



Mega-Trends Influencing the Workers Compensation Insurance Industry

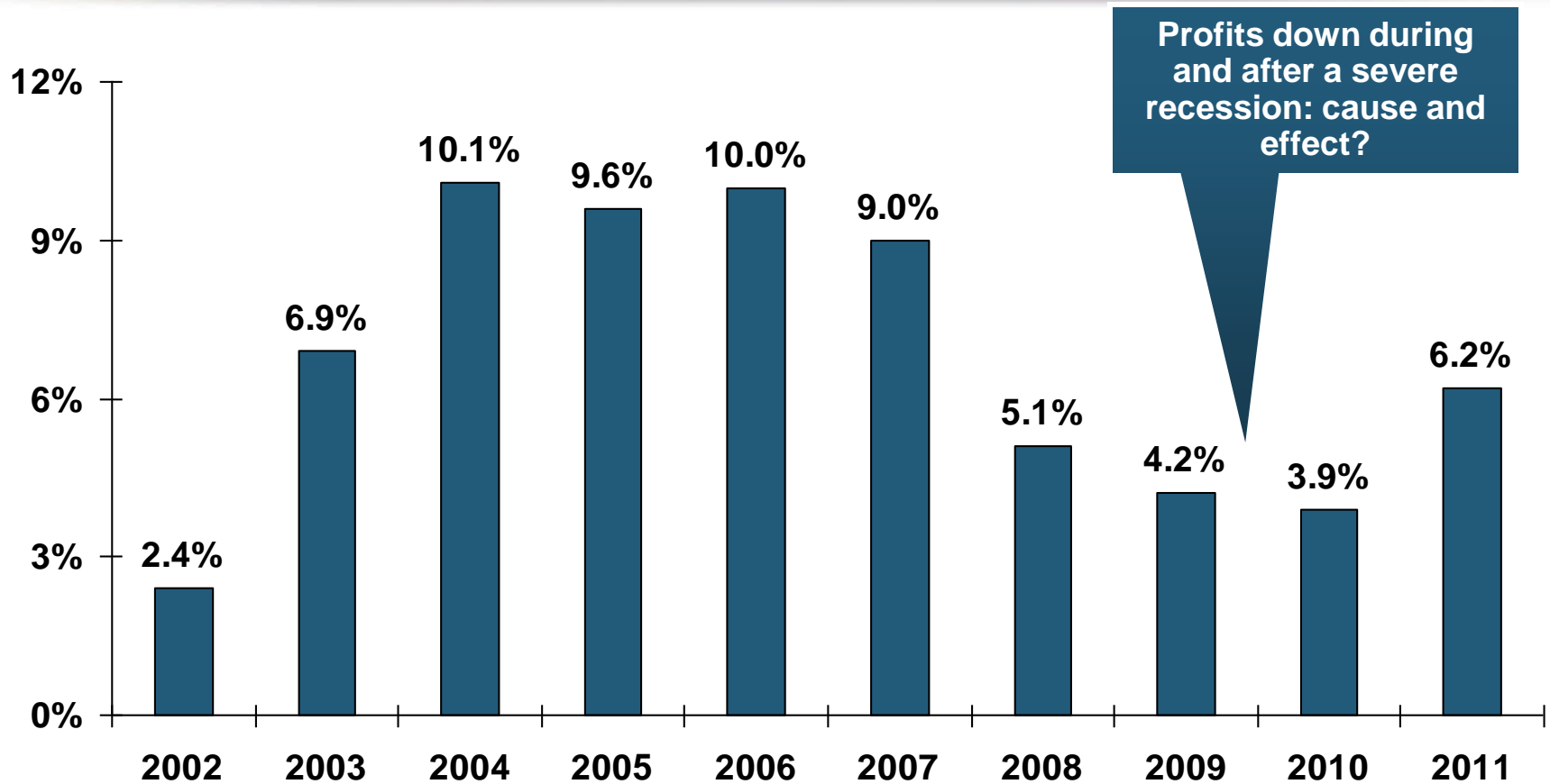
**10th Annual National Workers' Compensation
Insurance ExecuSummit
Uncasville CT, February 5, 2013**

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- 1. A Growing Exposure Base, but with a Different Mix of Risks**
- 2. Workplace Safety Improvement Continues, but “Room” for More**
- 3. Inflation, WC-style**
- 4. Low Investment Returns**
- 5. The Aging Workforce**
- 6. The Obesity Epidemic**

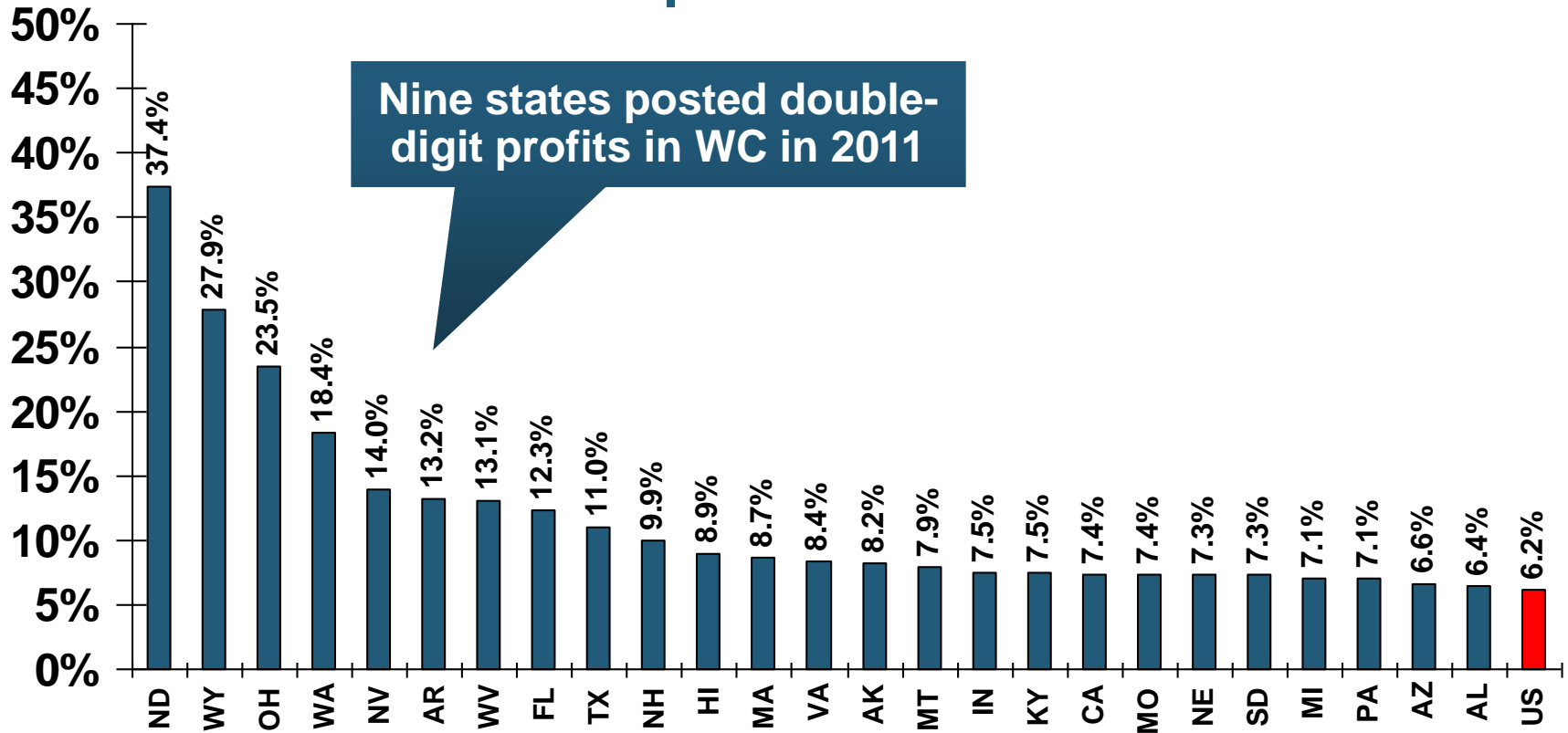
WC Profitability

Workers Comp Return on Net Worth, 2002-2011



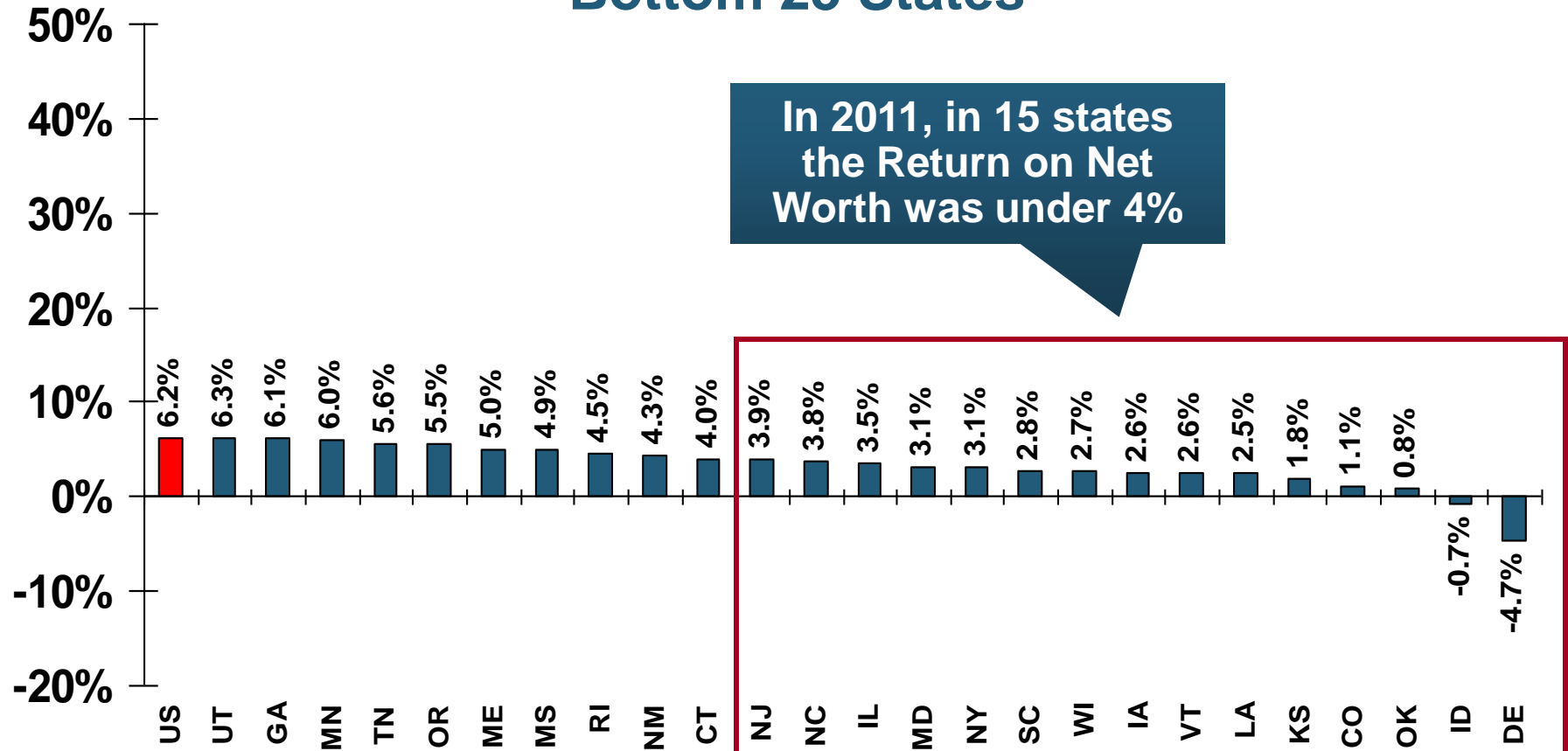
Workers Comp Return on Net Worth, 2011

Top 25 States

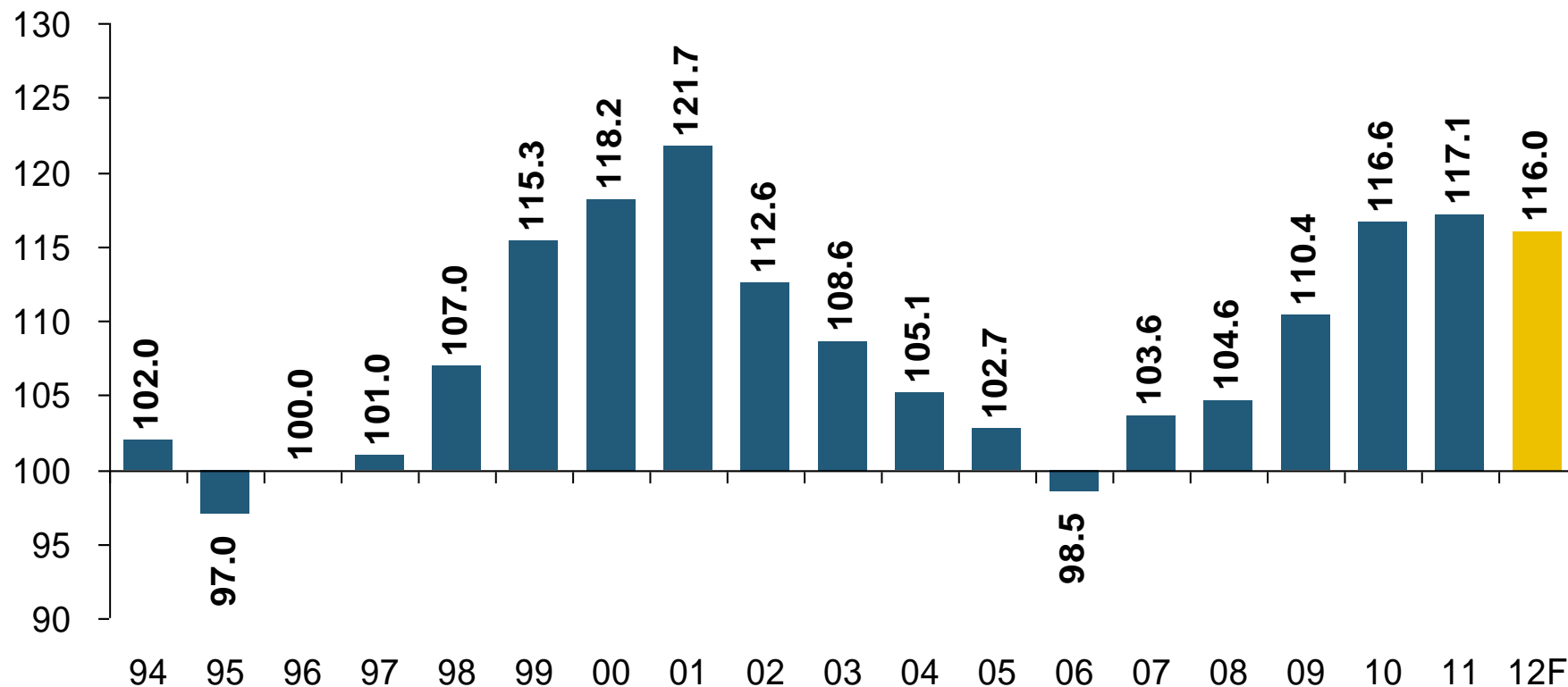


Workers Comp Return on Net Worth, 2011

Bottom 25 States



Workers Compensation Combined Ratio: 1994–2012F



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

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

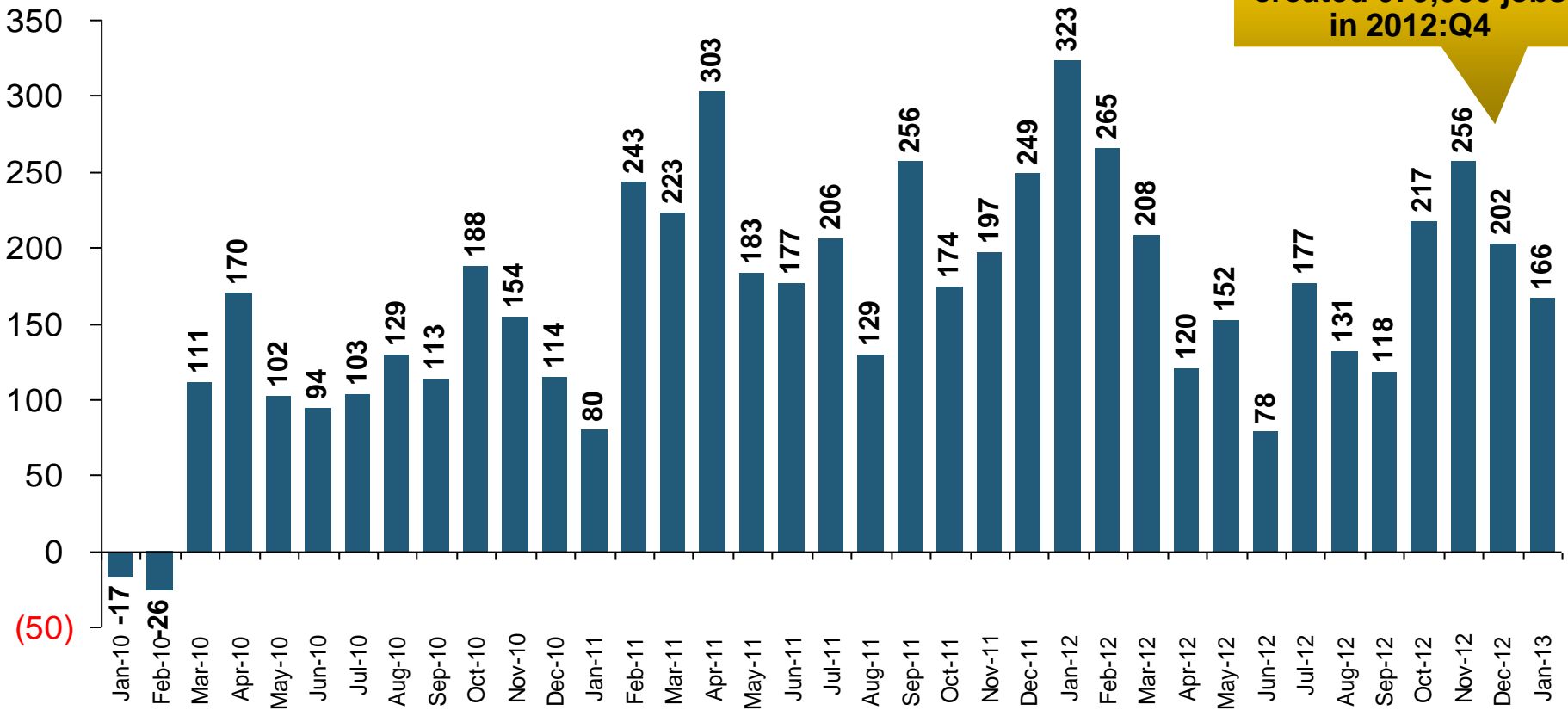
**Health Care, Education, Services
Will Lead**

Monthly Change in Private Employment, 2010 - 2013

Thousands

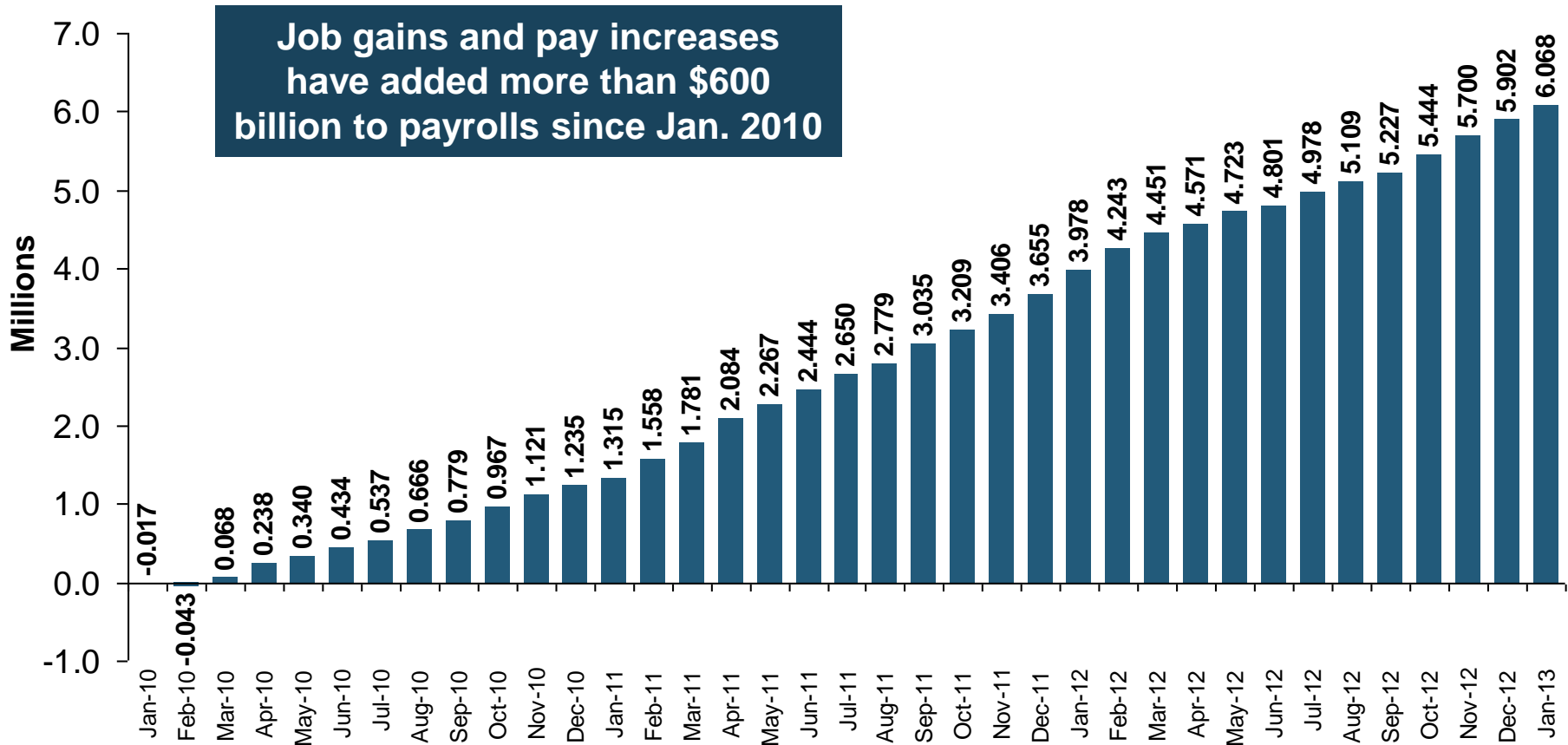
Average Monthly Gain: 164,000 jobs

The private sector created 675,000 jobs in 2012:Q4



Since January 2010, private employers added 6.06 million (net) jobs. This partly offsets losses of 3.78 million jobs in 2008 and 4.98 million in 2009.

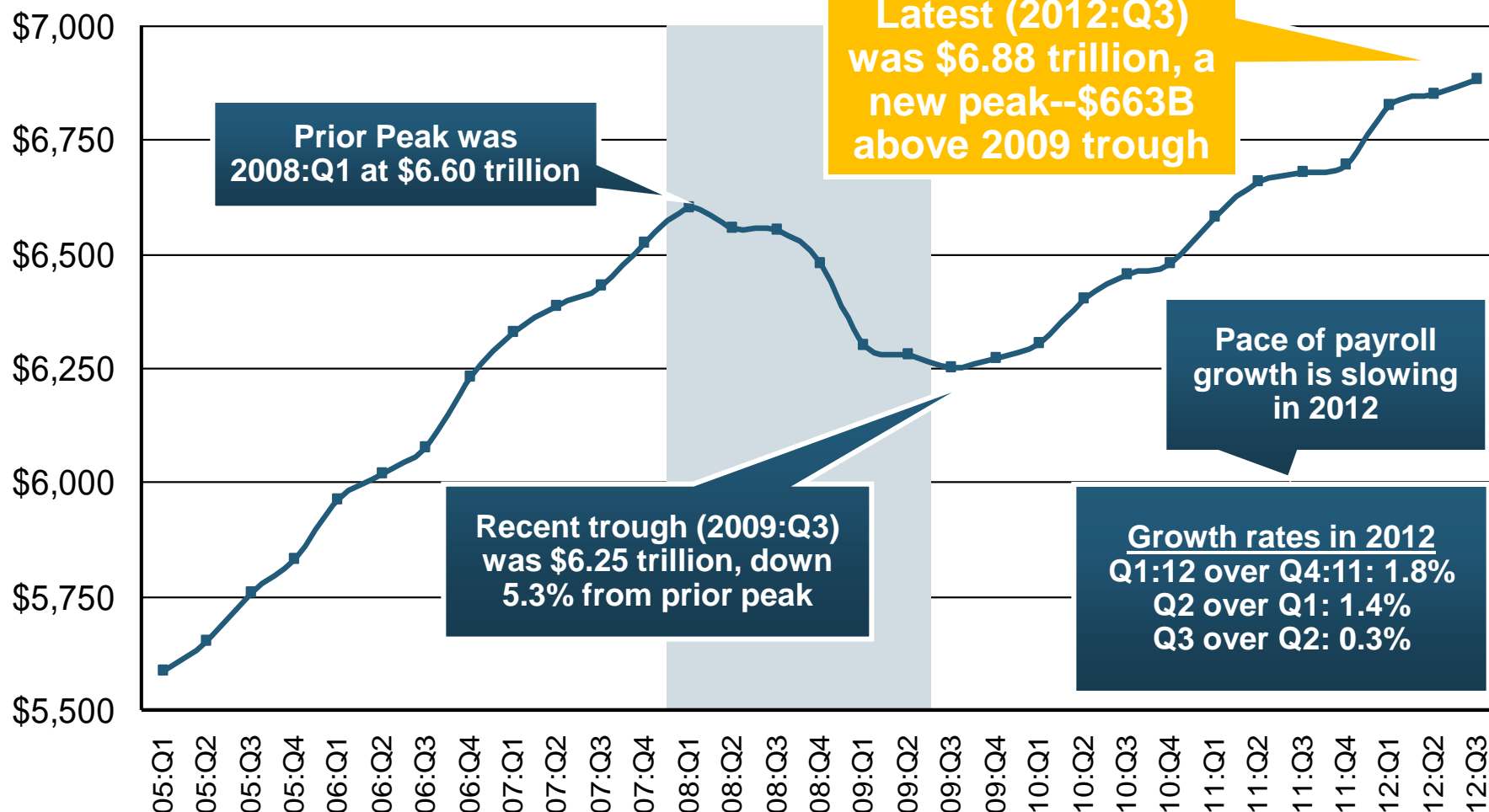
Cumulative Change in Private Sector Employment: Jan. 2010 – Jan. 2013



Private employers added 6.06 million (net) jobs since Jan. 2010, after having shed 4.66 million jobs in 2009 and 3.81 million in 2008 (state and local governments have shed hundreds of thousands of jobs).

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2012:Q3

Billions



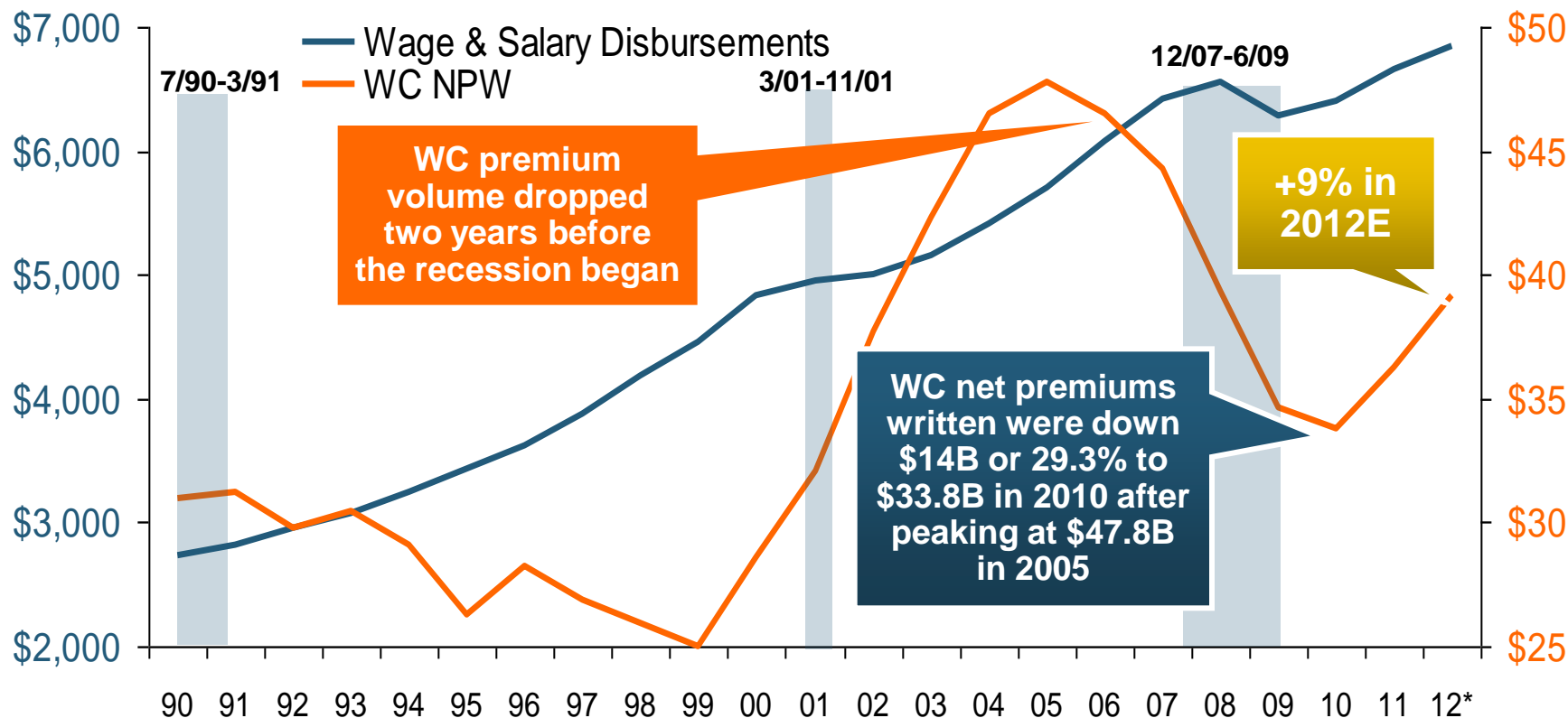
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

Payroll vs. Workers Comp Net Written Premiums, 1990-2012E

Payroll Base*
\$Billions

WC NWP
\$Billions

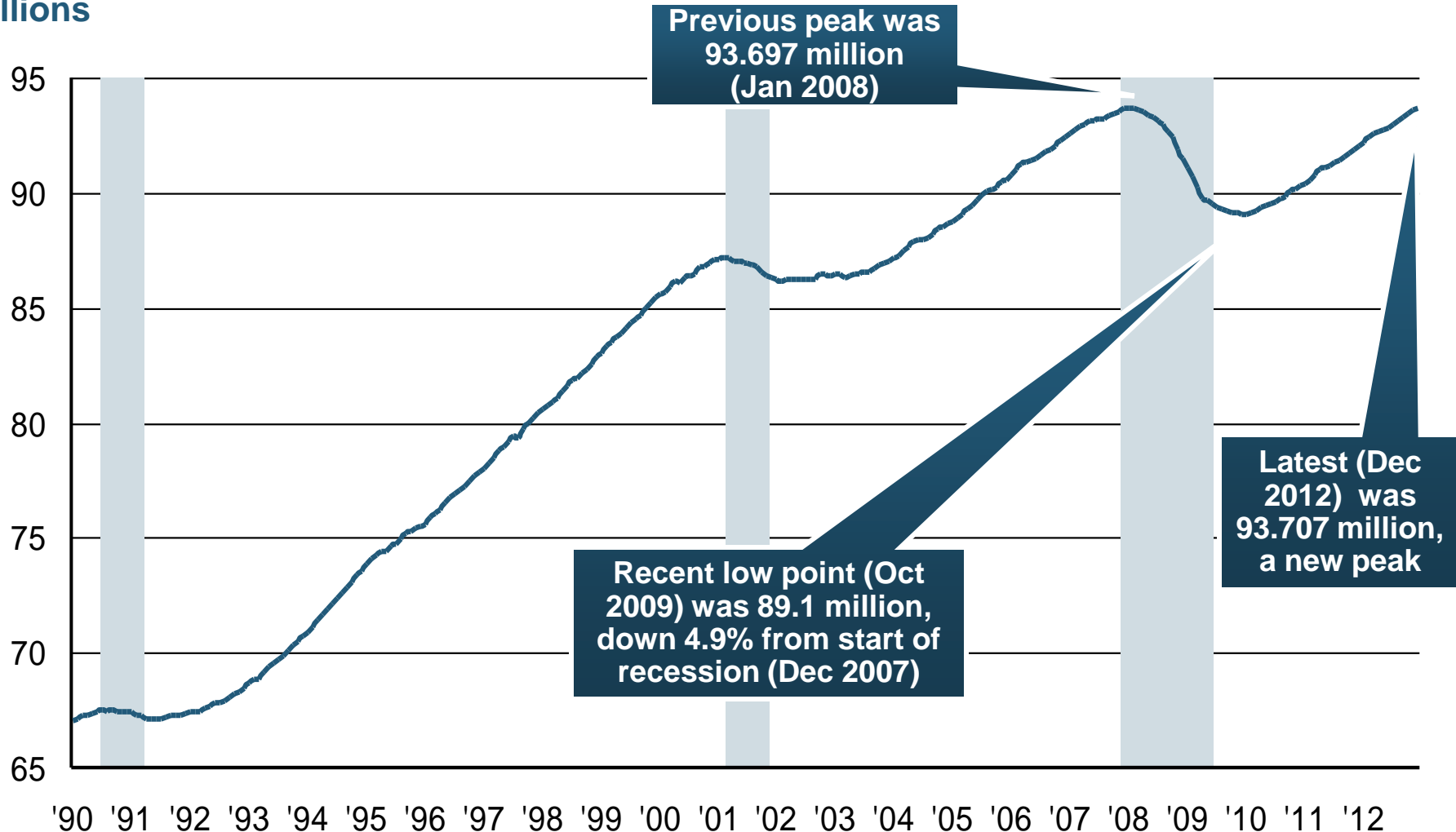


Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2012; +7.9% Growth in 2011 Was the First Gain Since 2005

*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2012 is I.I.I. estimate based YTD 2012 actuals. Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.

U.S. Employment in Service Industries, Private Sector, Monthly, 1990–2012*

Millions



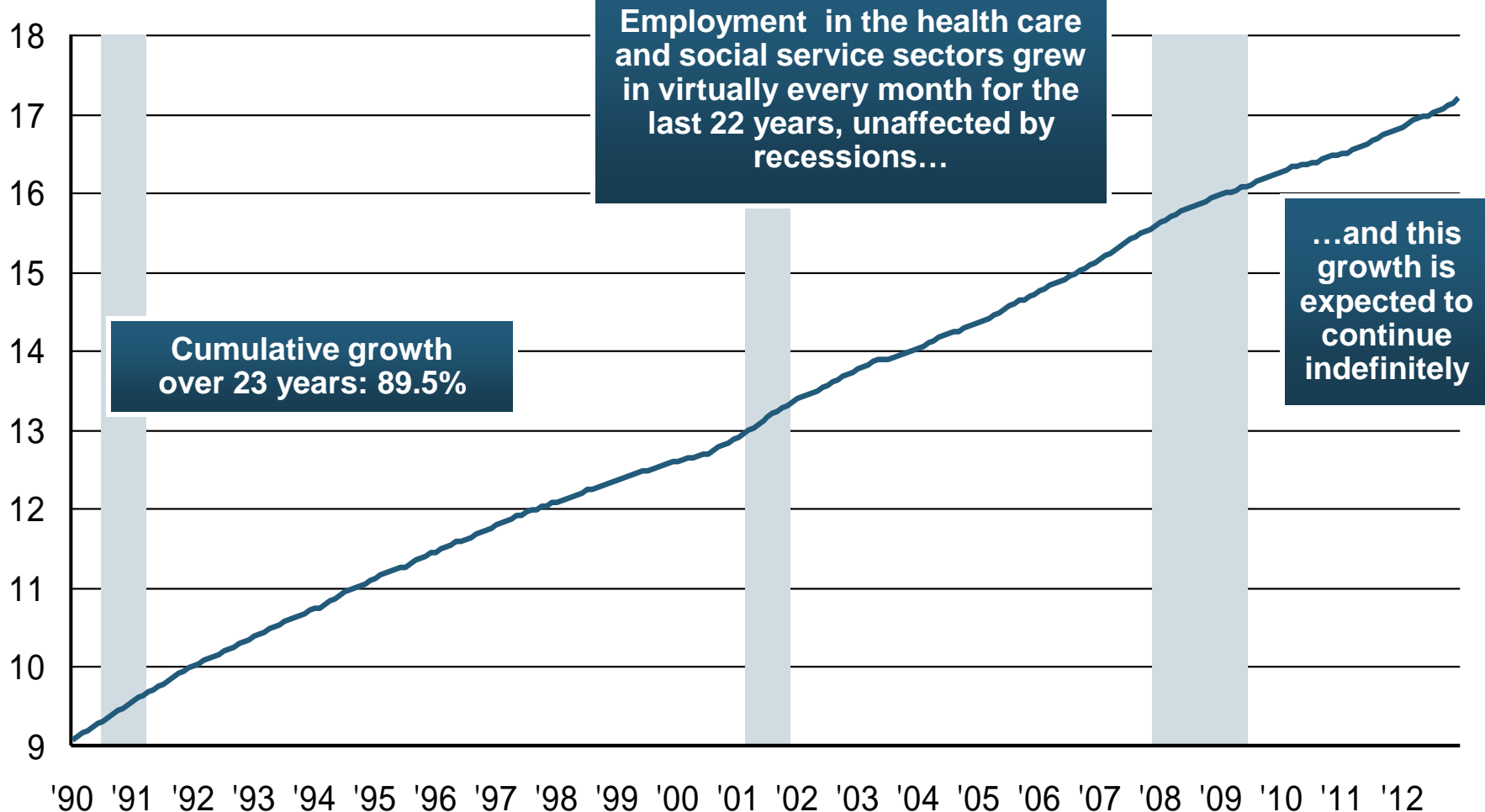
*As of December 2012; Seasonally adjusted; Nov 2012 and Dec 2012 are preliminary

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, 1990–2012*

Millions



*As of Dec 2012 (Nov 2012 and Dec 2012 are preliminary); Seasonally adjusted

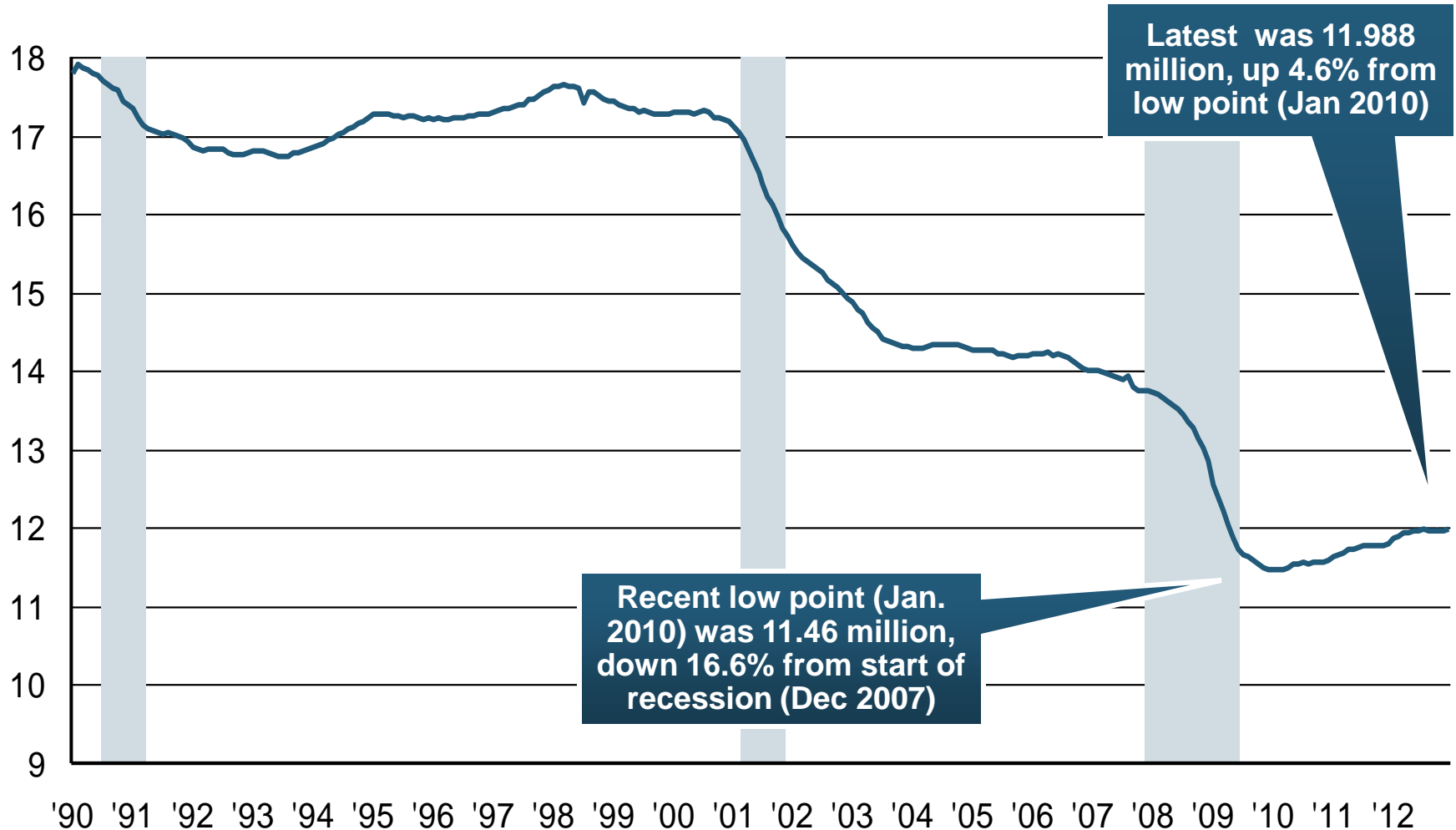
Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Manufacturing

Monthly, 1990–2012*

Millions



*As of December 2012 (Nov 2012 and Dec 2012 are preliminary); Seasonally adjusted

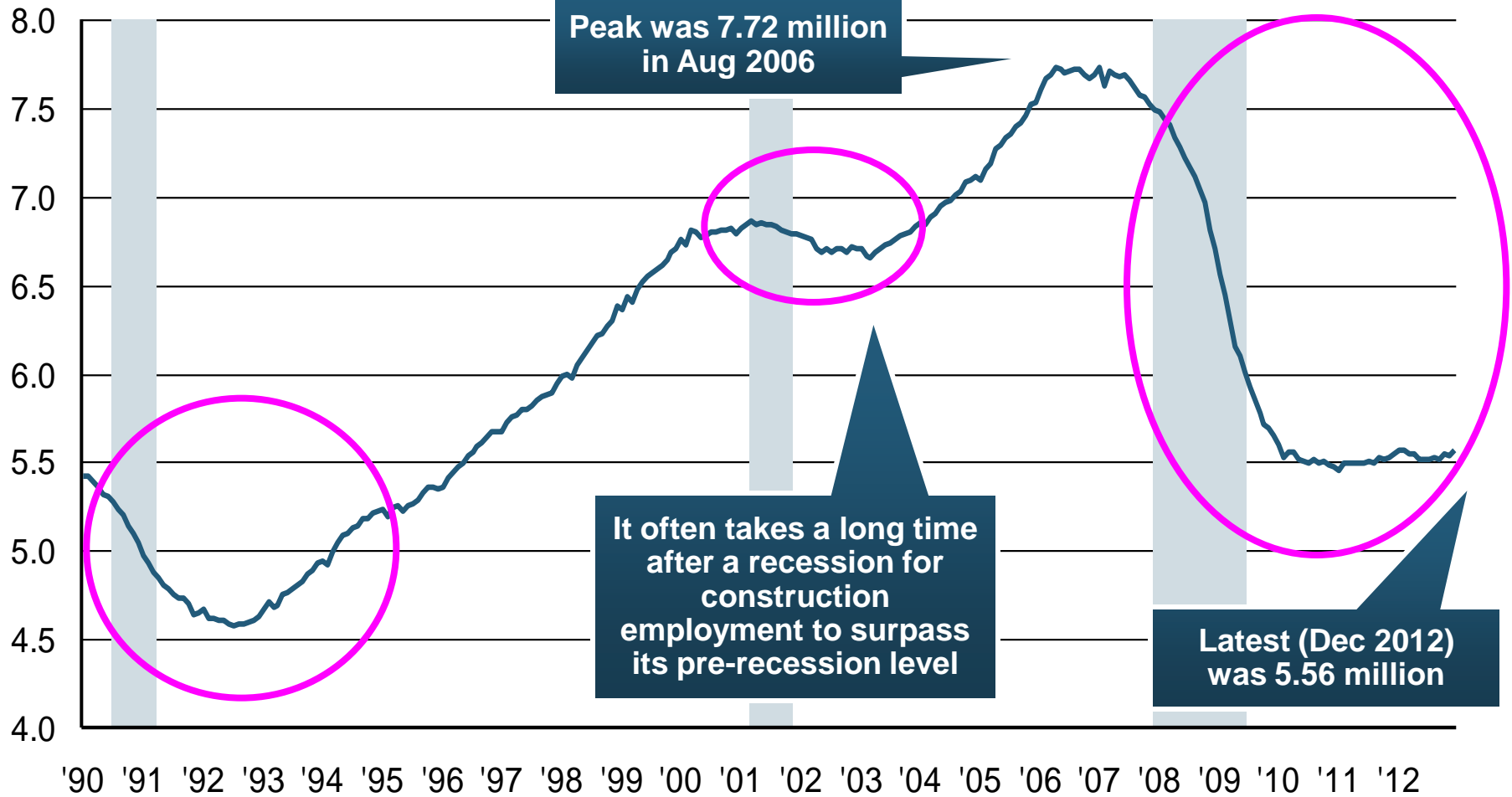
Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Construction

Monthly, 1990–2012*

Millions



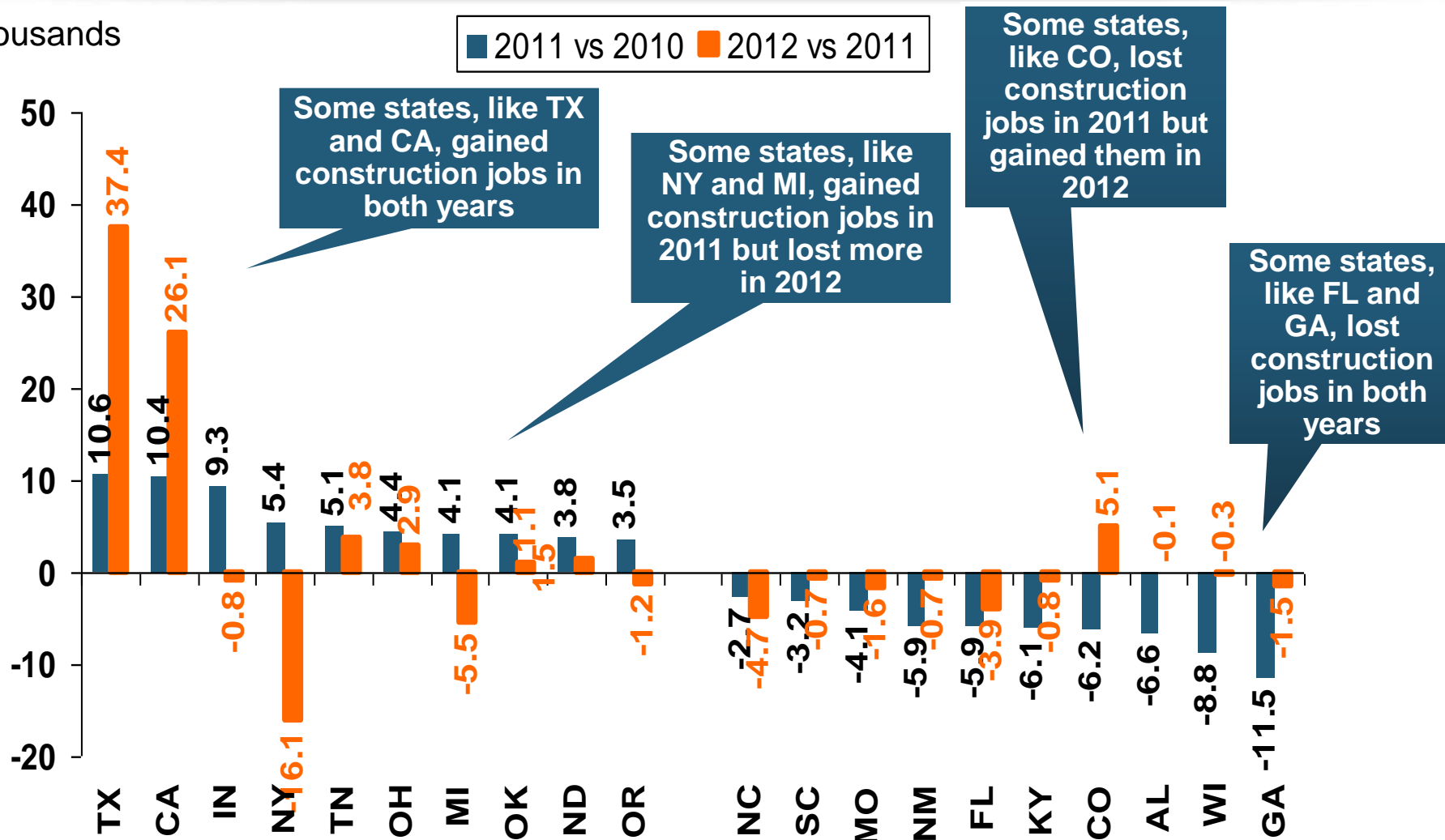
*As of December 2012 (Nov 2012 and Dec 2012 are preliminary); Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Employment Changes in **Construction**, 2012 vs. 2011* and 2011 vs. 2010*: Selected States

Thousands



*Novembers of years indicated; seasonally adjusted

Source: U.S. Bureau of Labor Statistics, *Regional and State Employment and Unemployment—November 2011*, released December 20, 2011 and *Regional and State Employment and Unemployment—November 2012*, released December 21, 2012.

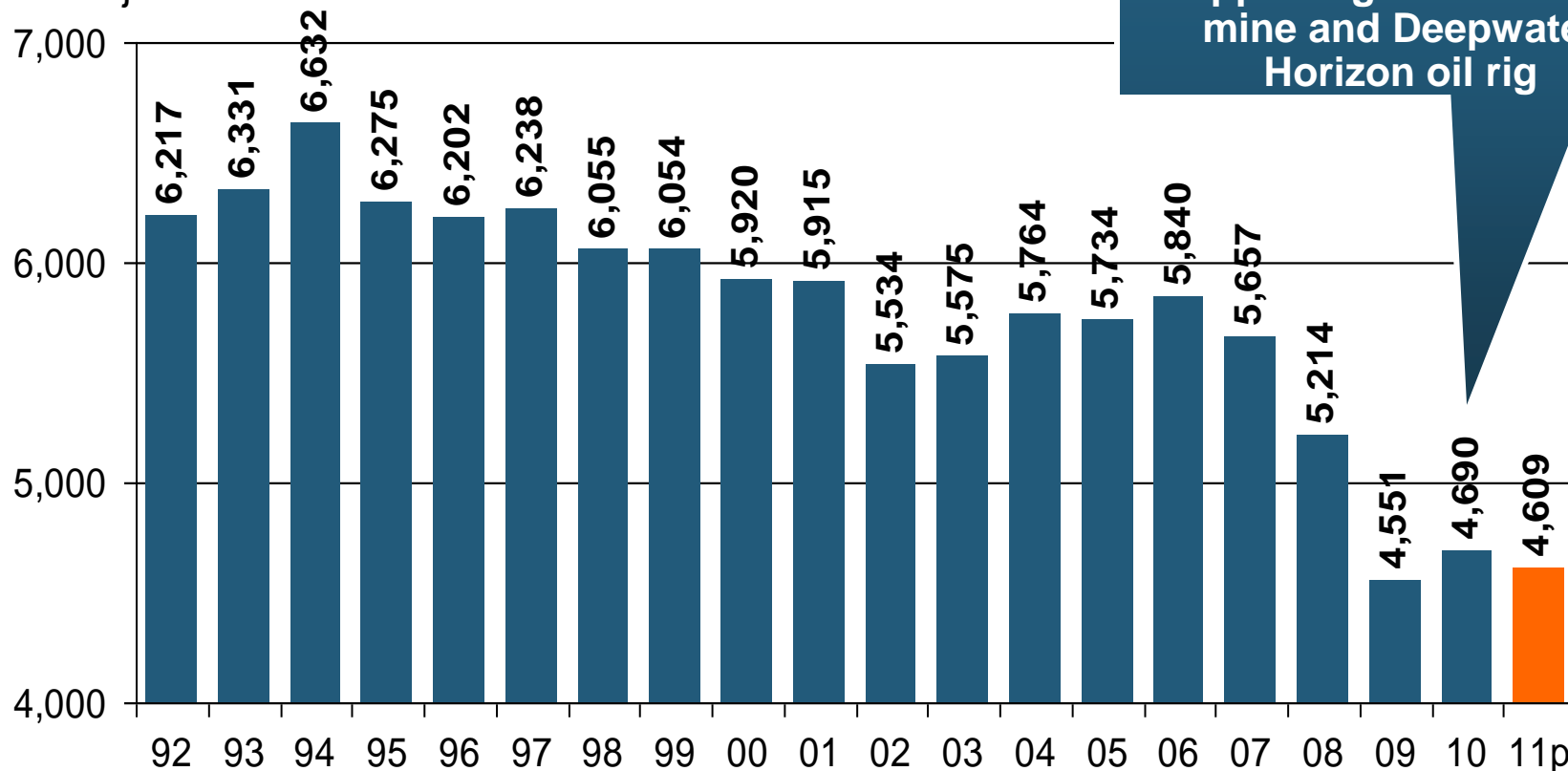
2. Workplace Safety Improvement Continues, but “Room” for More

The WC industry has certainly helped create/support the improvement

Fewer Occupational Deaths

1992–2011p

Number of
Fatal Injuries

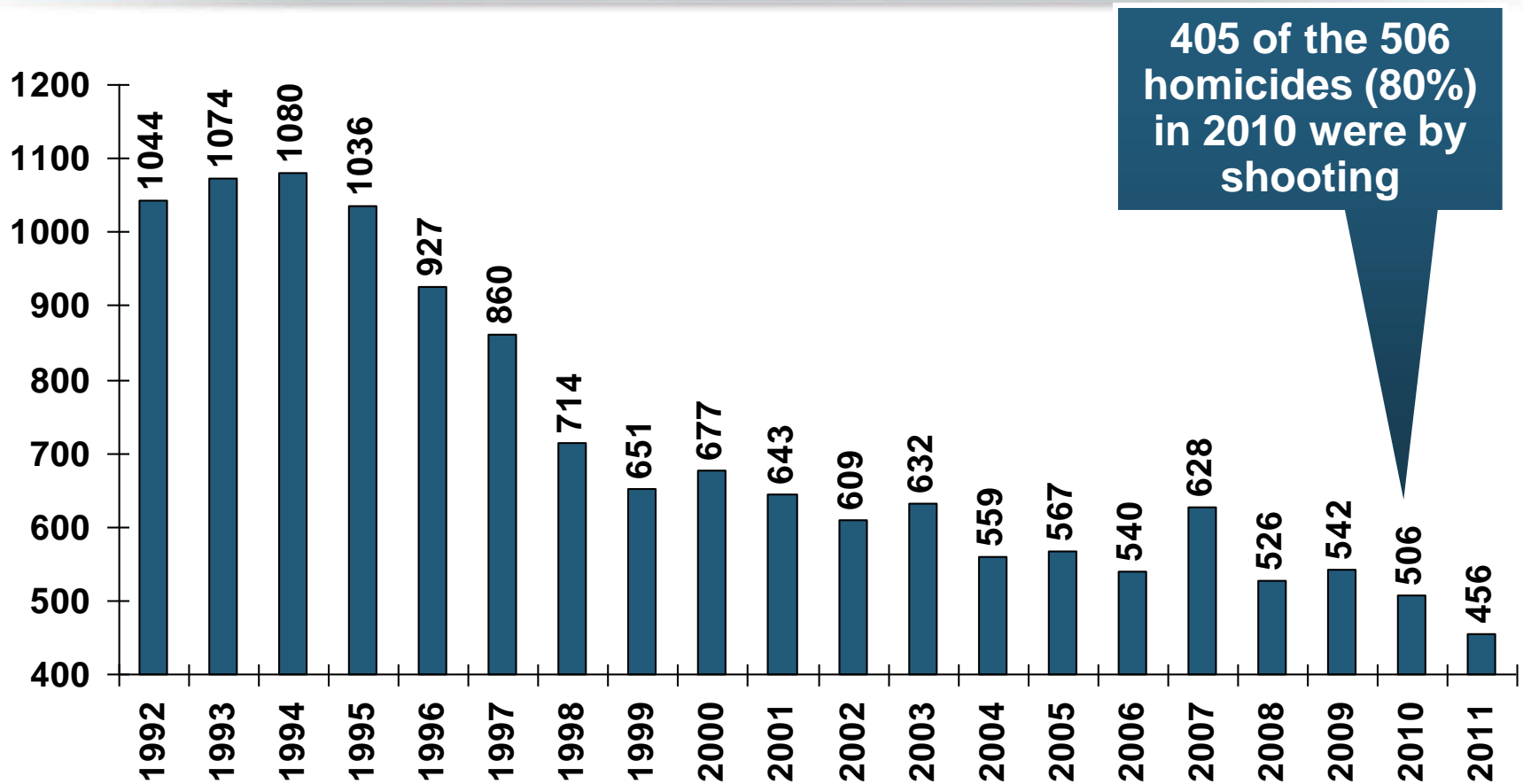


The death rate per 100,000 full-time-equivalent workers was 3.5 in 2011, down from 3.6 in 2010 (but 3.5 in 2009).

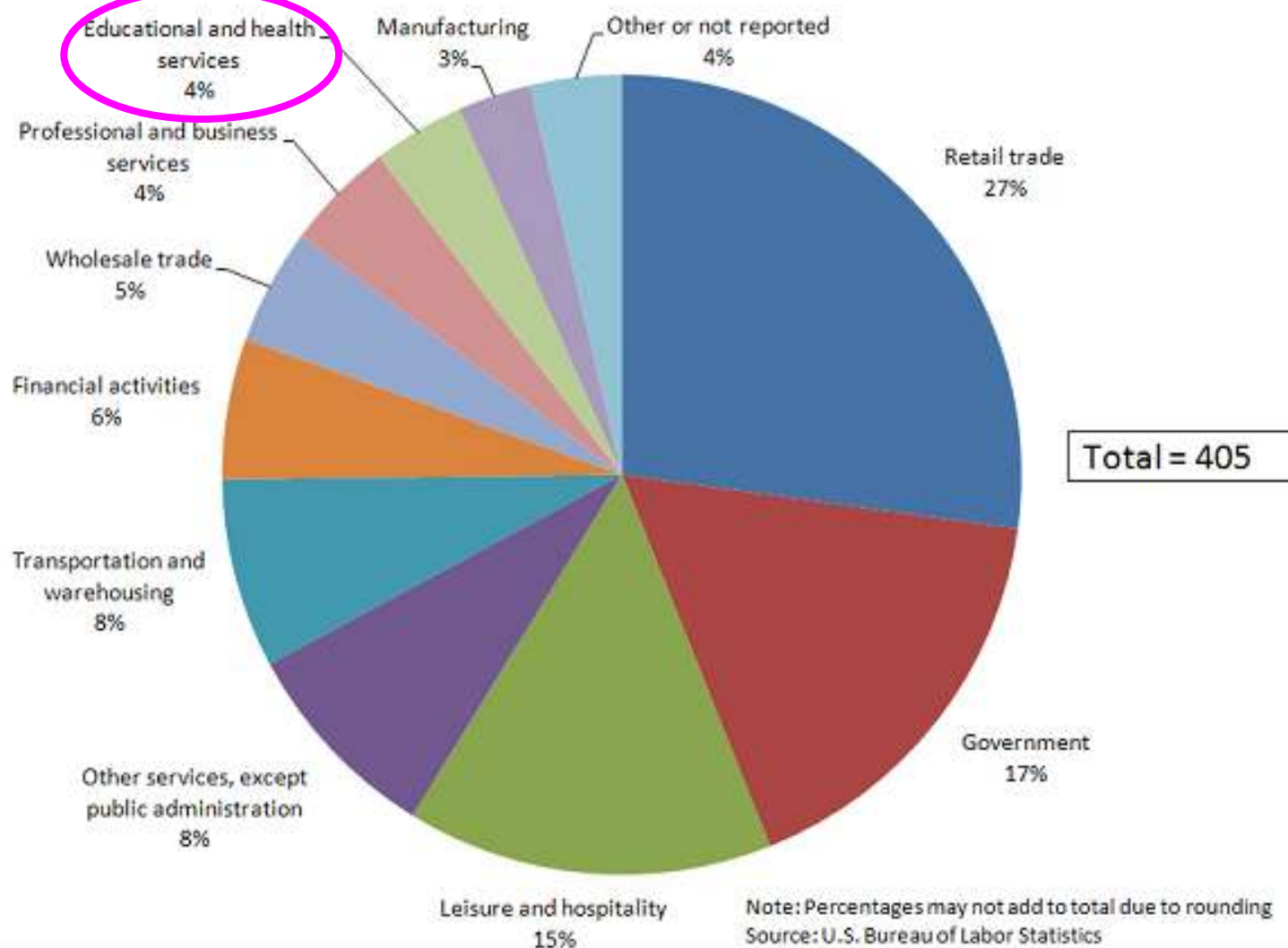
P = preliminary; final data will be released in Spring 2013

Source: U.S. Bureau of Labor Statistics, *National Census of Fatal Occupational Injuries in 2011 (Preliminary Results)*, released September 20, 2012.

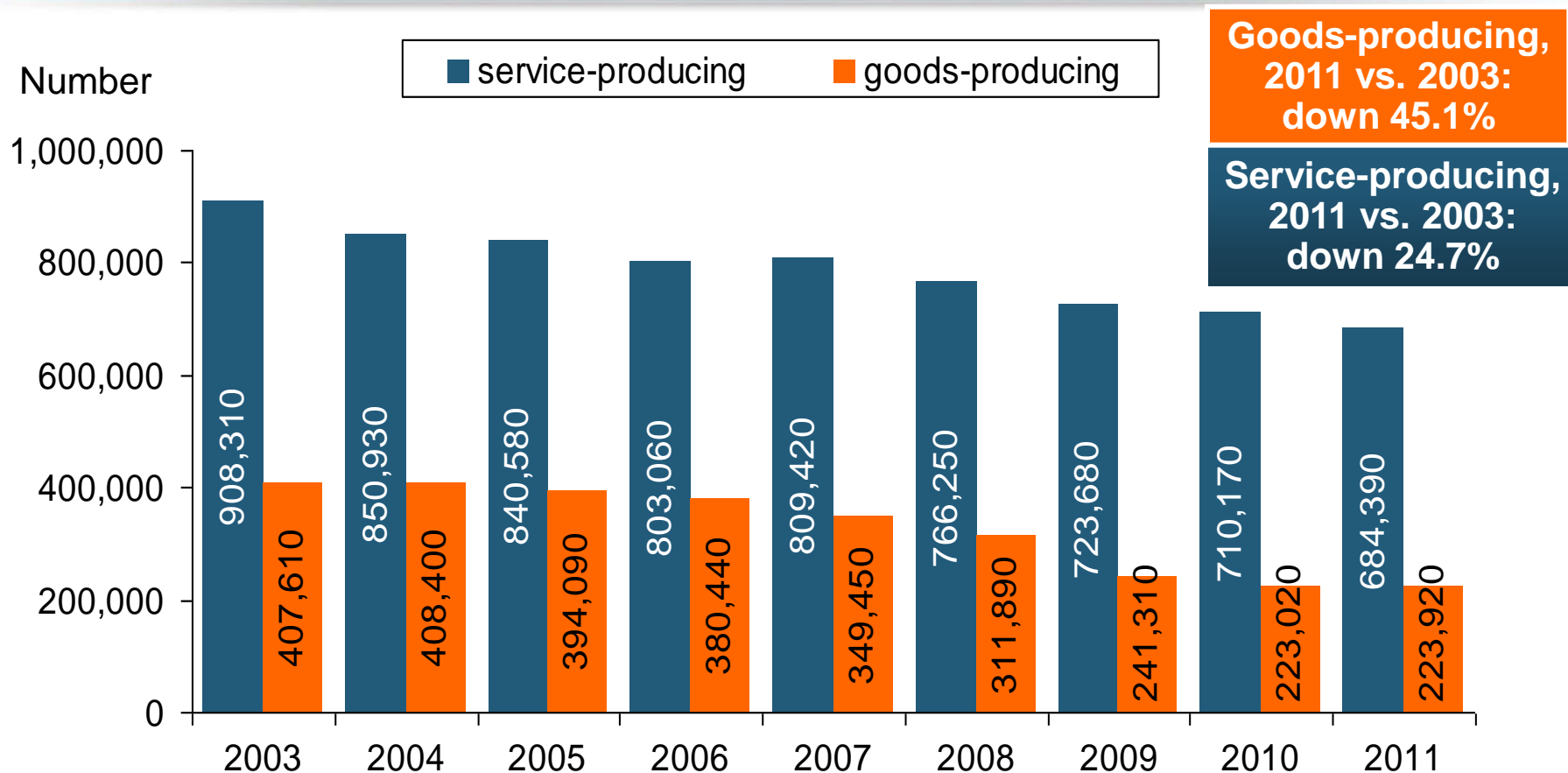
Number of Workplace Homicides, 1992-2011



Workplace homicides due to shootings, by industry, 2010



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

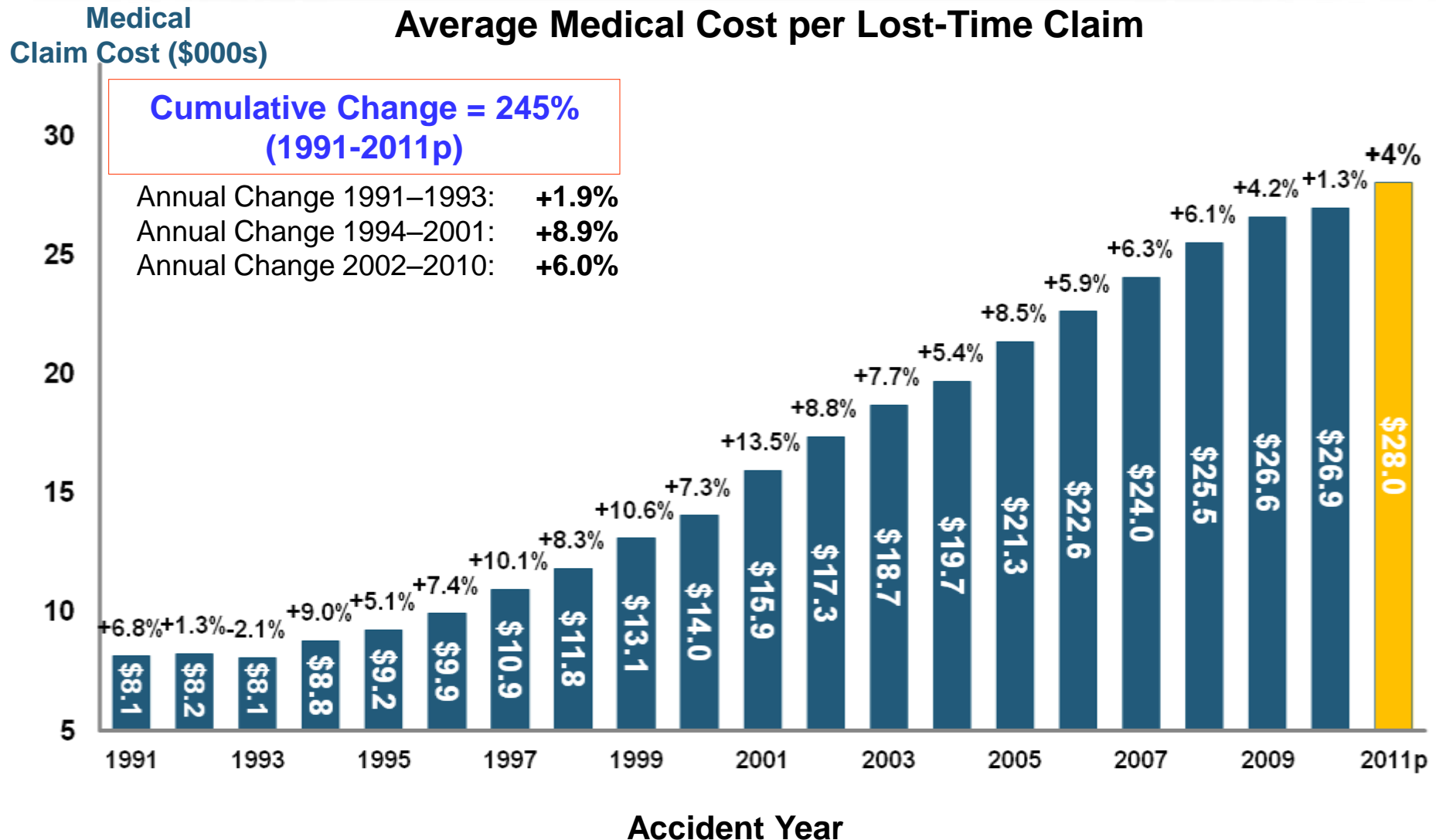


The number of illnesses and injuries dropped from 2003 to 2007 despite growth in employment and the aging of the workforce. The drop continued through the Great Recession and into the recovery.

3. Inflation and Claim Severity

**The Low CPI Doesn't
Reflect WC Cost Pressures**

Workers Compensation Medical Severity Moderate Increase in 2011

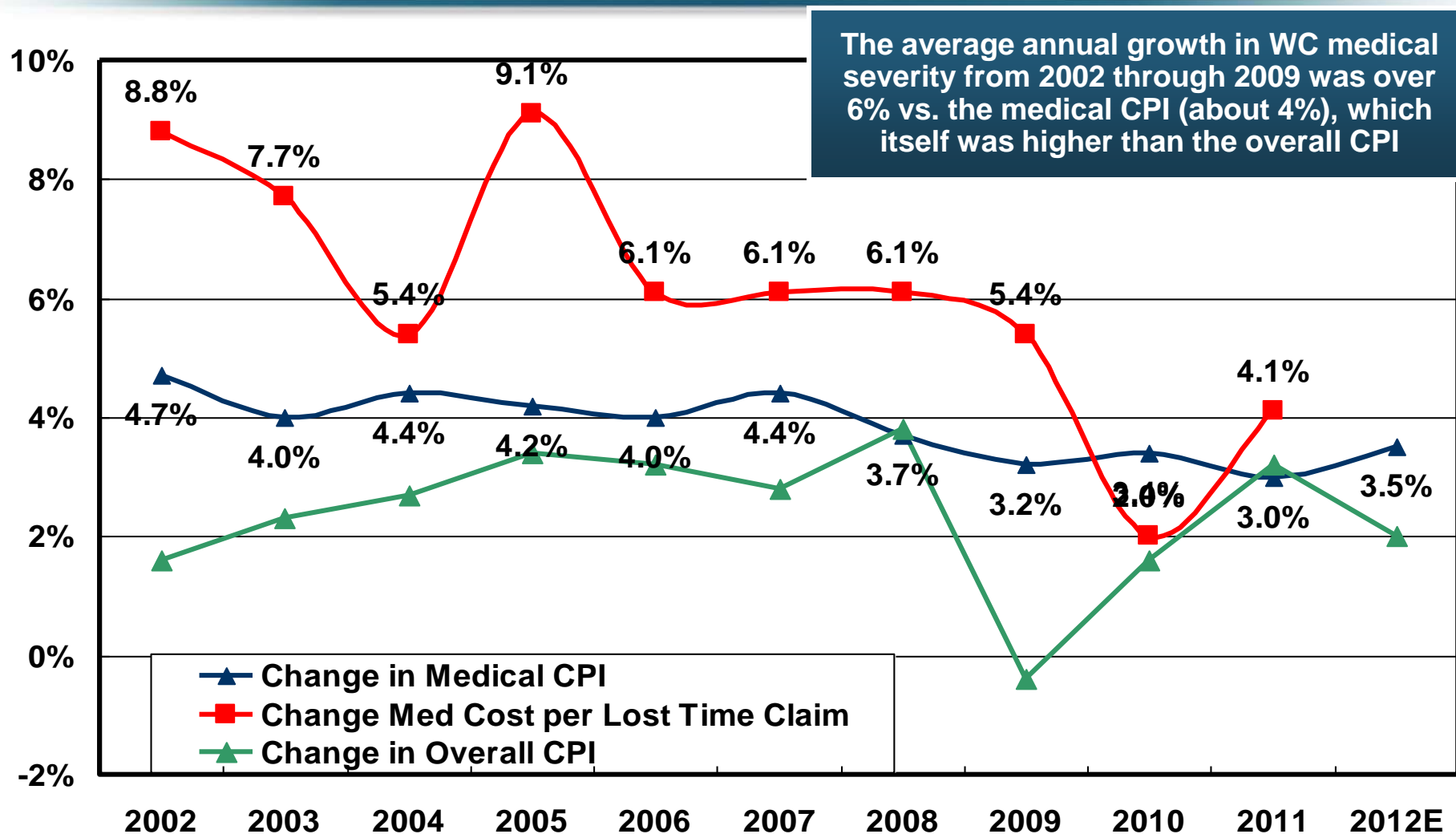


2011p: Preliminary based on data valued as of 12/31/2011.

1991-2010: Based on data through 12/31/2010, developed to ultimate.

Based on the states where NCCI provides ratemaking services; Excludes high deductible policies.

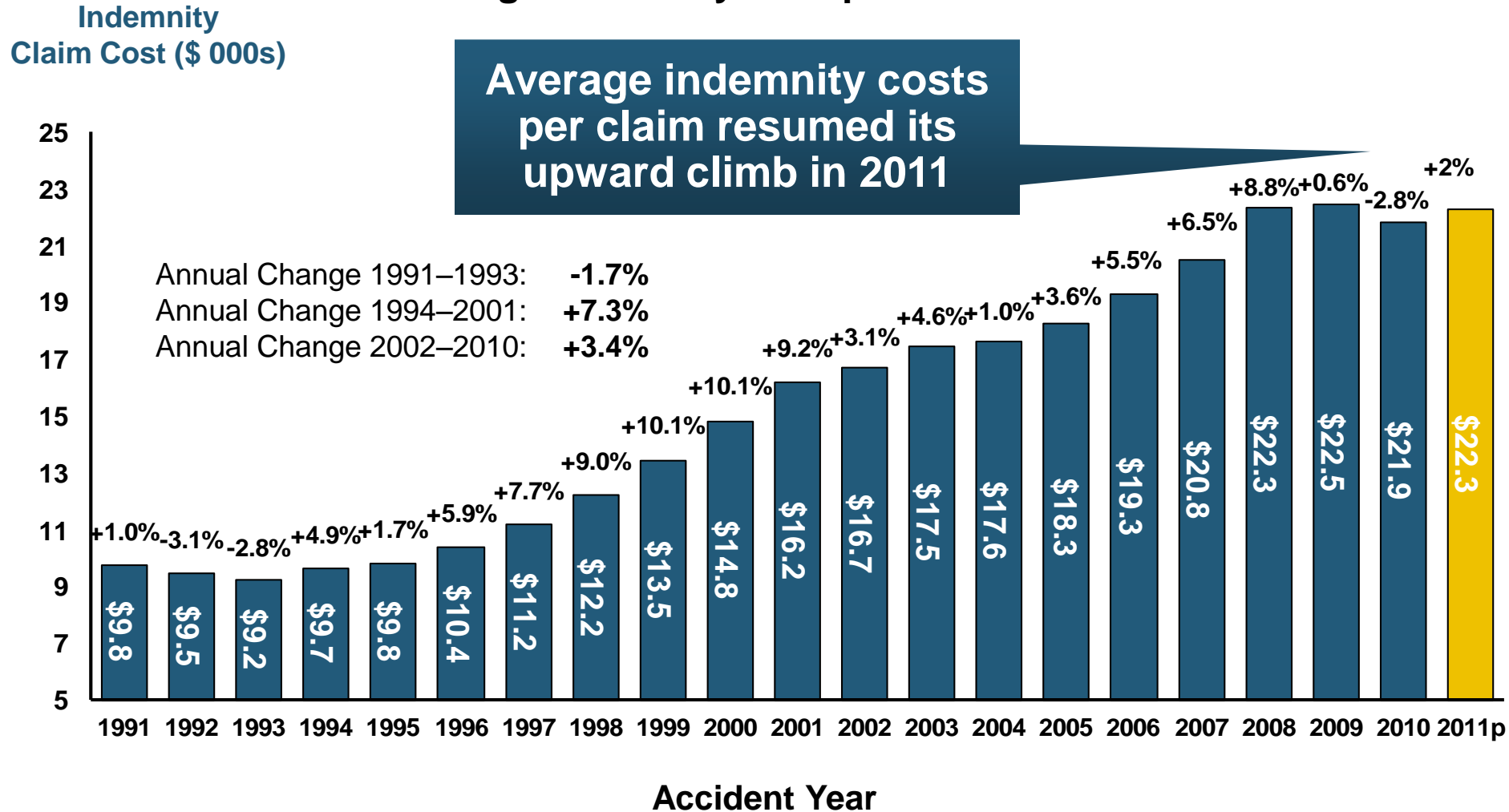
WC Medical Severity Typically Rises Faster Than the Medical CPI Rate



Sources: CPI and Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

Workers Comp Indemnity Claim Costs: Modest Increase in 2011

Average Indemnity Cost per Lost-Time Claim



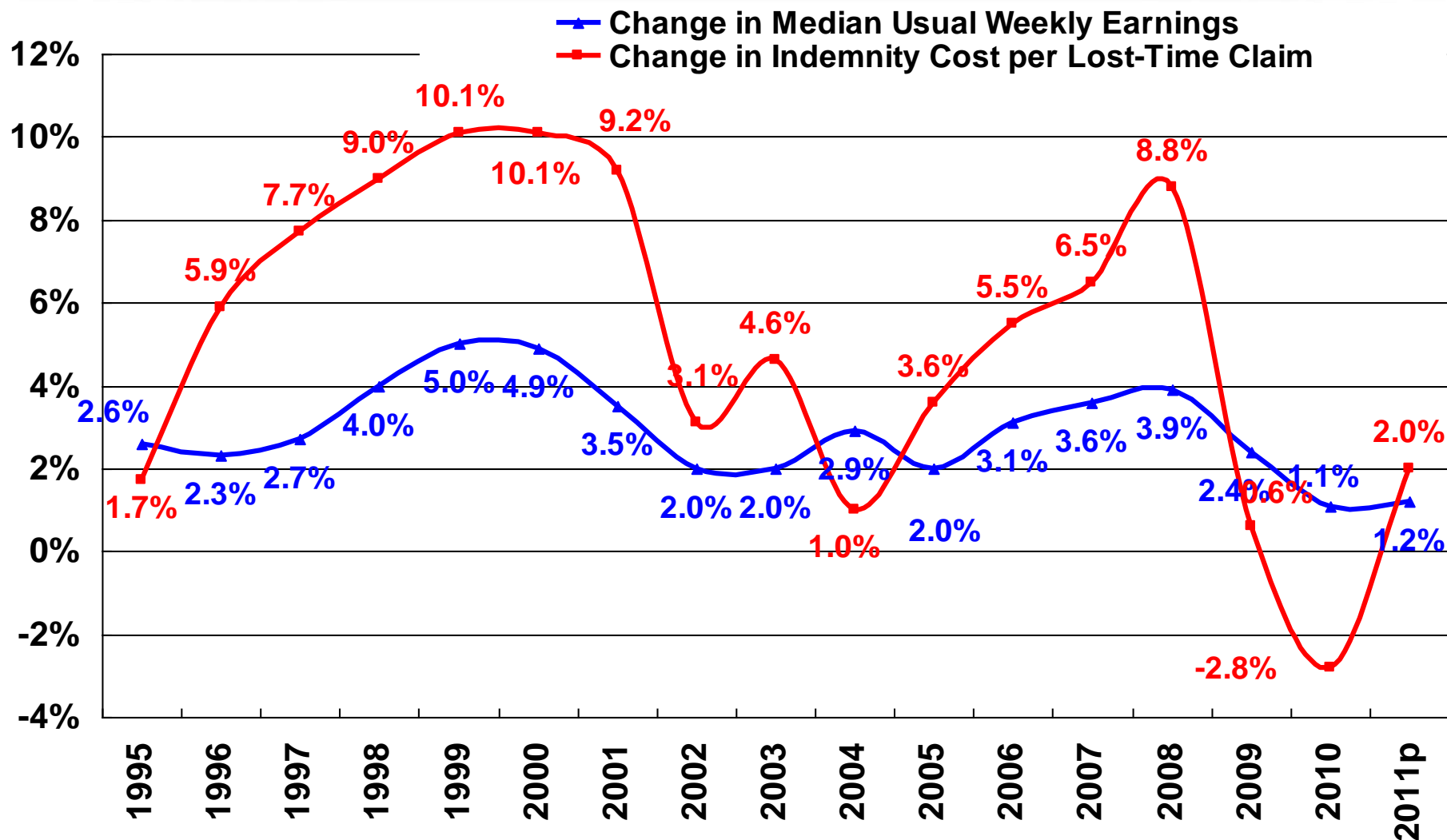
2010p: Preliminary based on data valued as of 12/31/2011

1991–2010: Based on data through 12/31/2010, developed to ultimate

Based on the states where NCCI provides ratemaking services

Excludes high deductible policies

WC Indemnity Severity Generally Grows Faster than Wages, 1995-2011p

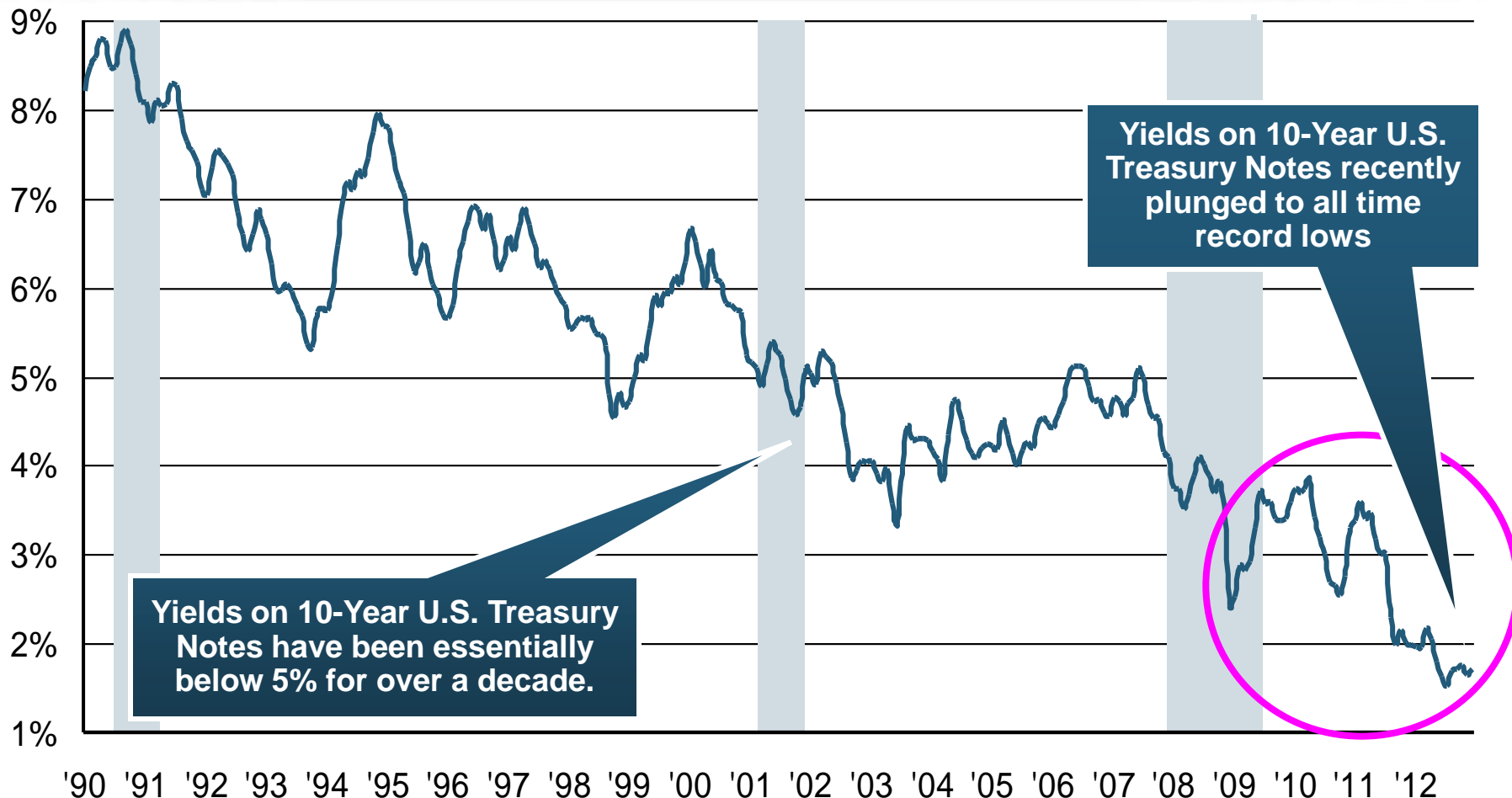


2011p: Preliminary based on data valued as of 12/31/2011; 1991-2009: Based on data through 12/31/2010, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies.

Sources: NCCI, BLS, from Current Population Survey

4. Low Investment Returns

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2012*



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, through Dec. 2012.

Note: Recessions indicated by gray shaded columns.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>.

National Bureau of Economic Research (recession dates); Insurance Information Institute.

Long-Term Reduction in the Level of Investment Earnings: Outlook

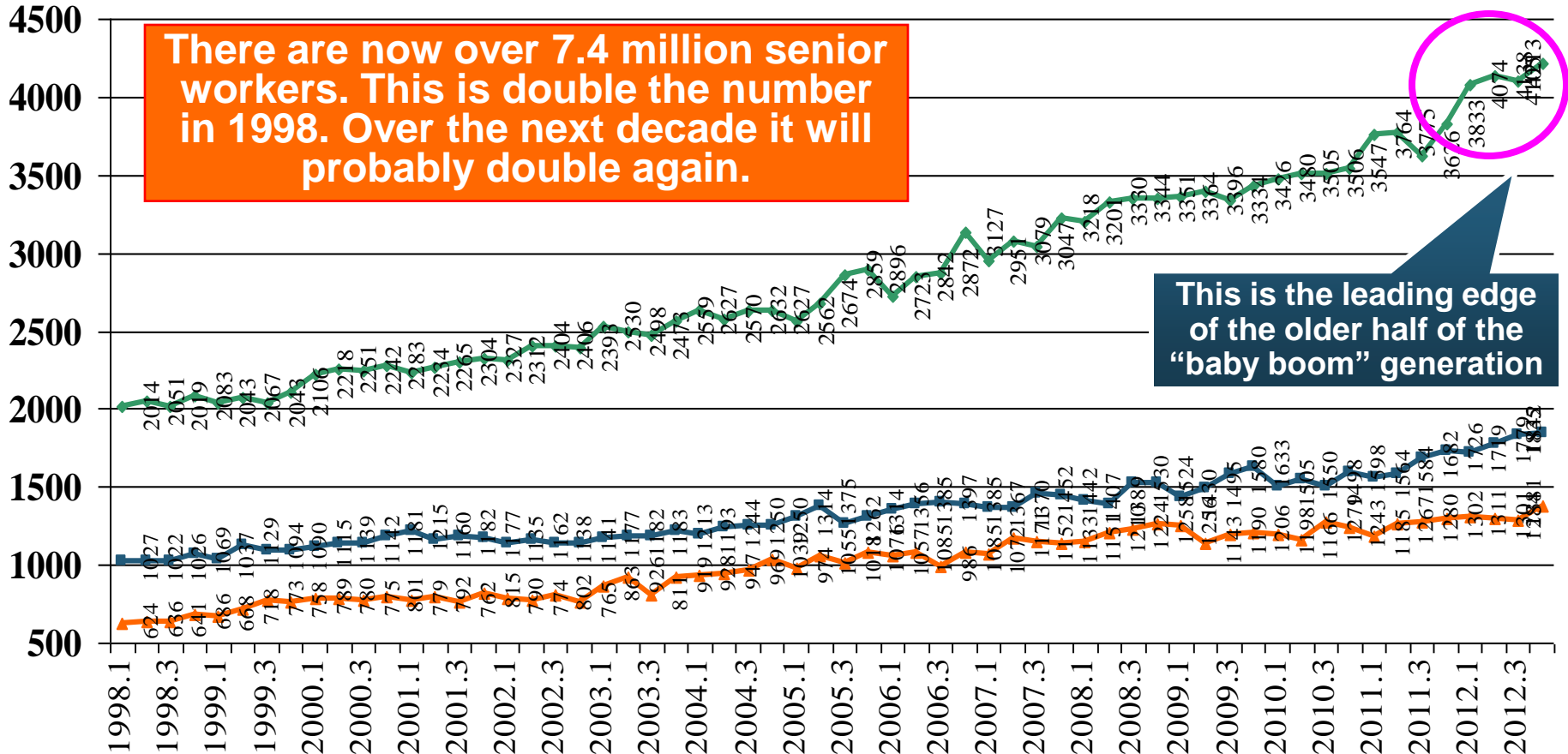
- **Fed actions in capital markets will likely keep interest rates low for at least several years**
- **In a prolonged period of low interest rates, each year maturing higher-rate bonds are replaced with lower rates, building in a low portfolio yield that will last for the duration of the newer bonds**
- **Industry must be prepared to operate in an environment in which investment returns are a much smaller fraction of profits**
 - ◆ Drives rates higher? Regulators will not accept this
 - ◆ Stiffens underwriting discipline? Yet to manifest itself

5. The Aging Workforce

Number of Workers Age 65-69, 70-74, and 75+, Quarterly, 1998-2012

(Thousands)

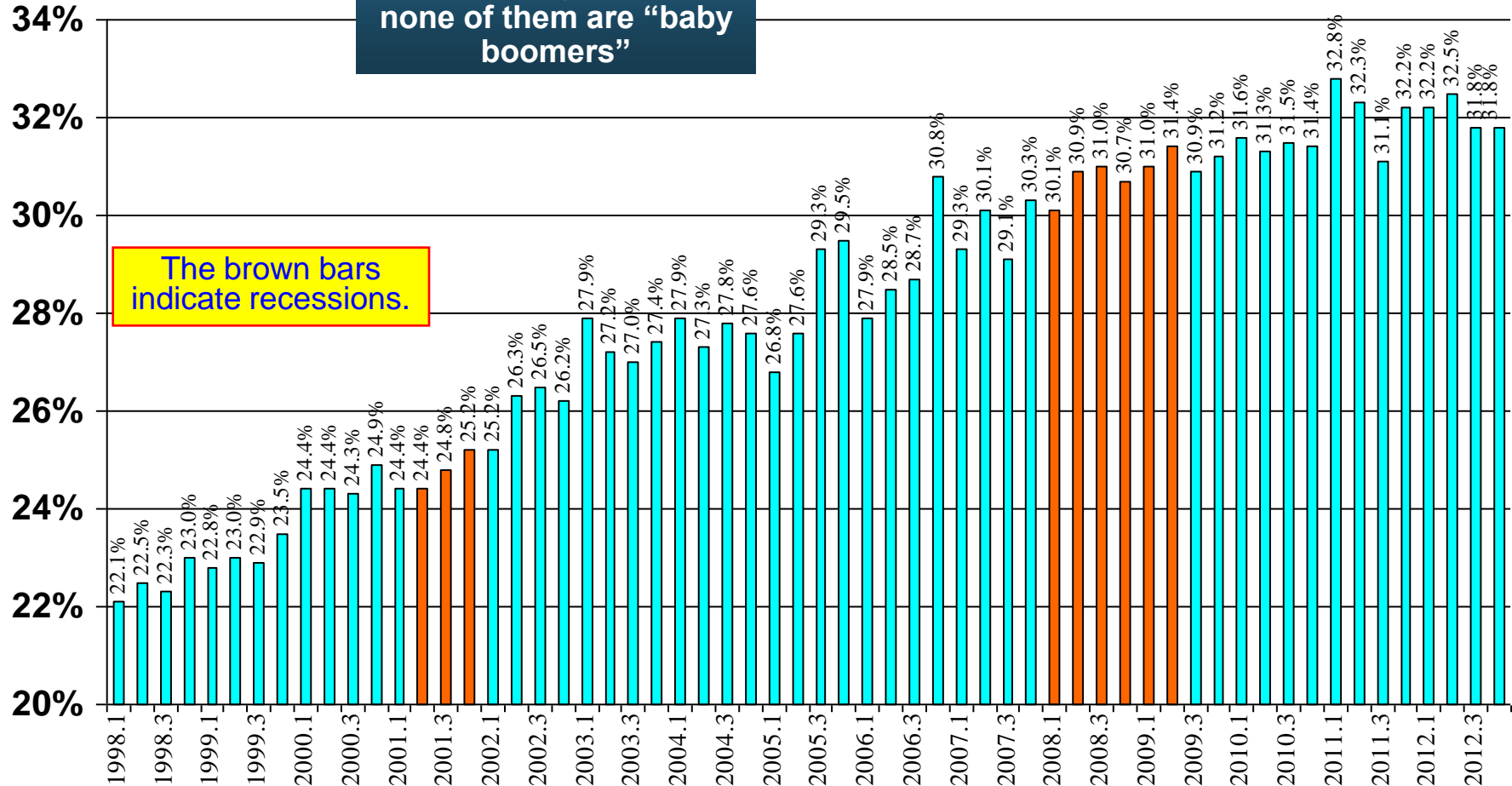
— Age 65-69 — Age 70-74 — Age 75 & over



Labor Force Participation Rate, Ages 65-69, Quarterly, 1998:Q1-2012:Q4

Labor Force
participation rate

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



The switch from DB pension plans (with early-retirement incentives) to DC plans (with, in effect, later-retirement incentives) might be partly responsible for raising this rate.

Labor Force Participation Rate, Ages 70-74, Quarterly, 1998:Q1-2012:Q4

Labor Force
participation rate

21%

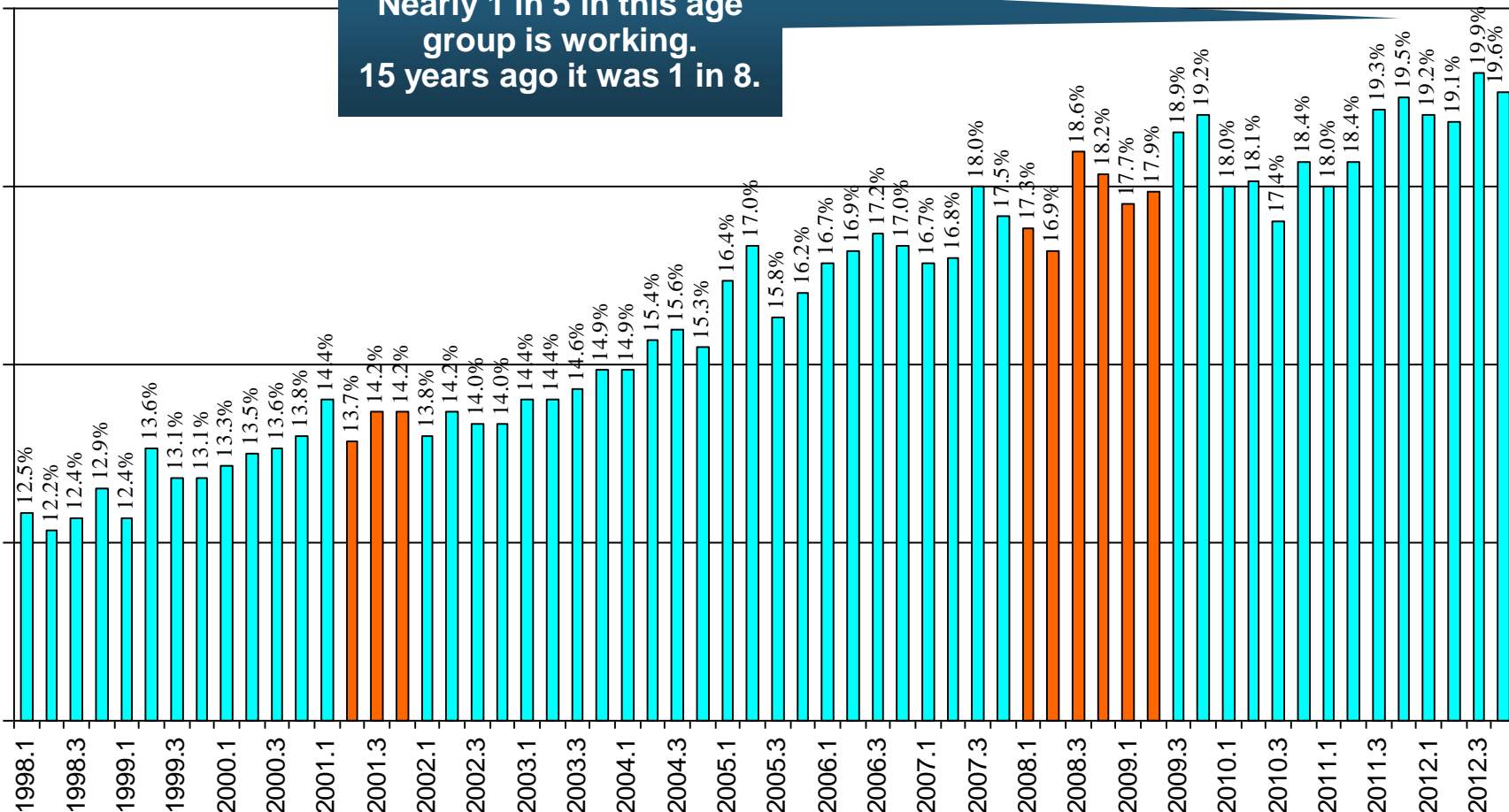
Nearly 1 in 5 in this age group is working.
15 years ago it was 1 in 8.

18%

15%

12%

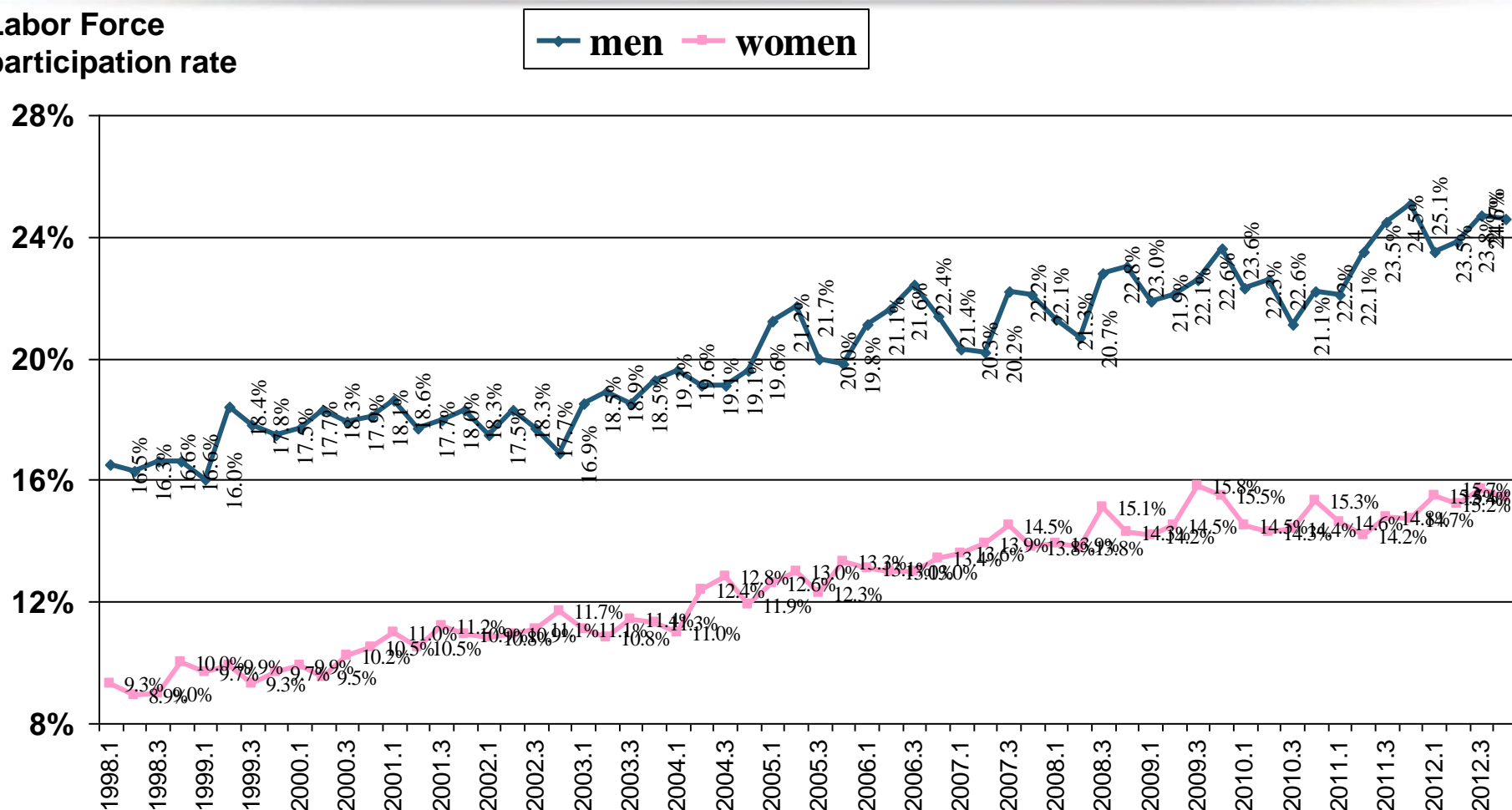
9%



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.

Labor Force Participation Rate, Ages 70-74, Quarterly, 1998:Q1-2012:Q4

Labor Force
participation rate

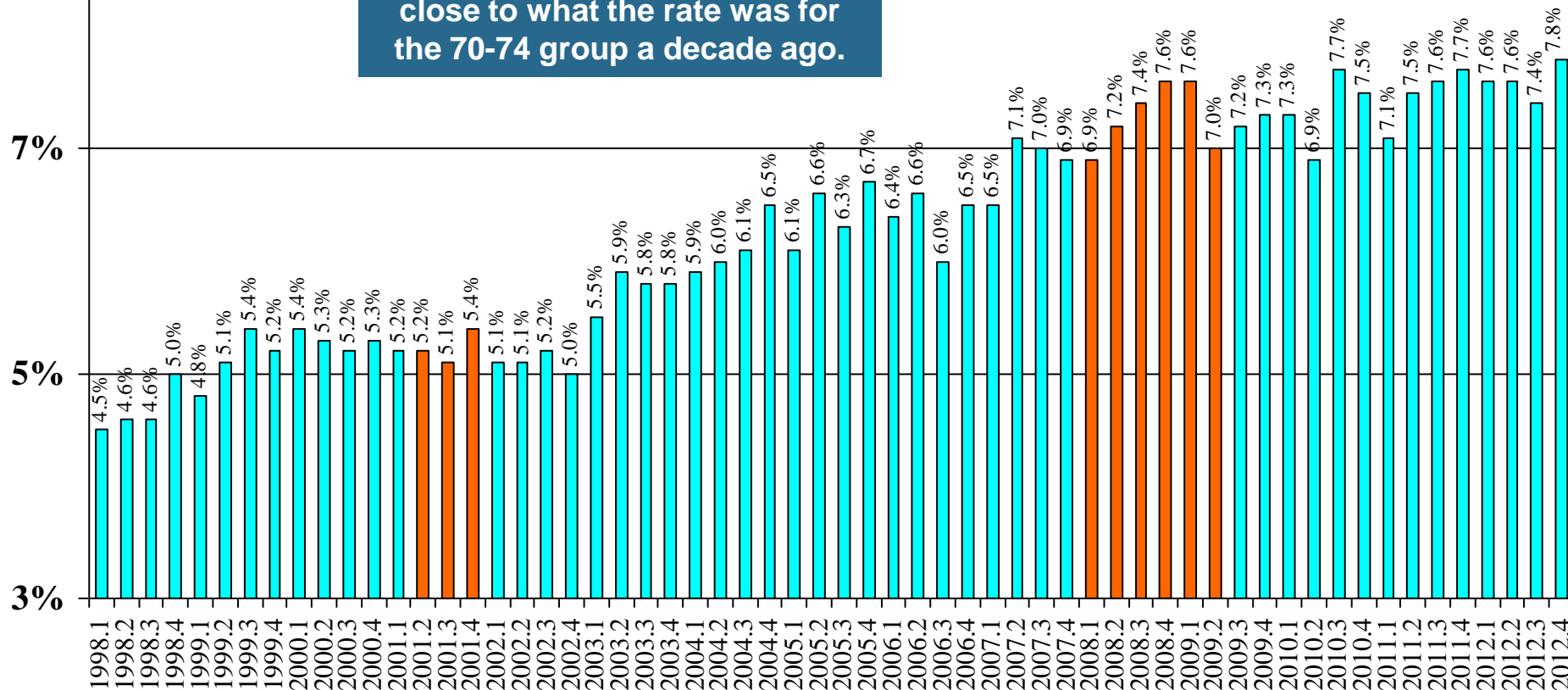


The labor force participation rate for men 70-74 grew by about 50% since 1998, but for women 70-74 it nearly doubled (from about 9% to about 15.5%).

Labor Force Participation Rate, Quarterly Ages 75 and over, 1998-2012:Q4

Labor Force
participation rate
9%
7%
5%
3%

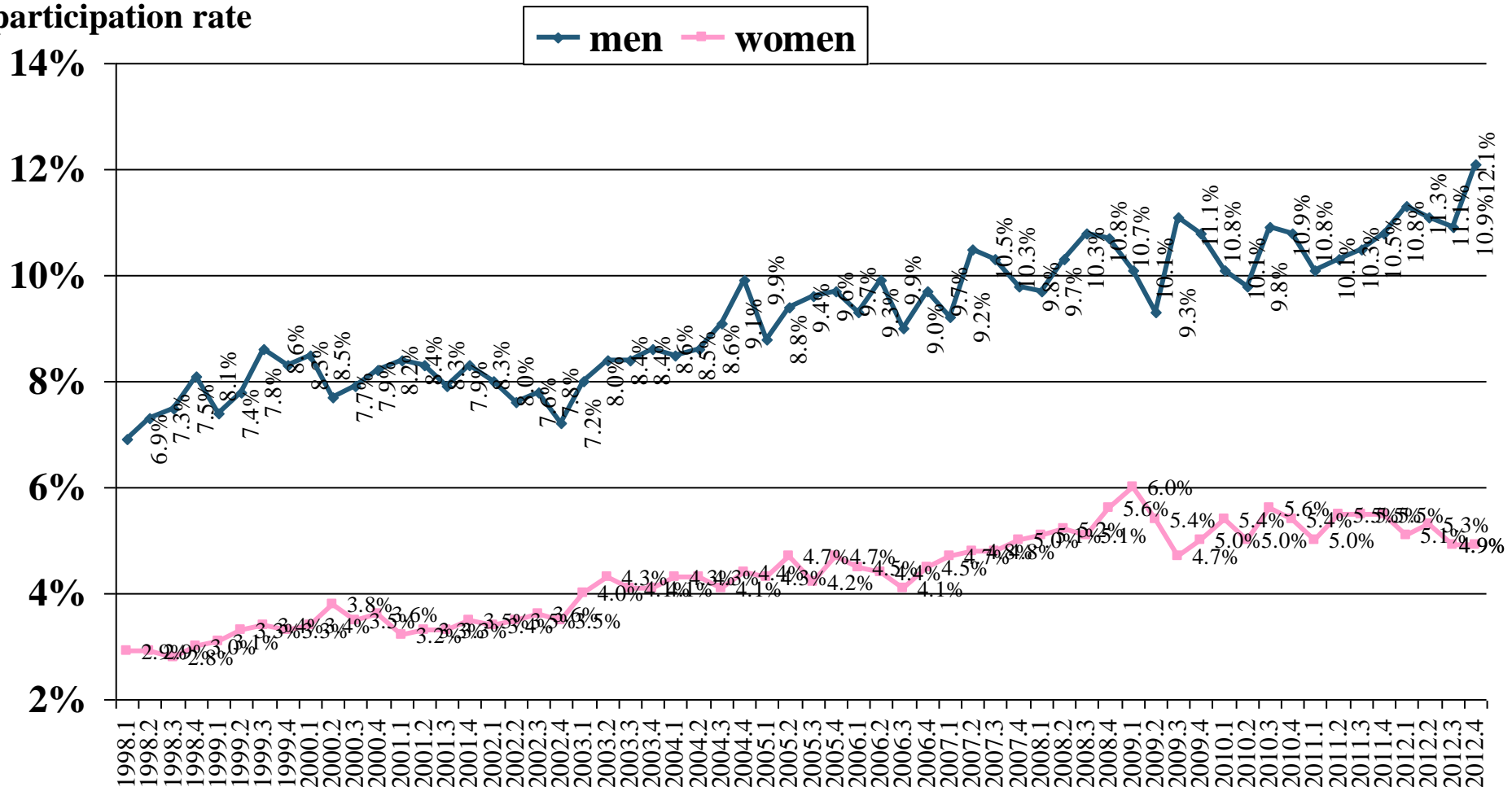
The labor force participation rate for workers 75 and over will probably hit 10% soon. This is close to what the rate was for the 70-74 group a decade ago.



In the last 14 years, the labor force participation rate for workers 75 and over grew from 4.5% to 7.8%. So 92.2% of these people are retired.

Labor Force Participation Rate, Quarterly Ages 75 and over, 1998-2012:Q4

**Labor Force
participation rate**

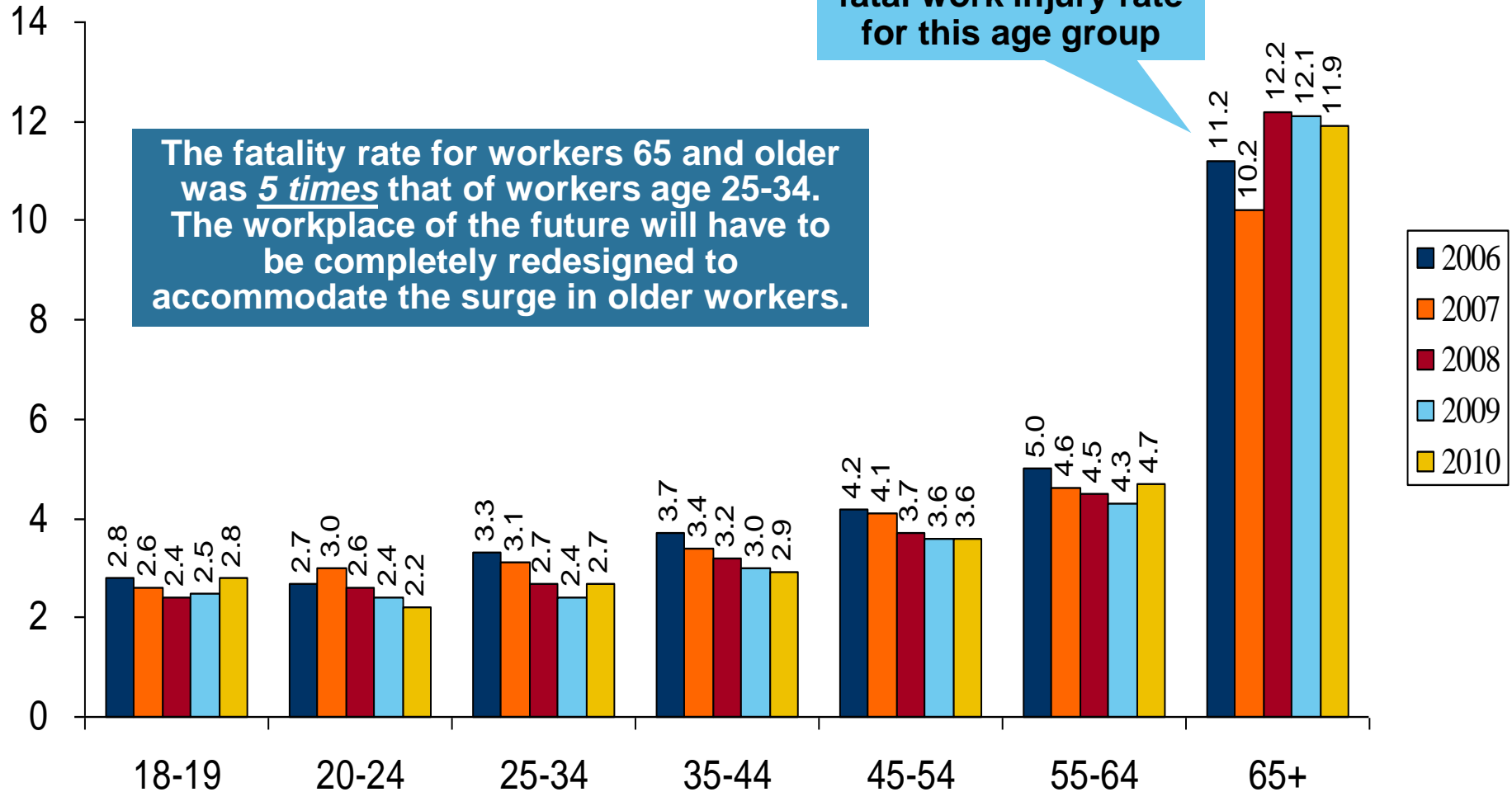


In the last 15 years, the labor force participation rate for men 75 and over grew from 6.9% to 12.1% and for women doubled (from 2.9% to about 5.5%).

Sources: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

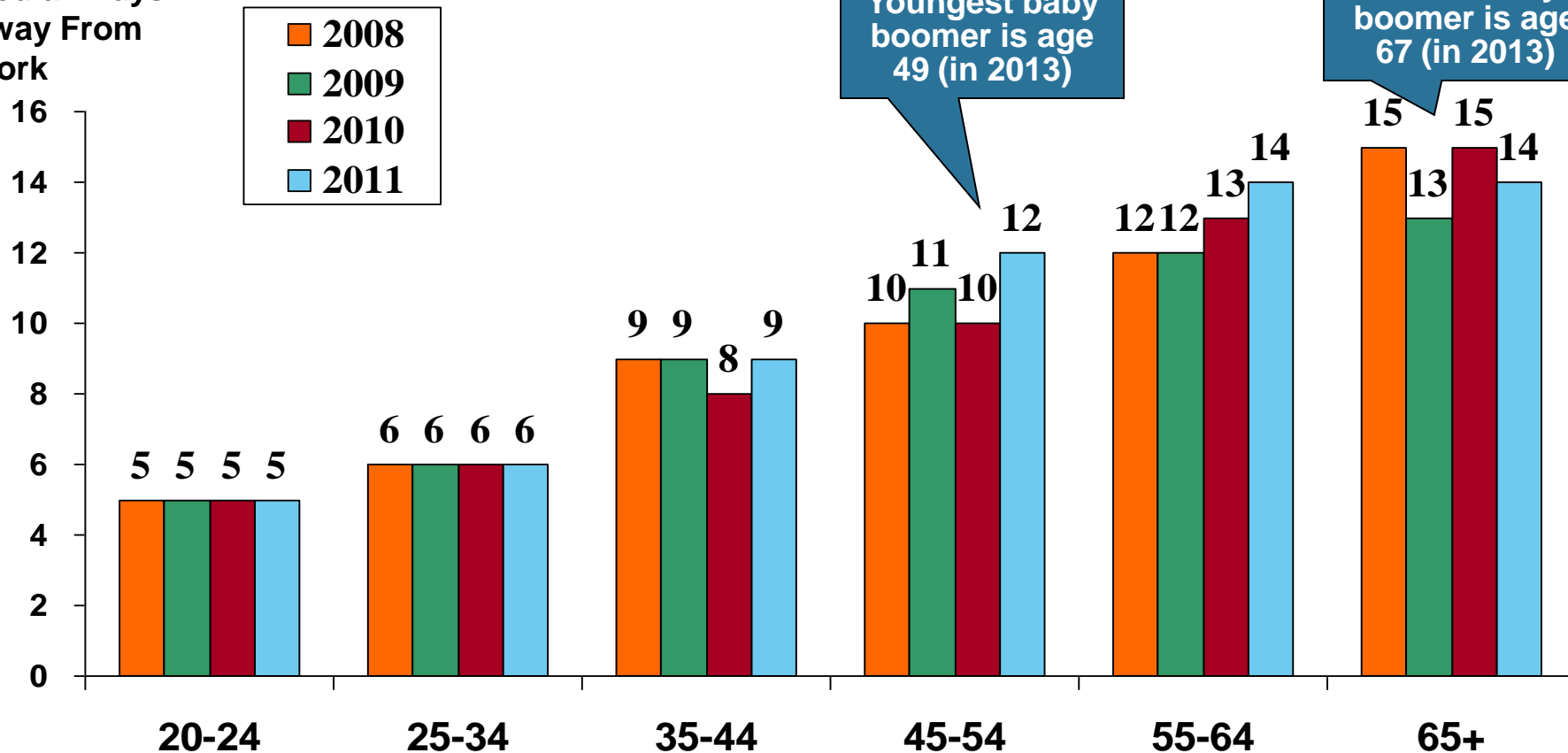
Fatal Work Injury Rates Improved Slightly Since 2006 but Still Climb Sharply With Age

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



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

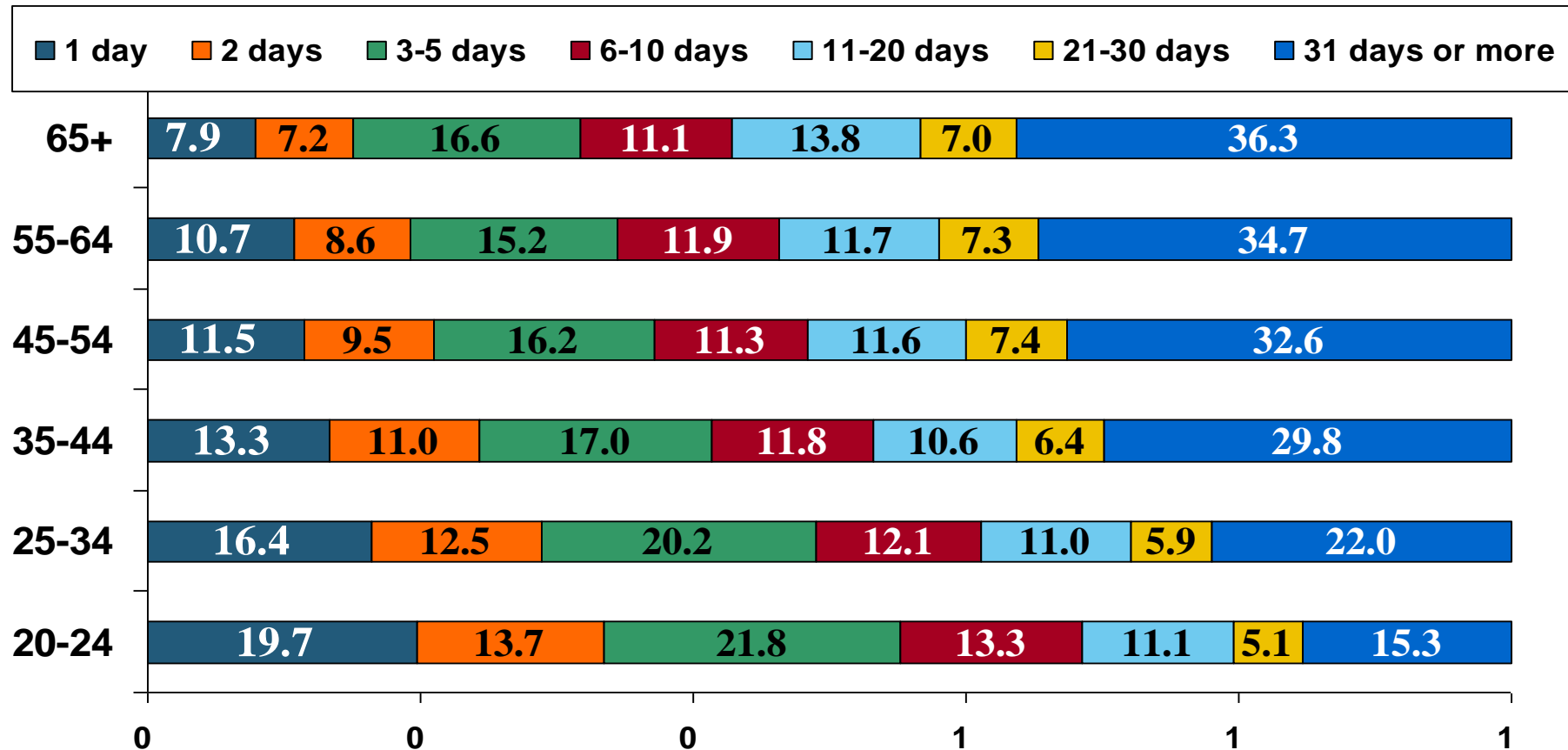
Median Days
Away From
Work



Median lost time of workers age 65+ is 2-3X that of workers age 25-34. These numbers are pretty stable—they haven't changed much since 2008.

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

Percent of Days-Away-from-Work Cases, by Days Lost and Age Group, 2011



Over one-third of days-lost cases of older workers involved a month or more away from work. And virtually 9 of 10 cases were for at least two days, compared to 8 of 10 for the youngest workers.

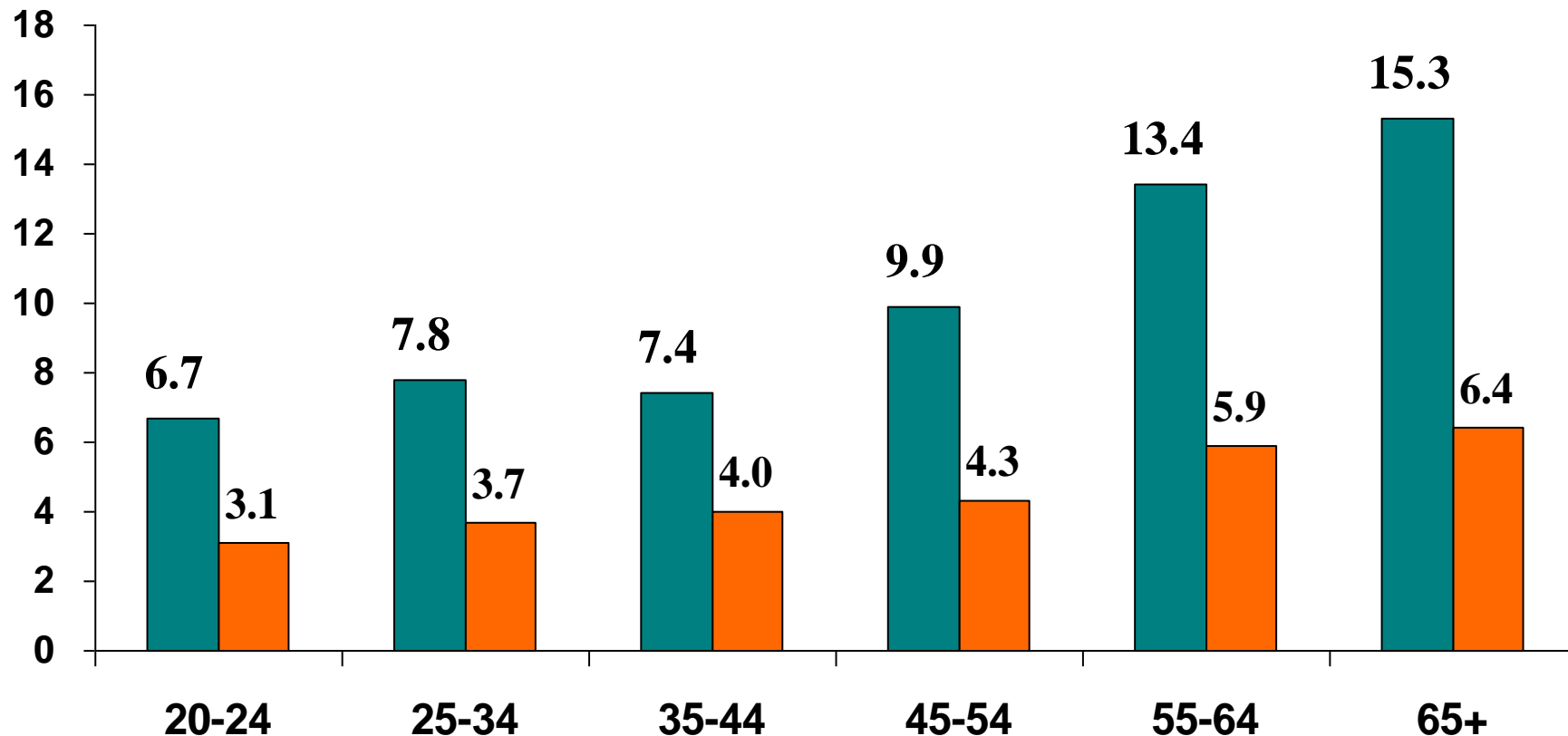
Source: US Bureau of Labor Statistics, *Nonfatal Occupational Injuries and Illnesses Requiring Days Away From Work, 2011* (Table 11), released November 8, 2012.

Older Workers Are Much More Likely to Break a Bone

Incidence
Rate* (2011)

■ Fractures

■ Multiple Traumatic Injuries



*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

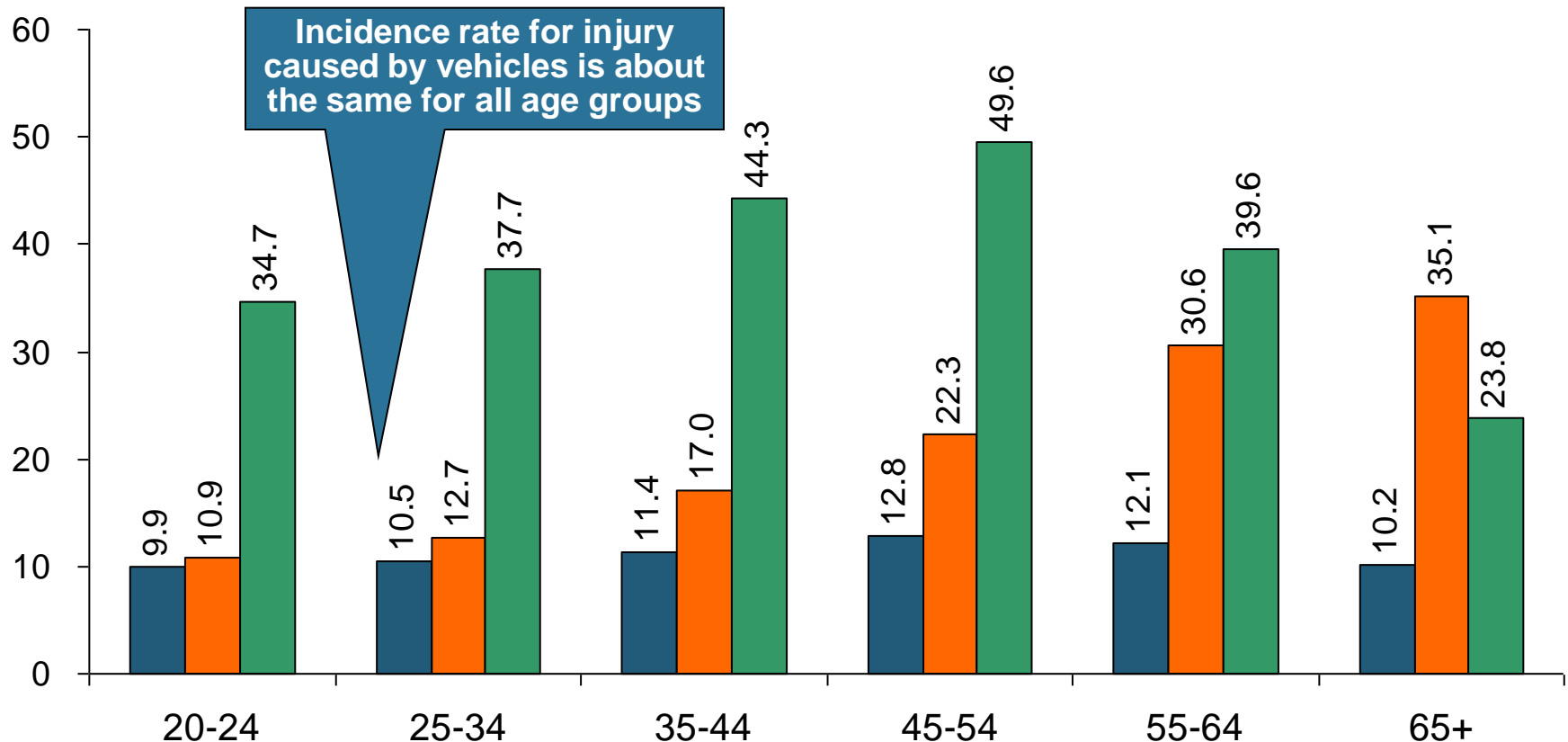
**Incidence
Rate (2011)**

Source/Nature of Injury:

■ Vehicles

■ Floors, Walkways, etc.

■ Overexertion



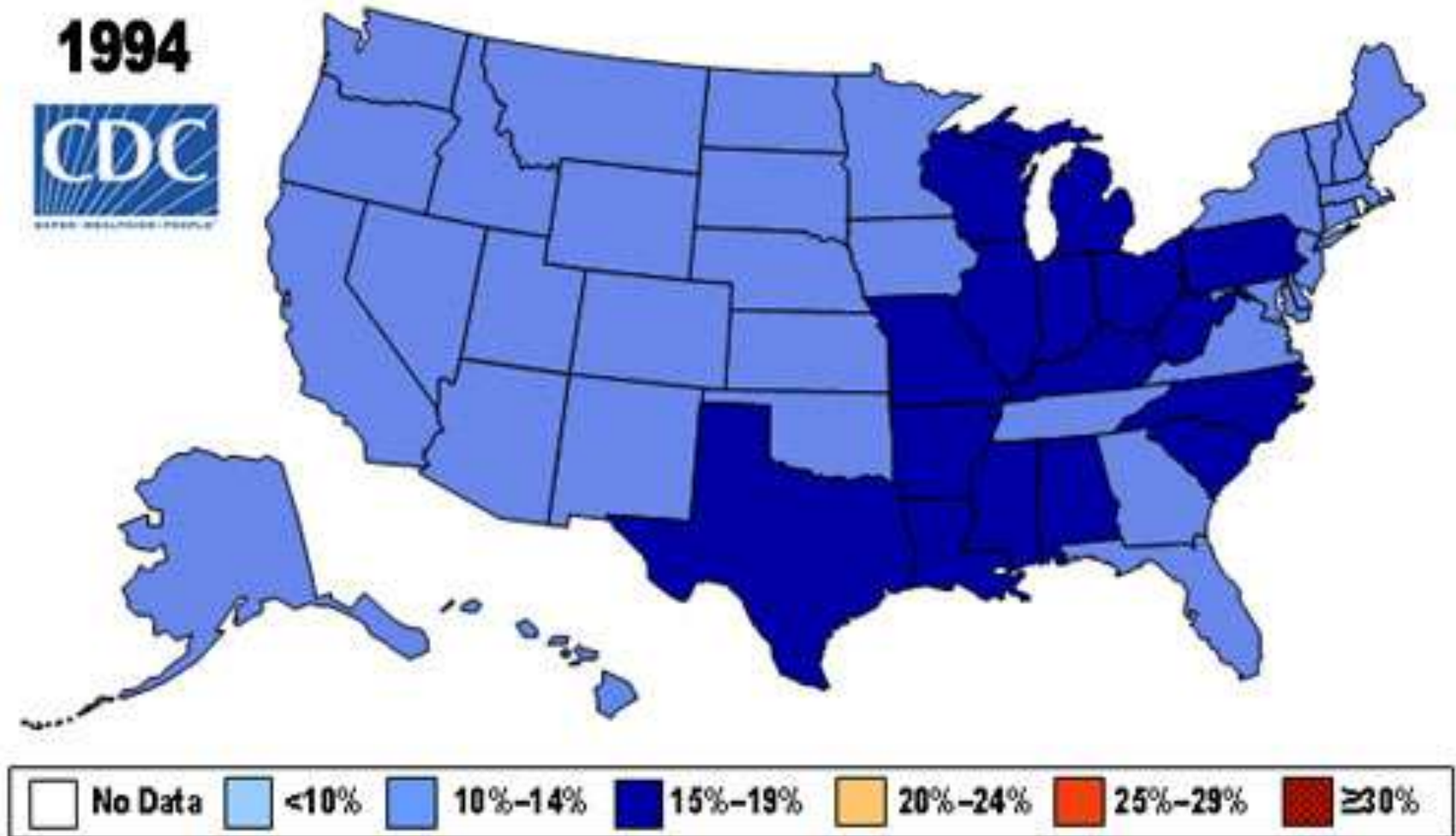
6. The Obesity Epidemic

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.

Obesity Trends Among U.S. Adults

BRFSS, 1994

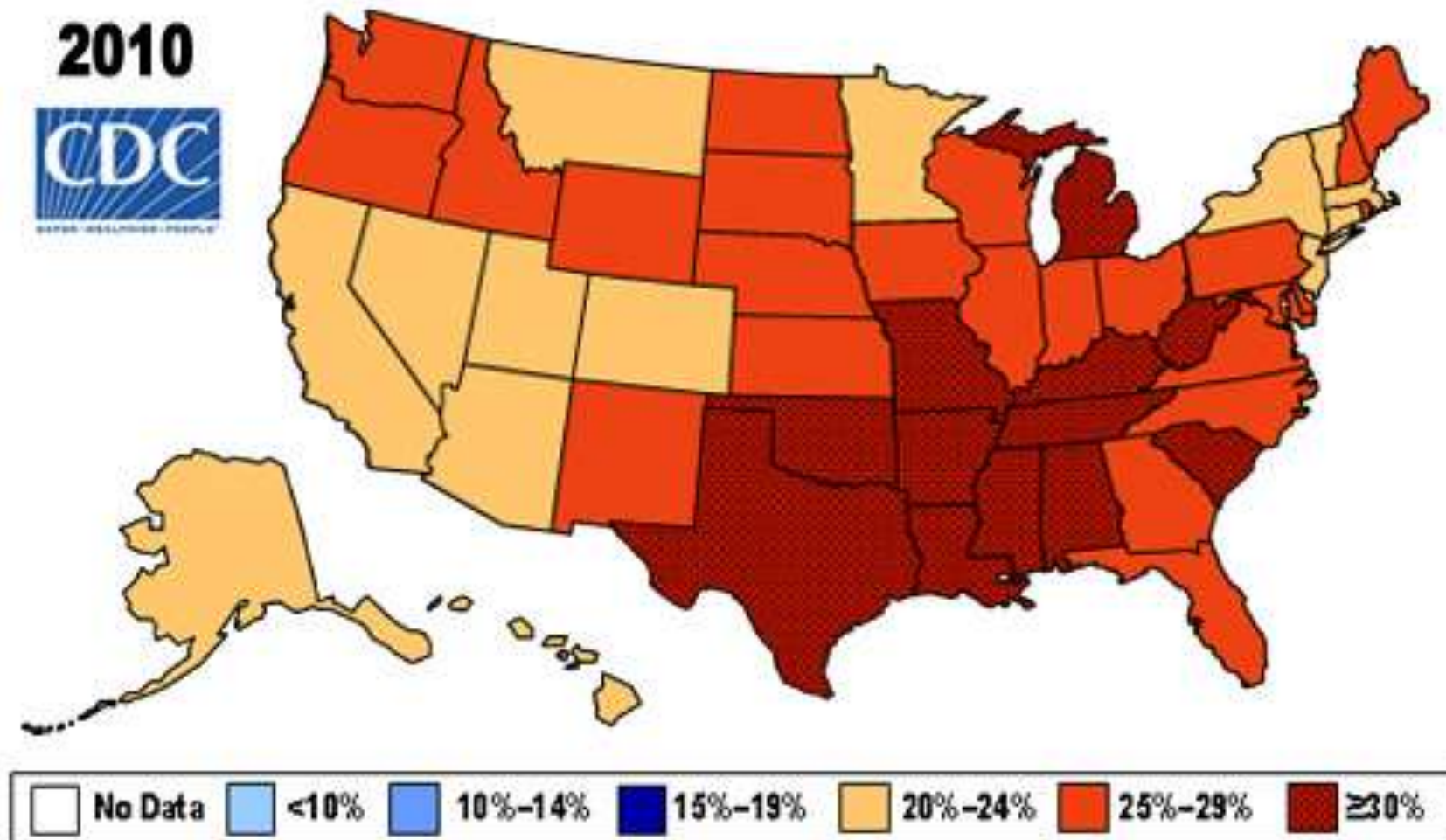


Source: <http://www.cdc.gov/obesity/data/trends.html#State>

Obesity Trends Among U.S. Adults

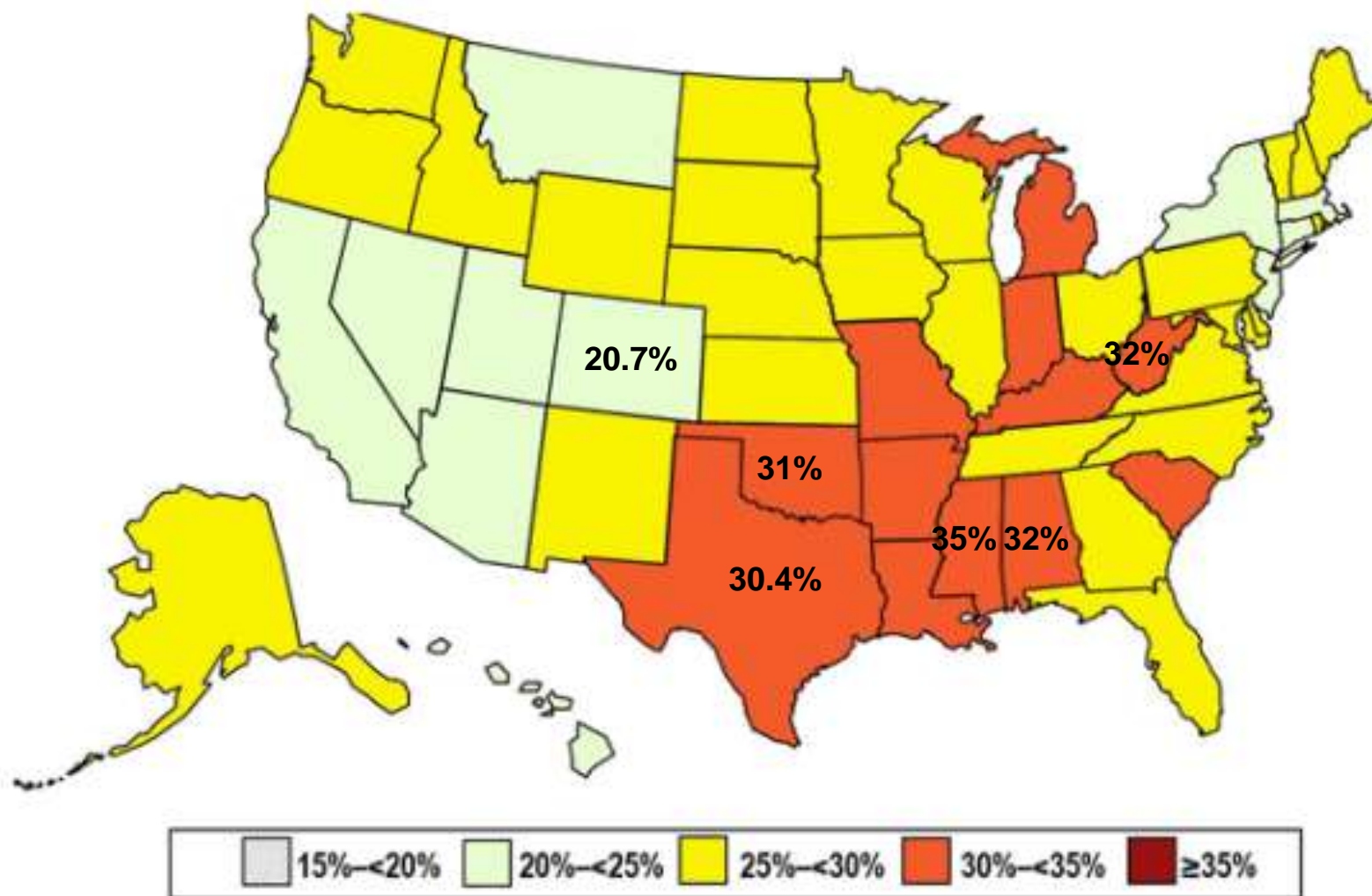
BRFSS, 2010

(*BMI ≥ 30 , or ~ 30 lbs. overweight for 5' 4" person)

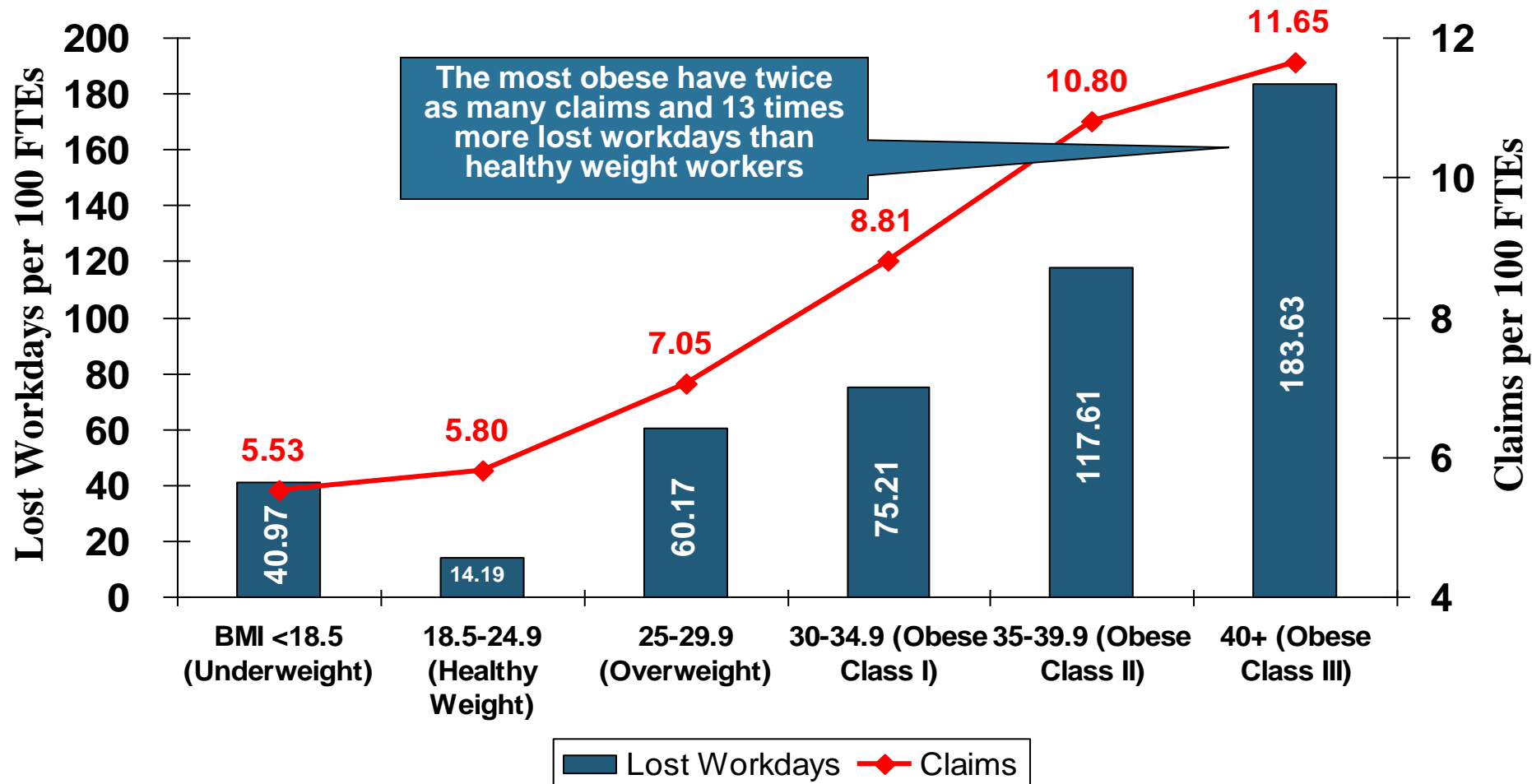


Source: <http://www.cdc.gov/obesity/data/trends.html#State>

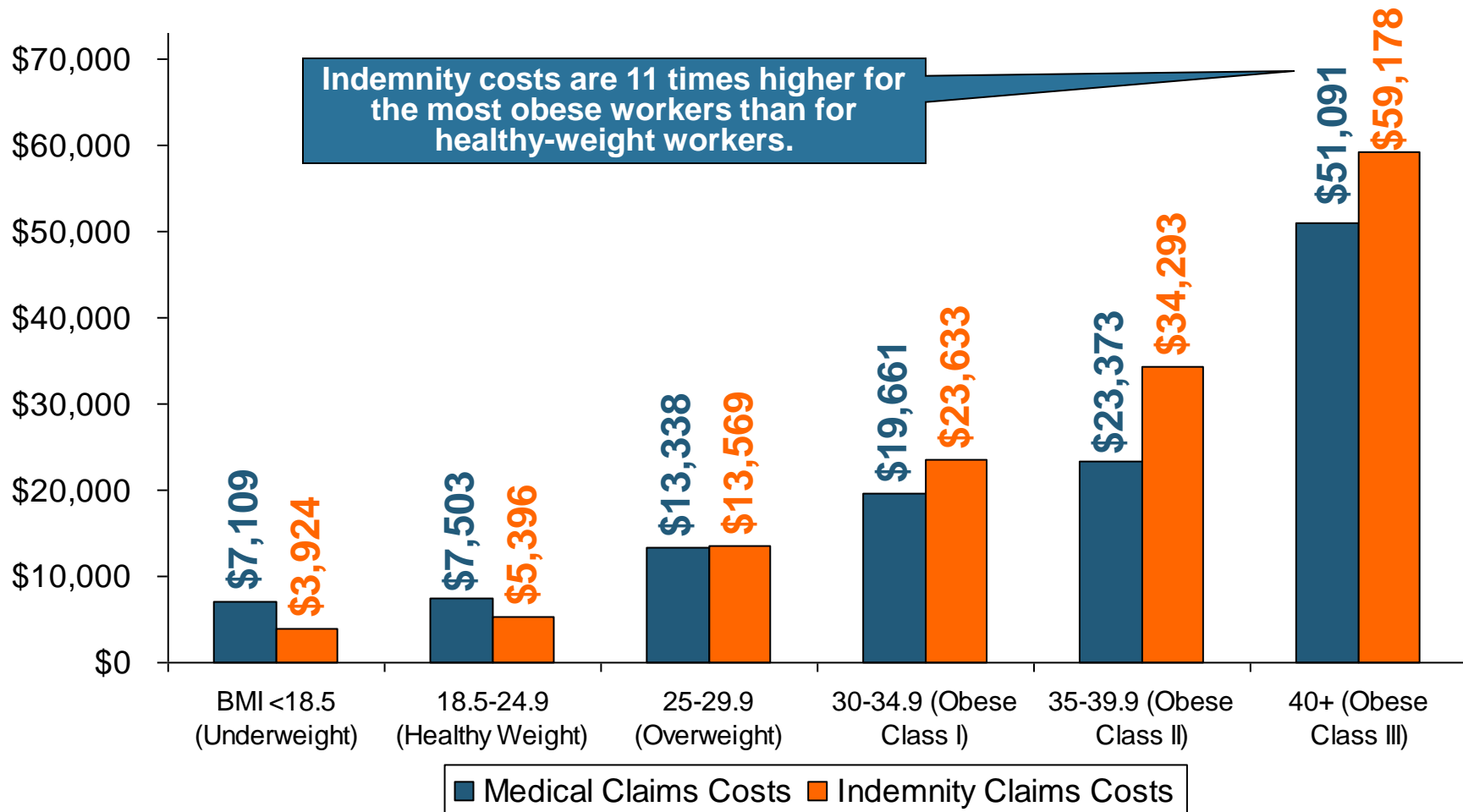
Prevalence of Self-Reported Obesity Among U.S. Adults BRFSS, 2011



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

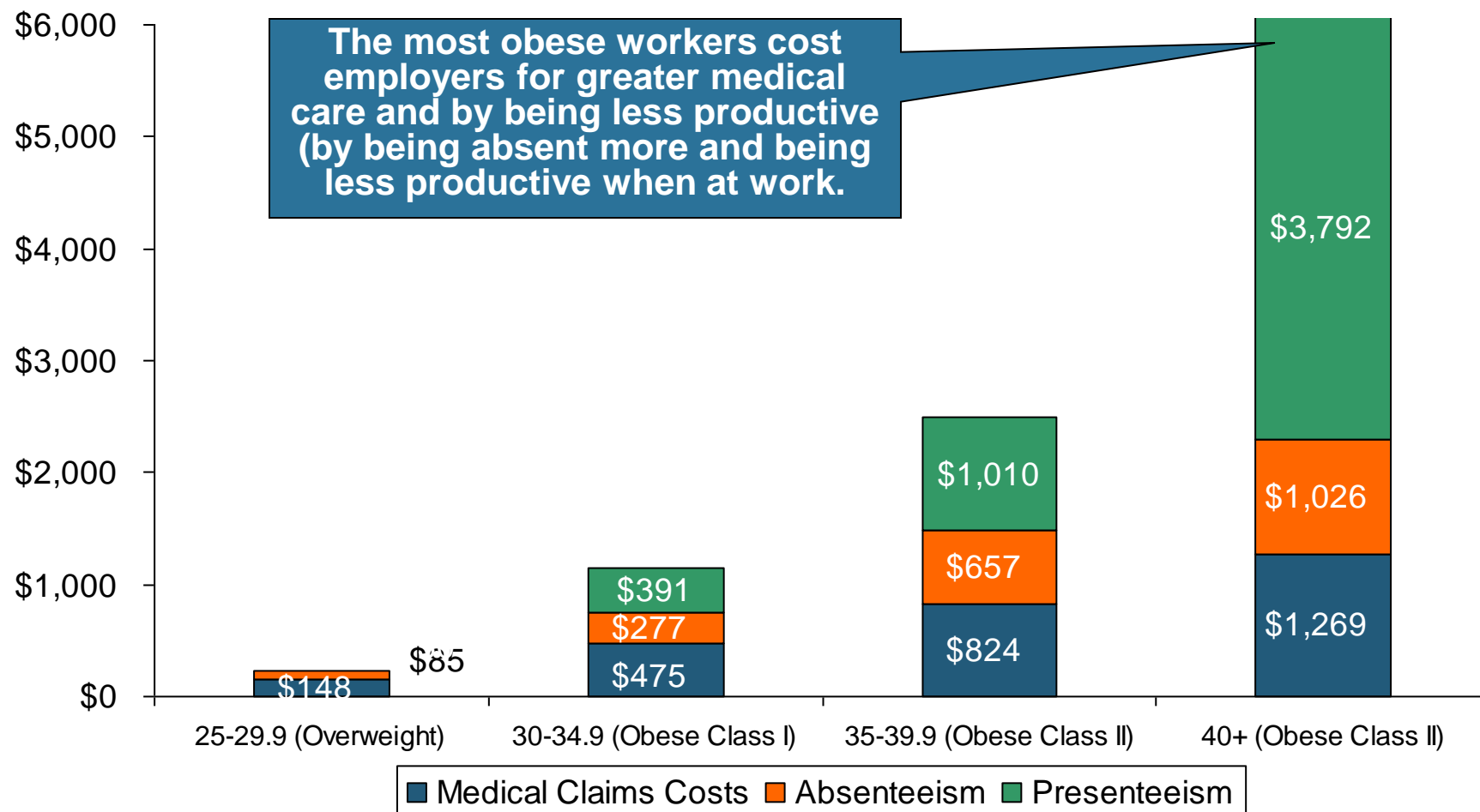


WC Medical Claims and Indemnity Costs are 5-10x Higher for the Most Obese Workers



Additional (to WC) Costs of Obese Workers

Estimated Per
Capita Costs



Source: Finkelstein, E., et al, "The Costs of Obesity in the Workplace," *Journal of Occupational and Environmental Medicine*, Volume 52, No. 10 (October 2010), pp. 971-976.

Insurance Information Institute Online:

www.iii.org

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