

Mega-Trends Influencing the Workers Compensation Insurance Industry

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Steven N. Weisbart, Ph.D., CLU, Senior Vice President & Chief Economist Insurance Information Institute 110 William Street New York, NY 10038 Office: 212.346.5540 Cell: (917) 494-5945 stevenw@iii.org www.iii.org

- 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, 2002-2013



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Workers Comp Return on Net Worth, by State, 2013



Workers Comp Return on Net Worth, by State, 2013



Bottom 25 States



Workers Compensation Combined Ratio: 1994–2014P





Workers Comp underwriting results were the worst they have been in a decade but lately are improving.

Sources: A.M. Best; Insurance Information Institute. Data for 2000-2014P are from Exhibit 6, Best's Special Report, "U.S. Workers Compensation Results Sustain Recent Improvement," November 10, 2014.



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

Health Care, Education, Services Will Lead

Monthly Change in Nonfarm Employment, **11 INSURANCE** 2011 - 2014



The pace of job growth varies considerably from month to month.

*Seasonally adjusted. Oct 2014 and Nov 2014 are preliminary data. Monthly gain for 2014 is average for January-November Sources: US Bureau of Labor Statistics; Insurance Information Institute

Nonfarm Payroll (Wages and Salaries), Quarterly, 2005–2014:Q3



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

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

Workers Comp Net Written Premiums vs. Payroll, 1990-2014:Q3



Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2015

*Private employment; Shaded areas indicate recessions.

Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR; NCCI; I.I.I.

Construction Employment, Jan. 2010—November 2014*





Construction and manufacturing employment constitute 1/3 of all workers comp payroll exposure.

*Seasonally adjusted; Oct and Nov 2014 are preliminary Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

Manufacturing Employment, Monthly, January 2010—November 2014*



Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted; Oct and Nov 2014 are preliminary Sources: US Bureau of Labor Statistics at <u>http://data.bls.gov</u>; Insurance Information Institute.

U.S. Employment in Health Care & Social Services, Monthly, 1990–2014*





*As of Nov 2014 (Nov 2014 and Oct 2014 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 Institute.

2. Workplace Safety Improvement Continues, but "Room" for More

The WC industry has certainly helped create/support the improvement

Fewer Occupational Deaths 1992–2013p



The death rate per 100,000 full-time-equivalent workers was 3.2 in 2013, down from 3.4 in 2012 and 3.5 in 2011.

p = preliminary; final data will be released in late Spring 2015

Source: U.S. Bureau of Labor Statistics, National Census of Fatal Occupational Injuries in 2013 (Preliminary Results), released September 11, 2014.

Number of Workplace Homicides, 1992-2013



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



The total 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.

Source: U.S. Bureau of Labor Statistics, *National Occupational Injuries and Illnesses Requiring Days Away from Work, 2013*, Table 1, released December 16, 2014: http://www.bls.gov/news.release/osh2.t01.htm.

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Accidents per 10,000 Full-Time Private Workers, 2013





167,150 Lost-Time Injuries and Illnesses in the Healthcare Sector in 2013, 13% a Result of Violence.

Source: U.S. Bureau of Labor Statistics, *National Occupational Injuries and Illnesses Requiring Days Away from Work, 2013*, Table 1, released December 16, 2014: http://www.bls.gov/news.release/osh2.t01.htm.



3. Inflation and Claim Severity

The Low CPI Doesn't Reflect WC Cost Pressures

Workers Compensation Medical Severity Moderate Increase in 2011



Accident Year

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 No Longer Rising Faster Than the Medical CPI Rate



*I.I.I. estimate based on data through October 2014 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, 1993-2013p





Accident Year

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 No Longer Grows Faster than Wages, 1995-2013



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NCCI data on WC severity is 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. Treasury 2- and 10-Year Note Yields*: 1990–2014





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 December 2014.

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

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



- Fed actions will likely keep interest rates low for at least 2015
- 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

Labor Force Participation Rate, Ages 65-69, Quarterly, 1998:Q1-2014:Q4



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.

Not seasonally adjusted. Sources: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

Labor Force Participation Rate, Ages 70-74, Quarterly, 1998:Q1-2014:Q4



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

Labor Force Participation Rate, Ages 70-74, Quarterly, 1998:Q1-2014:Q4



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

Labor Force Participation Rate, Quarterly Ages 75 and over, 1998-2014:Q4



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

Labor Force Participation Rate, Quarterly Ages 75 and over, 1998-2014:Q4



Source: 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



2013 data are preliminary

Source: U.S. Bureau of Labor Statistics, at http://www.bls.gov/iif/oshwc/cfoi/cfch0012.pdf

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



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, 2013* (Table 10), released December 16, 2014.

Percent of Days-Away-from-Work Cases, **HINSURANCE** by Days Lost and Age Group, 2012



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*, 2012 (Table 10), released November 26, 2013.

Percent of Days-Away-from-Work Cases, **The Insurance** by Days Lost and Age Group, 2013



Over one-third of days-lost cases of older workers involved a month or more away from work. And over 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, 2012* (Table 10), released November 26, 2013.

Older Workers Are Much More Likely to Break a Bone



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*per 10,000 full-time-equivalent workers

Older Workers Are More Likely Than Younger Workers to Slip/Fall, but Less Likely to Overexert Themselves



Older Workers Are More Likely Than Younger Workers to Slip/Fall, but Less Likely to Overexert Themselves





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 18 states in 2013, 30% of the adults were obese.

Obesity Trends Among U.S. Adults BRFSS, 1994





Obesity Trends Among U.S. Adults BRFSS, 2013



Prevalence* of Self-Reported Obesity Among U.S. Adults by State and Territory, BRFSS, 2013



Source: Behavorial Risk Factor Surveillance Systems, CDC.

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

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



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



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Additional (to WC) Costs of Obese Workers



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!