

**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 2006

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

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

In 2006, Arkansas had a combined loss ratio of 84%, ranking it among the lowest of any state for which Arkansas's statistical agent, the National Council on Compensation Insurance (NCCI), compiles loss data. In 2006, NCCI filed for small decreases in both the voluntary market loss costs (-0.5%) and assigned risk plan rates (-2.0%). Several factors and trends in the industry, however, may offset future decreases. These factors include increased medical costs, increasing prescription drug utilization, increased reinsurance costs, and catastrophe loading for potential terrorism losses.

CONTINUED RATE IMPACT OF ACT 796 OF 1993

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

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%
2007 (Effective July 1, 2007)	-5.4%	-6.8%

PAYROLL AND EXPERIENCE MODIFIER

Reported payroll in Arkansas continues to increase while premiums for insureds continue to decrease. The average experience modifier has increased minimally (0.92 to 0.95). 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 a consistent history of decline in population since the passage of Act 796 except for a gentle upward trend during 2002 through 2004. Down from a record high of \$150,000,000 in 1993, to a low of \$6,566,275 in September 2000, the premium volume as of December 31, 2006, was \$21,575,067 as compared to \$28,302,900 on December 31, 2004. The increase in premium during the 2002 through 2004 period was, in part, attributable to the failure of several insurers domiciled in California and other states. A portion of the increase may also have been attributable to an increase in plan population of small premium employers who have premiums too low to be attractive to the competitive market. In essence, their premiums are less than the minimum premium for which coverage is available in the voluntary market. These employers may often get better rates through the plan; consequently, as of the end of the first quarter of 2007, small premium employers (less than \$2,500 in annual premium) constituted approximately 78% of the plan policy volume with an average of \$793 in premium per policy. Average plan premium per policy at the end of the first quarter of 2007 was \$3,480 for all 1,616 policies in the plan. In addition, plan population increases when insurance companies tighten underwriting decisions for employers with higher losses or with 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, carriers further reduced discounts in 2004 and 2005. The trend continued through 2006 with

carrier discounts of 8.4%. These discounts were predominately comprised of discounts to scheduled rating and dividends, which offset small increases due to rate and loss cost departures. As rates continue to drop, these discounts will continue to narrow.

PLAN ADMINISTRATION/SERVICING CARRIERS

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

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

In recent years, Arkansas has also participated in a multi-state examination of the NCCI in its role as an advisory organization licensed pursuant to Ark. Code Ann. § 23-67-214. Participation in the examination task force, and periodic reviews of this nature, function to assure the quality of the data, as well as presenting the opportunity to improve existing systems and procedures. The examination found concerns about statistical reporting and error correction. These concerns were addressed and are monitored by a working group of the NAIC. They were never significant enough to affect the overall reliability of the data reported by the NCCI for the State of Arkansas. During the evaluation of the examination findings, Arkansas served as chair of the multi-state exam task force and concluded its responsibilities in this capacity after implementation of the required reforms.

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

Attached are Exhibits “B” entitled *Arkansas Residual Market 1st Quarter 2007 Status Report*; and Exhibits “C1 and C2” entitled *Arkansas Residual Market Annual 2007 and 2006 Status Reports*, respectively. The exhibits are prepared by the NCCI and provide detailed information on risk profiles such as average premium size, top ten classifications by code and by premium, and a list of contacts within NCCI for specific areas of concern.

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

The Annual Servicing Carrier Performance Review conducted by NCCI reveals either

“Commendable” or “Satisfactory” scores for all areas for Arkansas’s servicing carriers. For the period commencing January 1, 2004, through December 31, 2007, the servicing carriers are 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. In fact, many cases are not carried forward to prosecution. In many instances, the threat of prosecution is enough to get the parties involved to settle the cases outside of court, resulting in restitution for the aggrieved parties. While not technically “prosecutor wins,” these cases result in positive

outcomes for injured workers in the state and for the workers' compensation system, reserving benefit payments for those who are truly injured.

Act 743 of 2001 significantly enhanced the efficiency and effectiveness of the division by granting its investigators certified law enforcement authority. The division can now execute arrest warrants, thus reducing the backlog of warrants that were awaiting service by local law enforcement agencies. Annual referrals to the Criminal Investigation Division have been reduced significantly since its first year of operation. This reduction is attributed to increased enforcement efforts. In the 2005-2006 reporting period there were 47 workers' compensation files opened. 20 of these cases are currently still open and being investigated. In total, there were 131 prosecutions from the division's inception in 1993 to August 31, 2006. Out of these 131 cases, 101 resulted in convictions. In total, only three prosecutions have resulted in acquittals. In the remaining cases, the charges were dropped.

During the same reporting period, one case was referred to prosecution. Currently there are five workers' compensation cases referred to prosecution. This information is not reflected in the statistics for the reporting period because it falls outside the given time frame. Nonetheless, many of these cases are based upon the work done during the reporting period. Similarly, work continues on many investigations that were opened during the reporting period.

Though it is not reflected in the above numbers, the division recently achieved a division "first" by successfully prosecuting a company for failure to obtain workers' compensation for its employees. The conviction was the culmination of five years' investigation and prosecution. It is believed that this conviction of a corporation was the first of its type in state history. In the past, only individuals had been convicted. In this instance, the malfeasance was endemic in the corporation and, as a result, the company was prosecuted, resulting in a higher payment of restitution for the victims.

2007 LEGISLATIVE ACTIVITY WITH REGARD TO WORKERS' COMPENSATION

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

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

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

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

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

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

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

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

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

**SELECTED WORKERS' COMPENSATION CASES FROM THE ARKANSAS
SUPREME COURT AND COURT OF APPEALS¹
(FISCAL YEAR 2006-07)**

Cases from the Supreme Court

Vanwagner v. Wal-Mart Stores, Inc., 368 Ark. 606, ___ S.W.3d ___ (2007): The Claimant in this instance sustained a compensable injury on November 17, 1994, and filed an AR-C requesting both “initial” and “additional” benefits approximately one month later. The case eventually went before the Arkansas Workers’ Compensation Commission for a hearing in August, 1995, though the parties agreed not to litigate permanent partial disability benefits at that time even though they were among the benefits claimed in the Claimant’s 1994 filing. The Claimant filed another claim for permanent partial disability benefits on November 6, 2000. An Administrative Law Judge with the Arkansas Workers’ Compensation Commission found that the 1994 claim had tolled the statute of limitations and that the claim for permanent partial disability was thus not barred. The Commission itself, however, reversed and held that the statute of limitations did indeed bar the claim. In turn, the Arkansas Court of Appeals reversed the Commission. On further review, the Arkansas Supreme Court determined that the most recent claim for permanent partial disability was not time-barred since the parties had agreed not to litigate the matter in 1995. In sum, the Court stated that “the parties here simply agreed not to litigate an issue that was decidedly premature.”

Cases from the Court of Appeals

Engle v. Thompson Murray, Inc., 96 Ark. App. 200, ___ S.W.3d ___ (2006): In this employment services case, the Claimant was assigned the task of planning an off-site retreat for her department that included some time on Bull Shoals Lake. In particular, the Claimant was responsible for “directing the group to the dock, checking in at the dock, nominating a driver for the boat, and obtaining a map of the lake with directions to a beach and ‘cliff/rocks to jump off.’” The Claimant was also expected to “keep the event running smoothly and handle unanticipated issues that might arise.” The event was mandatory for department employees, who were paid while attending. After the group located a bluff to use for jumping into the lake, the Claimant attempted a jump and sustained injuries as a result. The Commission denied the ensuing claim for workers’ compensation benefits, finding that the Claimant was not performing “employment services” at the time of injury because she had not been expressly directed to jump from the bluff and her conduct was “neither directly or indirectly necessary for her to perform her job duties.” The Arkansas Court of Appeals disagreed, stating that “As long as the participants were advancing the purpose of the meeting, they were furthering the interest of their employer. Moreover, because appellant was required to plan and facilitate the events, her job duties required an even more active participatory role. The company hosted the event, considered it mandatory, and paid employees to attend.” The Court went on to conclude that the record “supports the assertion that appellant was engaging in conduct permitted and anticipated by the employer...it was erroneous for the Commission to conclude that appellant was not engaged in

¹ Citations to S.W.3d are not yet available for Supreme Court and Court of Appeals cases listed herein; in other instances, citations are also not yet available for Ark. App. Where no reporter citation is available, a Westlaw citation has been provided.

employment services because the employer did not expressly direct appellant to jump from the cliff.”

Bingle v. Quality Inn, 96 Ark. App. 312, ___ S.W.3d ___ (2006): The Arkansas Workers’ Compensation Commission found in this case that the Claimant’s entitlement to temporary total disability benefits had ended on August 14, 2001, although her treating physician did not assign an impairment rating or pronounce maximum medical improvement until almost two years later, on April 15, 2003. In so finding, the Commission reasoned that “appellees implicitly contended that appellant reached the end of her healing period on August 14, 2001,” and also noted that “Dr. Bryant testified that the healing time for surgery would be four to six weeks and that the time period of July 13, 2001, though August 14, 2001, closely corresponded with the projected healing time for surgery.” On appeal, the Respondents argued that “the Commission properly inferred from Dr. Bryant’s constructive release of appellant that she had reached the end of her healing period, or that it was imminent, when he saw her on August 14, 2001.” The Arkansas Court of Appeals declined to accept this argument, in that “appellees cite no law supporting the premise that our statutory or case law...recognizes the constructive release of a patient or the inference from such a release that the patient has reached the end of her healing period.” The Court itself also found no such authority upon its review of pertinent statutory and case law, and went on to note that Ark. Code Ann. § 11-9-102(16)(B) (Repl. 2002) requires that medical opinions addressing compensability and permanent impairment be stated “within a reasonable degree of medical certainty,” and that Ark. Code Ann. § 11-9-1001 admonished that “any liberalization or broadening or narrowing of the extent to which any physical condition or injury should be excluded from or added to coverage by the law is the sole province of the Arkansas Legislature.” In light of these provisions, the Court concluded that “neither the Commission nor this Court has the authority to extend or limit coverage by finding a constructive release when the statute specifically requires a medical opinion regarding impairment and compensability to be within a reasonable degree of medical certainty.”

Lepel v. St. Vincent Health Services, 96 Ark. App. 330, ___ S.W.3d ___ (2006): The Claimant sustained a cervical injury on March 11, 2002, which the Respondents initially accepted and paid. Subsequently, a dispute arose concerning additional benefits that were denied by the Respondents. After a hearing, the Arkansas Workers’ Compensation Commission denied the following claims: additional medical services from Dr. Anthony Russell, additional temporary total disability benefits from May 22, 2003, through a date yet to be determined, and compensation for an unreasonable refusal to return the Claimant to work within his restrictions pursuant to Ark. Code Ann. § 11-9-505(a)(1). On appeal, the Arkansas Court of Appeals affirmed, noting that the Claimant’s visit to Dr. Russell was essentially a self-referral and was not accompanied by a change of physician request or an actual referral from his authorized physician (the Court further observed that the Respondents had not controverted compensability, such that Ark. Code Ann. § 11-9-514(f) did not operate to nullify the change-of-physician rules). The Court also agreed with the Commission’s finding that the termination of the Claimant’s employment due to budgetary constraints did not constitute an unreasonable refusal to return him to work, where the Claimant had actually resumed working for over a year following his compensable injury and was offered but declined the opportunity to apply for other positions. Finally, the Court upheld the Commission’s determination concerning additional temporary total disability since “the evidence in this case demonstrated that when his position was terminated

Mr. Lepel was capable of working in some capacity, and in fact had been working for the appellant for an extended period of time following the compensable injury...we reiterate that Mr. Lepel failed to apply for any jobs as encouraged by Mr. Walker.”

Singleton v. City of Pine Bluff, 97 Ark. App. 59, ___ S.W.3d ___ (2006): The Claimant in this instance worked as a police officer for the City of Pine Bluff, and sustained a blow to the head and a gunshot wound to the left ankle as the result of an encounter with a felon on March 1, 2003. The Arkansas Workers’ Compensation Commission found that there was no permanent partial disability involved, based on an analysis which the Arkansas Court of Appeals felt had “expressly rejected all evidence of physical impairment that was not objective.” The Court acknowledged that objective evidence was necessary to establish compensability, but further reasoned that objective findings need only support such medical evidence of injury and impairment as may exist. The Court went on to note that “here, the claimant’s allegations of a foot injury affecting his mobility are quite clearly supported by observed bullet fragments embedded in his foot.” Even so, the Commission had rejected the treating physician’s assignment of an 8% impairment rating “simply because it was based in part upon non-objective evidence...that appellant exhibited an antalgic gait.” The Court reversed, ultimately concluding that “the Commission arbitrarily and improperly rejected subjective evidence in determining that appellant sustained no impairment as a result of his ankle injury.”

King v. PeopleWorks, et al, 97 Ark. App. 105, ___ S.W.3d ___ (2006): In an opinion dated December 19, 2005, the Arkansas Workers’ Compensation Commission found that the Claimant had sustained a compensable aggravation involving his back on February 7, 2001, and was entitled to temporary total disability benefits from September 7, 2001, until November 10, 2001. The Commission further held that Respondent Teletouch, the Claimant’s employer at the time of the aggravation, was liable for benefits associated with the event. PeopleWorks, the Claimant’s previous employer, had accepted and paid for an earlier back injury he had sustained on December 15, 1999. The Claimant appealed, asserting that the Commission “erred in finding that he was not entitled to temporary total disability benefits after November 10, 2001, the date on which he began drawing unemployment benefits.” Respondent Teletouch cross-appealed, arguing that substantial evidence did not support the Commission’s finding that the Claimant had sustained an aggravation rather than a recurrence of his old injury. With regard to temporary total disability, the Commission had found that the Claimant entered a healing period on the date of injury, but did not become totally incapacitated to earn wages until he was terminated on or about September 7, 2001. Subsequently, on November 10, 2001, the Claimant began drawing unemployment compensation, and the Commission limited its award of temporary total disability to this time frame. Looking to Ark. Code Ann. § 11-9-506 (Repl. 2002), which as a general matter bars the receipt of temporary total disability benefits and unemployment insurance during the same time period, the Arkansas Court of Appeals noted that, under subsection (b), “when a claim for temporary total disability is controverted and later determined to be compensable, temporary total disability shall be payable to any injured employee with respect to any week for which the employee receives unemployment benefits to the extent that the temporary total disability otherwise payable exceeds the unemployment benefits.” In turn, given both Respondents’ controversion of benefits, the Court concluded that “under the terms of the statute, and if [the Claimant] remained within his healing period and was totally incapacitated from earning wages, he was entitled to receive temporary total disability benefits to the extent that

they exceeded his unemployment compensation from September 7, 2001, through November 10, 2001. Furthermore, he was entitled to receive full benefits after his receipt of unemployment compensation ended if he remained in his healing period and suffered a total incapacity to earn wages.” In sum, the Court did not regard Ark. Code Ann. § 11-9-506 as a complete bar to the Claimant’s receipt of temporary total disability in this instance, and remanded the matter to the Commission for a determination of whether the Claimant remained in his healing period and totally incapacitated from earning wages after he began receiving unemployment compensation. As for Respondent Teletouch’s cross-appeal, the Court reasoned that the origin of the Claimant’s objective findings was a fact question for the Commission to resolve, and that it could not agree “that reasonable minds could not conclude that King’s bulging disc and decreased lumbar lordosis resulted from the incident.”

Economy Inns & Suites v. Jivan, 97 Ark. App. 115, ___ S.W.3d. ___ (2006): In this claim involving very unfortunate circumstances, the Claimant and her husband co-managed a hotel property. The parties stipulated that the pair “were provided with a room in the hotel to live on the premises to carry out their responsibilities as employees of the hotel.” On February 17, 2003, the Claimant died from smoke inhalation as the result of a fire at the hotel. As to this incident, the parties stipulated that the Claimant was “off duty and was in the bathroom of the hotel room provided by the respondent changing her clothes to go to a gym to exercise...” The parties also agreed, through an additional stipulation, that the Claimant and her husband “were always considered to be on-call to address any hotel related issues, which is at least one of the reasons she and her husband were provided a room in the hotel there on the premises.” On these facts, the Arkansas Workers’ Compensation Commission found that the Claimant had been performing “employment services” at the time of her death, in that she was on the premises, was expected to reside on the premises, and also furthered her employer’s interest and purpose due to her “frequent and regular presence on the premises.” The Commission further found that the Claimant was within the time boundaries of her employment since she was on-call twenty-four hours a day. Pointing out that “an employee is performing employment services when her injury is sustained within the time and space boundaries of the employment, when the employee was carrying out the employer’s purpose or advancing the employer’s interest directly or indirectly,” the Arkansas Court of Appeals affirmed, concluding that it was unable to determine that reasonable minds could not have reached the same result as the Commission. **[NOTE: The Court of Appeals subsequently granted re-hearing on this case and reached a different result that reversed the Commission’s award of benefits: “In this case, [the Claimant] was in the bathroom changing clothes to go exercise, an activity involving solely her personal needs. The fact that she was on call in her living quarters does not necessitate a finding that every activity in which she engaged was inherently necessary to her job....We cannot see how changing clothes to go exercise at a gym constituted an activity that carried out her employer’s purpose or advanced its interest any more than any other personal activity in which an employee such as Nimisha might have engaged while in her room at the hotel.” See *Economy Inn & Suites v. Jivan*, 2007 WL 756732 (March 14, 2007; No. CA06-158). Subsequently, the Arkansas Supreme Court granted the Claimant’s petition for rehearing and reversed the Court of Appeals. In so doing, the Court cited *Deffenbaugh Indus. v. Angus*, 313 Ark. 100, 852 S.W.2d 804 (1993) and concluded that the Claimant had been a “residential employee” subject to the “increased risk doctrine” at the time of injury. As such, the Court concluded that “Nimisha’s fatal injury is compensable as a residential**

employee who indirectly advanced the interests of her employer.” See *Jivan v. Economy Inn & Suites*, 2007 WL 1847618 (June 28, 2007; No. 06-1448).

Osborne v. Bekaert Corp. et al, 97 Ark. App. 147, ___ S.W.3d ___ (2006): Here, the Arkansas Court of Appeals had occasion to consider whether Ark. Code Ann. § 11-9-522(f), previously declared unconstitutional in *Golden v. Westark Community College*, 333 Ark. 41, 969 S.W.2d 154 (1998), no longer violated Equal Protection standards in light of modifications made by the General Assembly in 1999. As originally written, the statute provided a dollar-for-dollar offset against permanent partial disability benefits once an injured worker reached age 65, in an amount equal to such retirement or pension funds the employee was eligible to receive (excluding, however, contributions made by the employee to a private plan). The statute also provided, in subsection (f)(2), that its purpose was “to prohibit workers’ compensation from becoming a retirement supplement.” In its session following the *Golden* decision, the General Assembly rewrote the statute to provide that permanent total disability benefits would cease at age 65, and that compensation would be limited to 260 weeks for injuries occurring after age 60 that resulted in permanent total disability. No changes were made to subsection (f)(2). Although the Arkansas Attorney General’s office had not been put on notice of the Claimant’s constitutional challenge in this instance, the Arkansas Court of Appeals proceeded to the merits of the decision reached by the Arkansas Workers’ Compensation Commission, which had found that Ark. Code Ann. § 11-9-522(f) did not present an equal protection issue in its new form. In declaring the new version of the statute unconstitutional, the Court held that it did “no more to provide a rational basis than that found defective in the earlier version of the statute,” and went on to note that “the stated goal of avoiding retirement-benefit duplication has been squarely rejected by our supreme court.”

Family Dollar Stores, Inc. v. Edwards, 97 Ark. App. 156, ___ S.W.3d ___ (2006): The Arkansas Workers’ Compensation Commission found that the Claimant sustained a compensable heart attack following an armed robbery at her place of employment on March 26, 2004. The Respondents appealed, contending in large part that the Claimant’s coronary event resulted from “emotional” stress that arose before she expended any physical effort as a result of the episode. Consequently, because Ark. Code Ann. § 11-9-114(b)(2) precludes the consideration of physical or emotional stress in determining the compensability of a heart attack claim, the Respondents asserted that the Claimant had failed to meet her burden of proof. The Arkansas Court of Appeals, however, affirmed the Commission’s decision, stating that “No serious argument can be made that the combined physical exertion and emotional distress that Edwards experienced while being robbed at gunpoint during the course of her employment were not ‘extraordinary and unusual’ in comparison to her usual work as a cashier for Family Dollar Stores.” The Court went on to conclude that the “more logical interpretation of subsections (b)(1) and (b)(2) is that if a heart attack is proved to have been caused by the physical or mental stress arising out of the performance of work that is extraordinary and unusual in comparison to the employee’s usual work, the heart attack is compensable, but where an employee suffers as on-the-job heart attack in the absence of work that is unusual and extraordinary, or in the absence of some unusual or unpredicted incident, it is not compensable, regardless of the level of physical or mental distress the employee experiences.” The Court also noted that the Claimant had submitted medical evidence “that the major cause of her heart attack was extreme emotional stress brought on by the extraordinary and unusual event of being the victim of an armed robbery.” Finally, the

Court declined to hear the Respondents' argument that the armed robbery was not an "accident" within the meaning of Arkansas workers' compensation law, since no convincing authority was offered in support of this assertion.

Jones v. Xtreme Pizza, 97 Ark. App. 206, ___ S.W.3d___ (2006): The Claimant in this employment services case worked as a manager for the Respondents' pizza restaurant in Bryant, and commuted to work from his home in Jacksonville. He routinely used his personal vehicle to leave the store for work-related purchases, and was also required to attend manager meetings and off-site training seminars. On August 23, 2003, the Claimant was scheduled to begin work at 3:00 p.m. but suffered a neck injury as the result of a motor-vehicle accident while en route. However, the Claimant was not traveling directly from home at the time but, at his supervisor's request, had attended a corporate meeting in North Little Rock as well as a product demonstration in Little Rock. Because these engagements rendered the Claimant unable to make it to work by 3:00 p.m., he called one of his employees to cover for him prior to his arrival. Although an Administrative Law Judge awarded benefits, the Arkansas Workers' Compensation Commission reversed for a lack of employment services, reasoning in part that "...we cannot find that the claimant's activities from the morning have any bearing upon the claimant's status at the time of the wreck. In our opinion, the claimant's morning activities of managerial meetings and new product demonstrations had ended. Had he not been scheduled to work, the claimant's work day would have ended at that time." On review, the Arkansas Court of Appeals reversed, concluding in essence that the Commission had mistakenly analyzed the case as one involving the "going-and-coming rule," which precludes benefits for ordinary travel to and from work. Instead, the Court reasoned that "...as a result of the special errands imposed by his employer, Jones clearly was going from one job site to the other, and thus, was required to subject himself to the hazards of driving, not from home to work, but from one job site to the next...Jones was where he was when the accident happened due to his employment-related activities."

Fendley v. Pea Ridge School District, 97 Ark. App. 214, ___ S.W.3d ___ (2006): In this instance, the Arkansas Court of Appeals reversed the Arkansas Workers' Compensation Commission's denial of additional temporary total disability benefits where the latter appeared to have required proof that the Claimant had been totally incapacitated from earning wages. Pointing out that the Claimant's injury was a scheduled one, the Court noted that "it is not necessary for a claimant with a scheduled injury to prove that she is totally incapacitated from earning wages in order to collect temporary total disability benefits. Ark. Code Ann. § 11-9-521 provides that a claimant is entitled to temporary total disability benefits 'during the healing period or until the employee returns to work, whichever occurs first.'" In sum, the Claimant carried no burden of proof relating to her wage-earning capacity; rather, she only had to show that she "had not returned to work because she remained in her healing period."

Rheem Mfg. Co, Inc. v. Bark, 97 Ark. App. 224, ___ S.W.3d ___ (2006). Here, the Arkansas Workers' Compensation Commission reversed an Administrative Law Judge's determination that the Claimant's average weekly wage at the time of injury had been \$391.00; in particular, the Commission expressed concern that the Administrative Law Judge, in calculating the appropriate average weekly wage, included weeks that the Claimant was off-work for legitimate health reasons that were not work-related. The Commission thus recalculated the average

weekly wage based on the number of weeks that the Claimant actually worked, resulting in an average weekly wage of \$570 (the Commission also found that, due to the absence of a contract to work forty hours per week, the Claimant was not entitled to an average weekly wage of \$608.00). The Court of Appeals affirmed the Commission's approach, stating that "...the Commission followed a method consistent with its statutory call. The Commission made a finding that Bark should not be punished for legitimate leave time. We are satisfied that the Commission's refusal to dilute Bark's average weekly based on time he missed due to excused leave did not produce a 'double recovery.'"

St. Joseph's Mercy Health Ctr. v. Lamb, 97 Ark. App. 248, ___ S.W.3d ___ (2007): The Claimant in this instance sustained a compensable back injury on February 25, 2004, and subsequently obtained a change-of-physician order on January 24, 2005. This order purported to change the Claimant's treating physician from Dr. William Ackerman to Dr. Bud Dickson. However, following a hearing, an Administrative Law Judge vacated the order and again changed the treating physician to Dr. Thomas Ward, since Dr. Dickson had made it clear that he saw his role as that of independent medical examiner rather than treating physician. The Arkansas Workers' Compensation Commission adopted this finding as its own. On appeal, the Respondents asserted that the change-of-physician rules found at Ark. Code Ann. § 11-9-514(a)(3)(A)(iii) (Repl. 2002), allowed only a one-time change and that a second was not contemplated by the statute. The Arkansas Court of Appeals affirmed, holding that there was substantial evidence that the original order was not effective to provide a new treating physician for the Claimant.

Powers v. City of Fayetteville, 97 Ark. App. 251, ___ S.W.3d ___ (2007): This hearing loss case came before the Arkansas Court of Appeals for a resolution of issues pertaining to the statute of limitations and overall compensability. The Claimant began working for the Respondent as a firefighter in 1986, and first sought medical treatment for hearing problems in 1992. His physician, Dr. Crocker, ordered further diagnostic testing in 1995, 1998, and 2001. These tests eventually revealed "significant change" in 2001 which led to the Claimant becoming a candidate for hearing aids and resulted in a 9.4% impairment rating. Dr. Crocker's testimony indicated that, despite the presence of nonwork-related causes, the Claimant's exposure to occupational noise was the "major cause" of his hearing loss. The Claimant ultimately filed for workers' compensation benefits in 2002; however, the Arkansas Workers' Compensation Commission concluded that his claim was time-barred and that he had failed to prove that he sustained a compensable injury. However, the Court of Appeals disagreed as to the former issue, holding that the Claimant's 0% rating in 1998 meant that additional disability had occurred between then and 2001 such that the Claimant's condition had not stabilized in 1998. The Court went on to conclude that since the Claimant sustained no permanent disability until 2001 and had continued to work throughout the period in question, his 2002 claim was not stale. Even so, in light of conflicting expert testimony regarding causation, the Court further concluded that the Commission had substantial evidence before it on which to find that the Claimant had failed to prove a compensable hearing loss injury.

Long v. Wal-Mart Stores, Inc., 98 Ark. App. 70, ___ S.W.3d ___ (2007): In a lengthy opinion addressing myriad issues ranging from the Claimant's alleged injury to the constitutionality of Arkansas's workers' compensation system, the Arkansas Court of Appeals affirmed each of the

findings of the Arkansas Workers' Compensation Commission, to wit, that the Claimant had failed to prove that he sustained a compensable injury on September 2, 2003, had failed to show that Arkansas's overall workers' compensation scheme was unconstitutional and, finally, had failed to demonstrate that either the Commission or its Administrative Law Judges had been pressured to rule for or against Claimants.

Rodriguez v. M. McDaniel Co., 2007 WL 678477 (March 7, 2007; No. CA06-866): The Arkansas Workers' Compensation Commission found in this matter that the Claimant had failed to prove that she sustained a compensable injury on March 22, 2005, due to a lack of objective findings. The Claimant appealed to the Arkansas Court of Appeals, contending that her prescription for Robaxin, a muscle relaxant, along with an emergency room "clinical impression" of a "contusion," were sufficient objective findings. In considering the Claimant's argument, the Court pointed out that this case could be distinguished from *Fred's, Inc. v. Jefferson*, 361 Ark. 258, 206 S.W.3d 238 (2005). In *Fred's*, the Arkansas Supreme Court had held that a prescription for a muscle relaxant could constitute an objective finding even though the physician had failed to specify the purpose of the medication; in particular, a reasonable inference could be drawn that it was indeed prescribed to treat the work-related injury at issue. In the present case, however, the Claimant's physician offered testimony indicating that, in the absence of observed muscle spasms, the Claimant's Robaxin would have been prescribed as a prophylactic measure. The physician also testified that, in light of his own records and his review of the emergency room records, the Claimant's contusion would have referred to tenderness rather than discoloration or bruising: "What we can gather from the emergency room doctor's report is...there was tenderness on the right hip but not necessarily discoloration according to the physical exam. If there had been discoloration I would expect it to say on the physical exam portion 'Bruising' or some note in that area. Particularly in the portion of the physical exam, [it] says 'Hip tenderness' and then there was a space beside that. Typically we would say there was swelling or discoloration, contusion, or something along those lines to indicate there was more than that." Because it had chosen to accept Dr. Yawn's testimony, the Court deferred to the Commission's prerogative to weigh and resolve medical evidence and affirmed its findings.

Weaver v. Nabors Drilling USA; 2007 WL 756754 (March 14, 2007; No. CA06-943): The Claimant in this case began working for the Respondent in December, 2004. In early March, 2005, he began to experience symptoms of tingling and burning affecting his hands while carrying a sack of mud. He could not, however, define a "specific incident" that produced these symptoms. The next day, the Claimant's hands were substantially swollen, from what he thought might be a chemical reaction to the "mud" he had been handling. Upon seeking medical treatment, the Claimant identified no specific workplace accident, but his records indicated that his symptoms had started at work on March 5, 2005. A subsequent MRI revealed herniated disks at C5-6 and C6-7. On May 17, 2005, the Claimant filed an AR-C, which stated that he had injured his neck while "slipping pipe" and "mixing mud." The Arkansas Workers' Compensation Commission found that the Claimant had failed to demonstrate that he sustained an injury as the result of a "specific incident" that was "identifiable by time and place of occurrence" pursuant to Ark. Code Ann. § 11-9-104(a), and denied benefits. The Arkansas Court of Appeals affirmed, holding in essence that the Claimant had only proven that he had an injury and that he had felt pain at work; he had failed to prove, however, that a specific incident

actually occurred at work. The Court did not accept the Claimant's argument that his work must have caused his neck injury simply because there was no other explanation: "[The Claimant] asks this court to infer that his injury was caused by his employment – something we are not permitted to do."

Johnson v. McKee Foods, 2007 WL 1080084 (April 11, 2007; No. CA06-1045): In this matter, the Arkansas Workers' Compensation Commission found that the Claimant was barred from receiving wage loss disability benefits pursuant to Ark. Code Ann. § 11-9-503(b), which precludes such benefits where a Claimant refuses, without reasonable cause, to participate in vocational rehabilitation or job placement assistance. On appeal, the Arkansas Court of Appeals noted that the Claimant had refused to pursue two job leads that had been identified for him and eventually refused to accept or read mail from the vocational placement service retained by the Respondents. Accordingly, the Court concluded that fair-minded persons could have reached the Commission's conclusion that the Claimant had refused to participate in job placement assistance. The Court also agreed with the Commission's finding that said refusal had not been predicated upon reasonable cause, in that the Claimant's physician had approved both of the identified job leads and, moreover, the Claimant would have become eligible for wage loss benefits if he had pursued the offered vocational placement assistance (contrary to the Claimant's own assertion that he had no financial motivation to pursue the offered job leads).

Transplace Stuttgart, Inc. v. Carter and C-Claw, Inc., 2007 WL 1207207 (April 25, 2007; No. CA06-711): Here, the Arkansas Workers' Compensation Commission found that Transplace was the Claimant's "statutory" employer and that C-Claw, Inc., a trucking company, was Transplace's uninsured subcontractor. In turn, Transplace was held liable for the Claimant's work-related injury of September 3, 2004. Specifically, the Commission found that Transplace was contractually obligated to a third-party, Cereal ByProducts, because it had "secured" a job for the delivery of Cereal ByProducts's goods by C-Claw. Accordingly, the Commission determined that Transplace met the legal definition of a "prime contractor" for purposes of workers' compensation liability pursuant to Ark. Code Ann. § 11-9-402. The Arkansas Court of Appeals, however, reversed the Commission's findings, pointing out that Transplace had acted merely as a broker "in the quintessential sense" by bringing C-Claw and Cereal ByProducts together for the shipment of the latter's product. The Court further reasoned that since Transplace itself was not obligated to actually transport any of Cereal ByProducts's loads, it had no work to "farm out" to C-Claw and thus no subcontracting arrangement existed.

Estate of Jerry Slaughter v. City of Hampton, 2007 WL 1207203 (April 25, 2007; No. CA06-1077): On November 17, 2004, the Claimant sustained an exposure to chlorine gas while changing out a gas cylinder in the course of his employment. His condition worsened over the next several days, prompting the Claimant to seek medical attention which eventually culminated in hospitalization. During the course of treatment, it became known that the Claimant was infected with the HIV virus and also suffered from chronic obstructive pulmonary disease (COPD) in the form of emphysema. The Claimant's condition deteriorated and he died in the hospital on January 15, 2005, at the age of thirty-five. While the Commission concluded that the exposure to chlorine gas had been an "unusual and unpredicted incident" under Ark. Code Ann. § 11-9-114, it found that the gas exposure had not been the "major cause" (more than 50%) of the physical harm that affected the Claimant; rather, the Commission determined that the

exposure was “but one factor” that led to the Claimant’s respiratory failure. On review, the Arkansas Court of Appeals reversed, pointing out that it had been “steadfast in our interpretation of Ark. Code Ann. § 11-9-114 that pre-existing conditions do not preclude a finding that a work-related incident is the major cause of a physical harm.” The Court further noted that the Claimant had showed no signs of acute illness or respiratory distress prior to the gas exposure, but had experienced a “downward spiral” afterward. In addition, the Court felt that the Commission had mischaracterized the attending physician’s deposition testimony, and stated that “Dr. Dietzen was resolute in his opinion that the inhalation of chlorine gas was the major precipitating even that led to Slaughter’s respiratory failure.” Under the circumstances, the Court concluded that fair-minded persons with the same facts before them could not have reached the same conclusion as the Commission and reversed its findings.

Baxter Co. Reg. Hosp. v. Dixon, 2007 WL 1490730 (May 23, 2007; No. CA 06-940): The Claimant in this instance sustained a compensable injury in 1991, which the Respondents accepted as compensable and paid until August, 1994. The Claimant subsequently filed a timely claim for additional benefits, including an anatomical impairment rating, permanent and total disability, and additional medical expenses. In its order of November 18, 1996, the Arkansas Workers’ Compensation Commission found that the Claimant had failed to meet her burden of proof. After taking no appeal from this order, the Claimant sought additional treatment on her own and eventually underwent surgery. She then filed another request for benefits on October 27, 1997. An Administrative Law Judge found this claim to be barred by the statute of limitations, though the Commission itself reversed this finding. In turn, the Arkansas Court of Appeals reversed the Commission, holding that the Claimant’s new claim was essentially identical to that which had been the subject of the Commission’s order of November, 1996. The Court went on to characterize the new claim not as one for “additional compensation,” but as a request to modify the Commission’s previous order. As such, pursuant to Ark. Code Ann. § 11-9-713, it had to be filed within six months of the Commission’s denial of benefits in November, 1996. Moreover, the Court went on to find that, even if the claim was one for “additional compensation,” it was nonetheless time-barred in that “an order denying all requested benefits does not allow a claimant an additional year in which to file a claim for additional benefits.” Instead, since six months had elapsed prior to the Claimant’s filing that resulted in the order of denial in November, 1996, she had six months remaining after entry of the order in which to file a new claim [based on the statute of limitations pertaining to claims for “additional compensation,” e.g., one year from the date that compensation was last furnished; see Ark. Code Ann. § 11-9-702(b)]. In effect, following “denial resolution” of her original claim for additional compensation, the statute of limitations did not start over; rather, it had begun to “run anew.”

Henson v. General Elec. and Second Injury Fund, 2007 WL 1549239 (May 30, 2007; No. CA06-1356): In its opinion and order of August 31, 2007, the Arkansas Workers’ Compensation Commission found that the claimant was entitled to a wage loss disability rating of 35%. The Commission also awarded the Second Injury Fund a dollar-for-dollar credit, pursuant to Ark. Code Ann. § 11-9-411, for long-term disability and disability-retirement benefits received by the Claimant. On appeal, the Arkansas Court of Appeals reversed as to the Commission’s award of wage loss disability and remanded the issue for further proceedings. However, the Court affirmed the Commission with regard to its finding that the Second Injury Fund was entitled to a credit for disability-retirement benefits as well as long-term disability benefits received by the

Claimant. With particular regard to disability retirement, the Court agreed with the Fund's contention that Ark. Code Ann. § 11-9-411 was intended to offset workers' compensation disability benefits in the event of a claimant receiving any other type of disability payment (the Claimant had argued that disability-retirement benefits were not encompassed by Ark. Code Ann. § 11-9-411 in that they were not specifically mentioned in the statute and were based primarily on an employee's years of service in addition to being disabled).

Single Source Transp. V. Kent, 2007 WL 1632753 (June 6, 2007; No. CA06-1376): The Claimant sustained a compensable injury in August, 1995, and ultimately filed a claim for additional benefits in 2005 which the Respondents argued was barred by the statute of limitations. The Arkansas Workers' Compensation Commission found that the claim was not time-barred and awarded benefits. The Arkansas Court of Appeals declined to address issues surrounding the 2005 claim for benefits because it concluded that "the Commission's method of computing the running of the statute of limitations is fundamentally flawed." In particular, the Claimant had also filed a claim for additional benefits on March 12, 2001, and had obtained additional treatment on March 13, 2002. In between, the Respondents obtained an order of dismissal for failure to prosecute on December 13, 2001. The Commission apparently found the claim to be timely owing to the fact that the Claimant had obtained treatment on March 13, 2002, which was within one year of the December 12, 2001, order of dismissal. The Court of Appeals held that the Commission had erred in this regard, since the March 12, 2001, claim had essentially been rendered a nullity by virtue of the order of dismissal and "unless a new claim is filed within the statutory period of time allowed by Ark. Code Ann. § 11-9-702, the statute of limitations will bar any subsequent claims." See *Dillard v. Benton County Sheriff's Office*, 87 Ark. App. 379, 192 S.W.3d 287 (2004). The Court further held that it was incumbent upon the Commission to make findings with regard to the last payment of compensation in order to determine the timeliness of the Claimant's claim for additional compensation. Since the Commission had instead based its findings on an erroneous standard, the matter was reversed for further findings consistent with the Court's opinion.

FUTURE PROJECTIONS

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

Surrounding states have not been quite so fortunate. The NCCI continues to discover that workers' compensation results are deteriorating countrywide. The NCCI identifies a number of factors that are having a negative impact on the market:

- lower earnings relating to investments,
- 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 continues to fall sharply since the reform efforts of 1993. This means fewer injured workers – the most valuable outcome imaginable for workers, their families, and employers.

CONCLUSION

Absent the reforms encompassed in Act 796 of 1993, it is doubtful Arkansas's employers would now have the option of voluntary workers' compensation insurance. Rather, the assigned risk plan, designed to be a market of "last resort," would have become Arkansas's market of "only resort." The General Assembly is to be highly commended for its leadership in reforming the workers' compensation market in our state while protecting the interests of the injured worker.

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

Prepared: September 1, 2007

cc: The Honorable Mike Beebe, C/O Mr. James Miller, Regulatory Liaison
 Ms. Carol Stapleton, Legislative Liaison, Bureau of Legislative Research
 The Honorable Olan W. Reeves, Chairman, AWCC
 The Honorable Karen H. McKinney, Commissioner, AWCC
 The Honorable Philip Alan Hood, Commissioner, AWCC
 Mr. Alan McClain, Chief Executive Officer, AWCC
 Ms. Lenita Blasingame, Chief Deputy Commissioner, AID
 Mr. Nathan Culp, Public Employee Claims Division Director, AID
 Mr. Cory Cox, Criminal Investigation Division Director, AID
 Ms. Alice Jones, Communications Director, AID



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'07 STATE ADVISORY FORUMS

Arkansas

Workers Compensation State Advisory Forum

May 17, 2007

Presented by:

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Arkansas Workers Compensation State Advisory Forum

8:30	Continental Breakfast
9:00	Industry and Arkansas Outlook Workers Compensation System Overview State of the Industry Claim Frequency Indemnity Severity
10:30	Break Medical Severity Legislative Issues Nationwide and in Arkansas Arkansas Workers Compensation Commission Update The Residual Market in Arkansas Classification Research Project Update Closing Remarks



Industry Outlook

- Overall system premium has stabilized
- Decrease in calendar year combined ratios
- Improvement in accident year combined ratios
- Results positive but industry must be guarded to long-term challenges



Arkansas Outlook

- One of the lowest combined ratios in the country
- Loss costs remain stable
- Frequency decreases continue to offset growth in indemnity and medical costs
- Recently passed state legislation will impact future loss costs
- Residual market share is declining





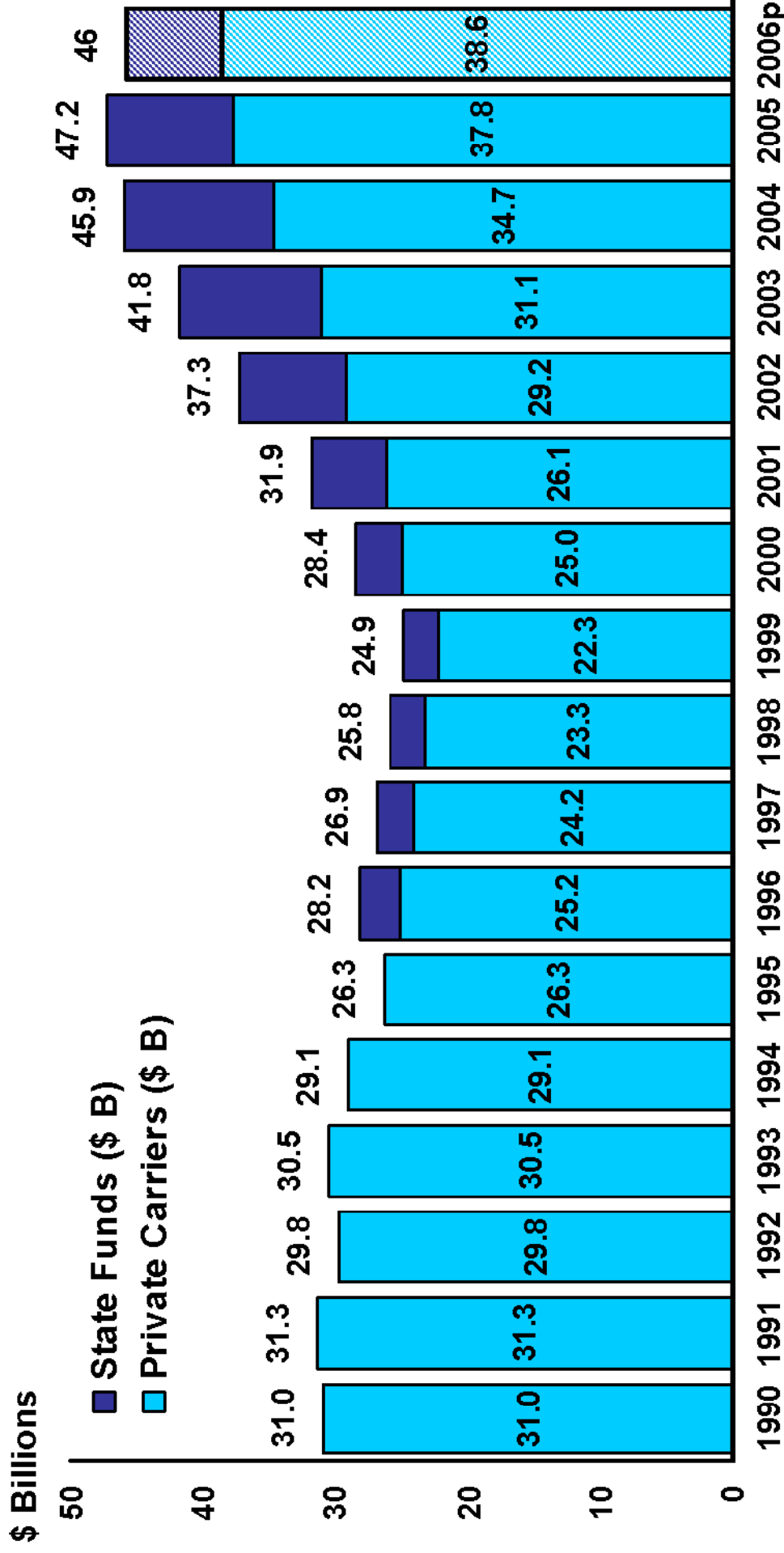
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'07 STATE ADVISORY FORUMS

Workers Compensation System Overview

Total Workers Compensation Premium Declined in 2006

Net Written Premium



Calendar Year

p Preliminary

Source: 1990-2005 Private Carriers, A.M. Best Aggregates & Averages; 2006p, NCCI

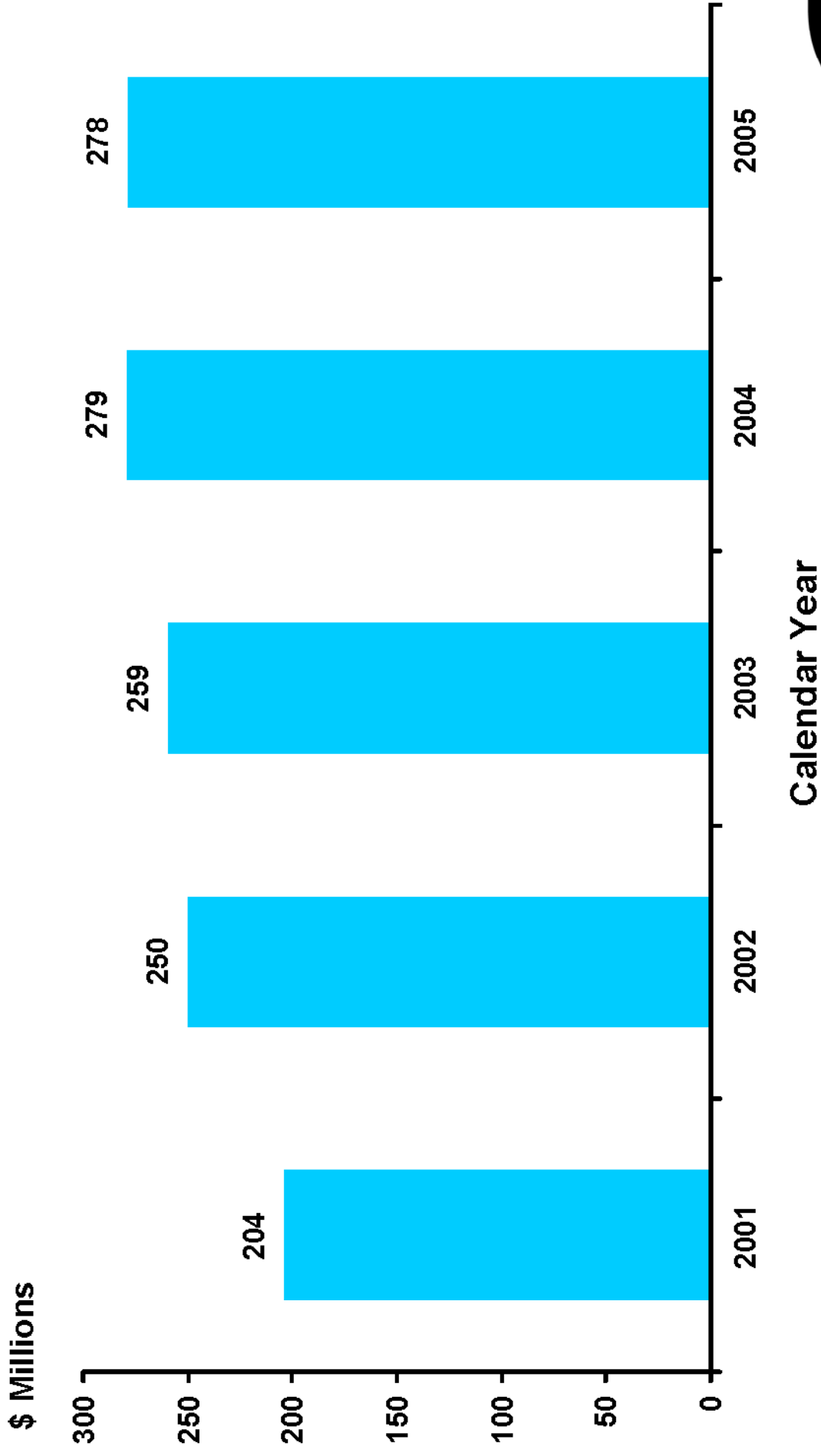
1996-2006p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OR, RI, TX, UT Annual Statements

State Funds available for 1996 and subsequent



Arkansas Workers Compensation Premium Volume

Direct Written Premium

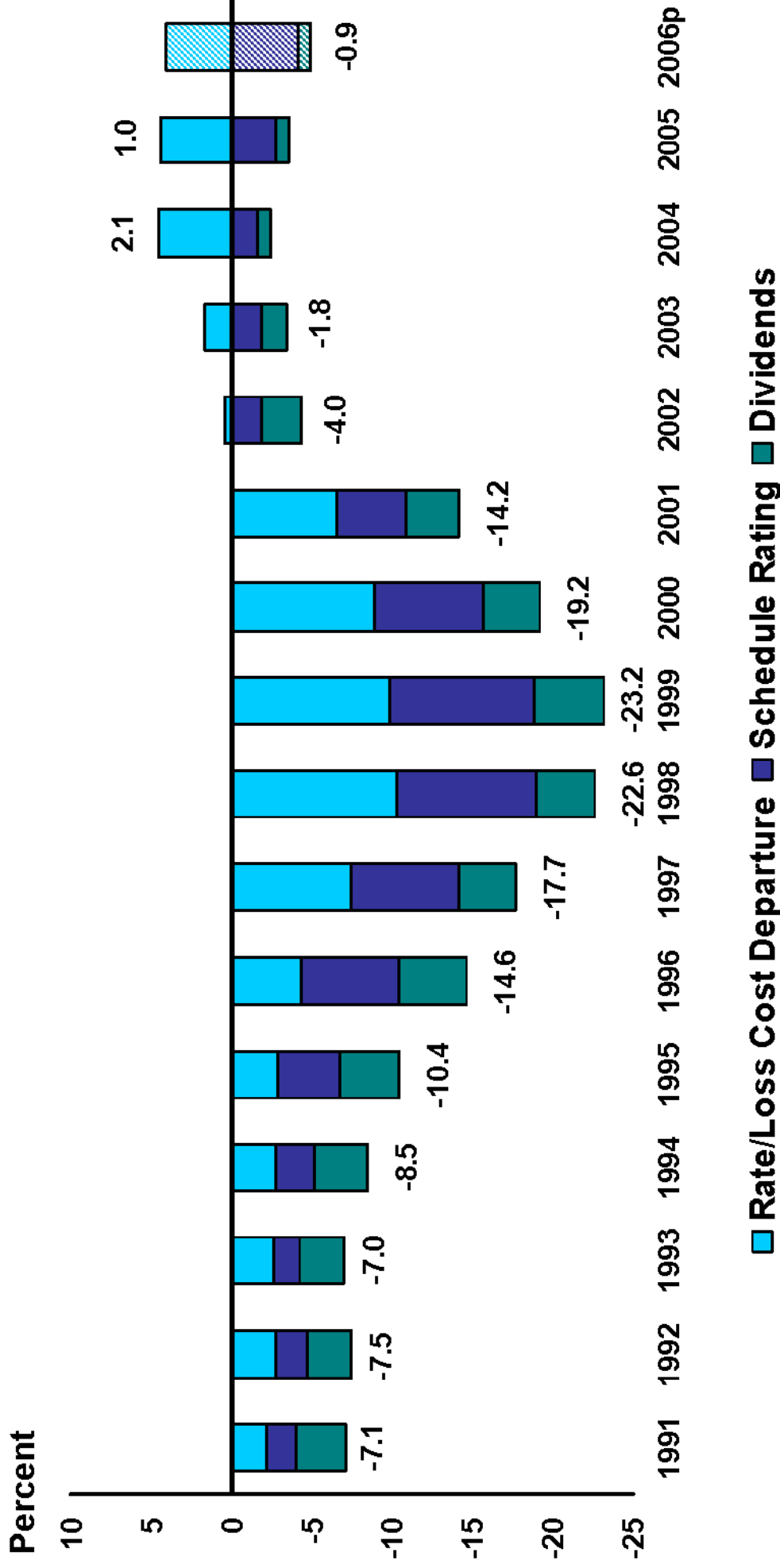


Source: NAIC Annual Statement data



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

NCCI States—Private Carriers



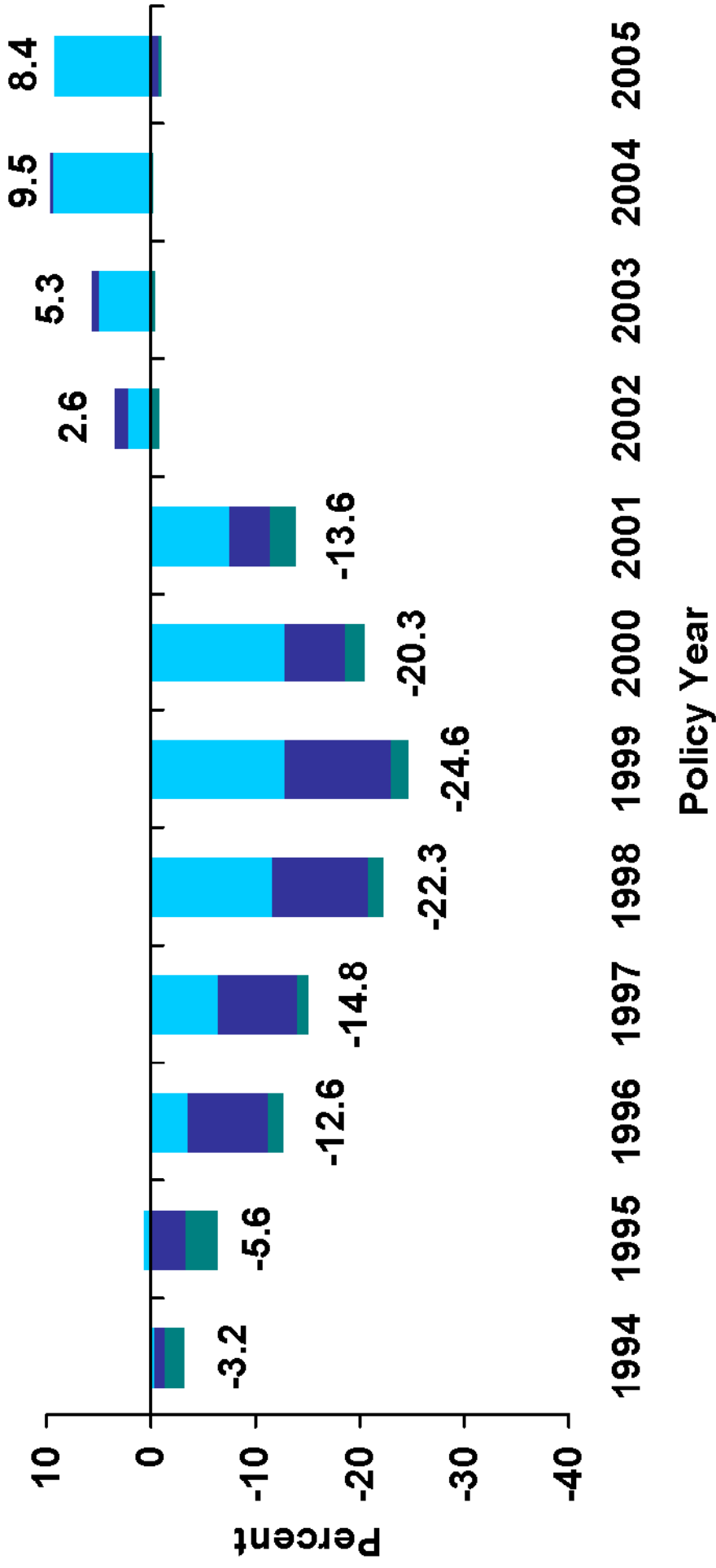
p Preliminary

NCCI benchmark level does not include an underwriting contingency provision

Dividend ratios are based on calendar year statistics

Based on data through 12/31/06 for the states where NCCI provides ratemaking services

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



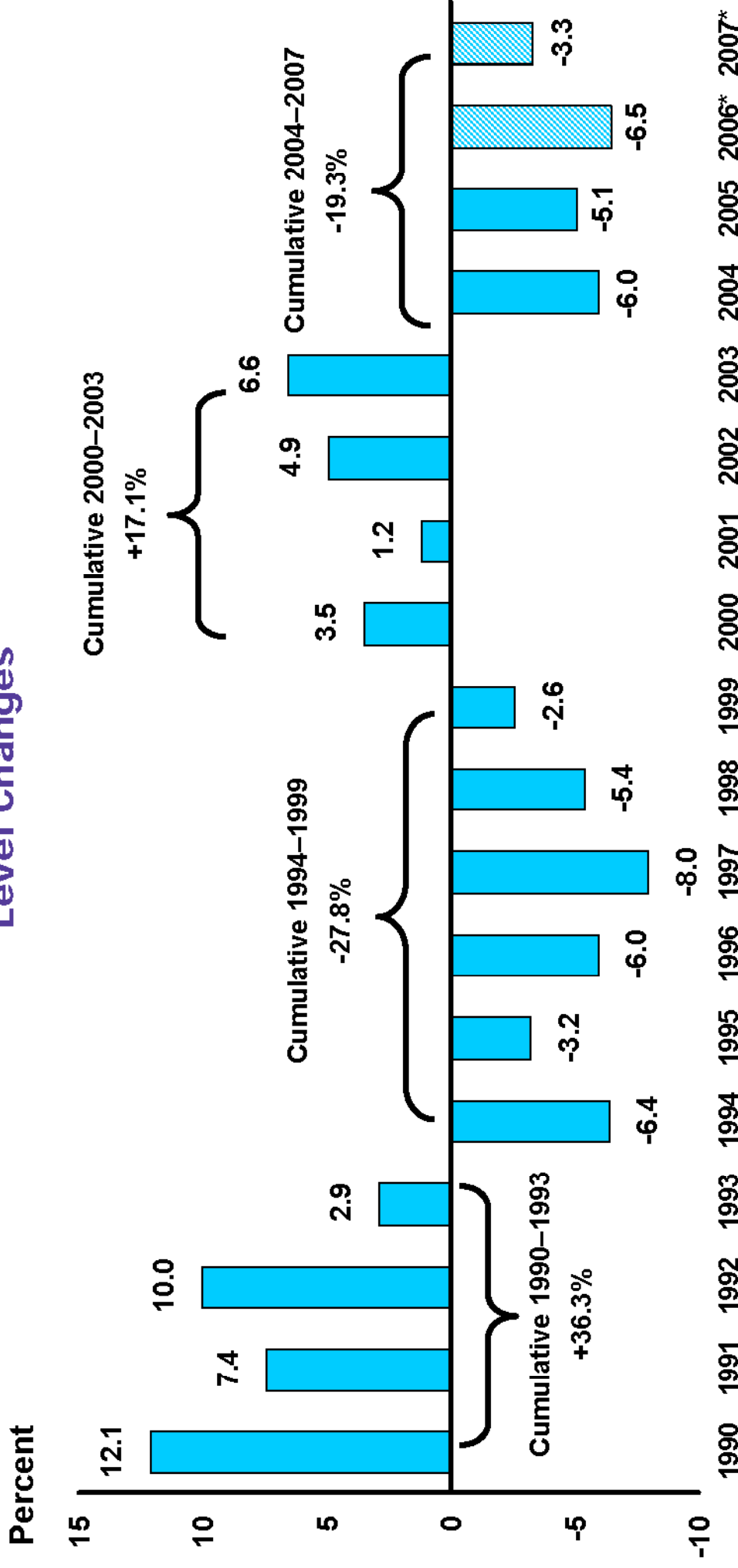
■ Rate/Loss Cost Departure ■ Schedule Rating ■ Dividends



Based on data through 12/31/05.
Dividend ratios are based on calendar year statistics.

Countrywide Average Approved Bureau Rates/Loss Costs

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



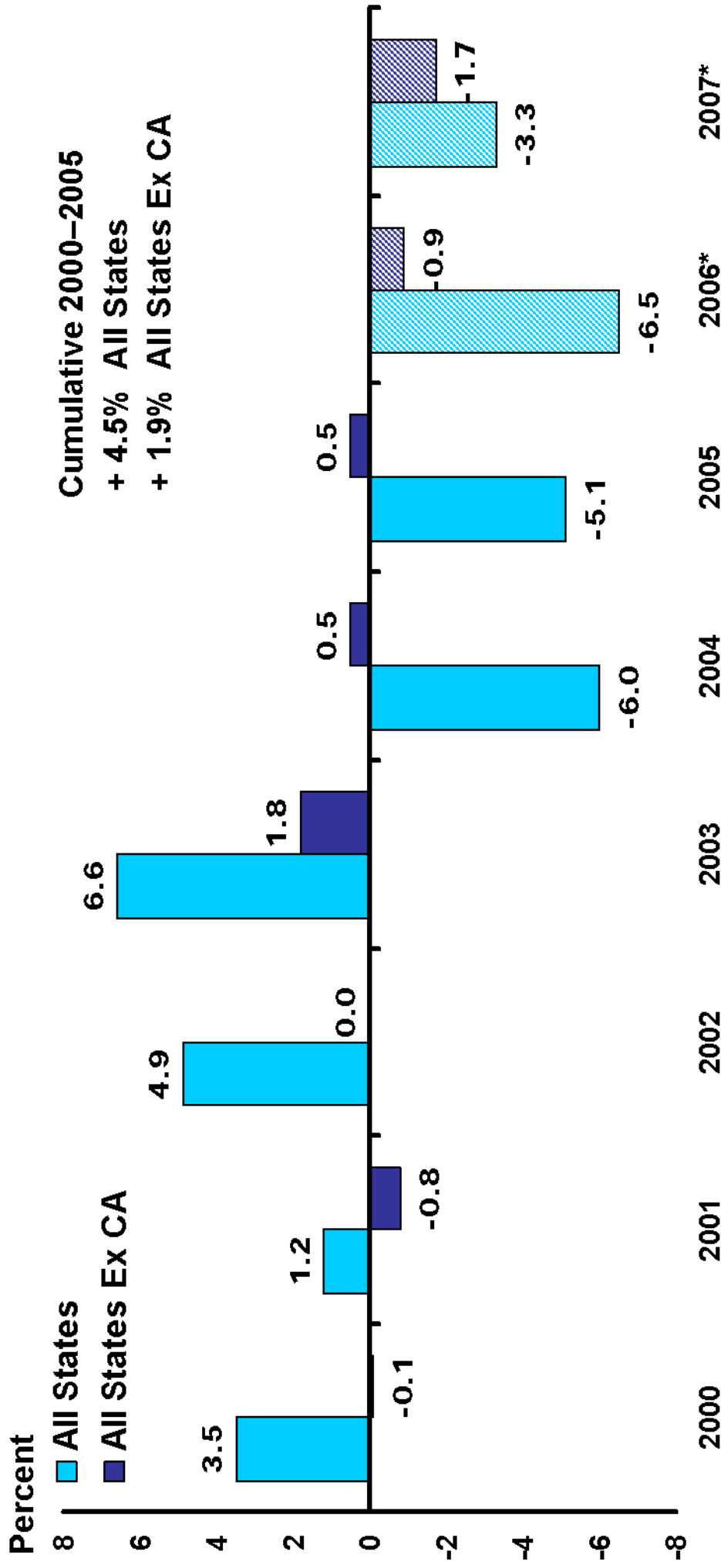
Calendar Year

*States approved through 4/13/07
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization



Countrywide Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California

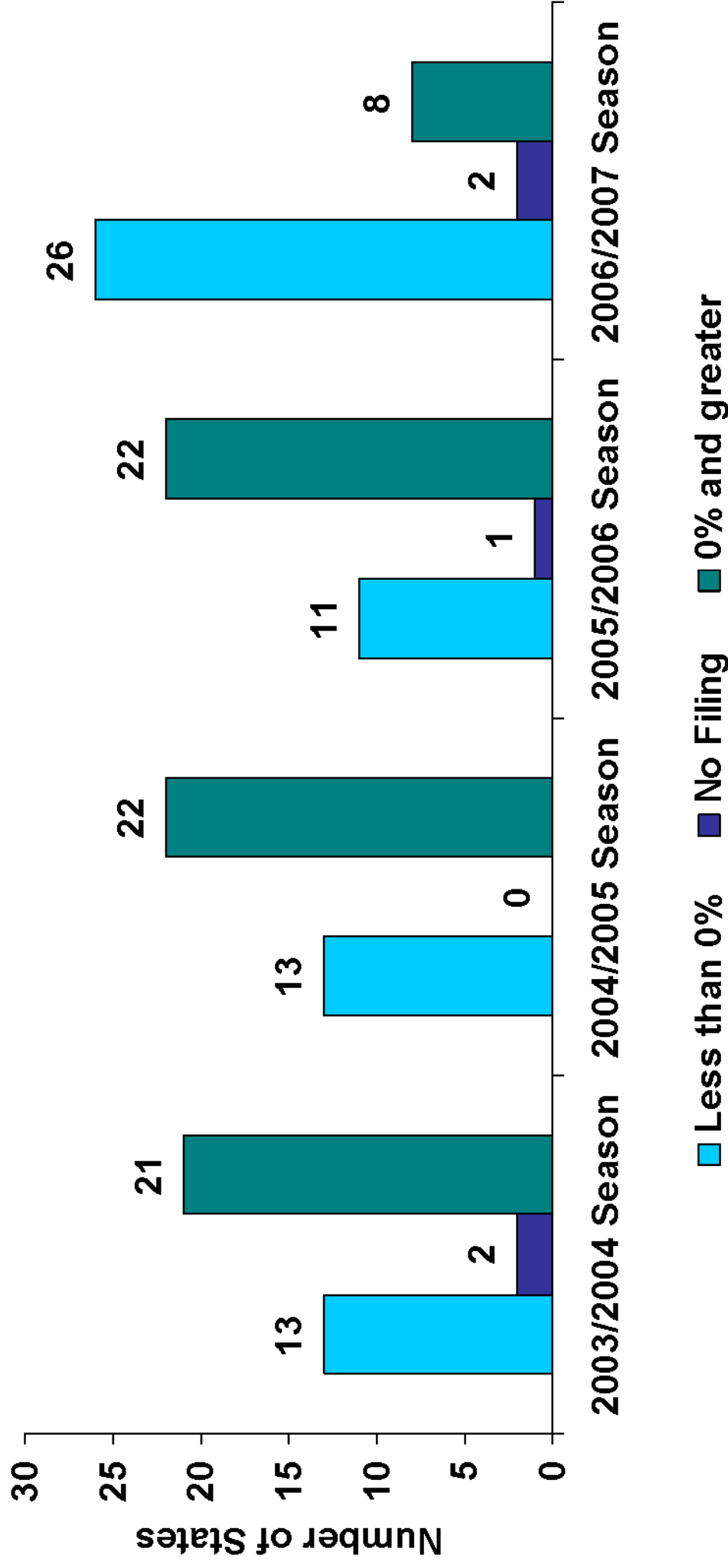


*States approved through 4/13/07
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization



Status of NCCI Filing Activity

Voluntary Market Filings



2006/2007 Filing Cycle

NCCI Voluntary Market Filing Activity

- Data for 36 states has been reviewed
 - 10 states have filed a change of 0% or greater or will not have a filing during this filing cycle
 - 26 states have filed decreases
- Range of voluntary filings: -15.8% to +23.7%

Based on data evaluated as of 12/31/05.

State Voluntary Market Filings

Nearby States

South Carolina*	12/1/07	+23.7%
Georgia*	3/1/07	+11.7%
Tennessee	3/1/07	+1.4%
Missouri	1/1/07	-0.7%
Oklahoma	1/1/07	-1.4%
Mississippi	3/1/07	-1.5%
Arkansas	7/1/07	-5.4%
Alabama	3/1/07	-5.5%
Kentucky	10/1/06	-9.3%
Louisiana	5/1/07	-15.8%

* Pending



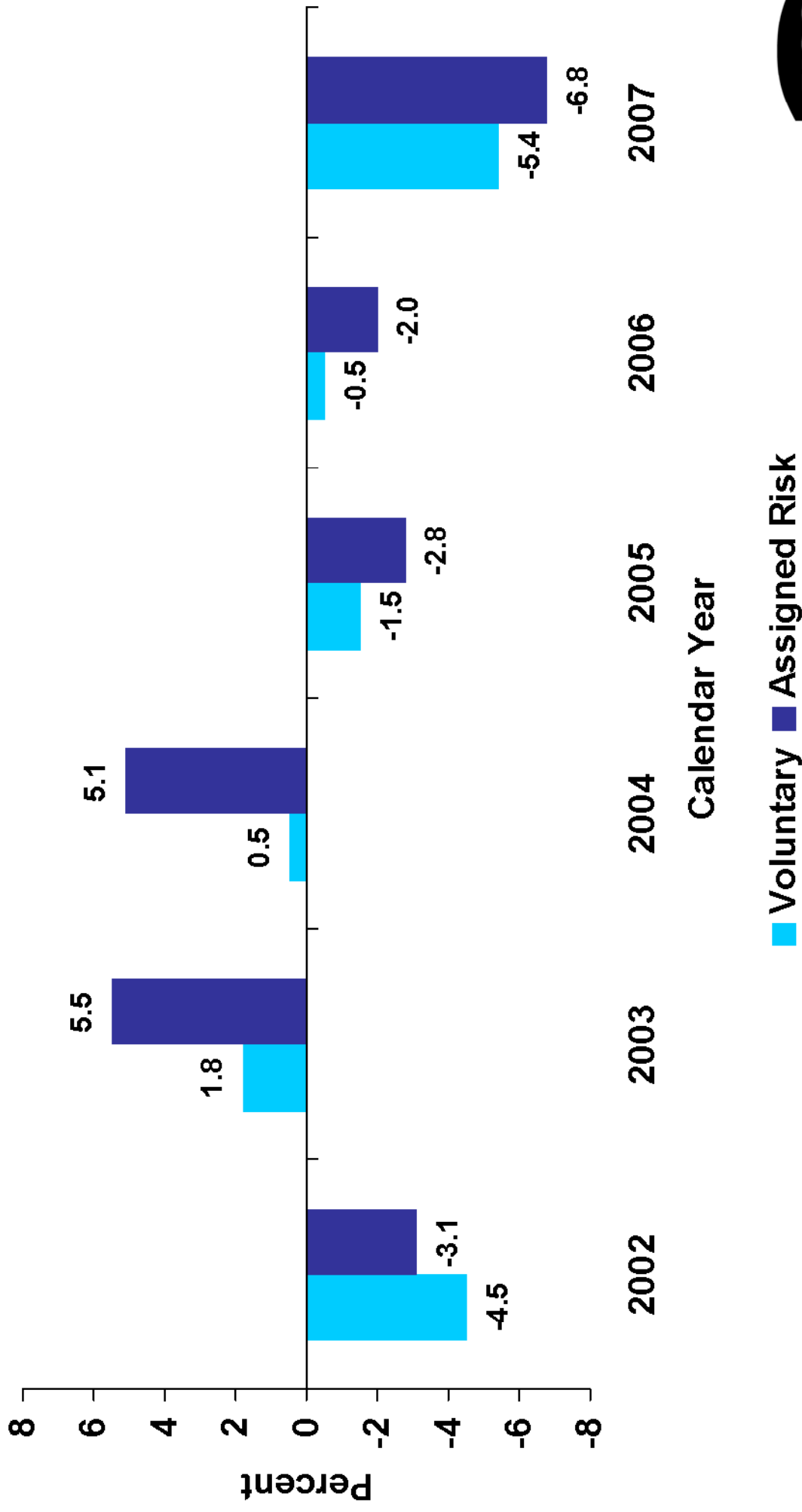
Law and Judicial Impacts

Georgia	1/1/07	+4.0%
Hawaii	1/1/07	+3.9%
Kentucky	2/15/06	+2.6%
Tennessee*	7/1/07	+2.4%
Georgia*	3/1/07	+1.7%

* Pending

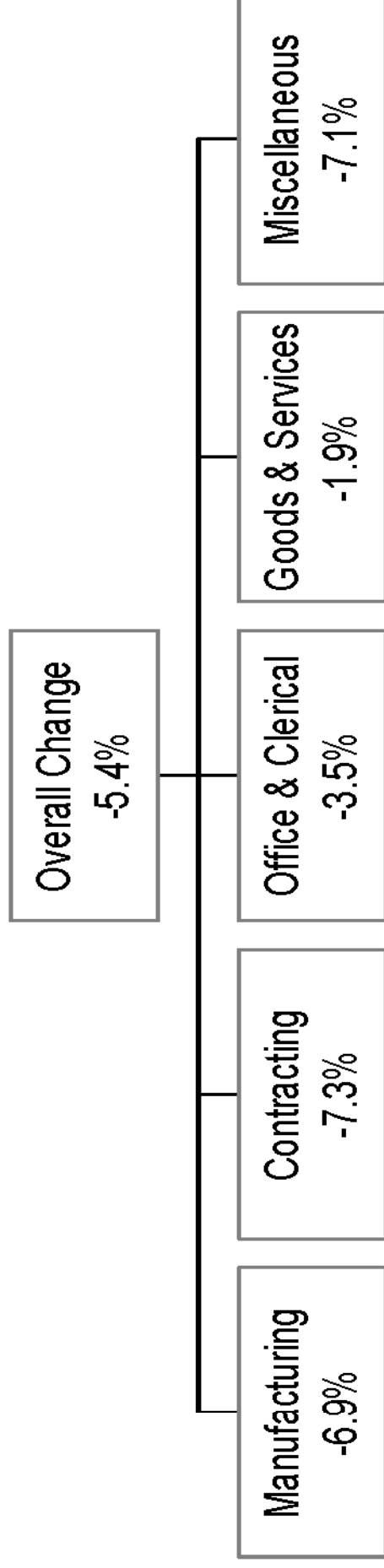
Arkansas Filing Activity

Voluntary Loss Cost and Assigned Risk Rate Changes

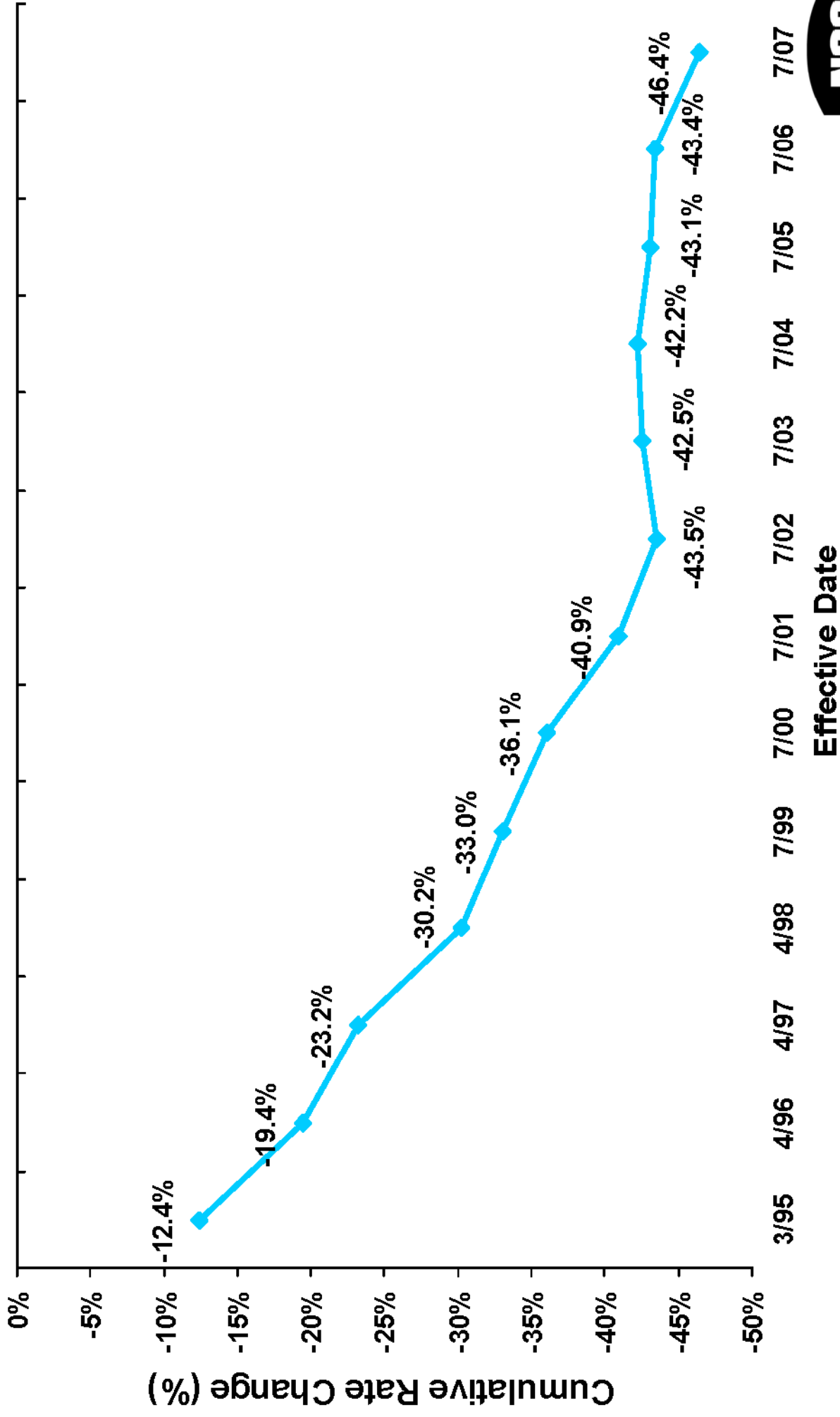


Arkansas July 1, 2007 Filing

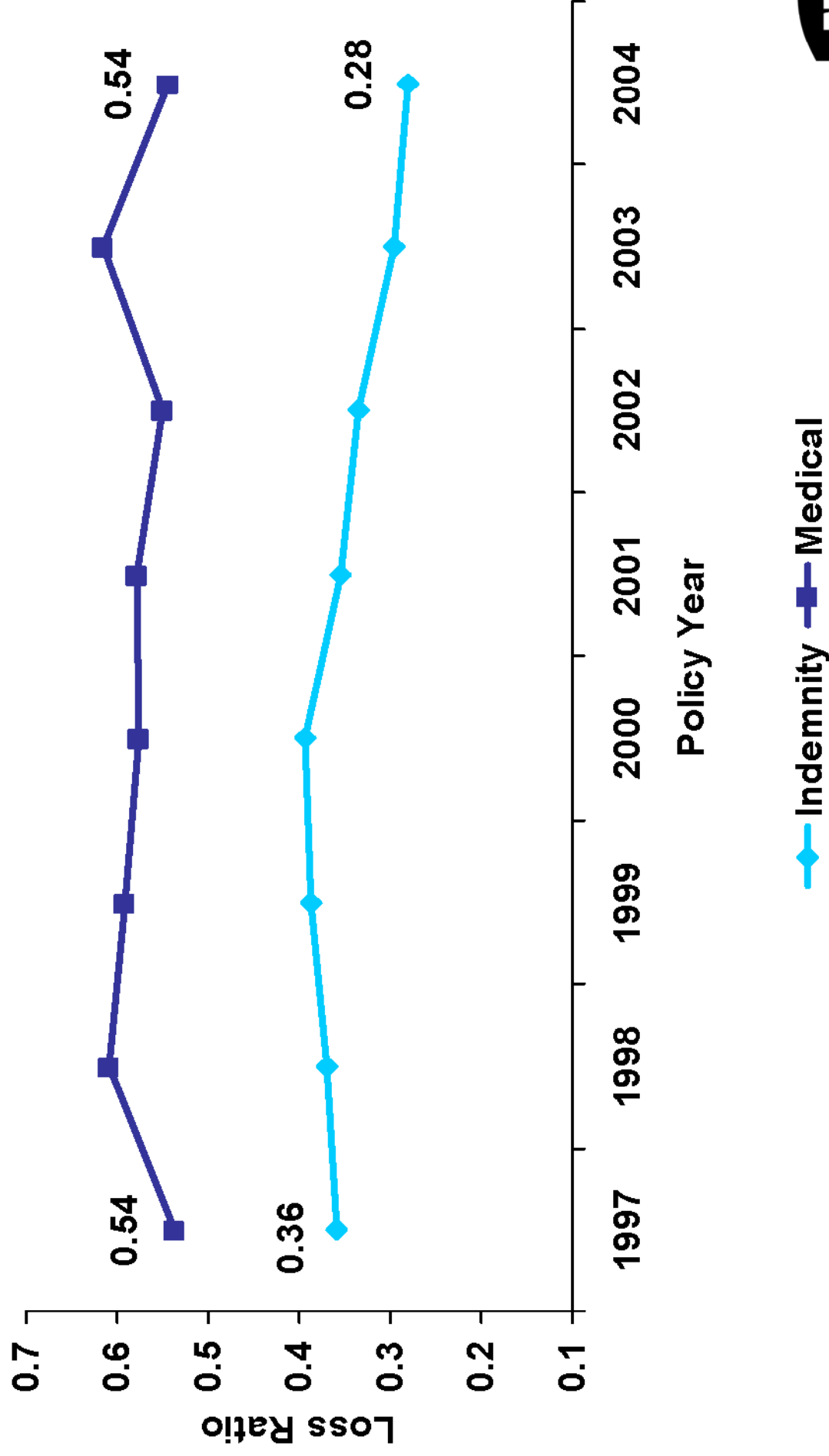
Average Changes by Industry Group



Arkansas Cumulative Loss Cost/Rate Level Change

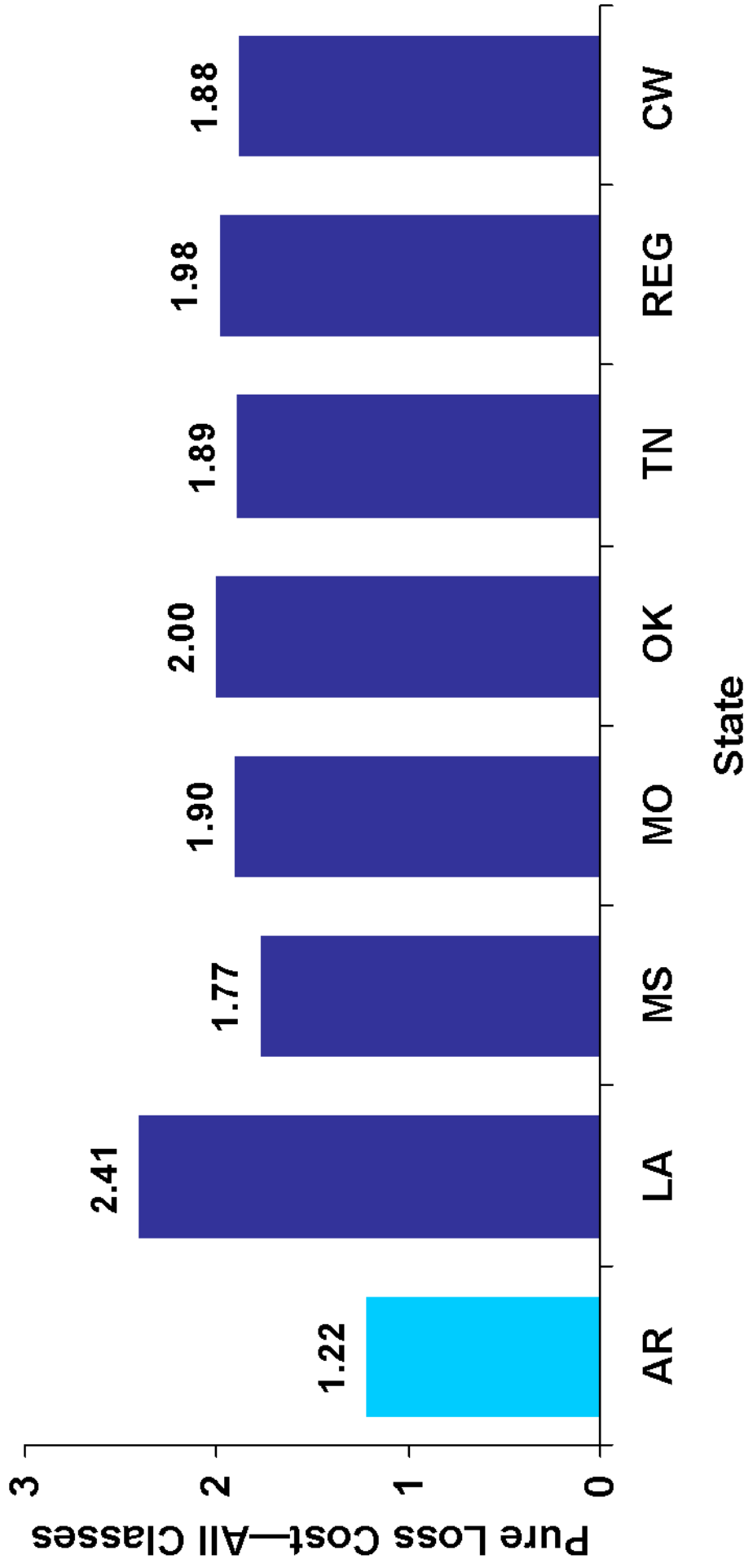


Arkansas Indemnity and Medical Loss Ratios



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

Current Average Voluntary Pure Loss Costs Using Arkansas Payroll Distribution



Based on the latest NCCI approved rates and loss costs in the various states as of 3/1/07.



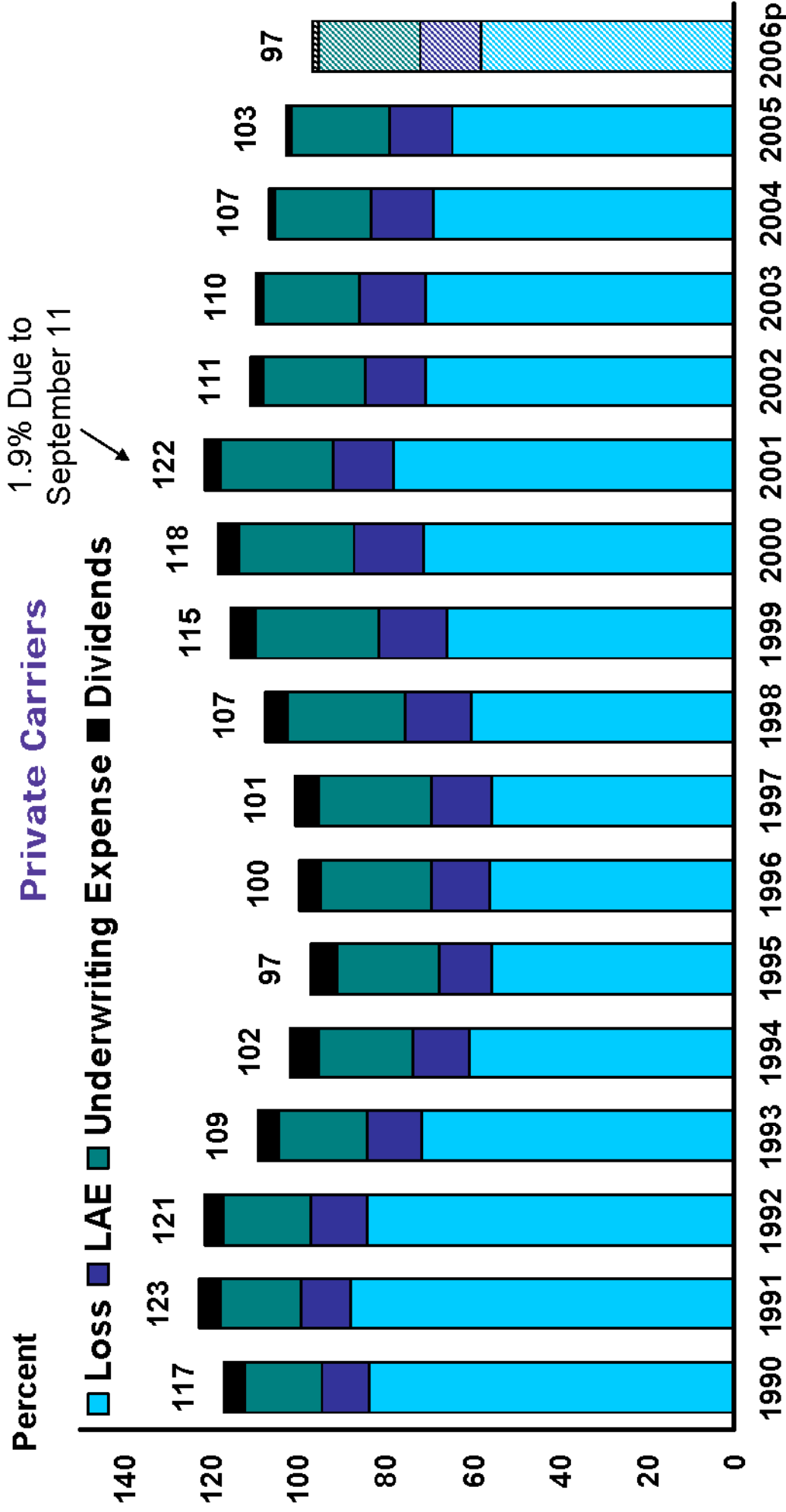


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'07 STATE ADVISORY FORUMS

State of the Industry

Countrywide Workers Compensation Calendar Year Combined Ratio Improved Again in 2006

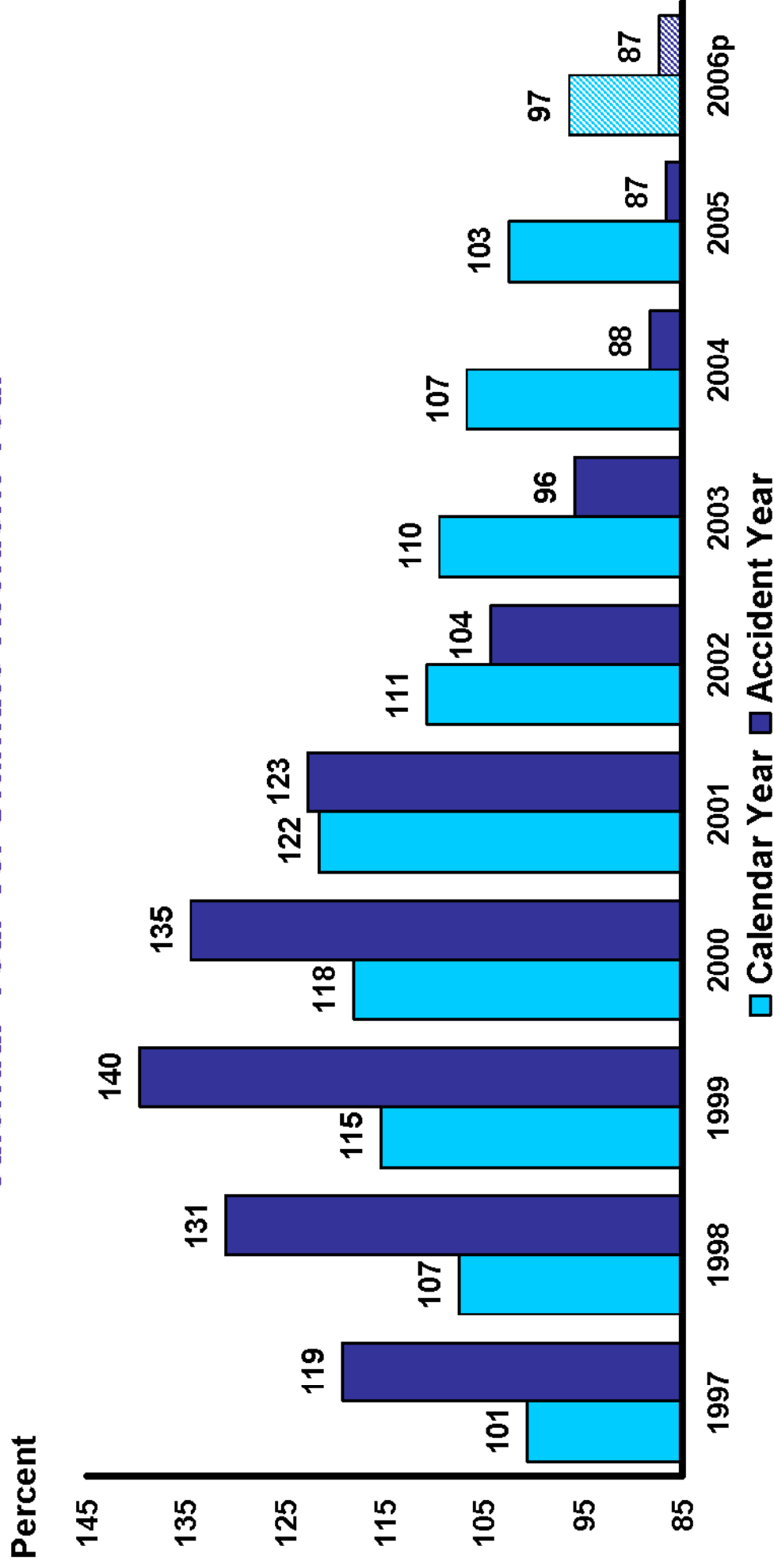


p Preliminary

Source: 1990-2005, A.M. Best Aggregates & Averages; 2006p, NCCI

Countrywide Accident Year Combined Ratio—Another Underwriting Profit in 2006

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



p Preliminary

Accident Year data is evaluated as of 12/31/06 and developed to ultimate

Source: Calendar Years 1997–2005, A.M. Best Aggregates & Averages;

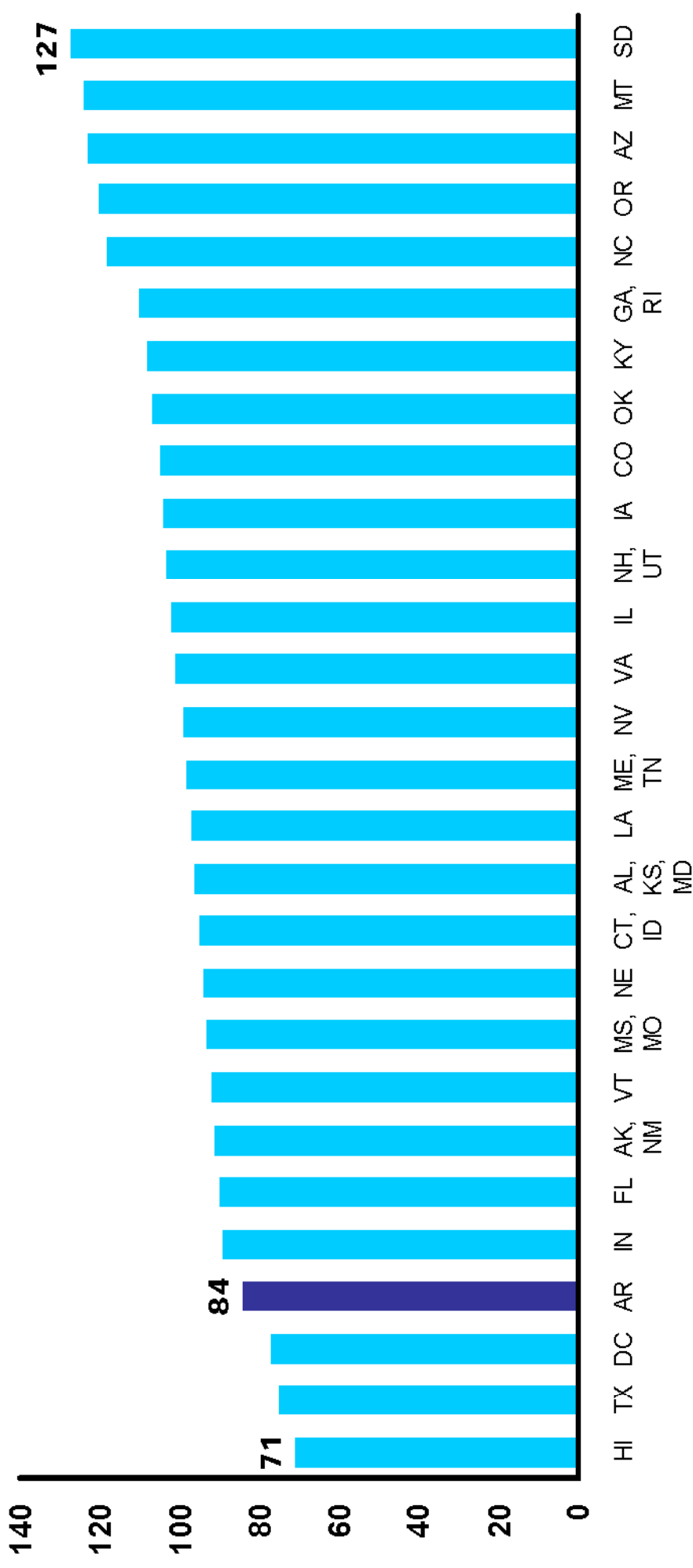
Calendar Year 2006p and Accident Years 1997–2006p, NCCI analysis based on Annual Statement data

Includes dividends to policyholders



Results Vary From State to State

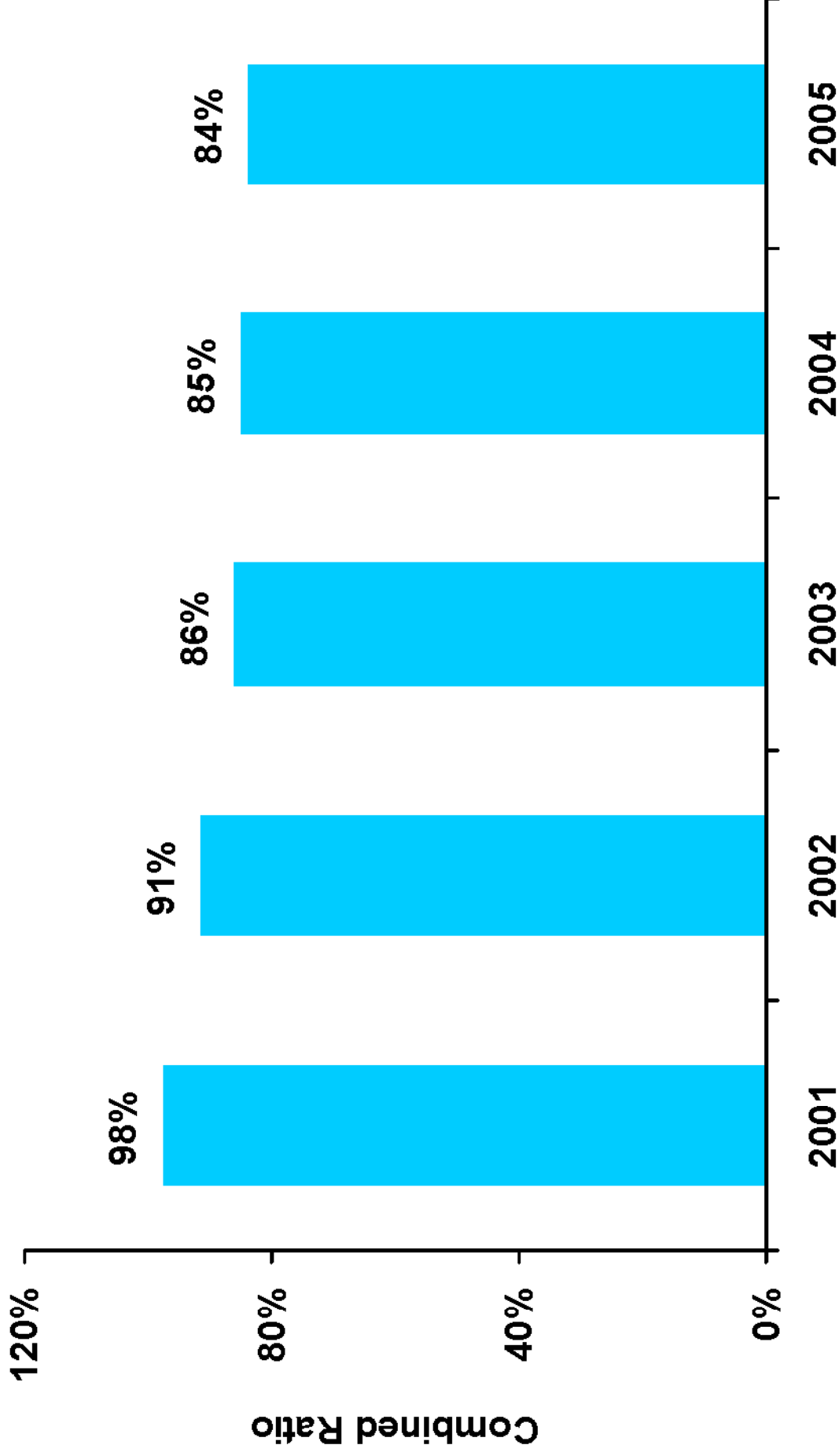
Accident Year 2005 Combined Ratios



Data is evaluated as of 12/31/05.



Arkansas Accident Year Combined Ratios



Accident Year



Source: NCCI financial data, NAIC Annual Statement data.

Workers Compensation Claim Frequency and Severity

- For each of the last 9 years (and 14 of the last 16), 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

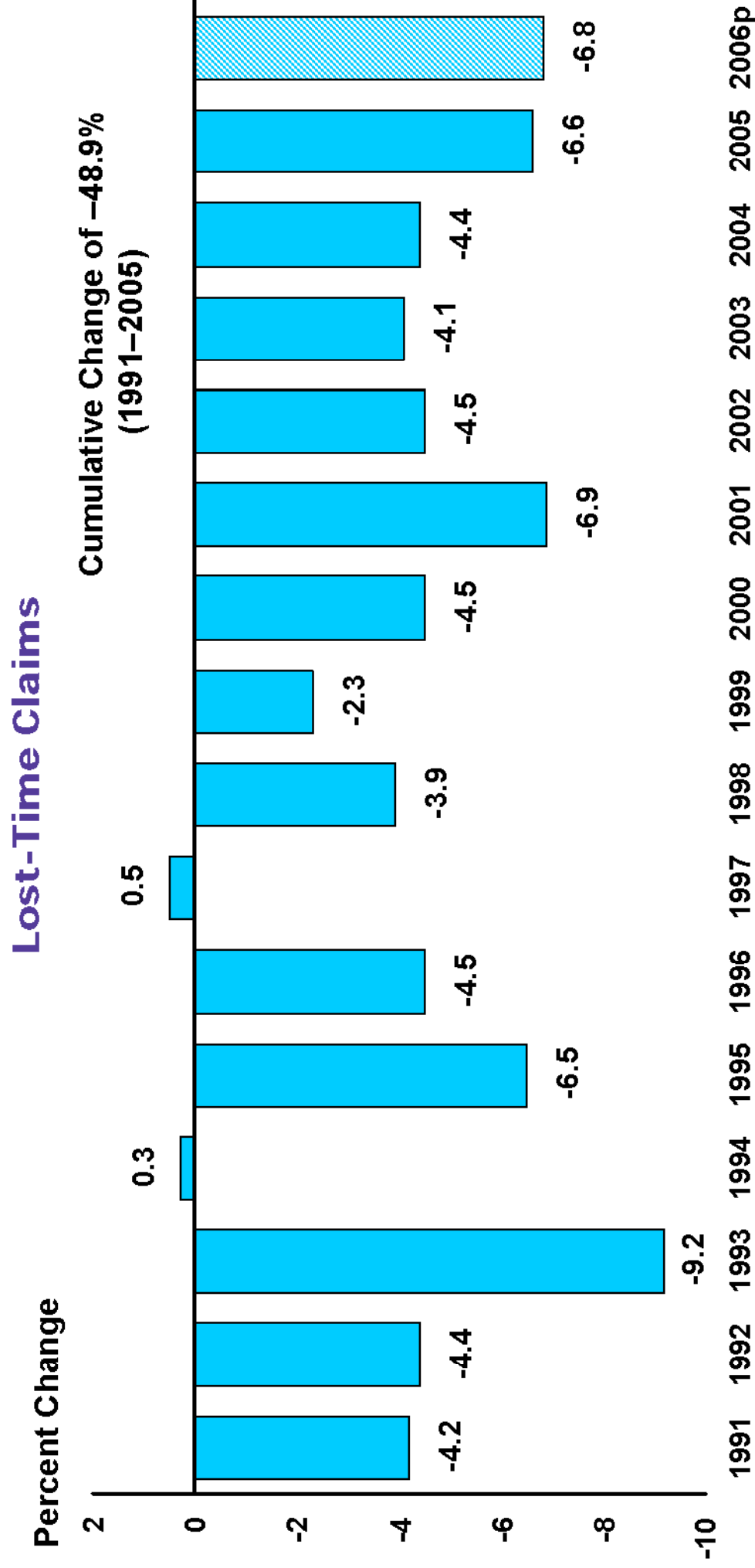


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Claim Frequency

Countrywide Workers Compensation Lost-Time Claim Frequency Continues Its Decline

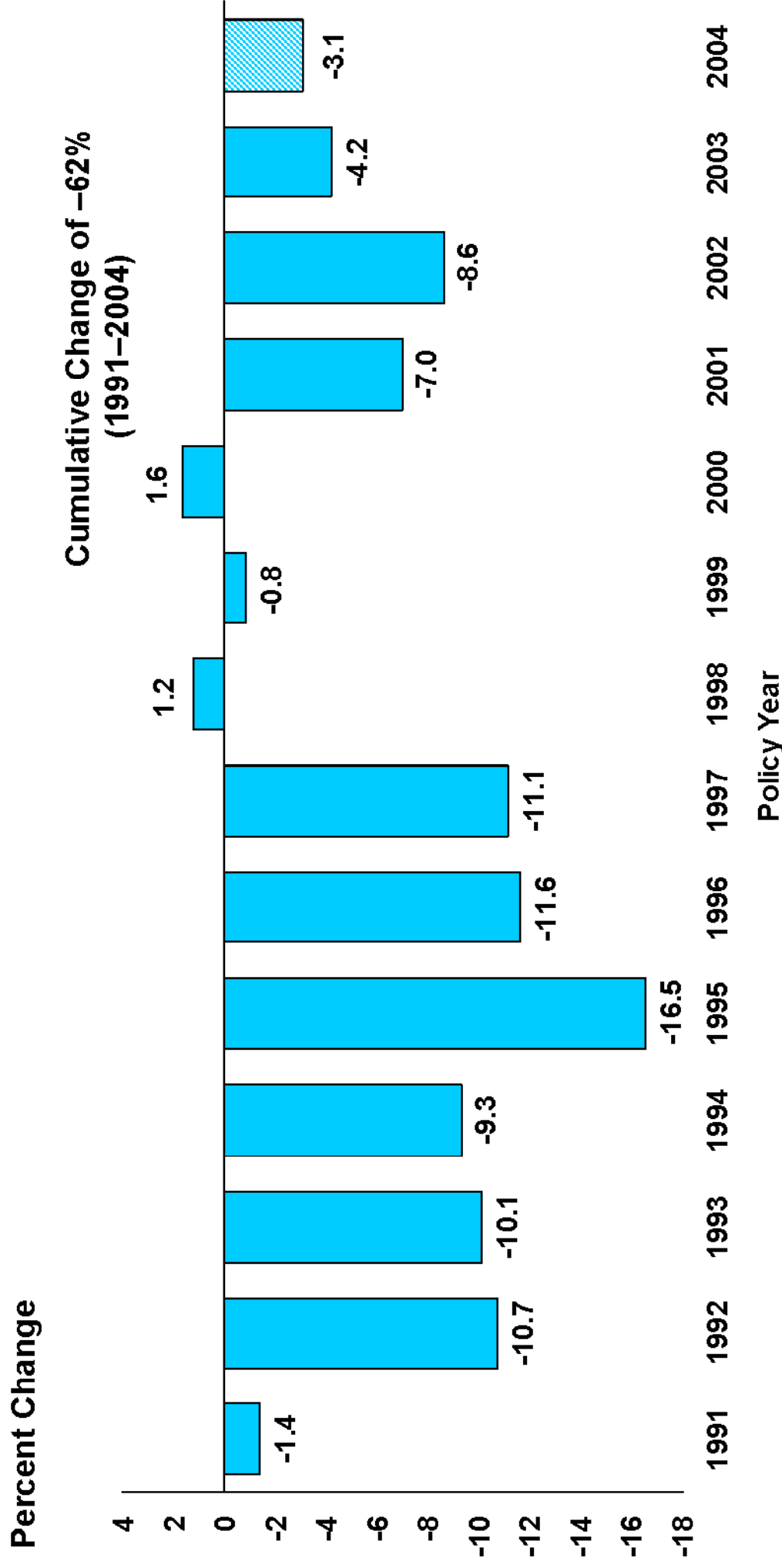


2006p: Preliminary based on data valued as of 12/31/06
 1991-2005: Based on data through 12/31/05, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies



Arkansas Workers Compensation Lost-Time Claim Frequency

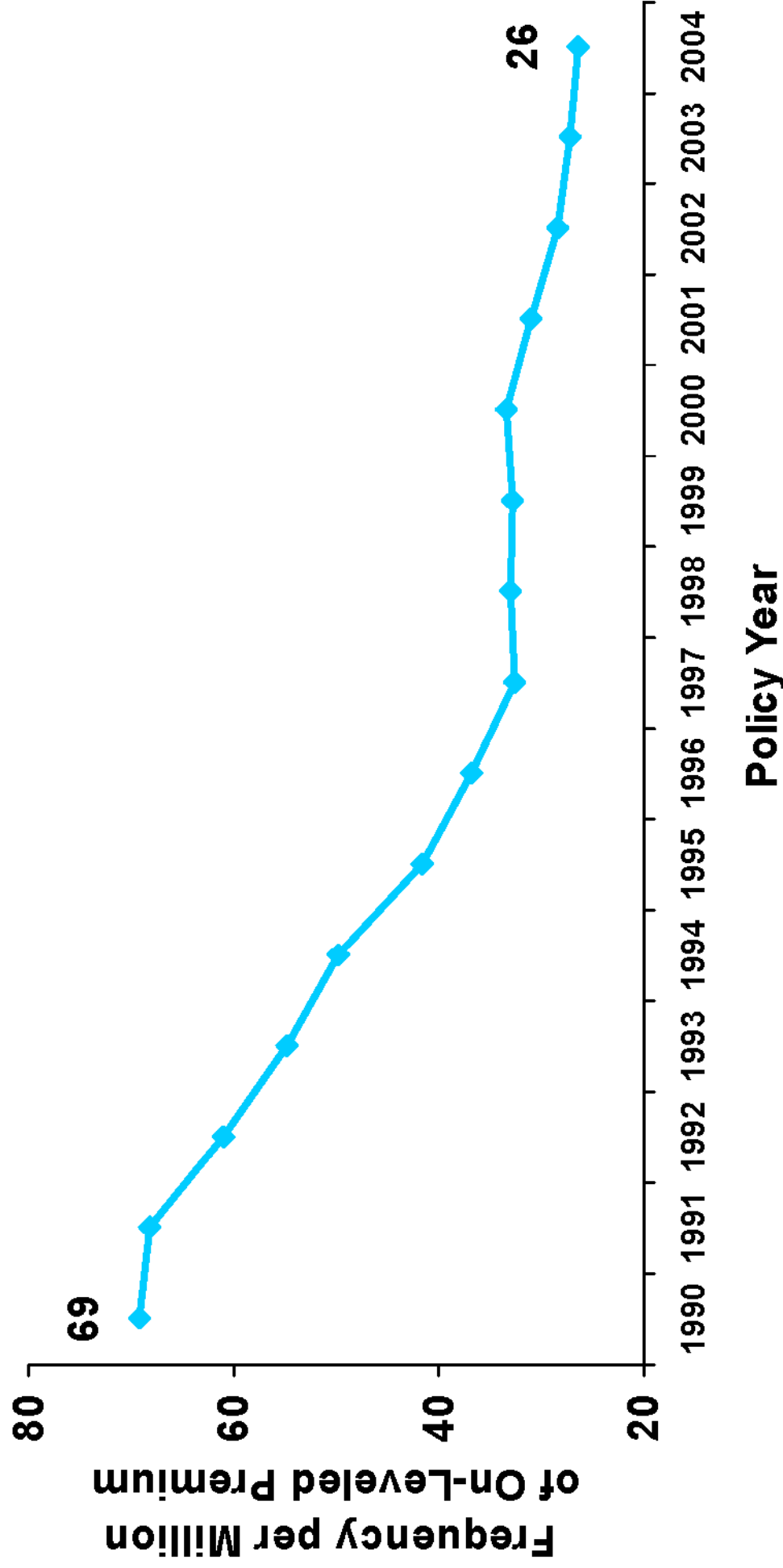
Lost-Time Claims



1991-2004: Based on data through 12/31/05, developed to ultimate.



Declines in Claim Frequency Have Contributed to Improving Results in Arkansas

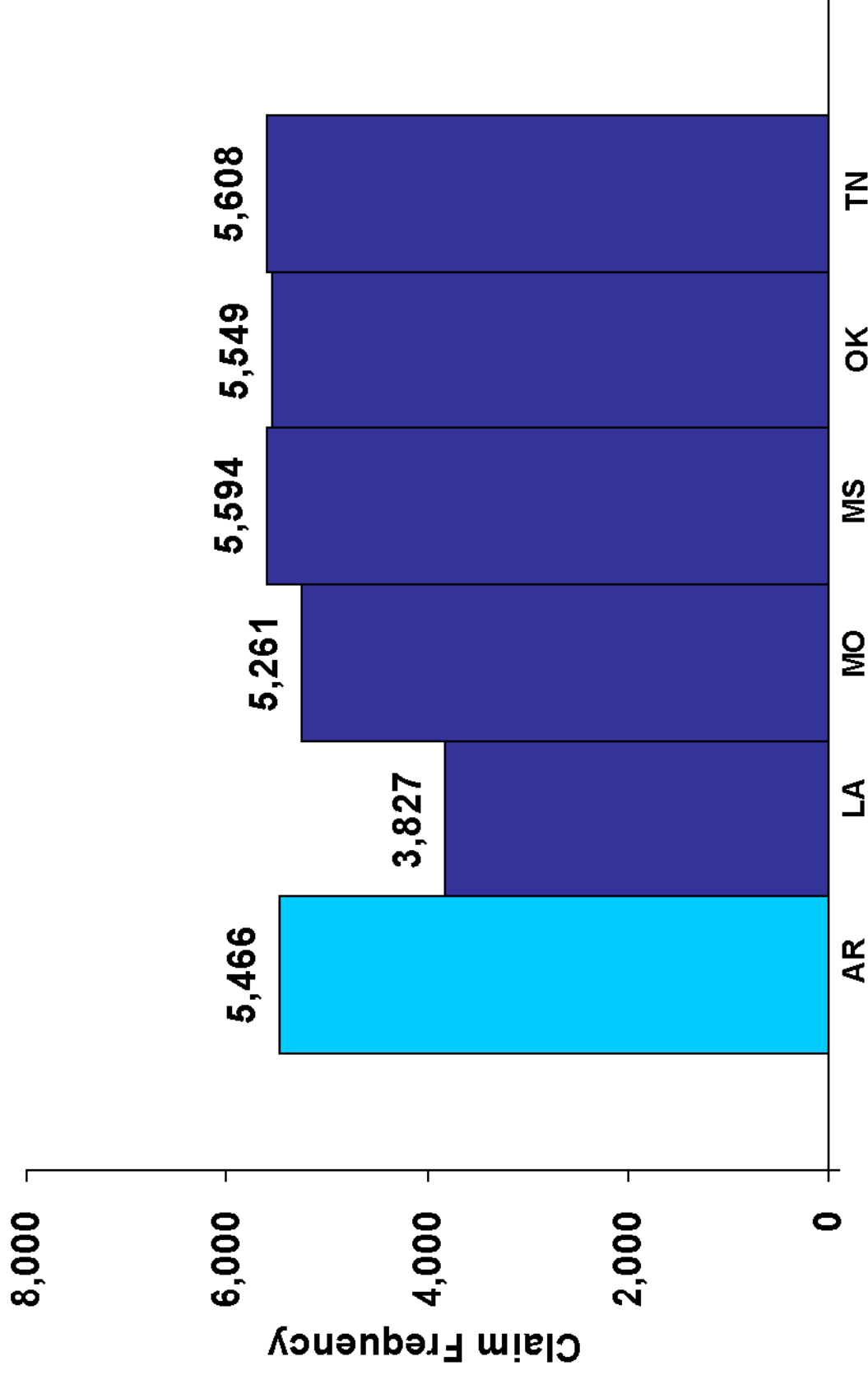


Based on NCCI's financial data.
Frequency of lost-time claims.



Arkansas Average Claim Frequency

Frequency per 100,000 Workers—All Claims

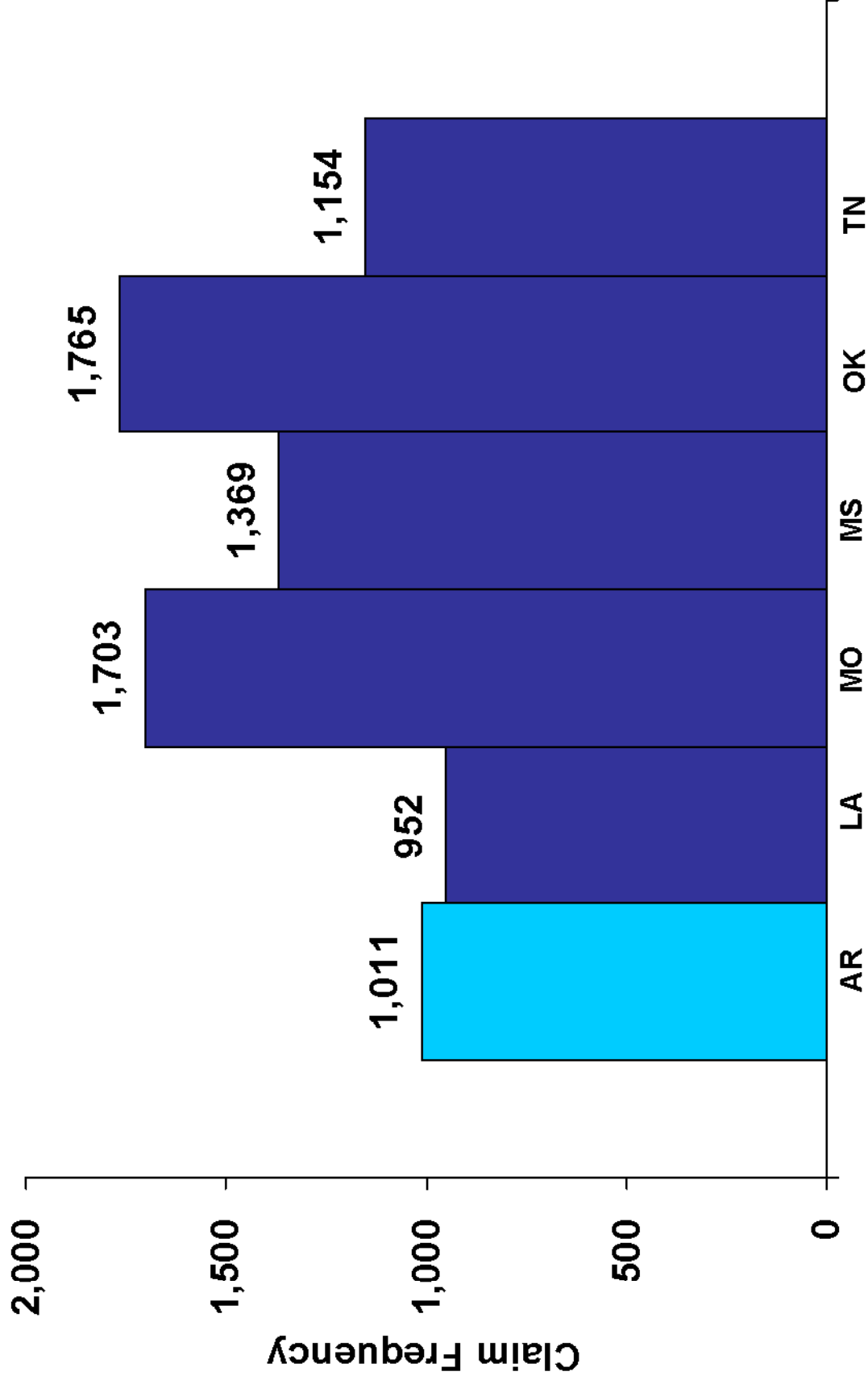


Based on NCCI's WCSP data.



Arkansas Average Lost-Time Claim Frequency

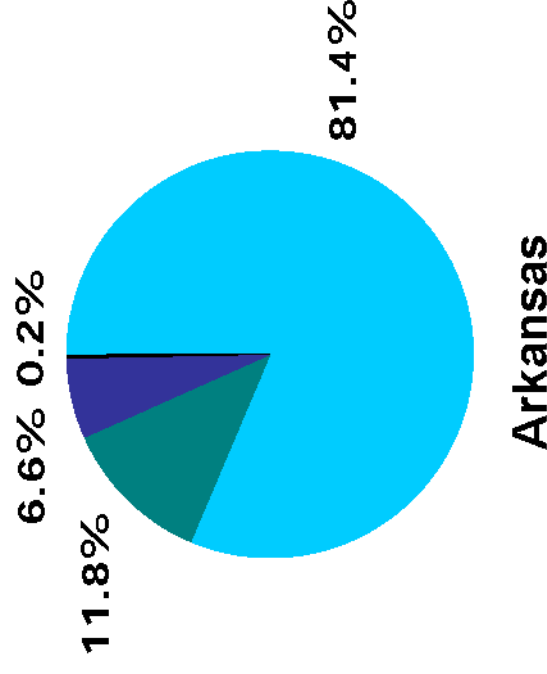
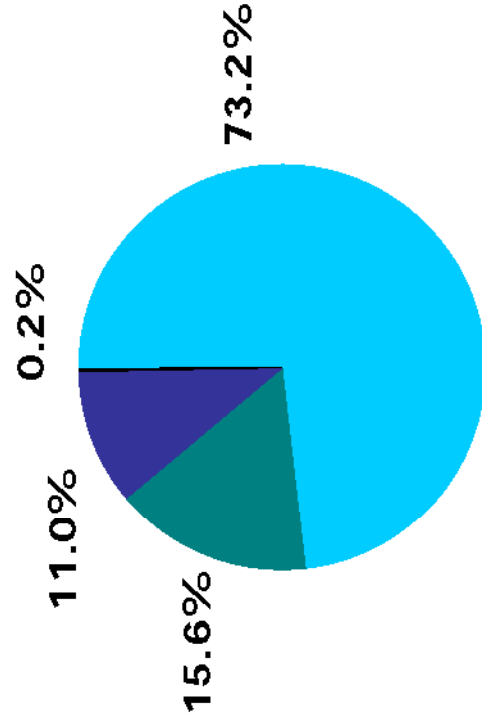
Frequency per 100,000 Workers—Lost-Time Claims



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, Tennessee.
Based on NCCI's WCSP data.

Economic 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



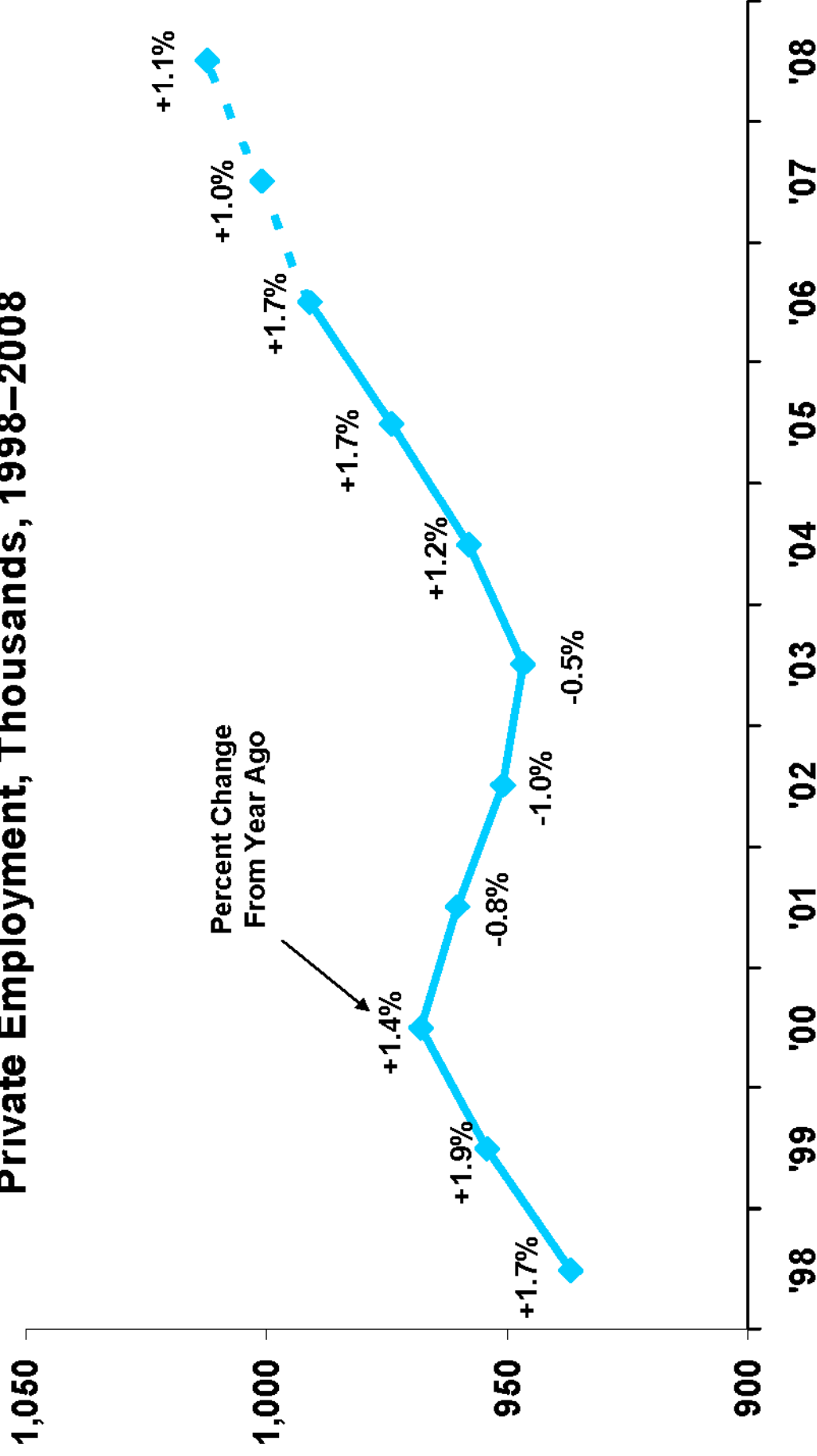
Frequency of Injuries: Experience Matters

Inexperienced Have a Disproportionately High Share of Total Injuries

Time With Current Employer	Share of Employment (2006)	Share of All Injuries (2005)	Relative Difference Share of Injuries vs. Employment
Less Than 1 Year	24.4%	35.0%	43.6% Higher
1 Year to 5 Years	36.8%	34.1%	-7.3% Lower
More Than 5 Years	38.8%	30.9%	-20.5% Lower

Continued Job Growth Is Forecast for Arkansas Through 2008

Private Employment, Thousands, 1998–2008

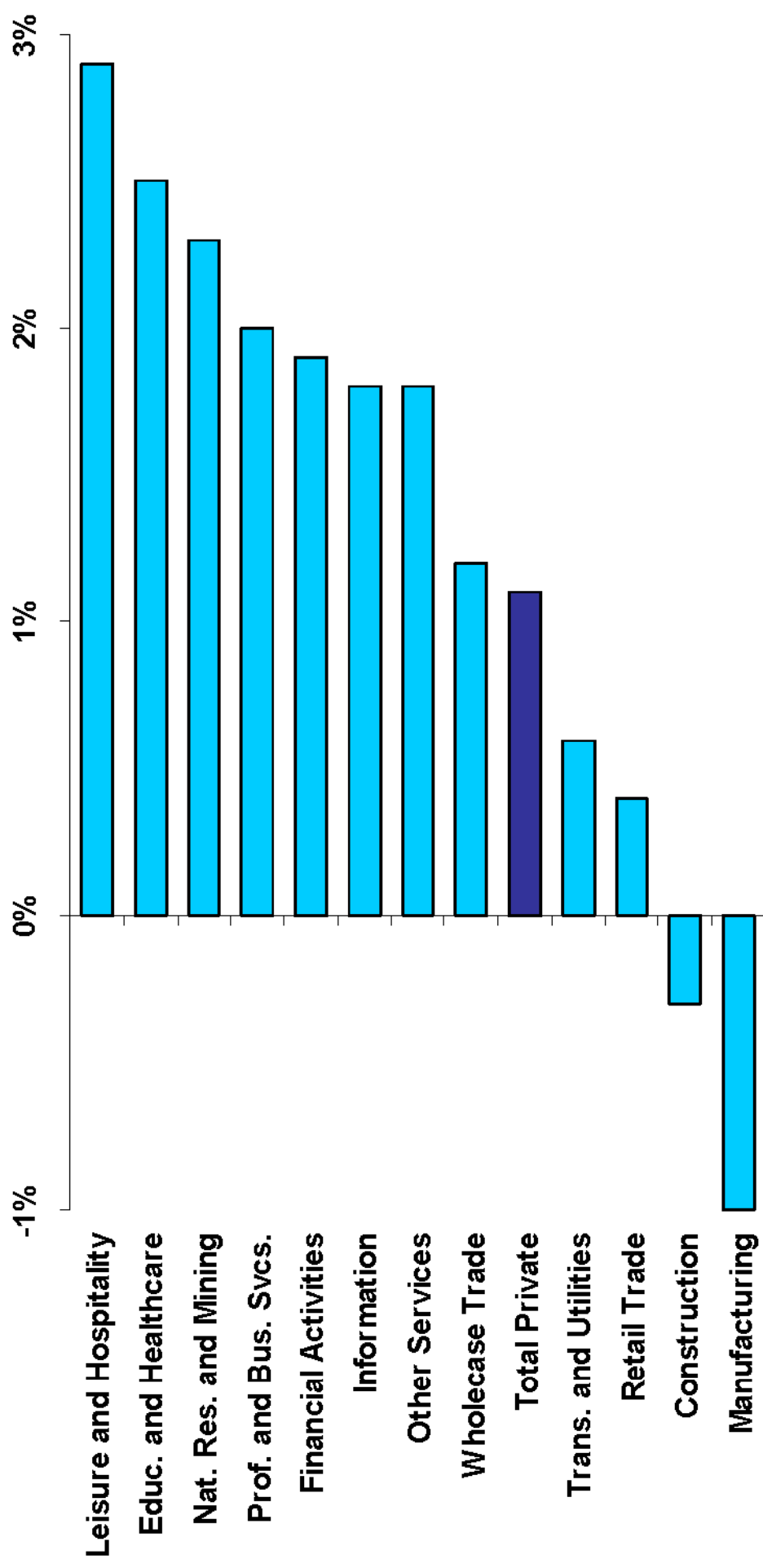


Source: US Bureau of Labor Statistics; Moody's Economy.com



Job Declines Are Forecast for Arkansas Construction and Manufacturing Industries

Average Annual Percentage Change in Employment, 2006–2008



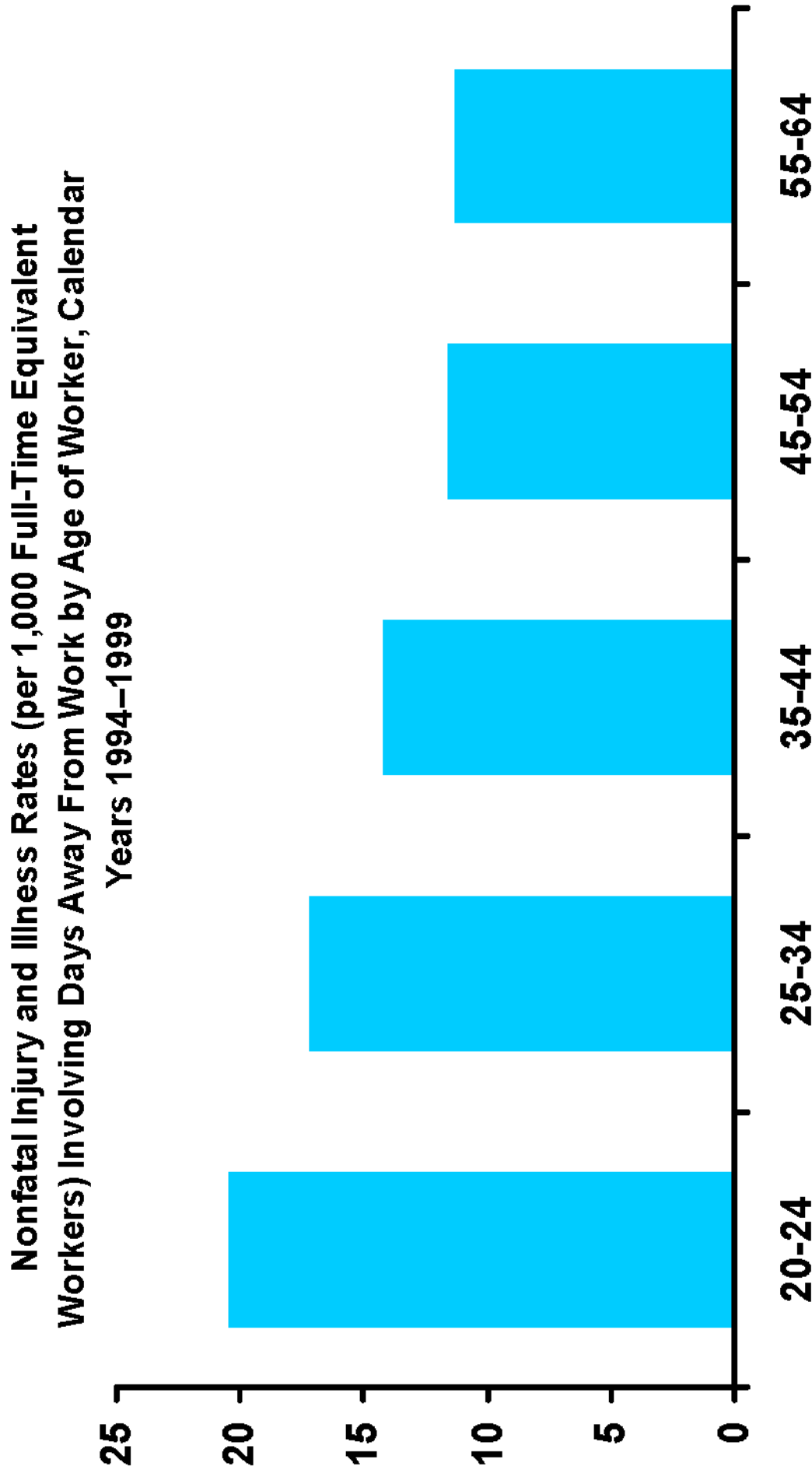
Sources: US Bureau of Labor Statistics; Moody's Economy.com



Impact of Demographics on Frequency



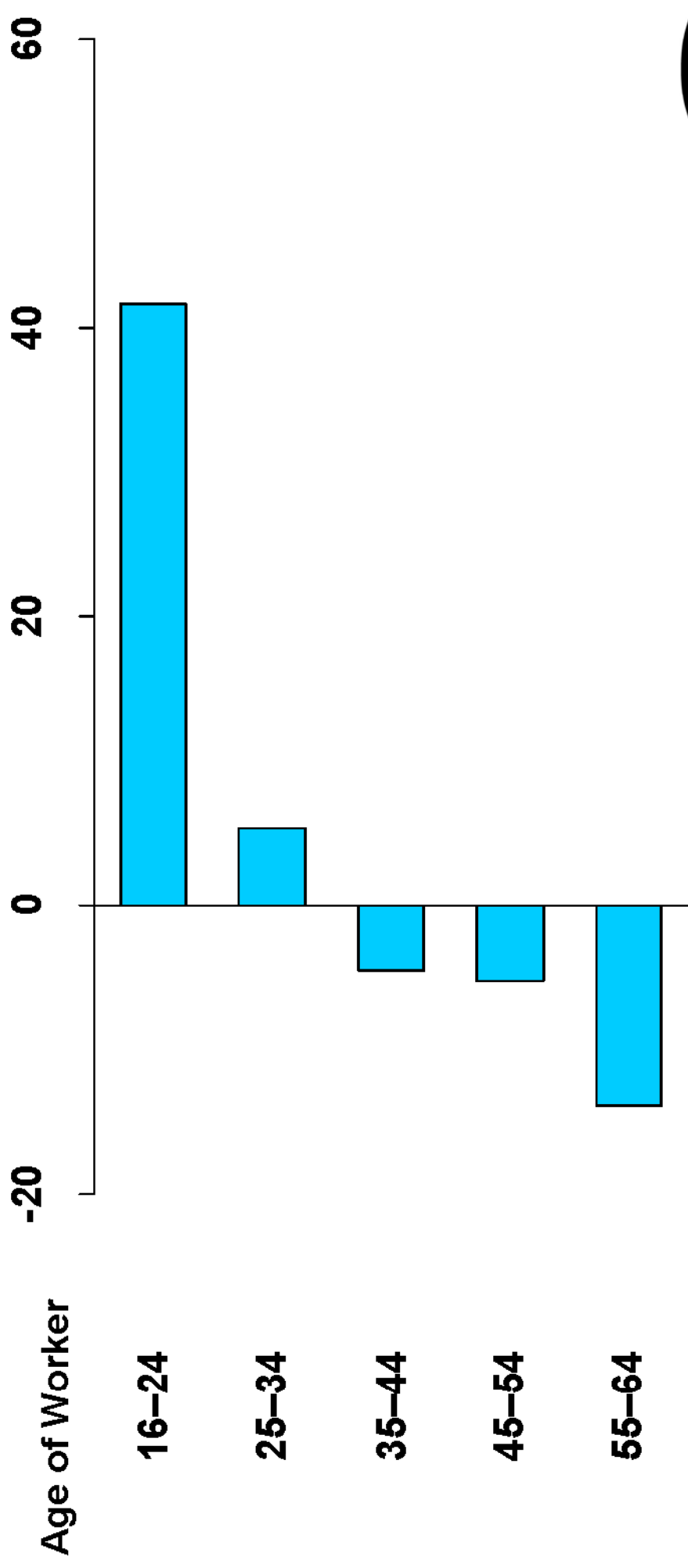
Frequency Is Inversely Related to Age of Worker



Source: US Bureau of Labor Statistics

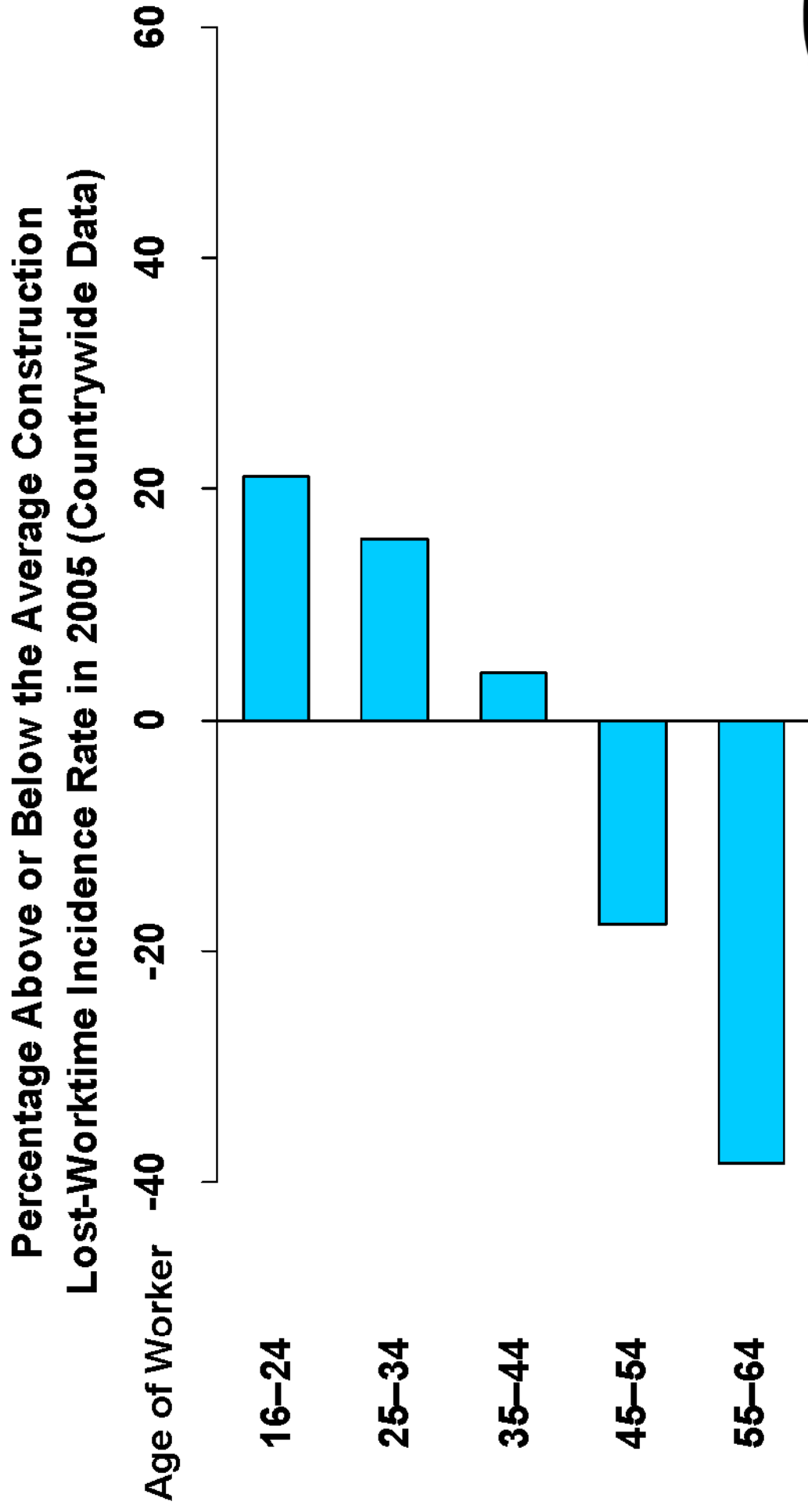
Bureau of Labor Statistics Incidence Rates by Age of Worker in the Manufacturing Industry

Percentage Above or Below the Average Manufacturing Lost-Worktime Incidence Rate in 2005 (Countrywide Data)



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

Bureau of Labor Statistics Incidence Rates by Age of Worker in the Construction Industry



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



Baby Boomers and Changes in Manufacturing Incidence Rates

Countrywide Data

Frequency Increased as Baby Boomers Entered the Workforce		
Avg. Time Period	% Labor Force Aged 16–24	Mfg. Incidence Rate
1961–1962	15.9%	11.9
1972–1973	22.1%	15.5

Frequency Declined as Baby Boomers Entered Their 50s		
Avg. Time Period	% Labor Force Aged 45+	Mfg. Incidence Rate
1992–1993	30.1%	12.3
2002–2005	38.1%	6.7

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



The Impact of Age on Frequency Is Likely to Moderate

- Huge inflow of “baby-boom” workers in the 1960s contributed to a substantial rise in incidence rates (frequency) during that period
- The workforce going forward will not show the same type of bulge in younger workers nor will it show downward pressure on frequency from the aging of that younger workforce
- That suggests reduced impact on frequency due to age than may have been experienced previously



Factors Affecting the Long-Term Downtrend in Frequency



Why Frequency Has Been Trending Lower

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

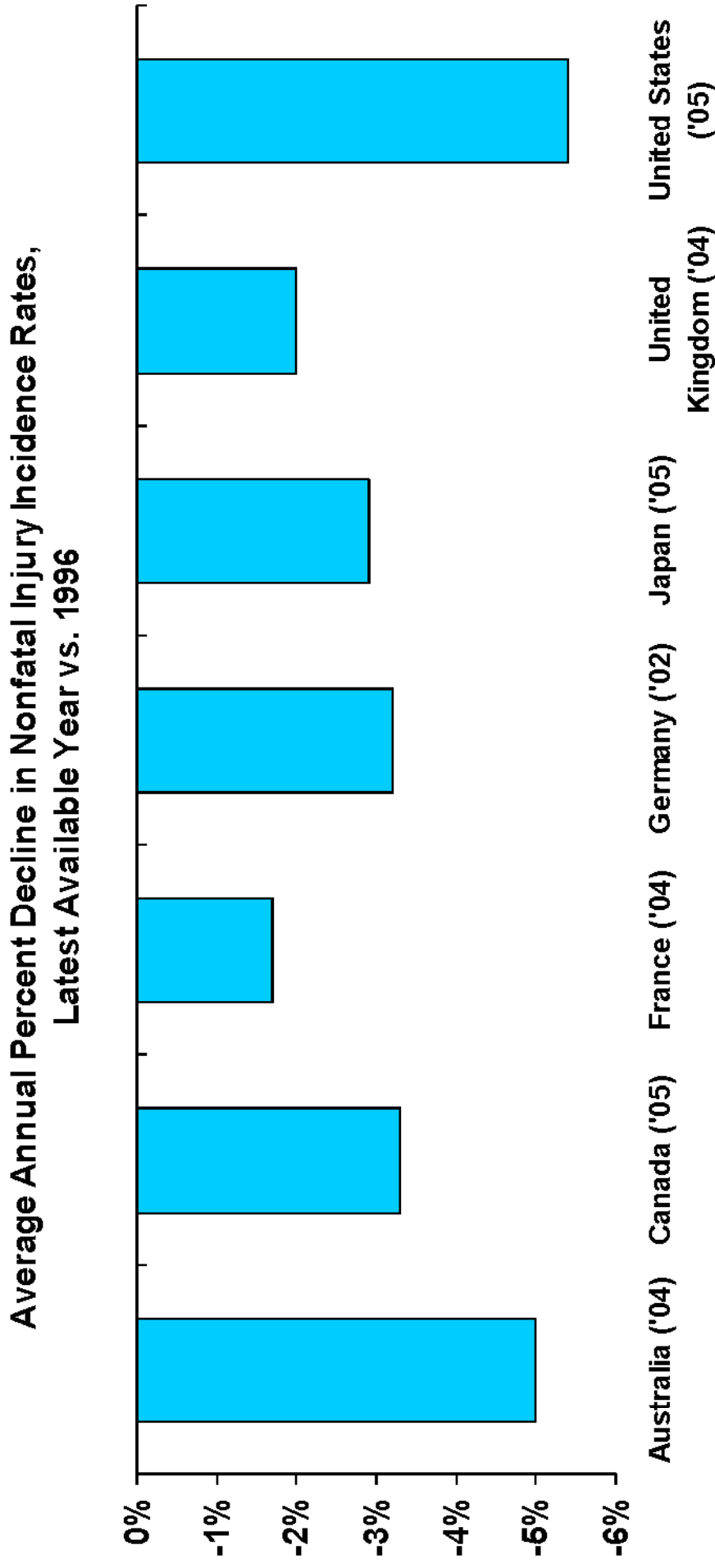


The Change in Frequency Since the Early 1990s

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

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

Injury Incidence Rates Are Declining in Major Industrial Nations



Source: International Labor Organization. Number in parenthesis is the latest year for which data are available. Australia percentage change is based on data from 1997 to 2004.



Key Takeaways— Drivers of Claim Frequency

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



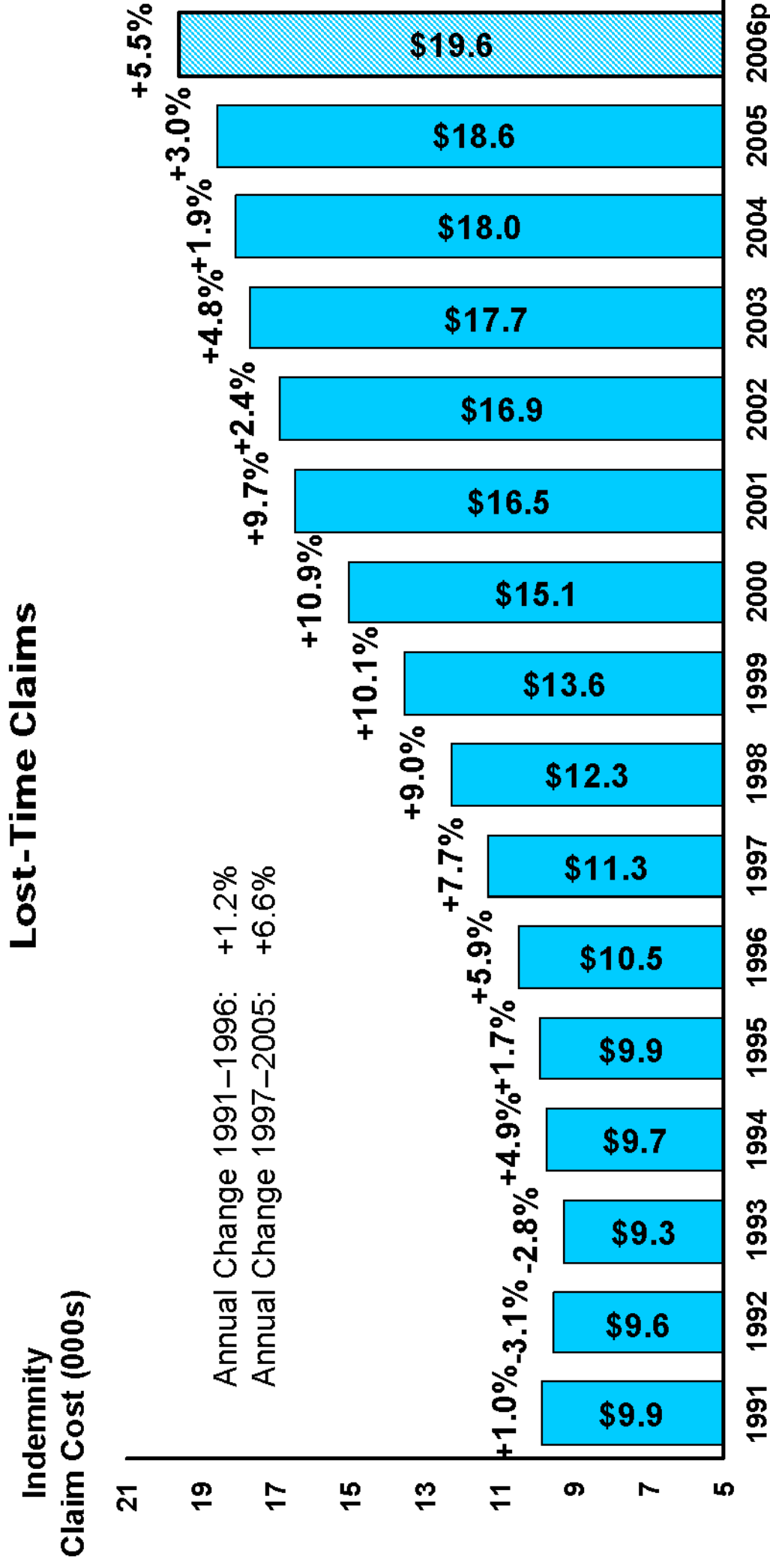


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Indemnity Severity

Countrywide Workers Compensation Indemnity Claim Costs



Accident Year

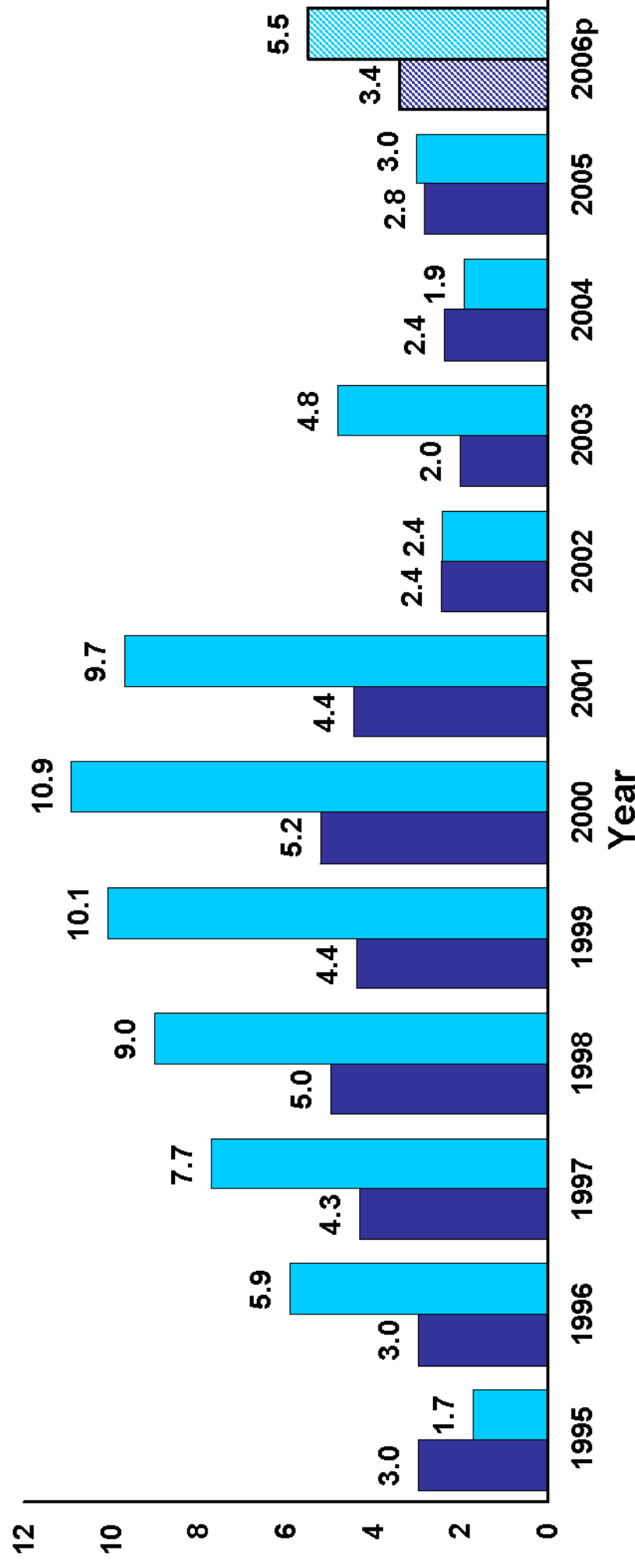
2006p: Preliminary based on data valued as of 12/31/06
1991–2005: Based on data through 12/31/05, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies



Countrywide Indemnity Severity Outpacing Wage Inflation in 2006

Lost-Time Claims

Percent Change



■ Change in CPS Wage ■ Change in Indemnity Cost per Lost-Time Claim

Indemnity severity 2006p: Preliminary based on data valued as of 12/31/06
 Indemnity severity 1995-2005: Based on data through 12/31/05, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: CPS Wage—All states (Current Population Survey), Economy.com
 Accident year indemnity severity—NCCI states, NCCI



Workers Compensation Arkansas Indemnity Claim Costs

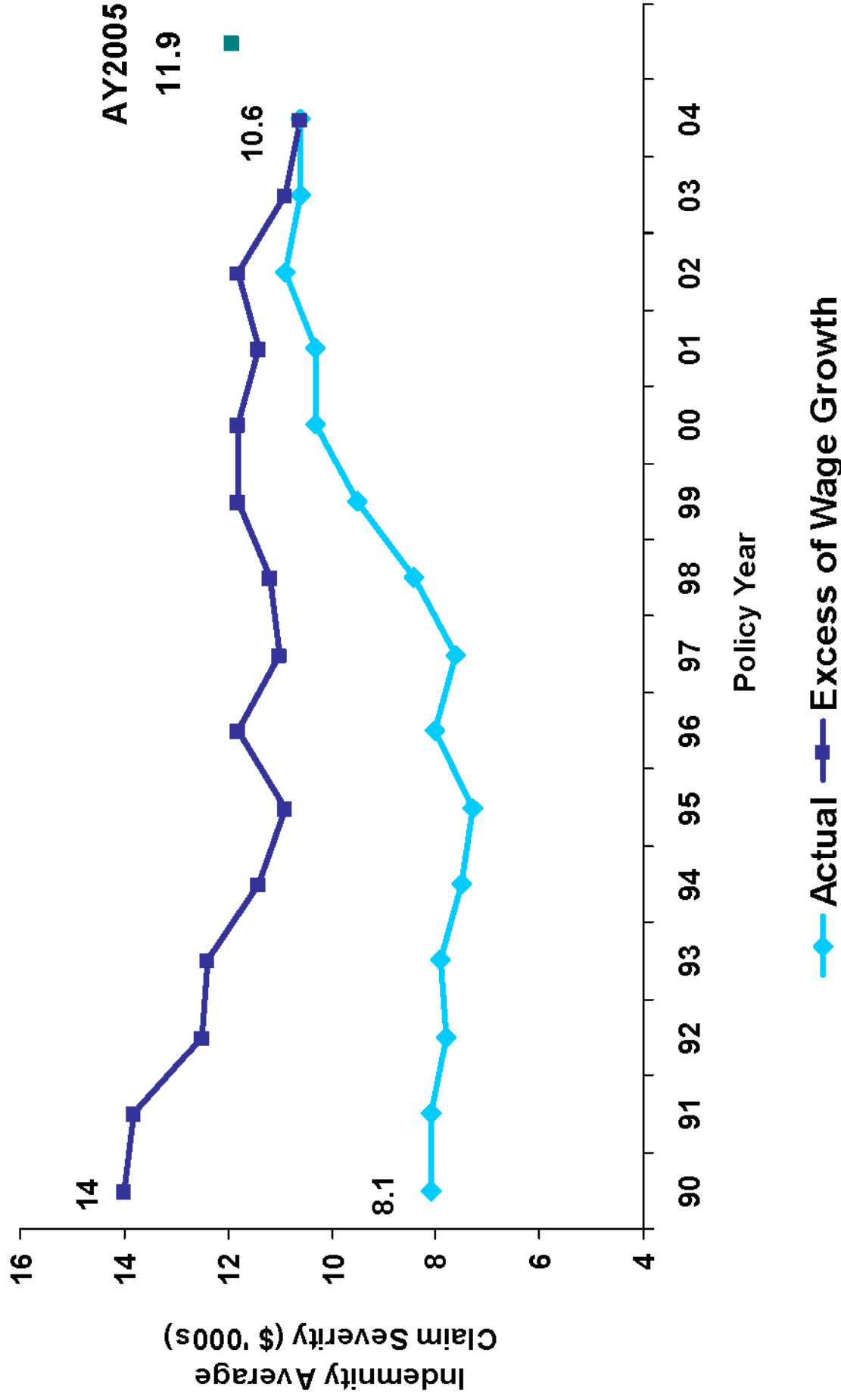
Lost-Time Claims



1991-2004: Based on data through 12/31/05, on-levleed and developed to ultimate

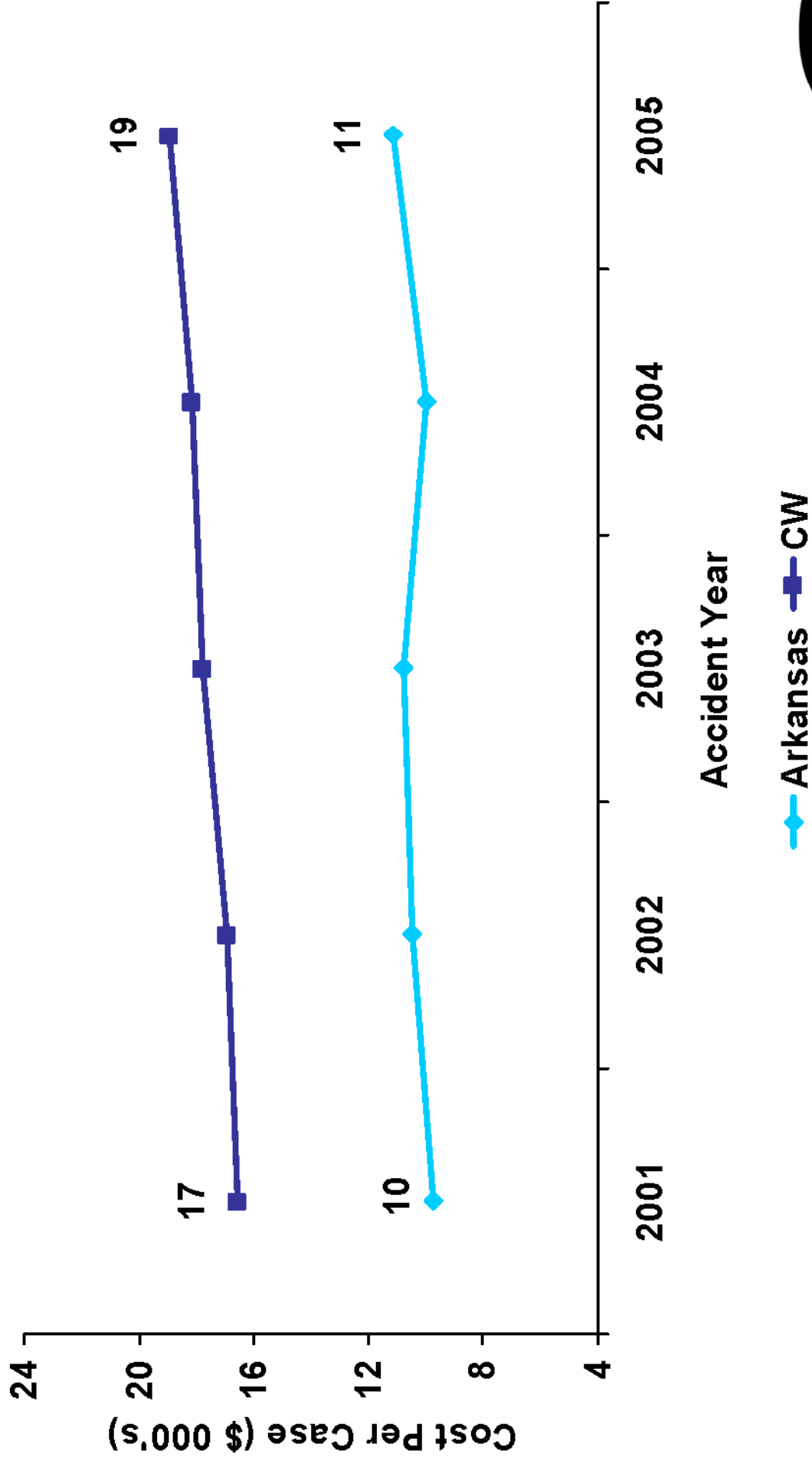


Arkansas Average Indemnity Severity



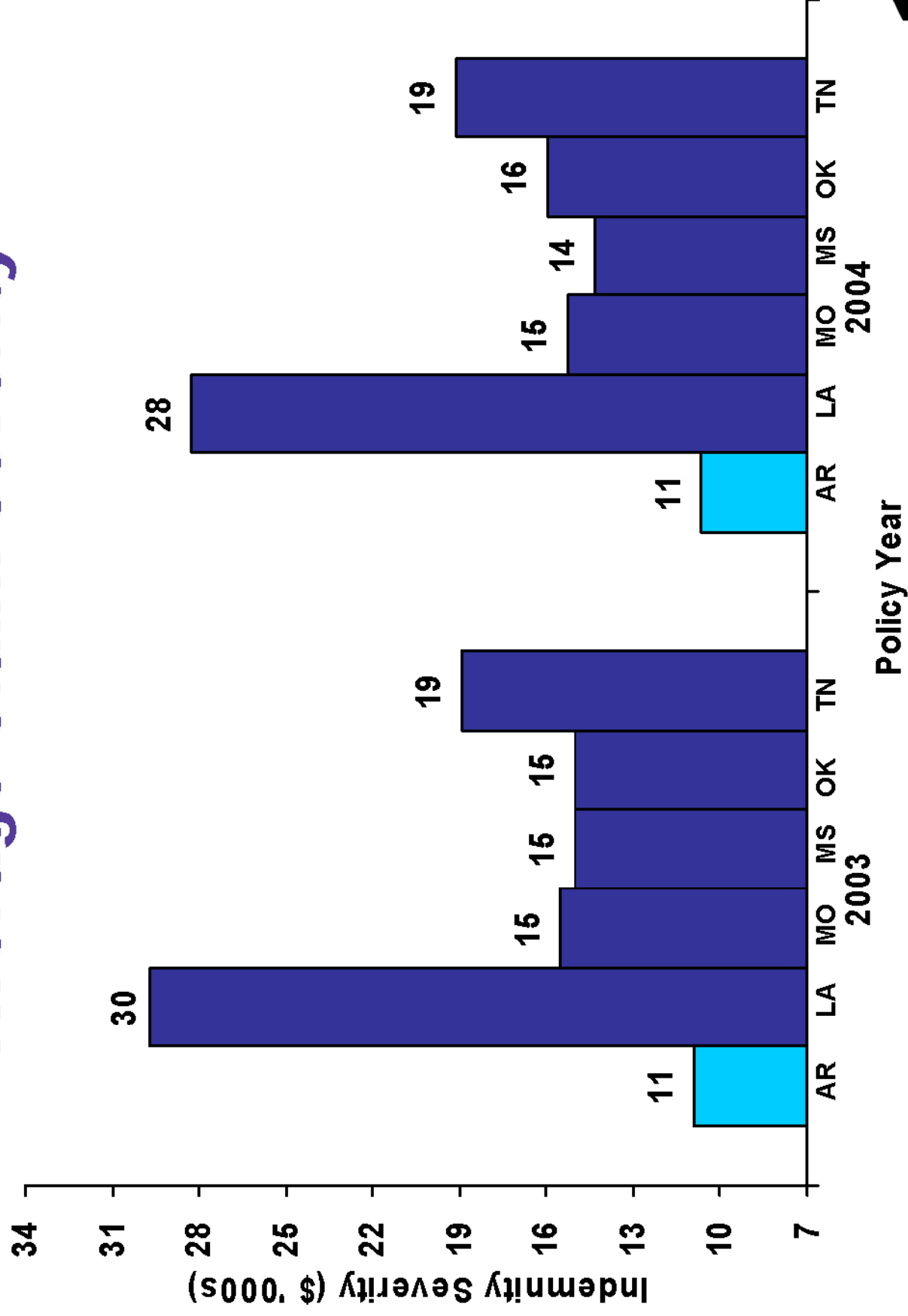
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

Arkansas Indemnity Average Cost per Case vs. Countrywide



Source: NCCI Financial Call data valued as of 12/31/05

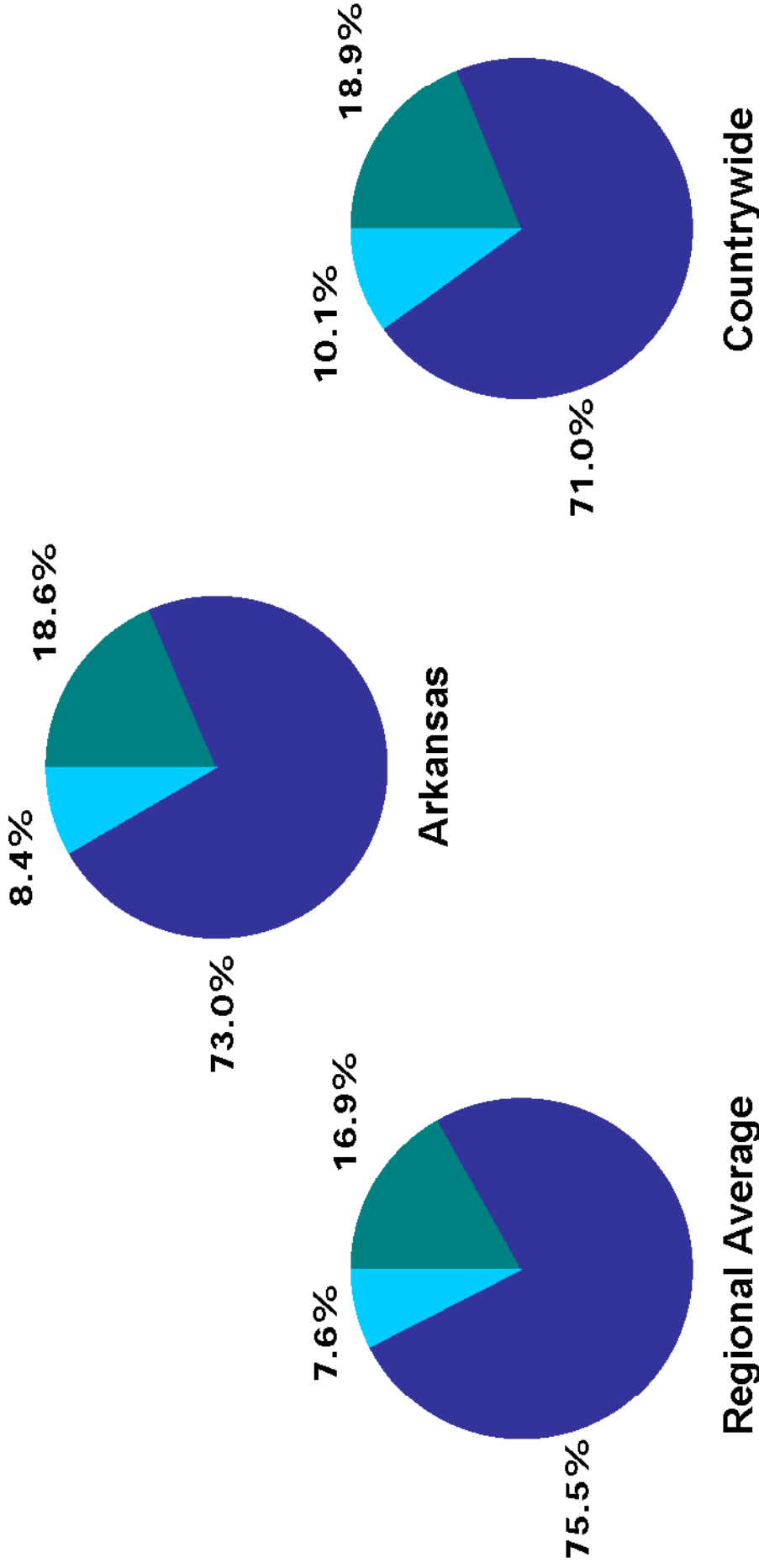
Arkansas Indemnity Average Claim Severity



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



Arkansas Indemnity Loss Distribution by Injury Type



■ Temporary Total ■ Permanent Partial ■ Permanent Total/Fatal

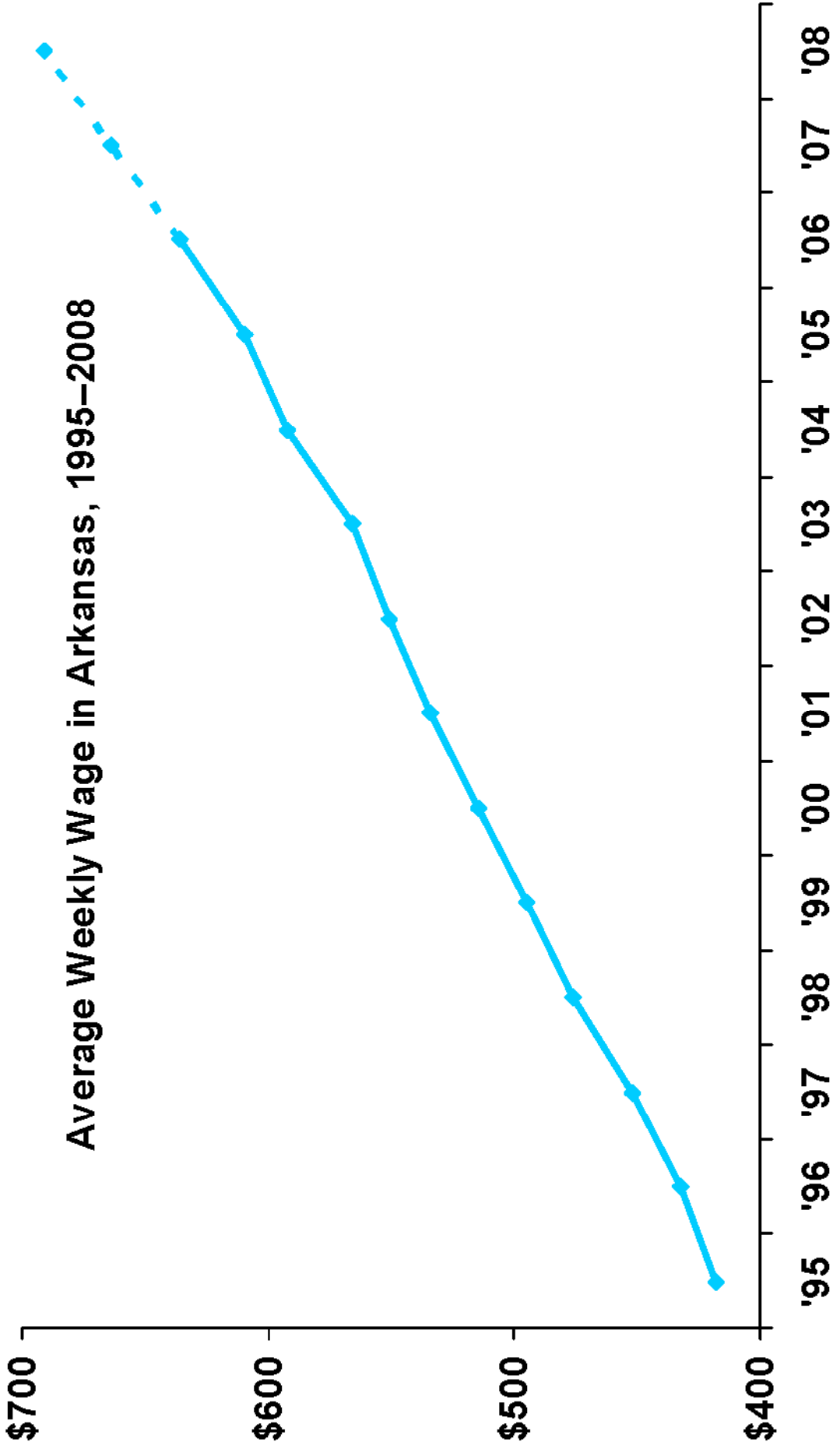
Regional states are Louisiana, Mississippi, Missouri, Oklahoma, and Tennessee.
Based on NCCI's WCSP data.



Economic Drivers of Indemnity Severity

- Wages
 - Arkansas wage projection
- Demographics
 - How indemnity severity varies by age

Prospective Wage Increases in Arkansas Will Likely Place Upward Pressure on Indemnity Severity

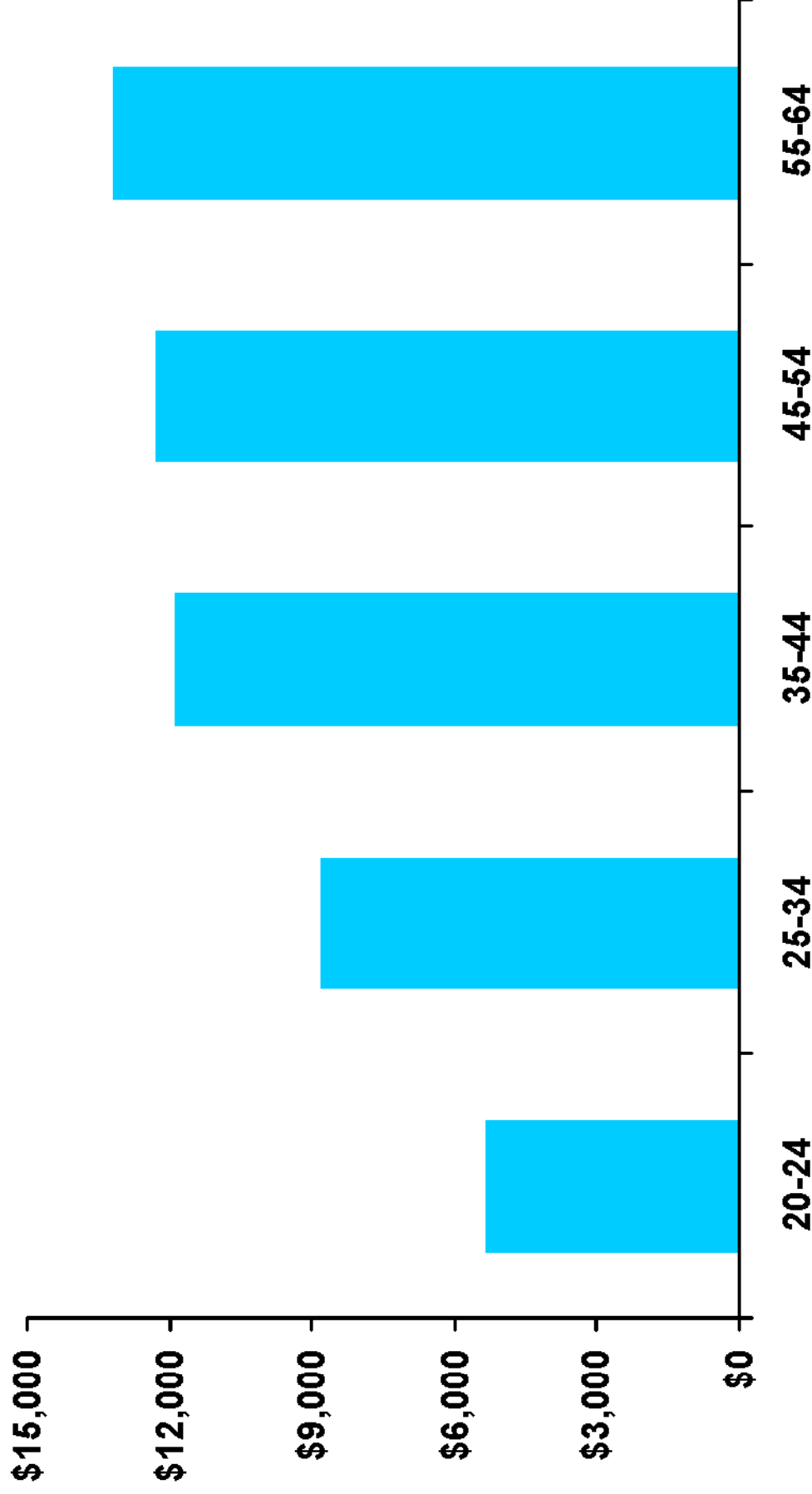


Source: Moody's Economy.com



Indemnity Severity Increases With Age

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

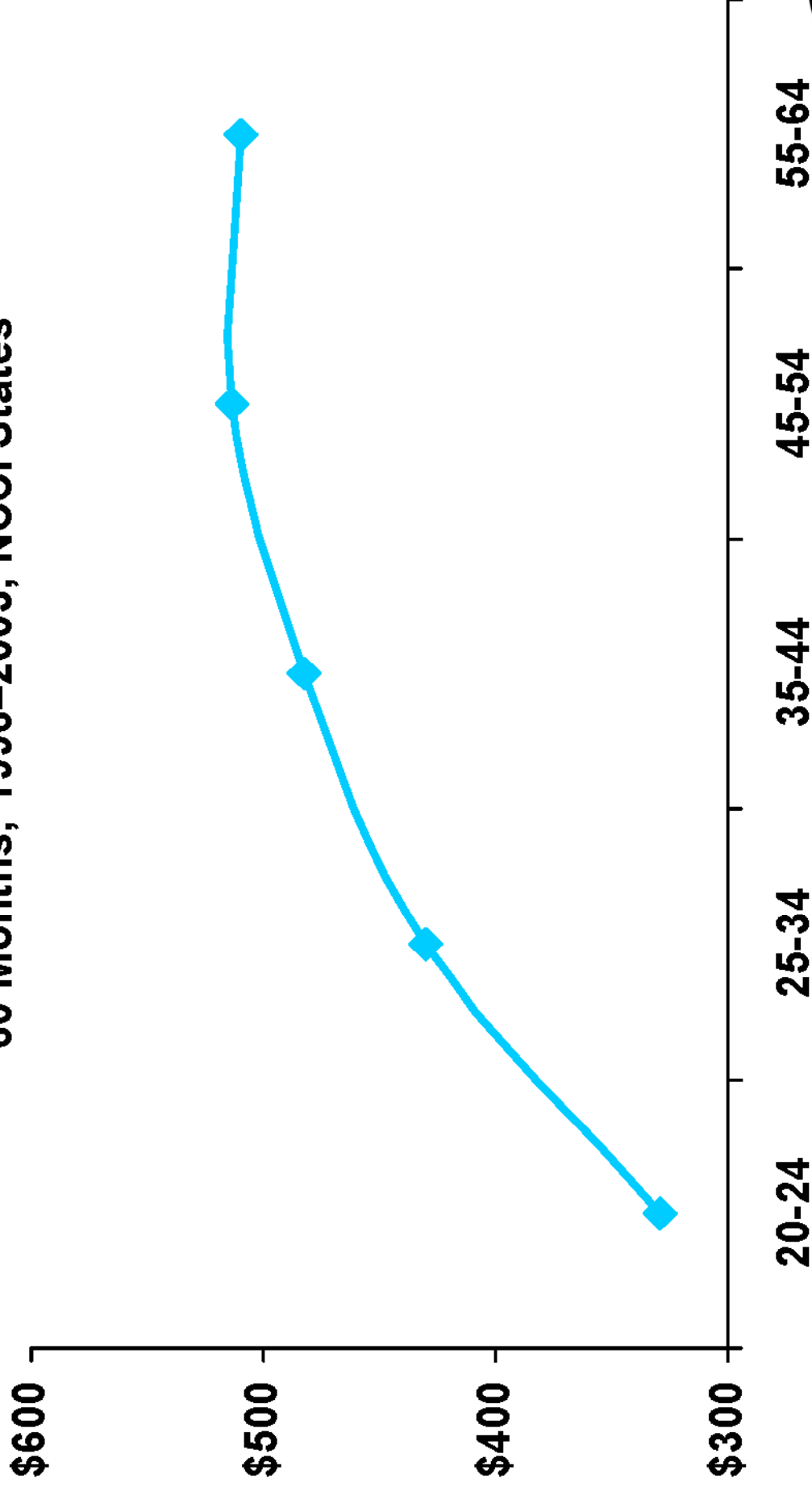


Source: NCCI



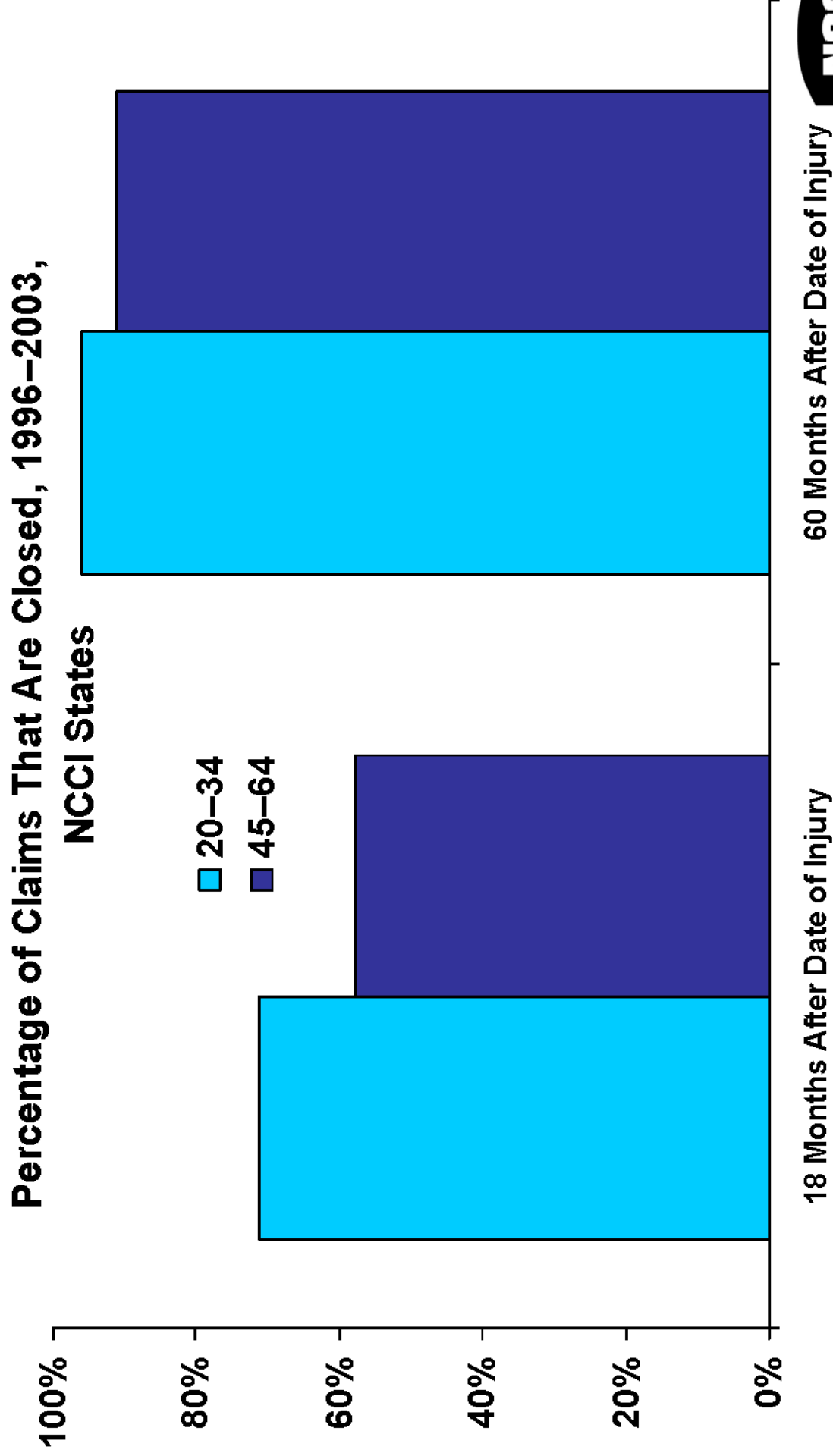
Average Weekly Wage Increases With Age

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 at 18 and 60 Months After Injury

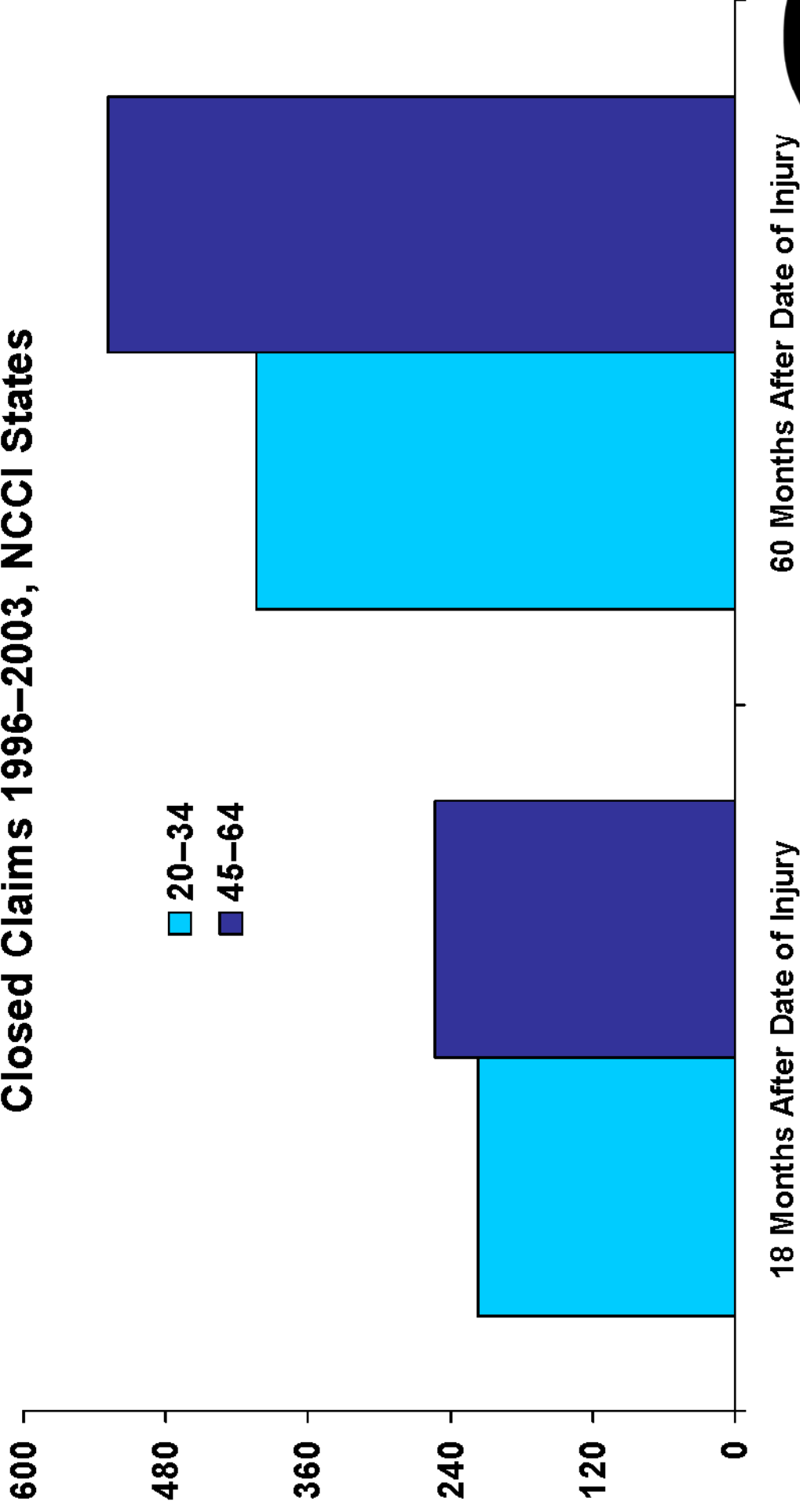


Source: NCCI



Average Duration Is Longer for Older Workers

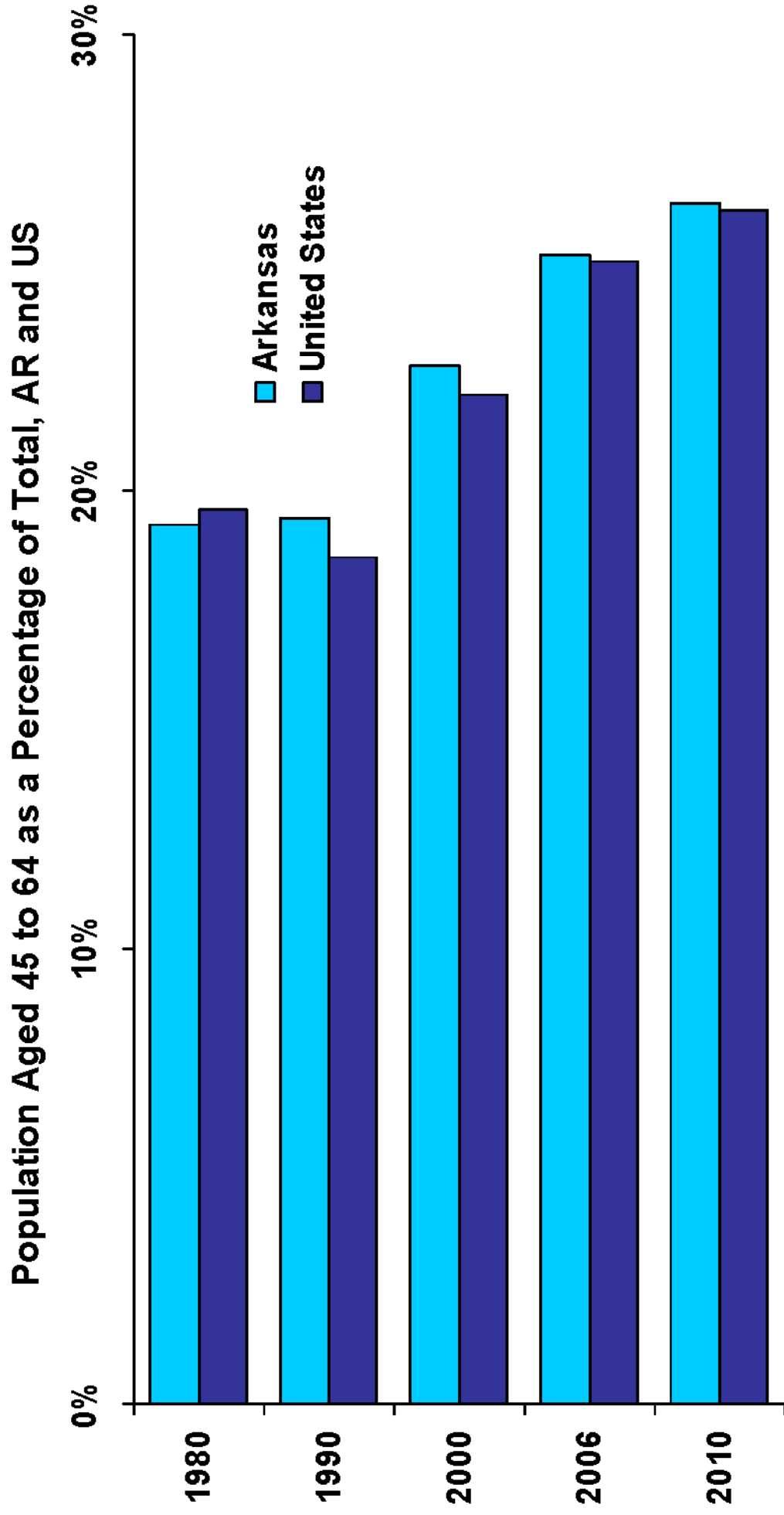
Average Days From Date of Injury to Closure,
Closed Claims 1996–2003, NCCI States



Source: NCCI



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



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



Key Takeaways— Drivers of Indemnity Severity

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



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Medical Severity

Countrywide Workers Compensation Medical Claim Cost Trends— Growth Continues in 2006

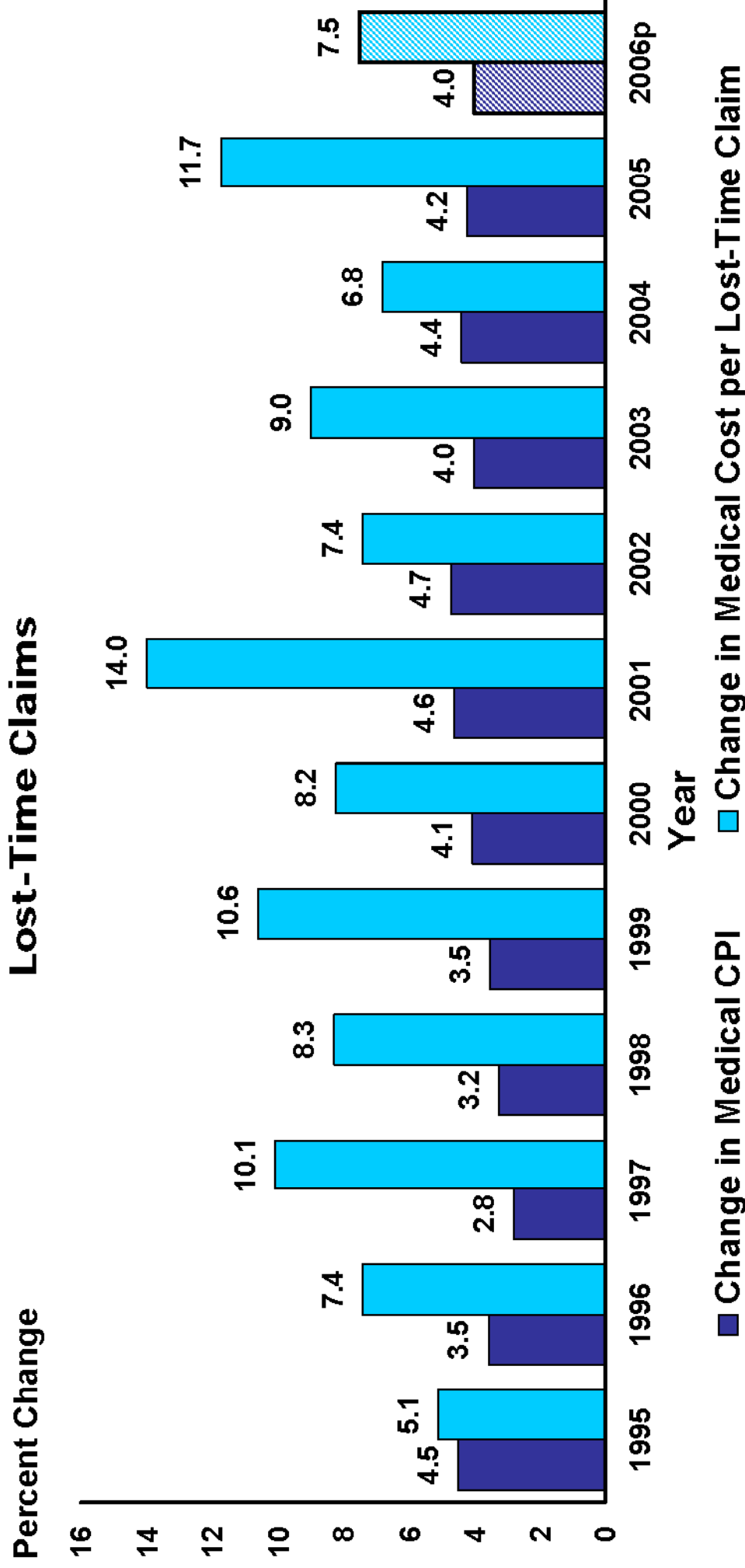


Accident Year

2006p: Preliminary based on data valued as of 12/31/06
1991–2005: Based on data through 12/31/05, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies



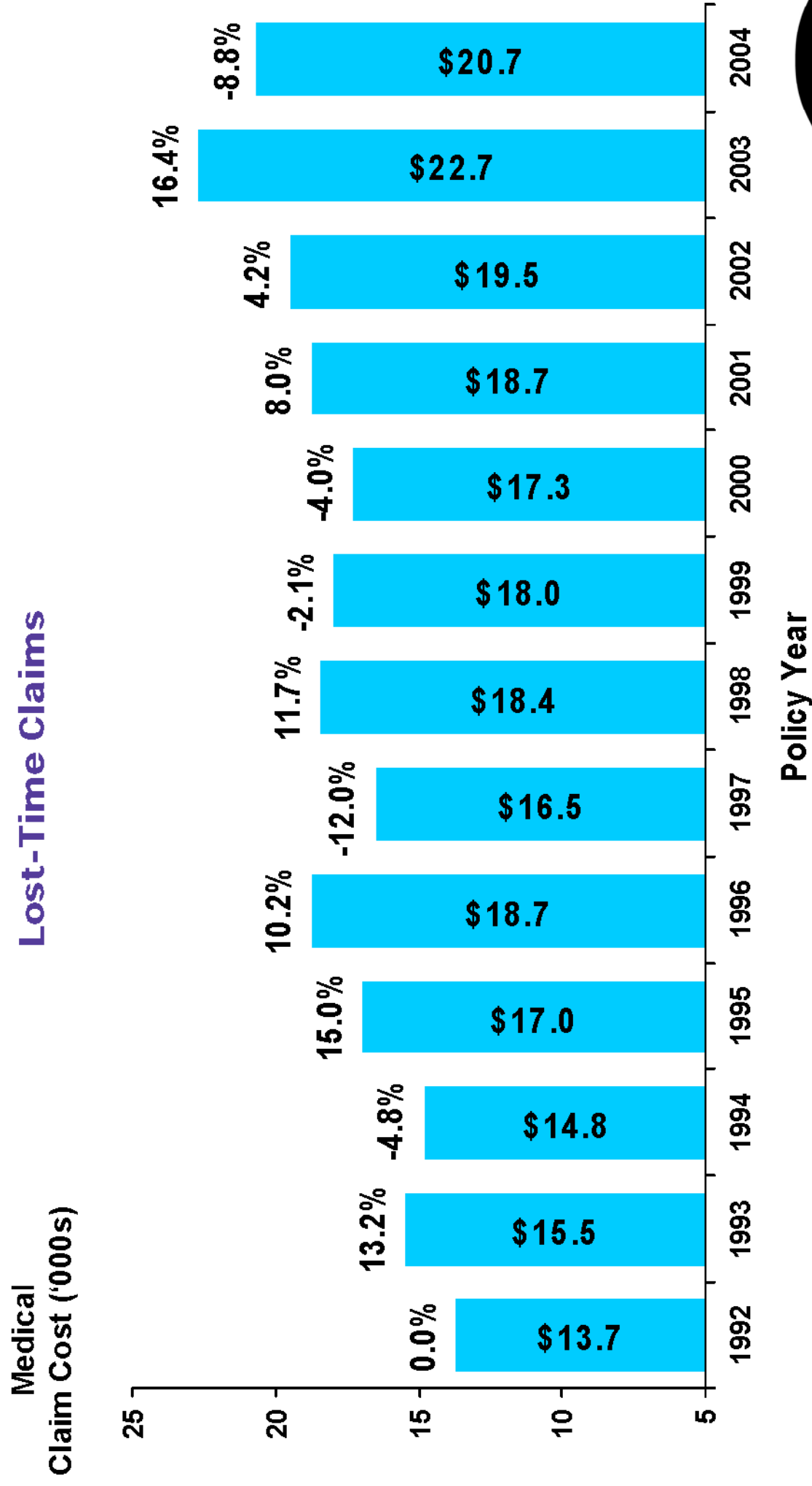
Workers Compensation Medical Severity Still Growing Much Faster Than the Medical CPI



Medical severity 2006p: Preliminary based on data valued as of 12/31/06
 Medical severity 1995-2005: Based on data through 12/31/05, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

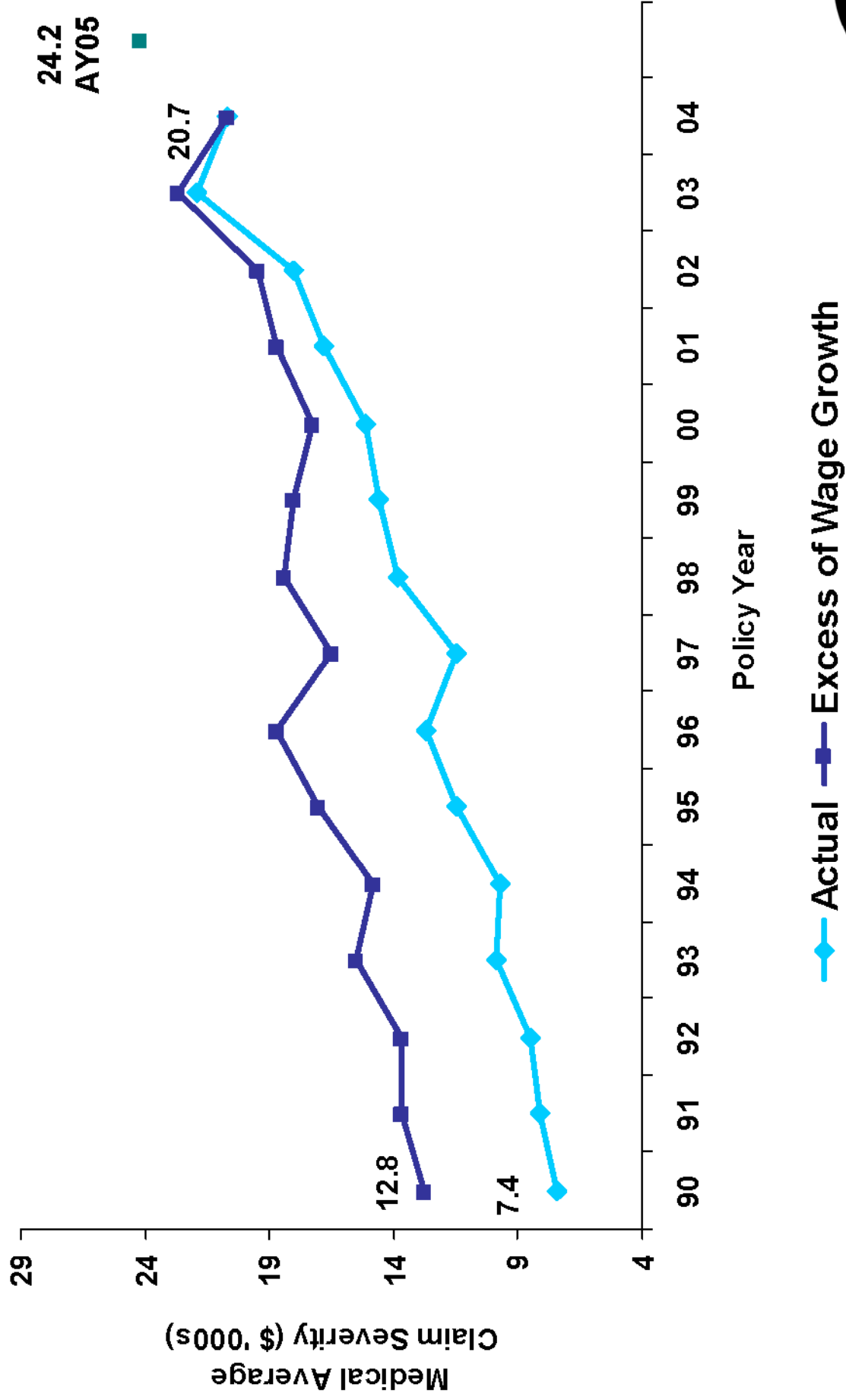


Workers Compensation Arkansas Medical Claim Cost Trends



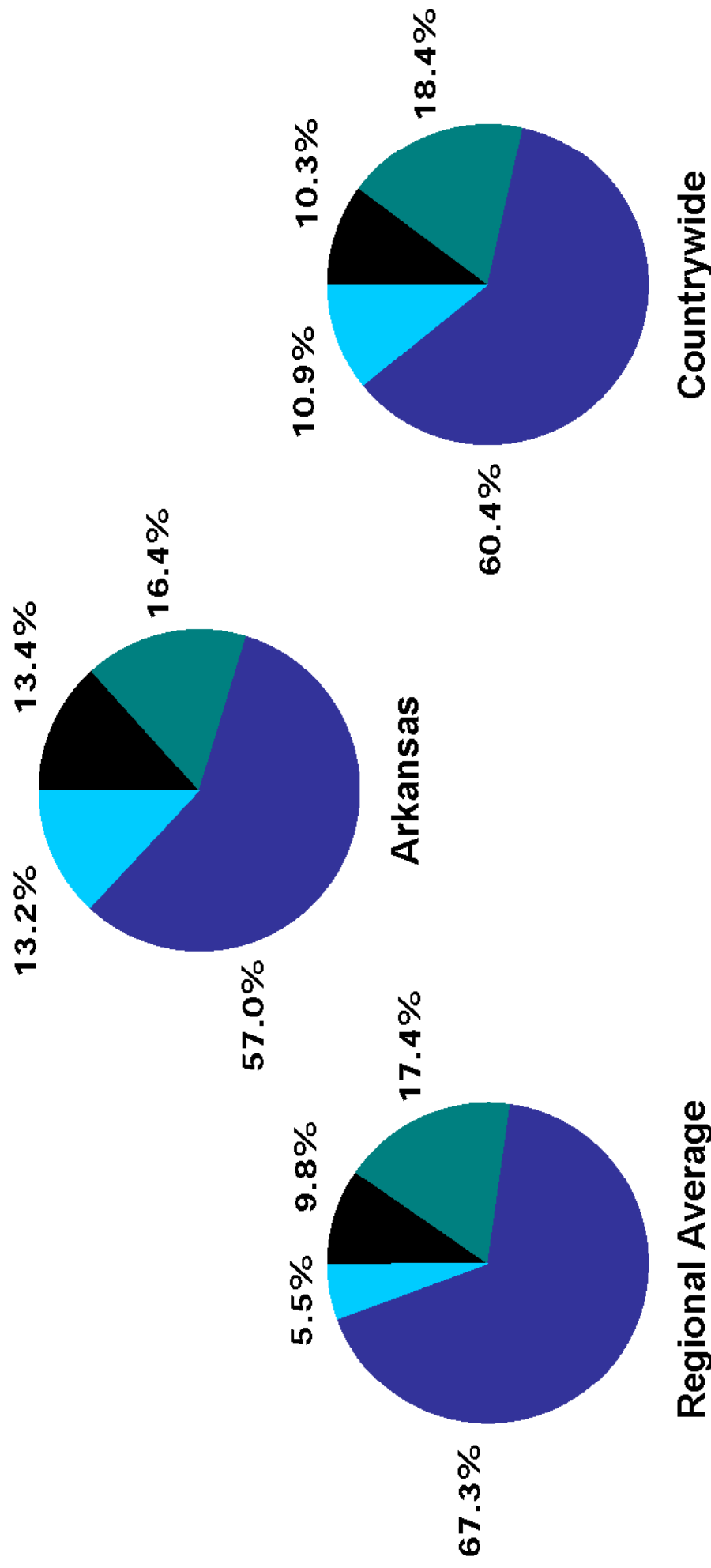
1992-2004: Based on data through 12/31/05, on-leveled and developed to ultimate

Arkansas Average Medical Severity



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

Arkansas Medical Loss Distribution by Injury Type

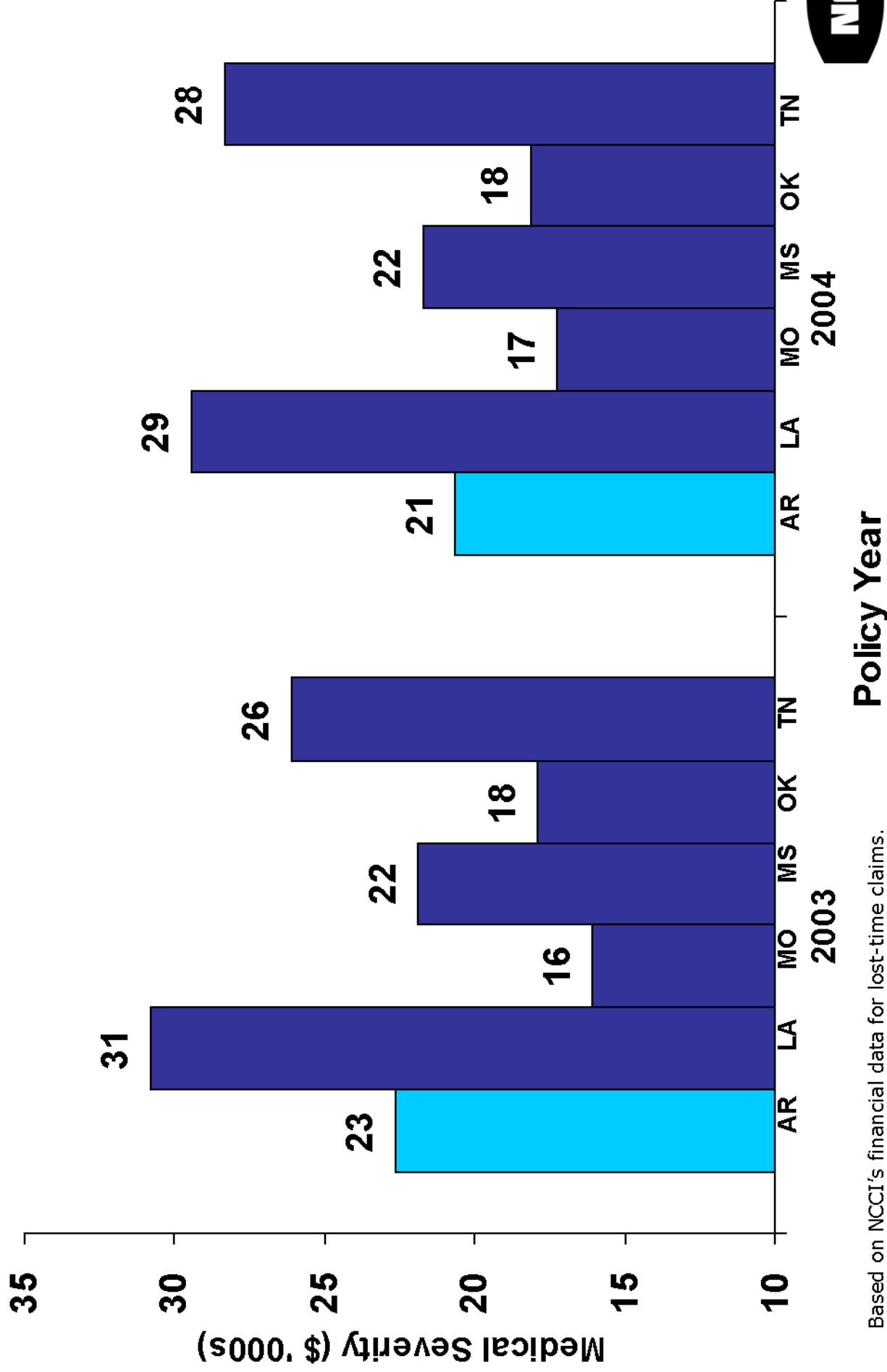


■ Medical Only ■ Temporary Total ■ Permanent Partial ■ Permanent Total/Fatal

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

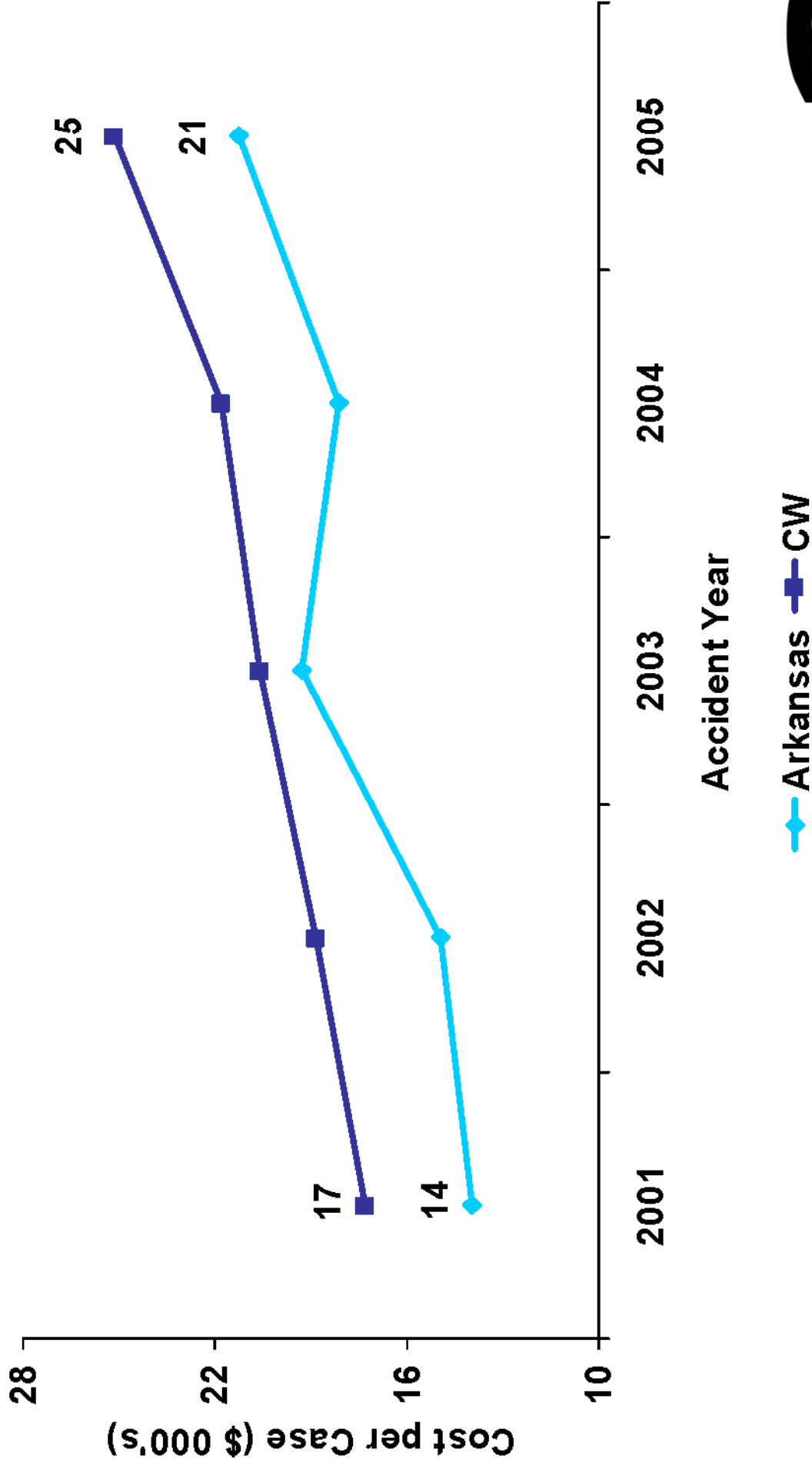


Arkansas Medical Average Claim Severity Compared With Neighboring States



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

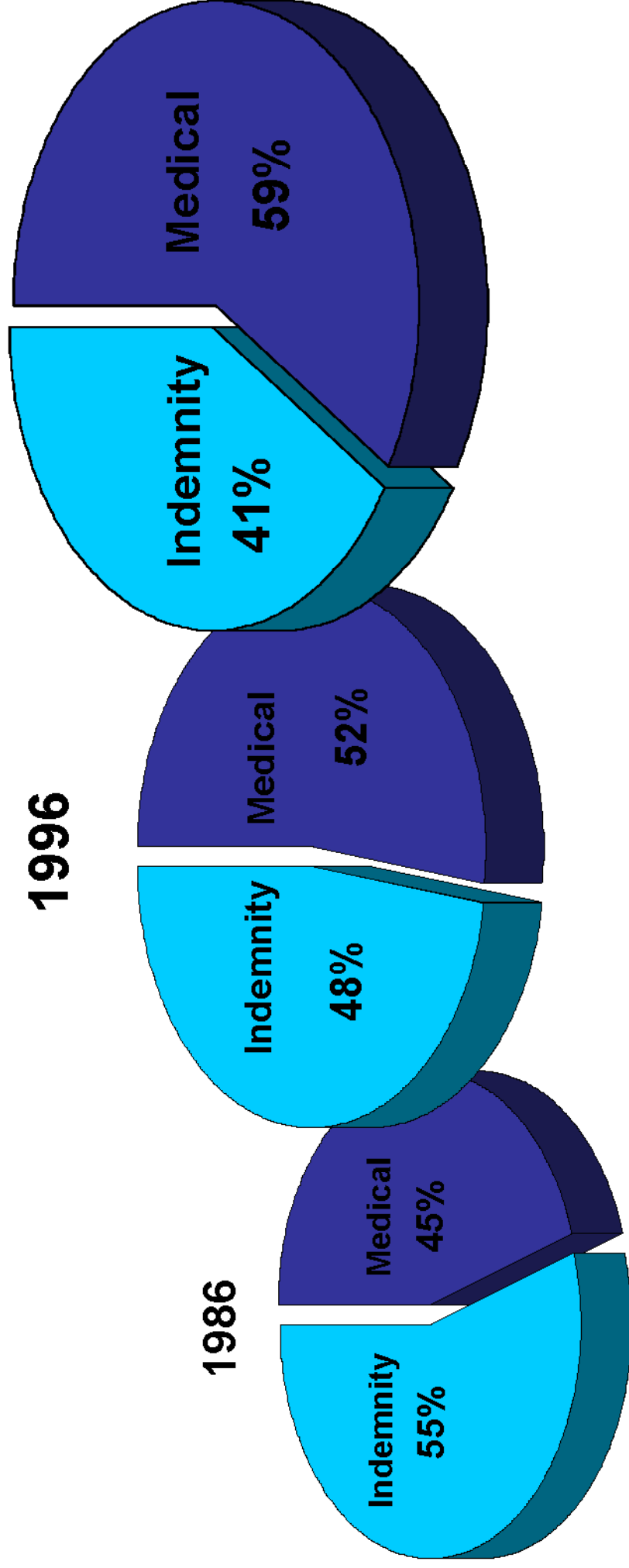
Arkansas Medical Average Cost per Case vs. Countrywide



Source: NCCI Financial Call data valued as of 12/31/05

Workers Compensation Medical Losses Are More Than Half of Total Losses on a Countrywide Basis

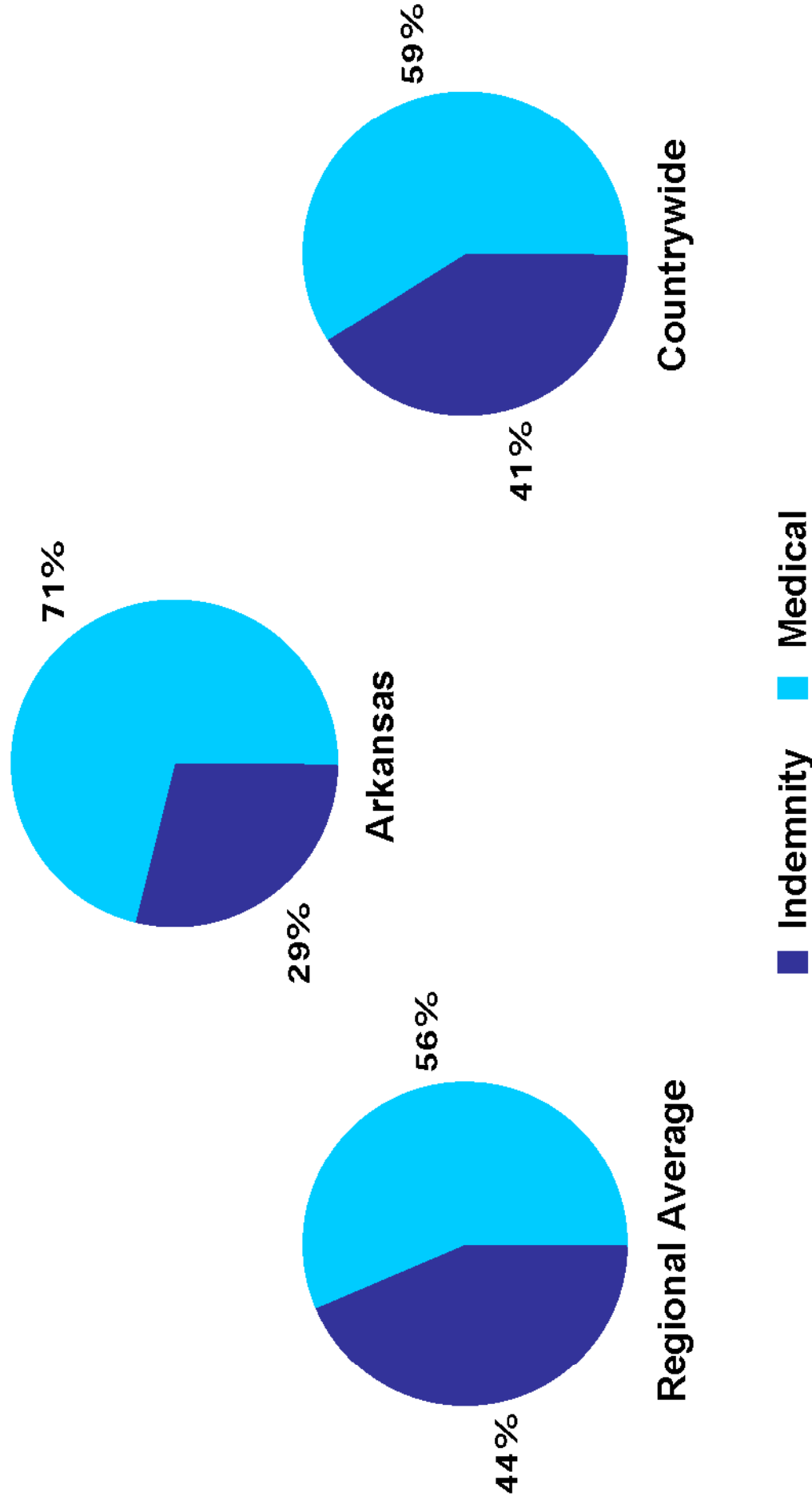
All Claims—NCCI States **2006p**



2006p: Preliminary based on data valued as of 12/31/06
1986, 1996: Based on data through 12/31/05, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies



Medical Benefits Constitute the Majority of Total Benefit Costs in Arkansas



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



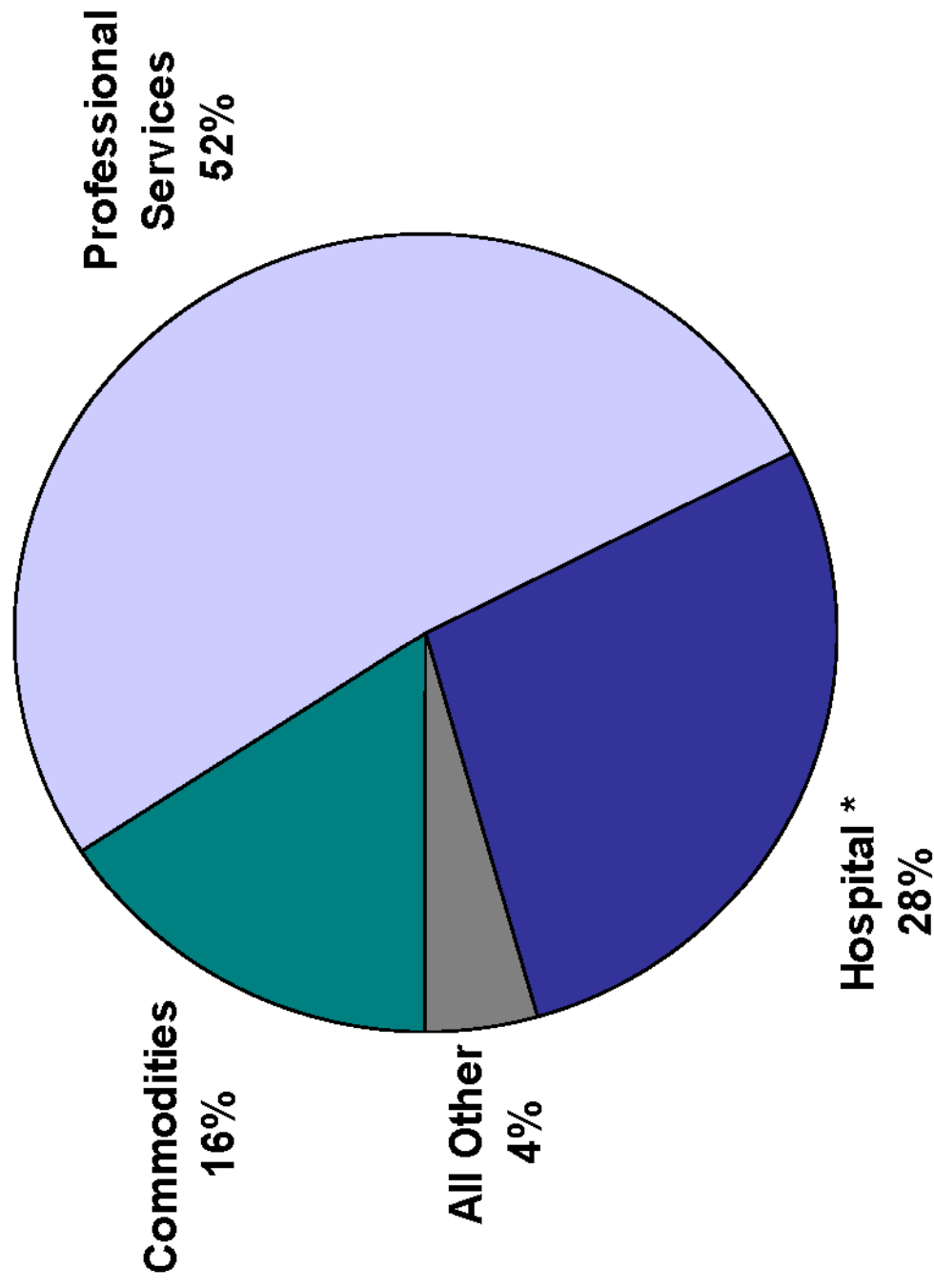
Economic Drivers of Medical Severity

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

Medical Payment Patterns and Internal Hospital Costs in Arkansas

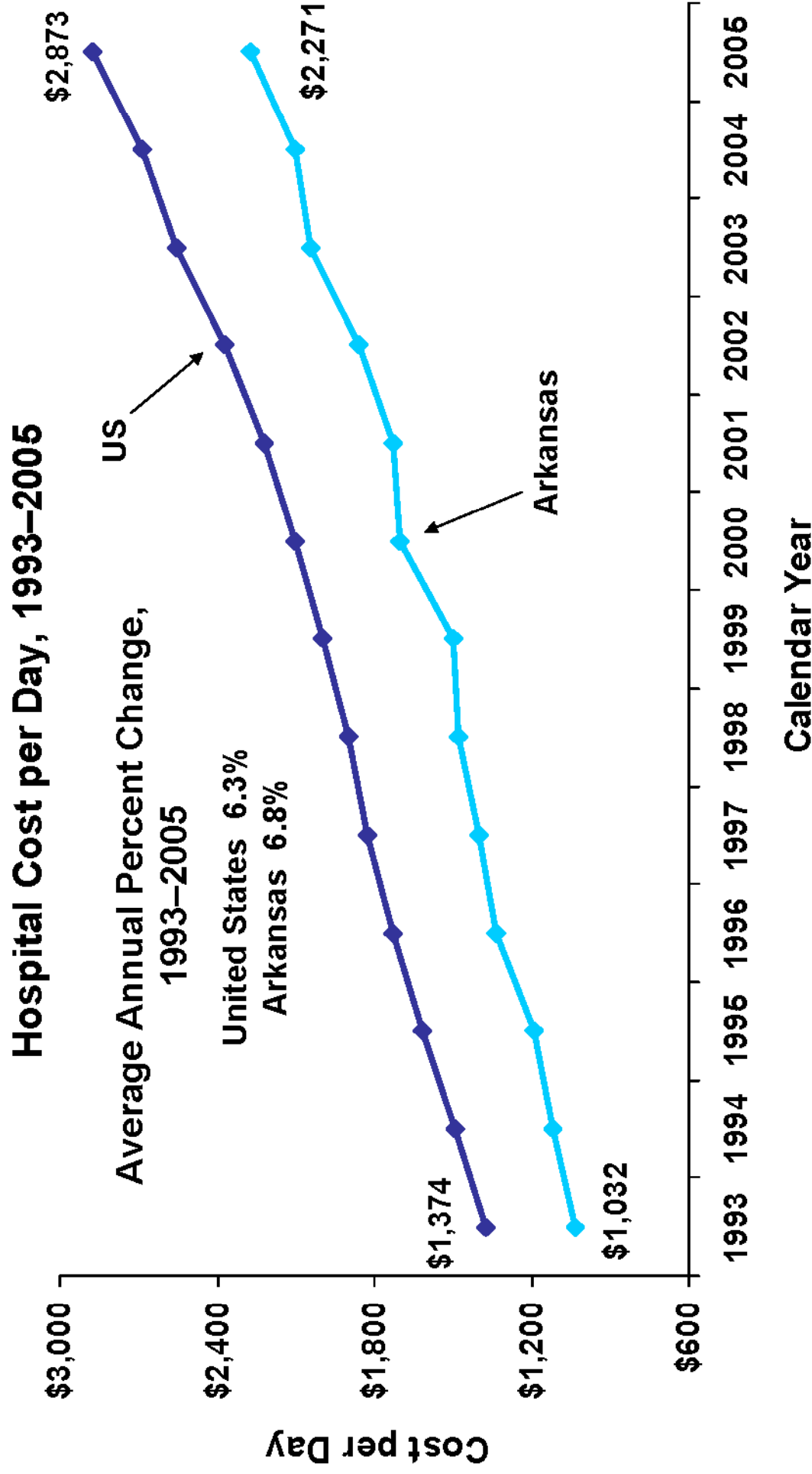


Distribution of Workers Compensation Medical Payments in Arkansas—2004



* Excluding physician services provided in a hospital facility

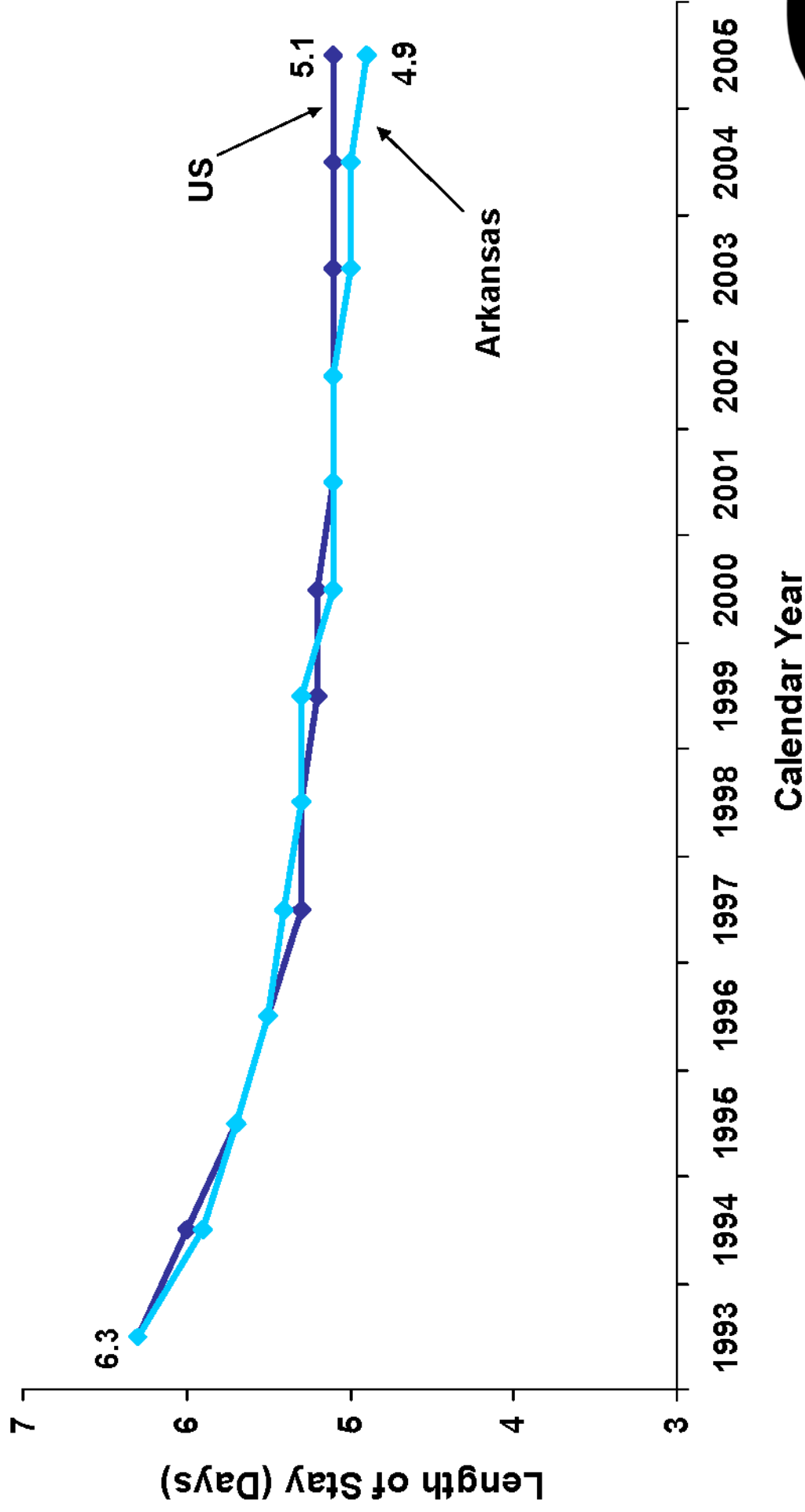
Arkansas Hospital Cost per Day: Lower Than That of the US



Source: American Hospital Association. Excludes Nursing Homes.

Average Time in the Hospital in Arkansas: Similar to That of the US

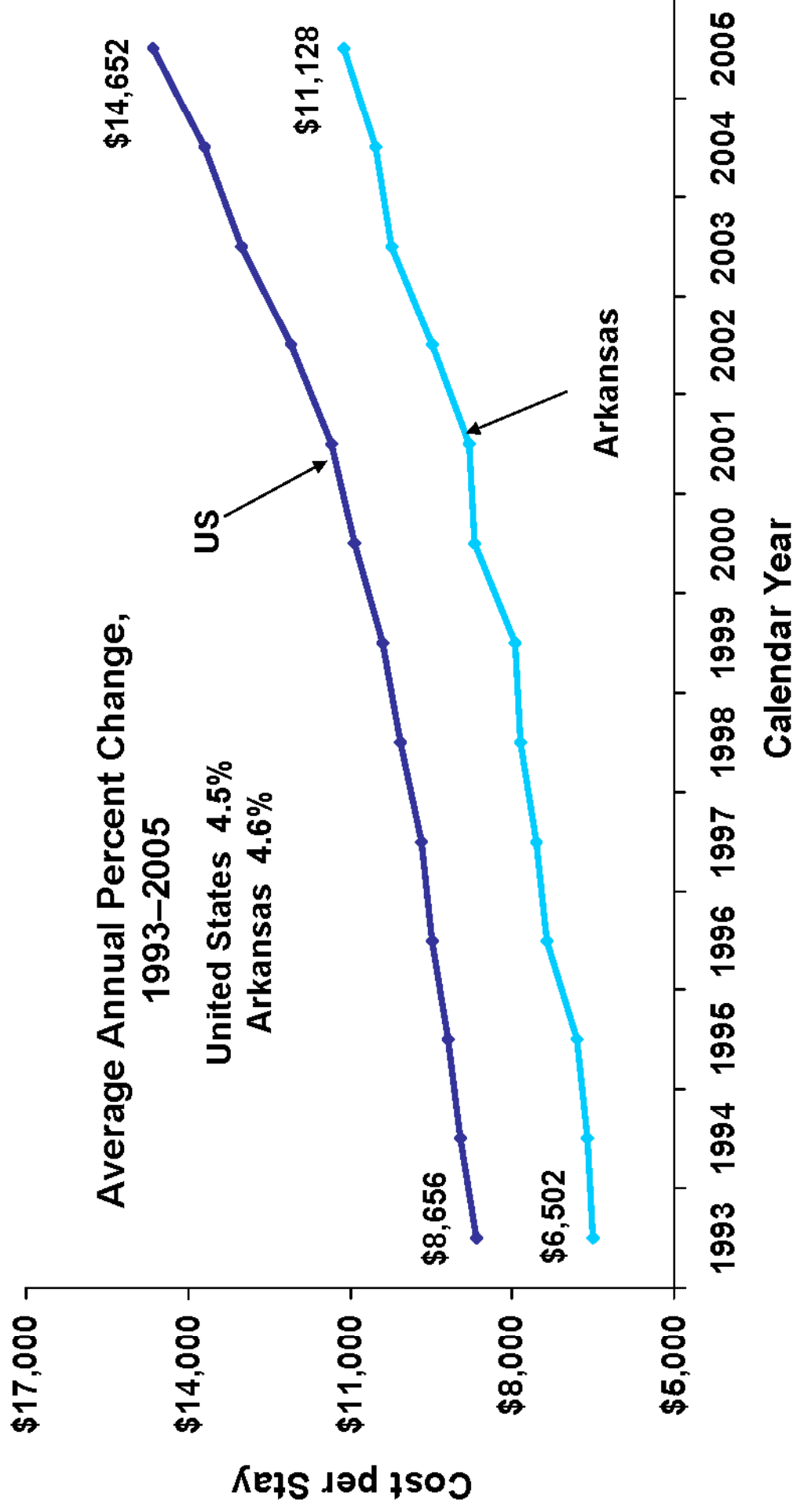
Average Length of Stay, 1993–2005



Source: American Hospital Association. Excludes Nursing Homes.

Arkansas Hospital Cost per Stay: Below the US, Increasing at the National Average

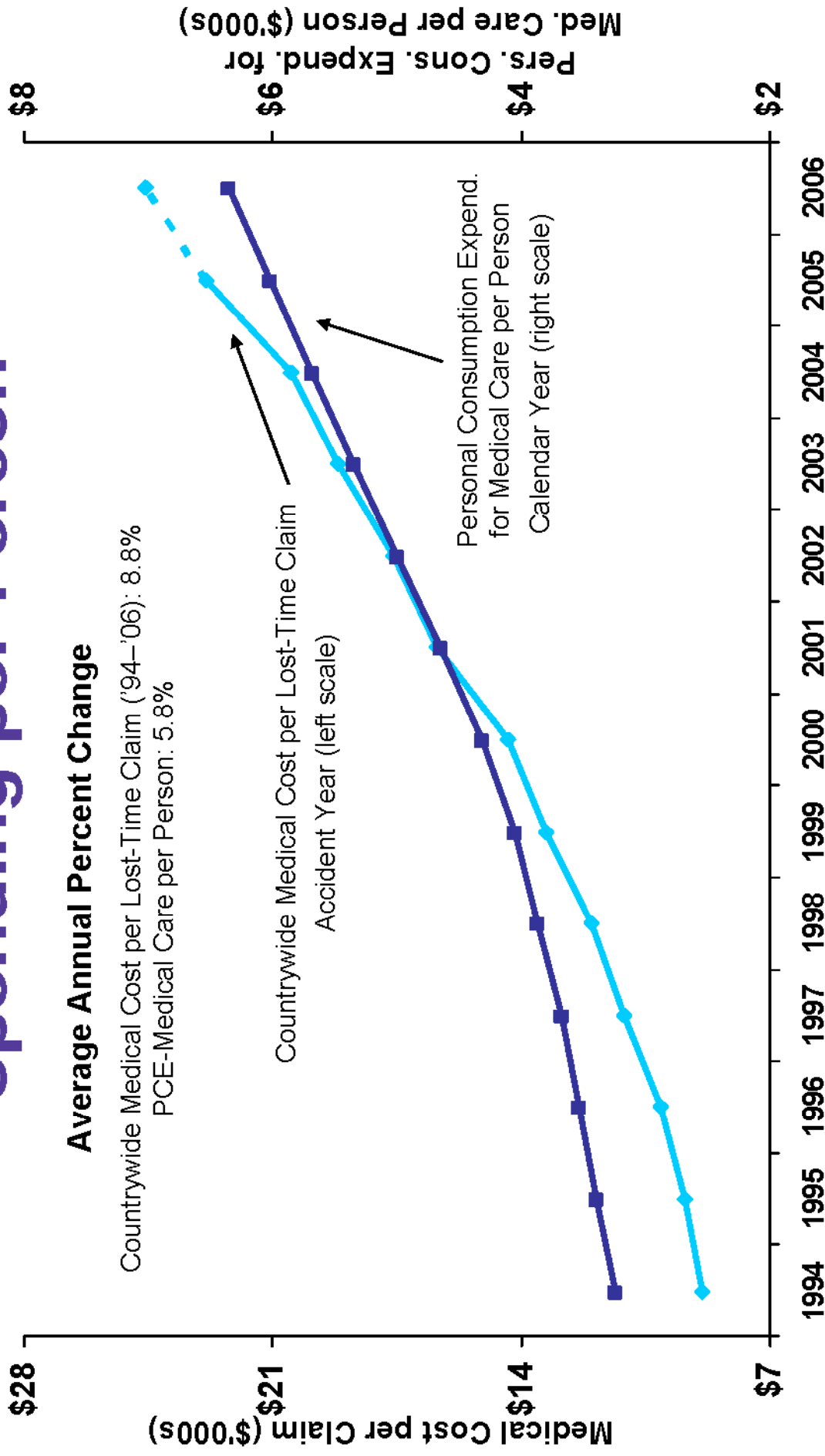
Hospital Cost per Stay, 1993–2005



Trends in Medical Care Spending, Prices, and Utilization



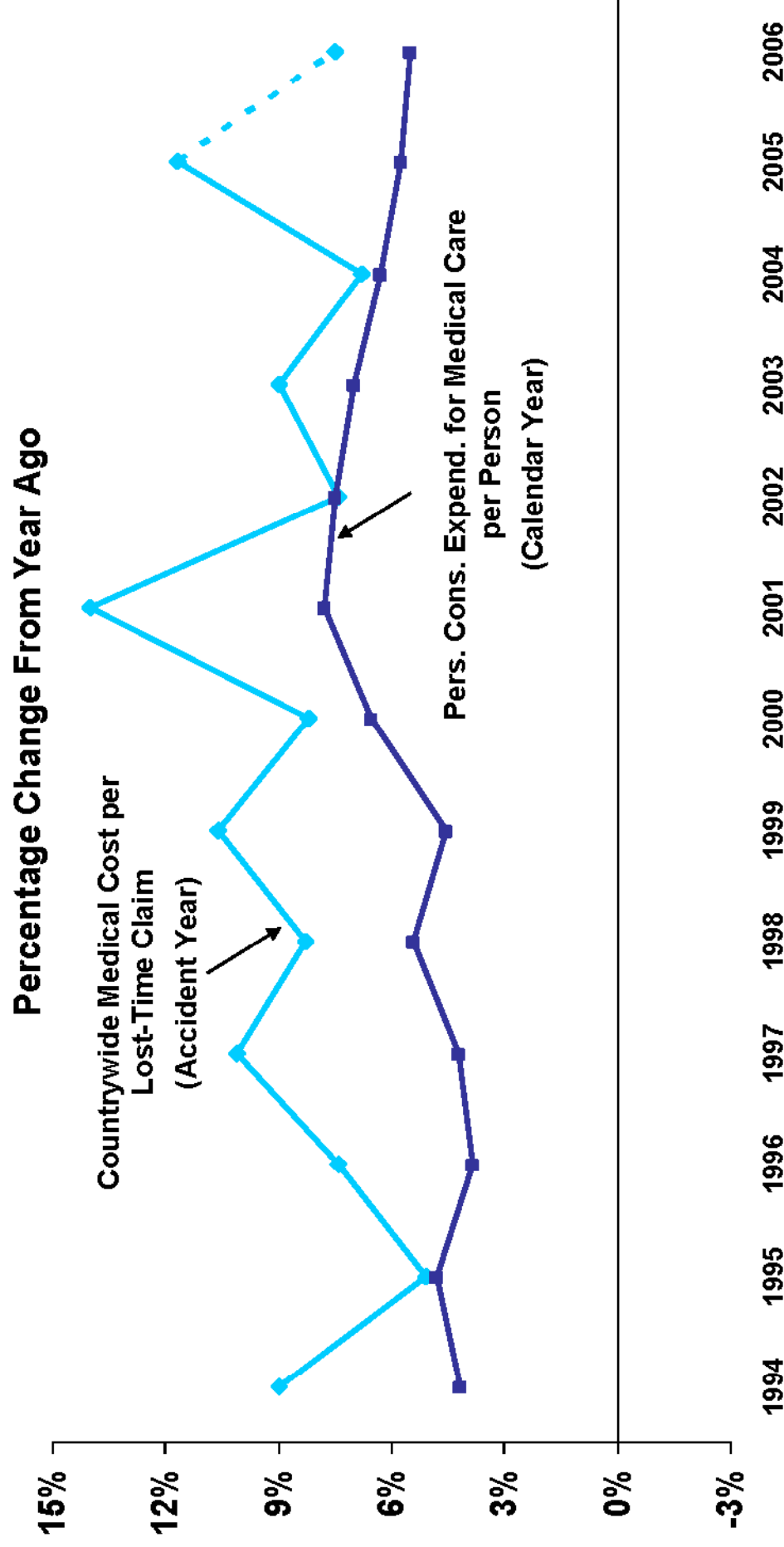
Countrywide Medical Cost per Claim Is Increasing Faster Than US Medical Care Spending per Person



Sources: NCCI; US Bureau of Economic Analysis
2006p: Preliminary based on data valued as of 12/31/06
1991-2005: Based on lost-time data through 12/31/05, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies



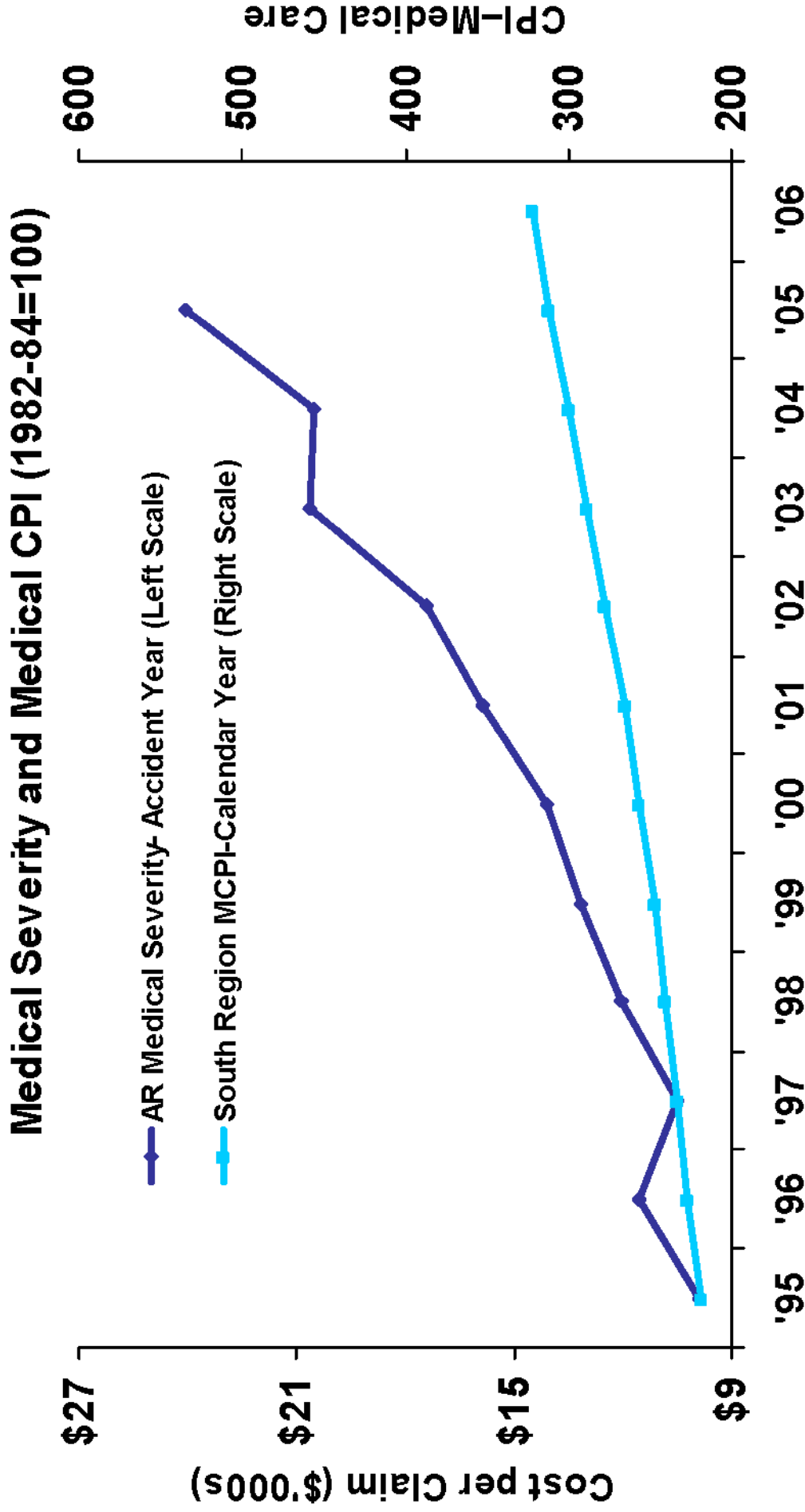
Rates of Growth Appear to Be Slowing for US Medical Care Spending per Person; Less So for CW Medical Cost per Claim



Sources: NCCI; US Bureau of Economic Analysis
 2006p: Preliminary based on data valued as of 12/31/06
 1991-2005: Based on lost-time data through 12/31/05, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies



Increases in Medical Severity in Arkansas Have Outpaced Increases in Medical Care Prices

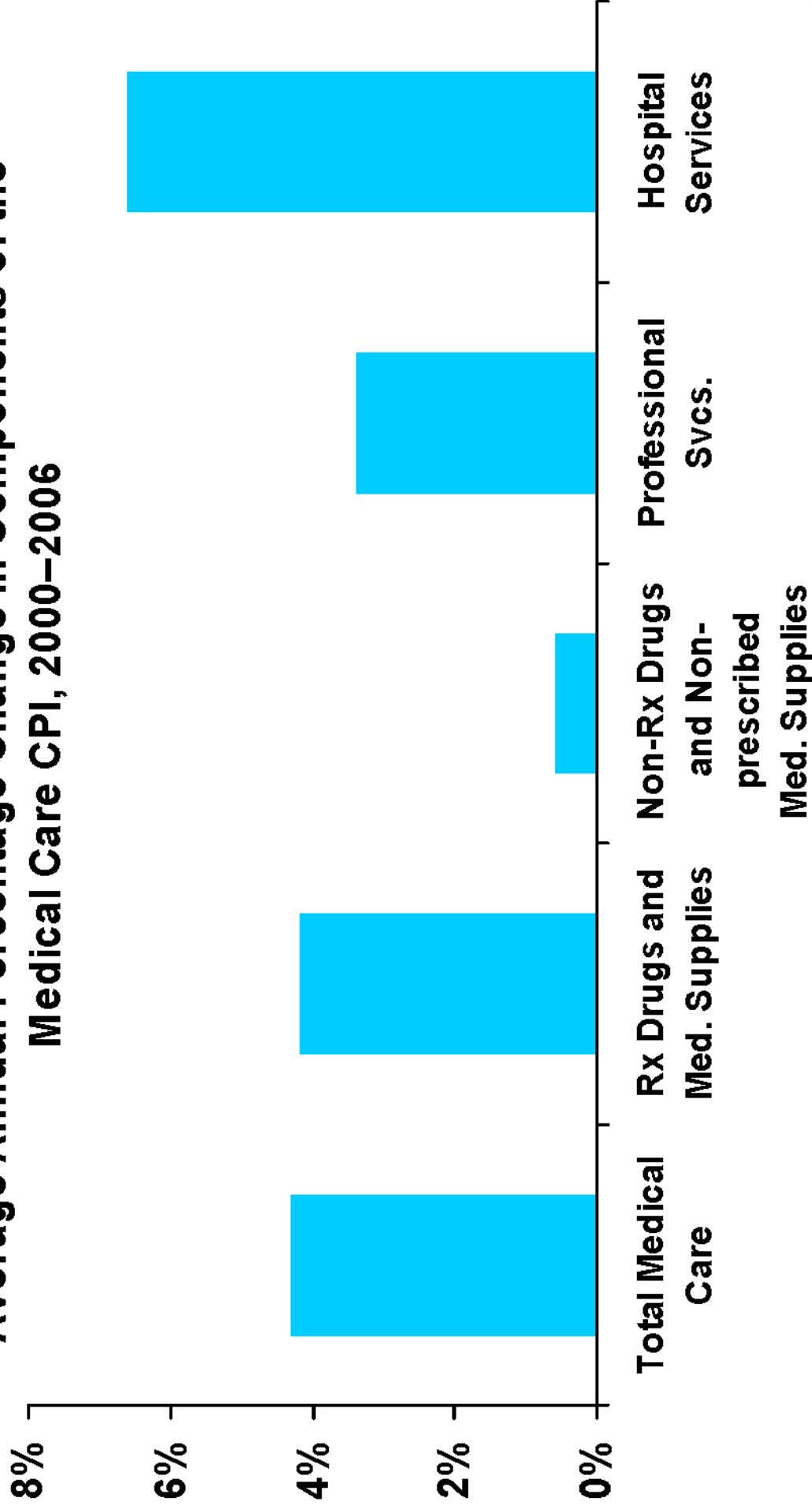


Source: Bureau of Labor Statistics and NCCI. Medical severity is on an accident year basis (paid plus case) prior to wage and benefit level adjustment.



Medical Care Price Increases Are Highest for Hospital Services

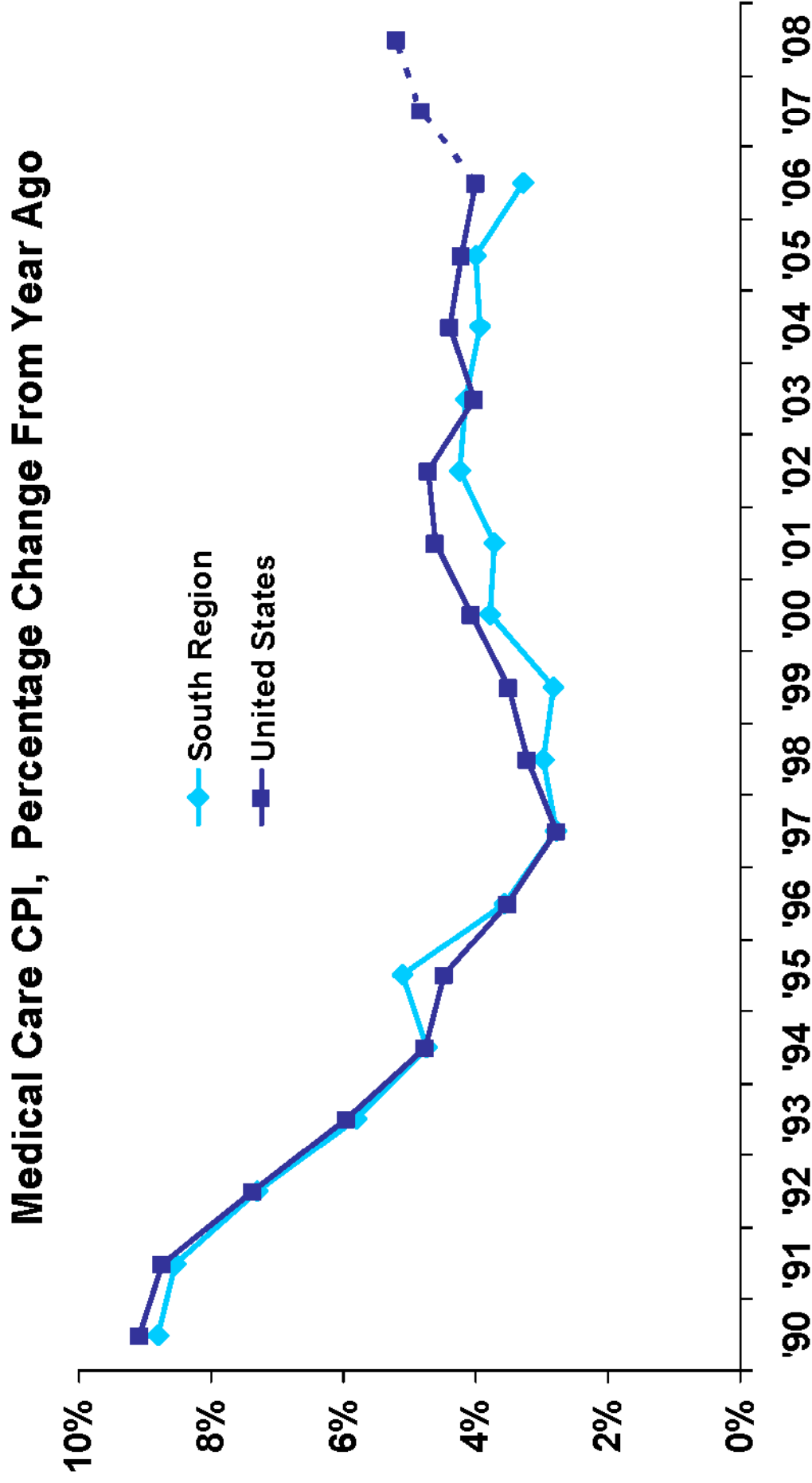
Average Annual Percentage Change in Components of the Medical Care CPI, 2000–2006



Source: US Bureau of Labor

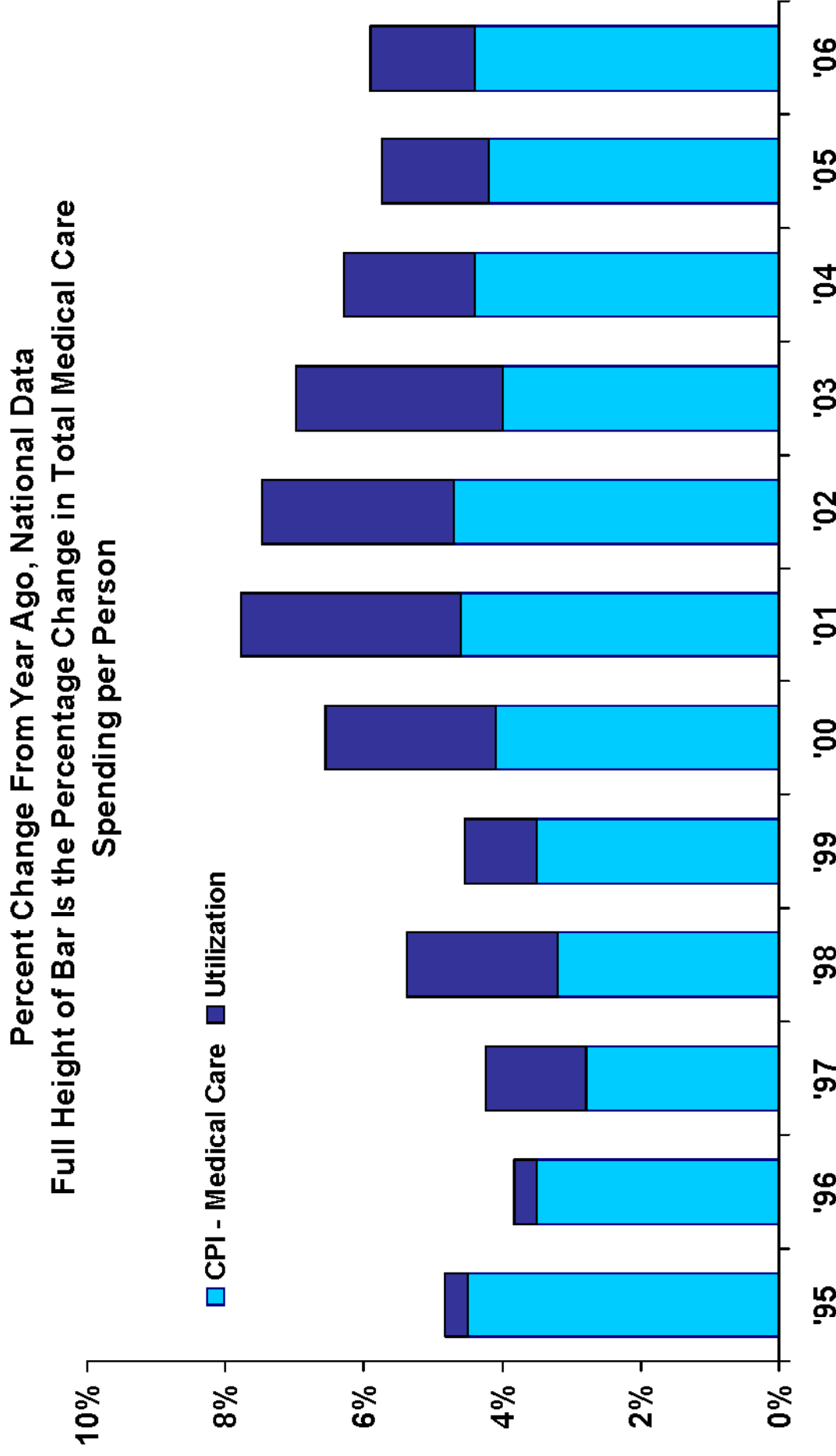


Further Increases in Medical Care Price Inflation Are Expected Through 2008



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

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



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

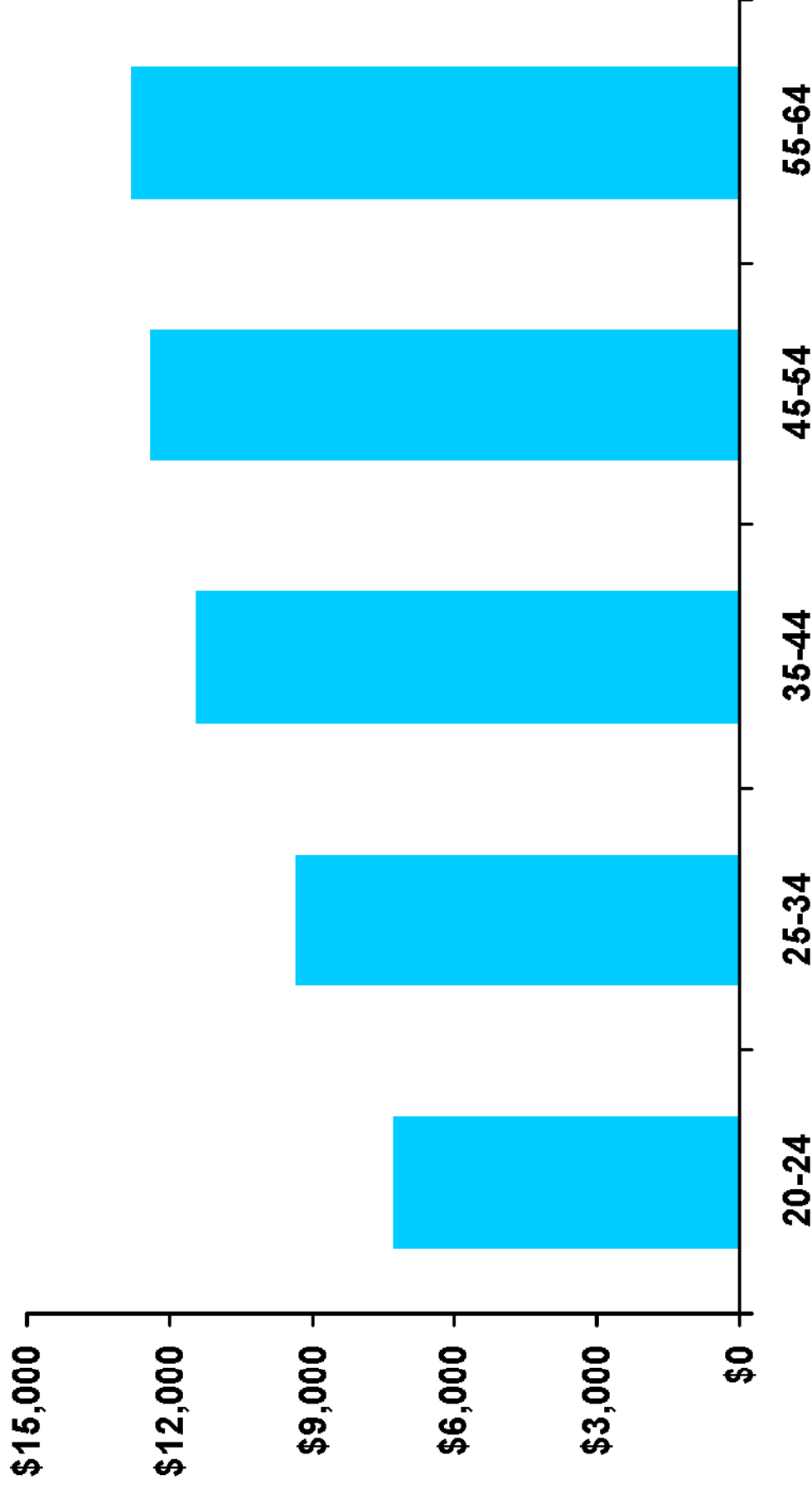
- Changes in the number of services provided
- Changes in treatment modalities (use of MRIs instead of X-rays)
- Introduction of newer pharmaceuticals/generics
- Adaptive practices by providers

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, 2002**



Source: NCCI



Rankings of Top Ten Lost-Time Claim Diagnoses

1996–2003, NCCI States

Ages 20–34

Ages 45–64

1 SPRAIN LUMBAR REGION

1 CARPAL TUNNEL SYNDROME

2 LUMBAR DISC DISPLACEMENT

2 LUMBAR DISC DISPLACEMENT

3 CARPAL TUNNEL SYNDROME

3 SPRAIN ROTATOR CUFF

4 LUMBAGO

4 TEAR MENISCUS KNEE

5 CERVICALGIA

5 CERVICALGIA

6 LOWER LEG INJURY NOS

6 SPRAIN LUMBAR REGION

7 SPRAIN OF ANKLE NOS

7 ROTATOR CUFF SYNDROME NOS

8 SPRAIN OF NECK

8 LUMBOSACRAL NEURITIS NOS

9 LUMBOSACRAL NEURITIS NOS

9 LUMBAGO

10 SPRAIN LUMBOSACRAL

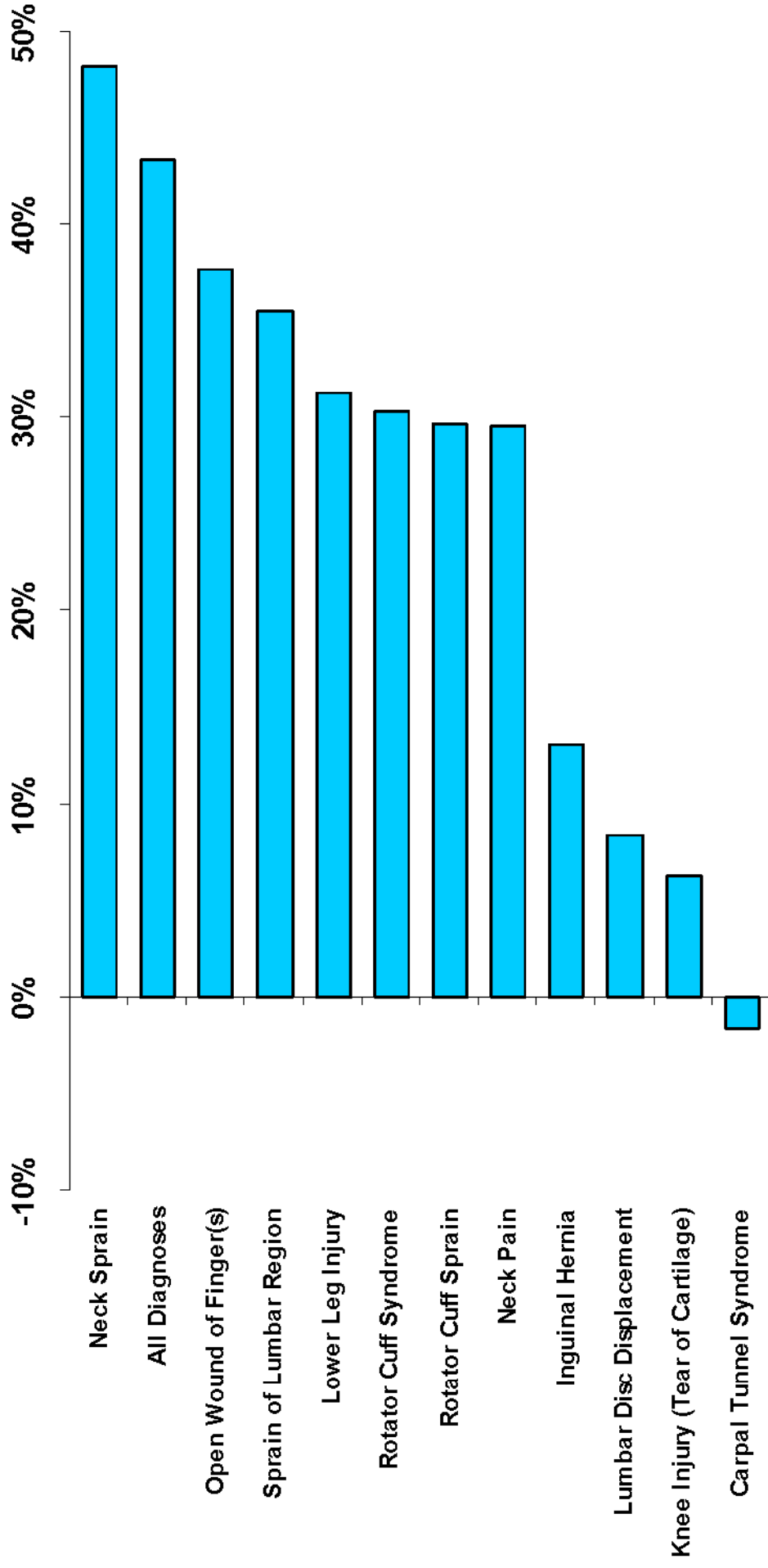
10 LOWER LEG INJURY NOS

Source: NCCI



Older Workers Have a Higher Number of Treatments per Claim

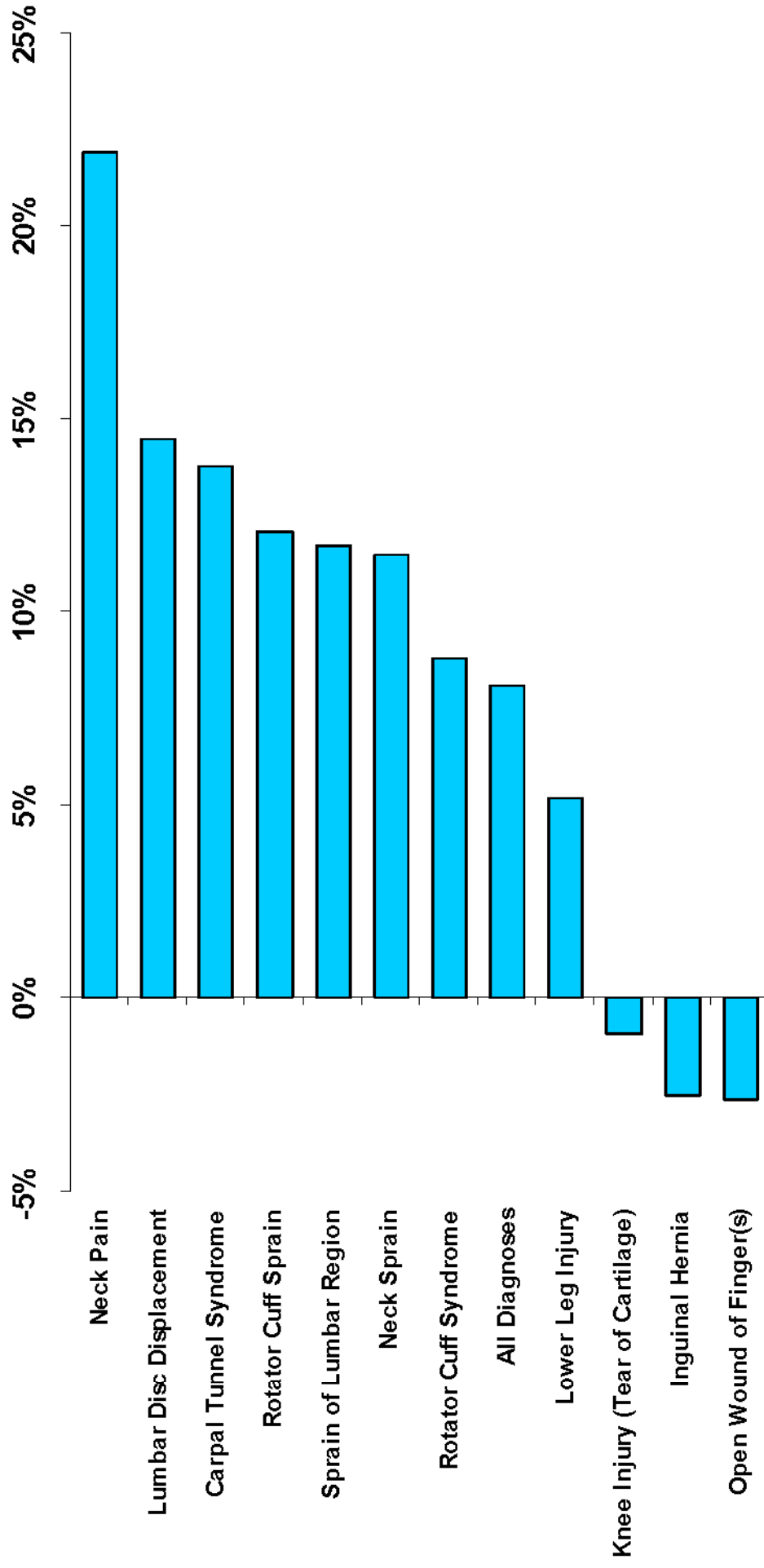
Percentage Difference in Average Number of Treatments per Claim, Workers Aged 45–64 vs. Workers Aged 20–34*, NCCI States, 1996–2003



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

Average Price per Treatment Is Generally Higher for Older Workers

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

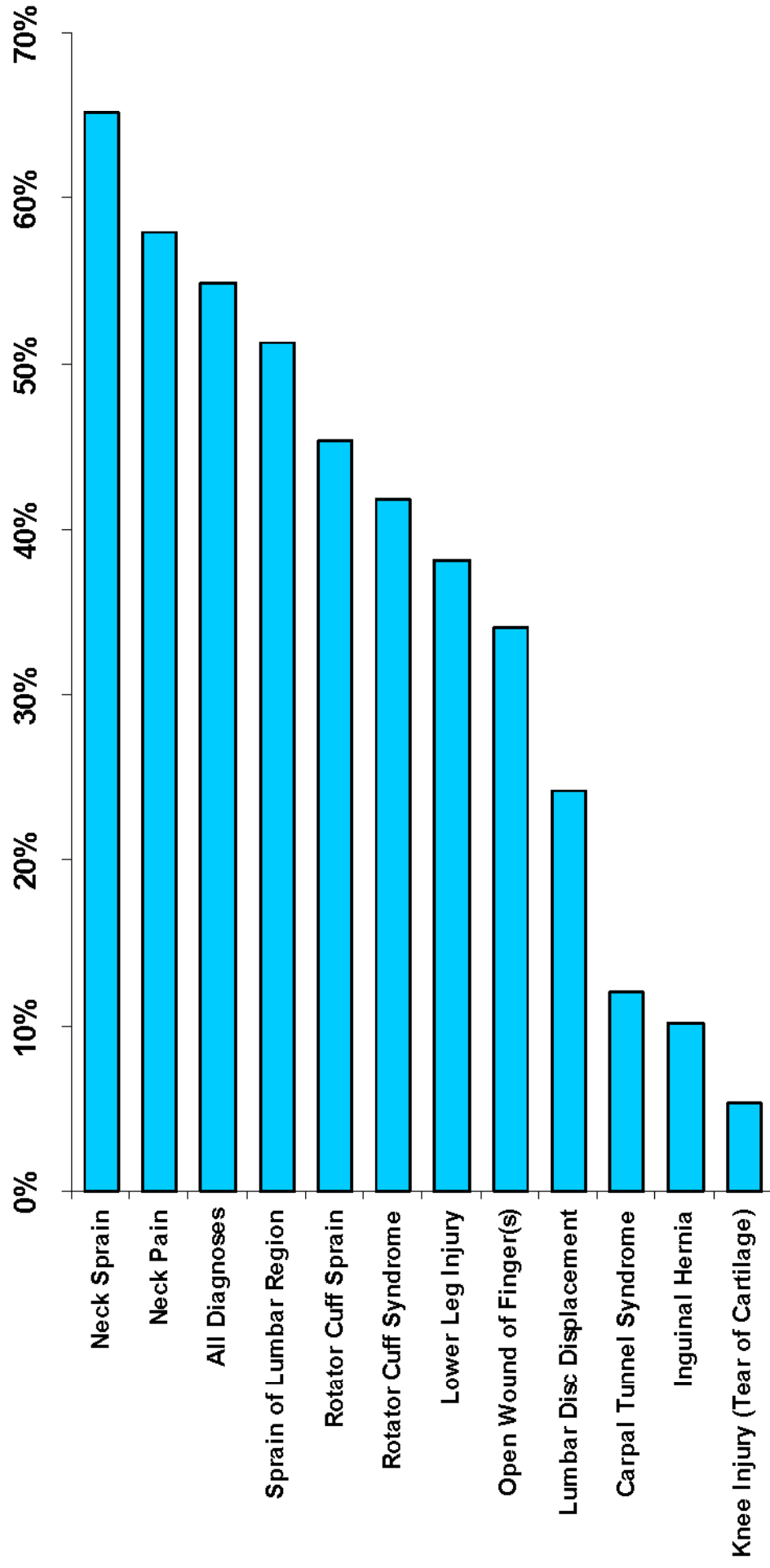


* Based on a comparison of cumulative medical payments through latest evaluation
Source: NCCI



Medical Severity Is Substantially Higher for Older Workers

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



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

Key Takeaways— Drivers of Medical Severity

- Payments to professional service providers account for roughly 50% of workers compensation medical payments in Arkansas
- Ongoing increases in medical inflation and utilization suggest further upward pressure on medical severity in Arkansas
- Medical severity increases with age



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Legislative Issues Nationwide and in Arkansas

Legislative Challenges

- Major workers compensation reform pursued only in SC in 2006. Major reform again likely in SC in 2007.
- Many states are engaged in study committees that will likely lead to legislative recommendations—NH, RI, SC, LA, and MT.
- Earlier reform efforts in FL, TN, and MO were challenged as unconstitutional. The courts have upheld the propriety of these reform efforts.
- Center for Justice and Democracy, a consumer right's group, released its report calling state workers compensation systems a "colossal failure." May lead to increased legislative efforts to pare back reforms.

Federal Legislative Issues

- Terrorism Risk Insurance Act (TRIA)



Key Provisions of TRIA— Original vs. Extension

Provision	Original	Extension
Lines Covered	Most commercial lines (medical malpractice, financial guaranty specifically excluded)	All current TRIA lines (except comm. auto, surety, prof. liability, farm owners, 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



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



Arkansas 2007 Legislation

- HB1700—Extends the right to waive workers compensation coverage (without CNC) to sole proprietors, partners, LLC members, and members of professional associations who are **not** subcontractors.
- HB 2674—Provides for elimination of the Second Injury Fund. No claims will be accepted as of 1/1/08. Previous estimates indicate the impact of this change will be in the range of +.7% to +1.5%.

Arkansas Legislation

- HB 2648—Modifies the threshold of responsibility for indemnity payments from the Death and Permanent Disability Trust Fund. The current threshold is \$75,000. For injuries occurring 1/1/08 and subsequent, the new threshold will be 325 times the maximum disability rate at the time of the injury. For 2008, this is currently estimated to be approximately \$170,000. The estimated loss cost impact ranges from +1.7% to +3.4%.



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Arkansas Workers Compensation Commission Update

CEO Alan McClain

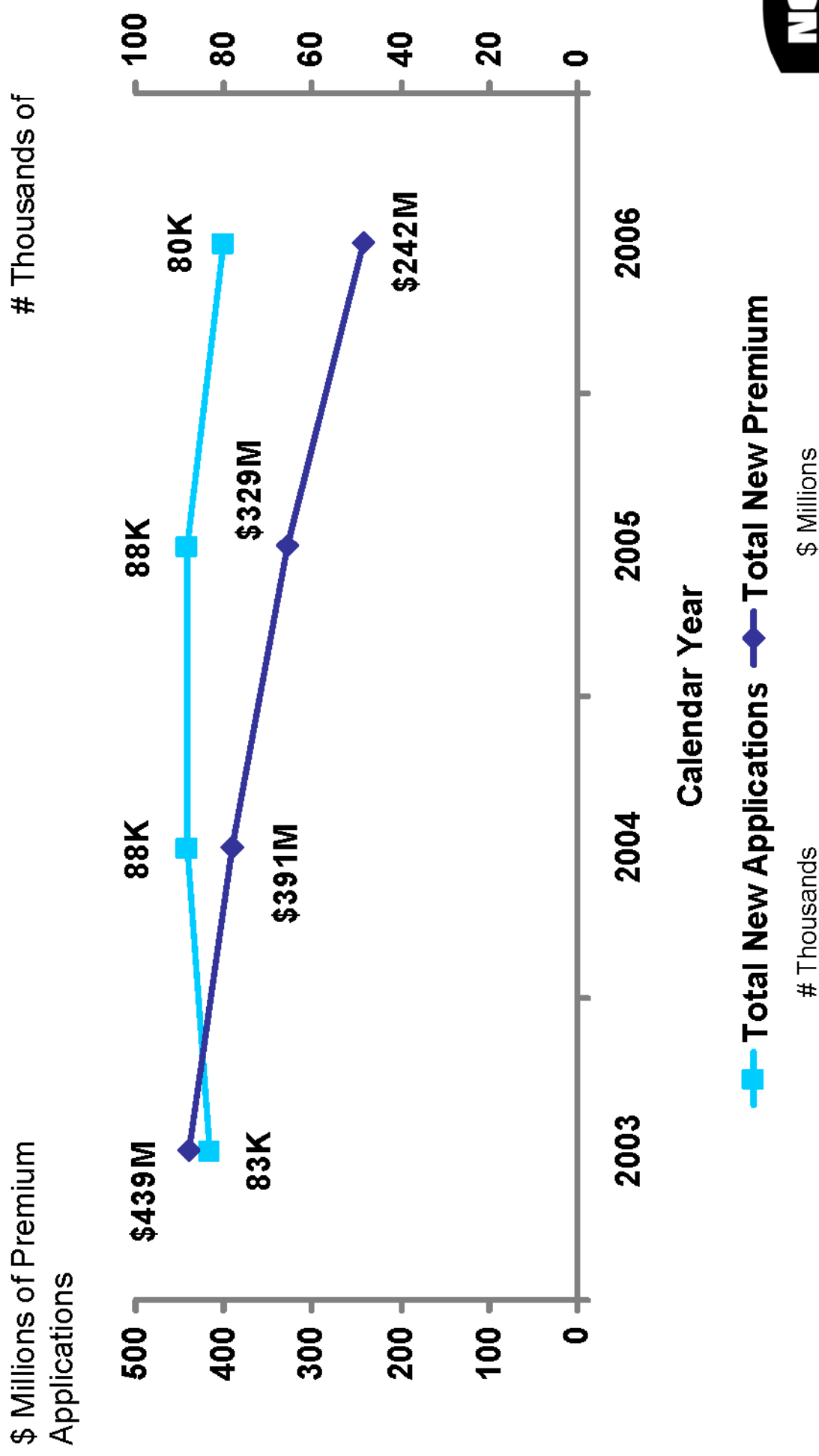


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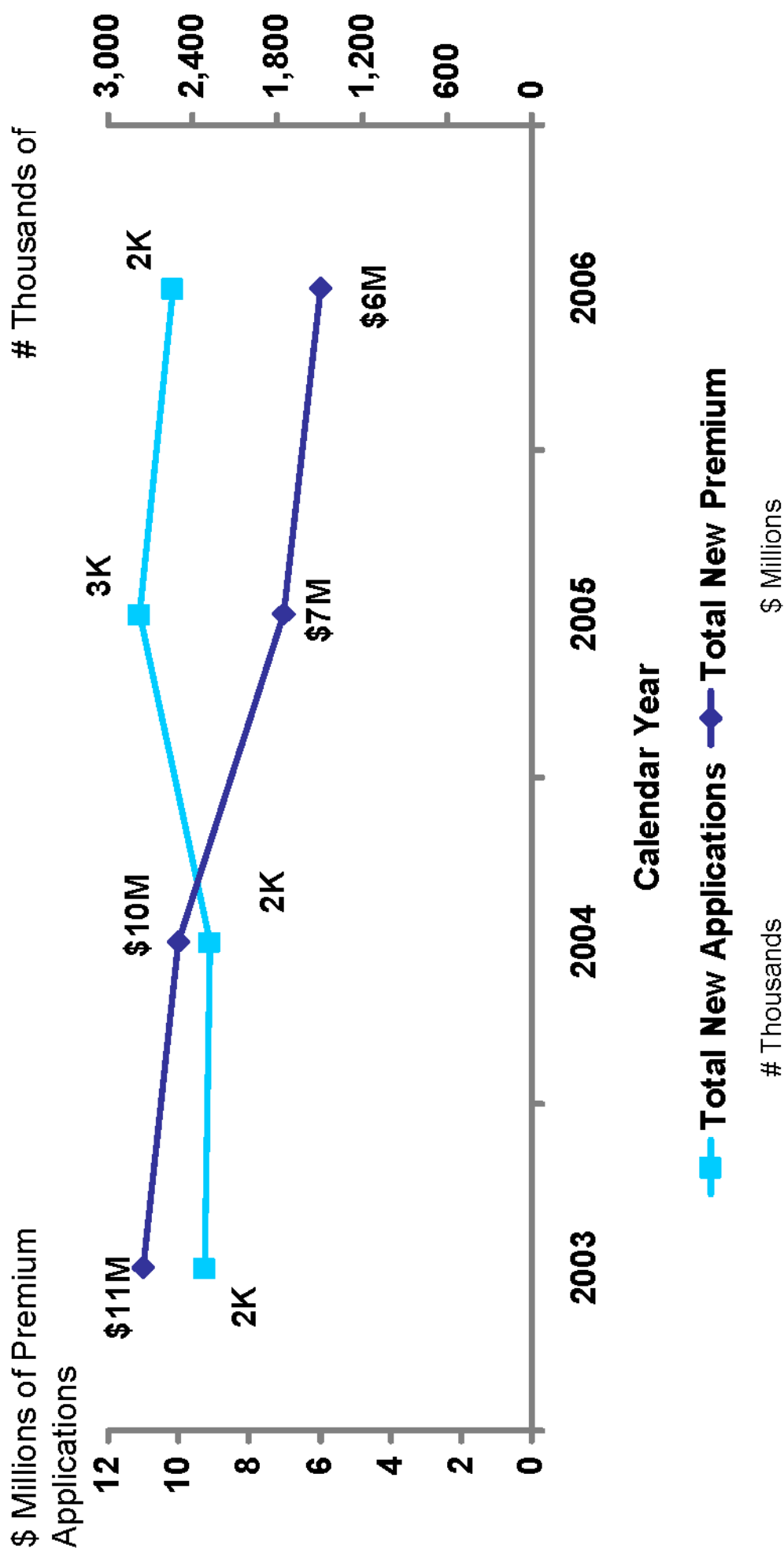
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The Residual Market in Arkansas

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



Total Residual Market New Applications and Premium Assigned in Arkansas



The Number of Residual Market Plan Assignments in Arkansas

Number of Total Assignments

<u>Year</u>	<u>Q1–Q4</u>	<u>% Change From Prior Year</u>
2003	2,311	
2004	2,277	-1%
2005	2,772	22%
2006	2,541	-8%



The Volume of New Assigned Premium in Arkansas

Volume of Total Assigned Premium

<u>Year</u>	<u>Q1–Q4</u>	<u>% Change From Prior Year</u>
2003	\$11,239,882	
2004	\$10,082,128	-10%
2005	\$6,843,651	-32%
2006	\$5,541,885	-19%



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

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

	<u>Arkansas</u>	<u>National</u>
<u>Average</u>		
December 2003	53.5%	65.2%
December 2004	59.5%	73.9%
December 2005	70.3%	78.8%
December 2006	74.4%	83.1%



Where Are the Assignments for Arkansas' New Residual Market Applications Coming From?

Number and Types of New Assignments

Year	Assignments		Reassignments	Total Assigned
	No Previous Coverage	Previous Voluntary Coverage		
2003	1,238	867	206	2,311
2004	1,309	392	576	2,277
2005	2,162	303	307	2,772
2006	2,087	238	216	2,541

Note: Reassignments—Application has had previous residual market coverage.



The Premium for Arkansas' New Residual Market Plan Applications

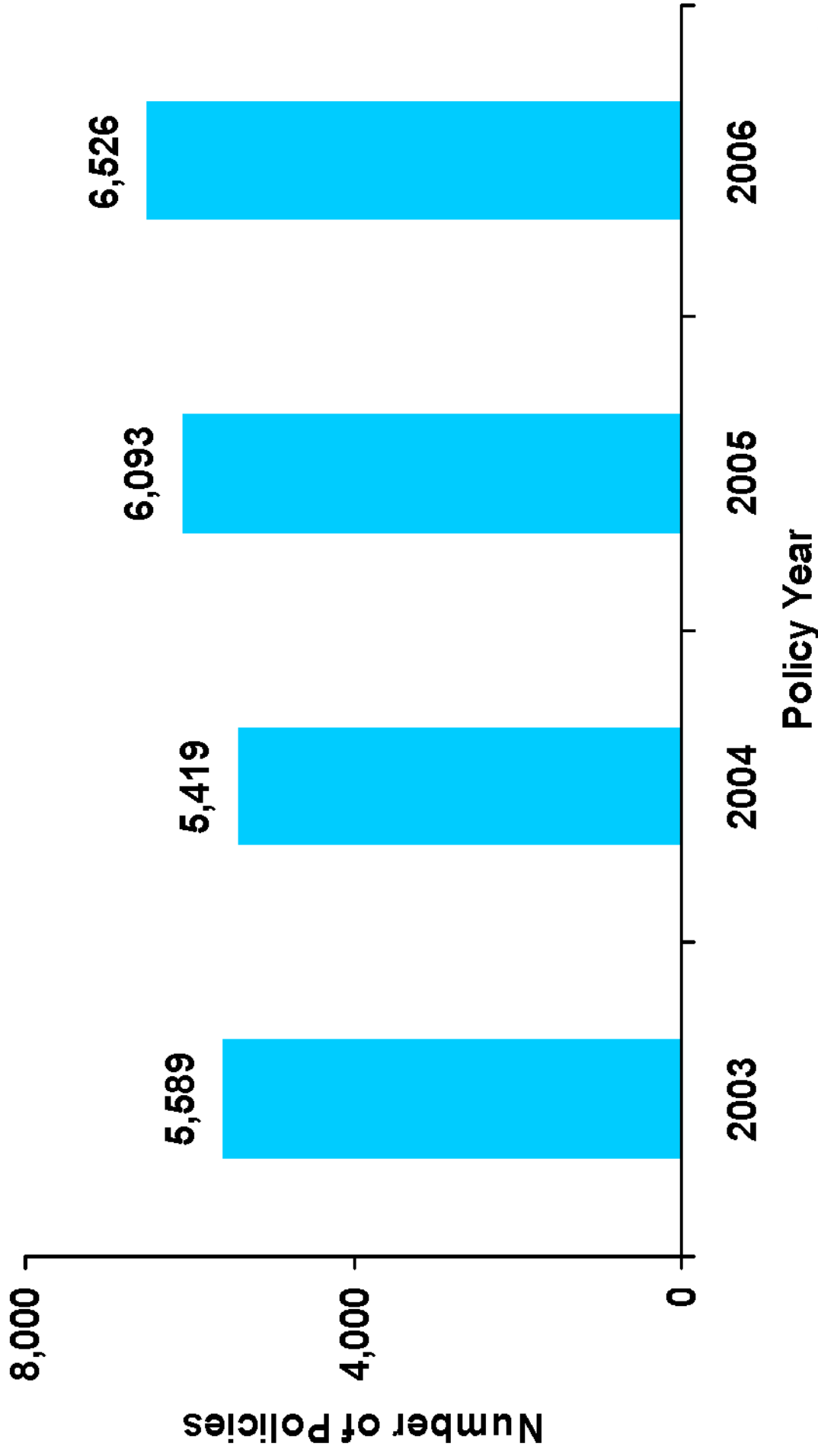
Total New Assigned Premium

Year	Assignments		Reassignments	Total Assigned
	No Previous Coverage	Previous Voluntary Coverage		
2003	\$2,792,893	\$7,535,251	\$911,738	\$11,239,882
2004	\$3,981,136	\$3,558,523	\$2,542,469	\$10,082,128
2005	\$3,290,435	\$2,248,680	\$1,304,536	\$6,843,651
2006	\$3,332,234	\$1,643,630	\$566,021	\$5,541,885

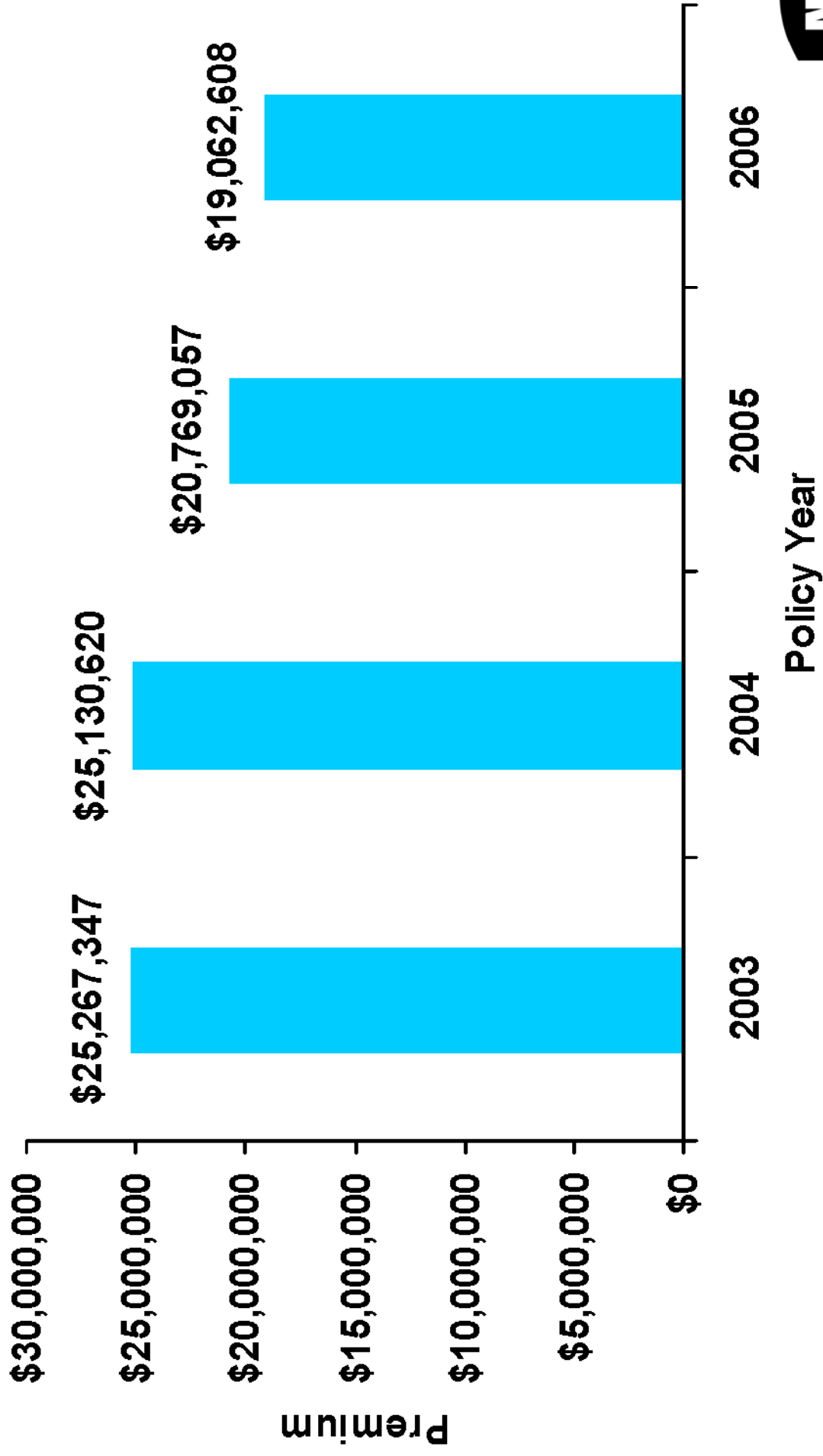
Note: Reassignments—Application has had previous residual market coverage.



Arkansas' Total Residual Market Plan Policy Count



Arkansas' Total Residual Market Plan Premium Volume

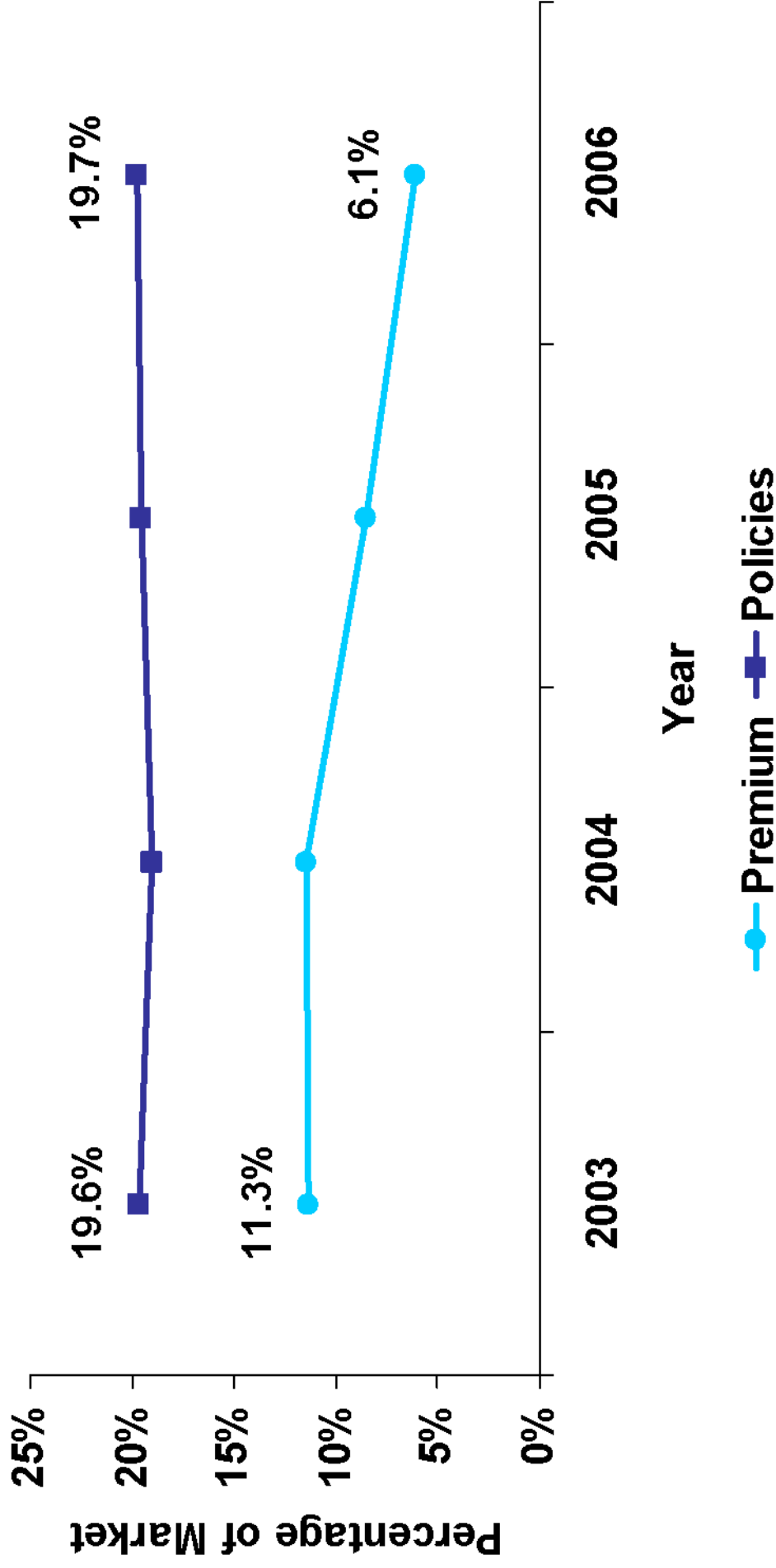


Arkansas Residual Market Plan 2005 vs. 2006 Total Policy Size Comparison

Premium Size	2005		2006	
	# of Policies	Premium	# of Policies	Premium
\$0–\$2,499	4,689	\$3,914,019	5,168	\$4,099,523
\$2,500–\$4,999	657	\$2,316,284	641	\$2,220,562
\$5,000–\$9,999	378	\$2,652,022	375	\$2,619,560
\$10,000–\$19,999	198	\$2,712,391	205	\$2,769,637
\$20,000–\$49,999	110	\$3,307,981	87	\$2,659,562
\$50,000–\$99,999	37	\$2,549,052	37	\$2,422,814
\$100,000–\$199,999	22	\$2,881,878	11	\$1,477,780
\$200,000 and greater	2	\$435,430	2	\$793,170
TOTAL	6,093	\$20,769,057	6,526	\$19,062,608



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 (7.8%)
8810—Clerical (5.9%)
5474—Painting (2.8%)
7228—Trucking, Local
(2.6%)
8742—Outside Sales
(2.6%)

Arkansas

5645—Carpentry (22.6%)
8810—Clerical (5.7%)
5474—Painting (3.1%)
5022—Masonry (3.0%)
5551—Roofing (2.5%)



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

Nationally

5645—Carpentry (4.6%)

8861—Charitable
Organizations (3.5%)

7229—Trucking, Long
Distance (2.7%)

7228—Trucking, Local (2.2%)

5551—Roofing (2.2%)

Arkansas

5645—Carpentry (10.7%)

5403—Carpentry NOC (3.8%)

7720—Police Officers (3.6%)

6217—Excavation (2.5%)

5551—Roofing (2.2%)



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	157	2.60%
72764	SPRINGDALE, AR	155	2.57%
72756	ROGERS, AR	151	2.50%
71913	HOT SPRINGS, AR	119	1.97%
72015	BENTON, AR	118	1.96%
72703	FAYETTEVILLE, AR	102	1.69%
72023	CABOT, AR	97	1.61%
72762	SPRINGDALE, AR	94	1.56%
72401	JONESBORO, AR	91	1.51%
71901	HOT SPRINGS, AR	89	1.48%
		1,173	19.45%



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
72756	ROGERS, AR	\$290,307	1.88%	\$1,923
71730	ELDORADO, AR	\$263,207	1.71%	\$4,113
72712	BENTONVILLE, AR	\$259,434	1.68%	\$1,652
72762	SPRINGDALE, AR	\$257,455	1.67%	\$2,739
72703	FAYETTEVILLE, AR	\$254,552	1.65%	\$2,496
72143	SEARCY, AR	\$253,691	1.65%	\$3,786
71913	HOT SPRINGS, AR	\$253,145	1.64%	\$2,127
72231	NORTH LITTLE ROCK, AR	\$239,761	1.56%	\$29,970
72764	SPRINGDALE, AR	\$224,972	1.46%	\$1,451
72104	MALVERN, AR	\$221,221	1.44%	\$5,267
		\$2,517,745	16.34%	



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
 - 5 of 502 applications requesting USL&H coverage were from Arkansas (or 0.9%)
- Indicate that the risk was previously “Self-Insured”
 - 196 of 3,231 applications indicating previous self-insurance were from Arkansas (or 6%)

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



Arkansas Assigned Risk Plan

Pricing Programs

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



Residual Market Premium Level Filings

South Carolina	12/1/06	+18.4%
Georgia*	3/1/07	+17.7%
North Carolina	4/1/07	+7.7%
Iowa	1/1/07	+6.7%
Nevada	3/1/07	+5.0%
South Dakota	7/1/07	+4.9%
Kansas	1/1/07	+1.1%
Alabama	3/1/07	0.0%
Illinois	1/1/07	0.0%
Oregon	1/1/07	0.0%
Connecticut	1/1/07	-0.1%

* Pending

Residual Market Premium Level Filings

New Hampshire	1/1/07	-0.6%
Mississippi	3/1/07	-1.2%
New Mexico	1/1/07	-1.3%
Arizona	10/1/06	-3.1%
Indiana	1/1/07	-3.1%
Dist. of Columbia	11/1/06	-5.6%
Arkansas	7/1/07	-6.1%
Tennessee	3/1/07	-6.8%
Vermont	4/1/06	-7.6%
Virginia	4/1/07	-7.7%
Alaska	1/1/07	-10.5%





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Classification Research Project Update

Class Assurance Commitment

- Review the entire workers compensation classification system by end of 2008
- Bring uniformity and clarity to the workers compensation classification system
- Propose recommendations and obtain national approval
- **Scopes[®] Manual** to be written in plain language



Progress Report—Year End 2006

- 352 national classifications codes have been reviewed out of 572 national classifications
 - 62% of the national classifications codes have been reviewed
- 162 state special classifications codes have been reviewed out of 300 state specials
 - 53% of the state special classifications codes have been reviewed
- 5 national item filings covering 36 industries have resulted from these reviews



Class Filing B-1387

Key Facts:

- Effective October 1, 2004—three-year transition program starts at next experience filing
- Effective October 1, 2007—transition ends and new codes become effective
- All of NCCI's states have taken action on this filing



Class Filing B-1387

- Bottling Operations
- Charitable or Welfare Organizations



Class Filing B-1391

Key Facts:

- Effective January 1, 2005
- Ten industries:
 - Five industries—wording-only changes
 - Five industries with rate impact—implemented at the states' next experience filing
- All of NCCI's states have taken action on this filing



Class Filing B-1391

Industries With a Rate Impact:

- Heating, Ventilation, Air-Conditioning, and Refrigeration
- Bag or Sack Mfg.
- Five-and-Dime Stores
- Ice Mfg.
- Linotype Printing



Class Filing B-1394

Key Facts:

- Effective November 1, 2005
- Fifteen industries in the filing
- Approved in all NCCI states
- No combination of classification codes
- Proposed changes resulted in the modernization, consolidation, elimination, or clarification of phraseology wording only



Class Filing B-1394

Industries With Most Questions:

- Building Raising or Moving
- Executive Supervisors
- Home Healthcare
- Tree Pruning, Spraying, and Repairing



Class Filing B-1399 and B-1399A

Key Facts:

- One industry was impacted—Aviation
- Effective July 1, 2006
- Approved in all NCCI states
- Separated rotary and fixed-wing operations
 - B-1399A deals with helicopter exposure transition program—Code 7425
- Redefined the application of the flight crew codes and combined ground operation codes



Class Filing B-1397

Key Facts:

- Effective July 1, 2007
- Twenty-five states have approved this filing to date (including Arkansas)
- Proposes changes to eight industries
- Proposed changes result in some form of rate impact



Class Filing B-1397

- Ambulance and Emergency Medical Services
- Athletic Team Sports and Parks
- Cleaning Services and Pet Sitting
- Domestic
- Firefighting Including Volunteer Firefighters
- Logging
- Mailing Companies
- Sheet Metal

Circulars

- Announcement—details the content of the indicated item filing
- Approval—details specific changes (e.g., effective date) that differ from the national item filing
- Status of Item Filings—details national item and state filing approvals, disapprovals, withdrawals, etc.

Publishing Changes From Class Filings

- All impacted manuals are updated and published (online) 90 days prior to the effective date
- Hard copy manual pages are distributed throughout the year
- State manuals are impacted for those states that do not approve by the effective date



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Q & A



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

Glossary

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

Glossary

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





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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

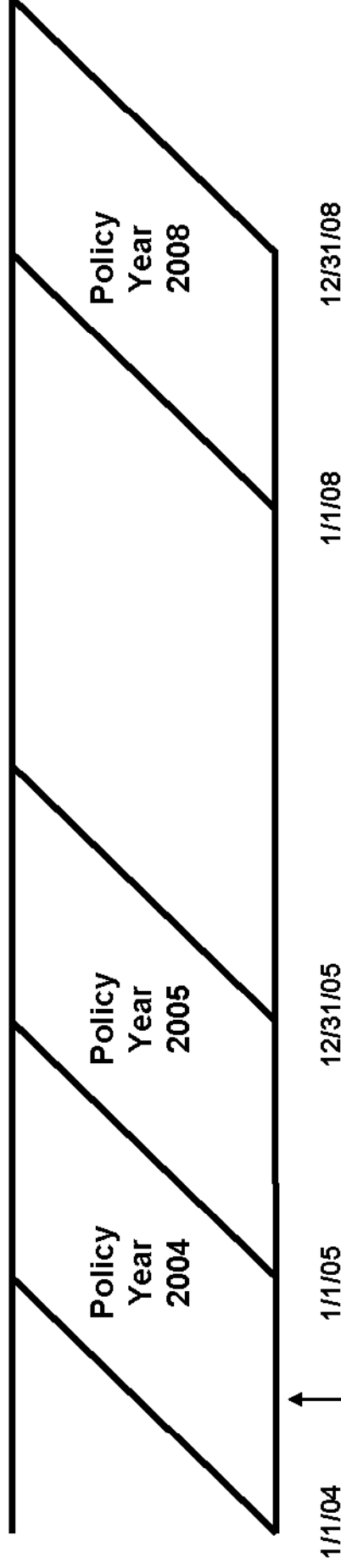


Financial Aggregate Calls

- **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

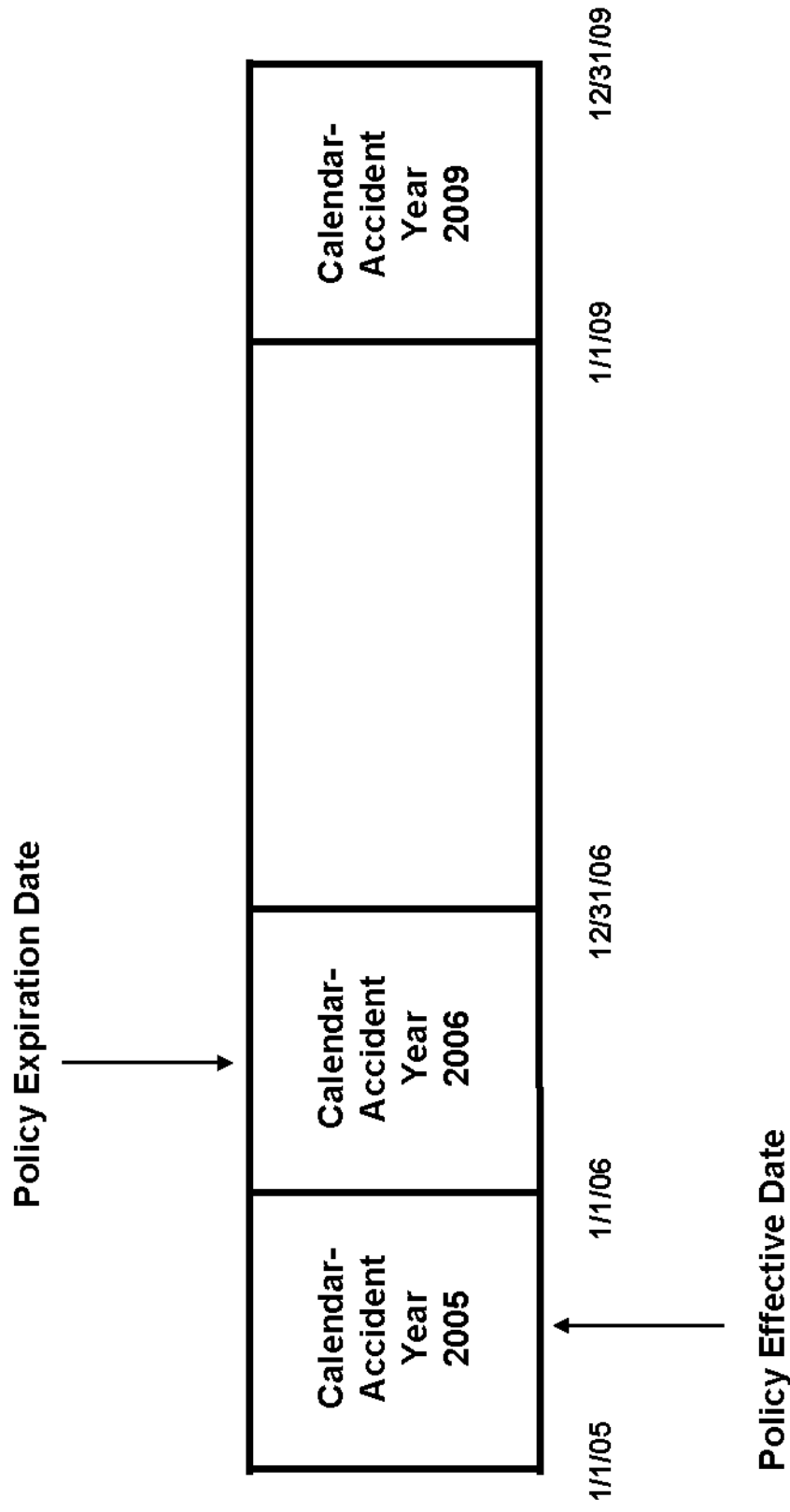
Policy Expiration Date



Policy Effective Date



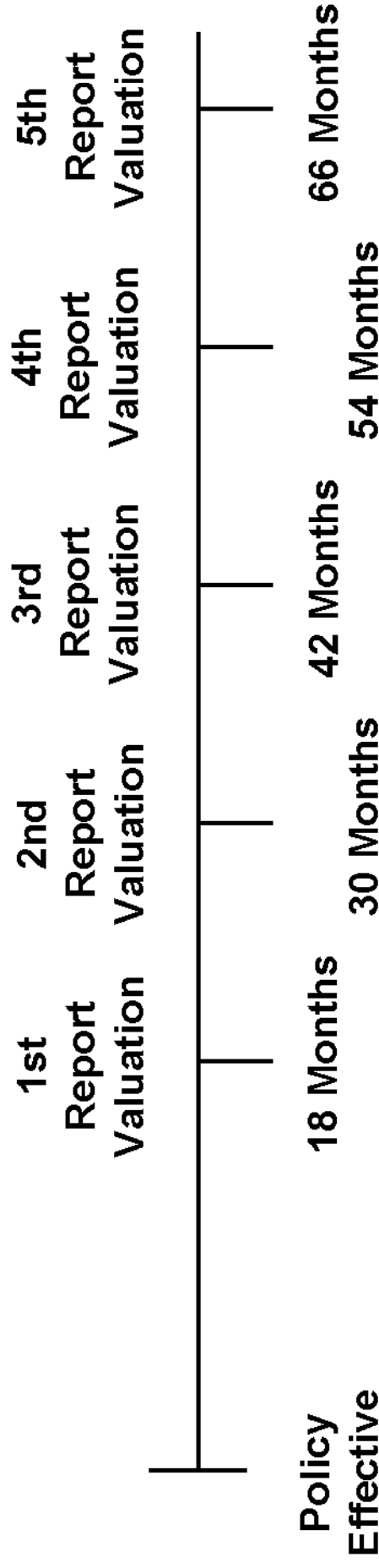
Calendar-Accident Year Financial Aggregate Data



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



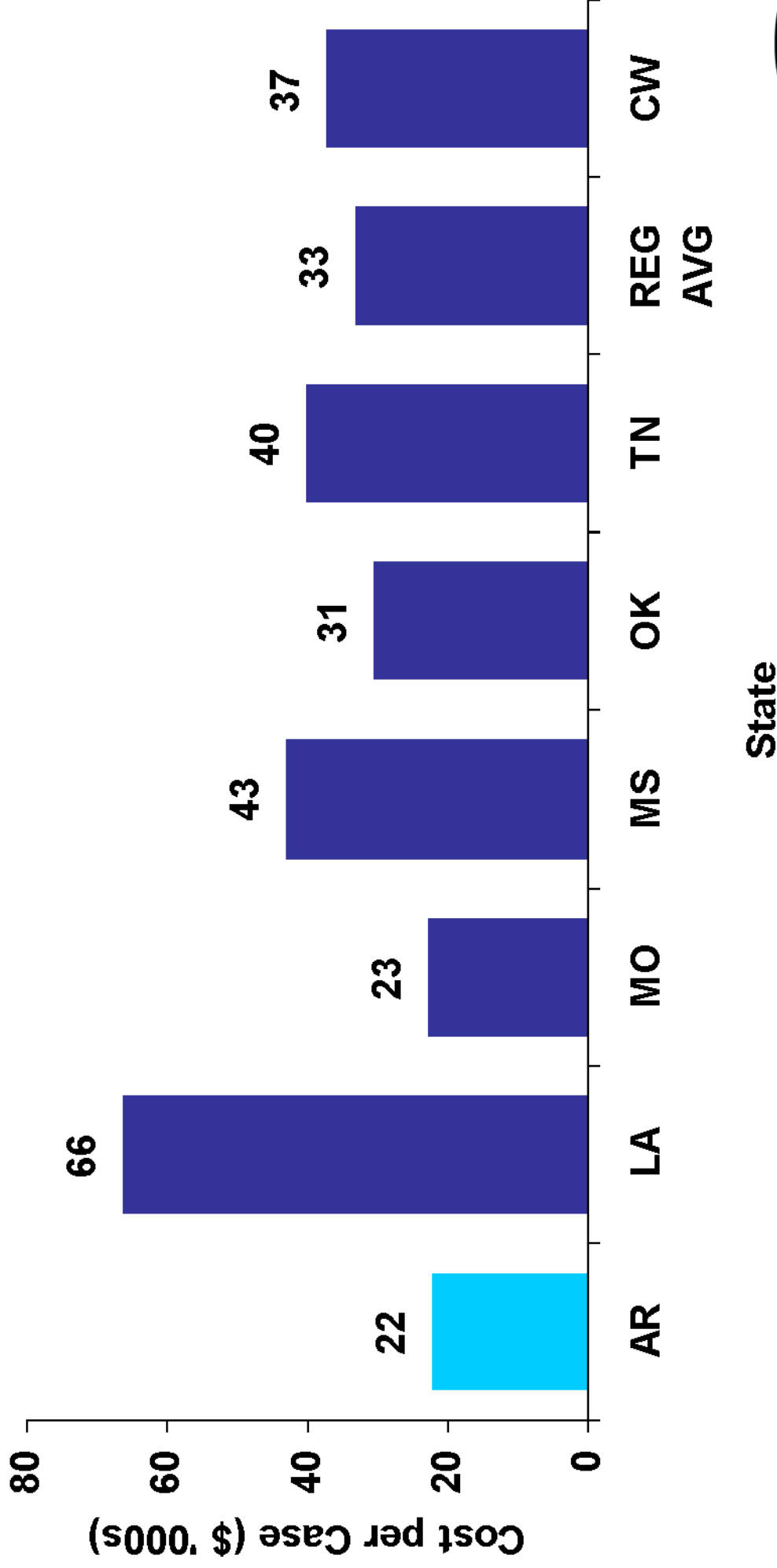


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Permanent Partial Claims

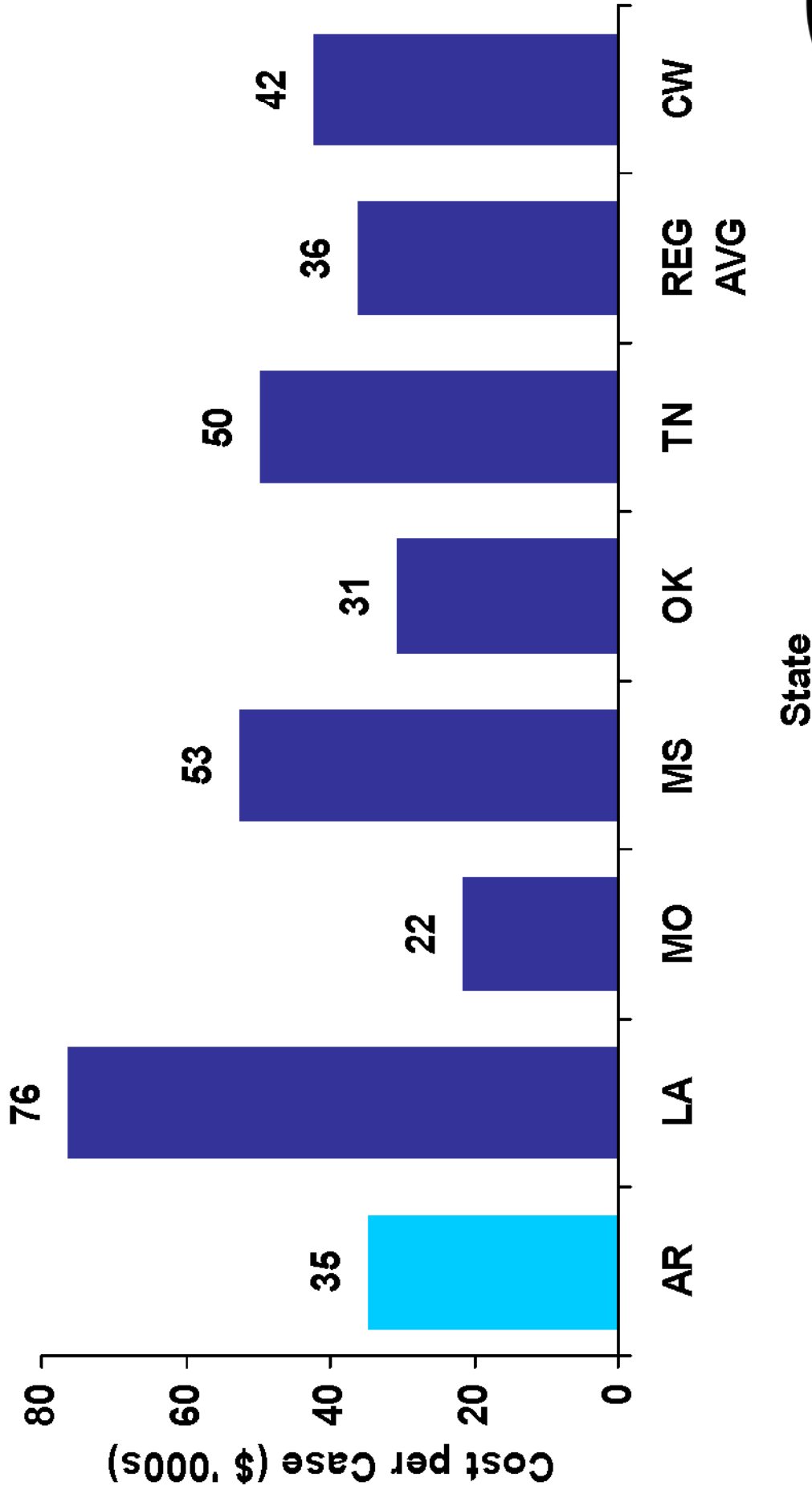
Arkansas Indemnity Permanent Partial Average Cost per Case



Based on NCCI's WCSP data.



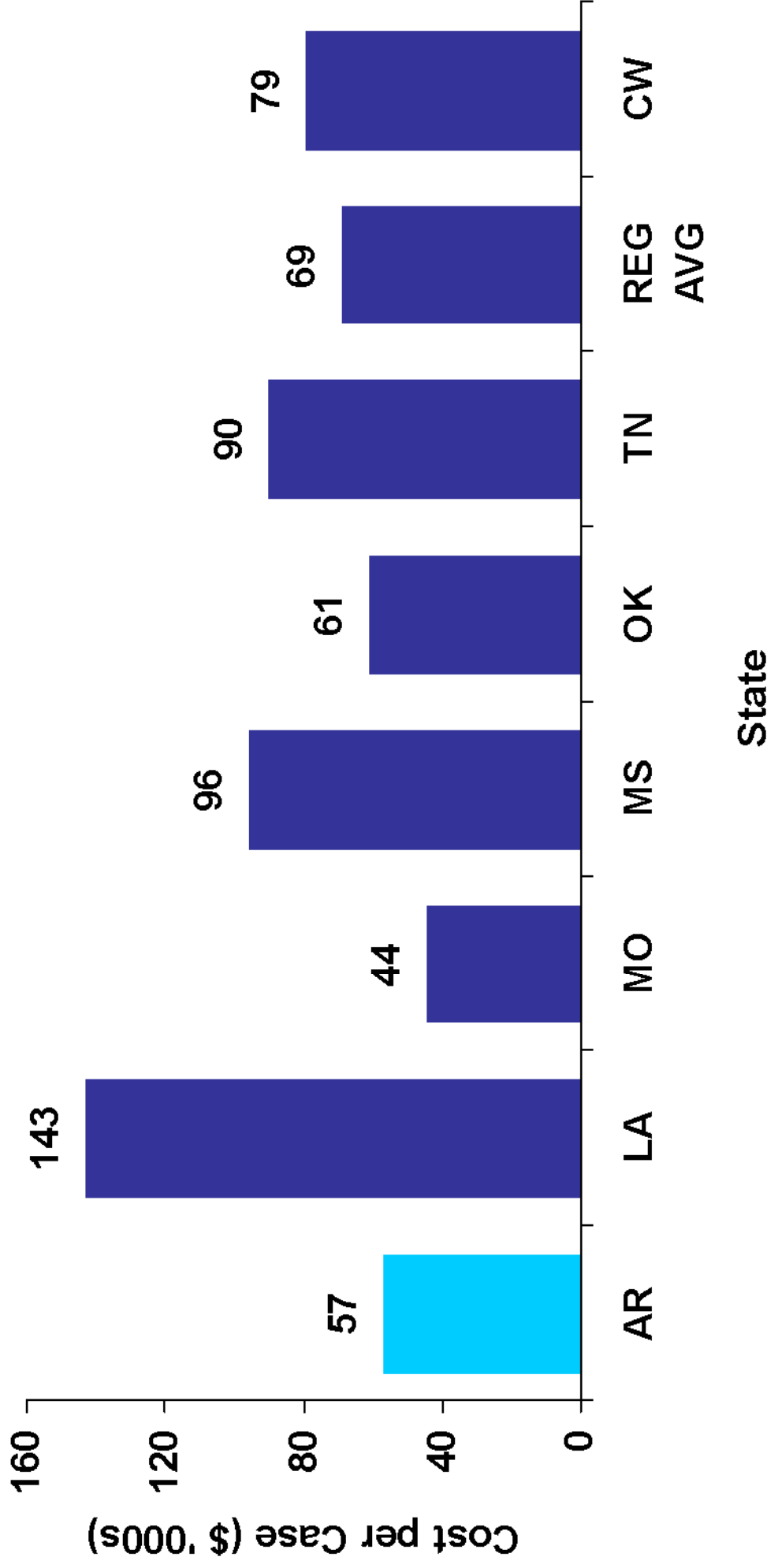
Arkansas Permanent Partial Medical Average Cost per Case



Based on NCCI's WCSP data.



Arkansas Permanent Partial Average Total per Case ...

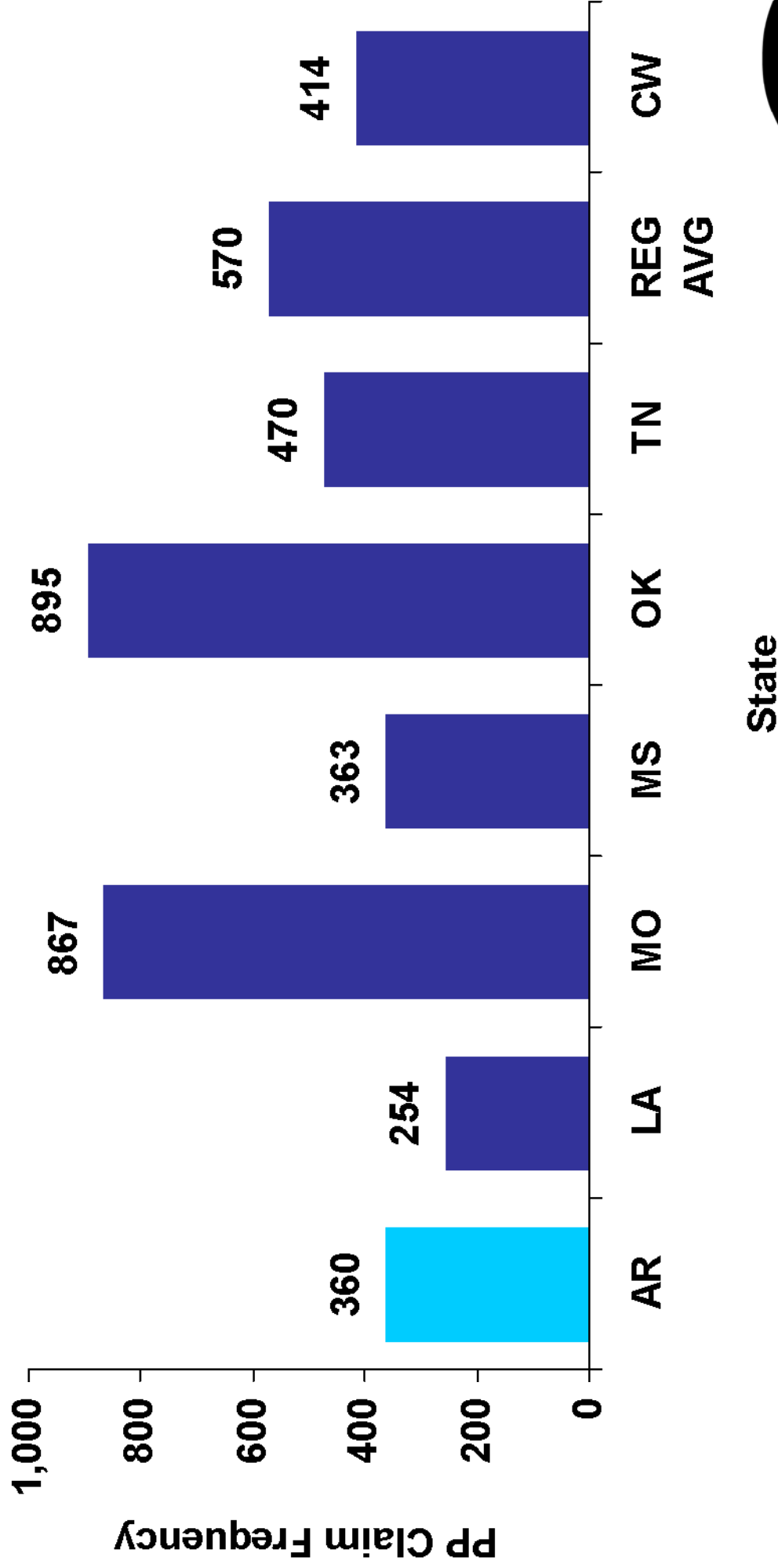


Based on NCCI's WCSP data.



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

Permanent Partial Frequency per 100,000 Workers

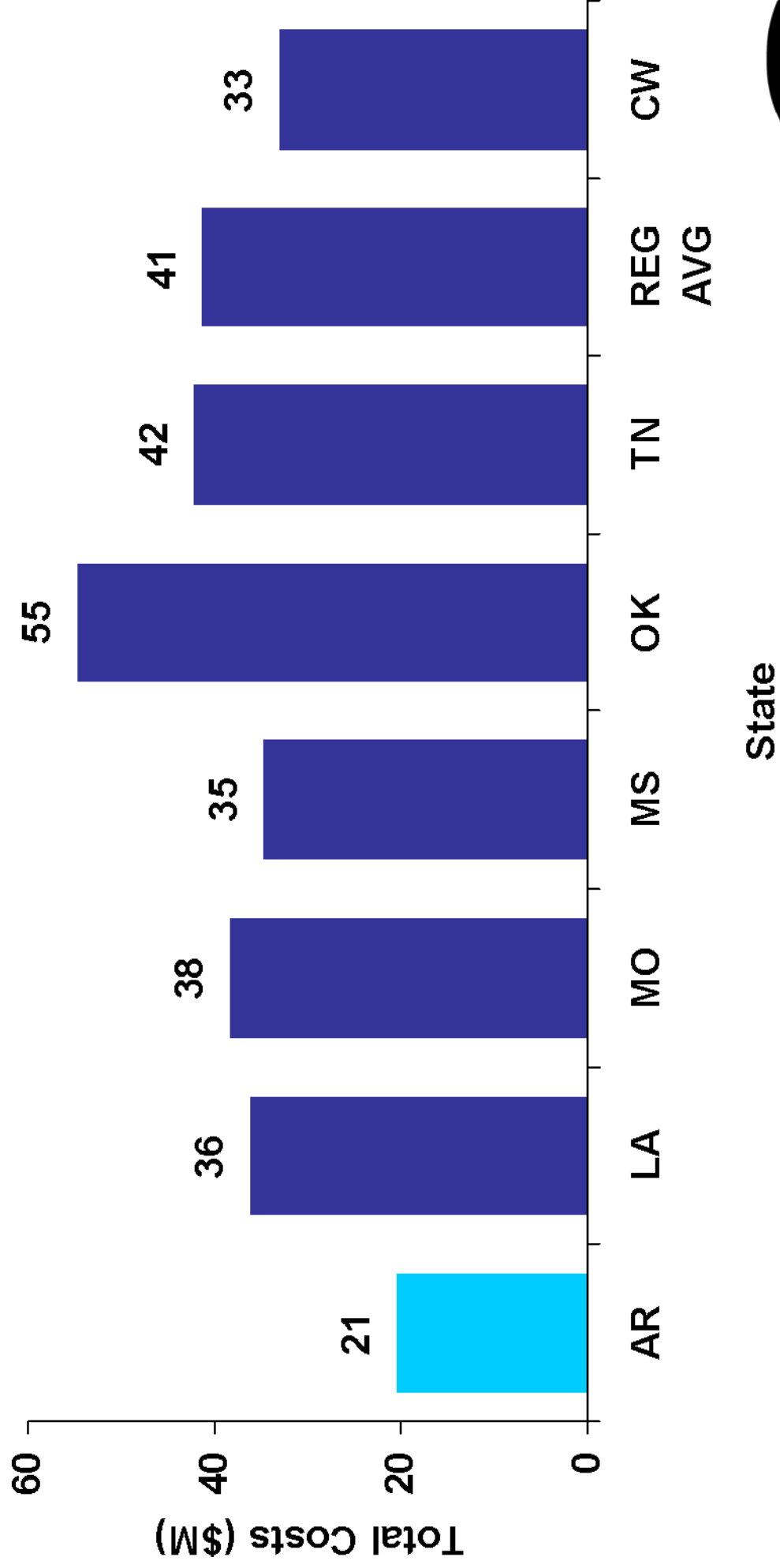


Based on NCCI's WCSP data.



.... Gives Arkansas Permanent Partial Total Costs

Permanent Partial Costs per 100,000 Workers



Based on NCCI's 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 2007 Residual Market State Activity Report.

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

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

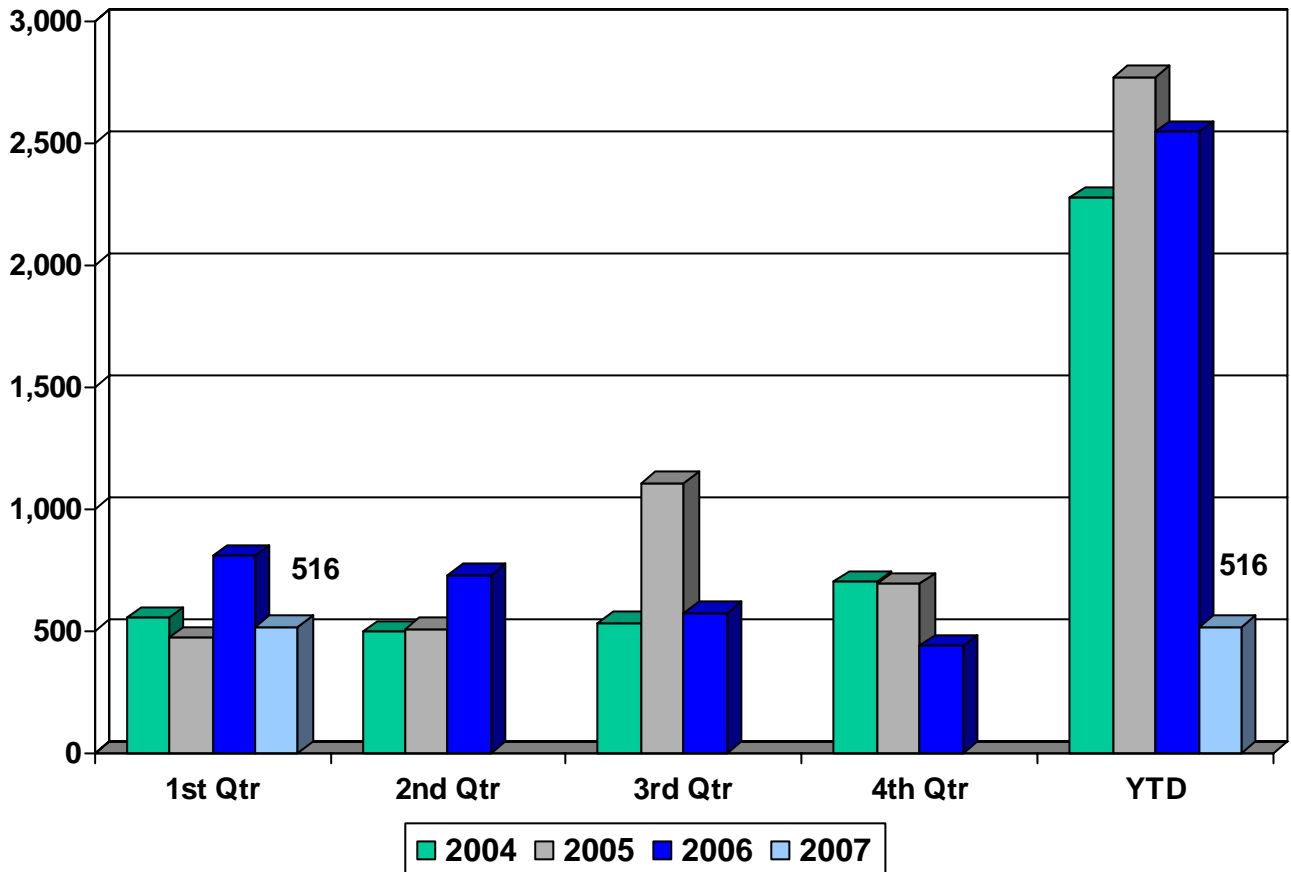
Terri Robinson, State Relations Executive
Chantel Weishaar, Technical Specialist

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

Residual Market Demographics – 1Q 2007

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

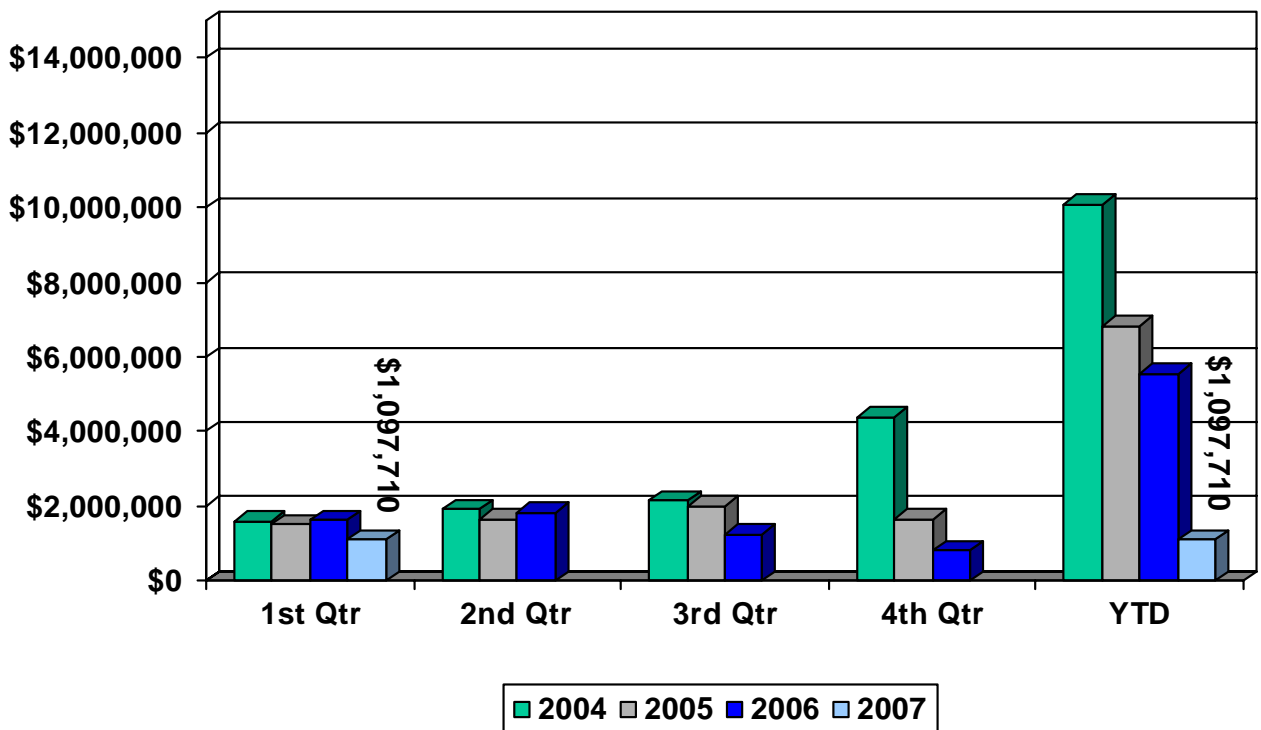
*The number of new applications that are actually assigned to a Servicing Carrier
or Direct Assignment Carrier (if applicable).*



Residual Market Demographics – 1Q 2007

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

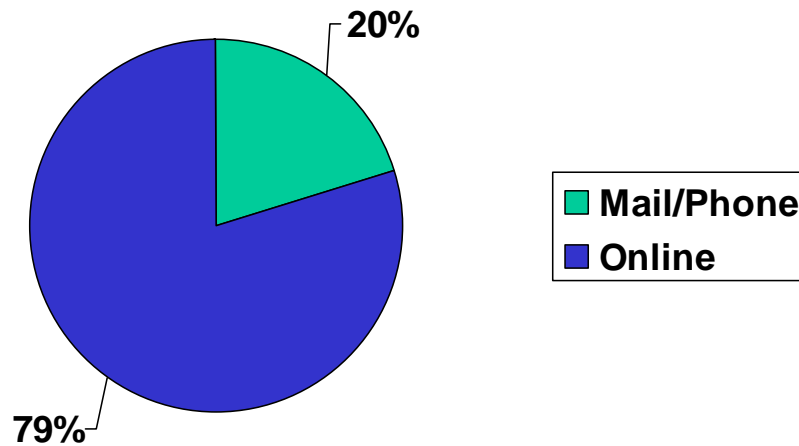
The total estimated First Quarter premium on bound new applications assigned to as Servicing Carrier or Direct Assignment Carrier (if applicable).



Residual Market Demographics – 1Q 2007

Percentage of New Applications Received by Submission Format Data through March 31, 2007

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

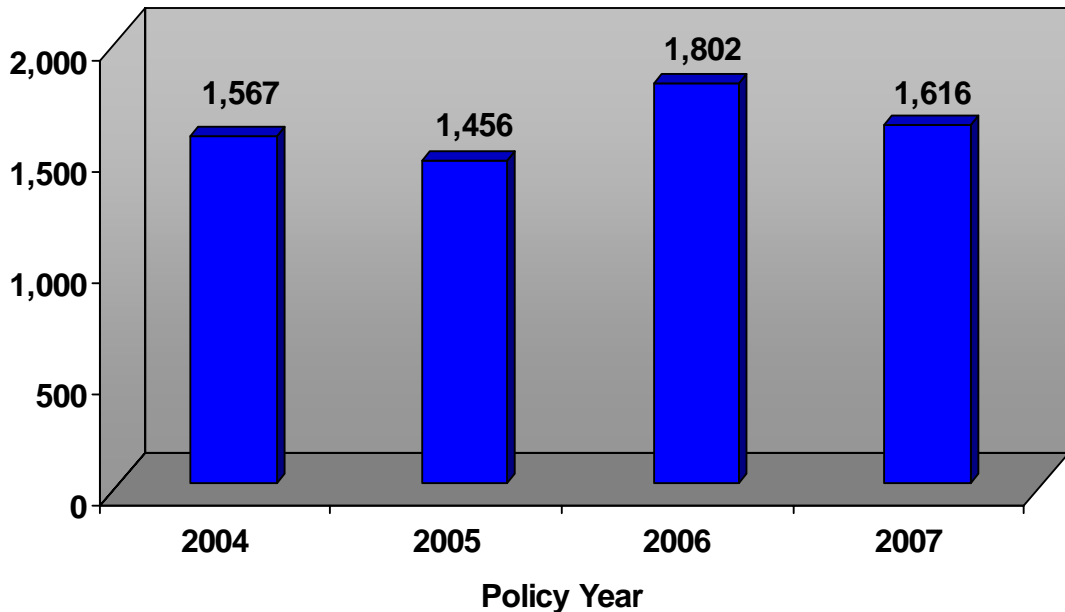


Residual Market Demographics – 1Q 2007

Residual Market Total Policy Counts

First Quarter Data for Policies Reported through March 31, 2007

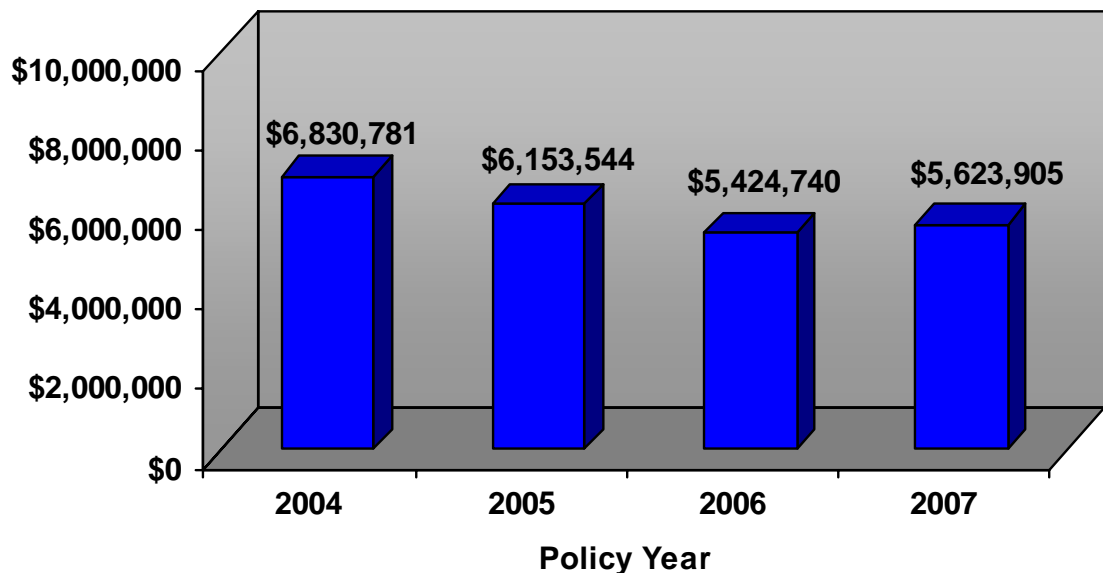
Total Number of all Assigned Risk Plan Policies effective during this quarter and reported as of the date listed above.



Residual Market Total Premium Volume

First Quarter Data Reported through March 31, 2007

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



Residual Market Demographics

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

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

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

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

Residual Market Demographics – 1Q 2007

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

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

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

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

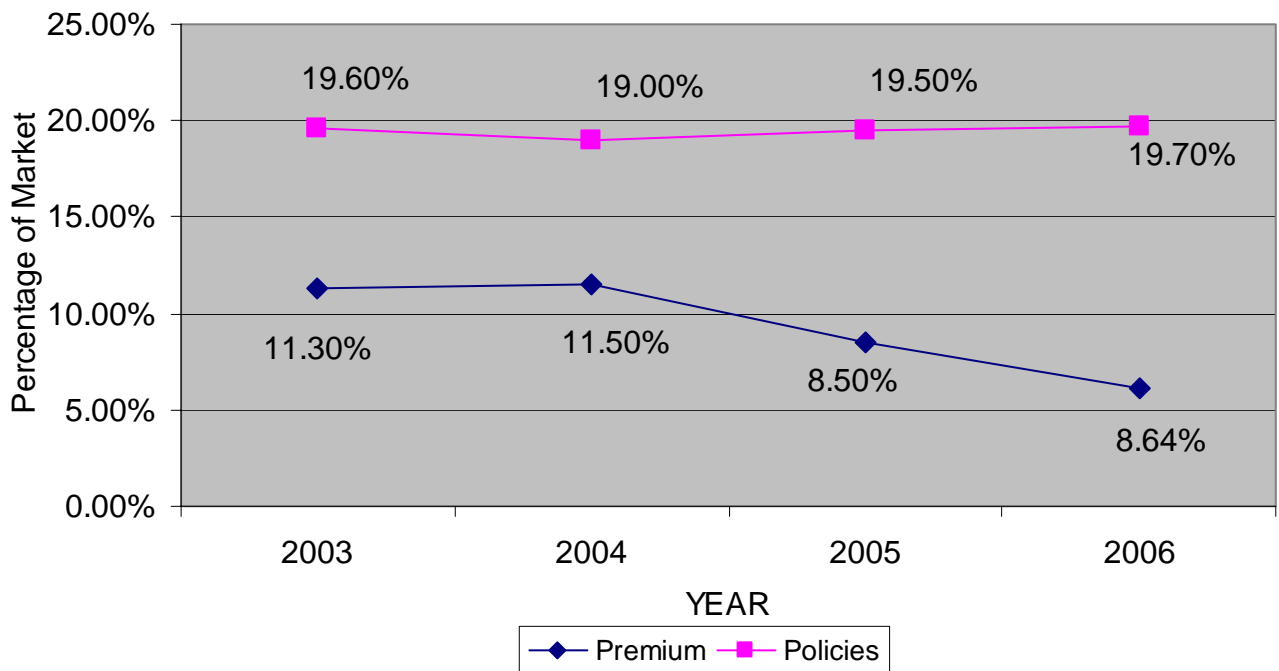
The total number of assigned risk plan policies reported to NCCI for the quarter by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

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

Residual Market Demographics – 1Q 2007

Total Arkansas Assigned Risk Plan Market Share

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



Residual Market Demographics – 1Q 2007

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

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

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

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

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

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

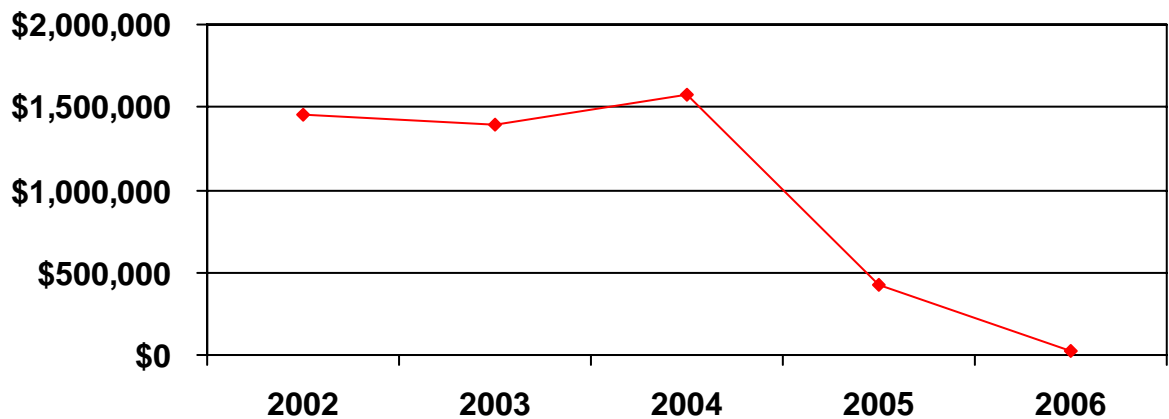
Residual Market Demographics

Collections/Indemnification

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

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

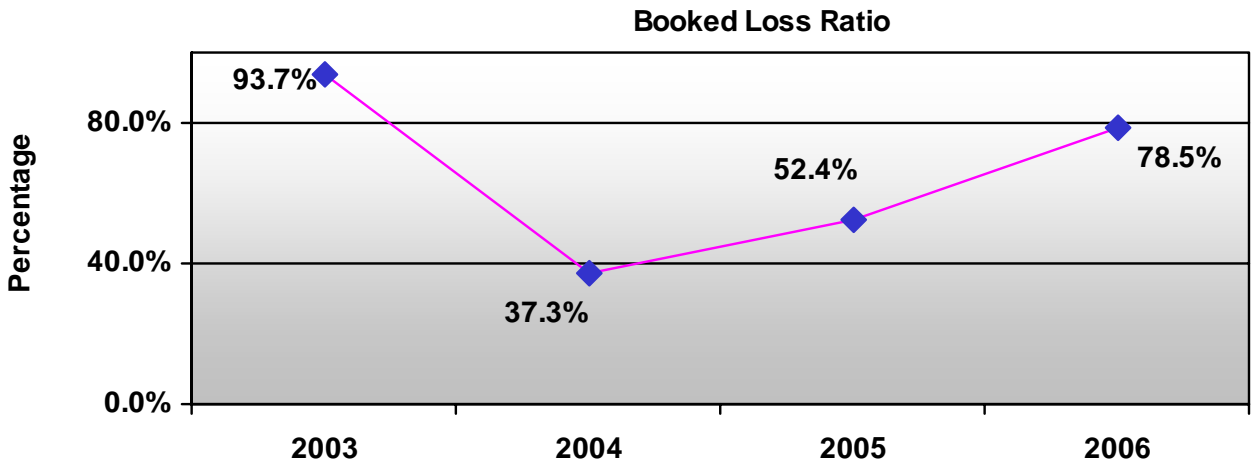
Arkansas Uncollectible Premium



Residual Market Demographics

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

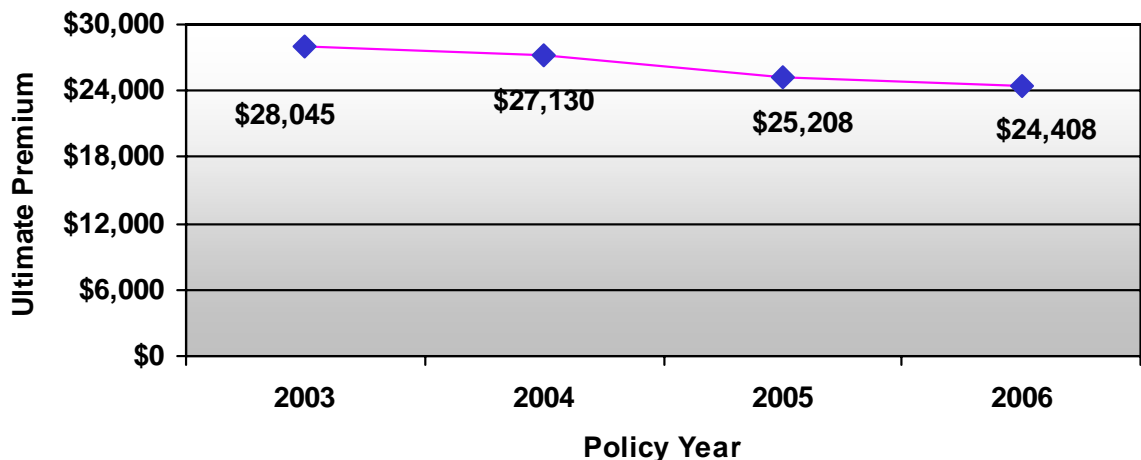
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .



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

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

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



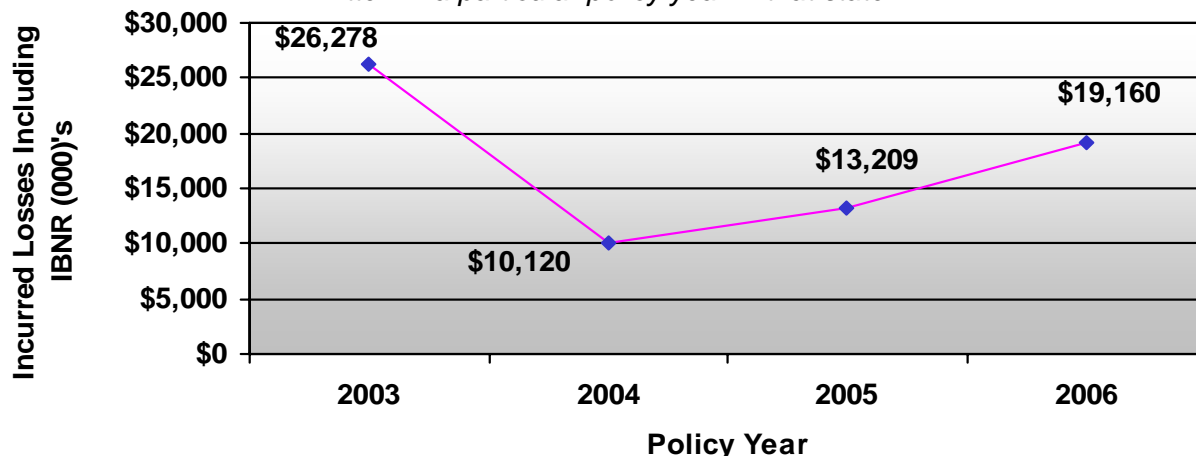
*-First Quarter 2007 Data will be available the end of July 2007 due to the timing of data reporting

Residual Market Demographics

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

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

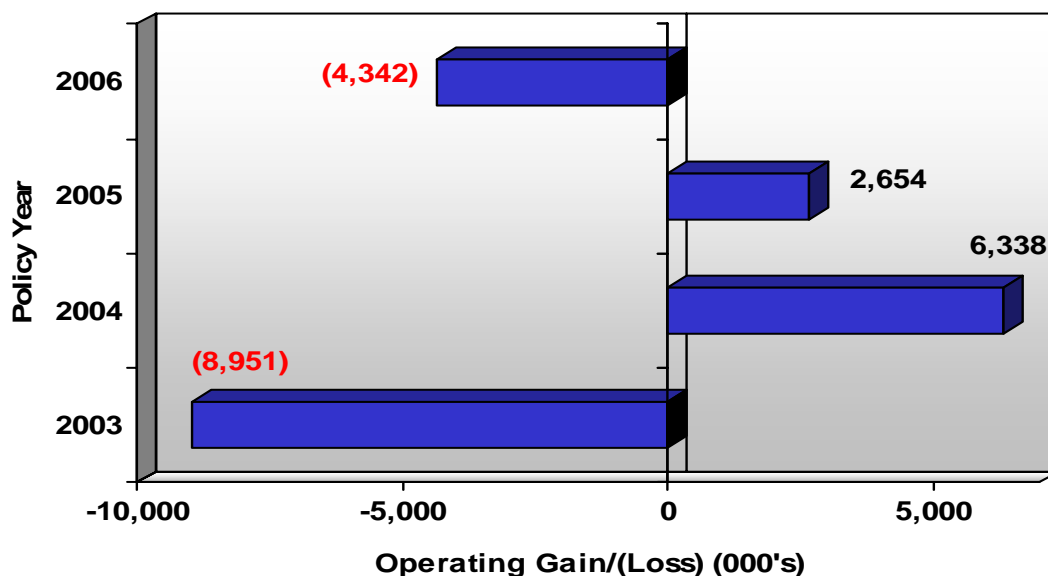
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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

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

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



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

Glossary of Terms

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

EBNR (Earned But Not Reported)

Premium Reserve-A projection of additional premium that is expected to be uncovered after auditing at the end of the policy.

Earned Premium or Premiums

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

Incurred But Not Reported (IBNR)

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

Underwriting Gain/(Loss)

The financial statement presentation that reflects the excess of earned premium over incurred losses.

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

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

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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 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.

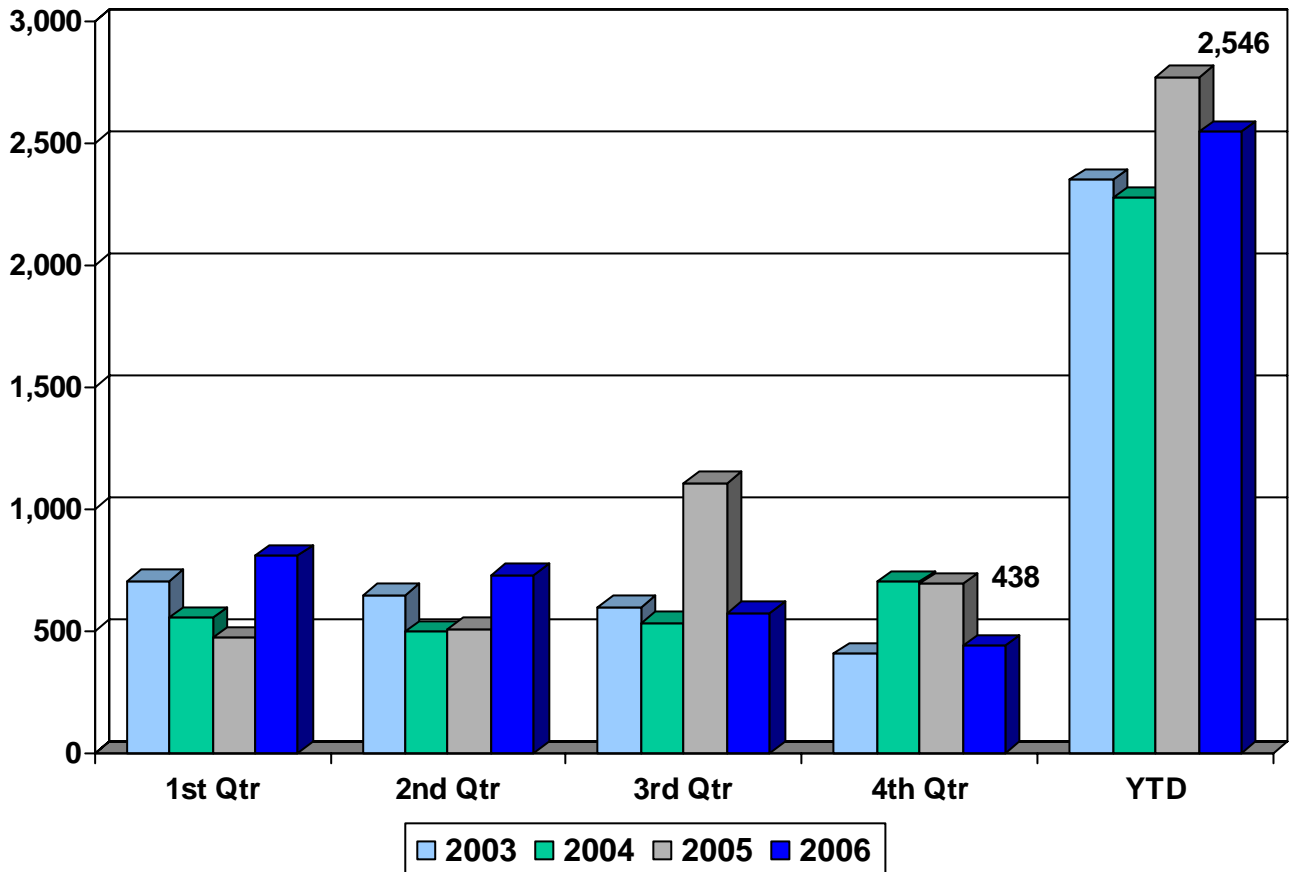
Terri Robinson, State Relations Executive
Chantel Weishaar, Technical Specialist

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Residual Market Demographics – Annual 2006

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

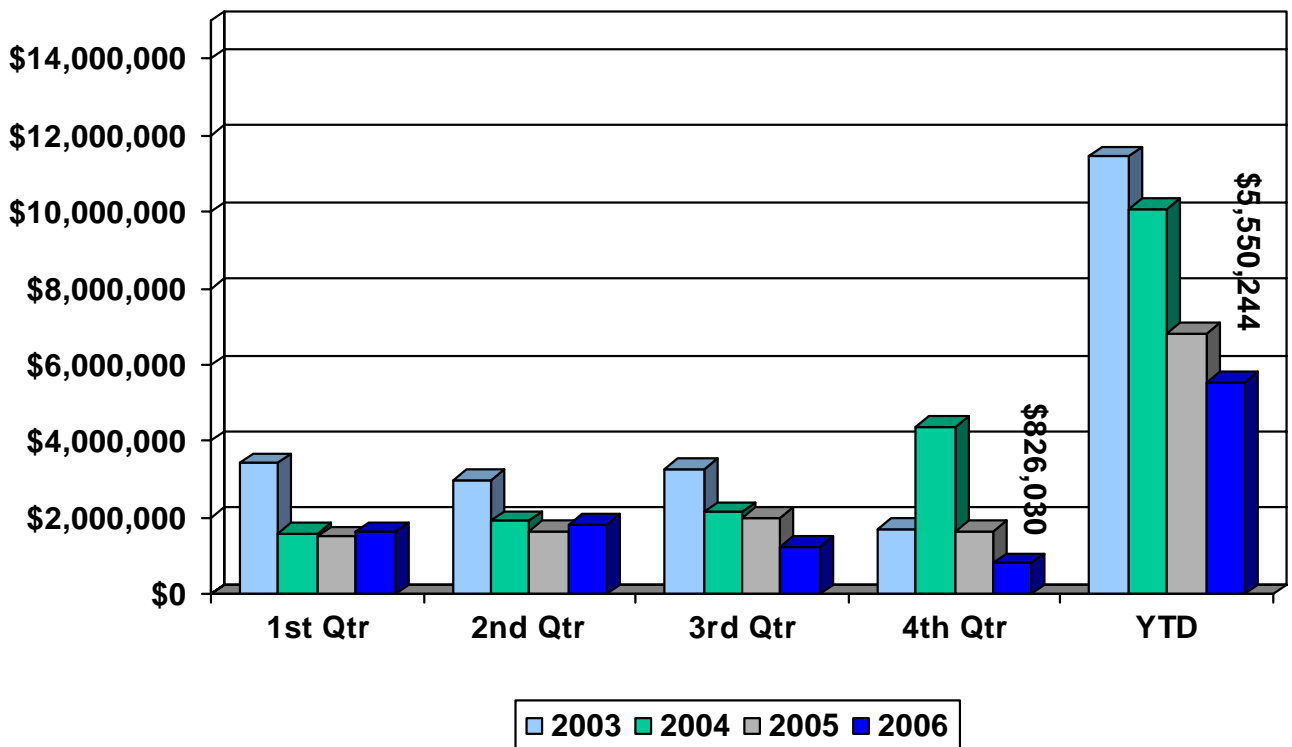
The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).



Residual Market Demographics – Annual 2006

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

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

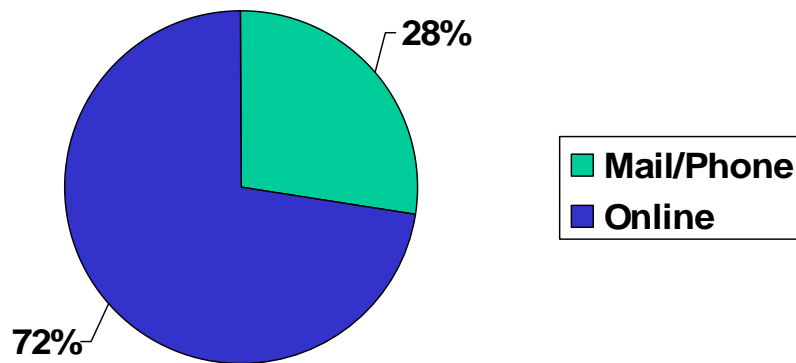


Residual Market Demographics – Annual 2006

Percentage of New Applications Received by Submission Format

Data through December 31, 2006

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

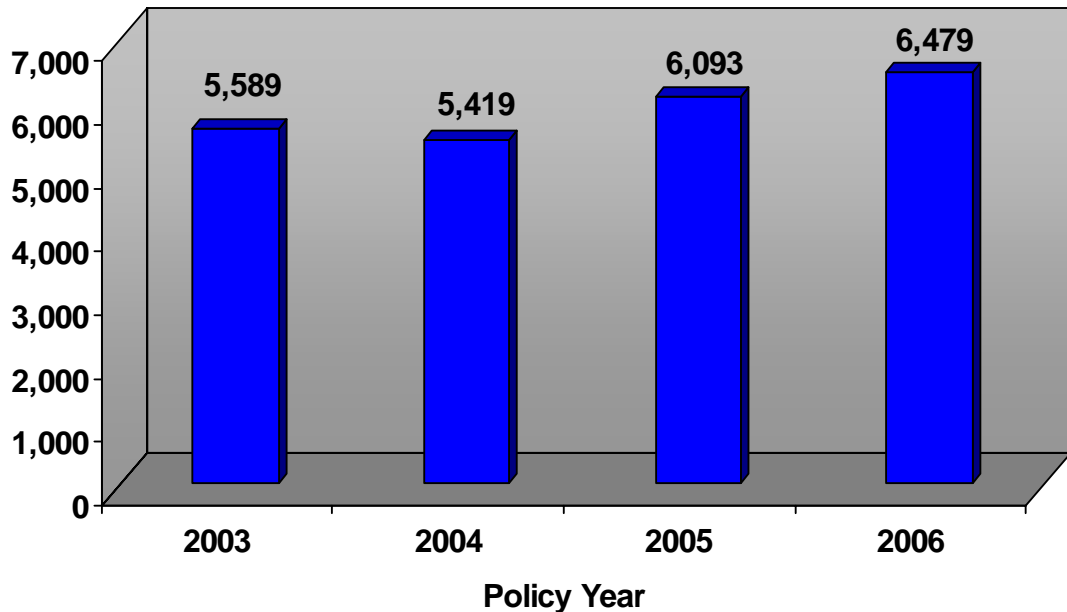


Residual Market Demographics – Annual 2006

Residual Market Total Policy Counts

Annual Data for Policies Reported through December 31, 2006

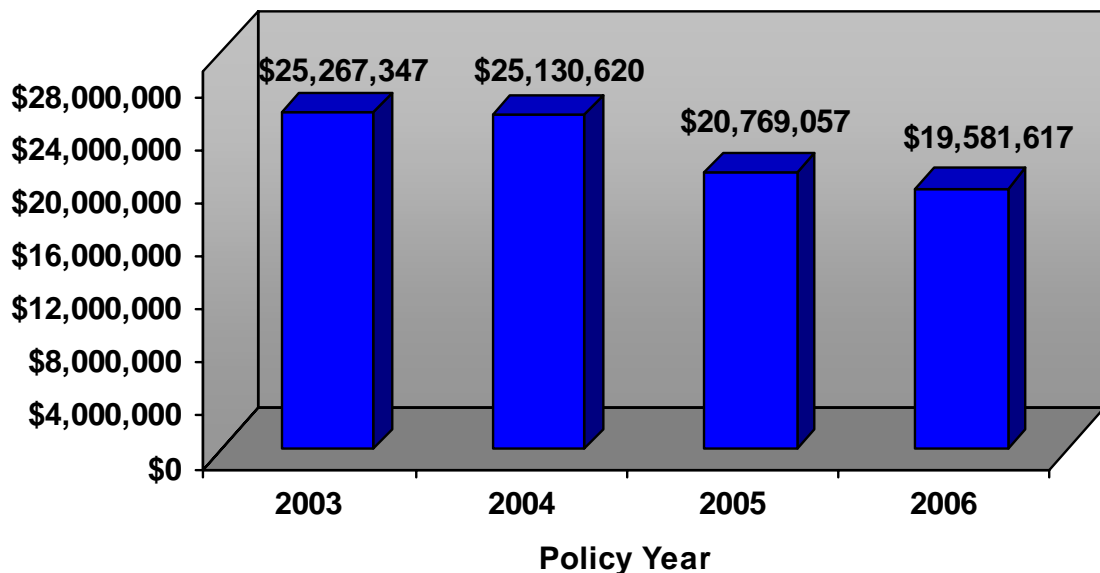
Total Number of all Assigned Risk Plan Policies effective during this year and reported as of the date listed above.



Residual Market Total Premium Volume

Annual Data Reported through December 31, 2006

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



Residual Market Demographics

Residual Market Total Policies and Premium in Force

As of December 31, 2006 compared to prior year

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

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

	2005	2006	2005 vs. 2006 #	2005 vs. 2006 %
Policy Count	6,035	6,397	362	5.9%
Premium Volume	\$20,011,967	\$19,388,524	-\$623,443	-3.1%

Residual Market Demographics – Annual 2006

Residual Market Annual 2006 Total Premium Distribution by Size of Risk Data Reported through December 31, 2006

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

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0 - 2499	5,089	78.55%	\$4,026,093	20.56%	\$791
\$2500 - 4999	639	9.86%	\$2,221,739	11.35%	\$3,476
\$5000 - 9999	387	5.97%	\$2,700,631	13.79%	\$6,978
\$10000 - 19999	220	3.4%	\$2,994,357	15.29%	\$13,610
\$20000 - 49999	92	1.42%	\$2,787,849	14.24%	\$30,302
\$50000 - 99999	38	0.59%	\$2,437,153	12.45%	\$64,135
\$100000 - 199999	12	0.19%	\$1,620,625	8.28%	\$135,052
\$200000 +	2	0.03%	\$793,170	4.05%	\$396,585
Total	6,479	100%	\$19,581,617	100%	\$3,022

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

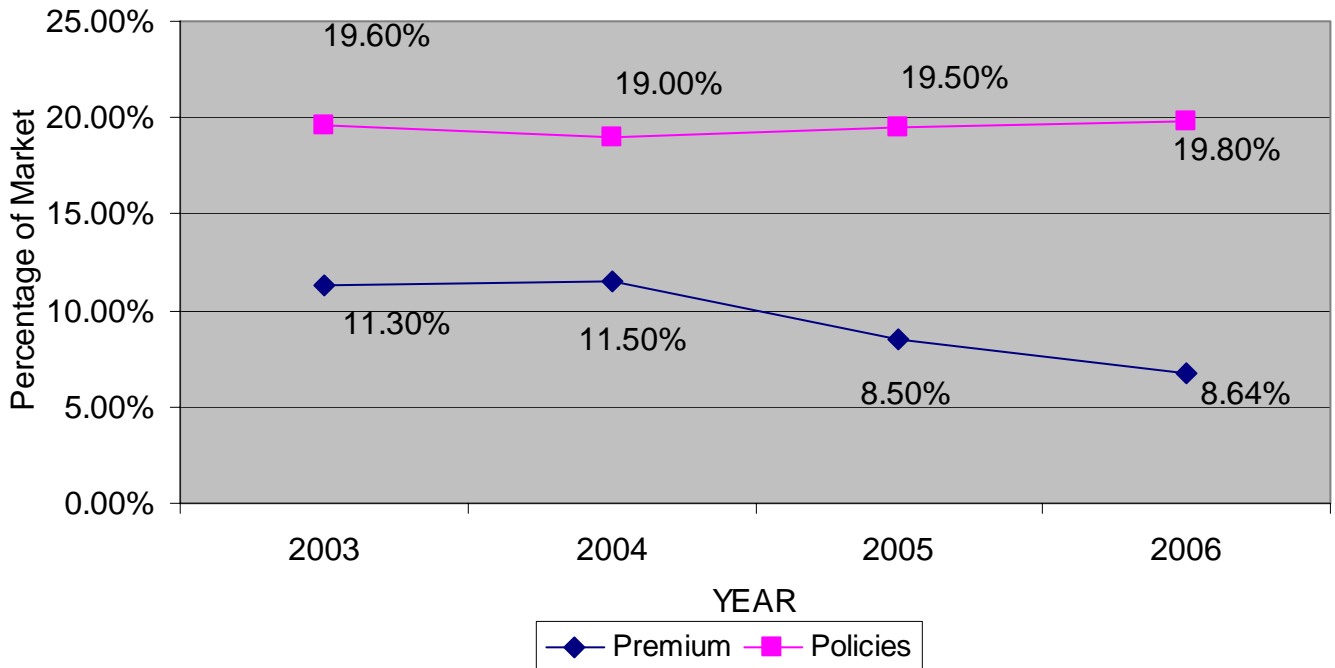
The total number of assigned risk plan policies reported to NCCI for the year by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0 - 2499	4,689	76.96%	\$3,914,019	18.85%	\$834
\$2500 - 4999	657	10.78%	\$2,316,284	11.15%	\$3,525
\$5000 - 9999	378	6.2%	\$2,652,022	12.77%	\$7,015
\$10000 - 19999	198	3.25%	\$2,712,391	13.06%	\$13,698
\$20000 - 49999	110	1.81%	\$3,307,981	15.93%	\$30,072
\$50000 - 99999	37	0.61%	\$2,549,052	12.27%	\$68,893
\$100000 - 199999	22	0.36%	\$2,881,878	13.88%	\$130,994
\$200000 +	2	0.03%	\$435,430	2.1%	\$217,715
Total	6,093	100%	\$20,769,057	100%	\$3,409

Residual Market Demographics – Annual2006

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, 2006.



Residual Market Demographics – Annual 2006

Residual Market Top 10 Classification Codes by Policy Count Data Reported through December 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	1,465	22.61%
2	8810	Clerical NOC	372	5.74%
3	5474	Painting Or Paperhanging NOC	198	3.06%
4	5022	Masonry NOC	196	3.03%
5	5551	Roofing-All Kinds	160	2.47%
6	8832	Physician & Clerical	154	2.38%
7	6217	Excavation & Drivers	147	2.27%
8	5437	Carpentry-Installation Of Cabinet Work Or Interior Trim	140	2.16%
9	5445	Wallboard Installation Within Buildings	120	1.85%
10	5183	Plumbing NOC	114	1.76%

Residual Market Top 10 Classification Codes by Premium Volume Data Reported through December 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	\$2,086,690	10.66%
2	5403	Carpentry NOC	\$746,628	3.81%
3	7720	Police Officers & Drivers	\$694,188	3.55%
4	6217	Excavation & Drivers	\$496,587	2.54%
5	5551	Roofing-All Kinds	\$431,796	2.21%
6	5022	Masonry NOC	\$383,602	1.96%
7	5474	Painting Or Paperhanging NOC	\$378,516	1.93%
8	8868	College: Professional Employees	\$319,806	1.63%
9	7228	Trucking-Local Hauling Only	\$317,961	1.62%
10	8106	Iron Or Steel Merchant	\$313,948	1.6%

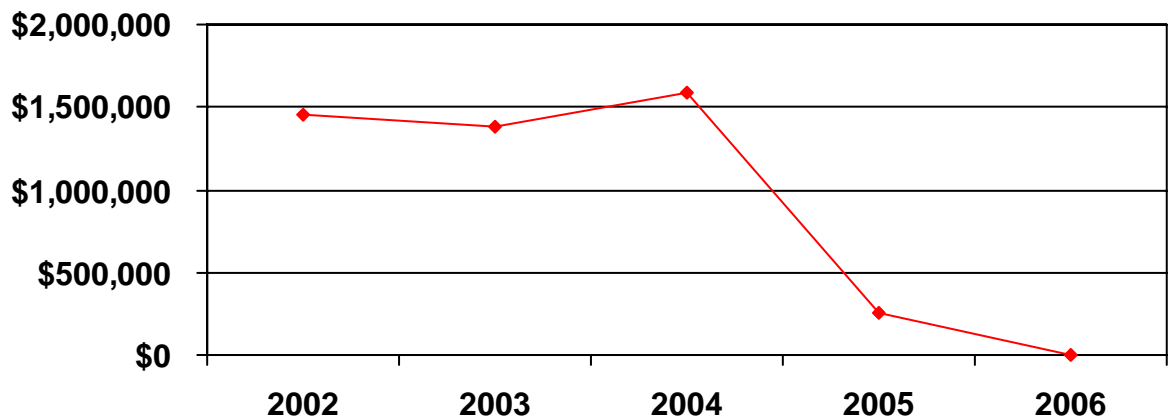
Residual Market Demographics

Collections/Indemnification

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

Arkansas	Gross Written Premium	Uncollectible Premium	Percentage
2002	\$23,010,370	\$1,451,262	6.3%
2003	\$29,539,254	\$1,380,375	4.7%
2004	\$28,676,715	\$1,590,105	5.5%
2005	\$24,042,966	\$252,582	1.1%
2006	\$14,717,067	\$138	0.0%
National Pool 2006	\$688,340,111	\$88,991	0.0%

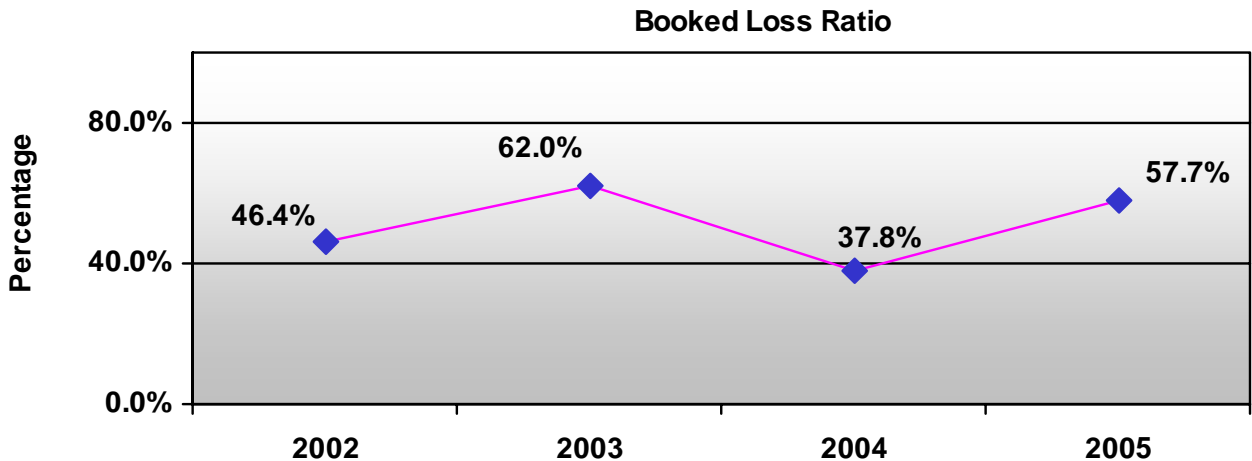
Arkansas Uncollectible Premium



Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 3rd Quarter 2006 for 2005 and prior years

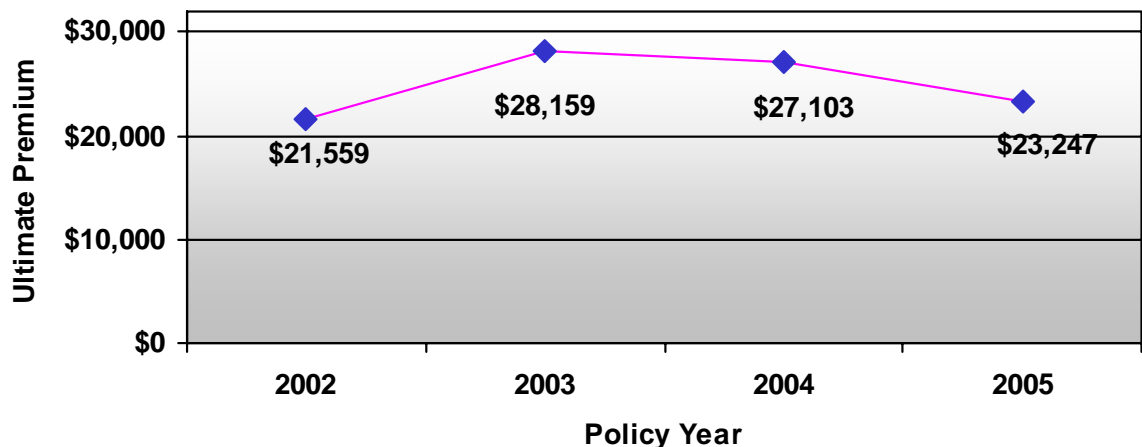
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .



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

Policy Year Financial Results through 3rd Quarter 2006 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.



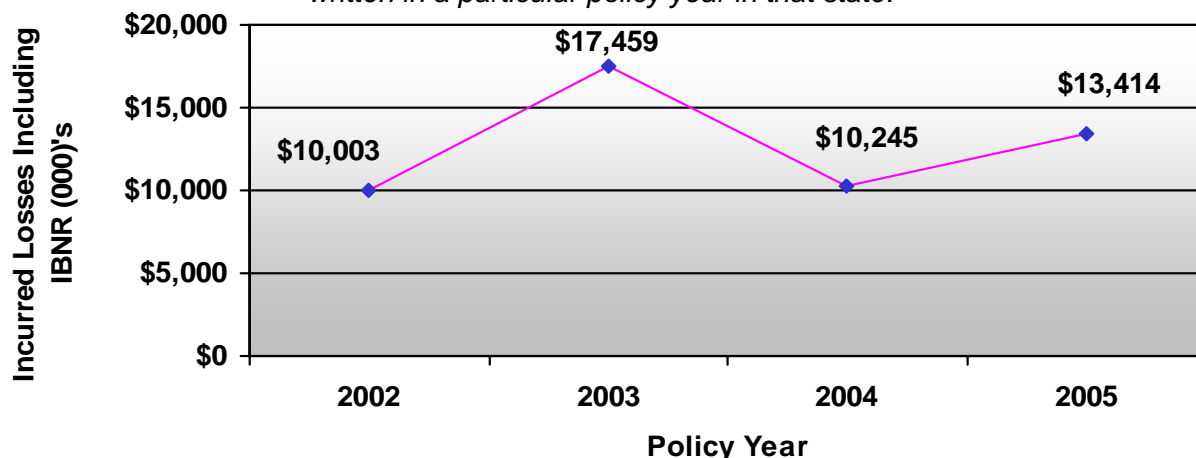
*-Fourth Quarter 2006 Data will be available the end of April 2007 due to the timing of data reporting

Residual Market Demographics

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

Policy Year Financial Results through 3rd Quarter 2006 for 2005 and prior years*

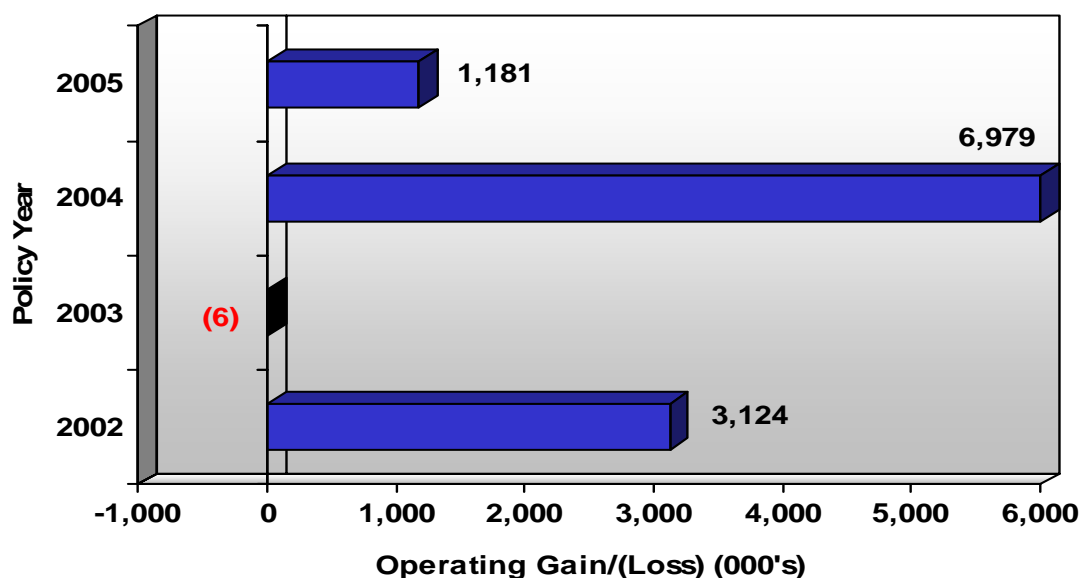
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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

Policy Year Financial Results through 3rd Quarter 2006 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

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

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Executive Summary

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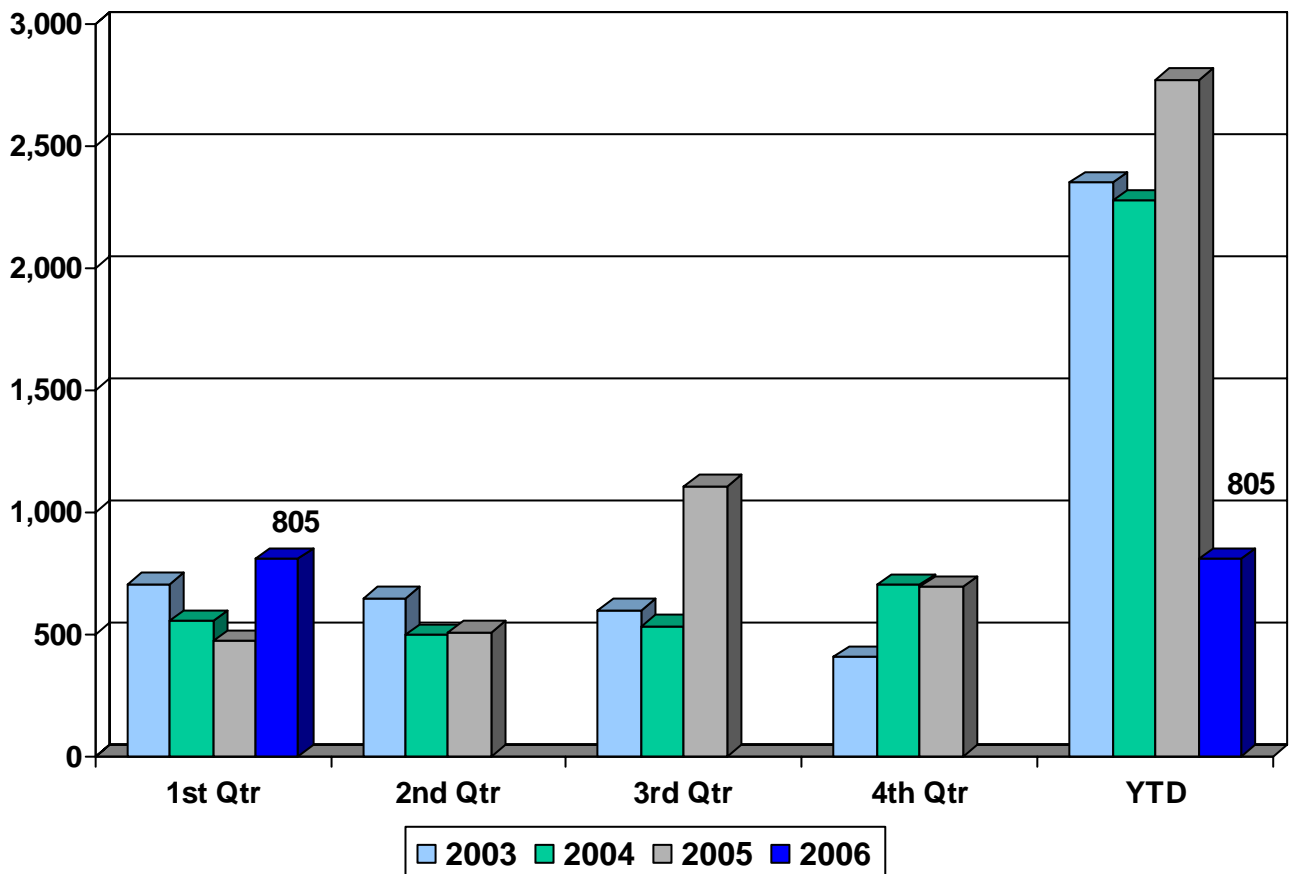
If you have any questions or comments about this report, please feel free to contact any of the individuals listed below.

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

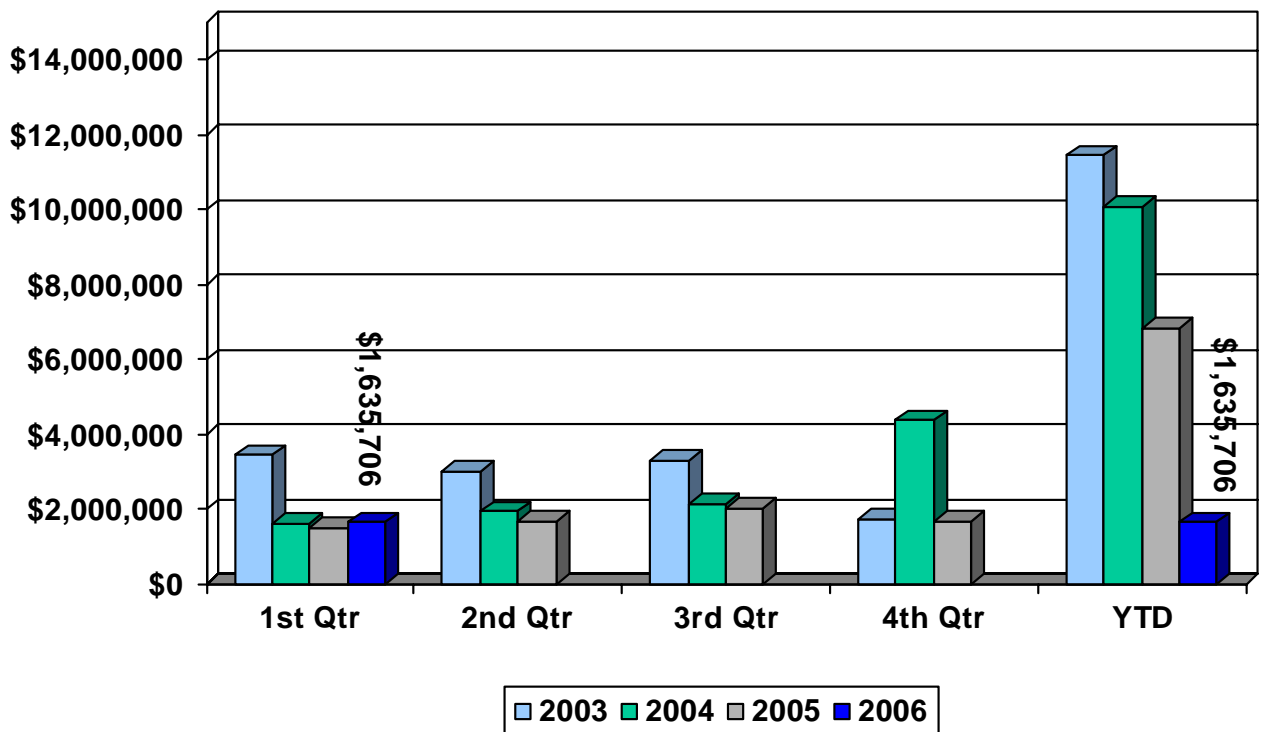
The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).



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).

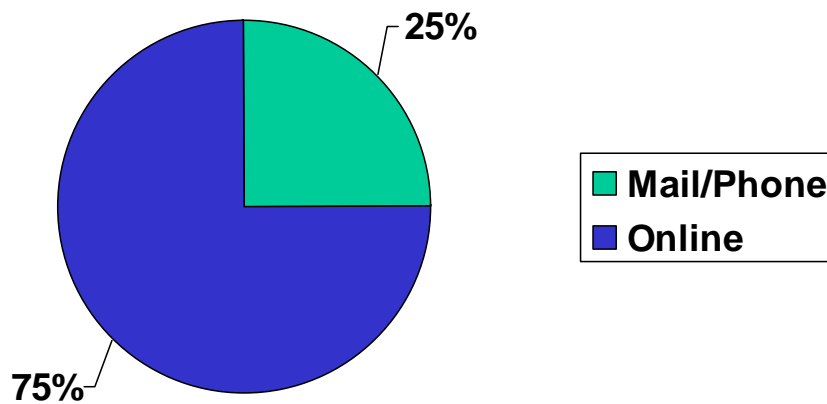


Residual Market Demographics – 1Q 2006

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.

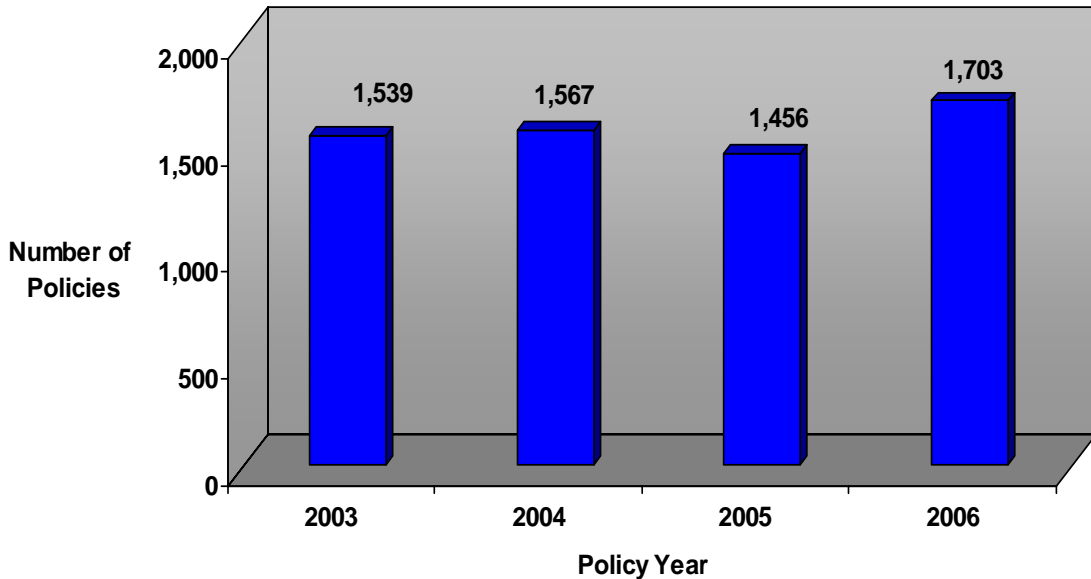


Residual Market Demographics – 1Q 2006

Residual Market Total Policy Counts

First Quarter Data for Policies Reported through March 31, 2006

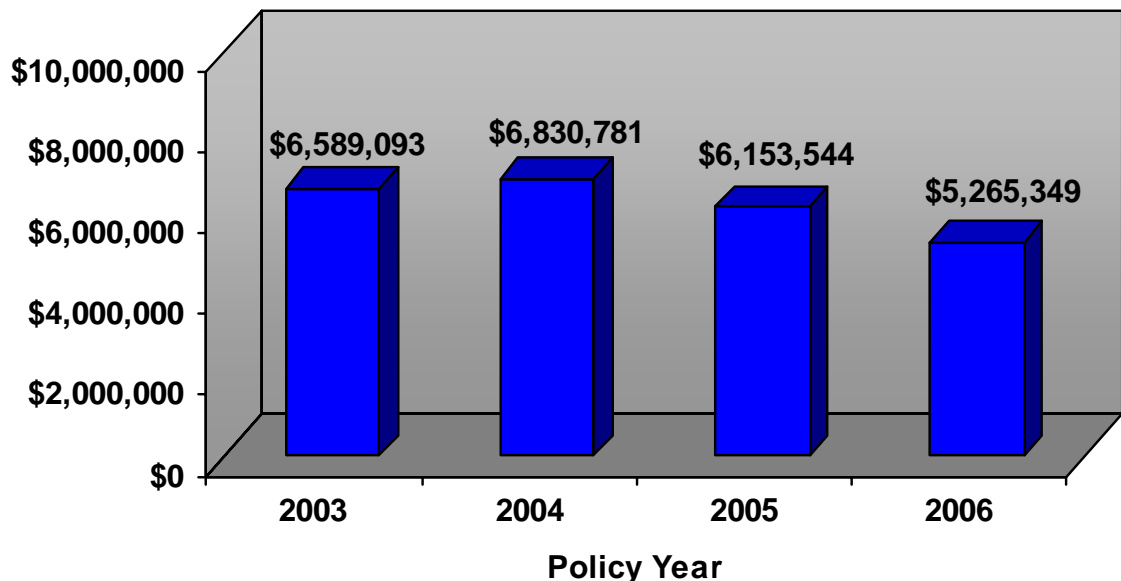
Total Number of all Assigned Risk Plan Policies effective during this quarter and reported as of the date listed above.



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

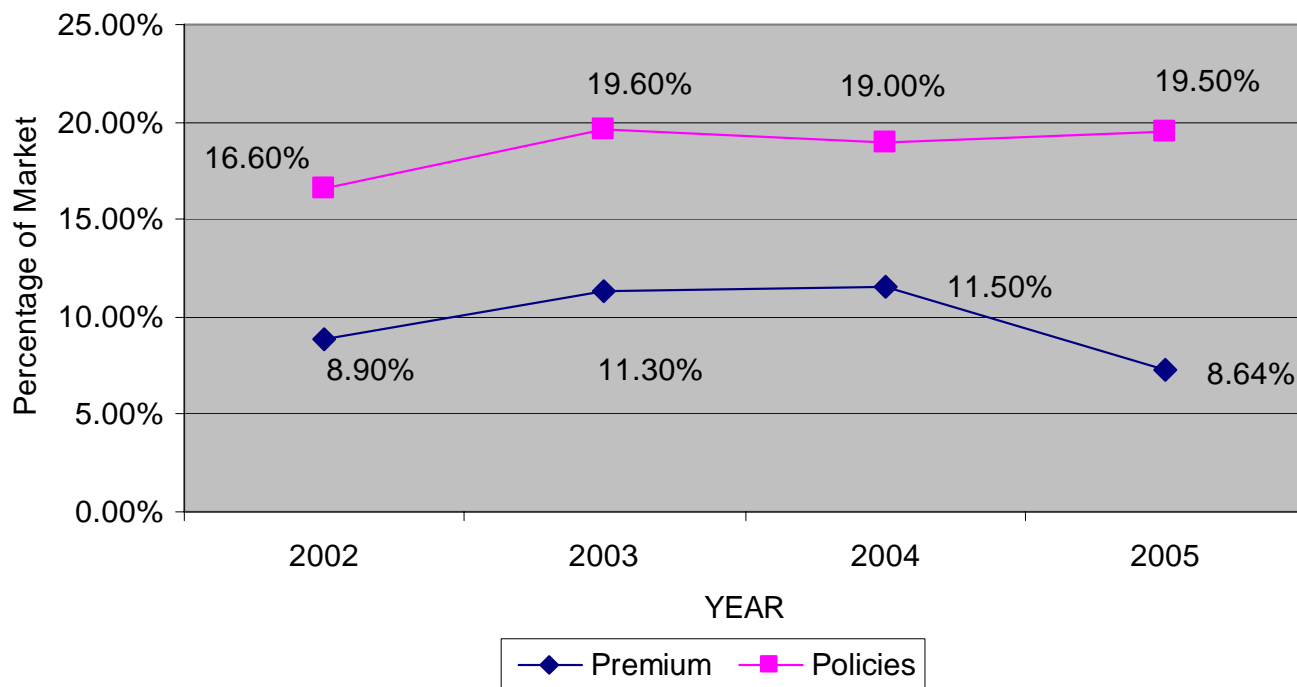
The total number of assigned risk plan policies reported to NCCI for the quarter by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

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%

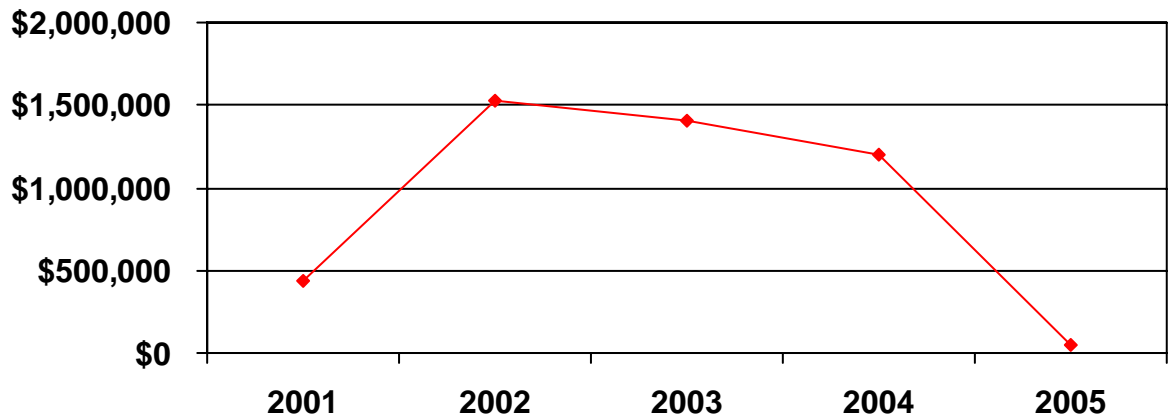
Residual Market Demographics

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%

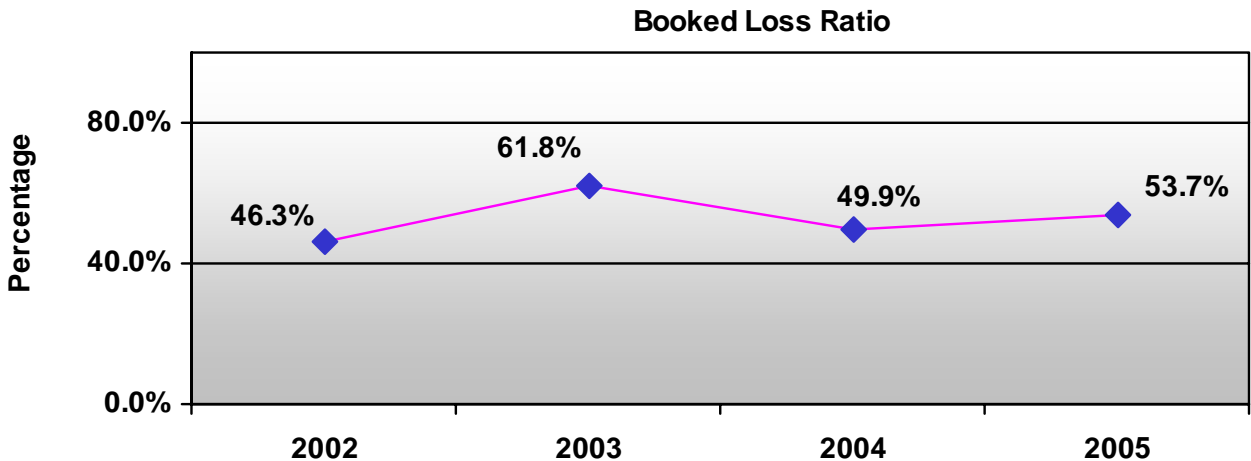
Arkansas Uncollectible Premium



Residual Market Demographics

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

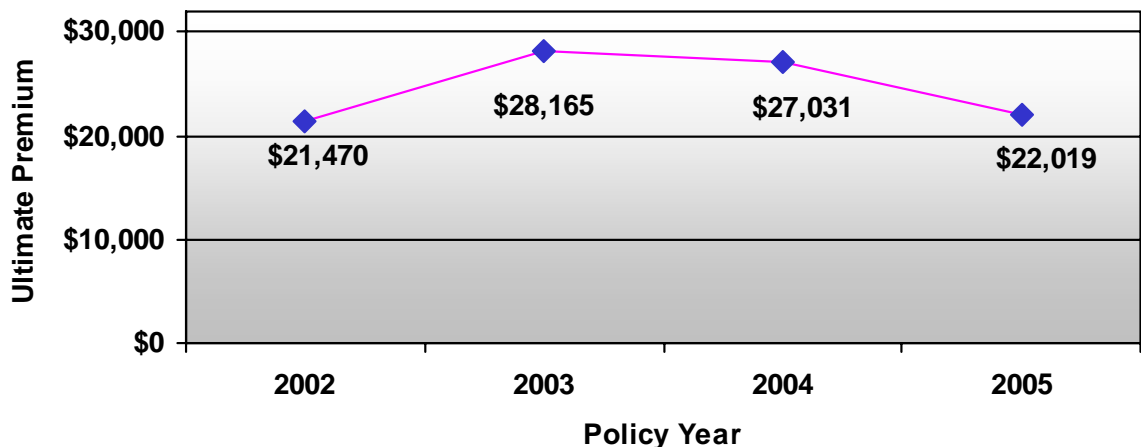
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .



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.



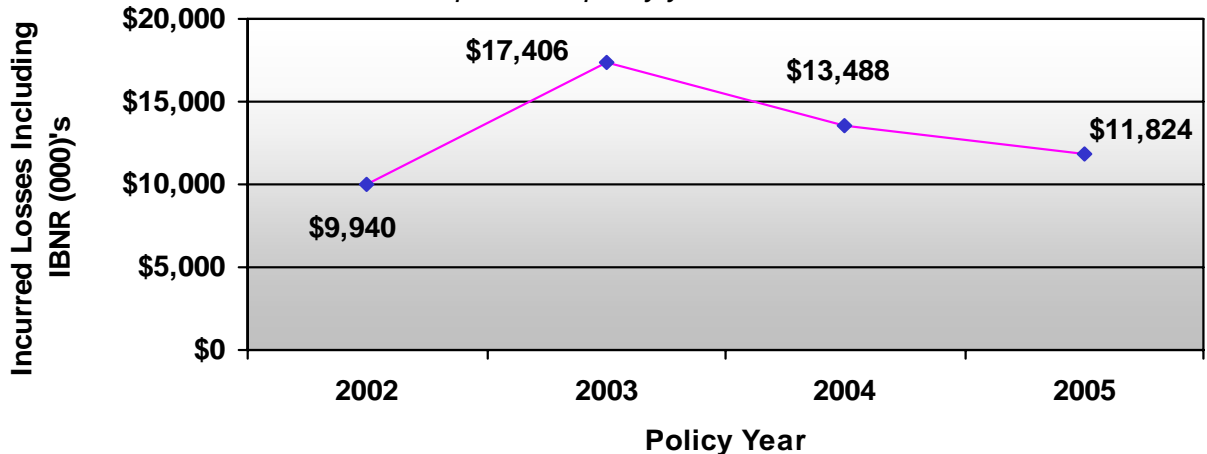
*-First Quarter 2006 Data will be available the end of June 2006 due to the timing of data reporting

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*

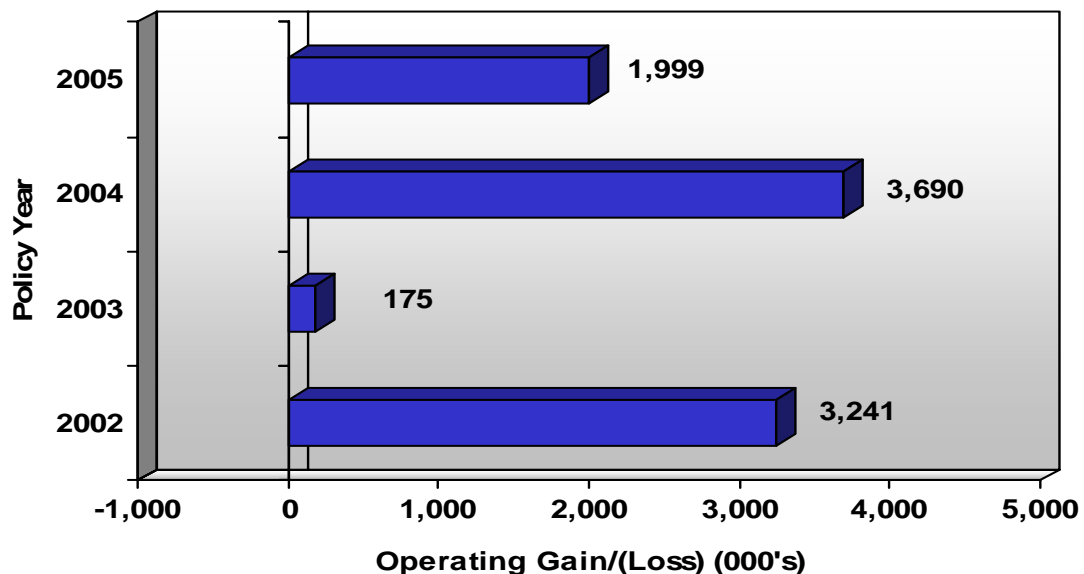
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the Annual 2005 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.

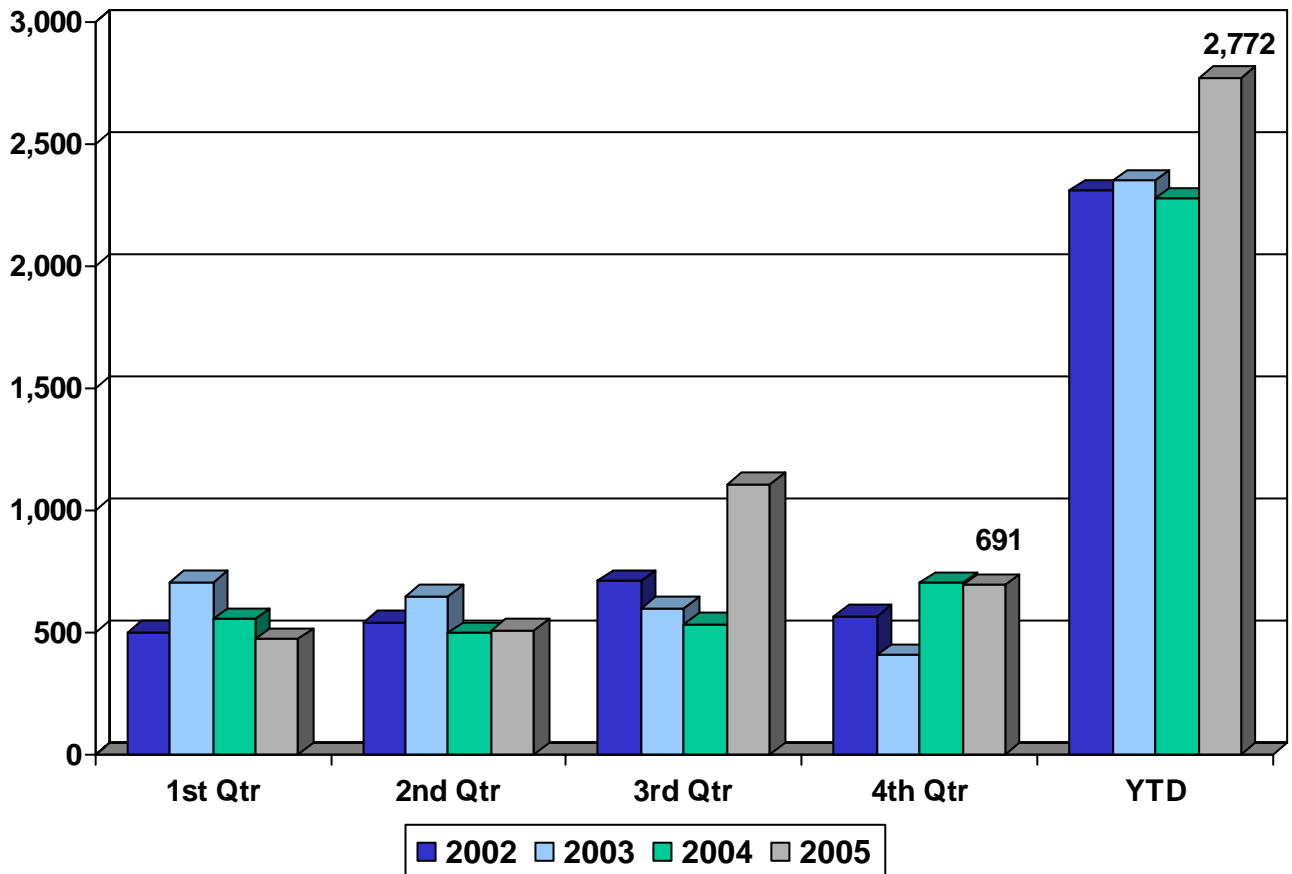
If you have any questions or comments about this report, please feel free to contact any of the individuals listed below.

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 – Annual 2005

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

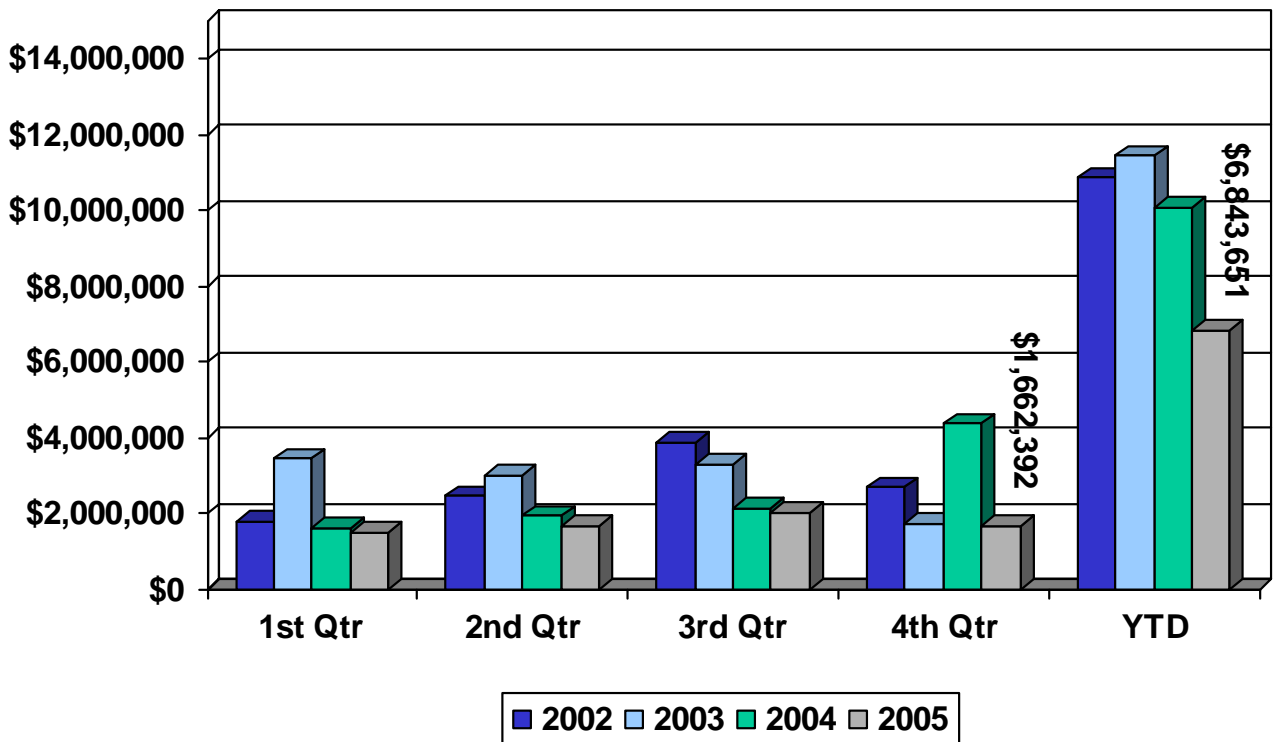
The number of new applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).



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).

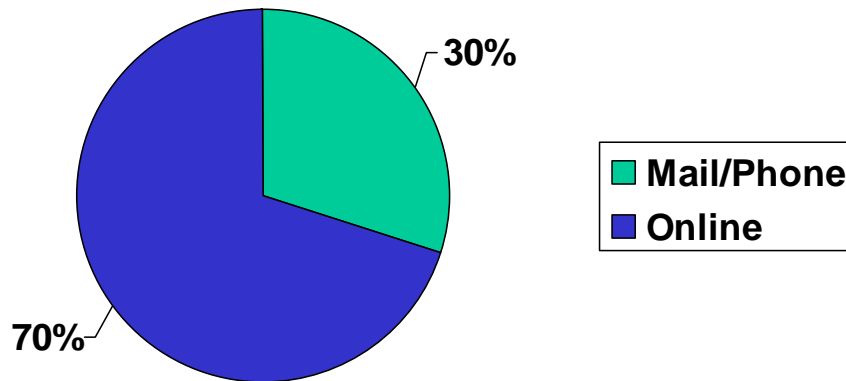


Residual Market Demographics – Annual 2005

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.

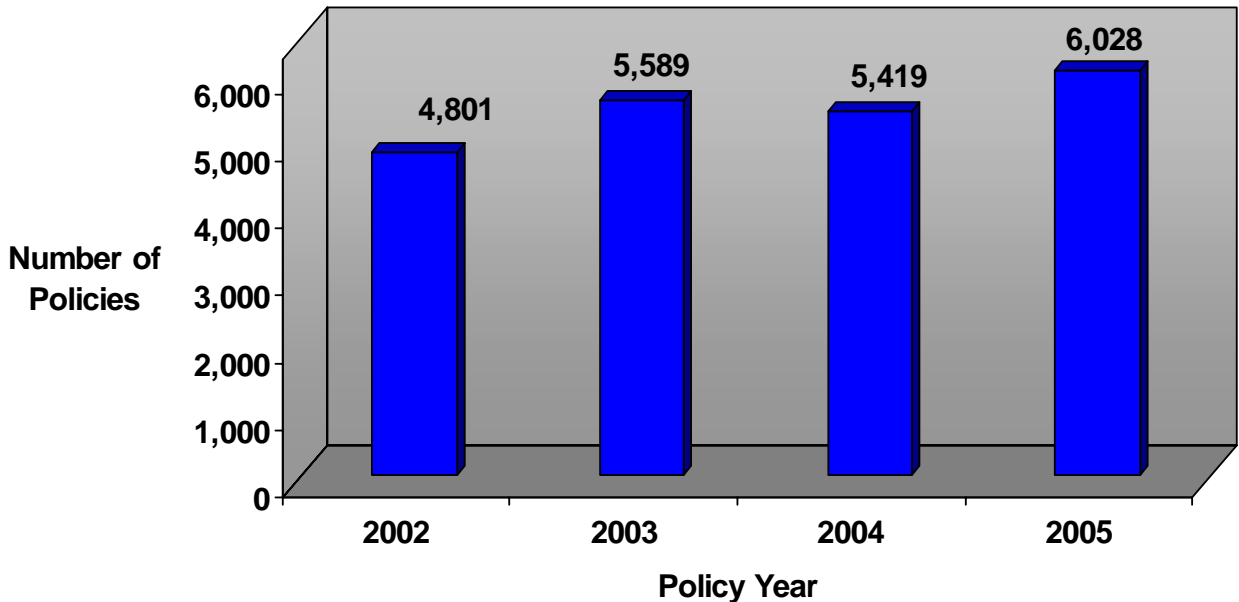


Residual Market Demographics – Annual 2005

Residual Market Total Policy Counts

Annual Data for Policies Reported through December 31, 2005

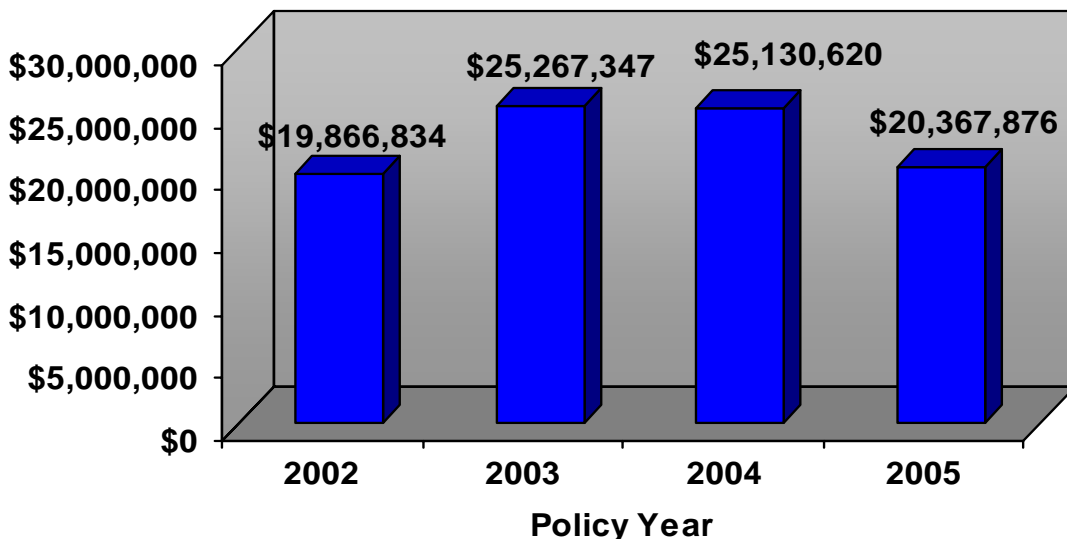
Total Number of all Assigned Risk Plan Policies effective during this quarter and reported as of the date listed above.



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

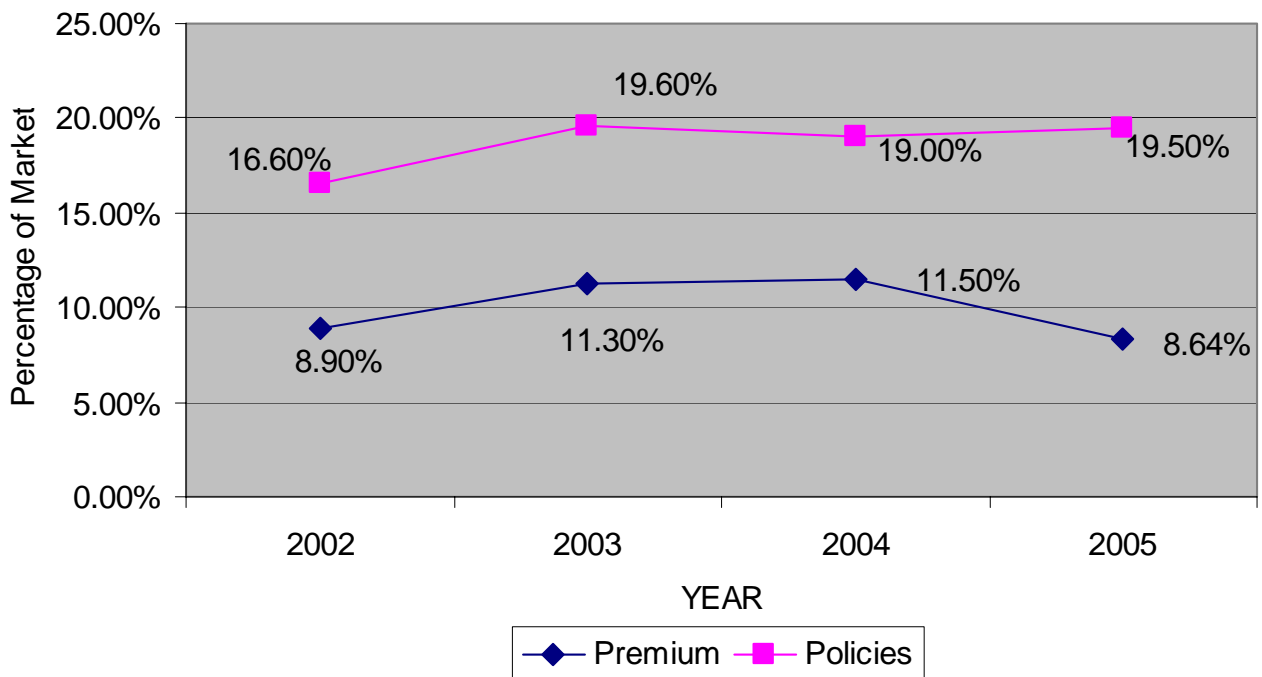
The total number of assigned risk plan policies reported to NCCI for the quarter by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

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%

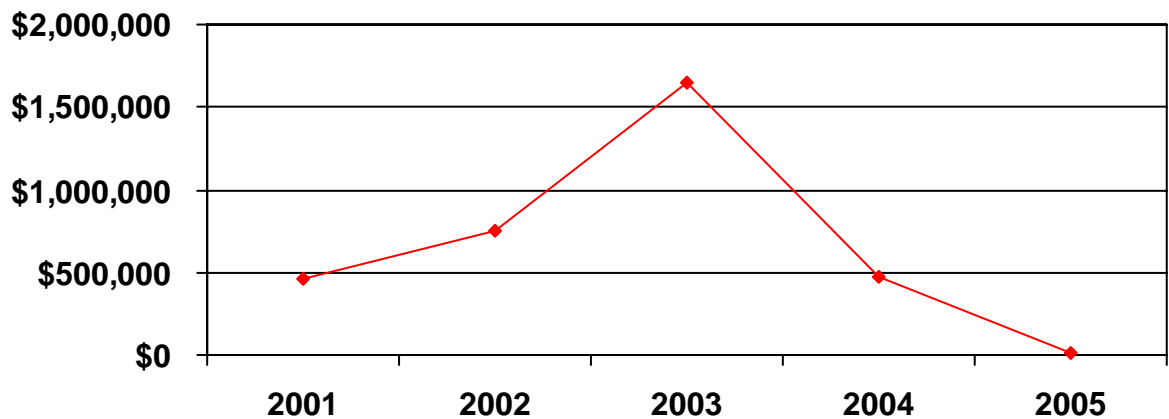
Residual Market Demographics

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%

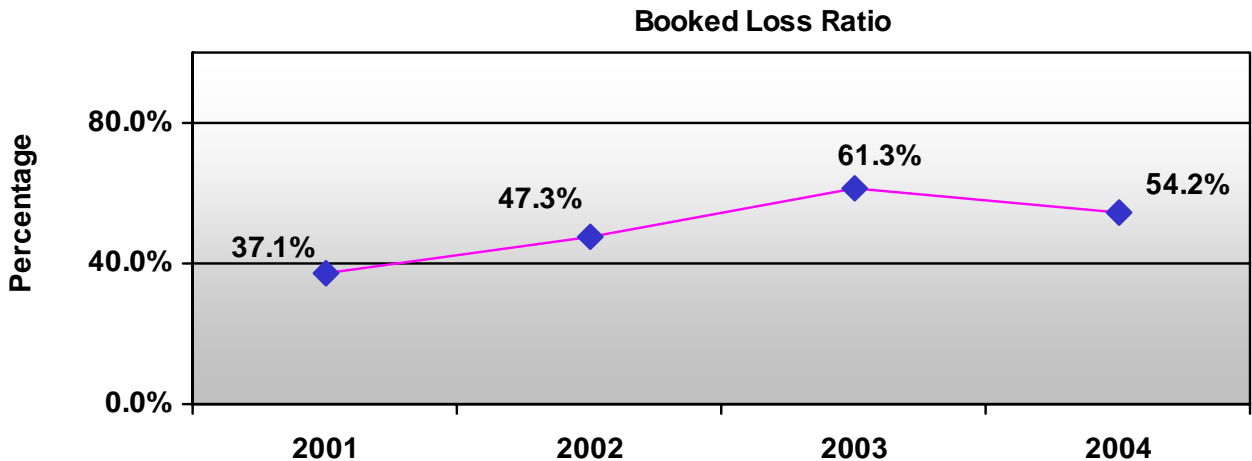
Arkansas Uncollectible Premium



Residual Market Demographics

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

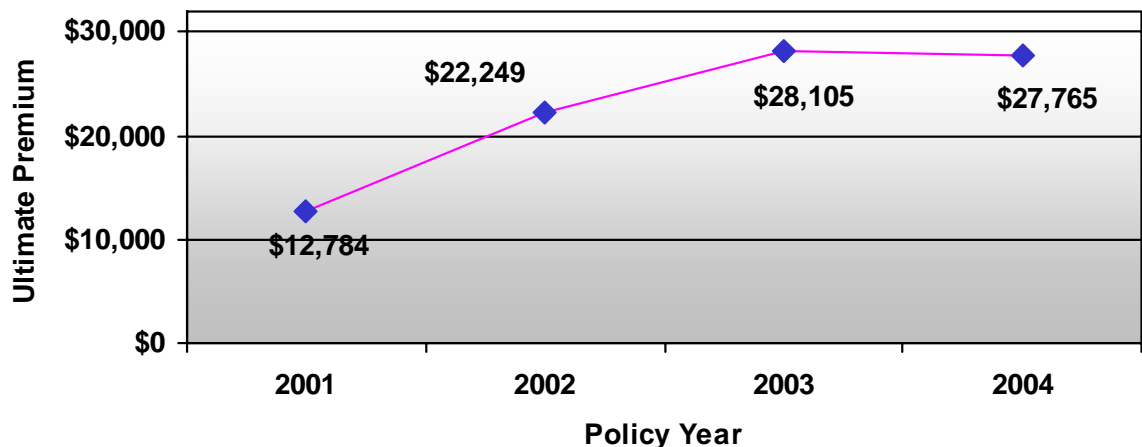
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage .



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.



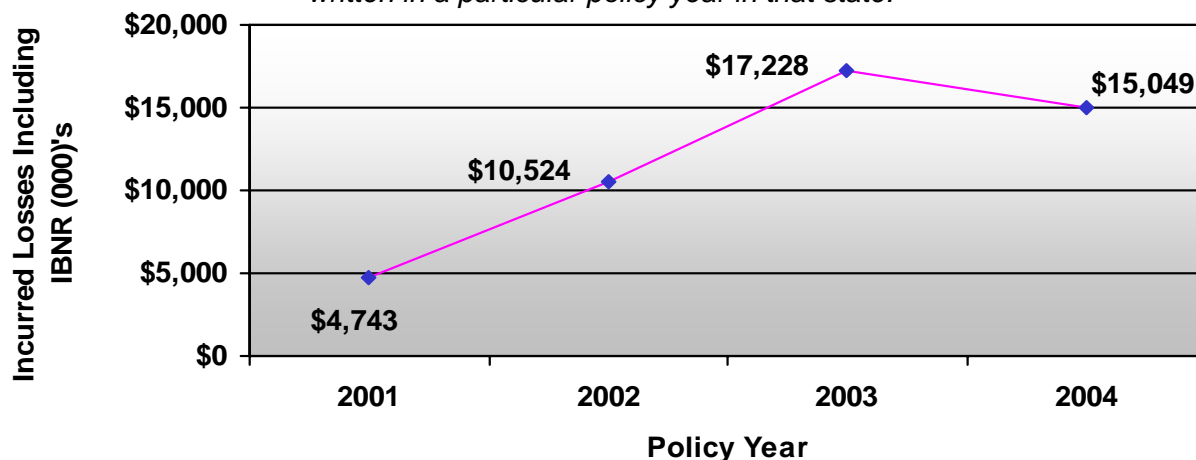
*-Fourth Quarter 2005 Data will be available the end of December 2005 due to the timing of data reporting

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*

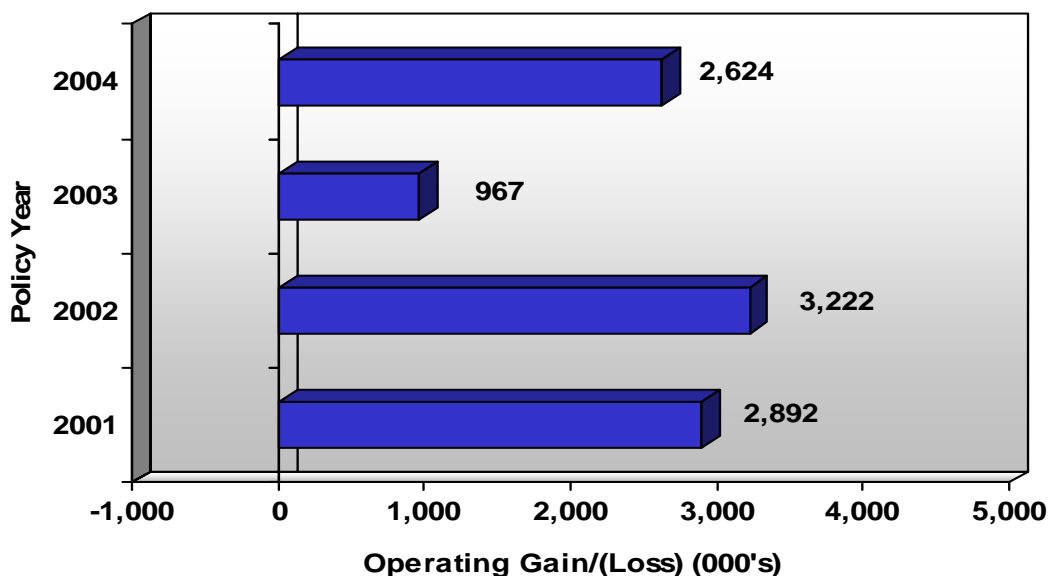
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



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

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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 10, 2007
Orlando, Florida

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Annual Issues Symposium
2007

- 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 Continues Slow Growth

Private Carriers

Line of Business (LOB)	2004	2005	2006p	2005– 2006p Change
Personal Auto	\$157.3 B	\$159.5 B	\$161.1 B	1.0%
Homeowners	\$51.6 B	\$54.5 B	\$57.2 B	5.0%
Other Liability (Incl Prod Liab)	\$43.0 B	\$42.7 B	\$43.1 B	1.0%
Workers Compensation	\$34.7 B	\$37.8 B	\$38.6 B	2.2%
Commercial Multiple Peril	\$29.1 B	\$29.6 B	\$31.7 B	7.0%
Commercial Auto	\$26.6 B	\$26.5 B	\$26.3 B	-1.0%
Fire & Allied Lines (Incl EQ)	\$17.6 B	\$17.4 B	\$18.7 B	7.0%
All Other Lines	\$64.2 B	\$57.5 B	\$67.1 B	16.6%
Total P/C Industry	\$424.1 B	\$425.5 B	\$443.8 B	4.3%

p Preliminary

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

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Industry Underwriting Results Are Remarkably Good

Net Combined Ratio—Private Carriers

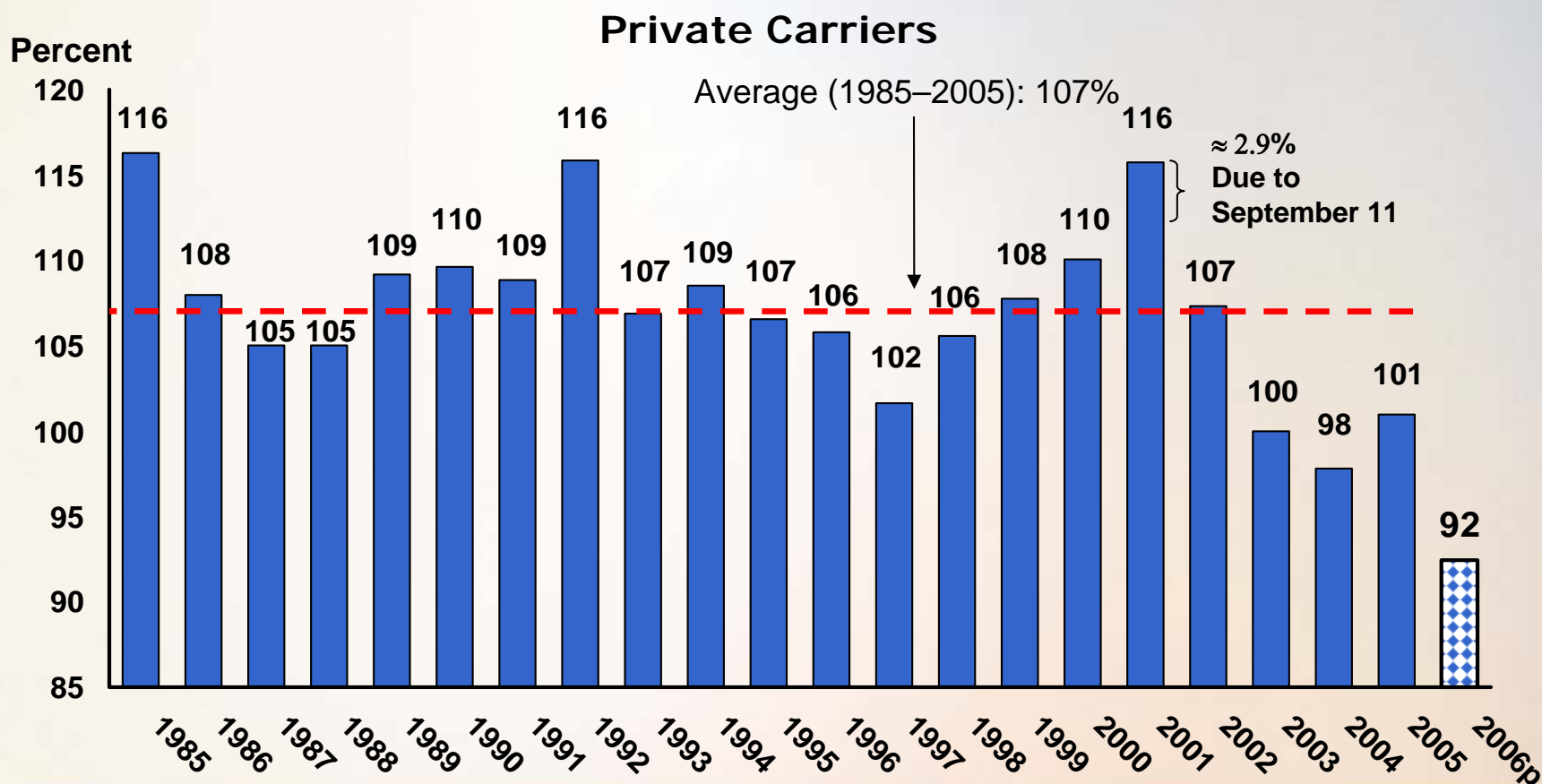
Line of Business (LOB)	Calendar Year		
	2004	2005	2006p
Personal Auto	94%	95%	93%
Homeowners	94%	100%	90%
Other Liability (Incl Prod Liab)	117%	113%	109%
Workers Compensation	107%	103%	96.5%
Commercial Multiple Peril	101%	97%	87%
Commercial Auto	93%	92%	91%
Fire & Allied Lines (Incl EQ)	87%	104%	92%
All Other Lines	99%	112%	94%
Total P/C Industry	98%	101%	92%

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

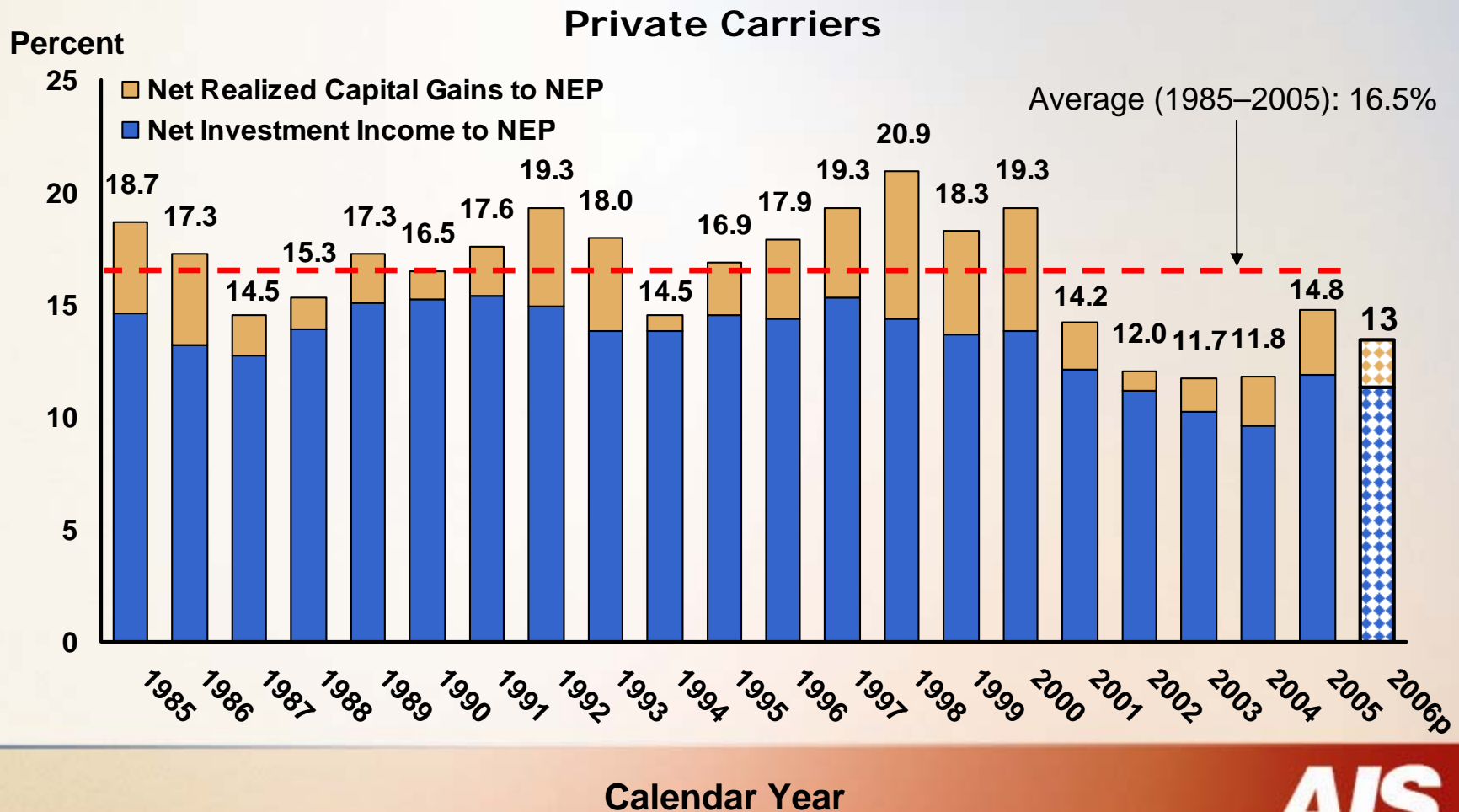


p Preliminary

Source: 1985–2005, A.M. Best Aggregates & Averages; 2006p, ISO

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Investment Gain Ratio Continues Below Historic Average



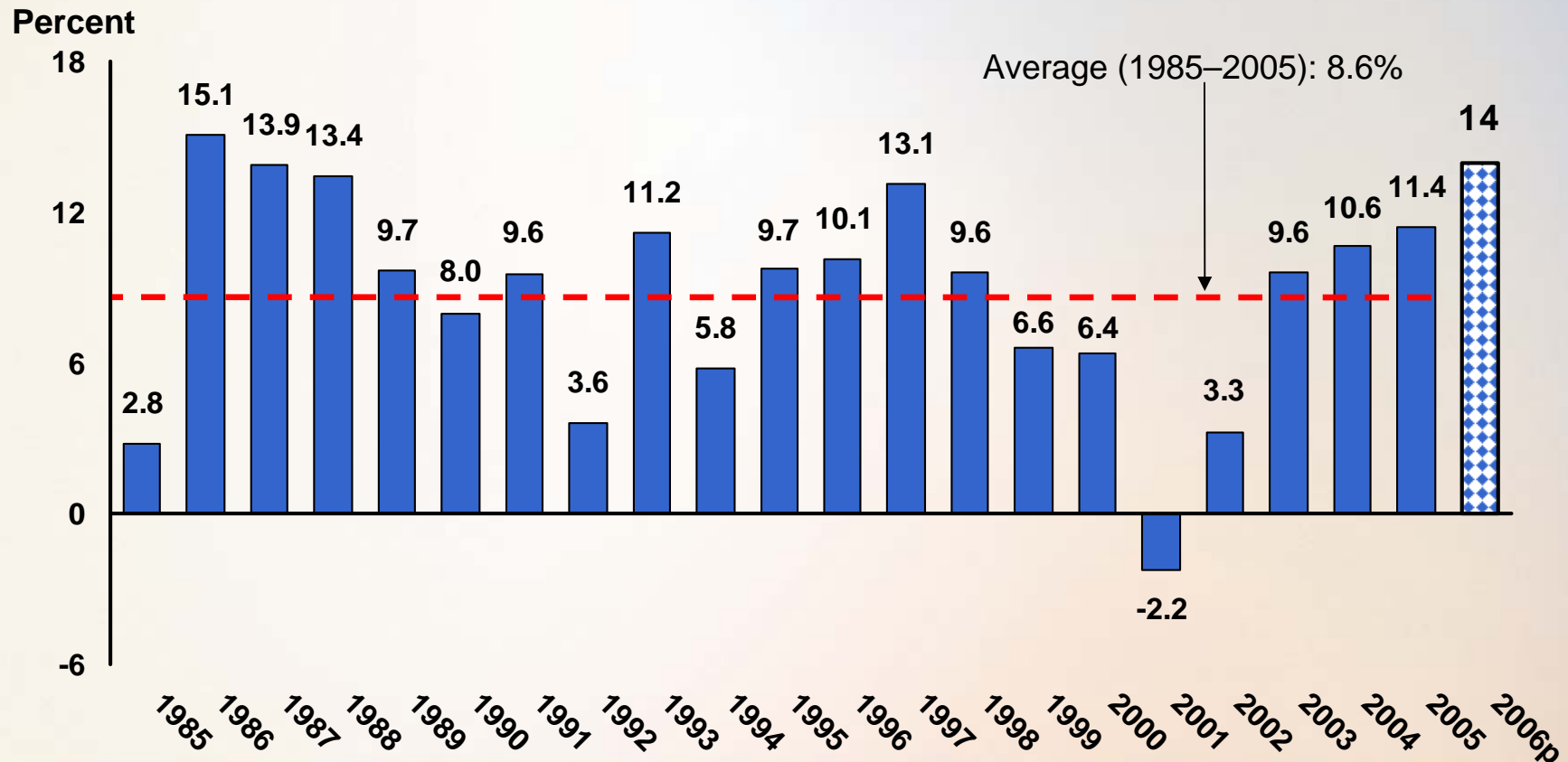
p Preliminary

Source: 1985–2005, A.M. Best Aggregates & Averages; 2006p, ISO

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P/C Industry Return on Surplus

Annual After-Tax Return on Surplus—Private Carriers



p Preliminary

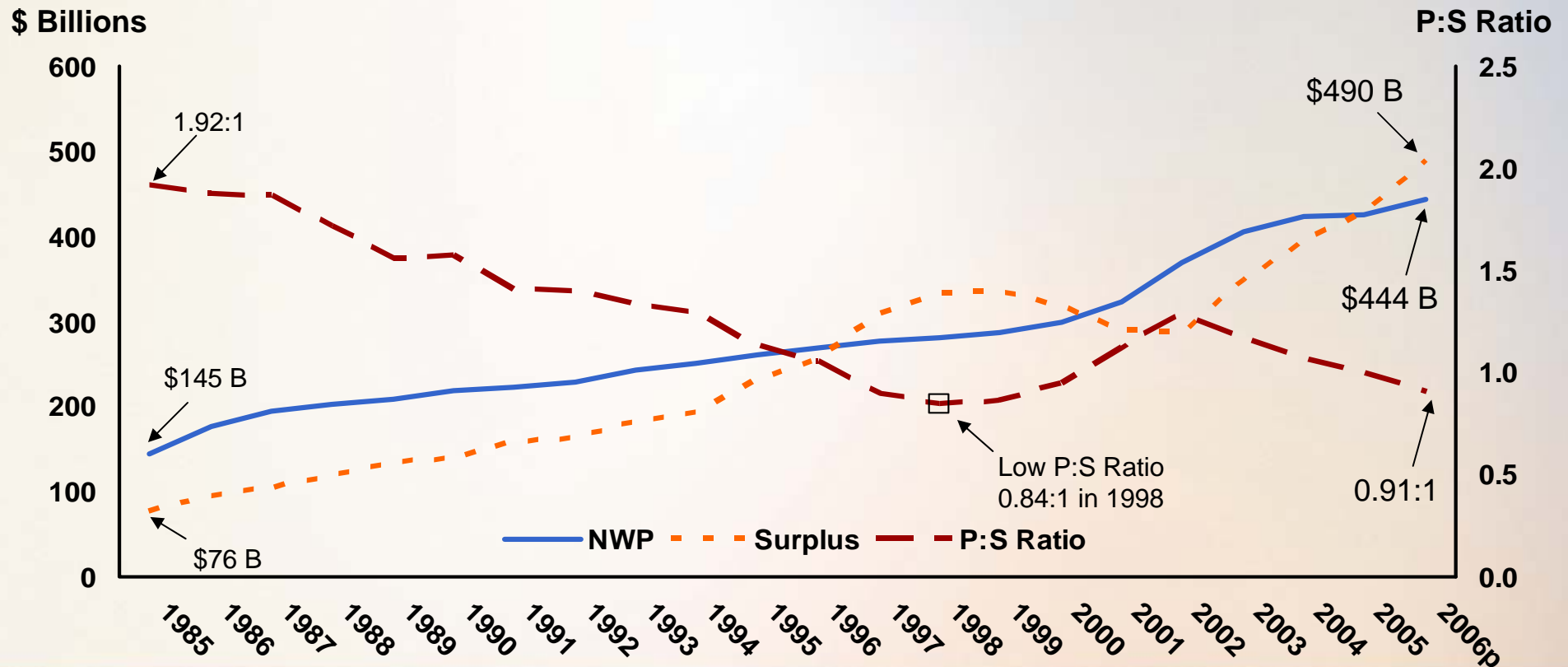
Source: 1985–2005, A.M. Best Aggregates & Averages; 2006p After-Tax Net Income, ISO;

2006p Surplus, 2005 A.M. Best Aggregates & Averages + 2006 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



p Preliminary

Source: 1985–2005, A.M. Best Aggregates & Averages;

2006p Surplus, 2005 A.M. Best Aggregates & Averages + 2006 ISO contributions to surplus

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Contributions to Surplus

Private Carriers

	2004	2005	2006p
Underwriting Gains/Losses	\$ 4.3 B	\$ (5.6) B	\$ 31.2 B
Investment Income	\$ 40.0 B	\$ 49.7 B	\$ 52.3 B
Realized Capital Gains	\$ 9.1 B	\$ 9.7 B	\$ 3.4 B
Other Income	\$ (0.3) B	\$ 1.0 B	\$ 1.0 B
Unrealized Capital Gains	\$ 10.6 B	\$ (3.4) B	\$ 20.8 B
Federal Taxes	\$ (14.6) B	\$ (10.7) B	\$ (24.2) B
Shareholder Dividends	\$ (14.0) B	\$ (15.6) B	\$ (24.5) B
Contributed Capital	\$ 8.8 B	\$ 14.4 B	\$ 3.6 B
Other Changes to Surplus	\$ 0.5 B	\$ (5.1) B	\$ (2.3) B
Total	\$ 44.3 B	\$ 34.5 B	\$ 61.4 B

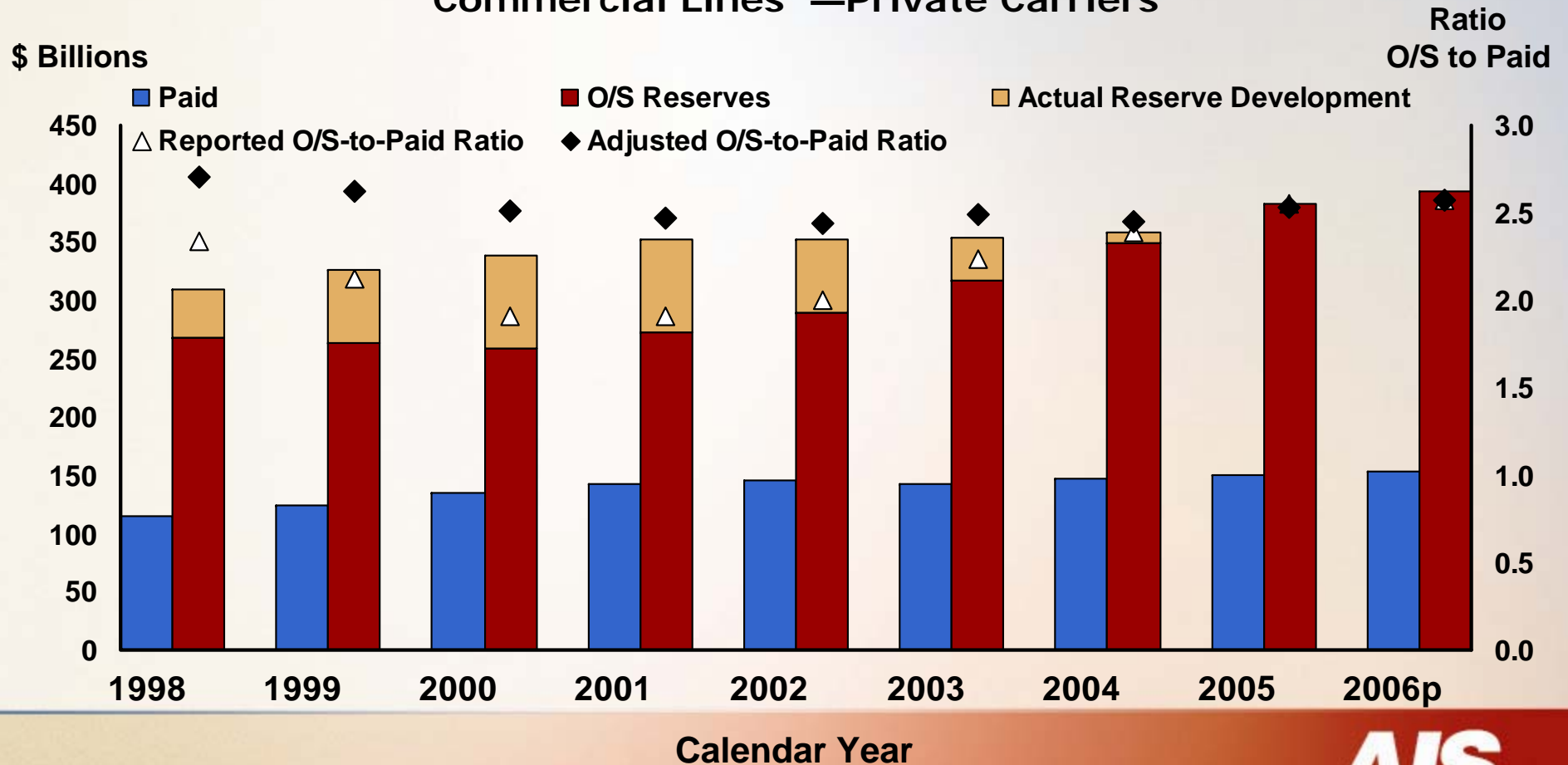
p Preliminary

Source: ISO

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Reserve-to-Paid Ratios Returning to Historic Levels

Commercial Lines*—Private Carriers



p Preliminary

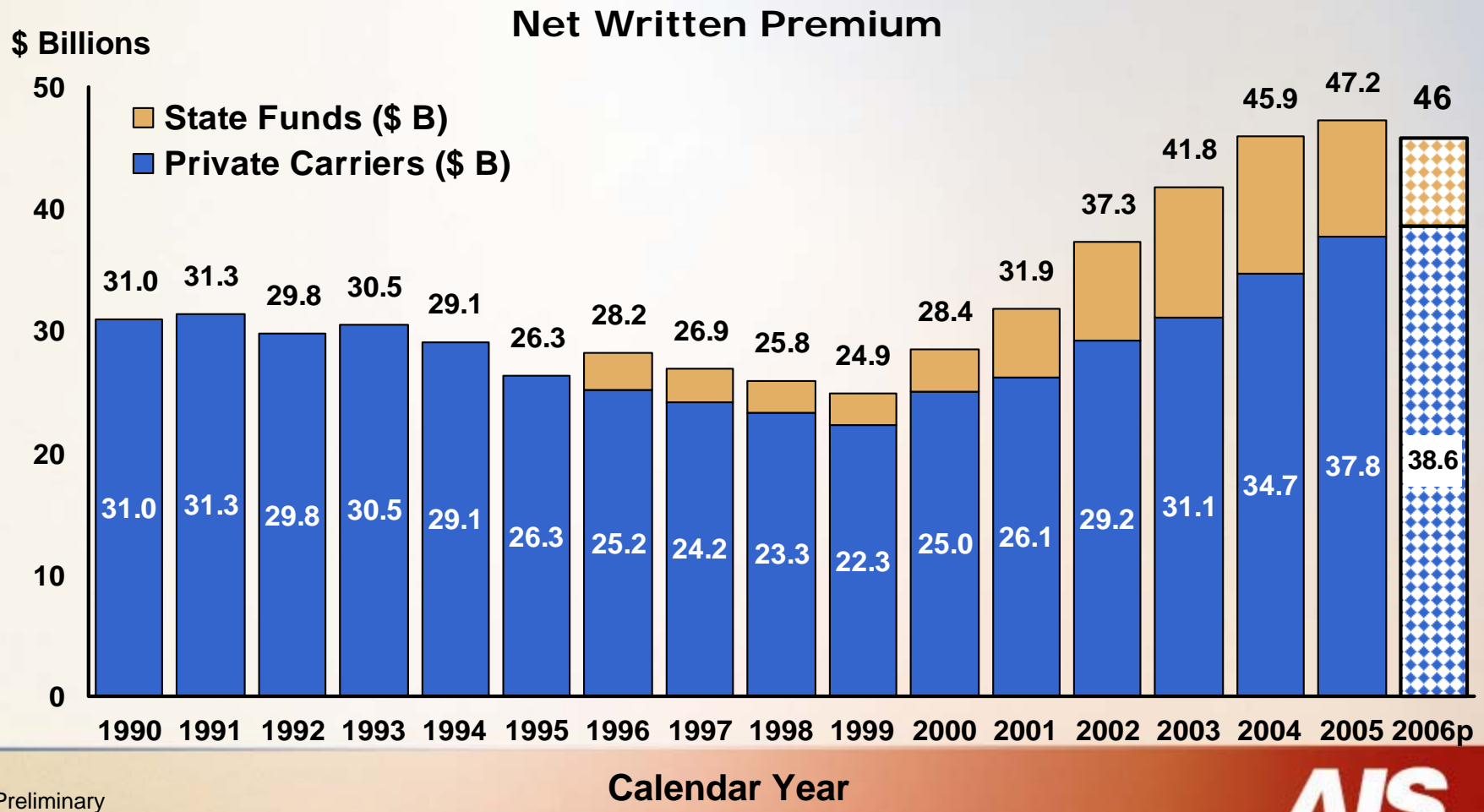
* Commercial lines = Total P/C excluding homeowners and private passenger auto liability lines

Source: 1998–2006p, Highline Ltd.

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Workers Compensation Results

Total Workers Compensation Premium Declined in 2006



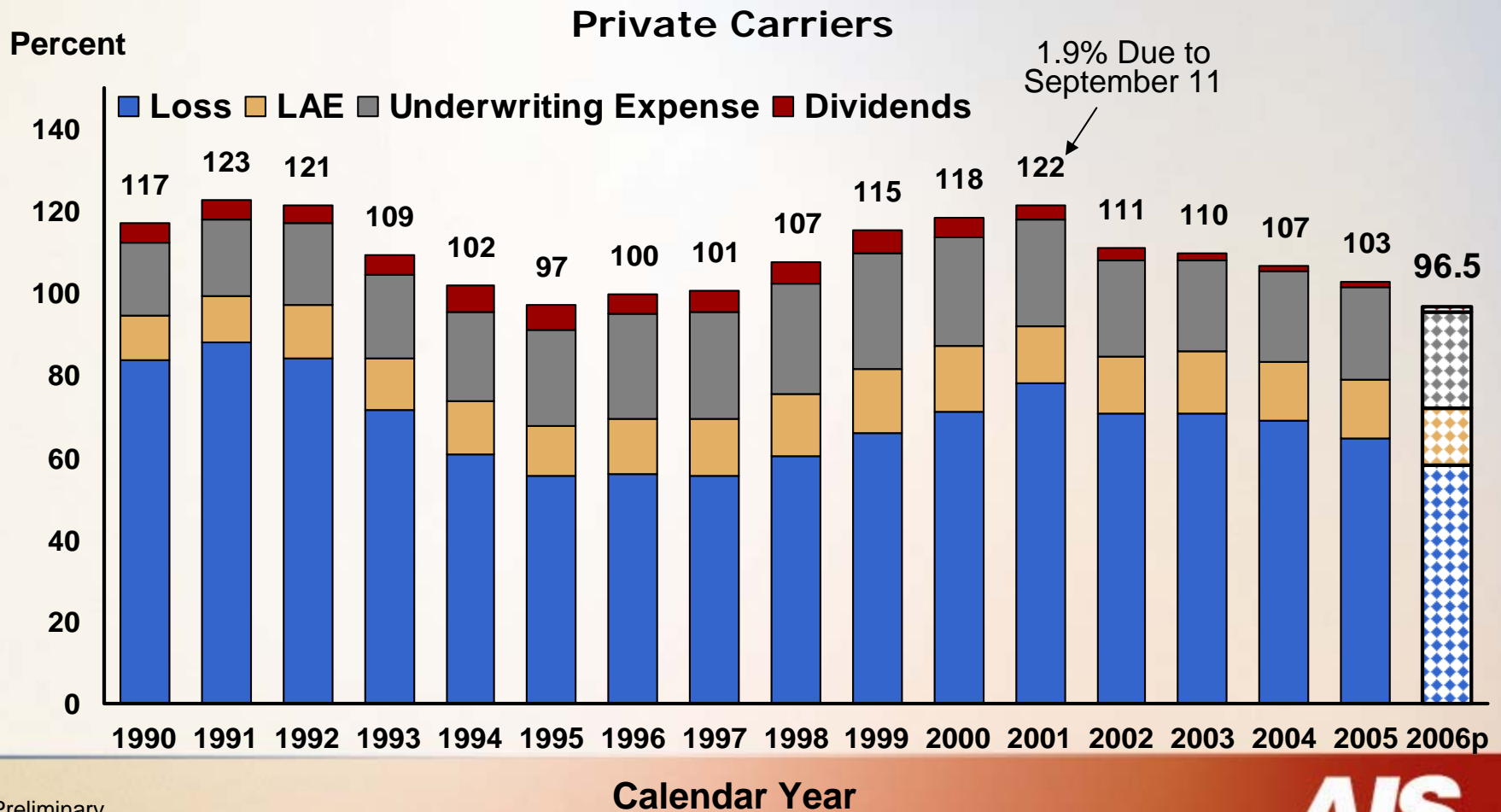
Source: 1990–2005 Private Carriers, A.M. Best Aggregates & Averages; 2006p, NCCI
 1996–2006p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OR, RI, TX, UT Annual Statements
 State Funds available for 1996 and subsequent

Last Year's AIS Survey Results

What will the workers compensation combined ratio be in 2006?

- | | |
|---------------------|--------------|
| A. 95%–100% | (24%) |
| B. 101%–105% | (57%) |
| C. 106%–110% | (18%) |
| D. Over 110% | (1%) |

WC Calendar Year Combined Ratio Best in at Least 30 Years

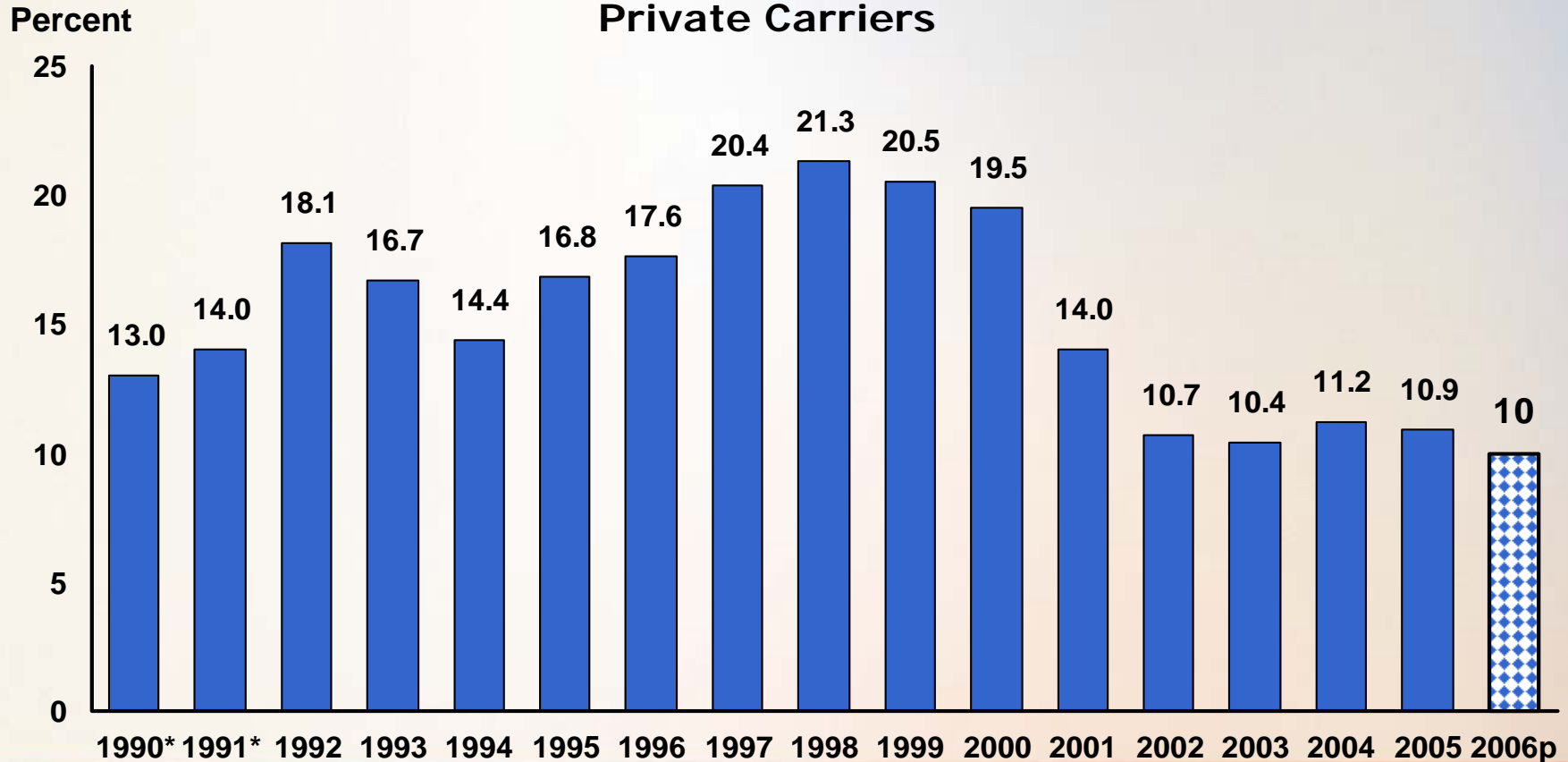


Source: 1990–2005, A.M. Best Aggregates & Averages; 2006p, NCCI

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Workers Compensation Investment Returns Show Little Change in 2006

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

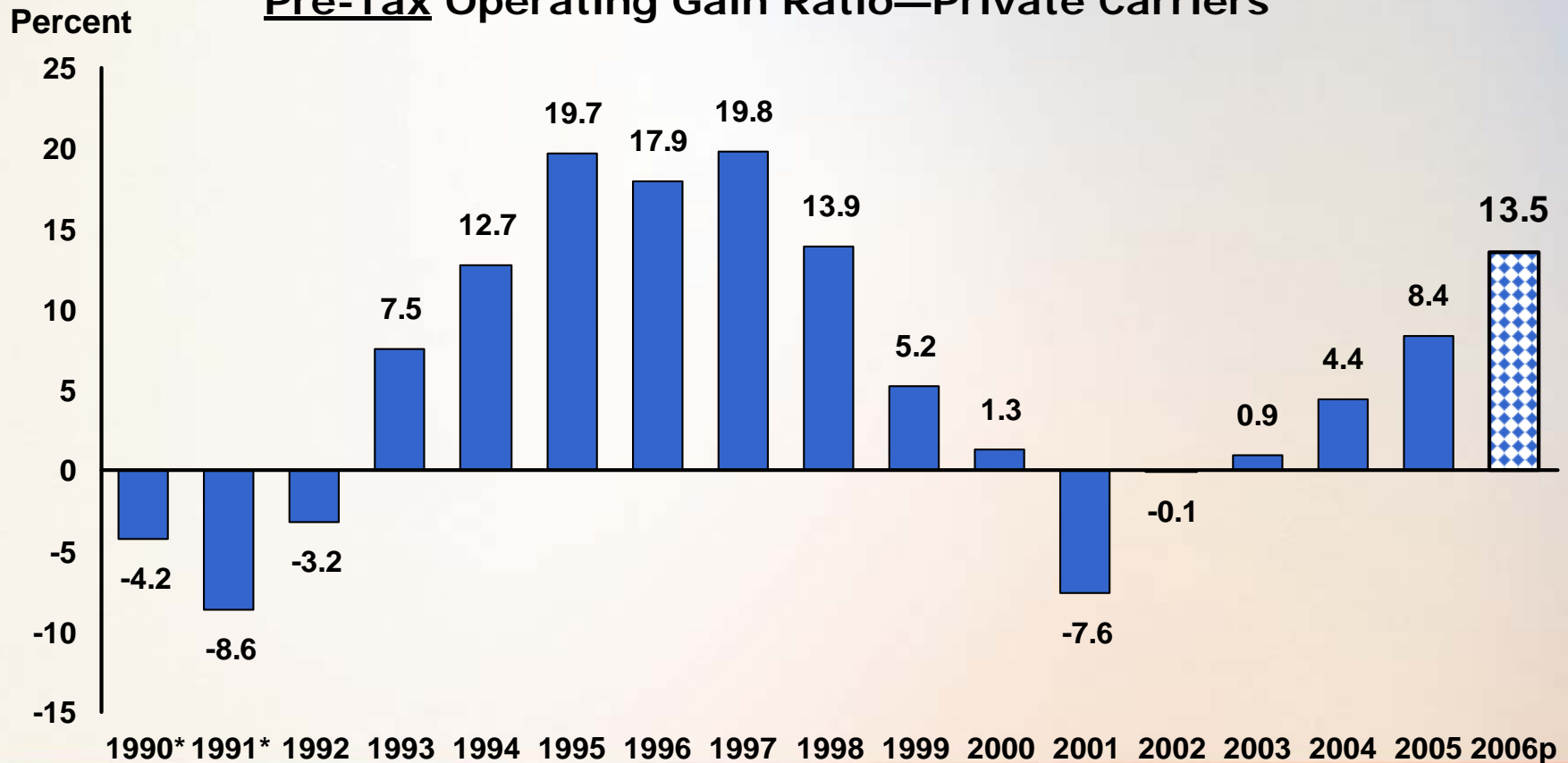
Investment Gain on Insurance Transactions includes Other Income

Source: 1990–2005, A.M. Best Aggregates & Averages; 2006p, NCCI

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Workers Compensation Results Continue to Improve

Pre-Tax Operating Gain Ratio—Private Carriers



p Preliminary

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

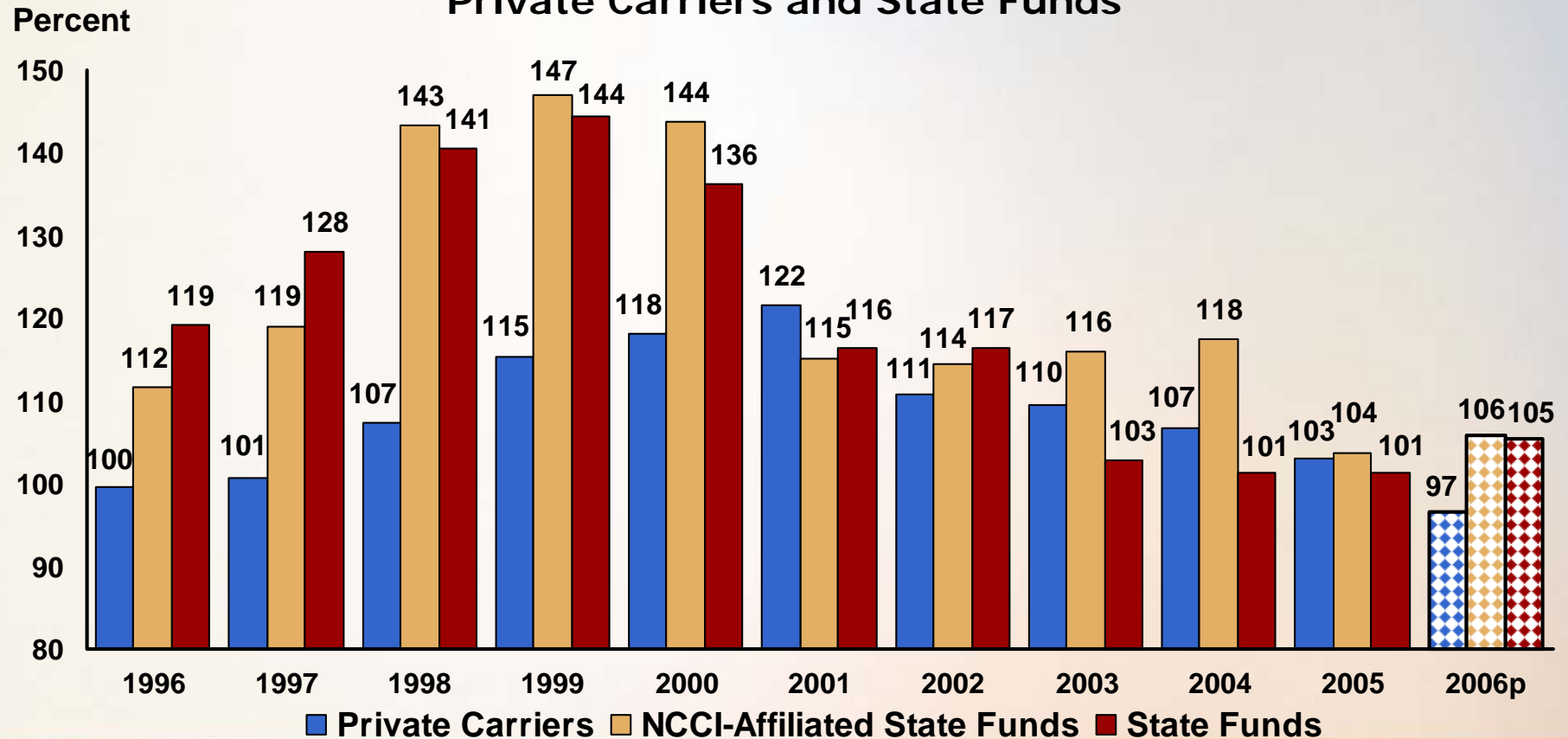
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

Source: 1990–2005, A.M. Best Aggregates & Averages; 2006p, NCCI

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Workers Compensation Calendar Year Net Combined Ratios

Private Carriers and State Funds



Calendar Year

p Preliminary

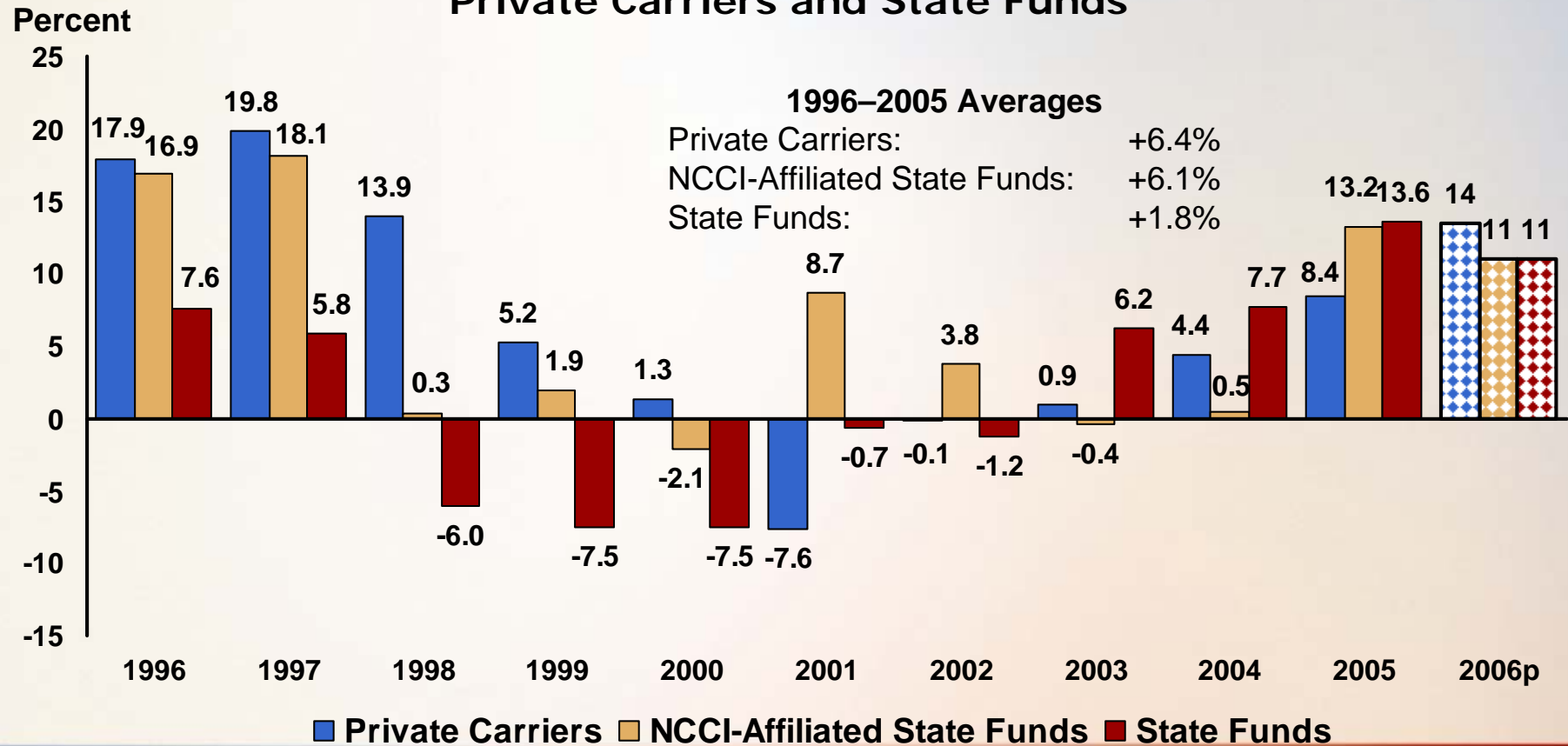
Source: 1996–2005 Private Carriers, A.M. Best Aggregates & Averages; 2006p, NCCI

1996–2006p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements

1996–2006p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Workers Compensation Pre-Tax Operating Gain Ratios

Private Carriers and State Funds



p Preliminary

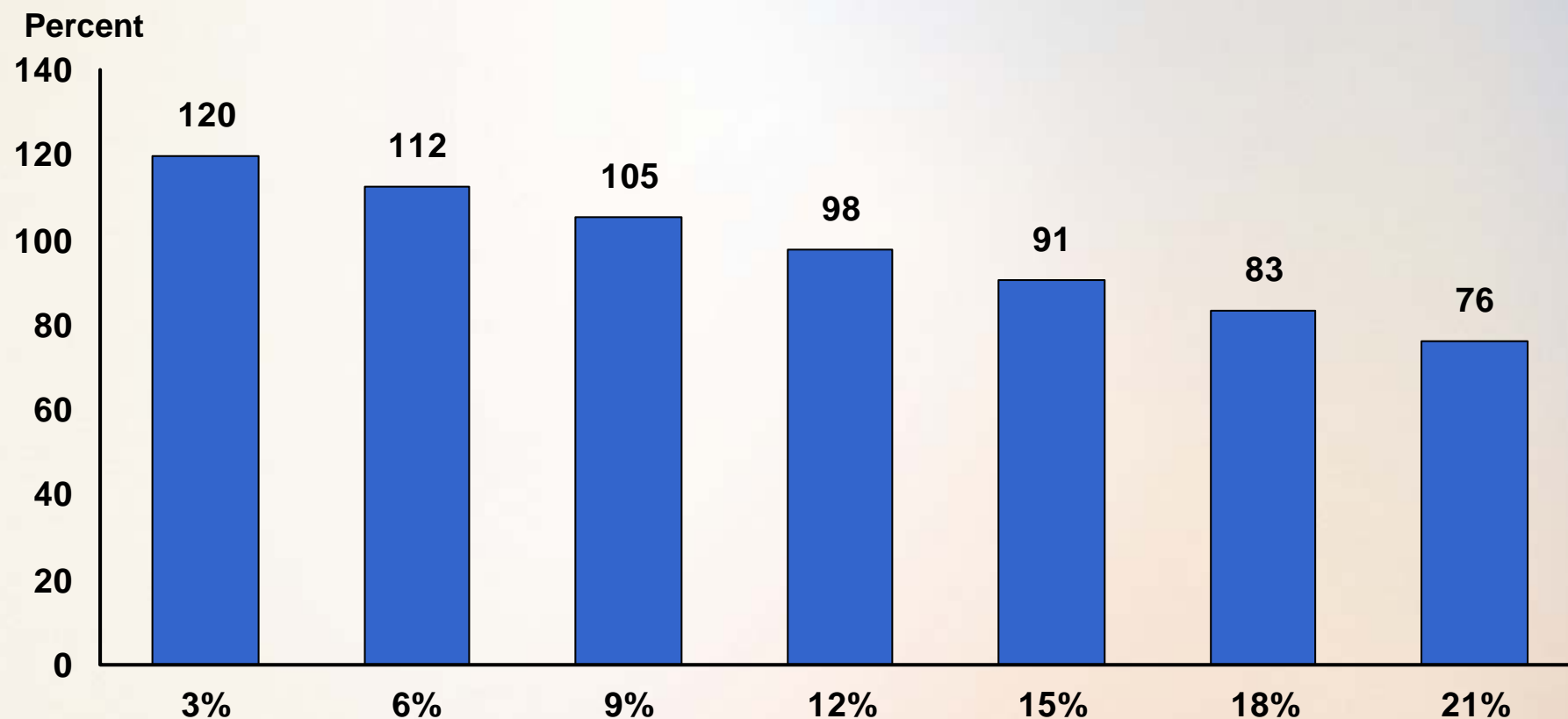
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

Source: 1996–2005 Private Carriers, A.M. Best Aggregates & Averages; 2006p, NCCI

1996–2006p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements

1996–2006p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Workers Compensation Combined Ratios for Given Returns on Surplus



Return on Surplus

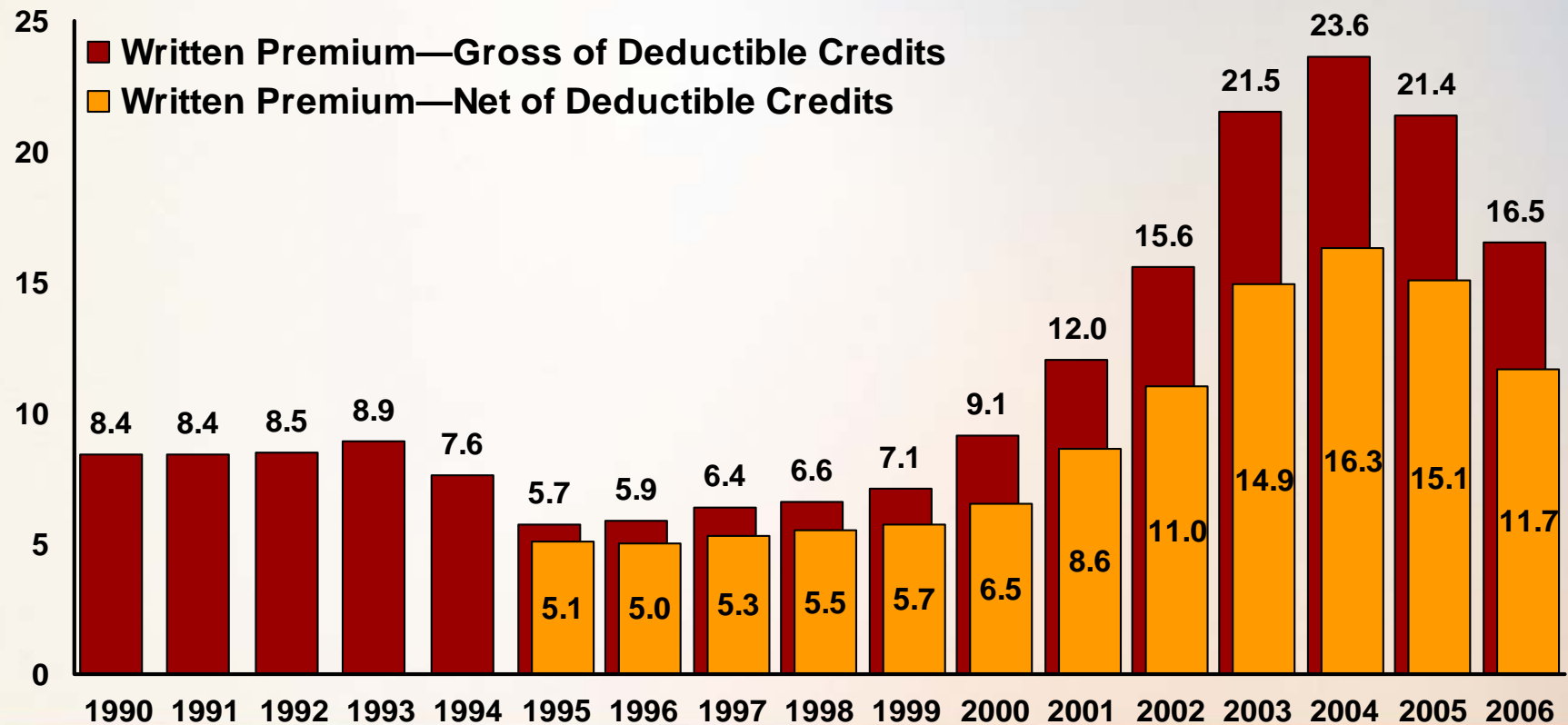
Assumptions: 5.1% Pre-Tax Investment Yield; 3.9% After-Tax Investment Yield
WC Premium to Surplus Ratio = .64; WC Reserves to Premium Ratio = 2.9

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California Workers Compensation Written Premium

\$ Billions

As of December 31, 2006



Data includes State Compensation Insurance Fund

Calendar Year

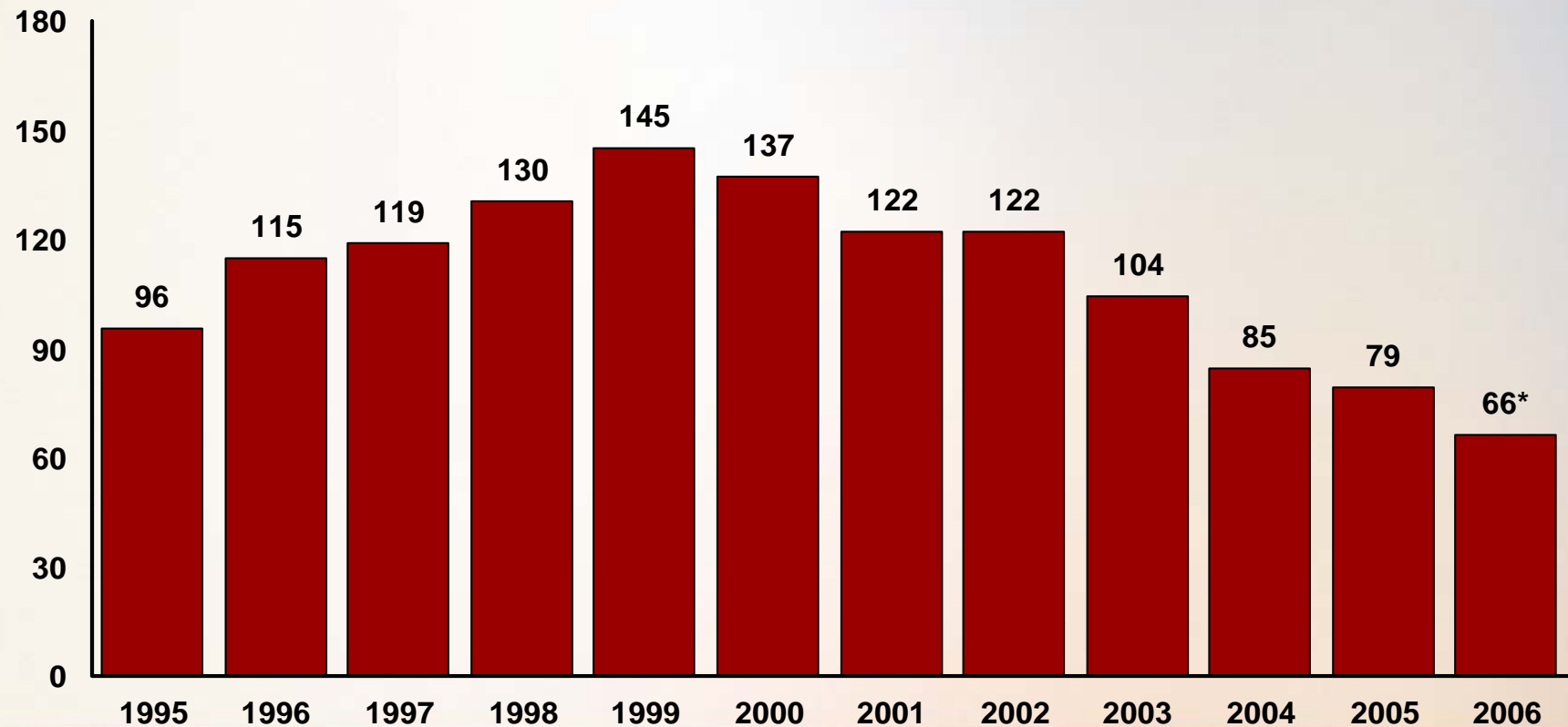
Source: WCIRBcalifornia®

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California Workers Compensation CY Combined Loss and Expense Ratios

Percent

As of December 31, 2006



* 2006 combined ratio is preliminary
Data includes State Compensation Insurance Fund

Calendar Year

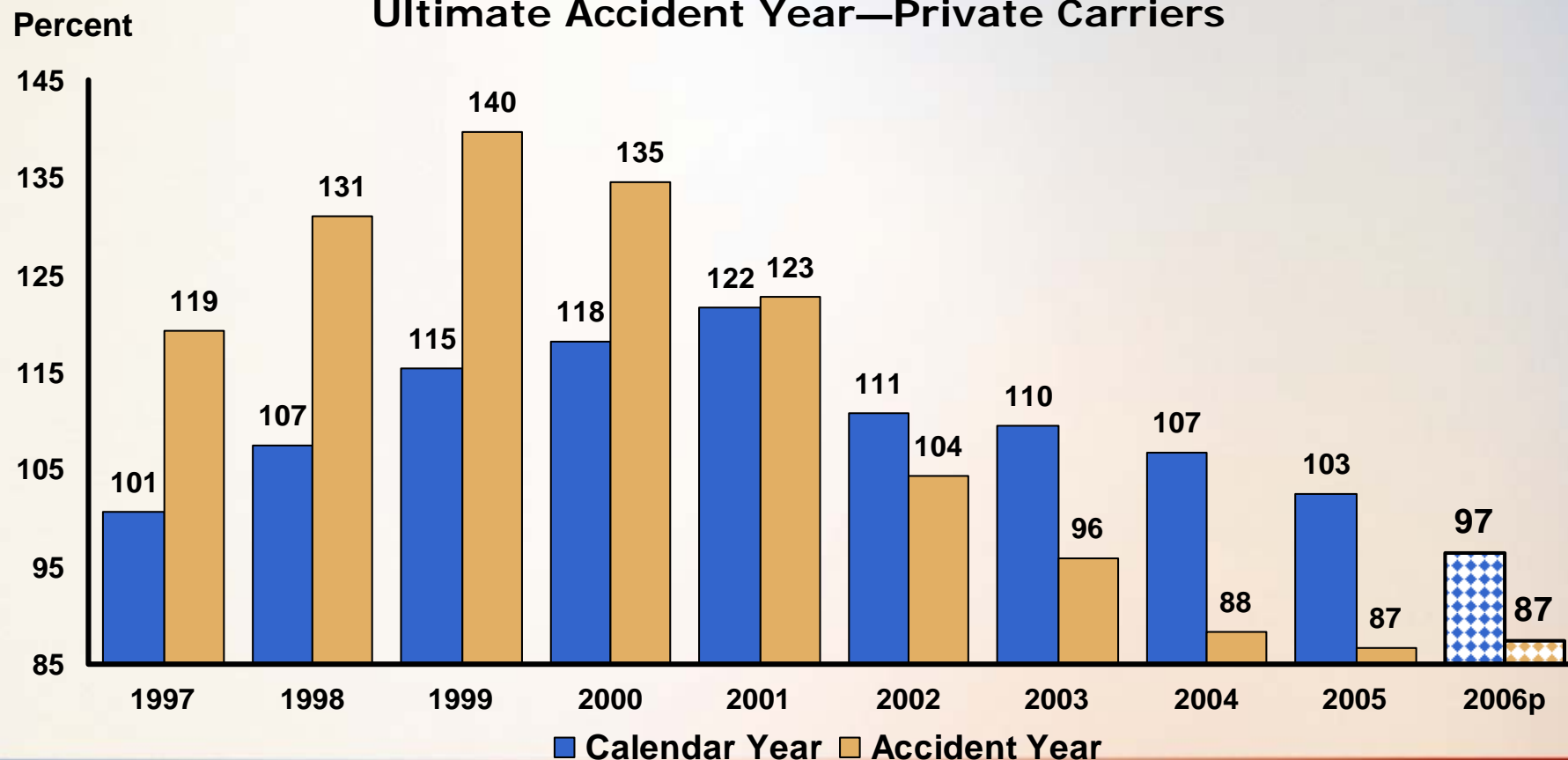
Source: WCIRBcalifornia®

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Workers Compensation Accident Year Results and Reserve Estimates

Accident Year Combined Ratio— Another Underwriting Profit in 2006

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



p Preliminary

Accident Year data is evaluated as of 12/31/2006 and developed to ultimate

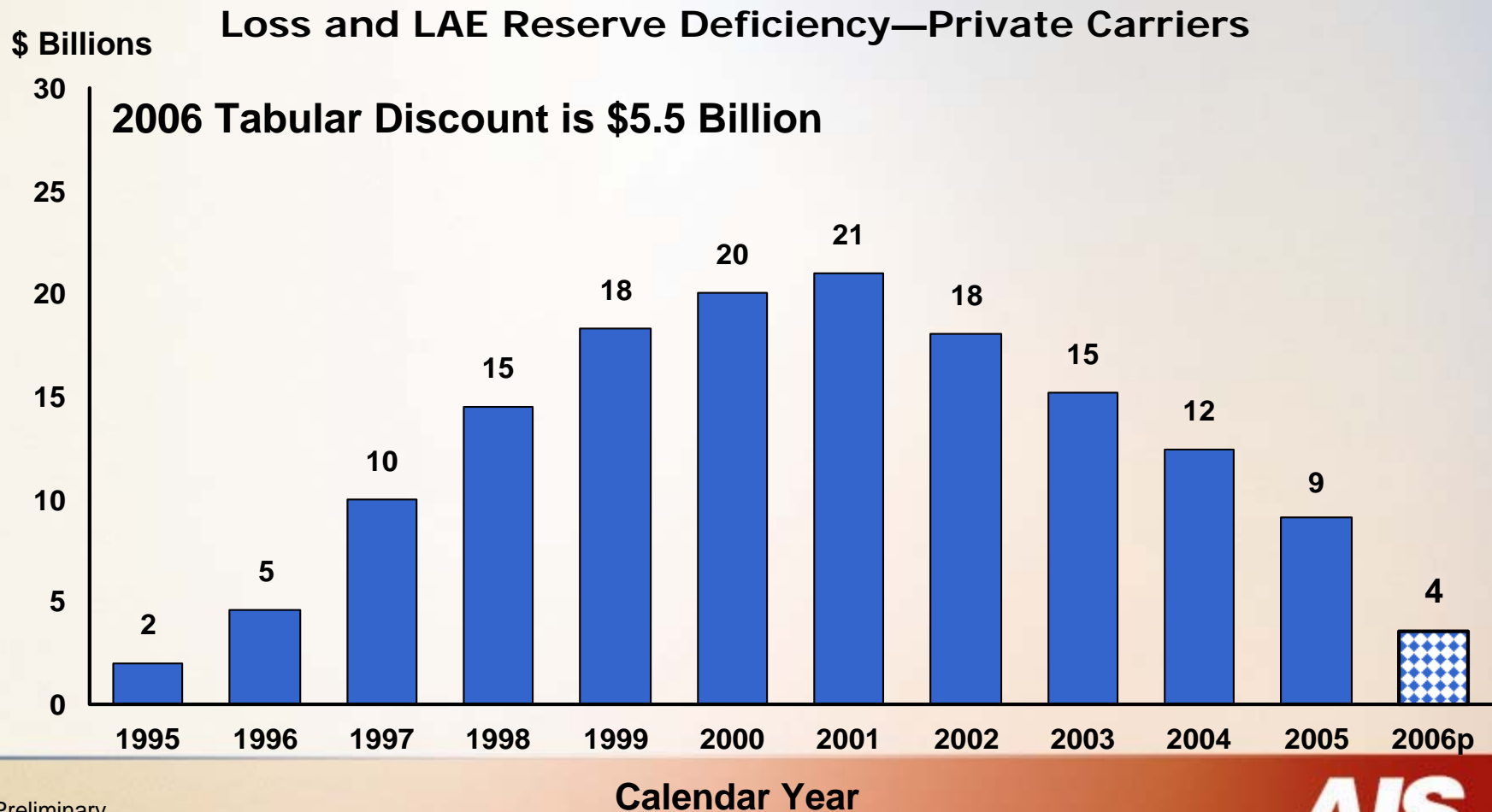
Source: Calendar Years 1997–2005, A.M. Best Aggregates & Averages;

Calendar Year 2006p and Accident Years 1997–2006p, 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 deficiencies

Tabular Discounts are approximately \$5–6 Billion from 1995 to 2006

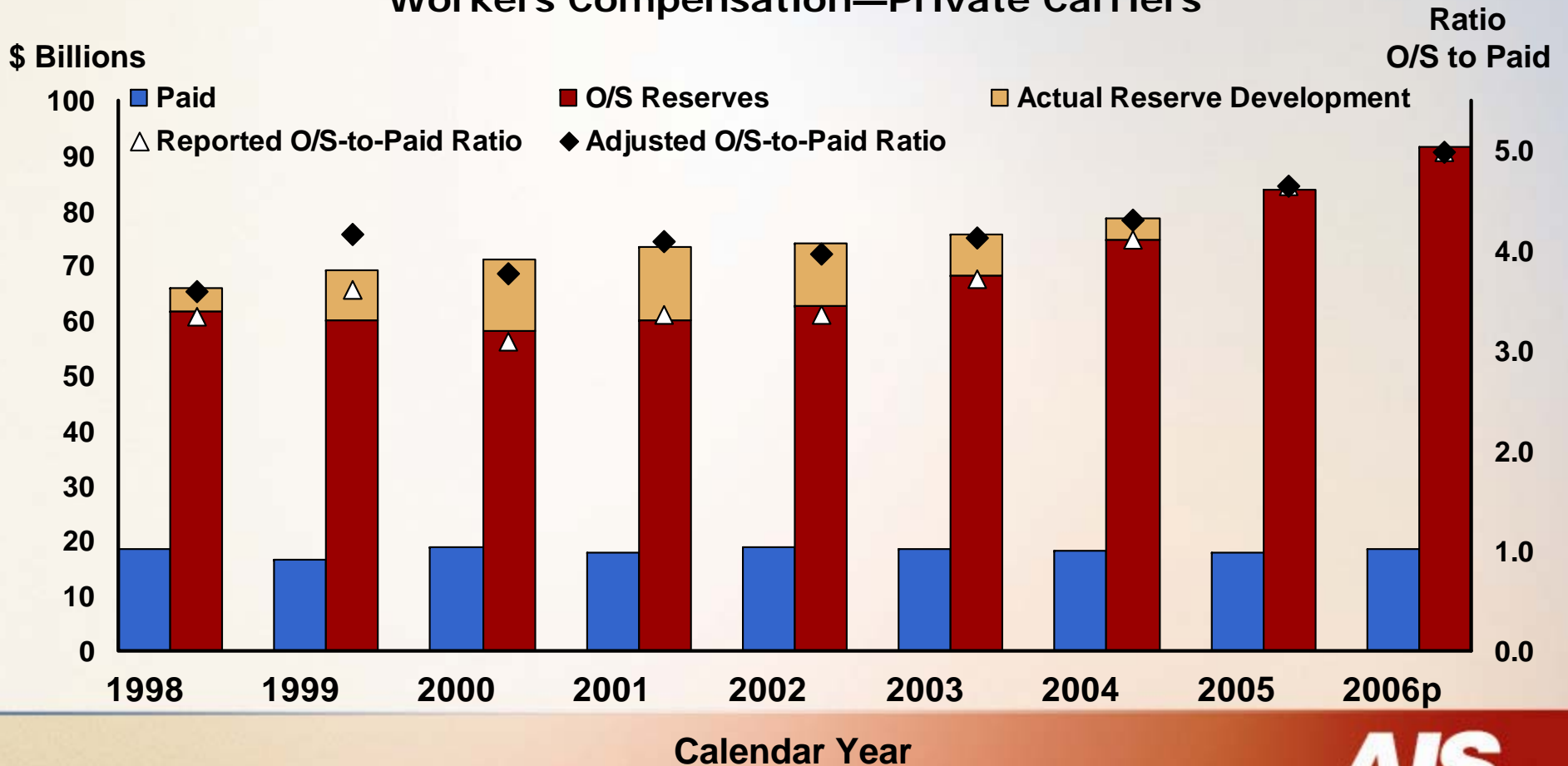
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections

Source: 1996–2006p, NCCI analysis

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Workers Compensation Reserve-to-Paid Ratios Are Increasing Slightly

Workers Compensation—Private Carriers



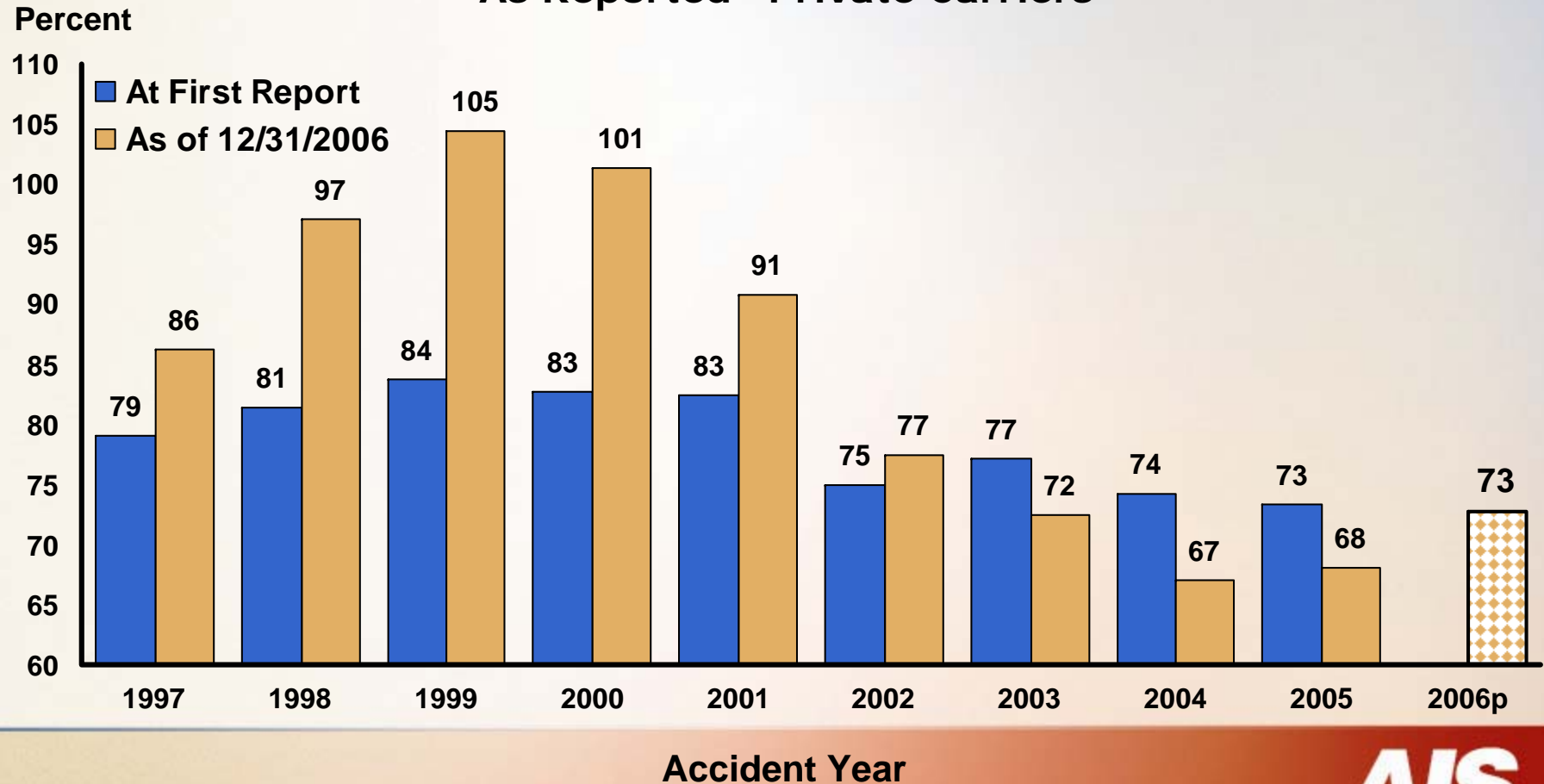
p Preliminary

Source: 1998–2006p, Highline Ltd.

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Workers Compensation Accident Year Loss and LAE Ratios

As Reported—Private Carriers

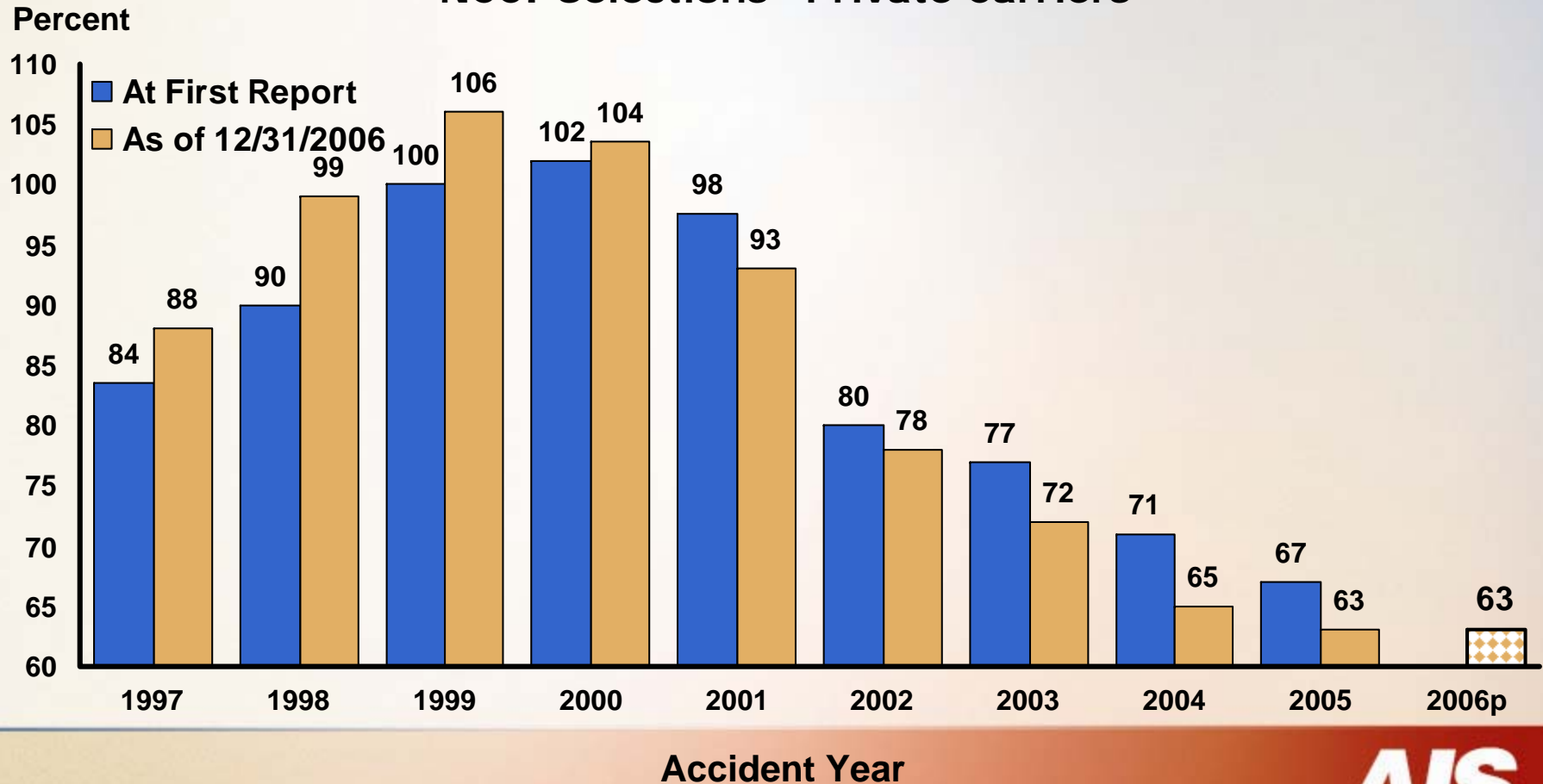


p Preliminary
Reported Loss and LAE ratios from Schedule P
Source: 1997-2006p, NAIC Annual Statement data as reported

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Workers Compensation Accident Year Loss and LAE Ratios

NCCI Selections—Private Carriers



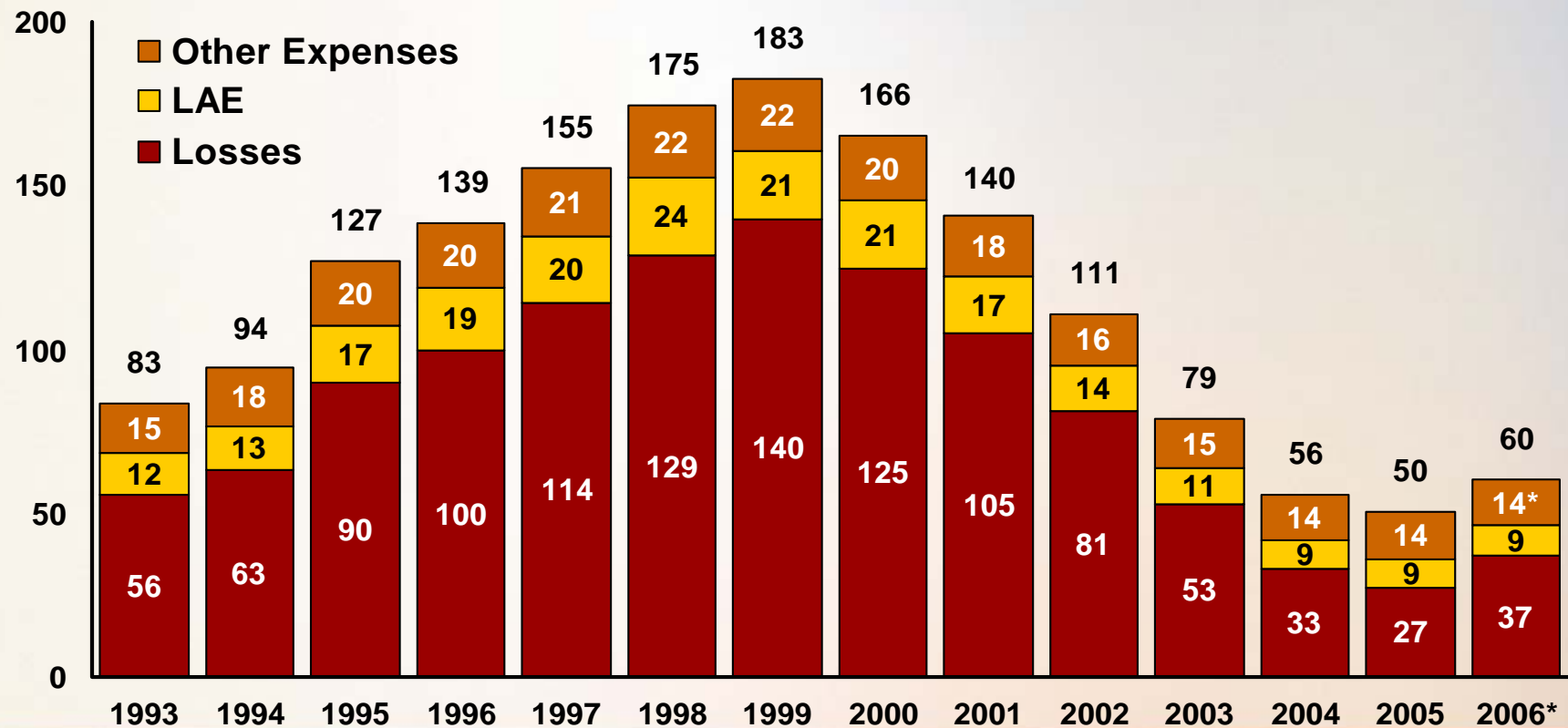
p Preliminary
Selected Loss and LAE ratios
Source: NCCI Reserve Analysis

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California Workers Compensation AY Combined Loss and Expense Ratios

Percent

As of December 31, 2006



* 2006 Other Expenses are preliminary
Data includes State Compensation Insurance Fund

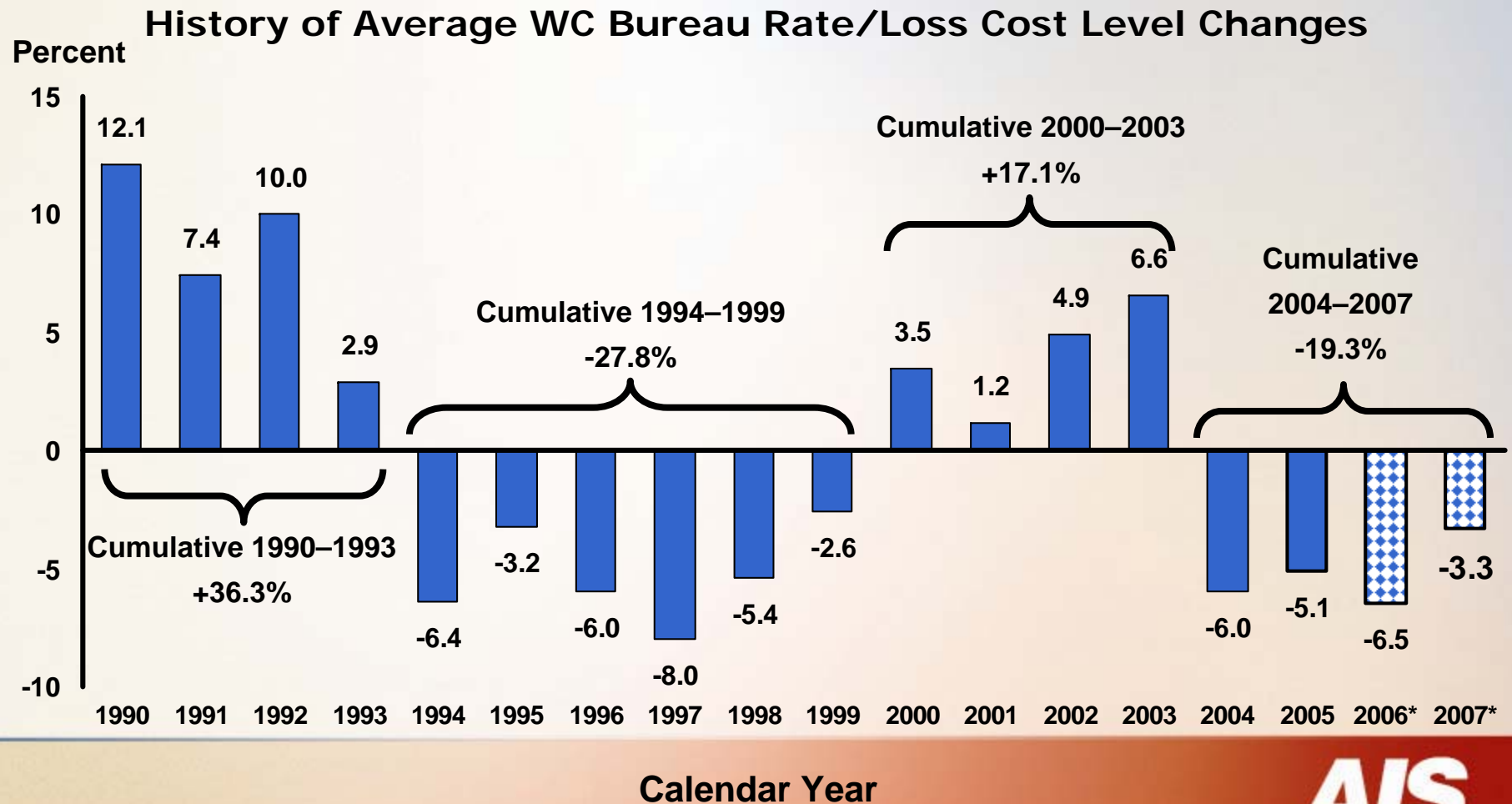
Accident Year

Source: WCIRBcalifornia®

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Workers Compensation Premium Drivers

Average Approved Bureau Rates/Loss Costs



* States approved through 4/13/2007

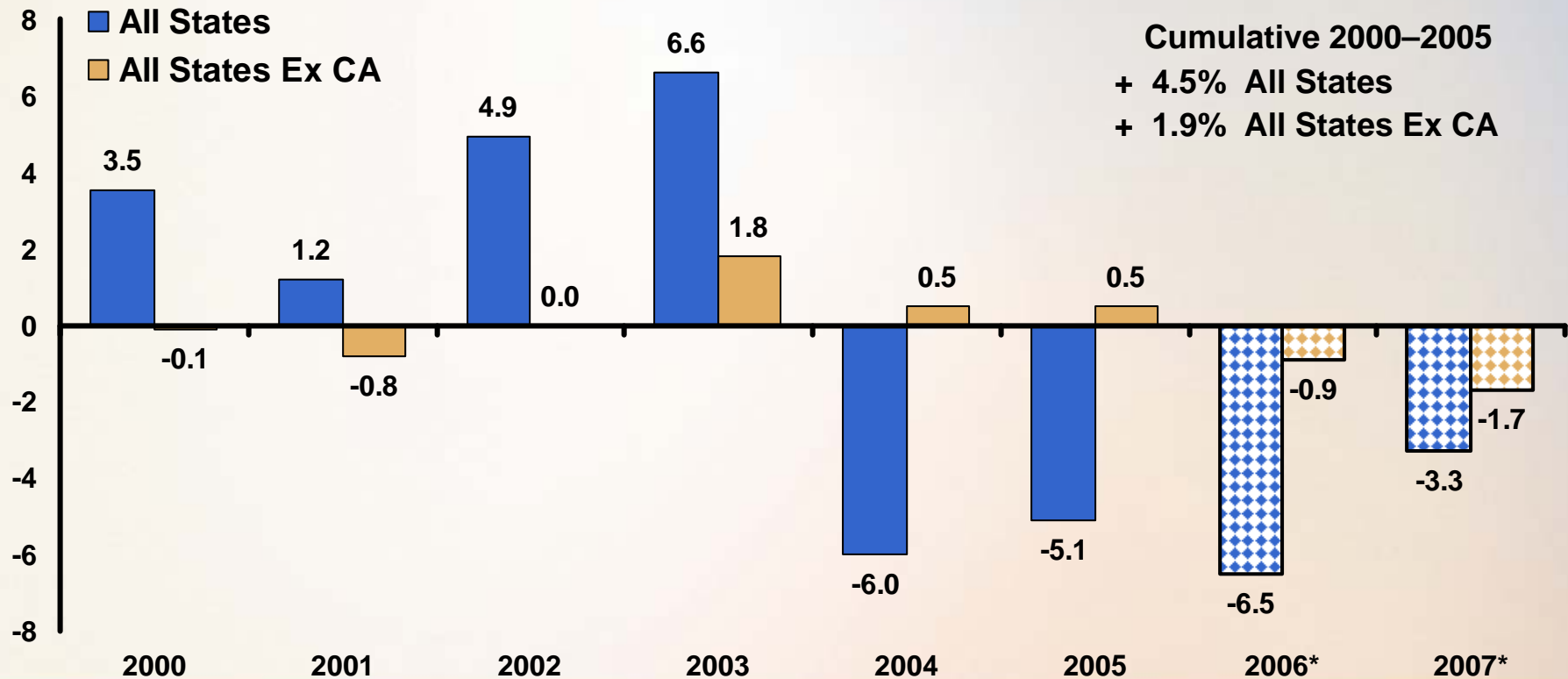
Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

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Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California

Percent



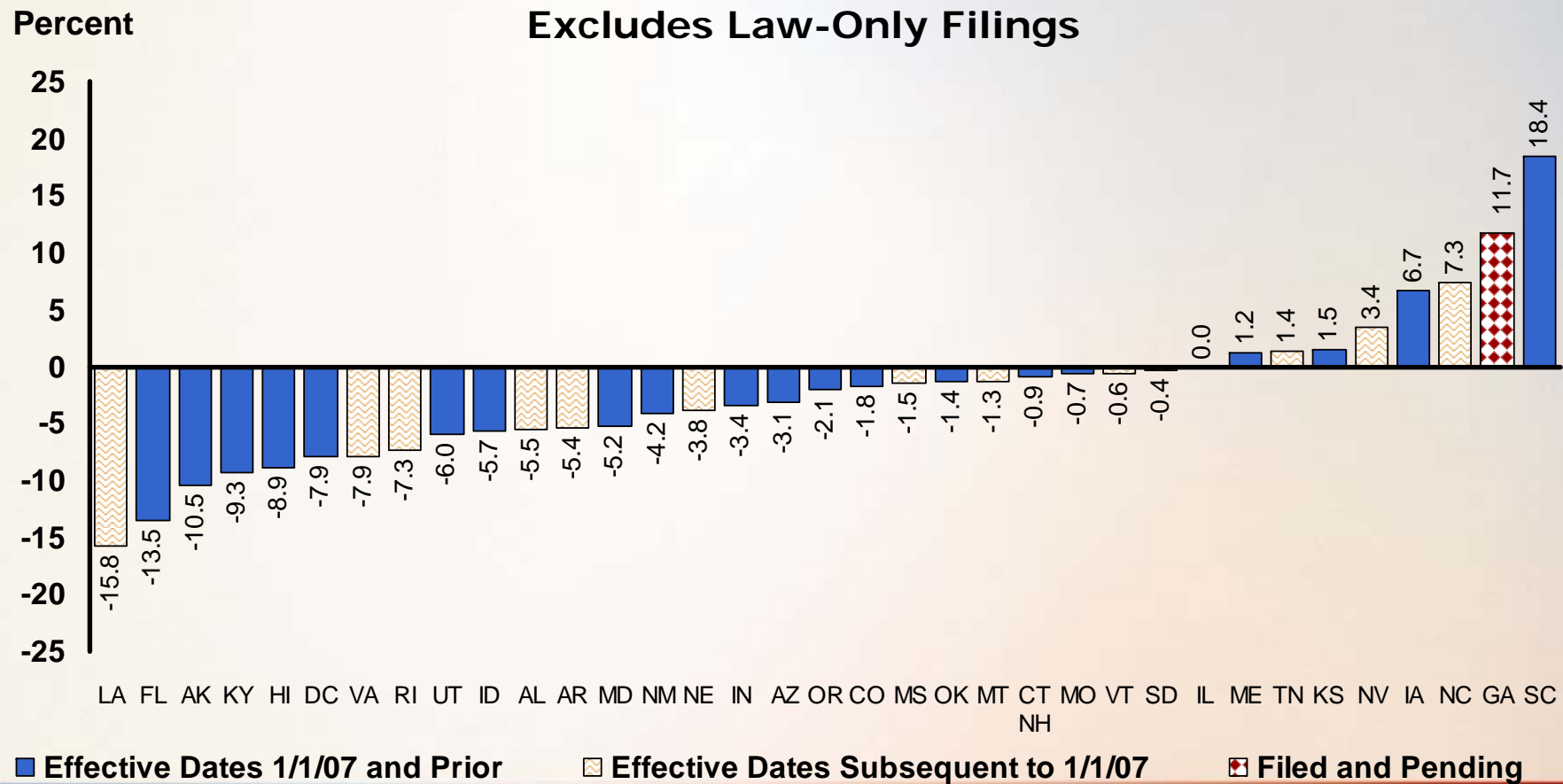
Calendar Year

* States approved through 4/13/2007

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

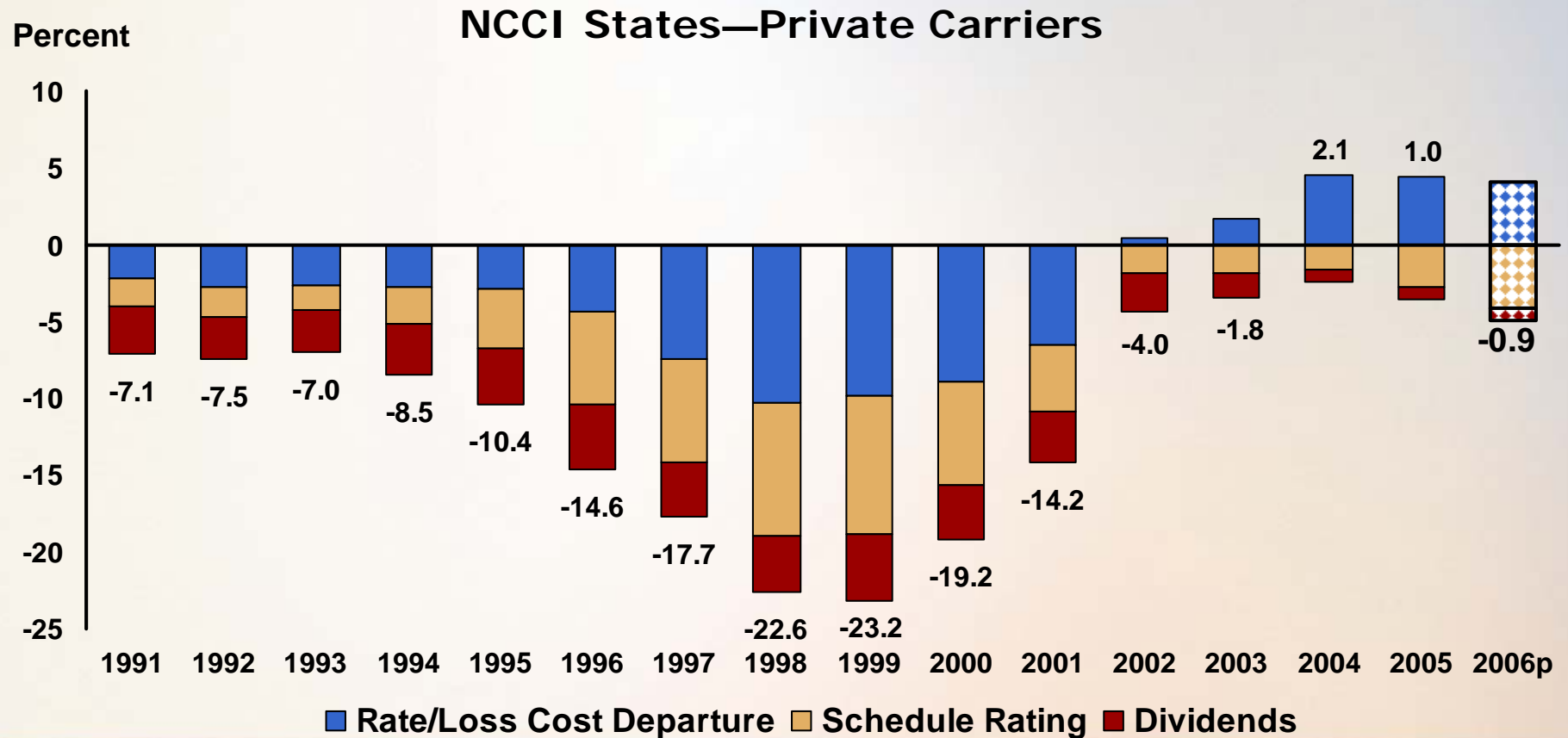
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Current NCCI Voluntary Market Rate/Loss Cost Changes



States filed through 4/20/2007

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

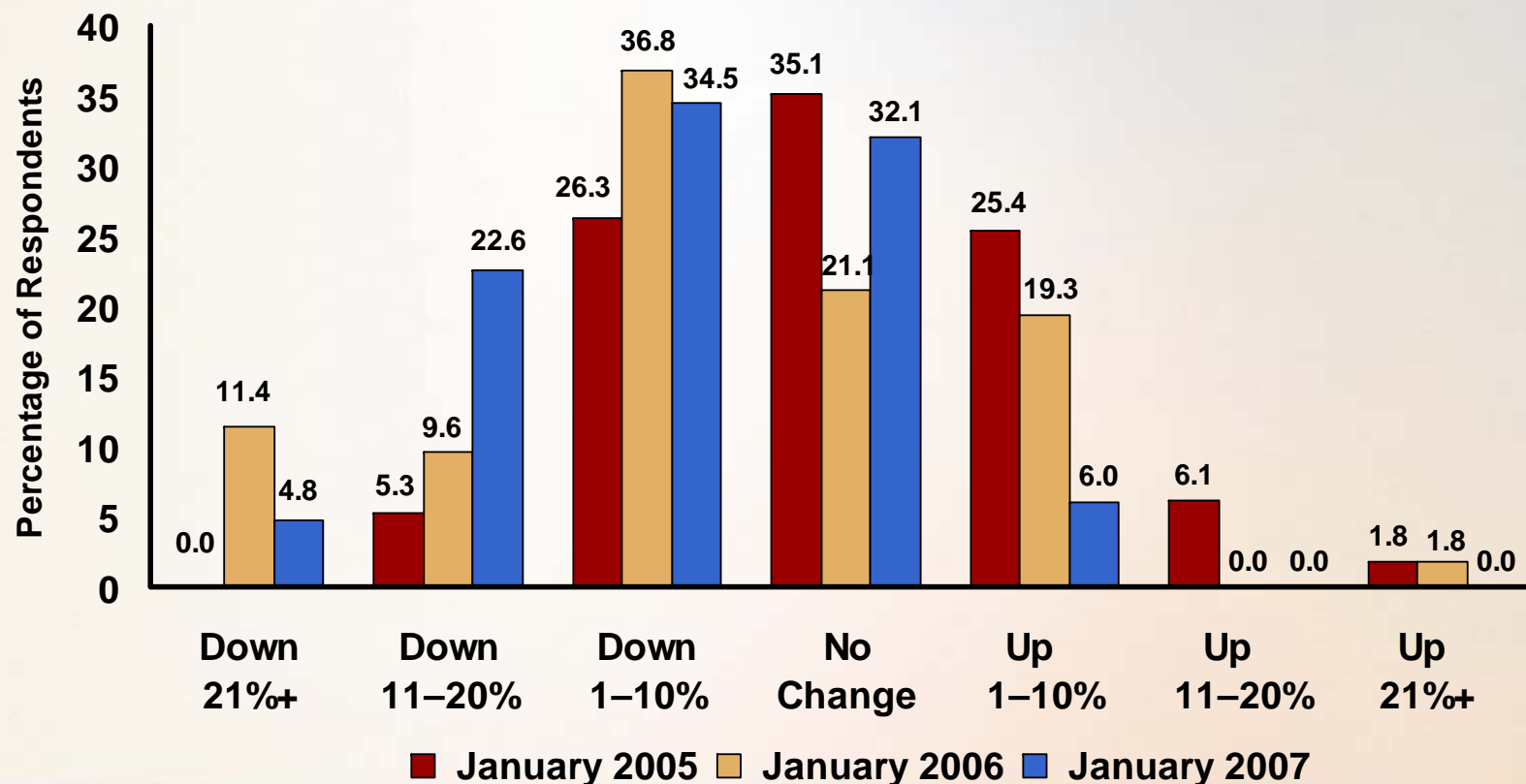
Based on data through 12/31/2006 for the states where NCCI provides ratemaking services

Policy Year

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

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior



Source: Goldman Sachs Research, Insurance: Non-Life, Proprietary Survey (Exhibit 9, Workers' Compensation, Percentage of Respondents)

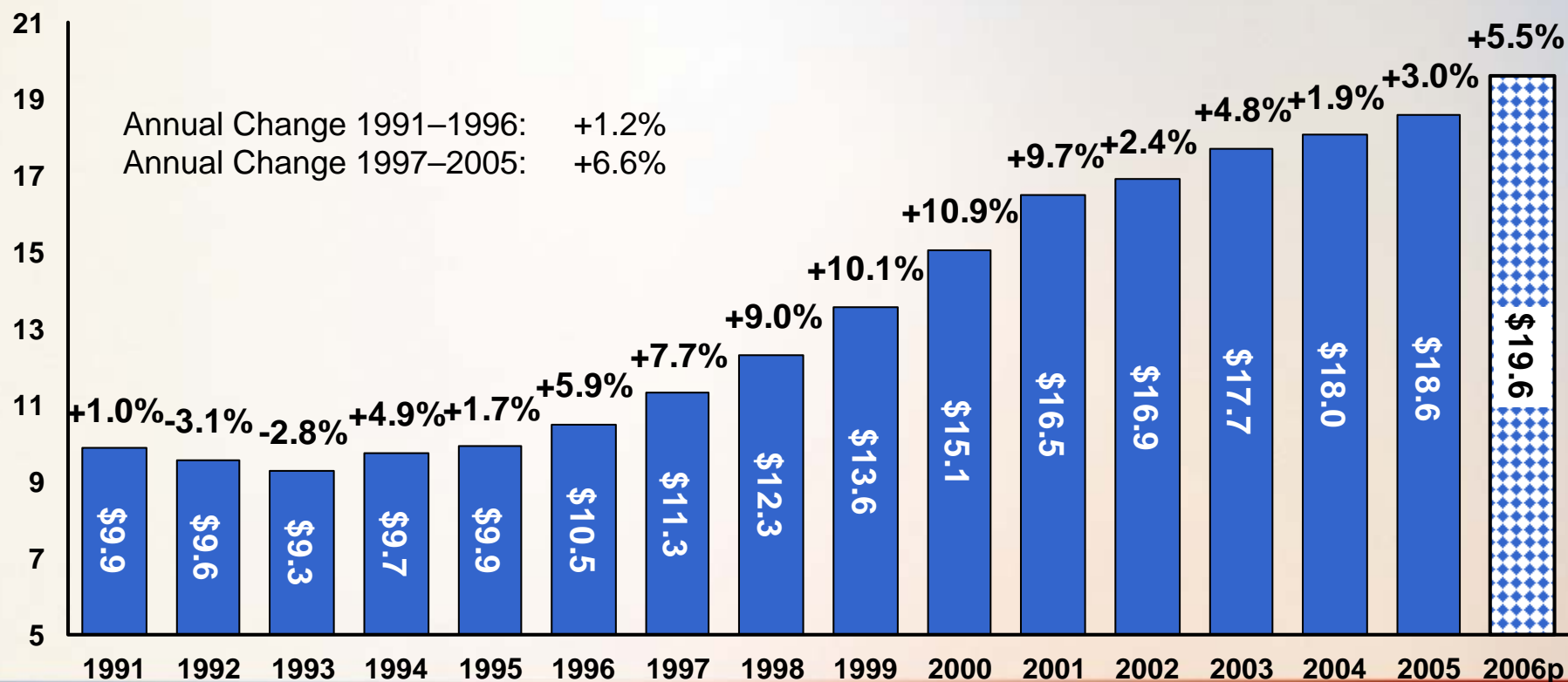
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Workers Compensation Loss Drivers

Workers Compensation Indemnity Claim Costs

Indemnity
Claim Cost (000s)

Lost-Time Claims

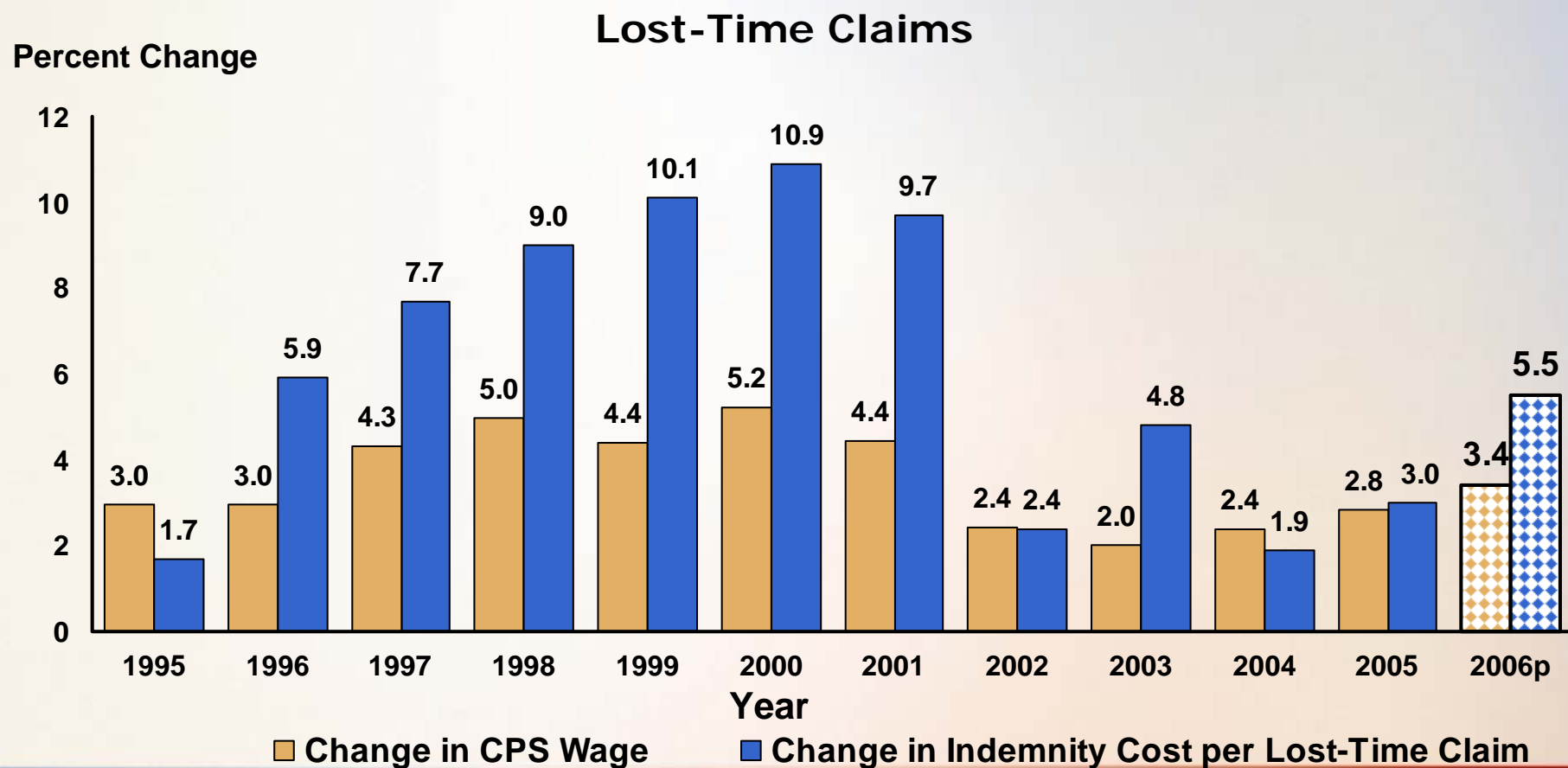


Accident Year

2006p: Preliminary based on data valued as of 12/31/2006
1991–2005: Based on data through 12/31/2005, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

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WC Indemnity Severity Outpacing Wage Inflation in 2006



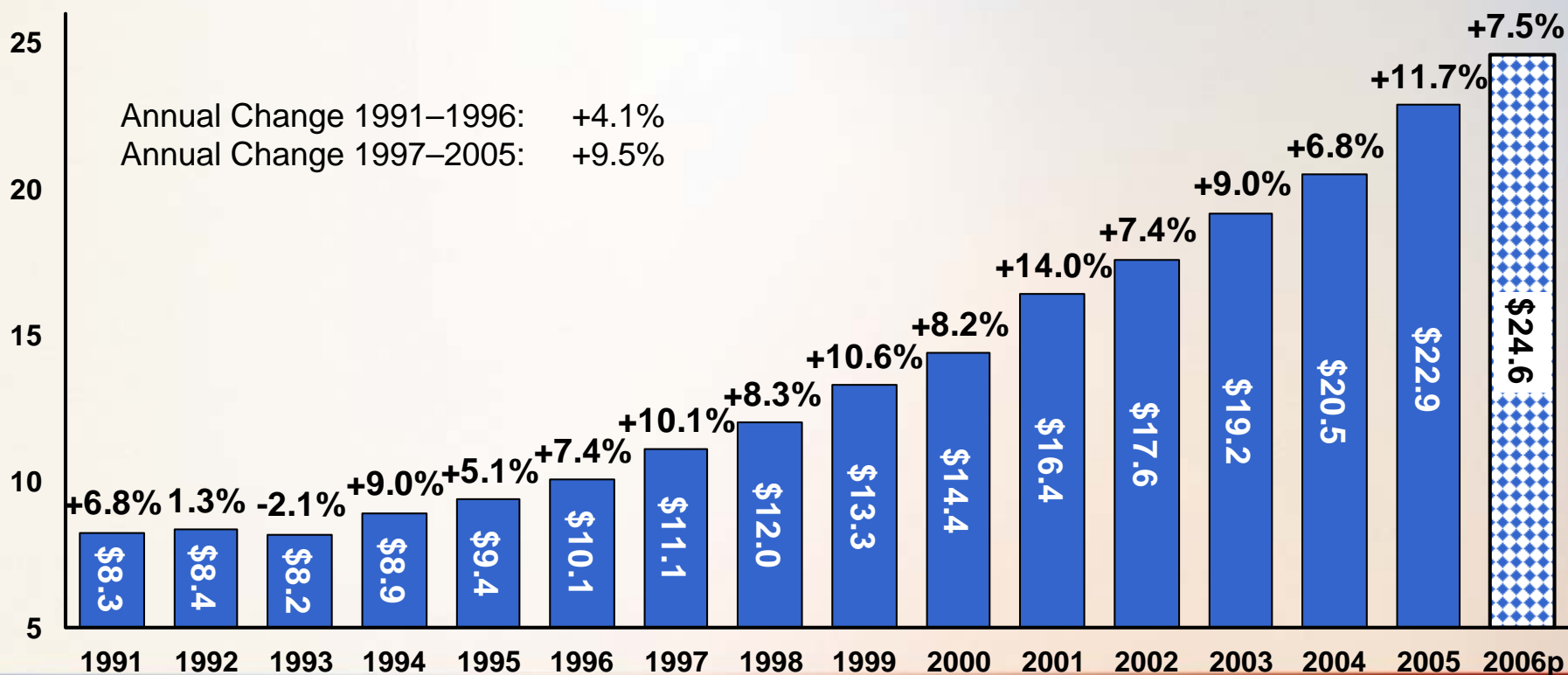
Indemnity severity 2006p: Preliminary based on data valued as of 12/31/2006
 Indemnity severity 1995–2005: Based on data through 12/31/2005, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: CPS Wage—All states (Current Population Survey), Economy.com;
 Accident year indemnity severity—NCCI states, NCCI

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WC Medical Claim Cost Trends— Growth Continues in 2006

Medical
Claim Cost (000s)

Lost-Time Claims



Accident Year

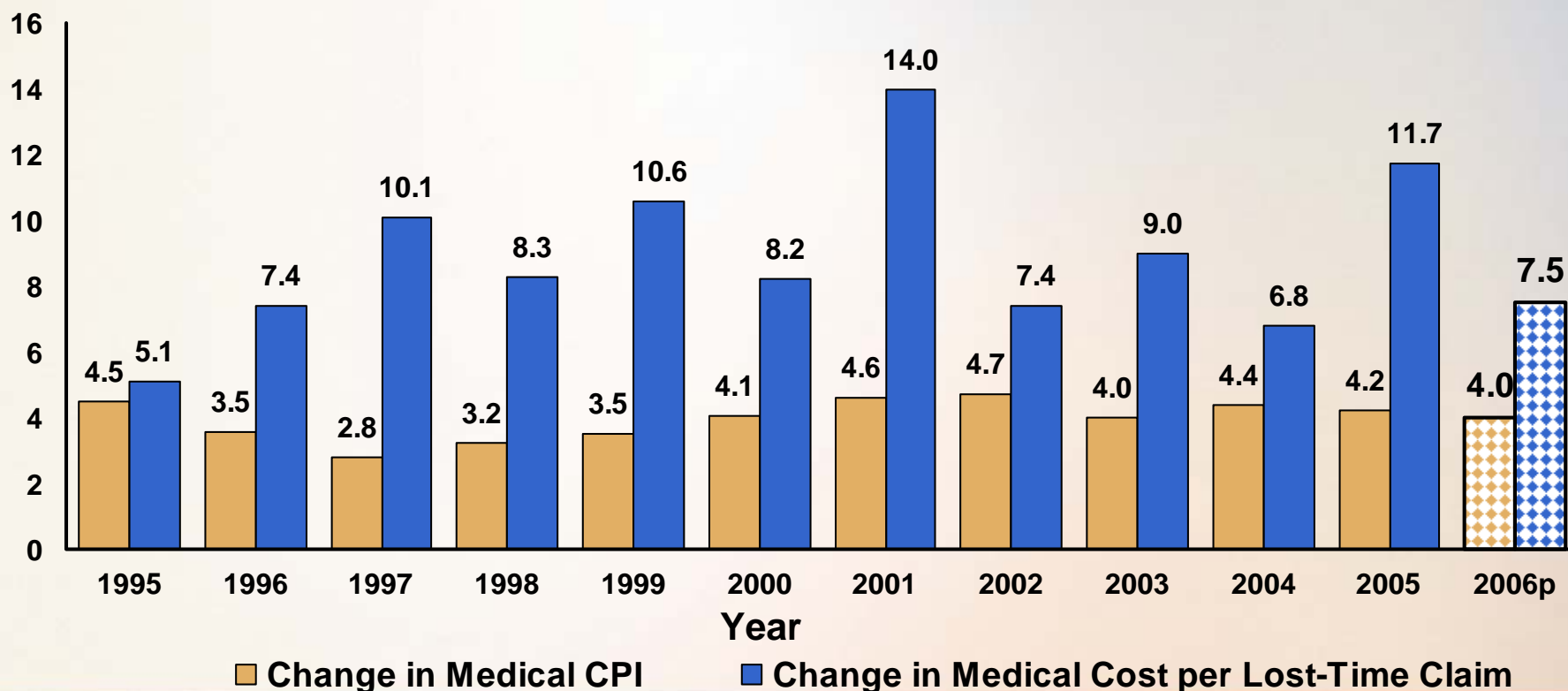
2006p: Preliminary based on data valued as of 12/31/2006
1991–2005: Based on data through 12/31/2005, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

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WC Medical Severity Still Growing Much Faster Than the Medical CPI

Lost-Time Claims

Percent Change



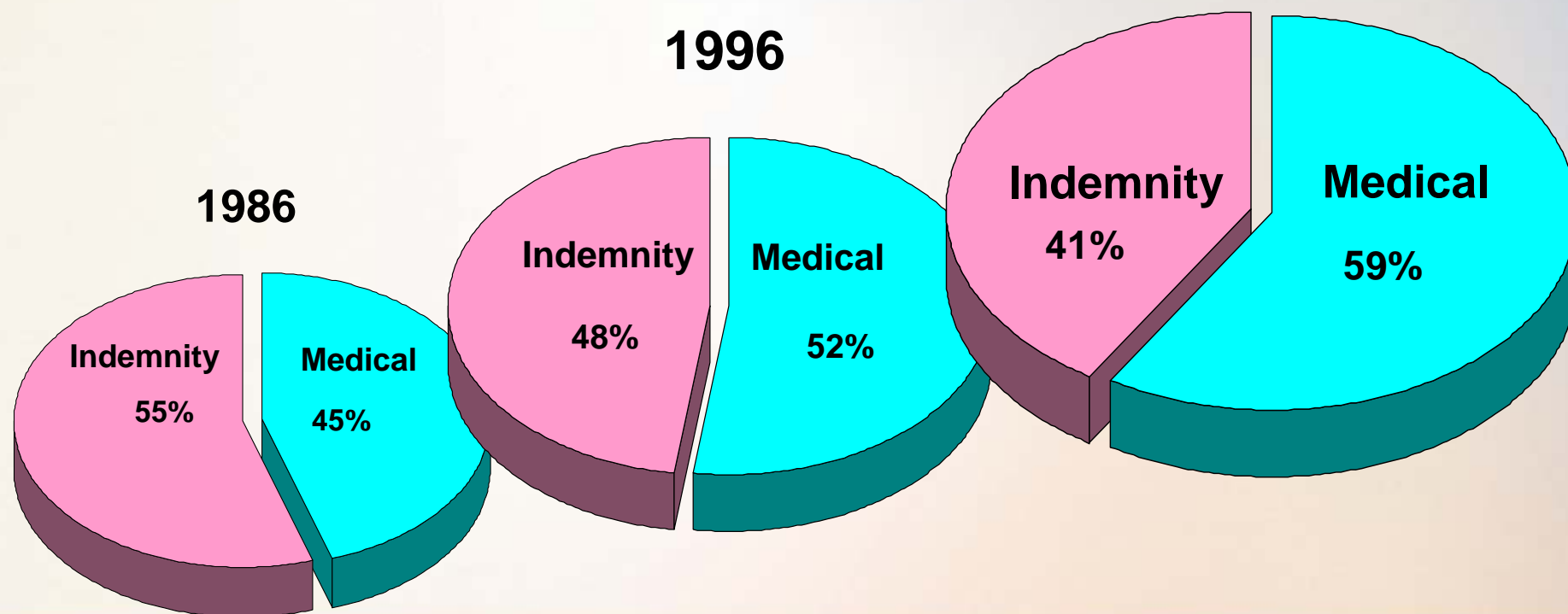
Medical severity 2006p: Preliminary based on data valued as of 12/31/2006
 Medical severity 1995–2005: Based on data through 12/31/2005, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

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Workers Compensation Medical Losses Are More Than Half of Total Losses

All Claims—NCCI States

2006p



2006p: Preliminary based on data valued as of 12/31/2006
1986, 1996: Based on data through 12/31/2005, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

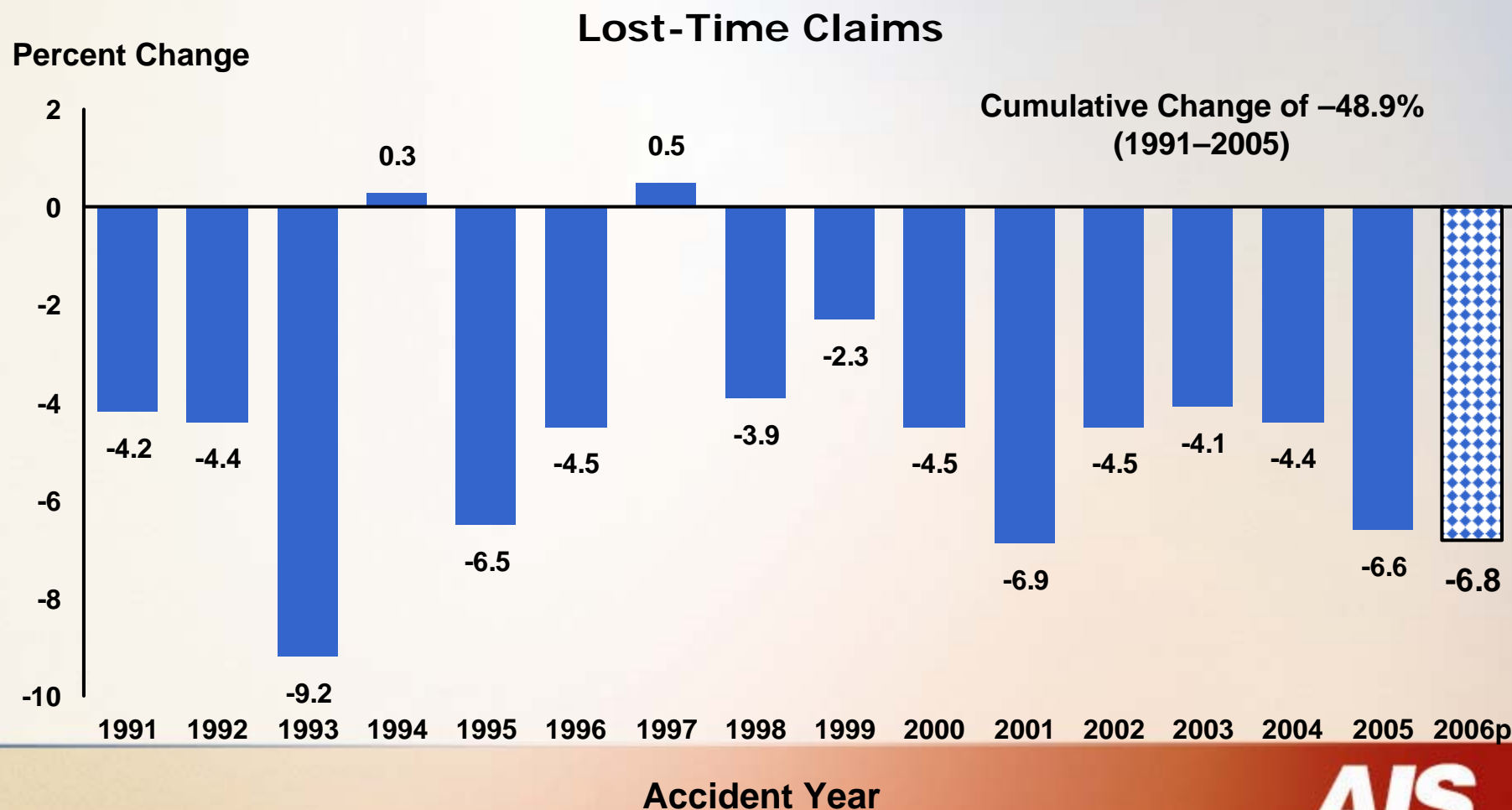
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Last Year's AIS Survey Results

What will be the change in frequency in 2006?

- A. Decline More Than 4% (12%)**
- B. Decline 1–4% (68%)**
- C. No Change (13%)**
- D. Increase 1–4% (5%)**
- E. Increase More Than 4% (2%)**

Workers Compensation Lost-Time Claim Frequency Continues to Decline



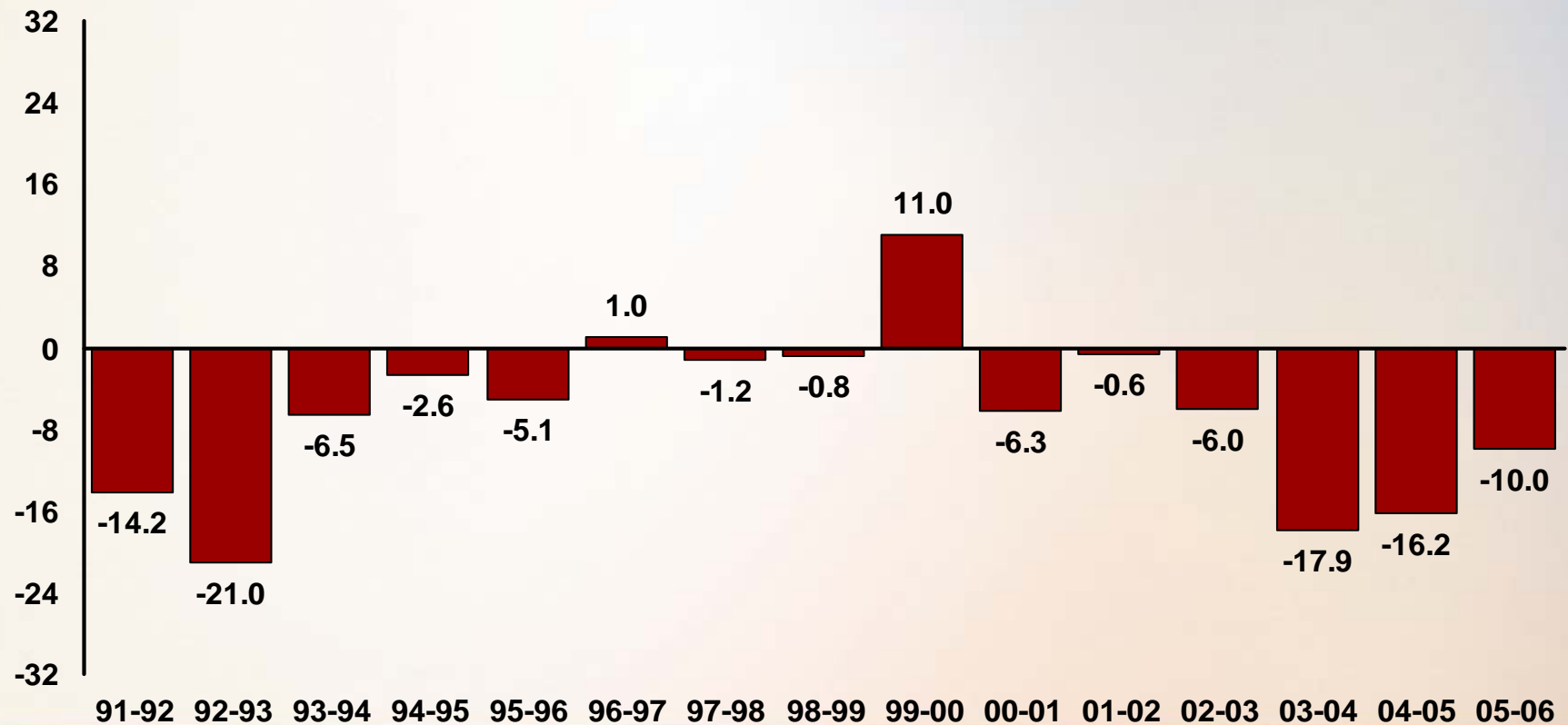
2006p: Preliminary based on data valued as of 12/31/2006
 1991-2005: Based on data through 12/31/2005, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

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

As of December 31, 2006

Percent Change



Data includes State Compensation Insurance Fund

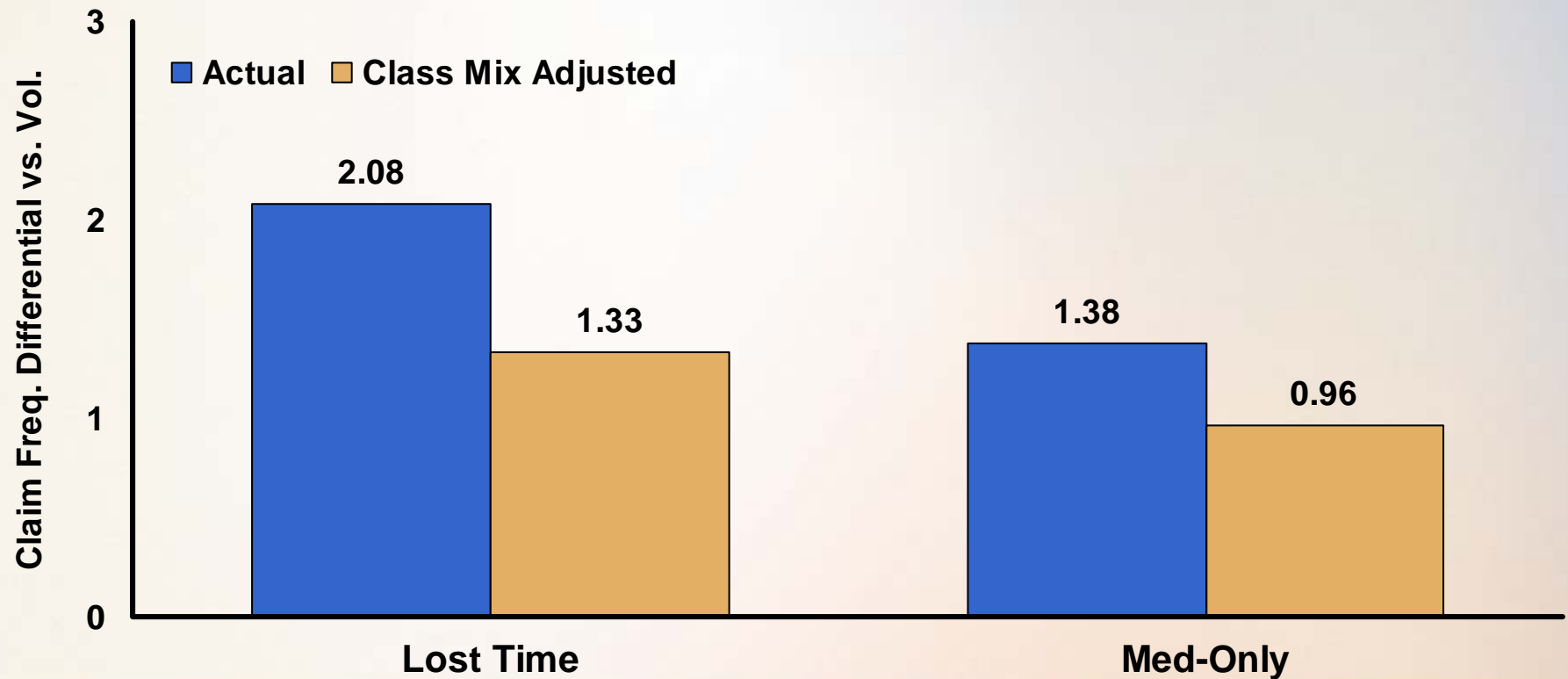
Accident Year

Source: WCIRBcalifornia®

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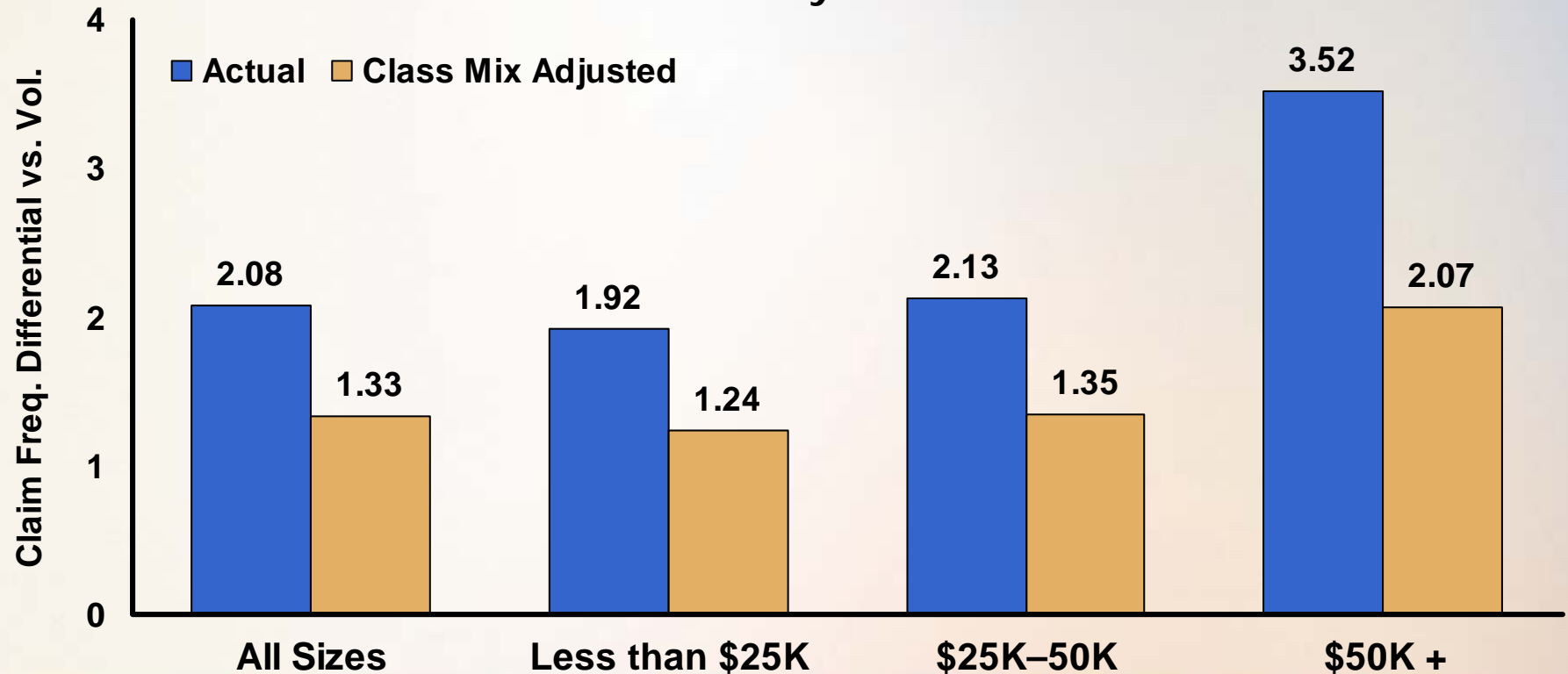
Claim Frequency: Residual Market vs. Voluntary Market

Frequency at First Report
Relative to Voluntary Market = 1.00



Residual Market Large Claim Frequency Is 3½ Times That of the Voluntary Market

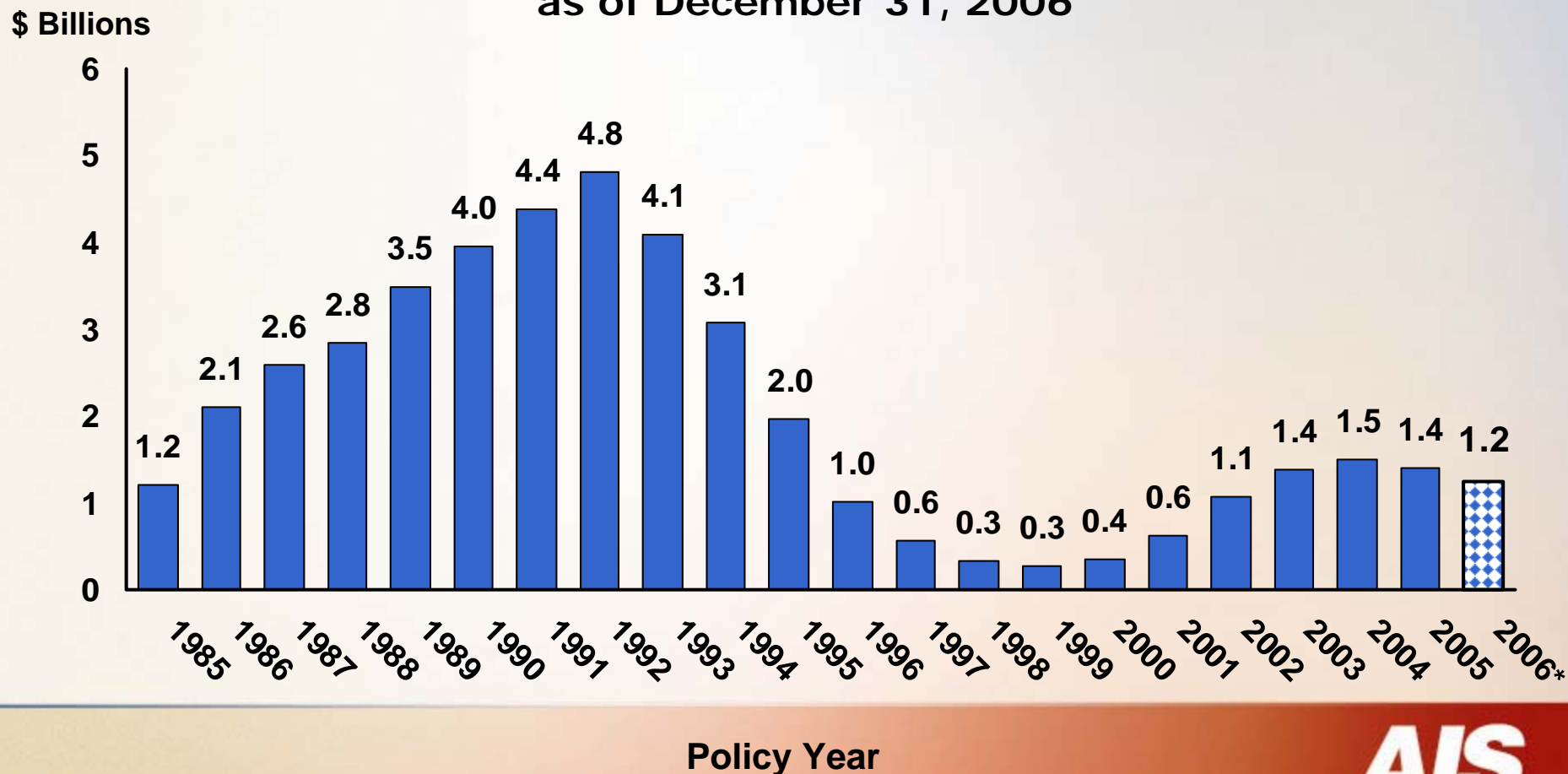
Lost-Time Frequency and Severity at First Report, Undeveloped
Relative to Voluntary Market = 1.00



Workers Compensation Residual Market

Workers Compensation Residual Market Premium Volume Declines

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2006



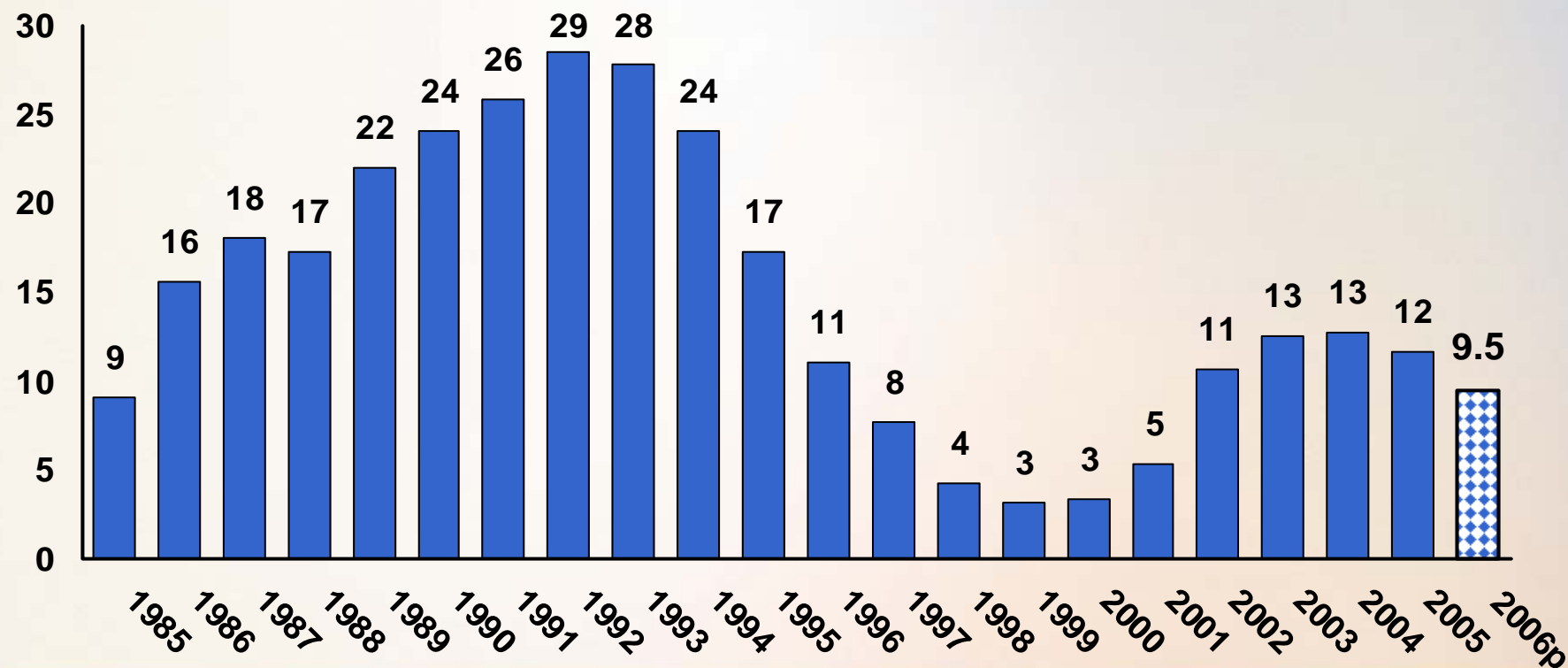
* Incomplete Policy Year Projected to Ultimate

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Workers Compensation Residual Market Shares Continue to Decline

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

Percent



Calendar Year

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, 2006

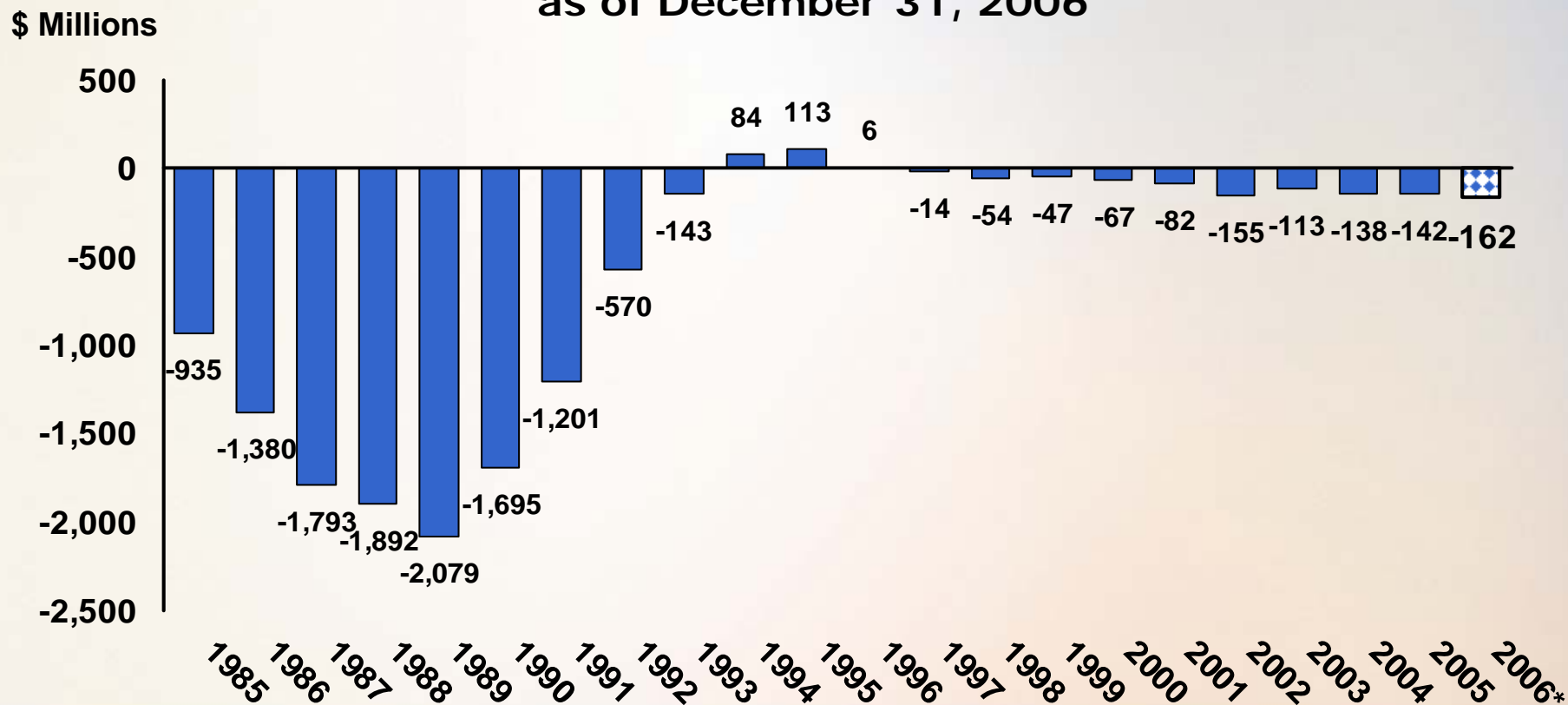


* Incomplete Policy Year Projected to Ultimate

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Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2006



* Incomplete Policy Year Projected to Ultimate

Residual Markets Are Depopulating in Most States

First Quarter 2007 vs. First Quarter 2006

Size of Risk	2006	2007	Change
\$ 0 – \$ 2,499	35,442	36,146	2%
\$ 2,500 – \$ 4,999	5,941	5,064	-15%
\$ 5,000 – \$ 9,999	4,028	3,332	-17%
\$ 10,000 – \$ 49,999	3,936	3,187	-19%
\$ 50,000 – \$ 99,999	515	379	-26%
\$ 100,000 and over	231	167	-28%
Total	50,093	48,275	-4%

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

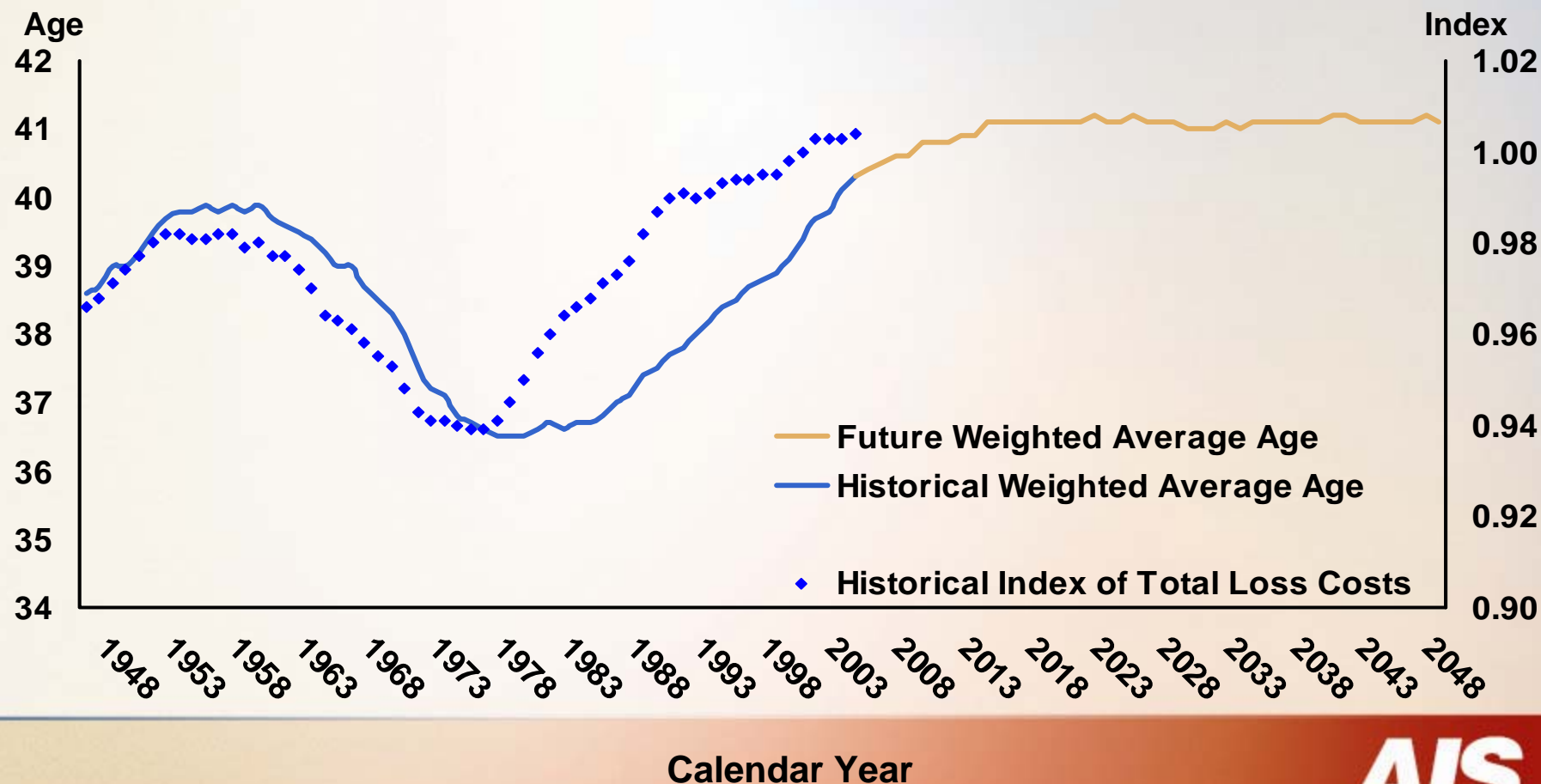


Current Topics of Interest

Baby Boomers Impact on the Workforce

Baby Boomers Are Not Expected to Continue to Materially Impact Loss Costs

2002 = 1.00, Age-Weighted Index for Total Loss Costs



Source: Weighted average age of the labor force and age-weighted index for total loss costs based on data from the Bureau of Labor Statistics, U.S. Census Bureau, Economy.com, and NCCI data

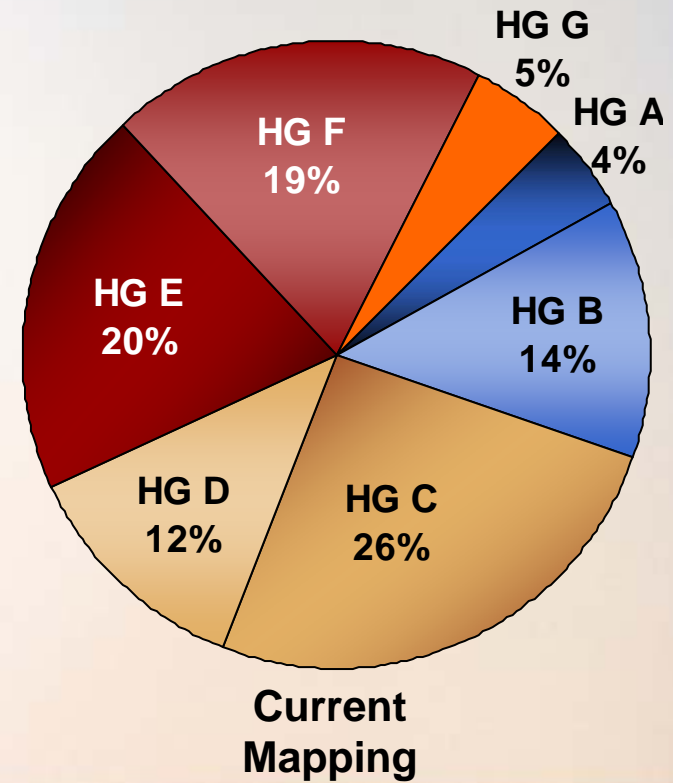
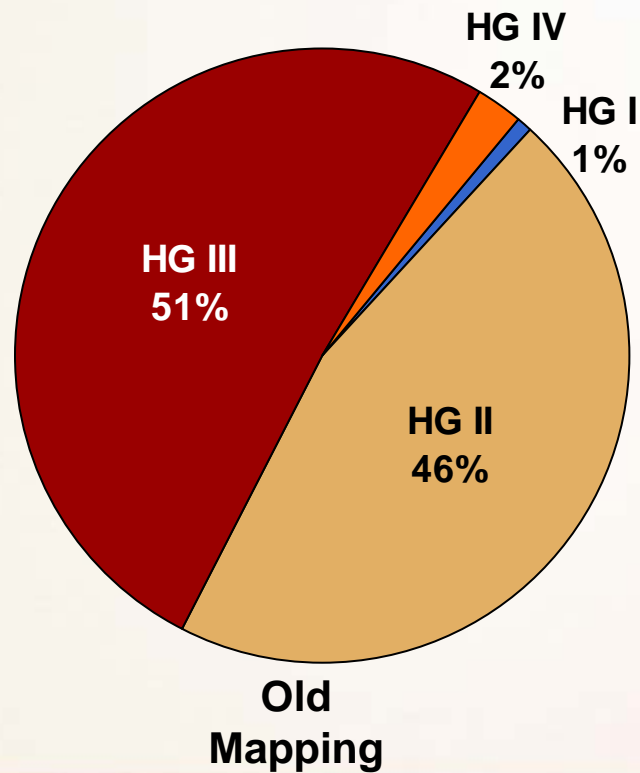
New Hazard Group Assignments

New Hazard Group Assignments

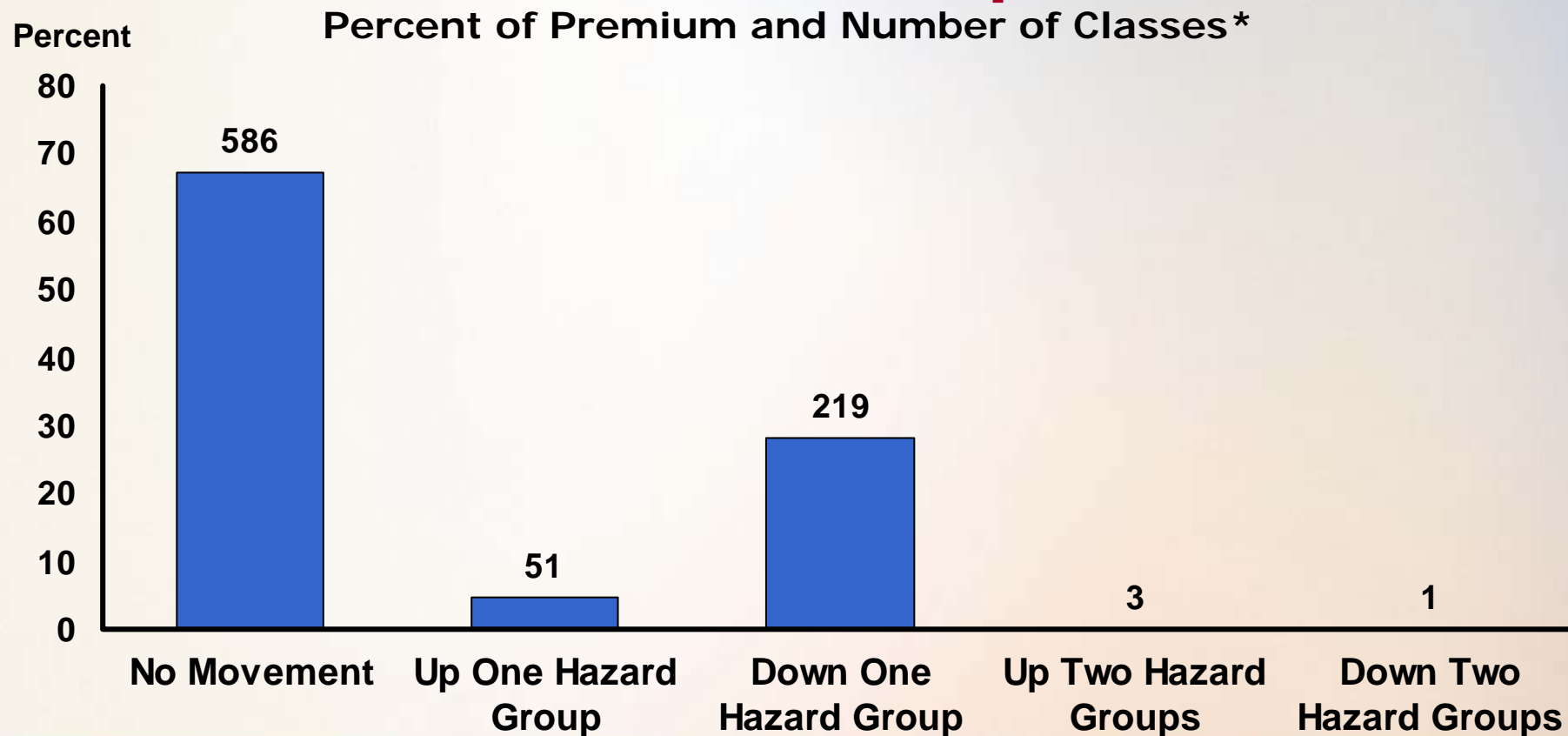
- ➡ New Seven Hazard Groups filed in July 2006 with Four Hazard Group option
- ➡ Approved in all NCCI-filed states by November 2006
- ➡ Excess Loss Factors increased
- ➡ More risks qualifying for lower Hazard Group
- ➡ Revenue neutral

Premium Distribution by Hazard Group Old vs. Current Mapping

Percent of Premium



Premium and Classes Movement From Old to Current Four Hazard Groups

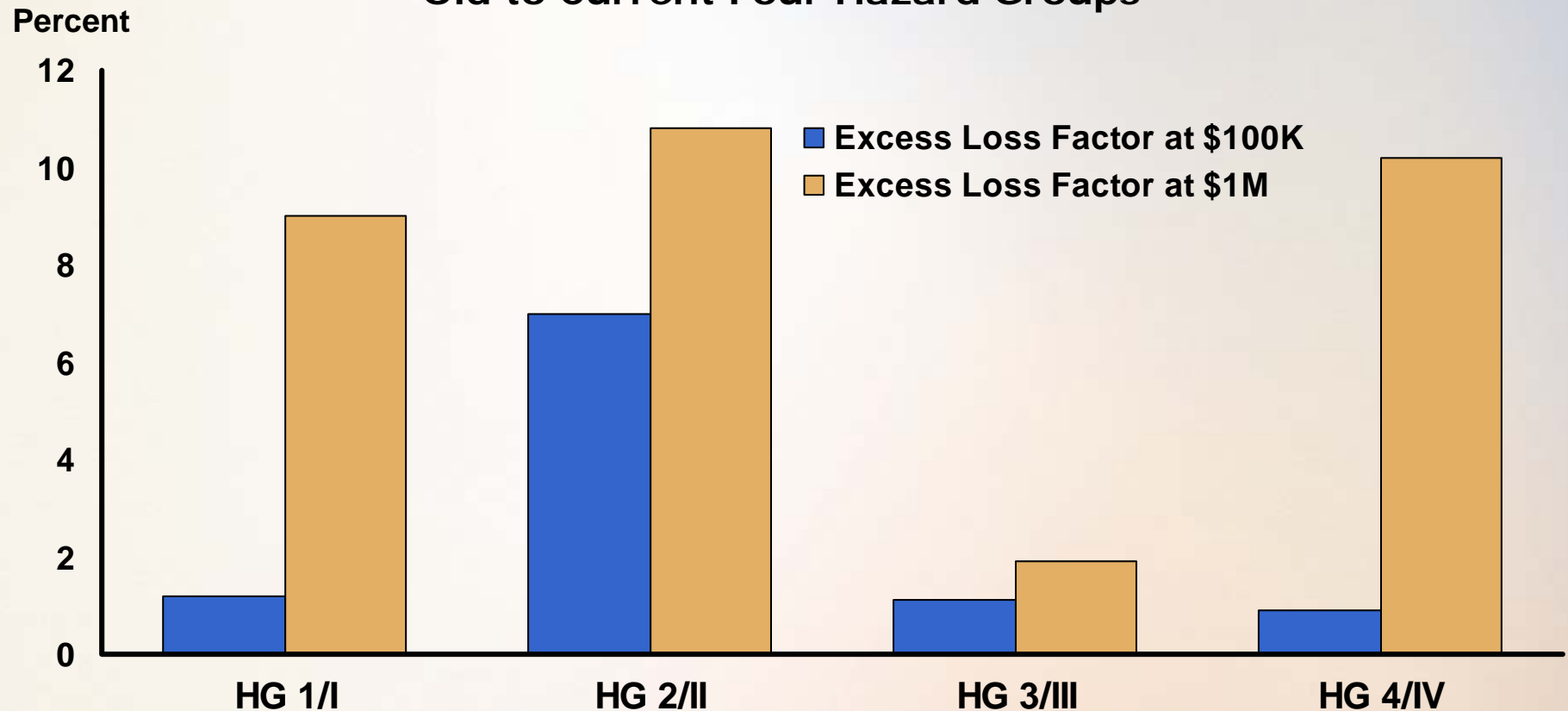


Movement

* Number above bar represents the number of classes in each category;
Bar height is percentage of premium in each category.

Impact of Remapping on Excess Loss Factors

Old to Current Four Hazard Groups



Terrorism Risk Insurance Extension Act (TRIEA)

When Does TRIEA Make a Difference?

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

Concluding Remarks

In Summary

Positives

- Underwriting results best in more than 30 years
- Frequency continues to decline
- Frequency declines lessening impact of severity increases
- Strongest reserve position in over two decades
- Residual Market depopulation continues

Negatives

- Low investment returns continue to put pressure on underwriting results
- Medical costs still well above inflation
- Uncertain political fallout for industry
- Underwriting cycle
- TRIEA renewal uncertain

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**