

**A REPORT TO THE LEGISLATIVE COUNCIL AND
THE SENATE AND HOUSE INTERIM COMMITTEES
ON INSURANCE AND COMMERCE
OF
THE ARKANSAS GENERAL ASSEMBLY
(AS REQUIRED BY ACT 796 of 1993)**

**ANNUAL STUDY OF THE WORKERS' COMPENSATION
INSURANCE MARKET IN ARKANSAS**



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Approved by: Jay Bradford, State Insurance Commissioner

Date Submitted: August 24, 2012

REPORT TO THE LEGISLATURE ON ACT 796 OF 1993 THE STATE OF THE WORKERS' COMPENSATION MARKET FOR YEAR ENDING 2011

Previous reports to the Legislature have discussed in detail the condition of Arkansas's Workers' Compensation marketplace prior to the passage of Act 796 in 1993, and subsequent to the changes brought about because of Act 796.

Arkansas continues to enjoy a competitive workers' compensation market with the continuing effects of Act 796 of 1993.

In the most recent data available, Arkansas had a combined loss ratio of 102% ranking it among the lowest of any state for which Arkansas's statistical agent, the National Council on Compensation Insurance (NCCI), compiles loss data. In 2011, NCCI filed for decreases in both the voluntary market loss costs (-5.8%) and assigned risk plan rates (-9.7%) Several factors and trends in the industry may affect future rates. These factors include changes in claim frequency, increased medical costs, increasing prescription drug utilization, increased reinsurance costs, and catastrophe loading for potential terrorism losses.

CONTINUED RATE IMPACT OF ACT 796 OF 1993

Arkansas's voluntary workers' compensation market would have disappeared and many employers would have found themselves unable to afford workers' compensation coverage, facing the choice of either closing down their business or operating outside the law, had Act 796 not become reality.

The impact of the Act on workers' compensation premiums is clear and significant. Prior to its enactment rates were increasing significantly. For example, for both the voluntary market and the assigned risk plan, rates in 1991 and 1992 increased 15% and 18% respectively. Passage of the Act forestalled anticipated rate increases in 1993 and 1994, with 1993 being the first year in the last ten in which there was no rate increase. 1993 and 1994 were years of market stabilization, and subsequent years have seen significant rate reductions in both the voluntary market and the assigned risk plan. Year 2001 saw our first increase in the assigned risk plan rates while experiencing a decrease in the voluntary market. In 2011, Arkansas had the lowest loss costs in the region per \$100 of payroll (\$0.91) compared to the regional average loss cost of \$1.43 and the countrywide average loss cost of \$1.16. The average rates in 2011 were -53% from 1996 when the law changes went into effect. There are still positive effects from this Act that benefit Arkansas employers.

Year	Voluntary Market	Assigned Risk Plan
1993	0.0%	0.0%
1994	0.0%	0.0%
1995	-12.4%	-12.4%
1996	-8.0%	-3.7%

1997	-4.7%	-7.6%
Year	Voluntary Market	Assigned Risk Plan
1998	-9.1%	-8.2%
1999	-4.1%	-3.0%
2000	-4.5%	-2.0%
2001	-7.5%	1.9%
2002	-4.5%	-1.9%
2003	1.8%	5.5%
2004	0.5%	5.1%
2005	-1.5%	-2.8%
2006	-0.5%	-2.0%
2007	-5.4%	-6.8%
2007 (effective 1/1/08)	2.7%	2.7%
2008 (effective 7/1/08)	-12.8%	-13.8%
2009	-7.0%	-6.4%
2010	1.9%	4.5%
2011	-5.8%	-9.7%

PAYROLL AND EXPERIENCE MODIFIER

Reported payroll in Arkansas continues to increase while premiums for insureds continue to decrease. The average experience modifier has decreased minimally (0.984 from 0.985). This change in experience modifier could represent the continuing effectiveness of loss control measures and the impact of the Hazardous Employer Program operated by the Health and Safety Division of the Workers' Compensation Commission. The 2011 countrywide average experience modifier is 0.987. Please refer to Exhibit "A" for additional statistical information regarding premiums.

ASSIGNED RISK PLAN

The assigned risk plan has seen a history of decline in population since the passage of Act 796 except for a gentle upward trend during 2002 through 2004. It is down from a record high of \$150,000,000 in 1993, to a low of \$6,566,275 in September 2000. The current recession has affected the market causing voluntary carriers to tighten underwriting and increase their minimum premiums. The assigned risk premium volume for 2010, was \$11,100,528 as compared to \$11,236,985 for 2009. . Due in part to the economy the assigned risk plan has started to grow. In 2011 the carriers continue to decline to write small policies, which is one factor in the growth of the assigned risk plan to \$13,124,676. It is anticipated that the assigned risk plan will continue to grow due to the voluntary carriers changing underwriting rules. In essence, their premiums are less than the minimum premium for which coverage is available in the voluntary market. These employers may often get better rates through the plan; consequently, as of the end of 2011, small premium employers (less than \$2,500 in annual premium) constituted approximately 83% of the plan policy volume with an average of \$857 in premium per policy. Average plan premium per policy at the end of 2011 was \$2,424 for all 4,722 policies in the plan.

In 2008, NCCI filed a Voluntary Coverage Assistance Program (VCAP), which has helped to remove some employers from the assigned risk plan by allowing voluntary carriers to file their underwriting guidelines for comparison to new applications submitted. When an application is received by NCCI, it is compared to the filed guidelines and if the risk appears to meet a company's guidelines, the application will be forwarded to the insurer to determine whether they will make a voluntary offer of coverage. This program was approved effective October 1, 2008. By December 31, 2011, 89 employers were removed from the assigned risk plan with a premium of \$358,569.78. These policyholders saved a total of \$80,642.78. We believe that as carriers become more familiar with this program, the number of policyholders taken out of the plan will continue to grow as will policyholder savings.

For those employers qualifying for voluntary coverage, cost savings have been substantial. According to the NCCI, price discounting by voluntary carriers reached record levels of 24% during 1999. Carriers pulled back on the discounting in 2000 to 14.7% and, as anticipated, carriers further reduced discounts in 2004 and 2005. In 2006, carriers resumed increased discounting again using primarily schedule credits and dividends. In 2007, there was a net -0.1%. In 2008 and 2009 the discounting continued to increase and in 2010 there was a net -9.2. The projected increase in discounting for 2012 is -1.9.

PLAN ADMINISTRATION/SERVICING CARRIERS

The NCCI is an "Advisory Organization" licensed in Arkansas to assist its member insurers with ratemaking and data collection activities. Effective July 1, 2009, the Commissioner re-appointed NCCI as Administrator for the Arkansas assigned risk plan until at least July 1, 2013.

Arkansas participates in the oversight of the market and the NCCI through a multi-state working group of the National Association of Insurance Commissioners (NAIC). The working group monitors data reliability and any other issues that arise involving the market.

In recent years, Arkansas has also participated in a multi-state examination of the NCCI in its role as an advisory organization licensed pursuant to Ark. Code Ann. §23-67-214. Participation in the examination task force, and periodic reviews of this nature, function to assure the quality of the data, as well as presenting the opportunity to improve existing systems and procedures. The most recent examination found concerns about statistical reporting and error correction. These concerns were remedied and are monitored by the working group of the NAIC. These errors were never significant enough to affect the overall reliability of the data reported by the NCCI for the State of Arkansas.

During the implementation of the examination findings, Arkansas served as chair of the multi-state exam task force and concluded its responsibilities in this capacity after implementation of the required reforms. A current multi-state examination is in progress and Arkansas is participating in this examination, as well.

The location of an office in Little Rock (mandated by 1993 legislation) continues to resolve many policy related service problems and provides Arkansas agents and insureds easy, immediate access to responsive company personnel. The effectiveness of this office is apparent

in the reduction of the number of complaints received by the Insurance Department and the reduction in the number of appeals reaching the Appeals Board. The NCCI personnel assigned to the office are knowledgeable and committed to providing excellent service.

Attached are Exhibit "A" entitled *State Advisory Forum 2012 and Exhibit "B" entitled Arkansas Residual Market 2nd Quarter 2012 Status Report*; and the exhibits are prepared by the NCCI and provide detailed information on risk profiles such as average premium size, top ten classifications by code and by premium, and a list of contacts within NCCI for specific areas of concern.

NCCI provides, at no charge to the agent, the option to submit assigned risk applications online. Upon successful submission, the customer receives a confirmation code and application identification number for reference. There are significant savings to the plan when an application can be processed electronically. Arkansas agents have been extremely responsive to this initiative with 95% of applications being submitted online in 2010.

The Annual Servicing Carrier Performance Review conducted by NCCI reveals either "Commendable" or "Satisfactory" scores for all areas for Arkansas' servicing carriers. For the period commencing January 1, 2011, through December 31, 2013, the servicing carriers are Travelers Indemnity Company, Liberty Insurance Corporation, and Riverport Insurance Company (W.R. Berkley Group).

SUMMARY OF INSURANCE DEPARTMENT'S CRIMINAL INVESTIGATION DIVISION

Before the passage of Act 796 of 1993, there had never been a criminal prosecution in Arkansas for workers' compensation fraud committed by employees, employers or healthcare providers.

Act 796 of 1993 created the Workers' Compensation Fraud Investigation Division and made any type of fraud committed within the workers' compensation system a Class D felony (maximum six years and/or \$10,000 fine). The Division was renamed the Criminal Investigation Division during the 2005 Legislative Session.

Fraud in the workers' compensation system was perceived to be epidemic. Since the majority of employers were in the "plan," there was little, if any, incentive for thorough investigation of possibly fraudulent insurance claims and few consequences to those caught making intentional misrepresentations. Act 796 changed the entire landscape of the workers' compensation system, particularly about the detection, prevention and prosecution of workers' compensation fraud. The actual prosecution of a workers' compensation fraud case is contingent on many factors.

Key among those factors is the elected prosecutor's willingness to carry a case forward. If the information provided from an investigation is not enough to meet the standards for conviction found at Ark. Code Ann. § 11-9-106, a prosecutor will be unwilling to pursue the case. Local law enforcement agencies often do not have the resources to investigate workers' compensation fraud; fortunately, the investigative authority of the Criminal Investigation Division allows the Arkansas Insurance Department to supplement these often under-funded local agencies. This

Division's dedication to a single purpose allows for complex investigations, which require time, and focus that would otherwise not be available. As these complex cases evolve, they frequently require investigators to work through a myriad of leads to develop a case. Occasionally, even with dedicated resources for this single purpose being used, there simply is not enough information for a prosecutor to prosecute the crime. While the number of actual prosecutions varies from year to year, the possibility of investigation and prosecution is a constant deterrent. Any lessening of the Division's enforcement powers would likely result in a re-emergence of both frequency and severity of fraud committed by employees, employers, and healthcare providers.

The cases represented by the statistics noted below, which are comparable per capita to those of other states with active anti-fraud efforts, are believed to have had a significant impact on workers' compensation rates in Arkansas, and the deterrent factor has been substantial. In fact, many cases are not carried forward to prosecution. In many instances, the threat of prosecution is enough to get the parties involved to settle the cases outside of court, resulting in restitution for the aggrieved parties. While not technically prosecutor wins, these cases result in positive outcomes for injured workers in the state.

Act 743 of 2001 (The Act) significantly enhanced the efficiency and effectiveness of the Division by granting its investigators certified law enforcement authority. The Division can now execute arrest warrants, thus reducing the backlog of warrants that were awaiting service by local law enforcement agencies. Annual referrals to the Criminal Investigation Division have been reduced significantly since its first year of operation. This reduction is attributed to increased enforcement efforts under the Act. In the 2011 reporting period, there were 39 workers compensation investigations opened. Three cases were referred to prosecution. The investigative work continues on many of the cases that have been referred. Since the creation of the division in 1993, 151 cases have been referred for prosecution, which resulted in 110 convictions. Out of these 151 cases, only three prosecutions have resulted in acquittals. In the remaining 35 cases, the charges were not filed or dropped.

2010 LEGISLATIVE ACTIVITY WITH REGARD TO WORKERS' COMPENSATION

There was no legislative activity during 2011 with regard to Worker's Compensation.

SELECTED WORKERS' COMPENSATION CASES **FISCAL YEAR 2012**

Arkansas Supreme Court

Tyson Poultry v. Narvaiz, , 2012 Ark. 118, 2012 WL 859592 (2012).: An Administrative Law Judge found that the Claimant was not entitled to additional temporary total disability or wage loss disability benefits, since he had been terminated for misconduct that occurred while the Claimant was working light duty. The Full Commission reversed the Administrative Law Judge, and reasoned that termination for misconduct did not amount to a refusal of "suitable employment" within the meaning of Ark. Code Ann. §11-9-526. In so doing, the Commission

relied on the Arkansas Court of Appeals' previous decision in *Superior Industries v. Thomaston*, 72 Ark. App. 7, 32 S.W.3d 52 (2000), in which the court strictly construed §526 and held that termination for conduct was not a refusal of employment, but rather was an option exercised by an employer. In the present case, however, the Court of Appeals reversed the Full Commission, stating that its prior construction of the statute in *Thomaston* was "unwarranted" to the extent it implied that no act of misconduct could ever constitute a refusal of employment. In essence, the Court of Appeals in the present matter expressly limited its prior holding in *Thomaston* to its own facts. But upon petition for review, the Arkansas Supreme Court affirmed the Full Commission and vacated the Court of Appeals' decision: "The Commission's reliance on *Thomaston* was well-placed for making the determination that Appellee's termination for misconduct was not a sufficient basis for a finding that he refused suitable employment." The Supreme Court further reasoned that the Court of Appeals' previous decision in *Thomaston* had been rendered twelve years prior to the present matter, and that the Arkansas General Assembly had taken no action to alter it. The Supreme Court also noted that here, it had not been given "any compelling reason" for abandoning the prior judicial interpretation of the statute made by the Court of Appeals.

Arkansas Court of Appeals

Leach v. Cooper Tire and Rubber Co., 2011 Ark. App. 571, 2011 WL 4477865 (2011): The Full Commission affirmed and adopted an Administrative Law Judge's findings that the Claimant had sustained a compensable back injury on March 10, 2007, but had failed to prove a compensable head injury or entitlement to permanent partial disability benefits. In particular, the Commission found that the Claimant had failed to prove that his compensable back injury, rather than his degenerative disk disease, was the "major cause" of his permanent disability. On appeal, the Claimant asserted that the Commission erred in denying his claim for wage loss disability, but did not challenge the denial of his head injury claim. The Respondents cross-appealed the Commission's finding that the Claimant had sustained a compensable back injury. The Arkansas Court of Appeals held that substantial evidence supported the Commission's finding of a compensable back injury, but reversed as to the Commission's wage loss findings. In reaching its conclusions, the Commission had determined that the Claimant's impairment rating was solely attributable to his pre-existing degenerative condition. Upon review, however, the Court noted that "...merely identifying a preexisting degenerative condition will not support a finding that Leach failed to prove major cause. It was also necessary for the Commission to determine whether the preexisting condition was symptomatic prior to the March 10, 2007, compensable accident." Given the lack of evidence of any back-related limitations or pain prior to the date of injury, and noting that the Claimant's back was symptomatic after the injury, the Court held that the major cause requirement had been satisfied and remanded to the Commission to assess its own impairment rating under the *Guides to the Evaluation of Permanent Impairment*, 5th ed.

Clevenger v. City of Jonesboro, 2011 Ark. App. 579, 2011 WL 4585587 (2011): The Claimant sustained a compensable back injury and reached the end of his healing period in March, 2006. He was unable to return to his job and began receiving monthly disability retirement in the amount of \$2,311.80. Before the Arkansas Workers' Compensation Commission, the Claimant asserted that he was entitled to wage loss disability benefits and that

the City of Jonesboro was not entitled to an offset against his disability retirement pursuant to Ark. Code Ann. §11-9-411. An Administrative Law Judge found in the Claimant's favor and, relying on a 2009 amendment to the statute, determined that the City could not take an offset since the Claimant had part for a portion of his disability retirement. However, the Full Commission reversed, finding that the 2009 amendment was substantive in nature rather than procedural, and thus could not be retroactively applied to a 2006 claim. The Arkansas Court of Appeals agreed that the 2009 amendment was substantive. In particular, the Court stated that "Here, prior to 2009, the employer had a vested right to a setoff, yet after the amendment that right was obliterated. Our case law directs that any changes in statutes relating to vested rights are characterized as substantive in nature and require application of the law as it existed at the time the claimant sustained a compensable injury." (Citing *Ark. State Police v. Welch*, 28 Ark. App. 234; 772 S.W.2d 620 (1989).)

Ard v. Death & Permanent Total Disability Trust Fund, 2011 Ark. App. 774, 2011 WL 6184493 (2011): Following an award of permanent and total disability benefits, the Claimant's attorney sought payment of attorney's fees in lump sum. Respondent Carrier agreed to pay its share in lump sum. However, the Death and Permanent Total Disability Trust Fund, which was responsible for withholding and paying the Claimant's one-half share of attorney's fees, declined. The Fund argued that a lump-sum fee would "force it to assume the risk of overpayment should either the appellant or the attorney die or should the appellant become ineligible to receive benefits...prior to the Fund's ability to recoup the lump-sum payment out of weekly benefits being paid to the appellant." An Administrative Law Judge ruled against the Fund, but the Full Commission reversed, finding that "appellant failed to present any compelling reason for the Commission to order the Fund to pay attorney's fees in a lump sum." On further appeal, the Arkansas Court of Appeals affirmed the Full Commission, holding that there was "nothing in Ark. Code Ann. §11-9-716 that requires the Commission to approve a lump-sum payment of the entire amount of an attorney's fee or that prohibits the Commission from approving a plan by which an attorney's fee is paid partly by lump-sum and partly in installments." The Court further concluded that it would not interfere with the Commission's findings on attorney's fees absent an abuse of discretion, "a high threshold that does not simply require error in the decision, but requires that the tribunal act improvidently, thoughtlessly, or without due consideration." (Citing *Bailey v. Delta Bank & Trust*, 359 Ark. 424, 198 S.W.3d 506 (2004).)

Contreras v. Pinnacle Foods Corp., 2011 Ark. App. 780, 2011 WL 6189470 (2011): Here, the Arkansas Court of Appeals affirmed the Commission's denial of additional benefits under Ark. Code Ann. §11-9-505(a). To obtain such benefits, a claimant must prove four elements: (a) the occurrence of a compensable injury, (b) the existence of suitable employment within his physical and mental limitations with the employer, (c) a refusal by the employer to return him to work, and (d) that said refusal was unreasonable. The Commission found that the Claimant had demonstrated the first two elements, but had failed to show that his job on the clean-up crew was "suitable work" or that the refusal to return him to work was unreasonable. In particular, the Commission found that "the employer was not provided any medical documentation of appellant's condition prior to being presented this return-to-work form, and it was not unreasonable for the employer to ask him to be evaluated by the company physician prior to returning him to work." The Court held that it was the Claimant's burden to show that

the employer's refusal was "without reasonable cause," and that there had been substantial evidence to support the Commission's conclusion.

Southwestern Energy Co., Inc. v. Ezell, 2011 Ark. App. 782, 2011 WL 6189477 (2011): In this instance, the Arkansas Court of Appeals reversed the Commission's award of a 12% wage-loss disability rating where the Claimant had voluntarily quit his employment rather than accept a temporary demotion related to his performance. In particular, the Court reasoned that "Notwithstanding his impairment rating and his ongoing medical treatment, the evidence shows that Mr. Ezell returned to work in the same position and at the same wages he received at the time of injury before quitting for reasons unrelated to his injury. Therefore, he was not entitled to any permanent-partial-disability benefits in excess of his impairment rating."

Flores v. WalMart Distribution, 2012 Ark. App. 201, 2012 WL 723252 (2012): The Claimant sustained compensable injuries to her lower back and coccyx on April 30, 2005. After receiving benefits for a time, the Claimant filed an AR-C with the Arkansas Workers' Compensation Commission on June 29, 2005, requesting additional medical treatment, additional temporary total disability, and an attorney's fee. Following a hearing, an Administrative Law Judge entered an opinion on September 6, 2006, finding that the Claimant was entitled to a TENS unit and additional temporary total disability from June 17, 2005, through June 30, 2005. Neither party appealed. The Claimant eventually reached maximum medical improvement in September, 2005, and received a 2% anatomic impairment rating for her fractured coccyx. The Claimant returned to work for Respondent Employer for a time, but then left due to her assertion that she was "physically unable to perform her job duties." After working for several other employers, the Claimant stopped working altogether in October, 2009, due to complaints still associated with her 2005 injury. On April 8, 2009, the Claimant requested a hearing with regard to her entitlement to additional medication and medical treatment from one of her physicians. Although the Commission set the matter for a hearing on June 29, 2009, the parties requested that it be cancelled and that the claim be returned to the Commission's general files pending further action. On October 7, 2009, the Claimant again requested a hearing on the issue of additional medical, and in her subsequent pre-hearing filing of October 11, 2009, added the extent of anatomic impairment, wage-loss disability, and attorney's fees as additional issues to be litigated. Following a hearing on these matters, an Administrative Law Judge found that the claims involving the extent of impairment and wage loss disability were barred by the statute of limitations "because they were not brought within two years of the date of her work injury or within one years of the date of the last payment of compensation on July 6, 2009. At the same time, the Administrative Law Judge found that the second claim for additional medical, originally requested on April 8, 2009, had been timely filed. In its opinion of July 5, 2011, the Full Commission subsequently affirmed and adopted the Administrative Law Judge's findings. On appeal to the Arkansas Court of Appeals, the Claimant argued that the Commission's decision was erroneous as a matter of law; in particular, the Claimant asserted that her claims for permanent disability could not be time-barred so long as her claim for medical treatment remained open, because there could not yet have been a "last payment of compensation." Relying on the Arkansas Supreme Court's prior holding in *Stewart v. Arkansas Glass Container*, 2010 Ark. 198, ___ S.W.3d ___ (20??), the Court of Appeals affirmed the Commission in the present matter, noting that in *Stewart* "[T]he Supreme Court held that a request for additional compensation that is not acted upon only tolls the statute of limitations with respect to that

particular claim, and therefore, Stewart's earlier requests for medical benefits could not have tolled the statute of limitations for all other claims for benefits that were not requested at that time." Although the Claimant attempted to distinguish *Stewart* from the present matter, the Court of Appeals concluded that it had been correctly applied: "Here, as in *Stewart*, although Flores filed a timely request for additional medical treatment, she failed to request permanent disability benefits until October 11, 2010, more than one year after the last payment of compensation by Walmart, which the parties stipulated was on July 6, 2009.

NATIONAL MARKETS IN GENERAL

While Arkansas has seen increases in the average indemnity and medical cost per lost time claim, claims frequency continues to decline. Arkansas's market remains strong and competitive.

The attached state of the industry report Exhibit "C" entitled State of the Line graphically depicts the sound condition of the workers compensation marketplace; still, the NCCI continues to discover that workers' compensation results are affected by a number of factors that are having a negative impact on the market:

- lower earnings relating to investments;
- claim costs that are beginning to rise at more rapid rates than in previous years;
- pending proposals for benefit increases;
- challenges to workers' compensation as an exclusive worker remedy for workplace injury;
- recent federal initiatives that threaten to increase claim costs, broaden compensability definitions, and have the potential to create duplicate remedies;
- reform roll-back proposals in recent state legislative sessions;
- increasing costs of medical benefits; and
- increasing utilization of certain prescription pain medications

The NCCI does point out one favorable development among the negatives. The incidence of workplace injuries continues to fall sharply since the reform efforts of 1993. This means fewer injured workers – the most valuable outcome imaginable for workers, their families, and employers.

CONCLUSION

Absent the reforms encompassed in Act 796 of 1993, it is doubtful Arkansas's employers would now have the option of voluntary workers' compensation insurance. Rather, the assigned risk plan, designed to be a market of "last resort," would have become Arkansas's market of "only resort." The General Assembly is to be highly commended for its leadership in reforming the workers' compensation market in our State while protecting the interests of the injured worker.

Arkansas's employers must have available to them quality workers' compensation products in the voluntary market at affordable prices. The creation of good jobs requires a marketplace where all businesses, regardless of size, can grow. Maintaining a stable workers' compensation

system is essential for this growth. The evidence shows the reforms have worked. The incidence of fraud has been reduced through high-profile fraud prosecutions, employee compensation rates and benefits have been increased, and workers injured within the course and scope of their employment have received timely medical treatment and the payment of much improved indemnity benefits. Eroding the positive changes incorporated into Act 796 would be counterproductive to continued economic growth and development.

Prepared: August 24, 2012

cc: The Honorable Mike Beebe, Governor
The Honorable A. Watson Bell, Chairman, AWCC
The Honorable Karen H. McKinney, Commissioner, AWCC
The Honorable Philip Alan Hood, Commissioner, AWCC
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Arkansas

State Advisory Forum 2012

June 13, 2012

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Arkansas Workers Compensation State Advisory Forum

State of the Industry

What's Driving Arkansas Loss Cost Changes?

Where Does Arkansas Stand?

The Residual Market in Arkansas

Update from the Arkansas Workers Compensation Commission

Kids' Chance

Cost Drivers: Claim Frequency

Medical and Indemnity Costs

The State of the Economy

Item B-1425: Employers Liability—Increased Limits Percentages

Experience Rating Item E-1402: Changes to the Split Point





State of the Industry

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TR1

Arkansas Workers Compensation System

- Premium increased in 2011
- Combined ratio deteriorated in Accident Year 2010
- Loss cost reduction approved effective 7/1/2012
 - Declining claim frequency
 - Increasing medical costs
- Economic environment slightly more favorable than in other states
- Residual market growing

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State of the Workers Compensation Market— “Conflicted”

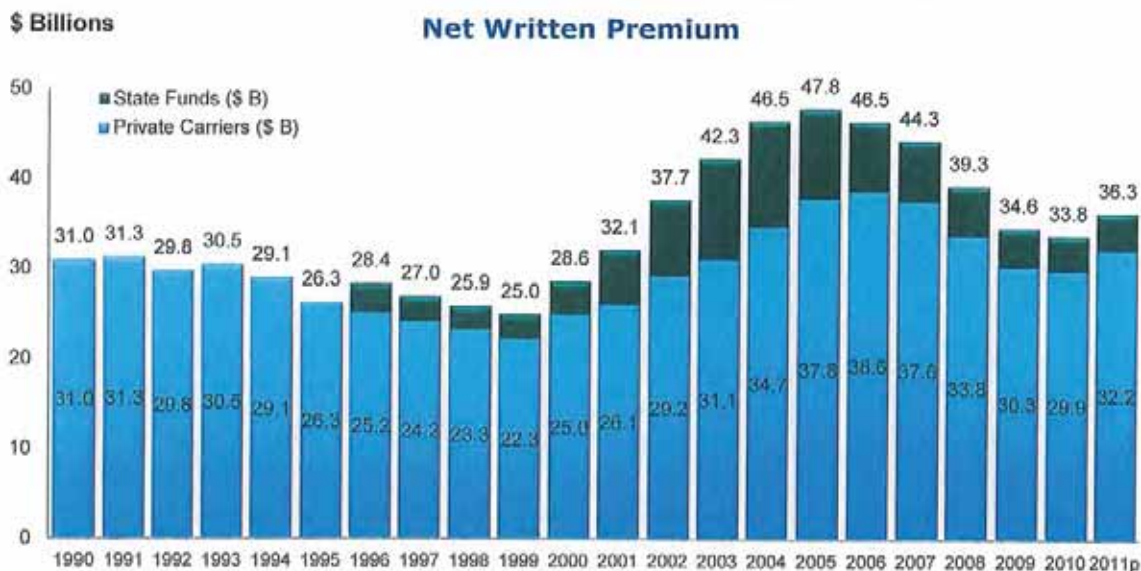
- Calendar year and accident year combined ratios continue to deteriorate
- Lost-time claim frequency decreased in 2011
- More increases proposed in latest NCCI filing cycle
- Impact of healthcare reform and federal involvement in insurance remains uncertain

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Countrywide Workers Compensation Premium—First Increase in Years



p Preliminary

Source: 1990–2010 Private Carriers, NAIC Annual Statement data; 2011p, NCCI
 1996–2011p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
 State Funds available for 1996 and subsequent

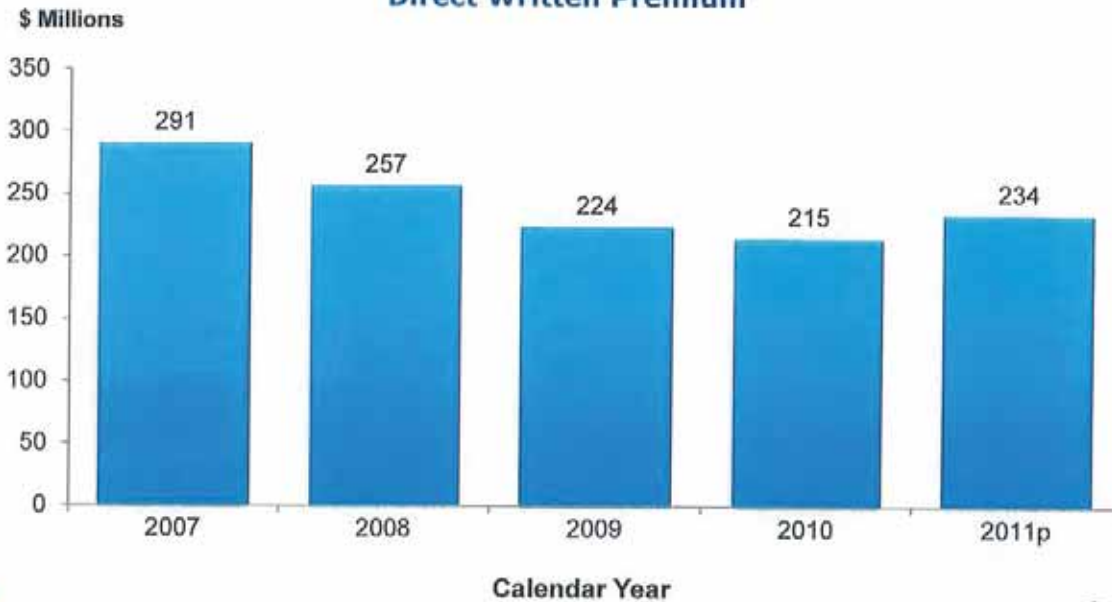
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Arkansas Workers Compensation Premium Volume

Direct Written Premium



p: Preliminary
Source: NAIC Annual Statement data

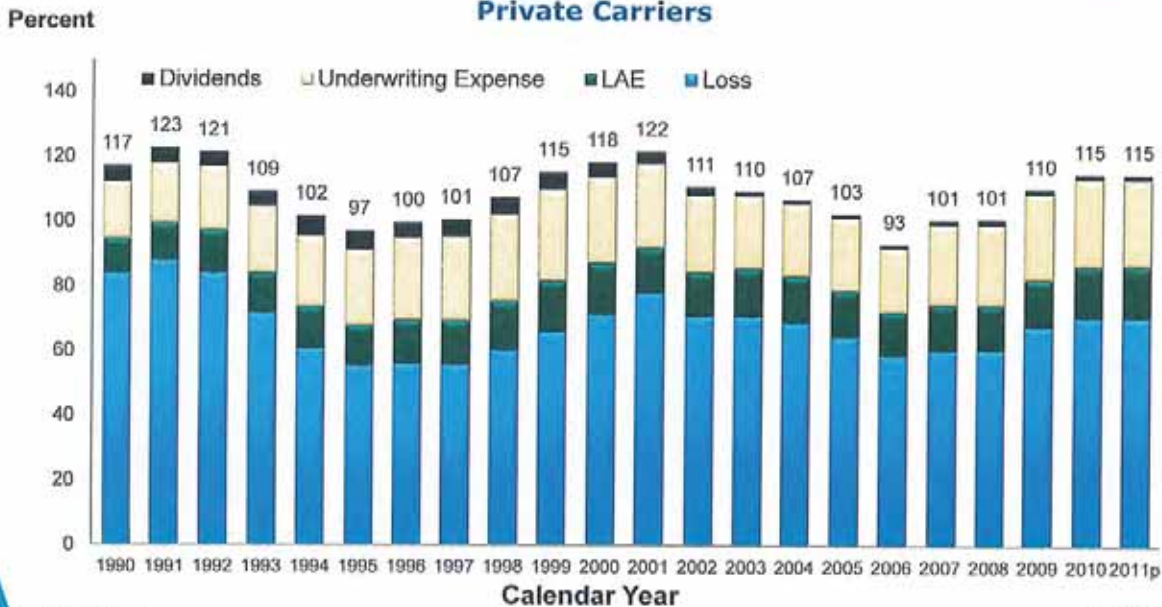
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Countrywide Workers Compensation Calendar Year Combined Ratio Remains High

Private Carriers



p Preliminary
Source: 1990-2011p, Annual Statement data

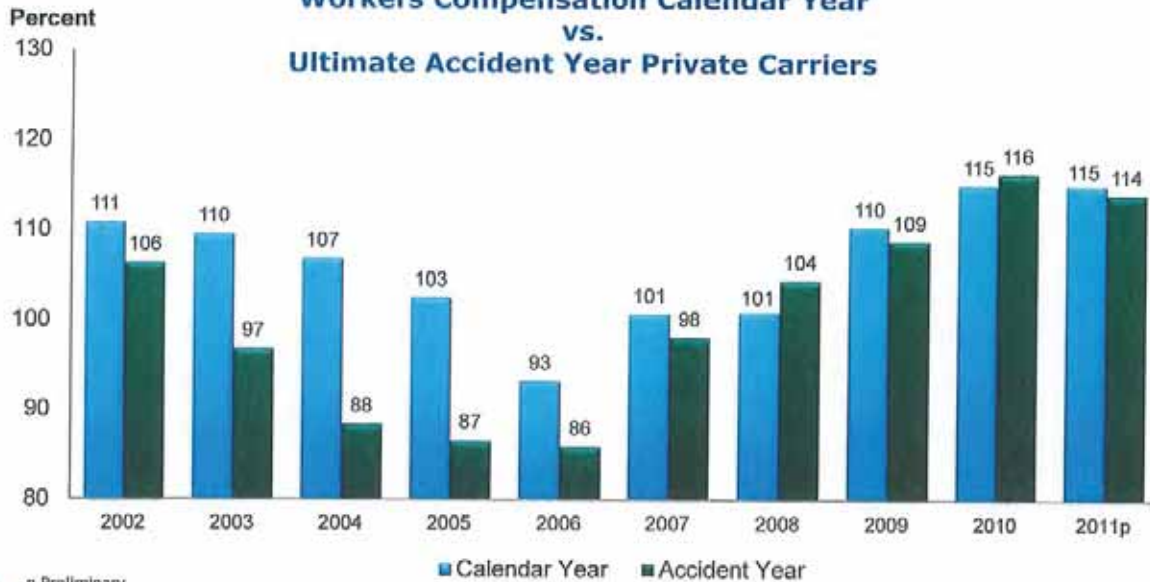
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Countrywide Accident Year Combined Ratios

Workers Compensation Calendar Year
vs.
Ultimate Accident Year Private Carriers



p Preliminary

Accident Year data is evaluated as of 12/31/2011 and developed to ultimate

Source: Calendar Years 2002-2010, Annual Statement data;

Calendar Year 2011p and Ultimate Accident Years 2001-2011, NCCI analysis based on Annual Statement data

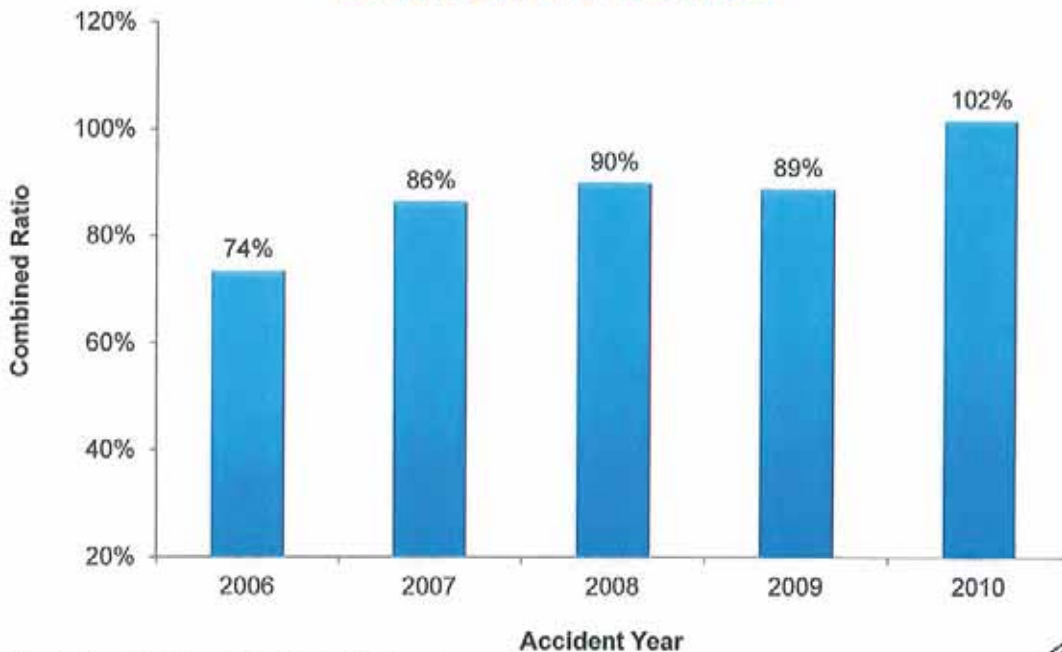
Includes dividends to policyholders

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Arkansas Accident Year Combined Ratios



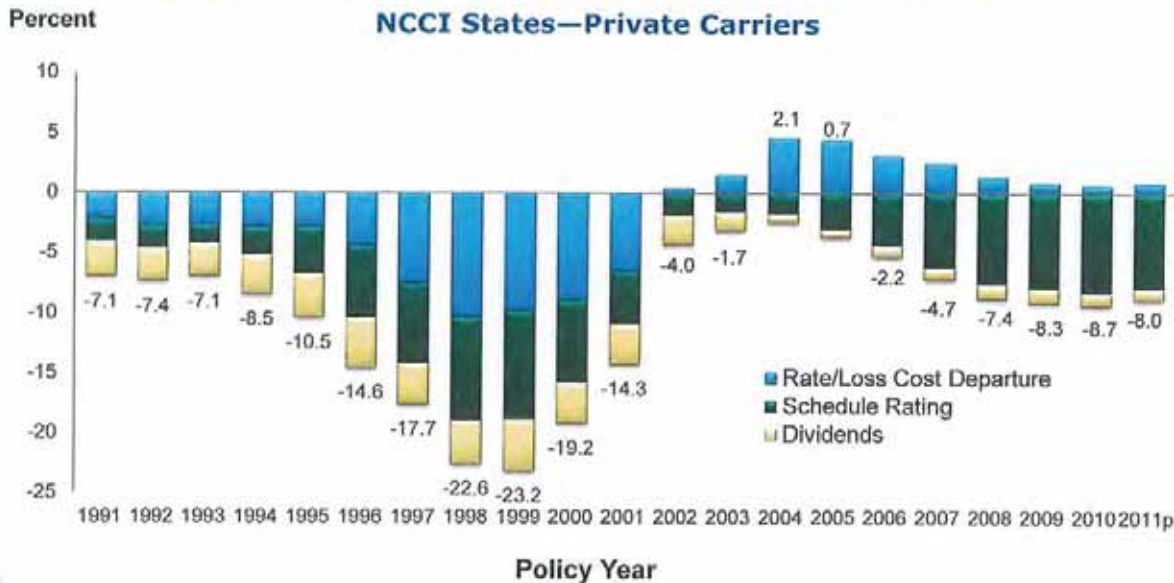
Sources: NCCI financial data, NAIC Annual Statement data

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Countrywide Impact of Discounting on Workers Compensation Premium



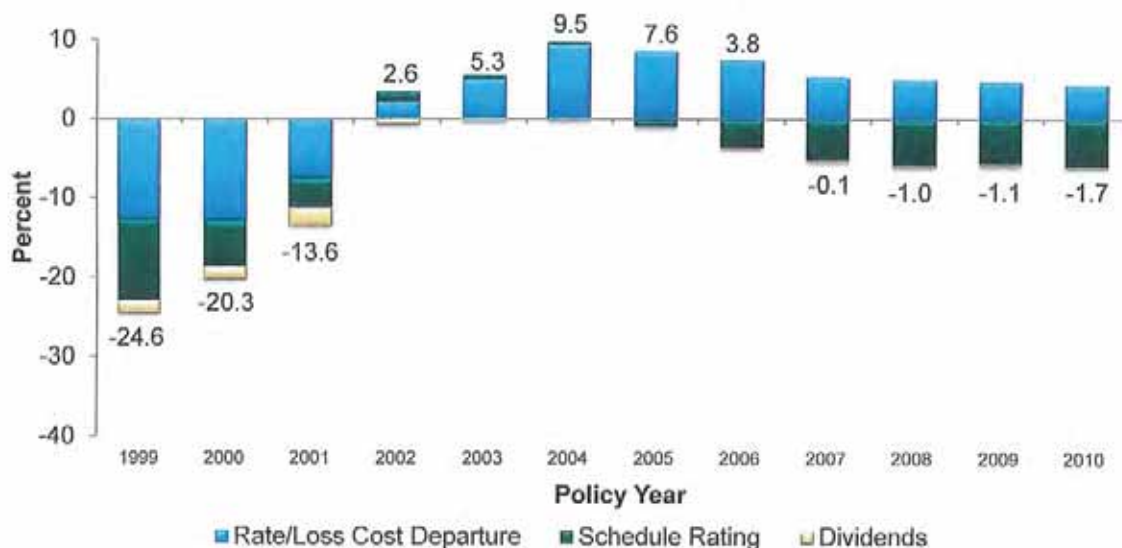
p Preliminary
 Dividend ratios are based on calendar year statistics
 NCCI benchmark level does not include an underwriting contingency provision
 Based on data through 12/31/2011 for the states where NCCI provides ratemaking services

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Arkansas Impact of Discounting on Workers Compensation Premium



Based on data through 12/31/2010
 Dividend ratios are based on calendar year statistics

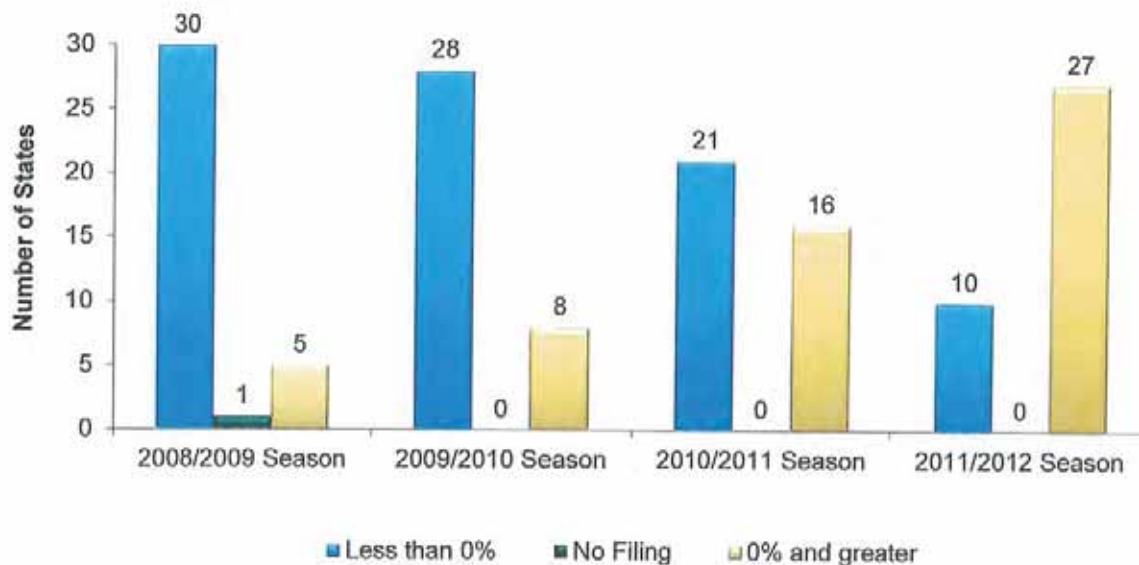
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Status of NCCI Filing Activity

Voluntary Market Filings

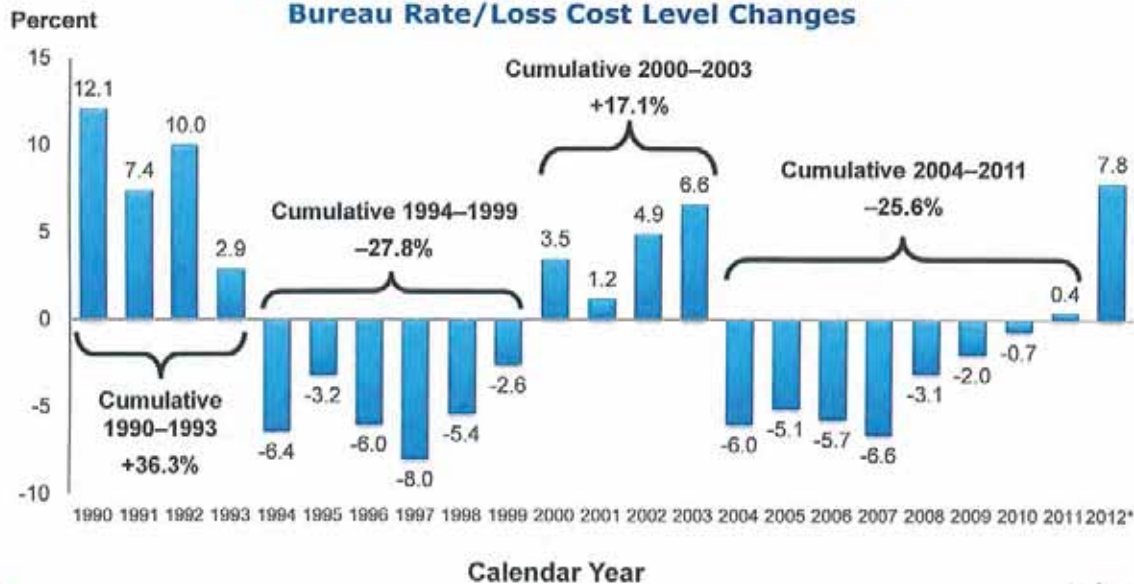


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Countrywide Average Approved Bureau Rates/Loss Costs

History of Average Workers Compensation Bureau Rate/Loss Cost Level Changes



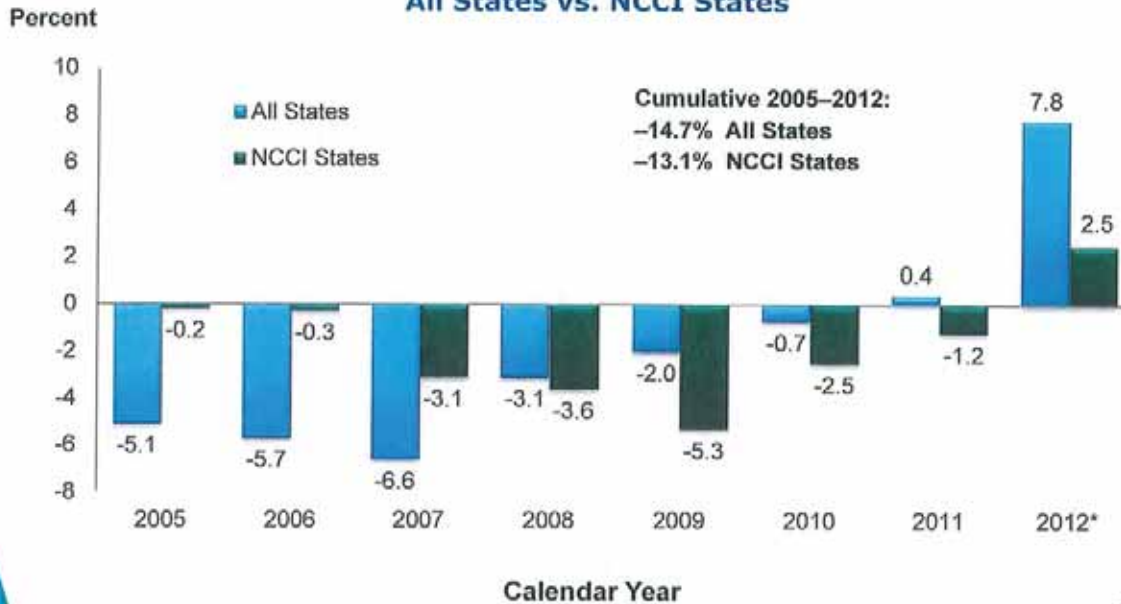
* Preliminary
 Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization relative to the previously filed rates

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Countrywide Average Approved Bureau Rates/Loss Costs

All States vs. NCCI States



* Preliminary

Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization relative to the previously filed rates

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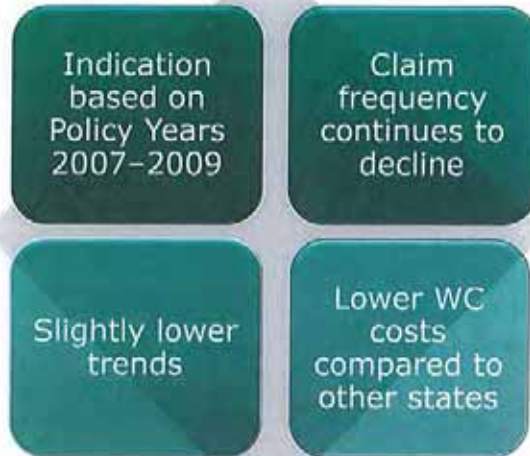


What's Driving Arkansas Loss Cost Changes?

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Arkansas Voluntary Loss Cost Level Change—Effective July 1, 2012 Filing Highlights



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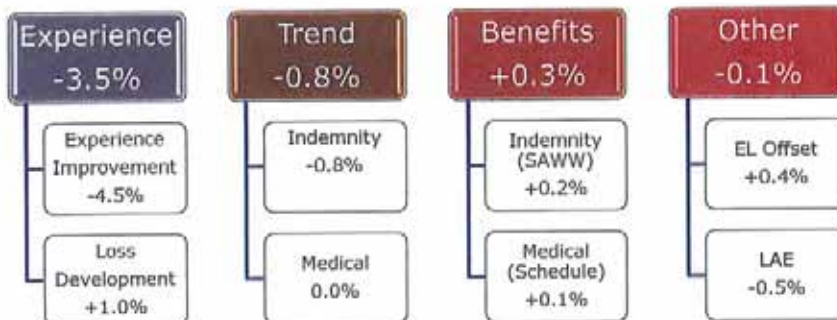
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Arkansas July 1, 2012 Loss Cost Filing

Overall Loss Cost Level Change -4.1%

Changes due to:

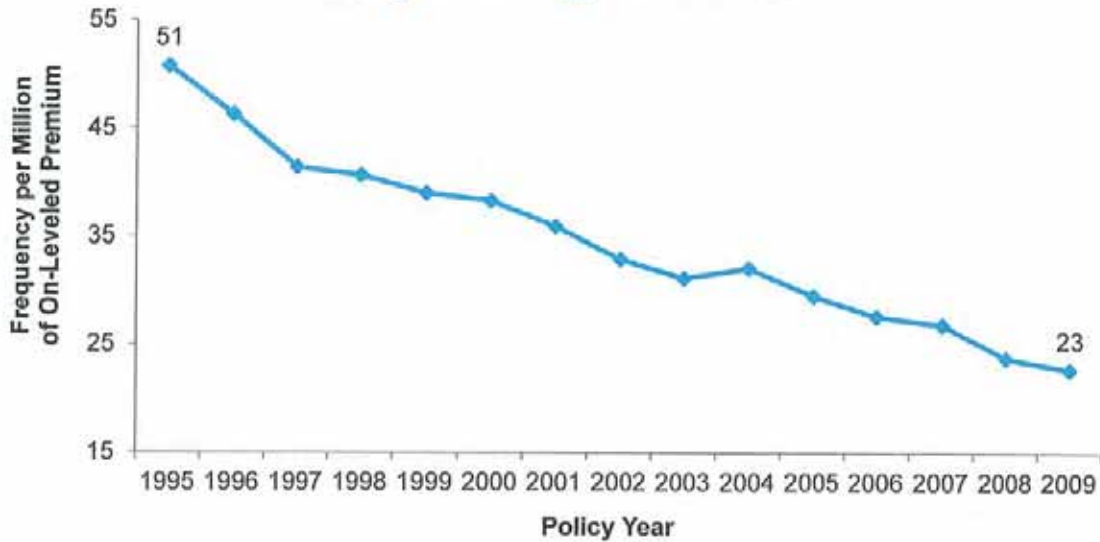


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Declines in Claim Frequency Have Contributed to Arkansas Improving Results



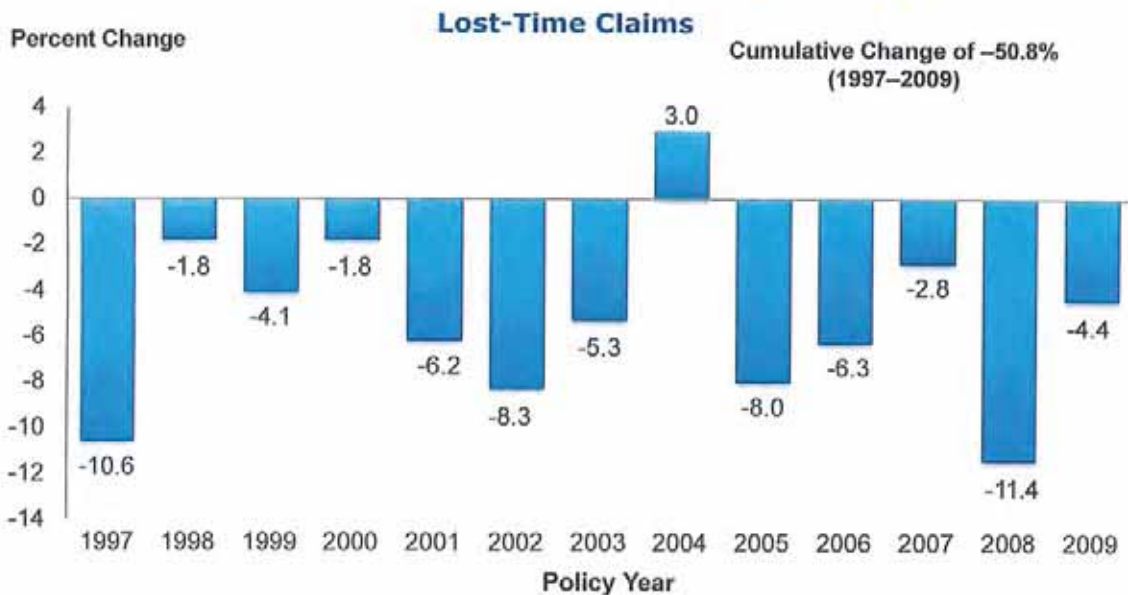
Based on NCCI's financial data
Frequency of lost-time claims

19

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Arkansas Workers Compensation Lost-Time Claim Frequency



Based on data through 12/31/2010, developed to ultimate

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Arkansas Impact of 1/1/2012 Medical Fee Schedule

Distribution of Medical Services in Arkansas

Service Category	Cost Distribution	Impact
Anesthesia	3.6%	0.0%
Surgery	38.9%	-2.6%
Radiology	22.0%	+3.8%
Pathology and Laboratory	1.2%	+0.9%
Medicine	16.3%	+1.6%
Evaluation and Management	18.0%	+0.3%
Overall Physician Costs	100.0%	0.3%

Physician costs comprise approximately 45% of medical costs in Arkansas
Based on Arkansas workers compensation data for service years 2008-2010

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Arkansas Large Loss Summary Comparison Policy Years 2007-2009 at 12/31/2009 vs. 12/31/2010

Reported Total Incurred Losses for Claims \$500,000 and Greater

Policy Year	No. of Claims	Losses		Difference
		Reported at 12/31/2009	Reported at 12/31/2010	
2007	18	\$24.7 M	\$27.9 M	\$3.2 M
2008	10	\$11.2 M	\$11.8 M	\$0.6 M
2009	3	\$2.2 M	\$14.8 M	\$12.6 M

Source: NCCI financial data valued as of 12/31/2010

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Arkansas Large Loss Summary Comparison Policy Years 2007–2009 at 12/31/2009 vs. 12/31/2010

Reported Incurred Medical Losses for Claims \$500,000 and Greater

Policy Year	No. of Claims	Losses Reported at 12/31/2009	No. of Claims	Losses Reported at 12/31/2010	Difference
2007	18	\$20.8 M	19	\$23.5 M	\$2.7 M
2008	10	\$9.2 M	12	\$9.2 M	\$0.0 M
2009	3	\$1.8 M	9	\$12.8 M	\$11.0 M

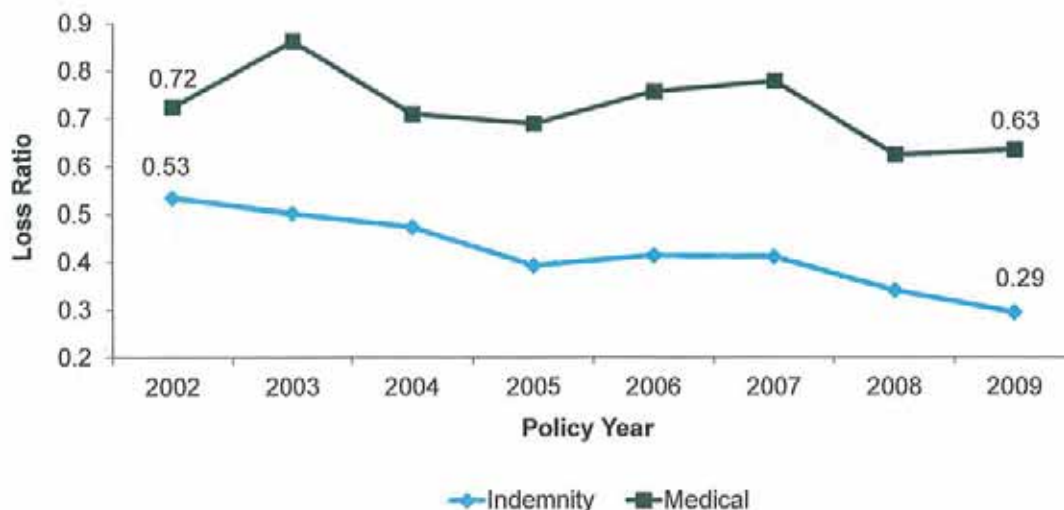
Source: NCCI financial data valued as of 12/31/2010

23

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Arkansas Indemnity and Medical Loss Ratios



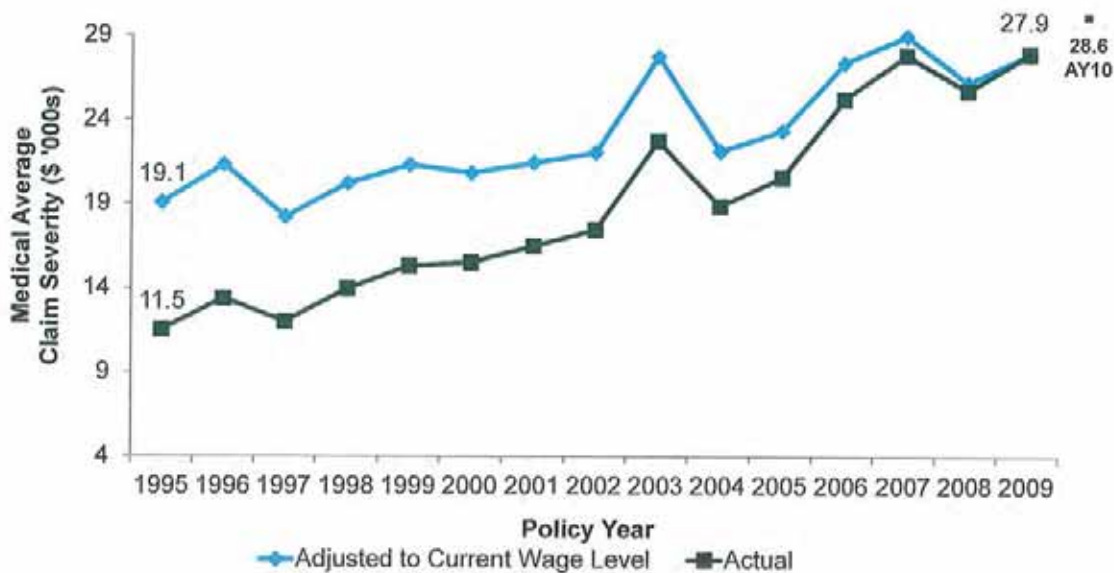
Based on NCCI's financial data at current benefit level and developed to ultimate

24

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Arkansas Average Medical Claim Severity



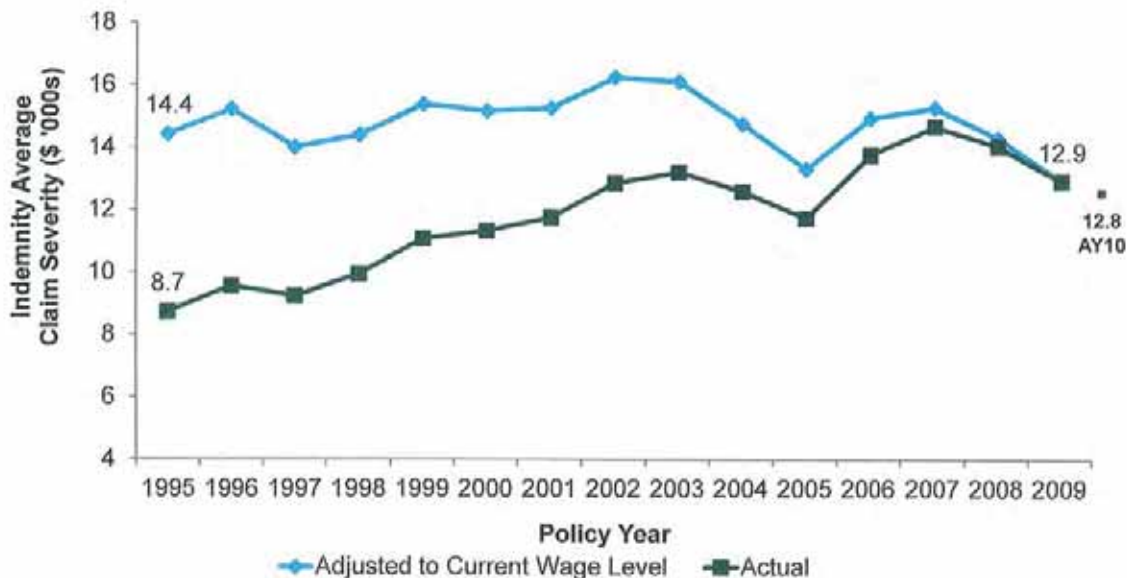
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate

25

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Arkansas Average Indemnity Claim Severity



Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate

26

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Arkansas July 1, 2012 Filing Average Changes by Industry Group



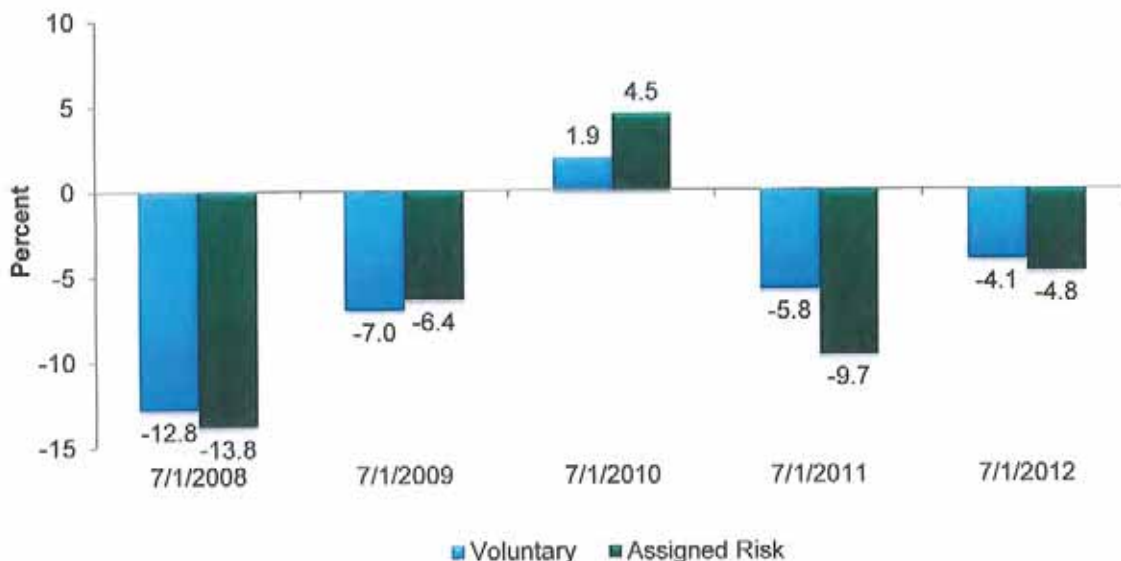
27

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Arkansas Filing Activity

Voluntary Loss Cost and Assigned Risk Rate Changes

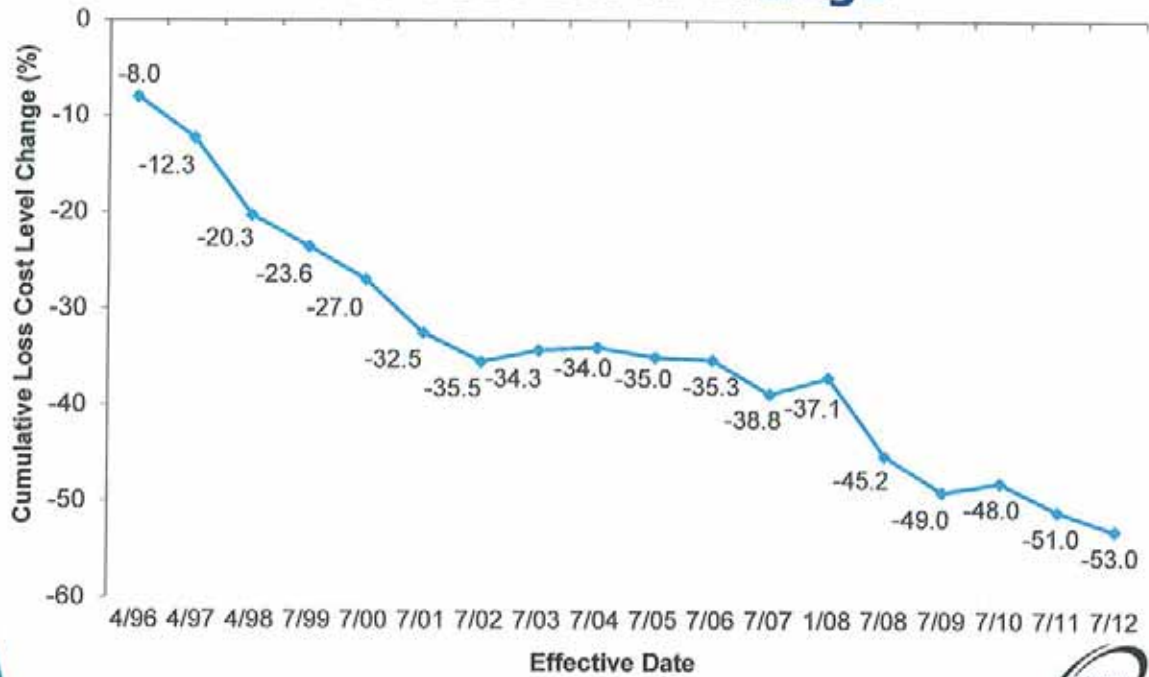


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Arkansas Cumulative Loss Cost Level Change



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Where Does Arkansas Stand?

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Current NCCI Voluntary Market Filed Rate/Loss Cost Level Changes



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Nearby States' Voluntary Market Approved Loss Cost Level Changes

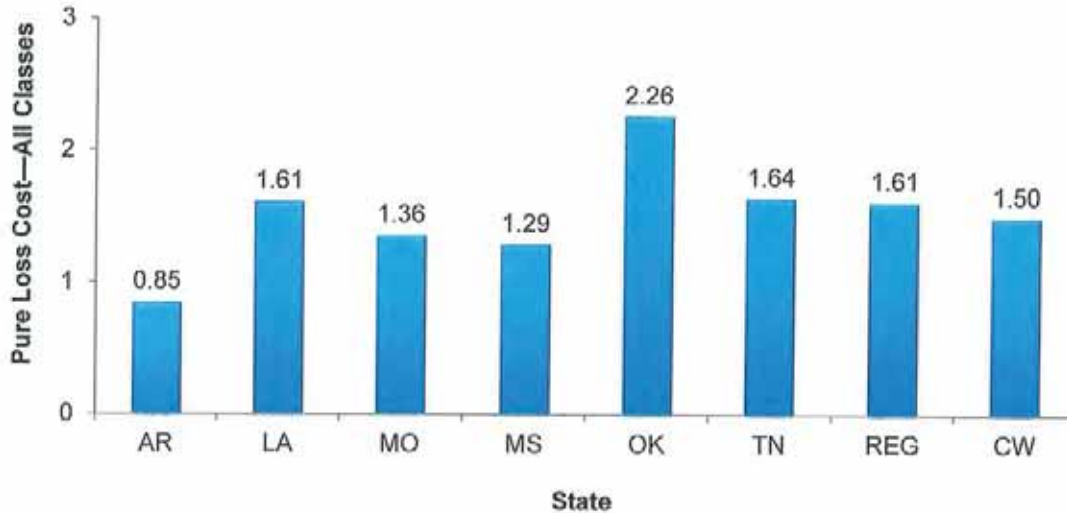
Mississippi	3/1/12	+9.9%
Louisiana	5/1/12	+6.0%
Tennessee	3/1/12	+0.4%
Oklahoma	1/1/12	-1.7%
Missouri	1/1/12	-3.0%
Arkansas	7/1/12	-4.1%
Kentucky	10/1/11	-7.5%
Alabama	3/1/12	-9.3%

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Current Average Voluntary Pure Loss Costs Using Arkansas Payroll Distribution



Based on the latest NCCI approved rates and loss costs in the various states

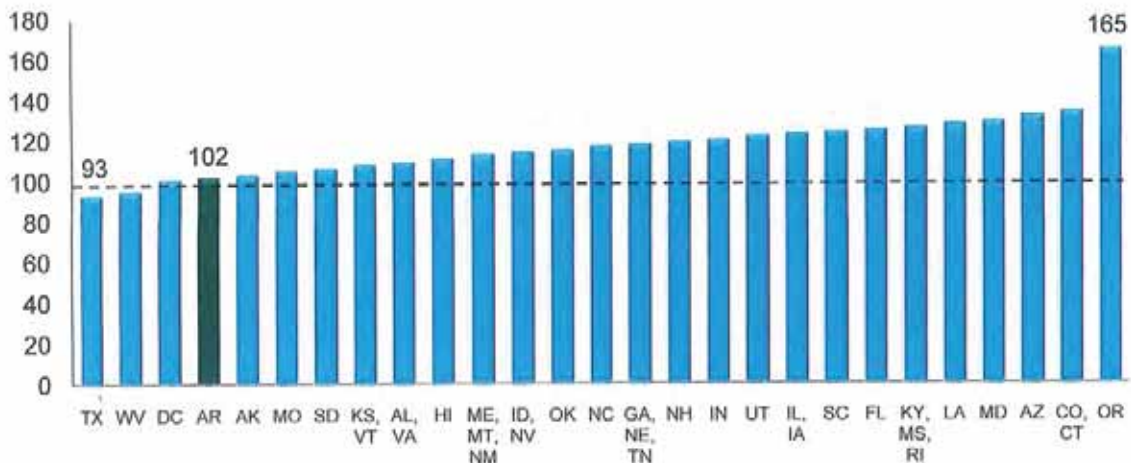
33

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Results Vary From State to State

Accident Year 2010 Combined Ratios



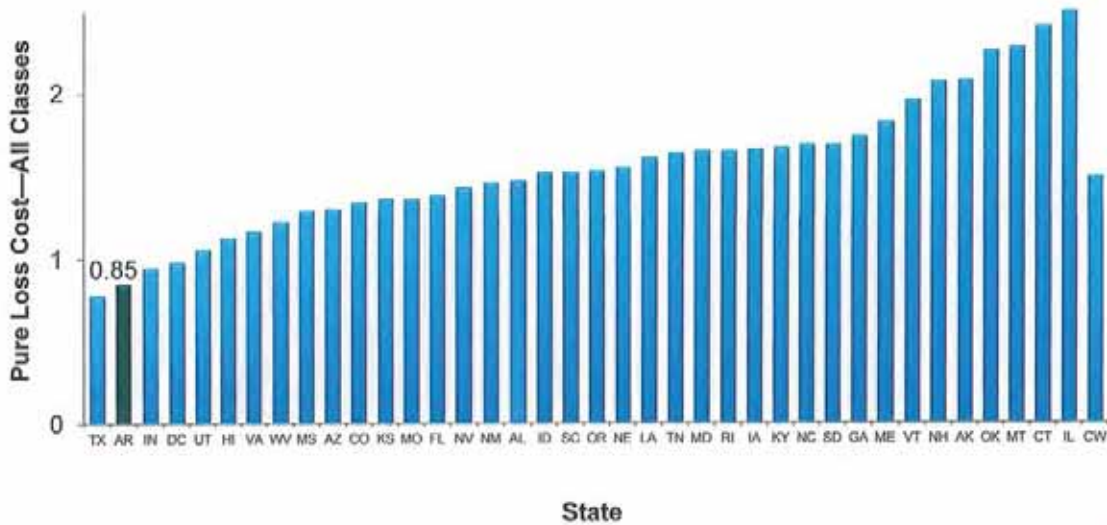
Data is evaluated as of 12/31/2010

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Current Average Voluntary Pure Loss Costs Using Arkansas Payroll Distribution



Based on the latest NCCI approved rates and loss costs in the various states

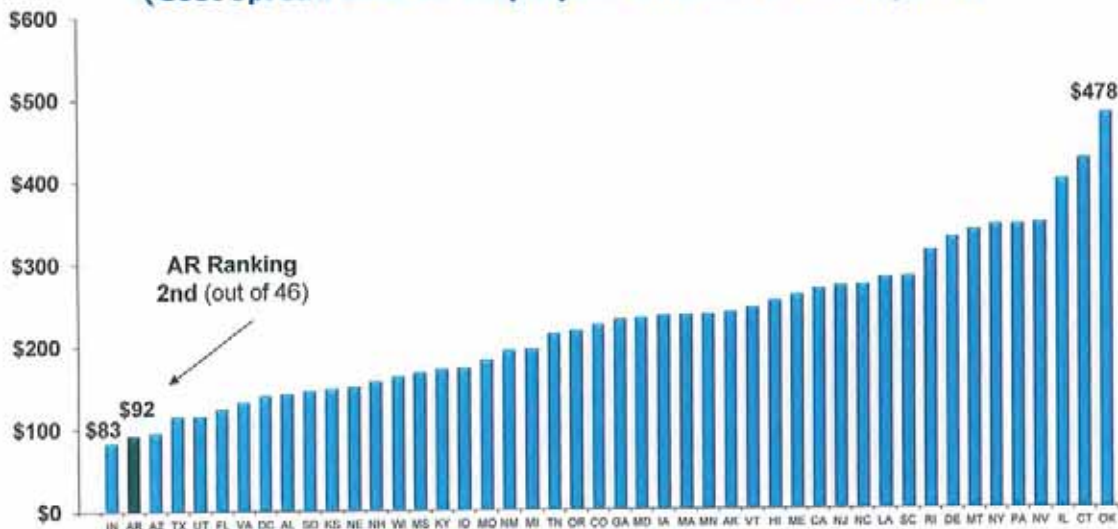
35

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Actual Average Indemnity Benefits per Employee per Year

(Cost spread over all employees whether or not injured)



Source: NCCI's *Statistical Plan* data at first report for policies effective in 2007 and 2008

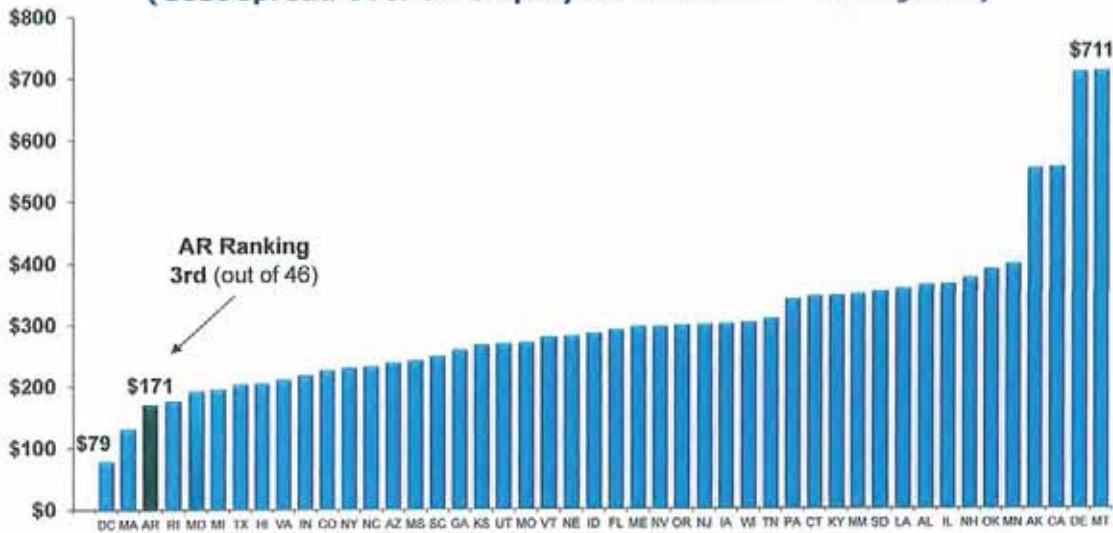
36

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Actual Average Medical Benefits per Employee per Year

(Cost spread over all employees whether or not injured)

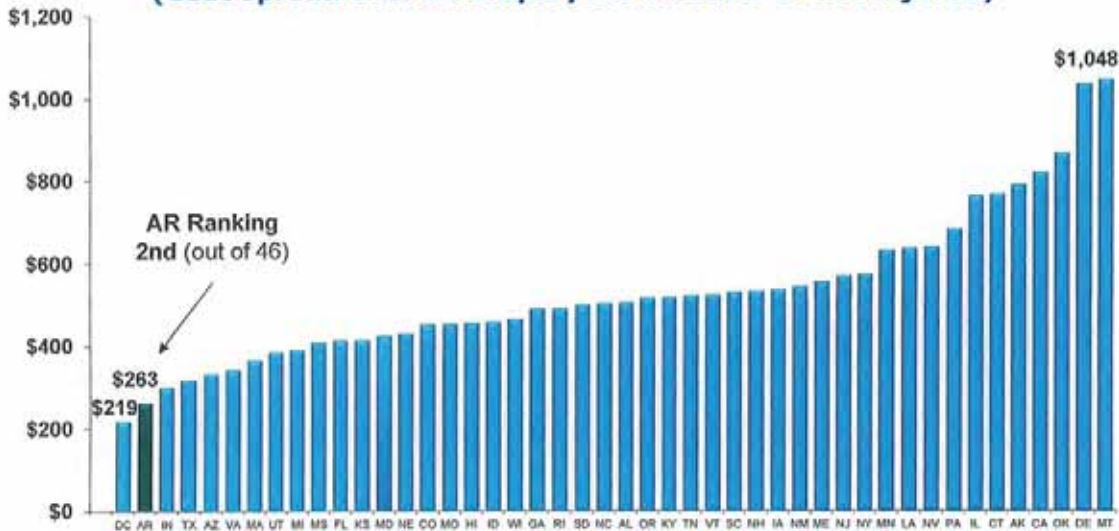


Source: NCCI's *Statistical Plan* data at first report for policies effective in 2007 and 2008



Actual Average Total Benefits per Employee per Year

(Cost spread over all employees whether or not injured)



Source: NCCI's *Statistical Plan* data at first report for policies effective in 2007 and 2008





The Residual Market in Arkansas

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Arkansas Assigned Risk Rate Level Change—Effective July 1, 2012

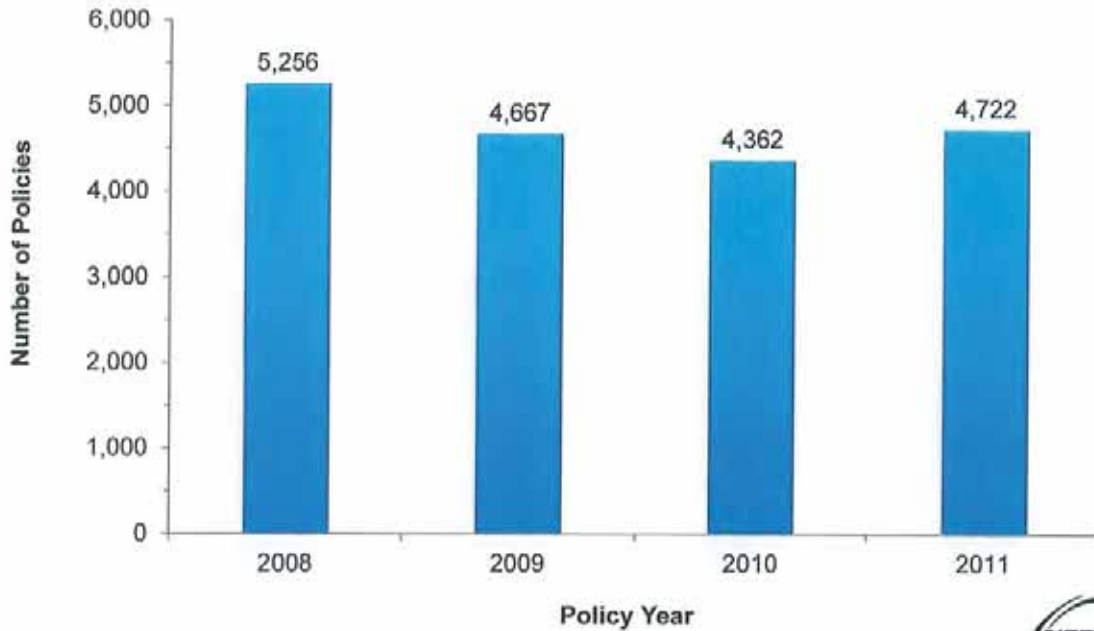
Assigned Risk Rate Components	Impact
Overall Indicated Loss Cost Level Change	-4.0%
Offset for Changes in EL Increased Limits %	+0.4%
Due to Change in Assigned Risk Expenses	-1.2%
Overall Indicated Assigned Risk Rate Level Change	-4.8%

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Arkansas Total Residual Market Plan Policy Count

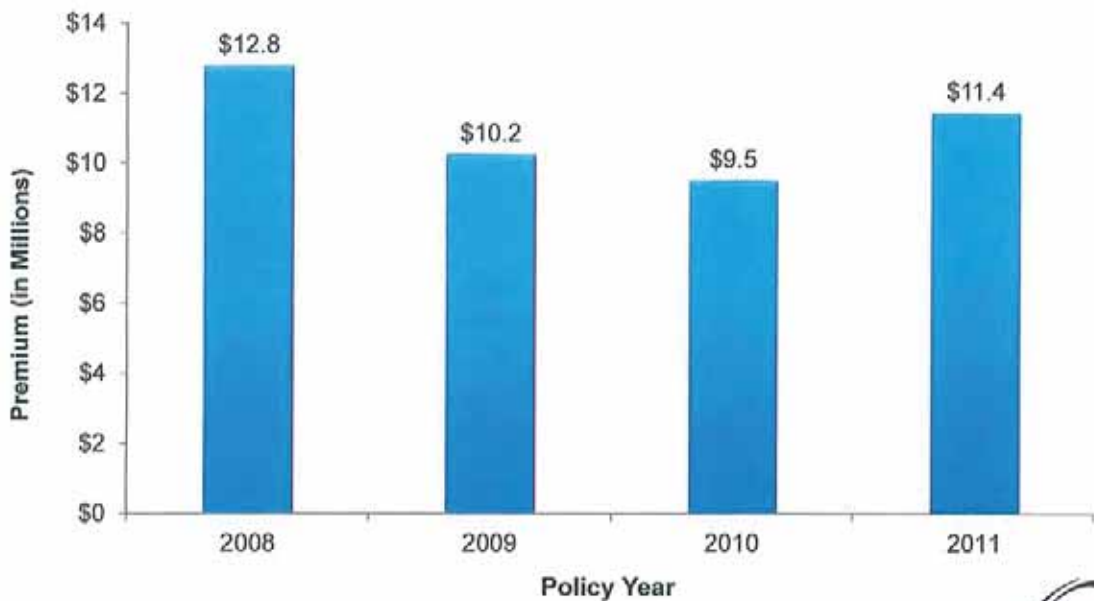


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Arkansas Total Residual Market Plan Premium Volume



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Arkansas Residual Market Plan 2010 vs. 2011 Total Policy Size Comparison

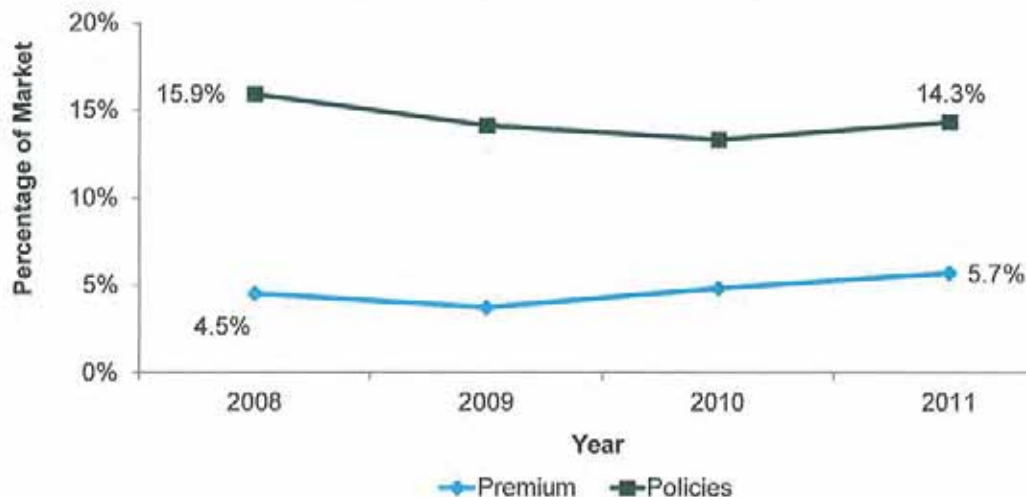
Premium Size	2010		2011	
	# of Policies	Premium	# of Policies	Premium
\$0-\$2,499	3,687	\$3,189,696	3,941	\$3,378,393
\$2,500-\$4,999	367	\$1,264,750	407	\$1,412,535
\$5,000-\$9,999	168	\$1,165,421	190	\$1,300,088
\$10,000-\$19,999	89	\$1,202,211	117	\$1,616,202
\$20,000-\$49,999	38	\$1,114,848	45	\$1,370,652
\$50,000-\$99,999	3	\$183,780	15	\$1,014,967
\$100,000-\$199,999	10	\$1,379,309	4	\$543,039
\$200,000 and greater	0	\$0	3	\$811,035
TOTAL	4,362	\$9,500,015	4,722	\$11,446,911

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Comparison of the Estimated Market Share for Arkansas Residual Market by Total Policy Count and Written Premium



Market share as a percentage of residual market total written premium/policies in force
Latest figures are preliminary

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Arkansas Top Five Class Codes Based on Residual Market Plan Total Policy Count

National

5645—Carpentry
Construction (9.2%)

5437—Carpentry, Interior
Trim (4.5%)

7228—Trucking, Local (4.2%)

5474—Painting (4.1%)

5551—Roofing (3.2%)

Arkansas

5645—Carpentry Construction
(23.4%)

5551—Roofing (5.4%)

5022—Masonry NOC (3.5%)

5474—Painting (3.1%)

8810—Clerical (2.6%)

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Arkansas Assigned Risk Programs

- Merit Rating
- Differential/Surcharge
- Removal of Premium Discounts
- Take-Out Credit
- Tabular Adjustment Program
- Alternate Preferred Plan
- Alcohol- and Drug-Free Premium Credit
- Voluntary Coverage Assistance Program (**VCAP[®] Service**)

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Residual Market Filings

Virginia	4/1/12	+11.4%
Mississippi	3/1/12	+9.9%
Tennessee	3/1/12	+8.1%
Georgia	3/1/12	+6.8%
Arizona	1/1/12	+5.2%
Iowa	1/1/12	+4.4%
Dist. of Columbia	11/1/11	+4.3%
South Carolina	7/1/08	+4.3%
North Carolina	4/1/11	+4.1%
New Hampshire	1/1/12	+3.6%
Illinois	1/1/12	+3.5%
Kansas	1/1/12	+3.0%

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Residual Market Filings (Cont'd)

Alaska	1/1/12	+2.9%
Connecticut	1/1/12	+2.4%
Indiana	1/1/12	+2.3%
Oregon	1/1/12	+1.9%
South Dakota	7/1/12	+1.8%
Vermont	4/1/12	+1.2%
Alabama	3/1/12	0.0%
Arkansas	7/1/12	-4.8%
New Mexico	1/1/12	-5.0%
Nevada	3/1/12	-5.2%
West Virginia	11/1/11	-11.9%

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Update From the Arkansas Workers Compensation Commission

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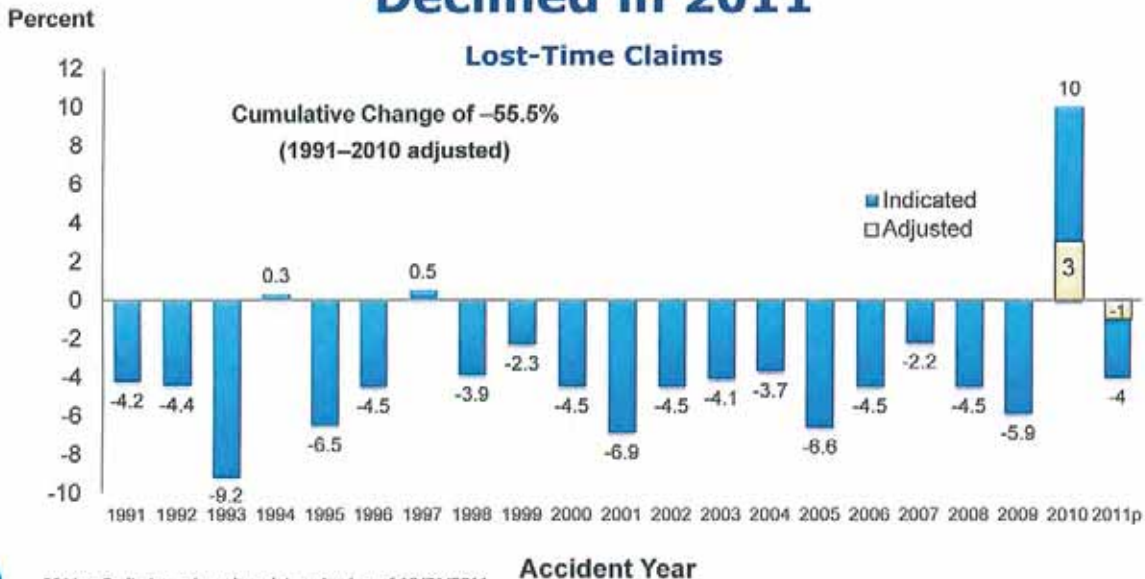
Kids' Chance

50

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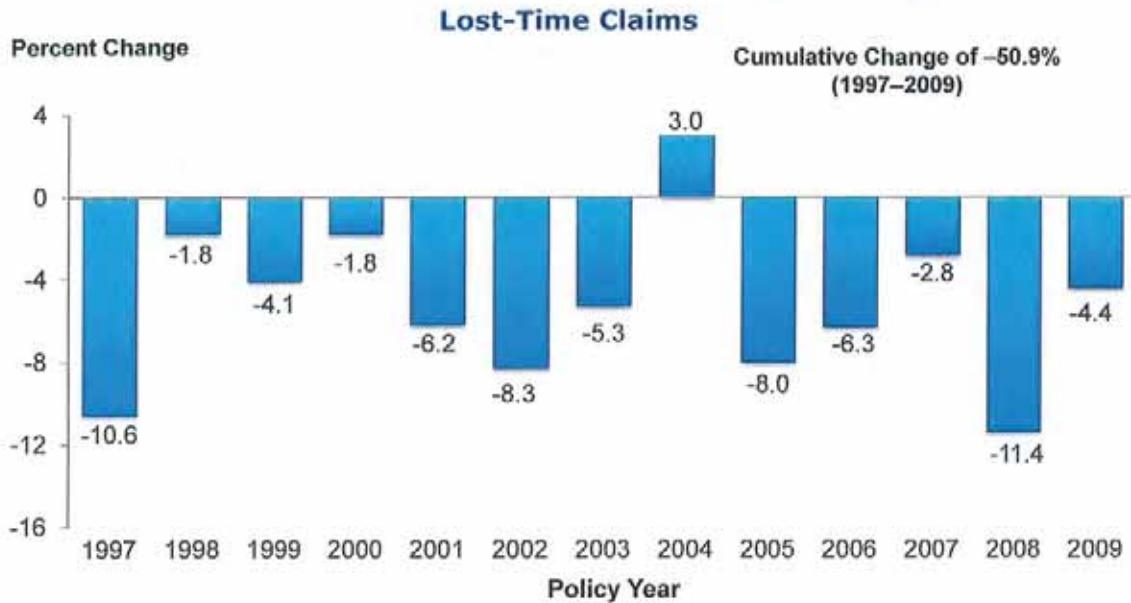
Claim Frequency

Countrywide Workers Compensation Lost-Time Claim Frequency Declined in 2011



2011p: Preliminary based on data valued as of 12/31/2011
 1991-2010: Based on data through 12/31/2010, developed to ultimate
 Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
 Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level

Arkansas Workers Compensation Lost-Time Claim Frequency



Based on data through 12/31/2010, developed to ultimate

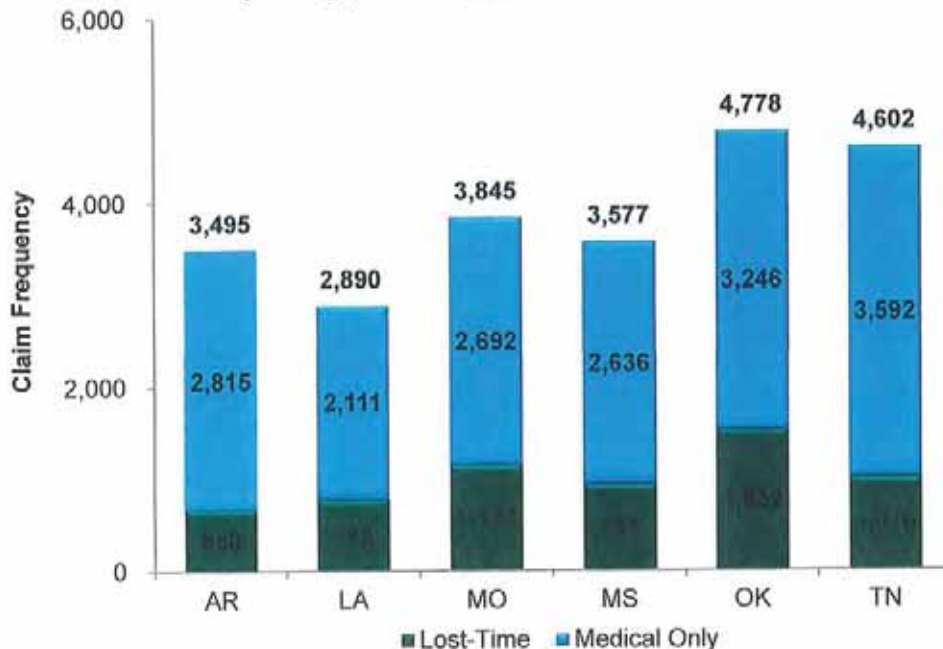
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Arkansas Average Claim Frequency

Frequency per 100,000 Workers—All Claims



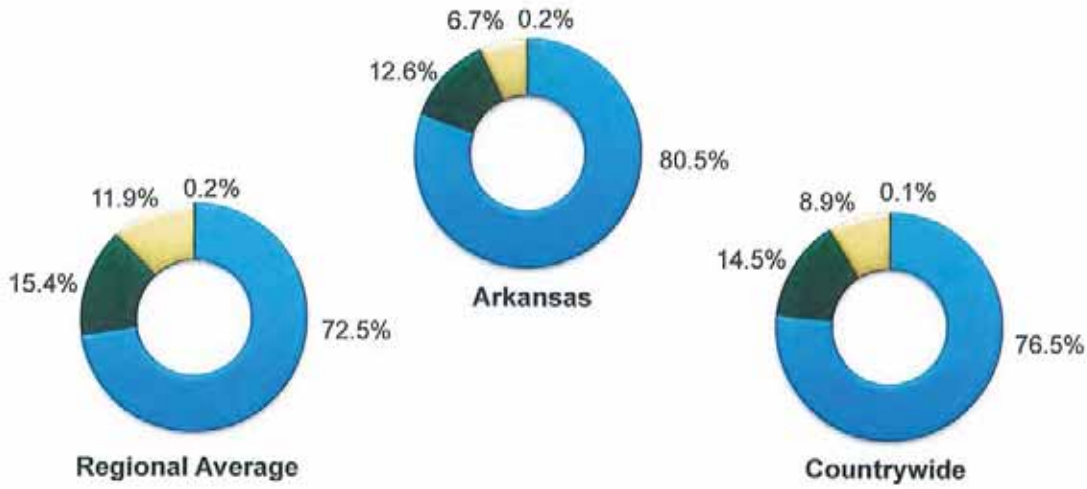
Based on NCCI's *Statistical Plan* data

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Arkansas Distribution of Claims by Injury Type



■ Medical Only
 ■ Temporary Total
 ■ Permanent Partial
 ■ Permanent Total/Fatal

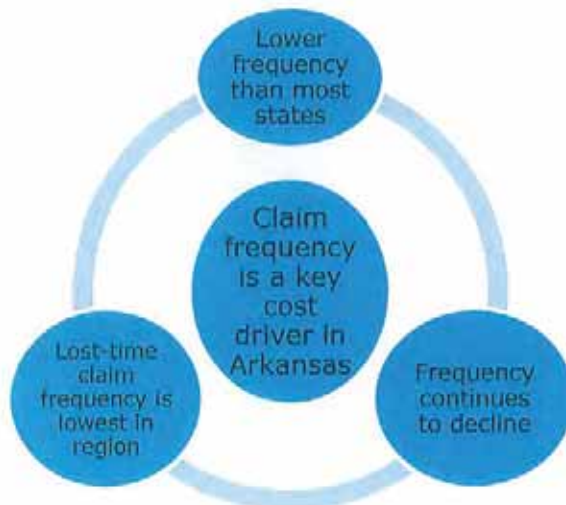
Regional states are LA, MO, MS, OK, and TN
Based on NCCI's *Statistical Plan* data

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Key Takeaways— Claim Frequency



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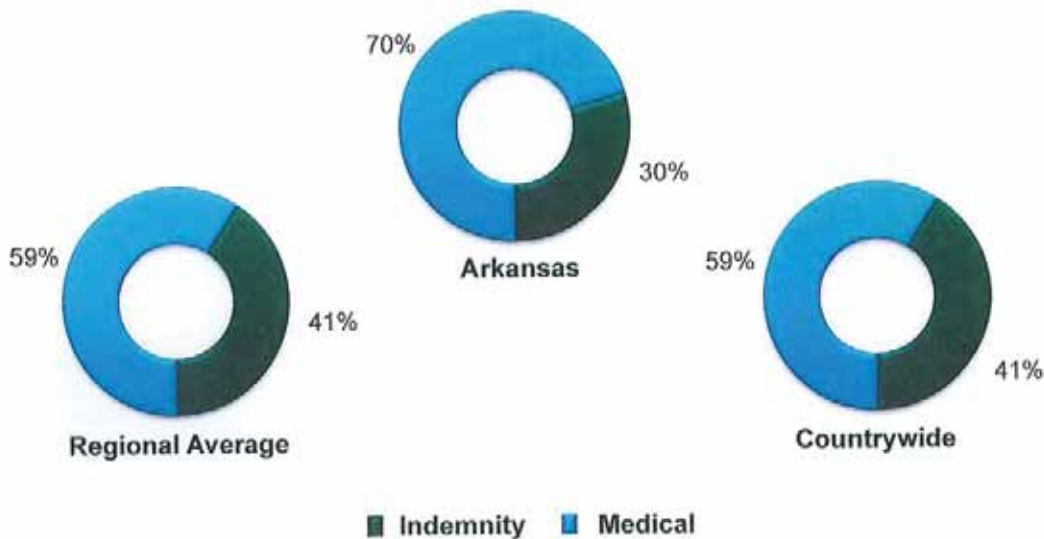


Medical and Indemnity Costs

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Medical Benefits Constitute the Majority of Total Benefit Costs in Arkansas



Regional states are LA, MO, MS, OK, and TN

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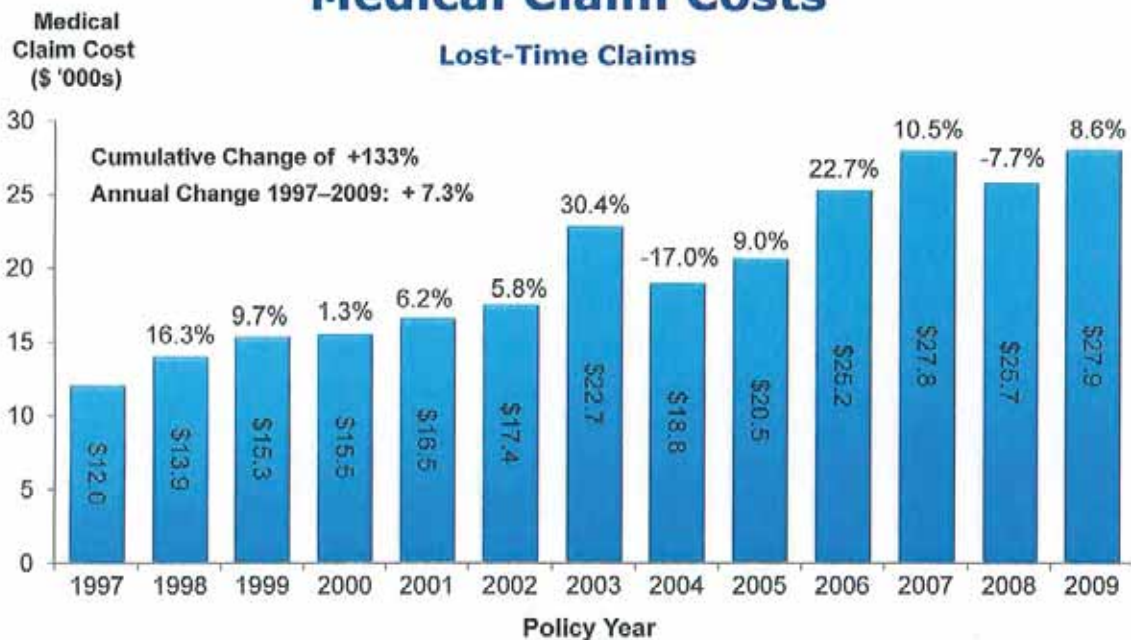
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Medical Costs

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Arkansas Workers Compensation Medical Claim Costs



Based on data through 12/31/2010, on-levleed and developed to ultimate

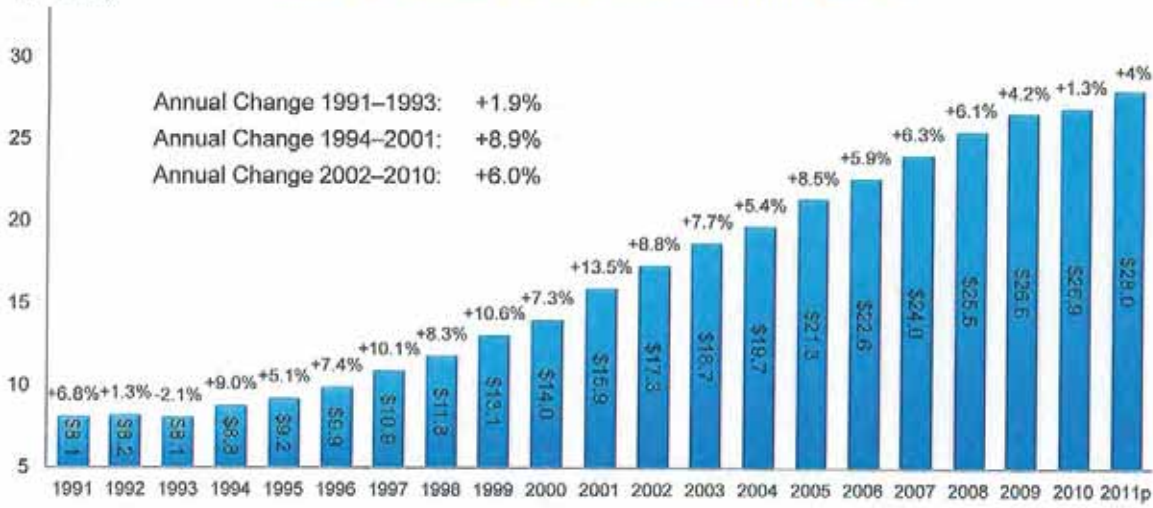
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Countrywide Workers Compensation Medical Claim Cost Trends

Medical Claim Cost (\$ '000s)

Average Medical Cost per Lost-Time Claim



Annual Change 1991–1993: +1.9%
 Annual Change 1994–2001: +8.9%
 Annual Change 2002–2010: +6.0%

Accident Year

2011p: Preliminary based on data valued as of 12/31/2011
 1991–2010: Based on data through 12/31/2010, developed to ultimate
 Based on the states where NCCI provides ratemaking services, including state funds
 Excludes high deductible policies

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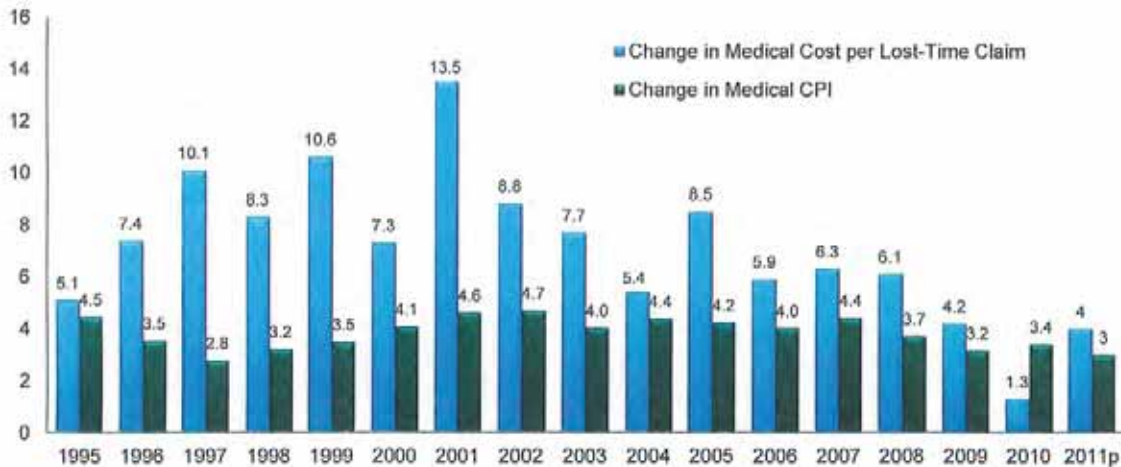
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Countrywide Workers Compensation Medical Severity vs. Medical Inflation

Percent Change

Average Medical Cost per Lost-Time Claim



Year

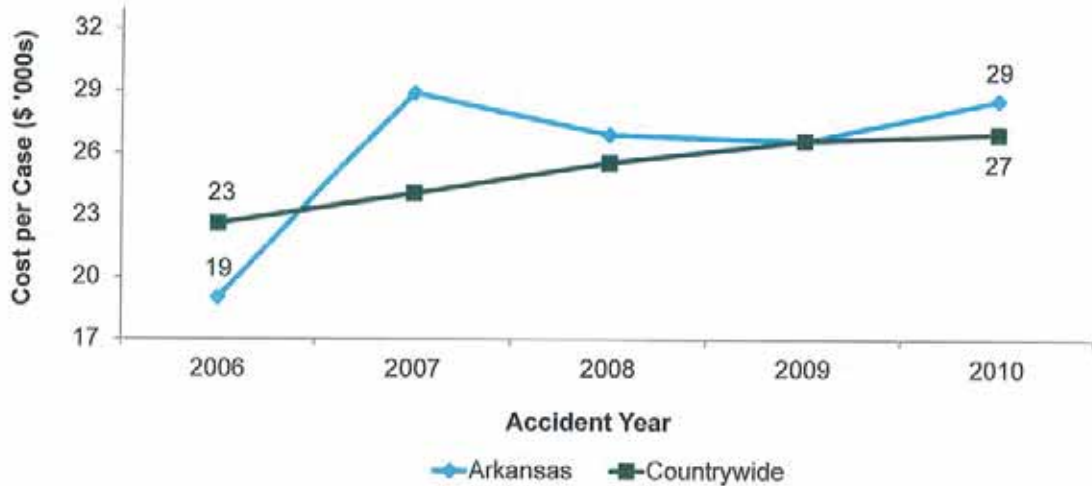
p Preliminary
 Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
 Sources: Medical CPI—All states, Moody's Economy.com; Accident year medical severity—NCCI states, NCCI

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Arkansas vs. Countrywide Average Medical Claim Severity



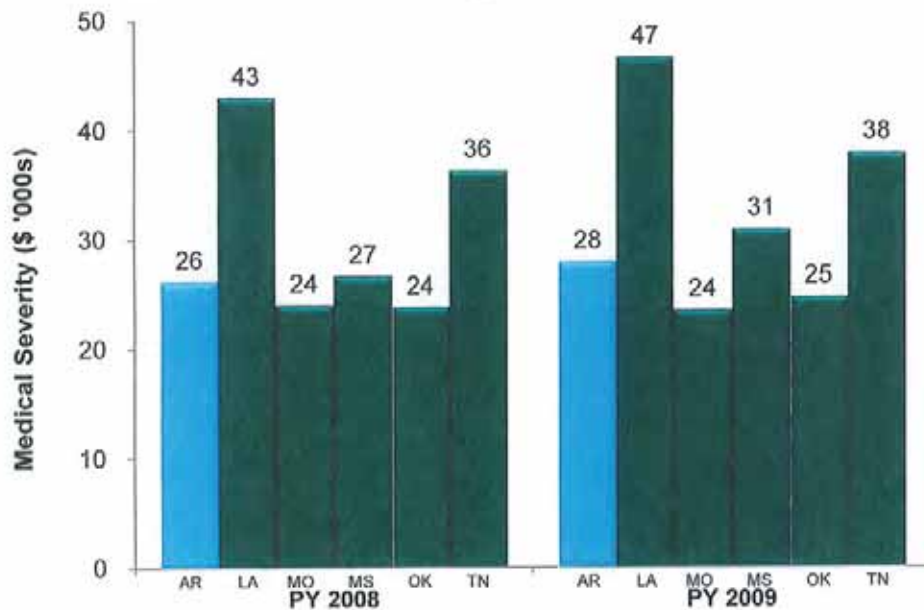
Source: NCCI financial data valued as of 12/31/2010

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Average Medical Claim Severity in the Region



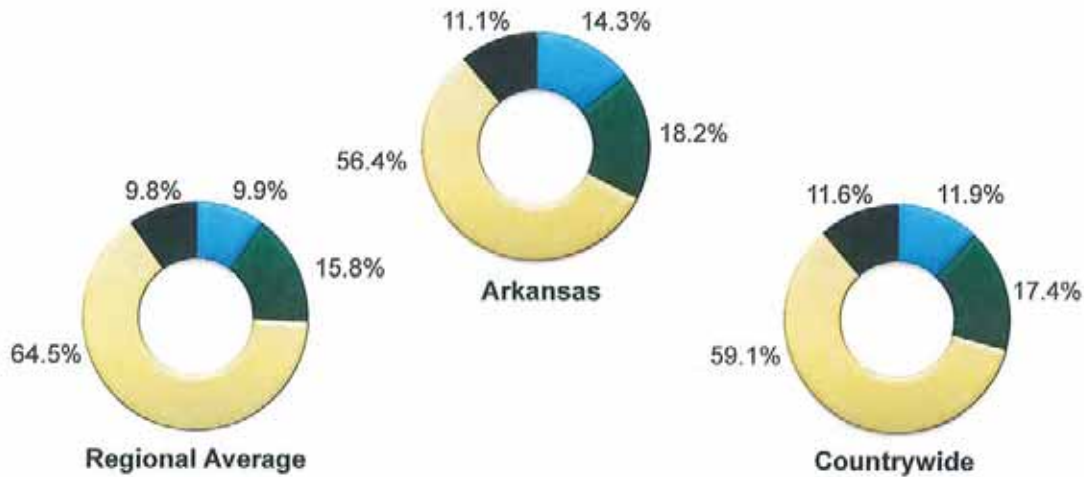
Based on NCCI's financial data for lost-time claims

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Arkansas Medical Loss Distribution by Injury Type



■ Medical Only
 ■ Temporary Total
 ■ Permanent Partial
 ■ Permanent Total/Fatal

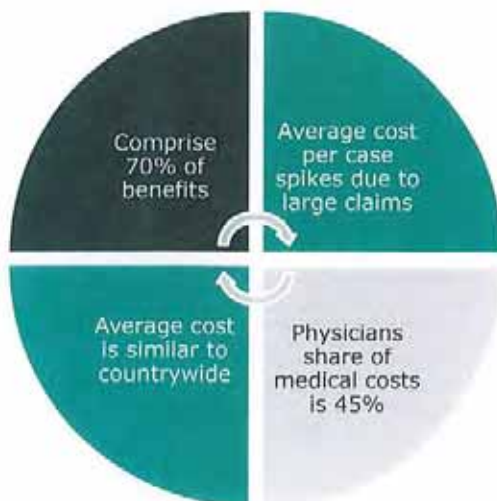
Regional states are LA, MO, MS, OK, and TN
Based on NCCI's *Statistical Plan* data

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Key Takeaways— Arkansas Medical Benefit Costs



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Indemnity Costs

Arkansas Workers Compensation Indemnity Claim Costs

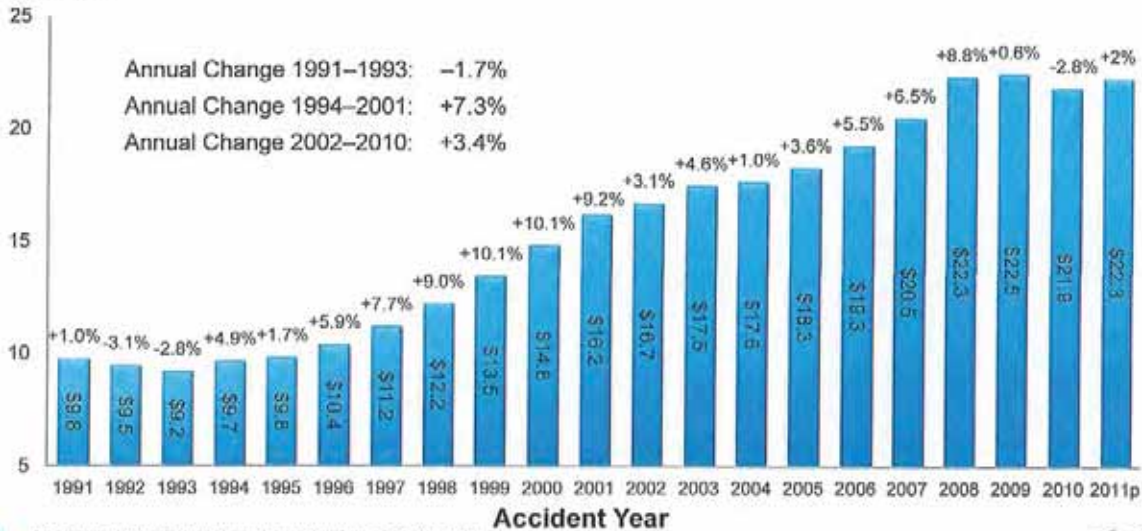


Based on data through 12/31/2010, on-leveled and developed to ultimate, not adjusted to common wage-level

Countrywide Workers Compensation Indemnity Claim Costs Increase in 2011

Indemnity Claim Cost (\$ '000s)

Average Indemnity Cost per Lost-Time Claim



2011p: Preliminary based on data valued as of 12/31/2011
 1991–2010: Based on data through 12/31/2010, developed to ultimate
 Based on the states where NCCI provides ratemaking services, including state funds
 Excludes high deductible policies

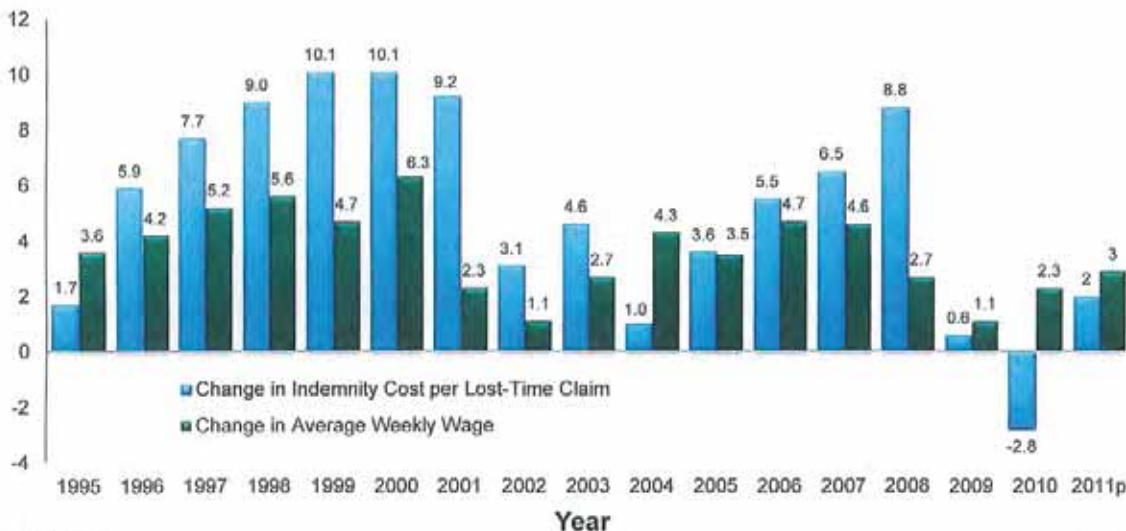


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Countrywide Workers Compensation Indemnity Severity Modest Increase in 2011

Percent Change

Average Indemnity Cost per Lost-Time Claim

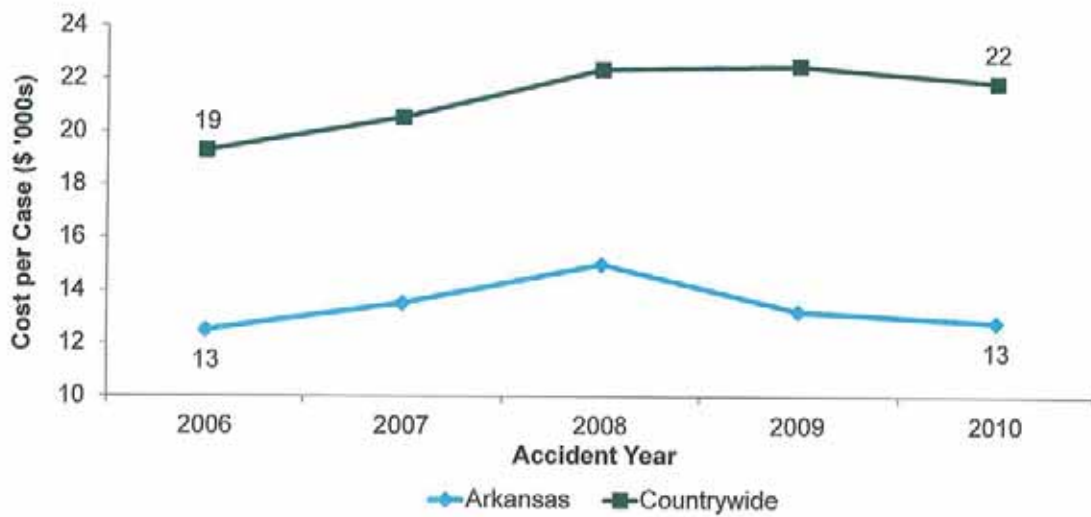


p Preliminary
 Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies.
 Sources: Average Weekly Wage 1995–2008: Quarterly Census of Employment and Wages, Moody's Economy.com; 2009–2011p, NCCI
 Accident year indemnity severity—NCCI states, NCCI



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Arkansas vs. Countrywide Average Indemnity Claim Severity



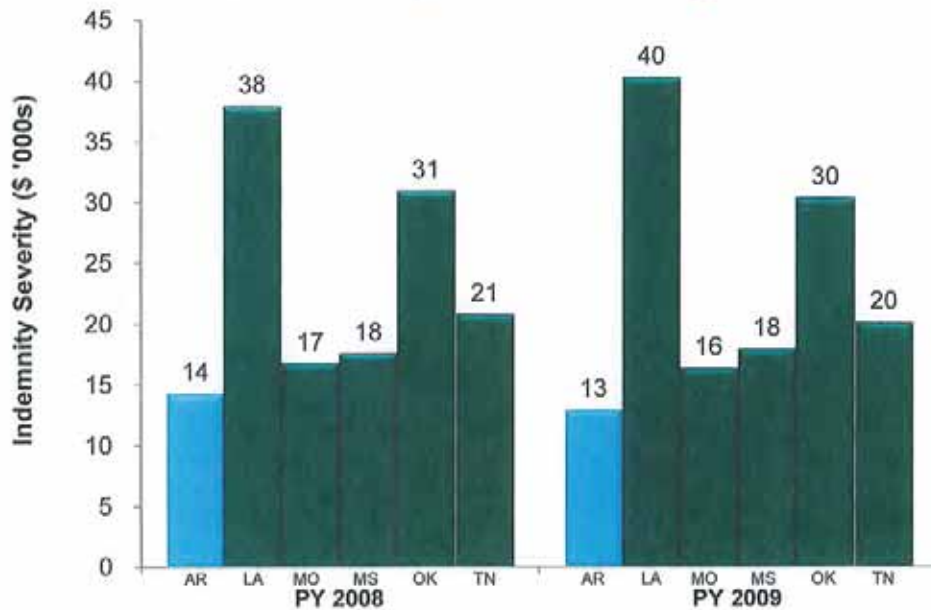
Source: NCCI financial data valued as of 12/31/2010

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Average Indemnity Claim Severity in the Region



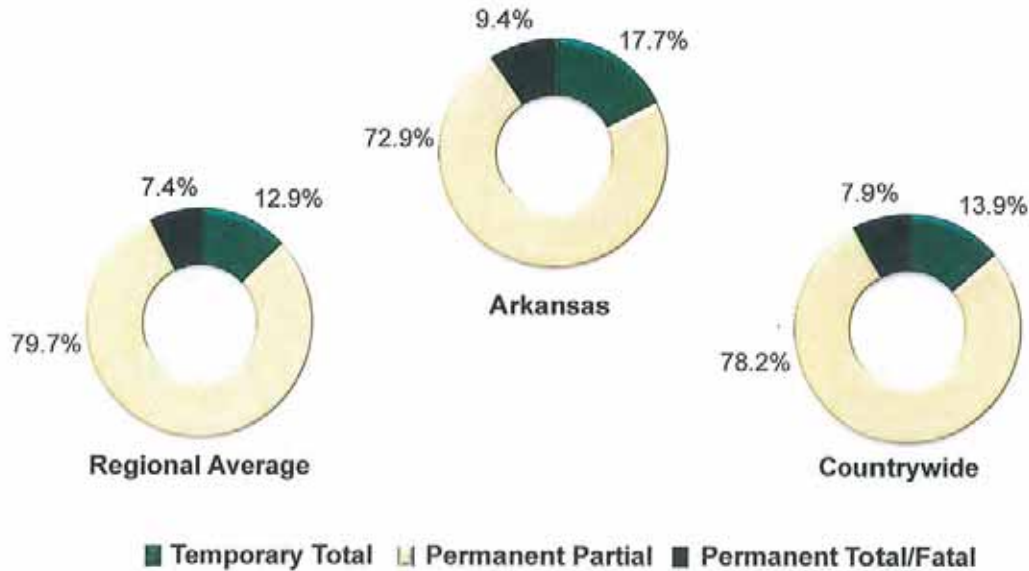
Based on NCCI's financial data for lost-time claims

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Arkansas Indemnity Loss Distribution by Injury Type



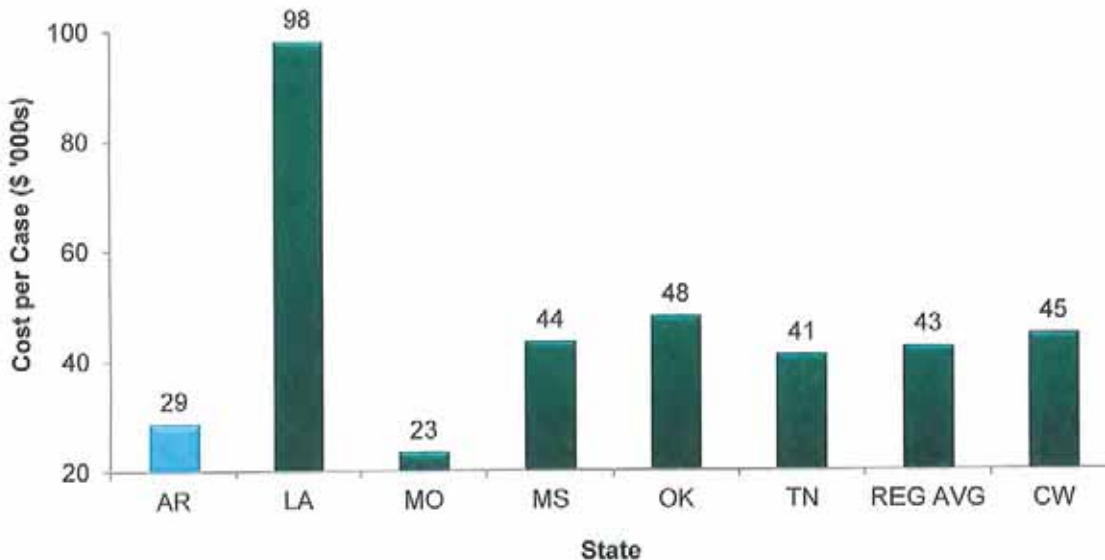
Regional states are LA, MO, MS, OK, and TN
Based on NCCI's *Statistical Plan* data

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Arkansas Permanent Partial Indemnity Average Cost per Case



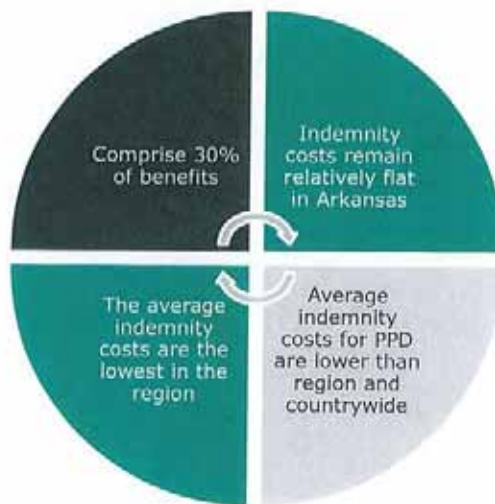
Based on NCCI's *Statistical Plan* data

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Key Takeaways— Arkansas Indemnity Benefit Costs



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The State of the Economy

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The Macro View

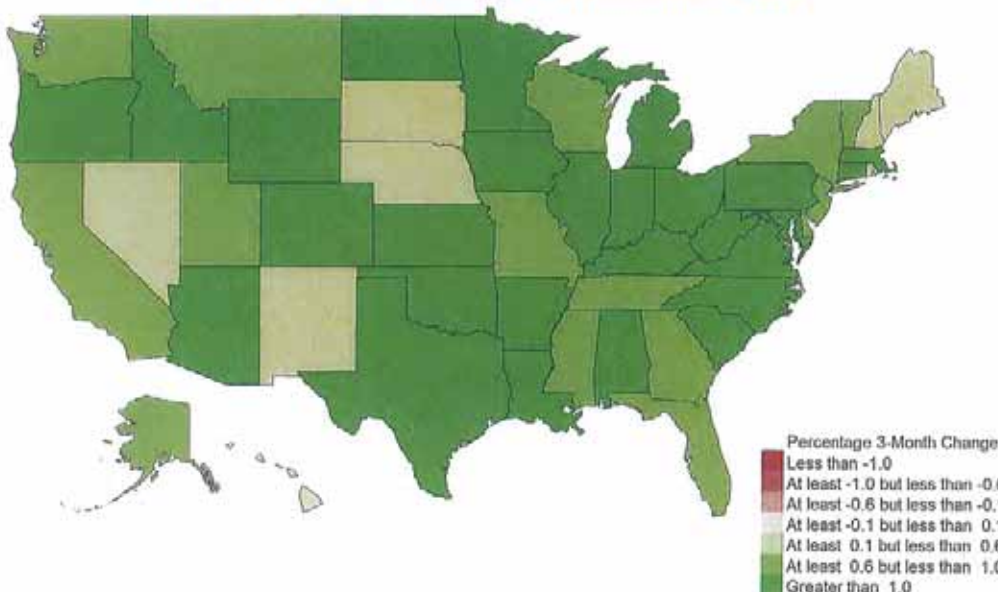
**Following a Financial Crisis,
It Takes a Country About
10 Years to Return to
Normal Economic Conditions**

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The Economic Recovery Is Widespread

March 2012 Is Compared to December 2011



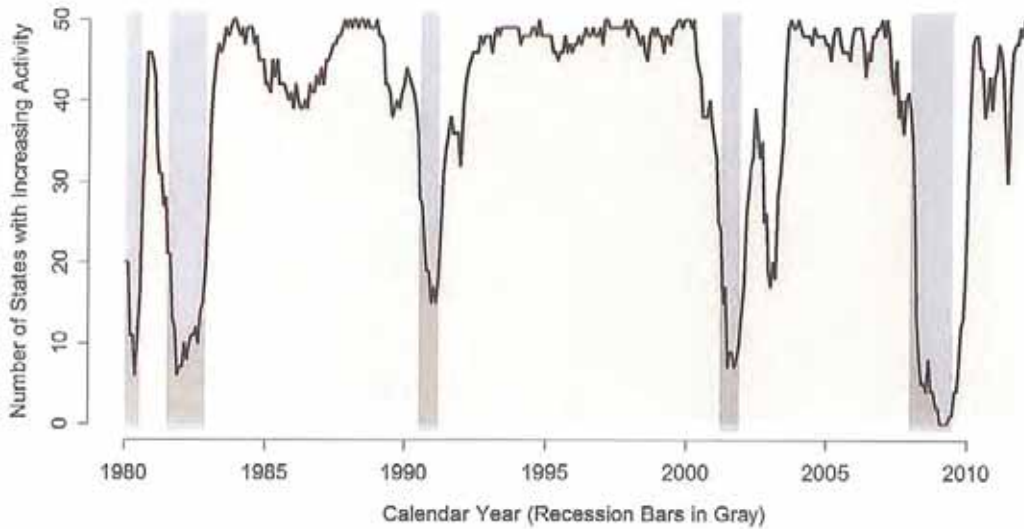
The map shows state coincidence indexes, which combine four state-level economic measures to summarize current economic conditions in a single statistic; the four data items are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (US city average). Frequency of observation: monthly; latest observation: March 2012; District of Columbia is not shown on the map. Source: FRB of Philadelphia, www.philadelphiafed.org/research-and-data/regional-economy/indices/coinident

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Nearly All States Are in Expansion Mode

Comparison to Prior Month—Latest: March 2012 Compared to February 2012



The chart shows the number of states for which the one-month change in the coincidence index of economic activity indicates an expansion. This index summarizes the state of the economy in a single statistic, using nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (US city average). Frequency of observation: monthly; latest observation: March 2012; does not include District of Columbia. Source: FRB of Philadelphia, www.philadelphiafed.org/research-and-data/regional-economy/indices/coincident

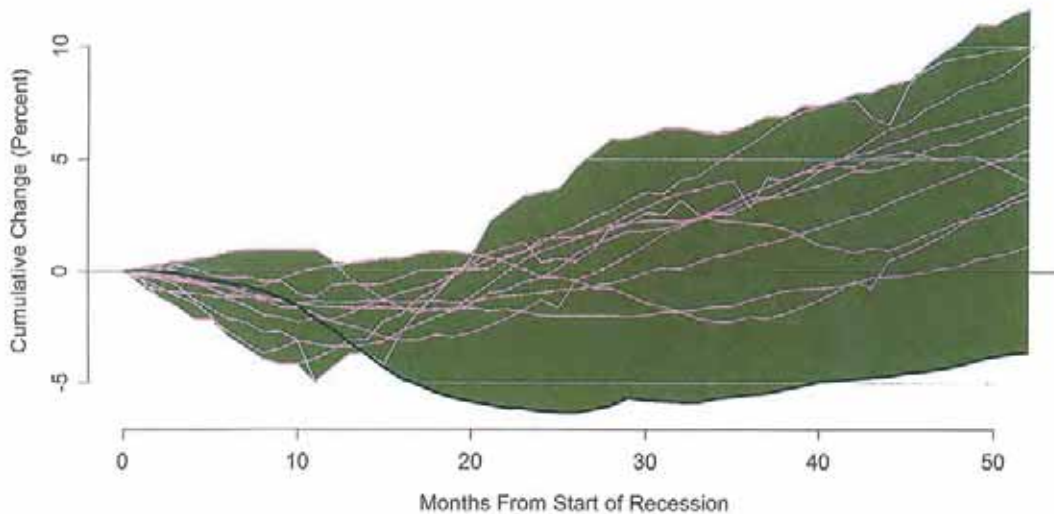
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There Is Plenty of Lost Ground to Recover

Nonfarm Employment Is Still Below the Pre-recession Level



— 2007 Recession — Other Recessions

2007 Recession compared with recessions since 1948
Nonfarm Employment, seasonally adjusted
Frequency of observation: monthly; latest available data point: April 2012
Sources: US Bureau of Labor Statistics (BLS), www.bls.gov; NBER, www.nber.org/cycles.html

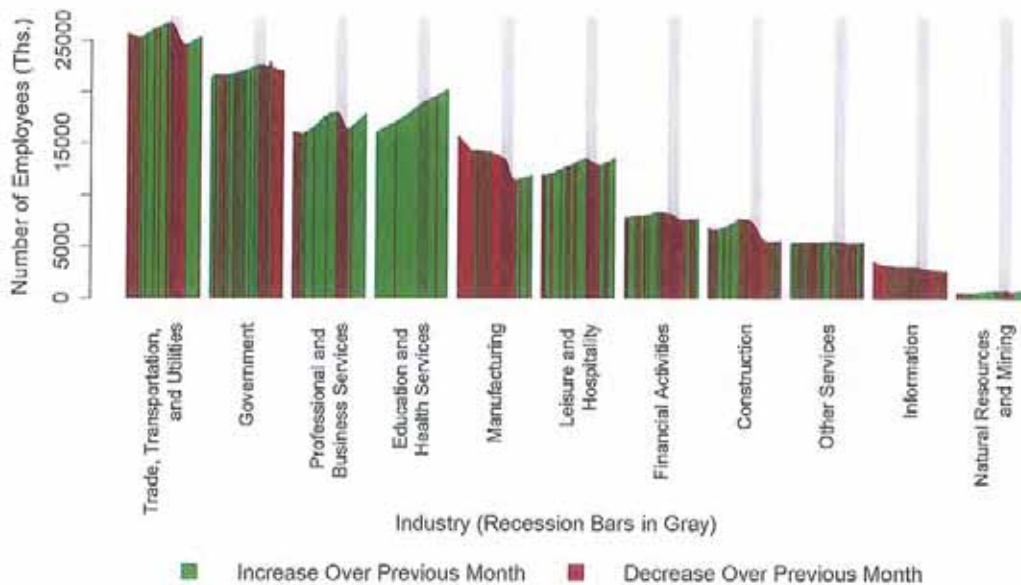
80

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The Industrial Structure Is Changing

Healthcare Employment Keeps Expanding Unabated



Nonfarm Employment, seasonally adjusted
 Monthly employment shown for the period November 2001 through April 2012
 Sources: FRED, www.research.stlouisfed.org/fred2; US Bureau of Labor Statistics (BLS), www.bls.gov

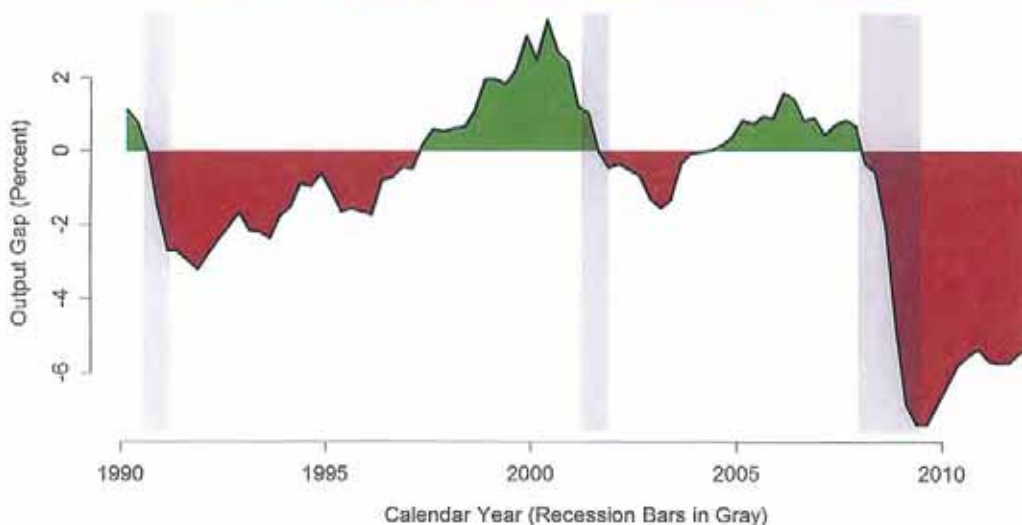
81

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The Economy Has Ample Excess Capacity

Excess Capacity Restrains Inflationary Pressure



The output gap is defined as the percentage difference between Real GDP (billions of chained 2005 dollars, seasonally adjusted) and Potential Real GDP (billions of chained 2005 dollars)

Frequency of observation: quarterly; latest available data point: Q1/2012
 Sources: FRED, www.research.stlouisfed.org/fred2; Bureau of Economic Analysis (BEA), www.bea.gov

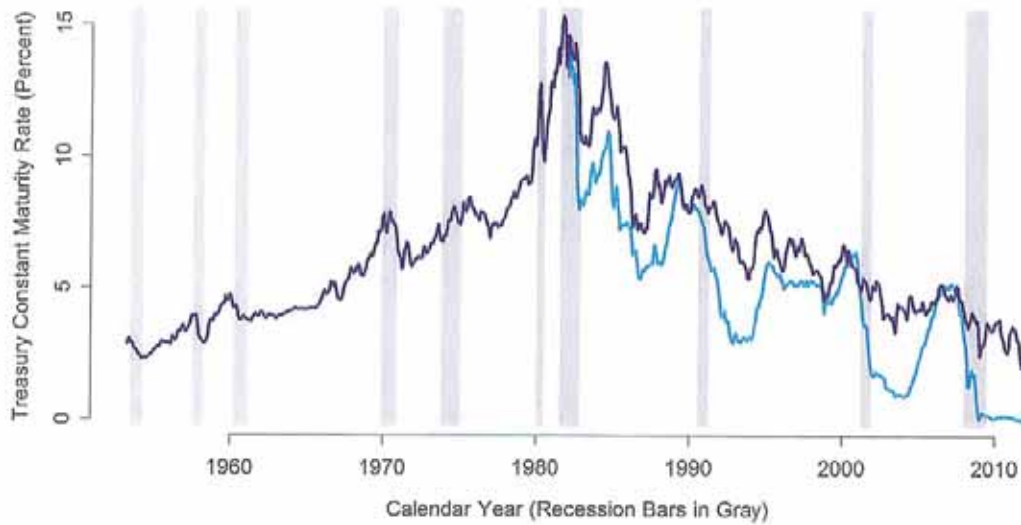
82

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Interest Rates Are at Historic Lows

The Fed Has Pledged to Keep Short-Term Interest Rates Low at Least Through Late 2014



Frequency of observation: monthly; latest available data point: April 2012

Source: Board of Governors of the Federal Reserve System (www.federalreserve.gov/releases/h15/current).

The Federal Reserve announced its commitment to maintain low short-term interest rates "at least through late 2014" on Wednesday, January 25, 2012, www.federalreserve.gov/newsevents/press/monetary/20120125a.htm

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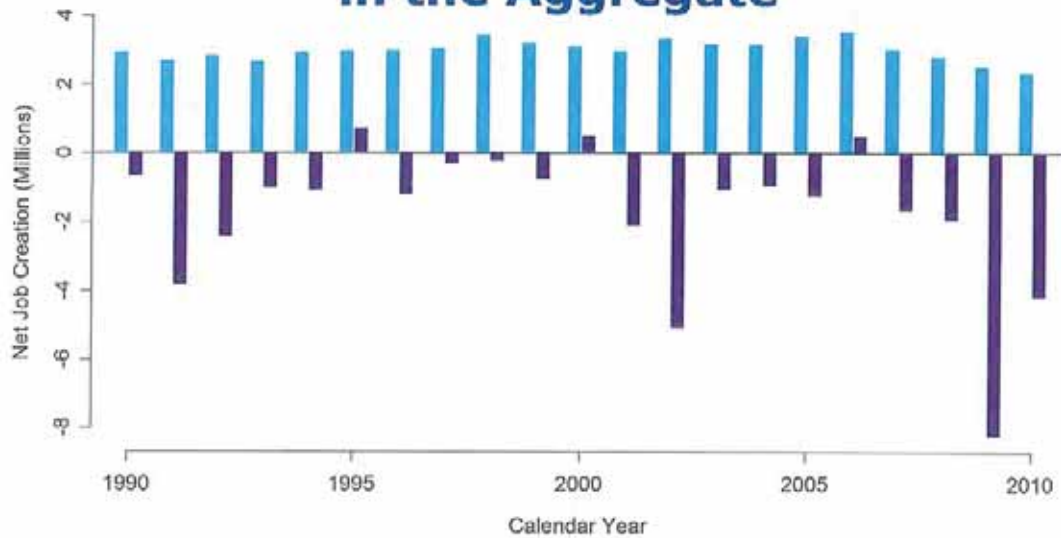
Job Creation

Which Companies Create Jobs—
The Small or the Young?

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Start-Ups Create Jobs, Whereas Established Companies Scale Back Jobs, in the Aggregate



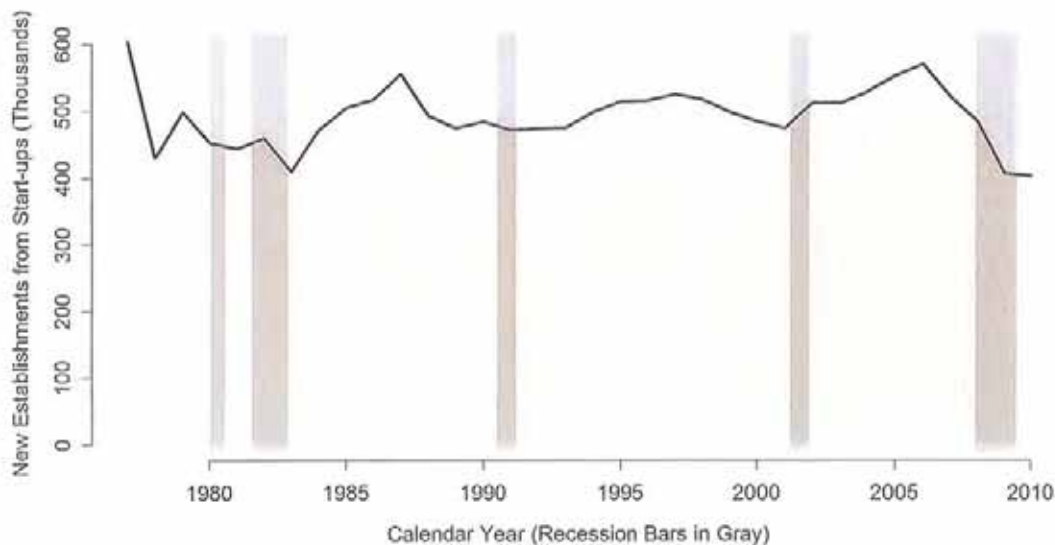
Start-ups are defined as job creation from establishments with a firm age less than a year; a firm may comprise multiple establishments
 Frequency of observation: annual; latest available data point: 2010
 Source: Business Dynamics Statistics (www.census.gov)

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Entrepreneurship Is Slowing Business Births in Thousands



Annual values are a count of establishments born within the year; a firm may comprise multiple establishments
 Frequency of observation: annual; latest available data point: 2010
 Source: Business Dynamics Statistics (www.census.gov)

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Implications for Workers Compensation

Low and Stable Rates of Economic Growth, Inflation, and Interest

- Economic growth is slow and is likely to remain sub-par for several more years
 - Job creation is tepid (and is likely to remain so)
 - As a consequence, upward pressure on claim frequency is limited
- Inflationary forces are weak, due to significant excess capacity
 - Wage inflation and price inflation for medical services are likely to be muted

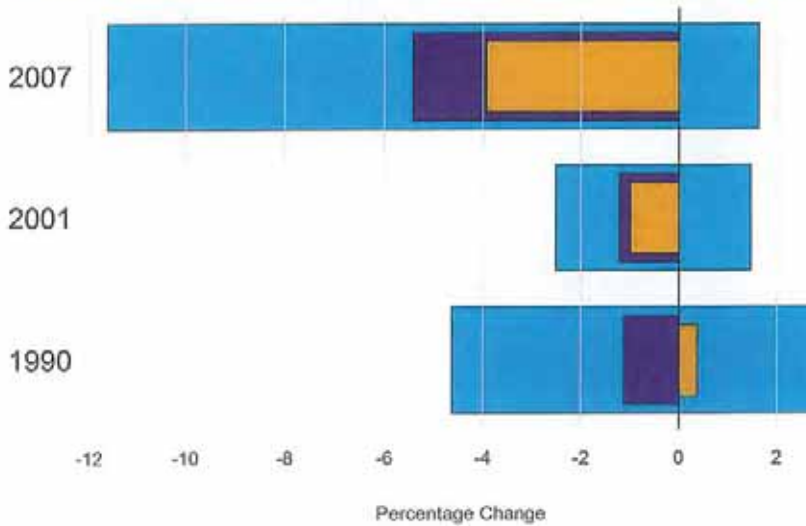


Arkansas

The Economic Environment Is Slightly More Favorable Than Average

Arkansas

Employment in the Past Three Recessions Fared Better Than Average



■ Range of U.S. States
 ■ United States
 ■ Arkansas

Percentage change from the onset of the recession (peak of economic activity, as defined by the NBER) to the onset of the recovery (trough of economic activity); Current Employment Statistics Survey, seasonally adjusted
 Frequency of observation: monthly; range of US states includes District of Columbia
 Source: US Bureau of Labor Statistics (BLS), www.bls.gov/ces

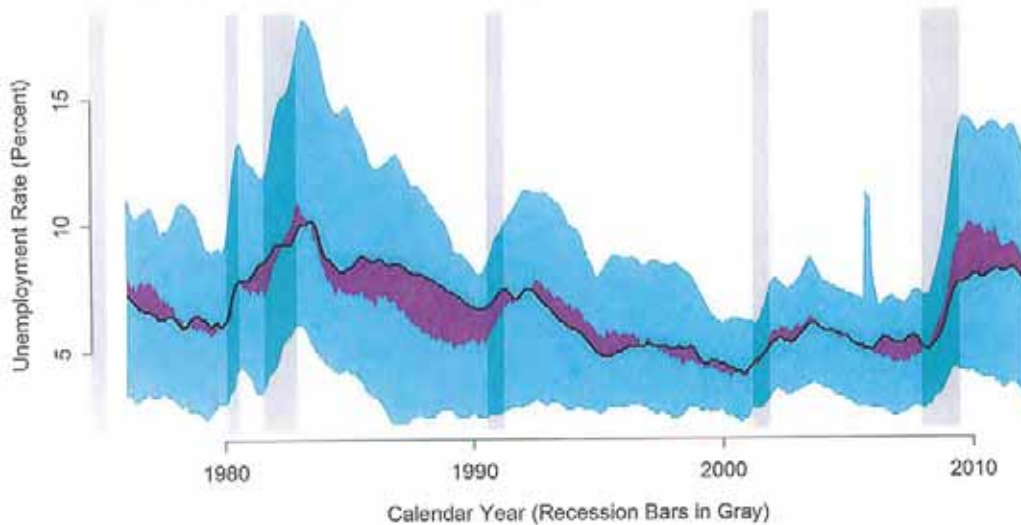
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Arkansas

The Unemployment Rate Is Below the National Average



— Arkansas
 ■ Gap to U.S.
 ■ Range of U.S. States

Unemployment rate, seasonally adjusted; range of US states includes District of Columbia
 Frequency of observation: monthly; latest available data point: April 2012
 Source: US Bureau of Labor Statistics (BLS), www.bls.gov

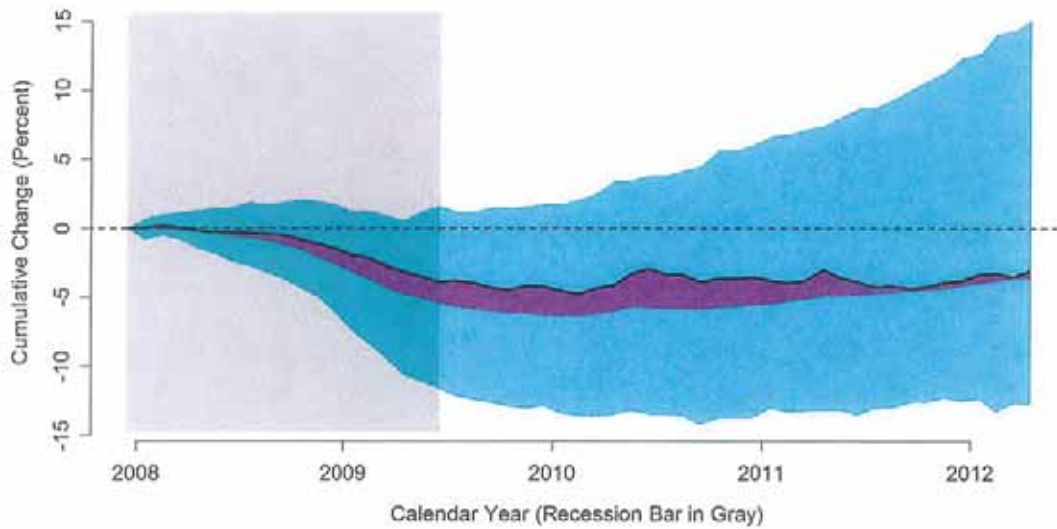
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Arkansas

Employment Is Still Considerably Below the Prerecession Level



— Arkansas ■ Gap to U.S. ■ Range of U.S. States

Nonfarm Employment, seasonally adjusted
 Frequency of observation: monthly; latest available data point: April 2012
 Range of US states includes District of Columbia
 Tick marks indicate beginning of year
 Source: US Bureau of Labor Statistics (BLS), www.bls.gov

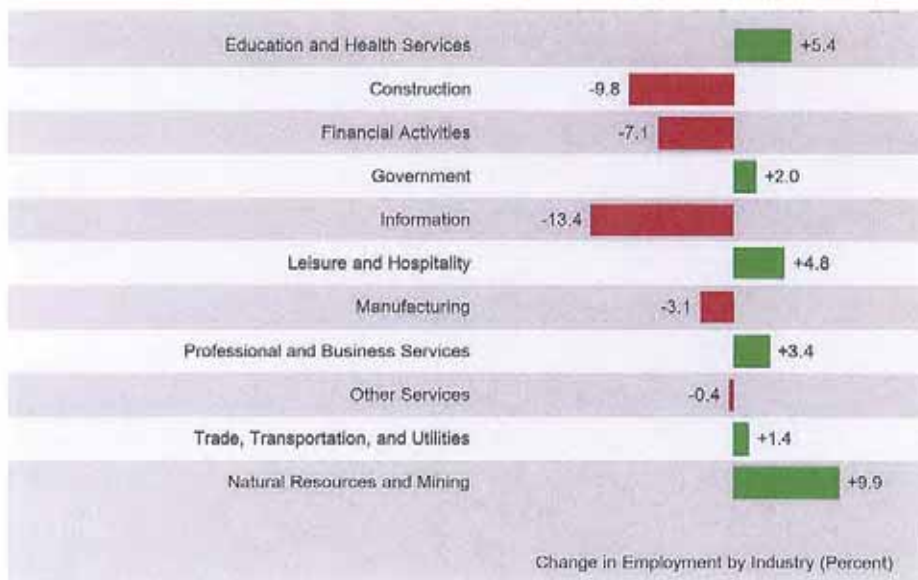
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Arkansas

Several Sectors Have Added Jobs Since the Onset of the Recovery



Percentage change since the onset of the recovery (trough of economic activity, June 2009); Current Employment Statistics Survey, seasonally adjusted
 Frequency of observation: monthly; latest observed data point: April 2012
 Source: US Bureau of Labor Statistics (BLS), www.bls.gov/ces

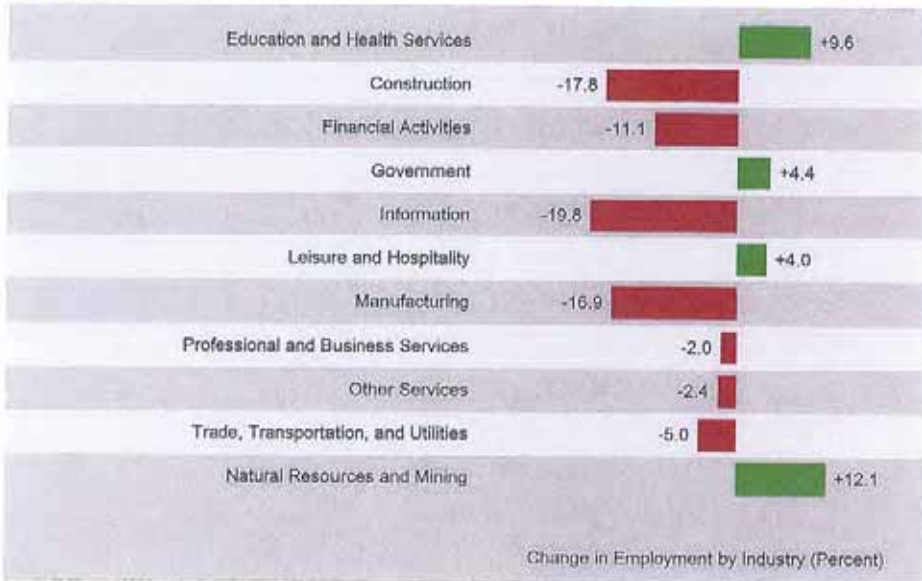
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Arkansas

Employment Has Yet to Recover From the Recession in Most Industries



Percentage change since the onset of the recession (peak of economic activity, December 2007); Current Employment Statistics Survey, seasonally adjusted
 Frequency of observation: monthly; latest observed data point: April 2012
 Source: US Bureau of Labor Statistics (BLS), www.bls.gov/ces

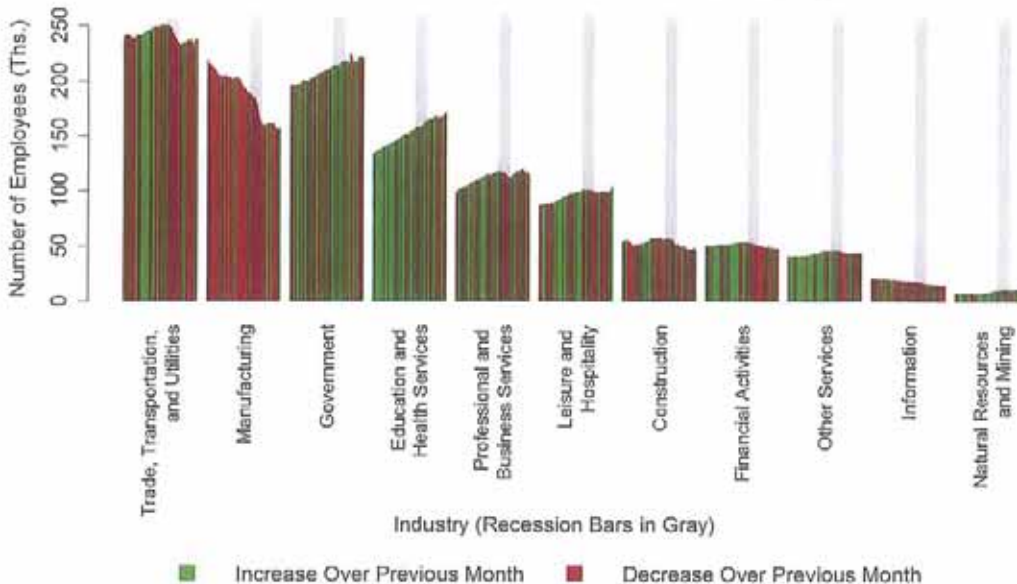
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Arkansas

The Industrial Structure Is Changing



Nonfarm Employment, seasonally adjusted
 Monthly employment shown for the period November 2001 through April 2012
 Sources: US Bureau of Labor Statistics (BLS), www.bls.gov; Moody's Economy.com

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Item B-1425: Employers Liability— Increased Limits Percentages

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Employers Liability— Increased Limits Percentages

- Part Two of a workers compensation policy provides employers liability (EL) coverage
- A provision for a basic amount of coverage (\$100,000) is already contained within the loss costs; employers have the option to purchase higher limits of coverage
- The EL increased limits percentages are applied to price such additional coverage
- NCCI reviewed and recently updated these percentages
- Effective January 1, 2013, Item B-1425 contains the revisions to the increased limits percentages

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Highlights of Item Filing B-1425

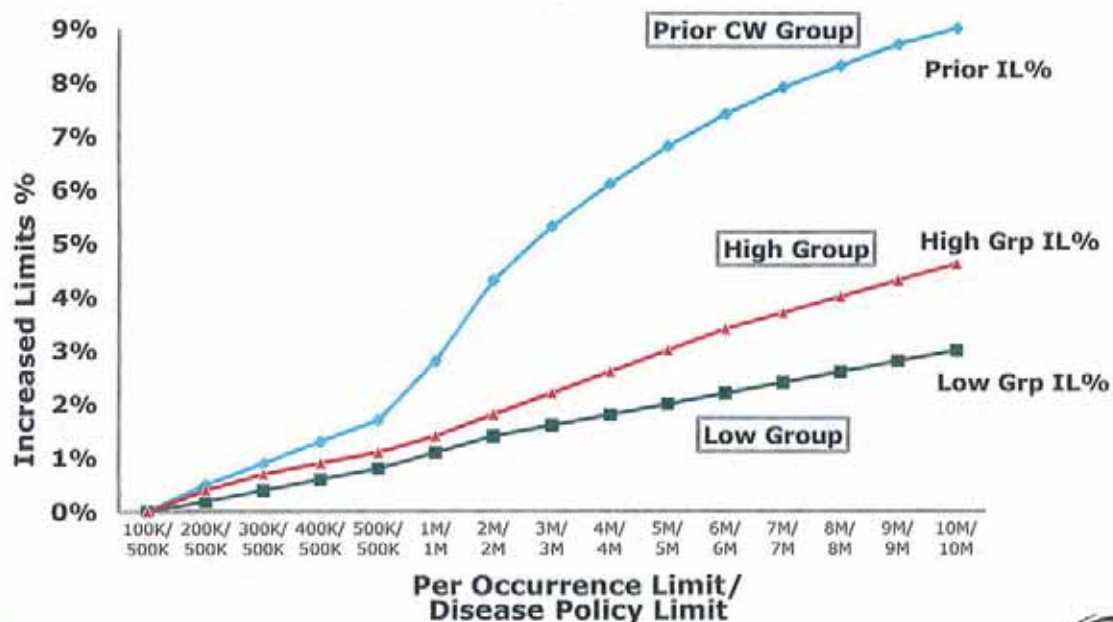
- B-1425 was filed in all NCCI states (excluding Texas) and also in Indiana and North Carolina
- 33 NCCI states and Wisconsin have approved Item B-1425 to date
- EL results vary significantly by state
- NCCI created and filed two tables of increased limits percentages; the basic limit remains at \$100K
- NCCI assigned seven states to a higher table of values: Alabama, Florida, Illinois, Louisiana, Oklahoma, Tennessee, and West Virginia
- Arkansas and the remaining 29 states are assigned to the lower table of values

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Comparison of Increased Limits Percentages (IL%)

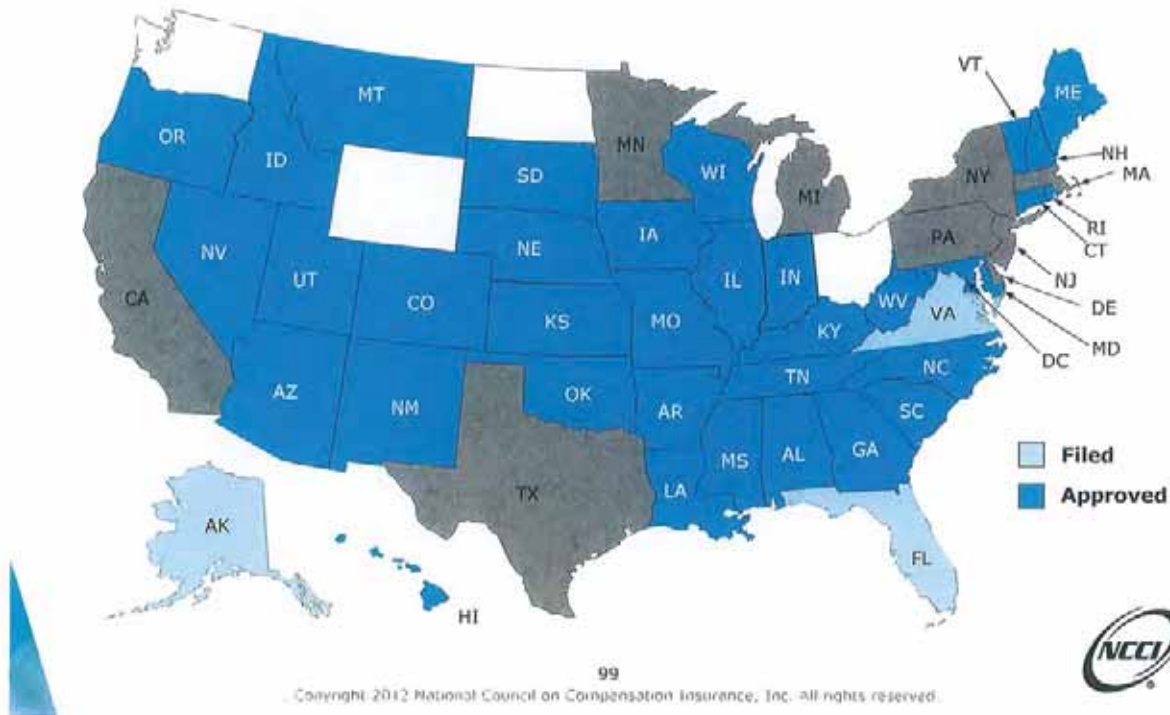


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Adoption of Employers Liability Increased Limits Percentages



In Summary ... Employers Liability Increased Limits Percentages

- The increased limits percentages have decreased
- NCCI will make rates/loss costs adjustments to the overall indication in states that approve Item B-1425
- **This will be premium-neutral by state**



Experience Rating Item E-1402: Changes to the Split Point

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Experience Rating Plan Item E-1402

- Effective 1/1/2013 and subsequent in NCCI states (7/1/2013 for Arkansas)
- Increases the primary/excess split point
- Indexes the split point so future increases are automatic
- Revises the maximum modification formula/cap so the maximum mod is not less than 1.10
- Experience rating changes will be premium-neutral statewide

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Experience Rating Plan Split Point Review

- The split point separates losses into primary and excess components; it is currently \$5,000
- If the split point is not indexed for claim cost "inflation," a greater portion of losses fall into the excess category as time goes on
- Since excess losses receive less weight than primary losses in the experience rating formula, **the Experience Rating Plan becomes less responsive**
- Performance testing indicates that the split point should be increased to \$15,000; this is not surprising since the average cost of a claim has tripled since the last split point update (20 years ago)

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Experience Rating Plan Item E-1402

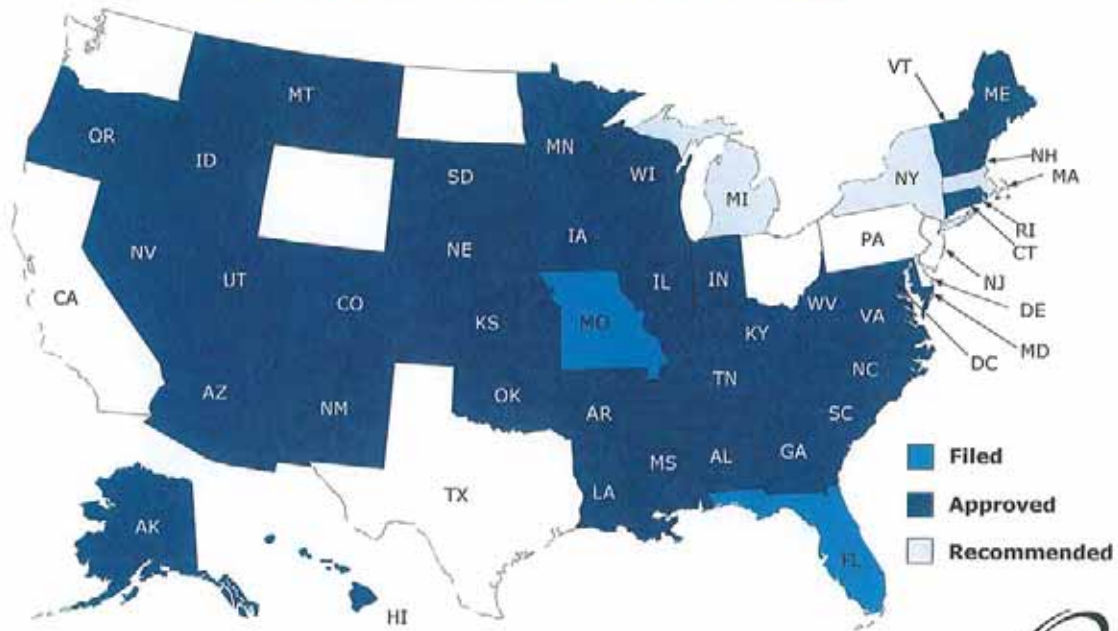
- The effective date coincides with the effective date of the loss cost or rate filing ... 7/1/yyyy for Arkansas
- A transition program will phase in the split point change:
 - On 7/1/2013, the split point will initially be increased to \$10K
 - On 7/1/2014, the split point will be further increased to \$13.5K
 - On 7/1/2015, the split point will be increased all the way to the indicated split point of \$15K plus two years of inflation adjustment (rounded to the nearest 500)
- Subsequent annual filings will increase the split point as indicated

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Experience Rating Plan Primary/Excess Split Point Value Filing



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Q & A

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Closing Remarks

Thank You!

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Glossary

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Glossary

- **Assigned Risk Adjustment Program (ARAP)**—An assigned risk market program that surcharges residual market risks based on the magnitude of their experience rating modification.
- **Calendar Year (CY)**—Experience of earned premium and loss transactions occurring within the calendar year beginning January 1, irrespective of the contractual dates of the policies to which the transactions relate and the dates of the accidents.
- **Calendar-Accident Year (AY)**—The accumulation of loss data on all accidents with the date of occurrence falling within a given calendar year. The premium figure is the same as that used in calendar year experience.
- **Claim Frequency**—The number of claims per unit of exposure; for example, the number of claims per million dollars of premium or per 100 workers.

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Glossary

- **Claim Severity**—The average cost of a claim. Severity is calculated by dividing total losses by the total number of claims.
- **Combined Ratio**—The sum of the (i) loss ratio, (ii) expense ratio, and (iii) dividend ratio for a given time period.
- **Detailed Claim Information (DCI)**—An NCCI Call that collects detailed information on an individual workers compensation lost-time claim basis, such as type of injury, whether or not an attorney was involved, timing of the claim's report to the carrier, etc.
- **Direct Written Premium (DWP)**—The gross premium income adjusted for additional or return premiums, but excluding any reinsurance premiums.

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Glossary

- **Indemnity Benefits**—Payments by an insurance company to cover an injured worker's time lost from work. These benefits are also referred to as "wage replacement" benefits.
- **Loss Ratio**—The ratio of losses to premium for a given time period.
- **Lost-Time (LT) Claims**—Claims resulting in indemnity benefits (and usually medical benefits) being paid to or on behalf of the injured worker for time lost from work.
- **Medical-Only Claims**—Claims resulting in only medical benefits being paid on behalf of an injured worker.
- **Net Written Premium (NWP)**—The gross premium income adjusted for additional or return premiums and including any additions for reinsurance assumed and any deductions for reinsurance ceded.



Glossary

- **Permanent Partial (PP)**—A disability that is permanent but does not involve a total inability to work. The specific definition and associated workers compensation benefits are defined by statute and vary by jurisdiction.
- **Policy Year (PY)**—The year of the effective date of the policy. Policy year financial results summarize experience for all policies with effective dates in a given calendar year period.
- **Schedule Rating**—A debit and credit plan that recognizes variations in the hazard-causing features of an individual risk.
- **Take-Out Credit Program**—An assigned risk program that encourages carriers to write current residual market risks in the competitive voluntary marketplace.
- **Temporary Total (TT)**—A disability that totally disables a worker for a temporary period of time.





Appendix

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NCCI Workers Compensation Resources

- Financial Aggregate Calls
 - Used for aggregate ratemaking
- ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)***
 - Used for class ratemaking
- Detailed Claim Information
 - In-depth sample of lost-time claims
- Policy Data
 - Policy declaration page information

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Financial Aggregate Calls

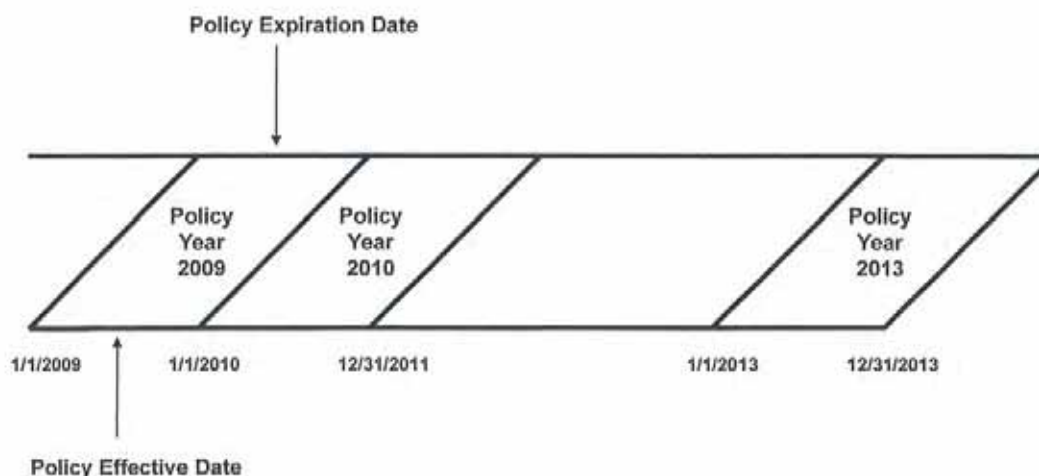
- Collected annually
 - Policy and calendar-accident year basis
 - Statewide and assigned risk data
- Premiums, losses, and claim counts
 - Evaluated as of December 31
- Purpose
 - Basis for overall aggregate rate indication
 - Research

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Policy Year Financial Aggregate Data

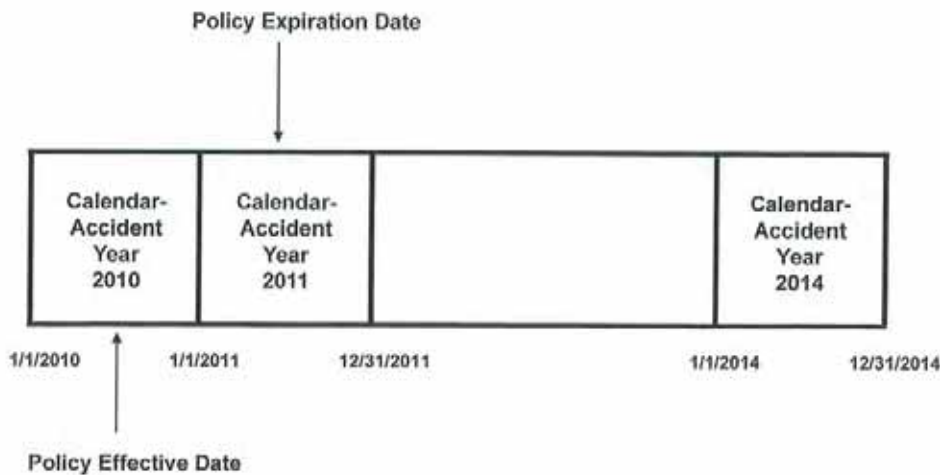


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Calendar-Accident Year Financial Aggregate Data



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Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan) Data

- Experience by policy detail
 - Exposure, premium, experience rating modifications
 - Individual claims by injury type
- Purposes
 - Classification relativities
 - Experience Rating Plan
 - Research

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Valuation of Statistical Plan Data



Arkansas Residual Market Second Quarter 2012 Status Report Data Reported as of July 16, 2012

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Executive Summary

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the Second Quarter 2012 Residual Market State Activity Report.

Readers will notice an update of the key measurement factors and issues relating to the operation of the Arkansas Plan. NCCI has enhanced our data reporting tools to provide a more accurate picture of what is happening in your state.

If you have any questions or comments about this report, please feel free to contact any of the individuals listed below.

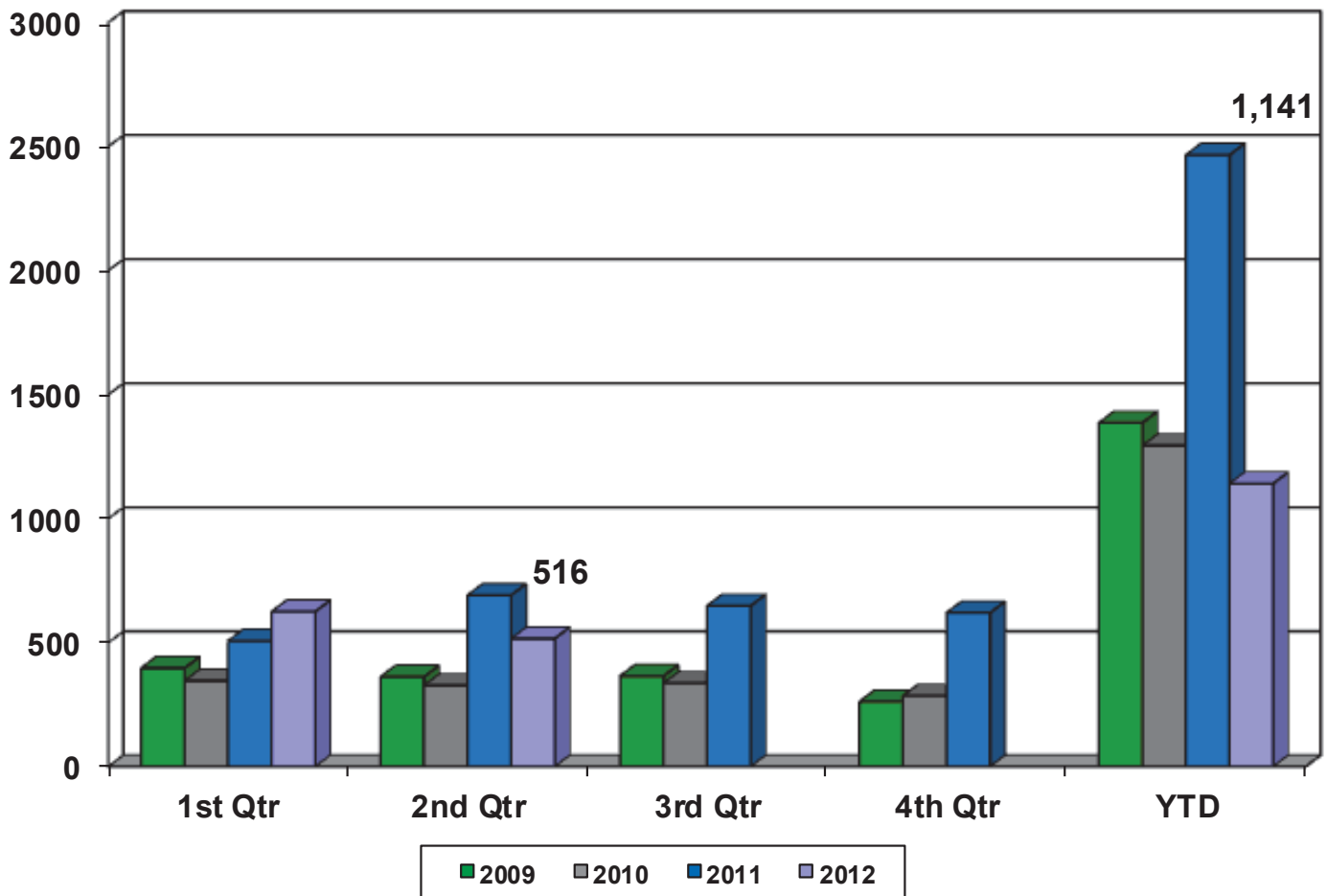
Terri Robinson, State Relations Executive
Chantel Weishaar, Technical Specialist

(314) 843-4001
(561) 893-3015

Residual Market Demographics – 2Q 2012

Arkansas Residual Market Total New Applications Bound 2009 vs. 2010 vs. 2011 vs. 2012

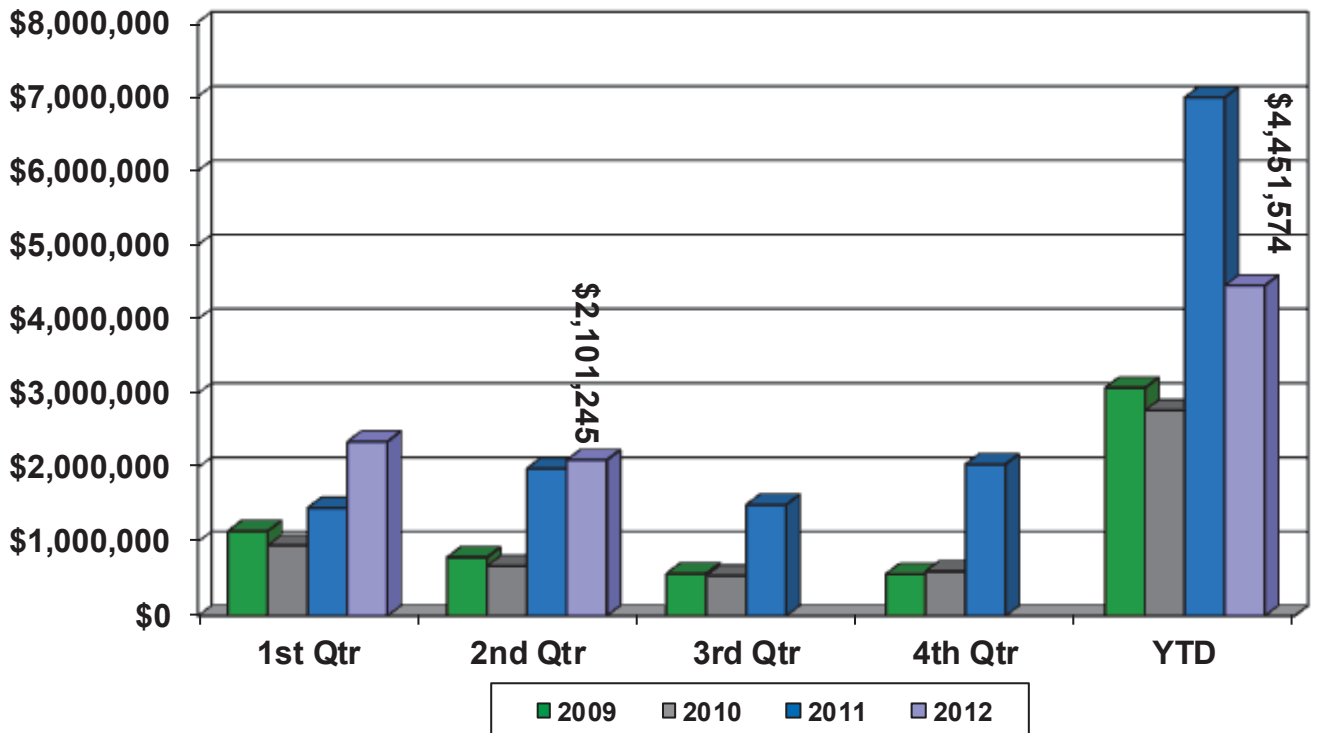
The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).



Residual Market Demographics – 2Q 2012

Arkansas Residual Market Total New Application Premium Bound 2009 vs. 2010 vs. 2011 vs. 2012

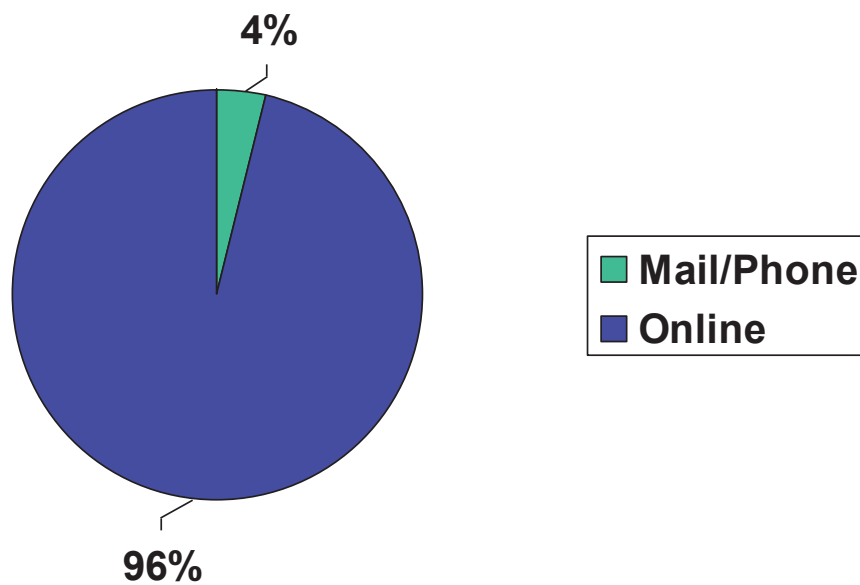
The total estimated premium on bound new applications assigned to as Servicing Carrier or Direct Assignment Carrier (if applicable).



Residual Market Demographics – 2Q 2012

Percentage of New Applications Received by Submission Format Data through June 30, 2012

The total percentage of new applications received via online, phone or mail formats.

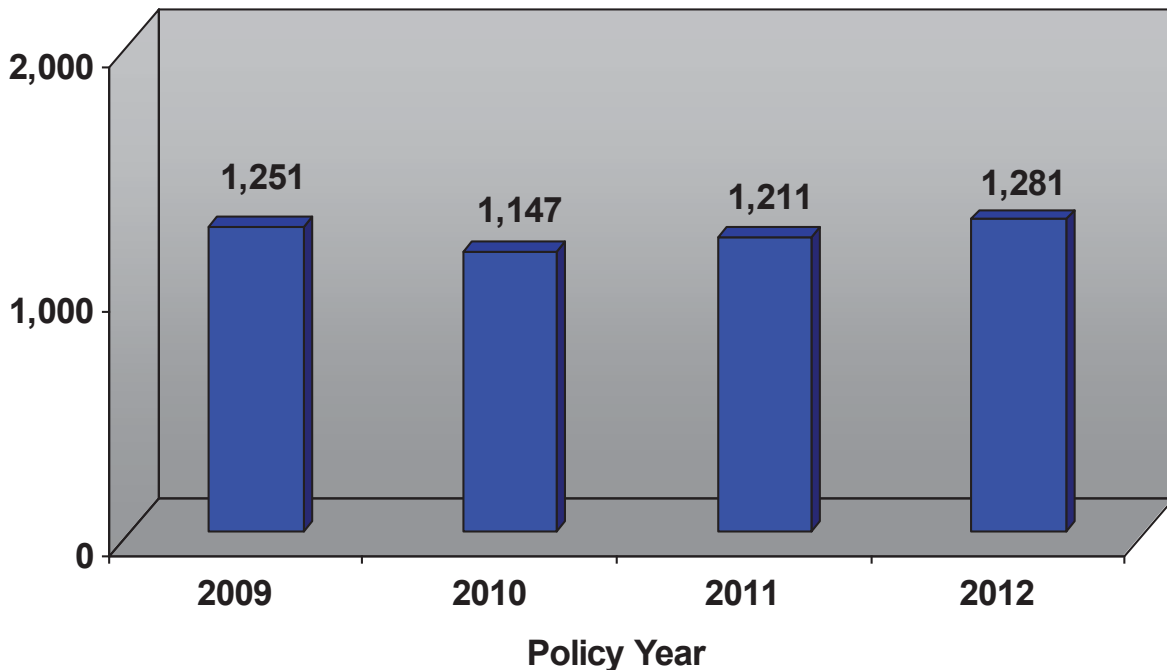


Residual Market Demographics – 2Q 2012

Residual Market Total Policy Counts

Second Quarter Data for Policies Reported through June 30, 2012

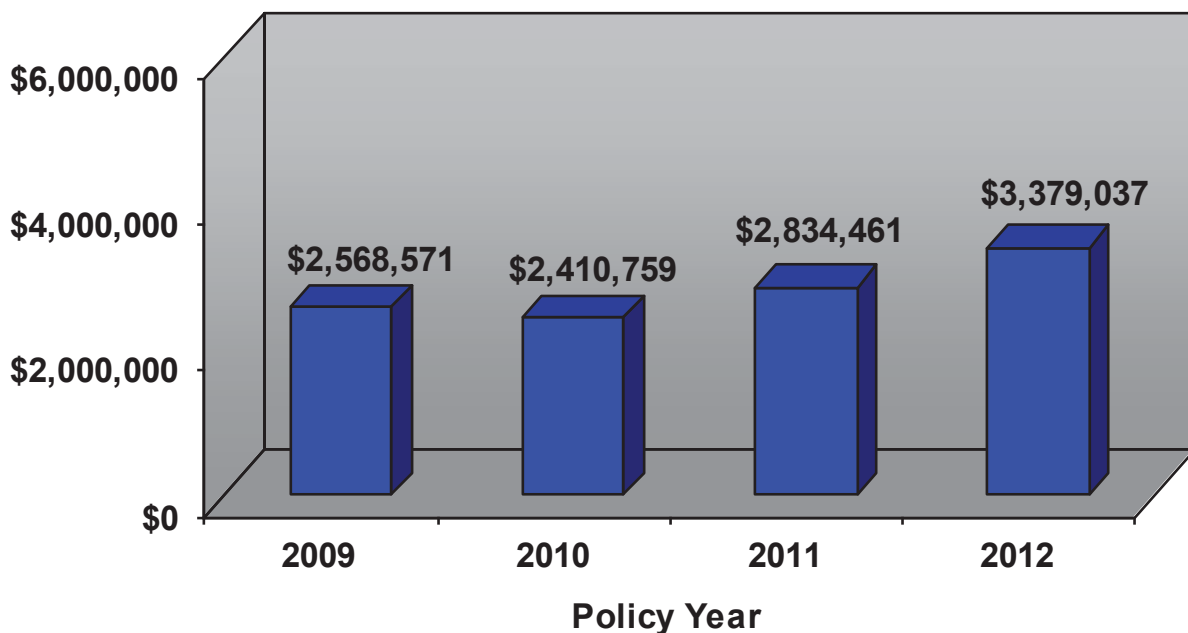
Total Number of all Assigned Risk Plan Policies effective during and reported as of the date listed above.



Residual Market Total Premium Volume

Second Quarter Data Reported through June 30, 2012

Total Amount of All Assigned Risk Plan Premium effective during and reported as of the date listed above.



Residual Market Demographics

Residual Market Total Policies and Premium in Force As of June 30, 2012 compared to prior year

This chart reflects the total number of policies and estimated premium in-force for this state as of the date shown above.

The other exhibits in this report describe quarterly and year-to-date data.

	2011	2012	2011 vs. 2012 #	2011 vs. 2012 %
Policy Count	4,295	5,143	848	19.7%
Premium Volume	\$9,878,371	\$15,577,324	\$5,698,953	57.7%

Residual Market Demographics – 2Q 2012

Residual Market Second Quarter 2012 Total Premium Distribution by Size of Risk Data Reported through June 30, 2012

The total number of assigned risk plan policies reported to NCCI by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0 - 2499	1,019	79.6%	\$886,589	26.2%	\$870
\$2500 - 4999	115	9.0%	\$399,995	11.8%	\$3,478
\$5000 - 9999	83	6.5%	\$583,158	17.3%	\$7,026
\$10000 - 19999	40	3.1%	\$565,370	16.7%	\$14,134
\$20000 - 49999	19	1.5%	\$485,350	14.4%	\$25,544
\$50000 - 99999	3	0.2%	\$198,747	5.9%	\$66,249
\$100000 - 199999	2	0.2%	\$259,828	7.7%	\$129,914
\$200000 +	0	0.0%	\$0	0.0%	\$0
Total	1,281	100.0%	\$3,379,037	100.0%	\$2,638

Residual Market Total Premium Distribution by Size of Risk Second Quarter 2011 Data for Comparison

The total number of assigned risk plan policies reported to NCCI by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0 - 2499	1,011	83.5%	\$862,837	30.4%	\$853
\$2500 - 4999	117	9.7%	\$414,387	14.6%	\$3,541
\$5000 - 9999	45	3.7%	\$313,692	11.1%	\$6,970
\$10000 - 19999	26	2.2%	\$355,012	12.5%	\$13,654
\$20000 - 49999	9	0.7%	\$251,626	8.9%	\$27,958
\$50000 - 99999	0	0.0%	\$0	0.0%	\$0
\$100000 - 199999	1	0.1%	\$174,132	6.1%	\$174,132
\$200000 +	2	0.2%	\$462,775	16.3%	\$231,387
Total	1,211	100.0%	\$2,834,461	100.0%	\$2,341

Residual Market Demographics – 2Q 2012

Residual Market Top 10 Classification Codes by Policy Count Data Reported through June 30, 2012

The top ten governing class codes by total policy count - policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Policy Count	% of Policies
1	5645	Carpentry Construction Of Residential Dwellings Not Exceeding Three Stories In Height	277	21.6%
2	5551	Roofing-All Kinds & Drivers	62	4.8%
3	8810	Clerical Office Employees NOC	37	2.9%
4	5474	Painting NOC & Shop Operations Drivers	34	2.7%
5	5022	Masonry NOC	33	2.6%
6	6217	Excavation & Drivers	32	2.5%
7	5437	Carpentry-Installation Of Cabinet Work Or Interior Trim	30	2.3%
8	5183	Plumbing NOC & Drivers	30	2.3%
9	5403	Carpentry NOC	29	2.3%
10	7228	Trucking-Local Hauling Only-& Drivers	28	2.2%

Residual Market Top 10 Classification Codes by Premium Volume Data Reported through June 30, 2012

The top ten governing class codes by premium volume written on total policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Premium	% of Premium
1	5645	Carpentry Construction Of Residential Dwellings Not Exceeding Three Stories In Height	\$368,889	10.9%
2	5551	Roofing-all Kinds & Drivers	\$247,077	7.3%
3	8380	Automobile Service Or Repair Center & Drivers	\$125,965	3.7%
4	3028	Pipe Or Tube Mfg.-Iron Or Steel-& Drivers	\$110,729	3.3%
5	7228	Trucking-Local Hauling Only-& Drivers	\$96,716	2.9%
6	8832	Physician & Clerical	\$90,911	2.7%
7	1320	Oil Or Gas Lease Operator-All Operations & Drivers	\$80,774	2.4%
8	3030	Iron Or Steel: Fabrication: Iron Or Steel Works-shop-Structural-& Drivers	\$70,467	2.1%
9	6217	Excavation & Drivers	\$67,888	2.0%
10	5606	Contractor - Project Manager Construction Executive Construction Manager	\$63,455	1.9%

Residual Market Demographics

Voluntary Coverage Assistance Program - Arkansas

*The volume of assigned risk applications redirected to the voluntary market through NCCI's **VCAP® Service**. The following shows the results **VCAP® Service** has provided during Second Quarter 2012.*

Date Ranges:	04/01/2012-06/30/2012
Number of Applications Reviewed by VCAP® Service	523
Associated Premium for Applications Reviewed	\$2,150,352.47
Number of VCAP® Service Matches	62
VCAP® Service Matches as a % of Applications Reviewed	11.85%
Number of VCAP® Service Offers	5
VCAP® Service Offers as a % of Matches	8.06%
Number of Confirmed VCAP® Service Policies	5
Confirmed VCAP® Service Policies as a % of Applications Reviewed	0.96%
Redirected Assigned Risk Premium	\$16,178.96
Associated Voluntary Market Premium	\$10,106.00
Savings	\$6,072.96
Average Savings per Application	\$1,214.59
Savings as a % of Redirected Assigned Risk Premium	37.54%
Redirected Premium as a % of Associated Premium for Applications Reviewed by VCAP® Service	0.75%

Residual Market Demographics

Collections/Indemnification

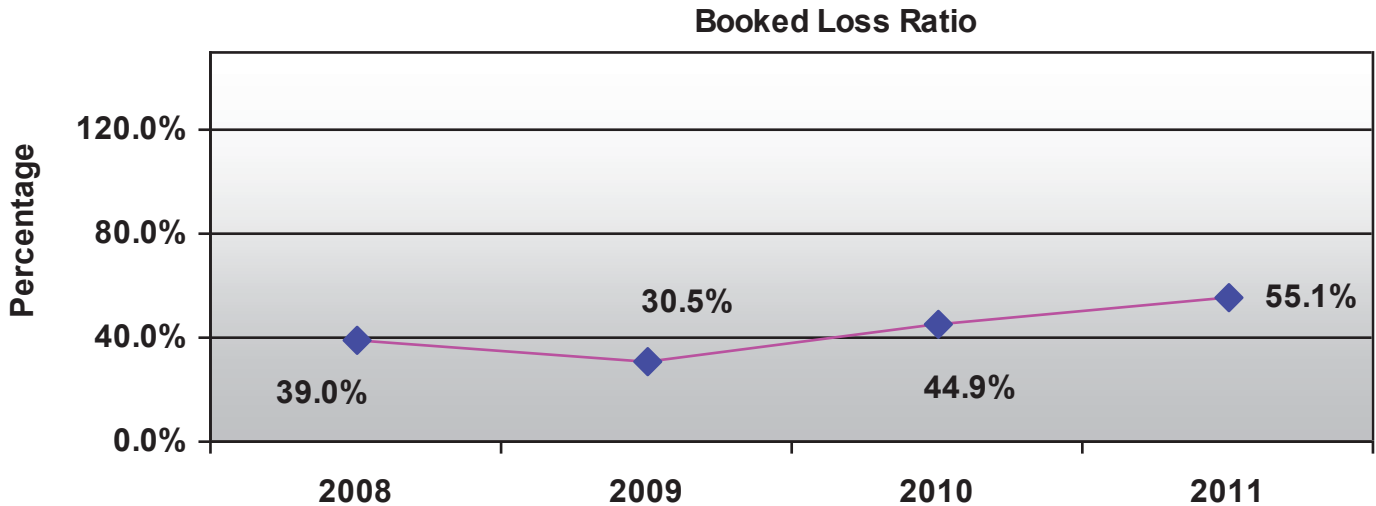
The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas and the National Pool for Policy Years 2008-2012, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through First Quarter 2012.

Arkansas	Gross Written Premium	Uncollectible Premium	Percentage
2008	\$13,761,752	\$1,027,689	7.5%
2009	\$11,283,290	\$793,241	7.0%
2010	\$10,863,467	\$469,405	4.3%
2011	\$12,994,344	\$67,990	0.5%
2012	\$3,357,568	\$0	0.0%
National Pool 2012	\$94,356,014	\$0	0.0%

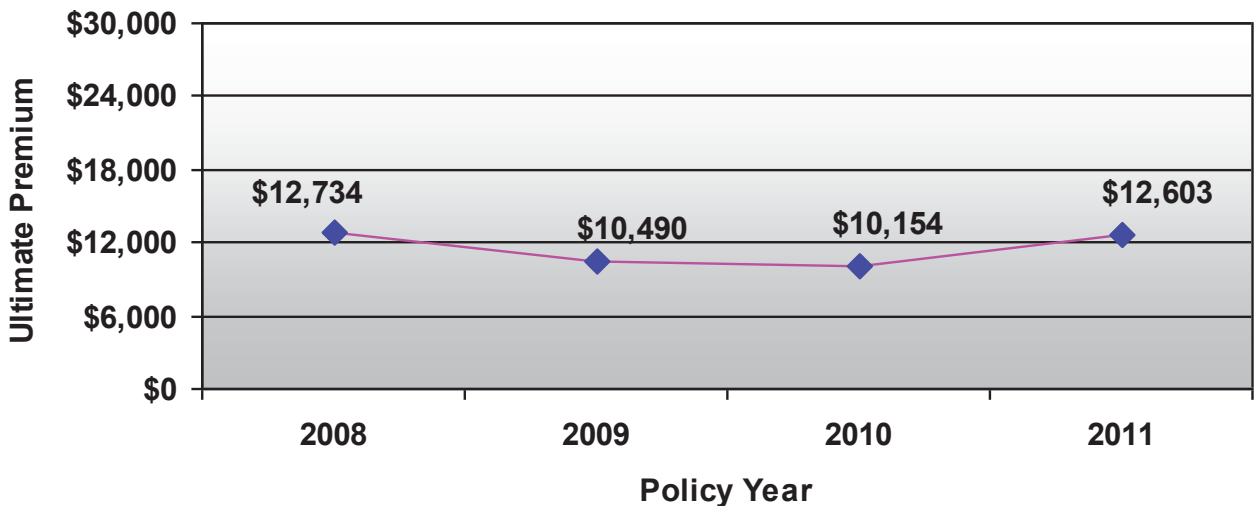
The uncollectible premiums provided are reported by the servicing carriers on a quarterly basis. Uncollectible premium is generally reported up to 24 months after the policy expiration date due to audit, billing, and collection requirements. Therefore, the most recent year data has not yet developed.

Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Booked Loss Ratio
Policy Year Financial Results through 1st Quarter 2012 for 2011 and prior years
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .



Arkansas Residual Market Reinsurance Pool Ultimate Net Written Premium
(Projected to Ultimate) (000's)
Policy Year Financial Results through 1st Quarter 2012 for 2011 and prior years*
The premium charged by an insurance company for the period of time and coverage provided by an insurance contract in this state.



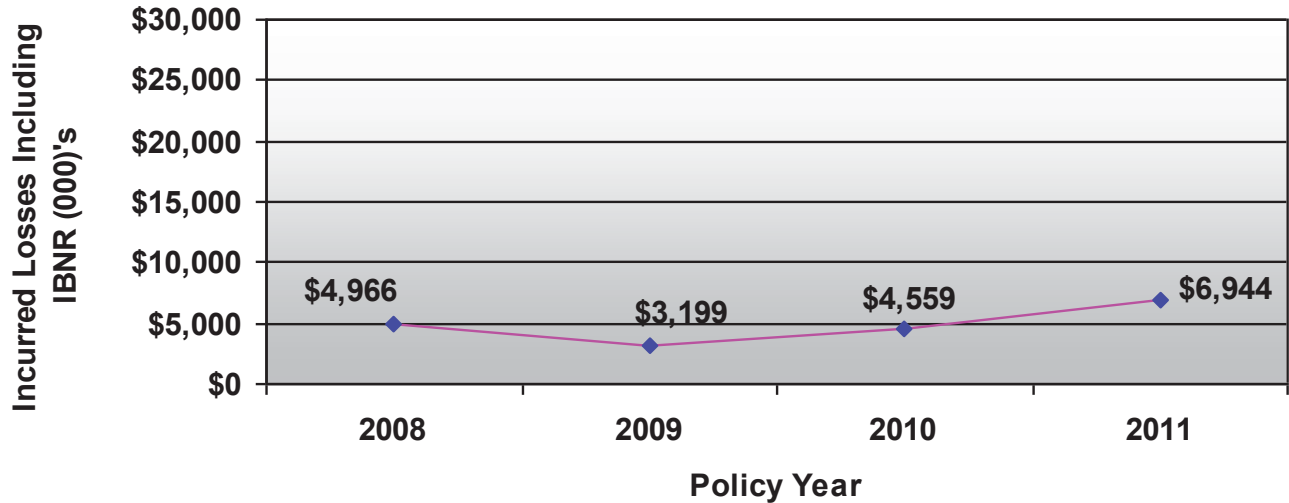
*-Second Quarter 2012 Data will be available the end of October 2012 due to the timing of data reporting

Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Incurred Losses

Policy Year Financial Results through 1st Quarter 2012 for 2011 and prior years*

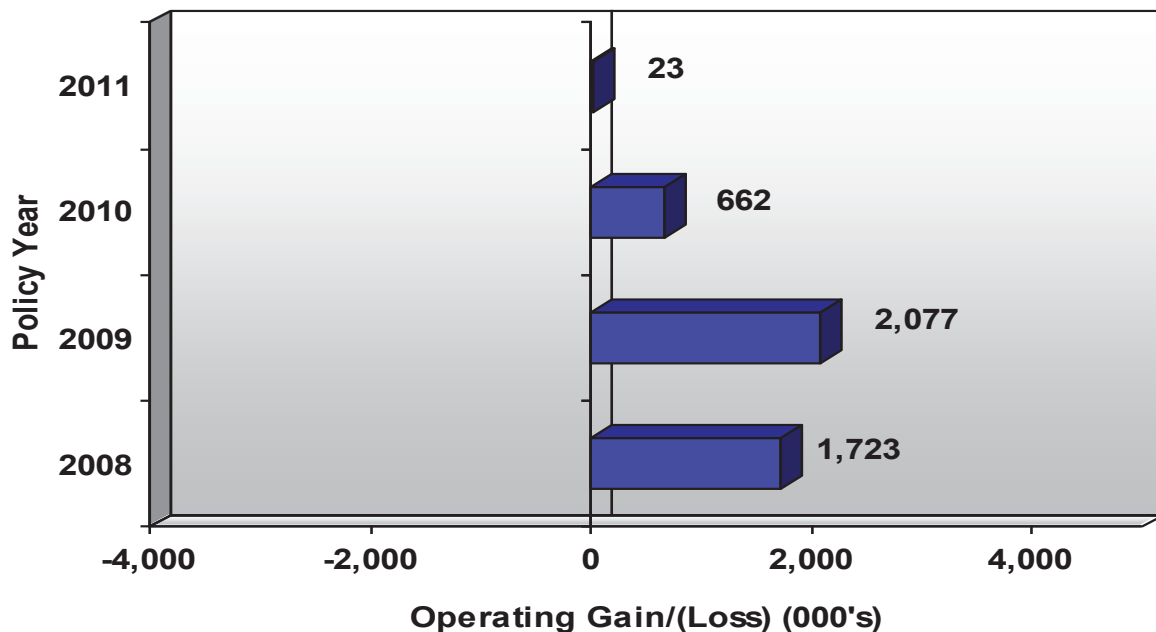
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Estimated Net Operating Gain/(Loss) (000)'s

Policy Year Financial Results through 1st Quarter 2012 for 2011 and prior years*

The financial statement presentation that reflects the excess of earned premium over incurred losses, less all operating expenses, plus all investment income in that state.



*- Second Quarter 2012 Data will be available the end of October 2012 due to the timing of data reporting

Glossary of Terms

Combined Ratio-The combined loss ratio, expense ratio and dividend ratio, expressed as a sum for a given period. The formula for combined ratio is [(loss + loss adjustment expense)/earned premium] + [underwriting expenses/written premium].

EBNR (Earned But Not Reported) Premium Reserve-A projection of additional premium that is expected to be uncovered after auditing at the end of the policy.

Earned Premium or Premiums

Earned-That portion of written premiums applicable to the expired portion of the time for which the insurance was in effect. When used as an accounting term, "premiums earned" describes the premiums written during a period plus the unearned premiums at the beginning of the period less the unearned premiums at the end of the period.

Incurred But Not Reported (IBNR)-Pertaining to losses where the events which will result in a loss, and eventually a claim, have occurred, but have not yet been reported to the insurance company. The term may also include "bulk" reserves for estimated future development of case reserves.

Underwriting Gain/(Loss)-The financial statement presentation that reflects the excess of earned premium over incurred losses.

Applications Bound-The applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).

Premium Bound-The total estimated annual premium on bound applications.



State of the Line

Dennis Mealy, FCAS, MAAA
NCCI Chief Actuary

May 10, 2012
Orlando, Florida



- I. Property/Casualty Results**
- II. Workers Compensation Results**
- III. Current Topics of Interest**
- IV. Concluding Remarks**



Property/Casualty Results

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P/C Industry Net Written Premium Increases

Private Carriers

Line of Business (LOB)	2009 (\$Billions)	2010 (\$Billions)	2011p (\$Billions)	2010– 2011p Change (%)
Personal Auto	\$ 157.4	\$ 160.3	\$ 162.9	1.6%
Homeowners	\$ 57.7	\$ 61.3	\$ 63.4	3.4%
Other Liability (Incl Prod Liab)	\$ 39.3	\$ 38.5	\$ 39.3	2.0%
Workers Compensation	\$ 30.3	\$ 29.9	\$ 32.2	7.9%
Commercial Multiple Peril	\$ 28.8	\$ 28.8	\$ 29.9	3.5%
Fire & Allied Lines (Incl EQ)	\$ 23.1	\$ 22.7	\$ 25.0	10.1%
Commercial Auto	\$ 21.9	\$ 21.1	\$ 21.0	-0.6%
All Other Lines	\$ 59.8	\$ 61.2	\$ 64.0	4.6%
Total P/C Industry	\$ 418.4	\$ 423.8	\$ 437.6	3.3%

p Preliminary

Source: LOB, Annual Statement Data
Workers compensation, NCCI; Total P/C Industry, ISO

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P/C Underwriting Results Worse Due to Catastrophes

Net Combined Ratio—Private Carriers

Line of Business (LOB)	Calendar Year		
	2009	2010	2011p
Personal Auto	101%	101%	102%
Homeowners	106%	107%	122%
Other Liability (Incl Prod Liab)	104%	110%	100%
Workers Compensation	110%	115%	115%
Commercial Multiple Peril	97%	101%	113%
Fire & Allied Lines (Incl EQ)	81%	83%	102%
Commercial Auto	98%	98%	103%
All Other Lines	95%	101%	108%
Total P/C Industry	101%	102%	108%

p Preliminary

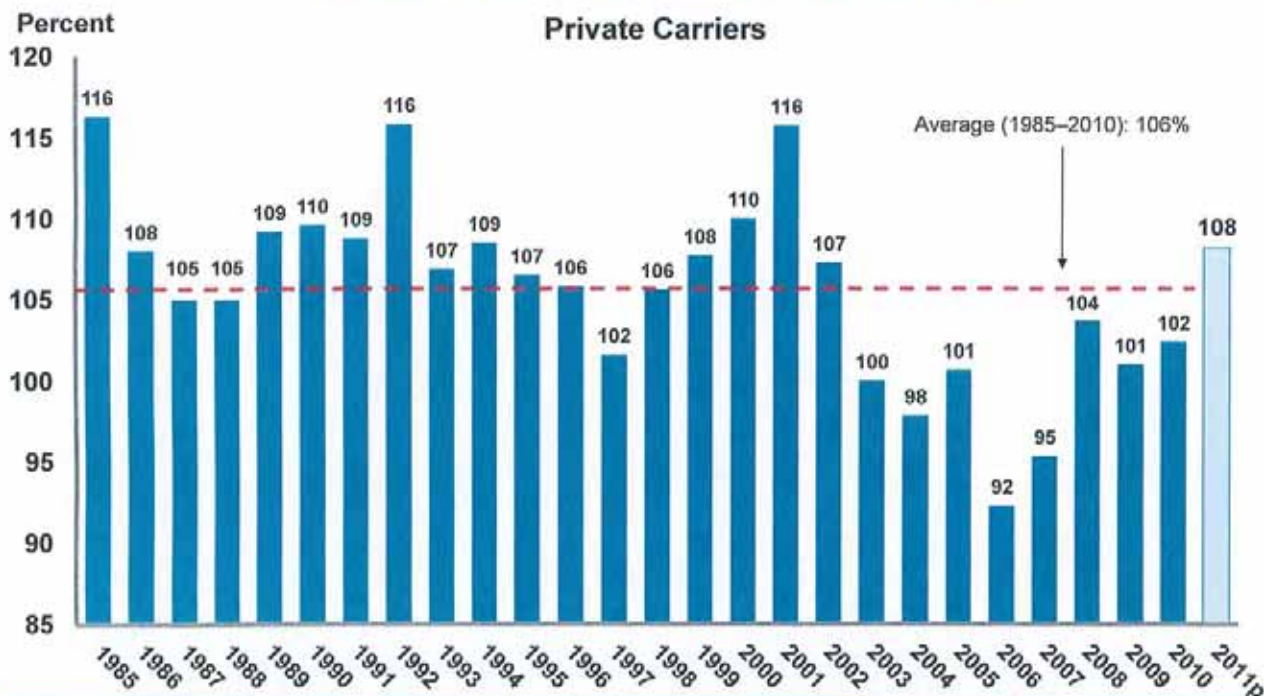
Source: LOB, Annual Statement Data
Workers compensation, NCCI, Total P/C Industry, ISO

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P/C Industry Calendar Year Net Combined Ratios



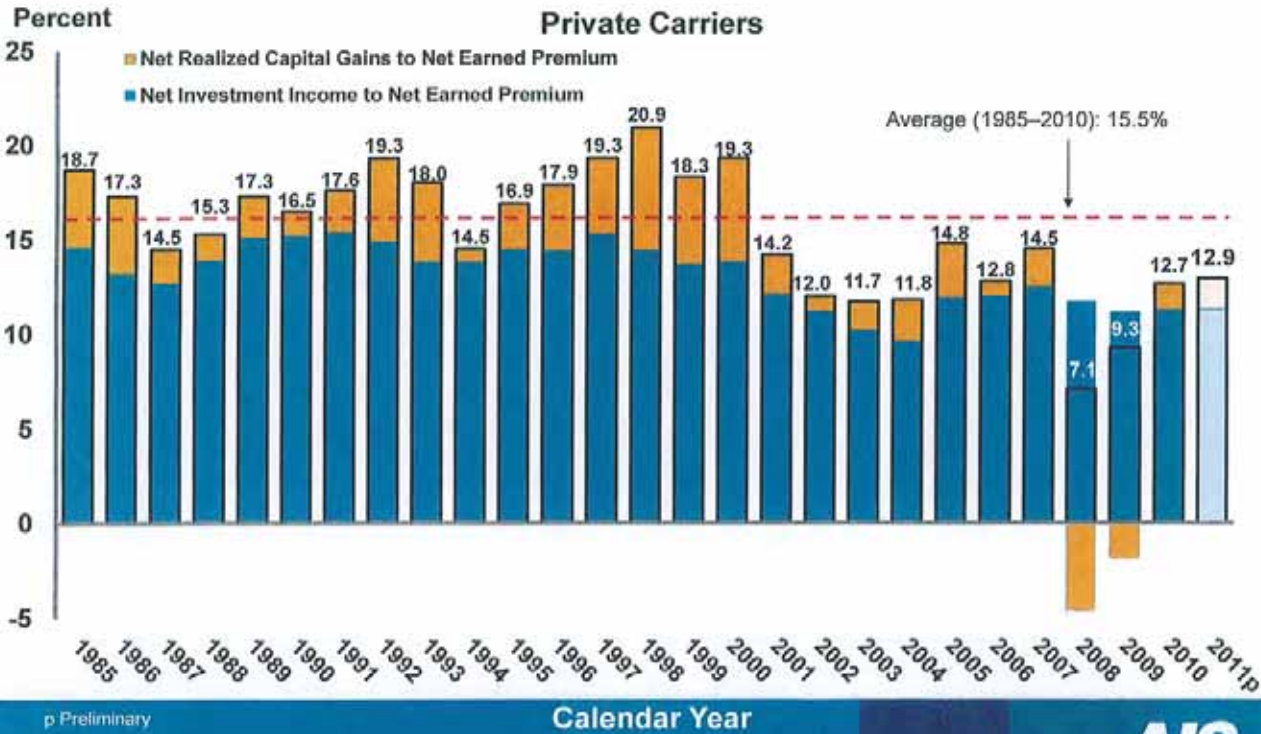
p Preliminary

Source: 1985–2007, Annual Statement Data; 2008–2011p, ISO

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Investment Gain Ratio Holds Steady



p Preliminary

Calendar Year

Source: 1985–2007, Annual Statement Data; 2008–2011p, ISO

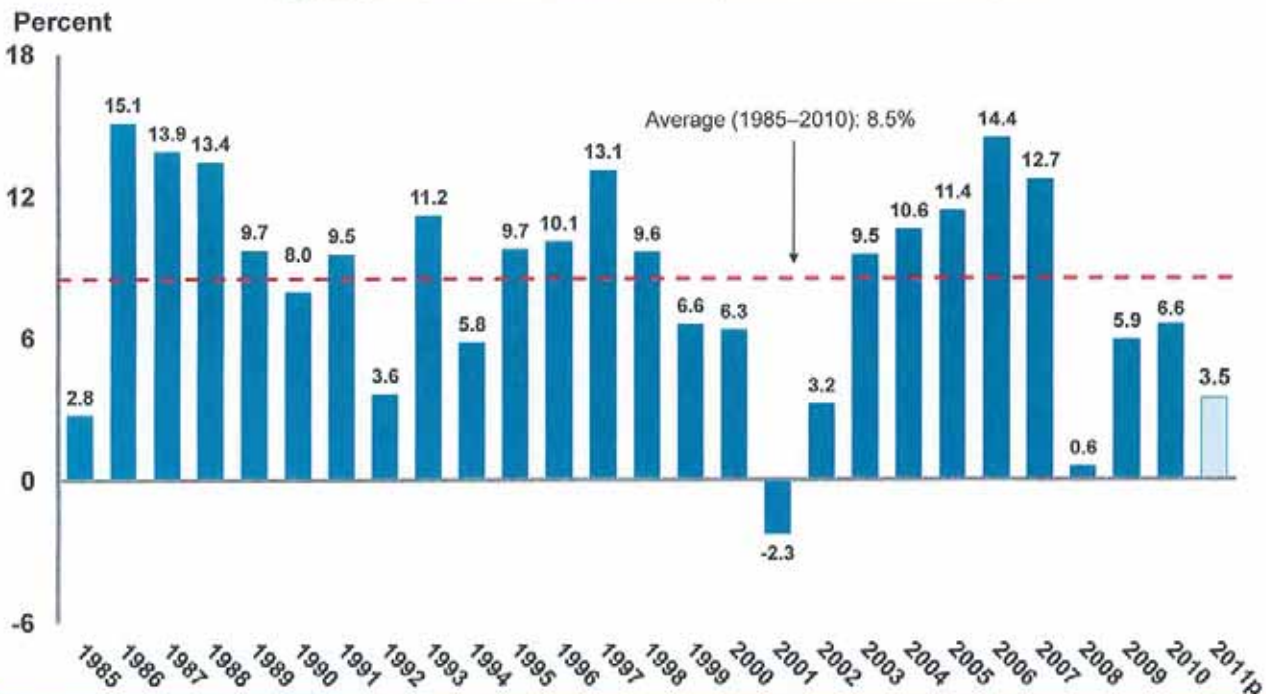
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P/C Industry Return on Surplus

Annual After-Tax Return on Surplus—Private Carriers



p Preliminary

Calendar Year

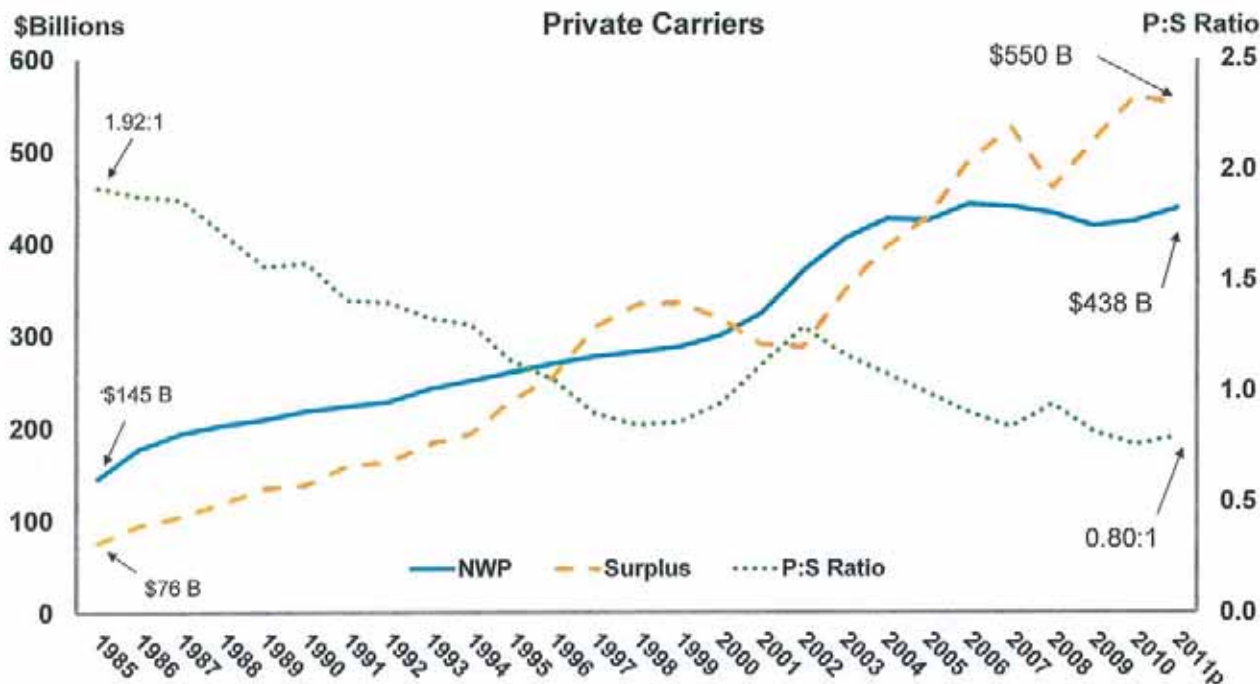
Note: After-tax return on average surplus, excluding unrealized capital gains
Source: 1985–2007, Annual Statement Data; 2008–2011p, ISO

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P/C Industry Premium-to-Surplus Ratio Remains Strong



p Preliminary

Calendar Year

Source: 1985–2007, Annual Statement Data; 2008–2011p, ISO



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Contributions to Surplus

Private Carriers

	(\$Billions)		
	2009	2010	2011p
Underwriting Gains/Losses	(3.0)	(10.5)	(36.5)
Investment Income	47.1	47.6	49.0
Realized Capital Gains/Losses	(7.9)	5.9	7.2
Other Income	0.9	1.1	2.3
Unrealized Capital Gains/Losses	23.1	16.0	(5.1)
Federal Taxes	(8.4)	(8.8)	(2.9)
Shareholder Dividends	(16.9)	(31.4)	(25.7)
Contributed Capital	6.6	27.5	2.2
Other Changes to Surplus	12.6	0.6	0.6
Total	54.1	47.9	(8.9)

p Preliminary

Source: ISO



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Workers Compensation Results

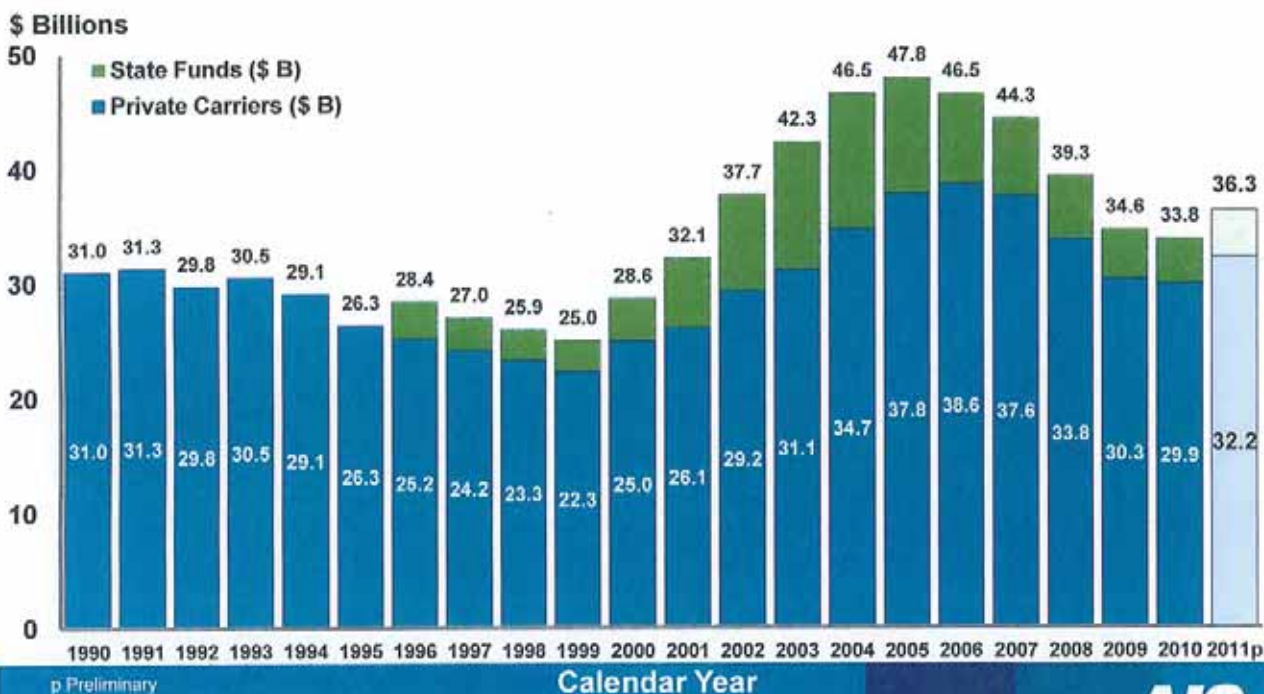
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Workers Compensation Premium First Increase in Years

Net Written Premium



Source: 1990-2010 Private Carriers, Annual Statement Data; 2011p, NCCI
 1996-2011p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
 State Funds available for 1996 and subsequent

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Workers Compensation Written Premium Change

Written Premium Change from 2010-2011

Net Written Premium—Countrywide	+7.9%
Direct Written Premium—NCCI States	+7.5%
Components of DWP Change for NCCI States:	
Change in Carrier Estimated Payroll	+3.0%
Change in Bureau Loss Costs	-1.0%
Change in Carrier Discounting	+0.4%
Change in Audit Impacts	+5.0%
Combined Effect:	+7.5%

Countrywide: Annual Statement Data, Private Carriers
 NCCI States: Annual Statement Statutory Page 14, Private Carriers, NCCI ratemaking states
 Components of change based on Policy data, NCCI's *Statistical Plan* data, Financial Call data

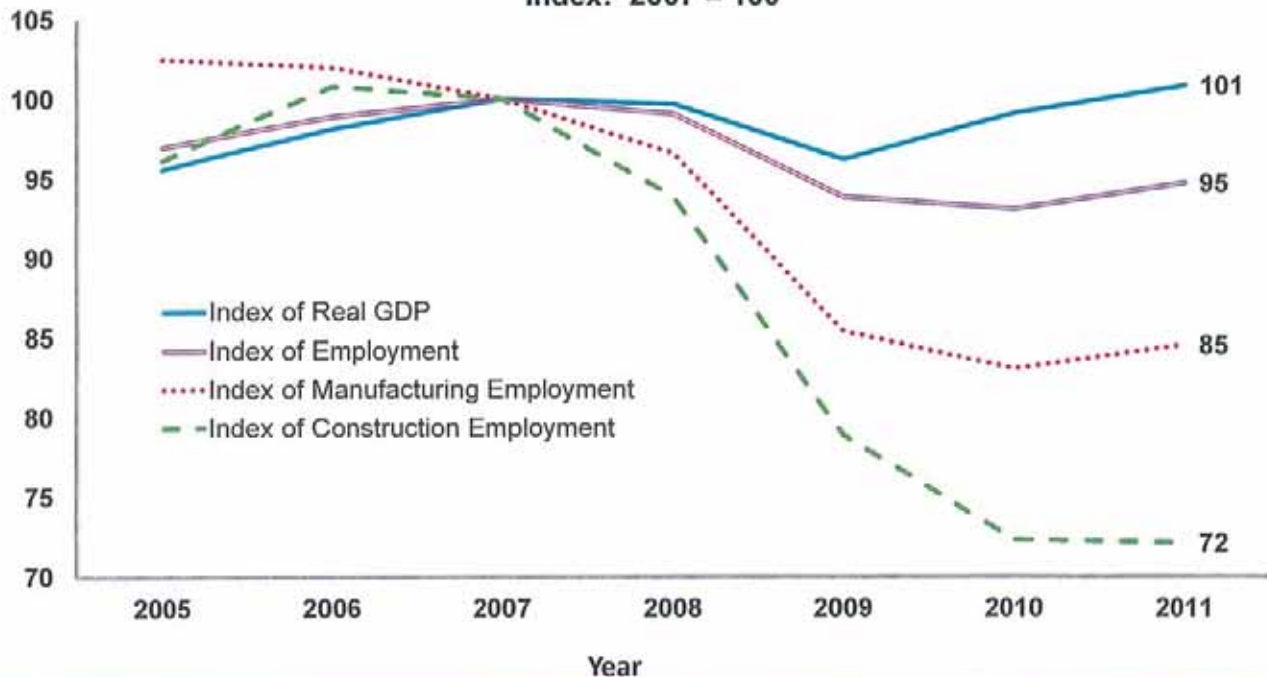
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Employment Growth Lags Behind Real GDP Growth

Index: 2007 = 100



Source: Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA)

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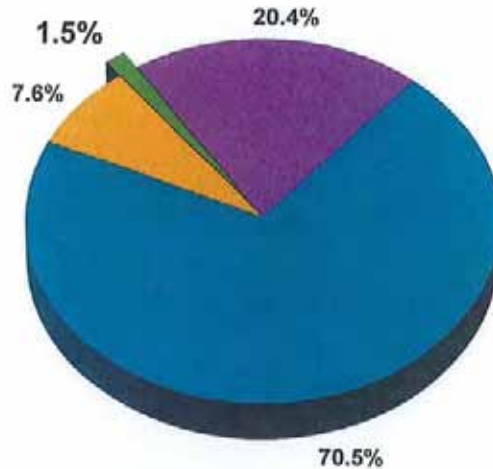
Employer Costs as Percentage of Total Compensation

Private Industry

2001



2011



All Other includes Paid Leave, Supplemental Pay, Insurance (other than Health), Social Security, Retirement and Savings

Source: US Department of Labor, Bureau of Labor Statistics

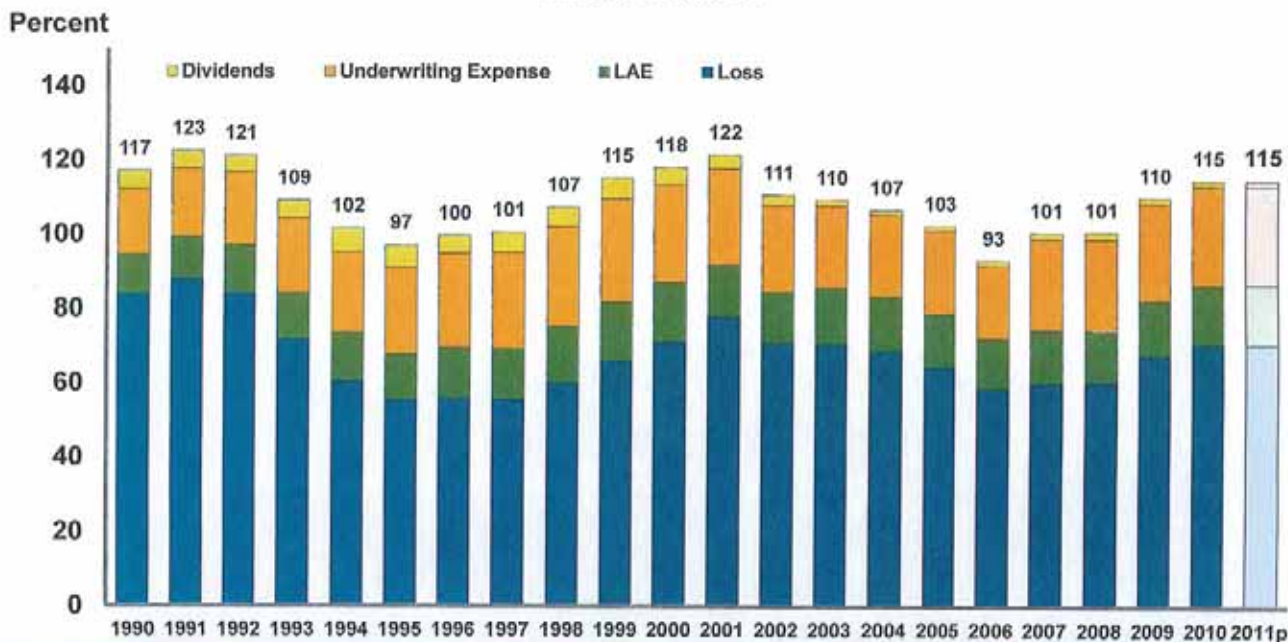
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Workers Compensation Calendar Year Combined Ratio Remains High

Private Carriers



p Preliminary

Calendar Year

Source: 1990-2011p, Annual Statement Data

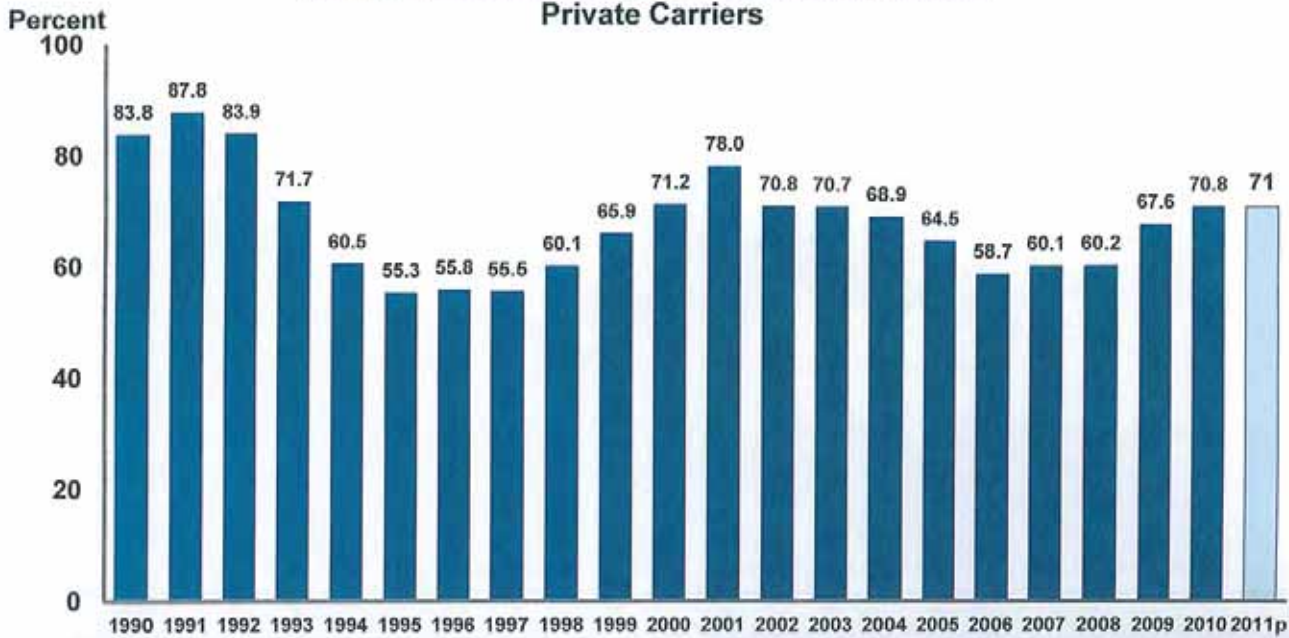
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Workers Compensation Calendar Year Loss Ratio

Ratio of Net Incurred Losses to Earned Premium
Private Carriers



p Preliminary

Calendar Year

Source: 1990-2011p, Annual Statement Data

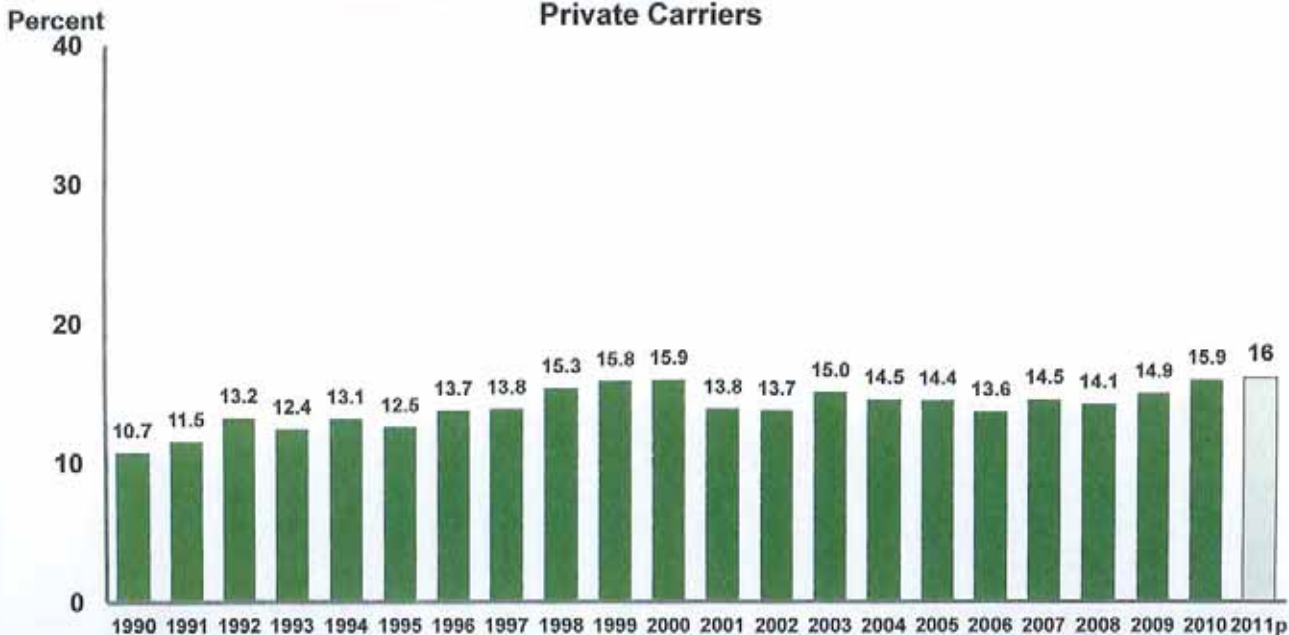
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Workers Compensation Calendar Year Loss Adjustment Expense (LAE) Ratio

Ratio of Net Incurred LAE to Earned Premium
Private Carriers



p Preliminary

Calendar Year

Ratio of Incurred (Defense and Cost Containment Expense plus Adjusting and Other Expense) to Earned Premium

Source: 1990-2011p, Annual Statement Data

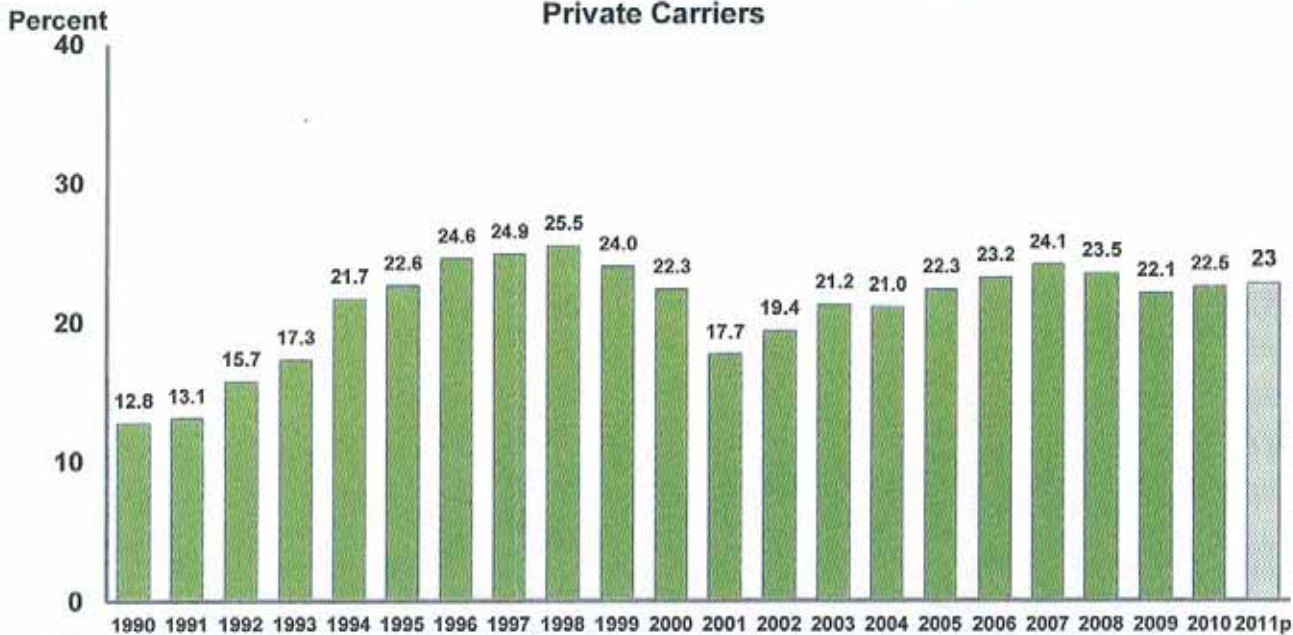
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Workers Compensation Calendar Year Loss Adjustment Expense to Loss Ratio

Ratio of Net Incurred LAE to Incurred Losses
Private Carriers



p Preliminary

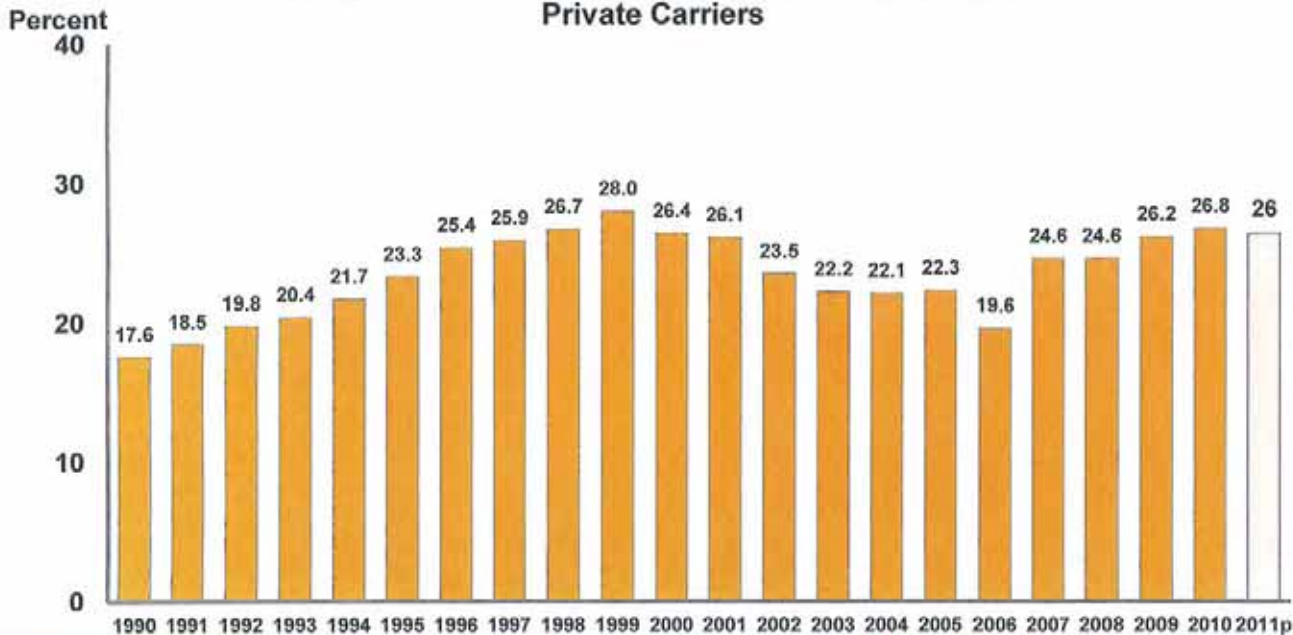
Calendar Year

Ratio of Incurred (Defense and Cost Containment Expense plus Adjusting and Other Expense) to Incurred Loss
Source: 1990-2011p, Annual Statement Data



Workers Compensation Calendar Year Underwriting Expense Ratio

Ratio of Net Underwriting Expenses to Written Premium
Private Carriers



p Preliminary

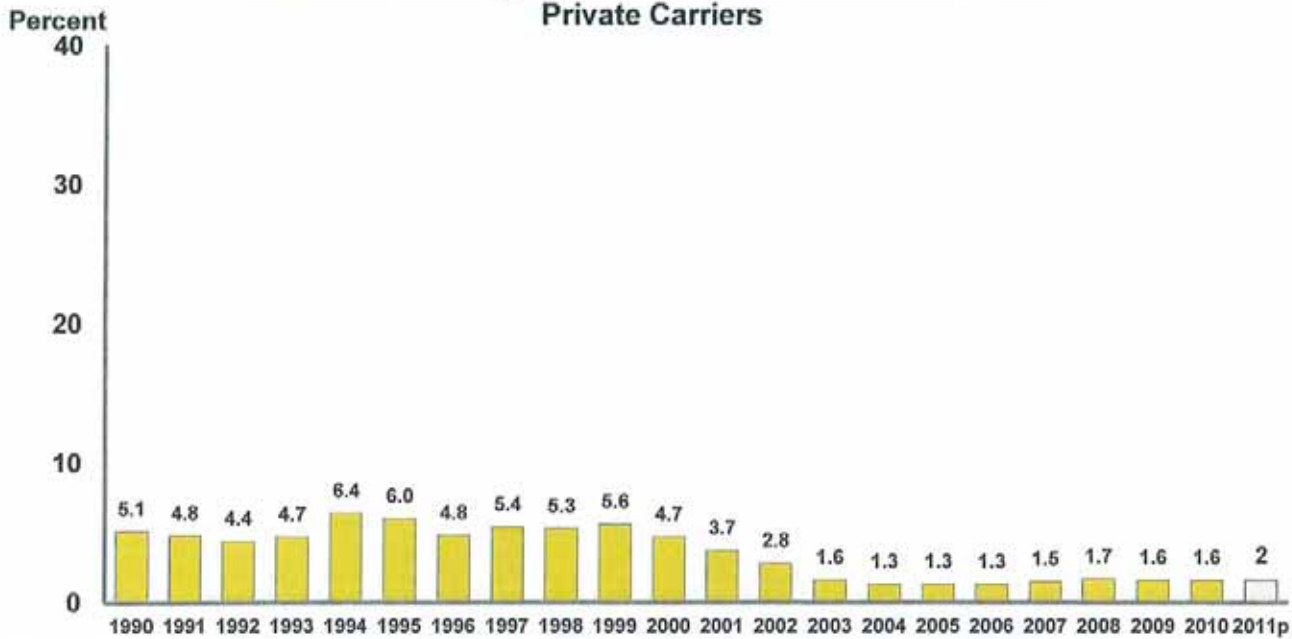
Calendar Year

Ratio of Underwriting Expenses (Commission and Brokerage Expense, Taxes, Licenses and Fees, Other Acquisition and General Expenses Incurred) to Net Written Premium
Source: 1990-2011p, Annual Statement Data



Workers Compensation Calendar Year Policyholder Dividend Ratio

Ratio of Net Policyholder Dividends to Earned Premium
Private Carriers



p Preliminary

Calendar Year

Source: 1990–2011p, Annual Statement Data

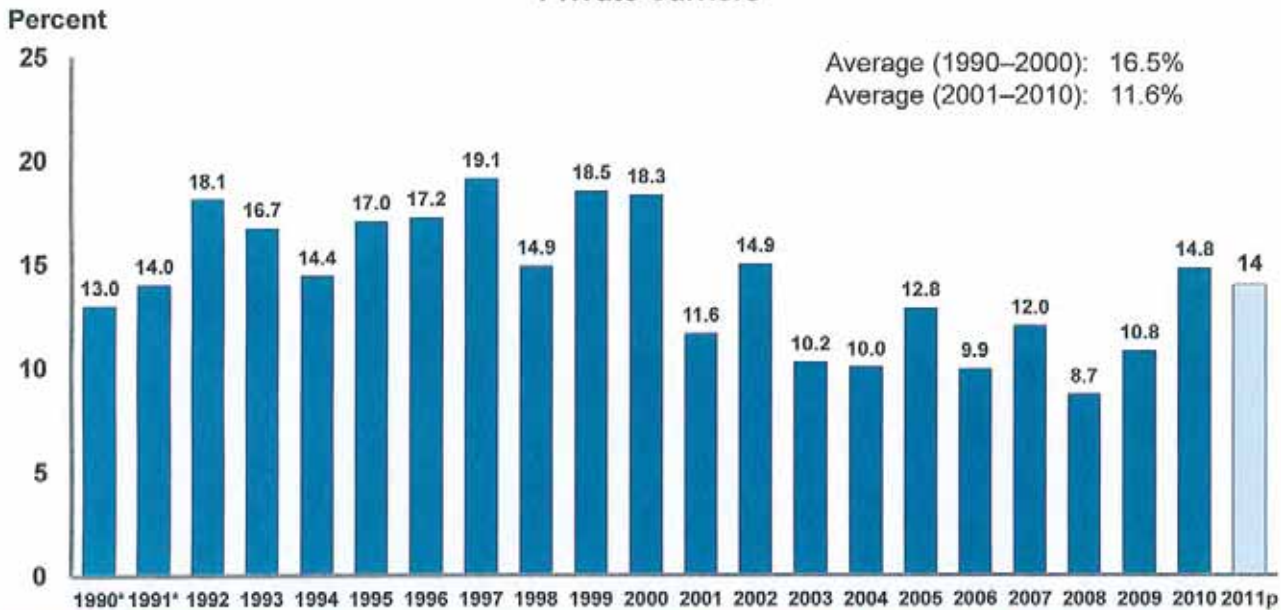
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Workers Compensation Investment Returns

Investment Gain on Insurance Transactions-to-Premium Ratio
Private Carriers



p Preliminary

Calendar Year

Source: 1990–2010, Annual Statement Data; 2011p, NCCI

Investment Gain on Insurance Transactions includes Other Income

* Adjusted to include realized capital gains to be consistent with 1992 and after

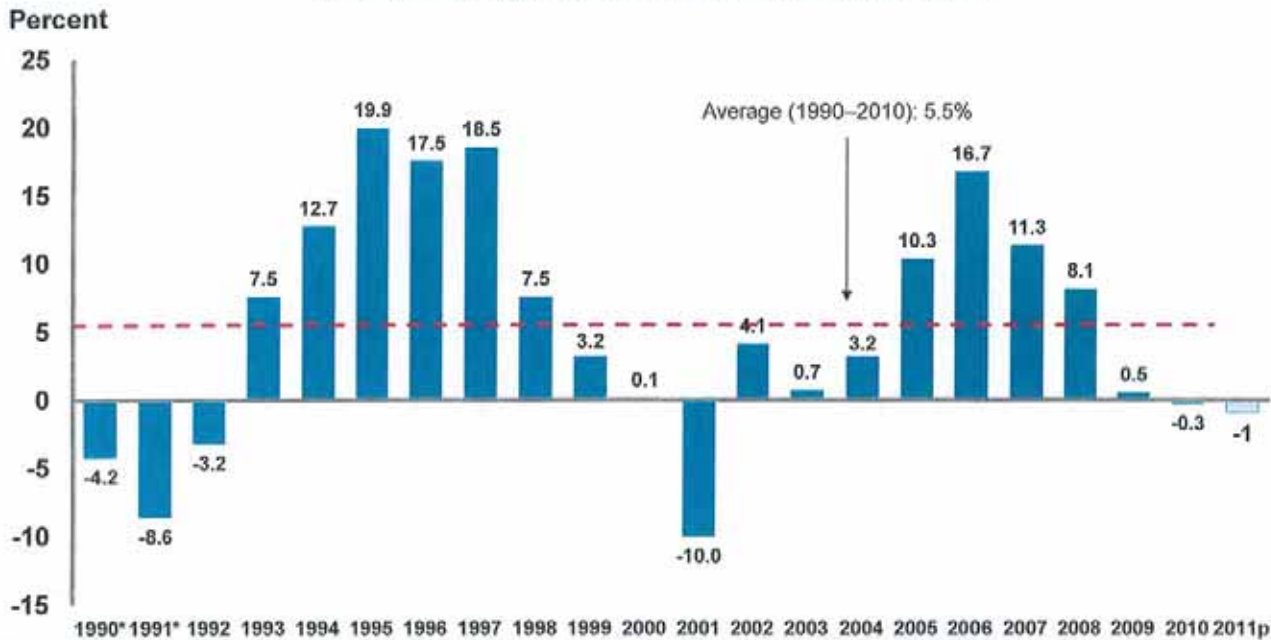
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Workers Compensation Results Operating Loss Continues

Pre-Tax Operating Gain Ratio—Private Carriers



p Preliminary

Calendar Year

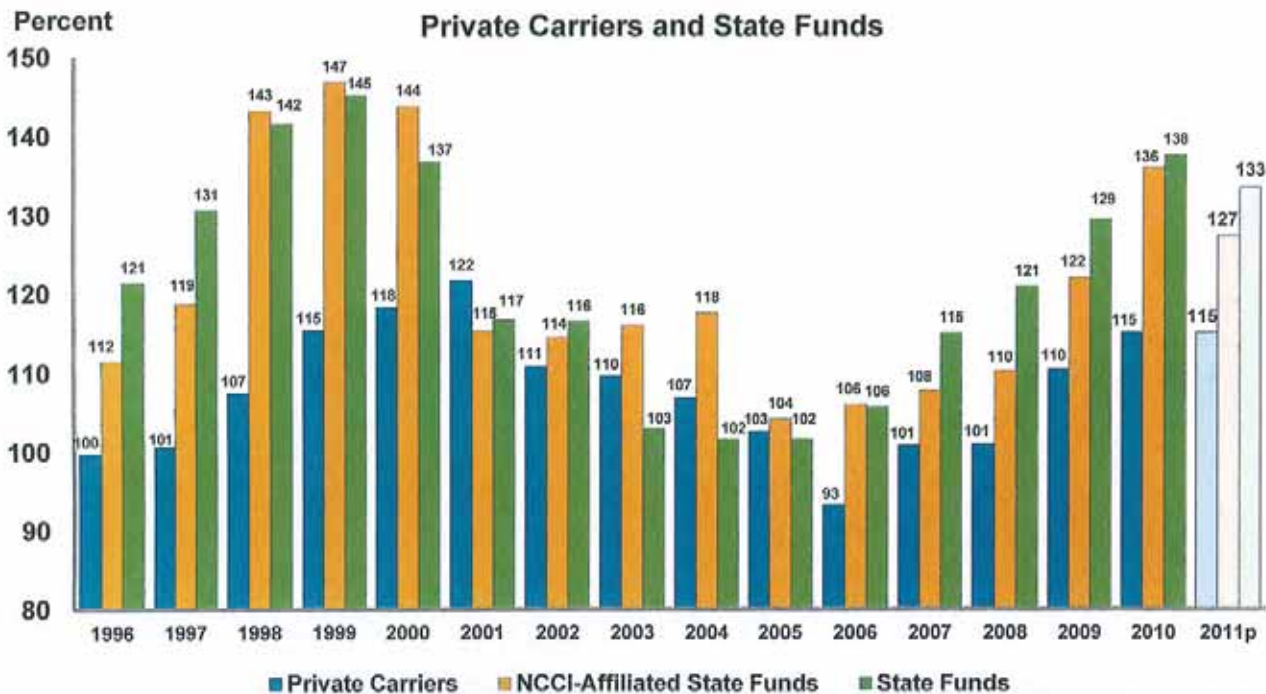
Source: 1990–2010, Annual Statement Data, 2011p, NCCI
 Operating Gain Equals 1.00 minus (Combined Ratio Less Investment Gain on Insurance Transactions and Other Income)
 * Adjusted to include realized capital gains to be consistent with 1992 and after



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Workers Compensation Calendar Year Net Combined Ratios

Private Carriers and State Funds



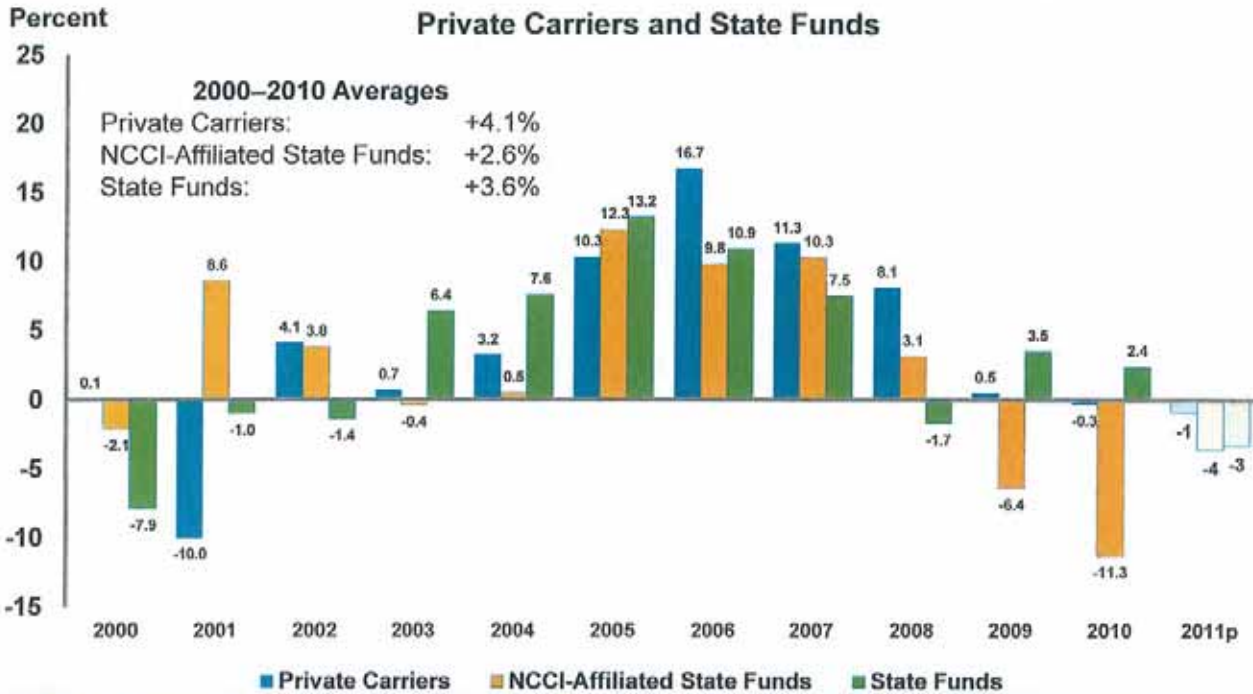
p Preliminary

Calendar Year

Source: 1996–2011p Private Carriers, Annual Statement Data
 1996–2011p NCCI-Affiliated State Funds: AZ, CA, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
 1996–2011p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements



Workers Compensation Pre-Tax Operating Gain Ratios



p Preliminary

Operating Gain Equals 1.00 minus (Combined Ratio Less Investment Gain on Insurance Transactions and Other Income)

Source: 2000–2011p Private Carriers, Annual Statement Data

2000–2011p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements

2000–2011p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

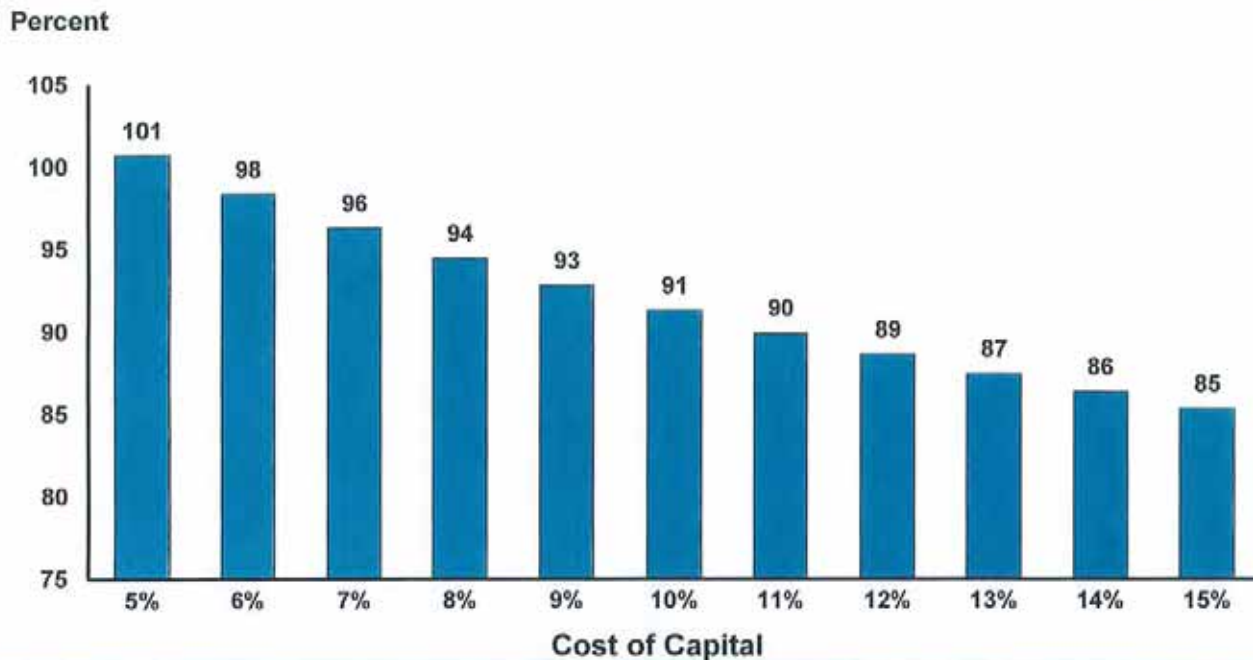
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Calendar Year

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Workers Compensation Combined Ratio to Achieve Selected Cost of Capital



Assumptions: 3.23% Pre-Tax Investment Yield Before Investment Expense
2.46% Post-Tax Investment Yield Before Investment Expense
2.33% Post-Tax Investment Yield After Investment Expense
Workers compensation Reserve to Surplus Ratio = 1.99
Based on NCCI's 2012 Internal Rate of Return Model

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Workers Compensation

Accident Year Results and Reserve Estimates

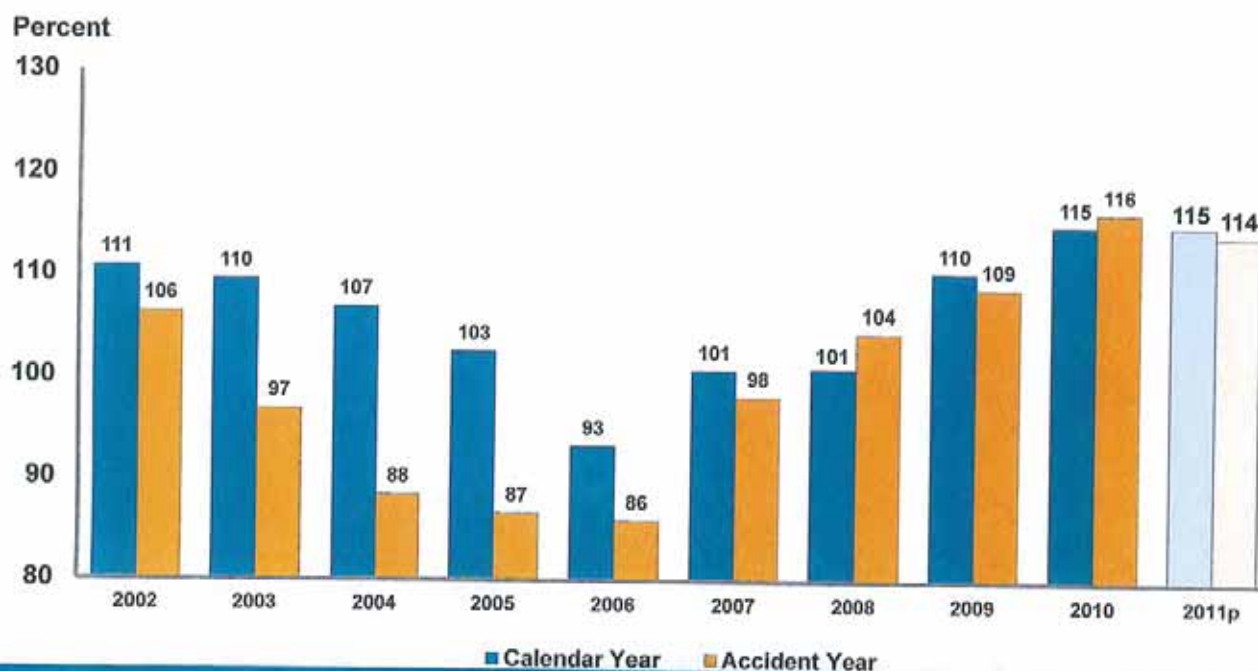
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Accident Year Net Combined Ratio

Workers Compensation Calendar Year vs. Ultimate Accident Year
Private Carriers



p Preliminary

Accident Year data is evaluated as of 12/31/2011 and developed to ultimate

Source: Calendar Years 2002-2010, Annual Statement Data;

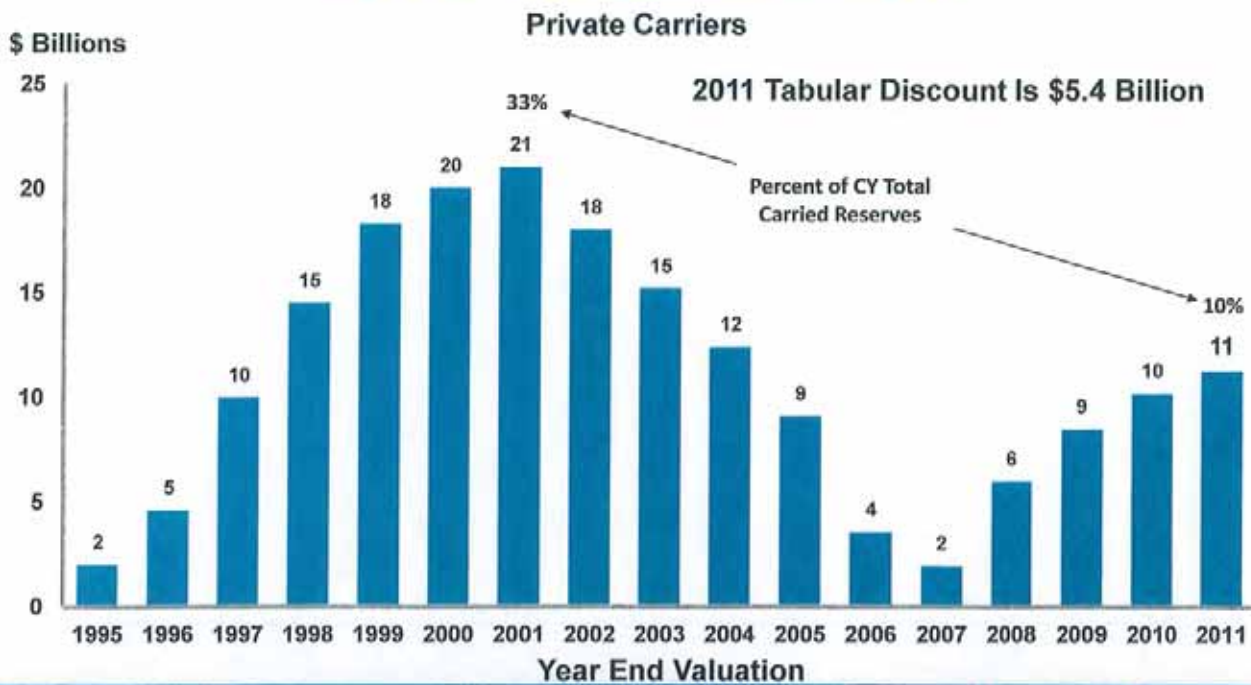
Calendar Year 2011p and Ultimate Accident Years 2002-2011, NCCI analysis based on Annual Statement Data

Includes dividends to policyholders

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Workers Compensation Loss and LAE Reserve Deficiencies



Loss and LAE figures are based on NAIC Annual Statement Data for each valuation date and NCCI latest selections

Source: NCCI analysis
Considers all reserve discounts as deficiencies

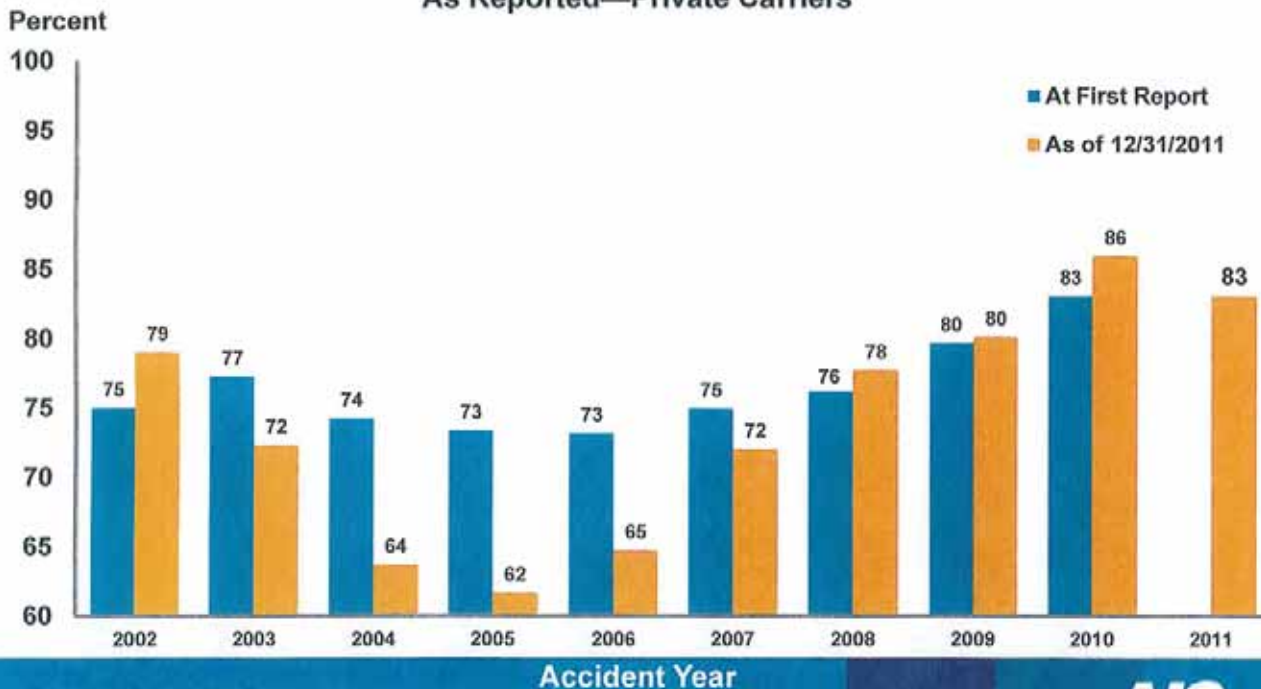
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Workers Compensation Ultimate Accident Year Net Loss and LAE Ratios

As Reported—Private Carriers



Reported Loss and LAE ratios

Source: Annual Statement, Schedule P data as reported by private carriers

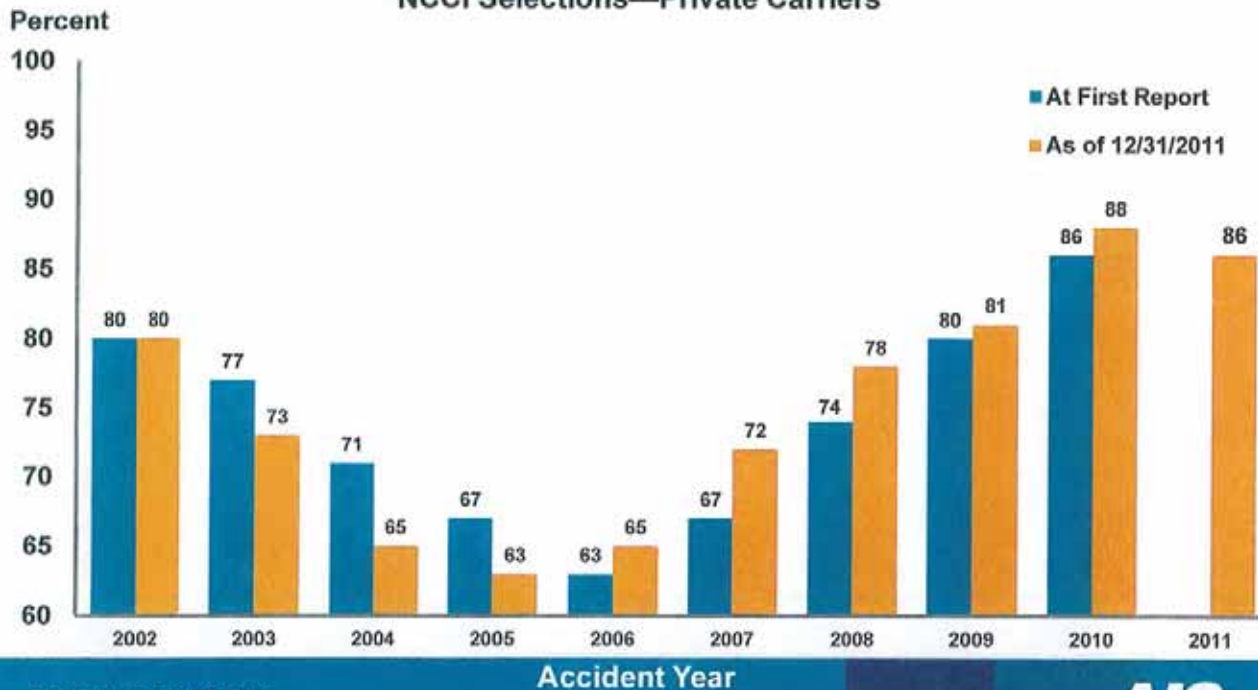
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Workers Compensation Ultimate Accident Year Net Loss and LAE Ratios

NCCI Selections—Private Carriers



Selected Loss and LAE ratios

Source: NCCI Reserve Analysis

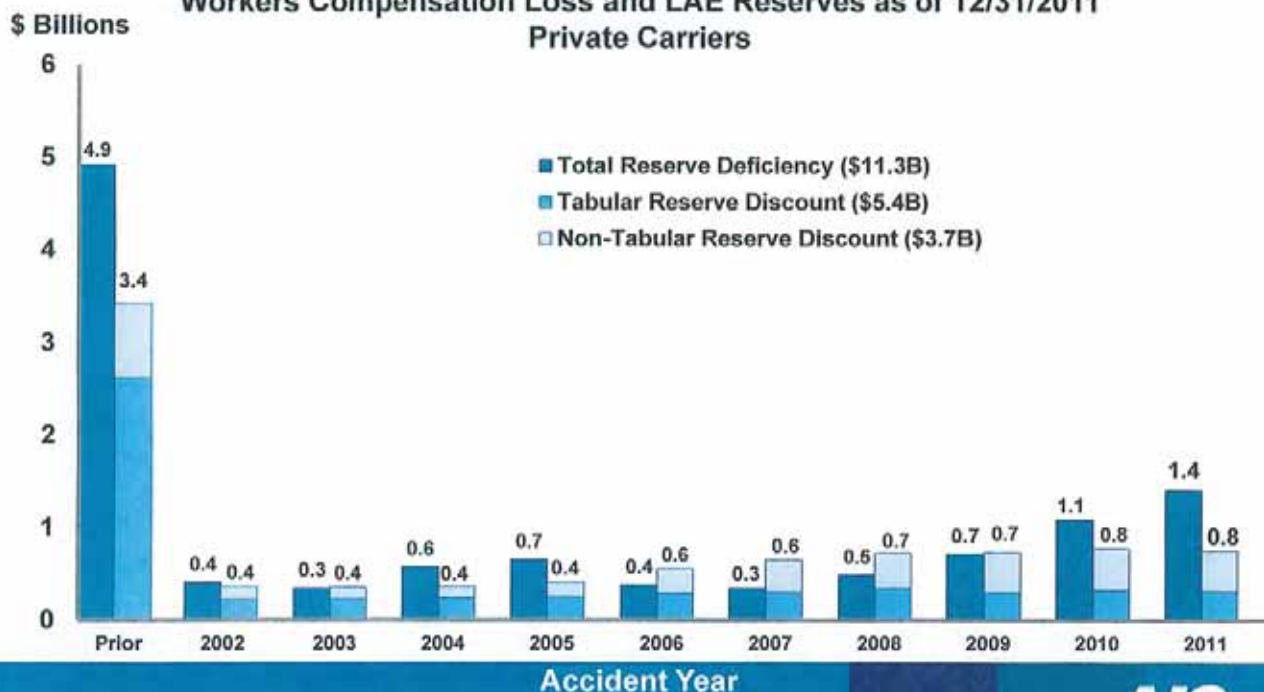
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Reserve Deficiency and Reserve Discounts by Accident Year

Workers Compensation Loss and LAE Reserves as of 12/31/2011
Private Carriers



Reserve deficiency considers all reserve discounts as deficiencies

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Workers Compensation

Premium Drivers

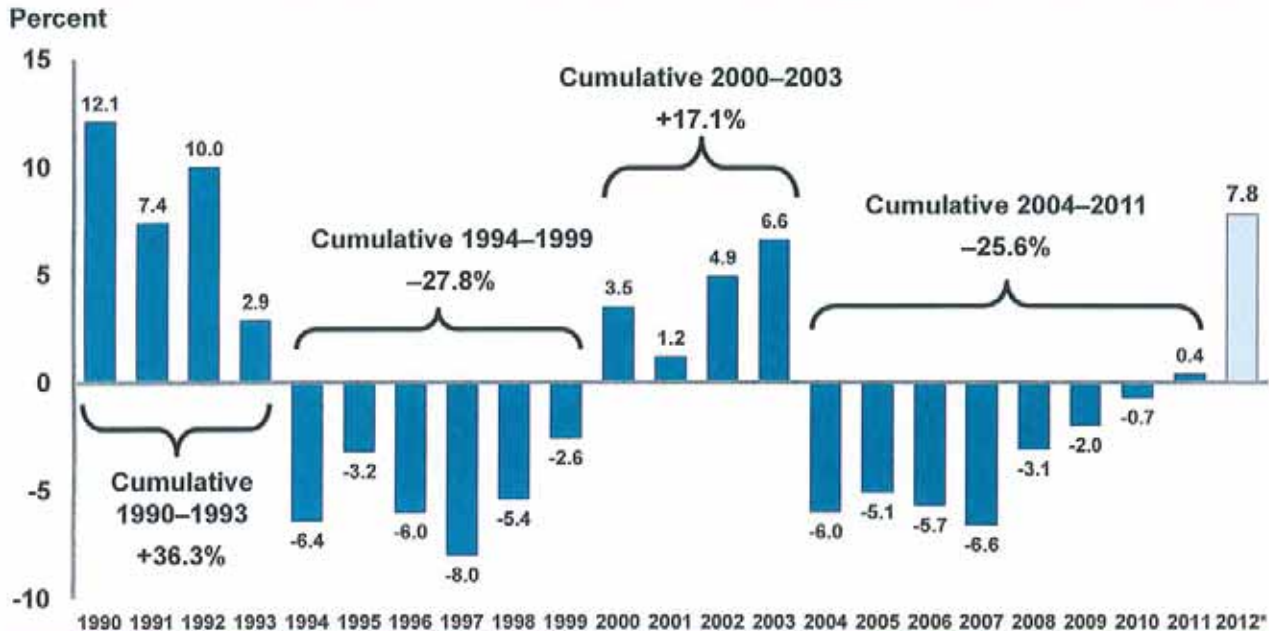
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Average Approved Bureau Rates/Loss Costs

History of Average Workers Compensation Bureau Rate/Loss Cost Level Changes



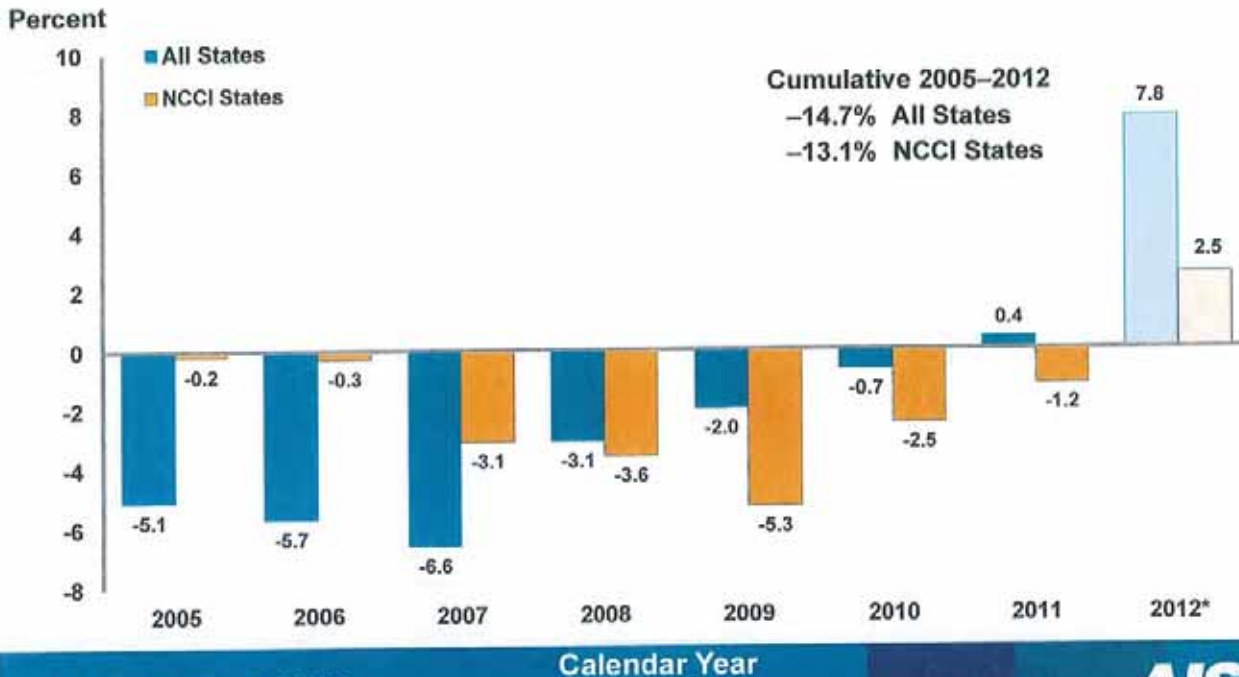
* States approved through 4/20/2012
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization
Relative to the previously filed rates

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Average Approved Bureau Rates/Loss Costs

All States vs. NCCI States



* States approved through 4/20/2012
 Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization
 Relative to the previously filed rates



Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

Excludes Law-Only Filings



■ Effective Dates 1/1/2012 and Prior ■ Effective Dates Subsequent to 1/1/2012 ■ Filed and Pending

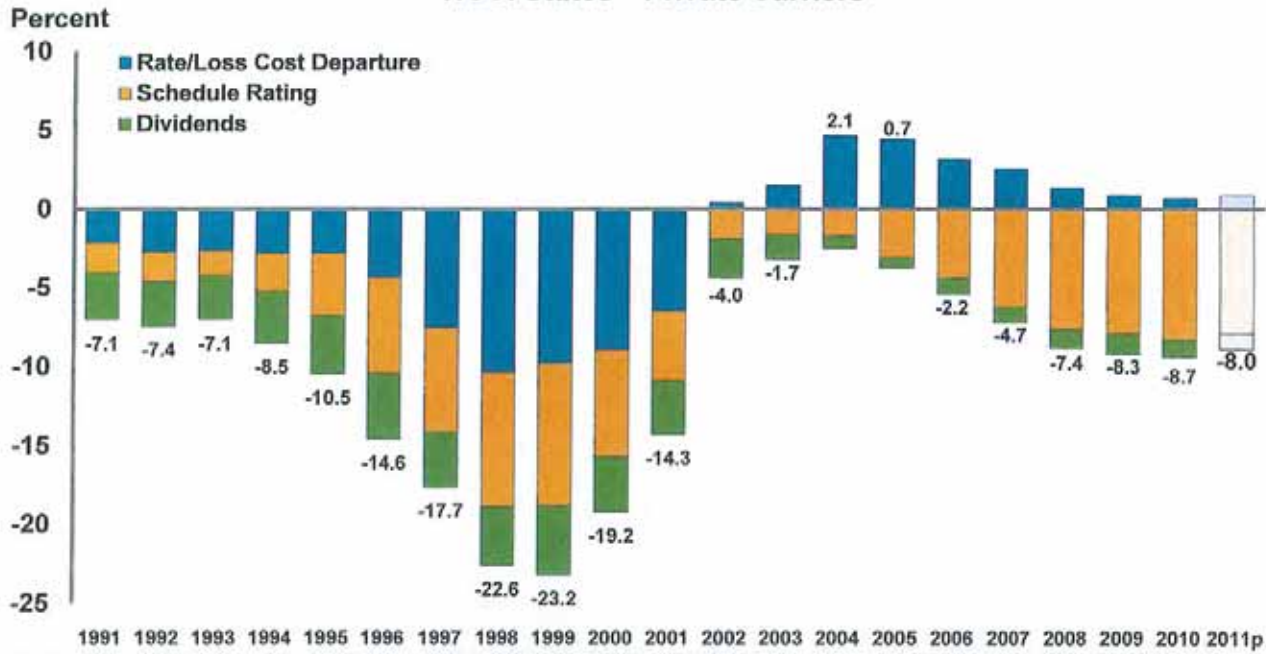
States filed through 4/20/2012

* IN and NC filed in cooperation with state rating bureau



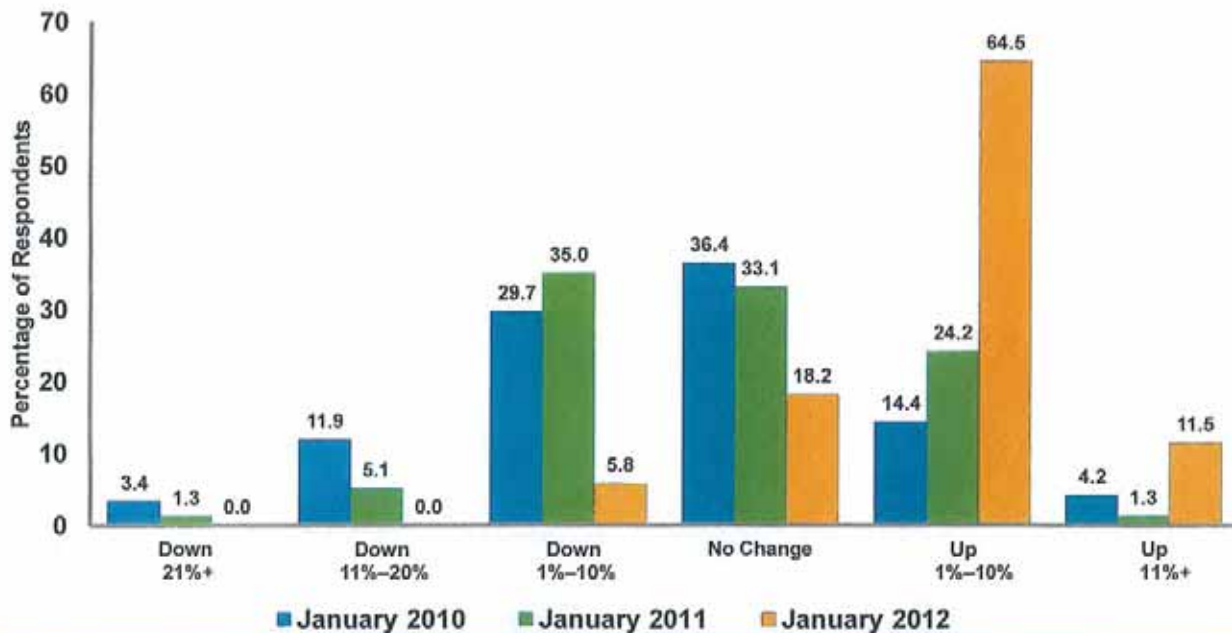
Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers



According to Goldman Sachs, Prices Appear to Be Increasing

Agent Responses on Workers Compensation Rates on Renewals vs. 12 Months Prior



Source: Goldman Sachs Research, Proprietary Survey, "January 2012 Pricing Survey, Insurance: Property & Casualty" (Exhibit 4, Workers' Compensation, Percentage of Respondents)

Workers Compensation

Loss Drivers

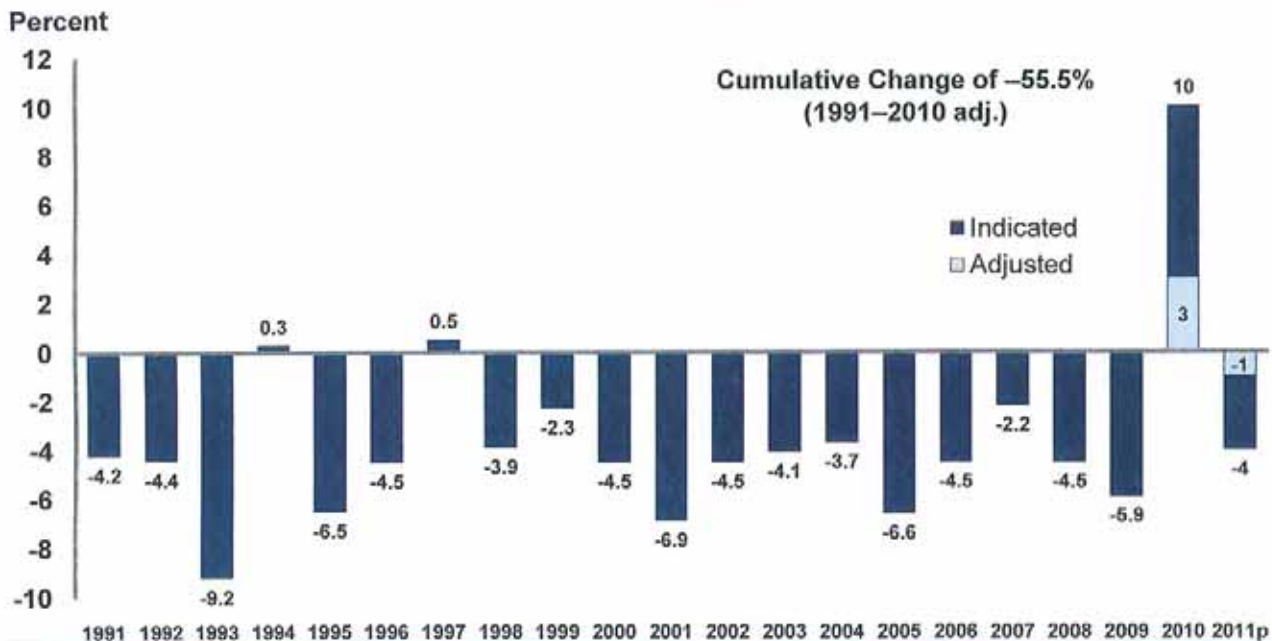
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Workers Compensation Lost-Time Claim Frequency Declined in 2011

Lost-Time Claims



Accident Year

2011p: Preliminary based on data valued as of 12/31/2011

1991-2010: Based on data through 12/31/2010, developed to ultimate

Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

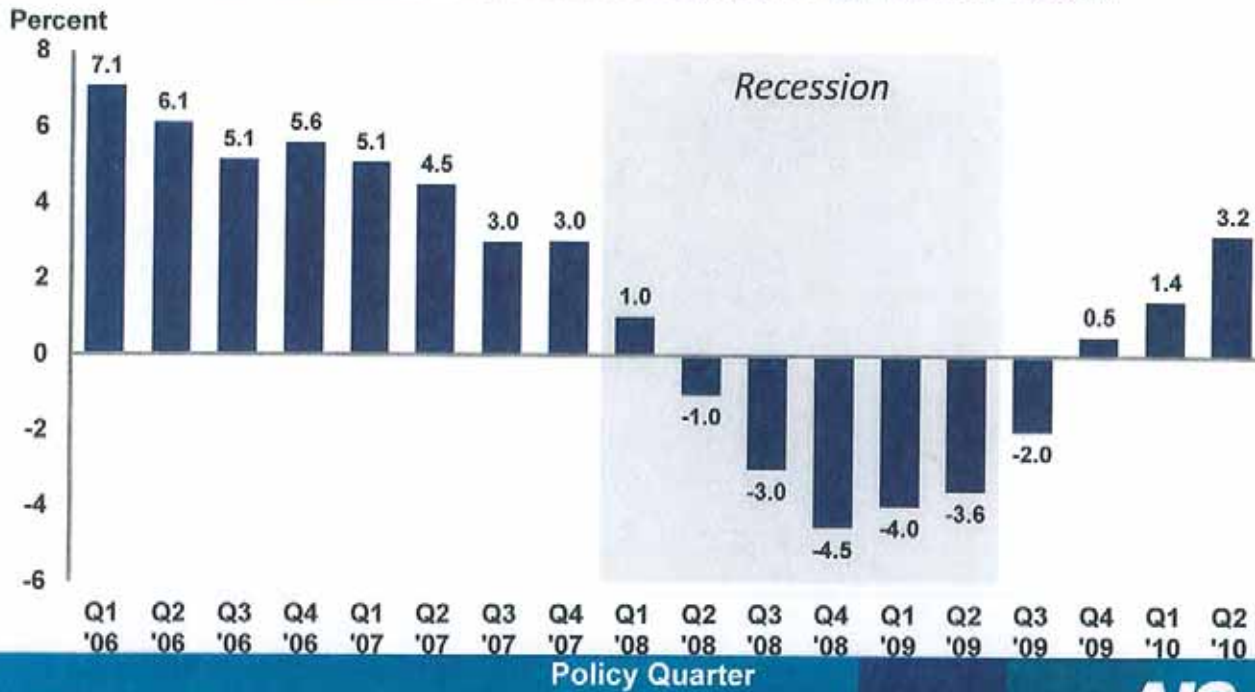
Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level

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The Recession Impacted Premium Audits

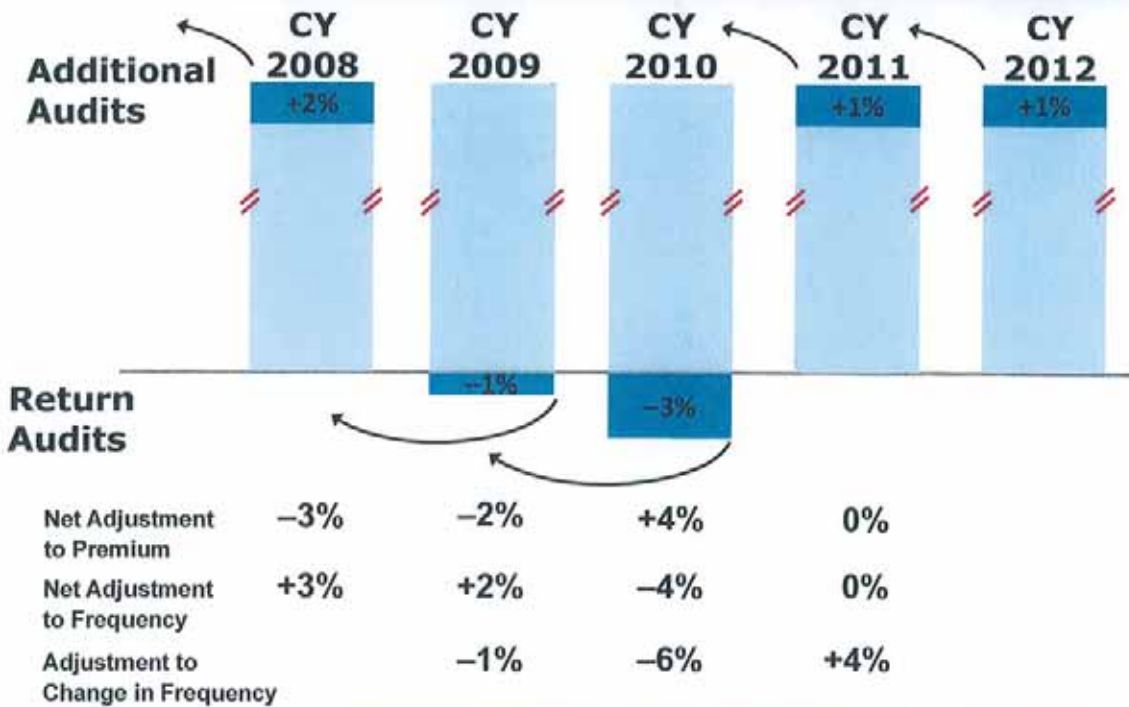
Final Premium vs. Estimated Premium by Policy Effective Quarter



NCCI's *Statistical Plan* audited premium compared to policy-estimated premium
 Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies and mid-term cancellations



Impact of Premium Audits on Frequency



Adjustments to Indicated Change in Lost-Time Claim Frequency

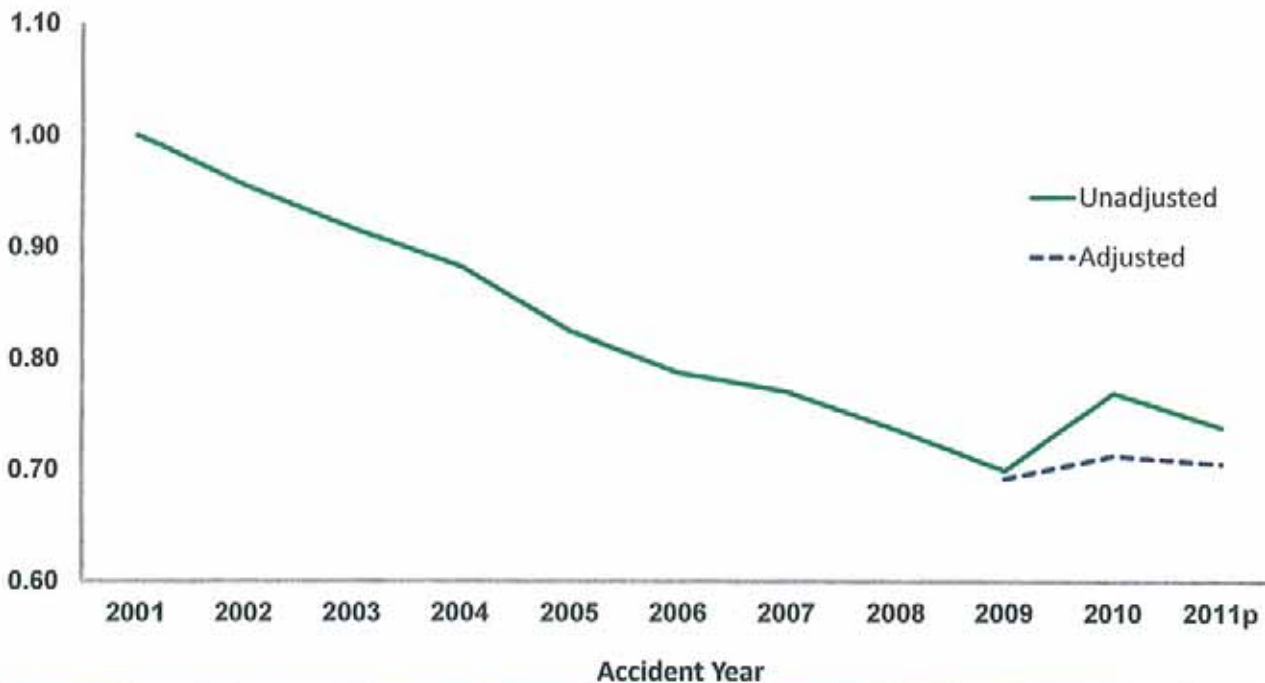
Accident Year 2009–2011

Estimated Adjustments to Frequency Change

	2009	2010	2011
Unadjusted Frequency Change	-5%	+10%	-4%
CY Premium Adjustment	-1%	-6%	+4%
Workweek and Industry Group Mix	0%	-1%	-1%
Adjusted Frequency Change	-6%	+3%	-1%

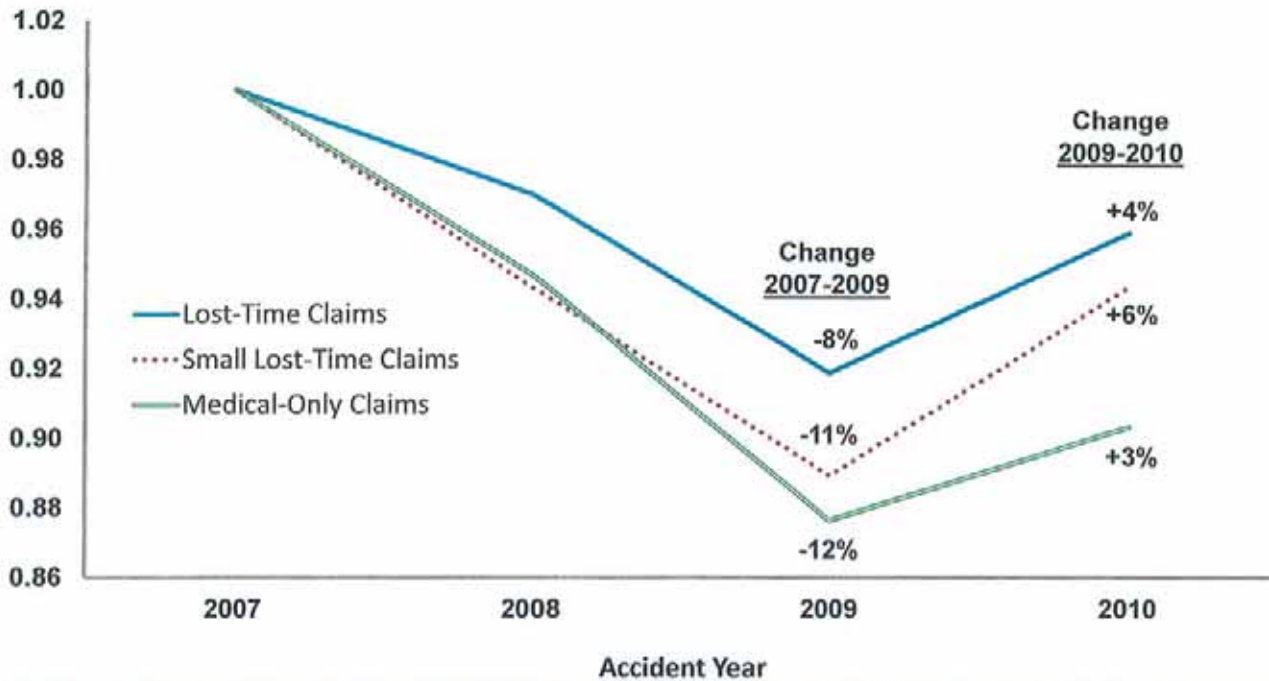
Relative Changes in Frequency Level

Index: 2001 = 1.00



Claim Frequency by Type of Claim

Index: Accident Year 2007 = 1.00



NCCI's *Statistical Plan* data, policies effective January 2006 through July 2010, organized by accident/exposure year, at 1st report
 Based on states where NCCI provides ratemaking services, including state fund data, excluding high deductible policies
 Frequency is the number of claims per \$1M wage-adjusted on-level premium
 Small lost-time claims are those with incurred indemnity losses ≤ \$2,000 at 1st report in 2010 dollars
 Threshold de-trended for prior years at the rate of 3%



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Workers Compensation Indemnity Claim Costs—Modest Increase in 2011

Average Indemnity Cost per Lost-Time Claim



Annual Change 1991–1993: -1.7%
 Annual Change 1994–2001: +7.3%
 Annual Change 2002–2010: +3.4%

2011p: Preliminary based on data valued as of 12/31/2011
 1991–2010: Based on data through 12/31/2010, developed to ultimate
 Based on the states where NCCI provides ratemaking services, including state funds
 Excludes high deductible policies

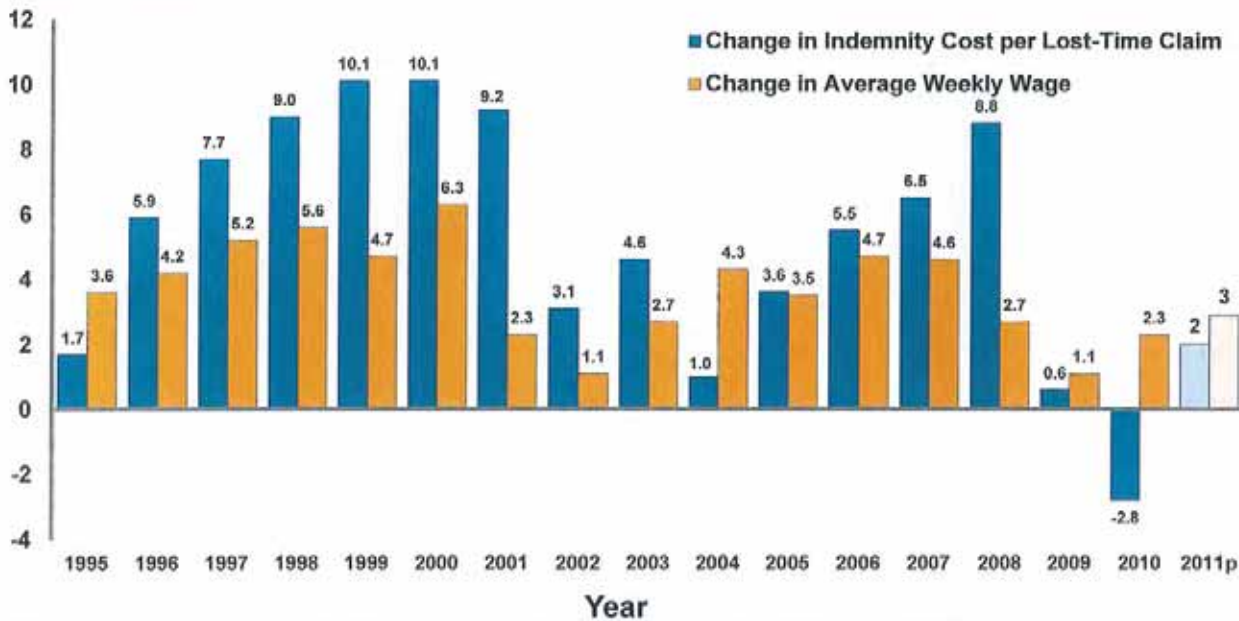


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Workers Compensation Indemnity Severity—Modest Increase in 2011

Average Indemnity Cost per Lost-Time Claim

Percent Change



p Preliminary

Based on the states where NCCI provides ratemaking services, including state funds, excludes high deductible policies

Source: Average Weekly Wage 1995–2008: Quarterly Census of Employment and Wages, Economy.com; 2009–2011p, NCCI
Accident year indemnity severity—NCCI states, NCCI

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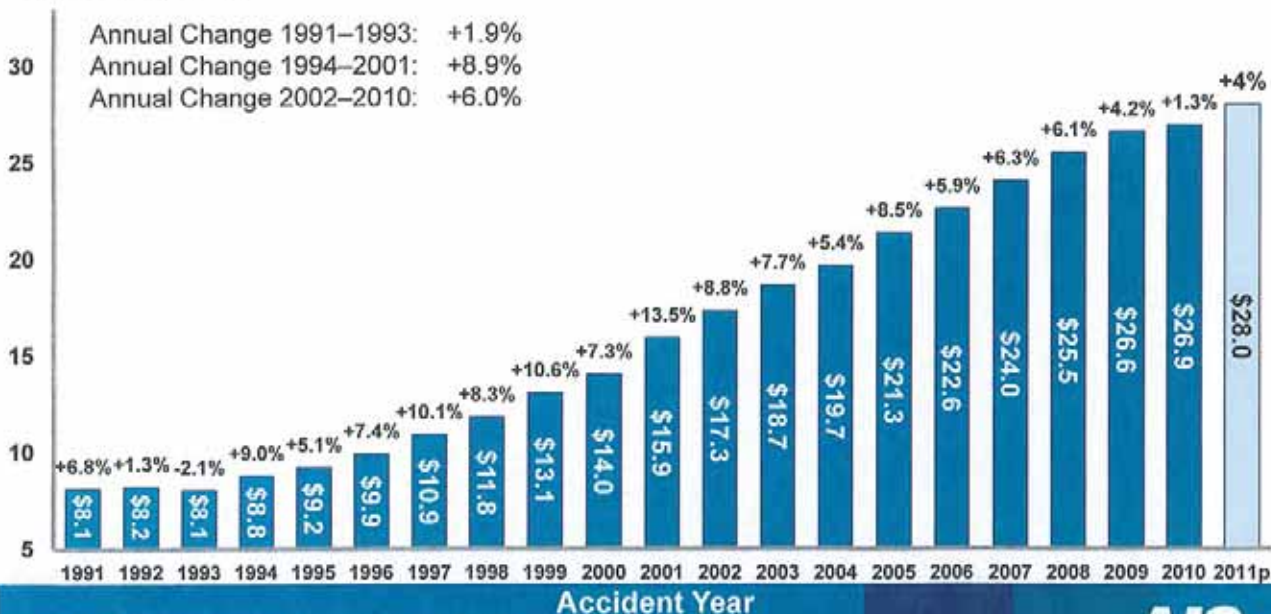
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Workers Compensation Medical Severity—Moderate Increase in 2011

Average Medical Cost per Lost-Time Claim

Medical
Claim Cost (000s)



Accident Year

2011p: Preliminary based on data valued as of 12/31/2011

1991–2010: Based on data through 12/31/2010, developed to ultimate

Based on the states where NCCI provides ratemaking services, including state funds

Excludes high deductible policies

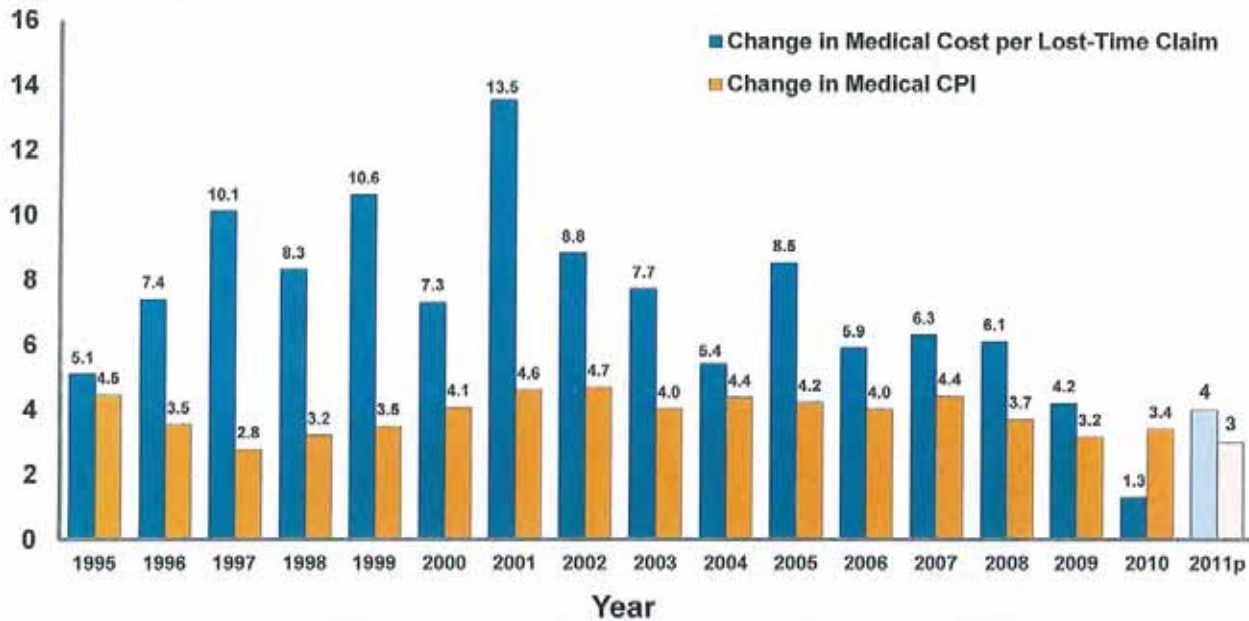
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Workers Compensation Medical Severity Moderate Increase in 2011

Average Medical Cost per Lost-Time Claim

Percent Change



p Preliminary

Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

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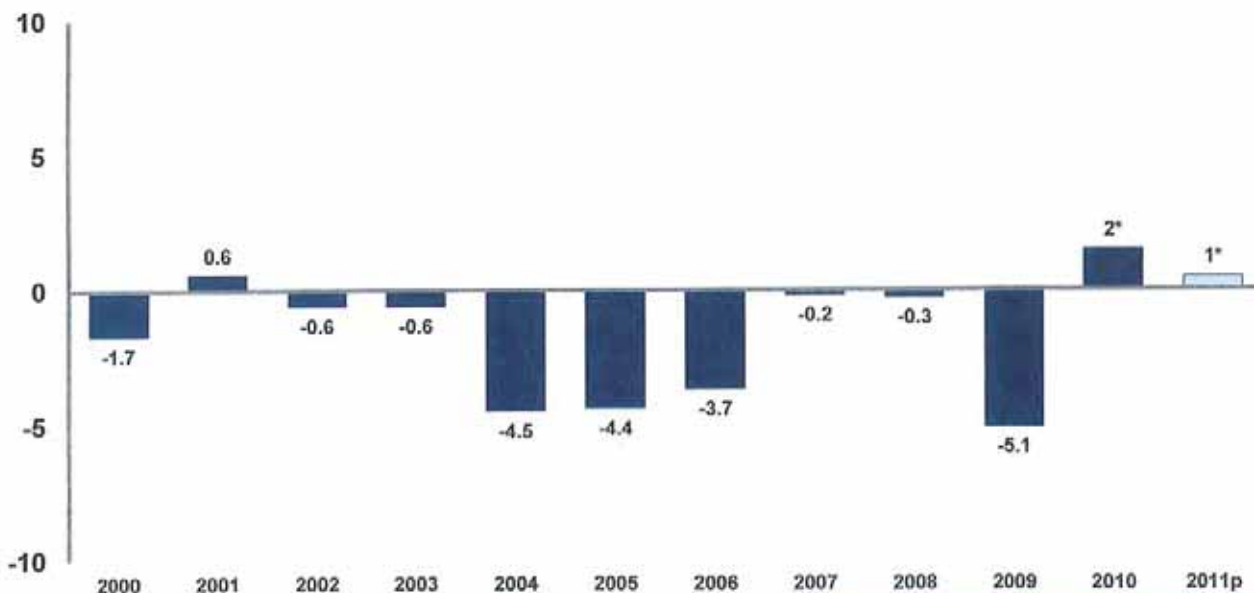
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Impact of Indicated Changes on Loss Costs

Based on Adjusted Frequency, Severity, and Wage Estimates

Percent Change



2011p: Preliminary based on data valued as of 12/31/2011

2000-2010: Based on data through 12/31/2010, developed to ultimate

Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

* Based on adjusted change in frequency (per \$1M pure premium)

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Workers Compensation

Residual Market

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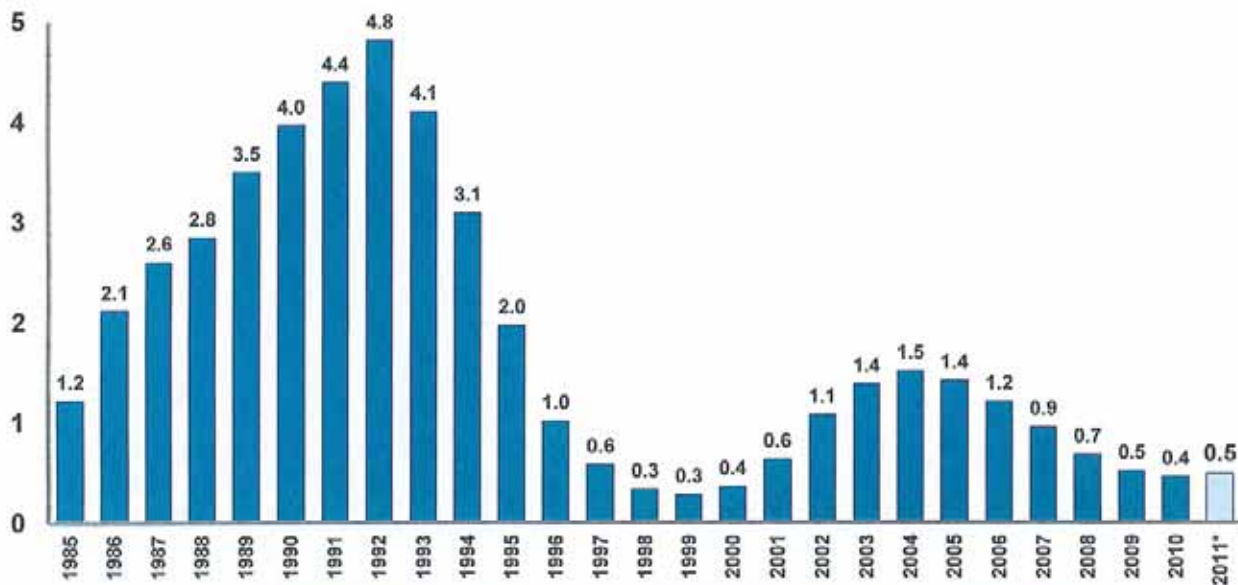
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Workers Compensation Residual Market Premium—First Increase Since 2004

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2011

\$ Billions



* Incomplete policy year projected to ultimate

Policy Year

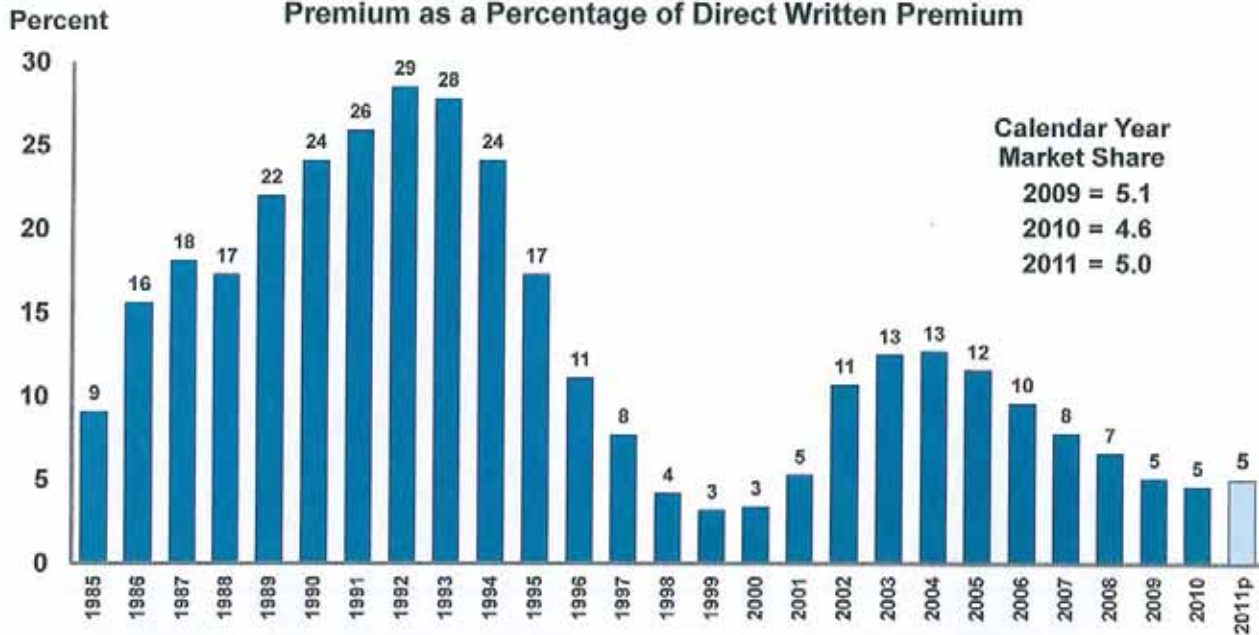
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Workers Compensation Residual Market Share Increases

Workers Compensation Insurance Plan States*
Premium as a Percentage of Direct Written Premium



p Preliminary

Calendar Year

* NCCI Plan states plus DE, IN, MA, MI, NC, NJ



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Residual Market Growth by Policy Size

2010 vs. 2011

Size of Risk	2010	2011	Change
\$ 0 – \$ 2,499	83.0 M	83.1 M	0%
\$ 2,500 – \$ 4,999	40.3 M	42.1 M	4%
\$ 5,000 – \$ 9,999	47.0 M	50.6 M	8%
\$ 10,000 – \$49,999	103.8 M	122.5 M	18%
\$ 50,000 – \$99,999	36.0 M	40.5 M	13%
\$ 100,000 and over	33.5 M	49.7 M	48%
Total	343.7 M	388.5 M	13%

Total estimated annual premium on policies
Includes residual market policies for:
AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV



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Residual Market Growth Accelerates During First Quarter 2012

First Quarter 2011 vs. First Quarter 2012

Size of Risk	2011	2012	Change
\$ 0 – \$ 2,499	19.8 M	20.9 M	6%
\$ 2,500 – \$ 4,999	9.7 M	11.5 M	19%
\$ 5,000 – \$ 9,999	11.9 M	15.3 M	29%
\$ 10,000 – \$49,999	29.6 M	41.5 M	40%
\$ 50,000 – \$99,999	10.0 M	17.4 M	74%
\$ 100,000 and over	10.8 M	28.3 M	162%
Total	91.8 M	134.9 M	47%

Total estimated annual premium on policies
Includes residual market policies for:
AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

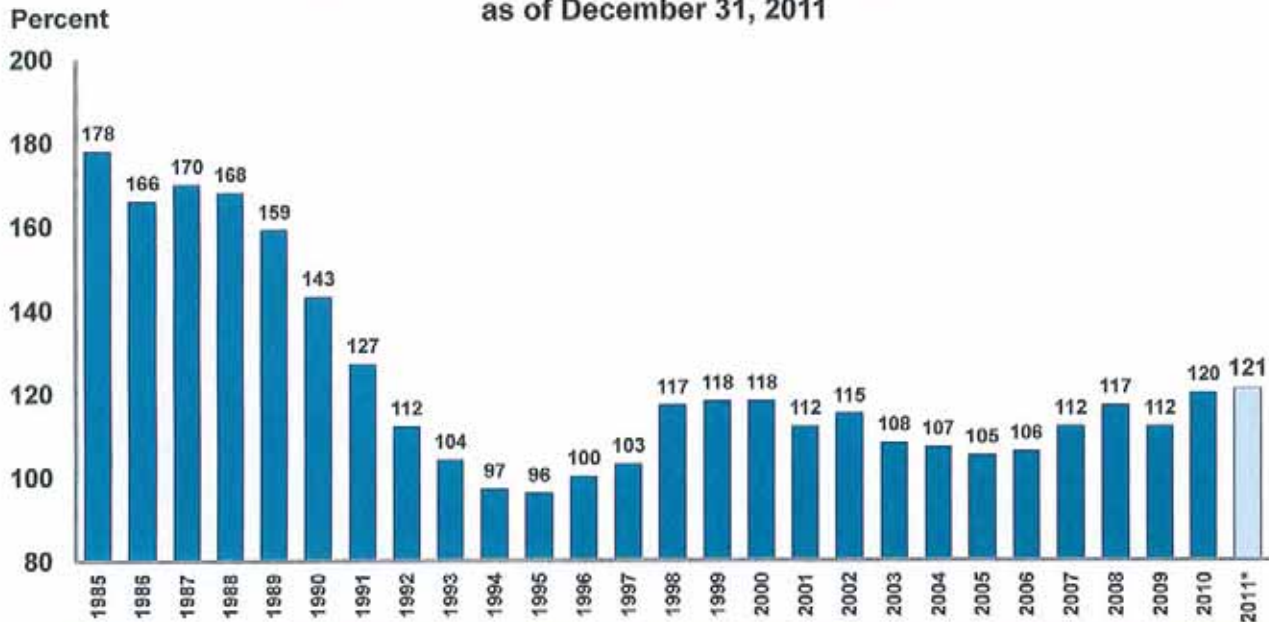


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Workers Compensation Residual Market Combined Ratio

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2011



* Incomplete policy year projected to ultimate

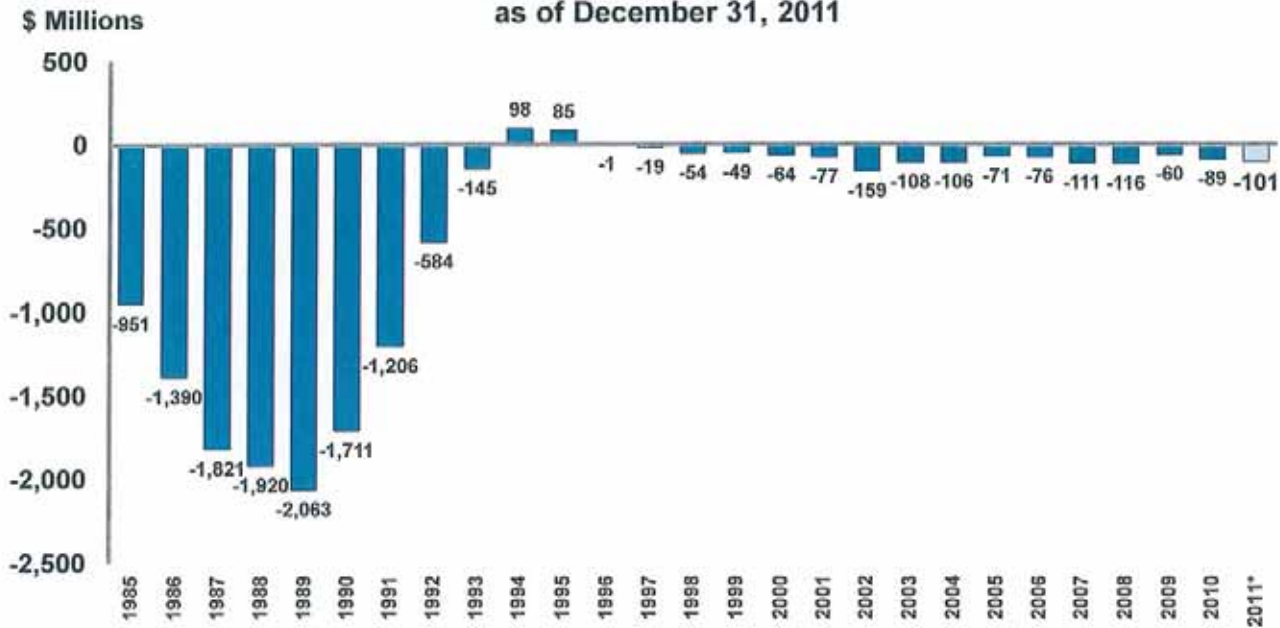
Policy Year



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Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2011



* Incomplete policy year projected to ultimate

Policy Year



Current Topics of Interest

Experience Rating Plan Methodology Review

- An extensive review has been recently completed
- Number of years in the plan will remain the same
- We are increasing the split point* from \$5,000 to \$15,000 (trended) over a three-year transition period
- The split point will be indexed for future claim inflation
- A filing for these changes was made in third quarter of 2011
- Experience rating changes will be premium-neutral in each state

* The split point divides actual losses into primary and excess components

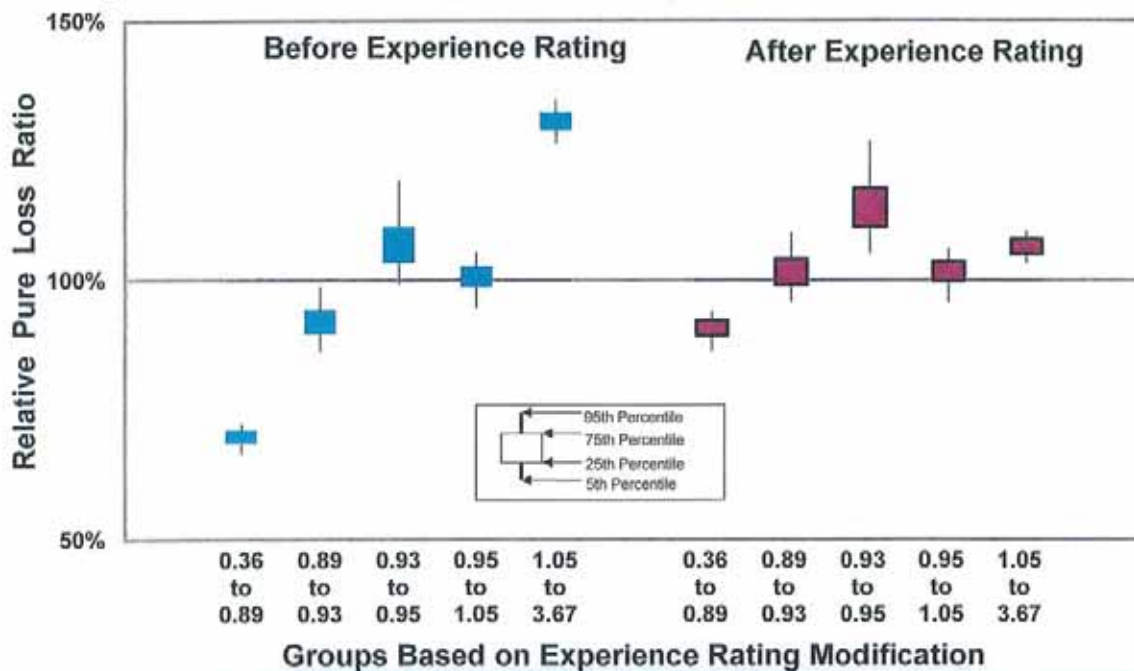
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Quintile Analysis Current \$5,000 Split Point

Policy Year 2006 Under the Experience Rating Plan, Indexed for Severity Inflation

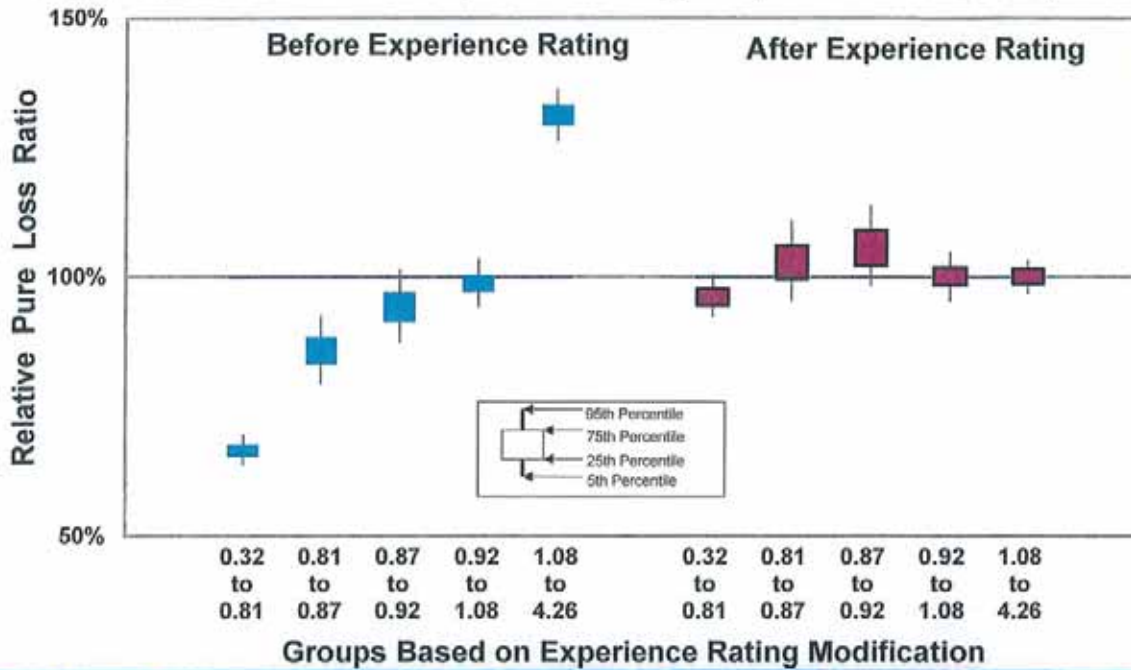


Relative Pure Loss Ratio = Quintile Loss Ratio / Loss Ratio of All Quintiles Combined

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Quintile Analysis Indicated \$15,000 Split Point

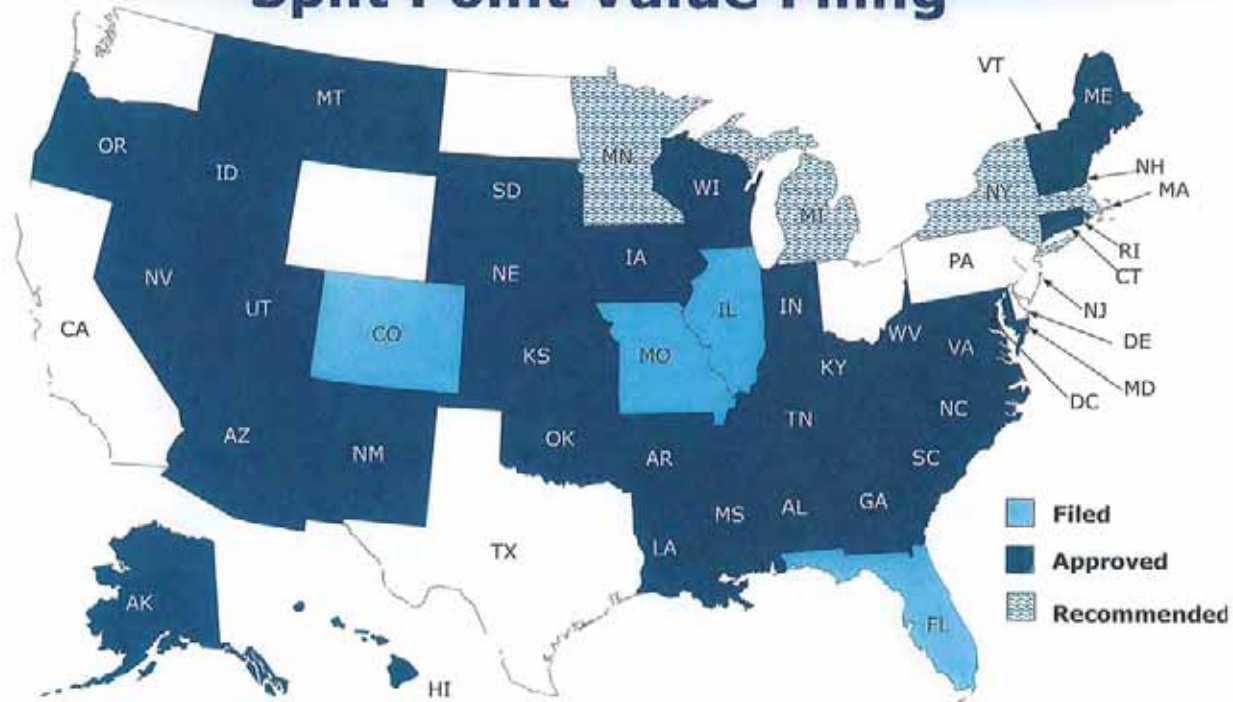
Policy Year 2006 Under the Experience Rating Plan, Indexed for Severity Inflation



Relative Pure Loss Ratio = Quintile Loss Ratio / Loss Ratio of All Quintiles Combined



Experience Rating Plan Primary/Excess Split Point Value Filing



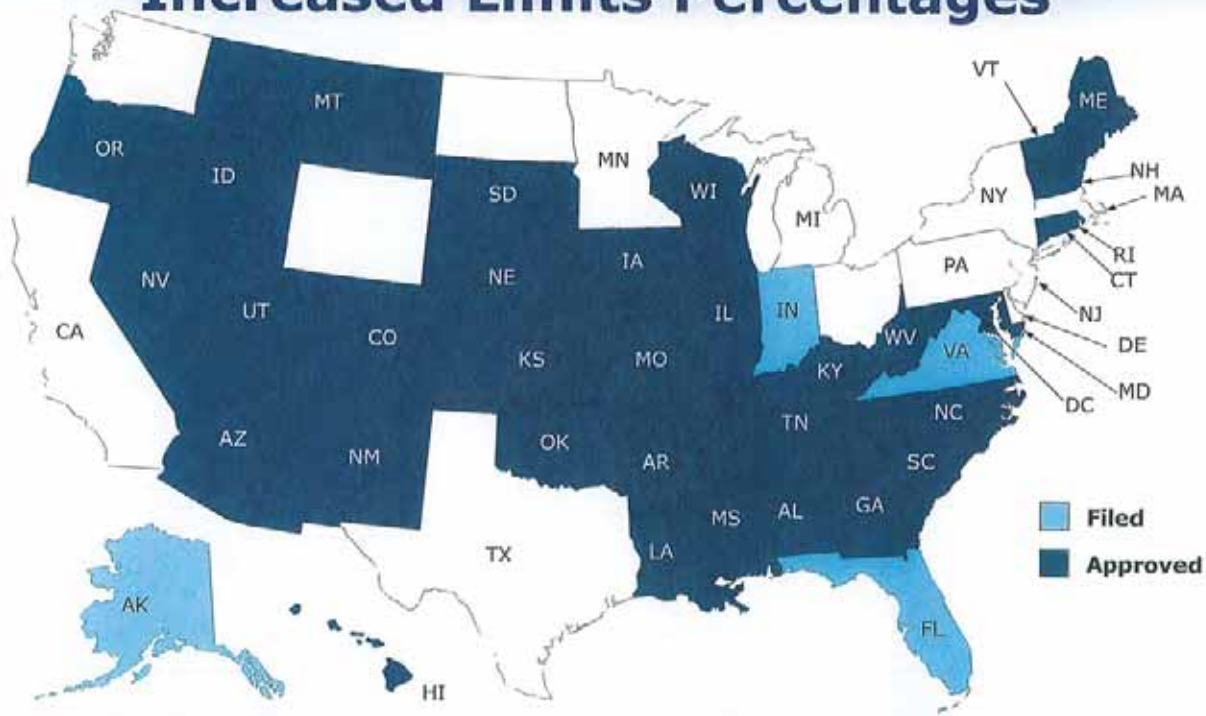
Employers Liability: Increased Limits Percentages

- Part Two of a workers compensation policy provides employers liability (EL) coverage
- A provision for a basic amount of coverage (\$100,000) is already contained within the loss costs; employers have the option to purchase higher limits of EL coverage
- The EL increased limits percentages (in NCCI's *Basic Manual*) are applied to price such additional EL coverage
- NCCI reviewed and recently updated these percentages
- Filed by NCCI in September 2011, Item B-1425 contains the revisions to the increased limits percentages

Highlights of Item Filing B-1425

- B-1425 was filed in all NCCI states (excluding Texas) and also in Indiana and North Carolina
- Thirty-three NCCI states and Wisconsin have approved B-1425 to date
- EL results vary significantly by state
- NCCI created and filed two tables of increased limits percentages; the basic limit remains at \$100K
- NCCI assigned seven states to a higher table of values: Alabama, Florida, Illinois, Louisiana, Oklahoma, Tennessee, and West Virginia
- The remaining 30 states are assigned to the lower table of values

Adoption of Employers Liability Increased Limits Percentages

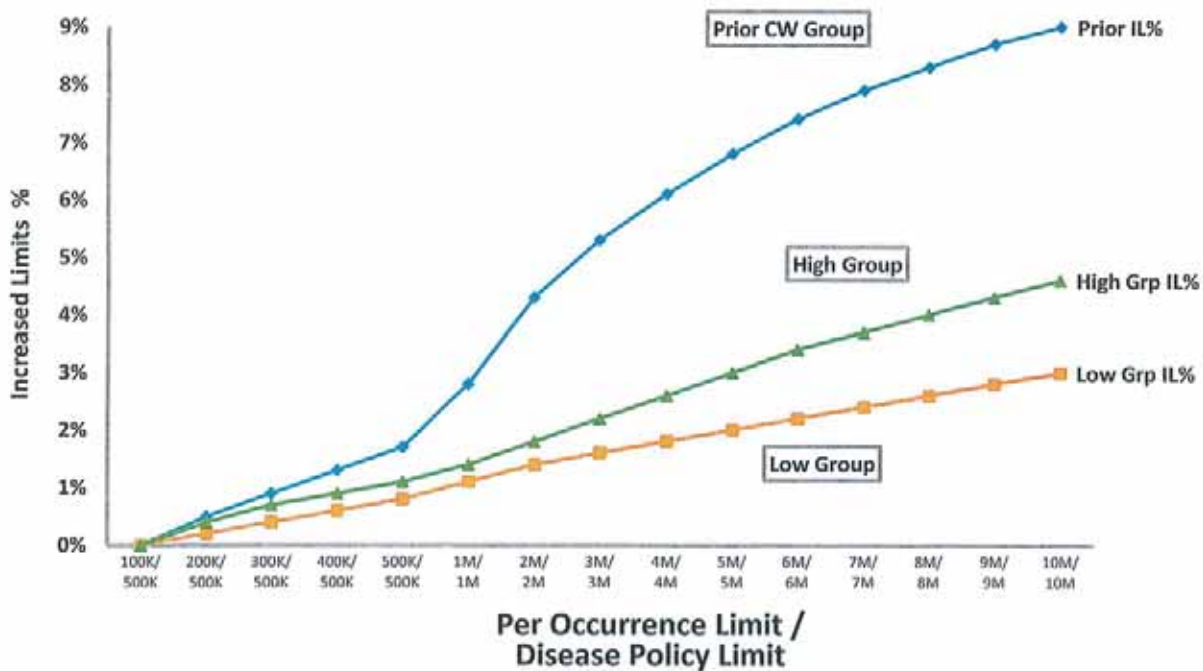


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Comparison of Increased Limits Percentages (IL%)



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In Summary

EL Increased Limits Percentages

- The increased limits percentages have decreased
- Later this year, NCCI will make ratemaking adjustments to the overall indication in states that approve Item B-1425
- This will be revenue-neutral by state

Concluding Remarks

In Summary

Negatives

- Underwriting results
- Frequency flat
- Interest rates at historic lows
- Potential expansion of alternative systems for workers compensation
- Uncertain impact from healthcare reform
- Pace of economic recovery

Positives

- Premium increased
- Severity growth moderate
- Overall loss cost impact of frequency and severity minimal
- Industry's capital position

Questions and More Information

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and watch a video overview of the State of the
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