

**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: Dan Honey, Deputy Commissioner, Compliance
Arkansas Insurance Department**

Approved by: Jay Bradford, State Insurance Commissioner

Date Submitted: November 4, 2013

REPORT TO THE LEGISLATURE ON ACT 796 OF 1993 THE STATE OF THE WORKERS' COMPENSATION MARKET FOR YEAR ENDING 2012

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 because of Act 796.

Arkansas continues to enjoy a competitive workers' compensation market with the continuing effects of Act 796 of 1993.

In the most recent data available, Arkansas had a combined loss ratio of 91% 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 2012, NCCI filed for decreases in both the voluntary market loss costs (-7.4%) and assigned risk plan rates (-6.7%). Several factors and trends in the industry may affect future rates. These factors include changes in claim frequency, 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 2001 saw our first increase in the assigned risk plan rates while experiencing a decrease in the voluntary market. In 2011, Arkansas had the lowest loss costs in the region per \$100 of payroll (\$0.91) compared to the regional average loss cost of \$1.43 and the countrywide average loss cost of \$1.16. The average rates in 2011 were -53% from 1996 when the law changes went into effect. There are still positive effects from this Act that benefit Arkansas employers.

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%

Year	Voluntary Market	Assigned Risk Plan
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%
2009	-7.0%	-6.4%
2010	1.9%	4.5%
2011	-5.8%	-9.7%
2012	-7.4%	-6.7

PAYROLL AND EXPERIENCE MODIFIER

Reported payroll in Arkansas continues to increase while premiums for insureds continue to decrease. The average experience modifier has decreased minimally (0.984 from 0.985). This 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. The 2011 countrywide average experience modifier is 0.987. Please refer to Exhibit "A" for additional statistical information regarding premiums.

ASSIGNED RISK PLAN

The assigned risk plan has seen a history of decline in population since the passage of Act 796 except for a gentle upward trend during 2002 through 2004. It is down from a record high of \$150,000,000 in 1993, to a low of \$6,566,275 in September 2000. The current recession has affected the market, causing voluntary carriers to tighten underwriting and increase their minimum premiums. The assigned risk premium volume for 2012 was \$17,712,749 as compared to \$11,927,657 for 2011. Due in part to the economy, the assigned risk plan has continued to grow. In 2012 the carriers continue to decline to write small policies, which is one factor in the growth of the assigned risk plan to \$19,189,973. It is anticipated that the assigned risk plan will continue to grow due to the voluntary carriers changing underwriting rules. 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 2012, small premium employers (less than \$2,500 in annual premium) constituted approximately 78% of the plan policy volume with an average of \$872 in premium per policy.

Average plan premium per policy at the end of 2012 was \$3,227 for all 5,488 policies in the plan.

In 2008, NCCI filed a Voluntary Coverage Assistance Program (VCAP), which has helped to remove some employers from the assigned risk plan by allowing voluntary carriers to file their underwriting guidelines for comparison to new applications submitted. When an application is received by NCCI, it is compared to the filed guidelines and if the risk appears to meet a company's guidelines, the application will be forwarded to the insurer to determine whether they will make a voluntary offer of coverage. This program was approved effective October 1, 2008. By December 31, 2011, 89 employers were removed from the assigned risk plan with a premium of \$358,569.78. These policyholders saved a total of \$80,642.78. We believe that as carriers become more familiar with this program, the number of policyholders taken out of the plan will continue to grow as will policyholder savings.

PLAN ADMINISTRATION/SERVICING CARRIERS

The NCCI is an "Advisory Organization" licensed in Arkansas to assist its member insurers with ratemaking and data collection activities. Effective July 1, 2009, the Commissioner re-appointed NCCI as Administrator for the Arkansas assigned risk plan until at least July 1, 2013.

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 presenting the opportunity to improve existing systems and procedures. The most recent examination found concerns about statistical reporting and error correction. These concerns were remedied and are monitored by the working group of the NAIC. These errors 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. A current multi-state examination is in progress and Arkansas is participating in this examination, as well.

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 Exhibit “A” entitled *State Advisory Forum 2013* and Exhibit “B” entitled *Arkansas Residual Market 2nd Quarter 2013 Status Report*; and 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 with 95% of applications being submitted online in 2010.

The Annual Servicing Carrier Performance Review conducted by NCCI reveals either “Commendable” or “Satisfactory” scores for all areas for Arkansas’ servicing carriers. For the period commencing January 1, 2011, through December 31, 2013, the servicing carriers are Travelers Indemnity Company, Liberty Insurance Corporation, and Riverport Insurance Company (W.R. Berkley Group).

SUMMARY OF INSURANCE DEPARTMENT’S CRIMINAL INVESTIGATION DIVISION

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 about 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 for a prosecutor 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 noted 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 (The Act) 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 2011 reporting period, there were 39 workers compensation investigations opened. Three cases were referred to prosecution. The investigative work continues on many of the cases that have been referred. Since the creation of the division in 1993, 151 cases have been referred for prosecution, which resulted in 110 convictions. Out of these 151 cases, only three prosecutions have resulted in acquittals. In the remaining 35 cases, the charges were not filed or dropped.

2012 LEGISLATIVE ACTIVITY WITH REGARD TO WORKERS' COMPENSATION

SELECTED WORKERS' COMPENSATION CASES **FISCAL YEAR 2012**

Arkansas Supreme Court

Tyson Poultry v. Narvaiz, 2012 Ark. 118, 2012 WL 859592 (2012): An Administrative Law Judge found that the Claimant was not entitled to additional temporary total disability or wage loss disability benefits, since he had been terminated for misconduct that occurred while the Claimant was working light duty. The Full Commission reversed the Administrative Law Judge, and reasoned that termination for misconduct did not amount to a refusal of "suitable employment" within the meaning of Ark. Code Ann. §11-9-526. In so doing, the Commission relied on the Arkansas Court of Appeals' previous decision in *Superior Industries v. Thomaston*, 72 Ark. App. 7, 32 S.W.3d 52 (2000), in which the court strictly construed §526 and held that termination for conduct was not a refusal of employment, but rather was an option exercised by an employer. In the present case, however, the Court of Appeals reversed the Full Commission, stating that its prior construction of the statute in *Thomaston* was "unwarranted" to the extent it implied that no act of misconduct could ever constitute a refusal of employment. In essence, the Court of Appeals in the present matter expressly limited its prior holding in *Thomaston* to its

own facts. But upon petition for review, the Arkansas Supreme Court affirmed the Full Commission and vacated the Court of Appeals' decision: "The Commission's reliance on *Thomaston* was well-placed for making the determination that Appellee's termination for misconduct was not a sufficient basis for a finding that he refused suitable employment." The Supreme Court further reasoned that the Court of Appeals' previous decision in *Thomaston* had been rendered twelve years prior to the present matter, and that the Arkansas General Assembly had taken no action to alter it. The Supreme Court also noted that here, it had not been given "any compelling reason" for abandoning the prior judicial interpretation of the statute made by the Court of Appeals.

Arkansas Court of Appeals

Leach v. Cooper Tire and Rubber Co., 2011 Ark. App. 571, 2011 WL 4477865 (2011): The Full Commission affirmed and adopted an Administrative Law Judge's findings that the Claimant had sustained a compensable back injury on March 10, 2007, but had failed to prove a compensable head injury or entitlement to permanent partial disability benefits. In particular, the Commission found that the Claimant had failed to prove that his compensable back injury, rather than his degenerative disk disease, was the "major cause" of his permanent disability. On appeal, the Claimant asserted that the Commission erred in denying his claim for wage loss disability, but did not challenge the denial of his head injury claim. The Respondents cross-appealed the Commission's finding that the Claimant had sustained a compensable back injury. The Arkansas Court of Appeals held that substantial evidence supported the Commission's finding of a compensable back injury, but reversed as to the Commission's wage loss findings. In reaching its conclusions, the Commission had determined that the Claimant's impairment rating was solely attributable to his pre-existing degenerative condition. Upon review, however, the Court noted that "...merely identifying a preexisting degenerative condition will not support a finding that Leach failed to prove major cause. It was also necessary for the Commission to determine whether the preexisting condition was symptomatic prior to the March 10, 2007, compensable accident." Given the lack of evidence of any back-related limitations or pain prior to the date of injury, and noting that the Claimant's back was symptomatic after the injury, the Court held that the major cause requirement had been satisfied and remanded to the Commission to assess its own impairment rating under the *Guides to the Evaluation of Permanent Impairment*, 5th ed.

Clevenger v. City of Jonesboro, 2011 Ark. App. 579, 2011 WL 4585587 (2011): The Claimant sustained a compensable back injury and reached the end of his healing period in March, 2006. He was unable to return to his job and began receiving monthly disability retirement in the amount of \$2,311.80. Before the Arkansas Workers' Compensation Commission, the Claimant asserted that he was entitled to wage loss disability benefits and that the City of Jonesboro was not entitled to an offset against his disability retirement pursuant to Ark. Code Ann. §11-9-411. An Administrative Law Judge found in the Claimant's favor and, relying on a 2009 amendment to the statute, determined that the City could not take an offset since the Claimant had part for a portion of his disability retirement. However, the Full Commission reversed, finding that the 2009 amendment was substantive in nature rather than procedural, and thus could not be retroactively applied to a 2006 claim. The Arkansas Court of Appeals agreed that the 2009 amendment was substantive. In particular, the Court stated that

“Here, prior to 2009, the employer had a vested right to a setoff, yet after the amendment that right was obliterated. Our case law directs that any changes in statutes relating to vested rights are characterized as substantive in nature and require application of the law as it existed at the time the claimant sustained a compensable injury.” (Citing *Ark. State Police v. Welch*, 28 Ark. App. 234; 772 S.W.2d 620 (1989.)

Ard v. Death & Permanent Total Disability Trust Fund, 2011 Ark. App. 774, 2011 WL 6184493 (2011): Following an award of permanent and total disability benefits, the Claimant’s attorney sought payment of attorney’s fees in lump sum. Respondent Carrier agreed to pay its share in lump sum. However, the Death and Permanent Total Disability Trust Fund, which was responsible for withholding and paying the Claimant’s one-half share of attorney’s fees, declined. The Fund argued that a lump-sum fee would “force it to assume the risk of overpayment should either the appellant or the attorney die or should the appellant become ineligible to receive benefits...prior to the Fund’s ability to recoup the lump-sum payment out of weekly benefits being paid to the appellant.” An Administrative Law Judge ruled against the Fund, but the Full Commission reversed, finding that “appellant failed to present any compelling reason for the Commission to order the Fund to pay attorney’s fees in a lump sum.” On further appeal, the Arkansas Court of Appeals affirmed the Full Commission, holding that there was “nothing in Ark. Code Ann. §11-9-716 that requires the Commission to approve a lump-sum payment of the entire amount of an attorney’s fee or that prohibits the Commission from approving a plan by which an attorney’s fee is paid partly by lump-sum and partly in installments.” The Court further concluded that it would not interfere with the Commission’s findings on attorney’s fees absent an abuse of discretion, “a high threshold that does not simply require error in the decision, but requires that the tribunal act improvidently, thoughtlessly, or without due consideration.” (Citing *Bailey v. Delta Bank & Trust*, 359 Ark. 424, 198 S.W.3d 506 (2004).

Contreras v. Pinnacle Foods Corp., 2011 Ark. App. 780, 2011 WL 6189470 (2011): Here, the Arkansas Court of Appeals affirmed the Commission’s denial of additional benefits under Ark. Code Ann. §11-9-505(a). To obtain such benefits, a claimant must prove four elements: (a) the occurrence of a compensable injury, (b) the existence of suitable employment within his physical and mental limitations with the employer, (c) a refusal by the employer to return him to work, and (d) that said refusal was unreasonable. The Commission found that the Claimant had demonstrated the first two elements, but had failed to show that his job on the clean-up crew was “suitable work” or that the refusal to return him to work was unreasonable. In particular, the Commission found that “the employer was not provided any medical documentation of appellant’s condition prior to being presented this return-to-work form, and it was not unreasonable for the employer to ask him to be evaluated by the company physician prior to returning him to work.” The Court held that it was the Claimant’s burden to show that the employer’s refusal was “without reasonable cause,” and that there had been substantial evidence to support the Commission’s conclusion.

Southwestern Energy Co., Inc. v. Ezell, 2011 Ark. App. 782, 2011 WL 6189477 (2011): In this instance, the Arkansas Court of Appeals reversed the Commission’s award of a 12% wage-loss disability rating where the Claimant had voluntarily quit his employment rather than accept a temporary demotion related to his performance. In particular, the Court reasoned that

“Notwithstanding his impairment rating and his ongoing medical treatment, the evidence shows that Mr. Ezell returned to work in the same position and at the same wages he received at the time of injury before quitting for reasons unrelated to his injury. Therefore, he was not entitled to any permanent-partial-disability benefits in excess of his impairment rating.”

Flores v. Walmart Distribution, 2012 Ark. App. 201, 2012 WL 723252 (2012): The Claimant sustained compensable injuries to her lower back and coccyx on April 30, 2005. After receiving benefits for a time, the Claimant filed an AR-C with the Arkansas Workers’ Compensation Commission on June 29, 2005, requesting additional medical treatment, additional temporary total disability, and an attorney’s fee. Following a hearing, an Administrative Law Judge entered an opinion on September 6, 2006, finding that the Claimant was entitled to a TENS unit and additional temporary total disability from June 17, 2005, through June 30, 2005. Neither party appealed. The Claimant eventually reached maximum medical improvement in September, 2005, and received a 2% anatomic impairment rating for her fractured coccyx. The Claimant returned to work for Respondent Employer for a time, but then left due to her assertion that she was “physically unable to perform her job duties.” After working for several other employers, the Claimant stopped working altogether in October, 2009, due to complaints still associated with her 2005 injury. On April 8, 2009, the Claimant requested a hearing with regard to her entitlement to additional medication and medical treatment from one of her physicians. Although the Commission set the matter for a hearing on June 29, 2009, the parties requested that it be cancelled and that the claim be returned to the Commission’s general files pending further action. On October 7, 2009, the Claimant again requested a hearing on the issue of additional medical, and in her subsequent pre-hearing filing of October 11, 2009, added the extent of anatomic impairment, wage-loss disability, and attorney’s fees as additional issues to be litigated. Following a hearing on these matters, an Administrative Law Judge found that the claims involving the extent of impairment and wage loss disability were barred by the statute of limitations “because they were not brought within two years of the date of her work injury or within one years of the date of the last payment of compensation on July 6, 2009. At the same time, the Administrative Law Judge found that the second claim for additional medical, originally requested on April 8, 2009, had been timely filed. In its opinion of July 5, 2011, the Full Commission subsequently affirmed and adopted the Administrative Law Judge’s findings. On appeal to the Arkansas Court of Appeals, the Claimant argued that the Commission’s decision was erroneous as a matter of law; in particular, the Claimant asserted that her claims for permanent disability could not be time-barred so long as her claim for medical treatment remained open, because there could not yet have been a “last payment of compensation.” Relying on the Arkansas Supreme Court’s prior holding in *Stewart v. Arkansas Glass Container*, 2010 Ark. 198, ___ S.W.3d ___ (20??), the Court of Appeals affirmed the Commission in the present matter, noting that in *Stewart* “[T]he Supreme Court held that a request for additional compensation that is not acted upon only tolls the statute of limitations with respect to that particular claim, and therefore, Stewart’s earlier requests for medical benefits could not have tolled the statute of limitations for all other claims for benefits that were not requested at that time.” Although the Claimant attempted to distinguish *Stewart* from the present matter, the Court of Appeals concluded that it had been correctly applied: “Here, as in *Stewart*, although Flores filed a timely request for additional medical treatment, she failed to request permanent disability benefits until October 11, 2010, more than one year after the last payment of compensation by Walmart, which the parties stipulated was on July 6, 2009.

NATIONAL MARKETS IN GENERAL

While Arkansas has seen increases in the average indemnity and medical cost per lost time claim, claims frequency continues to decline. Arkansas's market remains strong and competitive.

The attached state of the industry report Exhibit "C" entitled State of the Line graphically depicts the sound condition of the workers compensation marketplace; still, the NCCI continues to discover that workers' compensation results are affected by a number of factors that are having a negative impact on the market:

- lower earnings relating to investments;
- 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: November 4, 2013

cc: The Honorable Mike Beebe, Governor
The Honorable A. Watson Bell, Chairman, AWCC
The Honorable Karen H. McKinney, Commissioner, AWCC
The Honorable Philip Alan Hood, Commissioner, AWCC
Mr. James W. Daniel, Chief Executive Officer, AWCC
Ms. Lenita Blasingame, Insurance Chief Deputy Commissioner, AID
Mr. Nathan Culp, Public Employee Claims Division Director, AID
Mr. Greg Sink, Criminal Investigation Division Director, AID
Ms. Alice Jones, Public Information Manager, AID

Exhibit A



Arkansas

State Advisory Forum 2013

June 13, 2013

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Arkansas Workers Compensation State Advisory Forum

- 9:00 State of the Industry
- Arkansas Workers Compensation System Overview
 - NCCI Filing Activity
 - State of the Economy
 - Legislative Issues Nationwide and in Arkansas
 - Arkansas Workers Compensation Commission Update
 - Arkansas Workers Compensation System Cost Drivers
 - Claim Frequency
 - Indemnity Severity
 - Medical Severity
 - Arkansas Residual Market
 - Closing Remarks



State of the Industry



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TR2

NCCI Market Outlook

- 2009—"Guarded"
- 2010—"Precarious"
- 2011—"Deteriorating"
- 2012—"Conflicted"
- **2013—"Encouraging"**

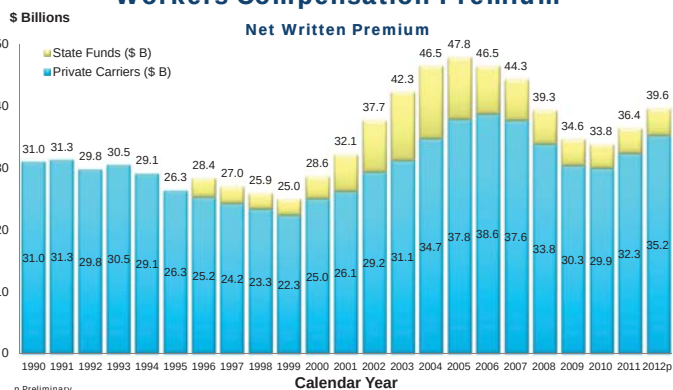


State of the Workers Compensation Market

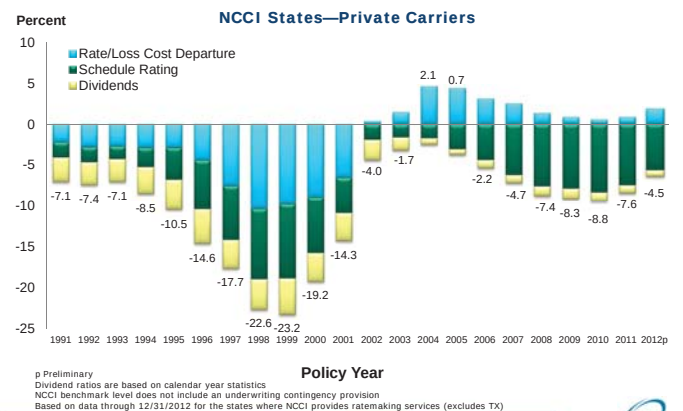
- Net premium volume increased
- Calendar year and accident year combined ratios remain high, but decreasing
- Lost-time claim frequency again decreased in 2012
- Medical severity up modestly
- Impact of federal healthcare reform, TRIA extension, and the economy remain uncertain



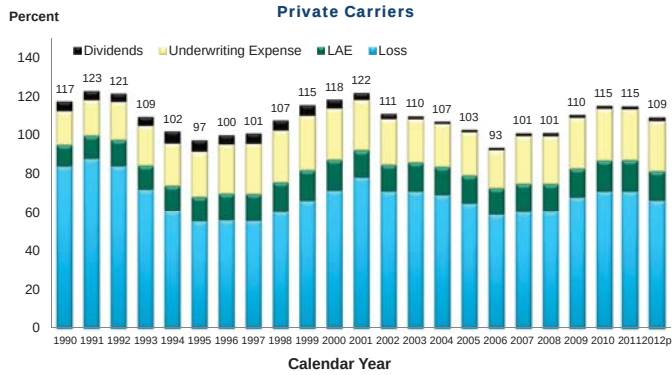
Countrywide Workers Compensation Premium



Countrywide Impact of Discounting on Workers Compensation Premium



Countrywide Workers Compensation Calendar Year Combined Ratio Improved

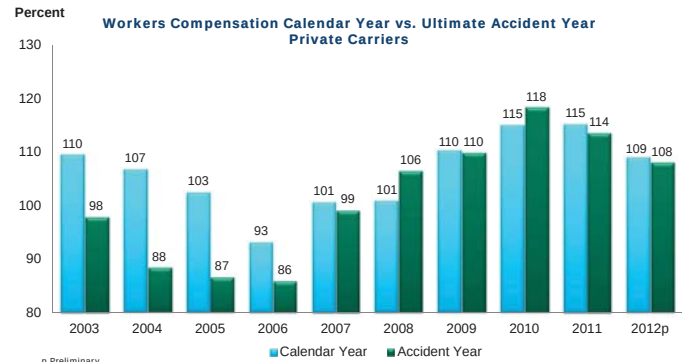


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Countrywide Accident Year Net Combined Ratios



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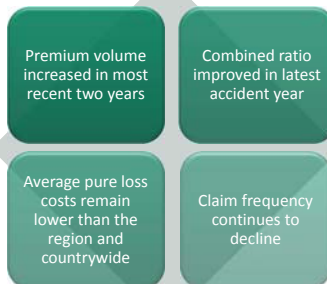
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Arkansas Workers Compensation System Overview



Arkansas Workers Compensation System— An Overview



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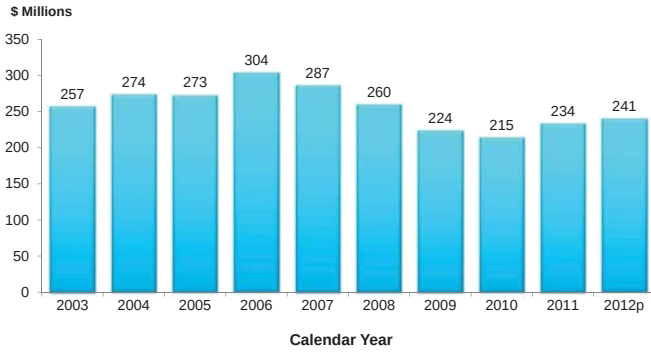
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Arkansas Workers Compensation Premium Volume

Direct Written Premium



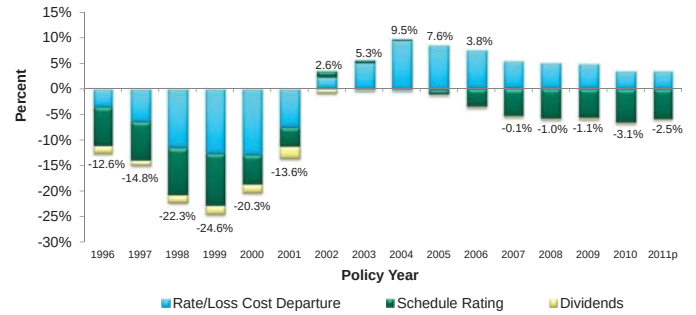
Source: NAIC Annual Statement data

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Impact of Discounting on Workers Compensation Premium in Arkansas



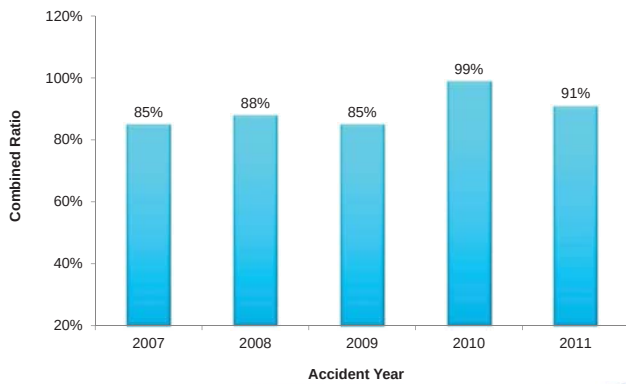
p Preliminary
Based on data through 12/31/2011
Dividend ratios are based on calendar year statistics

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Arkansas Accident Year Combined Ratios



Sources: NCCI financial data; NAIC Annual Statement data

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Results Vary From State to State

Accident Year 2011 Combined Ratios

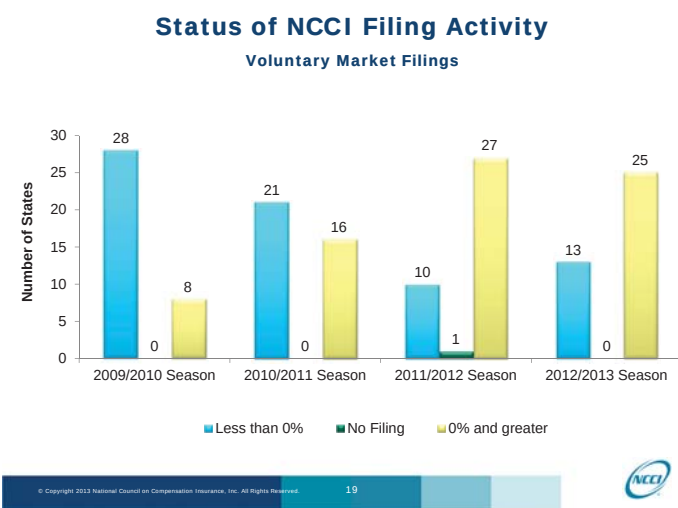
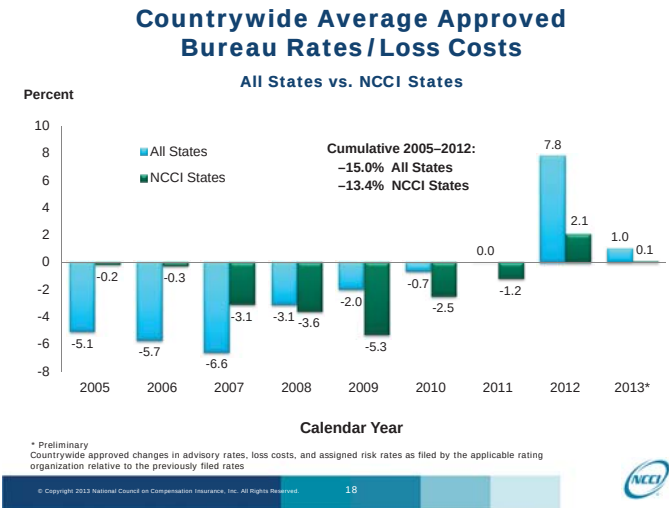
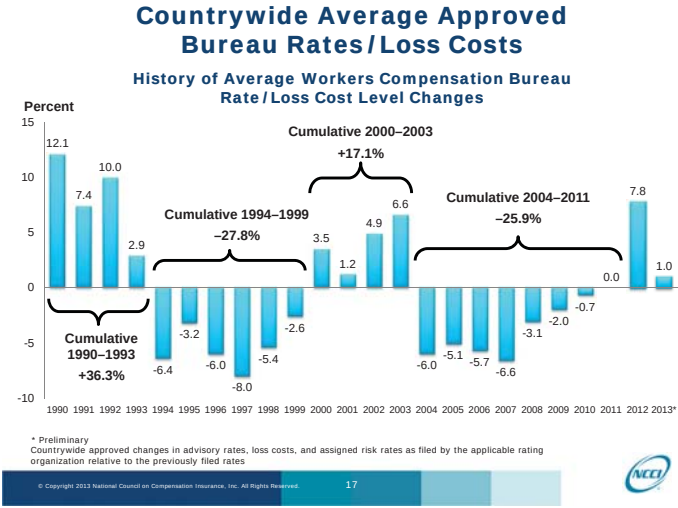


Data is evaluated as of 12/31/2011

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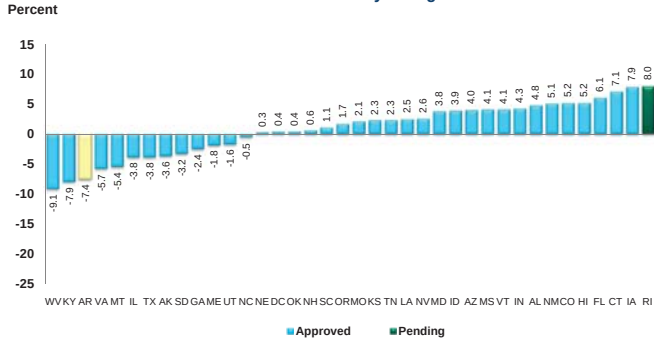
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Current NCCI Voluntary Market Rate / Loss Cost Level Changes

Excludes Law-Only Filings



Voluntary Market Approved Loss Cost Level Changes in Nearby States

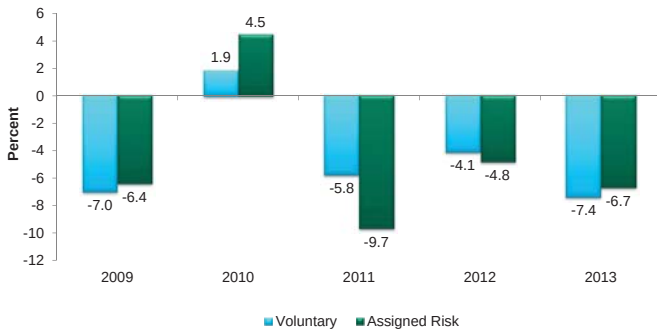
Alabama	3/1/13	+4.8%
Mississippi	3/1/13	+4.1%
Louisiana	5/1/13	+2.5%
Tennessee	3/1/13	+2.3%
Missouri	1/1/13	+2.1%
Oklahoma	1/1/13	+0.4%
Texas	6/1/13	-3.8%
Arkansas	7/1/13	-7.4%
Kentucky	10/1/12	-7.9%

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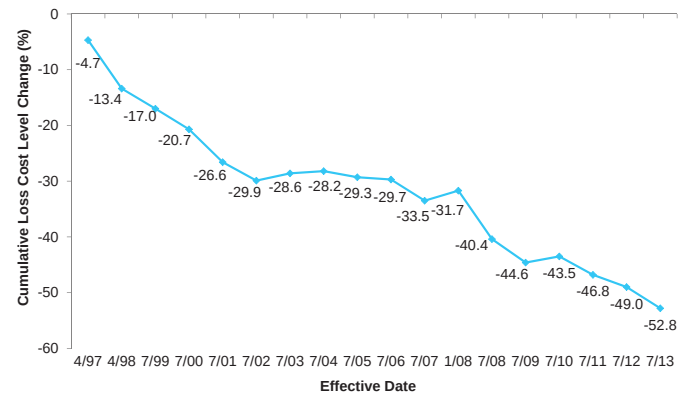
21

Arkansas Filing Activity

Voluntary Loss Cost and Assigned Risk Rate Changes



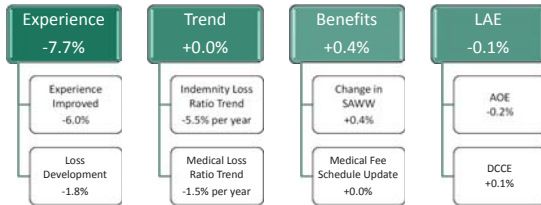
Arkansas Cumulative Loss Cost Level Change



Arkansas July 1, 2013 Loss Cost Filing

Overall Loss Cost Level Change -7.4%

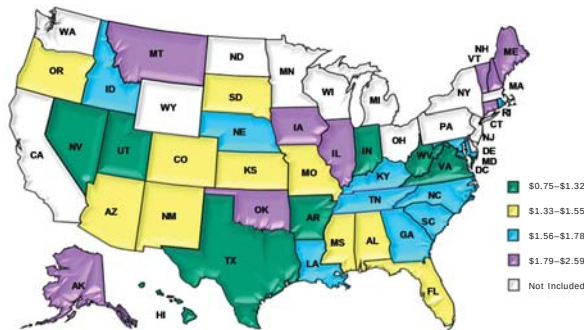
Changes due to:



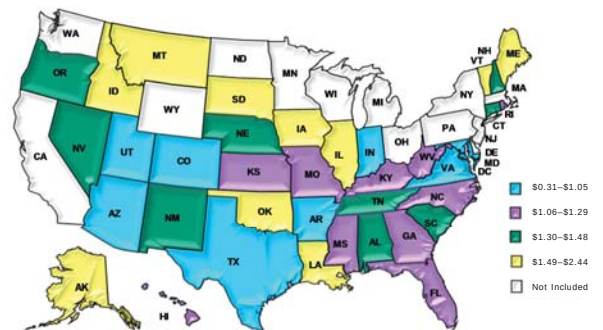
Current Average Voluntary Pure Loss Costs Using Arkansas Payroll Distribution



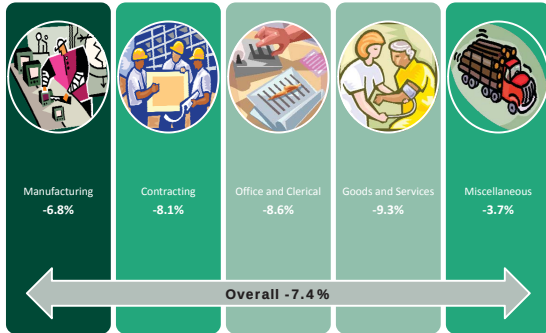
Average Voluntary Pure Loss Costs Quartiles Using Arkansas Payroll Distribution



Average Voluntary Pure Loss Costs Quartiles Using Each State's Own Payroll Distribution



Arkansas July 1, 2013 Filing Average Changes by Industry Group

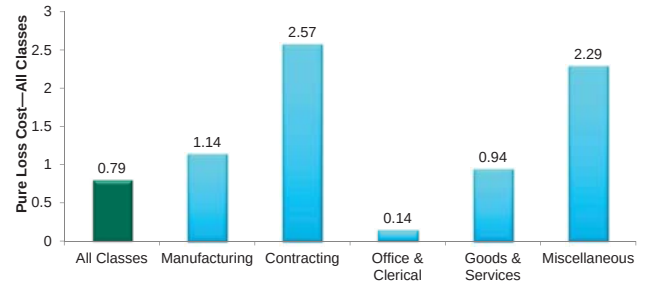


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Arkansas Current Average Voluntary Pure Loss Costs by Industry Group



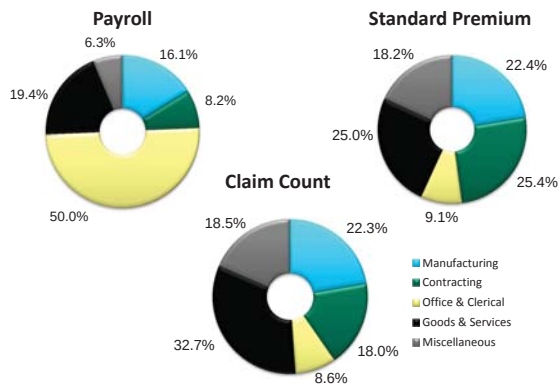
Based on the latest NCCI approved loss costs in AR

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Arkansas Current Distribution by Industry Group



Based on NCCI's Statistical Plan data

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State of the Economy



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The Macro View

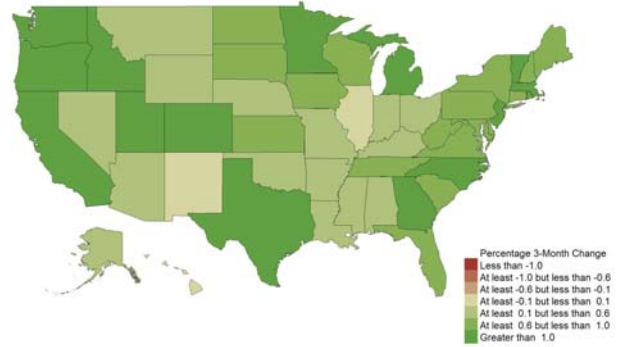
Following a Financial Crisis,
It Takes a Country About
10 Years to Return
to Normal Economic
Conditions



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There Are Signs of Modest Regional Growth

March 2013 Is Compared to December 2012



The map shows state coincidence indexes, which combine four state-level economic measures to summarize current economic conditions in a single statistic; the four data items are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (US city average). Frequency of observation: monthly; latest observation: March 2013; DC is not shown on the map. Source: FRB of Philadelphia, www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident

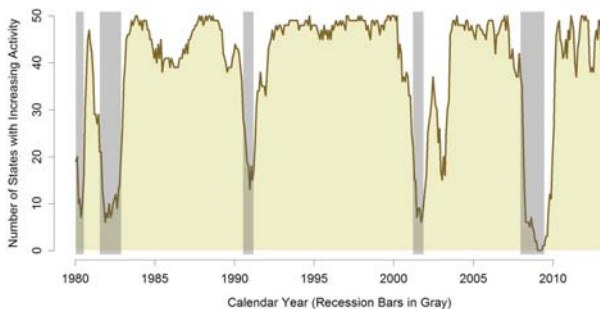
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Nearly All States Are in Expansion Mode

Comparison to Prior Month—Latest: March 2013



The chart shows the number of states for which the one-month change in the coincidence index of economic activity indicates an expansion; this index summarizes the state of the economy in a single statistic, using nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (US city average). Frequency of observation: monthly; latest observation: March 2013; does not include DC. Source: FRB of Philadelphia, www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident

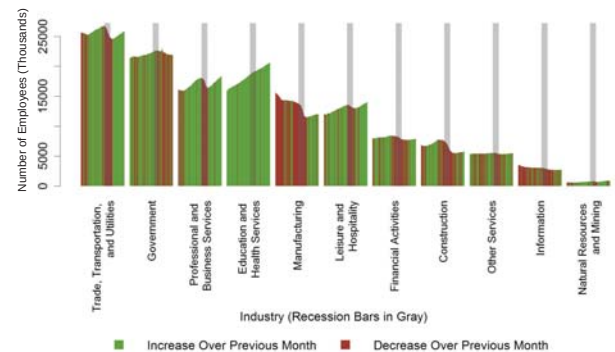
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The Industrial Structure Is Changing

Healthcare Employment Keeps Expanding Unabated



Nonfarm Employment, seasonally adjusted
Monthly employment shown for the period November 2001 through March 2013
Sources: FRED, research.stlouisfed.org/fred2/; US Bureau of Labor Statistics (BLS), www.bls.gov

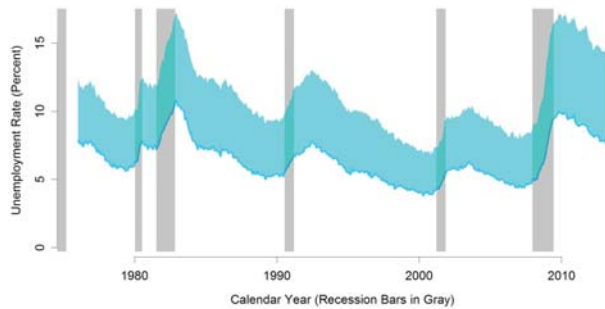
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The Unemployment Rate Is Trending Down

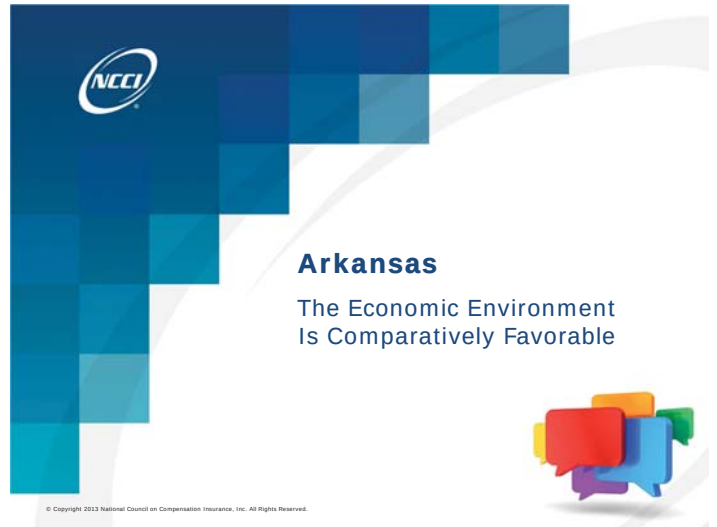
Official Unemployment Rate and U-6



U-6 measures the number of the unemployed and the marginally attached for economic reasons as a percentage of the labor force plus marginally attached; official unemployment rate and U-6 are seasonally adjusted; prior to 1994, U-6 unemployment are estimates from Moody's Analytics
Frequency of observation: monthly; latest available data point: March 2013
Sources: Moody's Analytics, www.economy.com; US Bureau of Labor Statistics (BLS), www.bls.gov

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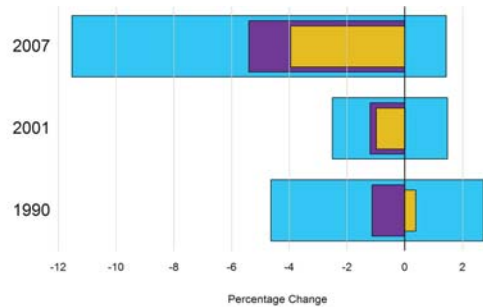
36



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Arkansas

Employment in the Past Three Recessions Fared Better Than Average



Range of US States United States Arkansas

Percentage change from the onset of the recession (peak of economic activity, as defined by the NBER) to the onset of the recovery (trough of economic activity); Current Employment Statistics Survey, seasonally adjusted
Frequency of observation: monthly; range of US states includes DC
Source: US Bureau of Labor Statistics (BLS), www.bls.gov/ces

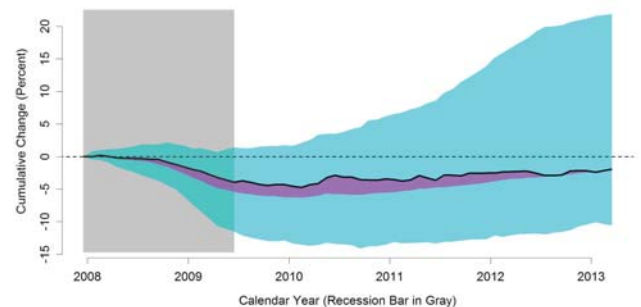
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Employment Remains Below the Prerecession Level



Arkansas Gap to United States Range of US States

Nonfarm Employment, seasonally adjusted
Frequency of observation: monthly; latest available data point: March 2013
Range of US states includes DC; tick marks indicate beginning of year
Source: US Bureau of Labor Statistics (BLS), www.bls.gov

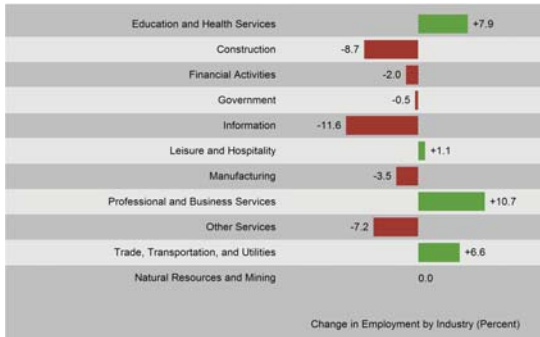
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A Few Sectors Have Added Jobs Since the Onset of the Recovery



Percentage change since the onset of the recovery (trough of economic activity, June 2009); Current Employment Statistics Survey, seasonally adjusted; frequency of observation: monthly; latest observed data point: March 2013
Source: US Bureau of Labor Statistics (BLS), www.bls.gov

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Employment Has Yet to Recover From the Recession in Several Industries



Percentage change since the onset of the recession (peak of economic activity, December 2007); Current Employment Statistics Survey, seasonally adjusted; frequency of observation: monthly; latest observed data point: March 2013
Source: US Bureau of Labor Statistics (BLS), www.bls.gov

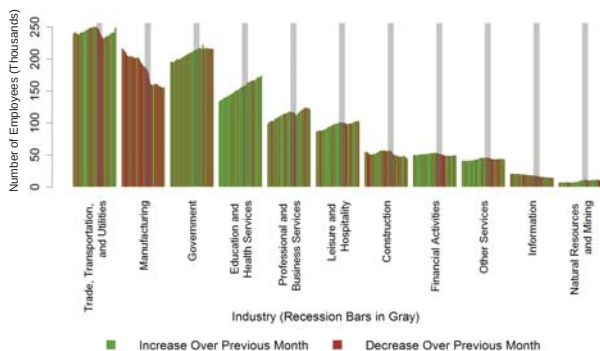
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Arkansas

The Industrial Structure Is Changing



Nonfarm Employment, seasonally adjusted
Monthly employment shown for the period November 2001 through March 2013
Sources: US Bureau of Labor Statistics (BLS), www.bls.gov; Moody's Economy.com

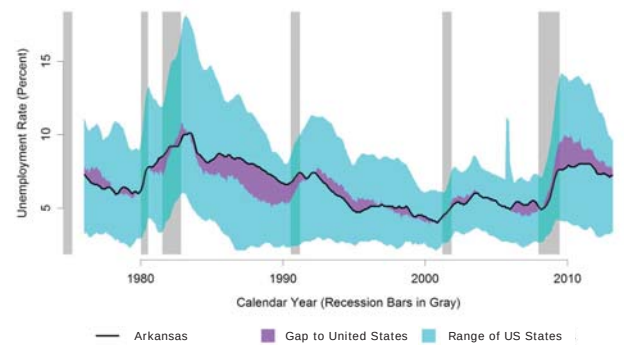
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The Unemployment Rate Is Slightly Below the National Average



Unemployment rate, seasonally adjusted; range of US states includes DC
Frequency of observation: monthly; latest available data point: March 2013
Source: US Bureau of Labor Statistics (BLS), www.bls.gov

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Arkansas Economy Weaknesses

- Low educational attainment
- High proportion of elderly residents, which limits labor force growth
- Relatively low per capita income

Arkansas Economy Strengths

- Low business costs
- Favorable location near roads and waterways
- Natural gas mining concentration
- Stability and growth potential from retail giant Walmart

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Arkansas Recent Performance

- Recovery lagging behind West South Central Region
- Manufacturing employment has yet to rebound
- Construction employment trending down
- Elevated corn and wheat prices restrain growth in food processing industry
- + Health services industry growth offsetting some of the weakness in other industries
- + Consumer industries picking up
- + Modest wage gains bring growth in household spending

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Legislative Issues Nationwide and in Arkansas



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Countrywide Legislative Environment

- Major focus on:
 - Medical cost containment initiatives
 - Physician and facility fee schedule updates
 - Physician-dispensed repackaged drugs
 - Pill mills
 - Opioid drug abuse
- Expansion of first responder compensability adding:
 - Mental injuries
 - Communicable diseases
 - Heart and hypertension
 - Additional job-related cancers
- Some states looked at benefit system improvements by successfully moving their court-based systems to administrative models
- Aside from Oklahoma and Tennessee enacting more broad-based reform initiatives, most states focused on parochial legislative issues



Federal Issues— Terrorism Risk Insurance Act

- TRIPRA sunsets December 31, 2014
- Proposed legislation:
 - H.R. 508 extends current program for 5 years
 - H.R. 1945 extends program for 10 years
- National Association of Insurance Commissioners—Working Group monitoring activity for Regulators
- National Conference of Insurance Legislators—Discussing at July meeting



Federal Issues— Terrorism Risk Insurance Act

NCCI Activity

- Engaged in educational efforts with members of Congress and stakeholder groups
- Reviewing current rules and forms for possible changes
- Updated information and FAQs can be found on **ncci.com**



Federal Activity— Terrorism Risk Insurance Act

NCCI Activity—Upcoming National Filing

- Notification that could be appended to workers compensation policies
- Clarifies that premium charge may continue to be applied or may change following expiration of TRIPRA
- Subject to regulatory review in accordance with applicable rating law



Workers Compensation Federal Issues

- Patient Protection Affordable Care Act (PPACA)
- Federal Insurance Office (FIO) Report
- Strengthening Medicare and Repaying Taxpayers Act (SMART Act)—Enacted January 10, 2013
- Misclassification of Workers—US Department of Labor to study

Arkansas Legislative Activity

■ SB 802: Act 1166

Establishes that an owner-operator that provides a commercial motor vehicle and the services of one or more drivers to a motor carrier under a written contract, and each driver so provided, is not an employee of the motor carrier but is an independent contractor of the motor carrier.

■ SB 1071: Act 1187

Provides that if the commissioner disapproves a rate, the insurer may request that the commissioner provide the insurer with the actuarial analysis, interpretation of statistical data, and other methodology that was reviewed by the commissioner or his or her staff.



Arkansas Regulatory Activity

Proposed Rule 099.40—Carrier Premium Tax Auditing

Every carrier writing workers compensation insurance in the State of Arkansas shall, upon request by the Commission, make available policy information sufficient to allow auditing of premium calculations to verify accurate payment of workers compensation premium tax in accordance with Ark. Code Ann. § 11-9-303.

Policy information shall include any information used by a carrier to determine written manual premium as defined in Ark. Code Ann. § 11-9-303 and shall be provided in a form and manner prescribed by the Commission.

A carrier's failure to comply with this rule shall result in said carrier being referred to the Insurance Commissioner for appropriate administrative action against the Arkansas certificate of authority of the carrier.



Arkansas Workers Compensation Commission Update

Watson Bell,
Chairman

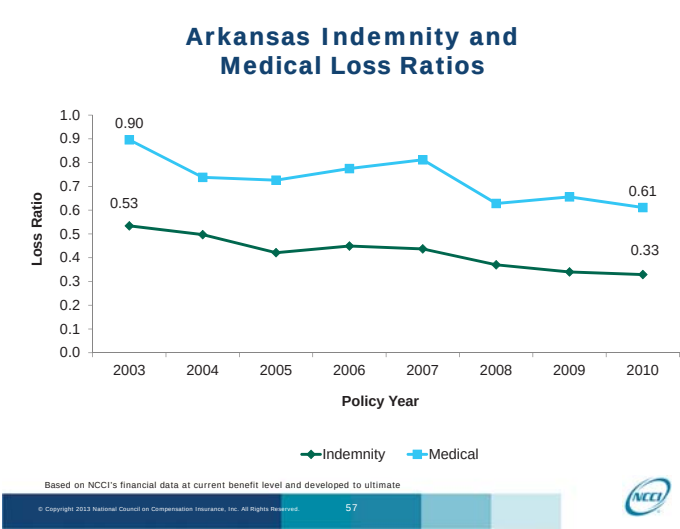




Arkansas Workers Compensation System Cost Drivers



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Arkansas Large Loss Summary Comparison Policy Years 2006–2010 at 12/31/2010 vs. 12/31/2011

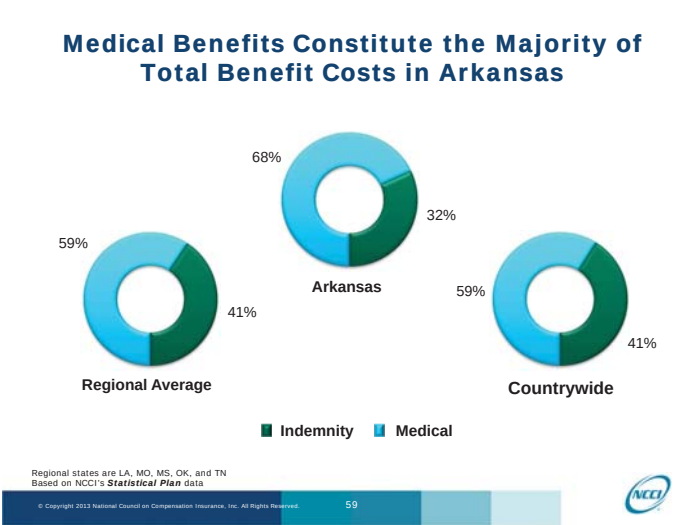
Reported Total Incurred Losses for Claims \$500,000 and Greater					
Policy Year	At 12/31/2010		At 12/31/2011		Difference
	Claim Count	Reported Losses	Claim Count	Reported Losses	
2006	14	\$21.3 M	11	\$18.8 M	-\$2.5 M
2007	19	\$27.9 M	21	\$29.1 M	\$1.2 M
2008	12	\$11.8 M	11	\$11.5 M	-\$0.3 M
2009	9	\$14.8 M	10	\$15.2 M	\$0.4 M
2010	5	\$5.6 M	9	\$12.6 M	\$7.0 M

July 1, 2013 Filing Experience Period

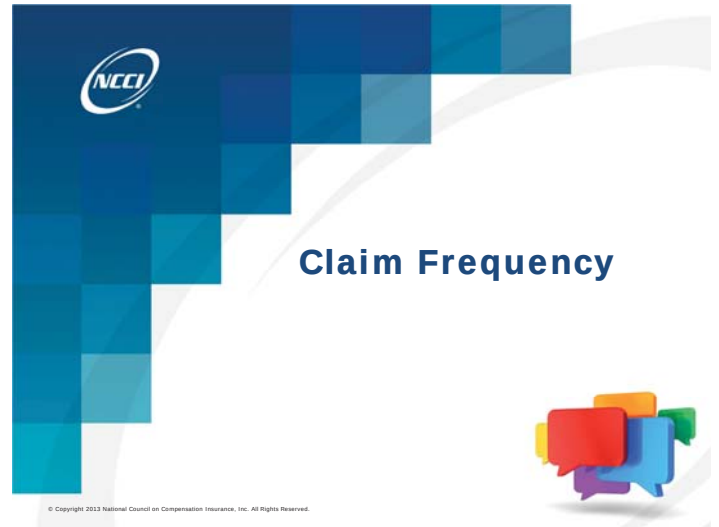
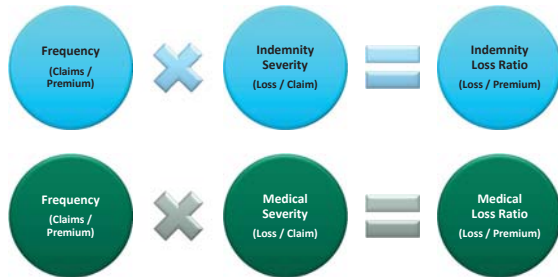
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What Drives Indemnity and Medical Loss Ratios?



Countrywide Workers Compensation Lost-Time Claim Frequency Resumes Historical Downtrend



* Adjustments primarily due to significant changes in audit activity

2012p: Preliminary based on data valued as of 12/31/2012

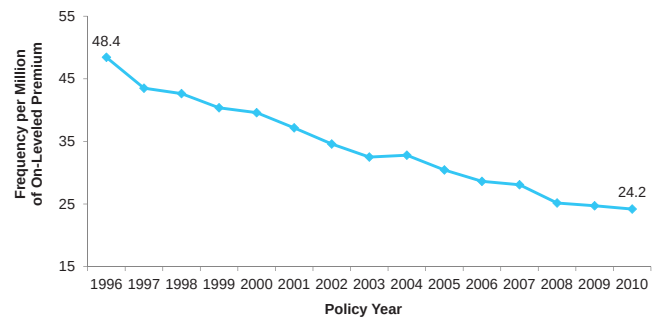
1991-2011: Based on data through 12/31/2011, developed to ultimate; excludes high deductible policies

Average frequency for the states where NCCI provides ratemaking services, excluding WV; including state funds

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



Arkansas Claim Frequency

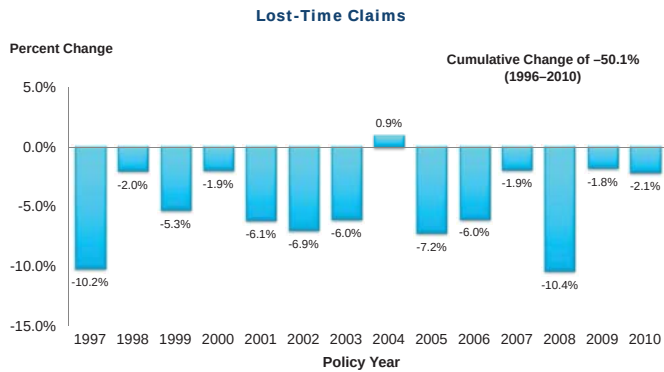


Based on NCCI's financial data

Frequency of lost-time claims adjusted to a common wage level

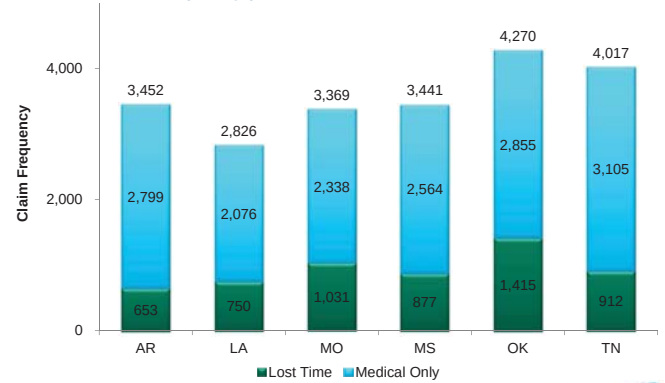


Arkansas Workers Compensation Lost-Time Claim Frequency

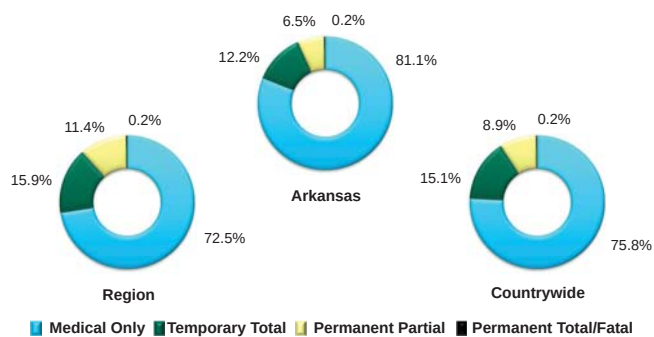


Arkansas Average Claim Frequency

Frequency per 100,000 Workers—All Claims

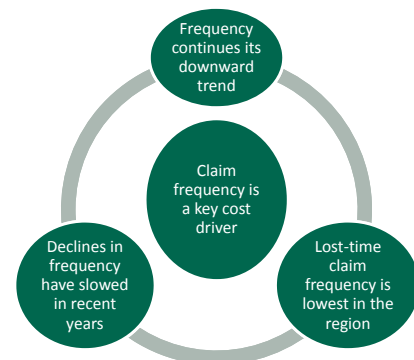


Arkansas Distribution of Claims by Injury Type



Regional states are LA, MO, MS, OK, and TN
Based on NCCI's *Statistical Plan* data

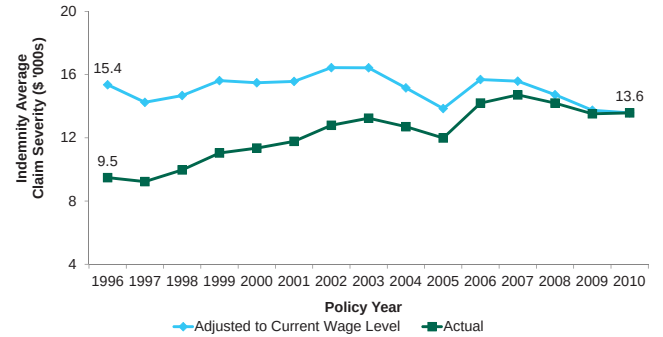
Key Takeaways— Arkansas Claim Frequency



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Arkansas Average Indemnity Severity



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

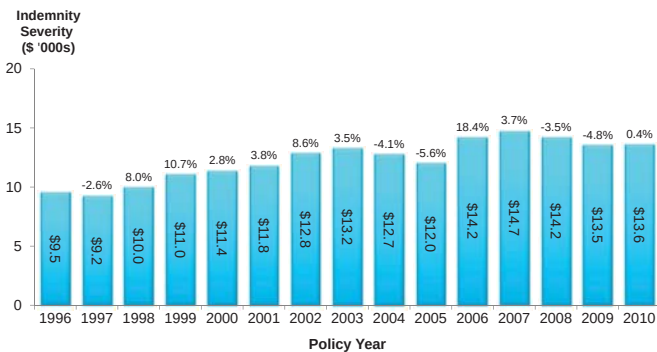
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Arkansas Average Indemnity Claim Severity

Lost-Time Claims



Based on data through 12/31/2011, on-leveled and developed to ultimate

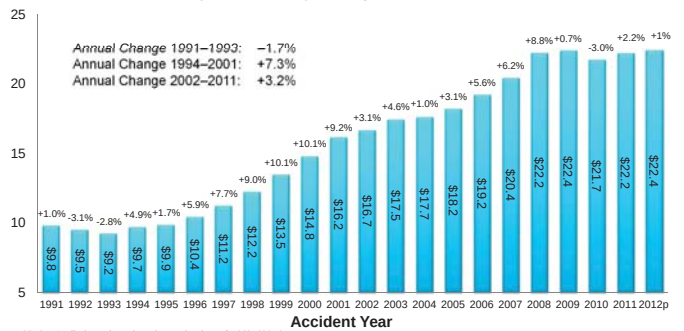
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Countrywide Workers Compensation Indemnity Claim Costs— Small Increase in 2012

Average Indemnity Cost per Lost-Time Claim



2012p: Preliminary based on data valued as of 12/31/2012

1991–2011: Based on data through 12/31/2011, developed to ultimate; excludes high deductible policies

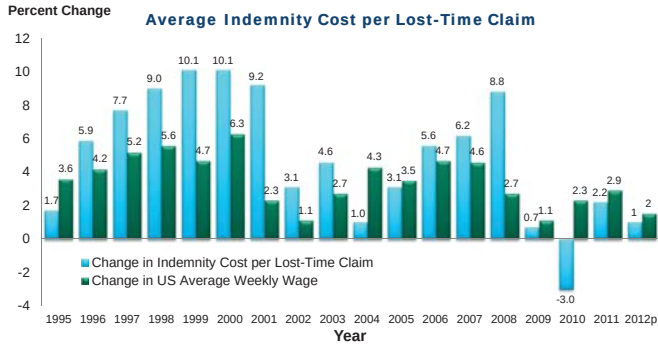
Average severity for the states where NCCI provides ratemaking services, including state funds; excluding WV

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Countrywide Workers Compensation Indemnity Severity— Small Increase in 2012

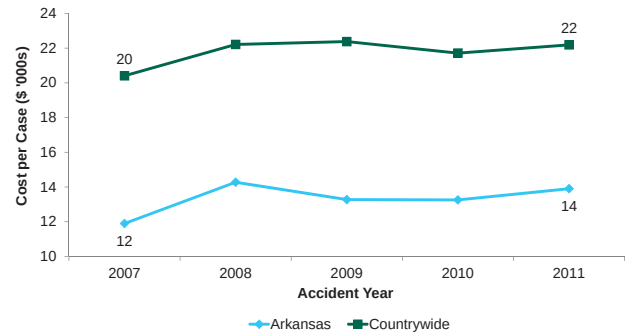


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Arkansas vs. Countrywide Average Indemnity Claim Severity



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Average Indemnity Claim Severity in the Region



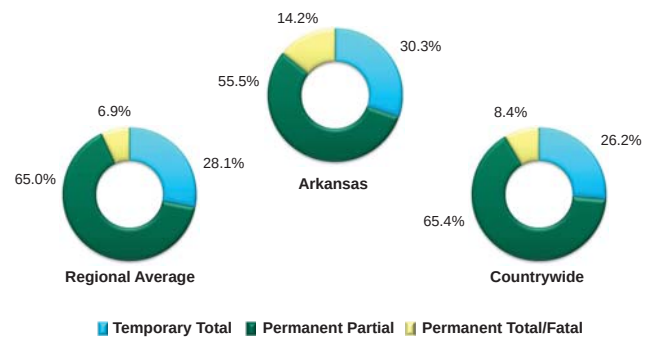
Based on NCCI's financial data for lost-time claims

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Arkansas Indemnity Loss Distribution by Injury Type



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

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Key Takeaways— Arkansas Indemnity Severity

Approximately
one-third of
benefit costs are
indemnity

Average
indemnity
severity remains
relatively stable

Average
indemnity
severity is lowest
in the region

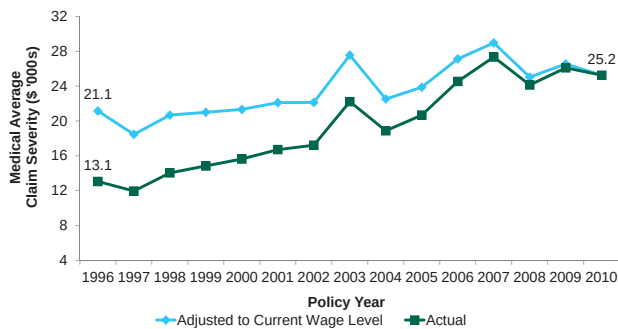
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Arkansas Average Medical Severity



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

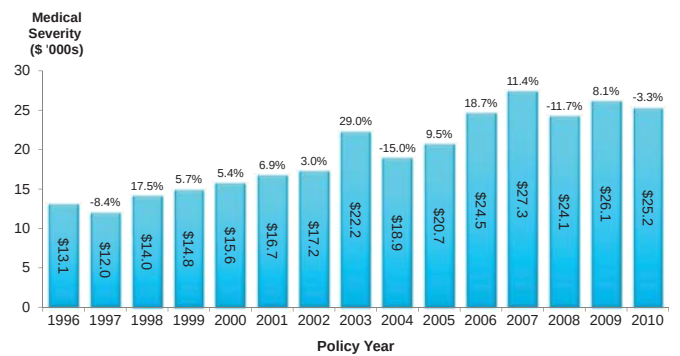
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Arkansas Average Medical Claim Severity

Lost-Time Claims



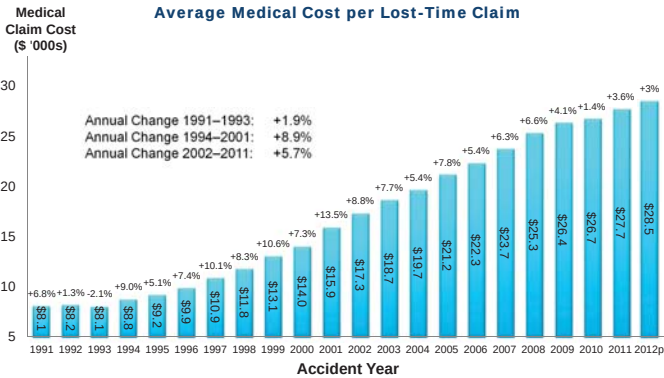
Based on data through 12/31/2011, on-levleed and developed to ultimate

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Countrywide Workers Compensation Medical Severity—Modest Increase in 2012

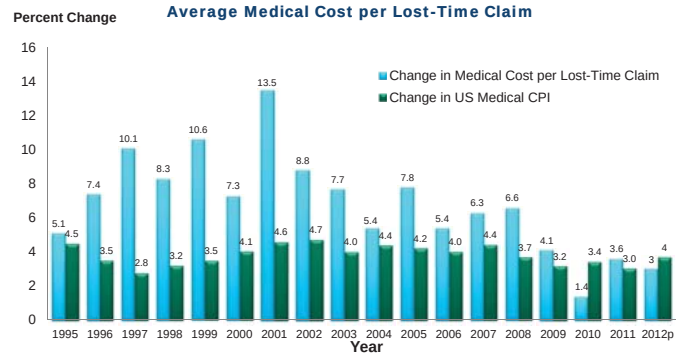


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Countrywide Workers Compensation Medical Severity—Modest Increase in 2012

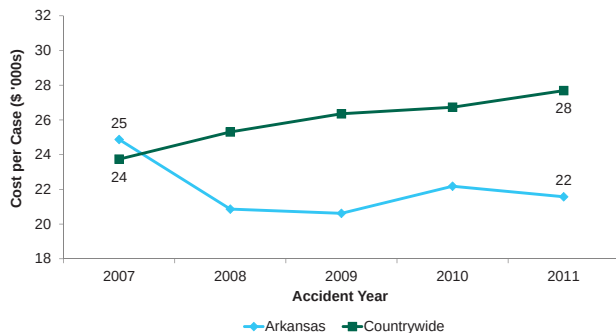


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Arkansas vs. Countrywide Average Medical Claim Severity



Source: NCCI Countrywide Frequency and Severity Analysis using financial data valued as of 12/31/2011

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Average Medical Claim Severity in the Region



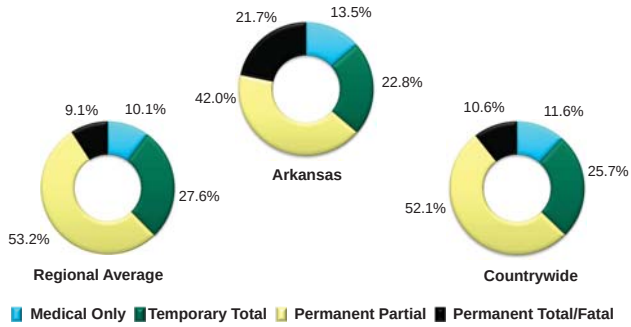
Based on NCCI's financial data for lost-time claims

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Arkansas Medical Loss Distribution by Injury Type



Regional states are LA, MO, MS, OK, and TN
Based on NCCI's *Statistical Plan* data

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Key Takeaways—Arkansas Medical Severity

Approximately two-thirds of benefit costs are medical

Long-term upward trend in average medical severity continues

Average medical severity is similar to that for other states in the region

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Arkansas Residual Market



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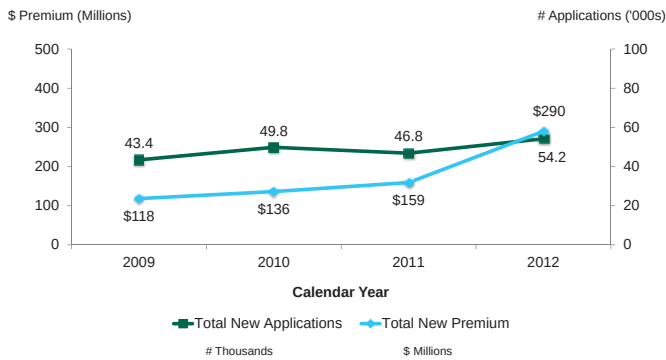
Residual Market Video Excerpt

Jim Nau
General Manager,
NCCI Residual
Markets



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

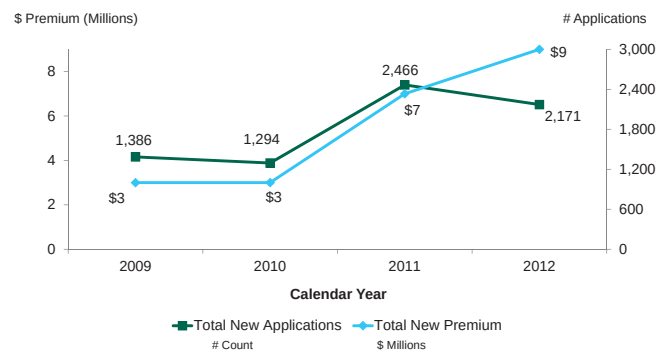


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Total Residual Market New Applications and Premium Assigned in Arkansas

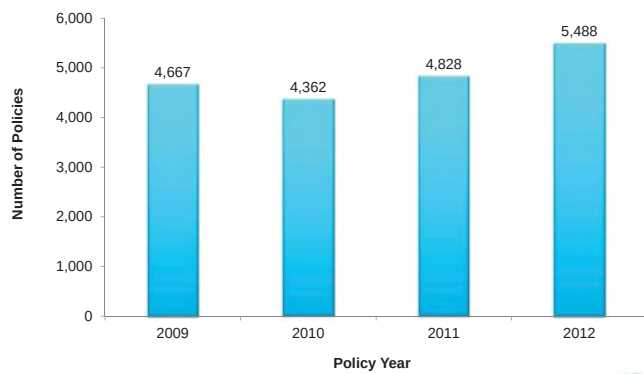


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Arkansas Total Residual Market Plan Policy Count

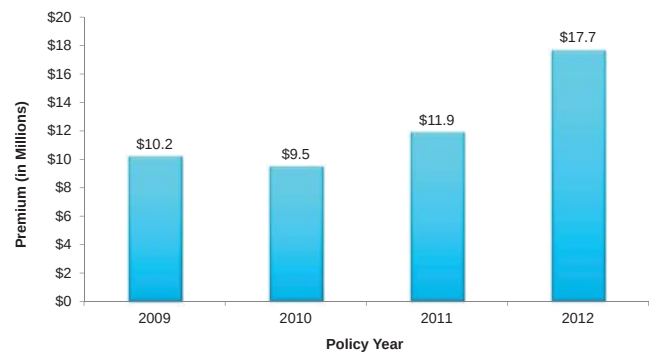


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Arkansas Total Residual Market Plan Premium Volume



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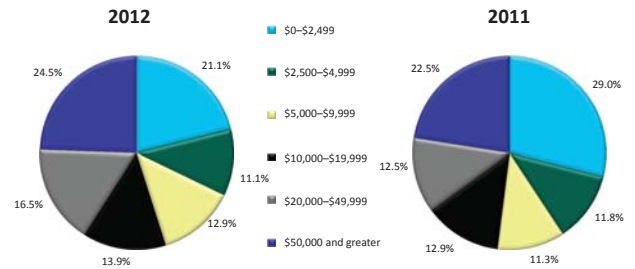
91



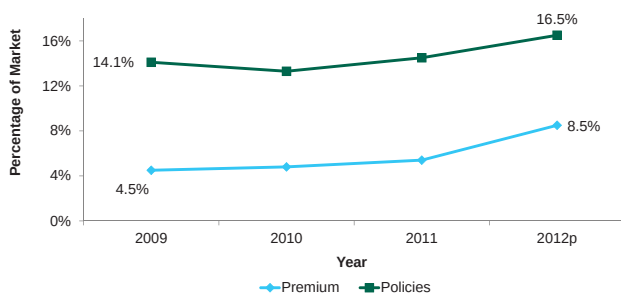
Arkansas Residual Market Plan 2012 vs. 2011 Total Policy Size Comparison

Premium Size	2012		2011	
	# of Policies	Premium	# of Policies	Premium
\$0-\$2,499	4,281	\$3,734,387	4,038	\$3,453,703
\$2,500-\$4,999	557	\$1,963,243	409	\$1,405,966
\$5,000-\$9,999	337	\$2,285,854	197	\$1,345,959
\$10,000-\$19,999	175	\$2,470,487	113	\$1,541,724
\$20,000-\$49,999	96	\$2,926,104	49	\$1,493,660
\$50,000-\$99,999	28	\$1,863,360	12	\$807,138
\$100,000-\$199,999	12	\$1,684,786	6	\$852,310
\$200,000 and greater	2	\$784,528	4	\$1,027,197
TOTAL	5,488	\$17,712,749	4,828	\$11,927,657

Arkansas Residual Market Plan Total Policy Size Comparison by Premium



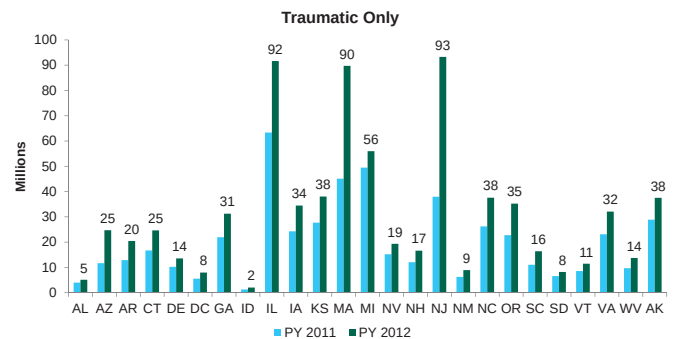
Comparison of the Estimated Market Share for Arkansas Residual Market by Total Policy Count and Written Premium



Note: Market share as a percentage of residual market total written premium/policies in force
2012 numbers are preliminary



Estimated Ultimate Premium by State Policy Year 2011 vs. 2012



NCCI residual market reinsurance pool traumatic premium valued as of 6/30/12, which excludes direct assignment policy



Arkansas Assigned Risk Programs

- Alternate Preferred Plan
- Tabular Adjustment Program (TAP)
- Alcohol and Drug-Free Premium Credit
- Merit Rating
- Differential/Surcharge
- Removal of Premium Discounts
- Take-Out Credit
- **VCAP® Service**

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Program Highlights

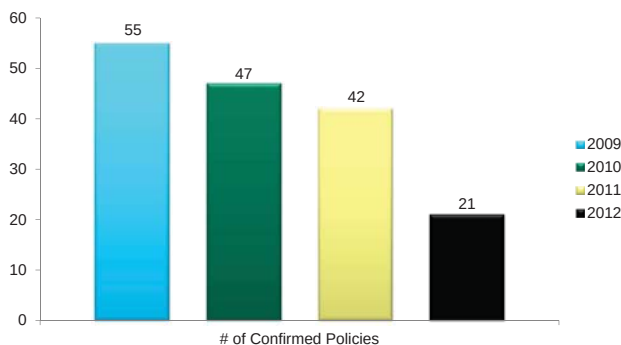
- Developed and implemented as a depopulation tool, NCCI's **VCAP® Service** (voluntary coverage assistance program) is an Internet-based application that helps producers and employers find voluntary workers compensation coverage prior to entering the residual market
- **VCAP® Service** is provided at no charge to employers, producers, and participating voluntary coverage providers
- **VCAP® Service** operates as a supplemental program to NCCI's Workers Compensation Insurance Plan (Plan) and NCCI's **RMAPS® Online Application Service** (residual market application processing tool)

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VCAP® Service Policies - Arkansas

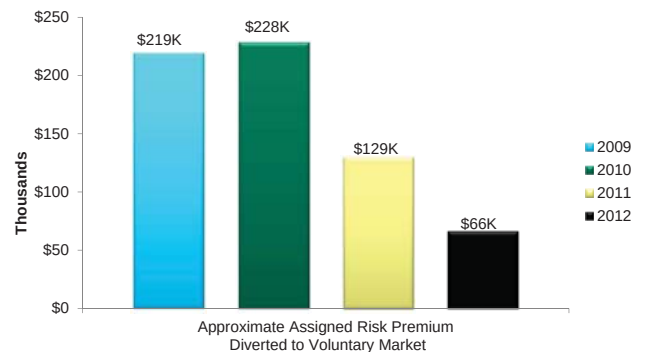


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VCAP® Service Policies - Arkansas



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Residual Market Filings

Alabama	3/1/13	+9.0%
Iowa [^]	1/1/13 and 7/1/13	+7.9%
Virginia	4/1/13	+7.3%
Indiana	1/1/13	+5.0%
North Carolina	4/1/13	+4.8%
Mississippi	3/1/13	+4.1%
Arizona	1/1/13	+4.0%
Oregon	1/1/13	+3.7%
Nevada	3/1/13	+2.5%
Kansas	1/1/13	+1.9%
Connecticut	1/1/13	+0.4%

Residual Market Filings

South Dakota	7/1/13	+0.3%
District of Columbia	11/1/12	+0.1%
Georgia	3/1/13	0.0%
Illinois	1/1/13	0.0%
New Mexico	1/1/13	0.0%
New Hampshire	1/1/13	-3.0%
Vermont	4/1/13	-3.1%
Alaska	1/1/13	-4.2%
Arkansas	7/1/13	-6.7%
Tennessee	3/1/13	-6.9%
South Carolina	2/1/13	-10.1%
West Virginia	11/1/12	-14.3%

[^] +3.9% effective 1/1/2013 and a subsequent +3.8% effective 7/1/2013

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Closing Remarks
Thank You!



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Glossary



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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 100 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)**—A disability that is permanent but does not involve a total inability to work. The specific definition and associated workers compensation benefits are defined by statute and vary by jurisdiction.
- **Policy Year (PY)**—The year of the effective date of the policy. Policy year financial results summarize experience for all policies with effective dates in a given calendar year 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



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NCCI Workers Compensation Resources

- Financial Aggregate Calls
 - Used for aggregate ratemaking
- **Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)**
 - Used for class ratemaking
- Detailed Claim Information
 - In-depth sample of lost-time claims
- Policy Data
 - Policy declaration page information

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Financial Aggregate Calls

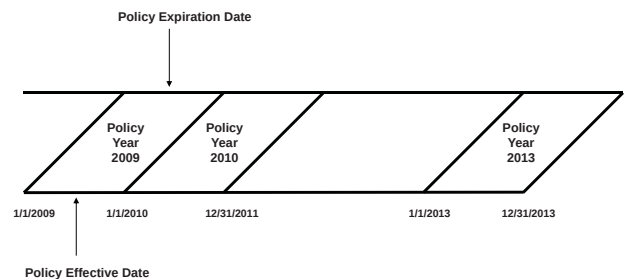
- Collected Annually
 - Policy and calendar-accident year basis
 - Statewide and assigned risk data
- Premiums, Losses, and Claim Counts
 - Evaluated as of December 31
- Purpose
 - Basis for overall aggregate rate indication
 - Research

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Policy Year Financial Aggregate Data

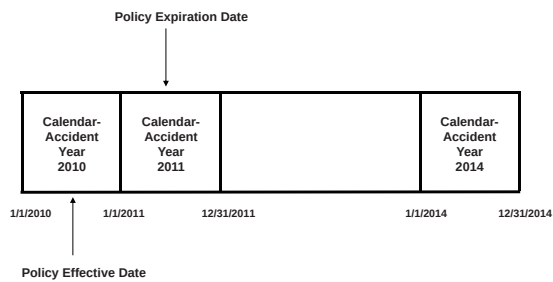


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Calendar-Accident Year Financial Aggregate Data



Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan) Data

- Experience by Policy Detail
 - Exposure, premium, and experience rating modifications
 - Individual claims by injury type
- Purposes
 - Classification relativities
 - Experience Rating Plan
 - Research



Valuation of Statistical Plan Data

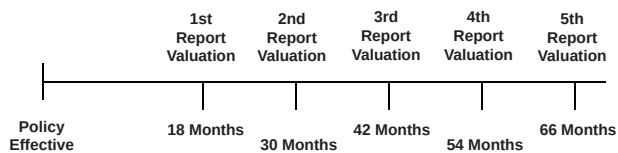


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Executive Summary

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the Second Quarter 2012 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.

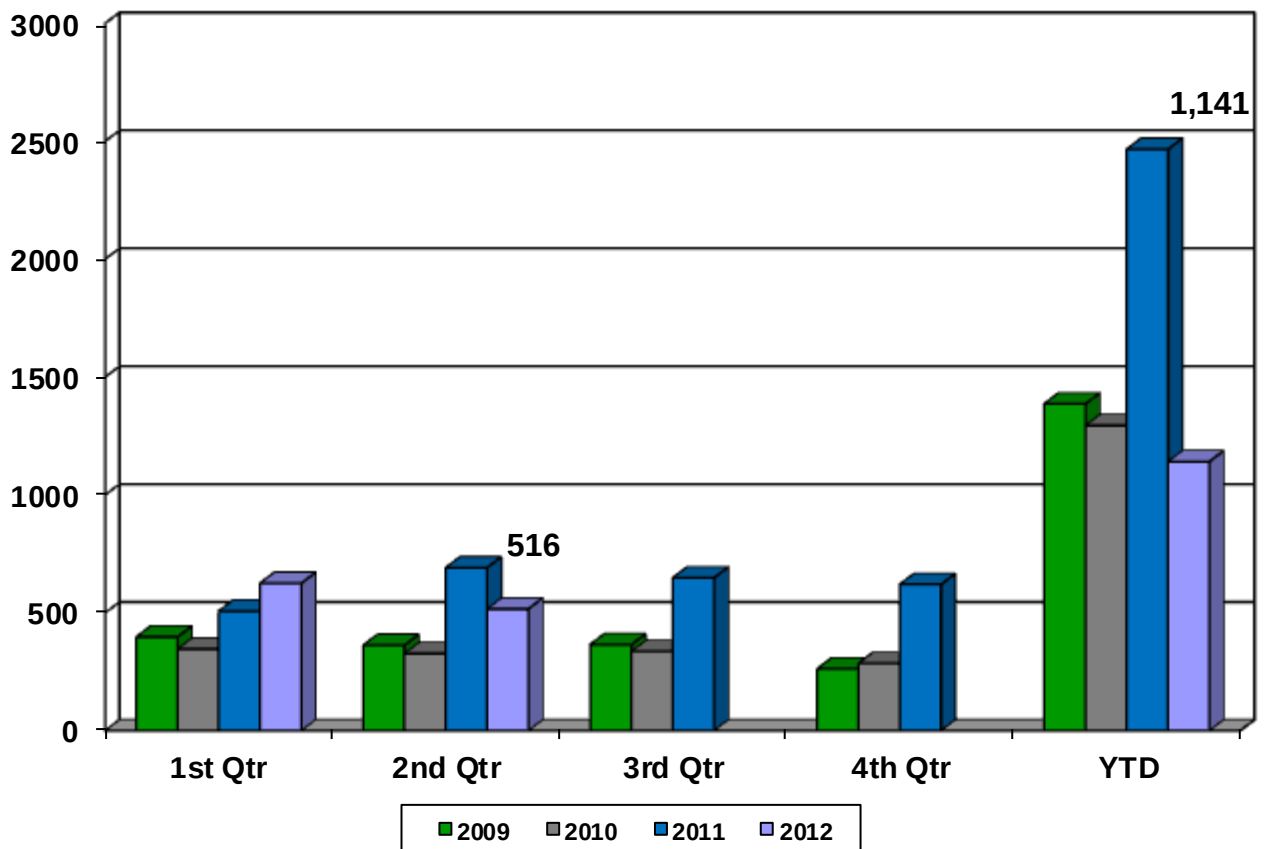
Terri Robinson, State Relations Executive
Chantel Weishaar, Technical Specialist

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

Residual Market Demographics – 2Q 2012

Arkansas Residual Market Total New Applications Bound 2009 vs. 2010 vs. 2011 vs. 2012

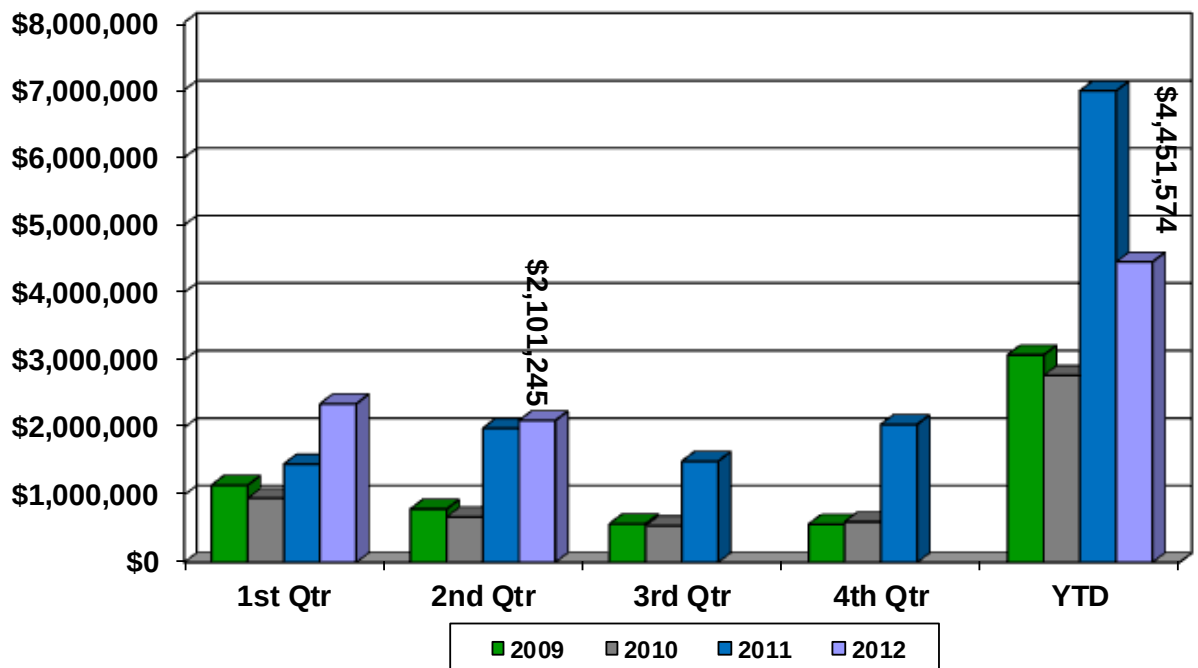
The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).



Residual Market Demographics – 2Q 2012

Arkansas Residual Market Total New Application Premium Bound 2009 vs. 2010 vs. 2011 vs. 2012

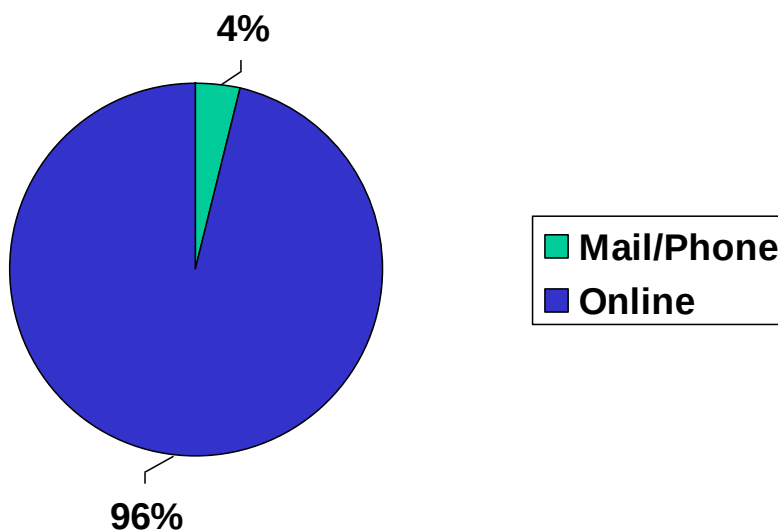
*The total estimated premium on bound new applications assigned to as
Servicing Carrier or Direct Assignment Carrier (if applicable).*



Residual Market Demographics – 2Q 2012

Percentage of New Applications Received by Submission Format Data through June 30, 2012

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

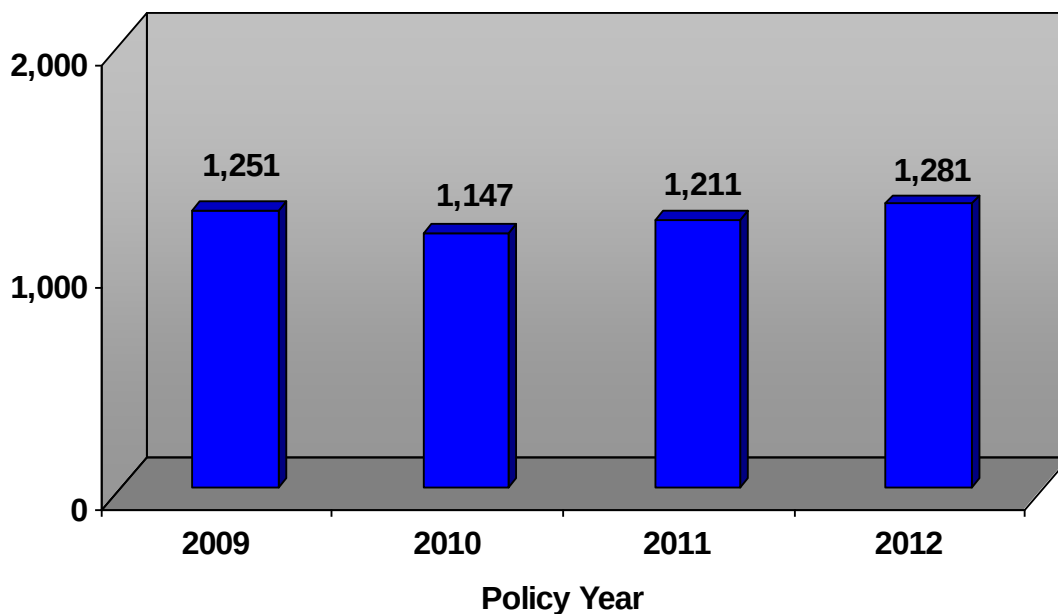


Residual Market Demographics – 2Q 2012

Residual Market Total Policy Counts

Second Quarter Data for Policies Reported through June 30, 2012

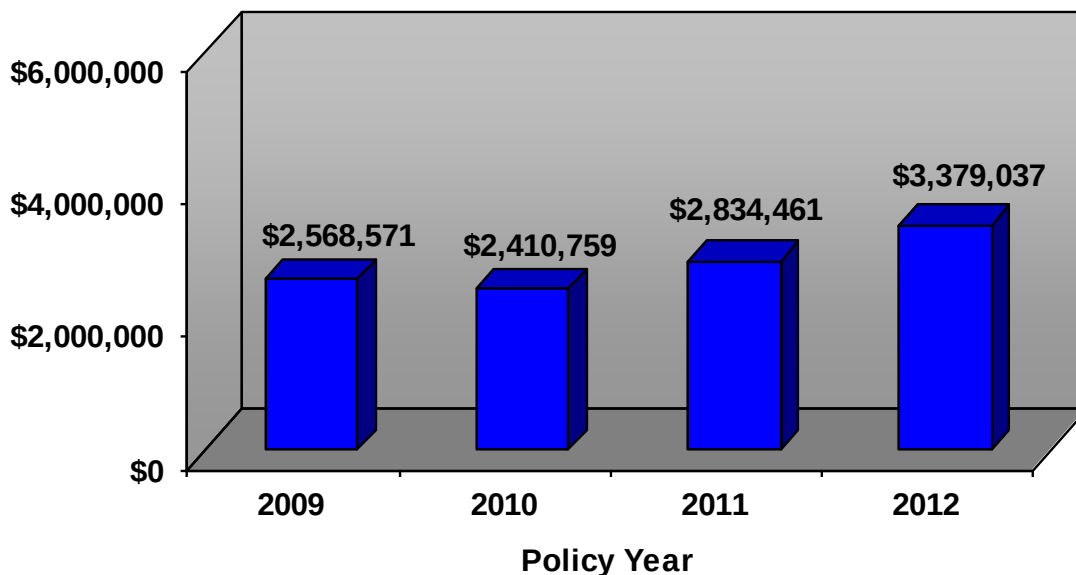
Total Number of all Assigned Risk Plan Policies effective during and reported as of the date listed above.



Residual Market Total Premium Volume

Second Quarter Data Reported through June 30, 2012

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



Residual Market Demographics

Residual Market Total Policies and Premium in Force

As of June 30, 2012 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.

	2011	2012	2011 vs. 2012 #	2011 vs. 2012 %
Policy Count	4,295	5,143	848	19.7%
Premium Volume	\$9,878,371	\$15,577,324	\$5,698,953	57.7%

Residual Market Demographics – 2Q 2012

Residual Market Second Quarter 2012 Total Premium Distribution by Size of Risk Data Reported through June 30, 2012

The total number of assigned risk plan policies reported to NCCI 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	1,019	79.6%	\$886,589	26.2%	\$870
\$2500 - 4999	115	9.0%	\$399,995	11.8%	\$3,478
\$5000 - 9999	83	6.5%	\$583,158	17.3%	\$7,026
\$10000 - 19999	40	3.1%	\$565,370	16.7%	\$14,134
\$20000 - 49999	19	1.5%	\$485,350	14.4%	\$25,544
\$50000 - 99999	3	0.2%	\$198,747	5.9%	\$66,249
\$100000 - 199999	2	0.2%	\$259,828	7.7%	\$129,914
\$200000 +	0	0.0%	\$0	0.0%	\$0
Total	1,281	100.0%	\$3,379,037	100.0%	\$2,638

Residual Market Total Premium Distribution by Size of Risk Second Quarter 2011 Data for Comparison

The total number of assigned risk plan policies reported to NCCI 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	83.5%	\$862,837	30.4%	\$853
\$2500 - 4999	117	9.7%	\$414,387	14.6%	\$3,541
\$5000 - 9999	45	3.7%	\$313,692	11.1%	\$6,970
\$10000 - 19999	26	2.2%	\$355,012	12.5%	\$13,654
\$20000 - 49999	9	0.7%	\$251,626	8.9%	\$27,958
\$50000 - 99999	0	0.0%	\$0	0.0%	\$0
\$100000 - 199999	1	0.1%	\$174,132	6.1%	\$174,132
\$200000 +	2	0.2%	\$462,775	16.3%	\$231,387
Total	1,211	100.0%	\$2,834,461	100.0%	\$2,341

Residual Market Demographics – 2Q 2012

Residual Market Top 10 Classification Codes by Policy Count

Data Reported through June 30, 2012

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 Construction Of Residential Dwellings Not Exceeding Three Stories In Height	277	21.6%
2	5551	Roofing-All Kinds & Drivers	62	4.8%
3	8810	Clerical Office Employees NOC	37	2.9%
4	5474	Painting NOC & Shop Operations Drivers	34	2.7%
5	5022	Masonry NOC	33	2.6%
6	6217	Excavation & Drivers	32	2.5%
7	5437	Carpentry-Installation Of Cabinet Work Or Interior Trim	30	2.3%
8	5183	Plumbing NOC & Drivers	30	2.3%
9	5403	Carpentry NOC	29	2.3%
10	7228	Trucking-Local Hauling Only-& Drivers	28	2.2%

Residual Market Top 10 Classification Codes by Premium Volume

Data Reported through June 30, 2012

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	5645	Carpentry Construction Of Residential Dwellings Not Exceeding Three Stories In Height	\$368,889	10.9%
2	5551	Roofing-all Kinds & Drivers	\$247,077	7.3%
3	8380	Automobile Service Or Repair Center & Drivers	\$125,965	3.7%
4	3028	Pipe Or Tube Mfg.-Iron Or Steel-& Drivers	\$110,729	3.3%
5	7228	Trucking-Local Hauling Only-& Drivers	\$96,716	2.9%
6	8832	Physician & Clerical	\$90,911	2.7%
7	1320	Oil Or Gas Lease Operator-All Operations & Drivers	\$80,774	2.4%
8	3030	Iron Or Steel: Fabrication: Iron Or Steel Works-shop-Structural-& Drivers	\$70,467	2.1%
9	6217	Excavation & Drivers	\$67,888	2.0%
10	5606	Contractor - Project Manager Construction Executive Construction Manager	\$63,455	1.9%

Residual Market Demographics

Voluntary Coverage Assistance Program - Arkansas

*The volume of assigned risk applications redirected to the voluntary market through NCCI's **VCAP® Service**. The following shows the results **VCAP® Service** has provided during Second Quarter 2012.*

Date Ranges:	04/01/2012-06/30/2012
Number of Applications Reviewed by VCAP® Service	523
Associated Premium for Applications Reviewed	\$2,150,352.47
Number of VCAP® Service Matches	62
VCAP® Service Matches as a % of Applications Reviewed	11.85%
Number of VCAP® Service Offers	5
VCAP® Service Offers as a % of Matches	8.06%
Number of Confirmed VCAP® Service Policies	5
Confirmed VCAP® Service Policies as a % of Applications Reviewed	0.96%
Redirected Assigned Risk Premium	\$16,178.96
Associated Voluntary Market Premium	\$10,106.00
Savings	\$6,072.96
Average Savings per Application	\$1,214.59
Savings as a % of Redirected Assigned Risk Premium	37.54%
Redirected Premium as a % of Associated Premium for Applications Reviewed by VCAP® Service	0.75%

Residual Market Demographics

Collections/Indemnification

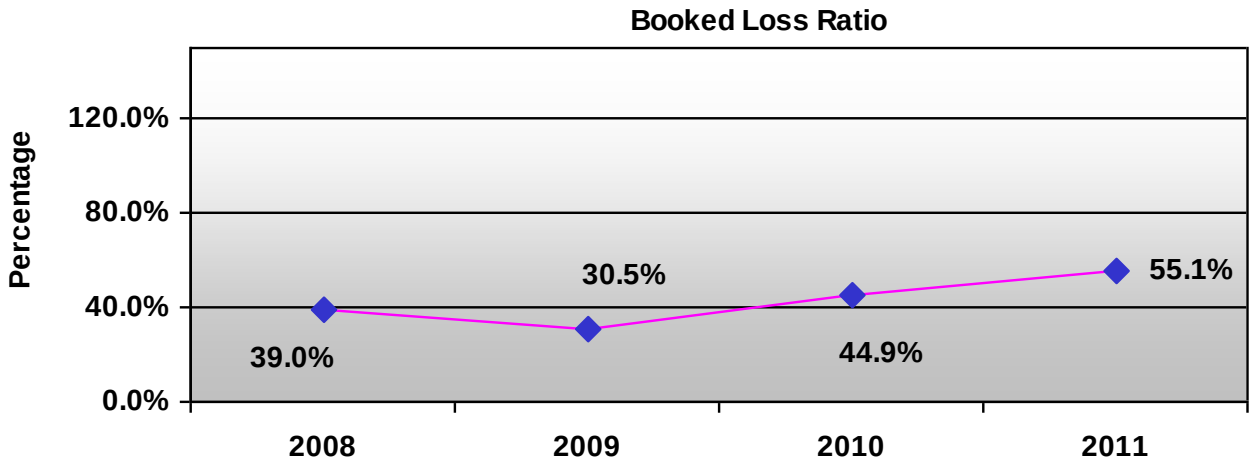
The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas and the National Pool for Policy Years 2008-2012, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through First Quarter 2012.

Arkansas	Gross Written Premium	Uncollectible Premium	Percentage
2008	\$13,761,752	\$1,027,689	7.5%
2009	\$11,283,290	\$793,241	7.0%
2010	\$10,863,467	\$469,405	4.3%
2011	\$12,994,344	\$67,990	0.5%
2012	\$3,357,568	\$0	0.0%
National Pool 2012	\$94,356,014	\$0	0.0%

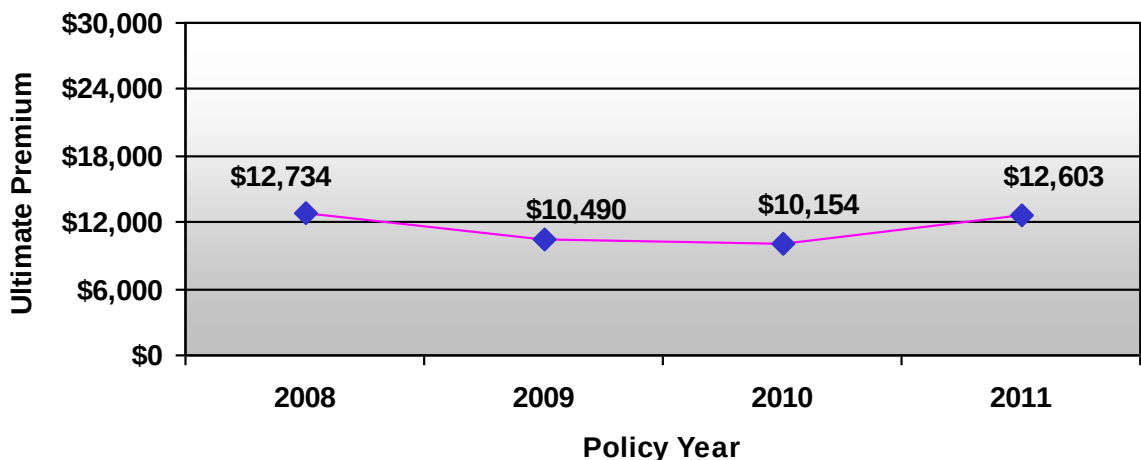
The uncollectible premiums provided are reported by the servicing carriers on a quarterly basis. Uncollectible premium is generally reported up to 24 months after the policy expiration date due to audit, billing, and collection requirements. Therefore, the most recent year data has not yet developed.

Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Booked Loss Ratio
Policy Year Financial Results through 1st Quarter 2012 for 2011 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 2012 for 2011 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.



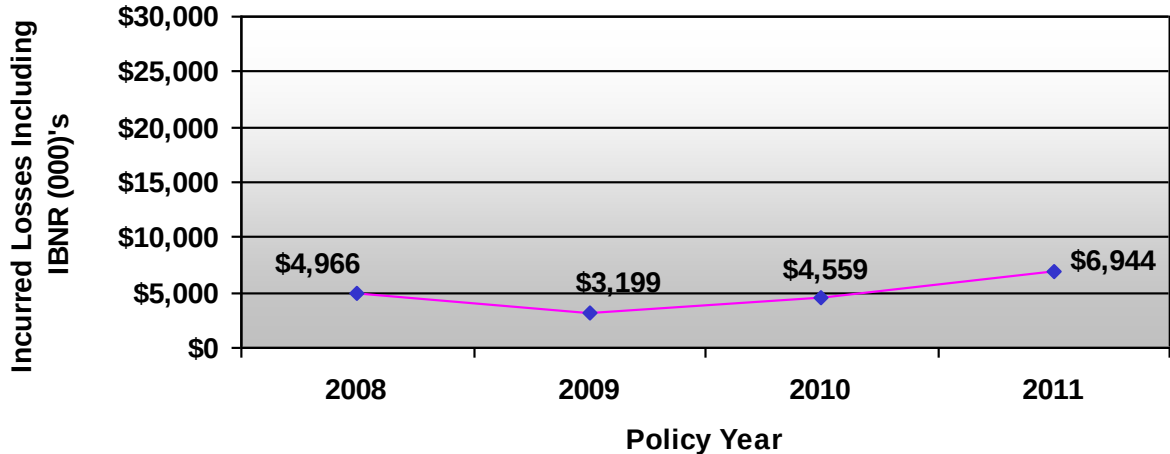
*-Second Quarter 2012 Data will be available the end of October 2012 due to the timing of data reporting

Residual Market Demographics

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

Policy Year Financial Results through 1st Quarter 2012 for 2011 and prior years*

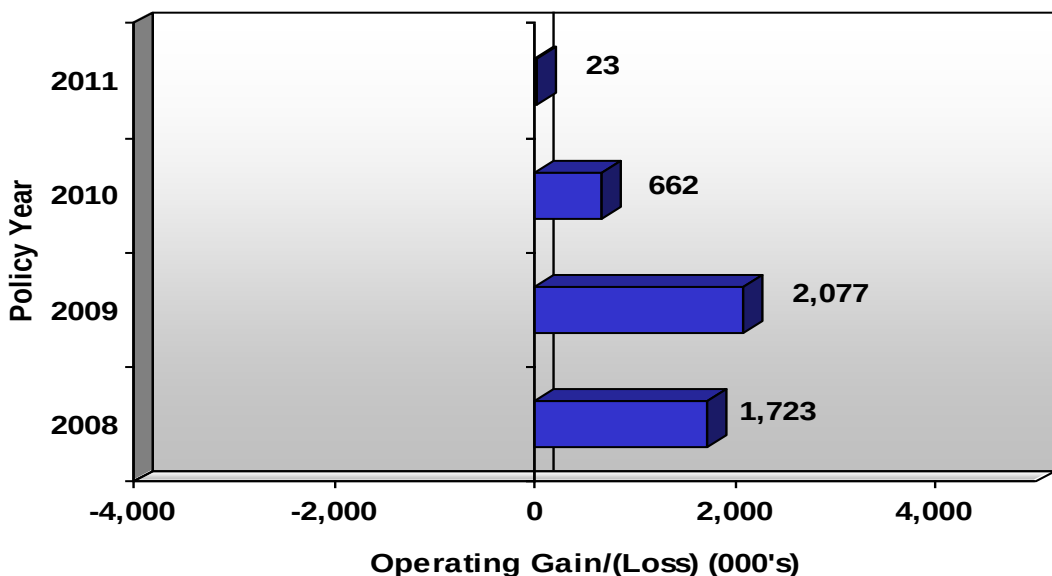
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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 2012 for 2011 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 2012 Data will be available the end of October 2012 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.

Exhibit C



2013 Annual Issues Symposium



State of the Line

Dennis Mealy, FCAS, MAAA
NCCI Chief Actuary

May 16, 2013
Orlando, Florida

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I. Property/Casualty Results

II. Workers Compensation Results

III. Current Topics of Interest

IV. Concluding Remarks

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Property/Casualty (P/C) Results

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P/C Industry Net Written Premium Increases Again

Private Carriers

Line of Business (LOB)	2010 (\$Billions)	2011 (\$Billions)	2012p (\$Billions)	2011- 2012p Change (%)
Personal Auto	\$ 160.3	\$ 163.2	\$ 167.2	2.5%
Homeowners	\$ 61.3	\$ 63.4	\$ 66.6	5.1%
Other Liability (Incl Prod Liab)	\$ 38.5	\$ 38.9	\$ 41.4	6.3%
Workers Compensation	\$ 29.9	\$ 32.3	\$ 35.2	9.0%
Commercial Multiple Peril	\$ 28.8	\$ 29.6	\$ 31.3	5.7%
Fire & Allied Lines (Incl EQ)	\$ 22.7	\$ 24.6	\$ 25.8	4.8%
Commercial Auto	\$ 21.1	\$ 21.0	\$ 21.9	4.5%
All Other Lines	\$ 61.2	\$ 65.0	\$ 67.5	3.9%
Total P/C Industry	\$ 423.8	\$ 438.0	\$ 457.0	4.3%

p Preliminary
Sources: LOB, Annual Statement Data
Workers compensation (WC), NCCI; Total P/C Industry, ISO



P/C Underwriting Results Improved Significantly

Net Combined Ratio—Private Carriers

Line of Business (LOB)	Calendar Year		
	2010	2011	2012p
Personal Auto	101%	102%	102%
Homeowners	107%	122%	104%
Other Liability (Incl Prod Liab)	110%	100%	104%
Workers Compensation	115%	115%	109%
Commercial Multiple Peril	101%	113%	107%
Fire & Allied Lines (Incl EQ)	83%	102%	103%
Commercial Auto	98%	104%	107%
All Other Lines	101%	112%	99%
Total P/C Industry	102%	108%	103%

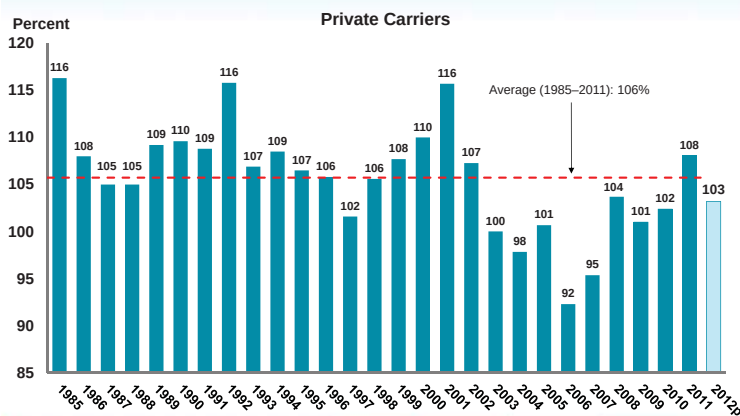
p Preliminary
Sources: LOB, Annual Statement Data
Workers compensation, NCCI; Total P/C Industry, ISO

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P/C Industry Calendar Year Net Combined Ratios



p Preliminary

Calendar Year

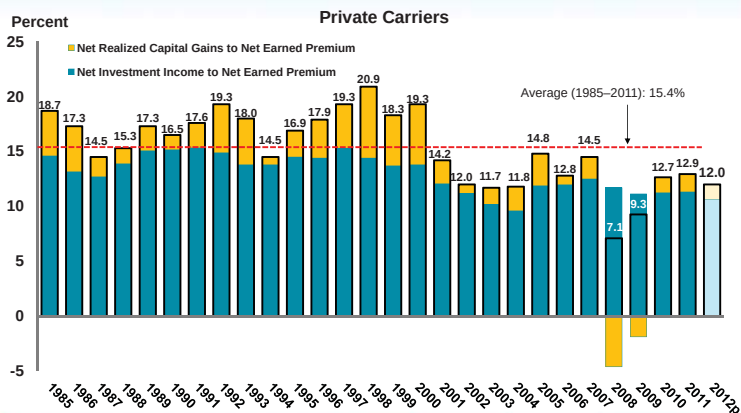
Sources: 1985–2007, Annual Statement Data; 2008–2012p, ISO

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Investment Gain Ratio Slight Decline



p Preliminary

Calendar Year

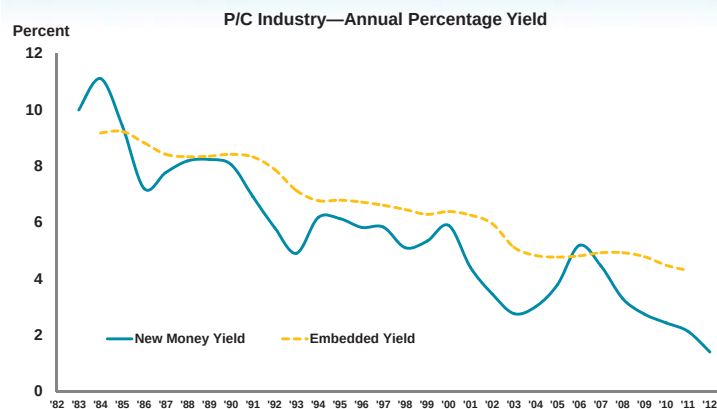
Sources: 1985–2007, Annual Statement Data; 2008–2012p, ISO

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New Money Yields Have Dropped Precipitously While Embedded Yields Have Declined Modestly



Embedded Yield is the reported investment income for bond instruments divided by the asset value of those instruments
New Money Yield is the pre-tax yield on bonds

Sources: NCCI, Best's Aggregates & Averages, Federal Reserve Bank, ValueLine, Treasury Direct, Barron's

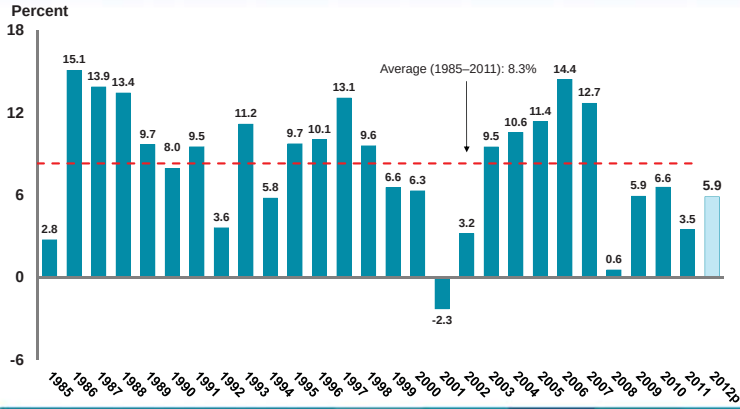
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P/C Industry Return on Surplus

Annual After-Tax Return on Surplus—Private Carriers



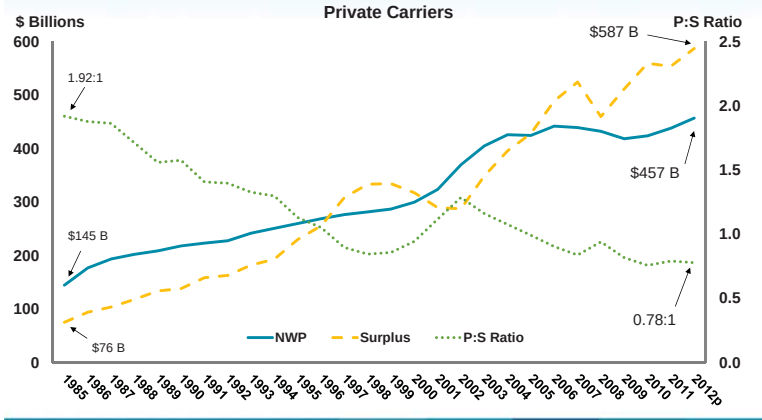
p Preliminary
After-tax return on average surplus, excluding unrealized capital gains
Source: 1985–2007, Annual Statement Data; 2008–2012p, ISO

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P/C Industry Premium-to-Surplus Ratio Remains Strong



p Preliminary
Source: 1985–2007, Annual Statement Data; 2008–2012p, ISO

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Contributions to Surplus

Private Carriers

	(\$ Billions)		
	2010	2011	2012p
Underwriting Gains/Losses	(10.5)	(36.2)	(16.7)
Investment Income	47.6	49.2	47.7
Realized Capital Gains/Losses	5.9	7.0	6.2
Other Income	1.1	2.5	2.3
Unrealized Capital Gains/Losses	16.0	(4.4)	18.8
Federal Taxes	(8.8)	(3.0)	(6.0)
Shareholder Dividends	(31.4)	(25.9)	(23.7)
Contributed Capital	27.5	2.3	4.4
Other Changes to Surplus	0.6	3.1	0.2
Total	47.9	(5.4)	33.1

p Preliminary

Source: ISO

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Workers Compensation Results

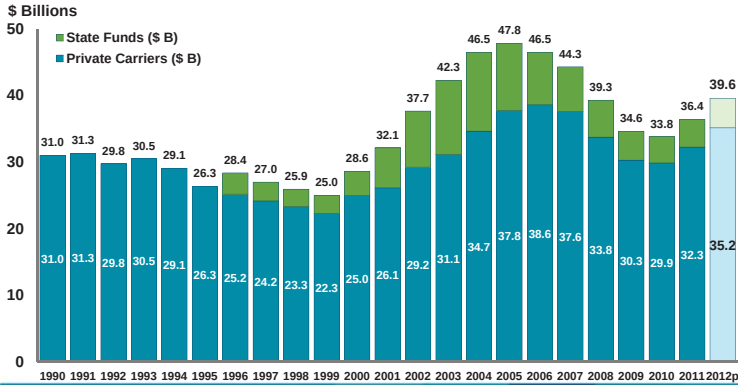
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Workers Compensation Premium On a Roll

Net Written Premium



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Workers Compensation Written Premium Change

Written Premium Change From 2011 to 2012

Net Written Premium—Countrywide **+9.0 %**

Direct Written Premium (DWP)—NCCI States **+9.4 %**

Components of DWP Change for NCCI States:

Change in Carrier Estimated Payroll **+3.8 %**

Change in Bureau Loss Costs and Mix **+1.1 %**

Change in Carrier Discounting **+2.6 %**

Change in Audits and Other Factors **+1.6 %**

Combined Effect: **+9.4 %**

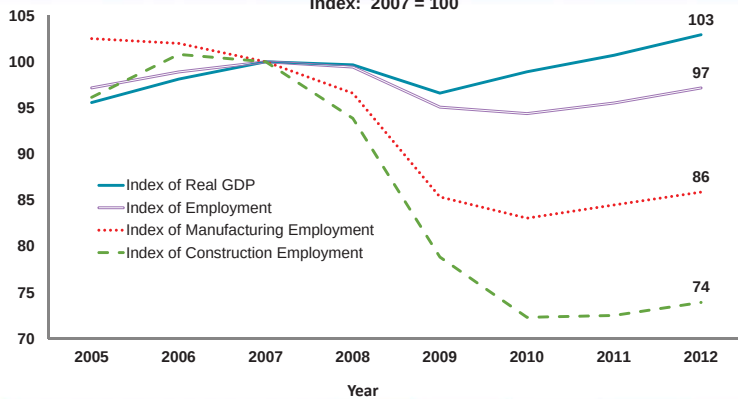
Sources:
Countrywide: Annual Statement Data, Private Carriers
NCCI States: Annual Statement Statutory Page 14, Private Carriers, NCCI ratemaking states
Components: Policy data and Statistical Plan data

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Employment Still Below Prerecession Levels

Index: 2007 = 100



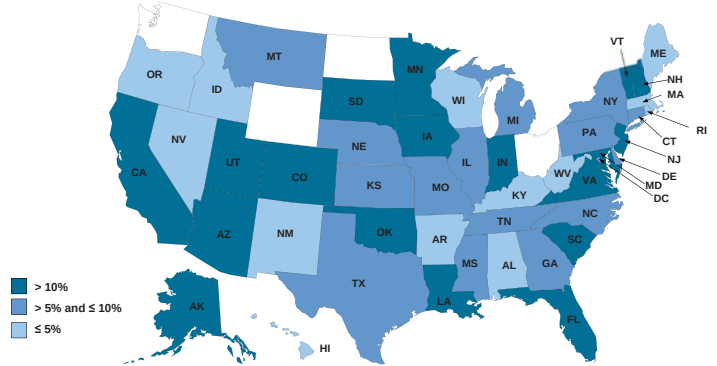
Source: Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA)

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2012 Workers Compensation Direct Written Premium Growth by State

Private Carriers



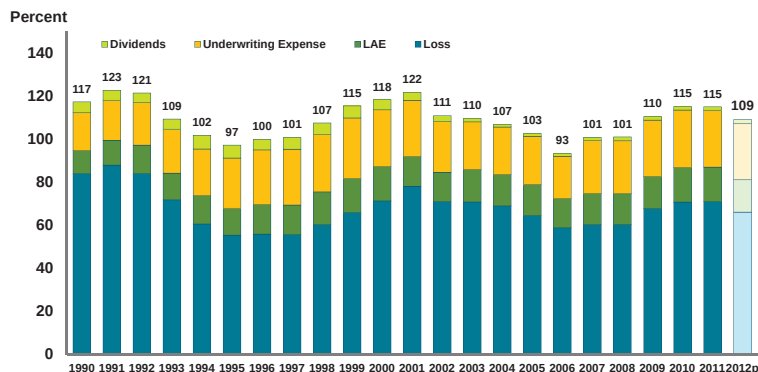
Source: 2011, 2012, Annual Statement Data (Exhibit of Premiums and Losses (Statutory Page 14))

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Workers Compensation Calendar Year Combined Ratio Improved

Private Carriers



p Preliminary

Calendar Year

Source: 1990–2011, Annual Statement Data, 2012p, NCCI

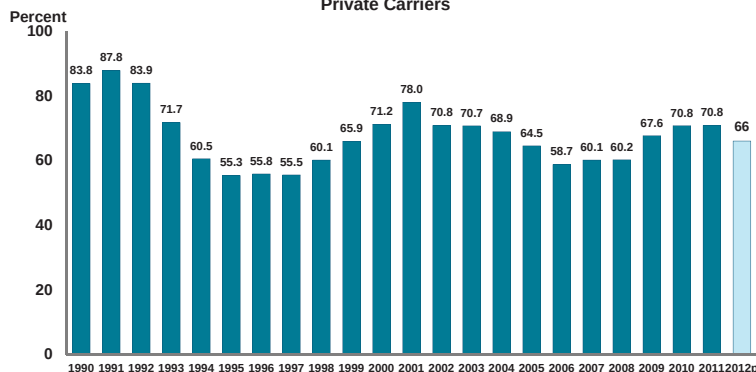
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Workers Compensation Calendar Year Loss Ratio

Ratio of Net Incurred Losses to Earned Premium
Private Carriers



p Preliminary

Calendar Year

Source: 1990–2011, Annual Statement Data, 2012p, NCCI

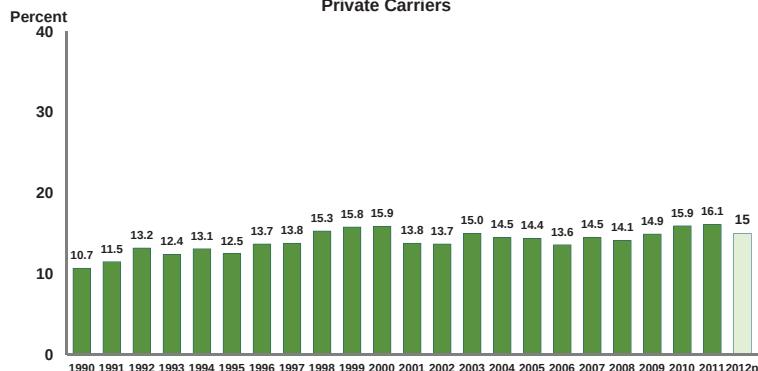
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Workers Compensation Calendar Year Loss Adjustment Expense (LAE) Ratio

Ratio of Net Incurred LAE to Earned Premium
Private Carriers



p Preliminary

Calendar Year

Ratio of Incurred (Defense and Cost Containment Expense plus Adjusting and Other Expense) to Earned Premium
Source: 1990–2011, Annual Statement Data, 2012p, NCCI

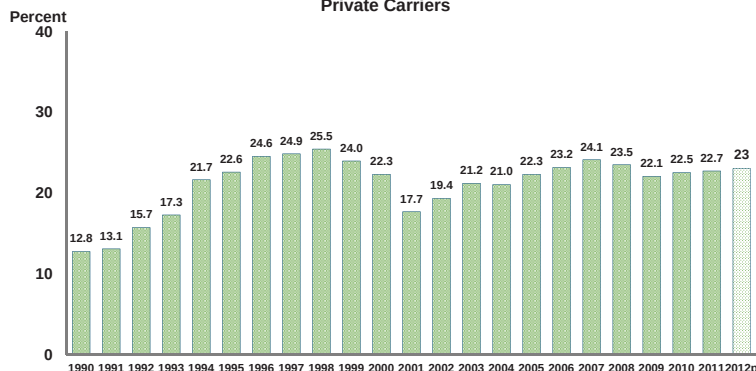
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Workers Compensation Calendar Year Loss Adjustment Expense to Loss Ratio

Ratio of Net Incurred LAE to Incurred Losses
Private Carriers



p Preliminary

Calendar Year

Ratio of Net Incurred (Defense and Cost Containment Expense plus Adjusting and Other Expense) to Incurred Loss
Source: 1990–2011, Annual Statement Data, 2012p, NCCI

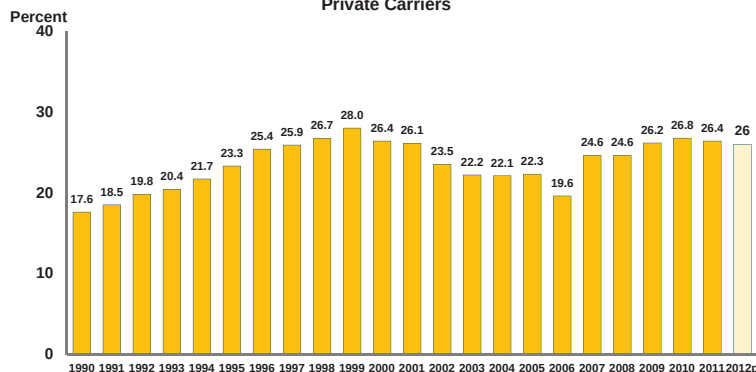
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Workers Compensation Calendar Year Underwriting Expense Ratio

Ratio of Net Underwriting Expenses to Net Written Premium
Private Carriers



p Preliminary

Calendar Year

Ratio of Underwriting Expenses (Commission and Brokerage Expense, Taxes, Licenses and Fees, Other Acquisition and General Expenses Incurred) to Net Written Premium
Source: 1990–2011, Annual Statement Data, 2012p, NCCI

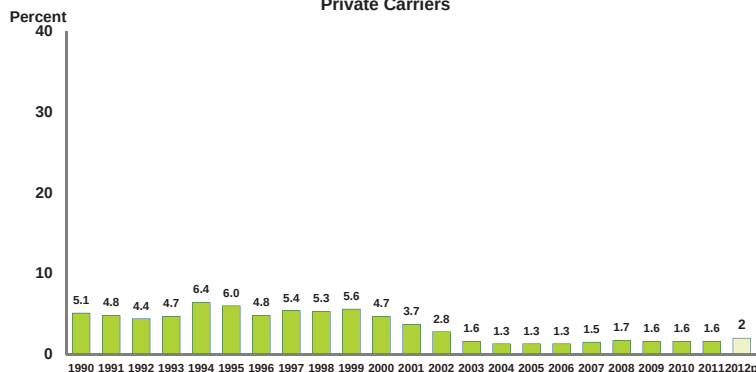
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Workers Compensation Calendar Year Policyholder Dividend Ratio

Ratio of Net Policyholder Dividends to Net Earned Premium
Private Carriers



p Preliminary

Calendar Year

Source: 1990–2011, Annual Statement Data, 2012p, NCCI

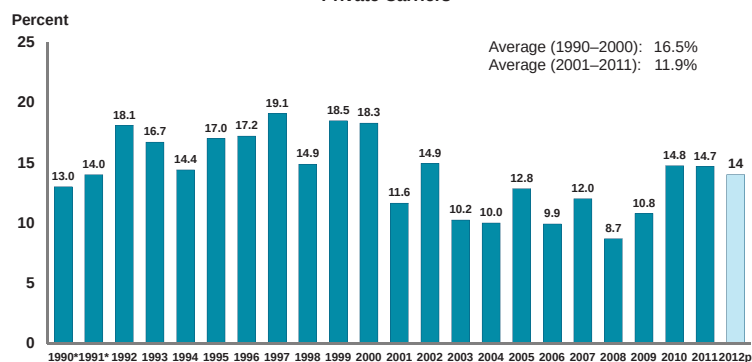
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Workers Compensation Investment Returns

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



p Preliminary

Calendar Year

Source: 1990–2011, Annual Statement Data, 2012p, NCCI
Investment Gain on Insurance Transactions includes Other Income
* Adjusted to include realized capital gains to be consistent with 1992 and after

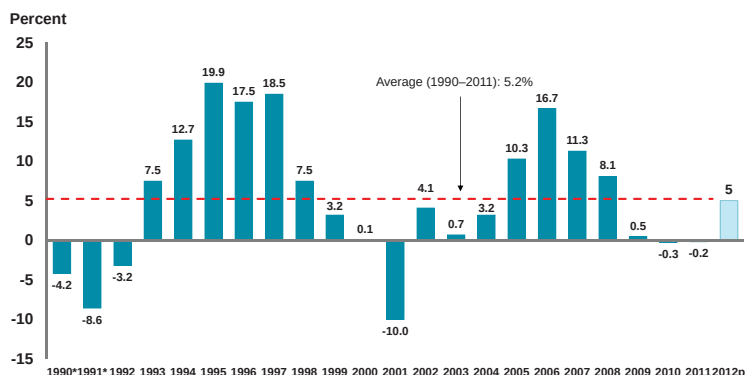
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Workers Compensation Operating Results Improved

Pre-Tax Operating Gain Ratio—Private Carriers



p Preliminary

Calendar Year

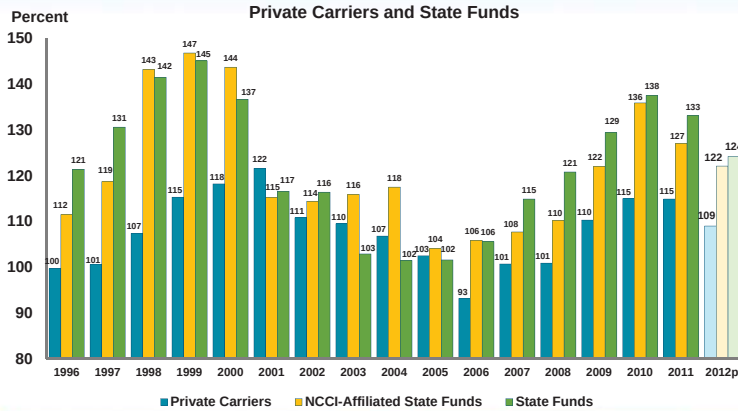
Source: 1990–2011, Annual Statement Data, 2012p, NCCI
Operating Gain Equals 1.00 minus (Combined Ratio Less Investment Gain on Insurance Transactions and Other Income)
* Adjusted to include realized capital gains to be consistent with 1992 and after

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Workers Compensation Calendar Year Net Combined Ratios



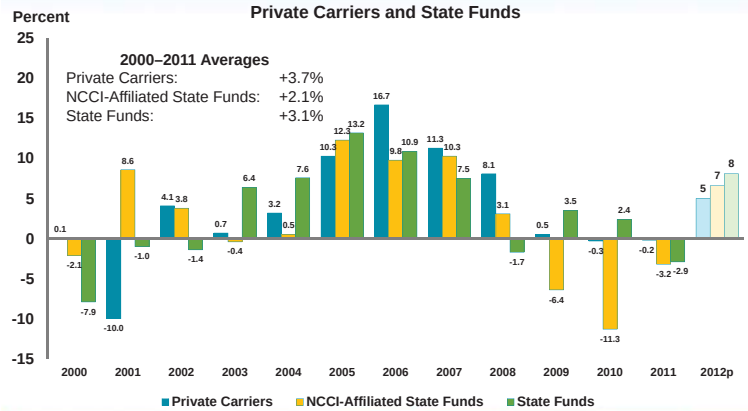
p Preliminary

Sources: 1996–2012p Private Carriers, Annual Statement Data
1996–2012p NCCI-Affiliated State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
1996–2012p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

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Workers Compensation Pre-Tax Operating Gain Ratios



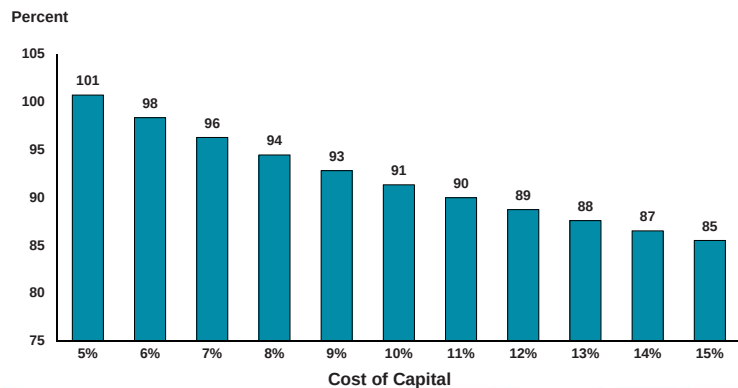
p Preliminary

Operating Gain Equals 1.00 minus (Combined Ratio Less Investment Gain on Insurance Transactions and Other Income)
Sources: 2000–2012p Private Carriers, Annual Statement Data
2000–2012p NCCI-Affiliated State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
2000–2012p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

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Workers Compensation Combined Ratio to Achieve Selected Cost of Capital



Assumptions: 3.20% Pre-Tax Investment Yield Before Investment Expense
2.46% Post-Tax Investment Yield Before Investment Expense
2.31% Post-Tax Investment Yield After Investment Expense
Workers Compensation Reserve to Surplus Ratio = 1.98
Based on NCCI's 2012 Internal Rate of Return Model

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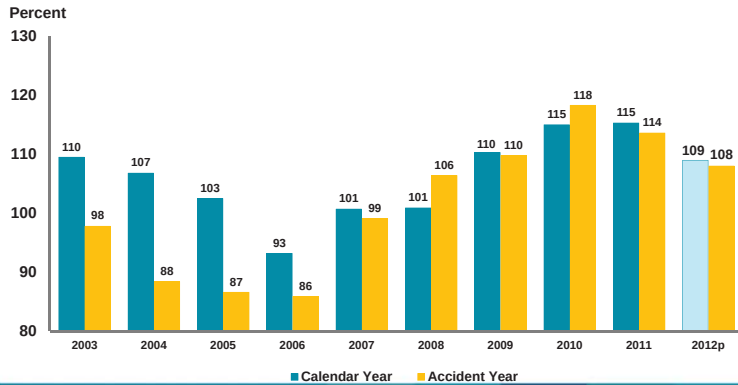
Workers Compensation Accident Year Results and Reserve Estimates

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Accident Year Net Combined Ratios

Workers Compensation Calendar Year vs. Ultimate Accident Year
Private Carriers



p Preliminary
Accident Year data is evaluated as of 12/31/2012 and developed to ultimate
Sources: Calendar Years 2003–2011, Annual Statement Data,
Calendar Year 2012p and Ultimate Accident Years 2003–2012, NCCI analysis based on Annual Statement Data
Includes dividends to policyholders

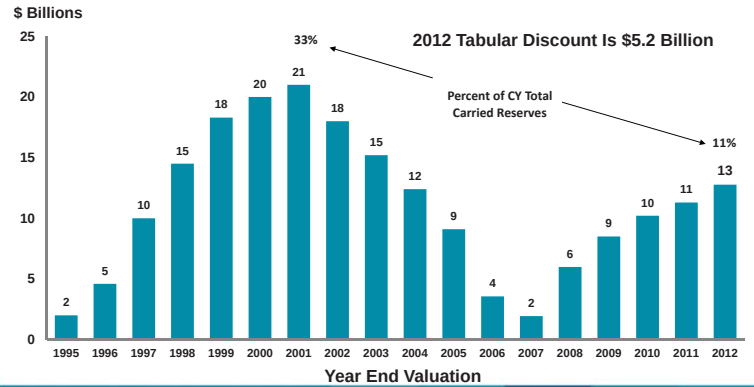
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Workers Compensation Loss and LAE Net Reserve Deficiencies

Private Carriers



Loss and LAE figures are based on NAIC Annual Statement Data for each year end valuation date and NCCI latest selections

Source: NCCI analysis
Considers all reserve discounts as deficiencies

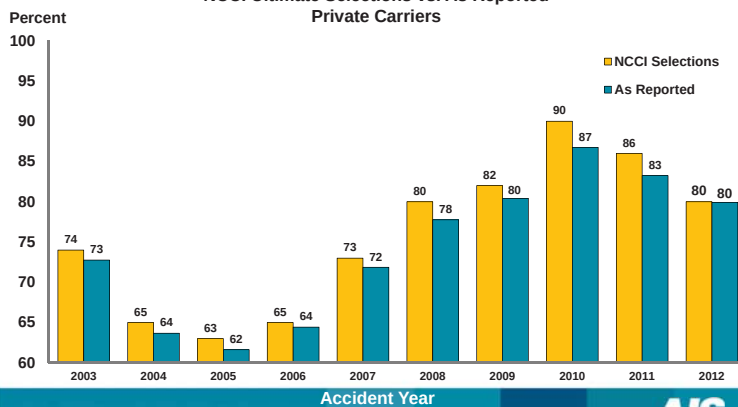
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Workers Compensation Accident Year Net Loss and LAE Ratios

NCCI Ultimate Selections vs. As Reported
Private Carriers



Reported Loss and LAE ratios are net of tabular reserve discounts and gross of non-tabular reserve discounts
Sources: As Reported, Annual Statement Schedule P Part 1D data as of 12/31/2012 by private carriers
NCCI Selections, NCCI Reserve Analysis

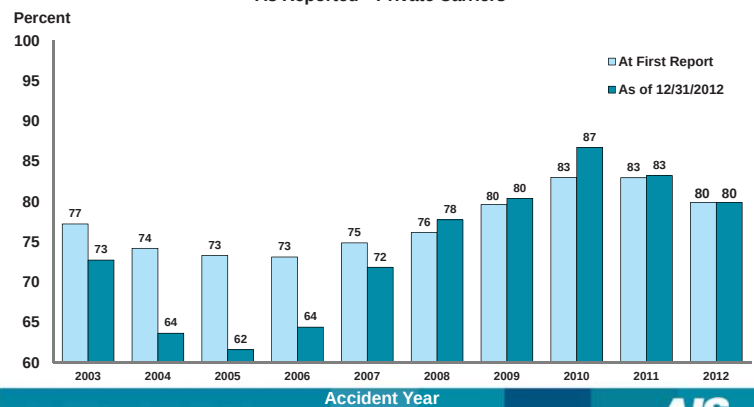
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Workers Compensation Accident Year Net Loss and LAE Ratios

As Reported—Private Carriers



Reported Loss and LAE ratios are net of tabular reserve discounts and gross of non-tabular reserve discounts
Source: Annual Statement Schedule P Part 1D data as reported by private carriers

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Workers Compensation Premium Drivers

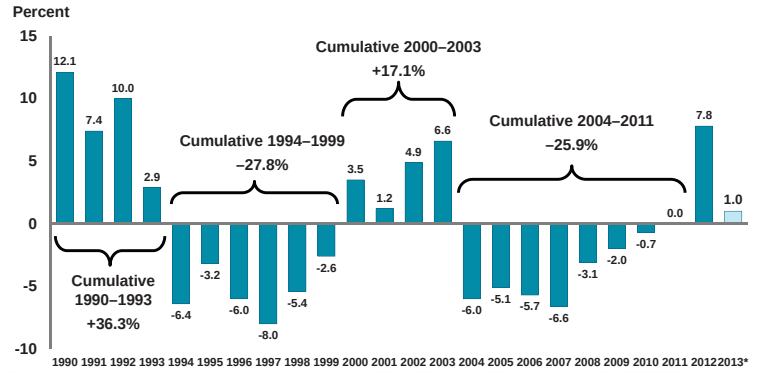
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Average Approved Bureau Rates / Loss Costs

History of Average Workers Compensation Bureau Rate/Loss Cost Level Changes



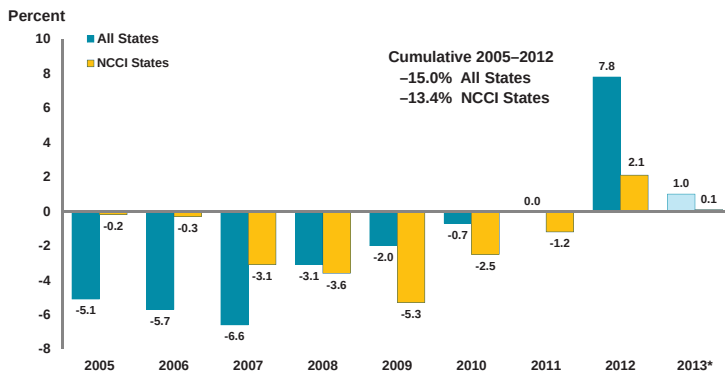
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Average Workers Compensation Approved Bureau Rates / Loss Costs

All States vs. NCCI States



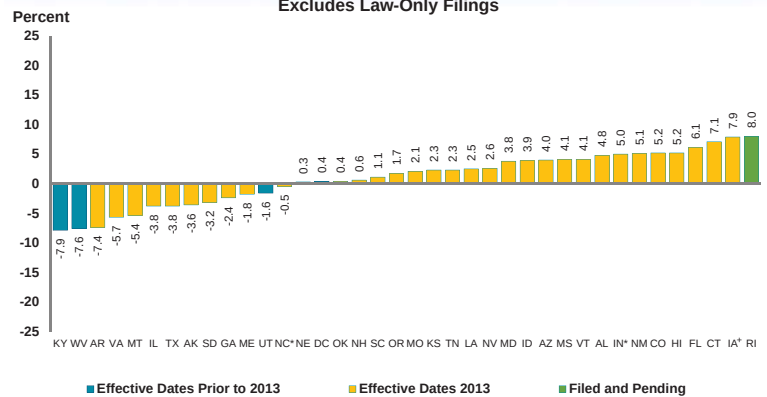
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Current NCCI Voluntary Market Filed Rate / Loss Cost Changes

Excludes Law-Only Filings

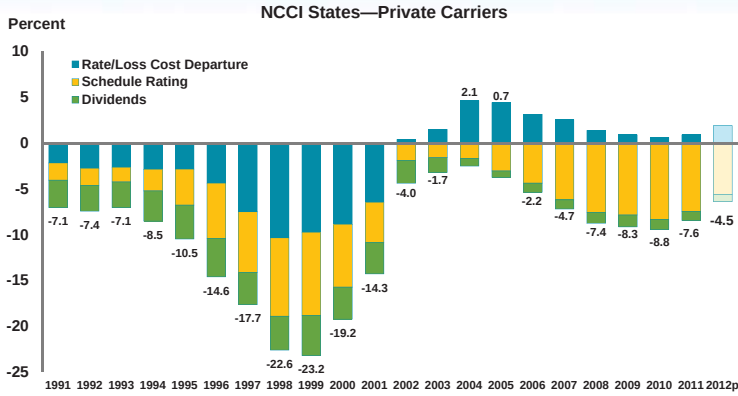


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Impact of Discounting on Workers Compensation Premium



p Preliminary

Policy Year

Dividend ratios are based on calendar year statistics.
NCCI benchmark level does not include an underwriting contingency provision.
Based on data through 12/31/2012 for the states where NCCI provides ratemaking services (excludes TX).

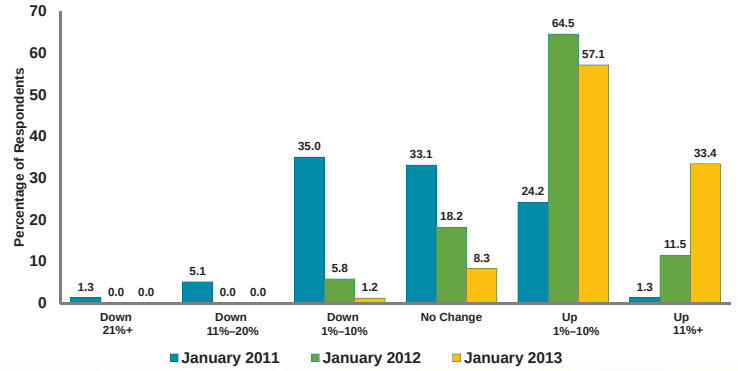
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According to Goldman Sachs, Prices Continue to Increase

Agent Responses on Workers Compensation Rates on Renewals vs. 12 Months Prior



Source: Goldman Sachs Research, Proprietary Survey, "1st-Half 2013 Pricing Survey, Insurance: Property & Casualty" (Exhibit 4, Workers' Compensation, Percentage of Respondents)

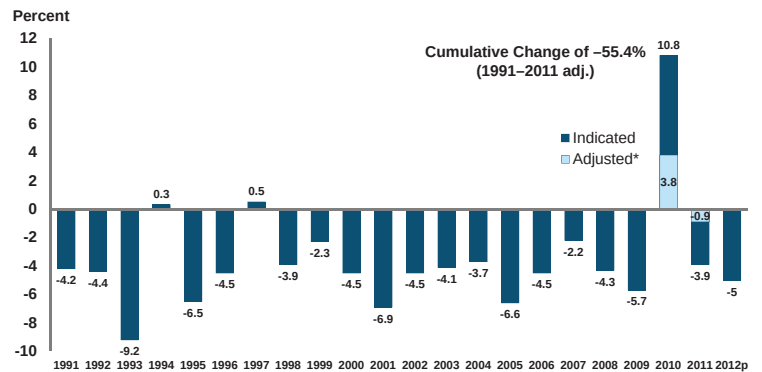
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Workers Compensation Loss Drivers

Workers Compensation Lost-Time Claim Frequency Resumes Historical Downtrend



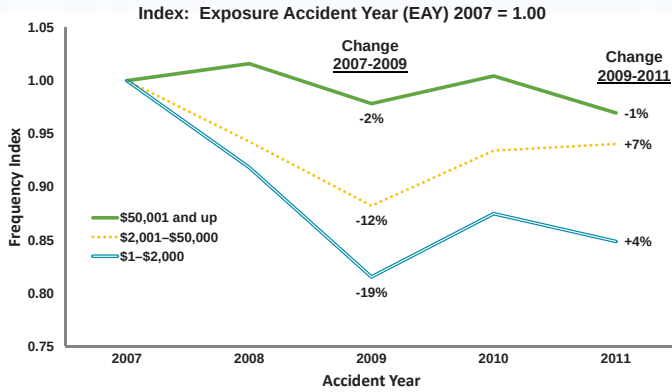
*Adjustments primarily due to significant changes in audit activity
2012p: Preliminary based on data valued as of 12/31/2012
1991-2011: Based on data through 12/31/2011, developed to ultimate, excludes high deductible policies
Average frequency for the states where NCCI provides ratemaking services, excluding WV, including state funds
Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level

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Workers Compensation Lost-Time Claim Frequency Changes by Total Size of Loss



Lost-Time Claim Frequency at 1st report per \$M wage adjusted on-leveled premium, Statistical Plan data
Premium is on-leveled to average carrier rate by state/class and wage adjusted by state to EAY 2011.
Prior to assigning individual claims to size of loss groupings, reported loss amounts are adjusted for inflation to EAY 2011.
Average frequency for the states where NCCI provides ratemaking services, excluding WV

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Workers Compensation Lost-Time Claim Frequency Changes by Industry Group

Industry Group	2007 Frequency	2011 Frequency	Change in Frequency
Manufacturing	13.6	12.0	-11.8%
Contracting	7.9	7.1	-9.3%
Office & Clerical	10.8	9.7	-10.5%
Goods & Services	15.1	14.1	-6.3%
Miscellaneous	10.9	10.1	-7.8%

Lost-Time Claim Frequency at 1st report per \$M wage adjusted on-leveled premium, Statistical Plan data
Premium is on-leveled to average carrier rate by state/class and wage adjusted by state to Exposure Accident Year 2011
Average frequency for the states where NCCI provides ratemaking services, excluding WV

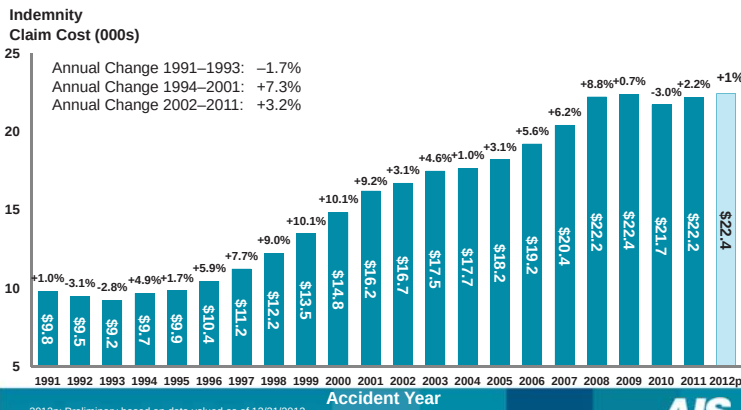
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Workers Compensation Indemnity Claim Costs—Small Increase in 2012

Average Indemnity Cost per Lost-Time Claim



2012p: Preliminary based on data valued as of 12/31/2012
1991-2011: Based on data through 12/31/2011, developed to ultimate; excludes high deductible policies
Average severity for the states where NCCI provides ratemaking services, including state funds, excluding WV

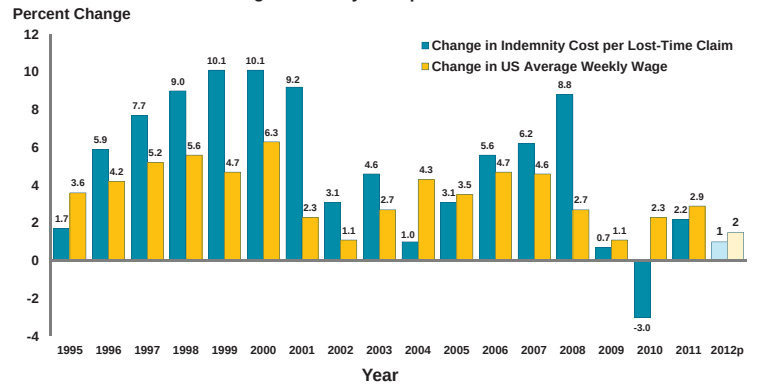
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Workers Compensation Indemnity Severity—Small Increase in 2012

Average Indemnity Cost per Lost-Time Claim



Indemnity cost per lost-time claim, 2012p: Preliminary based on data valued as of 12/31/2012
1995-2011: Based on data through 12/31/2011, developed to ultimate; excludes high deductible policies
Average severity for the states where NCCI provides ratemaking services, including state funds, excluding WV
US Average Weekly Wage 1995-2007: Quarterly Census of Employment and Wages, 2008-2012p, NCCI, Moody's Economy.com

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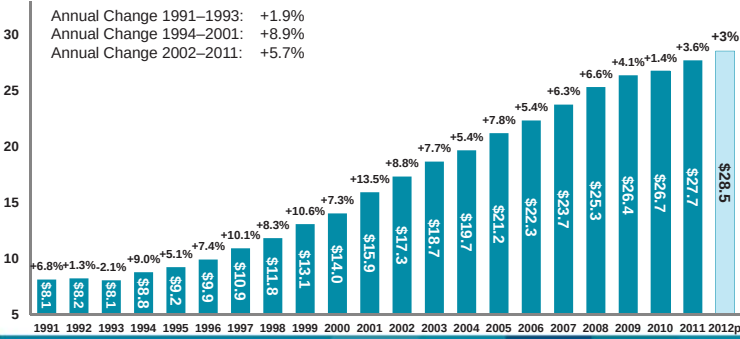
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Workers Compensation Medical Severity— Modest Increase in 2012

Average Medical Cost per Lost-Time Claim

Medical
Claim Cost (000s)



2012p: Preliminary based on data valued as of 12/31/2012
1991–2011: Based on data through 12/31/2011, developed to ultimate; excludes high deductible policies
Average severity for the states where NCCI provides ratemaking services, including state funds, excluding WV

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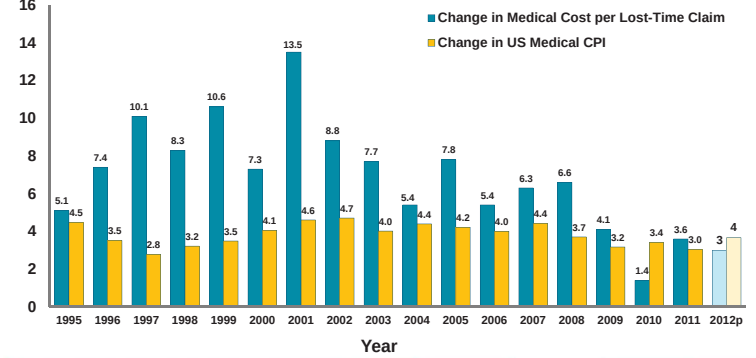
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Workers Compensation Medical Severity— Modest Increase in 2012

Average Medical Cost per Lost-Time Claim

Percent Change



Medical cost per lost-time claim, 2012p: Preliminary based on data valued as of 12/31/2012
1995–2011: Based on data through 12/31/2011, developed to ultimate; excludes high deductible policies
Average severity for the states where NCCI provides ratemaking services, including state funds, excluding WV
US Medical CPI: Bureau of Labor Statistics (BLS)

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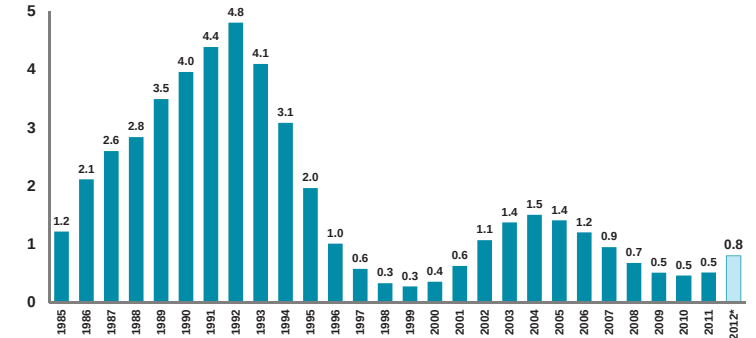
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Workers Compensation Residual Market

Workers Compensation Residual Market Premium—Significant Increase in 2012

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2012

\$ Billions



* Incomplete policy year projected to ultimate

Policy Year

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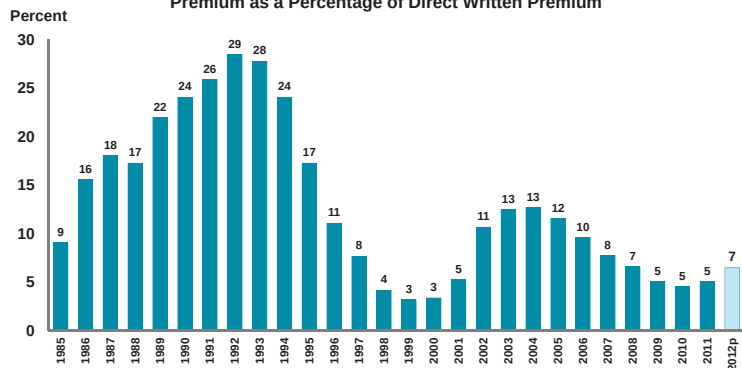
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Workers Compensation Residual Market Share Increases

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



p Preliminary

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

Calendar Year

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Workers Compensation Residual Market Growth by Policy Size

2012 vs. 2011

Size of Risk	2011	2012	Change
\$ 0 – \$ 2,499	83.1 M	89.3 M	7%
\$ 2,500 – \$ 4,999	42.1 M	50.3 M	20%
\$ 5,000 – \$ 9,999	50.6 M	64.2 M	27%
\$ 10,000 – \$49,999	122.5 M	179.9 M	47%
\$ 50,000 – \$99,999	40.5 M	79.3 M	96%
\$100,000 and greater	49.7 M	116.5 M	135%
Total	388.5 M	579.6 M	49%

Total estimated annual premium
Includes residual market policies for: AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

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Workers Compensation Residual Market Growth Continues During First Quarter

First Quarter 2013 vs. First Quarter 2012

Size of Risk	2012	2013	Change
\$ 0 – \$ 2,499	20.9 M	24.3 M	16%
\$ 2,500 – \$ 4,999	11.5 M	14.4 M	25%
\$ 5,000 – \$ 9,999	15.3 M	20.5 M	34%
\$ 10,000 – \$49,999	41.5 M	59.7 M	44%
\$ 50,000 – \$99,999	17.4 M	26.2 M	51%
\$100,000 and greater	28.3 M	48.0 M	70%
Total	134.9 M	193.2 M	43%

Total estimated annual premium
Includes residual market policies for: AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

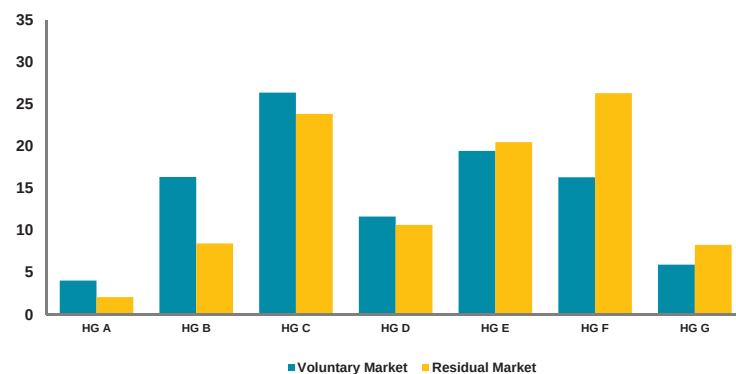
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2012 Workers Compensation Voluntary vs. Residual Market Hazard Group Mix

Percent



■ Voluntary Market ■ Residual Market

Based on share of estimated annual premium
Includes residual market policies for: AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

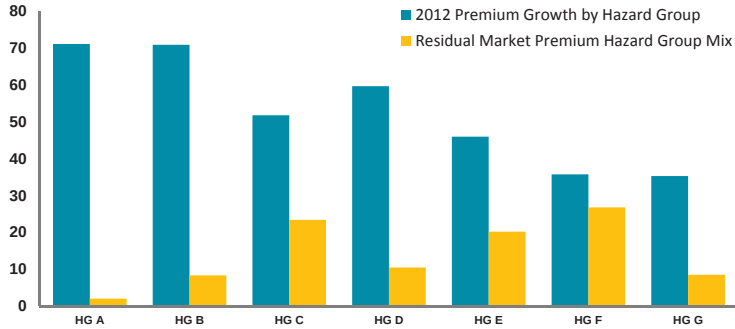
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2012 Workers Compensation Residual Market Growth by Hazard Group

Percent



Based on share of estimated annual premium
Includes residual market policies for: AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

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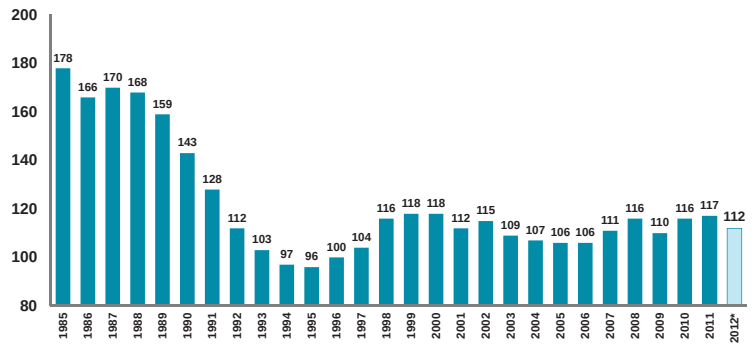
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Workers Compensation Residual Market Combined Ratio

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2012

Percent



* Incomplete policy year projected to ultimate

Policy Year

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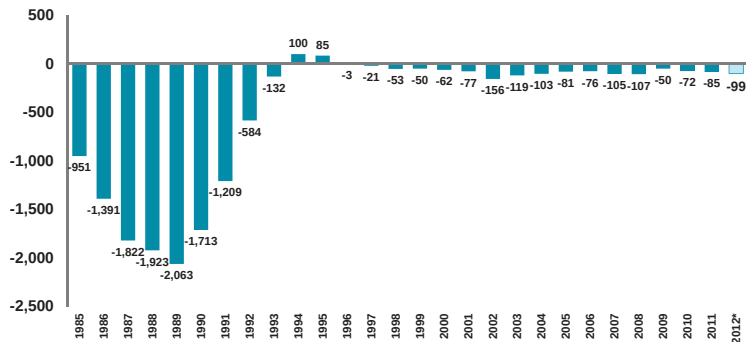
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Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2012

\$ Millions



* Incomplete policy year projected to ultimate

Policy Year

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Current Topics of Interest

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2013

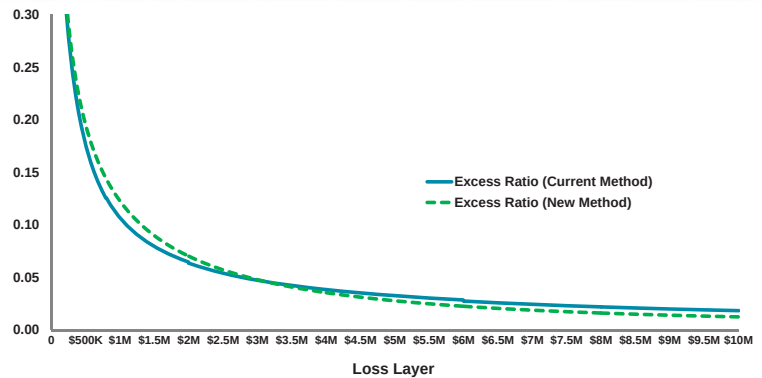
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Workers Compensation New Excess Loss Factor Methodology

- Excess loss factors (ELFs) are used in NCCI's class and aggregate ratemaking as well as in the retrospective rating plan
- Since the last major review, NCCI's large loss call is in place, which provides us almost 30 years of history on claims greater than \$500k
- The new methodology for ELFs will provide enhanced accuracy as well as more stability
- Staff plans to file the new ELFs by Third Quarter 2014

Workers Compensation Countrywide Excess Ratios* Current vs. New Method



* The new excess ratios are computed using the severities and weights from the multilevel model; the current excess ratios are computed using the severities and weights underlying the most recent filed countrywide excess ratios

Impact of Split Point Change on Workers Compensation Experience Modifications

- All states have approved NCCI's experience rating split point changes
- NCCI raised the split point because studies showed increasing the weight given to an individual risk's experience improved the predictive accuracy of the mod
 - Risks with credit mods will get bigger credits in general
 - Risks with debit mods will get bigger debits in general
- Annual mod changes due to updated risk experience are significant even when the split point doesn't change
- Sometimes the split point change offsets the typical annual change; sometimes it compounds it

Impact of Split Point Change on WC Experience Modifications

Change in Mod	Typical Annual Mod Change ¹	Mod Change Due to Split Point Change ²
Decrease more than 15%	4.5%	0.1%
Decrease 5% to 15%	8.5%	11.9%
Within plus or minus 5%	74.7%	76.0%
Increase 5% to 15%	7.2%	11.3%
Increase more than 15%	5.1%	0.7%
	100%	100%

Based on 31 States

1. The change from one year's mod to the next due to updated loss experience and rating values.

2. Change from preliminary 2013 mod to actual 2013 mod (loss experience same; split point and rating values updated).

Concluding Remarks

Current State of the Line

Negatives

- Pace of economic recovery
- Underwriting results
- Interest rates at historic lows
- Potential expansion of alternative systems for workers compensation
- Uncertain impact from healthcare reform

Positives

- Premium increased
- Frequency decline resumes
- Severity growth moderate
- Industry's capital position

Questions and More Information

Questions on the State of the Line presentation?
Email us at stateoftheline@ncci.com.

Download the complete presentation materials
and watch a video overview of the State of the
Line at **ncci.com**.