



Workers Compensation: *Trends, Challenges and Opportunities* *Focus on New York Markets*

**New York State Insurance Fund
New York, NY
June 17, 2015**

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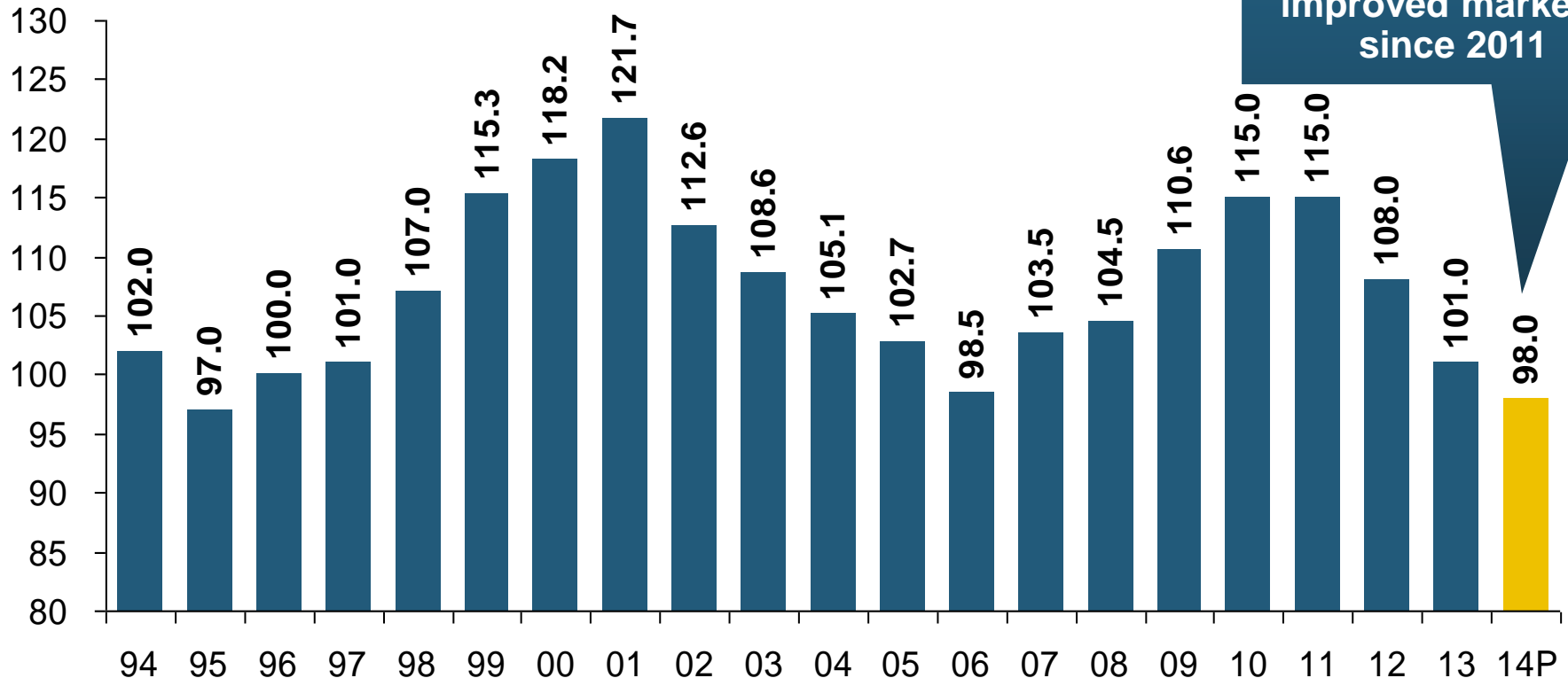


Workers Compensation Operating Environment

**Workers Comp Results Have Improved
Substantially in Recent Years**

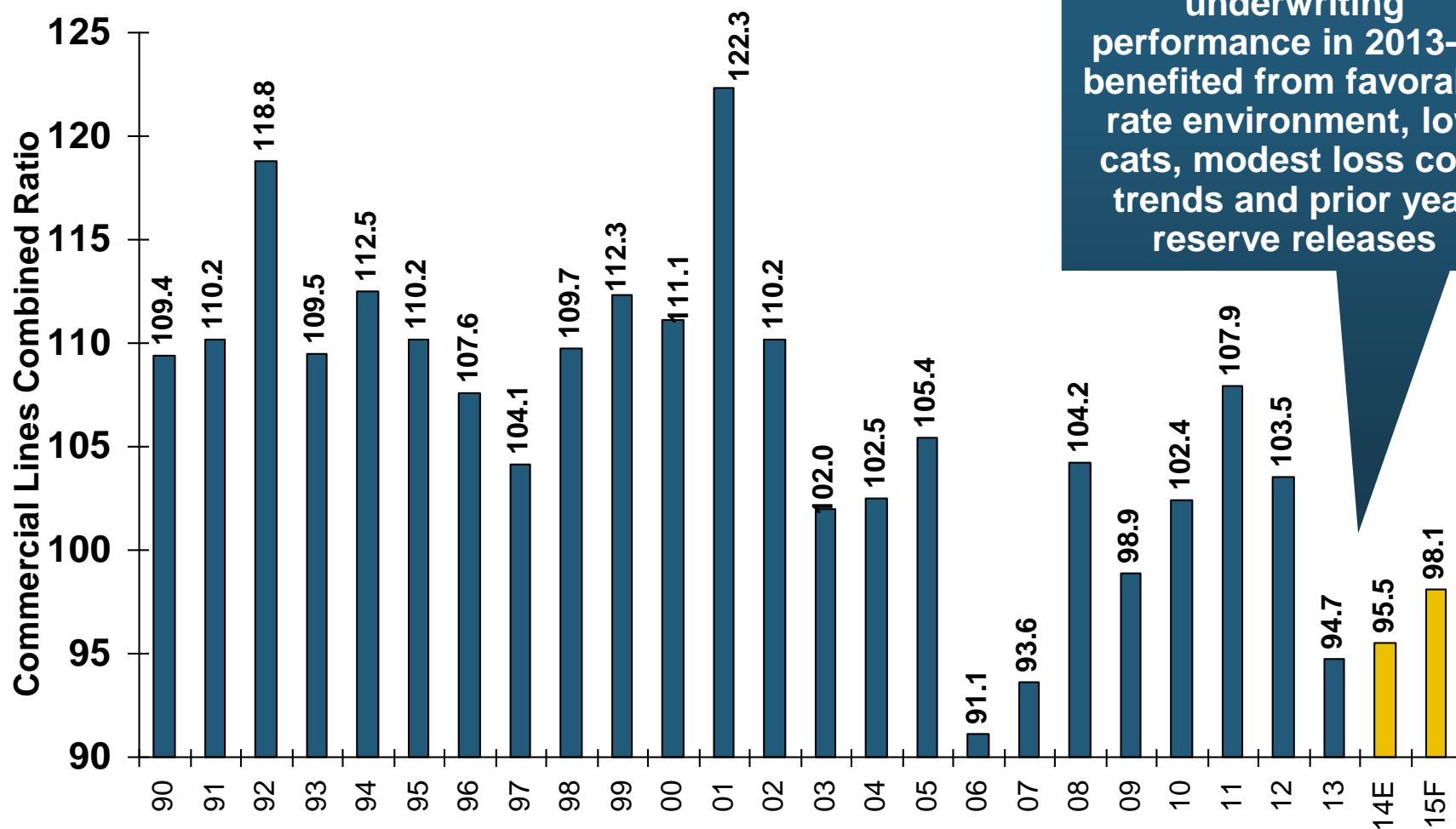
Can Gains Be Maintained?

Workers Compensation Combined Ratio: 1994–2014P



Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.

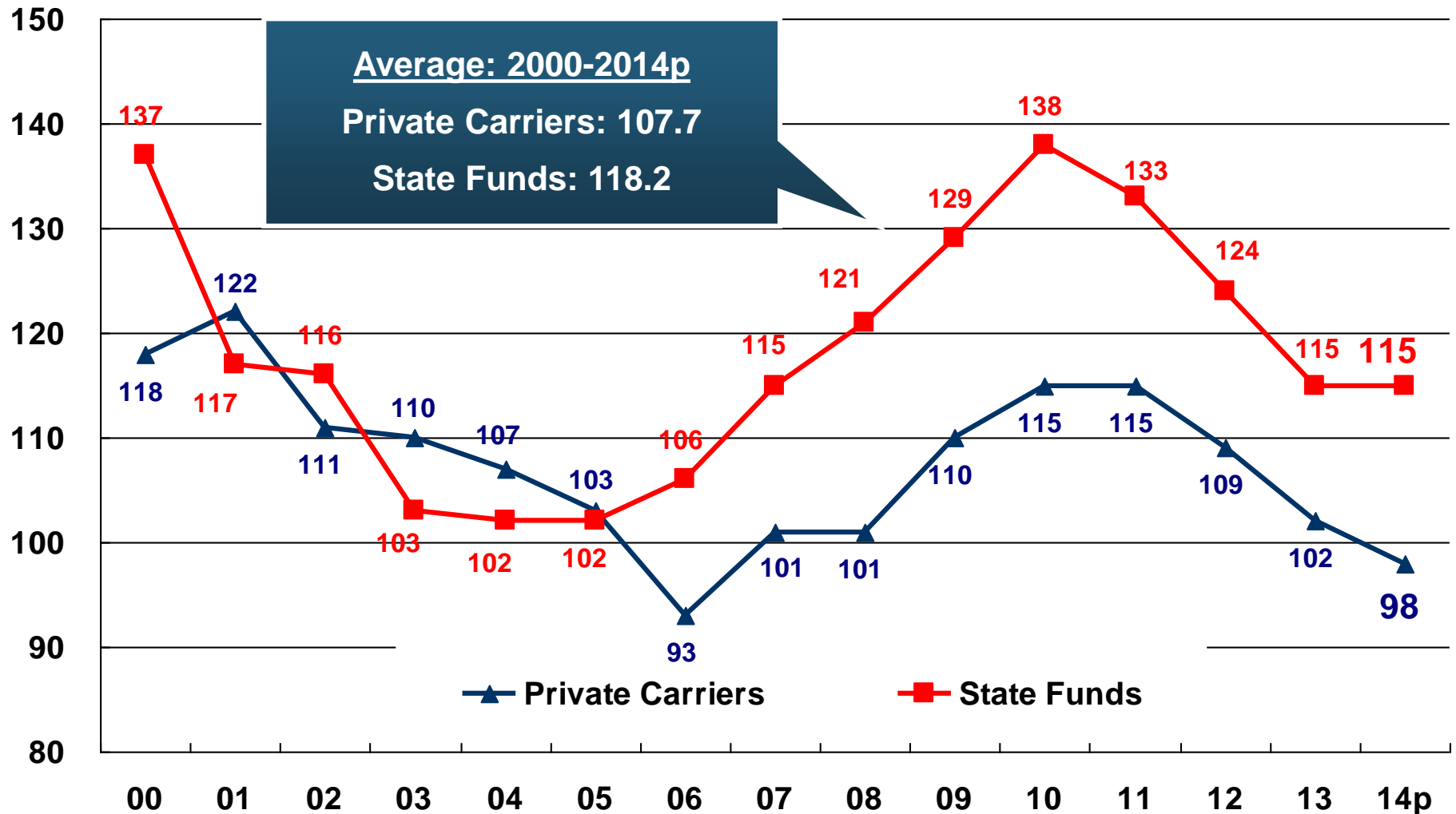
Commercial Lines Combined Ratio, 1990-2015F*



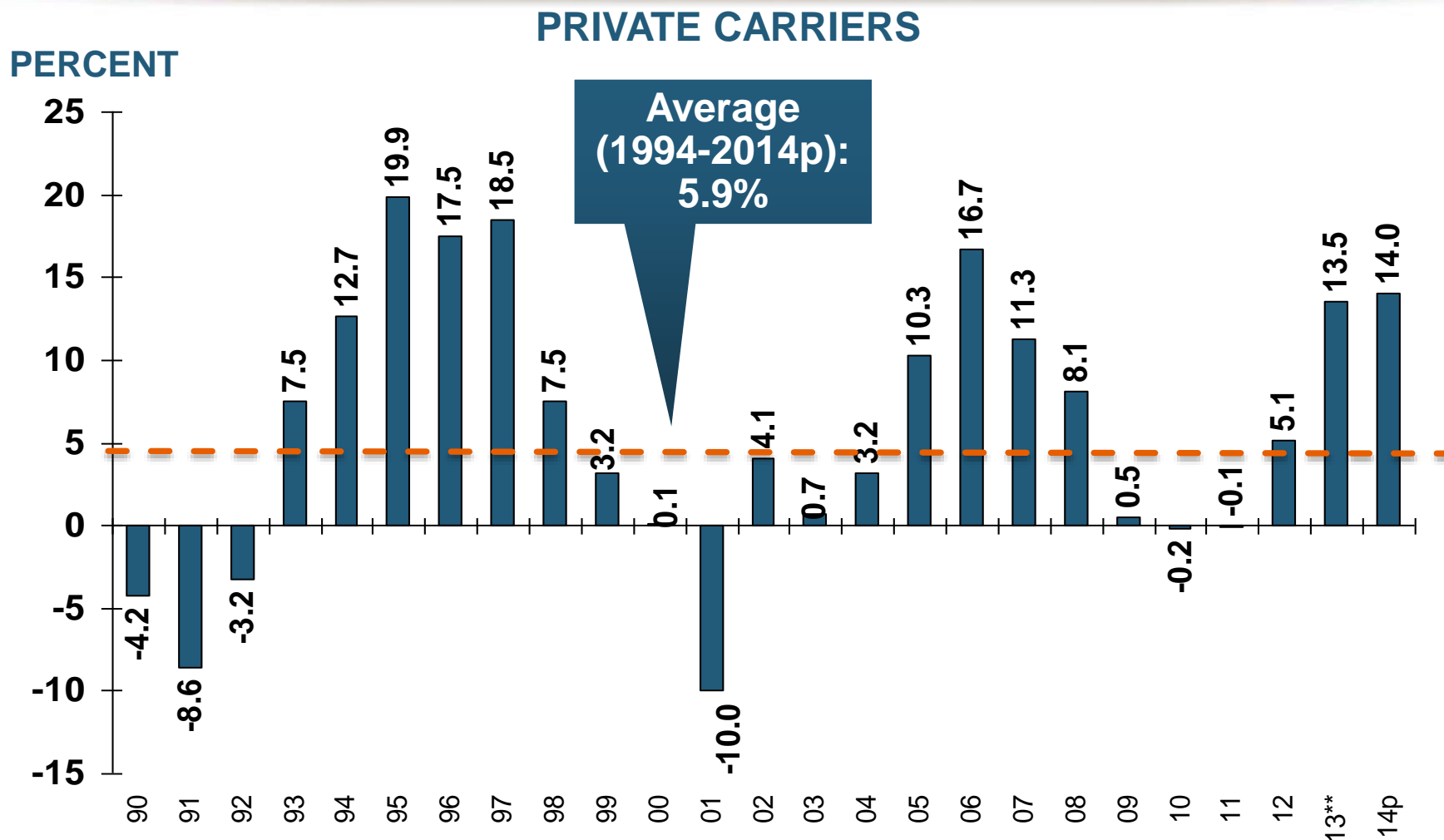
Commercial lines underwriting performance in 2013-14 benefited from favorable rate environment, low cats, modest loss cost trends and prior year reserve releases

Source: A.M. Best (1990-2013); Conning (2014E-2015F) Insurance Information Institute.

WC Net Combined Ratios: Private Carriers vs. State Funds, 2000 – 2014p



WC Pretax Operating Gain

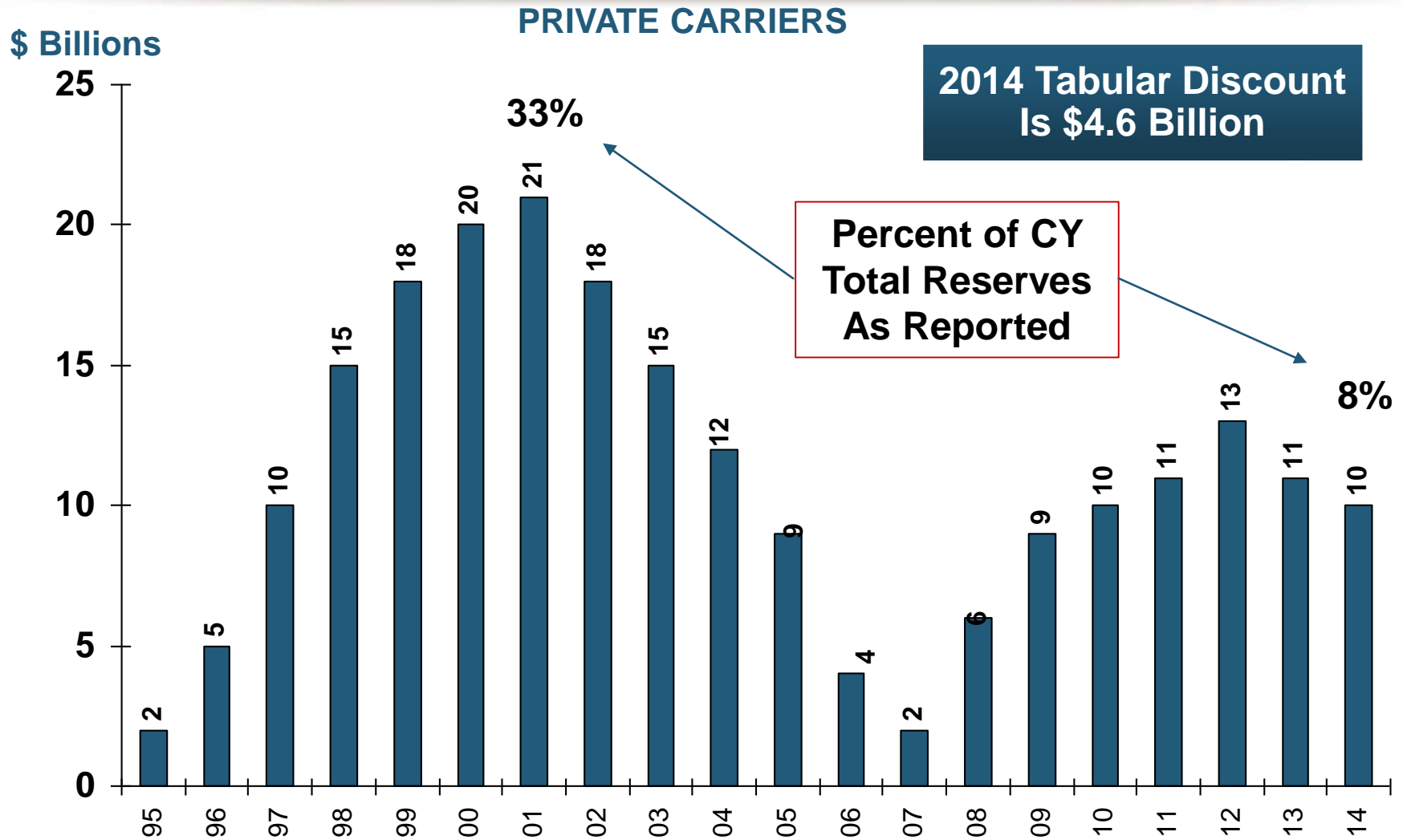


Source: NCCI analysis based on Annual Statement data.

Investment Gain Equals 1.00 minus (Combined Ratio less Investment Gains on Insurance Transactions and Other Income).

Averages reflect the following adjustments: 1990-91: adjusted to include realized capital gains to be consistent with 1992 and subsequent years; **2013: adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring. Excluding the adjustment the operating gain is 17.7%.

Workers Compensation Loss and LAE Net Reserve Deficiencies, 1995 - 2014

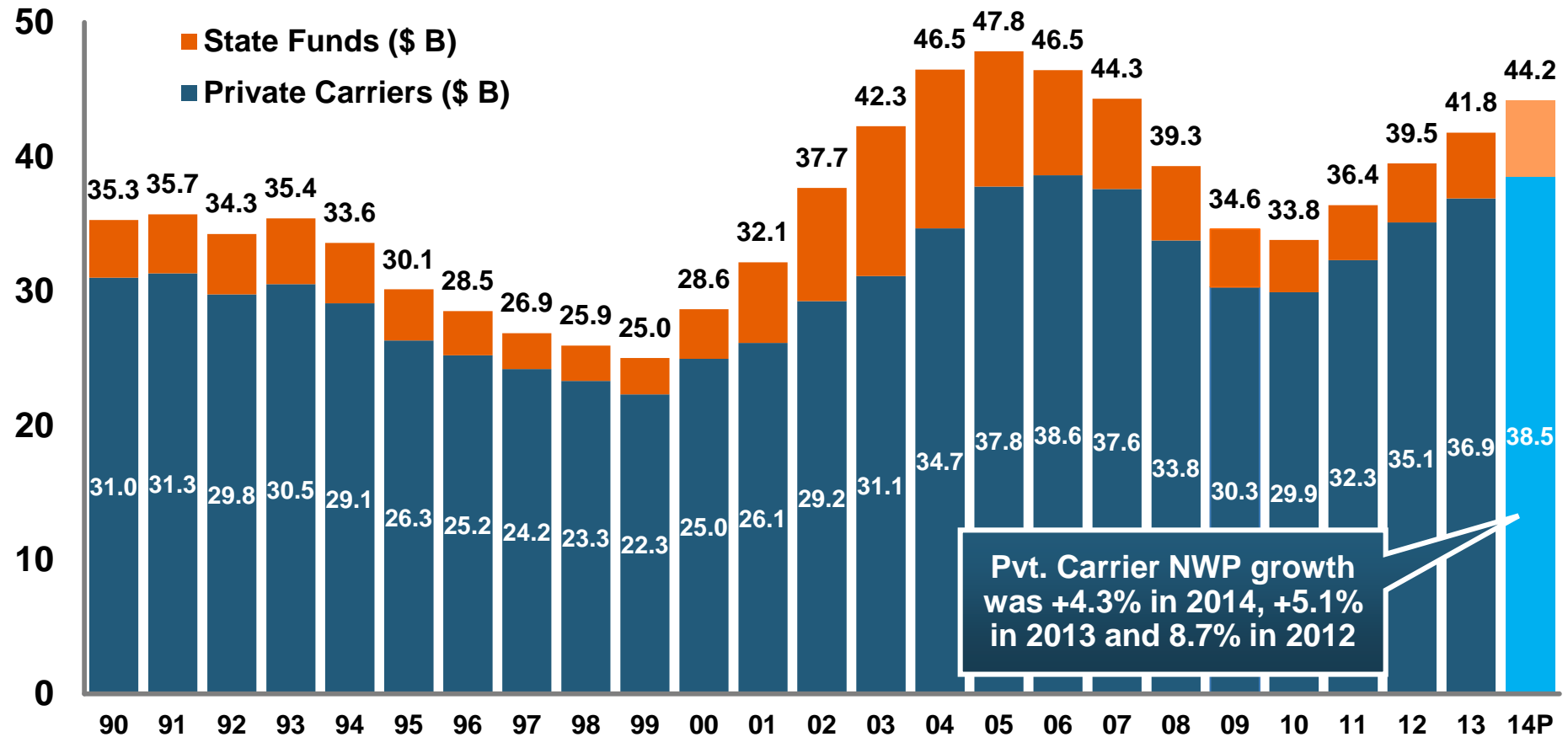


Source: NCCI analysis based on Annual Statement data.
 Considers all reserve discounts as deficiencies.

Workers Compensation Premium: Fourth Consecutive Year of Increase

Net Written Premium

\$ Billions



Pvt. Carrier NWP growth was +4.3% in 2014, +5.1% in 2013 and 8.7% in 2012

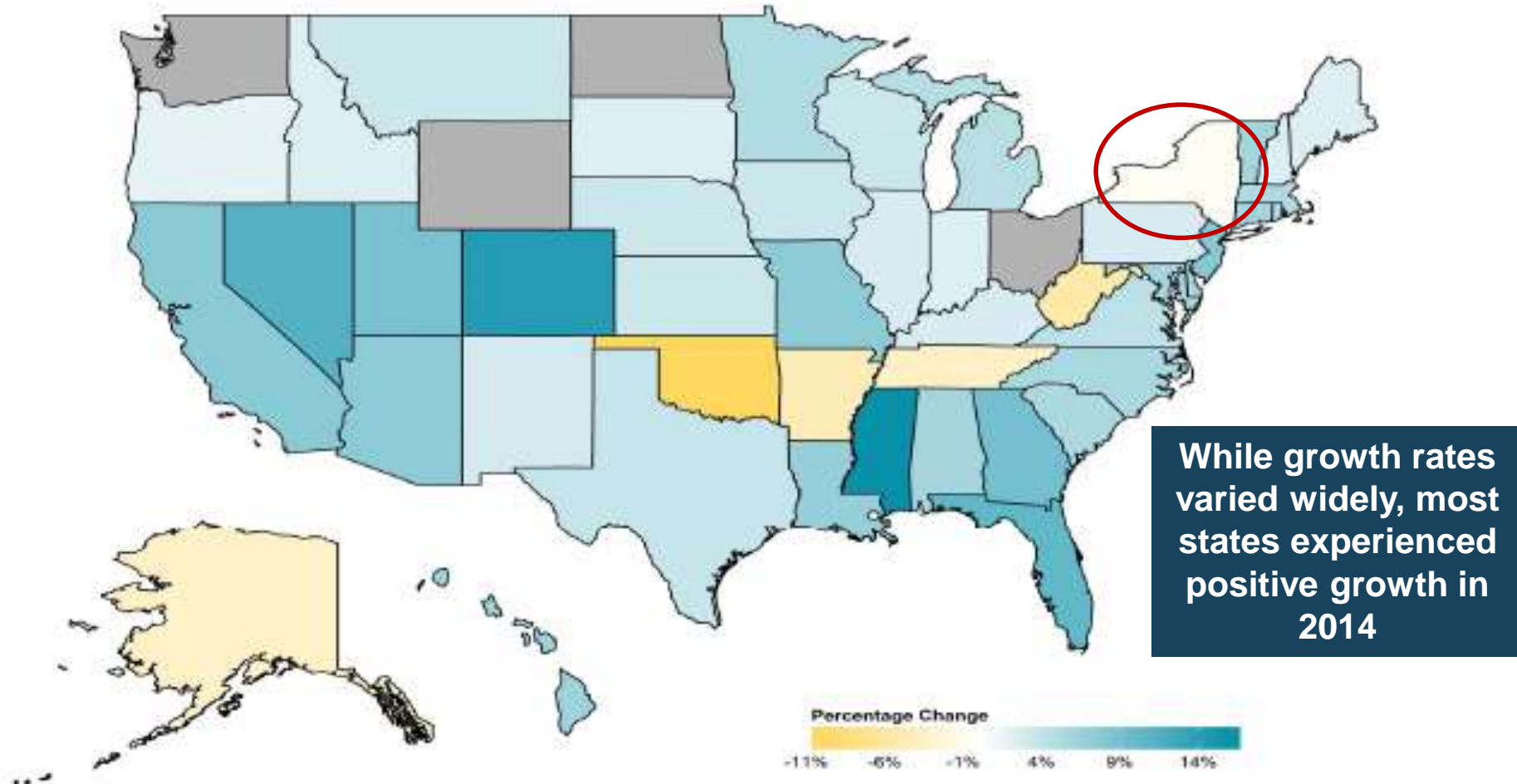
p Preliminary

Source: NCCI from Annual Statement Data.

Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT.
Each calendar year total for State Funds includes all funds operating as a state fund that year.

2014 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2014 Growth = +4.6%



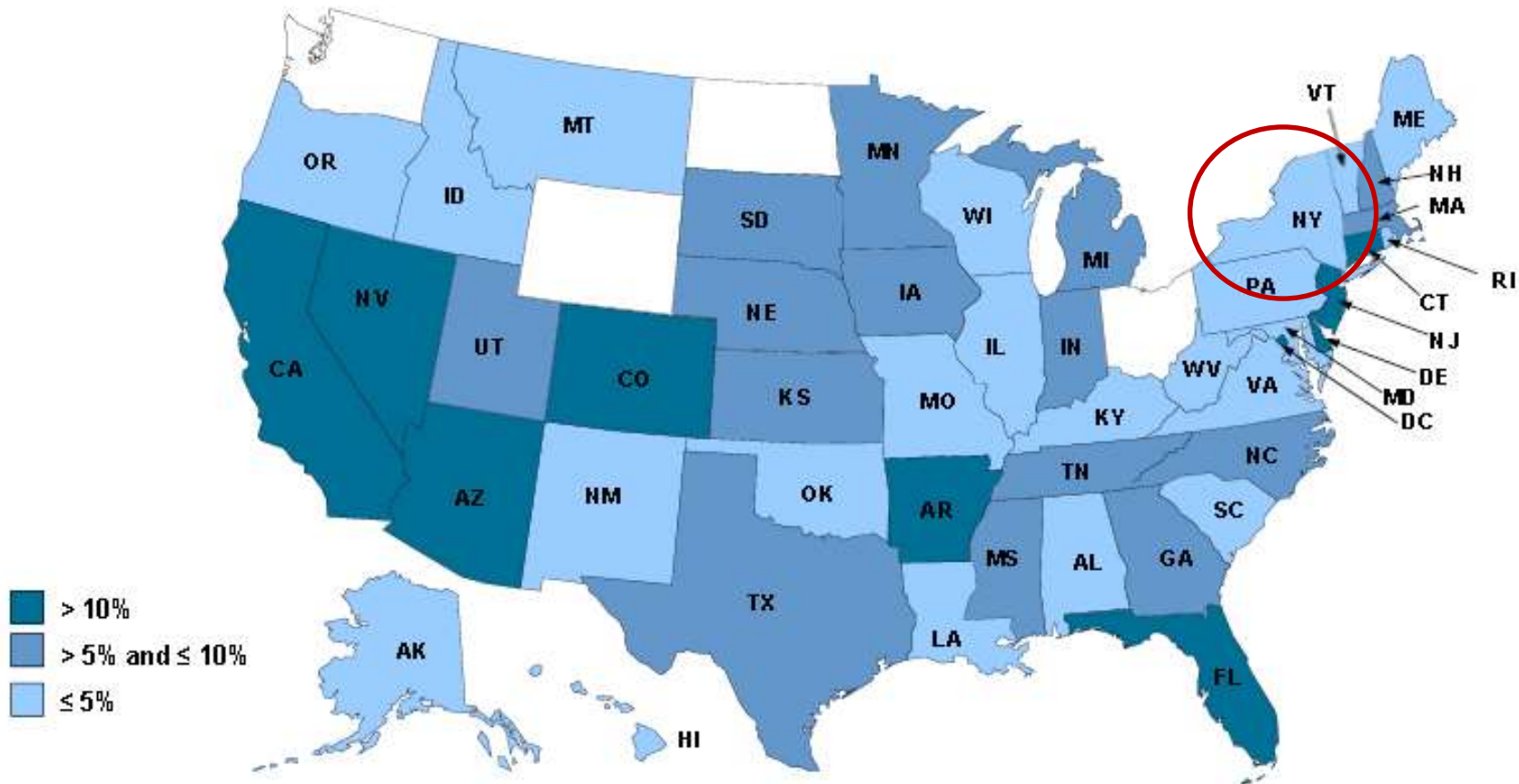
*Excludes monopolistic fund states (in gray): OH, ND, WA and WY.

Source: NCCI.

2013 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2013 Growth = +5.4%

While growth rates varied widely, all states experienced positive growth in 2013



*Excludes monopolistic fund states (in white): OH, ND, WA and WY.

Source: NCCI.

Workers Compensation Components of Written Premium Change, 2013 to 2014

Written Premium Change from 2013 to 2014

Net Written Premium—Countrywide	+4.6%
Direct Written Premium—Countrywide	+4.6%
Direct Written Premium—NCCI States	+4.5%
Components of DWP Change for NCCI States	
Change in Carrier Estimated Payroll	+4.7%
Change in Bureau Loss Costs and Mix	-1.4%
Change in Carrier Discounting	+0.4%
Change in Other Factors	+0.8%
Combined Effect	+4.5%

Growth is now almost entirely payroll driven

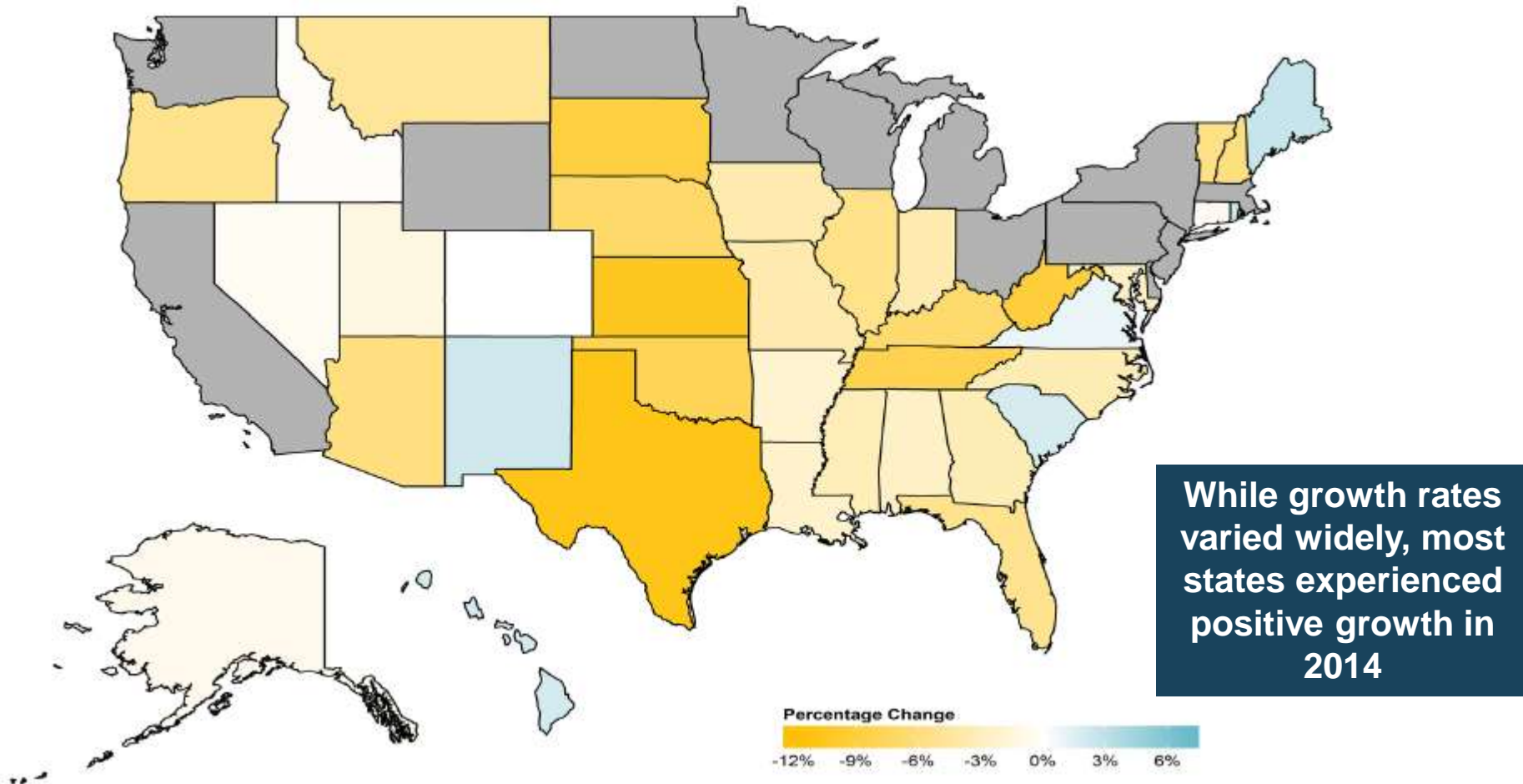
Sources: Countrywide: Annual Statement data.

NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services.

Components: NCCI Policy data.

WC Approved or Filed and Pending Change in NCCI Premium Level by State

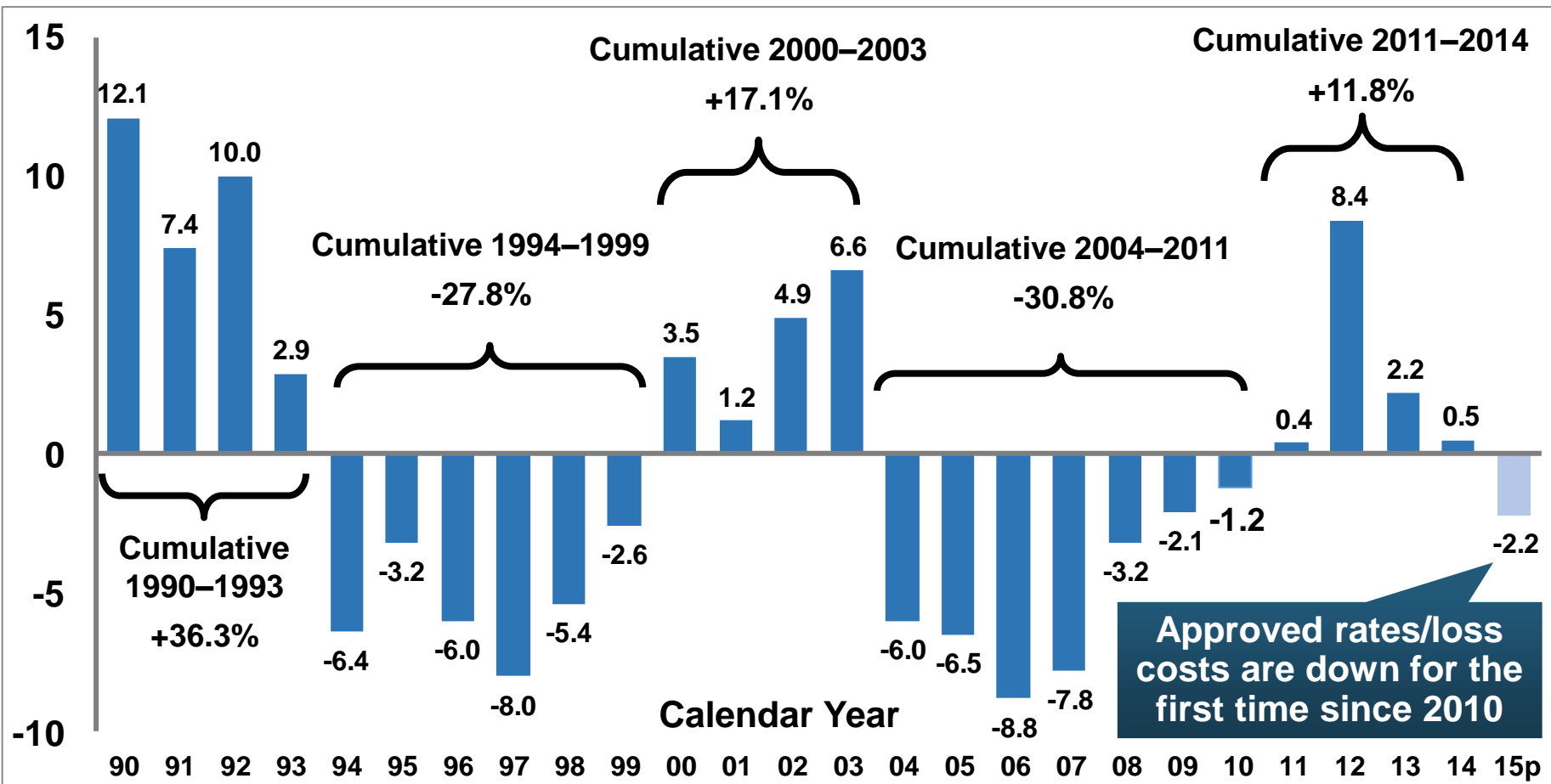
Latest Change for Voluntary Market



WC Approved Changes in Bureau Premium Level (Rates/Loss Costs)

By Effective Date for Total Market

Percent



*States approved through 4/24/15.

Note: Bureau premium level changes are countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization, relative to those previously approved.

Source: NCCI.



Labor Markets Trends:
Recovery Continues in 2015

2014

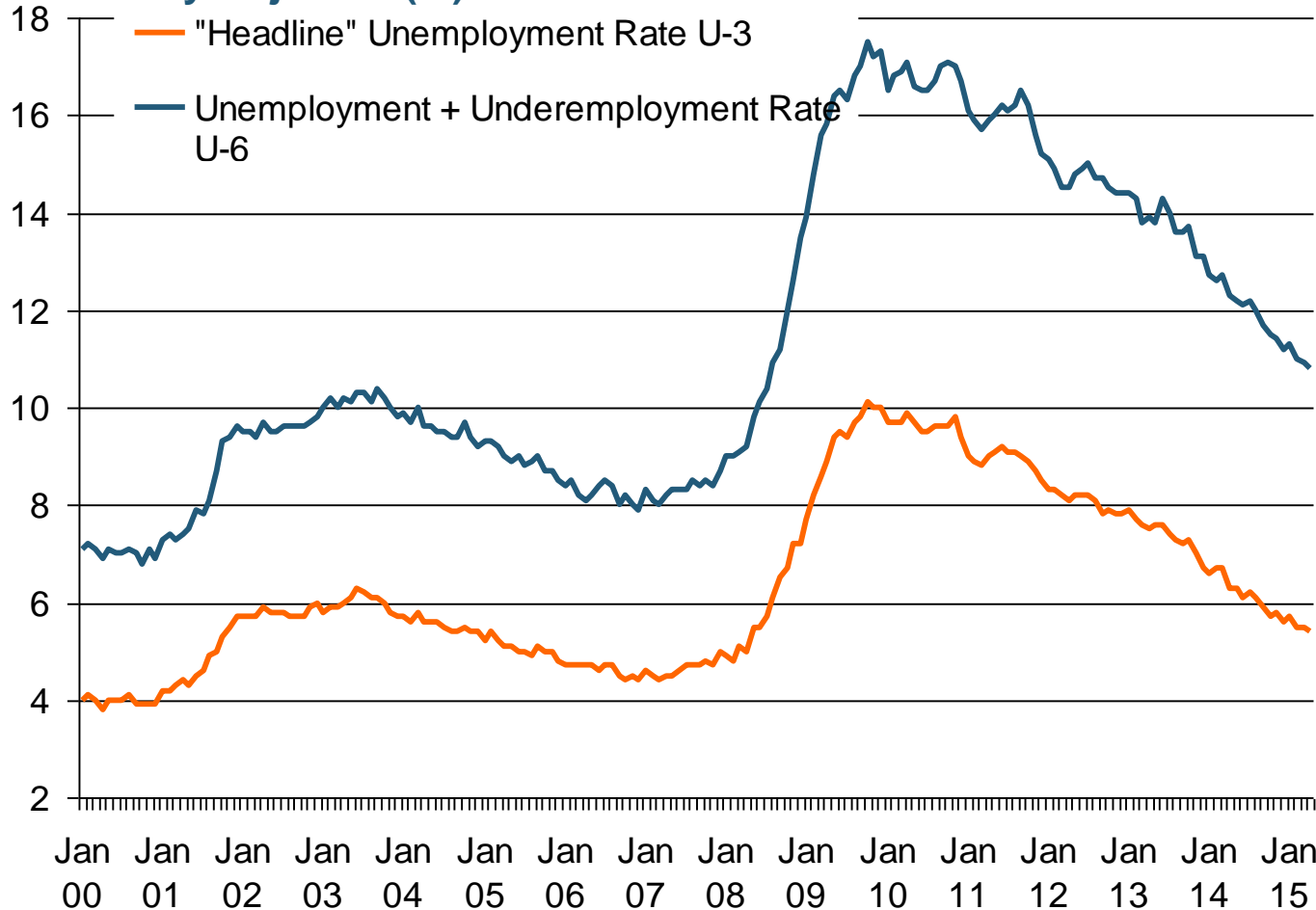
Largest Increase in Jobs Since 1997

**Unemployment Rate Fell to Lowest
Level Since 2008**

Payrolls Expanded to Record High

Unemployment and Underemployment Rates: Still Too High, But Falling

January 2000 through April 2015,
Seasonally Adjusted (%)



U-6 soared from 8.0% in March 2007 to 17.5% in October 2009; Stood at 10.8% in Apr. 2015. 8% to 10% is "normal."

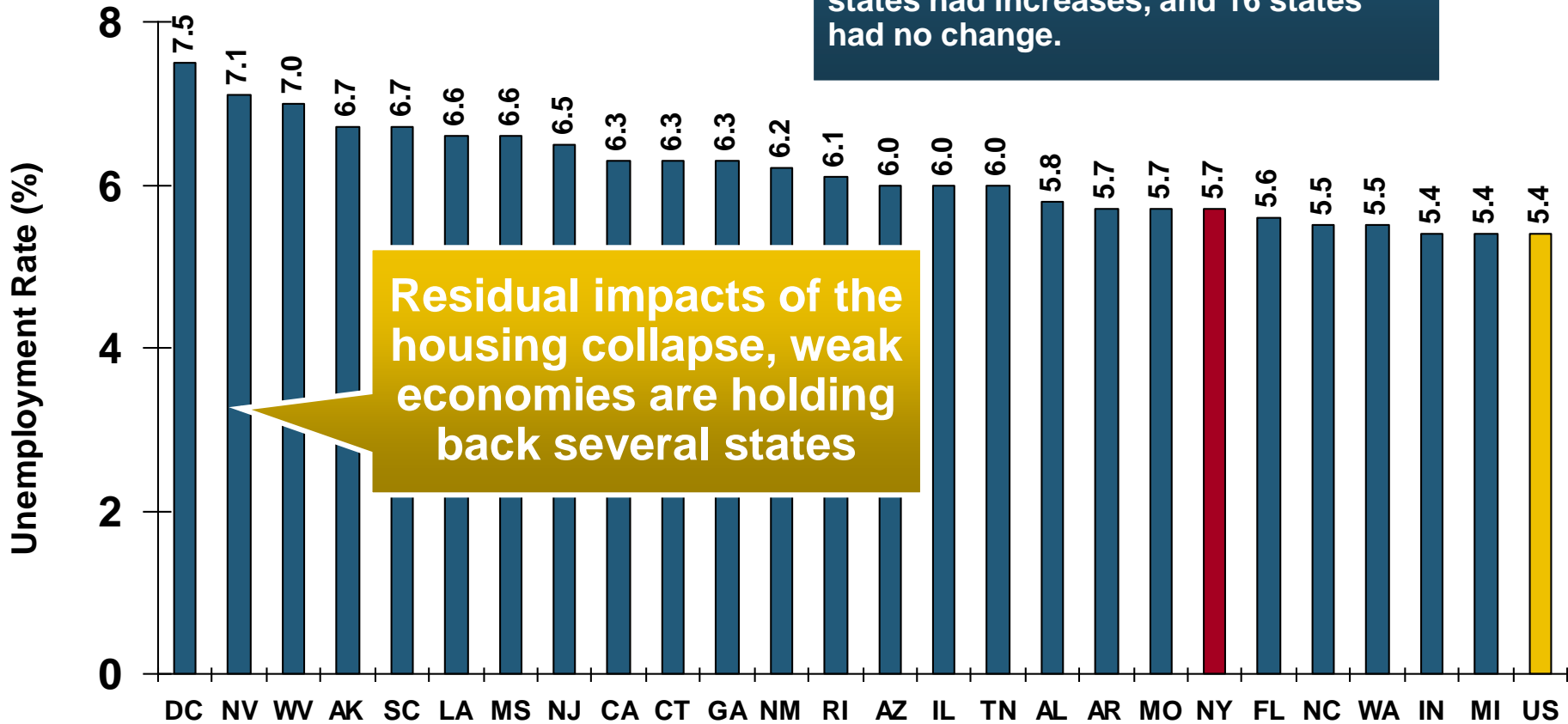
"Headline" unemployment was 5.4% in Apr. 2015. 4.5% to 5.5% is "normal."

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is continuing to improve.

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

Unemployment Rates by State, April 2015: Highest 25 States*

In April, 23 states and the District of Columbia had over-the-month unemployment rate decreases, 11 states had increases, and 16 states had no change.

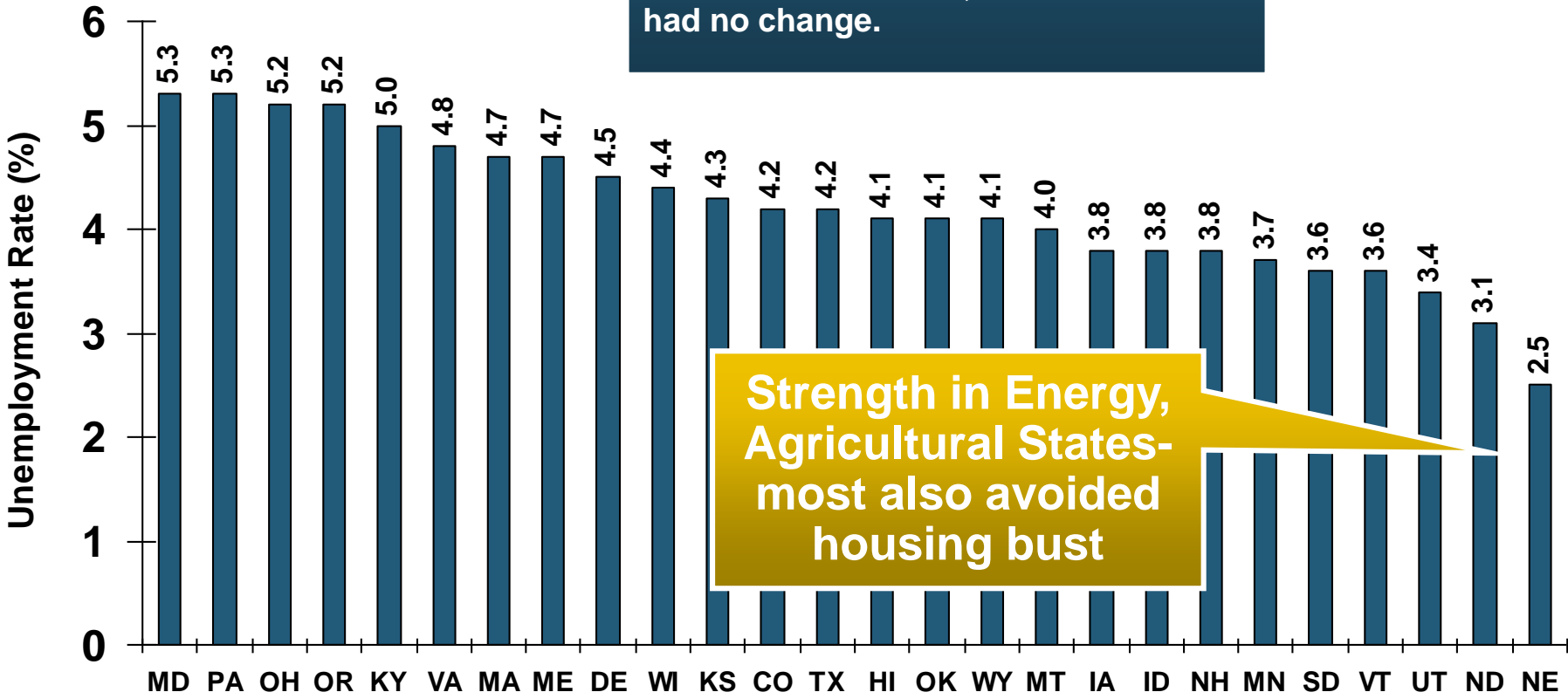


Residual impacts of the housing collapse, weak economies are holding back several states

*Provisional figures for April 2015, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates by State, April 2015: Lowest 25 States*

In April, 23 states and the District of Columbia had over-the-month unemployment rate decreases, 11 states had increases, and 16 states had no change.



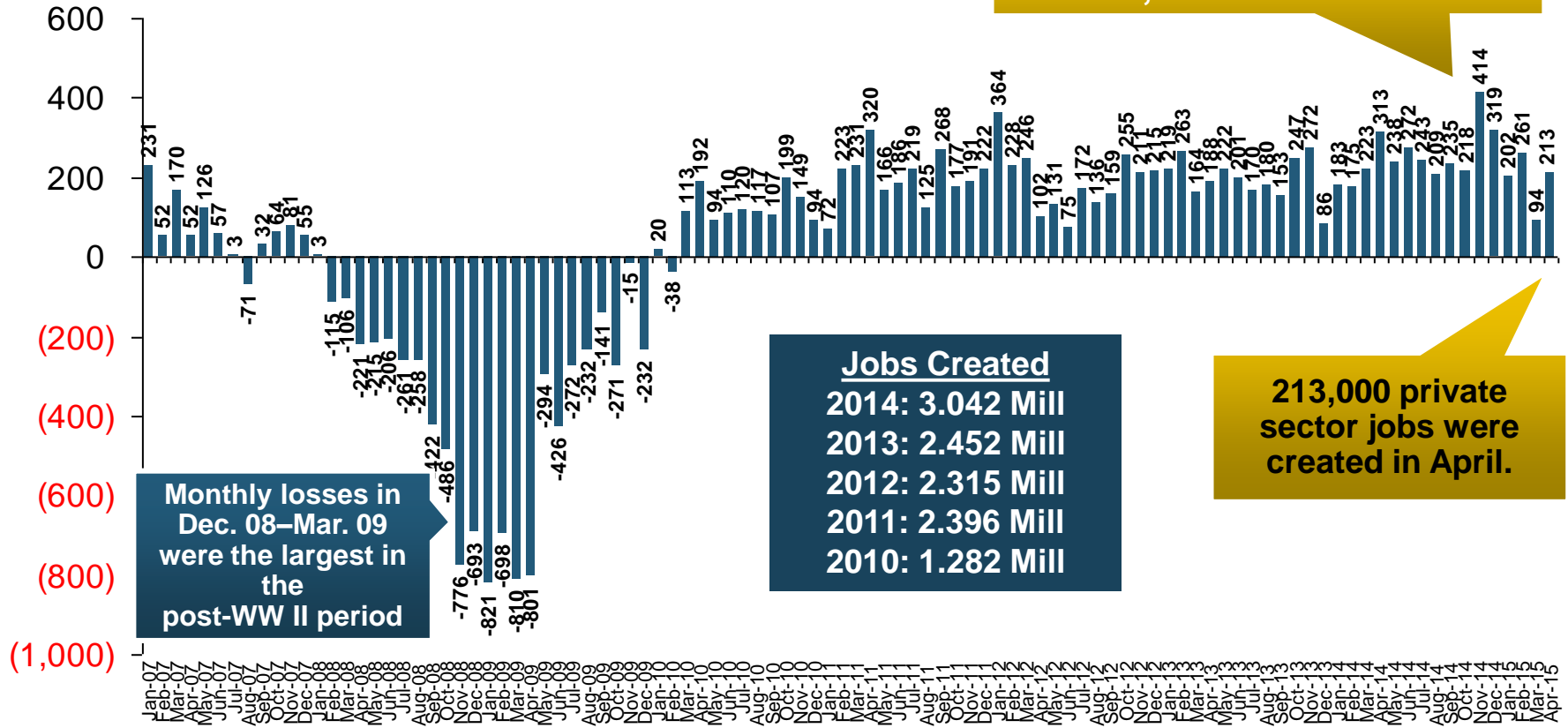
Strength in Energy, Agricultural States-most also avoided housing bust

*Provisional figures for April 2015, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Monthly Change in Private Employment

January 2007 through Apr. 2015 (000s, Seasonally Adj.)

3,042,000 jobs were created in 2014, the most since 1997



Monthly losses in Dec. 08–Mar. 09 were the largest in the post-WW II period

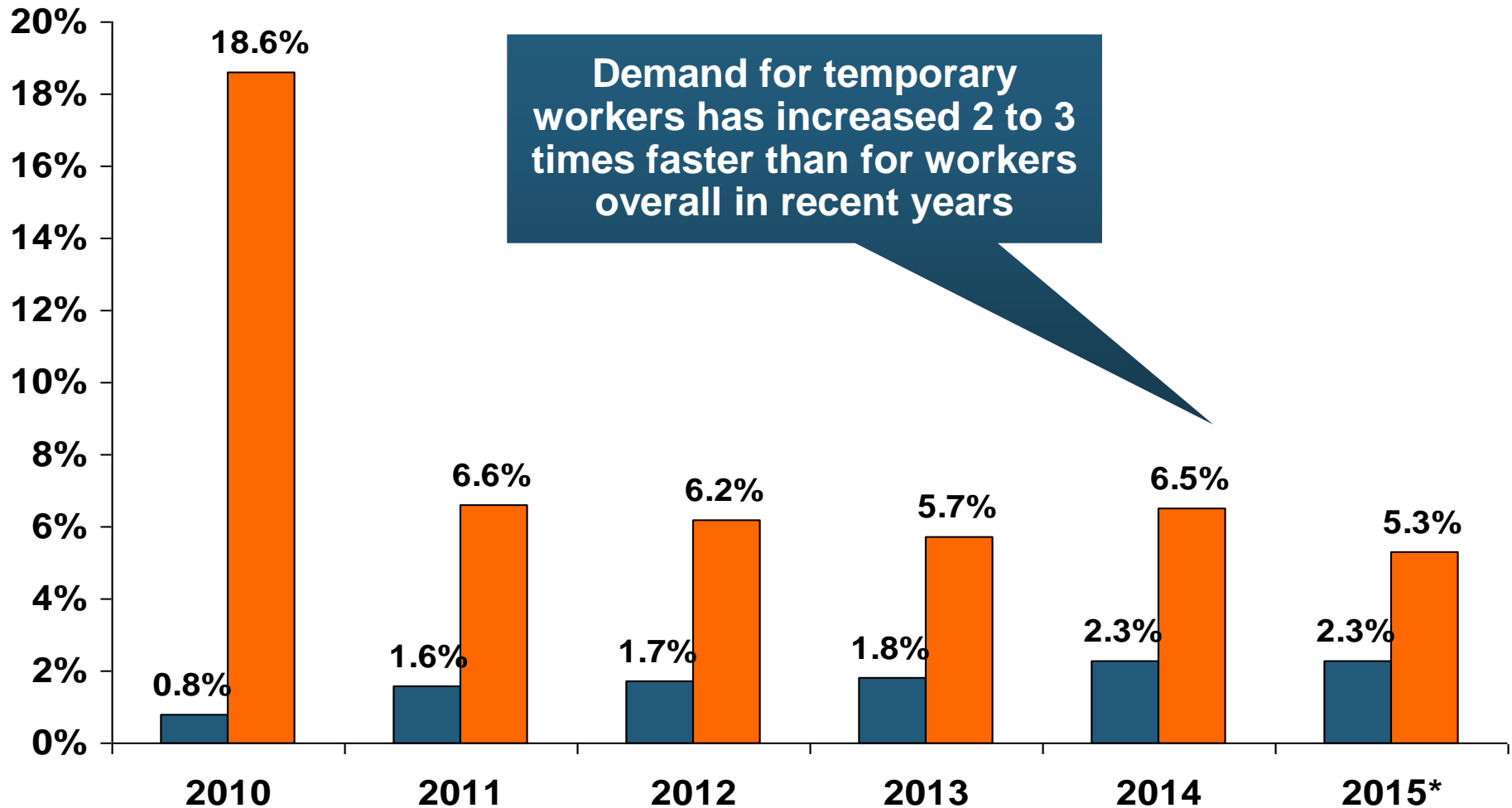
Jobs Created
 2014: 3.042 Mill
 2013: 2.452 Mill
 2012: 2.315 Mill
 2011: 2.396 Mill
 2010: 1.282 Mill

213,000 private sector jobs were created in April.

Private Employers Added 11.97 Million Jobs Since Jan. 2010 After Having Shed 5.01 Million Jobs in 2009 and 3.76 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Growth in Temporary Workers vs. All Nonfarm Employment, 2010-2015*

Annual Percent Change

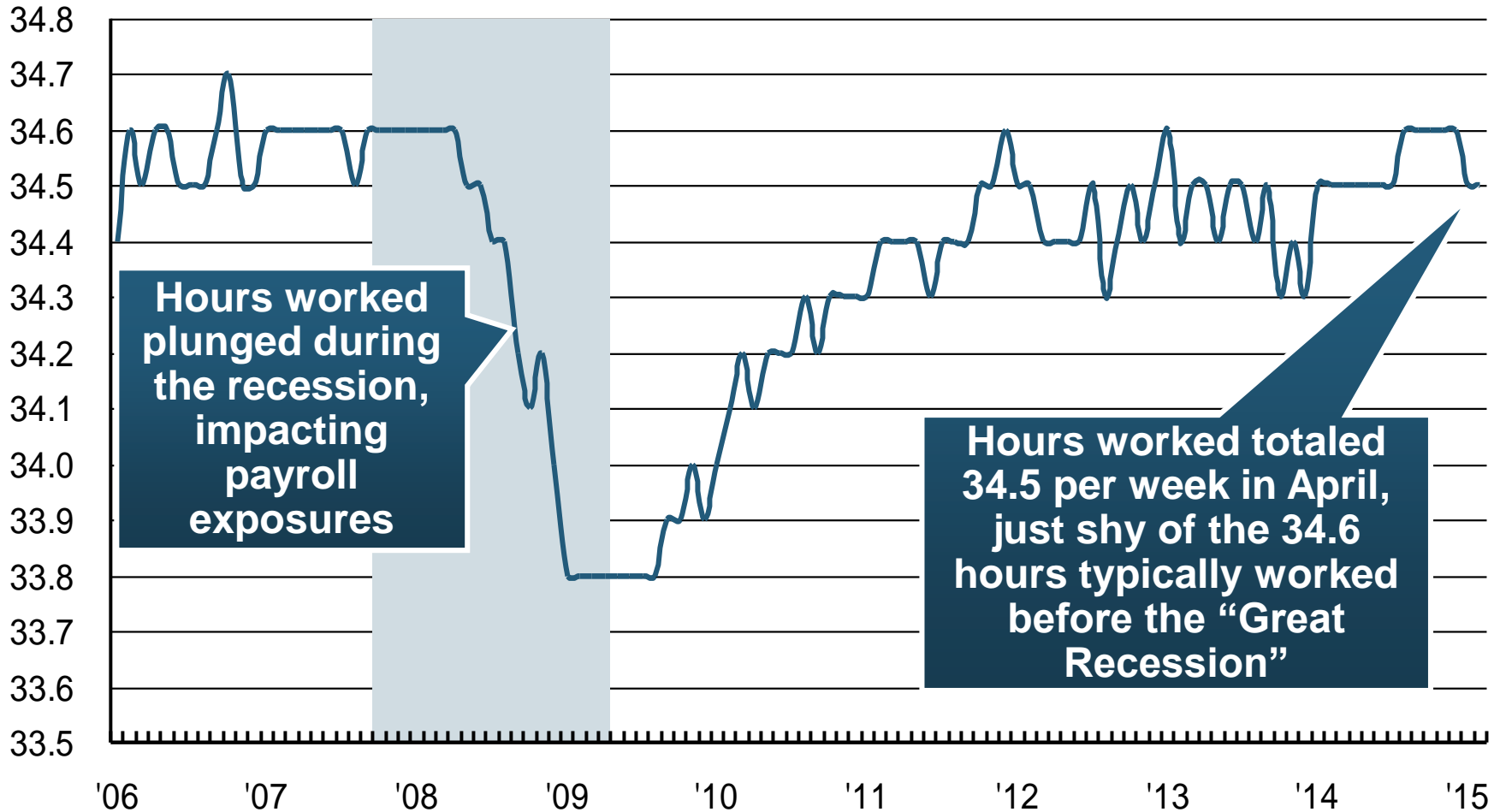


*Through March 2015.

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

Average Weekly Hours of All Private Workers, Mar. 2006—April 2015

(Hours Worked)



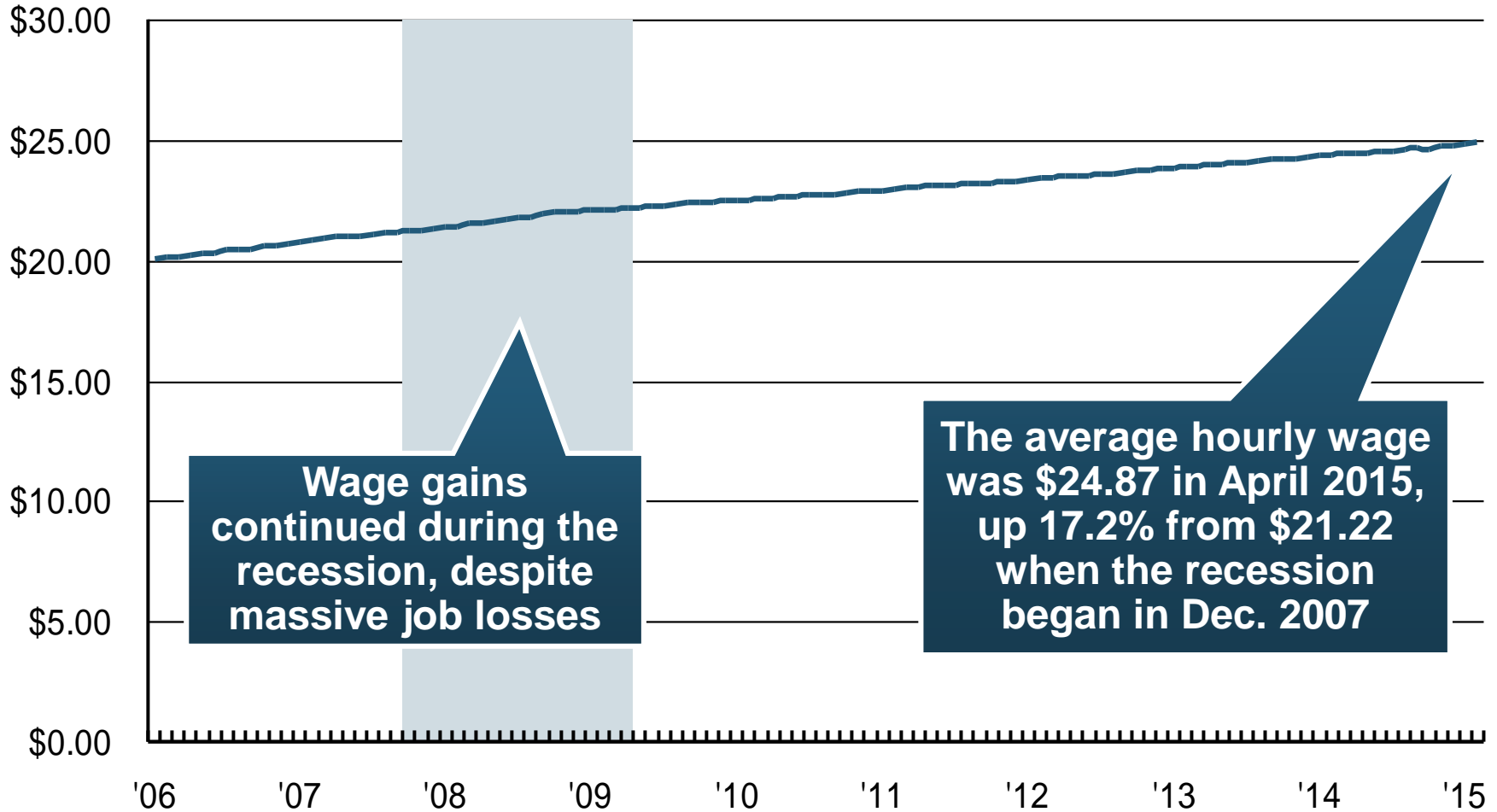
*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/data/#employment>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Average Hourly Wage of All Private Workers, Mar. 2006—April 2015

(Hourly Wage)



*Seasonally adjusted

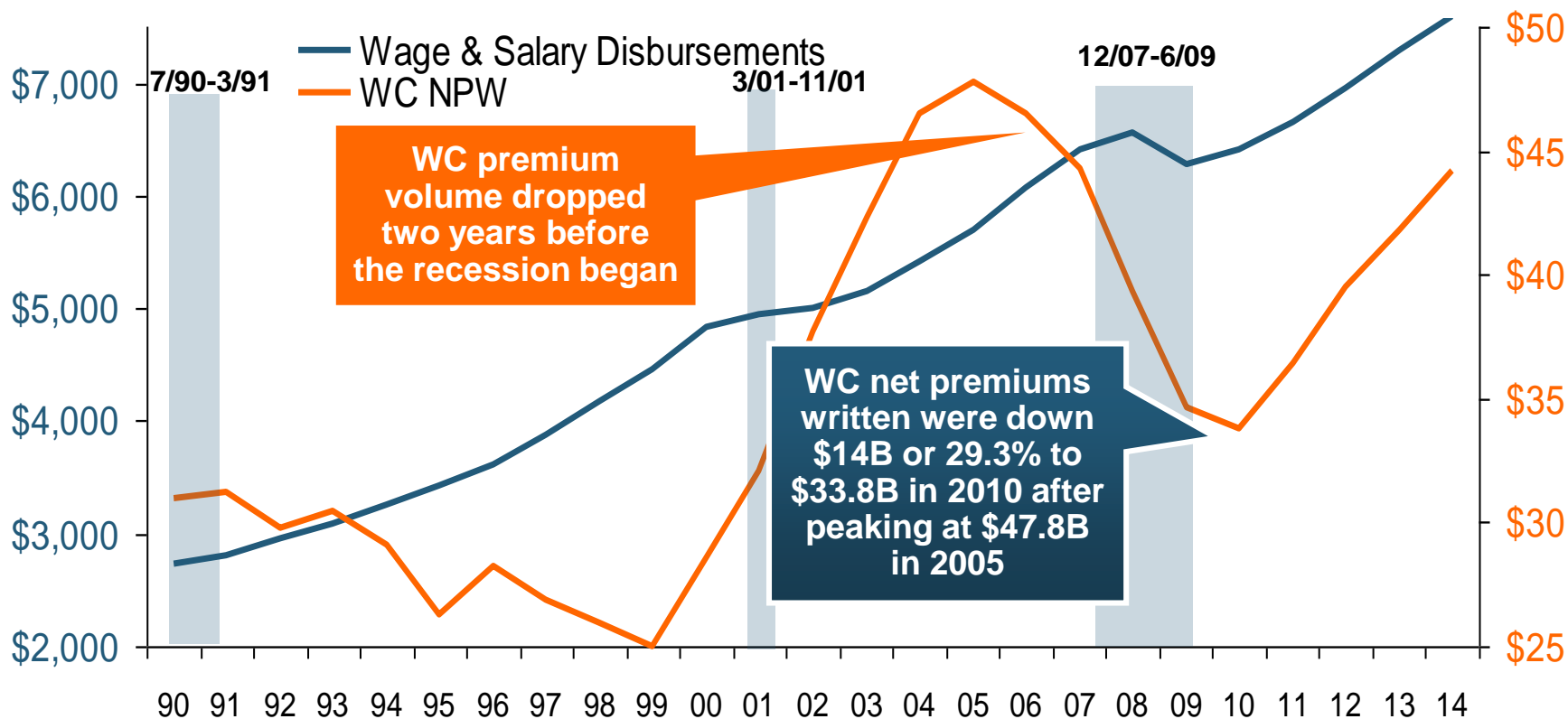
Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/data/#employment>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

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

Payroll Base*
\$Billions

WC NWP
\$Billions



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

*Private employment; Shaded areas indicate recessions. WC premiums for 2014 are from NCCI.

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—April 2015*

(Thousands)



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

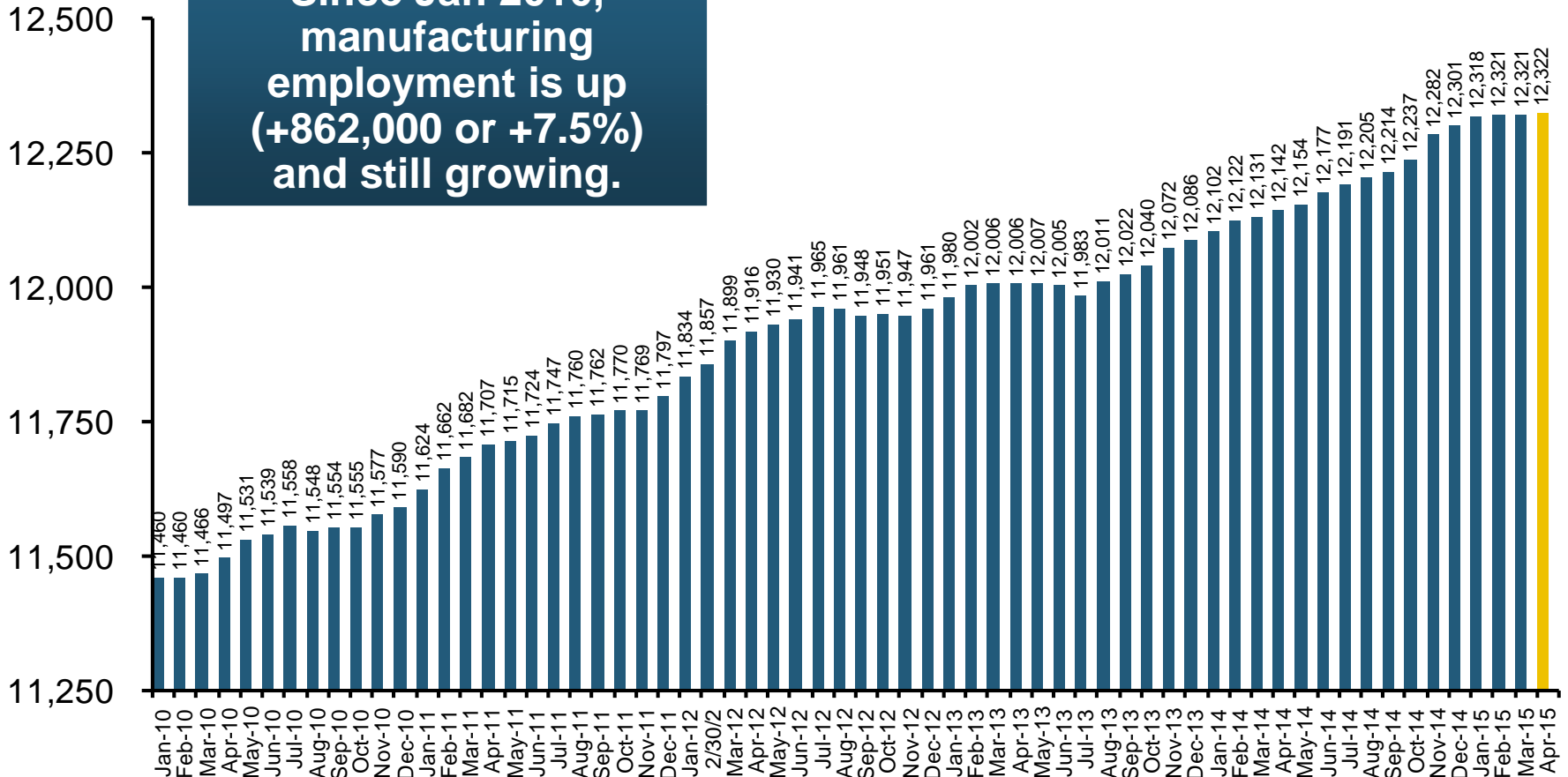
*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

Manufacturing Employment, Jan. 2010—April 2015*

(Thousands)

Since Jan 2010, manufacturing employment is up (+862,000 or +7.5%) and still growing.



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

*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

12 Industries for the Next 10 Years: Insurance Solutions Needed

Health Care

Health Sciences

Energy (Traditional)

Alternative Energy

Petrochemical

Agriculture

Natural Resources

Technology (incl. Biotechnology)

Light Manufacturing

Inourced Manufacturing

Export-Oriented Industries

Shipping (*Rail*, *Marine*, Trucking, *Pipelines*)



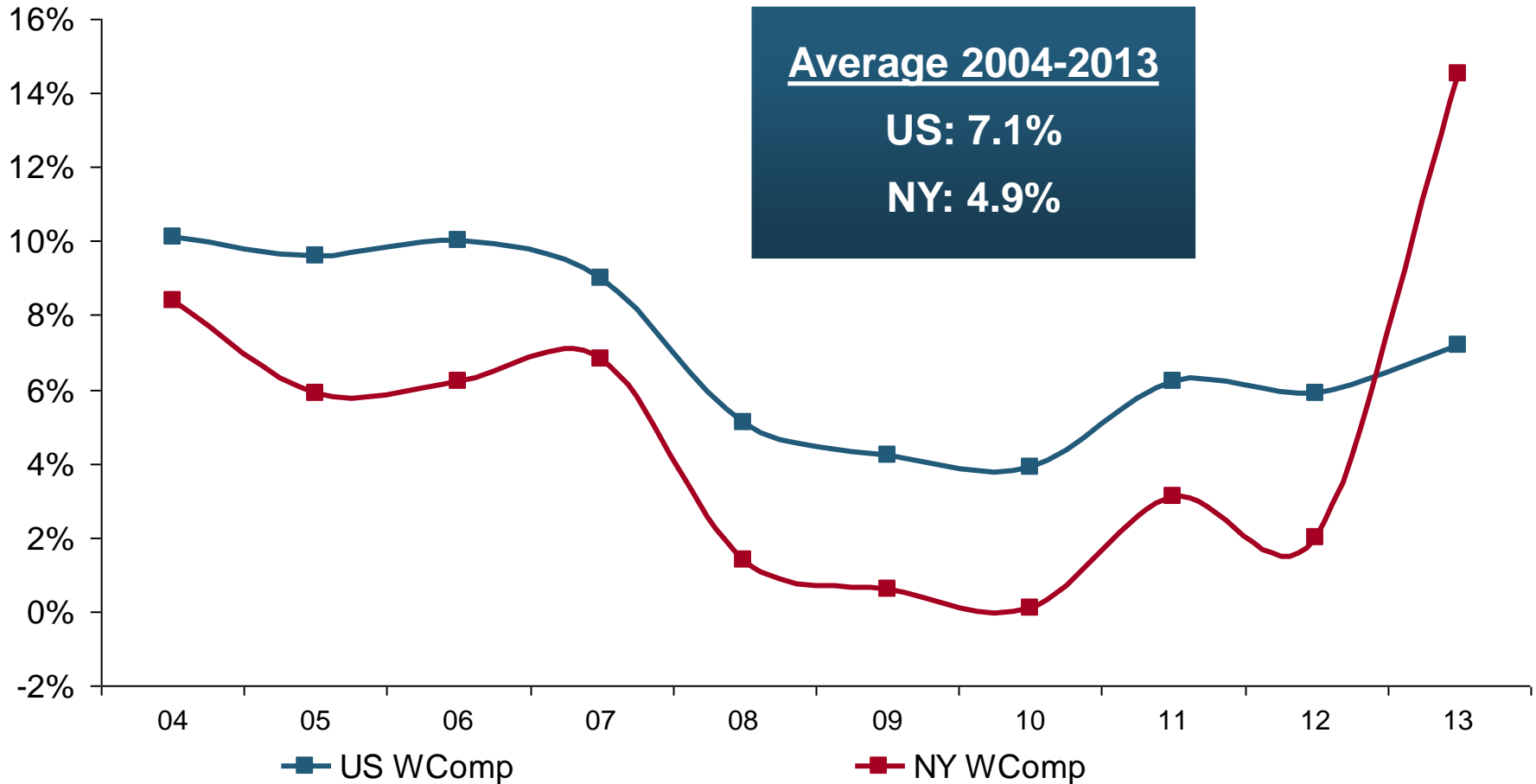
Many industries are poised for growth, though insurers' ability to capitalize on these industries varies widely

WC Profitability and Growth Trends in New York

**Profitability Lags,
But Growth Leads**

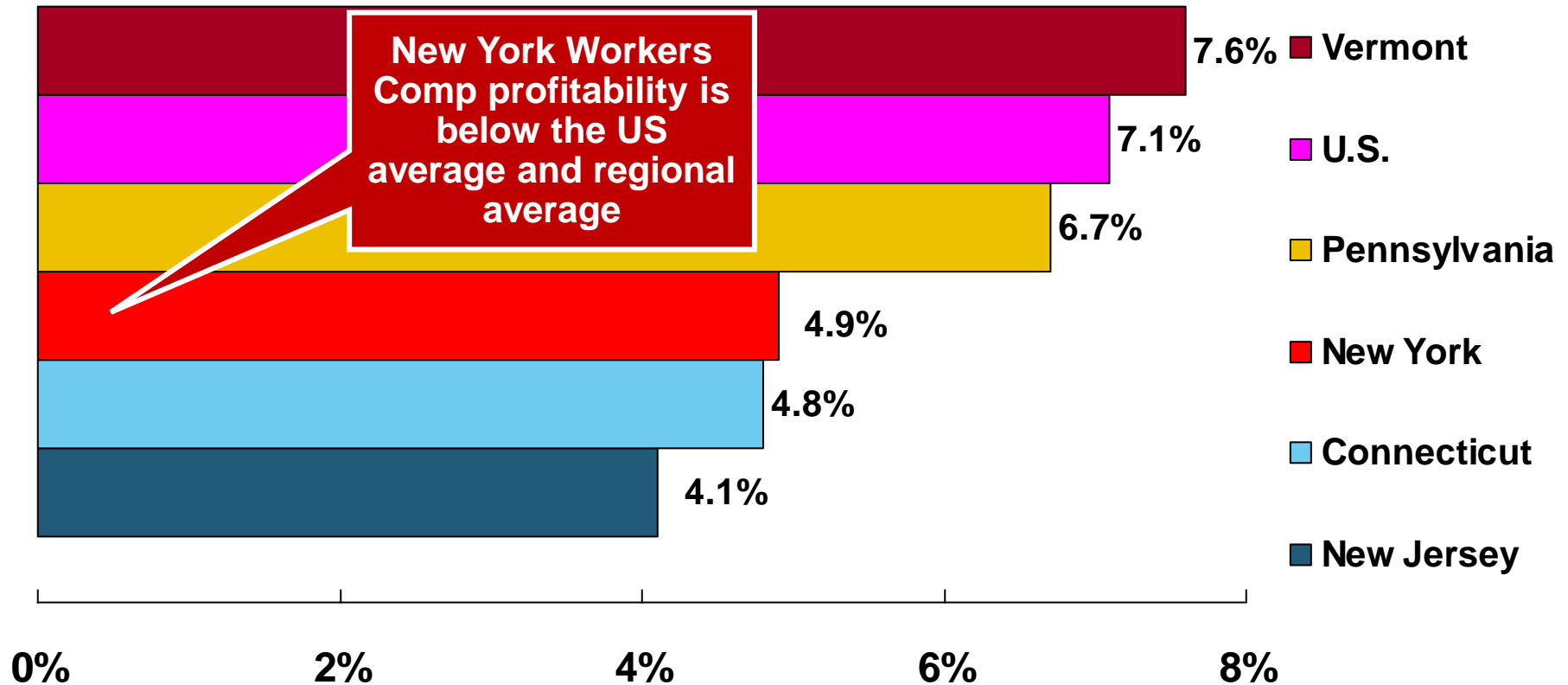
RNW Workers Comp: NY vs. U.S., 2004-2013

(Percent)



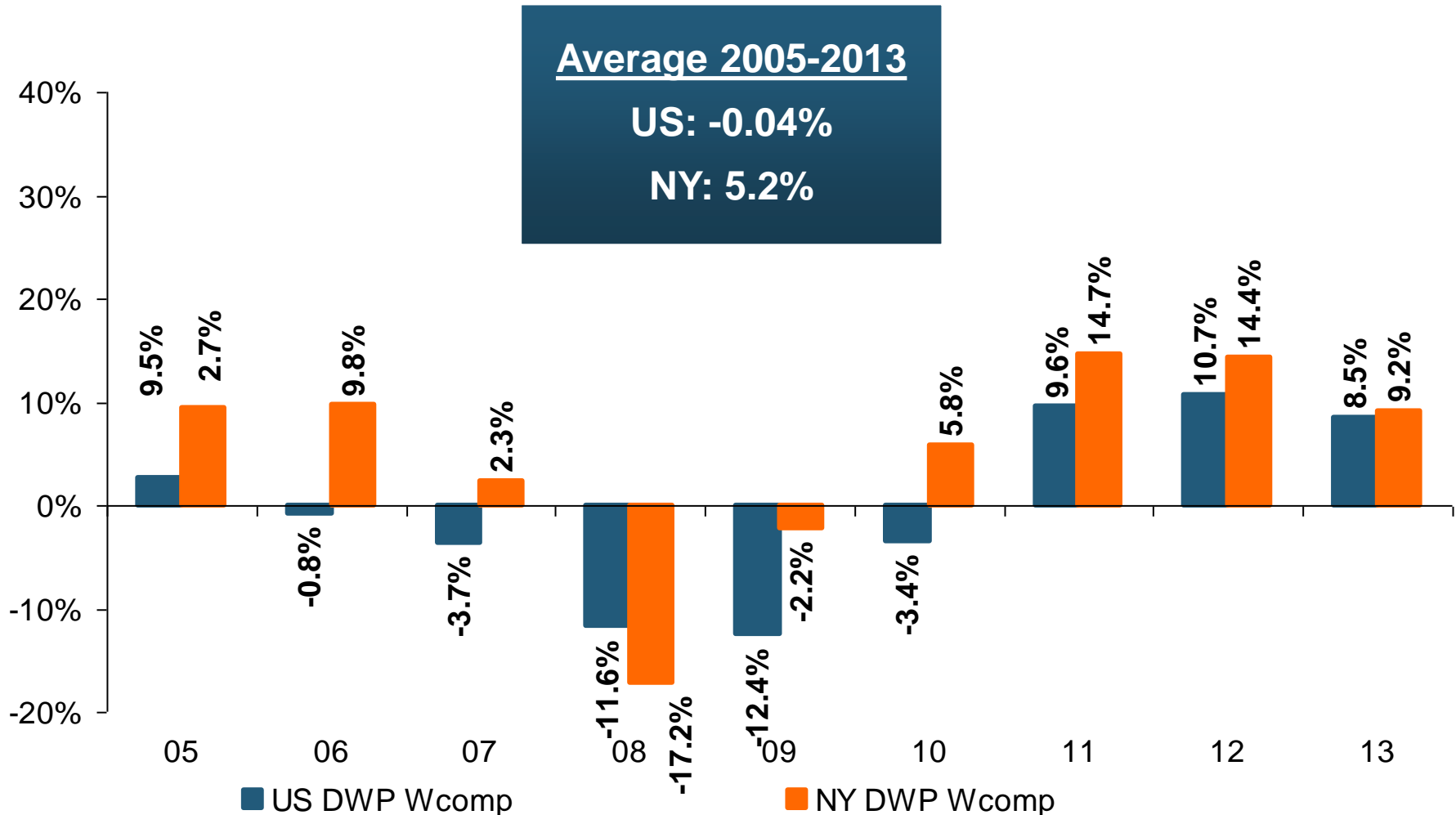
Workers Comp: 10-Year Average RNW NY & Nearby States

2004-2013



Workers Comp. DWP Growth: NY vs. U.S., 2005-2013

(Percent)

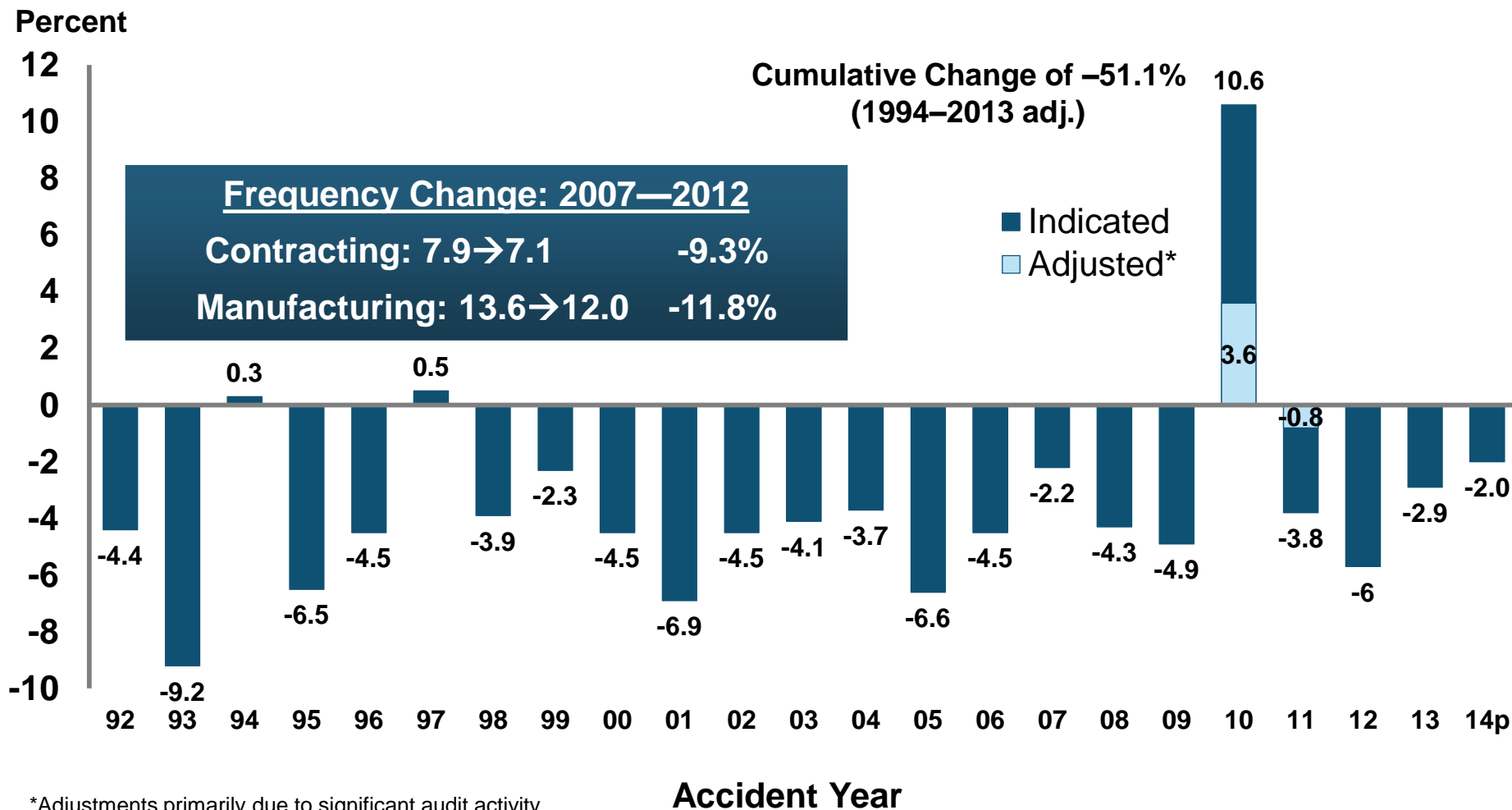




WC COST DRIVERS

Medical and Indemnity Factors

Workers Compensation Lost-Time Claim Frequency Declined in 2014



*Adjustments primarily due to significant audit activity.

2014p: Preliminary based on data valued as of 12/31/2014.

Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level; Excludes high deductible policies; 1994-2013: Based on data through 12/31/13. Data for all states where NCCI provides ratemaking services, excluding WV.

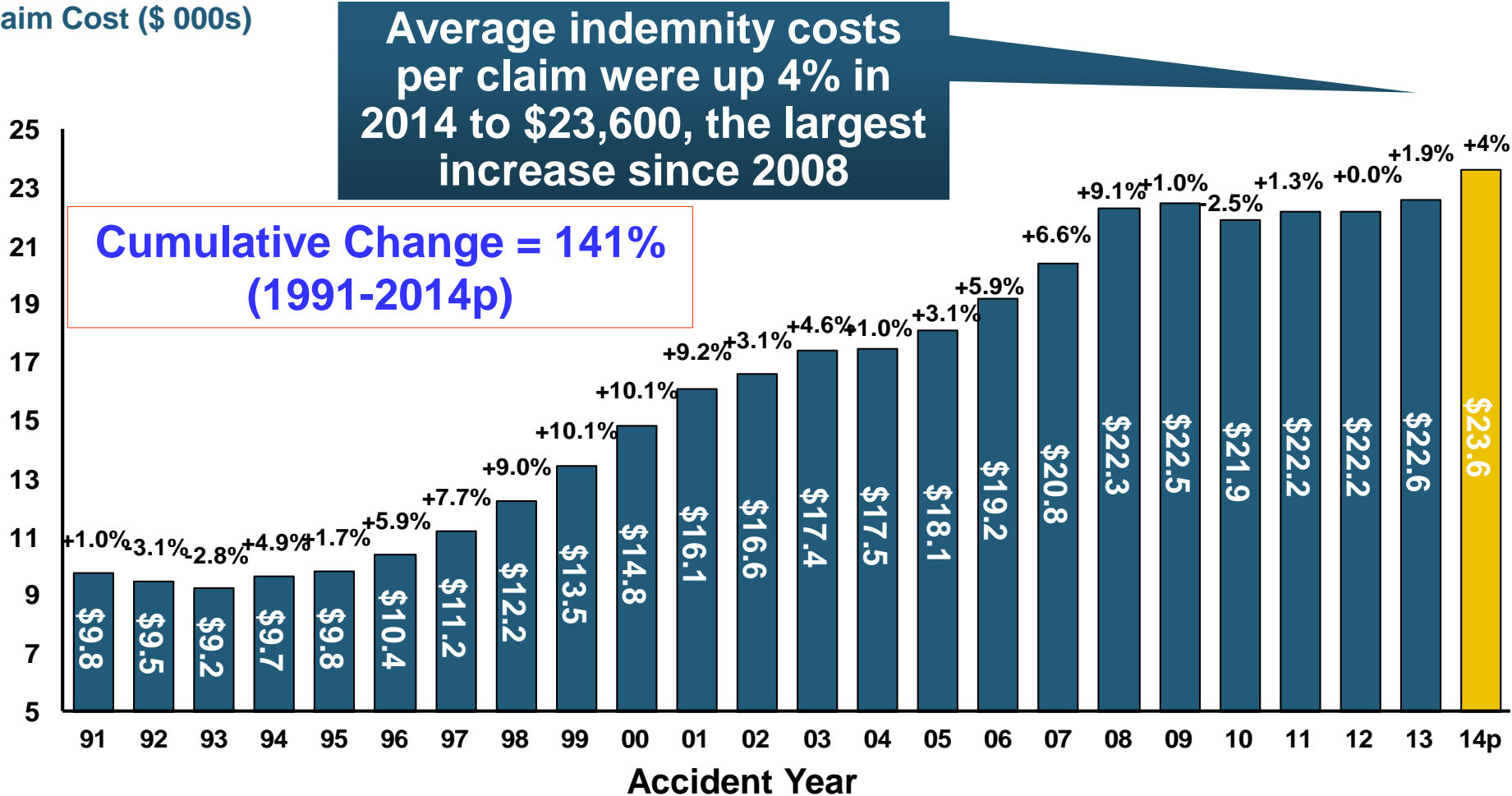
Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level

Workers Comp Indemnity Claim Costs: Modest Increase in 2014

Average Indemnity Cost per Lost-Time Claim

Average indemnity costs per claim were up 4% in 2014 to \$23,600, the largest increase since 2008

Cumulative Change = 141% (1991-2014p)

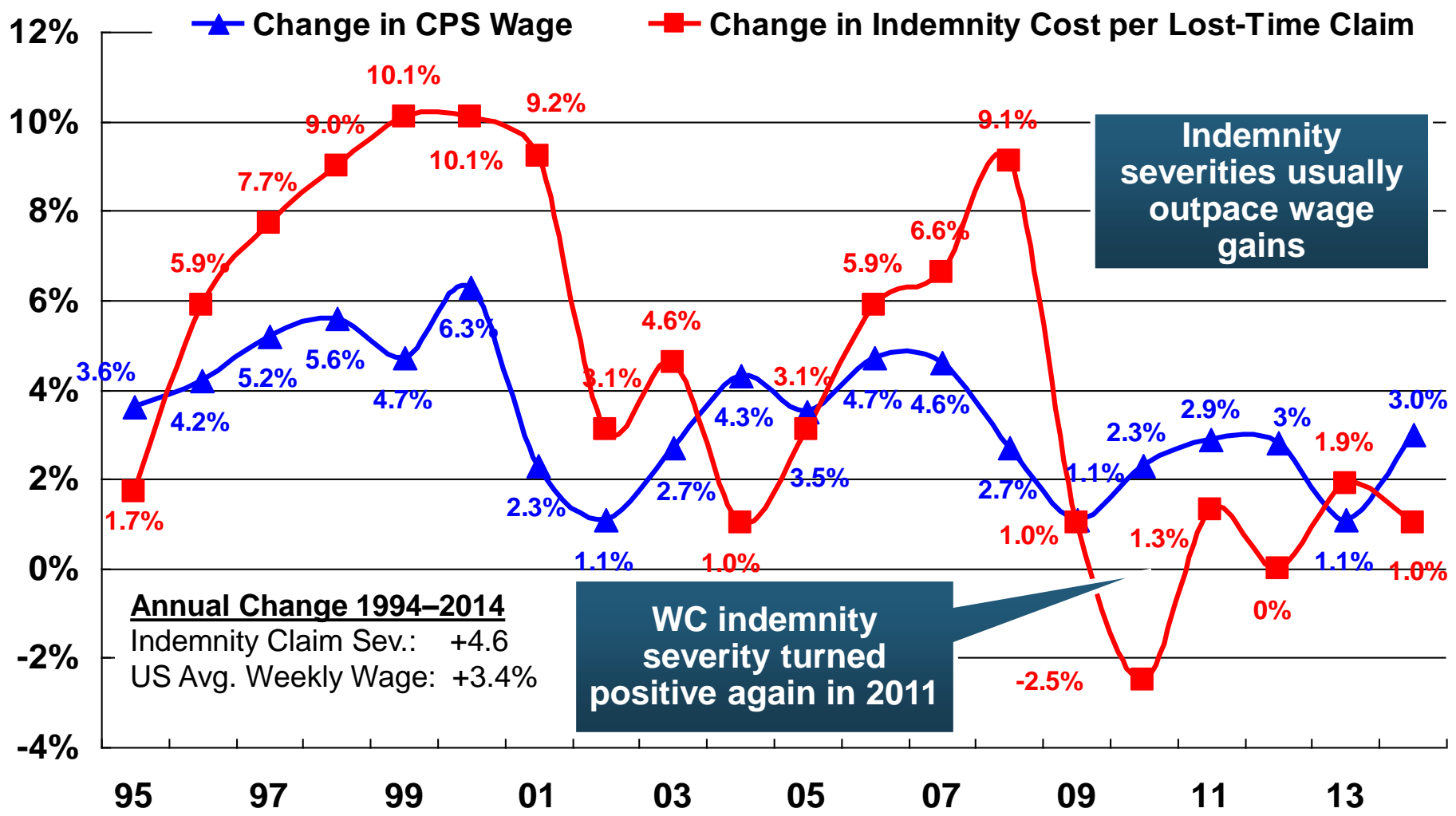


2014p: Preliminary based on data valued as of 12/31/2014.

1991-2013: Based on data through 12/31/2013, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

WC Indemnity Severity vs. Wage Inflation, 1995 -2014p



2014p: Preliminary based on data valued as of 12/31/2014; 1991-2010: 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. CPS = Current Population Survey. Source: NCCI

Workers Compensation Medical Severity: Moderate Increase in 2014

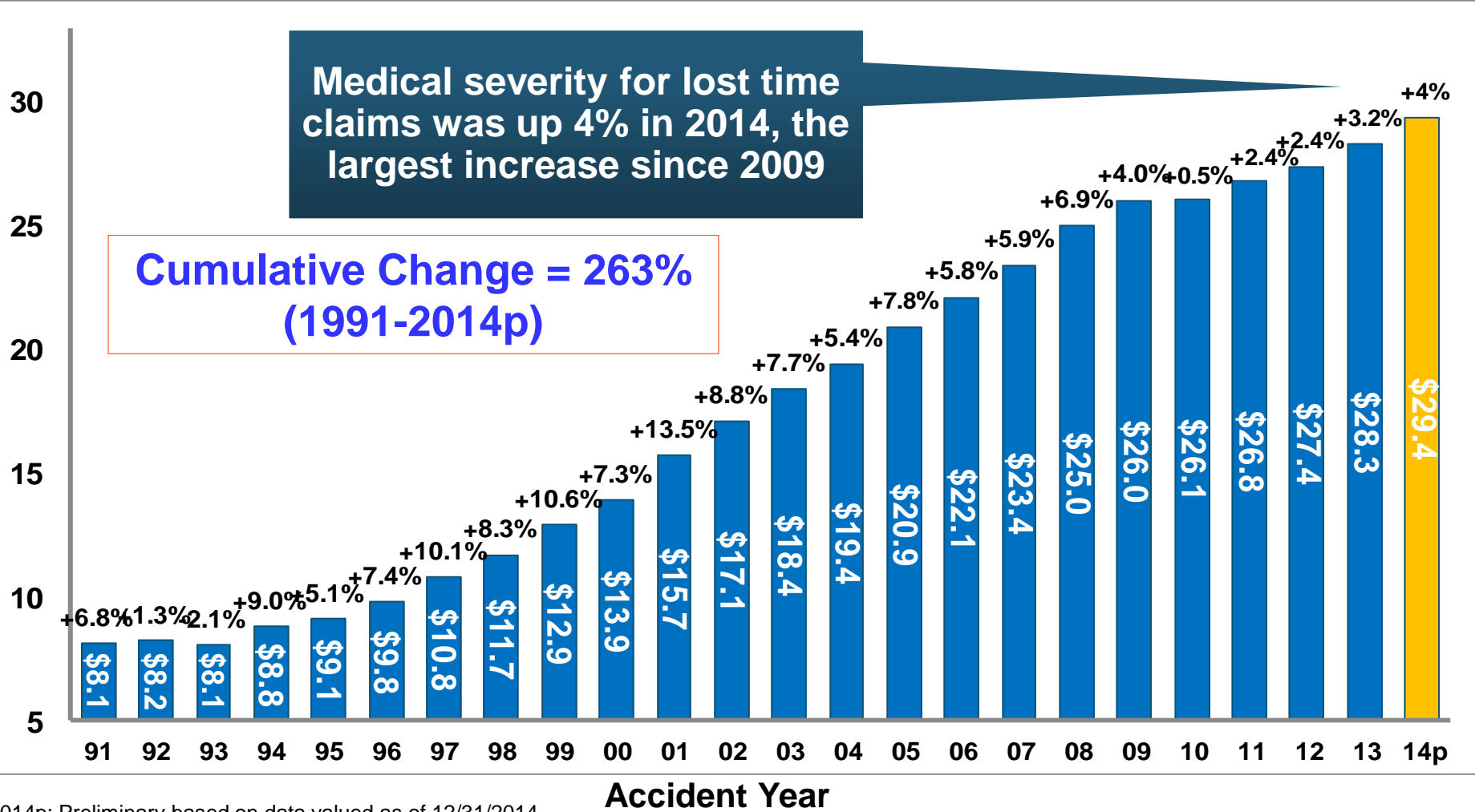


Medical Claim Cost (\$000s)

Average Medical Cost per Lost-Time Claim

Medical severity for lost time claims was up 4% in 2014, the largest increase since 2009

Cumulative Change = 263% (1991-2014p)

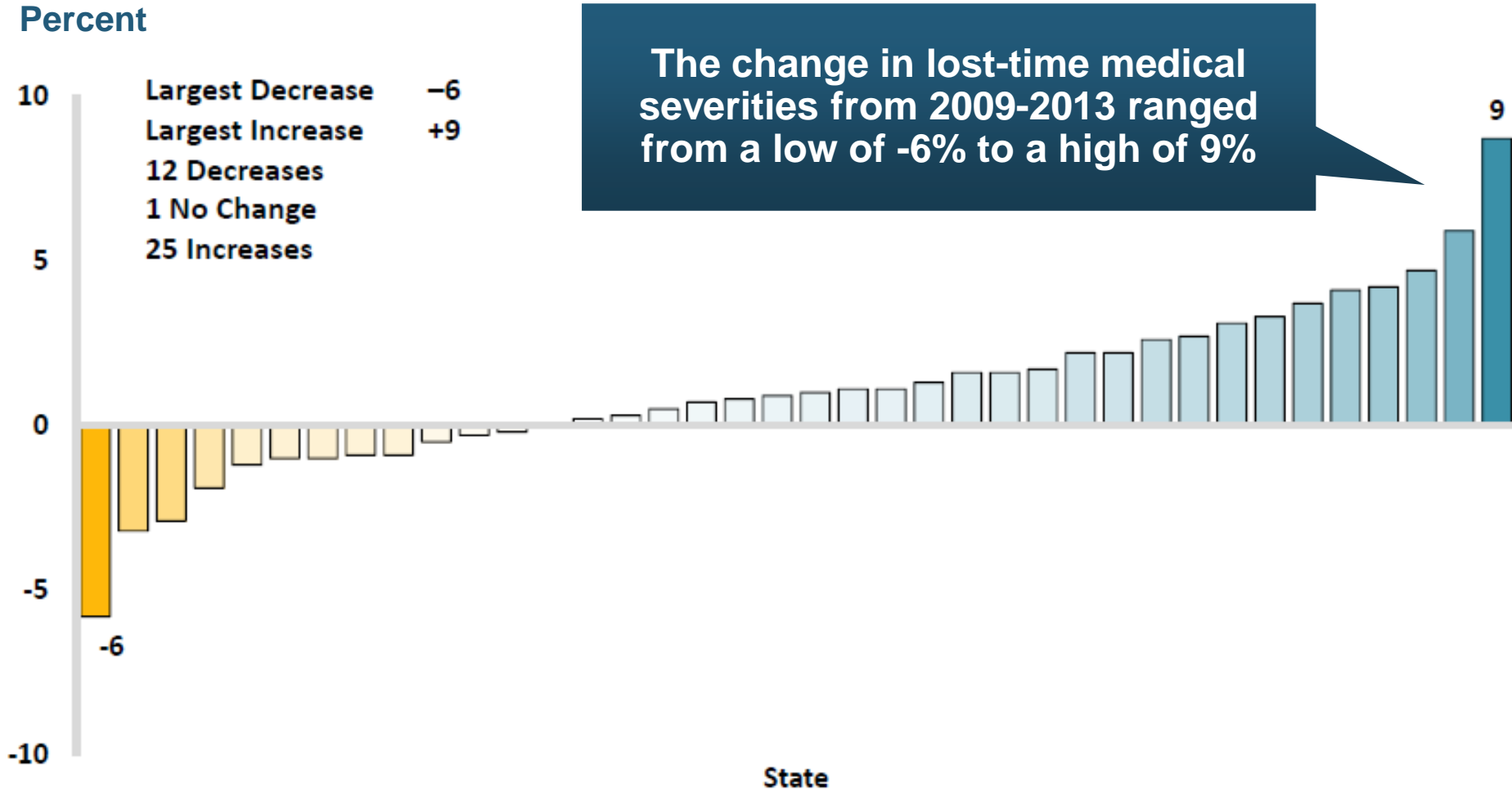


2014p: Preliminary based on data valued as of 12/31/2014.

1991-2013: Based on data through 12/31/2013, developed to ultimate

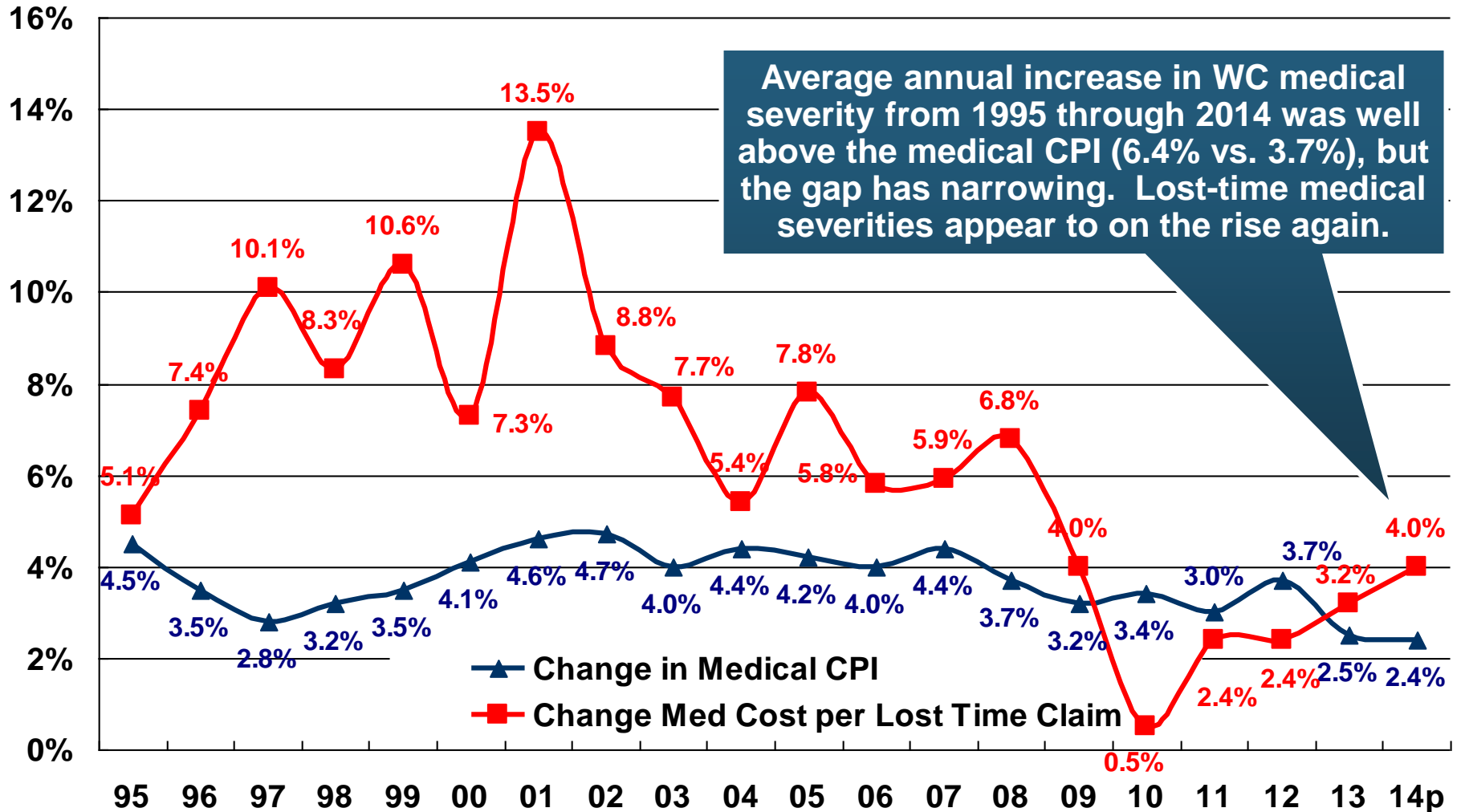
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

Workers Comp Change in Medical Severity by State, Avg. Annual Change, 2009-2013



Source: NCCI's Analysis of Frequency and Severity of Claims Across the Country as of 12/31/13 on ncci.com.
 Values reflect methodology and state data underlying the most recent rate/lost cost filing.
 TX changes are for the years 2010-2013.

WC Medical Severity Generally Outpaces the Medical CPI Rate

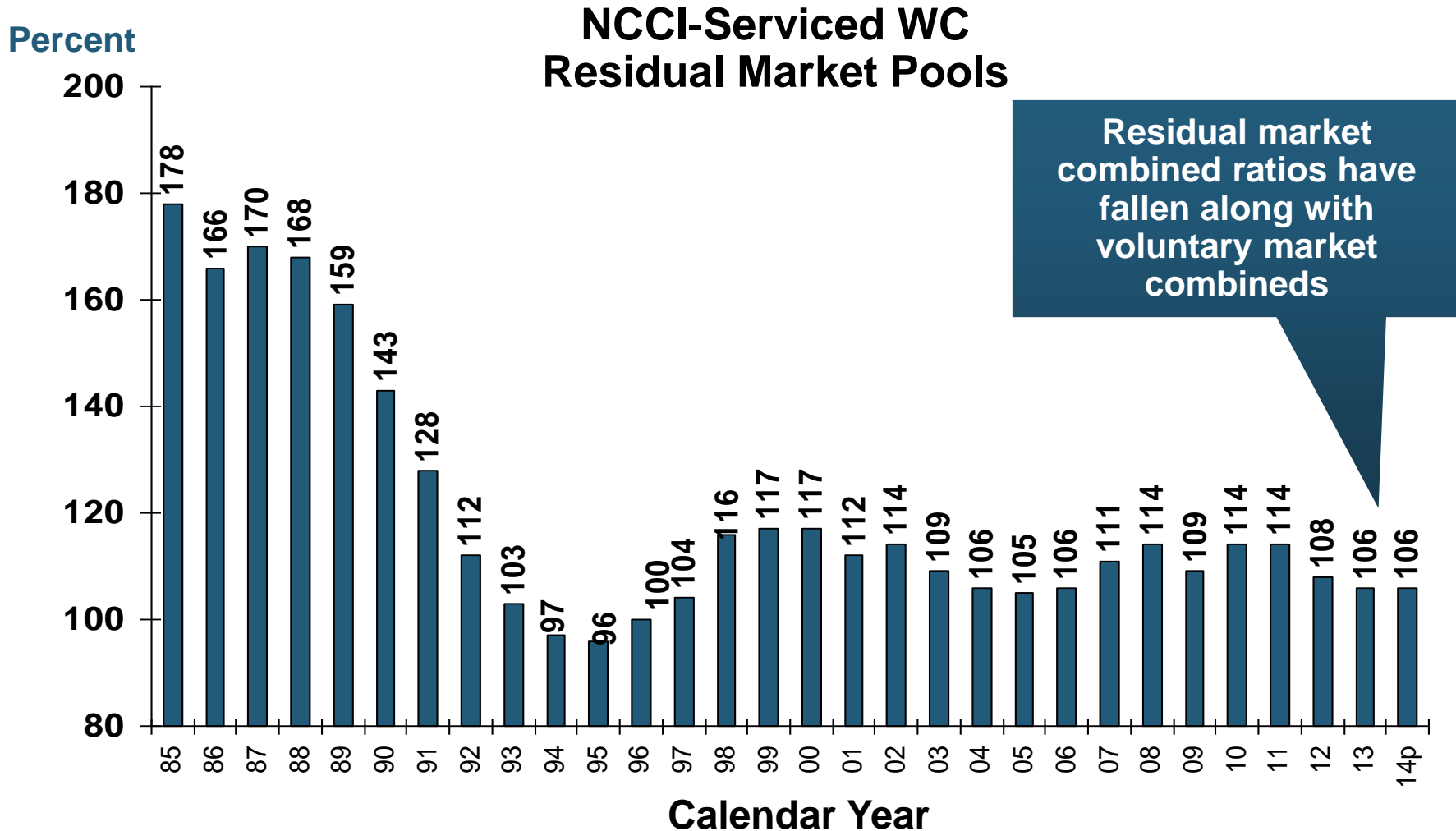




WC RESIDUAL MARKETS

**WC Residual Markets Remain
Fairly Stable**

WC Residual Market Combined Ratio, 1985-2014p



Includes pool and direct assignment data for all NCCI-serviced WC residual market pool states.

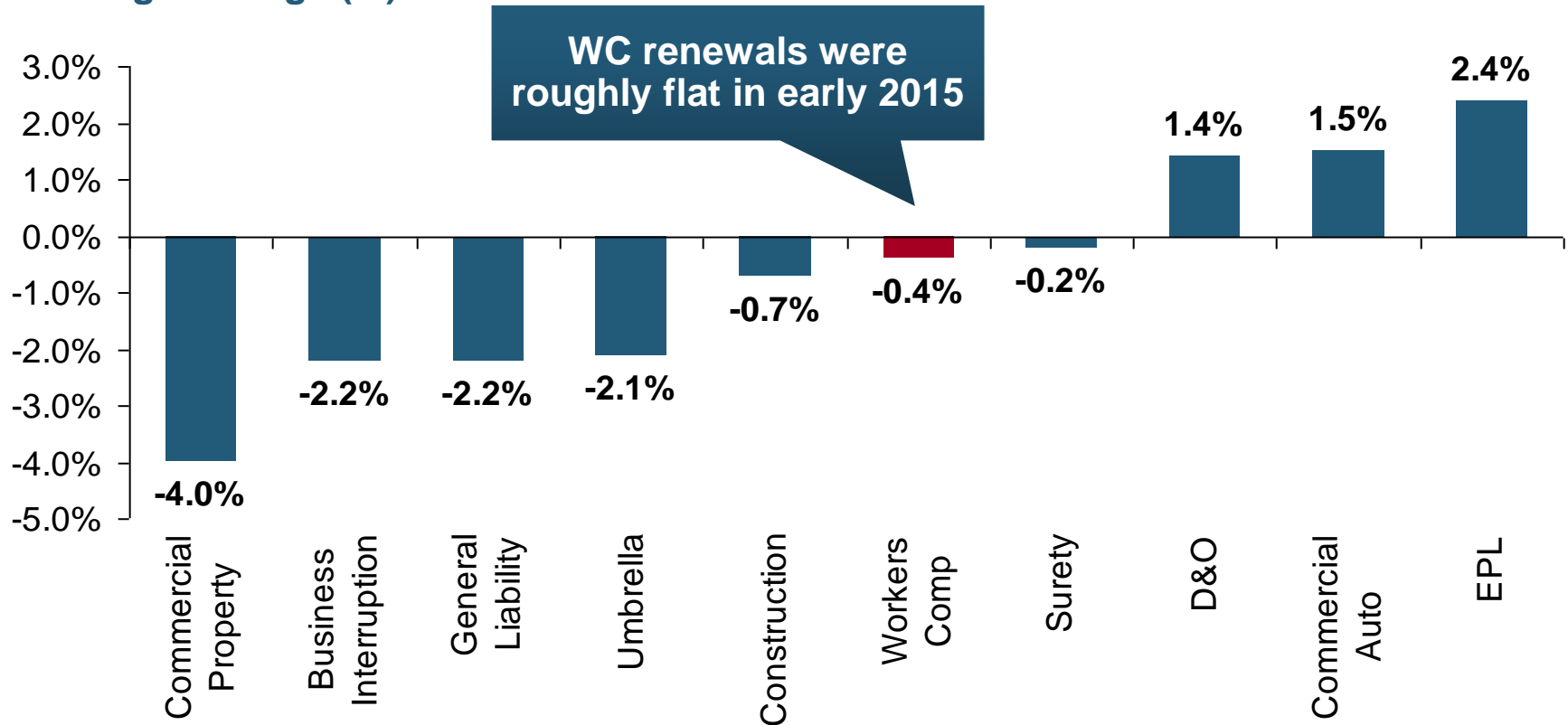
Source: NCCI, *Residual Market Management Summary*.

Commercial Lines Pricing Trends

**Survey Results Suggest
Commercial Pricing Has
Flattened Out**

Change in Commercial Rate Renewals, by Line: 2015:Q1

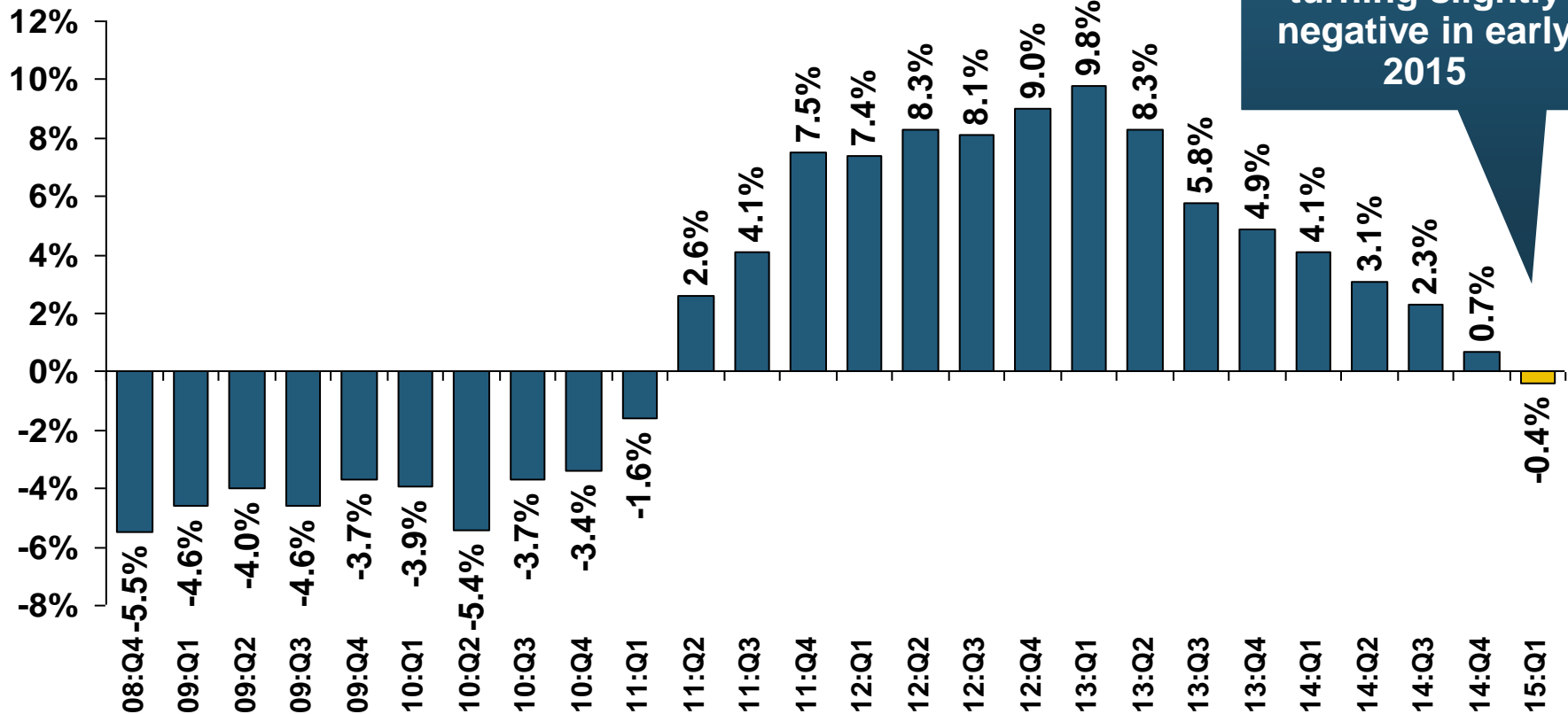
Percentage Change (%)



Major Commercial Lines Renewals Were Mixed to Flat in Q1:2015; EPL and Commercial Auto Led the Way

Workers Comp Rate Changes, 2008:Q4 – 2015:Q1

(Percent Change)



WC rate changes were positive for 15 consecutive quarters, before turning slightly negative in early 2015

Selected Challenges in the Workers Comp Market

**A Number of Issues Have Stirred
Interest in Workers Compensation in
the First Part of 2015**

Challenges Raised in the Workers Comp Line

- **Opt Out Legislation:** Coalition of large employers is aggressively pushing for legislation that would allow them to forego purchasing WC coverage in favor of creating their own programs while also seeking to specify the criteria for claiming and the size of benefits
 - ◆ Allowed in TX for many years and passed in OK in 2014
 - ◆ Failed in TN in 2015; Lobbying in AL, FL, GA, NC, SC

- **Challenges to Exclusive Remedy:** Assertion that after reforms in several states the WC “Grand Bargain” has been breached and that benefits are now insufficient
 - ◆ Objective of trial lawyers is to tap into the tort system

Five Leading WC Proposal Categories to Watch in 2015

- **Drug Formularies:** A few states have formularies and interested is increasing as studies show formularies can save money
- **Medical Marijuana:** Not priceable (no data). Some states take position that medical marijuana is not reimbursable (even if legal in state). Impact on drug-free workplace credit?
- **Fee Schedules:** Most states have fee schedules but 9 still do not. CT, NC added schedules in 2015, AK expected soon. Failed to introduce in NH and VA. Cost savings are often significant.
- **Attorney Fees:** Fee caps being challenged. Moving from a fee schedule to an uncapped “reasonable” fee standard is expected result in a significant increase in costs. Should fee be paid out of the award or by insurer/employer?
- **Opt Out:** Effort by some large corporations to restructure WC system

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