



INDIANA

October 2018

Workers Compensation Outlook and Observations



Countrywide Workers Compensation System

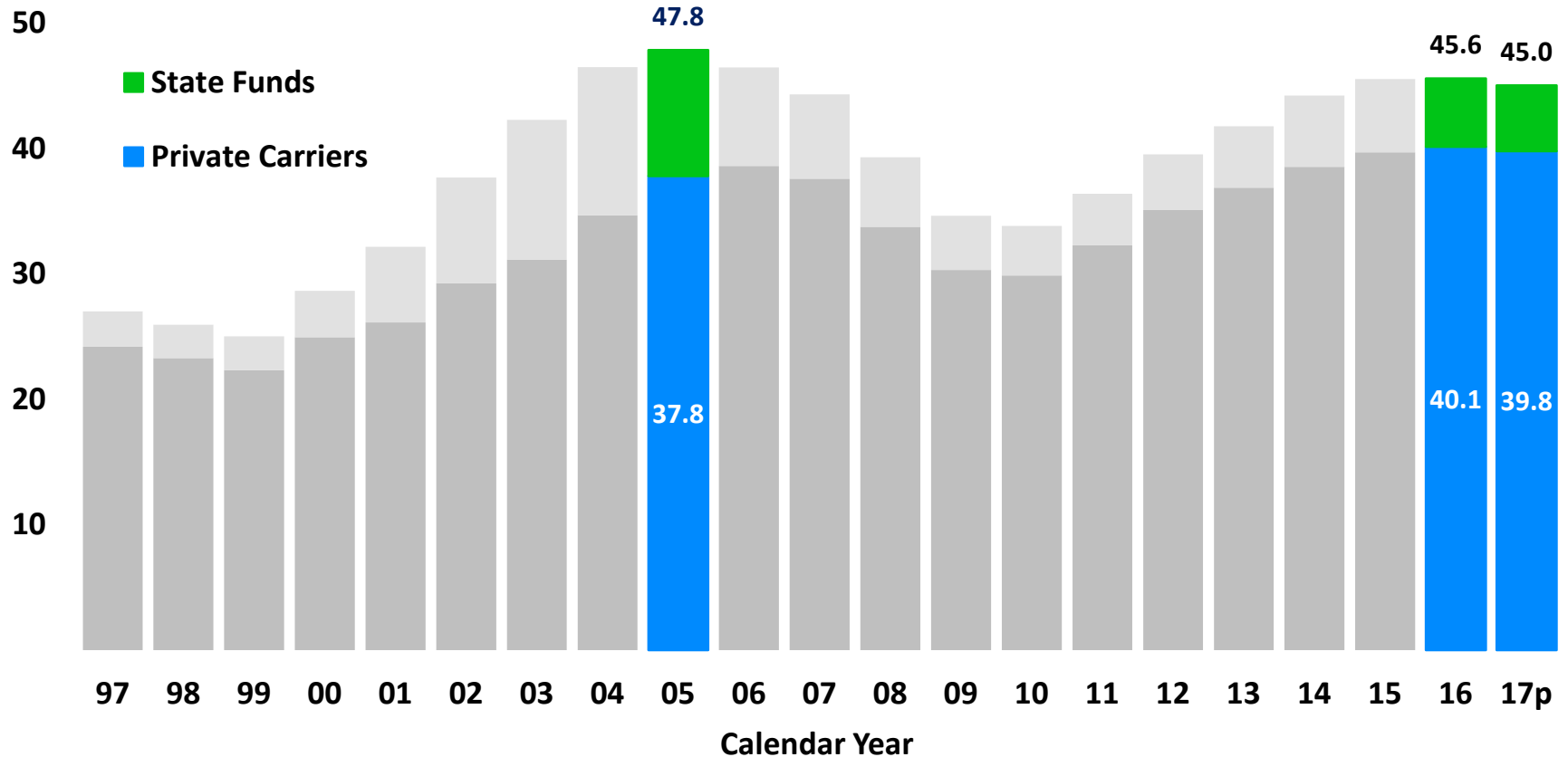
Countrywide Workers Compensation (WC)— An Overview

- Premium decreased slightly in the most recent year
- The combined ratio continues to show favorable results
- Frequency declined again at the latest point
- Medical and indemnity severity increased modestly

WC Net Written Premium

Private Carriers and State Funds

\$ Billions



p Preliminary

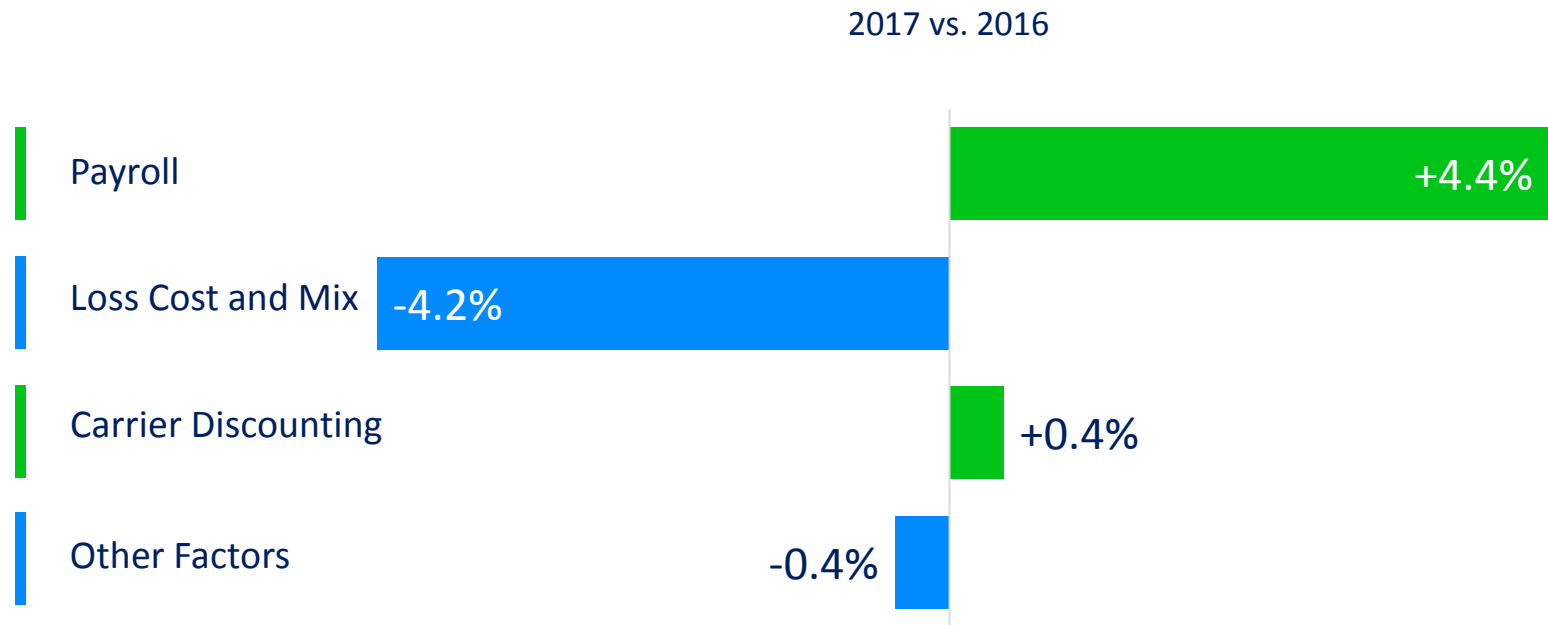
Source: NAIC's Annual Statement data; includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

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

WC Direct Written Premium (DWP) Change by Component

Private Carriers—NCCI States

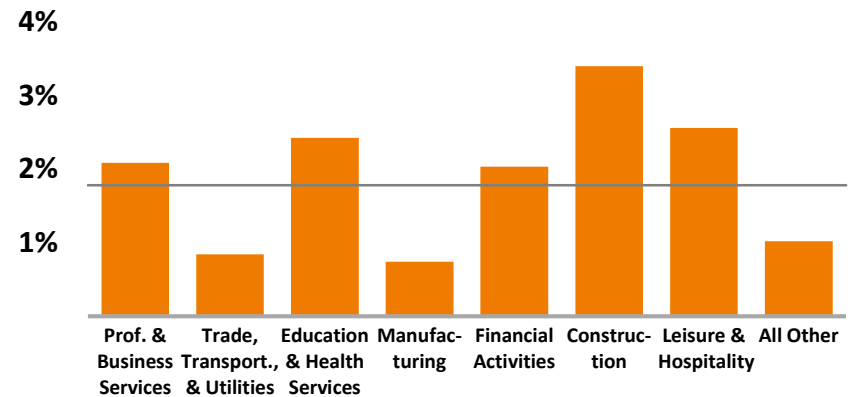
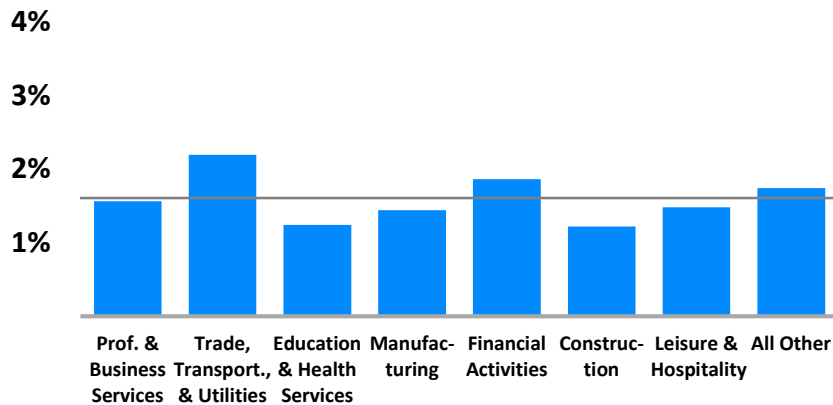
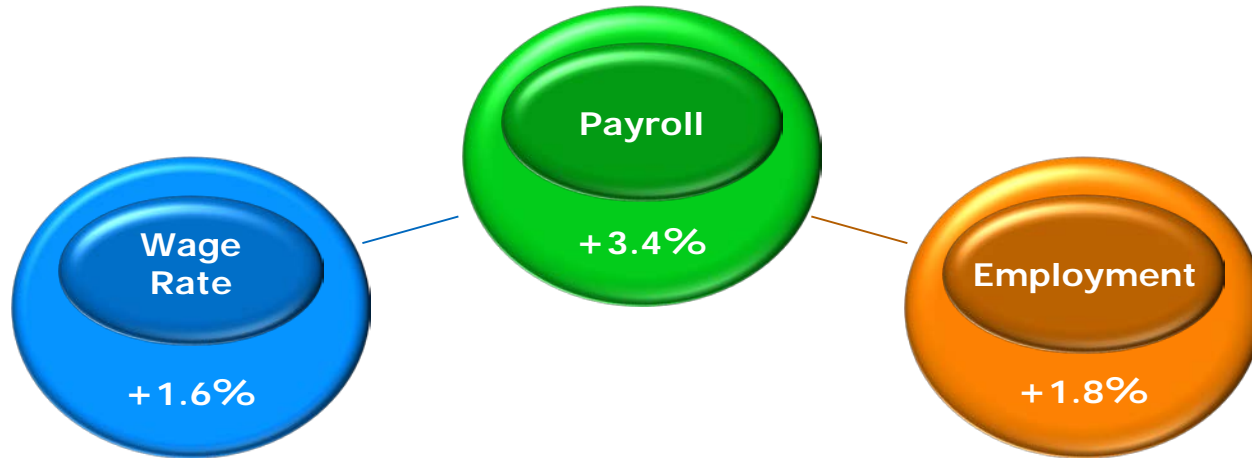
Change in Direct Written Premium: 0.0%



Sources: DWP Change: NAIC's Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services
Components: NCCI's Policy data

Increases in Payroll Continue to Drive Changes in Premium

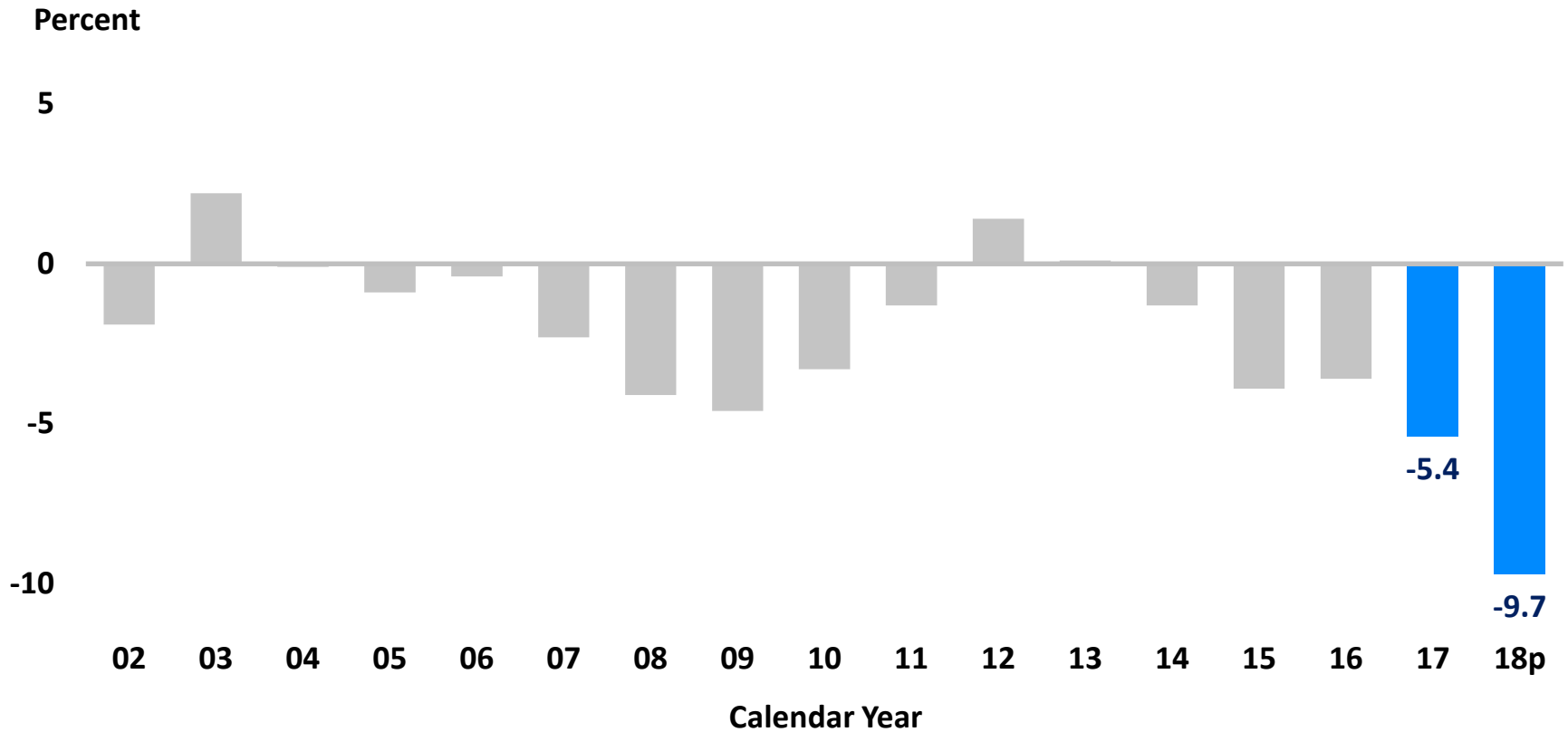
Forecast Change 2016–2017



Sources: Moody's Analytics and NCCI

WC Approved Changes in Bureau Premium Level

Weighted by Effective Date—NCCI States



p Preliminary

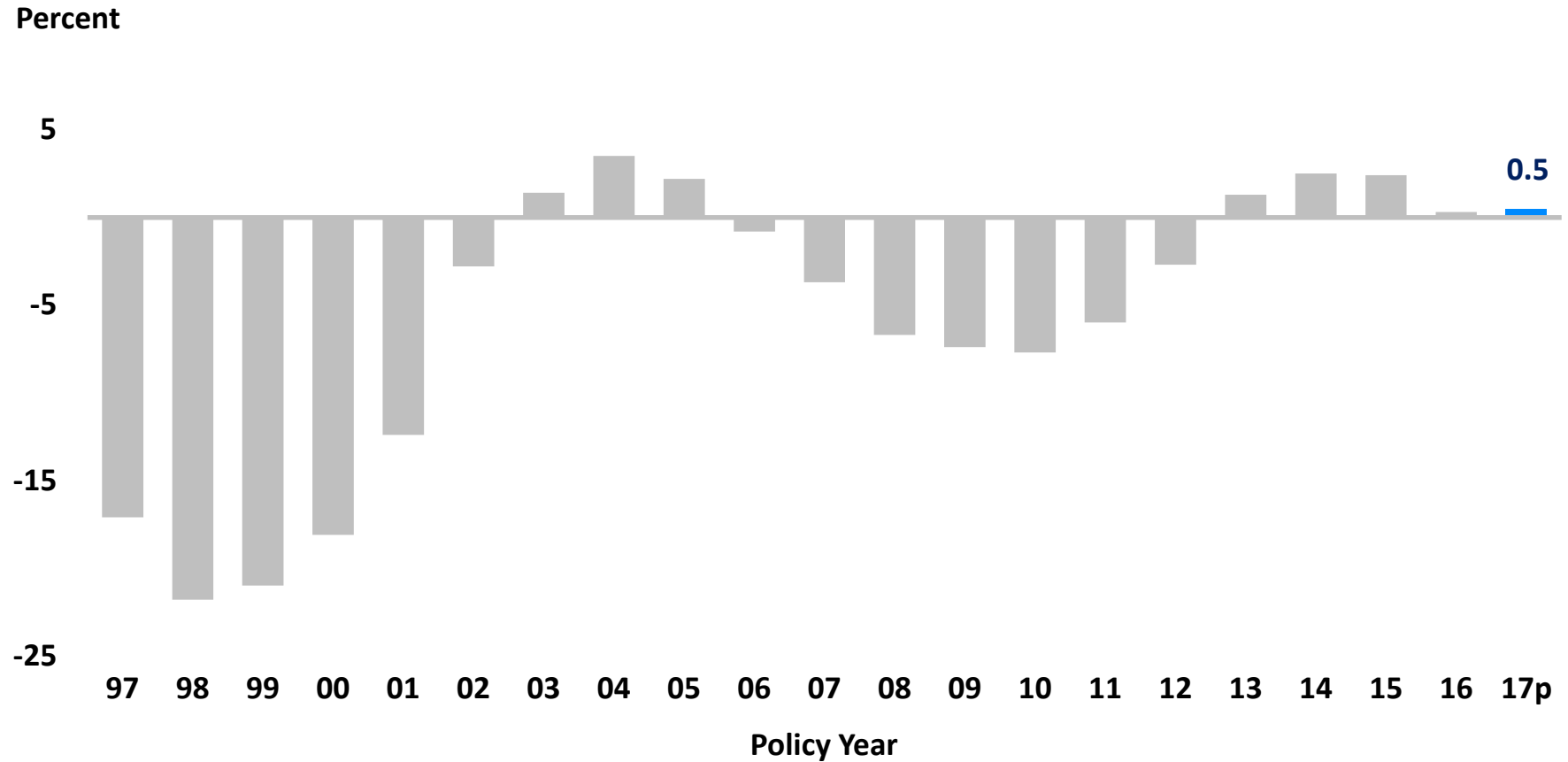
Source: NAIC's Annual Statement Statutory Page 14

Values reflect changes in average premium levels between years, based on approved changes in advisory rates, loss costs, assigned risk rates, and rating values

IN and NC are filed in cooperation with state rating bureaus

WC Impact of Discounting on Premium

Private Carriers—NCCI States



p Preliminary

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

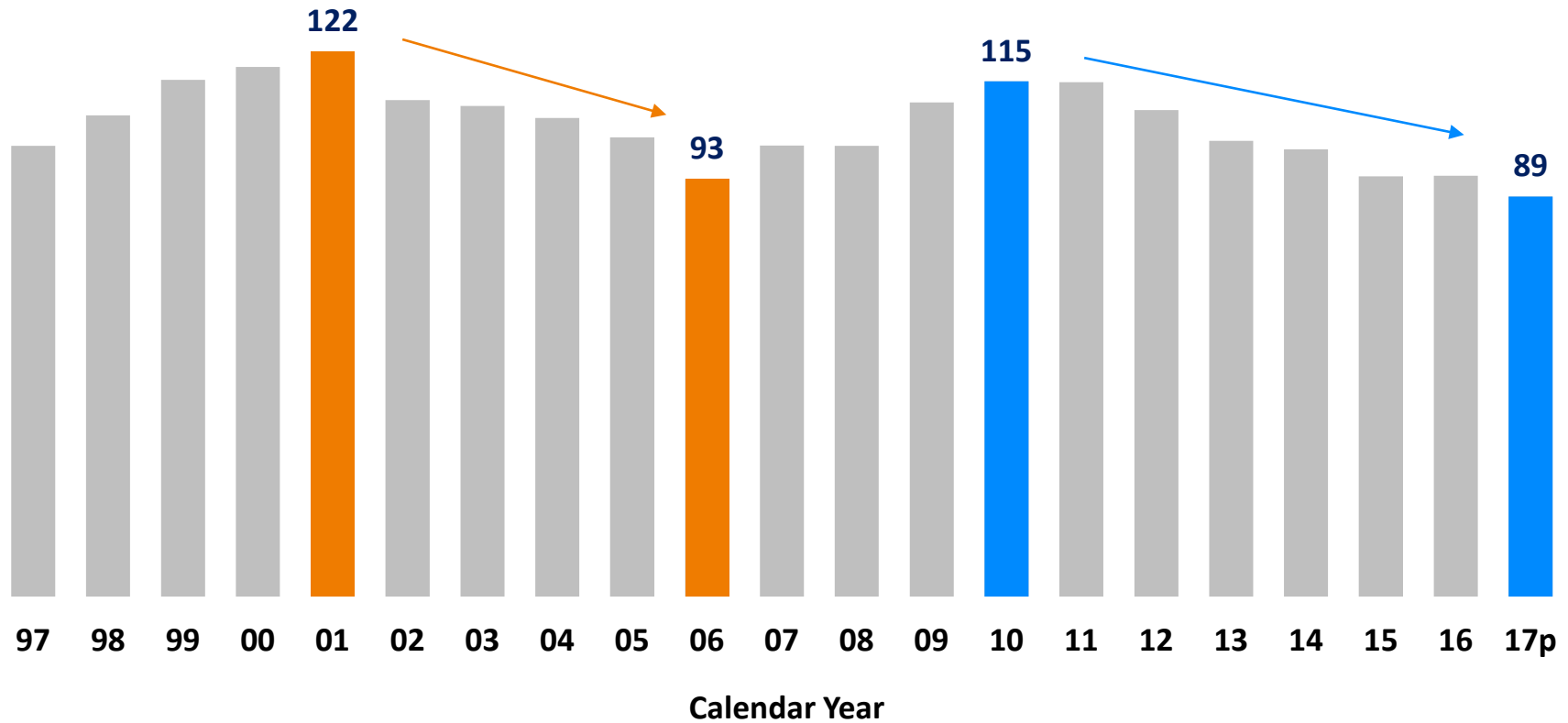
Rate/loss cost departure reflects carrier departure from NCCI rate level, which excludes a profit and contingency provision and expense constant

Based on data for all states where NCCI provides ratemaking services, excluding TX

WC Combined Ratio— Underwriting Gain Achieved

Private Carriers

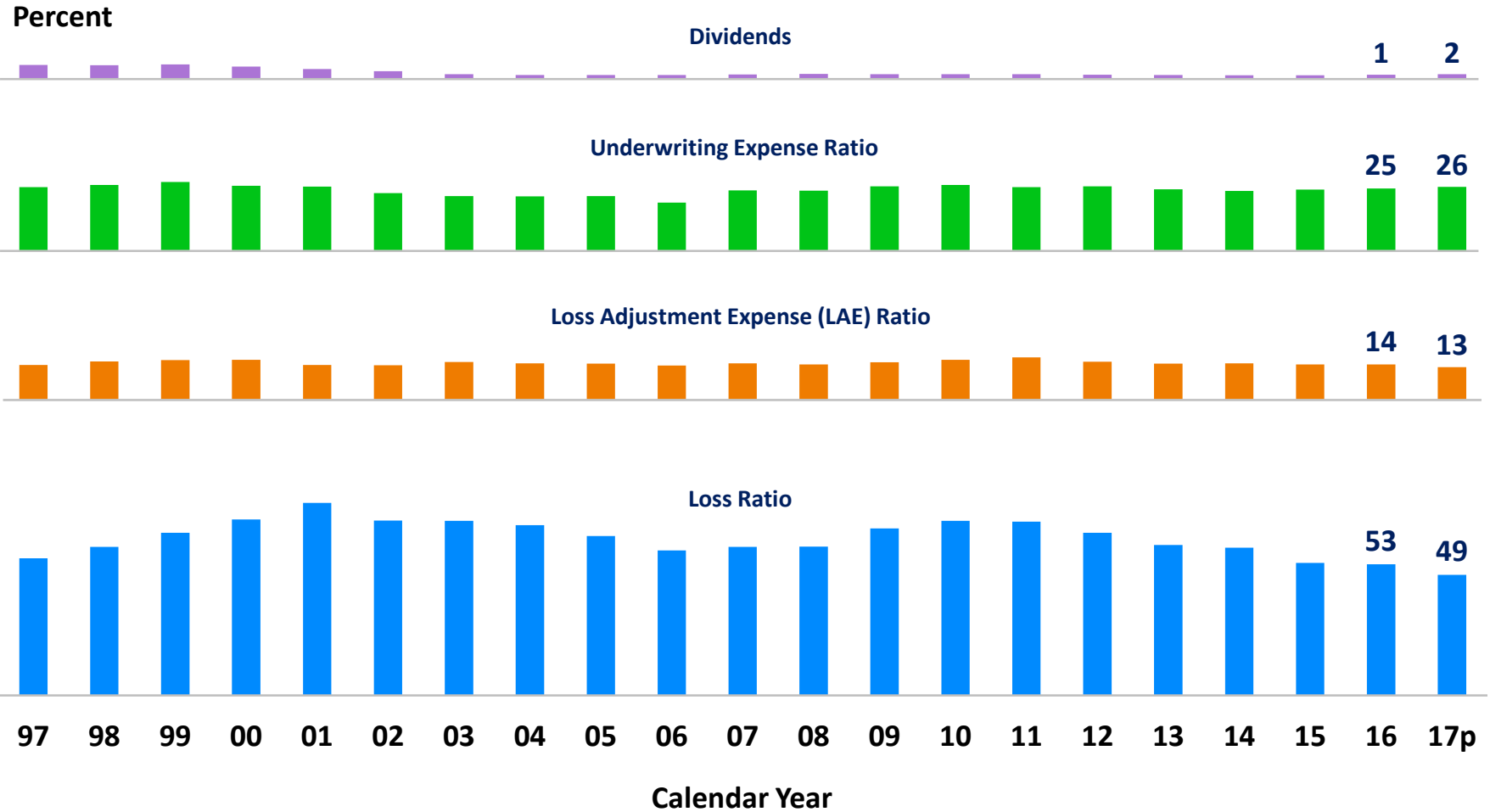
Percent



p Preliminary
Source: NAIC's Annual Statement data

WC Combined Ratio by Component

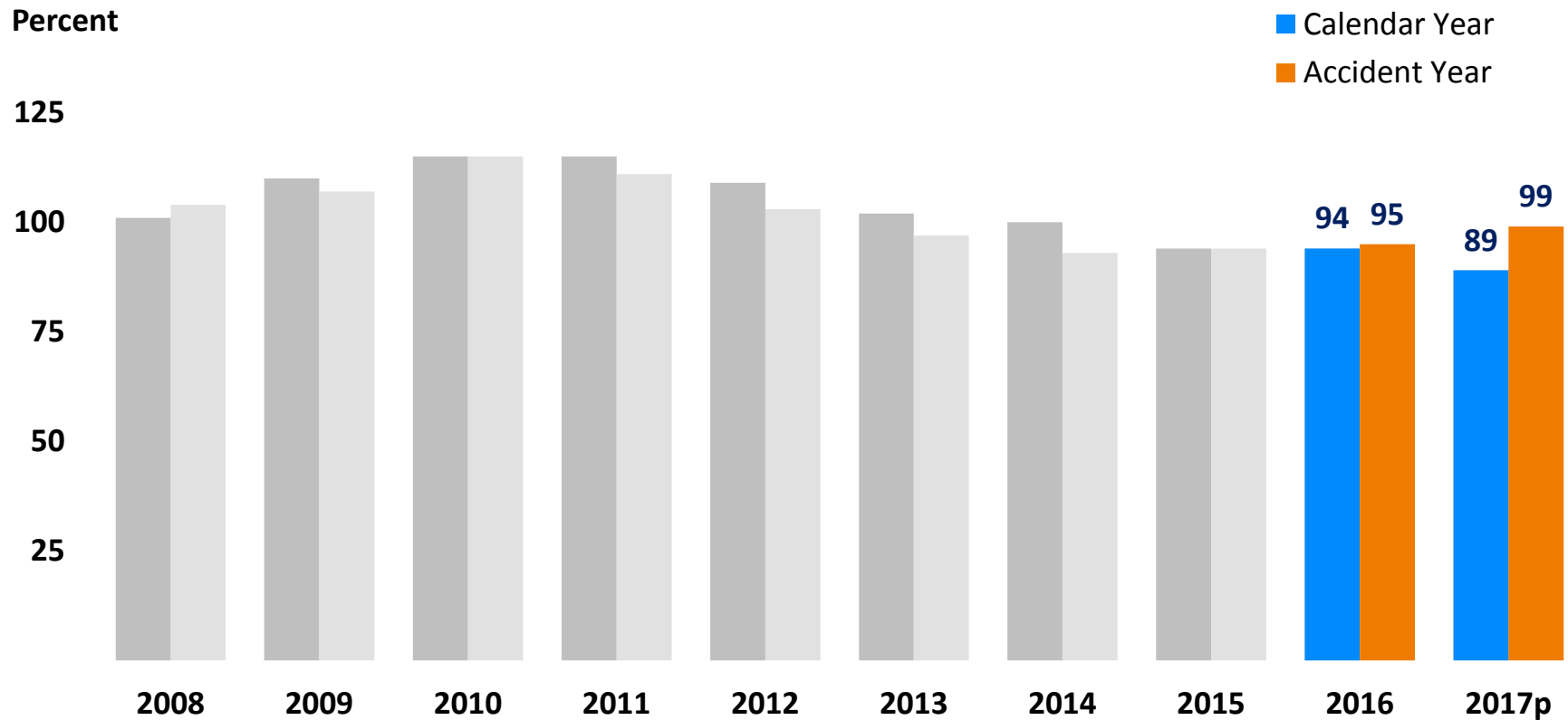
Private Carriers



p Preliminary
Source: NAIC's Annual Statement data

WC Net Combined Ratios— Calendar Year vs. Accident Year as Reported

Private Carriers



p Preliminary

Source: NAIC's Annual Statement data

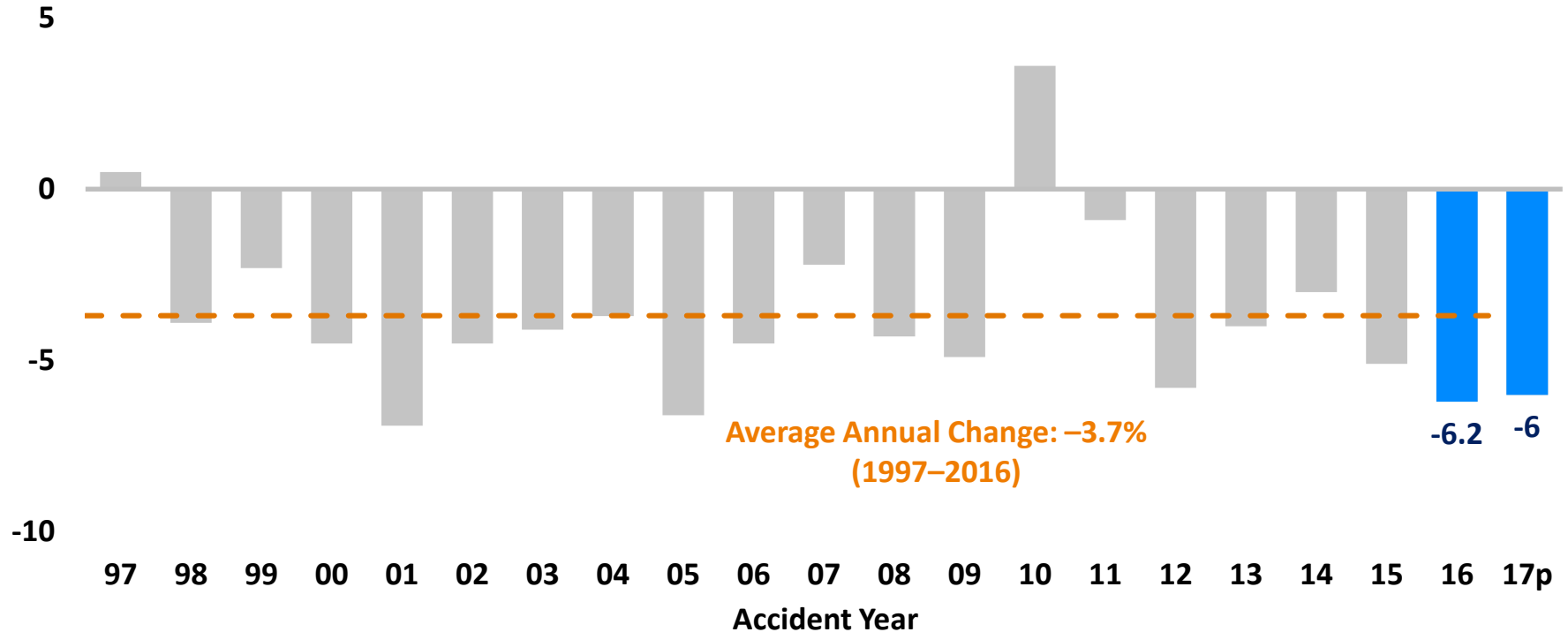
Accident Year information is reported as of 12/31/2017

Includes dividends to policyholders

WC Lost-Time Claim Frequency

Claims per \$1M Pure Premium, Private Carriers and State Funds—NCCI States

Percent



2010 and 2011 adjusted primarily for significant changes in audit activity

p Preliminary based on data valued as of 12/31/2017

Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2016

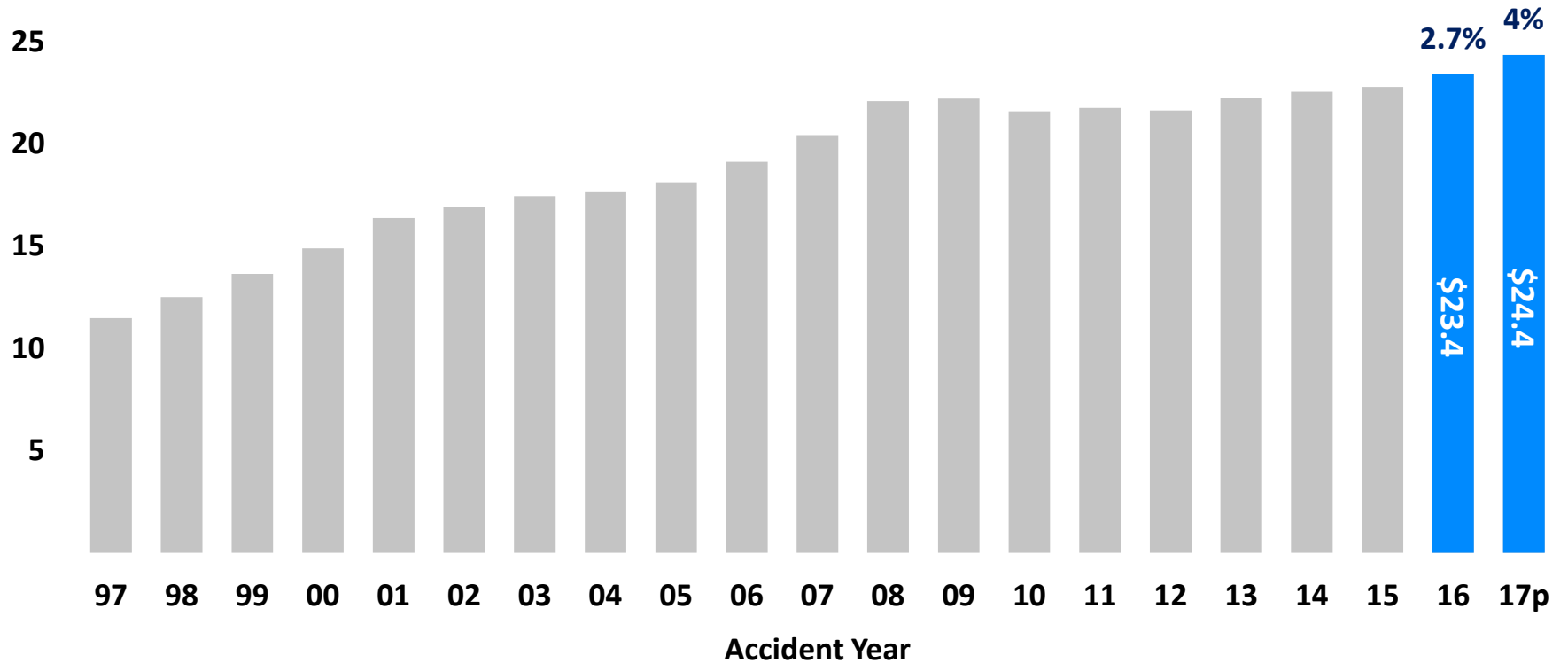
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2011

WC Average Indemnity Claim Severity

Private Carriers and State Funds—NCCI States

Severity
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2017

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

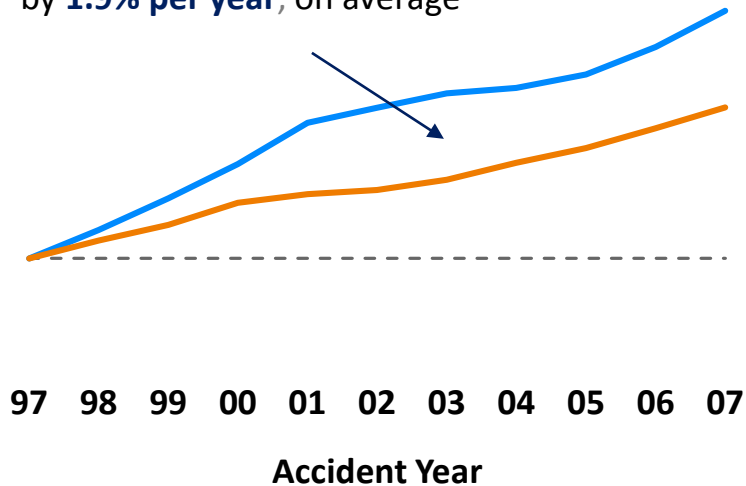
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

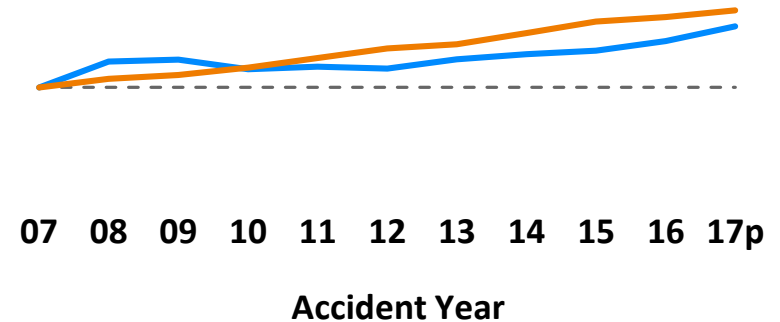
Relative Growth Rates— Indemnity Severity vs. Wage Inflation

Private Carriers and State Funds—NCCI States

Changes in **indemnity claim severity** **outpaced** changes in **wage inflation** by **1.9% per year**, on average



Indemnity claim severity and wages grew at a **similar rate**



p Preliminary based on data valued as of 12/31/2017

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

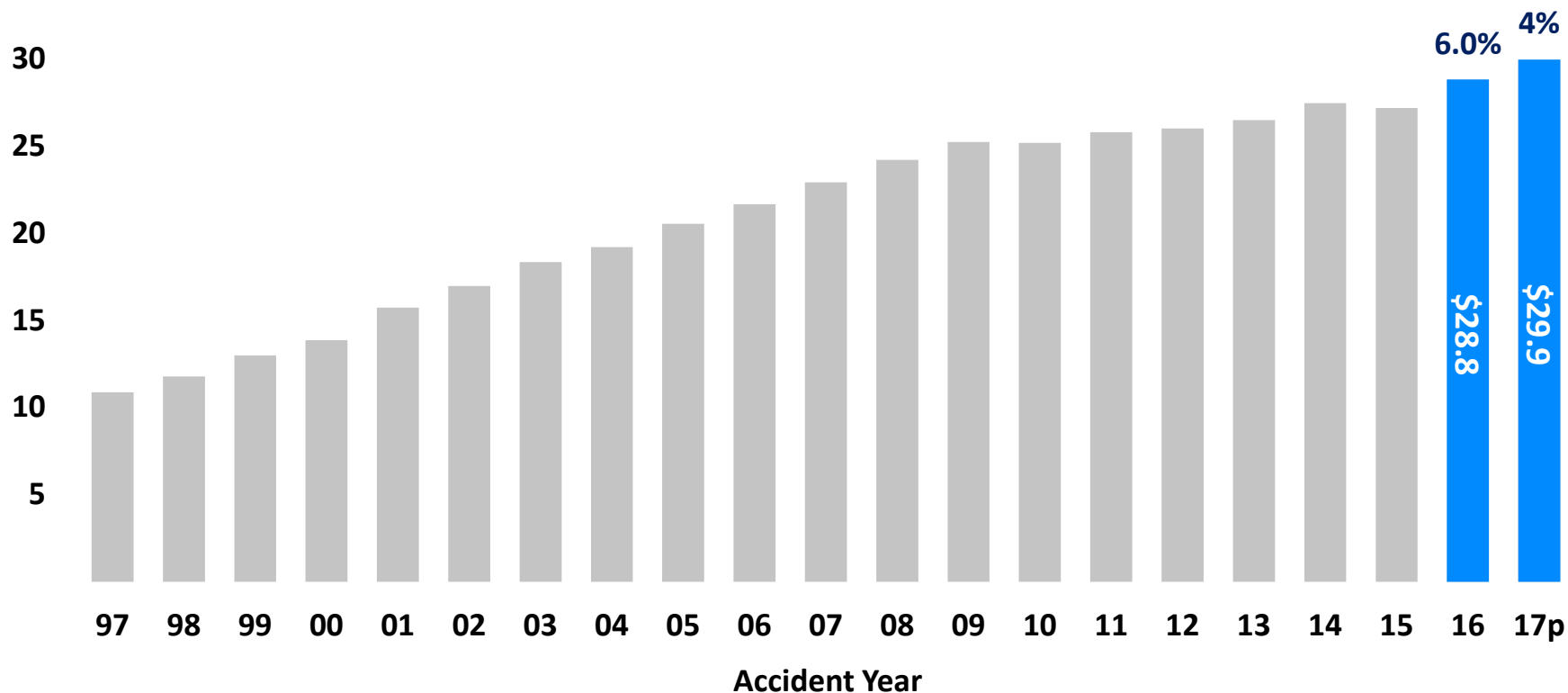
Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

US Average Weekly Wage: 1995–2007 and 2012–2016, Quarterly Census of Employment and Wages; 2008–2011, NCCI; 2017p, NCCI and Moody's Analytics

WC Average Medical Lost-Time Claim Severity

Private Carriers and State Funds—NCCI States

Severity
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2017

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

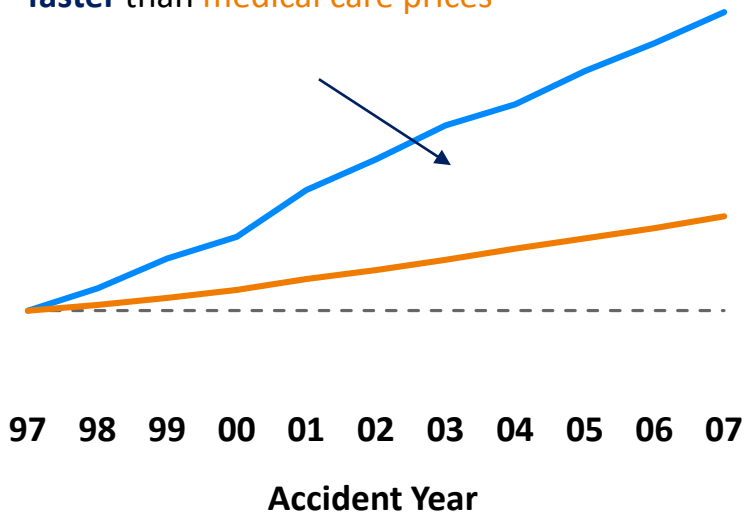
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

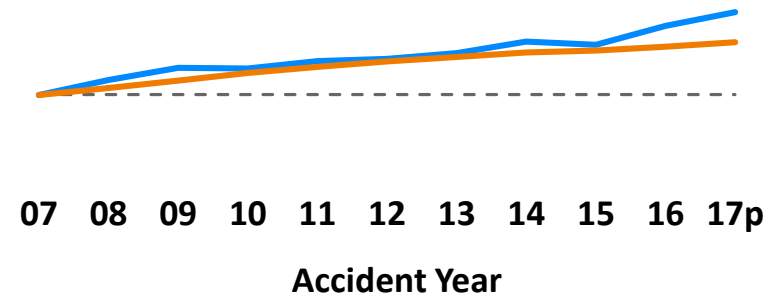
Relative Growth Rates— Medical Severity vs. Price Inflation

Private Carriers and State Funds—NCCI States

Medical lost-time claim severity
grew approximately **4.5%** per year
faster than **medical care prices**



Change in **Medical lost-time claim severity** and **medical care prices**
tracked one another



p Preliminary based on data valued as of 12/31/2017

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

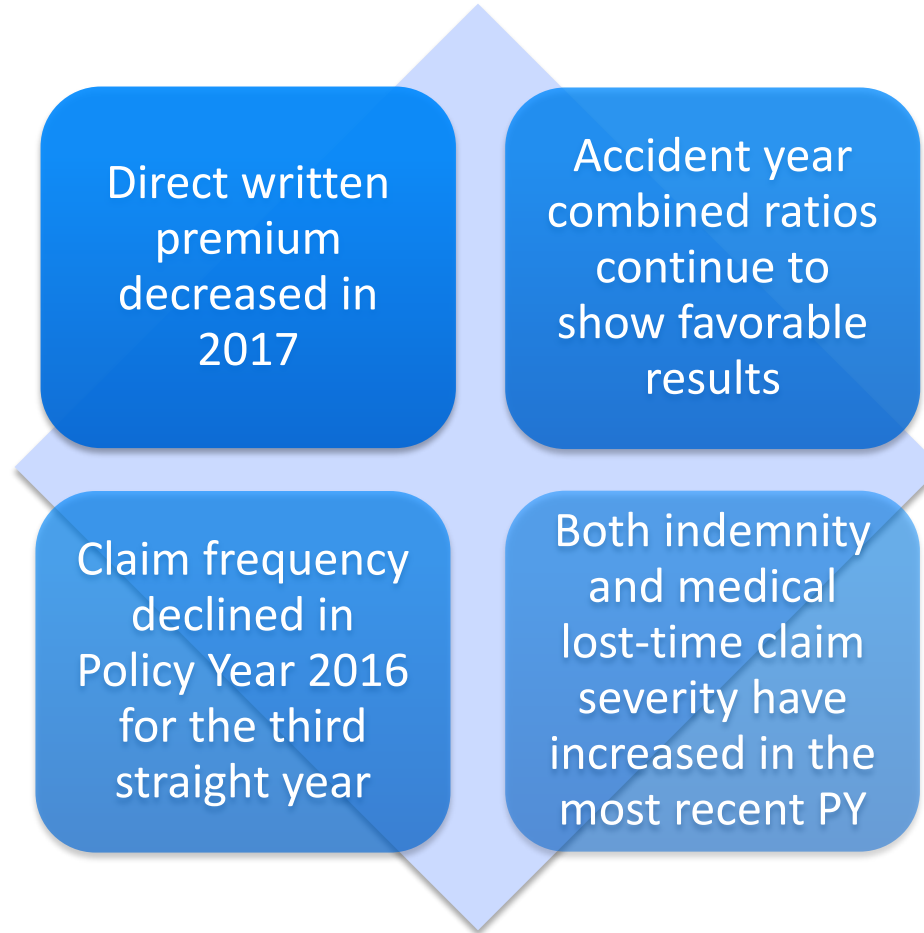
Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

Personal Health Care (PHC) Chain-Weighted Price Index: Centers for Medicare & Medicaid Services



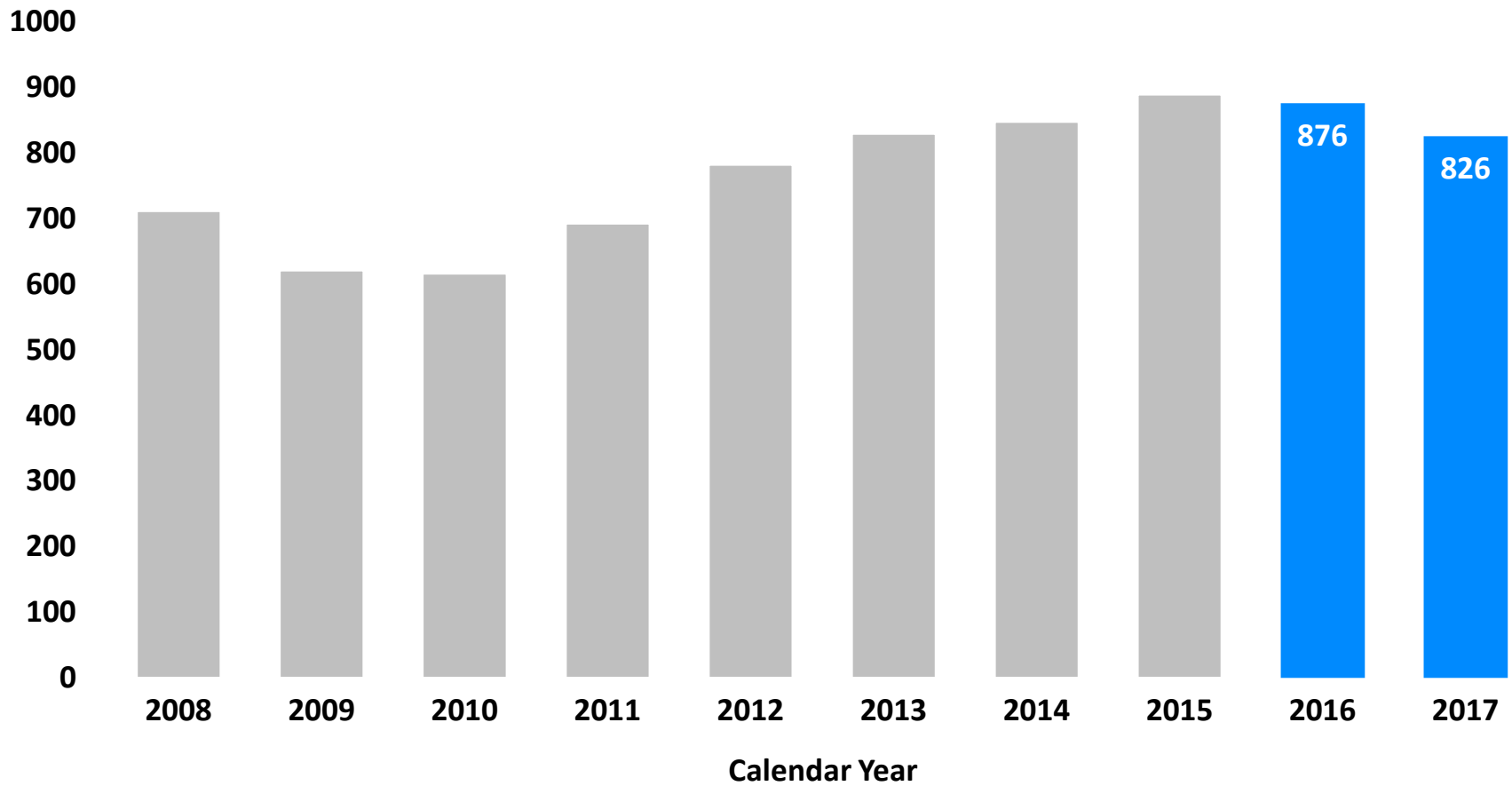
Indiana Workers Compensation System

Indiana Workers Compensation System— An Overview



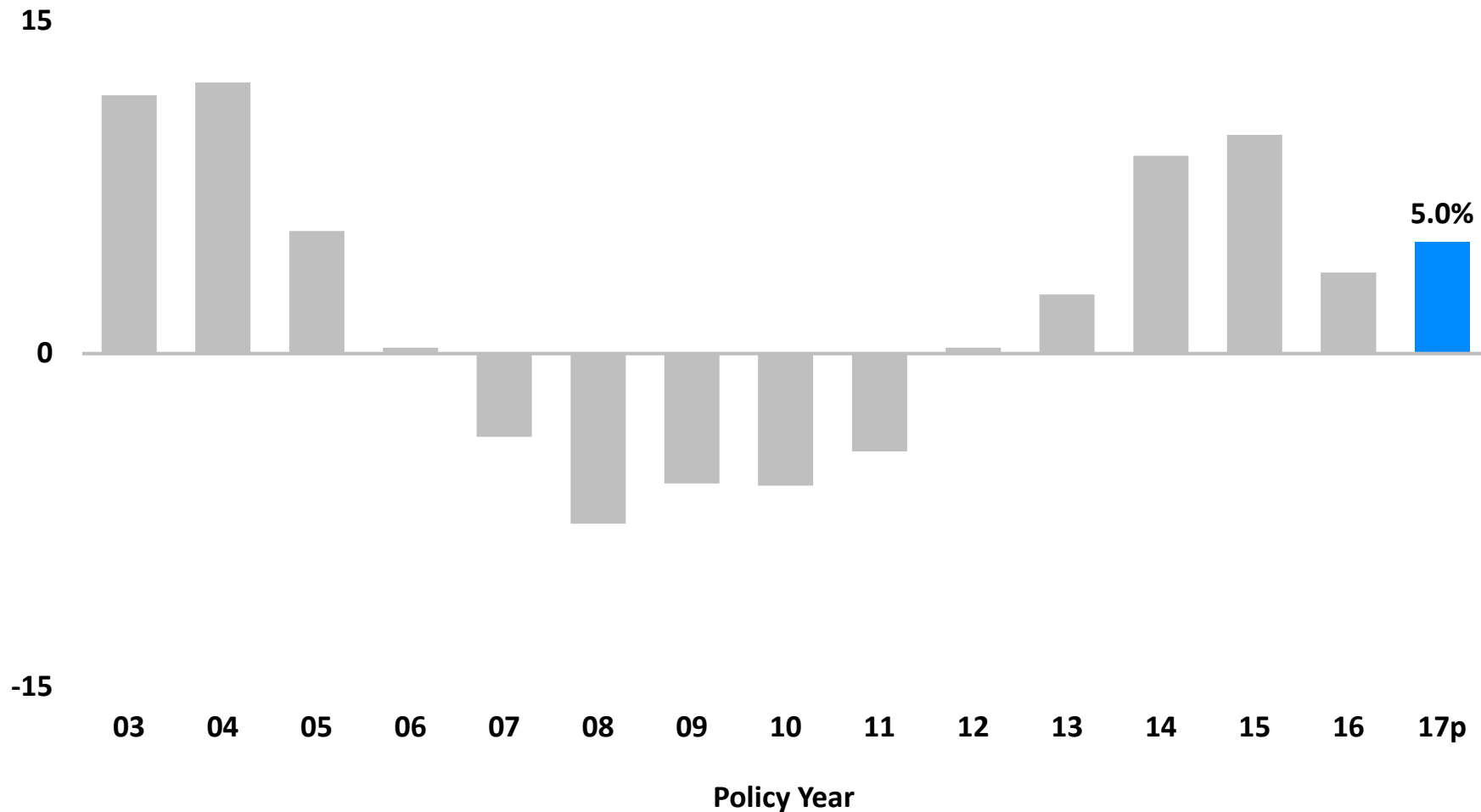
Indiana Workers Compensation Premium Volume

Direct Written Premium in \$ Millions



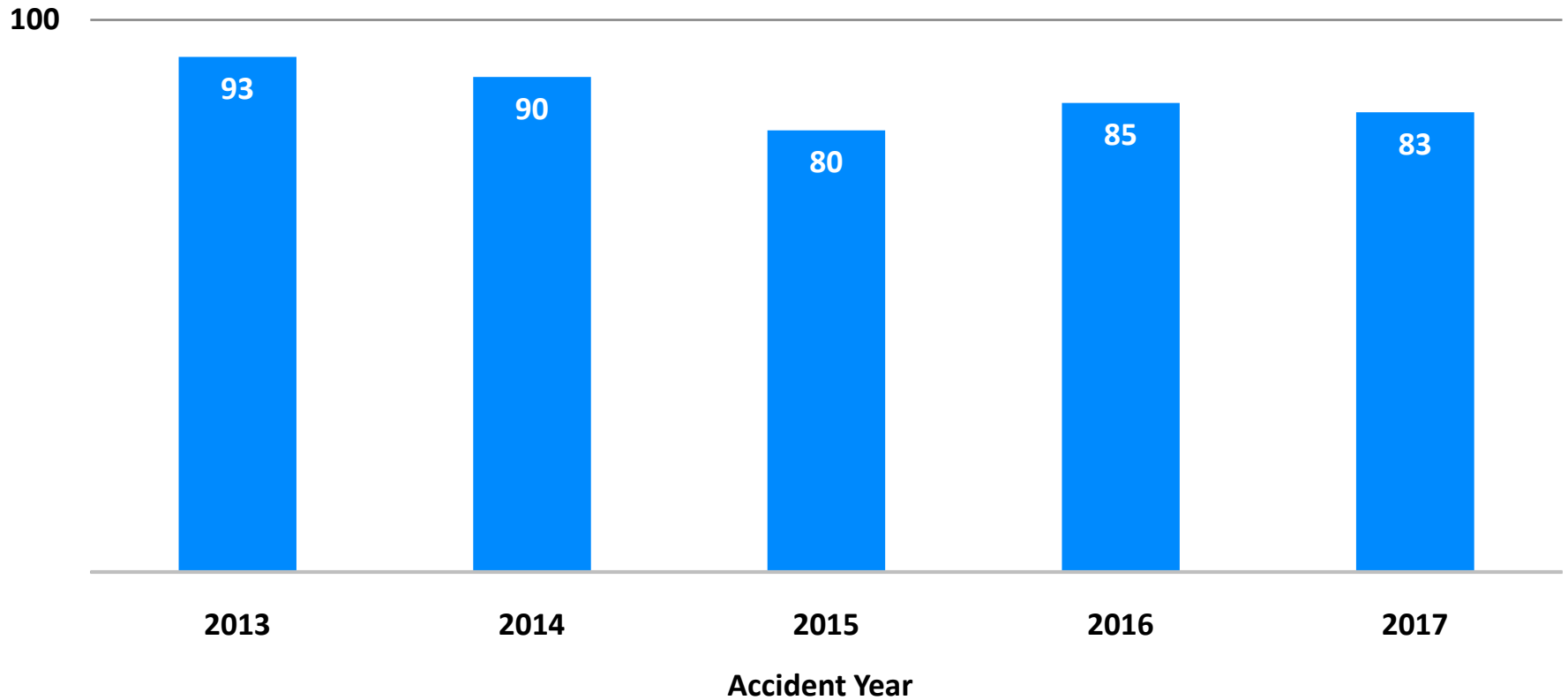
Source: NAIC's Annual Statement data

Impact of Discounting on Workers Compensation Premium in Indiana



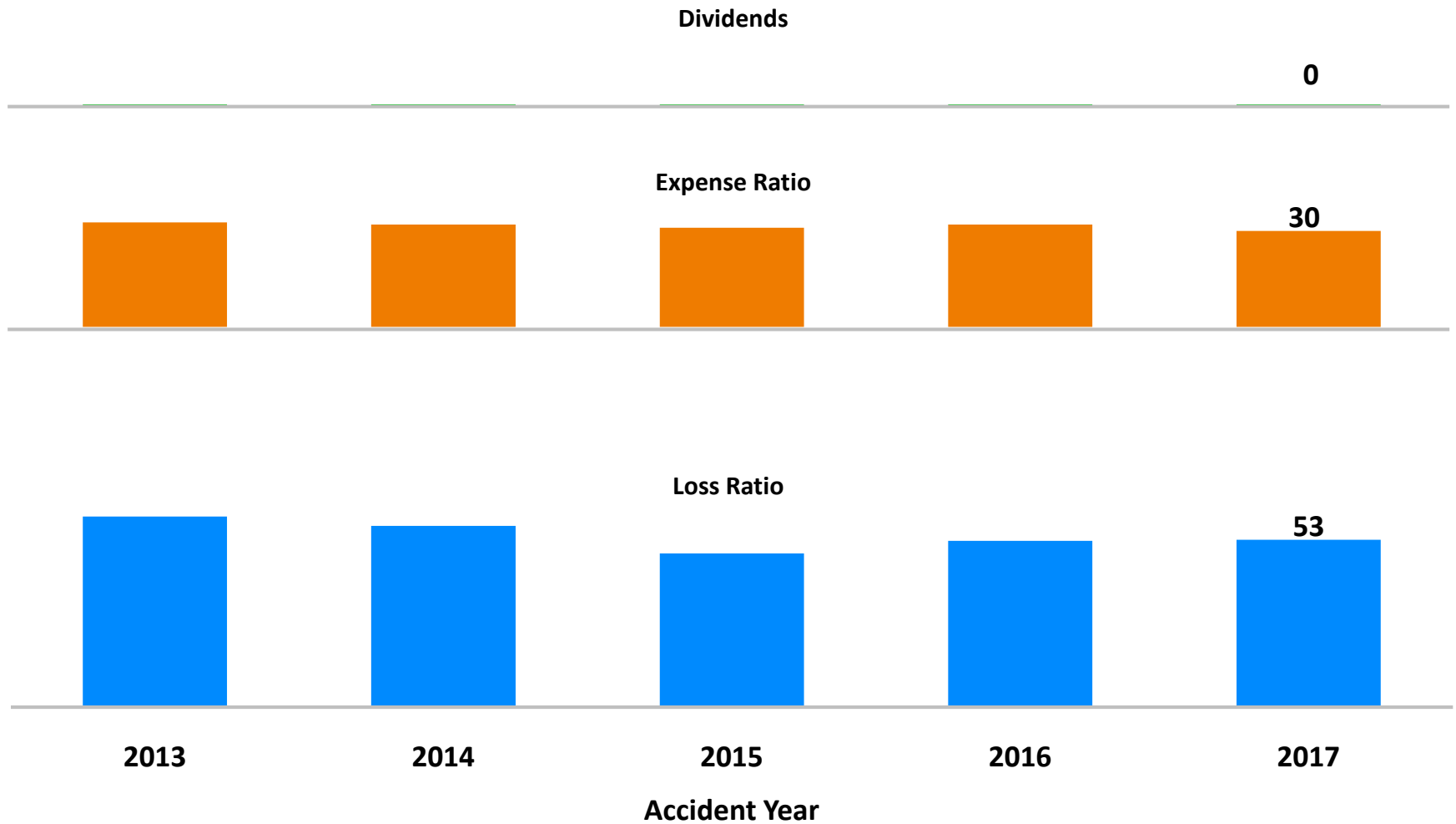
p Preliminary
Based on data through 12/31/2017

Indiana Combined Ratios



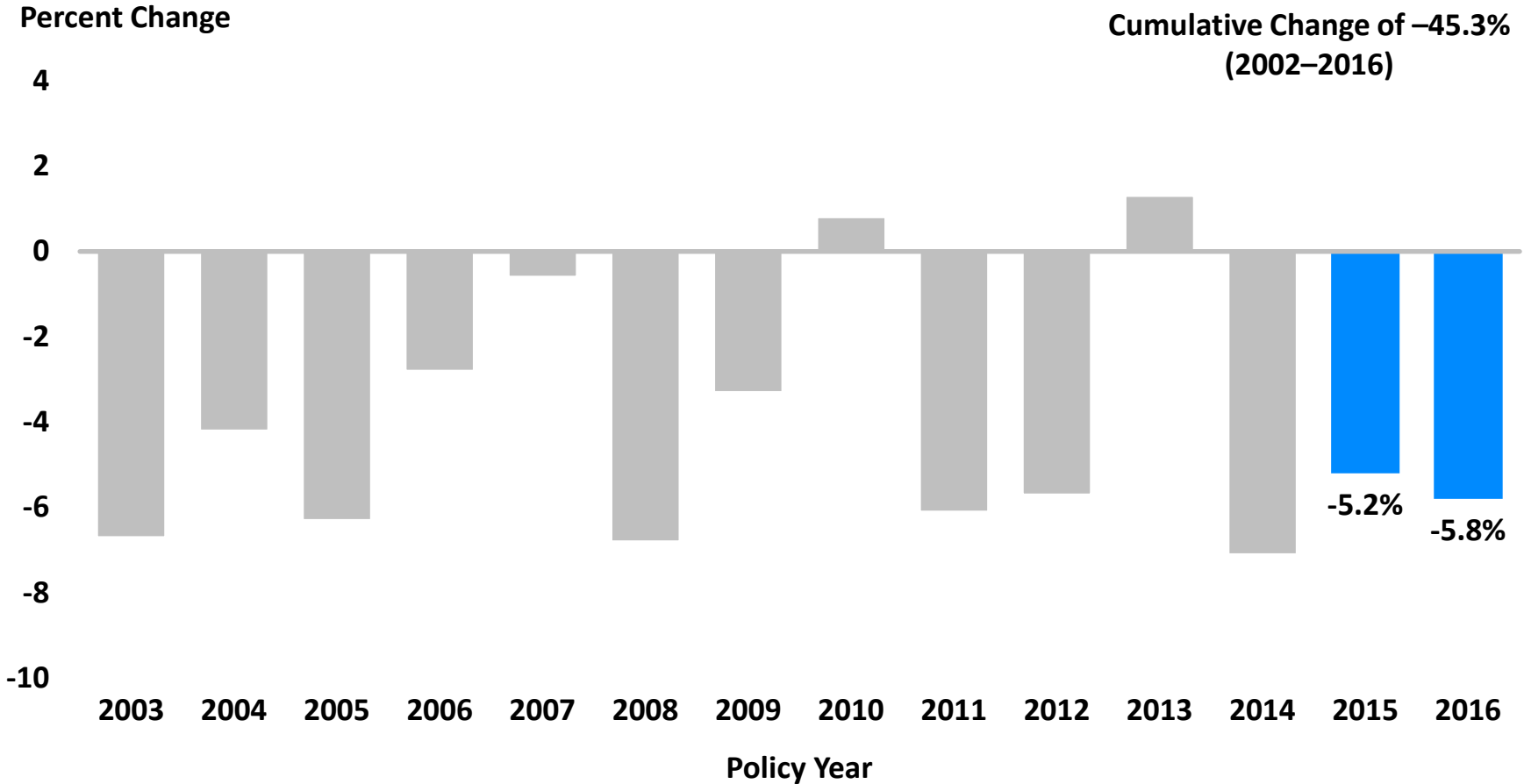
Sources: NCCI's financial data through 12/31/2017 and NAIC's Annual Statement data

Indiana Combined Ratios by Component



Sources: NCCI's financial data through 12/31/2017 and NAIC's Annual Statement data

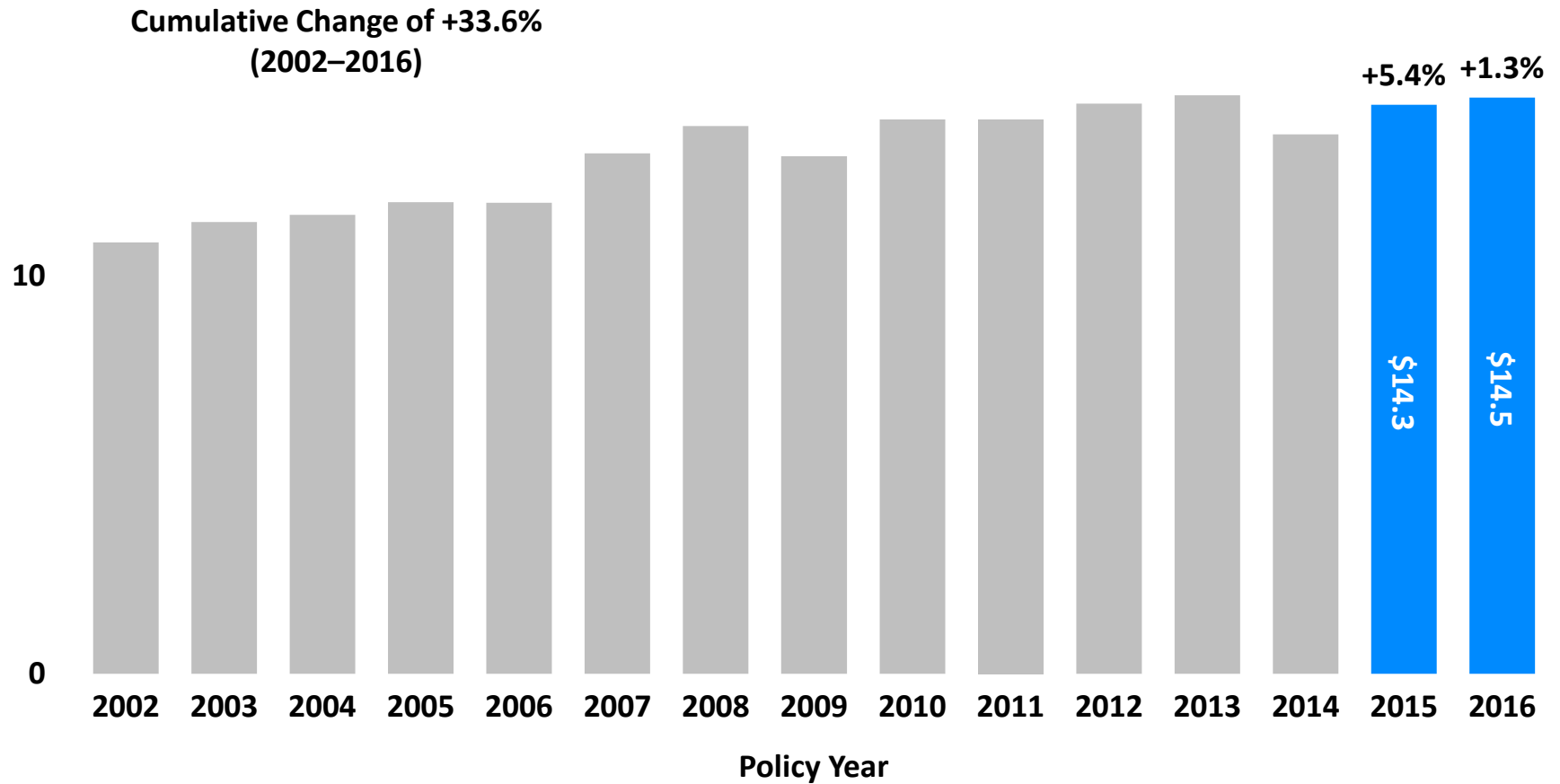
Indiana Workers Compensation Percent Change in Lost-Time Claims



Based on NCCI's financial data through 12/31/2017, on-leveled and developed to ultimate, premium adjusted to common wage level

Indiana Average Indemnity Claim Severity

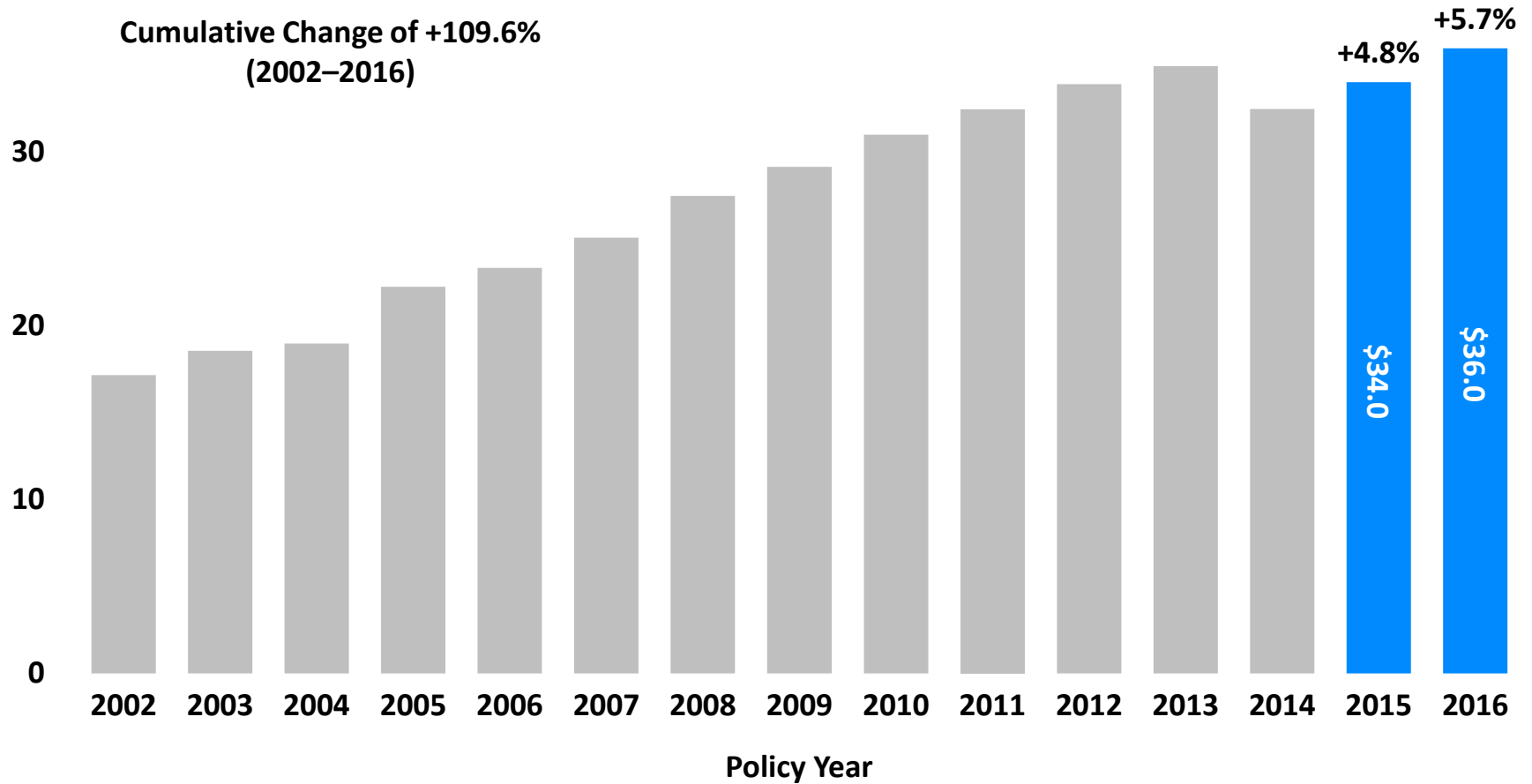
Lost-Time Claim Severity in \$ Thousands



Based on NCCI's financial data through 12/31/2017, on-leveled and developed to ultimate

Indiana Average Medical Claim Severity

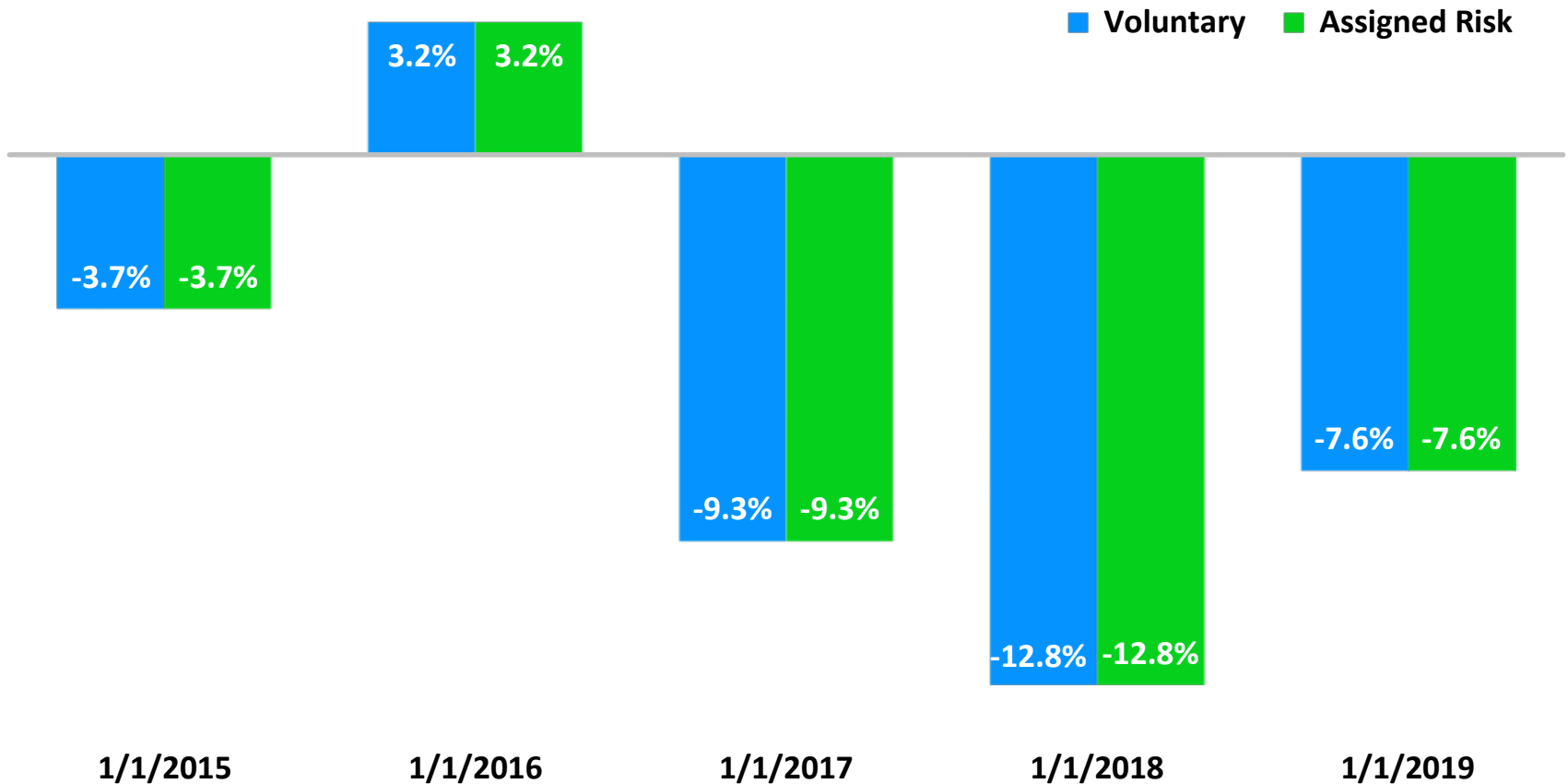
Lost-Time Claim Severity in \$ Thousands



Based on NCCI's financial data through 12/31/2017, on-leveled and developed to ultimate

Indiana Filing Activity

Voluntary and Assigned Risk Rate Changes



Indiana January 1, 2019 Rate Filing

Overall Rate Level Change:

-7.6%

**Change in
Experience:**

-3.3%

**Change in
Trend:**

-2.5%

**Change in
Benefits:**

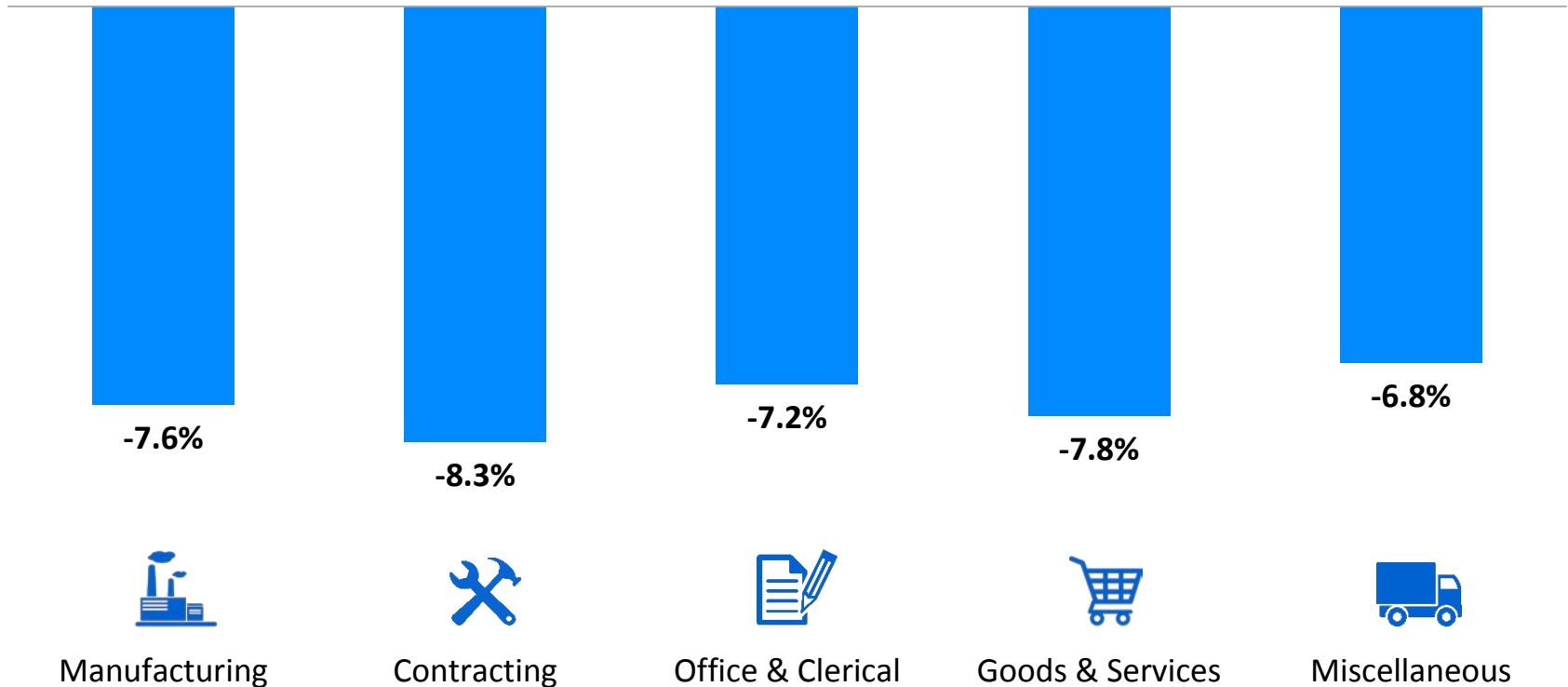
+0.3%

**Change in
All Other:**

-2.3%

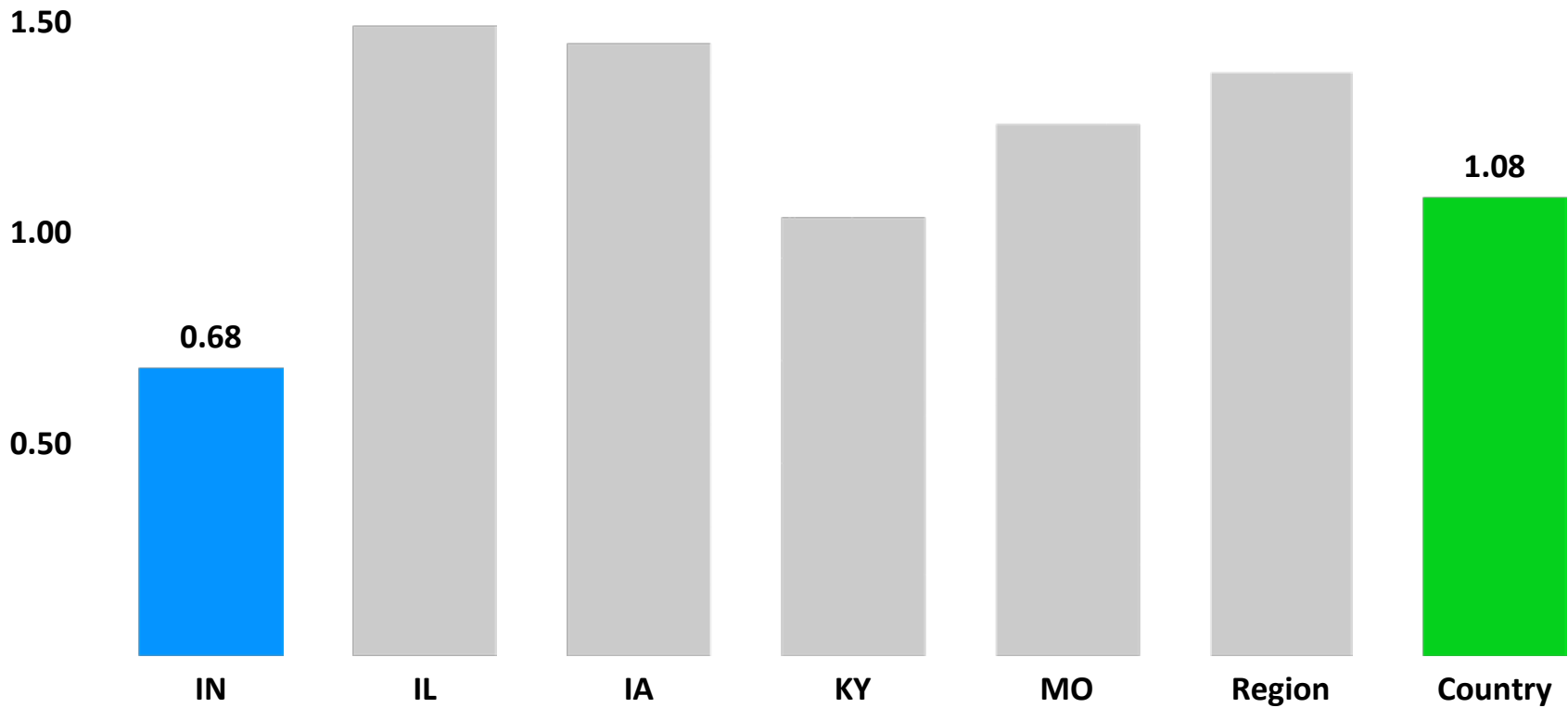
Indiana January 1, 2019 Filing— Average Changes by Industry Group

Overall Change: -7.6%



Average Voluntary Pure Loss Costs Using Indiana Payroll Distribution

Pure Loss Cost—All Classes

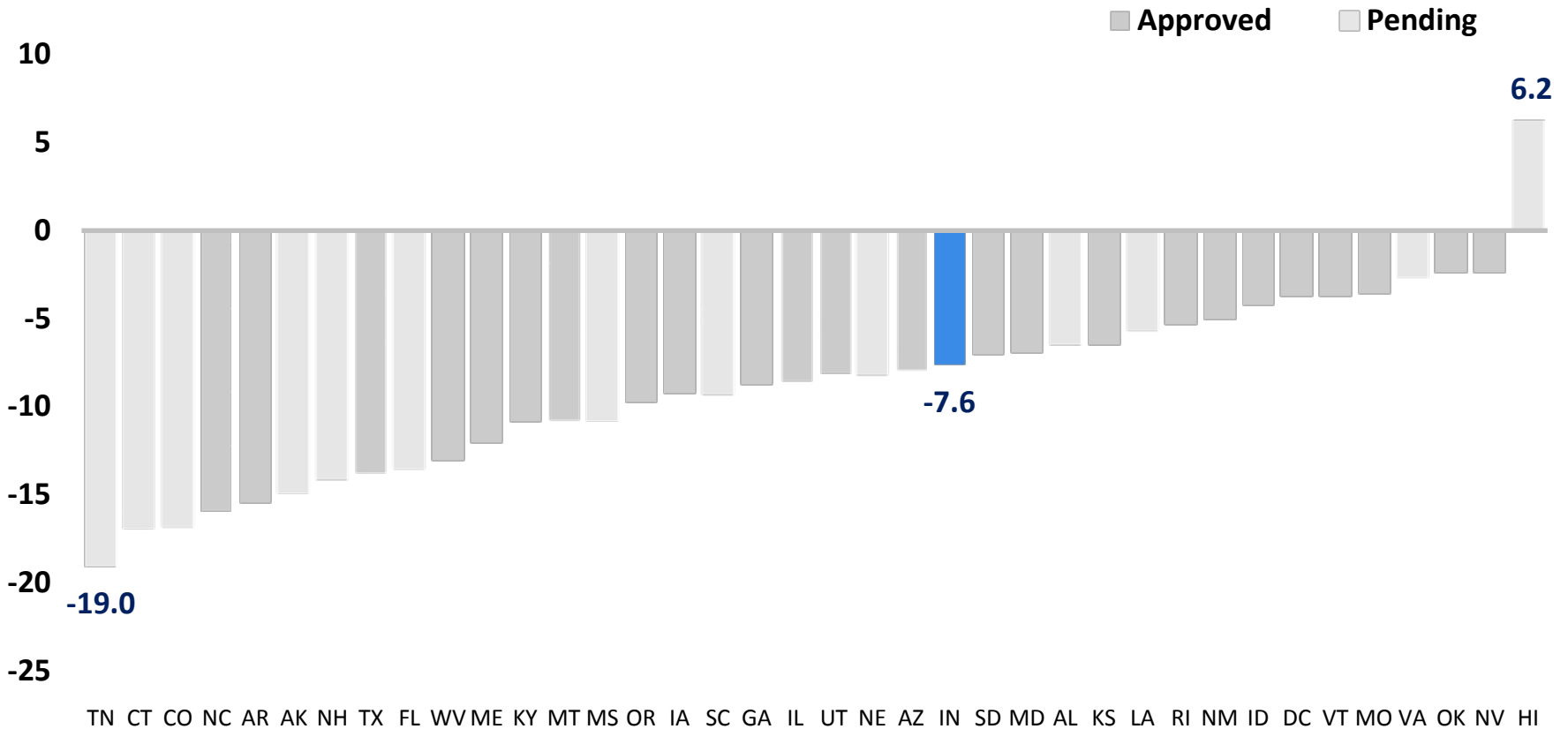


Based on approved rates and loss costs in various jurisdictions from filings using data valued as of 12/31/2016

Current NCCI Voluntary Market Loss Cost/Rate Level Changes

Excludes Law-Only Filings

Percent

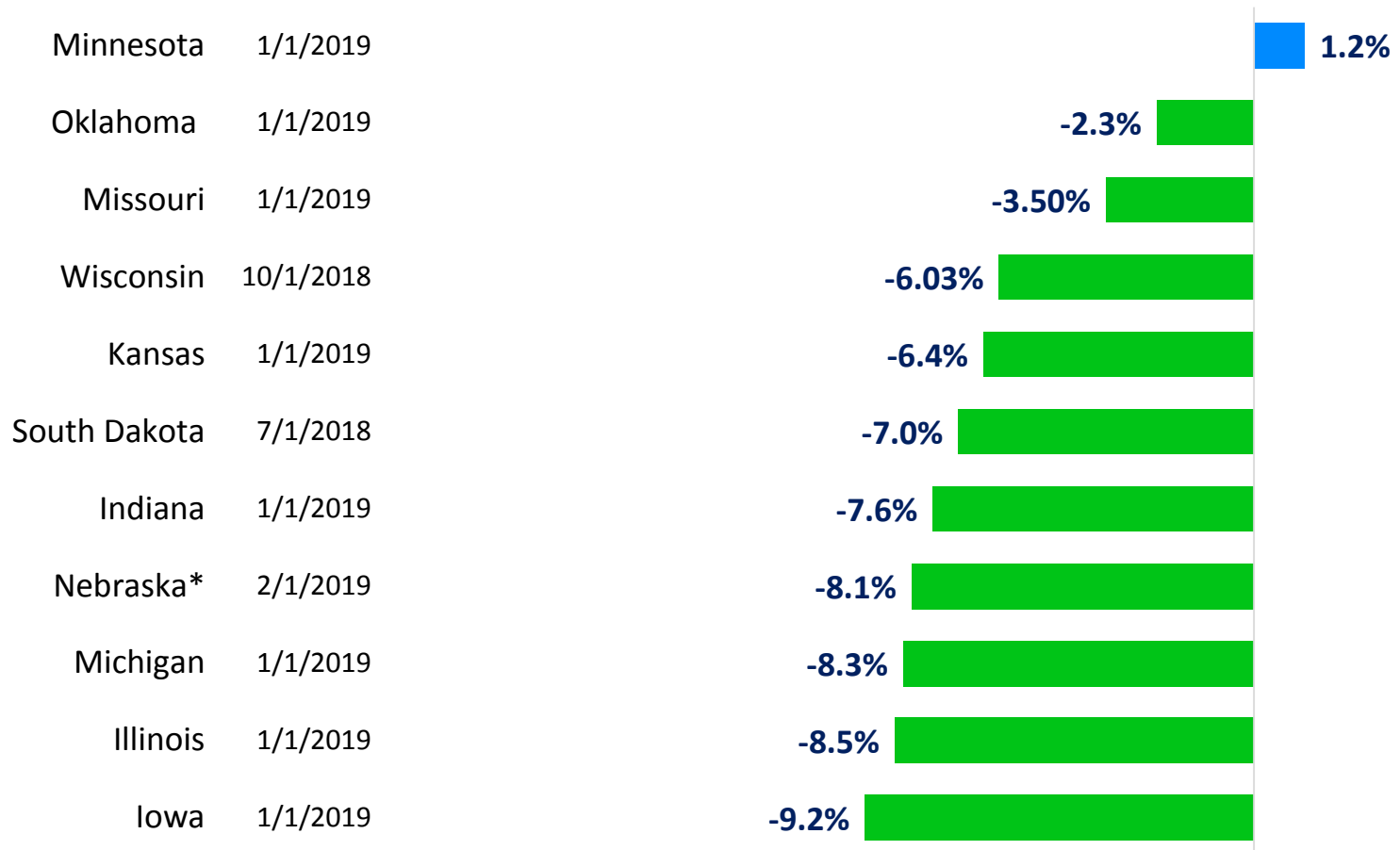


Reflects the most recent experience filing in each jurisdiction

Due to the timing of the individual loss cost/rate filings, the figures shown may include changes from prior filing seasons



Current Voluntary Market Rates/Loss Costs Midwestern States



*Pending



Countrywide and Indiana Labor Markets

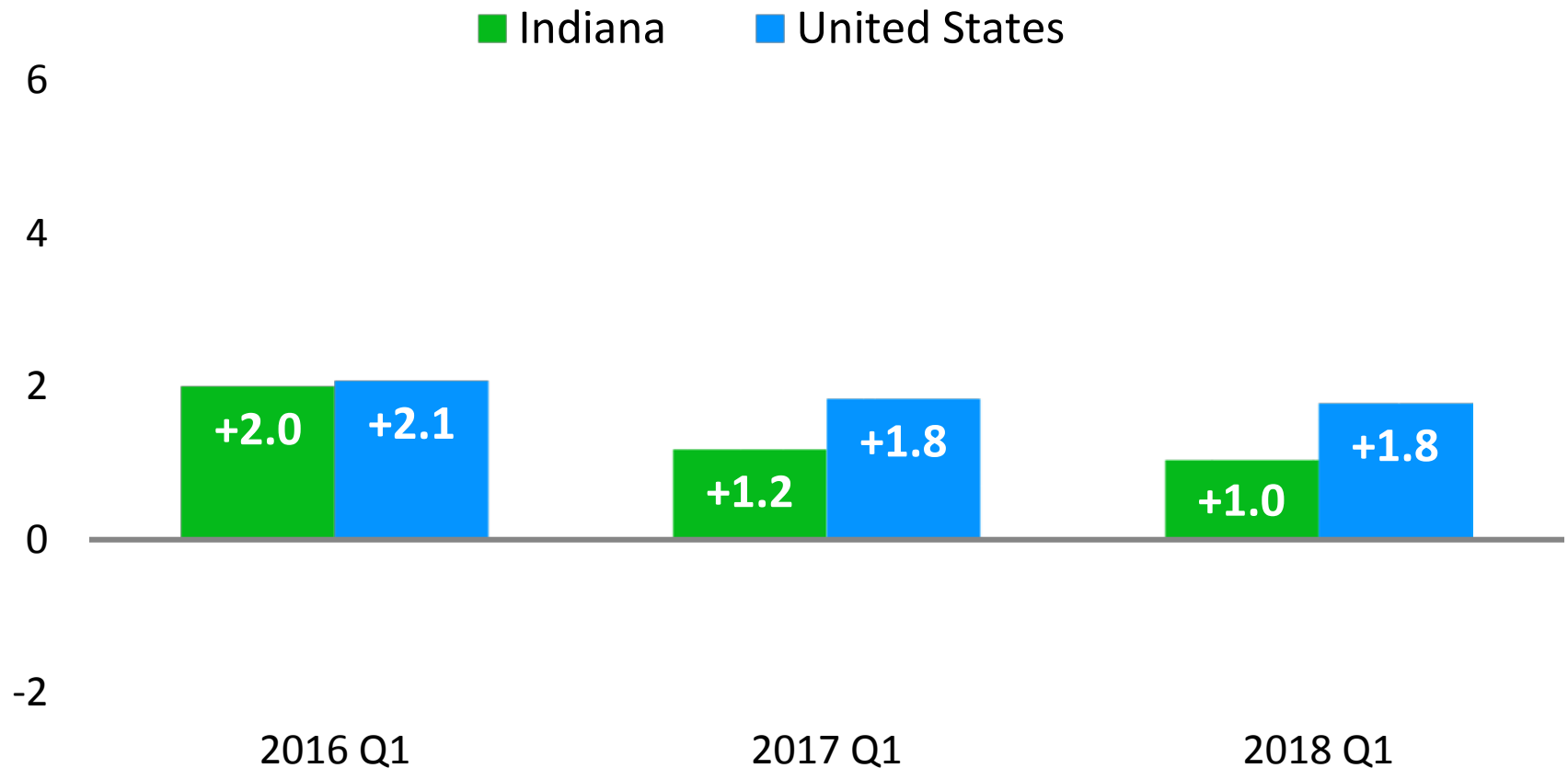
National Economic Highlights and Their Impact on Workers Compensation

| National Economic Indicator | Potential Impact on the Workers Compensation Market |
|--|---|
| Private employment growth continues to be near 2% | Continuing payroll and premium growth |
| Wage growth is increasing and expected to accelerate | Upward pressure on payroll and premium growth as well as indemnity severity |
| Medical inflation is forecast to rise | Increases in medical costs per claim |
| Short-term and long-term interest rates have increased | Investment yields will increase across the spectrum of bond maturities |

Change in Private Employment

Private Employment Growth Is Below Average

Percent



Year-over-year percentage change; employment is for Total Private Industry

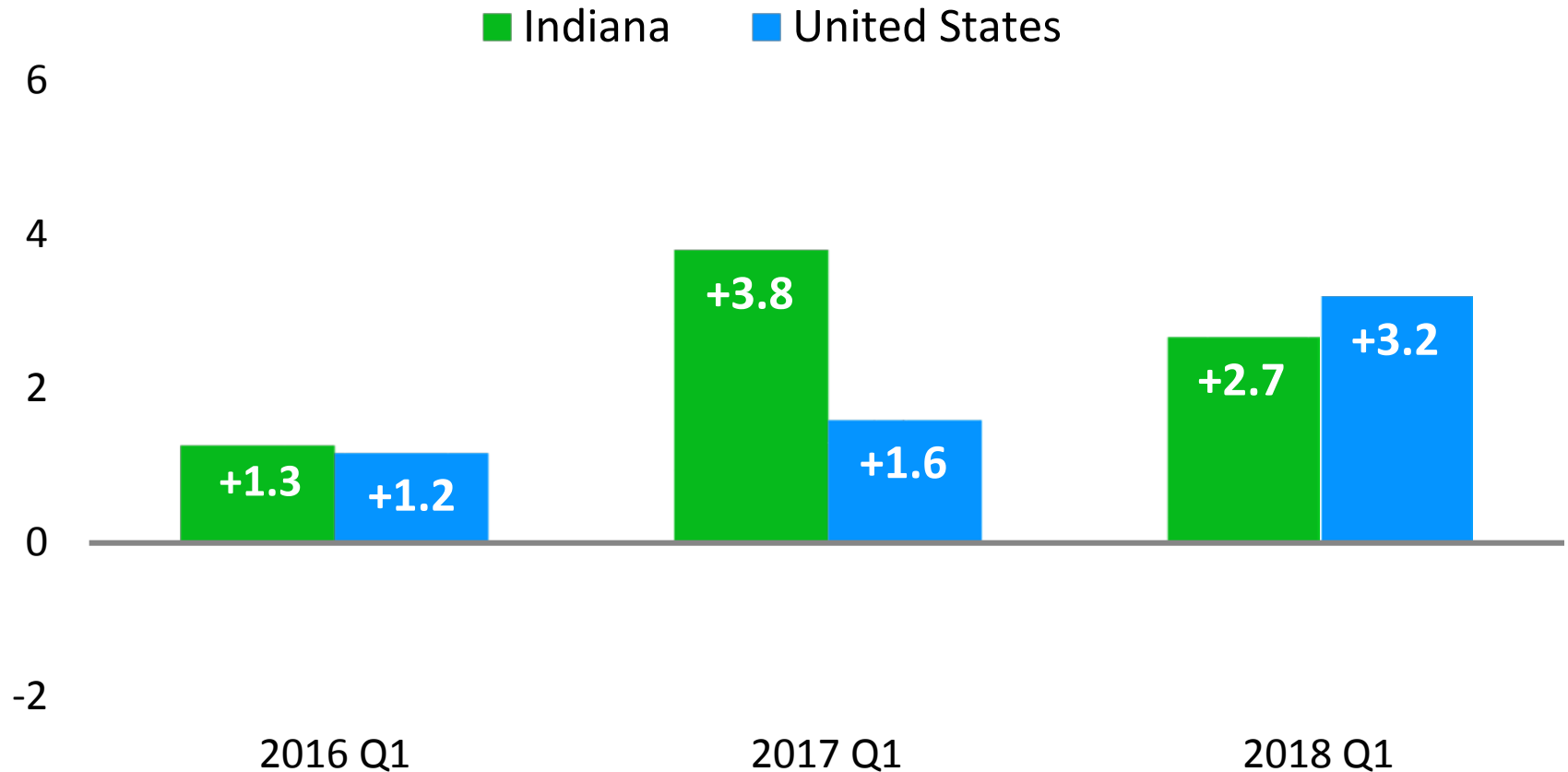
Frequency of observation: quarterly; 2015 Q1–2018 Q1

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

Change in Average Weekly Wages

Wage Growth Is Below the National Average

Percent



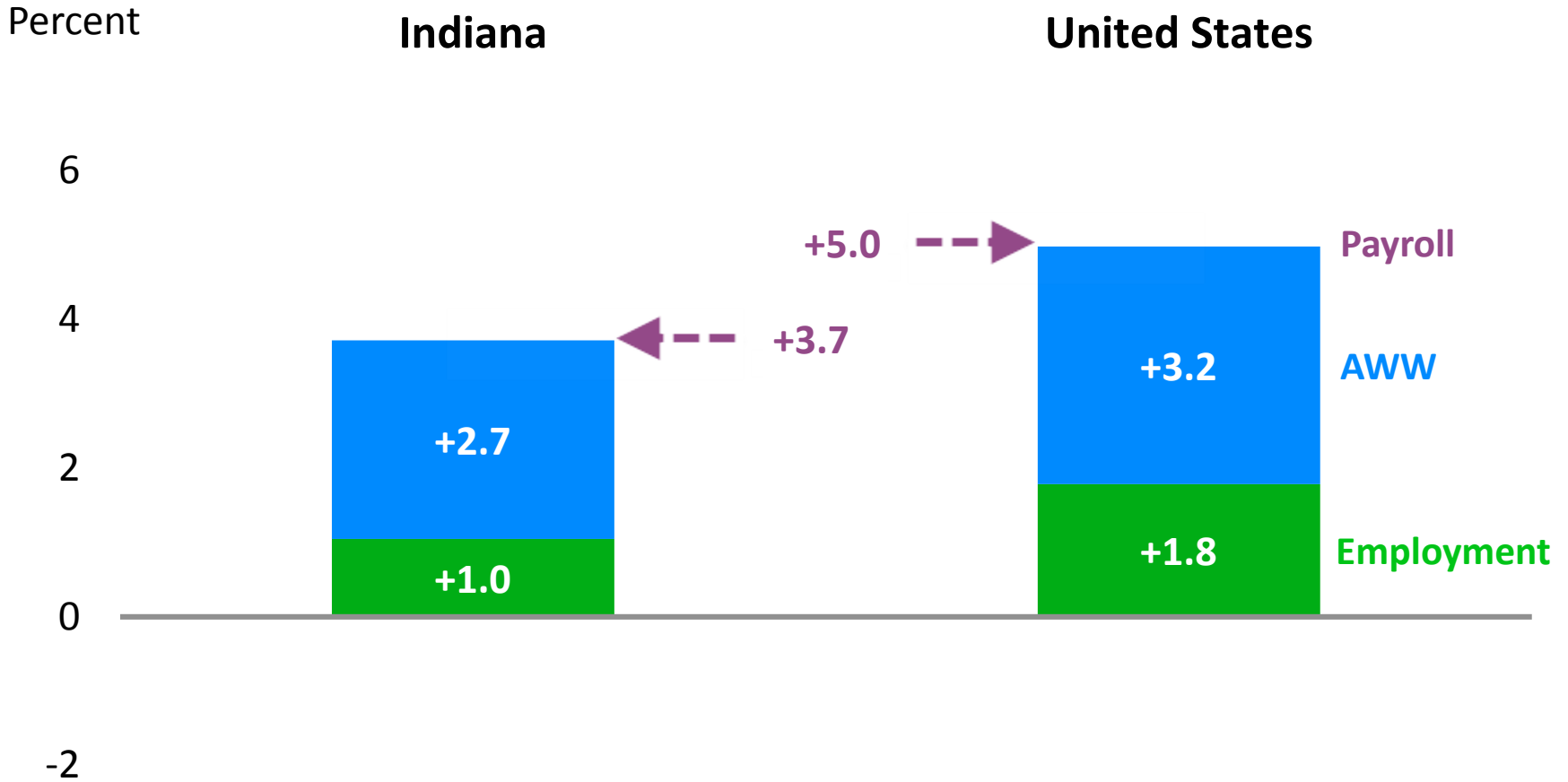
Year-over-year percentage change; wages are for Total Private Industry

Frequency of observation: quarterly; 2015 Q1–2018 Q1

Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis, Moody's Analytics, and NCCI

Private Industry Payroll Growth Decomposition

Payroll Growth Is Lower Than the National Average



AWW = Average Weekly Wage

2018 Q1 year-over-year percentage change

Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis, Moody's Analytics, and NCCI

Change in Employment by Sector

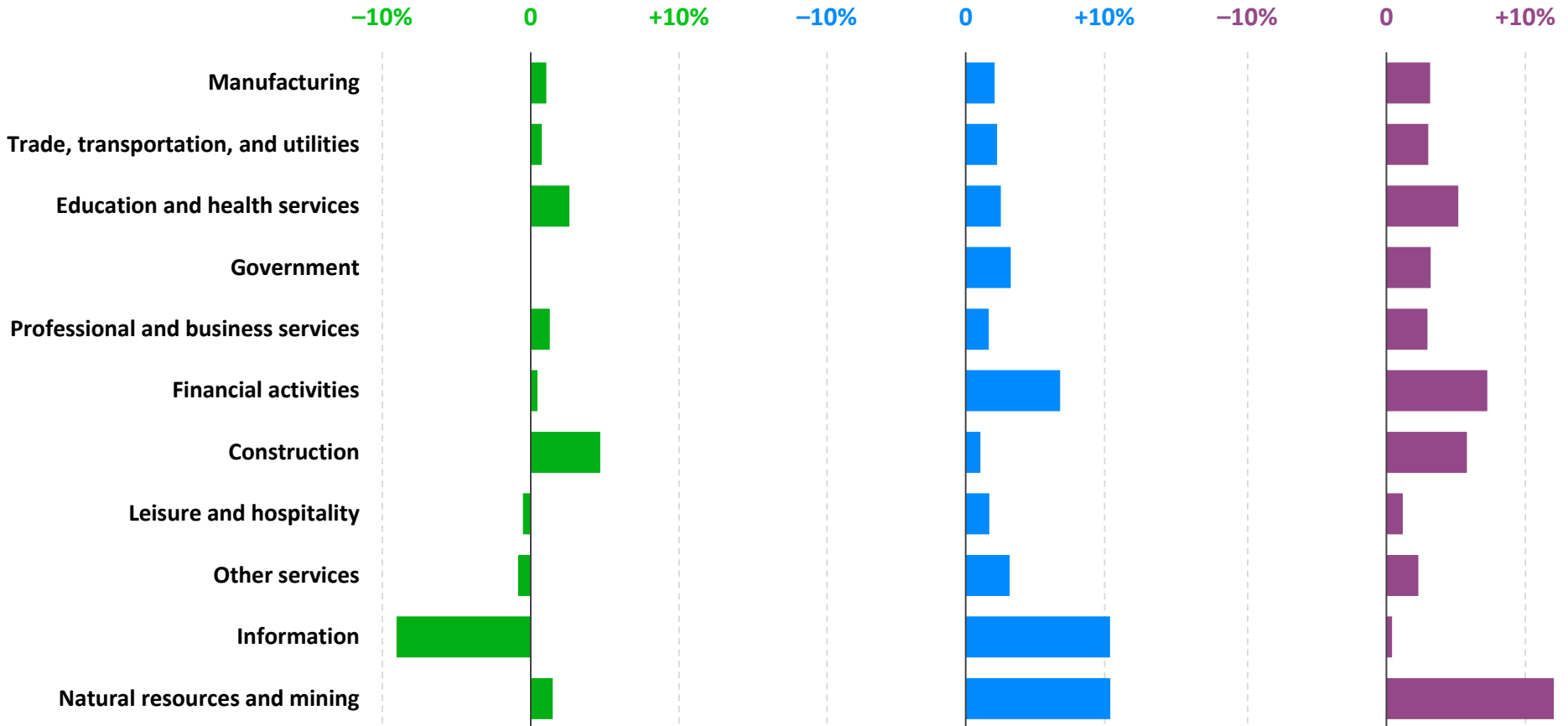
Employment Has Increased in Several Sectors in the Past Year

| Industrial Sector | | Year-Over-Year Percent Change, 2018 Q1 | | Sector Size | % Share | 1-Year Change |
|--------------------------------------|----|--|--|-------------|---------|---------------|
| Education and health services | IN | +2.6 | | 475,700 | 15 | +12,000 |
| | US | +2.0 | | | | |
| Construction | IN | +4.7 | | 143,800 | 5 | +6,400 |
| | US | +3.5 | | | | |
| Manufacturing | IN | +1.1 | | 533,800 | 17 | +5,500 |
| | US | +1.8 | | | | |
| Trade, transportation, and utilities | IN | +0.7 | | 602,100 | 19 | +4,500 |
| | US | +0.9 | | | | |
| Professional and business services | IN | +1.3 | | 340,000 | 11 | +4,400 |
| | US | +2.5 | | | | |
| Financial activities | IN | +0.4 | | 135,800 | 4 | +600 |
| | US | +1.6 | | | | |
| Natural resources and mining | IN | +1.5 | | 7,600 | 0 | +100 |
| | US | +6.6 | | | | |
| Government | IN | -0.1 | | 426,200 | 14 | -300 |
| | US | +0.0 | | | | |
| Other services | IN | -0.8 | | 127,600 | 4 | -1,100 |
| | US | +1.6 | | | | |
| Leisure and hospitality | IN | -0.5 | | 307,100 | 10 | -1,600 |
| | US | +2.0 | | | | |
| Information | IN | -9.0 | | 29,500 | 1 | -2,900 |
| | US | -1.7 | | | | |

Employment numbers are rounded to the nearest hundred
 Year-over-year percentage change; frequency of observation: quarterly; 2018 Q1
 Sources: US Bureau of Labor Statistics, Moody's Analytics, and NCCI

Indiana's Payroll Growth Decomposition by Sector

Employment Growth + AWW Growth ≈ Payroll Growth



AWW = Average Weekly Wage

2018 Q1 year-over-year percentage change; sectors are in descending order by the volume of state payroll amounts

Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis, Moody's Analytics, and NCCI

Headline Unemployment Rate

Unemployment Rate Is Below the National Rate

Percent

6

4

2

0

2017

2018

Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun

US: 4.0

IN: 3.3%

Headline Unemployment Rate, seasonally adjusted
Frequency of observation: monthly; latest available data point: June 2018
Source: US Bureau of Labor Statistics (BLS), www.bls.gov

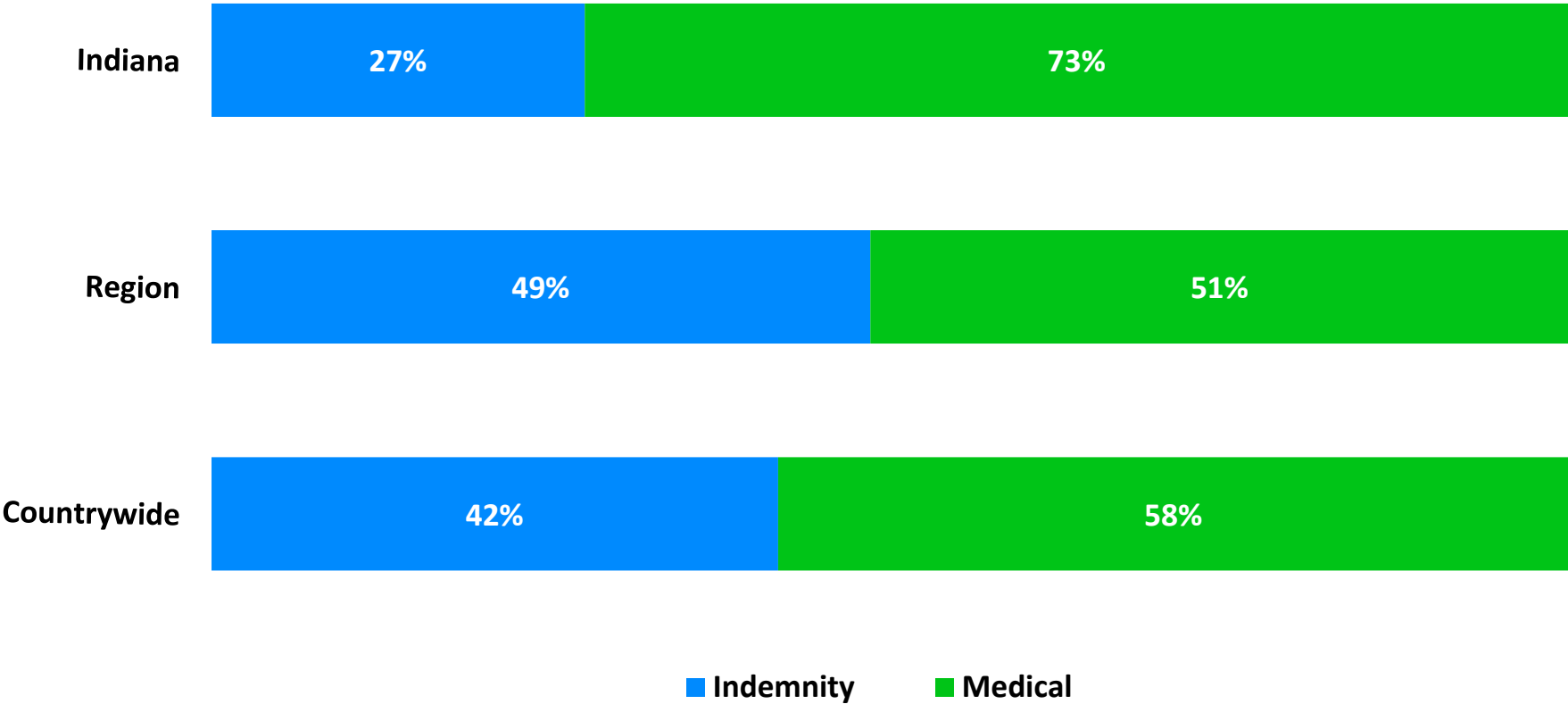
Indiana's Labor Market

- Indiana's unemployment rate is below the US rate
- Payroll increased in Indiana, primarily driven by strong increases in wages rather than employment
 - Manufacturing is the sector with the largest payroll in the state
 - Largest payroll gains came from the Education and Health Services and Manufacturing sectors
- Employment growth is below the US rate
 - Growth in the Education and Health Services sector outperformed the national average and added the most jobs
 - Increasing at the fastest rate, Construction sector employment also outpaced the national average



Supplemental Information

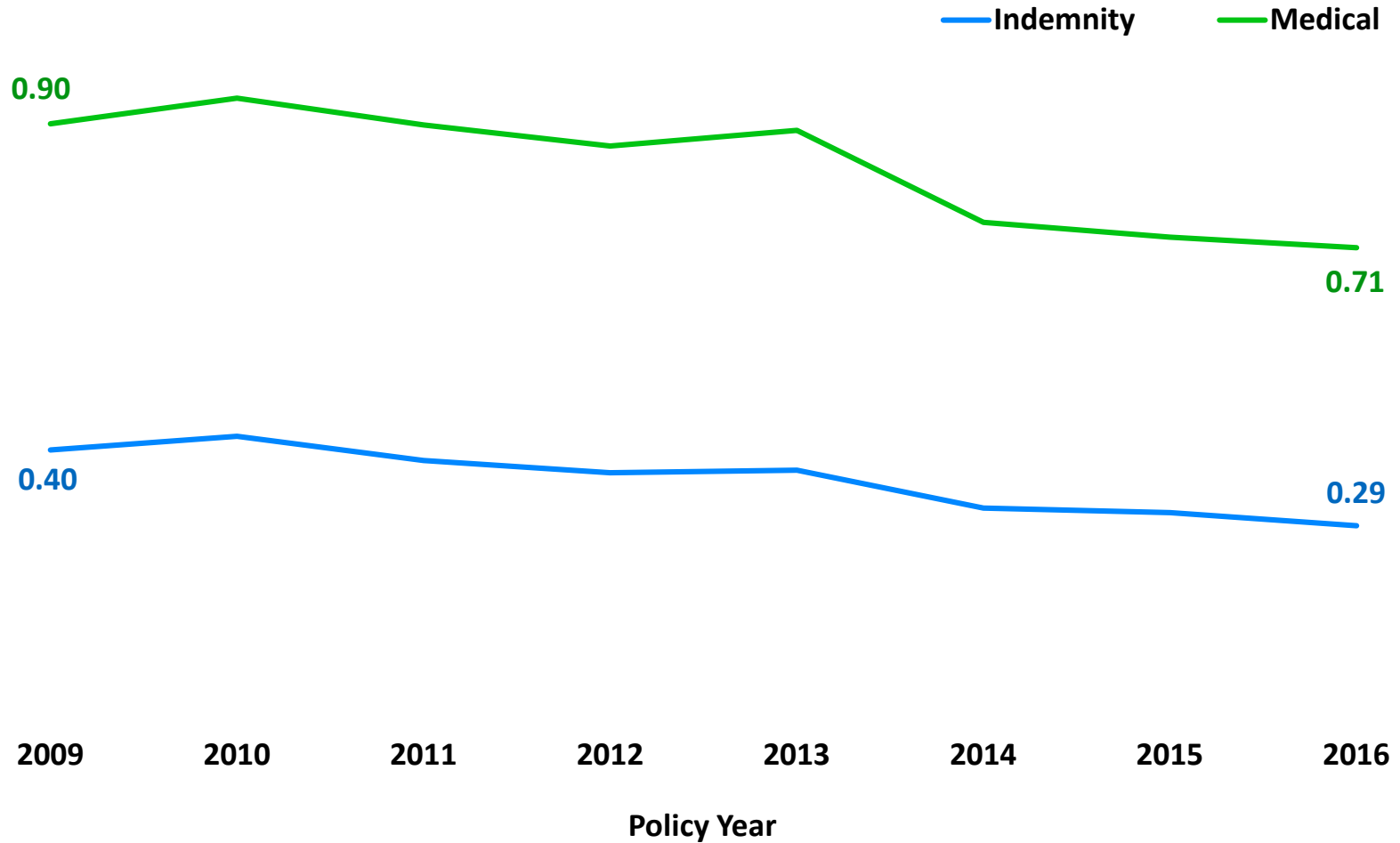
Total Benefit Costs in Indiana



Regional states are IA, IL, KY, and MO
Based on NCCI's financial data through 12/31/2017



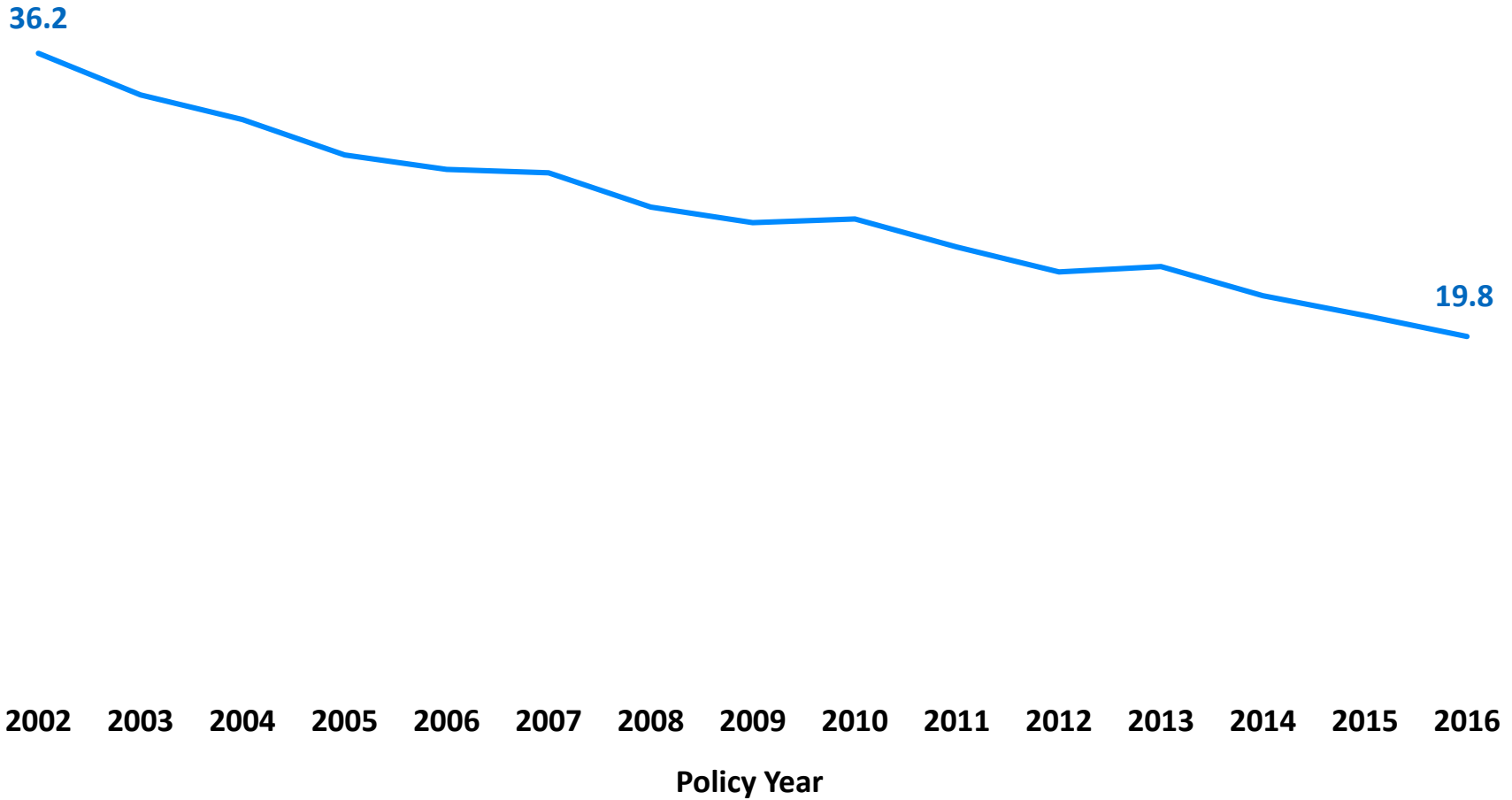
Indiana Indemnity and Medical Loss Ratios



Based on NCCI's financial data through 12/31/2017 at current benefit level and developed to ultimate

Indiana Claim Frequency

Per Million of On-Leveled Premium

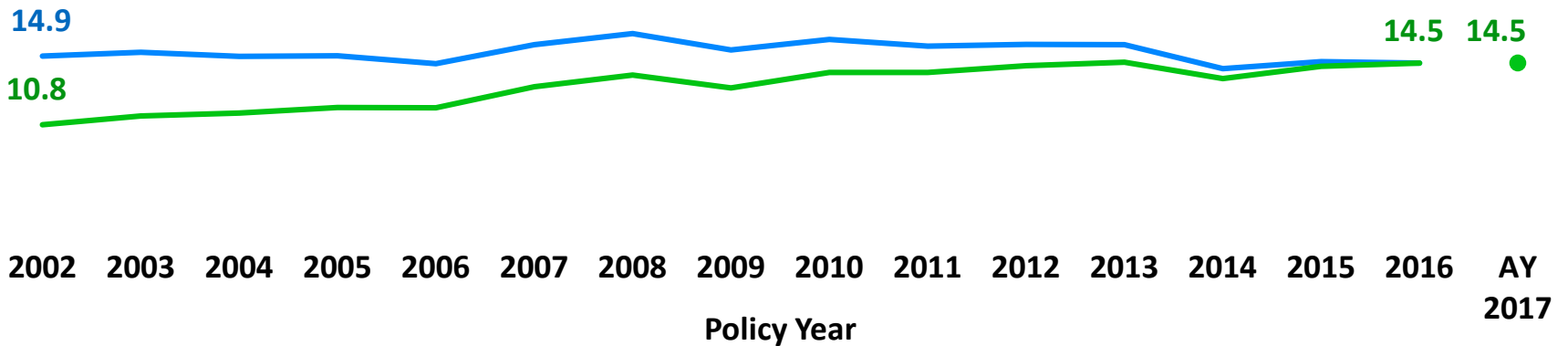


Based on NCCI's financial data through 12/31/2017, adjusted to a common wage level

Indiana Average Indemnity Claim Severity

Average Indemnity Claim Severity in \$ Thousands

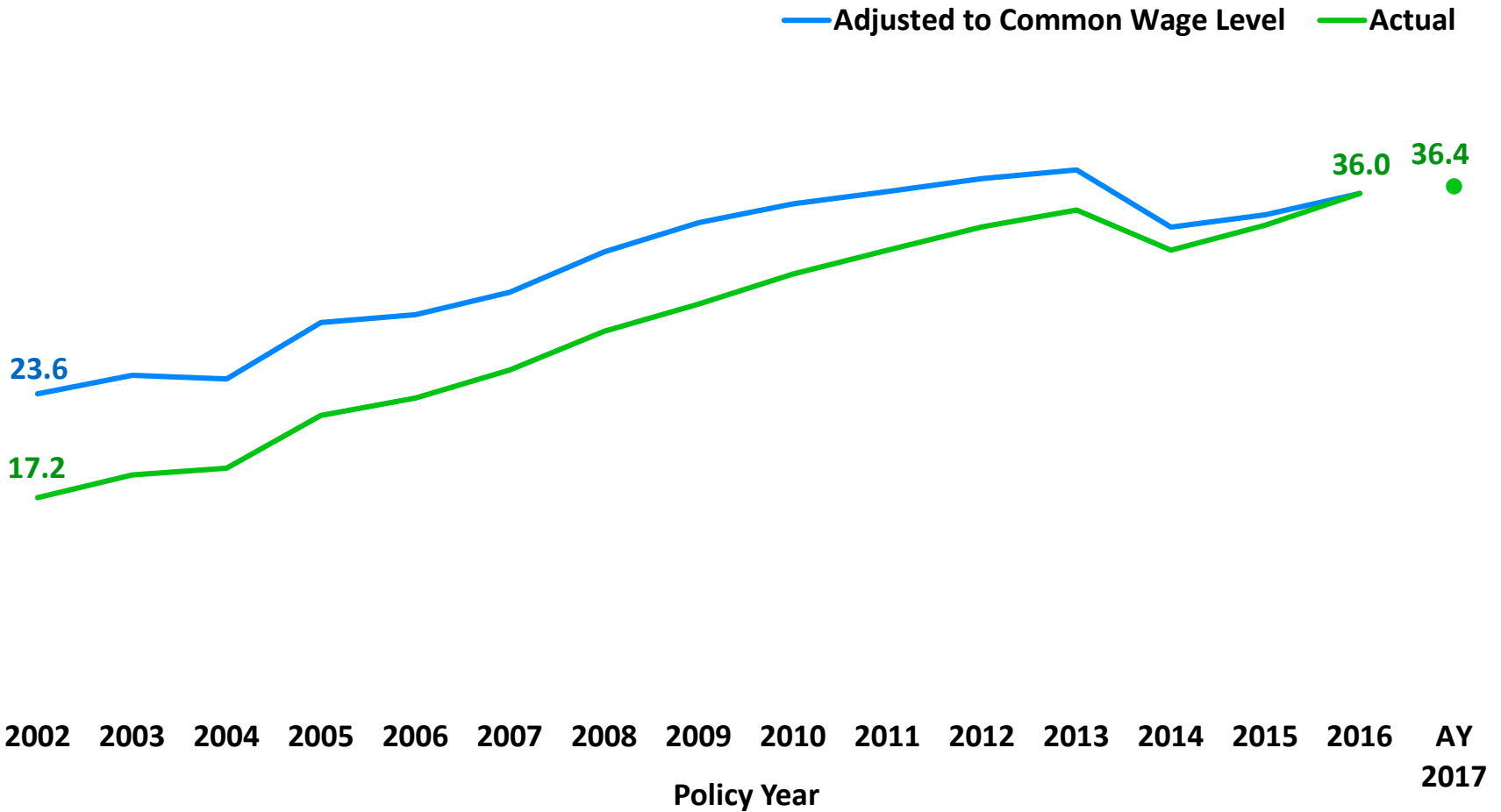
Adjusted to Common Wage Level Actual



Based on NCCI's financial data through 12/31/2017 for lost-time claims at current benefit level and developed to ultimate

Indiana Average Medical Claim Severity

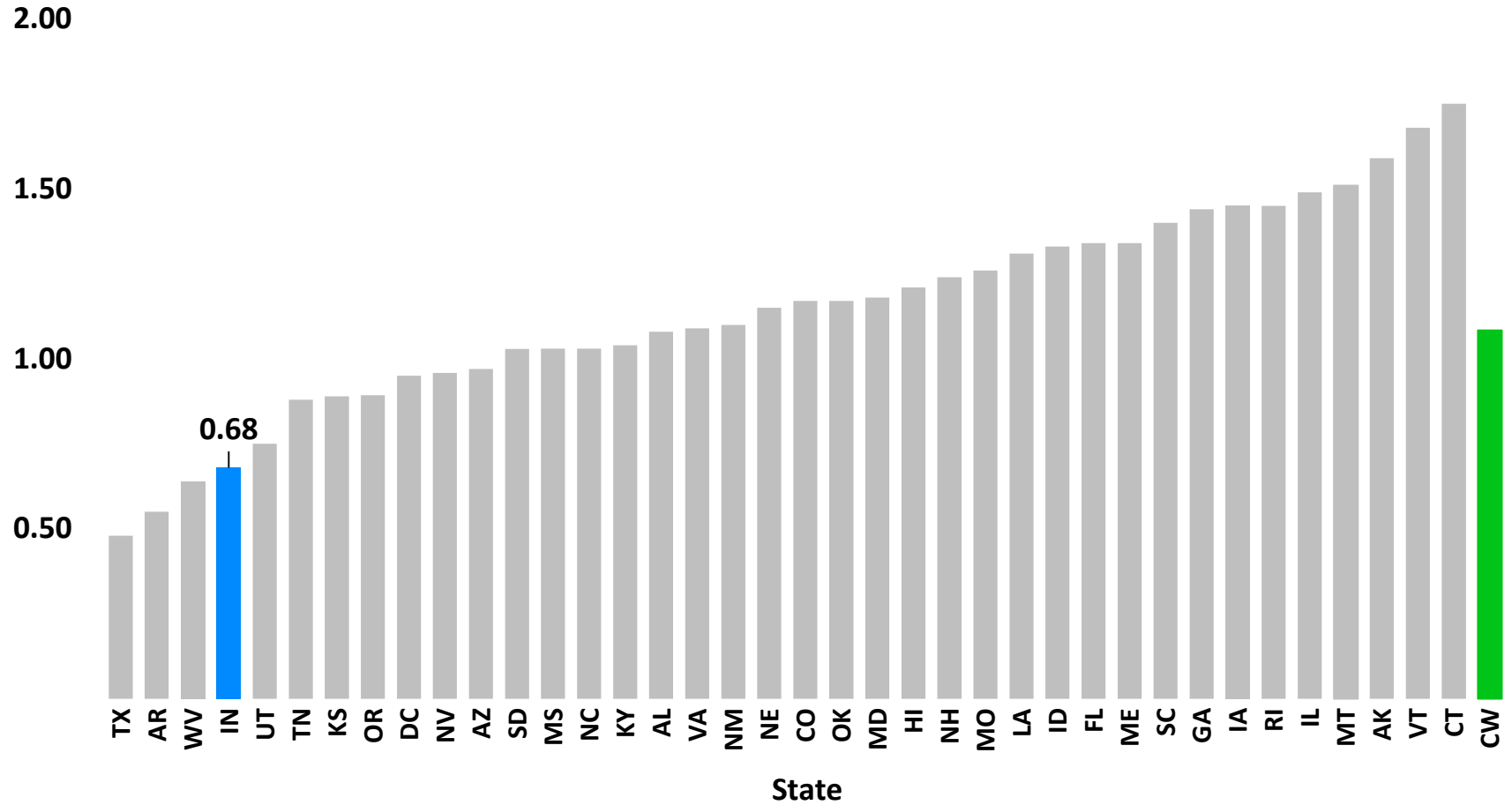
Average Medical Claim Severity in \$ Thousands



Based on NCCI's financial data through 12/31/2017 for lost-time claims at current benefit level and developed to ultimate

Average Voluntary Pure Loss Costs Using Indiana Payroll Distribution

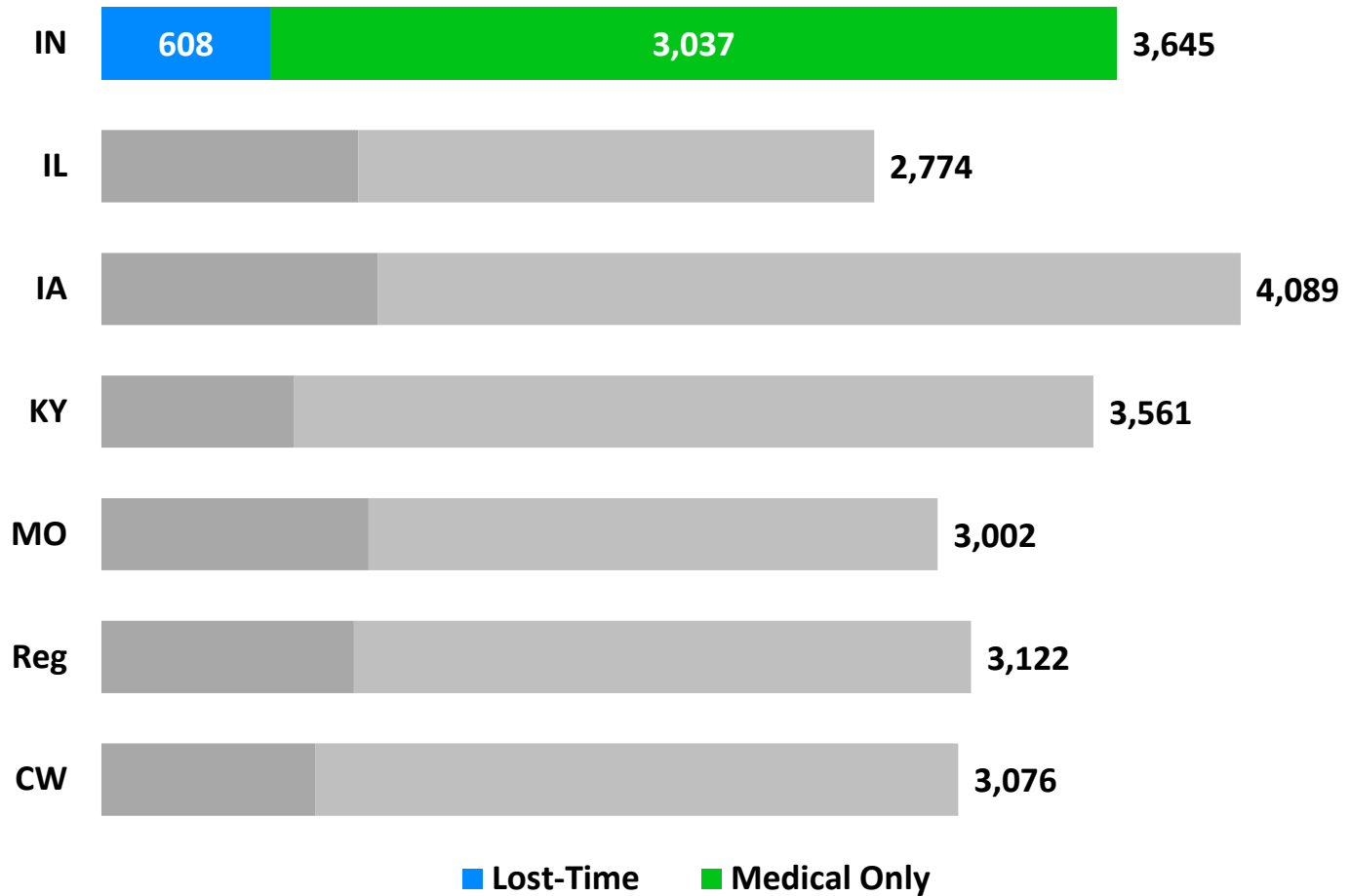
Pure Loss Costs—All Classes



Based on approved rates and loss costs in various jurisdictions from filings using data valued as of 12/31/2016

Indiana Average Claim Frequency

Frequency per 100,000 Workers—All Claims

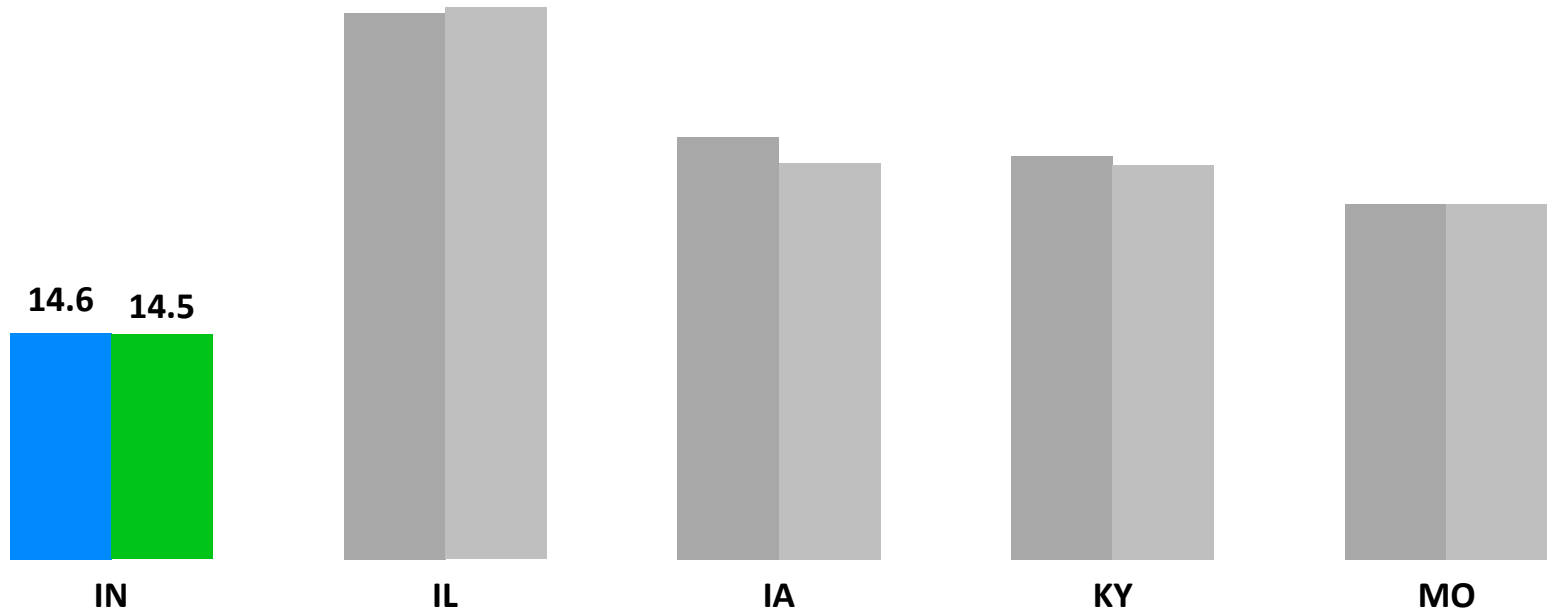


Based on NCCI's *Statistical Plan* data

Average Indemnity Claim Severity in the Region

Lost-Time Claim Severity in \$ Thousands

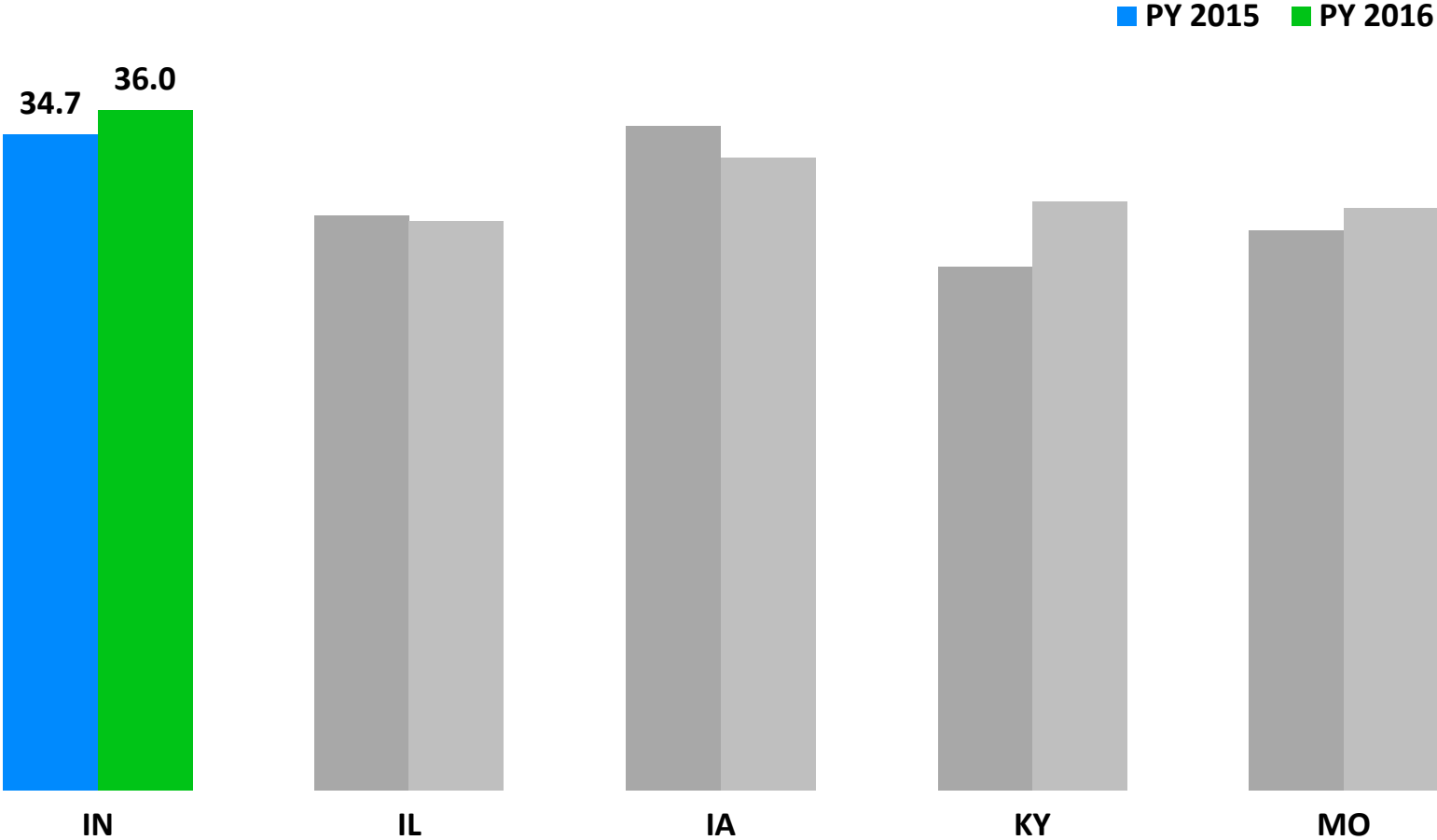
■ PY 2015 ■ PY 2016



Based on NCCI's financial data

Average Medical Claim Severity in the Region

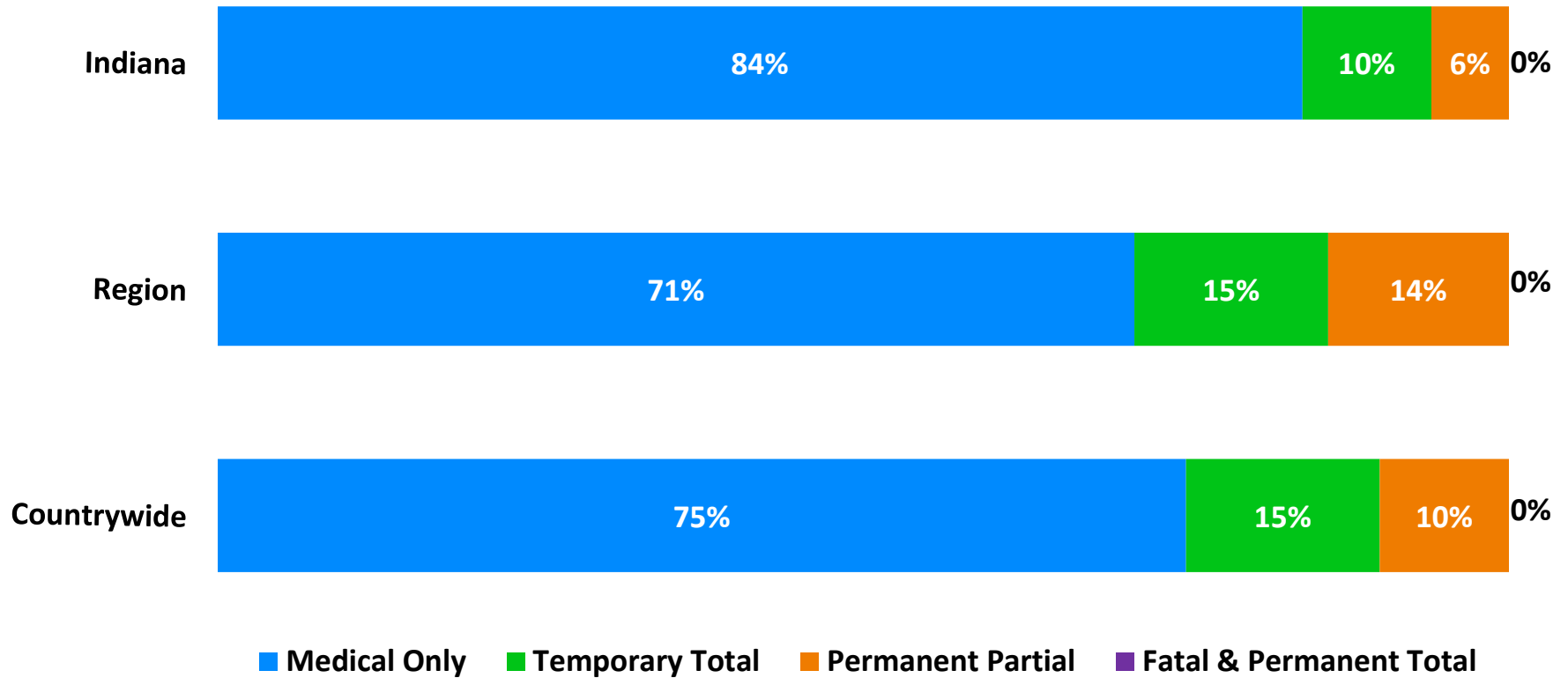
Lost-Time Claim Severity in \$ Thousands



Based on NCCI's financial data



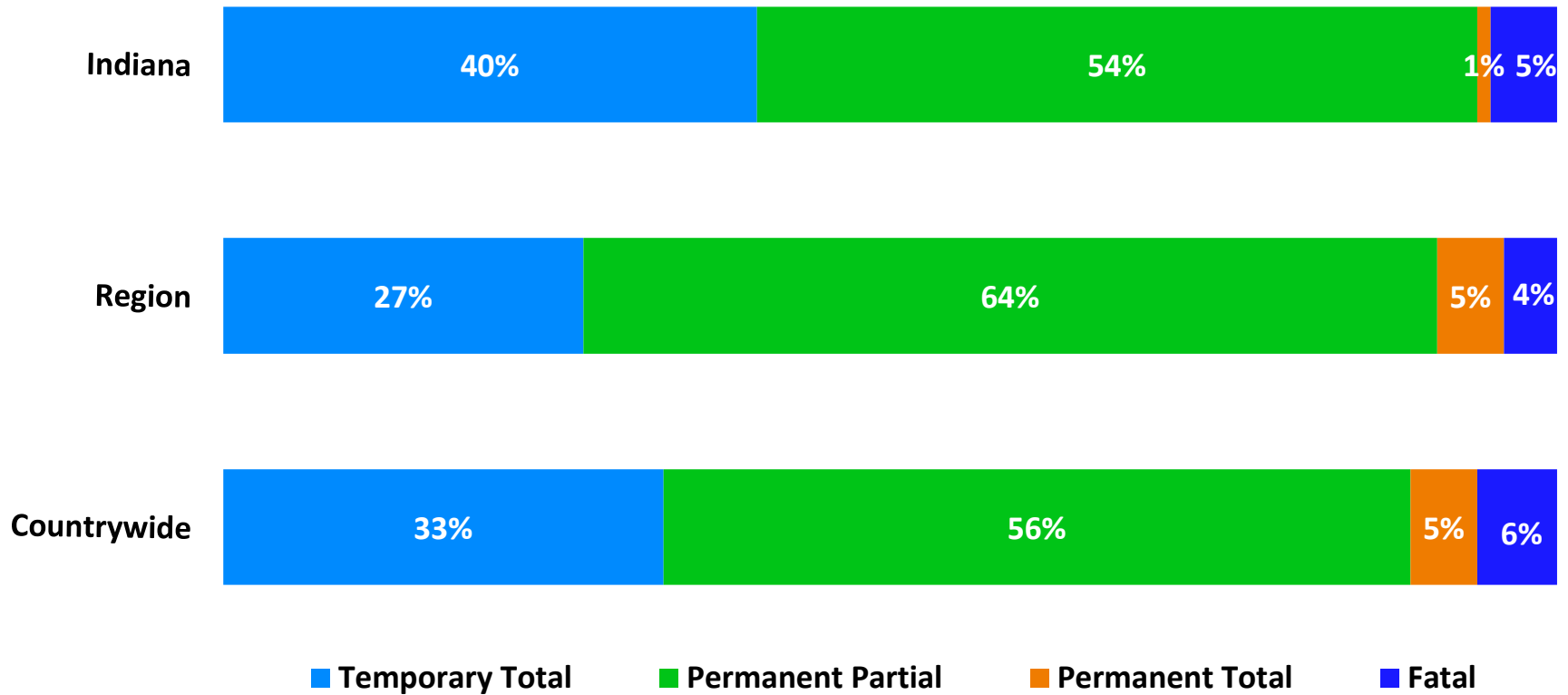
Indiana Distribution of Claims by Injury Type



Regional states are IA, IL, KY, and MO

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

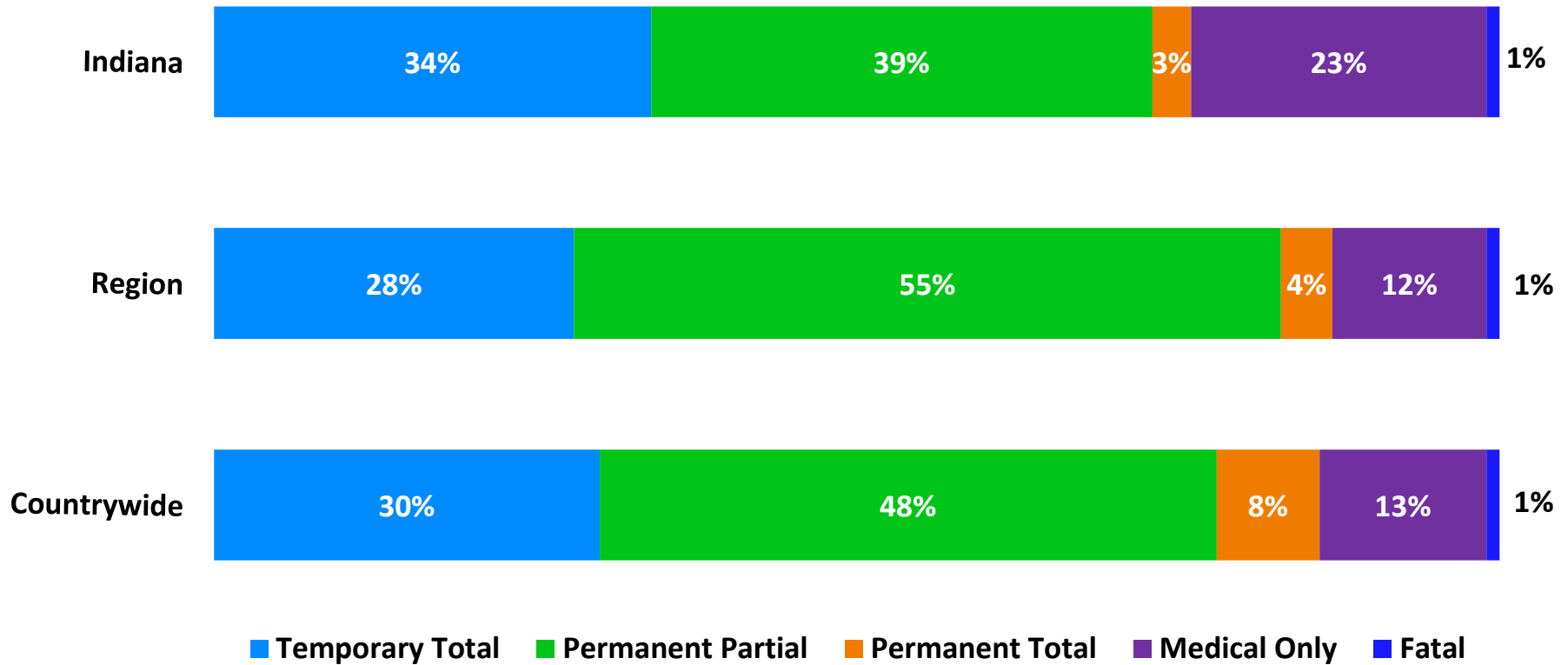
Indiana Indemnity Loss Distribution by Injury Type



Regional states are IA, IL, KY, and MO

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

Indiana Medical Loss Distribution by Injury Type



Regional states are IA, IL, KY, and MO

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



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, and the timing of the claim's report to the carrier.
- **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

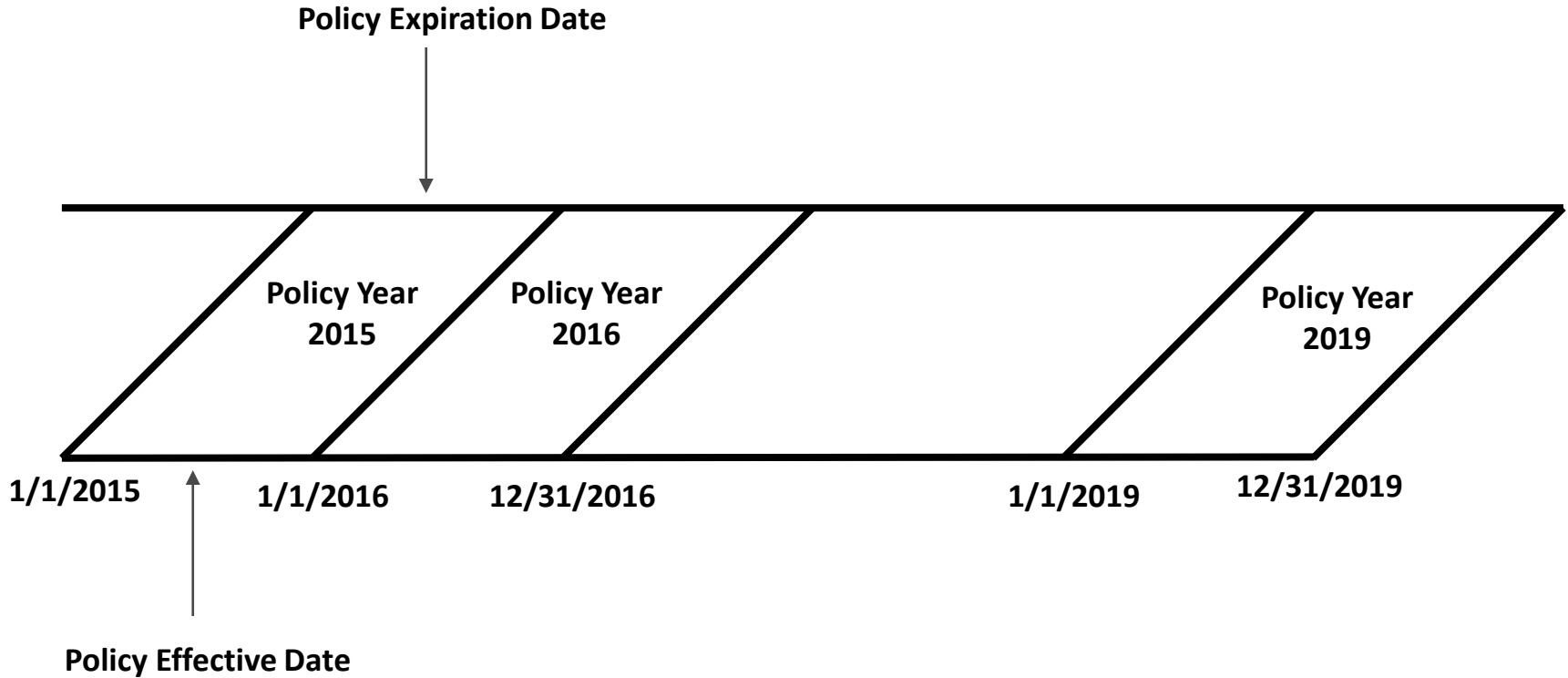
NCCI's Workers Compensation Resources

- 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

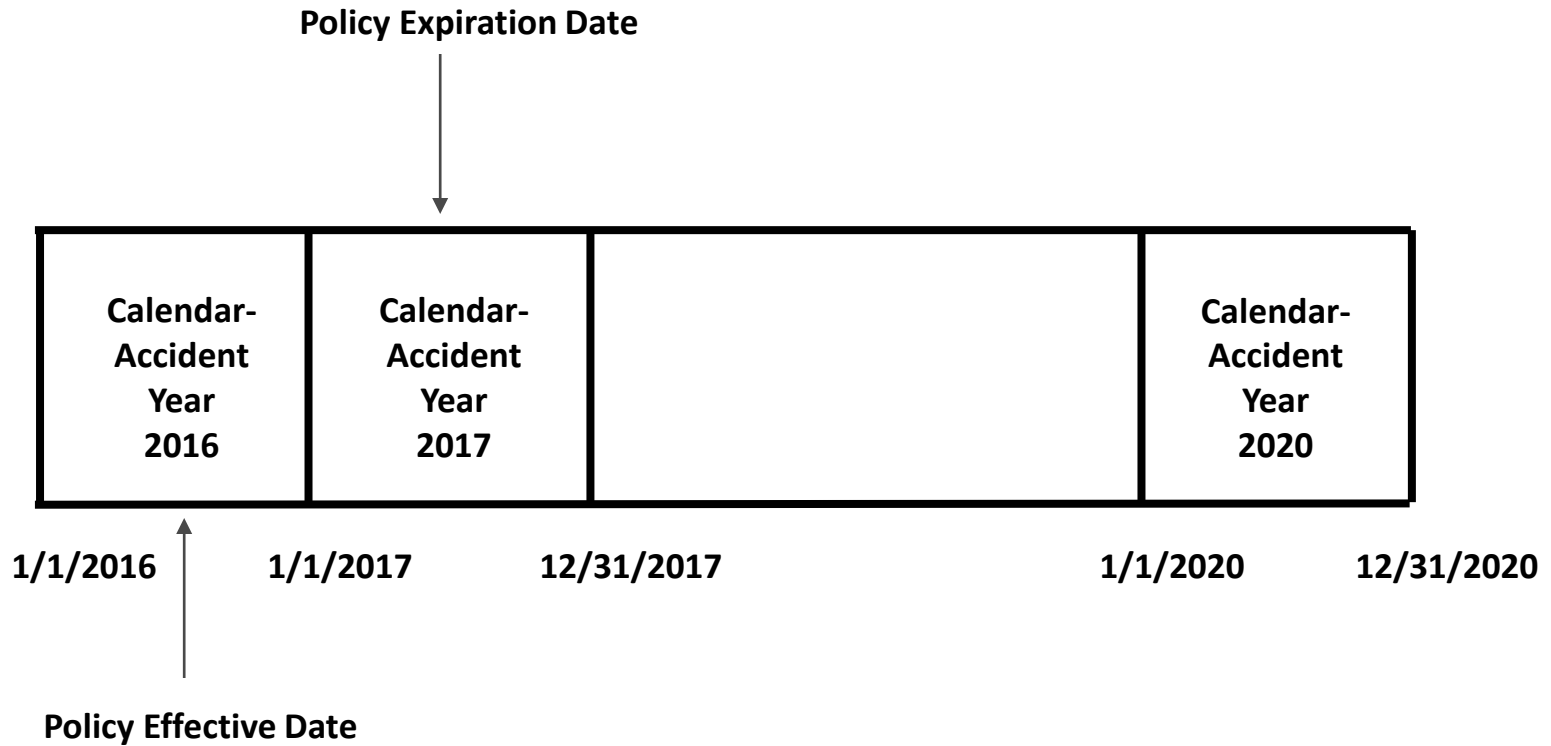
Financial Aggregate Calls

- 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



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

