



IRMI[®]

Workshop V

WORKERS COMPENSATION OUTLOOK

Presented by

**Helen J. Westervelt
President
Regulatory Services,
NCCI, Inc.**

Thursday, November 11, 8:30–11:15 a.m.

Workshop V

UNDERWRITING THE FUTURE OF CONSTRUCTION



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Helen J. Westervelt
President, Regulatory Services
NCCI, Inc.

Ms. Westervelt is one of the presenters for Workshop V, "Workers Compensation Strategies and Outlook," on Thursday. She is president of the Regulatory Services Division of NCCI Holdings, Inc., in Hoboken, New Jersey. Her unit is responsible for developing companywide strategies to secure timely approvals of filing requests and workers compensation pricing programs in order to achieve corporate goals relating to loss costs adequacy, cost containment, residual market operating loss, workers compensation insurance plan filings, and regulatory customer satisfaction.

She is responsible for the state relations department, residual market division, national policy development, regulatory business development, and underwriting operations. Ms. Westervelt has worked for NCCI since 1981, holding a variety of positions with the Actuarial, Corporate Communications, Residual Market, and Regulatory Divisions.

Ms. Westervelt is a graduate of Caldwell College, where she earned undergraduate degrees in mathematics and English.

Notes

This file is set up for duplexed printing. Therefore, there are pages that are intentionally left blank. If you print this file, we suggest that you set your printer to duplex.

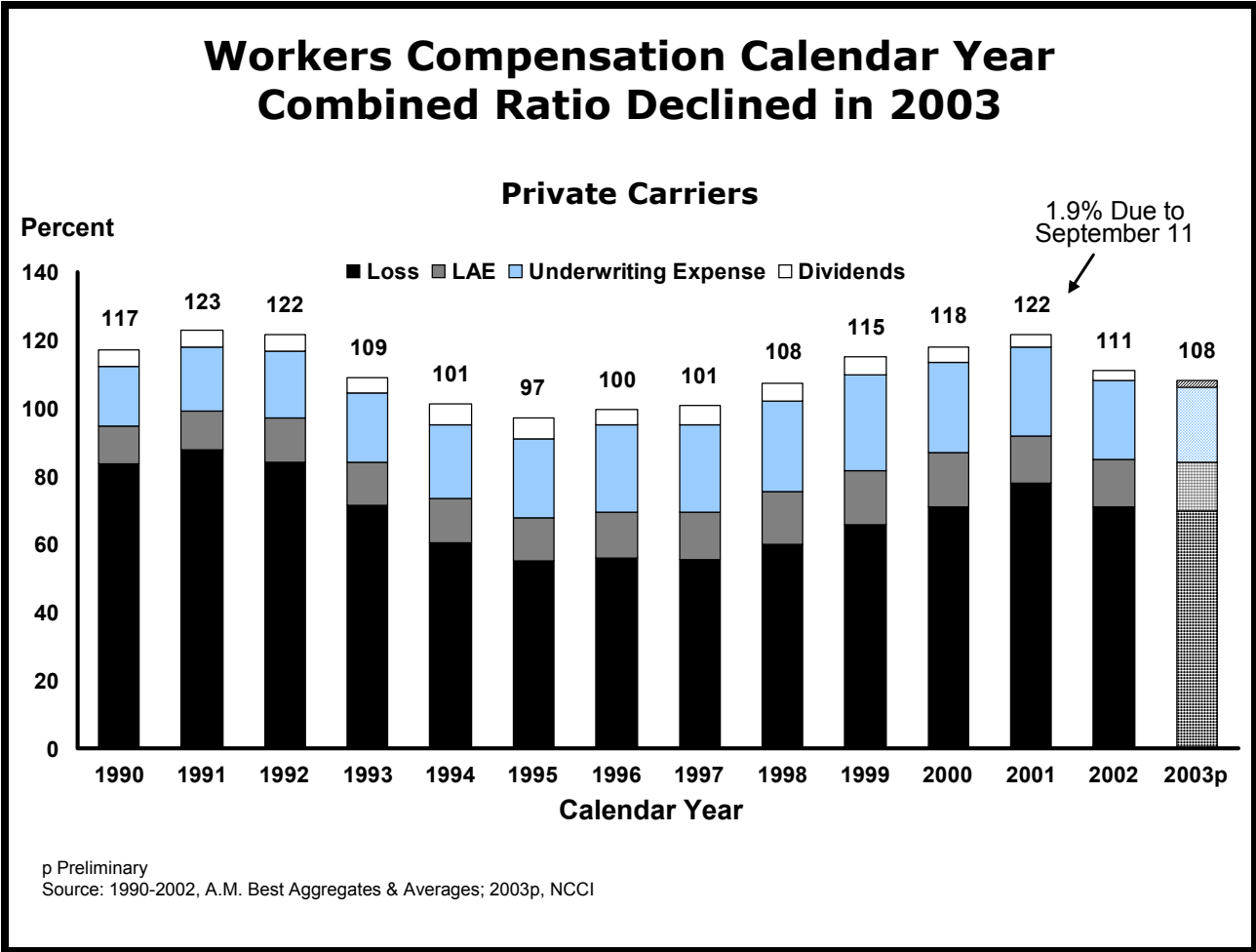
WORKERS COMPENSATION OUTLOOK

*Helen J. Westervelt
Regulatory Services, NCCI, Inc.*

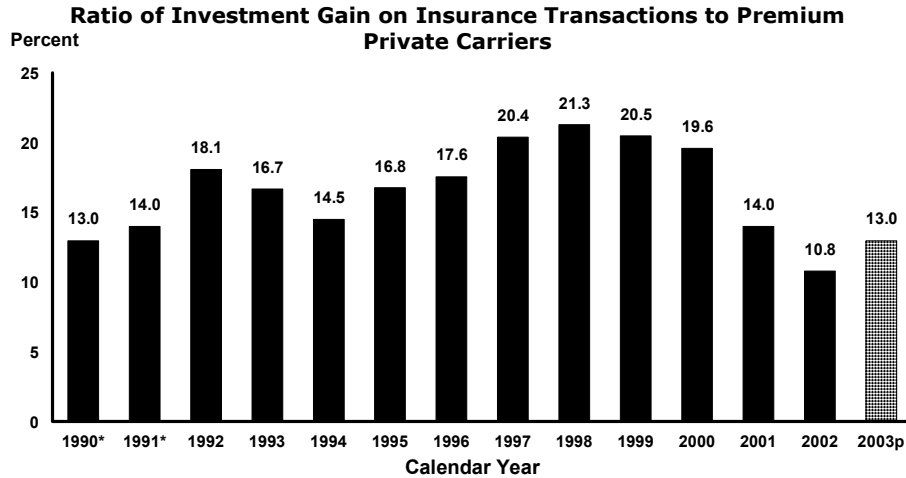
Overview of Presentation

- Workers Compensation Results
- Residual Market Conditions
- Accident Year Results and Reserve Estimates
- Premium Drivers
- Loss Drivers
- TRIA Impacts

Workers Compensation Results

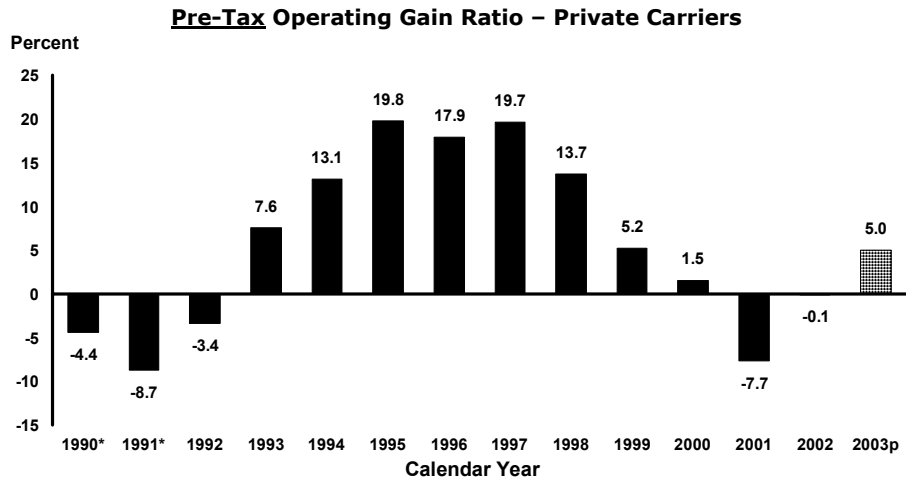


Low Workers Compensation Investment Returns Continued in 2003



p Preliminary
 * Adjusted to include realized capital gains to be consistent with 1992 and after
 Source: 1990-2002, A.M. Best Aggregates & Averages; 2003p, NCCI
 Investment Gain on Insurance Transactions includes Investment Income, Realized Capital Gains, and Other Income

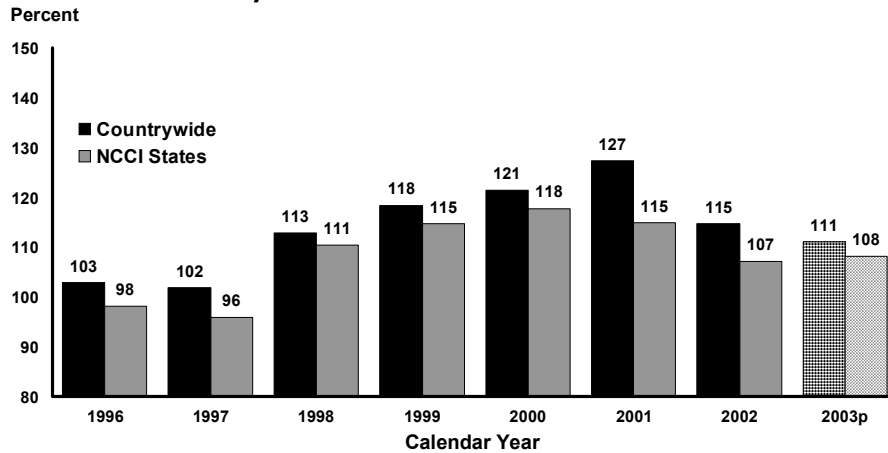
2003 Workers Compensation Results Improved Over 2002



p Preliminary
 * Adjusted to include realized capital gains to be consistent with 1992 and after
 Source: 1990-2002, A.M. Best Aggregates & Averages; 2003p, NCCI
 Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

Workers Compensation Calendar Year Direct Combined Ratios

Countrywide and NCCI States – Private Carriers

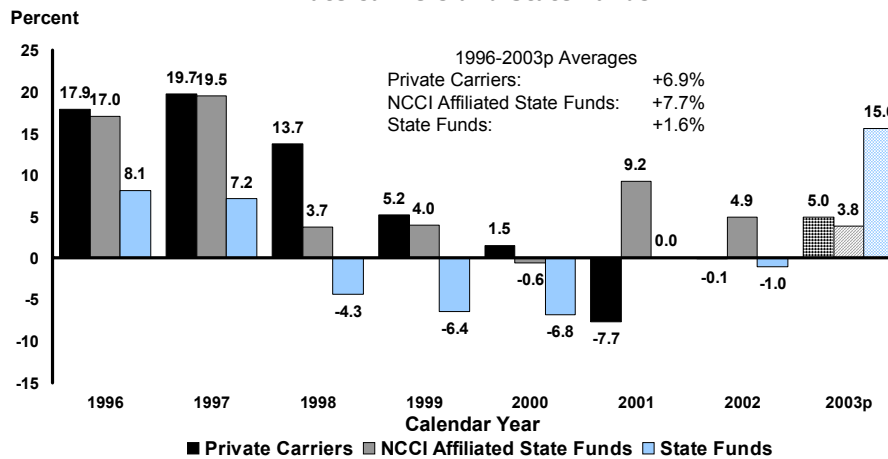


p Preliminary

Source: 1996-2002 Countrywide, A.M. Best Aggregates & Averages; 2003p, NCCI; 1996-2003p NCCI States, NCCI

Workers Compensation Pre-Tax Operating Gain Ratios

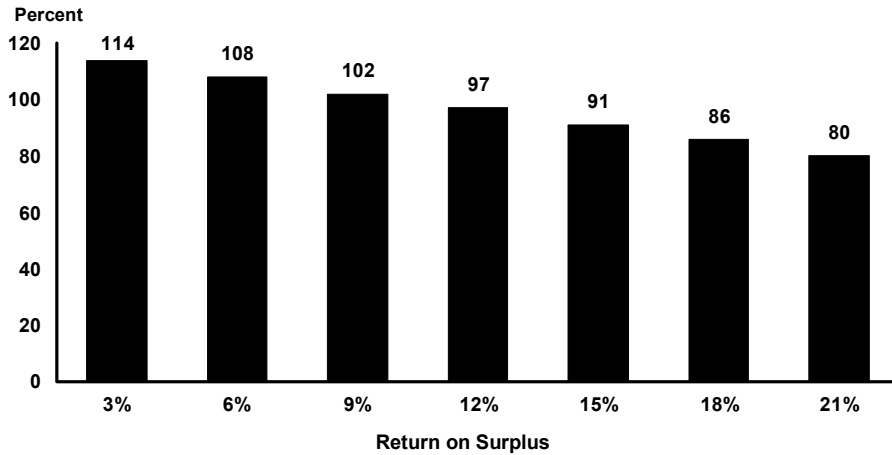
Private Carriers and State Funds



p Preliminary

Source: 1996-2002 Private Carriers, A.M. Best Aggregates & Averages; 2003p, NCCI
1996-2003p State Funds: AZ, CA, CO, HI, ID, KY, LA, ME, MN, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

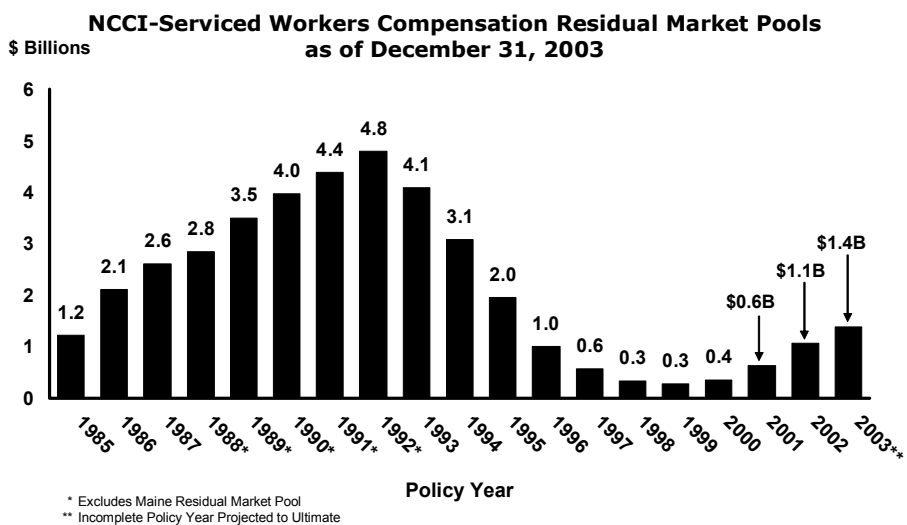
Workers Compensation Combined Ratios for Given Returns on Surplus



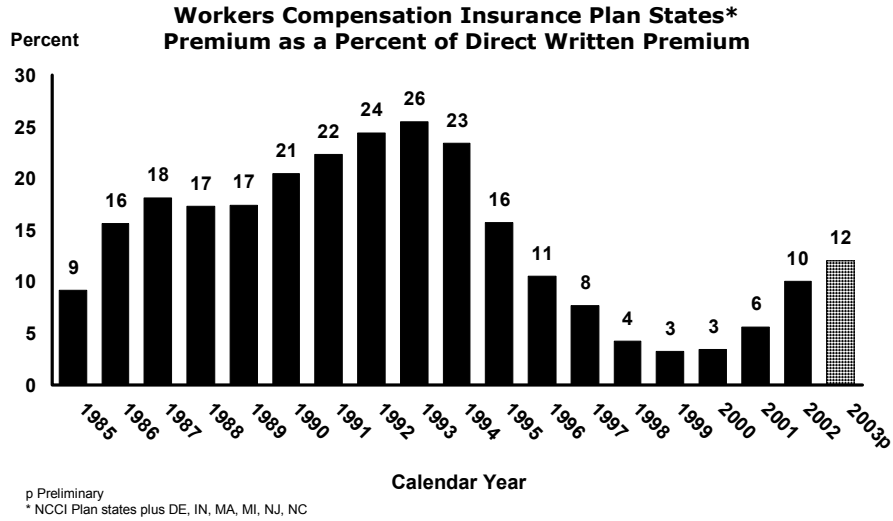
Assumptions: 4.2% Pre-Tax Investment Yield; 3.2% After-Tax Investment Yield
WC Surplus to WC Premium Ratio = 1.2; WC Reserves to WC Premium Ratio = 2.7

Workers Compensation Residual Market

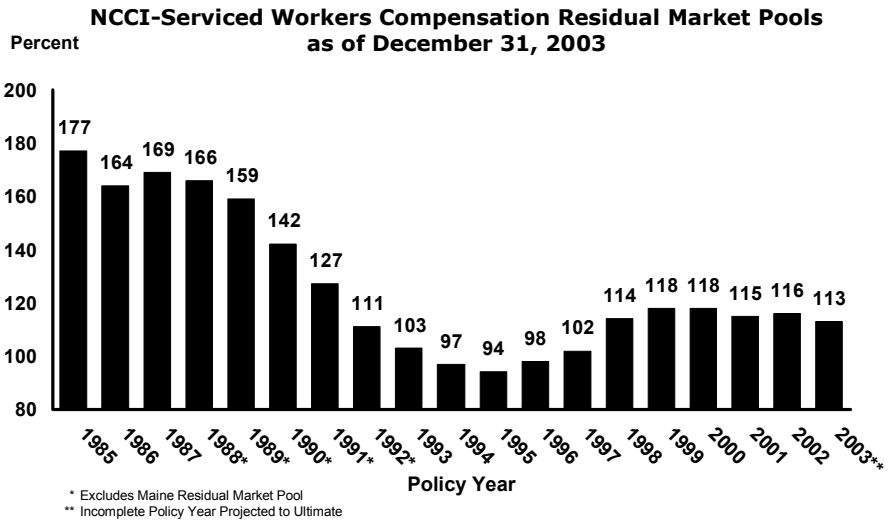
Workers Compensation Residual Market Premium Volume



Workers Compensation Residual Market Shares Continue to Rise



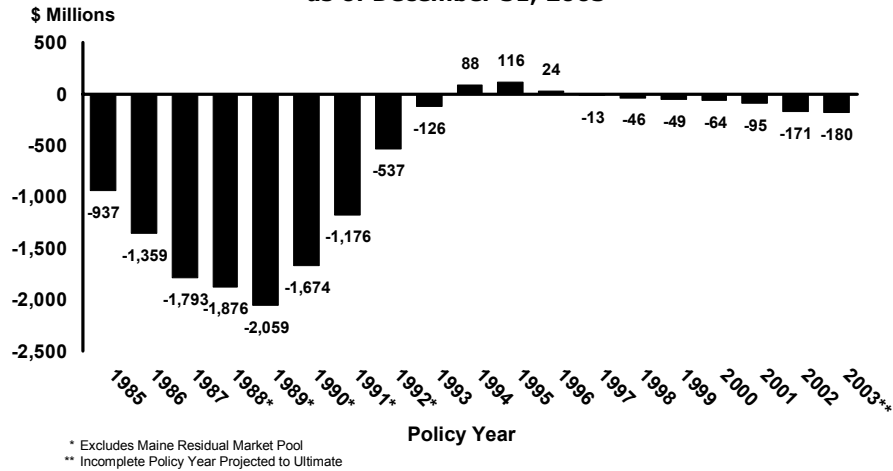
Workers Compensation Residual Market Combined Ratios



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WC Residual Market Underwriting Results Continue to Decline

**NCCI-Serviced Workers Compensation Residual Market Pools
as of December 31, 2003**



Residual Market Plan Policy Growth

First Quarter 2004 vs. First Quarter 2003

Size of Risk	# of Risks		Change
	2003	2004	
\$ 0 - \$ 2,499	30,484	31,892	5%
\$ 2,500 - \$ 4,999	5,690	5,652	-1%
\$ 5,000 - \$ 9,999	3,958	3,838	-3%
\$ 10,000 - \$49,999	4,431	4,183	-6%
\$ 50,000 - \$99,999	673	566	-16%
\$ 100,000 and over	434	368	-15%
Total	45,670	46,499	2%

Total number of assigned risk policies in force
Includes residual market policies for all NCCI Plan Administered states, including IN
Does not include all Pool states such as NJ, DE, and NC

Residual Market In Better Shape for the Future

More Pricing Programs:

- Differential/Surcharge
- ARAP/SARAP
- Removal/Reduction of Premium Discount
- Two point or greater underwriting contingency provision

Improved Controls:

- Paid Loss Ratio Incentive Program
- Heightened carrier audit process

Depopulation Incentives:

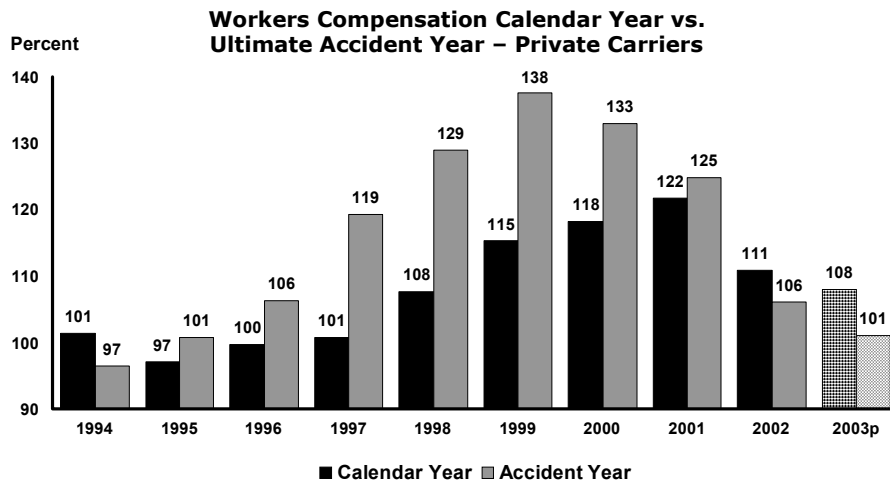
- Take-Out Credit Program

Improved Efficiency:

- Servicing carrier bid process

Workers Compensation Accident Year Results And Reserve Estimates

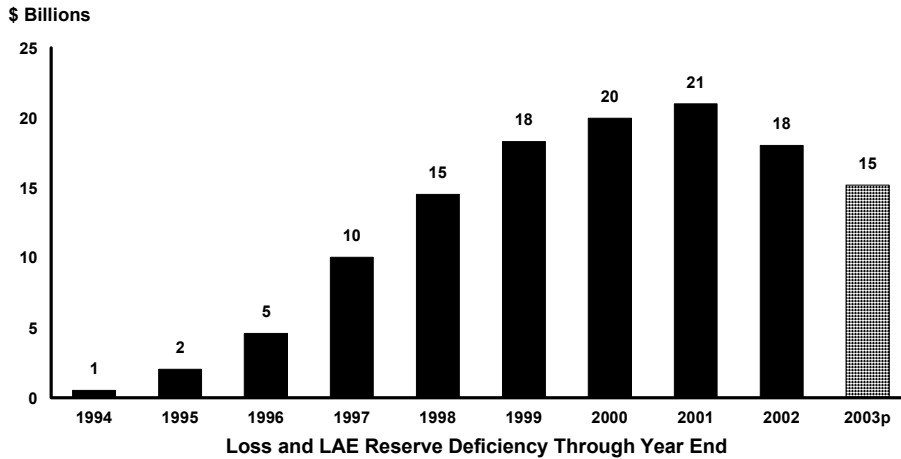
Accident Year 2003 Combined Ratio Continues to Improve



p Preliminary
 Accident Year data is evaluated as of 12/31/2003 and developed to ultimate
 Source: Calendar Years 1994-2002, A.M. Best Aggregates & Averages; Calendar Year 2003p and Accident Years 1994-2003p, NCCI
 Includes dividends to policyholders

Workers Compensation Reserve Deficiencies Continue to Decline

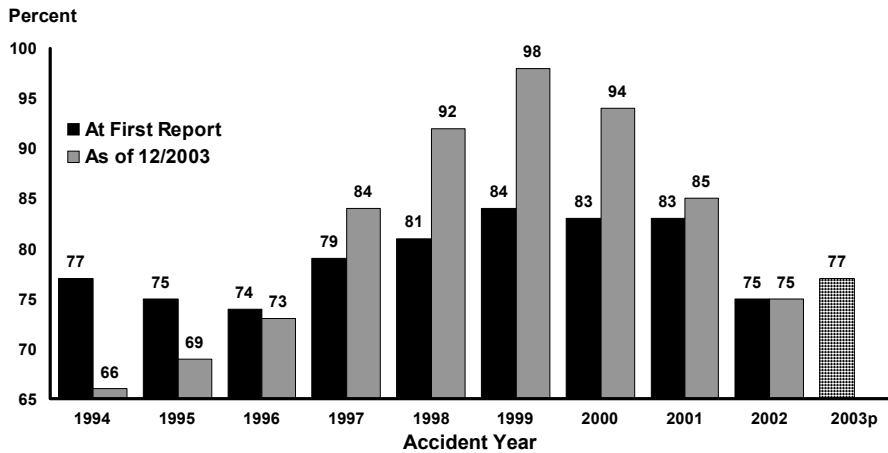
Private Carriers



p Preliminary
Difference between NCCI estimated ultimate losses and LAE as of 12/31/2003 and reported in Schedule P

Workers Compensation Accident Year Loss & LAE Ratios Developed Upward

Private Carriers

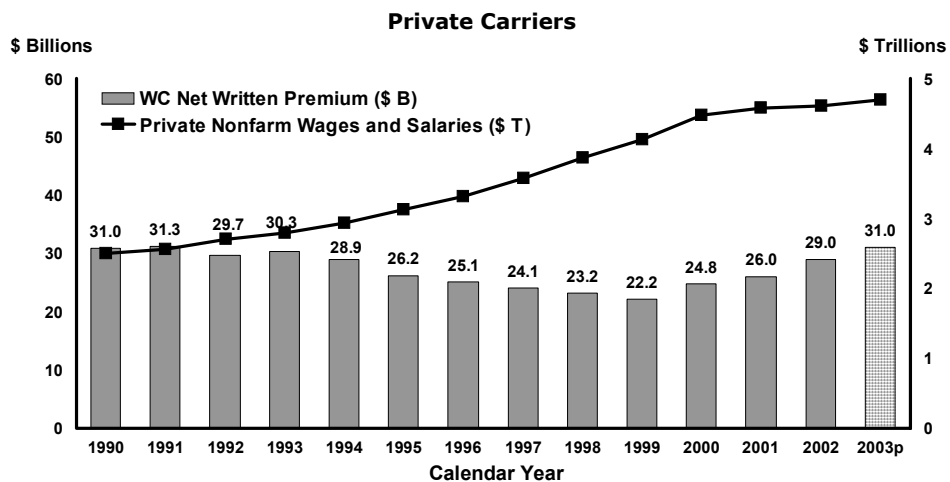


p Preliminary
Reported Loss and LAE reserves from Schedule P
Source: 1994-2003p, NAIC Annual Statement insurance data

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Workers Compensation Premium Drivers

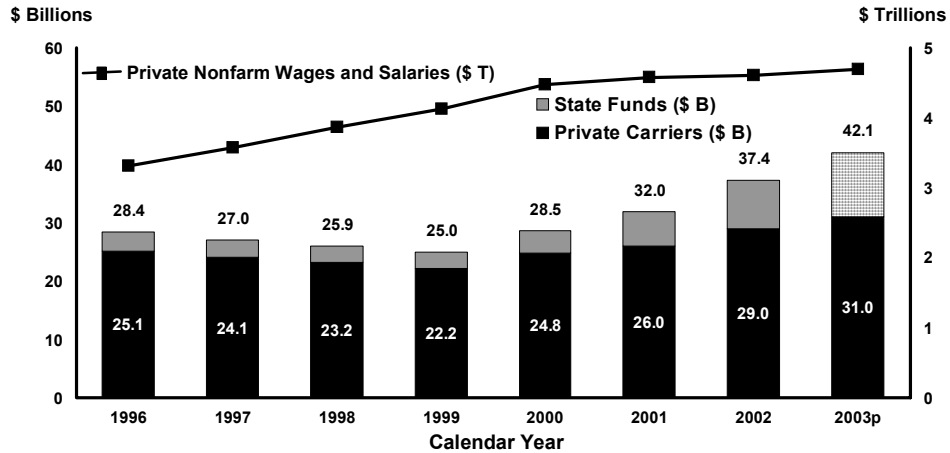
Workers Compensation Premium Volume A Continued Period of Growth



p Preliminary
Source: 1990-2002, A.M. Best Aggregates & Averages; 2003p, NCCI and Economy.com

Workers Compensation Premium Volume A Continued Period of Growth

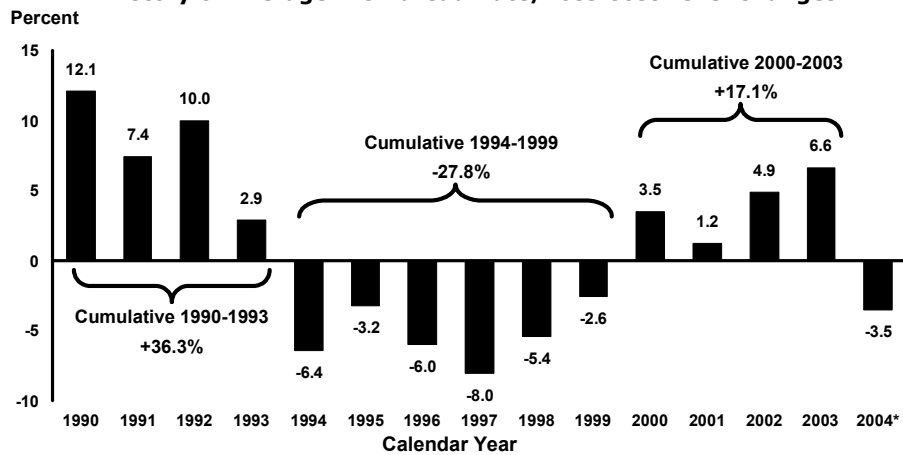
Private Carriers and State Funds



p Preliminary
 Source: A.M. Best Aggregates & Averages, Review/Preview; Economy.com
 1996-2003p State Funds: AZ, CA, CO, HI, ID, KY, LA, ME, MN, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Calendar Year 2004 Average Approved Bureau Rate/Loss Cost Decreased

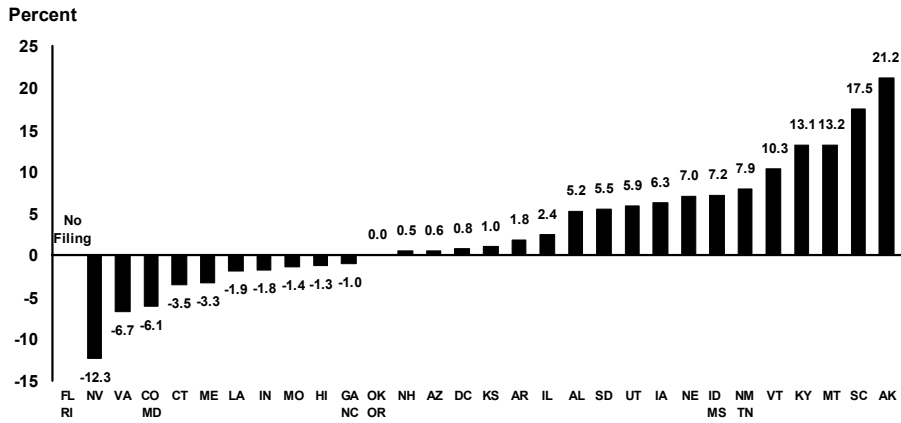
History of Average WC Bureau Rate/Loss Cost Level Changes



* States approved through 04/09/2004
 Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

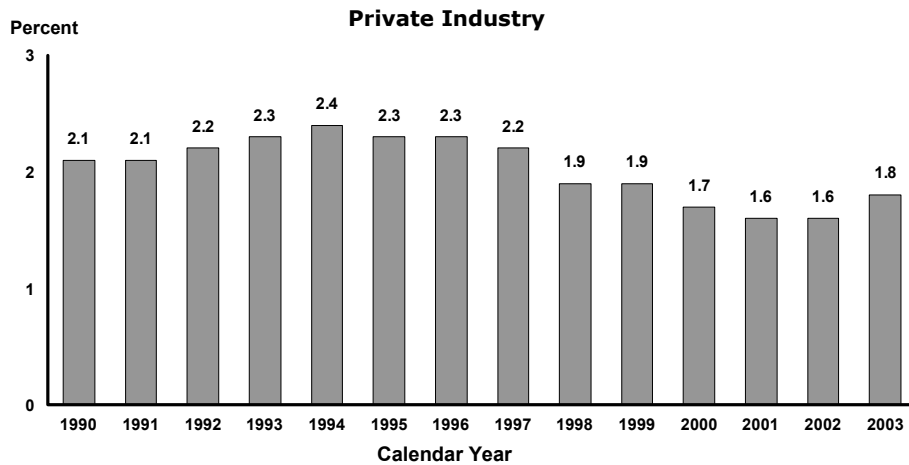
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Current NCCI Voluntary Market Approved Rate/Loss Cost Changes



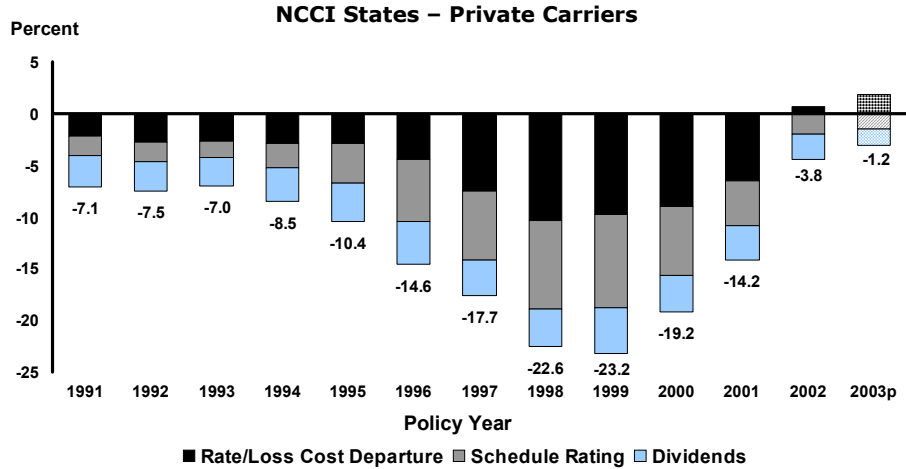
States approved through 04/09/2004

2003 WC Premium Expense as Percentage of Total Employee Compensation Increased



Source: U.S. Department of Commerce, Bureau of Labor Statistics

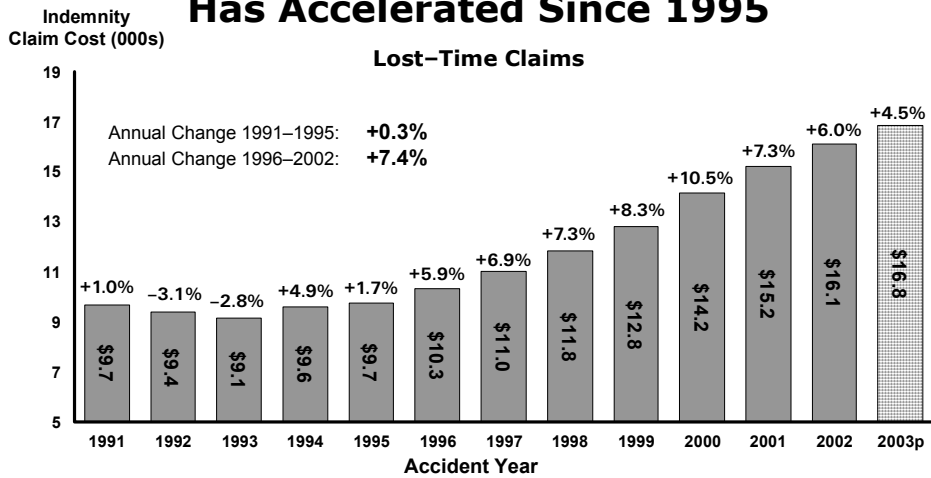
Impact of Discounting on Workers Compensation Premium



p Preliminary
 Dividend ratios are based on calendar year statistics
 Based on data through 12/31/2003 for the states where NCCI provides ratemaking services

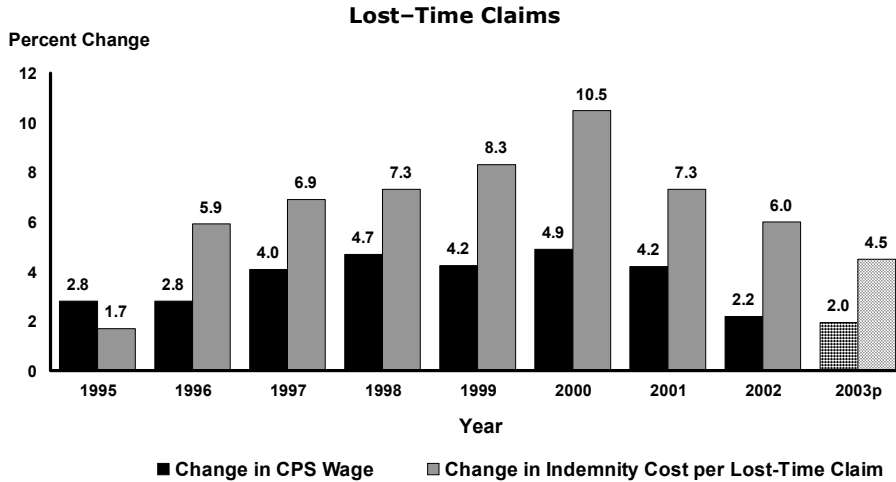
Workers Compensation Loss Drivers

The Rate of Change in Workers Compensation Indemnity Claim Costs Has Accelerated Since 1995



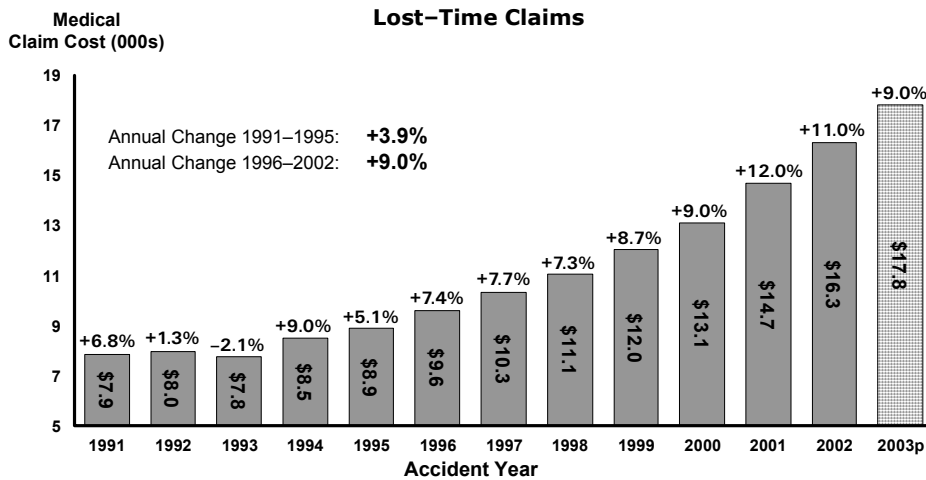
2003p: Preliminary based on data valued as of 12/31/2003
1991-2002: Based on data through 12/31/2002, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

Workers Compensation Indemnity Severity Is Outpacing Wage Inflation



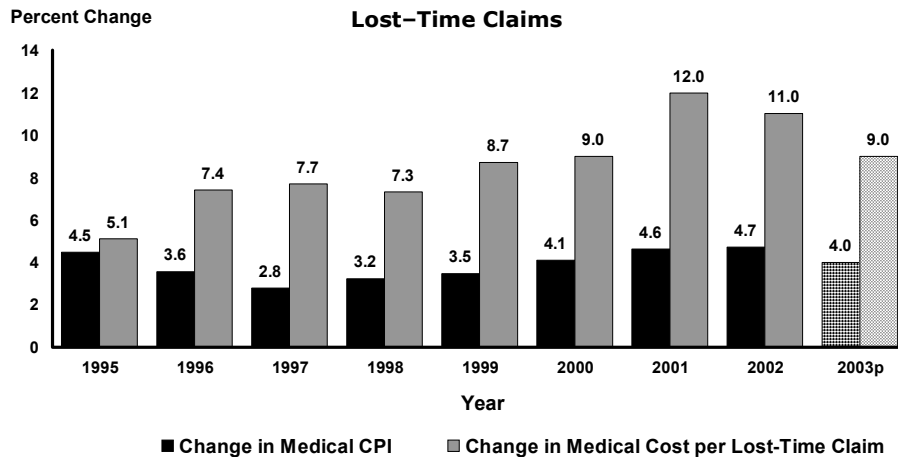
Indemnity severity 2003p: Preliminary based on data valued as of 12/31/2003
 Indemnity severity 1995-2002: Based on data through 12/31/2002, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Calendar Year Current Population Survey, Economy.com; Accident Year Indemnity Severity, NCCI

Workers Compensation Medical Claim Cost Trends Continue to Climb



2003p: Preliminary based on data valued as of 12/31/2003
 1991-2002: Based on data through 12/31/2002, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

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

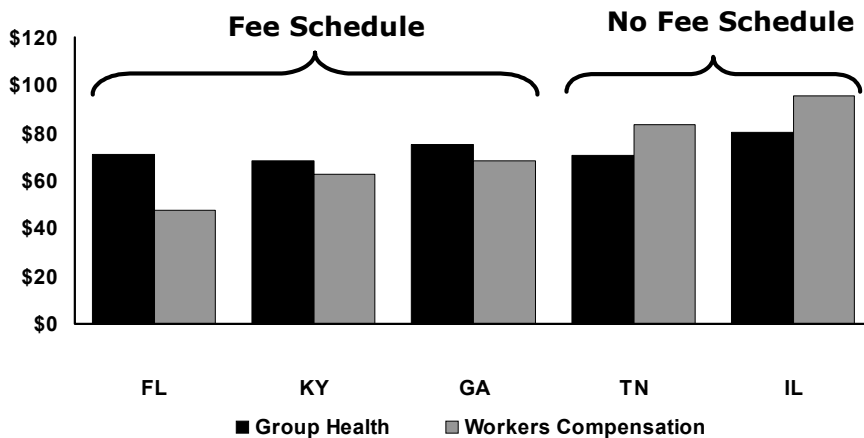


Medical severity 2003p: Preliminary based on data valued as of 12/31/2003
 Medical severity 1995-2002: Based on data through 12/31/2002, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Calendar Year Current Population Survey, Economy.com; Accident Year Medical Severity, NCCI

Workers Compensation vs. Group Health Medical Costs

- Costs are a combination of price, utilization, and mix
 - Price: Cost per service
 - Utilization: Number of services
 - Mix: Service provided (X-Ray vs. MRI)
- First phase addresses price
- Subsequent phases address utilization and mix

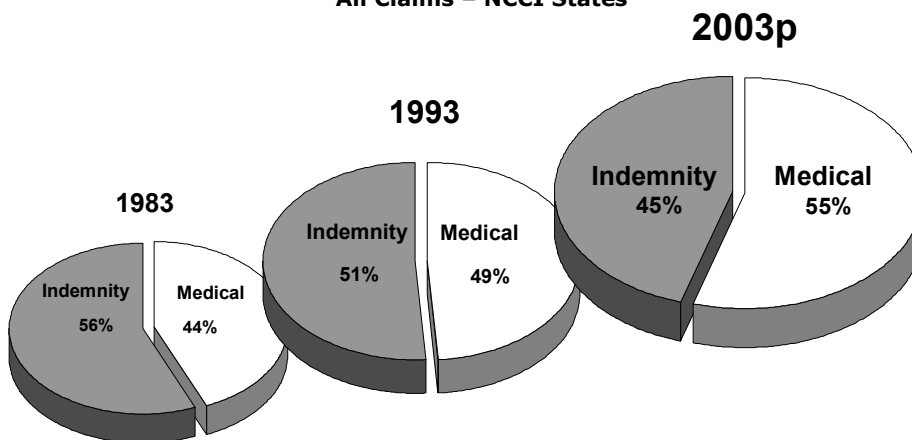
Workers Compensation vs. Group Health Median Payment per Treatment*



* Controlled for common diagnosis and treatment mix

Workers Compensation Medical Losses Are More Than Half of Total Losses

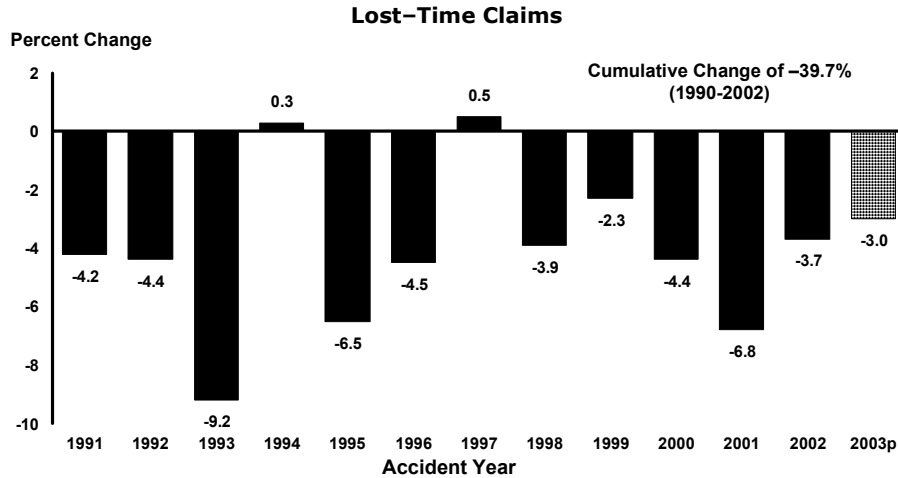
All Claims - NCCI States



2003p: Preliminary based on data valued as of 12/31/2003
 1983, 1993: Based on data through 12/31/2002, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

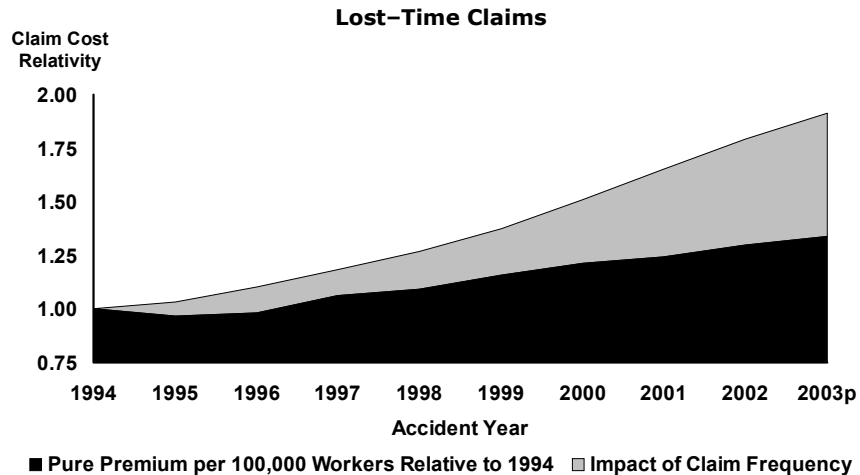
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Workers Compensation Lost-Time Claim Frequency Continues to Fall



2003p: Preliminary based on data valued as of 12/31/2003
 1991-2002: Based on data through 12/31/2002, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

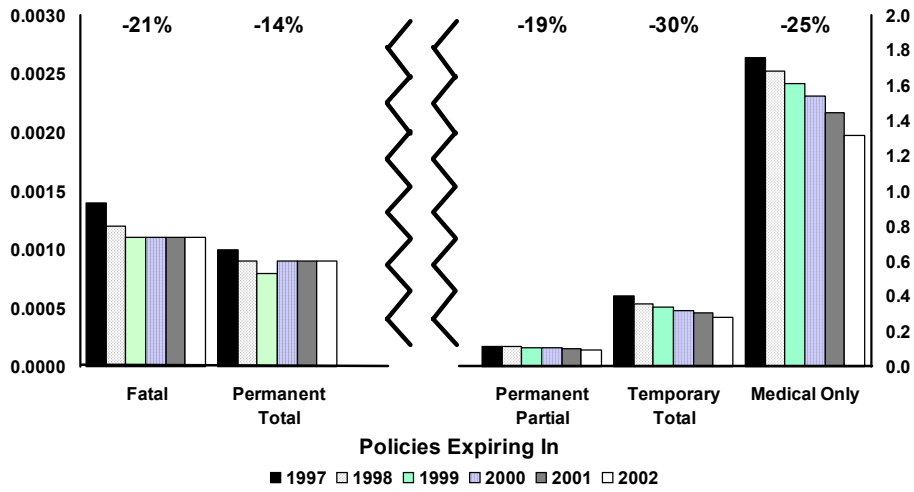
Falling Frequency Has Largely Offset Rising Claim Costs



2003p: Preliminary based on data valued as of 12/31/2003
 1994-2002: Based on data through 12/31/2002, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

Claim Frequencies by Injury Type

Percentage Change Between Policies Expiring in 1997 and 2002
Claim Frequency per \$1M of Wage Adjusted Payroll

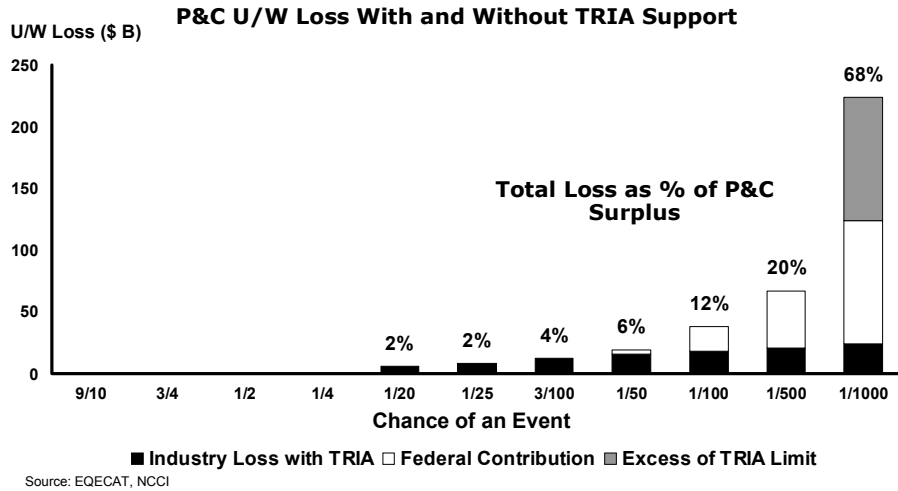


Impact of TRIA on Workers Compensation

When Does TRIA Make a Difference?

- TRIA's direct financial impact is limited to infrequent extreme events
- TRIA is not triggered under approximately 98% of the modeled scenarios
- TRIA enables the P&C market to function effectively with minimal financial exposure to taxpayer funds

Under Most Scenarios TRIA Is Dormant But When TRIA Is Triggered It Is Vital



In Summary

Positives

- Results are improving
- Frequency continues to decline
- Industry making progress on reserve deficiency
- Residual market burden still manageable

Negatives

- Low investment returns continue to put pressure on underwriting results
- Medical severity continues rapid growth
- Calendar year results lag behind other lines
- Uncertainties surrounding TRIA extension