



West Virginia Update 2016

**West Virginia State Agency
Worker Compensation Conference**

David E. Benedict
State Relations Executive
David_Benedict@ncci.com
804-441-6178

West Virginia Snapshot—A Mixed Bag

**Loss Cost Decreases
Continue**

**69% Total Decrease
Since January 2006**

**Frequency Continues
to Decline**



**Quiet Legislative
Session**

**Economic
Recession**

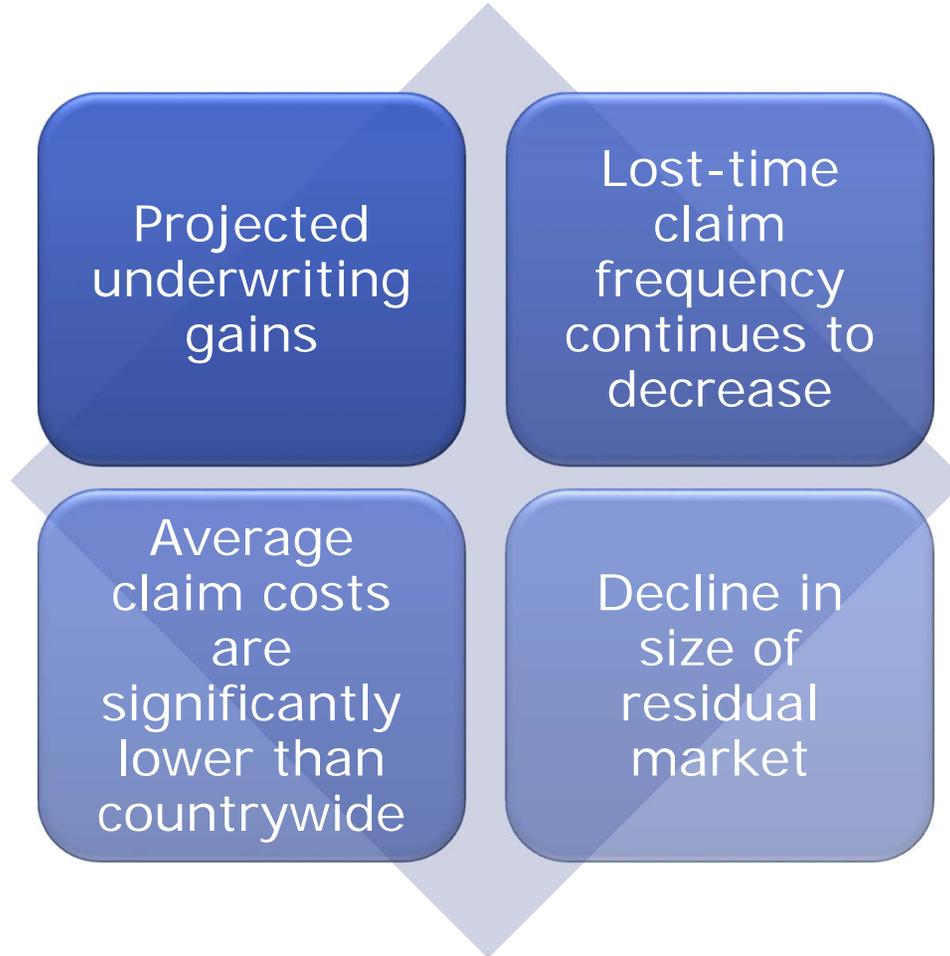
**Gubernatorial
Election**





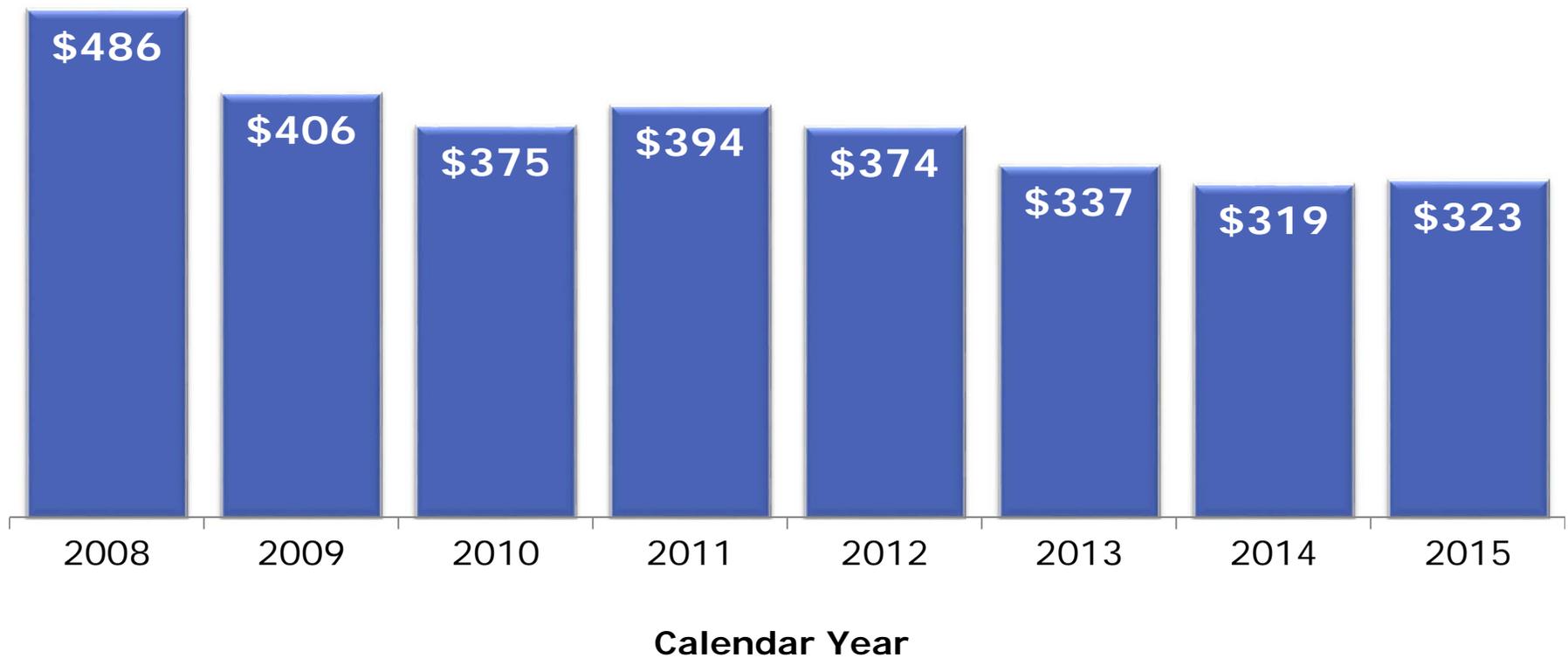
West Virginia and Countrywide Outlook and Observations

West Virginia Workers Compensation System— An Overview



West Virginia Workers Compensation Premium Volume

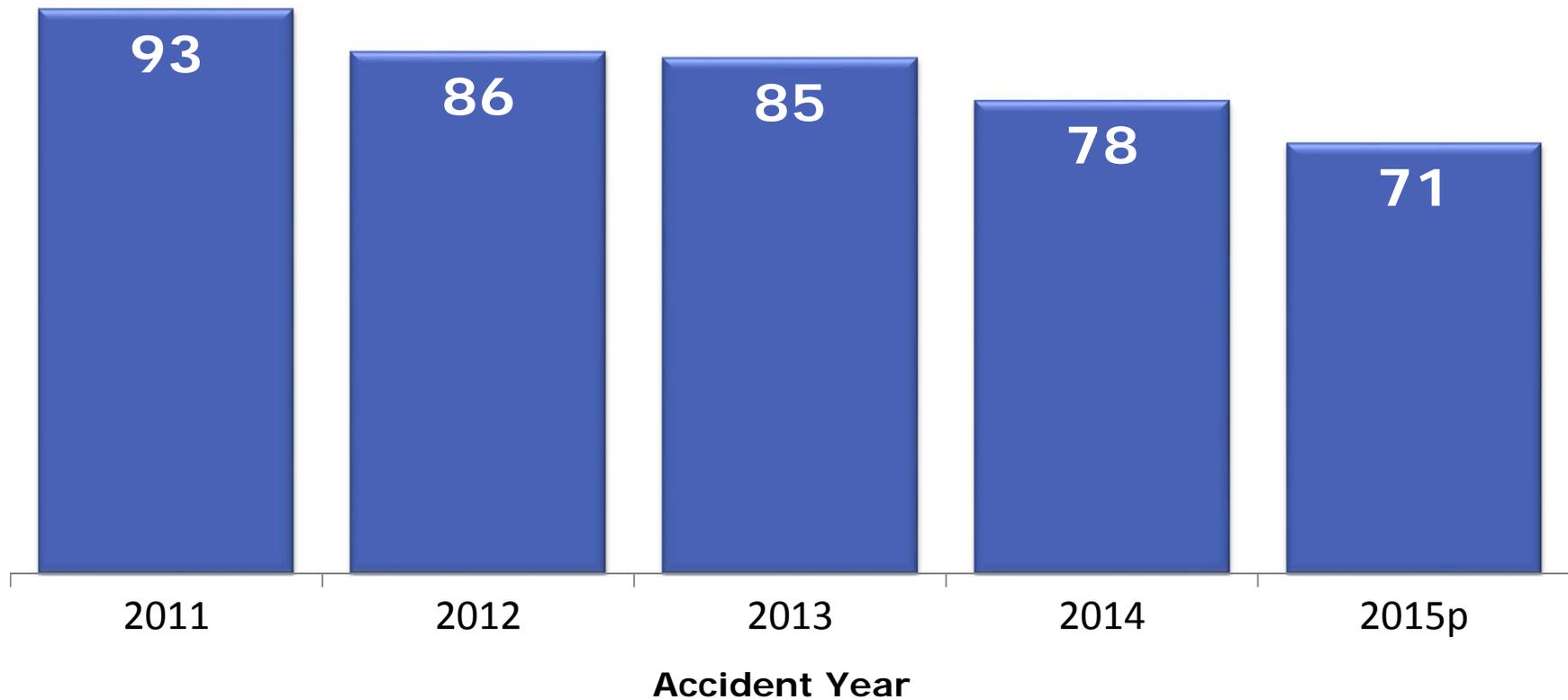
Direct Written Premium in \$ Millions



Source: NAIC's Annual Statement data



West Virginia Accident Year Combined Ratios



p Preliminary

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



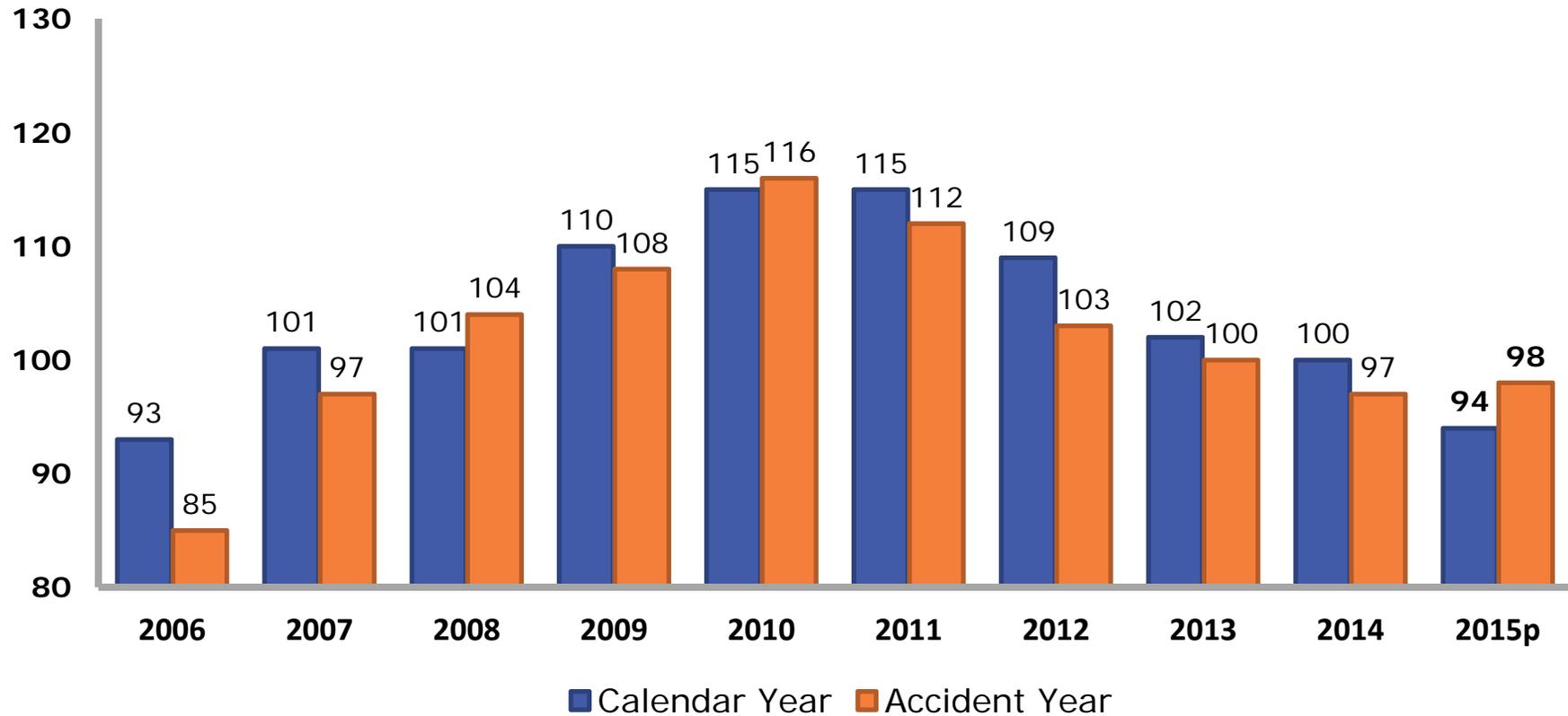
State of the Countrywide Workers Compensation Market

- Combined ratios: Underwriting gains achieved on both calendar year and accident year bases
- Net written premium volume increased for the fifth consecutive year
- Lost-time claim frequency again decreased
- Lost-time claim severity changes were small—increasing for indemnity and decreasing for medical
- Residual market premium remains manageable



Countrywide Workers Compensation Net Combined Ratios

Calendar Year vs. Accident Year as Reported—Private Carriers



p Preliminary

Source: NCCI analysis based on Annual Statement data

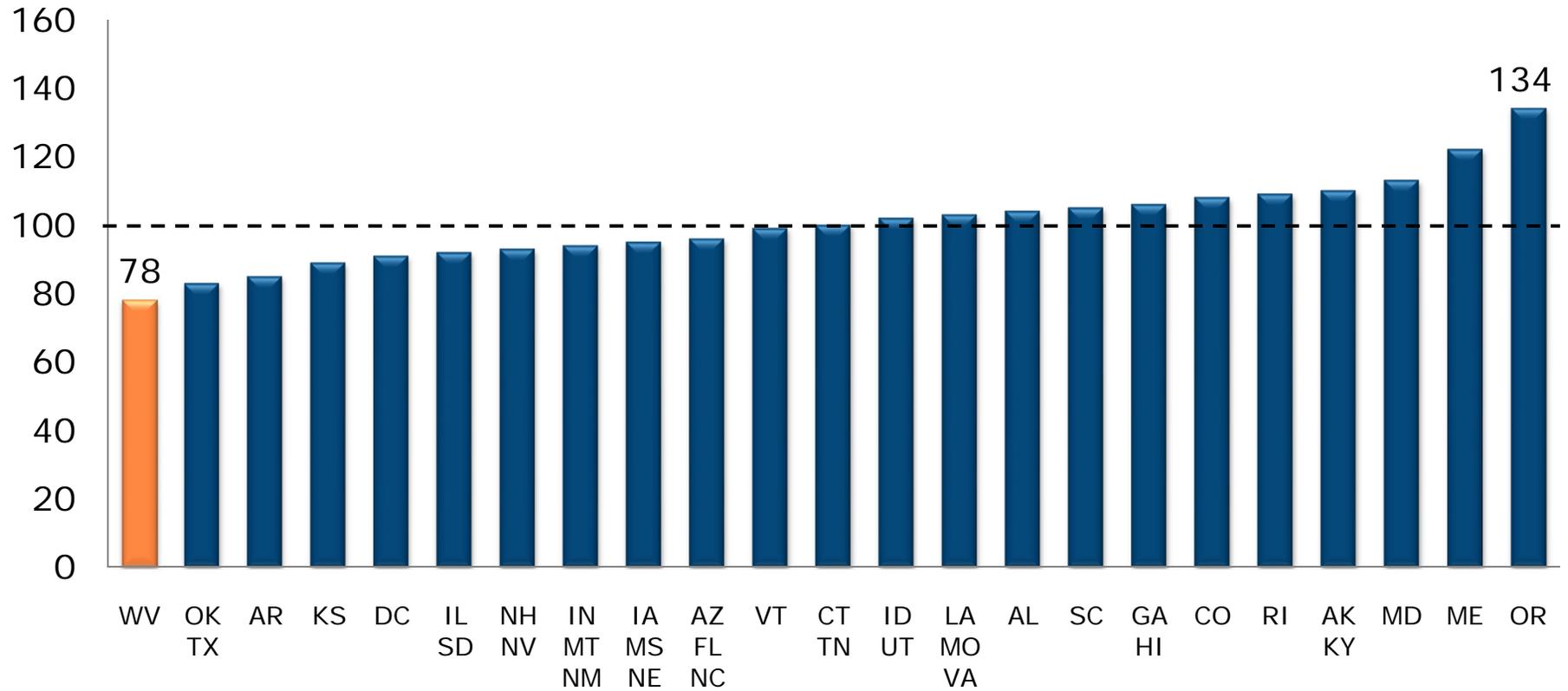
Accident year information is reported as of 12/31/2015

Includes dividends to policyholders



Results Vary From State to State

Accident Year 2014 Combined Ratios



Data is evaluated as of 12/31/2014

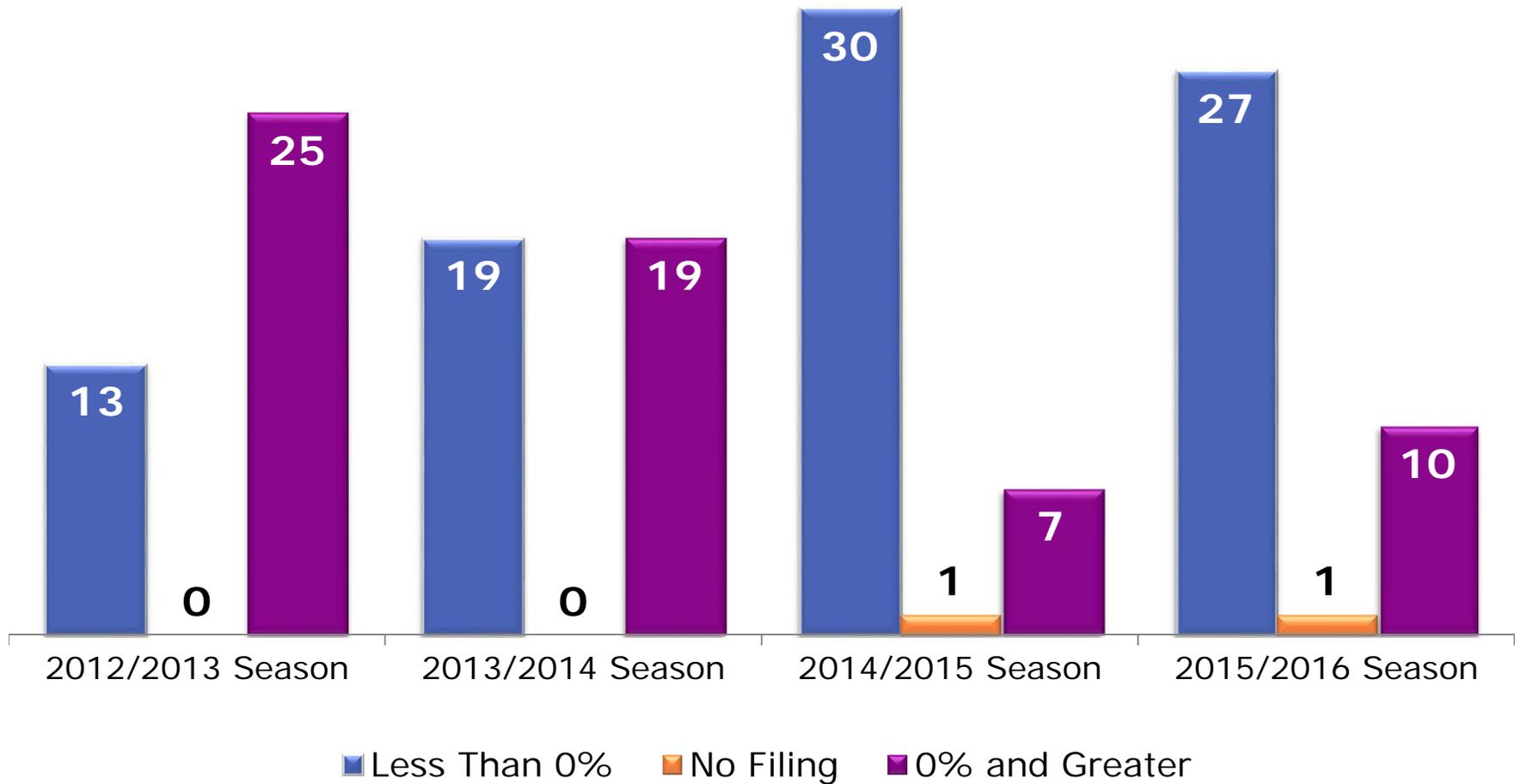




Filing Activities

NCCI Voluntary Market Filing Activity

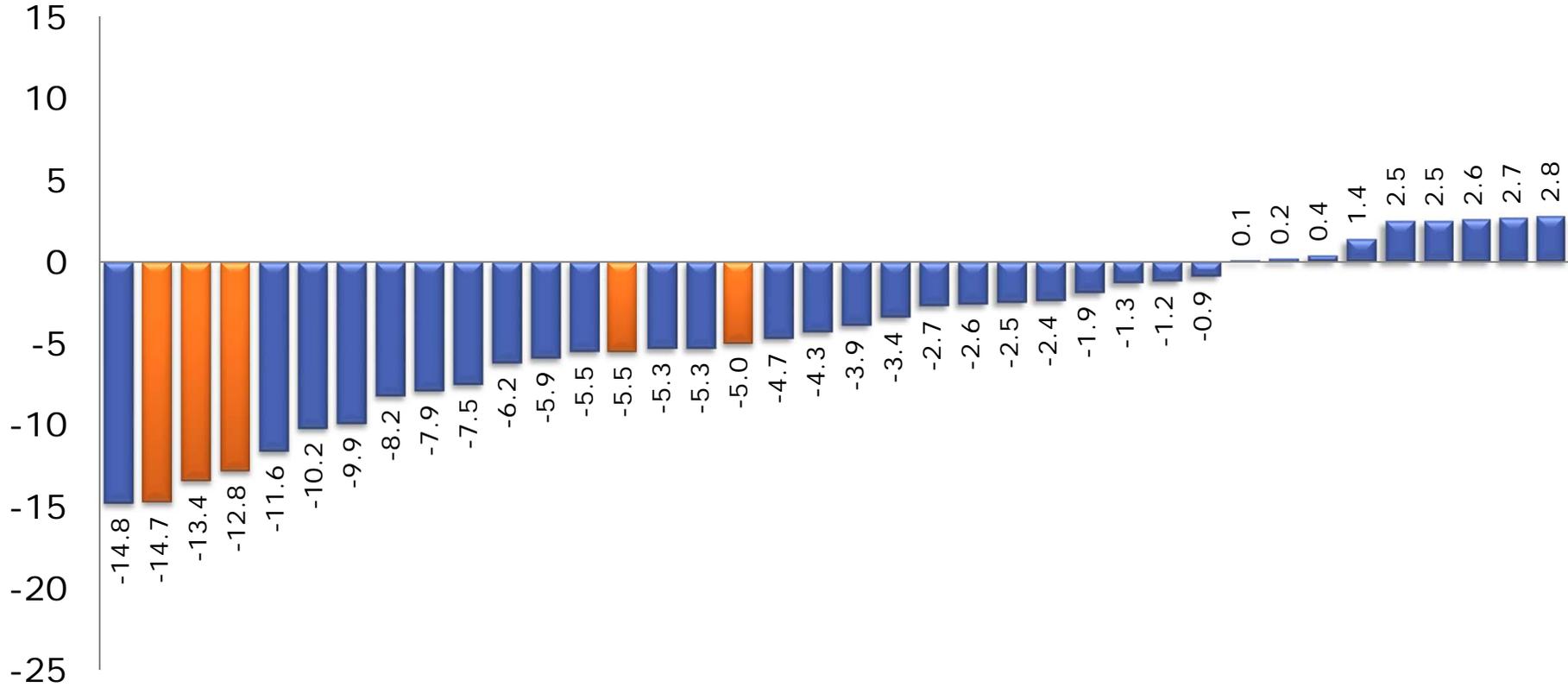
Number of State Loss Cost/Rate Filings by Filing Season



Current NCCI Voluntary Market Loss Cost/Rate Level Changes

Excludes Law-Only Filings

Percent



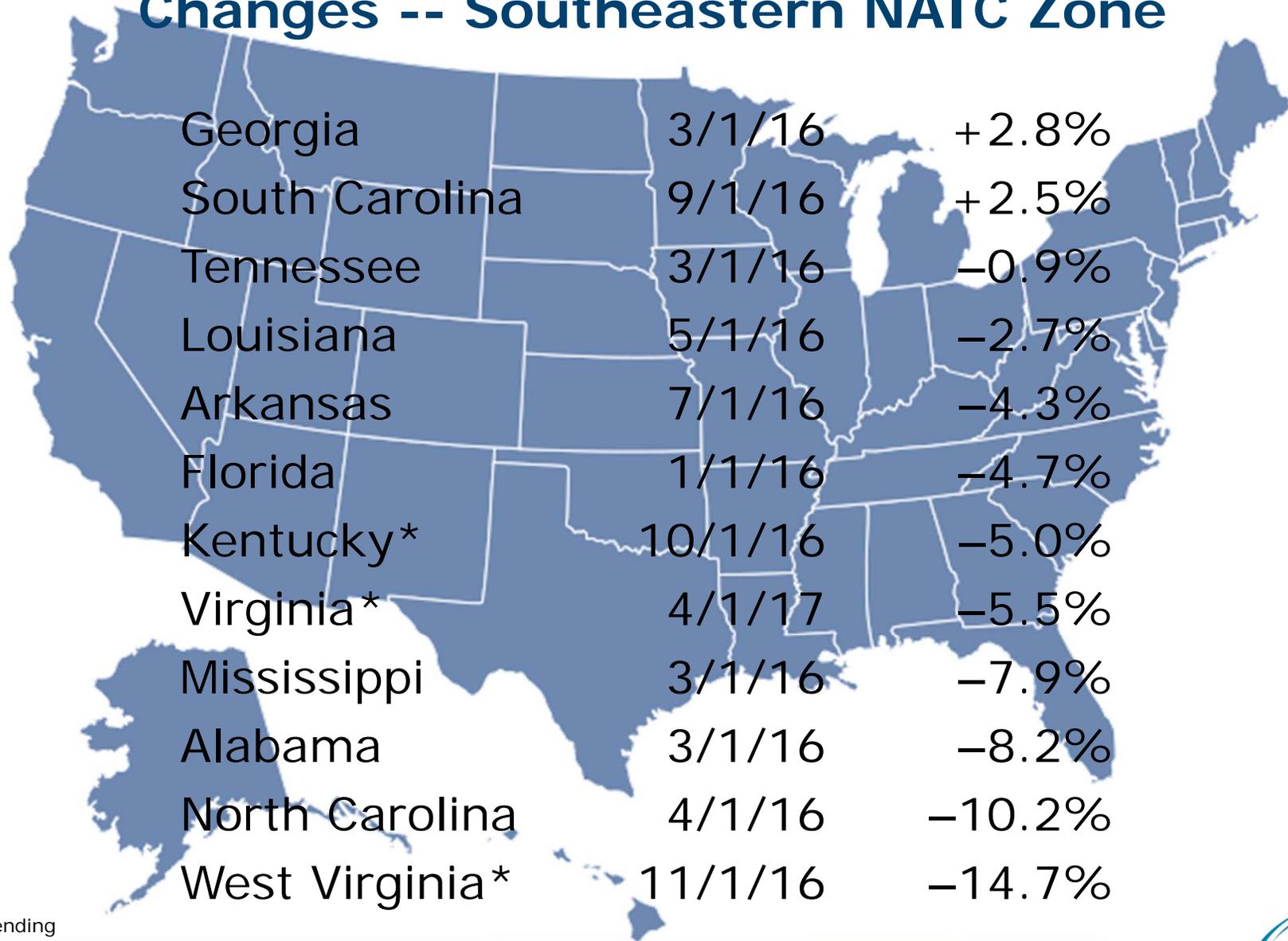
OK WV IL AZ KS NC TX AL MS RI NM NH NV VA MD OR KY FL AR CT MT LA AK UT MO CO SD NE TN ME ID DC HI IN SC VT IA GA

■ Approved ■ Pending

Reflects the most recent experience filing in each jurisdiction
 Due to the timing of the individual loss cost/rate filings, the figures shown may include changes from prior filing seasons



Current Approved Voluntary Market Rate /Loss Cost Changes -- Southeastern NAIC Zone

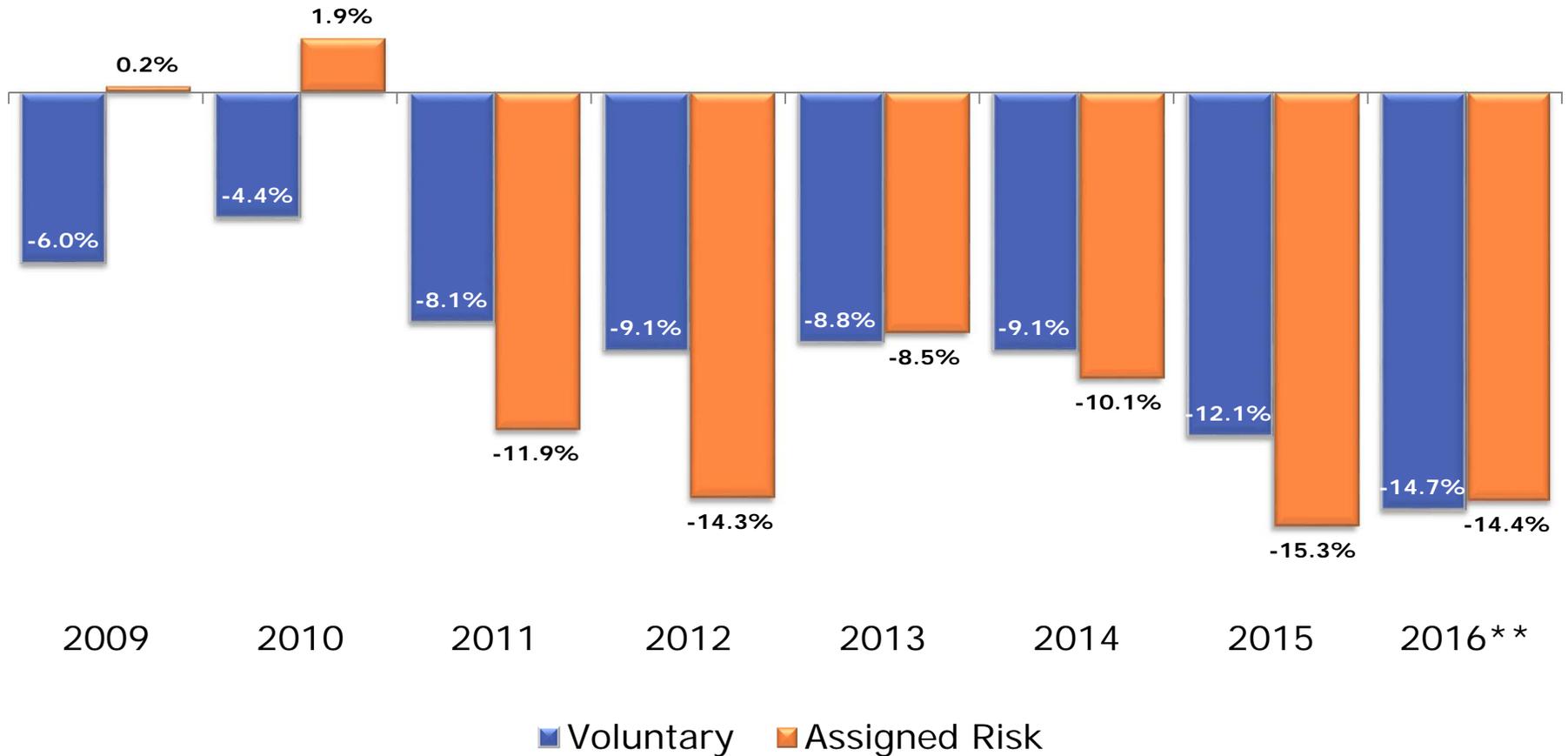


*Pending



West Virginia Filing Activity

Voluntary Loss Cost and Assigned Risk Rate Changes*



*Excludes coal mine occupational pneumoconiosis

**Pending



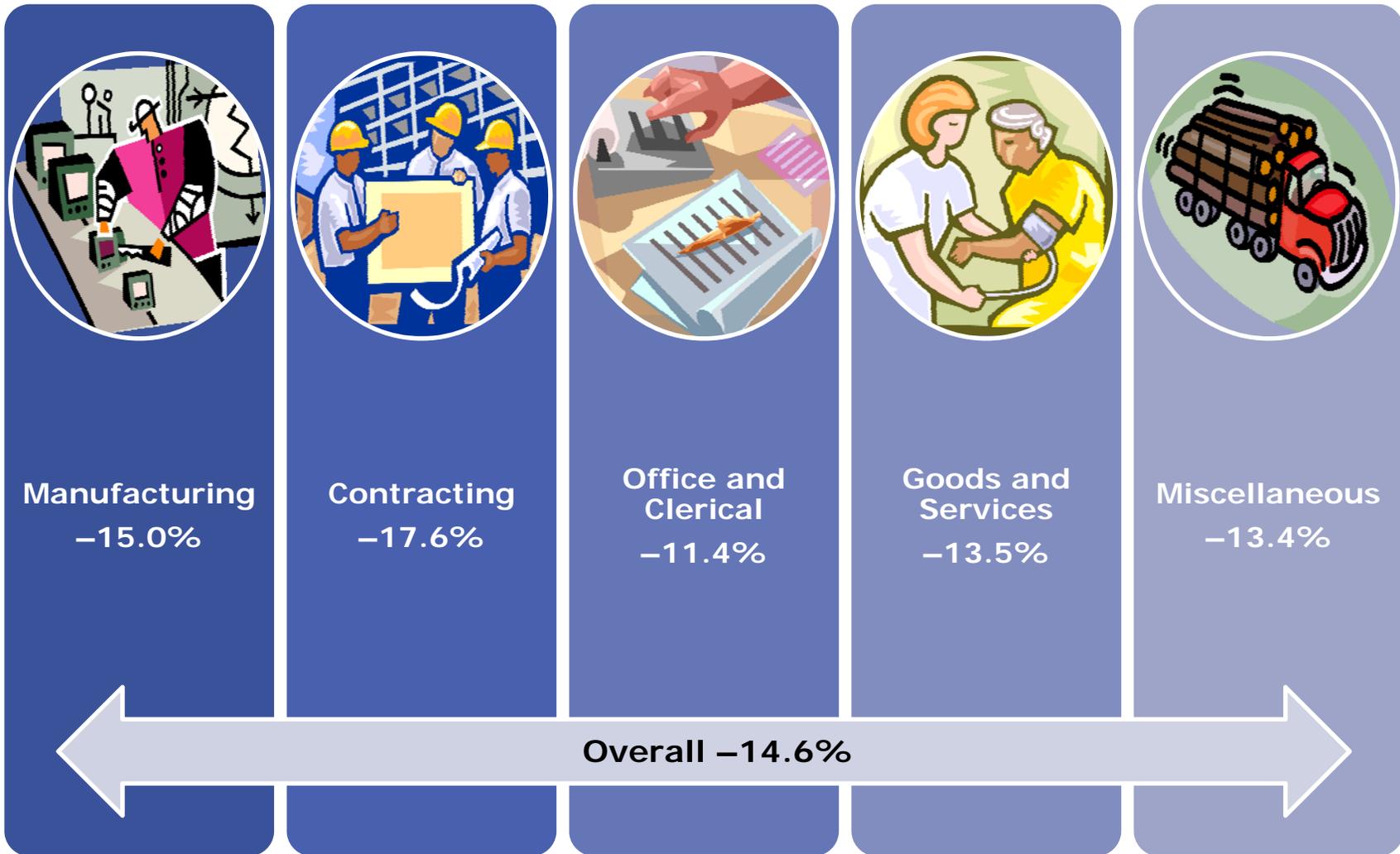
Summary of Proposed November 1, 2016 Change in Voluntary Loss Costs

Industrial Classifications (Excluding Underground Coal Mining)	Percentage Change
Experience and Trend	-14.2%
Benefits	+0.2%
Loss Adjustment Expenses	-0.7%
Change in Voluntary Loss Cost Level	-14.6%
Traumatic Underground Coal Mining (Code 1016)	
Change in Voluntary Loss Cost Level	-15.0%
Overall Change in Voluntary Loss Cost Level	-14.7%*

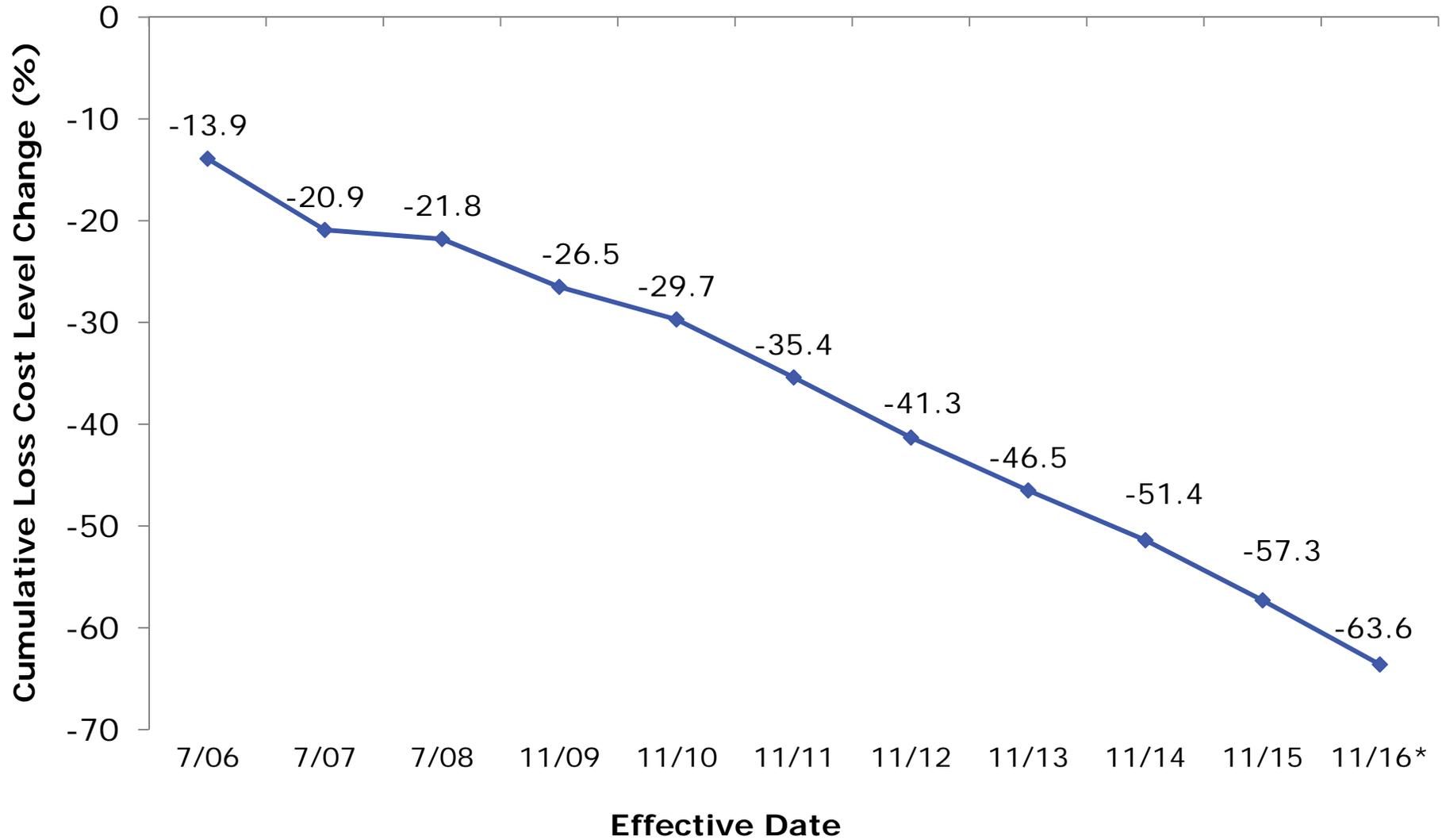
*Excludes coal mine occupational pneumoconiosis



West Virginia November 1, 2016 Filing— Average Changes by Industry Group



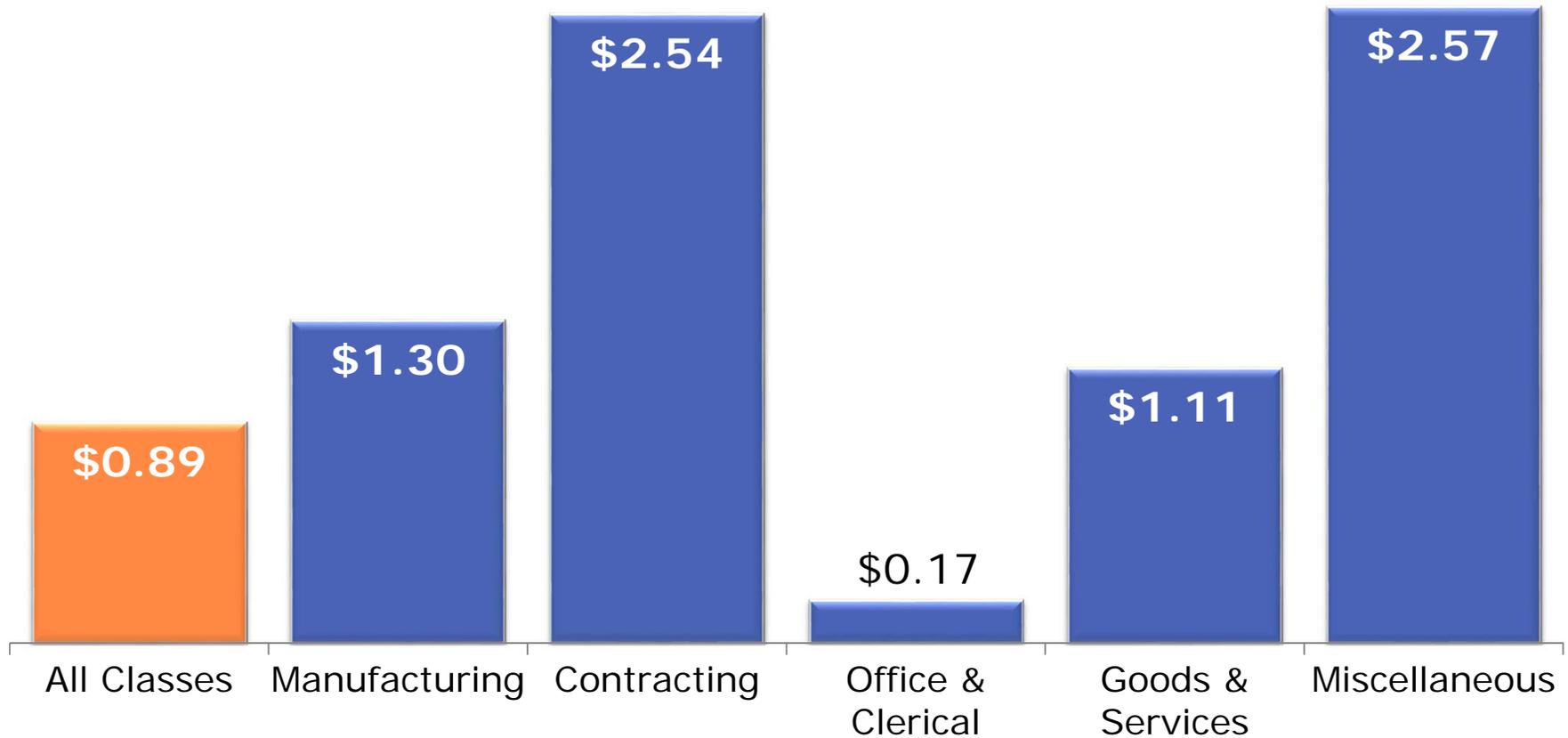
West Virginia Cumulative Average Loss Cost Level Change



*Pending



West Virginia Current Average Voluntary Pure Loss Costs by Industry Group



Uses WV November 1, 2015 Voluntary Market Loss Costs
Includes Surface Coal Mine; excludes Underground Coal Mine

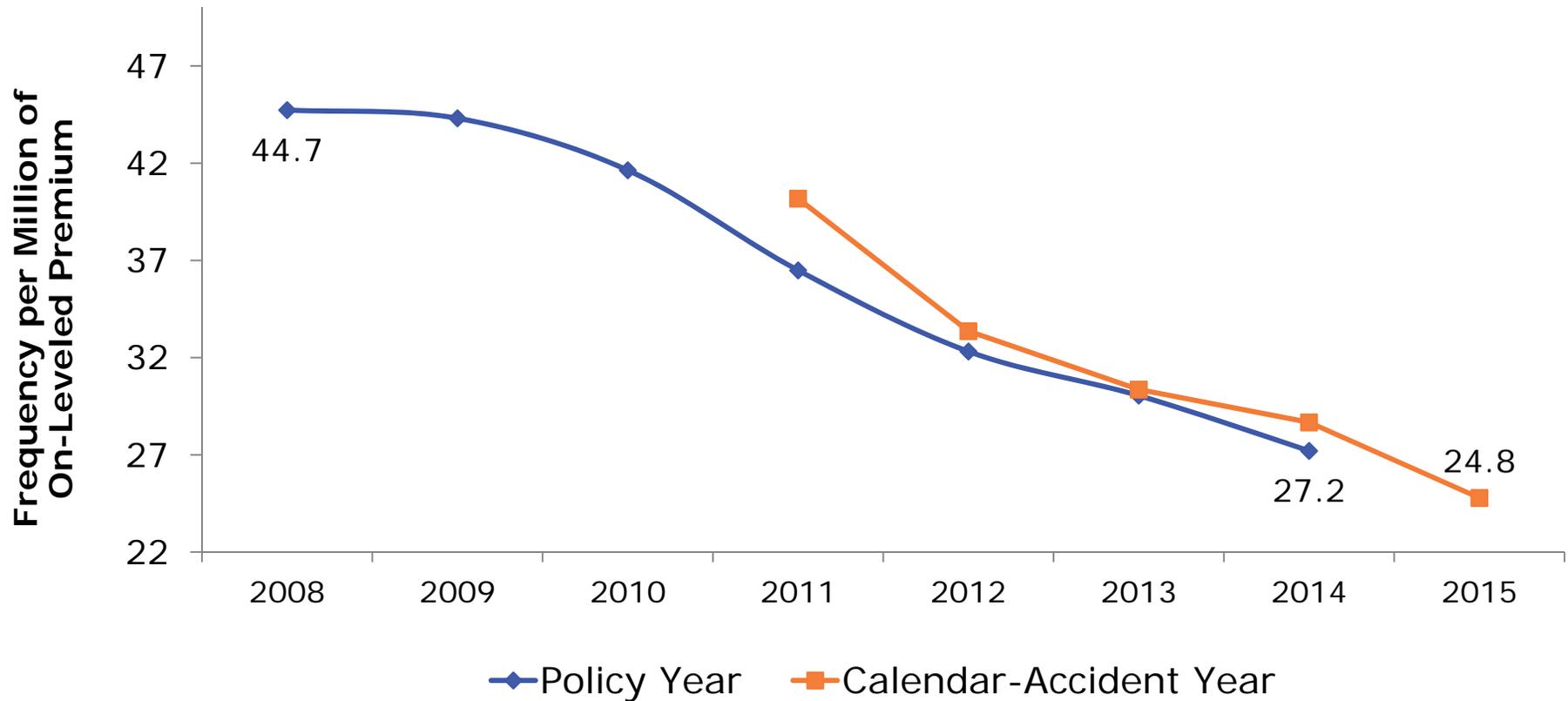




Claim Frequency

Countrywide and West Virginia

West Virginia Claim Frequency

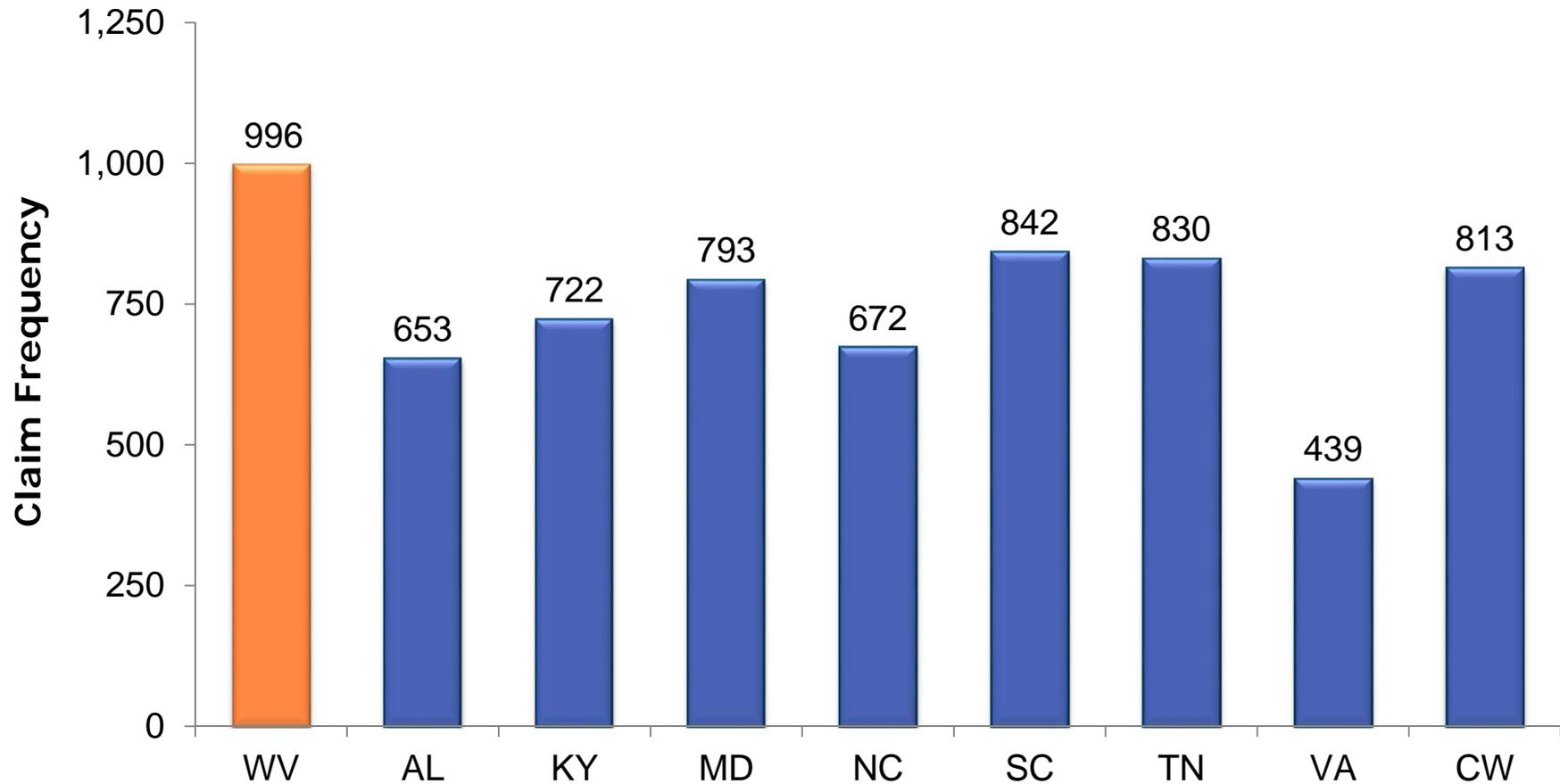


Based on NCCI's financial data evaluated as of 12/31/2015
Frequency of lost-time claims adjusted to a common wage level



West Virginia Average Lost-Time Claim Frequency

Frequency per 100,000 Workers—Lost-Time Claims

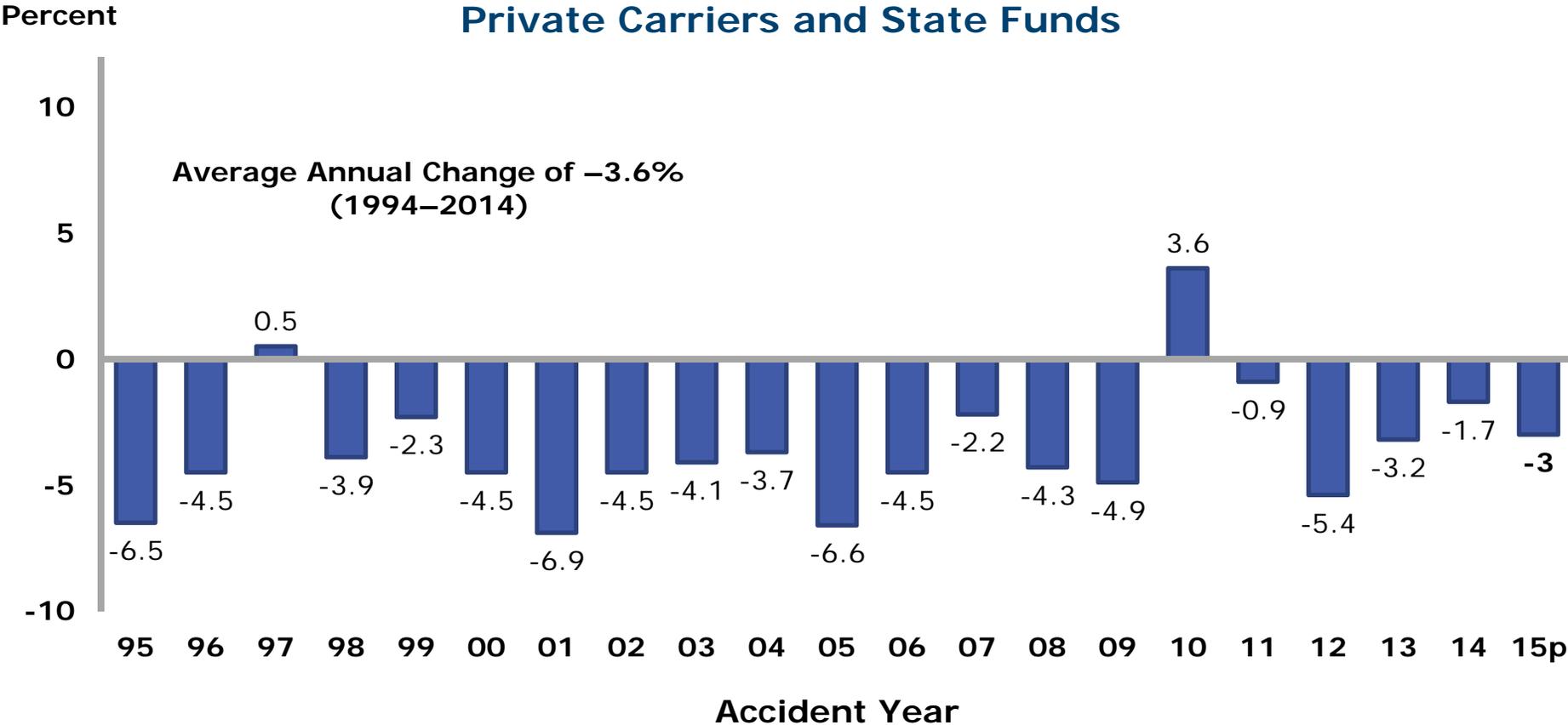


Based on NCCI's *Statistical Plan* data



Countrywide Workers Compensation Lost-Time Claim Frequency

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



2010 and 2011 adjusted primarily for significant changes in audit activity

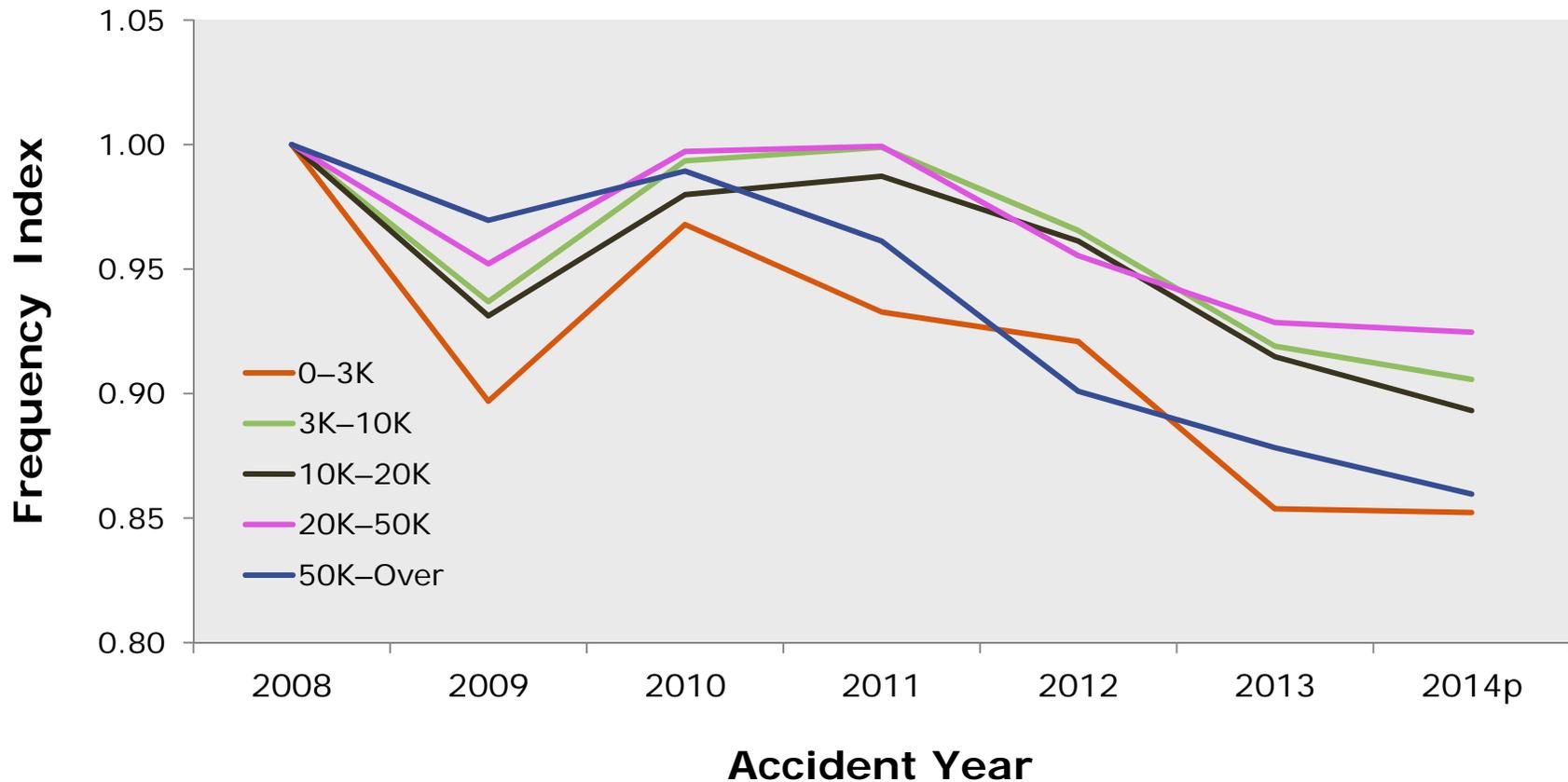
p Preliminary based on data valued as of 12/31/2015

Source: NCCI's Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level, excludes high-deductible policies; 1994–2014: based on data through 12/31/2014

Includes all states where NCCI provides ratemaking services; WV is excluded through 2014, but included in 2015



Countrywide Lost-Time Claim Frequency by Size of Total Loss—Quintiles



p Preliminary

Source: NCCI's *Statistical Plan* data

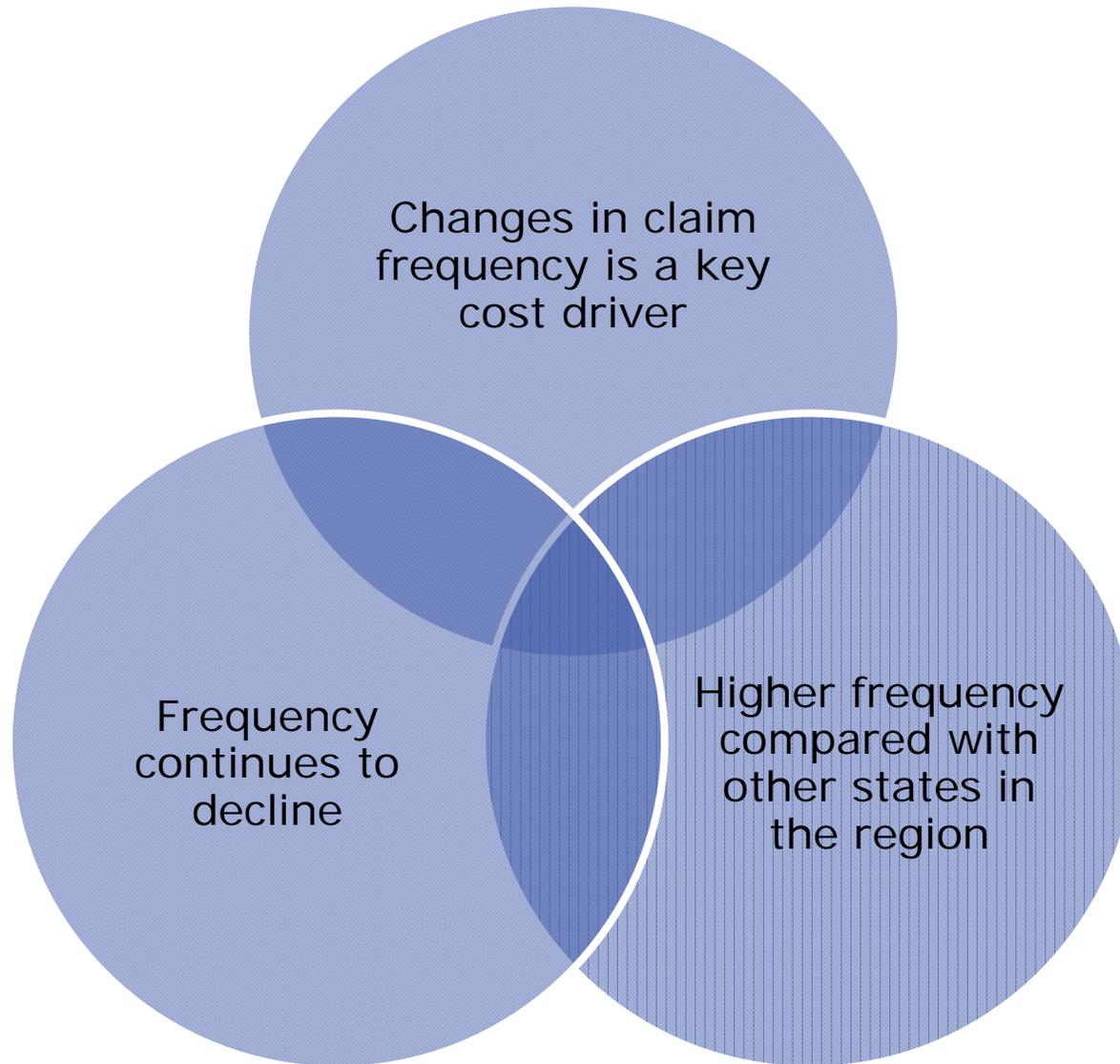
Frequency is lost-time claims at 1st report per \$1M premium at current wage and NCCI pure loss cost level

Prior to assigning individual claims to size of loss categories, reported loss amounts are adjusted for inflation through 2014

For all states where NCCI provides ratemaking services



Key Takeaways—Claim Frequency





Nationwide Economic Outlook

National Economic Highlights and Their Impact on Workers Compensation

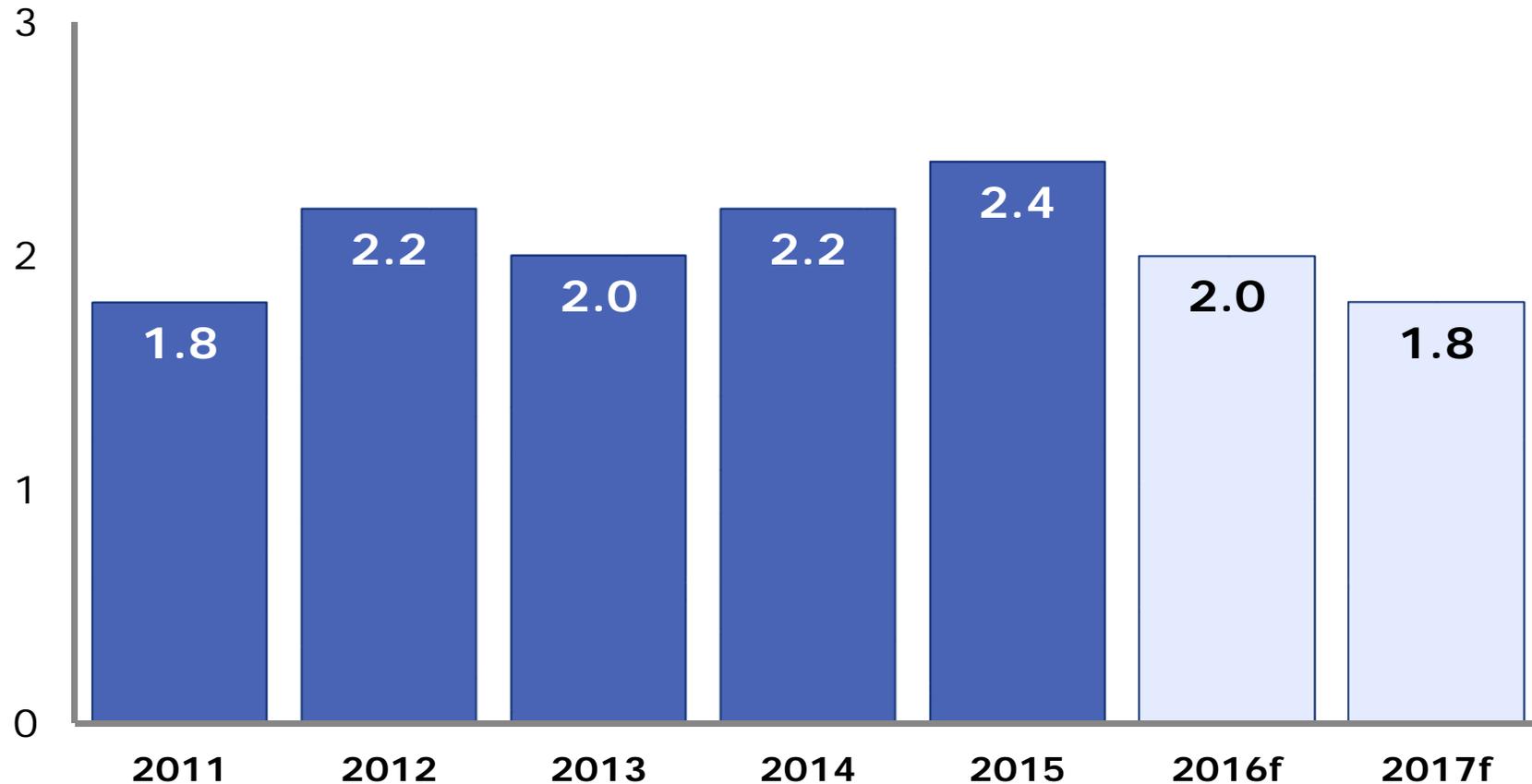
National Economic Indicator	Potential Impact on the Workers Compensation Market
Private employment is expected to continue to grow slowly	Premium increases from higher payroll and higher expected claim frequency for new workers
Wage growth is poised to accelerate	Upward pressure on payroll and premium as well as indemnity severity
Medical inflation is trending up	Increased pressure on medical costs per claim
In December 2015, the Federal Reserve began raising the federal funds rate	Higher interest rates mean better returns on invested funds



Forecast Is for Continued but Slowing Growth— Near 2% in the Private Sector

Annual
Growth Rate
Percent

US Private Employment Growth



f Forecast

Private Nonfarm Employment

Frequency of observation: annual; latest historical data point: 2015; forecast years: 2016 and 2017

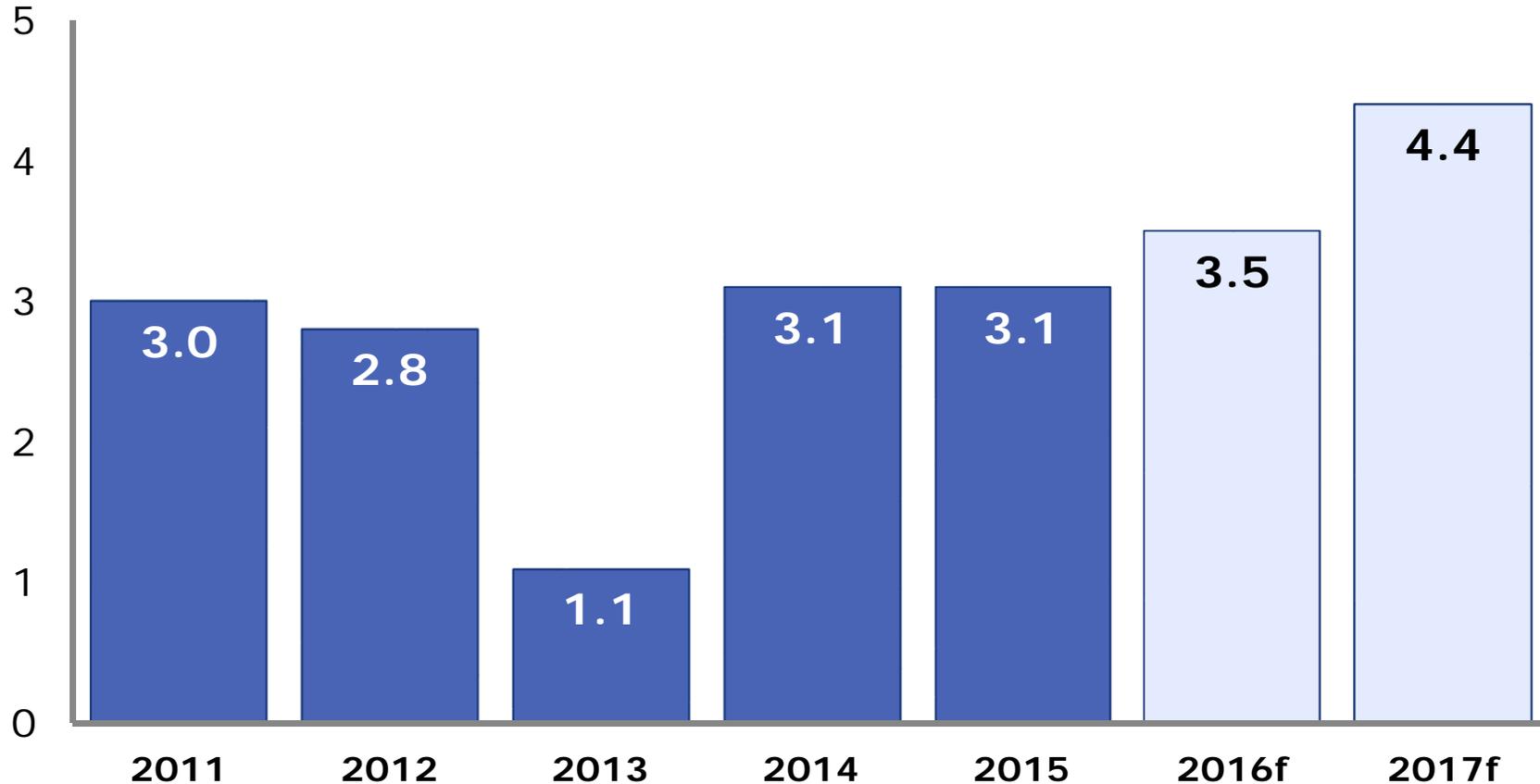
Sources: US Bureau of Labor Statistics (BLS) and Moody's Analytics



Wages Are Forecast to Accelerate Significantly by 2017

US Average Weekly Wage Growth

Annual Growth Rate Percent



f Forecast

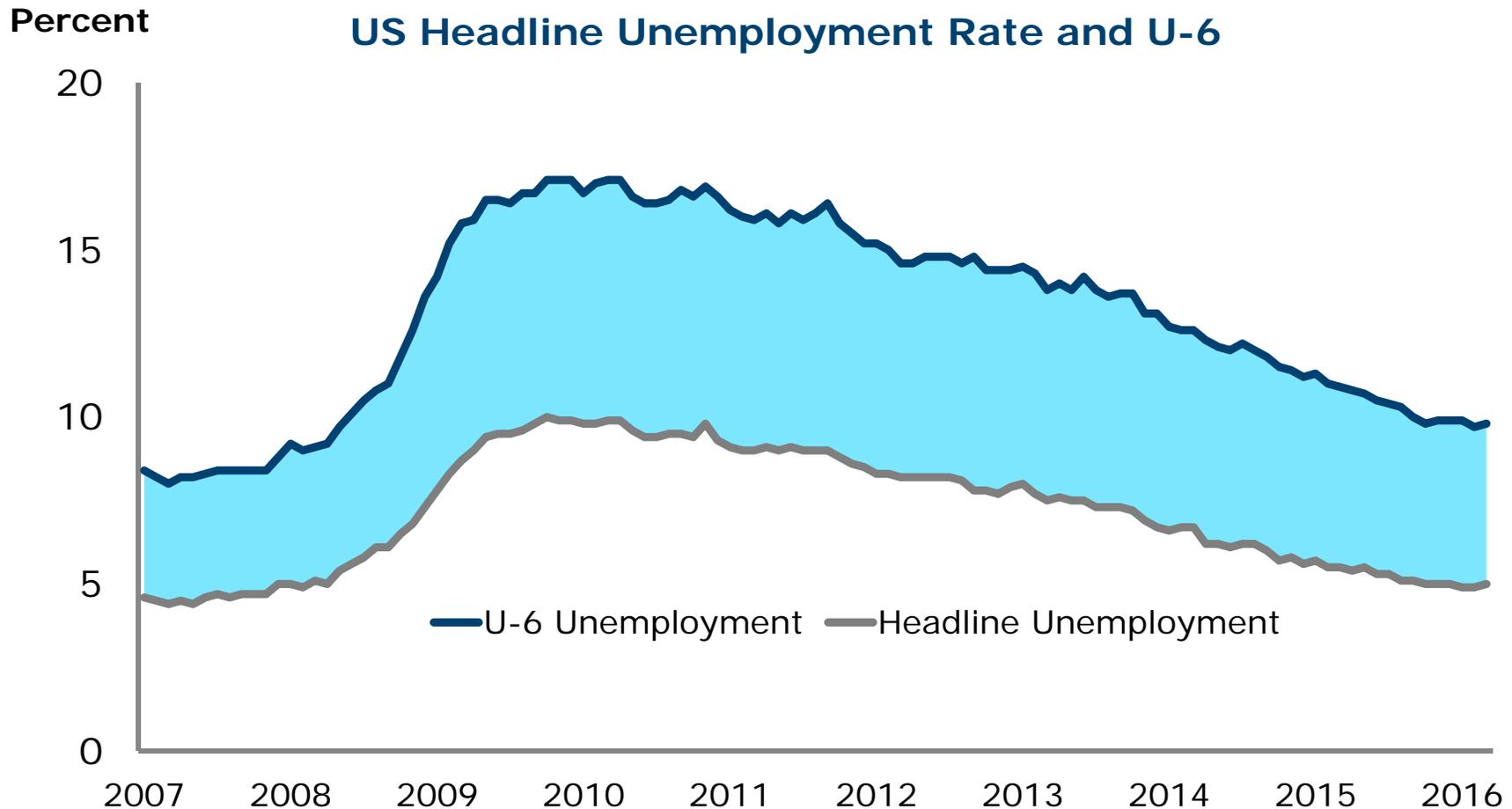
Wages are for Total Private Industry

Frequency of observation: annual; latest historical data point: 2015 (preliminary); forecast years: 2016 and 2017

Sources: US Bureau of Labor Statistics (BLS), Moody's Analytics, and NCCI



The US Unemployment Rate Continues to Decline, but Is Higher When Marginally Attached Workers Are Included

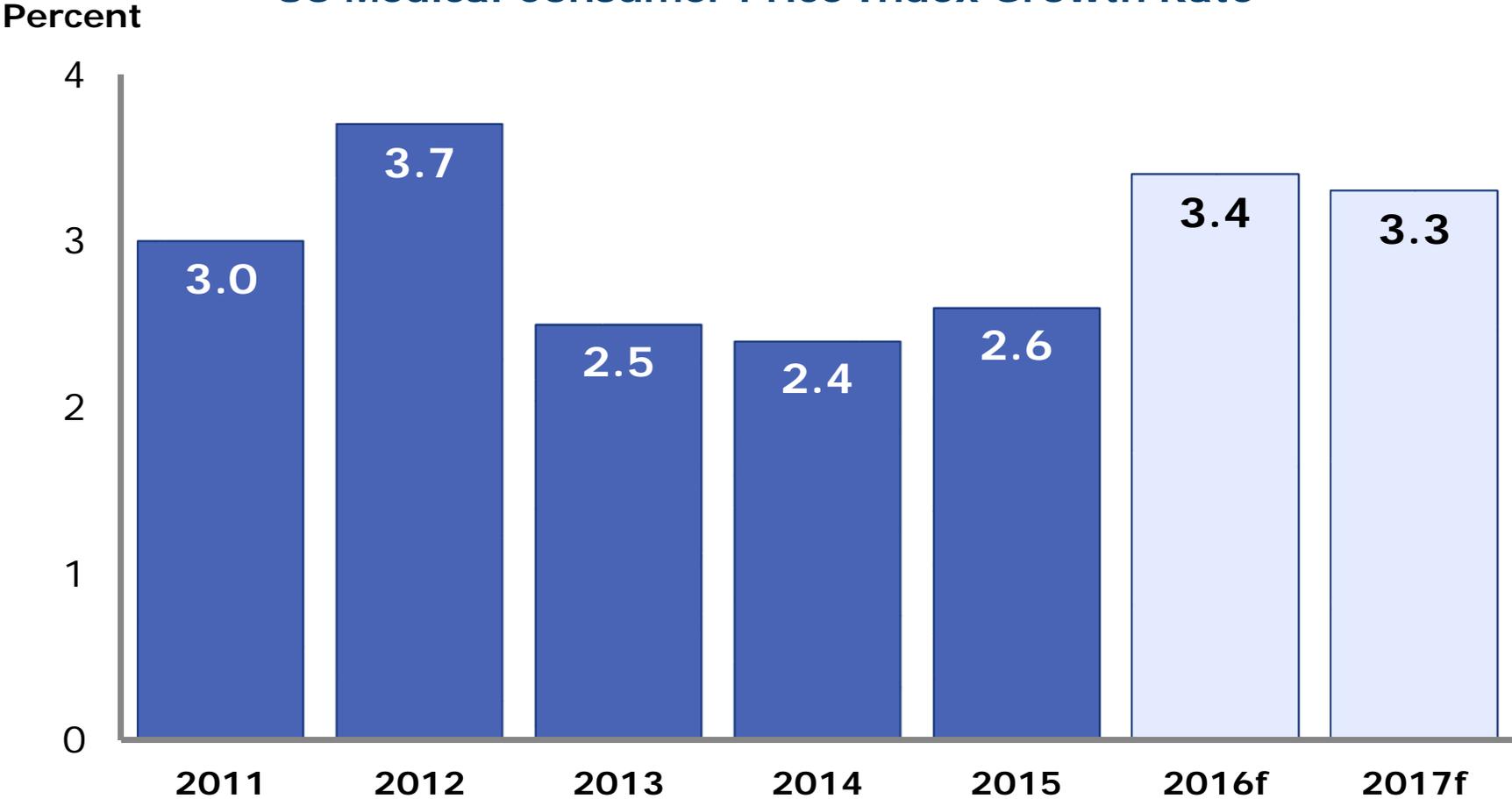


U-6 measures the number of the unemployed, the marginally attached, and the part-time for economic reasons
Headline (official) Unemployment Rate and U-6 are seasonally adjusted
Frequency of observation: monthly; latest available data point: June 2016
Sources: Moody's Analytics and US Bureau of Labor Statistics (BLS)



Medical Inflation Is Forecast to Accelerate This Year and Next

US Medical Consumer Price Index Growth Rate



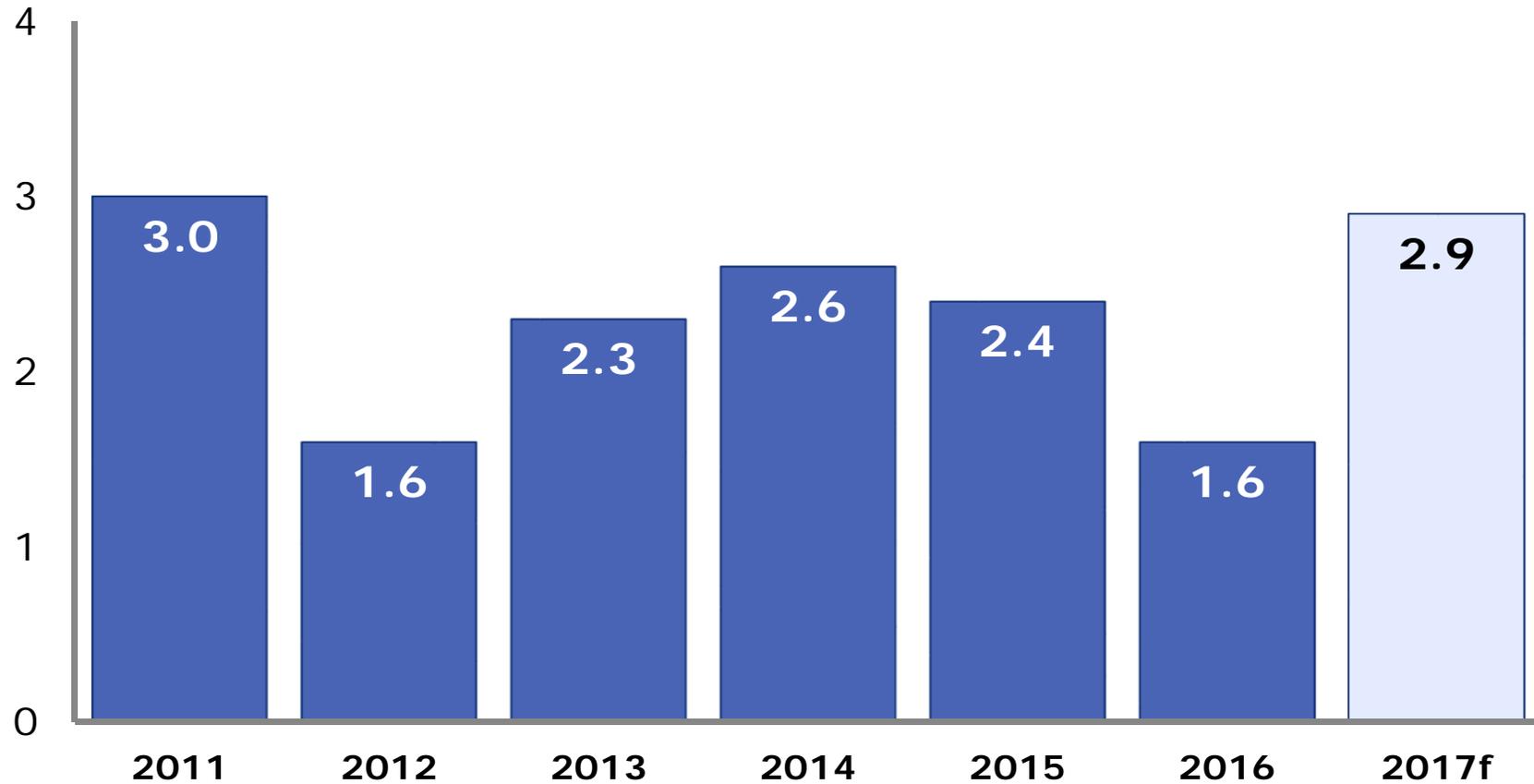
f Forecast
Medical Care Consumer Price Index, Urban Consumers
Frequency of observation: annual; latest historical data point: 2015; forecast years: 2016 and 2017
Sources: US Bureau of Labor Statistics and Moody's Analytics



Interest Rates Are Expected to Increase in 2017

10-Year Treasury Notes

Percent



f Forecast

Frequency of observation: interest rate as of June

Latest historical data point: June 2016

Sources: Federal Reserve Board and Moody's Analytics



Current Economic Headlines— National Economic Highlights and Their Impact on Workers Compensation

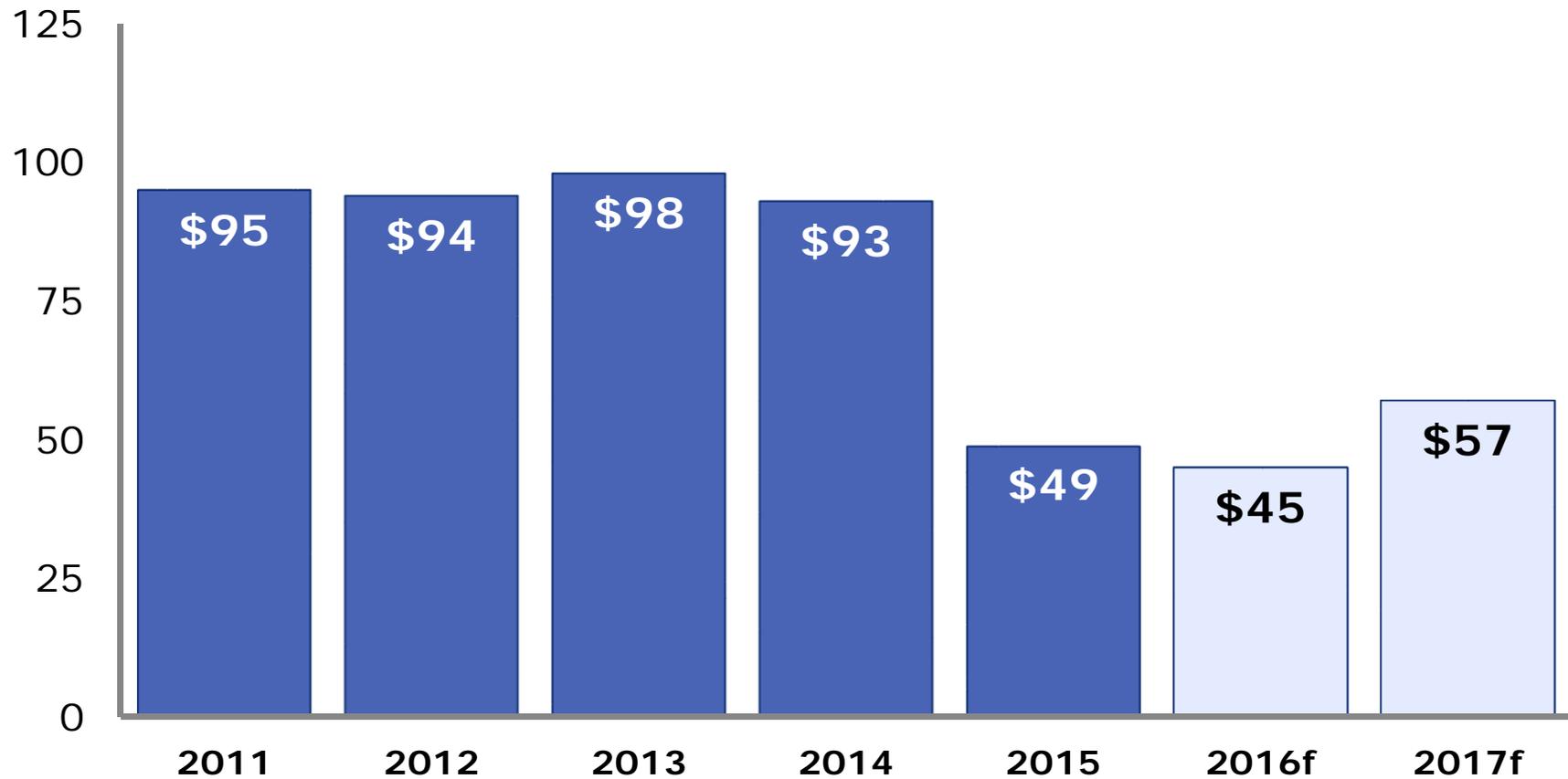
National Economic Indicator	Potential Impact on the Workers Compensation Market
Oil and natural gas prices are low.	Low energy prices benefit most producers—a positive for workers compensation since manufacturing accounts for 16% of premiums. However, layoffs in the energy sector negatively impact energy-dependent 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. This is a negative due to the large share of premiums in manufacturing.
Housing starts are increasing.	New residential construction should boost demand for construction workers—a positive since construction accounts for 24% of premiums.



Oil Prices Are Forecast to Accelerate Next Year

West Texas Intermediate

US \$ per
Barrel



f Forecast

Petroleum Crude Oil Spot Price: West Texas Intermediate

Frequency of observation: annual; latest historical data point: 2015; forecast years: 2016 and 2017

Sources: US Energy Information Administration (EIA) and Moody's Analytics

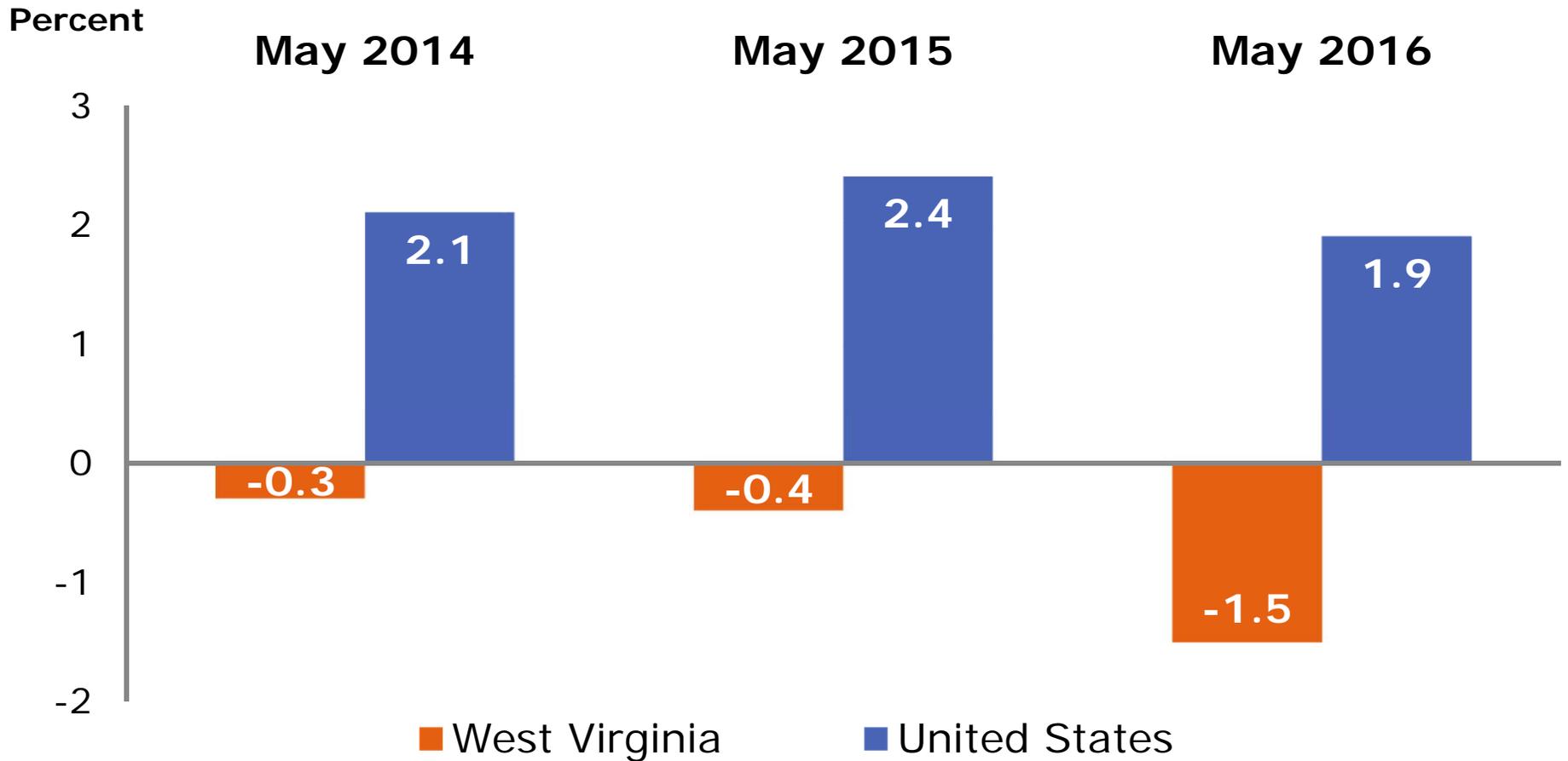




How Does the West Virginia Economy Compare?

Change in Private Employment

Private Employment Has Declined in West Virginia



Private Nonfarm Employment, seasonally adjusted

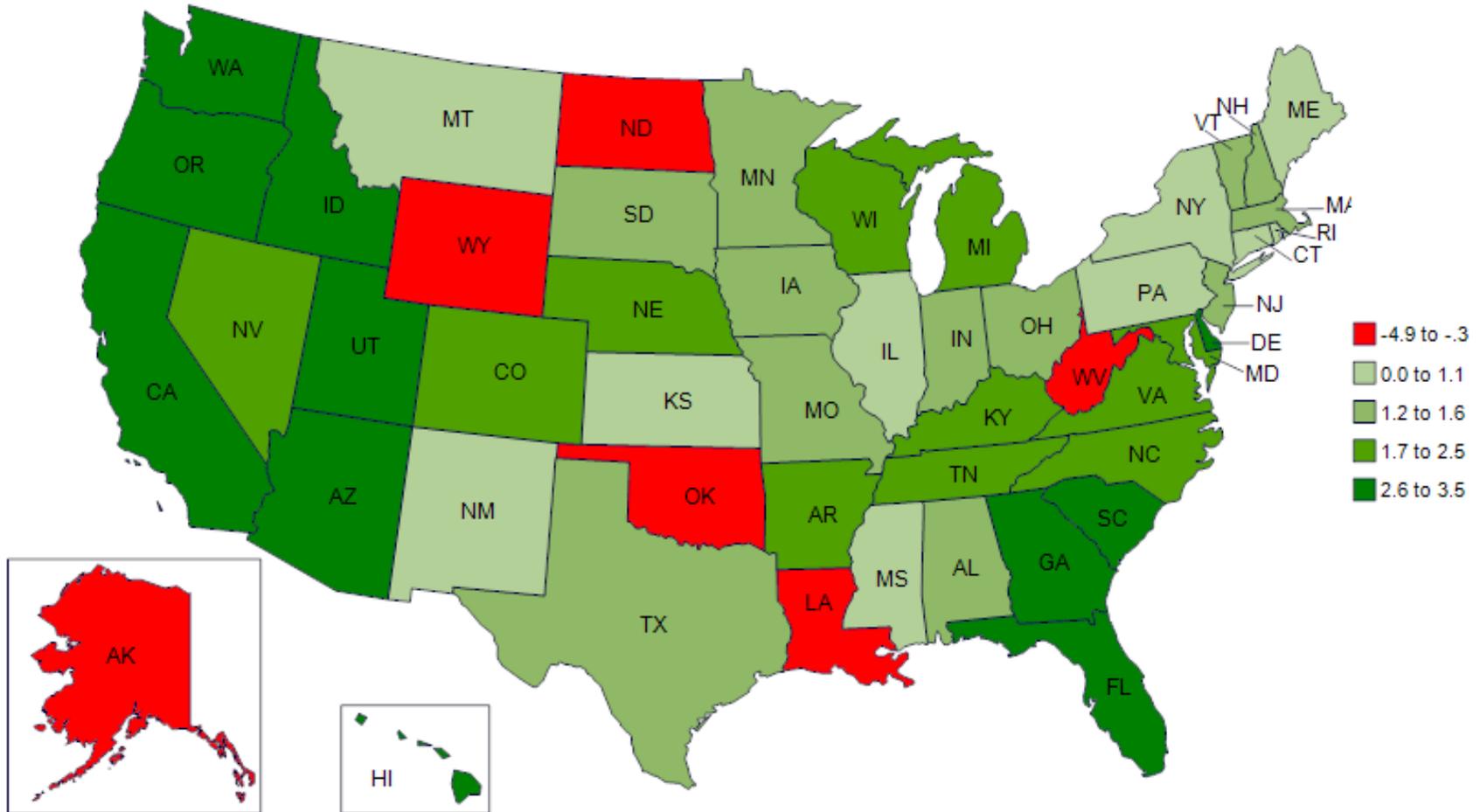
Frequency of observation: monthly; latest available data point: May 2016; percentage change for the 12 months ending each May

Source: US Bureau of Labor Statistics (BLS), www.bls.gov



Change in Private Employment

Comparison of Private Employment Growth Across States



Private Nonfarm Employment, seasonally adjusted

Frequency of observation: monthly; latest available data point: May 2016; percentage change for the 12 months ending May 2016

Source: US Bureau of Labor Statistics (BLS), www.bls.gov

Change in Employment by Industry

Employment in Most Industries Has Decreased in the Past 12 Months

Industrial Sector		12-Month Percent Change, May 2016		Sector Size	% Share	12-Month Change
Government	WV	+7.0		162,800	21	+10,600
	US	+0.5				
Education and Health Services	WV	+2.0		130,300	17	+2,500
	US	+3.0				
Financial Activities	WV	+1.9		37,000	5	+700
	US	+2.0				
Professional and Business Services	WV	+0.0		66,700	9	+0
	US	+2.7				
Leisure and Hospitality	WV	-0.1		74,300	10	-100
	US	+2.5				
Trade, Transportation, and Utilities	WV	-0.6		134,700	18	-800
	US	+1.6				
Manufacturing	WV	-0.8		47,300	6	-400
	US	-0.3				
Other Services	WV	-1.1		54,600	7	-600
	US	+1.0				
Construction	WV	-8.0		30,900	4	-2,700
	US	+3.4				
Information	WV	-10.2		8,800	1	-1,000
	US	-0.1				
Natural Resources and Mining	WV	-25.0		20,400	3	-6,800
	US	-15.4				

Percentage change for the latest 12 months as of May 2016

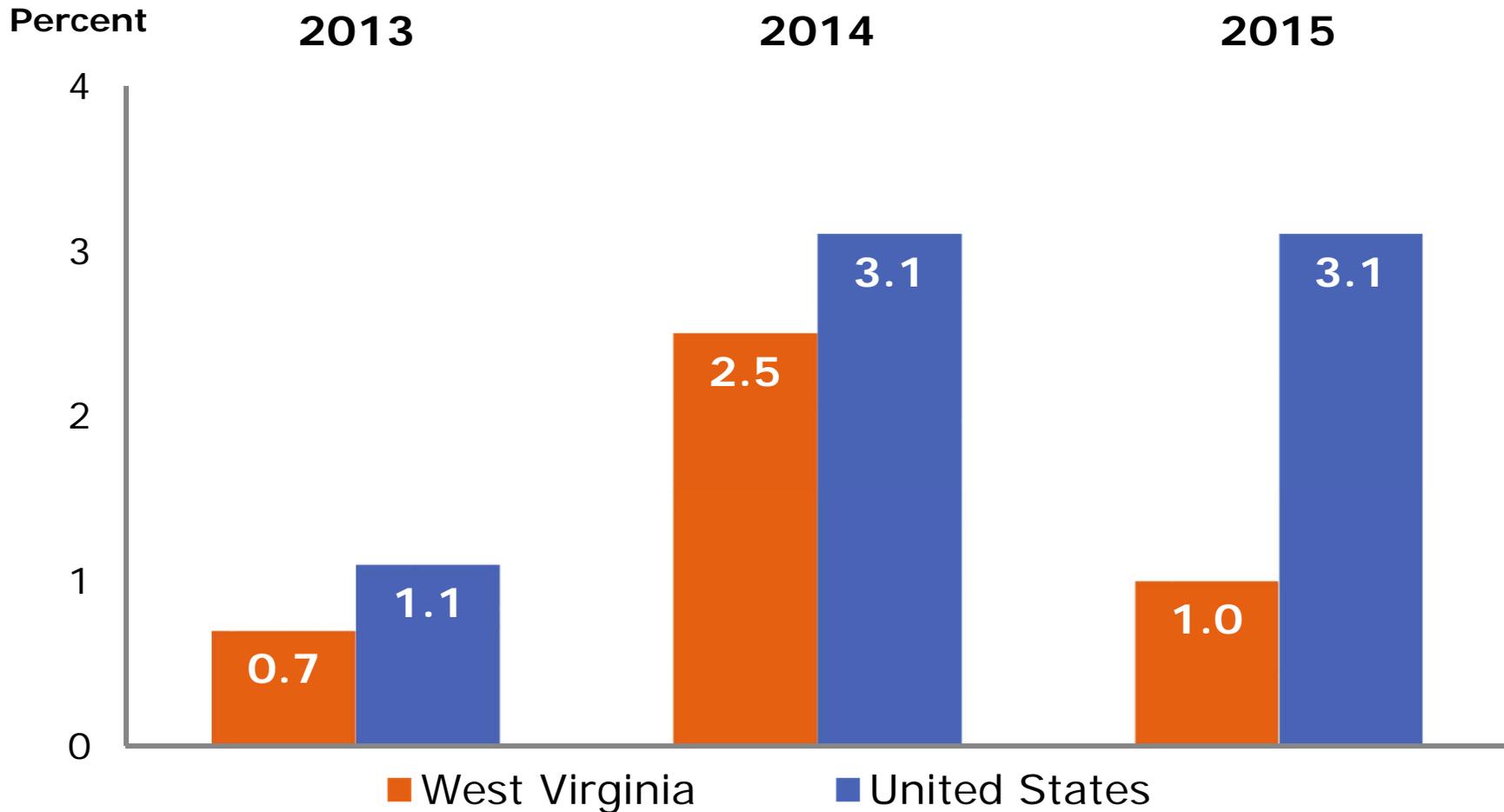
Current Employment Statistics Survey, seasonally adjusted; frequency of observation: monthly

Source: US Bureau of Labor Statistics (BLS), www.bls.gov



Change in Average Weekly Wages

Wage Growth Is Below the Rest of the Nation

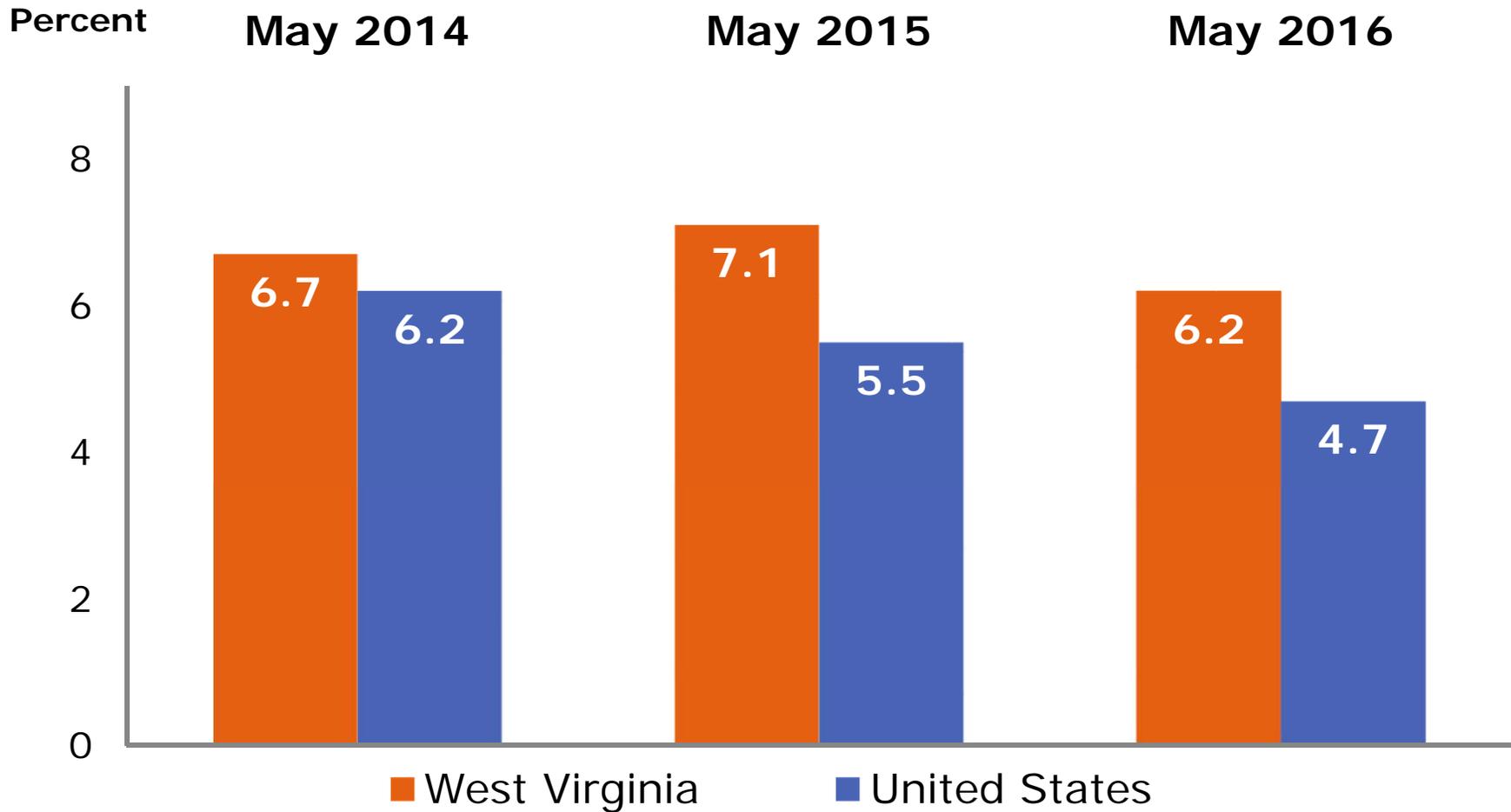


Wages are for Total Private Industry
Frequency of observation: annual; latest available data point: 2015 (preliminary)
Source: US Bureau of Labor Statistics (BLS), www.bls.gov



Headline Unemployment Rate

The Unemployment Rate Is Above the National Average



Headline Unemployment Rate, seasonally adjusted
Frequency of observation: monthly; latest available data point: May 2016
Source: US Bureau of Labor Statistics (BLS), www.bls.gov



West Virginia's Economic Highlights

- West Virginia's unemployment rate is above the US rate
- Employment has fallen in the state:
 - Seven of eleven sectors have posted declines
 - Natural Resources and Mining posted a significant decline due to a lower demand for coal
 - Government is the top performing sector in the state
- West Virginia wage growth is below the US average





Indemnity and Medical Severity

Medical Benefits Projected to Constitute the Majority of Total Benefit Costs in West Virginia

West Virginia



Region



Countrywide

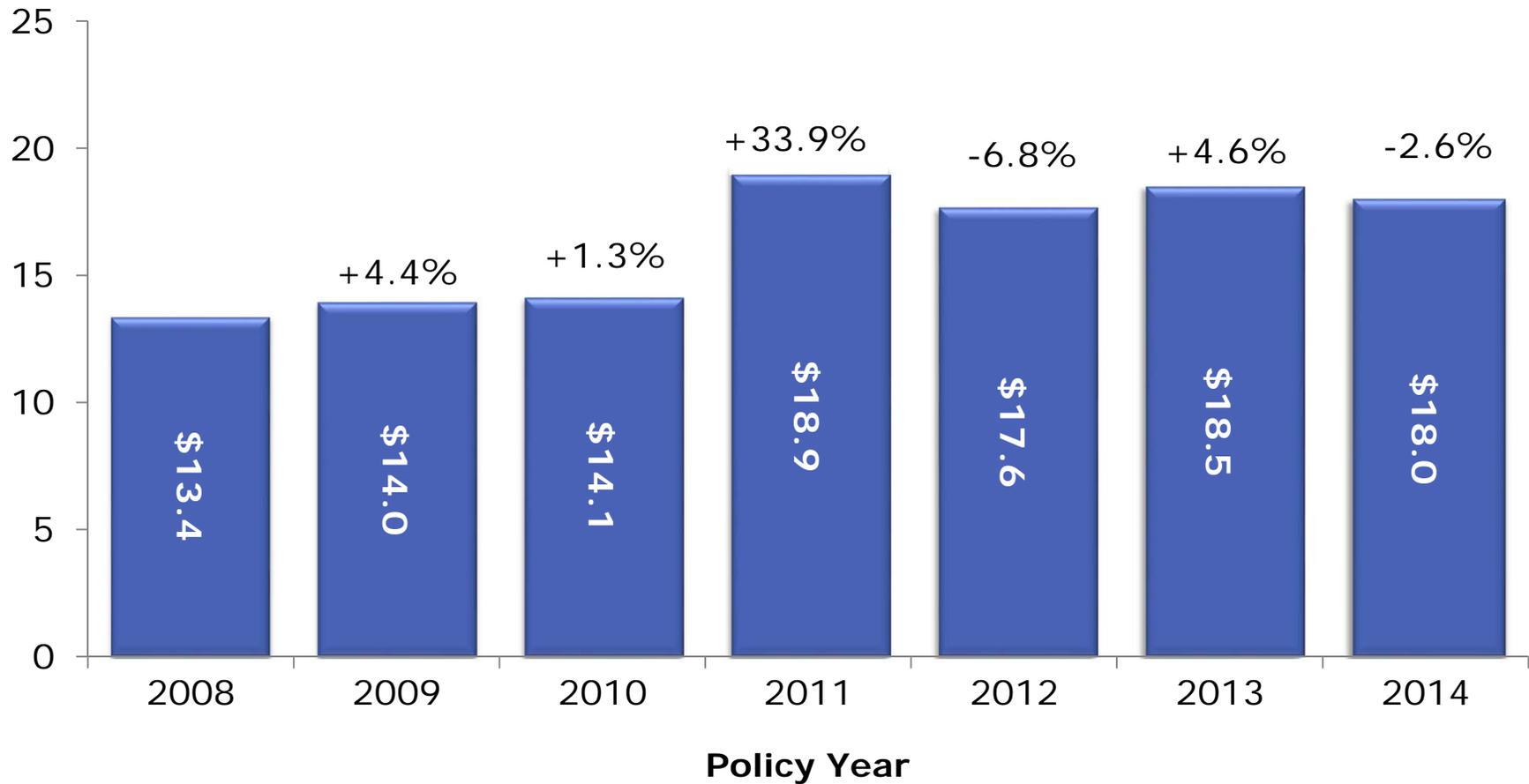


Regional states are AL, KY, MD, NC, SC, TN, and VA
Based on NCCI's financial data



West Virginia Average Medical Claim Severity

Lost-Time Claim Severity in \$ Thousands



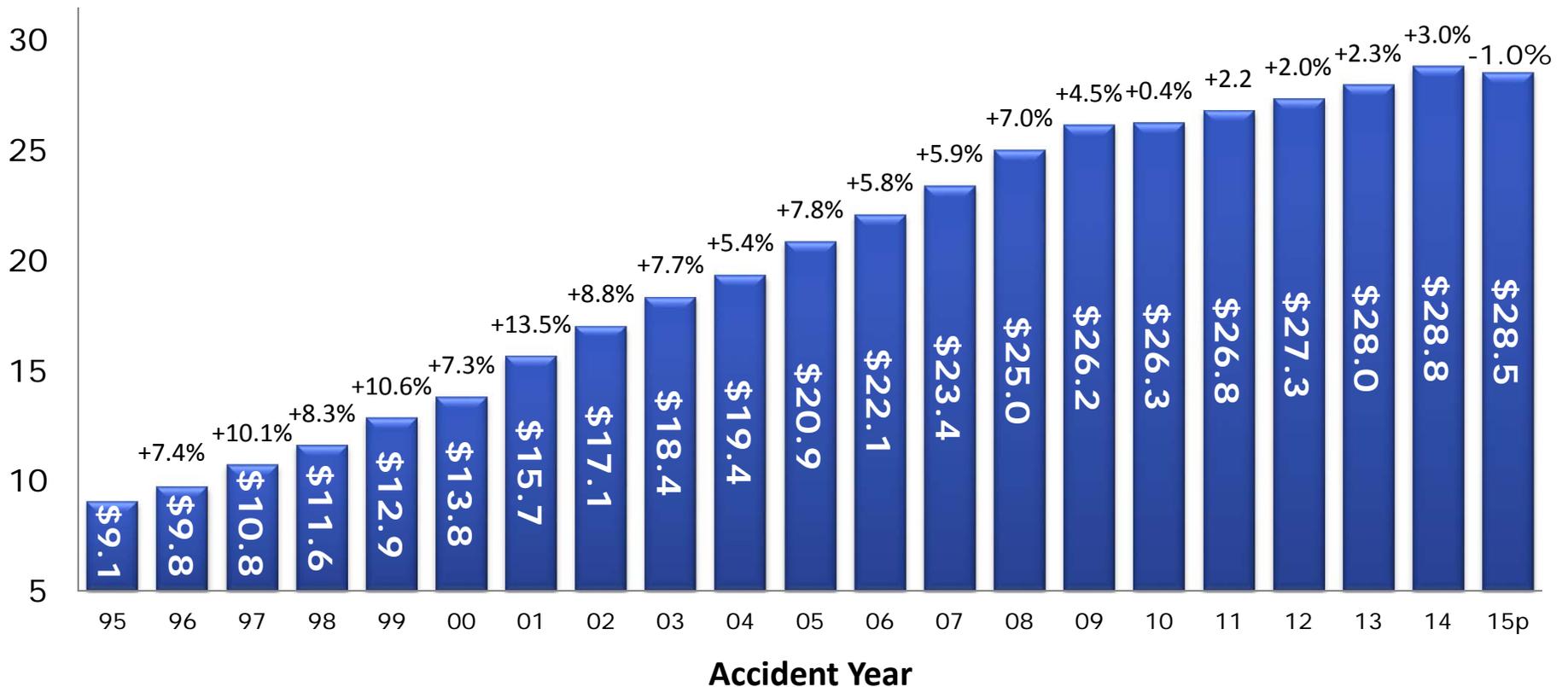
Based on data through 12/31/2015, on-leveled and developed to ultimate



Countrywide Workers Compensation Average Medical Cost per Lost-Time Claim

Private Carriers and State Funds

Severity
(\$ Thousands)



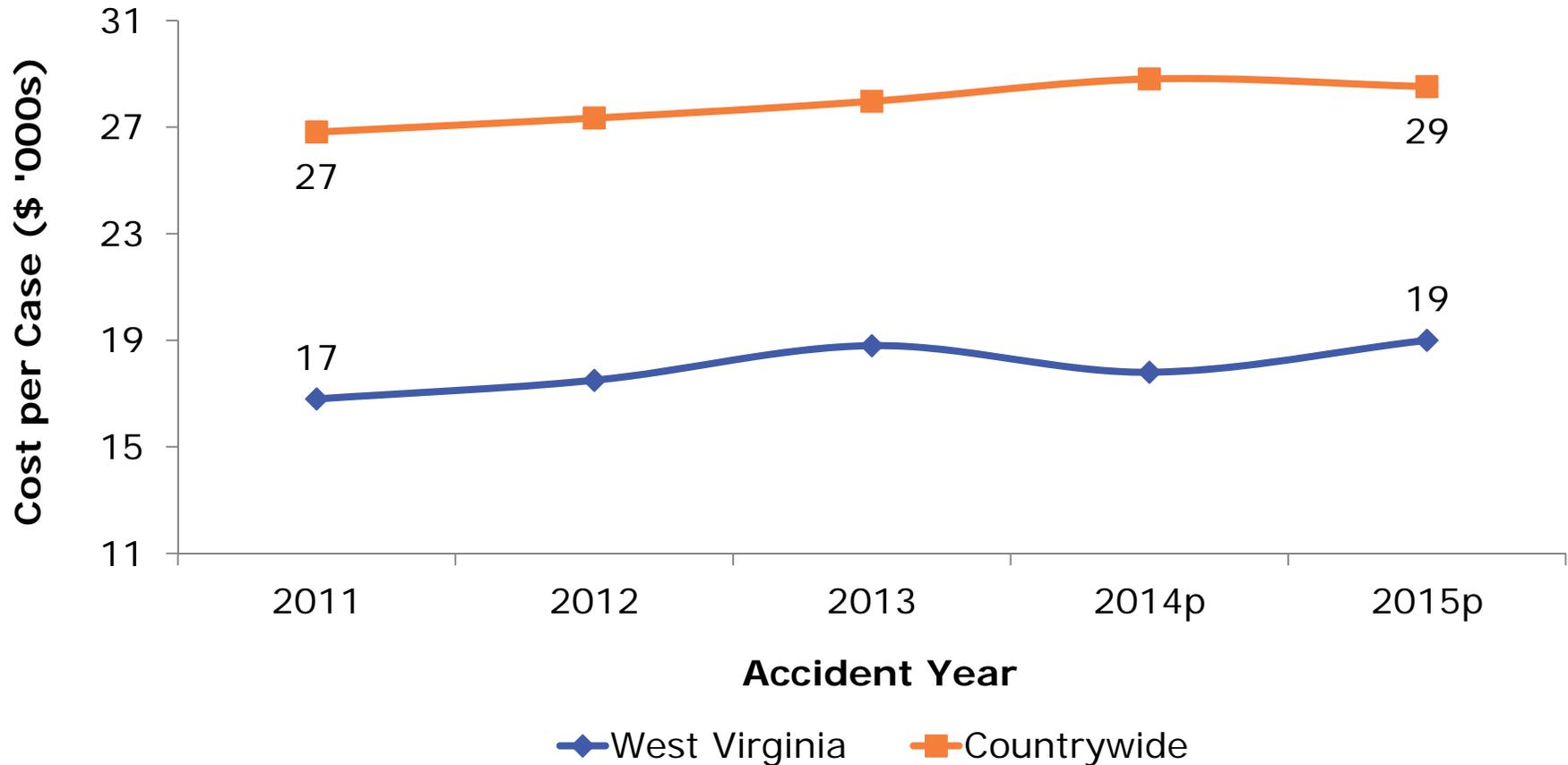
p Preliminary based on data valued as of 12/31/2015

Source: NCCI'S Financial Call data, developed to ultimate, excludes high-deductible policies; 1994–2013: based on data through 12/31/2014

Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent



West Virginia vs. Countrywide Average Medical Claim Severity



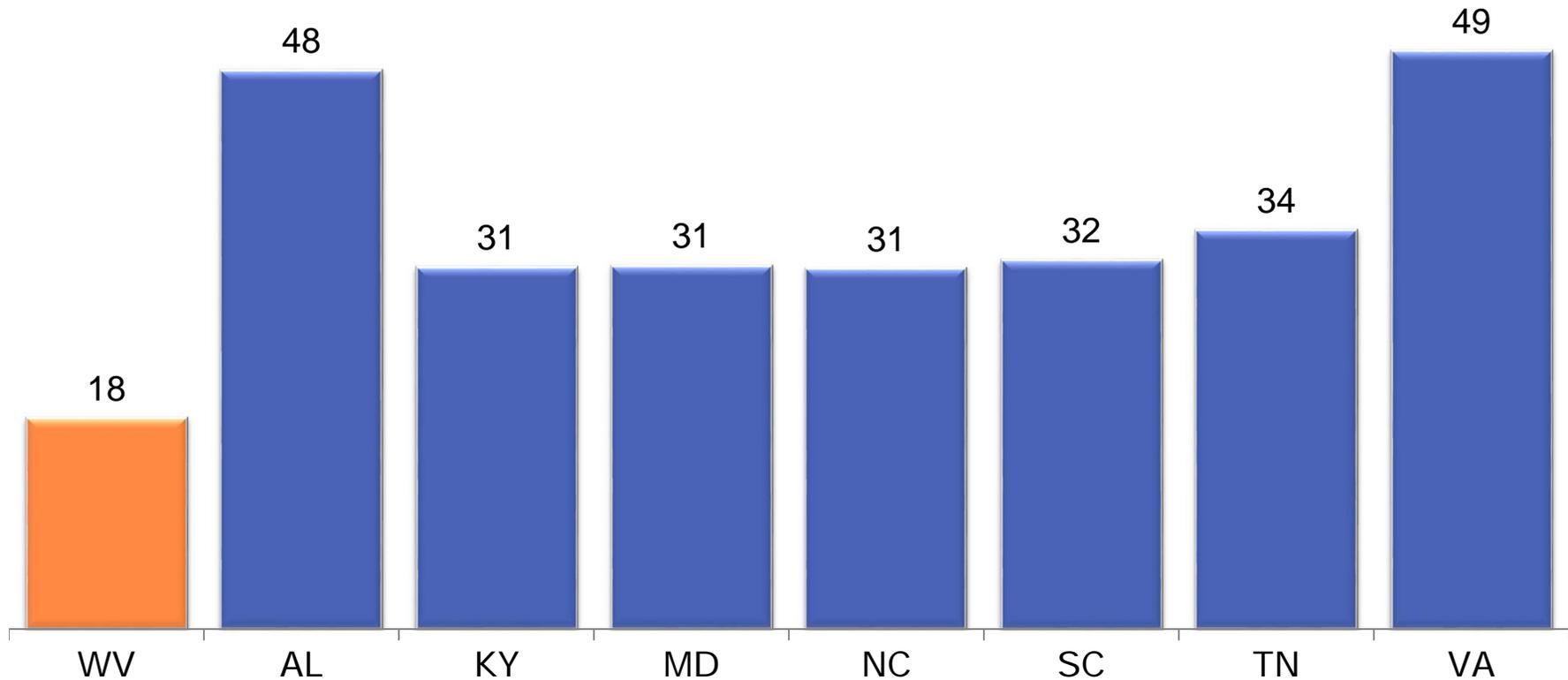
p Countrywide figure is preliminary

Source: NCCI's financial data valued as of 12/31/2015, except for Countrywide from 2011 to 2014 (valued as of 12/31/2014)
Data not adjusted to a common wage or benefit level; medical-only losses excluded



Average Medical Claim Severity in the Region

Policy Year Lost-Time Claim Severity in \$ Thousands



Lost-time claim counts developed to ultimate

Losses developed to ultimate and brought to the current wage and loss cost level

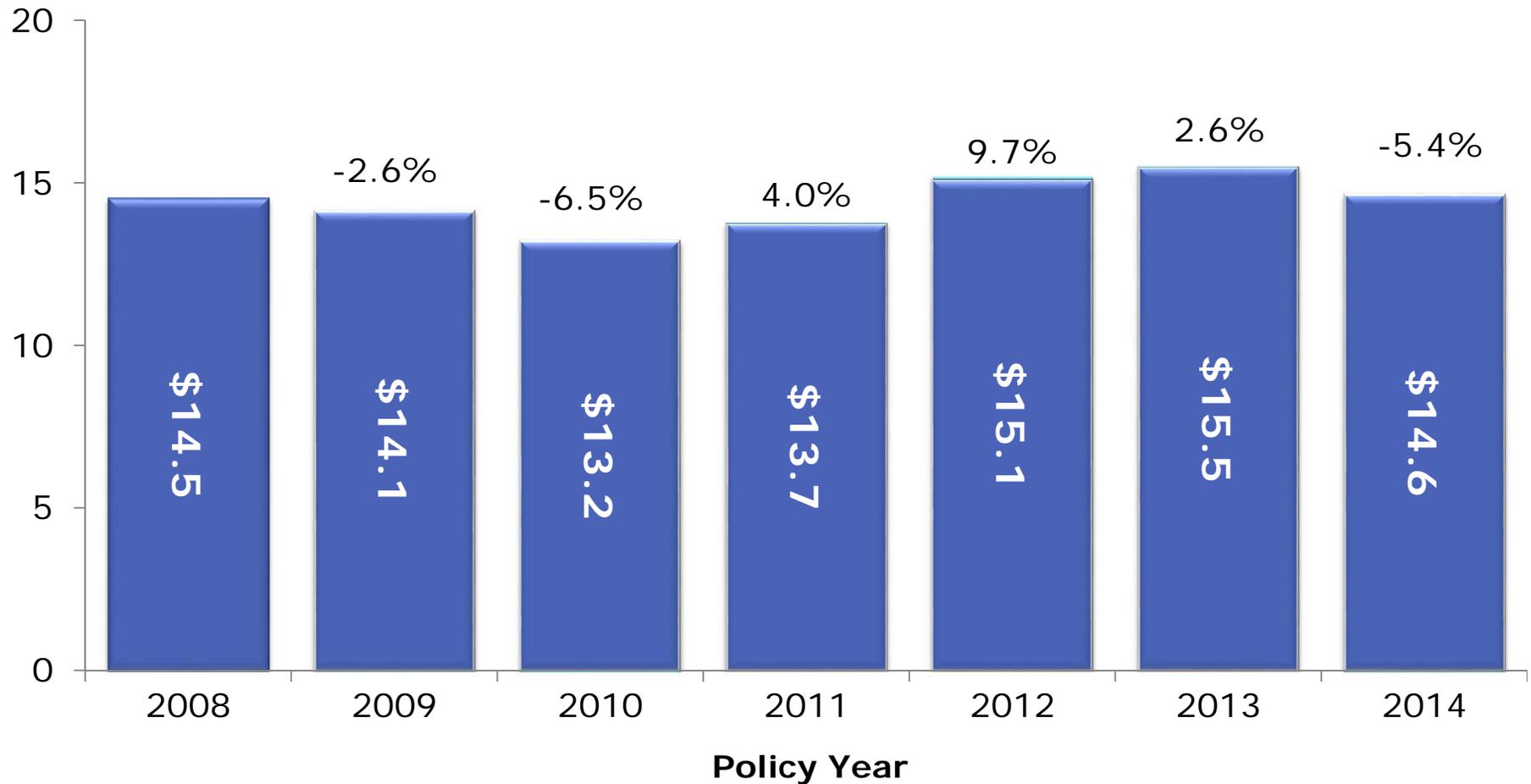
WV, KY, MD, NC, TN, and VA are based on NCCI's Financial Call data for Policy Year 2014 valued as of 12/31/2015

AL and SC are based on NCCI's Financial Call data for Policy Year 2013 valued as of 12/31/2014



West Virginia Average Indemnity Claim Severity

Lost-Time Claim Severity in \$ Thousands



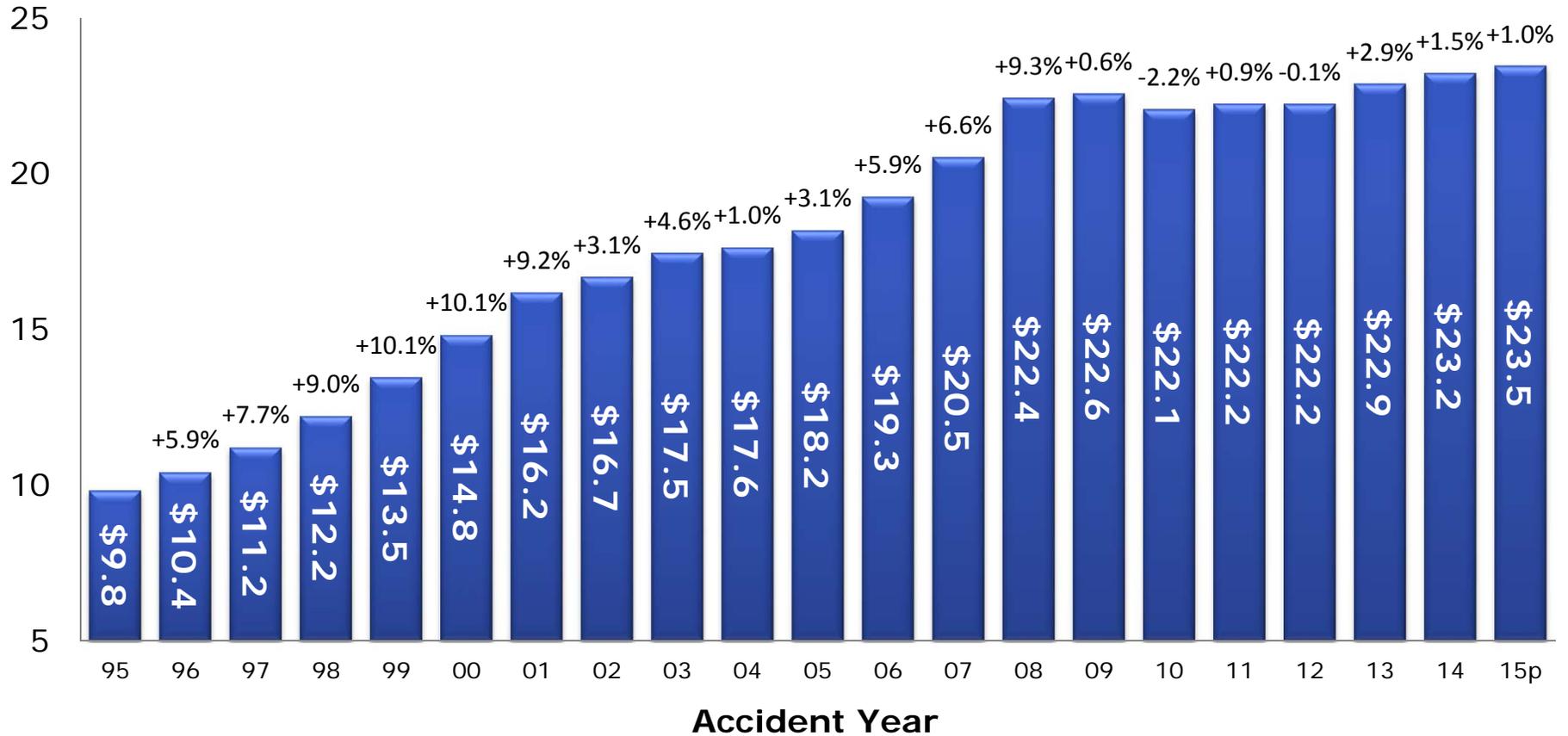
Based on data through 12/31/2015, on-leveled and developed to ultimate



Countrywide Workers Compensation Average Indemnity Cost per Lost-Time Claim

Private Carriers and State Funds

Severity
(\$ Thousands)



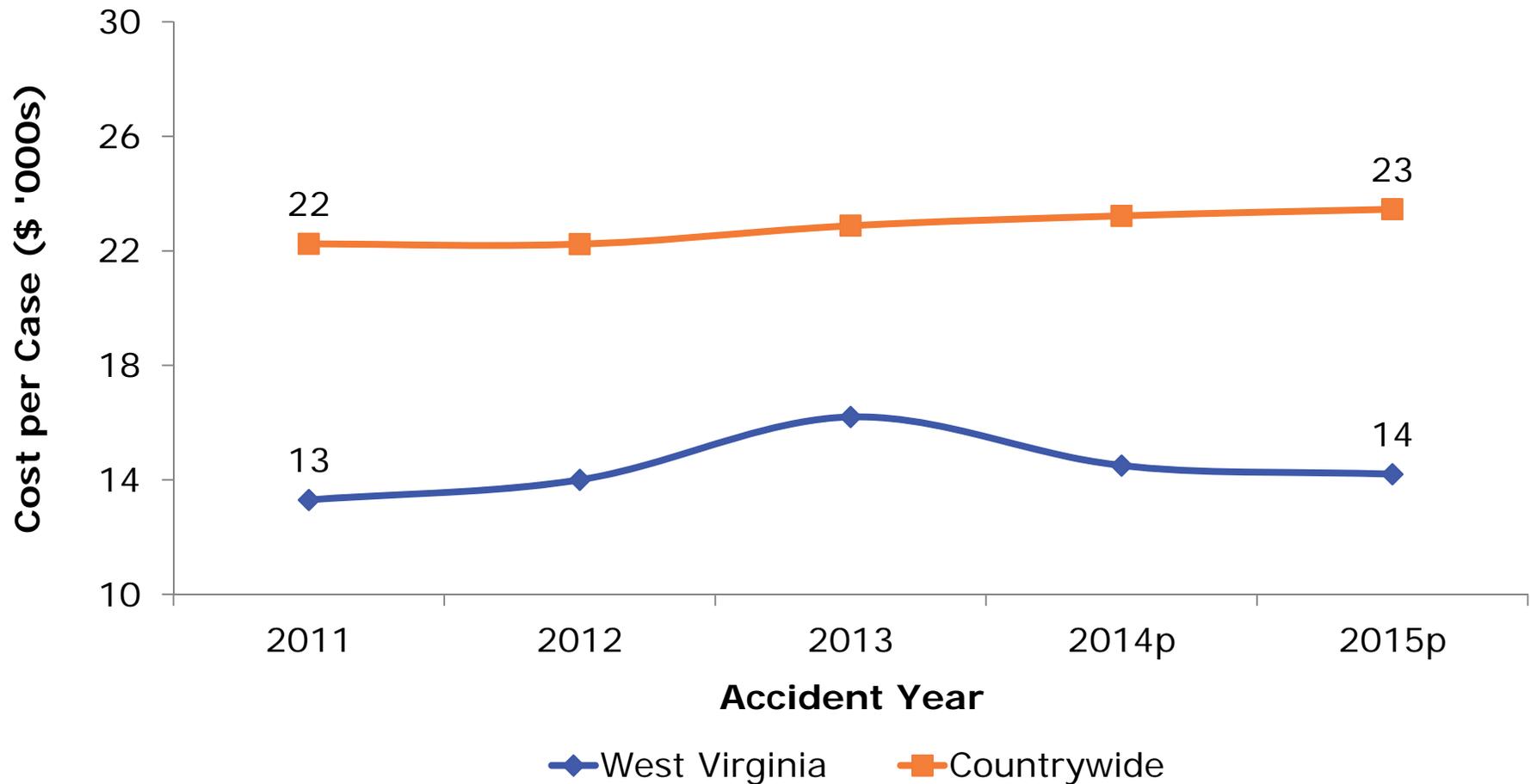
p Preliminary based on data valued as of 12/31/2015

Source: NCCI's Financial Call data, developed to ultimate; excludes high-deductible policies; 1994–2013: based on data through 12/31/2014

For all states where NCCI provides ratemaking services, excluding WV



West Virginia vs. Countrywide Average Indemnity Claim Severity



p Countrywide figure is preliminary

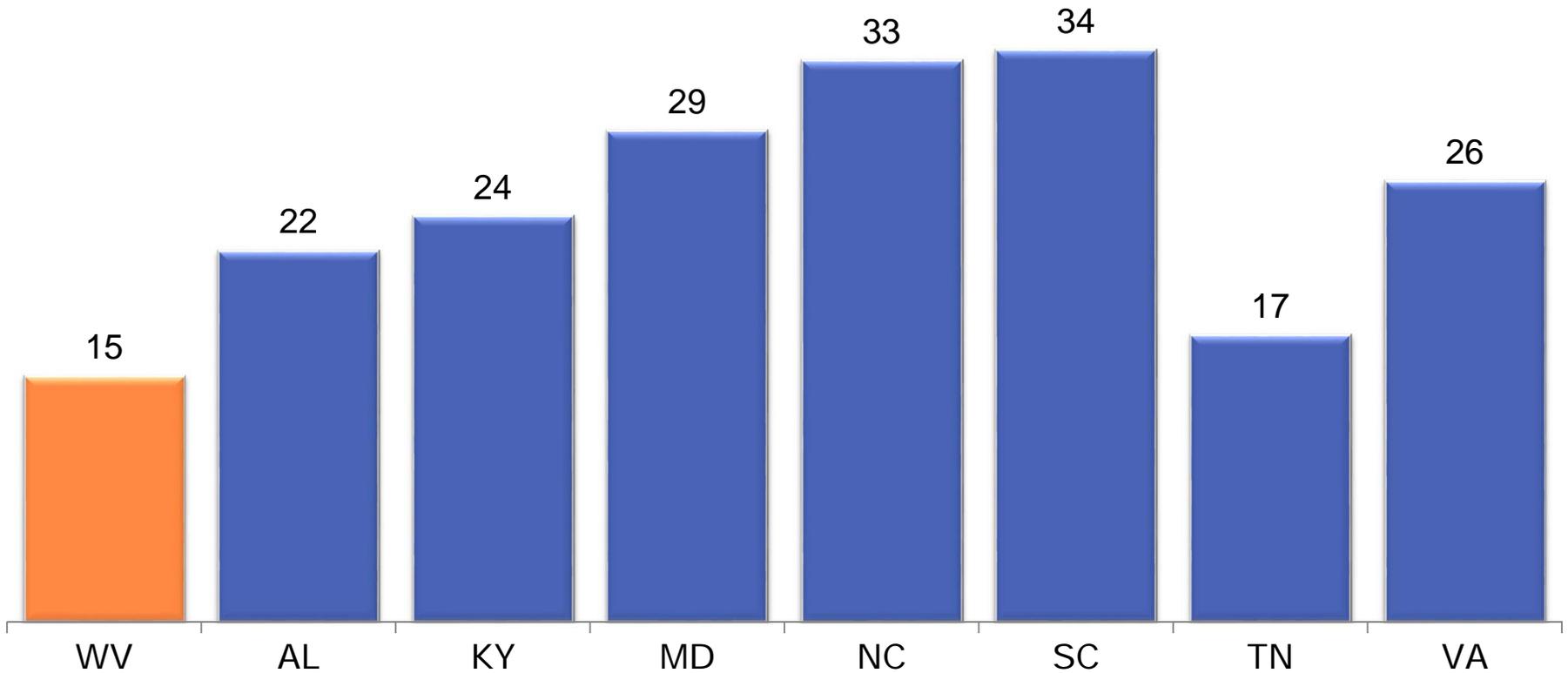
Source: NCCI's financial data valued as of 12/31/2015, except for Countrywide from 2011 to 2014 (valued as of 12/31/2014)

Data not adjusted to a common wage or benefit level



Average Indemnity Claim Severity in the Region

Policy Year Lost-Time Claim Severity in \$ Thousands



Lost-time claim counts developed to ultimate

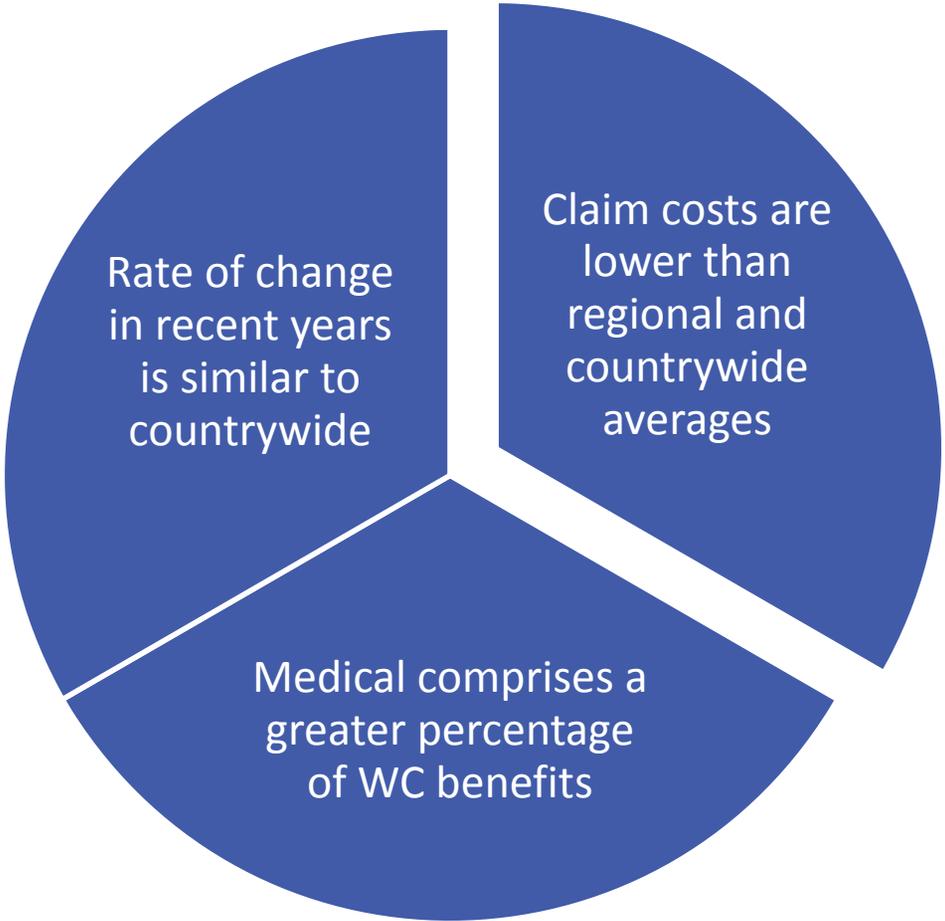
Losses developed to ultimate and brought to the current wage and loss cost level

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Key Takeaways— Indemnity and Medical Benefit Costs





Legislative Issues— West Virginia and Nationwide

West Virginia Legislative Environment (Failed Legislation)

- SB 76—Requires a covered employee to be paid the maximum temporary total disability benefits for lost time without penalty to the employee.
- SB 62—Rebuttable presumption for professional firefighters for specified cancers and other occupational diseases.
- SB 71—Liberal interpretation; limit distance of vocational rehabilitation job searches; allow permanent total disability until death, etc.



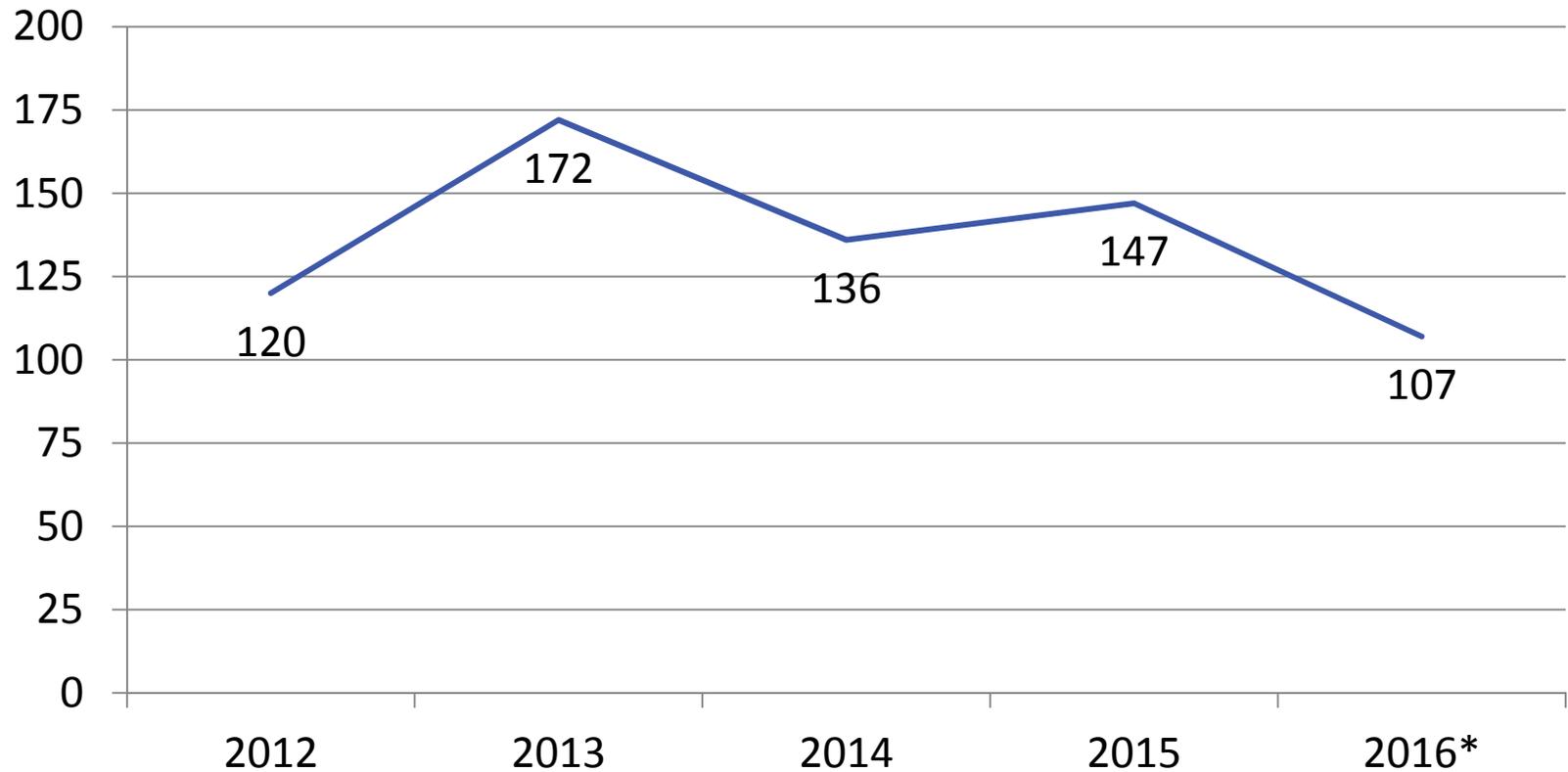
Opt-Out

Introduced, but no further action has been taken:

- South Carolina Employee Injury Benefit Plan Alternative (HB 4197)
- Tennessee Employee Injury Benefit Alternative (HB 997/SB 721)



Number of Requests to NCCI for Pricing of Law/Regulation Changes in the Last Five Years



*2016 data as of 7/21/2016



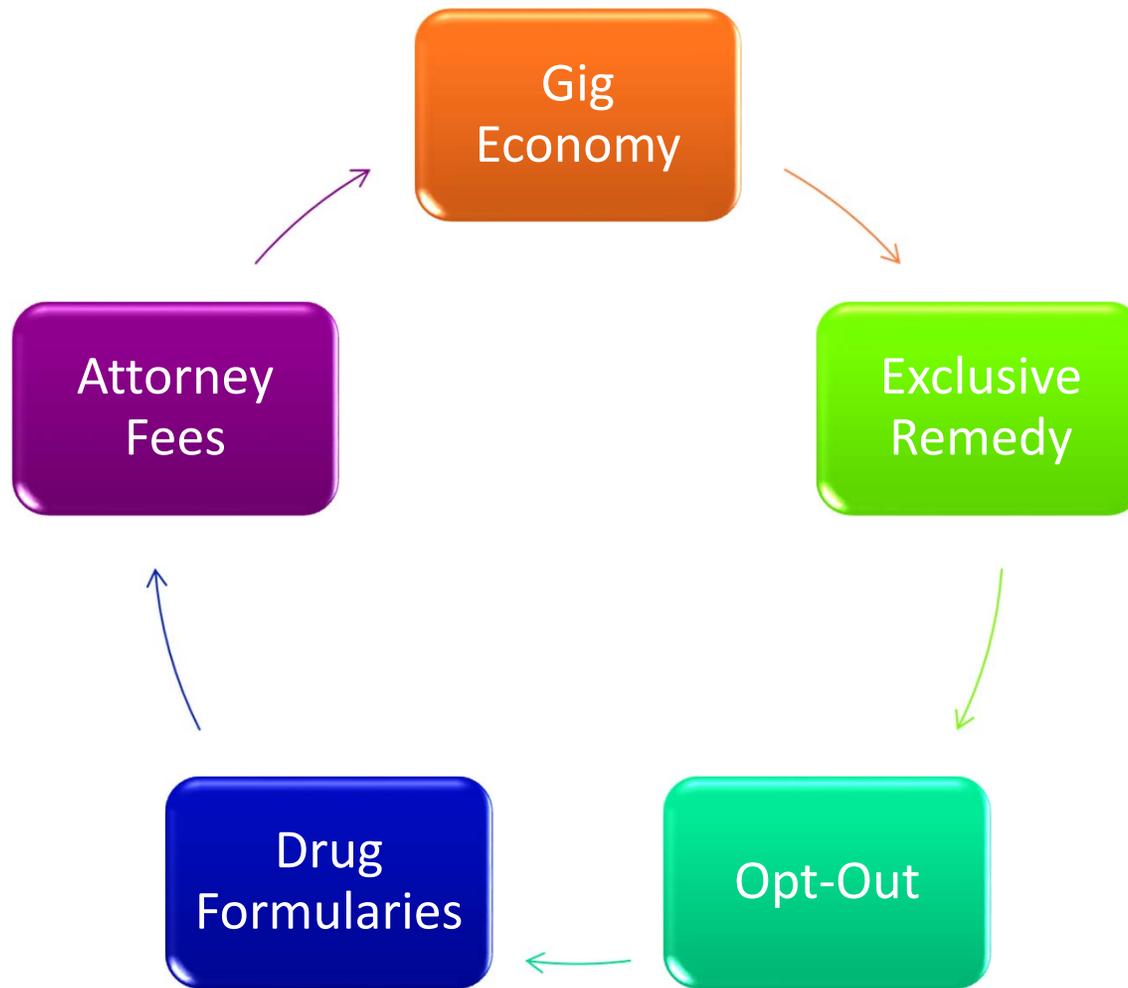
NCCI's Role in the Legislative Process

- Before and During the Legislative Session:
 - Provides examples of how an issue is treated in other states
 - Analyzes the cost impact of various options being considered and updates the impact analysis if a bill is amended

- After the Legislature Has Adjourned:
 - Prepares circulars on substantive changes
 - Makes filings if needed
 - Files rate/loss costs to address changes when the cost impact is significant
 - Files rule/program changes, if needed
 - Monitors the effects of law changes after they are enacted



Issues to Watch in 2016 ... and Beyond



Key Takeaways

Legislative activity for 2016 is about average for an election year

No significant workers compensation measures have progressed

Opt-out proposals in South Carolina and Tennessee stalled

The financial impact of legislation, regulations, and judicial decisions priced in 2016 on states' WC systems ranged from -3.7% to +19.6%

New terminology has emerged regarding the gig economy and independent contractors: "Qualified Marketplace Contractor"



West Virginia Residual Market

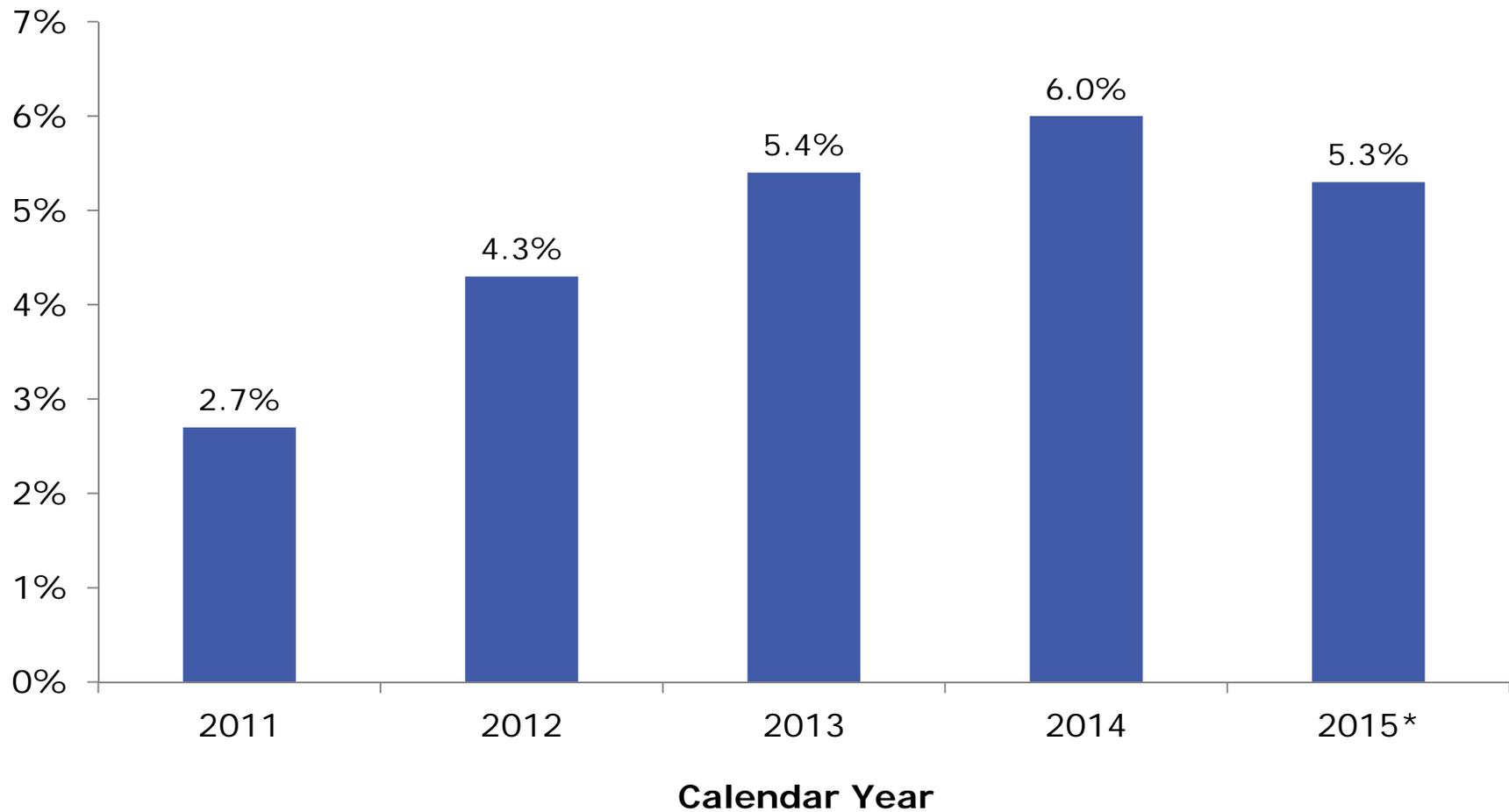
West Virginia Assigned Risk Programs

- Assigned Risk Adjustment Program (ARAP)
- Loss Sensitive Rating Plan (LSRP)
- Loss Cost Differential (currently 40%)
- Removal of Premium Discounts
- ***Take-Out Credit (TOC) Program***
- Voluntary Coverage Assistance Program (***VCAP[®] Service***)



West Virginia Residual Market Share

Plan Premium as a Percentage of Direct Written Premium



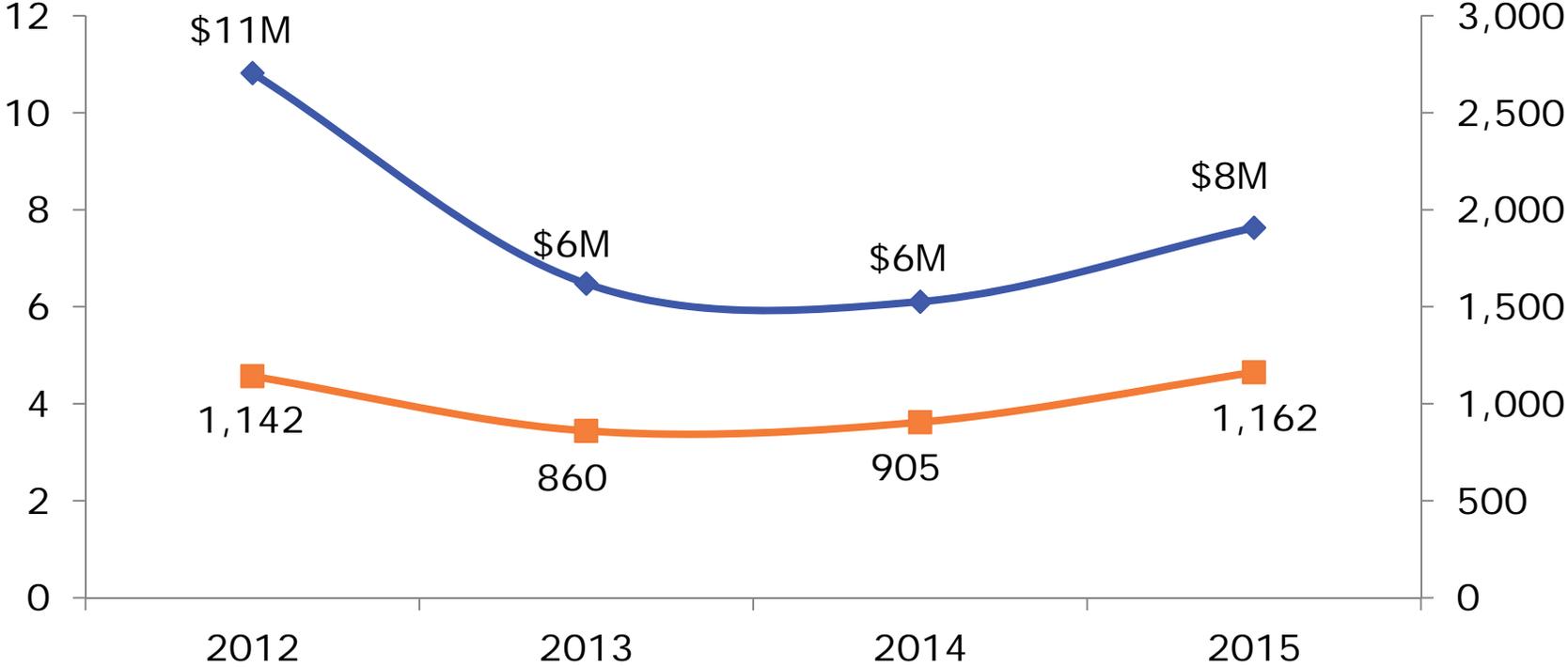
*Preliminary



Total Residual Market New Applications and Premium Assigned in West Virginia

Estimated Premium (\$ Millions)

Applications

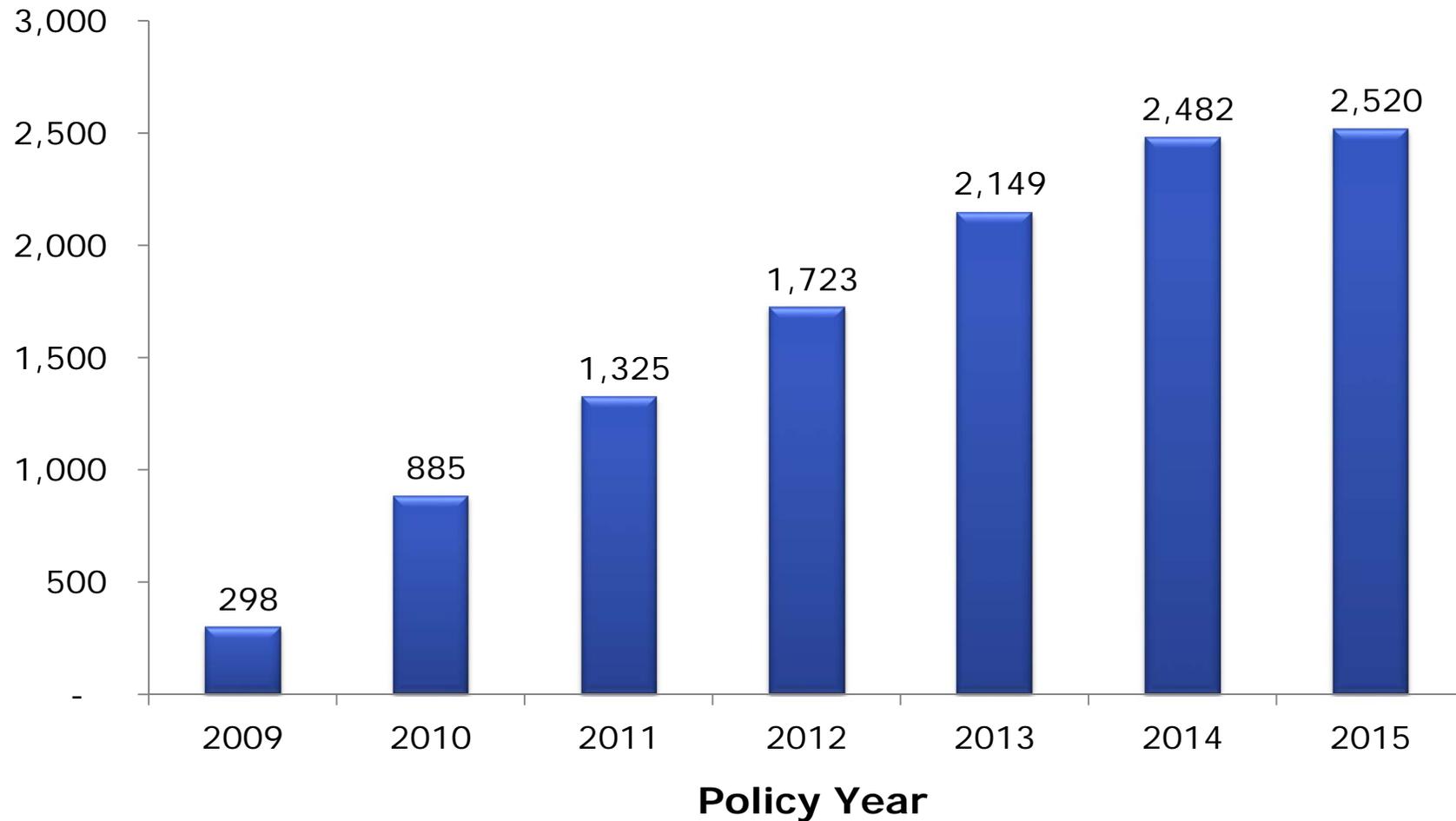


Calendar Year

■ Total New Applications
 ◆ Total New Premium



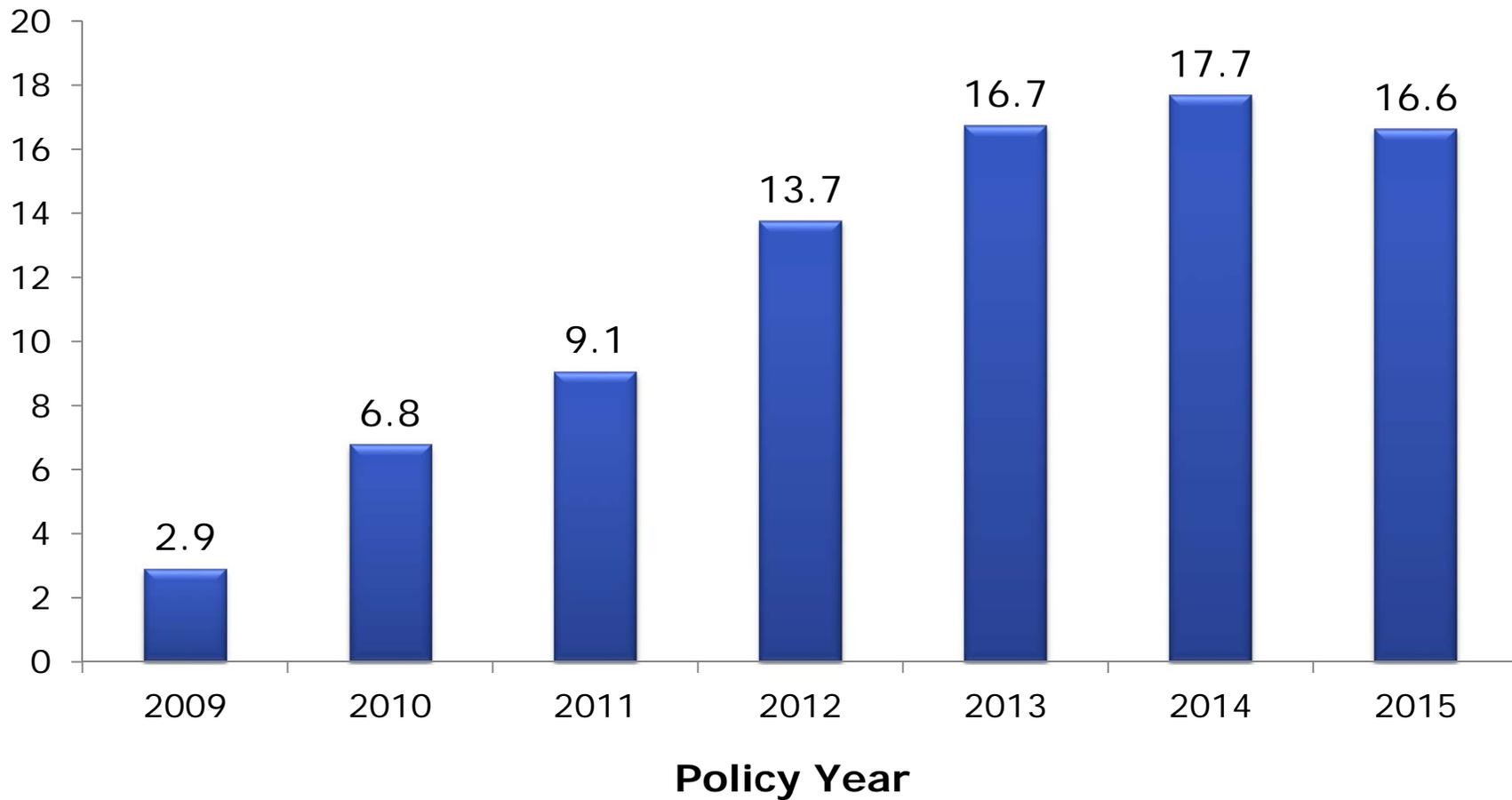
West Virginia's Total Residual Market Plan Policy Counts as of 12/31/15



West Virginia's Total Residual Market Plan Estimated Premium Volume

Premium in \$ Millions as of 12/31/15

\$ Millions



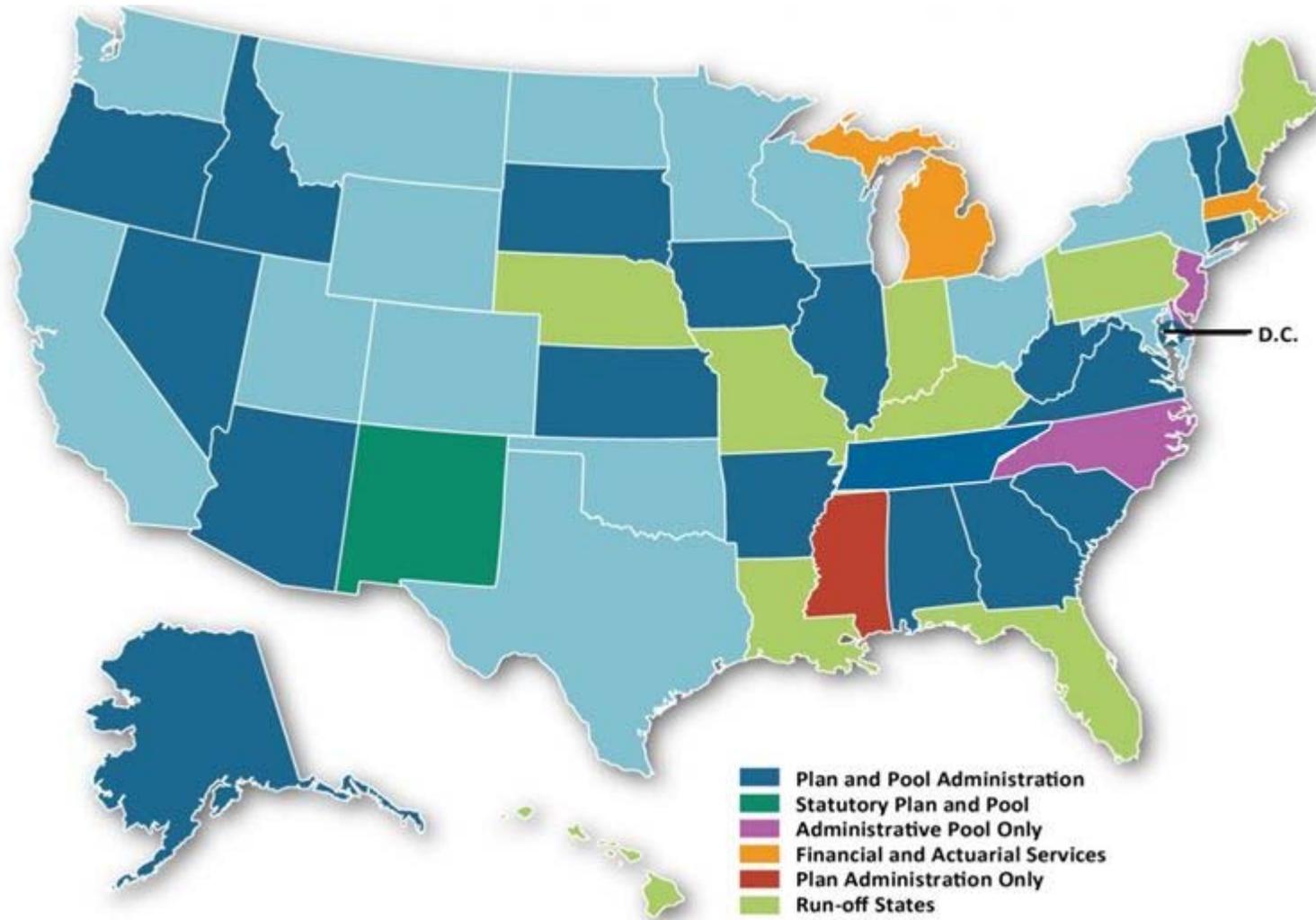
West Virginia Average Size Accounts for Residual Market Policies and Estimated Premium

As of 12/31/15

Premium Range	Policy Count	% of Policies	Total Premium	% of Premium	Average Policy Size
\$0–\$2,499	1,268	50.3%	\$ 1,298,774	7.8%	\$ 1,024
\$2,500–\$4,999	513	20.4%	1,797,002	10.8%	3,502
\$5,000–\$9,999	369	14.6%	2,534,663	15.3%	6,869
\$10,000–\$19,999	203	8.1%	2,818,756	17.0%	13,885
\$20,000–\$49,999	126	5.0%	3,849,972	23.2%	30,555
\$50,000–\$99,999	29	1.2%	2,201,812	13.3%	75,924
\$100,000–\$199,999	7	0.3%	902,912	5.4%	128,987
\$200,000+	5	0.2%	1,216,878	7.3%	243,375
Total	2,520	100.0%	\$16,620,769	100.0%	\$ 6,596



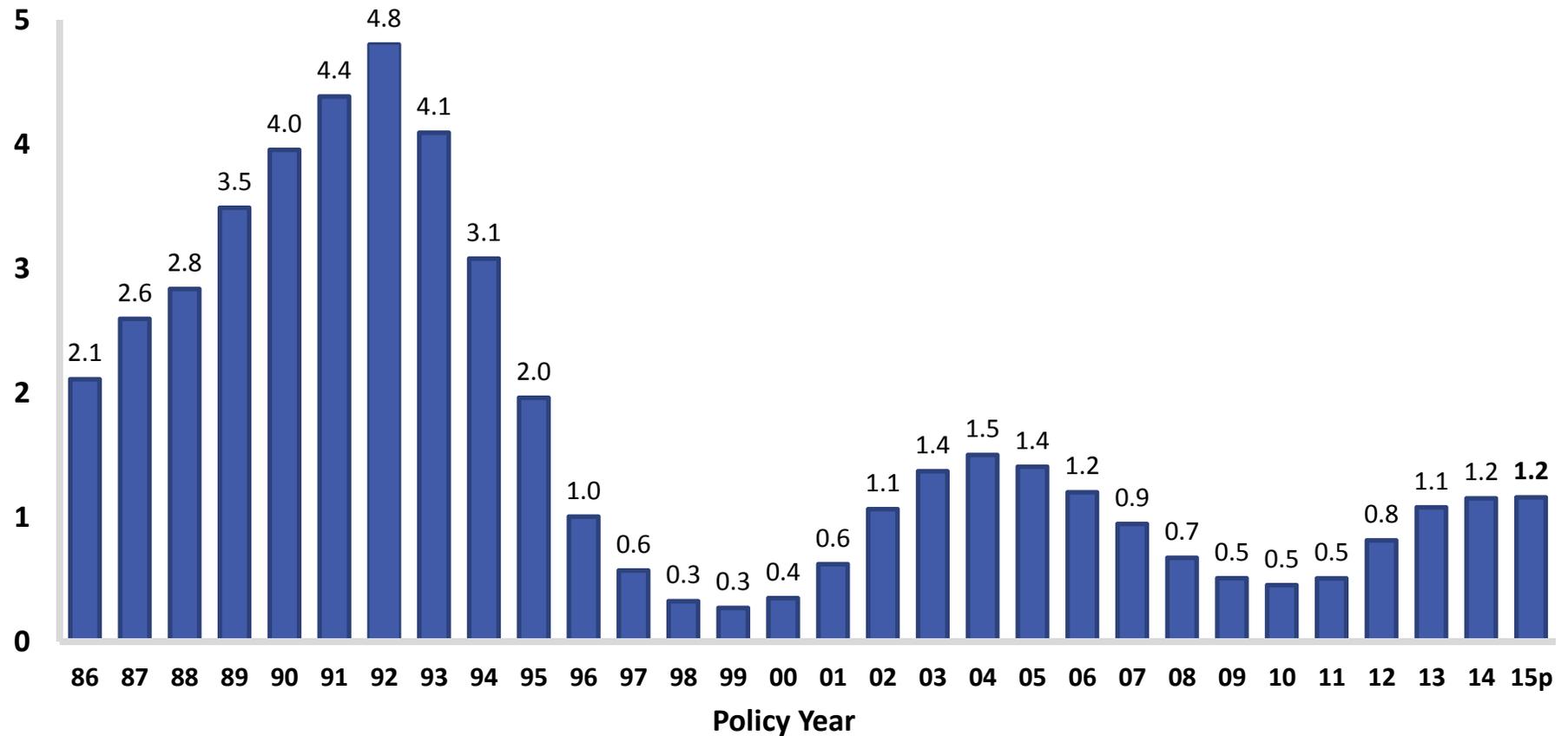
Where Does NCCI Provide Residual Market Services?



Workers Compensation Residual Market Premium

NCCI-Serviced Workers Compensation Residual Market Pools

\$ Billions



p Preliminary, incomplete policy year projected to ultimate
 Includes Pool data for all NCCI-serviced workers compensation Residual Market Pool states valued as of 12/31/2015
 Tennessee Reinsurance Mechanism premium is not included
 Source: NCCI's *Residual Market Quarterly Results*



Assigned Risk Plan Policies and Estimated Premium

By State as of 12/31/15

State	Total Policy Count	Total Premium
AK	7,942	\$ 34,799,717
AL	1,600	11,393,989
AR	6,754	24,040,907
AZ	6,065	50,248,061
CT	14,367	54,842,636
DC	1,407	7,669,642
GA	19,679	63,596,139
IA	4,665	42,135,106
ID	721	1,847,445
IL	33,414	113,034,967
IN	9,052	59,161,370
KS	8,914	33,727,603
MS	2,690	19,405,030
NH	5,774	27,178,283
NM	2,923	12,648,991
NV	4,698	21,703,511
OR	9,383	43,279,101
SC	11,690	32,766,784
SD	1,762	10,274,905
TN	5,927	30,186,362
VA	15,719	67,814,456
VT	4,116	20,406,876
WV	2,520	16,620,769
Total	181,782	\$798,782,650





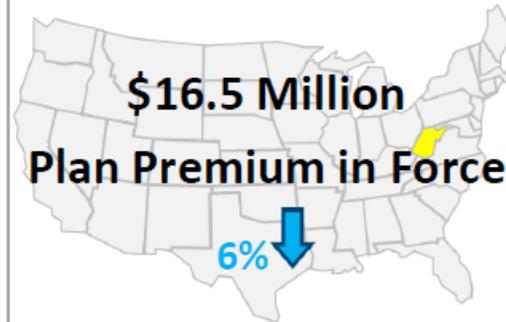
West Virginia Residual Market Performance Report

January 1, 2015 – December 31, 2015

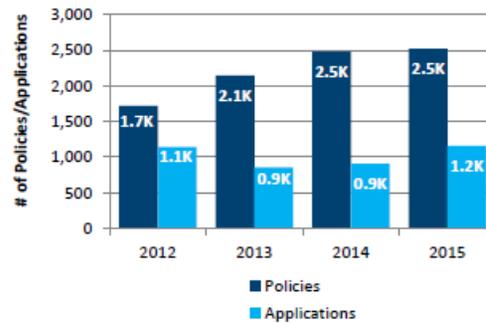
Top 5 Class Codes*

- 7711—Firefighters - Volunteer (15.9%)
- 5645—Carpentry Construction (5.1%)
- 7228—Trucking-Local Hauling (4.5%)
- 2702—Logging - Non Mechanized (3.5%)
- 8279—Stable Or Breeding Farm (2.7%)

*By policy count



Total Policy Count 2% ↑



VCAP® Service Redirected

\$55K
Premium

Savings from Redirected Premium
3%

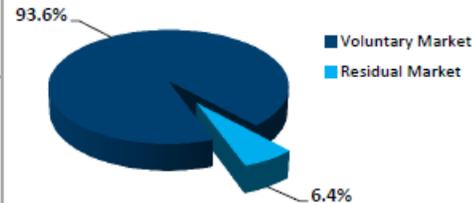
Avg Policy Size

\$6,604 7% ↓

Policies with Premium 100K+

\$1.9M 11% ↑

2015 Market Share



2015 policy and estimated annual premium data, compared to 2014.



Residual Market Summary

- National
 - Stable residual market share
 - Manageable operating results
 - Slow growth in 2014 and 2015
- State
 - Servicing carrier churn
 - Stable residual market share
 - Self-funded operating results
 - Different mix of residual market classifications

Please visit ncci.com for additional state and countrywide information.





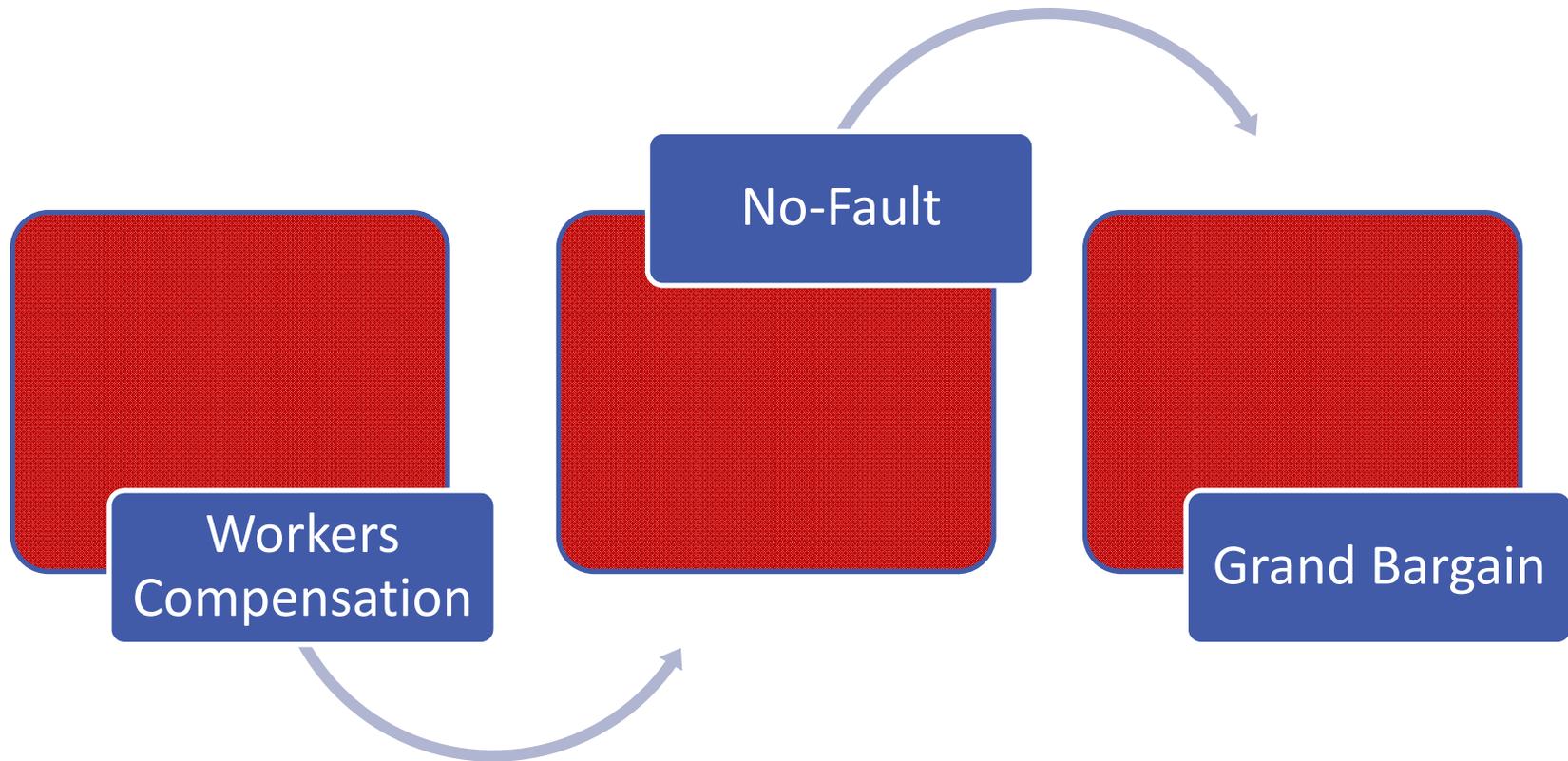
The Affordable Care Act and Workers Compensation

Case Shifting

The Affordable Care Act (ACA) and the Workers Compensation Agenda



Workers Compensation



Legal Challenges

National Federation of Independent Business v. Sebelius

King v. Burwell

US House of Representatives v. Burwell



Patient Protection and the Affordable Care Act

The
Affordable
Care Act
2010

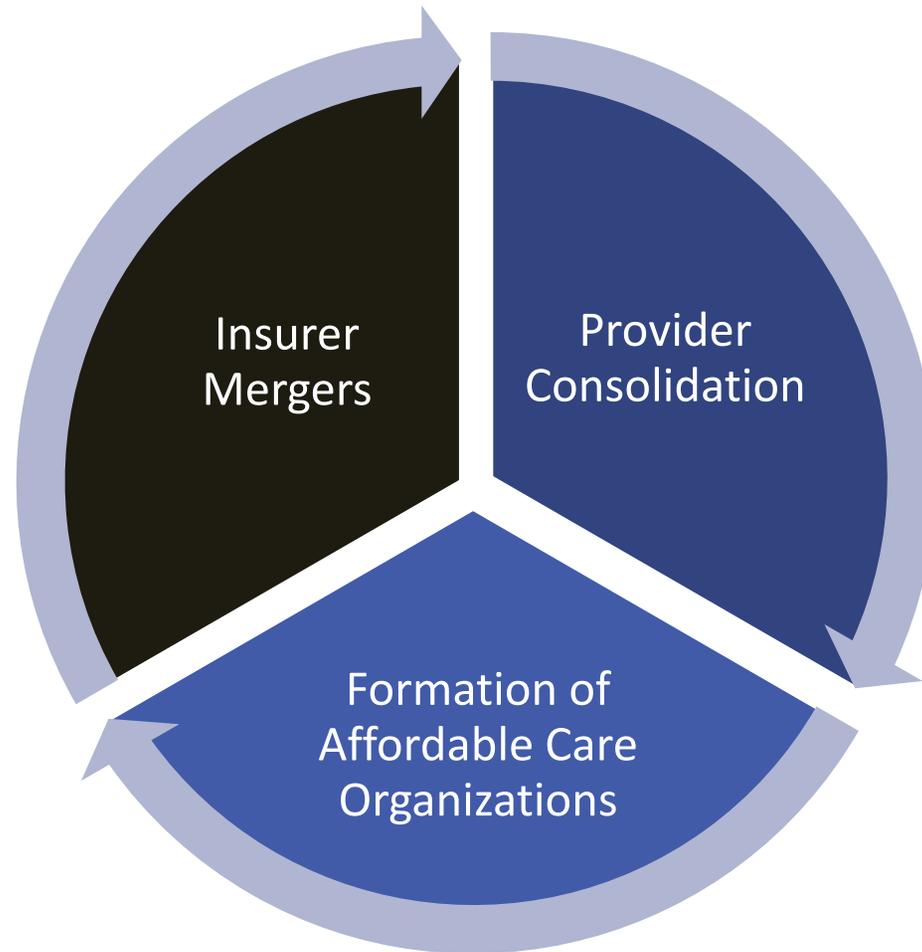
Implementation
2014



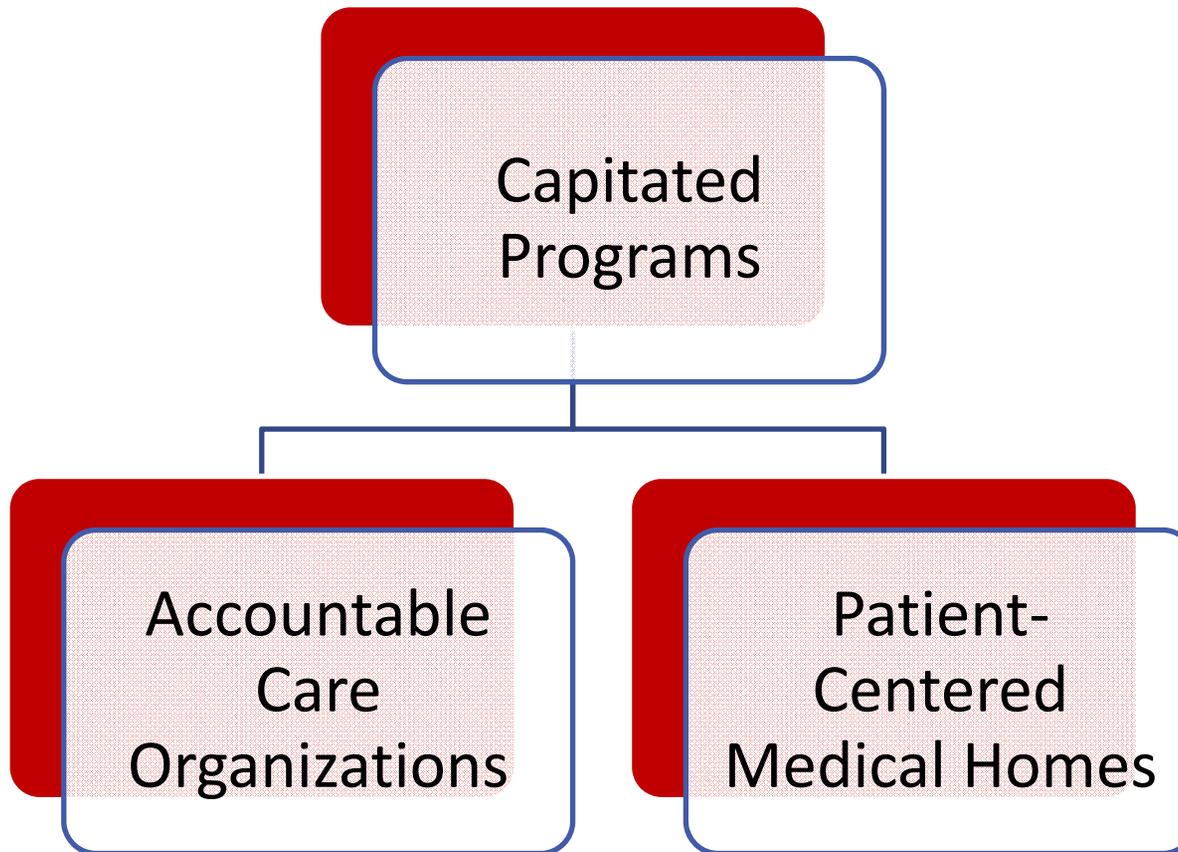
What Is Case Shifting?



Delivery of Healthcare Is Changing



Potential Drivers of Cost Shifting



Potential Drivers of Cost Shifting

High-Deductible Health Plans

Loss of Wage Benefits

Workers Comp vs. Disability Insurance

Workers Compensation Research Institute Study

- A patient covered by a capitated health plan was 11% more likely to have a soft-tissue injury called “work-related” than a similar patient covered by a fee-for-service plan.
- For patients with conditions for which causation was more certain (fractures, lacerations, etc.), there was no difference between those covered by capitated or fee-for-service plans.
- Case shifting was more likely in states where a higher percentage of workers were covered by capitated plans.
- In an average state (with 19% of the population covered by a capitated group health plan), an increase of capitation to 30% of the population would mean a nearly 10% increase in the number of soft-tissue conditions called “work-related” and paid by workers compensation. That is equivalent to a 3% increase in workers compensation payments.



Conclusion: The ACA's Impact Is Uncertain

Supply/Demand

Cost Shift

Varies by State

?





Q & A



Closing Remarks Thank You!



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.

