Workers' Compensation Practice Group
SPOTLIGHT on Workers' Comp

Issue # 54 l May 26, 2015

NCCI Describes State of the Workers' Compensation as 'Calm now…but turbulence ahead.'

What are the positive developments and challenges for the line?

The National Council of Compensation Insurance (NCCI), operating on a not-for-profit basis, provides data and a variety of other services to more than 900 insurance companies and nearly 40 state governments. In 2014, NCCI successfully transitioned Texas to a full NCCI state.

NCCI held its Annual Issues Symposium (AIS) in Orlando, Fla., May 14 – 15, 2015. In opening remarks, NCCI President and CEO Steve Klingel described the current state of the workers' compensation marketplace as "calm now…but turbulence ahead." Mr. Klingel observed that the "most recent results show that 2014 was a good year for the industry—and that follows solid results in 2013." Click here to view the opening AIS 2015 presentation. To watch the presentation, click here.

The State of the Line report was presented by NCCI chief actuary, Kathy Antonello. She said, "Results for the workers' compensation line improved again in 2014." Click here to view the complete State of the Line presentation.

Positive Developments in 2014

According to NCCI, the workers' compensation calendar year combined ratio for private carriers decreased below 100 to 98 for the first time since 2006. Reportedly, the combined ratio decrease was driven primarily by a decrease in the loss ratio, which is determined by dividing incurred losses by earned premiums. The accident year results also showed notable improvement in 2014, falling four points to a combined ratio of 95.

The combined ratio measures underwriting profit. This ratio is calculated by dividing the sum of incurred losses and expenses by earned premium. For example, a combined ratio of 98 percent means that an insurer is underwriting at a small profit loss because for every $1 in premiums received, only $0.98 in claims and expenses are paid. In addition to underwriting profits, insurance carriers are able to achieve operating gains from investment income.

NCCI reported that investment income remained stable in 2014. Based on carrier annual statement data, the ratio of investment gains on insurance transactions to net earned premium was 12 percent. The calendar year 2014 underwriting results combined with investment gains on insurance transactions produced a workers' compensation pre-tax operating gain of 14 percent for private carriers and 5 percent for state funds in 2014, which represents a second year of above average operating gains.

The report contained additional causes for optimism:

- Total market net written premiums countrywide increased by approximately 6 percent to $44.2 billion for private carriers and state funds, driven primarily by an increase in payroll and wages. This was the fourth consecutive year of premium growth.
- Lost-time claim frequency continued to decline, down 2 percent on average in NCCI states, a smaller decrease than in the prior three years. Frequency is defined in the State of the Line report as the number of lost-time claims at first report per $1,000 pure premium.

Turbulence Ahead

Even with the improvements, workers' compensation is faced with some ongoing challenges:

- The average indemnity cost per lost-time claim in 2014 increased by 4 percent to $23,600 following increases of less than 2 percent from 2011 through 2013. This indemnity claim severity increase was greater than the 3 percent U.S. average weekly wage increase reported by Moody's Economy.com. Interestingly it was noted in the state of line presentation that for every $1 increase in TTD paid there is a $0.54 indirect cost due to longer claim durations.
- In 2014, the average medical cost per lost-time claim also increased 4 percent to $29,400 following increases of 2 to 3 percent in each of the prior three years. This change outpaced the 2014 U.S. Bureau of Labor Statistics (BLS) medical consumer price index (CPI), which was only 2.4 percent. It was observed that medical costs vary widely among states.
- Upward pressure on claim frequency from new workers in unfamiliar jobs is an area to watch.
- As reported last year, investment gains are likely not sustainable if the historic low-interest-rate environment continues.
- Despite overall employment growth and increased premium volume, construction and manufacturing employment totals remain well below pre-recession levels restraining even higher premium growth rates. In the past manufacturing and construction jobs generated approximately 35 percent of workers' compensation premium.

Other market conditions and indicators that signal the turbulence ahead include:

- The rapidly changing nature of our workforce and workplaces.
- The on-demand economy and its impact on the insurance industry.
- The exponential growth of technological changes and the implications for workers' compensation.
- On-going threats to exclusive remedy.
- The risk of benefit increases without appropriate rate adjustments.

In his final address as head of NCCI prior to his announced retirement in early 2016, Klingel said, "While I am confident that we will work our way through these challenges, it is important to be realistic about current conditions and to recognize that the current positive results may not last."

Upcoming issues of *Spotlight on Workers' Compensation* throughout the remainder of the year will explore in depth these and other issues and challenges facing the workers' compensation line.