Workers Compensation
Other Risk Factors

- Court Decisions
- Legislative Changes
- Medical Inflation
- Economic Conditions
- Administrative Law Judge ("ALJ") Changes—Impact on Tail
- Long-Term Pension Cases

Court Decisions – Kentucky

- Assisted Living Compensable under KY Workers Compensation (KY Farm Bureau vs. Senninger 2009)

- Change Required Impairment Rating from 1% to 0% Impairment for Lifetime medical benefits (FEI Installation 2007)

- Eliminate subrogation recoveries for workers compensation (AIK vs. Bush 2008)
Legislative Changes

- Federal Black Lung changes
  - Due to Health Care Reform Act
  - Liberalized Thresholds
  - Senate Version Modifies Eligibility Retroactive to 2005, if Employed for 15 Years
  - Liberalization of presumption of Eligibility for Widows Under Miner Death
- Results: +44% Surface and Underground Mining in West Virginia

Source: InsuranceNewsnet.com May 21, 2010

Medical Inflation

- NCCI Findings:
  - Decreasing WC frequency (-4% 2009)
  - Offset by increasing Severity (+5% to 5.5%)
- Increased Severity due to
  - Medical Inflation
  - Changes in Utilization
  - More Treatments per Claim (decreasing in more recent period analyzed)
  - Longer Life Expectancies
  - Use of Higher Cost Surgeries, Prescription Drug Costs

Source: NCCI May 6, 2010 News Release and July 16, 2010 Medical Update

Workers Comp Lost-Time Claim Frequency Down More than 50% Since 1991

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Percent Change</th>
<th>Lost-Time Claims</th>
<th>Cumulative Change of -54.7% from 1991 to 2008 means that lost work time claims have been cut by more than half</th>
</tr>
</thead>
<tbody>
<tr>
<td>91-92</td>
<td>-2.3</td>
<td>-4.5</td>
<td></td>
</tr>
<tr>
<td>93-94</td>
<td>-4.5</td>
<td>-3.8</td>
<td></td>
</tr>
<tr>
<td>95-96</td>
<td>-3.8</td>
<td>-4.5</td>
<td></td>
</tr>
<tr>
<td>97-98</td>
<td>-4.5</td>
<td>-4.1</td>
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<tr>
<td>99-00</td>
<td>-3.0</td>
<td>-3.4</td>
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<tr>
<td>01-02</td>
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<tr>
<td>03-04</td>
<td>-2.3</td>
<td>-4.5</td>
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<td>05-06</td>
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<tr>
<td>07-08</td>
<td>-6.6</td>
<td>-6.2</td>
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<tr>
<td>09p</td>
<td>-3.0</td>
<td>-3.4</td>
<td></td>
</tr>
</tbody>
</table>

Source: NCCI Annual Issues Symposium May 6, 2010

2009p: Preliminary based on data valued as of 12/31/2009
1991-2008: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies
Inflation for Medical Care has been surging ahead of general inflation (CPI) for 25 years. Since 1982-84, the cost of medical care has more than tripled.

Workers Comp Medical Claims Costs Continue to Climb

Cumulative Change = +200% (1994-2009)

WC Medical Severity Rising at Double the Medical CPI Rate

Average annual increase in WC medical severity from 1995 through 2009 was more than twice the medical CPI rate (7.6% vs. 3.2%)
Medical Costs Share of Total Costs is Increasing Steadily

<table>
<thead>
<tr>
<th>Year</th>
<th>Indemnity</th>
<th>Medical</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>1999</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>2009</td>
<td>48%</td>
<td>52%</td>
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</tbody>
</table>

Source: NCCI Annual Issues Symposium May 6, 2010

Economic Conditions

- Mixed Findings Due to “Great Recession”
  - Some spikes observed
  - In other cases, lack of job opportunities lead to cautious filing of workers compensation claims

Impact of Financial Crisis on WC

1. Layoffs
2. High unemployment, eliminated positions, future jobs to return to, fewer light duty jobs to perform until ready to return to post position
3. Mergers & Acquisitions
4. Reduced State Budgets for Appeals
5. Reduced Company Budget for Risk Management
6. Increased Collateral Costs
7. Reduced payroll & audit premium
8. Continued trend in reduced frequency
9. Decreased Return to Work Programs
10. Longer wait for claims to be adjudicated, longer time on claim, increased cost
11. Longer time on claim, slower closure rates
12. Fewer Risk Management resources, more work for Risk Managers
13. Increase in Collateral requirements
Administrative Law Judge Changes—Effect on Tail

- 2003-2007, More Conservative ALJ’s in KY favor insurance industry
- Reported KY Tails Decrease
- With Shift in 2008 Kentucky Governor, Tails may increase again

Kentucky NCCI 8th:Ult. Reported Tail

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Indemnity</th>
<th>Medical</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>1.112</td>
<td>1.932</td>
<td>1.479</td>
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<tr>
<td>1997</td>
<td>1.072</td>
<td>1.615</td>
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<td>1998</td>
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<tr>
<td>1999</td>
<td>1.035</td>
<td>1.260</td>
<td>1.151</td>
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<tr>
<td>2000</td>
<td>1.026</td>
<td>1.246</td>
<td>1.144</td>
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</table>

Source: NCCI 2010 Statistical Bulletin

Long-Term Pension Cases

- Probability of increases for long-term pension cases increase due to pressure on WC system
- Can be significant risk factor for WC