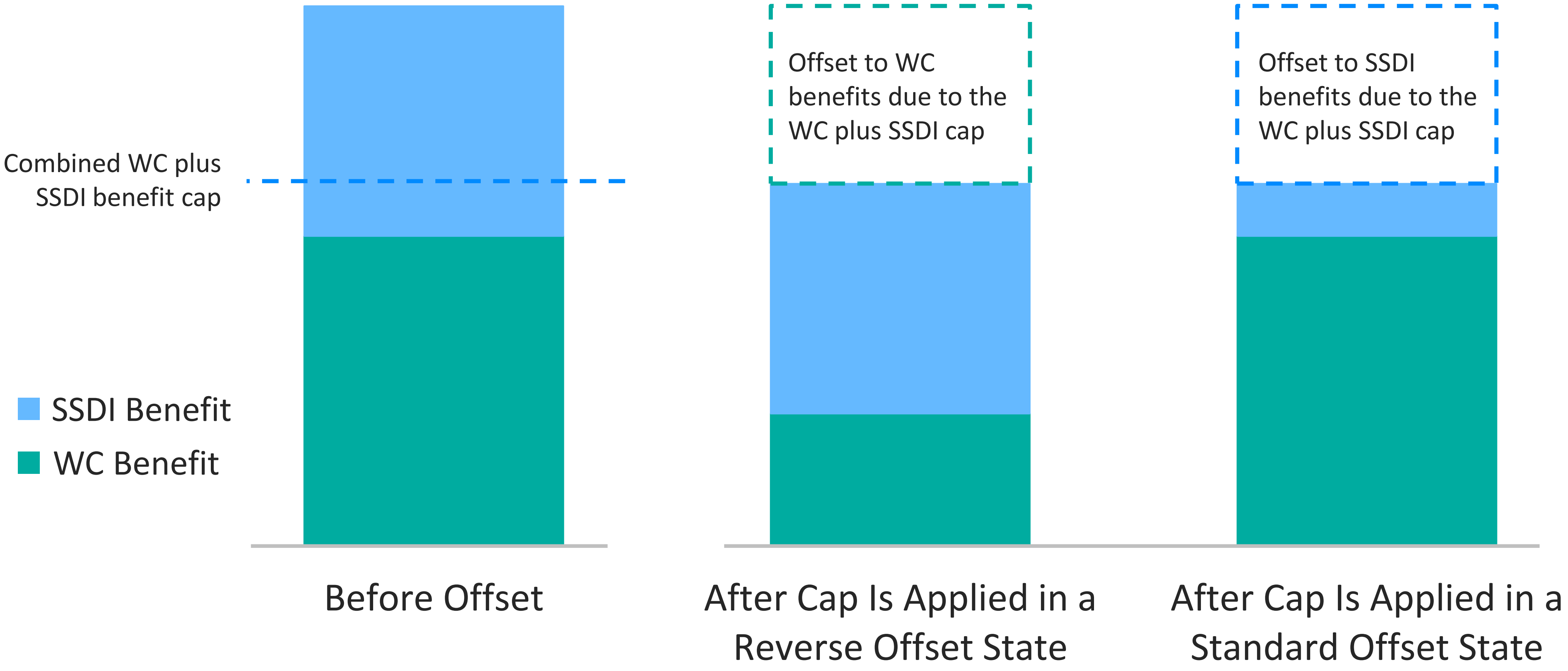
2017 STATE OF THE LINE GUIDE ADDENDUM

WC and Social Security Disability Insurance (SSDI) Benefits

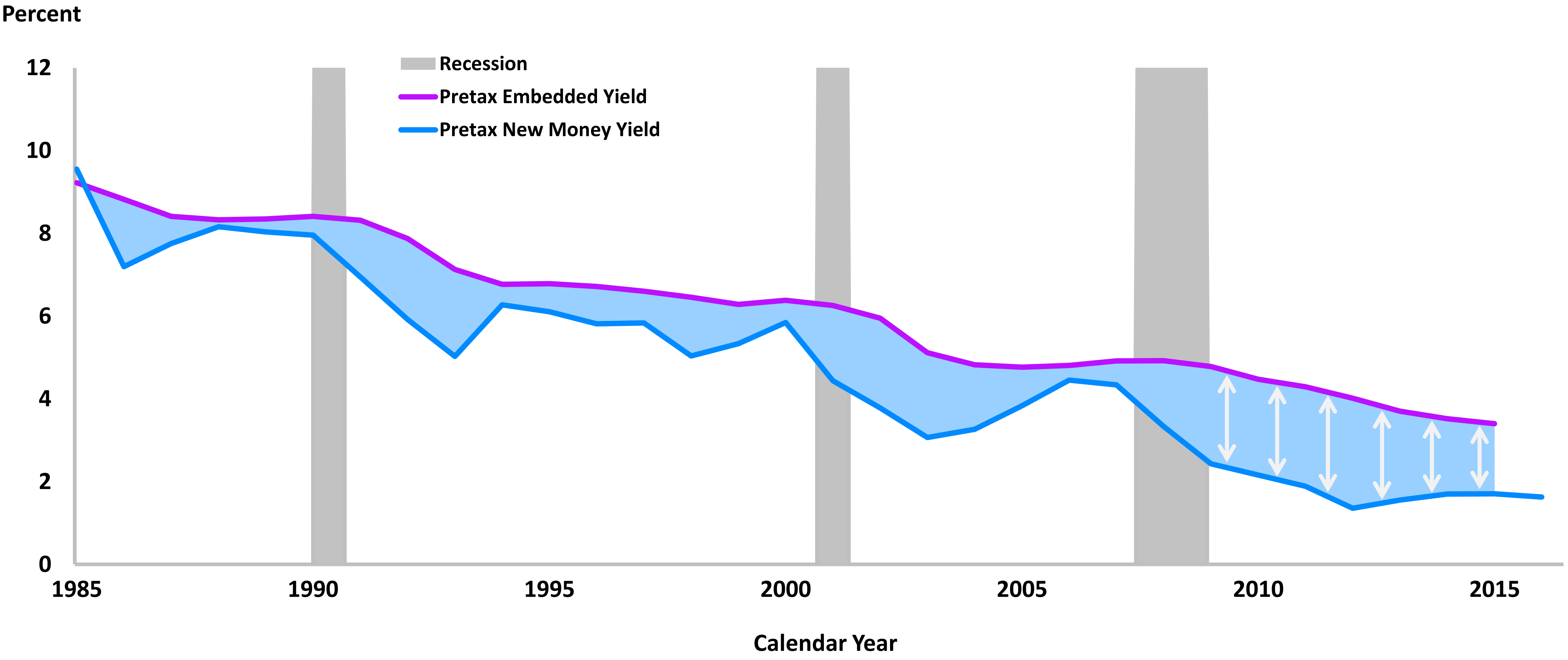
Comparison of Weekly Indemnity Benefits for a Dual Recipient Before and After the Offset to Benefits



Illustrative example of initial benefits in a reverse offset state and standard offset state for a dual recipient who previously earned the state median wage

AIS 2017

P/C Industry Bond Embedded Yield Remains Higher Than Bond New Money Yield

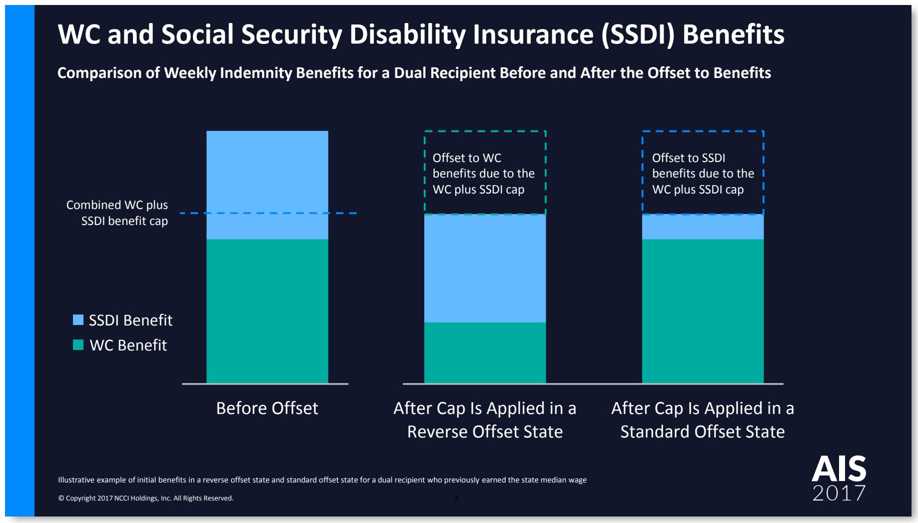


Sources: NCCI, *A.M. Best's Aggregates & Averages*, Federal Reserve Bank, Value Line, TreasuryDirect, Barron's, Bloomberg
Embedded Yield is the reported investment income for bond instruments divided by the asset value of those instruments
New Money Yield is the pretax yield on bonds

WC and Social Security Disability Insurance (SSDI) Benefits—Slide 31A

Background

Workers compensation (WC) is intended to compensate employees for work-related injuries. Social Security Disability Insurance (SSDI) provides benefits for workers who become totally disabled from injuries or conditions, whether work-related or not.



A disabled person may qualify as a dual recipient, eligible to receive both WC and SSDI benefits, subject to a cap. For example, a preexisting cardiovascular condition coupled with a work-related injury may result in total disability.

Additional Information

This slide displays the interaction of WC and SSDI indemnity benefits in year one for two sample offset situations. Approximately fifteen states* have established reverse offsets for certain benefit types that were grandfathered in by federal legislation enacted in 1981. When combined benefits exceed the cap, the legislation permits these states to offset the WC benefits rather than the SSDI benefits. In most states, referred to as standard offset states, the full WC benefit is paid and the SSDI benefit is lowered or offset so that the combined benefits do not exceed the cap.

The proposed budget set forth by President Donald Trump for Fiscal Year 2018 calls for a repeal of the Social Security reverse offsets noted above, which would result in a:

- Decrease in SSDI benefits and an increase in WC costs for employers in the reverse offset states
- Consistent approach across jurisdictions in determining the combined benefits for dual recipients of WC and SSDI, whereby the SSDI benefits would be offset

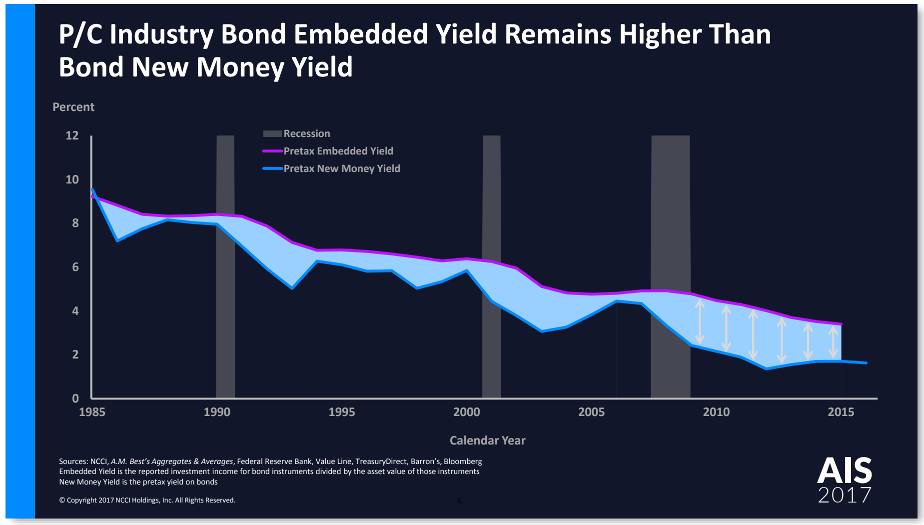
Data Source

Social Security Administration (SSA)

* AK, CA, CO, FL, LA, MN, MT, ND, NJ, NY, OH, OR, WA, and WI (NV enacted a reverse offset plan on 7/1/81 but repealed it in 2009. The SSA does not recognize plans in effect after 2/18/81.)

P/C Industry Embedded Yield and New Money Yield

Background



Embedded Yield is the reported pretax investment income, excluding capital gains, for bond instruments held by P/C insurers divided by the asset value of those instruments. Embedded Yield is derived from accounting data as reported. It includes investment income both from (old) bonds owned at the beginning of each year and (new) bonds acquired during the year.

New Money Yield is the pretax yield for a bond portfolio containing similar securities and maturities, but whose yields reflect current bond prices.

The gray bars in the graph indicate periods of recession in the United States.

Key Takeaways

- Both Embedded and New Money Yields have generally declined over the last 30 years
- The New Money Yield remains below the Embedded Yield
- The gap between Embedded and New Money Yields widens for several years during and after recessions and then narrows

Data Sources

- Embedded Yield is based on data from *A.M. Best's Aggregates & Averages*
- New Money Yield is based on data from *A.M. Best's Aggregates & Averages*, the Federal Reserve Bank, Value Line, TreasuryDirect, Barron's, and Bloomberg

