



Trends Affecting the Workers Compensation System

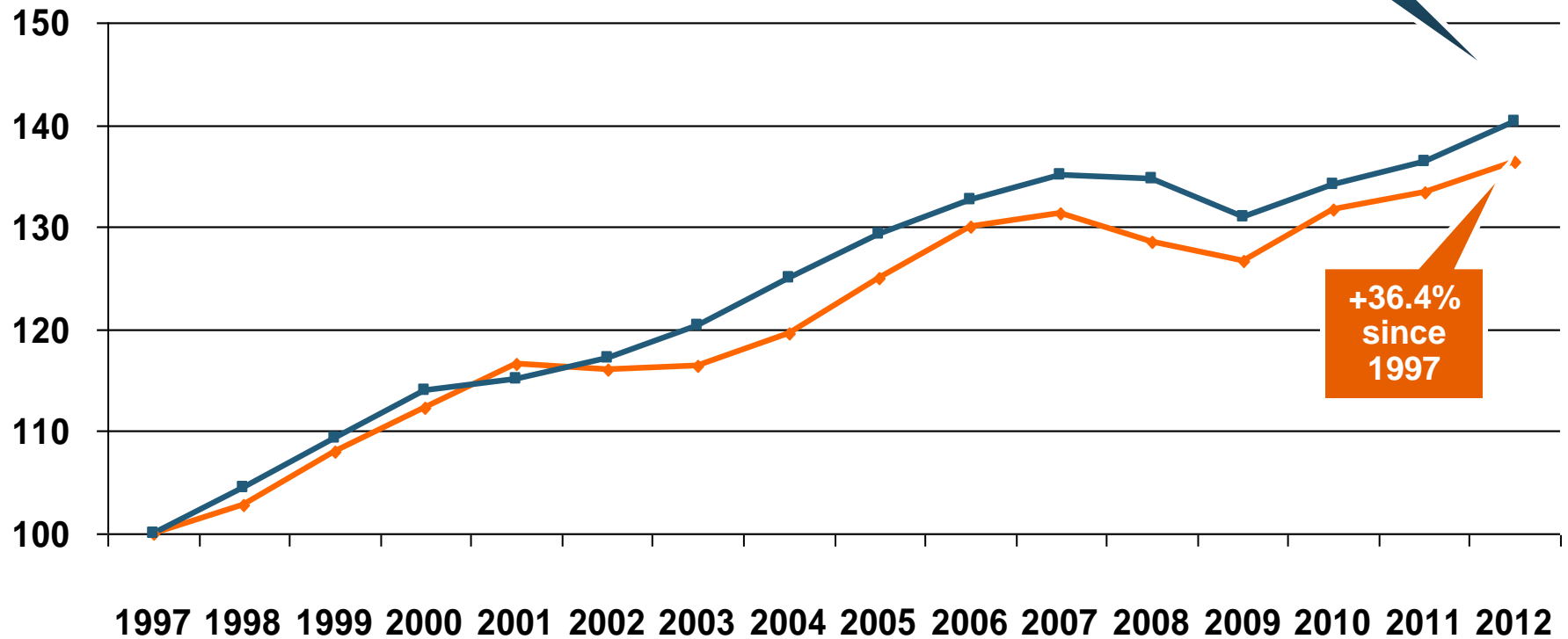
**Workers Compensation Bottom Line Solutions--Revisited
AMCOMP Workers Compensation Seminar
New York, NY
September 12, 2013**

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Real GDP Growth, 1997-2012: New York State vs. U.S.

Index
(1997=100)

—◆— New York State —■— US



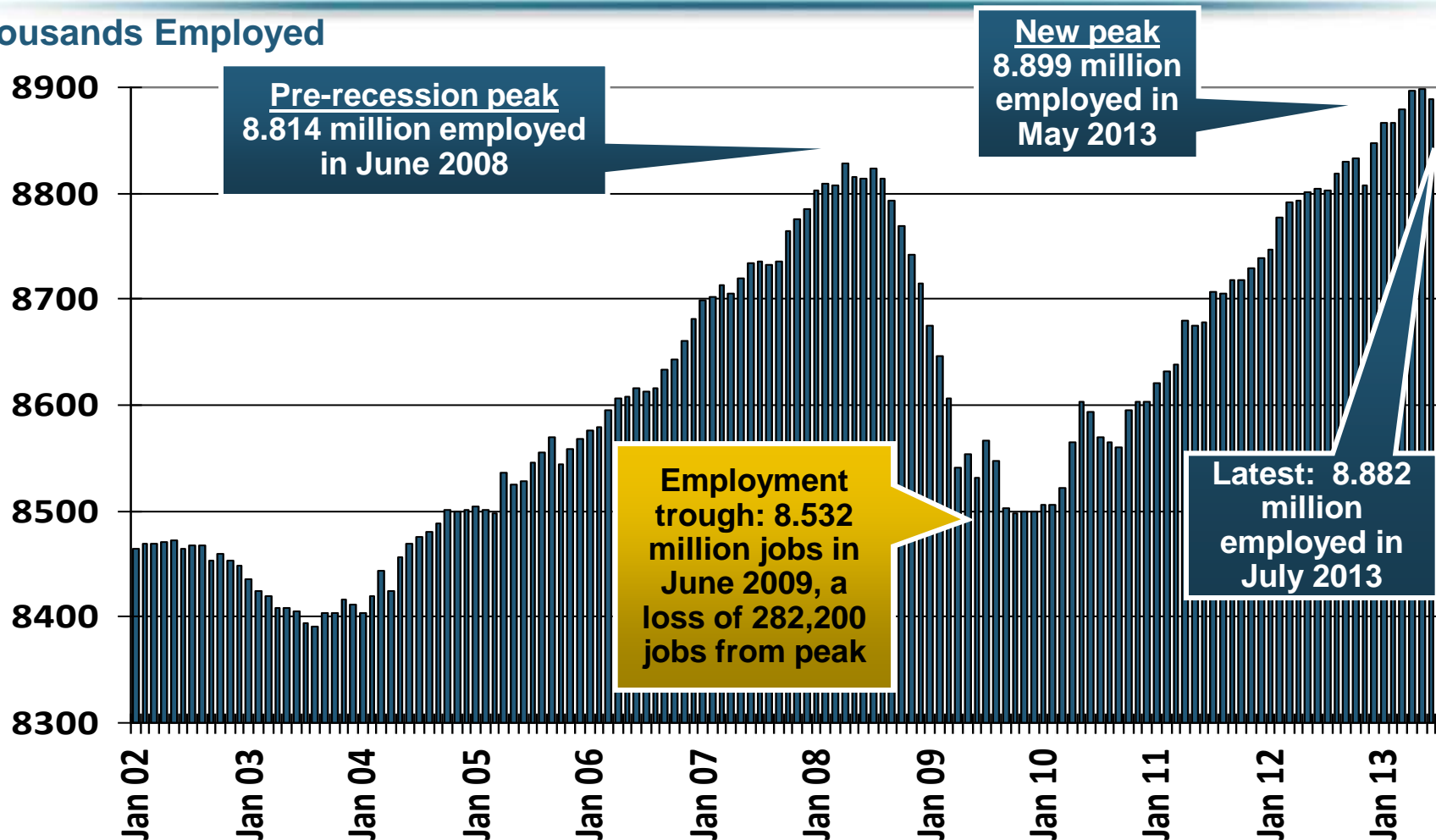
+40.3%
since
1997

+36.4%
since
1997

Since 1997, New York State's economy grew at a similar pace to the U.S. overall, lagging slightly since the 2001 recession.

NY State Has Recouped the Jobs Lost in the Great Recession

Thousands Employed

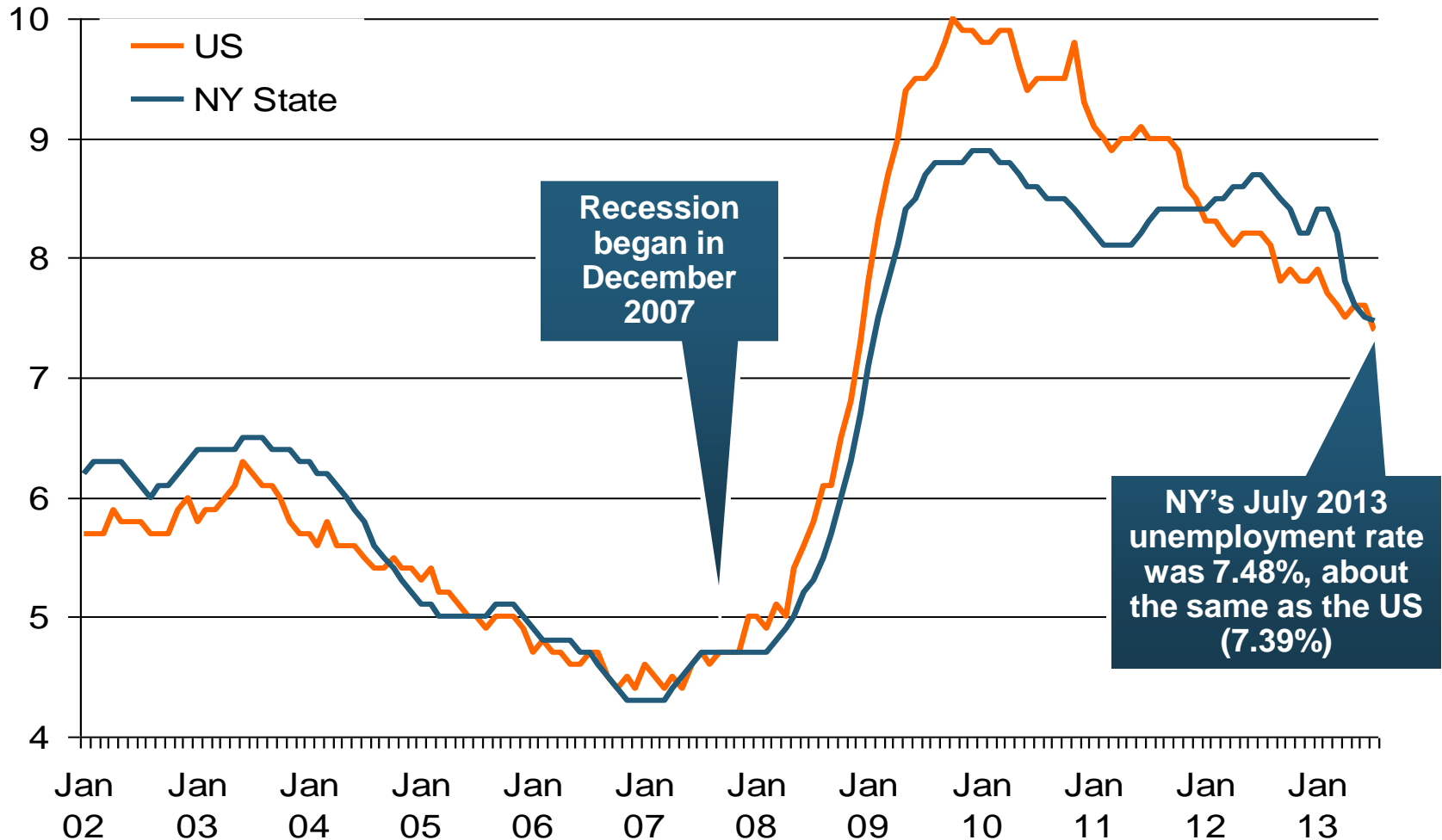


In the last 4 years, New York State added 355,700 jobs. However, the unemployment rate is still too high, at 7.48%.

Unemployment Improvement Stalled in NY from Apr 2011 to Apr 2013, but Has Resumed

January 2002 through July 2013

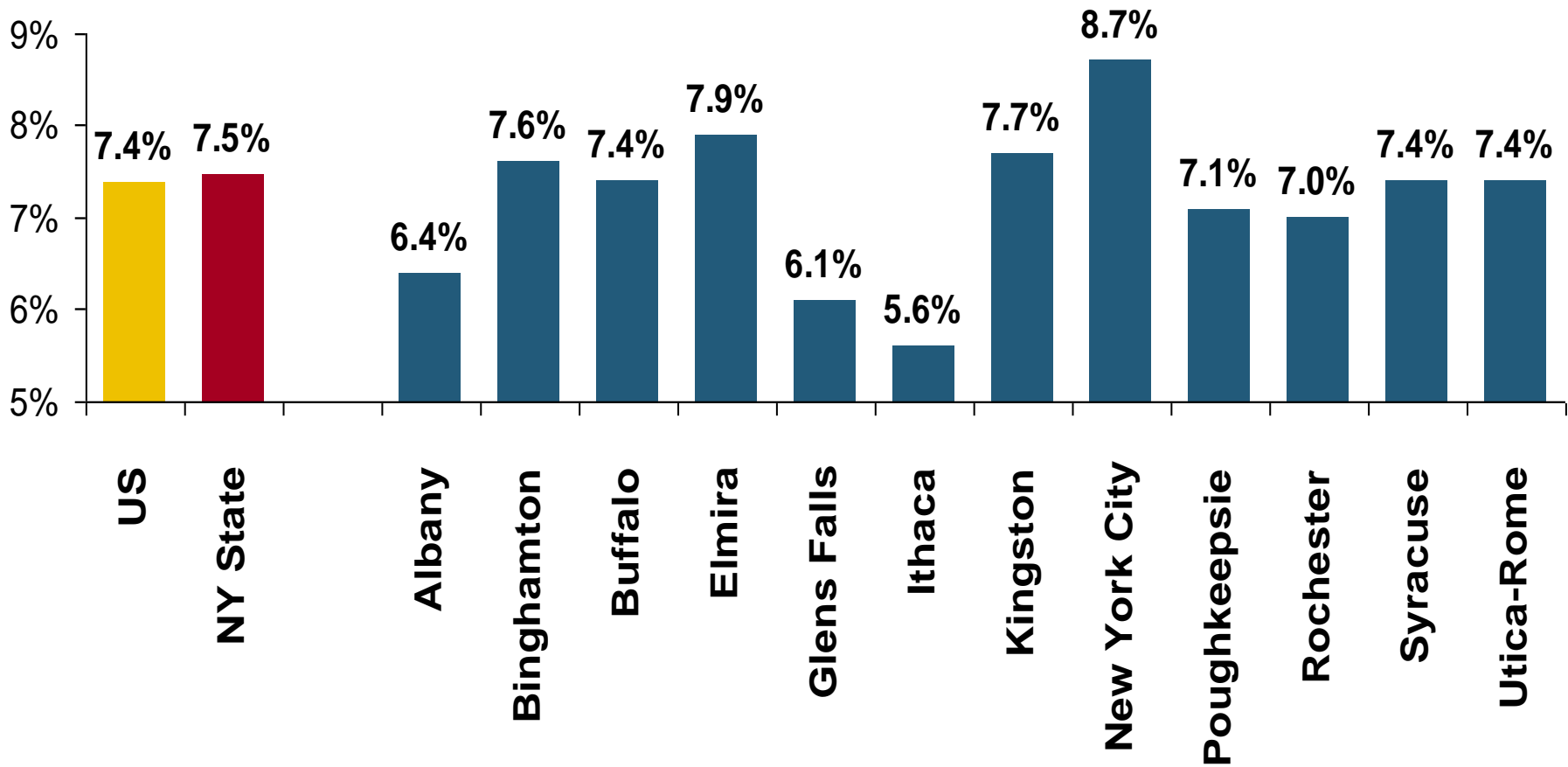
Seasonally Adjusted (%)



NY State's unemployment rate was lower than the U.S. from 2005-2012.

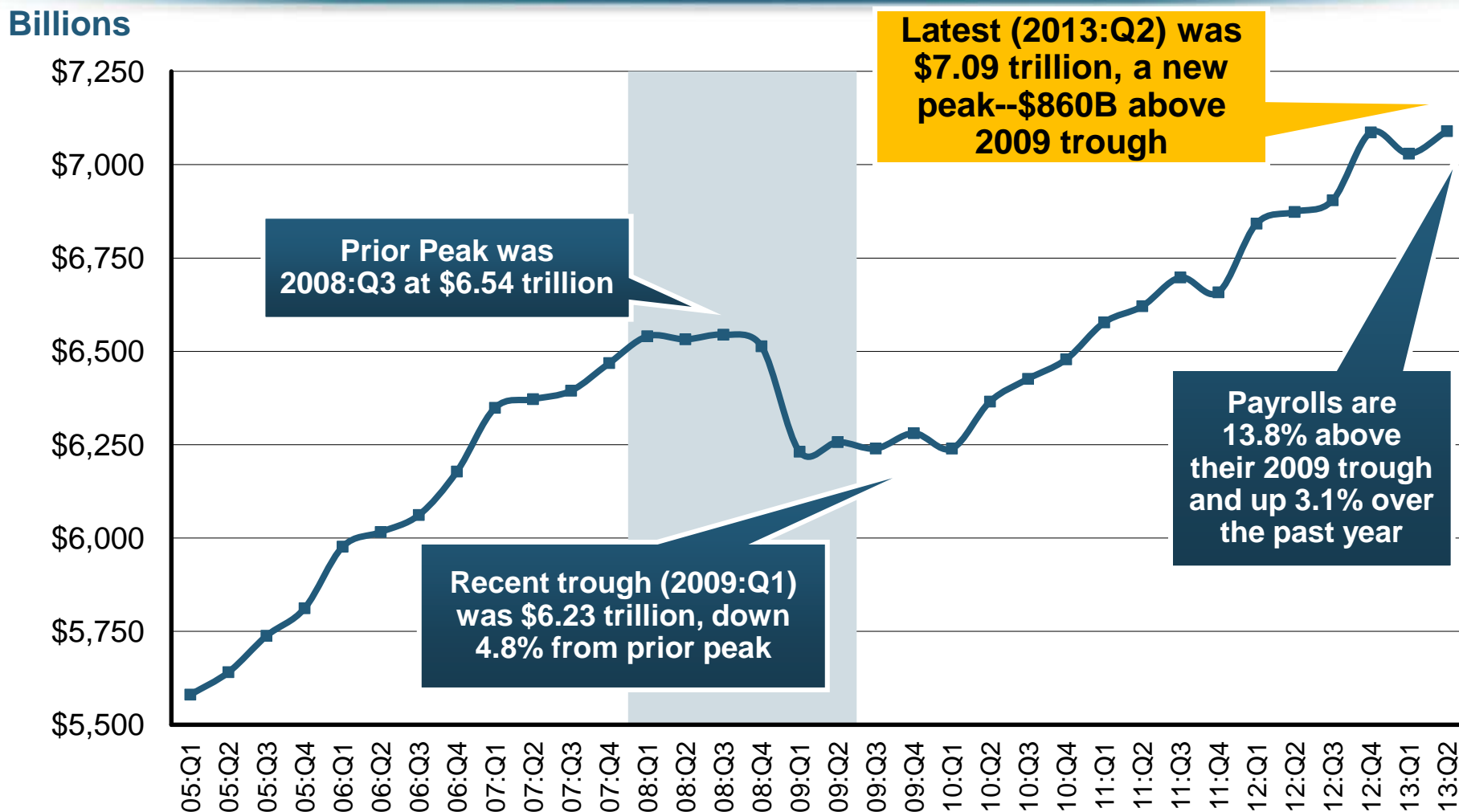
Unemployment Rates in NY State Metropolitan Areas, July 2013*

Unemployment
Rate (%)



*Most recent available. Data are preliminary and are not seasonally adjusted.
Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q2

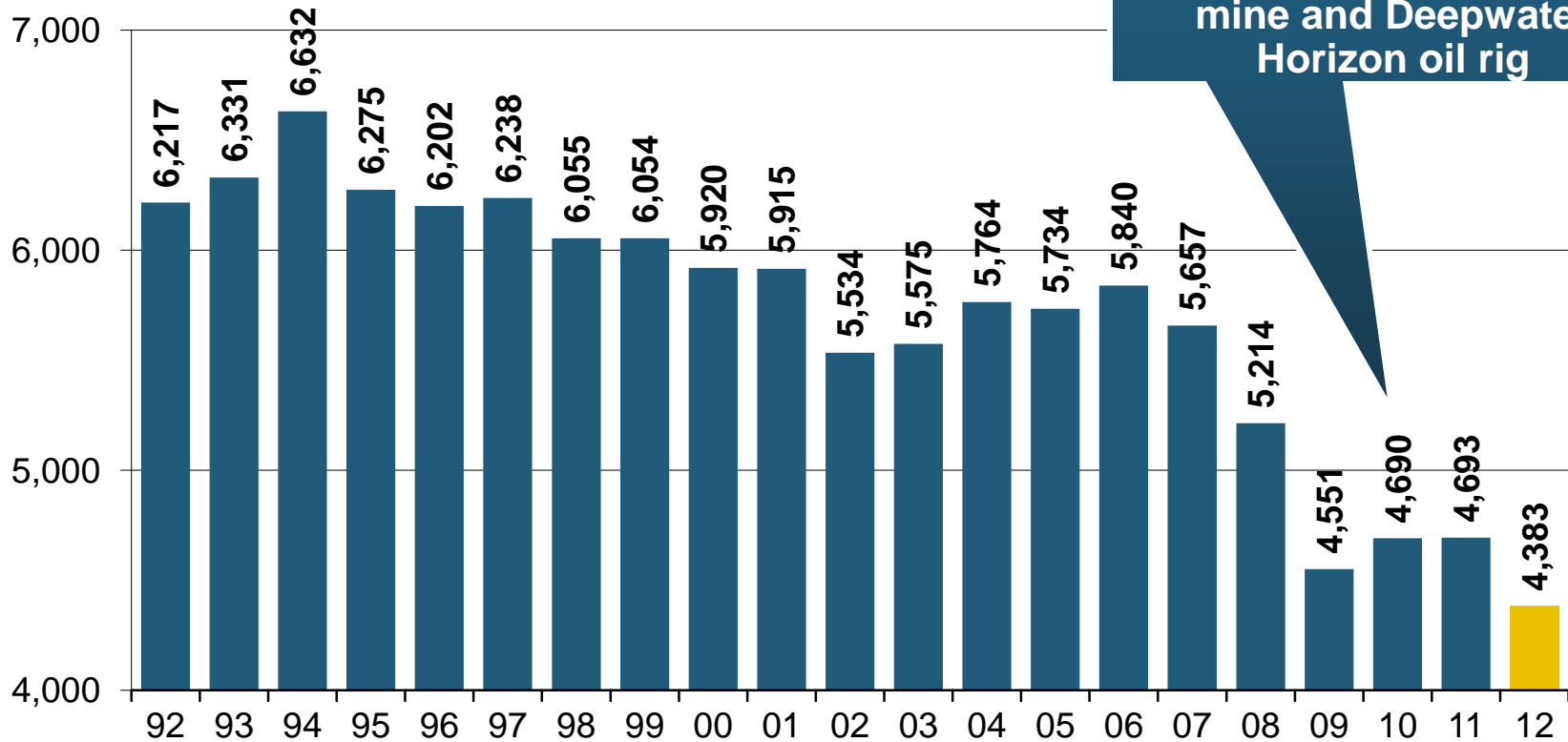


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <http://research.stlouisfed.org/fred2/series/WASCUR>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

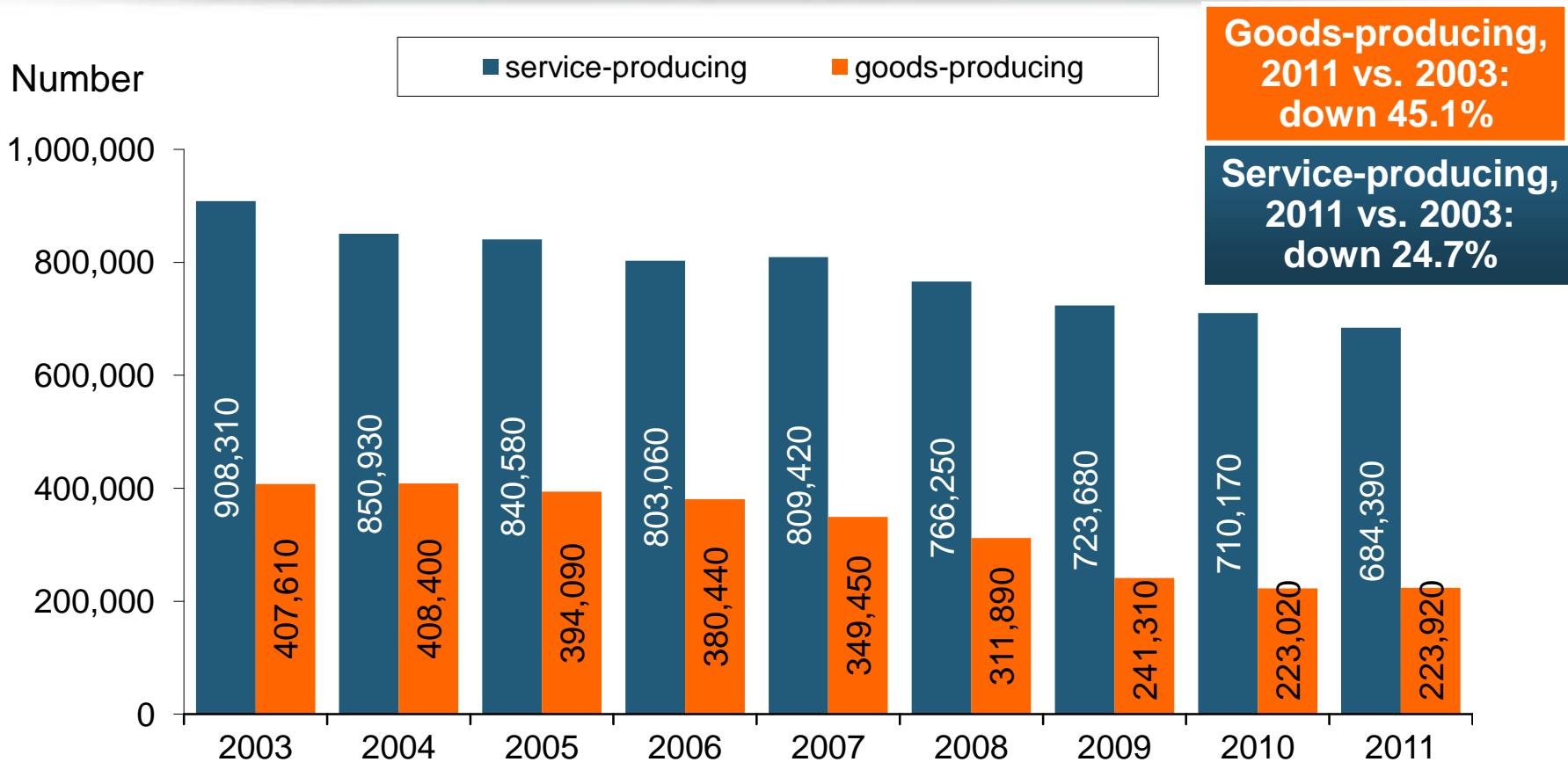
Occupational Deaths, 1992–2012: Still Falling or Have We Reached a Plateau?

Number of
Fatal Injuries



The death rate per 100,000 full-time-equivalent workers was 3.5 in 2009, 3.6 in 2010, 3.5 in 2011, and (preliminary result) 3.2 in 2012.

Private Industry: Fewer Injuries & Illnesses with Days Away from Work

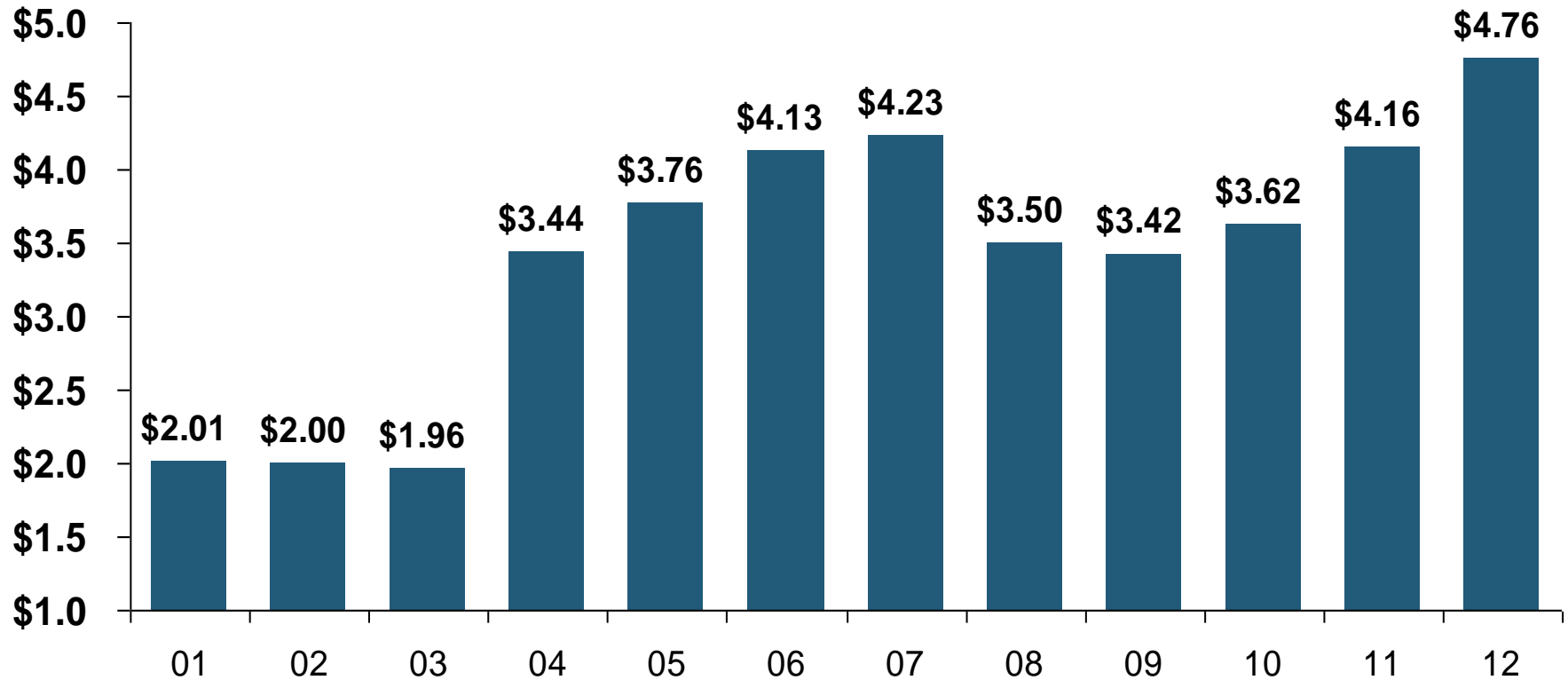


The number of illnesses and injuries dropped from 2003 to 2007 despite growth in employment and the aging of the workforce. The drop continued through the Great Recession and into the recovery.

WC Characteristics

NY State Workers Compensation DPW, 2001–2012

\$ Billions

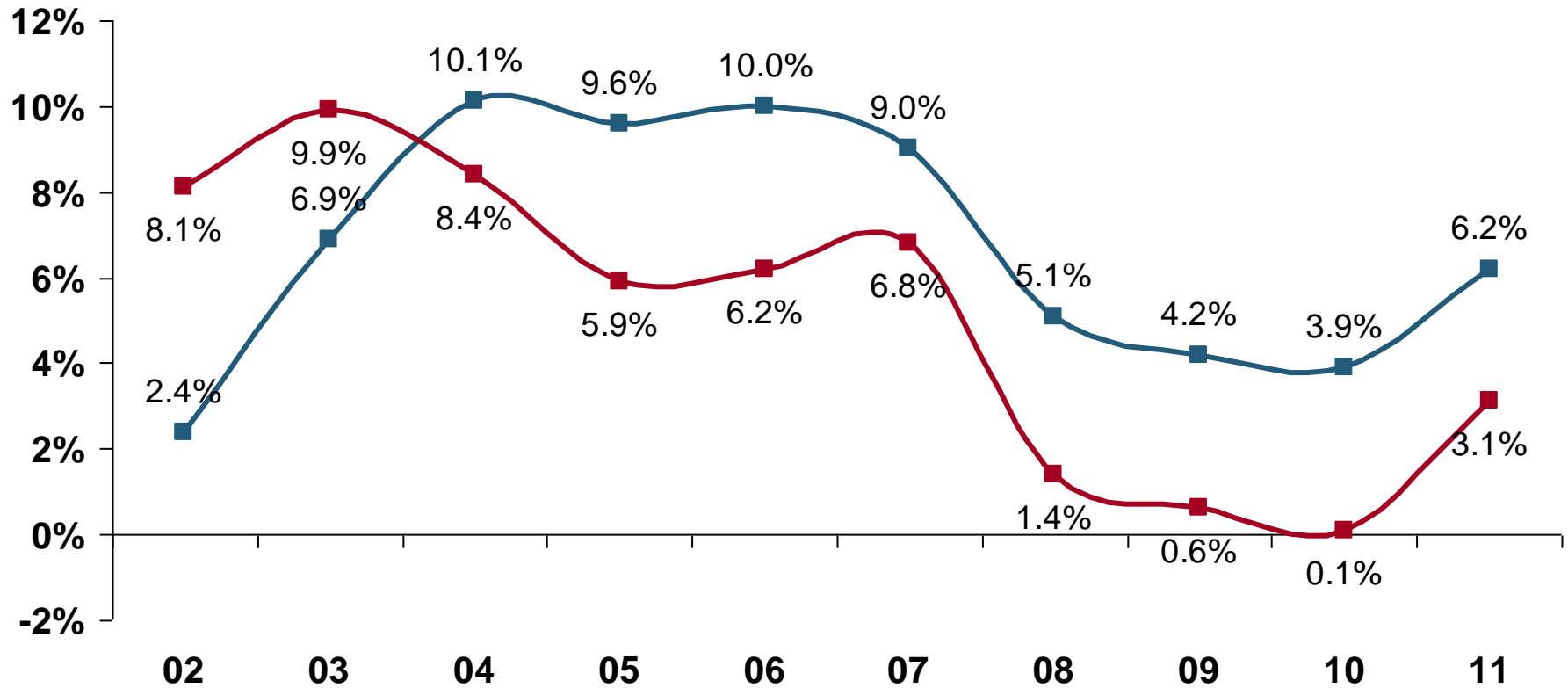


WC premium volume in NY State has recovered from a 19% drop during the financial crisis/soft market. The gain in 2012 alone was 14.4%.

Return on Net Worth, 2002-2011, Workers Comp: NY vs. U.S.

(Percent)

■ US WComp ■ NY WComp



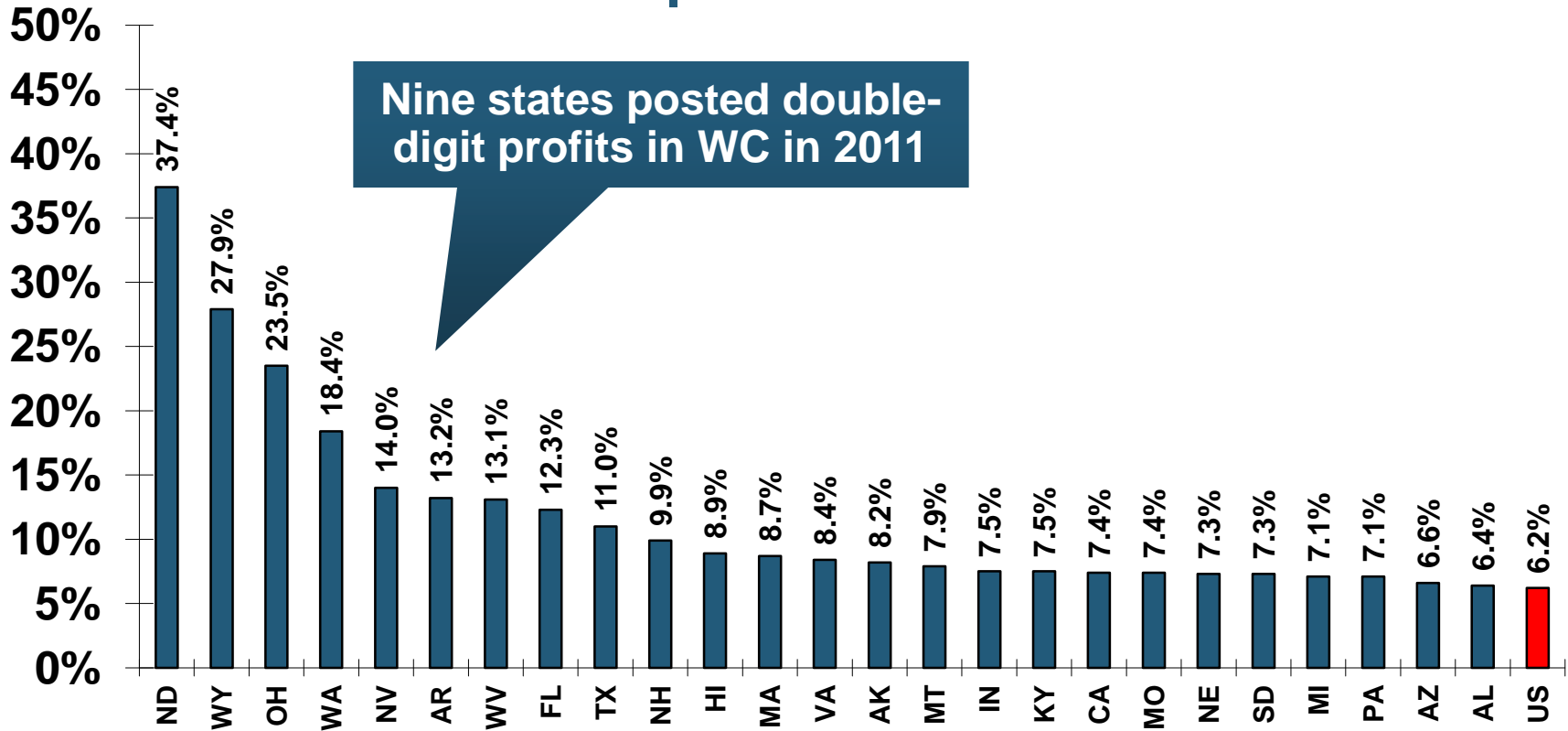
Since 2004, WC has been a less profitable line in New York than in the nation overall.

NY RNW for the period 2002-2011 is 5.0%

Sources: NAIC, Report on Profitability by Line by State in 2011, p. 284

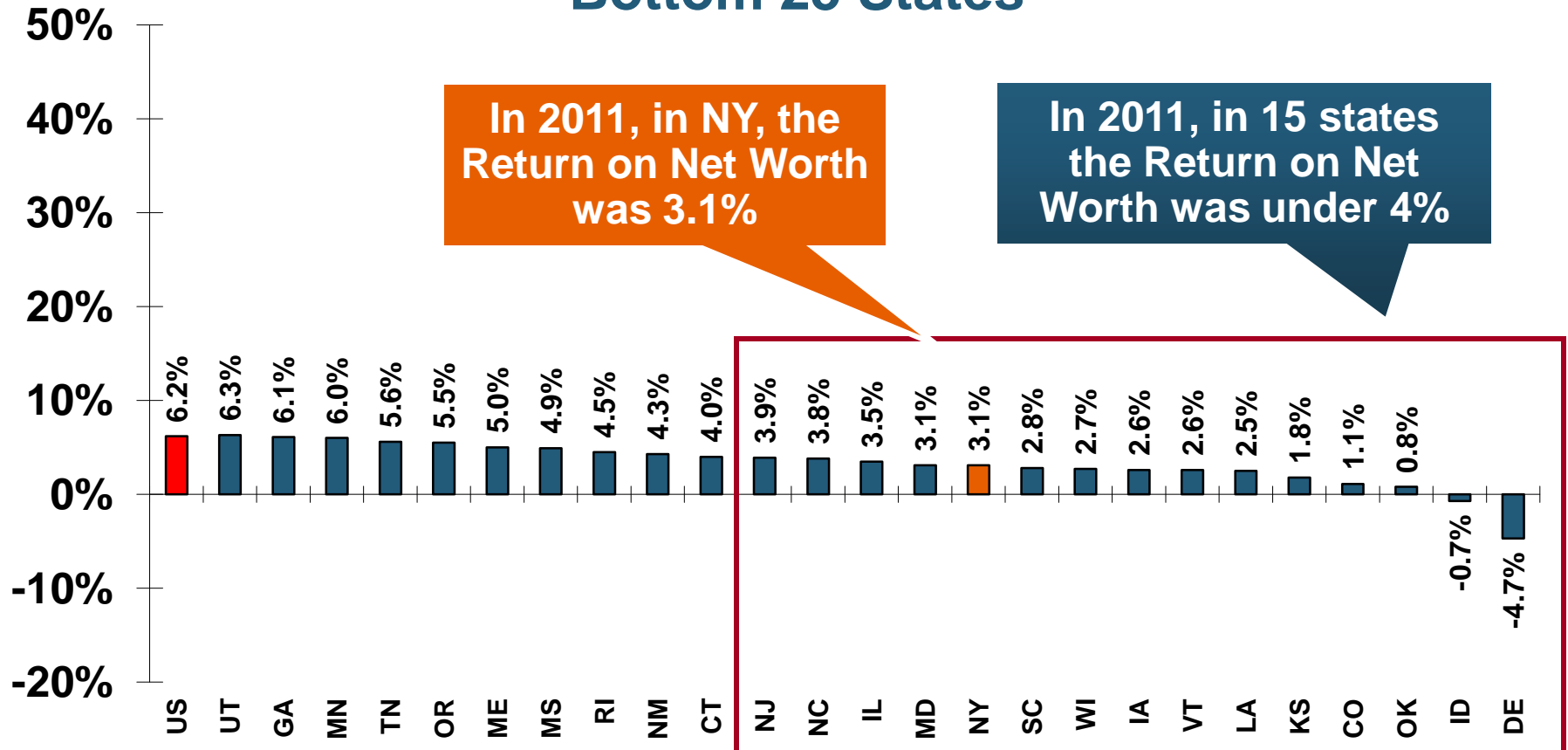
Workers Comp Return on Net Worth, 2011

Top 25 States

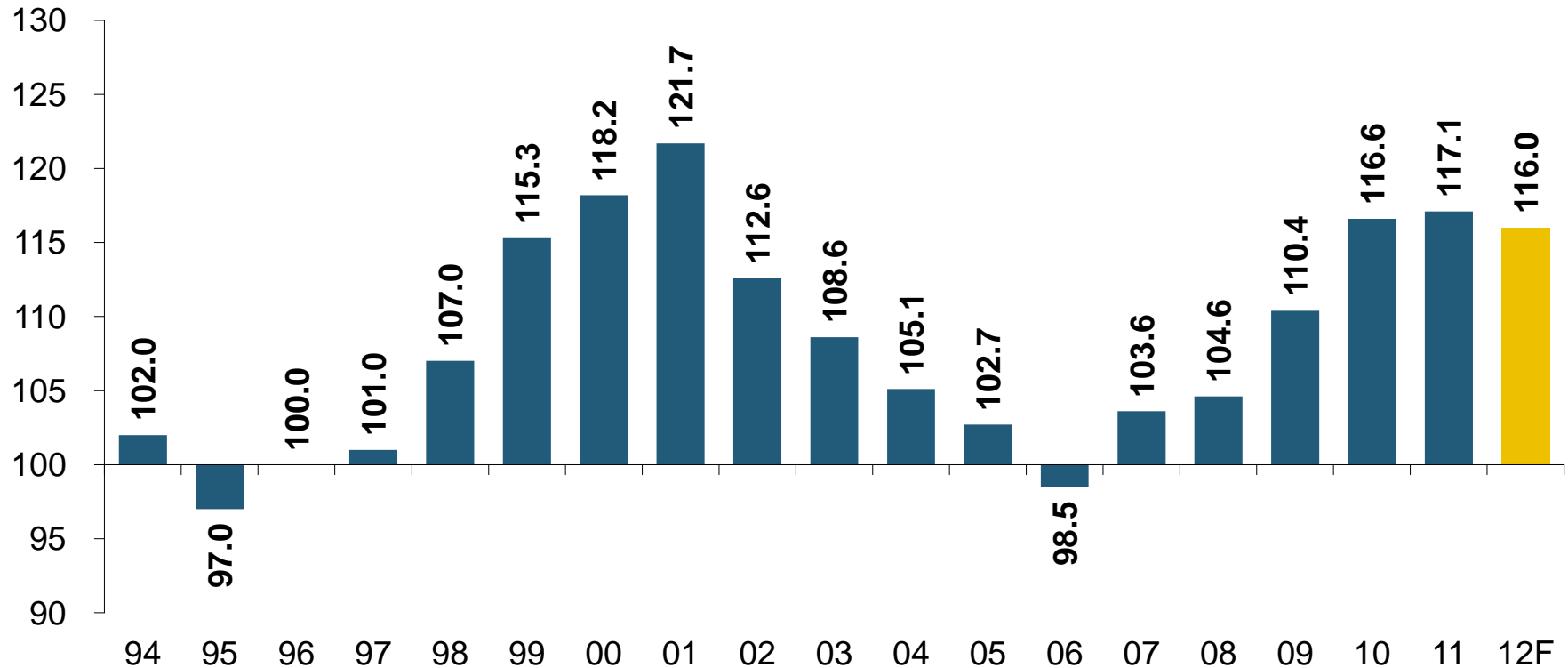


Workers Comp Return on Net Worth, 2011

Bottom 25 States

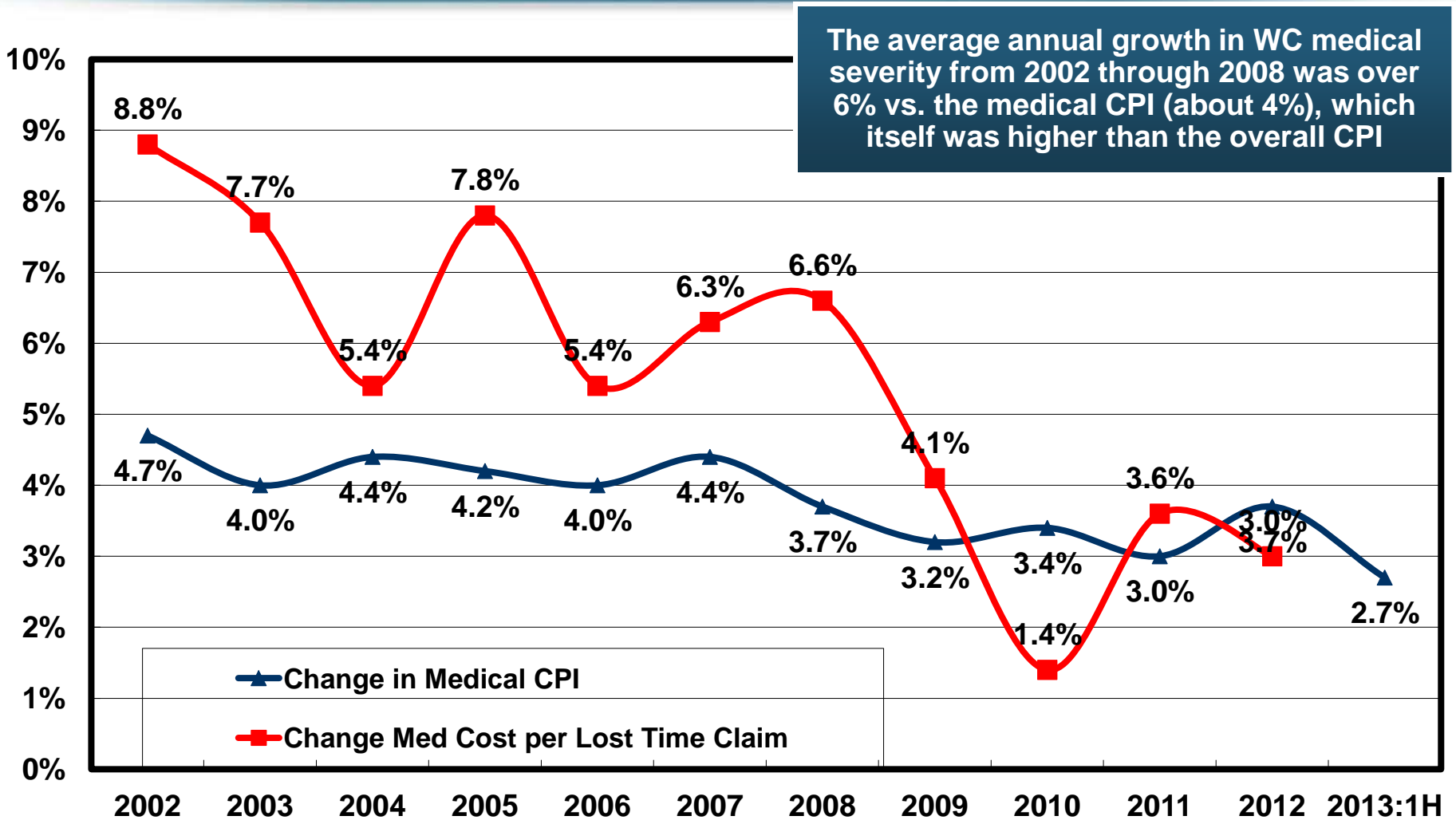


Workers Compensation Combined Ratio: 1994–2012F



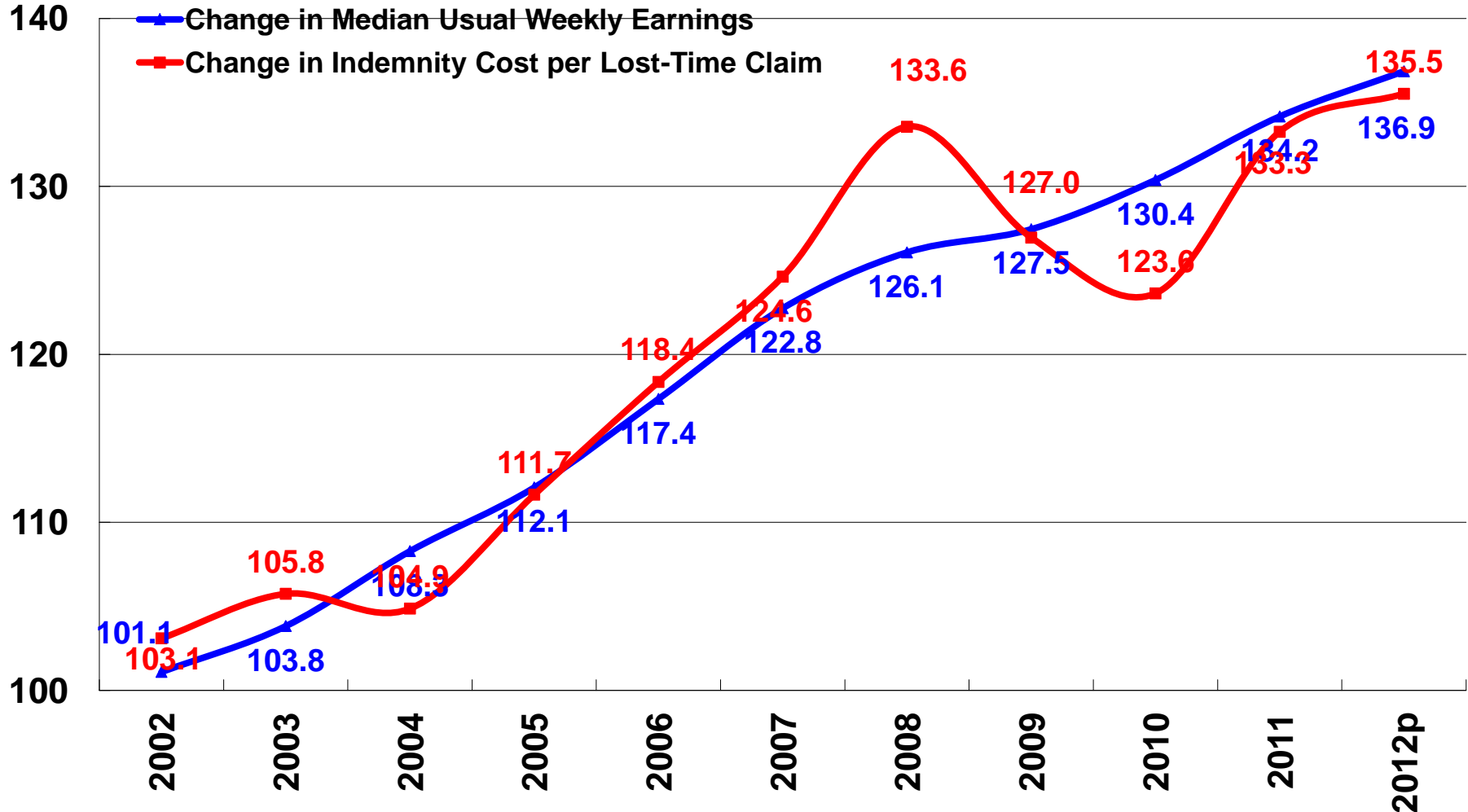
Workers Comp underwriting results are the worst they have been in a decade.

WC Medical Severity Typically Rises Faster Than the Medical CPI Rate



WC Indemnity Severity Generally Tracks Average Wages, 2002-2012p

Index (2001=100)



2012p: Preliminary based on data valued as of 12/31/2012; 1991-2011: Based on data through 12/31/2011, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies.

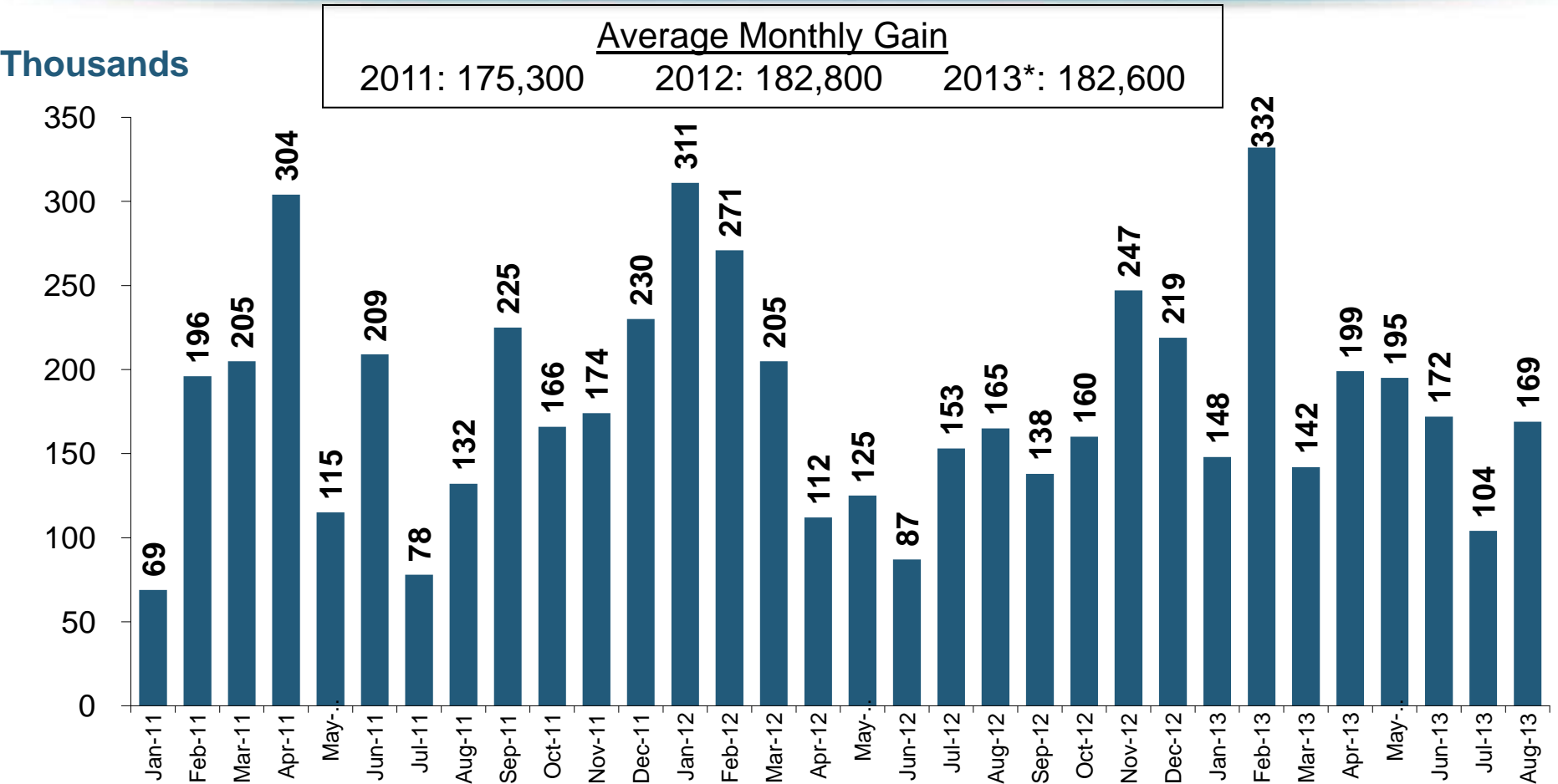
Sources: NCCI, BLS, from Current Population Survey



A Growing Exposure Base, but with a Different Mix of Risks

**Health Care, Education, Services
Will Lead**

Monthly Change in Nonfarm Employment, 2011 - 2013



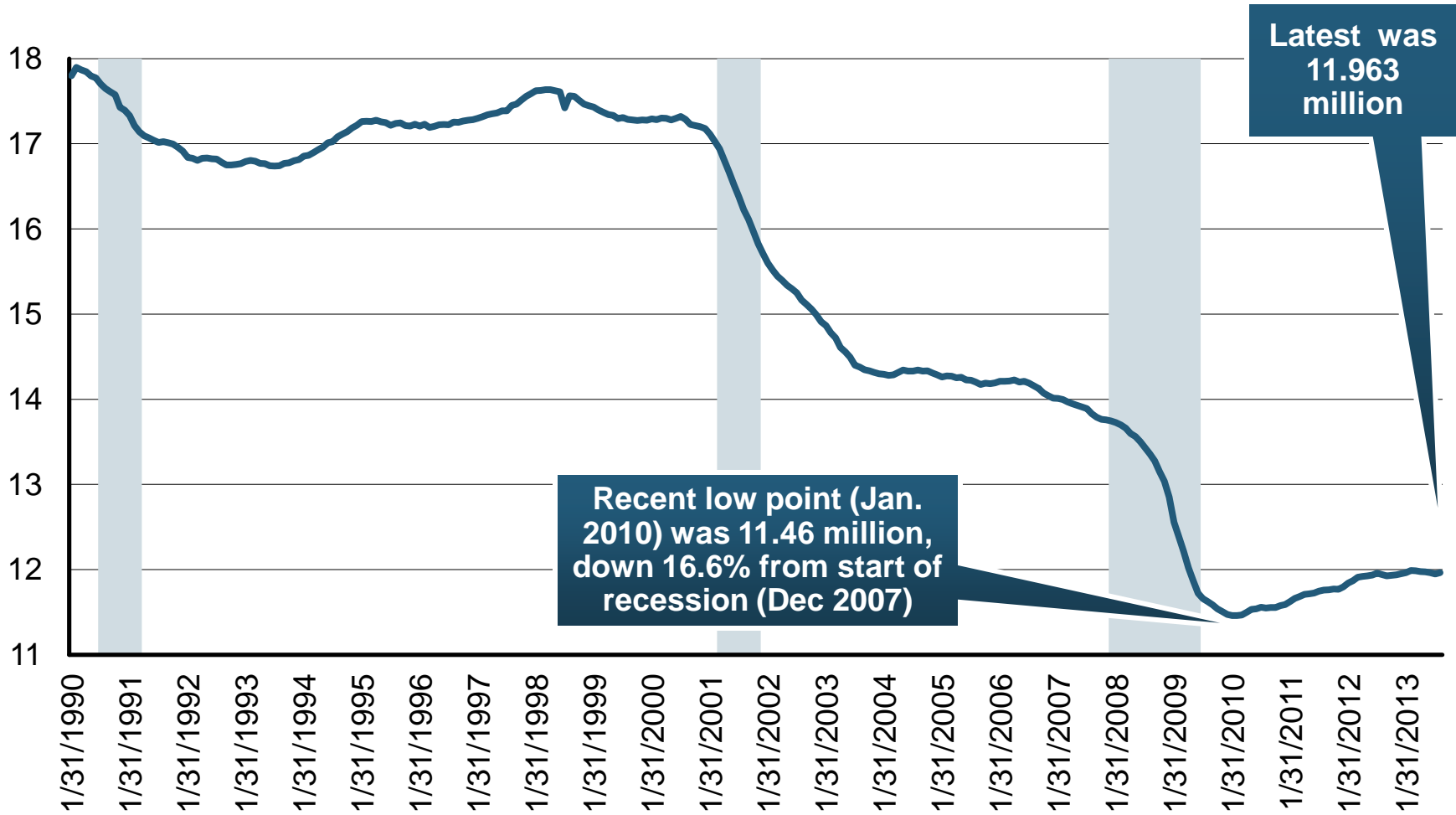
The pace of job growth does not appear to be picking up, although there is obviously considerable variability.

*Seasonally adjusted. August 2013 and July 2013 are preliminary data. 2013 average is January-August
 Sources: US Bureau of Labor Statistics; Insurance Information Institute

U.S. Employment in Manufacturing

Monthly, 1990–2013*

Millions



*As of August 2013 (Jul 2013 and Aug 2013 are preliminary); Seasonally adjusted

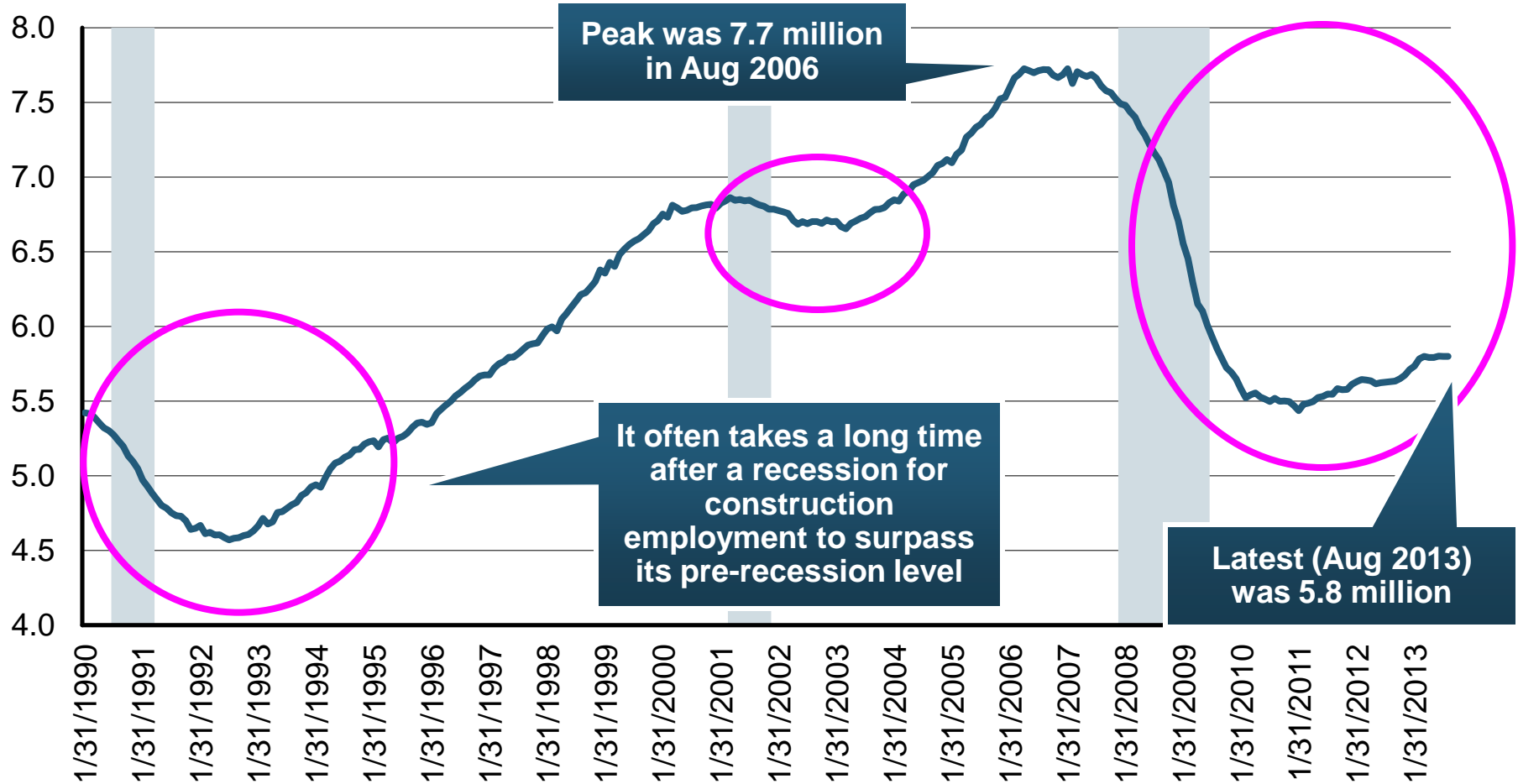
Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Construction

Monthly, 1990–2013*

Millions



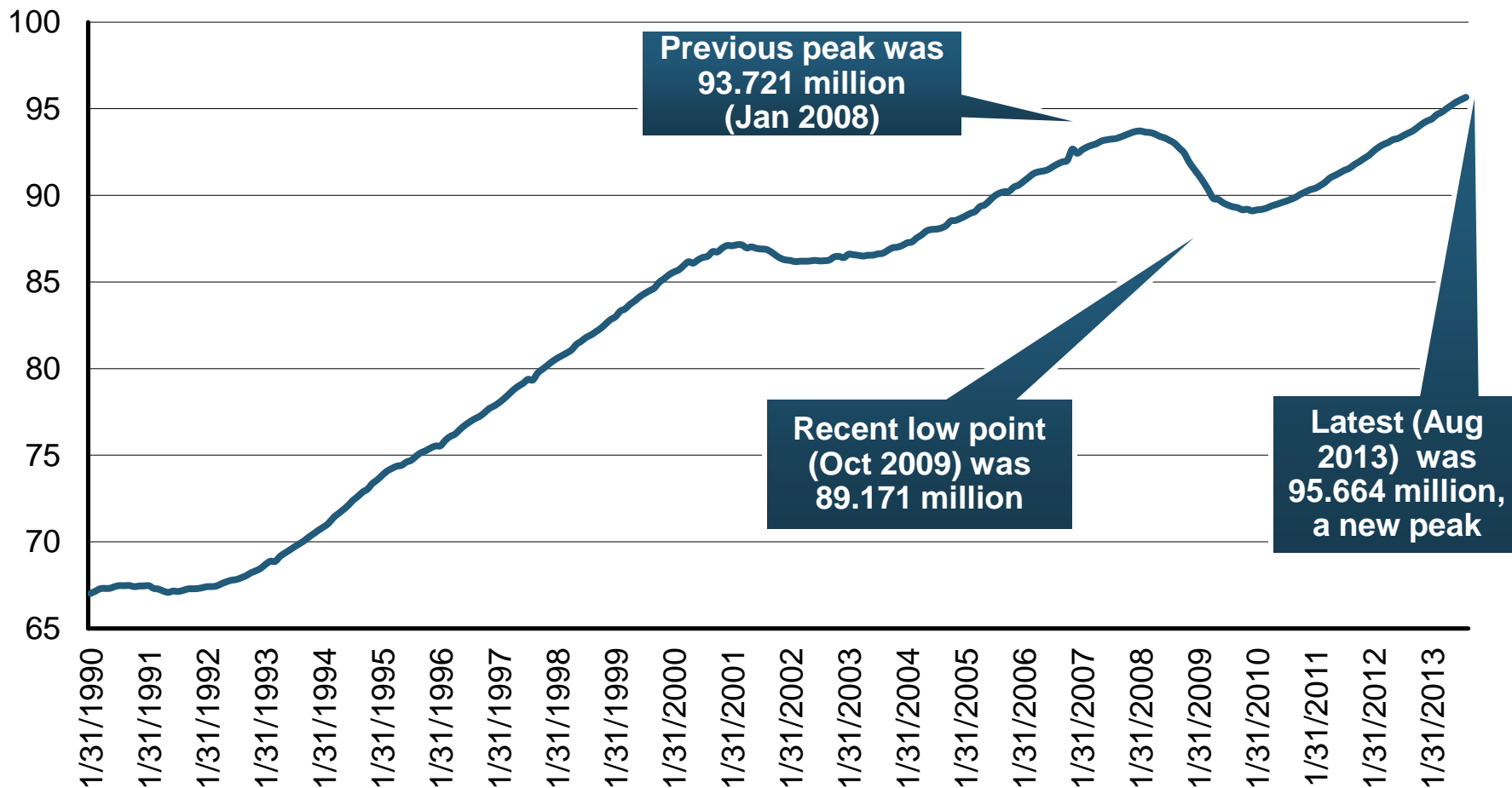
*As of August 2013 (Jul 2013 and Aug 2013 are preliminary); Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Service Industries, Private Sector, Monthly, 1990–2013*

Millions



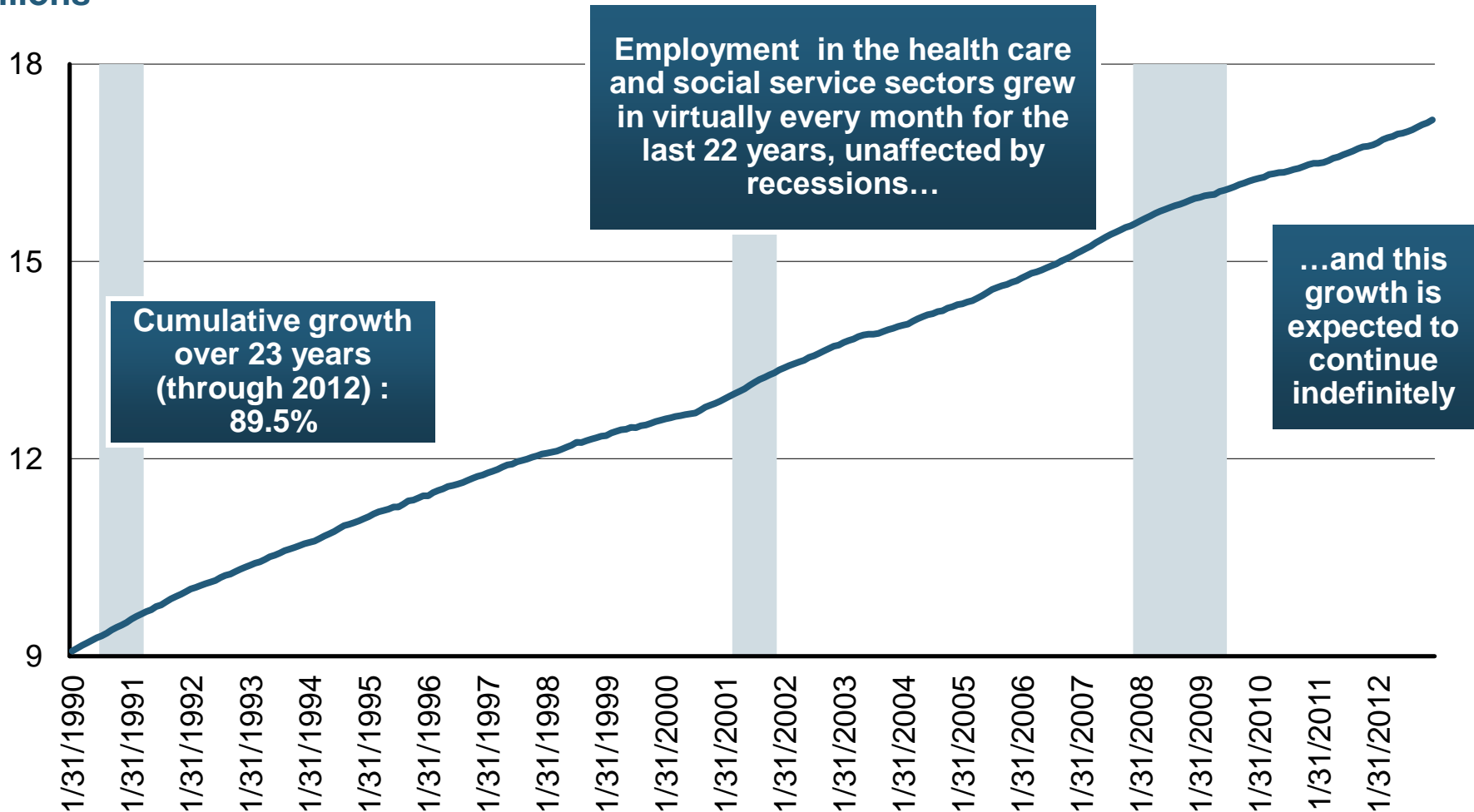
*As of August 2013; Seasonally adjusted; July 2013 and Aug 2013 are preliminary

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Health Care & Social Services, Monthly, 1990–2013*

Millions



*As of Aug 2013 (Jul 2013 and Aug 2013 are preliminary); Seasonally adjusted

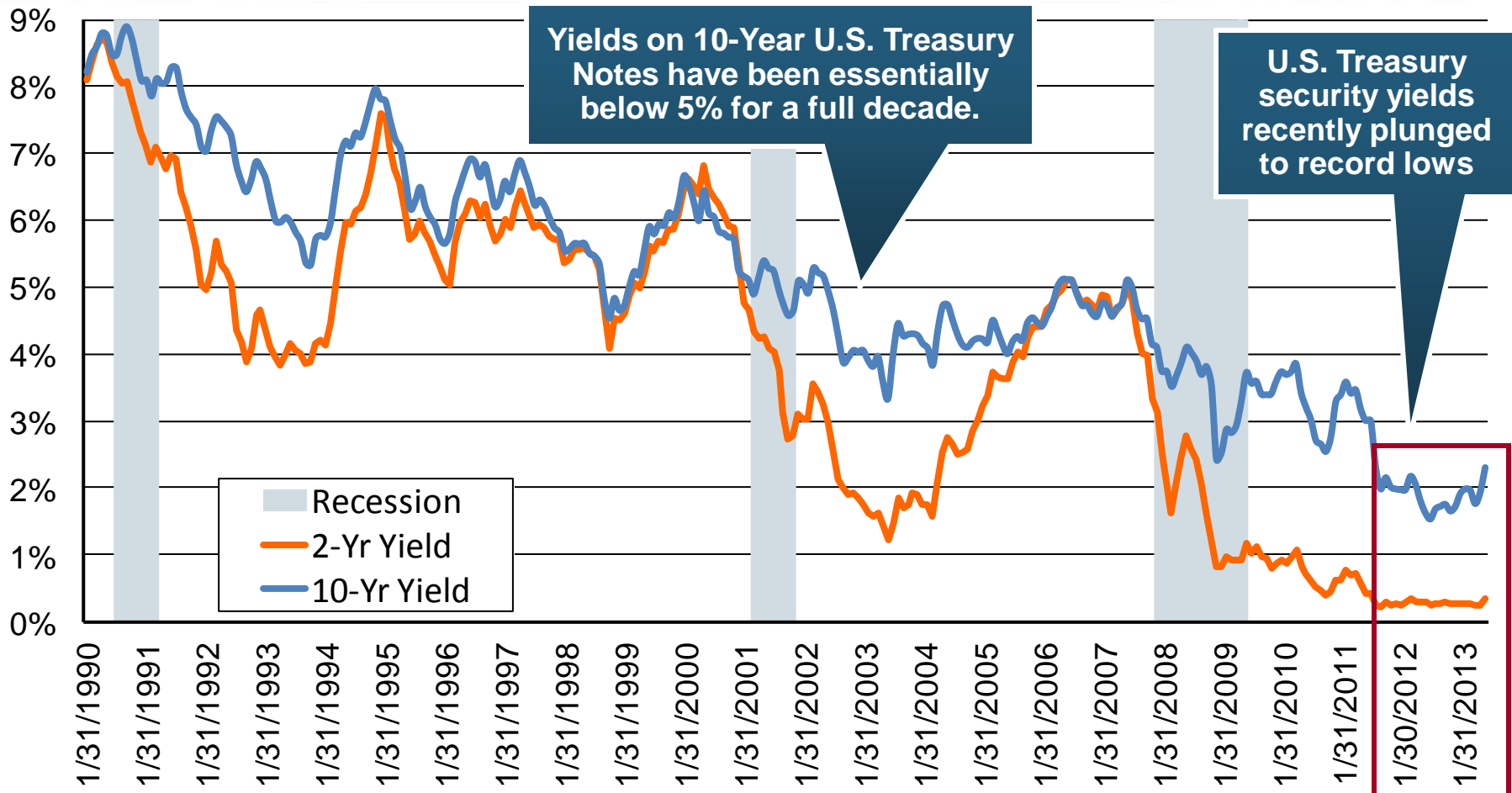
Note: Recessions indicated by gray shaded columns.

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



Low Investment Returns

U.S. Treasury Security Yields*: A Long Downward Trend, 1990–2013

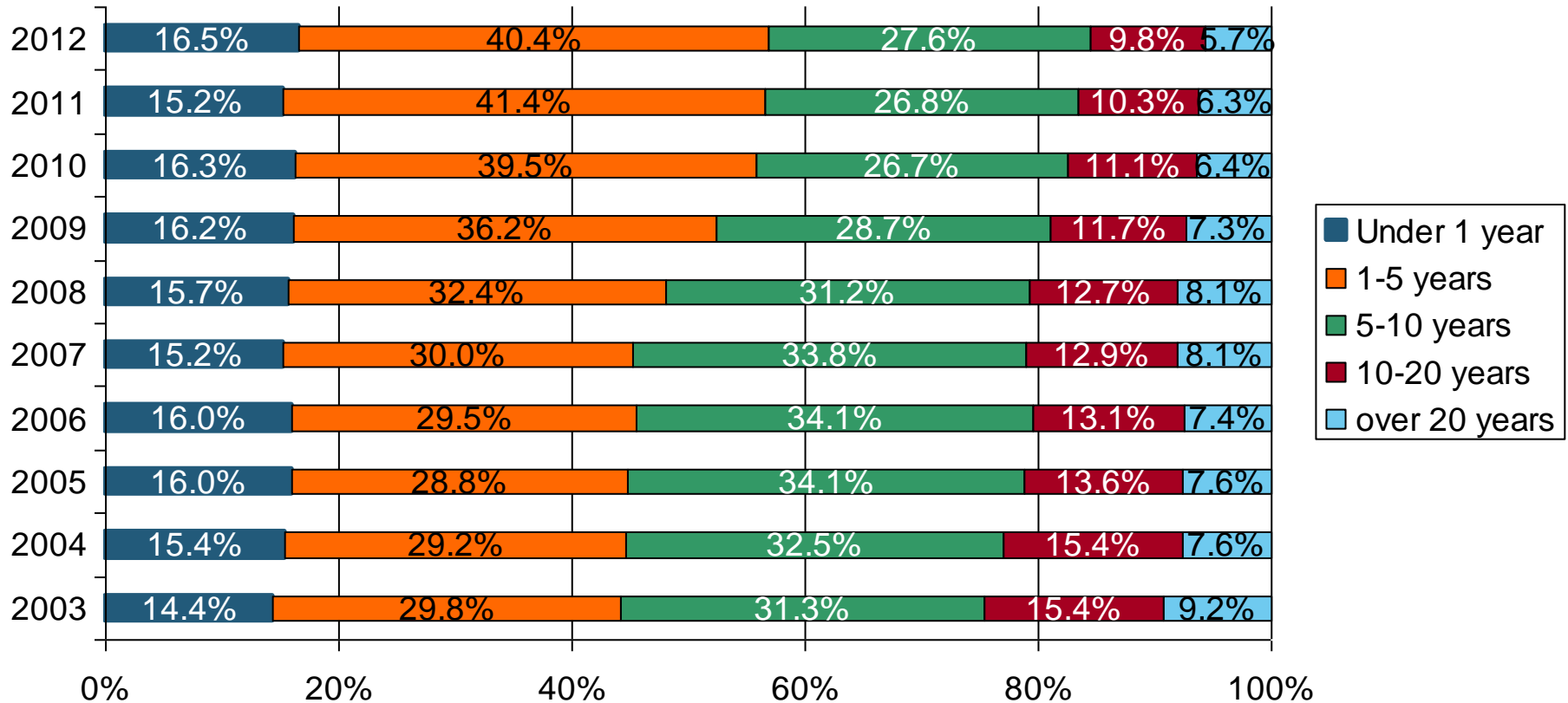


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through August 2013.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>.
 National Bureau of Economic Research (recession dates); Insurance Information Institutes.

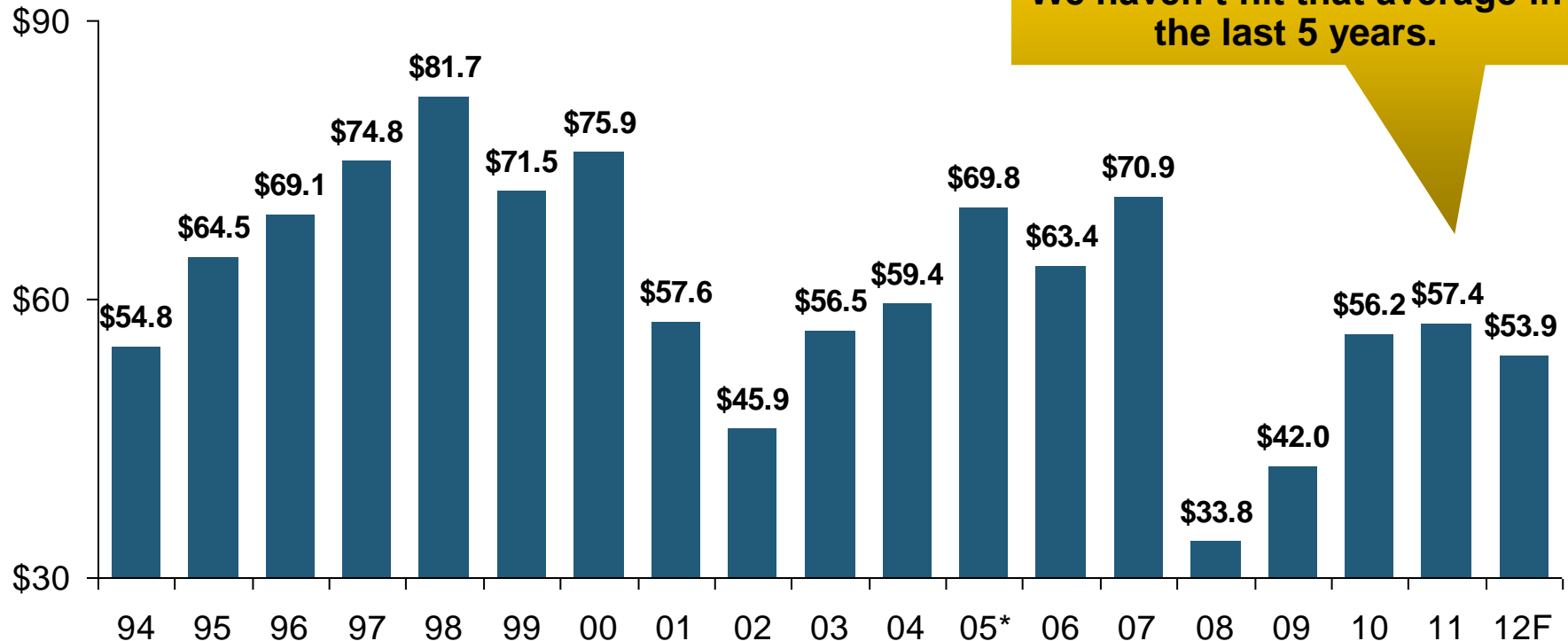
Distribution of Bond Maturities, P/C Insurance Industry, 2003-2012



The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012). Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

Inflation-Adjusted P/C Industry Investment Gains: 1994–2012F¹

(\$ Billions,
2012 dollars)



In 2012 (1st three quarters) both investment income and realized capital gains were lower than in the comparable period in 2011. And because the Federal Reserve Board aims to keep interest rates exceptionally low until the unemployment rate hits 6.5%—likely at least another year off—maturing bonds will be re-invested at even lower rates.

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

*2005 figure includes special one-time dividend of \$3.2B; 2012F figure is I.I.I. estimate based on annualized actual 2012:Q3 result of \$38.089B. Sources: ISO; Insurance Information Institute.

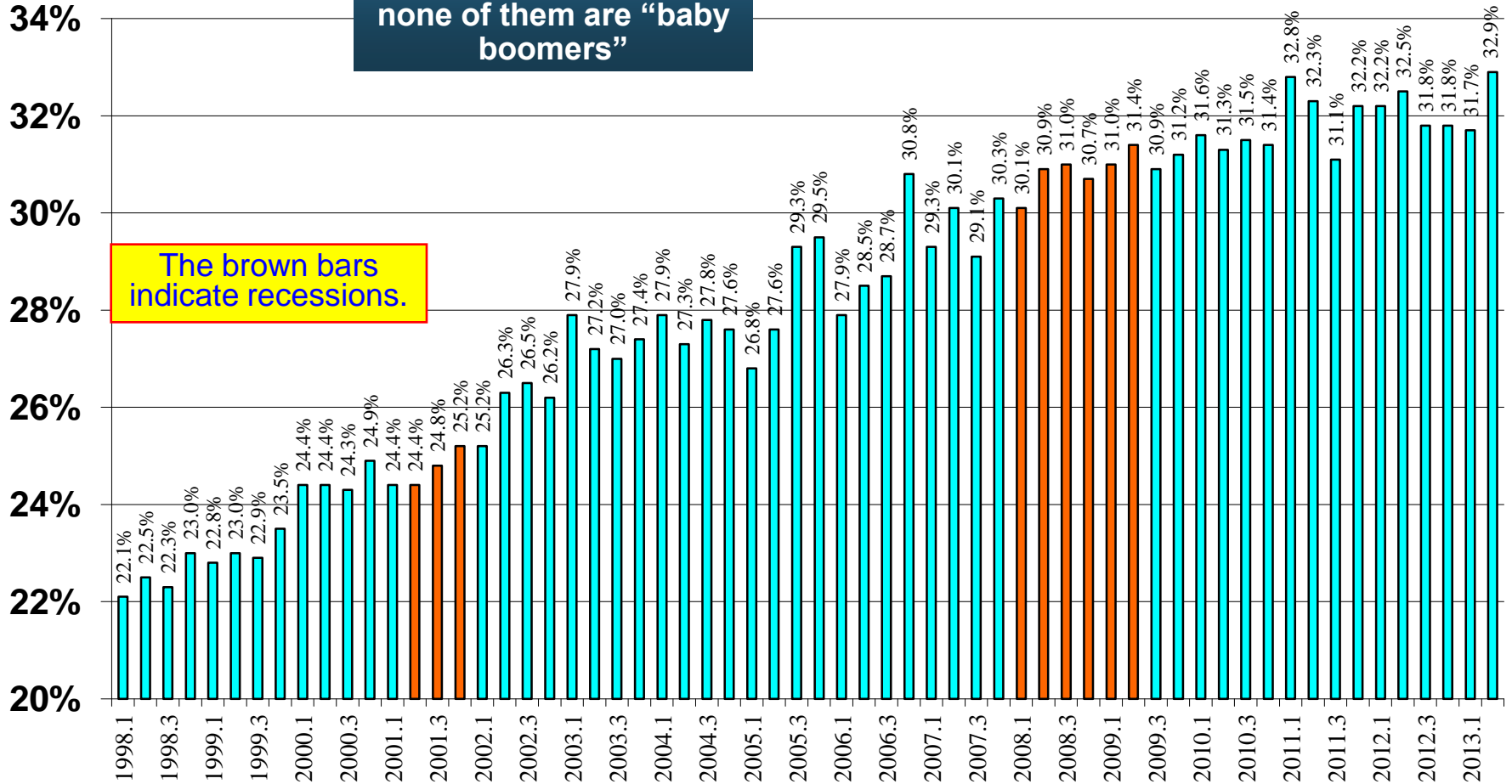


The Aging Workforce

Labor Force Participation Rate, Ages 65-69, Quarterly, 1998:Q1-2013:Q2

1 in 3 in this age group are working. Virtually none of them are “baby boomers”

Labor Force participation rate



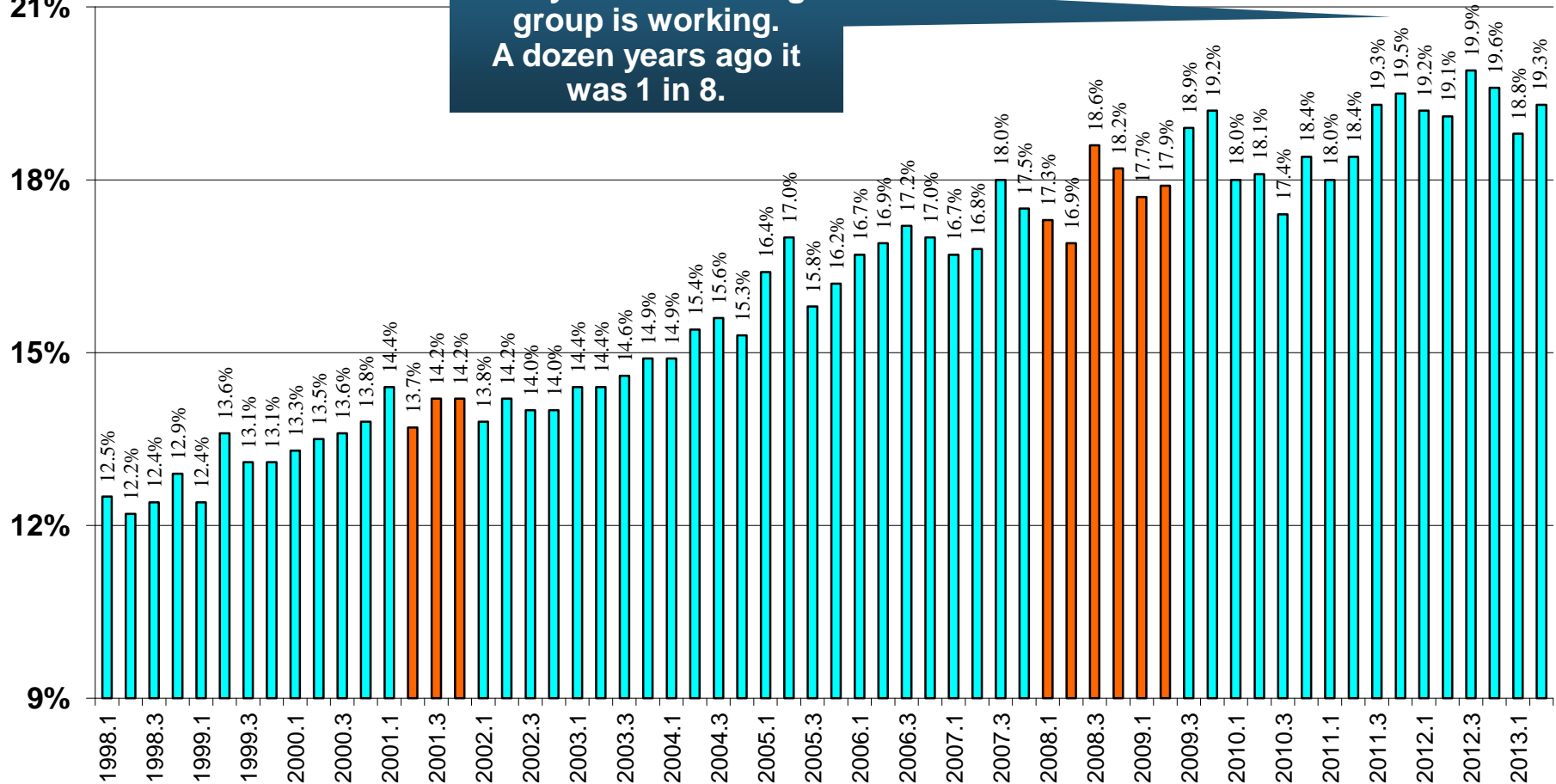
The brown bars indicate recessions.

The labor force participation rate for workers 65-69 might grow even faster in the future as seniors find they can't fully retire on their meager retirement savings.

Labor Force Participation Rate, Ages 70-74, Quarterly, 1998:Q1-2013:Q2

Labor Force participation rate

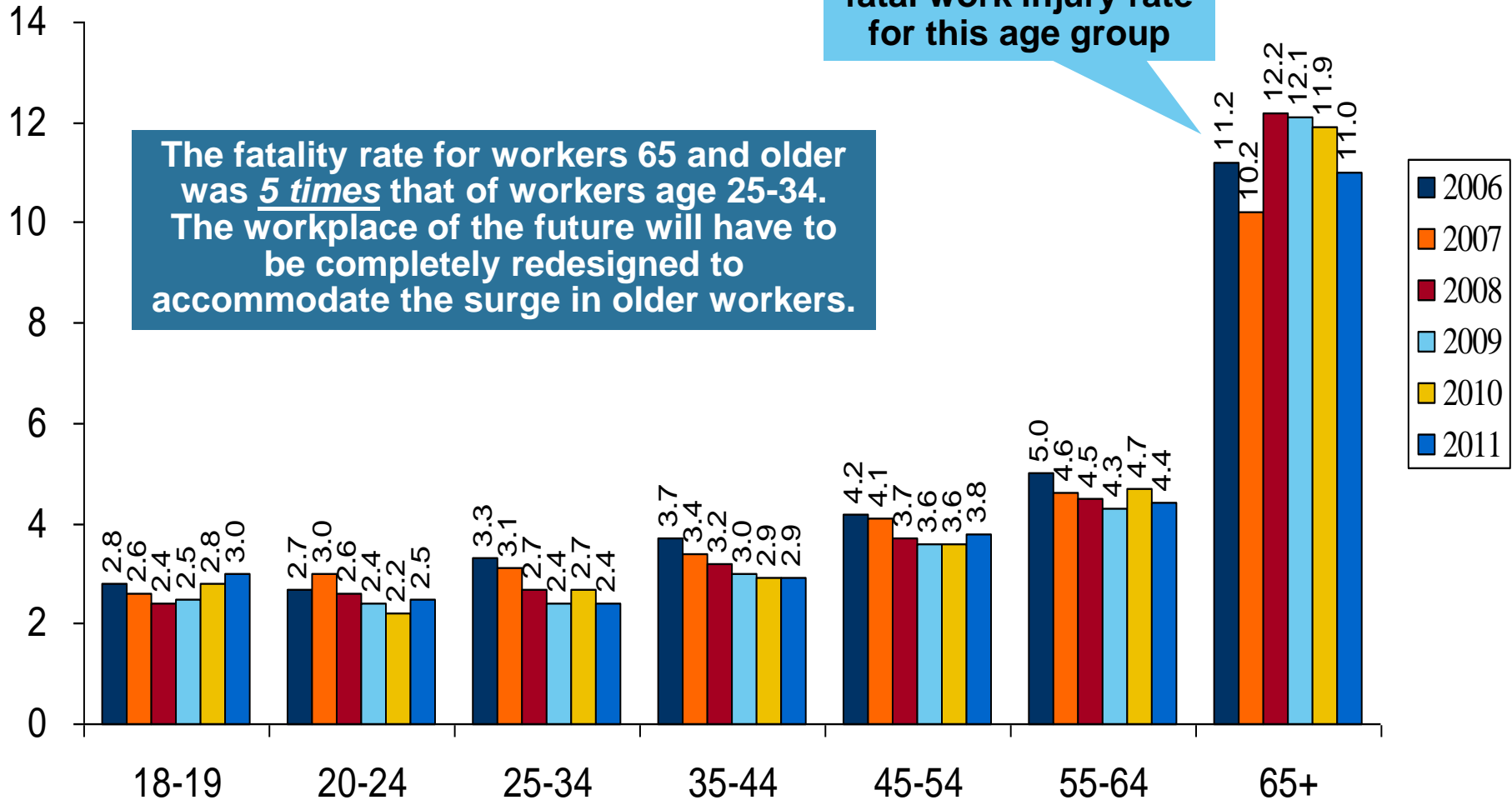
Nearly 1 in 5 in this age group is working. A dozen years ago it was 1 in 8.



The labor force participation rate for workers 70-74 grew by about 50% since 1998. Growth stalled during and after the Great Recession but has since resumed.

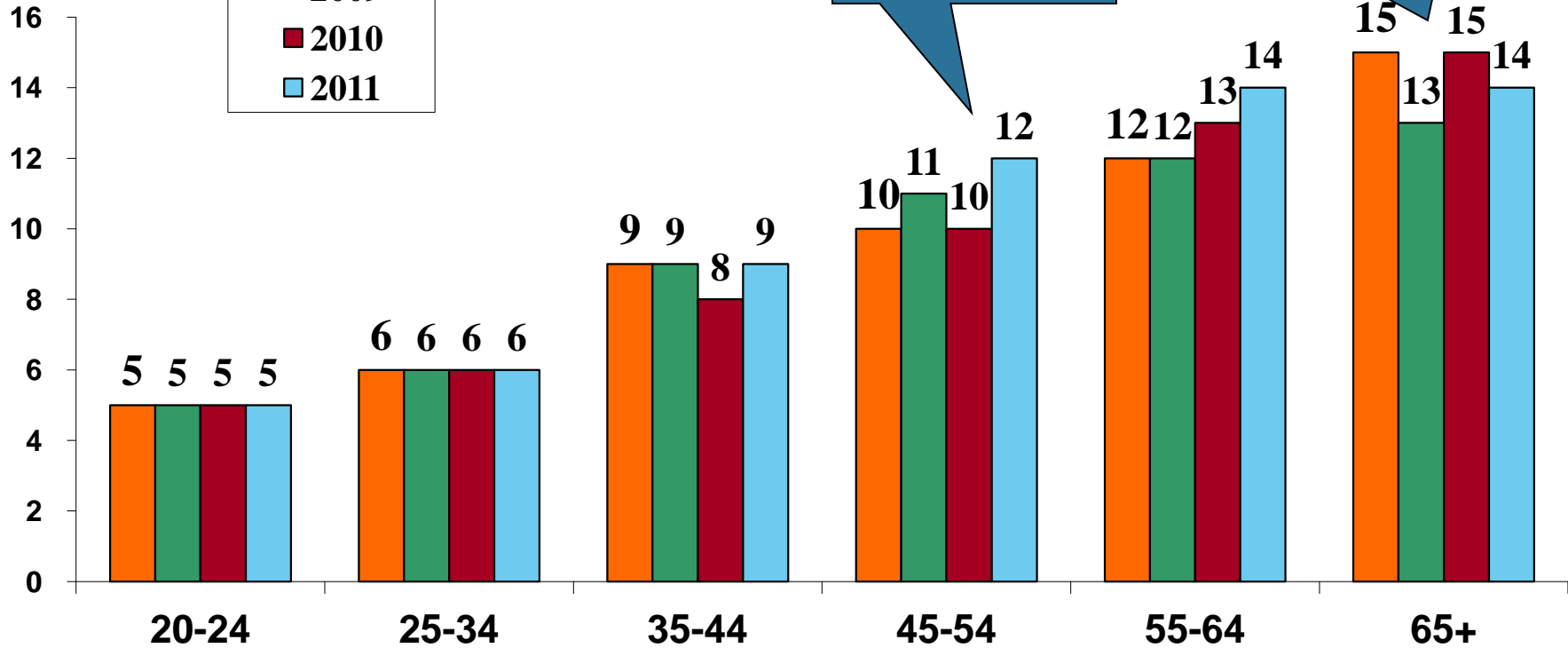
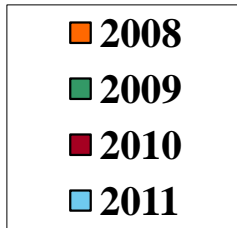
Fatality Rates Improved Slightly Since 2006 but Still Climb Sharply With Age

Fatal Work Injury Rate per 100,000 full-time-equivalent workers



Older Workers Lose More Days from Work Due to Injury or Illness

Median Days Away From Work



Youngest baby boomer is age 48 (in 2013)

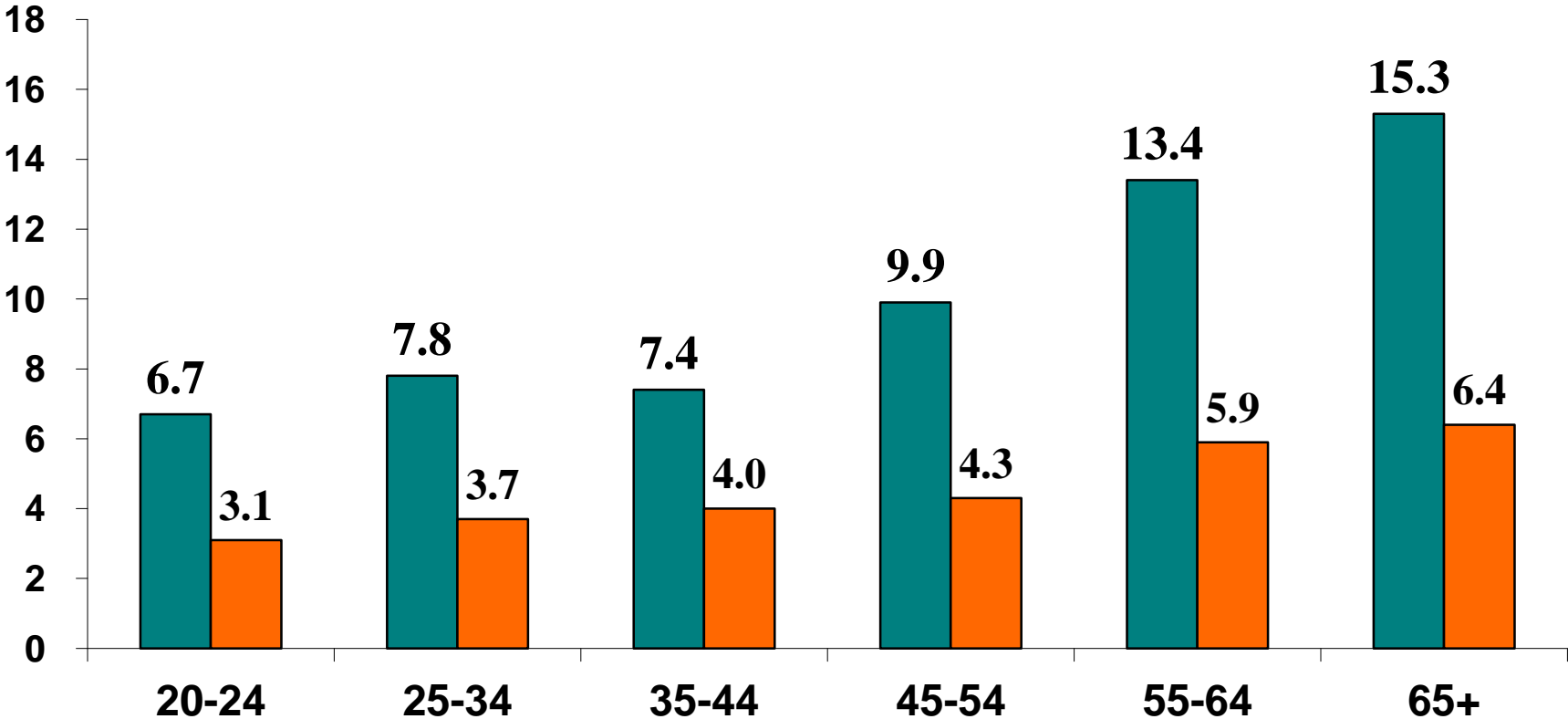
Oldest baby boomer is age 67 (in 2013)

Median lost time of workers age 65+ is 2-3X that of workers age 25-34

Source: US Bureau of Labor Statistics, *Nonfatal Occupational Injuries and Illnesses Requiring Days Away From Work, 2011* (Table 10), released November 8, 2012.

Older Workers Are Much More Likely to Break a Bone

Incidence Rate* (2011)



*per 10,000 full-time-equivalent workers

Source: US Bureau of Labor Statistics, US Department of Labor at <http://www.bls.gov/news.release/pdf/osh2.pdf> Table 14

Older Workers Are More Likely to Slip When Walking, but Less Likely to Overexert Themselves

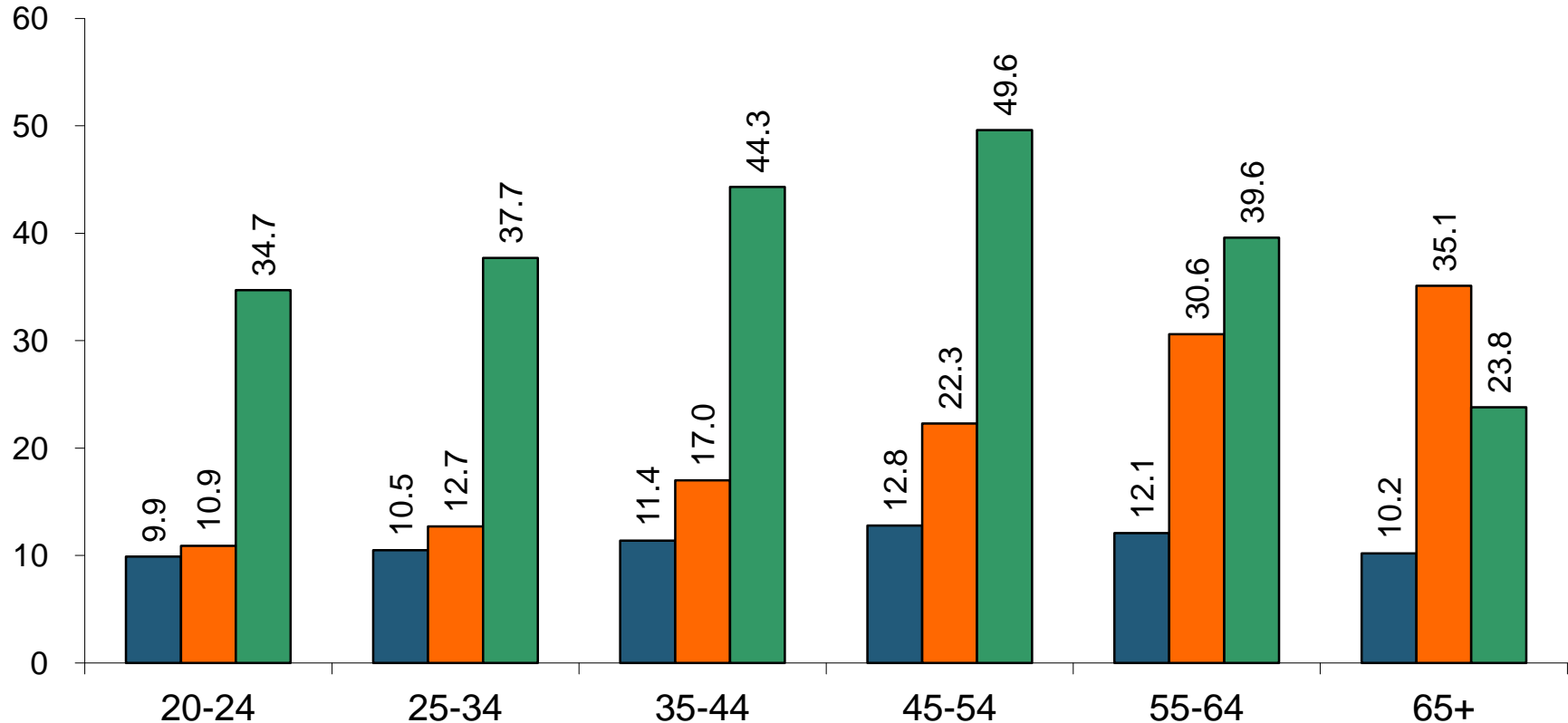
Incidence
Rate (2011)

Source/Nature of Injury:

■ Vehicles

■ Floors, Walkways, etc.

■ Overexertion

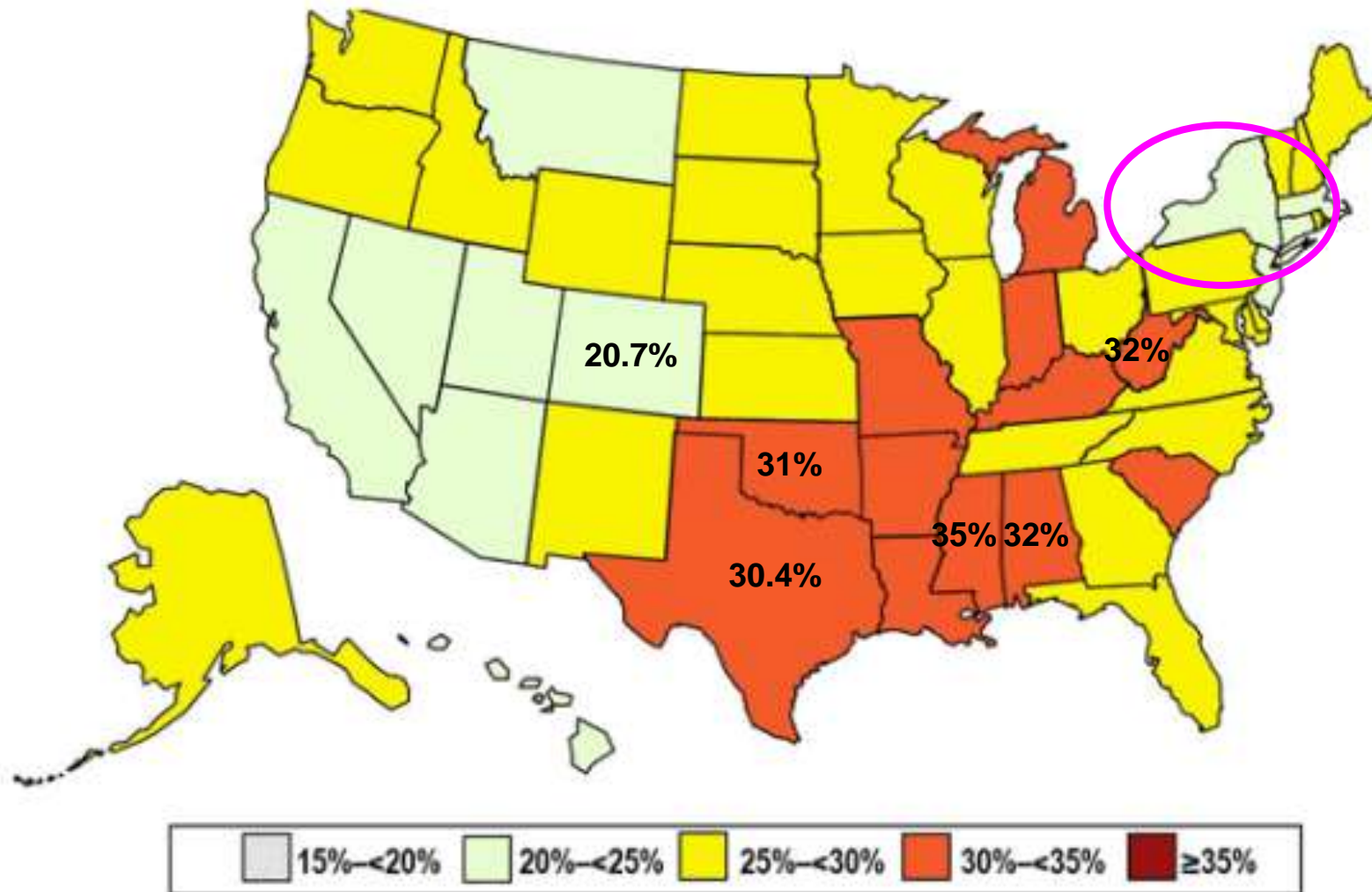


The Obesity Epidemic

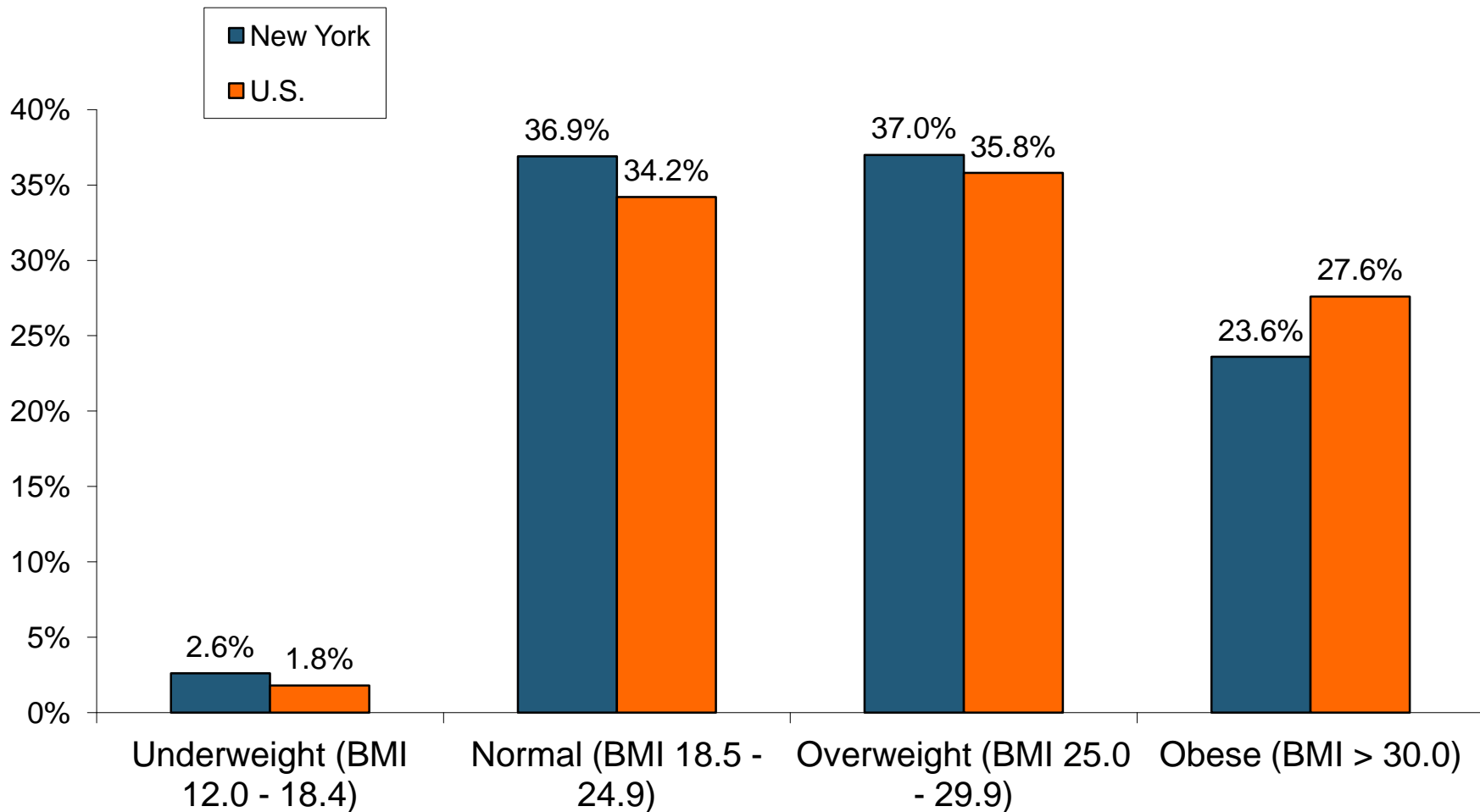
In 1994, in no state was the percent of adults who were obese as high as 20%.

By 2010, **all 50 states** had adult obesity rates of 20% or more. In 12 states, 30% of the adults were obese.

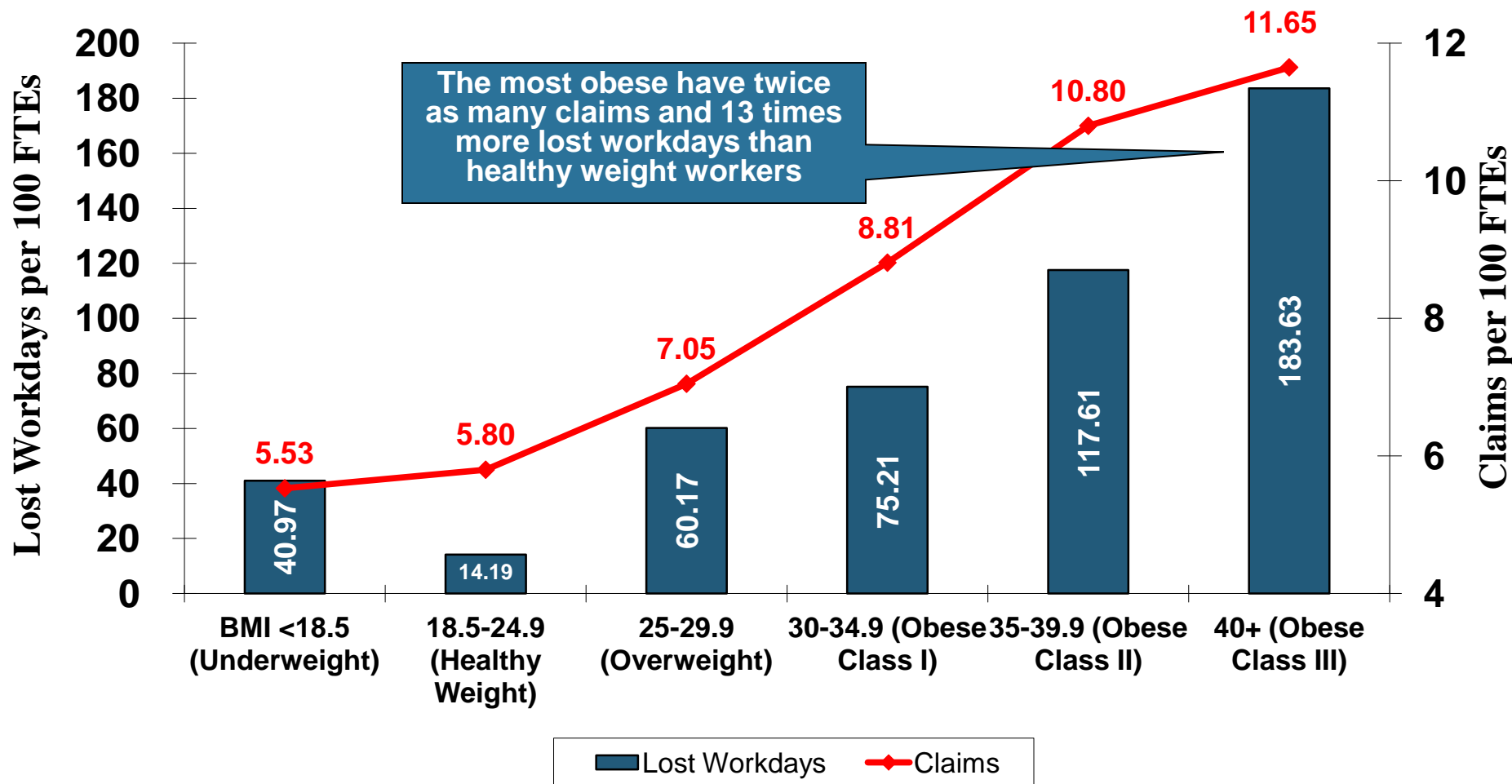
Prevalence of Self-Reported Obesity Among U.S. Adults BRFSS, 2011



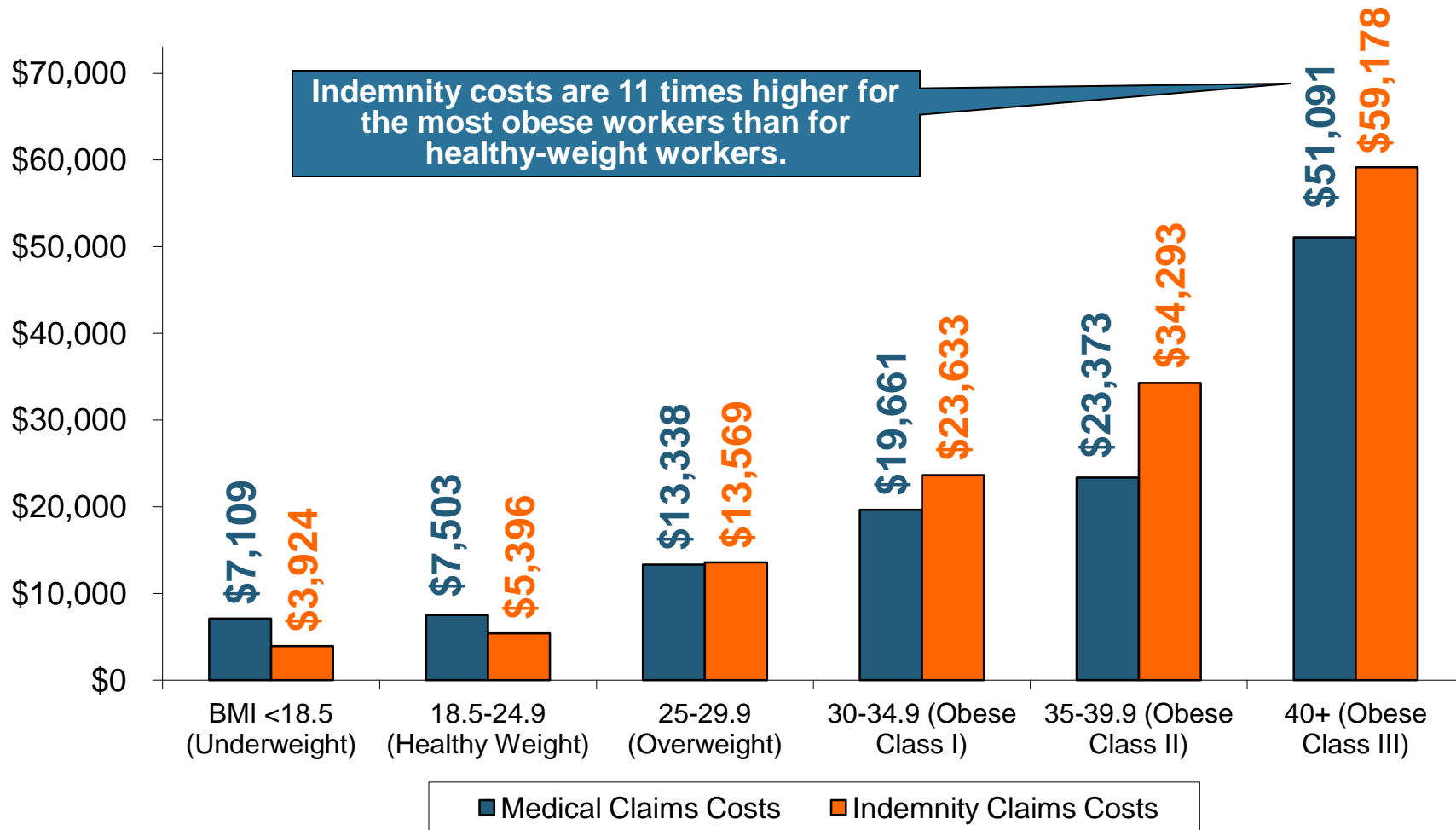
Overweight and Obesity in New York and the U.S., 2012



The Most Obese Workers File Twice as Many WC Claims as Healthy-Weight Workers

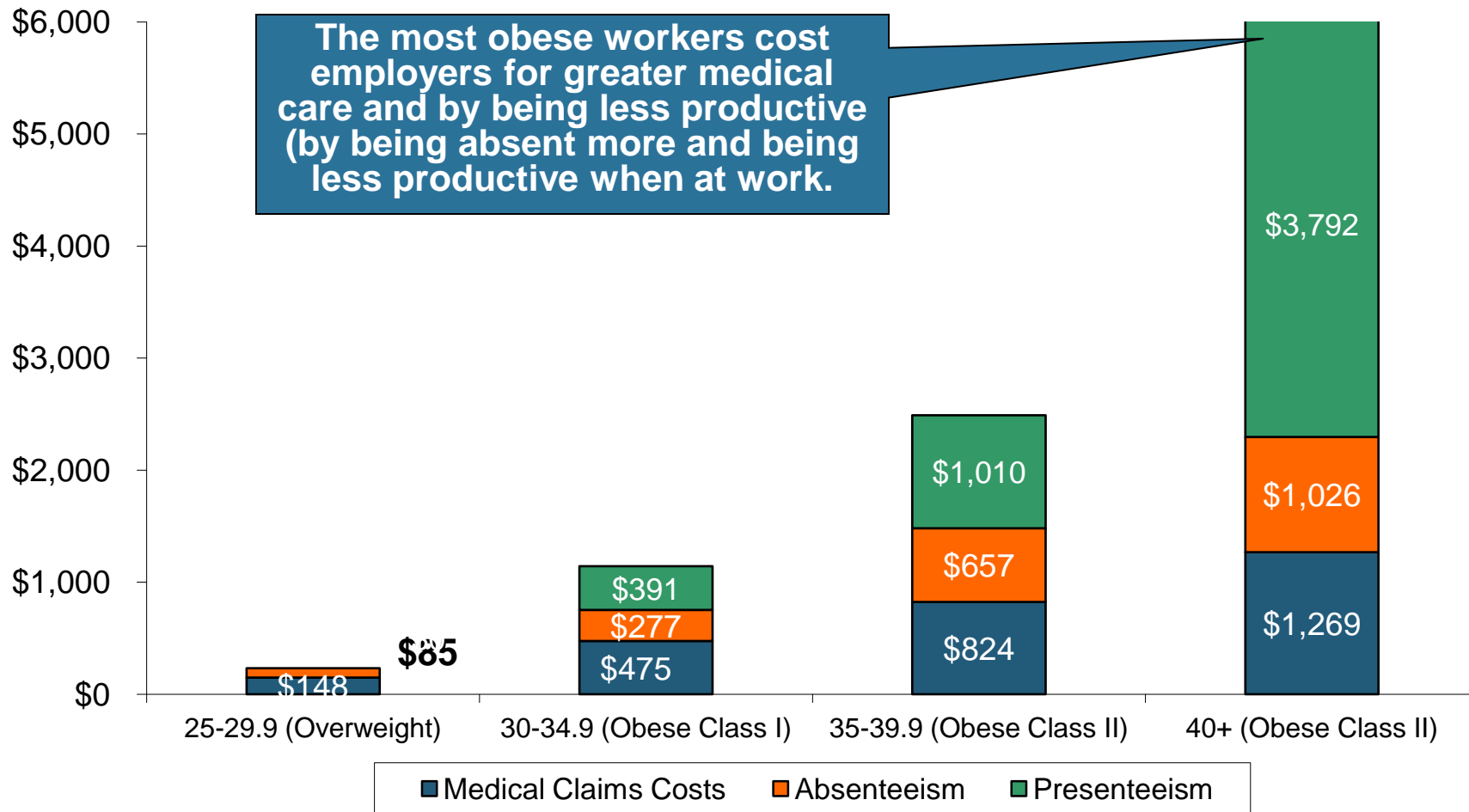


WC Medical Claims and Indemnity Costs are 5-10x Higher for the Most Obese Workers



Additional (to WC) Costs of Obese Workers

Estimated Per
Capita Costs



Insurance Information Institute Online:

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***Thank you for your time
and your attention!***