



# STATE ADVISORY FORUM 2015



## Kentucky

**August 20, 2015**

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# Kentucky Workers Compensation State Advisory Forum

- Opening Remarks
- Panel Discussion
- Kentucky and Countrywide Outlook and Observations
- Filing Activity
- Claim Frequency
- Indemnity and Medical Severity
- Economic Outlook and Coal Mining
- Case Study
- Q & A—Closing Remarks



# Panel Discussion

- Commissioner Sharon Clark
  - Department of Insurance
- Commissioner Dwight Lovan
  - Department of Workers' Claims
- Mona Carter
  - Senior Division Executive, NCCI





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## **AIS Presentation Video Excerpt**

**Steve Klingel  
NCCI CEO**

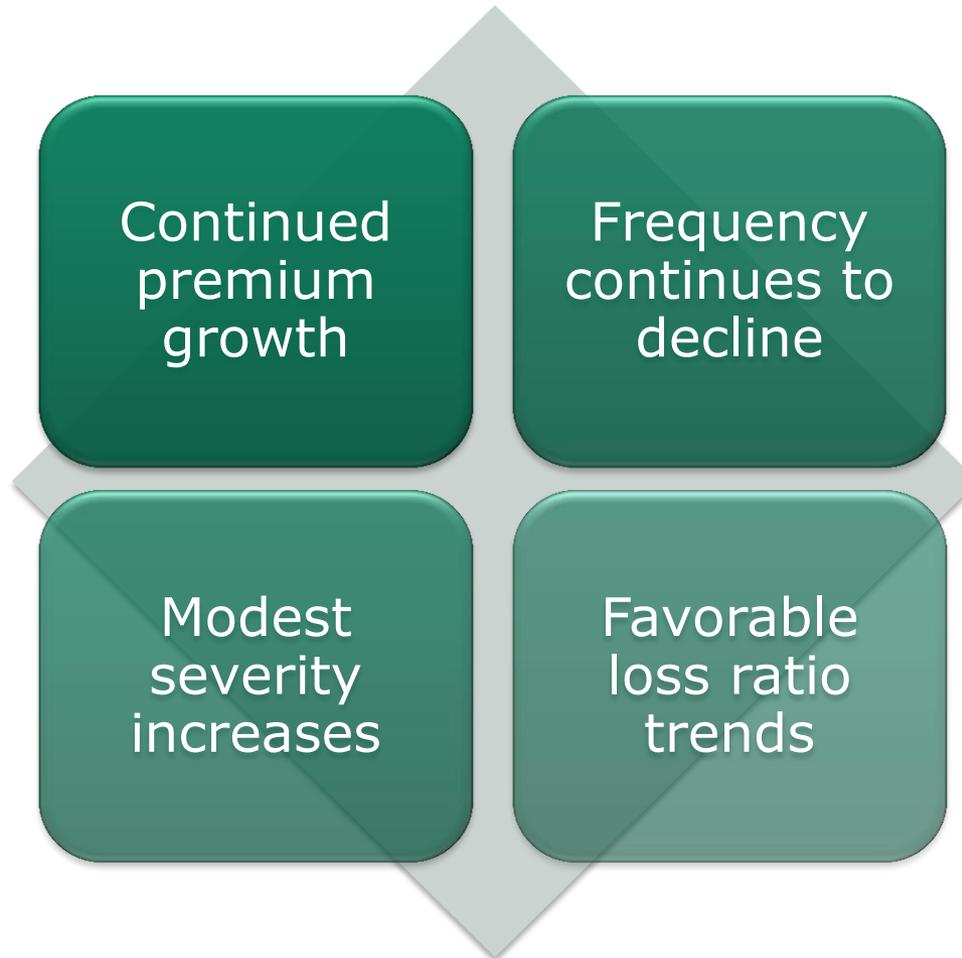


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## **Kentucky and Countrywide Outlook and Observations**

# Kentucky Workers Compensation System— An Overview



# Kentucky's Workers Compensation Premium Volume

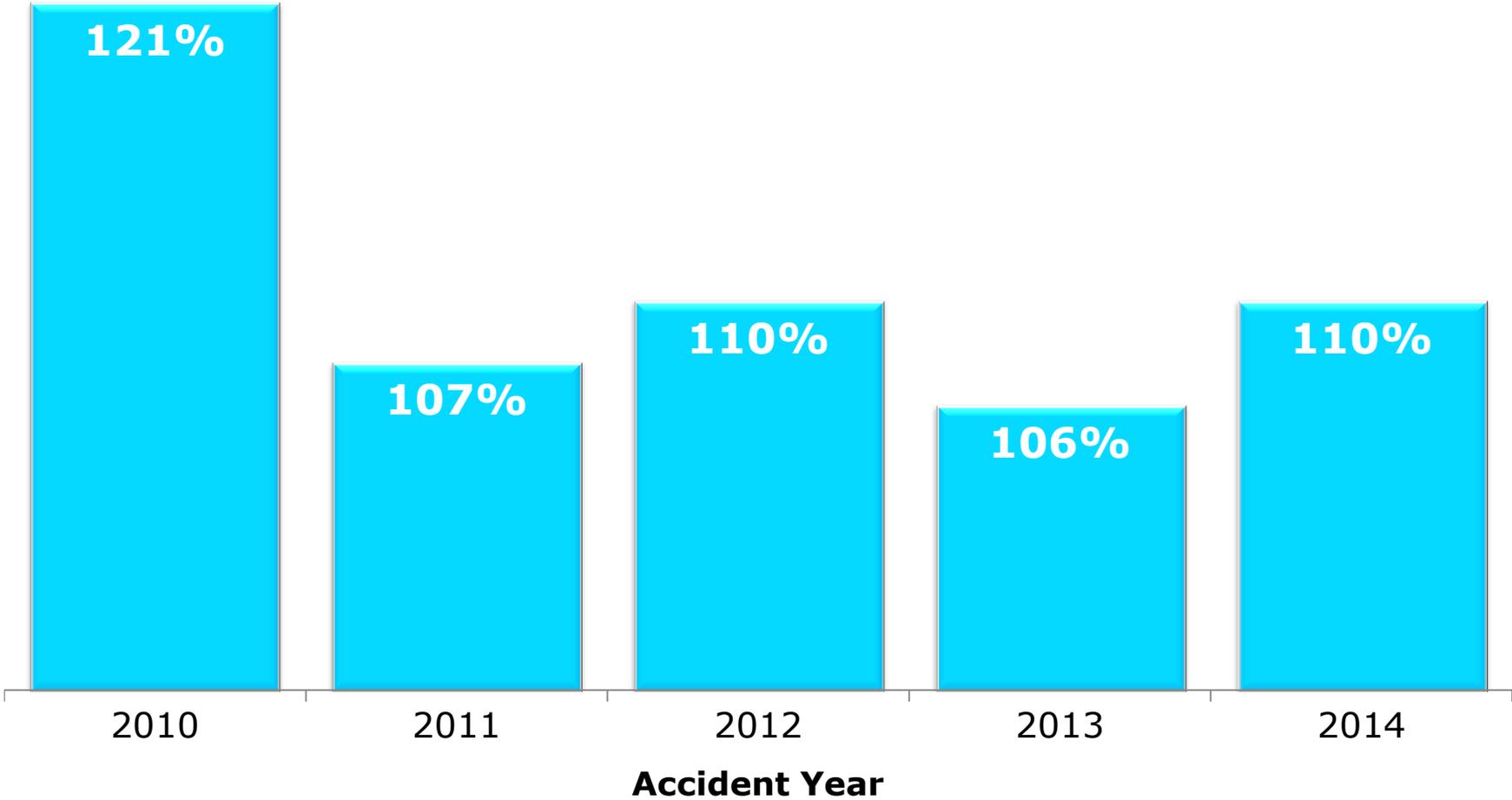
Direct Written Premium in \$ Millions



Source: NAIC Annual Statement data



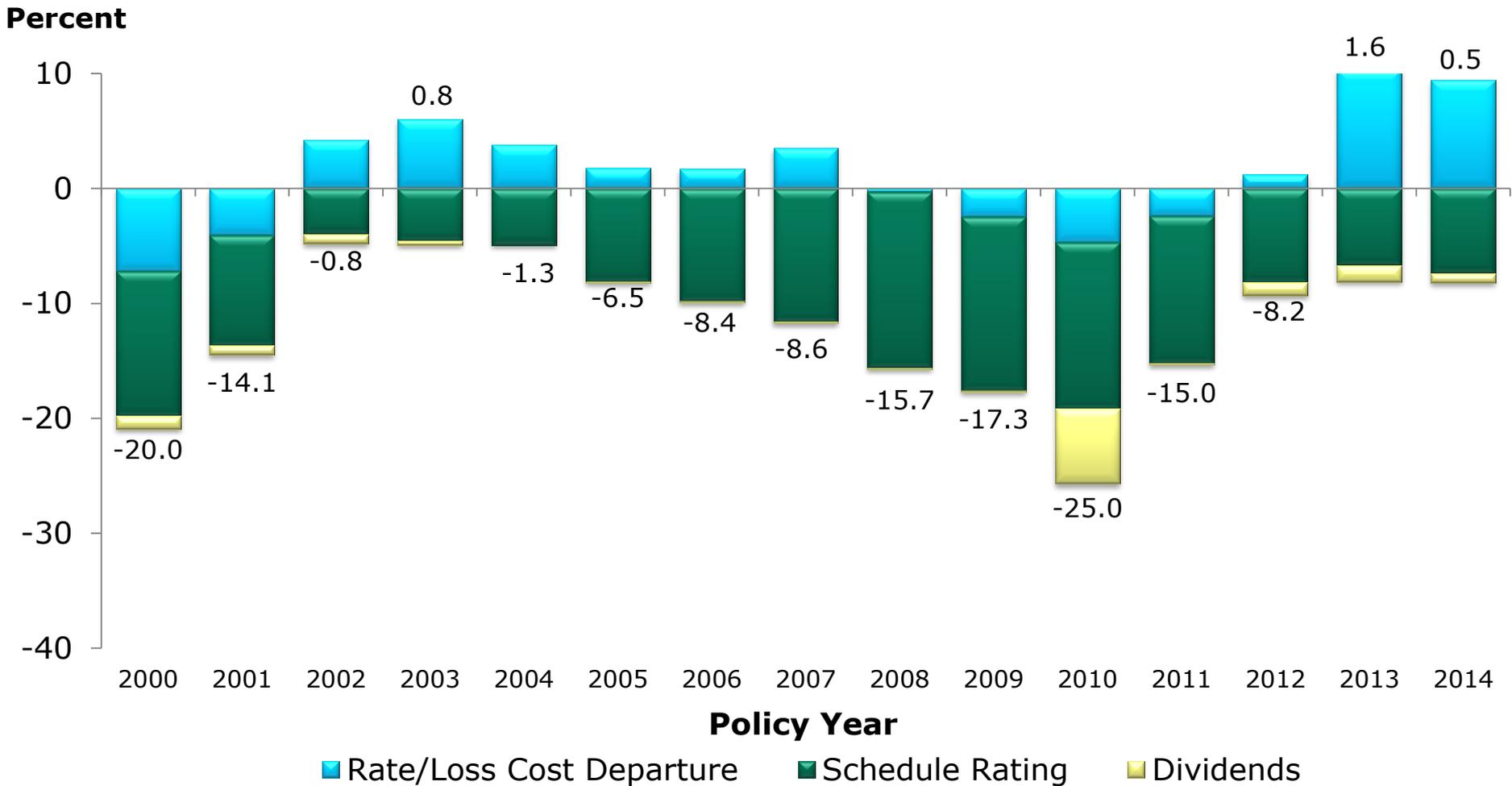
# Kentucky Accident Year Combined Ratios



Sources: NCCI's financial data and NAIC Annual Statement data



# Impact of Discounting on Workers Compensation Premium in Kentucky



Based on data through 12/31/2014  
 Dividend ratios are based on calendar year statistics



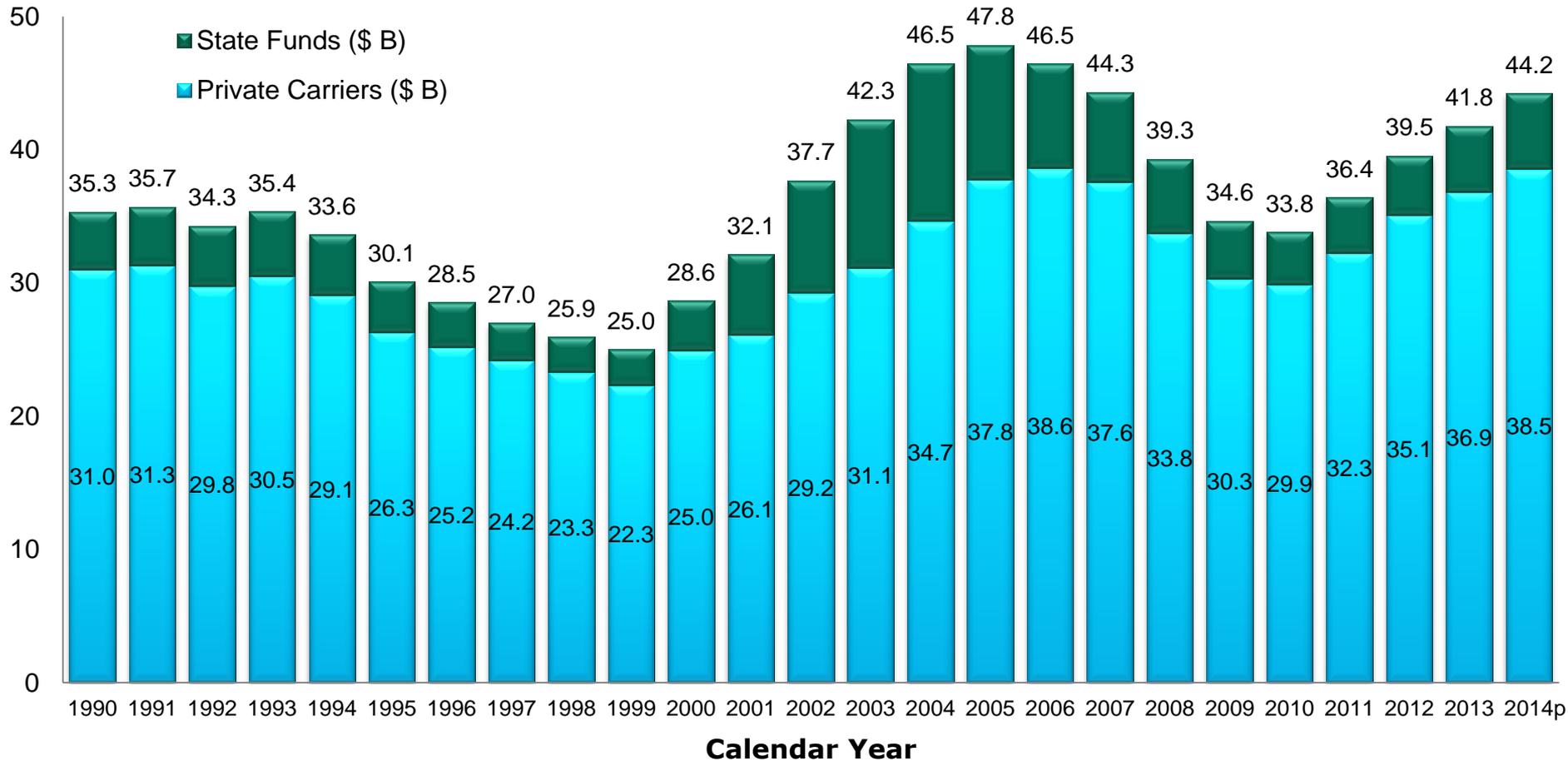
# State of the Workers Compensation Market

- Calendar year and accident year combined ratios continued to improve
- Net written premium volume increased for the fourth consecutive year
- Lost-time claim frequency again decreased
- Medical and indemnity lost-time severity are up modestly

# Countrywide Workers Compensation Net Written Premium Growth Continued

\$ Billions

## Private Carriers and State Funds



p Preliminary

Source: Annual Statement data

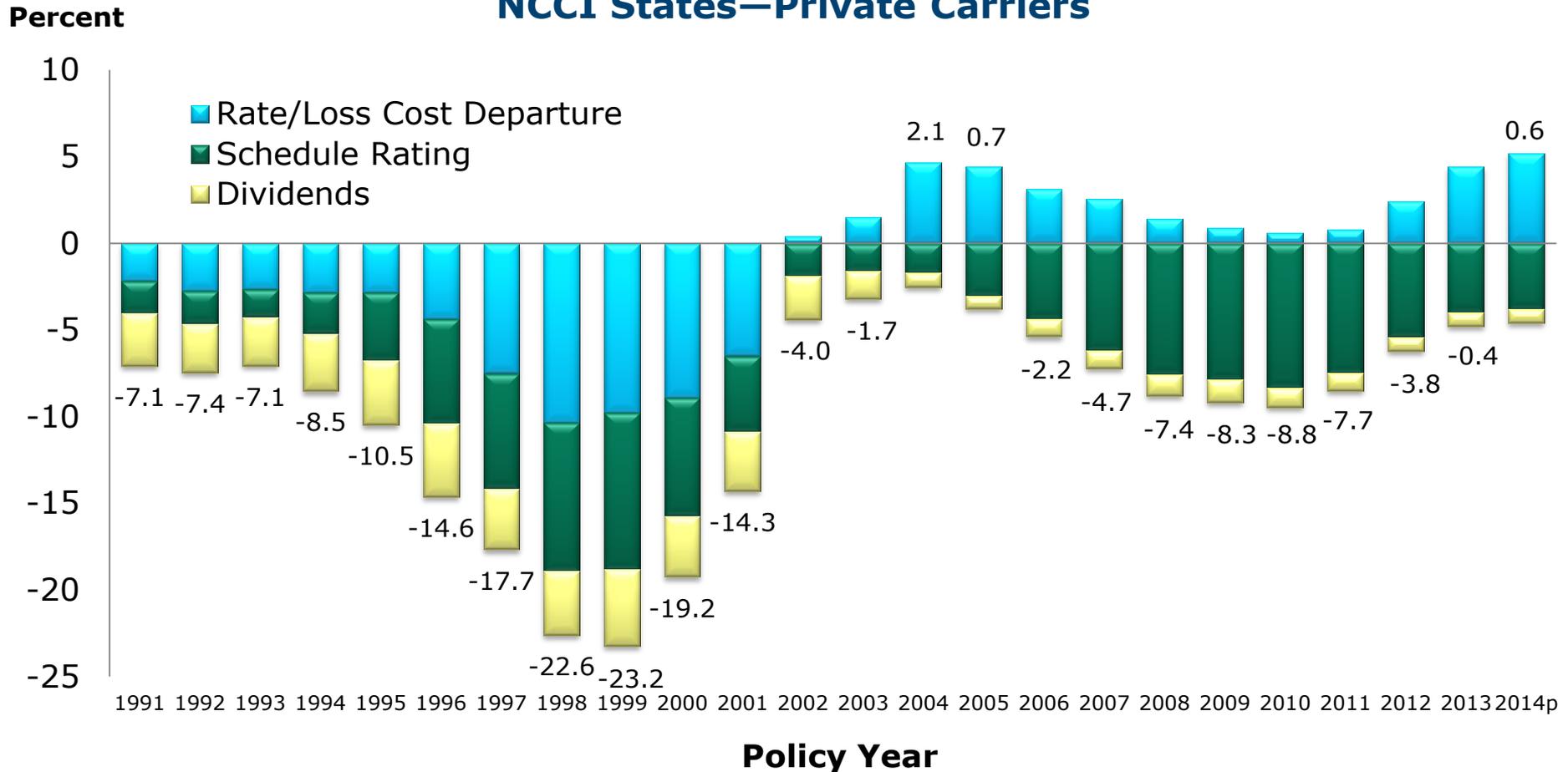
Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

Each calendar year total for state funds includes all funds operating as a state fund in that year



# Countrywide Workers Compensation Impact of Discounting on Premium

## NCCI States—Private Carriers



p Preliminary

Sources: Annual Statement Statutory Page 14 and NCCI's Financial Call data

Dividend ratios are based on calendar year statistics

NCCI benchmark level does not include an underwriting contingency provision

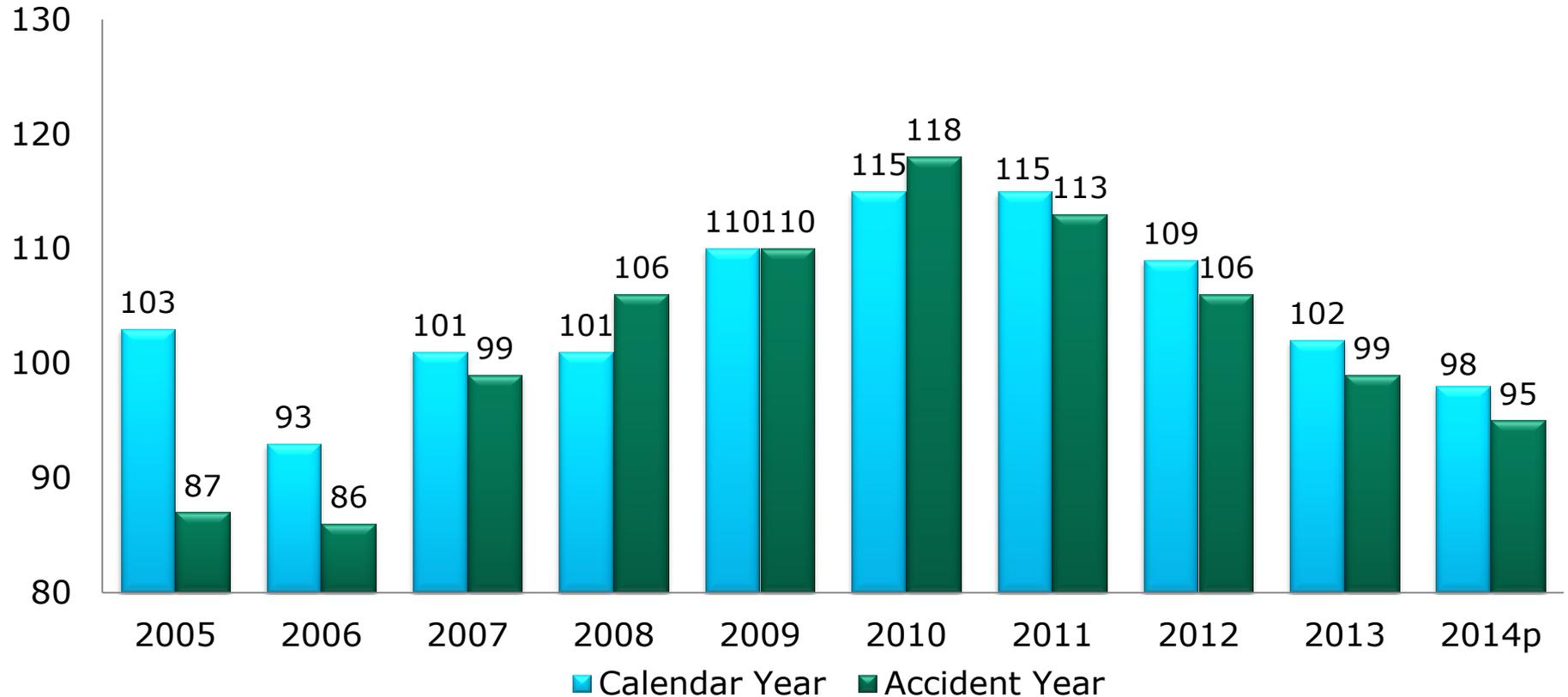
Based on data through 12/31/2014 for all states where NCCI provides ratemaking services, excluding TX



# Countrywide Workers Compensation Net Combined Ratios

## Calendar Year vs. Ultimate Accident Year—Private Carriers

Percent



p Preliminary

Source: NCCI analysis based on Annual Statement data

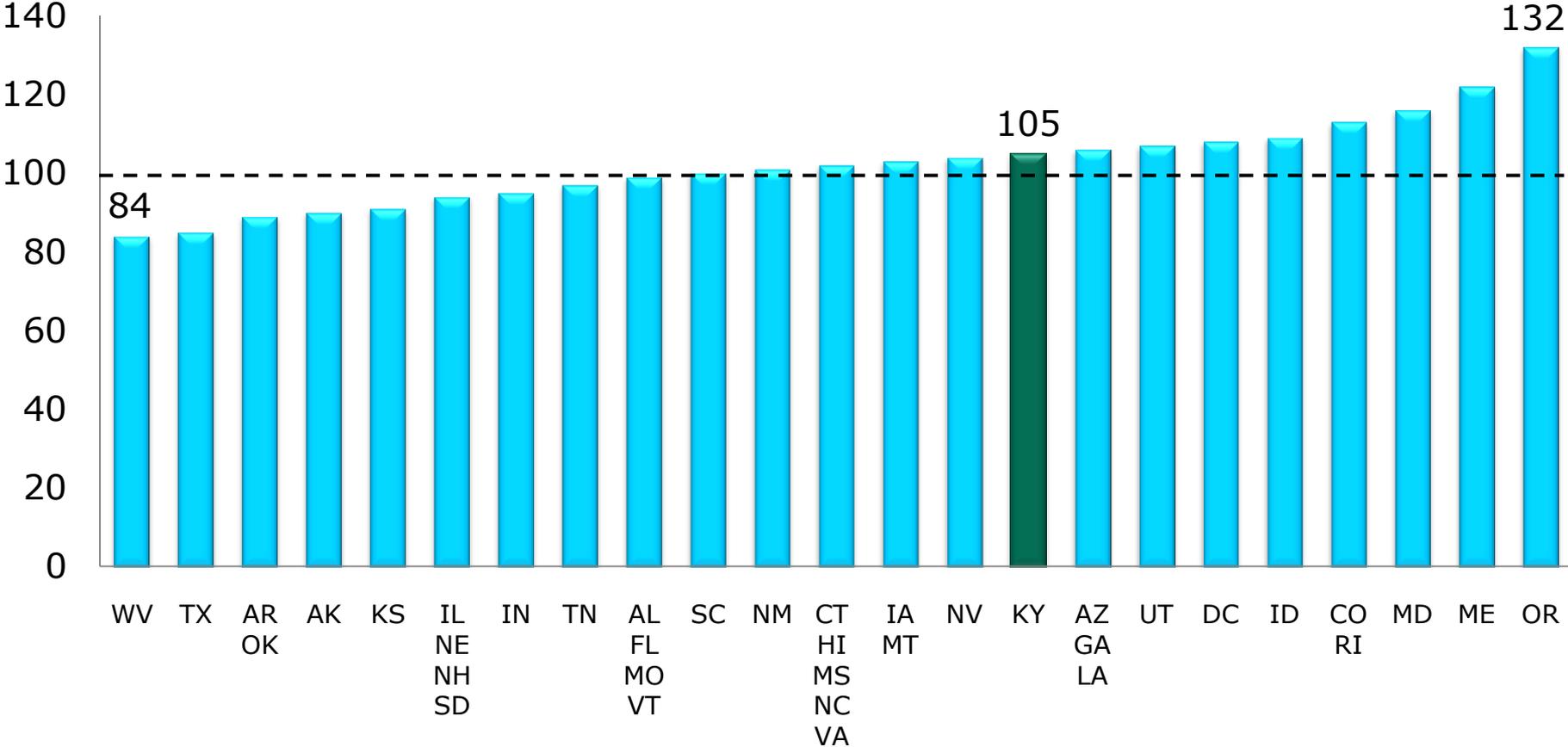
Accident year data is evaluated as of 12/31/2014 and developed to ultimate

Includes dividends to policyholders



# Results Vary From State to State

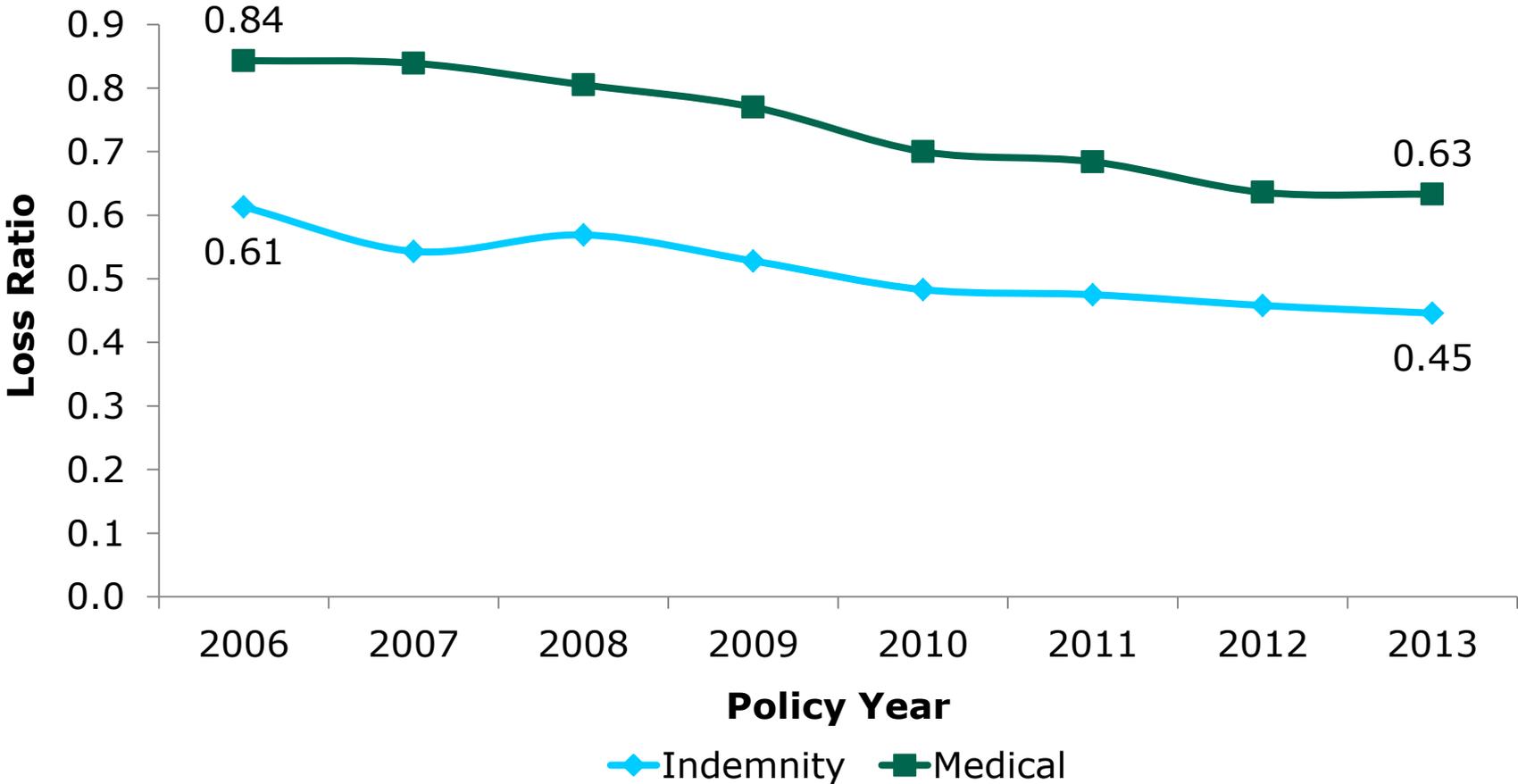
## Accident Year 2013 Combined Ratios



Data is evaluated as of 12/31/2013



# Kentucky's Indemnity and Medical Loss Ratios



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





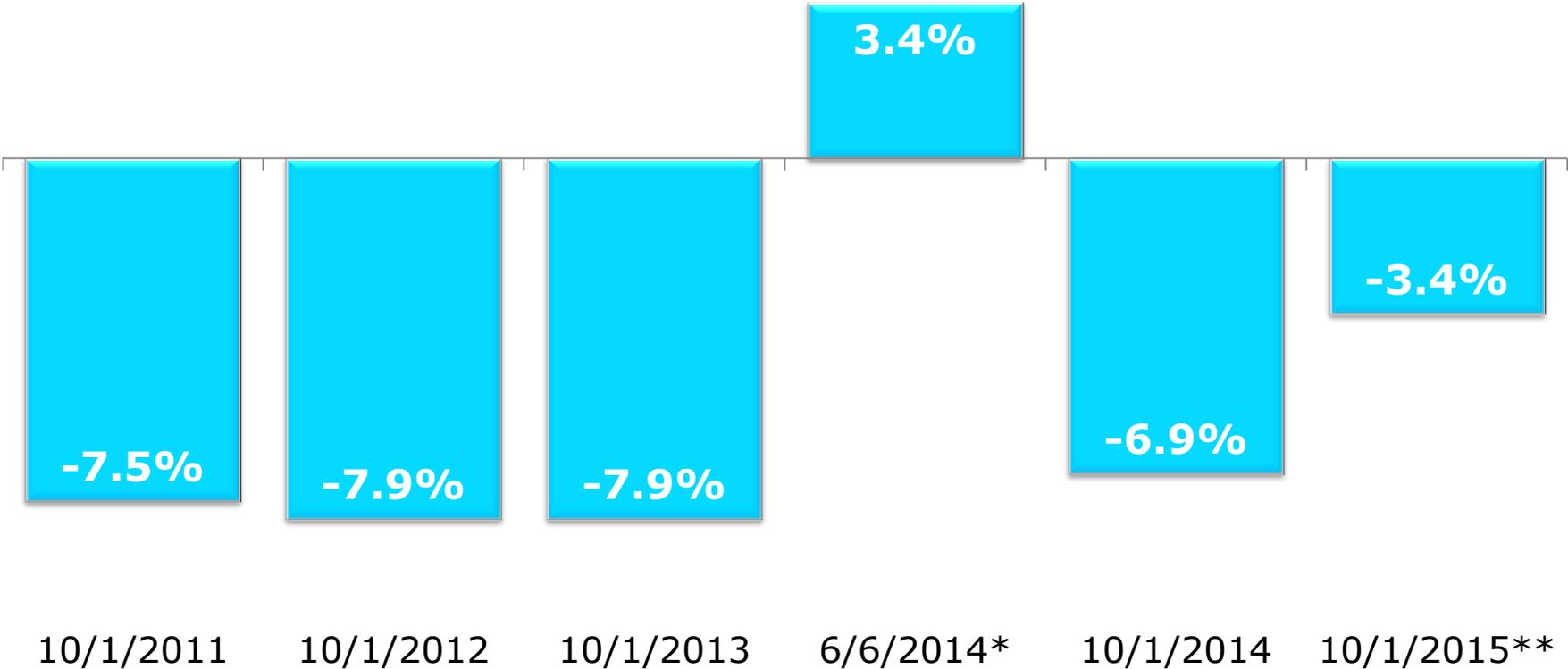
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## Filing Activity



# Kentucky's Filing Activity

## Voluntary Loss Cost Changes



\*Law-only filing

\*\*Pending

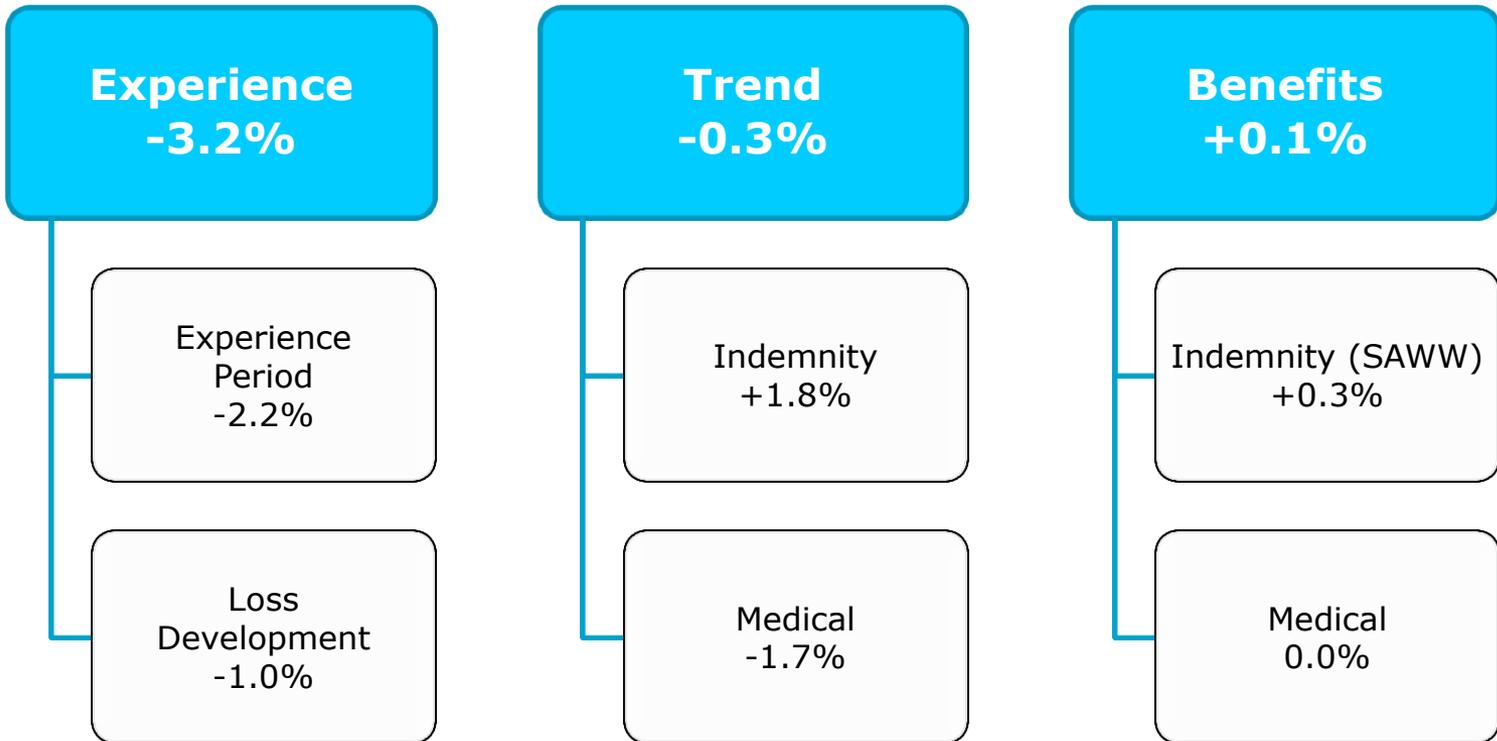


# Kentucky

## October 1, 2015 Loss Cost Filing

**Overall Loss Cost Level Change -3.4%**

Changes due to:

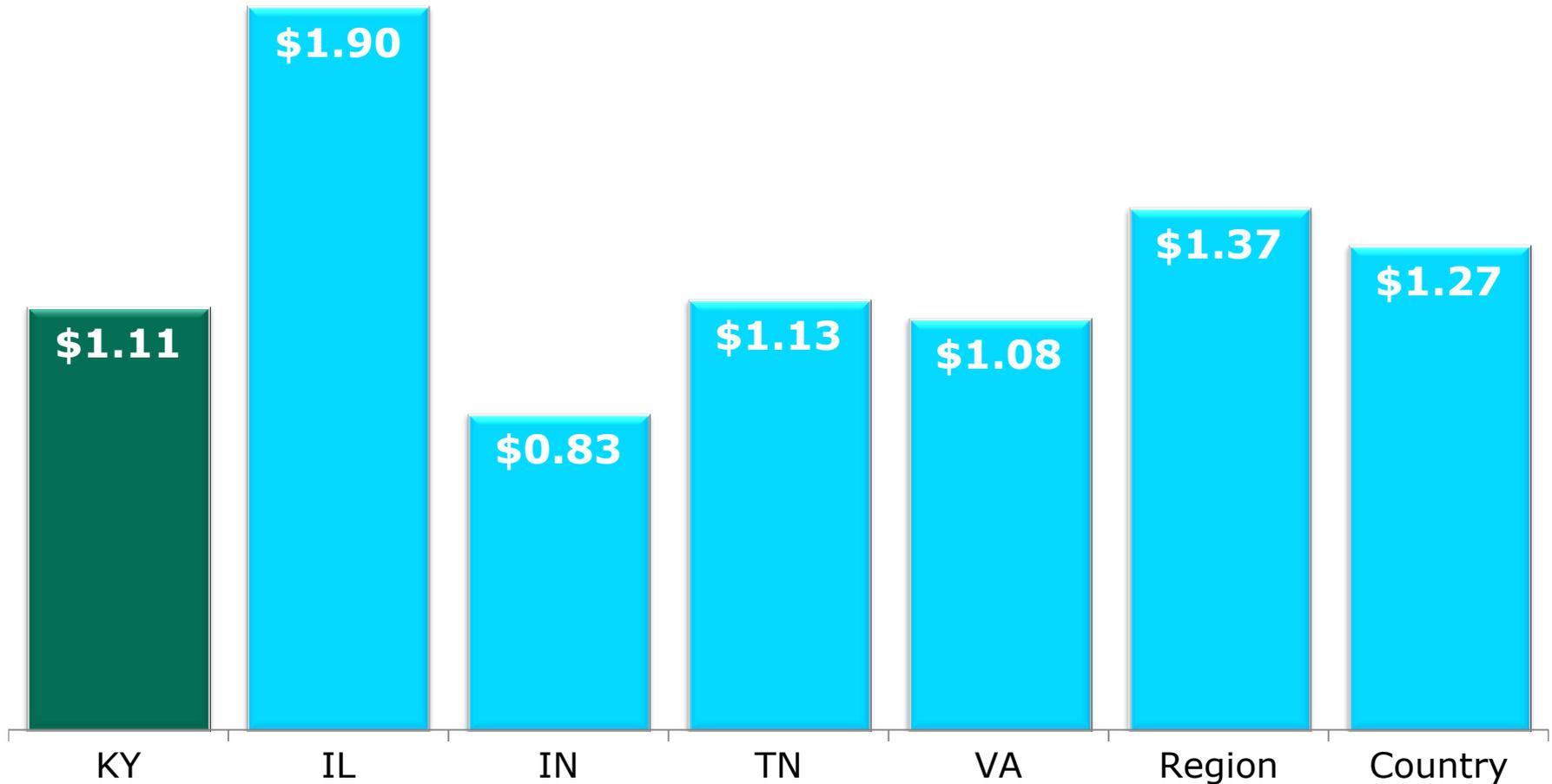


# Kentucky October 1, 2015 Filing— Average Changes by Industry Group



# Current Average Voluntary Pure Loss Costs Using Kentucky's Payroll Distribution

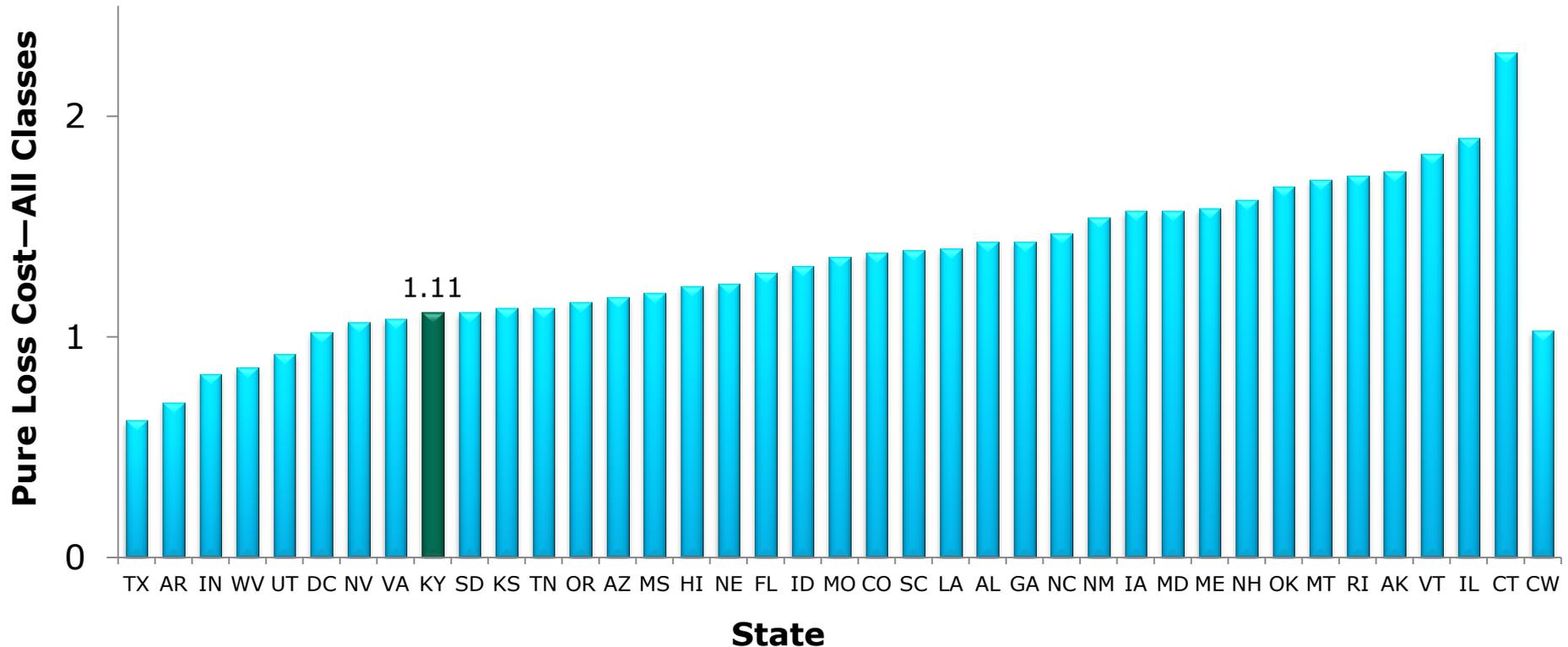
## Pure Loss Cost—All Classes



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



# Current Average Voluntary Pure Loss Costs Using Kentucky's Payroll Distribution



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



# Kentucky's Top Five Class Codes Based on Statewide Payroll

## 2008

8810—Clerical (28.7%)

8868—College:  
Professional Empl.  
(7.4%)

8742—Outside Sales (6.2%)

8832—Physician (4.1%)

8017—Retail Stores (2.9%)

## 2012

8810—Clerical (27.8%)

8868—College:  
Professional Empl.  
(7.1%)

8742—Outside Sales (5.7%)

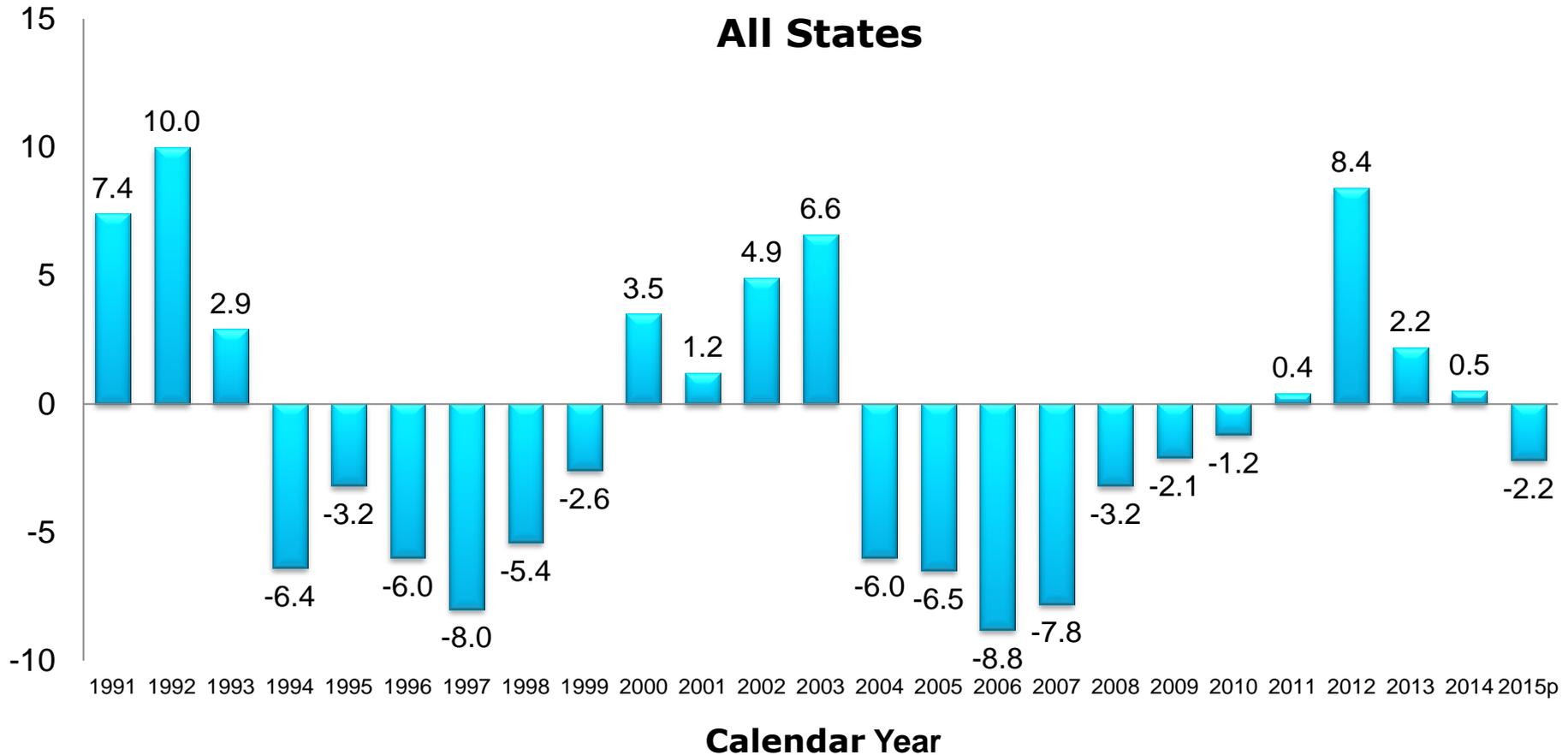
8832—Physician (4.0%)

8017—Retail Stores (2.7%)

# Countrywide Workers Compensation Approved Changes in Bureau Premium Level

By Effective Date for Total Market

Percent Change



p Preliminary

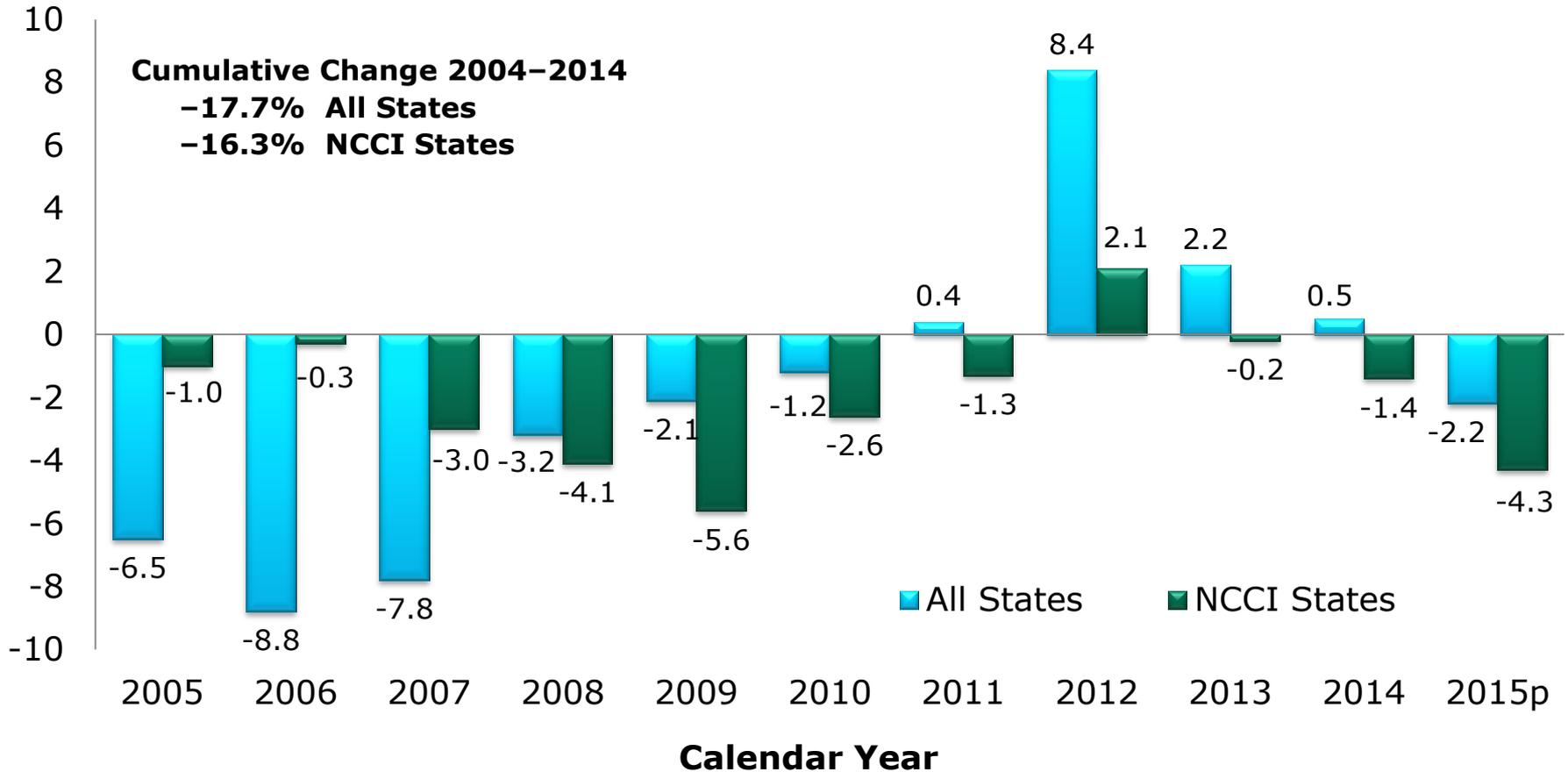
Bureau premium level changes are countrywide approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 4/24/2015, as filed by the applicable rating organization, relative to those previously approved



# Countrywide Workers Compensation Approved Changes in Bureau Premium Level

By Effective Date for Total Market

Percent  
Change



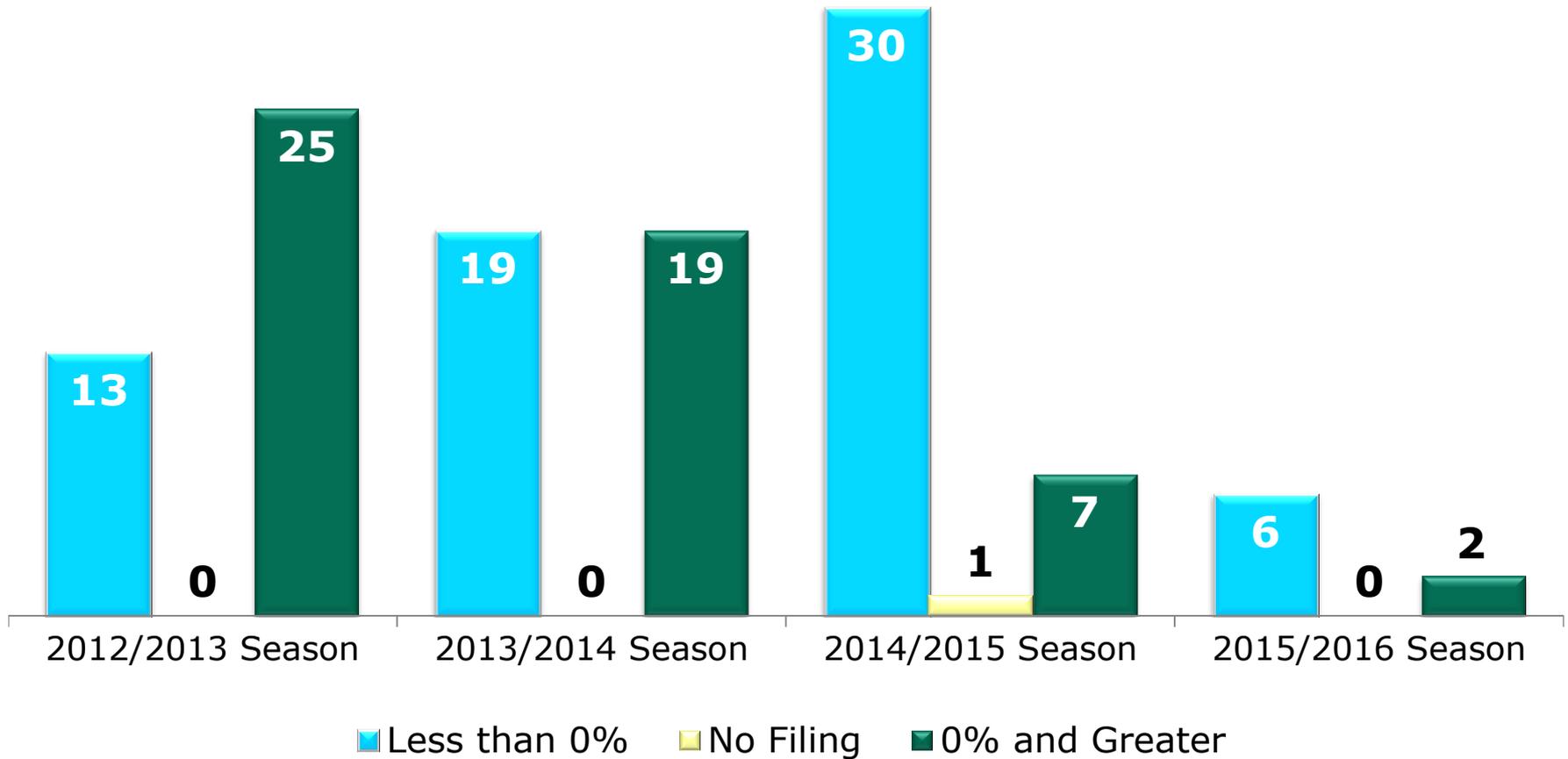
p Preliminary

Bureau premium level changes are countrywide approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 4/24/2015, as filed by the applicable rating organization, relative to those previously approved



# NCCI Voluntary Market Filing Activity

## Number of State Loss Cost/Rate Filings by Filing Season



# 2015/2016 Filing Cycle

## NCCI Voluntary Market Filing Activity

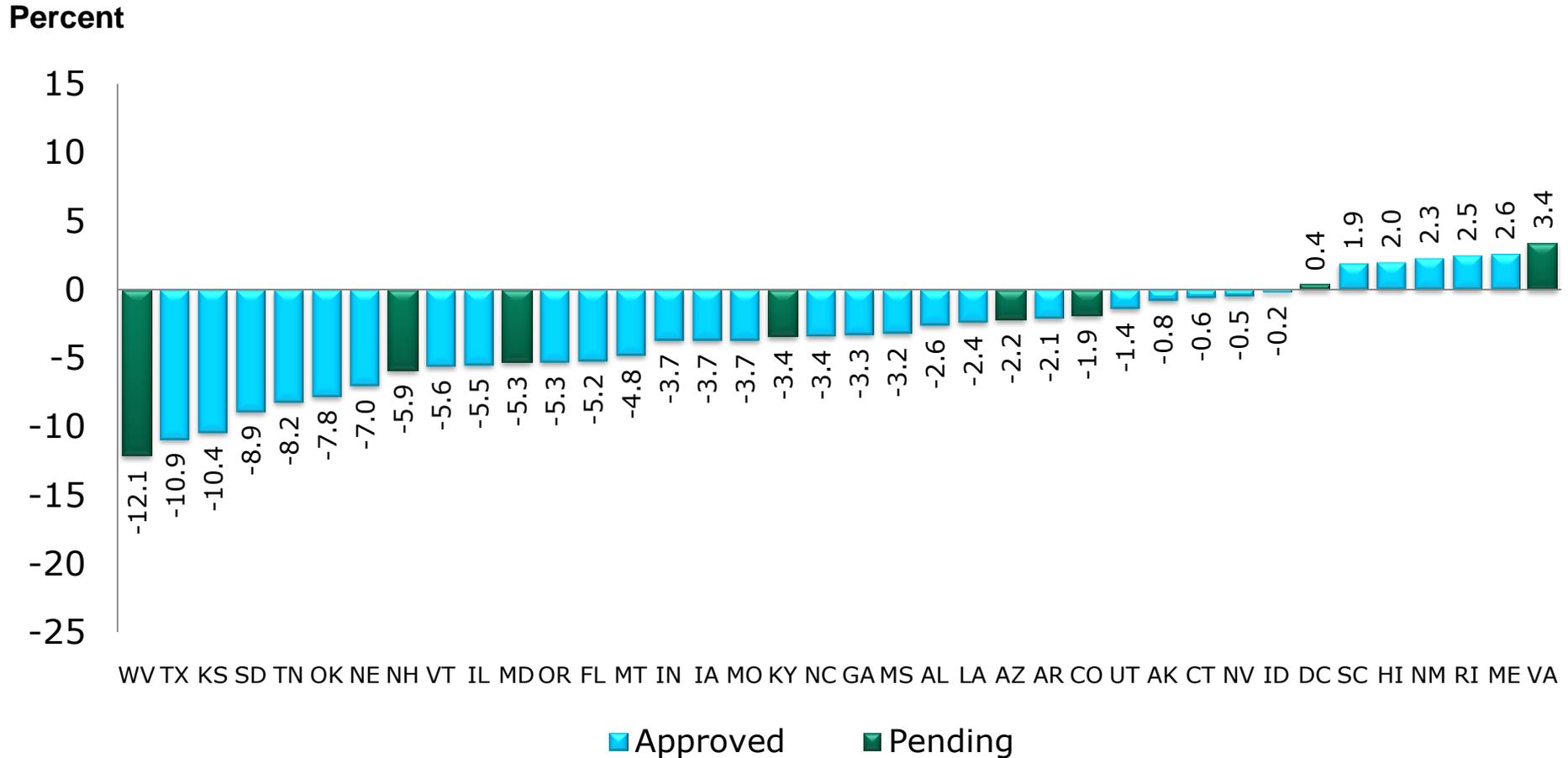
- Data for 8 states has been reviewed
  - 6 states have filed a decrease
  - 2 states have filed a change of 0% or greater
- Range of voluntary filings: -12.1% to +3.4%

Based on data evaluated as of 12/31/2014



# Current NCCI Voluntary Market Loss Cost/Rate Level Changes

Excludes Law-Only Filings



Reflects the most recent experience filing in each jurisdiction



# Current Voluntary Market Rates/Loss Costs Southeastern NAIC Zone

Virginia*	4/1/16	+3.4%
South Carolina	9/1/15	+1.9%
Arkansas	7/1/15	-2.1%
Louisiana	5/1/15	-2.4%
Alabama	3/1/15	-2.6%
Mississippi	3/1/15	-3.2%
Georgia	3/1/15	-3.3%
Kentucky*	10/1/15	-3.4%
North Carolina	4/1/15	-3.4%
Florida	1/1/15	-5.2%
Tennessee	3/1/15	-8.2%
West Virginia*	11/1/15	-12.1%

\*Pending





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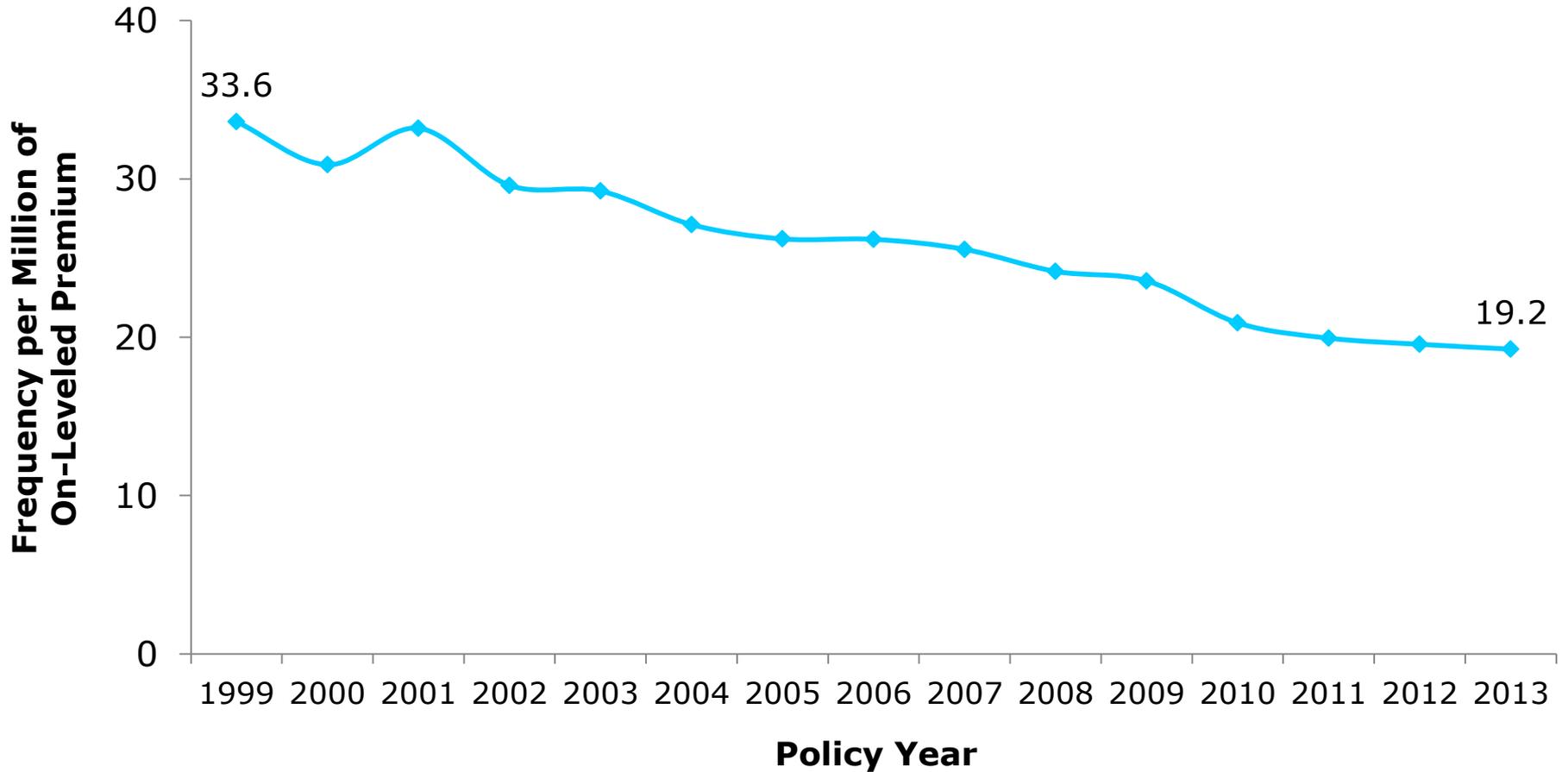


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## Claim Frequency



# Kentucky's Lost-Time Claim Frequency



Based on NCCI's financial data  
Frequency of lost-time claims adjusted to a common wage level

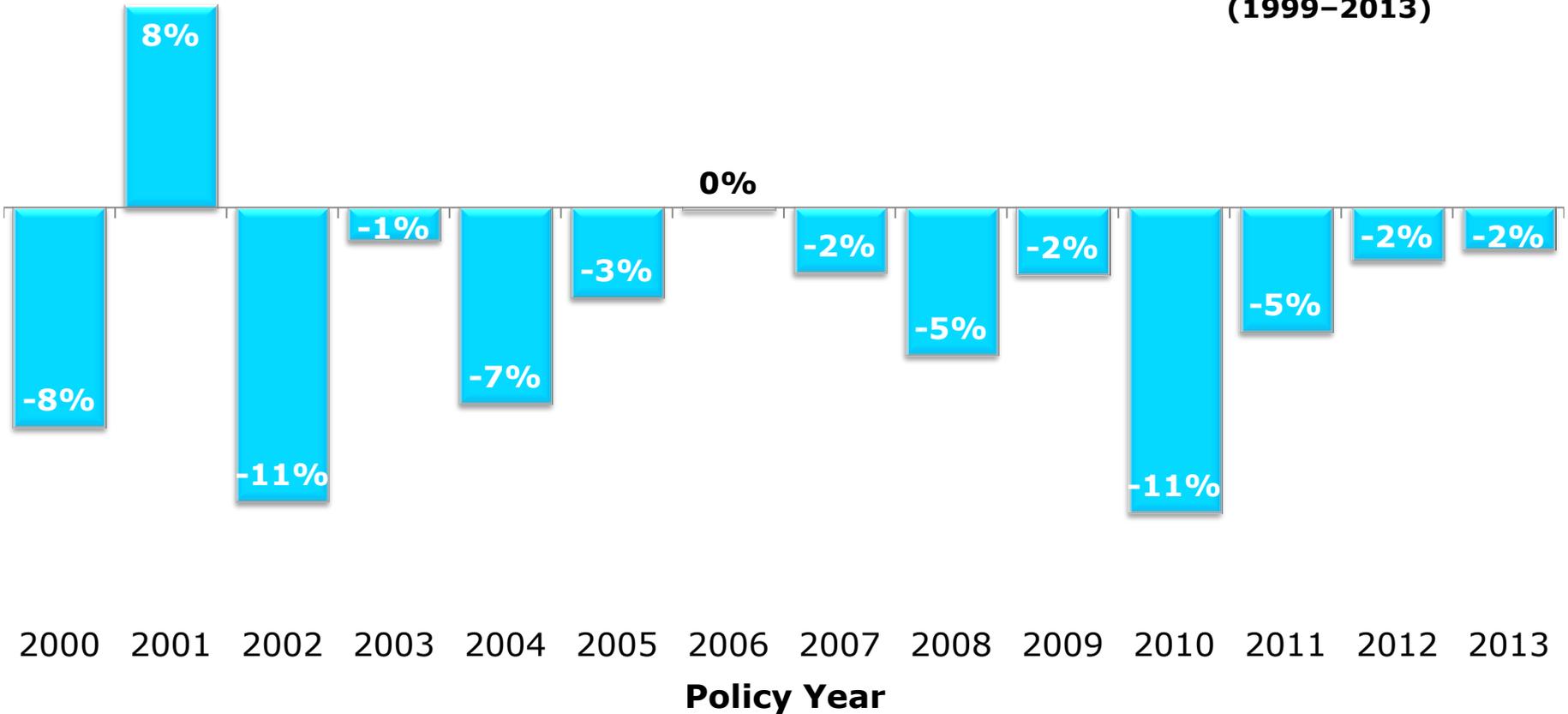


# Kentucky Workers Compensation Claim Frequency Changes

## Lost-Time Claims

Percent  
Change

Cumulative Change of **-42.8%**  
(1999-2013)

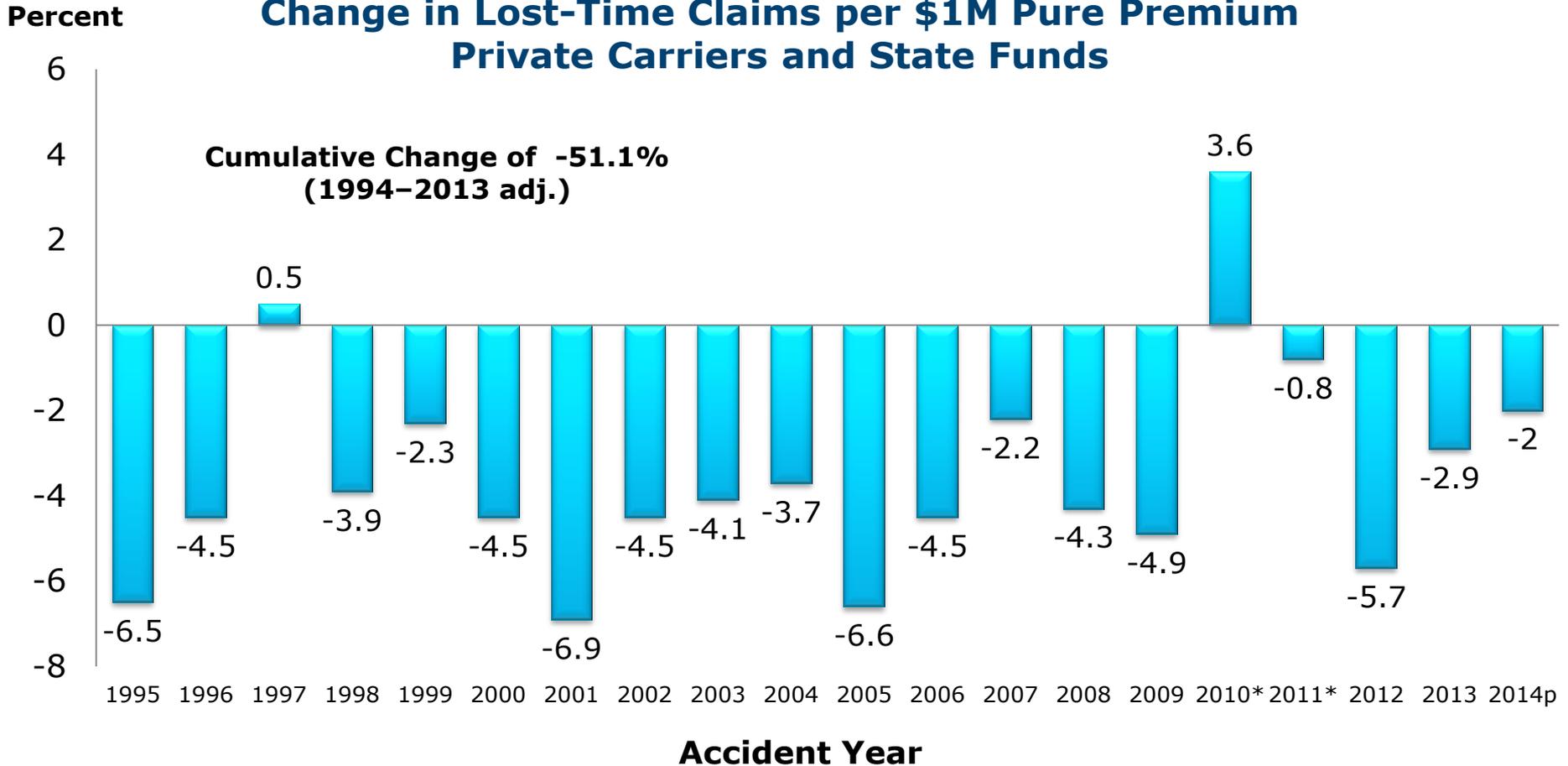


Based on data through 12/31/2014, developed to ultimate



# Countrywide Workers Compensation Lost-Time Claim Frequency

## Change in Lost-Time Claims per \$1M Pure Premium Private Carriers and State Funds



\*Adjusted figure (primarily due to significant changes in audit activity); unadjusted values are 10.6 (AY 2010) and -3.8 (AY 2011)  
p Preliminary based on data valued as of 12/31/2014

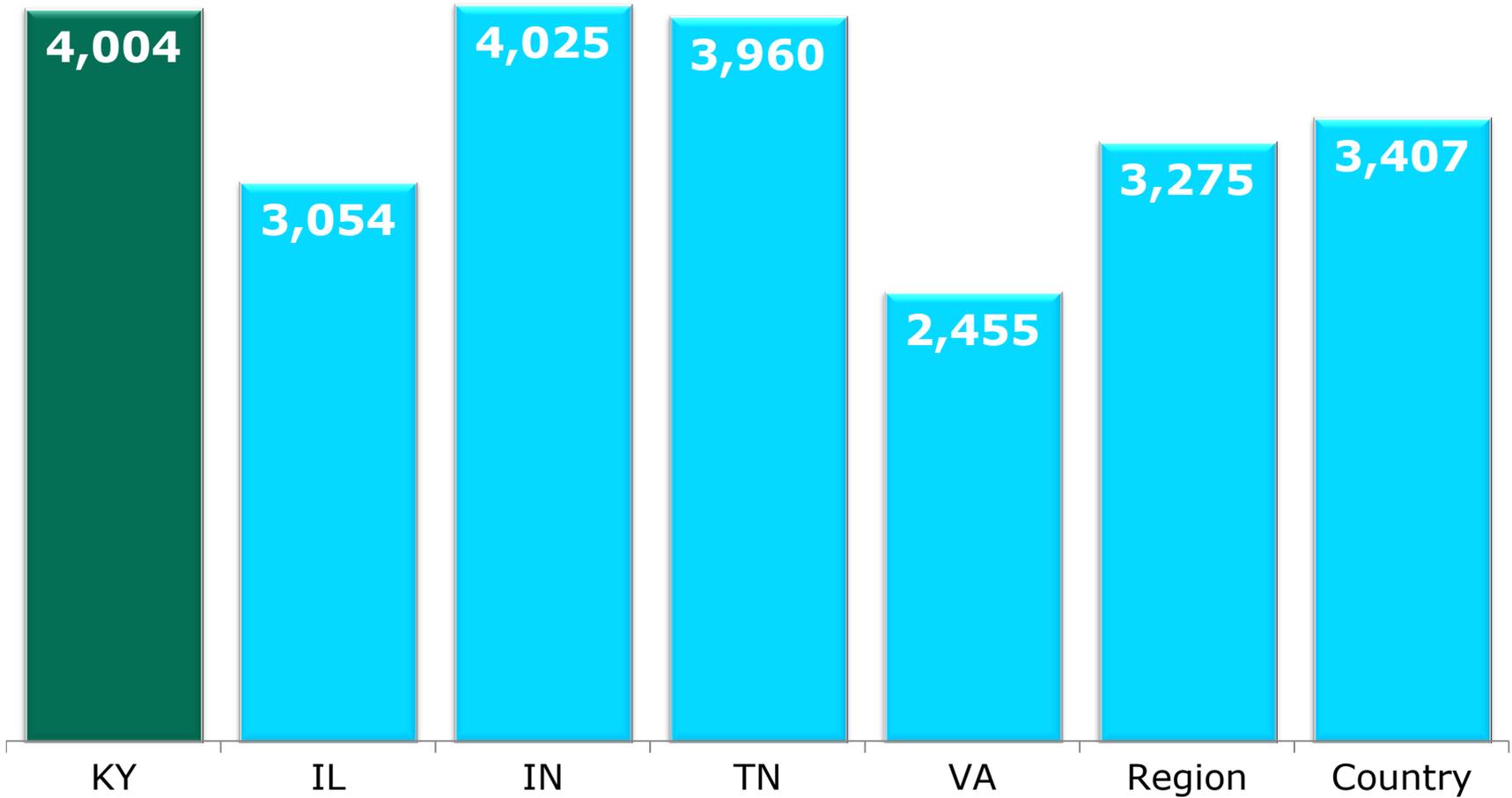
Source: NCCI's Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level; excludes high deductible policies; 1995-2013: based on data through 12/31/2013

For all states where NCCI provides ratemaking services, excluding WV



# Kentucky's Average Claim Frequency

Frequency per 100,000 Workers—All Claims

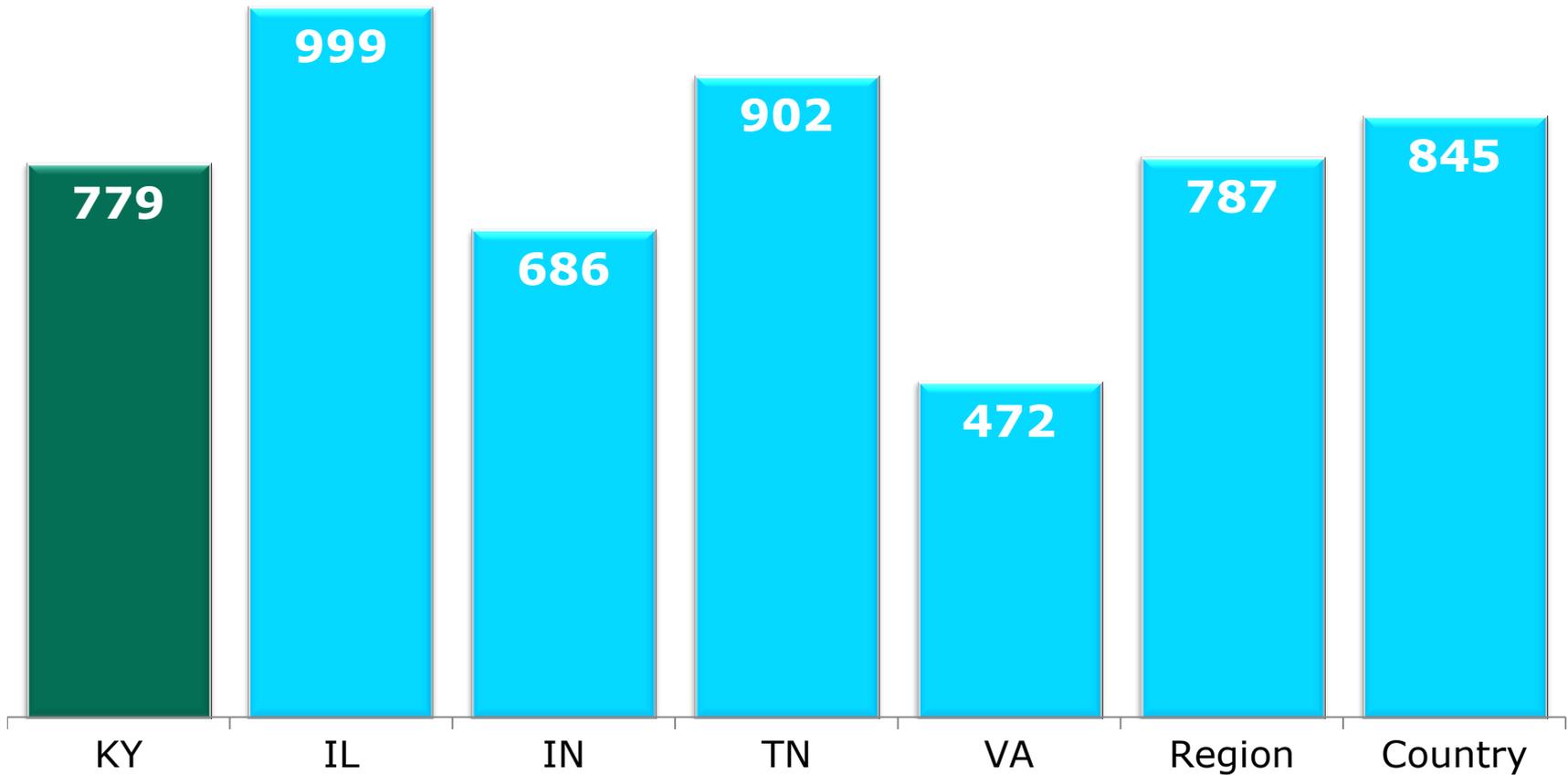


Based on NCCI's *Statistical Plan* data



# Kentucky's Average Lost-Time Claim Frequency

Frequency per 100,000 Workers—Lost-Time Claims



Based on NCCI's *Statistical Plan* data

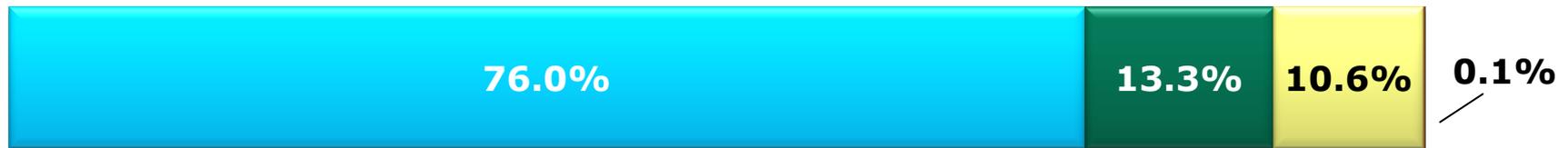


# Kentucky's Distribution of Claims by Injury Type

## Kentucky



## Region



## Countrywide



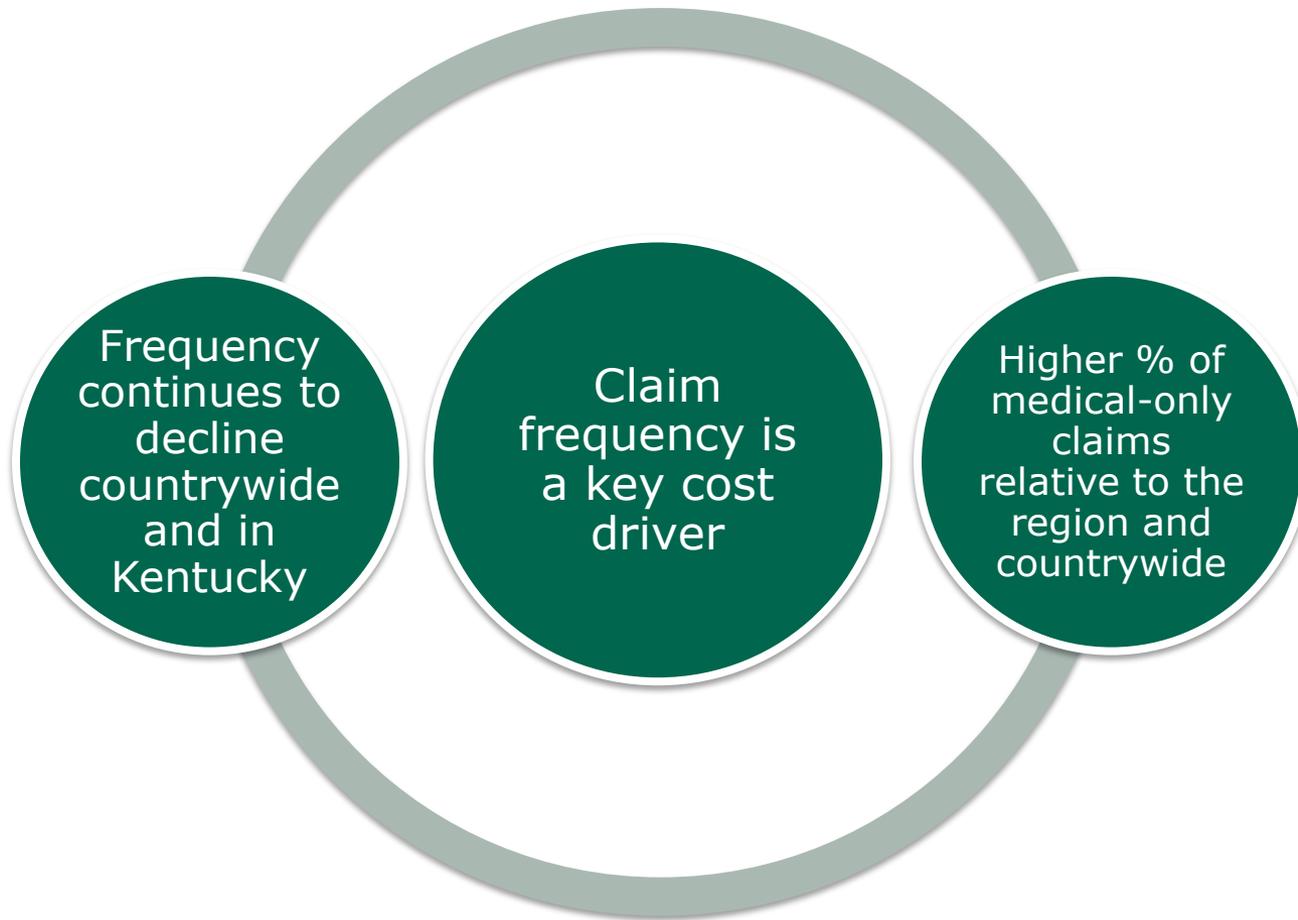
■ Medical Only 
 ■ Temporary Total 
 ■ Permanent Partial 
 ■ Fatal and Permanent Total

Regional states are IL, IN, TN, and VA

Based on NCCI's *Statistical Plan* data for jurisdictions/claim type combinations for which three or more cases exist



# Key Takeaways—Claim Frequency



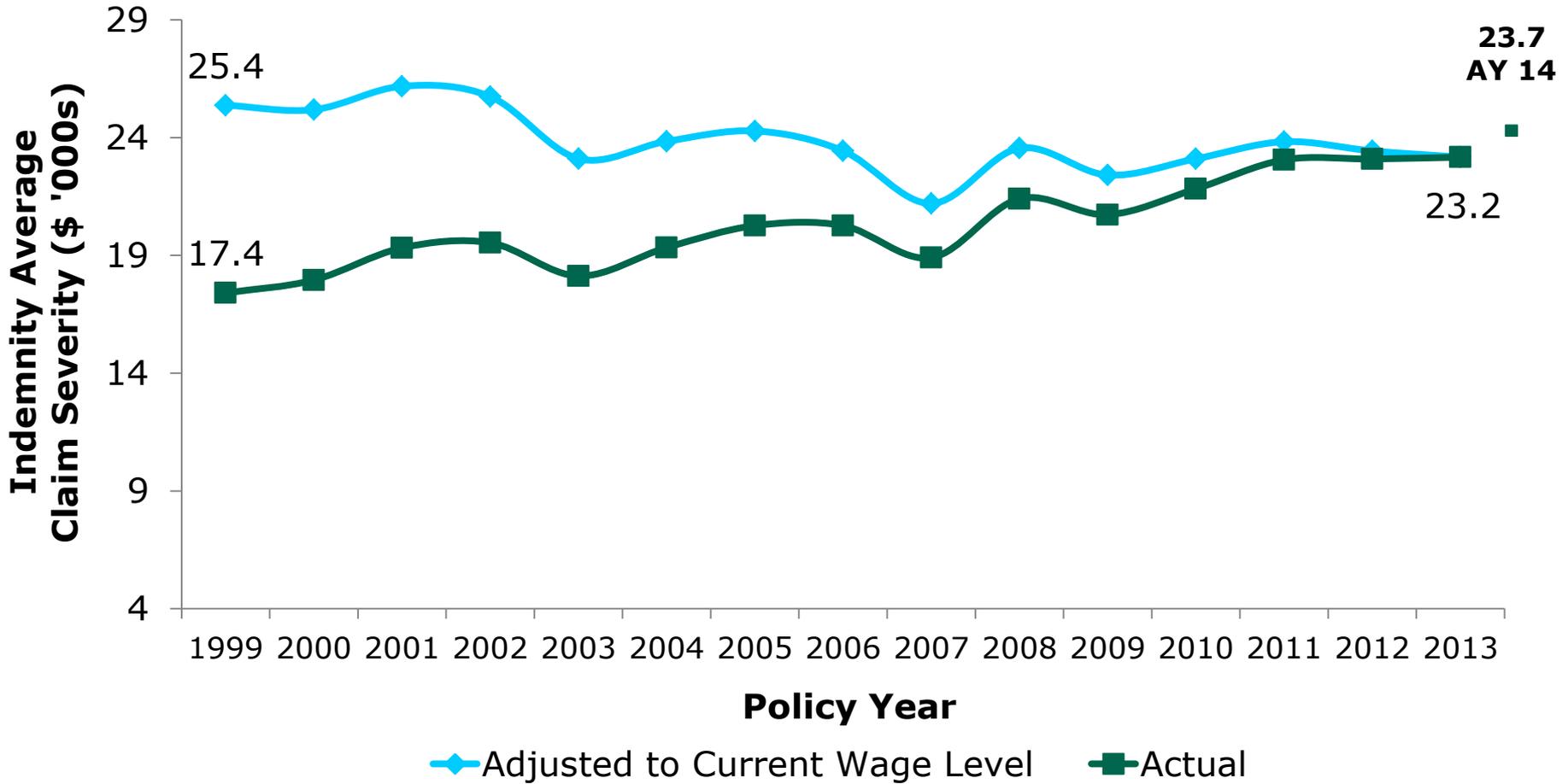


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## Indemnity and Medical Severity

# Kentucky's Average Indemnity Severity

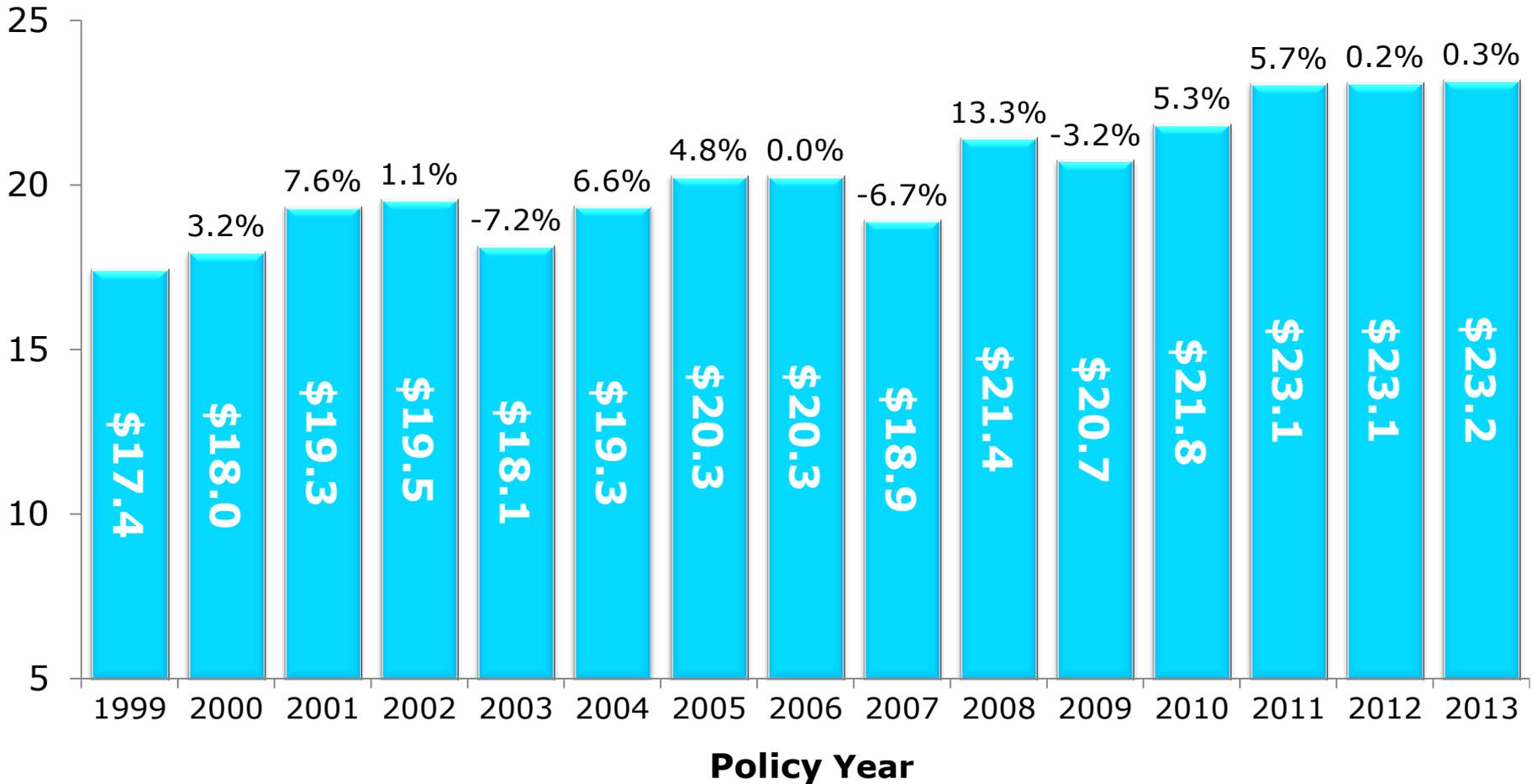


Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate



# Kentucky's Average Indemnity Claim Severity

## Lost-Time Claim Severity in \$ Thousands



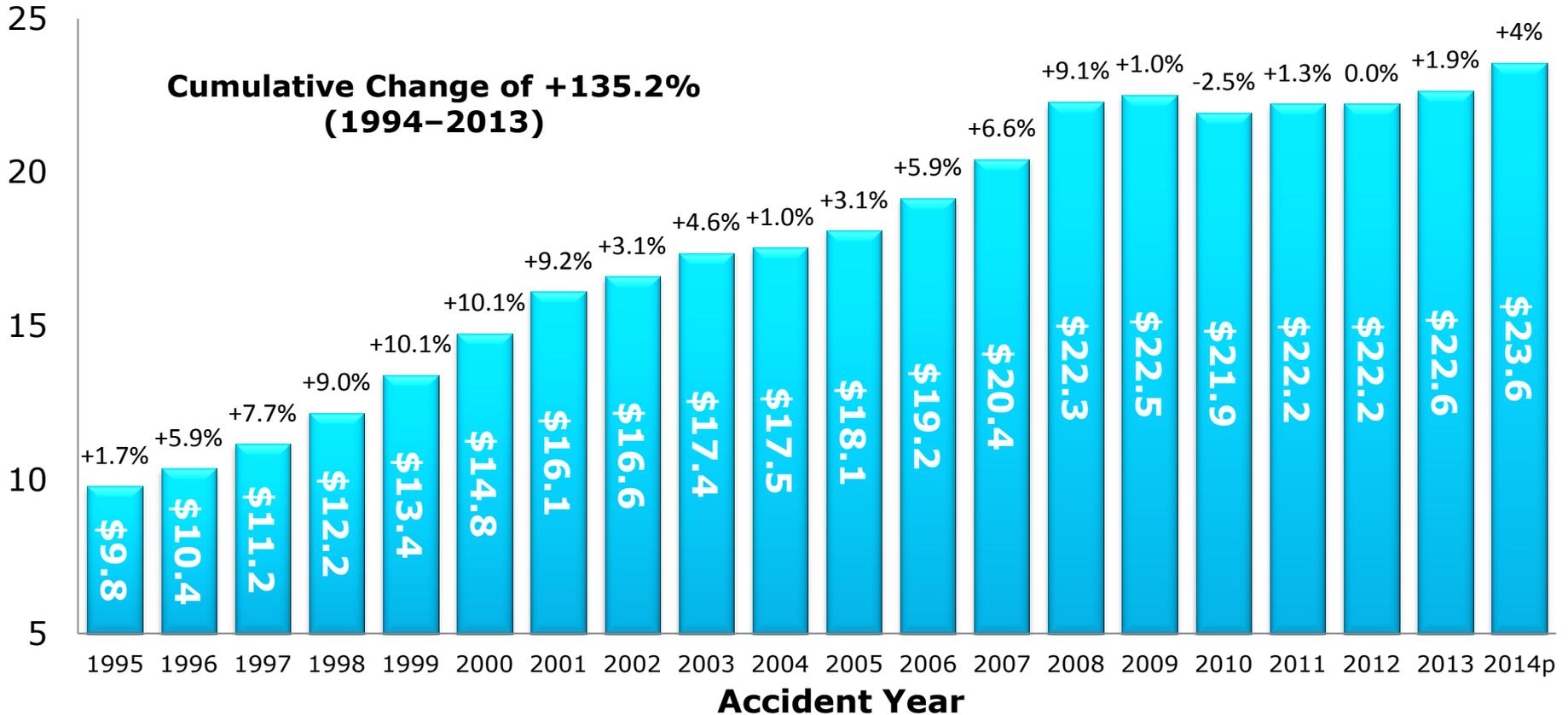
Based on data through 12/31/2014, on-leveled and developed to ultimate



# Countrywide Workers Compensation Average Indemnity Cost per Lost-Time Claim

## Private Carriers and State Funds

Severity  
(\$ Thousands)



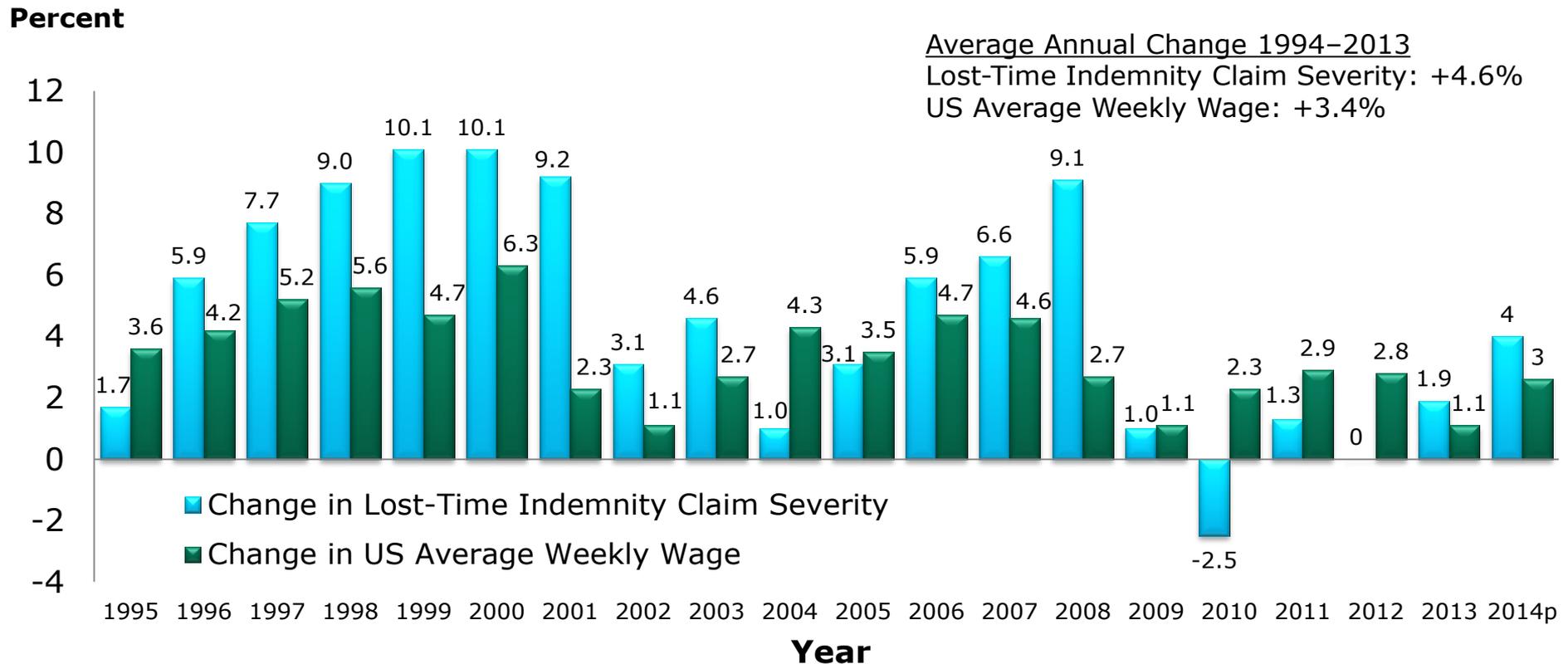
p Preliminary based on data valued as of 12/31/2014

Source: NCCI's Financial Call data, developed to ultimate; excludes high deductible policies; 1994-2013: based on data through 12/31/2013  
For all states where NCCI provides ratemaking services, excluding WV



# Countrywide Workers Compensation— Change in Indemnity Claim Severity Compared With the Change in the Average Weekly Wage

## Private Carriers and State Funds



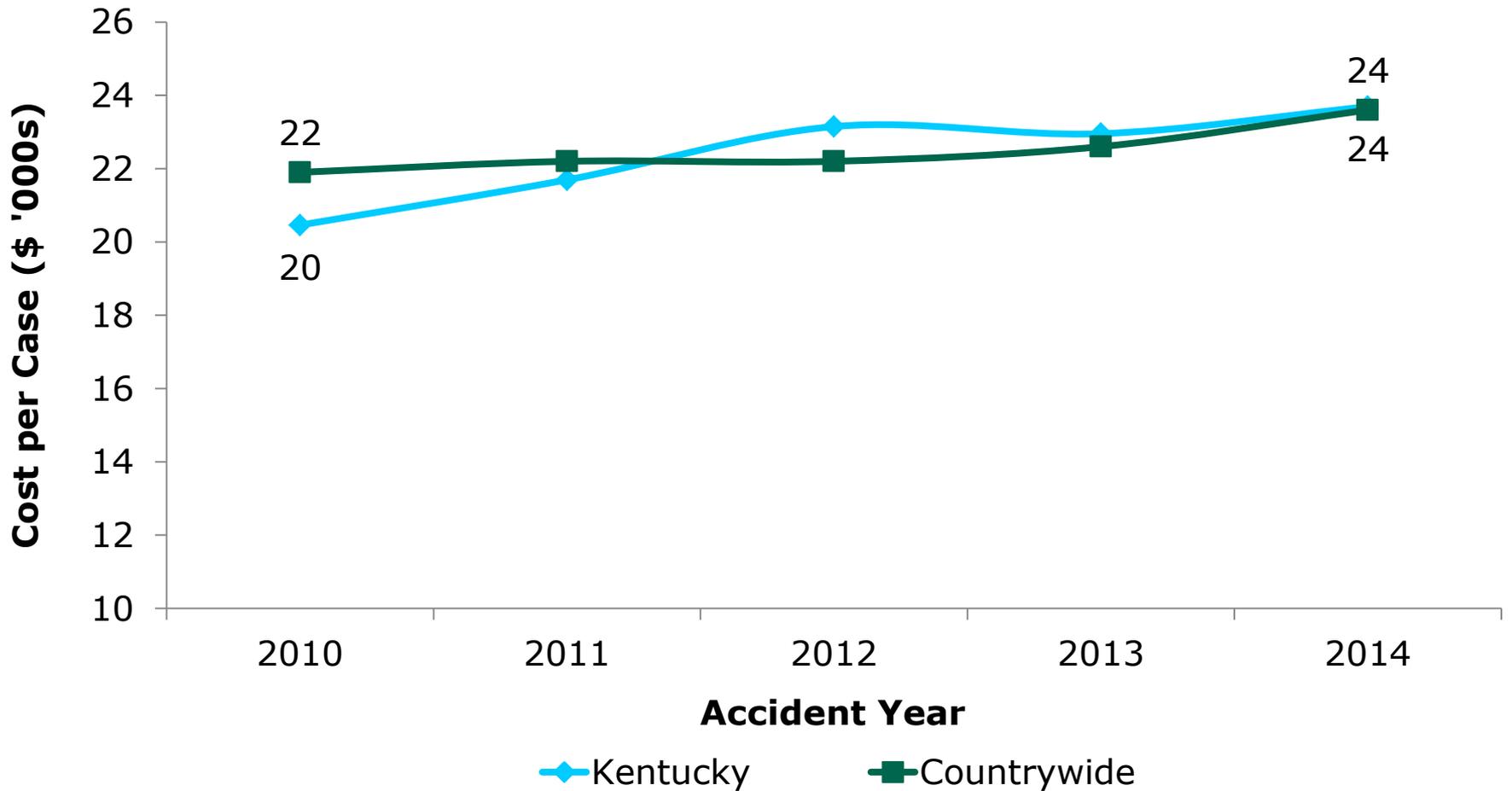
p Preliminary based on data valued as of 12/31/2014

Sources: Severity: NCCI's Financial Call data, developed to ultimate; excludes high deductible policies; 1994–2013: based on data through 12/31/2013

US Average Weekly Wage: 1994–2007, 2012–2013, Quarterly Census of Employment and Wages; 2008–2011, NCCI; 2014p, NCCI, Moody's Economy.com

Severity: For all states where NCCI provides ratemaking services, excluding WV

# Kentucky vs. Countrywide Average Indemnity Claim Severity



Source: NCCI's financial data



# Medical Benefits Constitute the Majority of Total Benefit Costs in Kentucky

## Kentucky



## Region



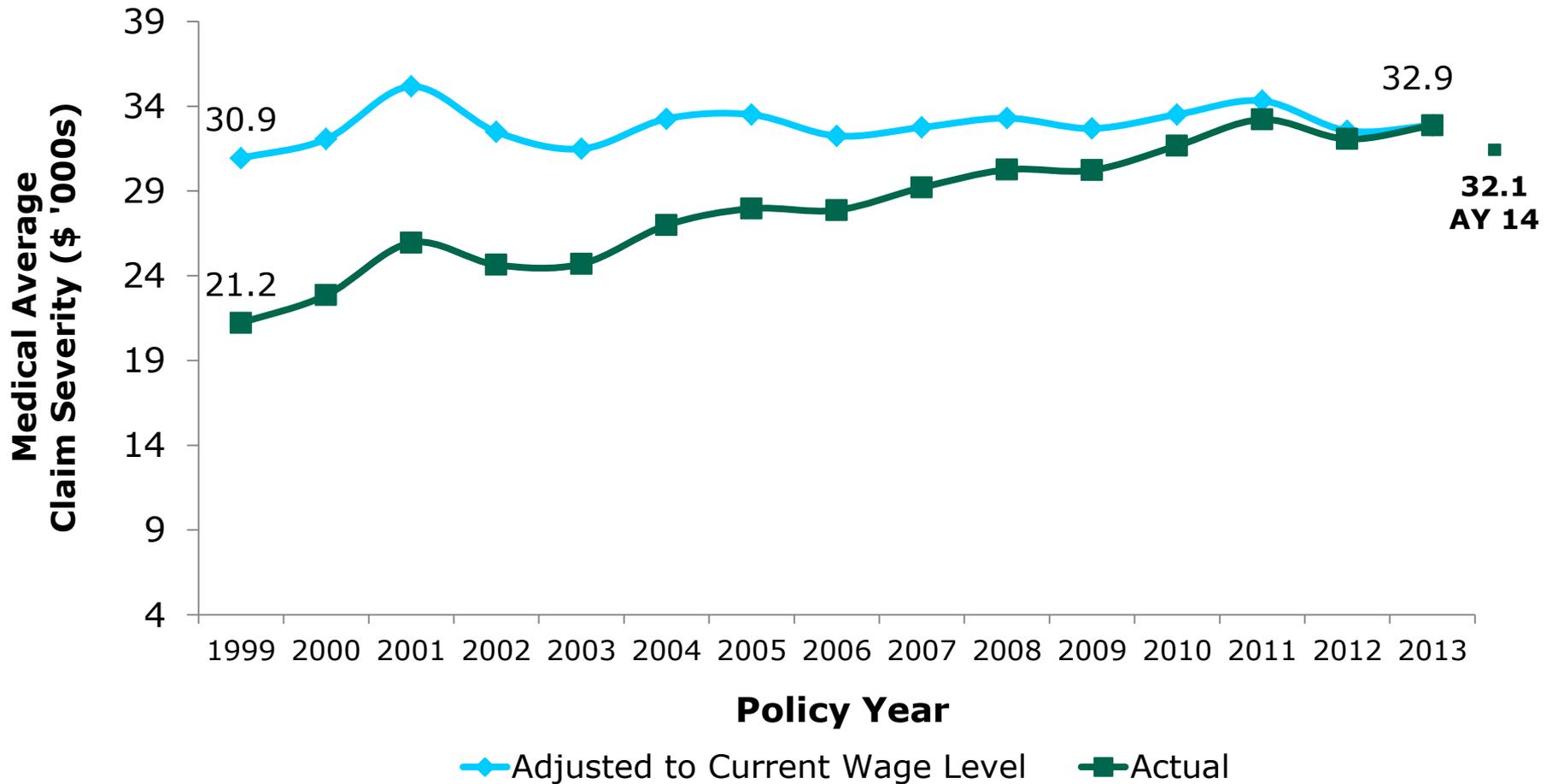
## Countrywide



Regional states are IL, IN, TN, and VA  
Based on NCCI's financial data



# Kentucky's Average Medical Severity

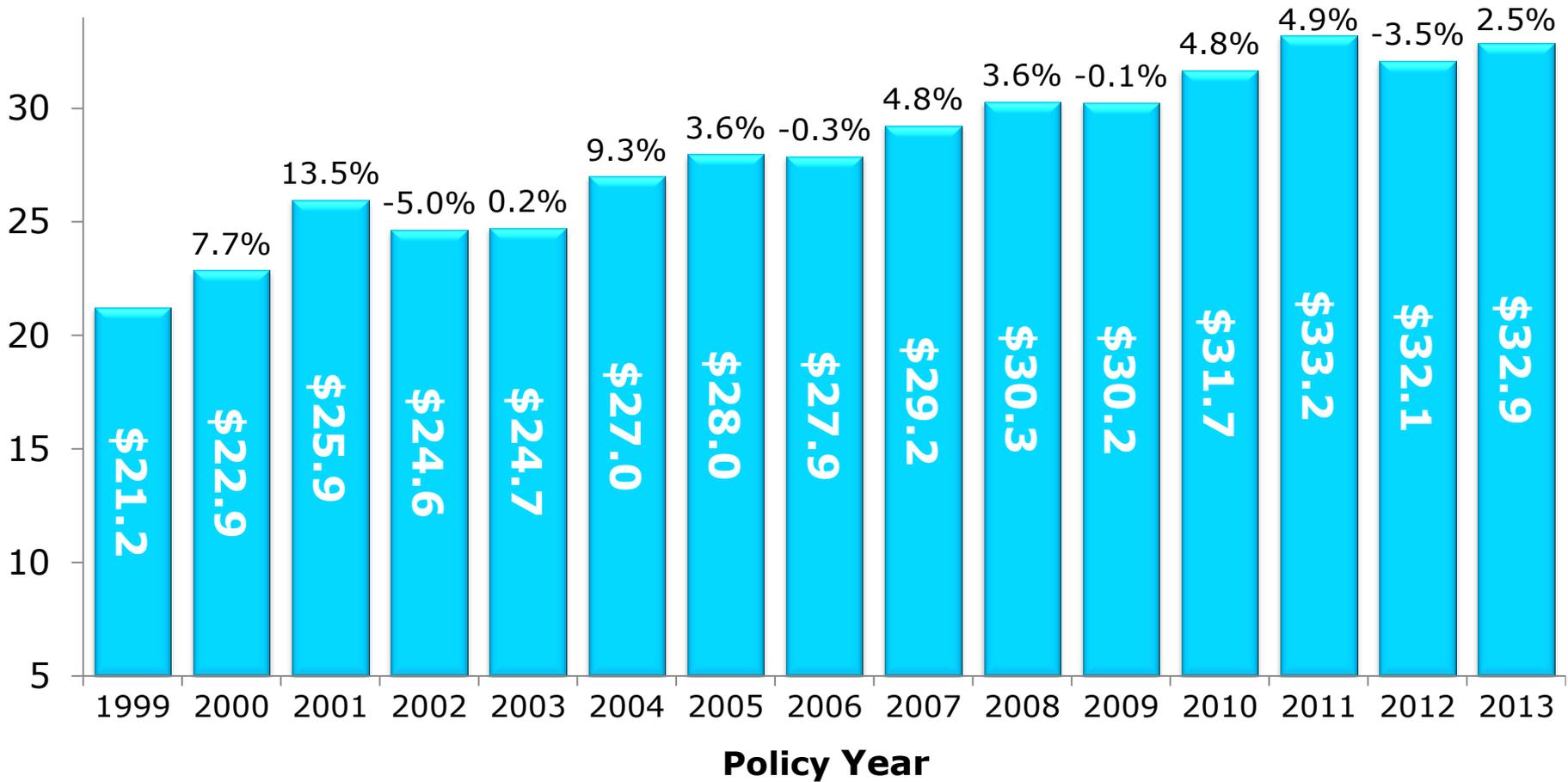


Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate



# Kentucky's Average Medical Claim Severity

Lost-Time Claim Severity in \$ Thousands



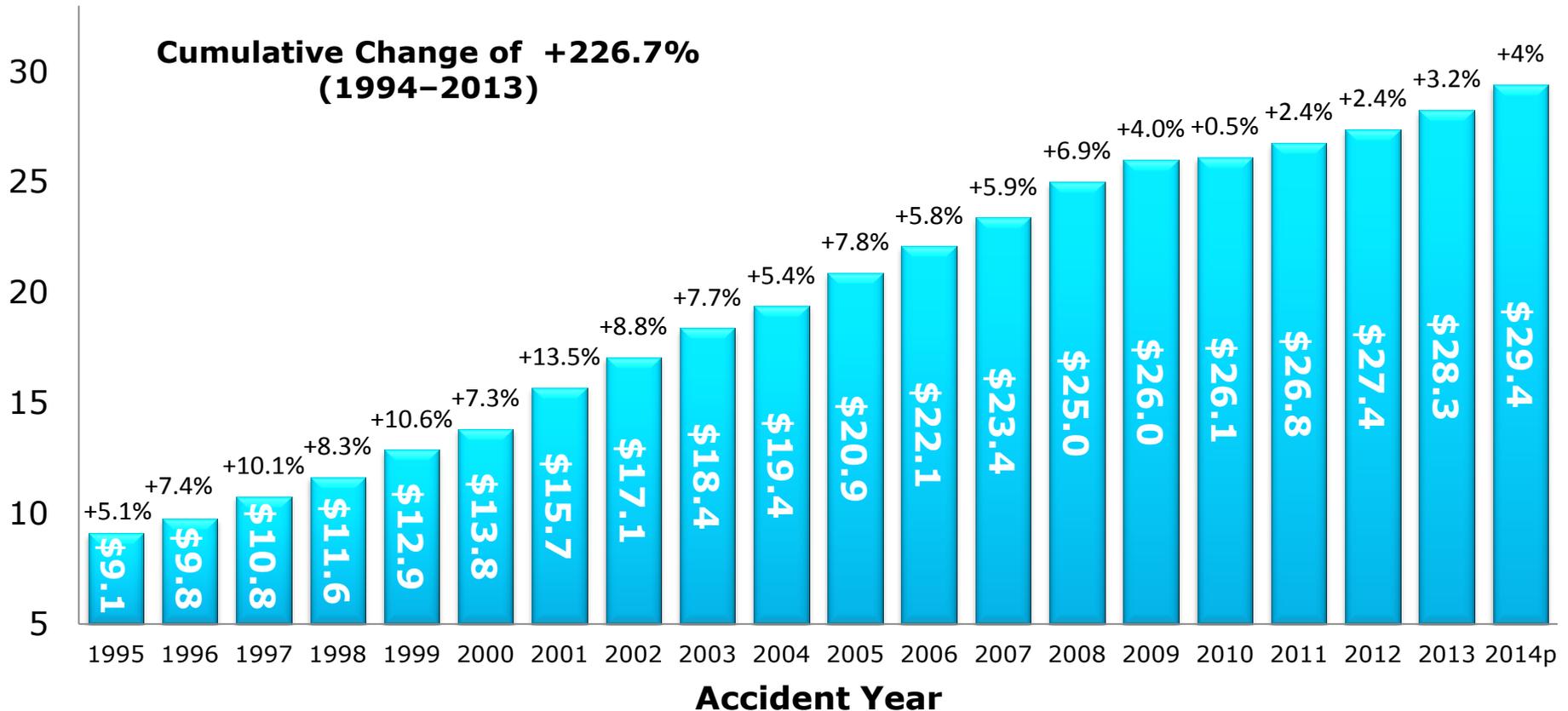
Based on data through 12/31/2014, on-leveled and developed to ultimate



# Countrywide Workers Compensation Average Medical Cost per Lost-Time Claim

## Private Carriers and State Funds

Severity  
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2014

Source: NCCI's Financial Call data, developed to ultimate; excludes high deductible policies; 1994–2013: Based on data through 12/31/2013

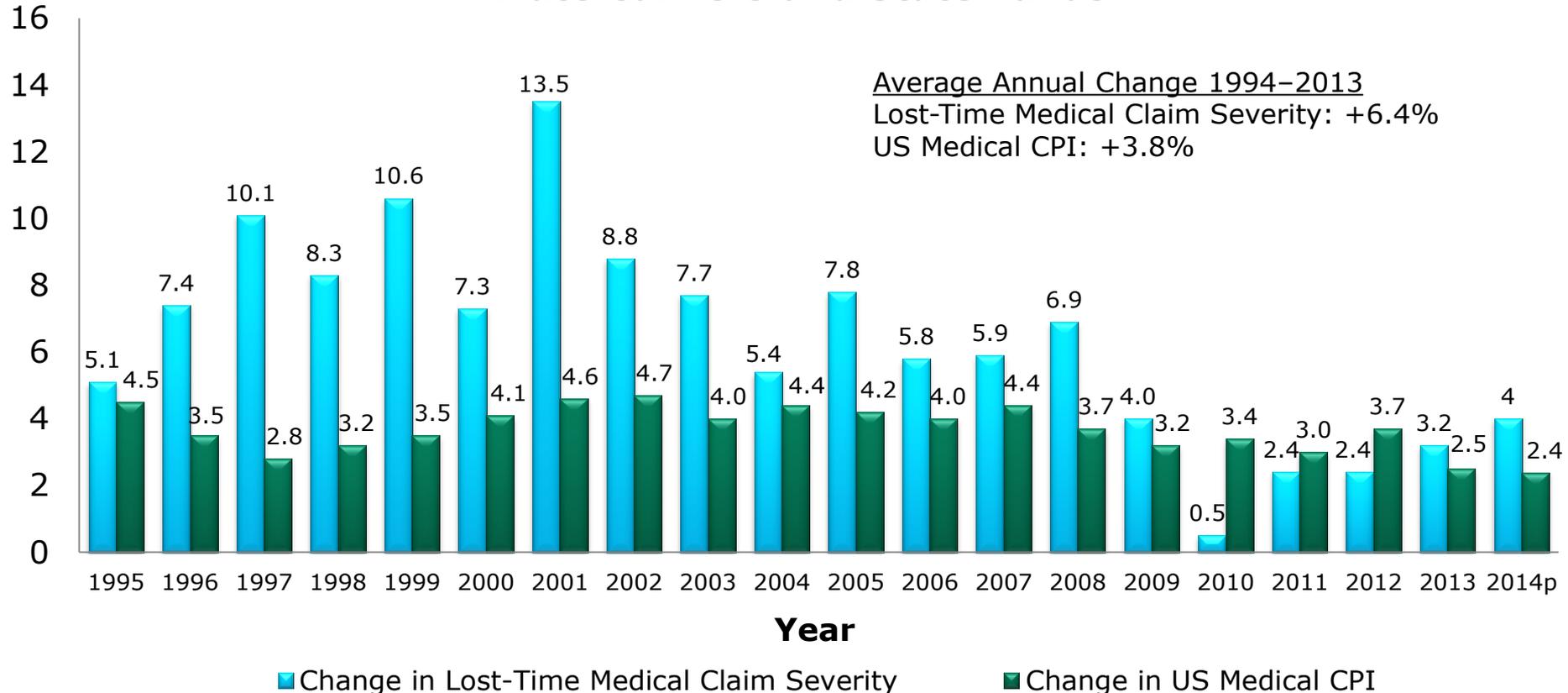
For all states where NCCI provides ratemaking services, excluding WV



# Countrywide Workers Compensation Change in Medical Severity Compared With the Change in the Medical Consumer Price Index (CPI)

## Private Carriers and State Funds

Percent



p Preliminary based on data valued as of 12/31/2014

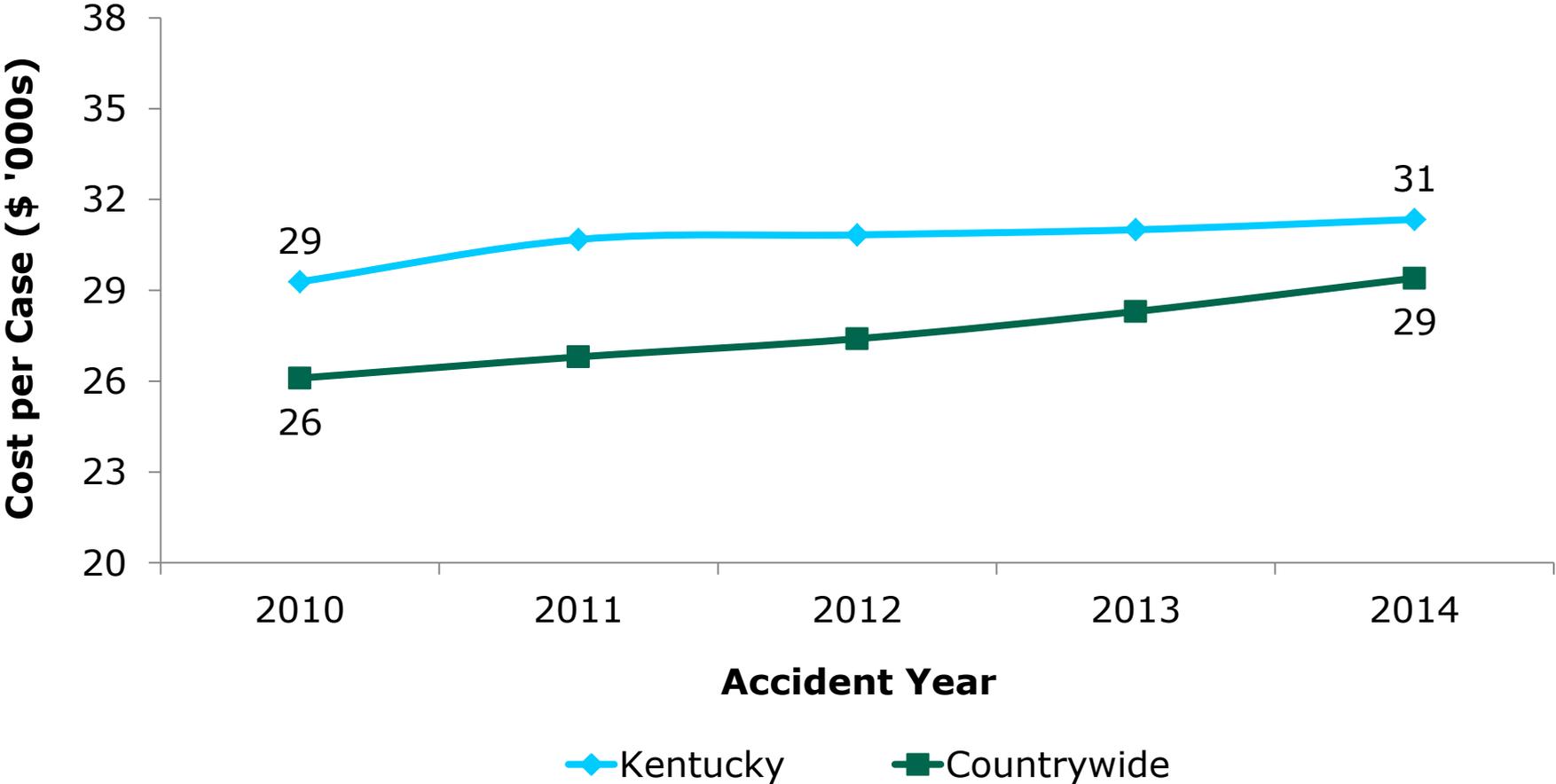
Sources: Severity: NCCI's Financial Call data, developed to ultimate; excludes high deductible policies; 1994–2013: based on data through 12/31/2013

US Medical CPI: US Bureau of Labor Statistics

Severity: For all states where NCCI provides ratemaking services, excluding WV



# Kentucky vs. Countrywide Average Medical Claim Severity

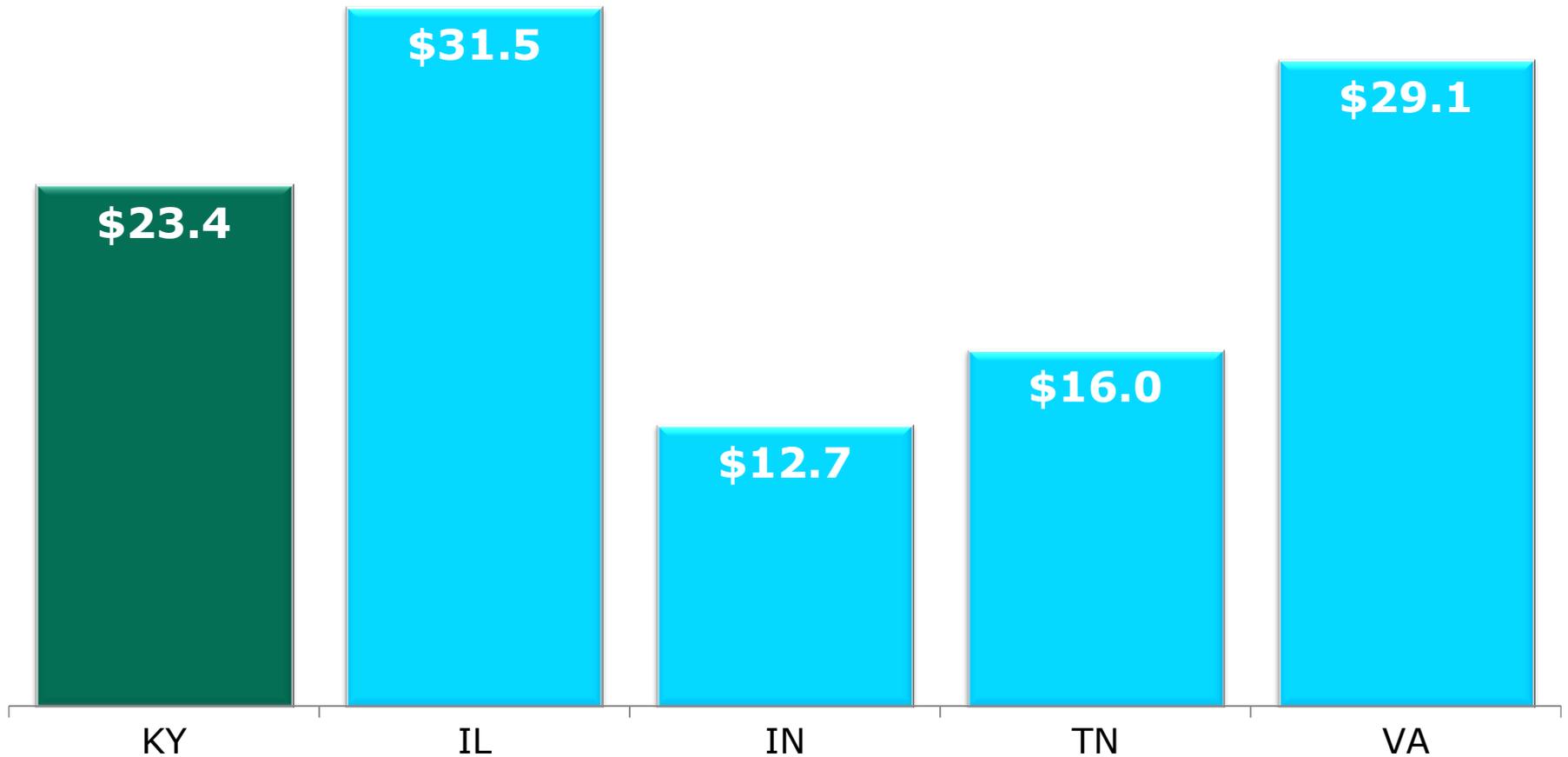


Source: NCCI's financial data



# Average Indemnity Claim Severity in the Region

Lost-Time Claim Severity in \$ Thousands

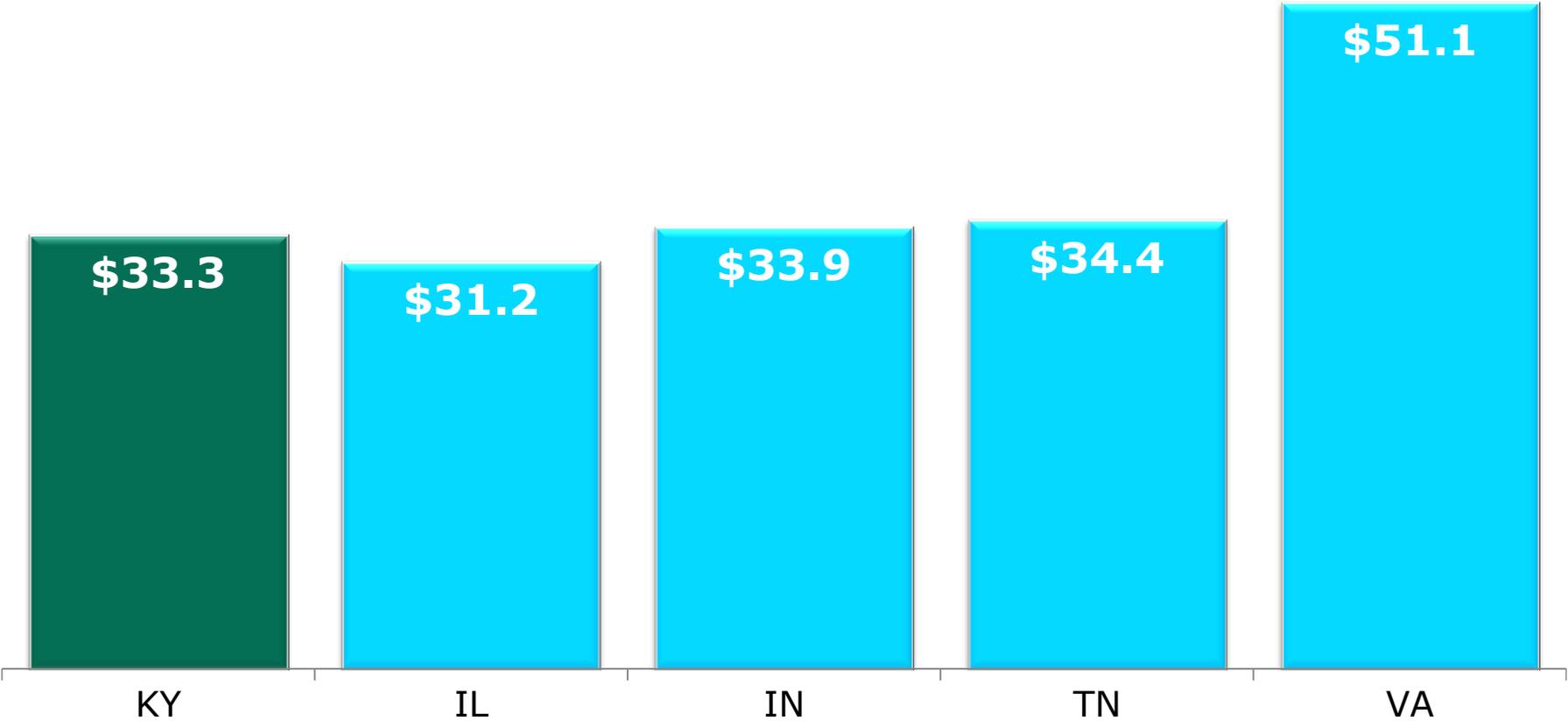


Based on NCCI's financial data for lost-time claims



# Average Medical Claim Severity in the Region

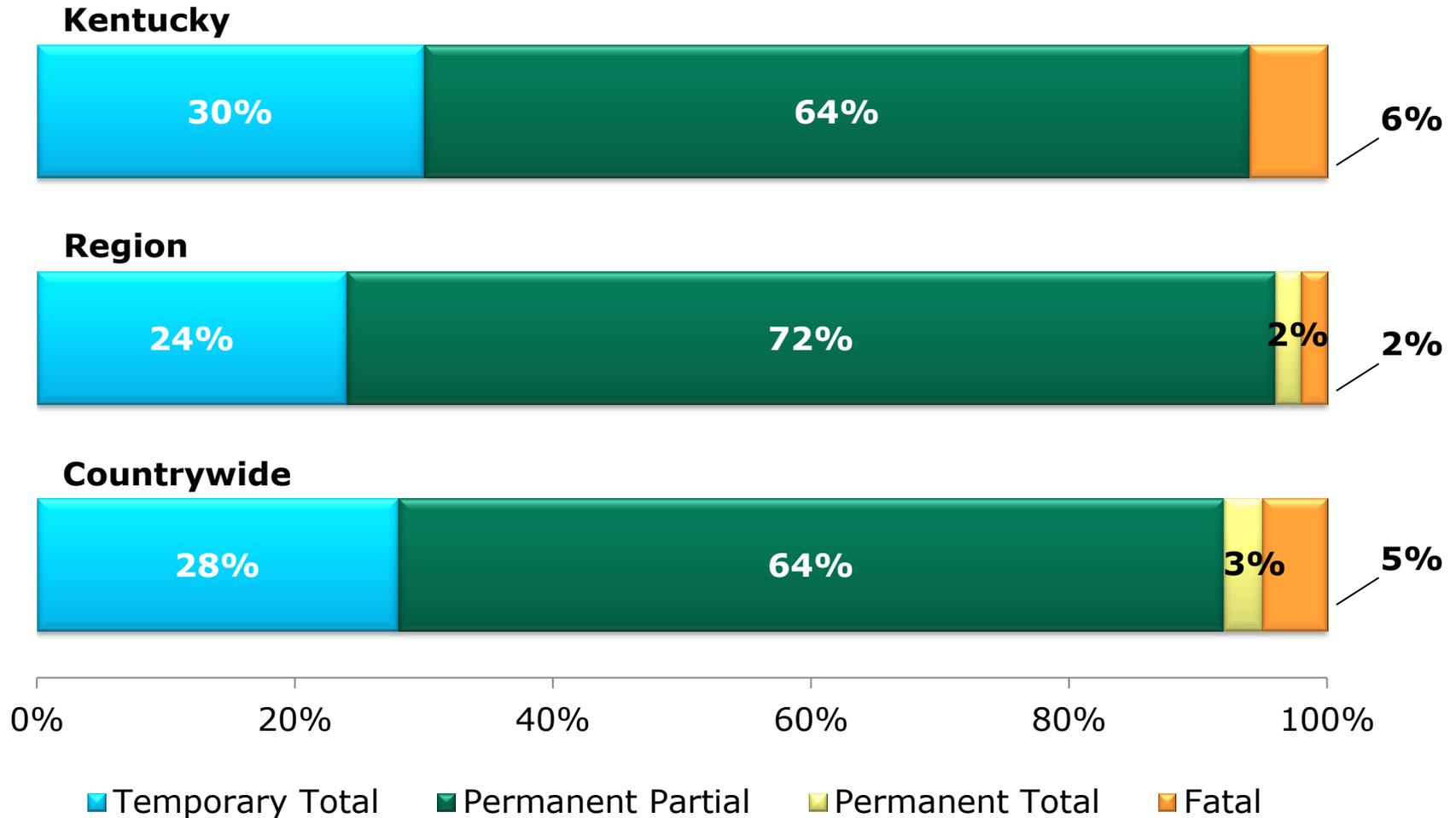
Lost-Time Claim Severity in \$ Thousands



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



# Kentucky's Indemnity Loss Distribution by Injury Type

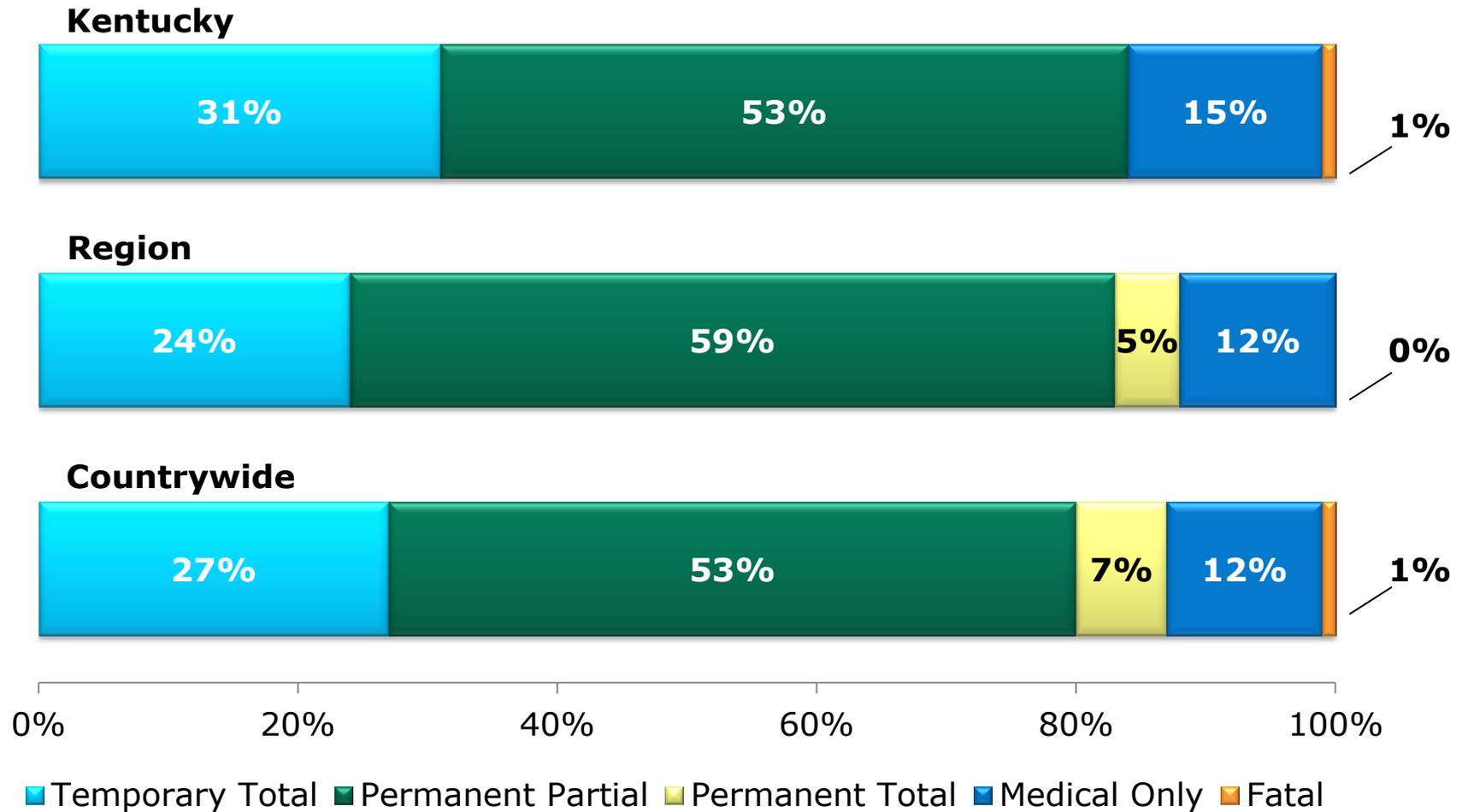


Regional states are IL, IN, TN, and VA

Based on NCCI's *Statistical Plan* data for jurisdictions/claim type combinations for which three or more cases exist



# Kentucky's Medical Loss Distribution by Injury Type

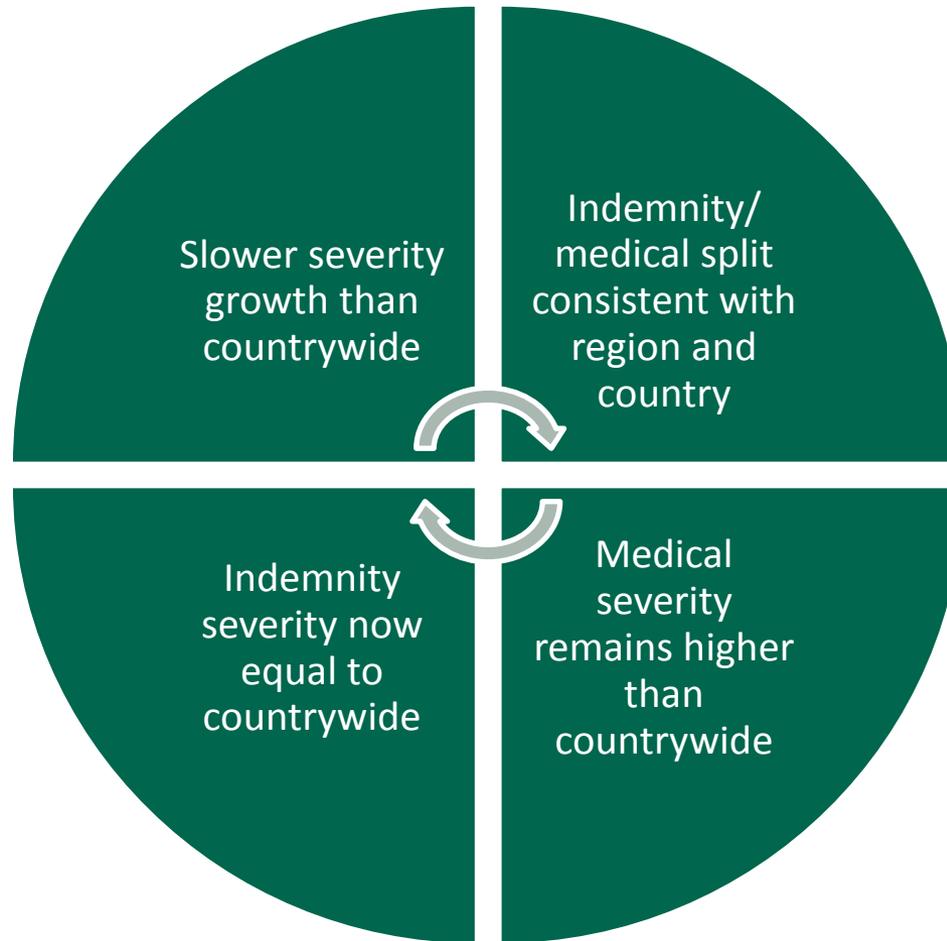


Regional states are IL, IN, TN, and VA

Based on NCCI's **Statistical Plan** data for jurisdictions/claim type combinations for which three or more cases exist



# Key Takeaways—Severity





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## Nationwide Economic Outlook

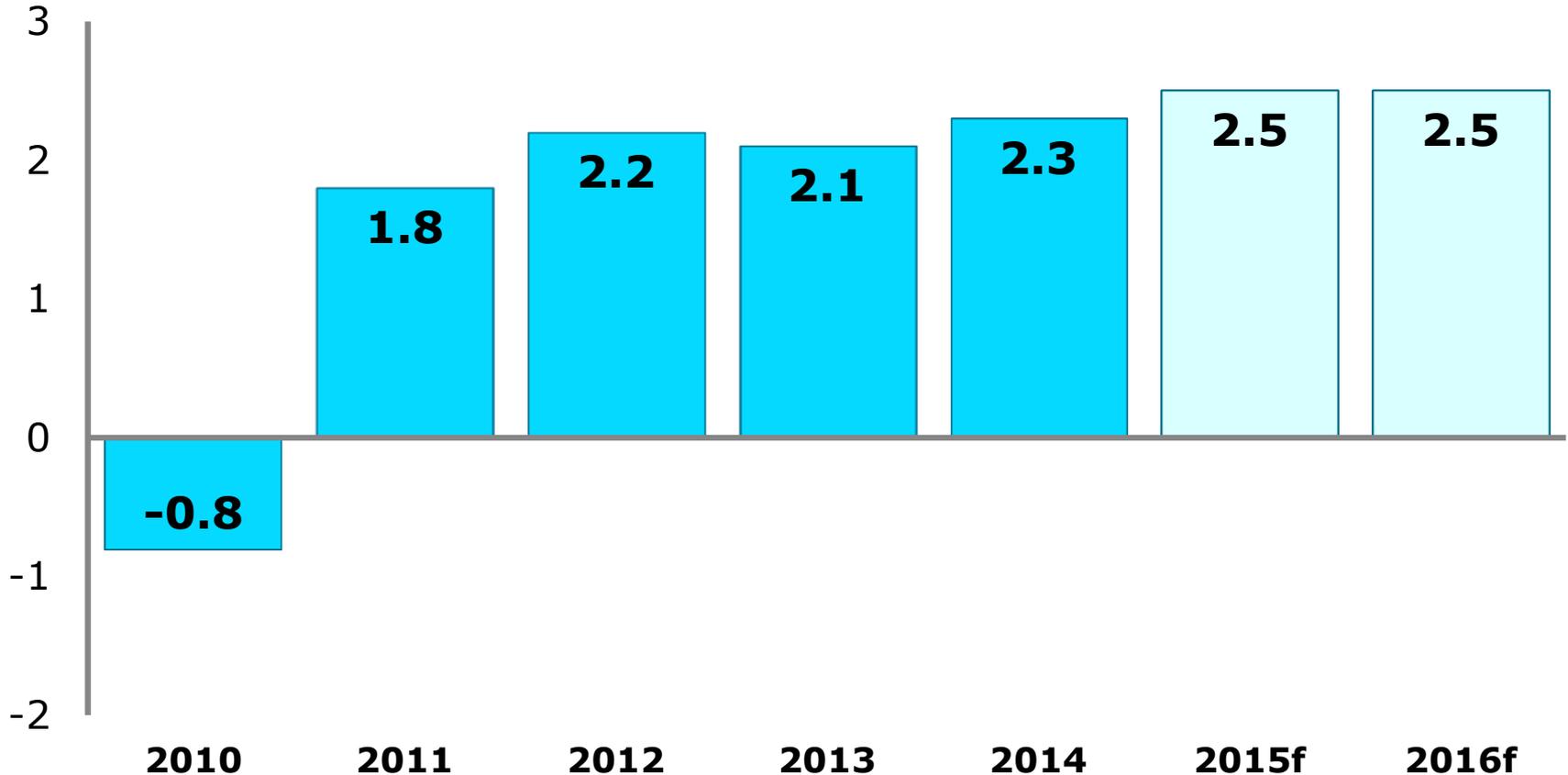
# National Economic Highlights and Their Impact on Workers Compensation

National Economic Indicator	Potential Impact on Workers Compensation Market
Private employment is expected to grow	Premium increases from higher payroll and higher expected claim frequency for new workers
Wage growth is poised to accelerate	Upward pressure on payroll and premium as well as indemnity severity
The Federal Reserve expects to start raising rates	Higher interest rates mean better returns on invested funds
Oil and natural gas prices are likely to stay low	Low energy prices benefit most producers, but layoffs in the energy sector negatively impact energy-dependent states
Economic weakness in Europe and China should keep the dollar strong	A strong dollar may cut employment in export-centric industries, particularly equipment manufacturing and technology

# Forecast Is for Growth in the Private Sector

## US Private Employment Growth

Annual  
Growth Rate  
Percent



f Forecast years: 2015–2016

Private Nonfarm Employment

Frequency of observation: annual; latest historical data point: 2014

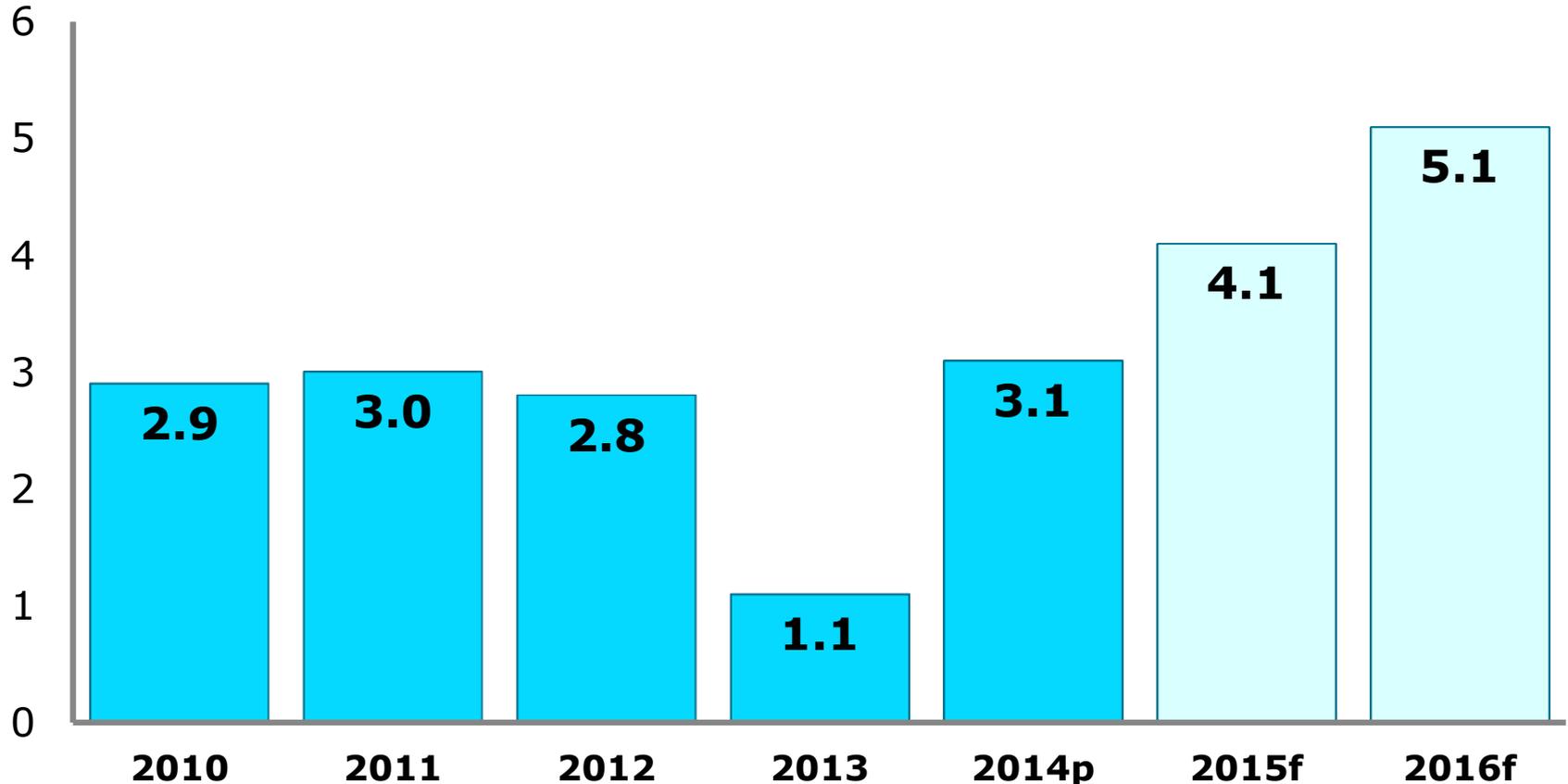
Sources: US Bureau of Labor Statistics (BLS), [www.bls.gov](http://www.bls.gov); Moody's Analytics



# Wages Have Rebounded From the Low Increase in 2013

## US Average Weekly Wage Growth

Annual  
Growth Rate  
Percent



p Preliminary; f Forecast years: 2015–2016

Wages are for Total Private Industry

Frequency of observation: annual; latest historical data point: 2014 (preliminary)

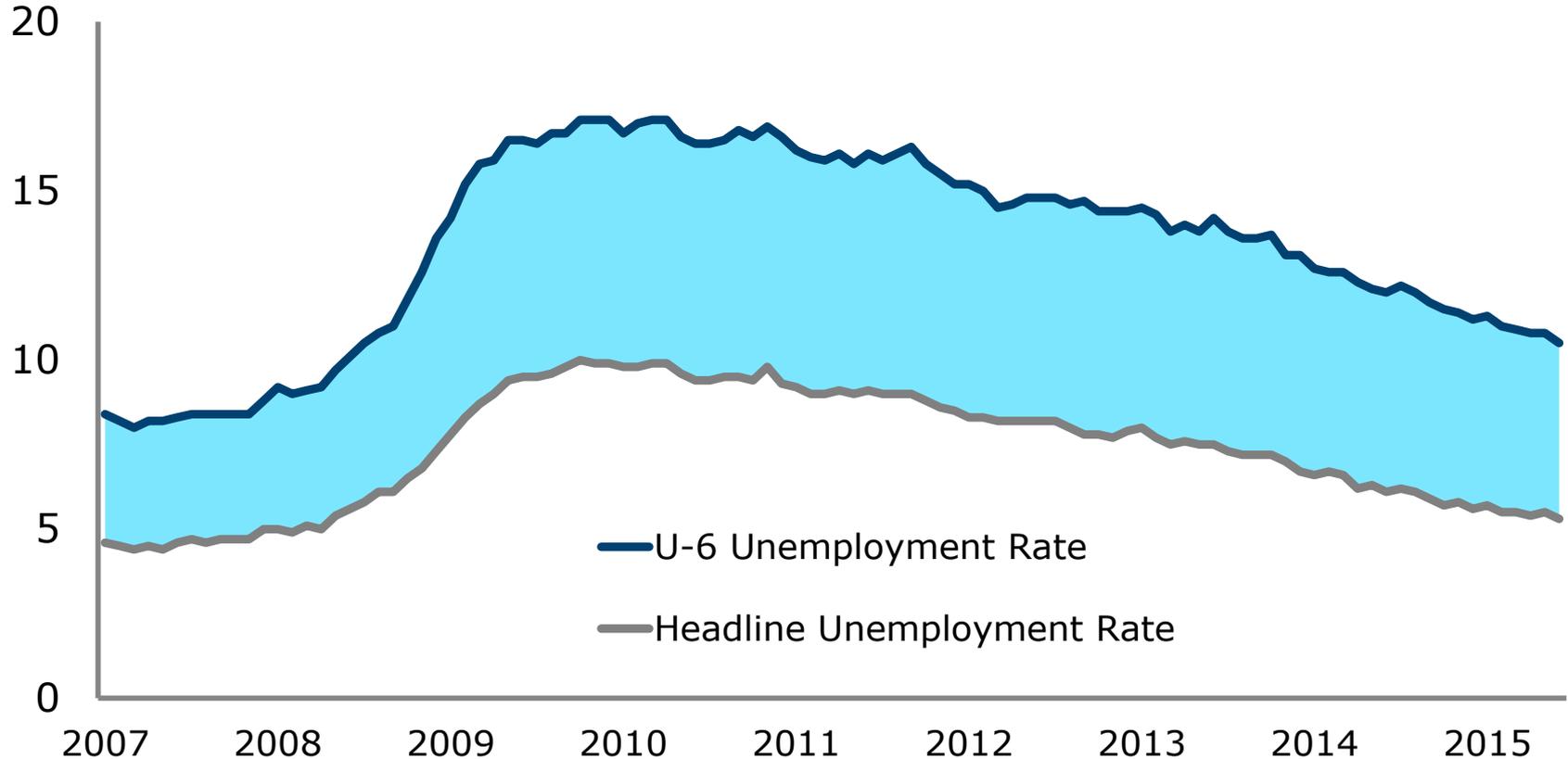
Sources: US Bureau of Labor Statistics (BLS), [www.bls.gov](http://www.bls.gov); Moody's Analytics; NCCI



# The US Unemployment Rate Continues to Decline, but Is Higher When Including Marginally Attached Workers

Percent

## Headline Unemployment Rate and U-6



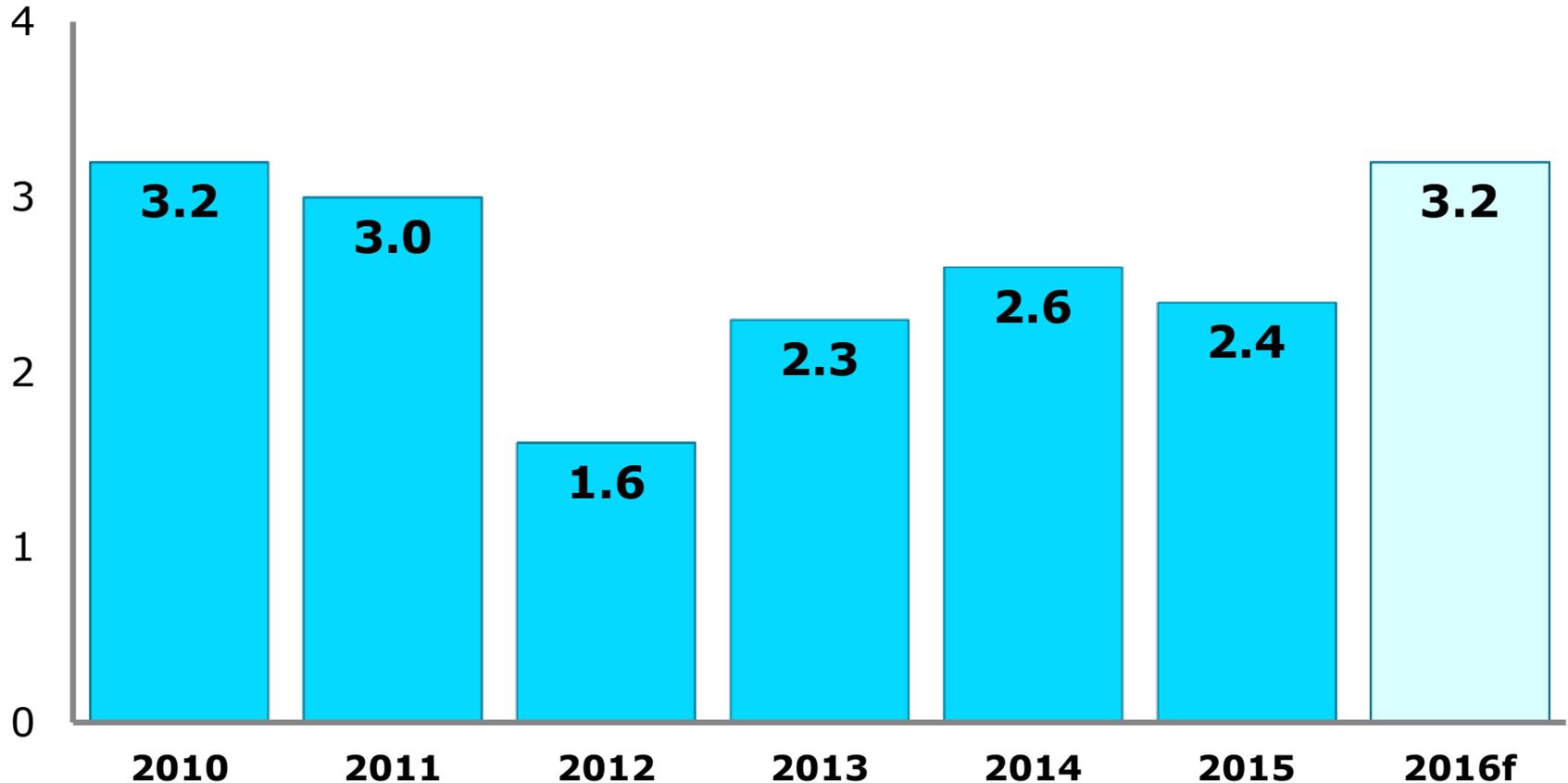
U-6 measures the number of the unemployed, the marginally attached, and part-time for economic reasons  
Headline (official) unemployment rate and U-6 are seasonally adjusted  
Frequency of observation: monthly; latest available data point: June 2015  
Sources: Moody's Analytics, [www.economy.com](http://www.economy.com); US Bureau of Labor Statistics (BLS), [www.bls.gov](http://www.bls.gov)



# Interest Rates Are Expected to Increase in 2016

## 10-Year Treasury Notes

Percent



f Forecast year: 2016

Frequency of observation: interest rate as of June; latest historical data point: June 2015

Sources: Federal Reserve Board and Moody's Analytics





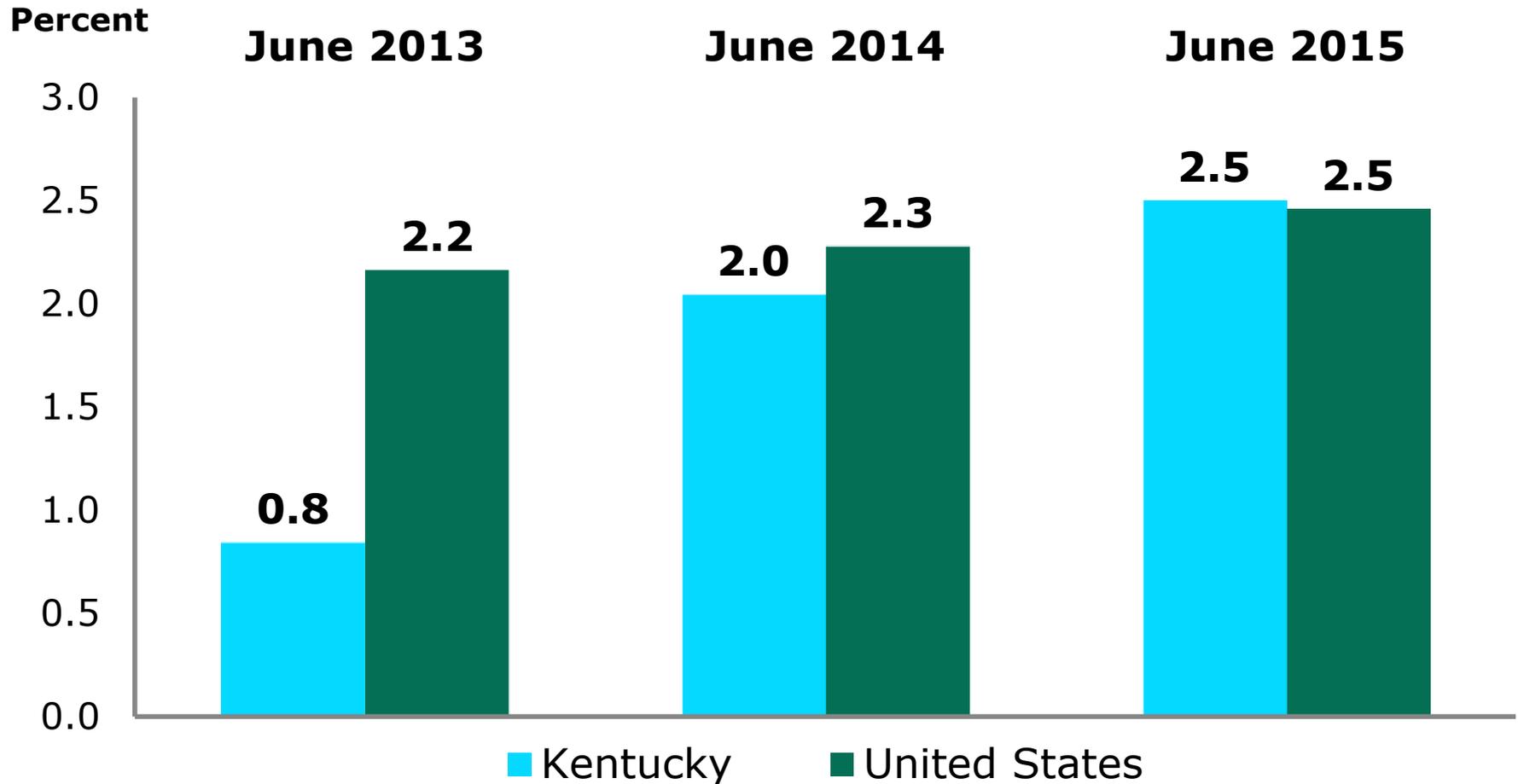
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## How Does the Kentucky Economy Compare?

# Change in Private Employment

**Private Employment Growth Is in Line With the Rest of the Nation This Year After Posting Below-Average Gains the Last Two Years**



Private Nonfarm Employment, seasonally adjusted

Frequency of observation: monthly; latest available data point: June 2015; percentage change for the 12 months ending each June

Source: US Bureau of Labor Statistics (BLS), [www.bls.gov](http://www.bls.gov)



# Change in Employment by Industry

## Employment Has Increased for Most Industries Over the Past 12 Months

Industrial Sector		12-Month Percent Change, June 2015		Sector Size	% Share	12-Month Change
Education and Health Services	KY	+4.6		271,100	14	+11,900
	US	+2.7				
Professional and Business Services	KY	+4.3		218,600	12	+9,100
	US	+3.5				
Construction	KY	+4.0		75,800	4	+2,900
	US	+4.2				
Financial Activities	KY	+3.0		92,500	5	+2,700
	US	+2.0				
Manufacturing	KY	+2.9		240,600	13	+6,700
	US	+1.3				
Leisure and Hospitality	KY	+1.4		185,400	10	+2,600
	US	+2.9				
Other Services	KY	+1.1		64,300	3	+700
	US	+1.5				
Trade, Transportation, and Utilities	KY	+1.0		380,200	20	+3,700
	US	+2.0				
Government	KY	+0.6		324,900	17	+1,800
	US	+0.3				
Information	KY	-1.9		25,800	1	-500
	US	+2.2				
Natural Resources and Mining	KY	-9.1		15,000	1	-1,500
	US	-5.5				

Percentage change for the latest 12 months as of June 2015

Current Employment Statistics Survey, seasonally adjusted; frequency of observation: monthly

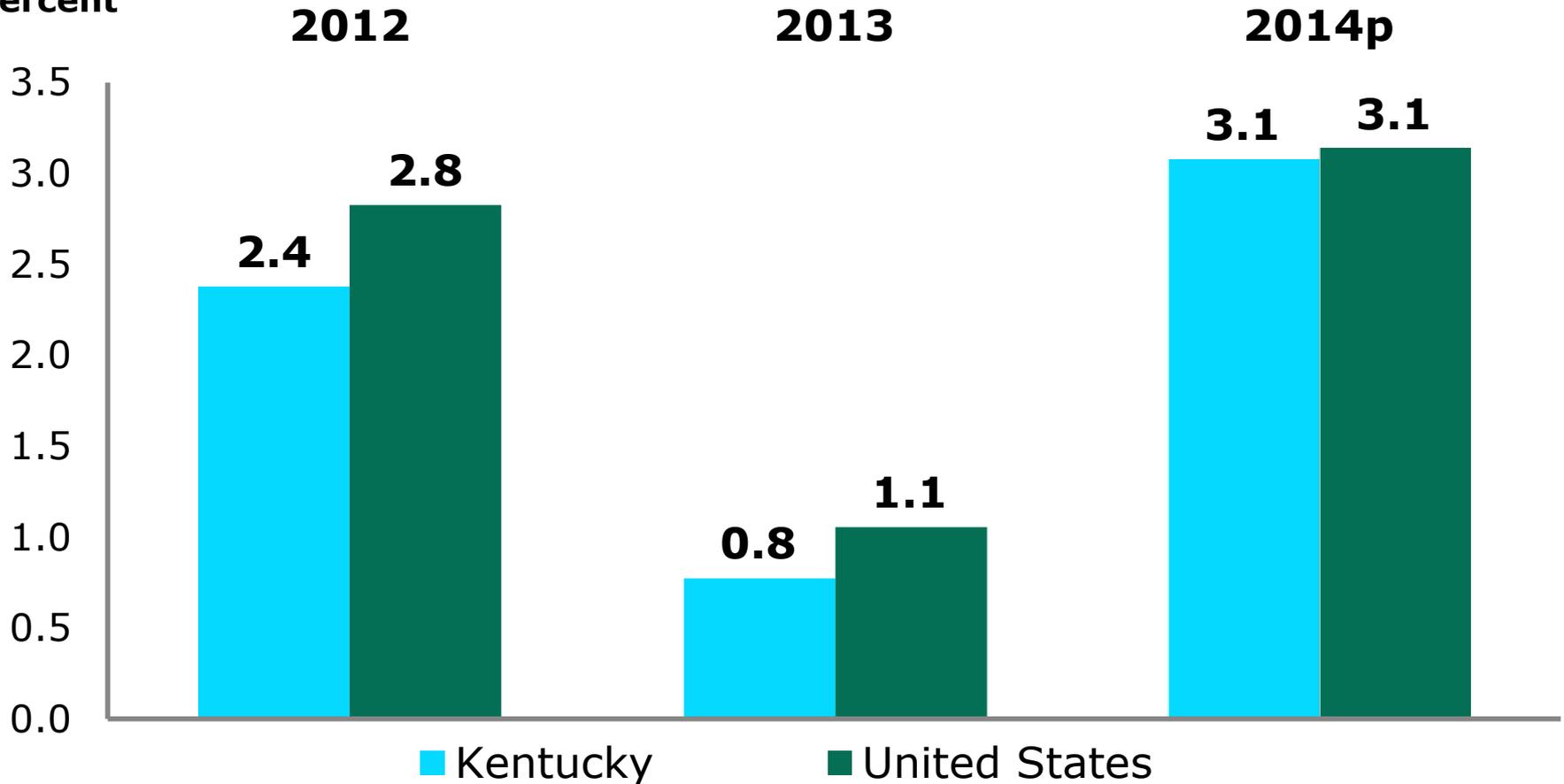
Source: US Bureau of Labor Statistics (BLS), [www.bls.gov/ces](http://www.bls.gov/ces)



# Change in Average Weekly Wages

## Wage Growth Is Keeping Pace With the Rest of the Nation in the Most Recent Year

Percent

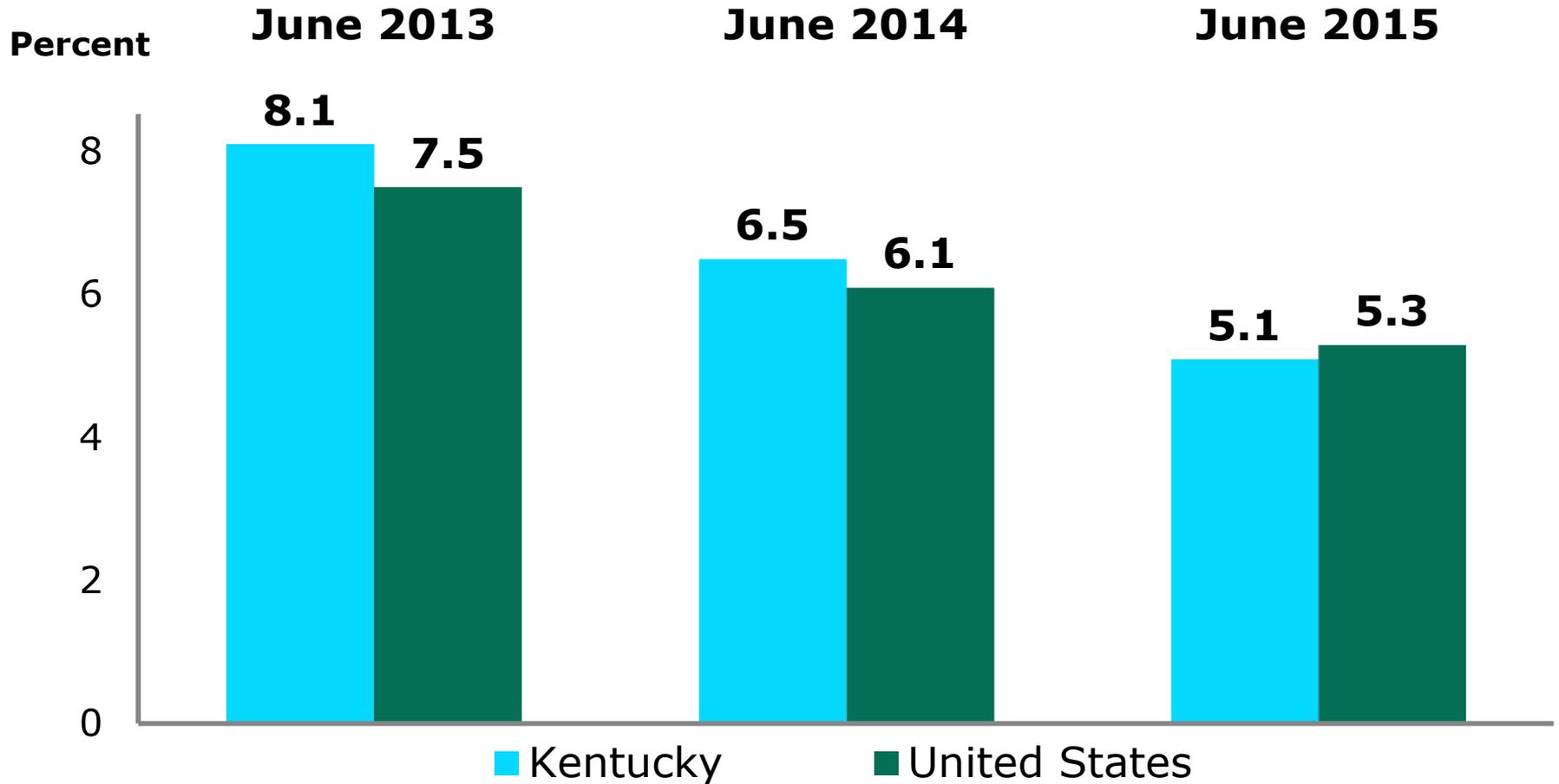


Wages are for Total Private Industry  
Frequency of observation: annual; latest available data point: 2014 (preliminary)  
Source: US Bureau of Labor Statistics (BLS), [www.bls.gov](http://www.bls.gov)



# Headline Unemployment Rate

## The Unemployment Rate Has Fallen to Below the National Average



Headline Unemployment rate, seasonally adjusted  
Frequency of observation: monthly; latest available data point: June 2015  
Source: US Bureau of Labor Statistics (BLS), [www.bls.gov](http://www.bls.gov)



# Kentucky Economic Highlights

- Kentucky's unemployment rate has fallen to below the US rate
- Employment growth is now keeping pace with the United States:
  - Coal mining has seen significant declines, but other industries are posting gains
  - Professional and Business Services and Education and Health Services are strong sources of job creation nationally, and Kentucky's growth rates exceed the national average
  - Construction is also posting strong increases
- Wage growth in Kentucky is in line with the national average



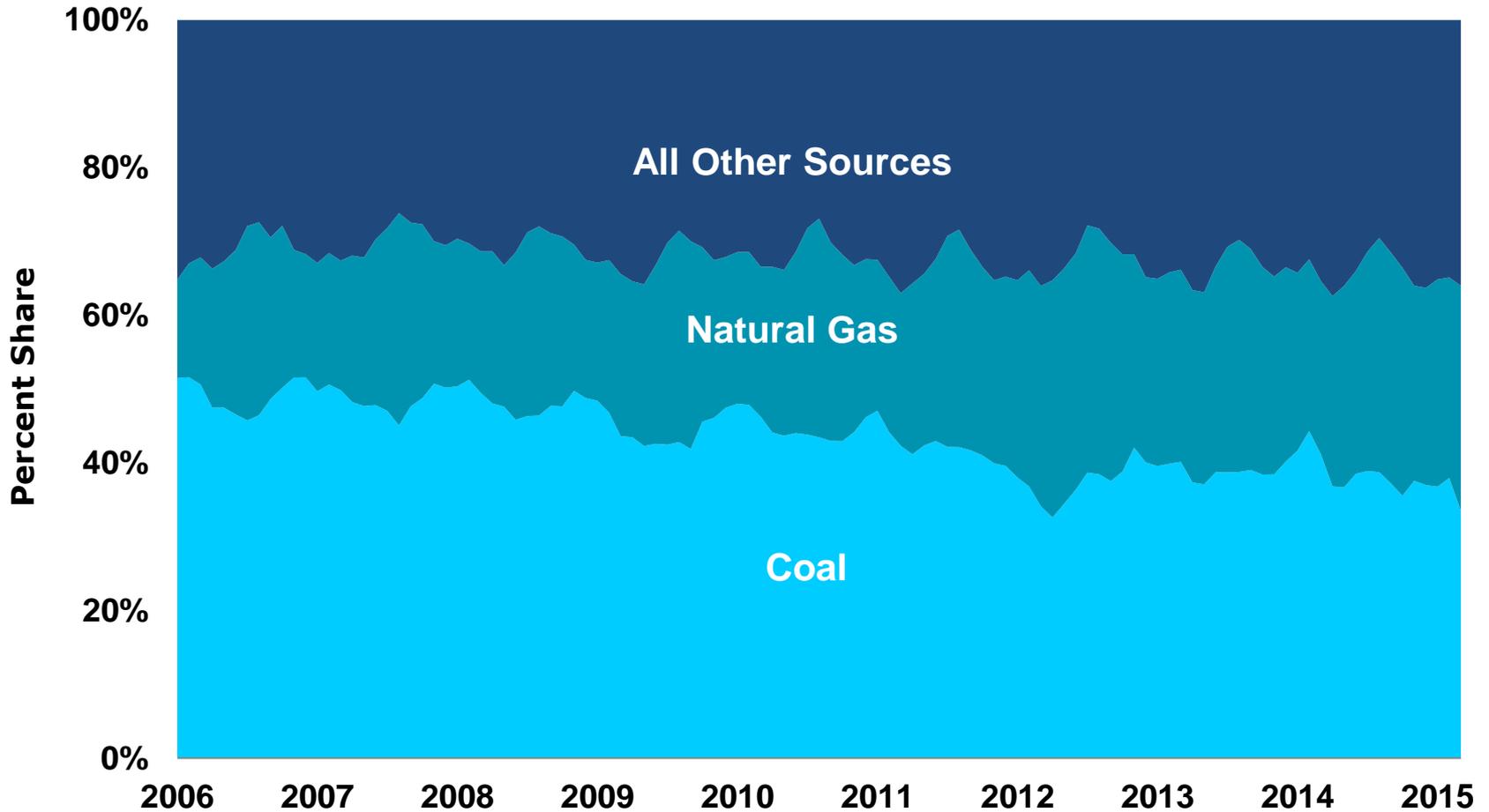
# STATE ADVISORY FORUM 2015

## Coal Mining



# US Electricity Generation by Source

## Natural Gas, Solar, and Wind Are Taking Share From Coal

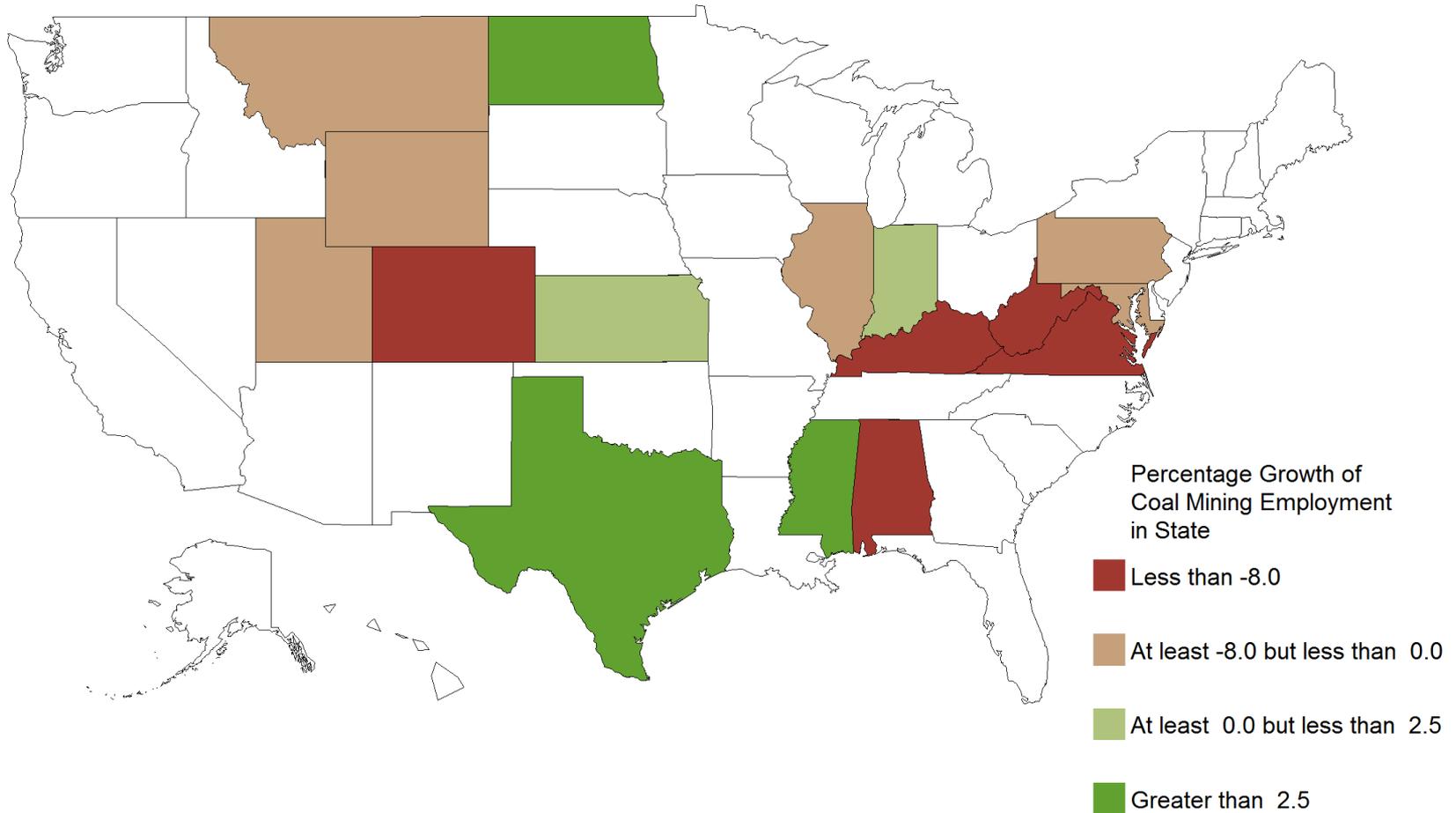


Frequency of observation: monthly; data represented through March 2015  
Source: US Energy Information Administration (EIA)



# Growth of Coal Mining Employment

## Employment in Coal Mining Is Declining Throughout Much of the Country



Coal Mining is NAICS 2121 Coal Mining, all establishment sizes, private ownership

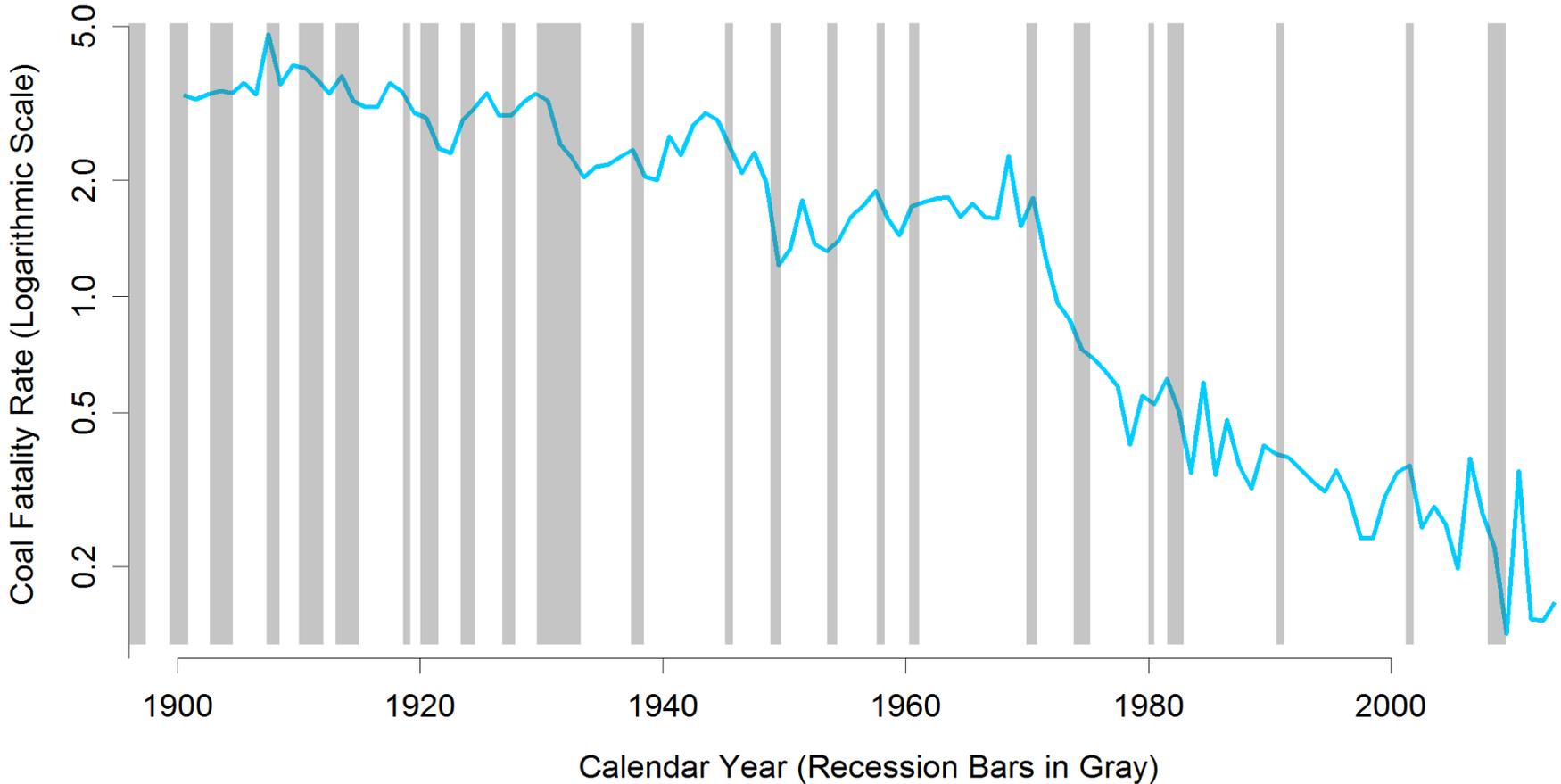
Average Annual Change in Coal Mining Employment: December 2014 (preliminary) over December 2012

Frequency of observation: monthly; states printed in white: no reported coal mining activity or employment data cannot be broken down to the level of coal mining due to disclosure restrictions

Sources: Moody's Economy.com; US Bureau of Labor Statistics, Quarterly Census of Employment and Wages, [www.bls.gov/cew](http://www.bls.gov/cew)

# Coal Mining Fatality Rate Nationwide

The Coal Mining Fatality Rate Is Volatile but Trending Lower



Frequency of observation: annual; latest available data point: 2013

Source: Mine Safety and Health Administration (MSHA), [www.msha.gov/stats/centurystats/coalstats.asp](http://www.msha.gov/stats/centurystats/coalstats.asp)



# Challenging Outlook for Coal Mining

- Central Appalachian (CAPP) coal production is in decline. Three main causes are:
  - Increased extraction costs as the best reserves are increasingly mined out
  - Cheap natural gas encourages fuel switching
  - Reduction in coal-fired generation capacity
- Since 2000, CAPP coal mining has become increasingly expensive, especially underground.
  - The thickest and most accessible coal seams have already been mined out. What remains is harder and more expensive to extract.



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## Q & A



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**Closing Remarks  
Thank You!**





# STATE ADVISORY FORUM 2015

## 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 100 workers.

# Glossary

- **Claim Severity**—The average cost of a claim. Severity is calculated by dividing total losses by the total number of claims.
- **Combined Ratio**—The sum of the (1) loss ratio, (2) expense ratio, and (3) dividend ratio for a given time period.
- **Detailed Claim Information (DCI)**—An NCCI Call that collects detailed information on an individual workers compensation lost-time claim basis, such as type of injury, whether or not an attorney was involved, timing of the claim's report to the carrier, etc.
- **Direct Written Premium (DWP)**—The gross premium income adjusted for additional or return premiums, but excluding any reinsurance premiums.

# Glossary

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



# Glossary

- **Permanent Partial (PP)**—A disability that is permanent but does not involve a total inability to work. The specific definition and associated workers compensation benefits are defined by statute and vary by jurisdiction.
- **Policy Year (PY)**—The year of the effective date of the policy. Policy year financial results summarize experience for all policies with effective dates in a given calendar year period.
- **Schedule Rating**—A debit and credit plan that recognizes variations in the hazard-causing features of an individual risk.
- **Take-Out Credit Program**—An assigned risk program that encourages carriers to write current residual market risks in the competitive voluntary marketplace.
- **Temporary Total (TT)**—A disability that totally disables a worker for a temporary period of time.



# STATE ADVISORY FORUM 2015

## Appendix



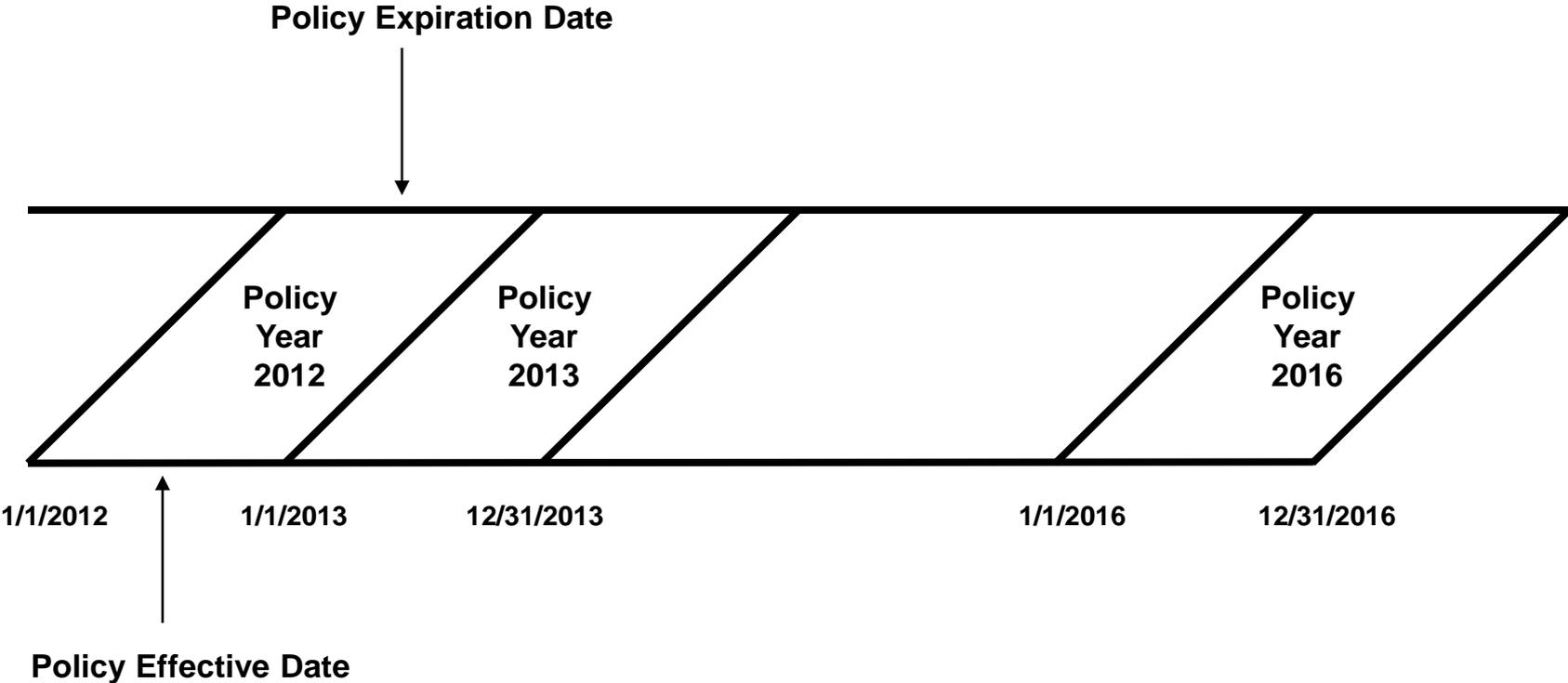
# NCCI's Workers Compensation Resources

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

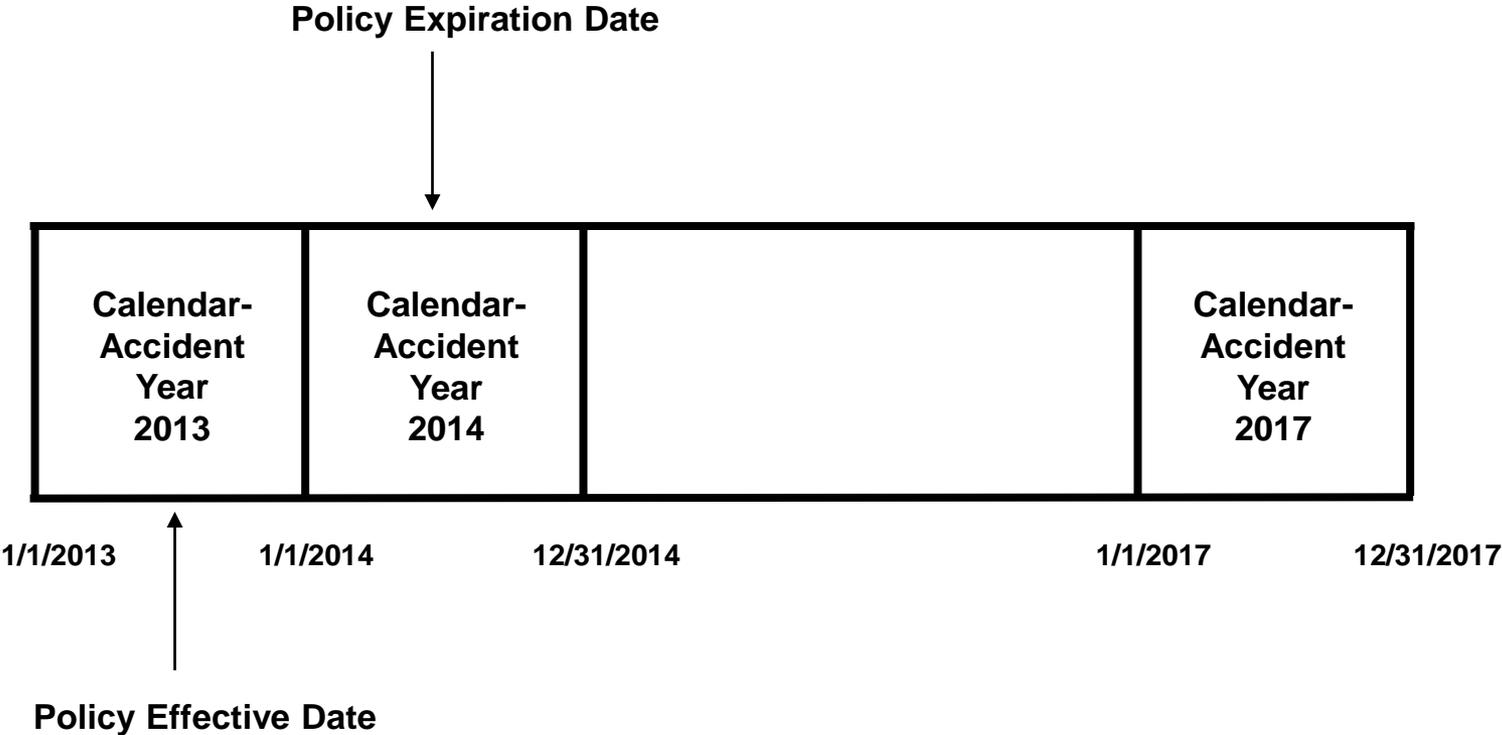
# Financial Aggregate Calls

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

# Policy Year Financial Aggregate Data



# Calendar-Accident Year Financial Aggregate Data



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

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

# Valuation of Statistical Plan Data

