

**A REPORT TO THE LEGISLATIVE COUNCIL AND  
THE SENATE AND HOUSE INTERIM COMMITTEES  
ON INSURANCE AND COMMERCE  
OF  
THE ARKANSAS GENERAL ASSEMBLY  
(AS REQUIRED BY ACT 796 of 1993)**

**ANNUAL STUDY OF THE WORKERS' COMPENSATION  
INSURANCE MARKET IN ARKANSAS**



**Prepared by: William R. Lacy, Property & Casualty Division Director  
Arkansas Insurance Department**

**Approved by: Julie Benafield Bowman, State Insurance Commissioner**

**Date Submitted: September 9, 2008**



**REPORT TO THE LEGISLATURE ON ACT 796 OF 1993  
THE STATE OF THE WORKERS' COMPENSATION MARKET  
FOR YEAR ENDING 2007**

Previous reports to the Legislature have discussed in detail the condition of Arkansas's Workers' Compensation marketplace prior to the passage of Act 796 in 1993, and subsequent to the changes brought about as a result of Act 796.

Arkansas continues to enjoy a competitive workers' compensation market with the lowest premium levels in decades.

In 2007, Arkansas had a combined loss ratio of 79% ranking it among the lowest of any state for which Arkansas's statistical agent, the National Council on Compensation Insurance (NCCI), compiles loss data. In 2008, NCCI filed for decreases in both the voluntary market loss costs (-12.8%) and assigned risk plan rates (-13.8%). Several factors and trends in the industry, however, may offset future decreases. These factors include increased medical costs, increasing prescription drug utilization, increased reinsurance costs, and catastrophe loading for potential terrorism losses.

**CONTINUED RATE IMPACT OF ACT 796 OF 1993**

Arkansas's voluntary workers' compensation market would have disappeared and many employers would have found themselves unable to afford workers' compensation coverage, facing the choice of either closing down their business or operating outside the law, had Act 796 not become reality.

The impact of the Act on workers' compensation premiums is clear and significant. Prior to its enactment, rates were increasing significantly. For example, for both the voluntary market and the assigned risk plan, rates in 1991 and 1992 increased 15% and 18% respectively. Passage of the Act forestalled anticipated rate increases in 1993 and 1994, with 1993 being the first year in the last ten in which there was no rate increase. 1993 and 1994 were years of market stabilization, and subsequent years have seen significant rate reductions in both the voluntary market and the assigned risk plan. Year 2000 saw our first increase in the assigned risk plan rates while experiencing a decrease in the voluntary market. In 2003, Arkansas had the lowest loss costs in the region per \$100 of payroll (\$1.26) compared to the regional average loss cost of \$2.11 and the countrywide average loss cost of \$2.00. There are still positive effects from this Act that benefit Arkansas employers. On January 1, 2008, NCCI filed a slight increase to the advisory loss costs and assigned risks rates due to a change in the law pertaining to the phase-out of the Second Injury Fund and an increase to the threshold for the Death and Permanent Disability Trust Fund. Effective July 1, 2008, the NCCI filed significant decreases for both the voluntary market's loss costs (-12.8%) and for the assigned risk plan rates (-13.8%).

| Year                    | Voluntary Market | Assigned Risk Plan |
|-------------------------|------------------|--------------------|
| 1993                    | 0.0%             | 0.0%               |
| 1994                    | 0.0%             | 0.0%               |
| 1995                    | -12.4%           | -12.4%             |
| 1996                    | -8.0%            | -3.7%              |
| 1997                    | -4.7%            | -7.6%              |
| 1998                    | -9.1%            | -8.2%              |
| 1999                    | -4.1%            | -3.0%              |
| 2000                    | -4.5%            | -2.0%              |
| 2001                    | -7.5%            | 1.9%               |
| 2002                    | -4.5%            | -1.9%              |
| 2003                    | 1.8%             | 5.5%               |
| 2004                    | 0.5%             | 5.1%               |
| 2005                    | -1.5%            | -2.8%              |
| 2006                    | -0.5%            | -2.0%              |
| 2007                    | -5.4%            | -6.8%              |
| 2007 (effective 1/1/08) | 2.7%             | 2.7%               |
| 2008 (effective 7/1/08) | -12.8%           | -13.8%             |

### **PAYROLL AND EXPERIENCE MODIFIER**

Reported payroll in Arkansas continues to increase while premiums for insureds continue to decrease. The average experience modifier has increased minimally (0.961 from 0.912). This minimal change in experience modifier could represent the continuing effectiveness of loss control measures and the impact of the Hazardous Employer Program operated by the Health and Safety Division of the Workers' Compensation Commission. Please refer to Exhibit A for additional statistical information regarding premiums and modifiers.

### **ASSIGNED RISK PLAN**

The assigned risk plan has seen a consistent history of decline in population since the passage of Act 796 except for a gentle upward trend during 2002 through 2004. Down from a record high of \$150,000,000 in 1993, to a low of \$6,566,275 in September 2000, the premium volume as of December 31, 2007, was \$17,881,539 as compared to \$21,575,067 on December 31, 2006. The increase in premium during the 2002 through 2004 period was, in part, attributable to the failure of several insurers domiciled in California and other states. A portion of the increase may also have been attributable to an increase in plan population of small premium employers who have premiums too low to be attractive to the competitive market. In essence, their premiums are less than the minimum premium for which coverage is available in the voluntary market. These employers may often get better rates through the plan; consequently, as of the end of 2007, small premium employers (less than \$2,500 in annual premium) constituted approximately 82% of the plan policy volume with an average of \$800 in premium per policy. Average plan premium per policy at the end of 2007 was \$2,687 for all 6,084 policies in the plan.



For those employers qualifying for voluntary coverage, cost savings have been substantial. According to the NCCI, price discounting by voluntary carriers reached record levels of 24% during 1999. Carriers pulled back on the discounting in 2000 to 14.7% and, as anticipated, carriers further reduced discounts in 2004 and 2005. The trend continued through 2007 with carrier credits and debits of a net +.8%. These discounts were predominately comprised of discounts to scheduled rating and dividends of -3.31%, which offset a +4.1% increase due to carrier rate and loss cost departures. As rates continue to drop, these discounts will continue to narrow.

## **PLAN ADMINISTRATION/SERVICING CARRIERS**

The NCCI is an “Advisory Organization” licensed in Arkansas to assist its member insurers with respect to ratemaking and data collection activities. Effective July 1, 2006, the Commissioner re-appointed NCCI as Administrator for the Arkansas assigned risk plan until at least July 1, 2009.

Arkansas participates in the oversight of the market and the NCCI through a multi-state working group of the National Association of Insurance Commissioners (NAIC). The working group monitors data reliability and any other issues that arise involving the market.

In recent years, Arkansas has also participated in a multi-state examination of the NCCI in its role as an advisory organization licensed pursuant to Ark. Code Ann. §23-67-214. Participation in the examination task force, and periodic reviews of this nature, function to assure the quality of the data, as well as present the opportunity to improve existing systems and procedures. The examination found concerns about NCCI’s statistical reporting and error correction systems. These concerns were addressed and changes are monitored by the working group of the NAIC. The issues were never significant enough to affect the overall reliability of the data reported by the NCCI for the State of Arkansas.

During the implementation of the examination findings, Arkansas served as chair of the multi-state exam task force and concluded its responsibilities in this capacity after implementation of the required reforms.

The location of an office in Little Rock (mandated by 1993 legislation) continues to resolve many policy related service problems and provides Arkansas agents and insureds easy, immediate access to responsive company personnel. The effectiveness of this office is apparent in the reduction of the number of complaints received by the Insurance Department and the reduction in the number of appeals reaching the Appeals Board. The NCCI personnel assigned to the office are knowledgeable and committed to providing excellent service.

Attached are Exhibits B entitled *Arkansas Residual Market 2nd Quarter 2008 Status Report* and Exhibits C1 and C2 entitled *Arkansas Residual Market Annual 2007 and 2007 1st Quarter Status Reports*, respectively. The exhibits are prepared by the NCCI and provide detailed information on risk profiles such as average premium size, top ten classifications by code and by premium, and a list of contacts within NCCI for specific areas of concern.

NCCI provides, at no charge to the agent, the option to submit assigned risk applications online. Upon successful submission, the customer receives a confirmation code and application identification number for reference. There are significant savings to the plan when an application can be processed electronically. Arkansas agents have been extremely responsive to this initiative.

The Annual Servicing Carrier Performance Review conducted by NCCI reveals either “Commendable” or “Satisfactory” scores for all areas of Arkansas’s servicing carriers. For the period commencing January 1, 2008, through December 31, 2011, the servicing carriers are Travelers Indemnity Company, Liberty Insurance Corporation, Union Insurance Company, and Technology Insurance Company.

## **SUMMARY OF INSURANCE DEPARTMENT’S CRIMINAL INVESTIGATION UNIT**

Before the passage of Act 796 of 1993, there had never been a criminal prosecution in Arkansas for workers’ compensation fraud committed by employees, employers, or healthcare providers.

Act 796 of 1993 created the Workers’ Compensation Fraud Investigation Division and made any type of fraud committed within the workers’ compensation system a Class D felony (maximum six years and/or \$10,000 fine). The division was renamed the Criminal Investigation Division during the 2005 Legislative Session.

Fraud in the workers’ compensation system was perceived to be epidemic. Since the majority of employers were in the "Plan," there was little, if any, incentive for thorough investigation of possibly fraudulent insurance claims and few consequences to those caught making intentional misrepresentations. Act 796 changed the entire landscape of the workers’ compensation system, particularly in regard to the detection, prevention, and prosecution of workers’ compensation fraud.

The actual prosecution of a workers’ compensation fraud case is contingent on many factors. Key among those factors is the elected prosecutor’s willingness to carry a case forward. If the information provided from an investigation is not enough to meet the standards for conviction found at Ark. Code Ann. § 11-9-106, a prosecutor will be unwilling to pursue the case. Local law enforcement agencies often do not have the resources to investigate workers’ compensation fraud; fortunately, the investigative authority of the Criminal Investigation Division allows the Arkansas Insurance Department to supplement these often under funded local agencies. This Division’s dedication to a single purpose allows for complex investigations which require time and focus that would otherwise not be available. As these complex cases evolve, they frequently require investigators to work through a myriad of leads to develop a case. Occasionally, even with dedicated resources for this single purpose being used, there simply is not enough information to prosecute the crime. While the number of actual prosecutions varies from year to year, the possibility of investigation and prosecution is a constant deterrent. Any lessening of the Division’s enforcement powers would likely result in a re-emergence of both frequency and severity of fraud committed by employees, employers, and healthcare providers.

The cases represented by the statistics below, which are comparable per capita to those of other states with active anti-fraud efforts, are believed to have had a significant impact on workers' compensation rates in Arkansas, and the deterrent factor has been substantial. In fact, many cases are not carried forward to prosecution. In many instances, the threat of prosecution is enough to get the parties involved to settle the cases outside of court, resulting in restitution for the aggrieved parties. While not technically prosecutor wins, these cases result in positive outcomes for injured workers in the state.

Act 743 of 2001 significantly enhanced the efficiency and effectiveness of the Division by granting its investigators certified law enforcement authority. The Division can now execute arrest warrants, thus reducing the backlog of warrants that were awaiting service by local law enforcement agencies. Annual referrals to the Criminal Investigation Division have been reduced significantly since its first year of operation. This reduction is attributed to increased enforcement efforts under the Act. In the 2007-2008 reporting period there were 32 workers' compensation investigations opened. Currently there are 51 open and being investigated. In total, there have been 449 workers' compensation fraud cases referred to the Division since its creation in 1993 to July 31, 2008. In that same time period there have been 139 prosecutions. Out of these 139 cases, 101 resulted in convictions. In total, only three prosecutions have resulted in acquittals. In the remaining cases, the charges were dropped.

During this reporting period four cases were referred to prosecution. Currently there are 11 workers' compensation cases pending prosecution. Many of these cases are based upon the work done during the reporting period. Similarly, work continues on many investigations that were opened during the reporting period.

### **2007 LEGISLATIVE ACTIVITY WITH REGARD TO WORKERS' COMPENSATION**

The following legislation was passed concerning workers' compensation during the 2007 Regular Session of the Legislature.

**ACT 398.** An Act to Amend Arkansas Code § 17-25-514(B) Concerning The Requirement That A Residential Building Contractor Submit Proof Of Current Workers' Compensation Coverage Before Renewing A License; And For Other Purposes.

This Act requires all licensees and applicants for license as a residential building contractor to have workers' compensation coverage for their employees and to furnish proof when applying for a new license or renewal of an existing license. There was no emergency clause associated with this Act. It is unlikely this Act will have any significant impact on rates or availability. It likely will result in an increase in workers covered under the workers' compensation system.

**ACT 546.** An Act To Give A Sole Proprietor, Partner, Professional Association Member, Or Limited Liability Company Member The Same Right To Waive Workers' Compensation Coverage As A Sole Proprietor And A Corporate Officer; And For Other Purposes.

This Act expanded to include additional entities in which owners have the right to be excluded from coverage under their own policy by endorsement. There was no emergency clause associated with this Act. It is unlikely this Act will have any significant impact on rates or availability.

**ACT 1415.** Amend Ark. Code Ann. § 11-9-525 Concerning Compensation For Second Injuries And To Amend A Portion Of The Arkansas Code Which Resulted From Initiated Act 4 Of 1948. Effective July 31, 2007.

This Act amends Ark. Code Ann. § 11-9-525 to provide a sunset provision for people seeking to claim compensation for second injuries. The last date a person could file was December 31, 2007. No claims of this nature may be submitted from January 1, 2008, forward. Act 1415 could result in a dampening of future rate decreases as the carriers will have to bear more of these losses directly and continue to support the Second Injury Fund during its runoff.

**ACT 1599.** Ensure The Solvency Of The Death And Permanent Total Disability Trust Fund And To Amend A Portion Of The Arkansas Code Which Resulted From Initiated Act 4 Of 1948. Effective July 31, 2007.

This Act amends Ark. Code Ann. § 11-9-502 concerning limitations payable by the employer or workers' compensation carrier for permanent disability or death compensation in workers' compensation claims. For injuries occurring on or after January 1, 2008, if an injured employee dies or is deemed to be permanently and totally disabled due to the workers' compensation injury, the employer or carrier must pay the weekly death or permanent disability benefits up to 325 times the maximum total disability rate for the date of the injury before the Death and Permanent Total Disability Trust Fund assumes payment for the death or permanent total disability. Injuries occurring before January 1, 2008, continue to be governed by the existing language of the statute which provides for the employer or carrier to pay \$75,000.00 before the Death and Permanent Total Disability Trust Fund assumes payment. Act 1599 could result in a dampening of future rate decreases as the carriers will have to bear more of these losses directly.

### **SUMMARY OF SIGNIFICANT WORKERS' COMPENSATION CASES FROM THE ARKANSAS COURT OF APPEALS AND SUPREME COURT FISCAL YEAR 2007-08<sup>1</sup>**

#### **Cases from the Arkansas Supreme Court**

*Cedar Chemical Co. v. Knight*, 372 Ark. 233, \_\_\_ S.W.3d \_\_\_ (2008); 2008 WL 251957 (Jan. 31, 2008): The Claimant in this instance felt pain in his left knee while descending a flight of stairs on July 1, 2001. Prior to that, in May 2001, he had ascended a flight of stairs and felt a pop in his knee and pain in his back, but continued to work and informed his supervisor that there was no need to file an accident report. However, after the July incident, the claimant could not put much weight on his leg and sought medical treatment. Relying on MRI findings and an opinion offered by the Claimant's physician, the Arkansas Workers' Compensation Commission

---

<sup>1</sup> Westlaw citations are provided where standard legal citations are partially available or unavailable.

found that the event of July 1, 2001, was not “personal in nature” nor did it occur due to degenerative changes but rather represented a compensable, specific-incident injury. The Arkansas Court of Appeals subsequently affirmed, after which the Arkansas Supreme Court granted a Petition for Review. Relying heavily on the Commission’s acceptance of the Claimant’s testimony as credible, the Supreme Court also affirmed. The Court noted the opinion offered by the Claimant’s treating physician that “Appellee’s acute injury was responsible for more than fifty percent of Appellee’s impairment,” and went on to point out that “Where a claimant suffers an unexplained injury at work, it is generally compensable” [citing *ERC Contractor Yard & Sales v. Robertson*, 335 Ark. 63, 977 S.W.2d 212 (1998)].

### **Cases from the Arkansas Court of Appeals**

*Jones v. Wal-Mart Stores, Inc.*, 100 Ark. App. 17, \_\_\_ S.W.3d \_\_\_ (2007); 2007 WL 2713381 (Sept. 19, 2007): The Arkansas Workers’ Compensation Commission found that the claimant had failed to prove that she was entitled to permanent disability benefits or additional medical treatment in association with her compensable injury of July 13, 2002. In particular, the Commission found that “in the absence of a physician’s report assigning a permanent impairment rating, appellant was not entitled to permanent disability benefits.” Relying on *Johnson v. General Dynamics*, 46 Ark. App. 188, 878 S.W.2d 411 (1994) and *Polk County v. Jones*, 74 Ark. App. 159, 47 S.W.3d 904 (2001), the Arkansas Court of Appeals held that “the Commission was authorized to decide which portions of the medical evidence to credit and translate the medical evidence into a finding using the AMA *Guides*, as to whether the claimant met her burden of proof.” Consequently, the Court remanded the matter to the Commission to determine whether the claimant had, in fact, proven the existence and extent of a permanent impairment, effectively holding that it is within the Commission’s prerogative to determine whether an impairment exists even in the absence of a medical report assigning an actual rating. (The Court affirmed the Commission’s findings with regard to additional medical treatment.)

*Williams v. Johnson Custom Homes, et al*, 100 Ark. App. 60, \_\_\_ S.W.3d \_\_\_ (2007); 2007 WL 2851029 (Oct. 3, 2007): The claimant began working for Johnson Custom Homes in January 2002; however, he later signed a W-4 and other documents in early 2004 indicating that an out-of-state company known as “Paysource” was his actual employer. Among the forms was one which specified that any work-related injury sustained by the claimant would fall under the exclusive jurisdiction of the Ohio Bureau of Workers’ Compensation. The claimant thereafter sustained multiple injuries when he fell from a scaffold on April 14, 2004, and began receiving workers’ compensation benefits out of Ohio. The respondents subsequently denied coverage for a portion of the claim, resulting in an Ohio hearing which the claimant did not attend (the claimant apparently testified that he did not know he was required to travel to Ohio, but admitted to “having an attorney ready to represent him in Ohio”). In August 2004, Paysource became the subject of a Cease and Desist Order issued by the Insurance Commissioner of the State of Arkansas, in relation to certain “illegal activities.” The claimant then filed for workers’ compensation benefits under Arkansas jurisdiction, alleging also that the respondents had acted in bad faith and that the Arkansas workers’ compensation system was unconstitutional. The Arkansas Workers’ Compensation Commission found that the claim for benefits was barred since the claimant had made an election of remedies by “knowingly receiving benefits pursuant to the workers’ compensation laws of the State of Ohio.” The Commission further found that the

constitutional arguments raised by the claimant's attorney had been addressed in several prior cases and were without merit. The Arkansas Court of Appeals affirmed the Commission, agreeing that the "substantial weight of the evidence supports the Commission's finding that appellant elected his remedy in Ohio because he actively initiated a claim for benefits and then knowingly received benefits through Ohio." The Court also noted its prior language in *Biddle v. Smith & Campbell*, 28 Ark. App. 46, 773 S.W.2d 840 (1989), in which it stated that "a claimant should be held to his affirmative actions and the resulting consequences of making an election of remedies." In addition, the Court found no merit in the claimant's allegation of bad faith, pointing out that he had contracted with the respondents to accept Ohio jurisdiction of any work-related injuries and was a literate, educated management employee who had plenty of time to review the documents at issue and to ask questions of their meaning. Finally, the Court observed that it had rejected the claimant's constitutional arguments in *Long v. Wal-Mart Stores, Inc.*, 98 Ark. App. 70, 250 S.W.3d 263 (2007), and saw no reason to consider them again.

*Texarkana School Dist. v. Conner*, 100 Ark. App. 100, \_\_\_ S.W.3d \_\_\_ (2007); 2007 WL 2851054 (Oct. 3, 2007): The claimant in this instance sustained a broken leg while unlocking a parking lot gate on his employer's premises upon returning from a lunch-break errand. The Arkansas Workers' Compensation Commission found that the claimant had been performing "employment services" at the time of injury, in that he was on the employer's premises, was providing a service by allowing access to the parking lot, and was "on-call" while on the employer's grounds during his lunch break. The Arkansas Court of Appeals reversed, noting that the claimant was not required to stay on the premises during lunch, was not paid for his lunch break, and was returning from a personal errand at the time of injury. The Court also concluded that the claimant's activity at the time of injury was not "inherently necessary" to the performance of his job, nor was it for the employer's purpose or benefit, in that the claimant had never before opened the gate in question during his previous twenty-six years of employment and had done so only for the purpose of attending to the personal need of "parking in a convenient location of his choice." **[NOTE: The Arkansas Supreme Court subsequently granted a Petition for Review, reversed the decision of the Arkansas Court of Appeals, and affirmed the Commission's original decision. In particular, the Supreme Court noted the Commission's reliance on evidence that the Claimant had attempted to unlock the gate in question only because the main gate was blocked by a disabled vehicle. The Commission had thus concluded that the employer's interests had been advanced by this action, and the Supreme Court was unable to say that there was a lack of substantial evidence to support the Commission's conclusion or that reasonable minds could not have reached the same result. 2008 WL 1970894 (Arkansas Supreme Court, May 8, 2008)]**

*Sierra v. Griffin Gin*, 100 Ark. App. 113, \_\_\_ S.W.3d \_\_\_ (2007); 2007 WL 2964199 (Oct. 10, 2007): In this case involving the appropriate average weekly wage, the parties stipulated that the Claimant was a seasonal worker who earned \$1,020 per week for nine weeks of work. An Administrative Law Judge determined that the Claimant's average weekly wage was \$680, obtained by multiplying \$1,020 by 66 2/3%. In turn, the Administrative Law Judge awarded a compensation rate of \$466.00, the maximum for injuries occurring in 2005. The Full Commission reversed, finding that the claim warranted the application of Ark. Code Ann. §11-9-518(c) because it involved "exceptional circumstances." In particular, the Commission determined that it would be unfair to award the claimant the maximum compensation rate since,

if carried out for a disability period of fifty-two weeks, it would result in compensation that far exceeded the amount of money he had contracted to earn over a nine-week employment period. Accordingly, the Full Commission divided the claimant's \$9,180 of contracted earnings by fifty-two weeks for an average weekly wage of \$118.00. The Arkansas Court of Appeals reversed, holding that the claim involved no "exceptional circumstances" to warrant the application of Ark. Code Ann. §11-9-518(c). In so holding, the Court stated that "there is simply no evidence in the record regarding appellant's past or prospective annual earnings with this – or any other – employer." The Court also concluded that the Commission's decision had the effect of "legislating policy against seasonal employment."

*Firestone Tube Co. v. Potts and Second Injury Fund*, 100 Ark. App. 263, \_\_\_ S.W.3d \_\_\_ (2007); 2007 WL 3171822 (Oct. 21, 2007): The Claimant sustained a compensable injury on February 27, 2004, which resulted in a hearing involving the Second Injury Fund and from which the Fund appealed. Following its *de novo* review, the Arkansas Workers' Compensation Commission ruled in favor of the Claimant and awarded a \$500.00 attorney's fee. However, the Commission did not specify whether the Fund or the employer, who had not participated in the appeal, was responsible for paying the fee. Following various motions for clarification and reconsideration, the Commission ultimately ordered the employer and the Claimant to pay an equal share of the fee. The Arkansas Court of Appeals reversed, pointing out that "While Mr. Potts did prevail...in order for the employer to be responsible for an attorney's fee under that subsection, the employer at a minimum must have been a party to the appeal...whatever additional expense may have been caused by the appeal to the Commission, this expense was not made necessary by Firestone, who paid substantial benefits to the claimant and then prevailed before the Administrative Law Judge on its claim that any permanent disability benefits to which Mr. Potts was entitled was not its responsibility but rather the responsibility of the Second Injury Fund."

*Toia v. HTI Logisitics*, 100 Ark. App. 314, \_\_\_ S.W.3d. \_\_\_ (2007); 2007 WL 3357186 (Nov. 14, 2007): The Claimant, a truck driver, lost his footing and fell while attempting to climb into the cab of his truck to sleep for the evening on May 9, 2002. The Arkansas Workers' Compensation Commission found that the Claimant was not performing "employment services" at the time of the accident and denied benefits. The Arkansas Court of Appeals, in light of the Arkansas Supreme Court's decision in *Jivan v. Economy Inns and Suites*, 370 Ark. 414, \_\_\_ S.W.3d \_\_\_ (2007); 2007 WL 1847618 (June 28, 2007), reversed. In *Jivan*, the Claimant was required to live on the employer's premises and was essentially on call twenty-four hours a day, prompting the Supreme Court to find that she had been performing employment services (under an increased-risk analysis) at the time of her death even though her precise activities at the time of injury were not directly employment-related. Here, the Court of Appeals reversed the Commission after concluding that "the appellant's activities related to returning to the 'premises,' i.e., his truck, in preparation of staying overnight in the truck to protect it and its cargo, advanced the interests of his employer" (thus distinguishing the present case from *Cook v. ABF Freight Systems*, 88 Ark. App. 86, 194 S.W.3d 794 (2004), in which compensation was denied to an "on call" truck driver injured in a hotel room provided by his employer).

*Parker v. Comcast Cable Corp.*, 100 Ark. App. 400, \_\_\_ S.W.3d \_\_\_ (2007); 2007 WL 4247602 (Dec. 5, 2007): The Arkansas Workers' Compensation Commission held that the

Claimant was not performing employment services on May 8, 2004, when she tripped while leaving an elevator en route to her work station after arriving for her shift. Just before her fall, the Claimant had obtained a drink from the break room and had used a key card to gain access to enter the building. In affirming the Commission, the Arkansas Court of Appeals disagreed with the Claimant's comparison of her case with *Caffey v. Sanyo Mfg. Corp.*, 85 Ark. App. 342, 154 S.W.3d 274 (2004): "However, we cannot equate the requirement of undergoing security checks with the necessity of swiping a key card to unlock a door. In our view, appellant was merely on her way to work, and there was no testimony that she had any job-related responsibilities as she walked through the building... We thus reject the notion that the requirement of having to unlock the door renders this claim compensable. Had appellant tripped during regular business hours when the door was unlocked, there would be no question that appellant's claim would not be compensable. We decline to create a distinction that would render a claim compensable just because the door to the building was locked. Moreover, to accept appellant's argument would erode the legislature's intent to do away with the premises exception." (The Court also distinguished the facts of this case from *Shults v. Pulaski Co. Special School Dist.*, 63 Ark. App. 171, 976 S.W.2d 399 (1998), in which benefits were awarded to a claimant who had fallen when entering his employer's premises upon arriving for work; in that case, the Claimant had been responsible for entering the building and checking the alarm system and was thus advancing the employer's interests at the time of injury.)

*The Steak House v. Weigel*, 101 Ark. App. 81, \_\_\_ S.W.3d \_\_\_ (2007); 2007 WL 4415202 (Dec. 19, 2007): The Arkansas Court of Appeals remanded this case to the Arkansas Workers' Compensation Commission for further fact-finding on whether "guarding" constituted an objective medical finding within the meaning of Act 796 of 1993. The Court noted that medical authorities provided conflicting information as to whether guarding was an involuntary (objective) or voluntary (subjective) response. Consequently, the Court determined that the Commission's conclusion that guarding was an objective finding "sweeps too broadly," and went on to disavow its own dicta in *Polk Co. v. Jones*, 74 Ark. App. 159, 161, 47 S.W.3d 904, 905 (2001) which stated that guarding was "subjective criteria and not objective findings." In sum, the Court held that "muscle guarding is sometimes involuntary and sometimes voluntary... This issue is therefore a matter of fact on which the Commission should make a specific finding case by case based on the medical evidence."

*O'Hara v. J. Christy Constr. Co., Inc.*, \_\_\_ Ark. App. \_\_\_, \_\_\_ S.W.3d \_\_\_ (2008); 2008 WL 1735034 (April 16, 2008): In the third presentation of this case to the Arkansas Court of Appeals, the Court was asked to consider the proper date of accrual for an award of permanent total disability benefits which stemmed from a previous, modified order of wage loss disability. Prior to this appeal, the Arkansas Workers' Compensation Commission had awarded a 20% wage loss disability rating to the Claimant in an Opinion and Order issued in February 1998. The Arkansas Court of Appeals affirmed this decision in March 1999. Subsequently, in 2003, the Claimant sought additional wage loss disability before the Commission, which the latter denied in a January 13, 2005, opinion. The Court of Appeals reversed, holding that the Commission had erroneously applied the doctrine of *res judicata*. The Court also remanded the case for a consideration of whether the Claimant had been rendered permanently and totally disabled under the "odd-lot doctrine" since his injury had occurred prior to the implementation of Act 796 of 1993. In its next opinion, dated May 10, 2006, the Commission found that the



Claimant was, in fact, permanently and totally disabled under the odd-lot doctrine. However, the Commission did not specify the effective date of the award. In yet another opinion issued on May 2, 2007, the Commission found that permanent and total benefits should begin on May 10, 2006, the date on which the order granting the award was entered. On appeal from that opinion, the Arkansas Court of Appeals determined instead that the award of permanent and total disability commenced on August 15, 2003. Specifically, the Court noted that “to hold that the accrual of benefits to a modification accrues only after a series of appeals and remands finally results in a correct disposition of the injured workers’ claim would divest an employee of his rights to timely payment of benefits. Accordingly, we hold that the accrual of benefits began at the time the first order in the case addressing the modification was entered, August 15, 2003, which was the order entered by the Administrative Law Judge.”

*Martin Charcoal, Inc. v. Britt*, \_\_\_ Ark. App. \_\_\_, \_\_\_ S.W.3d \_\_\_ (2008); 2008 WL 2042954 (May 14, 2008): In this “old law” case (to wit, workers’ compensation law as it existed prior to July 1, 1993), the Arkansas Court of Appeals affirmed the Arkansas Workers’ Compensation Commission’s finding that a proposed heart/lung transplant was reasonably necessary treatment in connection with the Claimant’s cardiac injury of March 4, 1991. Specifically, both the Commission and the Court relied on an earlier Court of Appeals’ opinion which held that “medical treatments which are required so as to stabilize or maintain an injured worker are the responsibility of the employer.” *Artex Hydrophonics, Inc. v. Pippin*, 8 Ark. App. 200, 649 S.W.2d 845 (1983). The Court further noted opinions from various physicians indicating that a heart transplant alone would offer little or no benefit, and concluded that “The fact remains that the heart/lung transplant is necessary to stabilize or maintain the appellee’s compensable condition.” However, the Court also affirmed the Commission’s finding that the Claimant’s claim for a separate lung injury stemming from the same accident was barred by the statute of limitations. Quoting from *Corpus Juris Secundum*, the Court pointed out that a “single employment accident may create more than one ‘compensable injury,’ for purposes of an act, which in turn results in more than one date for the start of the statute of limitations.” 100 C.J.S. *Workers’ Compensation* §825 (2000). The Court went on to say that “Mr. Britt’s heart condition and lung condition are two distinct injuries for which compensation must be timely claimed under our statutes. The first time Mr. Britt claimed compensation for a lung injury was on October 23, 2003, which was outside of the two-year limitations period...The Commission correctly concluded that Mr. Britt’s claim for a compensable lung injury was barred by the statute of limitations.” Likewise, the Court declined to accept the Claimant’s argument that his lung injury was a latent condition that did not manifest itself until 2003, since pulmonary diagnostics and function tests performed in 2000 revealed severe abnormalities: “Thus, the nature and extent of Mr. Britt’s lung condition manifested itself more than two years prior to his claim filed on October 24, 2003, and the Commission correctly found that the latent injury rule did not save Mr. Britt’s claim.”

*Roberts v. Whirlpool*, \_\_\_ Ark. App. \_\_\_, \_\_\_ S.W.3d \_\_\_ (2008); 2008 WL 2042955 (May 14, 2008): In this instance, the Arkansas Workers’ Compensation Commission found that the claimant’s cervical problems were not causally connected to a work-related injury of September 4, 2004. In so finding, the Commission had discounted the opinion of Dr. Arthur Johnson, who had concluded that the Claimant’s cervical problems did occur in connection with his 2004 injury. In particular, according to the Arkansas Court of Appeals, the Commission

dismissed Dr. Johnson's opinion because it was "based on the claimant's history" and because Dr. Johnson "did not review the claimant's medical records." In reversing the Commission, the Court noted that there was no evidence in the record to suggest that the history provided by the Claimant to Dr. Johnson was inaccurate, and that the Commission had made no finding to that effect. Accordingly, the Court concluded that there was no basis for dismissing a physician's opinion "simply because it was based in part on the history provided by the claimant." The Court also pointed out that, by the time of his deposition, Dr. Johnson "was...fully conversant with appellant's medical records." Consequently, the Court remanded the case back to the Commission "for it to fully examine the relevant evidence presented."

*Rutherford v. Mid-Delta Community Services, Inc.*, \_\_\_ Ark. App. \_\_\_, \_\_\_ S.W.3d \_\_\_ (2008); 2008 WL 2191142 (May 28, 2008): The claimant sustained injuries from a compensable automobile accident in June 2002, for which she received workers' compensation benefits until the end of her healing period in March 2006. Thereafter, the parties could not reach an agreement on the extent (if any) of her permanent disability, prompting the Claimant to file a claim for permanent and total disability with the Arkansas Workers' Compensation Commission. Though an Administrative Law Judge found that the Claimant was, in fact, permanently and totally disabled, the Full Commission reversed, finding that the Claimant had sustained no ratable permanent anatomical impairment and thus could not be awarded any permanent disability. On appeal, the Arkansas Court of Appeals considered a single issue presented by the Claimant, to wit, whether a permanent partial impairment rating was a prerequisite to a claim for permanent and total disability. In answering this question, the Court of Appeals noted that an impairment was required in the context of permanent *partial* disability pursuant to Ark. Code Ann. §11-9-522(b)(1) and *Wal-Mart Stores v. Connell*, 340 Ark. 475, 479, 10 S.W.3d 882, 884 (2000), in which the Arkansas Supreme Court stated that: "[A]ny consideration of 'the employee's age, education, work experience, and other matters reasonably expected to affect his earning capacity' may not occur until the Commission has first determined 'the percentage' of permanent physical impairment." However, the Court of Appeals went on to point out that "there is an entirely different statute in play when the issue is PTD." In sum, following the strict construction mandate of Act 796 of 1993, the Court accepted the Claimant's argument that Ark. Code Ann. §11-9-519(c) only required that PTD "shall be determined in accordance with the facts," and that §519 did not mention permanent impairment other than to require the Commission to adopt an impairment rating guide in subsection (g). Consequently, the Court overruled its previous holding in *Wren v. Sanders Plumbing Supply*, 83 Ark. App. 111, 117 S.W.3d 657 (2003), to the extent that *Wren* had required a permanent partial impairment rating as a prerequisite to an award of permanent total disability.

*Singleton v. City of Pine Bluff*, \_\_\_ Ark. App. \_\_\_, \_\_\_ S.W.3d \_\_\_ (2008); 2008 WL 2191143 (May 28, 2008): In 2006, the Arkansas Court of Appeals considered the first appeal of this case, and reversed the Arkansas Workers' Compensation Commission's finding that the Claimant had failed to prove any entitlement to benefits for anatomical impairment or wage loss disability. In particular, the Court found error with the Commission's rejection of "all evidence that did not constitute an objective finding." Subsequently, the Commission entered a new order in which it recognized that objective medical evidence was not necessary to prove each and every element of compensability. However, the Commission went on to state that it had adopted the Fourth Edition of the *Guides to the Evaluation of Permanent Impairment* as an impairment

rating guide pursuant to its statutory mandate, and that “[t]here is not a single table or figure in [the *Guides*] which allows the Commission to assign a permanent anatomical impairment to the claimant’s left ankle in accordance with relevant standards of Act 796 of 1993.” On its second consideration of this case, the Court of Appeals concluded that such reasoning was not a proper basis for denying relief and that the Commission had not complied with the Court’s mandate from the first appeal, pointing out that “...the Commission ignored our mandate and denied relief on the same theory of law that we held to be erroneous in our prior opinion, justifying this refusal to comply with our mandate on the legal theory that compensability was decided by the *Guides* it had adopted, rather than by the provisions of the Arkansas Workers’ Compensation Act as interpreted by this court.” Though recognizing that the Commission was statutorily authorized to adopt an impairment rating guide, the Court went on to state that: “The *Guides* are just that: mere guides to aid the Commission in assessing the degree of a claimant’s disability as defined by statute and interpreted by the courts. If those *Guides* do not contain an express method of rating an injury that is compensable pursuant to Arkansas law, the Commission must adopt a reasonable method of doing so.” The Court thus remanded the case back to the Commission for compliance with its earlier mandate.

*Estate of Jerry Slaughter v. City of Hampton*, \_\_\_ Ark. App. \_\_\_, \_\_\_ S.W.3d \_\_\_ (2008); 2008 WL 2266322 (June 4, 2008): In yet another case making its second appearance before the Arkansas Court of Appeals, the Court reversed the Arkansas Workers’ Compensation Commission’s finding that the Claimant’s surviving spouse was not entitled to widow’s benefits under Ark. Code Ann. §11-9-527 since she was not married to the Claimant when he sustained his compensable injury (on the first appeal, the Court had reversed the Commission’s determination that the Claimant’s estate had not proven that he sustained a compensable injury in the form of chemical exposure that resulted in his death; the Commission subsequently awarded death benefits when it re-considered the claim). The Court pointed out that a litigant claiming entitlement to widow’s benefits pursuant to Ark. Code Ann. §11-9-527 must prove that (1) she is the decedent’s widow and (2) that she was “wholly and actually dependent” on the decedent at the time of the injury. In addition, the Court noted that Ark. Code Ann. §11-9-102(20)(A) defined “widow” as “the decedent’s legal wife, living with or dependent for support upon him at the time of his death,” and that the introductory clause of §11-9-102 provided that its definitions applied throughout the workers’ compensation code. The Court thus concluded that while questions of “dependency” turn on the facts as they exist on the date of injury, whether someone is a widow is not governed or dealt with by §11-9-527 but rather by §11-9-102(20)(A). Accordingly, the Court reversed the Commission’s decision and remanded the matter for further proceedings to determine whether the estate had met its burden of proof.

*Pharmerica v. Seratt*, \_\_\_ Ark. App. \_\_\_, \_\_\_ S.W.3 \_\_\_ (2008); 2008 WL 2440001 (June 18, 2008): The Arkansas Workers’ Compensation Commission entered an Order in this case finding that the Claimant had proven entitlement to occupational disease benefits arising from carbon monoxide exposure at work that culminated on June 8, 2005. The Respondents subsequently appealed, contending that: (1) the Commission had erred in awarding occupational disease benefits when only a specific-incident injury was at issue; (2) an occupational disease claim was barred in this instance because the claimant had not given the statutorily required 90-day written notice thereof; and (3) there were no objective findings to support an occupational disease injury, there was no substantial evidence to support causation, and the matter did not fit

within the definition of an “occupational disease.” The Arkansas Court of Appeals found no procedural error with the Commission’s decision to consider the issue of occupation illness, noting from prior case law and from Commission Rule 25 that the Commission was not precluded from reviewing issues that were not appealed from or not raised at the Administrative Law Judge level. [*American Transp. Co. v. Payne*, 10 Ark. App. 56, 661 S.W.2d 418 (1983)]. In sum, the Court held that “the Commission has the authority, and the duty, to render anew findings relevant to the claim before it. Given the posture of the claim as presented, we hold that the Commission was within its power to render findings on compensability, regarding an occupational disease or single workplace accident.” However, the Court nonetheless reversed and remanded the case back to the Commission, since the Commission had made no findings as to whether the Claimant had supplied the required statutory notice of an occupational disease claim, nor had it addressed how the claim fit within the “occupational disease construct.”

## **FUTURE PROJECTIONS**

While Arkansas has seen increases in the average indemnity and medical cost per lost time claim, and a slight hardening of the market in general, Arkansas’s market remains strong and competitive. The attached state of the industry report (Exhibit D) graphically depicts the sound condition of the workers’ compensation marketplace.

The NCCI continues to discover that workers’ compensation results are deteriorating countrywide. The NCCI identifies a number of factors that are having a negative impact on the market:

- lower earnings relating to investments;
- an increase in assigned risk applications;
- claim costs that are beginning to rise at more rapid rates than in previous years;
- pending proposals for benefit increases;
- challenges to workers’ compensation as an exclusive worker remedy for workplace injury;
- recent federal initiatives that threaten to increase claim costs, broaden compensability definitions, and have the potential to create duplicate remedies;
- reform roll-back proposals in recent state legislative sessions;
- increasing costs of medical benefits; and
- increasing utilization of certain prescription pain medications.

The NCCI does point out one favorable development among the negatives. The incidence of workplace injuries continues to fall sharply since the reform efforts of 1993. This means fewer injured workers – the most valuable outcome imaginable for workers, their families, and employers.

## **CONCLUSION**

Absent the reforms encompassed in Act 796 of 1993, it is doubtful Arkansas’s employers would now have the option of voluntary workers’ compensation insurance. Rather, the assigned risk

plan, designed to be a market of “last resort,” would have become Arkansas’s market of “only resort.” The General Assembly is to be highly commended for its leadership in reforming the workers’ compensation market in our State while protecting the interests of the injured worker.

Arkansas’s employers must have available to them quality workers’ compensation products in the voluntary market at affordable prices. The creation of good jobs requires a marketplace where all businesses, regardless of size, can grow. Maintaining a stable workers’ compensation system is essential for this growth. The evidence shows the reforms have worked. The incidence of fraud has been reduced through high-profile fraud prosecutions, employee compensation rates and benefits have been increased, and workers injured within the course and scope of their employment have received timely medical treatment and the payment of much improved indemnity benefits. Eroding the positive changes incorporated into Act 796 would be counterproductive to continued economic growth and development.

Prepared: September 9, 2008

cc: The Honorable Mike Beebe, Governor  
The Honorable Olan W. Reeves, Chairman, AWCC  
The Honorable Karen H. McKinney, Commissioner, AWCC  
The Honorable Philip Alan Hood, Commissioner, AWCC  
Mr. Alan McClain, Chief Executive Officer, AWCC  
Ms. Lenita Blasingame, Chief Deputy Commissioner, AID  
Mr. Nathan Culp, Public Employee Claims Division Director, AID  
Mr. Corey Cox, Criminal Investigation Division Director, AID  
Ms. Alice Jones, Communications Director, AID

## state advisory forums

# Arkansas

May 15, 2008

Presented by:

Terri\_Robinson@ncci.com 501-333-2835  
Tom\_Daley@ncci.com 561-893-3134  
Martin\_Wolf@ncci.com 201-386-2633  
Jennifer\_Stane@ncci.com 501-753-5180

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

## Arkansas Workers Compensation State Advisory Forum

- 8:30 Continental Breakfast
- 9:00 Industry and Arkansas Outlook
  - Workers Compensation System Overview
  - State of the Industry
  - Claim Frequency
  - Indemnity Severity
- 10:30 Break
  - Medical Severity
  - Legislative Issues Nationwide and in Arkansas
  - Impact of Recessions on Workers Compensation
  - The Residual Market in Arkansas
  - Closing Remarks

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

2

## State of the Industry—An Overview

- While still resulting in an underwriting gain, both accident year and calendar year combined ratios increased in 2007
- Injury frequency rates continue to improve
- Overall: Results are positive but system stakeholders must remain cautious due to long-term challenges of medical inflation, changing legislative demographics, and a need for a long-term solution for terrorism exposure

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

3

## Arkansas Workers Compensation System—An Overview

- Loss costs continue to decrease
- One of the lowest combined ratios in the country
- Frequency decreases continue to offset growth in indemnity and medical costs
- Employment forecast to decline in the more hazardous construction and manufacturing sectors
- Residual market share is declining

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

4



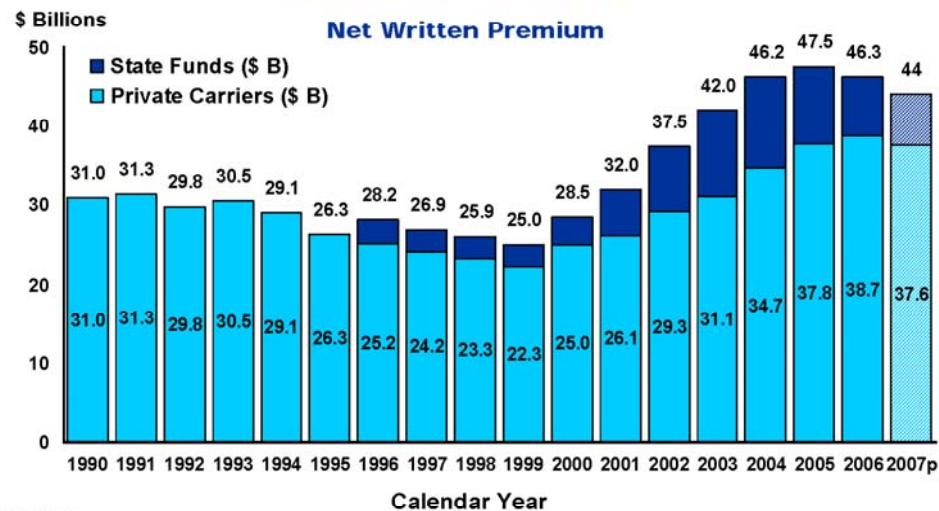
state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums

state advisory forums

## Workers Compensation System Overview

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

## Countrywide Total Workers Compensation Premium Continues to Decline in 2007



p Preliminary

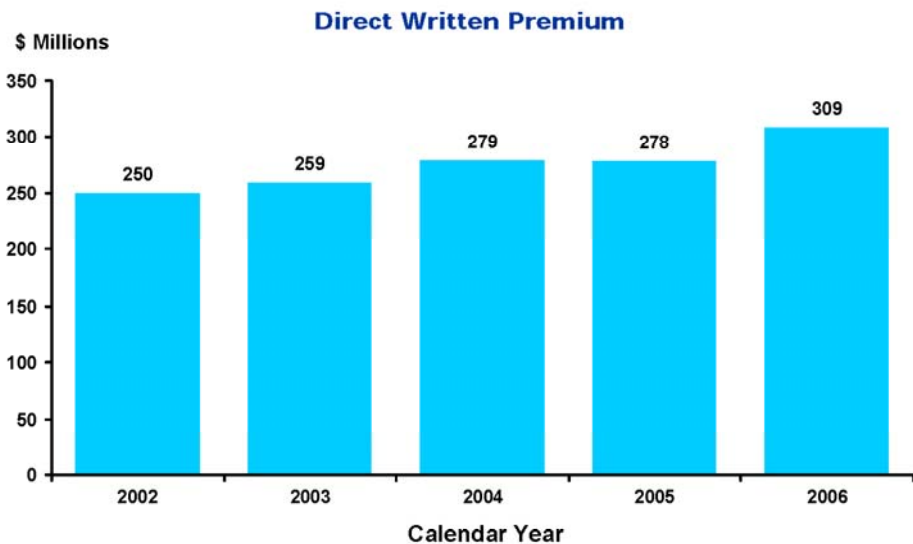
Source: 1990–2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI

1996–2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements  
State Funds available for 1996 and subsequent

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

6

## Arkansas Workers Compensation Premium Volume

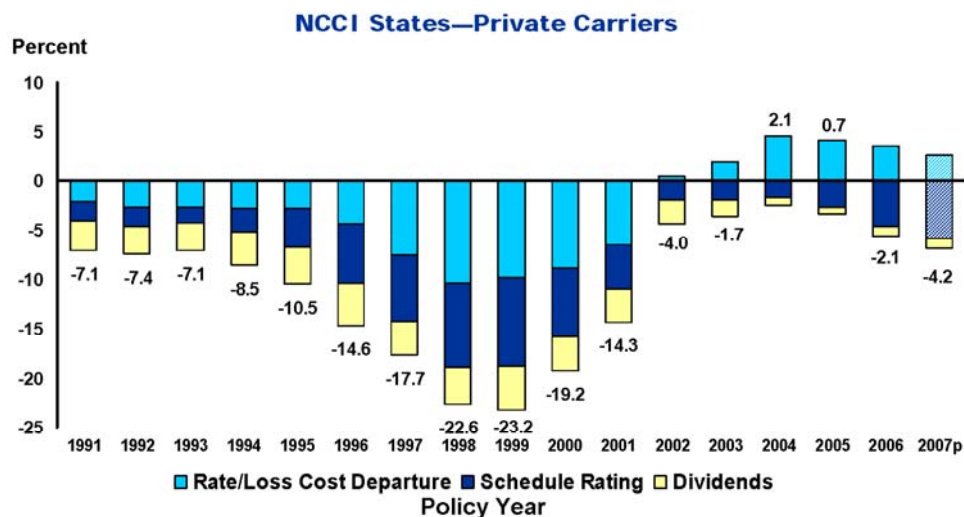


Source: NAIC Annual Statement data

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

7

## Impact of Discounting on Workers Compensation Premium



p Preliminary

NCCI benchmark level does not include an underwriting contingency provision

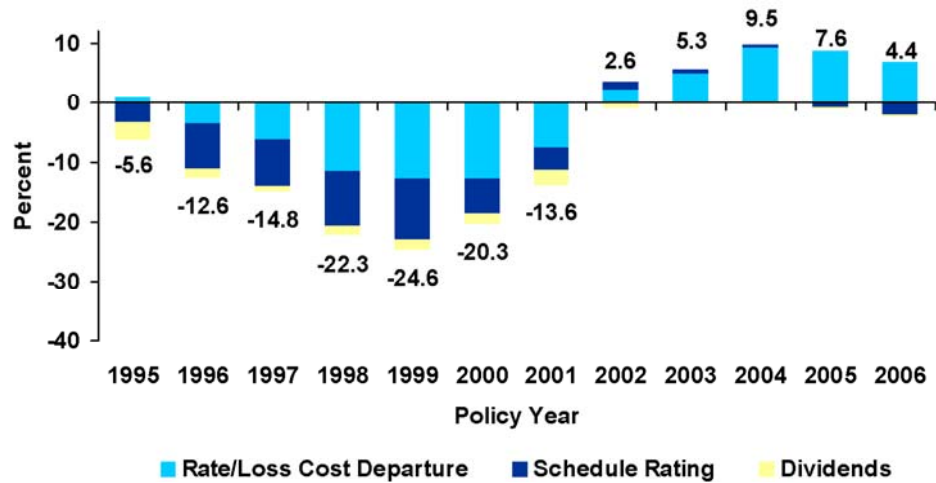
Dividend ratios are based on calendar year statistics

Based on data through 12/31/2007 for the states where NCCI provides ratemaking services

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

8

## The Impact on Premium of Rate/Loss Cost Departures, Schedule Rating, and Dividends in Arkansas



Based on data through 11/2/2007  
Dividend ratios are based on calendar year statistics

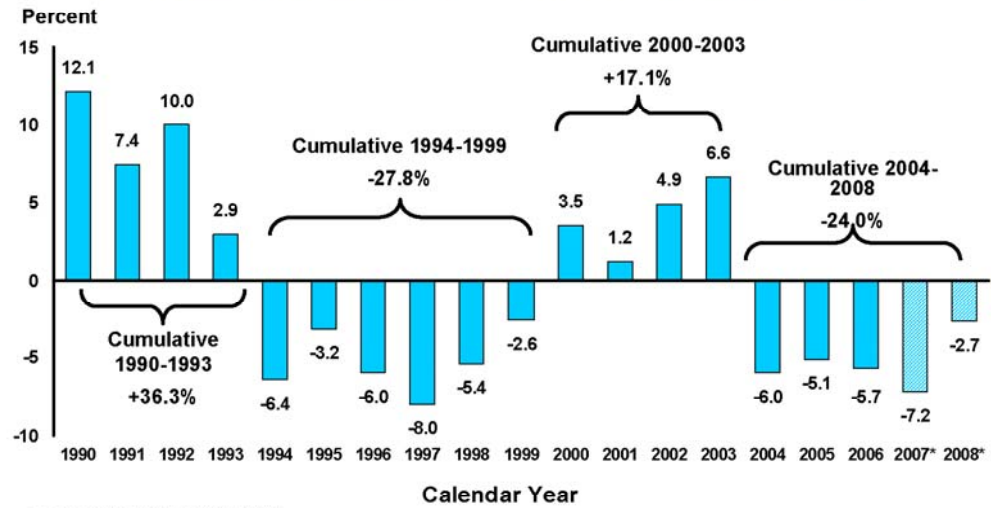
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.



9

## Countrywide Average Approved Bureau Rates/Loss Costs

### History of Average WC Bureau Rate/Loss Cost Level Changes



\* States approved through 4/11/2008  
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

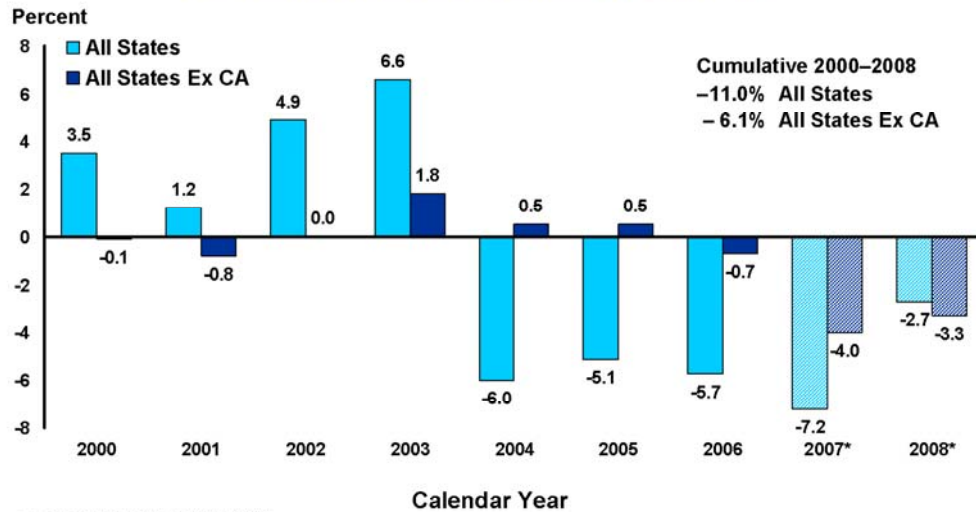
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.



10

## Countrywide Average Approved Bureau Rates/Loss Costs

### All States vs. All States Excluding California



\* States approved through 4/11/2008  
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

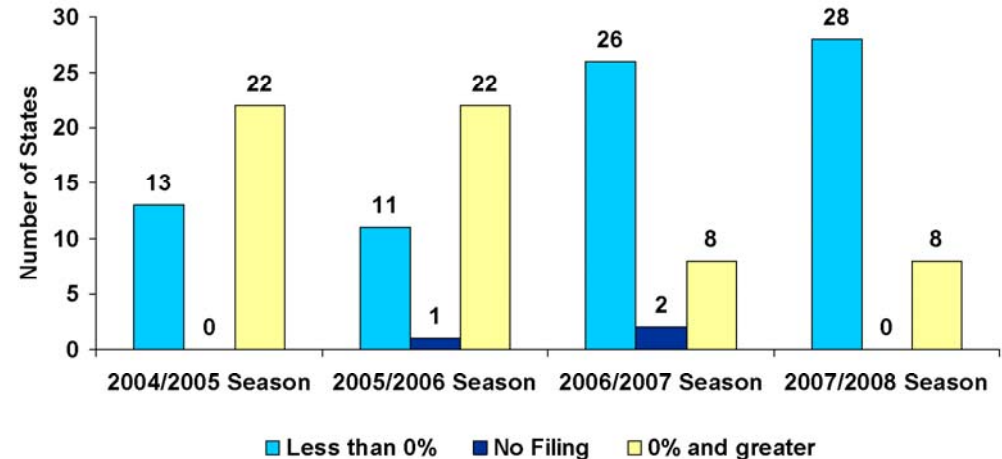
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.



11

## Status of NCCI Filing Activity

### Voluntary Market Filings



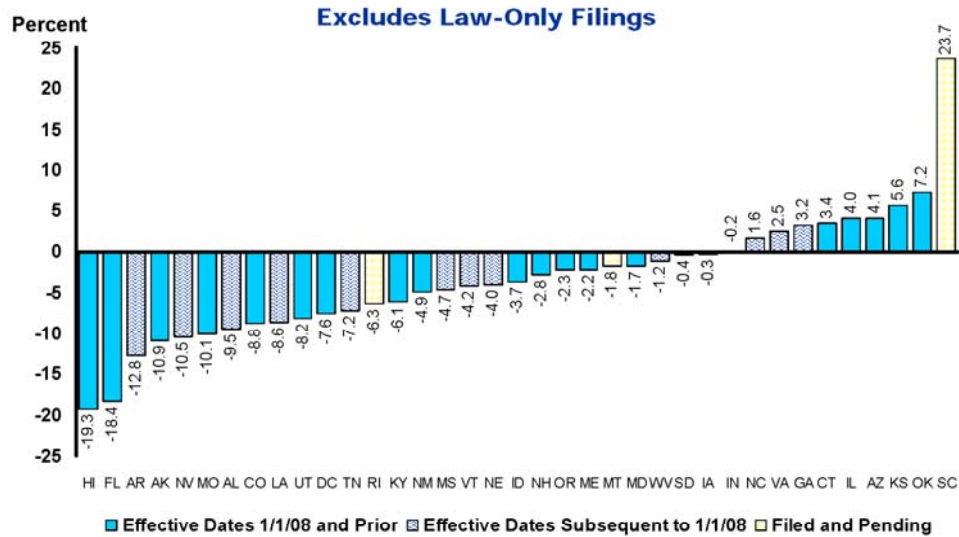
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.



12



## Current NCCI Voluntary Market Filed Rate/Loss Cost Changes



13



## 2007/2008 Filing Cycle

### NCCI Voluntary Market Filing Activity

- Data for 36 states has been reviewed
  - 8 states have filed a change of 0% or greater or will not have a filing during this filing cycle
  - 28 states have filed decreases
- Range of voluntary filings: -19.3% to +7.2%

Based on data evaluated as of 12/31/2006.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

14



## State Voluntary Market Filings Southeastern NAIC Zone

|                 |         |        |
|-----------------|---------|--------|
| South Carolina* | 12/1/07 | +23.7% |
| Georgia         | 5/1/08  | +3.2%  |
| Virginia        | 4/1/08  | +2.5%  |
| North Carolina  | 4/1/08  | +1.6%  |
| West Virginia   | 7/1/08  | -1.2%  |
| Mississippi     | 3/1/08  | -4.7%  |
| Kentucky        | 10/1/07 | -6.1%  |
| Tennessee       | 3/1/08  | -7.2%  |
| Louisiana       | 5/1/08  | -8.6%  |
| Alabama         | 3/1/08  | -9.5%  |
| Arkansas        | 7/1/08  | -12.8% |
| Florida         | 1/1/08  | -18.4% |

\* Pending

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

15



## Law and Judicial Impacts

|            |        |       |
|------------|--------|-------|
| Arizona    | 1/1/08 | +4.1% |
| Arkansas   | 1/1/08 | +2.7% |
| Montana    | 2/1/08 | -2.9% |
| Tennessee* | 7/1/08 | -3.1% |

\* Pending

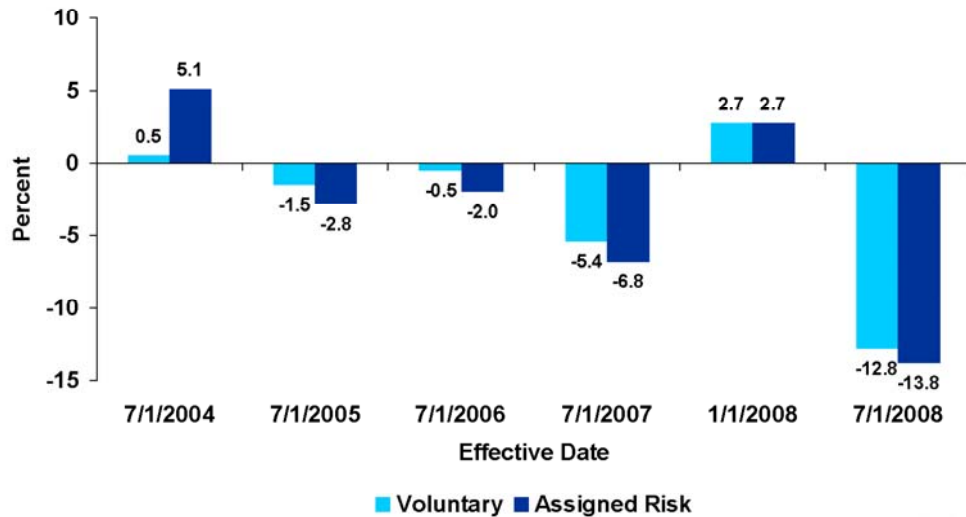
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

16



## Arkansas Filing Activity

Voluntary Loss Cost and Assigned Risk Rate Changes

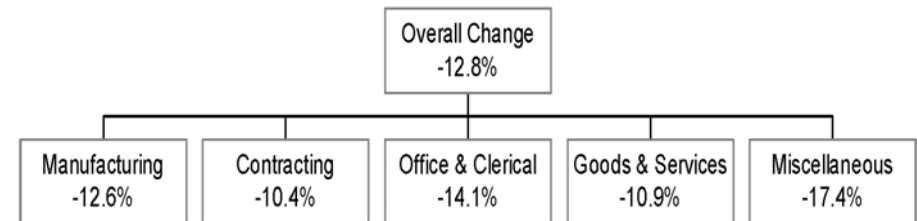


© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

17



## Arkansas July 1, 2008 Filing Average Changes by Industry Group

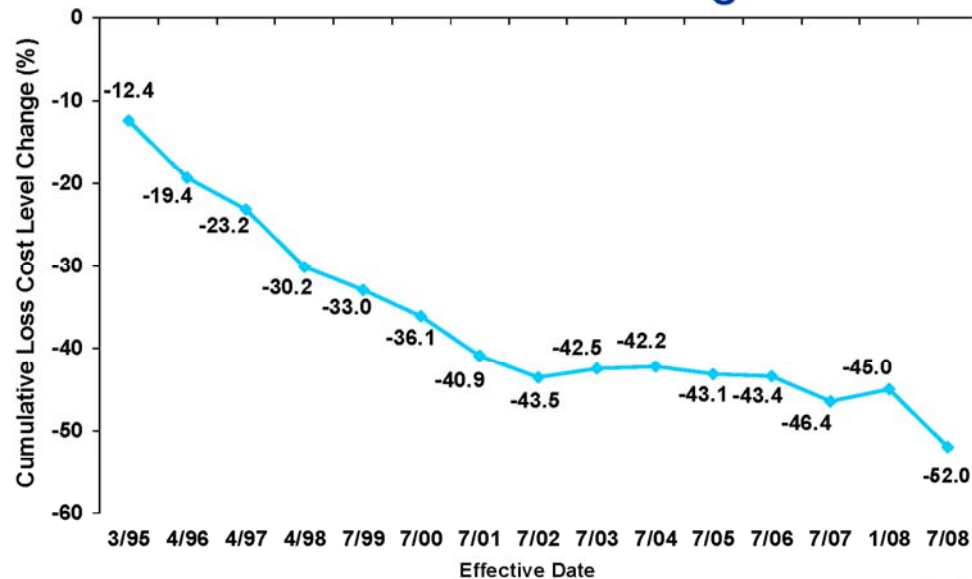


© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

18



## Arkansas Cumulative Loss Cost Level Change

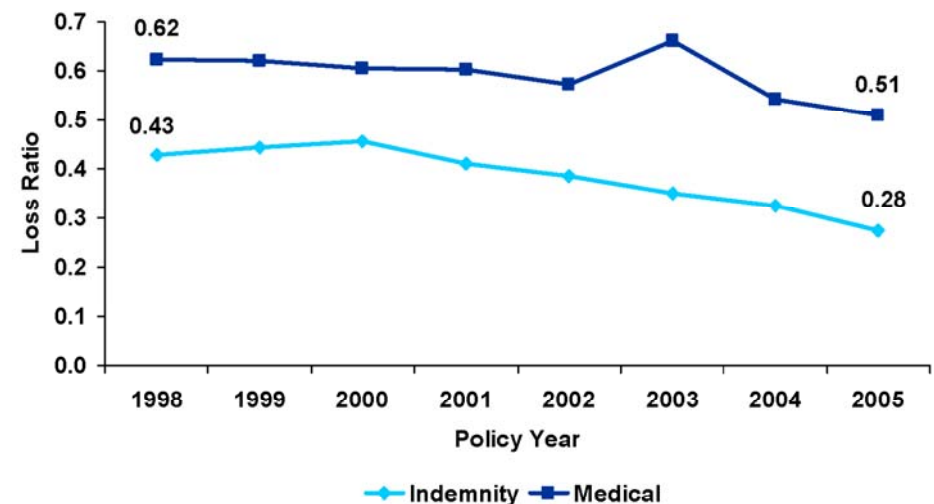


© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

19



## Arkansas Indemnity and Medical Loss Ratios



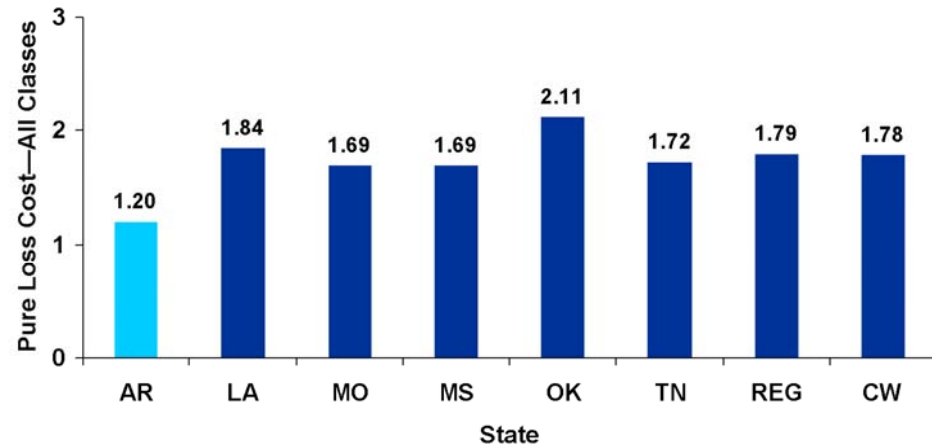
Based on NCCI's financial data at current benefit level and developed to ultimate.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

20



## Current Average Voluntary Pure Loss Costs Using Arkansas Payroll Distribution



Based on the latest NCCI approved rates and loss costs in the various states.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

21



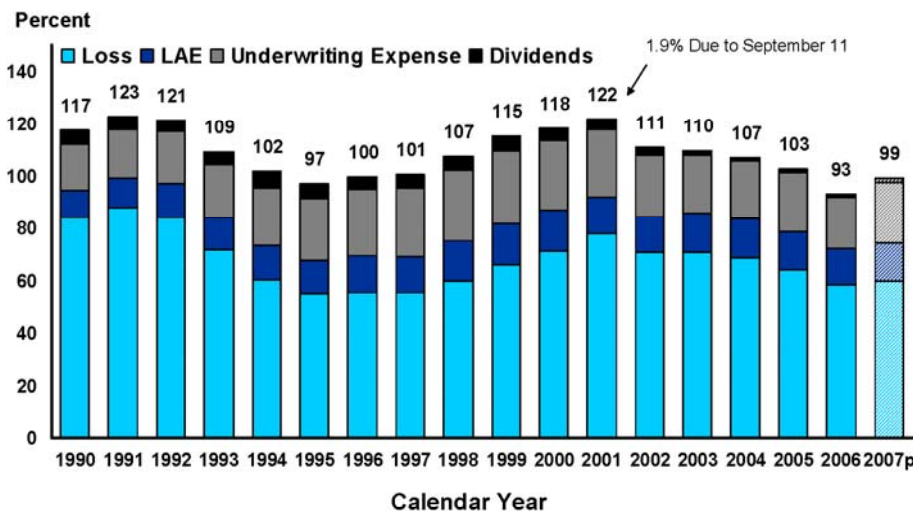
state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums



© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

## The Countrywide WC Calendar Year Combined Ratio Increased in 2007

Private Carriers



p Preliminary  
Source: 1990–2006, Best's Aggregates & Averages; 2007p, NCCI

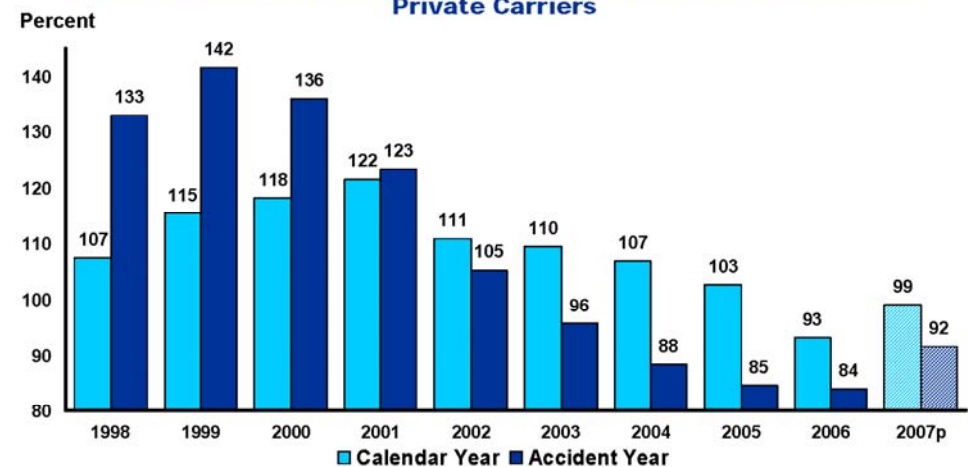
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

23



## Countrywide Accident Year Combined Ratio—Another Underwriting Gain in 2007

Workers Compensation Calendar Year vs. Ultimate Accident Year  
Private Carriers



p Preliminary  
Accident Year data is evaluated as of 12/31/2007 and developed to ultimate  
Source: Calendar Years 1998–2006, Best's Aggregates & Averages;  
Calendar Year 2007p and Accident Years 1998–2007p, NCCI analysis based on Annual Statement data  
Includes dividends to policyholders

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

24





## Results Vary From State to State

Accident Year 2006 Combined Ratios



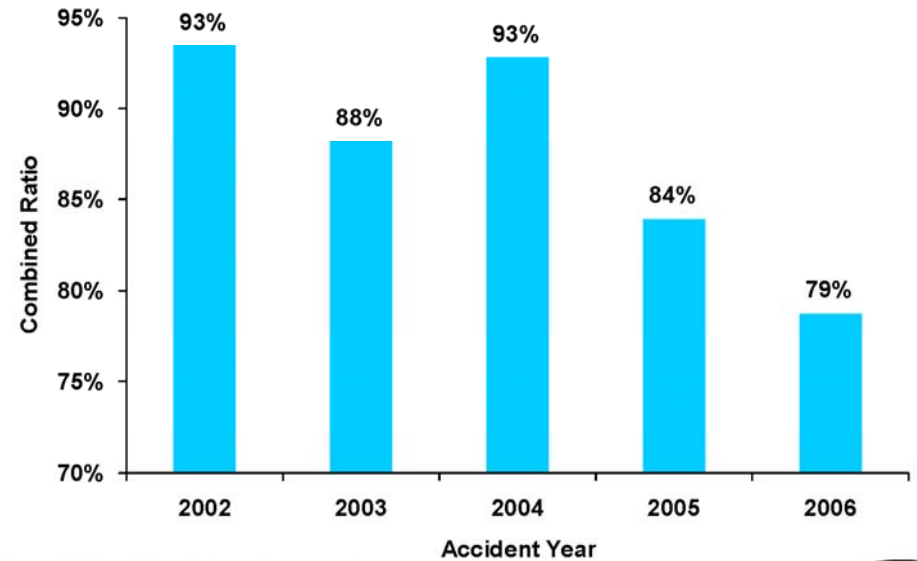
Data is evaluated as of 12/31/2006.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

25



## Arkansas Accident Year Combined Ratios



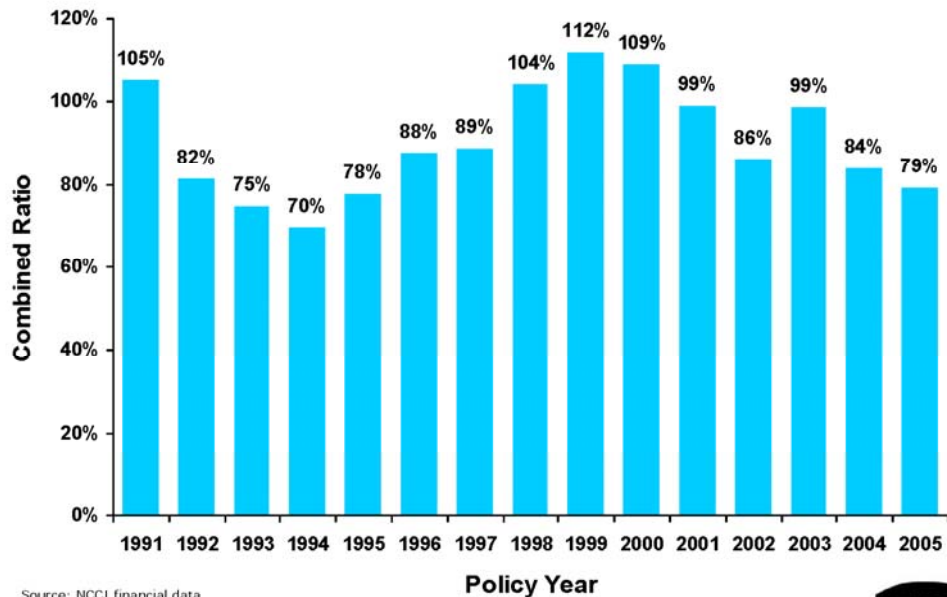
Source: NCCI financial data, NAIC Annual Statement data

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

26



## Arkansas Policy Year Combined Ratios



Source: NCCI financial data

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

27



## Countrywide Workers Compensation Claim Frequency and Severity

- Countrywide frequency continues to decline. In fact, for each of the last 10 years (and 15 of the last 17), on-the-job claim frequency for workers compensation injuries has declined from the previous year's level.
- Countrywide medical and indemnity costs continue to rise—somewhat negating the good news regarding reduced claims.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

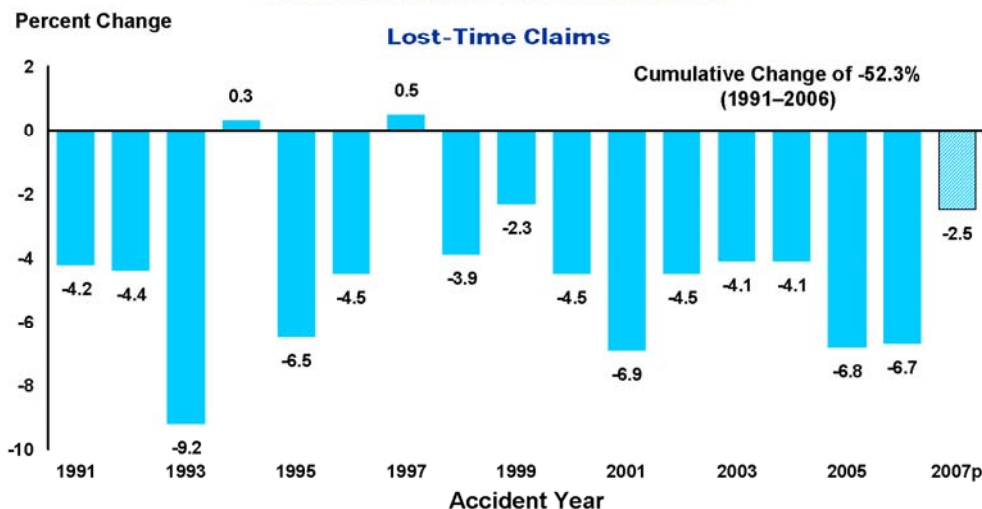
28



## Claim Frequency

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

## Countrywide Workers Compensation Lost-Time Claim Frequency Continues to Decline



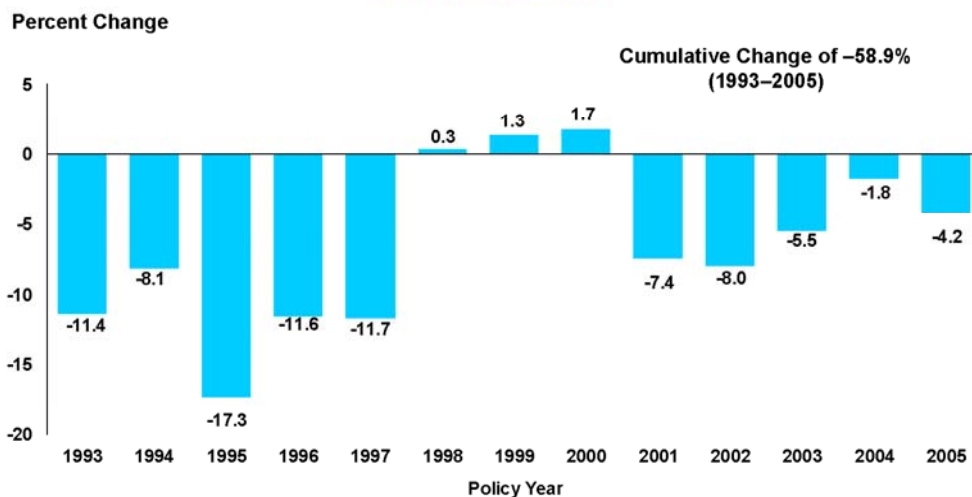
2007p: Preliminary based on data valued as of 12/31/2007  
1991-2006: Based on data through 12/31/2006, developed to ultimate  
Based on the states where NCCI provides ratemaking services  
Excludes the effects of deductible policies

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

30

## Arkansas Workers Compensation Lost-Time Claim Frequency

### Lost-Time Claims

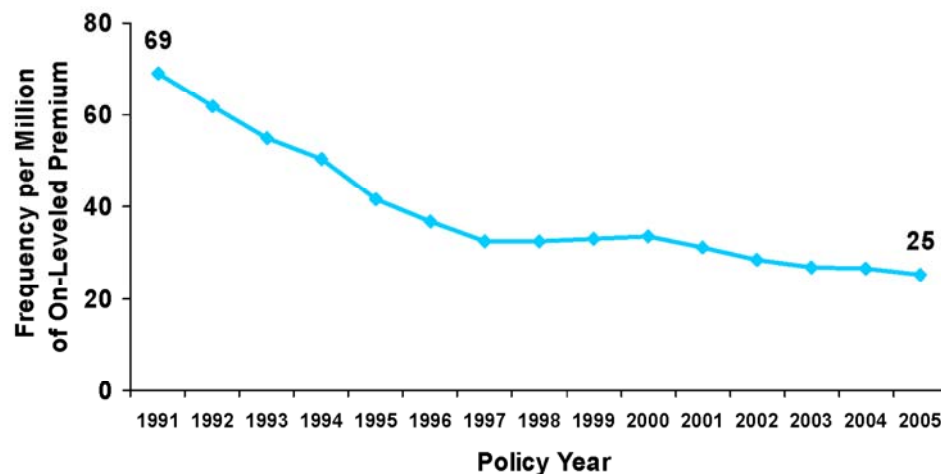


Based on data through 12/31/06, developed to ultimate

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

31

## Declines in Claim Frequency Have Contributed to Arkansas Improving Results



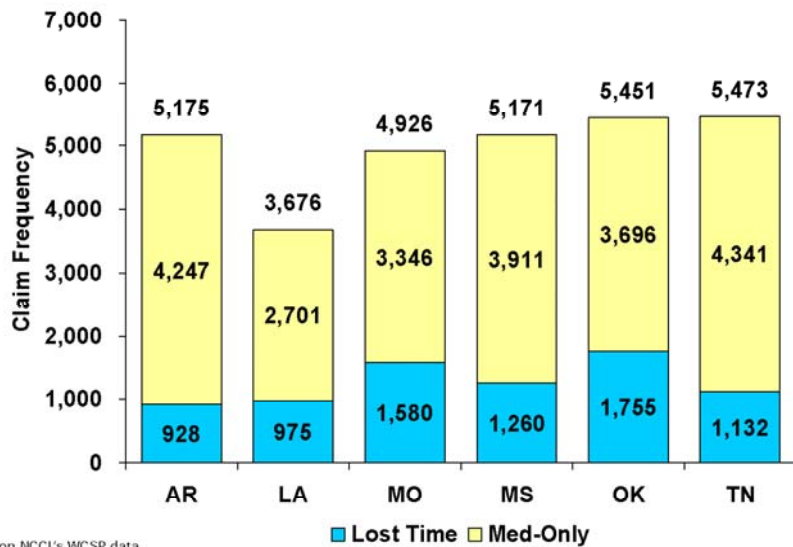
Based on NCCI's financial data  
Frequency of lost-time claims

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

32

## Arkansas Average Claim Frequency

Frequency per 100,000 Workers



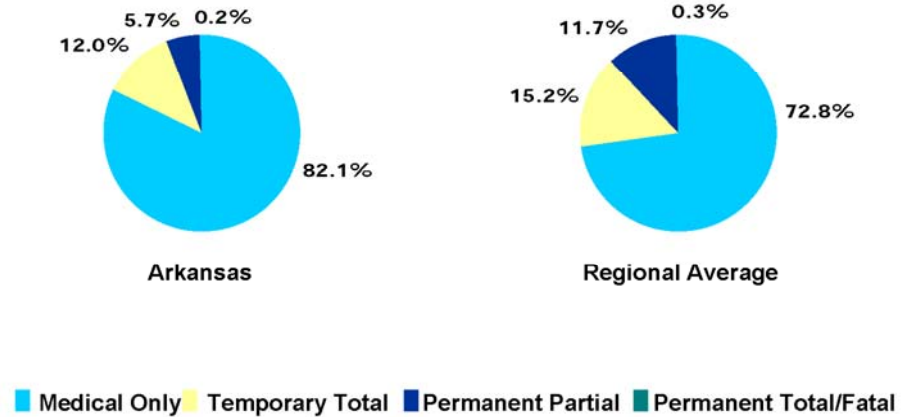
Based on NCCI's WCSP data

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

33



## Arkansas Distribution of Claims by Injury Type



Regional states are LA, MO, MS, OK, and TN.  
Based on NCCI's WCSP data.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

34



## Key Drivers of Claim Frequency

- Employment growth: "Experienced Worker" effect
- Demographic trends relating to the age of the workforce
- Underlying economic and technological forces

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

35



## Employment Growth

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

36





## Changes in Employment Impact Claim Frequency Through the "Experienced Worker" Effect

- In economic expansions, increases in new hires reduce the experience level of the workforce
- In recessions, the "last hired is the first fired," so the experience level of the workforce increases
- As a result, frequency tends to come under upward pressure in expansions and downward pressure in contractions
- Of course, the actual direction of claim frequency at any given time reflects the confluence of many factors

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

37



## Frequency of Injuries: Experience Matters

Inexperienced Have a Disproportionately High Share of Lost Work-Time Injuries and Illnesses

| Time With Current Employer | Share of Employment (2006) | Share of Lost Work-Time Injuries & Illnesses (2006) | Relative Difference Share of Injuries vs. Employment |
|----------------------------|----------------------------|---|--|
| Less Than 1 Year           | 24.4%                      | 35.5%   | 45.7% : Higher                                       |
| 1–5 Years                  | 36.7%                      | 33.7%   | -8.3% : Lower  |
| 5+ Years                   | 38.9%                      | 30.8%   | -20.8% : Lower                                       |

\* Time periods in the table are based on Share of Lost Work-time Injuries and Illnesses. Tenure "breaks" for Share of Employment classifications: 12 months or less, 13 months-to-5 years, and 5 years and above.

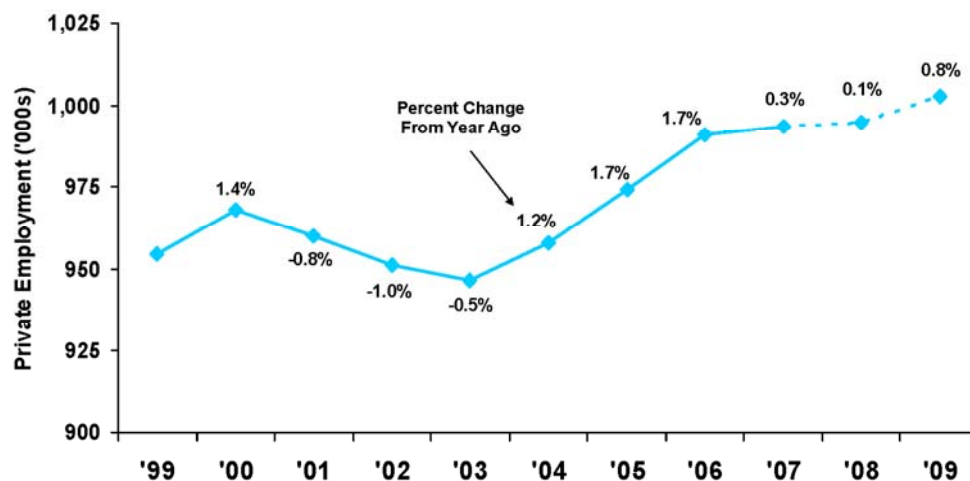
Source: US Bureau of Labor Statistics

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

38



## Slower Employment Growth Is Forecast for Arkansas



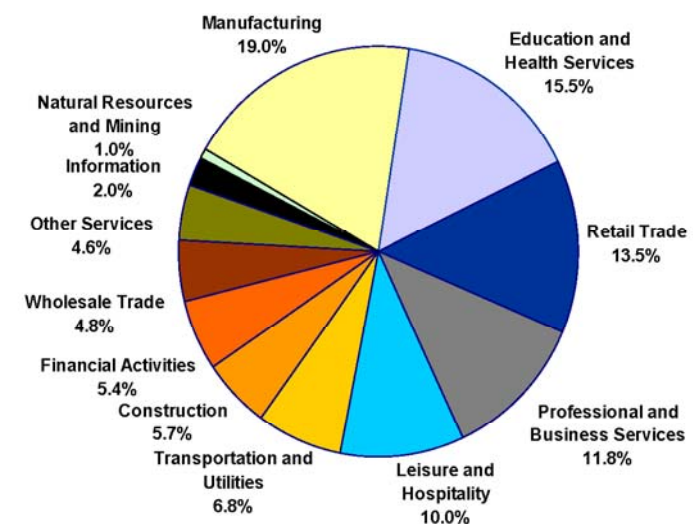
Source: Moody's Economy.com; US Bureau of Labor Statistics

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

39



## Private Employment in Arkansas 2007



Source: US Bureau of Labor Statistics

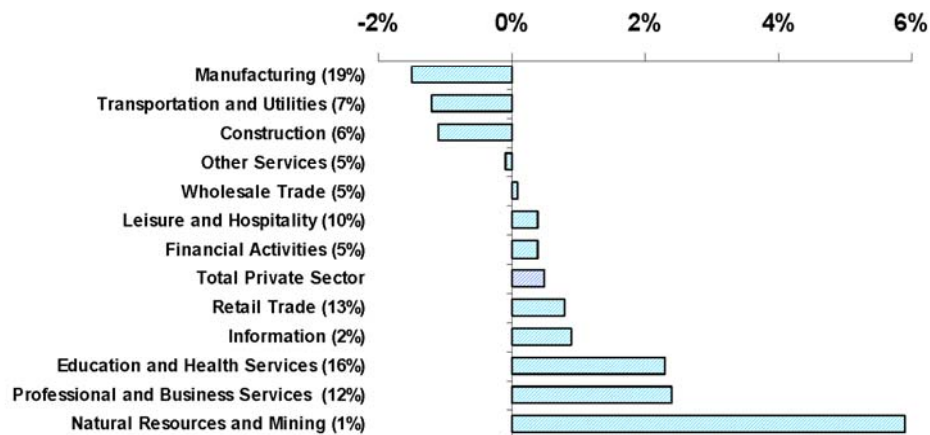
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

40



## Industries Accounting for Nearly 40% of Arkansas Employment Are Forecast to Post Job Declines in 2007-2009

Average Annual Percent Change, 2007-2009



( ) = Share of Private Sector Employment in 2007

Source: US Bureau of Labor Statistics; Moody's Economy.com

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

41



## Demographic Drivers of Claim Frequency

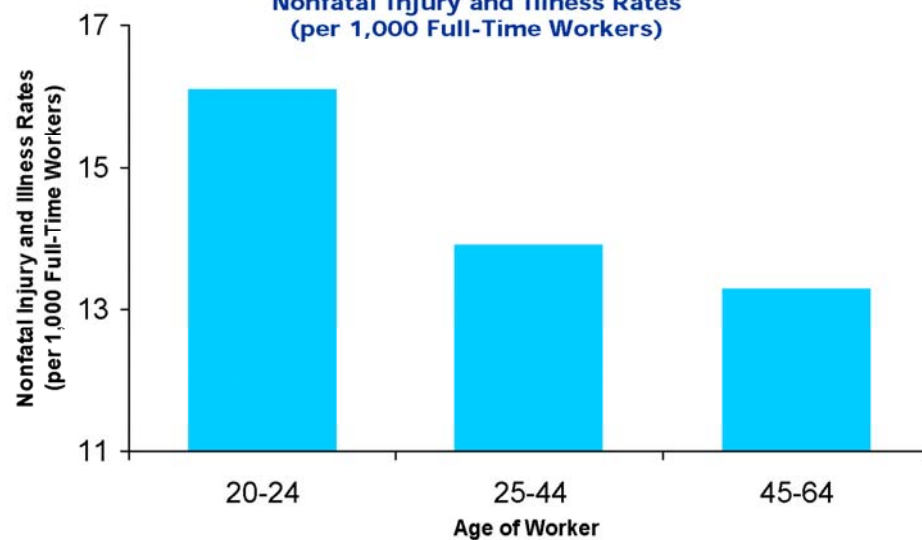
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

42



## Frequency Is Inversely Related to the Age of the Worker

Nonfatal Injury and Illness Rates  
(per 1,000 Full-Time Workers)



Calculated from cases with Days Away From Work, 2003-2005  
Source: NCCI estimate using data from the US Bureau of Labor Statistics

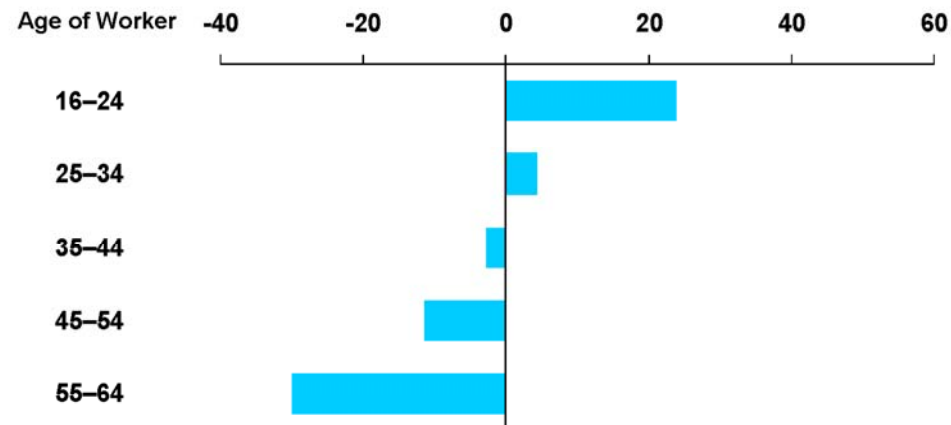
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

43



## BLS Incidence Rates by Age of Worker in the Construction Industry

Percentage Above or Below the Average Construction  
Lost Work-Time Incidence Rate in 2006 (National Data)



Source: NCCI estimate using data from the US Bureau of Labor Statistics

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

44





## Baby Boomers and Changes in Manufacturing Incidence Rates

### National Data

#### Frequency Increased as Baby Boomers Entered the Workforce

| Avg. Time Period | % Labor Force Aged 16-24 | Mfg. Incidence Rate |
|------------------|--------------------------|---------------------|
| 1961-1962        | 15.9%                    | 11.9                |
| 1972-1973        | 22.1%                    | 15.5                |

#### Frequency Declined as Baby Boomers Entered Their 50s

| Avg. Time Period | % Labor Force Aged 45+ | Mfg. Incidence Rate |
|------------------|------------------------|---------------------|
| 1992-1993        | 30.1%                  | 12.3                |
| 2002-2006        | 35.1%                  | 6.6                 |

Incidence rates based on total recordable cases  
Source: US Bureau of Labor Statistics; US Census Bureau

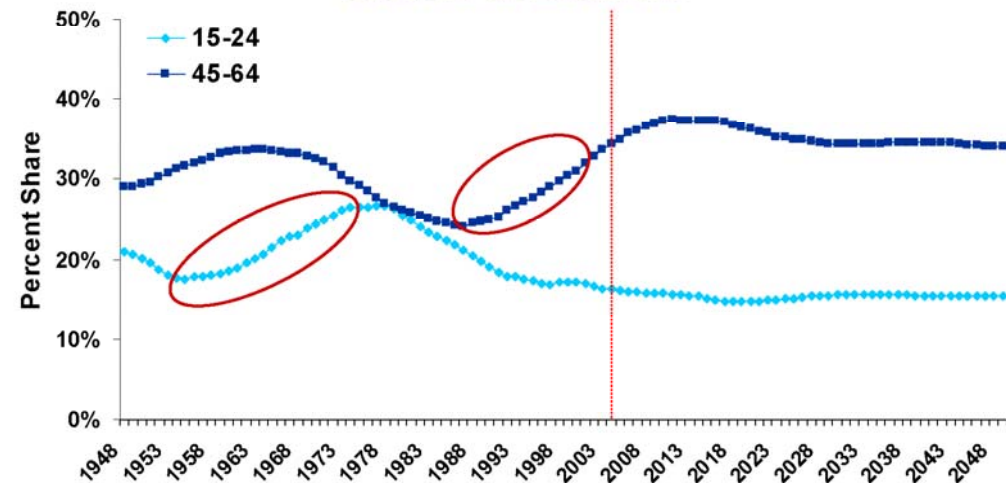
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

45



## Forecasts of Labor Force Shares Show Only Small Changes in the Future

### Percent of the Labor Force



Estimates obtained by multiplying labor force participation rates by age cohort (from US Bureau of Labor Statistics) by the population for each cohort (historical and projected population data from the US Census Bureau). Labor force forecast is based on the 2006 participation rate.  
Source: NCCI; derived data for all years (including historical period)

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

46



## Underlying Economic and Technological Forces

## Why Frequency Has Been Trending Lower

- Continuing improvement in productivity
- Impact of global competition
- Technology
- Indirect impacts of OSHA

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

47



© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

48



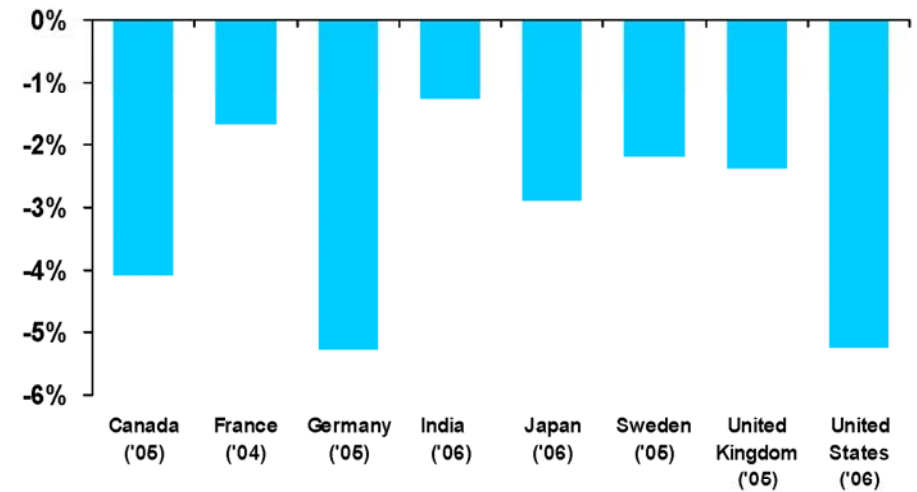
## The Change in Frequency Since the Early 1990s

The key findings of NCCI research indicate that the decline is broadly-based:

- Across virtually all states
- Across industries and occupations and
- Across virtually all "injury demographics" including
  - Gender
  - Event
  - Source
  - Body part injured

## Injury Incidence Rates Are Declining in Major Industrial Nations

Average Annual Percent Decline in Nonfatal Injury Incidence Rates, Latest Available Year vs. 1994



Number in parenthesis is the latest year for which data are available.  
Source: International Labor Organization

## Key Takeaways— Drivers of Claim Frequency

- Prospects for claim frequency partly reflect the strength of the business cycle/employment growth
- Analysis for Arkansas suggests the economy may exert modest downward pressure on claim frequency in coming years
- Younger workers tend to have higher claim frequency
- Age is likely to be less of a factor in affecting claim frequency going forward than previously
- Continued downward pressure on claim frequency is likely as a result of ongoing impacts from globalization and productivity improvement





## Countrywide Workers Compensation Indemnity Claim Costs



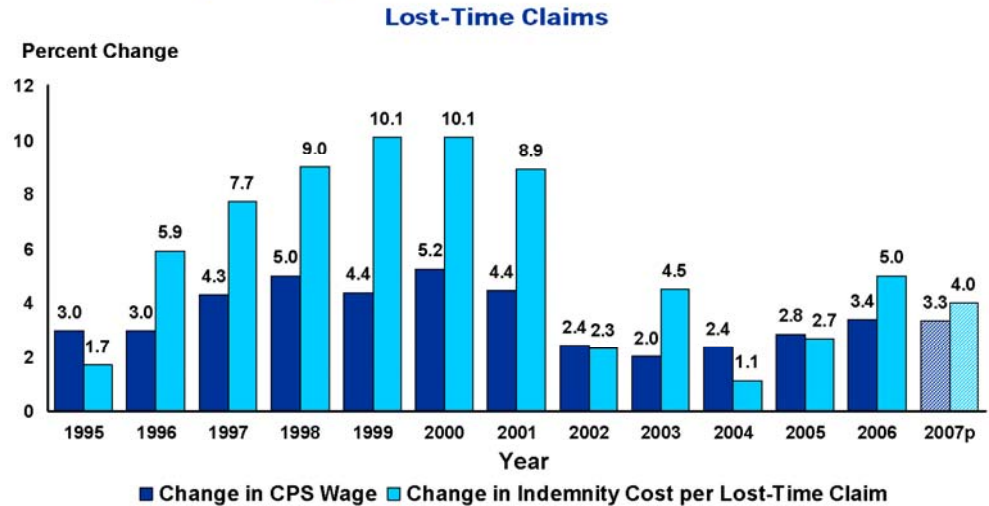
2007p: Preliminary based on data valued as of 12/31/2007  
1991–2006: Based on data through 12/31/2006, developed to ultimate  
Based on the states where NCCI provides ratemaking services  
Excludes the effects of deductible policies

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

53



## Countrywide Indemnity Severity Outpacing Wage Inflation in 2007



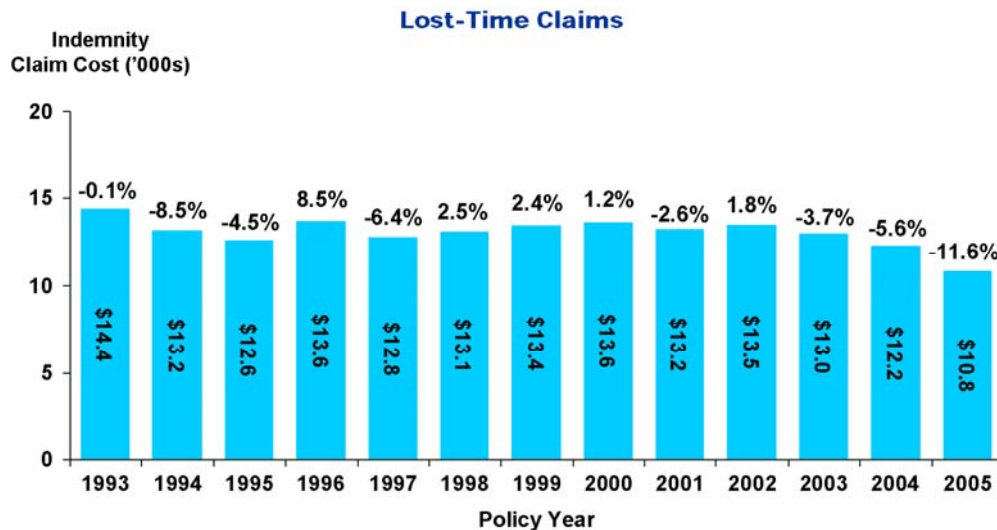
Indemnity severity 2007p: Preliminary based on data valued as of 12/31/2007  
Indemnity severity 1995–2006: Based on data through 12/31/2006, developed to ultimate  
Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies  
Source: CPS Wage—All states (Current Population Survey), Economy.com;  
Accident year indemnity severity—NCCI states, NCCI

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

54



## Arkansas Workers Compensation Indemnity Claim Costs



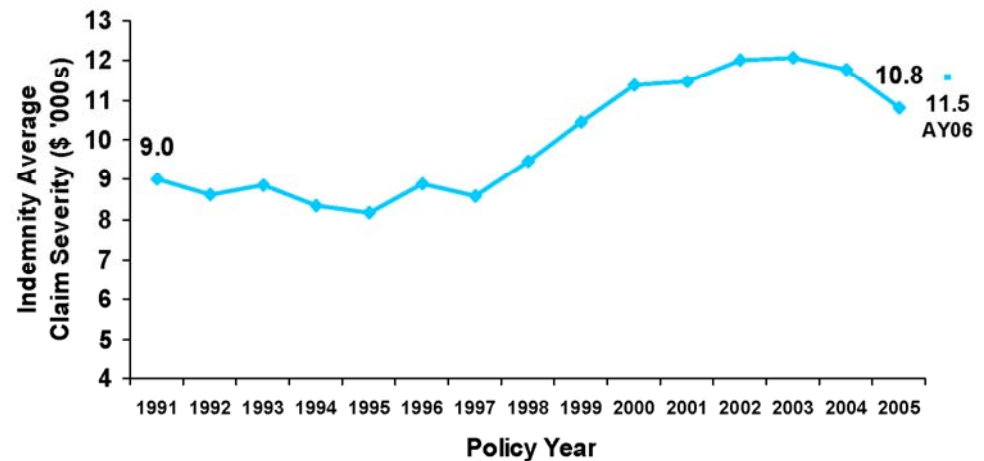
Based on data through 12/31/06, on-leveled and developed to ultimate

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

55



## Arkansas Average Indemnity Severity



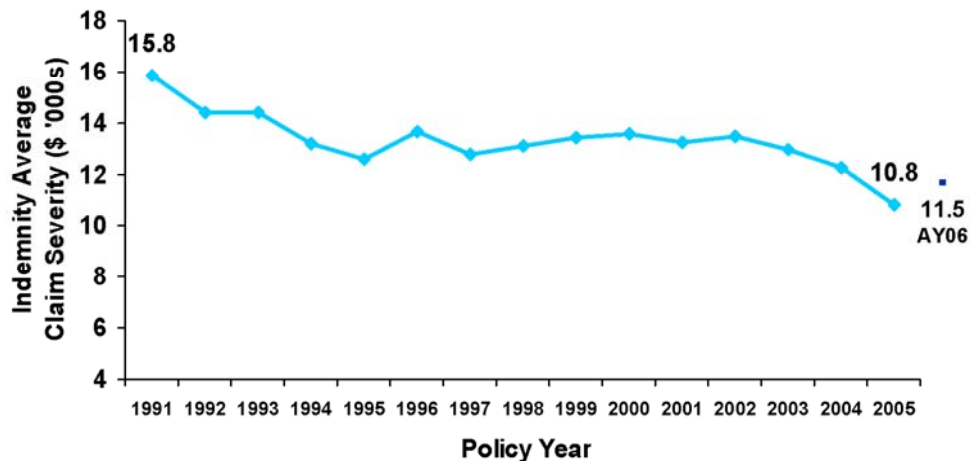
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

56



## Arkansas Average Indemnity Severity in Excess of Wage Growth



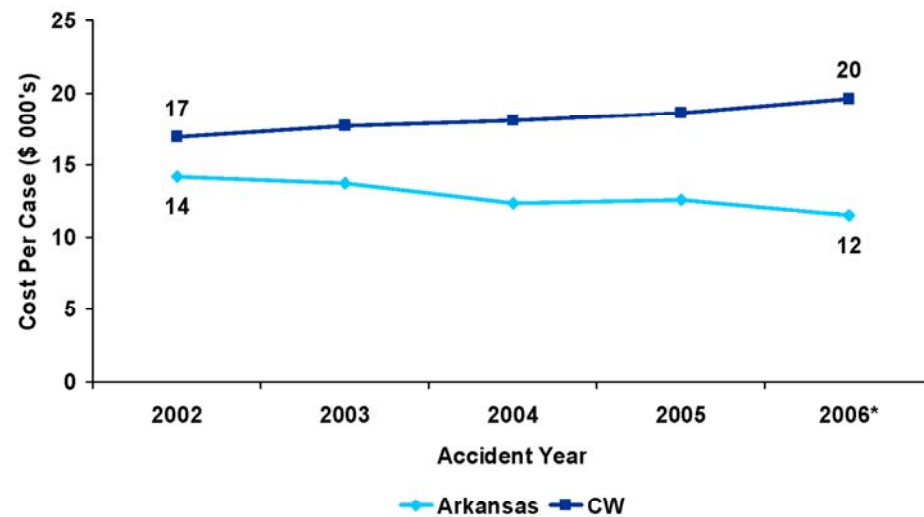
The severity figures shown are in excess of wage trend. Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

57



## Arkansas Indemnity Average Cost per Case vs. Countrywide



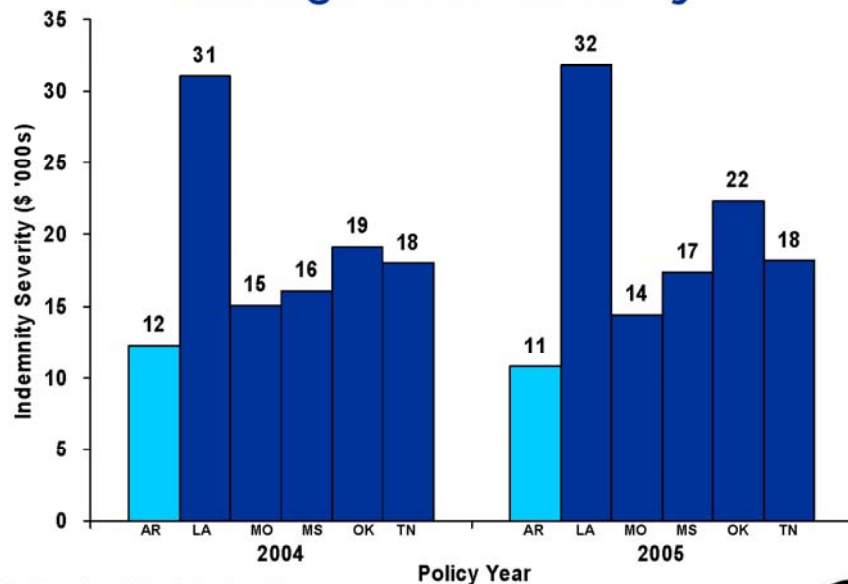
\* Countrywide figure is preliminary  
Source: NCCI Financial Call data valued as of 12/31/06

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

58



## Arkansas Indemnity Average Claim Severity



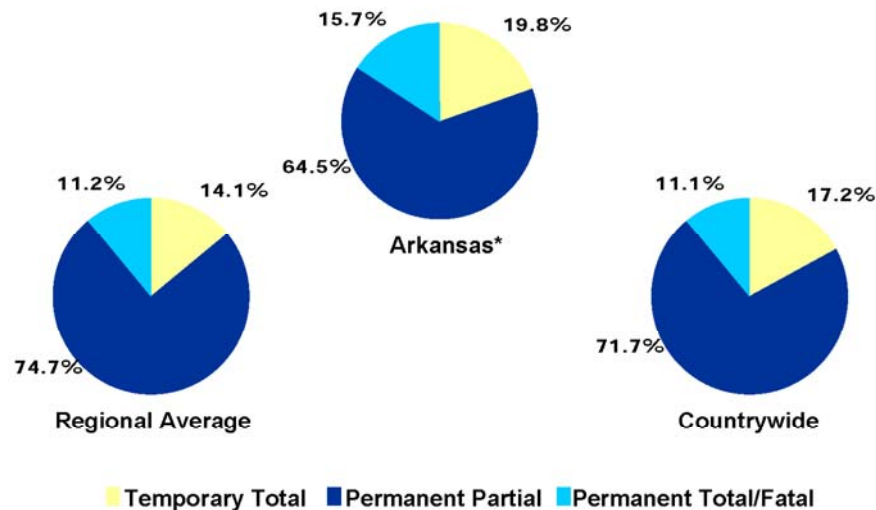
Based on NCCI's financial data for lost-time claims

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

59



## Arkansas Indemnity Loss Distribution by Injury Type



\* Preliminary  
Regional states are LA, MO, MS, OK, and TN.  
Based on NCCI's WCSP data.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

60



## Drivers of Indemnity Severity

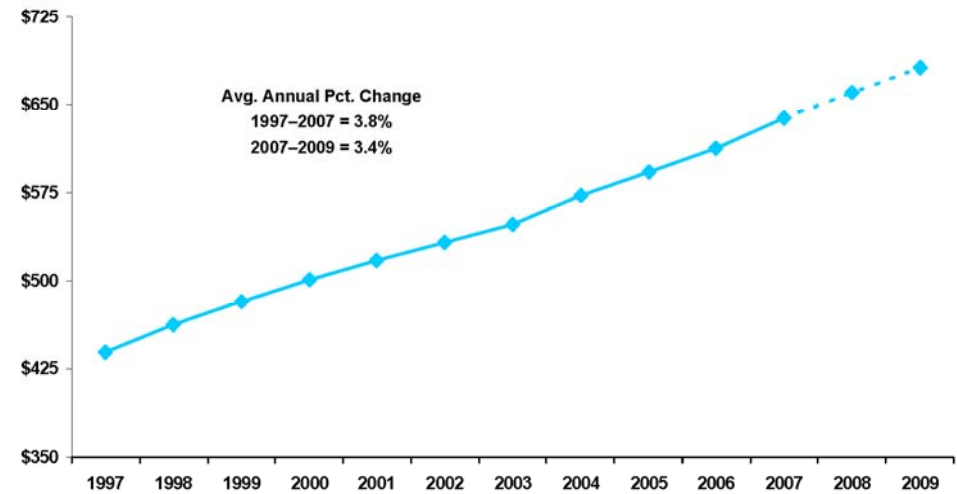
- Wages
  - Arkansas-specific information
- Demographics
  - How indemnity severity varies by age

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

61



## Arkansas Average Weekly Wage Is Forecast to Trend Higher Through 2009



Source: US Bureau of Labor Statistics and Moody's Economy.com

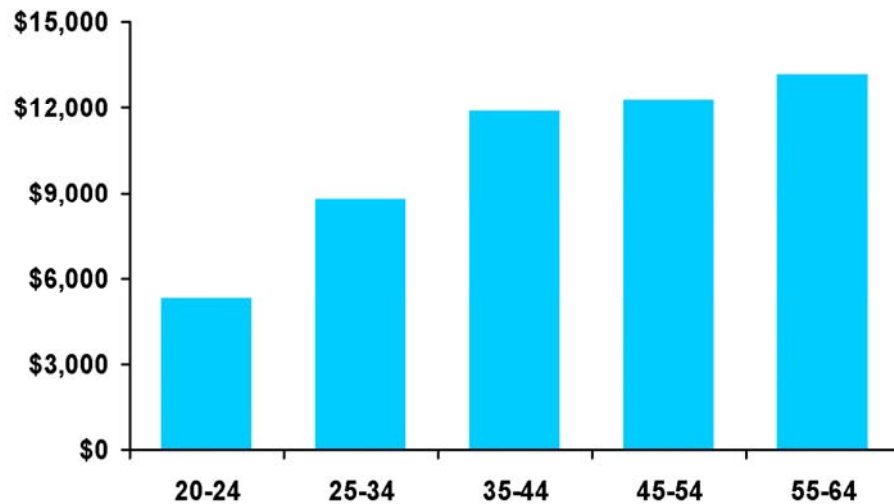
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

62



## Indemnity Severity Increases With Age

Average Paid + Case Indemnity Severity Reported at 18 Months by Age for Accident Year 2004, NCCI States



Source: NCCI

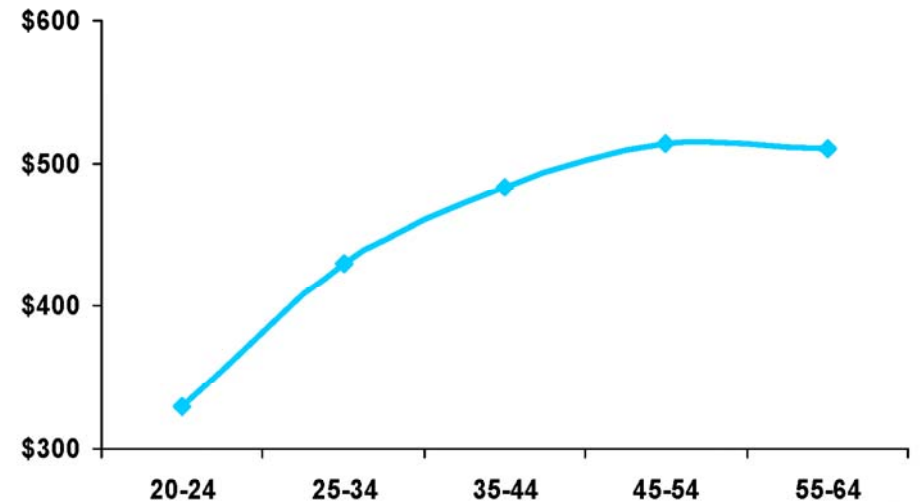
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

63



## Average Weekly Wage Increases With Age

Average Weekly Wage of Injured Workers Closed Claims at 60 Months, 1996-2003, NCCI States



Source: NCCI

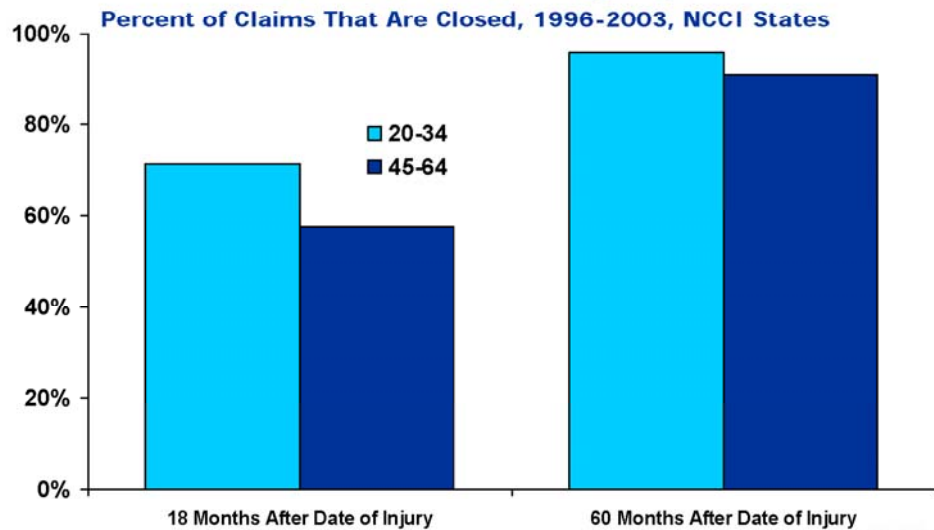
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

64





## Older Workers Have Fewer Claims Closed Than Younger, Both at 18 and 60 Months After Injury



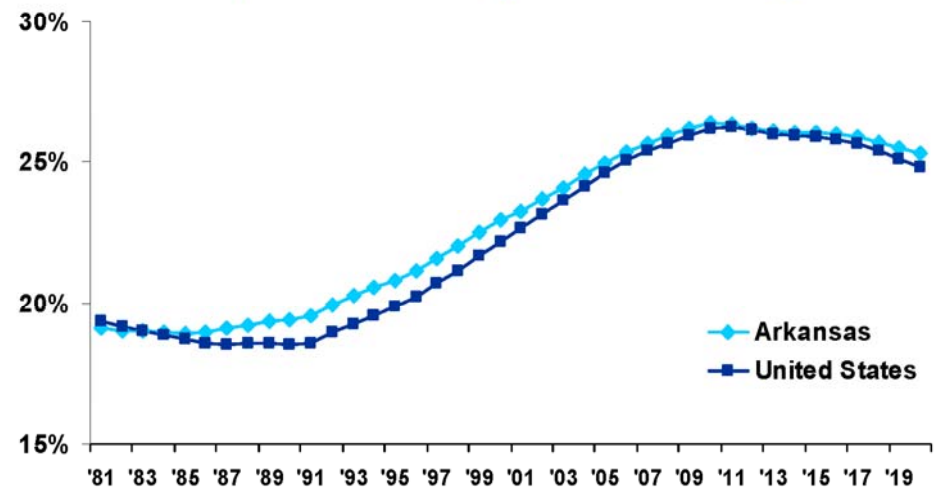
Source: NCCI

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

65



## The Share of Arkansas Population Aged 45 to 64 Is Expected to Peak in 2010, as the Baby Boomers Age



Source: US Census Bureau, Moody's Economy.com

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

66



## Key Takeaways— Drivers of Indemnity Severity

- Projected wage increases in Arkansas suggest modest upward pressure on indemnity severity in coming years
- Indemnity severity tends to increase with age

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

67



National Council on Compensation Insurance, Inc.

state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums

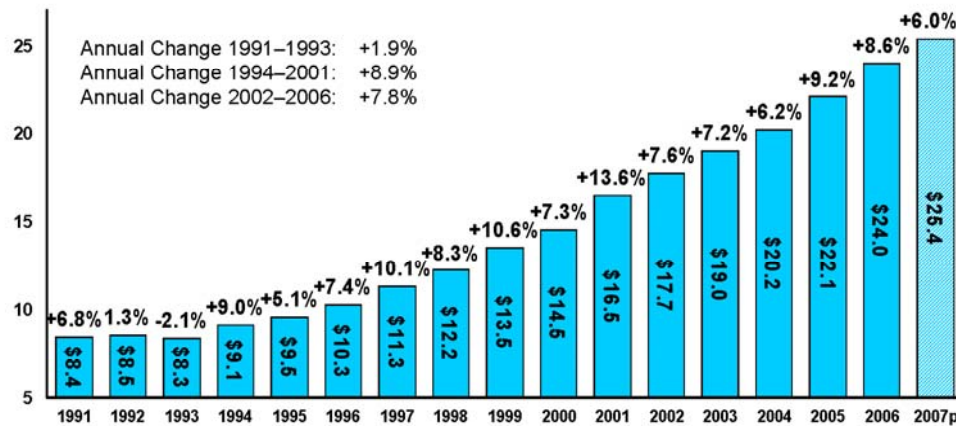


© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

## Countrywide WC Medical Claim Cost Trends—Growth Continues in 2007

### Lost-Time Claims

Medical Claim Cost ('000s)



Accident Year

2007p: Preliminary based on data valued as of 12/31/2007  
1991–2006: Based on data through 12/31/2006, developed to ultimate  
Based on the states where NCCI provides ratemaking services  
Excludes the effects of deductible policies

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

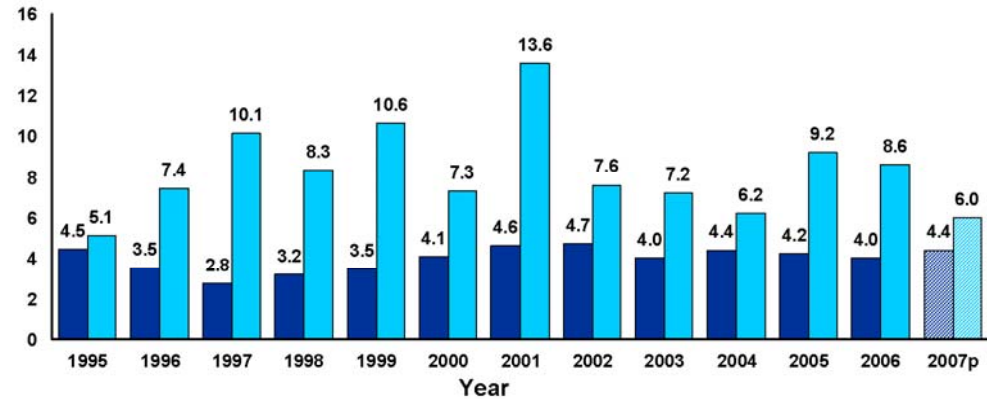
69



## Countrywide WC Medical Severity Still Growing Faster Than the Medical CPI

### Lost-Time Claims

Percent Change



■ Change in Medical CPI ■ Change in Medical Cost per Lost-Time Claim

Medical severity 2007p: Preliminary based on data valued as of 12/31/2007  
Medical severity 1995–2006: Based on data through 12/31/2006, developed to ultimate  
Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies  
Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

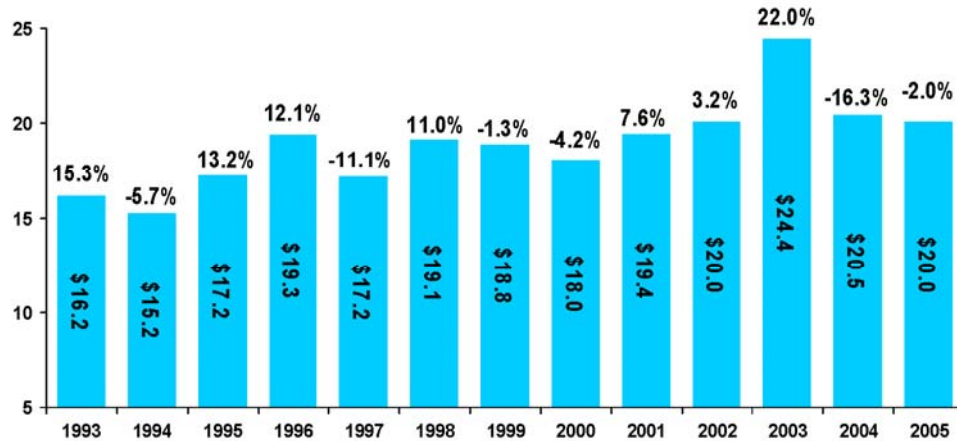
70



## Arkansas Workers Compensation Medical Claim Cost Trends

### Lost-Time Claims

Medical Claim Cost ('000s)



Policy Year

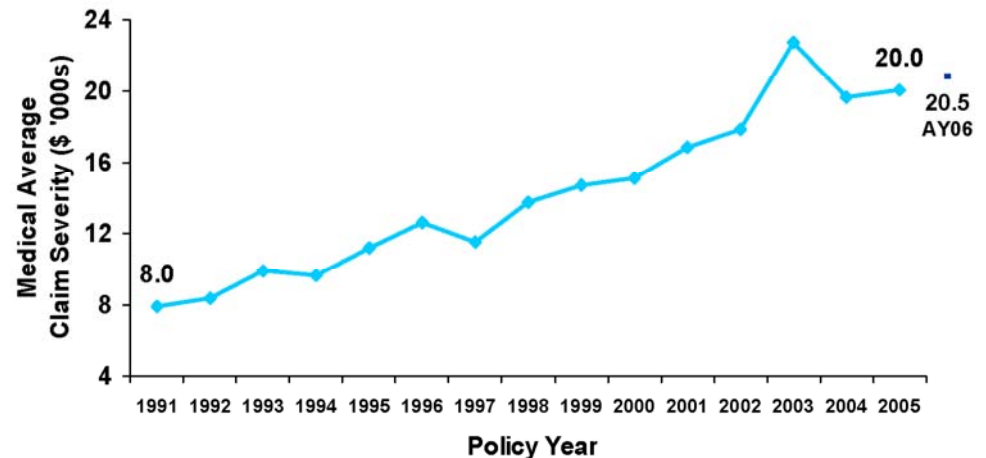
Based on data through 12/31/06, on-levied and developed to ultimate.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

71



## Arkansas Average Medical Severity



Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

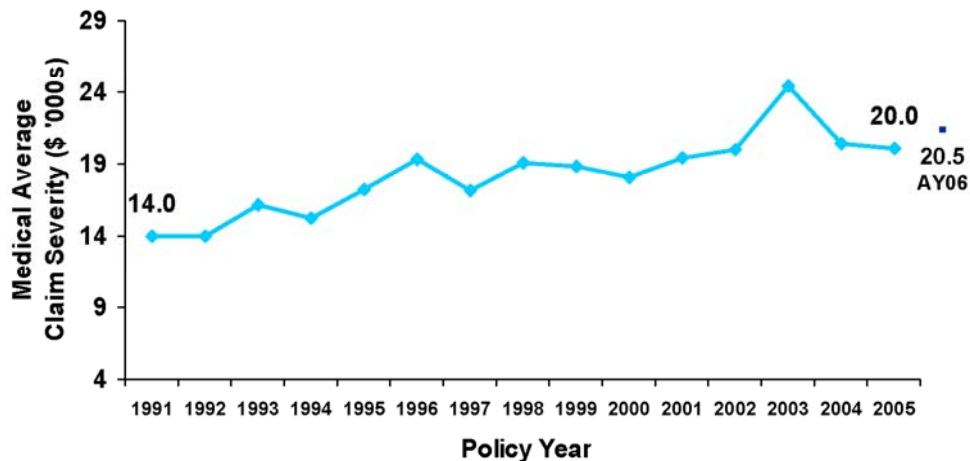
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

72





## Arkansas Average Medical Severity in Excess of Wage Growth



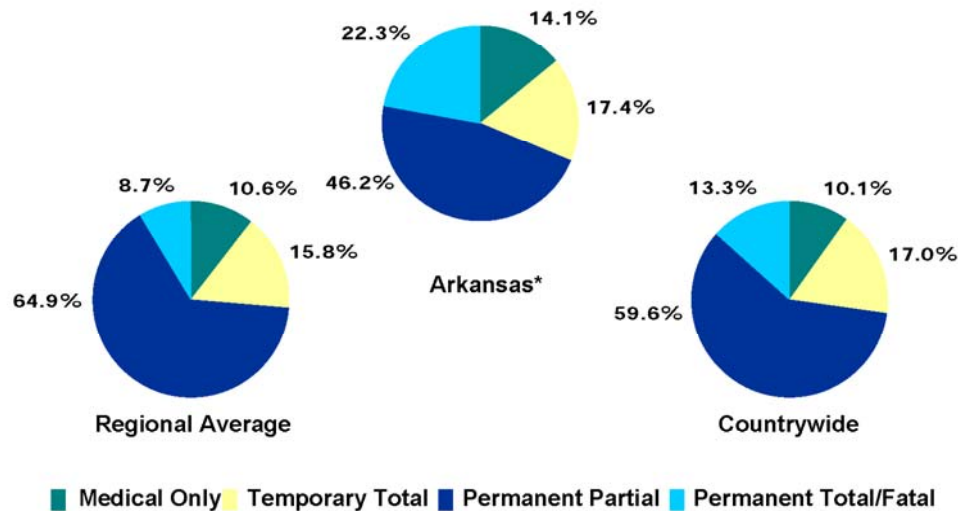
The severity figures shown are in excess of wage trend.  
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

73



## Arkansas Medical Loss Distribution by Injury Type



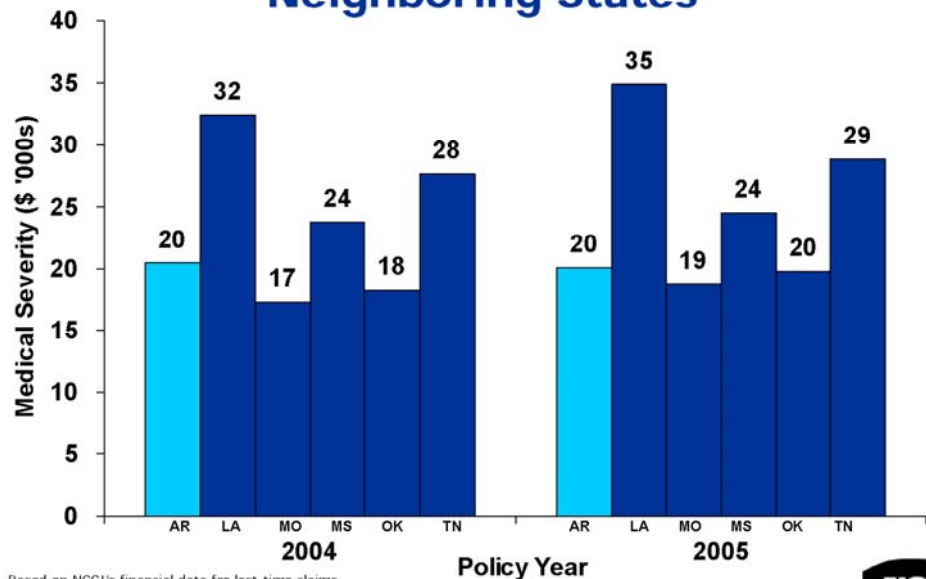
\* Preliminary  
Regional states are LA, MO, MS, OK, and TN.  
Based on NCCI's WCSP data.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

74



## Arkansas Medical Average Claim Severity Compared With Neighboring States



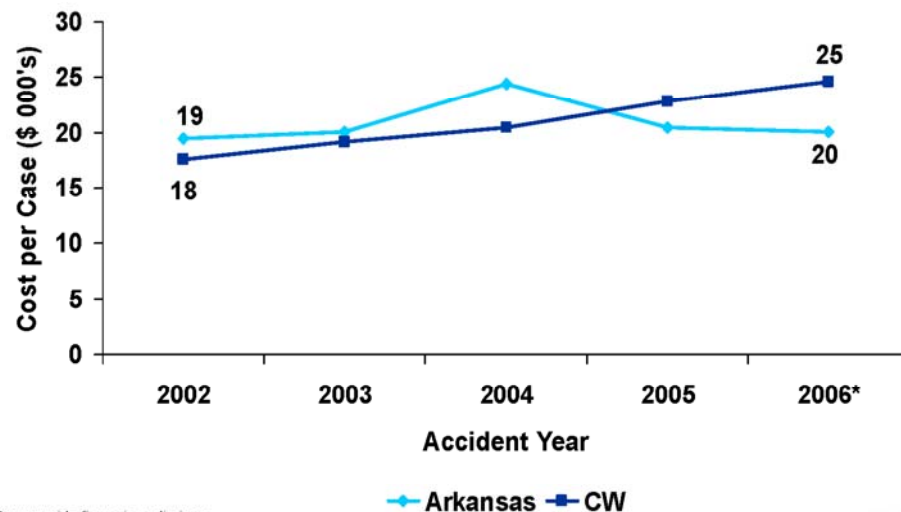
Based on NCCI's financial data for lost-time claims.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

75



## Arkansas Medical Average Cost per Case vs. Countrywide



\* Countrywide figure is preliminary  
Source: NCCI Financial Call data valued as of 12/31/06

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

76

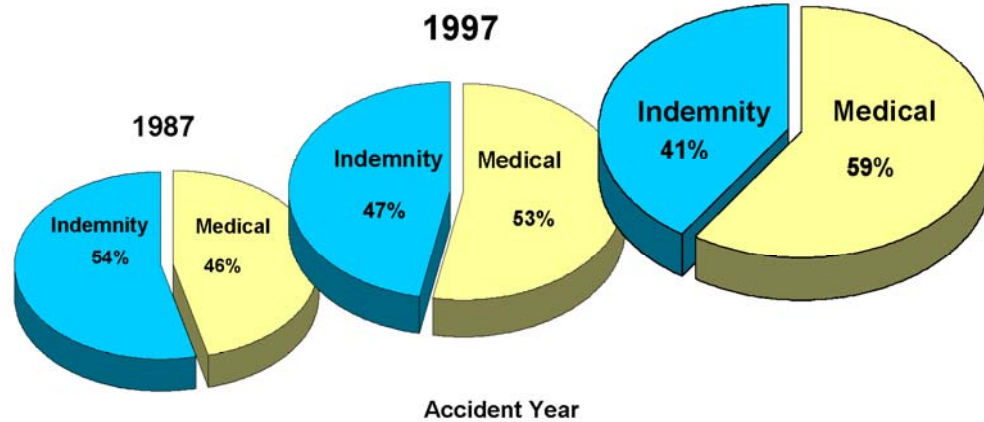




## Workers Compensation Medical Losses Are More Than Half of Total Losses

All Claims—NCCI States

2007p



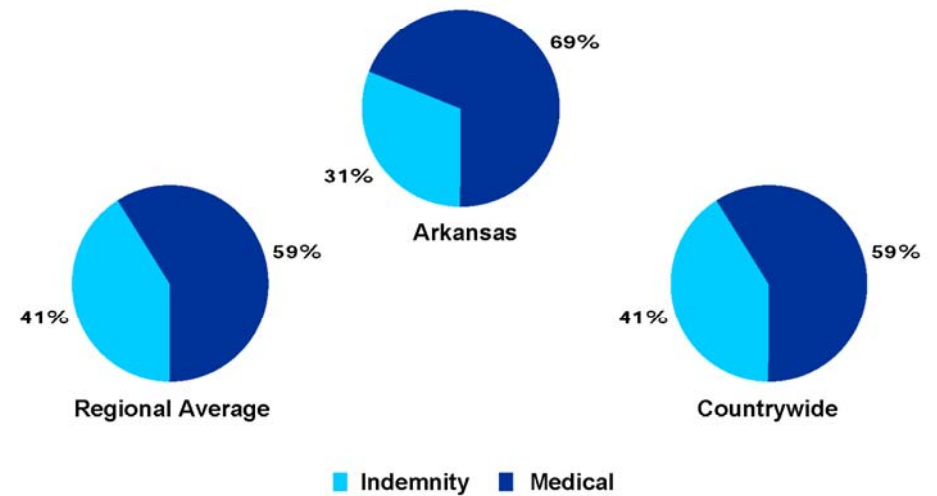
2007p: Preliminary based on data valued as of 12/31/2007  
1987, 1997: Based on data through 12/31/2006, developed to ultimate  
Based on the states where NCCI provides ratemaking services  
Excludes the effects of deductible policies

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

77



## Medical Benefits Constitute the Majority of Total Benefit Costs in Arkansas



Regional states are LA, MO, MS, OK, and TN.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

78



## Drivers of Medical Severity

- Medical inflation
- Demographics
- Utilization (changes in both mix and quantity)

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

79



## Medical Care Inflation

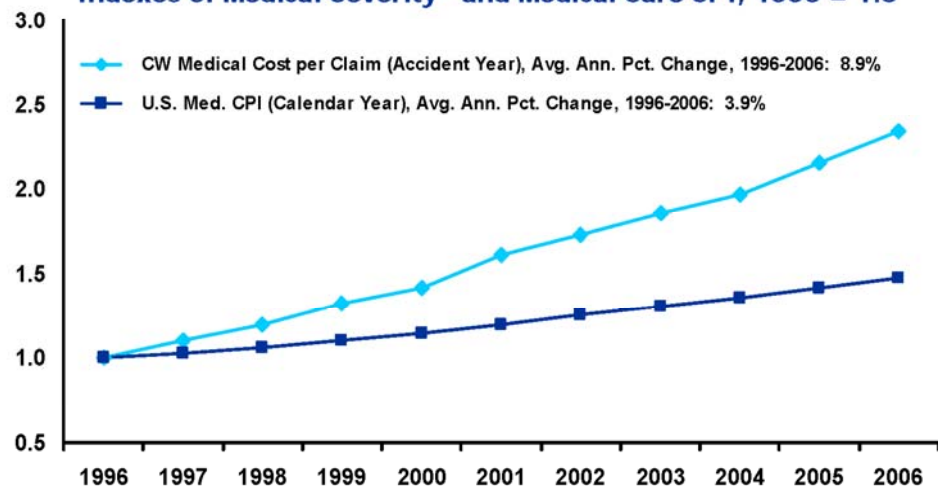
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

80



## Countrywide Medical Severity Is Outpacing the Medical Care CPI

Indexes of Medical Severity\* and Medical Care CPI, 1996 = 1.0



\* Lost-time claims  
Medical Severity is represented above as unlimited medical losses at ultimate without adjustments for either wage or benefit changes  
Source: NCCI; US Bureau of Labor Statistics

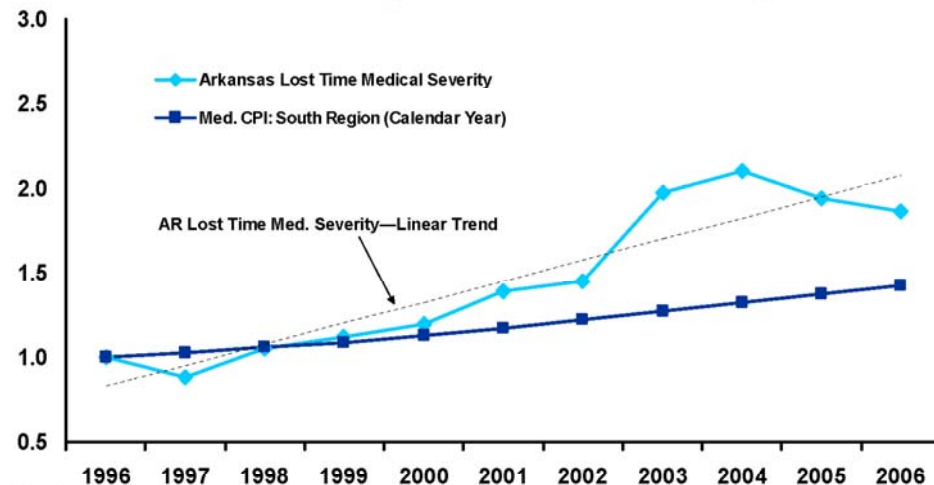
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

81



## Medical Severity in Arkansas Has Returned to More Normal Levels After a Sharp Rise in 2003

Indexes of Medical Severity\* and the Medical Care CPI, 1996 = 1.0



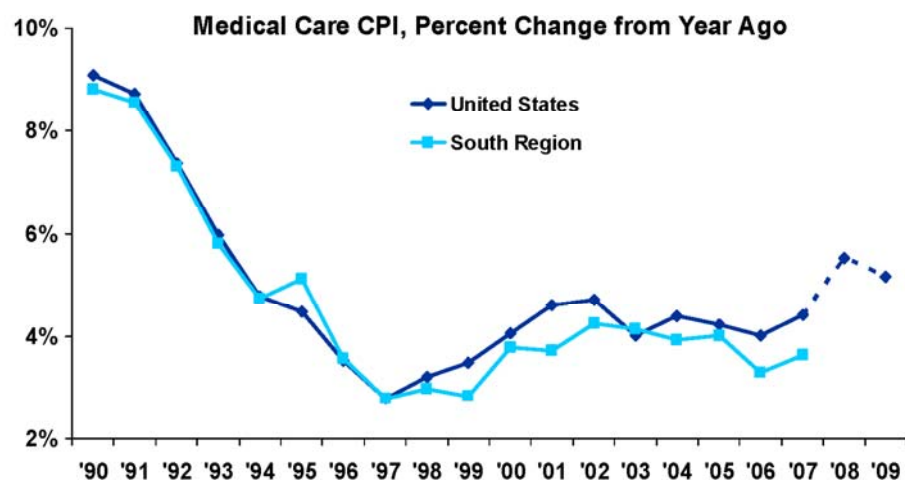
\* Lost-time claims  
Medical Severity is represented above as unlimited medical losses at ultimate without adjustments for either wage or benefit changes  
Source: NCCI; US Bureau of Labor Statistics

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

82



## Further Increases in Medical Care Inflation Are Expected Through 2009



Source: US Bureau of Labor Statistics and Moody's Economy.com for forecasts

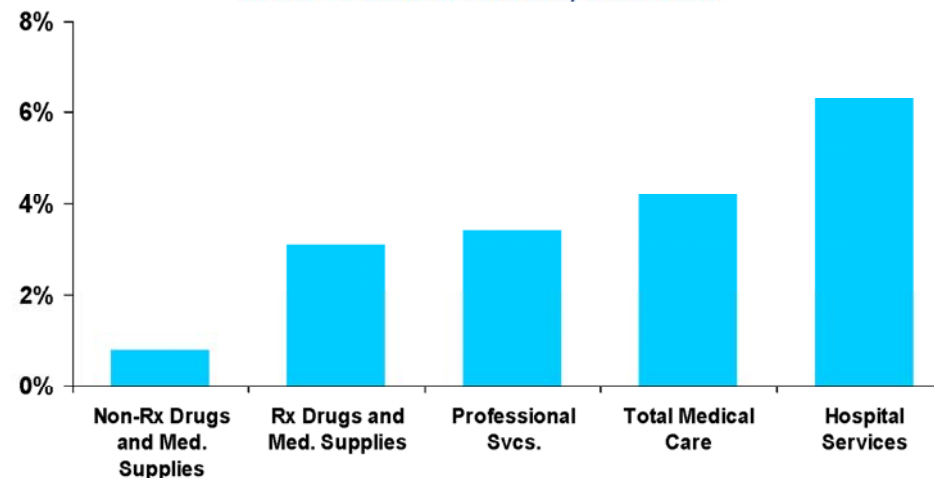
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

83



## Medical Care Price Increases Are Highest for Hospital Services

Average Annual Pct. Change in Components of the US Medical Care CPI, 2002-2007



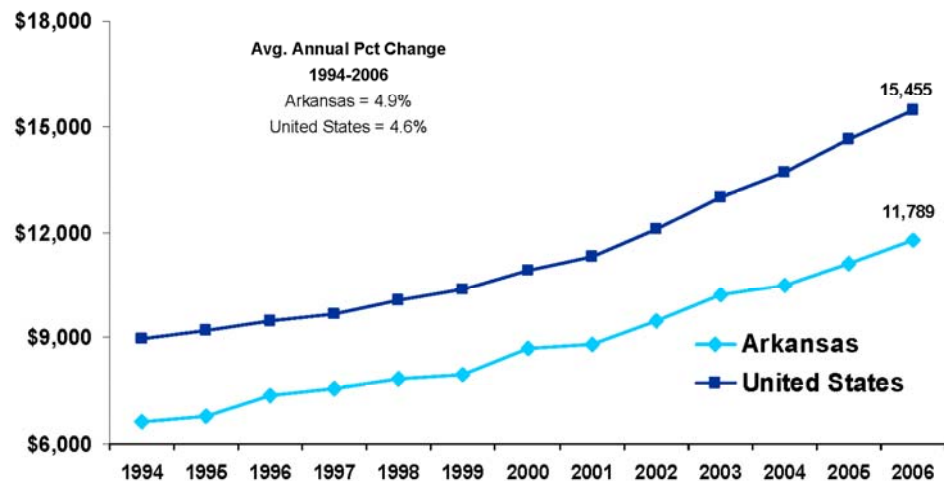
Source: US Bureau of Labor Statistics

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

84



## Avg. Hospital Cost per Stay in Arkansas: Less Than That of the U.S.; Rising a Bit More Rapidly than Nationally



Source: American Hospital Association

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

85



## Utilization

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

86



## Changes in Utilization Can Come From Many Sources

- Changes in the number of services provided
- Changes in treatment modalities (use of MRIs instead of X-rays)
- Introduction of newer pharmaceuticals/generics
- Adaptive practices by providers

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

87



## Utilization Changes Are Key to Understanding Changes in Medical Severity

- Recent NCCI research quantifies the extent to which changes in utilization help to explain the rise in medical severity
- The study focuses on claims closed within 24 months of date of injury between 1996–97 and 2001–02, a period when medical severity rose 73%
- Looks separately at impact of changes in mix, quantity, and price on medical severity changes
- Full study available on NCCI's Web site ([ncci.com](http://ncci.com))

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

88





## Changes in Mix

## Changes in the Mix of Diagnoses

Top 10 Claim Diagnoses by Accident Year for  
Lost-Time Claims That Closed Within 24 Months of Date of Injury

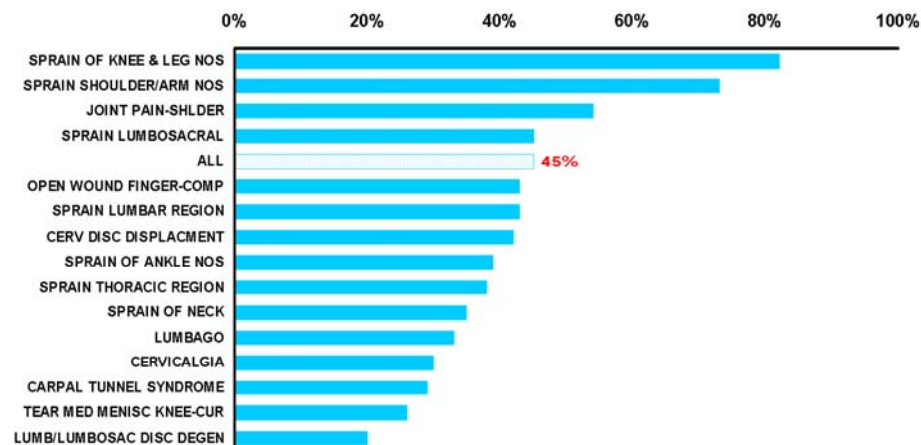
|    | Accident Years 1996/1997                     |             | Accident Years 2001/2002                     |             |
|----|--|-------------|--|-------------|
|    | Diagnosis and Severity Index                 |             | Diagnosis and Severity Index                 |             |
| 1  | Sprain Lumbar Region                         | 0.43        | Sprain Lumbar Region                         | 0.43        |
| 2  | Carpal Tunnel Syndrome                       | 1.44        | Carpal Tunnel Syndrome                       | 1.17        |
| 3  | Lower Leg Injury—<br>not otherwise specified | 0.87        | Lower Leg Injury<br>—not otherwise specified | 0.76        |
| 4  | Lumbar Disc Displacement                     | 1.94        | Lumbar Disc Displacement                     | 1.85        |
| 5  | <b>Sprain Lumbosacral</b>                    | <b>0.37</b> | Tear Medial Cartilage/Meniscus of Knee       | 1.64        |
| 6  | Lumbago                                      | 0.61        | Cervicalgia                                  | 1.24        |
| 7  | Sprain of Ankle—not otherwise specified      | 0.25        | Lumbago                                      | 0.56        |
| 8  | Cervicalgia                                  | 1.33        | <b>Sprain Rotator Cuff</b>                   | <b>2.14</b> |
| 9  | Tear Medial Cartilage/Meniscus of Knee       | 2.03        | Unilateral Inguinal Hernia                   | 0.82        |
| 10 | Unilateral Inguinal Hernia                   | 1.11        | Sprain of Ankle—<br>not otherwise specified  | 0.24        |

The severity index is the ratio of paid medical severity for that diagnosis to overall average paid medical severity.  
Source: NCCI

## Changes in the Number of Treatments

## The Number of Treatments per Claim Increased in All Leading Diagnoses

Percentage Increase in Number of Treatments per Claim by Diagnosis Code  
Accident Years 2001/2002 Over 1996/1997



Lost-Time Claims Closed Within 24 Months of Date of Injury; representative sample of diagnoses  
Source: NCCI

## What Contributes to These Increases?

### Focus on the Range of Services

## Treatments per Claim Up the Most for Physical Therapy, Complex Surgery, and Complex Diagnostic Testing

| Treatment Service Group        | Average Treatments per Claim |                          |              |
|--------------------------------|------------------------------|--------------------------|--------------|
|                                | Accident Years 1996/1997     | Accident Years 2001/2002 | % Difference |
| Physical Therapy               | 19.5                         | 32.6                     | 67%          |
| Complex Surgery and Anesthesia | 1.0                          | 1.5                      | 60%          |
| Complex Diagnostic Testing     | 0.4                          | 0.7                      | 57%          |
| Other                          | 4.4                          | 6.1                      | 39%          |
| Drugs, Supplies, and DME       | 5.6                          | 7.5                      | 34%          |
| Surgical Treatments            | 0.6                          | 0.7                      | 26%          |
| Pathology                      | 1.1                          | 1.4                      | 26%          |
| Emergency Services             | 0.8                          | 0.9                      | 19%          |
| Hospital Services              | 0.9                          | 1.0                      | 15%          |
| Diagnostic Radiology           | 2.6                          | 2.9                      | 14%          |
| Office Visits                  | 5.8                          | 6.4                      | 11%          |
| <b>Total Treatments</b>        | <b>42.6</b>                  | <b>61.8</b>              | <b>45%</b>   |

Lost-Time Claims Closed Within 24 Months of Date of Injury  
Source: NCCI

## Why the Dramatic Increase in the Number of Treatments?

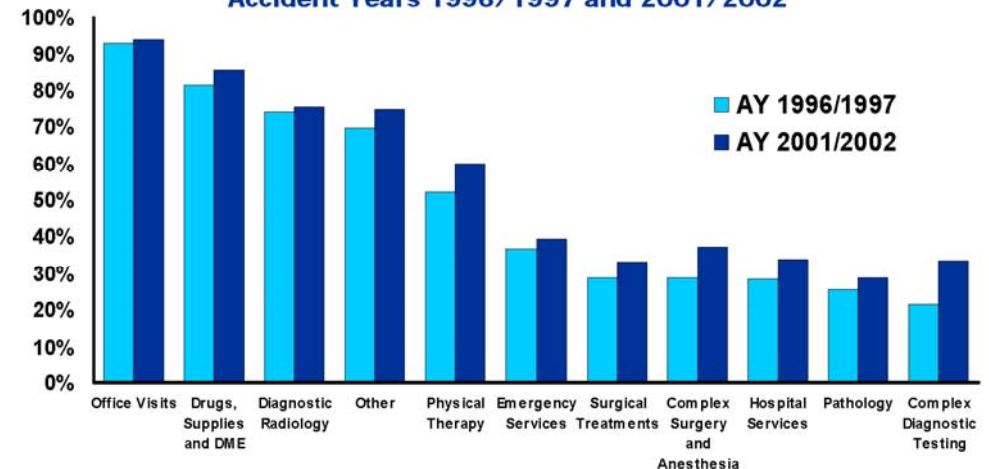
Were More Claims Receiving a Service?

or

Was There an Increase in the Number of Treatments per Service?

## The Percentage of Claims Receiving the Indicated Service Increased for All Service Groups

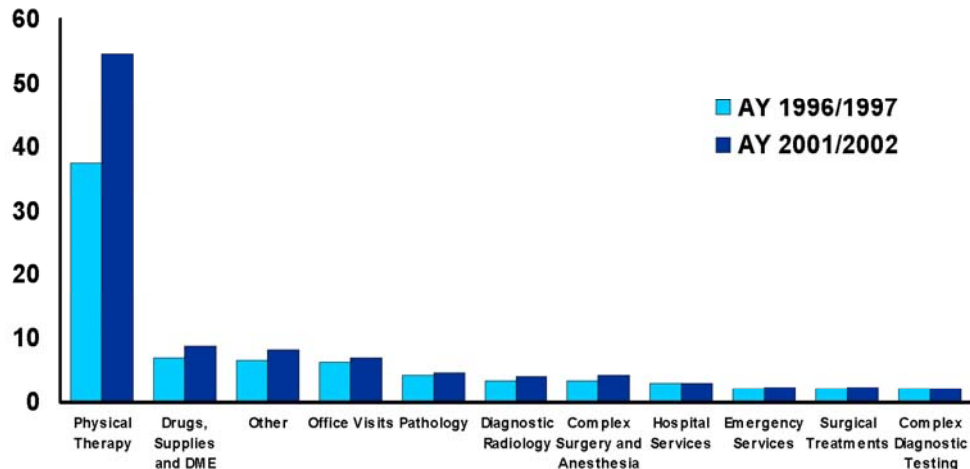
Accident Years 1996/1997 and 2001/2002



Lost-Time Claims Closed Within 24 Months of Date of Injury  
Source: NCCI

## Quantity—Number of Treatments per Claim Receiving Indicated Service

Accident Years 1996/1997 and 2001/2002



Lost-Time Claims Closed Within 24 Months of Date of Injury  
Source: NCCI

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

97



## Changes in Utilization (Mix and Quantity) Explain the Major Portion of the Increase in Paid Medical Severity

Paid Medical Severities on Lost-Time Claims Closed Within 24 Months of Date of Injury

|   | Percent of Severity Increase, Accident Years 2001/02 vs. 1996/97 |
|---|--|
| Increase Due to Diagnosis Mix Differences         | 21%  |
| Increase Due to Number of Treatments              | 52%  |
| Remaining Increase Due to Price and Other Factors | 27%  |

Source: NCCI

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

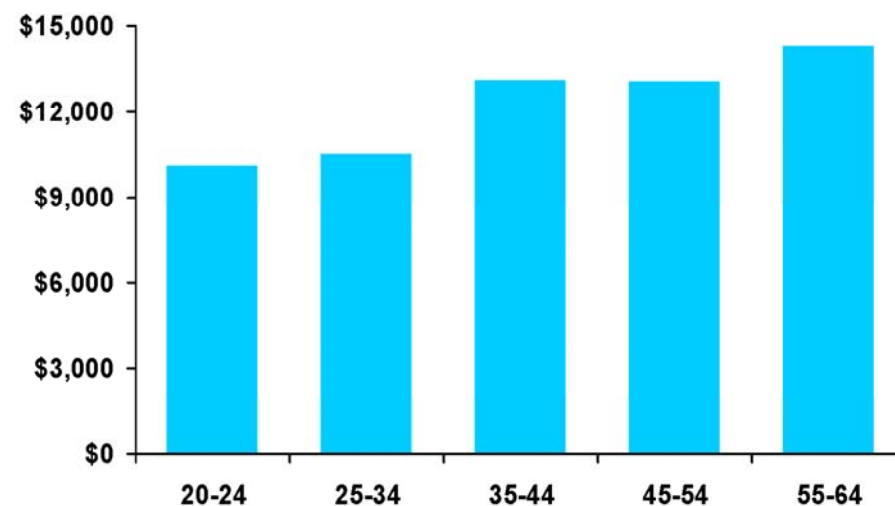
98



## Demographics

## Medical Severity Increases With Age

Average Paid + Case Medical Severity Reported at 18 Months by Age for Accident Year 2004, NCCI States



Source: NCCI

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

100



© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

99





## Rankings of Top 10 Lost-Time Claim Diagnoses

1996-2003, NCCI States

### Ages 20-34

- 1 **SPRAIN LUMBAR REGION**
- 2 **LUMBAR DISC DISPLACEMENT**
- 3 **CARPAL TUNNEL SYNDROME**
- 4 **LUMBAGO**
- 5 **CERVICALGIA**
- 6 **LOWER LEG INJURY NOS**
- 7 **SPRAIN OF ANKLE NOS**
- 8 **SPRAIN OF NECK**
- 9 **LUMBOSACRAL NEURITIS NOS**
- 10 **SPRAIN LUMBOSACRAL**

### Ages 45-64

- 1 **CARPAL TUNNEL SYNDROME**
- 2 **LUMBAR DISC DISPLACEMENT**
- 3 **SPRAIN ROTATOR CUFF**
- 4 **TEAR MENISCUS KNEE**
- 5 **CERVICALGIA**
- 6 **SPRAIN LUMBAR REGION**
- 7 **ROTATOR CUFF SYNDROME NOS**
- 8 **LUMBOSACRAL NEURITIS NOS**
- 9 **LUMBAGO**
- 10 **LOWER LEG INJURY NOS**

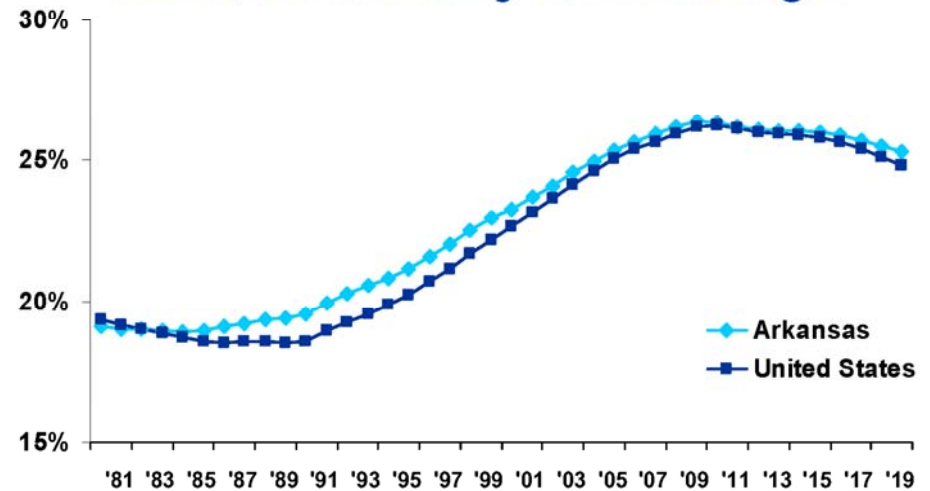
Source: NCCI

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

101



## The Share of Arkansas' Population Aged 45 to 64 is Expected to Peak in 2010, as the Baby Boomers Age



Source: US Census Bureau, Moody's Economy.com

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

102



## Key Takeaways—Drivers of Medical Severity

- Increases in medical severity largely reflect increases in utilization (mix and quantity)
- Changes in medical prices play an important but less significant role in explaining medical severity changes
- Medical severity increases with age
- Upward pressure on medical severity may diminish as baby boomers exit the workforce, although this latter effect may be partly offset to the extent that persons work well beyond the "normal" retirement age

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

103



National Council on Compensation Insurance, Inc.

state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums



© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

## Insurance Reform

- Federal Insurance Office Bill
- Treasury "Blueprint for Reform"
- Optional Federal Charter (OFC)

## Federal Insurance Office/ Office of Insurance Information

- Treasury Office with authority to:
  - Collect publicly-available insurance lines data (except health)
  - Possibly preempt state laws inconsistent with federal policy
- No authority over insurers
- Advisory Group of NAIC, Commerce Department, US trade representatives, insurance industry, consumer groups, other organizations

## Treasury Blueprint Recommendations for Change— Insurance Companies

- 2-5 year—OFC
- Separate charters: Life/Health and Property/Casualty
- Retain state worker compensation system, including residual markets
- No rate regulation or requirement to use particular rate, rating element (e.g., trending) or price
  - But may do so
- Office of Insurance Oversight (OIO)

## Optional Federal Charter

- House Bill (no action)
- Senate Bill (no action)
- Treasury Blueprint (short- to long-term proposals)



## Terrorism Risk Insurance Program Reauthorization Act of 2007

- Coverage for domestic and foreign certified "acts of terrorism"
- Law effective until 2014
- Trigger amount, co-pays, and deductibles about the same as current law
- Annual liability cap of \$100B total payout by insurers and the federal government
- Treasury to write rules for pro rata payments if annual losses exceed \$100B in any year
- Nuclear, biological, chemical or radiological (NBCR) events not specifically included in the definition of Acts of Terrorism
- Two studies: capacity for CBRN coverage, especially for workers compensation insurers, and availability and affordability of terrorism coverage in specific markets

## State Legislative Challenges

- In NCCI states, workers compensation reform pursued only in VT in 2008.
- Many states are experiencing in 2008 attempts to increase benefits and/or expand compensability standards, as well as determining whether to use the 6th Edition of the *AMA Guides*.
- Changing political demographics could threaten earlier enacted reforms. Constitutionality challenges to earlier enacted reforms are being waged in FL and MO.
- Regulatory turnover continues at a rapid pace, with many veteran Commissioners either retiring or seeking other state offices.

## Arkansas Legislation

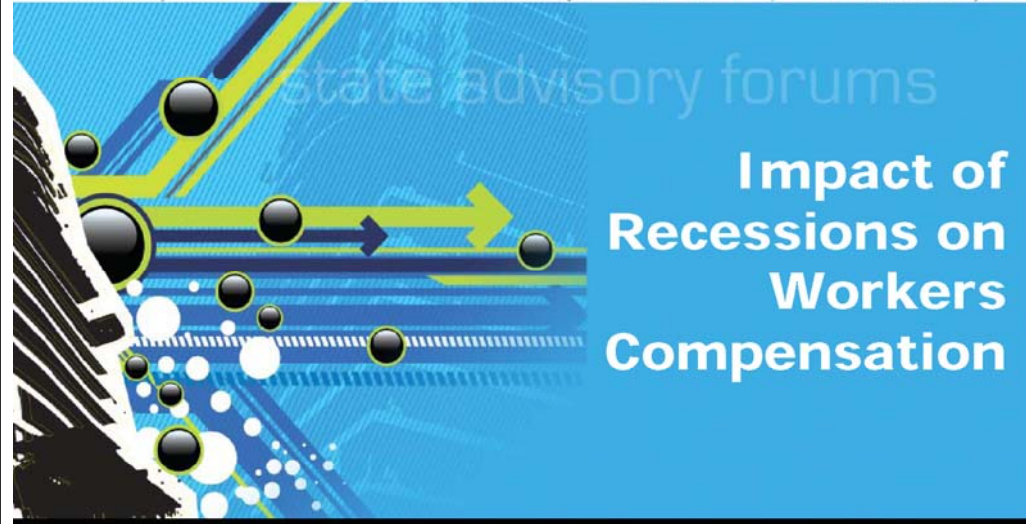
- Closure of the Second Injury Fund to new claims
- Increase in threshold for Death and Permanent Disability Trust Fund

## Arkansas Legislation

- **Act 1599** of 2007 raised the \$75,000 threshold at which the Death and Permanent Total Disability Trust Fund assumes payments of indemnity benefits for injuries resulting in permanent total disability or death.
- For injuries occurring on or after January 1, 2008, the employer or carrier is responsible for paying weekly benefits for death or permanent total disability "not to exceed three hundred twenty-five (325) times the maximum total disability rate" at the time of the injury.
- The maximum total disability rate for 2008 has been determined to be \$522. Therefore, the threshold at which the Death and Permanent Total Disability Trust Fund will assume responsibility for payment of indemnity benefits for 2008 will be \$169,650. ( $\$522 \times 325 = \$169,650$ )
- NCCI estimates this change will increase system costs by 1.7%.

## Arkansas Legislation

- **Act 1415:** This Act prohibits claims for second injuries after January 1, 2008. In effect, this act eliminates the Second Injury Fund for new claims. The Fund will continue to pay compensation on existing claims.
- NCCI estimates this change will increase system costs by 1.0%.

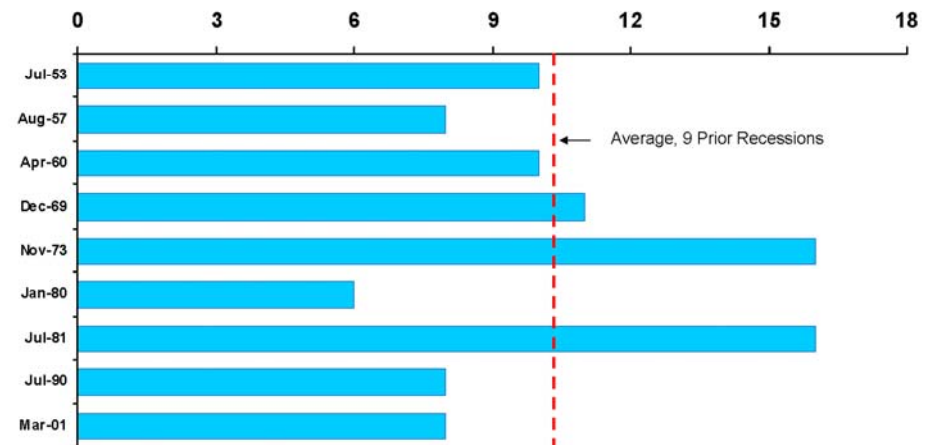


## Focus on ...

- Exposure
- Investment Income
- Claim Frequency
- Indemnity and Medical Severity

## The Average Duration of Prior Recessions Has Been a Bit Less Than One Year

Recession Length (in Months), Date Indicates Start of the Recession

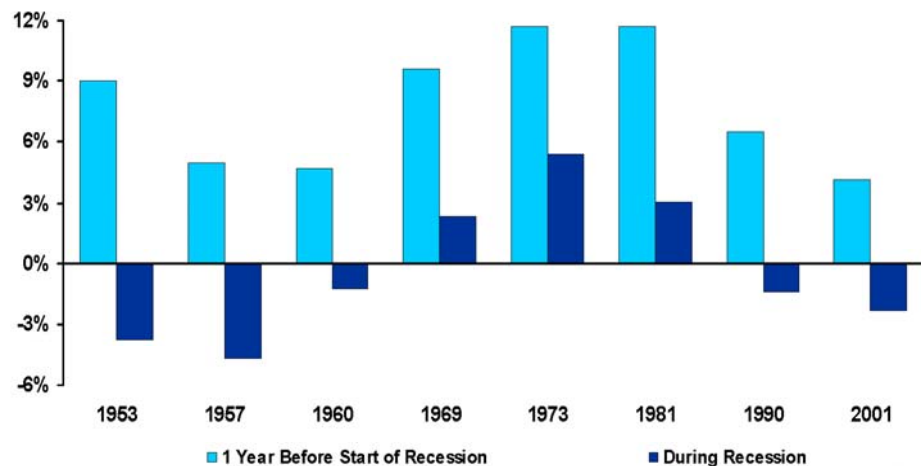


Source: National Bureau of Economic Research



## Recessions Result in Slower Growth or Declines in Wages and Salaries

Percent Change, Annual Rate, in Wage and Salary Disbursements, During Year Before the Start of Recession vs. *During* Recession; Years Indicate Start of Recession



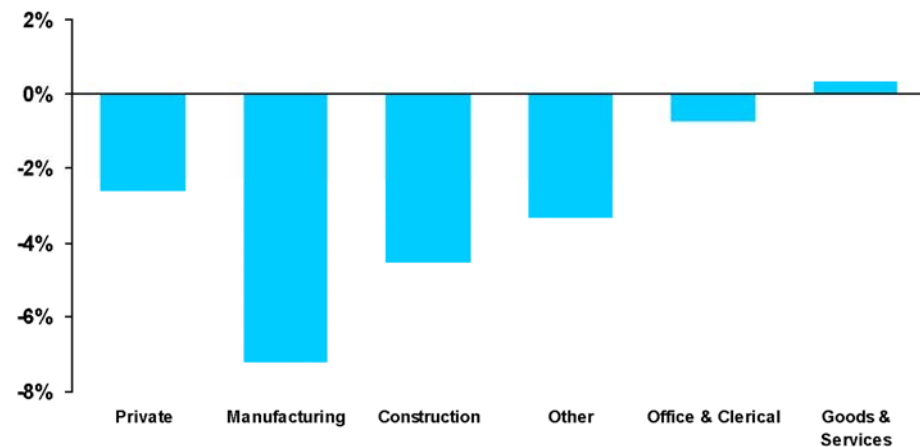
Excludes 1980 "mini" recession  
Source: US Bureau of Labor Statistics; National Bureau of Economic Research  
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

117



## The Impact of Recessions on Employment Differs Markedly by Industry Sector

Average Percent Decline in Employment in Eight Prior Recessions\*



\* Includes recessions beginning in 1953, 1957, 1960, 1969, 1973, 1981, 1990, and 2001  
Source: US Bureau of Labor Statistics; National Bureau of Economic Research

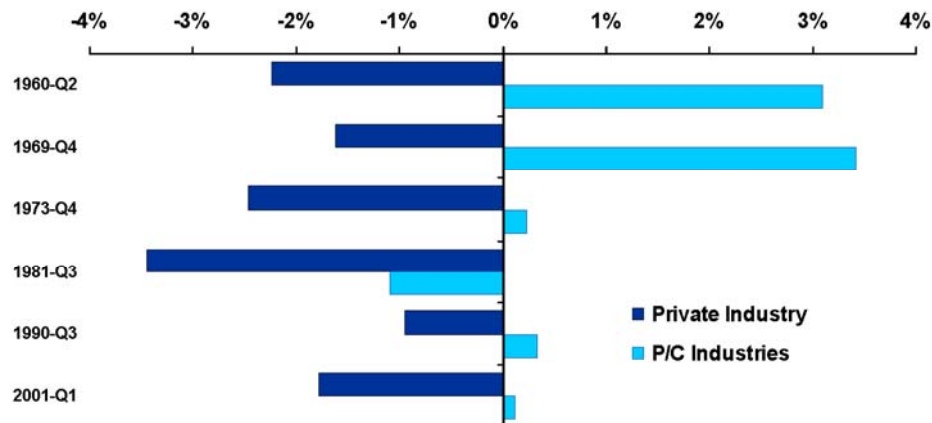
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

118



## P/C Industry Employment Has Increased During Most Prior Recessions

Percent Change During Prior Recession Periods\*



\* Comparative employment data not available prior to the 1960 recession.  
Source: US Bureau of Labor Statistics; National Bureau of Economic Research

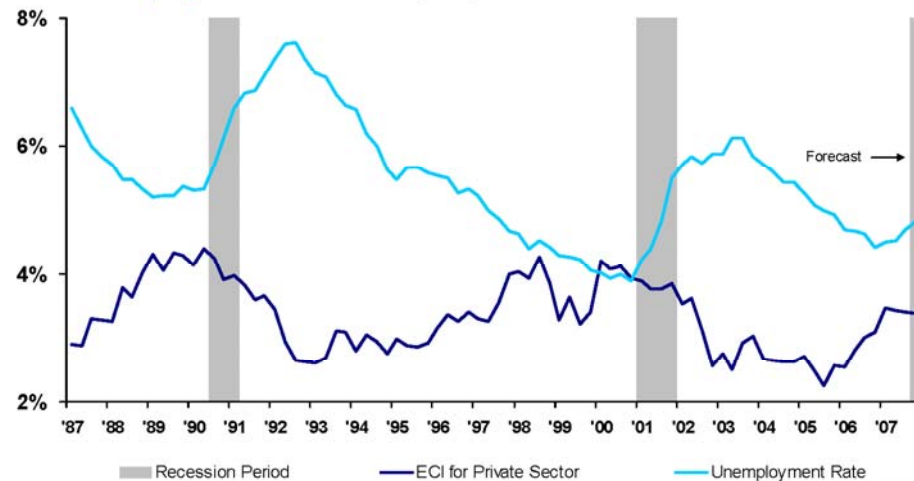
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

119



## Recession-Related Increases in the Unemployment Rate Tend to Place Downward Pressure on Wage Increases

Unemployment Rate vs. Year-Ago Percent Change in the Employment Cost Index (ECI) for Private-Sector Workers



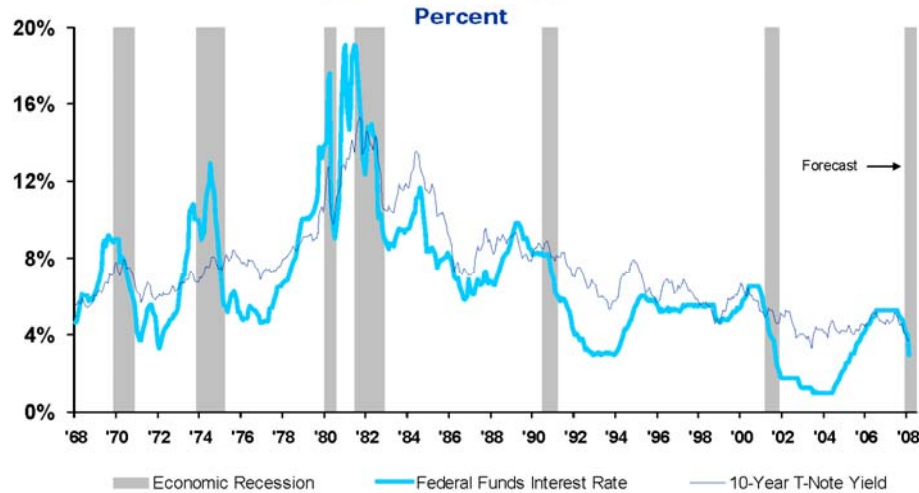
Source: US Bureau of Labor Statistics; Moody's Economy.com

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

120



## The Fed Typically Reduces Short-Term Interest Rates Before the Start of a Recession, With Declines Continuing After the Economy Begins to Expand

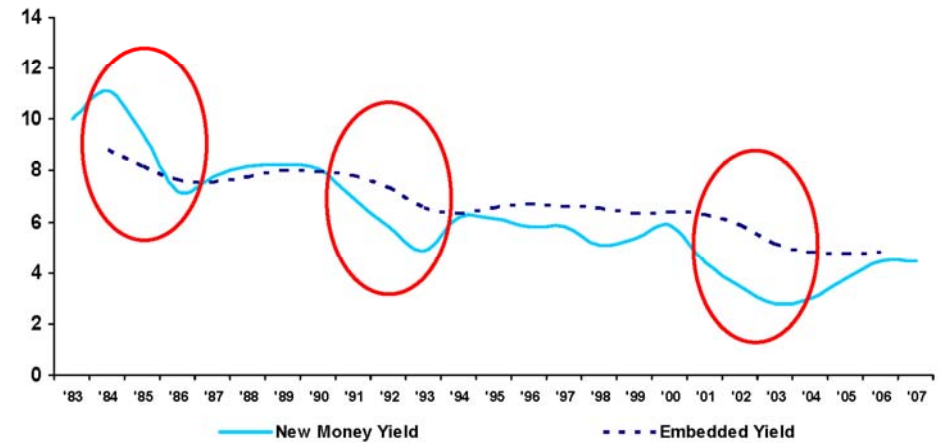


Source: Board of Governors of the Federal Reserve System  
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

121



## Lower Interest During and Immediately After Recessions Result in Reduced Yields on P/C Fixed Income Portfolios



Source: NCCI

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

122



## Stock Prices During and After Recessions

Based on the S&P 500 Stock Price Index

| Recession Period         | No. of Months Before Start of Recession That Stocks Prices Began to Decline | Percent Decline From Pre-Recession High to Recession-Period Low | No. of Months for Stock Prices to Regain Their Pre-Recession High |
|--------------------------|---|---|---|
| July 1953—May 1954       | 6   | 11%   | 14  |
| August 1957—April 1958   | 13  | 17%   | 26  |
| April 1960—February 1961 | 9   | 10%   | 19  |
| Dec. 1969—November 1970  | 12  | 29%   | 39  |
| November 1973—March 1975 | 10  | 43%   | 90  |
| July 1981—November 1982  | 3   | 19%   | 19  |
| July 1990—March 1991     | 1   | 15%   | 8   |
| March 2001—November 2001 | 7   | 30%   | 81  |
| <b>Average</b>           | <b>8</b>  | <b>22%</b>  | <b>37</b>   |
| <b>Median</b>            | <b>8</b>  | <b>18%</b>  | <b>23</b>   |

Excludes 1980 "mini" recession  
Source: Standard and Poors, National Bureau of Economic Research  
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

123



## Implications for Claim Frequency

- Recessions, by increasing the skill level of the workforce ("last hired-first fired"), tend to place downward pressure on claim frequency
- NCCI research found that the unemployment rate and the share of younger workers in the workforce—both measures of the extent to which inexperienced workers are in the workforce—were statistically significant in explaining year-to-year changes in the manufacturing incidence rate
- The complete study is available on NCCI's Web site ([ncci.com](http://ncci.com))

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

124





# Uncertain Implications for Indemnity and Medical Severity

## Indemnity Severity

- Some downward pressure from slower wage growth and reduced employment in more hazardous industries
- Impact on workers' attitudes less clear

## Medical Severity

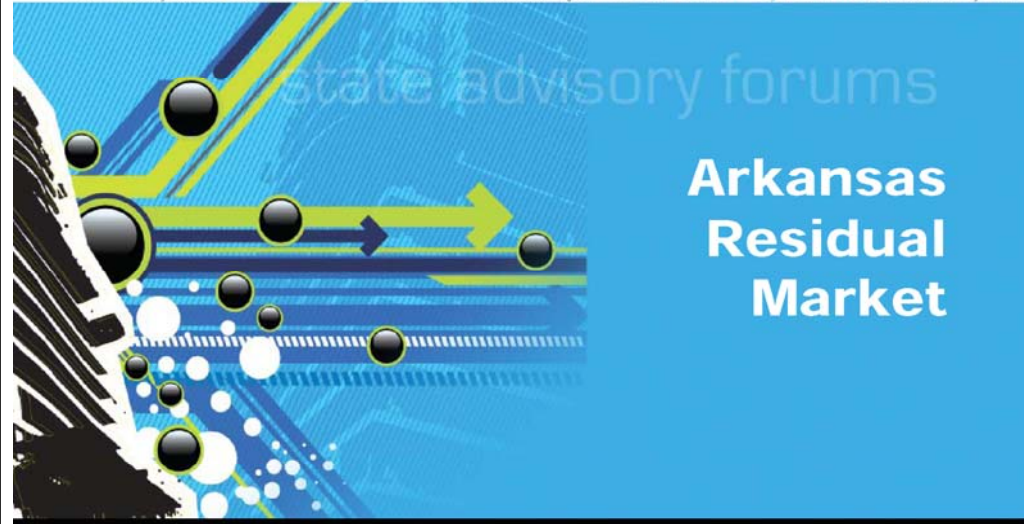
- Relationship with the business cycle has yet to be determined
- Economy may play a role, if only indirectly (indemnity and medical severity moved together during the 1980s and early 1990s)

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

125



state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums

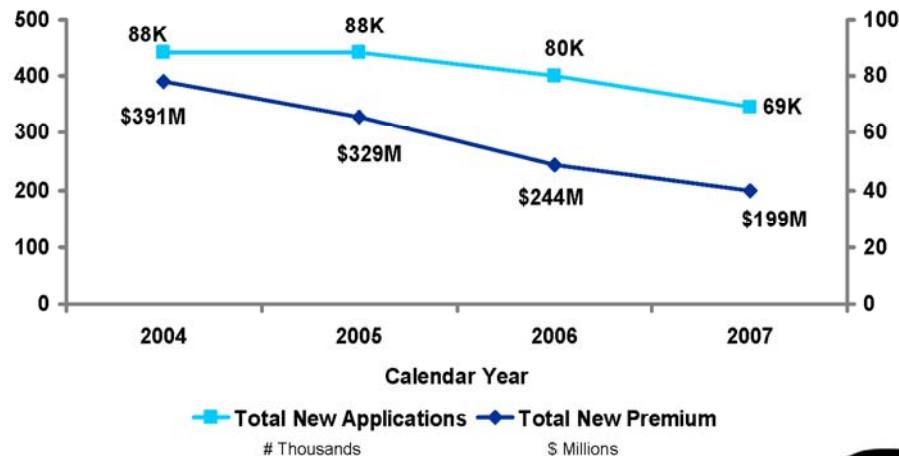


© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

## Total Residual Market New Applications and Premium Assigned in All Plan States

\$ Millions of Premium Applications

# Thousands of



© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

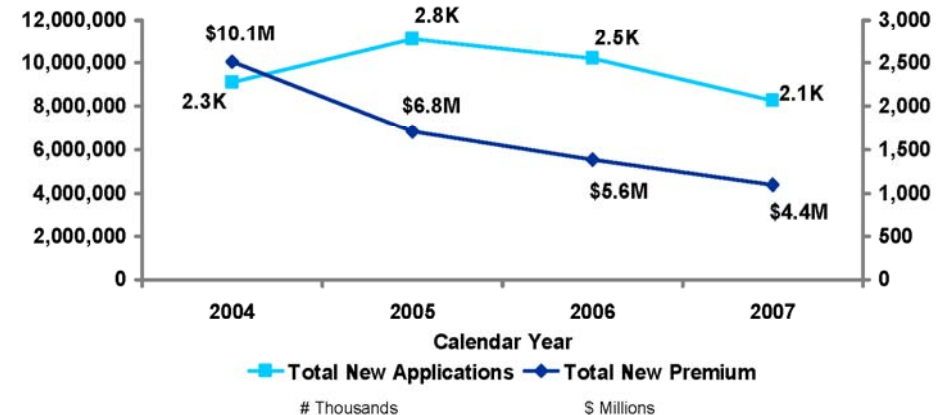
127



## Total Residual Market New Applications and Premium Assigned in Arkansas

\$ Millions of Premium Applications

# Thousands of



© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

128



## The Number of Residual Market Plan Assignments in Arkansas

Number of Total Assignments

| Year | Q1–Q4 | % Change From Prior Year |
|------|-------|--------------------------|
| 2004 | 2,277 |                          |
| 2005 | 2,772 | 21.7%                    |
| 2006 | 2,546 | -8.2%                    |
| 2007 | 2,068 | -18.8%                   |

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

129



## The Volume of New Assigned Premium in Arkansas

Volume of Total Assigned Premium

| Year | Q1–Q4        | % Change From Prior Year |
|------|--------------|--------------------------|
| 2004 | \$10,082,128 |                          |
| 2005 | \$6,843,651  | -32.1%                   |
| 2006 | \$5,550,244  | -18.9%                   |
| 2007 | \$4,381,685  | -21.1%                   |

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

130



## In Arkansas, Growing Percentages of New Residual Market Plan Applications Are Being Processed Online

Percentage of Arkansas' New Applications Received via Electronic Transmission at Month's End

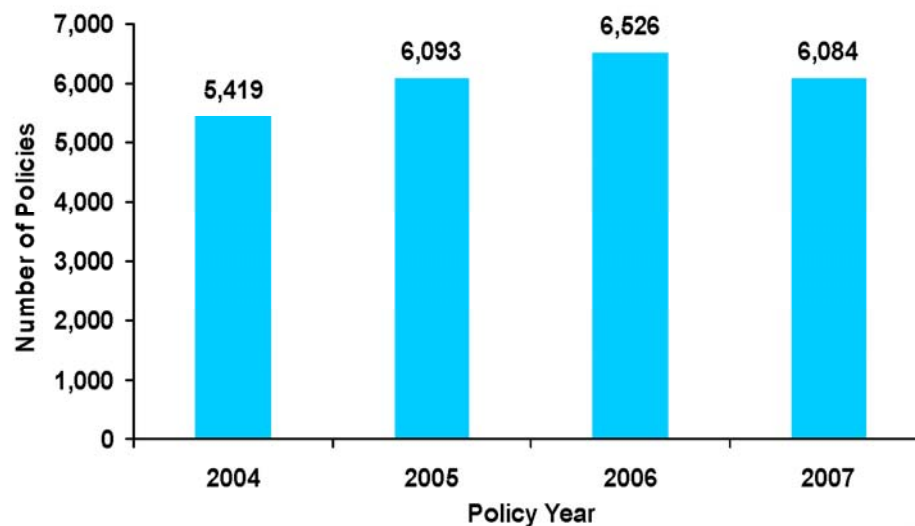
| Average       | Arkansas | National |
|---------------|----------|----------|
| December 2004 | 59.5%    | 73.9%    |
| December 2005 | 70.3%    | 78.8%    |
| December 2006 | 74.4%    | 83.1%    |
| December 2007 | 87.1%    | 88.1%    |

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

131



## Arkansas Total Residual Market Plan Policy Count

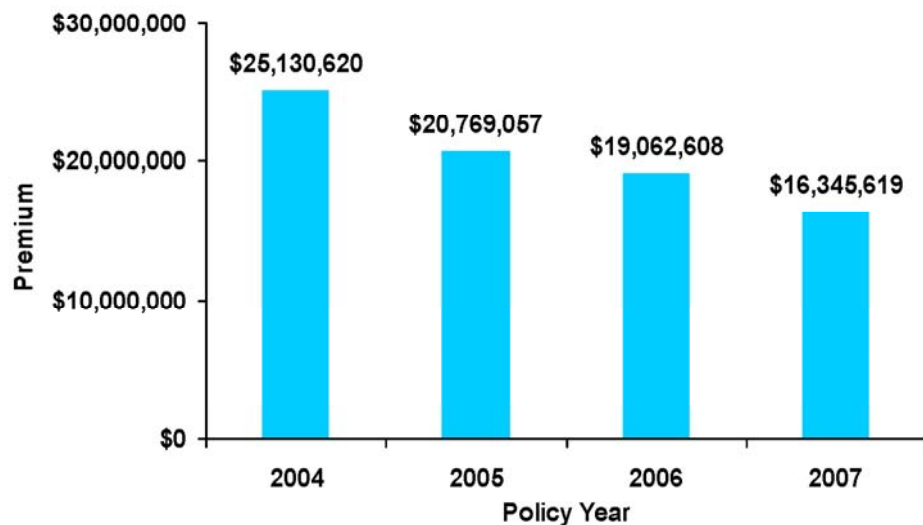


© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

132



## Arkansas Total Residual Market Plan Premium Volume



© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

133



## Arkansas Residual Market Plan 2006 vs. 2007 Total Policy Size Comparison

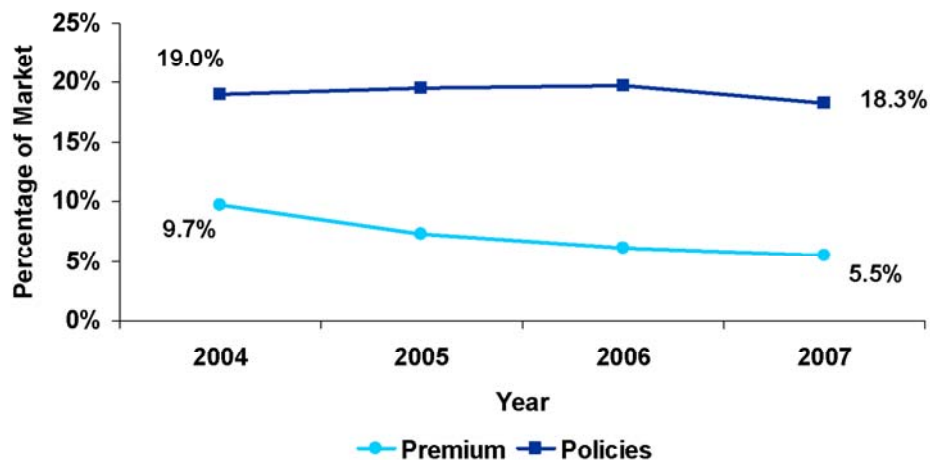
| Premium Size          | 2006          |                     | 2007          |                     |
|-----------------------|---------------|---------------------|---------------|---------------------|
|                       | # of Policies | Premium             | # of Policies | Premium             |
| \$0-\$2,499           | 5,168         | \$4,099,523         | 4,995         | \$3,997,722         |
| \$2,500-\$4,999       | 641           | \$2,220,562         | 518           | \$1,831,448         |
| \$5,000-\$9,999       | 375           | \$2,619,560         | 292           | \$2,041,706         |
| \$10,000-\$19,999     | 205           | \$2,769,637         | 155           | \$2,209,177         |
| \$20,000-\$49,999     | 87            | \$2,659,562         | 89            | \$2,570,795         |
| \$50,000-\$99,999     | 37            | \$2,422,814         | 24            | \$1,616,003         |
| \$100,000-\$199,999   | 11            | \$1,477,780         | 9             | \$1,181,980         |
| \$200,000 and greater | 2             | \$ 793,170          | 2             | \$ 896,788          |
| <b>TOTAL</b>          | <b>6,526</b>  | <b>\$19,062,608</b> | <b>6,084</b>  | <b>\$16,345,619</b> |

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

134



## Comparison of Market Share for the Arkansas Residual Market by Total Policy Count and Written Premium



Note: Market share as a percentage of residual market total written premium/policies in force.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

135



## Arkansas Top Five Class Codes Based on Residual Market Plan Total Policy Count

### Nationally

5645—Carpentry (12.6%)  
8810—Clerical (4.9%)  
5437—Carpentry, Installation (4.6%)  
5474—Painting (4.1%)  
7228—Trucking, Local (3.9%)

### Arkansas

5645—Carpentry (25.2%)  
8810—Clerical (5.6%)  
5551—Roofing (3.3%)  
5474—Painting (2.9%)  
5022—Masonry (2.8%)

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

136





## Arkansas Top Five Class Codes Based on Residual Market Plan Total Written Premium

### Nationally

5645—Carpentry (7.5%)  
5551—Roofing (3.1%)  
7228—Trucking, Local (2.5%)  
7229—Trucking, Long Distance (2.4%)  
8835—Nursing, Home Health (2.4%)

### Arkansas

5645—Carpentry (13.2%)  
5403—Carpentry NOC (5.1%)  
7720—Police Officers (2.6%)  
7229—Trucking, Long Distance (2.6%)  
5551—Roofing (2.4%)

## Demographics: Top 10 Zip Codes With the Largest Number of Arkansas Residual Market Policies

| Zip Code | City        | Policy Counts | % of Policies in Zip Code |
|----------|-------------|---------------|---------------------------|
| 72712    | BENTONVILLE | 135           | 2.38%                     |
| 72764    | SPRINGDALE  | 119           | 2.09%                     |
| 72756    | ROGERS      | 116           | 2.04%                     |
| 71913    | HOT SPRINGS | 115           | 2.02%                     |
| 71901    | HOT SPRINGS | 101           | 1.78%                     |
| 72032    | CONWAY      | 94            | 1.65%                     |
| 72023    | CABOT       | 94            | 1.65%                     |
| 72015    | BENTON      | 87            | 1.53%                     |
| 72401    | JONESBORO   | 82            | 1.44%                     |
| 72762    | SPRINGDALE  | 80            | 1.41%                     |
|          |             | 1,023         | 17.99%                    |

## Demographics: Top 10 Zip Codes With the Largest Arkansas Residual Market Premium Volume

| Zip Code | City        | Premium in Zip Code | % of Premium in Zip Code | Avg. Policy Size |
|----------|-------------|---------------------|--------------------------|------------------|
| 72756    | ROGERS      | \$268,926           | 2.06%                    | \$2,318          |
| 71913    | HOT SPRINGS | \$255,658           | 1.95%                    | \$2,223          |
| 71802    | HOPE        | \$228,919           | 1.75%                    | \$38,153         |
| 71901    | HOT SPRINGS | \$226,333           | 1.73%                    | \$2,241          |
| 72712    | BENTONVILLE | \$221,800           | 1.70%                    | \$1,643          |
| 72209    | LITTLE ROCK | \$221,441           | 1.69%                    | \$5,272          |
| 71730    | EL DORADO   | \$221,142           | 1.69%                    | \$3,510          |
| 72903    | FT SMITH    | \$200,908           | 1.54%                    | \$7,175          |
| 72103    | MABELVALE   | \$189,172           | 1.45%                    | \$7,006          |
| 72143    | SEARCY      | \$187,443           | 1.43%                    | \$2,640          |
|          |             | \$2,221,742         | 16.99%                   |                  |

## Demographics: Some Interesting Facts

New applications received by NCCI provide some interesting information, based on how the producers answer the questions, such as:

- Request USL&H coverage
  - 4 of the of 340 applications requesting USL&H coverage were from Arkansas (1.2%)
- Indicate that the risk was previously self-insured
  - 189 of 3,477 applications indicating previous self-insurance were from Arkansas (or 5.4%)

Note: "Self-insured" could also indicate small accounts that were formerly group self-insureds or PEOs.

# Arkansas Assigned Risk Plan Pricing Programs

- Merit Rating
- Differential/Surcharge
- Take-Out Credit Program
- Alternate Preferred Plan
- Managed Care Credit Program
- Tabular Adjustment Program
- Drug-Free Workplace Credit





## Glossary

- **Assigned Risk Adjustment Program (ARAP)**—An assigned risk market program that surcharges residual market risks based on the magnitude of their experience rating modification.
- **Calendar Year (CY)**—Experience of earned premium and loss transactions occurring within the calendar year beginning January 1, irrespective of the contractual dates of the policies to which the transactions relate and the dates of the accidents.
- **Calendar-Accident Year (AY)**—The accumulation of loss data on all accidents with the date of occurrence falling within a given calendar year. The premium figure is the same as that used in calendar year experience.
- **Claim Frequency**—The number of claims per unit of exposure. For example, the number of claims per million dollars of premium or per one hundred workers.

## Glossary

- **Claim Severity**—The average cost of a claim. Severity is calculated by dividing total losses by the total number of claims.
- **Combined Ratio**—The sum of the (i) loss ratio, (ii) expense ratio, and (iii) dividend ratio for a given time period.
- **Detailed Claim Information (DCI)**—An NCCI call that collects detailed information on an individual workers compensation lost-time claim basis, such as type of injury, whether or not an attorney was involved, timing of the claim's report to the carrier, etc.
- **Direct Written Premium (DWP)**—The gross premium income adjusted for additional or return premiums, but excluding any reinsurance premiums.

## Glossary

- **Indemnity Benefits**—Payments by an insurance company to cover an injured worker's time lost from work. These benefits are also referred to as "wage replacement" benefits.
- **Loss Ratio**—The ratio of losses to premium for a given time period.
- **Lost-Time (LT) Claims**—Claims resulting in indemnity benefits (and usually medical benefits) being paid to or on behalf of the injured worker for time lost from work.
- **Medical-Only Claims**—Claims resulting in only medical benefits being paid on behalf of an injured worker.
- **Net Written Premium (NWP)**—The gross premium income adjusted for additional or return premiums and including any additions for reinsurance assumed and any deductions for reinsurance ceded.

## Glossary

- **Permanent Partial (PP)**—Disability that prevents the insured from working at their own (and sometimes any) occupation. A disability is considered to result in partial permanent loss of earning power.
- **Policy Year (PY)**—Premium and loss data on business for a 12-month period for policies with inception dates within the 12-month period.
- **Schedule Rating**—A debit and credit plan that recognizes variations in the hazard-causing features of an individual risk.
- **Take-Out Credit Program**—An assigned risk program that encourages carriers to write current residual market risks in the competitive voluntary marketplace.
- **Temporary Total (TT)**—A disability that totally disables a worker for a temporary period of time.

## Appendix

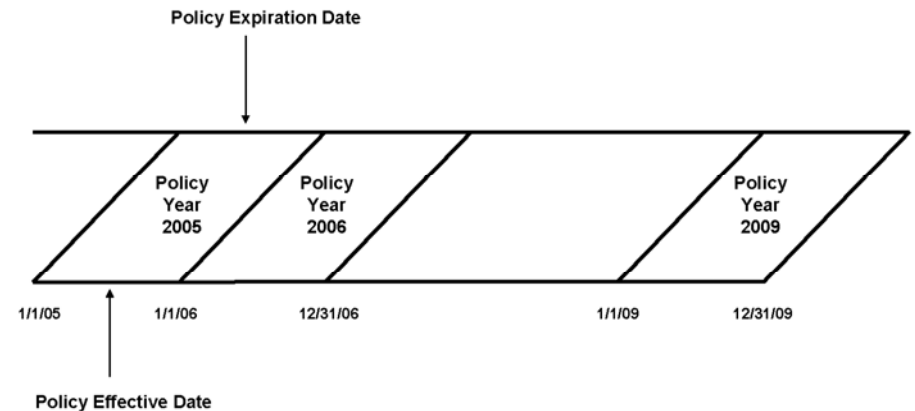
## NCCI Workers Compensation Databases

- **Financial Aggregate Calls**
  - Used for aggregate ratemaking
- **Workers Compensation Statistical Plan (WCSP)**
  - Used for class ratemaking
- **Detailed Claim Information (DCI)**
  - In-depth sample of lost-time claim information
- **Policy Data**
  - Policy declaration page information

## Financial Aggregate Calls

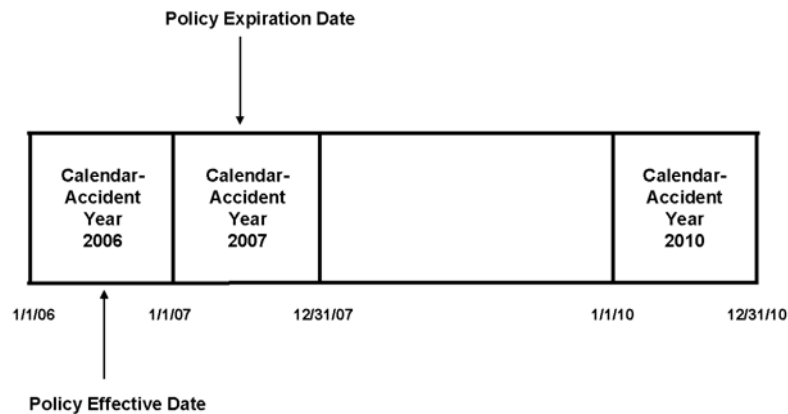
- **Collected Annually**
  - Policy and calendar-accident year basis
  - Statewide and assigned risk data
- **Premiums, Losses, and Claim Counts**
  - Evaluated as of December 31
- **Purpose**
  - Basis for overall aggregate rate indication
  - Research

## Policy Year Financial Aggregate Data





## Calendar-Accident Year Financial Aggregate Data



© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

153



## Workers Compensation Statistical Plan (WCSP) Data

- **Experience by policy detail**
  - Exposure, premium, experience rating modifications
  - Individual claims by injury type
- **Purposes**
  - Classification relativities
  - Experience Rating Plan
  - Research

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

154



## Valuation of WCSP Data



© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

155



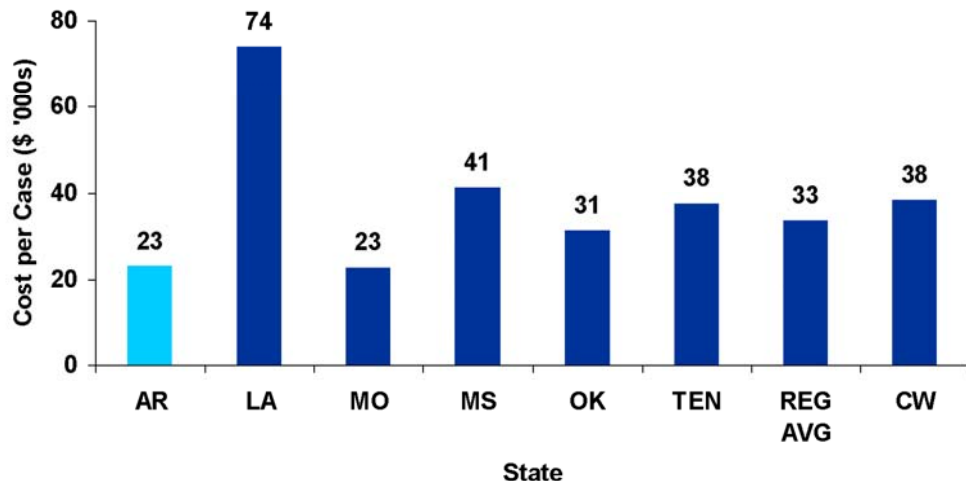
state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums 2008 state advisory forums



© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.



## Arkansas Indemnity Permanent Partial Average Cost per Case



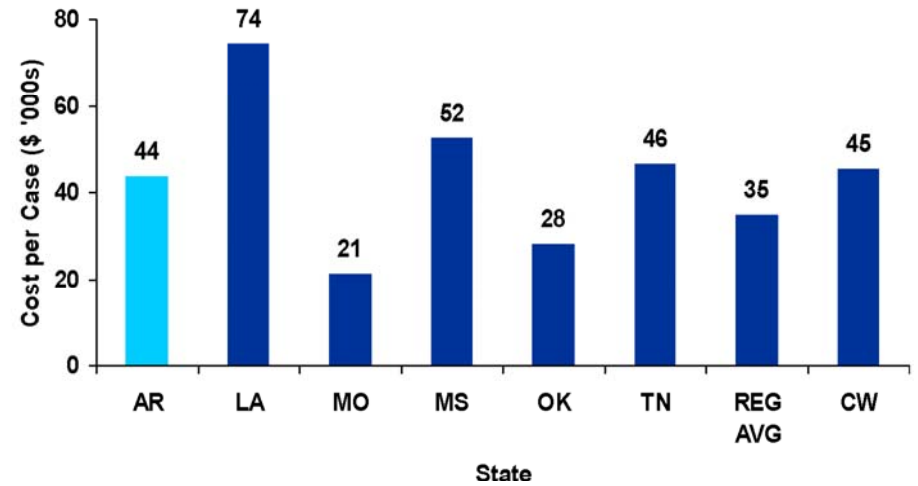
Based on NCCI's WCSP data.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

157



## Arkansas Permanent Partial Medical Average Cost per Case



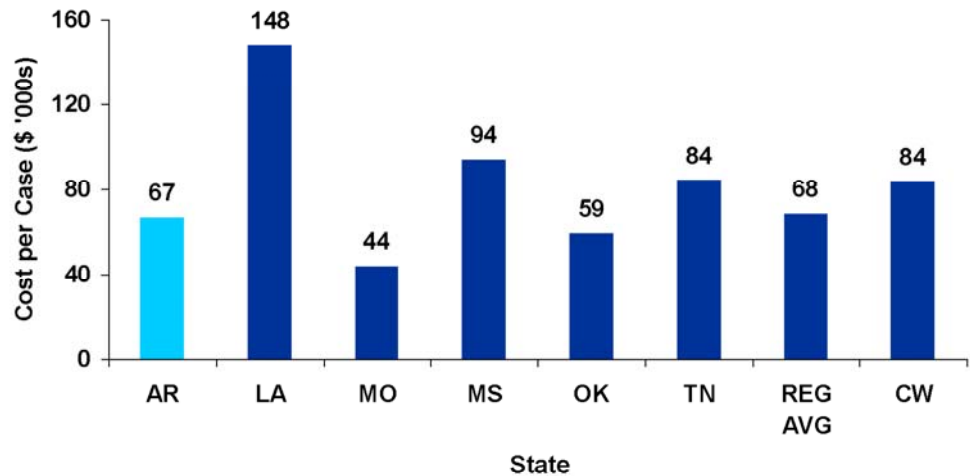
Based on NCCI's WCSP data.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

158



## Arkansas Permanent Partial Average Total per Case ...



Based on NCCI's WCSP data.

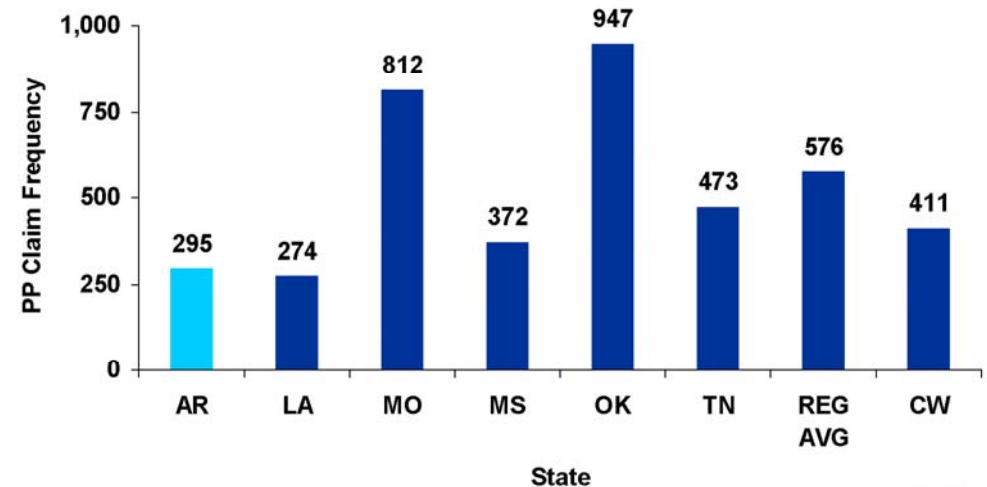
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

159



## Times Arkansas Average Frequency of Permanent Partial Claims ...

Permanent Partial Frequency per 100,000 Workers



Based on NCCI's WCSP data.

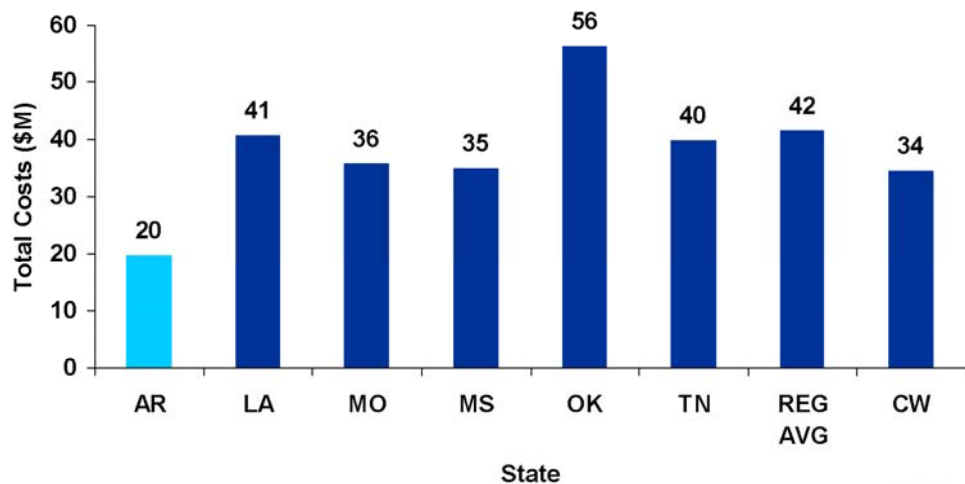
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

160



## Gives Arkansas Permanent Partial Total Costs

Permanent Partial Costs per 100,000 Workers



Based on NCCI's WCSP data.

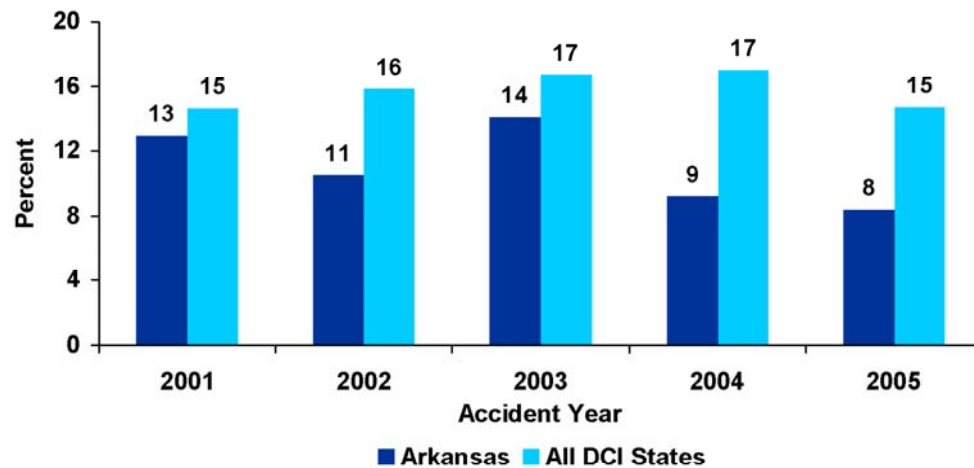
© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

161



## Percentage of Claims With Attorney Involvement

Lost-Time Claims



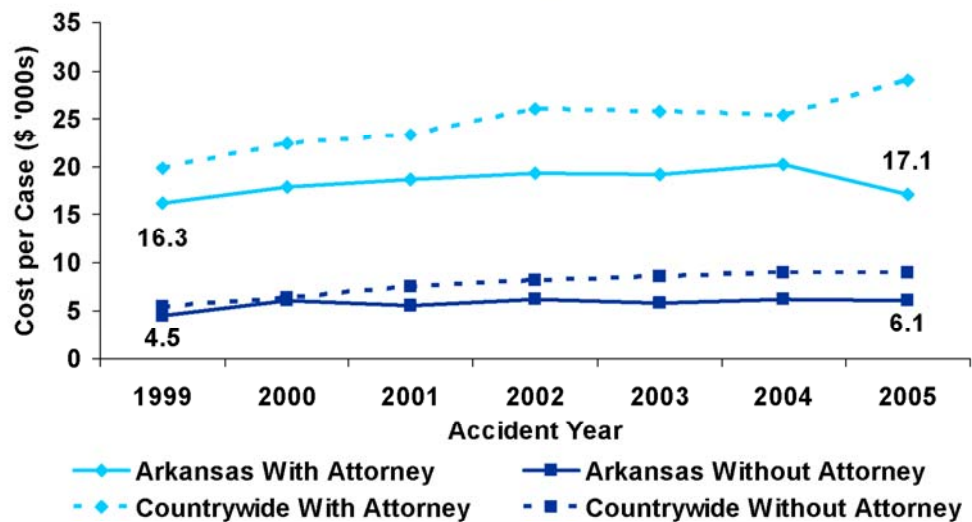
Accident Years 2001 to 2005 at 2nd report.  
Based on NCCI's DCI data.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

162



## Arkansas Indemnity Average Claim Costs When an Attorney Is Involved



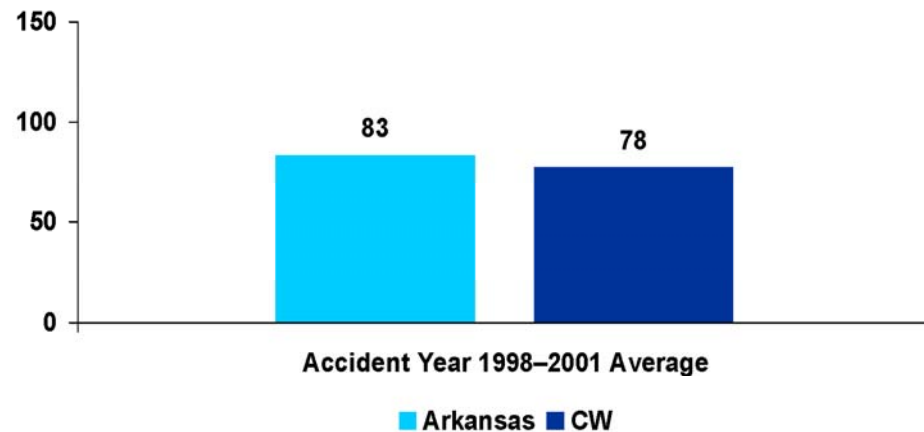
Based on NCCI's DCI data.

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

163



## Number of Days to Return to Work



Source: NCCI Detailed Claim Information

© 2008 National Council on Compensation Insurance, Inc. All Rights Reserved.

164



# Table of Contents

## Arkansas Residual Market Second Quarter 2008 Status Report Data Reported as of July 15, 2008

|  |    |
|--|----|
| Executive Summary  | 2  |
| <b>Residual Market Demographics</b>  |    |
| Residual Market Total New Applications Bound Comparison                              | 3  |
| Residual Market Total New Application Premium Bound Comparison                       | 4  |
| Residual Market Percentage of New Applications Received                              | 5  |
| Residual Market Total Policy Counts  | 6  |
| Residual Market Total Premium Volume   | 6  |
| Residual Market Total Policy and Premium In Force                                    | 7  |
| Residual Market Total Premium Distribution by Size of Risk                           | 8  |
| Total Assigned Risk Market Share   | 9  |
| Residual Market Top 10 Classification Codes by Total Policy Count and Premium Volume | 10 |
| Residual Market Collections/Indemnifications on Pool Policies                        | 11 |
| Residual Market Uncollectible Premium on Pool Policies                               | 11 |
| Residual Market Booked Loss Ratio  | 12 |
| Residual Market Ultimate Net Written Premium   | 12 |
| Residual Market Incurred Losses Including IBNR                                       | 13 |
| Residual Market Net Operating Gain/(Loss)  | 13 |
| Glossary of Terms  | 14 |

© Copyright 2008 National Council on Compensation Insurance, Inc. This material is owned by NCCI and is protected by copyright law. NCCI will seek all appropriate legal remedies for the unauthorized use, sale, reproduction, distribution, preparation of derivative works, transfer or assignment of this material, or any part thereof. NCCI makes no representation or warranty, express or implied, as to any matter whatsoever, including but not limited to the accuracy of any information, product, or service furnished hereunder. The recipient of this material is subject to any license agreement that governs the use of this information and subscribes to and utilizes the information "as is."

## Executive Summary

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the Second Quarter 2008 Residual Market State Activity Report.

Readers will notice an update of the key measurement factors and issues relating to the operation of the Arkansas Plan. NCCI, has enhanced our data reporting tools to provide a more accurate picture of what is happening in your state.

If you have any questions or comments about this report, please feel free to contact any of the individuals listed below.

Terri Robinson, State Relations Executive  
Chantel Weishaar, Technical Specialist

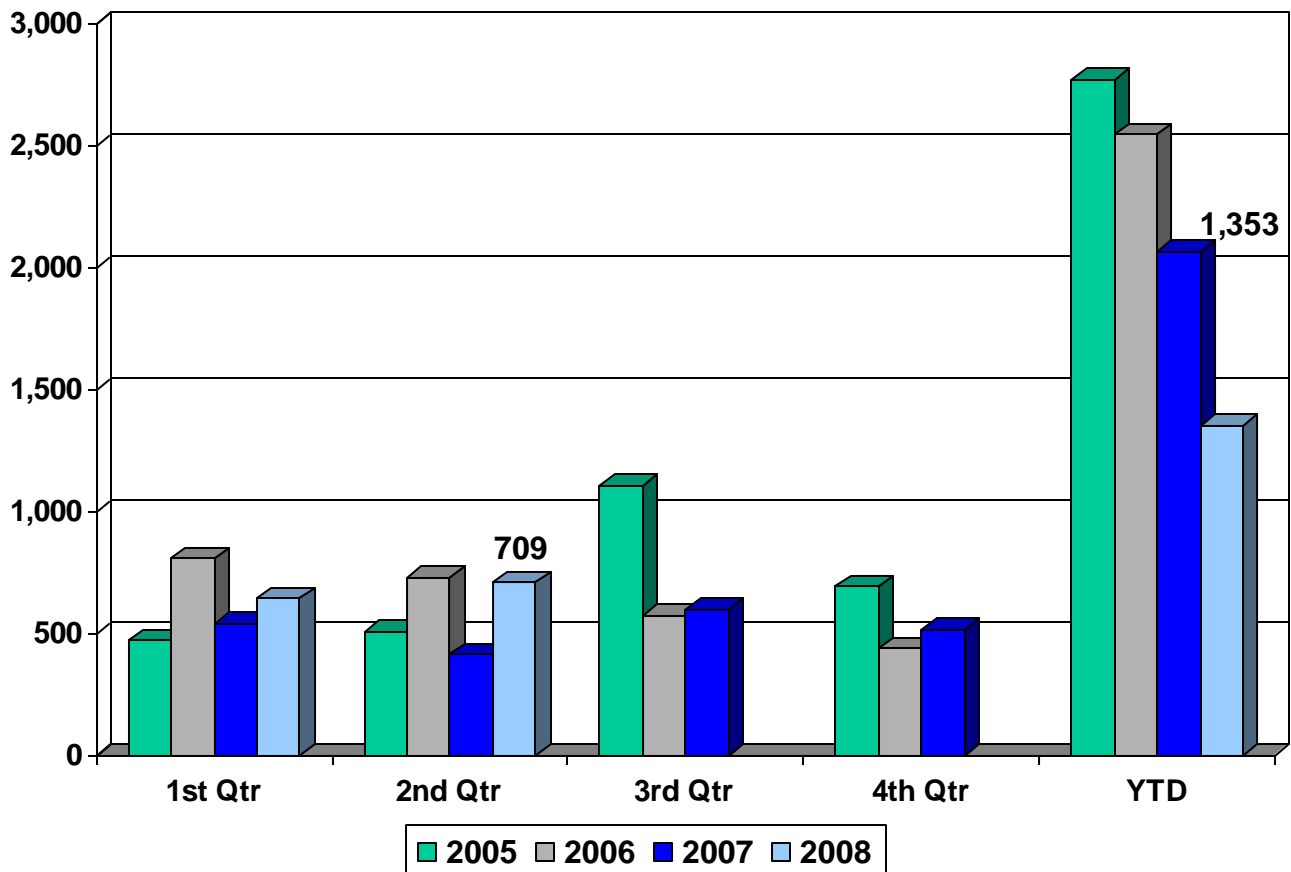
(314) 843-4001  
(561) 893-3015



# Residual Market Demographics – 2Q 2008

## Arkansas Residual Market Total New Applications Bound 2005 vs. 2006 vs. 2007 vs. 2008

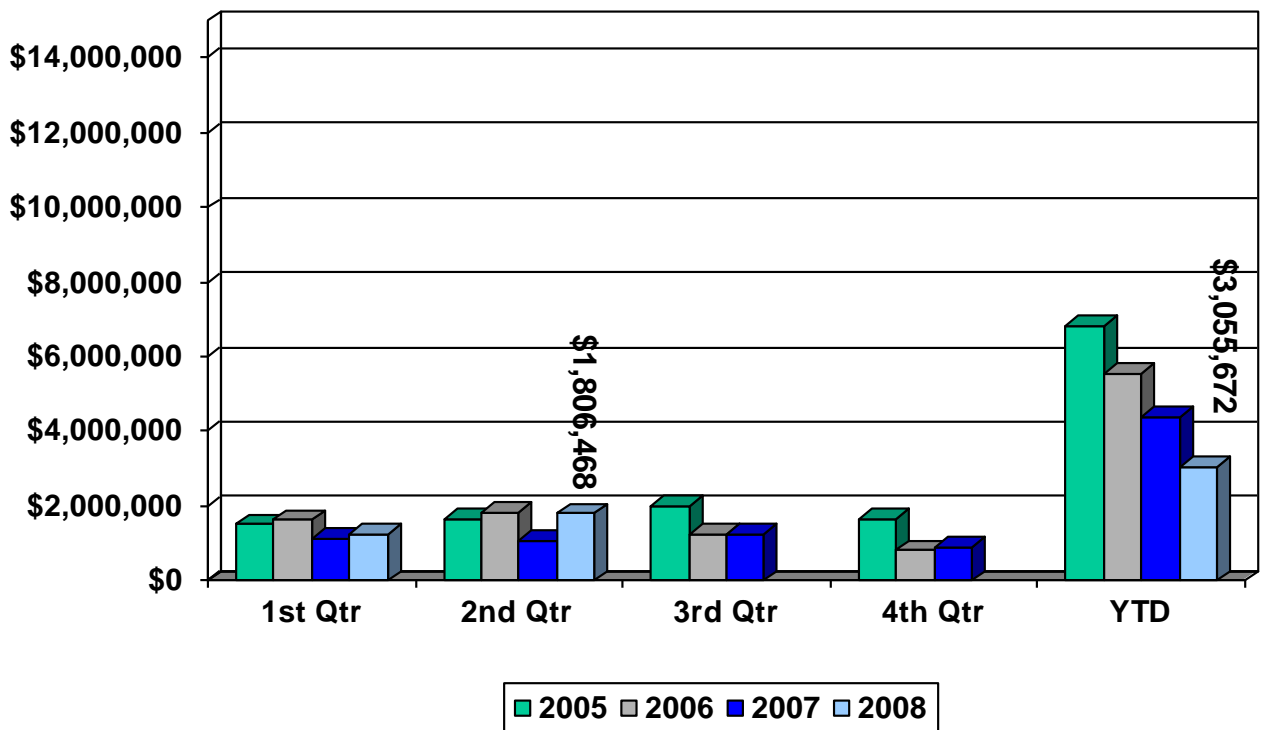
*The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).*



# Residual Market Demographics – 2Q 2008

## Arkansas Residual Market Total New Application Premium Bound 2005 vs. 2006 vs. 2007 vs. 2008

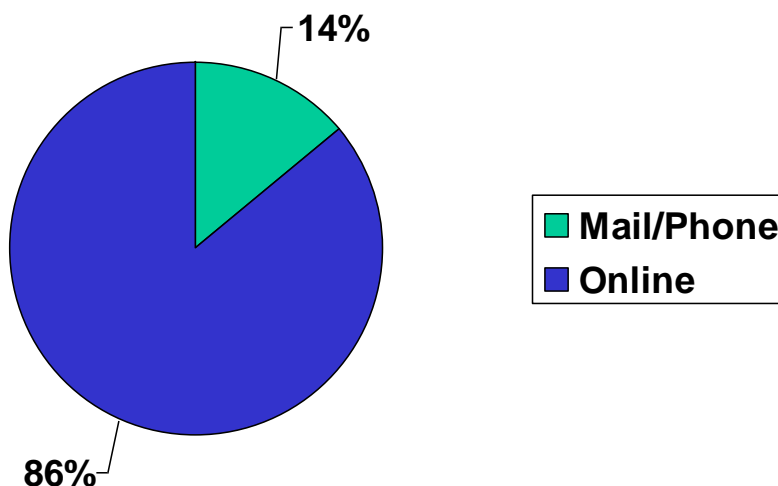
*The total estimated premium on bound new applications assigned to as  
Servicing Carrier or Direct Assignment Carrier (if applicable).*



## Residual Market Demographics – 2Q 2008

### Percentage of New Applications Received by Submission Format Data through June 30, 2008

*The total percentage of new applications received via online, phone or mail formats.*

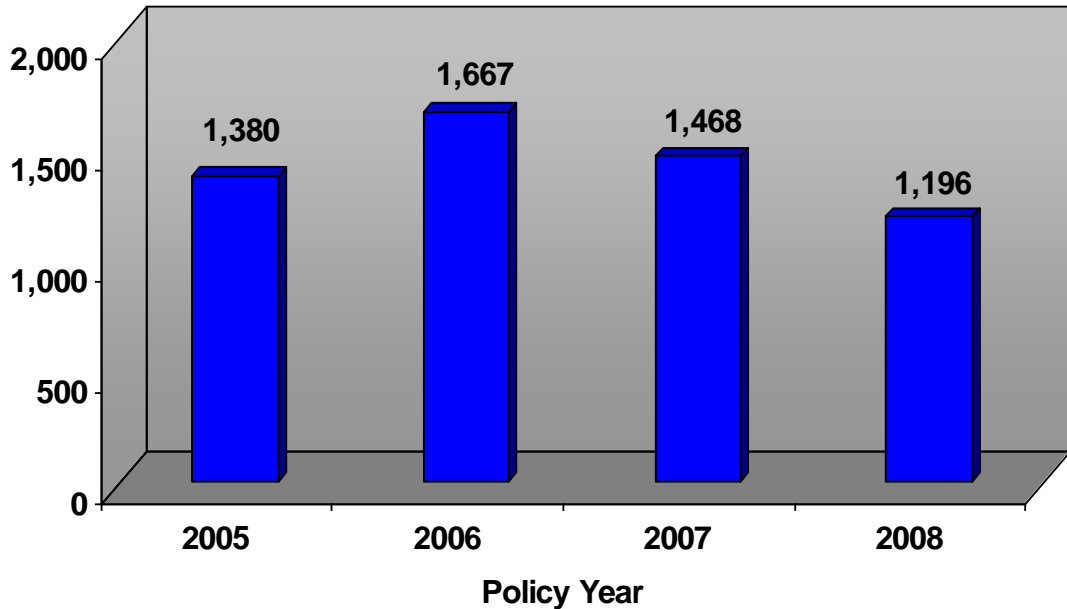


# Residual Market Demographics – 2Q 2008

## Residual Market Total Policy Counts

### Second Quarter Data for Policies Reported through June 30, 2008

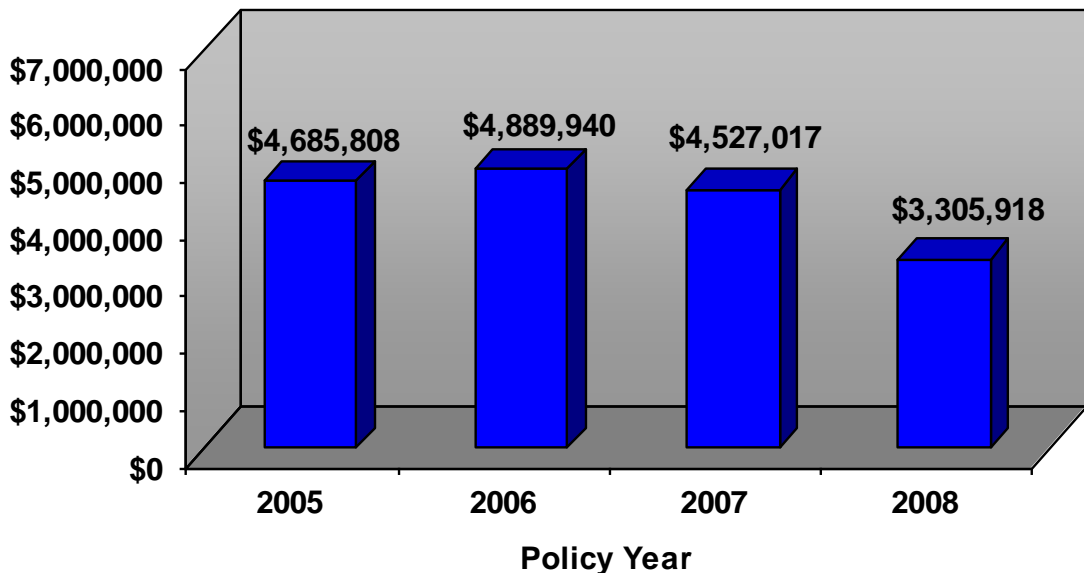
*Total Number of all Assigned Risk Plan Policies effective during this quarter and reported as of the date listed above.*



## Residual Market Total Premium Volume

### Second Quarter Data Reported through June 30, 2008

*Total Amount of All Assigned Risk Plan Premium effective during this quarter and reported as of the date listed above.*





# Residual Market Demographics

## Residual Market Total Policies and Premium in Force

**As of June 30, 2008 compared to prior year**

*This chart reflects the total number of policies and estimated premium in-force for this state as of the date shown above.*

*The other exhibits in this report describe quarterly and year-to-date data.*

|                       | 2007         | 2008         | 2007 vs.<br>2008 # | 2007 vs.<br>2008 % |
|-----------------------|--------------|--------------|--------------------|--------------------|
| <b>Policy Count</b>   | 6,105        | 5,574        | -531               | -8.7%              |
| <b>Premium Volume</b> | \$18,710,212 | \$13,638,590 | -\$5,071,622       | -27.1%             |

# Residual Market Demographics – 2Q 2008

## Residual Market Second Quarter 2008 Total Premium Distribution by Size of Risk Data Reported through June 30, 2008

*The total number of assigned risk plan policies reported to NCCI for this quarter by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.*

| Premium Interval  | Policy Count | % of Total Policies | Total State Premium | % of Total Premium | Average Premium |
|-------------------|--------------|---------------------|---------------------|--------------------|-----------------|
| \$0 - 2499        | 1,011        | 84.53%              | \$893,470           | 27.03%             | \$883           |
| \$2500 - 4999     | 94           | 7.86%               | \$334,475           | 10.12%             | \$3,558         |
| \$5000 - 9999     | 47           | 3.93%               | \$325,817           | 9.86%              | \$6,932         |
| \$10000 - 19999   | 25           | 2.09%               | \$349,409           | 10.57%             | \$13,976        |
| \$20000 - 49999   | 12           | 1.00%               | \$405,030           | 12.25%             | \$33,752        |
| \$50000 - 99999   | 4            | 0.33%               | \$296,841           | 8.98%              | \$74,210        |
| \$100000 - 199999 | 1            | 0.08%               | \$102,077           | 3.09%              | \$102,077       |
| \$200000+         | 2            | 0.17%               | \$598,799           | 18.11%             | \$299,399       |
| Total             | 1,196        | 100%                | \$3,305,918         | 100%               | \$2,764         |

## Residual Market Total Premium Distribution by Size of Risk Second Quarter 2007 Data for Comparison

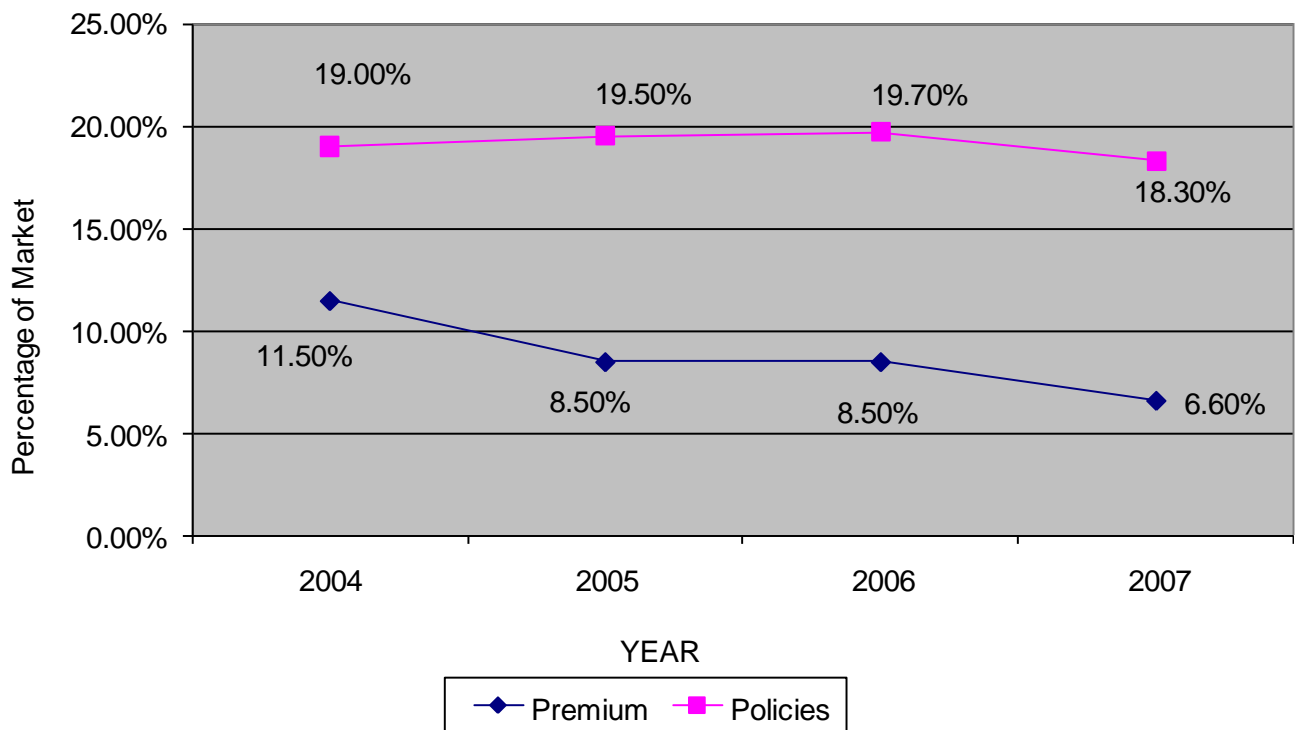
*The total number of assigned risk plan policies reported to NCCI for this quarter by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.*

| Premium Interval  | Policy Count | % of Total Policies | Total State Premium | % of Total Premium | Average Premium |
|-------------------|--------------|---------------------|---------------------|--------------------|-----------------|
| \$0 - 2499        | 1,184        | 80.65%              | \$983,129           | 21.72%             | \$830           |
| \$2500 - 4999     | 141          | 9.60%               | \$489,123           | 10.80%             | \$3,468         |
| \$5000 - 9999     | 70           | 4.77%               | \$492,912           | 10.89%             | \$7,041         |
| \$10000 - 19999   | 46           | 3.13%               | \$658,882           | 14.55%             | \$14,323        |
| \$20000 - 49999   | 20           | 1.36%               | \$663,274           | 14.65%             | \$33,163        |
| \$50000 - 99999   | 4            | 0.27%               | \$272,261           | 6.01%              | \$68,065        |
| \$100000 - 199999 | 2            | 0.14%               | \$288,474           | 6.37%              | \$144,237       |
| \$200000 +        | 1            | 0.07%               | \$678,962           | 15.00%             | \$678,962       |
| Total             | 1,468        | 100%                | \$4,527,017         | 100%               | \$3,084         |

# Residual Market Demographics

## Total Arkansas Assigned Risk Plan Market Share

*The percentage of total assigned risk plan policies and estimated annual premium, as compared to the total policies and estimated annual premium for the voluntary market, as of December 31, 2007.*



# Residual Market Demographics – 2Q 2008

## Residual Market Top 10 Classification Codes by Policy Count Data Reported through June 30, 2008

*The top ten governing class codes by total policy count - policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.*

| Rank | Code | Description  | Policy Count | % of Policies |
|------|------|--|--------------|---------------|
| 1    | 5645 | Carpentry-Detached One Or Two Family Dwellings                           | 332          | 27.76%        |
| 2    | 8810 | Clerical Office Employees NOC  | 64           | 5.35%         |
| 3    | 5551 | Roofing-All Kinds & Yard Employees                                       | 44           | 3.68%         |
| 4    | 5437 | Carpentry-Installation Of Cabinet Work Or Interior Trim                  | 30           | 2.51%         |
| 5    | 5474 | Painting Or Paperhanging NOC   | 25           | 2.09%         |
| 6    | 5183 | Plumbing NOC & Drivers   | 23           | 1.92%         |
| 7    | 6217 | Excavation & Drivers   | 23           | 1.92%         |
| 8    | 5606 | Contractor - Project Manager Construction Executive Construction Manager | 22           | 1.84%         |
| 9    | 9014 | Janitorial Services By Contractors-No Window Cleaning Above Ground Level | 22           | 1.84%         |
| 10   | 8017 | Store: Retail NOC  | 22           | 1.84%         |

## Residual Market Top 10 Classification Codes by Premium Volume Data Reported through June 30, 2008

*The top ten governing class codes by premium volume written on total policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.*

| Rank | Code | Description   | Premium   | % of Premium |
|------|------|---|-----------|--------------|
| 1    | 5403 | Carpentry NOC   | \$333,506 | 10.09%       |
| 2    | 5645 | Carpentry-Detached One Or Two Family Dwellings                  | \$327,329 | 9.90%        |
| 3    | 2710 | Sawmill   | \$292,732 | 8.85%        |
| 4    | 5472 | Asbestos Removal Operations - Pipe And Boiler Work Exclusively  | \$129,131 | 3.91%        |
| 5    | 9063 | YMCA YWCA YMHA Or YWHA Institution-All Employees                | \$112,600 | 3.41%        |
| 6    | 7420 | Aviation: Stunt Flying Racing Or Parachute Jumping: Flying Crew | \$77,739  | 2.35%        |
| 7    | 8868 | College: Professional Employees                                 | \$75,119  | 2.27%        |
| 8    | 9403 | Garbage Ashes Or Refuse Collection                              | \$75,024  | 2.27%        |
| 9    | 5506 | Street Or Road Construction: Paving Or Repaving                 | \$74,294  | 2.25%        |
| 10   | 8831 | Hospital-Veterinary   | \$66,901  | 2.02%        |



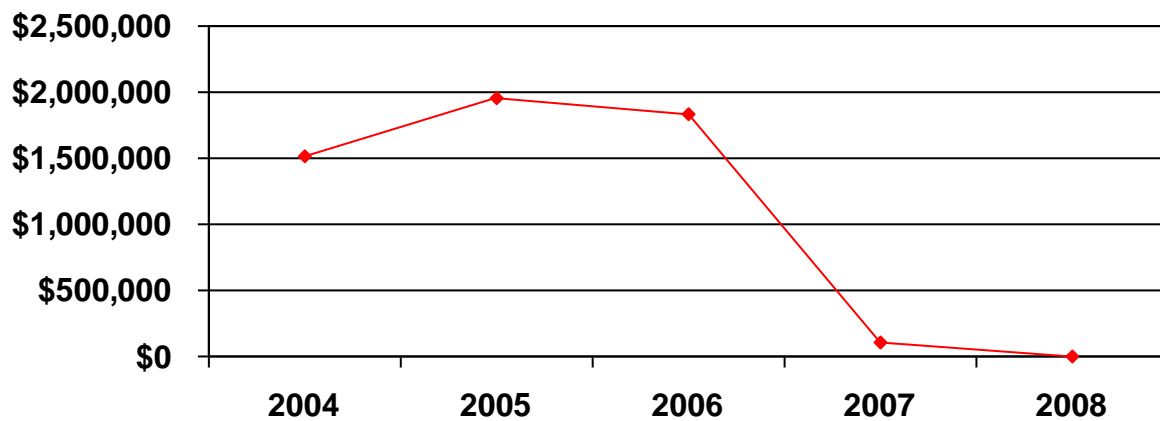
# Residual Market Demographics

## Collections/Indemnification

*The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas and the National Pool for Policy Years 2004-2008, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through First Quarter 2008.*

| Arkansas           | Gross Written Premium | Uncollectible Premium | Percentage |
|--------------------|-----------------------|-----------------------|------------|
| 2004               | \$28,709,458          | \$1,519,354           | 5.3%       |
| 2005               | \$25,361,972          | \$1,961,036           | 7.7%       |
| 2006               | \$22,893,977          | \$1,839,407           | 8.0%       |
| 2007               | \$17,919,445          | \$100,394             | 0.6%       |
| 2008               | \$2,837,406           | \$0                   | 0.0%       |
| National Pool 2008 | \$122,708,122         | \$0                   | 0.0%       |

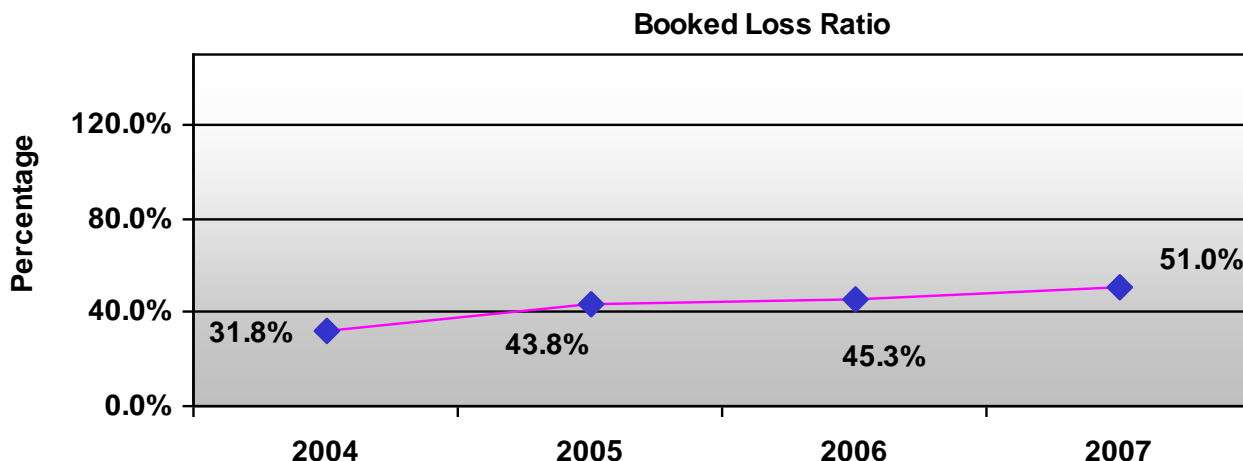
## Arkansas Uncollectible Premium



# Residual Market Demographics

## Arkansas Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 1st Quarter 2008 for 2007 and prior years

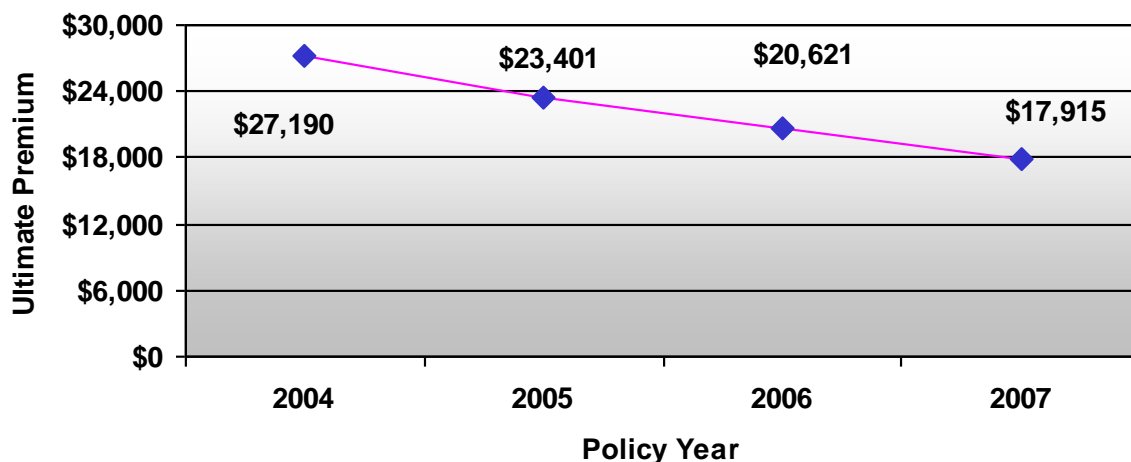
*The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .*



## Arkansas Residual Market Reinsurance Pool Ultimate Net Written Premium (Projected to Ultimate) (000's)

### Policy Year Financial Results through 1st Quarter 2008 for 2007 and prior years\*

*The premium charged by an insurance company for the period of time and coverage provided by an insurance contract in this state.*



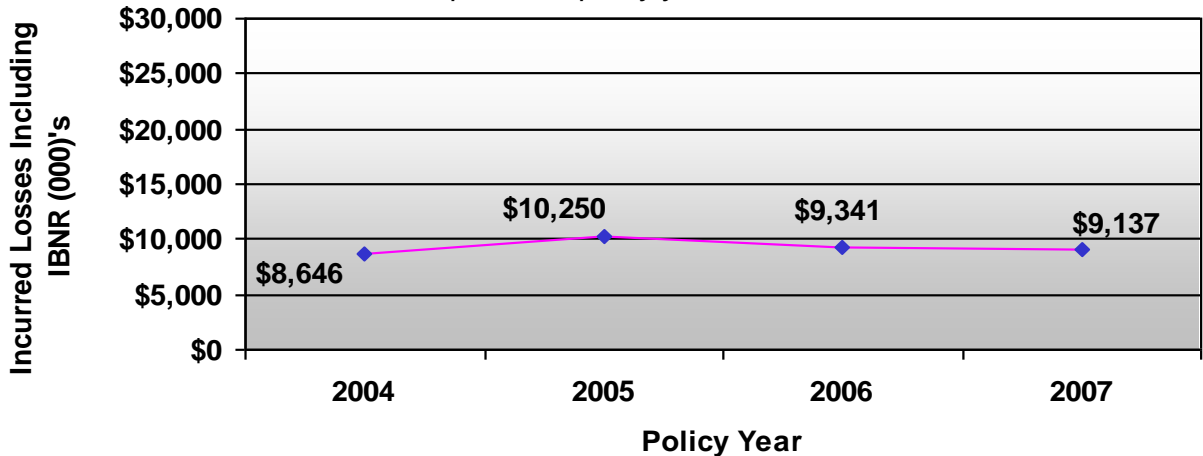
\*-Second Quarter 2008 Data will be available the end of October 2008 due to the timing of data reporting

# Residual Market Demographics

## Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Incurred Losses

### Policy Year Financial Results through 1st Quarter 2008 for 2007 and prior years\*

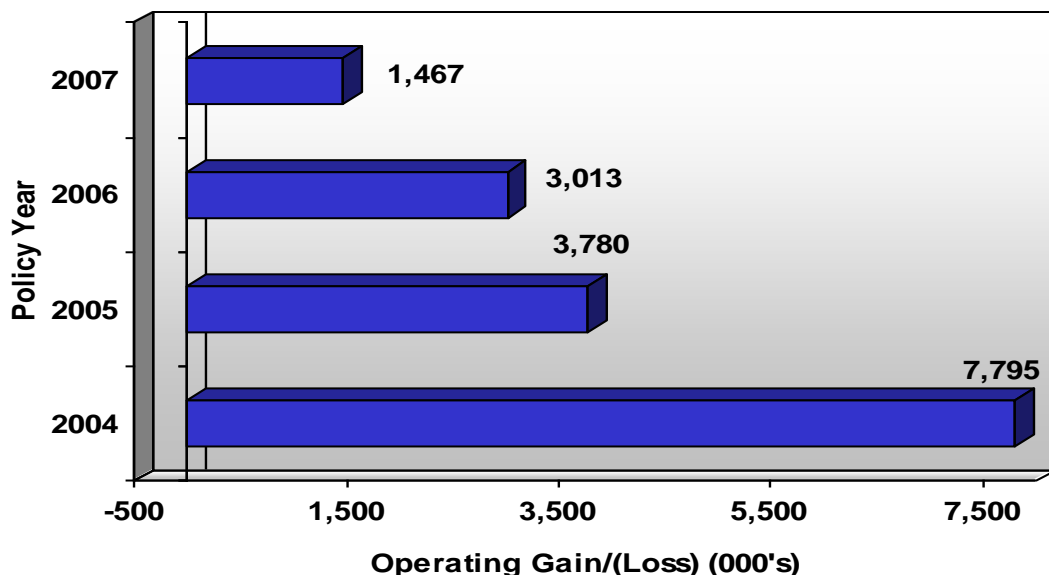
*Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.*



## Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Estimated Net Operating Gain/(Loss) (000's)

### Policy Year Financial Results through 1st Quarter 2008 for 2007 and prior years\*

*The financial statement presentation that reflects the excess of earned premium over incurred losses, less all operating expenses, plus all investment income in that state.*



\*-Second Quarter 2008 Data will be available the end of October 2008 due to the timing of data reporting

# Glossary of Terms

**Combined Ratio**-The combined loss ratio, expense ratio and dividend ratio, expressed as a sum for a given period. The formula for combined ratio is [(loss + loss adjustment expense)/earned premium] + [underwriting expenses/written premium].

**EBNR (Earned But Not Reported) Premium Reserve**-A projection of additional premium that is expected to be uncovered after auditing at the end of the policy.

**Earned Premium or Premiums Earned**-That portion of written premiums applicable to the expired portion of the time for which the insurance was in effect. When used as an accounting term, "premiums earned" describes the premiums written during a period plus the unearned premiums at the beginning of the period less the unearned premiums at the end of the period.

**Incurred But Not Reported (IBNR)**-Pertaining to losses where the events which will result in a loss, and eventually a claim, have occurred, but have not yet been reported to the insurance company. The term may also include "bulk" reserves for estimated future development of case reserves.

**Underwriting Gain/(Loss)**-The financial statement presentation that reflects the excess of earned premium over incurred losses.

**Applications Bound**-The applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).

**Premium Bound**-The total estimated annual premium on bound applications.



# Table of Contents

## Arkansas Residual Market Annual 2007 Status Report Data Reported as of January 15, 2008

|  |    |
|--|----|
| Executive Summary.....   | 2  |
| <b>Residual Market Demographics</b>  |    |
| Residual Market Total New Applications Bound Comparison.....                                 | 3  |
| Residual Market Total New Application Premium Bound Comparison.....                          | 4  |
| Residual Market Percentage of New Applications Received.....                                 | 5  |
| Residual Market Total Policy Counts.....   | 6  |
| Residual Market Total Premium Volume.....  | 6  |
| Residual Market Total Policy and Premium In Force.....                                       | 7  |
| Residual Market Total Premium Distribution by Size of Risk.....                              | 8  |
| Total Assigned Risk Market Share.....  | 9  |
| Residual Market Top 10 Classification Codes by Total Policy Count and Premium<br>Volume..... | 10 |
| Residual Market Collections/Indemnifications on Pool Policies.....                           | 11 |
| Residual Market Uncollectible Premium on Pool Policies.....                                  | 11 |
| Residual Market Booked Loss Ratio.....   | 12 |
| Residual Market Ultimate Net Written Premium.....  | 12 |
| Residual Market Incurred Losses Including IBNR.....  | 13 |
| Residual Market Net Operating Gain/(Loss).....   | 13 |
| Glossary of Terms.....   | 14 |

© Copyright 2008 National Council on Compensation Insurance, Inc. This material is owned by NCCI and is protected by copyright law. NCCI will seek all appropriate legal remedies for the unauthorized use, sale, reproduction, distribution, preparation of derivative works, transfer or assignment of this material, or any part thereof. NCCI makes no representation or warranty, express or implied, as to any matter whatsoever, including but not limited to the accuracy of any information, product, or service furnished hereunder. The recipient of this material is subject to any license agreement that governs the use of this information and subscribes to and utilizes the information "as is."

## Executive Summary

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the Annual 2007 Residual Market State Activity Report.

Readers will notice an update of the key measurement factors and issues relating to the operation of the Arkansas Plan. NCCI, has enhanced our data reporting tools to provide a more accurate picture of what is happening in your state.

If you have any questions or comments about this report, please feel free to contact any of the individuals listed below.

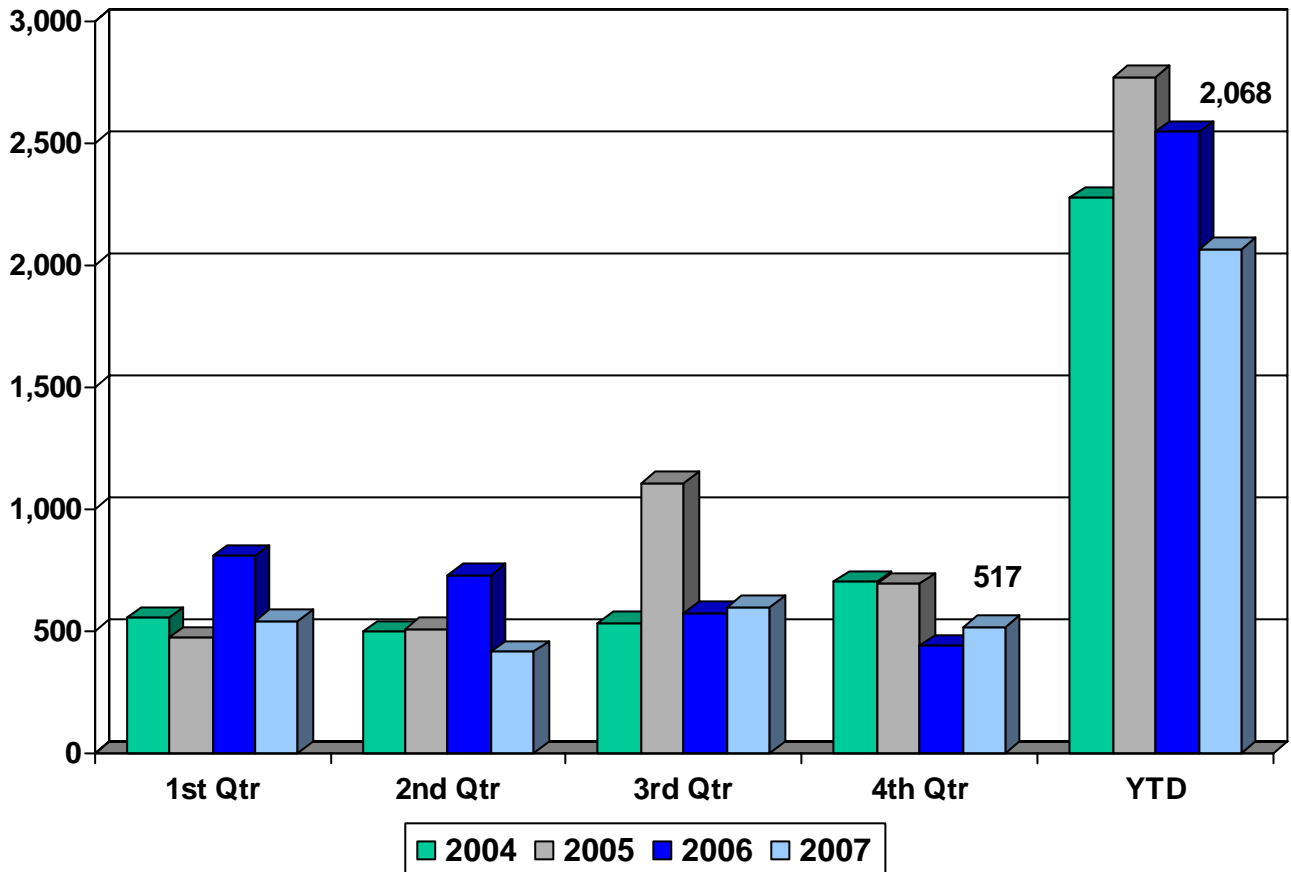
Terri Robinson, State Relations Executive  
Chantel Weishaar, Technical Specialist

(314) 843-4001  
(561) 893-3015

# Residual Market Demographics – Annual 2007

## Arkansas Residual Market Total New Applications Bound 2004 vs. 2005 vs. 2006 vs. 2007

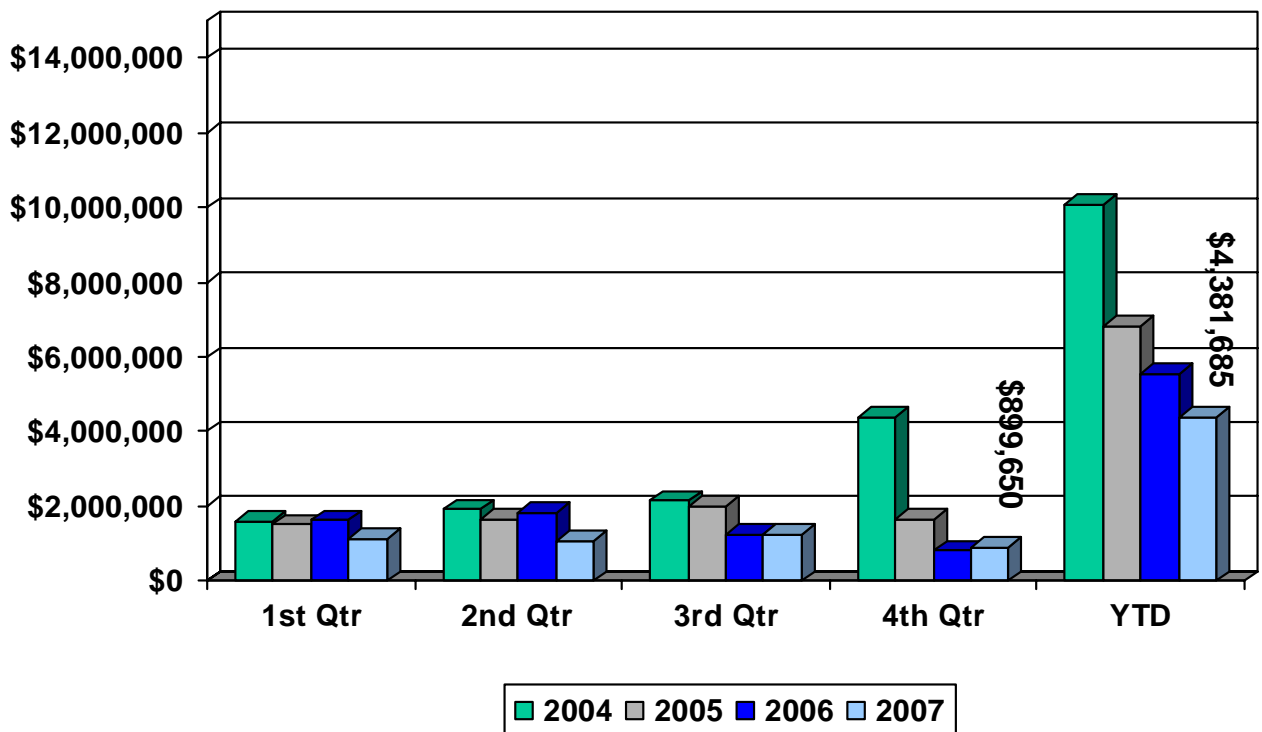
*The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).*



# Residual Market Demographics – Annual 2007

## Arkansas Residual Market Total New Application Premium Bound 2004 vs. 2005 vs. 2006 vs. 2007

*The total estimated premium on bound new applications assigned to as  
Servicing Carrier or Direct Assignment Carrier (if applicable).*



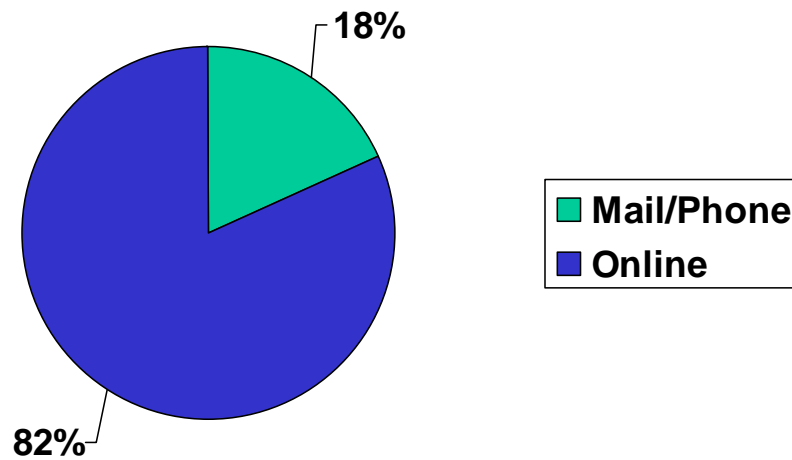


# Residual Market Demographics – Annual 2007

## Percentage of New Applications Received by Submission Format

Data through December 31, 2007

*The total percentage of new applications received via online, phone or mail formats.*

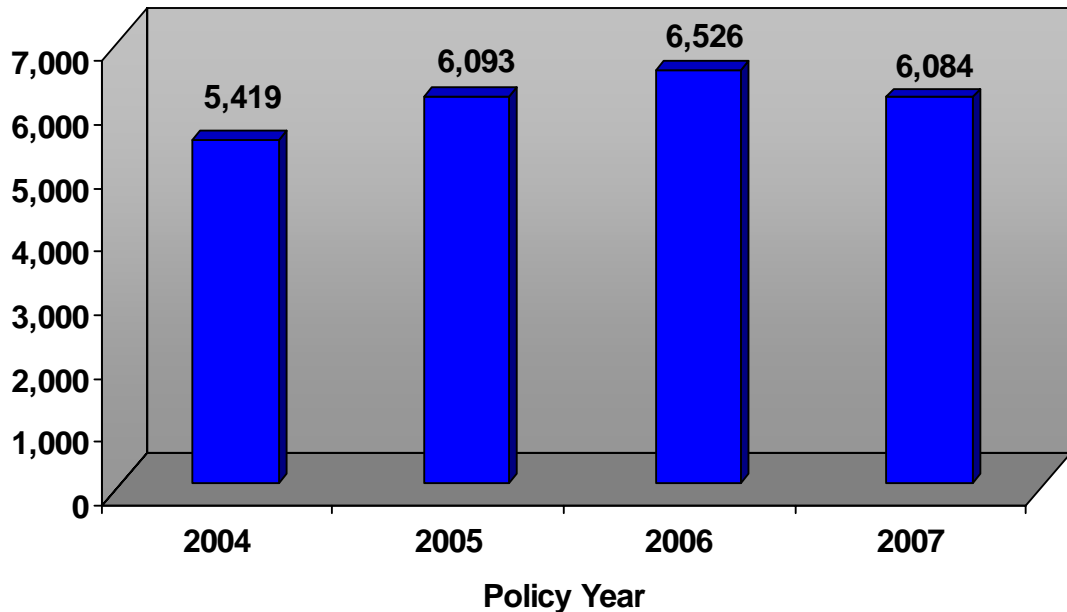


# Residual Market Demographics – Annual 2007

## Residual Market Total Policy Counts

### Annual Data for Policies Reported through December 31, 2007

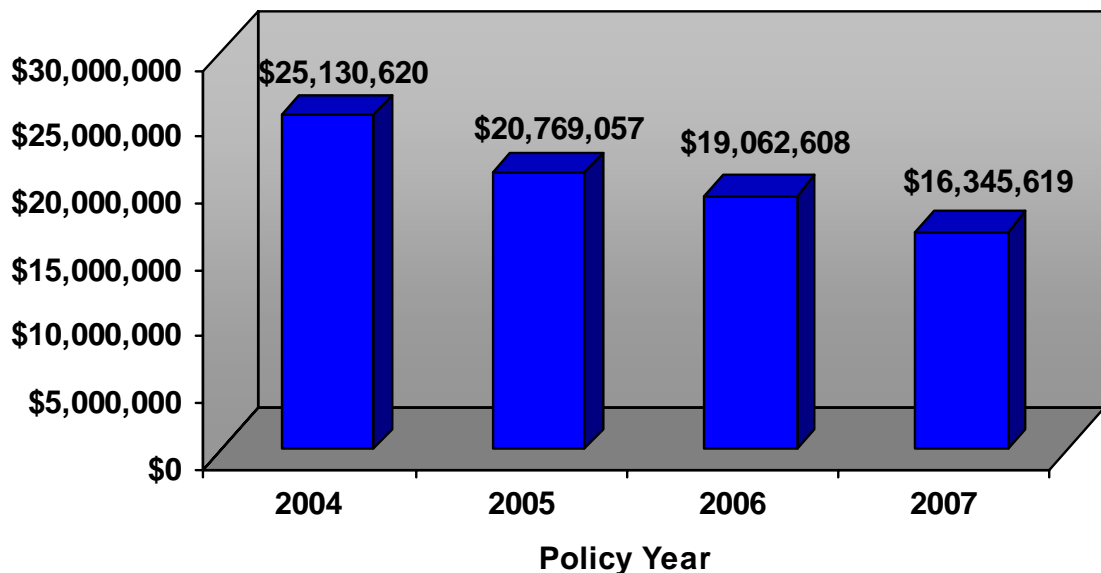
*Total Number of all Assigned Risk Plan Policies effective during this year and reported as of the date listed above.*



## Residual Market Total Premium Volume

### Annual Data Reported through December 31, 2007

*Total Amount of All Assigned Risk Plan Premium effective during this year and reported as of the date listed above.*



# Residual Market Demographics

## Residual Market Total Policies and Premium in Force

**As of December 31, 2007 compared to prior year**

*This chart reflects the total number of policies and estimated premium in-force for this state as of the date shown above.*

*The other exhibits in this report describe quarterly and year-to-date data.*

|                       | 2006         | 2007         | 2006 vs.<br>2007 # | 2006 vs.<br>2007 % |
|-----------------------|--------------|--------------|--------------------|--------------------|
| <b>Policy Count</b>   | 6,439        | 6,026        | -413               | -6.4%              |
| <b>Premium Volume</b> | \$19,048,104 | \$16,231,176 | -\$2,816,928       | -14.8%             |

# Residual Market Demographics – Annual 2007

## Residual Market Annual 2007 Total Premium Distribution by Size of Risk Data Reported through December 31, 2007

*The total number of assigned risk plan policies reported to NCCI for the year by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.*

| Premium Interval  | Policy Count | % of Total Policies | Total State Premium | % of Total Premium | Average Premium |
|-------------------|--------------|---------------------|---------------------|--------------------|-----------------|
| \$0 - 2499        | 4,995        | 82.1%               | \$3,997,722         | 24.46%             | \$800           |
| \$2500 - 4999     | 518          | 8.51%               | \$1,831,448         | 11.20%             | \$3,535         |
| \$5000 - 9999     | 292          | 4.80%               | \$2,041,706         | 12.49%             | \$6,992         |
| \$10000 - 19999   | 155          | 2.55%               | \$2,209,177         | 13.52%             | \$14,252        |
| \$20000 - 49999   | 89           | 1.46%               | \$2,570,795         | 15.73%             | \$28,885        |
| \$50000 - 99999   | 24           | 0.39%               | \$1,616,003         | 9.89%              | \$67,333        |
| \$100000 - 199999 | 9            | 0.15%               | \$1,181,980         | 7.23%              | \$131,331       |
| \$200000+         | 2            | 0.03%               | \$896,788           | 5.49%              | \$448,394       |
| Total             | 6,084        | 100%                | \$16,345,619        | 100%               | \$2,687         |

## Residual Market Total Premium Distribution by Size of Risk Annual 2006 Data for Comparison

*The total number of assigned risk plan policies reported to NCCI for the year by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.*

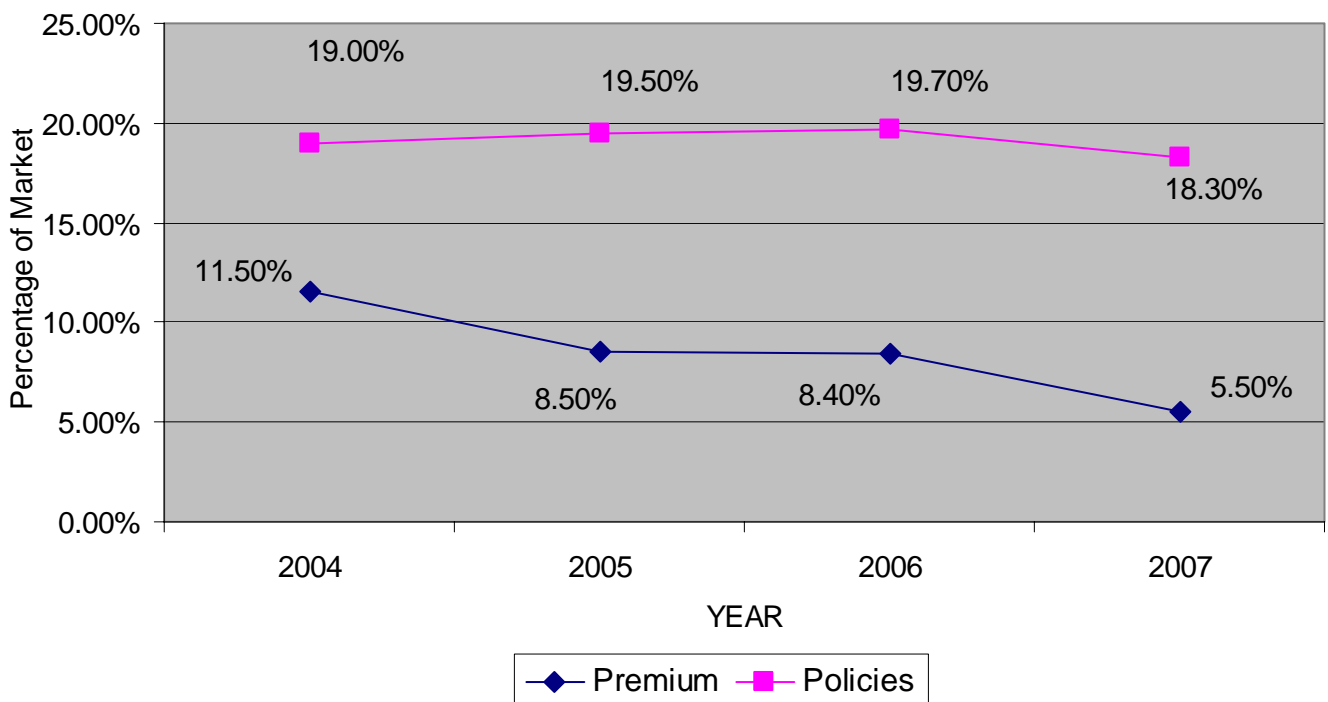
| Premium Interval  | Policy Count | % of Total Policies | Total State Premium | % of Total Premium | Average Premium |
|-------------------|--------------|---------------------|---------------------|--------------------|-----------------|
| \$0 - 2499        | 5,168        | 79.19%              | \$4,099,523         | 21.51%             | \$793           |
| \$2500 - 4999     | 641          | 9.82%               | \$2,220,562         | 11.65%             | \$3,464         |
| \$5000 - 9999     | 375          | 5.75%               | \$2,619,560         | 13.74%             | \$6,985         |
| \$10000 - 19999   | 205          | 3.14%               | \$2,769,637         | 14.53%             | \$13,510        |
| \$20000 - 49999   | 87           | 1.33%               | \$2,659,562         | 13.95%             | \$30,569        |
| \$50000 - 99999   | 37           | 0.57%               | \$2,422,814         | 12.71%             | \$65,481        |
| \$100000 - 199999 | 11           | 0.17%               | \$1,477,780         | 7.75%              | \$134,343       |
| \$200000 +        | 2            | 0.03%               | \$793,170           | 4.16%              | \$396,585       |
| Total             | 6,526        | 100%                | \$19,062,608        | 100%               | \$2,921         |



# Residual Market Demographics – Annual 2007

## Total Arkansas Assigned Risk Plan Market Share

*The percentage of total assigned risk plan policies and premium, as compared to the total estimated annual premium and policies for the voluntary market, as of December 31, 2007.*



# Residual Market Demographics – Annual 2007

## Residual Market Top 10 Classification Codes by Policy Count Data Reported through December 31, 2007

*The top ten governing class codes by total policy count - policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.*

| Rank | Code | Description   | Policy Count | % of Policies |
|------|------|---|--------------|---------------|
| 1    | 5645 | Carpentry-Detached One Or Two Family Dwellings          | 1,531        | 25.16%        |
| 2    | 8810 | Clerical NOC  | 340          | 5.59%         |
| 3    | 5551 | Roofing-All Kinds & Yard Employees                      | 199          | 3.27%         |
| 4    | 5474 | Painting Or Paperhanging NOC                            | 172          | 2.83%         |
| 5    | 5022 | Masonry NOC   | 169          | 2.78%         |
| 6    | 8832 | Physician & Clerical                                    | 143          | 2.35%         |
| 7    | 5437 | Carpentry-Installation Of Cabinet Work Or Interior Trim | 139          | 2.28%         |
| 8    | 5190 | Electrical Wiring-Within Buildings                      | 129          | 2.12%         |
| 9    | 5445 | Wallboard Installation Within Buildings                 | 119          | 1.96%         |
| 10   | 6217 | Excavation & Drivers                                    | 119          | 1.96%         |

## Residual Market Top 10 Classification Codes by Premium Volume Data Reported through December 31, 2007

*The top ten governing class codes by premium volume written on total policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.*

| Rank | Code | description  | Premium     | % of Premium |
|------|------|--|-------------|--------------|
| 1    | 8832 | Physician & Clerical                                   | \$2,152,419 | 5.64%        |
| 2    | 9094 | Outdoor Guide Services                                 | \$2,096,629 | 5.49%        |
| 3    | 5645 | Carpentry-Detached One Or Two Family Dwellings         | \$1,680,315 | 4.40%        |
| 4    | 2104 | Seafood Processors                                     | \$1,407,146 | 3.69%        |
| 5    | 2702 | Logging Or Tree Removal - Non Mechanized Operations    | \$1,200,974 | 3.15%        |
| 6    | 8835 | Nursing-Home Health Public And Traveling-All Employees | \$1,194,043 | 3.13%        |
| 7    | 8017 | Store: Retail NOC                                      | \$1,145,684 | 3.00%        |
| 8    | 8824 | Retirement Living Centers: Health Care                 | \$1,030,148 | 2.70%        |
| 9    | 8380 | Automobile Service Or Repair Center                    | \$888,063   | 2.33%        |
| 10   | 7422 | Aviation - NOC - Other Than Helicopters - Flying Crew  | \$881,320   | 2.31%        |

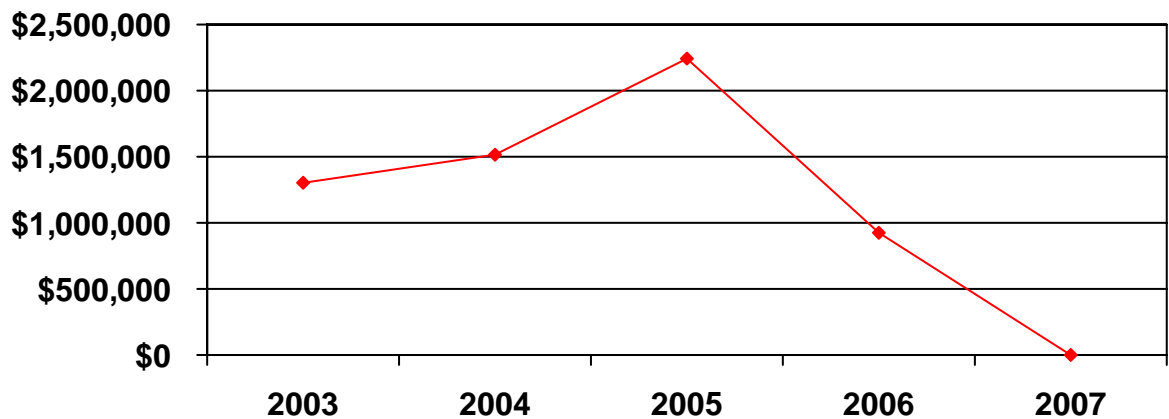
# Residual Market Demographics

## Collections/Indemnification

*The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas and the National Pool for Policy Years 2003-2007, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through Third Quarter 2007.*

| Arkansas           | Gross Written Premium | Uncollectible Premium | Percentage |
|--------------------|-----------------------|-----------------------|------------|
| 2003               | \$29,478,724          | \$1,301,414           | 4.4%       |
| 2004               | \$28,702,878          | \$1,508,150           | 5.3%       |
| 2005               | \$25,488,806          | \$2,236,696           | 8.8%       |
| 2006               | \$23,323,765          | \$929,814             | 4.0%       |
| 2007               | \$13,611,432          | \$723                 | 0.0%       |
| National Pool 2007 | \$559,478,906         | \$269,470             | 0.0%       |

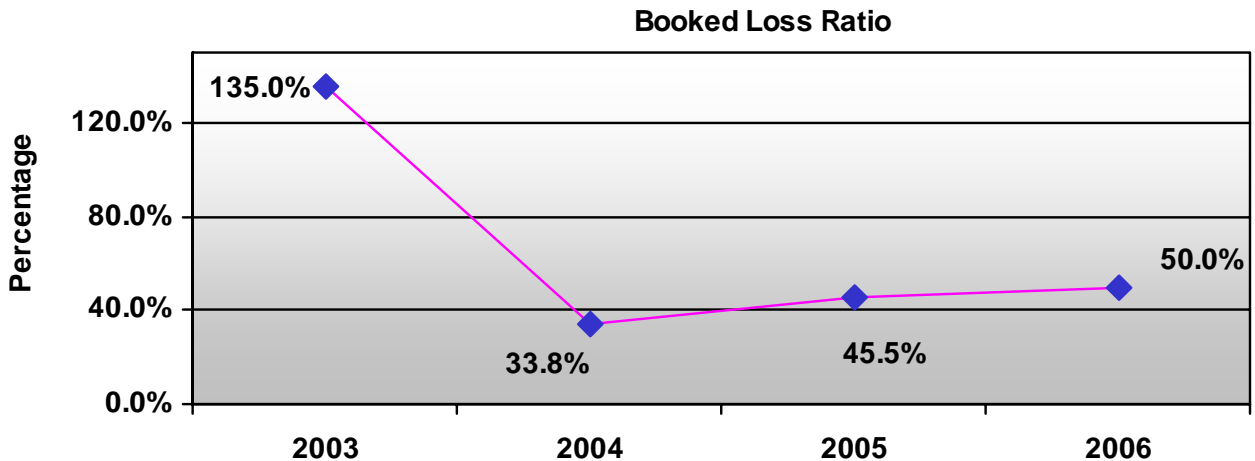
## Arkansas Uncollectible Premium



# Residual Market Demographics

## Arkansas Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 3rd Quarter 2007 for 2006 and prior years

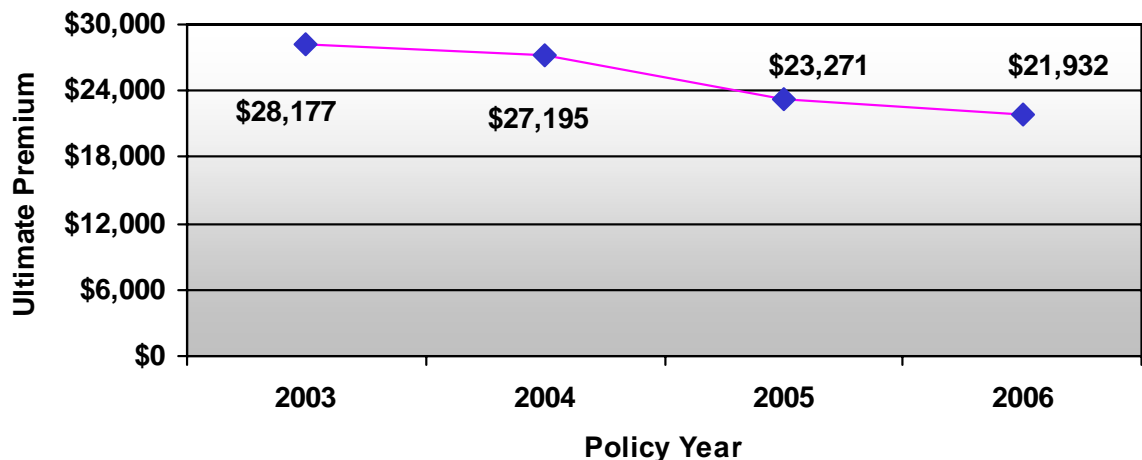
*The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .*



## Arkansas Residual Market Reinsurance Pool Ultimate Net Written Premium (Projected to Ultimate) (000's)

### Policy Year Financial Results through 3rd Quarter 2007 for 2006 and prior years\*

*The premium charged by an insurance company for the period of time and coverage provided by an insurance contract in this state.*



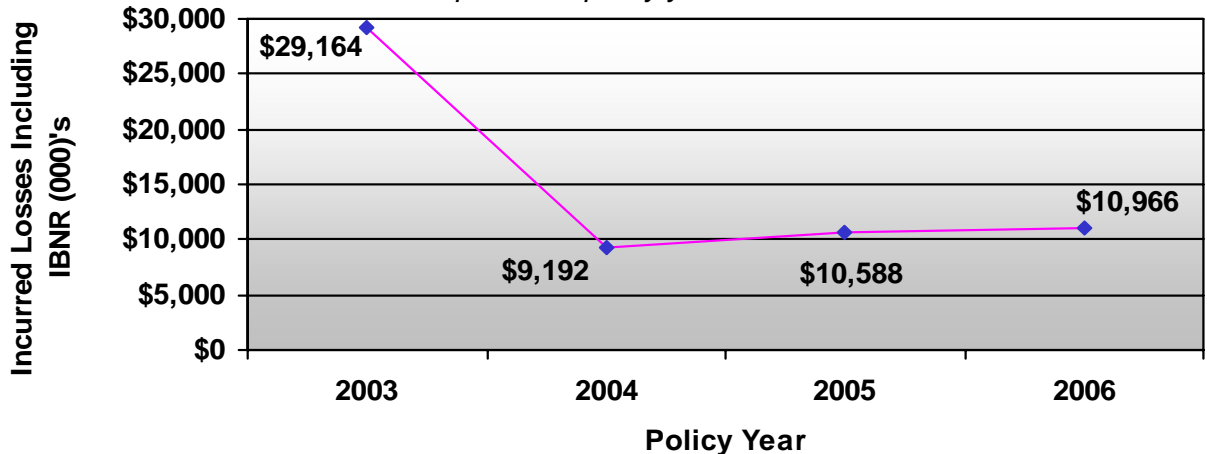
\*-Fourth 2007 Data will be available the end of March 2008 due to the timing of data reporting

# Residual Market Demographics

## Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Incurred Losses

### Policy Year Financial Results through 3rd Quarter 2007 for 2006 and prior years\*

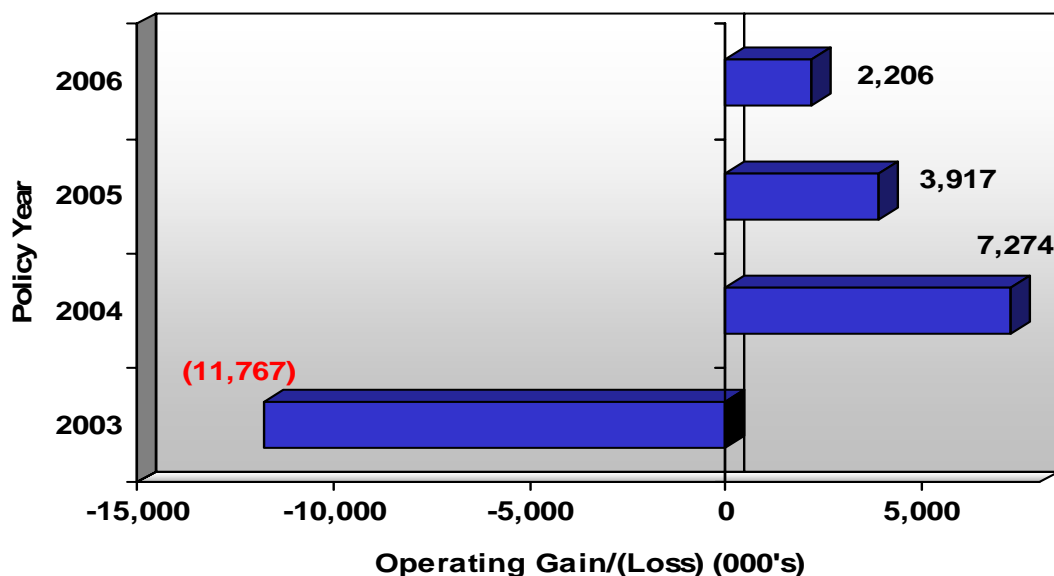
*Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.*



## Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Estimated Net Operating Gain/(Loss) (000's)

### Policy Year Financial Results through 3rd Quarter 2007 for 2006 and prior years\*

*The financial statement presentation that reflects the excess of earned premium over incurred losses, less all operating expenses, plus all investment income in that state.*



\*-Fourth Quarter 2007 Data will be available the end of March 2008 due to the timing of data reporting



# Glossary of Terms

**Combined Ratio**-The combined loss ratio, expense ratio and dividend ratio, expressed as a sum for a given period. The formula for combined ratio is [(loss + loss adjustment expense)/earned premium] + [underwriting expenses/written premium].

**EBNR (Earned But Not Reported) Premium Reserve**-A projection of additional premium that is expected to be uncovered after auditing at the end of the policy.

**Earned Premium or Premiums Earned**-That portion of written premiums applicable to the expired portion of the time for which the insurance was in effect. When used as an accounting term, "premiums earned" describes the premiums written during a period plus the unearned premiums at the beginning of the period less the unearned premiums at the end of the period.

**Incurred But Not Reported (IBNR)**-Pertaining to losses where the events which will result in a loss, and eventually a claim, have occurred, but have not yet been reported to the insurance company. The term may also include "bulk" reserves for estimated future development of case reserves.

**Underwriting Gain/(Loss)**-The financial statement presentation that reflects the excess of earned premium over incurred losses.

**Applications Bound**-The applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).

**Premium Bound**-The total estimated annual premium on bound applications.

# Table of Contents

## Arkansas Residual Market First Quarter 2007 Status Report Data Reported as of April 16, 2007

|  |    |
|--|----|
| Executive Summary.....   | 2  |
| <b>Residual Market Demographics</b>  |    |
| Residual Market Total New Applications Bound Comparison.....                                 | 3  |
| Residual Market Total New Application Premium Bound Comparison.....                          | 4  |
| Residual Market Percentage of New Applications Received.....                                 | 5  |
| Residual Market Total Policy Counts.....   | 6  |
| Residual Market Total Premium Volume.....  | 6  |
| Residual Market Total Policy and Premium In Force.....                                       | 7  |
| Residual Market Total Premium Distribution by Size of Risk.....                              | 8  |
| Total Assigned Risk Market Share.....  | 9  |
| Residual Market Top 10 Classification Codes by Total Policy Count and Premium<br>Volume..... | 10 |
| Residual Market Collections/Indemnifications on Pool Policies.....                           | 11 |
| Residual Market Uncollectible Premium on Pool Policies.....                                  | 11 |
| Residual Market Booked Loss Ratio.....   | 12 |
| Residual Market Ultimate Net Written Premium.....  | 12 |
| Residual Market Incurred Losses Including IBNR.....  | 13 |
| Residual Market Net Operating Gain/(Loss).....   | 13 |
| Glossary of Terms.....   | 14 |

© Copyright 2007 National Council on Compensation Insurance, Inc. This material is owned by NCCI and is protected by copyright law. NCCI will seek all appropriate legal remedies for the unauthorized use, sale, reproduction, distribution, preparation of derivative works, transfer or assignment of this material, or any part thereof. NCCI makes no representation or warranty, express or implied, as to any matter whatsoever, including but not limited to the accuracy of any information, product, or service furnished hereunder. The recipient of this material is subject to any license agreement that governs the use of this information and subscribes to and utilizes the information "as is."

## Executive Summary

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the First Quarter 2007 Residual Market State Activity Report.

Readers will notice an update of the key measurement factors and issues relating to the operation of the Arkansas Plan. NCCI, has enhanced our data reporting tools to provide a more accurate picture of what is happening in your state.

If you have any questions or comments about this report, please feel free to contact any of the individuals listed below.

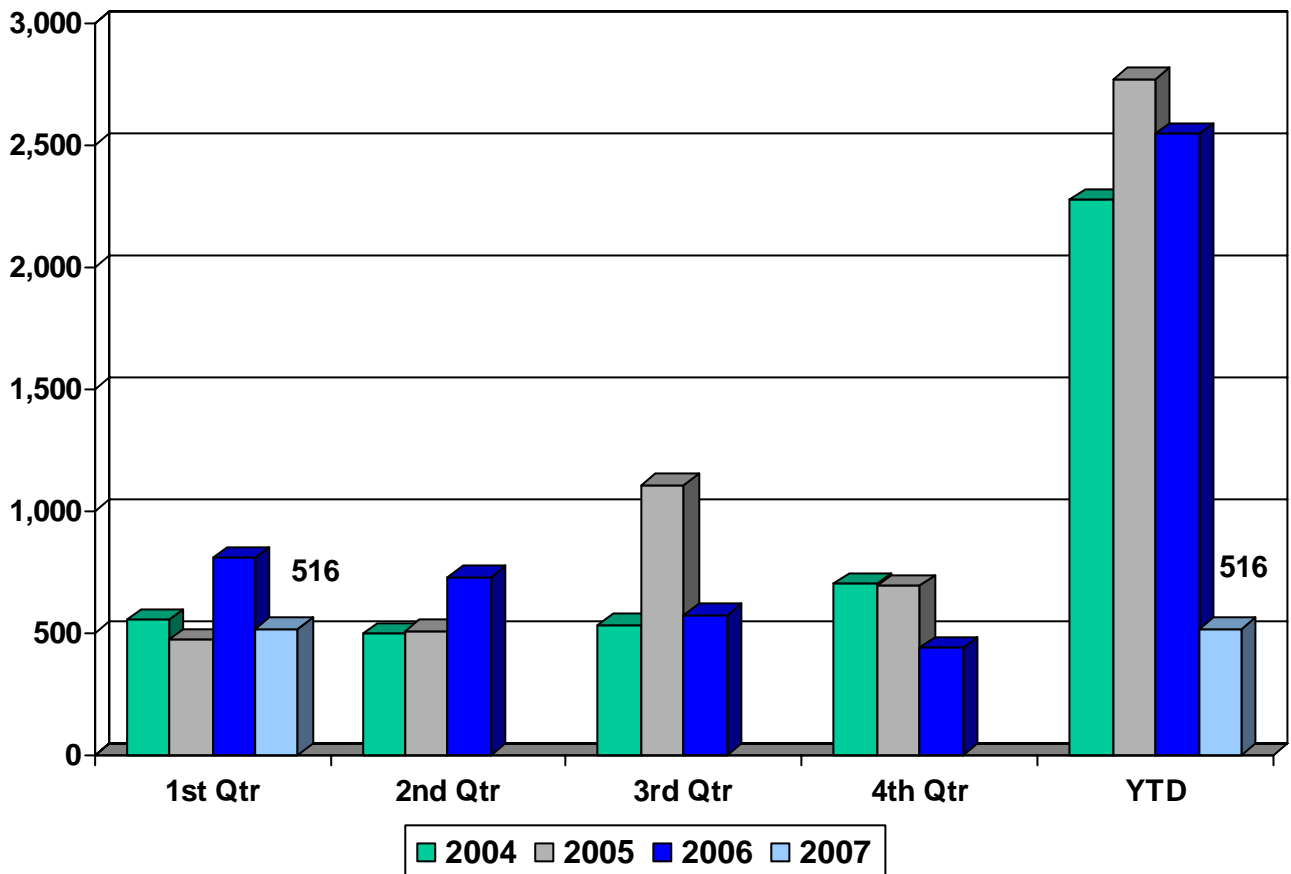
Terri Robinson, State Relations Executive  
Chantel Weishaar, Technical Specialist

(314) 843-4001  
(561) 893-3015

# Residual Market Demographics – 1Q 2007

## Arkansas Residual Market Total New Applications Bound 2004 vs. 2005 vs. 2006 vs. 2007

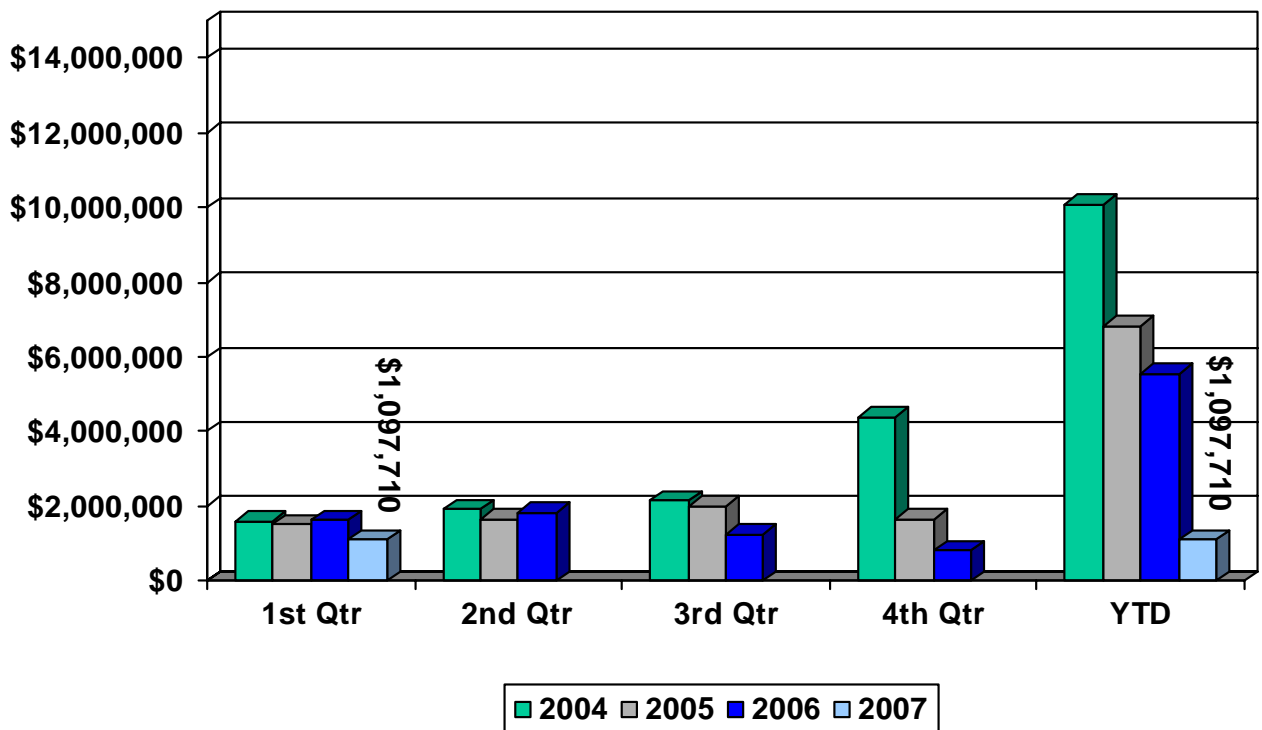
*The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).*



# Residual Market Demographics – 1Q 2007

## Arkansas Residual Market Total New Application Premium Bound 2004 vs. 2005 vs. 2006 vs. 2007

*The total estimated First Quarter premium on bound new applications assigned to as Servicing Carrier or Direct Assignment Carrier (if applicable).*



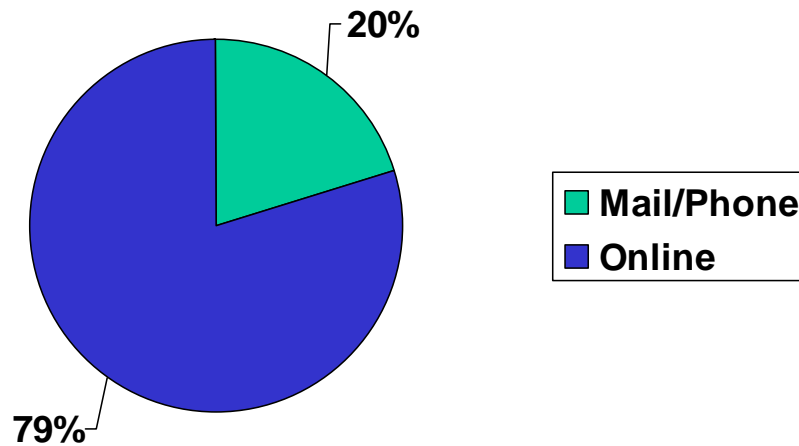


## Residual Market Demographics – 1Q 2007

### Percentage of New Applications Received by Submission Format

Data through March 31, 2007

*The total percentage of new applications received via online, phone or mail formats.*

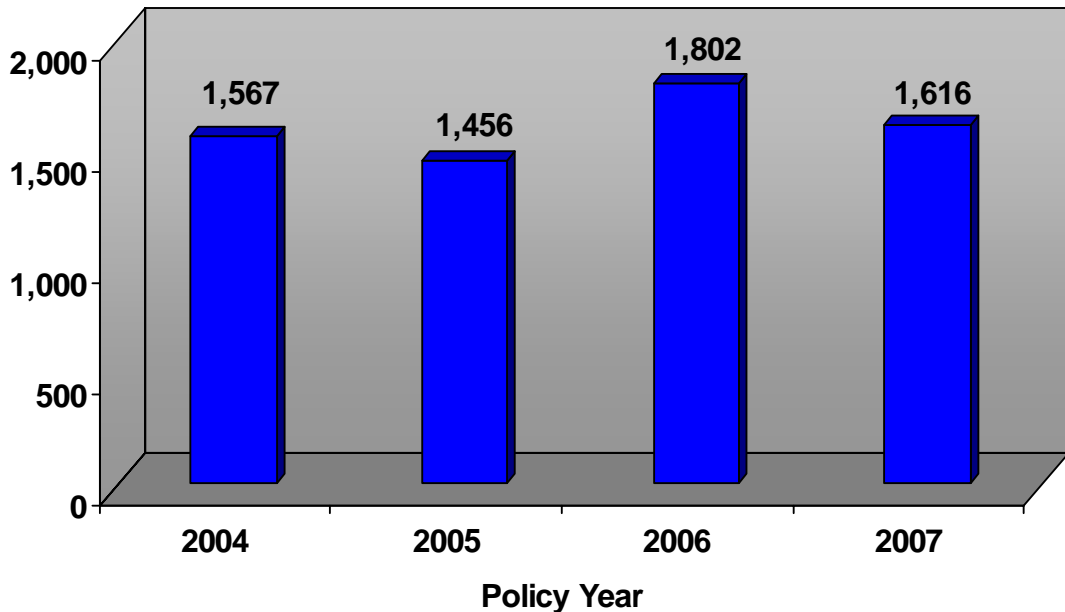


# Residual Market Demographics – 1Q 2007

## Residual Market Total Policy Counts

### First Quarter Data for Policies Reported through March 31, 2007

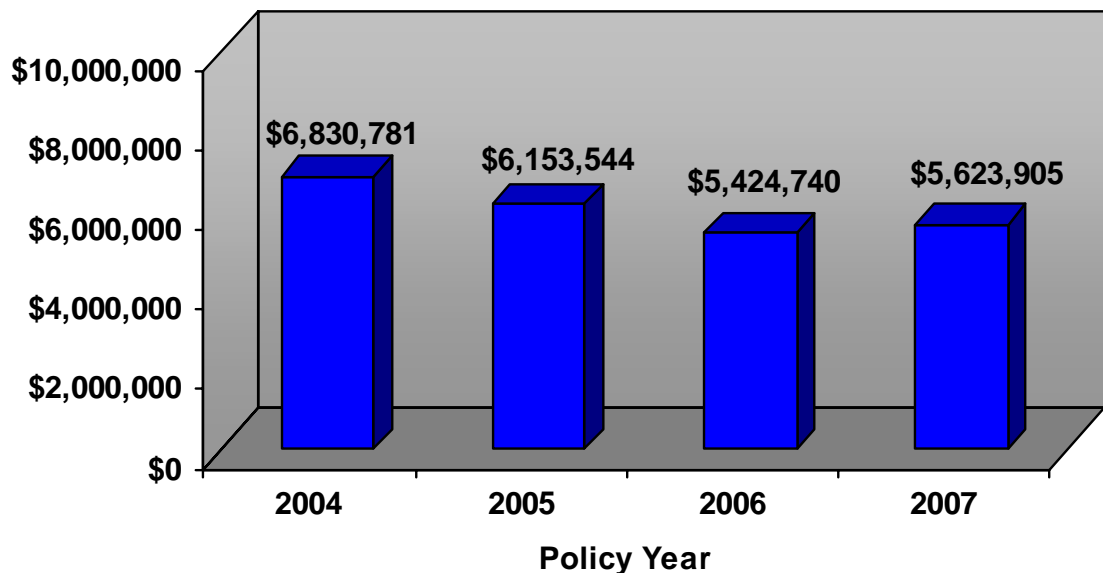
*Total Number of all Assigned Risk Plan Policies effective during this quarter and reported as of the date listed above.*



## Residual Market Total Premium Volume

### First Quarter Data Reported through March 31, 2007

*Total Amount of All Assigned Risk Plan Premium effective during this quarter and reported as of the date listed above.*



# Residual Market Demographics

## **Residual Market Total Policies and Premium in Force As of March 31, 2007 compared to prior year**

*This chart reflects the total number of policies and estimated premium in-force for this state as of the date shown above.*

*The other exhibits in this report describe quarterly and year-to-date data.*

|                           | <b>2006</b>  | <b>2007</b>  | <b>2006 vs.<br/>2007 #</b> | <b>2006 vs.<br/>2007 %</b> |
|---------------------------|--------------|--------------|----------------------------|----------------------------|
| <b>Policy Count</b>       | 6,357        | 6,229        | -128                       | -2.0%                      |
| <b>Premium<br/>Volume</b> | \$20,091,391 | \$18,968,935 | -\$1,122,456               | -5.6%                      |

# Residual Market Demographics – 1Q 2007

## Residual Market First Quarter 2007 Total Premium Distribution by Size of Risk Data Reported through March 31, 2007

*The total number of assigned risk plan policies reported to NCCI for the quarter by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.*

| Premium Interval  | Policy Count | % of Total Policies | Total State Premium | % of Total Premium | Average Premium |
|-------------------|--------------|---------------------|---------------------|--------------------|-----------------|
| \$0 - 2499        | 1,264        | 78.22%              | \$1,012,785         | 18.01%             | \$801           |
| \$2500 - 4999     | 157          | 9.72%               | \$564,449           | 10.04%             | \$3,595         |
| \$5000 - 9999     | 92           | 5.69%               | \$638,451           | 11.35%             | \$6,939         |
| \$10000 - 19999   | 59           | 3.65%               | \$801,535           | 14.25%             | \$13,585        |
| \$20000 - 49999   | 31           | 1.92%               | \$931,856           | 16.57%             | \$30,059        |
| \$50000 - 99999   | 8            | 0.5%                | \$562,629           | 10%                | \$70,328        |
| \$100000 - 199999 | 4            | 0.25%               | \$560,497           | 9.97%              | \$140,124       |
| \$200000 +        | 1            | 0.06%               | \$551,703           | 9.81%              | \$551,703       |
| Total             | 1,616        | 100%                | \$5,623,905         | 100%               | \$3,480         |

## Residual Market Total Premium Distribution by Size of Risk First Quarter 2006 Data for Comparison

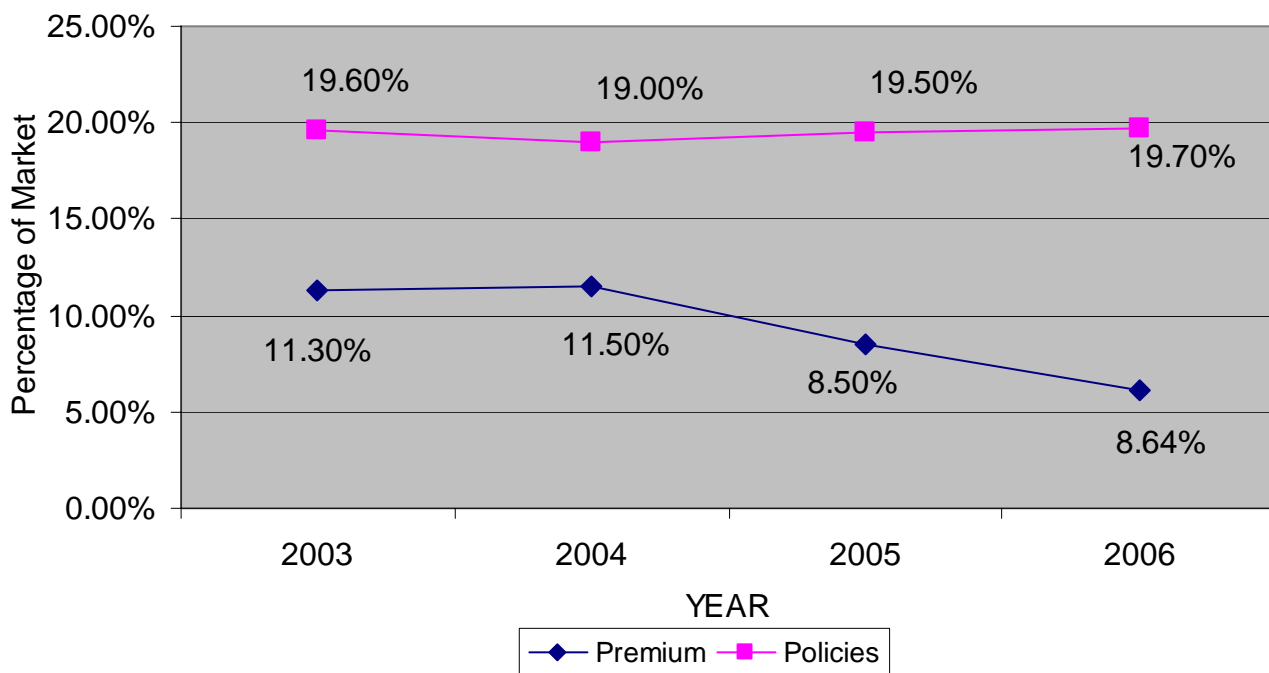
*The total number of assigned risk plan policies reported to NCCI for the quarter by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.*

| Premium Interval  | Policy Count | % of Total Policies | Total State Premium | % of Total Premium | Average Premium |
|-------------------|--------------|---------------------|---------------------|--------------------|-----------------|
| \$0 - 2499        | 1,362        | 75.58%              | \$1,054,969         | 19.45%             | \$774           |
| \$2500 - 4999     | 199          | 11.04%              | \$696,990           | 12.85%             | \$3,502         |
| \$5000 - 9999     | 143          | 7.94%               | \$991,819           | 18.28%             | \$6,935         |
| \$10000 - 19999   | 63           | 3.5%                | \$843,899           | 15.56%             | \$13,395        |
| \$20000 - 49999   | 23           | 1.28%               | \$704,244           | 12.98%             | \$30,619        |
| \$50000 - 99999   | 7            | 0.39%               | \$458,323           | 8.45%              | \$65,474        |
| \$100000 - 199999 | 5            | 0.28%               | \$674,496           | 12.43%             | \$134,899       |
| \$200000 +        | 0            | 0%                  | \$0                 | 0%                 | \$0             |
| Total             | 1,802        | 100%                | \$5,424,740         | 100%               | \$3,010         |

## Residual Market Demographics – 1Q 2007

### Total Arkansas Assigned Risk Plan Market Share

*The percentage of total assigned risk plan policies and premium, as compared to the total estimated annual premium and policies for the voluntary market, as of December 31, 2005.*





# Residual Market Demographics – 1Q 2007

## Residual Market Top 10 Classification Codes by Policy Count Data Reported through March 31, 2007

*The top ten governing class codes by total policy count - policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.*

| Rank | Code | Description   | Policy Count | % of Policies |
|------|------|---|--------------|---------------|
| 1    | 5645 | Carpentry-Detached One Or Two Family Dwellings          | 314          | 19.43%        |
| 2    | 8810 | Clerical NOC  | 103          | 6.37%         |
| 3    | 5474 | Painting Or Paperhanging NOC                            | 52           | 3.22%         |
| 4    | 5022 | Masonry NOC   | 44           | 2.72%         |
| 5    | 5190 | Electrical Wiring-Within Buildings                      | 42           | 2.6%          |
| 6    | 8832 | Physician & Clerical                                    | 41           | 2.54%         |
| 7    | 5437 | Carpentry-Installation Of Cabinet Work Or Interior Trim | 37           | 2.29%         |
| 8    | 5551 | Roofing-All Kinds                                       | 36           | 2.23%         |
| 9    | 8279 | Stable Or Breeding Farm                                 | 36           | 2.23%         |
| 10   | 5445 | Wallboard Installation Within Buildings                 | 35           | 2.17%         |

## Residual Market Top 10 Classification Codes by Premium Volume Data Reported through March 31, 2007

*The top ten governing class codes by premium volume written on total policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.*

| Rank | Code | description   | Premium   | % of Premium |
|------|------|---|-----------|--------------|
| 1    | 5183 | Plumbing NOC  | \$594,738 | 10.58%       |
| 2    | 5645 | Carpentry-Detached One Or Two Family Dwellings          | \$476,628 | 8.48%        |
| 3    | 7720 | Police Officers & Drivers                               | \$284,319 | 5.06%        |
| 4    | 7229 | Trucking-Long Distance Hauling                          | \$185,792 | 3.3%         |
| 5    | 2003 | Bakery & Drivers Route Supervisors                      | \$151,822 | 2.7%         |
| 6    | 0083 | Farm: Cattle Or Livestock Raising NOC                   | \$131,285 | 2.33%        |
| 7    | 1624 | Quarry NOC  | \$128,135 | 2.28%        |
| 8    | 8868 | College: Professional Employees                         | \$125,496 | 2.23%        |
| 9    | 5474 | Painting Or Paperhanging NOC                            | \$120,993 | 2.15%        |
| 10   | 9110 | Charitable Or Welfare - All Other Employees And Drivers | \$108,807 | 1.93%        |

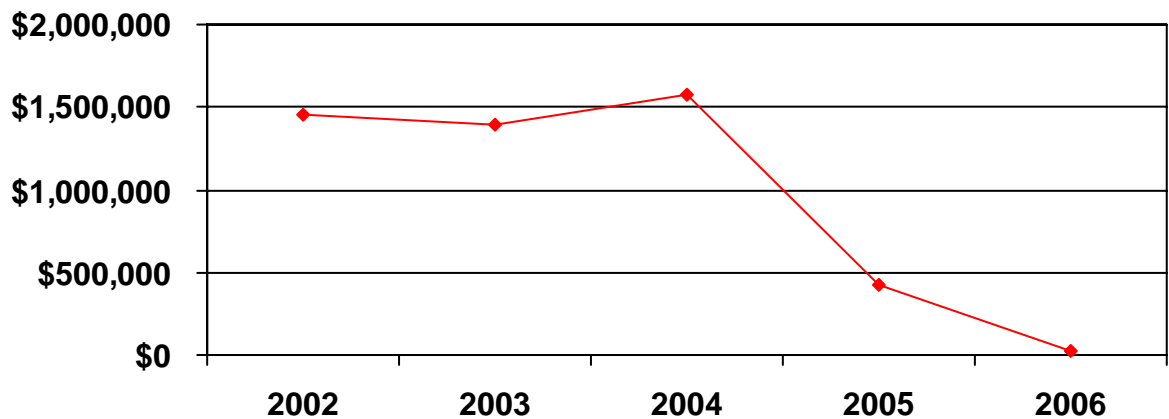
# Residual Market Demographics

## Collections/Indemnification

*The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas and the National Pool for Policy Years 2002-2007, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through Fourth Quarter 2006.*

| Arkansas           | Gross Written Premium | Uncollectible Premium | Percentage |
|--------------------|-----------------------|-----------------------|------------|
| 2002               | \$23,006,436          | \$1,452,188           | 6.3%       |
| 2003               | \$29,432,949          | \$1,387,971           | 4.7%       |
| 2004               | \$28,701,192          | \$1,570,823           | 5.5%       |
| 2005               | \$26,115,683          | \$426,115             | 1.6%       |
| 2006               | \$19,979,555          | \$26,419              | 0.1%       |
| National Pool 2006 | \$910,283,518         | \$1,478,374           | 0.2%       |

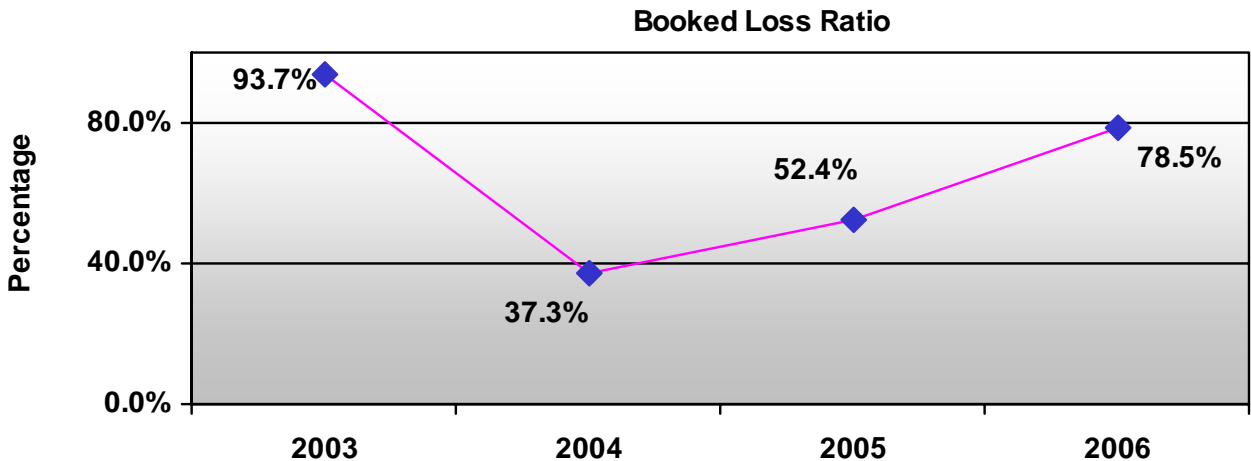
## Arkansas Uncollectible Premium



# Residual Market Demographics

## Arkansas Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 4th Quarter 2006 for 2006 and prior years

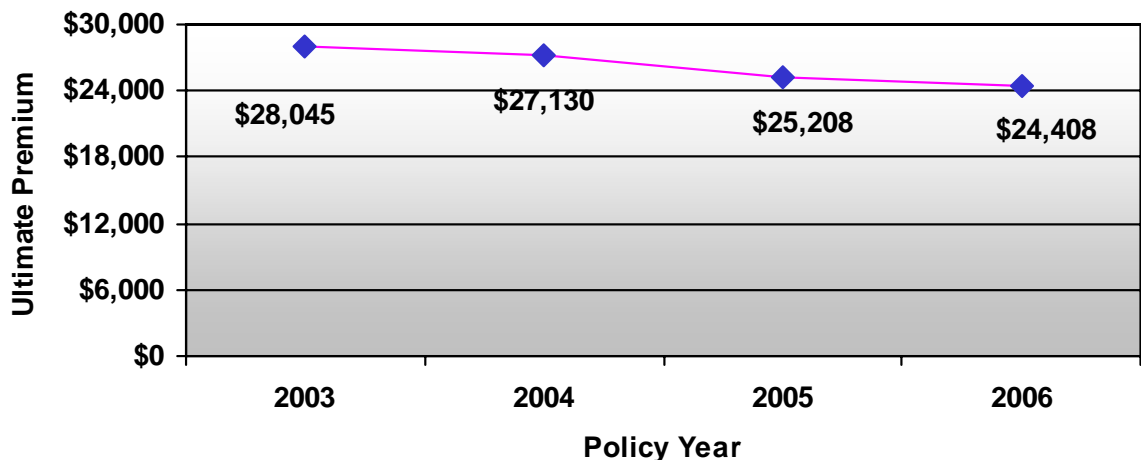
*The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .*



## Arkansas Residual Market Reinsurance Pool Ultimate Net Written Premium (Projected to Ultimate) (000's)

### Policy Year Financial Results through 4th Quarter 2006 for 2006 and prior years\*

*The premium charged by an insurance company for the period of time and coverage provided by an insurance contract in this state.*



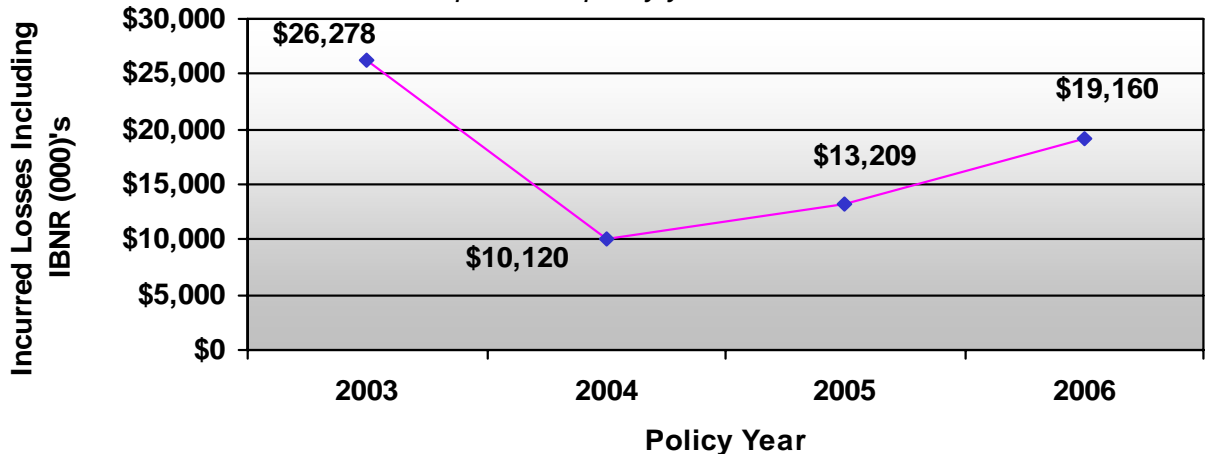
\*-First Quarter 2007 Data will be available the end of July 2007 due to the timing of data reporting

# Residual Market Demographics

## Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Incurred Losses

### Policy Year Financial Results through 4th Quarter 2006 for 2006 and prior years\*

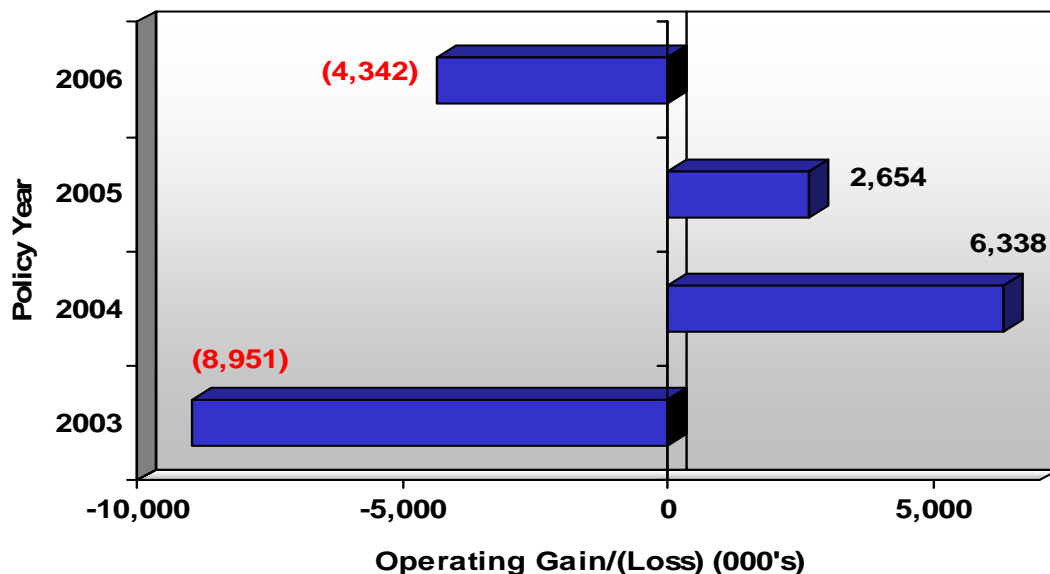
*Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.*



## Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Estimated Net Operating Gain/(Loss) (000's)

### Policy Year Financial Results through 4th Quarter 2006 for 2006 and prior years\*

*The financial statement presentation that reflects the excess of earned premium over incurred losses, less all operating expenses, plus all investment income in that state.*



\*-First Quarter 2007 Data will be available the end of July 2007 due to the timing of data reporting

# Glossary of Terms

**Combined Ratio**-The combined loss ratio, expense ratio and dividend ratio, expressed as a sum for a given period. The formula for combined ratio is [(loss + loss adjustment expense)/earned premium] + [underwriting expenses/written premium].

**EBNR (Earned But Not Reported) Premium Reserve**-A projection of additional premium that is expected to be uncovered after auditing at the end of the policy.

**Earned Premium or Premiums Earned**-That portion of written premiums applicable to the expired portion of the time for which the insurance was in effect. When used as an accounting term, "premiums earned" describes the premiums written during a period plus the unearned premiums at the beginning of the period less the unearned premiums at the end of the period.

**Incurred But Not Reported (IBNR)**-Pertaining to losses where the events which will result in a loss, and eventually a claim, have occurred, but have not yet been reported to the insurance company. The term may also include "bulk" reserves for estimated future development of case reserves.

**Underwriting Gain/(Loss)**-The financial statement presentation that reflects the excess of earned premium over incurred losses.

**Applications Bound**-The applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).

**Premium Bound**-The total estimated annual premium on bound applications.





## State of the Line

Dennis Mealy, FCAS, MAAA  
NCCI Chief Actuary

May 8, 2008  
Orlando, Florida

© Copyright 2008 NCCI Holdings, Inc. All Rights Reserved.



### I. Property/Casualty Results

### II. Workers Compensation Results

### III. Current Topics of Interest

### IV. Concluding Remarks



2

## Property/Casualty Results



3

## P/C Industry Net Written Premium—A Rare Decline

Private Carriers

| Line of Business (LOB)           | 2005              | 2006              | 2007p             | 2006–<br>2007p<br>Change |
|----------------------------------|-------------------|-------------------|-------------------|--------------------------|
| Personal Auto                    | \$159.5 B         | \$160.2 B         | \$160.8 B         | 0.4%                     |
| Homeowners                       | \$52.2 B          | \$54.5 B          | \$53.8 B          | -1.4%                    |
| Other Liability (Incl Prod Liab) | \$42.7 B          | \$45.7 B          | \$46.1 B          | 1.0%                     |
| <b>Workers Compensation</b>      | <b>\$37.8 B</b>   | <b>\$38.7 B</b>   | <b>\$37.6 B</b>   | <b>-3.0%</b>             |
| Commercial Multiple Peril        | \$29.6 B          | \$31.7 B          | \$31.4 B          | -1.0%                    |
| Commercial Auto                  | \$26.5 B          | \$26.7 B          | \$25.9 B          | -3.0%                    |
| Fire & Allied Lines (Incl EQ)    | \$17.4 B          | \$20.0 B          | \$21.8 B          | 9.0%                     |
| All Other Lines                  | \$59.8 B          | \$65.9 B          | \$63.5 B          | -3.6%                    |
| <b>Total P/C Industry</b>        | <b>\$ 425.5 B</b> | <b>\$ 443.5 B</b> | <b>\$ 440.8 B</b> | <b>-0.6%</b>             |

p Preliminary

Source: Workers Compensation, NCCI;  
All Other Lines, Best's Review Preview and ISO



4

## Another Year of Underwriting Gain

Net Combined Ratio—Private Carriers

| Line of Business (LOB)           | Calendar Year |            |            |
|----------------------------------|---------------|------------|------------|
|                                  | 2005          | 2006       | 2007p      |
| Personal Auto                    | 95%           | 96%        | 98%        |
| Homeowners                       | 100%          | 90%        | 95%        |
| Other Liability (Incl Prod Liab) | 113%          | 95%        | 99%        |
| <b>Workers Compensation</b>      | <b>103%</b>   | <b>93%</b> | <b>99%</b> |
| Commercial Multiple Peril        | 97%           | 93%        | 94%        |
| Commercial Auto                  | 92%           | 92%        | 95%        |
| Fire & Allied Lines (Incl EQ)    | 104%          | 81%        | 83%        |
| All Other Lines                  | 111%          | 86%        | 89%        |
| <b>Total P/C Industry</b>        | <b>101%</b>   | <b>92%</b> | <b>96%</b> |

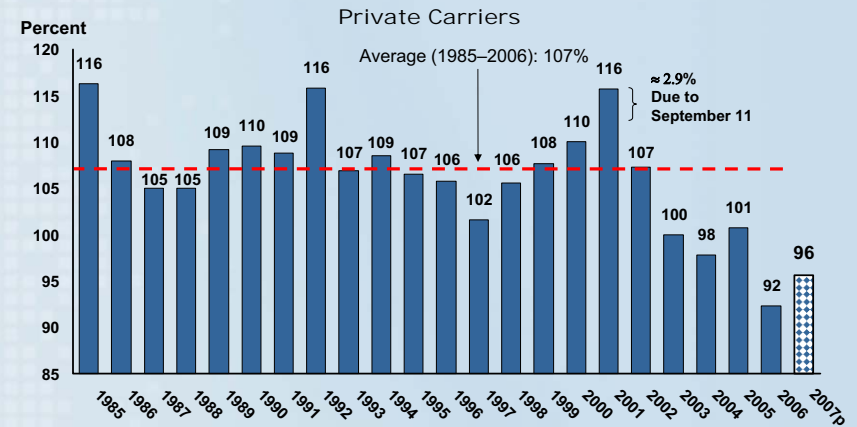
p Preliminary

Source: Workers Compensation, NCCI;  
All Other Lines, Best's Review Preview and ISO

**AIS**  
Annual Issues Symposium  
2008

5

## P/C Industry Calendar Year Net Combined Ratios



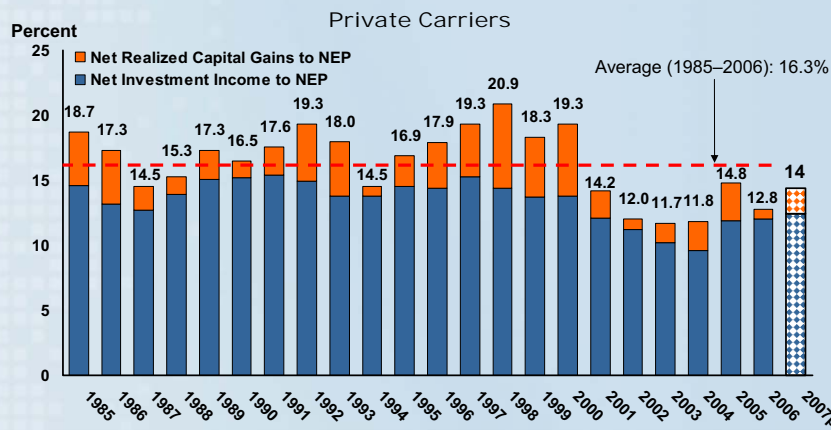
p Preliminary

Source: 1985–2006, Best's Aggregates & Averages; 2007p, ISO

**AIS**  
Annual Issues Symposium  
2008

6

## Investment Gain Ratio Remains Below Historical Average



p Preliminary

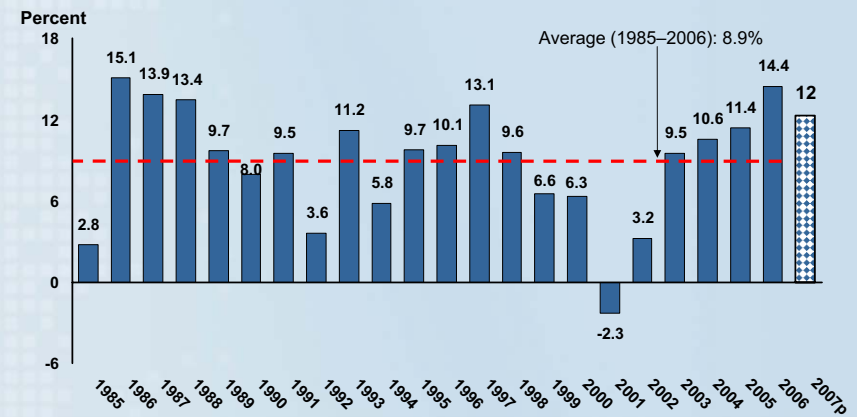
Source: 1985–2006, Best's Aggregates & Averages; 2007p, ISO

**AIS**  
Annual Issues Symposium  
2008

7

## P/C Industry Return on Surplus

Annual After-Tax Return on Surplus—Private Carriers



p Preliminary

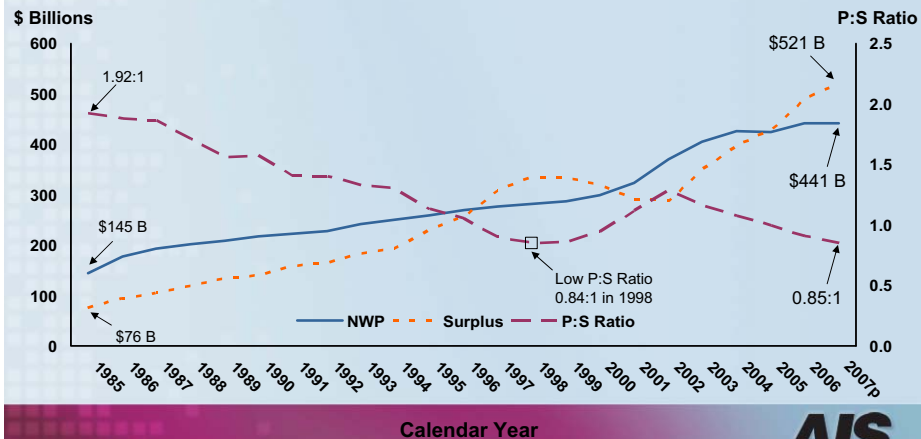
Source: 1985–2006, Best's Aggregates & Averages; 2007p After-Tax Net Income, ISO;  
2007p Surplus, 2006 Best's Aggregates & Averages + 2007 ISO contributions to surplus  
Note: After-tax return on average surplus, excluding unrealized capital gains

**AIS**  
Annual Issues Symposium  
2008

8

## P/C Industry Premium-to-Surplus Ratio Approaches Previous Low

Private Carriers



p Preliminary  
Source: 1985–2006, Best's Aggregates & Averages;  
2007p Surplus, 2006 Best's Aggregates & Averages + 2007 ISO contributions to surplus

**AIS**  
Annual Issues Symposium  
2008

9

## Contributions to Surplus

Private Carriers

|                           | 2005        | 2006        | 2007p       |
|---------------------------|-------------|-------------|-------------|
| Underwriting Gains/Losses | \$ (5.6) B  | \$ 31.1 B   | \$ 19.0 B   |
| Investment Income         | \$ 49.7 B   | \$ 52.3 B   | \$ 54.6 B   |
| Realized Capital Gains    | \$ 9.7 B    | \$ 3.5 B    | \$ 9.0 B    |
| Other Income              | \$ 1.0 B    | \$ 1.2 B    | \$ (1.0) B  |
| Unrealized Capital Gains  | \$ (3.4) B  | \$ 20.6 B   | \$ (0.5) B  |
| Federal Taxes             | \$ (10.7) B | \$ (22.4) B | \$ (19.7) B |
| Shareholder Dividends     | \$ (15.6) B | \$ (24.7) B | \$ (32.0) B |
| Contributed Capital       | \$ 14.4 B   | \$ 3.8 B    | \$ 3.2 B    |
| Other Changes to Surplus  | \$ (5.1) B  | \$ (4.9) B  | \$ (0.9) B  |
| Total                     | \$ 34.5 B   | \$ 60.4 B   | \$ 31.7 B   |

p Preliminary  
Source: ISO

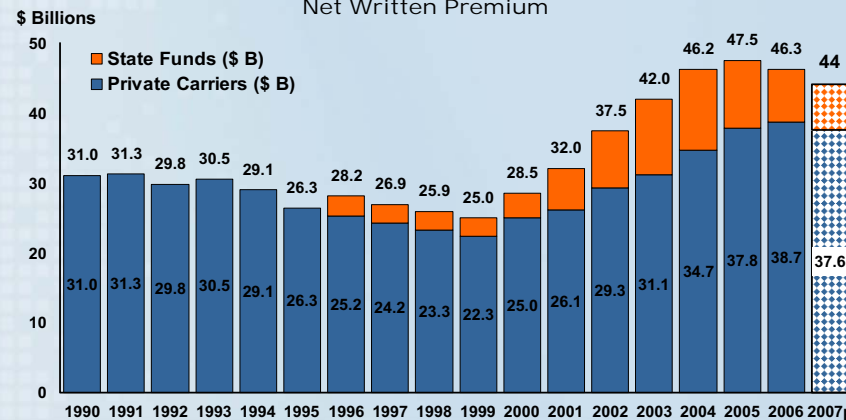
**AIS**  
Annual Issues Symposium  
2008

10

## Workers Compensation Results

## Workers Compensation Premium Continues to Decline in 2007

Net Written Premium



p Preliminary

Source: 1990–2006 Private Carriers, Best's Aggregates & Averages; 2007p, NCCI  
1996–2007p State Funds, AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements  
State Funds available for 1996 and subsequent

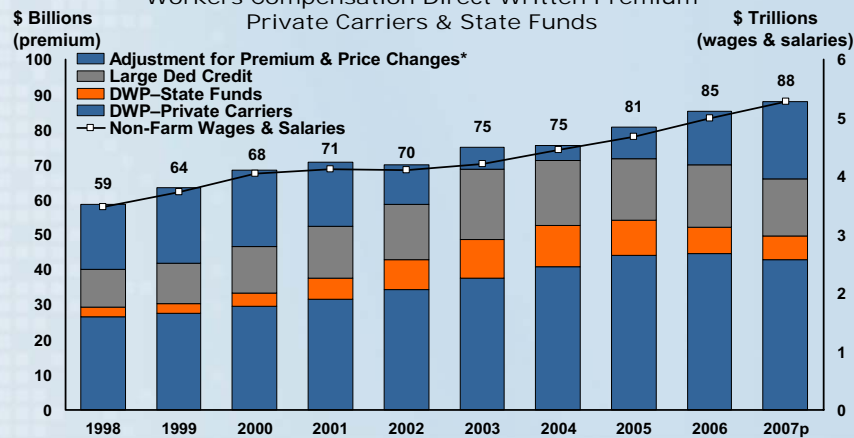
**AIS**  
Annual Issues Symposium  
2008

12

11

## Adjusted Workers Compensation Premium Volume

Workers Compensation Direct Written Premium  
Private Carriers & State Funds



p Preliminary

\* Premium and price changes are indexed to the 1995 rate/sell cost level

Source: 1998-2006 Private Carriers, Best's Aggregates & Averages; 2007p, NCCI

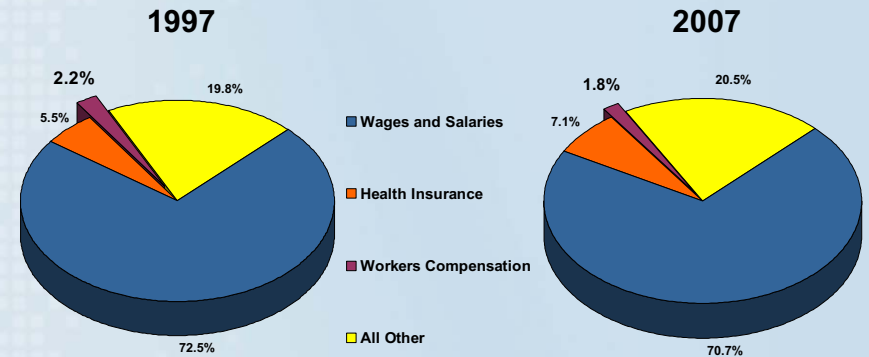
1998-2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

**AIS**  
Annual Issues Symposium  
2008

13

## Employer Costs As Percentage of Total Compensation

Private Industry



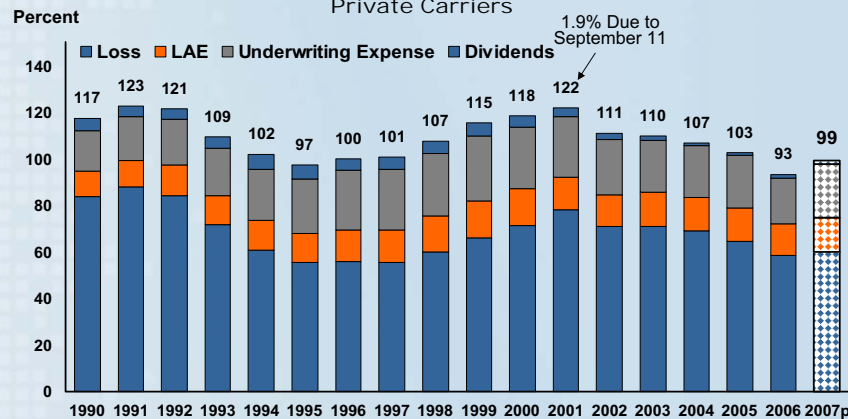
All Other includes Paid Leave, Supplemental Pay, Insurance (other than Health), Social Security, Retirement and Savings  
Source: US Department of Labor, Bureau of Labor Statistics

**AIS**  
Annual Issues Symposium  
2008

14

## WC Calendar Year Combined Ratio—Will History Repeat Itself?

Private Carriers



p Preliminary

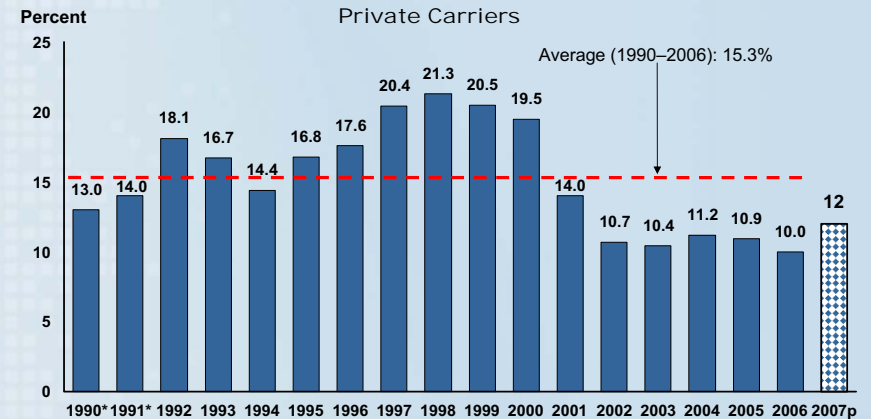
Source: 1990-2006, Best's Aggregates & Averages; 2007p, NCCI

**AIS**  
Annual Issues Symposium  
2008

15

## Workers Compensation Investment Returns Remain Below Historical Average

Investment Gain on Insurance Transactions-to-Premium Ratio  
Private Carriers



p Preliminary

\* Adjusted to include realized capital gains to be consistent with 1992 and after

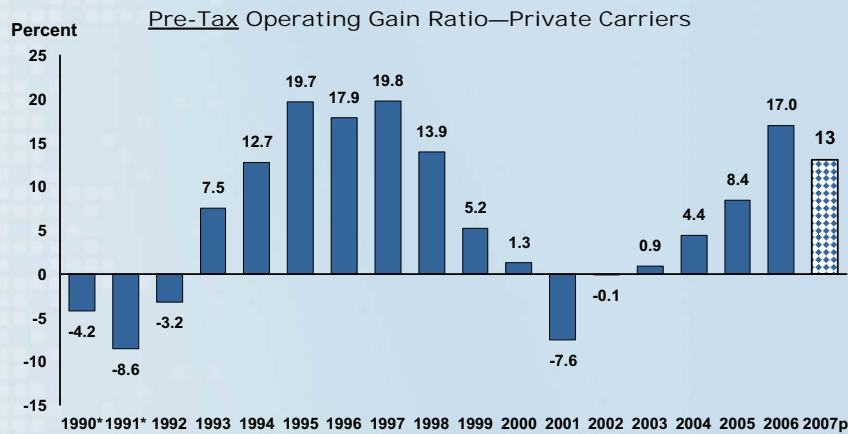
Investment Gain on Insurance Transactions includes Other Income

Source: 1990-2006, Best's Aggregates & Averages; 2007p, NCCI

**AIS**  
Annual Issues Symposium  
2008

16

## Workers Compensation Results Declined

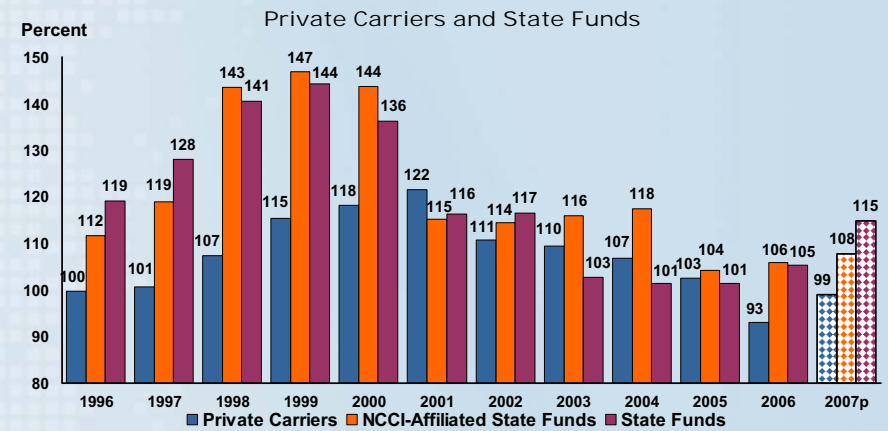


p Preliminary  
\* Adjusted to include realized capital gains to be consistent with 1992 and after  
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)  
Source: 1990–2006, *Best's Aggregates & Averages*; 2007p, NCCI

**AIS**  
Annual Issues Symposium  
2008

17

## Workers Compensation Calendar Year Net Combined Ratios

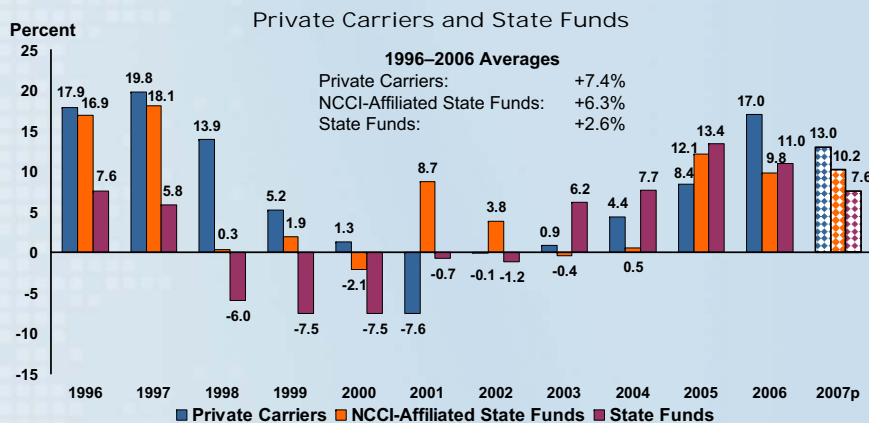


p Preliminary  
Source: 1996–2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI  
1996–2007p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements  
1996–2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

**AIS**  
Annual Issues Symposium  
2008

18

## Workers Compensation Pre-Tax Operating Gain Ratios

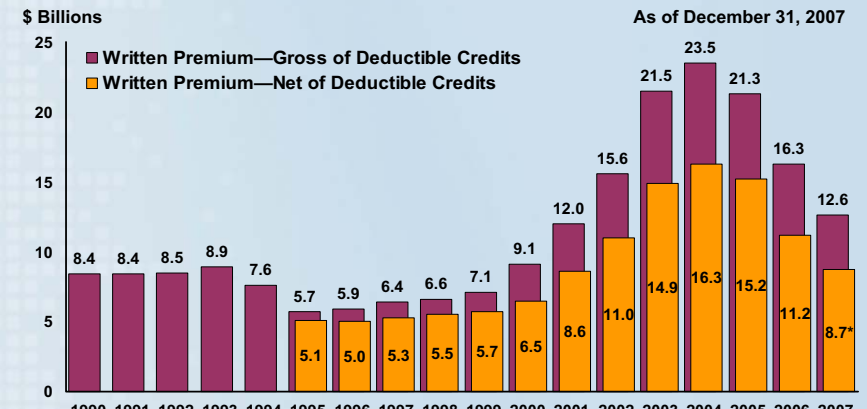


p Preliminary  
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)  
Source: 1996–2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI  
1996–2007p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements  
1996–2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

**AIS**  
Annual Issues Symposium  
2008

19

## California Workers Compensation Written Premium



\* 2007 Written Premium Net of Deductible Credits is preliminary  
Data includes State Compensation Insurance Fund

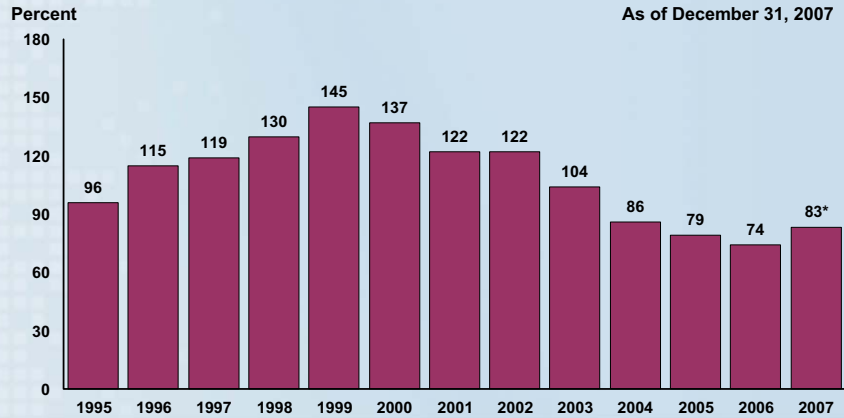
Source: WCIRB<sup>California</sup>

**AIS**  
Annual Issues Symposium  
2008

20



## California Workers Compensation CY Combined Loss and Expense Ratios



\* 2007 Combined Loss and Expense Ratio is preliminary  
Data includes State Compensation Insurance Fund

Source: WCIRBCalifornia®

Calendar Year

**AIS**  
Annual Issues Symposium  
2008

21

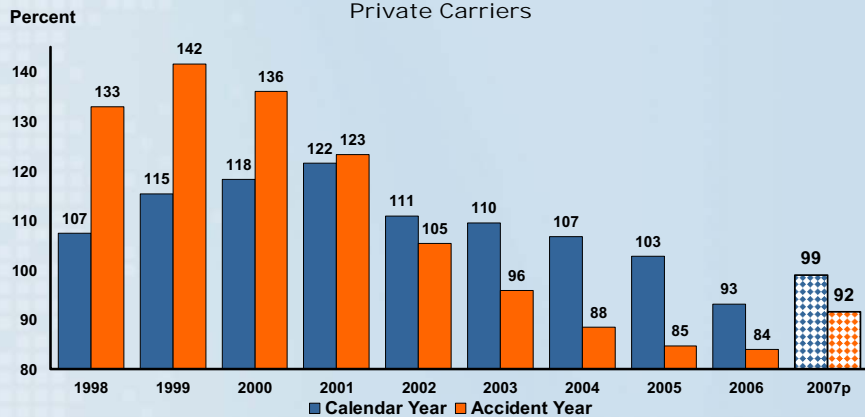
## Workers Compensation Accident Year Results and Reserve Estimates

**AIS**  
Annual Issues Symposium  
2008

22

## Accident Year Combined Ratio— Another Underwriting Gain in 2007

Workers Compensation Calendar Year vs. Ultimate Accident Year  
Private Carriers



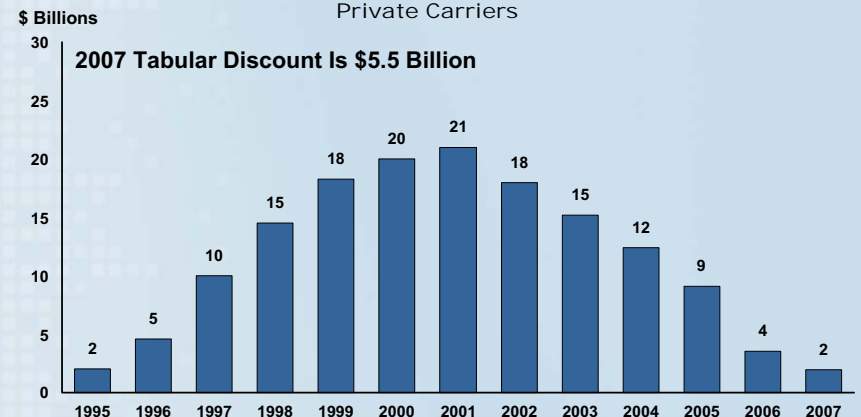
p Preliminary  
Accident Year data is evaluated as of 12/31/2007 and developed to ultimate  
Source: Calendar Years 1998–2006, Best's Aggregates & Averages;  
Calendar Year 2007p and Accident Years 1998–2007p, NCCI analysis based on Annual Statement data  
Includes dividends to policyholders

**AIS**  
Annual Issues Symposium  
2008

23

## Calendar Year Reserve Deficiencies Continue to Decline

Workers Compensation Loss and LAE Reserve Deficiency  
Private Carriers



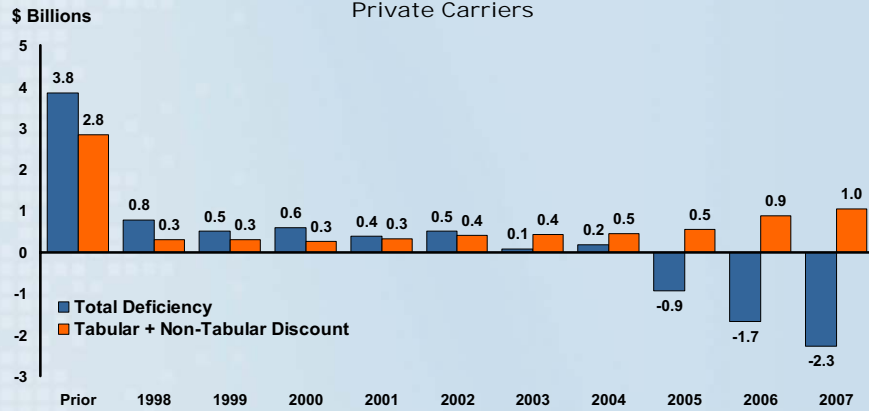
Considers all reserve discounts as deficiencies  
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections  
Source: NCCI analysis

**AIS**  
Annual Issues Symposium  
2008

24

## Reserve Deficiency by Accident Year

Workers Compensation Loss & LAE Reserves as of 12/31/2007  
Private Carriers



Accident Year

Considers all reserve discounts as deficiencies

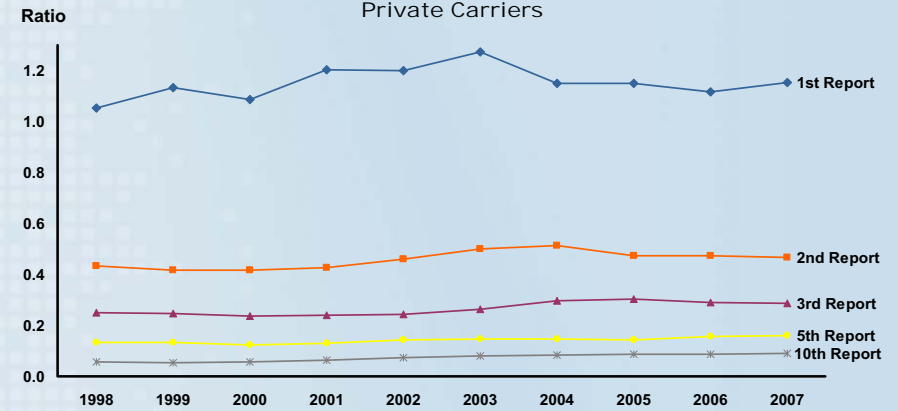
Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers

25

**AIS**  
Annual Issues Symposium  
2008

## Case Reserves Are Stable Versus Paid Losses

WC Ratio of Case Reserves to Cumulative Paid Losses  
Private Carriers



Evaluation Year

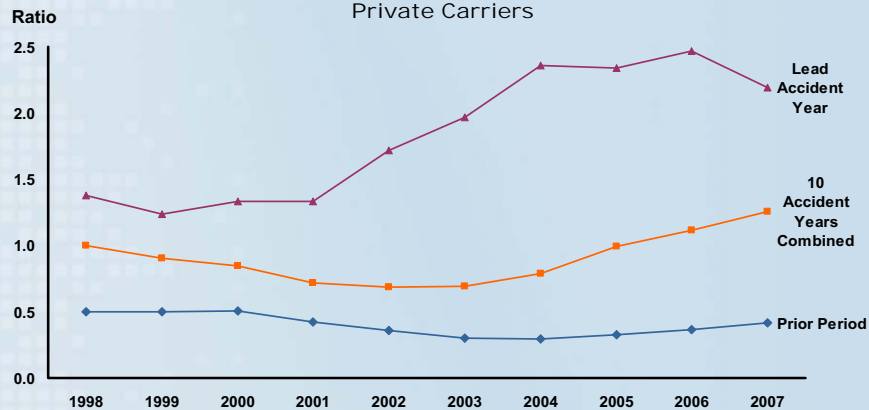
Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers

26

**AIS**  
Annual Issues Symposium  
2008

## Strengthening of Reserves Has Taken Place in IBNR

Workers Compensation Ratio of IBNR to Case Reserves  
Private Carriers



Evaluation Year

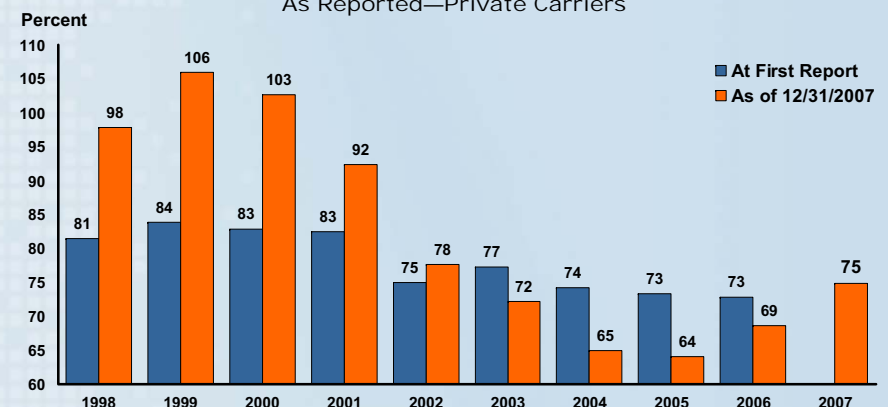
Lead Accident Year is defined as the latest AY  
10 Accident Years Combined are defined as the latest 10 Accident Years (for a given evaluation year)  
Prior period is defined as all accident years older than 10 years  
Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers

27

**AIS**  
Annual Issues Symposium  
2008

## Workers Compensation Accident Year Loss and LAE Ratios

As Reported—Private Carriers



Accident Year

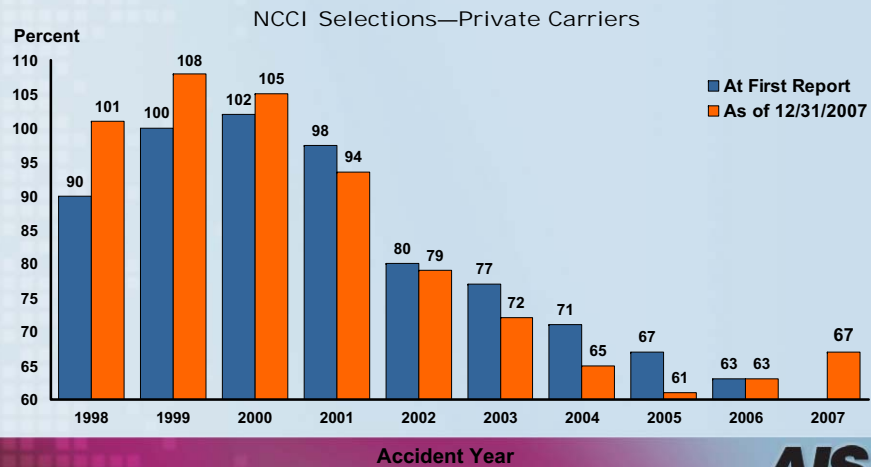
Reported Loss and LAE ratios

Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers

28

**AIS**  
Annual Issues Symposium  
2008

## Workers Compensation Accident Year Loss and LAE Ratios

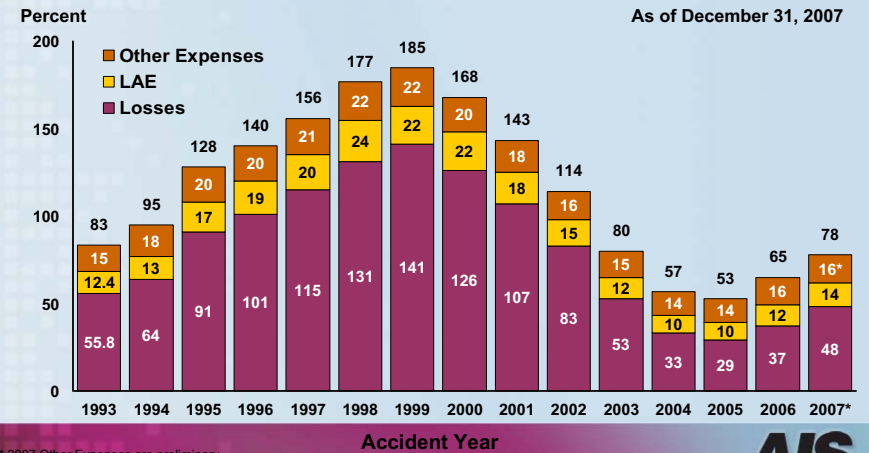


Selected Loss and LAE ratios  
Source: NCCI Reserve Analysis

**AIS**  
Annual Issues Symposium  
2008

29

## California Workers Compensation AY Combined Loss and Expense Ratios



\* 2007 Other Expenses are preliminary  
Data includes State Compensation Insurance Fund

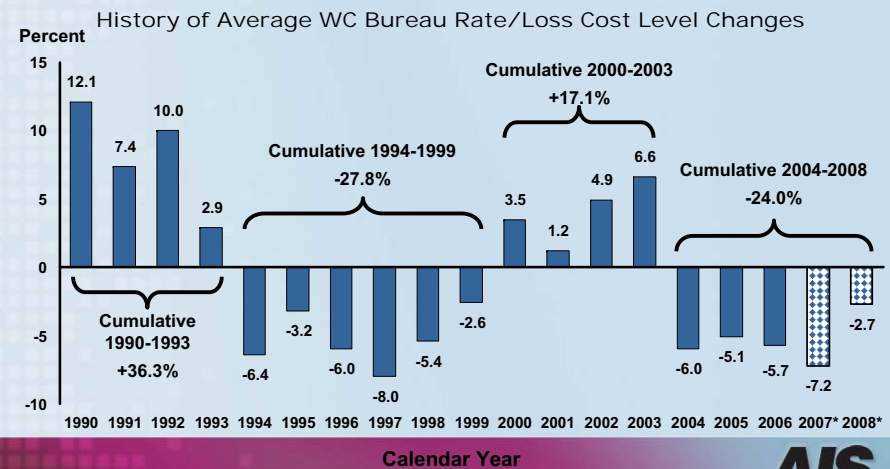
Source: WCIRB California\*

**AIS**  
Annual Issues Symposium  
2008

30

## Workers Compensation Premium Drivers

## Average Approved Bureau Rates/Loss Costs



\* States approved through 4/11/2008  
Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

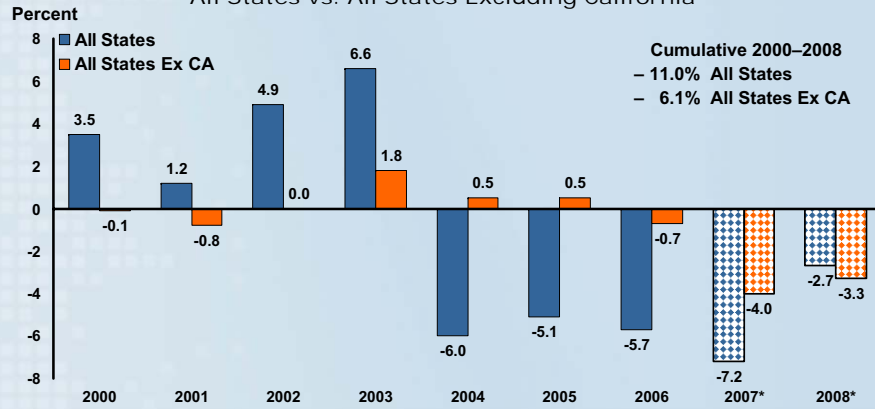
**AIS**  
Annual Issues Symposium  
2008

32

31

## Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California



Calendar Year

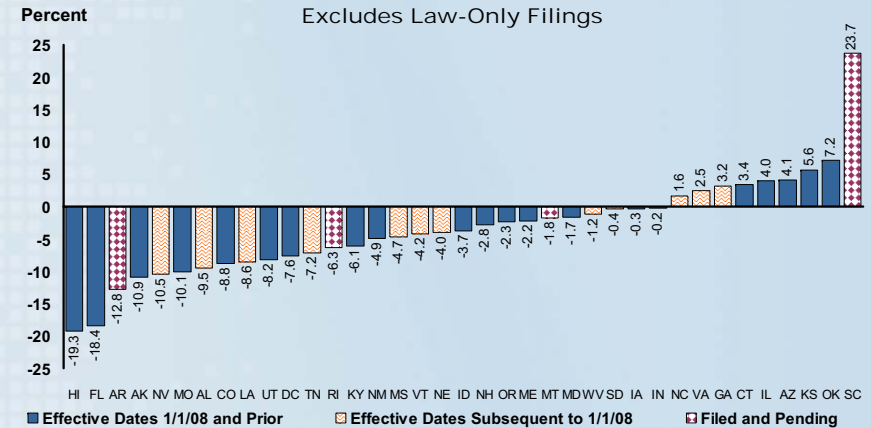
\* States approved through 4/11/2008  
Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

**AIS**  
Annual Issues Symposium  
2008

33

## Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

Excludes Law-Only Filings



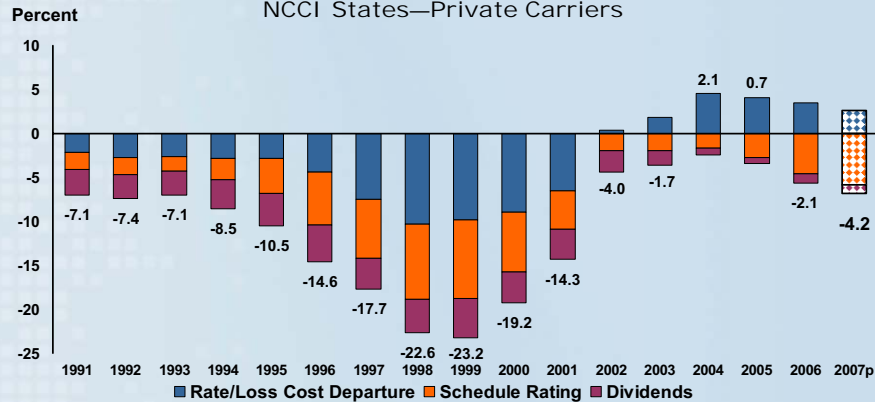
States filed through 4/18/2008

**AIS**  
Annual Issues Symposium  
2008

34

## Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers



Policy Year

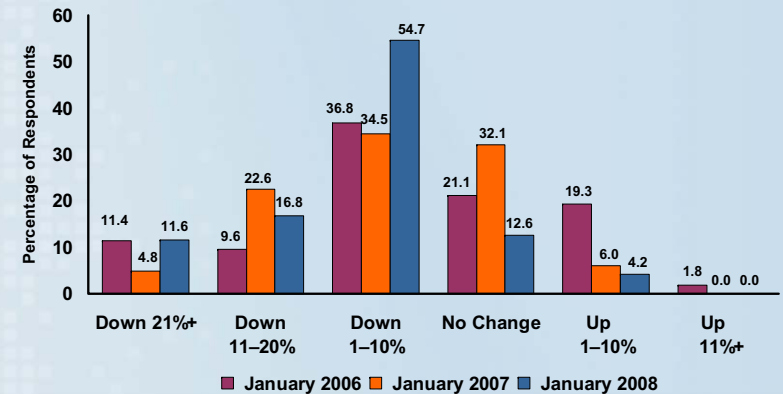
p Preliminary  
NCCI benchmark level does not include an underwriting contingency provision  
Dividend ratios are based on calendar year statistics  
Based on data through 12/31/2007 for the states where NCCI provides ratemaking services

**AIS**  
Annual Issues Symposium  
2008

35

## According to Goldman Sachs, Most Survey Respondents See Declining WC Prices

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior



Source: Goldman Sachs Research, "Independent Insight | US Insurance: Non-Life," Proprietary Survey (Exhibit 8, Workers' Compensation, Percentage of Respondents)

**AIS**  
Annual Issues Symposium  
2008

36

## Workers Compensation Loss Drivers

**AIS**  
Annual Issues Symposium  
2008

37

## Workers Compensation Indemnity Claim Costs Growth Is Moderate

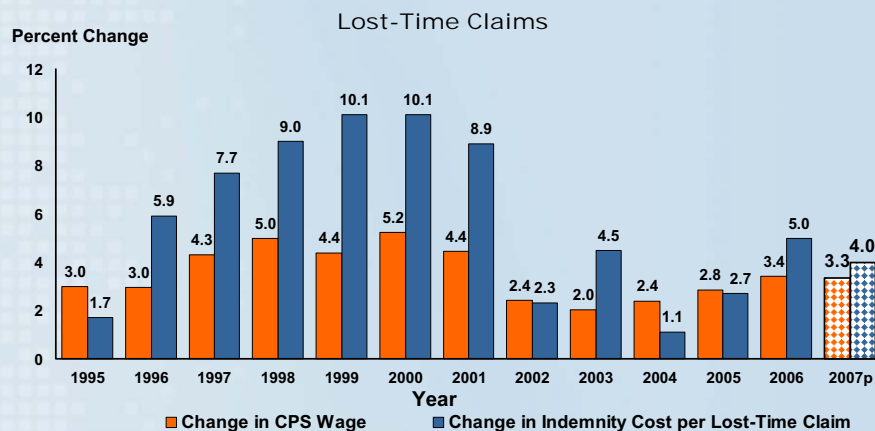


2007p: Preliminary based on data valued as of 12/31/2007  
1991–2006: Based on data through 12/31/2006, developed to ultimate  
Based on the states where NCCI provides ratemaking services  
Excludes the effects of deductible policies

**AIS**  
Annual Issues Symposium  
2008

38

## WC Indemnity Severity Outpacing Wage Inflation in 2007



Indemnity severity 2007p: Preliminary based on data valued as of 12/31/2007  
Indemnity severity 1995–2006: Based on data through 12/31/2006, developed to ultimate  
Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies  
Source: CPS Wage—All states (Current Population Survey), Economy.com;  
Accident year indemnity severity—NCCI states, NCCI

**AIS**  
Annual Issues Symposium  
2008

39

## WC Medical Claim Cost Trends— Growth Continues in 2007



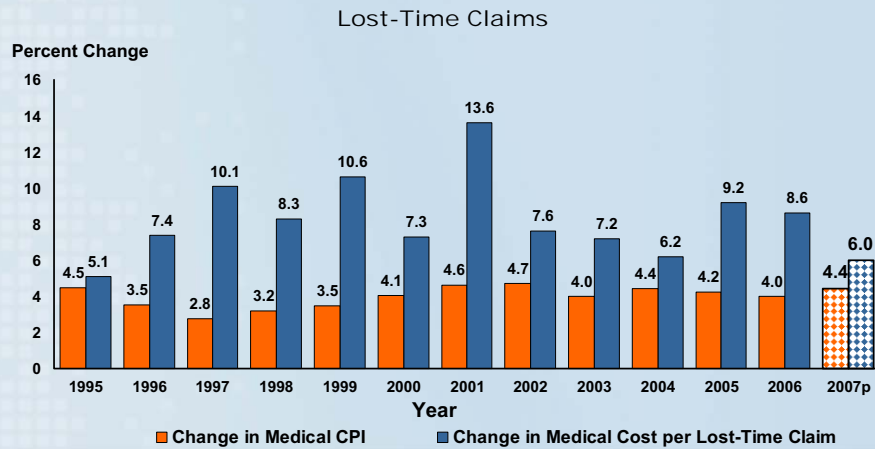
2007p: Preliminary based on data valued as of 12/31/2007  
1991–2006: Based on data through 12/31/2006, developed to ultimate  
Based on the states where NCCI provides ratemaking services  
Excludes the effects of deductible policies

**AIS**  
Annual Issues Symposium  
2008

40



## WC Medical Severity Still Growing Faster Than the Medical CPI

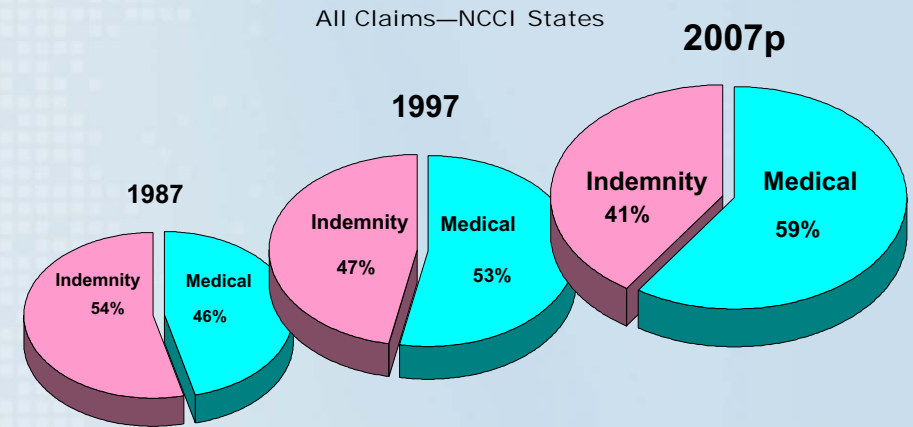


Medical severity 2007p: Preliminary based on data valued as of 12/31/2007  
 Medical severity 1995–2006: Based on data through 12/31/2006, developed to ultimate  
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies  
 Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

**AIS**  
 Annual Issues Symposium  
 2008

41

## Workers Compensation Medical Losses Are More Than Half of Total Losses

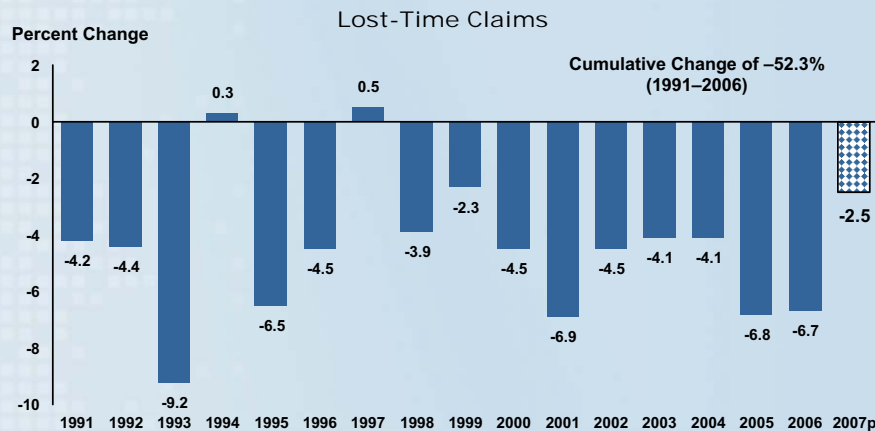


2007p: Preliminary based on data valued as of 12/31/2007  
 1987, 1997: Based on data through 12/31/2006, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes the effects of deductible policies

**AIS**  
 Annual Issues Symposium  
 2008

42

## Workers Compensation Lost-Time Claim Frequency Continues to Decline

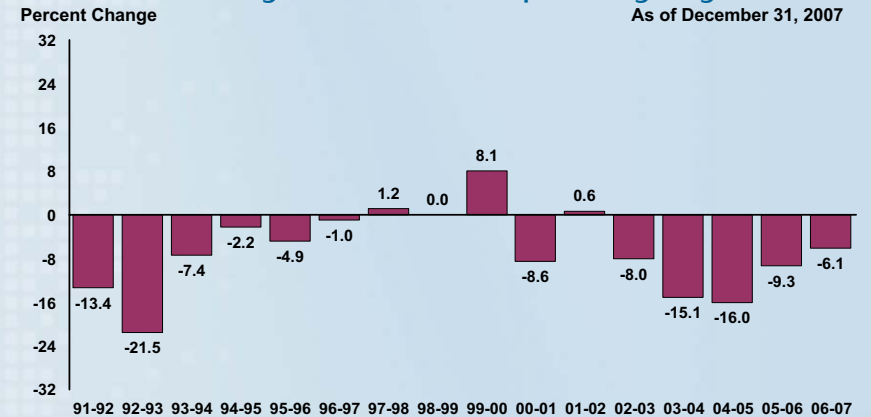


2007p: Preliminary based on data valued as of 12/31/2007  
 1991–2006: Based on data through 12/31/2006, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes the effects of deductible policies

**AIS**  
 Annual Issues Symposium  
 2008

43

## California Workers Compensation Estimated Percentage Change in Indemnity Claim Frequency by AY



Data includes State Compensation Insurance Fund

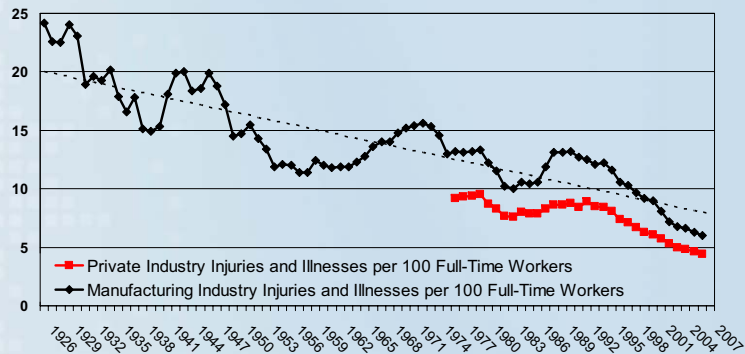
Source: WCIRB California

**AIS**  
 Annual Issues Symposium  
 2008

44

## Rate of Work-Related Injuries Decreases Over Time Due to Improved Working Conditions

Rate of Injury per 100 FTE Workers

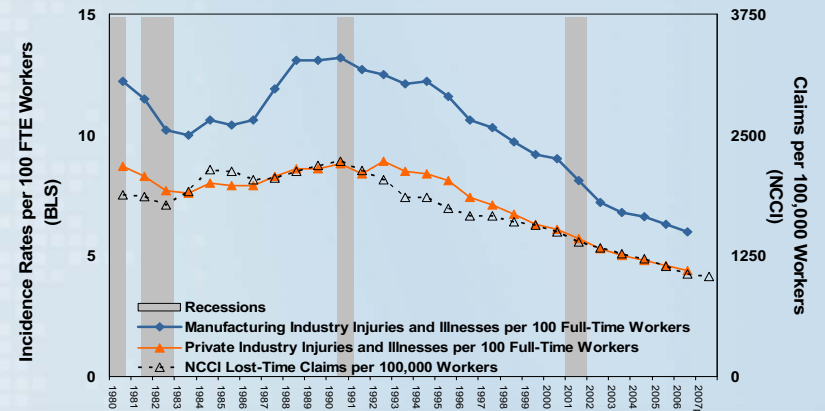


Source: US Department of Labor, Bureau of Labor Statistics

**AIS**  
Annual Issues Symposium  
2008

45

## Workplace Injury Incidence Rates Have Shown Declines in Last Four Economic Downturns



p Preliminary

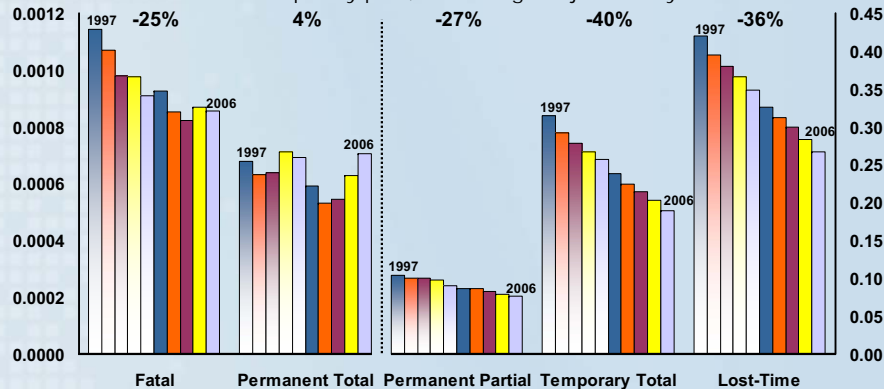
Source: US Department of Labor, Bureau of Labor Statistics (BLS), National Bureau of Economic Research  
NCCI Frequency and Severity Analysis

**AIS**  
Annual Issues Symposium  
2008

46

## Claim Frequency Declined for All Injury Types Other Than Permanent Total

Percentage Change Between Policies Expiring in 1997 and 2006  
Claim Frequency per \$1M of Wage-Adjusted Payroll



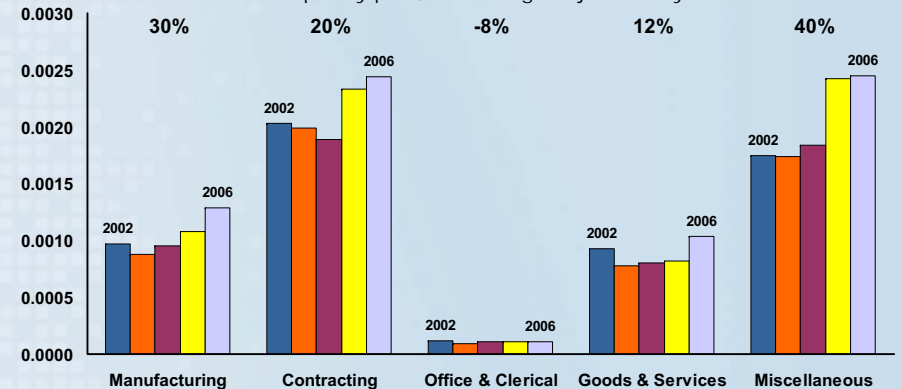
All NCCI states except NV and TX  
Source: NCCI Unit Statistical Plan data, First Report

**AIS**  
Annual Issues Symposium  
2008

47

## Permanent Total Claim Frequency by Industry Group

Percentage Change Between Policies Expiring in 2002 and 2006  
Claim Frequency per \$1M of Wage Adjusted Payroll



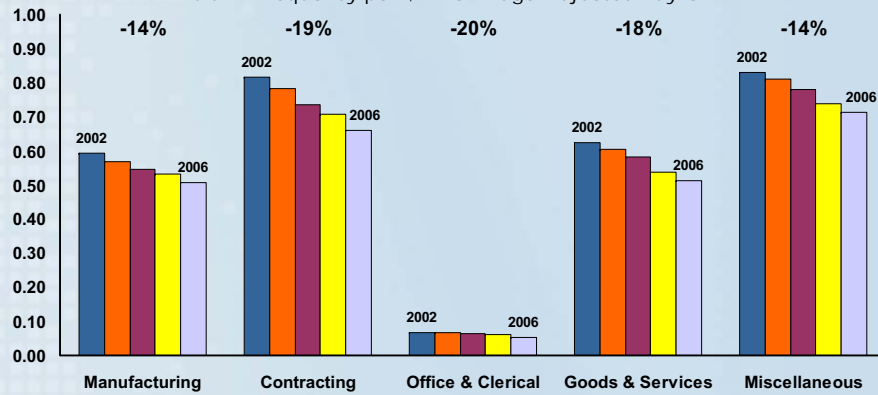
All NCCI states except NV and TX  
Source: NCCI Unit Statistical Plan data, First Report

**AIS**  
Annual Issues Symposium  
2008

48

## Lost-Time Claim Frequency Declined for All Industry Groups

Percentage Change Between Policies Expiring in 2002 and 2006  
Claim Frequency per \$1M of Wage-Adjusted Payroll



All NCCI states except NV and TX  
Source: NCCI Unit Statistical Plan data, First Report

**AIS**  
Annual Issues Symposium  
2008

49

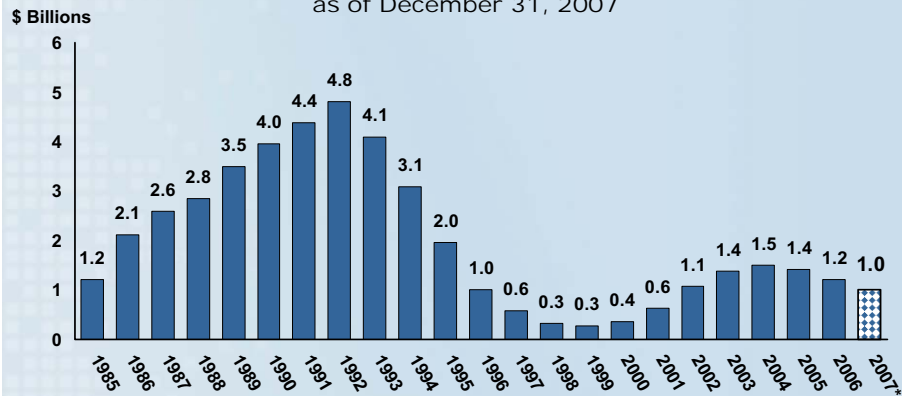
## Workers Compensation Residual Market

**AIS**  
Annual Issues Symposium  
2008

50

## Workers Compensation Residual Market Premium Volume Declines

NCCI-Serviced Workers Compensation Residual Market Pools  
as of December 31, 2007



Policy Year

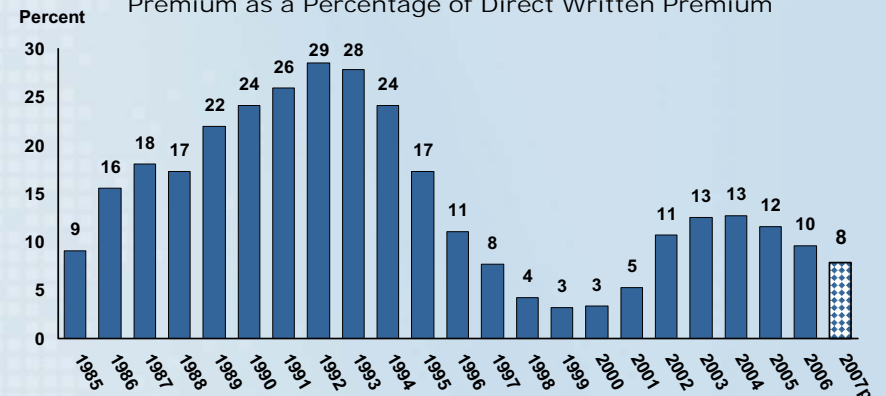
\* Incomplete Policy Year Projected to Ultimate

**AIS**  
Annual Issues Symposium  
2008

51

## Workers Compensation Residual Market Shares Continue to Decline

Workers Compensation Insurance Plan States\*  
Premium as a Percentage of Direct Written Premium



Calendar Year

p Preliminary  
\* NCCI Plan states plus DE, IN, MA, MI, NJ, NC

**AIS**  
Annual Issues Symposium  
2008

52

## Workers Compensation Residual Market Combined Ratios

NCCI-Serviced Workers Compensation Residual Market Pools  
as of December 31, 2007



Policy Year

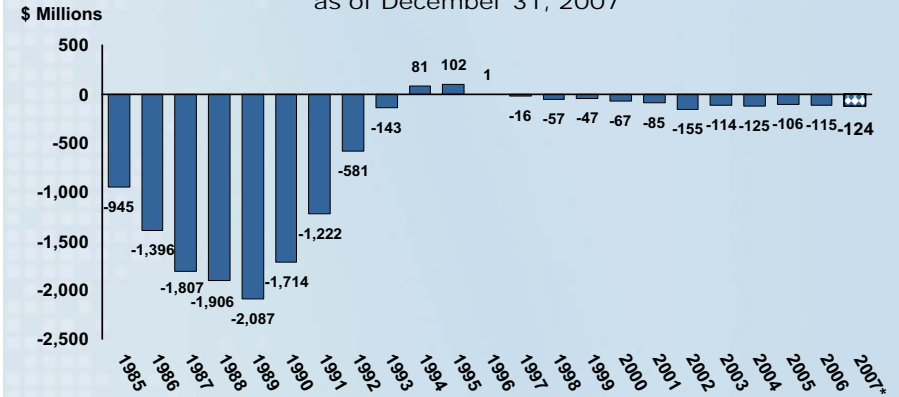
\* Incomplete Policy Year Projected to Ultimate

**AIS**  
Annual Issues Symposium  
2008

53

## Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools  
as of December 31, 2007



Policy Year

\* Incomplete Policy Year Projected to Ultimate

**AIS**  
Annual Issues Symposium  
2008

54

## Residual Markets Are Depopulating in Most States

First Quarter 2008 vs. First Quarter 2007

| Size of Risk          | 2007          | 2008          | Change      |
|-----------------------|---------------|---------------|-------------|
| \$ 0 - \$ 2,499       | 36,146        | 32,868        | -9%         |
| \$ 2,500 - \$ 4,999   | 5,064         | 4,458         | -12%        |
| \$ 5,000 - \$ 9,999   | 3,332         | 3,092         | -7%         |
| \$ 10,000 - \$ 49,999 | 3,187         | 2,682         | -16%        |
| \$ 50,000 - \$ 99,999 | 379           | 268           | -29%        |
| \$ 100,000 and over   | 167           | 121           | -28%        |
| <b>Total</b>          | <b>48,275</b> | <b>43,489</b> | <b>-10%</b> |

Total number of assigned risk policies in force  
Includes residual market policies for:  
AK, AL, AR, AZ, CT, DC, GA, ID, IL, IA, IN, KS, MS, NV, NH, NM, OR, SC, SD, VT, VA

**AIS**  
Annual Issues Symposium  
2008

55

## Current Topics of Interest

**AIS**  
Annual Issues Symposium  
2008

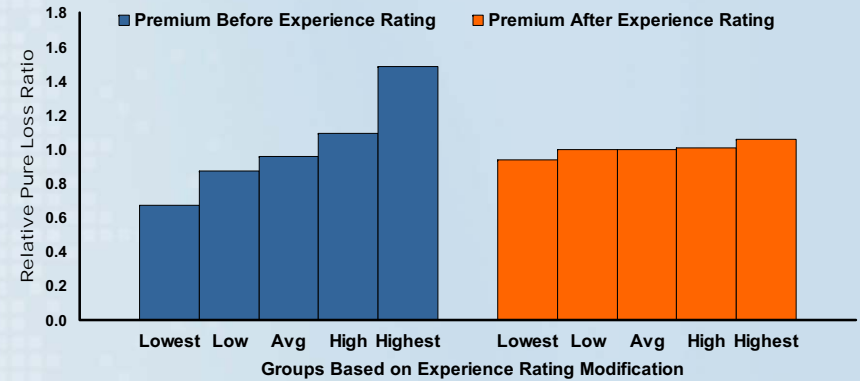
56

## Experience Rating Plan

- ✱ NCCI is conducting a major review of the Experience Rating Plan over the next two years
- ✱ Review will involve analysis of all parameters
- ✱ Additionally, we will investigate eligibility criteria
- ✱ Analysis to date reveals the plan is performing very well across hazard groups and policy sizes

## Experience Rating Plan Performance Testing

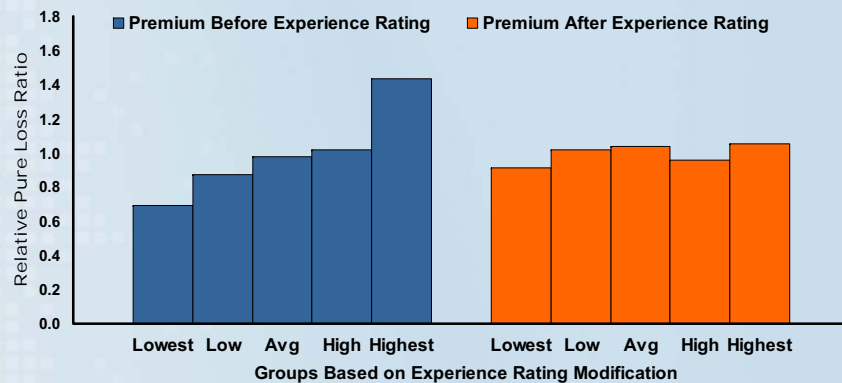
All Risks



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003 developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

## Experience Rating Plan Performance Testing

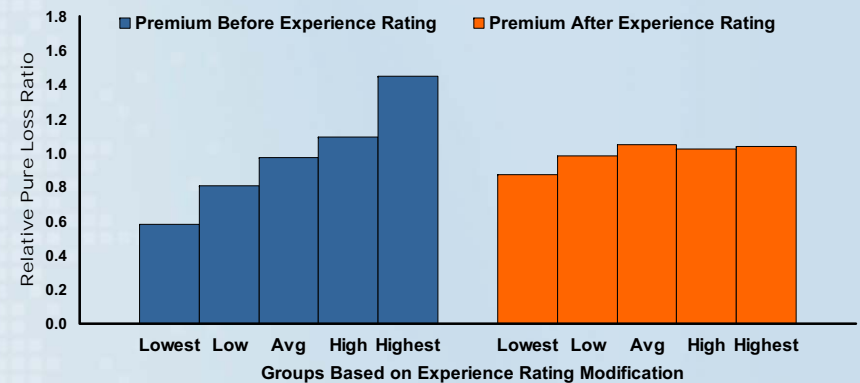
Risks With Expected Losses Between \$10,000–\$99,999



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003 developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

## Experience Rating Plan Performance Testing

Risks With Expected Losses Between \$100,000–\$999,999

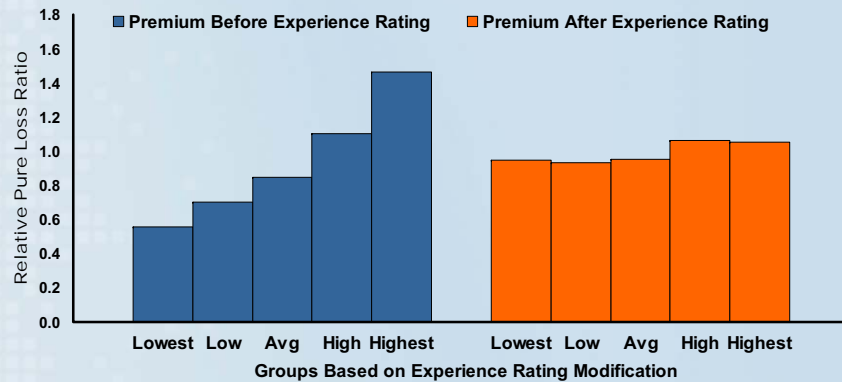


Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003 developed up to Third Report for states where NCCI promulgates the Experience Rating Modification



## Experience Rating Plan Performance Testing

Risks With Expected Losses Between \$1,000,000–\$10,000,000



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003 developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

**AIS**  
Annual Issues Symposium  
2008

61

## Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA)

**AIS**  
Annual Issues Symposium  
2008

62

## Terrorism Risk Insurance Provisions

| Provision                       | Original (TRIA)   | Extension (TRIEA)   | Revision and Extension (TRIPRA)  |
|---------------------------------|---|---|--|
| Coverage                        | Most commercial lines (med. mal., financial guaranty specifically excluded) | All current TRIA lines (except comm. auto, surety, prof. liability, farmowners, burglary and theft) | No new lines of insurance added<br>Eliminated distinction between foreign and domestic terrorism |
| Retentions                      | 7%–10%–15%  | 17.5%–20%   | 20%  |
| Fed. Contrib./Insurer Co-Pay    | 90%–10%   | 90%–10% (yr. 1)<br>85%–15% (yr. 2)  | 85%–15%  |
| Federal Program Payment Trigger | \$5M  | \$5M (yr. 1 through 3/31/06)<br>\$50M (yr. 1 after 3/31/06)<br>\$100M (yr. 2)                       | \$100M   |
| Expiration                      | 12/31/05  | 12/31/07  | 12/31/14   |

**AIS**  
Annual Issues Symposium  
2008

63

## NCCI Response to TRIPRA

- NCCI has received updated terrorism model results from EQECAT
- A national filing is anticipated around June 1 with a proposed effective date of September 1, 2008
- Separate state filings will be made in states that have not approved the DTEC provision
- Statistical Code 9740 will be redefined from foreign terrorism to all certified acts of terrorism
- Statistical Code 9741 will be redefined from DTEC to other than certified acts of terrorism

DTEC—Domestic Terrorism, Earthquake, Catastrophic Industrial Accidents

**AIS**  
Annual Issues Symposium  
2008

64

## Concluding Remarks

## In Summary

### Positives

- \* Underwriting results
- \* Frequency continues to decline
- \* Strongest reserve position in over two decades
- \* Residual market depopulation continues
- \* Terrorism backstop renewed for seven years

### Negatives

- \* Low investment returns continue to put pressure on underwriting results
- \* Medical costs still above inflation
- \* Uncertain political fallout for industry
- \* Underwriting cycle

## Questions and More Information

- \* Questions on the State of the Line presentation?  
E-mail us at [stateoftheline@ncci.com](mailto:stateoftheline@ncci.com)
- \* Download the complete presentation materials and watch a video overview of the State of the Line at [ncci.com](http://ncci.com)