

# Workers Compensation

**Is it time to fold?**



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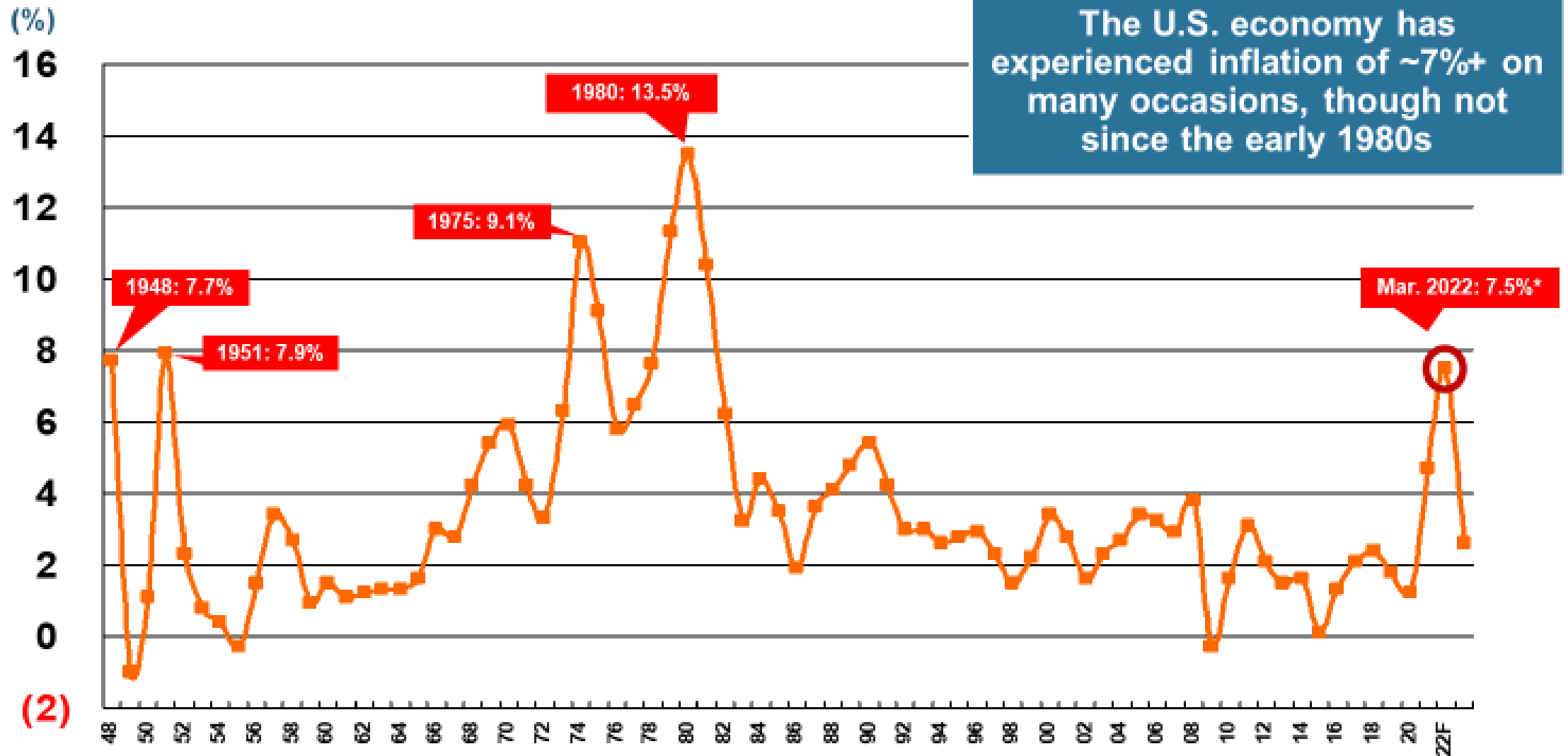
- **Where do you think we are in the cycle?**
  - **Time to fold**
  - **Stay the course**
  - **All in**

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- **Inflation**
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# **INFLATION**

# Rate of Inflation (CPI-U), 1948–2023F\*

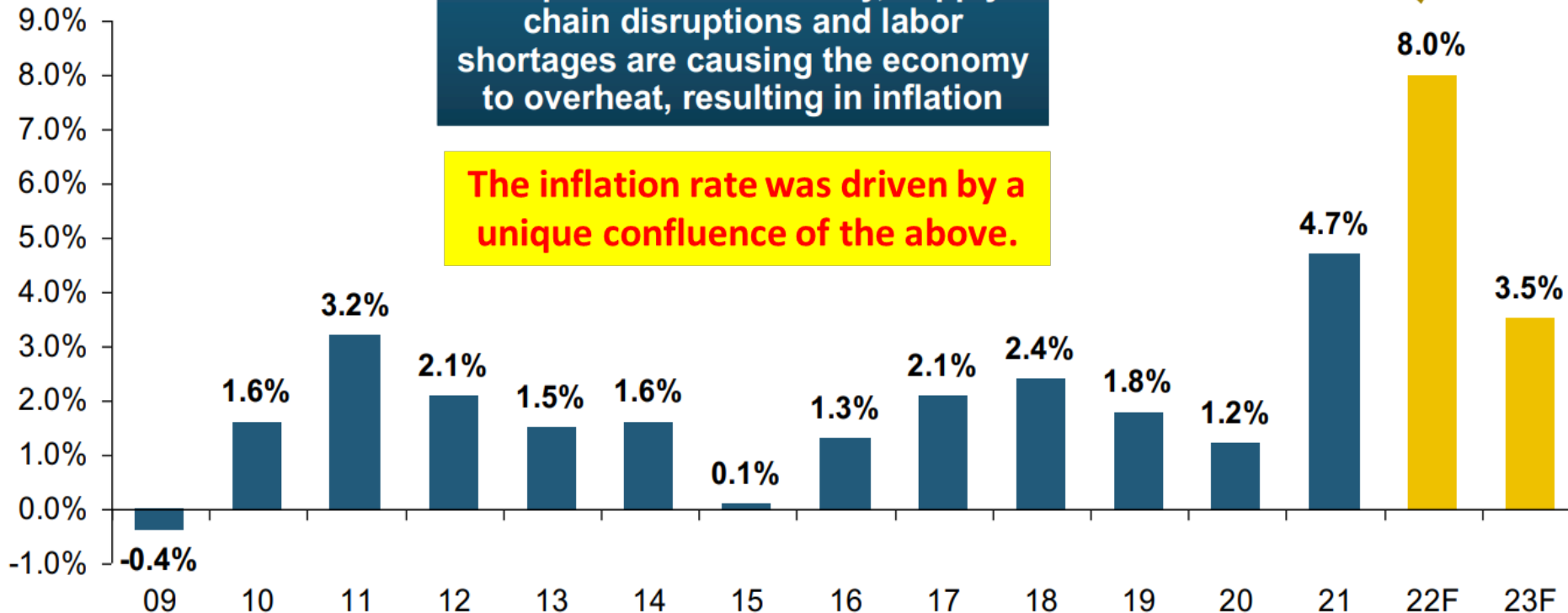


\*2022/23 forecast are from (Wells Fargo Securities, Mar. 2022 forecast).

Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

# U.S. Inflation Rate: 2009-2023F\*

Percentage Change (%)



There's a great deal of concern that trillions of dollars of stimulus plus the post-COVID recovery, supply chain disruptions and labor shortages are causing the economy to overheat, resulting in inflation

The inflation rate was driven by a unique confluence of the above.

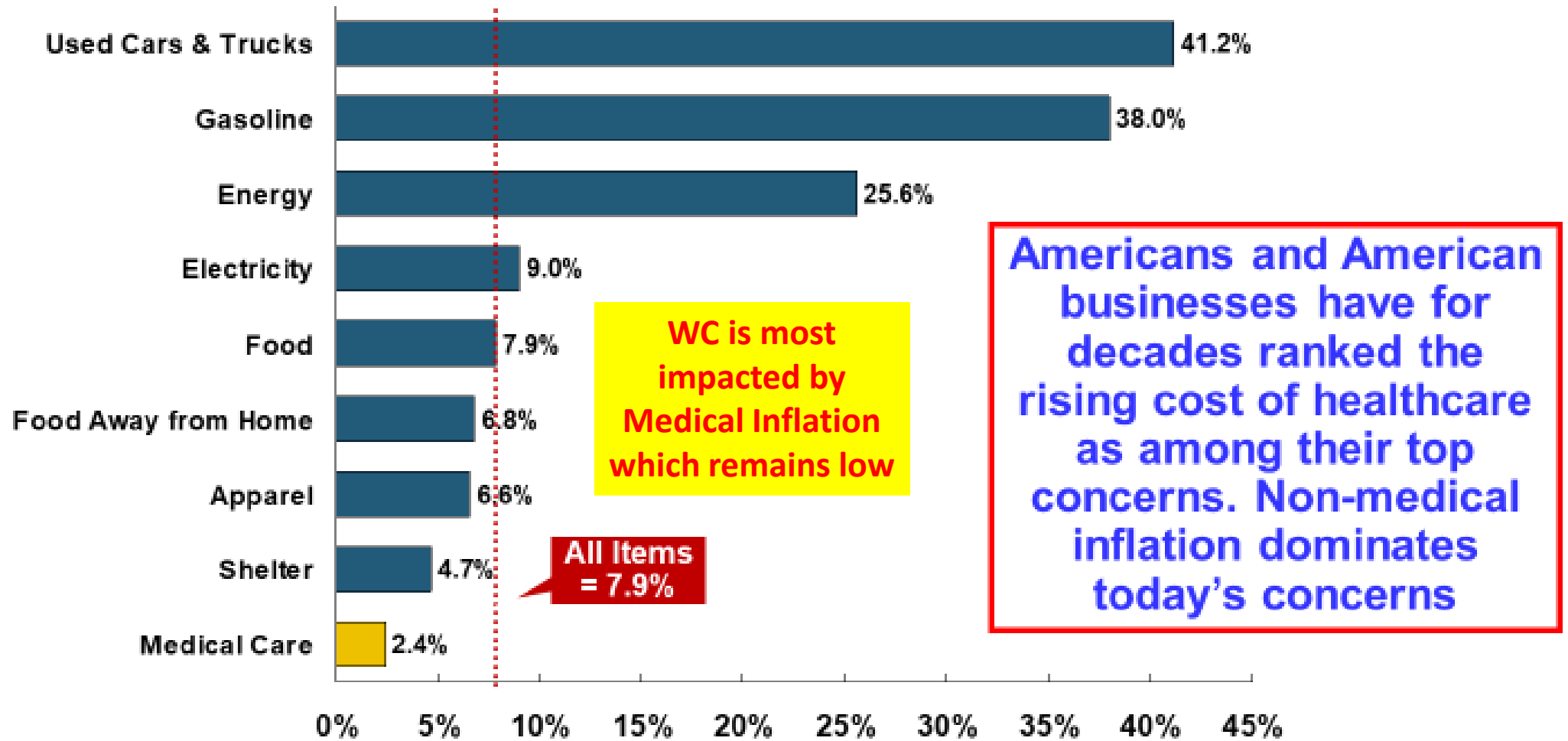
Inflation accelerated sharply in 2021 before peaking at 9.1% in June 2022. Inflation should moderate through H2:2022 into 2023; Forecast is highly dependent of trajectory of energy prices and Fed rate hikes

Insurer Concerns About Inflation  
Rate Inadequacy  
Reserve Inadequacy  
Insurance-to-Value

\*Annual change in Consumer Price Index for All Urban Consumers (CPI-U).

Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (8/22); USC Center for Risk and Uncertainty Management.

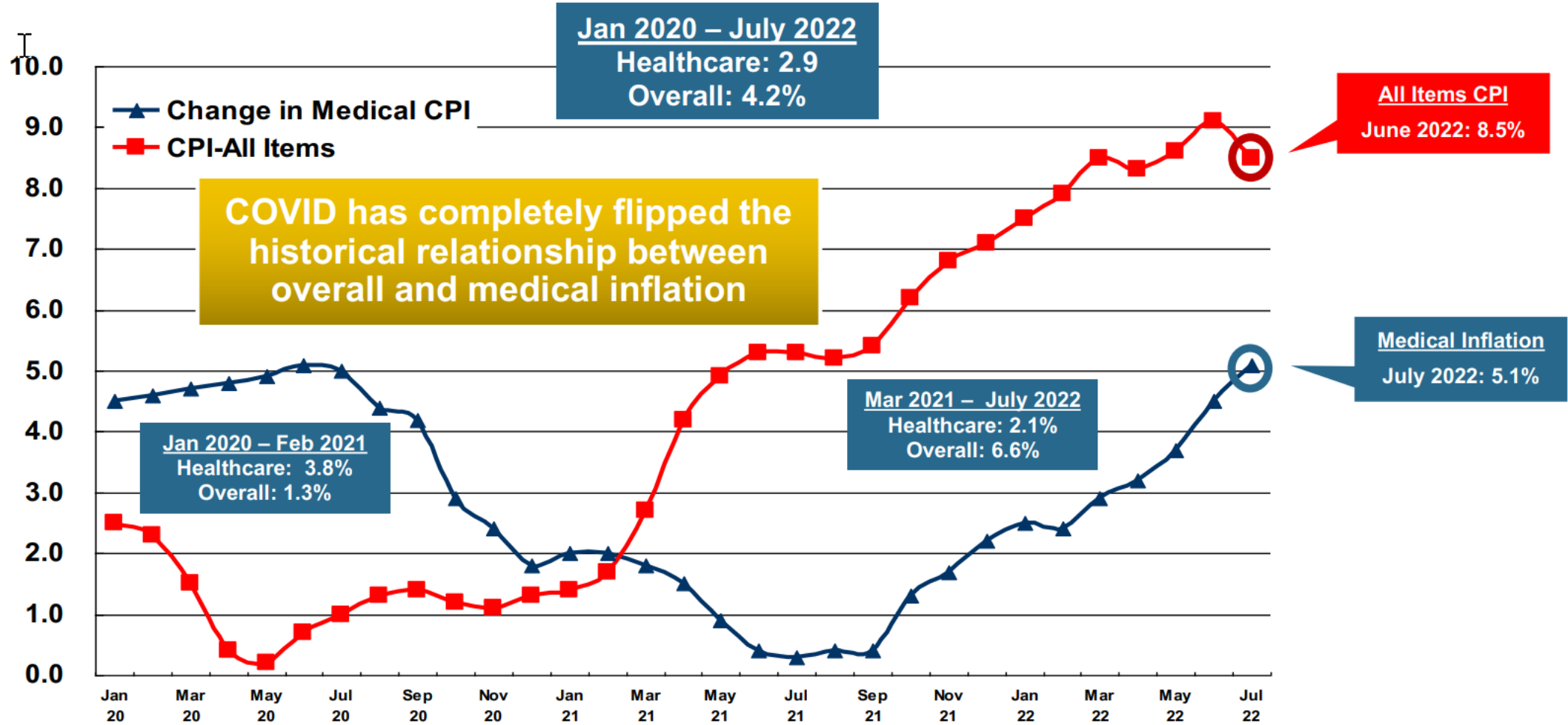
# CPI and Select Components: 12-Month Change Ending Feb. 2022



Source: U.S. Bureau of Labor Statistics; Wall Street Journal accessed at: <https://www.wsj.com/articles/us-inflation-consumer-price-index-february-2022-11646857681>



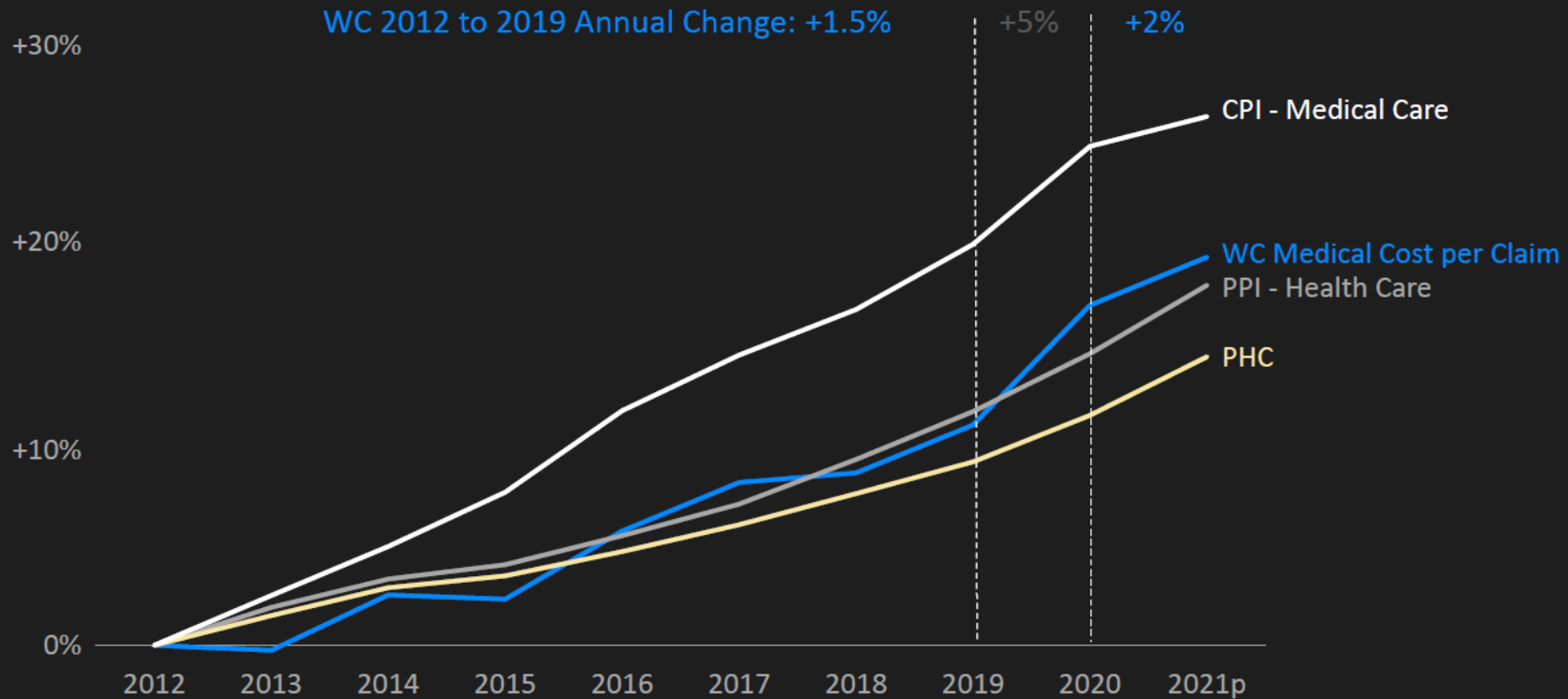
# Medical Cost Inflation vs. Overall CPI During COVID, Jan. 2020 – July 2022 (Percent Change from Year Ago)



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

# Workers' Compensation Trends

## Price Indices Compared to WC Medical Costs



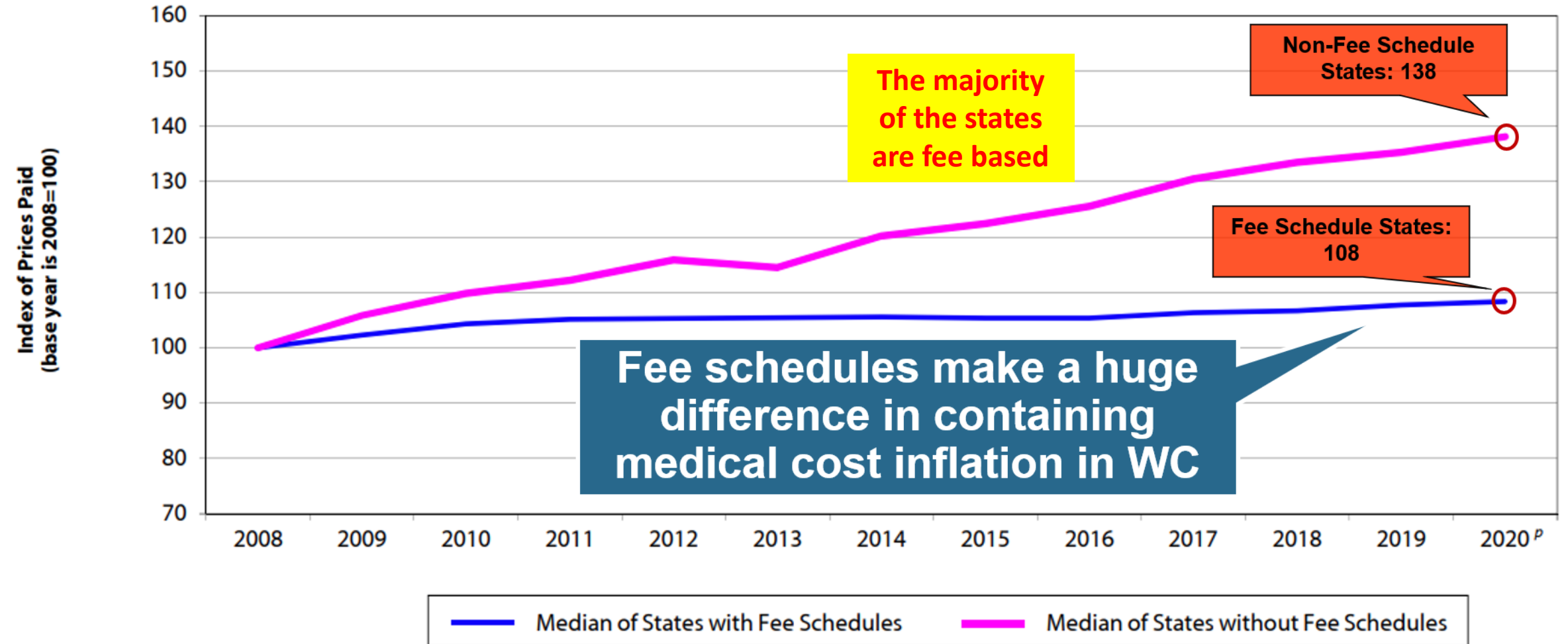
p Preliminary

Source: Bureau of Labor Statistics (Average Annual), Centers for Medicare & Medicaid Services, and NCCI Medical Data Call

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**AI**  
2022

# Trends in Prices Paid for Professional Services, 2008 – 2020: Median Index Value for Fee Schedule vs. Non-Fee Schedule States\*



\*IA, IN, MO, NH, NJ and WI had no WC fee schedule in 2019 or 2020.

Sources: WCRI Medical Price Index for Workers' Compensation, 13<sup>th</sup> Edition (MPI-WC), Figure B.2.

# Workers' Compensation Trends

## Components of Workers' Compensation Trend

- Lost Time Claim Frequency
- Medical Severity
- Indemnity Severity
- Wage Inflation



$$\frac{(1 + \text{Frequency}) * ((1 + \text{Medical Severity}) * (\text{Medical Weight}) + (1 + \text{Indemnity Severity}) * (\text{Indemnity Weight}))}{(1 + \text{Wage Growth})}$$

## Workers' Compensation Guards Against Runaway Inflation – denominator based upon payroll

- Regulated fee schedules
- Carrier negotiated fee schedules
- Settling claims
- No-fault system, with most claims not going through courts

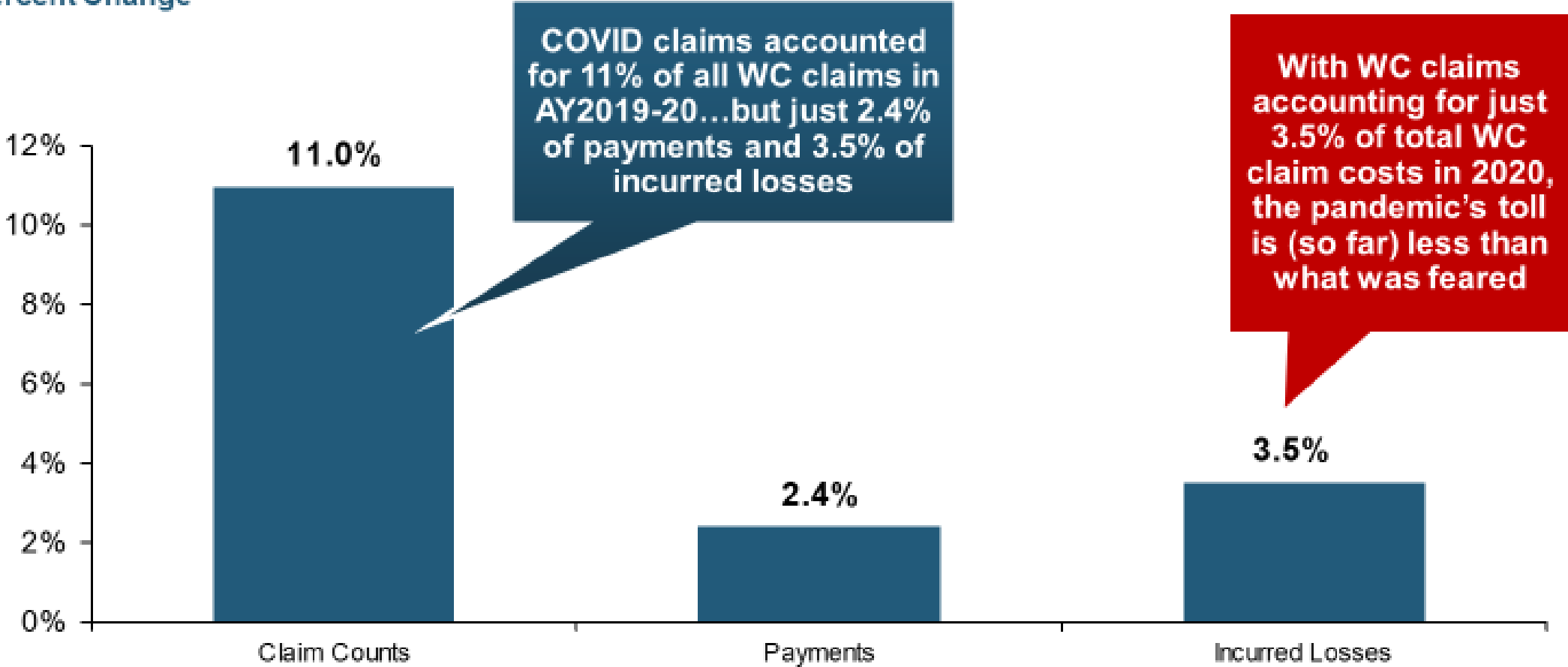
# Impact of Inflation

- Medical trends biggest driver – stable and low
- Offsetting impact of utilization – overall down; largest in pharmaceuticals per NCCI Medical Data Call
- More mature claims, pharmaceutical spend is the largest (ie the tail)
- Centers for Medicare & Medicaid Services demonstrate personal health care index 1% - 3% since 2012 and forecast a slight rise in medical inflation in 2023 and stabilizing between 2.5%-2.7% after
- Social inflation isn't prevalent in Workers' Compensation

**COVID**

# COVID-19 Shares of Claim Counts, Payments and Incurred Losses Since 2020

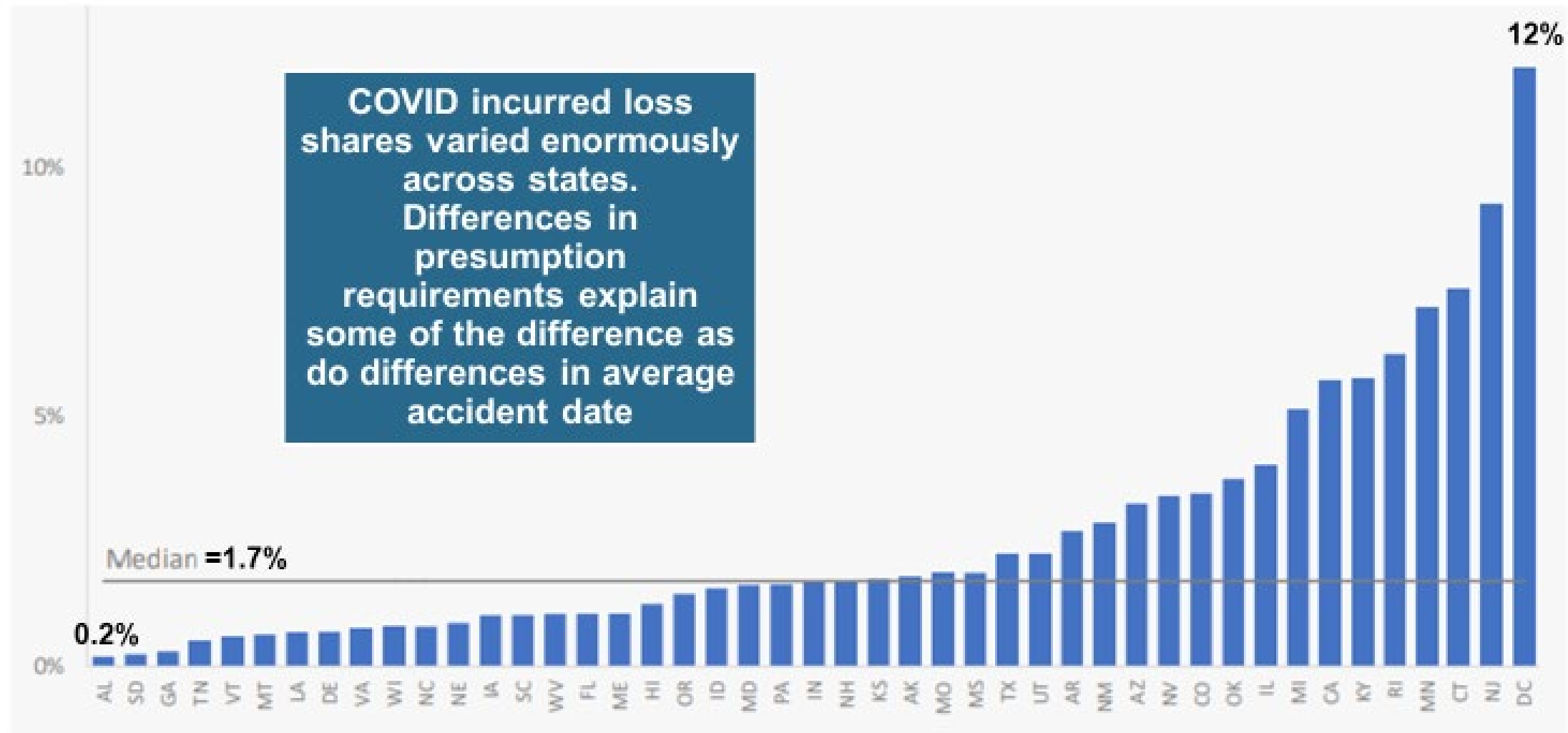
Percent Change



\*Data are from 45 jurisdictions (excludes MA, NY, ND, OH, WA and WY)

Sources: Covid-19's Impact on Workers Compensation: A Multi-Bureau Collaboration, accessed from NCCI at: <https://www.ncci.com/Articles/Documents/Insights-COVID19-Impact-on-WC.pdf>; Risk and Uncertainty Management Center, Univ. of South Carolina.

# COVID-19 Incurred Loss Share by State



\*Data are from 45 jurisdictions (excludes MA, NY, ND, OH, WA and WY)

Sources: *Covid-19's Impact on Workers Compensation: A Multi-Bureau Collaboration*, accessed from NCCI at: <https://www.ncci.com/Articles/Documents/Insights-COVID19-Impact-on-WC.pdf>; Risk and Uncertainty Management Center, Univ. of South Carolina.

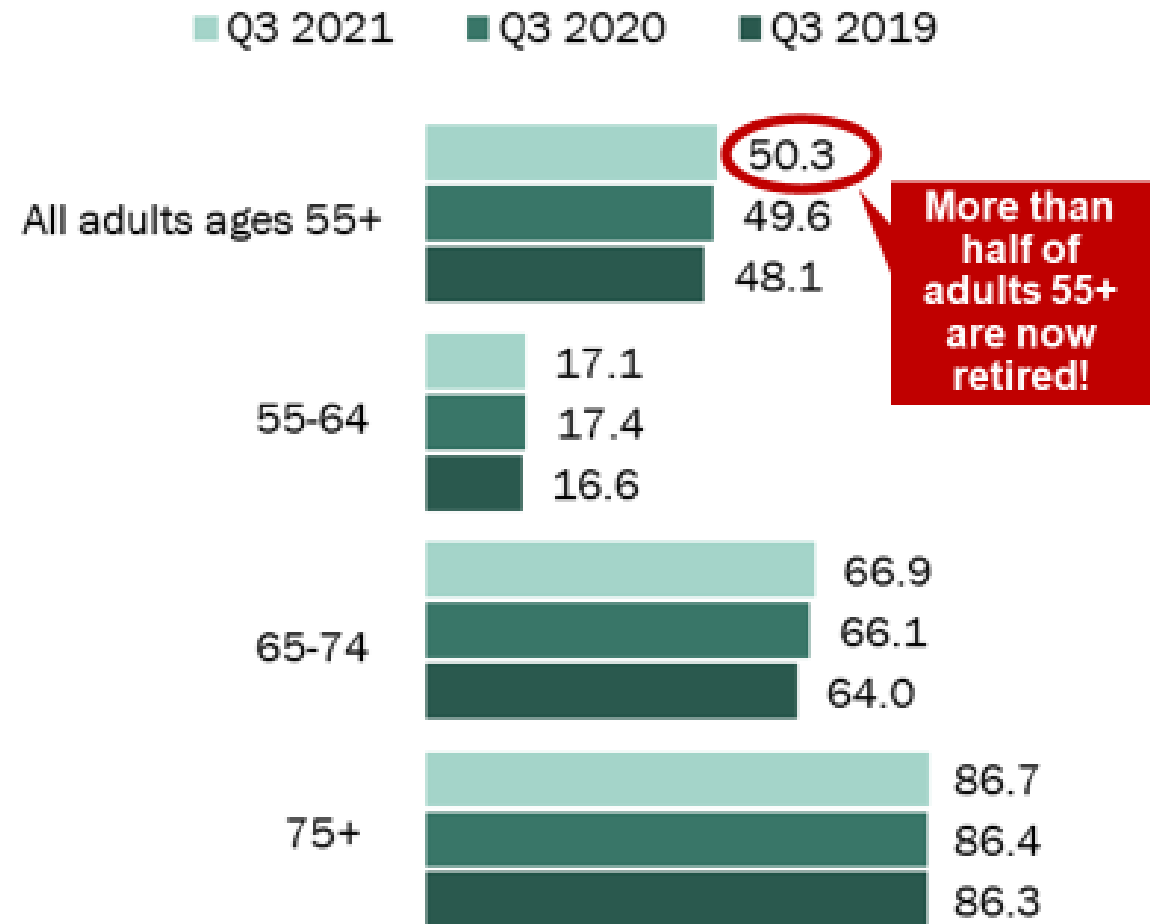
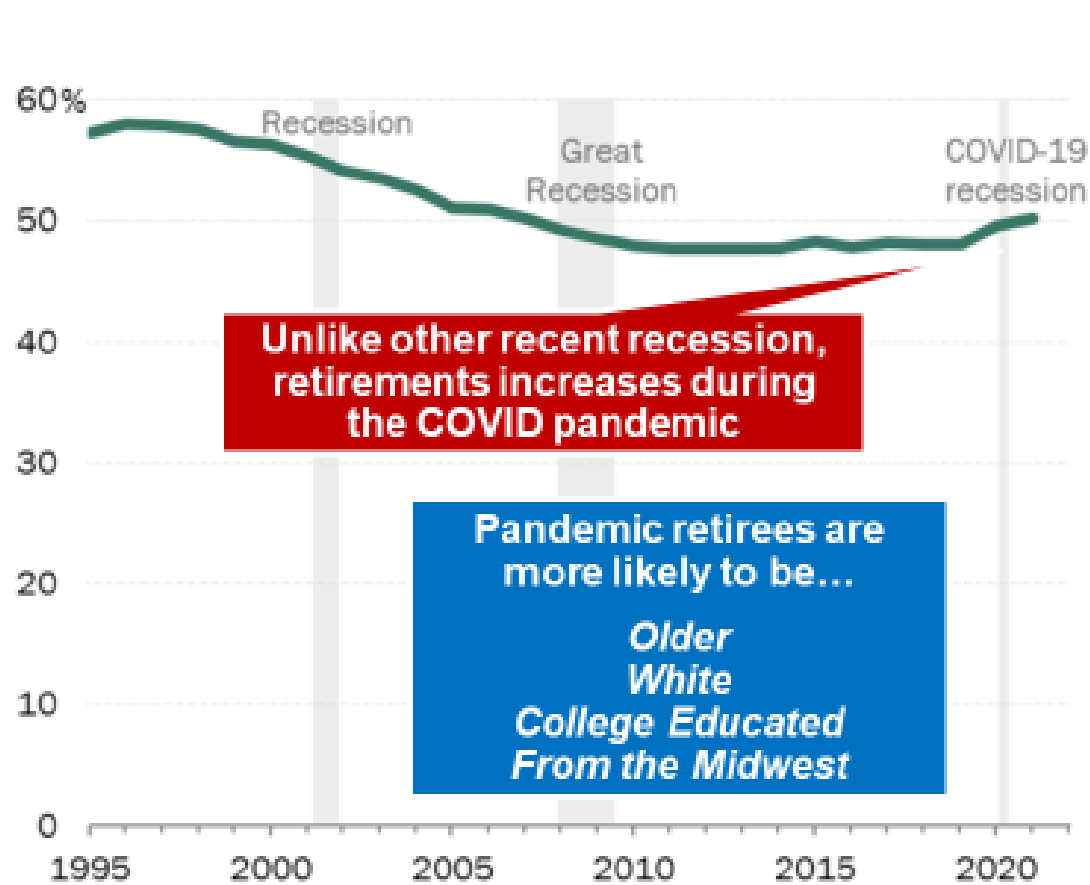


# Impact of Covid

- COVID was not the significant event anticipated for WC
- Ultimately could have a positive sustained impact on WC
  - Resulted in more teleworking reducing exposure
  - Resulted in more telemedicine reducing medical costs
- Some implications still being researched
  - Impact of deferred treatments
  - Impact on return to work and light duty programs
  - Development triangle implications
  - Long COVID

# **AGE OF WORKFORCE**

# Cumulative Percent Change in Number of U.S. Retirees, Jan. 2020 – Oct. 2021

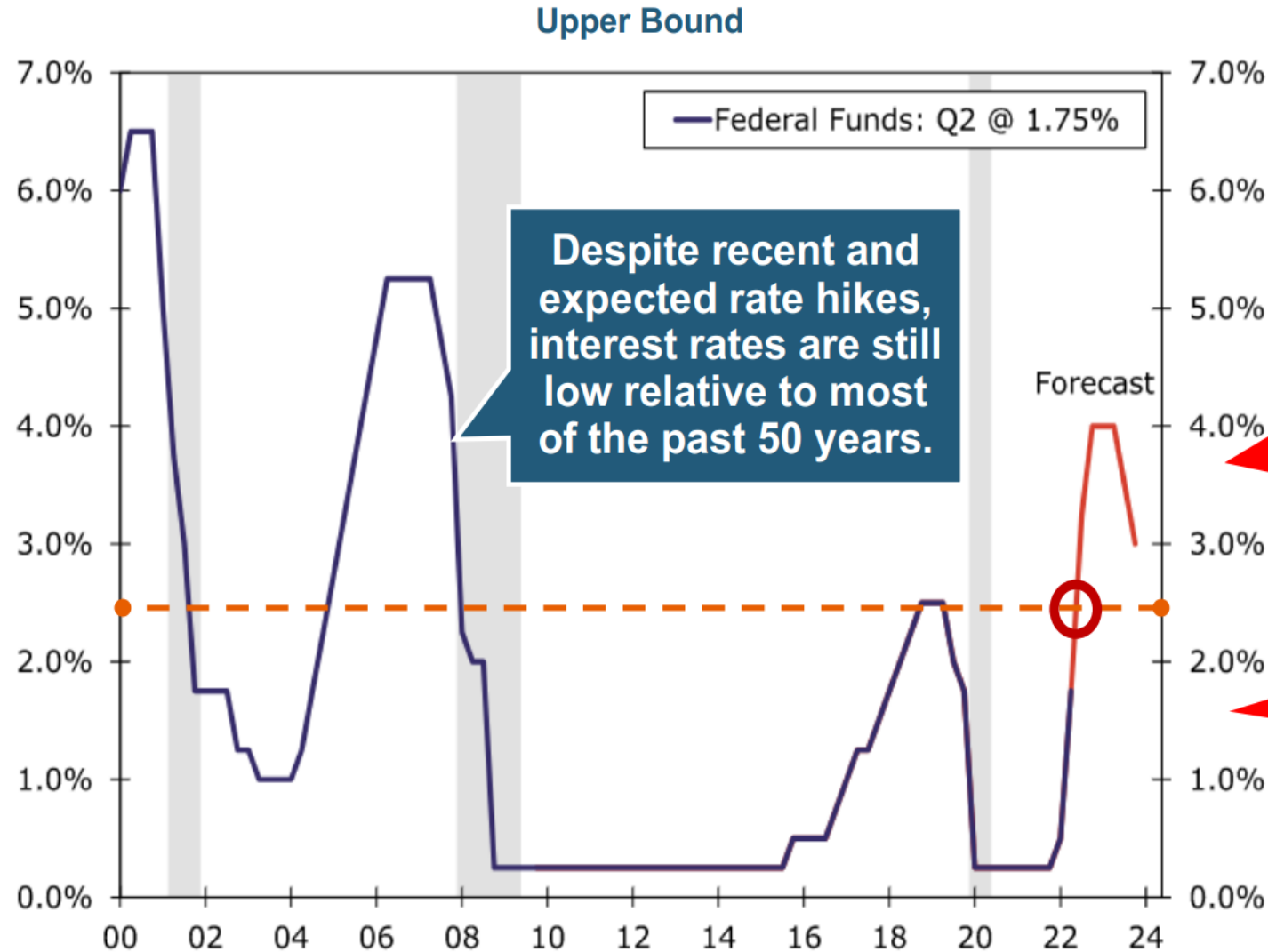


# Impact of Younger Workforce

- Generally, claim frequency is higher for workers in their early twenties, late forties, and fifties.
- Claim severity is often lower for workers injured in their twenties than in other age groups
- Older workers more prone to work-related injury stemming from slips, trips or falls and more likely to have numerous conditions that may increase the propensity for job-related accidents
- Older workers have longer recovery periods following injury
- Claimants in their forties and fifties filed more claims that exceeded \$100,000 than claimants in other age groups.

# **INTEREST RATES**

# Federal Funds Target Rate: Up, Up and Away!



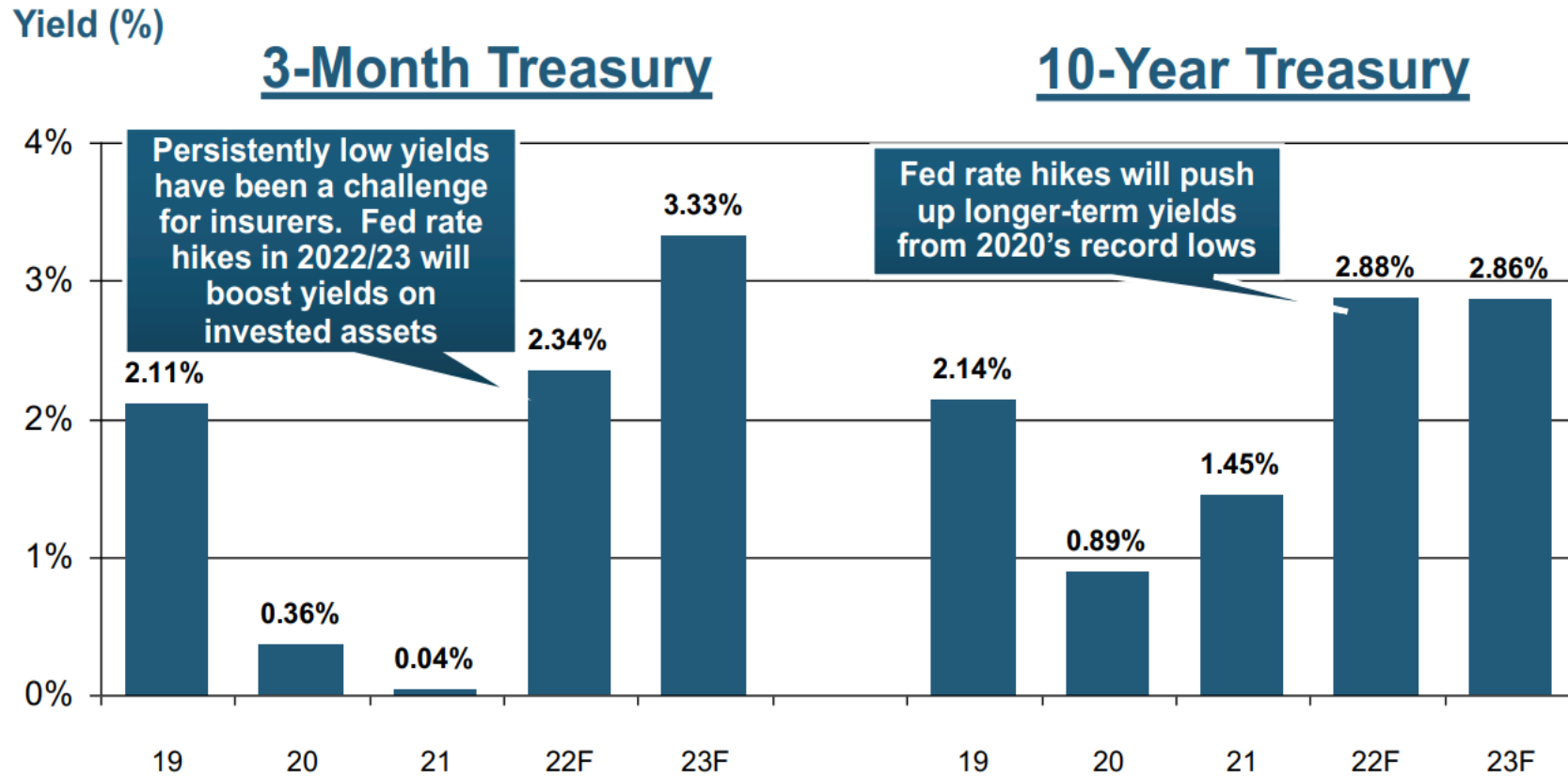
Despite recent and expected rate hikes, interest rates are still low relative to most of the past 50 years.

The Fed is expected to continue its rate hikes to a peak of 3.75% - 4.00% at year-end 2022. If the objective of lower inflation is met (or in sight), the Fed will likely lower rates in late 2023 to keep unemployment low

The Fed hiked short-term rates on July 27<sup>th</sup> by 75 basis points to a target range of between 2.25% and 2.50%

Source: Federal Reserve Board and Wells Fargo Economics (8/22); Risk and Uncertainty Management Center, University of South Carolina.

# Interest Rate Forecasts: 2019 – 2023F



**Rising interest rates will provide a modest tailwind for insurers as the Fed raises interest rates. This will be especially beneficial to longer-tailed lines such as Workers Comp.**

# Impact of Interest Rates

- As one of the longest tail line, WC will benefit the most
- The impact of a small change can be significant on economics



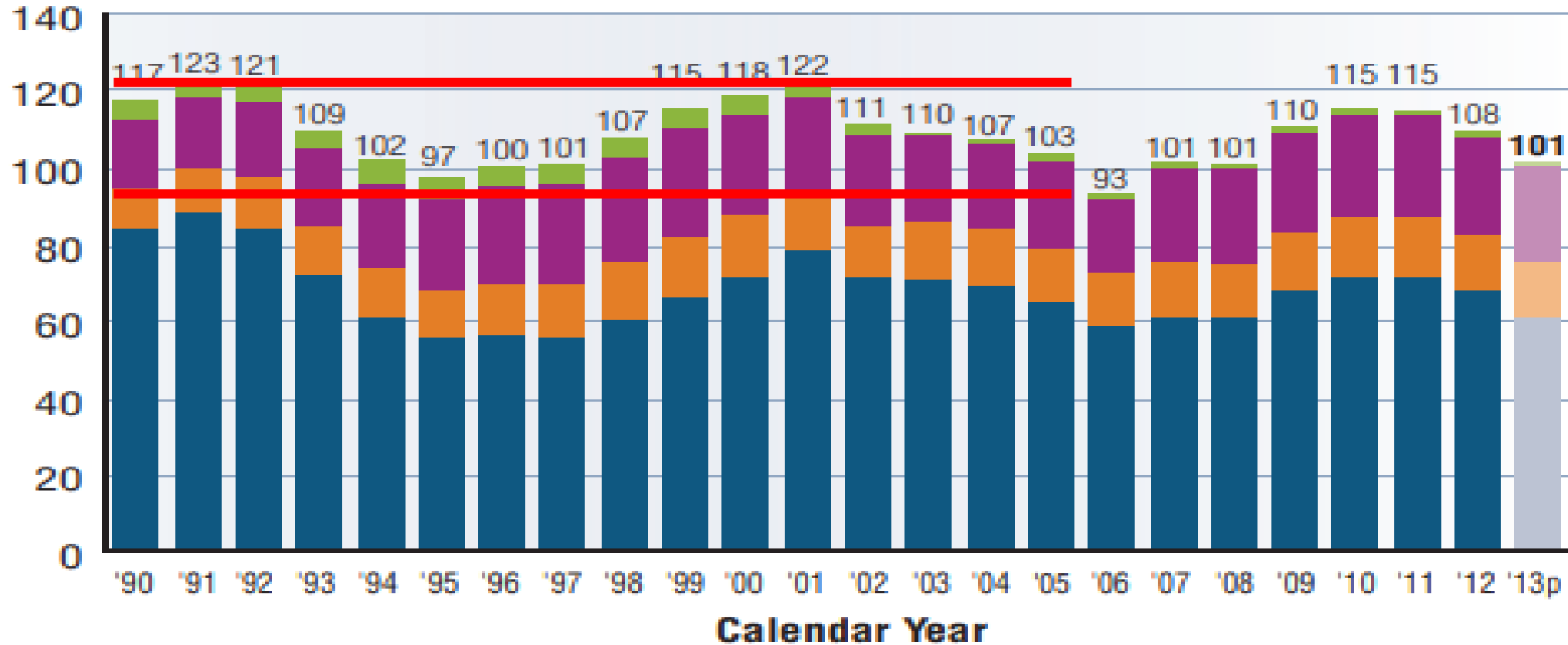
**CYCLES**

# Exhibit 5

## Workers Compensation Combined Ratio Improved Again

Percent

Private Carriers

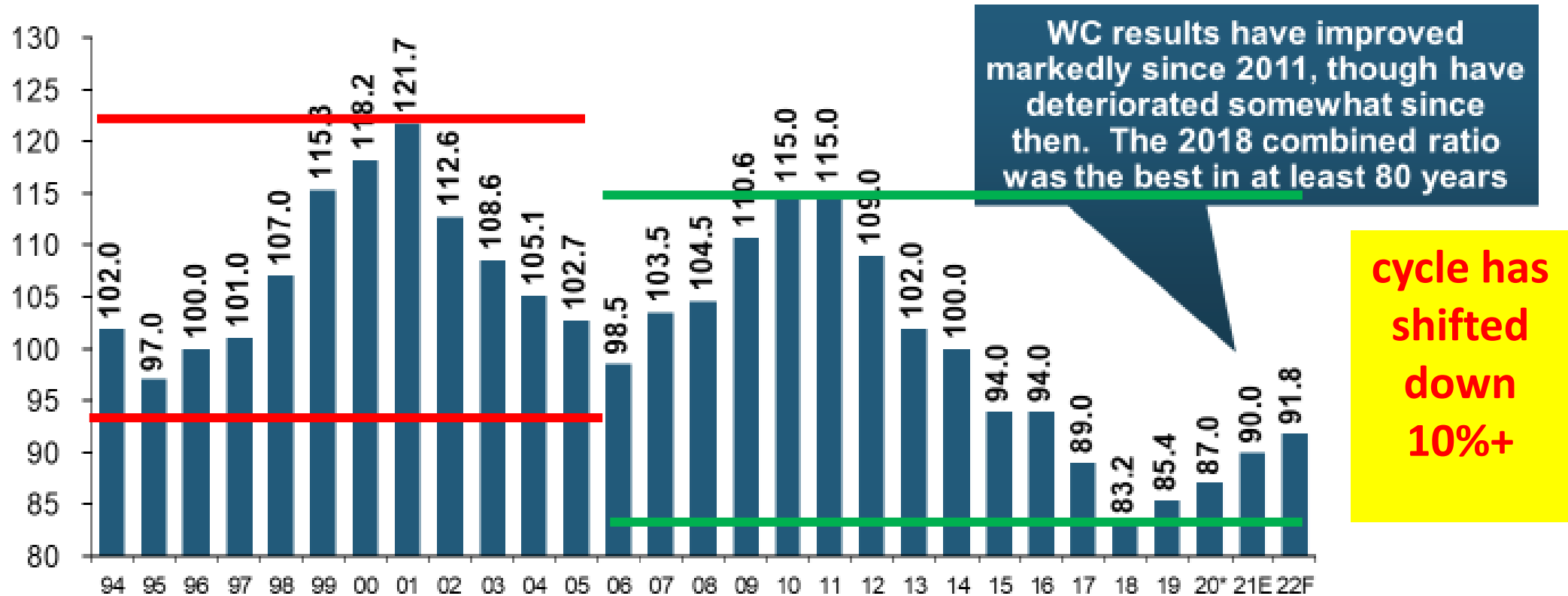


- Dividends
- Underwriting Expense
- Loss Adjustment Expense
- Loss

p Preliminary

Sources: 1990–2012, Annual Statement data; 2013p, NCCI

# Workers Compensation Combined Ratio: 1994–2022F



**Workers Comp Results Improved Substantially Over the Past Decade with COVID Despite COVID and Major Labor Force Disruptions**

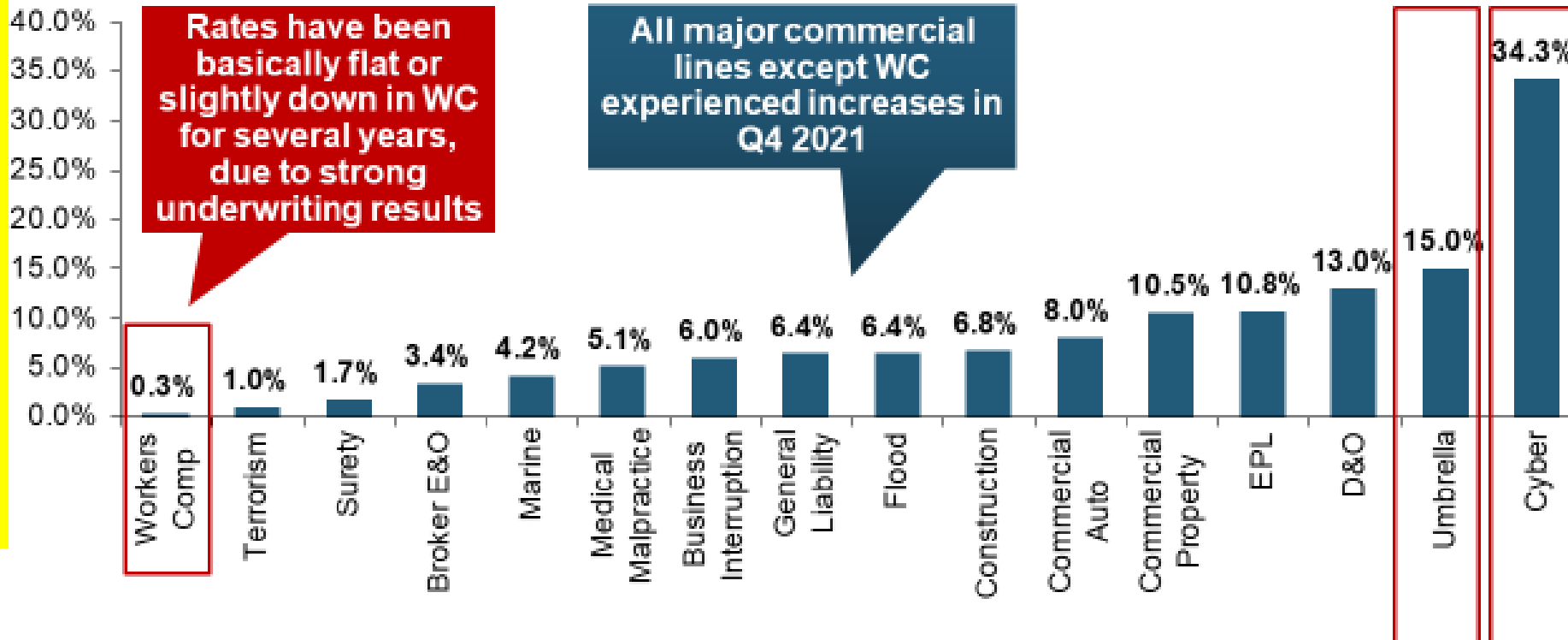
Sources: A.M. Best (1994-2009 and 21E-22F); NCCI (2010-2020) and are for private carriers only. 2020 NCCI figure is preliminary.

# Change in Commercial Rate Renewals, by Line: 2021:Q4

Cyber is seeing record increase, in response to major breaches in 2020 and 2021, overtaking Commercial Umbrella

Percentage Change (%)

Per Conning, several insurers and brokers have made statements that the WC rate environment is improving, albeit slowly



Rates have been basically flat or slightly down in WC for several years, due to strong underwriting results

All major commercial lines except WC experienced increases in Q4 2021

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

## **Causes of improved performance**

- Changing economy that is moving toward industries with lower claim frequency
- Reforms enacted in many states in the 1990s resulting in safer workplaces
- Reforms impacting pharmaceuticals/opioids
- Fee Schedules in most states tied to Medicare
- Since 2000, the change in indemnity claim severity has tracked the change in average wage quite closely
- Availability of cheaper generic pharmaceuticals
- Growth of provider networks
- Improved claims practices
- Increased use of telecommuting resulting in anticipated further decline in frequency
- Success of telemedicine during the pandemic suggests that it could be a more viable option going forward

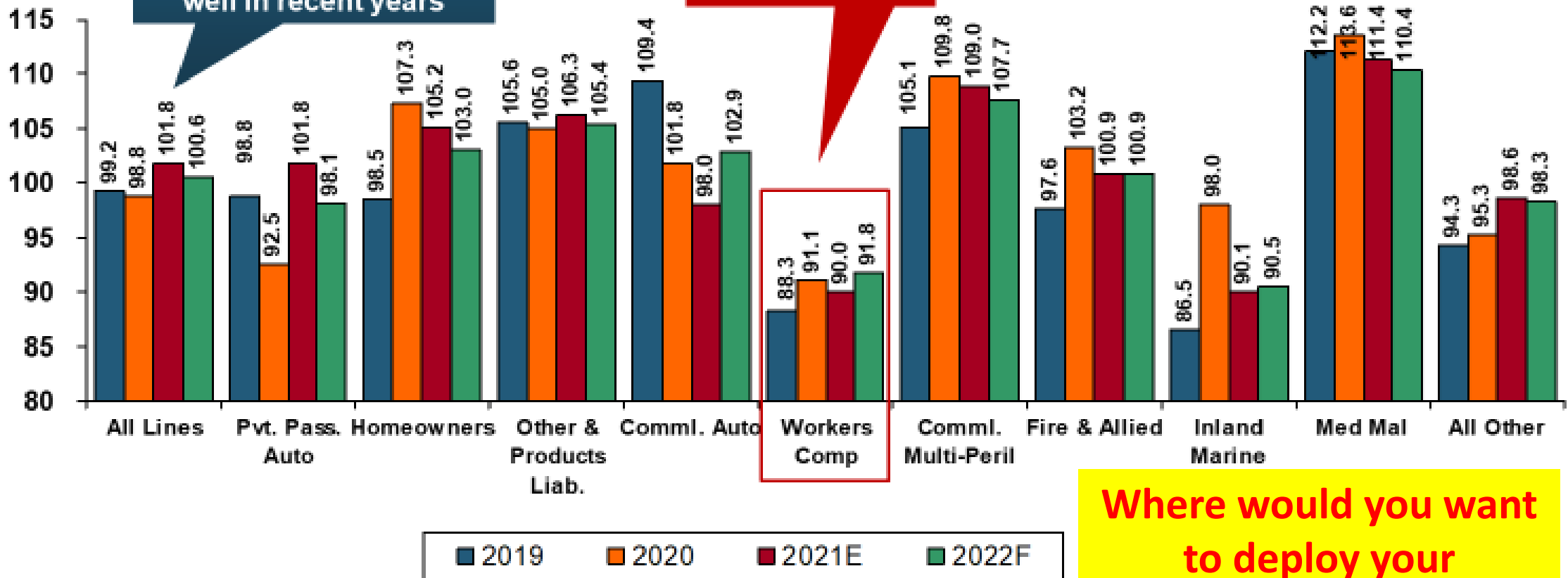
**PERFORMANCE**

# Combined Ratios by Line: 2019 – 2022F

Accelerating inflation could push the combined ratio upward in 2022 beyond the estimates shown here

Despite COVID and high CAT losses, the overall P/C industry has performed reasonably well in recent years

WC is the best performing line of insurance



Where would you want to deploy your capital?!?!

Source: A.M. Best Review & Preview (Feb. 2022); Univ. of South Carolina, Risk and Uncertainty Management Center.

# SUMMARY

- ❖ The WC Line Remains Among the Best Performing of all P/C lines
- ❖ It Is Not An Anomaly or Luck
- ❖ There Are Many Sustainable Factors That Have Contributed To Its Profitability
- ❖ High Inflation Is Not Affecting The Line Like Others
- ❖ The Biggest Driver Of Costs Is Medical Inflation Which Remains Relatively Stable And Low
- ❖ Higher Interest Rates Will Have a Material Positive Impact on Economic Profitability
- ❖ NCCI believes there is significant redundancy in the reported AY C/R (9% for each 2018 and 2019)



# RESERVING PERSPECTIVE: WHAT TO WATCH FOR

- ❖ Extended medical inflation
- ❖ Changes in the guards against runaway inflation
- ❖ Other legislative changes impacting open claims
- ❖ Compounding impact of "sticky" inflation
- ❖ Tendency to use long-term averages to project future severity trends
- ❖ Lagging of rate changes behind loss trends
- ❖ Long haul COVID

Development Factors/Methodologies Might Need to Be Adjusted

# **Thank you**

- **And a special thank you to Robert Hartwig, the NCCI and a few others for all the great material I had to pull from to illustrate my point**