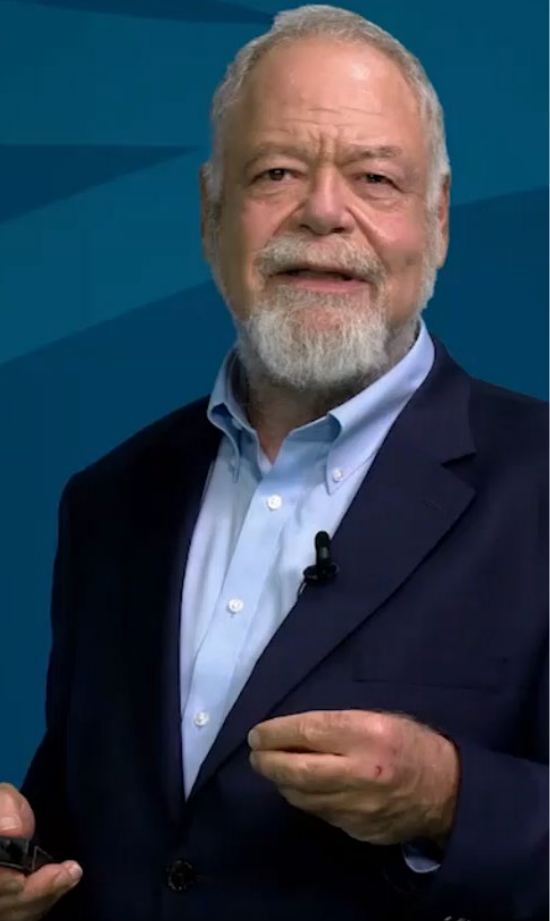


Why Wage Inflation Matters in Workers Compensation

Barry Lipton, FCAS, MAAA
Practice Leader and Senior Actuary
NCCI



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Wage Changes and the US Economy

- Job losses in 2020 hit low-wage workers the hardest
- As economy recovers, wages grow fastest for lower-wage jobs



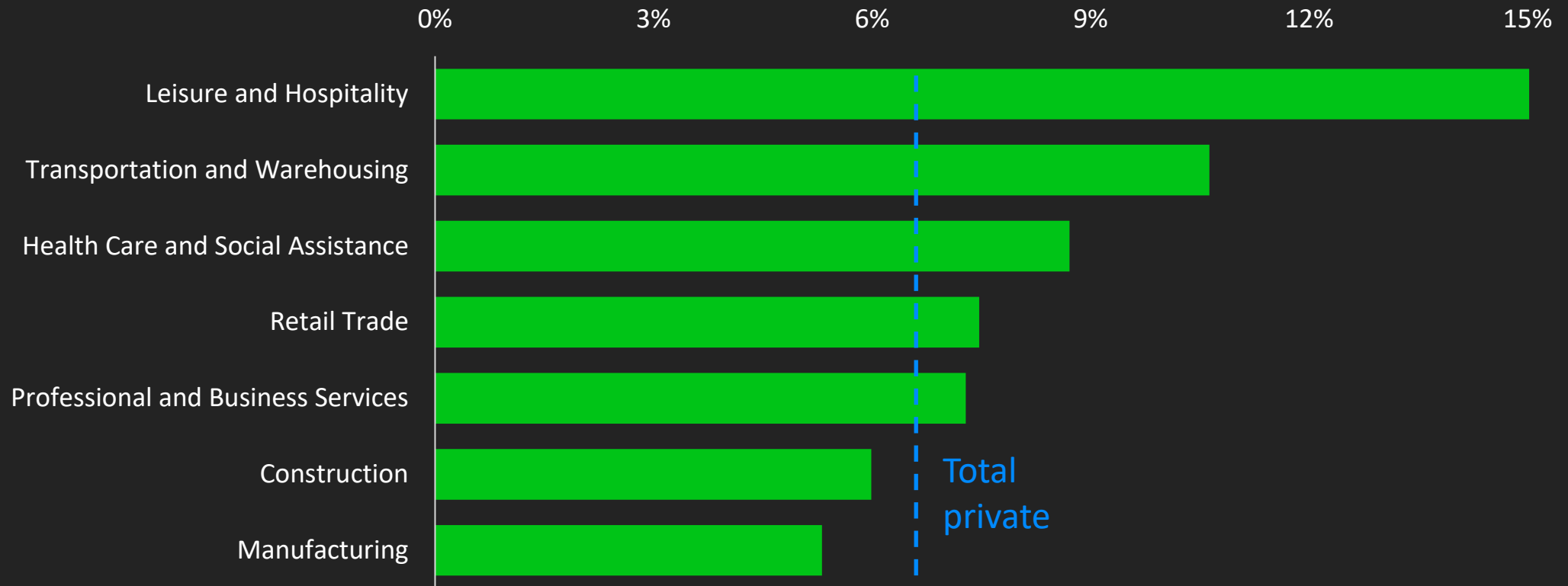
Labor supply
shortages
existed



Employers are
increasing wages to
lure back workers

Wage Growth Picked Up

1Q 2022 vs. 1Q 2021 (excluding management)



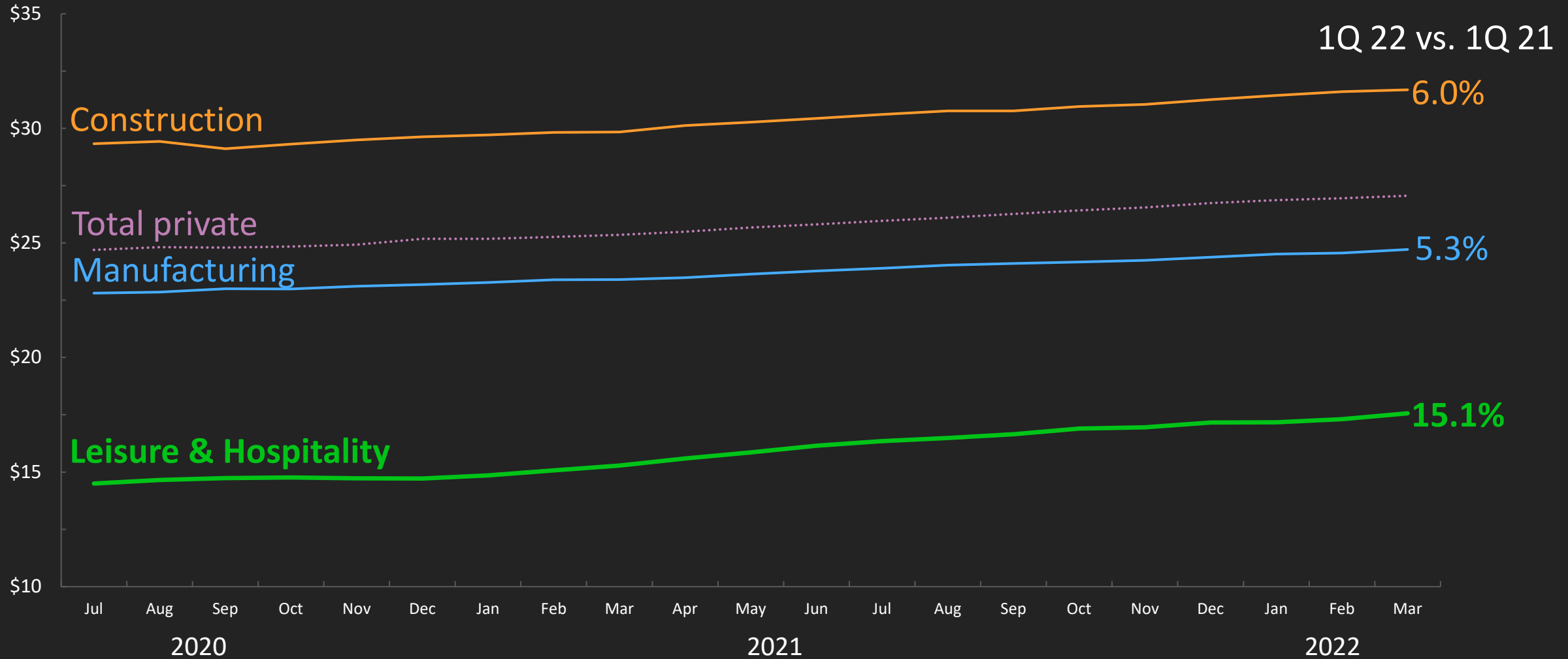
Change in average hourly earnings for production and nonsupervisory workers for January through March 2022 compared to the same period in 2021

February and March 2022 average hourly earnings are preliminary

Sources: US Bureau of Labor Statistics; NCCI

Worker Earnings Are Picking Up, Especially in Leisure and Hospitality

Average hourly earnings (excluding management)

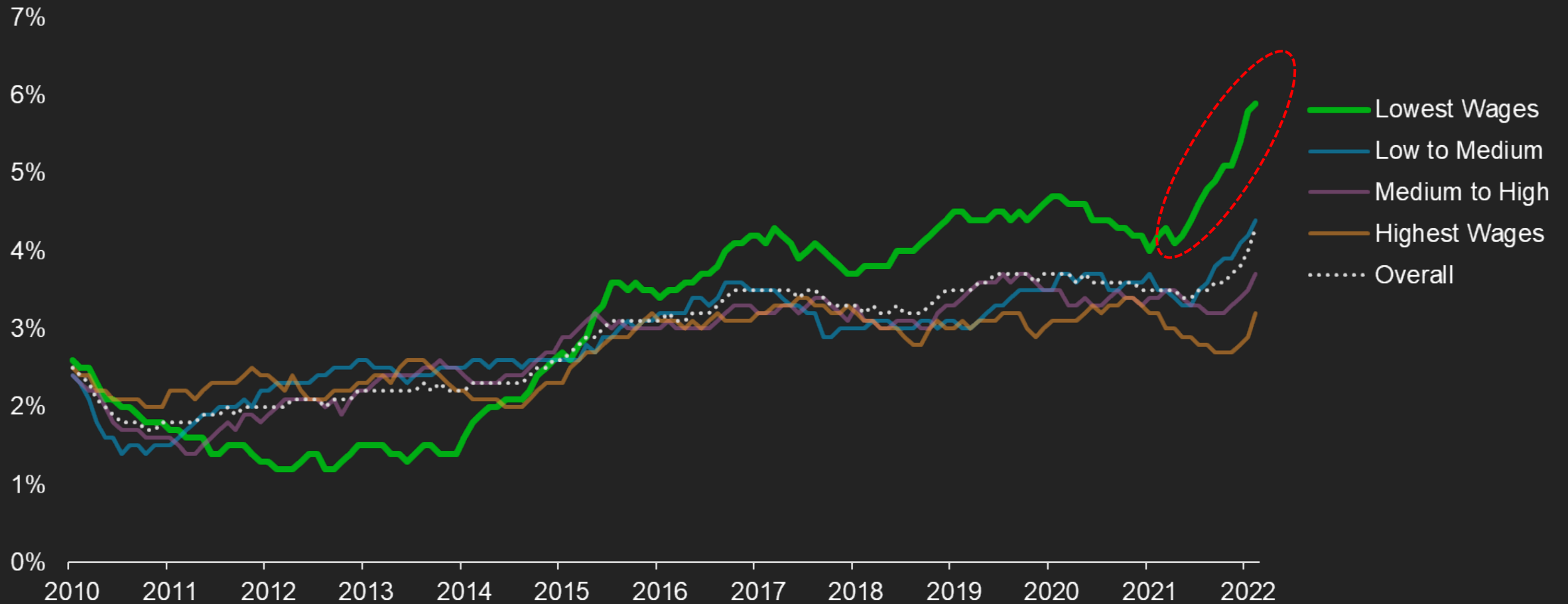


Production and nonsupervisory workers; February and March 2022 average hourly earnings are preliminary
Sources: US Bureau of Labor Statistics; NCCI

AIS
2022

Wages Grew Fastest for **Low-Paying Jobs**

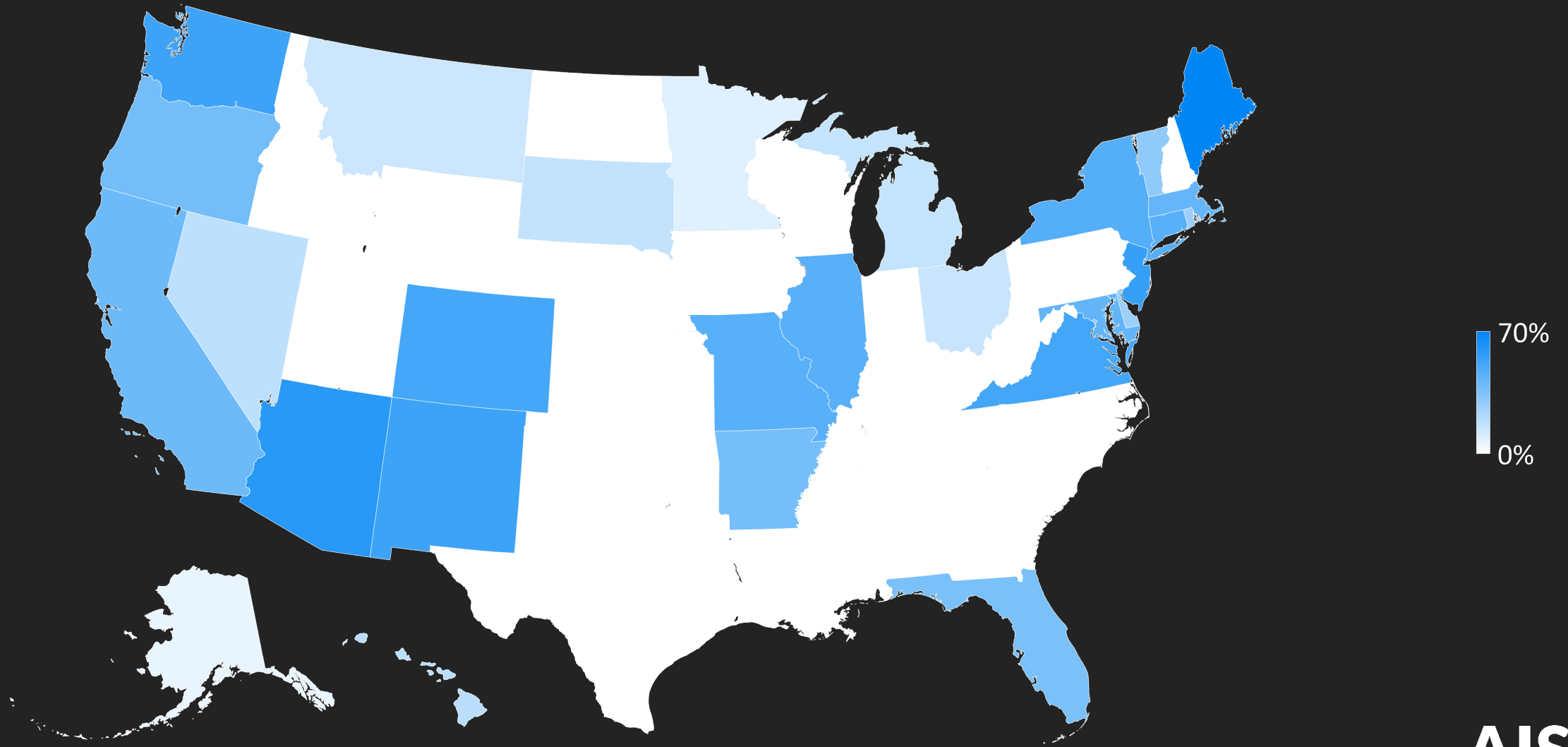
12-Month Moving Average



12-month moving averages of monthly median hourly wage growth

Sources: Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta Calculations

Minimum Wage Increases Since 2016



Source: US Department of Labor

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How Does Wage Inflation Impact Workers Compensation?



Payroll Is a Great Exposure Base

- Inflation-sensitive
 - Higher wages → Payrolls up → WC premiums up
 - Higher wages → Benefits up
- Keeps premiums and benefits in balance
- Auditable

Indemnity Benefits Correlate With Wages and Payroll



Compensation Rates for Most Indemnity Benefits

Two-thirds of worker's pre-injury weekly wage



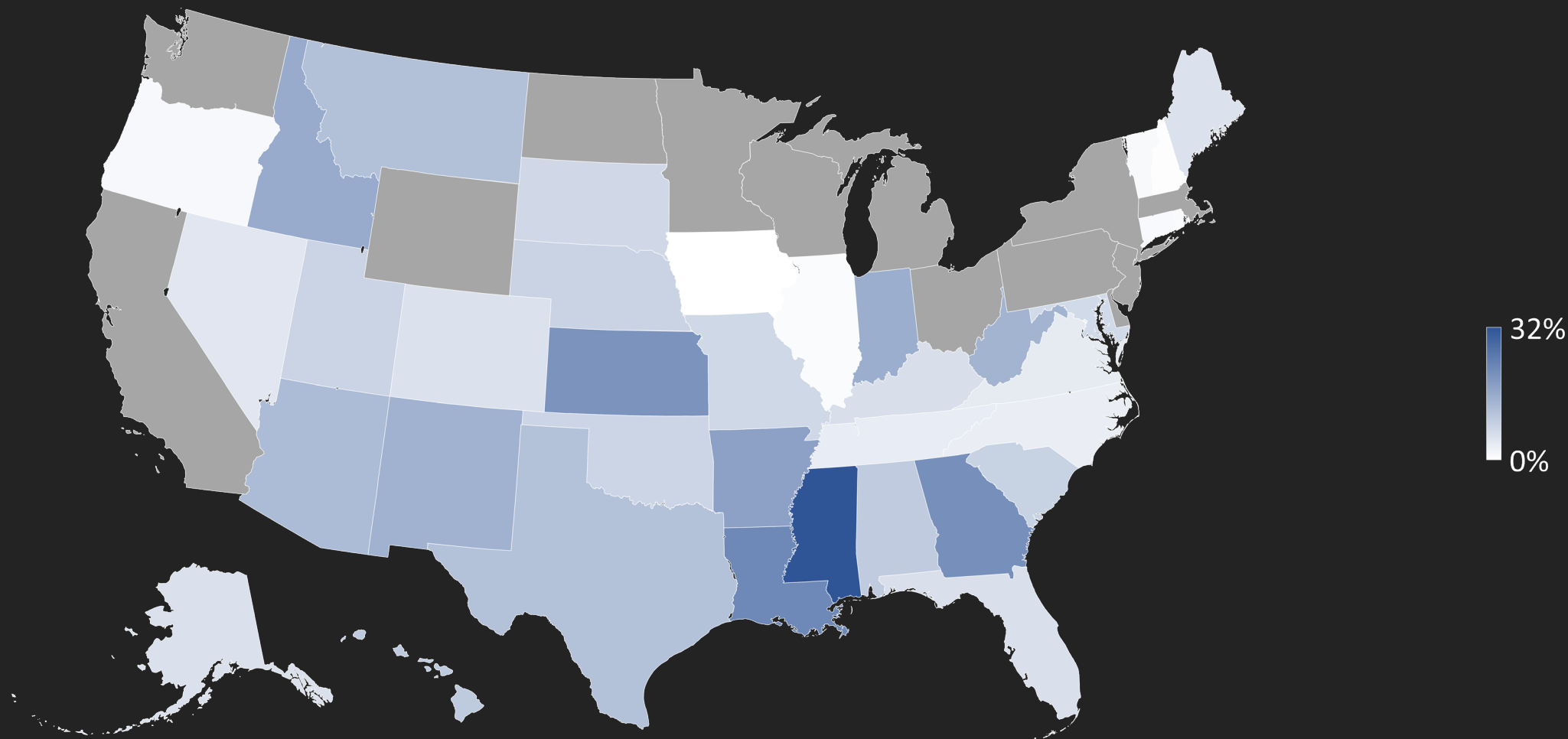
Minimum/Maximum Weekly Benefit

Indexed for wage inflation in most states

State Average Weekly Wage (SAWW)

- Governs minimum and maximum indemnity benefits in most states
- Published annually by a state agency
 - Typically lags 6 to 23 months
 - In normal times the lag is not an issue

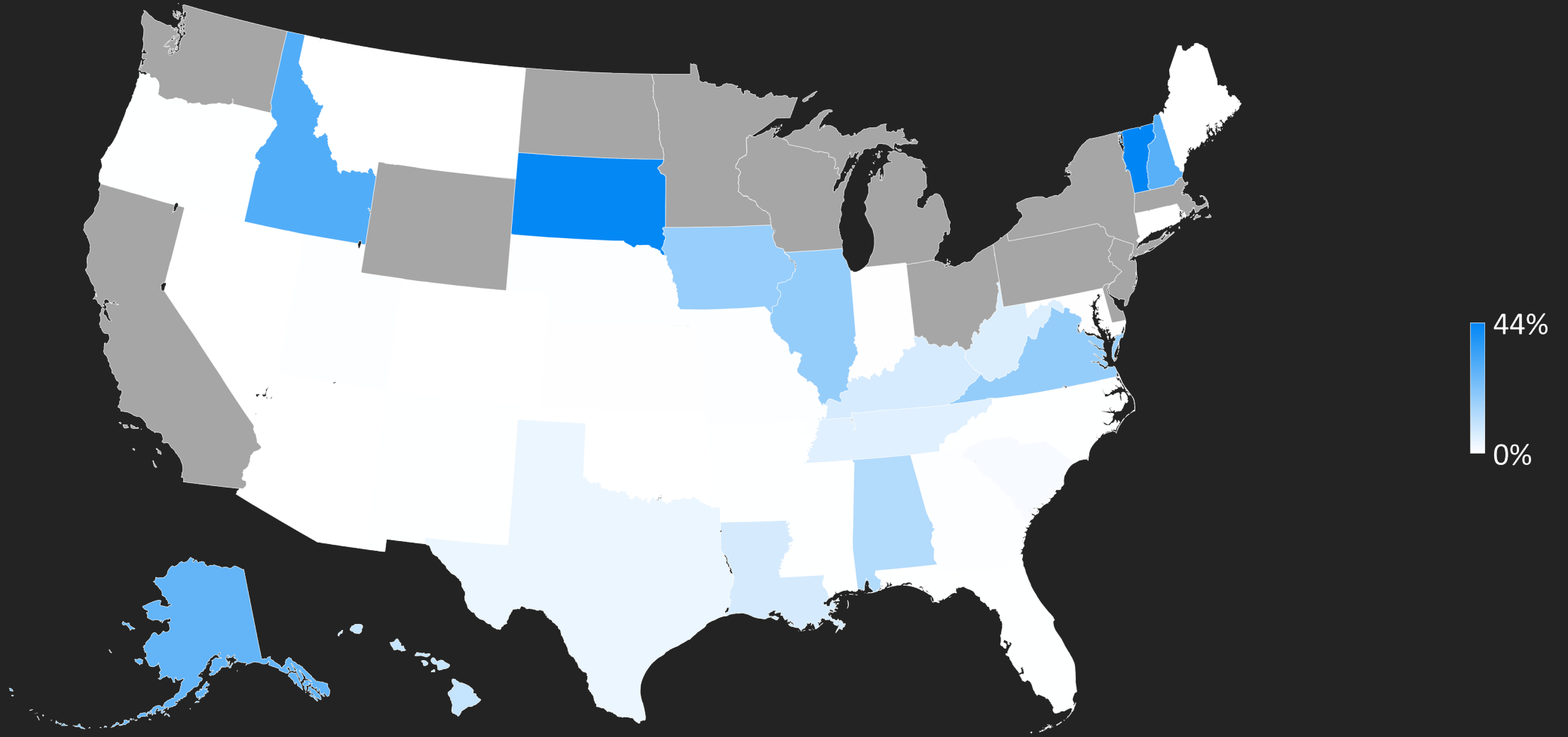
Injured Workers Share With Weekly Wages Above the Maximum



Maximum is based on the maximum compensable wage figure, typically 150% above a state's maximum weekly benefit
Source: NCCI Indemnity Data Call (IDC)

Injured Workers Share With Weekly Wages Below the Minimum

22 States Are Less Than 1 Percent



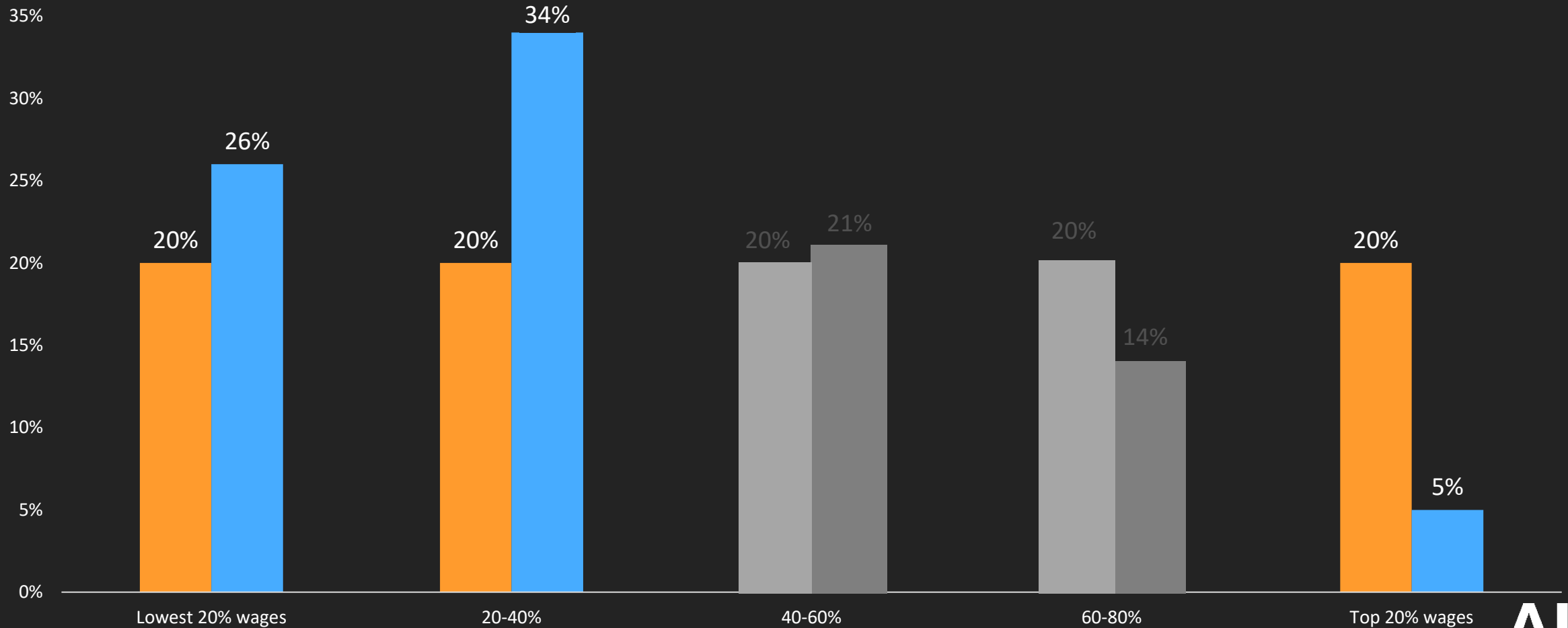
Minimum is based on the minimum compensable wage figure
Source: NCCI Indemnity Data Call (IDC)

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Higher Wage Workers Have a Lower Share of Injuries

Full-time Workers Only

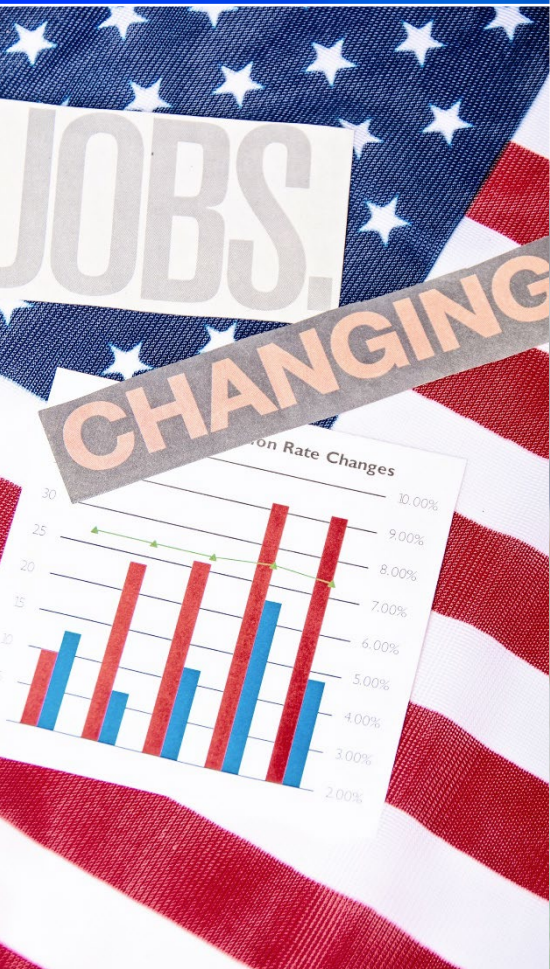
Share



Sources: NCCI Indemnity Data Call (IDC); Integrated Public Use Microdata Series, Current Population Survey (IPUMS-CPS), University of Minnesota

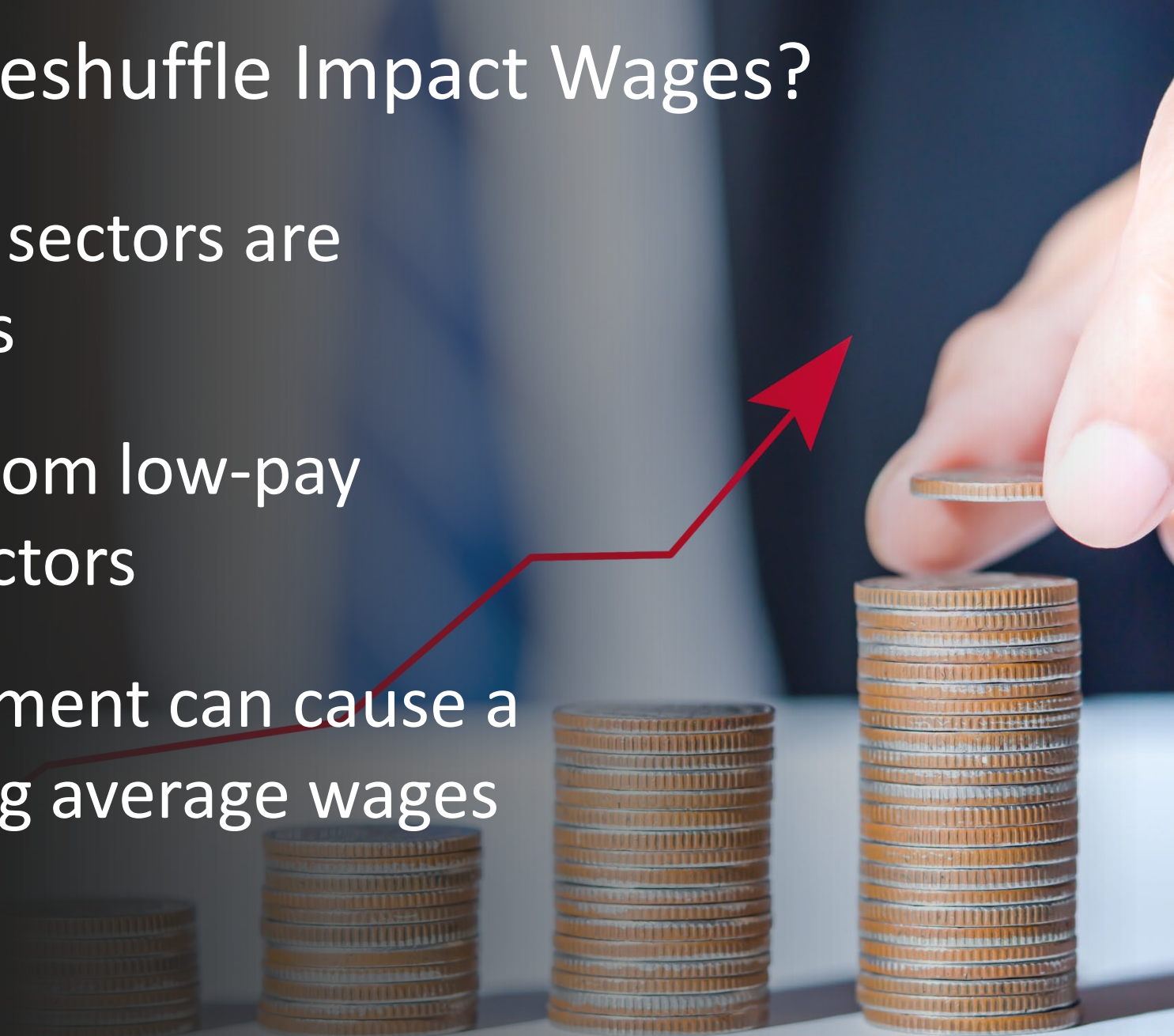
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Impact of the Great Reshuffle on Benefits

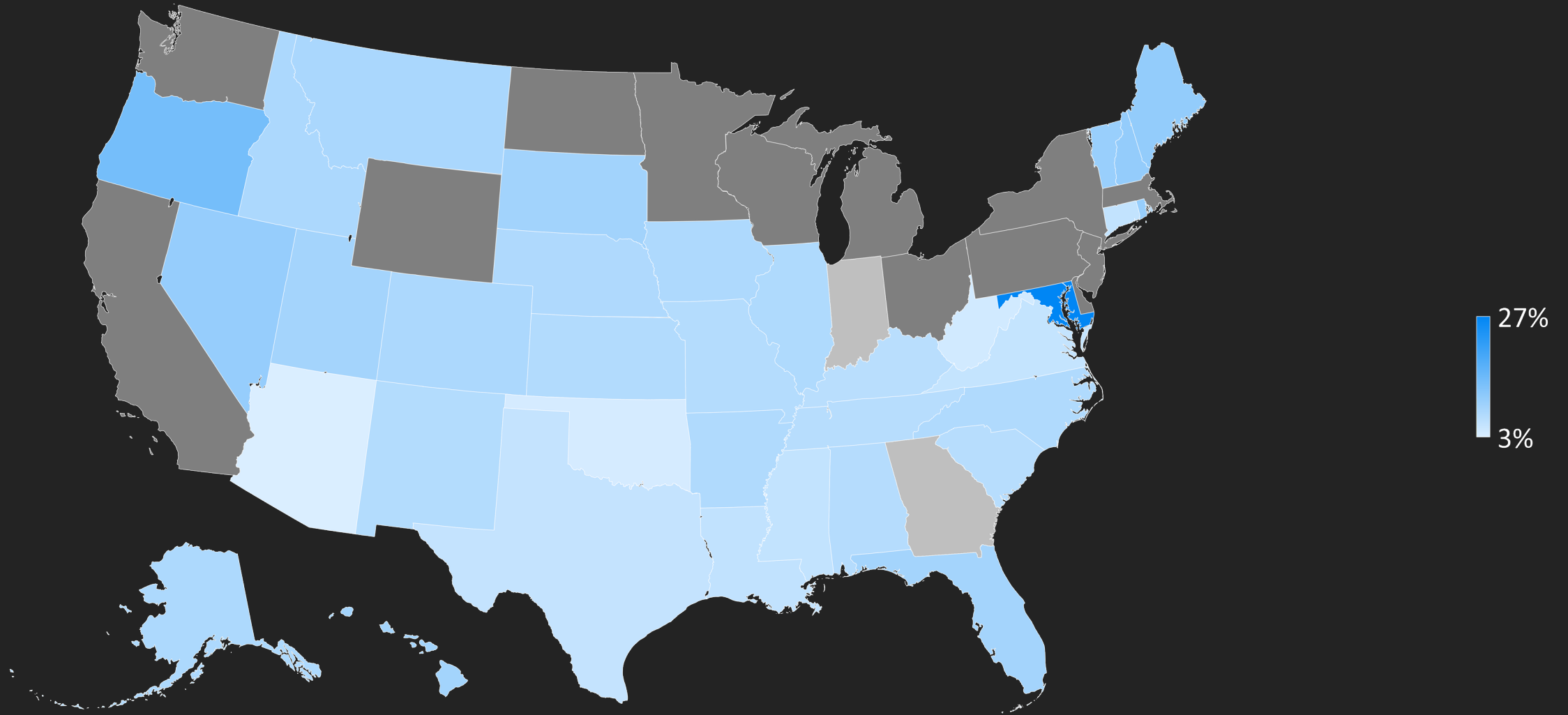


How Does the Great Reshuffle Impact Wages?

- Workers not changing sectors are getting wage increases
- Workers are moving from low-pay sectors to high-pay sectors
- Large shifts in employment can cause a distortion in measuring average wages



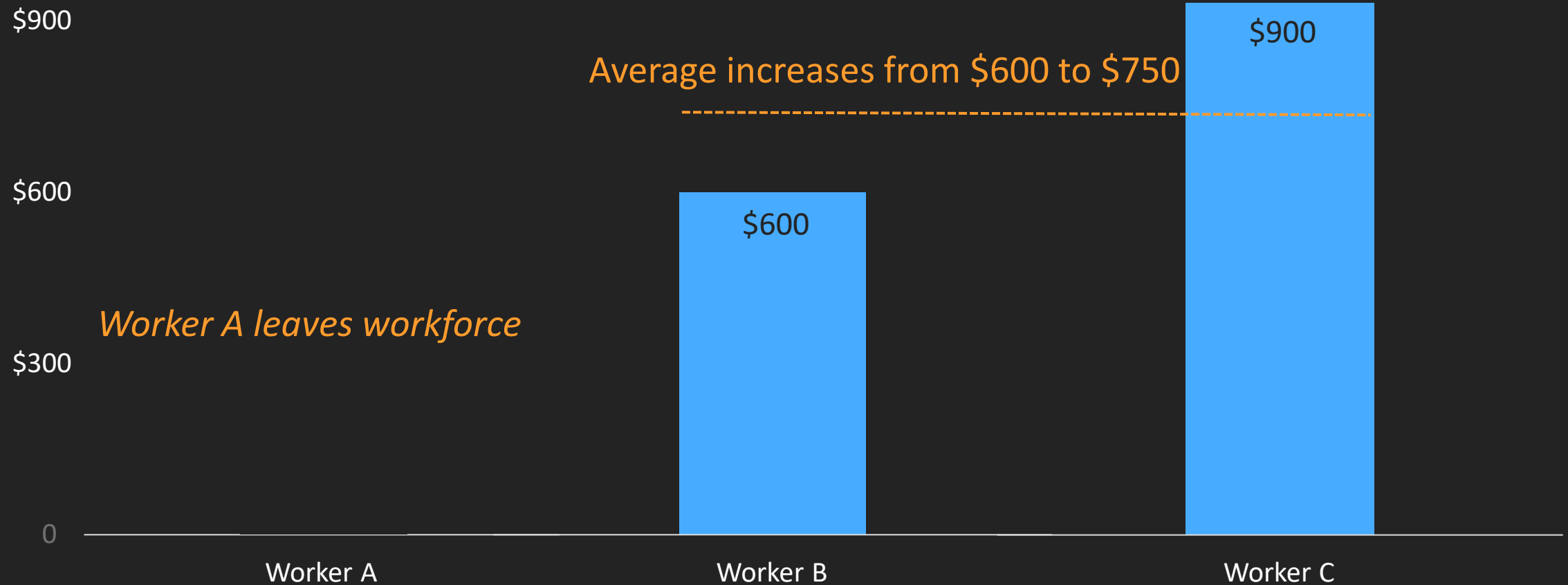
Latest SAWW Changes



Arizona is based upon change in state average monthly wage
Georgia and Indiana: No SAWW
Sources: various state agencies
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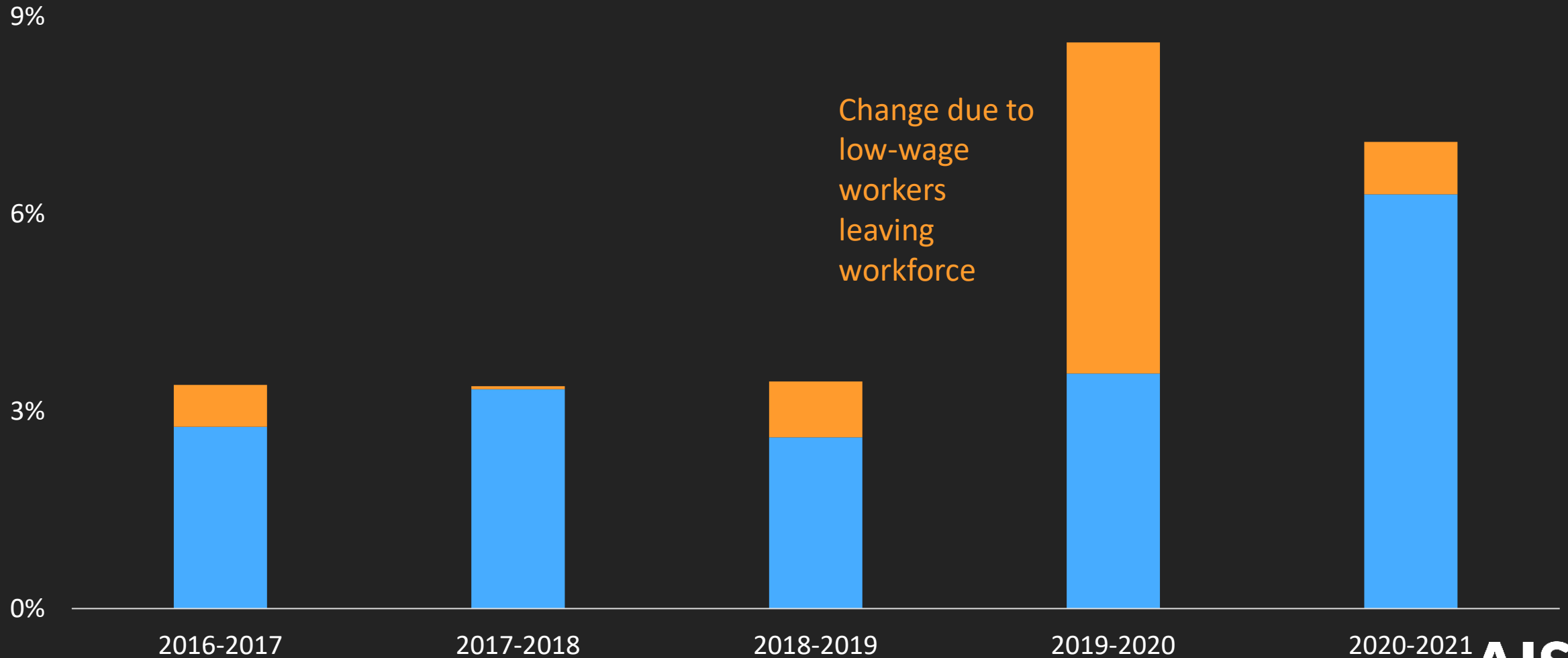
How Mix Changes Impact Average Weekly Wage

Weekly Wage



Wage Growth Since 2016

Year-to-Year Change in Average Weekly Wage (AWW)



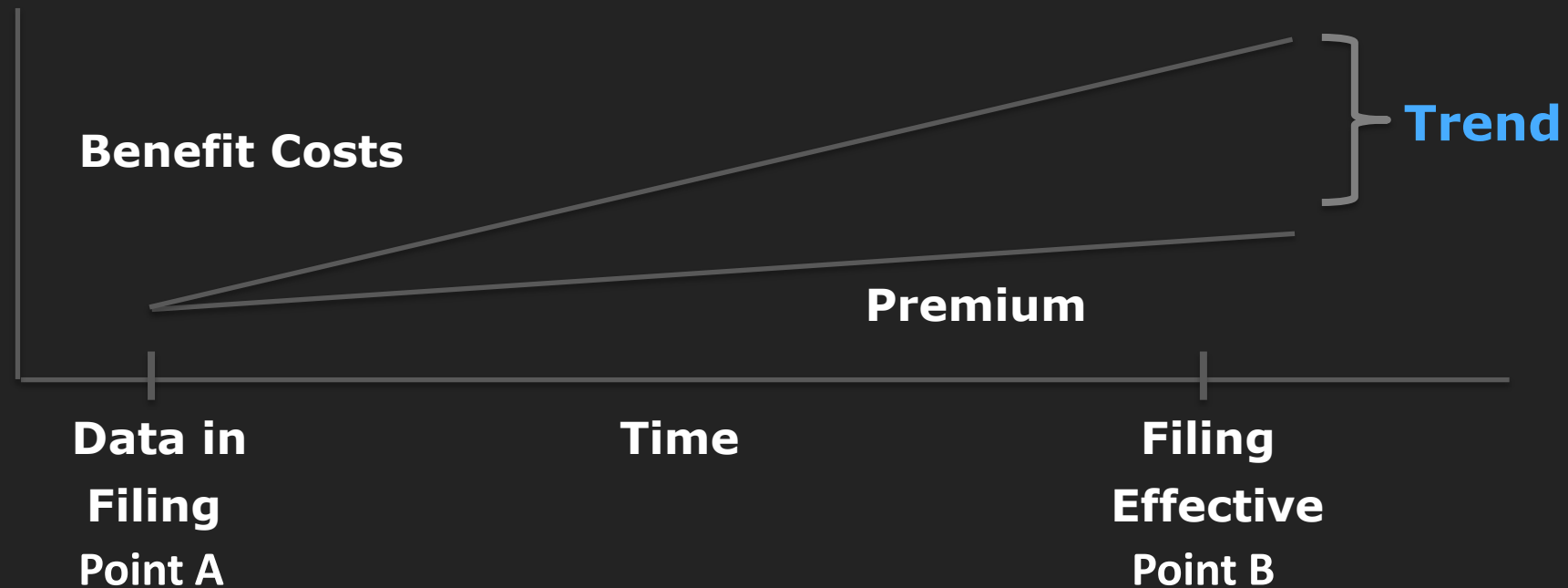
Source: Quarterly Census of Employment and Wages, US Bureau of Labor Statistics, NCCI (2016-2020); US Bureau of Economic Analysis, US Bureau of Labor Statistics, NCCI (2020-2021)

Wage Growth vs. Benefit Growth

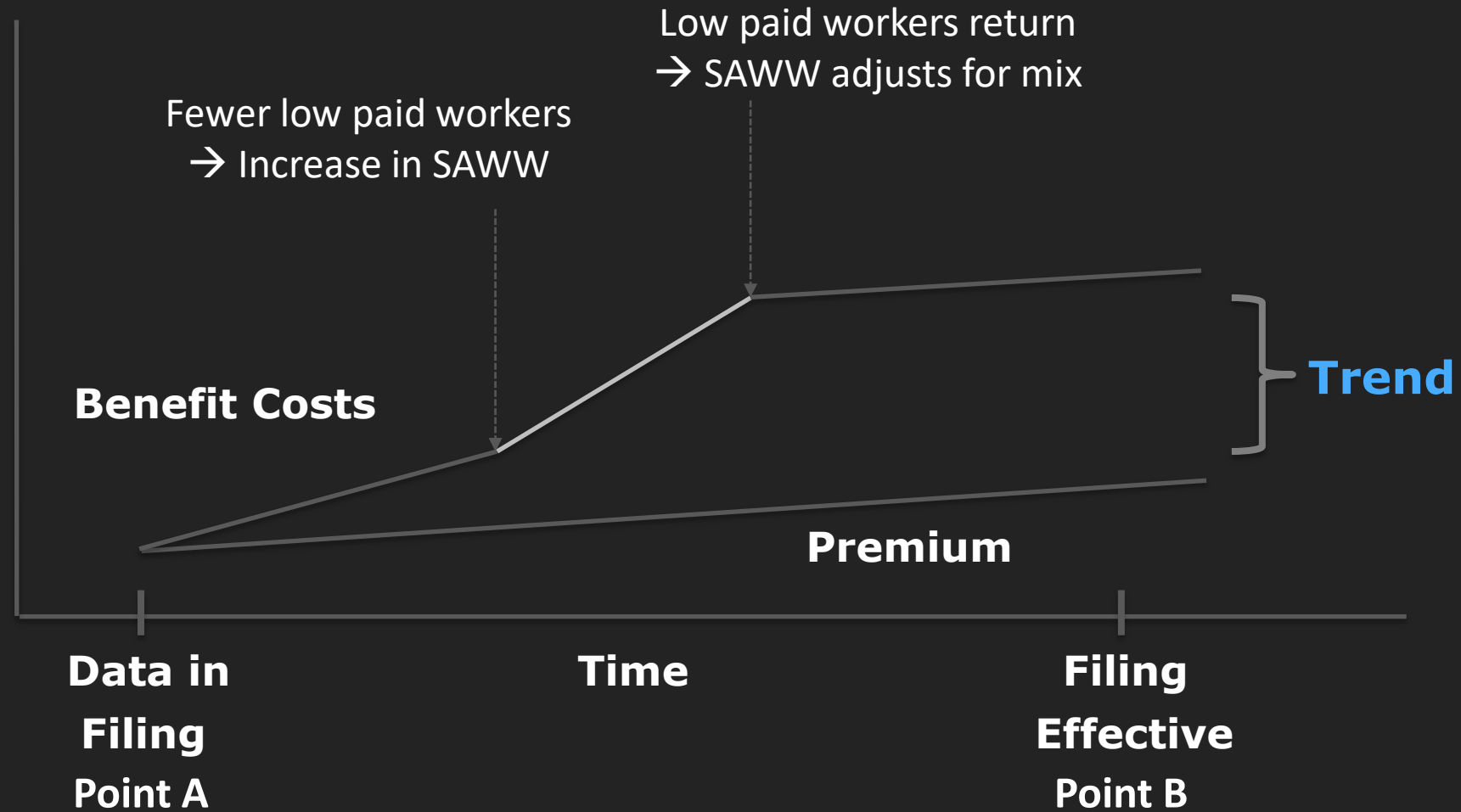
- Wages and benefits move in the same direction
- However, they don't always change by the same amount
- The difference between the growth rates is incorporated into trend

Trend

- Trend is the difference in growth of total benefits and the growth in total premium



Trend Addresses the Impact Beyond Wage Inflation



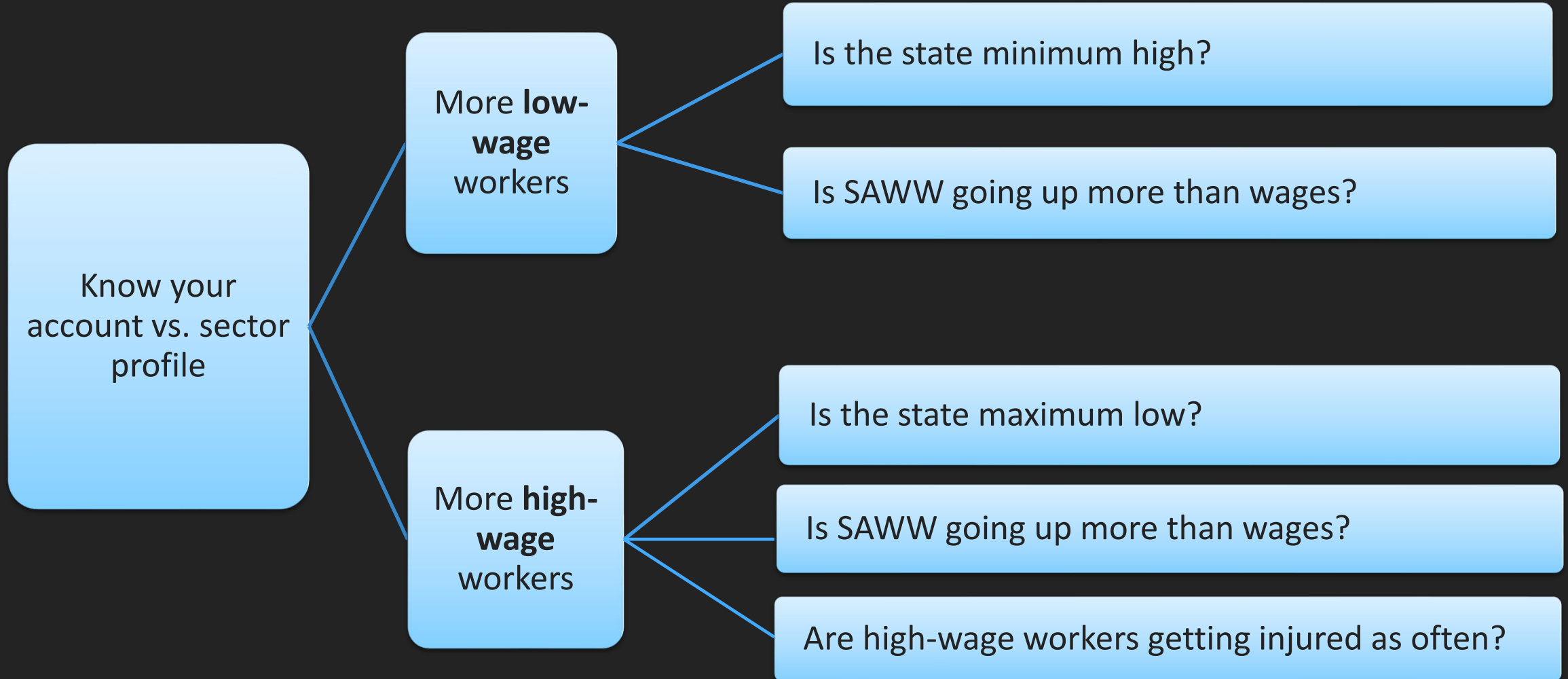
State Benefit Structures and SAWW Changes

- When few workers earn below the minimum, increasing the minimum doesn't have a large impact
- When few workers earn above the maximum, increasing the maximum doesn't have a large impact
- More impactful in states with:
 - High minimums
 - Low maximums

Underwriting Considerations



Impact on Your Portfolio



Insights

- Wages are going up, especially in low-wage sectors
- Inflationary indemnity benefit increases are automatically funded
- NCCI ratemaking addresses indemnity benefit increases in excess of wage inflation