Kentucky
August 20, 2015

Cathy_Booth@ncci.com 202-655-2699
Sean_Cooper@ncci.com 561-893-3072
Mona_Carter@ncci.com 561-893-3045
Ed O’Daniel, Esq. 859-336-9611
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
Kentucky and Countrywide Outlook and Observations
Kentucky Workers Compensation System—An Overview

- Continued premium growth
- Frequency continues to decline
- Modest severity increases
- Favorable loss ratio trends
Kentucky’s Workers Compensation Premium Volume

Direct Written Premium in $ Millions

Calendar Year


Source: NAIC Annual Statement data
Kentucky Accident Year Combined Ratios

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Combined Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>121%</td>
</tr>
<tr>
<td>2011</td>
<td>107%</td>
</tr>
<tr>
<td>2012</td>
<td>110%</td>
</tr>
<tr>
<td>2013</td>
<td>106%</td>
</tr>
<tr>
<td>2014</td>
<td>110%</td>
</tr>
</tbody>
</table>

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

Private Carriers and State Funds

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Private Carriers ($ B)</th>
<th>State Funds ($ B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>31.0</td>
<td>35.3</td>
</tr>
<tr>
<td>1991</td>
<td>31.3</td>
<td>35.7</td>
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<td>1992</td>
<td>30.5</td>
<td>34.3</td>
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<tr>
<td>1994</td>
<td>26.3</td>
<td>33.6</td>
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<td>1995</td>
<td>25.2</td>
<td>30.1</td>
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<td>27.0</td>
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<td>1998</td>
<td>22.3</td>
<td>25.9</td>
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<td>25.0</td>
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<td>2003</td>
<td>34.7</td>
<td>42.3</td>
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<tr>
<td>2004</td>
<td>37.8</td>
<td>46.5</td>
</tr>
<tr>
<td>2005</td>
<td>38.6</td>
<td>47.8</td>
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<tr>
<td>2006</td>
<td>37.6</td>
<td>46.5</td>
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<td>2007</td>
<td>33.8</td>
<td>44.3</td>
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<td>39.3</td>
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<td>2009</td>
<td>29.9</td>
<td>34.6</td>
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<tr>
<td>2010</td>
<td>32.3</td>
<td>33.8</td>
</tr>
<tr>
<td>2011</td>
<td>35.1</td>
<td>36.4</td>
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<tr>
<td>2012</td>
<td>36.9</td>
<td>39.5</td>
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<tr>
<td>2013</td>
<td>38.5</td>
<td>41.8</td>
</tr>
<tr>
<td>2014p</td>
<td>44.2</td>
<td>47.8</td>
</tr>
</tbody>
</table>

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

Percent

Rate/Loss Cost Departure
Schedule Rating
Dividends

-7.1
-7.4
-7.1
-8.5
-10.5
-14.6
-17.7
-22.6
-23.2
-4.0
-1.7
2.1
0.7
-2.2
-4.7
-7.4
-8.3
-8.8
-7.7
-3.8
-0.4
0.6

-25
-20
-15
-10
-5
0
5
10


Policy Year

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Calendar Year</th>
<th>Accident Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>103</td>
<td>87</td>
</tr>
<tr>
<td>2006</td>
<td>93</td>
<td>86</td>
</tr>
<tr>
<td>2007</td>
<td>101</td>
<td>99</td>
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<tr>
<td>2008</td>
<td>106</td>
<td>101</td>
</tr>
<tr>
<td>2009</td>
<td>110</td>
<td>110</td>
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<tr>
<td>2010</td>
<td>115</td>
<td>118</td>
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<tr>
<td>2011</td>
<td>115</td>
<td>113</td>
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<tr>
<td>2012</td>
<td>109</td>
<td>106</td>
</tr>
<tr>
<td>2013</td>
<td>102</td>
<td>99</td>
</tr>
<tr>
<td>2014p</td>
<td>98</td>
<td>95</td>
</tr>
</tbody>
</table>

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
Filing Activity
Kentucky’s Filing Activity

Voluntary Loss Cost Changes

-7.5%  -7.9%  -7.9%  3.4%  -6.9%  -3.4%


*Law-only filing
**Pending
Kentucky
October 1, 2015 Loss Cost Filing

Overall Loss Cost Level Change -3.4%

Changes due to:

Experience -3.2%
- Experience Period -2.2%
- Loss Development -1.0%

Trend -0.3%
- Indemnity +1.8%
- Medical -1.7%

Benefits +0.1%
- Indemnity (SAWW) +0.3%
- Medical 0.0%
Kentucky October 1, 2015 Filing—
Average Changes by Industry Group

- Manufacturing: -4.9%
- Contracting: -5.0%
- Office and Clerical: -3.7%
- Goods and Services: -2.0%
- Miscellaneous: -2.7%

Overall: -3.4%
Current Average Voluntary Pure Loss Costs Using Kentucky’s Payroll Distribution

Pure Loss Cost—All Classes

<table>
<thead>
<tr>
<th>Region</th>
<th>Pure Loss Cost—All Classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>KY</td>
<td>$1.11</td>
</tr>
<tr>
<td>IL</td>
<td>$1.90</td>
</tr>
<tr>
<td>IN</td>
<td>$0.83</td>
</tr>
<tr>
<td>TN</td>
<td>$1.13</td>
</tr>
<tr>
<td>VA</td>
<td>$1.08</td>
</tr>
<tr>
<td>Region</td>
<td>$1.37</td>
</tr>
<tr>
<td>Country</td>
<td>$1.27</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Class Code</th>
<th>Description</th>
<th>2008</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>8810</td>
<td>Clerical</td>
<td>28.7%</td>
<td>27.8%</td>
</tr>
<tr>
<td>8868</td>
<td>College:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Professional Empl.</td>
<td>7.4%</td>
<td>7.1%</td>
</tr>
<tr>
<td>8742</td>
<td>Outside Sales</td>
<td>6.2%</td>
<td>5.7%</td>
</tr>
<tr>
<td>8832</td>
<td>Physician</td>
<td>4.1%</td>
<td>4.0%</td>
</tr>
<tr>
<td>8017</td>
<td>Retail Stores</td>
<td>2.9%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>
Countrywide Workers Compensation Approved Changes in Bureau Premium Level

By Effective Date for Total Market

Percent Change

All States

Calendar Year

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

Cumulative Change 2004–2014
-17.7% All States
-16.3% NCCI States

Calendar Year

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

<table>
<thead>
<tr>
<th>Season</th>
<th>Less than 0%</th>
<th>No Filing</th>
<th>0% and Greater</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/2013 Season</td>
<td>13</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>2013/2014 Season</td>
<td>19</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2014/2015 Season</td>
<td>19</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>2015/2016 Season</td>
<td>6</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

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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

<table>
<thead>
<tr>
<th>State</th>
<th>Date</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virginia*</td>
<td>4/1/16</td>
<td>+3.4%</td>
</tr>
<tr>
<td>South Carolina</td>
<td>9/1/15</td>
<td>+1.9%</td>
</tr>
<tr>
<td>Arkansas</td>
<td>7/1/15</td>
<td>–2.1%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>5/1/15</td>
<td>–2.4%</td>
</tr>
<tr>
<td>Alabama</td>
<td>3/1/15</td>
<td>–2.6%</td>
</tr>
<tr>
<td>Mississippi</td>
<td>3/1/15</td>
<td>–3.2%</td>
</tr>
<tr>
<td>Georgia</td>
<td>3/1/15</td>
<td>–3.3%</td>
</tr>
<tr>
<td>Kentucky*</td>
<td>10/1/15</td>
<td>–3.4%</td>
</tr>
<tr>
<td>North Carolina</td>
<td>4/1/15</td>
<td>–3.4%</td>
</tr>
<tr>
<td>Florida</td>
<td>1/1/15</td>
<td>–5.2%</td>
</tr>
<tr>
<td>Tennessee</td>
<td>3/1/15</td>
<td>–8.2%</td>
</tr>
<tr>
<td>West Virginia*</td>
<td>11/1/15</td>
<td>–12.1%</td>
</tr>
</tbody>
</table>

*Pending*
Contact Information

Email:
gdavis5@windstream.net

Postal Address:
Kids’ Chance of Kentucky
PO Box 910234
Lexington, KY 40591

Telephone:
Office: 859-219-0194
Fax: 859-219-0170
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)

Policy Year

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

Percent

Cumulative Change of -51.1%
(1994–2013 adj.)


Accident Year

-6.5 -4.5 -3.9 -4.5 -6.9 -6.6 -4.5 -4.3 -4.9 -5.7 -2.9 -2 -0.8 3.6

*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

KY  IL  IN  TN  VA  Region  Country

4,004  3,054  4,025  3,960  2,455  3,275  3,407

Based on NCCI’s Statistical Plan data
Kentucky’s Average Lost-Time Claim Frequency

Frequency per 100,000 Workers—Lost-Time Claims

- Kentucky (KY): 779
- Illinois (IL): 999
- Indiana (IN): 686
- Tennessee (TN): 902
- Virginia (VA): 472
- Region: 787
- Country: 845

Based on NCCI’s Statistical Plan data
Kentucky’s Distribution of Claims by Injury Type

Kentucky

- Medical Only: 80.6%
- Temporary Total: 12.3%
- Permanent Partial: 7.0%
- Fatal and Permanent Total: 0.1%

Region

- Medical Only: 76.0%
- Temporary Total: 13.3%
- Permanent Partial: 10.6%
- Fatal and Permanent Total: 0.1%

Countrywide

- Medical Only: 75.2%
- Temporary Total: 15.1%
- Permanent Partial: 9.6%
- Fatal and Permanent Total: 0.1%

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

- Frequency continues to decline countrywide and in Kentucky
- Claim frequency is a key cost driver
- Higher % of medical-only claims relative to the region and countrywide
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

Cumulative Change of +135.2% (1994–2013)

Accident Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Severity ($ Thousands)</th>
<th>Cumulative Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>$9.8</td>
<td>+1.7%</td>
</tr>
<tr>
<td>1996</td>
<td>$10.4</td>
<td>+5.9%</td>
</tr>
<tr>
<td>1997</td>
<td>$11.2</td>
<td>+7.7%</td>
</tr>
<tr>
<td>1998</td>
<td>$12.2</td>
<td>+9.0%</td>
</tr>
<tr>
<td>1999</td>
<td>$13.4</td>
<td>+10.1%</td>
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<td>2000</td>
<td>$14.8</td>
<td>+9.2%</td>
</tr>
<tr>
<td>2001</td>
<td>$16.1</td>
<td>+3.1%</td>
</tr>
<tr>
<td>2002</td>
<td>$16.6</td>
<td>+4.6%</td>
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<tr>
<td>2003</td>
<td>$17.4</td>
<td>+1.0%</td>
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<td>2004</td>
<td>$18.1</td>
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<td>+6.6%</td>
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<td>2007</td>
<td>$22.3</td>
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<td>2008</td>
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<td>$22.2</td>
<td>+1.3%</td>
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<td>2012</td>
<td>$22.6</td>
<td>+1.9%</td>
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<td>2013</td>
<td>$23.6</td>
<td>+4%</td>
</tr>
<tr>
<td>2014p</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

Average Annual Change 1994–2013
Lost-Time Indemnity Claim Severity: +4.6%
US Average Weekly Wage: +3.4%

Percent

Year


Change in Lost-Time Indemnity Claim Severity

Change in US Average Weekly Wage

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
Severity: For all states where NCCI provides ratemaking services, excluding WV
Kentucky vs. Countrywide
Average Indemnity Claim Severity

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Cost per Case ($'000s)</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>22</td>
<td>NCCI's financial data</td>
</tr>
<tr>
<td>2011</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>24</td>
<td></td>
</tr>
</tbody>
</table>
Regional states are IL, IN, TN, and VA
Based on NCCI’s financial data

Medical Benefits Constitute the Majority of Total Benefit Costs in Kentucky

- **Kentucky**
  - Indemnity: 41%
  - Medical: 59%

- **Region**
  - Indemnity: 42%
  - Medical: 58%

- **Countrywide**
  - Indemnity: 41%
  - Medical: 59%
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

Cumulative Change of +226.7%
(1994–2013)

Severity ($ Thousands)

Accident Year


$9.1 $9.8 $10.8 $11.6 $12.9 $13.8 $15.7 $17.1 $18.4 $20.9 $22.1 $23.4 $25.0 $26.0 $26.1 $26.8 $27.4 $28.3 $29.4

+5.1% +7.4% +10.1% +8.3% +10.6% +7.3% +13.5% +8.8% +7.7% +5.4% +7.8% +5.9% +6.9% +4.0% +0.5% +2.4% +2.4% +3.2% +4%

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

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

Private Carriers and State Funds

Average Annual Change 1994–2013
Lost-Time Medical Claim Severity: +6.4%
US Medical CPI: +3.8%

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
Severity: For all states where NCCI provides ratemaking services, excluding WV
Kentucky vs. Countrywide
Average Medical Claim Severity

Cost per Case (\$'000s)

Accident Year

2010
2011
2012
2013
2014

26
29
31

Kentucky
Countrywide

Source: NCCI’s financial data
Average Indemnity Claim Severity in the Region

Lost-Time Claim Severity in $ Thousands

- KY: $23.4
- IL: $31.5
- IN: $12.7
- TN: $16.0
- VA: $29.1

Based on NCCI’s financial data for lost-time claims
Average Medical Claim Severity in the Region

Lost-Time Claim Severity in $ Thousands

<table>
<thead>
<tr>
<th>State</th>
<th>Claim Severity</th>
</tr>
</thead>
<tbody>
<tr>
<td>KY</td>
<td>$33.3</td>
</tr>
<tr>
<td>IL</td>
<td>$31.2</td>
</tr>
<tr>
<td>IN</td>
<td>$33.9</td>
</tr>
<tr>
<td>TN</td>
<td>$34.4</td>
</tr>
<tr>
<td>VA</td>
<td>$51.1</td>
</tr>
</tbody>
</table>

Based on NCCI’s financial data for lost-time claims
Kentucky’s Indemnity Loss Distribution by Injury Type

Kentucky
- Temporary Total: 30%
- Permanent Partial: 64%
- Permanent Total: 6%
- Fatal: 6%

Region
- Temporary Total: 24%
- Permanent Partial: 72%
- Permanent Total: 2%
- Fatal: 2%

Countrywide
- Temporary Total: 28%
- Permanent Partial: 64%
- Permanent Total: 3%
- Fatal: 5%

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

Kentucky

- 31% Temporary Total
- 53% Permanent Partial
- 15% Permanent Total
- 1% Medical Only
- 1% Fatal

Region

- 24% Temporary Total
- 59% Permanent Partial
- 5% Permanent Total
- 12% Medical Only
- 0% Fatal

Countrywide

- 27% Temporary Total
- 53% Permanent Partial
- 7% Permanent Total
- 12% Medical Only
- 1% Fatal

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

- Slower severity growth than countrywide
- Indemnity/medical split consistent with region and country
- Indemnity severity now equal to countrywide
- Medical severity remains higher than countrywide
Nationwide Economic Outlook
# National Economic Highlights and Their Impact on Workers Compensation

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

US Private Employment Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Growth Rate Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>-0.8</td>
</tr>
<tr>
<td>2011</td>
<td>1.8</td>
</tr>
<tr>
<td>2012</td>
<td>2.2</td>
</tr>
<tr>
<td>2013</td>
<td>2.1</td>
</tr>
<tr>
<td>2014</td>
<td>2.3</td>
</tr>
<tr>
<td>2015f</td>
<td>2.5</td>
</tr>
<tr>
<td>2016f</td>
<td>2.5</td>
</tr>
</tbody>
</table>

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; Moody’s Analytics
Wages Have Rebounded From the Low Increase in 2013

US Average Weekly Wage Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Growth Rate Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.9</td>
</tr>
<tr>
<td>2011</td>
<td>3.0</td>
</tr>
<tr>
<td>2012</td>
<td>2.8</td>
</tr>
<tr>
<td>2013</td>
<td>1.1</td>
</tr>
<tr>
<td>2014p</td>
<td>3.1</td>
</tr>
<tr>
<td>2015f</td>
<td>4.1</td>
</tr>
<tr>
<td>2016f</td>
<td>5.1</td>
</tr>
</tbody>
</table>

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; Moody’s Analytics; NCCI
The US Unemployment Rate Continues to Decline, but Is Higher When Including Marginally Attached Workers

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
Interest Rates Are Expected to Increase in 2016

10-Year Treasury Notes

Percent

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3.2</td>
</tr>
<tr>
<td>2011</td>
<td>3.0</td>
</tr>
<tr>
<td>2012</td>
<td>1.6</td>
</tr>
<tr>
<td>2013</td>
<td>2.3</td>
</tr>
<tr>
<td>2014</td>
<td>2.6</td>
</tr>
<tr>
<td>2015</td>
<td>2.4</td>
</tr>
<tr>
<td>2016f</td>
<td>3.2</td>
</tr>
</tbody>
</table>

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
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

<table>
<thead>
<tr>
<th>Percent</th>
<th>June 2013</th>
<th>June 2014</th>
<th>June 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.8</td>
<td>2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Kentucky</td>
<td>2.2</td>
<td>2.3</td>
<td>2.5</td>
</tr>
<tr>
<td>United States</td>
<td>2.2</td>
<td>2.3</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Private Nonfarm Employment, seasonally adjusted
Frequency of observation: monthly; latest available data point: June 2015; percentage change for the 12 months ending each June
### Change in Employment by Industry

Employment Has Increased for Most Industries Over the Past 12 Months

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

Percentage change for the latest 12 months as of June 2015
Current Employment Statistics Survey, seasonally adjusted; frequency of observation: monthly
Change in Average Weekly Wages

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

<table>
<thead>
<tr>
<th>Percent</th>
<th>Kentucky</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.4</td>
<td>2.8</td>
</tr>
<tr>
<td>2013</td>
<td>0.8</td>
<td>1.1</td>
</tr>
<tr>
<td>2014p</td>
<td>3.1</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Wages are for Total Private Industry
Frequency of observation: annual; latest available data point: 2014 (preliminary)
Headline Unemployment Rate
The Unemployment Rate Has Fallen to Below the National Average

<table>
<thead>
<tr>
<th>Percent</th>
<th>June 2013</th>
<th>June 2014</th>
<th>June 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kentucky</td>
<td>8.1</td>
<td>6.5</td>
<td>5.1</td>
</tr>
<tr>
<td>United States</td>
<td>7.5</td>
<td>6.1</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Headline Unemployment rate, seasonally adjusted
Frequency of observation: monthly; latest available data point: June 2015
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
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
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
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.
Closing Remarks
Thank You!
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.
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

Policy Expiration Date

Policy Year
Year
Year
Year
2012 2013 2016

Policy Effective Date

1/1/2012 1/1/2013 12/31/2013 1/1/2016 12/31/2016
Calendar-Accident Year Financial Aggregate Data

Policy Expiration Date

Calendar-Accident Year 2013
1/1/2013

Calendar-Accident Year 2014
1/1/2014

12/31/2014

Calendar-Accident Year 2017
1/1/2017

12/31/2017

Policy Effective Date
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

Policy Effective

1st Report Valuation: 18 Months
2nd Report Valuation: 30 Months
3rd Report Valuation: 42 Months
4th Report Valuation: 54 Months
5th Report Valuation: 66 Months