

# **WORKERS COMPENSATION**

## **Current Topics**

Prepared by:

Barry Lipton, FCAS, MAAA

NCCI

Nancy Treitel-Moore, FCAS, MAAA

Liberty Mutual

Edited and Presented by:

Mike Toth, FCAS, MAAA

Casualty Actuarial Society  
Seminar on Reinsurance

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# What Are Today's Key Issues in Workers Compensation?

- Impact of Economic Downturn
- Current Profitability
- Reserve Levels
- Pricing
- Loss Trends
- Legislative Issues
- Developments in Ratemaking

# Another Year of Premium Declines

## Net Written Premium by Line

Line of Business	2006	2007	2008p	Change
Personal Auto	\$ 160.2 B	\$ 159.1 B	\$ 159.9 B	0.5%
Homeowners	\$ 56.9 B	\$ 57.3 B	\$ 58.7 B	2.5%
<b>Workers Compensation</b>	\$ 46.9 B	\$ 44.2 B	\$ 40.4 B	-8.7%
Other Liability (Incl Prod Liab)	\$ 45.7 B	\$ 44.3 B	\$ 41.2 B	-7.0%
Commercial Multiple Peril	\$ 31.7 B	\$ 31.1 B	\$ 29.5 B	-5.0%
Commercial Auto	\$ 26.7 B	\$ 25.5 B	\$ 23.7 B	-7.0%
Fire & Allied Lines (Incl EQ)	\$ 20.0 B	\$ 21.9 B	\$ 25.0 B	14.5%
All Other Lines	\$ 69.3 B	\$ 70.1 B	\$ 71.3 B	1.7%
<b>Total All Lines</b>	<b>\$457.3 B</b>	<b>\$453.4 B</b>	<b>\$449.7 B</b>	<b>-0.8%</b>

Source: Best's Review/Preview

# Combined Ratios and ROE Deteriorate in 2008

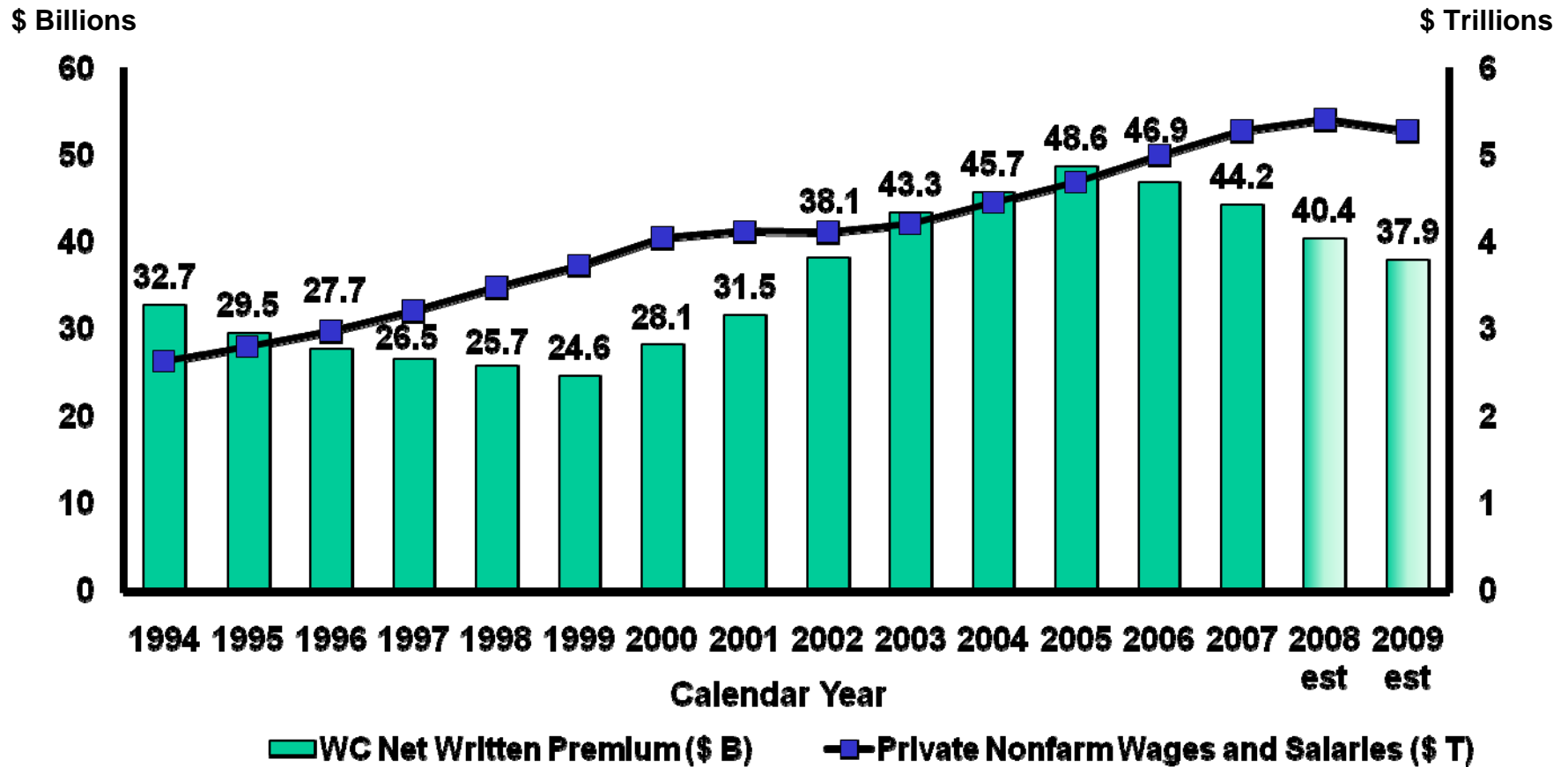
Net Combined Ratios (C/R), After-Tax Return on Surplus (ROE)

<b>Line of Business</b>	<b>2006</b>	<b>2007</b>	<b>2008p</b>
Personal Auto	96%	98%	99%
Homeowners	89%	96%	117%
Workers Compensation	98%	103%	106%
Other Liability (Incl Prod Liab)	95%	99%	101%
Commercial Multiple Peril	93%	92%	106%
Commercial Auto	92%	94%	99%
Fire & Allied Lines (Incl EQ)	80%	70%	105%
All Other	85%	93%	115%
<b>C/R All Lines (P/C)</b>	<b>92%</b>	<b>96%</b>	<b>105%</b>
<b>ROE All Lines (P/C)</b>	<b>15.0%</b>	<b>12.6%</b>	<b>2.7%</b>

Source: Best's Review/Preview

# Workers Compensation Premium Volume Continues to Decline

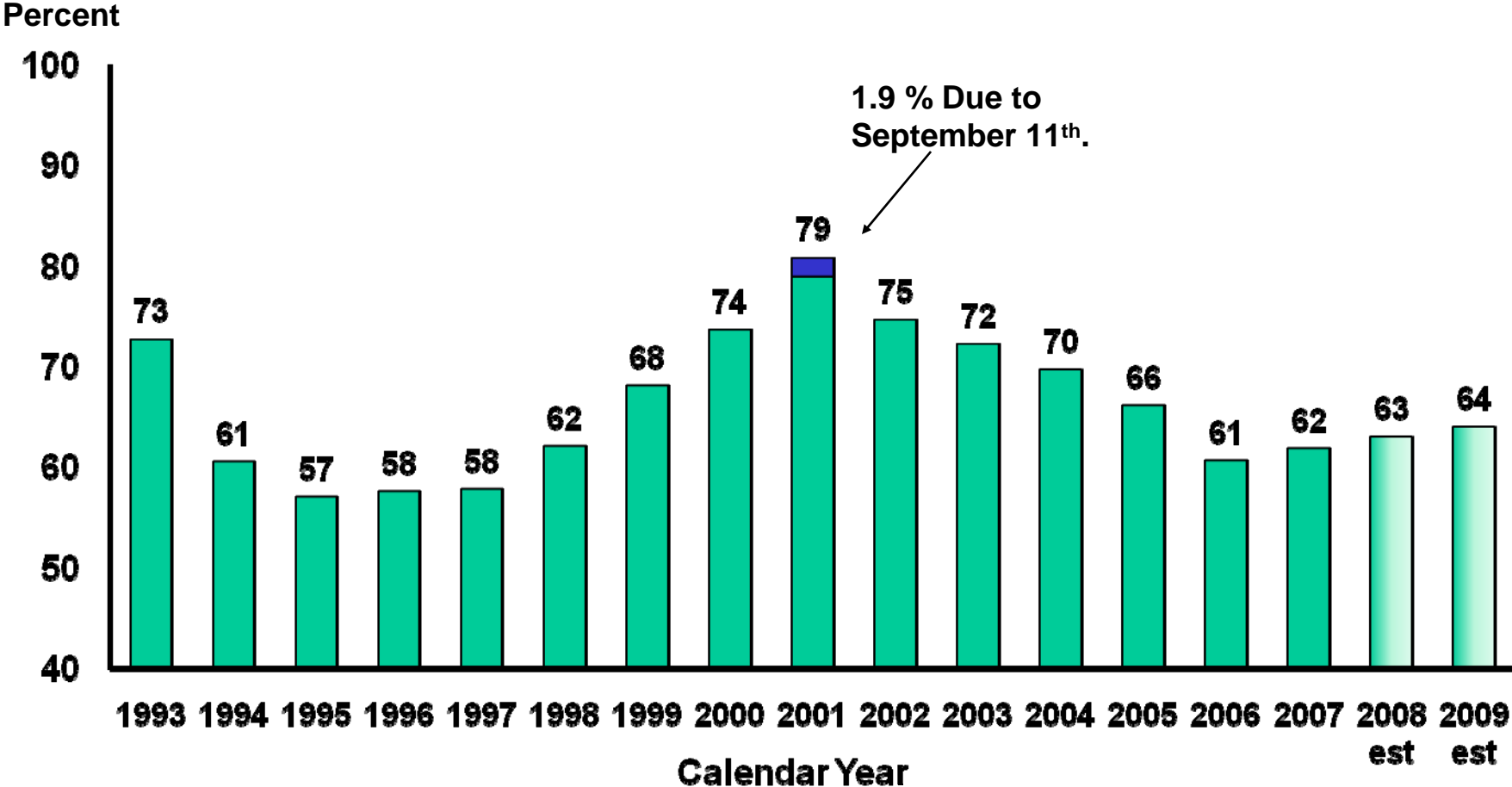
## Workers Compensation Net Written Premium



Source: Best's Aggregates & Averages, Review/Preview; Economy.com

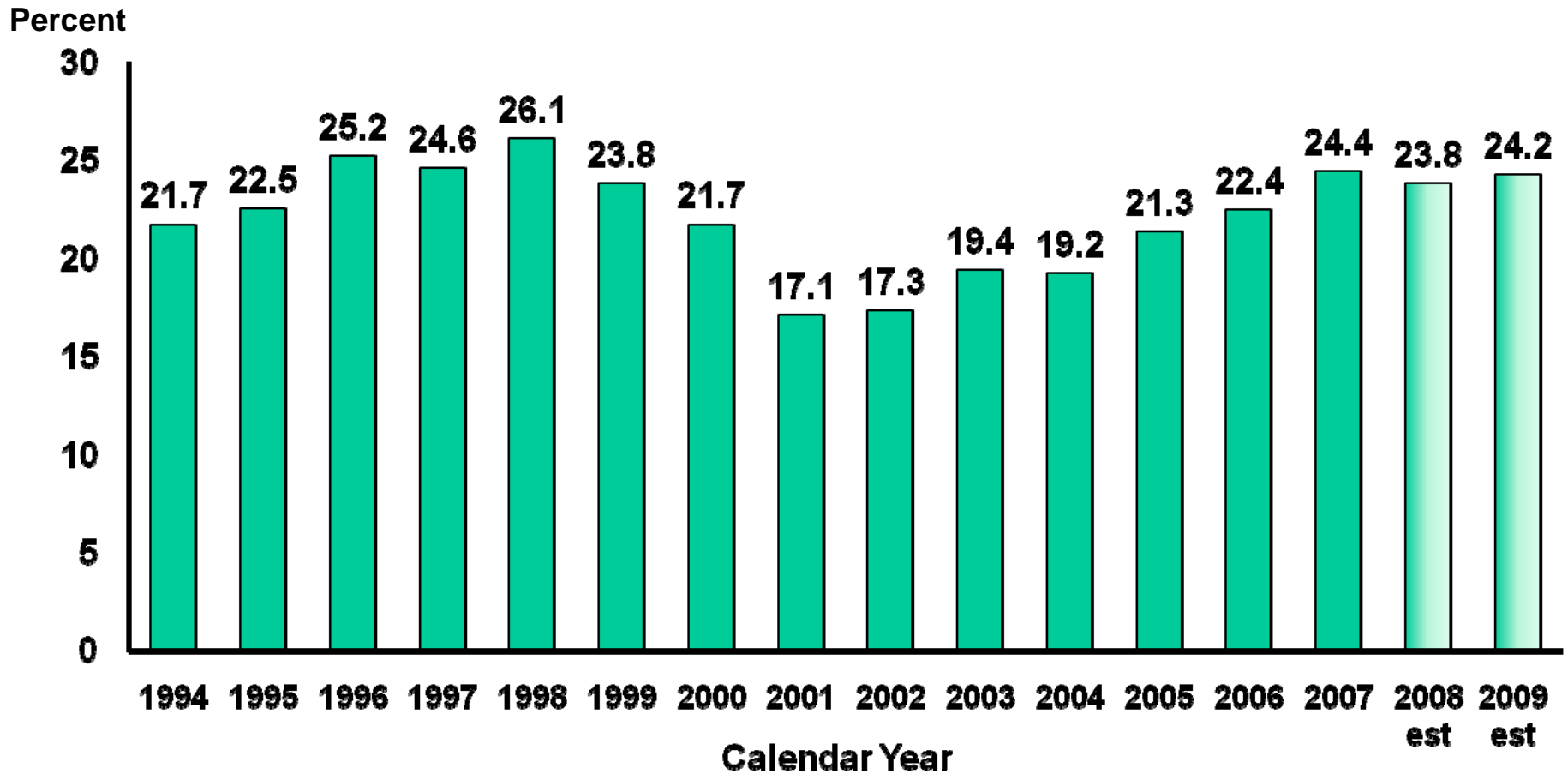
# Calendar Year WC Loss Ratio Shows Slight Deterioration

## Workers Compensation Net Loss Ratios



Source: Best's Aggregates & Averages, Review/Preview; 9-11 est. from NCCI

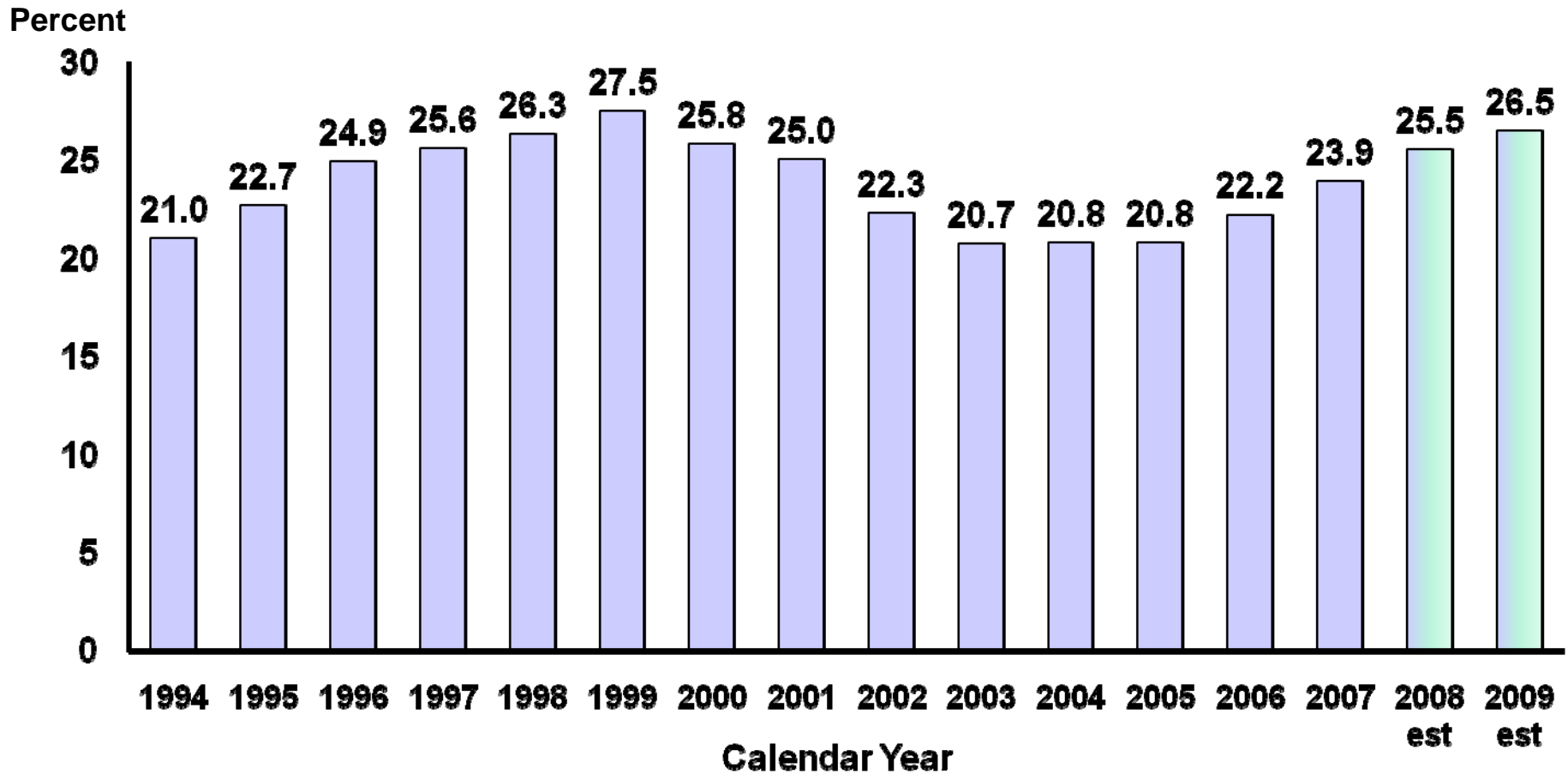
# Workers Compensation Ratio of Loss Adjustment Expense to Incurred Losses



Source: Best's Aggregates & Averages, Review/Preview

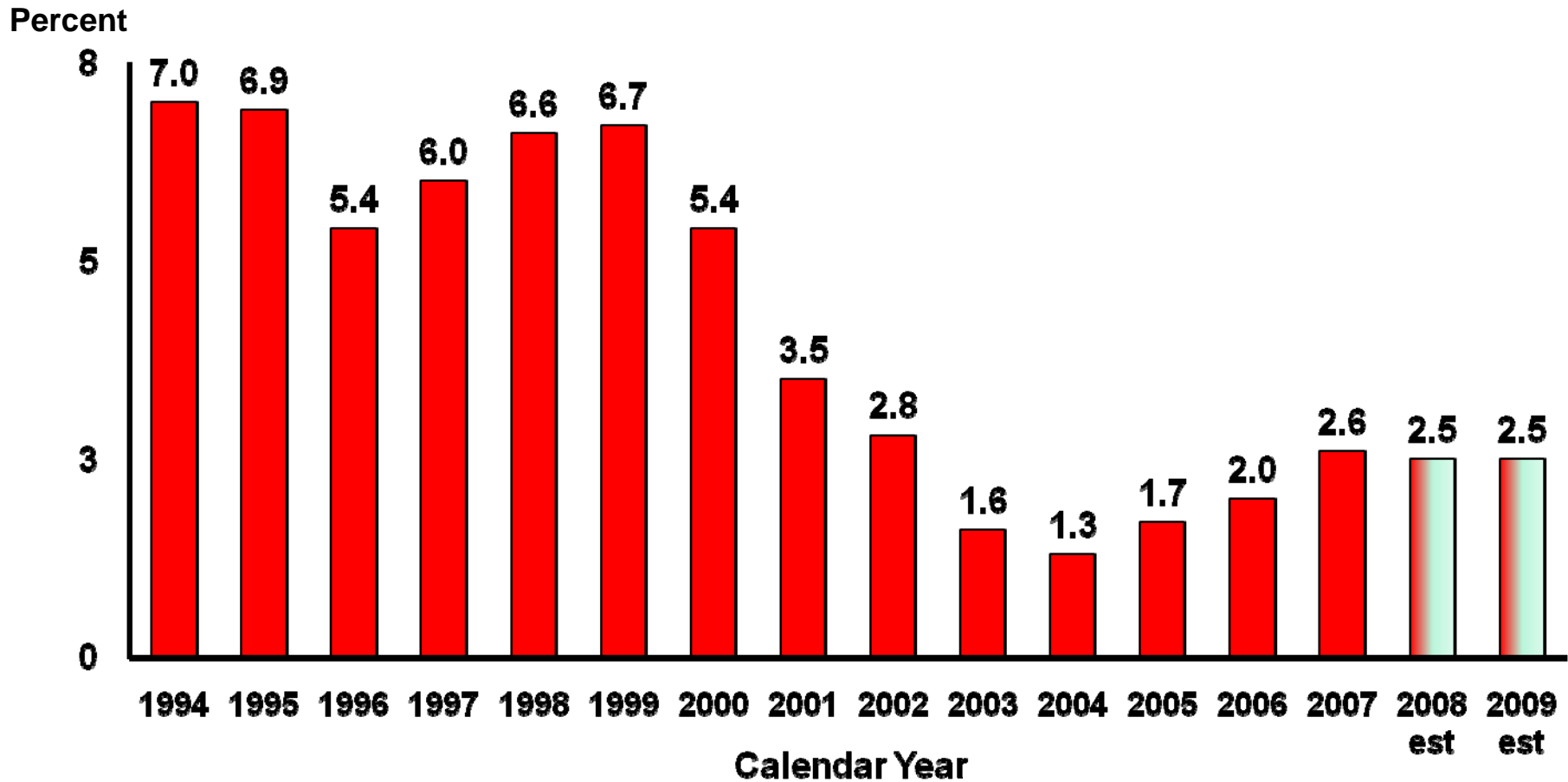
# Workers Compensation Expense Ratios Have Trended Up

WC Ratio of Underwriting Expenses to NWP (Excl Dividends)



Source: Best's Aggregates & Averages, Review/Preview

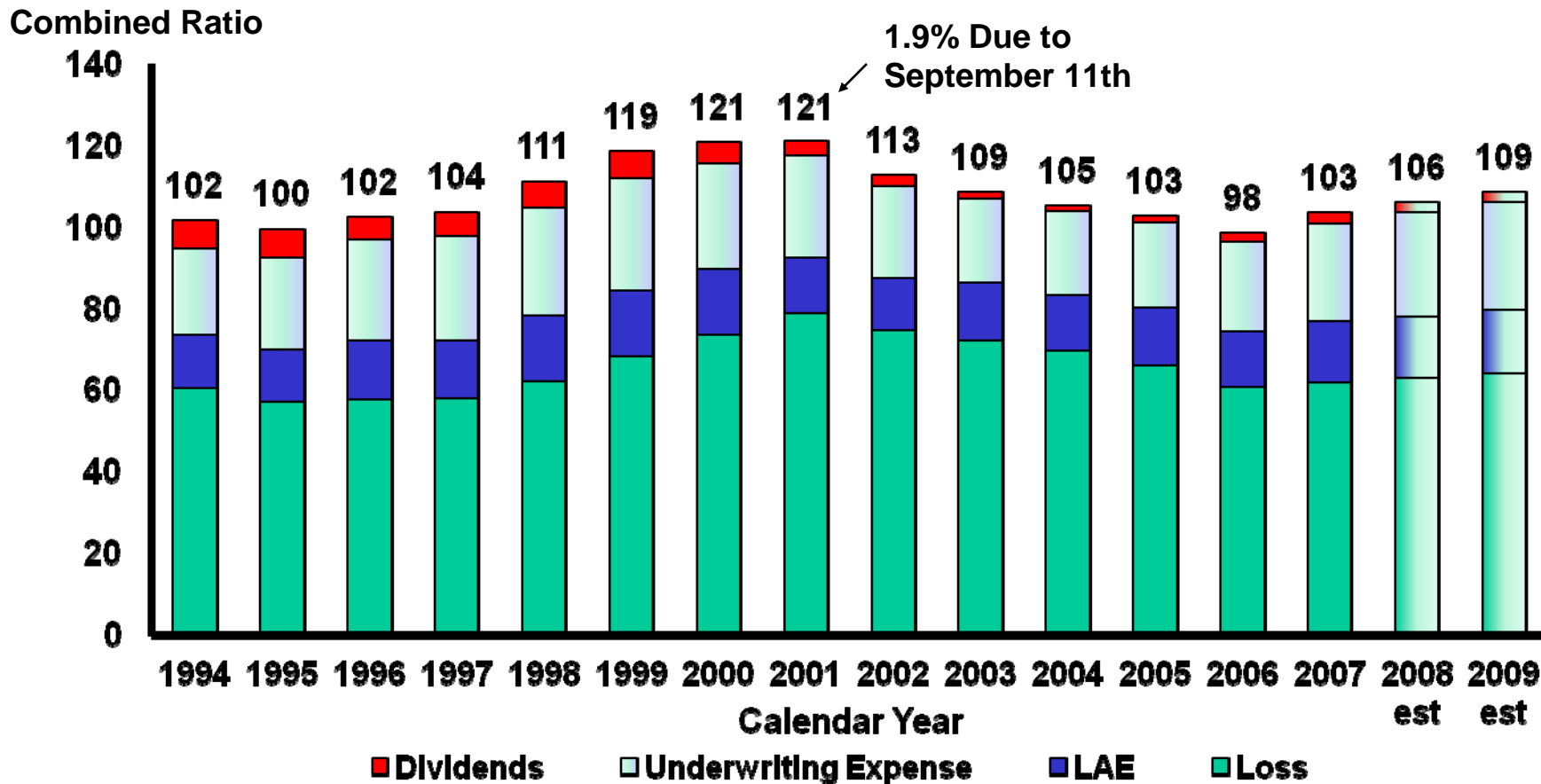
# Workers Compensation Ratio of Policyholder Dividends to Net Earned Premium



Source: Best's Aggregates & Averages, Review/Preview

# Workers Compensation Calendar Year Combined Ratio is Trending up

## Workers Compensation Combined Ratios

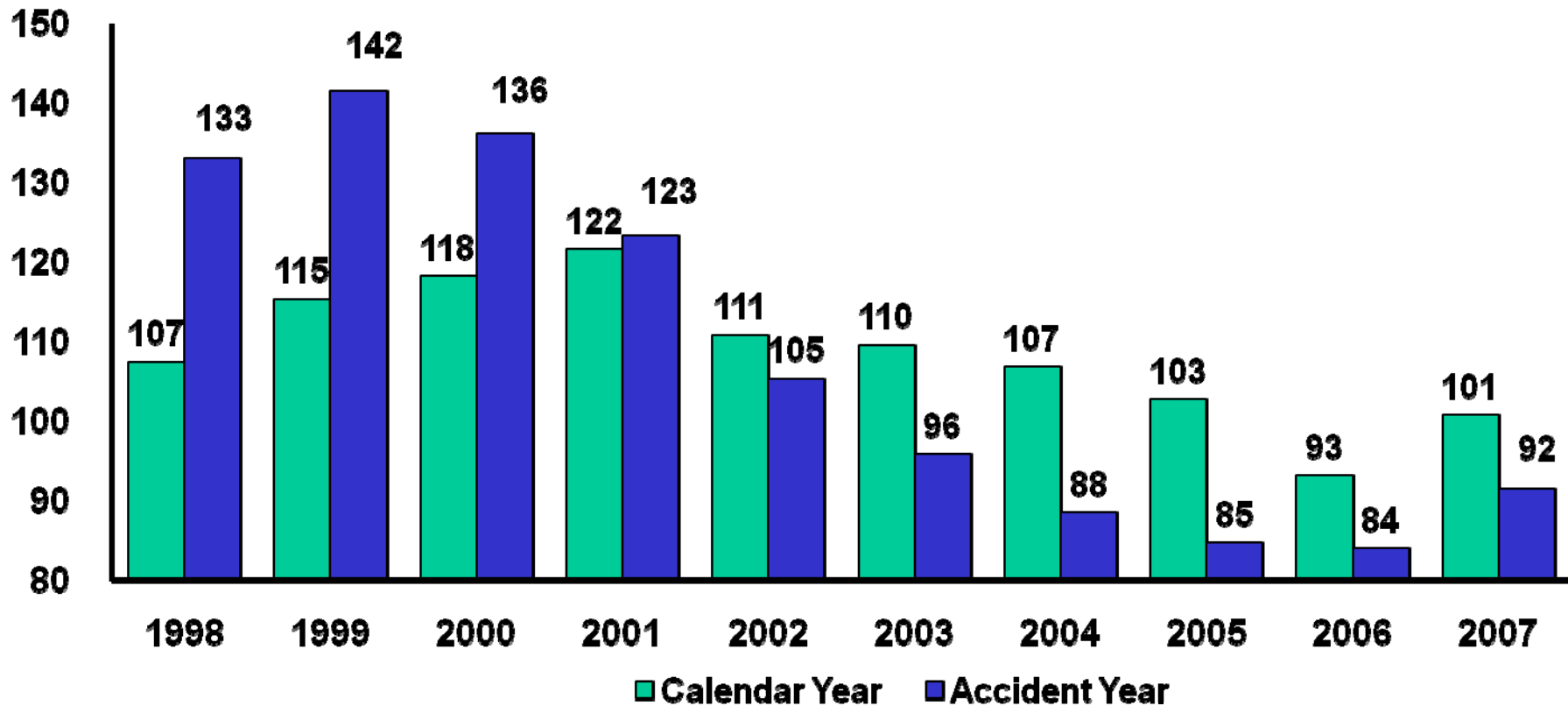


Source: Best's Aggregates & Averages, Review/Preview

# AY 2007 Combined Ratio Showed An Underwriting Gain

WC Calendar Year vs. Ultimate Accident Year  
Countrywide—Private Carriers

Combined Ratio



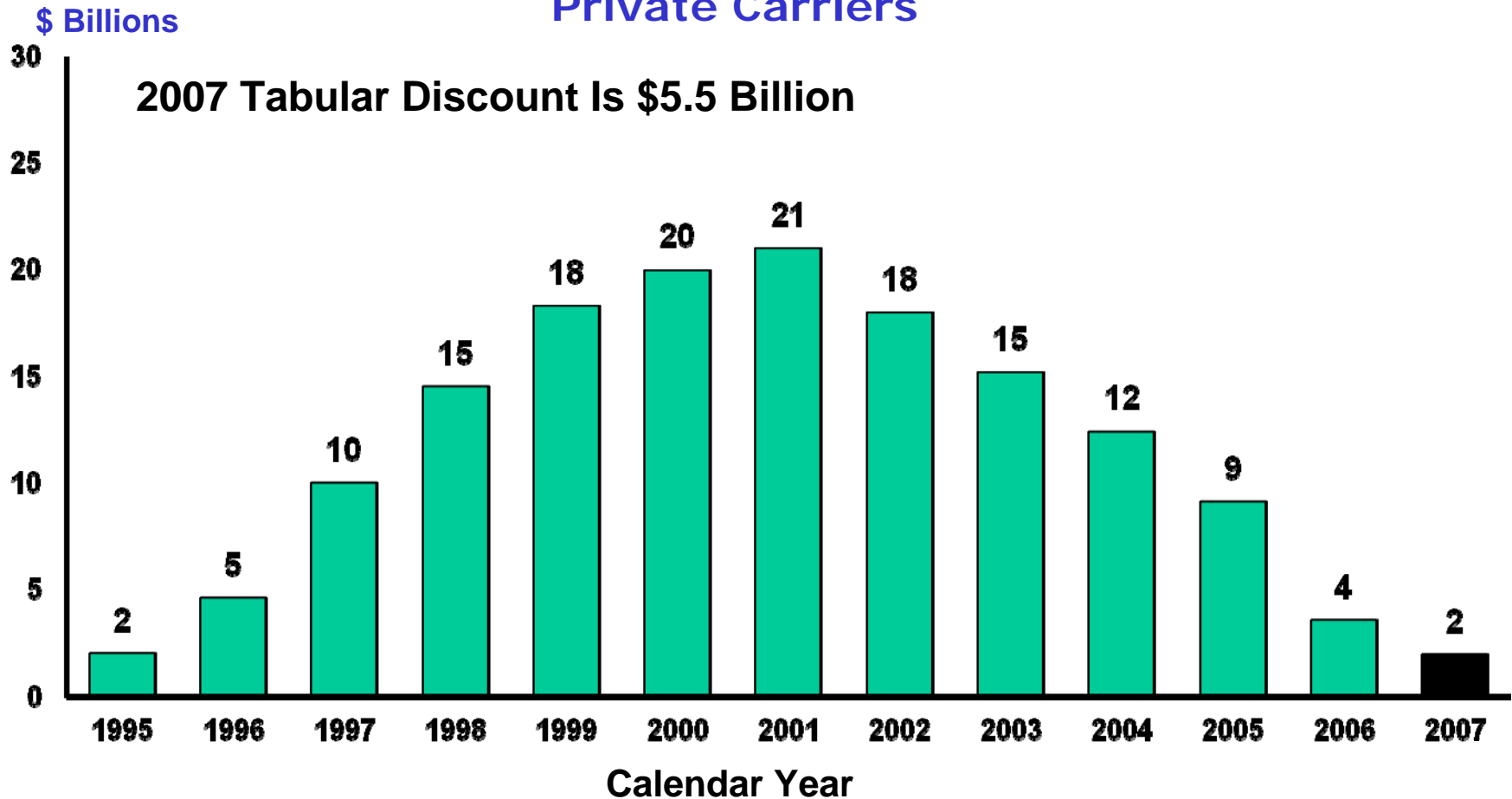
CY 1994-2007: Best's Aggregates & Averages; AY 1994-2007: NCCI;  
Accident year data is evaluated as of 12/31/2007 and developed to ultimate.  
Includes dividends to policyholders.

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# Calendar Year Reserve Deficiencies Continued to Decline

## Workers Compensation Loss and LAE Reserve Deficiency Private Carriers



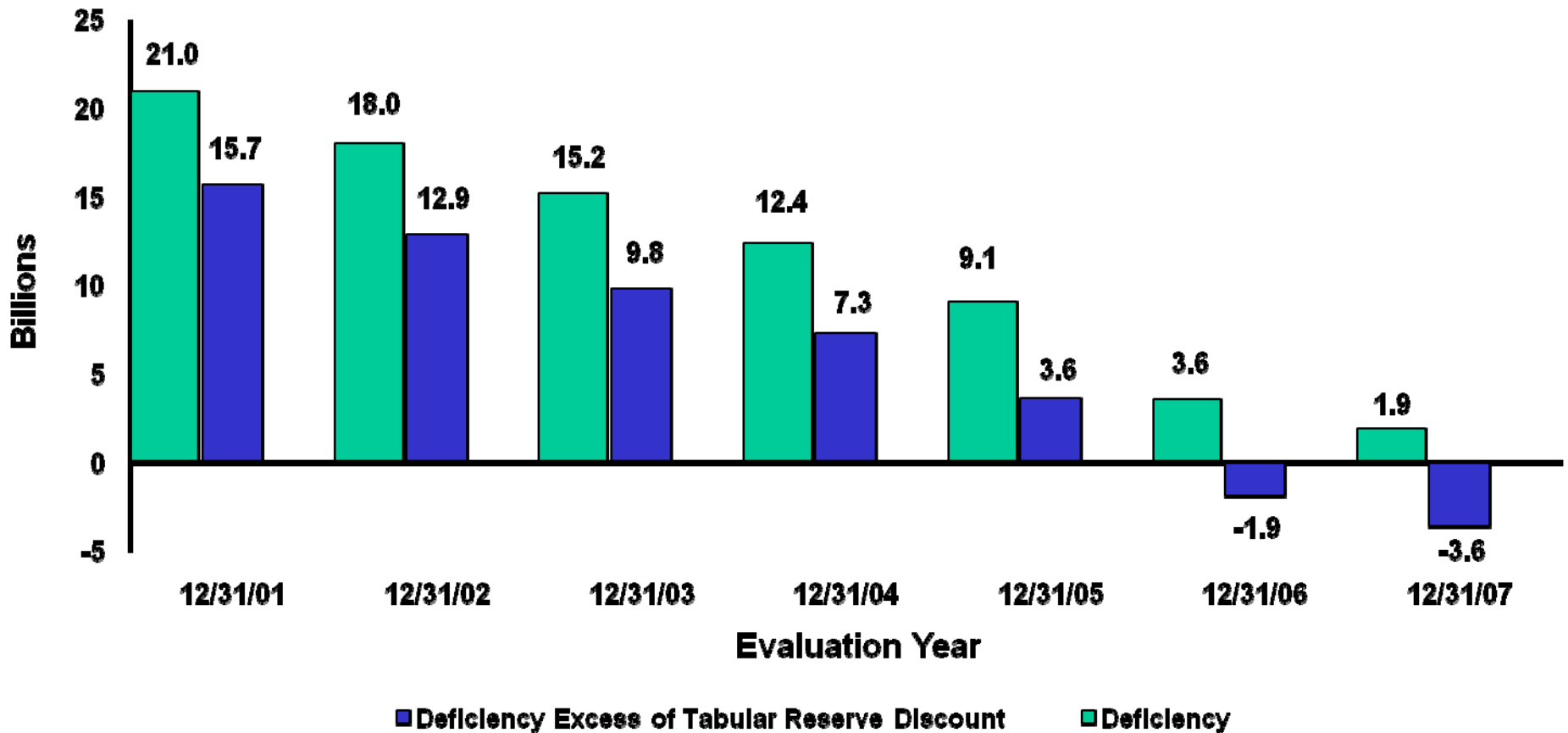
Considers all reserve discounts as deficiencies

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

Source: NCCI analysis

# Deficiency Excess of Tabular Reserves Continued to Decline

WC Loss & LAE Reserves—Private Carriers\*

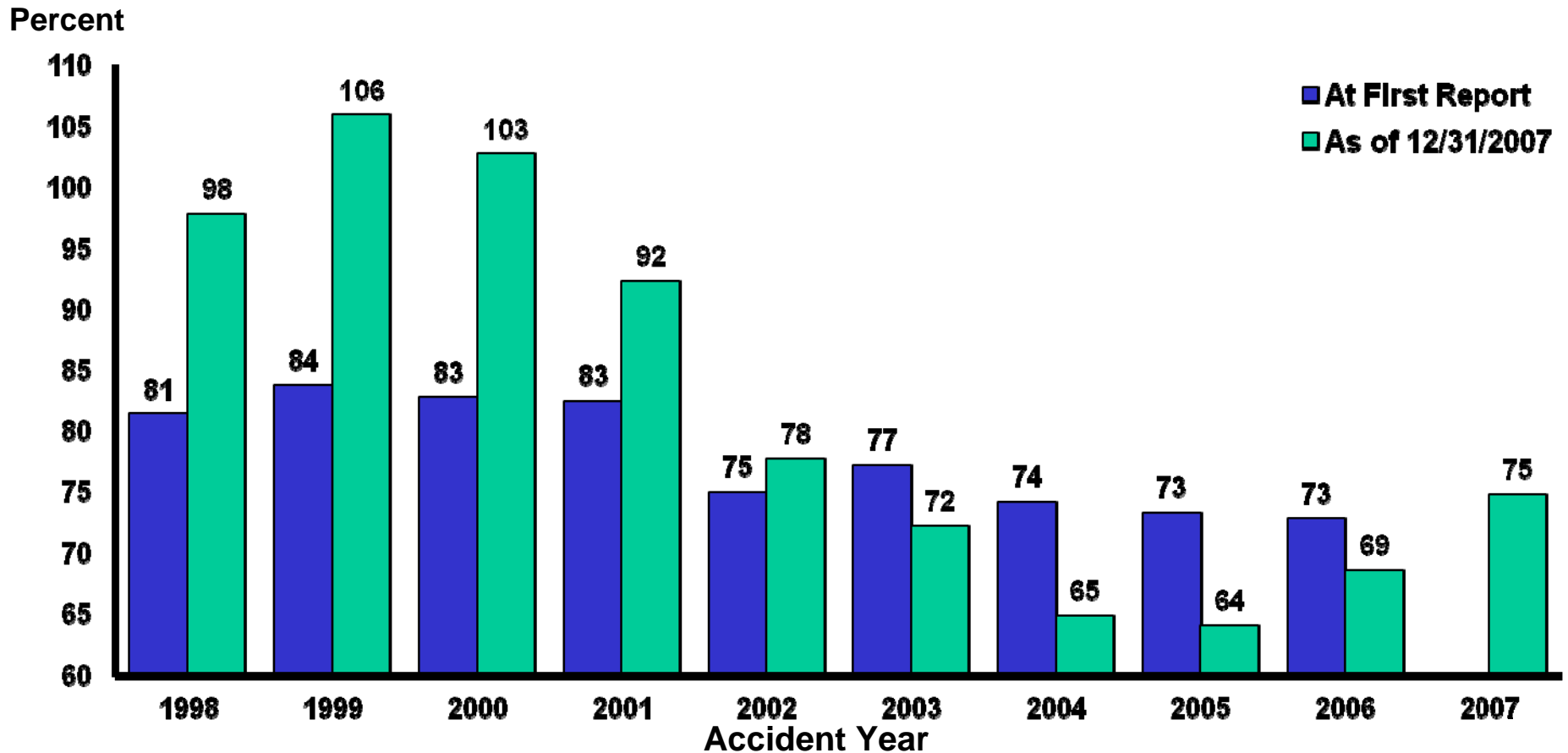


Excess Deficiency is equal to Deficiency less Tabular Reserve Discount

Figures are based on the respective Annual Statement data for each evaluation date and NCCI latest selections

# Workers Compensation Accident Year Loss & LAE Ratios

Accident Year Net Loss Ratios Including LAE  
Countrywide—Private Carriers



Reported Loss and LAE reserves from Schedule P.

# What Are Today's Key Issues in Workers Compensation?

- Impact of Economic Downturn
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- **Pricing**
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# How Are Final WC Premiums Determined?

## ADVISORY ORGANIZATION

Advisory Loss Costs

Assigned Risk Rates

Experience Rating Values

Experience Mods

Rating Plans and  
Classifications

## INSURANCE COMPANY

Final Rate Determination:

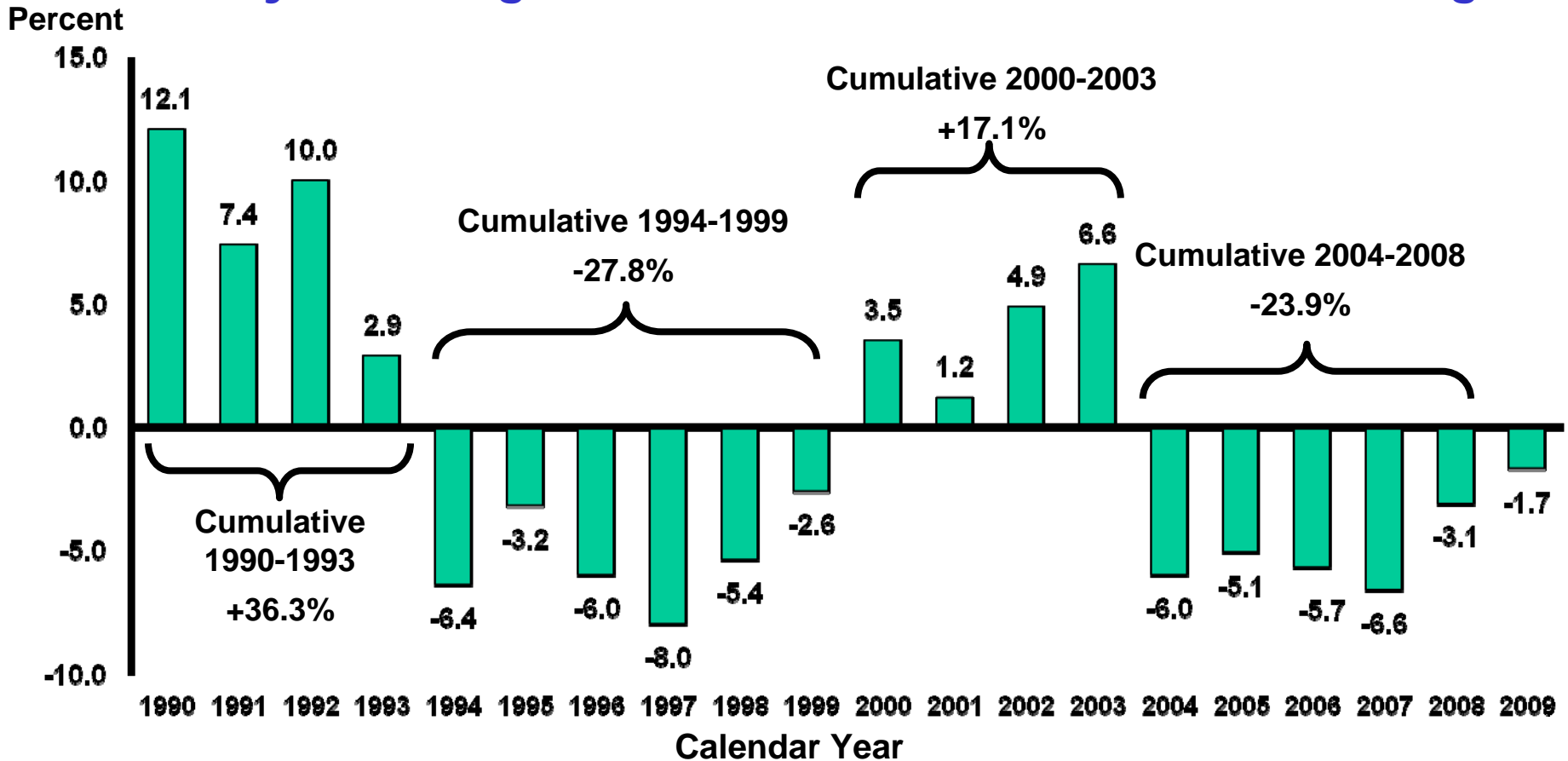
- Expense Multiplier
- Loss Cost Deviations

Individual Risk Modifications:

- Schedule Rating
- Retrospective Rating

# Average Approved Bureau Rate/Loss Cost Still Decreasing

## History of Average WC Bureau Rate/Loss Cost Level Changes



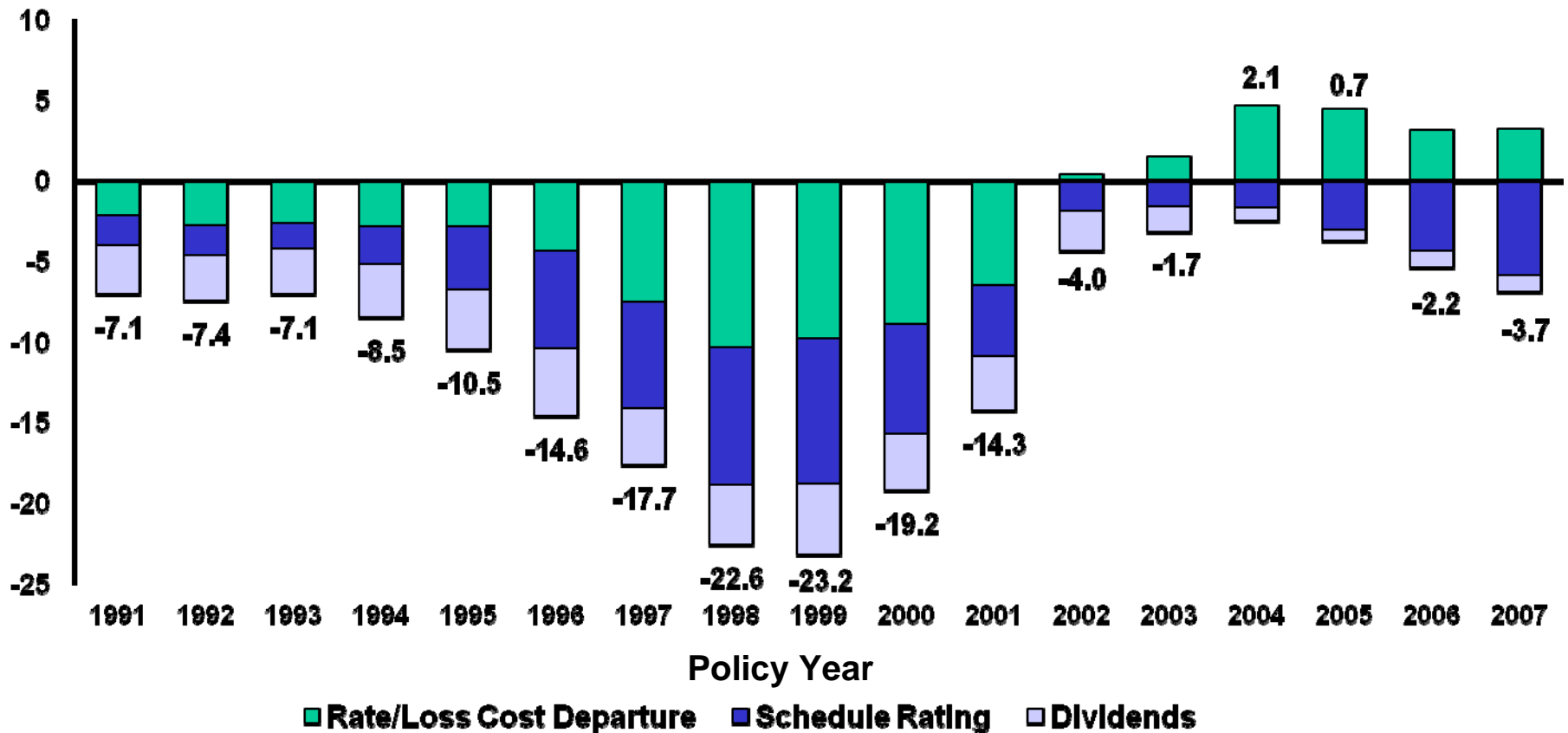
States approved through 02/13/2009

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

# Impact of Discounting on WC Premium

## NCCI States—Private Carriers

Percent

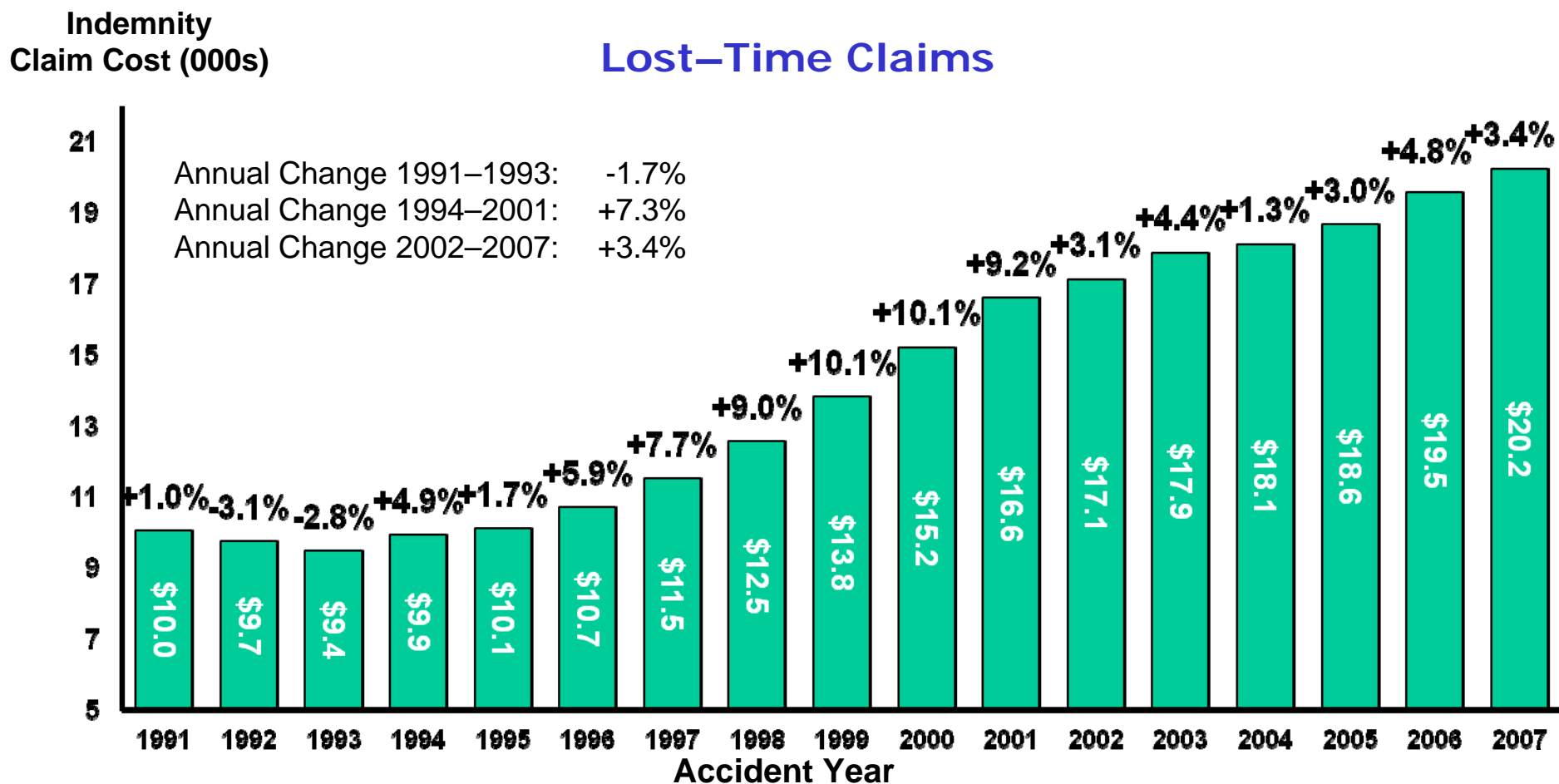


NCCI benchmark level does not include an underwriting contingency provision  
 Dividend ratios are based on calendar year statistics  
 Based on data through 12/31/2007 for the states where NCCI provides ratemaking services

# What Are Today's Key Issues in Workers Compensation?

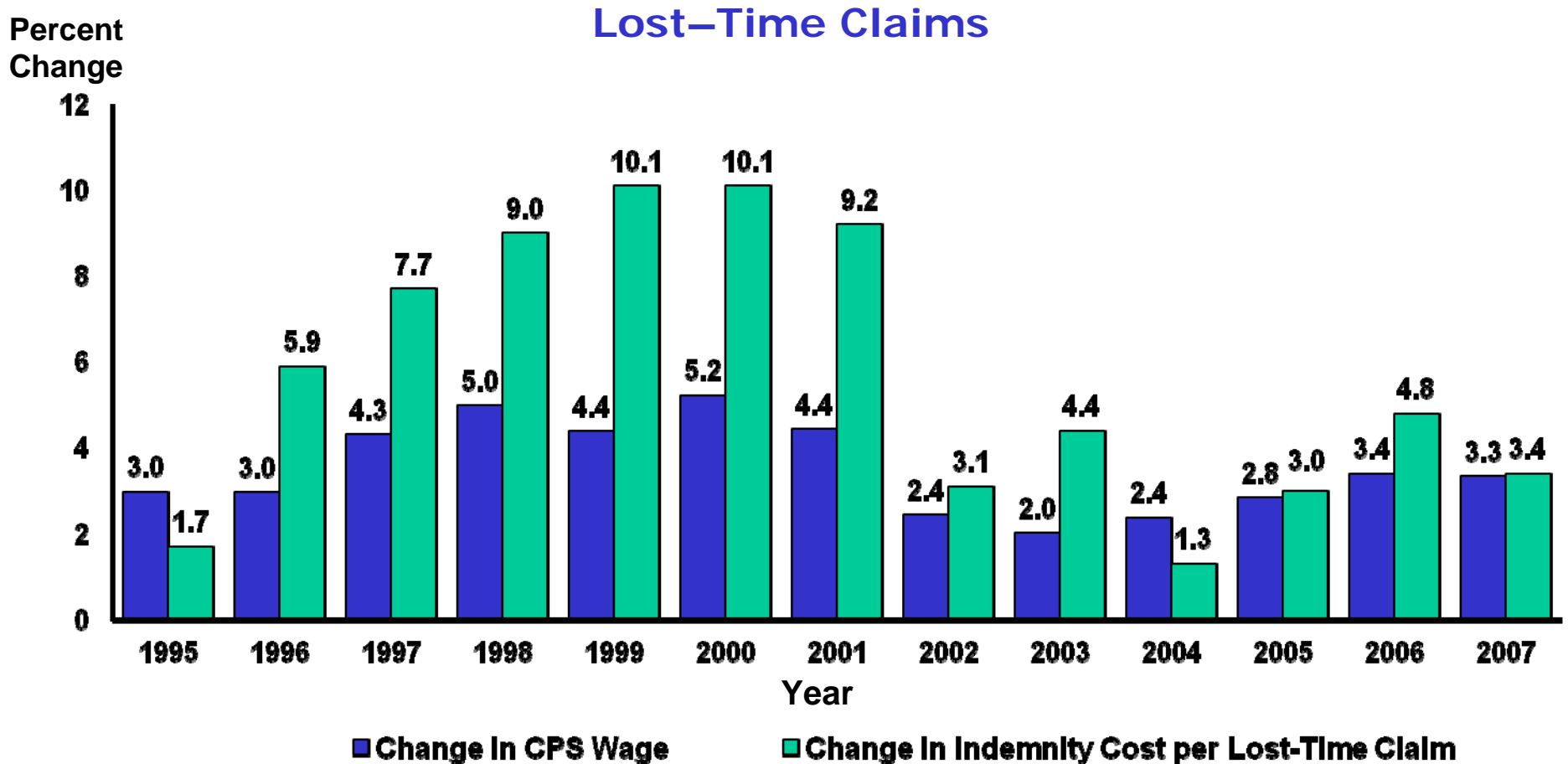
- Impact of Economic Downturn
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# The Rate of Change in Workers Compensation Indemnity Claim Costs Have Moderated



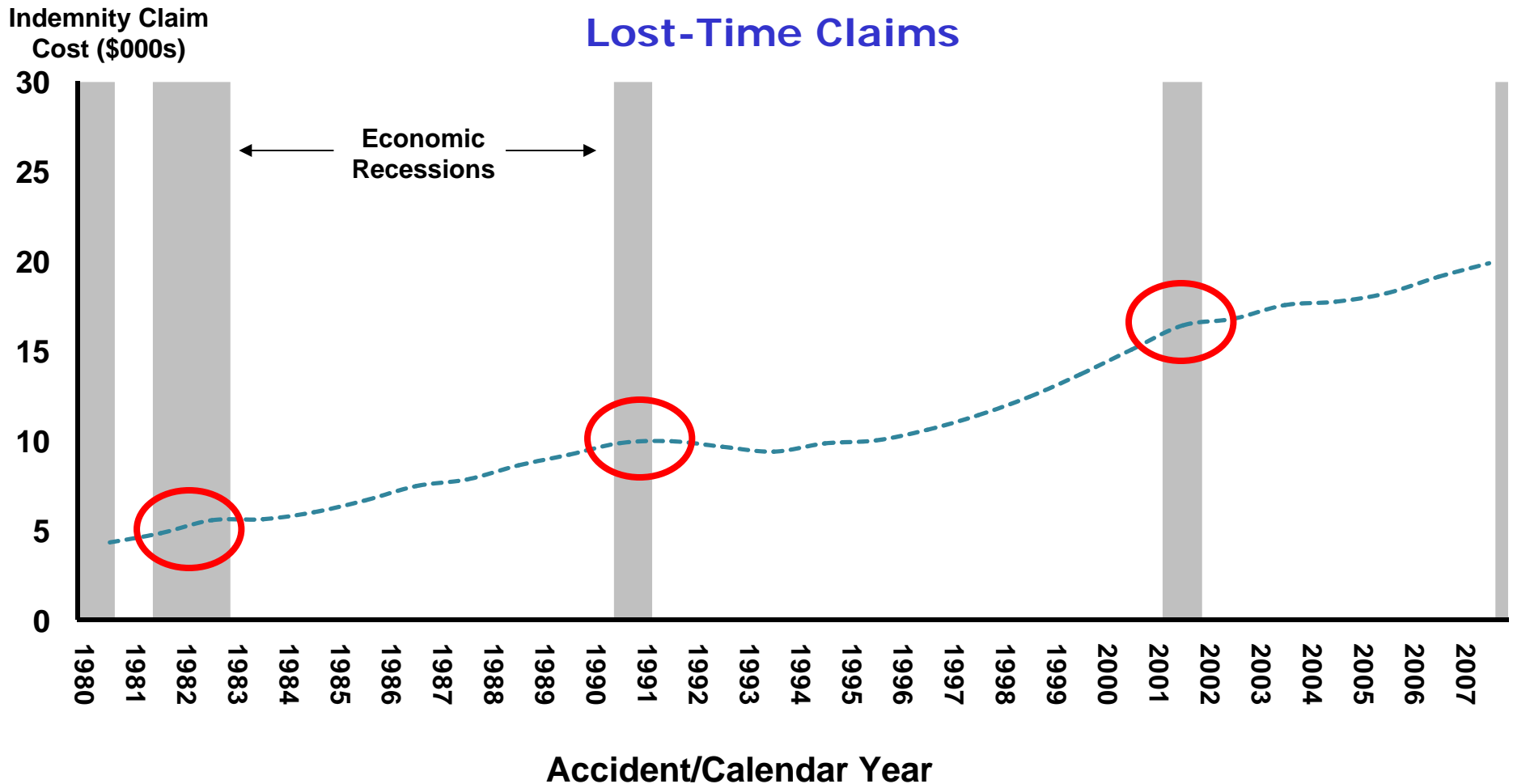
1991–2007: Based on data through 12/31/2007, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes the effects of deductible policies

# Workers Compensation Indemnity Severity vs Wage Inflation



Indemnity severity 1995–2007: Based on data through 12/31/2007, developed to ultimate  
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies  
 Source: CPS Wage—All states (Current Population Survey), Economy.com;  
 Accident year indemnity severity—NCCI states, NCCI

# The Growth in Indemnity Severity Has Eased During Prior Recessions

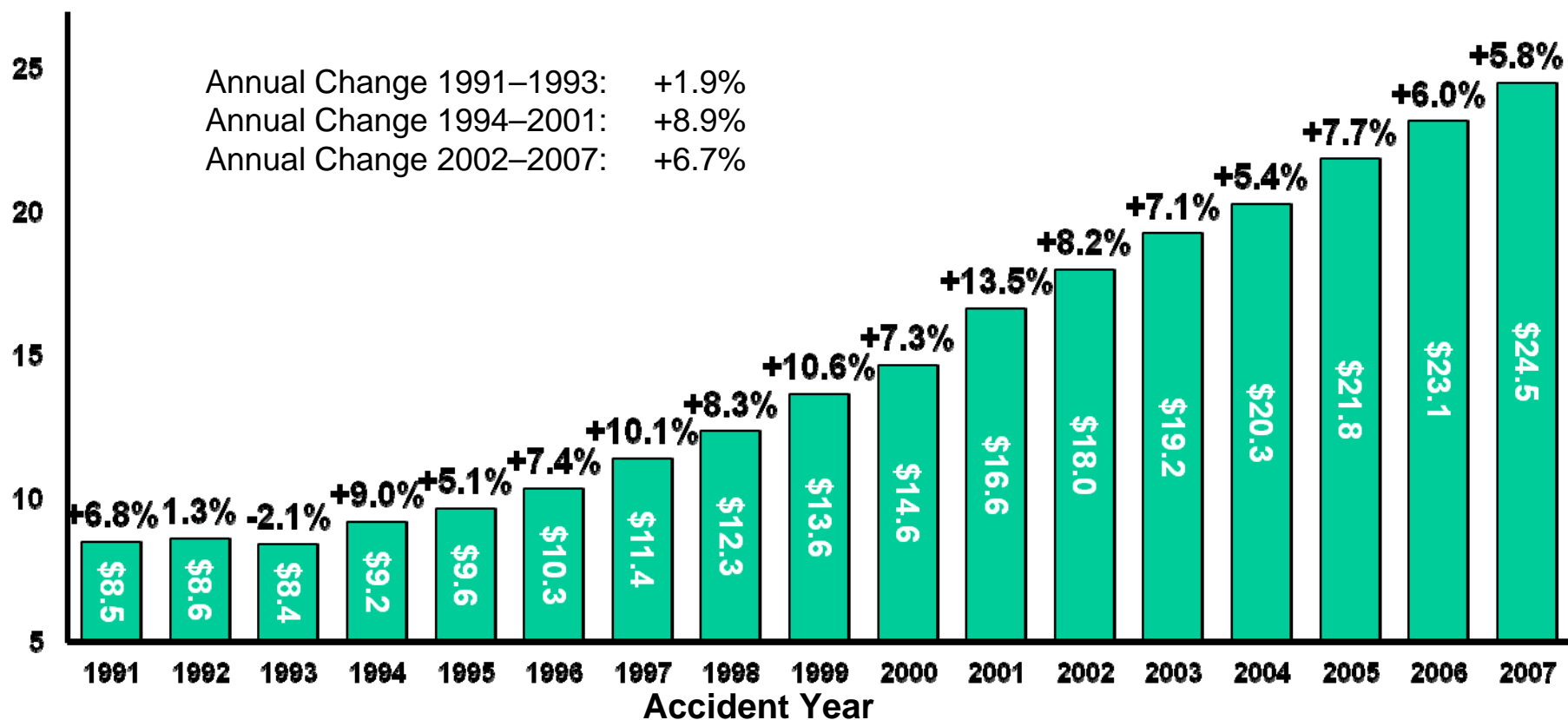


2007p: Preliminary based on data valued as of 12/31/2007  
 1980–2006: Based on Financial Call data, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes the effects of deductible policies

# Workers Compensation Medical Claim Cost Trends Have Moderated

Medical  
Claim Cost (000s)

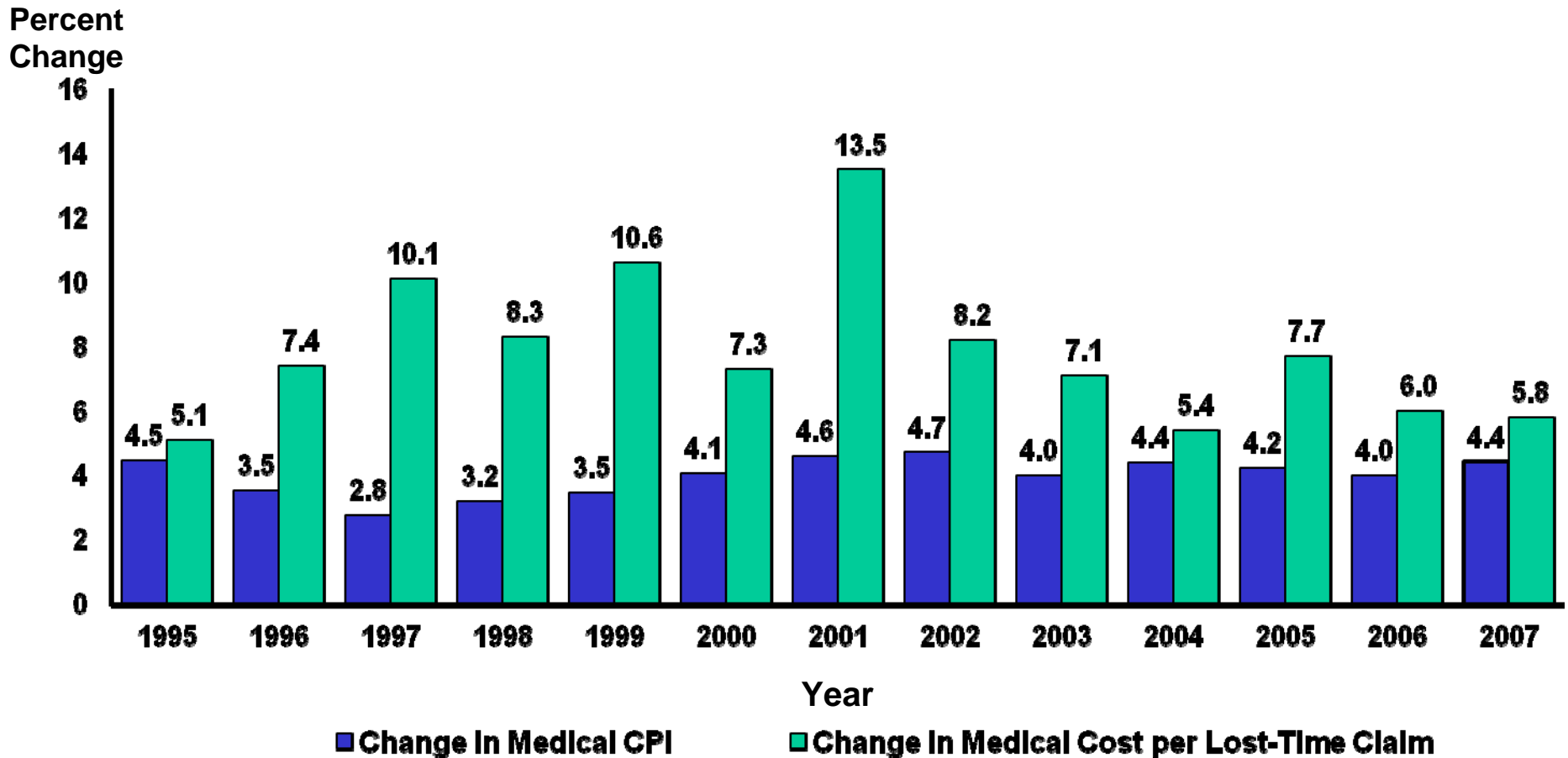
Lost-Time Claims



1991–2007: Based on data through 12/31/2007, developed to ultimate  
Based on the states where NCCI provides ratemaking services  
Excludes the effects of deductible policies

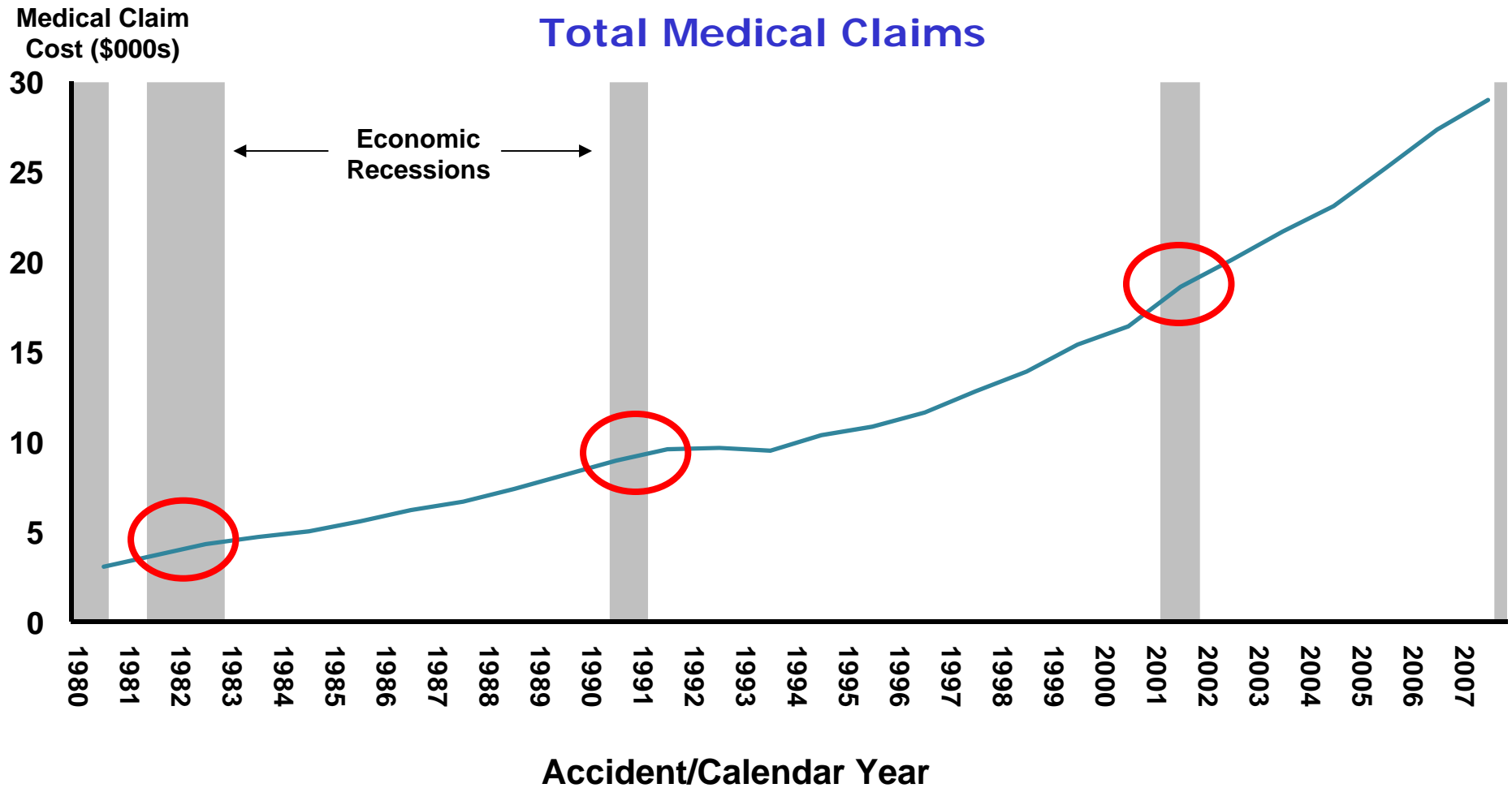
# Workers Compensation Medical Severity vs Medical CPI

## Lost-Time Claims



Medical severity 1995–2007: Based on data through 12/31/2007, developed to ultimate  
Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies  
Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

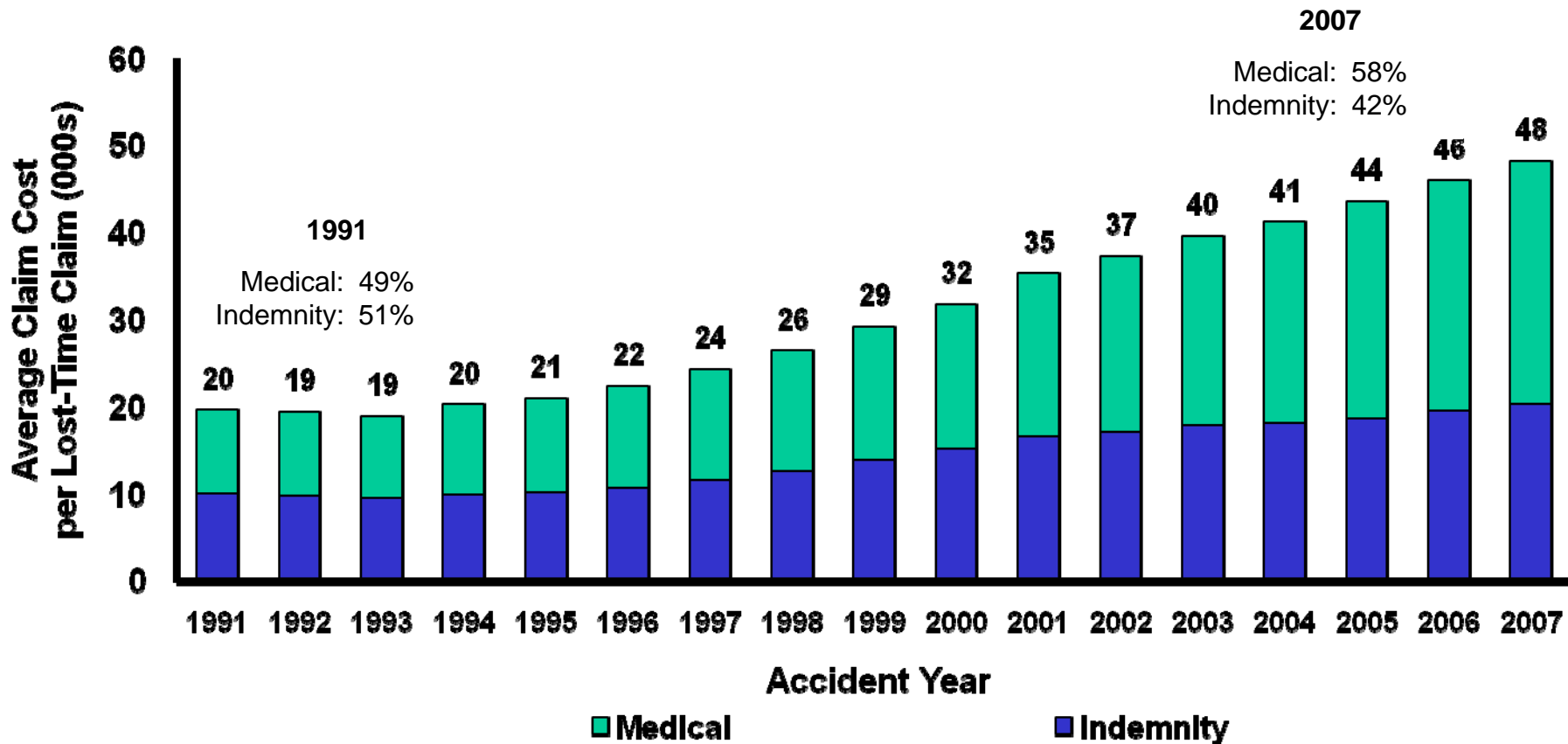
# Medical Claim Costs Increased During Prior Recessions



2007p: Preliminary based on data valued as of 12/31/2007  
 1980–2006: Based on Financial Call data, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes the effects of deductible policies

# WC Medical Losses Are Near 60% of Total WC Losses

All Claims, NCCI States—Private Carriers



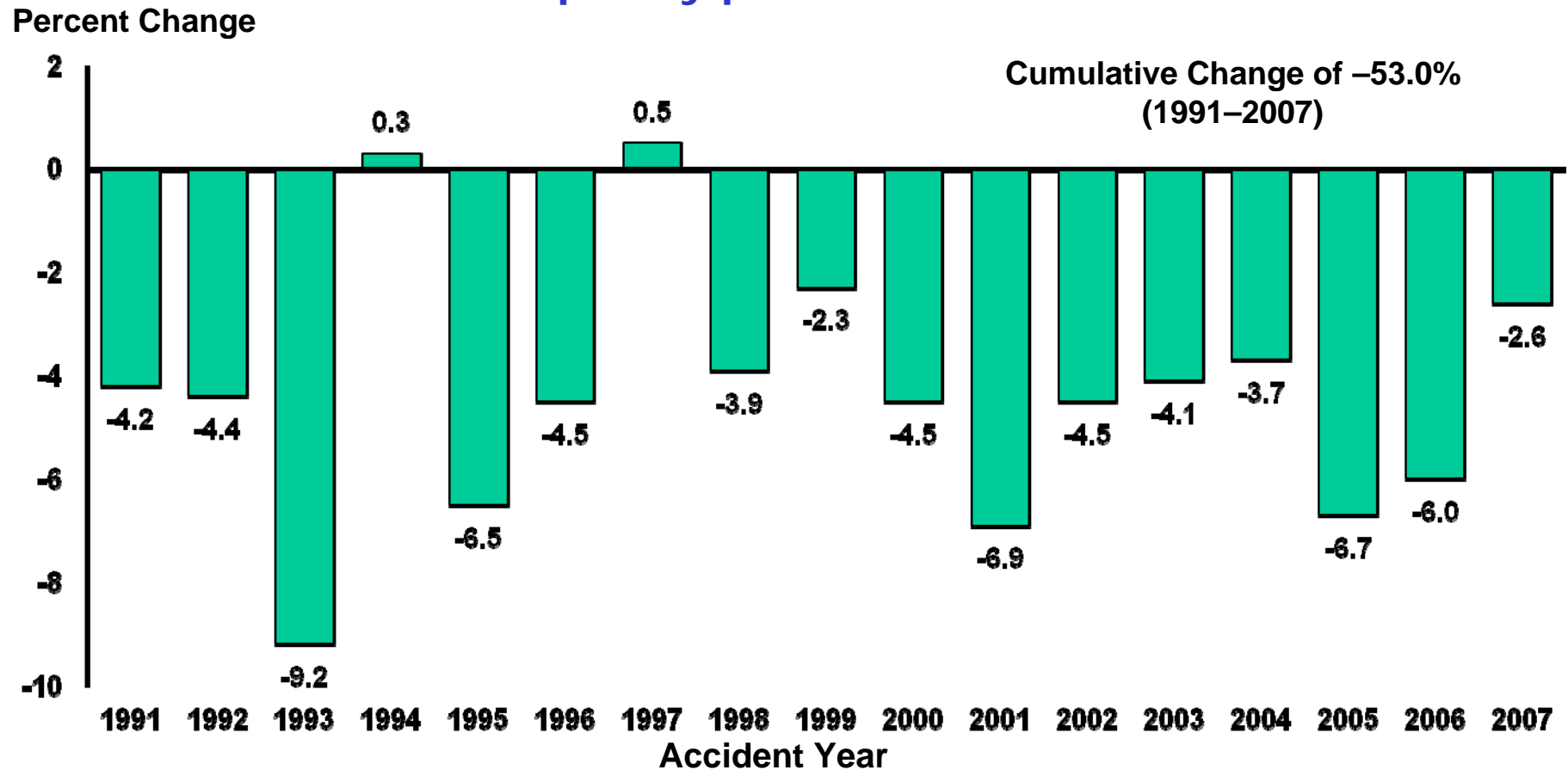
1991–2007: Based on data through 12/31/2007, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes the effects of deductible policies

## The Impact of Inflation is More Sensitive on Excess Policies

	<u>Year 1</u>	<u>Year 2</u>	<u>Change</u>
Gross Loss	\$360,000	\$385,200	7%
Deductible	\$250,000	\$250,000	-
Excess Loss	\$110,000	\$135,200	23%

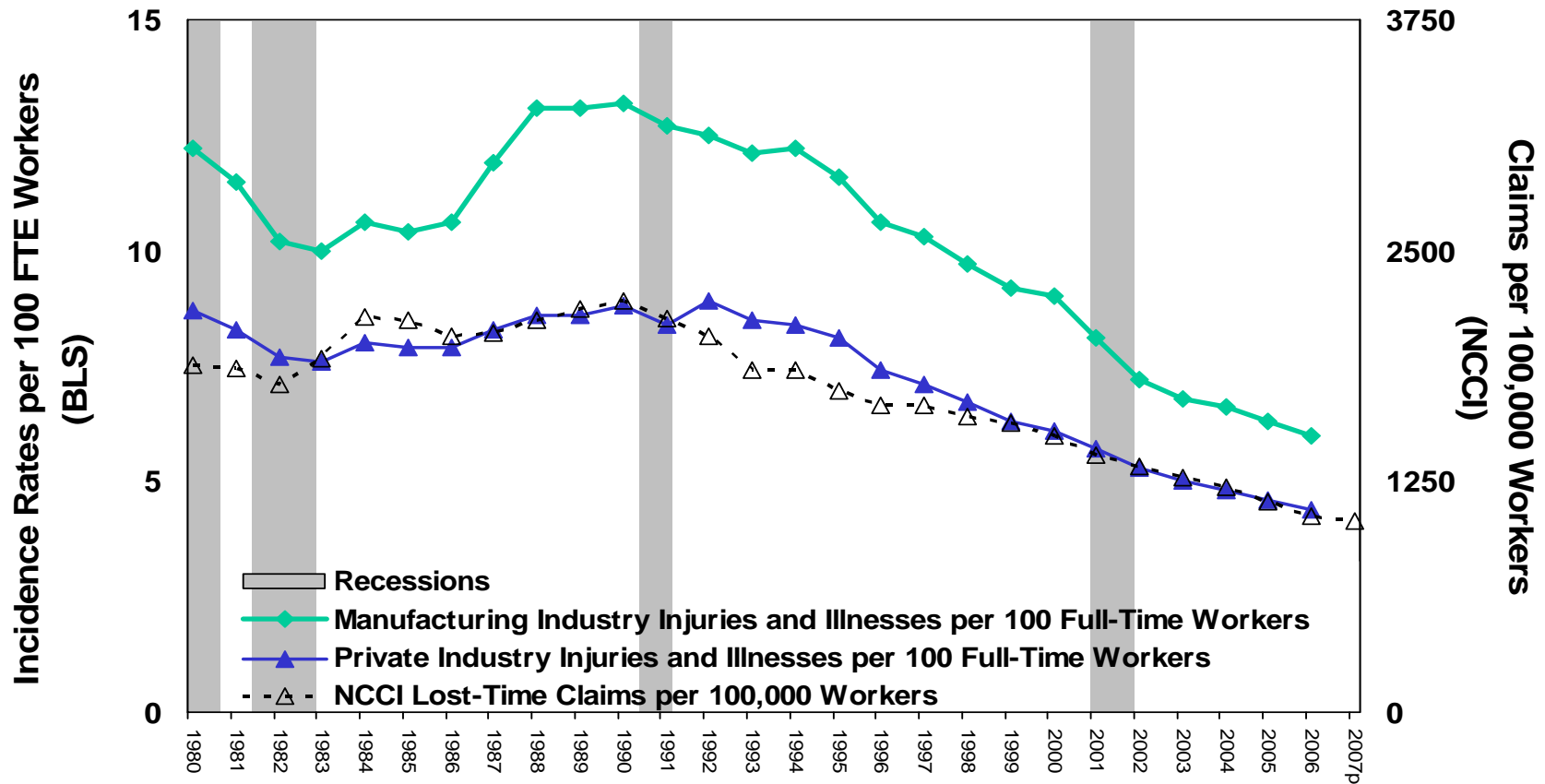
# Workers Compensation Lost-Time Claim Frequency Continues to Fall

Frequency per 100 Workers



1991-2007: Based on data through 12/31/2007, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes the effects of deductible policies

# Workplace Injury Incidence Rates Have Shown Declines in Last Four Economic Downturns



p Preliminary

Source : US Department of Labor, Bureau of Labor Statistics (BLS), National Bureau of Economic Research  
NCCI Frequency and Severity Analysis.

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# Legislative Update Issues and Trends

## 2008 Key Themes

- **AMA Guides to Impairment Ratings**
- **Florida—Emma Murray v. Mariner Health**

# Florida—Emma Murray v. Mariner Health Decision

- There were several cases challenging the constitutionality of the limitations on attorney fees imposed by 50A (originally enacted 10/03)
- Supreme Court decision reinstated hourly fees for claimant attorneys (10/08)
- Original estimated impact of the limitations on attorney fees was -2.1% of losses
- NCCI made Law Only filing to address Supreme Court Decision:
  - Filed +8.9% 1<sup>st</sup> year impact, +18.6% longer term impact
  - Approved +6.4% 1<sup>st</sup> year impact, +13.1% longer term impact

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- **Developments in Ratemaking**

# **NCCI Developments in Ratemaking Methodology**

- **NCCI conducted a comprehensive review of all class ratemaking methodologies**
- **The review concluded in August 2008**
- **The goal of NCCI's new class ratemaking methodology is to improve accuracy, class equity, and loss cost stability from year to year**
- **The new methodology will be in NCCI loss cost filings effective 10-1-09 and subsequent**

# Areas Impacted by Class Ratemaking

- **Lower loss limits**
- **Revised loss development to include body part**
- **Replaced use of serious and non-serious partial pure premiums with indemnity partial pure premiums**
- **Revised excess loss treatment to incorporate ELPPFs**
- **Maintaining industry group differentials**
- **Adjusted class credibility to accommodate new partial pure premiums**

# Experience Rating Plan Methodology Review

- **Experience Rating Plan in midst of three year review**
- **Excellent results in prior years performance testing**
- **Number of years in the plan will remain the same**
- **Progress to date includes:**
  - Review of performance by Hazard Group
    - Suggests that credibility should be modestly increased
  - Review of single vs. multiple split point options
    - We will maintain a single split point
  - Methodology for determining primary and excess credibility
    - We will use a Bayesian statistical approach

## For More Information

- **Refer to Actuarial Committee and Individual Risk Rating Work Group (IRRWG) minutes posted on [ncci.com](http://ncci.com)**
- **CAS Ratemaking Call Paper titled, “Class Ratemaking for Workers Compensation: NCCI’s New Methodology” presented at this conference and available on CAS forum**

# **WORKERS COMPENSATION**

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**Q & A**