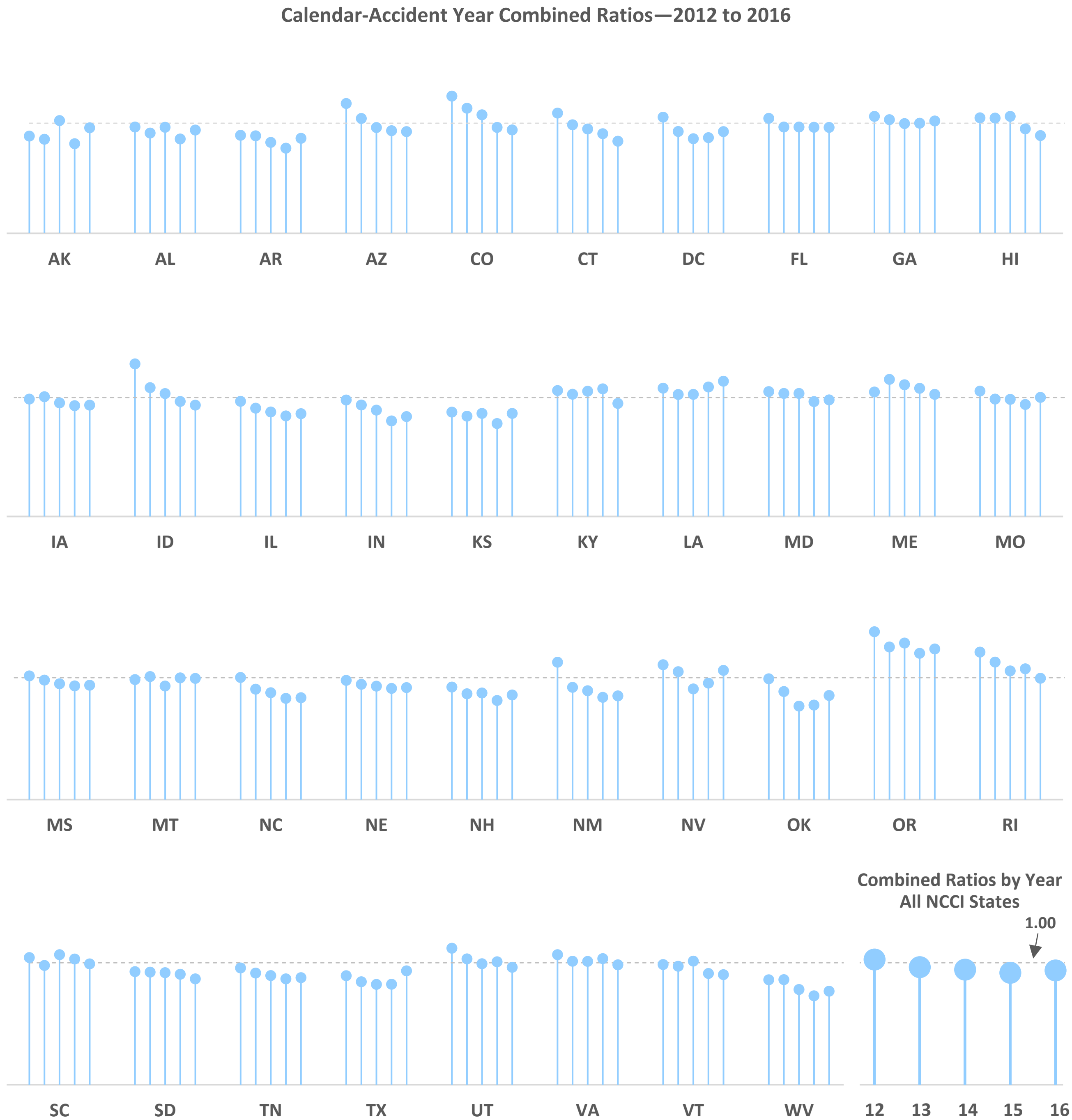
**2016 Calendar-Accident Year Combined Ratios**



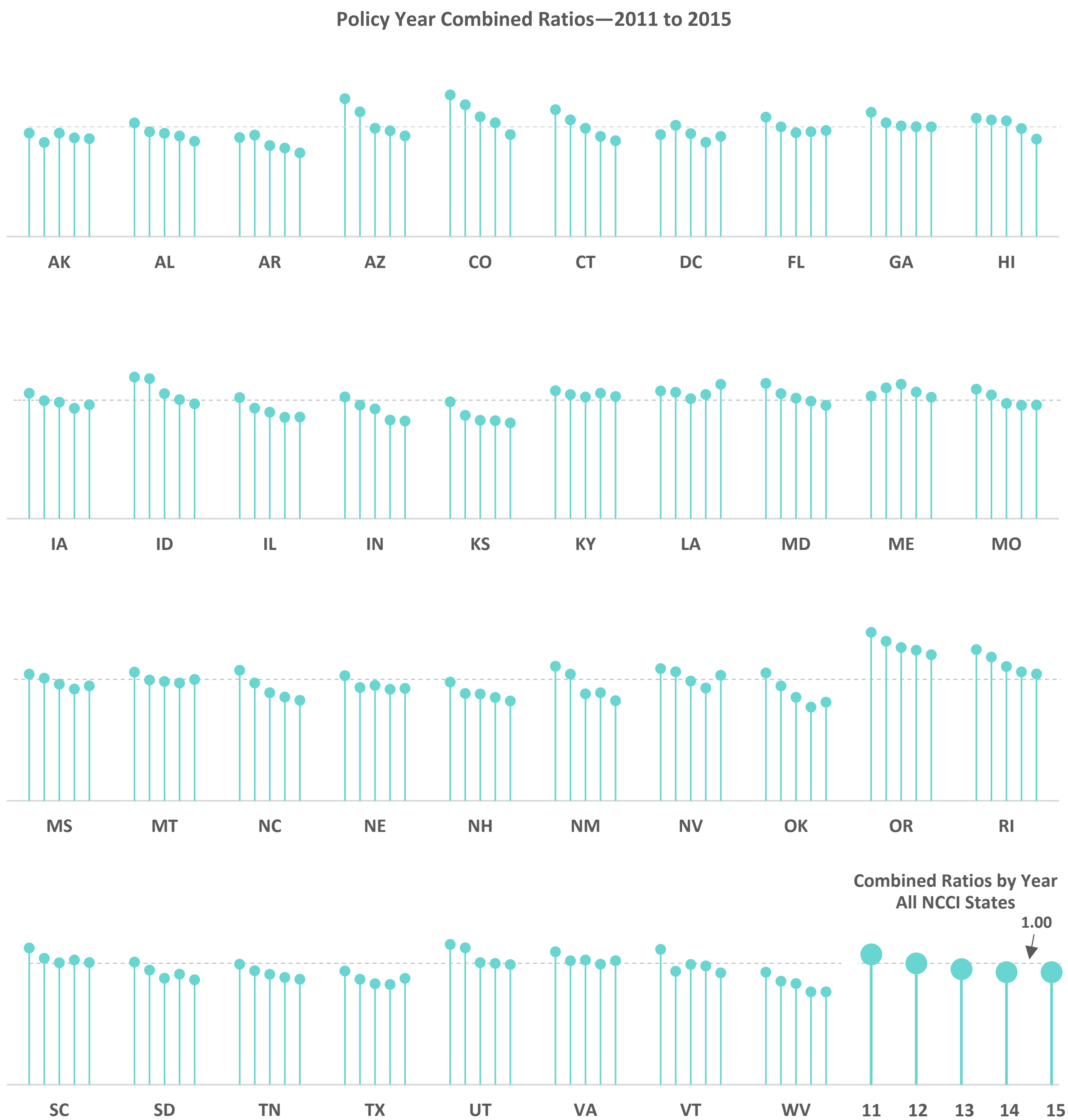

**2015 Policy Year Combined Ratios**



The 2016 countrywide calendar-accident year combined ratio is 94%, the fourth year in a row with a countrywide underwriting gain. As may be expected, favorable combined ratio results were also observed across individual jurisdictions.



On a policy year basis, the 2016 countrywide combined ratio is 93%—another strong result for the industry. The favorable combined ratios may also be seen across the individual jurisdictions.



The state-specific information underlying these key takeaways is provided in this report. Please see the accompanying Underwriting Results by State spreadsheet for additional information. This report was prepared as of February 15, 2018. Therefore, events that occurred after this date that may have a material impact on workers compensation costs in NCCI jurisdictions have not been considered in the analysis.

## INTRODUCTION TO THE UNDERWRITING RESULTS BY STATE

Workers compensation premiums are meant to provide funds to meet two expenditures: statutory benefit costs and operating expenses of the benefit system. Underwriting results are a measure of the adequacy of premium funds to cover these expenditures. NCCI expresses the underwriting result as a ratio to net premium. The ratio is the difference between unity and the sum of the loss, expense, and dividend ratios to net premium. It represents the portion of the net premium that is left after benefit costs and operating expenses are paid. An underwriting ratio less than zero indicates that losses and expenses exceeded premium collected. Note that underwriting results do not reflect investment income.

Financial Call data is used in Calendar-Accident Year Underwriting Results and Policy Year Underwriting Results. This data excludes underground coal mine, F-classification, large deductible, national defense project, and excess business. NCCI develops the losses reported by carriers to an estimated ultimate basis. Standard earned premiums at company level are provided, although these premiums are not used in the underwriting results.

NCCI produces results for the calendar-accident year and policy year methods as described below.

### Calendar-Accident Year Experience

Calendar-accident year experience reflects premium earned from January 1 to December 31 of that year along with loss experience for claims with accident dates from January 1 to December 31 of that year. The Calendar-Accident Year Underwriting Results provide information for each of the most recent five years. While calendar-accident year experience is more recent than policy year experience, it is less mature on average. Also, calendar-accident year premiums are not perfectly matched to losses. For example, audits and retrospective rating adjustments on prior-year policies are earned in the year they are made, as opposed to the year in which the policies were in effect and the loss exposure occurred. In addition, the timing of accidents can influence calendar-accident year results.

**Policy Year Experience**

Policy year experience reflects policies with effective dates from January 1 to December 31 of that year. This type of reporting requires that all premium and loss activity, whether payment or reserve adjustment, be applied to the policy year to which the policy effective date corresponds. Policy year experience for the most recent 15 reports is contained in the Policy Year Underwriting Results. Unlike calendar-accident year experience, the policy year results provide an exact match of premium and losses from the same block of policies. Policy year experience is slightly older, on average, and therefore more mature than the corresponding calendar-accident year experience.

In general, each jurisdiction's losses are developed using a methodology consistent with the state's most recent rate filing review. Because different methods are being used, a Loss Development Methodology by Jurisdiction summary identifies which methods are used to develop each jurisdiction's losses. Countrywide results are determined by summing the available data for each individual NCCI jurisdiction.

Underwriting results, by definition, are not adjusted to reflect recent rate, loss cost, trend, or benefit changes. Therefore, this information, by itself, does not necessarily indicate future potential results in a state.

These results are provided as informational only. An insurer is not required to use this information. The ultimate loss ratios are estimates that change each year as claims are closed and/or reserve estimates are updated. Recommendations regarding ultimate historical loss ratios, as well as prospective loss ratios, are not made in this report.

## UNDERWRITING RESULTS BY COMPONENT

The Underwriting Results include jurisdictions for which NCCI collects financial data. Unless otherwise noted, results for Arizona, Colorado, Hawaii, Idaho, Kentucky, Louisiana, Missouri, Montana, New Mexico, Oklahoma, Oregon, Rhode Island, Texas, and Utah include state fund data, as applicable. Data for the remaining jurisdictions is for private carriers only.

The components of the underwriting results are as follows:

### Standard Earned Company Premium (Column 1)

Standard earned company premium represents premium reported at the rate level charged to the insured by the insurance company prior to the application of adjustments related to retrospective rating, schedule rating, and premium discounts.

For the Policy Year Underwriting Results, standard earned company premium is then developed to an ultimate level. Since the premium at policy inception is based on estimated payroll, a development factor is applied to reflect the impact of any differences between the estimated and actual audited payroll. The development factors are calculated to a fifth report, with any development beyond a fifth report assumed to be negligible.

### Net Earned Premium (Column 2)

Net (direct) earned premium is reported at the company rate level after the application of adjustments related to retrospective rating, schedule rating, and premium discounts. The net earned premium is the final amount paid by the insured. It is important to clarify that the net earned premium is direct, that is, prior to reinsurance cessions and assumptions.

For the Policy Year Underwriting Results, the net (direct) earned premium is then developed to an ultimate level to reflect the adjustment from estimated to actual audited payroll.

### Indemnity and Medical Losses (Columns 3 and 4)

Indemnity and medical losses for a specific state have been separately developed to an ultimate basis using the respective methodology identified in the section Loss Development Methodology by Jurisdiction. The Underwriting Results are based on the paid and/or paid plus case loss development approaches.

Paid losses are losses that have been paid on given claims. Case reserves are estimates of the remaining amount required to settle known claims based on the knowledge of those claims as of a point in time. Case reserves, when added to the payments on open claims, do not necessarily reflect the actual ultimate settlement amount because case reserves are estimates of future payments and may change over time. The pattern by which losses (paid or paid plus case) for a policy year or calendar-accident year mature from an initial reported value to their ultimate settlement amount is referred to as "loss development."

For large losses that have a significant impact on the state results, the reported paid plus case amount is used as the estimate for the claim's ultimate value. Claims of this magnitude are not frequent and this adjustment is only made for the valuation in which the predetermined impact threshold is reached.

### Expense Ratio (Column 7)

For all Policy Year Underwriting Results, expenses are derived from Statutory Page 14 data of the Annual Statement and the Insurance Expense Exhibit. Successive calendar years are weighted to obtain policy year estimates.

Incurred direct defense and cost containment expenses, commissions and brokerage expenses, and taxes are calculated by jurisdiction utilizing data as reported from Annual Statement Statutory Page 14. Adjusting and other expenses, general expenses, and other acquisition expenses are from the Insurance Expense Exhibit using both private carrier countrywide and state fund data as reported. The expense ratio contains a provision for assessments in the tax component of the expense ratio. Therefore, no loss-based assessment adjustment has been applied to the losses.

A summary of the most recent year's expense ratio by individual component is shown following the underwriting results. The expense ratio components are:

**Direct Defense and Cost Containment Expenses**

Include defense, litigation, and medical cost containment expenses.

**Adjusting and Other Expenses**

Reflect the remaining costs associated with the settlement of claims, such as claim adjusters' fees.

**Commissions and Brokerage Expenses**

Reflect fees paid by the insurer to agents and brokers who represent the insured in placing orders for coverage.

**Taxes, Licenses, and Fees**

Represent the insurer's legal obligation to pay premium taxes, various miscellaneous taxes, and assessments that vary by jurisdiction. Taxes are generally levied as percentages of premium and assessments can be levied as percentages of premium or losses.

**General and Other Expenses**

Reflect costs to the insurer of running internal operations (e.g., rent, salaries), general activities (e.g., administration, payroll, audits, boards and bureaus funding, and inspections), and other acquisition costs (e.g., advertising and premium collection expenses).

## Dividend Ratio (Column 8)

The dividend ratio reflects dividends as a percentage of earned premium based on individual state information from Annual Statement Statutory Page 14 data. The policy year dividend ratios are then estimated based on information for successive calendar years.

# LOSS DEVELOPMENT METHODOLOGY BY JURISDICTION

| Jurisdiction | Paid to a 19th Report | Paid Plus Case to a 19th Report | Average of Paid and Paid Plus Case to a 19th Report |
|---|---|---|---|
| Alabama | | | X |
| Alaska | | | X |
| Arizona | X | | |
| Arkansas | | X | |
| Colorado | | X | |
| Connecticut | | | X |
| District of Columbia | | X | |
| Florida | | | X |
| Georgia | | | X |
| Hawaii | | | X |
| Idaho | X | | |
| Illinois | | | X |
| Indiana | | | X |
| Iowa | | | X |
| Kansas | | | X |
| Kentucky | | | X |
| Louisiana | X | | |
| Maine | X | | |
| Maryland | | | X |
| Mississippi | | | X |
| Missouri | | | X |
| Montana | X | | |
| Nebraska | | | X |
| Nevada | X (to a 13th report) | | |
| New Hampshire | | | X |
| New Mexico | | | X |
| North Carolina | | | X |
| Oklahoma | | | X |
| Oregon | X | | |
| Rhode Island | X | | |
| South Carolina | | | X |
| South Dakota | | | X |
| Tennessee | | | X |
| Texas | | | X (to a 14th report) |
| Utah | X | | |
| Vermont | | | X |
| Virginia | | X | |
| West Virginia | | | X (to a 10th report) |

Development factors are based on a subset or combination of data valued as of year-end 2010 through year-end 2016. To be as consistent as possible with NCCI's filing process, each jurisdiction's losses are developed using a methodology consistent with the approach used in that jurisdiction's most recent rate review.

**Methodology Key**

For the purposes of this document, the development methodology refers to the basis of losses, which are then developed to ultimate.

**Paid to a 19th Report**

Paid losses are used as the experience base from 1st through 19th report. The paid losses are then developed to an ultimate report via the application of a tail factor.

**Paid Plus Case to a 19th Report**

The sum of paid losses and case reserves is used as the experience base from 1st through 19th report. The sum of paid losses and case reserves is then developed to an ultimate report via the application of a tail factor.

Please note that some jurisdictions use variations of the development methodologies described above (e.g., a combination of the paid and paid plus case methodologies).