

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



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REPORT TO THE LEGISLATURE ON ACT 796 OF 1993 THE STATE OF THE WORKERS' COMPENSATION MARKET FOR YEAR ENDING 2005

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

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

In 2005, Arkansas had a calendar year combined loss ratio of 93% and a policy year combined loss ratio of 93%, which are among the lowest of any state for which Arkansas' statistical agent, the National Council on Compensation Insurance (NCCI), compiles loss data. In 2005, NCCI filed for small decreases in both the voluntary market loss costs (-1.5%) and assigned risk plan rates (-2.8%). Several factors and trends in the industry, however, may offset future decreases. These factors include increased medical costs, increasing prescription drug utilization, increased reinsurance costs, and catastrophe loading for potential terrorism losses.

CONTINUED RATE IMPACT OF ACT 796 OF 1993

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

The impact of the Act on workers' compensation premiums is clear and significant. Prior to its enactment rates were increasing significantly. For example, for both the voluntary market and the assigned risk plan, rates in 1991 and 1992 increased 15% and 18% respectively. Passage of the Act forestalled anticipated rate increases in 1993 and 1994, with 1993 being the first year in the last ten in which there was no rate increase. 1993 and 1994 were years of market stabilization, and subsequent years have seen significant rate reductions in both the voluntary market and the assigned risk plan. Year 2000 saw our first increase in the assigned risk plan rates while experiencing a decrease in the voluntary market. In 2003, Arkansas had the lowest loss costs in the region per \$100 of payroll (\$1.26) compared to the regional average loss cost of \$2.11 and the countrywide average loss cost of \$2.00. There are still positive effects from this Act that benefit Arkansas employers. Some of the changes are, however, showing diminishing restraint on rates as reflected in recent rate filings.

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%

PAYROLL AND EXPERIENCE MODIFIER

Reported payroll in Arkansas continues to increase while premiums for insureds continue to decrease. The average experience modifier has increased minimally (0.90 to 0.92). This minimal change in experience modifier could represent the continuing effectiveness of loss control measures and the impact of the Hazardous Employer Program operated by the Health and Safety Division of the Workers' Compensation Commission. Please refer to Exhibit "A" for additional statistical information regarding premiums and modifiers.

ASSIGNED RISK PLAN

The assigned risk plan has seen a consistent history of decline in population since the passage of Act 796 until the last two years. Down from a record high of \$150,000,000 in 1993, to a low of \$6,566,275 in September 2000, the premium volume as of December 31, 2005, increased to \$22,281,469. The increase in premium in the assigned risk plan is in part attributable to the failure of several insurers domiciled in California and other states. In addition, a portion of the increase may be attributable to an increase in plan population of small premium employers who have premiums too low to be attractive to the competitive market. In essence, their premiums are less than the minimum premium for which coverage is offered in the voluntary market. These companies may often get better rates through the plan; consequently, as of the end of the first quarter of 2006, small premium employers (less than \$2,500 in annual premium) constituted approximately 74% of the plan policy volume with an average of \$788 in premium per policy. Average plan premium per policy at the end of the first quarter of 2006 was \$3,092 for all 1,703 policies in the plan. In addition, the insurance companies are tightening their underwriting decisions for employers with higher losses or higher risk class codes.

For those employers qualifying for voluntary coverage, cost savings have been substantial. According to the NCCI, price discounting by voluntary carriers reached record levels of 24% during 1999. Carriers pulled back on the discounting in 2000 to 14.7% and, as anticipated, they further reduced discounts in 2004 and 2005. These discounts were predominately comprised of discounts to scheduled rating and dividends, which offset small increases due to rate and loss cost departures.

PLAN ADMINISTRATION/SERVICING CARRIERS

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

Arkansas participates in the oversight of the market and the NCCI through a multi-state working group of the National Association of Insurance Commissioners (NAIC). The oversight 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. Overall, the examination found concerns about statistical reporting and error correction. While those concerns are being remedied, they 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 which concluded its responsibilities after completion of the implementation of several reforms to improve service and data quality of the organization. The Department and the task force continue to work with the NCCI to address data quality and service related issues.

The location of an office in Little Rock (mandated by 1993 legislation) resolved many of the service problems and has provided Arkansas agents and insureds easy, immediate access to responsive company personnel. The effectiveness of this office can be measured in the reduction of the number of complaints received by the Insurance Department and the reduced number of appeals which ultimately reach the Appeals Board. The one full-time employee and the one part-time employee of the office are knowledgeable and committed to providing excellent service.

Attached are Exhibits "B" entitled *Arkansas Residual Market 1st Quarter 2006 Status Report*, and Exhibits "C1 and C2" entitled *Arkansas Residual Market Annual 2005 and 2004 Status Reports*, respectively, prepared by the NCCI setting out, among other things, 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 has also implemented a program which allows, at no charge to the agent, the option to submit assigned risk applications online. Upon successful submission, this allows the customer to immediately receive a confirmation code and application identification number for reference. There are significant savings to the plan when the applications can be processed electronically. Arkansas agents have been extremely responsive to this initiative with approximately 58% of applications being submitted electronically.

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, 2000, through December 31, 2003, the servicing carriers were

Travelers Indemnity Company and Liberty Insurance Corporation. Due to the increased growth in the assigned risk plan, the number of carriers was increased to four. After evaluating the bids submitted as a result of a RFP, for the period January 1, 2004 through December 31, 2006, the servicing carriers selected were Travelers Indemnity Company, Liberty Insurance Corporation, Union Insurance Company, and Companion Property and Casualty Company.

SUMMARY OF INSURANCE DEPARTMENT'S CRIMINAL INVESTIGATION UNIT

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

Act 796 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 Investigations Division during the 2005 Legislative Session.

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

The actual prosecution of a workers' compensation fraud case is contingent on many factors. Key among those factors is the elected prosecutor's willingness to carry a case forward. If the information provided from an investigation is not enough to meet the standards for conviction found at Ark. Code Ann. §11-9-106, a prosecutor will be unwilling to pursue the case. Local law enforcement agencies often do not have the resources to investigate workers' compensation fraud; fortunately, the investigative authority of the Criminal Investigation Division allows the Arkansas Insurance Department to supplement these often under-funded local agencies. This Division's dedication to a single purpose allows for complex investigations which require time and focus that would otherwise not be available. As these complex cases evolve, they frequently require investigators to work through a myriad of leads to develop a case. Occasionally, even with dedicated resources for this single purpose being used, there simply is not enough information 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.

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 2004-2005 reporting period there were 43 workers' compensation investigations opened.

During the same reporting period four cases were prosecuted. There were three prosecutions won during the reporting and one case is still pending. This information is not reflected in the statistics below because it falls outside of the reporting period, but is based upon the work done during the reporting period. Similarly, work continues on many investigations that were opened during the reporting period.

**Criminal Investigation Unit Activity Report
September 1, 2004 through August 31, 2005**

	<u>For Reporting Year'04 through'05</u>	<u>Division Totals (Since 10/93)</u>
Investigations Opened	43	1,726
Employee	32	1,316
Employer	10	338
Third Party	1	72
 Cases Referred for Prosecution		
By Legal Section	4	149
Employee	3	119
Employer	1	17
Third Party	0	13
 Prosecutions Won	3	102
Employee	3	79
Employer	0	14
Third Party	0	9
 Prosecutions Lost	0	3
Employee	0	3
Employer	0	0
Third Party	0	0
 Fine/ Cost	\$1,400.00	\$180,588.34
Restitution	\$0.00	\$420,940.38

2006 LEGISLATIVE ACTIVITY WITH REGARD TO WORKERS' COMPENSATION

There has been no legislative action regarding workers' compensation not previously reported.

RECENT COURT DECISIONS

(At the time of printing, citations to the Southwest Reporter and the Arkansas Reports were not available for the following cases; Westlaw electronic citations have been provided instead.)

Arkansas Supreme Court

(Date of Opinion, Docket Number, and Westlaw citation are provided where official Arkansas or Southwest Reporter citations are not yet available.)

Stocks v. Affiliated Foods Southwest, Inc., 2005 WL 2234992 (Ark. Sept. 15, 2005): The claimant sustained an injury while working for Convenience Store Supply, Inc. (CSSI), when a pallet jack he was operating pinned his leg against a steel table. CSSI paid workers' compensation benefits for the injury; however, the claimant ultimately filed suit in circuit court against Affiliated Foods Southwest for negligently providing a defective pallet jack for use by CSSI employees. Affiliated Foods moved for summary judgment on the basis that it was a CSSI stockholder acting in the capacity of an employer at the time of the Claimant's injury, such that workers' compensation benefits were the Claimant's exclusive remedy pursuant to Ark. Code Ann. §11-9-105(a). The trial court agreed and granted the motion, prompting the claimant to appeal directly to the Arkansas Supreme Court under Ark. Sup. Ct. R. 1-2(b)(5) and (b)(6). On appeal, the Court held that the fact question of whether Affiliated was a stockholder-employer within the meaning of Ark. Code Ann. §11-9-105(a) was a determination that "lies exclusively with the Commission, as the facts presented below are not so one-sided as to demonstrate that the Act does not apply as a matter of law." Because the circuit court thus lacked jurisdiction to decide the fact question on which the motion for summary judgment hinged, the Court reversed and remanded with leave for the parties to pursue a determination before the Commission.

Wallace v. West Fraser South, Inc., 2006 WL 181974 (Ark. January 26, 2006): In this employment services case, the Arkansas Supreme Court affirmed the Arkansas Court of Appeals' determination that the Claimant had been performing "employment services" when he fell while returning to work from a break. Although a restroom break in particular was not at issue, the Court looked to previous compensable cases involving such breaks and noted that specific emphasis had been placed on the fact that an employee was *returning* to work at the time of injury (emphasis in original; see, for instance, *Matlock v. Arkansas Blue Cross Blue Shield*, 74 Ark. App. 322, 49 S.W.3d 126 (2001)). The Court also looked to earlier cases in which claimants who were "on break" at the time of an accident were nonetheless found to have sustained compensable injuries where the circumstances indicated that their specific activity was advancing the employer's interest or was otherwise required by the employer, e.g., such as monitoring a work area while on break or being subject to leaving a break in order to perform some task on behalf of the employer. See, for instance, *White v. Georgia Pacific*, 339 Ark. 474, 6 S.W.3d 98 (1999) and *Ray v. Univ. of Arkansas*, 66 Ark. App. 177, 990 S.W.2d 558 (1999). In

the instant matter, the Claimant provided uncontradicted testimony that he did not clock out at break and would be “written up” if he did not return in a timely fashion; moreover, the Claimant testified that he had been called off of his break to return to work in the past. While the Court declined to adopt a “bright-line” rule that an employee on break is *per se* performing employment services, it nonetheless concluded that, on the particular facts of this case, the Claimant was performing employment services at the time of his injury.

Johnson v. Bonds Fertilizer, Inc., et al., 2006 WL 242653 (Ark. May 10, 2006): On June 28, 1995, the Claimant was involved in a train/motor vehicle accident that resulted in serious injuries. He and his wife filed suit in circuit court against several defendants, including Respondents Bonds Fertilizer and Bonds Brothers, Inc. The Claimant appealed from the result in his suit, contending, *inter alia*, that the circuit court had erred in finding that the claim against Bonds Fertilizer was barred by the exclusive remedy doctrine of the Workers’ Compensation Act. The Arkansas Supreme Court agreed as to this particular point, and remanded the matter to the circuit court “with leave for Johnson to seek a determination from the Commission as to whether he was performing employment services for Bonds Fertilizer or the Farm on the date of the accident.” *Johnson v. Union Pacific R.R.*, 352 Ark. 534, 104 S.W.3d 745 (2003; “*Johnson I*”). The Claimant thereafter sought such a ruling from the Commission, which concluded that it had no jurisdiction to decide the matter since the statute of limitations had run. The Commission further found that it was without authority to issue an advisory opinion. On the Claimant’s second appeal, the Arkansas Supreme Court agreed with his position that “the time requirements set out in §11-9-702 apply to a *claim for compensation* or a *claim for additional compensation* filed with the Commission, and not to a request for a factual determination” (emphasis in original). The Court went on to state that “Appellees would have this court construe the statute to mean that if a litigant wants the Commission to make a ruling on *any* aspect of workers’ compensation law, then he or she must request a ruling within the periods prescribed in §11-9-702. This we will not do” (emphasis in original). The Court further concluded that the Commission had not been asked to issue an advisory opinion since it was “not being asked to make a determination based on facts not in evidence and events that have not yet occurred...all of the facts are in evidence, and the only issue is whether Johnson was providing employment services for Bonds Fertilizer or for the Farm at the time of his injury. Only the Commission has the jurisdiction to make that determination.”

Nucor Corp., et al v. Rhine, 2006 WL 1644354 (Ark. June 15, 2006): Heckett and Nucor entered into a contract in 1992 whereby Heckett would provide services at Nucor’s Hickman plant near Blytheville. In 1998, the parties amended the contract such that Heckett took over Nucor’s scrap-metal loading operation. Pursuant to the amendment, Nucor’s scrap-metal operation employees were turned over to Nucor’s payroll. Heckett’s employees worked twelve-hour shifts from 7:00 a.m. to 7:00 p.m., while Nucor’s employees worked similar shifts but from 8:00 a.m. to 8:00 p.m. The Claimant (Rhine) sustained a crush-type injury to his left foot when it was caught between a railcar coupling and the railcar body on August 16, 1998. Heckett accepted the Claimant’s workers’ compensation claim and paid appropriate benefits. Subsequently, on December 27, 2000, the Claimant filed a third-party tort action against Nucor-Yamato Steel, and later amended the complaint to add Nucor. In April, 2003, the Claimant again amended his complaint to delete Nucor-Yamato Steel, leaving Nucor as the sole defendant. Nucor moved to dismiss, asserting that the Claimant had been acting as its “special employee”

and that his third-party suit was thus barred by the exclusive remedy doctrine. After the trial court denied its motion, Nucor filed a writ of prohibition with the Arkansas Supreme Court, which was granted on September 23, 2003. The Claimant then submitted the question to the Arkansas Workers' Compensation Commission, which found on April 26, 2005, that it (1) had jurisdiction over the claim; (2) the Claimant, Heckett, and Heckett's workers' compensation insurer shared an employee/employer/carrier relationship on the date of injury, and (3) the Claimant had not been an employee, special or otherwise, of Nucor at the time of injury. On appeal, Nucor argued that the Supreme Court's mandate did not expressly remand the case to the Commission "for any type of determination," and that the claim against it was barred by two-year statute of limitations applicable to workers' compensation claims. In affirming the Commission, the Supreme Court reasoned that its mandate had "implicitly held that the special-employee issue was to be determined by the Commission...the Commission has exclusive, original jurisdiction to determine the issue of whether Nucor was appellee's employer, particularly when Ark. Code Ann. §11-9-410 (Repl. 2002) authorizes an employee to file suit against a negligent third-party." The Court further pointed out that the two-year statute of limitations applied only to claims for compensation and did not bar the Commission from determining the factual issue before it. Finally, with regard to Nucor's contention that the Commission had erred by finding that no contract of hire or special employment relationship existed between the Claimant and Nucor, the Court held that there was substantial evidence to support the Commission's decision.

Arkansas Court Of Appeals

Allen Canning Co. v. Woodruff, 2005 WL 2160163 (Ark. App. September 7, 2005): The Arkansas Workers' Compensation Commission found that the Claimant sustained a compensable back injury on July 7, 2003, that his claim was not barred by the *Shippers Transport* defense, and that his entitlement to temporary total disability benefits had terminated on July 18, 2003. In affirming the Commission's findings, the Arkansas Court of Appeals noted that the Respondents had not challenged the occurrence of the injury or that it was established by objective findings; rather, they had asserted that it was a mere recurrence of the Claimant's previous back problems for which they were not liable. In particular, the Respondents pointed out that the Claimant had filed a Form AR-C with the Commission on February 11, 2003, seeking additional benefits for a back injury sustained while employed by another company. The Commission, however, found that the Claimant had been released without restrictions from his previous medical care on August 19, 2002, and had "obviously found appellee's testimony credible that he did not seek any additional medical treatment or take any medication other than aspirin from his release on August 19, 2002, until July 7, 2003..." With regard to the *Shippers'* defense, the Commission found that the Respondents had failed to prove that the Claimant had knowingly and willfully made a false representation as to his physical condition on an employment application. Specifically, both the Commission and the Court agreed that the question posed on the application, e.g., "do you have any physical or mental conditions which may limit your ability to perform certain kinds of work?" was too broad and general to support a *Shippers* defense. Moreover, it was not clear that the Claimant would have been told what job duties to expect at the time of his application, and new employees were only asked about limiting conditions after they were hired – thus leaving the Respondents unable to successfully argue that they had relied to a substantial extent on an alleged false representation when hiring the Claimant. Finally,

since the Claimant had filed for and began receiving unemployment compensation shortly after July 18, 2003, and given the lack of medical evidence indicating that he was totally incapacitated from earning wages after that date, the Court agreed with the Commission's finding that the Claimant was not entitled to additional temporary total disability benefits.

Yancey v. B&B Supply, 2005 WL 2293482 (Ark. App. September 21, 2005): In *Yancey*, the Arkansas Workers' Compensation Commission found that the Claimant had been "made whole" by his third-party tort recovery and that the Respondents were entitled to subrogation pursuant to Ark. Code Ann. §11-9-410 (Supp. 2005). Noting, however, that the insurer's right to subrogation arises only when the recovery by the insured exceeds his total damages, the Arkansas Court of Appeals reversed on the basis that the Commission had not taken into account the formula applied in *S. Cent. Ark. Elec. Coop v. Buck*, 354 Ark. 11, 117 S.W.3d 591 (2003). In particular, the Claimant had received an award of \$235,000.00, but this amount was reduced to \$164,500.00 by an application of contributory negligence. After deducting fees and costs, the Claimant's award stood at \$86,737.66. This amount, taken in conjunction with workers' compensation benefits in the amount of \$21,335.50, left the Claimant with a total compensation of \$108,073.16, "an amount clearly not exceeding the total amount the jury found Yancey had incurred as damages -- \$250,000.00."

Jones Bros., Inc. et al. v. Journagan Constr. Co. et al. v. Keeter, et al.; 2005 WL 2450172 (Ark. App. October 5, 2005): In this complex claim that arose well before the 2005 legislative amendment to Ark. Code Ann. §11-9-402(a), the claimant drove a dump truck for Whitlock Trucking, which was subcontracted to Aggregate Transportation Specialists. Aggregate, in turn, was subcontracted to Journagan Construction, which itself was subcontracted to Jones Bros. Construction. All parties were involved in completing a highway construction contract between Jones and the Arkansas State Highway and Transportation Department. The Claimant suffered severe injuries as the result of a dump truck collision, for which Whitlock had no workers' compensation coverage. Because Jones was the only entity that owed a contractual obligation to a third party (AHTD), the Arkansas Workers' Compensation Commission found that it was the prime contractor and was liable for injuries to the employees of its uninsured subcontractors -- even though there were intermediate subcontractors (Aggregate and Journagan) that were insured. The Commission further found that Jones could assert a lien against moneys owed by it to its immediate subcontractor, Journagan, even though the injured claimant was not Journagan's employee. Journagan, in turn, had a similar lien as to Aggregate, who could also assert a lien against Whitlock. The Arkansas Court of Appeals affirmed the Commission's findings, concluding from the relevant statutory language that "a prime contractor, who is ultimately liable, can make claims against its immediate subcontractor, even though the injured employee is not the immediate subcontractor's employee. Consequently, we construe the Commission's finding to mean that Jones may recover against Journagan." It should be noted that in its 2005 session, the Arkansas General Assembly modified the language of Ark. Code Ann. §11-9-402(a) as follows: "Where a subcontractor fails to secure compensation required by this chapter, the prime contractor shall be liable for compensation to the employees of the subcontractor *unless there is an intermediate subcontractor who has workers' compensation coverage.*" (Amendment noted with italics.) **[Note: The Arkansas Supreme Court subsequently heard this appeal as *Jones Bros., Inc. v. Whitlock, et al*, 2006 WL 1174472 (Ark. May 4, 2006). Briefly stated, the Supreme Court affirmed the outcome above except**

as to the nature of the prime contractor's recovery from its subcontractors. In particular, the Court held that "while a recovery *shall* constitute a lien against any amounts due the subcontractor, it does not follow that recovery is only available to the prime contractor if an amount is still owed the subcontractor by the prime contractor. In short, the prime contractor may recover from the subcontractor the amount of compensation paid the claimant even though the prime contractor may not owe money to that subcontractor on which it could place a lien" (emphasis in original). However, the Court further held that Jones' initial recovery must be against the uninsured subcontractor, Whitlock, but that, if not satisfied by that recovery, it would "be entitled to any subrogation rights it may have as a result paying compensation benefits to Mr. Keeter." To this extent, the Court reversed the previous decision.]

Wal-Mart Stores, Inc. v. King, 2005 WL 2995388 (Ark. App. November 9, 2005): The Arkansas Workers' Compensation Commission found that an employee was performing "employment services" within the meaning of Ark. Code Ann. §11-9-102 (4)(B)(ii) (Supp. 2001) when she slipped and fell on May 12, 2003, while moving from her usual work area to the break room. The Arkansas Court of Appeals affirmed, noting the Commission's findings that the claimant believed she was following a directive from her employer to take breaks exclusively in the break room and that she was required to assist customers during her break if assistance was requested.

Eskola v. Little Rock School District, 2005 WL 3196778 (Ark. App. November 30, 2005): The Claimant sustained a compensable shoulder injury on September 15, 1998, and subsequently filed a Form AR-C on June 17, 1999, for both "initial" and "additional" benefits. Up to that point, the Claimant had not received any workers' compensation benefits. Following the AR-C filing, the Claimant did receive benefits up until May 8, 2000. In May, 2003, the Claimant contacted the Respondents concerning surgery on his shoulder but was informed that the statute of limitations had run on his claim. The Arkansas Workers' Compensation Commission agreed. In affirming the Commission's decision, the Arkansas Court of Appeals reasoned that "a claim request cannot be considered to be both an initial request for compensation and an additional request for benefits at the same time – an initial request must be paid before an additional request can be made." The Court went on to conclude that, since the Claimant had received no workers' compensation benefits prior to June, 1999, his AR-C filing at that time had been a claim for *initial* benefits. In turn, the Claimant's request for surgery in May, 2003, was a claim for *additional* compensation that was time-barred by Ark. Code Ann. §11-9-702(b)(1), in that it was made more than one year from the last payment of benefits and two years from the date of injury.

Moncus v. Billingsley Logging, 2005 WL 3307251 (Ark. App. December 7, 2005): On August 19, 2003, the Claimant was killed in a motor-vehicle accident while traveling in his personal vehicle to the site where he would be logging for the day. Although the Claimant had the option of riding in a company vehicle, he chose to drive his personal transportation in order to leave the job site early for a personal errand. At the time of the accident, the Claimant was not carrying any tools or equipment owned by his employer and he was not yet being paid since his compensation was based on the amount of wood that he cut. The Claimant's representative conceded that accidents sustained during the course of ordinary travel to work were not

compensable due to the “going and coming rule.” However, on this particular occasion, the Claimant and his co-workers had been directed to meet their employer at a specific location in order to caravan to a new work site – the location of which only the employer knew. According to the evidence presented, this type of travel arrangement occurred two or three times each year. The Arkansas Workers’ Compensation Commission found that, while the Claimant had been required to meet his employer and follow him to the new work site, “it cannot be said that...travel to the tract of land advances the employer’s purpose or interests on those days any more than any other day when the employees travel to the tract of land where timber is to be cut.” The Arkansas Court of Appeals affirmed, noting that regardless of whether the Claimant followed his employer to work, he was still nevertheless required to travel to his actual job site and his travel did not fall under any of the recognized exceptions to the going and coming rule. **[Note: The Arkansas Supreme Court, at 2006 WL 1349080 (Ark. May 18, 2006), subsequently reversed the decisions reached by the Commission and the Arkansas Court of Appeals. In particular, the Supreme Court concluded that the Claimant’s travel at the time of the accident fell within a “jobsite-to-jobsite” travel exception to the going and coming rule since the Claimant had no fixed place of employment and “was obligated to travel from jobsite to jobsite as indicated” by his employer. Moreover, the Court reasoned that the present case was “readily distinguishable from the usual ‘going and coming’ scenario, where on any particular day the employee has no interaction and receives no instructions from his supervisor until after his arrival at the place of employment...In a real sense, his employer was responsible for Moncus’ precise location on the road at the time of the accident.” The Court went on to state that the “going and coming” rule was subordinate to the “pre-eminent consideration” of whether the employee was directly or indirectly advancing the employer’s interests at the time of injury, and expressly overturned the rule to the extent that it “prevents recovery for injuries sustained while...furthering the interests of the employer.”]**

Brotherton v. White River Area Agency on Aging; 2005 WL 3418404 (Ark. App. December 14, 2005): In this complex “employment services” case, the Claimant worked for both the Respondents and for a Ms. Foster as a personal-care aide for disabled elderly women who lived with Foster. Foster, who received money from her residents’ families to provide 24-hour care, was herself a personal-care aide employed by the Respondents. Four of Foster’s five clients were also clients of the Respondents, and the latter paid the Claimant to provide three hours of services per client to two of Foster’s clients, including Ms. Raines. On July 16, 2002, the Claimant was scheduled to provide services to Ms. Raines from 10:00 a.m. until 1:00 p.m.; however, the evidence indicated that the Respondents were aware that, on any given time during her shift, the Claimant also provided services for any of Foster’s clients who needed assistance, including Ms. Raines. Apparently, the Respondents were aware of the unique relationship involving themselves, Foster, and the Claimant, and were also aware that the Claimant would arrive at Foster’s home at 8:00 a.m. and work for six hours rather than work two consecutive three-hour shifts in which care was devoted exclusively to an agency client. At 9:00 a.m. on July 16, 2002, the Claimant sustained a back injury when she and Foster attempted to assist Raines to the toilet. The Claimant reported the injury to the Respondents on July 29, 2002, who in turn controverted the claim on the basis that the Claimant had been working for Foster at the time of injury. The Arkansas Workers’ Compensation Commission agreed, having concluded that the injury had not occurred within the time and space boundaries within which the Claimant was

scheduled to provide services to Raines on behalf of the agency. The Arkansas Court of Appeals reversed, pointing out as an initial matter that a claimant could work simultaneously for two employers. The Court further noted that, in such a scenario, liability for a workers' compensation injury would be joint if the employee was working for and under the control of two employers at the same time. However, if the work is separable, then the employer for whom services are being provided at the time of injury is solely responsible. The Court went on to conclude that the Respondents had implicitly conceded that the work was separable by arguing that the Claimant was working solely for Foster at the time of injury. Additionally, the Court determined that the Claimant had been "on the agency's clock" at the time of the injury since her shift began at 8:00 a.m. – one hour before the injury occurred. In so holding, the Court felt that the Commission had placed "undue emphasis" on the fact that the Claimant was injured outside of the time period that she was specifically scheduled to provide services to Raines, to wit, "...it is clear that [the Claimant] was injured during *agency-scheduled* work hours. Furthermore, she was injured while performing an *agency-contracted* service...for her own *agency client*" (Emphasis in original). The Court also observed that the Respondents received a benefit for the services being performed by the Claimant at the time of the injury, in that it would have been a detriment to the agency had the Claimant refused to help Raines simply because she was not scheduled to do so at that time. Finally, the Court emphasized the fact that the Respondents were aware of and had acquiesced to the unique arrangement involving the parties: "Here, the agency knew that it employed [the Claimant] and Foster, knew that four of Foster's five clients were also agency clients, knew that [the Claimant] also worked for Foster, and knew that these employees did not, and in fact, could not strictly observe the agency's service schedule." Taking care to indicate that this case was limited to its unique facts, the Court reversed the Commission's decision and remanded the matter for an award of benefits.

Foster v. Express Personnel Services, 2006 WL 14490 (Ark. App. January 4, 2006): In this employment services case, the Claimant worked on the second floor of a used-car sales business, but would routinely enter through the service bay, turn into the building, bypass the stairs to her floor, and proceed to the cashier's desk on the first floor to pick up credit-card receipts before going to her desk. Occasionally, other employees would question the Claimant in the service-bay area before she reached the cashier's desk. The Claimant would also sometimes be required to pick up warranty slips from the warranty clerk and to confer with the service manager during her work day. On June 6, 2003, after coming in from a heavy rainstorm and while en route to the cashier's desk to begin her workday, the Claimant slipped and fell in the service bay area where she normally entered, resulting in injuries to her hips and head. The accident occurred about ten minutes before the Claimant was scheduled to report to work. The Arkansas Workers' Compensation Commission found that the Claimant was not performing employment services within the meaning of Ark. Code Ann. §11-9-102(4)(B)(iii) at the time of her injury. In particular, the Commission noted, *inter alia*, that the Claimant was "not yet engaged in any activity required by McClarty or the respondent employer when she fell." For its reversal, the Arkansas Court of Appeals pointed out that "the critical issue is whether the interests of the employer were being directly or indirectly advanced by the employee at the time of the injury" (citing *Collins v. Excel Spec. Prod.*, 347 Ark. 811, 69 S.W.3d 14 (2002)). The Court concluded that the Claimant was "unquestionably injured in an area in which employment services were expected of her...workers' compensation law does not require infinitesimal scrutiny of a claimant's conduct posited by the employer in this case." Among the facts relied upon by the Court in reaching its decision was testimony that the Claimant "would have been 'on

the job’...as soon as she walked through the bay doors if the service manager needed her for something, because as soon as Foster walked through the doors ‘they are going to stop her right there. They are not going to wait until she goes to her desk.’” The Court went on to state that “Express would have us hold that no act of Foster was compensable until she reached the cashier’s desk, even if she was furthering its interests at the time. However...an employee may be compensated for an injury that occurs even before she reaches her work station or before she is ‘on the clock,’ if she is performing a service that is required by her employer and is directly or indirectly advancing her employer’s interests” (citing *Caffey v. Sanyo Mfg. Corp.*, 85 Ark. App. 342, 154 S.W.3d 274 (2004)). In light of its view of the circumstances, the Court held that there was not substantial evidence to support the Commission’s decision, and reversed and remanded the matter for further proceedings consistent with its opinion.

Cottage Café, Inc. v. Collette, 2006 WL 235067 (Ark. App. February 1, 2006): The Claimant in this instance had worked for the Cottage Café for approximately nine years when its owners, who had been insured for workers’ compensation purposes through Southern Guaranty Insurance, sold the business on September 12, 2003. The new owners obtained workers’ compensation coverage through Farmers Insurance Group effective September 23, 2003. On September 29, 2003, the Claimant dropped a kitchen utensil from her hand and was thereafter unable to continue working. She subsequently received a diagnosis of carpal and cubital tunnel syndromes (e.g., gradual injuries) which neither of the carriers accepted as compensable. Following a hearing, the Arkansas Workers’ Compensation Commission found the injury compensable and assigned liability to Farmers. On appeal, the Arkansas Court of Appeals found that the record supported the Commission’s finding that the injury was compensable. However, the Court further concluded that the Commission had erred in finding that Farmers bore liability. In particular, the Commission had taken a “manifestation” approach to determining which carrier was liable, and had analyzed that point in time at which the claimant began to miss work, require medical attention, and was no longer able to perform her job. The Court of Appeals, however, reversed on this point and held that the Commission had overlooked the precedent established in *Pina v. Wal Mart Stores, Inc.*, 2005 WL 1111736 (Ark. App. May 11, 2005), in which the Court had looked to when the Claimant became aware of her (gradual) injury to determine when the statute of limitations had begun to run. Accordingly, the case was remanded to the Commission for further proceedings as to carrier liability.

O’Hara v. J. Christy Constr. Co., 2006 WL 401661 (Ark. App. February 21, 2006): The Claimant sustained a compensable hernia injury on March 13, 1993, prior to the passage of Act 796 of 1993. Due to complications involving femoral nerve impingement, the Claimant underwent additional surgery and eventually received a 20% permanent anatomical impairment rating to the whole body in July, 1994. Following a hearing in March, 1997, an Administrative Law Judge with the Arkansas Workers’ Compensation Commission assigned the Claimant a 30% wage loss disability rating, which the Full Commission subsequently reduced to 20% in an opinion issued in February, 1998. Approximately six years later, the Claimant filed yet another claim for wage loss disability benefits which the Commission heard in April, 2003. Based on the Claimant’s testimony regarding his worsened condition and depleted capacity to work, an Administrative Law Judge found that he had sustained an additional 30% wage loss disability rating. The Full Commission reversed on the basis that the issue of wage loss disability was *res judicata* by virtue of the prior hearing, and further found that the Claimant had not demonstrated any objective change in his condition. The Arkansas Court of Appeals found the Commission to

be in error on both points. In particular, the Court noted that *res judicata* applied only insofar as the Commission had adjudicated the Claimant's entitlement to wage loss disability as of March, 1997, and that his current claim was not barred since it was predicated on changes in the Claimant's condition after 1997. The Court went on to hold that the Commission had also erred by requiring, under pre-Act 796 law, "objective" proof of a change in his condition, and remanded for a consideration of whether he had, in fact, demonstrated a change in his condition due to the effects of aging (among other factors) or, alternatively, fell under the odd-lot category of permanent and total disability.

Guerrero v. OK Foods, Inc., 2006 WL 476985 (Ark. App. March 1, 2006): In this circuit court case, the Plaintiff sustained a severe arm injury while working near a conveyor line and subsequently sued his employer in tort. The Plaintiff alleged that "he was ordered to wash a conveyor line with a trigger gun and nozzle hose system that was larger and exerted more pressure than the system he previously used." The Plaintiff further claimed that he had lost control of the hose on an occasion prior to his injury, causing his shirt to become entangled in the conveyor, and that his supervisor ignored the episode and ordered him to continue using the larger hose. On March 25, 2004, the Plaintiff's arm became entangled in the conveyor, causing it to be "ripped off." Alleging an intentional tort, the Plaintiff filed suit in circuit court. The Defendants moved for and obtained summary judgment on the basis that the Plaintiff's claim was barred by the exclusive remedy doctrine. The Plaintiff argued on appeal that, as a matter of public policy, the intentional-tort exception to the exclusive remedy doctrine should be expanded to "embrace patterns of fact such as the one at bar, thereby overturning a series of cases to the contrary." The Arkansas Court of Appeals declined to do so, pointing out that the Plaintiff's arguments were policy-based and were thus for the legislature to consider rather than the courts. In addition, the Court noted that, even if it agreed with the Plaintiff's premise, he would still be barred from pursuing a tort action by the doctrine of election of remedies since he had already accepted workers' compensation benefits.

Lohman v. SSI, Inc., 2006 WL 633779 (Ark. App. March 15, 2006): The Claimant sustained a compensable injury on April 16, 2001, and ultimately received a 15% permanent anatomical impairment rating to the whole body. Subsequently, he sought additional permanent partial disability benefits before the Arkansas Workers' Compensation Commission and obtained a sixty-percent wage loss award from an Administrative Law Judge following a hearing on July 12, 2004. Thereafter, the Full Workers' Compensation Commission reversed the award, finding that the Claimant had refused to participate in or co-operate with an offered program of rehabilitation or job-placement assistance. The Arkansas Court of Appeals, in turn, reversed the Commission's finding for a lack of substantial evidence to support it. In particular, the Court noted that the Commission, "focusing on the lack of a claim for compensable mental injury or illness, failed to acknowledge...testimony that a person with major depression should be treated before she would try to place the person in a job." Further, the Court was unable to conclude that reasonable minds could determine that "Lohman refused to participate in or co-operate with an offered program of rehabilitation and job-placement assistance, particularly in light of appellee's refusal to provide psychological assistance that their own witness said was necessary in order for her vocational rehabilitation services to be meaningful."

Johnson v. Latex Constr., 2006 WL 633828 (Ark. App. March 15, 2006): The Claimant sustained a compensable back injury on February 7, 2003, and sought additional temporary total

disability and permanent partial disability benefits at a hearing before the Arkansas Workers' Compensation Commission on July 29, 2004. Following the hearing, an Administrative Law Judge declined to award additional temporary total disability benefits, but found that the Claimant had sustained a wage loss disability rating in the amount of 45% (in excess of his 5% permanent anatomical impairment rating to the whole body). The Full Workers' Compensation Commission subsequently affirmed as to the temporary total disability issue, but modified the award of wage loss disability to 10%. On further appeal, the Arkansas Court of Appeals reversed as to both of the Full Commission's findings, principally due to the Commission's reliance on the Claimant's refusal to move from his geographic location in assessing his motivation to return to work: "In short, we hold that the Commission erred in analyzing the lack-of-motivation issue in that fashion, especially in light of the fact that in many jurisdictions the refusal of an actual job offer is reasonable if the job is remote in location." The Court further determined that the Commission had erred in concluding that the Claimant's healing period had ended on October 30, 2003 – the point at which the Commission found that continued medical care failed to improve his condition. Instead, the Court pointed out that the Claimant had not been released from one physician's care until February 11, 2004, and that another had opined that the Claimant's healing period ended on March 5, 2004. In light of its reasoning and conclusions, the Court reversed and remanded for an award of benefits consistent with its opinion.

Southwest Arkansas Dev. Council, Inc. v. Tidwell, 2006 WL 720961 (Ark. App. March 22, 2006): The Claimant worked as an in-home client service assistant for home-bound individuals in Southern Arkansas. On January 9, 2002, she was driving from one client's home to another when she pulled into a convenience store for a soft drink. As she drove out of the parking lot and back onto the highway, her vehicle was hit by a truck. The Respondents controverted her subsequent claim for workers' compensation benefits, asserting that the Claimant had deviated from her employment at the time of the injury. An Administrative Law Judge with the Arkansas Workers' Compensation Commission agreed and denied benefits, although the Full Workers' Compensation Commission reversed and found the claim compensable. Looking to recent cases from the Arkansas Supreme Court and Court of Appeals for guidance, the Commission determined that stopping for a soft drink was an activity permitted by the Claimant's employer which did not detract from her work-related travel and, moreover, even if the Claimant had deviated from her employment, she was in the act of returning to her employment at the time of the accident. On appeal, the Arkansas Court of Appeals could find no "meaningful distinction" between the instant case and the facts in *Wallace v. West Fraser South, Inc.*, 2006 WL 181974 (Ark. January 26, 2006); 2005 WL 361737 (Ark. App. February 16, 2005), in which the Claimant was found to have sustained a compensable injury while "coming off a break." The Court likewise declined to make a distinction based on the fact that the Claimant was not on her employer's premises at the time of the injury, noting that, similar to the injured party in *Olsten Kimberly Quality Care v. Pettey*, 328 Ark. 381, 944 S.W.2d 524 (1997), the Claimant was required by her job to travel from client-to-client and was thus performing employment services at the time of her injury: "...appellee in the instant case was traveling between clients' homes when she took a short break to buy a drink for herself, and had resumed the travel necessary to offer in-home services to Southwest's clients. The Commission correctly determined that she was acting within the scope of her employment and providing employment services when she was injured en route to her next job site."

Wilson v. Cornerstone Masonry, 2006 WL 720278 (Ark. App. March 22, 2006): The Claimant was involved in a work-related motor vehicle accident on July 23, 2003, but was found to have essentially normal physical findings beyond a possible osteophyte fracture at the C5 level. The Claimant subsequently returned to work on July 28 performing heavy labor, but began to experience recurrent neck pain. An eventual MRI taken on November 7, 2003, revealed a C6-7 disc protrusion that the Claimant's physician opined was "directly and causally related to the accident." Subsequently, another physician determined that the Claimant was a surgical candidate and that his motor-vehicle accident had been the "major cause" of both his ruptured disc and need for surgery. The Claimant sought workers' compensation benefits before the Arkansas Workers' Compensation Commission. Although an Administrative Law Judge awarded benefits, the Full Workers' Compensation Commission reversed the decision, finding that the Claimant's testimony was entitled to little weight in light of evidence (in the form of medical deposition testimony) that he had been refused further treatment upon requesting that his physician make misrepresentations in order to gain state insurance coverage for his surgery. The Arkansas Court of Appeals reversed, concluding that the testimony regarding the Claimant's alleged attempt to commit fraud was equivocal and that "there is no evidence in the record indicating that it is in fact fraudulent to seek medical care through Medicaid when the employer refuses coverage." The Court also noted that the Claimant had actually testified that he was attempting to have the surgery paid for by Medicaid, and went on to state that "We defer to the Commission on issues involving the weight of the evidence and the credibility of witnesses, but while the Commission's findings on these matters may be insulated to a certain degree, its decisions are not so insulated as to render appellate review meaningless," citing *Cooper v. Hiland Dairy*, 69 Ark. App. 200, 11 S.W.3d 5 (2000) and *Lloyd v. United Parcel Serv.*, 69 Ark. App. 92, 9 S.W.3d 564 (2000). Finally, the Court determined that there was no substantial basis for the Commission's denial of benefits based on the objective medical evidence, which the Commission felt did not establish that the Claimant had sustained a herniated disc due to his work-related accident. In particular, the Court pointed out that the Claimant had not undergone an MRI until the November following his injury and that one of his physicians had testified that it was "very reasonable that he sustained a significant injury to his neck, disc rupture, pressure on the spinal cord that was not identified or did not present itself till September as burning pain."

VanWagner v. Wal-Mart Stores, Inc., 2006 WL 1172361 (Ark. App. May 3, 2006): The Claimant sustained a compensable right shoulder injury on November 17, 1994, and thereafter filed a timely claim (Form AR-C) for additional benefits with the Arkansas Workers' Compensation Commission on January 12, 1995, including, among other benefits, permanent partial disability. At the hearing, however, the parties agreed to limit the issues to additional temporary total disability, related medical expenses, the continuation of the claimant's healing period, and associated attorneys' fees. The Arkansas Workers' Compensation Commission ultimately rendered a decision on the matter on August 19, 1996. Subsequently, on November 6, 2000, the Claimant filed another request for additional benefits, this time for permanent partial disability benefits relating to a 10% permanent anatomical impairment rating assigned by her treating physician. The Commission ruled that the claim for additional benefits in 1994 had tolled the statute of limitations but the toll had been lifted when the claim was disposed of by way of the Commission's Order of August 19, 1996. The Arkansas Court of Appeals reversed the Commission, noting that the previous hearing had been limited to specific issues that did not include the extent of the Claimant's permanent partial disability. Accordingly, that particular issue was not considered to be time-barred.

Roark v. Pocahontas Nursing and Rehabilitation, 2006 WL 1266383 (Ark. App. May 10, 2006): The Claimant sustained a compensable injury on March 29, 2004, and was off work until April 28, 2004, at which time she returned to light duty. Subsequently, her employer discharged her for being a “no call, no show” on May 14, in accordance with its “zero tolerance” policy for such infractions. As a result, the Claimant sought additional compensation under Ark. Code Ann. §11-9-505(a)(1), which required her to prove that: (1) she had sustained a compensable injury; (2) suitable employment within her physical and mental limitations was available; (3) her employer refused to return her to such work; and (4) such refusal was without reasonable cause. Although the Claimant testified that she had previously requested off on May 14, the employer presented evidence that she had not adequately complied with its policies regarding clearance of such requests. Ultimately, the Arkansas Workers’ Compensation Commission denied the claim for additional benefits and the Arkansas Court of Appeals subsequently affirmed, reasoning that it “was Roark’s actions, by not clearing her days off with her new supervisor when she returned to light-duty work and by taking that day off without permission and not calling to work, that caused her job to be terminated.” Under these circumstances, the Court concluded that the employer had not refused to return the Claimant to work and that, even if it had, such a refusal would not have been unreasonable in light of the Claimant’s “no call, no show” status on May 14.

Bray v. Int’l Wire Group, 2006 WL 1266389 (Ark. App. May 10, 2006): In this case involving a 2001 back injury, the Claimant’s family physician referred him to a neurosurgeon for specialty care, who in turn eventually released the Claimant to return only “as needed.” In addition, the neurosurgeon specifically deferred the Claimant’s requests for pain medication to his family physician. While the Arkansas Workers’ Compensation Commission held that the family doctor was no longer an authorized physician, the Arkansas Court of Appeals reversed, noting that “Dr. Middleton was Bray’s original treating physician, and there is nothing in the record or the various decisions of the ALJ and Commission that states or even suggests that he did not remain an authorized physician throughout this case.” However, the Court affirmed the Commission’s finding that the Claimant was not entitled to additional temporary total disability benefits since Dr. Middleton’s reports, while indicating that the Claimant should remain off work, did not suggest any additional treatment that might improve his condition or otherwise extend or renew his healing period.

Death & Permanent Total Disability Trust Fund v. Legacy Ins. Services and Lumbermen’s Mutual Casualty, 2006 WL 1266387 (Ark. App. May 10, 2006): Before the Arkansas Workers’ Compensation Commission, the parties to this case stipulated that the Claimant’s healing period had ended on December 10, 2002, that the Respondents had paid his impairment rating in the amount of \$38,638.00, and that the Claimant was permanently and totally disabled as of December 10, 2002. The only issues presented for the Commission to resolve were the admissibility of an actuarial report offered by the Fund and whether Lumbermen’s was entitled to a credit for the value of the Claimant’s impairment rating with regard to its liability cap of \$75,000.00 for permanent disability as set out in Ark. Code Ann. §11-9-505(b). The Commission denied the admissibility of the report, and further found that Lumbermen’s was entitled to a credit. Subsequently, the Fund appealed that portion of the Commission’s decision pertaining to Lumbermen’s credit. On appeal, the Court noted that there are two distinct forms of disability – temporary and permanent. The Court also pointed out Ark. Code Ann. §11-9-501(c)(2), which states that “any weekly benefit payments made after the

commission has terminated temporary total disability benefits shall be classified as warranted by the facts in the case and as otherwise provided for in this chapter.” Consequently, because the Commission had accepted the parties’ stipulation that the Claimant’s healing period had ended on December 10, 2002, it effectively adopted that date as the date that payment for temporary total disability ended and payment for permanent and total disability began. In turn, “all payments made after December 10, 2002, were classified by the Commission as permanent-total-disability payments that could be applied towards the \$75,000.00 maximum pursuant to Ark. Code Ann. §11-9-502.”

Barnes v. Ft. Smith Pub. Schools, 2006 WL 1330344 (Ark. App. May 17, 2006): The Claimant sustained a back injury on October 5, 2000, which the Respondents initially accepted as compensable before controverting entirely in December, 2000, after discovering that the Claimant had been untruthful about a prior back injury and related workers’ compensation claim. The Claimant subsequently requested a hearing as to her entitlement to additional disability benefits from October 10, 2000, to an undetermined date. The Arkansas Workers’ Compensation Commission affirmed the Administrative Law Judge’s denial of benefits in an Opinion and Order of July 9, 2001, from which the Claimant did not appeal. Subsequently, in November, 2004, the Claimant requested yet another hearing on her entitlement to temporary total disability and medical benefits from February 27, 2002, to an undetermined date. The Commission again denied the request for benefits, finding that the statute of limitations had expired. On appeal to the Arkansas Court of Appeals, the Claimant argued that her 2001 claim had tolled the statute, relying principally on the prior decision in *Spencer v. Stone Container Corp.*, 72 Ark. App. 450, 38 S.W.3d 309 (2001). However, the Court distinguished *Spencer* by pointing out that the claimant in that case had filed a timely request for additional compensation that had never been acted upon, thus tolling the statute of limitations indefinitely. In the instant claim, the request for benefits had been acted upon by virtue of the Commission’s opinion of July 9, 2001, such that the statute was never tolled. Consequently, the Claimant’s request for additional benefits in November, 2004, was time-barred since it was filed in excess of one year from the last payment of compensation (and also in excess of two years from the date of injury). The Court further held that there was no evidence that the Respondents had actual notice or reason to know of the Claimant’s continuing medical treatment beyond the date of controversion, such that the statute was also not tolled by the prior reasoning in *Plante v. Tyson Foods, Inc.*, 319 Ark. 126, 890 S.W.2d 253 (1994).

Liaromatis v. Baxter Co. Reg. Hosp., 2006 WL 1413446 (Ark. App. May 29, 2006): The Claimant, a paramedic, alleged that he sustained a compensable back injury while lifting a patient on July 26, 1999. While the Arkansas Workers’ Compensation Commission accepted the Claimant’s testimony as credible and determined that objective findings were present in the form of a central disk protrusion at L4-5, it nonetheless denied the claim on the basis that the Claimant’s objective findings were unchanged from his previous clinical picture in 1996. Before the Arkansas Court of Appeals, the Claimant argued that the Commission had exceeded the express language of the workers’ compensation act by requiring that objective findings supporting a compensable injury be “new.” The Court did not agree, and reasoned that “when appellant sought benefits for an alleged injury on July 26, 1999, it was his burden to prove that the injury was caused by the events on that day. This burden necessarily required that he present objective medical findings establishing an injury suffered on that day in addition to his non-medical evidence offered to establish a causal relation to the work-related accident...The

medical evidence in this case established that the condition of appellant's lumbar spine after the July 1999 incident was virtually unchanged from the condition diagnosed by tests performed in 1996." Consequently, the Claimant was also unable to demonstrate a compensable aggravation of a pre-existing condition, since an aggravation represents a new injury resulting from an independent incident that must also be supported by objective findings. In sum, the Court concluded that requiring objective medical findings to establish an injury on the date in question "did not impose a requirement in addition to our statutory prerequisites for benefits."

FUTURE PROJECTIONS

While Arkansas has seen slight increases in the average medical cost per lost time claim, and a slight hardening of the market in general, Arkansas' market remains strong and competitive. The attached state of the industry report (Exhibit "D") graphically depicts the sound condition of Arkansas' marketplace. Surrounding states have not been quite so fortunate.

The NCCI has pointed out that workers' compensation results are deteriorating countrywide. The NCCI identified a number of factors that are having a negative impact on the market:

- lower earnings relating to investments;
- assigned risk applications continue to increase;
- 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 has fallen sharply since the reform efforts of 1993, and continues to decline. This means fewer injured workers – the most valuable outcome imaginable for workers and their families, as well as for employers.

CONCLUSION

Absent the reforms encompassed in Act 796 of 1993, it is doubtful Arkansas' insureds would now have the option of voluntary workers' compensation insurance. Rather, the assigned risk plan, designed to be a market of "last resort," would most likely have become Arkansas' 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 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. There is no question that 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 truly injured within the course and scope of their employment have received timely medical treatment and the payment of workers' compensation indemnity benefits. Eroding the positive changes incorporated into Act 796 would be counterproductive to continued economic growth and development.

Prepared: September 12, 2006

cc: The Honorable Mike Huckabee, Governor, C/O Mr. Leon Jones, Regulatory Liaison
The Honorable Olan W. Reeves, Chairman, AWCC
The Honorable Karen H. McKinney, Commissioner, AWCC
The Honorable Shelby W. "Terry" Turner, Commissioner, AWCC
Mr. Alan McClain, Chief Executive Officer, AWCC
Ms. Lenita Blasingame, Chief Deputy Commissioner, AID
Mr. Nathan Culp, Public Employee Claims Division Director, AID
Mr. Corey Cox, Criminal Investigation Division Director, AID
Ms. Charlye Woodard, Communications Director, AID



National
Council on
Compensation
Insurance, Inc.

'06saf

state advisory forums

**Arkansas
Workers Compensation
State Advisory Forum**

May 18, 2006

Presented by:

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Arkansas Workers Compensation State Advisory Forum

- 8:30 Continental Breakfast
- 9:00 State of the Industry
State of Arkansas
Arkansas Loss Cost Filing—July 1, 2006
Frequency and Severity Developments in Arkansas
Indemnity Severity
Medical Severity
Indemnity and Medical Benefits in Arkansas
Legislative Issues Nationwide and in Arkansas
Classification Research Project Update
The Residual Market in Arkansas
- 11:45 Closing Remarks





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state advisory forums

State of the Industry

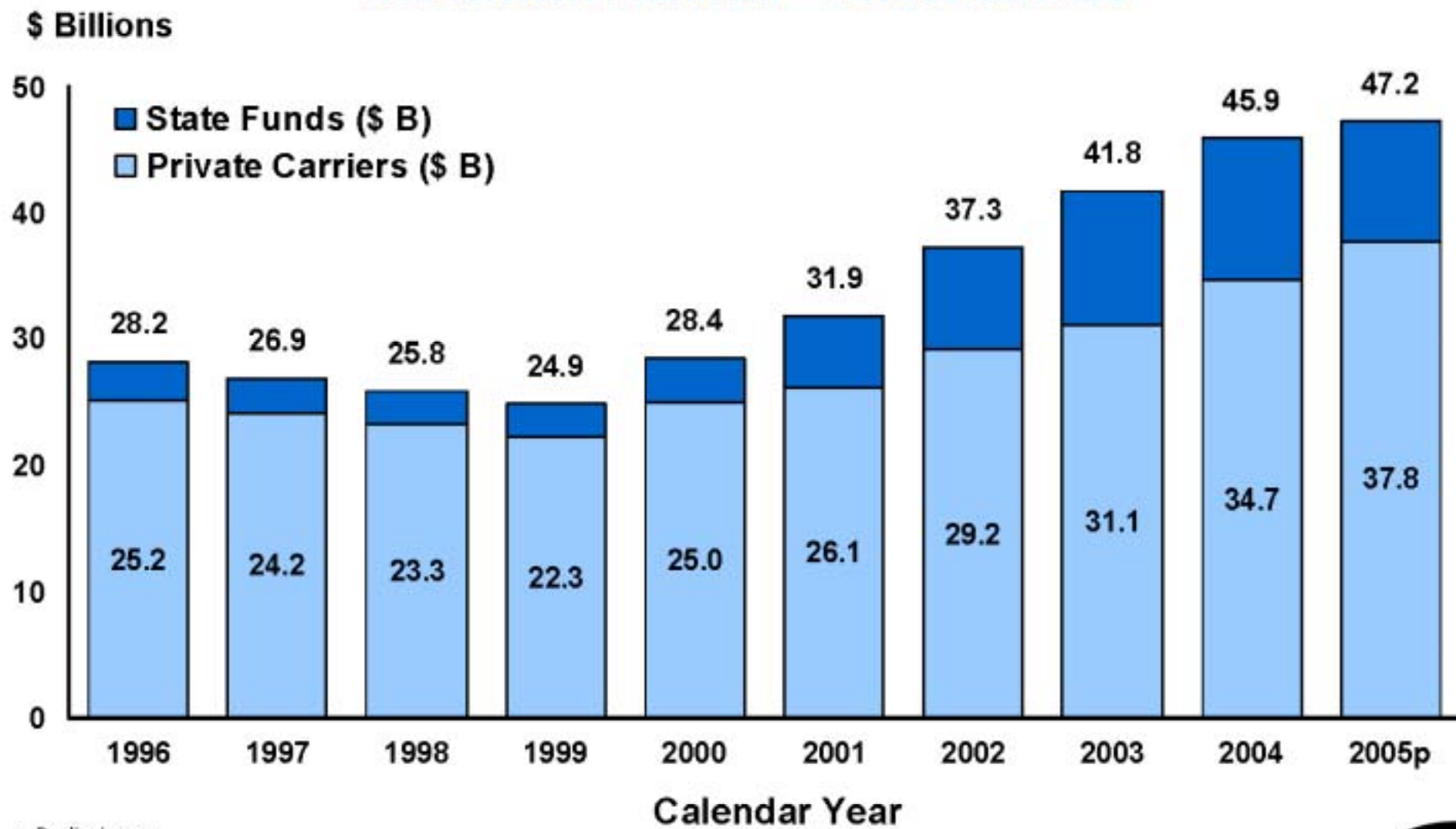
State of the Industry—An Overview

- Continued overall system premium growth
- Improvement in calendar year combined ratios
- Stable accident year combined ratios
- Continued indemnity and medical cost pressures



Workers Compensation Premium Continued to Rise in 2005

Net Written Premium—Private Carriers



p Preliminary

Source: 1996–2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI

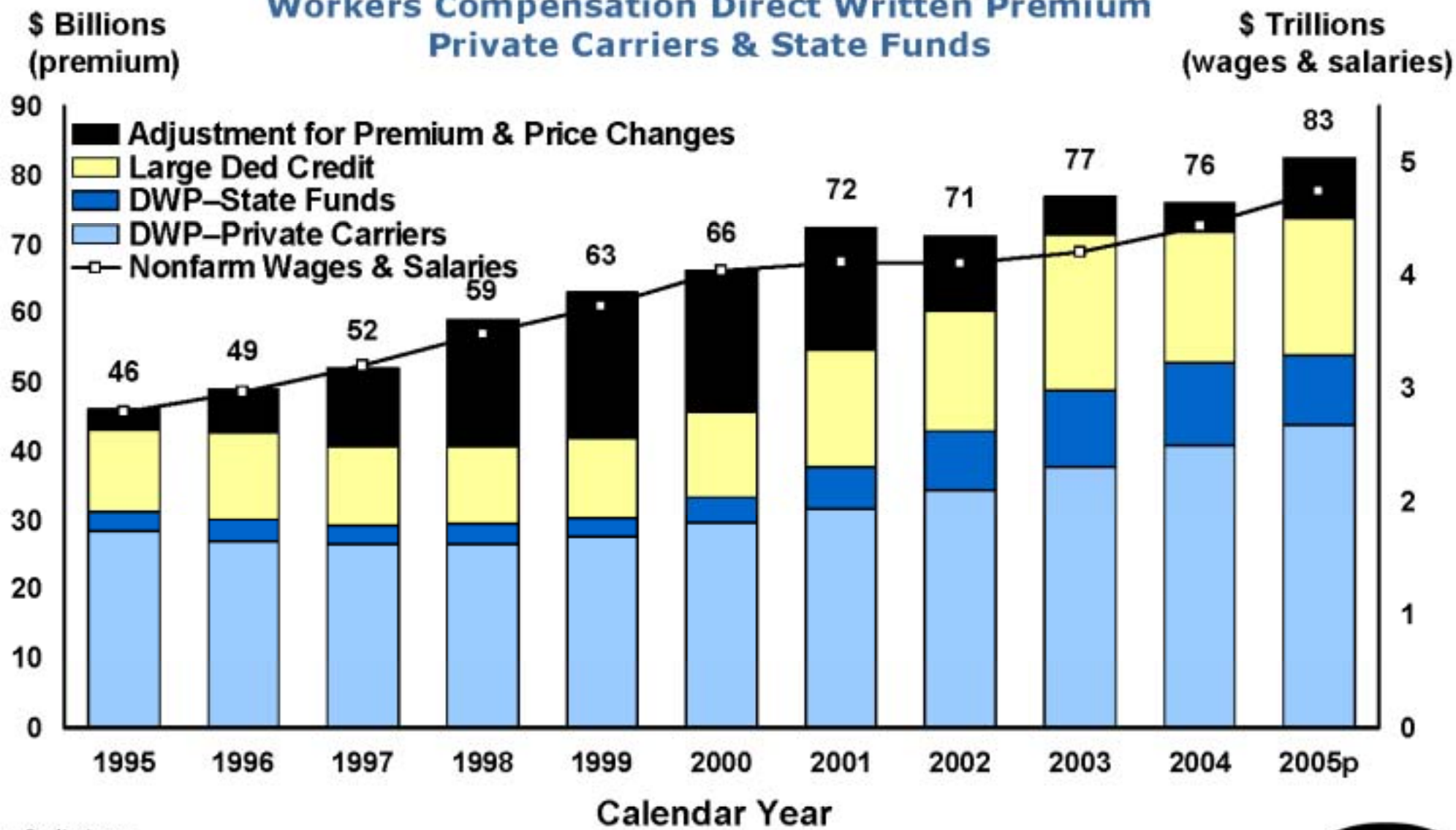
1996–2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OR, RI, TX, UT Annual Statements

State Funds available for 1996 and subsequent



Adjusted Workers Compensation Premium Volume

Workers Compensation Direct Written Premium Private Carriers & State Funds



p Preliminary

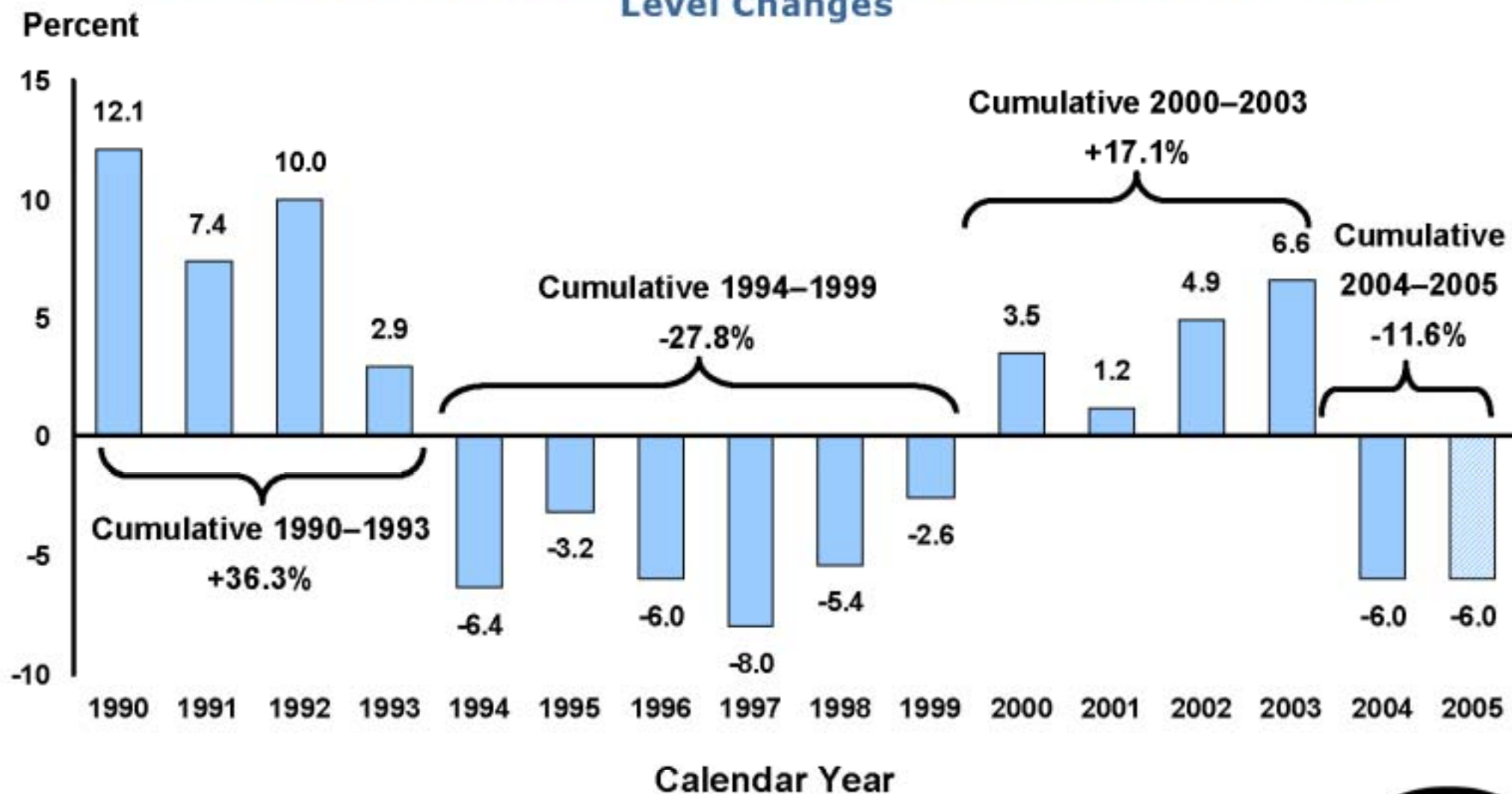
Source: 1996-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI

1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements



Average Approved Bureau Rates/Loss Costs

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



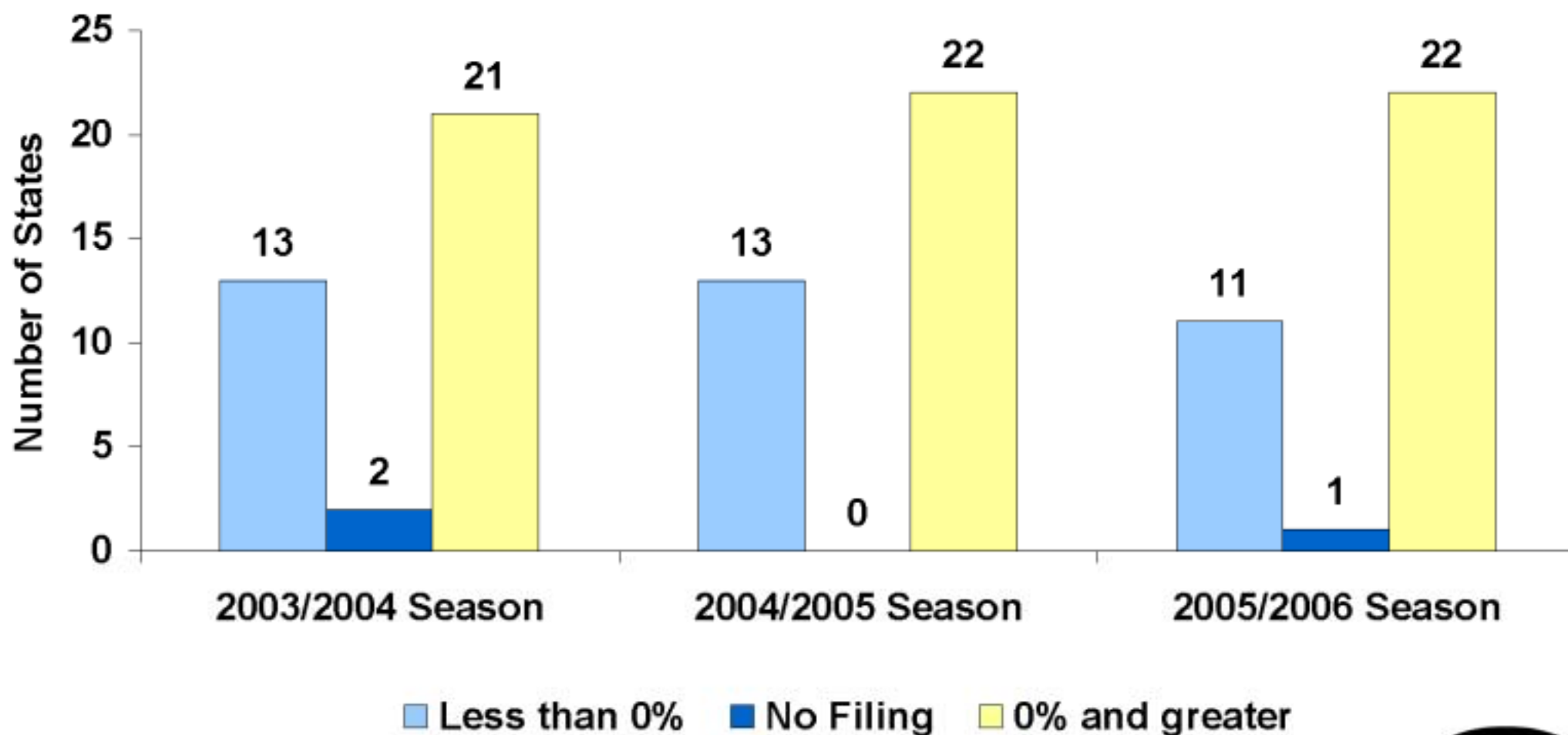
States approved through 4/13/06

Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization



Status of NCCI Filing Activity

Voluntary Market Filings



2005/2006 Filing Cycle

NCCI Voluntary Market Filing Activity

- Data for 34 states has been reviewed
 - 23 states have filed a change of 0% or greater or have not filed
 - 11 states have filed decreases
- Range of voluntary filings: -18.2% to +32.9%

State Voluntary Market Filings

Southeastern NAIC Zone

South Carolina*	11/1/05	+32.9%
Virginia	4/1/06	+9.9%
North Carolina	4/1/06	+9.4%
Alabama	3/1/06	+5.0%
Kentucky	10/1/05	+3.7%
Tennessee	3/1/06	+1.6%
Arkansas	7/1/06	-0.5%
Louisiana	5/1/06	-0.6%
Georgia	7/1/05	-1.3%
Mississippi	3/1/06	-1.9%
Florida	1/1/06	-13.5%

* Pending



Law and Judicial Impacts

Georgia*	7/1/06	+5.1%
Kentucky	2/1/06	+2.6%
Tennessee	7/1/05	-6.9%
Oklahoma	7/1/05	-10.5%

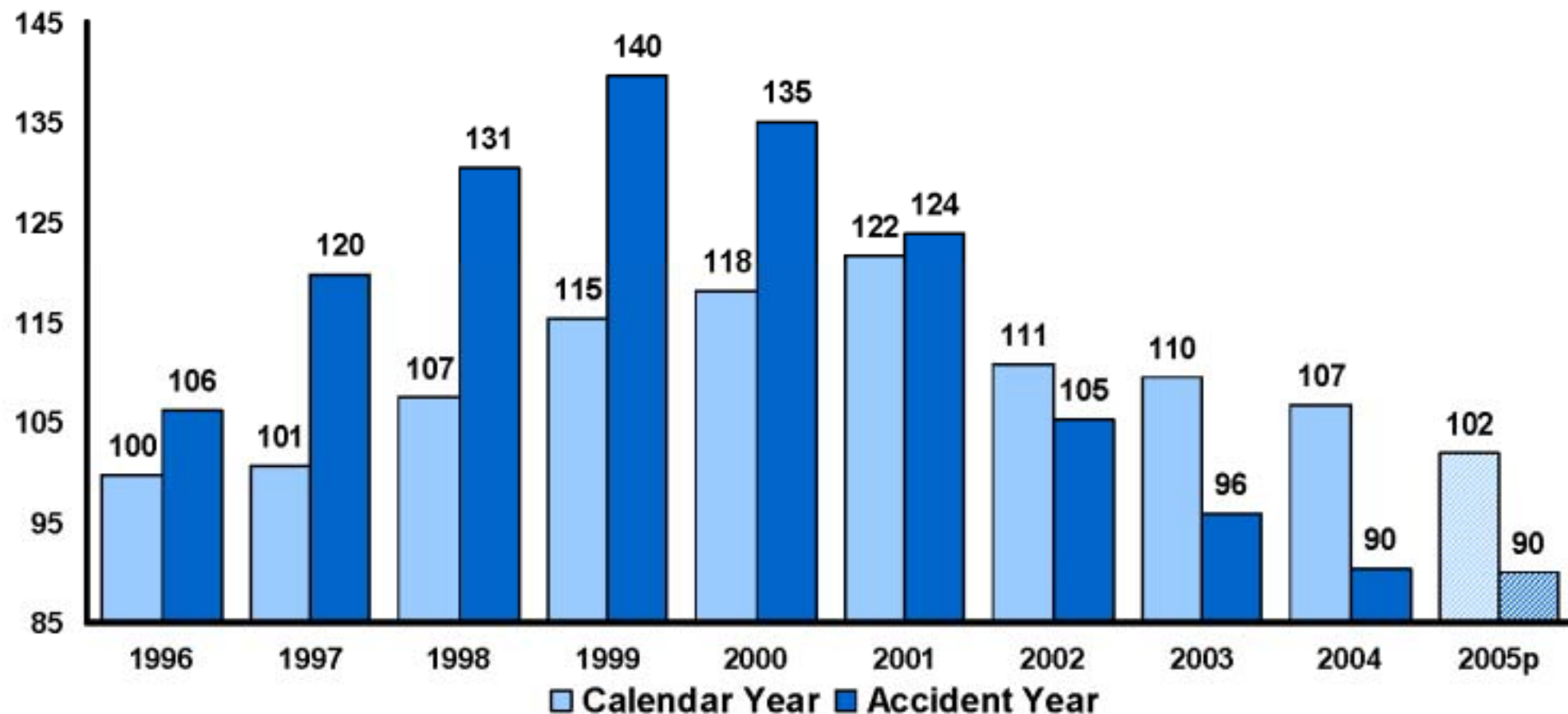
* Pending



Accident Year Combined Ratio— Another Underwriting Profit in 2005

Workers Compensation Calendar Year vs.
Ultimate Accident Year—Private Carriers

Percent



p Preliminary

Accident Year data is evaluated as of 12/31/05 and developed to ultimate

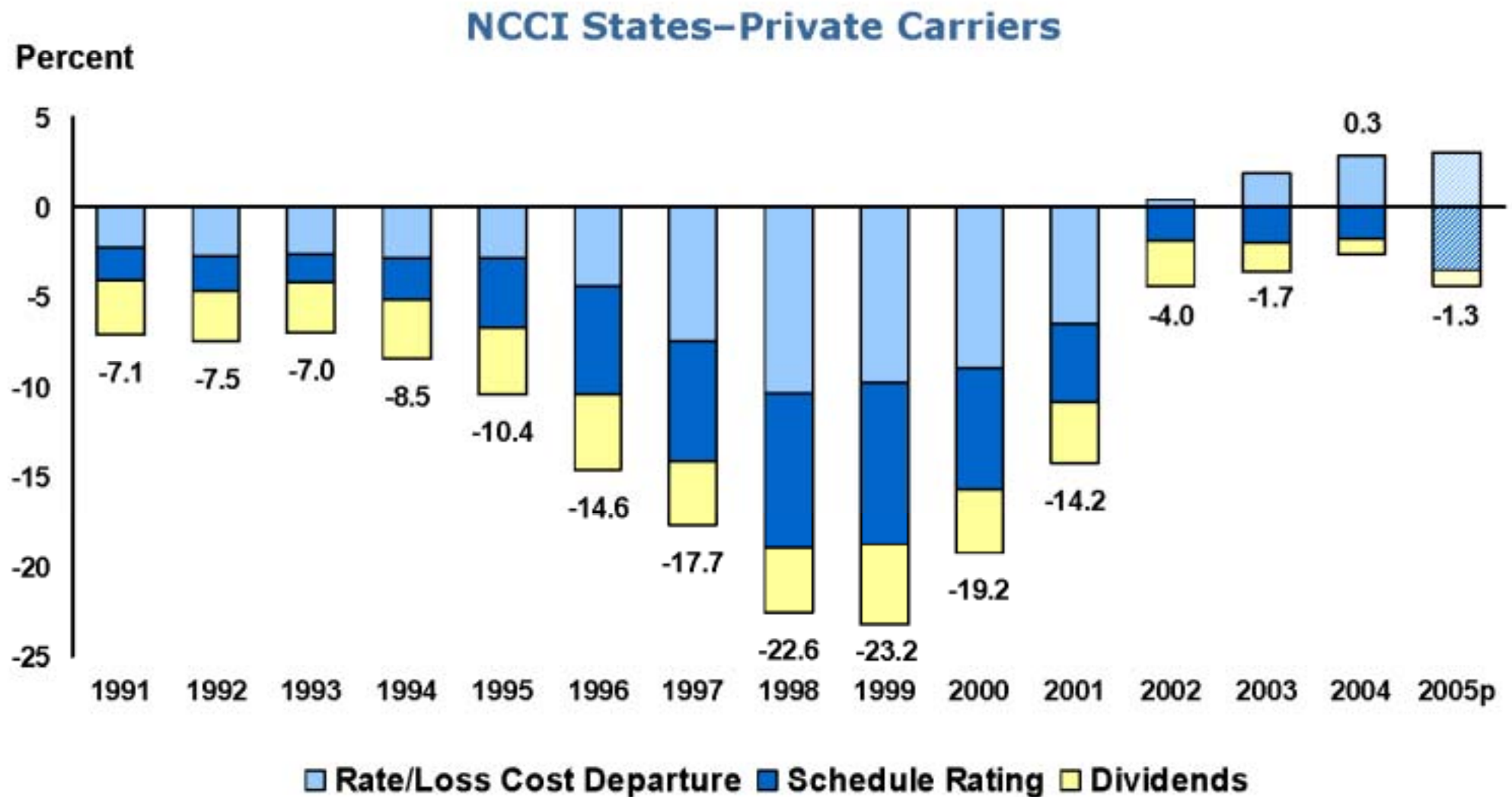
Source: Calendar Years 1996–2004, A.M. Best Aggregates & Averages;

Calendar Year 2005p and Accident Years 1996–2005p, NCCI Analysis based on Annual Statement data

Includes dividends to policyholders



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



p Preliminary

NCCI benchmark level does not include an underwriting contingency provision

Dividend ratios are based on calendar year statistics

Based on data through 12/31/05 for the states where NCCI provides ratemaking services



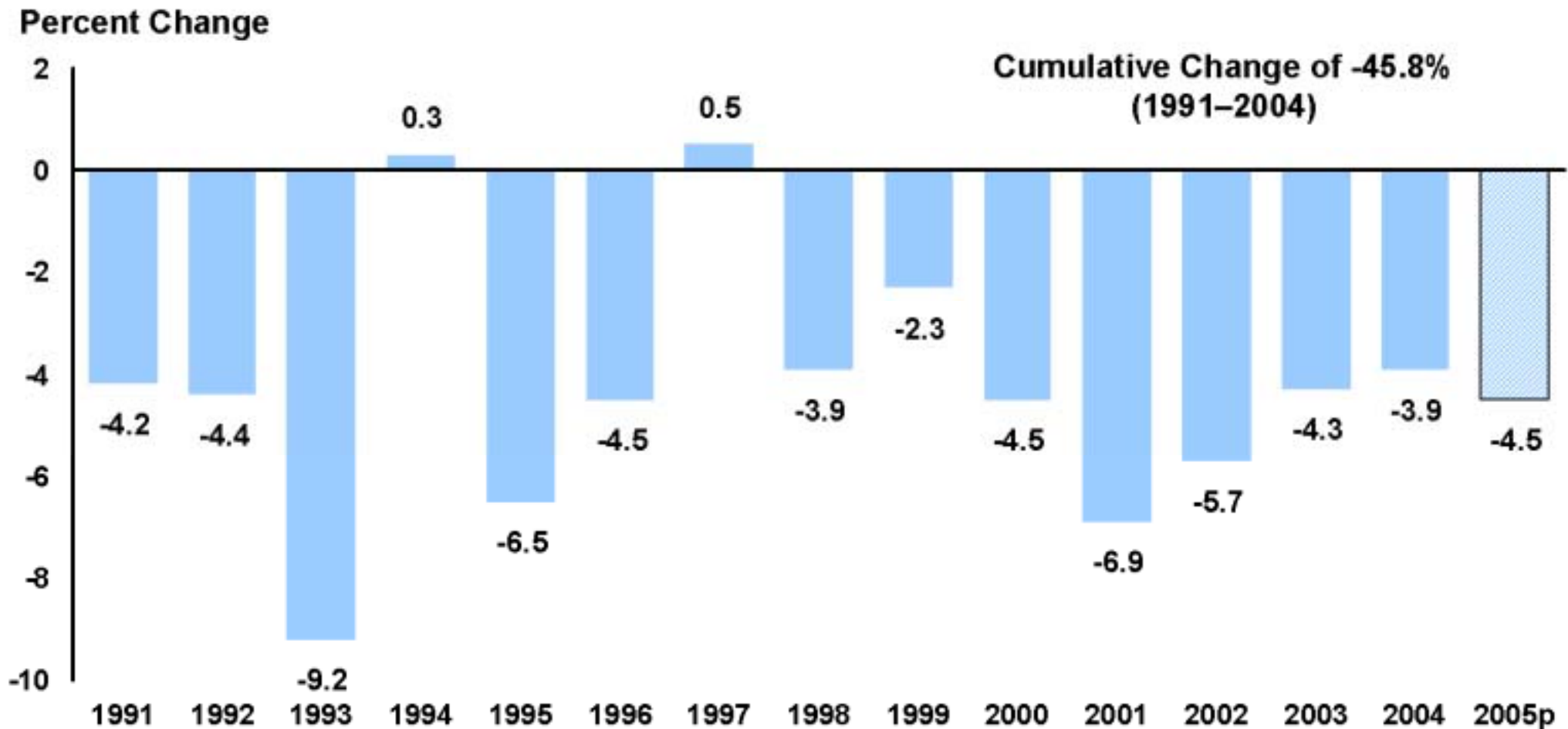
Workers Compensation Claim Frequency and Severity

- For each of the last 8 years (and 13 of the last 15), on-the-job claim frequency for workers compensation injuries has declined from the previous year's level
- Medical and indemnity costs continue to rise—somewhat negating the good news regarding reduced claims



Workers Compensation Lost-Time Claim Frequency Continues its Decline

Lost-Time Claims



2005p: Preliminary based on data valued as of 12/31/05
1991-2004: Based on data through 12/31/04, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies



The Growth in Workers Compensation Indemnity Claim Costs Has Eased in Recent Years



2005p: Preliminary based on data valued as of 12/31/05

1991–2004: Based on data through 12/31/04, developed to ultimate

Based on the states where NCCI provides ratemaking services

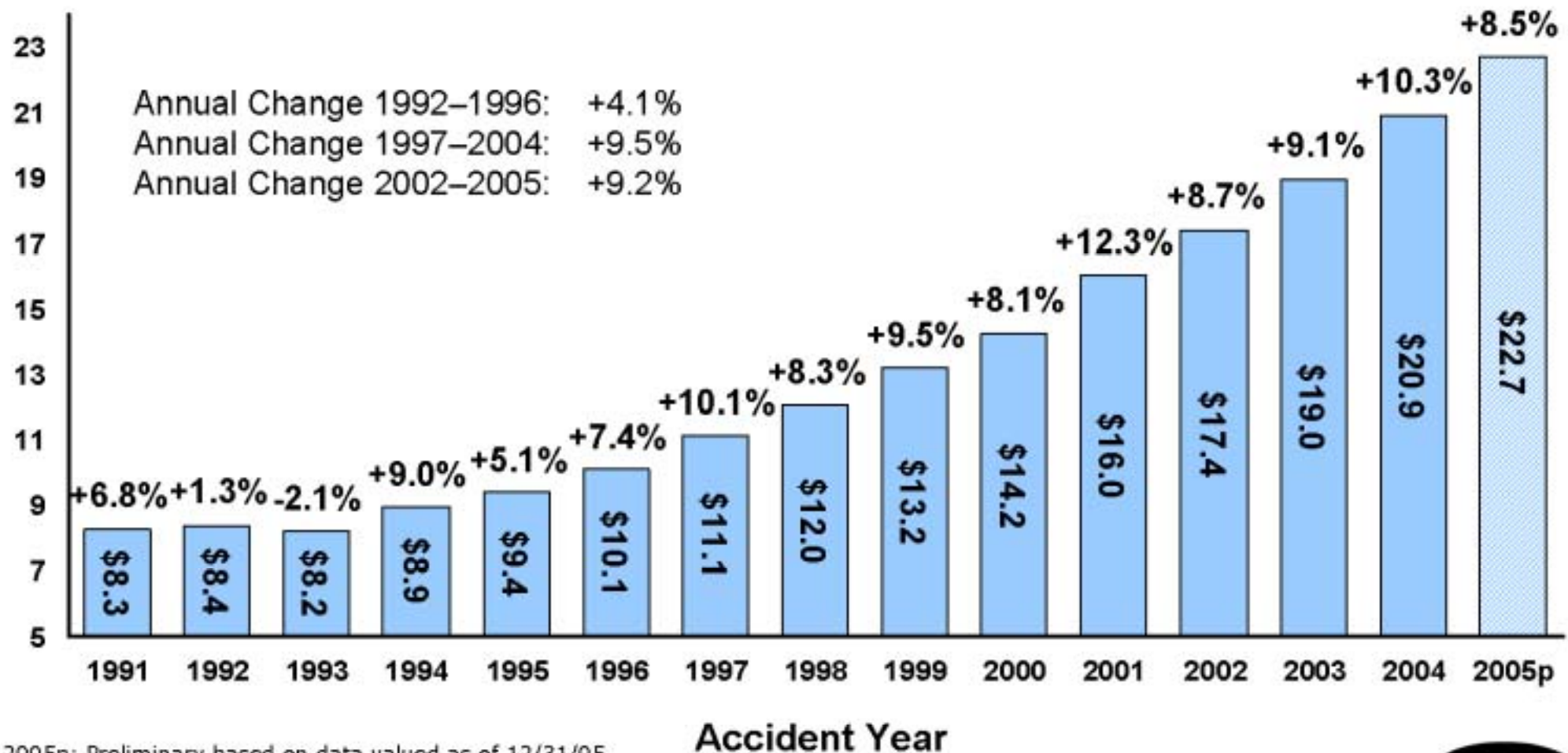
Excludes the effects of deductible policies



Workers Compensation Medical Claim Cost Trends—Growth Continued in 2005

Medical
Claim Cost ('000s)

Lost-Time Claims

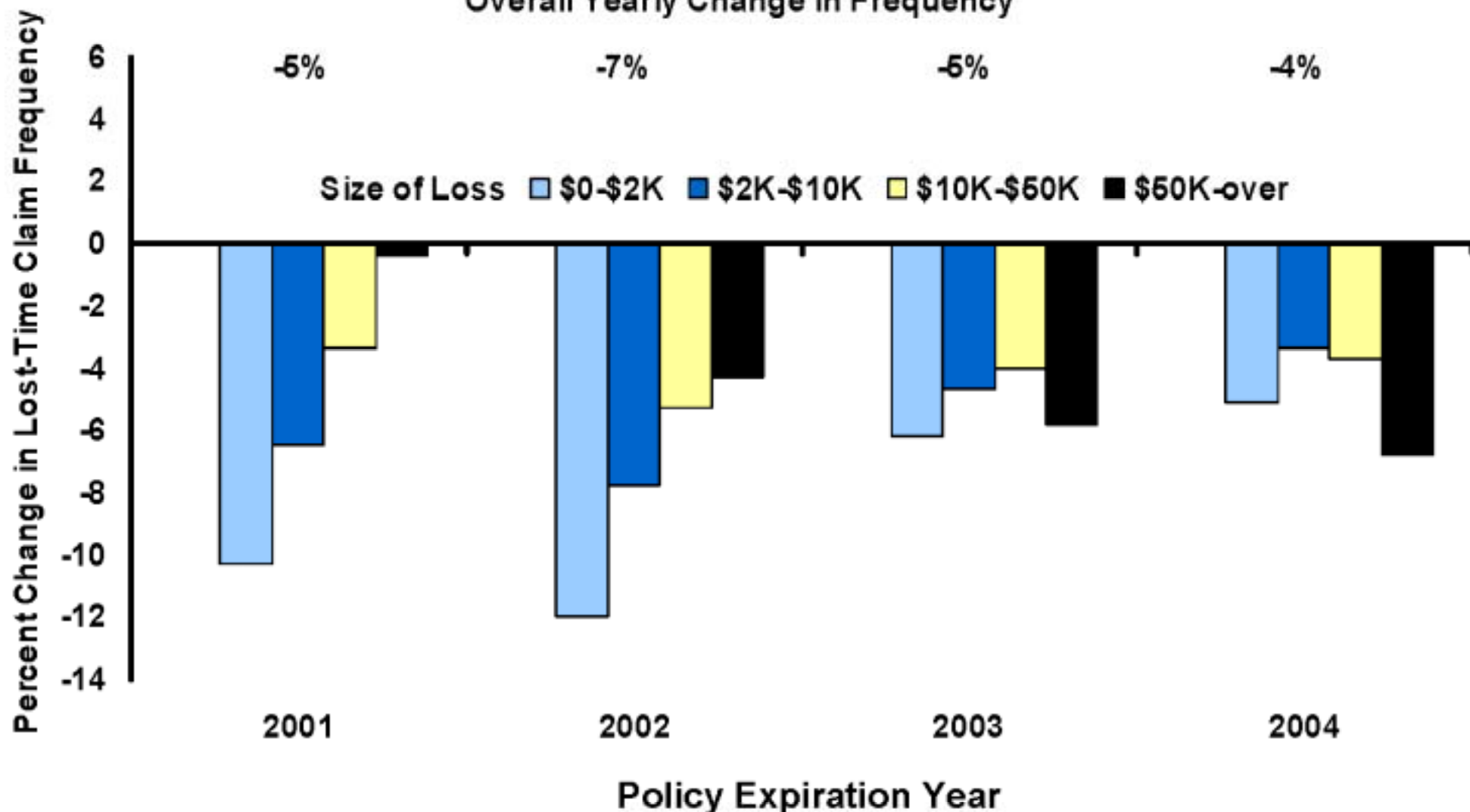


2005p: Preliminary based on data valued as of 12/31/05
1991–2004: Based on data through 12/31/04, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies



Declines in Frequency Are Now More Uniform by Size of Loss

Overall Yearly Change in Frequency



Claim count determined at first report

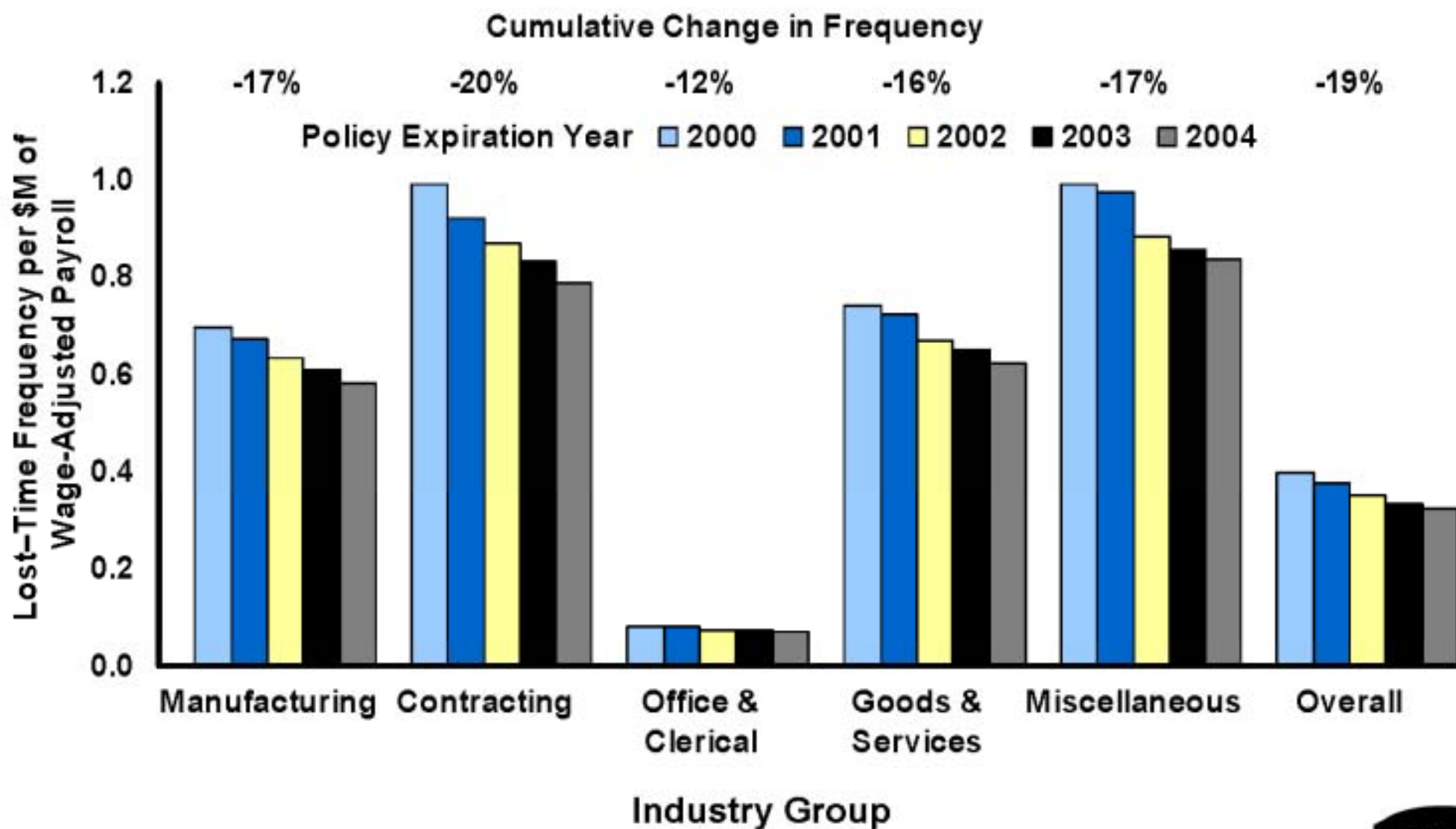
Loss size adjustments vary by year, averaging 3.8% indemnity and 7.4% medical

Frequency = Lost-time claims / payroll; payroll adjusted for inflation

All NCCI states and TX; excludes NV



Claim Frequency Has Declined for All Industry Groups



Frequency = Lost-time claims / payroll; payroll adjusted for inflation
All NCCI states; excludes NV and TX





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State of Arkansas

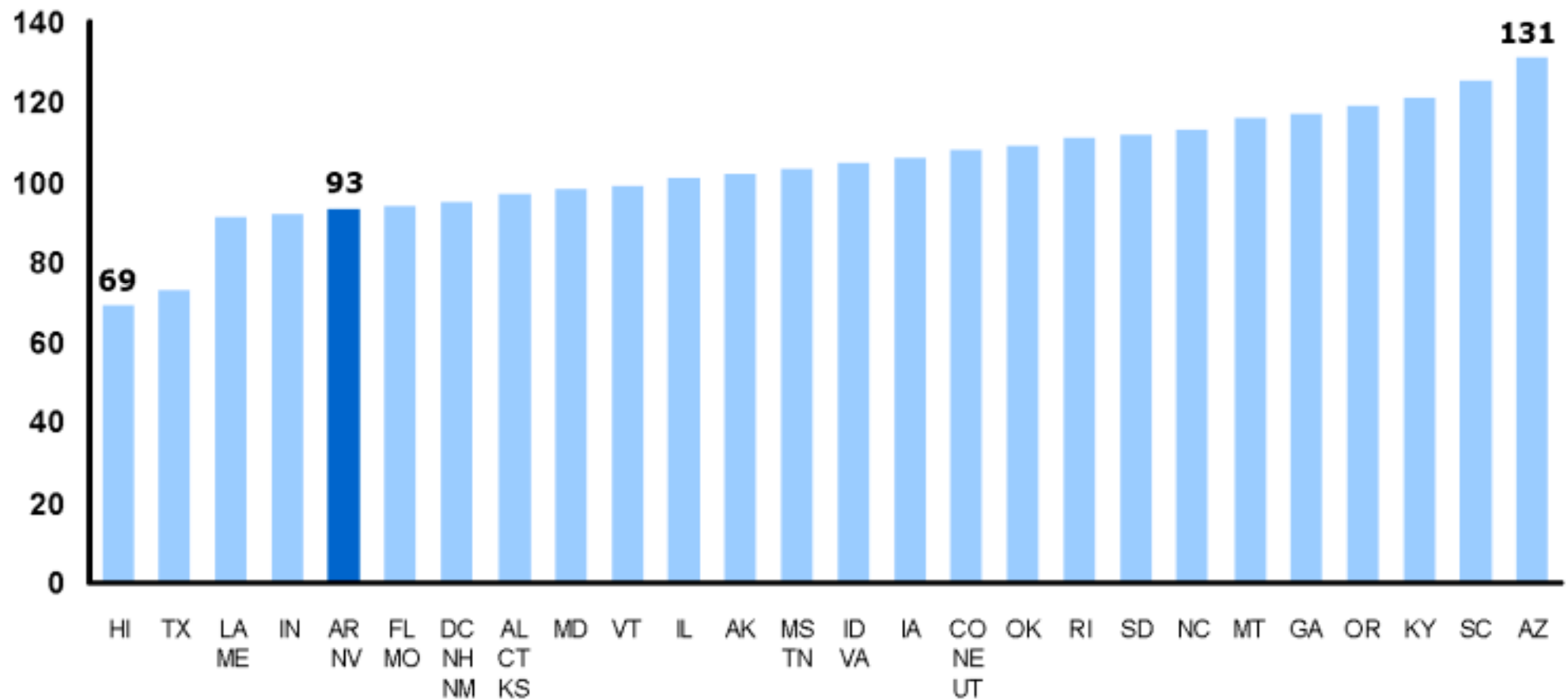
Arkansas Workers Compensation System— An Overview

- One of the lowest combined ratios in the country
- Loss costs remain stable
- Lower than average indemnity claim costs
- Increasing medical costs



Results Vary From State to State

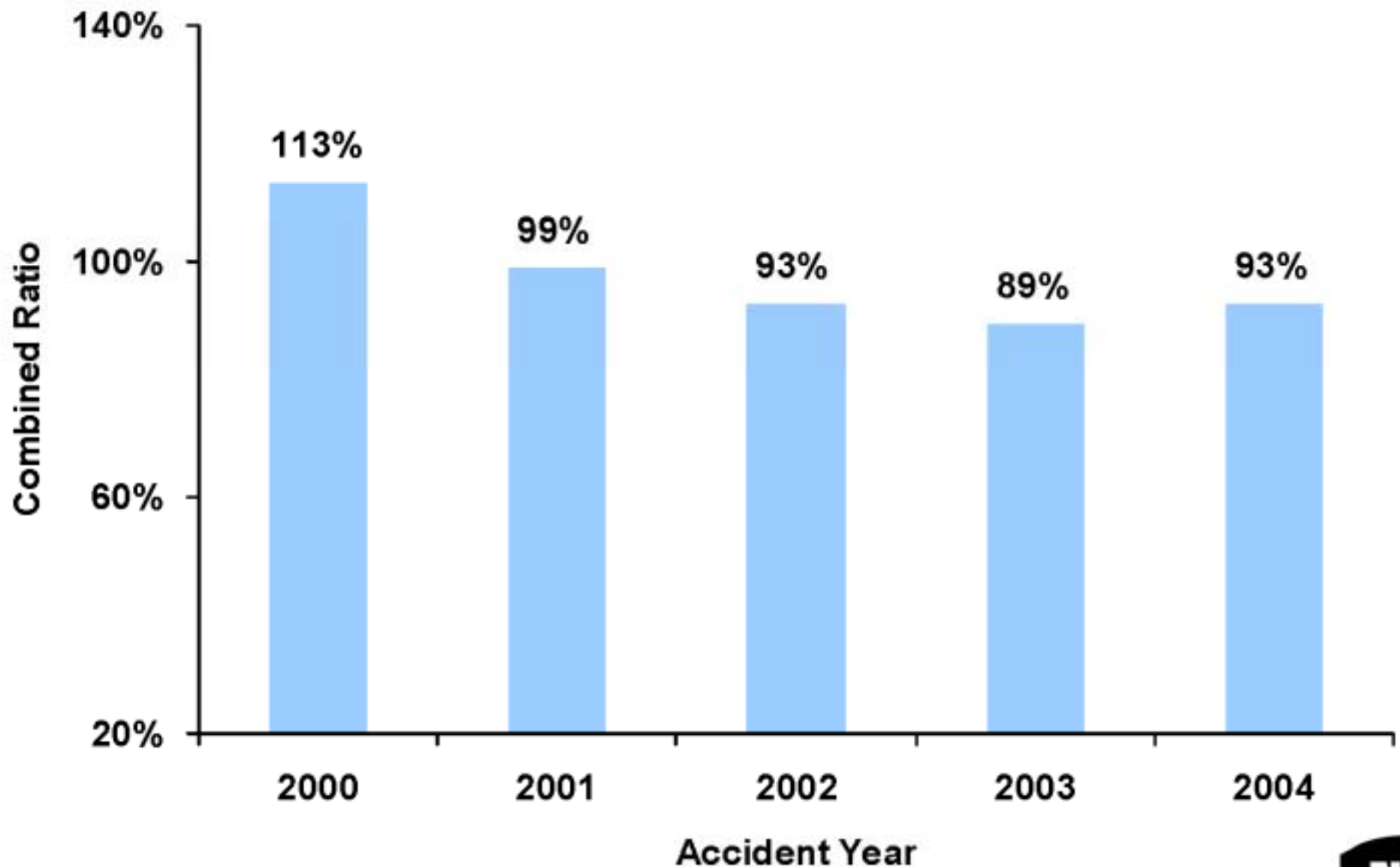
Accident Year 2004 Combined Ratios



Data is evaluated as of 12/31/04.



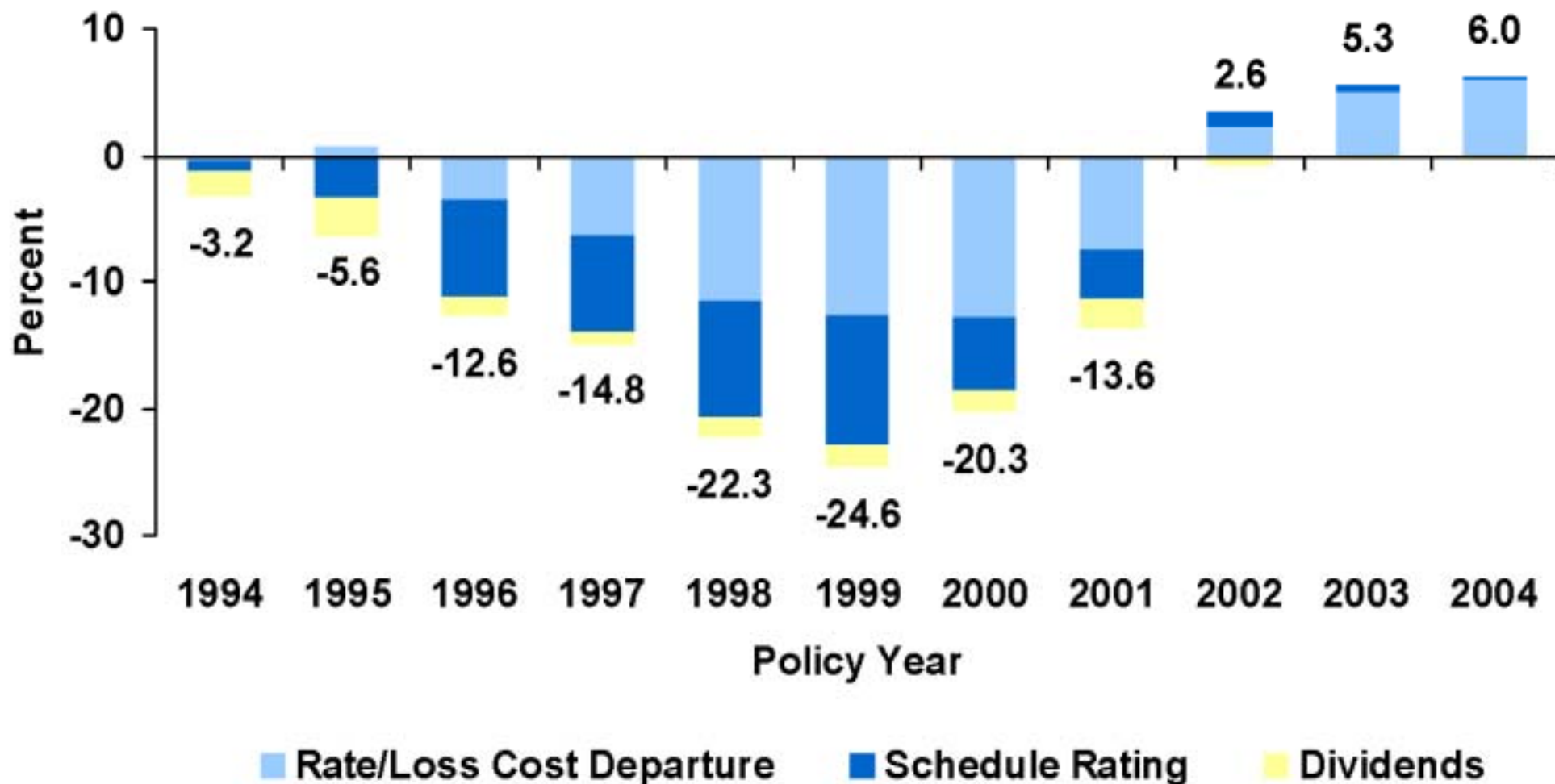
Arkansas Accident Year Combined Ratios



Source: NCCI financial data, NAIC Annual Statement data.



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



Based on data through 12/31/04.
Dividend ratios are based on calendar year statistics.





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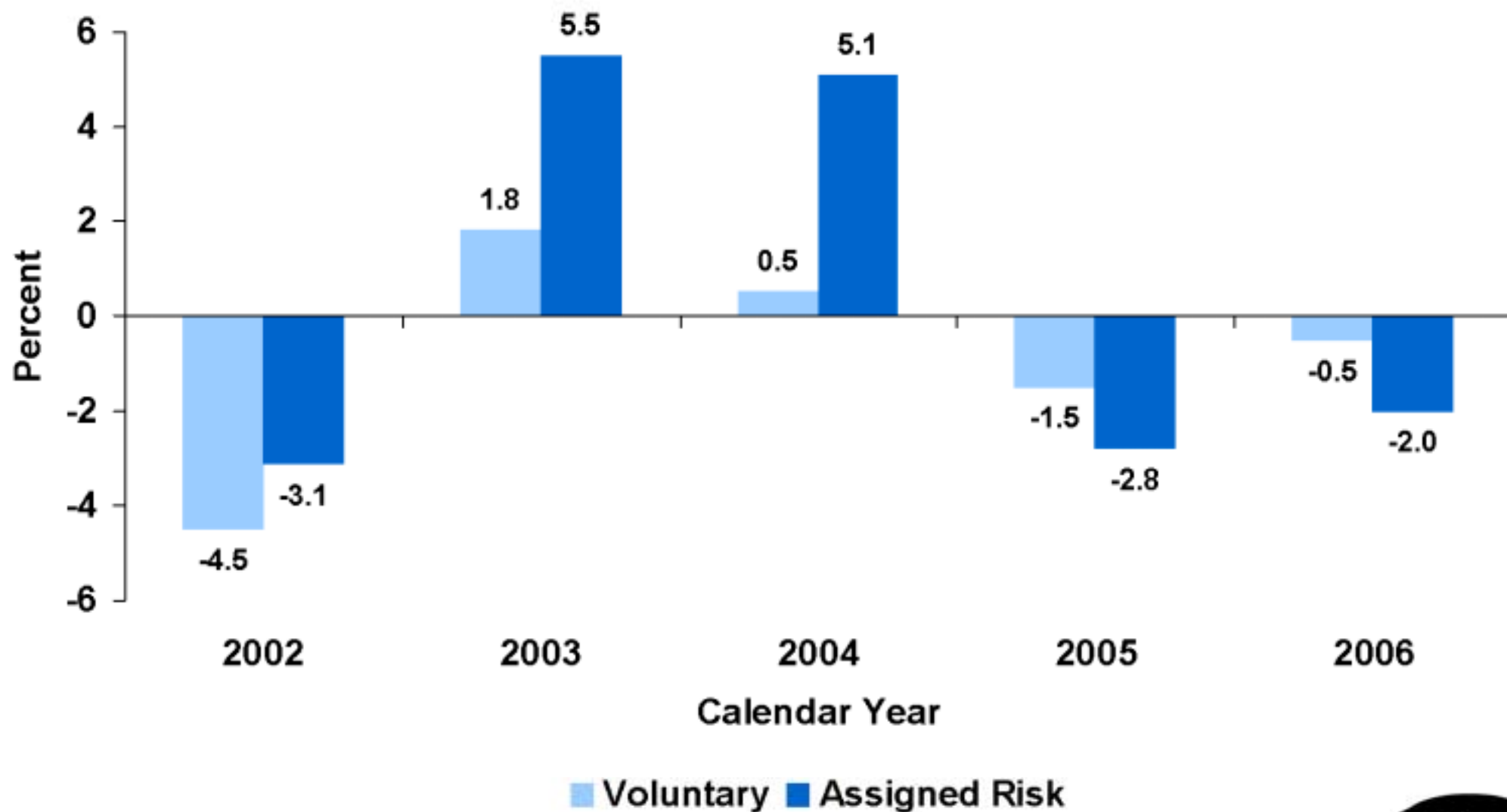
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Arkansas Loss Cost Filing

July 1, 2006

Arkansas Filing Activity

Voluntary Loss Cost and Assigned Risk Rate Changes

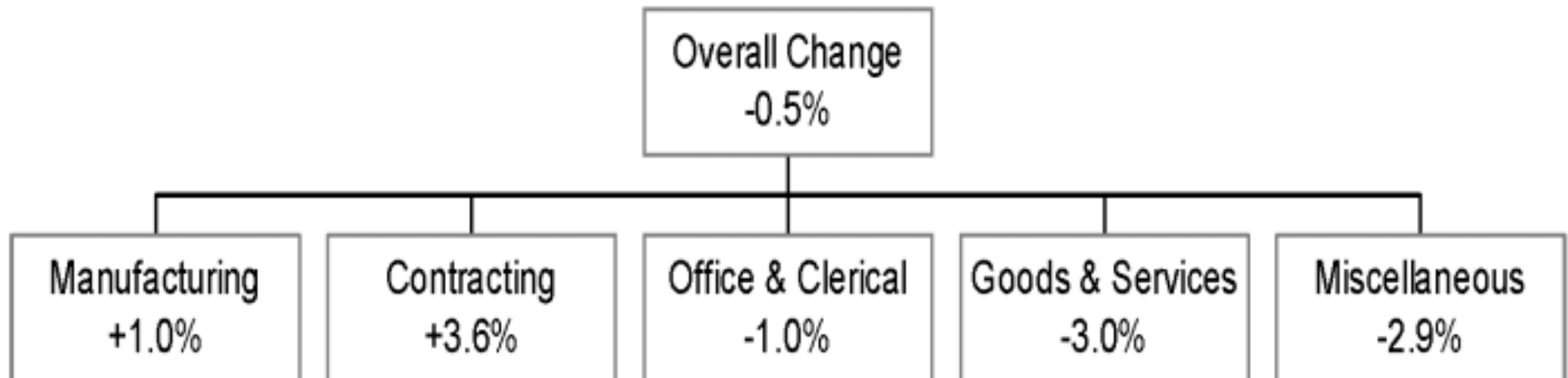


All filings are effective July 1st of the corresponding calendar year.

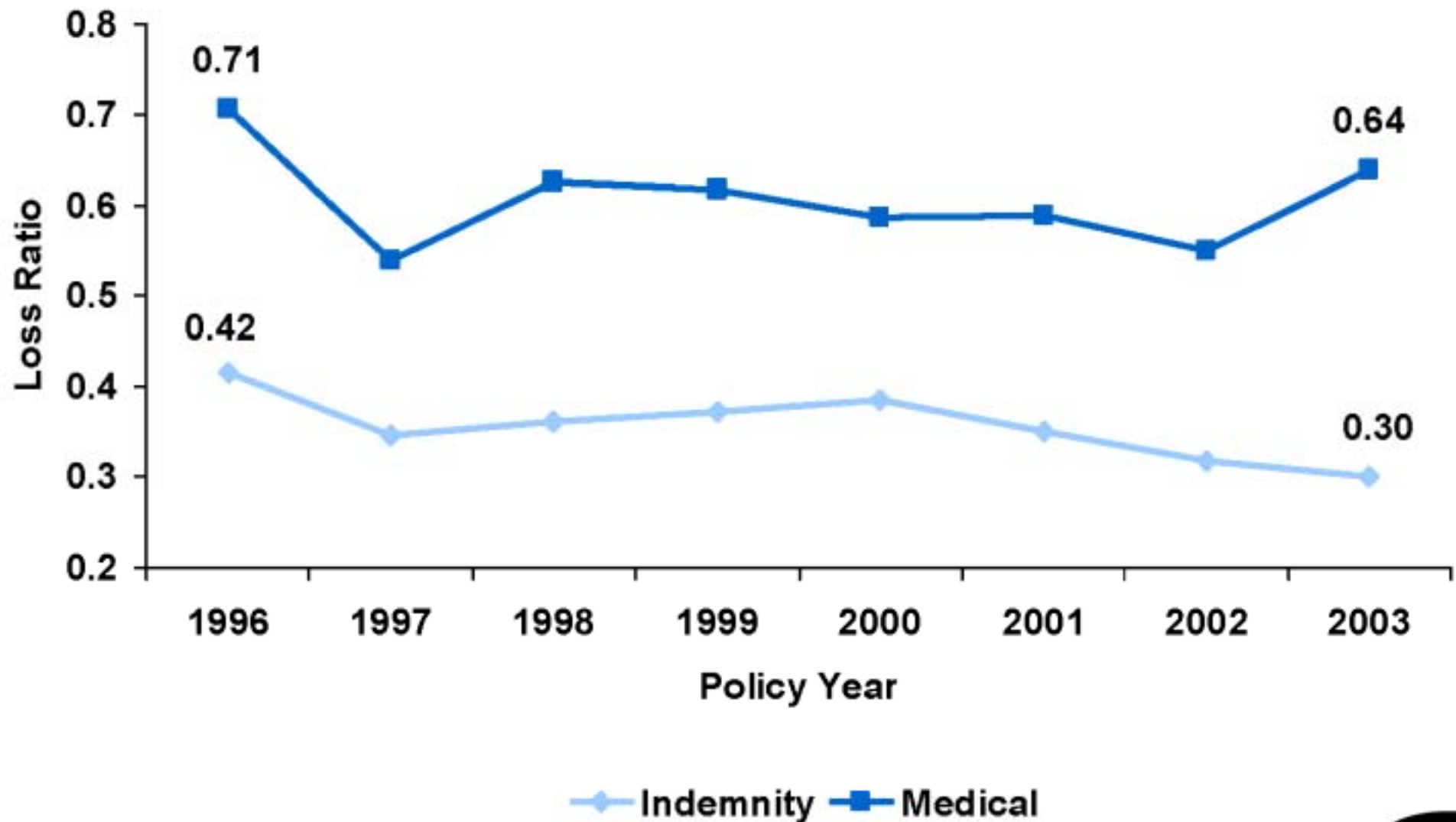


Arkansas July 1, 2006 Filing

Average Changes by Industry Group



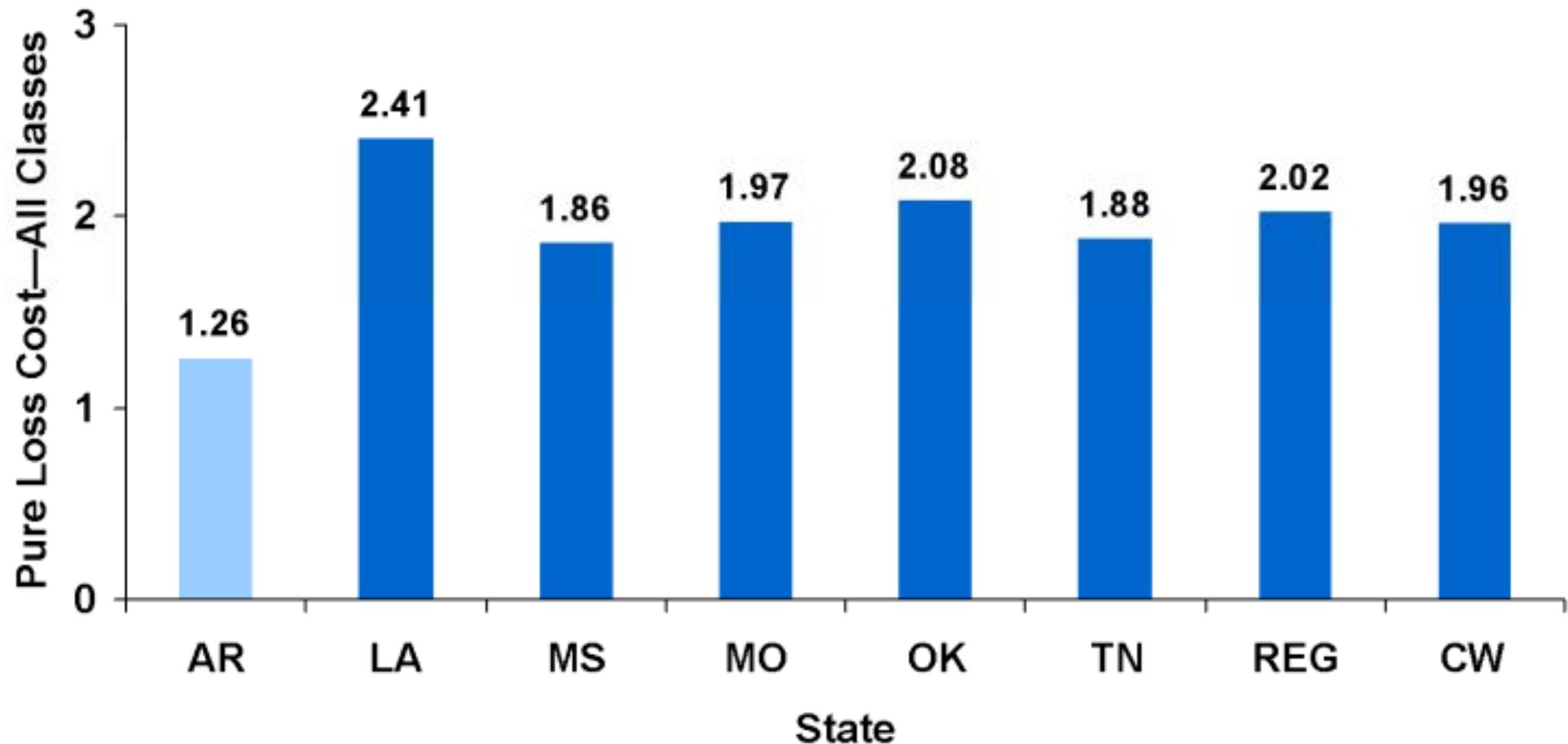
Arkansas Indemnity and Medical Loss Ratios



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



Current Average Voluntary Pure Loss Costs Using Arkansas's Payroll Distribution



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





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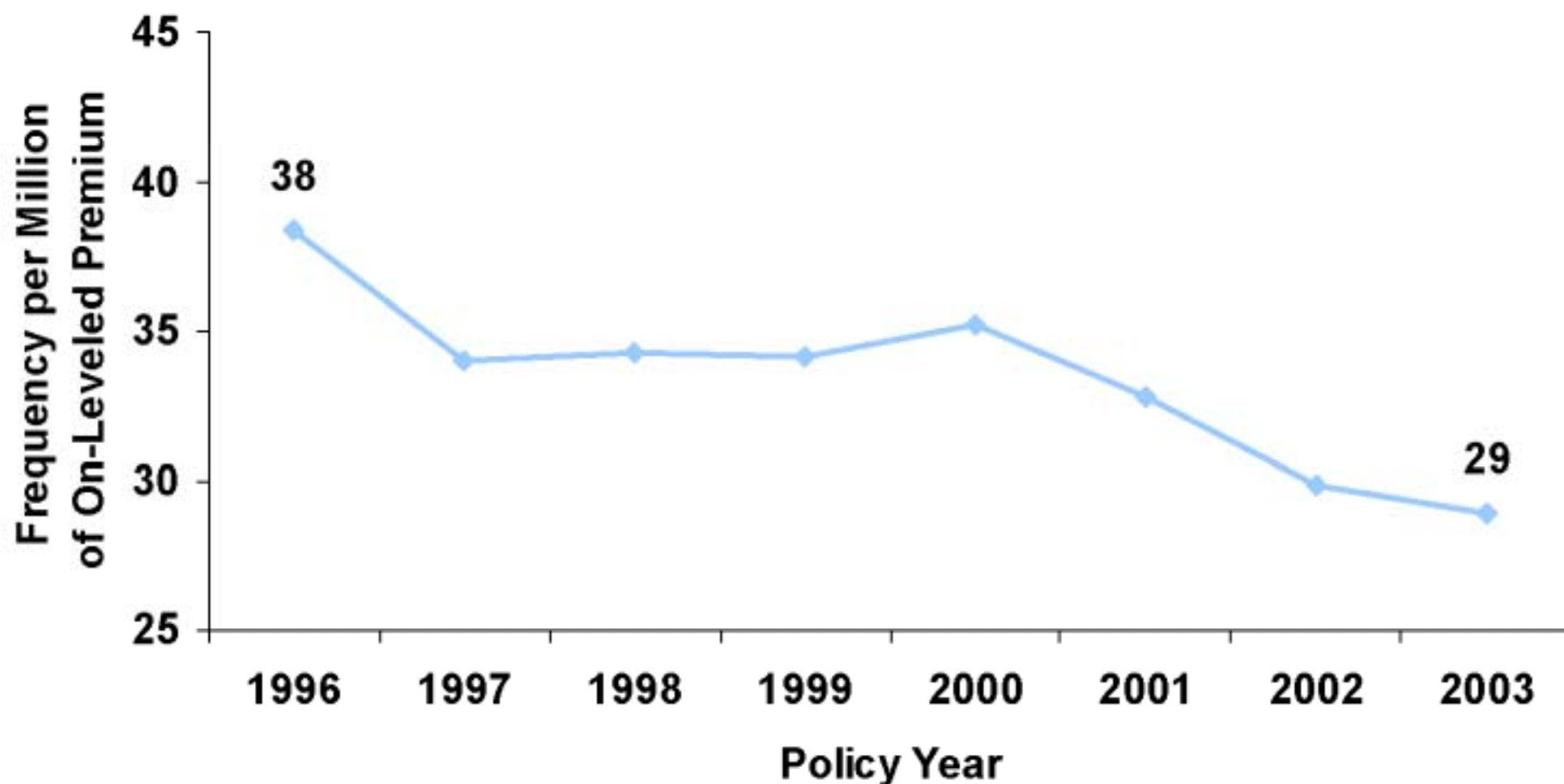
state advisory forums

Frequency and Severity Developments in Arkansas

What Drives Changes in Frequency and Severity in Arkansas?

- System changes
- Economic developments
- Demographic developments

Declines in Claim Frequency Have Contributed to Improving Arkansas Results in the 1990s

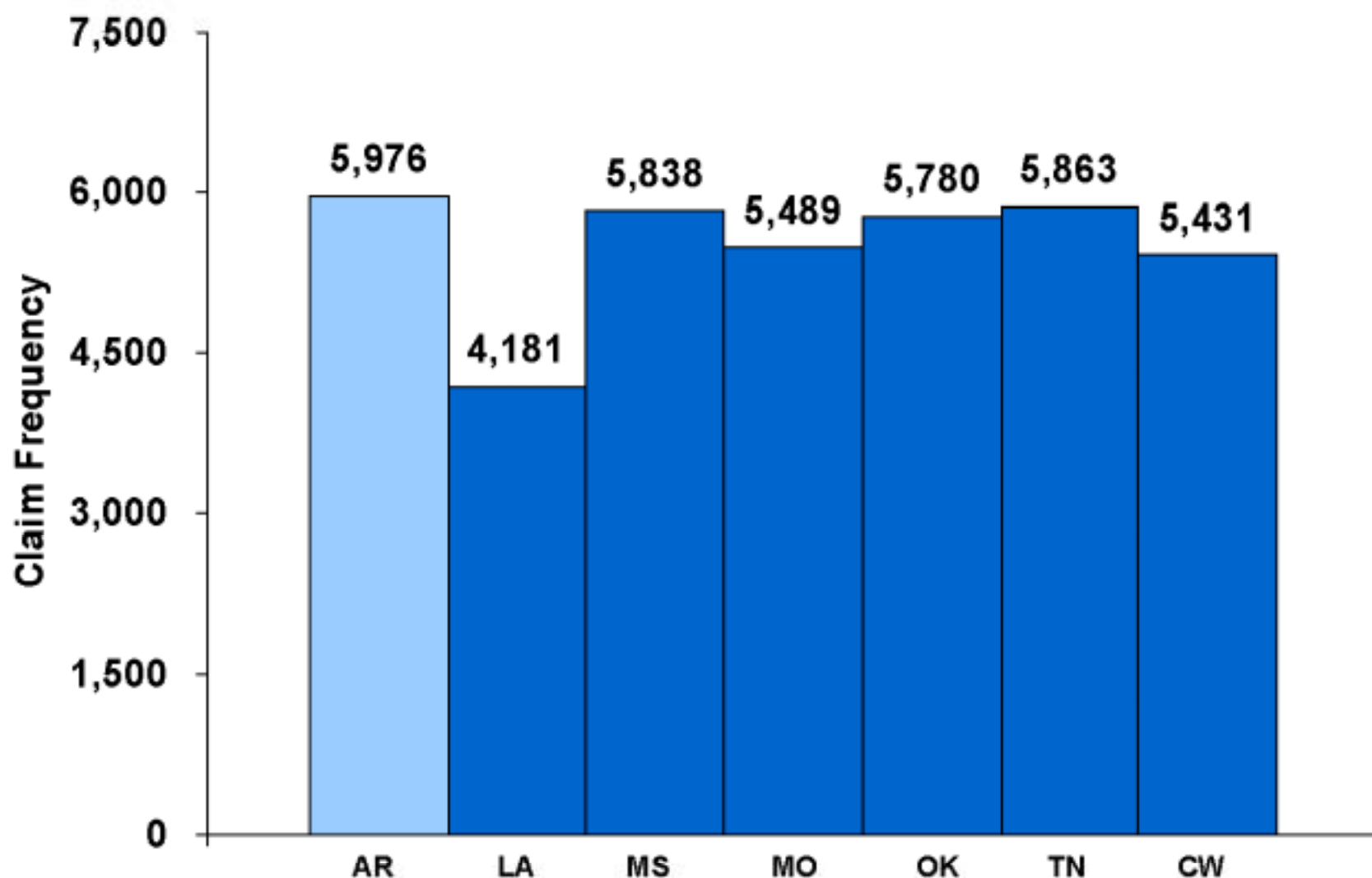


Based on NCCI's financial data.
Frequency of lost-time claims.



Arkansas Average Claim Frequency

Frequency per 100,000 Workers—All Claims

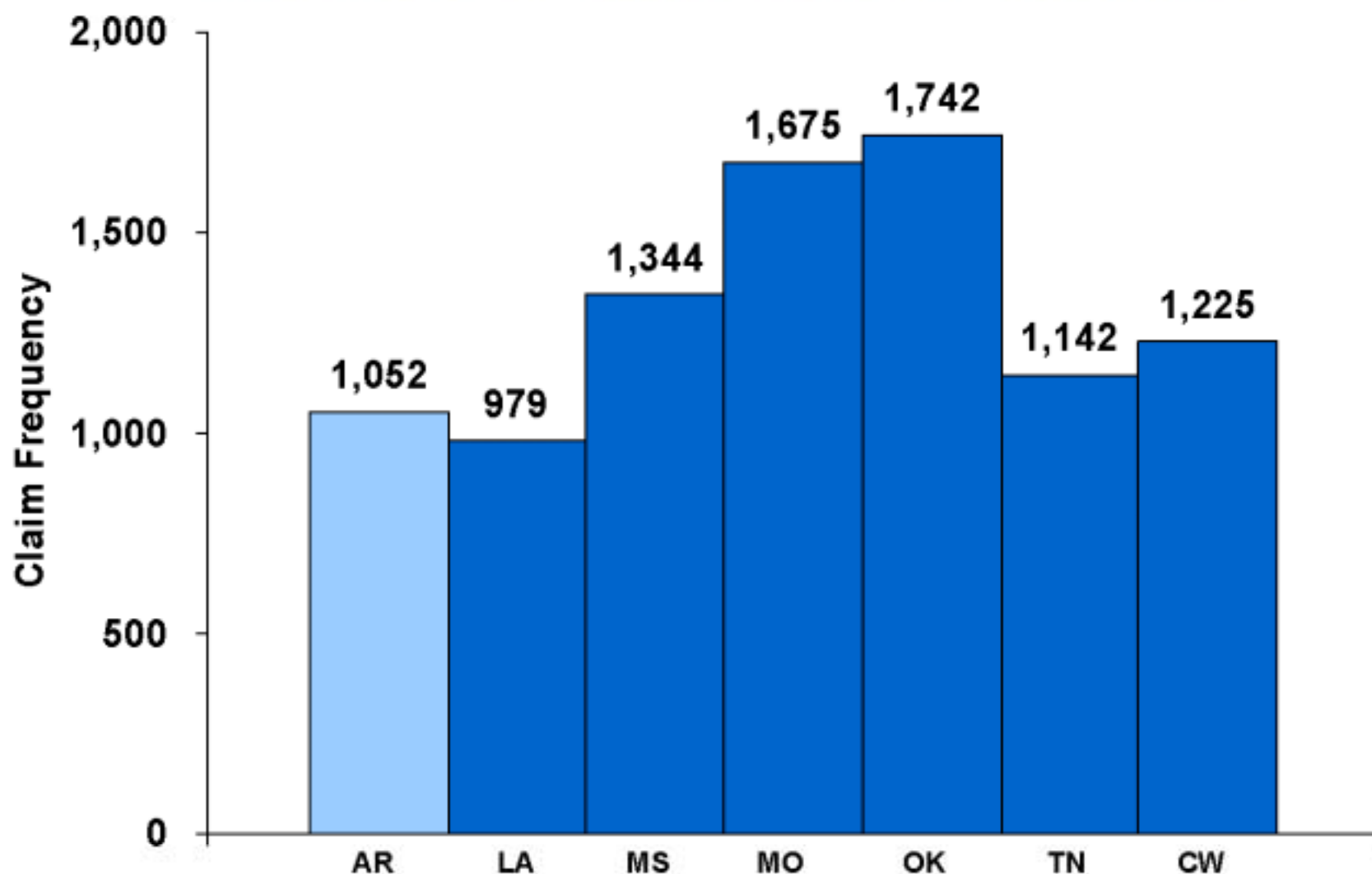


Based on NCCI's WCSP data.



Arkansas Average Lost-Time Claim Frequency

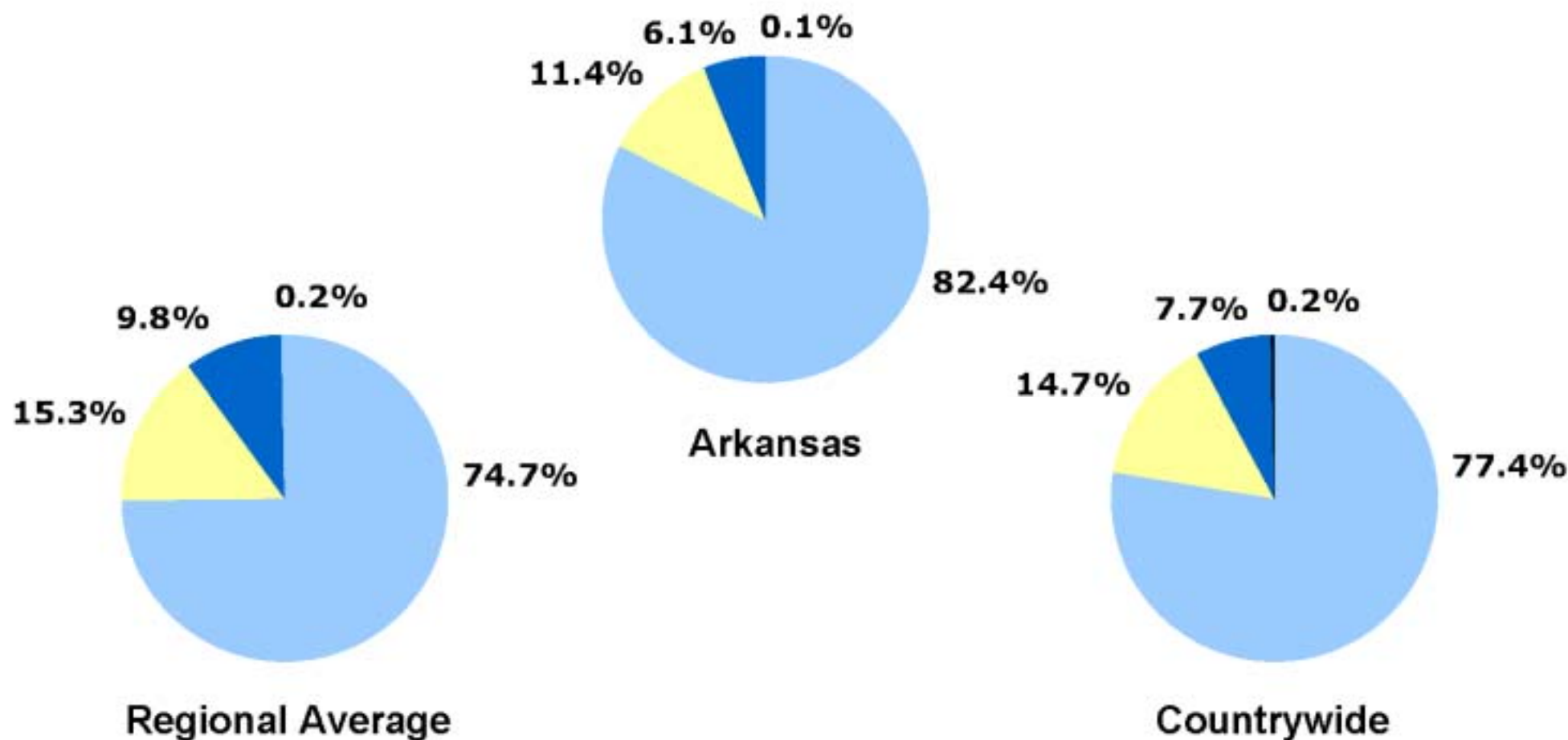
Frequency per 100,000 Workers—Lost-Time Claims



Based on NCCI's WCSP data.



Arkansas Distribution of Claims by Injury Type



■ Medical Only
 ■ Temporary Total
 ■ Permanent Partial
 ■ Permanent Total/Fatal

Regional states are Louisiana, Mississippi, Missouri, Oklahoma, and Tennessee.
Based on NCCI's WCSP data.



Drivers of Claim Frequency

- Business Cycle— Employment Growth
- Demographics—Does age matter?
- Long-Term Downtrend—Key factors

Business Cycle Impacts on Frequency



The Change in Frequency Over the Business Cycle

Frequency Tracks With the Business Cycle

because

Time on the Job and Experience Matter



This Is Not a New Idea

- "There is a tendency for the frequency rate of industrial injuries to move up and down with the volume of employment, as shown by an analysis of injuries in manufacturing industries from 1936 to 1941....The data for 1936 to 1941 reinforce the findings of an earlier study by the Bureau, for the years 1929 to 1936."
- **Monthly Labor Review, March 1938**
- **Monthly Labor Review, May 1943**



Frequency of Injuries

Experience Matters

Time With Current Employer
Inexperienced Have a Disproportionately High Share of Total Injuries

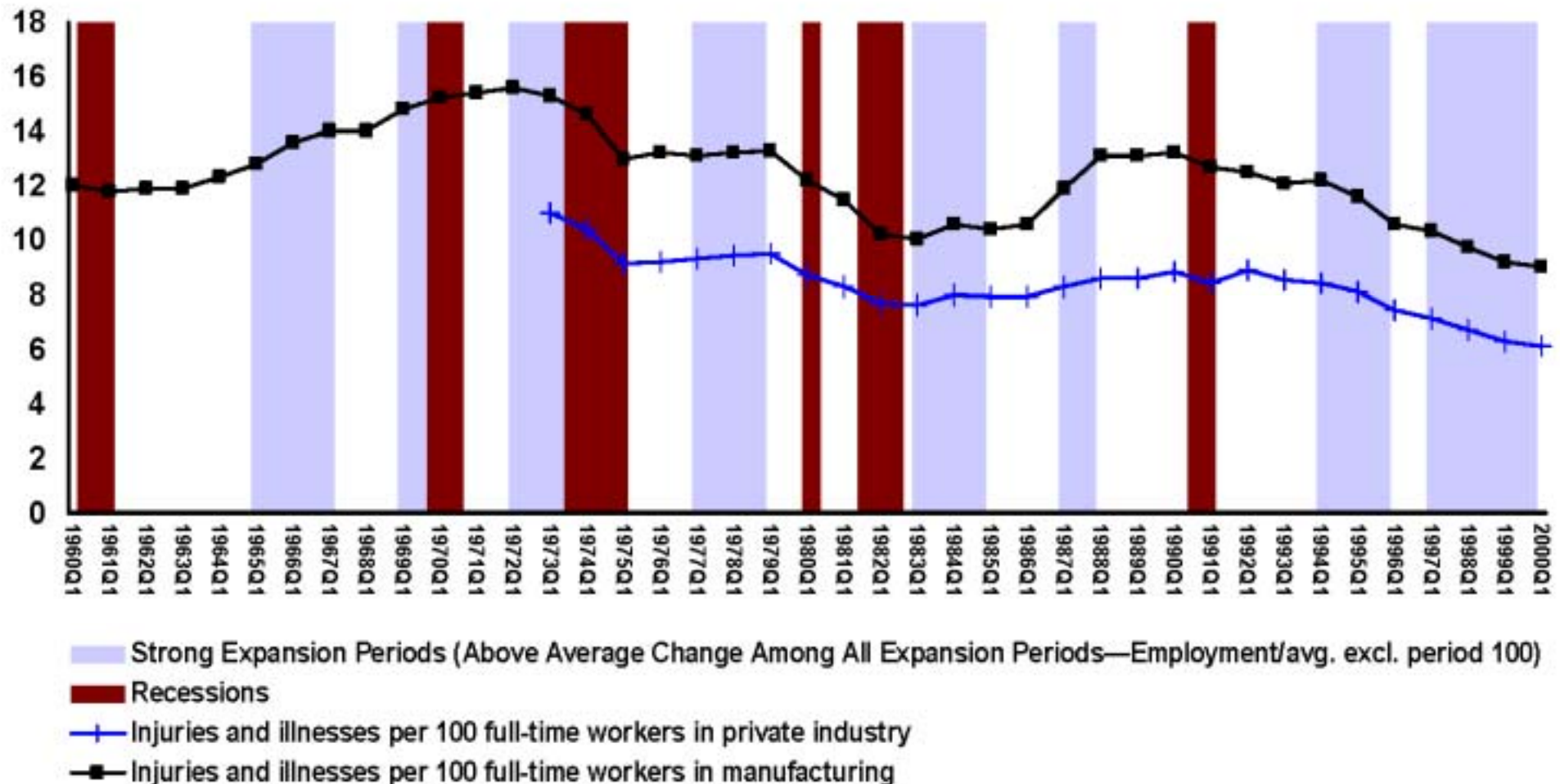
Time With Current Employer	Share of Employment ('04)#	Share of All Injuries ('04)*	Relative Difference Share of Injuries vs Employment
Less Than a Year	23.0%	33.4%	45.3% Higher
One Year to Five Years	38.3%	35.5%	-7.3% Lower
Five Years or More	38.8%	30.4%	-21.6% Lower

As reported by the BLS

* Not reported = 0.7%

Characteristics of Frequency: Short-Term Business Cycle

Countrywide Patterns of Frequency (BLS Data) During Business Cycles,
Manufacturing (1960–1999) and Private Industry (1972–1999),
Incidence Rates of Workplace Injuries and Illnesses Resulting in Days Away From Work

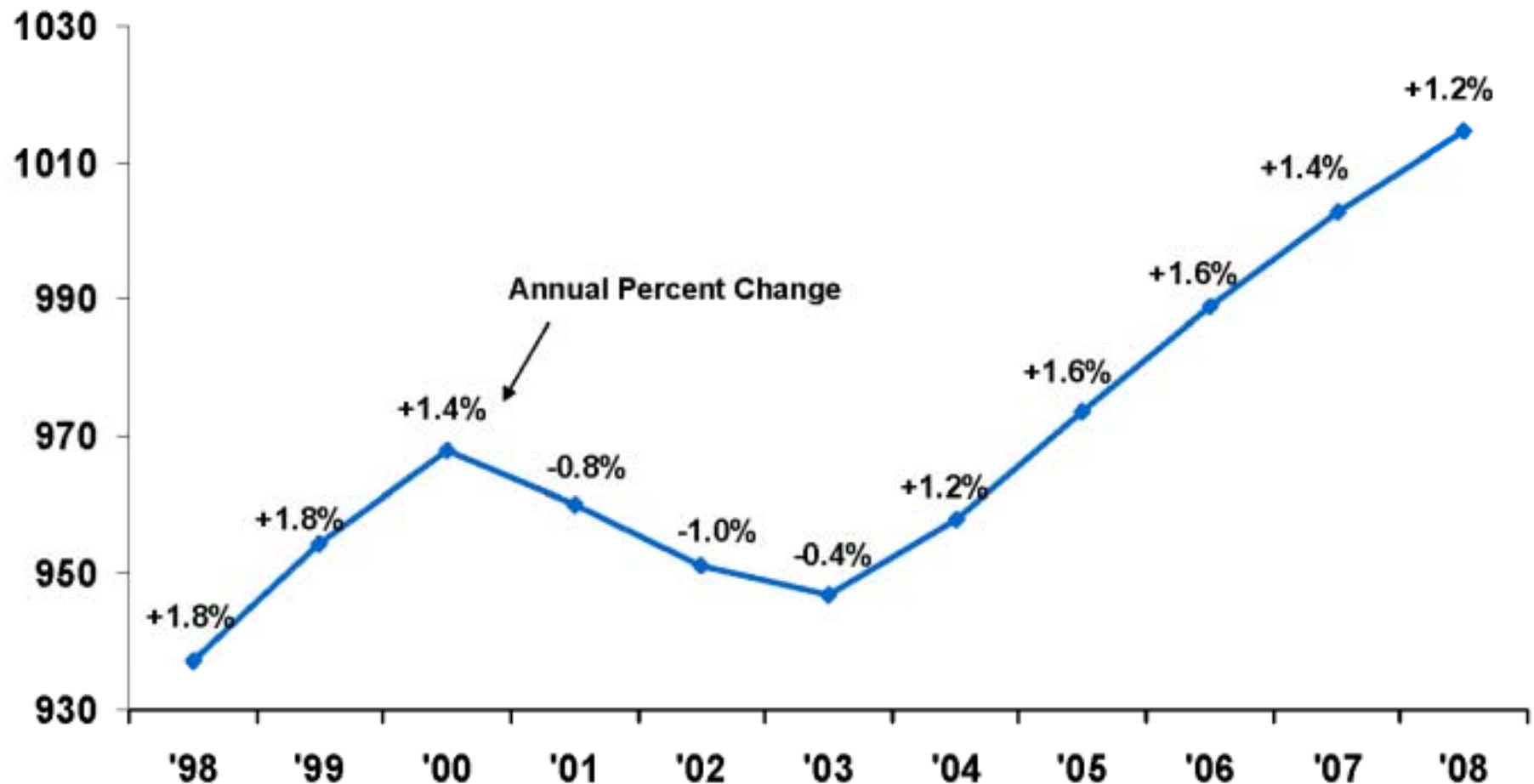


Source: US Bureau of Labor Statistics and NCCI



Prospects Are for Continued Job Gains in Arkansas Through 2008

Private Employment in Arkansas, Thousands

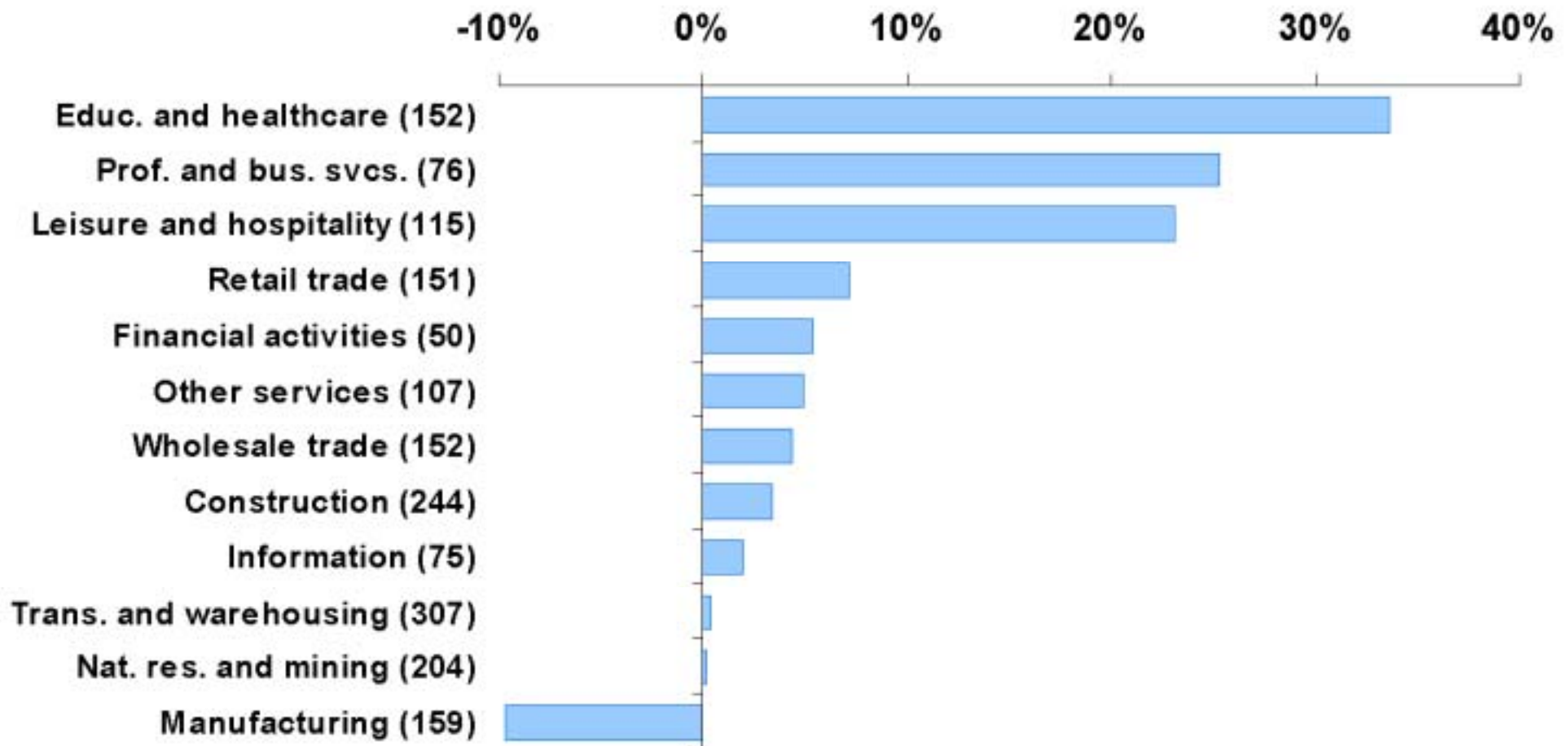


Source: US Bureau of Labor Statistics; Moody's Economy.com



Three Industries Are Expected to Account for 80% of Arkansas's Job Growth Through 2008

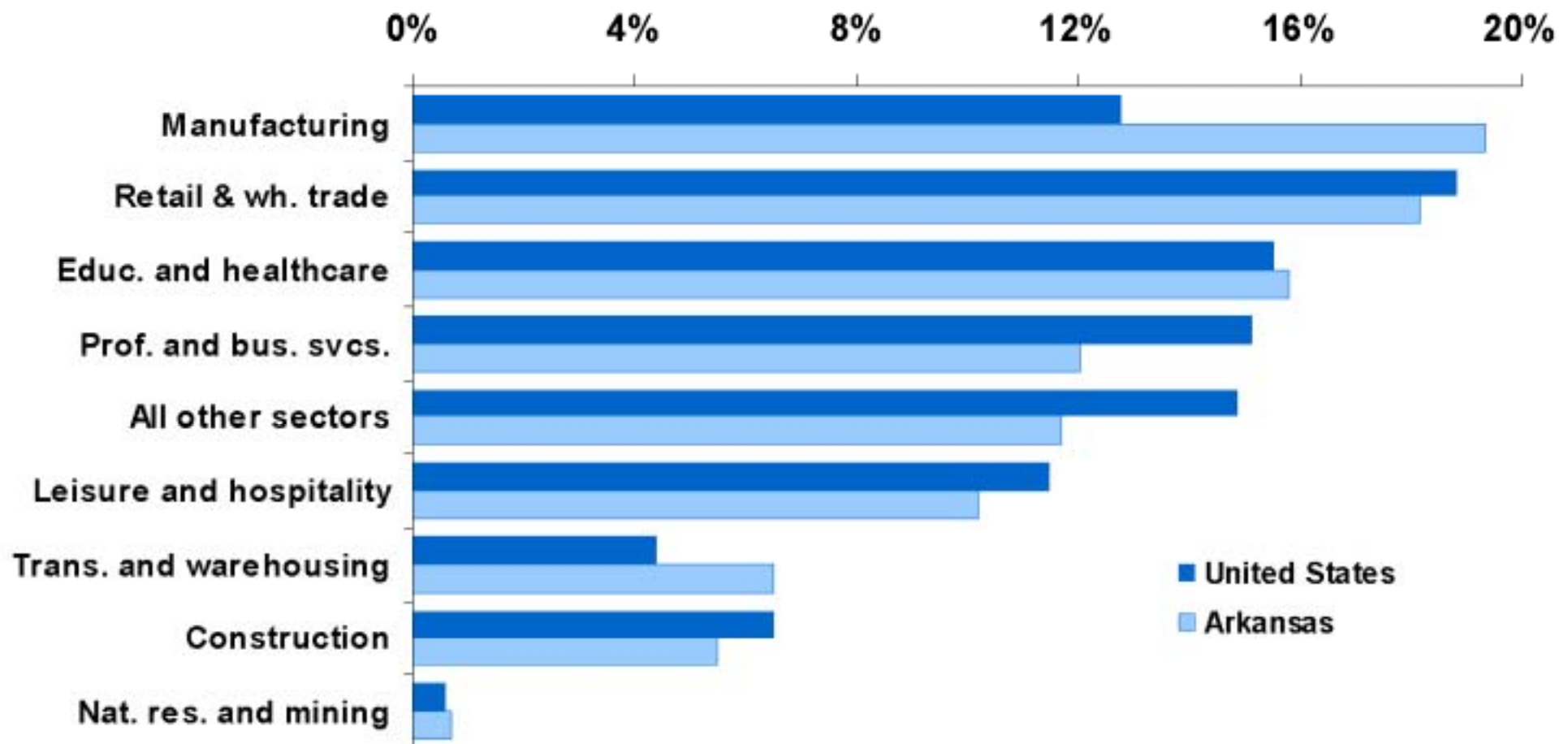
Percent Contribution to Employment Growth, 2005 to 2008



() = Lost work-time injuries and illnesses per 10,000 full-time workers, countrywide data

Manufacturing Accounts for a Far Greater Share of Employment in Arkansas Than in the US

Percent of Private Sector Employment, 2005



Source: US Bureau of Labor Statistics

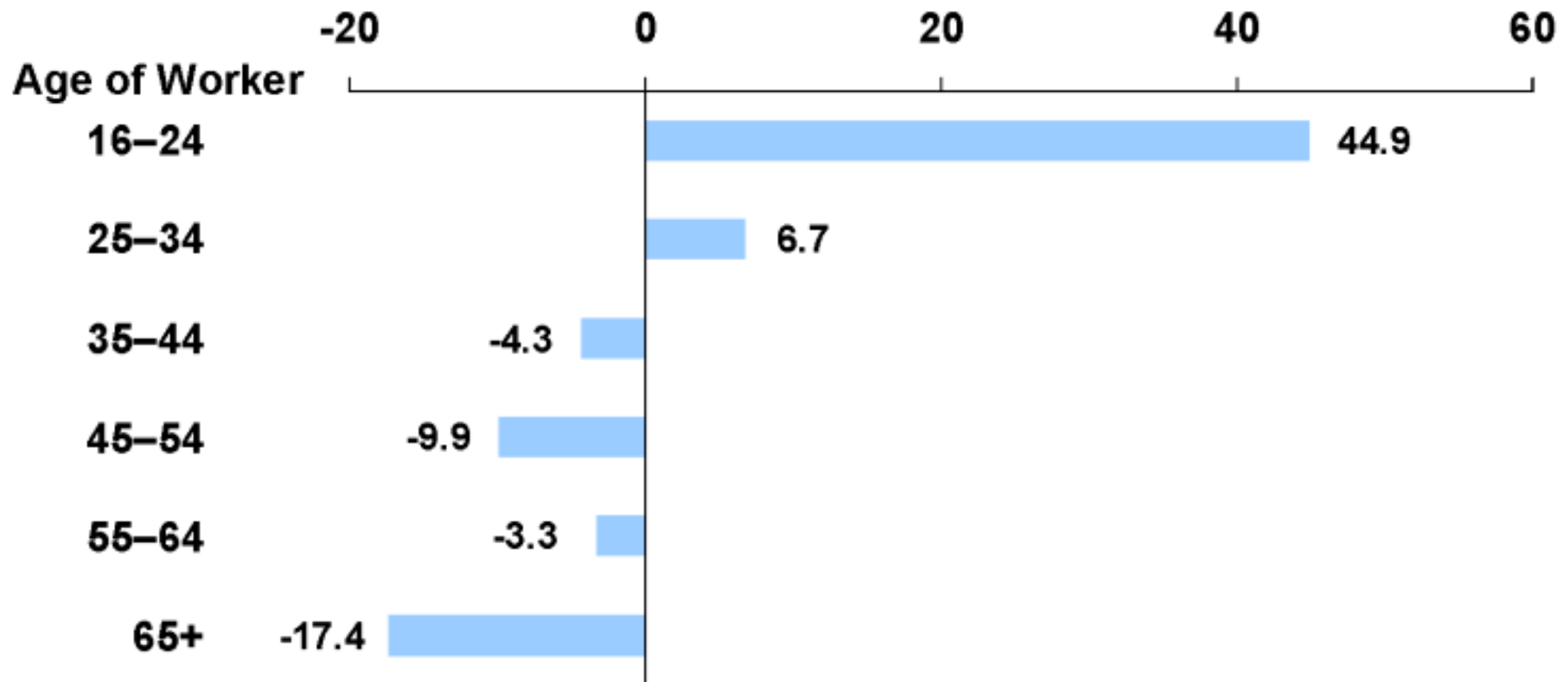


Demographic Impacts on Frequency



Bureau of Labor Statistics Incidence Rates by Age of Worker

Percentage Above or Below the Average Manufacturing
Incidence Rate in 2001 (Countrywide Data)



Source: US Bureau of Labor Statistics



Baby Boomers and Changes in Incidence Rates: A Partial Explanation?

(Countrywide Data)

<u>Time Period</u>	<u>% Labor Force Aged 16–24</u>	<u>Mfg. Incidence Rate</u>
1961–1962	15.9%	11.9
1972–1973	22.1%	15.5

Frequency Declines as the Baby Boomers Enter Their 50s

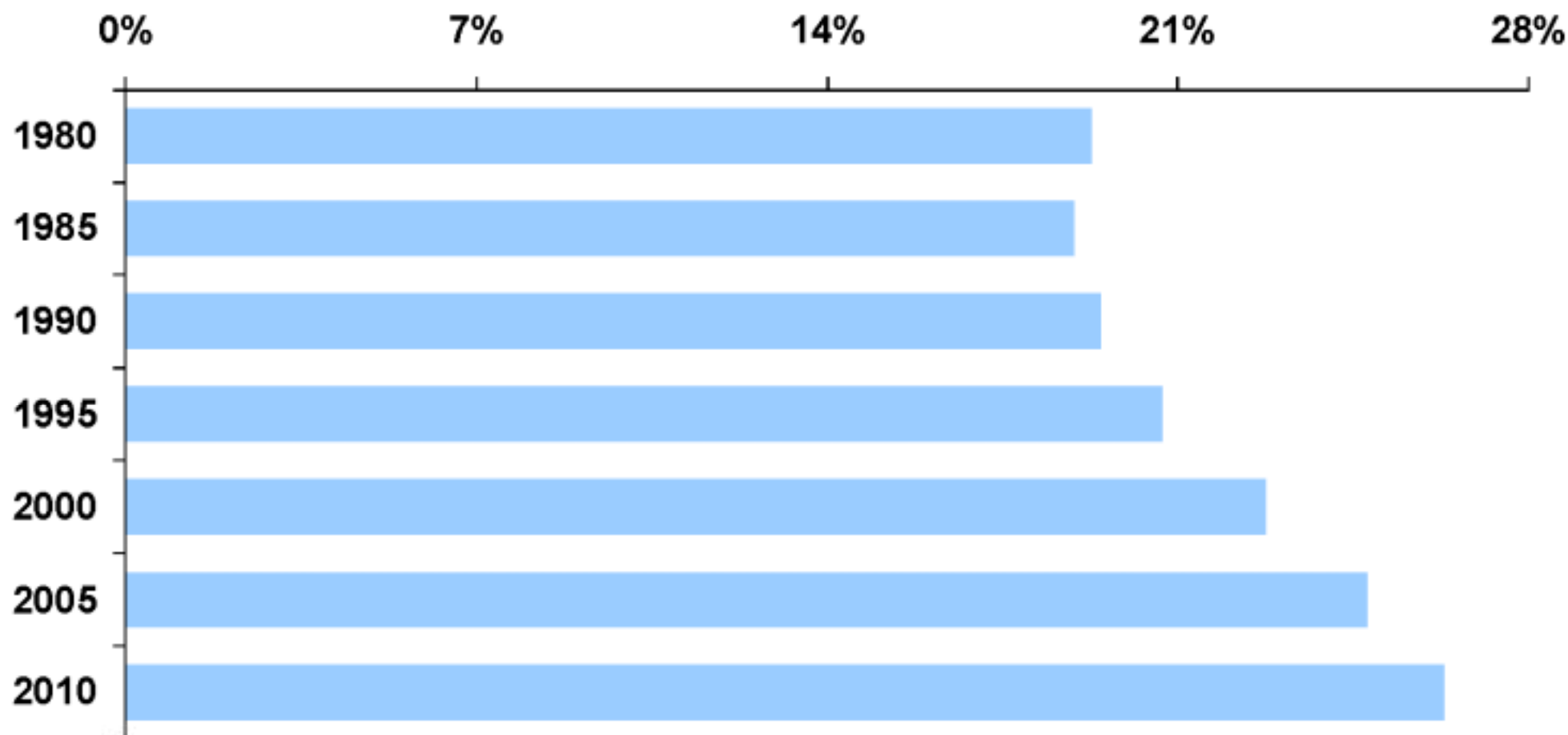
<u>Time Period</u>	<u>% Labor Force Aged 45 +</u>	<u>Mfg. Incidence Rate</u>
1992–1993	30.1%	12.3
2002–2004	38.9%	6.7

Source: US Bureau of Labor Statistics, US Census Bureau, and NCCI



The Share of Arkansas's Population Aged 45 to 64 Is Expected to Increase Through 2010

Population in Arkansas Aged 45 to 64 as a Percentage of Total



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



Factors Affecting the Long-Term Downtrend in Frequency



Why Frequency Has Been Trending Lower

- Competitive labor markets require continuing improvement in working conditions and productivity
- Impact of global competition
- Technology
- Indirect impacts of OSHA



The Change in Frequency in the 1990s

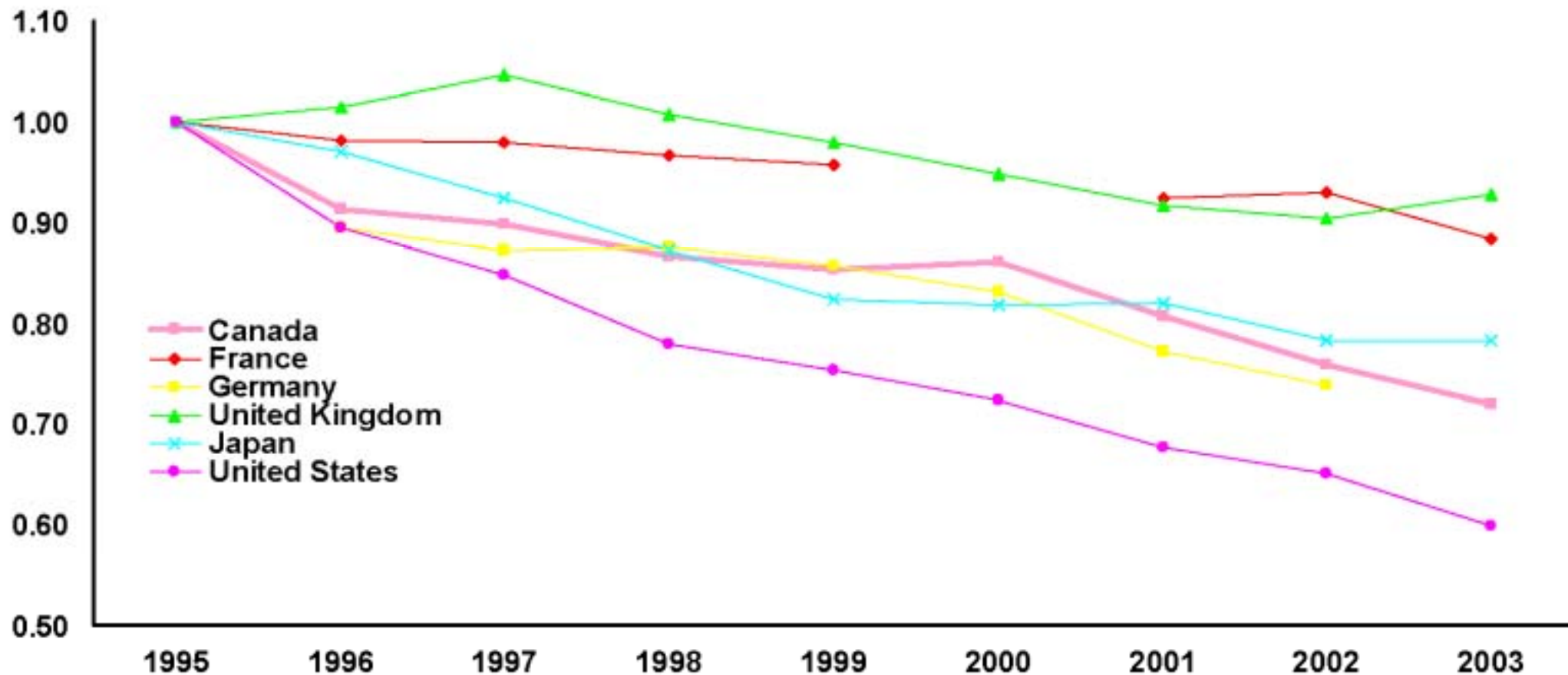
The key findings of NCCI research indicate that the decline in the 1990s was broad-based:

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



Incidence Rates for Nonfatal Injuries Have Been Declining in Major Industrialized Nations

Incidence Rates Indexed So That Rate in 1995 = 1.0



Source: Industrial Labor Organization (ILO) and NCCI



Key Takeaways—Frequency

- Prospects for claim frequency partly reflect the strength of the business cycle/employment growth—analysis for Arkansas suggests some modest upward pressure in the near-term
- In contrast, demographic factors may be exerting some downward pressures on frequency—although that relationship is pending further research



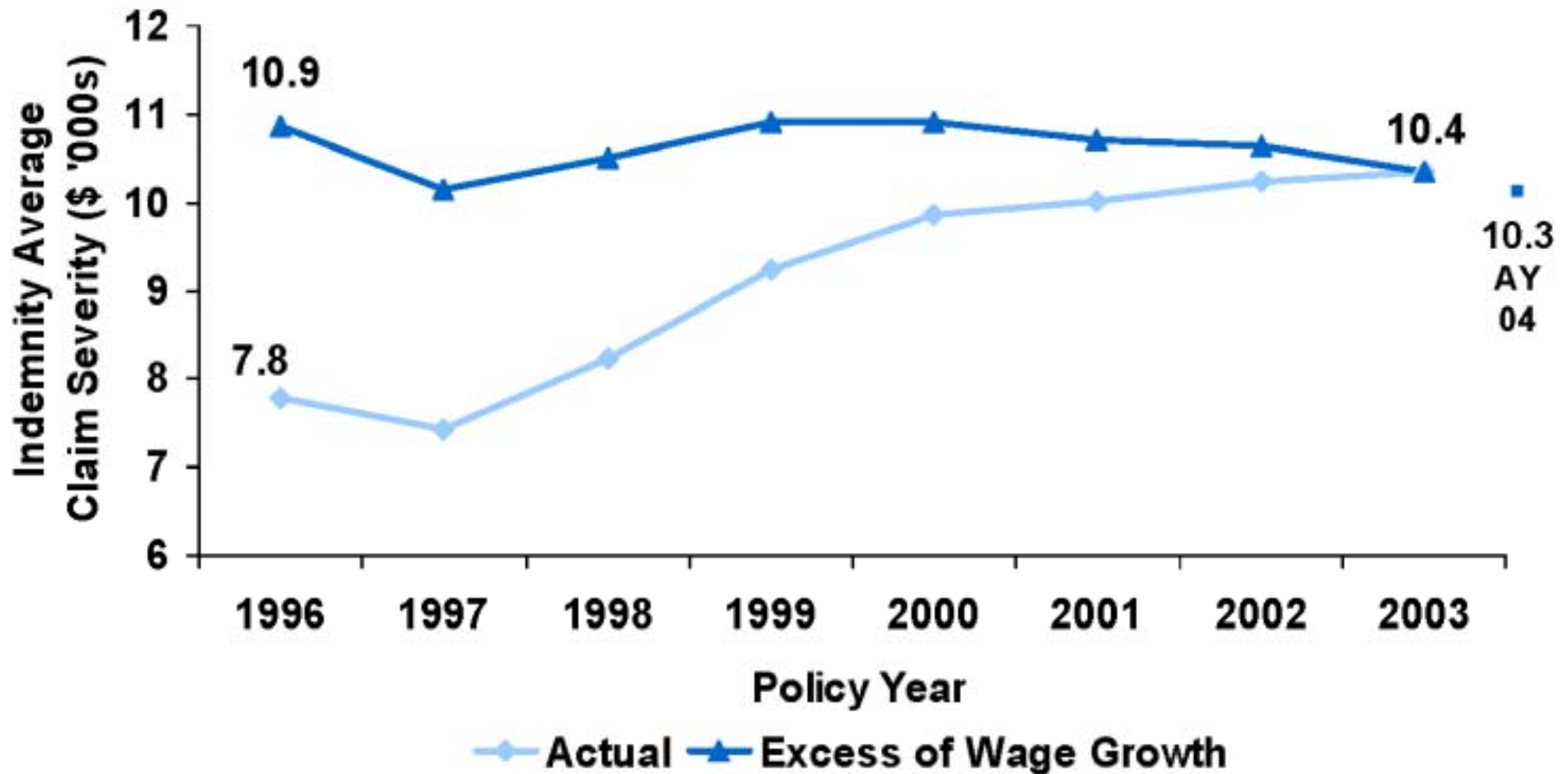
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Indemnity Severity

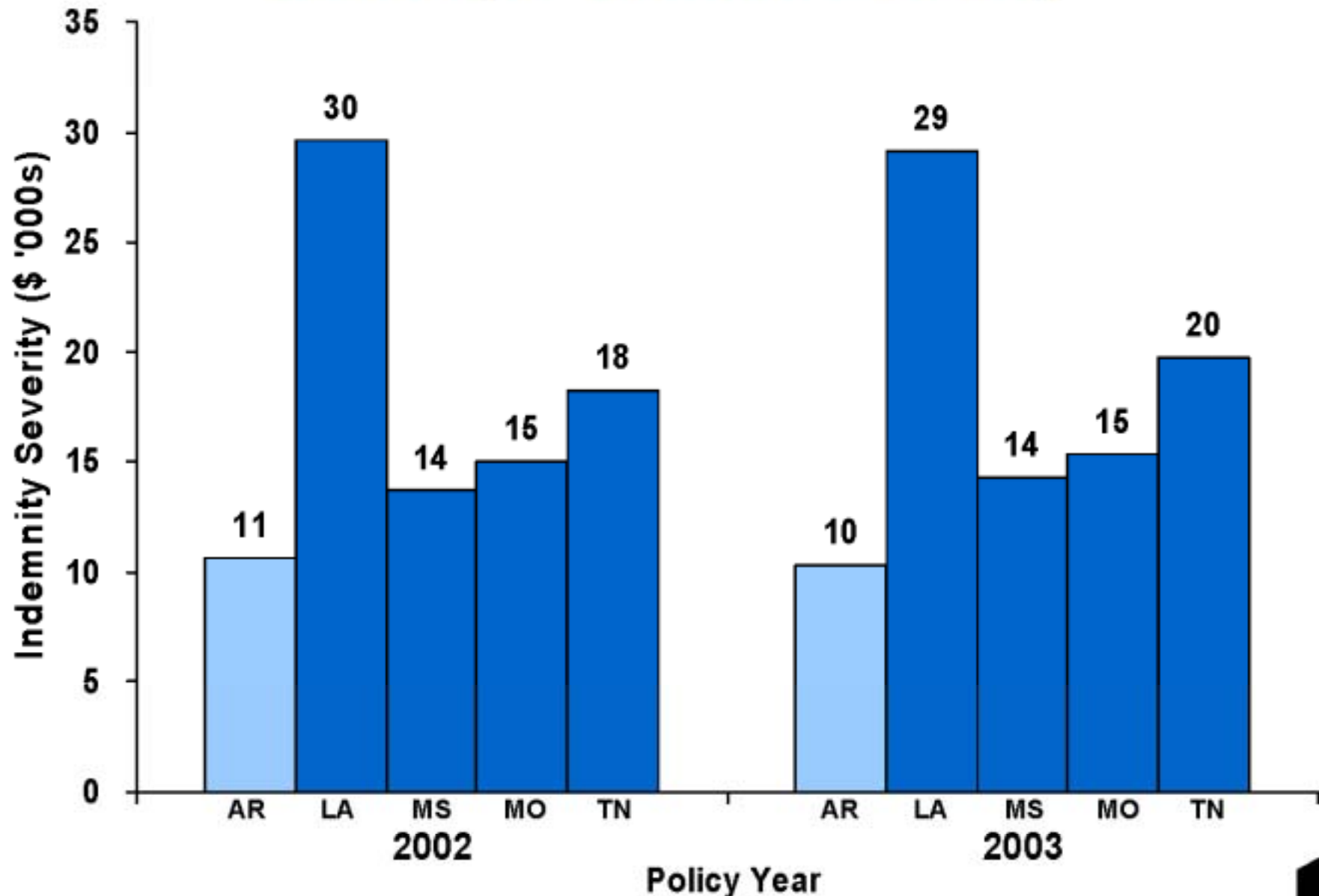
Arkansas Average Indemnity Severity



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



Arkansas Indemnity Average Claim Severity



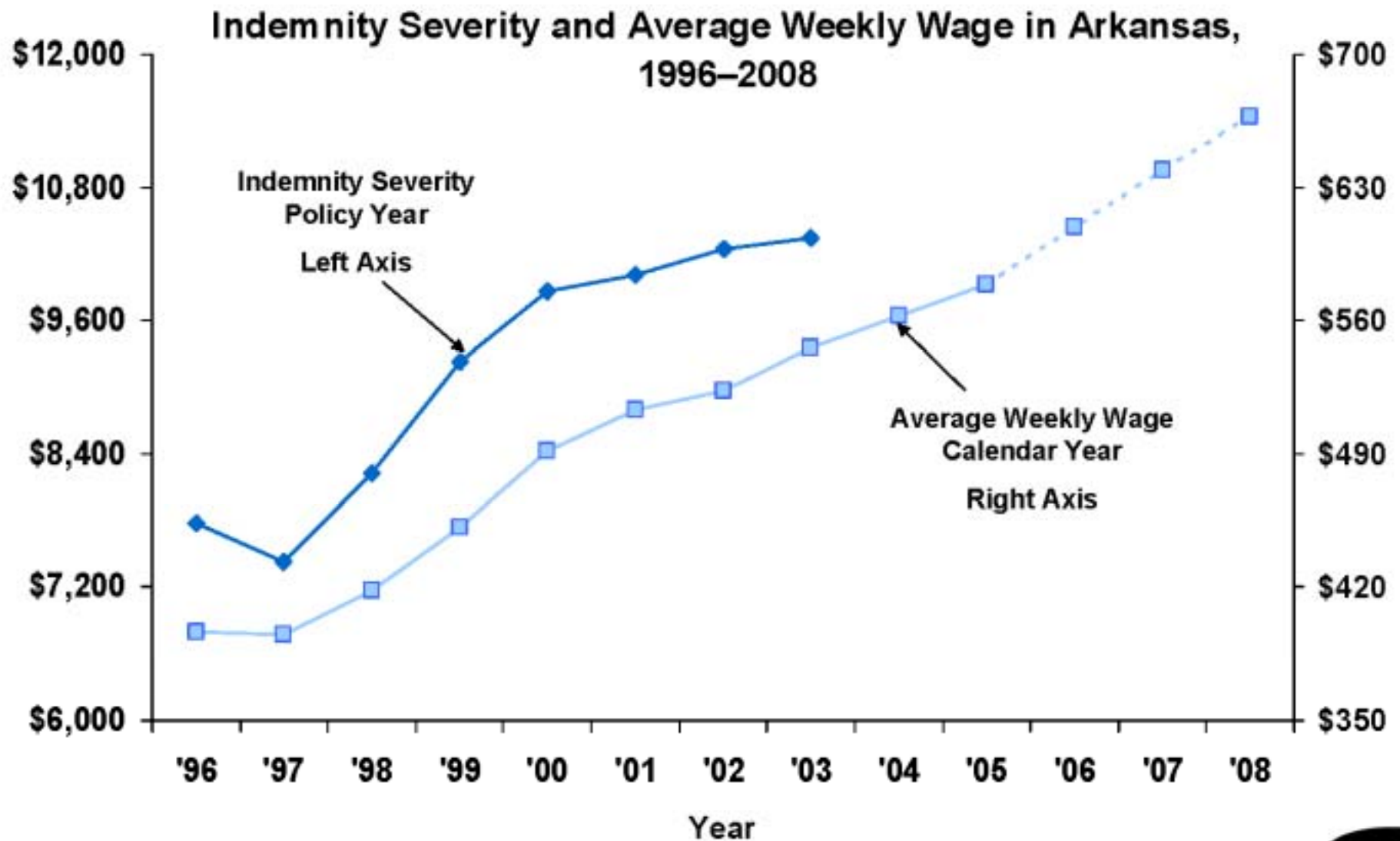
Based on NCCI's financial data for lost-time claims.



Economic Drivers of Indemnity Severity

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

Prospective Wage Increases in Arkansas Suggest Upward Pressure on Indemnity Severity



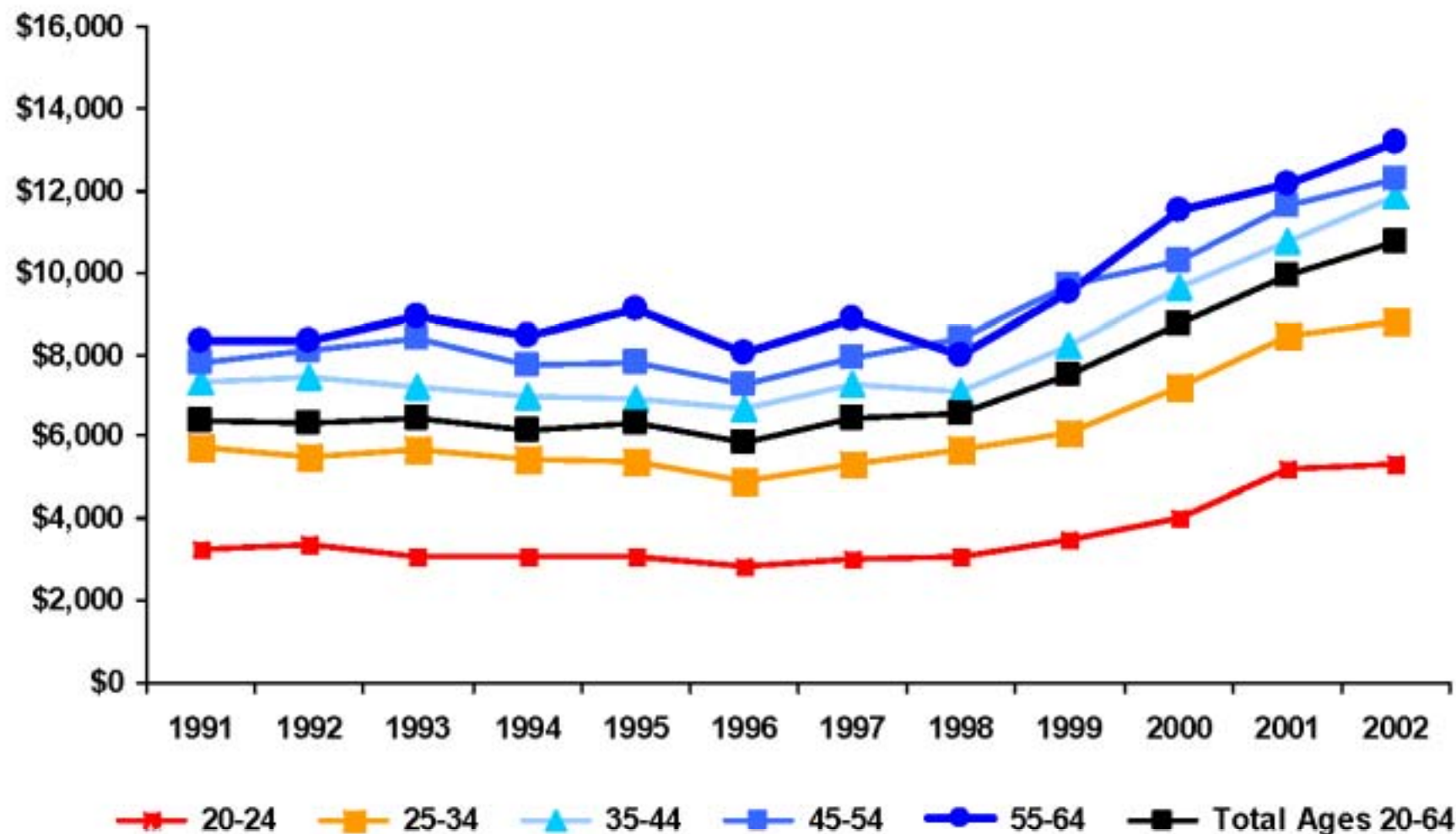
Source: NCCI and US Bureau of Labor Statistics

Indemnity Severity is based on NCCI's financial data for lost-time claims at current benefit level and historical wage levels, developed to ultimate.



Indemnity Severity Increases With Age

Average Paid + Case Indemnity Severities Reported at 18 Months by Age and Accident Year, 1991–2002, NCCI States

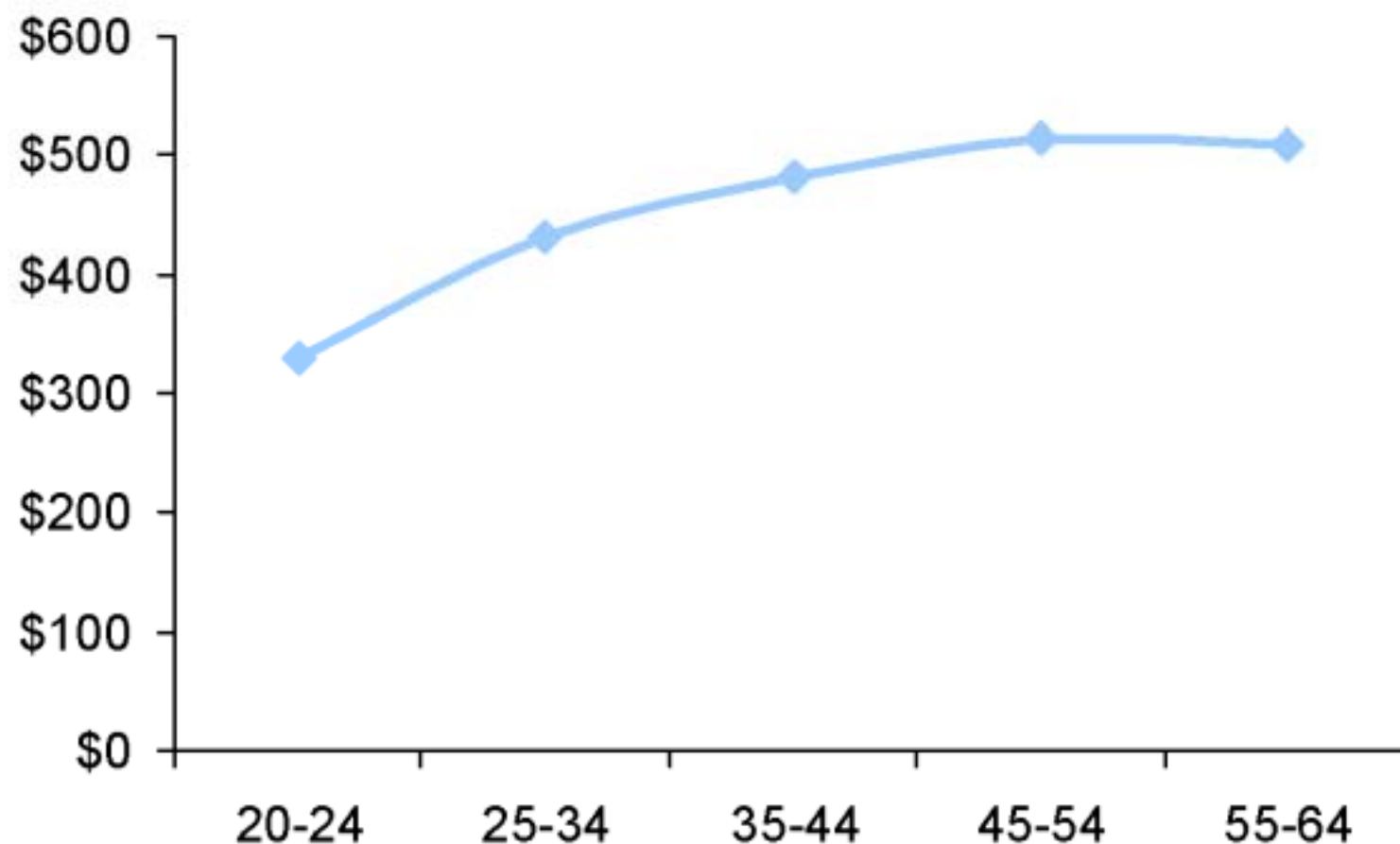


Source: NCCI



Average Weekly Wage Increases With Age

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

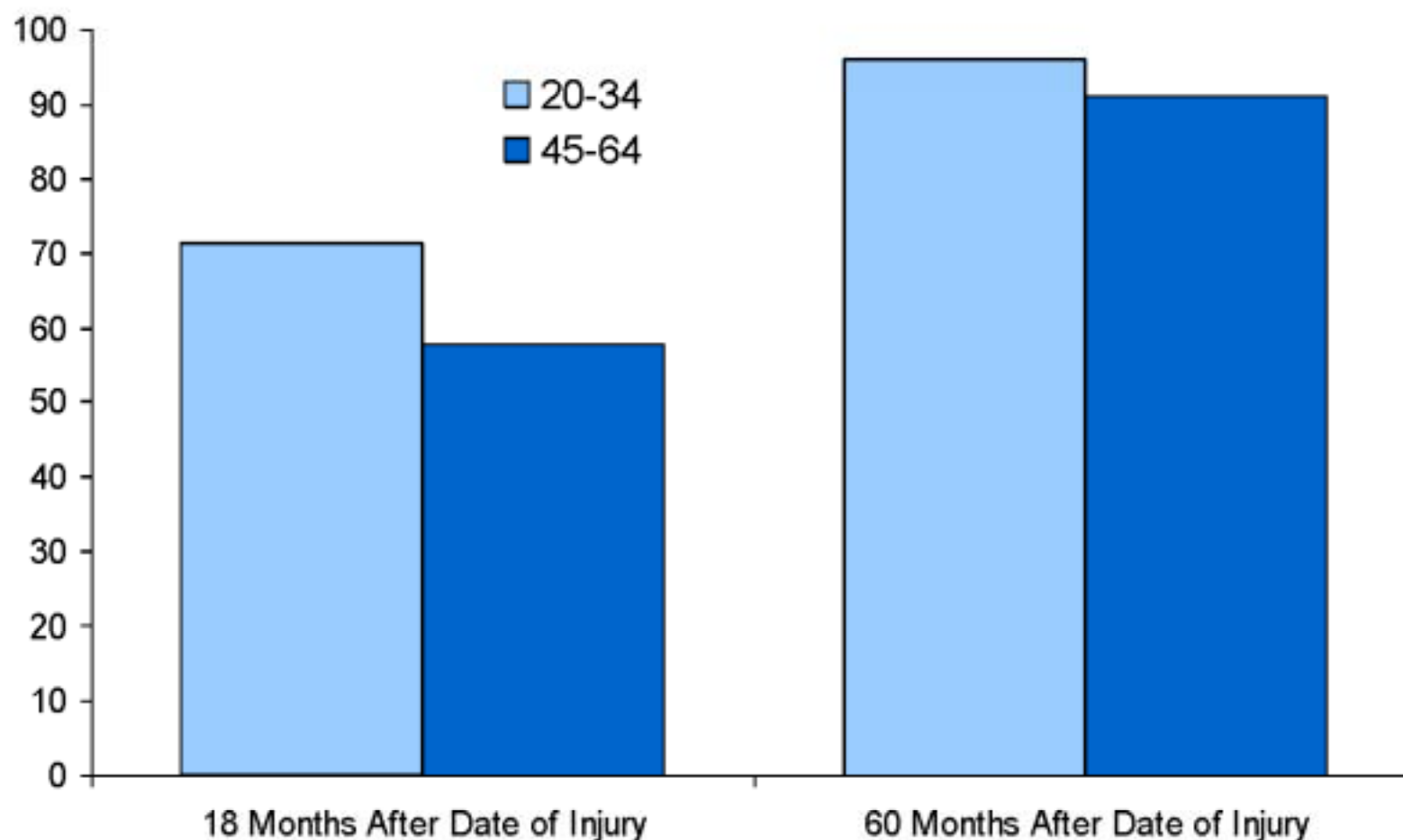


Source: NCCI



Older Workers Have Fewer Claims Closed Than Younger Both 18 and 60 Months After Date of Injury

Percentage of Claims That Are Closed, 1996–2003, NCCI States

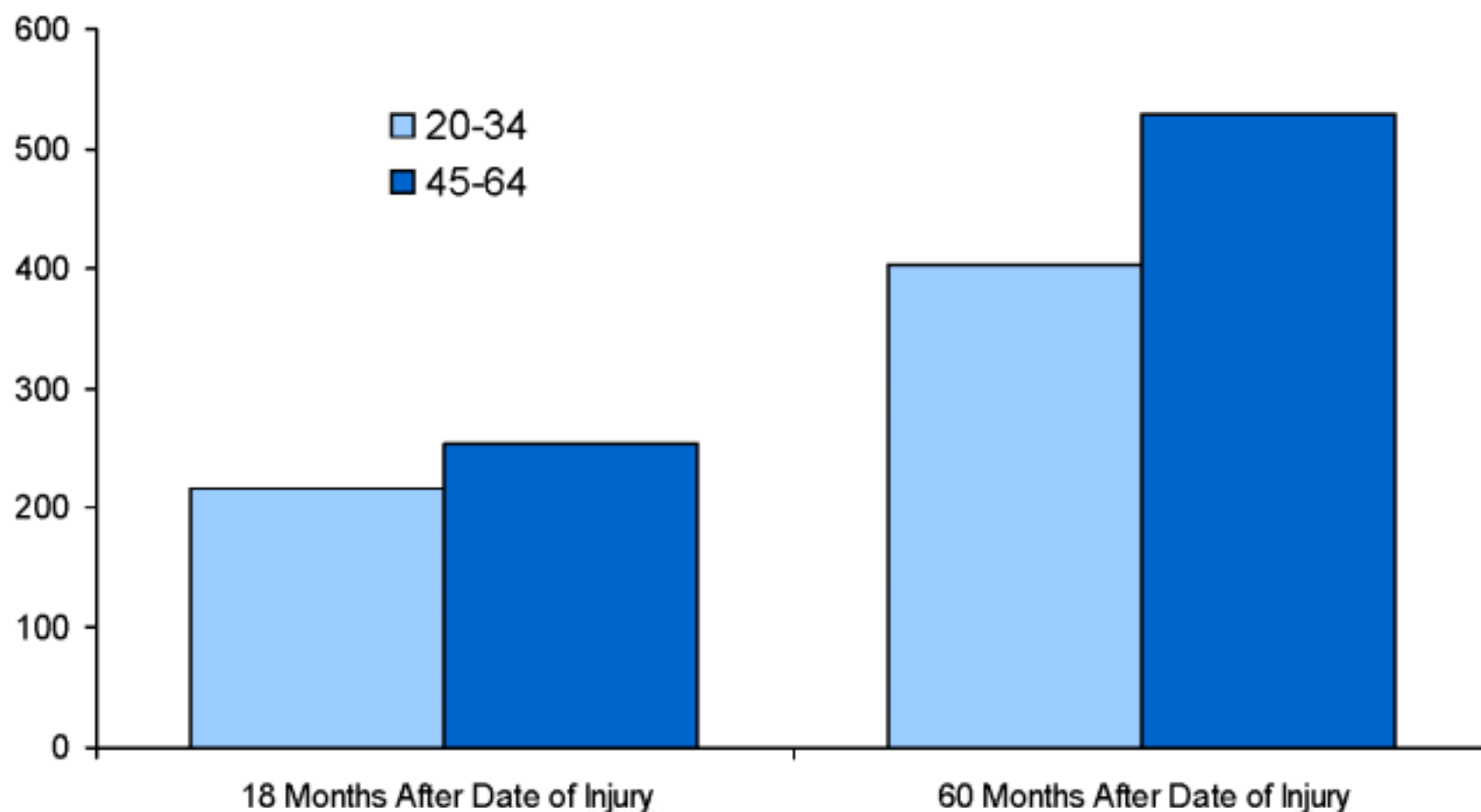


Source: NCCI



Average Duration Is Longer for Older Workers

Average Days From Date of Injury to Closure, Closed Claims 1996–2003, NCCI States

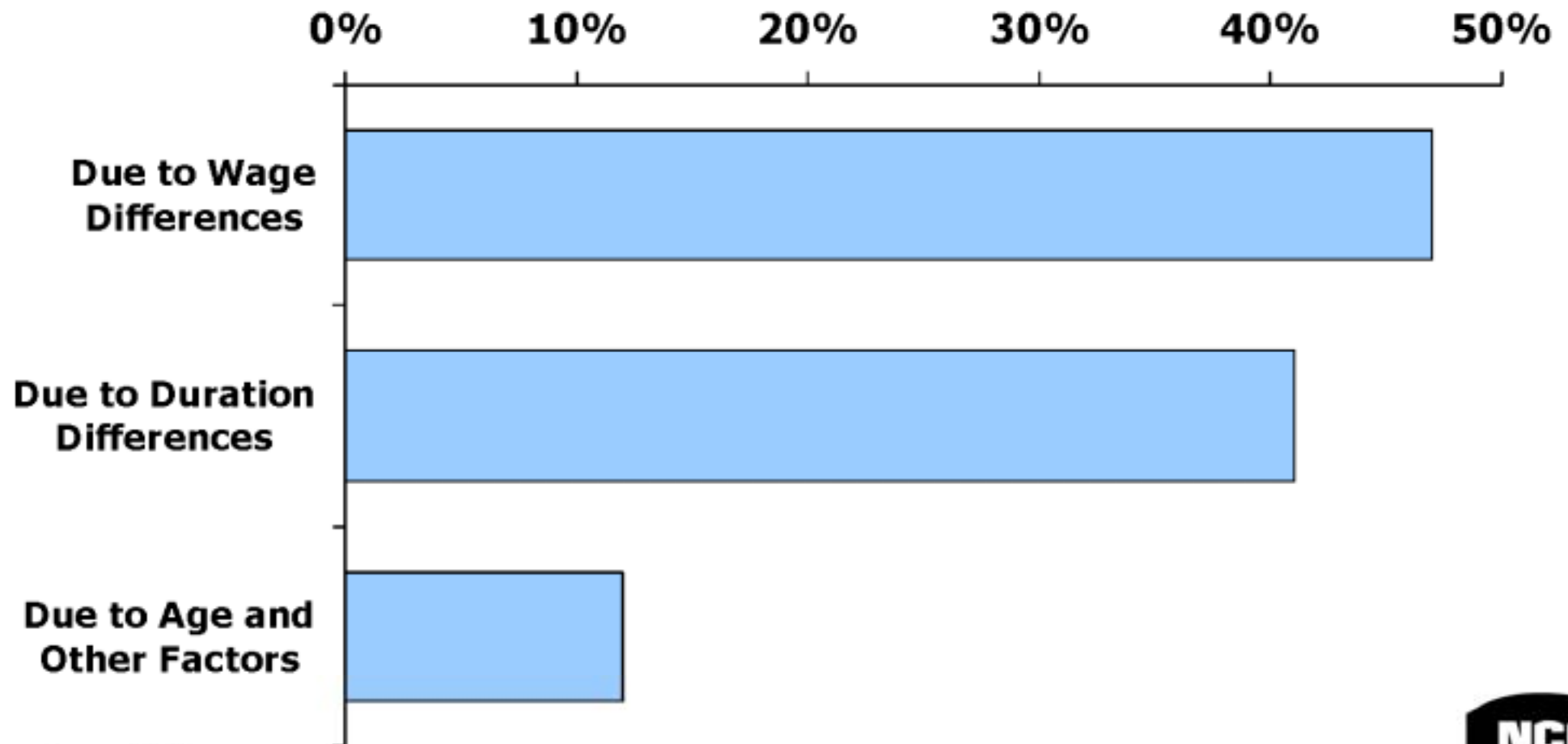


Source: NCCI



Wages and Duration Differences Explain Most of the Age-Related Differences in Indemnity Severity

**Percentage of Indemnity Severity Difference Explained,
Older Workers vs. Younger Workers**



Source: NCCI



Key Takeaways—Indemnity Severity

- Projected increases in Arkansas's average weekly wage suggest some upward pressure on indemnity severity.
- Indemnity severity also tends to increase with age. The aging of Arkansas's population suggests some upward pressure going forward.



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Medical Severity

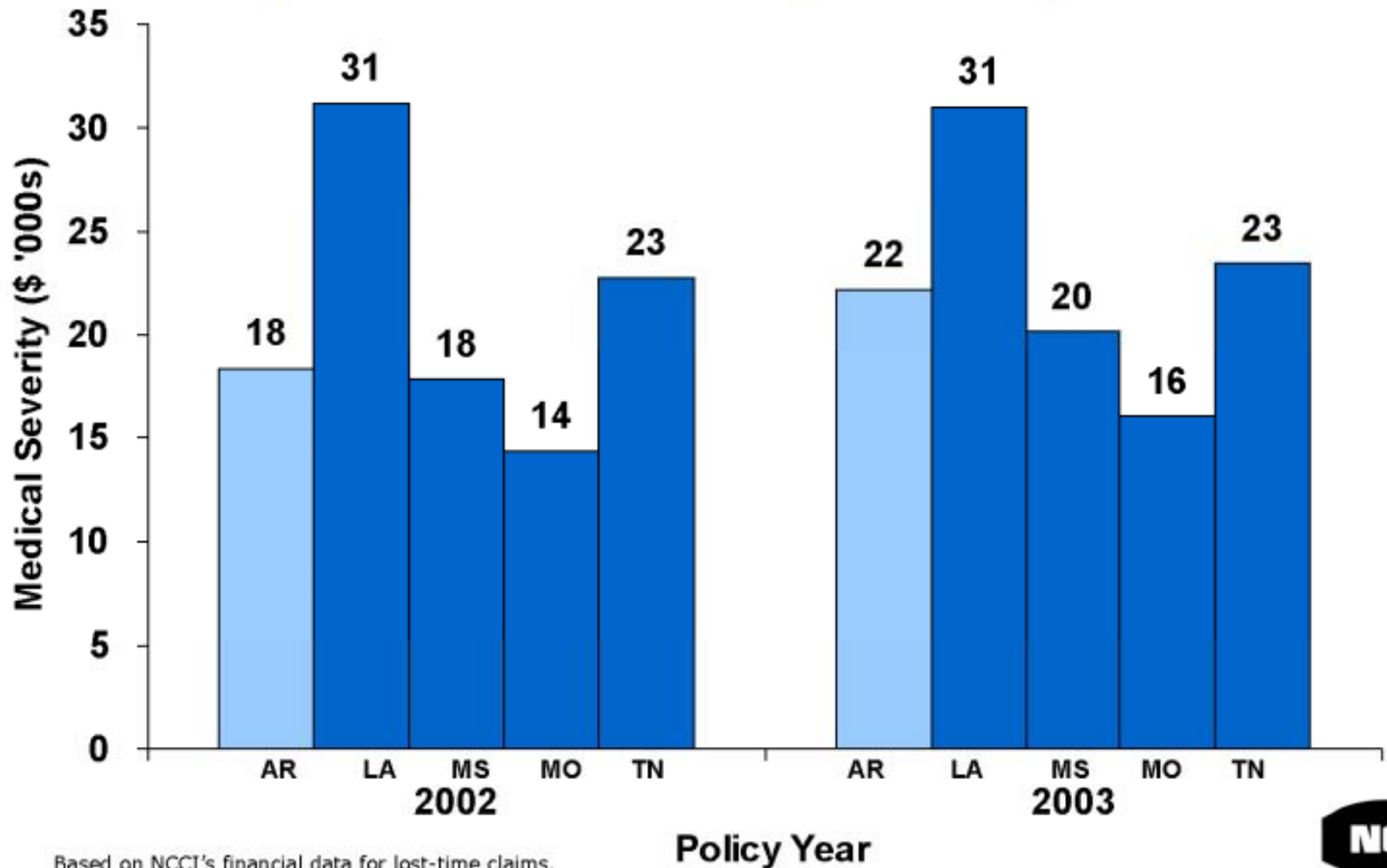
Arkansas Average Medical Severity



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



Arkansas Medical Average Claim Severity Compared With Neighboring States



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

Drivers of Medical Severity

- Medical payment patterns in Arkansas by provider and service categories
- Countrywide information on trends in medical care spending, prices and utilization
- Impact of demographics on workers compensation medical costs



Medical Payment Patterns in Arkansas



Hospital-Related Services Are Among the Major Payment Categories in Arkansas

Percentage of Workers Compensation Medical Payments by Type of Service, 2003

Category	Arkansas	US
Hospital Facility Services*	18.6	14.7
Drugs, Supplies and DME#	16.7	16.5
Complex Surgery and Anesthesia	15.0	14.0
Physical Therapy	12.0	17.9
Office Visits	7.7	8.3
Complex Diagnostic Testing	7.2	5.4
Surgical Treatments	5.9	3.7
Emergency Services	4.2	3.2
Diagnostic Radiology	3.5	3.6
Pathology	1.2	0.9
Other	8.1	11.8

Source: NCCI

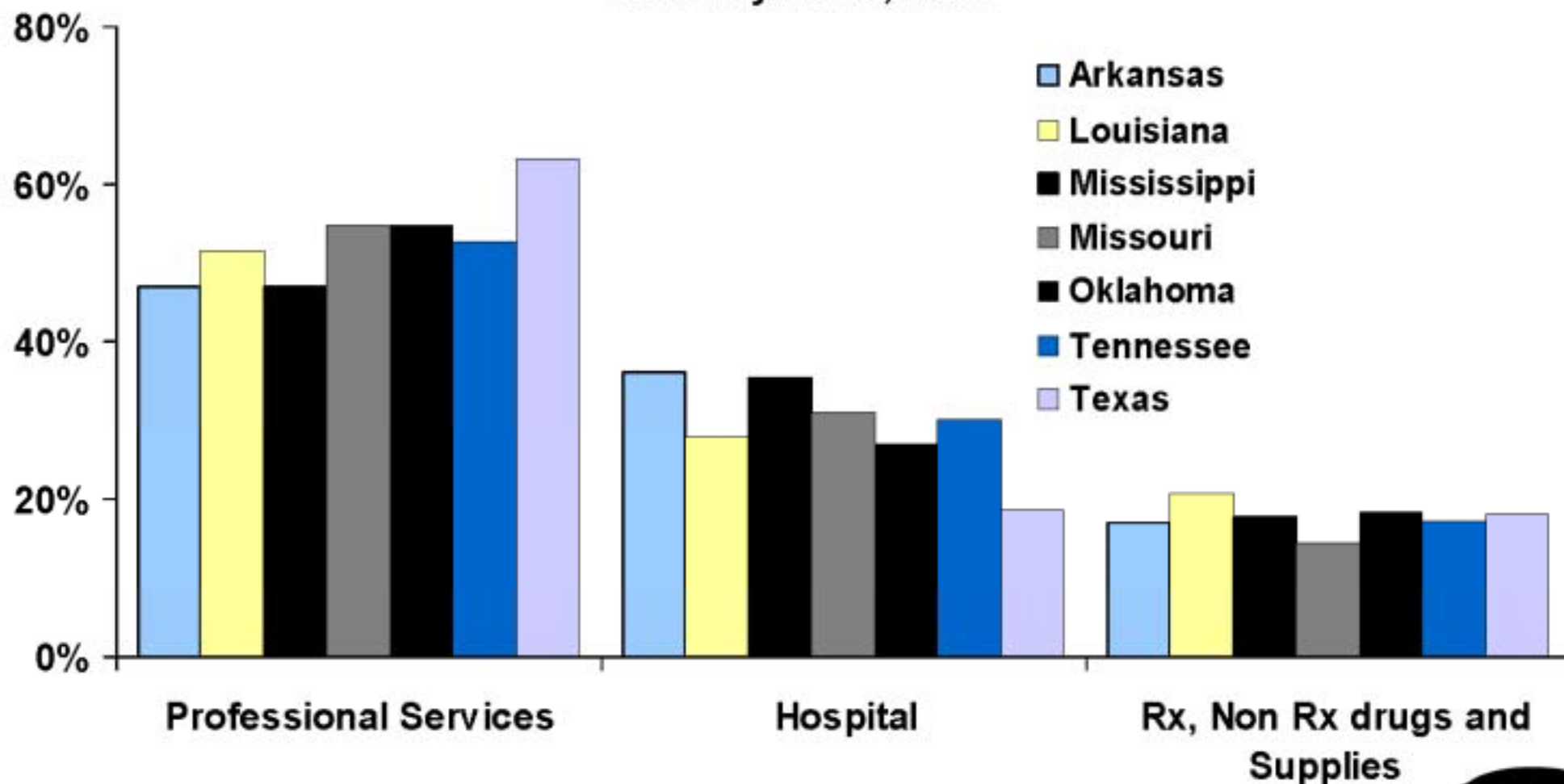
* Includes nonsurgical physician services performed in a hospital setting

DME is Durable Medical Equipment



Arkansas Is in Line With Other Regional States in Terms of Payments by Provider Group

Workers Compensation Payments by Provider Group, Percentage of Total Payments, 2003

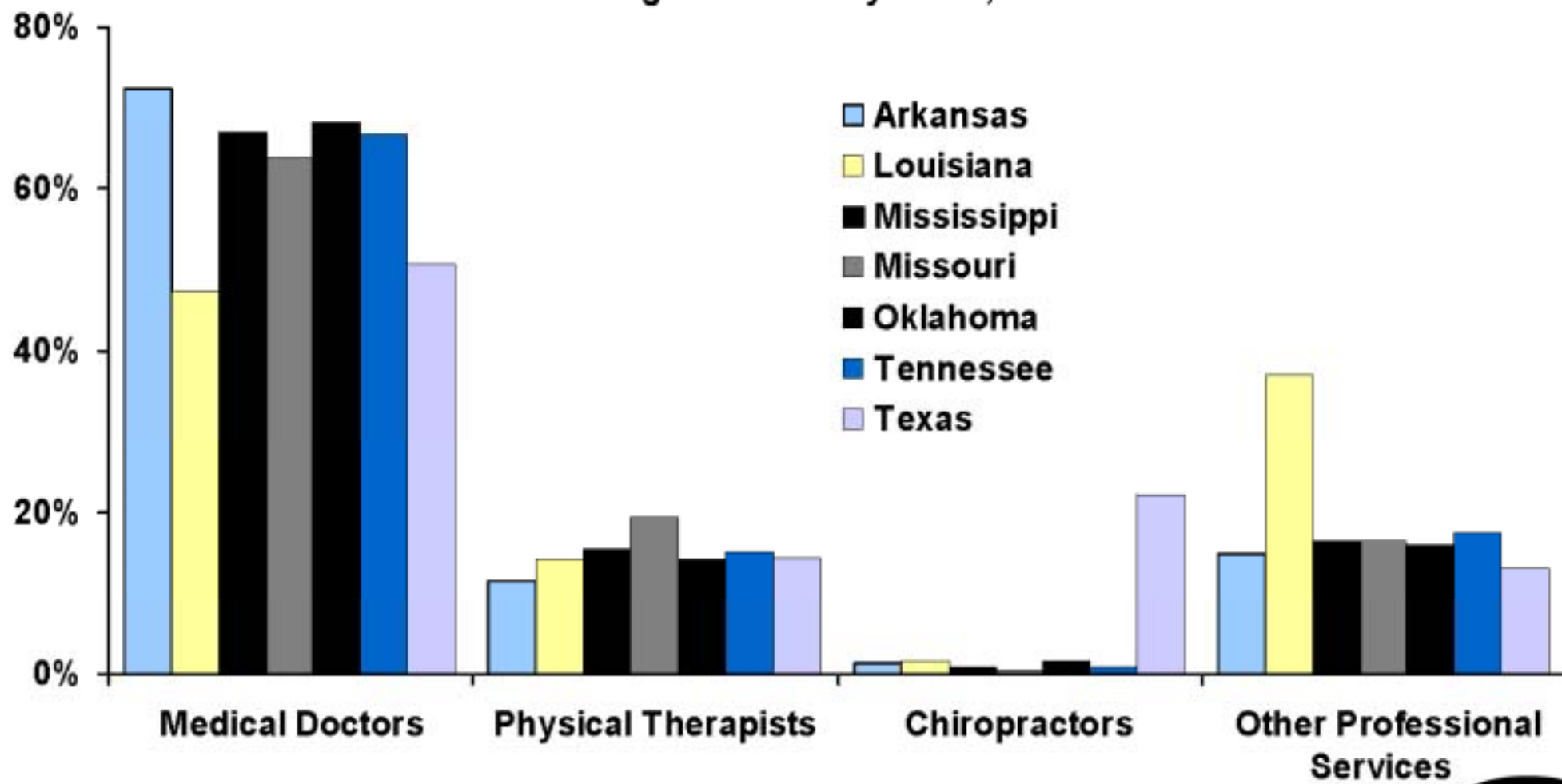


Source: NCCI



Shares of Payments to Professional Service Providers in Arkansas Are Similar to Those in Other Regional States

Workers Compensation Payments to Professional Service Providers,
Percentage of Total Payments, 2003



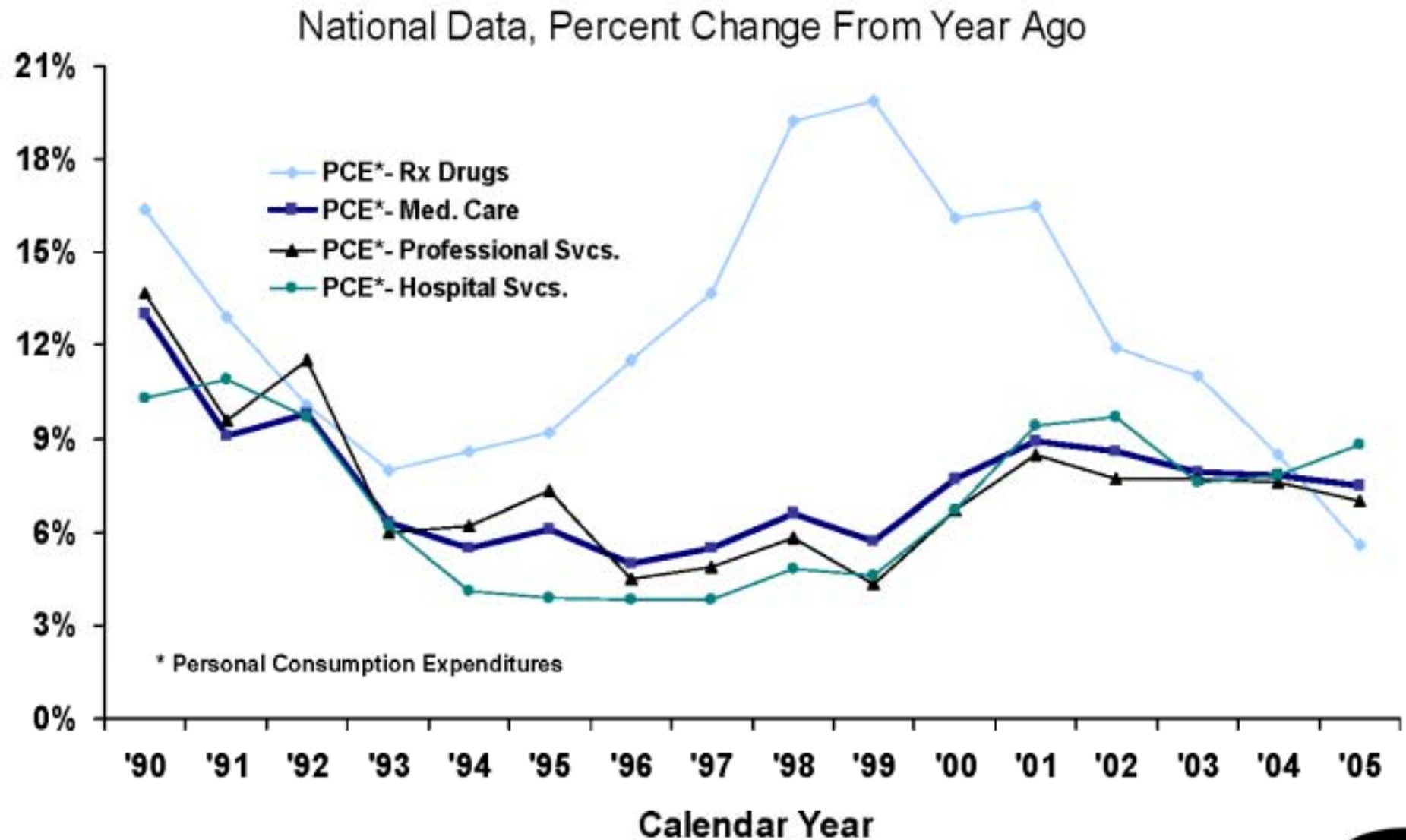
Source: NCCI



Countrywide Trends in Medical Care Spending, Prices, and Utilization



Medical Care Spending *Growth* Has Slowed—Especially for Prescription Drugs

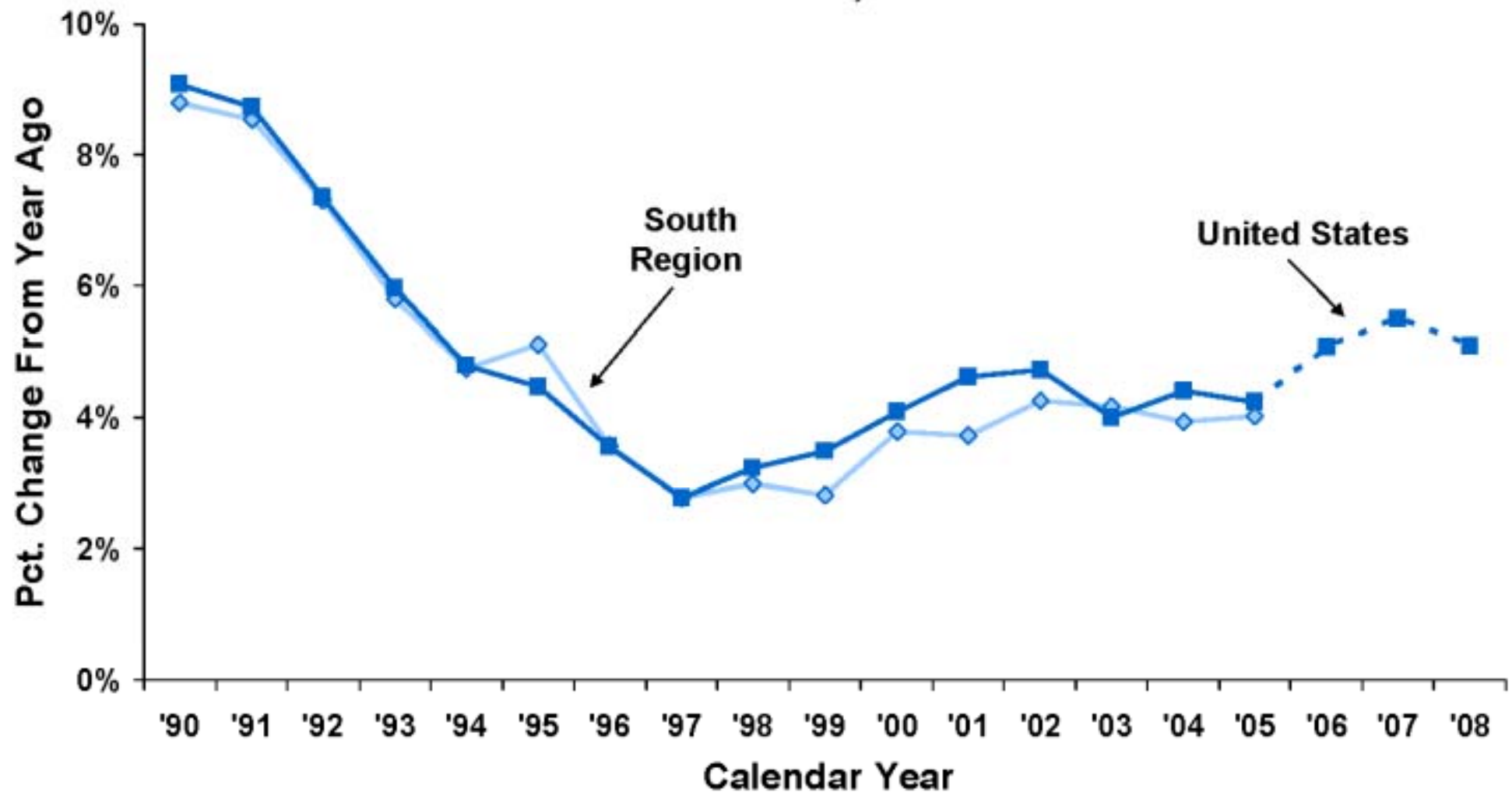


Source: US Bureau of Economic Analysis



Further Increases in Medical Care Price Inflation Are Expected Through 2008

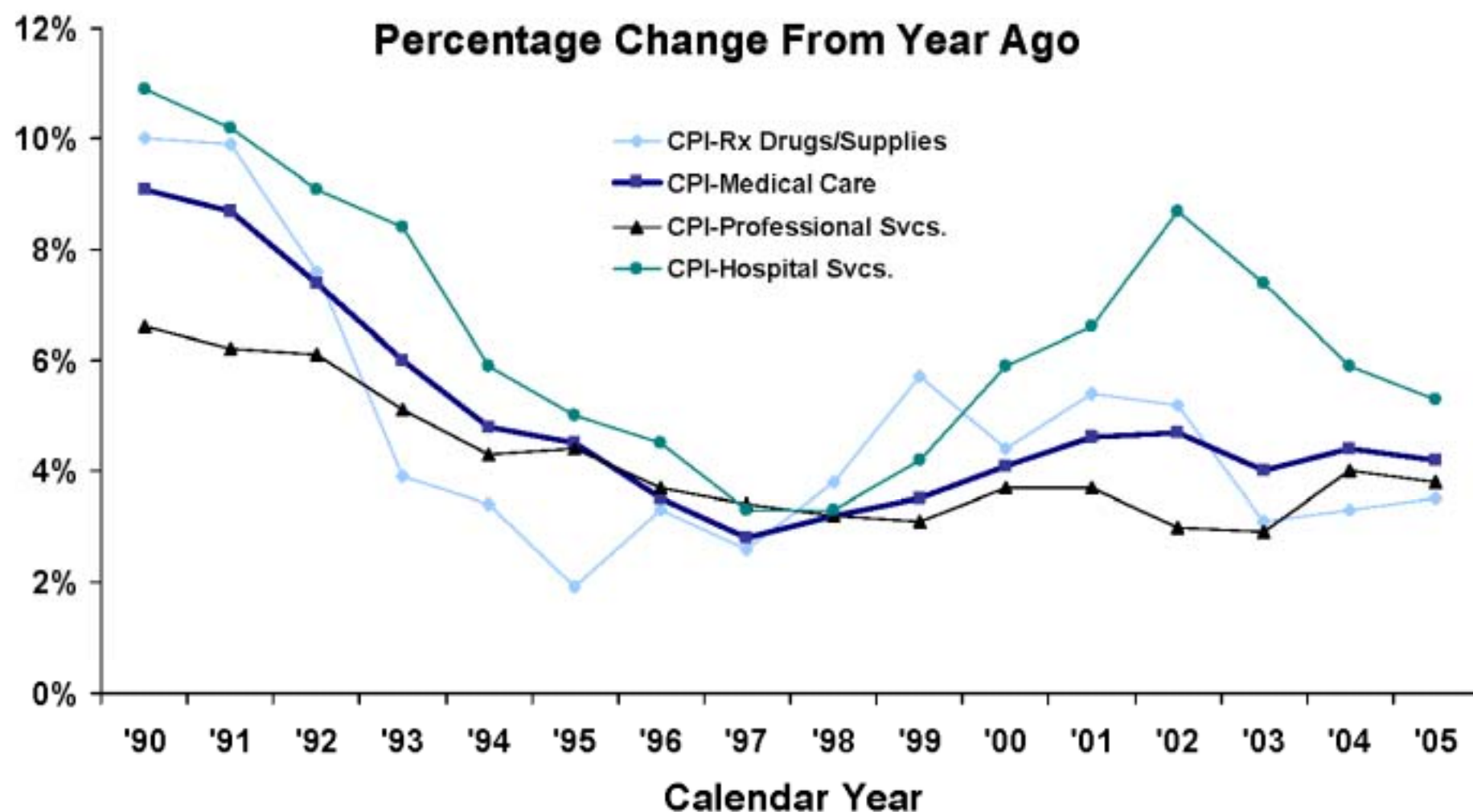
Consumer Price Index, 1990–2008



Source: US Bureau of Labor Statistics for history and Economy.com for forecasts



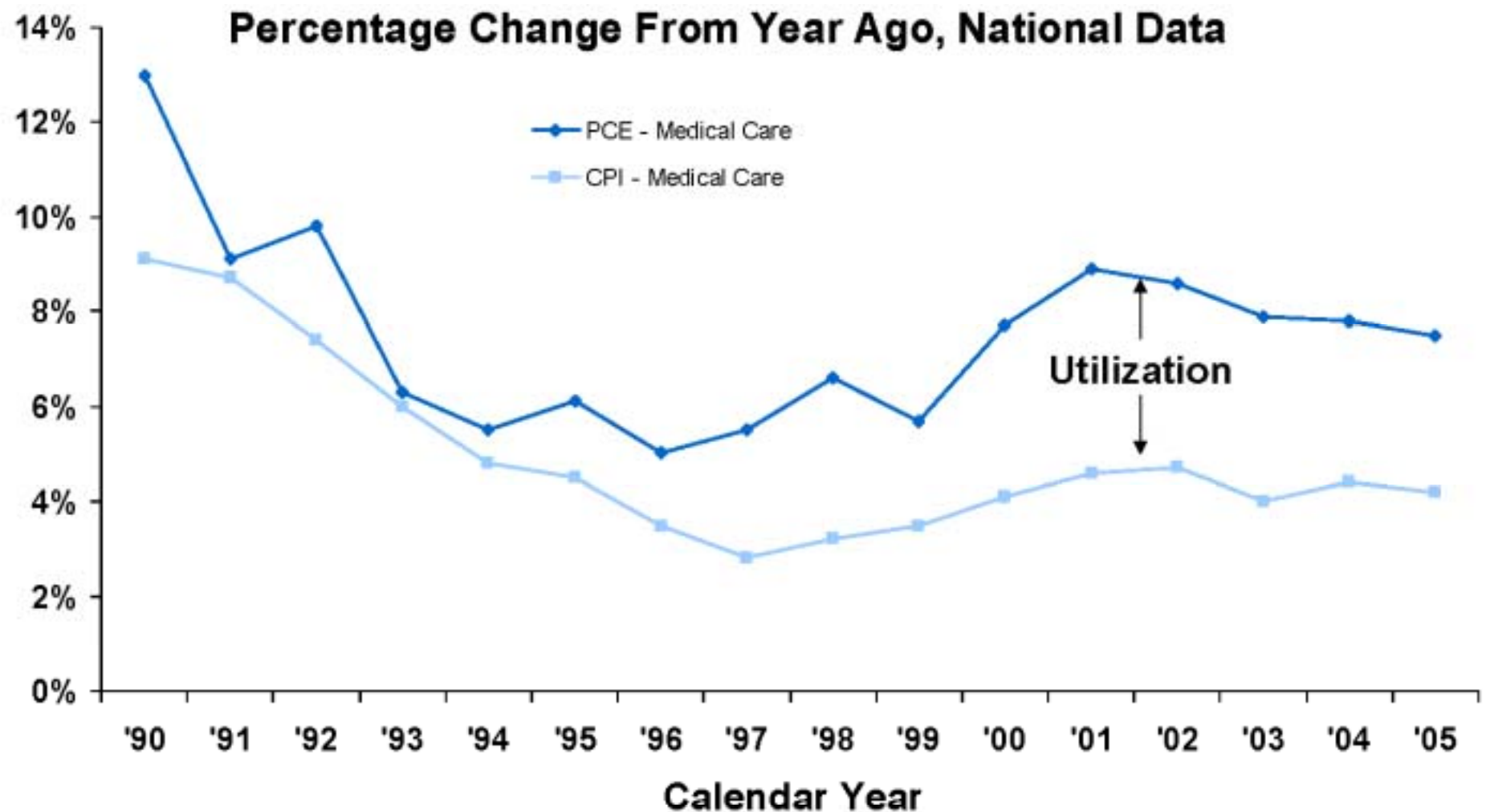
Increases in Hospital Prices Have Outpaced Those for Rx Drugs and Professional Services



Source: US Bureau of Labor Statistics



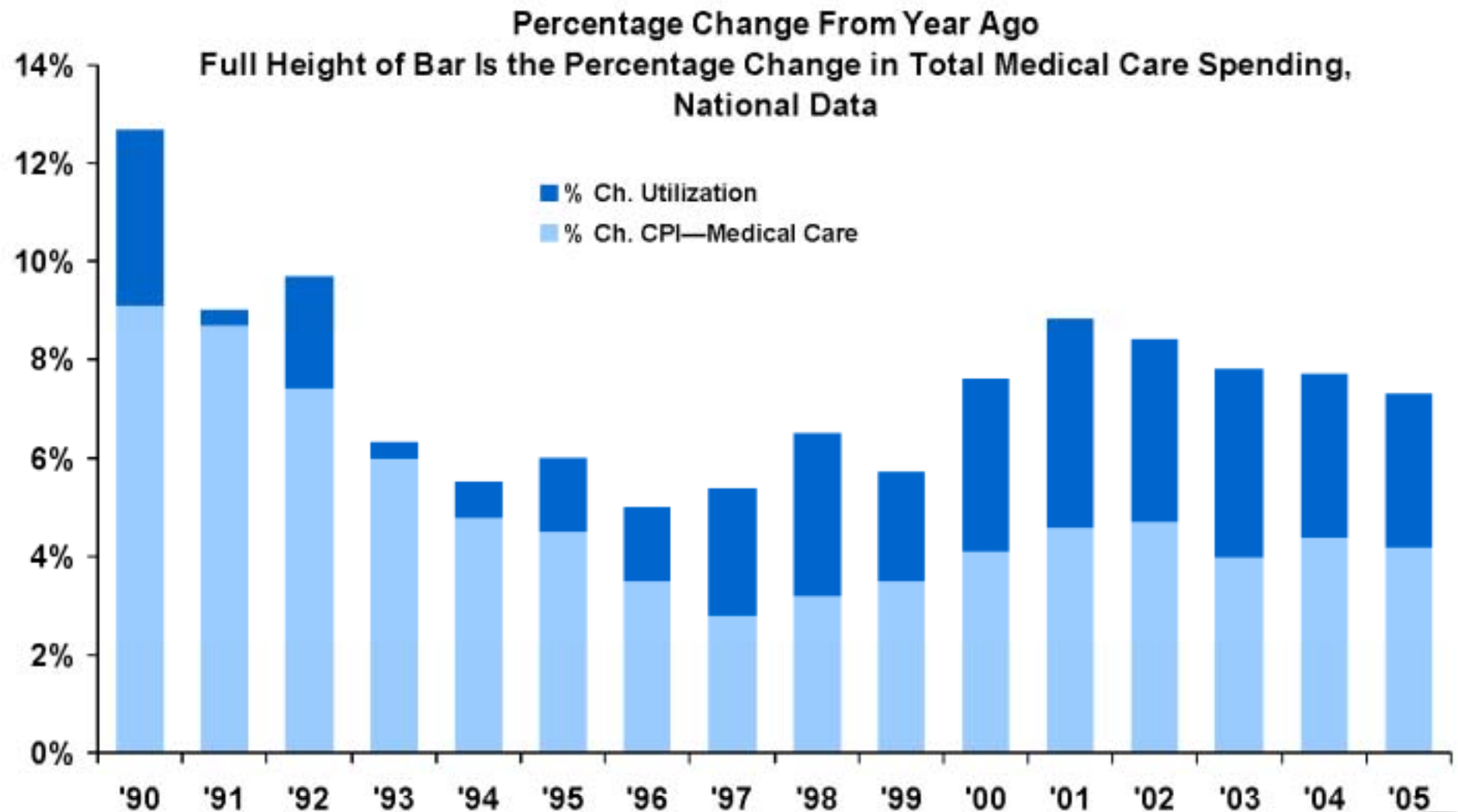
Increases in Medical Care Spending Reflect Increases in Both Price and Utilization



Source: US Bureau of Labor Statistics, US Bureau of Economic Analysis



Increases in Medical Care Spending Reflect Increases in Both Prices and Utilization

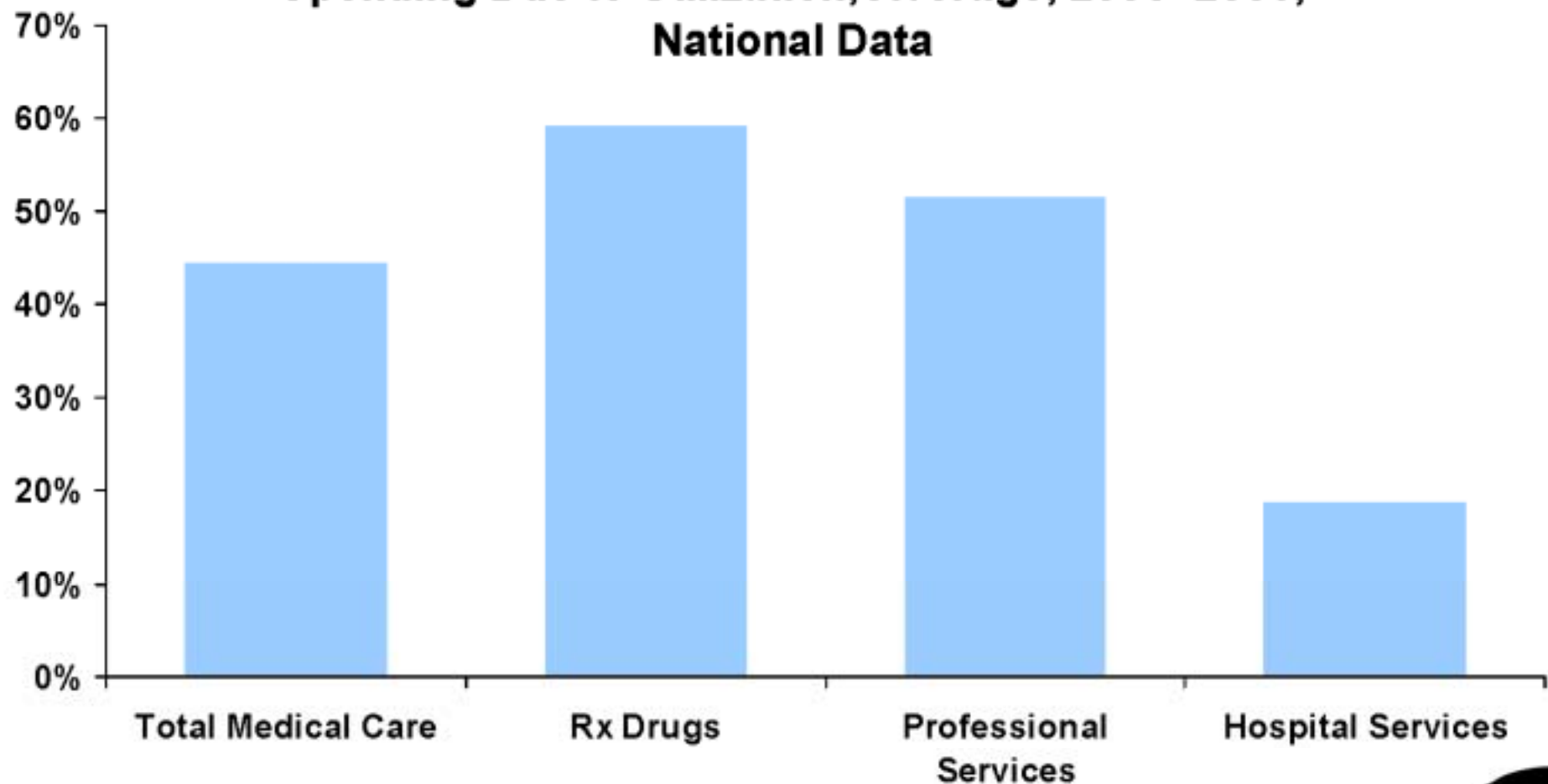


Source: US Bureau of Labor Statistics, US Bureau of Economic Analysis, and NCCI



More Than Half of Spending Increases for Rx Drugs and Professional Services in 2000–2005 Reflected Increases in Utilization

Increases in Personal Care Expenditures (PCE) Medical Spending Due to Utilization, Average, 2000–2005, National Data



Source: NCCI using data from the US Bureau of Labor Statistics and US Bureau of Economic Analysis



Changes in Utilization Can Come From Many Sources

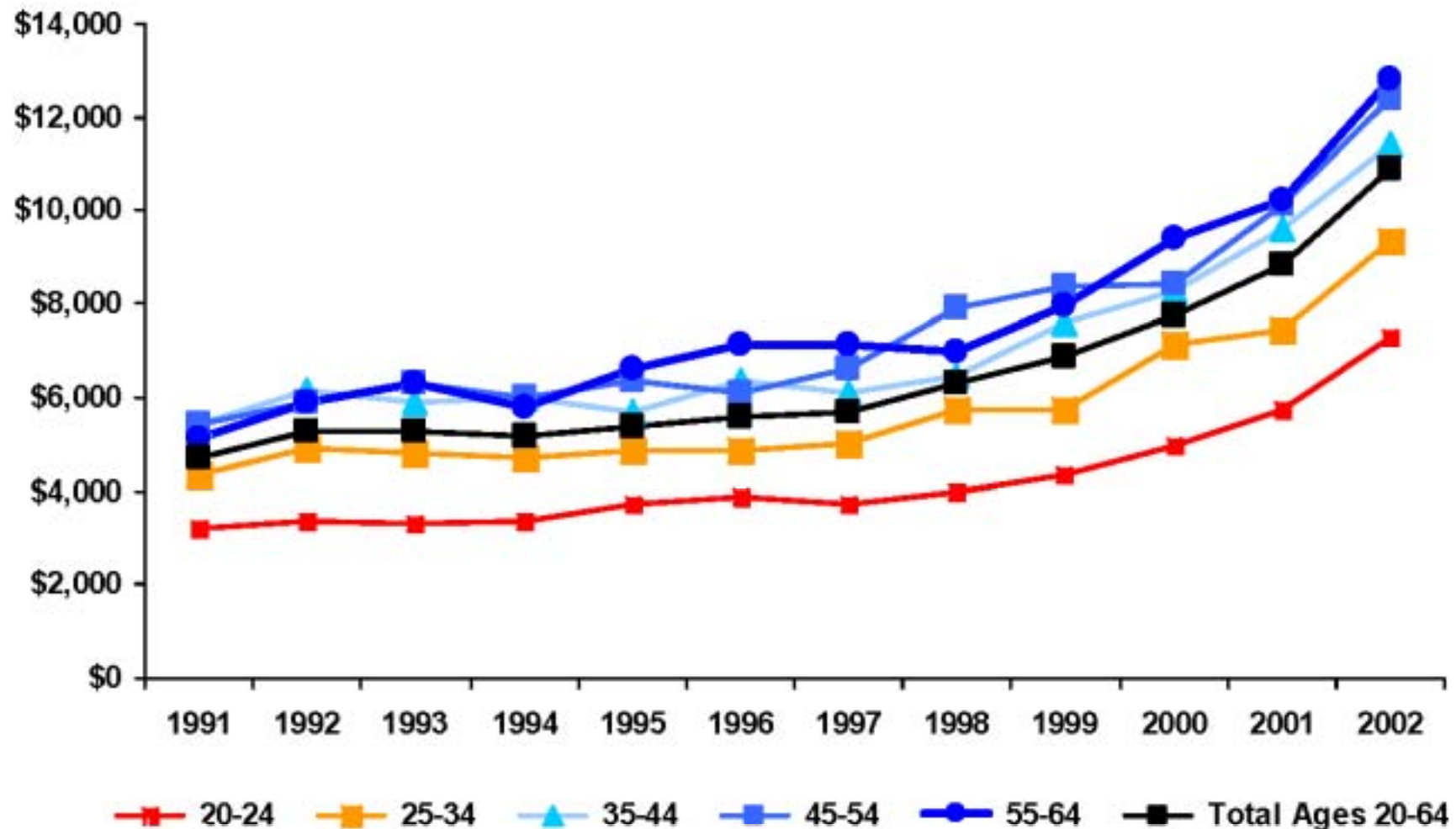
- Changes in the number of services provided
- Changes in treatment modalities (use of MRIs instead of X-rays)
- Introduction of newer pharmaceuticals/generics
- Adaptive practices by providers

Demographic Impacts on Workers Compensation Medical Costs



Medical Severity Increases With Age

Average Paid + Case Medical Severities Reported at 18 Months by Age and Accident Year, 1991–2002, NCCI States



Source: NCCI



Rankings of Top Ten Lost-Time Claim Diagnoses

1996-2003, NCCI States

Ages 20-34

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

Ages 45-64

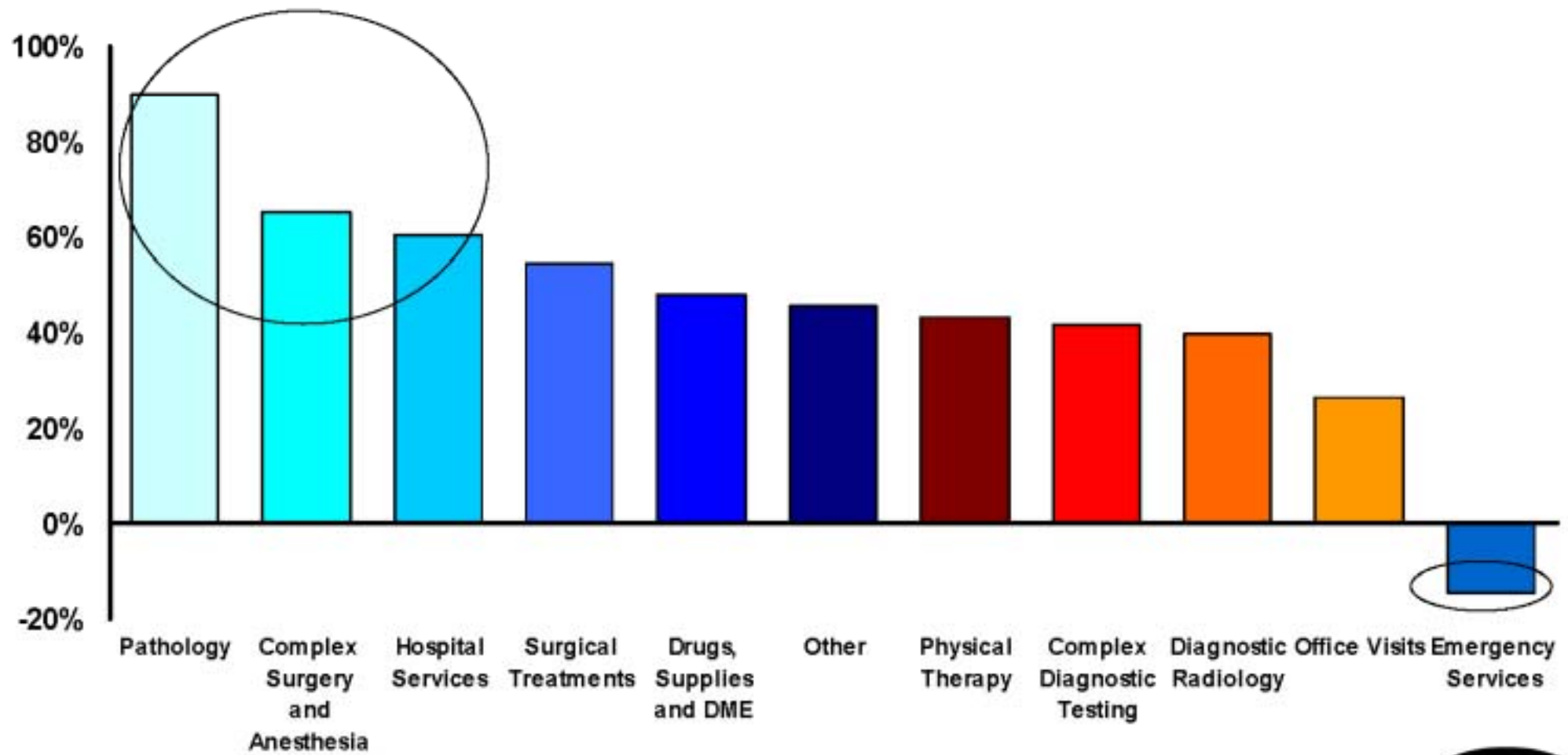
1	CARPAL TUNNEL SYNDROME
2	LUMBAR DISC DISPLACEMENT
3	SPRAIN ROTATOR CUFF
4	TEAR MED MENISC KNEE-CUR
5	CERVICALGIA
6	SPRAIN LUMBAR REGION
7	ROTATOR CUFF SYND NOS
8	LUMBOSACRAL NEURITIS NOS
9	LUMBAGO
10	LOWER LEG INJURY NOS

Source: NCCI



Older Workers Have More Treatments for Hospital-Based Services; Fewer for Emergency Services

Pct. Difference in Number of Treatments, Older Over Younger, NCCI States, 1996–2003

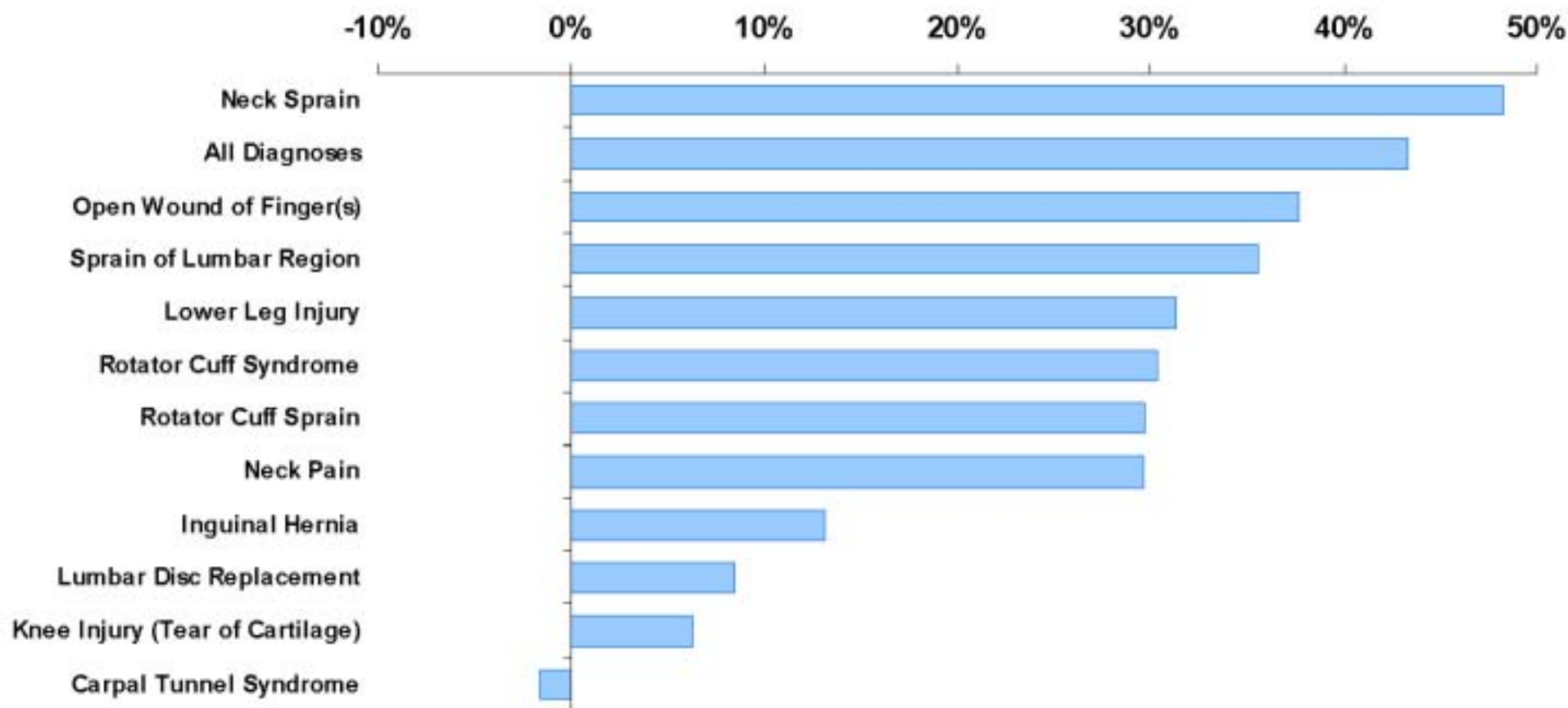


Source: NCCI



Older Workers Have a Higher Number of Treatments per Claim

**Percentage Difference in Average Number of Treatments per Claim,
Workers Aged 45–64 vs 20–34,* NCCI States, 1996–2003**



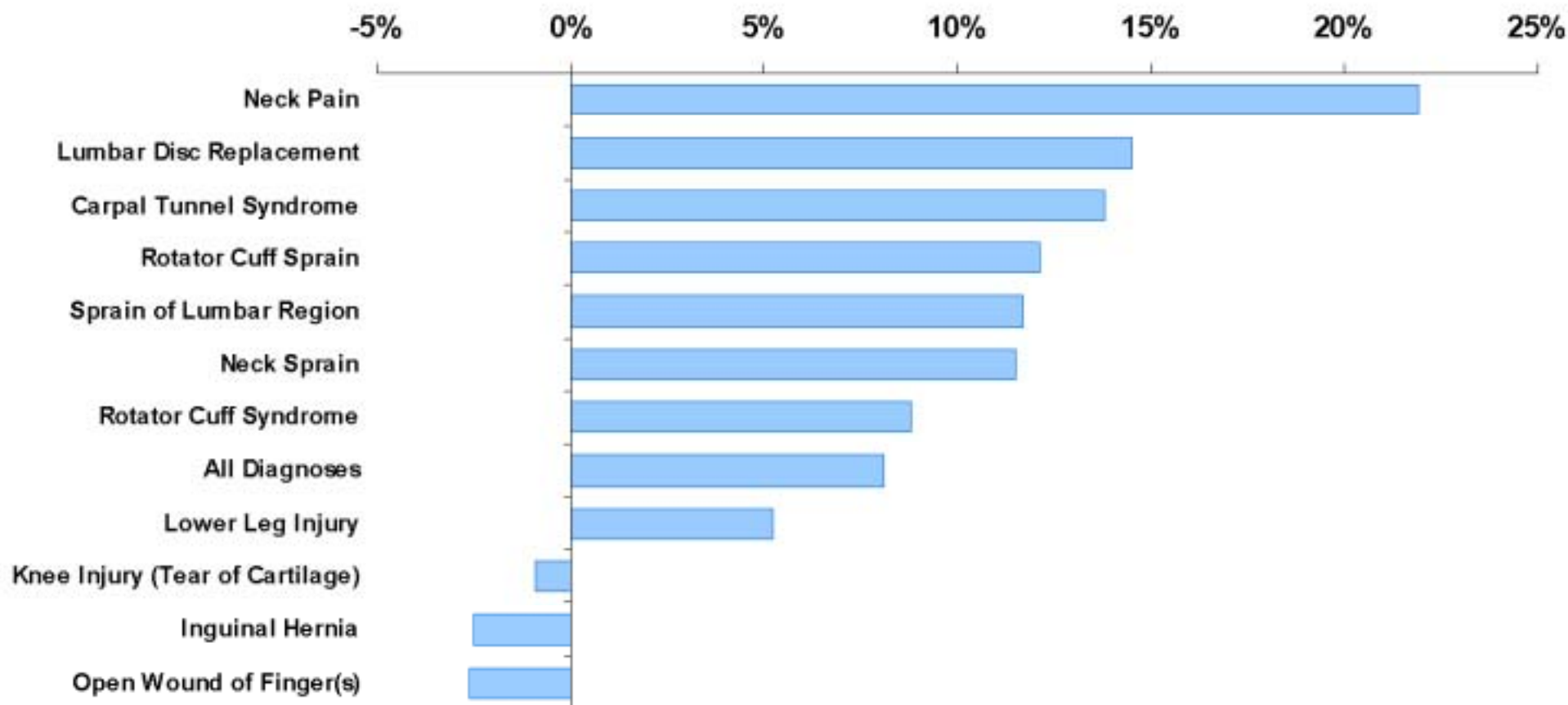
Source: NCCI

* Based on a comparison of cumulative medical payments through latest evaluation



Average Price per Treatment Is Generally Higher for Older Workers

**Percentage Difference in Average Price per Treatment,
Workers Aged 45–65 vs. 20–34,* NCCI States, 1996–2003**



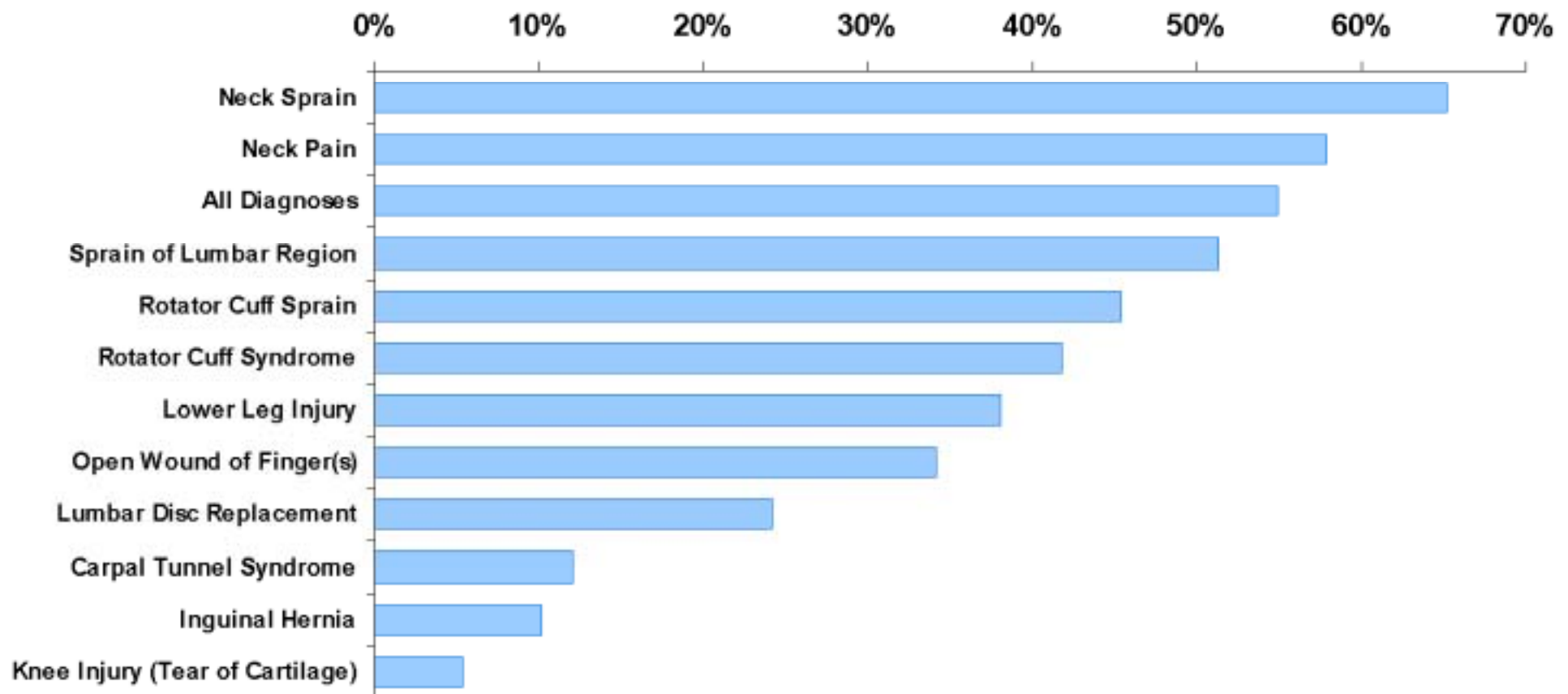
Source: NCCI

* Based on a comparison of cumulative medical payments through latest evaluation



Medical Severity Is Substantially Higher for Older Workers

**Percentage Difference in Medical Severity,
Workers Aged 45–64 vs. 20–34,* NCCI States, 1996–2003**



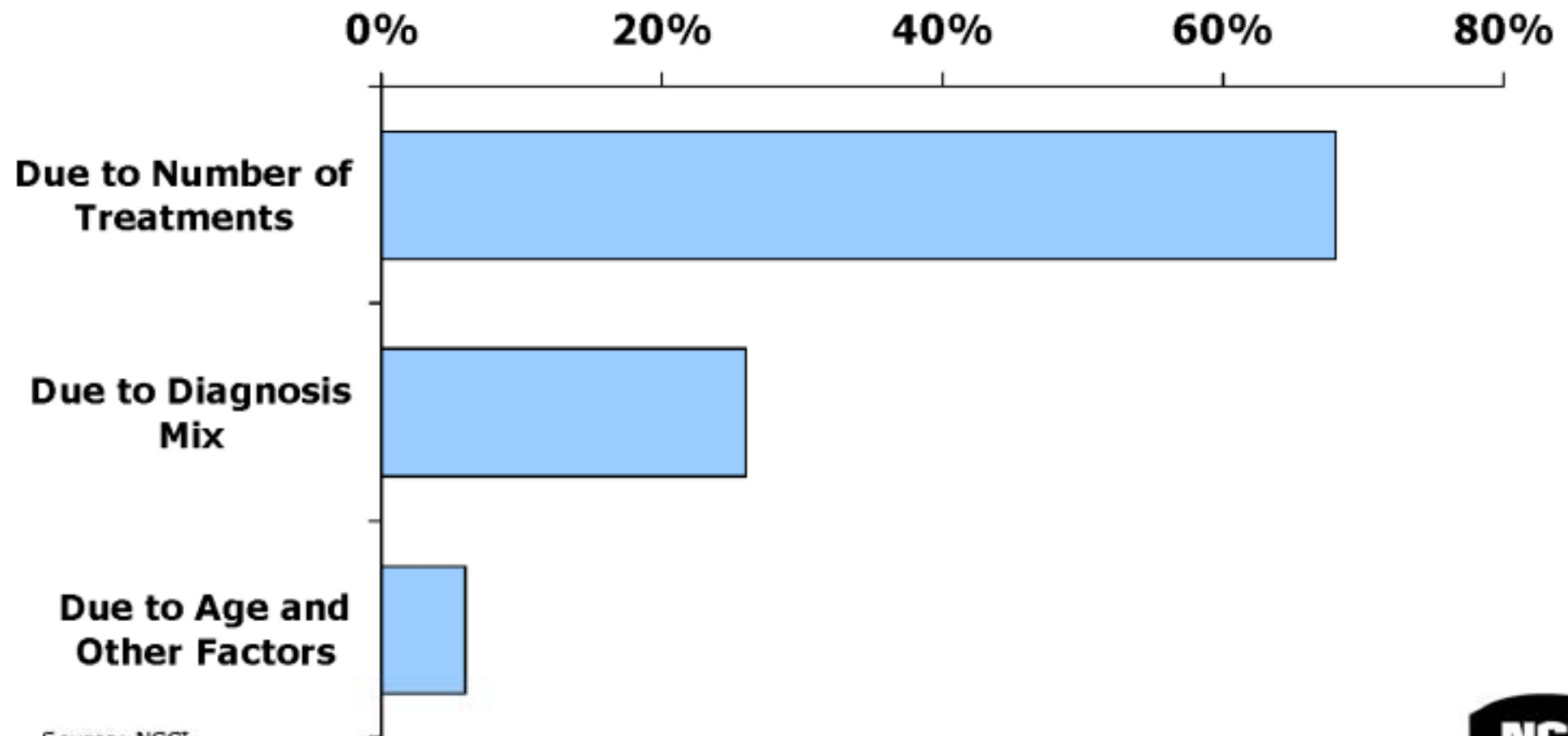
Source: NCCI

* Based on a comparison of cumulative medical payments through latest evaluation



Number of Treatments and Diagnosis Mix Differences Explain Nearly All of the Age-Related Difference in Medical Severity

**Percentage of Medical Severity Difference Explained,
Older Workers vs. Younger Workers**



Source: NCCI



Key Takeaways—Medical Severity

- Hospital services, drugs and supplies, and complex surgery accounted for 50% of workers compensation medical payments in Arkansas in 2003.
- Ongoing increases in medical inflation and utilization suggest increases in medical severity in Arkansas.
- Medical severity increases with age. The aging of Arkansas's workforce suggests ongoing upward pressure on medical severity.



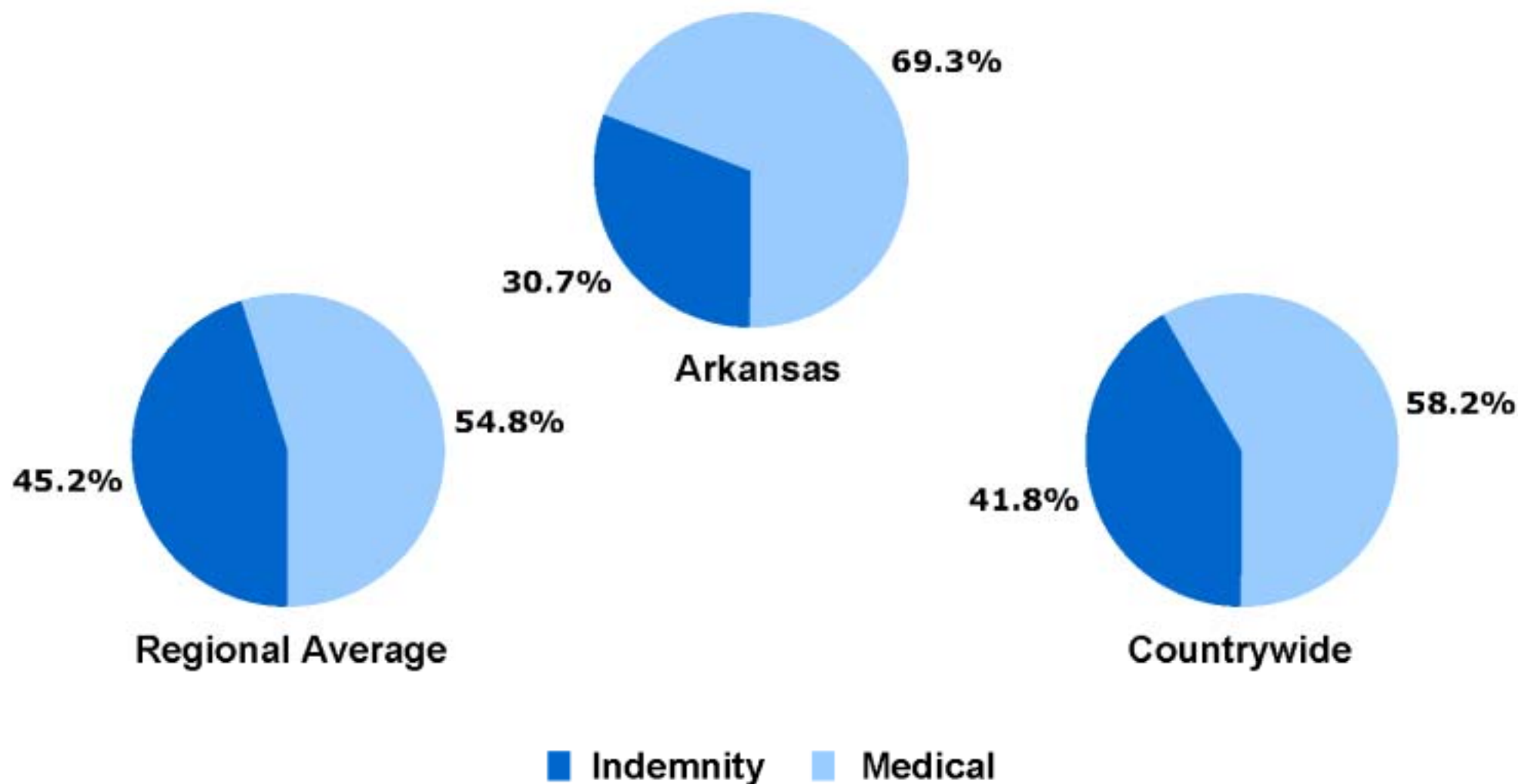
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Indemnity and Medical Benefits in Arkansas

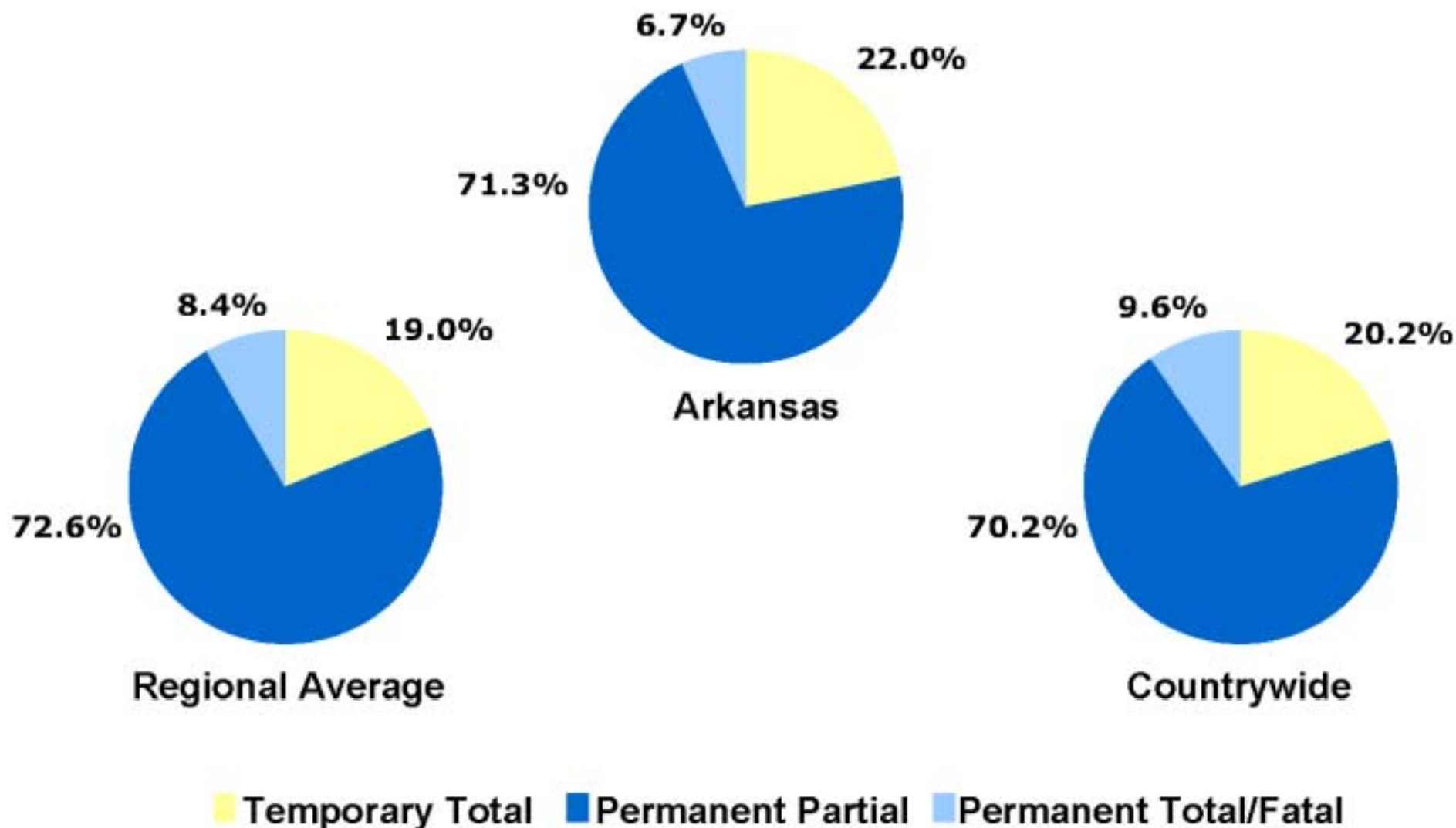
Medical Benefits Constitute the Majority of Total Benefit Costs in Arkansas



Regional states are Louisiana, Mississippi, Missouri, Oklahoma, and Tennessee.



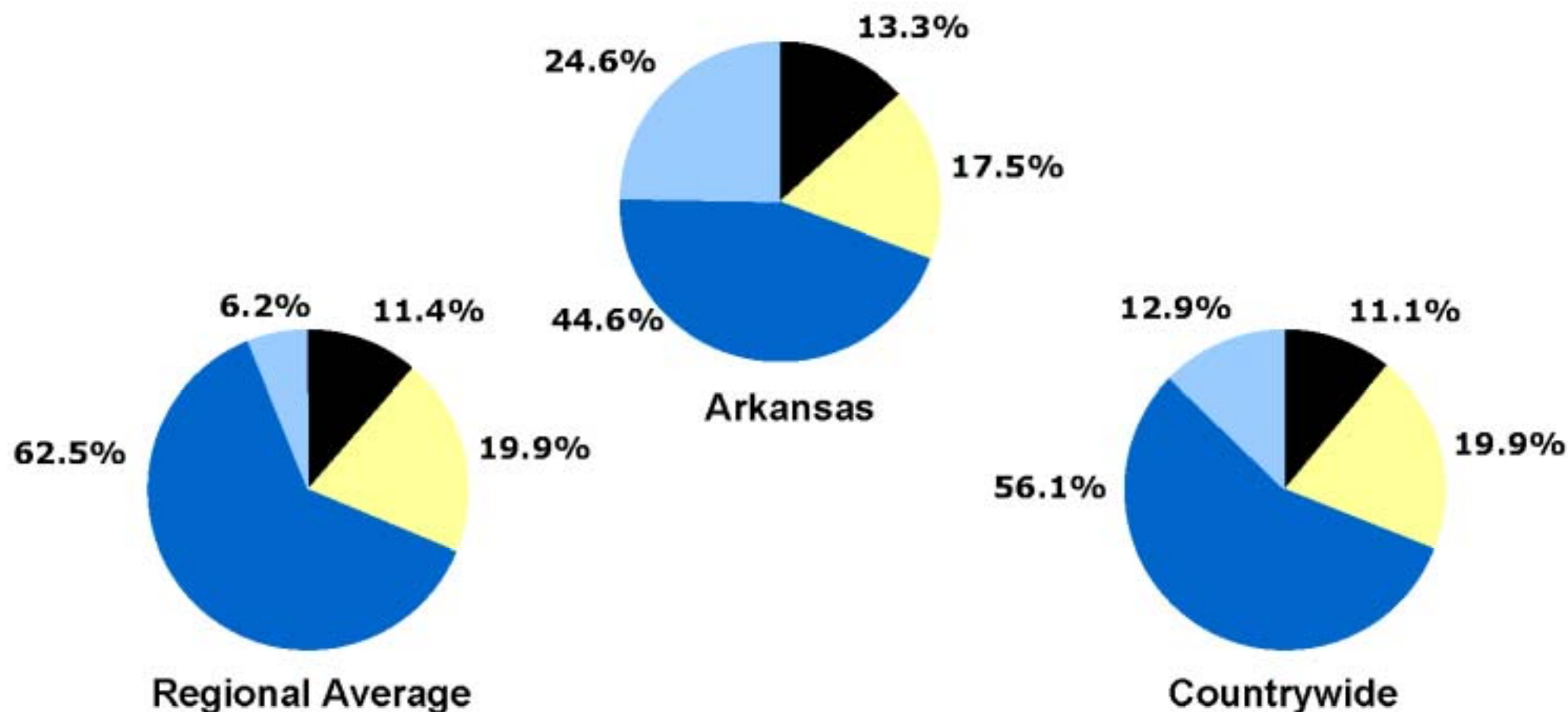
Arkansas Indemnity Loss Distribution by Injury Type



Regional states are Louisiana, Mississippi, Missouri, Oklahoma, and Tennessee.
Based on NCCI's WCSP data.



Arkansas Medical Loss Distribution by Injury Type



Medical Only
 Temporary Total
 Permanent Partial
 Permanent Total/Fatal

Regional states are Louisiana, Mississippi, Missouri, Oklahoma, and Tennessee.
Based on NCCI's WCSP data.





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Legislative Issues Nationwide and in Arkansas

Legislative Challenges

- Major workers compensation reform pursued only in SC in 2006. Major legislative reforms in MO, OK, TX, and IL enacted in 2005 with states now dealing with implementation.
- There are now 20 states with new commissioners since the 2004 fall elections—additional new commissioners following 2006 fall elections anticipated
- Reform efforts in FL, TN, and MO are being challenged as unconstitutional

Federal Legislative Issues

- Terrorism Risk Insurance Act (TRIA)
- “SMART” proposal

Arkansas 2006 Regulation

Impact Due to Changes in Anesthesiology Conversion Factor

(1) Anesthesia Conversion Factor—Effective Prior to 4/1/06.....	33.89
(2) Anesthesia Conversion Factor—Effective 4/1/06.....	37.62
(3) Anesthesia Conversion Factor—Effective 4/1/07.....	41.76
(4) Overall Increase in Anesthesia Rates = $(3)/(1)-1$	23.2%
(5) Anesthesia as a Percentage of Medical Costs.....	1.6%
(6) Medical Costs as a Percentage of Total Costs.....	69%
(7) Overall Impact = $(4) \times (5) \times (6)$	0.3%*

* Overall Impact reflected in 7/1/06 Aggregate Rate Filing





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Classification Research Project Update

Progress Report

Reviewed 363 national and state-special classifications

- Covered 98 industries

Filed 4 item filings resulting in changes to 28 industries, covering more than 83 individual classification codes, both national and state-specials

- Modernized 100 classification codes
- Merged 15 classification codes with other codes
- Eliminated 11 classification codes
- Created 5 new classification codes



Status of Class Item Filings

- Item B-1387
 - Two industries included in this filing
 - Effective date of filing - October 1, 2004
 - Rate impact on both industries
 - Transition program for three years on both Industries
 - Approved in 31 NCCI states
- Item B-1391
 - Ten Industries included in this filing
 - Effective date of filing - January 1, 2005
 - Wording-only changes for five industries
 - Rate impact on five industries
 - Approved in 32 NCCI states



Status of Class Item Filings (Cont.)

- Item B-1394
 - Fifteen Industries included in this filing
 - Effective date of filing - November 1, 2005
 - Wording-only changes for all industries
 - Rate impact on some industries
 - Approved in 32 NCCI states
- Item B-1399
 - One industry included in this filing
 - Effective date of filing - July 1, 2006
 - Wording-only changes for the industry
 - Rate impact on the industry
 - Approved in 26 NCCI states





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NCCI Holdings, Inc.

YOUR WORKERS
COMPENSATION
RESOURCE—
comprehensive data,
objective analysis,
meaningful results

Who We Are

National Council on
Compensation
Insurance, Inc. is the
oldest and largest
provider of workers
compensation and
employee injury data
and statistics in the
nation.

[more](#)



WHAT'S NEW

01/19 [Join NCCI for a Winter Open House—Sign Up Now for Phoenix \(02/21/06\) and Dallas \(02/22/06\)](#)

If you're an underwriter, processor/rater, risk manager, data reporter, or other insurance professional, you'll receive quality information that will help you evaluate your workers compensation business and practices. NCCI representatives, including affiliate services executives, account managers, product managers and data reporting specialists, will be on hand to discuss your essential issues.

01/09 [Moody's Affirms A2 Issuer Rating of NCCI Holdings, Inc. with Stable Outlook](#)

Moody's Investors Service has affirmed the A2 issuer rating for NCCI Holdings, Inc. (NCCI). The rating outlook is stable. The organization has \$55 million of outstanding long-term obligations and is not expected to issue additional debt in the foreseeable future.

01/04 [Treasury Department Announces Interim Guidance on Terrorism Risk Insurance Extension Act of 2005](#)

On Dec. 30, 2005, the Treasury Department issued interim guidance for complying with the provisions of the Terrorism Risk Insurance Extension Act of 2005, many of which came into effect on January 1, 2006.

E-MAIL NOTIFICATIONS

Enhanced with more features and information.

[more](#)

CLASSIFICATION UPDATES

Upcoming research and analysis of NCCI's class system.

[more](#)

ASSIGNED CARRIER CONFERENCE 2006

Register now for this Residual Market event on February 2 and 3.

[more](#)

DATA REPORTING WORKSHOP 2006

Register now for data reporting training opportunities on January 26 and 27.

[more](#)

2006 FINANCIAL CALL SEASON PREVIEW





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Industry Information

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Regulatory Activities

[Industry Reports](#)

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Regulatory Activities

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[Home](#) > [Industry Information](#) > [Regulatory Activities](#) > [Classification Updates](#)

Classification Updates

Updated January 6, 2005

NCCI is dedicated to the systematic research, analysis, and maintenance of NCCI's classification system. The Classification Assurance Department of NCCI ensures that the class system remains healthy, viable, and responsive to the needs of the workers compensation industry.

Through partnerships with various industry stakeholders, NCCI's Classification Assurance Department researches and analyzes every class code—both national and state specials.

The unit prepares an annual research plan, which identifies the industries that will be reviewed during that year. NCCI's Classification Assurance Department has completed the following reviews:

- 2003—43 individual classification codes spanning 15 industries
- 2004—173 individual classification codes spanning 53 industries
- 2005—147 individual classification codes spanning 31 industries

Click on these items for more detailed information:

- [Mission Statement](#)
- [Item Filings](#)
- [Research Plans](#)
- [Scopes@ Manual](#)
- [Feedback](#)



Click on the link to each category.



Mission Statement

[< Article Intro](#)

Industry Information

[Overview](#)[NCCI Videos](#)[Terrorism and WC](#)[Research and Outlook](#)[Actuarial Results and Updates](#)

Regulatory Activities

[Industry Reports](#)[Professional Employer Organizations](#)[Industry Links](#)

To objectively research and analyze all national and state special class codes on an ongoing basis in order to ensure that the workers compensation classification system remains healthy, viable, and responsive to the needs of the industry and to ensure a fair and equitable system.

To propose recommendations to users of the workers compensation classification system and obtain national approval for these changes with regulators in multiple states that may result in:

- Clarifying existing codes in plain language
- Establishing new codes
- Eliminating outdated codes

We are committed to excellence and are dedicated to maintaining a classification system that meets the needs of the workers compensation industry and its stakeholders.

We will communicate updates to the classification system to the industry through:

- Regulatory filings
- Circulars
- Publications
- Manuals

Item Filings

[< Article Intro](#)

Recommended changes that require regulatory approval resulting from NCCI's industry reviews are filed with each state regulatory authority. The filed proposal must be approved by that state in order to be implemented. To date, three filings have been approved. These filings have resulted in changes to 27 industries, covering more than 70 individual classification codes, both national and state specials.

NOTE: Refer to NCCI's [*Status of Item Filings Circular*](#) for more information on filing approvals, withdrawals, etc.

The three filings that have been approved to date are:

1. Countrywide—Item B-1387—Revisions of Basic Manual Classifications

- Charitable Welfare Organizations and Group Homes



ITEM FILINGS



Circular

JANUARY 16, 2006

STATUS OF ITEM FILINGS

IF-2006-01-03

Status of Item Filings - January 16, 2006

ACTION NEEDED

Review changes in the *Status of Item Filings* for impact on your company's system.

BACKGROUND

This circular contains national item and state filing approvals, disapprovals, withdrawals, etc., that have been filed with the regulators as of January 2006. The electronic version of this circular is updated on a weekly basis. As a result, the weekly update is labeled so that readers can understand what version of the circular they are reviewing.

For example, the first circular released in the month of April is labeled IF-2005-04-01. The 01 symbolizes the first electronic update for the month of April. The second through fourth weeks of the month are then labeled 02-04, respectively. At the end of each month, a hard copy version of the circular is released, showing a cumulative version of all changes that appear electronically over the month. The hard copy circular includes the additional identifying numbers that the electronic version contains. For example, the hard copy circular for the month of April is labeled IF-2005-04-04.

This circular is distributed monthly in hard copy and highlights changes that have occurred with the item filings over the course of the month.

Status of Item Filings reflects the status of the following types of item filings:

- *Basic Manual* (B Items)
- *Experience Rating Plan Manual* (E Items)
- *Forms Manual* (F Items)
- *Retrospective Rating Plan Manual* (R Items)
- *Workers Compensation Statistical Plan Manual* (U Items)
- *Residual Market Administration* (RM-WRM Items)
- *State-Specific Item Filings*

For item filing details, please refer to the announcement circular identified for each item filing.

The information contained in this circular updates our last released hard copy circular, IF-2005-12-04, dated December 27, 2005. States with statuses that have changed are boldfaced.

8.5 x 11 in

1 of 18



Research Plans

< [Article Intro](#)

Annually, NCCI prepares a comprehensive research plan identifying the industries anticipated to be reviewed that year. Research plans are updated quarterly on the industries reviewed, their respective status, and whom to contact with information, questions, or [feedback](#).

The following terms are used in our research plans:

- Assigned—industry has been assigned to an internal team for review
- Researching—industry review in progress
- Pending Final Review—industry review is complete but recommendations are being finalized and proposed wording is being edited

NCCI's classification research process is complex and includes multiple components. After an industry review is complete, the implementation of recommended changes may take more than two years. Steps include finalizing the recommended changes, building the filing, completing regulator review processes, gaining regulatory approval, and implementing the changes.

View the updated [research plan for 2003](#) (PDF) 

View the updated [research plan for 2004](#) (PDF) 

View the updated [research plan for 2005](#) (PDF) 

View the updated [research plan for 2006](#) (PDF) 

Click on the link to
view the various
research plans.

Scopes @ Manual

< [Article Intro](#)

NCCI's 2005 *Scopes @ Manual* included a number of enhancements designed to make this workers compensation classifications manual more user-friendly and informative. These enhancements will become even more apparent over the next five years, as NCCI reviews every class code.

The *Scopes @ Manual* provides instant access to NCCI's expertise in defining classifications for hundreds of thousands of businesses. The manual includes comprehensive descriptions of class codes, cross-references, and state special classifications.

Here's what's new in NCCI's 2005 *Scopes @ Manual*:



2006 Schedule		
Industry	Status	Contact
Amusement & Recreation	Researching	Classification_Assurance_2@ncci.com
Automobile, Bus, Truck & Trailer Body Mfg.	Researching	Classification_Assurance_1@ncci.com
Automotive Service Industry; Auto Auctions	Researching	Classification_Assurance_1@ncci.com
Banking & Financial Institutions	Assigned	Classification_Assurance_1@ncci.com
Battery Mfg.	Assigned	Classification_Assurance_2@ncci.com
Canning, Fruit Evaporating & Preserving, Seafood Processing	Assigned	Classification_Assurance_1@ncci.com
Cemeteries / Funeral Directors	Researching	Classification_Assurance_1@ncci.com
Clubs	Researching	Classification_Assurance_2@ncci.com
Coal Mining	Assigned	Classification_Assurance_3@ncci.com
Cotton/Wool Merchant	Assigned	Classification_Assurance_2@ncci.com
Door, Window, Cabinets & Trim Installation	Assigned	Classification_Assurance_3@ncci.com
Dredging	Assigned	Classification_Assurance_3@ncci.com
Engine Mfg	Researching	Classification_Assurance_1@ncci.com
Entertainment Halls	Researching	Classification_Assurance_2@ncci.com
Fabrics/Textiles	Researching	Classification_Assurance_1@ncci.com
Foundry, Iron or Steel	Assigned	Classification_Assurance_2@ncci.com
Furniture Store	Assigned	Classification_Assurance_2@ncci.com



NCCI's Classification Assurance Department welcomes feedback on all industries throughout our research process. Your input can help NCCI keep the class system healthy, viable, and responsive to the needs of the workers compensation industry and its stakeholders.

We value your feedback on all industries, particularly noting the following areas:

- Changes to an industry over the years
- Industry growth
- Equipment/materials/tools used
- Size range of business entities
- Seasonal versus permanent employees
- Level of automation
- Operating processes
- Economic trends
- Hazards

[Provide us advice on future enhancements.](#)



Click on the link to provide general feedback on any issues related to NCCI's workers compensation classification system.

Scopes® Manual Update

In 2005, NCCI introduced a new format to the ***Scopes® of Basic Manual Classifications***

- One-column format, with text boxes highlighting key information
- Visible revisions—shaded additions and bracketed [] omissions
- New categories, including Analogy Assignments and Equipment and Materials
- Simplified manual rewritten in plain language



UPDATED

Indicates the date the code was updated. Updated date should not be interpreted as an effective date.

ANATOMY OF A SCOPE

CLASSIFICATION CODE

A four-digit number assigned to an insured that identifies all or a portion of an insured's operation for rating purposes.

STATES NOT APPLICABLE

Indicates that this code is not available in the states indicated. To find an alternative classification, review the indices or State Special section of this manual and the state special pages in the *Basic Manual*.

REPLACED BY

Identifies the code to which the discontinued code was reassigned.

RETAINED

Identifies states that still use a nationally discontinued code.

STATE EXCEPTIONS TO THE NATIONAL CODE

Identifies certain states that have opted to use a national classification code and modify its phraseology and/or description to accommodate a special industry within the state's jurisdiction.

ESTABLISHED

Identifies the month and year the classification code became effective.

DISCONTINUED

Identifies the month and year the classification code was discontinued.

3821 ♦ Updated 01 Jan 2005

States Not Applicable:

Not Applicable

State Exceptions to the National Code:

AK, CA, FL, IN, MA, MT, NC, OR, SC, VA, WI

Established:

October 1927

Discontinued:

Not Applicable

Replaced By:

Not Applicable

Retained:

Not Applicable

NCCI Schedule and Group:

Schedule 20, Group 201

PHRASEOLOGY AUTOMOBILE [] RECYCLING & DRIVERS

Note: Includes [] the [] dismantling, salvaging or junking of parts. Store employees who do not engage in other operations and have no yard exposure are assigned to Code 8046.

NAICS Code:

423140—Motor Vehicle Parts (Used) Merchant Wholesalers

PHRASEOLOGY

Describes the classification code. Descriptions have been filed with and approved by regulators in the states where they are effective.

NAICS CODE

A six-digit number used to identify a particular industry in the hierarchical structure of the classification system for the census bureau.

NCCI SCHEDULE AND GROUP

Identifies the numeric general industry divisions and subdivisions for a classification code.



DESCRIPTION

Provides an explanation of the intent and use of the classification code.

ANALOGY ASSIGNMENTS

Identifies other types of operations that are classified to the code although not specifically mentioned in the phraseology.

EQUIPMENT/MATERIALS

Identifies some of the equipment and materials typically used in these operations. An insured may or may not use the specific items mentioned.

ADDITIONAL APPLICATIONS AND INFORMATION

Identifies other operations or types of businesses that are classified to the code although they may seem very different.

SPECIAL CONDITIONS

Identifies special treatment or use of the classification code.

RELATED OPERATIONS NOT CLASSIFIED TO CODE

Identifies operations that are related to the code but are classified to a different code.

Description:

Code 3821 contemplates the dismantling or wrecking of used automobiles, motorcycles and trucks for the salvaging of parts. Auto dismantling may consist of the simple removal of saleable parts by means of hand tools and retaining the frames and bodies for future sale to outside scrap collectors. Some dismantlers will also break up stripped chassis and bodies with acetylene torches or shears to be sold in the form of iron or steel scrap. In addition to the dismantling work, salvaged parts may be reconditioned or repaired and sold over the counter. New parts may also be stocked. In the case of larger risks, a number of other functions may often be performed such as auto repairing, gas station operations, glass reconditioning, brake relining, cylinder reboring, piston grinding, and battery or tire repair. []

Analogy Assignments:

- Dismantling of aircraft
- Dismantling of tractors
- Dismantling of trolleys

Equipment and Materials:

- Hand tools
- Acetylene torches
- Acetylene shears

Additional Applications and Information:

- Towing for the purpose of bringing vehicles to the yard for the dismantling, salvaging or junking of parts is contemplated under Code 3821.

Special Conditions:

- Store employees who do not engage in other operations and have no yard exposure are classified to Code 8046.
- Refer to the Basic Manual when towing is performed for others.

Related Operations Not Classified to Code 3821:

The following is a representative list of operations somewhat related in nature to Code 3821 operations that are not assigned to Code 3821:

- 3507—Construction or Agricultural Machine Mfg.
- 8107—Machinery Dealer NOC—Store or Yard & Drivers

CROSS-REF.

CROSS-REF

These are additional definitions that have been assigned the same code number as the initial definition indicated in the scope. One classification code may have several definitions assigned or referenced to it.

VISIBLE REVISIONS

Shaded additions and bracketed [] deletions.





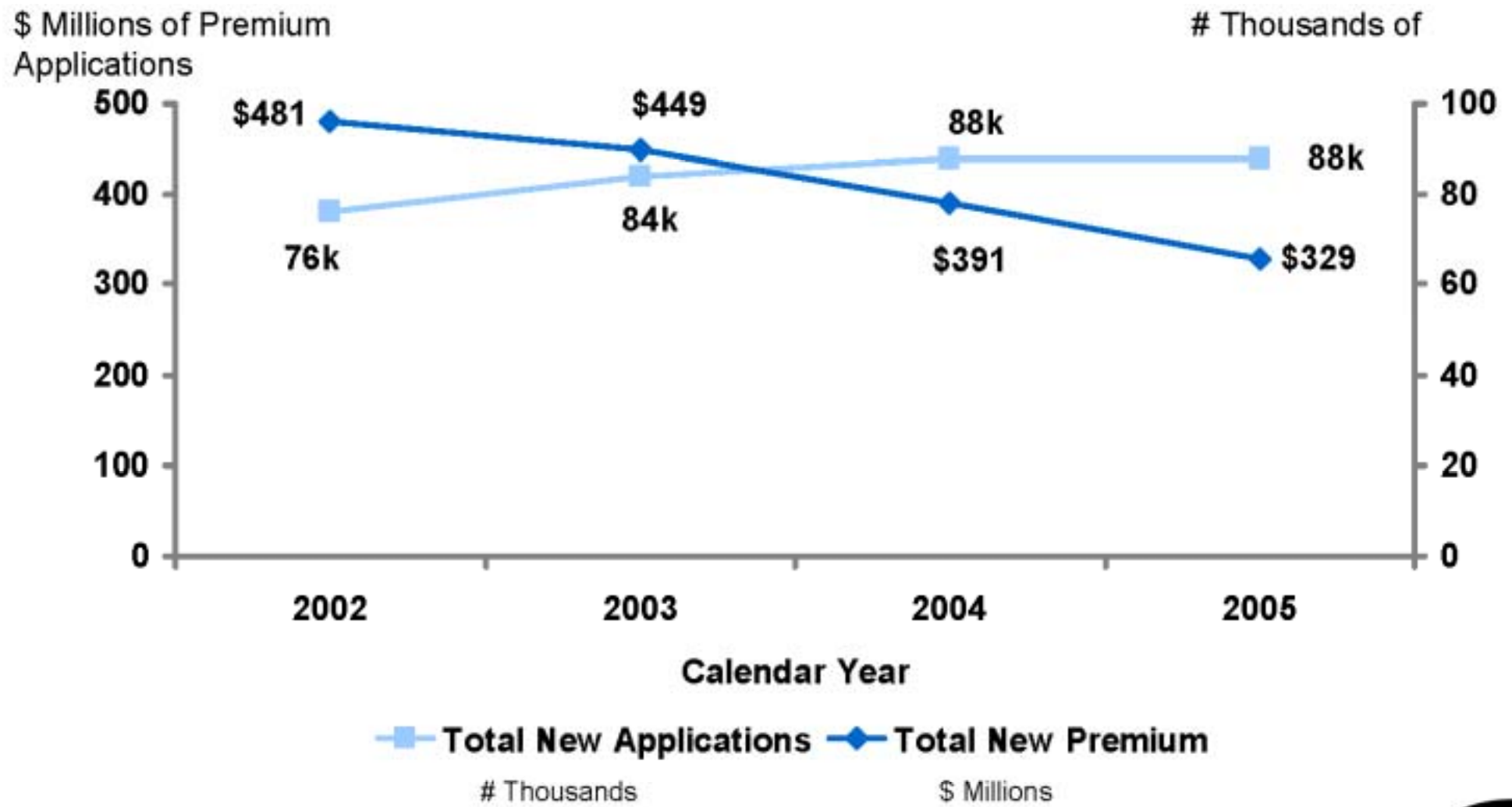
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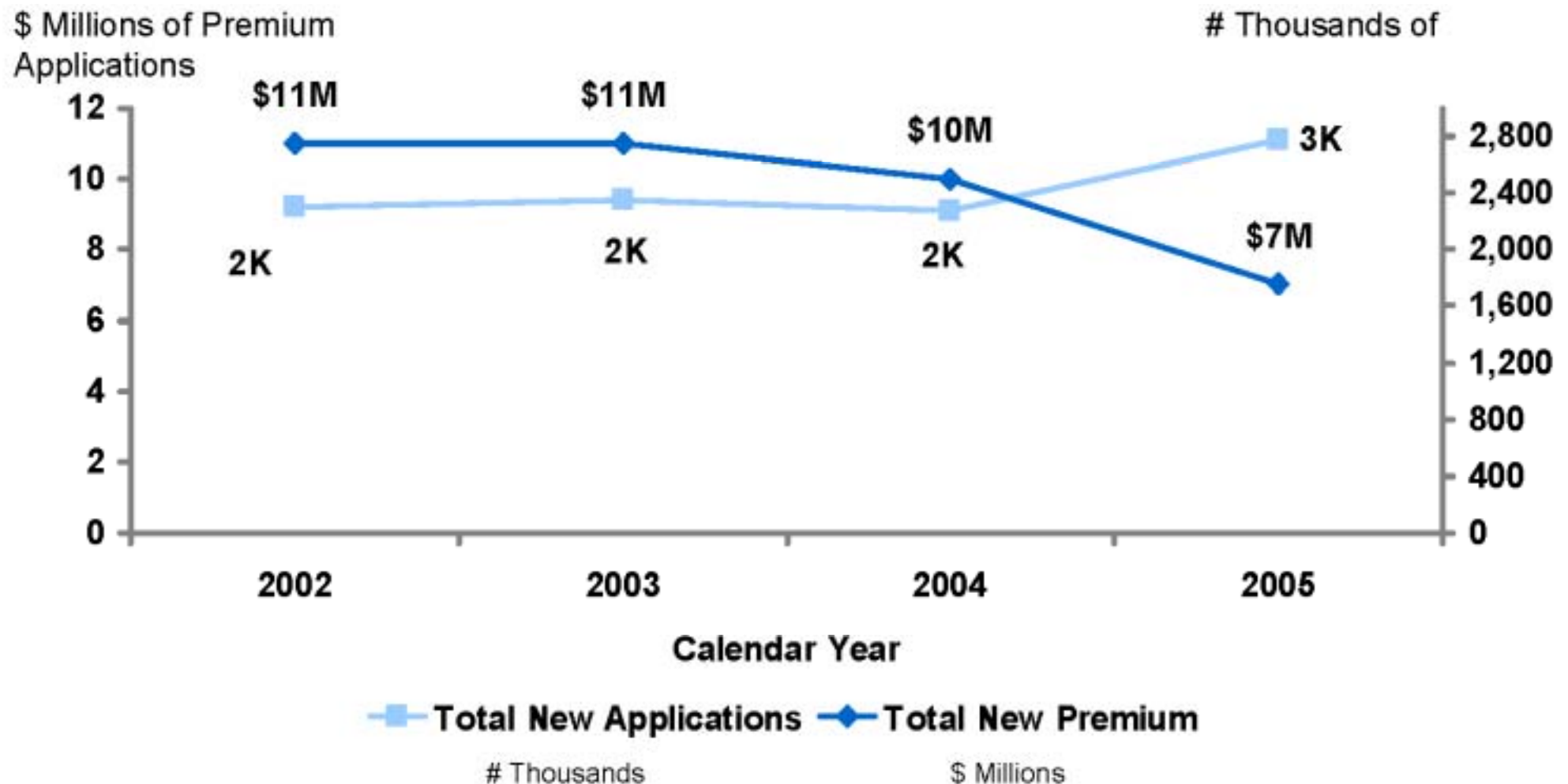
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The Residual Market in Arkansas

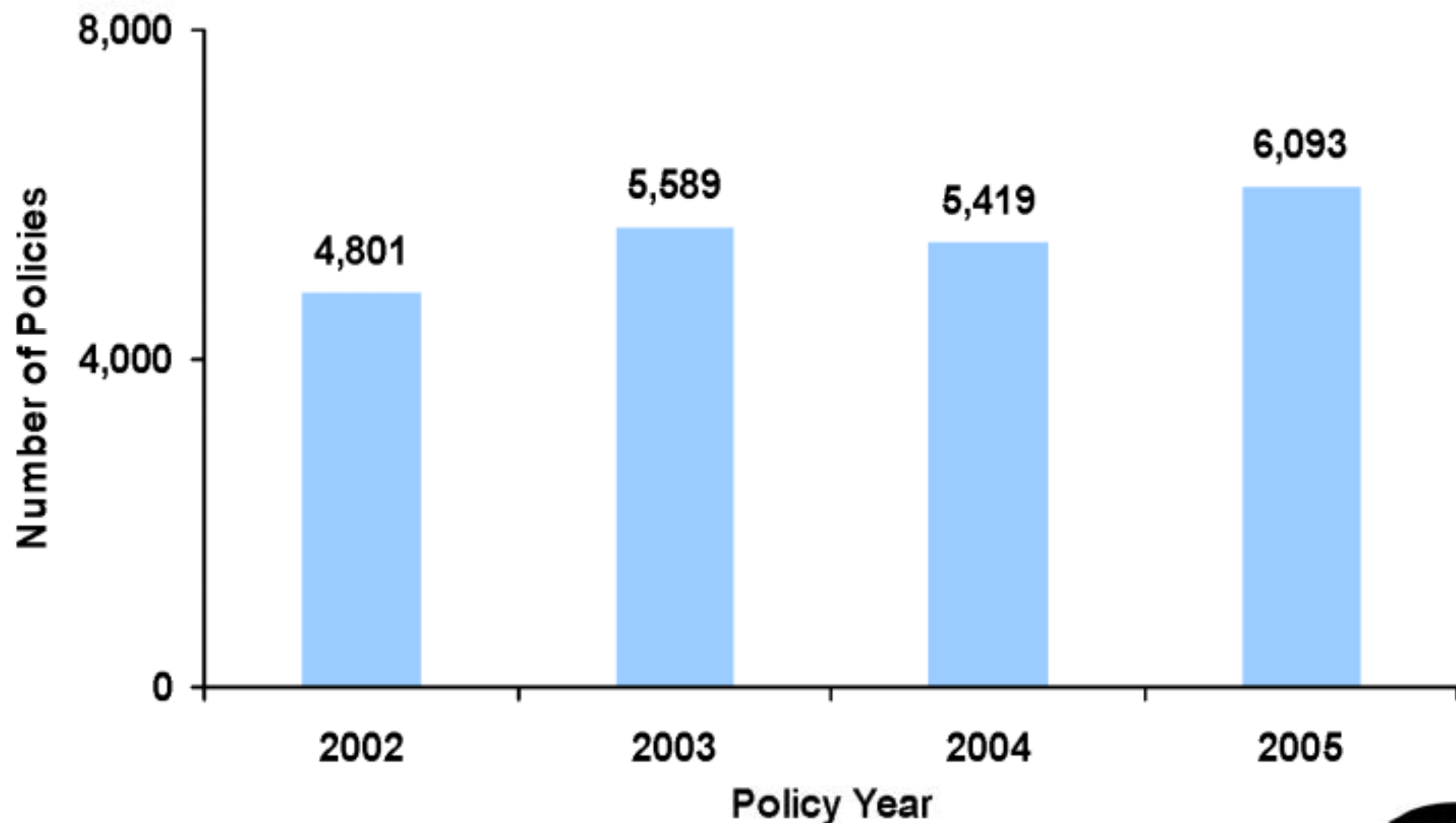
Total Residual Market New Applications and Premium Assigned in All Plan States



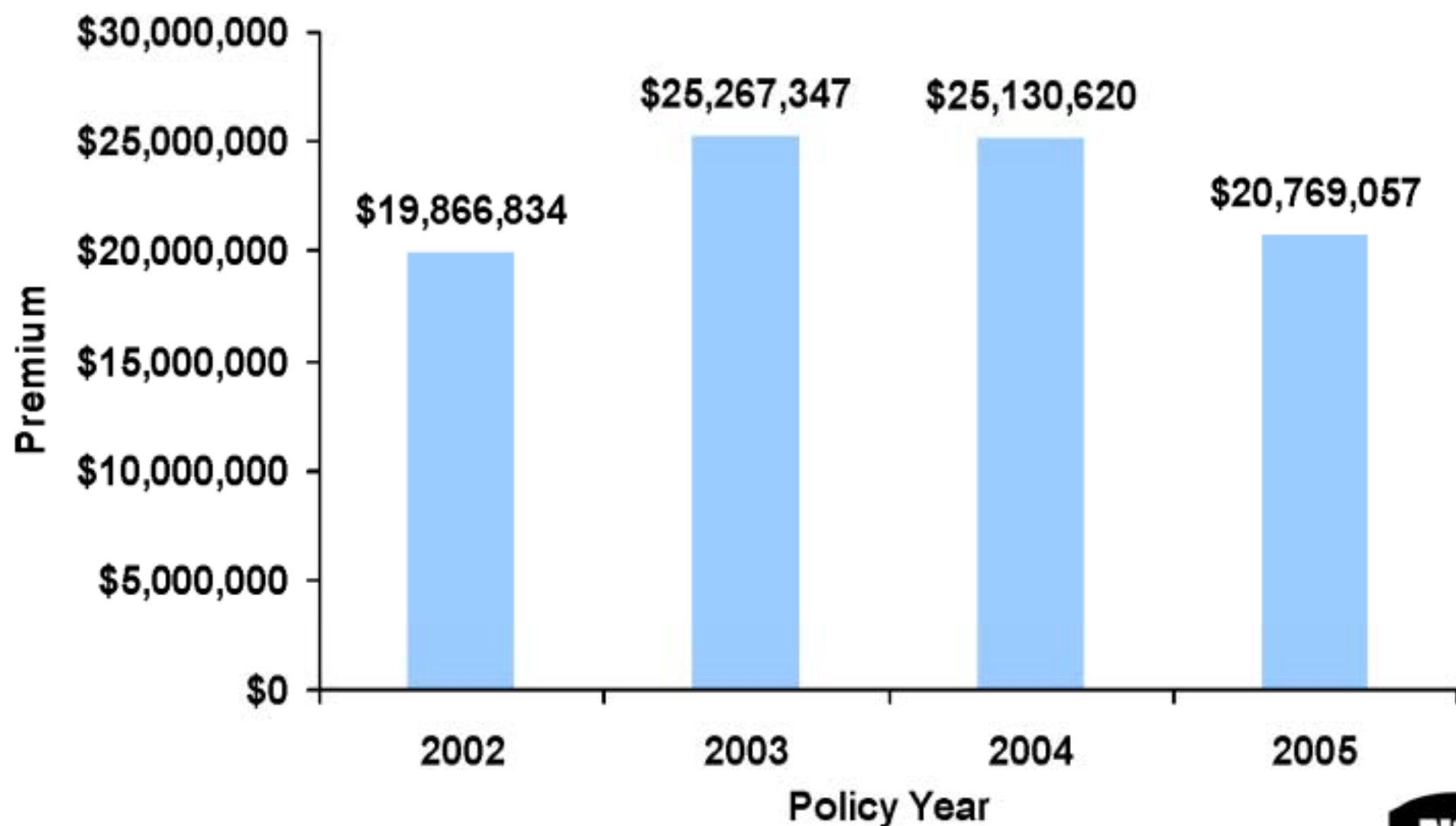
Total Residual Market New Applications and Premium Assigned in Arkansas



Arkansas Total Residual Market Plan Policy Count



Arkansas Total Residual Market Plan Premium Volume

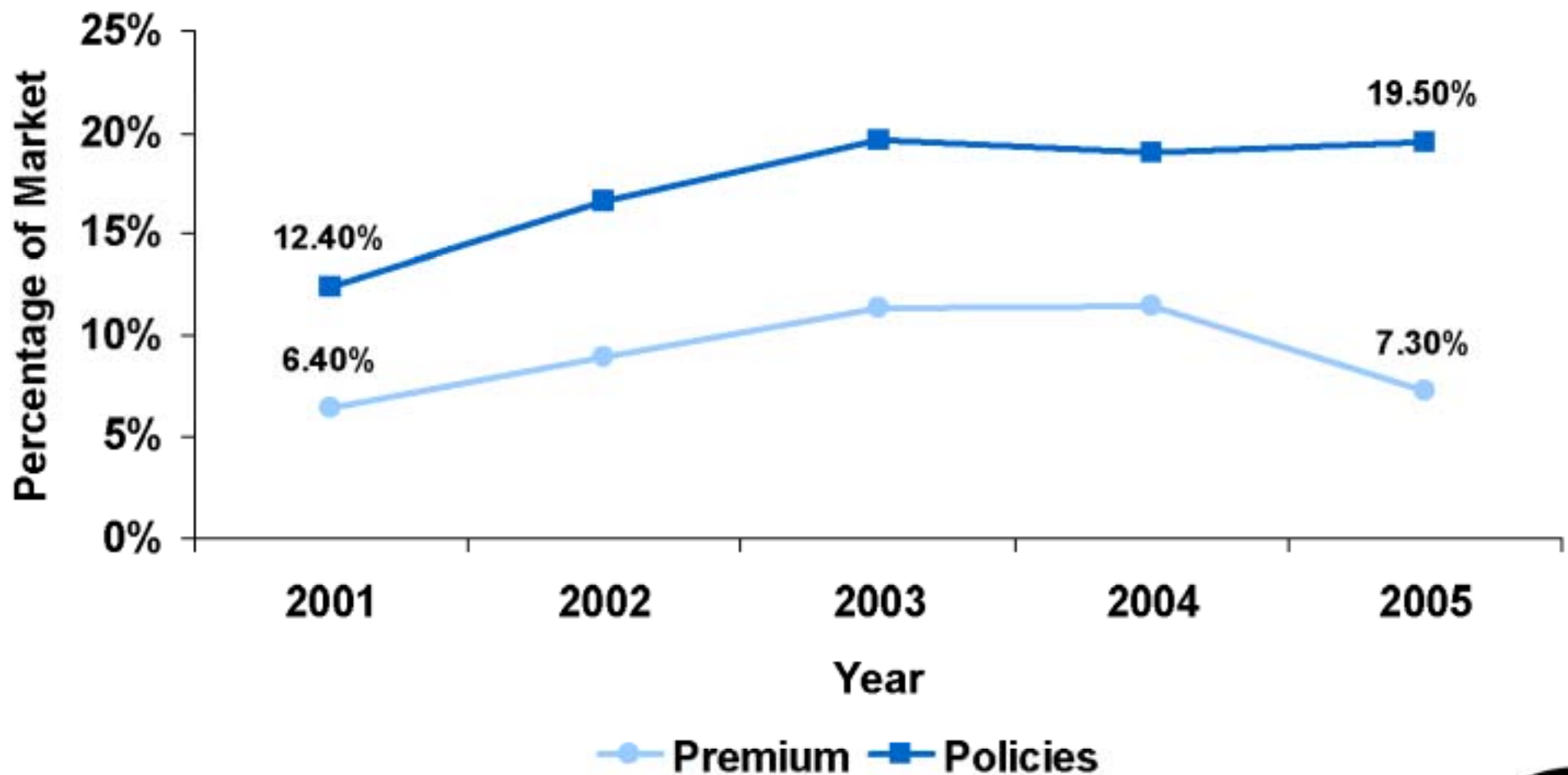


Arkansas Residual Market Plan 2004 vs. 2005 Total Policy Size Comparison

Premium Size	2004		2005	
	# of Policies	Premium	# of Policies	Premium
\$0–\$2,499	3,628	\$3,180,954	4,689	\$3,914,019
\$2,500–\$4,999	745	\$2,322,692	657	\$2,316,284
\$5,000–\$9,999	493	\$3,023,658	378	\$2,652,022
\$10,000–\$19,999	299	\$3,555,348	198	\$2,721,391
\$20,000–\$49,999	155	\$4,482,565	110	\$3,307,981
\$50,000–\$99,999	65	\$4,109,840	37	\$2,549,052
\$100,000–\$199,999	31	\$3,425,540	22	\$2,881,878
\$200,000 and greater	3	\$1,030,023	2	\$435,430
TOTAL	5,419	\$25,130,620	6,093	\$20,769,057



Comparison of the 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.



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

Nationally

5645—Carpentry (11.2%)

8810—Clerical (5.0%)

5437—Carpentry, Interior
(3.7%)

5474—Painting (3.5%)

7228—Trucking, Local
(3.0%)

Arkansas

5645—Carpentry (17.6%)

8810—Clerical (6.2%)

8832—Physician (2.8%)

5474—Painting (2.6%)

5022—Masonry NOC (2.4%)



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

Nationally

5645—Carpentry (6.3%)

8861—Charitable
Organizations (3.1%)

7229—Trucking, Long
Distance (2.5%)

5551—Roofing (2.4%)

7228—Trucking, Local (2.1%)

Arkansas

5645—Carpentry (7.2%)

7720—Police Officers (3.2%)

7728—Trucking, Local (2.3%)

6217—Excavation (2.1%)

8106—Iron Merchant (1.9%)



Demographics:

Top Ten Zip Codes With the Largest Number of Arkansas Residual Market Policies

Zip Code	City	Policy Counts	% of Policies in Zip Code
72712	BENTONVILLE/AR	163	2.90%
72756	ROGERS/AR	136	2.42%
72764	SPRINGDALE/AR	130	2.31%
71913	HOT SPRINGS/AR	121	2.15%
72015	BENTON/AR	104	1.85%
71901	HOT SPRINGS/AR	95	1.69%
72032	CONWAY/AR	83	1.48%
72703	FAYETTEVILLE/AR	83	1.48%
72401	JONESBORO/AR	79	1.40%
72714	BELLA VISTA/AR	79	1.40%
		1,073	19.08%



Demographics:

Top Ten Zip Codes With the Largest Arkansas Residual Market Premium Volume

Zip Code	City	Premium in Zip Code	% of Premium in Zip Code	Avg Policy Size
71730	EL DORADO/AR	\$570,567	3.44%	\$7,608
72712	BENTONVILLE/AR	\$375,061	2.26%	\$2,301
72601	HARRISON/AR	\$326,035	1.97%	\$9,880
72078	JACKSONVILLE/AR	\$320,816	1.93%	\$40,102
71854	TEXARKANA/AR	\$295,647	1.78%	\$6,719
72143	SEARCY/AR	\$275,836	1.66%	\$4,056
72231	NORTH LITTLE ROCK /AR	\$255,028	1.54%	\$42,505
72762	SPRINGDALE/AR	\$239,872	1.45%	\$3,286
72764	SPRINGDALE/AR	\$223,202	1.35%	\$1,717
71901	HOT SPRINGS/AR	\$223,027	1.34%	\$2,348
		\$3,105,091	18.72%	



Demographics:

Some Interesting Facts

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

- Request USL&H coverage
 - 6 of 372 applications requesting USL&H coverage were from Arkansas (or 1.6%)
- Indicate that the risk was previously "Self-Insured"
 - 184 of 3,500 applications indicating previous self-insurance were from Arkansas (or 5.3%)

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



Arkansas Assigned Risk Plan Pricing Programs

- Merit Rating
- Removal of Premium Discounts
- Differential/Surcharge
- Take-Out Credit Program
- Tabular Adjustment Program
- Alternate Preferred Plan
- Managed Care Credit Program



Residual Market Premium Level Filings

South Carolina	2/15/05	+32.8%
Arizona	10/1/05	+9.3%
North Carolina	4/1/06	+8.7%
New Mexico	1/1/06	+7.7%
Illinois	1/5/06	+6.3%
Georgia	7/1/05	+5.4%
Kansas	1/1/06	+5.4%
Alabama	3/1/06	+5.0%
South Dakota*	7/1/06	+3.3%
Connecticut	1/1/06	+2.2%
Indiana	1/1/06	+2.2%

* Pending



Residual Market Premium Level Filings

Iowa	1/1/06	+1.8%
Alaska	1/1/06	+0.5%
Oregon	1/1/06	0.0%
Arkansas	7/1/06	-1.8%
Nevada	3/1/06	-1.8%
Mississippi	3/1/06	-2.1%
Virginia	4/1/06	-2.2%
Vermont	4/1/06	-2.6%
Dist. of Columbia	11/1/05	-3.6%
Tennessee	3/1/06	-3.6%
New Hampshire	1/1/06	-4.0%





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Closing Remarks

Thank You!



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Glossary

Glossary

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



Glossary

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



Glossary

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





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Appendix

NCCI Workers Compensation Databases

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

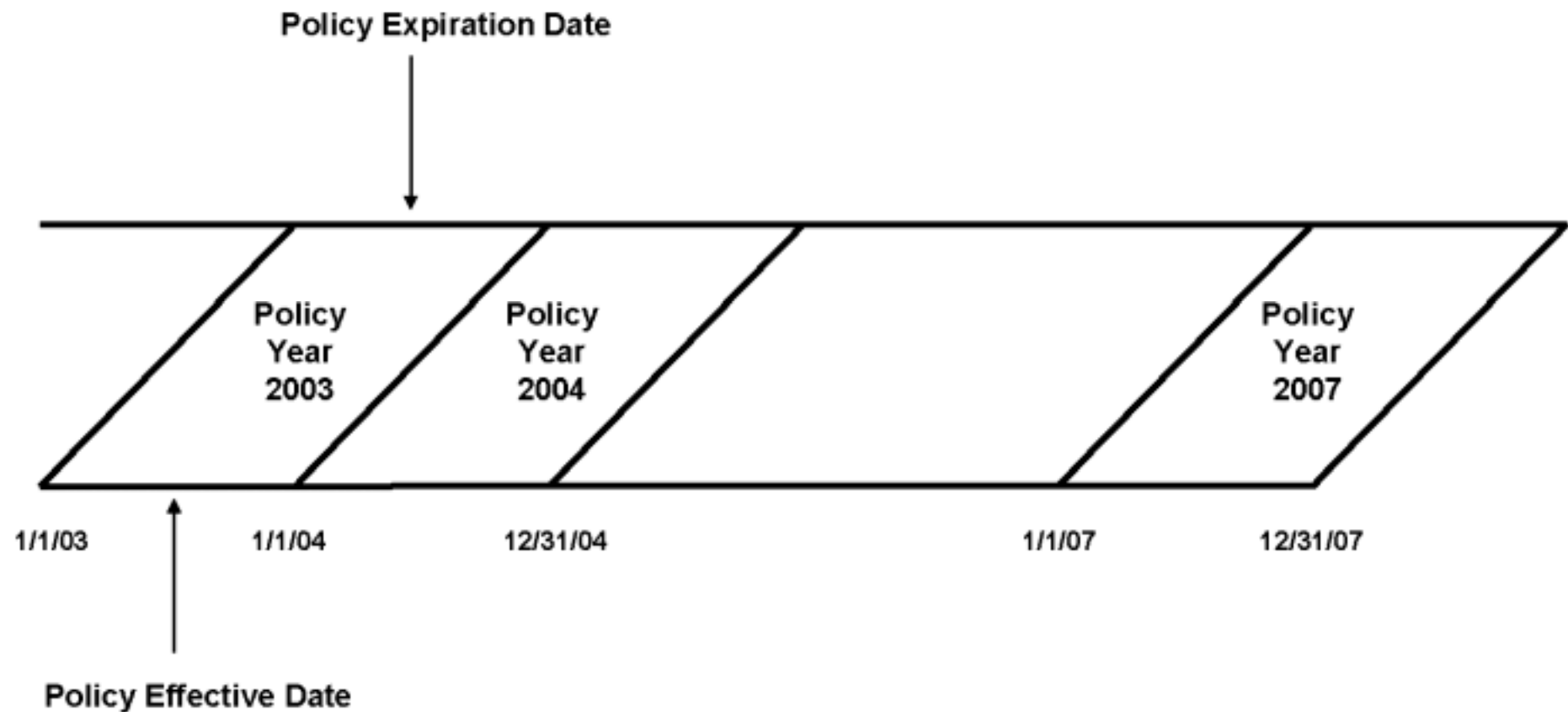


Financial Aggregate Calls

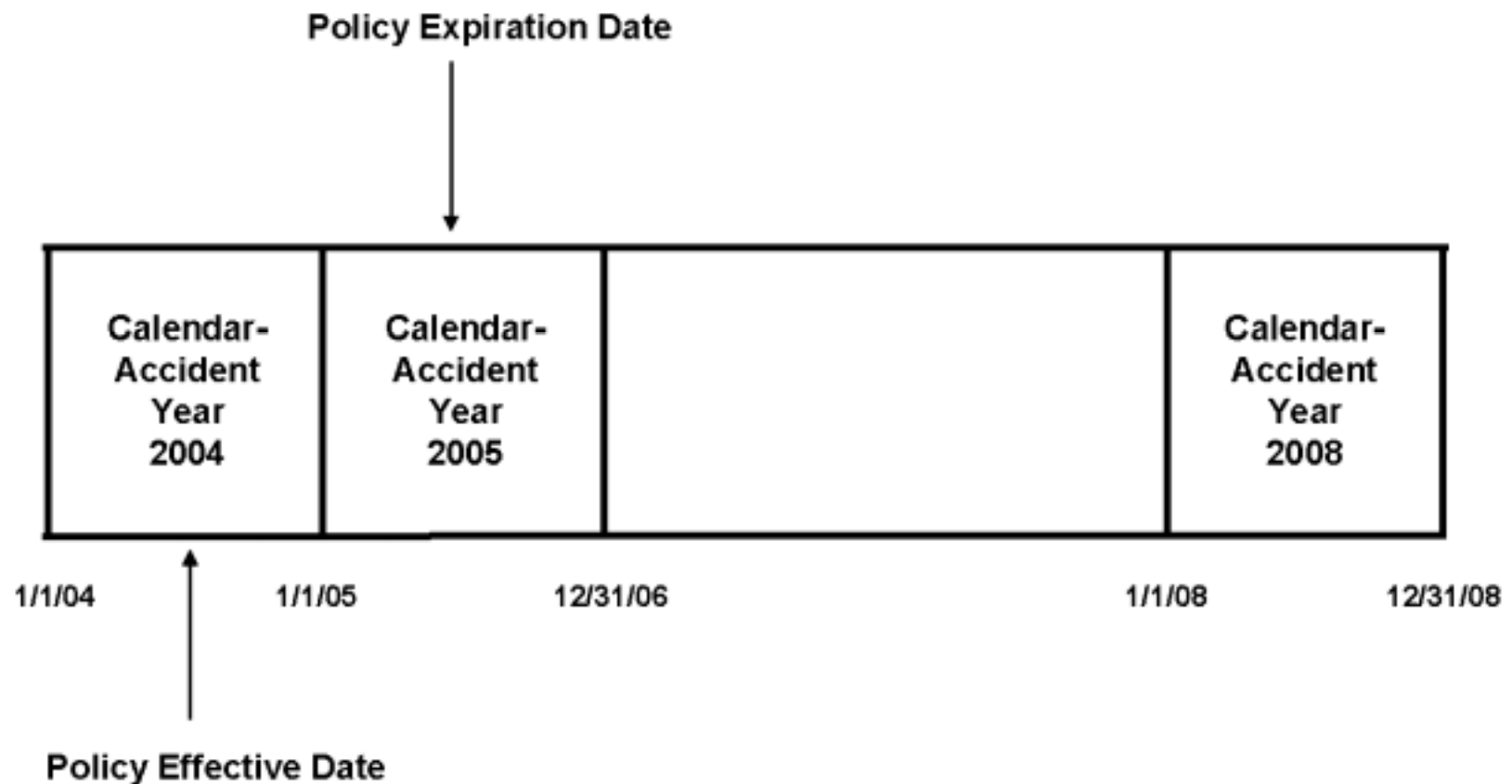
- **Collected Annually**
 - Policy and calendar-accident year basis
 - Statewide and assigned risk data
- **Premiums, Losses, and Claim Counts**
 - Evaluated as of December 31
- **Purpose**
 - Basis for overall aggregate rate indication
 - Research



Policy Year Financial Aggregate Data



Calendar-Accident Year Financial Aggregate Data



Workers Compensation Statistical Plan (WCSP) Data

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



Valuation of WCSP 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 First Quarter 2006 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.

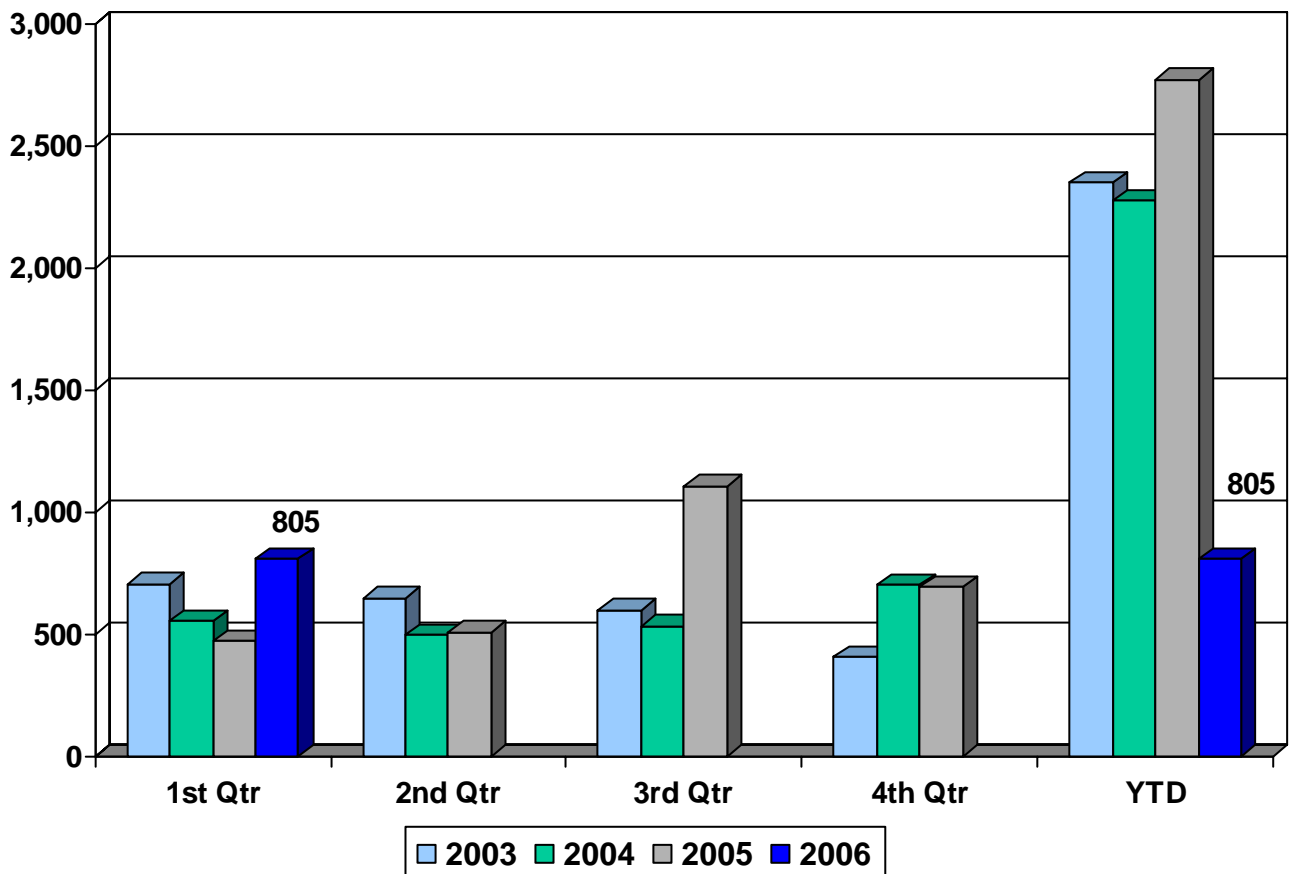
If you have any questions or comments about this report, please feel free to contact any of the individuals listed below.

Terri Robinson, State Relations Executive	(314) 843-4001
Lesley O'Brien, Underwriting Specialist	(561) 893-3186
Chantel Weishaar, Technical Specialist	(561) 893-3015

Residual Market Demographics – 1Q 2006

Arkansas Residual Market Total New Applications Bound 2003 vs. 2004 vs. 2005 vs. 2006

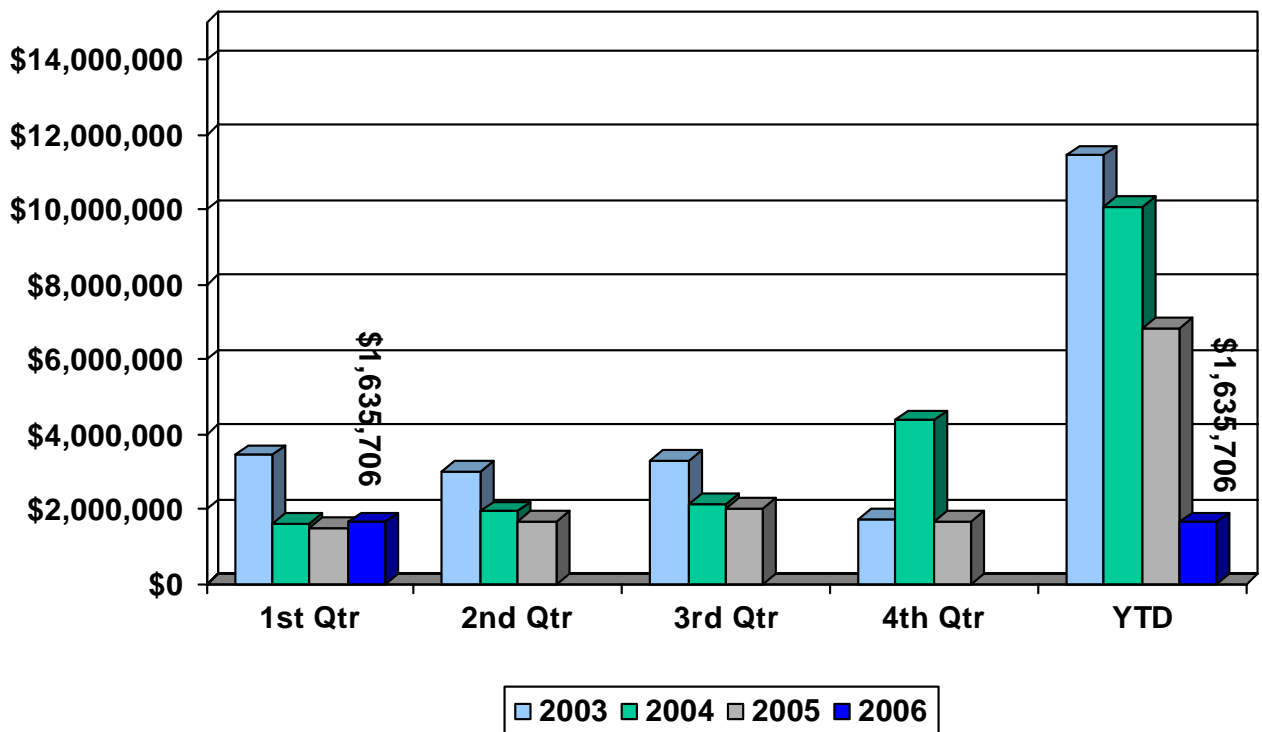
The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).



Residual Market Demographics – 1Q 2006

Arkansas Residual Market Total New Application Premium Bound 2003 vs. 2004 vs. 2005 vs. 2006

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

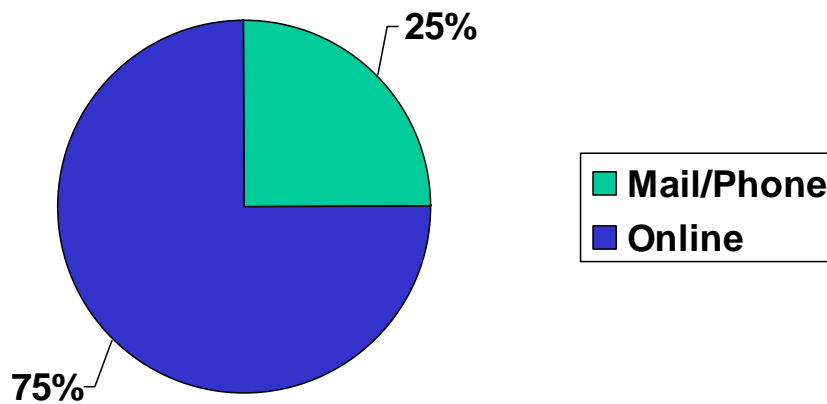


Residual Market Demographics – 1Q 2006

Percentage of New Applications Received by Submission Format

Data through March 31, 2006

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

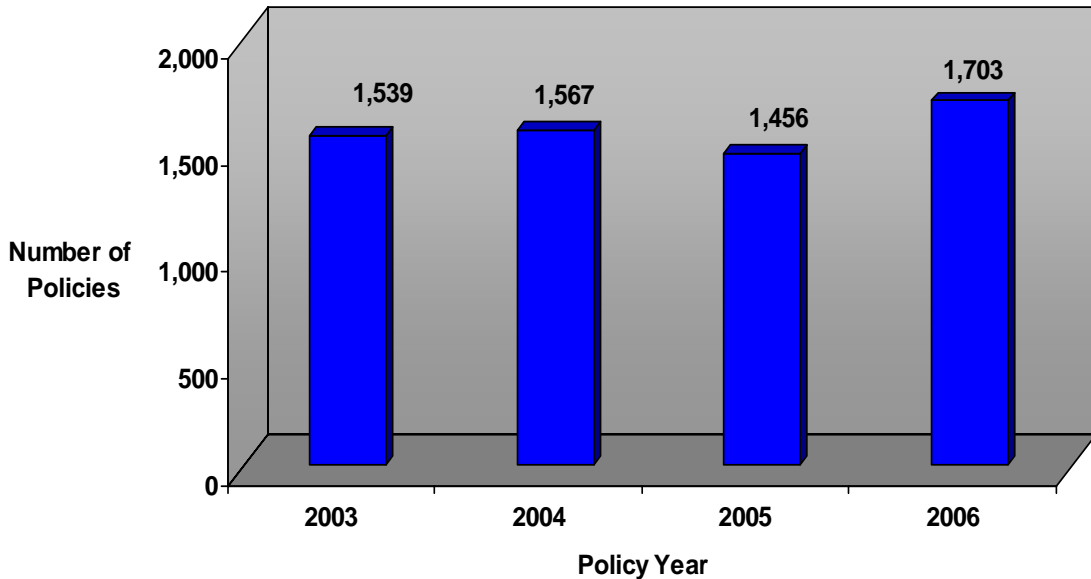


Residual Market Demographics – 1Q 2006

Residual Market Total Policy Counts

First Quarter Data for Policies Reported through March 31, 2006

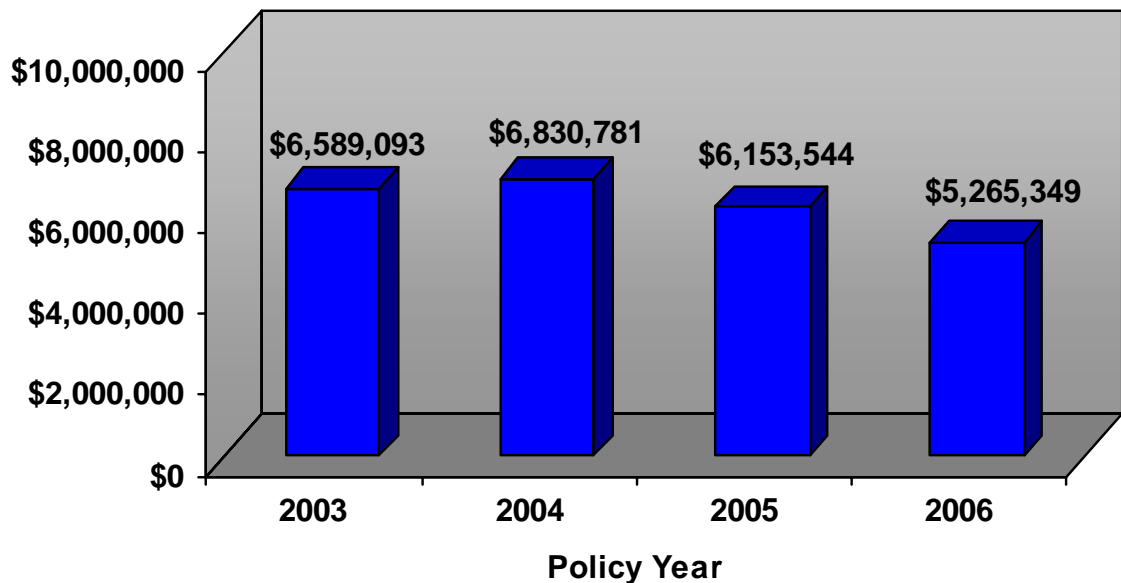
Total Number of all Assigned Risk Plan Policies effective during this quarter and reported as of the date listed above.



Residual Market Total Premium Volume

First Quarter Data Reported through March 31, 2006

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



Residual Market Demographics – 1Q 2006

Residual Market First Quarter 2006 Total Premium Distribution by Size of Risk Data Reported through March 31, 2006

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

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0 - 2499	1,266	74.34%	\$998,203	18.96%	\$788
\$2500 - 4999	192	11.27%	\$673,577	12.79%	\$3,508
\$5000 - 9999	137	8.04%	\$957,318	18.18%	\$6,987
\$10000 - 19999	70	4.11%	\$939,870	17.85%	\$13,426
\$20000 - 49999	27	1.59%	\$835,699	15.87%	\$30,951
\$50000 - 99999	9	0.53%	\$579,232	11%	\$64,359
\$100000 - 199999	2	0.12%	\$281,450	5.35%	\$140,725
Total	1,703	100%	\$5,265,349	100%	\$3,092

Residual Market Total Premium Distribution by Size of Risk First Quarter 2005 Data for Comparison

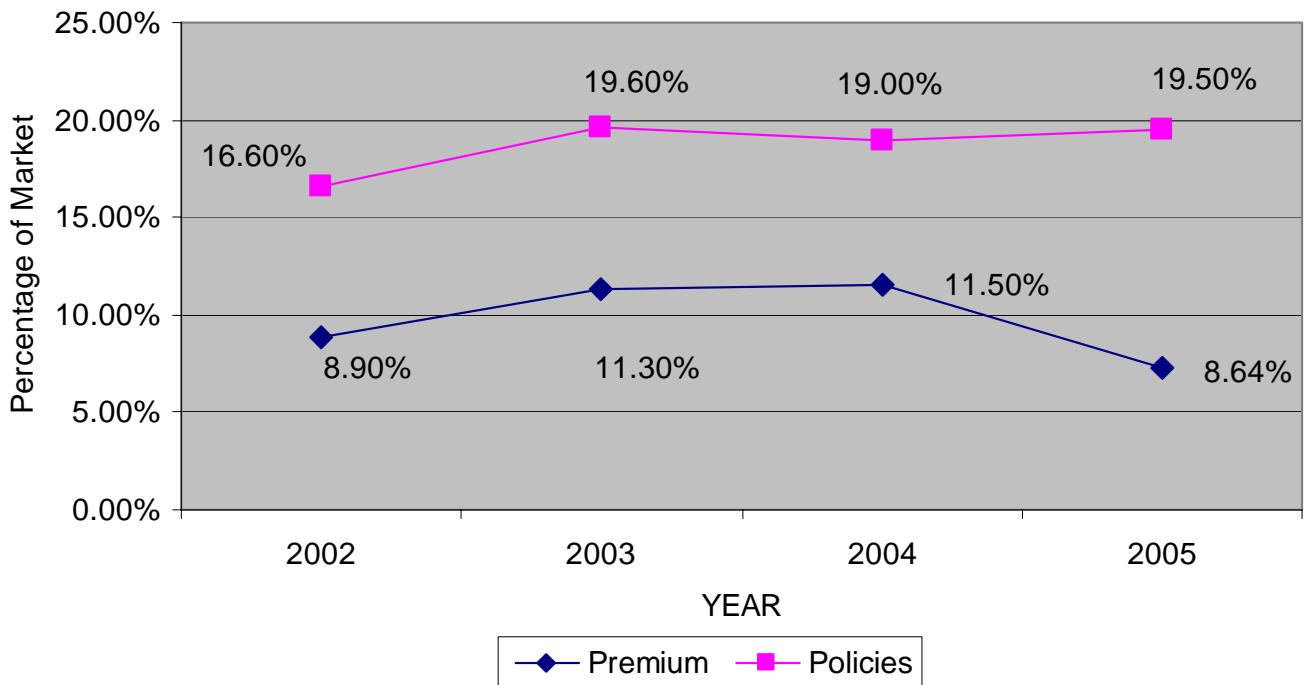
The total number of assigned risk plan policies reported to NCCI for the quarter by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0 - 2499	1,033	70.95%	\$933,081	15.16%	\$903
\$2500 - 4999	195	13.39%	\$686,881	11.16%	\$3,522
\$5000 - 9999	115	7.9%	\$810,366	13.17%	\$7,046
\$10000 - 19999	57	3.91%	\$772,598	12.56%	\$13,554
\$20000 - 49999	35	2.4%	\$999,168	16.24%	\$28,547
\$50000 - 99999	14	0.96%	\$957,817	15.57%	\$68,415
\$100000 - 199999	6	0.41%	\$790,015	12.84%	\$131,669
\$200000 +	1	0.07%	\$203,618	3.31%	\$203,618
Total	1,456	100%	\$6,153,544	100%	\$4,226

Residual Market Demographics – 1Q 2006

Total Arkansas Assigned Risk Plan Market Share

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



Residual Market Demographics – 1Q 2006

Residual Market Top 10 Classification Codes by Policy Count Data Reported through March 31, 2006

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

Rank	Code	Description	Policy Count	% of Policies
1	5645	Carpentry-Detached One Or Two Family Dwellings	313	18.38%
2	8810	Clerical Office Employees NOC	111	6.52%
3	8832	Physician & Clerical	52	3.05%
4	5474	Painting Or Paperhanging NOC	47	2.76%
5	5022	Masonry NOC	45	2.64%
6	5437	Carpentry-Installation Of Cabinet Work Or Interior Trim	42	2.47%
7	8279	Stable Or Breeding Farm	40	2.35%
8	5190	Electrical Wiring-Within Buildings	36	2.11%
9	8742	Outside Salesperson	36	2.11%
10	5606	Contractor-Executive Supervisor Or Construction Superintendent 1	34	2%

Residual Market Top 10 Classification Codes by Premium Volume Data Reported through March 31, 2006

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-Detached One Or Two Family Dwellings	\$581,323	11.04%
2	7720	Police Officers & Drivers	\$251,201	4.77%
3	8868	College: Professional Employees	\$207,806	3.95%
4	8279	Stable Or Breeding Farm	\$143,768	2.73%
5	1624	Quarry NOC & Drivers	\$125,415	2.38%
6	9015	Buildings-Operation By Owner	\$107,657	2.04%
7	5474	Painting Or Paperhanging NOC	\$107,380	2.04%
8	9016	Amusement Park Or Exhibition Operation	\$101,946	1.94%
9	8832	Physician & Clerical	\$94,019	1.79%
10	0037	Farm: Field Crops	\$88,414	1.68%

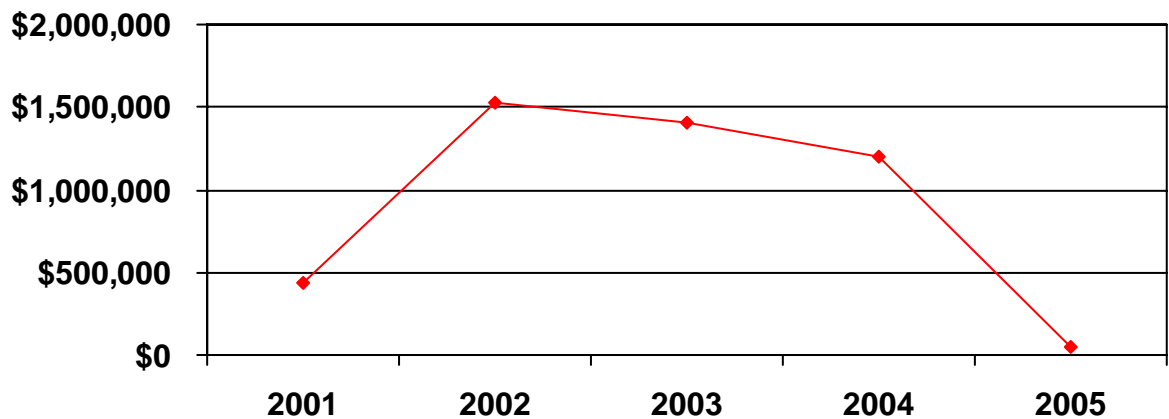
Residual Market Demographics

Collections/Indemnification

The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas and the National Pool for Policy Years 2001-2005, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through Fourth Quarter 2005.

Arkansas	Gross Written Premium	Uncollectible Premium	Percentage
2001	\$13,239,253	\$433,483	3.3%
2002	\$22,998,815	\$1,529,176	6.6%
2003	\$29,575,711	\$1,410,971	4.8%
2004	\$28,852,022	\$1,202,723	4.2%
2005	\$20,096,366	\$48,162	0.2%
National Pool 2005	\$1,032,175,295	\$2,497,123	0.2%

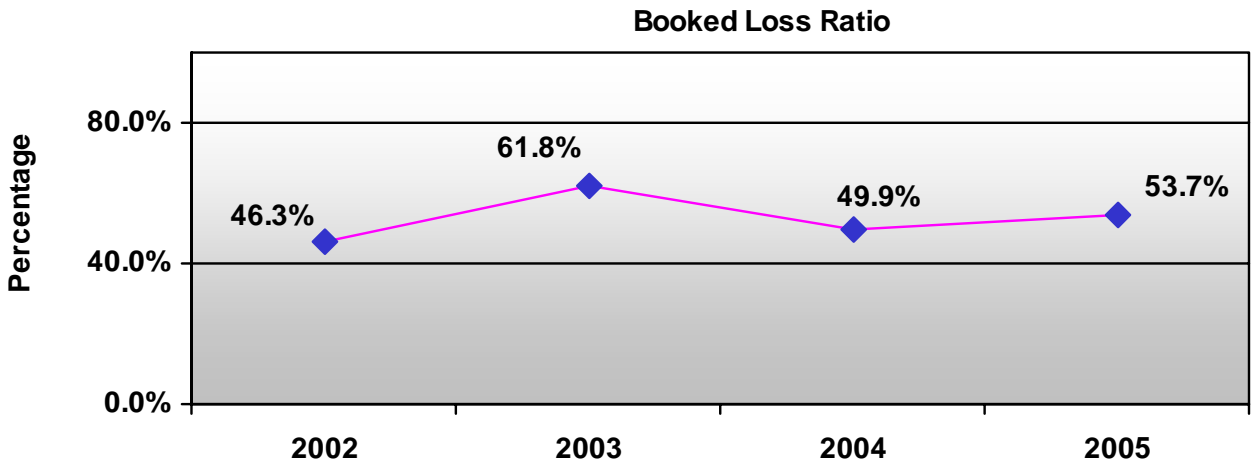
Arkansas Uncollectible Premium



Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 4th Quarter 2005 for 2005 and prior years

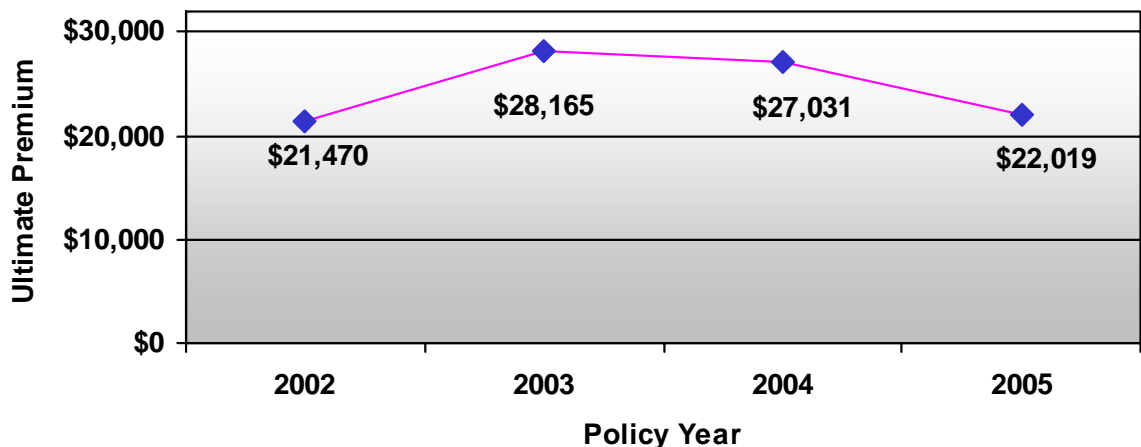
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .



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

Policy Year Financial Results through 4th Quarter 2005 for 2005 and prior years*

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



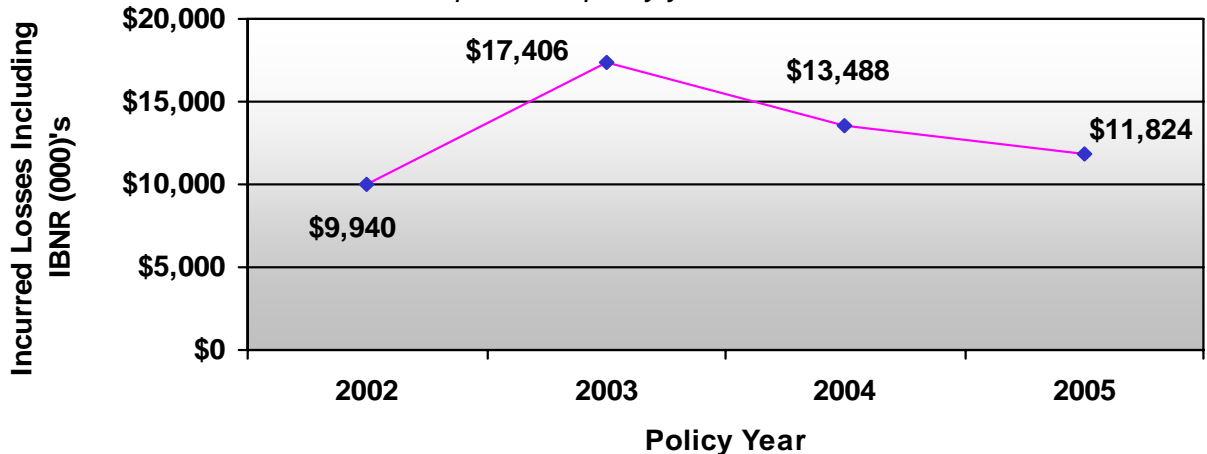
*-First Quarter 2006 Data will be available the end of June 2006 due to the timing of data reporting

Residual Market Demographics

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

Policy Year Financial Results through 4th Quarter 2005 for 2005 and prior years*

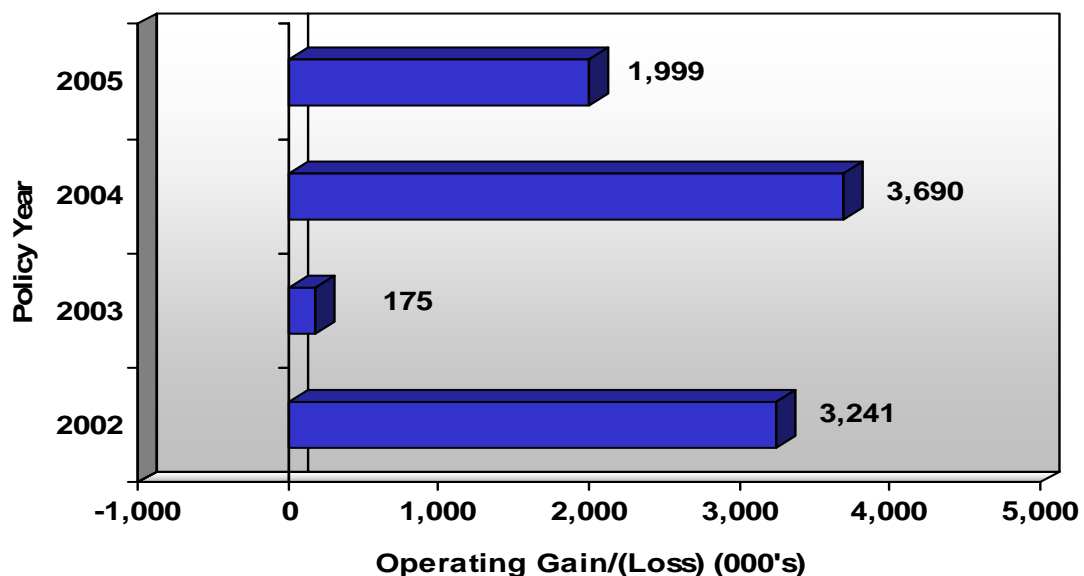
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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

Policy Year Financial Results through 4th Quarter 2005 for 2005 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.



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.

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Executive Summary

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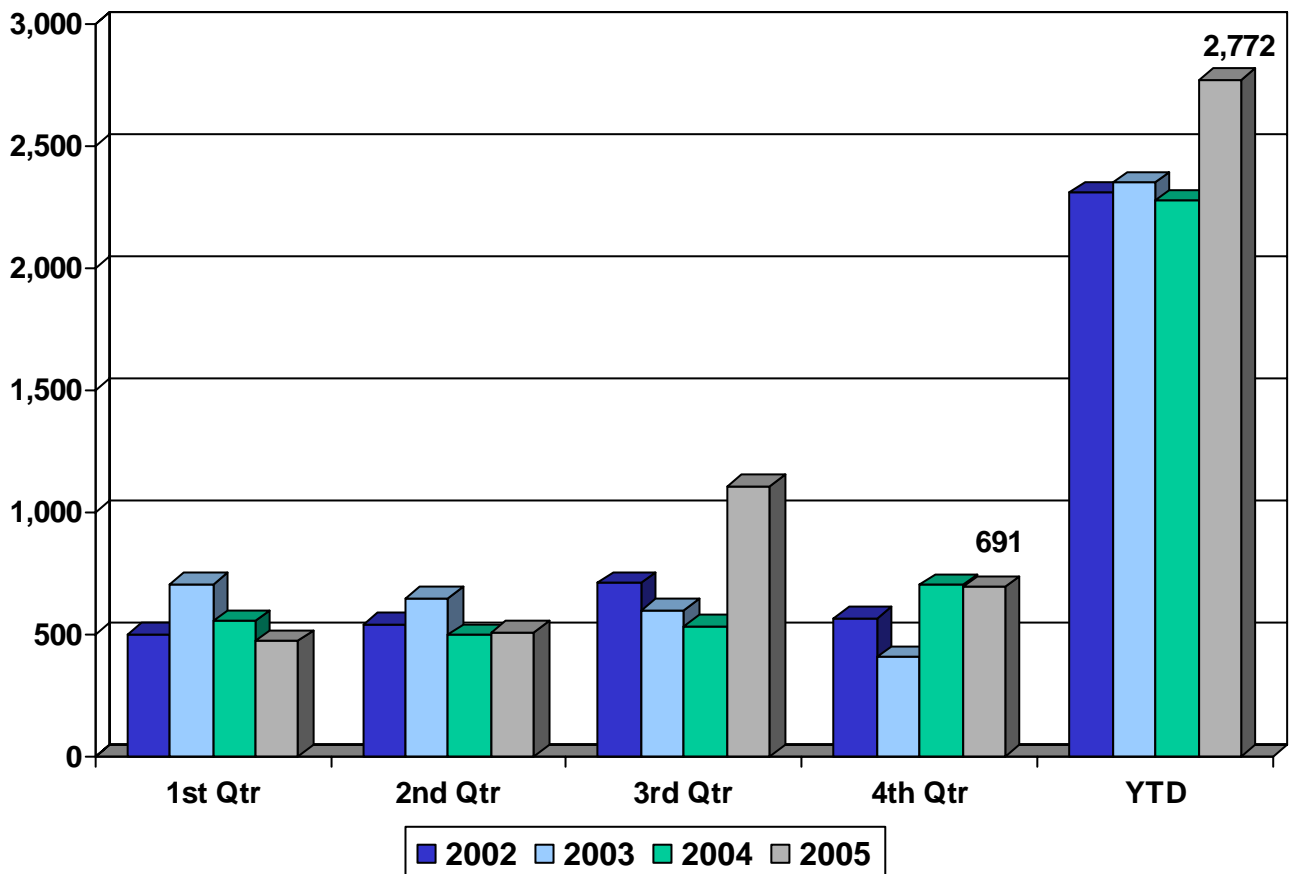
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Terri Robinson, State Relations Executive	(314) 843-4001
Lesley O'Brien, Underwriting Specialist	(561) 893-3186
Chantel Weishaar, Technical Specialist	(561) 893-3015

Residual Market Demographics – Annual 2005

Arkansas Residual Market Total New Applications Bound 2002 vs. 2003 vs. 2004 vs. 2005

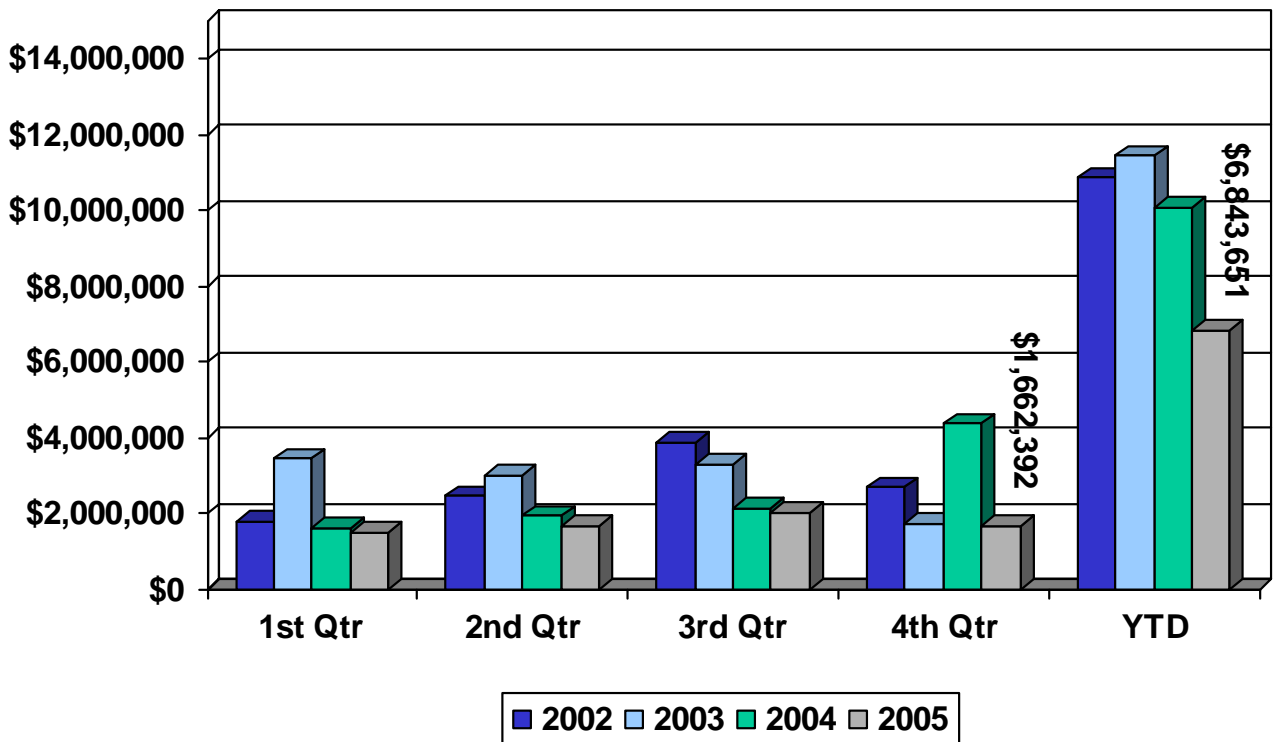
The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).



Residual Market Demographics – Annual 2005

Arkansas Residual Market Total New Application Premium Bound 2002 vs. 2003 vs. 2004 vs. 2005

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

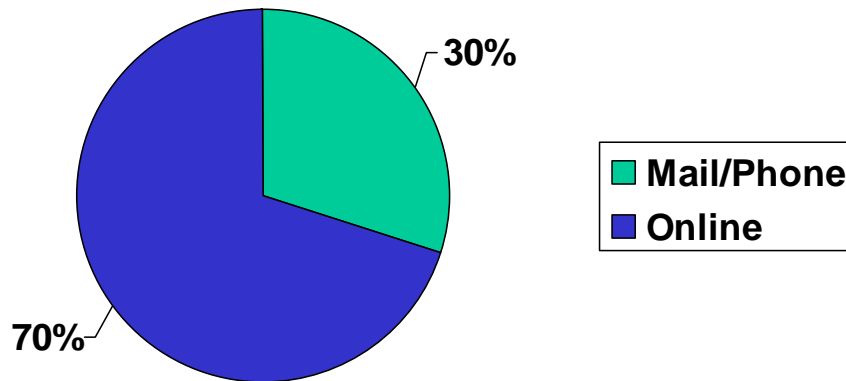


Residual Market Demographics – Annual 2005

Percentage of New Applications Received by Submission Format

Data through December 31, 2005

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

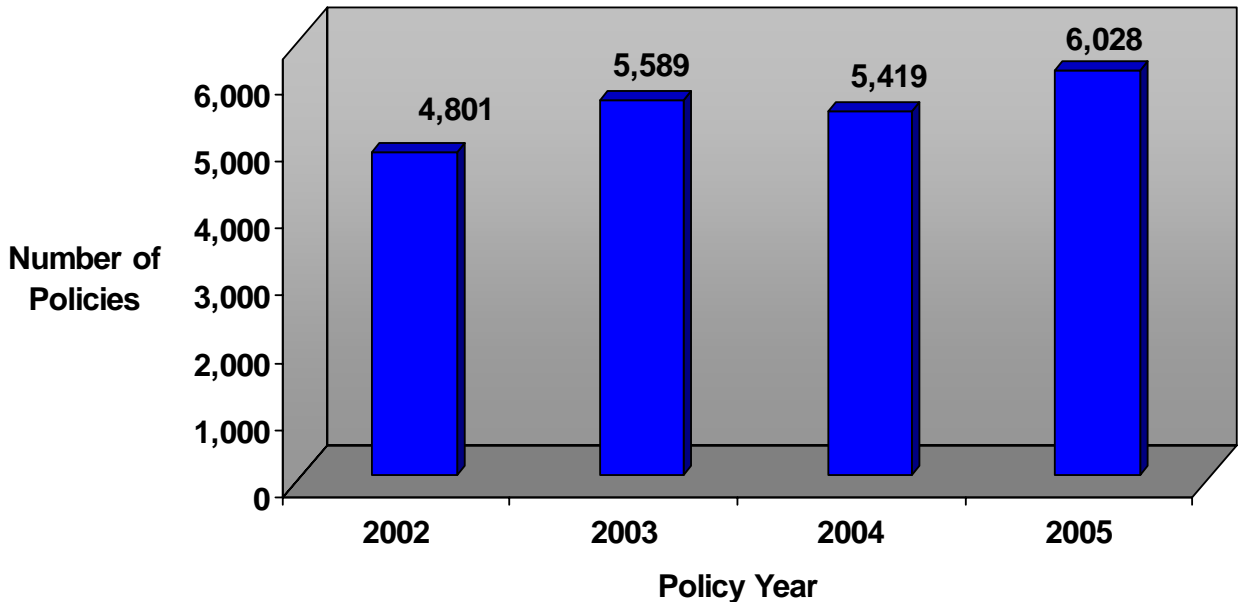


Residual Market Demographics – Annual 2005

Residual Market Total Policy Counts

Annual Data for Policies Reported through December 31, 2005

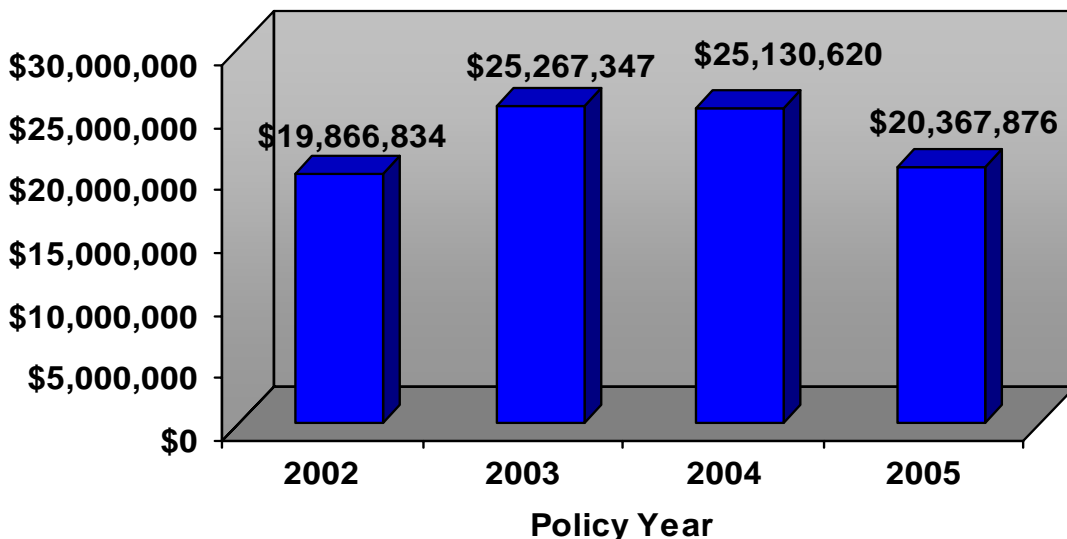
Total Number of all Assigned Risk Plan Policies effective during this quarter and reported as of the date listed above.



Residual Market Total Premium Volume

Annual Data Reported through December 31, 2005

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



Residual Market Demographics – Annual 2005

Residual Market Annual 2005 Total Premium Distribution by Size of Risk Data Reported through December 31, 2005

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

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0 - 2499	4,418	73.29%	\$3,580,696	17.58%	\$810
\$2500 - 4999	751	12.46%	\$2,360,031	11.59%	\$3,142
\$5000 - 9999	445	7.38%	\$2,712,041	13.32%	\$6,094
\$10000 - 19999	221	3.67%	\$2,772,505	13.61%	\$12,545
\$20000 - 49999	124	2.06%	\$3,143,171	15.43%	\$25,348
\$50000 - 99999	43	0.71%	\$2,794,865	13.72%	\$64,996
\$100000 - 199999	21	0.35%	\$2,367,910	11.63%	\$112,757
\$200000 - Plus	5	0.08%	\$636,657	3.13%	\$127,331
Total	6,028	100%	\$20,367,876	100%	\$3,379

Residual Market Total Premium Distribution by Size of Risk Annual 2004 Data for Comparison

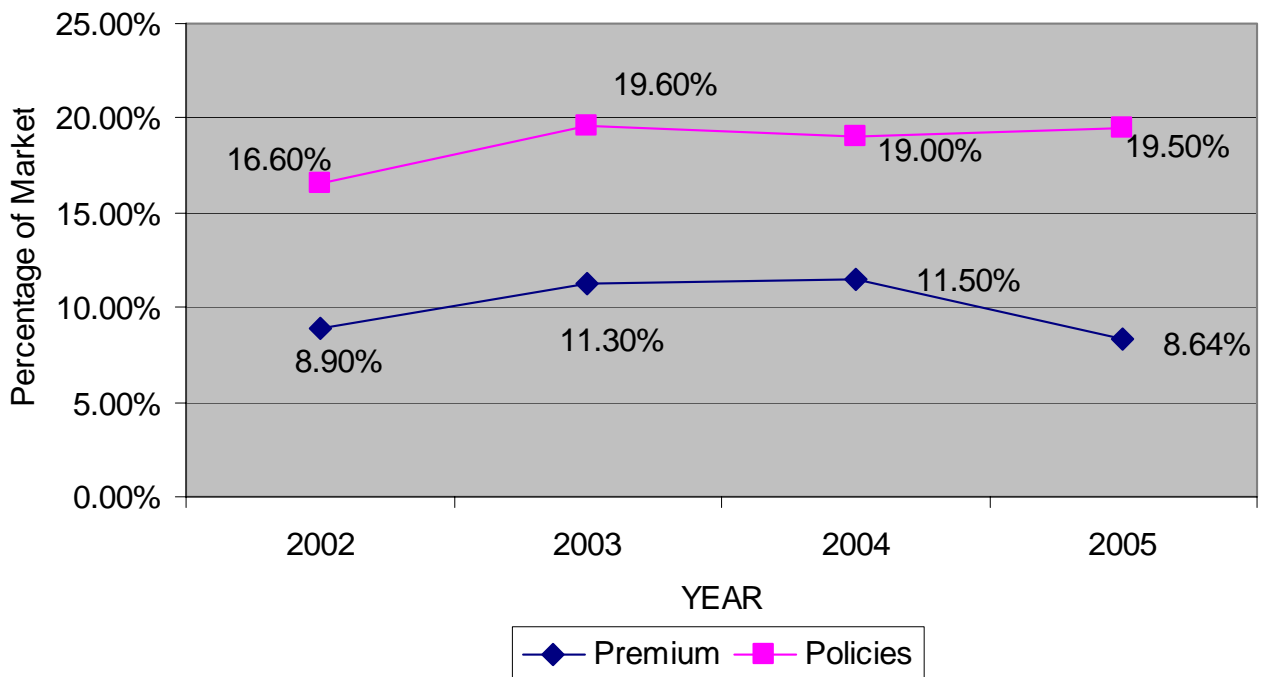
The total number of assigned risk plan policies reported to NCCI for the quarter by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0- \$2499	3,628	66.95%	\$3,180,954	12.66%	\$876
\$2500- \$4999	745	13.75%	\$2,322,692	9.24%	\$3,117
\$5000- \$9999	493	9.1%	\$3,023,658	12.03%	\$6,133
\$10000- \$19999	299	5.52%	\$3,555,348	14.15%	\$11,890
\$20000- \$49999	155	2.86%	\$4,482,565	17.84%	\$28,919
\$50000- \$99999	65	1.2%	\$4,109,840	16.35%	\$63,228
\$100000- \$199999	31	0.57%	\$3,425,540	13.63%	\$110,501
\$200000+	3	0.06%	\$1,030,023	4.1%	\$343,341
Total	5,419	100%	\$25,130,620	100%	\$4,638

Residual Market Demographics – Annual 2005

Total Arkansas Assigned Risk Plan Market Share

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



Note: The numbers as of December 2005 show the volume of assigned risk policies and *total estimated annual premium* for policies reported as of that date. This is meant to provide an estimate of where the year-end numbers might be. However, the final market share numbers are based on written premium on financial data reported to NCCI and will be located in the 2005 **Residual Market Management Summary** issued annually in June.

Residual Market Demographics – Annual 2005

Residual Market Top 10 Classification Codes by Policy Count Data Reported through December 31, 2005

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

Rank	Code	Description	Policy Count	% of Policies
1	5645	Carpentry-Detached One Or Two Family Dwellings	1,061	17.6%
2	8810	Clerical Office Employees NOC	372	6.17%
3	8832	Physician & Clerical	170	2.82%
4	5474	Painting Or Paperhanging NOC	160	2.65%
5	5022	Masonry NOC	147	2.44%
6	6217	Excavation & Drivers	146	2.42%
7	8742	Outside Salespersons	123	2.04%
8	5190	Electrical Wiring-Within Buildings	120	1.99%
9	9014	Buildings-Operation By Contractors	114	1.89%
10	5437	Carpentry-Installation Of Cabinet Work Or Interior Trim	112	1.86%

Residual Market Top 10 Classification Codes by Premium Volume Data Reported through December 31, 2005

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-Detached One Or Two Family Dwellings	\$1,524,192	7.48%
2	7720	Police Officers & Drivers	\$518,255	2.54%
3	6217	Excavation & Drivers	\$509,664	2.5%
4	8106	Iron Or Steel Merchant & Drivers	\$410,532	2.02%
5	5474	Painting Or Paperhanging NOC	\$356,961	1.75%
6	8868	College: Professional Employees	\$356,825	1.75%
7	7228	Trucking-Local Hauling Only-& Drivers	\$355,554	1.75%
8	9403	Garbage Ashes Or Refuse Collection	\$344,972	1.69%
9	7423	Aircraft Or Helicopter Operation: All Other Employees & Drivers	\$338,949	1.66%
10	8380	Automobile Service Or Repair Center	\$331,190	1.63%

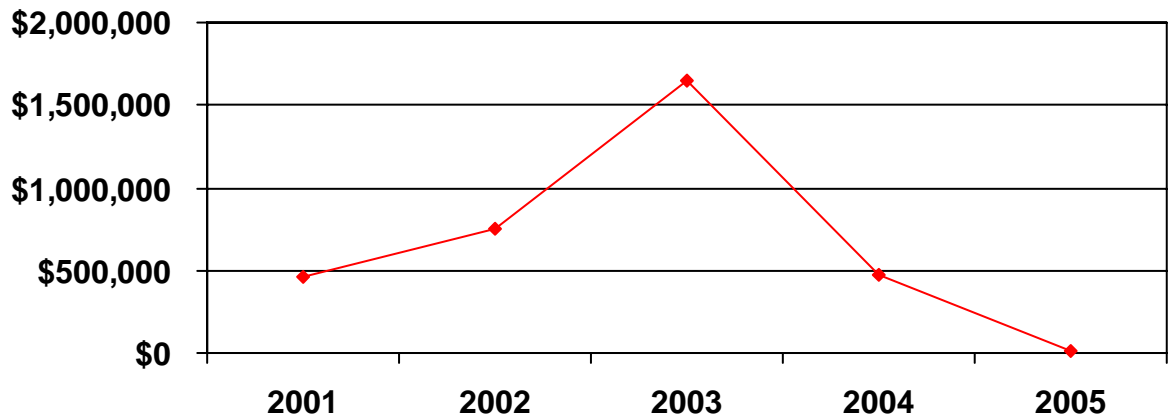
Residual Market Demographics

Collections/Indemnification

The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas and the National Pool for Policy Years 2001-2005, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through Third Quarter 2005.

Arkansas	Gross Written Premium	Uncollectible Premium	Percentage
2001	\$13,239,253	\$455,016	3.4%
2002	\$23,000,056	\$751,007	3.3%
2003	\$29,741,567	\$1,647,963	5.5%
2004	\$28,504,477	\$467,313	1.6%
2005	\$16,565,514	\$7,208	0.0%
National Pool 2005	\$764,376,762	\$296,931	0.0%

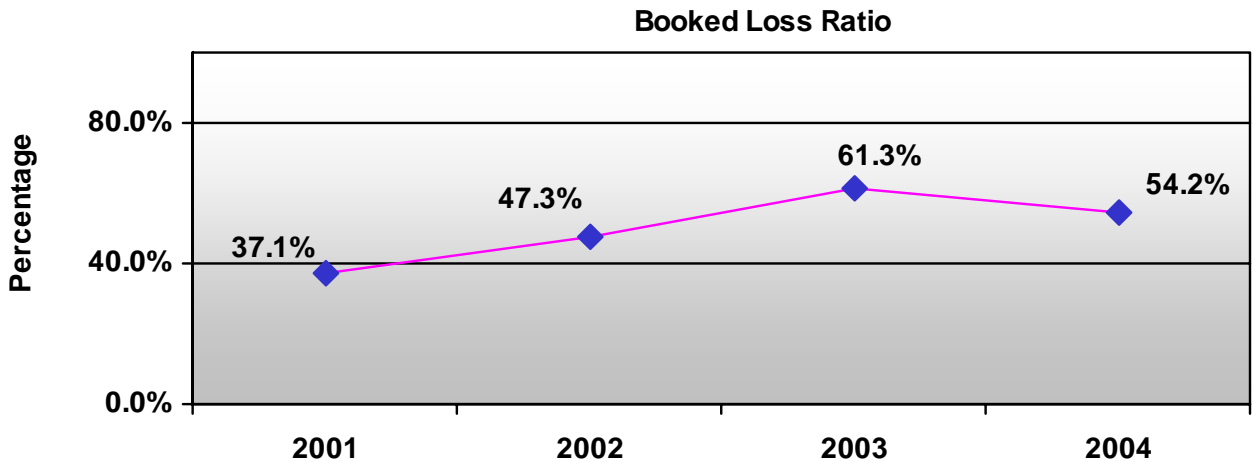
Arkansas Uncollectible Premium



Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 3rd Quarter 2005 for 2004 and prior years

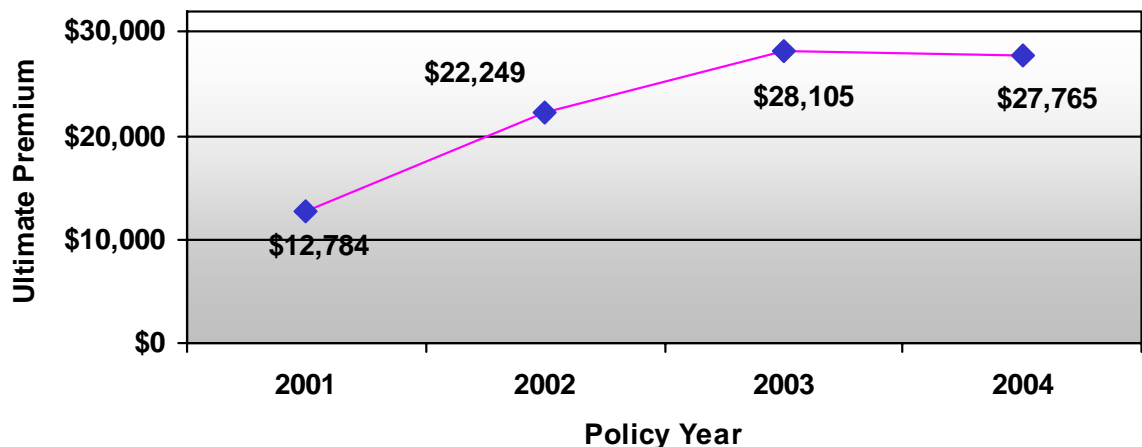
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .



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

Policy Year Financial Results through 3rd Quarter 2005 for 2004 and prior years*

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



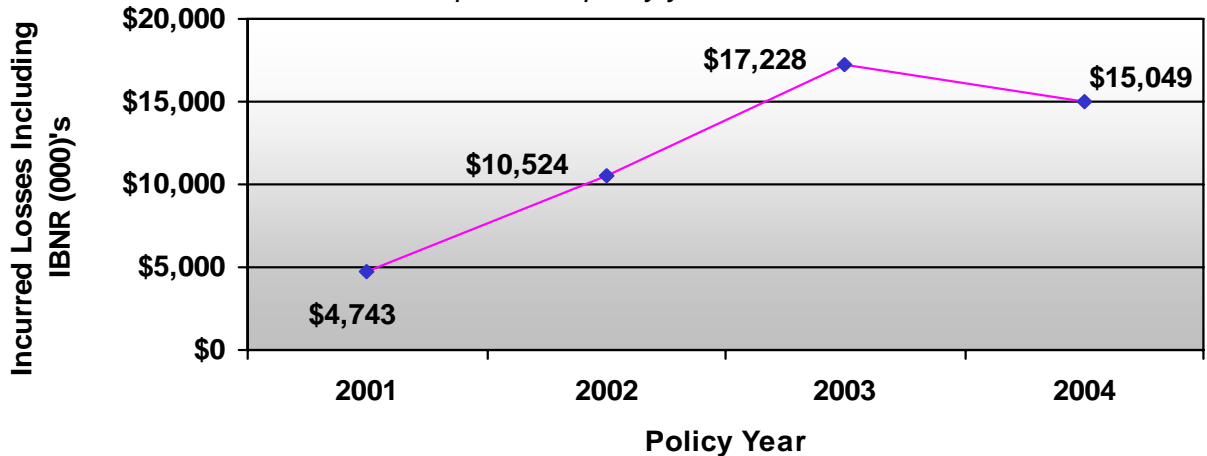
*-Fourth Quarter 2005 Data will be available the end of December 2005 due to the timing of data reporting

Residual Market Demographics

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

Policy Year Financial Results through 3rd Quarter 2005 for 2004 and prior years*

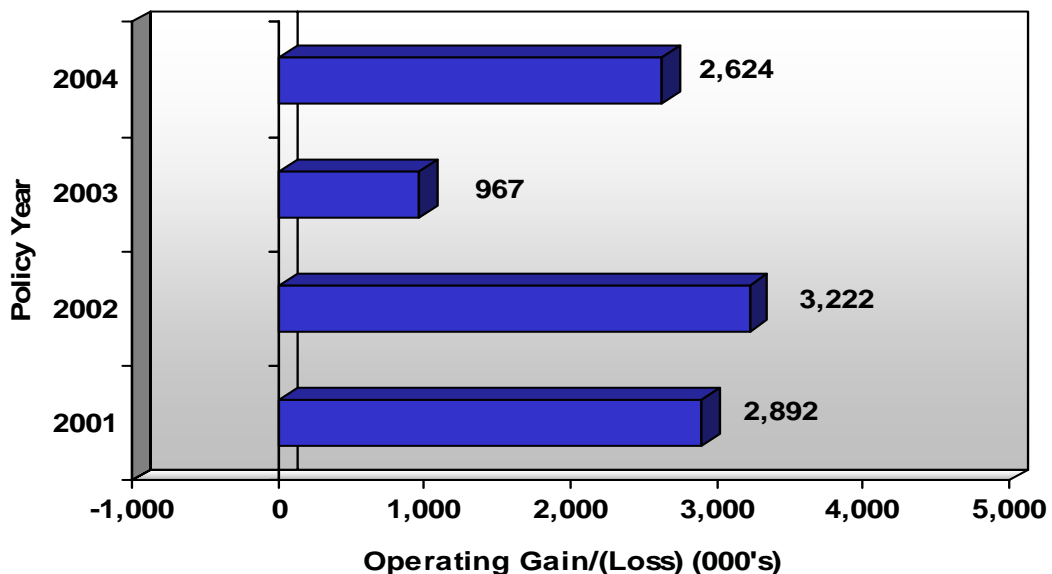
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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

Policy Year Financial Results through 3rd Quarter 2005 for 2004 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.



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.

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Executive Summary

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the Annual 2004 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. However, all policy information is dependent upon data reported to NCCI.

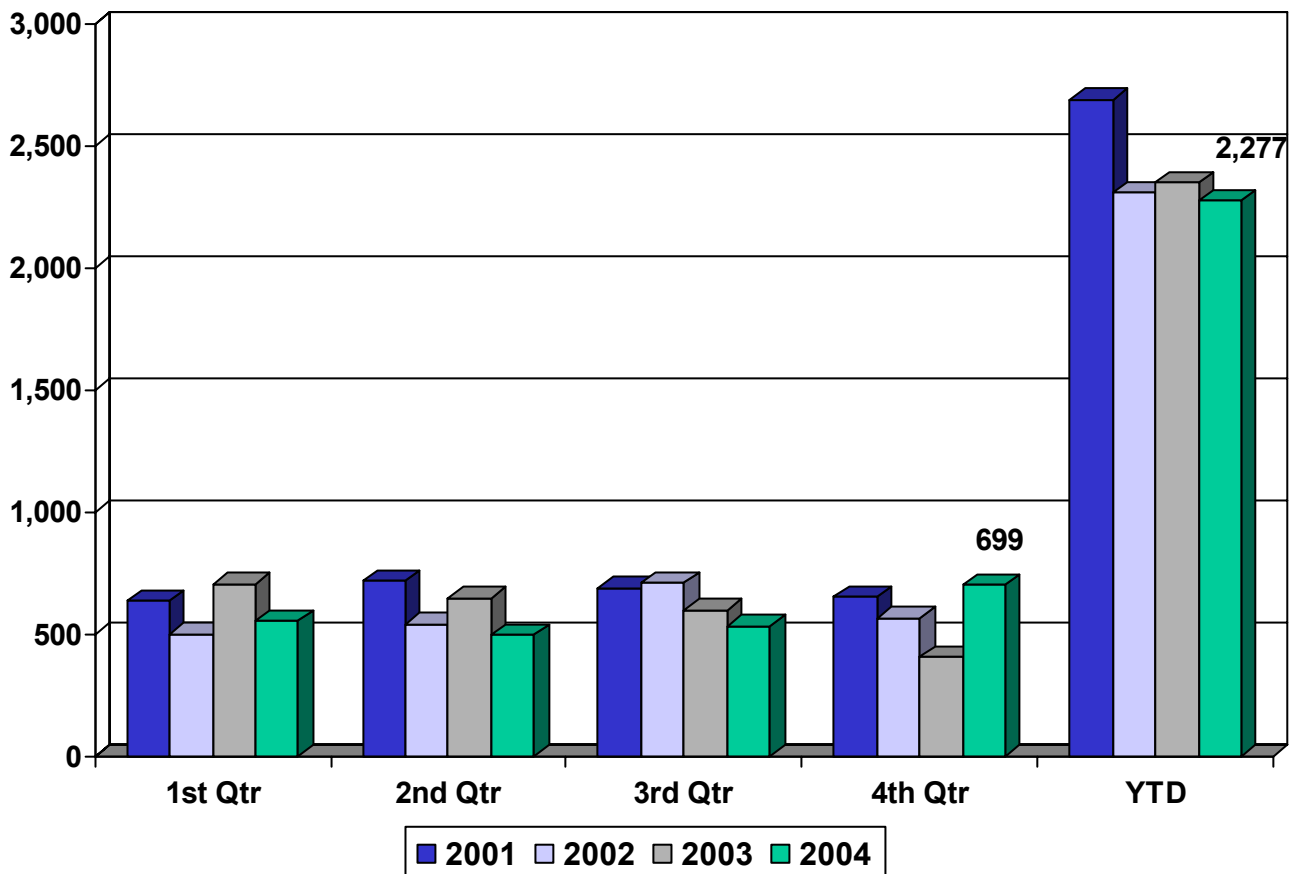
If you have any questions or comments about this report, please feel free to contact any of the individuals listed below.

Terri Robinson, State Relations Executive	(314) 843-4001
Lesley O'Brien, Underwriting Specialist	(561) 893-3186
Chantel Weishaar, Technical Specialist	(561) 893-3015

Residual Market Demographics – Annual 2004

Arkansas Residual Market Total New Applications Bound 2001 vs. 2002 vs. 2003 vs. 2004

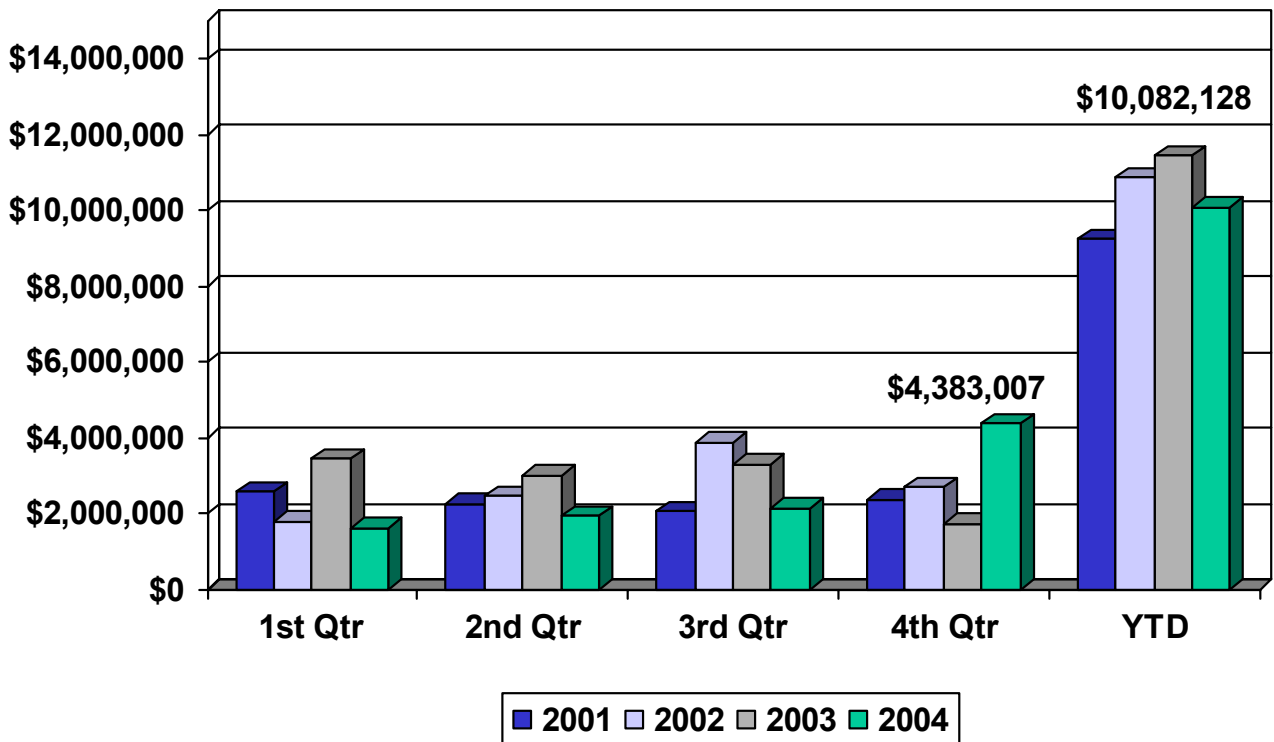
The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).



Residual Market Demographics – Annual 2004

Arkansas Residual Market Total New Application Premium Bound 2001 vs. 2002 vs. 2003 vs. 2004

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

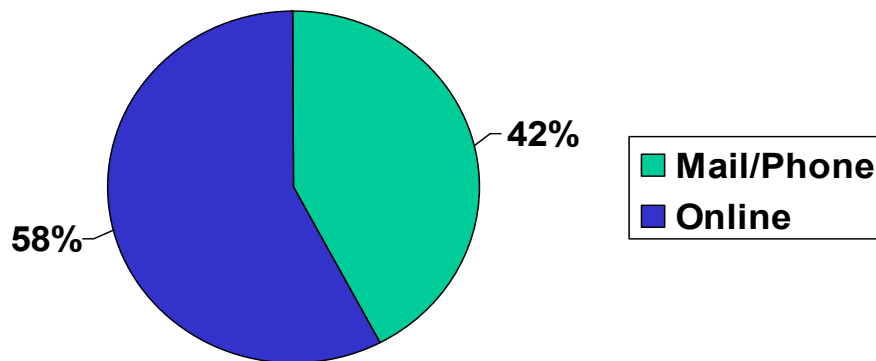


Residual Market Demographics – Annual 2004

Percentage of New Applications Received by Submission Format

Data through December 31, 2004

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

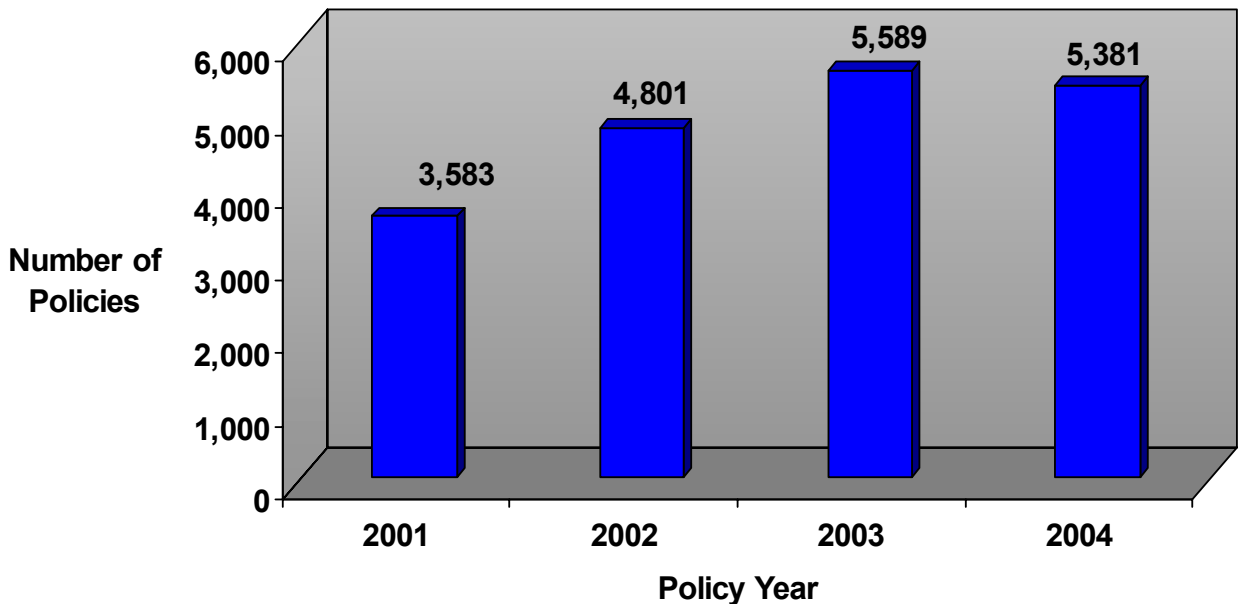


Residual Market Demographics – Annual 2004

Residual Market Total Policy Counts

Data for Policies Reported through December 31, 2004

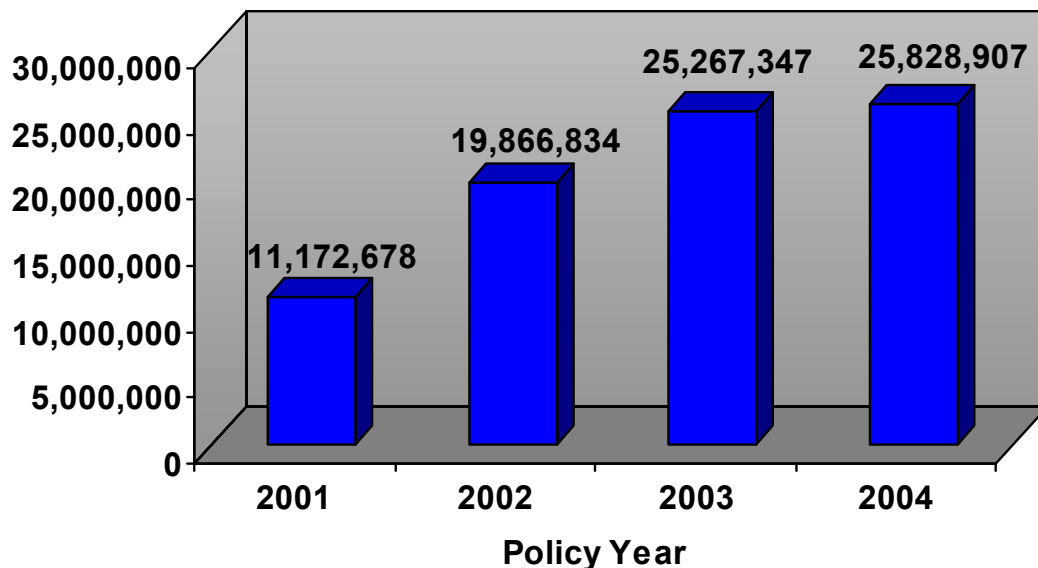
Total Number of all Assigned Risk Plan Policies effective during this year and reported as of the date listed above.



Residual Market Total Premium Volume

Data Reported through December 31, 2004

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



Residual Market Demographics – Annual 2004

Residual Market Total Estimated Annual Premium Distribution by Size of Risk Data Reported through December 31, 2004

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

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0 - 2499	3,610	67.09%	\$3,187,460	12.34%	\$882
\$2500 - 4999	736	13.68%	\$2,320,801	8.99%	\$3,153
\$5000 - 9999	485	9.01%	\$3,004,387	11.63%	\$6,194
\$10000 - 19999	301	5.59%	\$3,650,564	14.13%	\$12,128
\$20000 - 49999	149	2.77%	\$4,308,264	16.68%	\$28,914
\$50000 - 99999	63	1.17%	\$3,958,452	15.33%	\$62,832
\$100000 - 199999	32	0.59%	\$3,749,613	14.52%	\$117,175
\$200000 - Plus	5	0.09%	\$1,649,366	6.39%	\$329,873
Total	5,381	100%	\$25,828,907	100%	\$4,800

Residual Market Total Estimated Annual Premium Distribution by Size of Risk Annual 2003 Data for Comparison

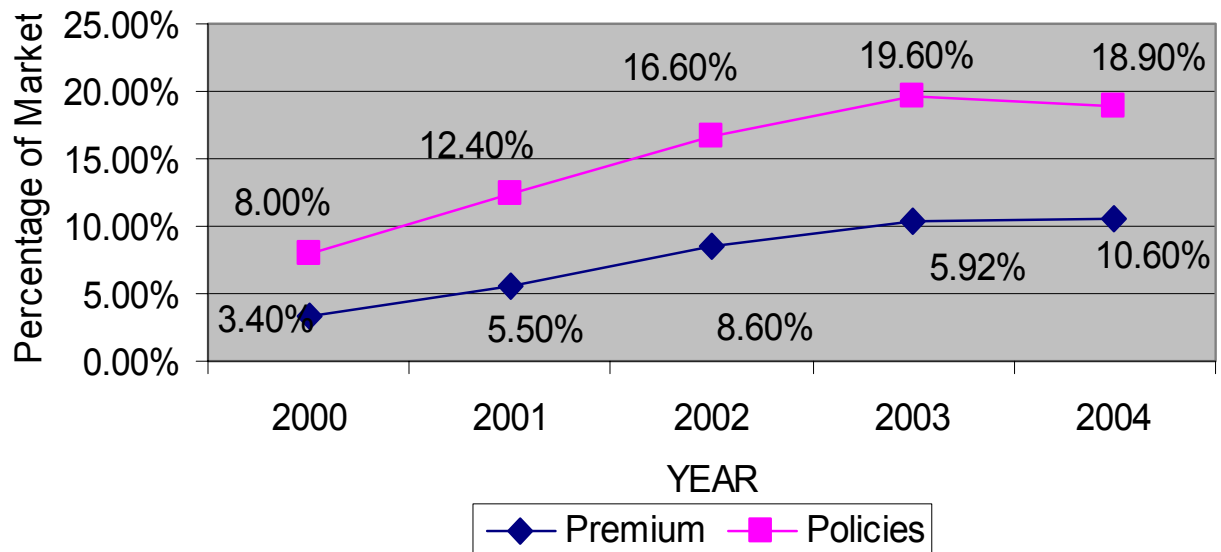
The total number of assigned risk plan policies reported to NCCI for the year by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0 - 2499	3,757	67.22%	\$3,215,016	12.72%	\$855
\$2500 - 4999	809	14.47%	\$2,470,615	9.78%	\$3,053
\$5000 - 9999	482	8.62%	\$2,955,591	11.7%	\$6,131
\$10000 - 19999	279	4.99%	\$3,253,928	12.88%	\$11,662
\$20000 - 49999	165	2.95%	\$4,392,008	17.38%	\$26,618
\$50000 - 99999	66	1.18%	\$3,614,045	14.3%	\$54,758
\$100000 - 199999	23	0.41%	\$2,450,960	9.7%	\$106,563
\$200000 - Plus	8	0.14%	\$2,915,184	11.54%	\$364,398
Total	5,589	100%	\$25,267,347	100%	\$4,521

Residual Market Demographics – Annual 2004

Total Arkansas Assigned Risk Plan Market Share

The percentage of total assigned risk plan policies and premium, as compared to the total estimated annual premium and policies for the voluntary market, as of December 31, 2004.



* NOTE: The numbers as of December 2004 show the volume of assigned risk policies and *total estimated annual premium* for policies reported as of that date. This is meant to provide an estimate of where the year-end numbers might be. However, the final market share numbers are based on written premium on financial data reported to NCCI.

Residual Market Demographics – Annual 2004

Residual Market Top 10 Classification Codes by Policy Count Data Reported through December 31, 2004

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

Rank	Code	Description	Policy Count	% of Policies
1	5645	Carpentry-Detached One Or Two Family Dwellings	539	10.02%
2	8810	Clerical NOC	384	7.14%
3	8832	Physician & Clerical	194	3.61%
4	6217	Excavation & Drivers	138	2.56%
5	9082	Restaurant NOC	128	2.38%
6	8017	Retail Store NOC	123	2.29%
7	9015	Buildings-Operation By Owner	120	2.23%
8	8742	Outside Salesperson	119	2.21%
9	7423	Aircraft Or Helicopter Operation: All Other Employees & Drivers	108	2.01%
10	9014	Buildings-Operation By Contractors	108	2.01%

Residual Market Top 10 Classification Codes by Premium Volume Data Reported through December 31, 2004

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-Detached One Or Two Family Dwellings	\$1,570,831	6.08%
2	5022	Masonry NOC	\$1,539,419	5.96%
3	7229	Trucking-Long Distance Hauling	\$932,558	3.61%
4	7423	Aircraft Or Helicopter Operation: All Other Employees & Drivers	\$782,537	3.03%
5	7720	Police Officers	\$645,683	2.5%
6	3632	Machine Shop NOC	\$622,479	2.41%
7	7228	Trucking-Local Hauling Only	\$545,649	2.11%
8	6217	Excavation & Drivers	\$506,425	1.96%
9	8380	Automobile Service Or Repair Center	\$462,278	1.79%
10	5403	Carpentry NOC	\$459,994	1.78%

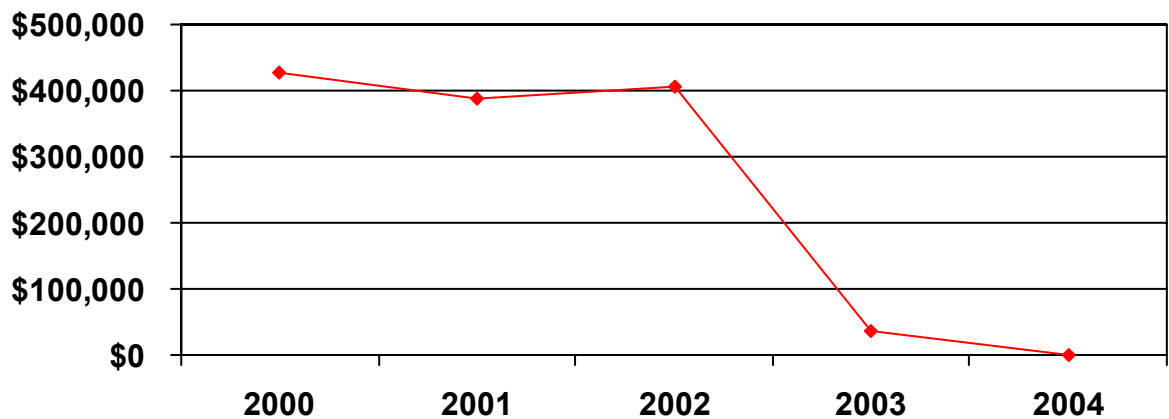
Residual Market Demographics

Collections/Indemnification

The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas and the National Pool for Policy Years 2000-2004, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through Third Quarter 2004.

Arkansas	Gross Written Premium	Uncollectible Premium	Percentage
2000	\$7,233,178	\$426,494	5.9%
2001	\$13,248,502	\$388,599	2.9%
2002	\$22,929,998	\$406,266	1.8%
2003	\$26,157,117	\$35,907	0.1%
2004	\$4,748,020	\$0	0.0%
National Pool 2004	\$757,239,252	\$48,310	0.0%

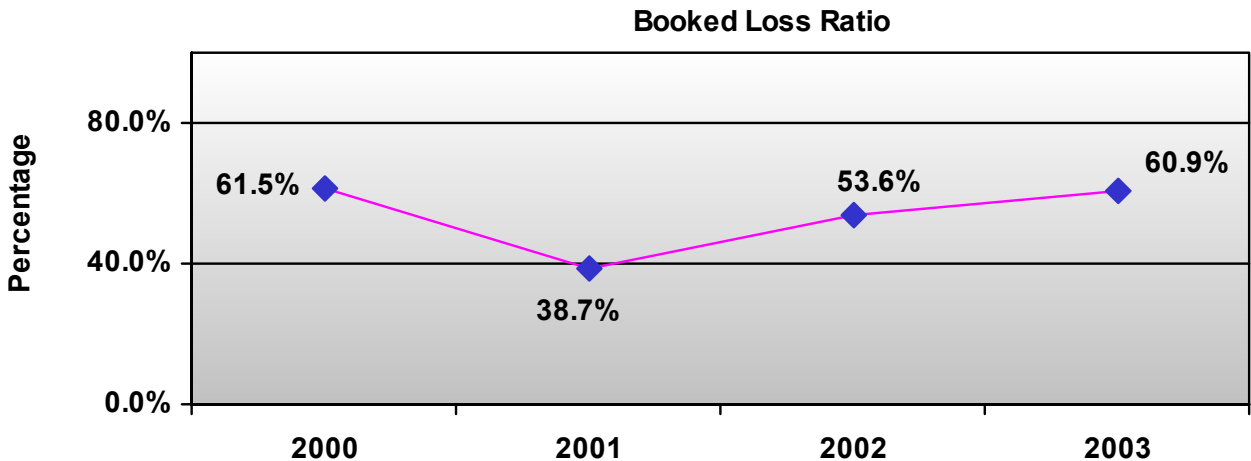
Arkansas Uncollectible Premium



Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 3rd Quarter 2004 for 2003 and prior years

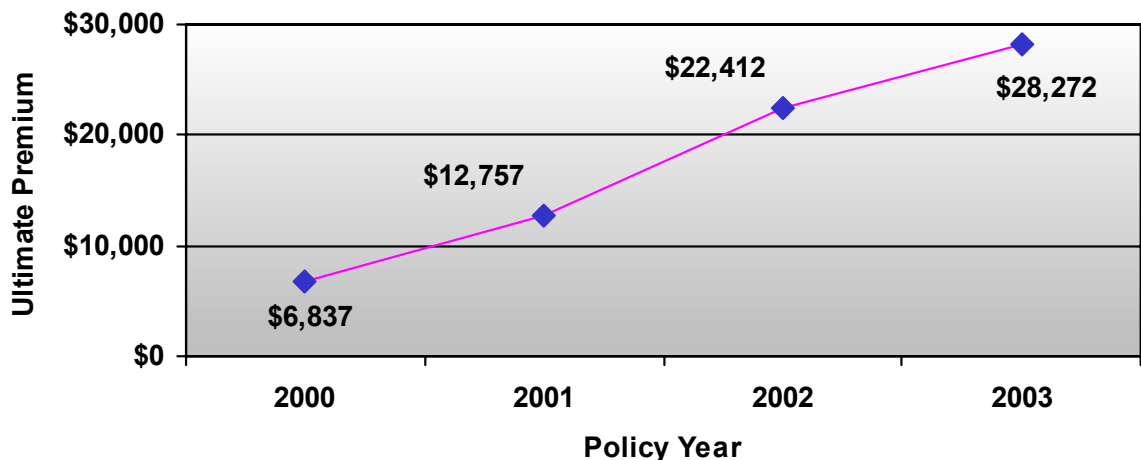
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .



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

Policy Year Financial Results through 3rd Quarter 2004 for 2003 and prior years*

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



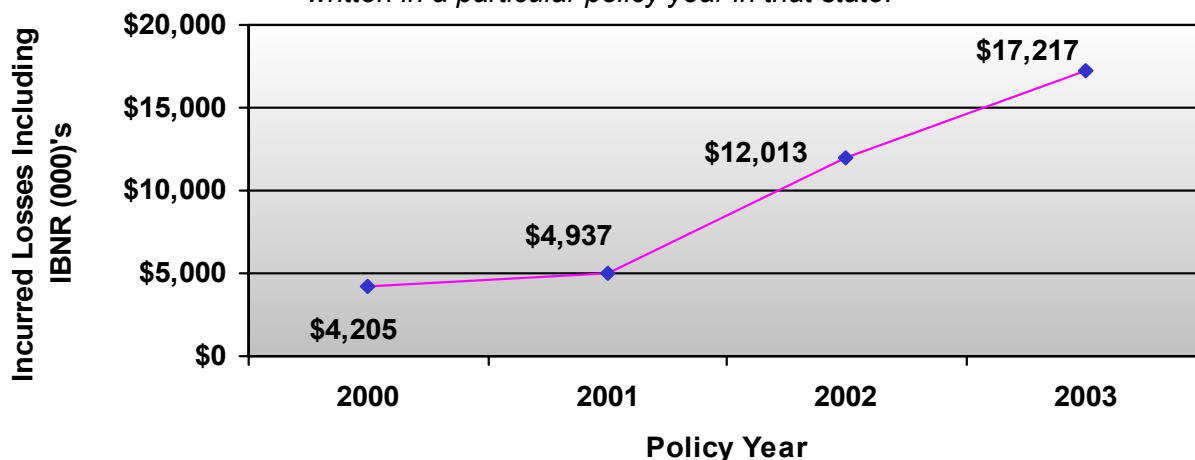
*-Fourth Quarter 2004 Data will be available the end of April 2005 due to the timing of data reporting

Residual Market Demographics

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

Policy Year Financial Results through 3rd Quarter 2004 for 2002 and prior years*

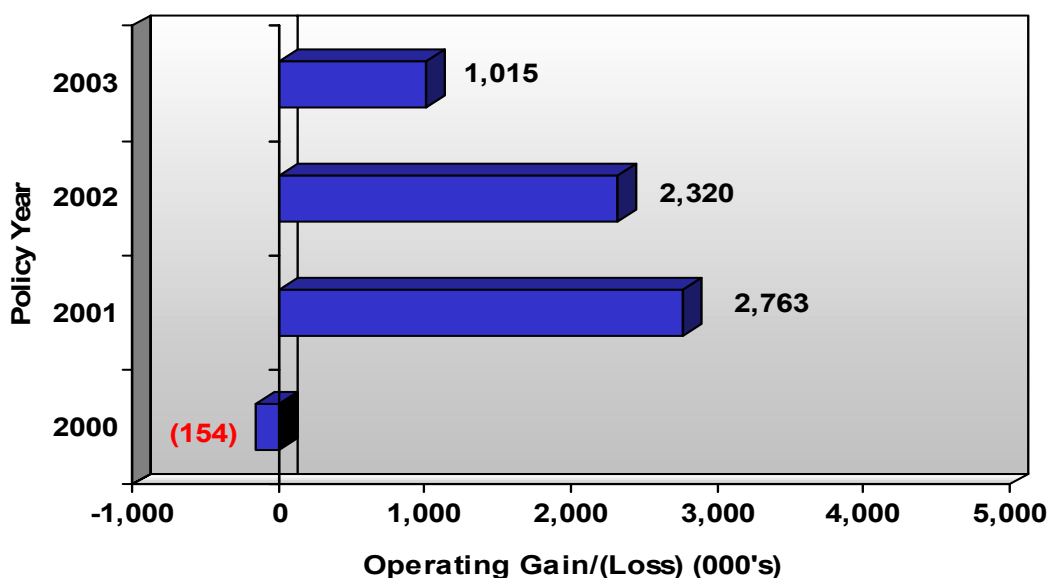
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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

Policy Year Financial Results through 3rd Quarter 2004 for 2003 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.



Glossary of Terms

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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.



NCCI Holdings, Inc.

State of the Line

Dennis Mealy, FCAS, MAAA
NCCI Chief Actuary

May 11, 2006
Orlando, Florida

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- I. Property & Casualty Results**
- II. Workers Compensation Results**
- III. Current Topics of Interest**
- IV. Concluding Remarks**

Property & Casualty Results

P/C Industry Net Written Premium Growth Has Slowed

Private Carriers

Line of Business (LOB)	2003	2004	2005p	2004-2005p Change
Personal Auto	\$151.2 B	\$157.3 B	\$161.2 B	2.5%
Homeowners	\$45.8 B	\$49.5 B	\$51.6 B	4.2%
Other Liability (Incl Prod Liab)	\$38.8 B	\$43.0 B	\$43.4 B	0.9%
Workers Compensation	\$31.1 B	\$34.7 B	\$37.8 B	8.8%
Commercial Multiple Peril	\$27.4 B	\$29.1 B	\$27.6 B	-5.2%
Commercial Auto	\$25.4 B	\$26.6 B	\$26.9 B	1.1%
Fire & Allied Lines (Incl EQ)	\$17.6 B	\$17.6 B	\$18.1 B	2.8%
All Other Lines	\$67.1 B	\$66.3 B	\$59.1 B	-10.9%
Total P/C Industry	\$404.4 B	\$424.1 B	\$425.7 B	0.4%

p Preliminary

Source: Workers Compensation, NCCI;
All other lines, Best's Review Preview and ISO

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Industry Results Good in Spite of Catastrophes

Net Combined Ratio—Private Carriers

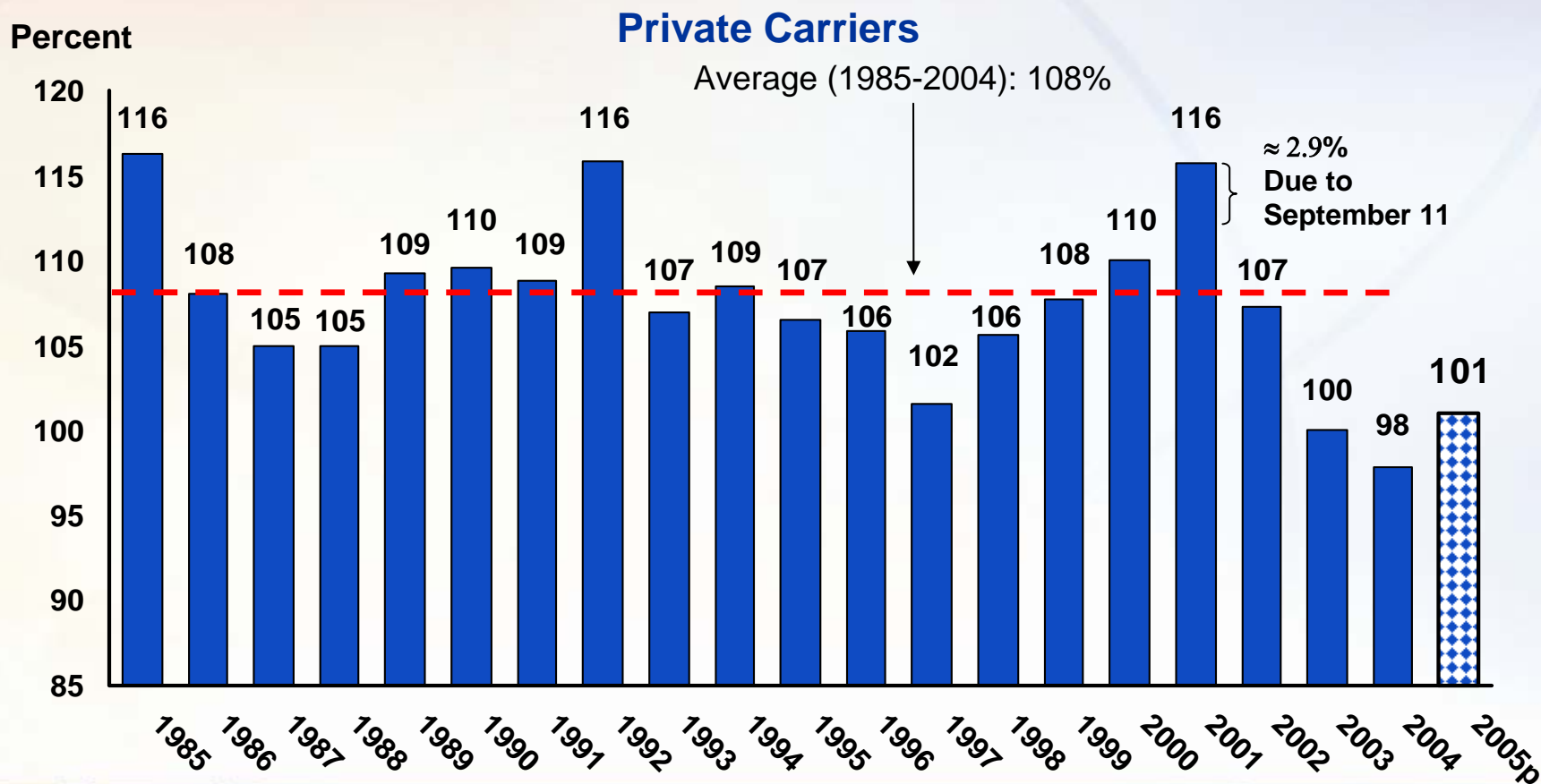
Line of Business (LOB)	Calendar Year		
	2003	2004	2005p
Personal Auto	98%	94%	95%
Homeowners	98%	94%	103%
Other Liability (Incl Prod Liab)	116%	117%	119%
Workers Compensation	109%	107%	102%
Commercial Multiple Peril	100%	101%	112%
Commercial Auto	95%	93%	94%
Fire & Allied Lines (Incl EQ)	79%	87%	110%
All Other Lines	100%	100%	103%
Total P/C Industry	100%	98%	101%

p Preliminary

Source: Workers Compensation, NCCI;
All other lines, Best's Review Preview and ISO

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P/C Industry Calendar Year Net Combined Ratios



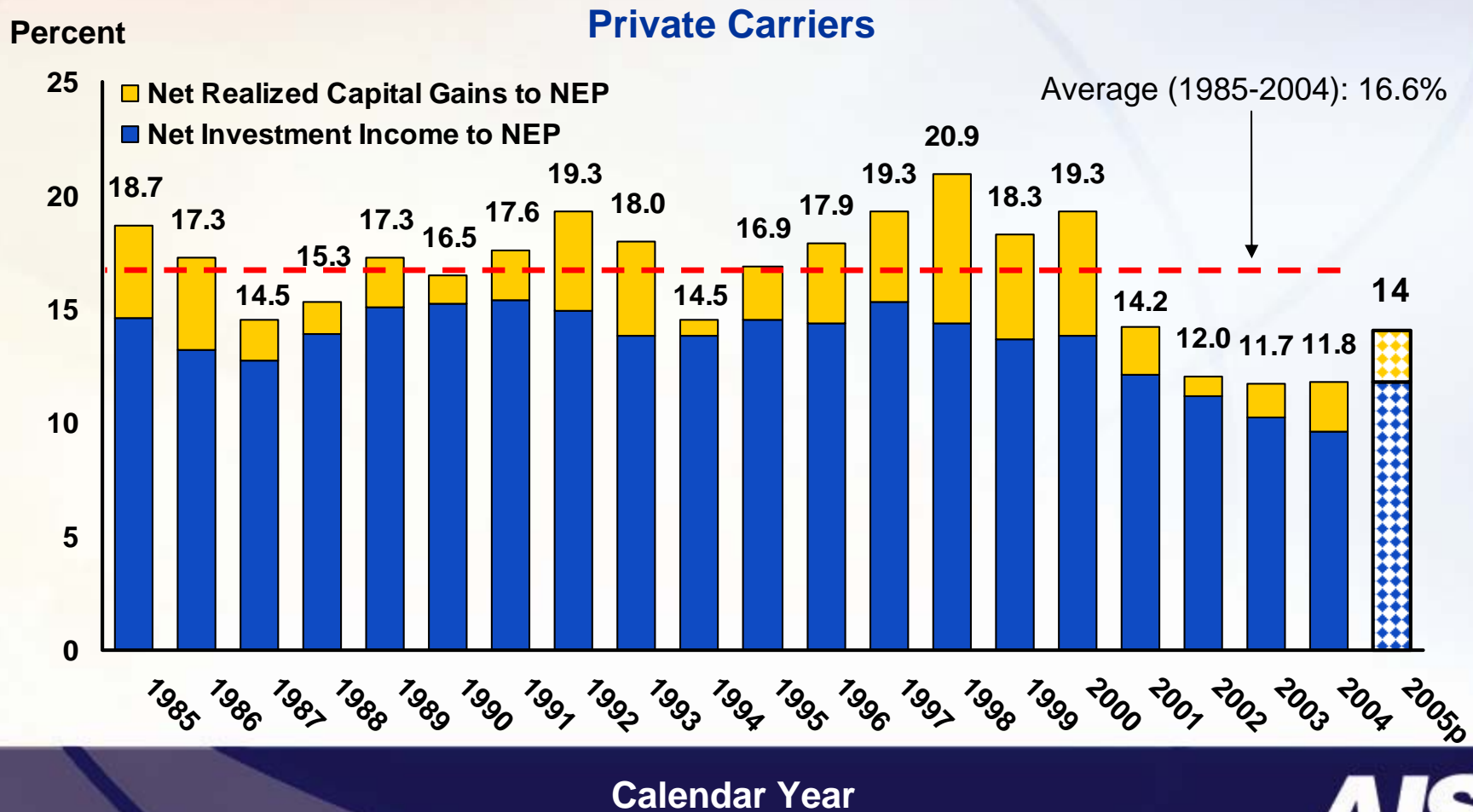
Calendar Year

p Preliminary

Source: 1985-2004, A.M. Best Aggregates & Averages; 2005p, ISO

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Investment Gain Ratio Improves, Remains Below Historical Averages



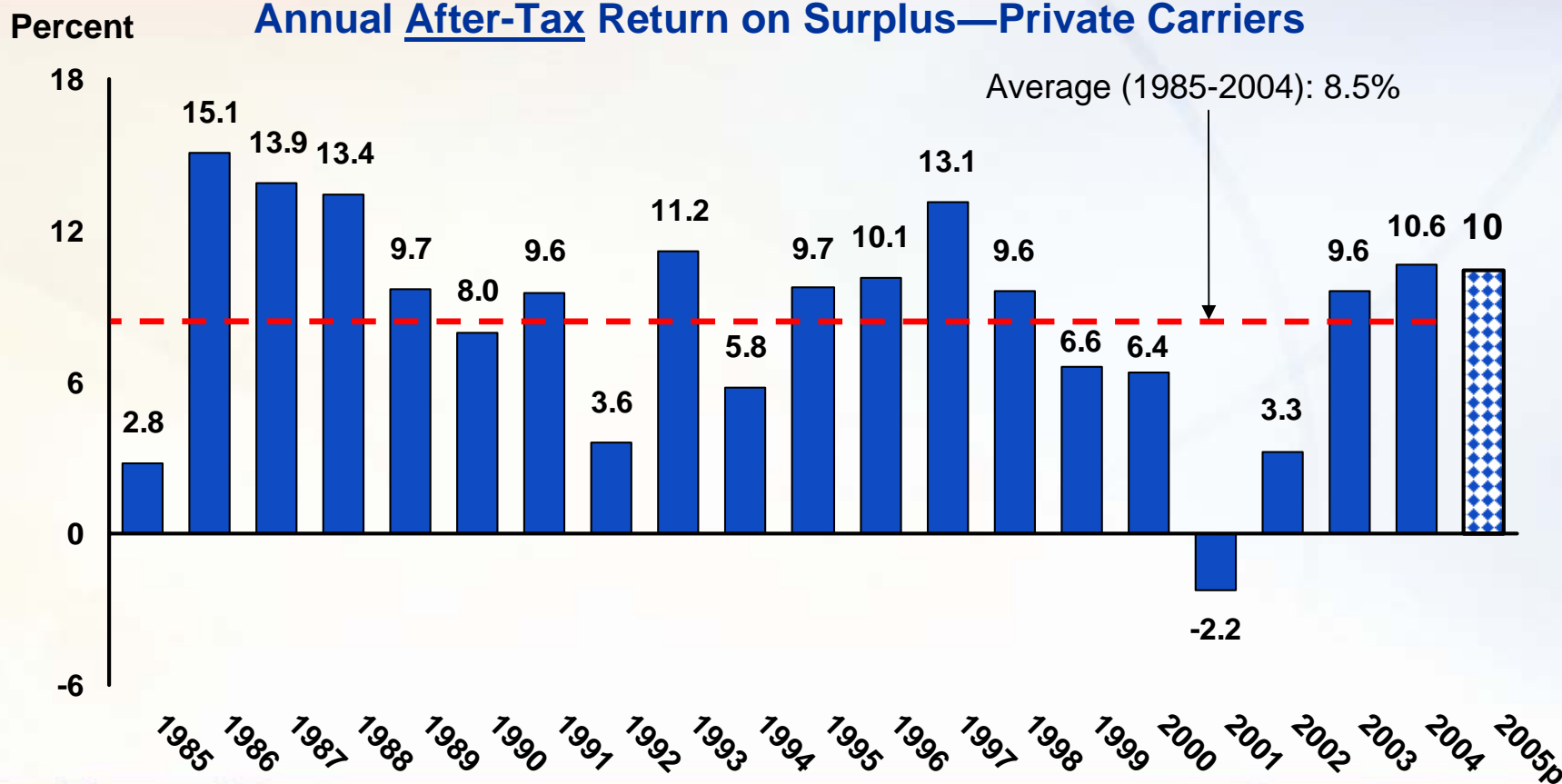
p Preliminary

Source: 1985-2004, A.M. Best Aggregates & Averages; 2005p, ISO

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Return on Surplus for P/C Industry Shows Little Change in 2005

Annual After-Tax Return on Surplus—Private Carriers



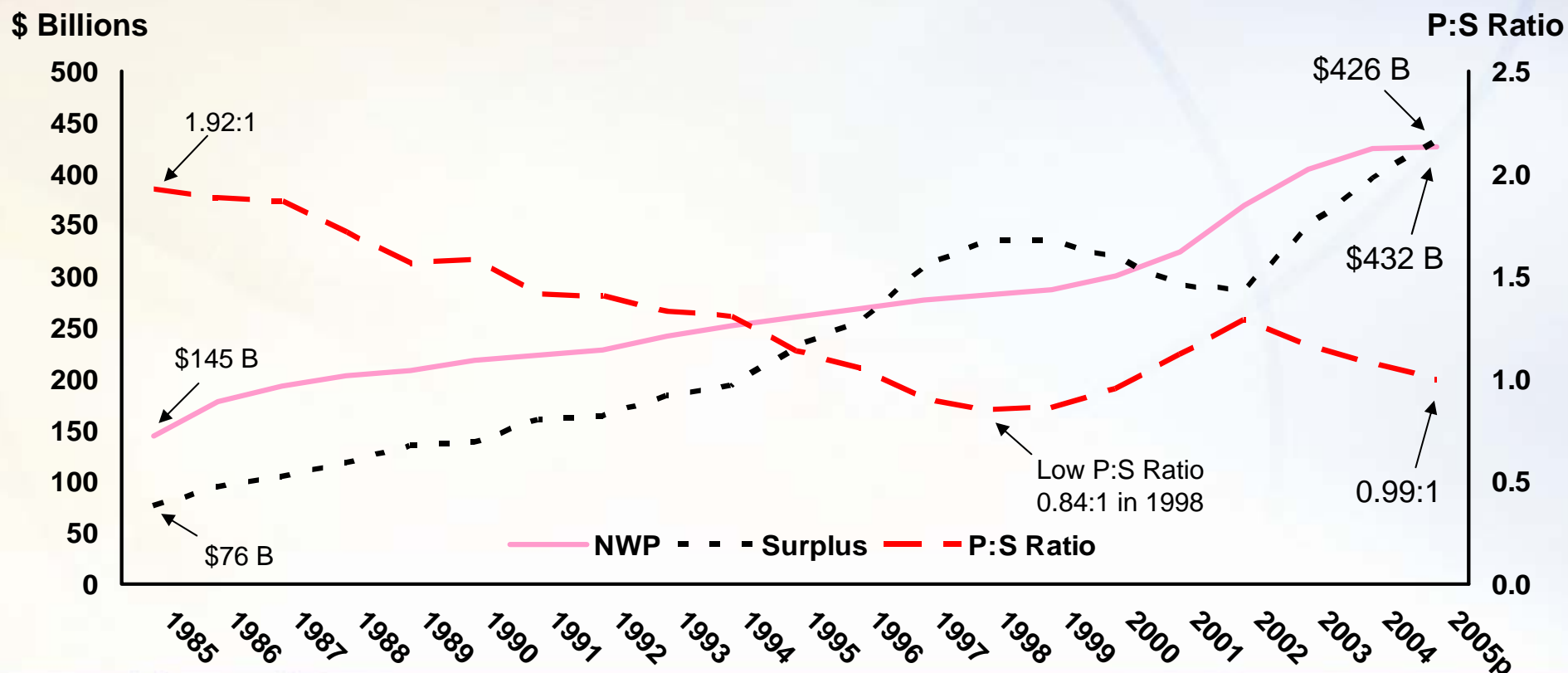
p Preliminary

Source: 1985-2004, A.M. Best Aggregates & Averages; 2005p After-Tax Net Income, ISO;
2005p Surplus, 2004 A.M. Best Aggregates & Averages + 2005 ISO contributions to surplus

Note: After-tax return on average surplus, excluding unrealized capital gains

P/C Industry Premium-to-Surplus Ratio Continues to Decline

Private Carriers



Calendar Year

p Preliminary

Source: 1985-2004, A.M. Best Aggregates & Averages;

2005p Surplus, 2004 A.M. Best Aggregates & Averages + 2005 ISO contributions to surplus

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Surplus Increases for 2005 in Spite of Catastrophes

Contributions to Surplus—Private Carriers

	2003	2004	2005p
Underwriting Gains/Losses	\$ (4.9) B	\$ 4.3 B	\$ (5.9) B
Investment Income	\$ 38.6 B	\$ 40.0 B	\$ 49.5 B
Realized Capital Gains	\$ 6.6 B	\$ 9.1 B	\$ 9.7 B
Other Income	\$ (0.0) B	\$ (0.3) B	\$ 0.9 B
Unrealized Capital Gains	\$ 25.0 B	\$ 10.6 B	\$ (3.2) B
Federal Taxes	\$ (10.4) B	\$ (14.6) B	\$ (11.2) B
Shareholder Dividends	\$ (9.1) B	\$ (14.0) B	\$ (15.2) B
Contributed Capital	\$ 11.3 B	\$ 8.8 B	\$ 14.0 B
Other Changes to Surplus	\$ 4.4 B	\$ 0.5 B	\$ (2.8) B
Total	\$ 61.6 B	\$ 44.3 B	\$ 35.8 B

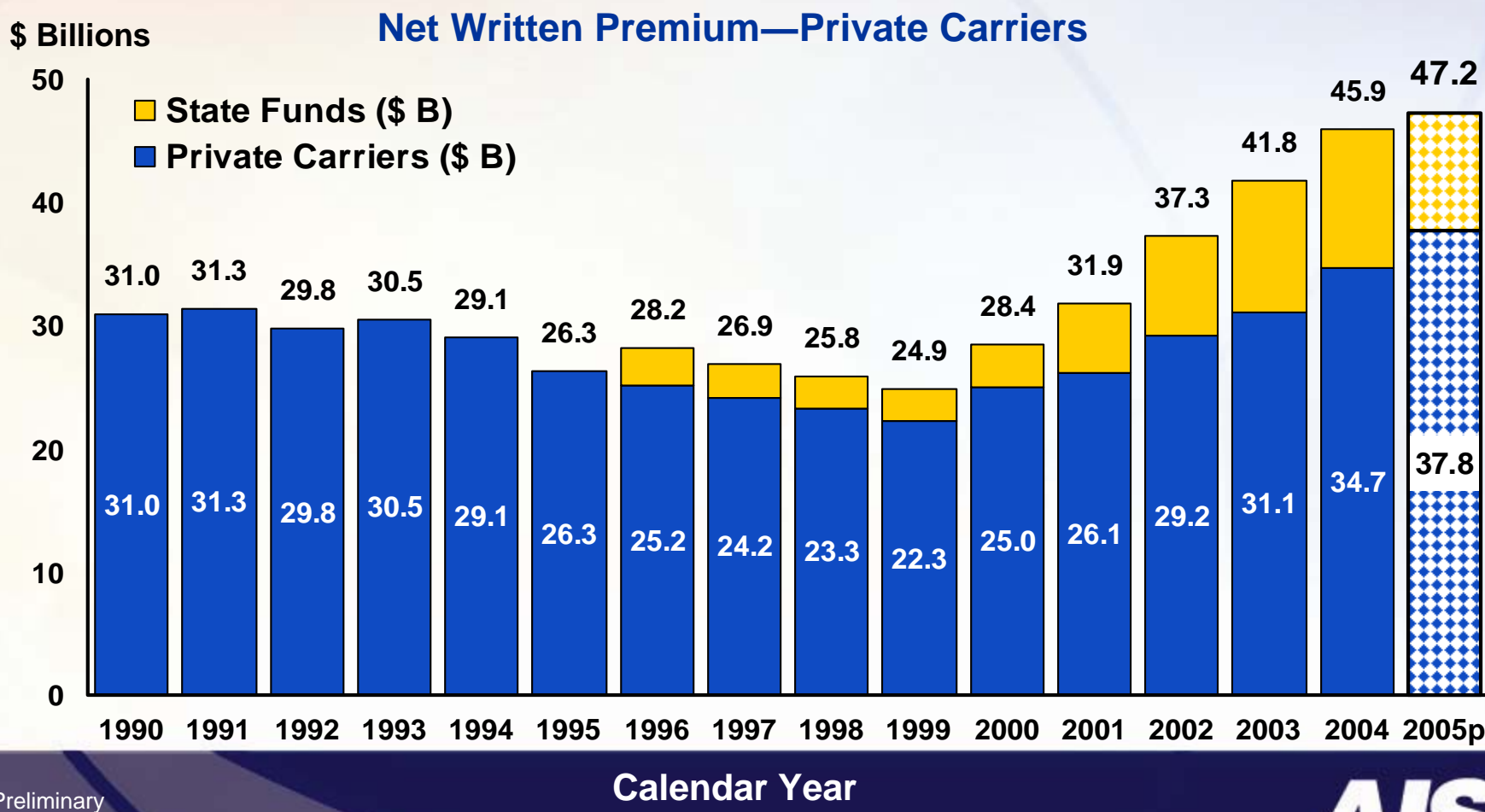
p Preliminary

Source: ISO

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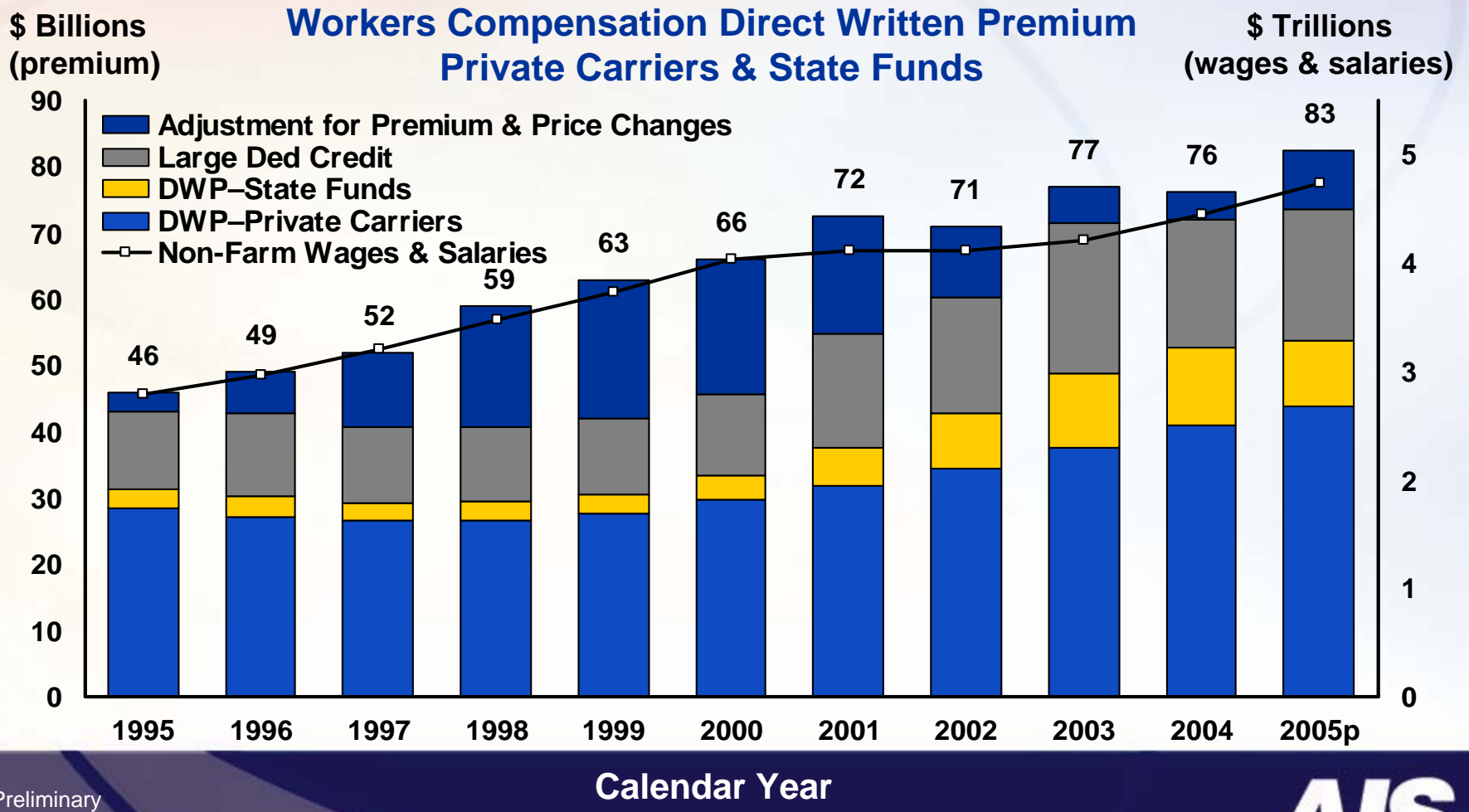
Workers Compensation Results

Workers Compensation Premium Continued to Rise in 2005



Source: 1990-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI
 1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OR, RI, TX, UT Annual Statements
 State Funds available for 1996 and subsequent

Adjusted Workers Compensation Premium Volume



p Preliminary

Source: 1996-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI
1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

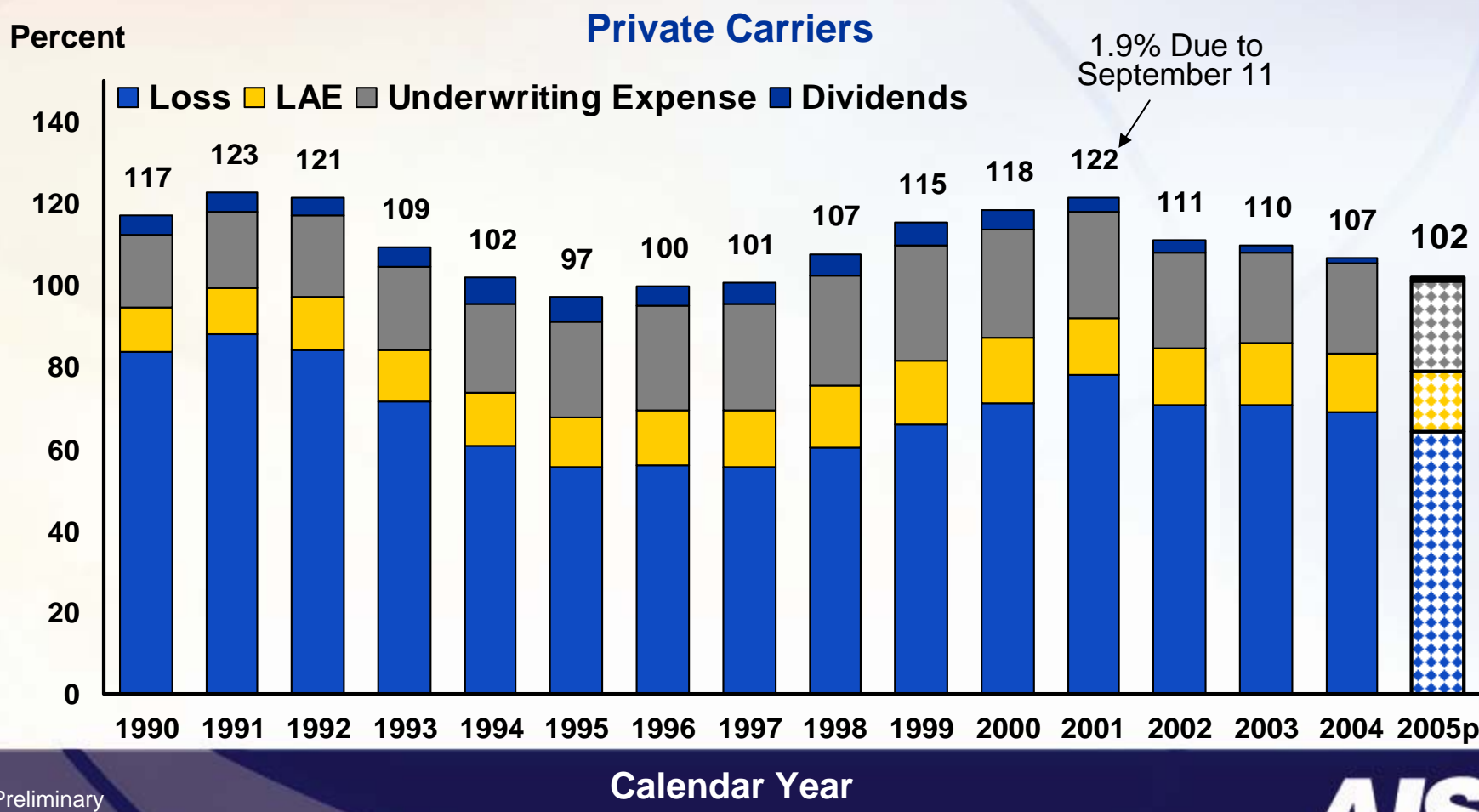
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Last Year's AIS Survey Results

What will the workers compensation combined ratio be in 2005?

- | | |
|---------------------|--------------|
| A. 95%–100% | (6%) |
| B. 101%–105% | (74%) |
| C. 106%–110% | (20%) |
| D. Over 110% | (0%) |

WC Calendar Year Combined Ratio Improved Again in 2005



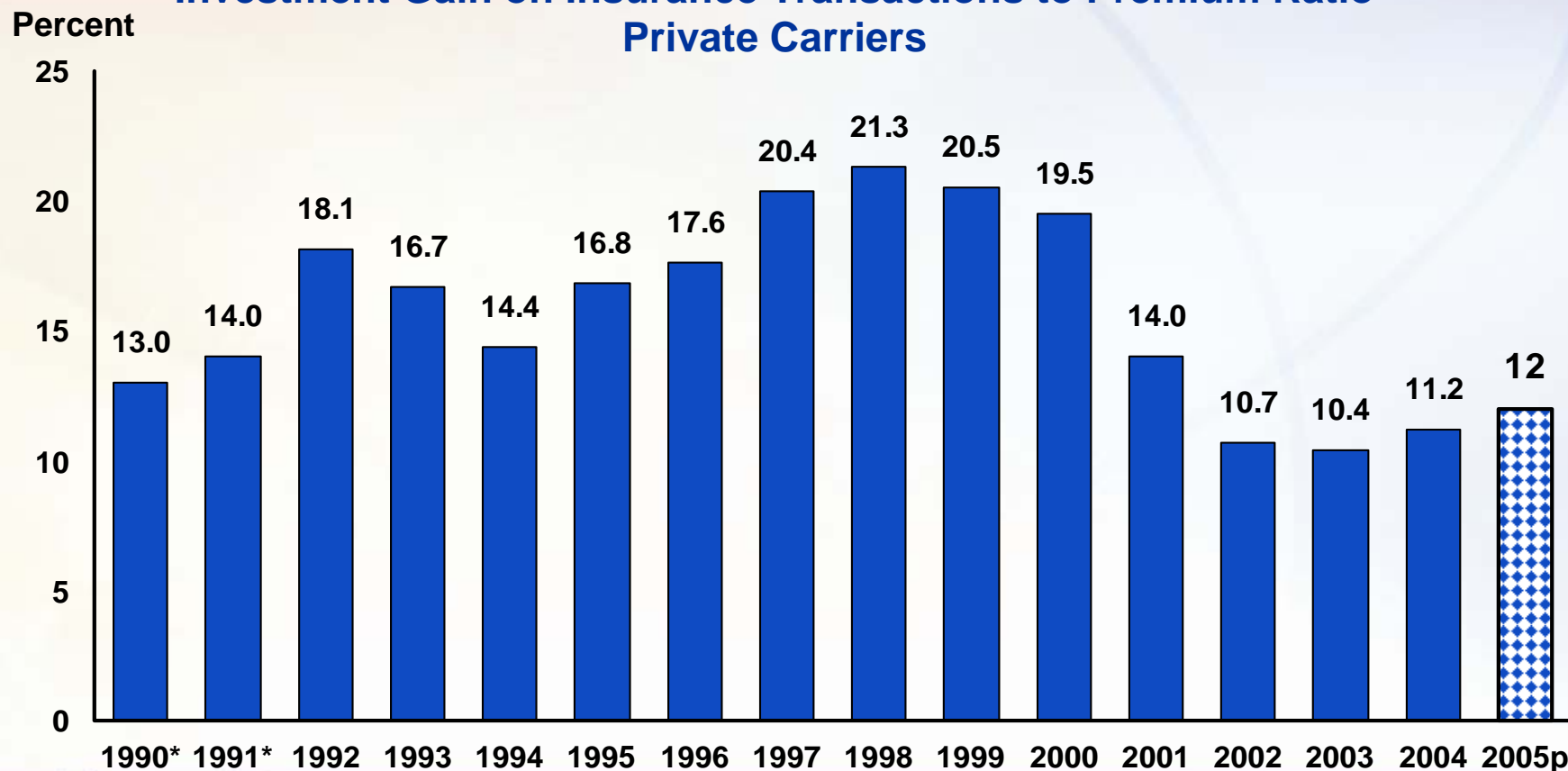
p Preliminary

Source: 1990-2004, A.M. Best Aggregates & Averages; 2005p, NCCI

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Low Workers Compensation Investment Returns Continued in 2005

Investment Gain on Insurance Transactions to Premium Ratio Private Carriers



p Preliminary

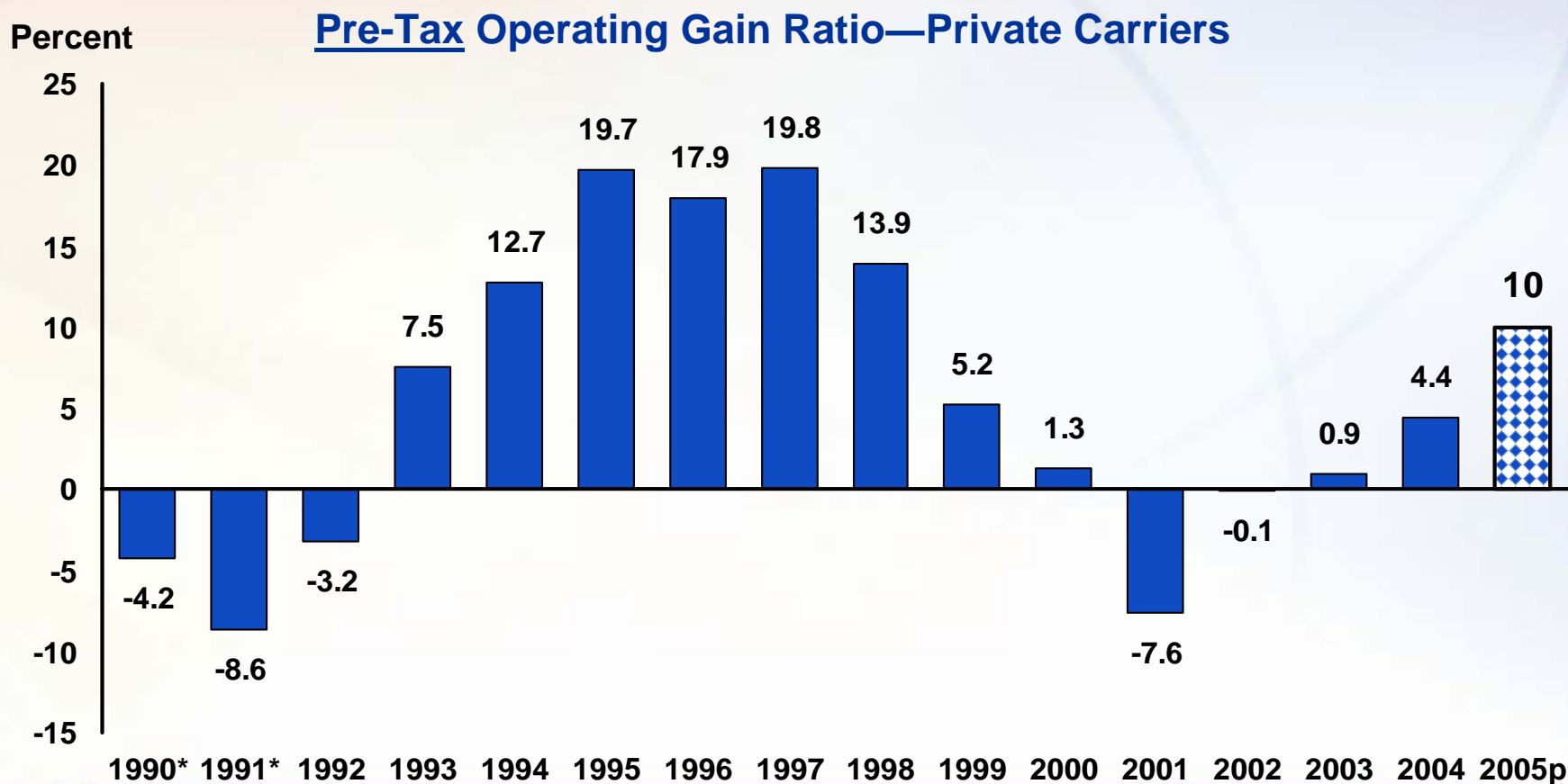
* Adjusted to include realized capital gains to be consistent with 1992 and after

Investment Gain on Insurance Transactions includes Other Income

Source: 1990-2004, A.M. Best Aggregates & Averages; 2005p, NCCI

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2005 Workers Compensation Results Improved Over 2004



p Preliminary

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

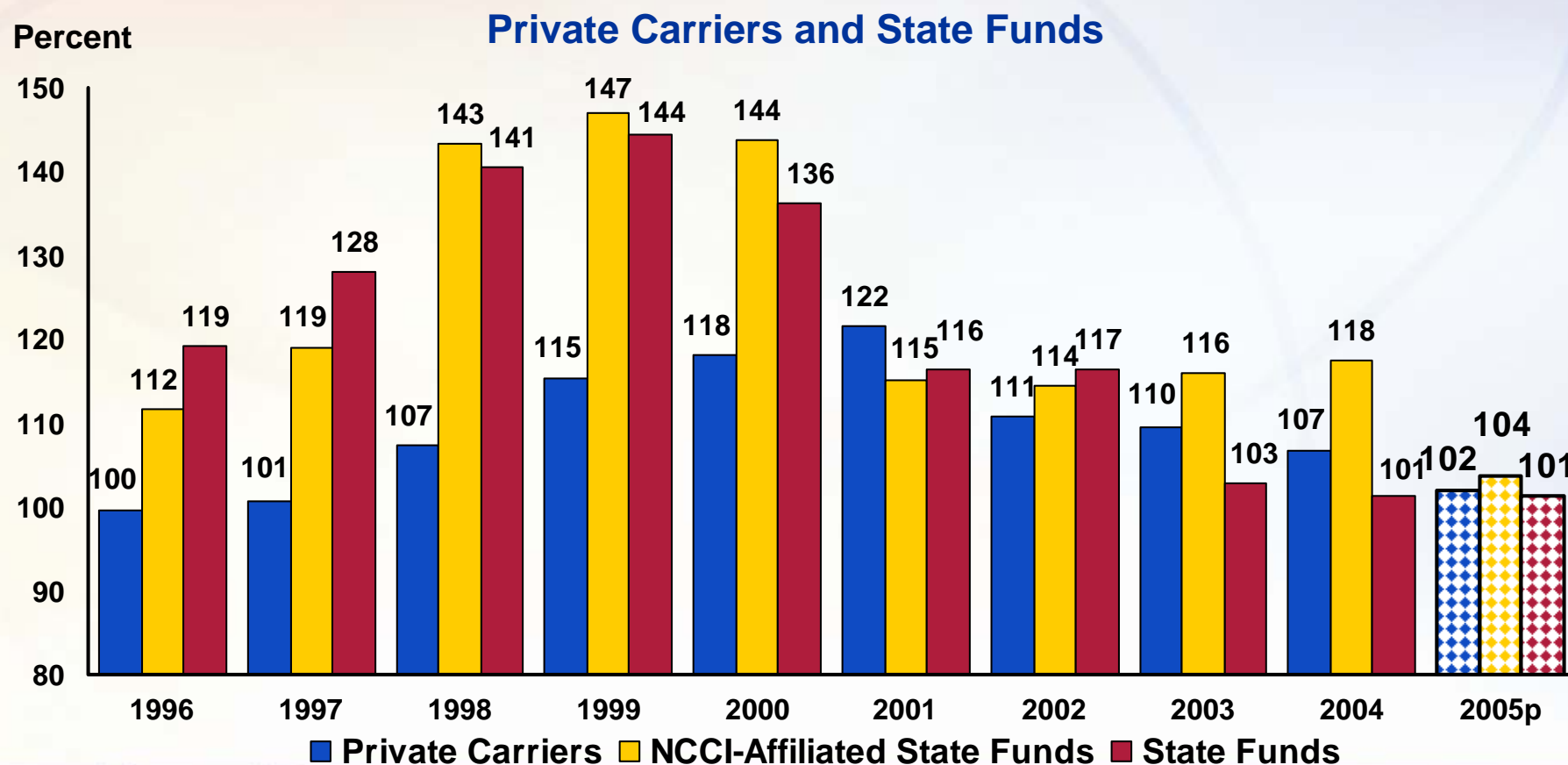
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

Source: 1990-2004, A.M. Best Aggregates & Averages; 2005p, NCCI

Calendar Year

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Workers Compensation Calendar Year Net Combined Ratios



Calendar Year

p Preliminary

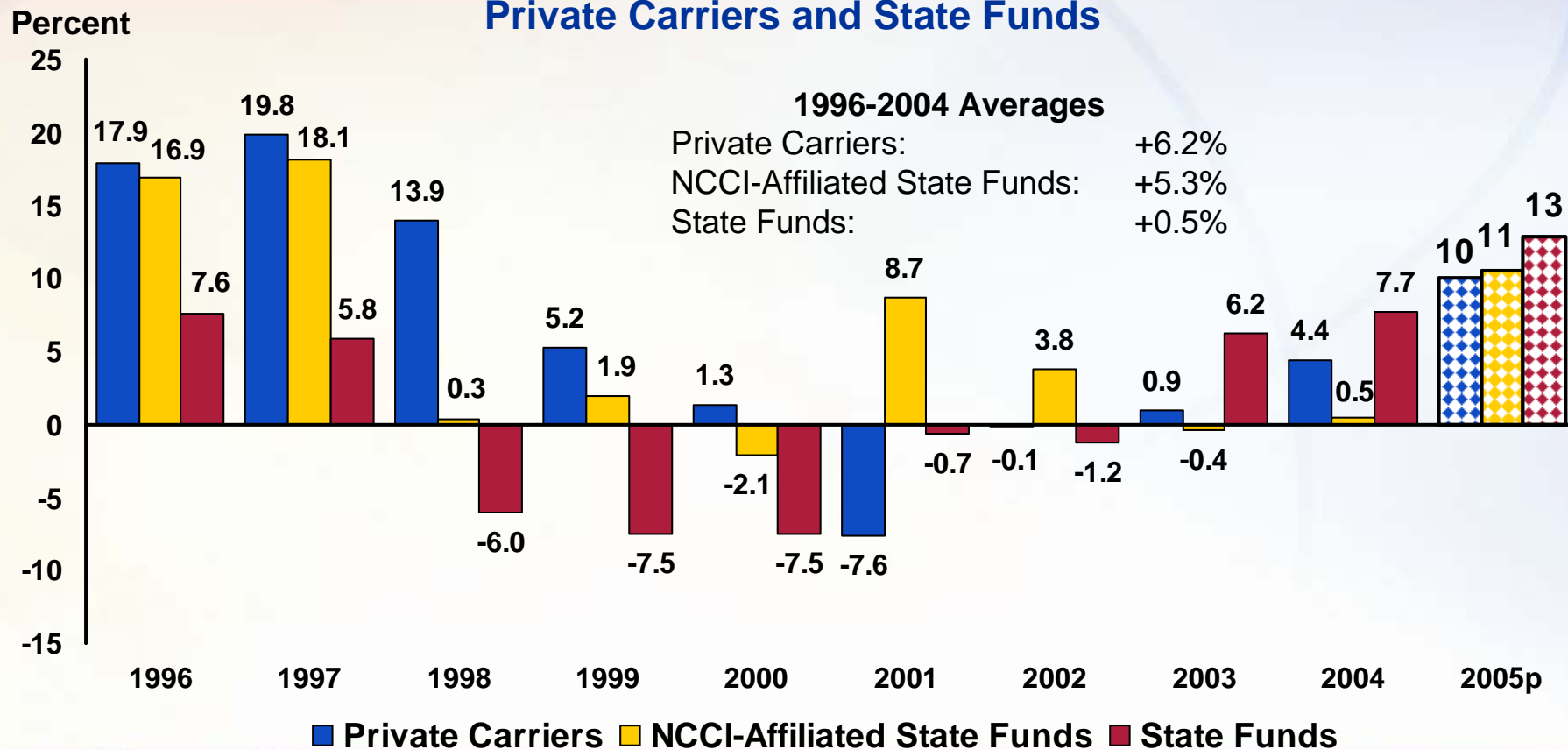
Source: 1996-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI

1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

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Workers Compensation Pre-Tax Operating Gain Ratios

Private Carriers and State Funds



p Preliminary

Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

Source: 1996-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI

1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

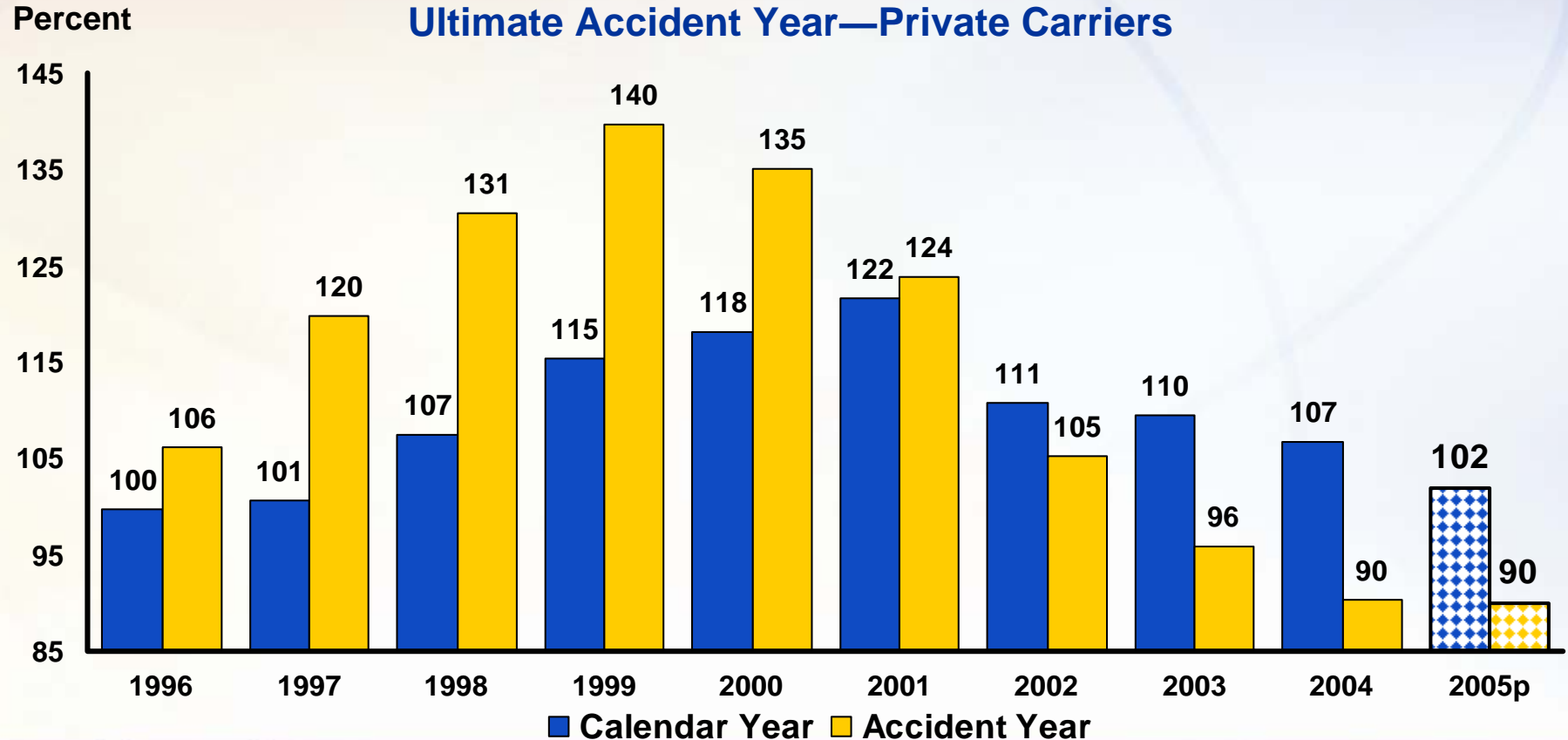
Calendar Year

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Workers Compensation Accident Year Results and Reserve Estimates

Accident Year Combined Ratio— Another Underwriting Profit in 2005

Workers Compensation Calendar Year vs.
Ultimate Accident Year—Private Carriers



p Preliminary

Accident Year data is evaluated as of 12/31/2005 and developed to ultimate

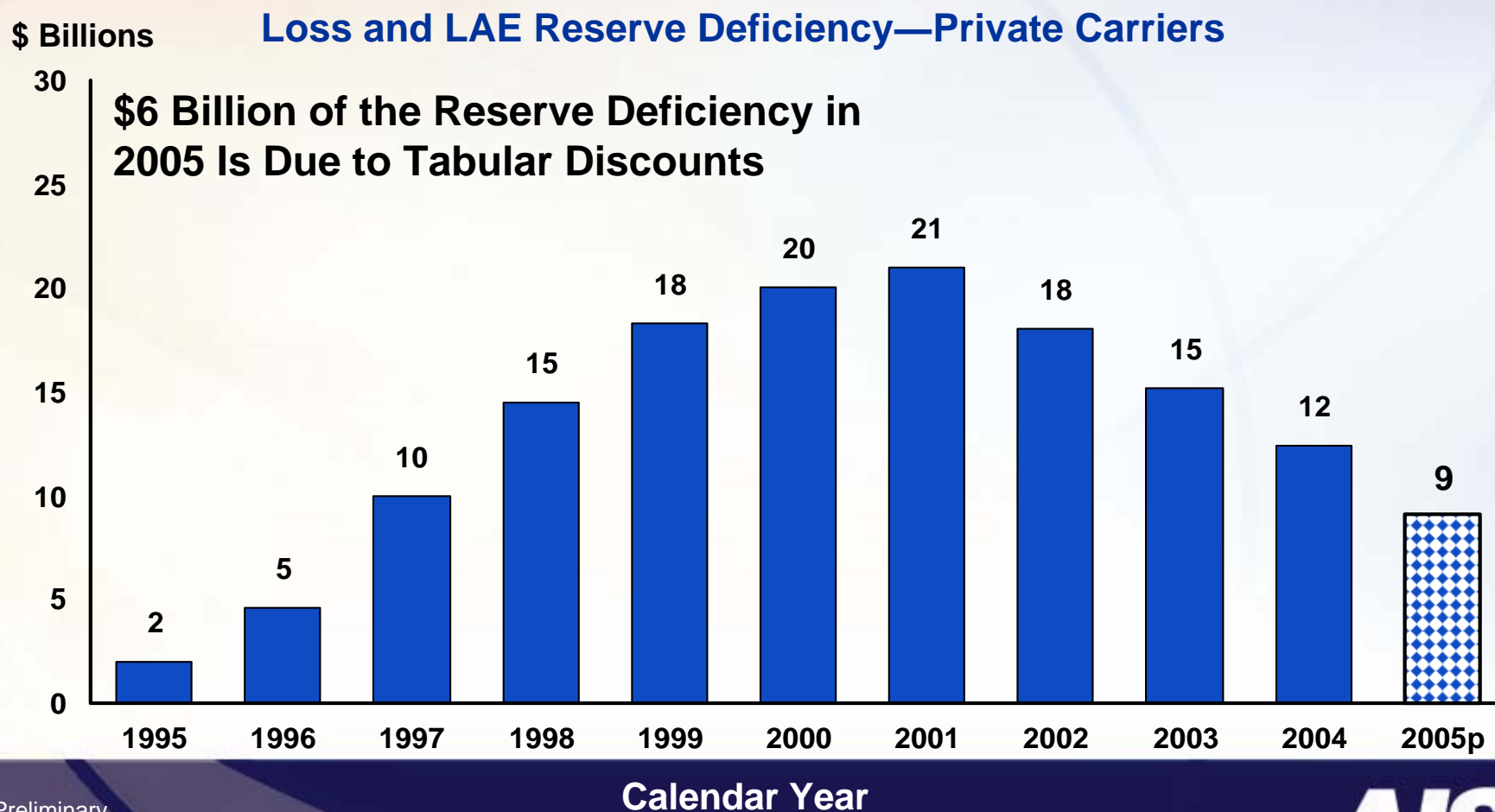
Source: Calendar Years 1996-2004, A.M. Best Aggregates & Averages;

Calendar Year 2005p and Accident Years 1996-2005p, NCCI analysis based on Annual Statement data

Includes dividends to policyholders

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Workers Compensation Reserve Deficiencies Continue to Decline



p Preliminary

Considers all reserve discounts as deficient

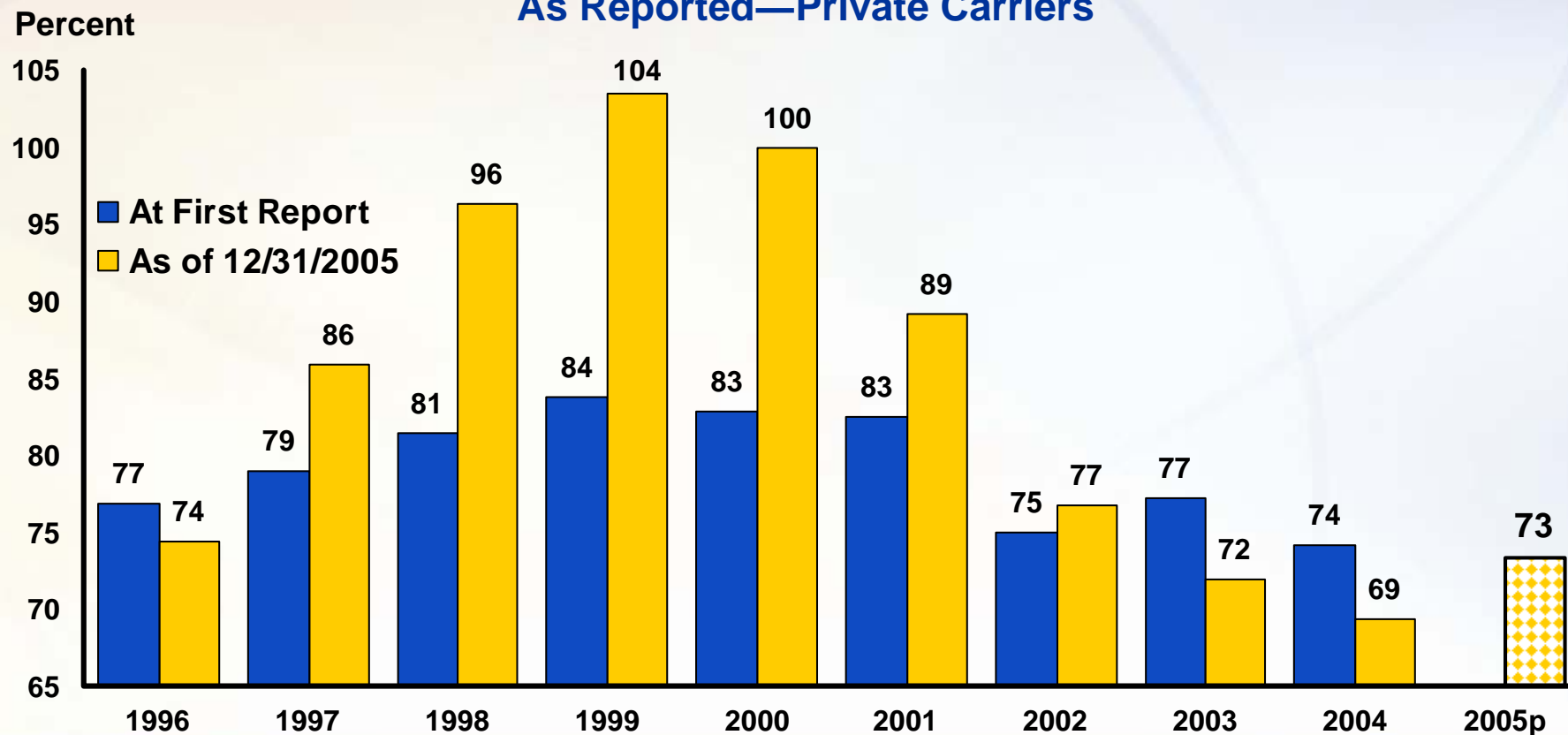
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections

Source: 1995-2005p, NCCI analysis

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Workers Compensation Accident Year Loss and LAE Ratios

As Reported—Private Carriers

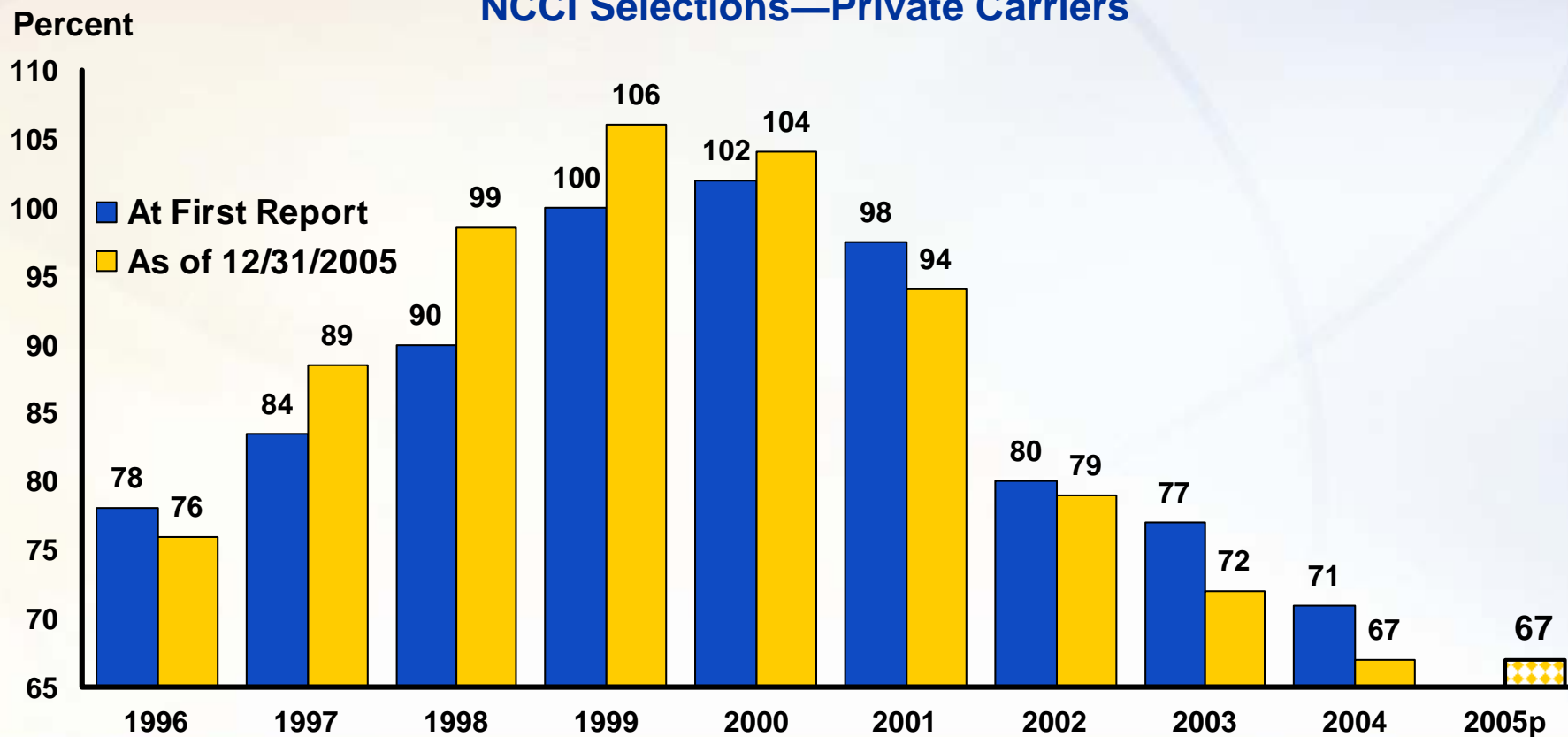


p Preliminary
Reported Loss and LAE ratios from Schedule P
Source: 1996-2005p, NAIC Annual Statement data as reported

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Workers Compensation Accident Year Loss and LAE Ratios

NCCI Selections—Private Carriers



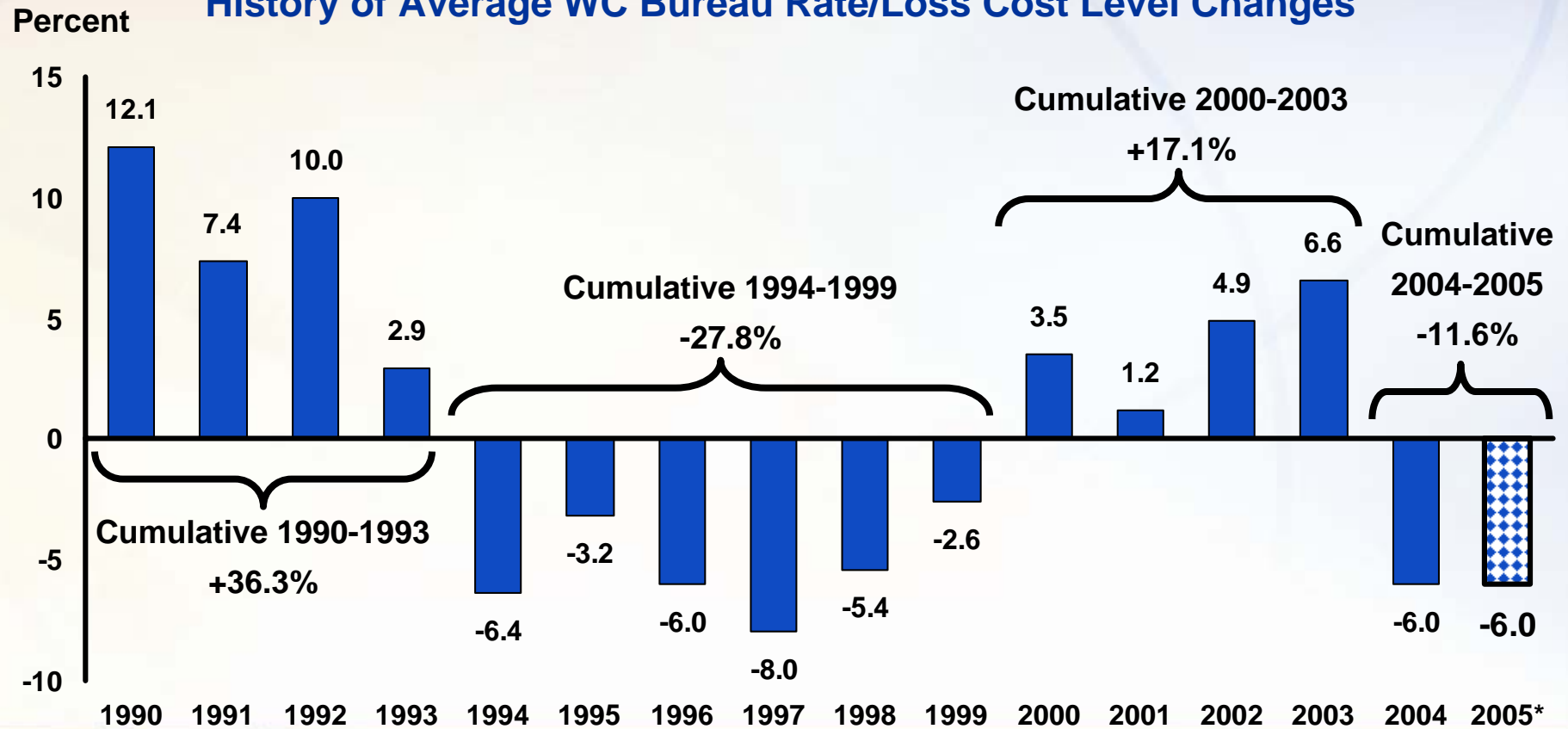
p Preliminary
Selected Loss and LAE ratios
Source: NCCI Reserve Analysis

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Workers Compensation Premium Drivers

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes



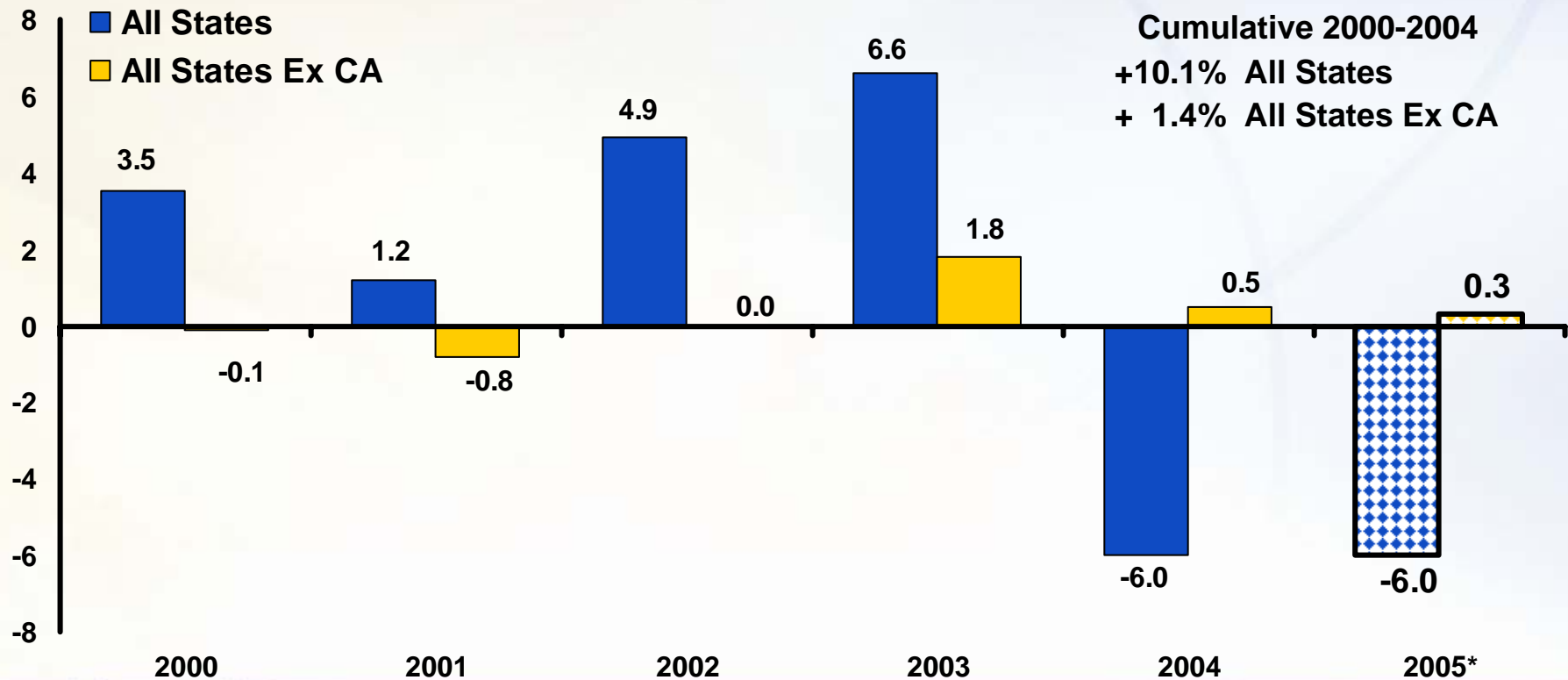
* States approved through 04/13/2006

Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California

Percent



Calendar Year

* States approved through 04/13/2006

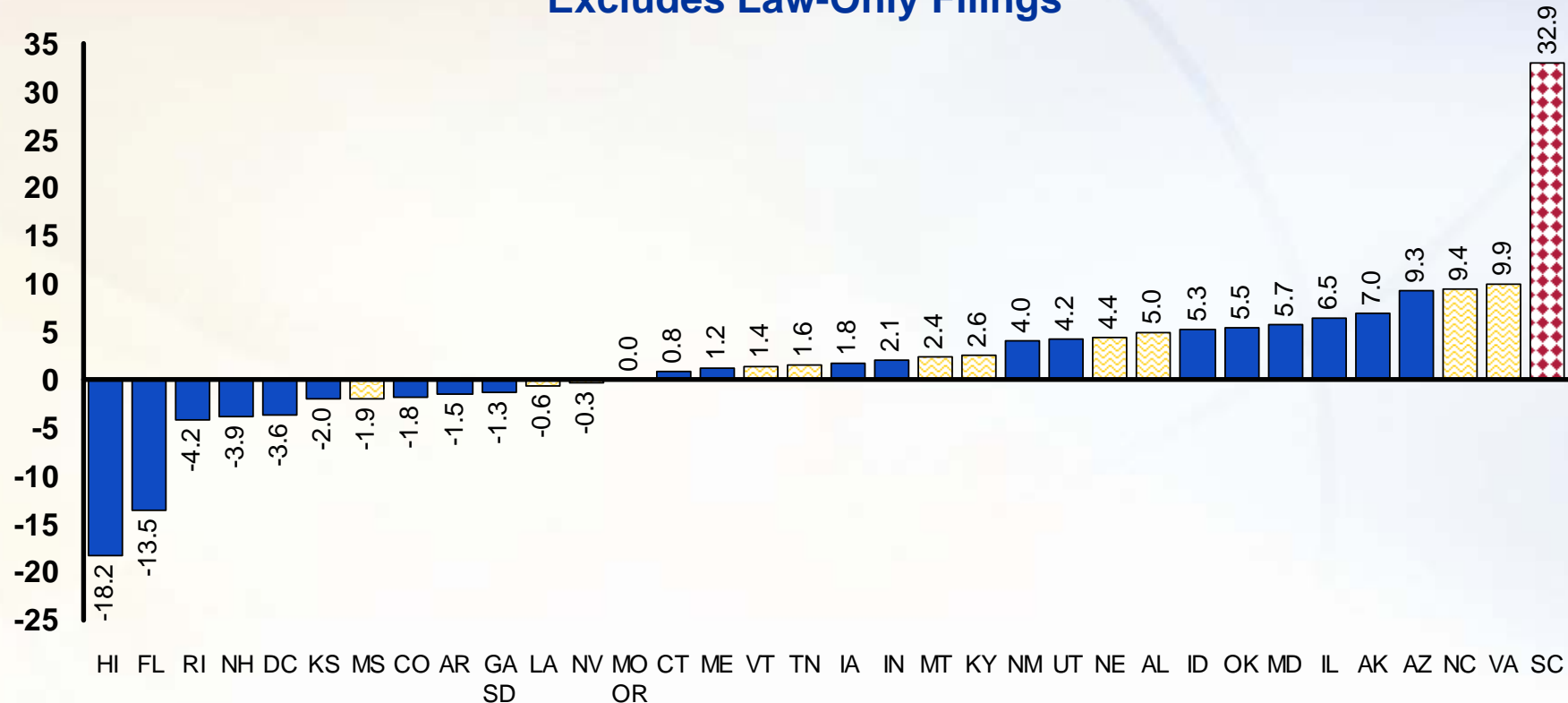
Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

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Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

Percent

Excludes Law-Only Filings



■ Effective Dates 1/1/06 and Prior

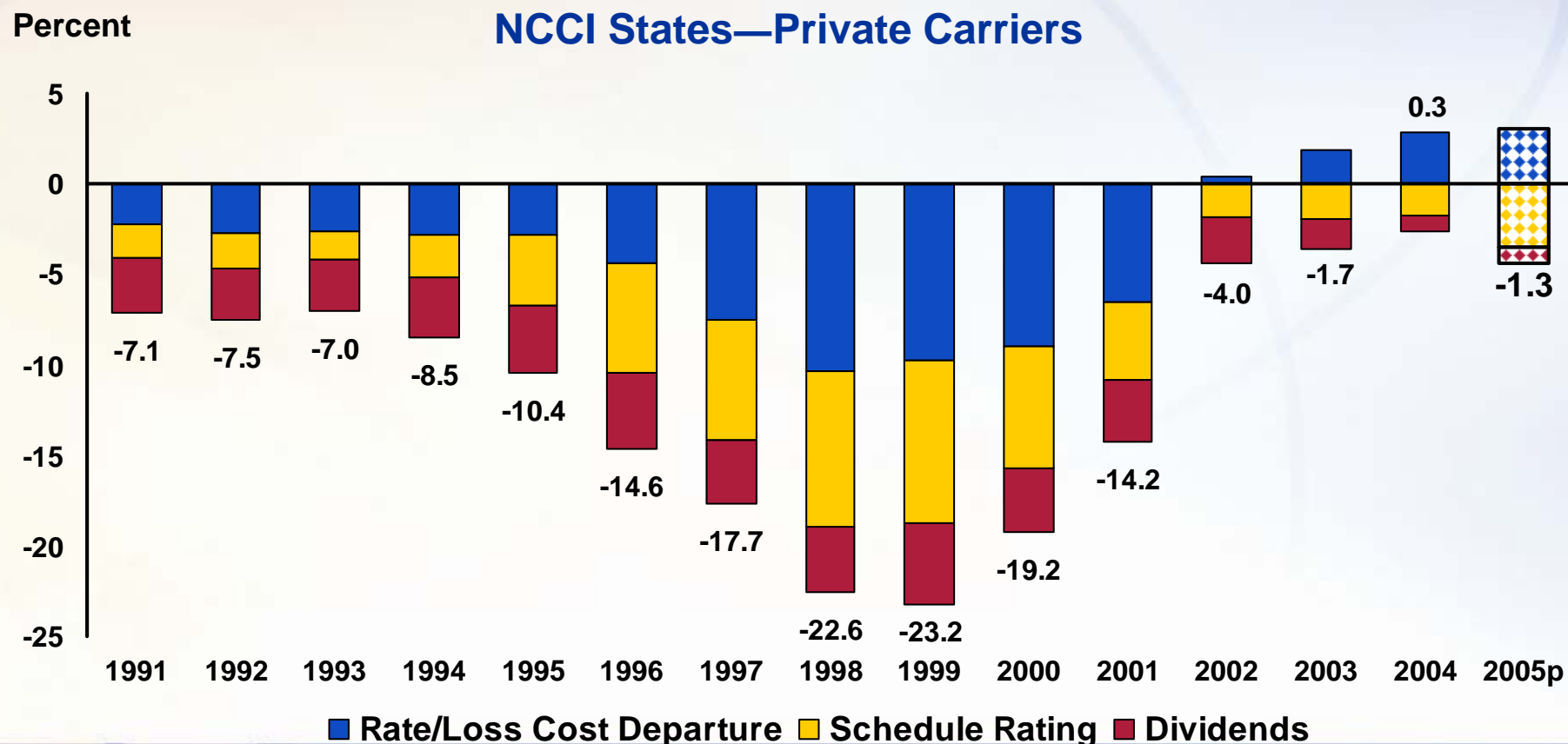
▨ Effective Dates Subsequent to 1/1/06

▤ Filed and Pending

States filed through 04/20/2006

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Impact of Discounting on Workers Compensation Premium



p Preliminary

NCCI benchmark level does not include an underwriting contingency provision

Dividend ratios are based on calendar year statistics

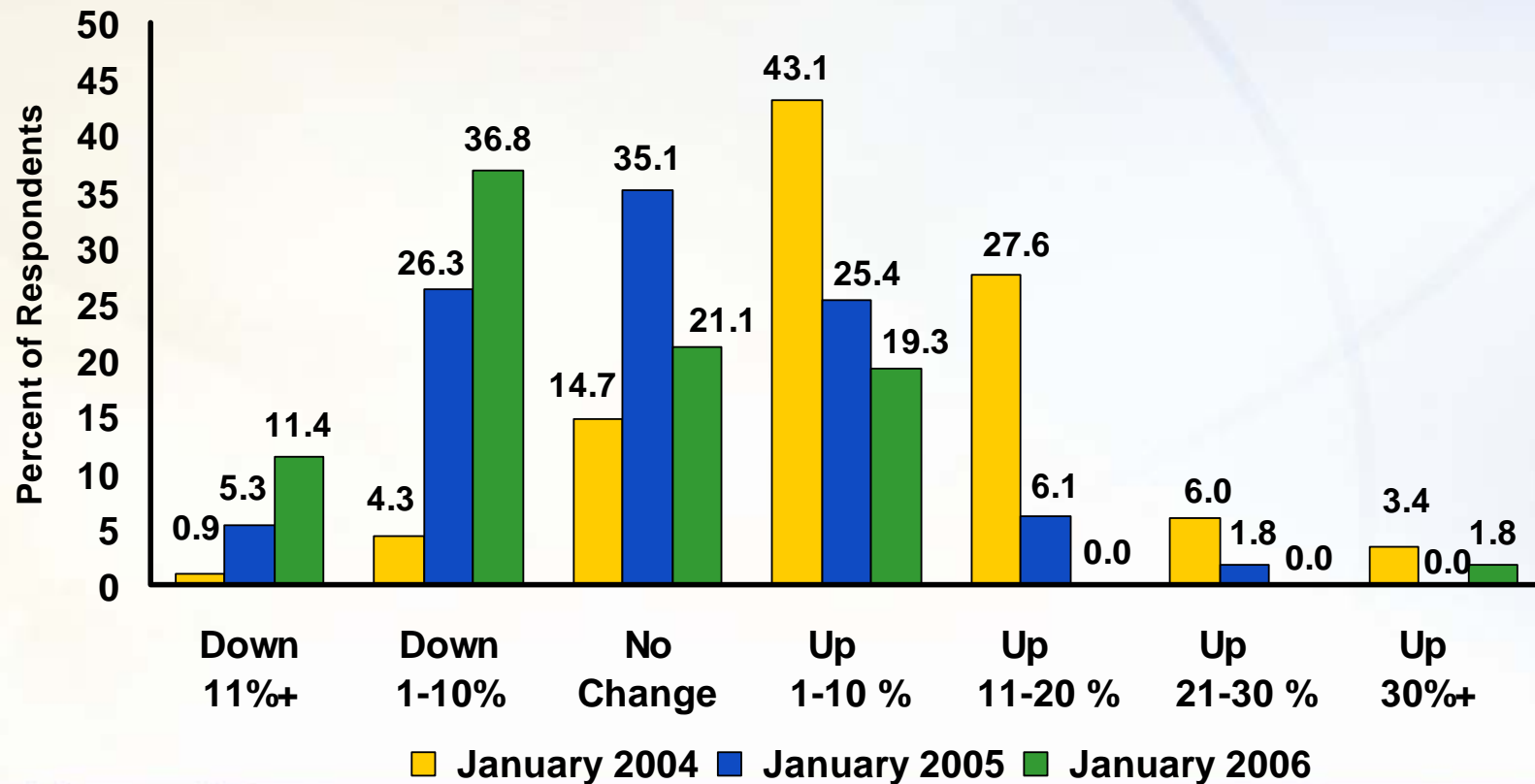
Based on data through 12/31/2005 for the states where NCCI provides ratemaking services

Policy Year

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

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior



Source: Goldman Sachs Research, Insurance: Non-Life, Proprietary Survey

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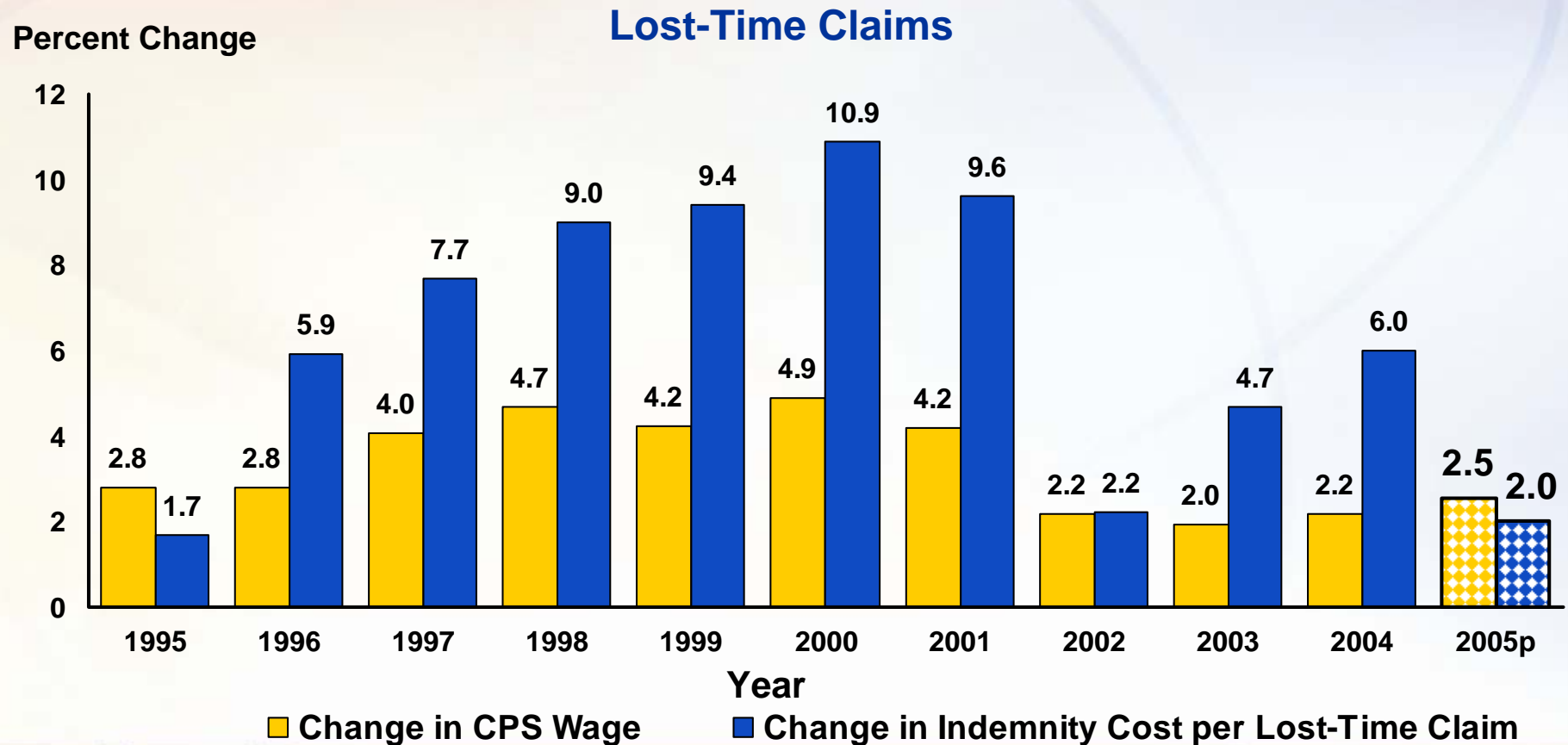
Workers Compensation Loss Drivers

The Growth in WC Indemnity Claim Costs Has Eased in Recent Years



2005p: Preliminary based on data valued as of 12/31/2005
 1991-2004: Based on data through 12/31/2004, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

Workers Compensation Indemnity Severity Is No Longer Outpacing Wage Inflation

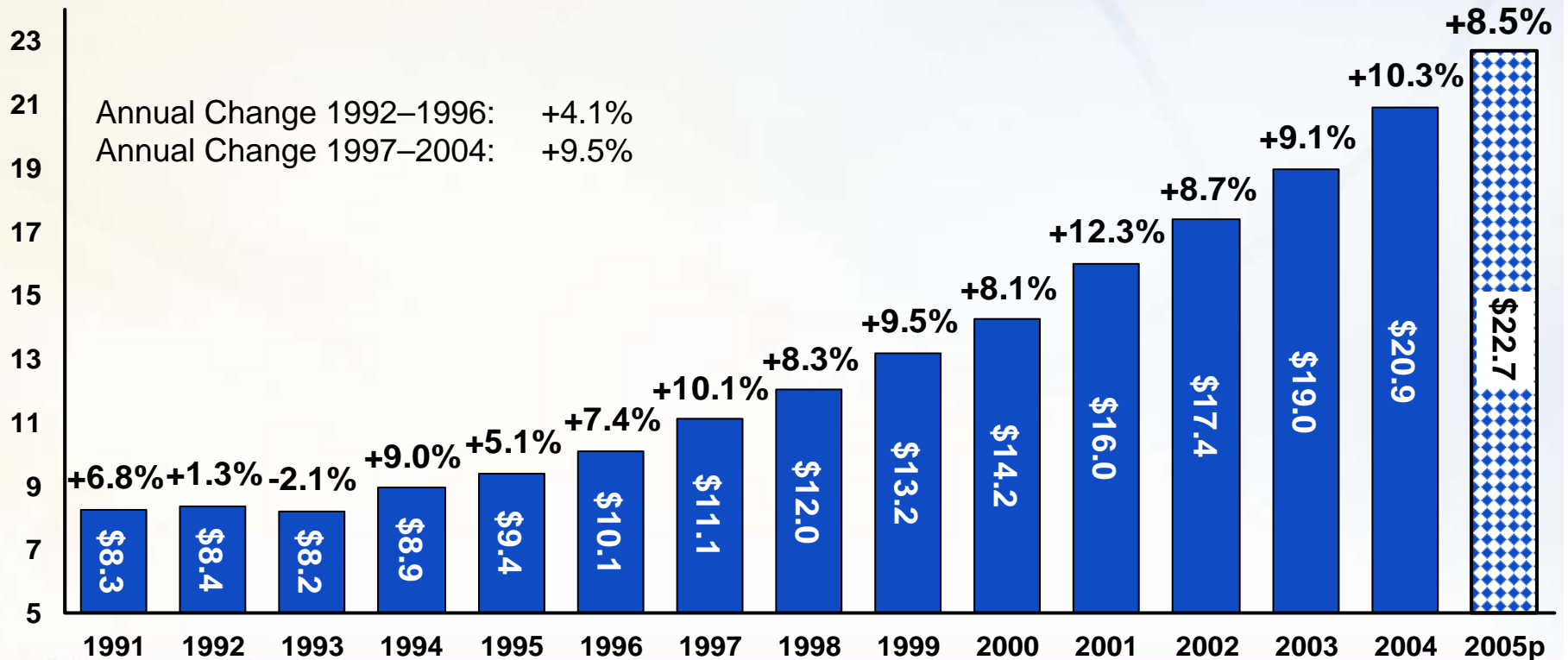


Indemnity severity 2005p: Preliminary based on data valued as of 12/31/2005
 Indemnity severity 1995-2004: Based on data through 12/31/2004, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: CPS Wage (Current Population Survey), Economy.com; Accident year indemnity severity, NCCI

WC Medical Claim Cost Trends— Growth Continued in 2005

Medical
Claim Cost (000s)

Lost-Time Claims

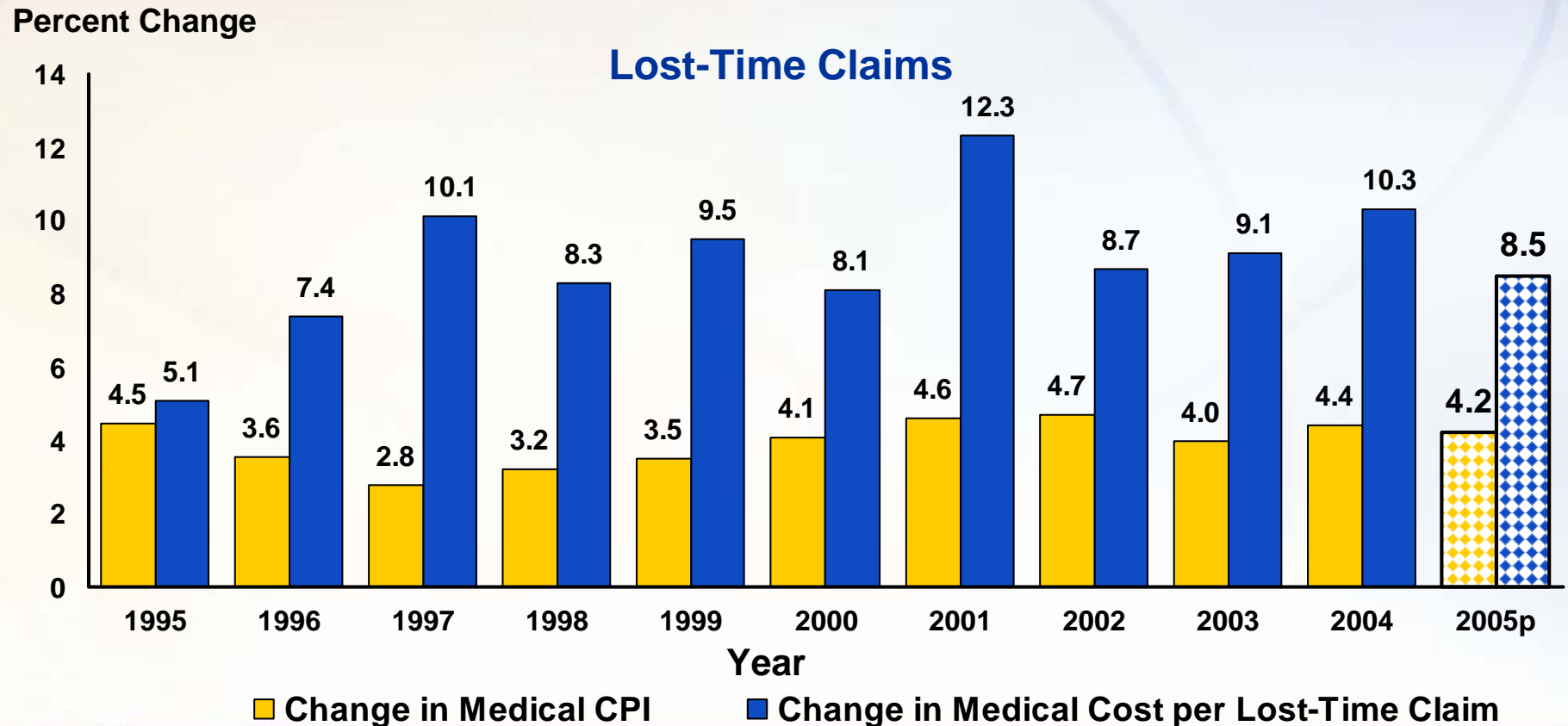


Accident Year

2005p: Preliminary based on data valued as of 12/31/2005
1991-2004: Based on data through 12/31/2004, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

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Workers Compensation Medical Severity Has Been Growing Much Faster Than the Medical CPI

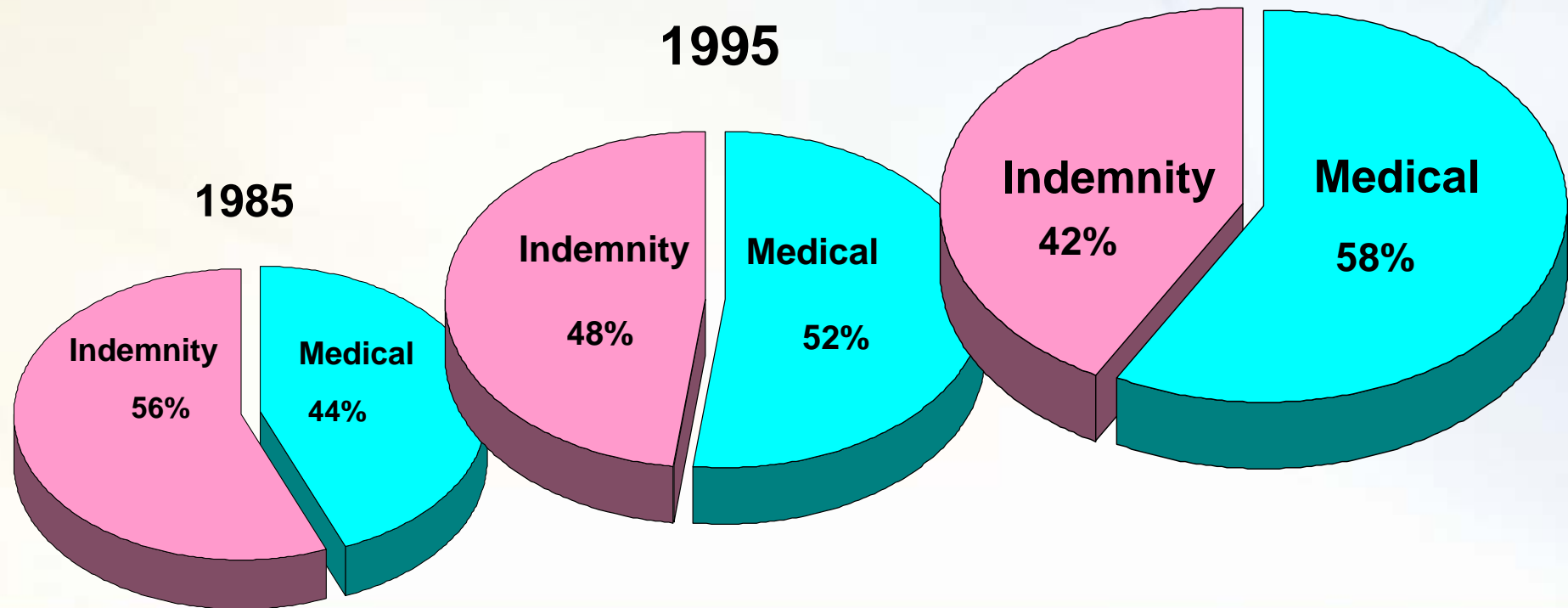


Medical severity 2005p: Preliminary based on data valued as of 12/31/2005
 Medical severity 1995-2004: Based on data through 12/31/2004, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Medical CPI, Economy.com; Accident year medical severity, NCCI

Workers Compensation Medical Losses Are More Than Half of Total Losses

All Claims—NCCI States

2005p



2005p: Preliminary based on data valued as of 12/31/2005
1985, 1995: Based on data through 12/31/2004, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

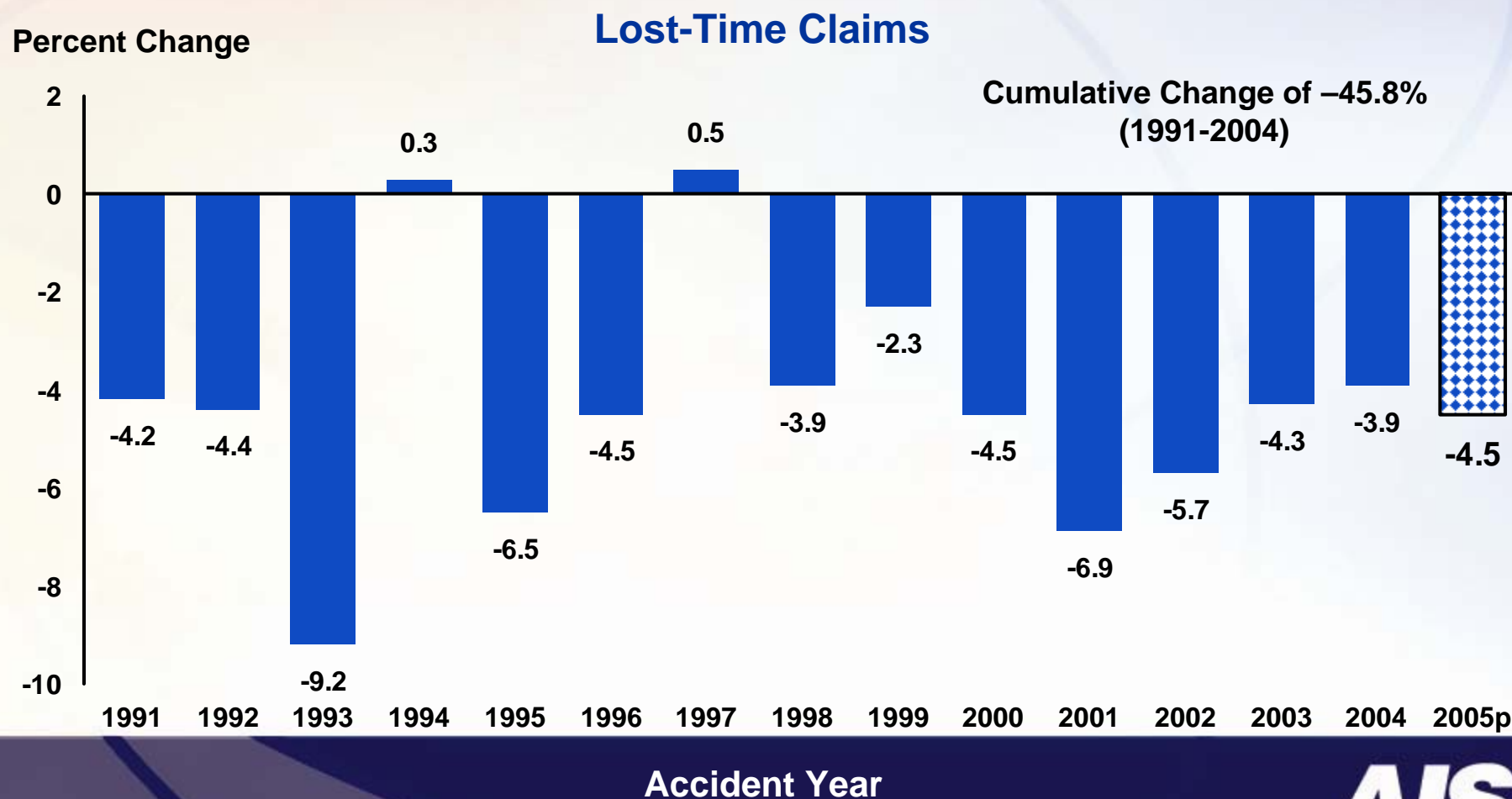
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Last Year's AIS Survey Results

What will be the change in frequency in 2005?

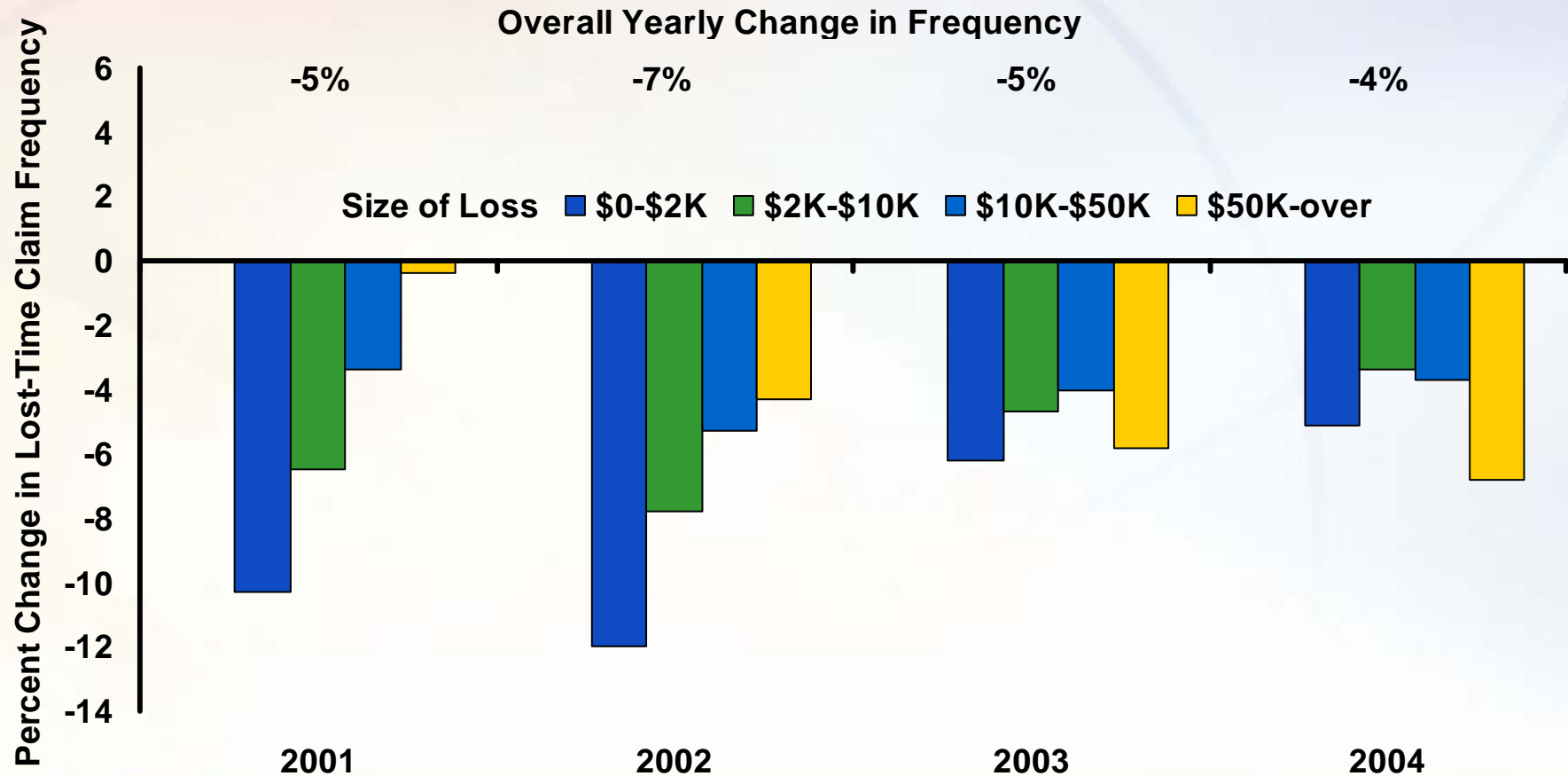
- A. Decline More Than 4% (4%)**
- B. Decline 1–4% (51%)**
- C. No Change (35%)**
- D. Increase 1–4% (9%)**
- E. Increase More Than 4% (1%)**

Workers Compensation Lost-Time Claim Frequency Continues its Decline



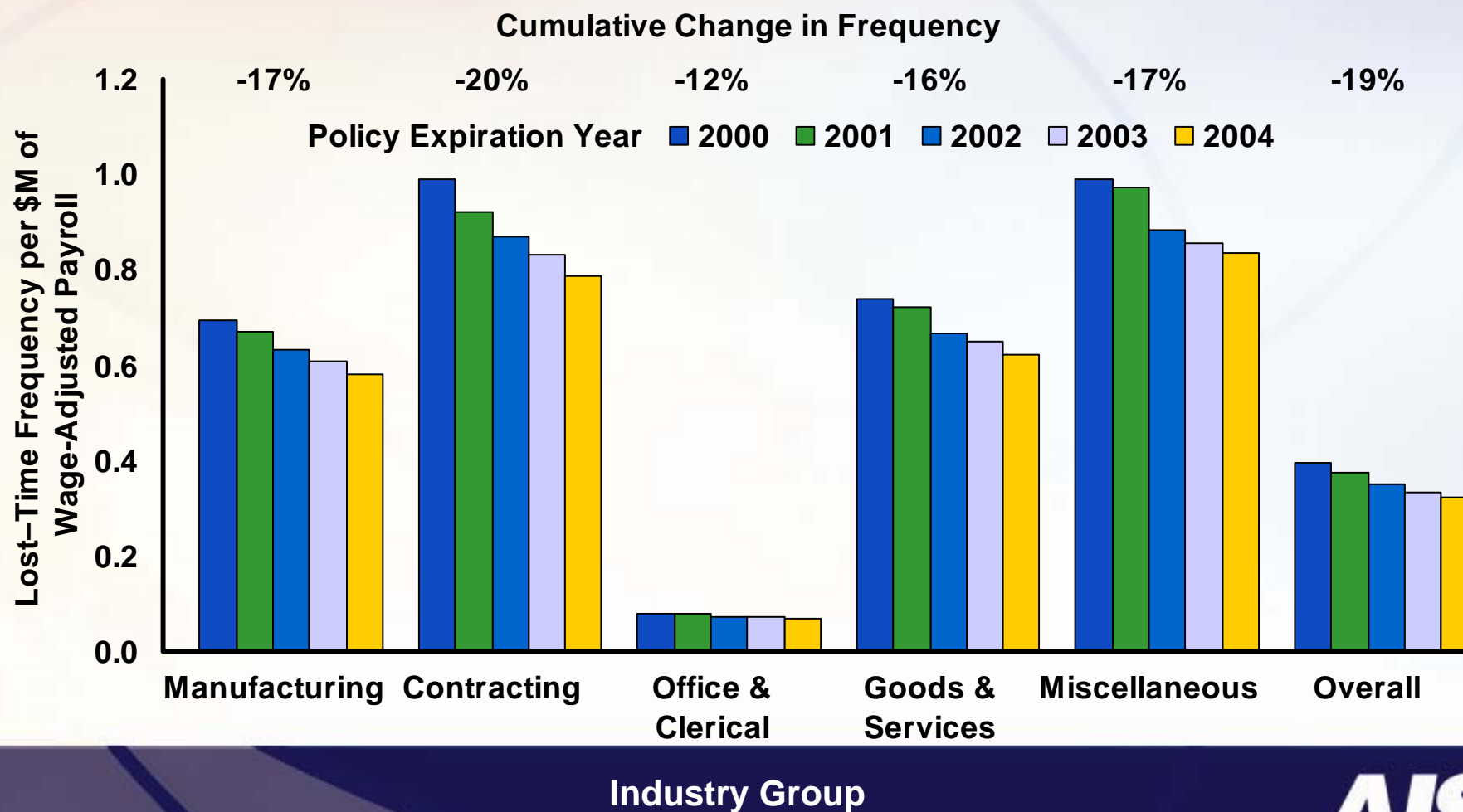
2005p: Preliminary based on data valued as of 12/31/2005
 1991-2004: Based on data through 12/31/2004, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

Declines in Frequency Now Uniform by Size of Loss



Claim count determined at first report
 Loss size adjustments vary by year, averaging 3.8% indemnity and 7.4% medical
 Frequency = Lost-Time Claims / Payroll; Payroll adjusted for inflation
 All NCCI states and TX; excludes NV

Claim Frequency Has Declined for All Industry Groups

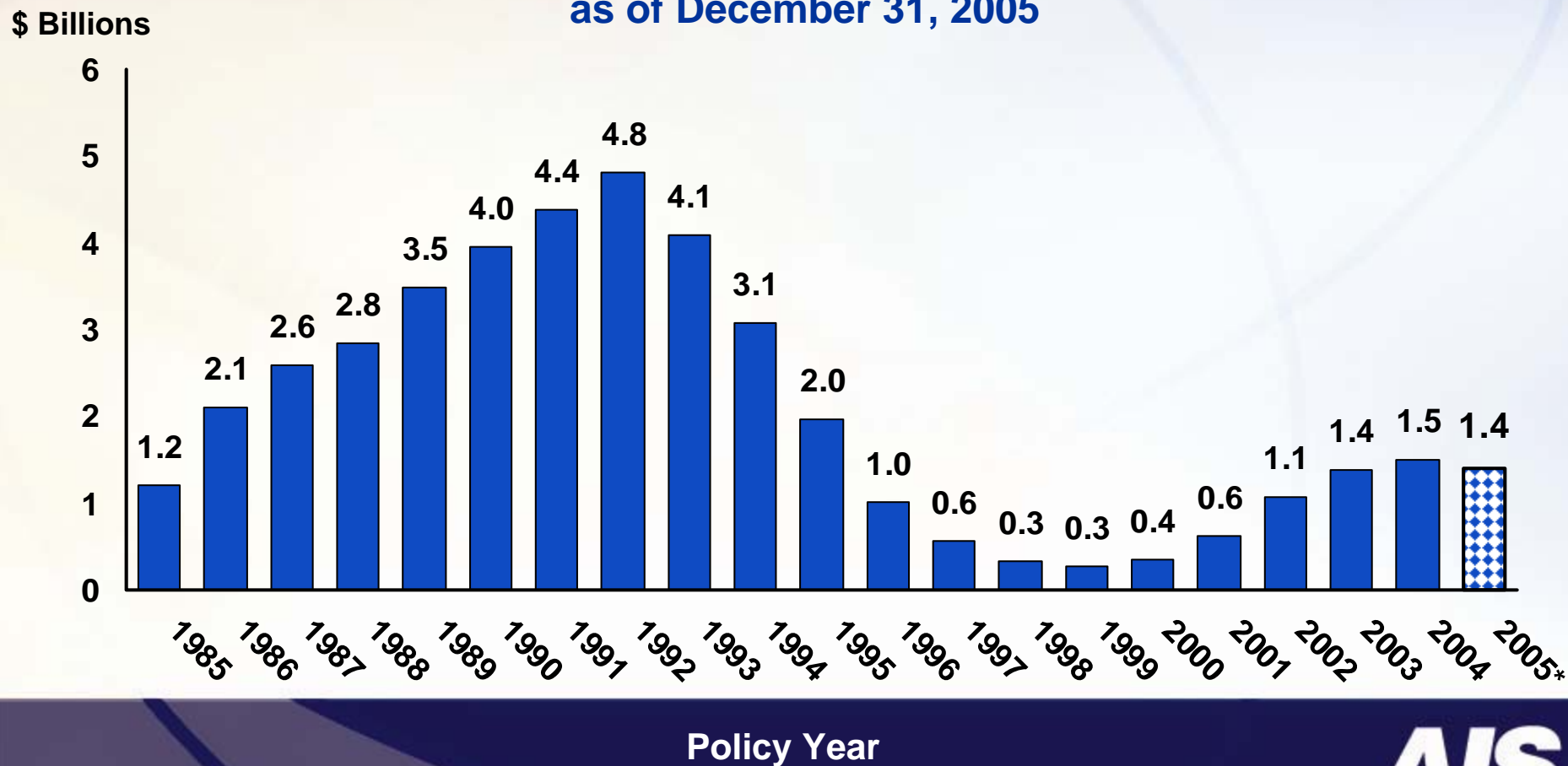


Frequency = Lost-Time Claims / Payroll; Payroll adjusted for inflation
All NCCI states; excludes NV and TX

Workers Compensation Residual Market

Workers Compensation Residual Market Premium Volume Declines

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2005



* Incomplete Policy Year Projected to Ultimate

Workers Compensation Residual Market Shares Continue to Decline

Workers Compensation Insurance Plan States*
Premium As a Percent of Direct Written Premium



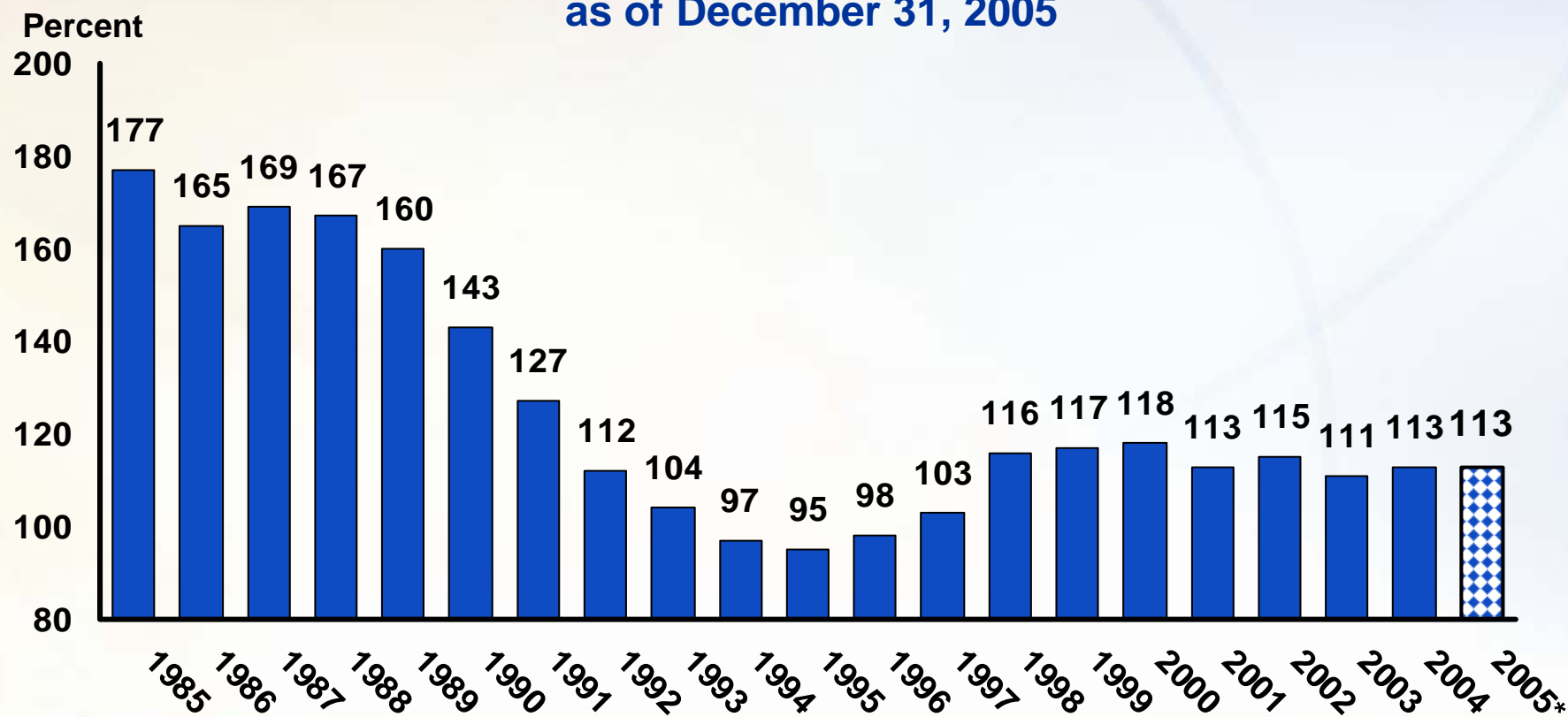
p Preliminary

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

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Workers Compensation Residual Market Combined Ratios

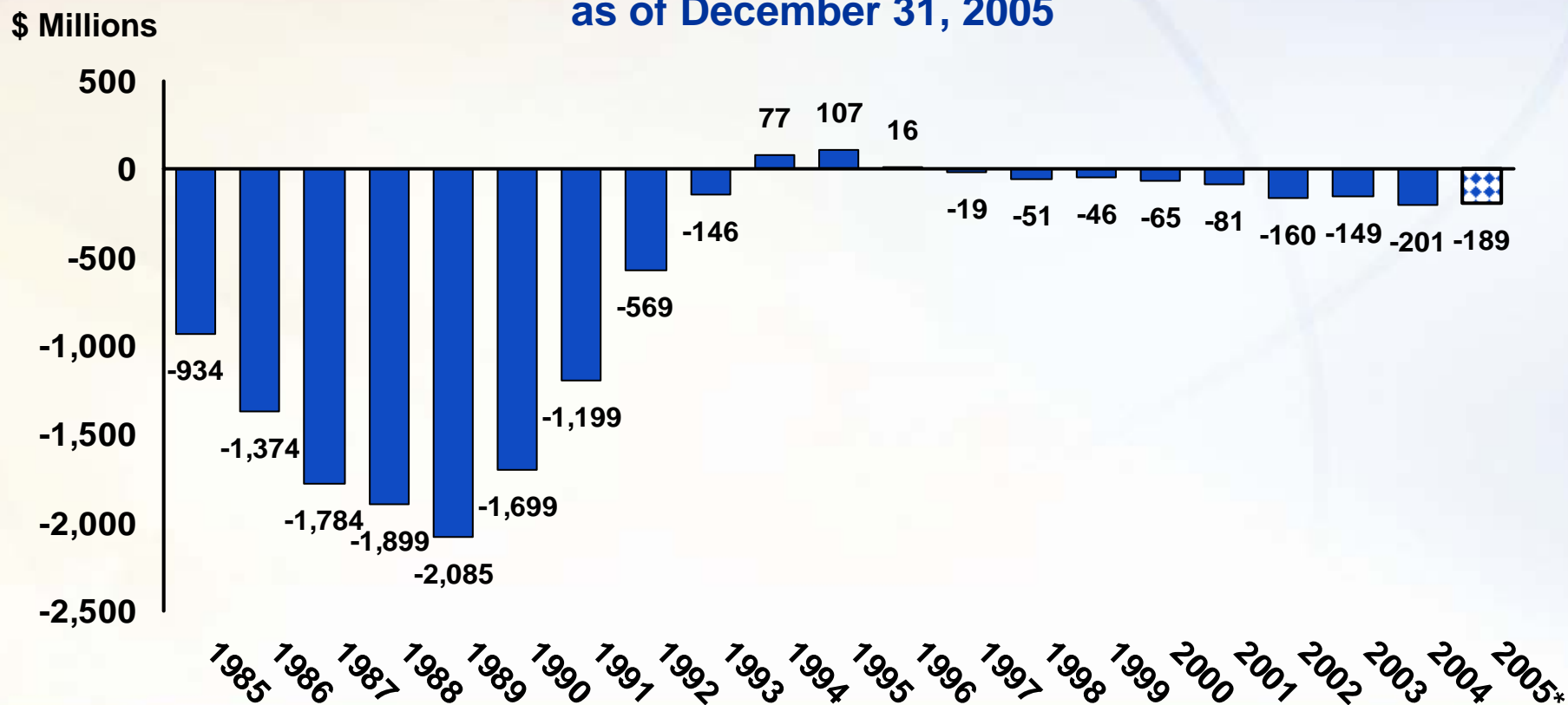
NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2005



* Incomplete Policy Year Projected to Ultimate

Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2005



Policy Year

* Incomplete Policy Year Projected to Ultimate

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Residual Markets Are Depopulating in Most States

First Quarter 2006 vs. First Quarter 2005

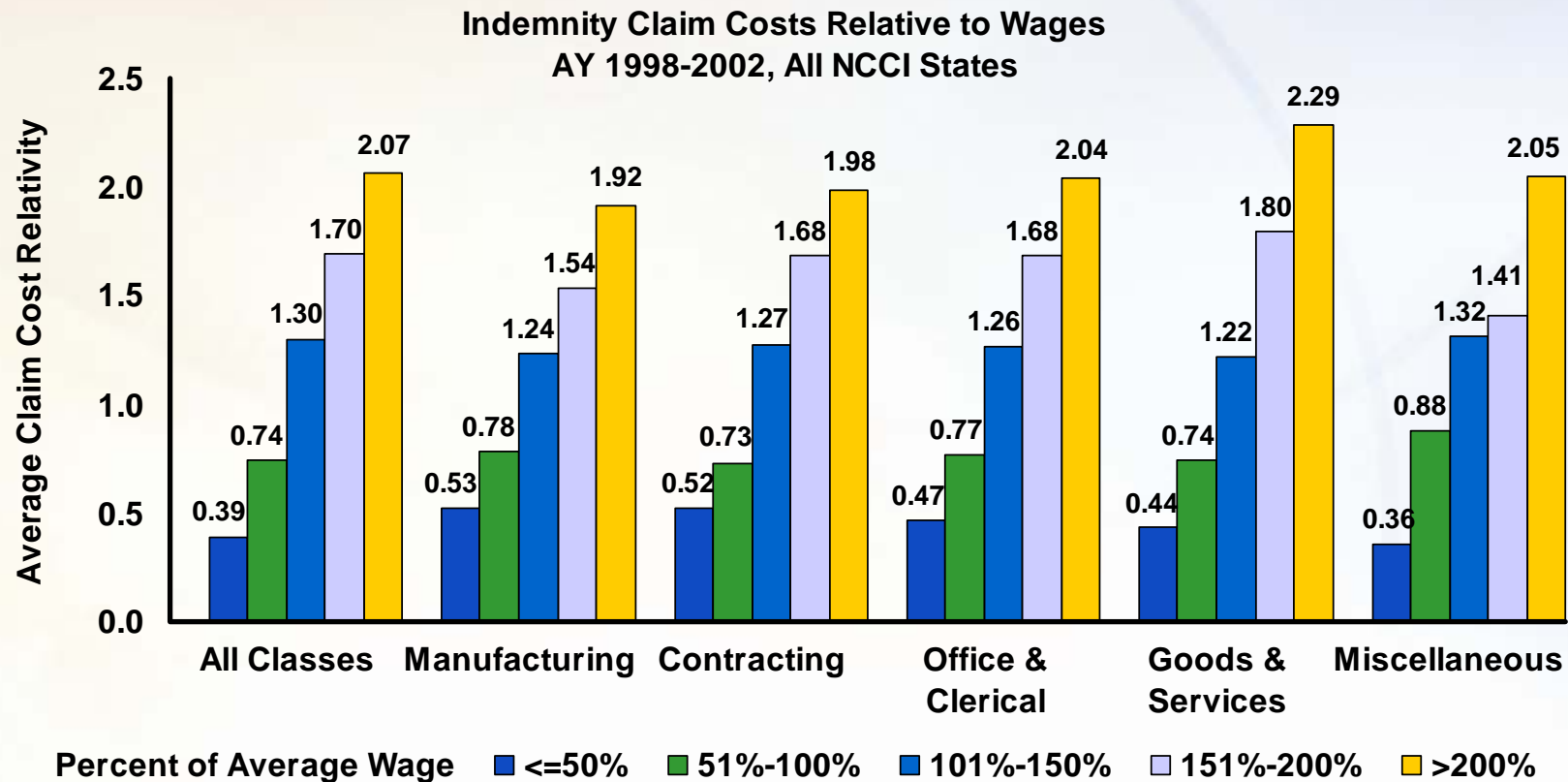
Size of Risk	2005	2006	Change
\$ 0 - \$ 2,499	36,003	35,442	-2%
\$ 2,500 - \$ 4,999	6,698	5,941	-11%
\$ 5,000 - \$ 9,999	4,563	4,028	-12%
\$ 10,000 - \$49,999	4,496	3,936	-12%
\$ 50,000 - \$99,999	633	515	-19%
\$ 100,000 and over	362	231	-36%
Total	52,755	50,093	-5%

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

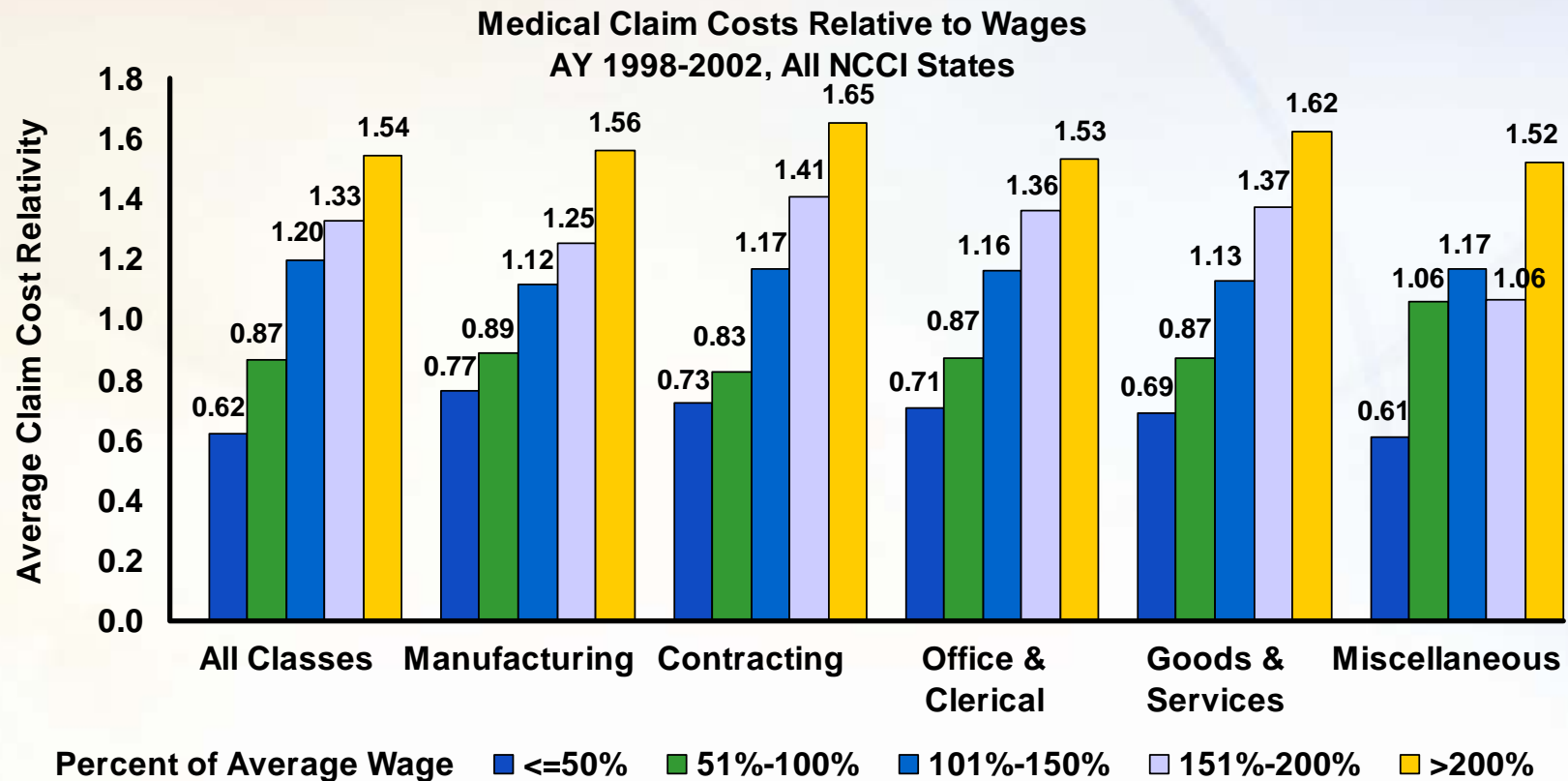
Current Topics of Interest

Total Payroll—Still the Best Exposure Base for Workers Compensation

Indemnity Claim Costs Rise at Each Wage Interval

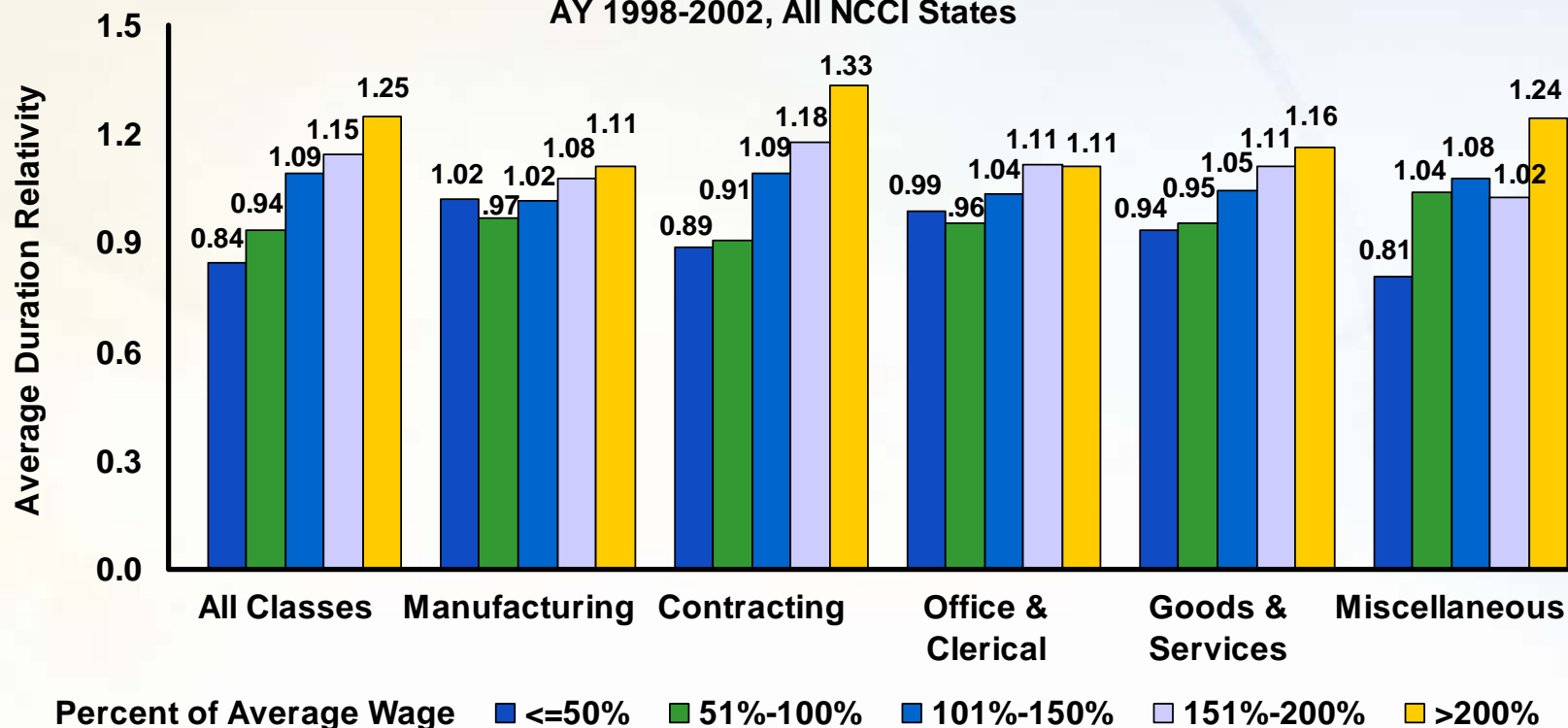


Medical Claim Costs Also Track Wage Levels



The Observed Duration Partially Explains Why Losses Vary by Wage Interval

Temporary Total Disability Duration Relative to Wages
AY 1998-2002, All NCCI States



Total Payroll—Still the Best Exposure Base for Workers Compensation

- Indemnity and medical costs vary with wages
- Payroll is readily available
- Easily verifiable

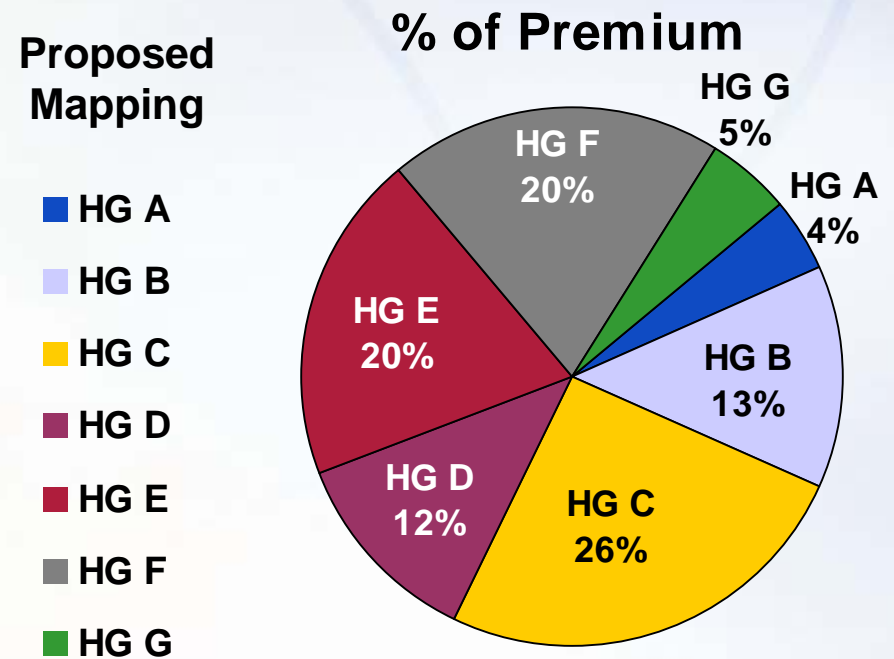
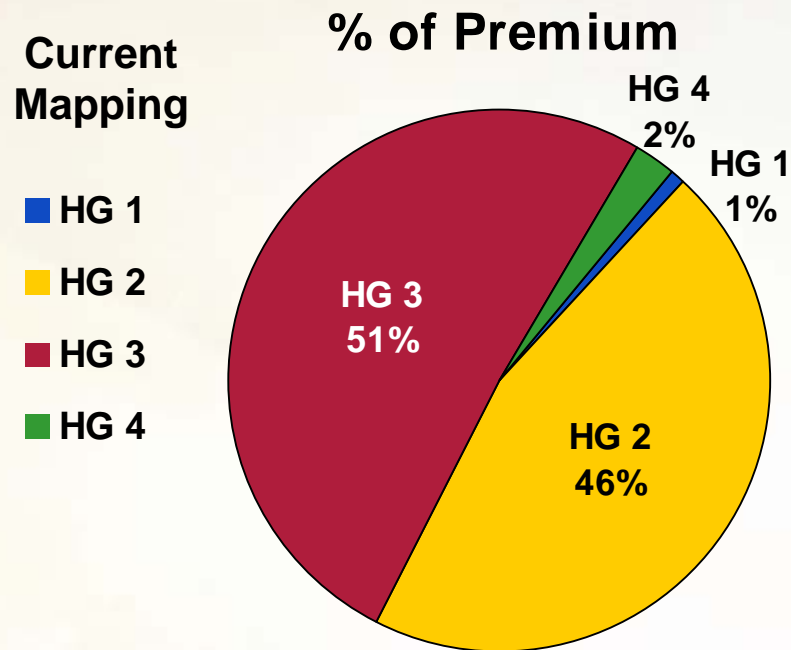
New Hazard Group Assignments

Hazard Groups—Background

- Used in retrospective rating, deductible and reinsurance pricing
- Classes with similar excess loss potential are put in the same hazard group
- Traditionally, there have been four hazard groups
- NCCI will be introducing a seven-hazard-group structure effective in 2007
- Carriers will have option to continue four-hazard-group classification if so desired

Hazard Groups—Current and New Assignments

Mapping of 870 Classes



Impact of TRIA on Workers Compensation

Last Year's AIS Survey Results

Will TRIA be renewed?

A. Essentially "as is" (19%)

B. With modest changes (46%)

C. Yes, but with material changes (24%)

D. Not at all (11%)

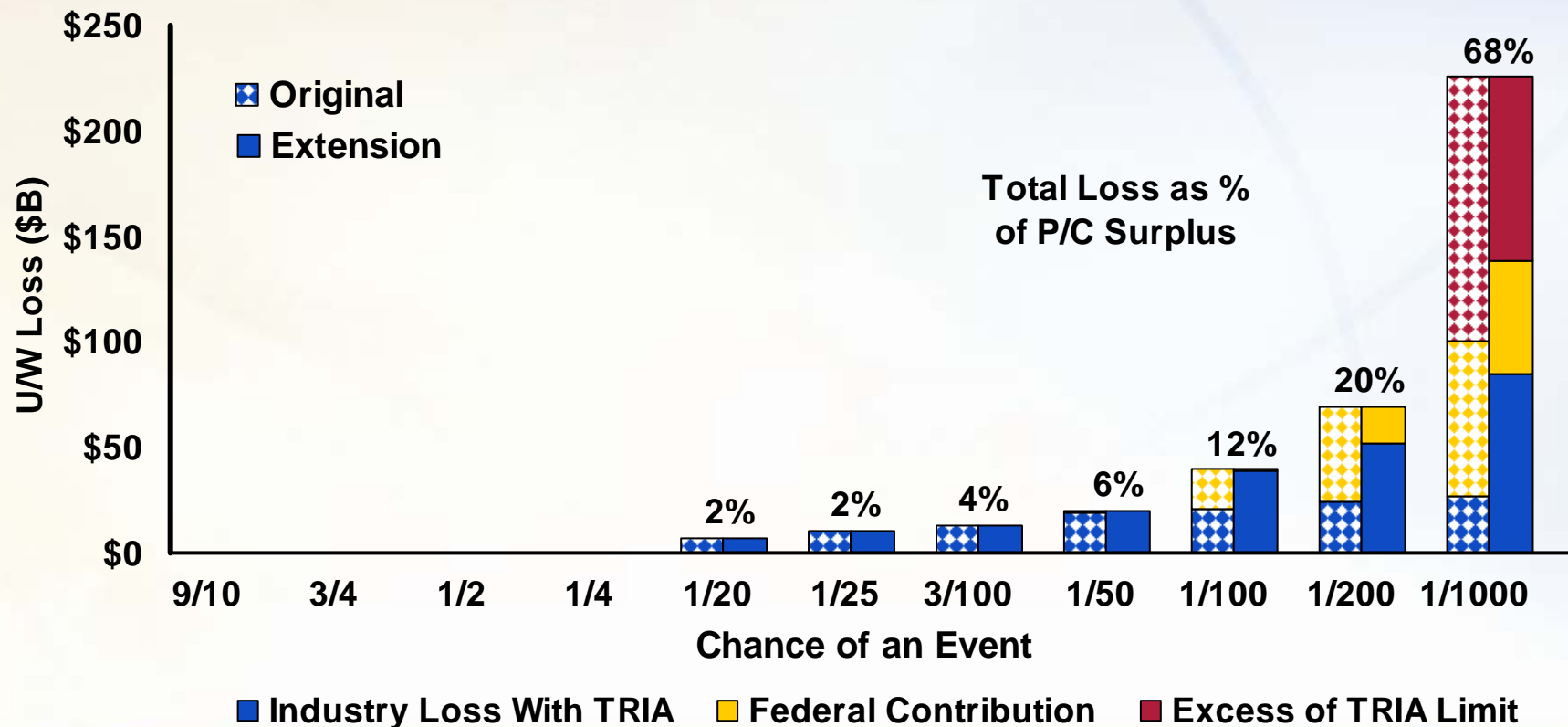
Key Provisions of TRIA— Original vs. Extension

Provision	Original	Extension
Lines Covered	Most commercial lines (med mal, financial guaranty specifically excluded)	All current TRIA lines (except comm. auto, surety, prof. liability, farmowners, burglary and theft)
Retentions	7%–10%–15%	17.5%–20%
Co-Shares	90%–10%	90%–10% (yr. 1) 85%–15% (yr. 2)
Federal Program Payment Trigger	\$5M	\$5M (yr. 1 thru 3/31/06) \$50M (yr. 1 after 3/31/06) \$100M (yr. 2)
Expiration	12/31/05	12/31/07

Source: AIA

TRIA's Extension Modified Industry Retention Limits, but Remains Vital

Allocation of P/C Underwriting Loss—Original vs. Extension



Source: EQECAT, NCCI

When Does TRIA Make a Difference?

- TRIA's direct financial impact is limited to infrequent extreme events
- TRIA is not triggered under approximately 99% of the modeled scenarios
- TRIA enables the P/C market to function effectively with minimal financial exposure to taxpayer funds

Concluding Remarks

Last Year in “Looking Ahead” We Said

- | | |
|---|-------------------------------------|
| • Class ratemaking enhancements <ul style="list-style-type: none">• Loss development• Large loss procedure• Credibility standards | Actuarial Committee
final review |
| • Hazard group remapping | Filing this summer |
| • Econometric trending model using
State Space modeling | Implemented |

In Summary

Positives

- Results continue to improve
- Frequency continues to decline
- Indemnity severity moderating
- Industry making progress on reserve deficiency
- Residual Market depopulation underway
- TRIA renewed

Negatives

- Low investment returns continue to put pressure on underwriting results
- Medical costs continue to rise
- Recent reforms under attack
- Underwriting cycle
- TRIA renewed

Questions and More Information

- “Meet The Experts”—see your program schedule
- Questions on the State of the Line presentation?
E-mail us at stateoftheline@ncci.com
- Download the complete presentation materials and watch a video overview of the State of the Line at **ncci.com**