



Workers Compensation: *Economic & Regulatory Considerations*

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- **Workers Compensation and the Economy**
- **Labor Market Trends & Workers Comp**
 - ◆ Employment, Unemployment & Payroll Exposure
 - ◆ Measures of Production and Capacity Utilization
- **Labor Market Performance and Workers Comp Claiming Behavior**
 - ◆ Industry and Occupation Growth Analysis through 2018
- **Crisis and Recovery Exposure Drivers in Workers Comp**
 - ◆ Investment Outlook, Regulation, Torts, Terrorism, Healthcare Reform
- **Sources of Future Exposure Growth**
 - ◆ Favored industries and occupations: 2010 - 2018
- **Inflation Outlook: Workers Comp Cost Driver**
- **Financial Market Impacts**
 - ◆ Persistently low interest rates and the long-tailed nature of worker comp
- **Healthcare Reform and Workers Compensation**
- **Q&A**

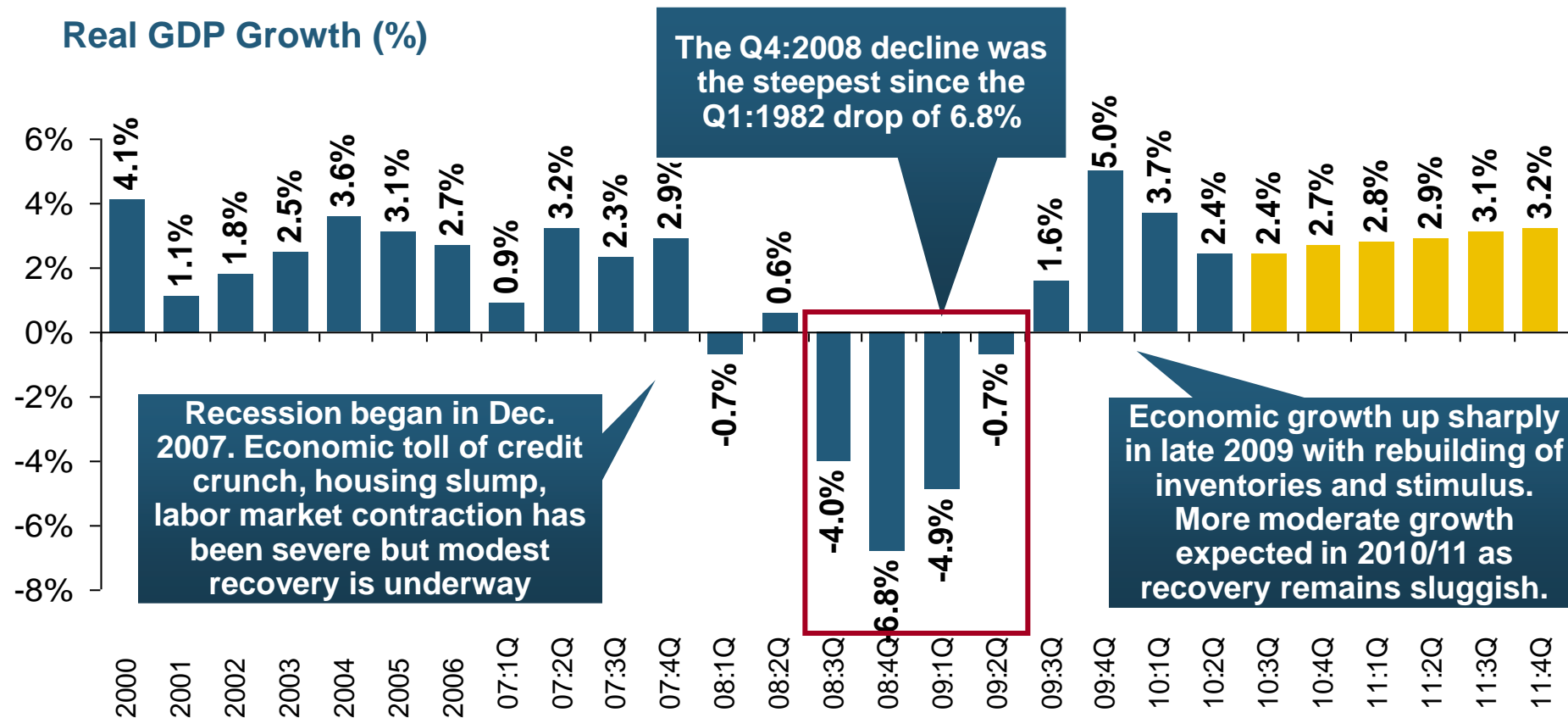


Workers Compensation and the Economy

**Workers Comp Exposure and
Performance is Intimately Linked to
the Economy and Labor Market**

US Real GDP Growth*

Real GDP Growth (%)



Demand for Commercial Insurance Has Been Impacted by Sluggish Economic Conditions

* ■ Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 8/10; Insurance Information Institute.

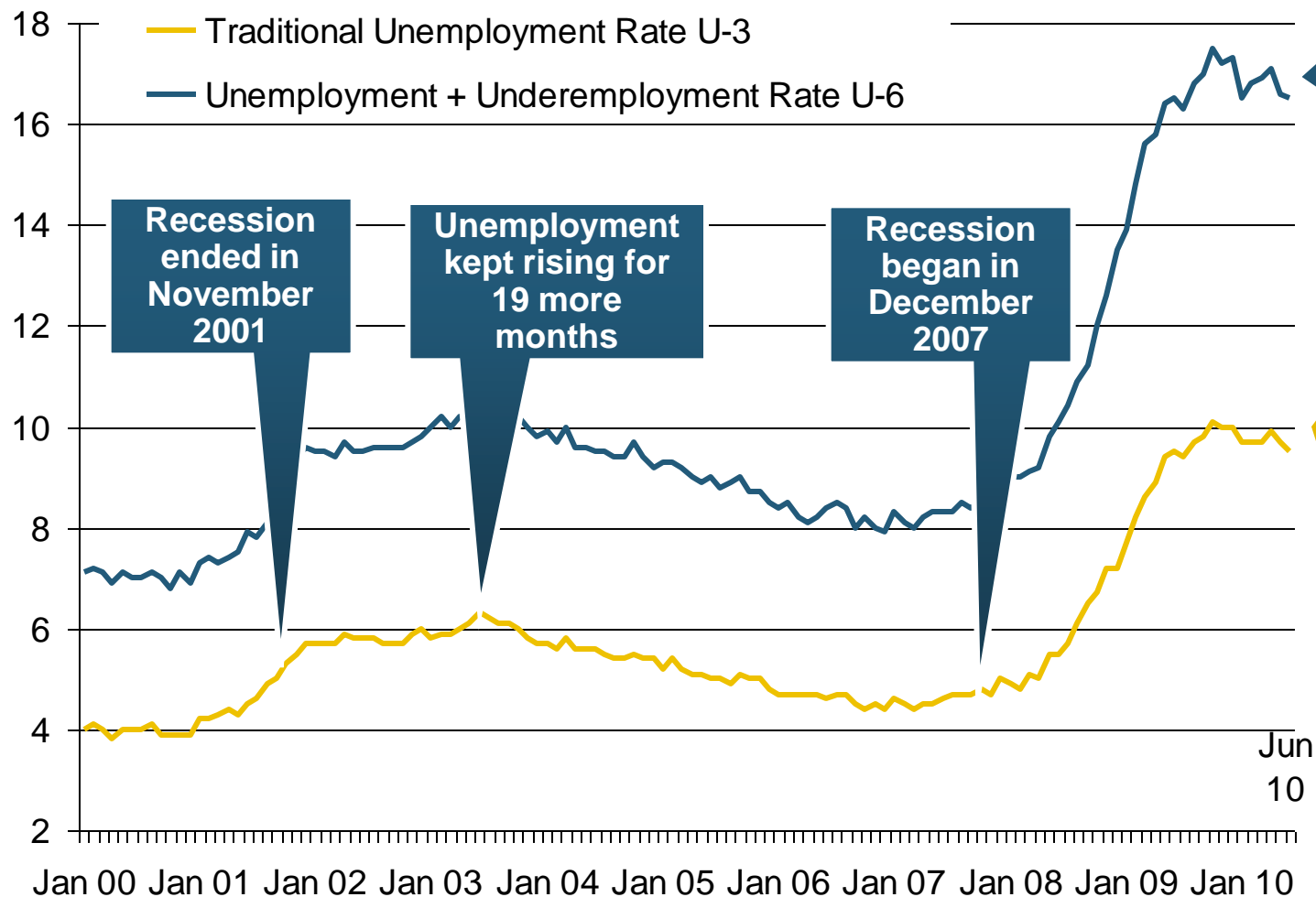
Labor Market Trends

**Massive Job Losses Sapped the
Economy and the Workers Comp
Payroll Exposure Base**

The Long Road to Recovery

Unemployment and Underemployment Rates: Rocketed Up in 2008-09; Stabilizing in 2010?

January 2000 through June 2010, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in Oct 2009; Stood at 16.5% in June 2010

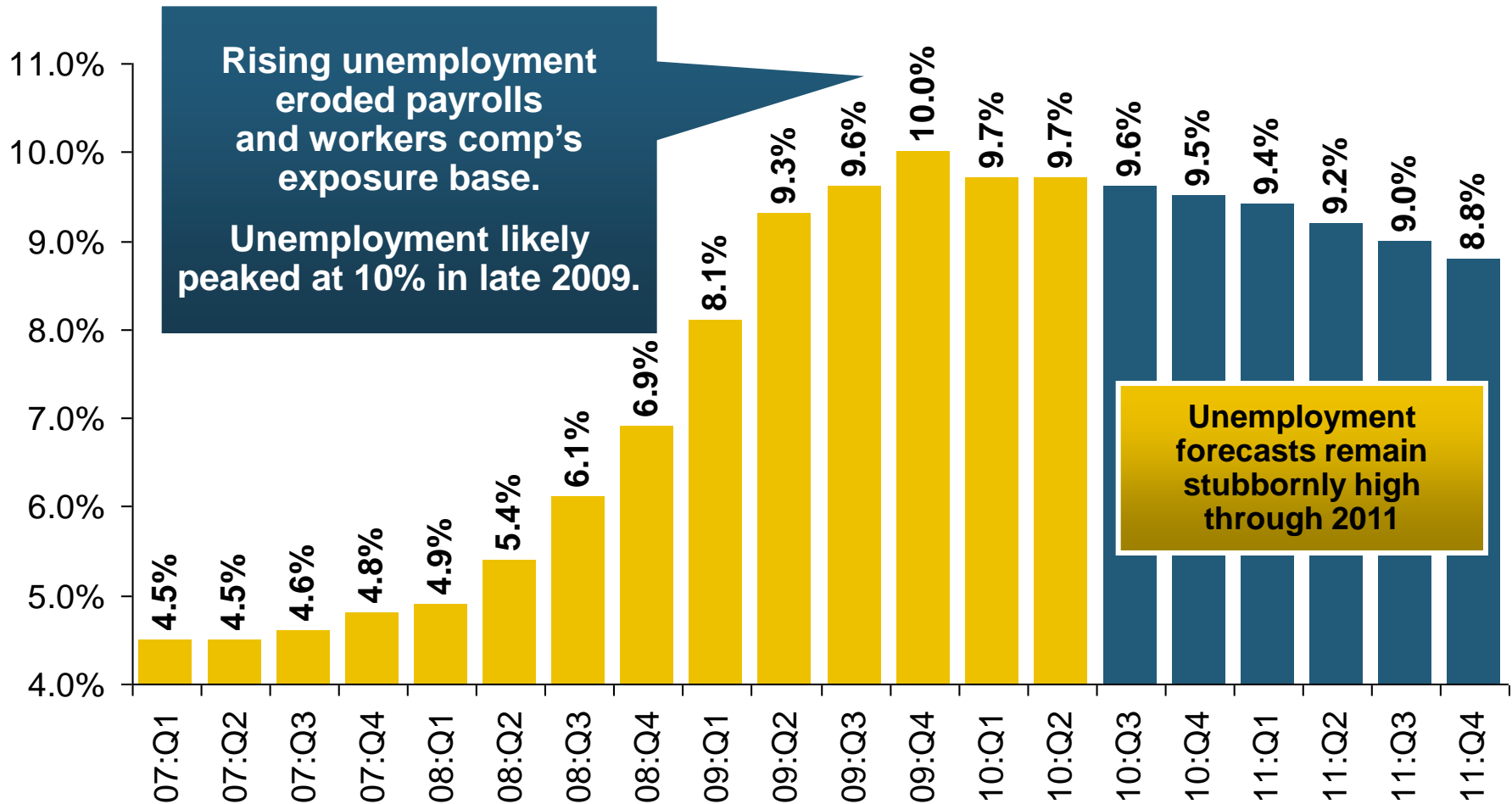
Unemployment rate was 9.5% in June

Unemployment peaked at 10.1% in Oct. 2009, highest monthly rate since 1983.

Peak rate in the last 30 years: 10.8% in Nov - Dec 1982

US Unemployment Rate

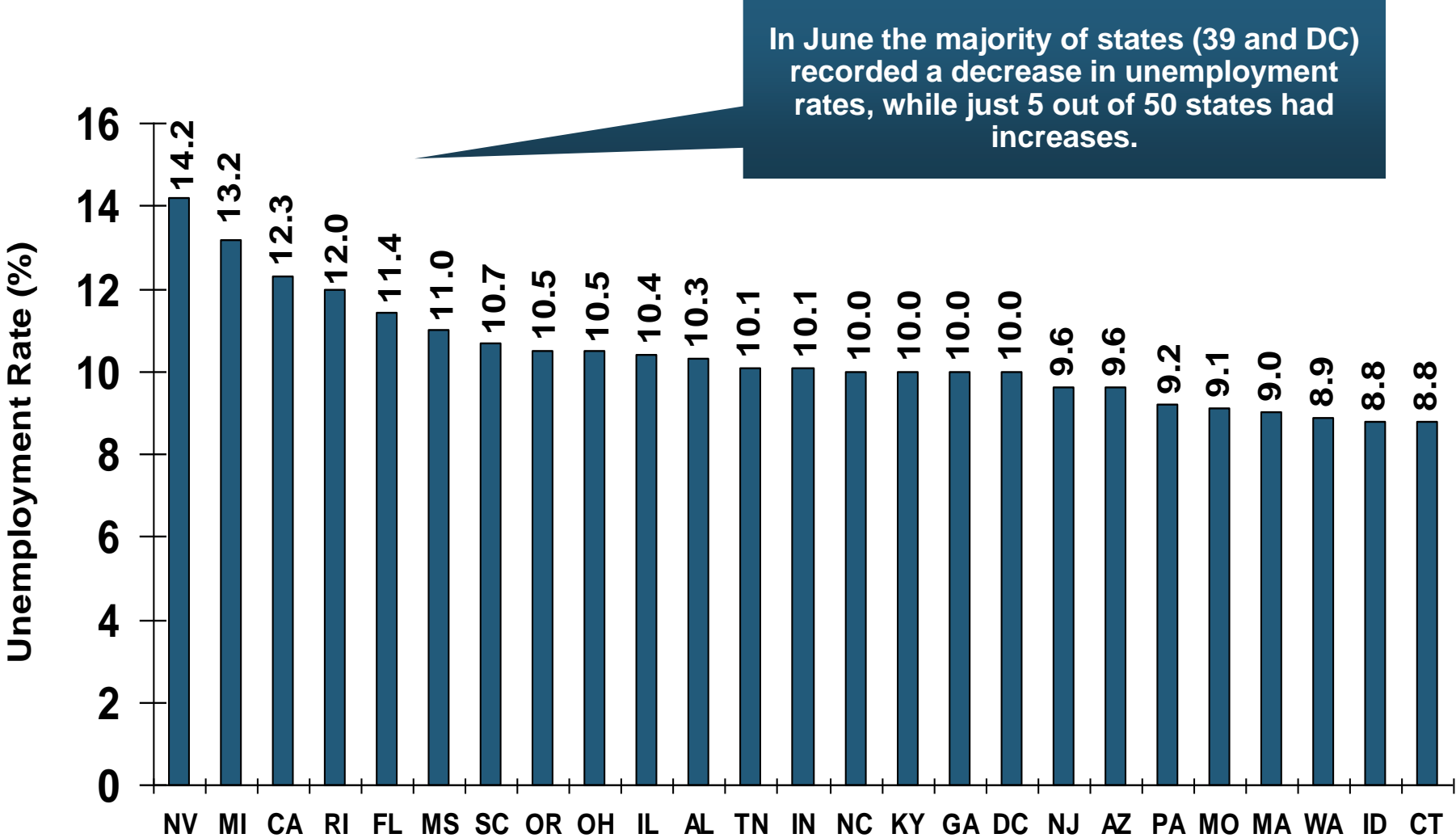
2007:Q1 to 2011:Q4F*



* ■ = actual; ■ = forecasts

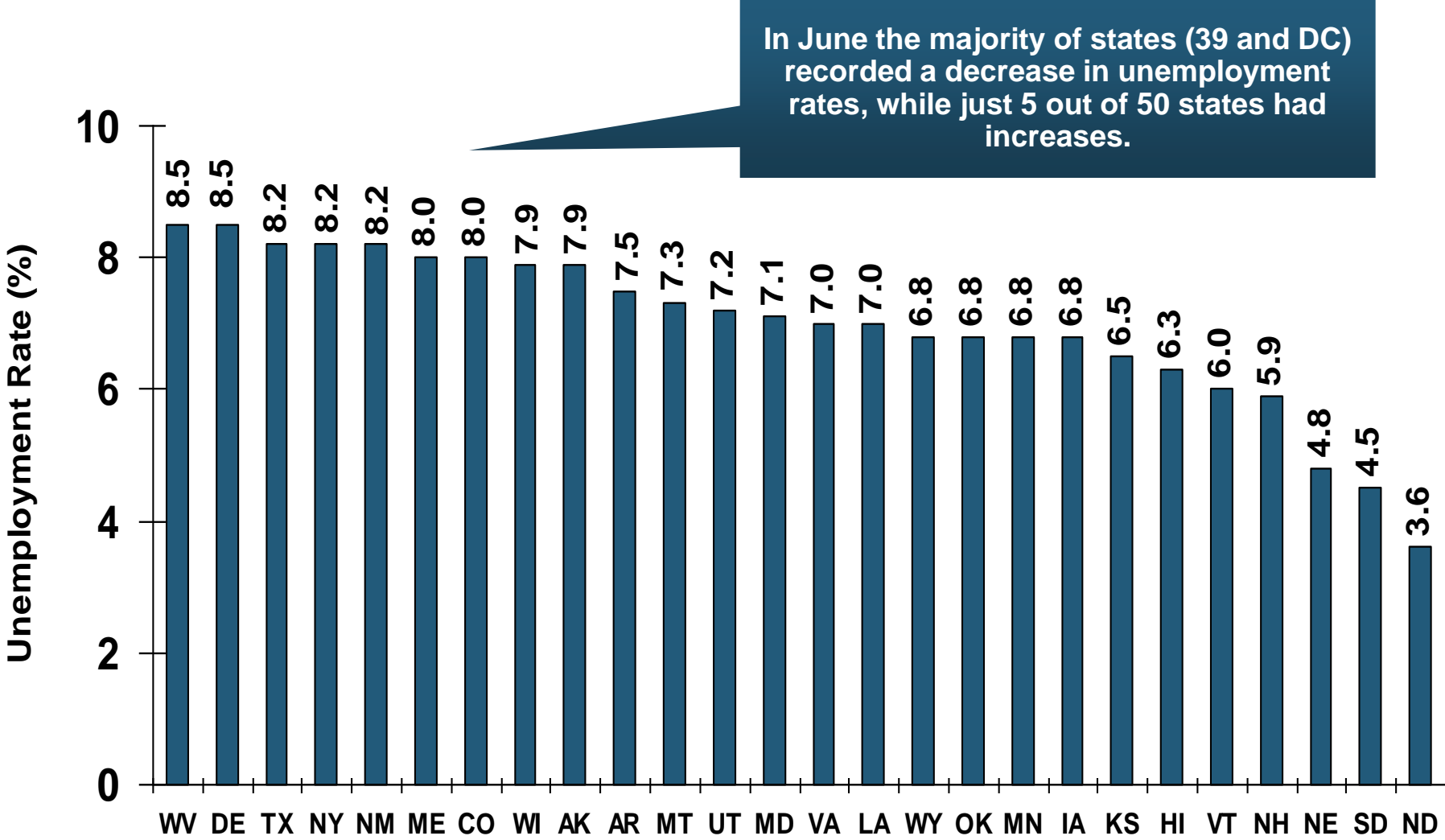
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (8/10); Insurance Information Institute

Unemployment Rates by State, June 2010: Highest 25 States*



*Provisional figures for June 2010, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

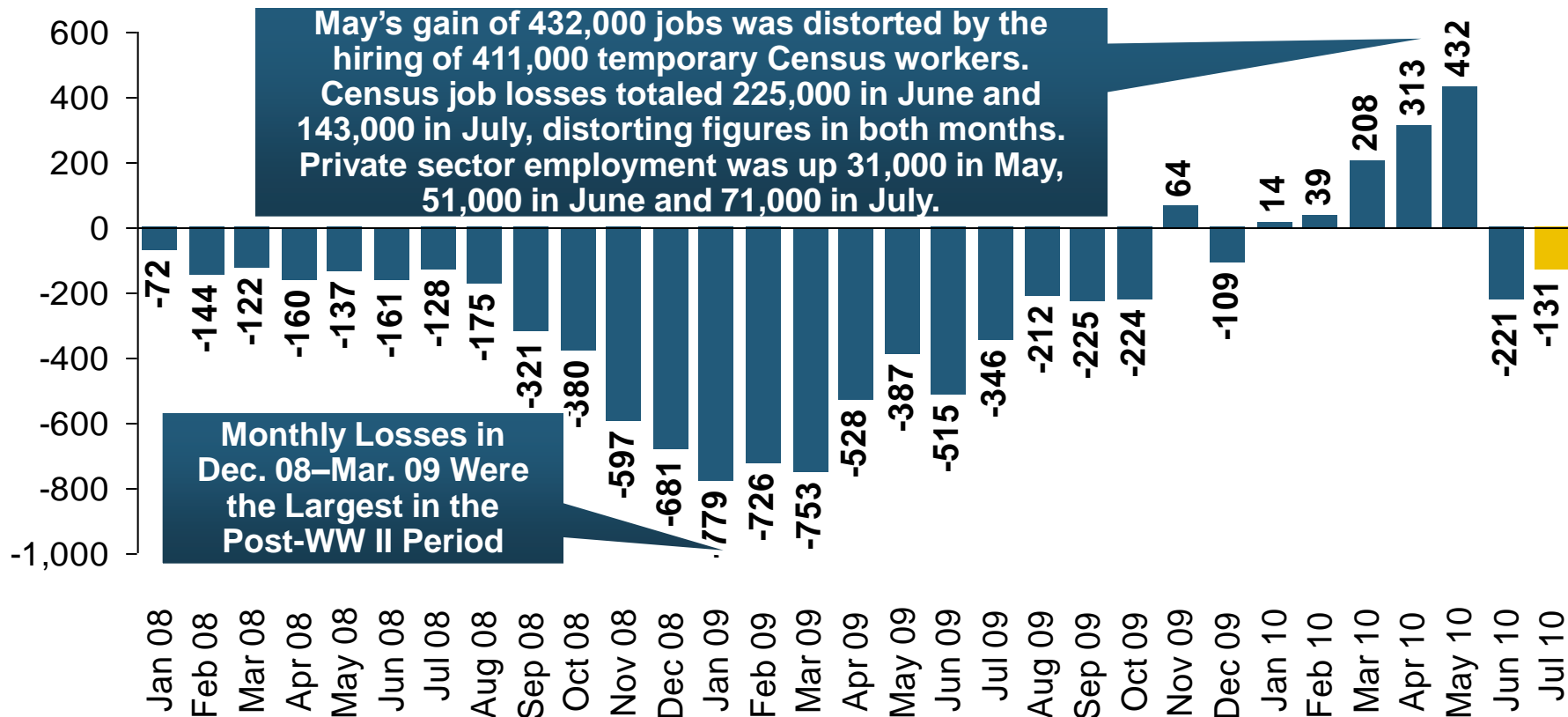
Unemployment Rates By State, June 2010: Lowest 25 States*



*Provisional figures for June 2010, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Monthly Change Employment*

January 2008 through July 2010* (Thousands)



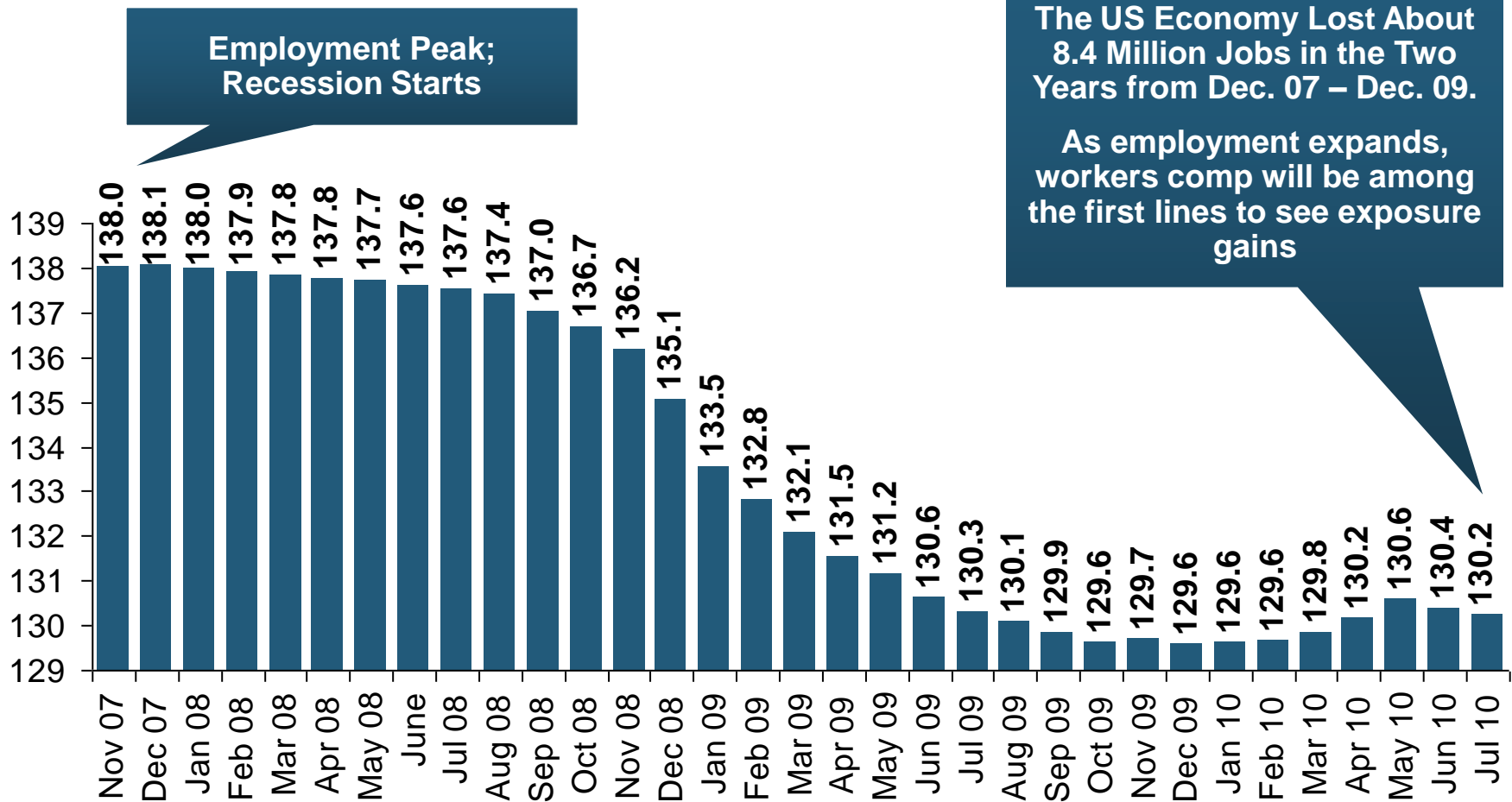
Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 7.7 Million Through June 2010; 14.6 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

Source: US Bureau of Labor Statistics: <http://www.bls.gov/ces/home.htm>; Insurance Information Institute

US Nonfarm Private Employment

Monthly, Nov 2007 – July 2010 (Millions)

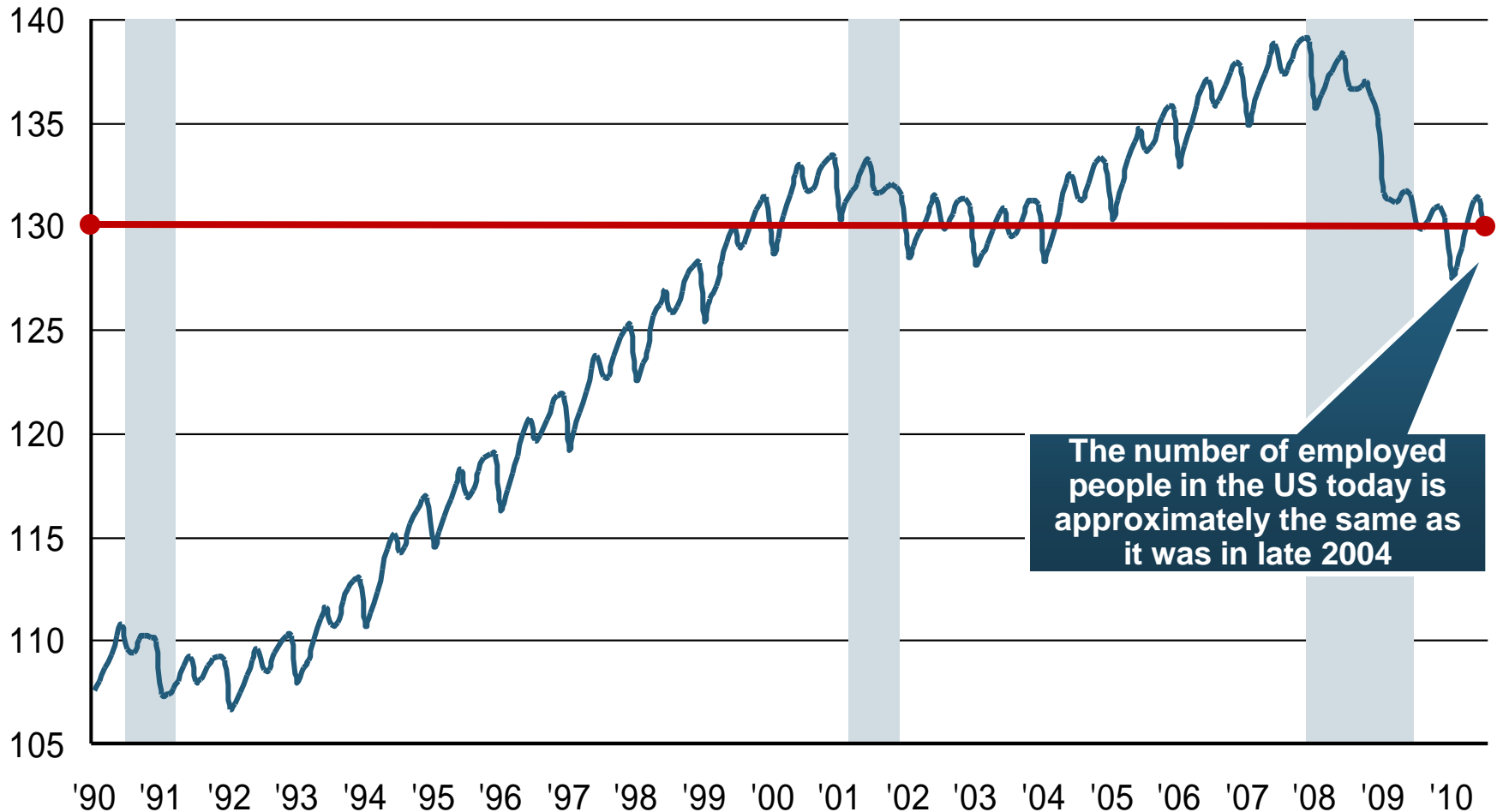


Seasonally adjusted.

Source: US Bureau of Labor Statistics

U.S. Nonfarm Employment, Monthly, 1990–2010*

Millions

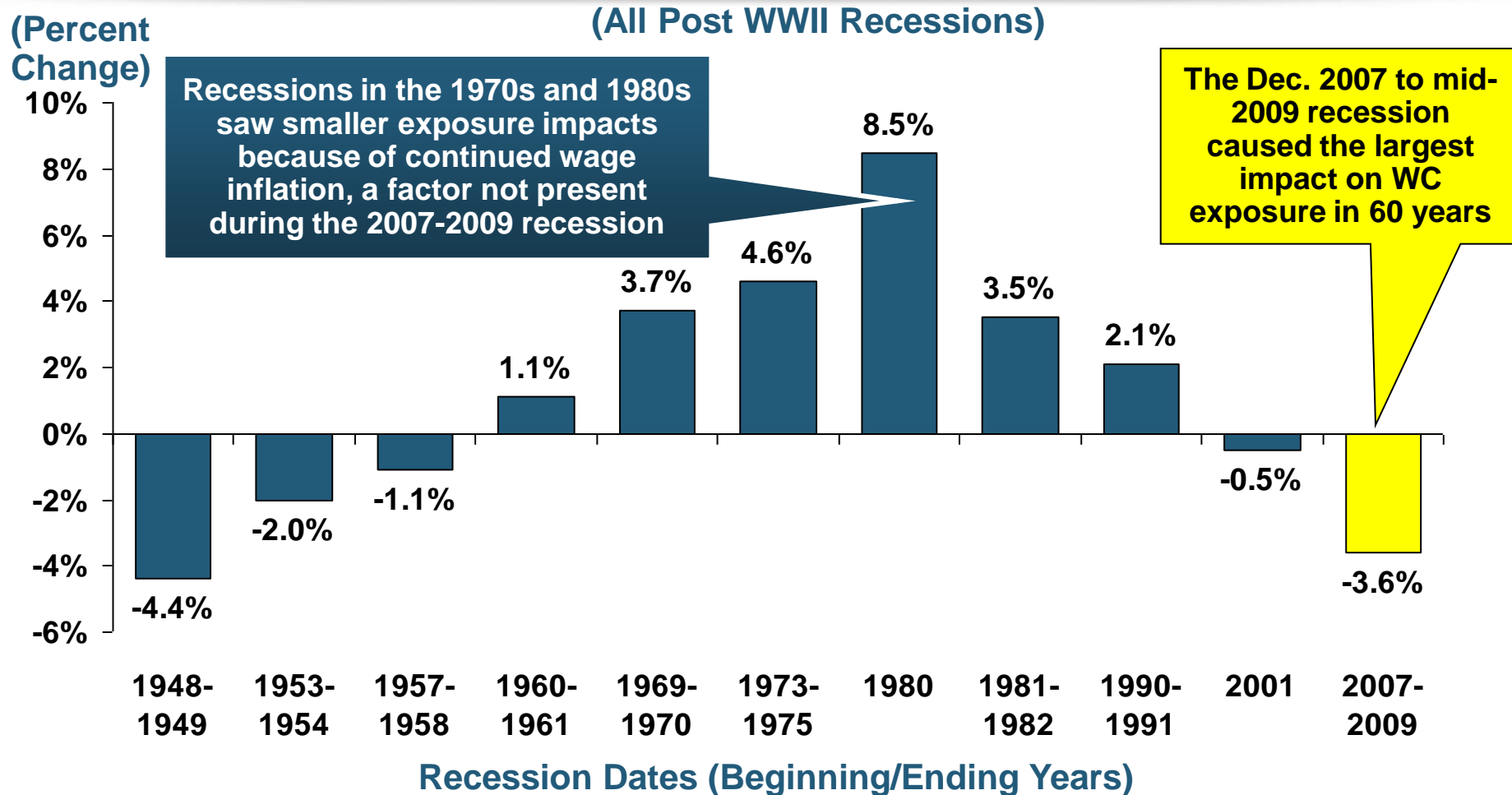


*As of July 2010; Not seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Estimated Effect of Recessions* on Payroll (Workers Comp Exposure)

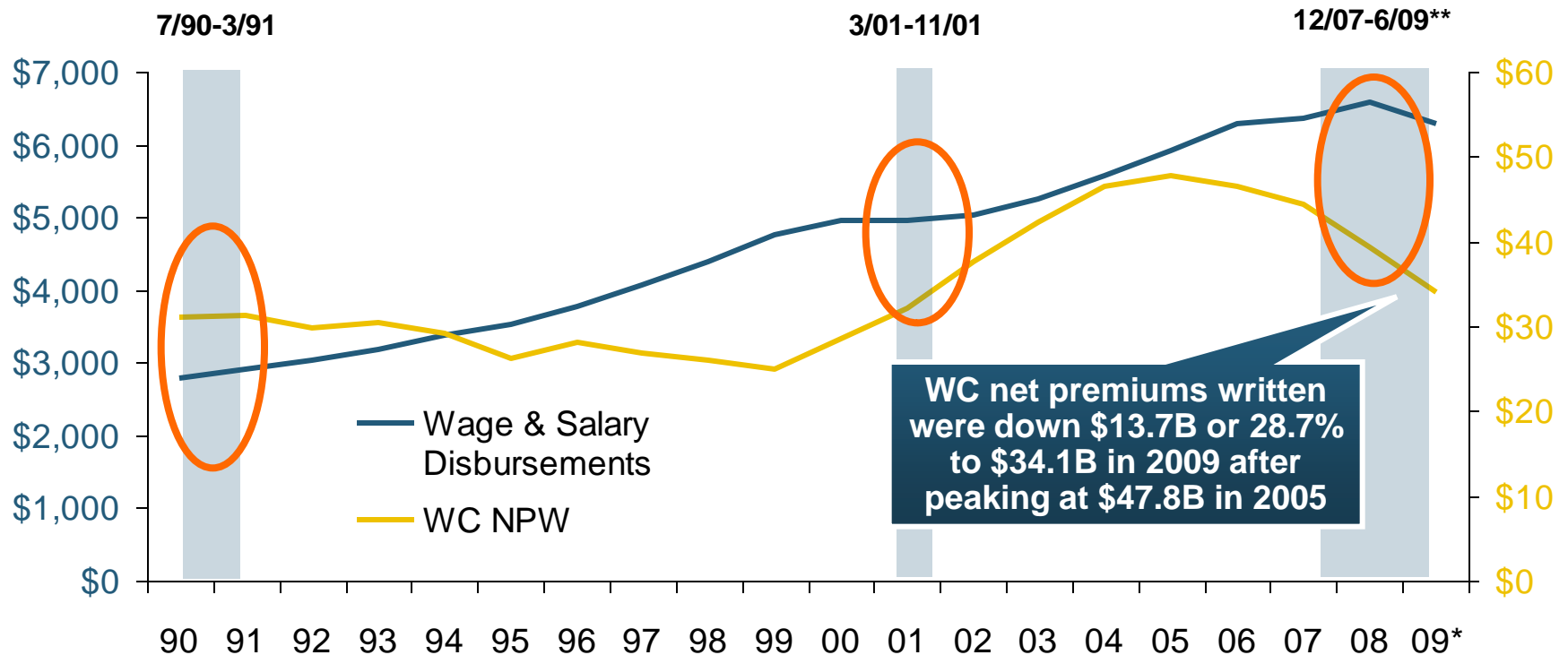


*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data

Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

Wage & Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums

Wage & Salary Disbursement (Private Employment) vs. WC NWP (\$ Billions)



Weakening Payrolls Have Eroded \$2B+ in Workers Comp Premiums; Nearly 29% of NPW Has Been Eroded Away by the Soft Market and Weak Economy

* Average Wage and Salary data as of 10/1/2009. Shaded areas indicate recessions.

**Estimated "official" end of recession June 2009.

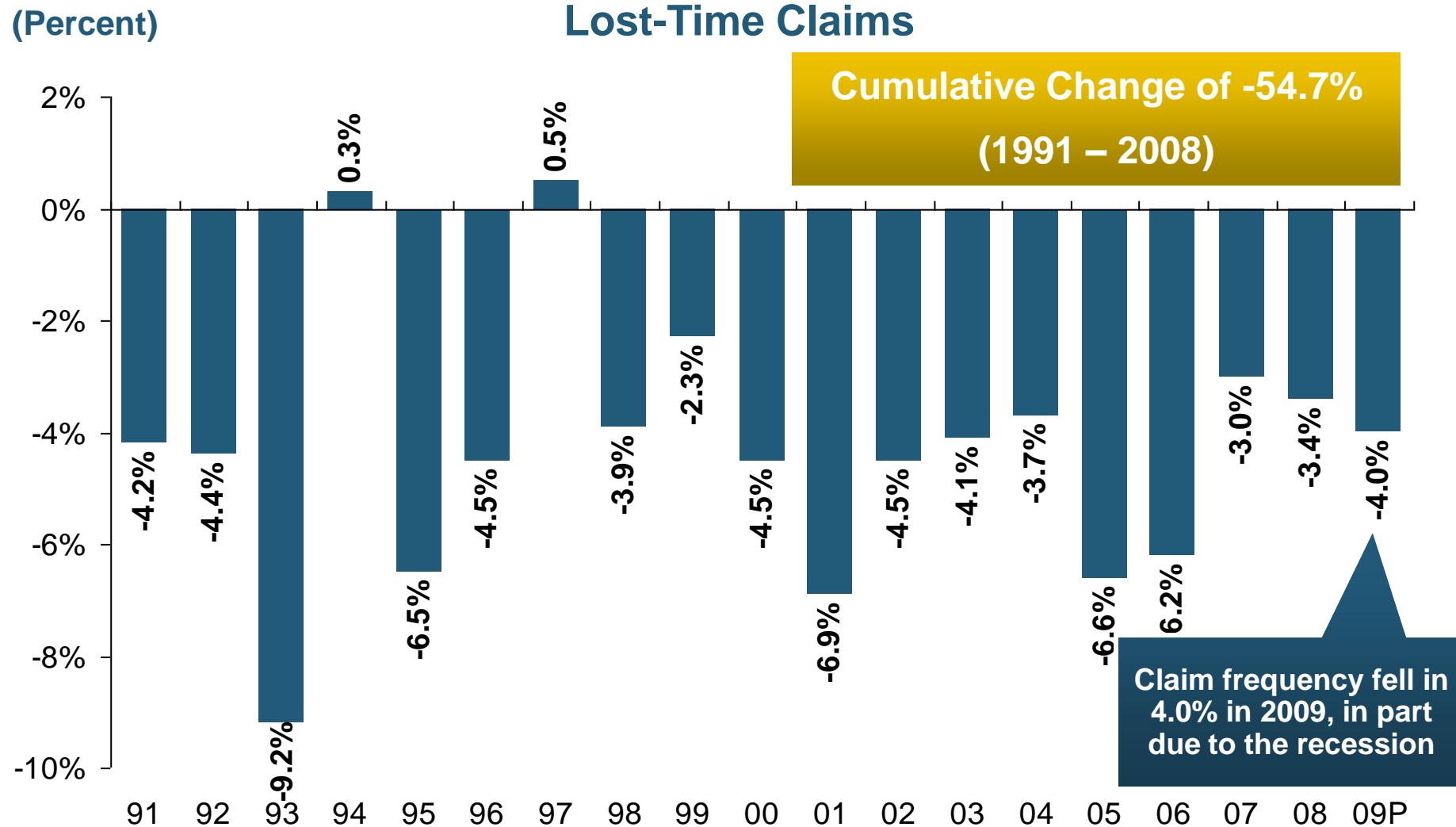
Source: US Bureau of Economic Analysis; Federal Reserve Bank of St. Louis at

<http://research.stlouisfed.org/fred2/series/WASCUR>; I.I.I. Fact Books

Soft Labor Markets and Impacts on WC Claim Frequency

**Net Impact of Recession Appears to
Be a Decline in Frequency;
Swaps and Layoff-Induced Effect**

Workers Compensation Lost-Time Claim Frequency Continues to Decline*



2009p: Preliminary based on data valued as of 12/31/2009;
1991-2008: Based on data through 12/31/2008, developed to ultimate

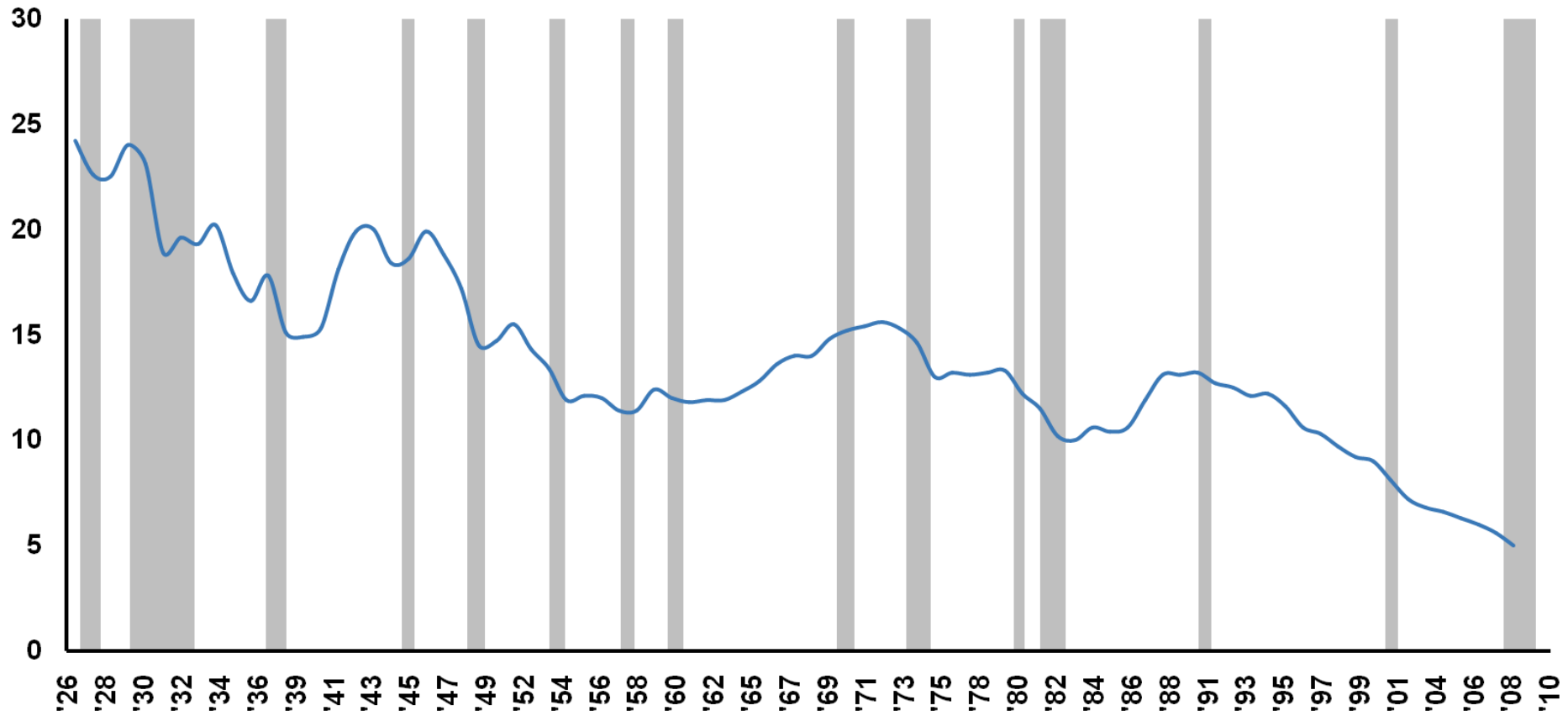
*Frequency is defined as the number of lost-time claims per 100,000 workers.

Based on the states where NCCI provides ratemaking services including state funds; Excludes the effects of deductible policies

Frequency: 1926–2009

A Long-Term Drift Downward

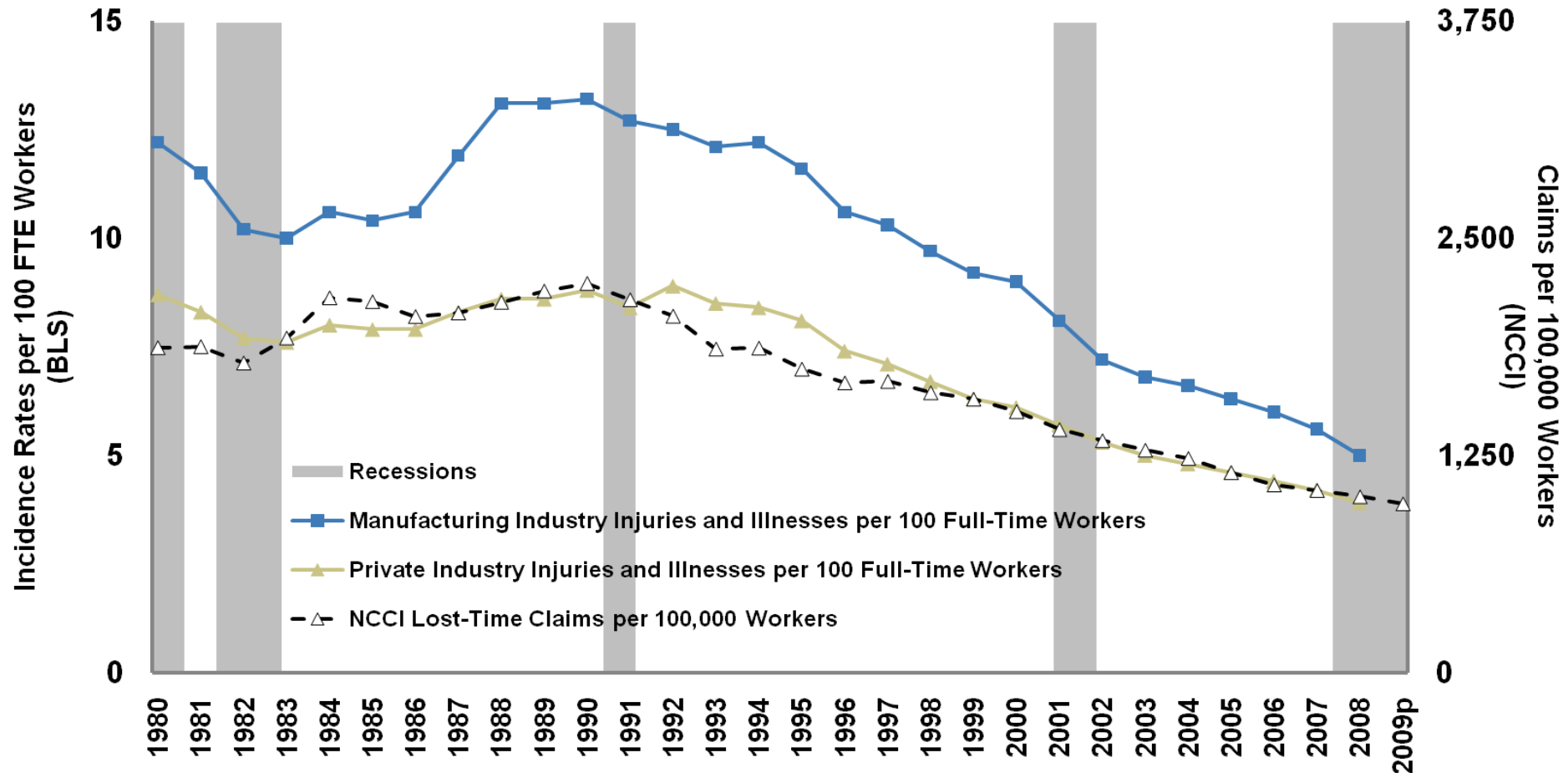
Manufacturing – Total Recordable Cases
Rate of Injury and Illness Cases per 100 Full-Time Workers



Note: Recessions indicated by gray bars.

Sources: NCCI from US Bureau of Labor Statistics; National Bureau of Economic Research.

Workplace Injury Incidence Rates Declined in Last Four Economic Downturns



Note: Recessions indicated by gray bars.

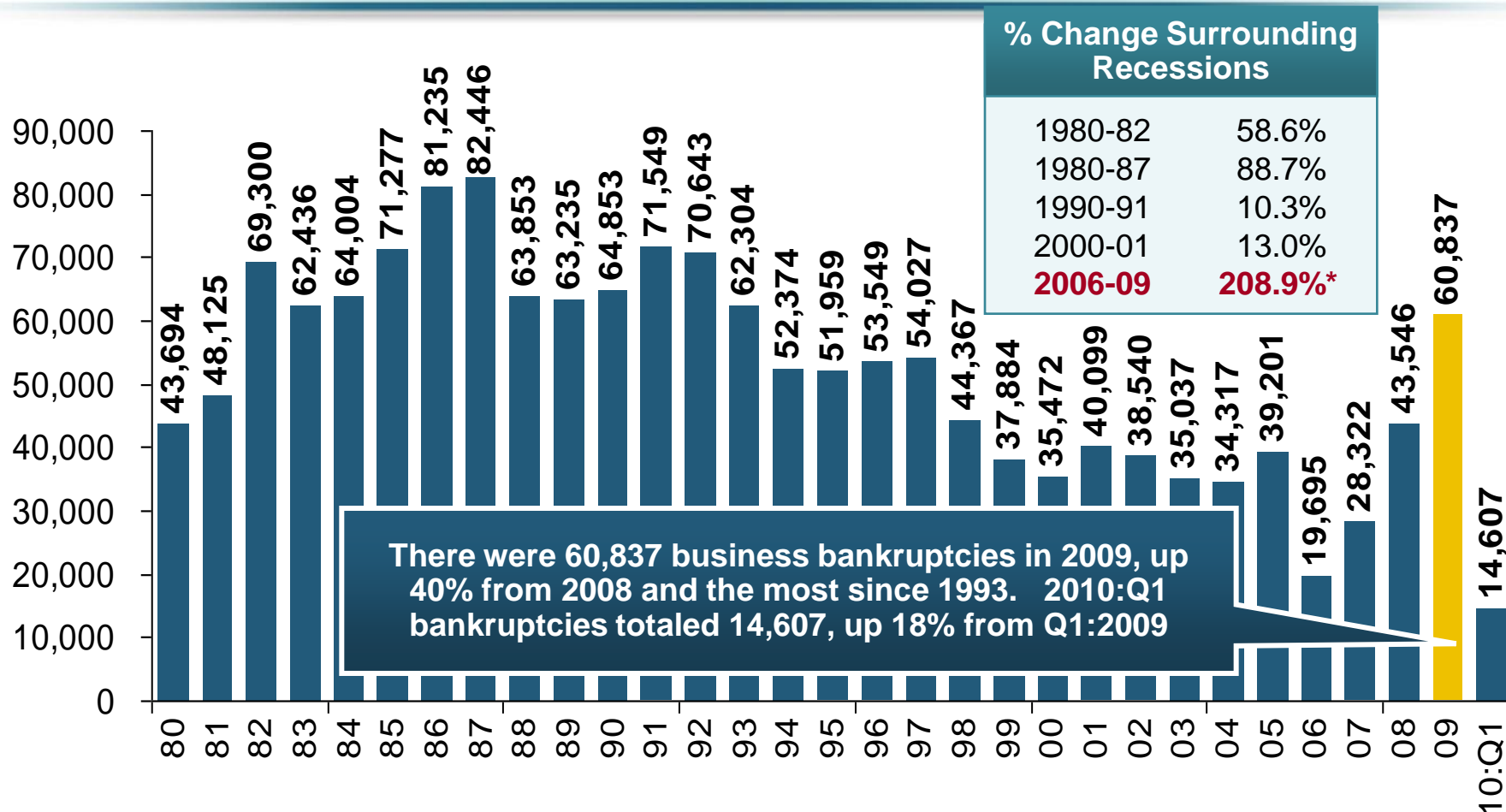
Sources: NCCI, US Bureau of Labor Statistics;

Crisis and Recovery-Driven Exposure Drivers in WC

**Myriad of Impacts on Workers
Comp Exposure**

Filling the Economic Crater

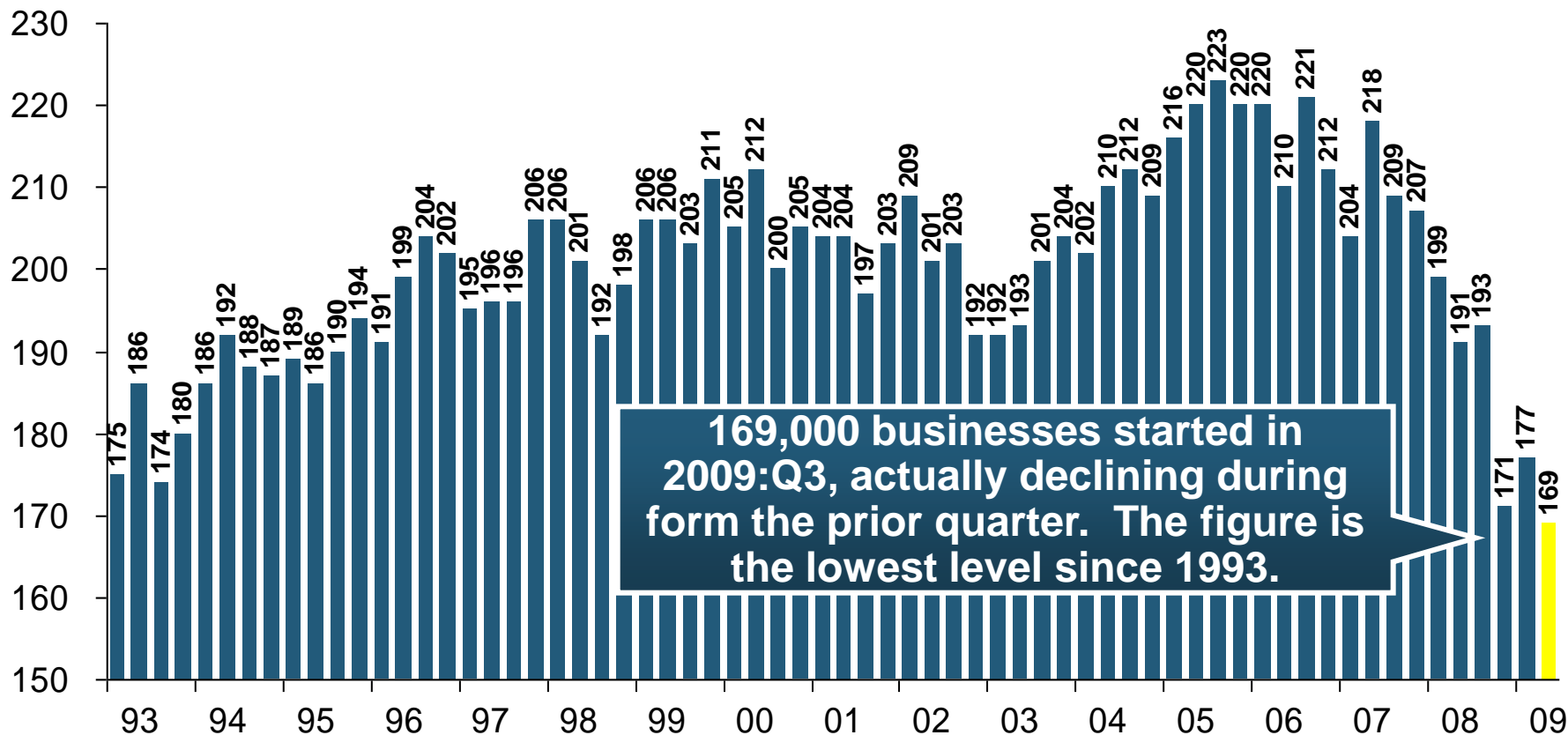
Business Bankruptcy Filings, 1980-2010:Q1



Significant Exposure Implications for All Commercial Lines

Private Sector Business Starts, 1993:Q2 – 2009:Q3*

(Thousands)



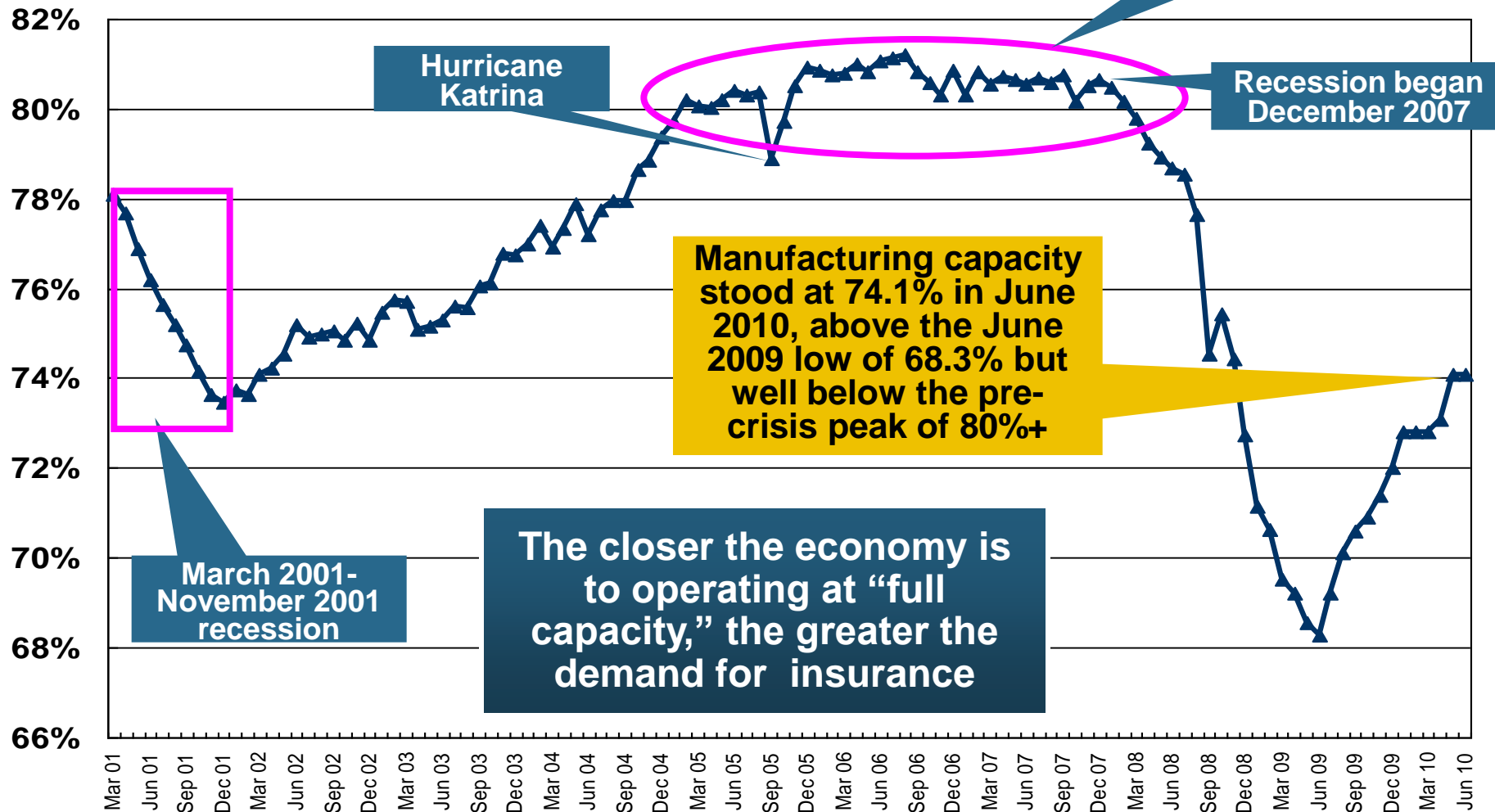
**Business Starts Are Down Nearly 20% in the Current Downturn,
Holding Back Most Types of Commercial Insurance Exposure**

*Latest available as of June 7, 2010, seasonally adjusted

Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t07.htm>.

Recovery in Capacity Utilization is a Positive Sign for Insurance

Percent of Total
Industry Capacity



Where Will the Growth in WC Exposure Come From?

Industry and Occupation Growth Analysis

Fastest Growing Occupations, 2008–2018:

Health/Science/Tech Dominate

WC exposure growth the fastest in the health, science and tech areas

Occupations	Percent change	Number of new jobs (in thousands)	Wages (May 2008 median)	Education/training category
Biomedical engineers	72	11.6	\$ 77,400	Bachelor's degree
Network systems and data communications analysts	53	155.8	71,100	Bachelor's degree
Home health aides	50	460.9	20,460	Short-term on-the-job training
Personal and home care aides	46	375.8	19,180	Short-term on-the-job training
Financial examiners	41	11.1	70,930	Bachelor's degree
Medical scientists, except epidemiologists	40	44.2	72,590	Doctoral degree
Physician assistants	39	29.2	81,230	Master's degree
Skin care specialists	38	14.7	28,730	Postsecondary vocational award
Biochemists and biophysicists	37	8.7	82,840	Doctoral degree
Athletic trainers	37	6.0	39,640	Bachelor's degree
Physical therapist aides	36	16.7	23,760	Short-term on-the-job training
Dental hygienists	36	62.9	66,570	Associate degree
Veterinary technologists and technicians	36	28.5	28,900	Associate degree
Dental assistants	36	105.6	32,380	Moderate-term on-the-job training
Computer software engineers, applications	34	175.1	85,430	Bachelor's degree
Medical assistants	34	163.9	28,300	Moderate-term on-the-job training
Physical therapist assistants	33	21.2	46,140	Associate degree
Veterinarians	33	19.7	79,050	First professional degree
Self-enrichment education teachers	32	81.3	35,720	Work experience in a related occupation
Compliance officers, except agriculture, construction, health and safety, and transportation	31	80.8	48,890	Long-term on-the-job training

SOURCE: BLS Occupational Employment Statistics and Division of Occupational Outlook

Occupations with Largest Numerical Growth, 2008–2018: *Health, Services Dominate*

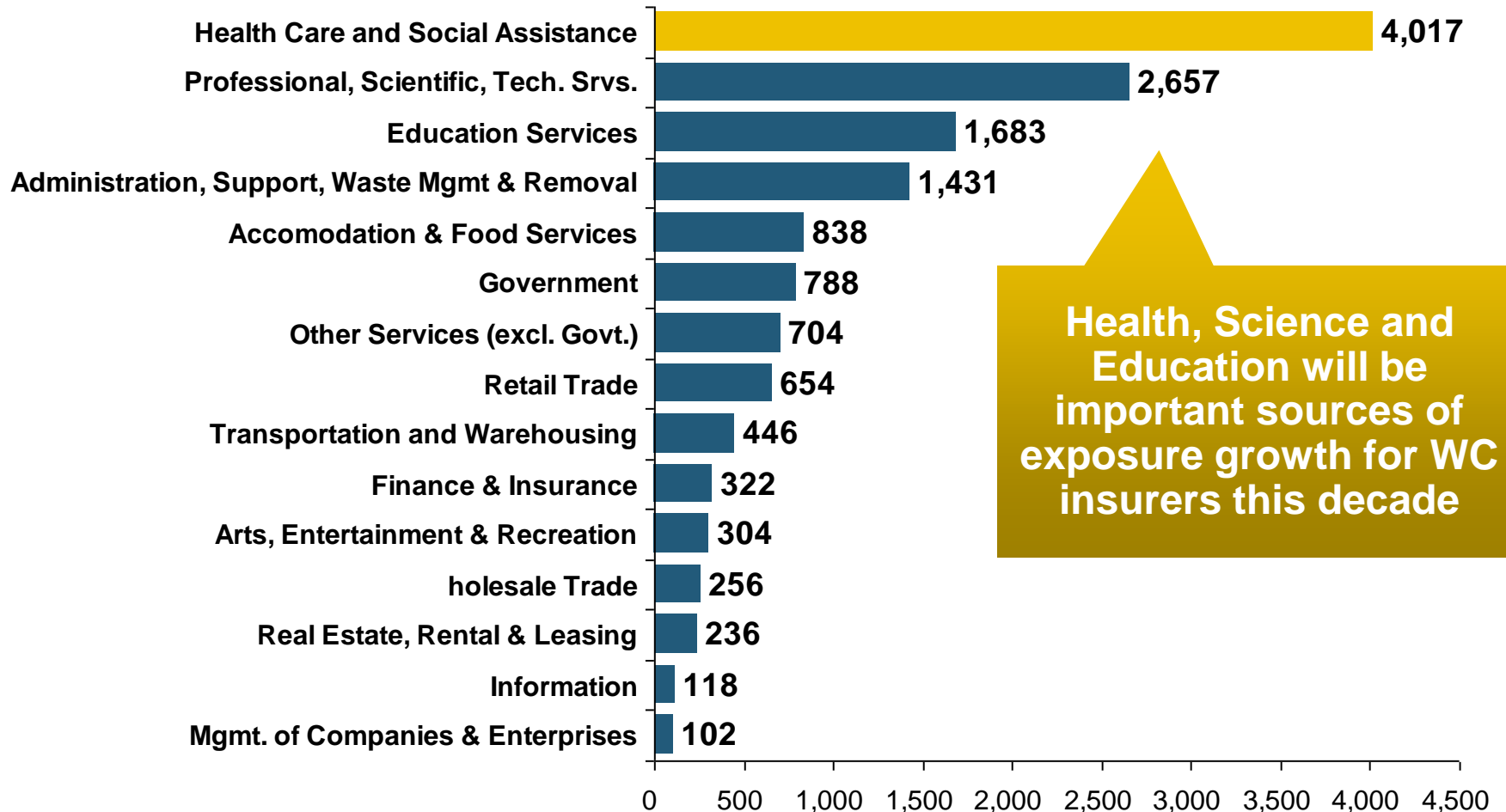
Dollar growth in WC exposures should grow the most (at current rate levels) in the health and services industries

Occupations	Number of new jobs (in thousands)	Percent change	Wages (May 2008 median)	Education/training category
Registered nurses	581.5	22	\$ 62,450	Associate degree
Home health aides	460.9	50	20,460	Short-term on-the-job training
Customer service representatives	399.5	18	29,860	Moderate-term on-the-job training
Combined food preparation and serving workers, including fast food	394.3	15	16,430	Short-term on-the-job training
Personal and home care aides	375.8	46	19,180	Short-term on-the-job training
Retail salespersons	374.7	8	20,510	Short-term on-the-job training
Office clerks, general	358.7	12	25,320	Short-term on-the-job training
Accountants and auditors	279.4	22	59,430	Bachelor's degree
Nursing aides, orderlies, and attendants	276.0	19	23,850	Postsecondary vocational award
Postsecondary teachers	256.9	15	58,830	Doctoral degree
Construction laborers	255.9	20	28,520	Moderate-term on-the-job training
Elementary school teachers, except special education	244.2	16	49,330	Bachelor's degree
Truck drivers, heavy and tractor-trailer	232.9	13	37,270	Short-term on-the-job training
Landscaping and groundskeeping workers	217.1	18	23,150	Short-term on-the-job training
Bookkeeping, accounting, and auditing clerks	212.4	10	32,510	Moderate-term on-the-job training
Executive secretaries and administrative assistants	204.4	13	40,030	Work experience in a related occupation
Management analysts	178.3	24	73,570	Bachelor's or higher degree, plus work experience
Computer software engineers, applications	175.1	34	85,430	Bachelor's degree
Receptionists and information clerks	172.9	15	24,550	Short-term on-the-job training
Carpenters	165.4	13	38,940	Long-term on-the-job training

SOURCE: BLS Occupational Employment Statistics and Division of Occupational Outlook

Numeric Change in Wage and Salary Employment in Service-Providing Industries: 2008-2018P

(Thousands)

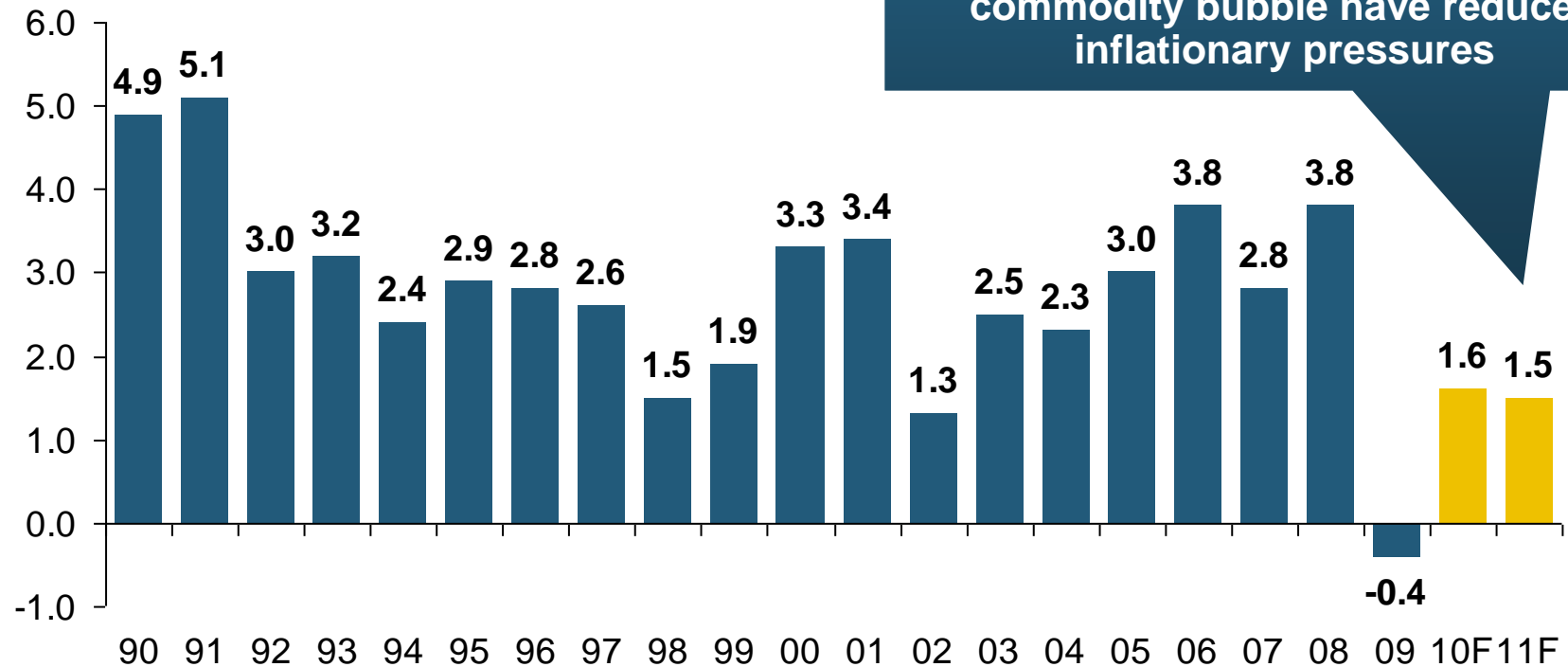


**Inflation Trends:
*Concerns Over Stimulus Spending
and Monetary Policy***

**Mounting Pressure on Claim
Cost Severities?**

Annual Inflation Rates (CPI-U, %), 1990–2011F

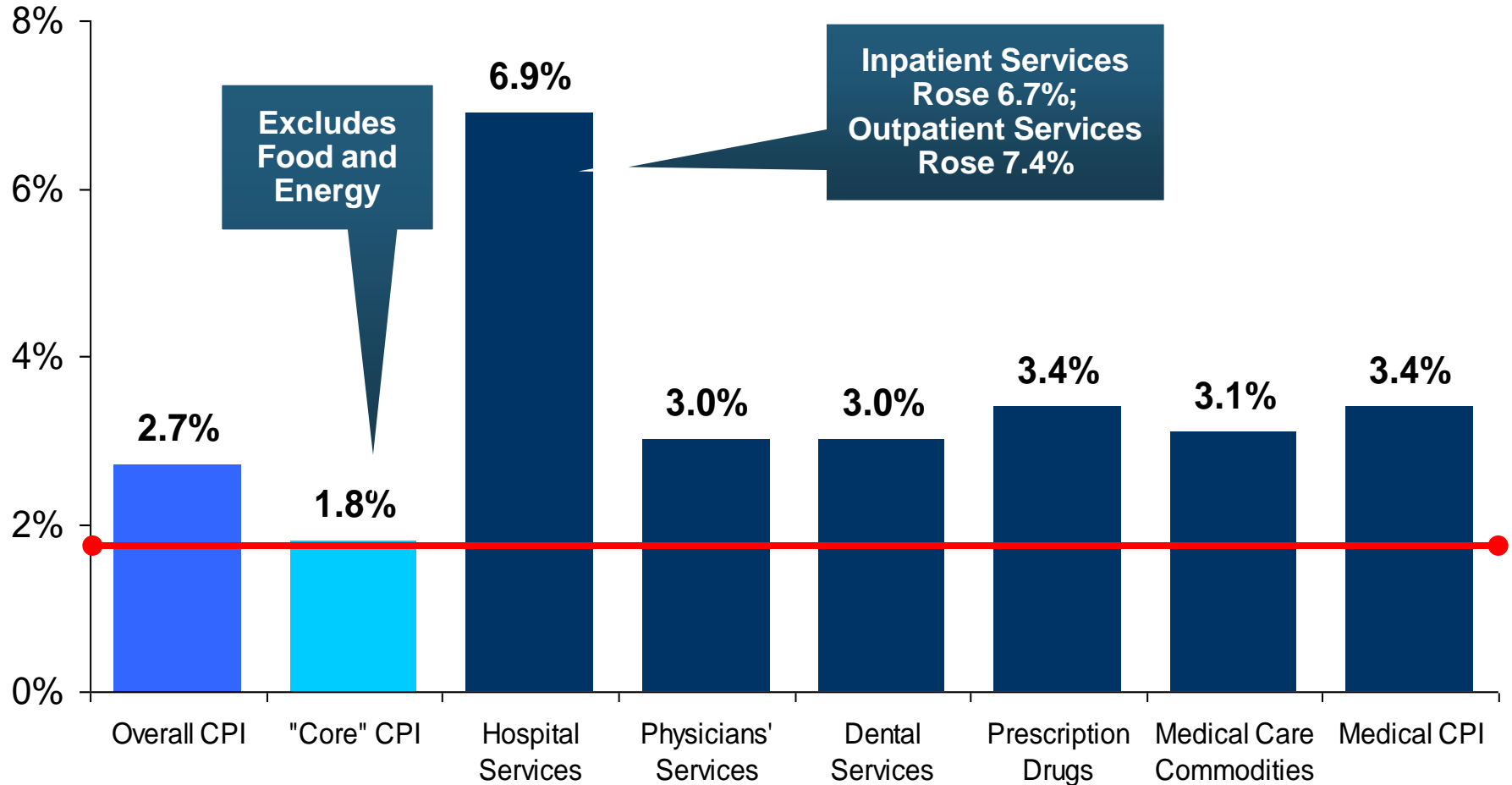
Annual Inflation Rates (%)



There is So Much Slack in the US Economy Inflation Should Not Be a Concern Through 2010/11, but Deficits and Monetary Policy Remain Longer Run Concerns

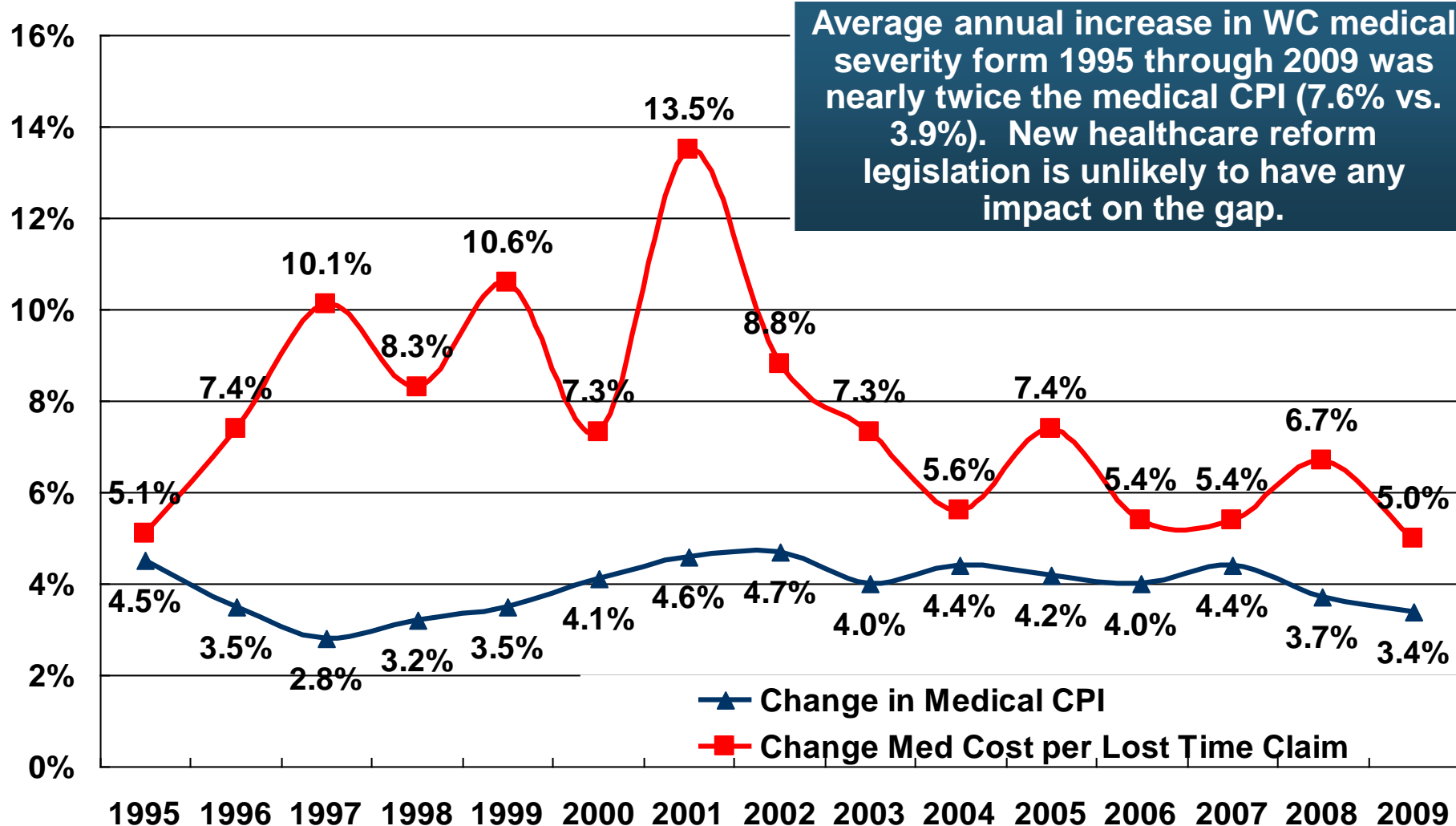
WC Insurers Experience Inflation More Intensely than 2009 CPI Suggests

(Percent increase Dec 08 to Dec 09)

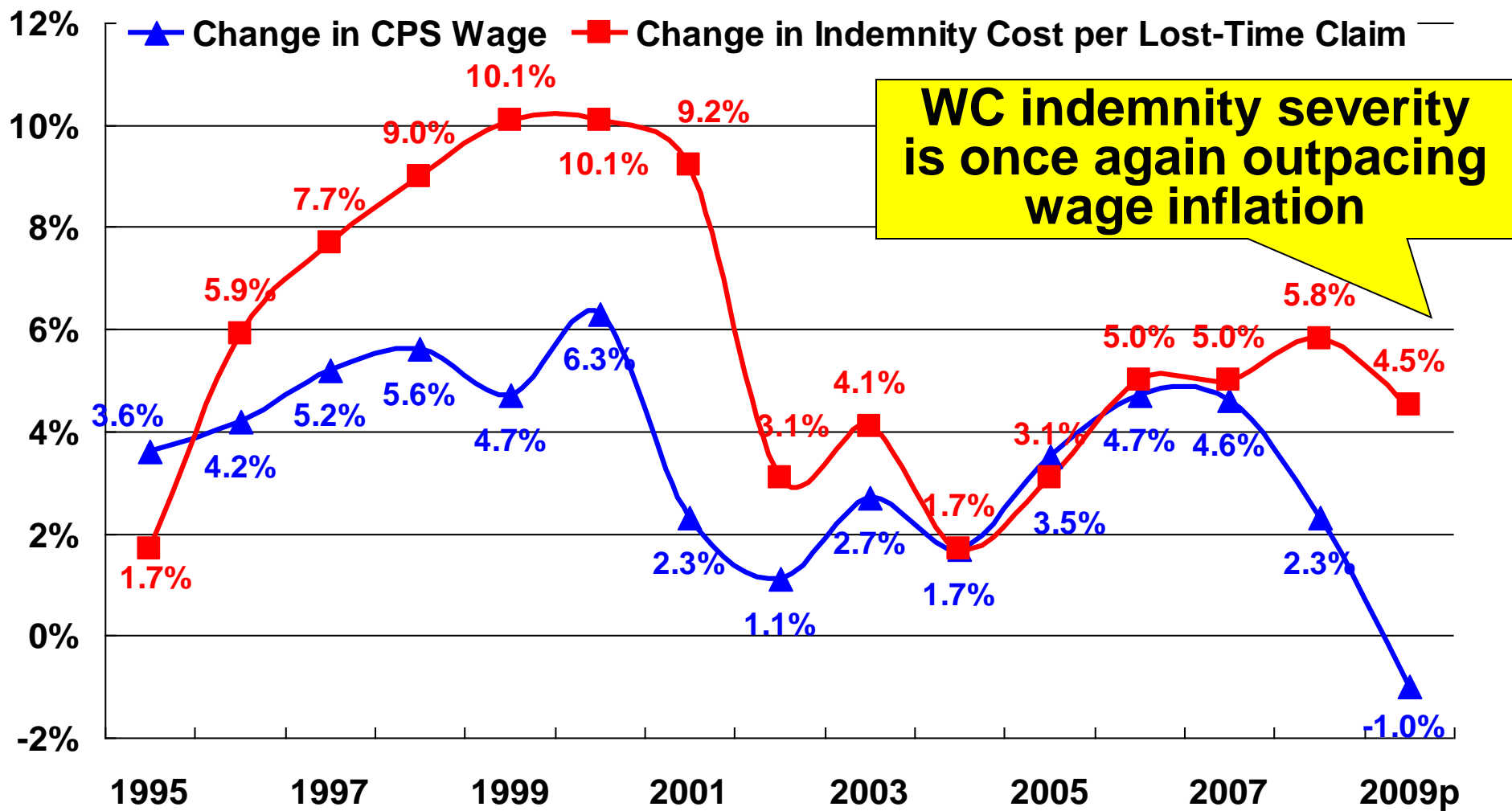


Healthcare Costs Are a Major WC Insurance Cost Driver. They Are Likely to Increase Faster than the CPI for the Next Few Years, at Least

WC Medical Severity Rising at Twice the Medical CPI Rate



WC Indemnity Severity vs. Wage Inflation



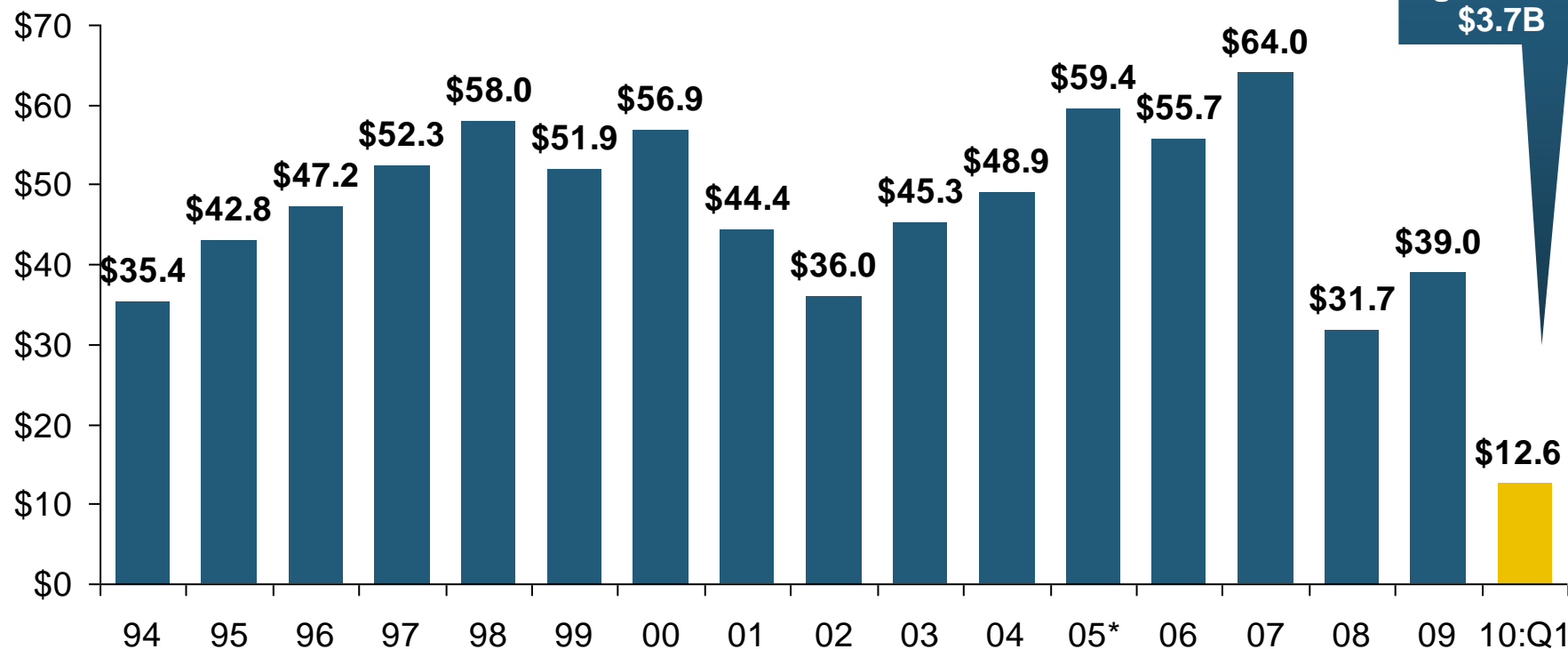
2009p: Preliminary based on data valued as of 12/31/2009; 1991-2008: Based on data through 12/31/2008, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies. CPS = Current Population Survey.
Source: NCCI

Investment Performance

**Persistently Low Interest Rates Must
Eventually Impact Pricing as
Underwriting Losses Mount**

Property/Casualty Insurance Industry Investment Gain: 1994–2010:Q1¹

(\$ Billions)



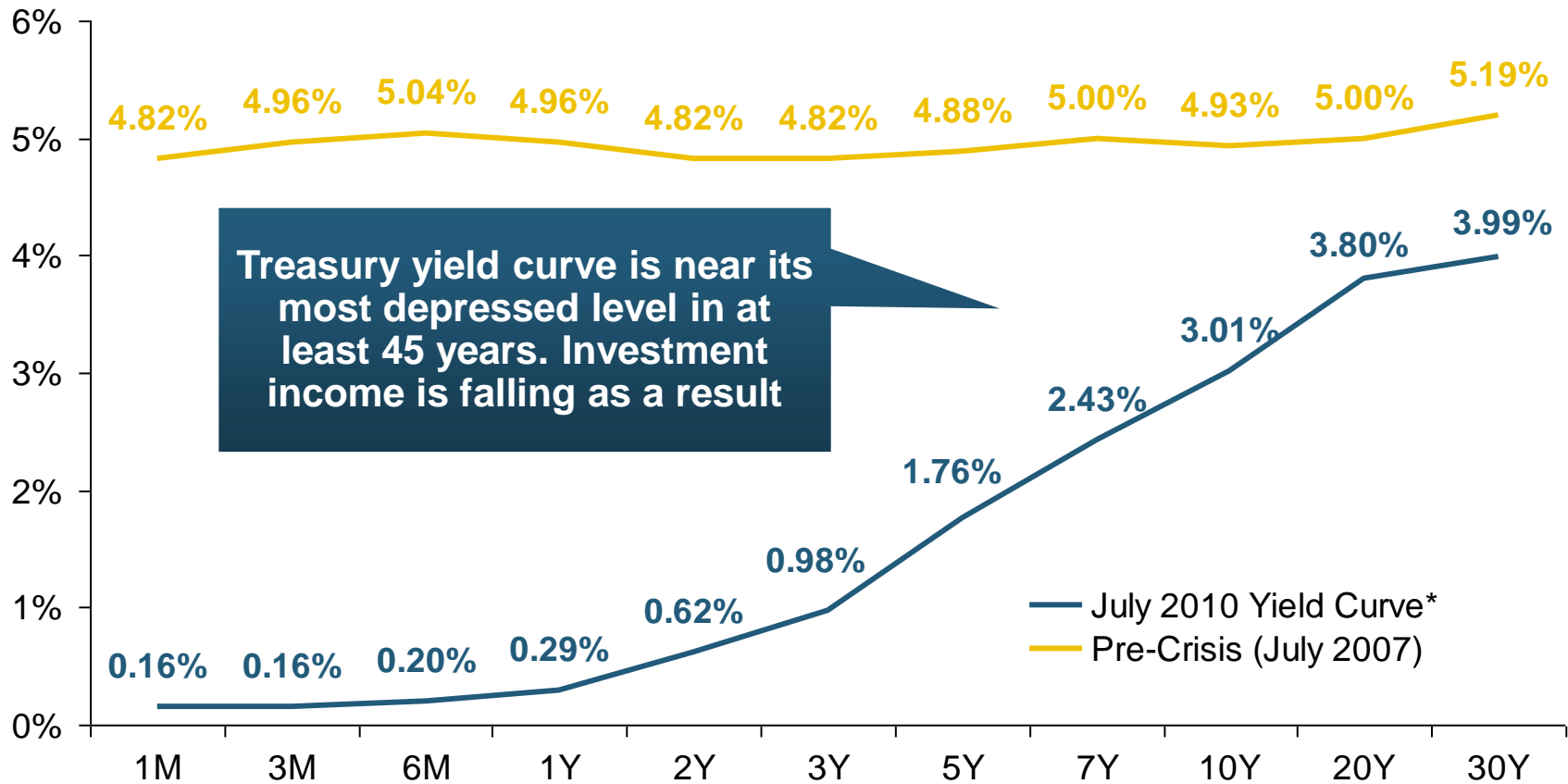
**In 2008, Investment Gains Fell by 50% Due to Lower Yields and
Nearly \$20B of Realized Capital Losses
2009 Saw Smaller Realized Capital Losses But Declining Investment Income**

¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

* 2005 figure includes special one-time dividend of \$3.2B.

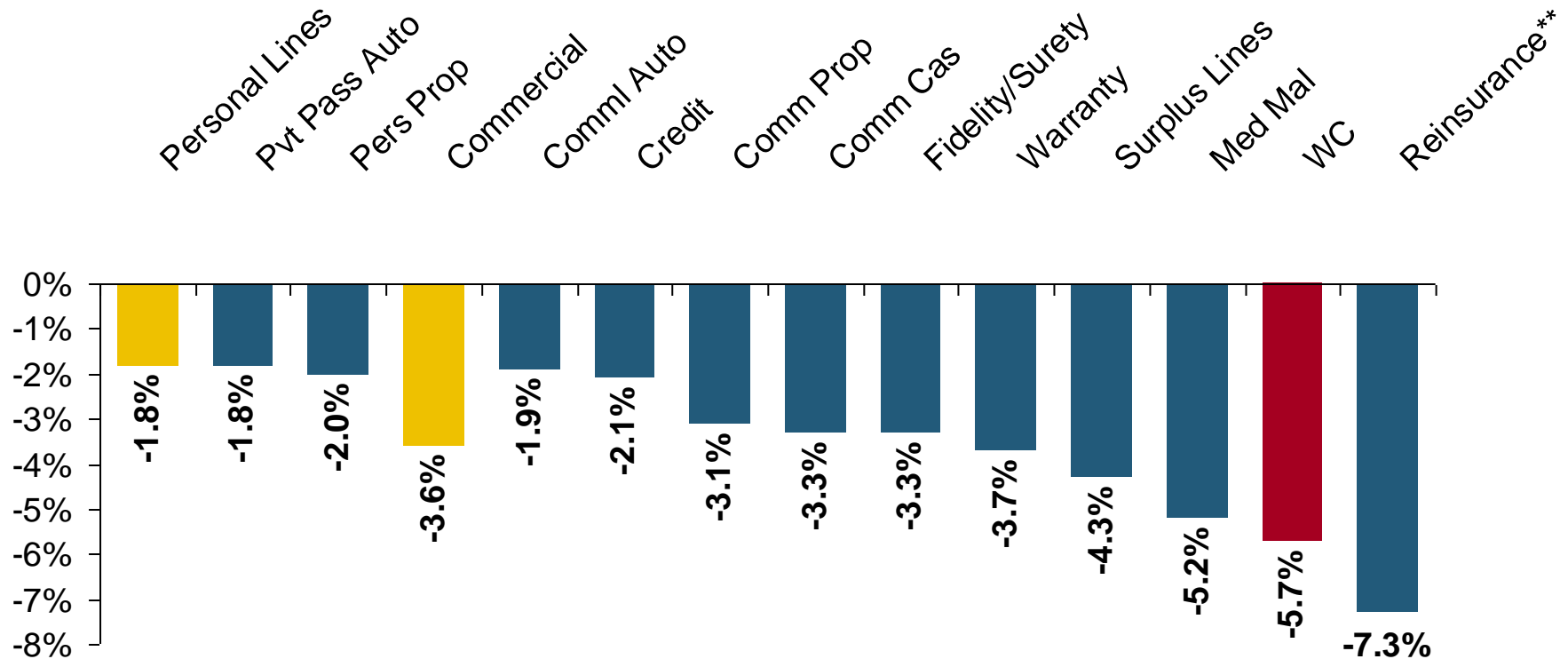
Sources: ISO; Insurance Information Institute.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. July 2010



Stock Dividend Cuts Have Further Pressured Investment Income

Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*



Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

Source: A.M. Best; Insurance Information Institute.

Healthcare Reform & Workers Compensation

**Likely a Slight, Net Positive for
Workers Comp in the Long Run**

Healthcare Reform: Potential Impacts on Workers Comp Insurers

Healthcare Reform Legislation: Uncertain Impacts

1. Should *reduce* cost shifting into WC to make up for revenues lost from treating the uninsured
 - Effect could still linger since Medicaid reimbursements likely to be lower than for WC
2. Possibly *more* cost shifting from other med providers to make up for big cuts in Medicare reimbursement
3. Possibly higher WC claims frequency
 - Statistically, the insured tend to access the WC system more frequently than the uninsured
4. Inattention to Workers Comp by medical providers
 - Stronger and tighter focus of providers to group health, Medicare and Medicaid programs
 - Ultimately, improvements in claim management systems could benefit WC but this may take several years
5. Plan allows for discounts on health insurance for people who enroll in company wellness programs and allows employers to charge smokers more
 - To the extent the plan encourages responsible, healthy behaviors (such as weight loss, smoking cessation) worker comp will benefit
6. Plan contains little meaningful tort reform (e.g., no caps on noneconomic damages in medical cases), hence the cost of medical care, will be inflated by tort costs and the cost of defensive medicine, including care provided through the WC system
 - The CBO priced the savings from tort reform, if adopted, at \$54 billion over 10 years.

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*Thank you for your time
and your attention!*

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