Ohio Bureau of Workers' Compensation
Comparative Data
October 2008

Prepared by Actuarial Division
October 2008

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The graphs and data in the following report were created to examine how the Ohio Bureau of Workers' Compensation (BWC) compared to the workers' compensation insurance line.

The first section, "Actuarial Data" is primarily data collected from the National Council of Compensation Insurers (NCCI) and from the BWC's June 30, 2008, Actuarial Audit. NCCI presents a review of the workers' compensation insurance line each year at the NCCI Annual Issues Symposium. The materials created by Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary, were the basis for the comparison.

The second section, Payment reports, is the ten year history of BWC payments by benefit type that is reported quarterly and annually. The Health Partnership Plan (HPP) began in March 1997 as a result of legislation; House Bill 107. At that time the BWC began providing the Alpha claims (new injuries beginning 3/1/97) to the Managed Care Organizations (MCO) for processing. Beta claims (claims with injury dates from calendar year 1995 to March 1, 1997) were transferred to MCO's in September 1997. Gamma claims (the rest of the BWC claims) were transferred to MCO's in December 1997.

The last section contains the NCCI State of the Line report for 2008 and PowerPoint presentation in its entirety, downloaded from the NCCI website.

Chart Title: Ohio Bureau of Workers' Compensation Accident Year Premium

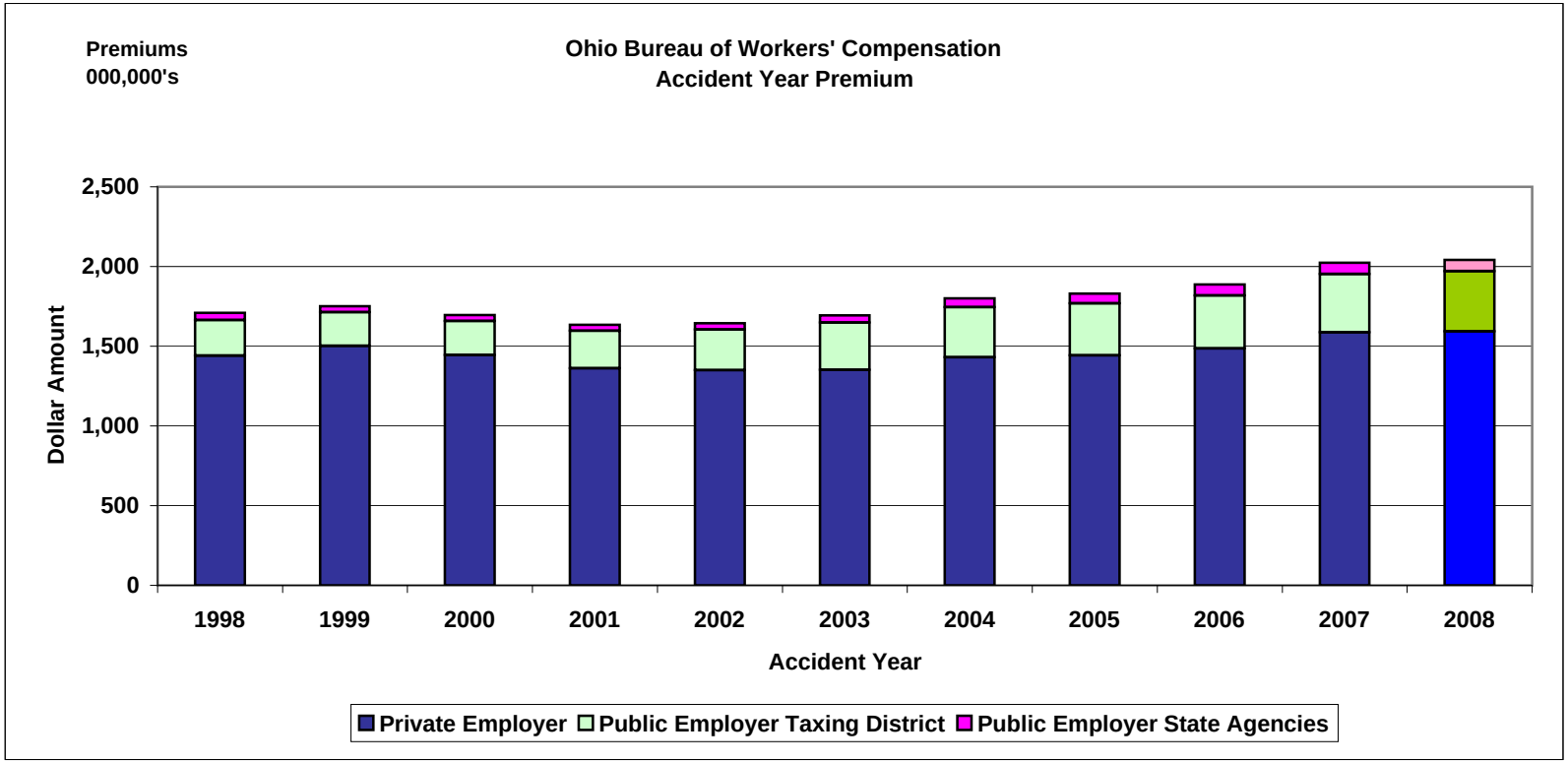
Description and Conclusions:
This chart is an eleven year history of premiums for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) by accident year. The premiums are stable for all employer groups. The cumulative change in rates for the PA employers for this eleven year period is a 5.72% rate decrease. The 2008 accident year is a different color to denote that it is estimated.

Source of Data:
The premiums are from the June 30, 2008 Actuarial Audit, by Oliver Wyman, Actuarial Consultants. Accident year 2008 is estimated.

Ohio Bureau of Workers' Compensation
History of actual premium
($000,000)

Accident Year	Private Employer	Public Employer Taxing District	Public Employer State Agencies	Total Premium from Private and Public Employers
1998	1,441	224	44	1,709
1999	1,502	212	37	1,751
2000	1,445	213	38	1,696
2001	1,361	235	39	1,635
2002	1,350	255	40	1,645
2003	1,352	296	46	1,694
2004	1,431	315	54	1,800
2005	1,442	327	62	1,831
2006	1,487	332	68	1,887
2007	1,586	367	71	2,024
2008	1,592	378	71	2,041
**	**796**	**189**	**36**	

**** These are the actual numbers for the 1st half of 2008. The 2nd half of 2008 is not available so we have doubled the 1st half to get an estimate for the whole calendar year.**

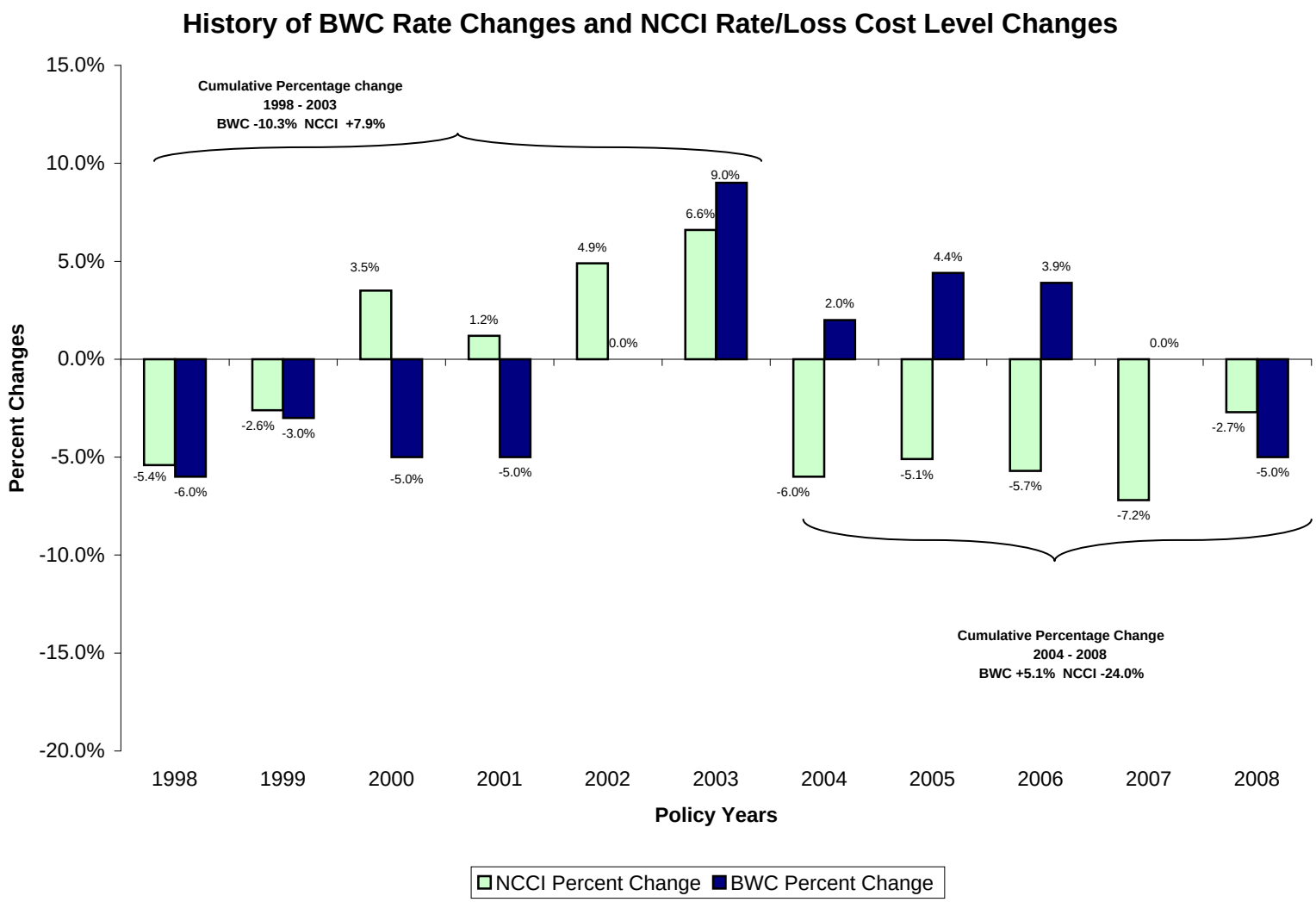


Source: June 30, 2008 Actuarial Audit, Oliver Wyman, Actuarial Consultants
Accident year 2008 is estimated

Chart Title: History of BWC Premium Rate Changes and NCCI Average Rate/Loss Cost Changes

Description and Conclusions:
This chart shows an eleven year history of rate changes for both the Ohio BWC and the NCCI workers' compensation subscribers. For the period of 1998 through 2008, the BWC's cumulative rate change was a decrease of 5.7%, while the rest of the industry had a cumulative decrease of 18%. The rates used in this chart are for the Private Employer group.

Source of Data:
The NCCI data are from the Annual Issues Symposium 2008, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from annual rate filings.



*NCCI Annual Issue Symposium 2008
*NCCI rate change for 2008 is only for states approved through 4/11/2008.
*BWC data from the annual Private Employer rate filings

Chart Title: History of BWC Approved Rate Changes, Private Employers / History of Average NCCI Rate/Loss Cost Level Changes

Description and Conclusions:
These charts show a sixteen year history of rate changes separately for both the Ohio BWC and the NCCI subscribers. The overall rate change trends are similar. For the period of 1993 through 2008, the BWC's cumulative rate change was a decrease of 30.2%, while the rest of the industry had a cumulative decrease of 33.9%. The rates used in this chart are for the Private Employer group.

Source of Data:
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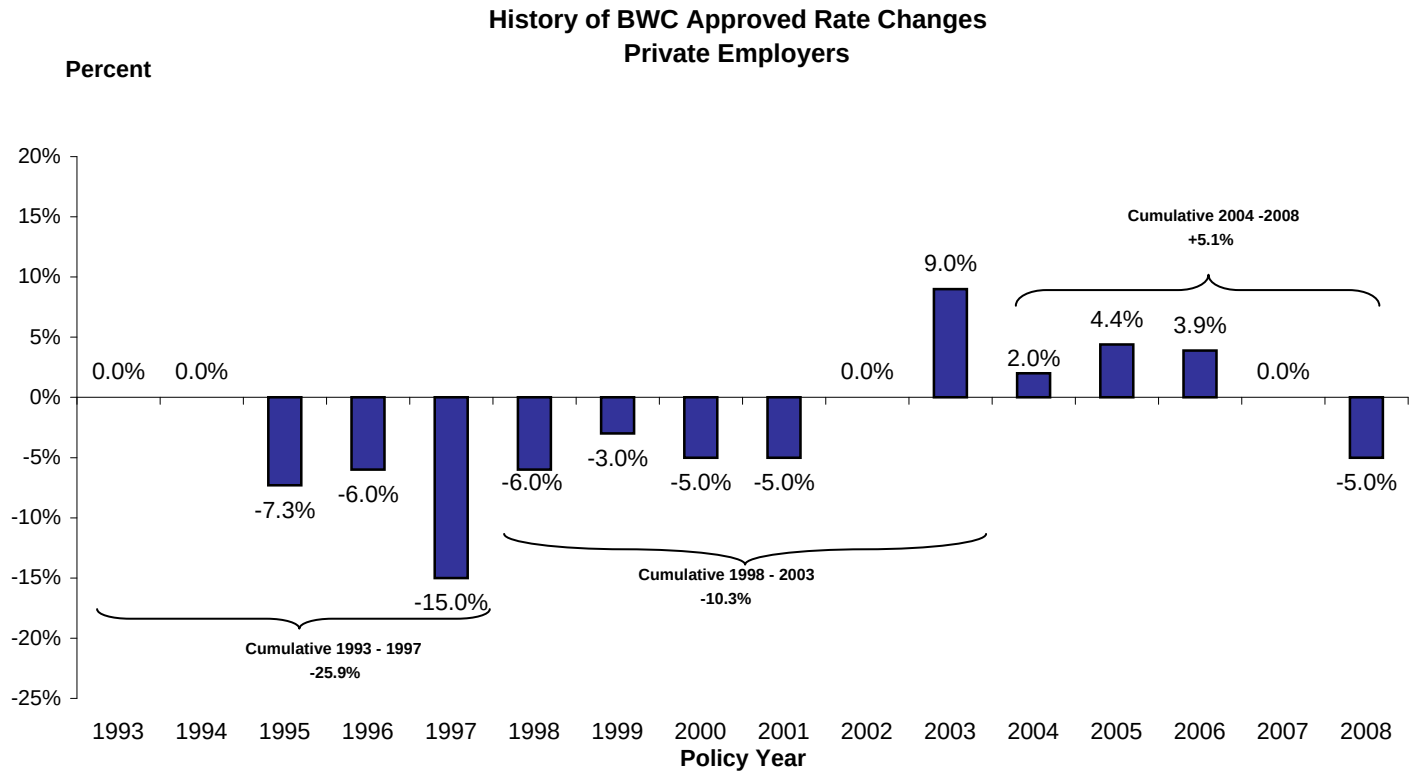
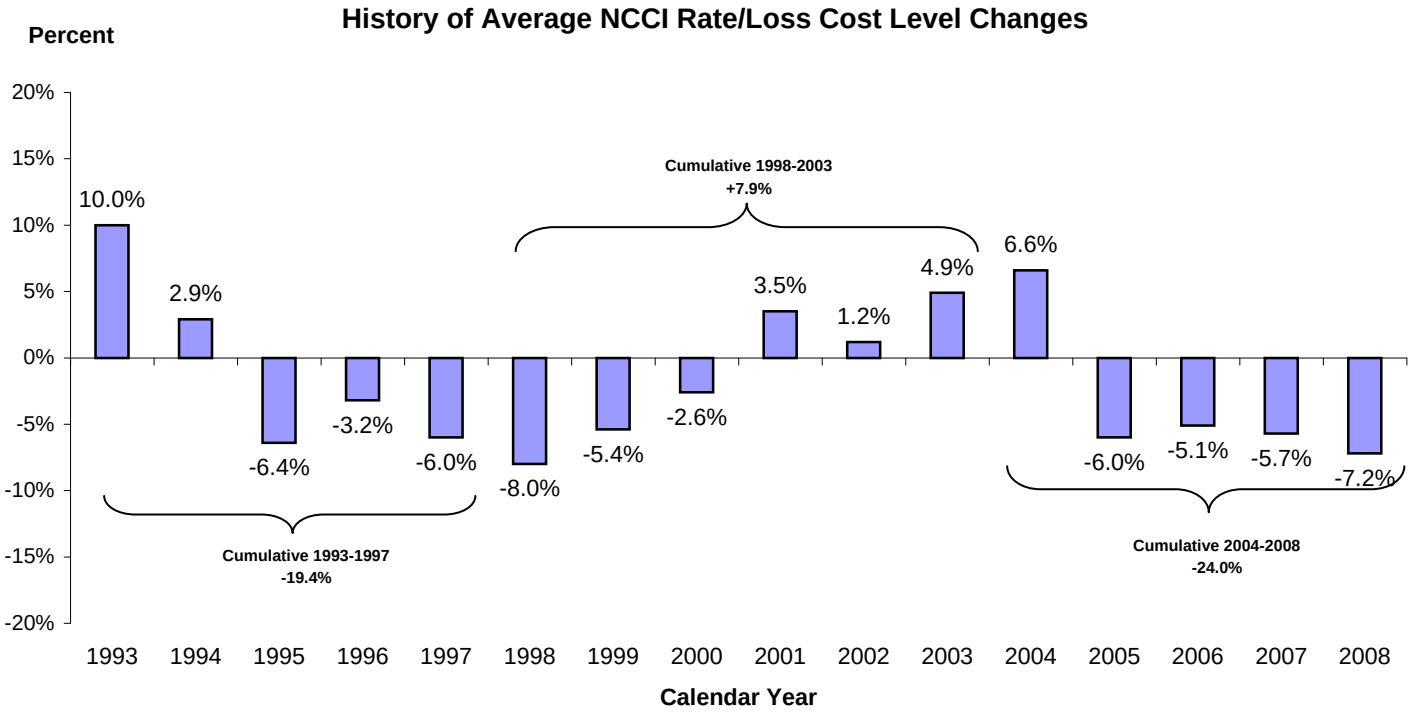




* NCCI Annual Issue Symposium 2008
* NCCI rate change for 2008 is only for states approved through 4/11/2008
* BWC data is based on Private employer rates

HISTORICAL
PERCENT CHANGE IN PRIVATE EMPLOYER
BASE RATES

Period	Percent Change	Period	Percent Change
7-1-60	3.7% increase	7-1-1992	3.5% increase
7-1-61	No Change	7-1-1993	No Change
7-1-62	6.4% increase	7-1-1994	No Change
7-1-63	2.1% increase	7-1-1995	7.3% decrease
7-1-64	1.5% increase	7-1-1996	6% decrease
7-1-65	.6% decrease	7-1-1997	15% decrease
7-1-66	4.9% decrease	7-1-1998	6% decrease
7-1-67	1.9% increase	7-1-1999	3% decrease
7-1-68	.2% decrease (no change)	7-1-2000	5% decrease
7-1-69	2.2% decrease	7-1-2001	5% decrease
7-1-70	5.6% decrease	7-1-2002	No Change
7-1-71	12.5% increase	7-1-2003	9% increase
7-1-72	13.1% increase	7-1-2004	2% increase
7-1-73	17.3% increase	7-1-2005	4.4% increase
7-1-74	7.8% decrease	7-1-2006	3.9% increase
7-1-75	10.5% increase	7-1-2007	No Change
7-1-76	28.8% increase	7-1-2008	5.0% decrease
7-1-77	29.7% increase		
7-1-78	19.4% decrease		
7-1-79	3% decrease		
7-1-80	No Change		
7-1-81	3% decrease		
7-1-82	1% decrease		
7-1-83	3% decrease		
7-1-84	6% decrease		
7-1-85	6% increase		
7-1-86	6% decrease		
7-1-87	30% increase		
7-1-88	15% increase		
7-1-89	9.5% increase		
7-1-90	No Change		
7-1-91	4.5% increase		

Private Employer
Average Collectible Rate

Rating Year	Average Base Rate*	Average Collectible Rate*
7-1-75	$1.42	
7-1-76	$1.83	
7-1-77	$2.38	
7-1-78	$1.93	
7-1-79	$1.88	
7-1-80	$1.88	
7-1-81	$1.83	
7-1-82	$1.82	
7-1-83	$1.76	
7-1-84	$1.65	
7-1-85	$1.75	
7-1-86	$1.75	
7-1-87	$2.34	
7-1-88	$2.61	
7-1-89	$2.78	
7-1-90	$2.91	
7-1-91		$2.97
7-1-92		$3.00
7-1-93		$2.85
7-1-94		$2.73
7-1-95		$2.67
7-1-96		$2.63
7-1-97		$2.17
7-1-98		$2.11
7-1-99		$2.03
7-1-2000		$1.93
7-1-2001		$1.81
7-1-2002		$1.80
7-1-2003		$1.94
7-1-2004		$1.98
7-1-2005		$1.76
7-1-2006		$1.85
7-1-2007		$1.85
7-1-2008		$1.76

*Rates have been rounded to the nearest cent

Percent Change in Base Rates for Public Employer Taxing Districts

Period	Percent Change
1-1-1984	6% decrease
1-1-1985	6% decrease
1-1-1986	4% increase
1-1-1987	16% increase
1-1-88 – 1987 payroll	10% increase
1-1-88 – 1988 payroll	10% increase
1-1-1989	4% increase
1-1-1990	2% increase
1-1-1991	No Change
1-1-1992	4.5% increase
1-1-1993	4.8% increase
1-1-1994	No Change
1-1-1995	No Change
1-1-1996	7.3% decrease
1-1-1997	5 % decrease
1-1-1998	10% decrease
1-1-1999	10% decrease
1-1-2000	No Change
1-1-2001	3.7% increase
1-1-2002	6.4% increase
1-1-2003	12.1% increase
1-1-2004	2% increase
1-1-2005	2% increase
1-1-2006	1% decrease
1-1-2007	3.2% increase
1-1-2008	No Change

Public Employer Taxing Districts
Average Rate

Rate Date	Applicable to Calendar Year	Average Collectible Rate
1-1-1982	1981	$1.48
1-1-1983	1982	1.44
1-1-1984	1983	1.36
1-1-1985	1984	1.28
1-1-1986	1985	1.33
1-1-1987	1986	1.51
1-1-1988	1987	1.62
1-1-1988	1988	1.77
1-1-1989	1989	1.85
1-1-1990	1990	1.88
1-1-1991	1991	1.90
1-1-1992	1992	2.01
1-1-1993	1993	2.08
1-1-1994	1994	2.09
1-1-1995	1995	2.07
1-1-1996	1996	1.95
1-1-1997	1997	1.80
1-1-1998	1998	1.64
1-1-1999	1999	1.47
1-1-2000	2000	1.47
1-1-2001	2001	1.53
1-1-2002	2002	1.62
1-1-2003	2003	1.81
1-1-2004	2004	1.84
1-1-2005	2005	1.89
1-1-2006	2006	1.87
1-1-2007	2007	1.84
1-1-2008	2008	1.85

Chart Title: BWC and NCCI Subscriber Workers' Compensation Lost-Time Claim Frequency Percentage Change

Description and Conclusions:
This chart shows the BWC and NCCI Subscribers change in lost-time claims frequency for the period 1994 through 2007. The data indicate that the workers' compensation industry continues to make improvements in the number of lost-time claims filed. The BWC's cumulative change for this period is a decrease of 53%, while NCCI subscribers have a cumulative change of a 44% decrease.

The actuarial audit indicates that the projected ultimate frequency of PTD claims (not shown below) is declining compared to previous audits. However, the Ohio BWC's actual number of newly awarded PTD claims continues to far exceed the national norm. The ultimate number of lost-time claims has decreased significantly since policy year 1999 by more than 27%. The June 2008 actuarial audit includes the following table of surrounding states.

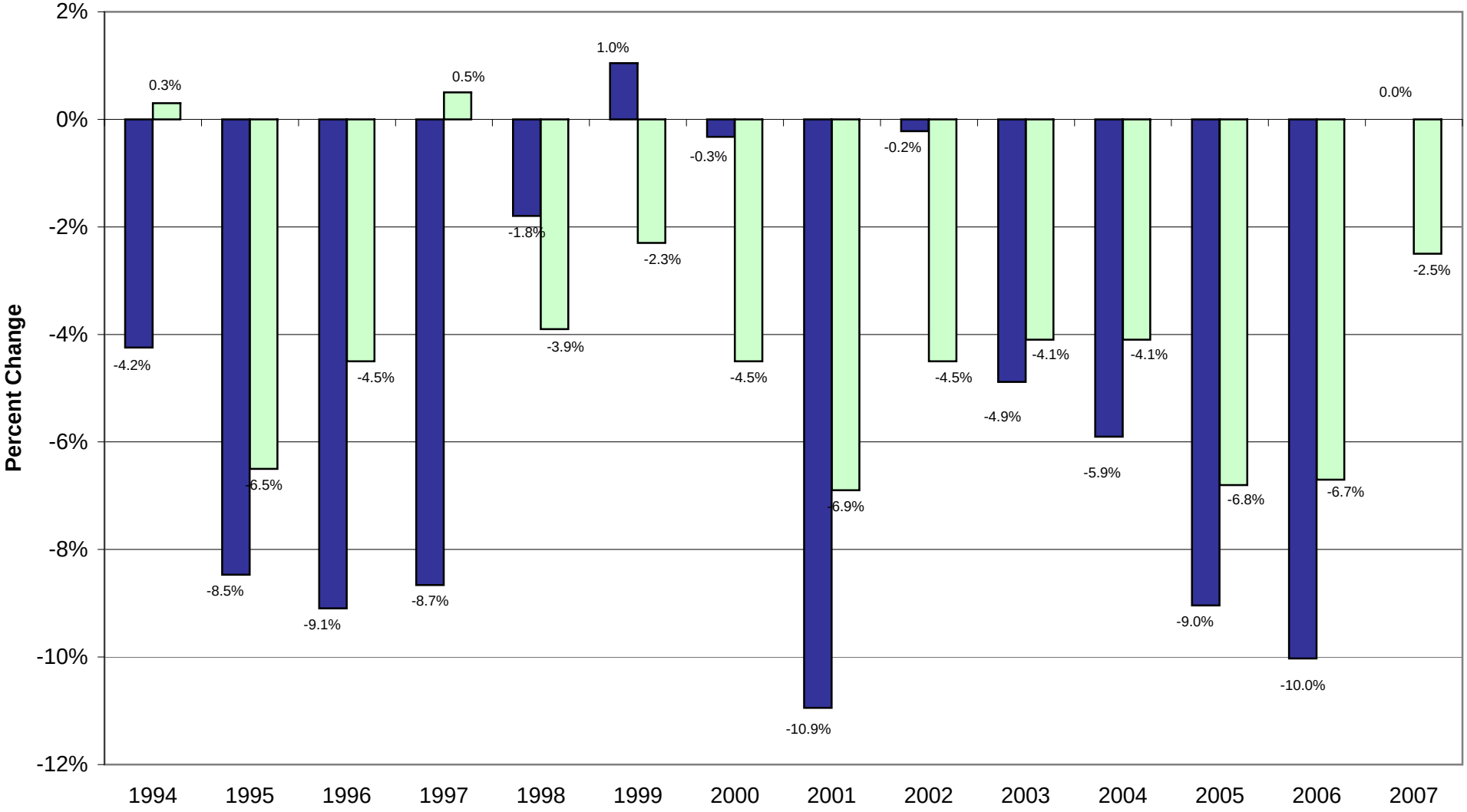
Claim Frequencies per 100,000 workers:

2008 NCCI annual statistical bulletin				2007 NCCI annual statistical bulletin		
State	Policy Year	PTD count	Lost-time claim count	Policy Year	PTD count	Lost-time claim count
Illinois	04/04-03/05	13	1156	04/03-3/04	5	1,255
Indiana	07/04-06/05	2	883	07/03-06/04	1	947
Kentucky	05/04-04/05	11	1018	05/03-4/04	12	1,072
Michigan	04/04-03/05	5	978	04/03-3/04	5	1,050

BWC PA and PEC combined		
Policy Year	PTD Count	Lost – Time Claim Count
1999	71	2,786
2000	75	2,785
2001	61	2,455
2002	68	2,476
2003	69	2,360
2004	70	2,263
2005	71	2,139
2006	71	2,022

Source of Data:
The NCCI data are from the Annual Issues Symposium 2008, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2008 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.

BWC and NCCI Subscriber
Workers' Compensation Lost-Time Claim Frequency



BWC cumulative change = -53%
NCCI cumulative change = -44%
(1994 - 2007p) * p=preliminary

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Chart Title: Ohio Bureau of Workers' Compensation Ratio of Discounted Indemnity and Medical Costs to Total Losses for Accident Years 1997 and 2007; NCCI Ratio of Indemnity and Medical Costs to Total Losses for Accident Years 1997 and 2007

Description and Conclusions:
This information shows the ratio of discounted indemnity and medical costs to total losses for injury years 1997 and 2007. In 1997, the majority of a claim's ultimate cost was wage replacement or indemnity. In 2007, the majority of a claim's ultimate cost is now medical costs. This chart demonstrates that the BWC is experiencing the same medical cost inflation that the industry is experiencing.

The 2005 NCCI State of the Line report addressed the increasing cost of the medical portion of the claim stating that their research indicates the following reasons:
- possibly the lack of fee schedules for workers' compensation
- increasing prescription drug costs and
- increasing utilization of medical services

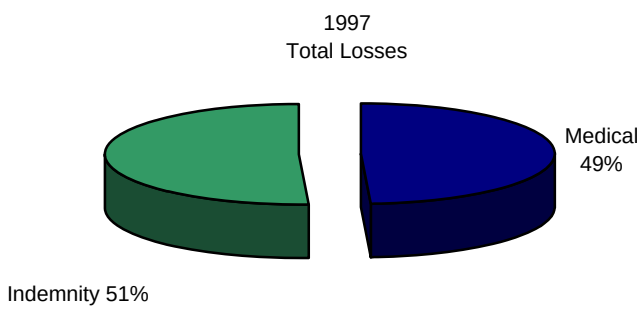
The 2006 NCCI State of the Line report also highlighted increasing drug costs in relation to the age of the claim. NCCI statistics indicate the first year of a claim, costs for prescription drugs are 19% of the total medical costs. In years 6-9, in the life of a claim, the prescription drug costs increase to 53% of the total medical.

The June 2006 actuarial audit cites medical utilization trends as the cause of the medical increases.

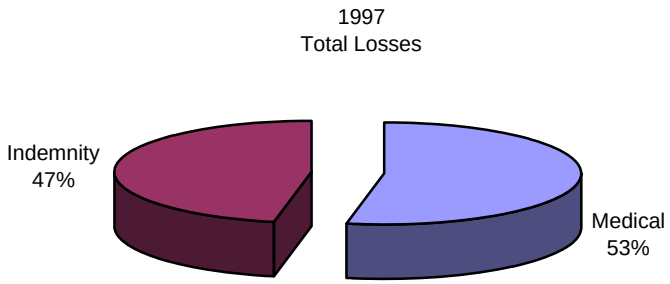
The 2008 NCCI State of the Line report states, "Medical costs continue to increase faster than wages, even though the increases seem to have tempered a bit in 2007. … Medical costs are 59% of total losses in NCCI states with many states in the 65%-70% range. The increased interest in medical benefits and costs is creating a demand for ever more medical data to analyze cost drivers of medical. To meet that demand, the NCCI Board of Directors approved a new Call for detailed medical transactions… from many of [their] member companies".

Source of Data: The NCCI data are from the Annual Issues Symposium 2008, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2008 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.

Ohio Bureau of Workers' Compensation Ratio of Discounted Indemnity and Medical Costs to Total Losses for Accident Years 1997 and 2007



NCCI Ratio of Indemnity and Medical Costs to Total Losses for Accident Years 1997 and 2007



* NCCI Annual Issue Symposium 2008
* All Claims-NCCI States
* NCCI information for 1997 is based on date through 12/31/2006; 2007 is based on data through 12/31/2007
* BWC data is based on Private employer claim costs from the 6/30/2008 Actuarial Audit

Ohio Bureau of Workers' Compensation
PA Discounted Average Claim Cost per Ultimate Lost Time Claim Count

Accident Year	Indemnity	Medical	Indemnity % Change	Medical % Change	Total Indemnity + Medical	% Medical Costs	% Indemnity Costs	
1997	$13,061	$12,571	6.8%	16.9%	$25,632	49.0%	51.0%	100.00%
1998	$14,796	$14,681	13.3%	16.8%	$29,477	49.8%	50.2%	100.00%
1999	$15,985	$15,409	8.0%	5.0%	$31,394	49.1%	50.9%	100.00%
2000	$17,805	$17,321	11.4%	12.4%	$35,126	49.3%	50.7%	100.00%
2001	$19,776	$19,583	11.1%	13.1%	$39,359	49.8%	50.2%	100.00%
2002	$21,255	$21,790	7.5%	11.3%	$43,045	50.6%	49.4%	100.00%
2003	$21,975	$23,137	3.4%	6.2%	$45,112	51.3%	48.7%	100.00%
2004	$23,026	$25,353	4.8%	9.6%	$48,379	52.4%	47.6%	100.00%
2005	$24,424	$27,494	6.1%	8.4%	$51,918	53.0%	47.0%	100.00%
2006	$25,594	$29,169	4.8%	6.1%	$54,763	53.3%	46.7%	100.00%
2007	$25,789	$28,842	0.8%	-1.1%	$54,631	52.8%	47.2%	100.00%
2008	$26,724	$31,891	3.6%	10.6%	$58,615	54.4%	45.6%	100.00%

Data is from the June 30, 2008 Actuarial Audit

NCCI Data

	% Medical Costs	% Indemnity Costs
1997	53.0%	47.0%
2007	59.0%	41.0%

Chart Title: Ohio Bureau of Workers' Compensation Average Indemnity Cost per Lost-Time claim and Percentage Change/ NCCI Average Indemnity Cost per Lost-Time claim and Percentage Change

Description and Conclusions:
This bar chart shows a seven year history and percent change in the average indemnity cost per lost-time claim for the BWC and the NCCI subscribers. The percent at the top of each bar is the percentage change in the cost from the year before. Each bar represents the average ultimate indemnity dollar cost by injury year. The BWC is following a similar trend as the industry. The BWC's average ultimate indemnity cost per claim is higher overall.

Source of Data:
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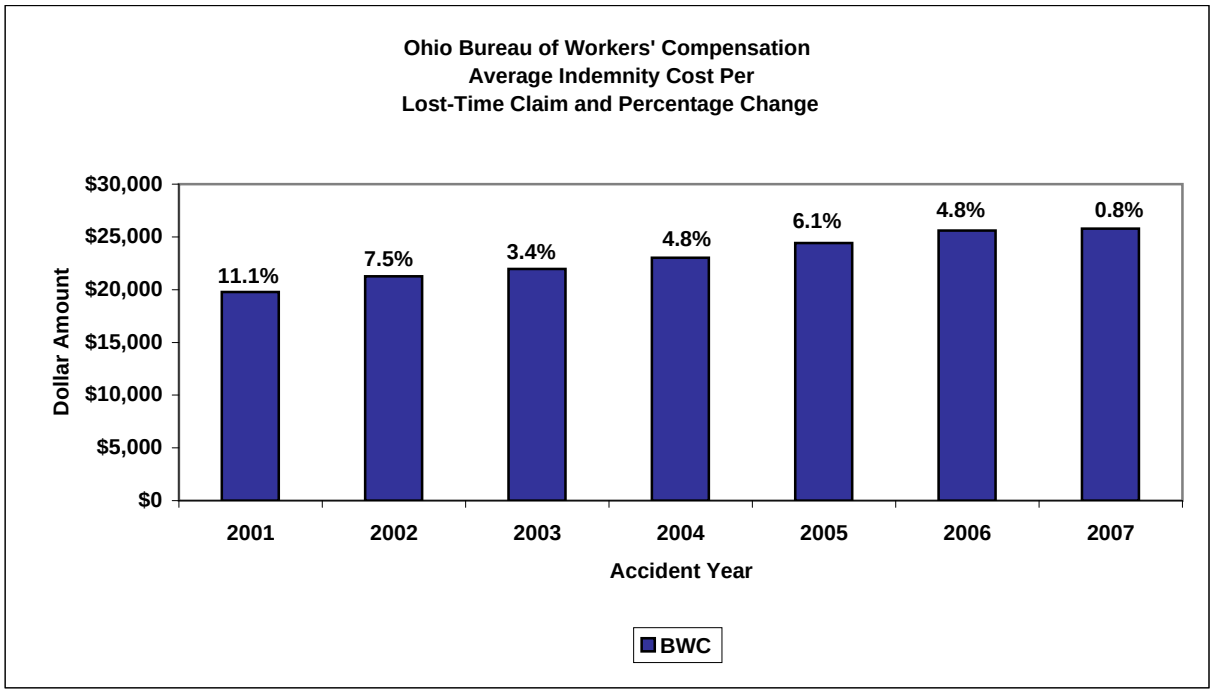

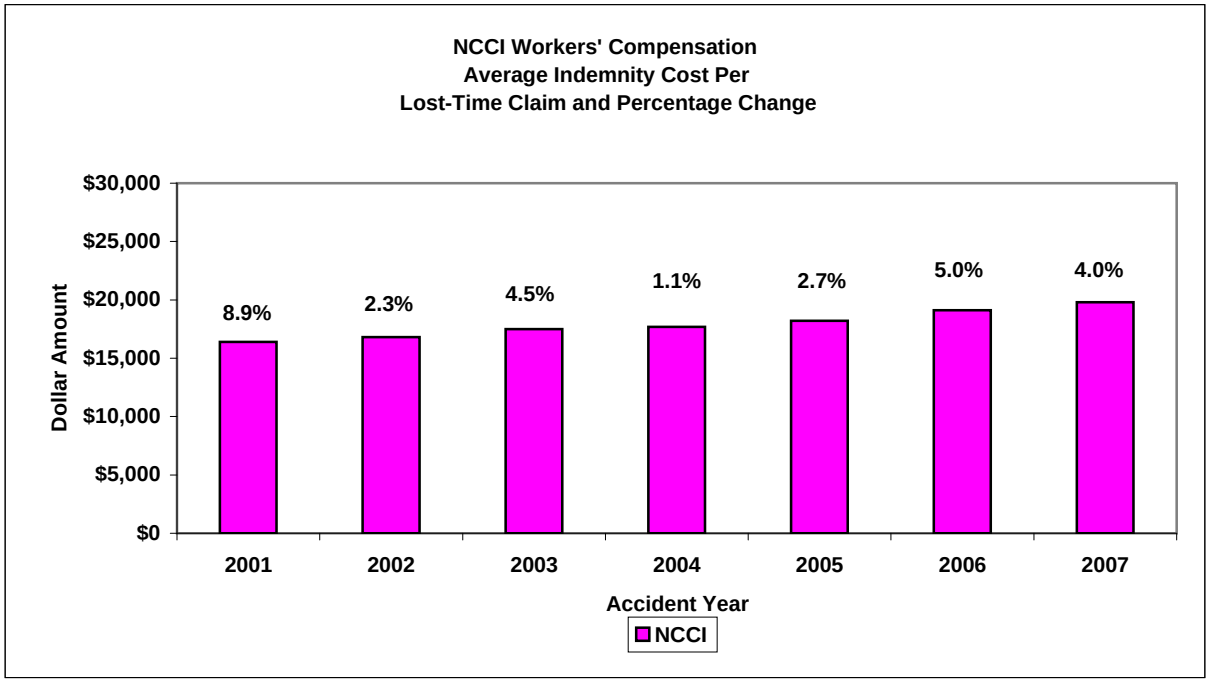

NCCI data from the NCCI Annual Issues Symposium 2008, Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary
BWC data from the June 30, 2008 Actuarial Audit, Oliver Wyman, Actuarial Consultants

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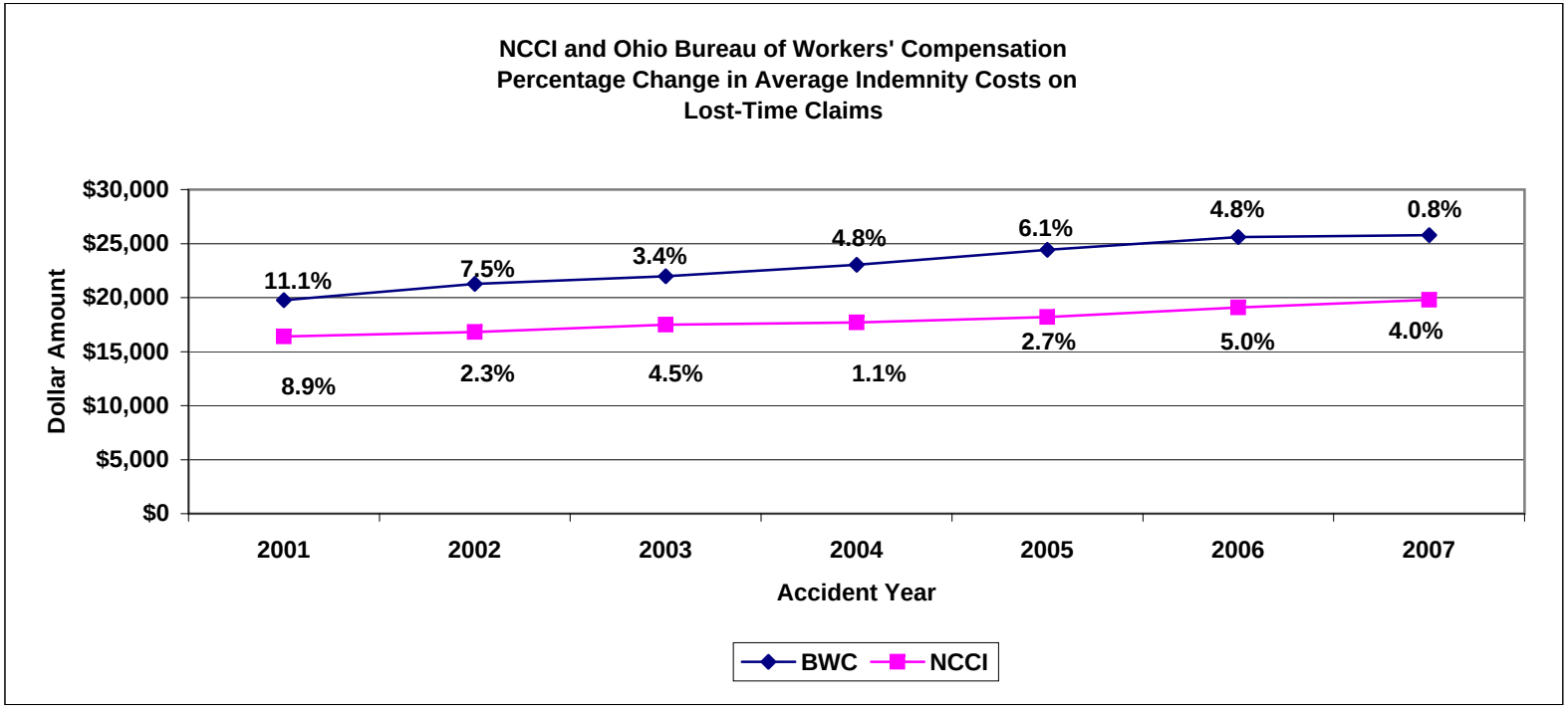

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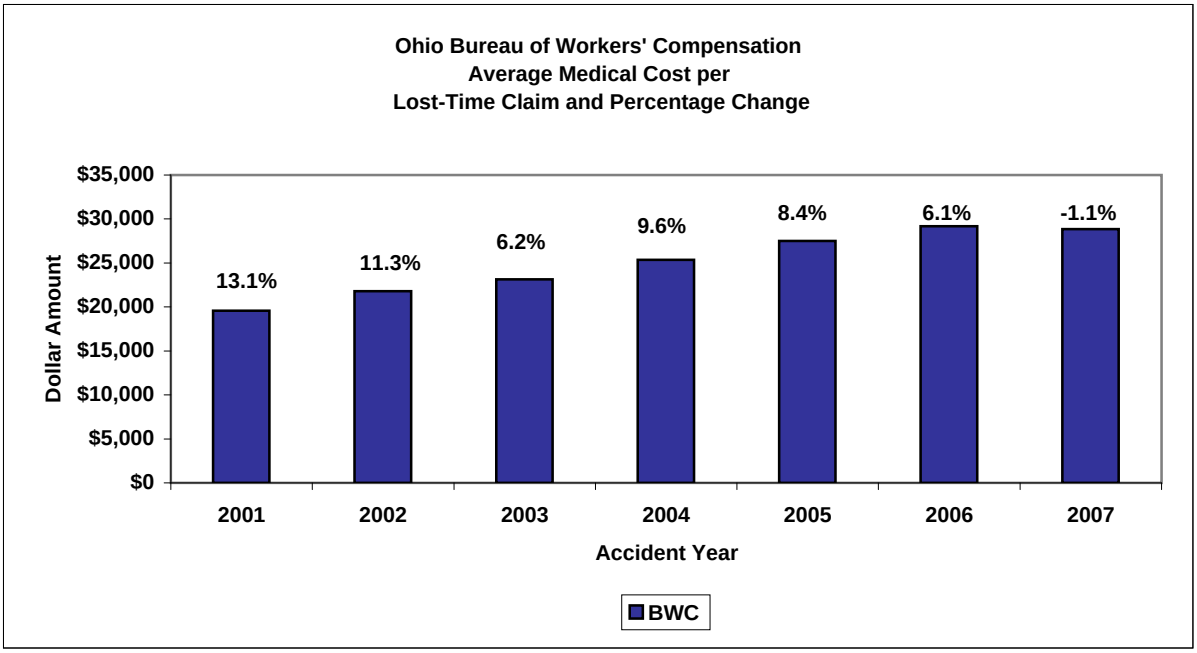

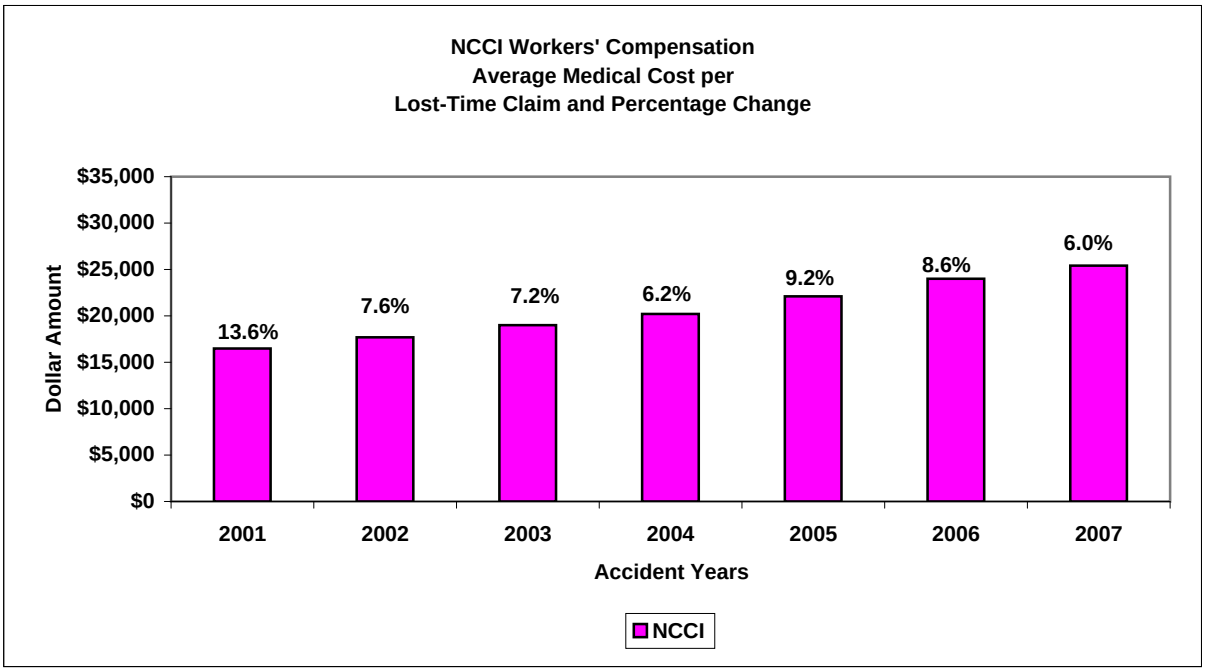

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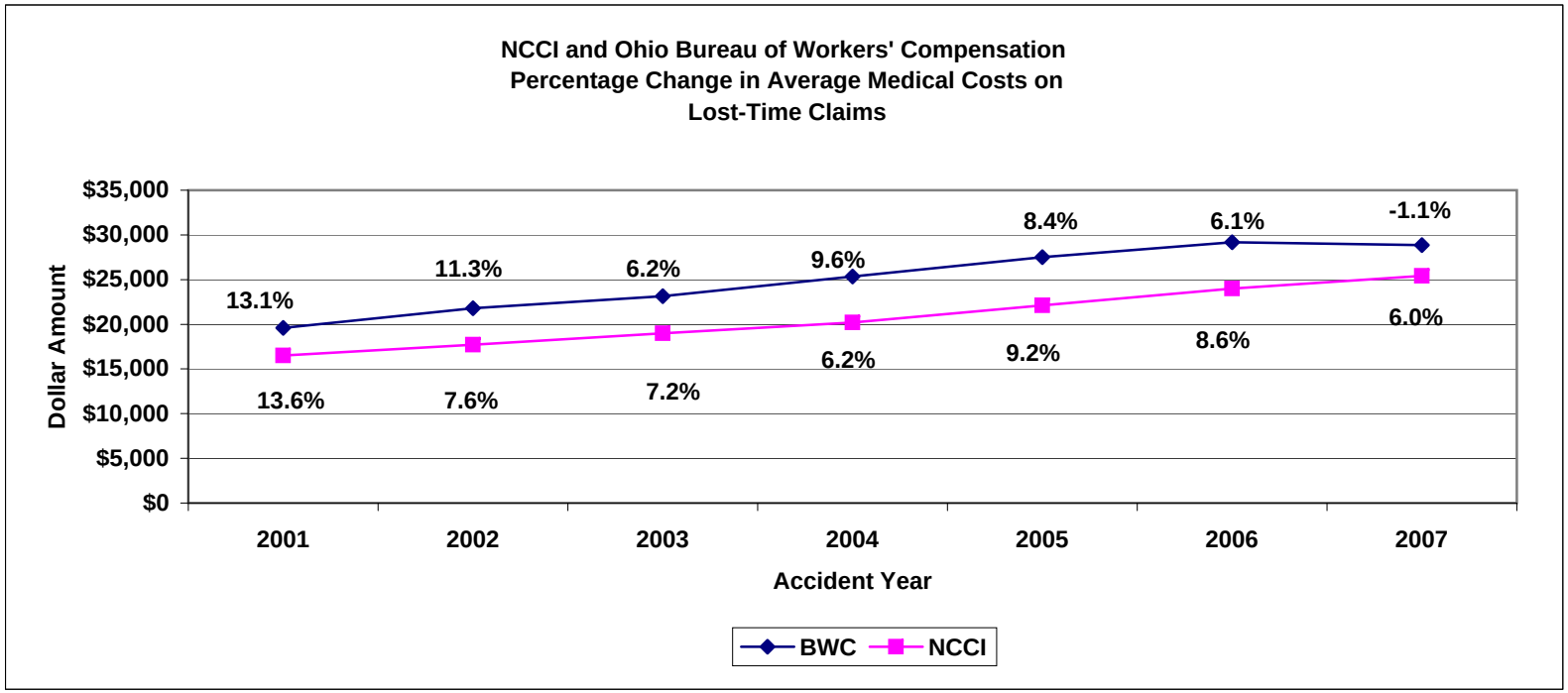

NCCI data from the NCCI Annual Issues Symposium 2008, Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary

BWC data from the June 30, 2008 Actuarial Audit, Oliver Wyman, Actuarial Consultants

Benefit Payment Reports

The following charts and data are from the Actuarial Section's "Actual versus Expected Payment Reports". This information is gathered monthly, quarterly and annually. The expected payments are projections from the Actuarial Consultant based upon the past payment trends and other information from the actuarial audit. The actual payments are from the BWC's "P30" file, which is a file created from all the payment sources at the BWC.

The following table is information that has been gathered and provided in past quarterly or annual reports. This is not a complete history of events at the BWC, but is a list of the events that have impacted the flow of benefit payments.

Date and Quarter	Event	Description
October 11, 1996 Fiscal Year Quarter: 2-97	Claim conversion to New V3 claim system	All COLA claims were converted to V3 beginning October 11, 1996. The conversion took place in phases. A total of 4 million active claims were converted. This conversion created an additional pension payment that was not routine and is reflected on indemnity payment graphs during the 4-96 quarter.
January 1997 through March 1997 Quarter: 2-97	HPP Information Effect	The average number of bills received prior to implementation of HPP was approximately 210,000 bills per month. The information about the impending HPP program caused an upsurge of bills to be submitted to the BWC by medical providers. The number of bills submitted increased by about 10% above typical in January and by roughly 25% in February and March of 1997.
March 1, 1997 Quarter: 1-97	Pharmacy Benefits Manager	A contract with RxNet Inc. was signed for them to serve as the Pharmacy Benefits Manager and online pharmacy bill adjudication system. RxNet became the single processor of all drug bills. There was no phase-in of this change.
March 1, 1997 Quarter: 1-97	Alpha Claims	MCO's began to accept the processing of "Alpha Claims" which are the new claims filed as of March 1, 1997.

Date and Quarter	Event	Description
March 1997 through June 1997 Quarter: 3-97 and 4-97 (impact first shown)	Transition Period	During this time, the BWC was continuing to pay bills that had been submitted to the BWC prior to the inception of HPP and bills on non-Alpha claims. At the same time, MCO's were beginning to manage Alpha claims. The number of bills submitted to the BWC from the MCO's amounted to approximately 25,000. The expected number of bills as estimated by the Medical Division for this period was approximately 90,000. During these quarters, payments dropped as a result of the BWC not receiving medical bills from MCO's, shown on the "Transition Period".
September 1997 Quarter: 3-97	Beta Claims	MCO's began to manage the Beta claims, those claims with filing dates of October 20, 1993 to March 1, 1997.
December 1997	Gamma Claims	MCO's receive the rest of the claims inventory.
September 1998 and October 1998 Quarter: 3-98 and 4-98	Russell Decision	The Supreme Court of Ohio ruled that injured workers receiving TT compensation are entitled to keep the compensation they received between the time they reached MMI and the IC hearing. The BWC then reviewed all claims that fell under this scenario and issued increased TT payments in September and October 1998.
January 1999 Quarter: 1-99	Rehabilitation Eligibility Rules	The eligibility rules for rehabilitation participation were revised to relax the criteria for participation. There is also a noticeable increase in rehabilitation payments beginning in 1997. This is believed to be a result of the inception of the HPP program and the MCO's use of Rehabilitation as a claims management tool.
April 1999 through May 1999 Quarter: 1-99	Hospital Bill Clean-up Project	This project was initiated to pay outstanding hospital bills with dates of service from 3-1-97 through 8-31-98. As of March 1999, approximately 198 hospitals had submitted 51,547 outstanding bills totaling $40 million dollars.
November and December 2002	PTD / Social Security Disability benefit clean-up	PTD rates on claims in which the injured worker was collecting regular social security benefits were not being paid at the appropriate rate. PTD claimants receiving social security disability benefits have a reduced PTD benefit rate. Apparently, this reduction was being systematically applied to all PTD claimants receiving any kind of social security benefit. The claims department

Date and Quarter	Event	Description
		corrected this situation by reviewing claims that fell into this situation and adjusted the benefit rate and made reimbursement payments for back pay entitled. The impact to the payment reports was a slight increase in PTD benefits during the months of November and December 2002.
May 2004	Death conversion clean up	Death payments increased over the expected due to the death payment clean up that occurred in the months of March, April and May 2004. In the May 2004 report, death payments are approximately $2.3 M above expected. All death claims were reviewed as a part of a V3 death payment enhancement project that took place this year. The statistics compiled by the clean up team indicate that there were approximately $13.9 million in payments identified as being underpaid and payments were made (where possible) as was evidenced in the actual vs. expected payment reports. The clean up statistics also indicate that the BWC overpaid death payments by $8 million. This information has been provided to the auditors to ensure that the future forecasts used in the actuarial and financial audits are not impacted by this aberration in payments.
May 2005	LSS Initiative	"Proactive settlement" project to settle claims as soon as they have a RTW date. Project was piloted in Cleveland and Canton from Feb 2005 thru May 2005. In May 2005, the project became a statewide initiative.
July 2005	Pharmacy Benefit decreases	There are two factors that have been identified by the BWC that have caused the pharmacy benefits to have a 20% decrease for the 1st and 2nd quarters. First, the reimbursement rate policy was changed on July 10th, 2005. It is referred to as the "Preferred Drug Program", and it provides for an expanded generic drug pricing methodology. This change allowed for more drugs to have a maximum allowable price. Prior to the change, only 489 drugs from a federal list had a maximum allowable price. The change resulted in using a proprietary list that includes 1,426 drugs. Secondly, the BWC is reimbursing drug costs at a much lower rate on an additional 937 drugs. According to the Injury Management Section's Pharmacy Consultant, this

Date and Quarter	Event	Description
		change accounted for approximately 80% of the decrease in payments.
October 2005	Hospital	BWC instituted a new fee schedule which required inpatient reimbursement at the hospital cost –to-charge ration (CCR) plus 12% and capped at 60% maximum and outpatient reimbursement at hospital CCR plus 16% capped at 50%.
July 2006	PTD Reserves	Per Law Section, the Stevens vs. Industrial Commission override the Price Supreme court decision.
August 2006	PTD LSS	67 claims settled. $6 million total payout, $90,228 average cost per claim $4.5 million in removed MIRA reserves on settled claims.
2006	%PP	%PP awards have steadily increased from 37,853 in FY 2002 to 39,730 in FY 2005, a 5% change. More significantly the %PP awards in excess of $10,000 per injured worker award have increased from 265 awards in 2002 up to 534 awards in 2006 more than doubling. The actual dollar increases of the over $10,000 award group are from $3.3 M in 2002 to $6.9 in 2006, a 109% increase.
January 2007	Hospital	On January 1, 2007 BWC implemented the Diagnosis Related Group payment methodology. This may have resulted in an increased reduction in medical costs.
May 2007	LSA	Attorney fees and expenses were increased from $8,500 ($8,000 fees and $500 expenses) to 11,000 ($10,000 fees and $1,000 expenses) on 5/2/2007. Also, in December, 2004 BWC provided various options for paying back the advancement instead of reducing the rate for the life of the claim, although that is still an option. The IW can opt to pay back in 5, 10, 20 years or life of claim reduction. More applications may be filed for LSA due to flexibility in pay back options.

Date and Quarter	Event	Description
Fiscal Year 2007	LSS	The focus has been on the closing of the long tail, high dollar claims. BWC continues this focus, with the addition of the C-92 filings. These are claims which are mainly inactive; however, activate with the filing of a C92 (PP) application and potential unknown liability is now relevant. BWC streamlined the work flows, gave authority for settlements to the Legal Department, and have worked hand in hand with the claimant attorneys to fulfill this goal. The new philosophy is utilized with all C240 submissions. BWC is well on it's way to settling triple the numbers in relation to pre pursuit of settlement results.
Fiscal Year 2007	TT, TP, WL	The TT, TP and WL reductions could be due to the increase in Settlements and it could also be because BWC implemented the Disability Management IME (DM IME) policy in early 2006. The DM IME claims management strategy is to facilitate the earliest possible safe return to work and to ensure appropriate and timely medical treatment.
March 2008	Hospital	Settlement of the Ohio Hospital Association lawsuit in regards to how BWC sets its fee schedules explains the increases in hospital expenditures and medical paid in medical only claims.
Fiscal Year 2008	PP	Senate Bill 7 was passed in fiscal year 2007. It reduced the 40 week waiting period for filing of an application for PP to 26 weeks. While this may have led to an earlier awarding of benefits in the claim development and an increase in payments, the trend may be leveling off now. The number of payments has decreased about 4% from fiscal year 2007 to fiscal year 2008.
Fiscal Year 2008	%PP	This reduction may be due to the "fast track" settlement process wherein BWC attempted to settle claims when a %PP award was requested in a claim; so BWC settles the claims instead of awarding the %PP.
Fiscal Year 2008	Pharmacy	In FY 08 there were 53 warrants issued to Affiliated Computer Services (ACS) while in FY 07 there were only 52, an increase of approximately $2 million. Additionally, approx. $5.8 million of the increase is directly attributed to the drug OxyContin. Although BWC reimbursed for fewer Rxs for this drug in FY08, the removal of the

Date and Quarter	Event	Description
		generic equivalents of this drug from the market in mid-FY08 caused a major increase in cost for this drug. New drugs on the market that were introduced in FY08 account for approx. $1.2 million in increases as well, with the drug Flector being responsible for approx. $500K of this amount. Price increases and increased utilization of Cymbalta and Lyrica resulted in an increase in cost for these drugs of approx. $1.3 million for Cymbalta and $1.6 million for Lyrica.
Fiscal Year 2008	Health Related Other	There were no changes in reimbursement so this most likely reflects increased utilization. There is a trend towards shortened hospital length of stays (cost containment measure), which may have resulted in the increase in home healthcare services paid by BWC. Home healthcare services increased by $2.4 million dollars over the previous year, which most likely accounts for a significant portion of the increased costs in this category.

Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Temporary Total and Living Maintenance; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total Temporary Total (TT) and Living Maintenance (LM) benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Benefit Description:
TT compensation is provided to compensate an injured worker who is totally disabled from work on a temporary basis or a short period of time due to the work related injury or occupational disease. TT is generally the initial award of compensation paid to an injured worker to compensate for lost wages.

LM is a type of compensation paid to an injured worker while he/she is actively participating in an approved rehabilitation plan.

Notable Events/Information:
The decrease in payments from fiscal year 2005 to fiscal year 2008 is likely due to the Settlement programs that BWC has implemented during that time period and it could also be because BWC implemented the Disability Management IME (DM IME) policy in early 2006. The DM IME claims management strategy is to facilitate the earliest possible safe return to work and to ensure appropriate and timely medical treatment.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

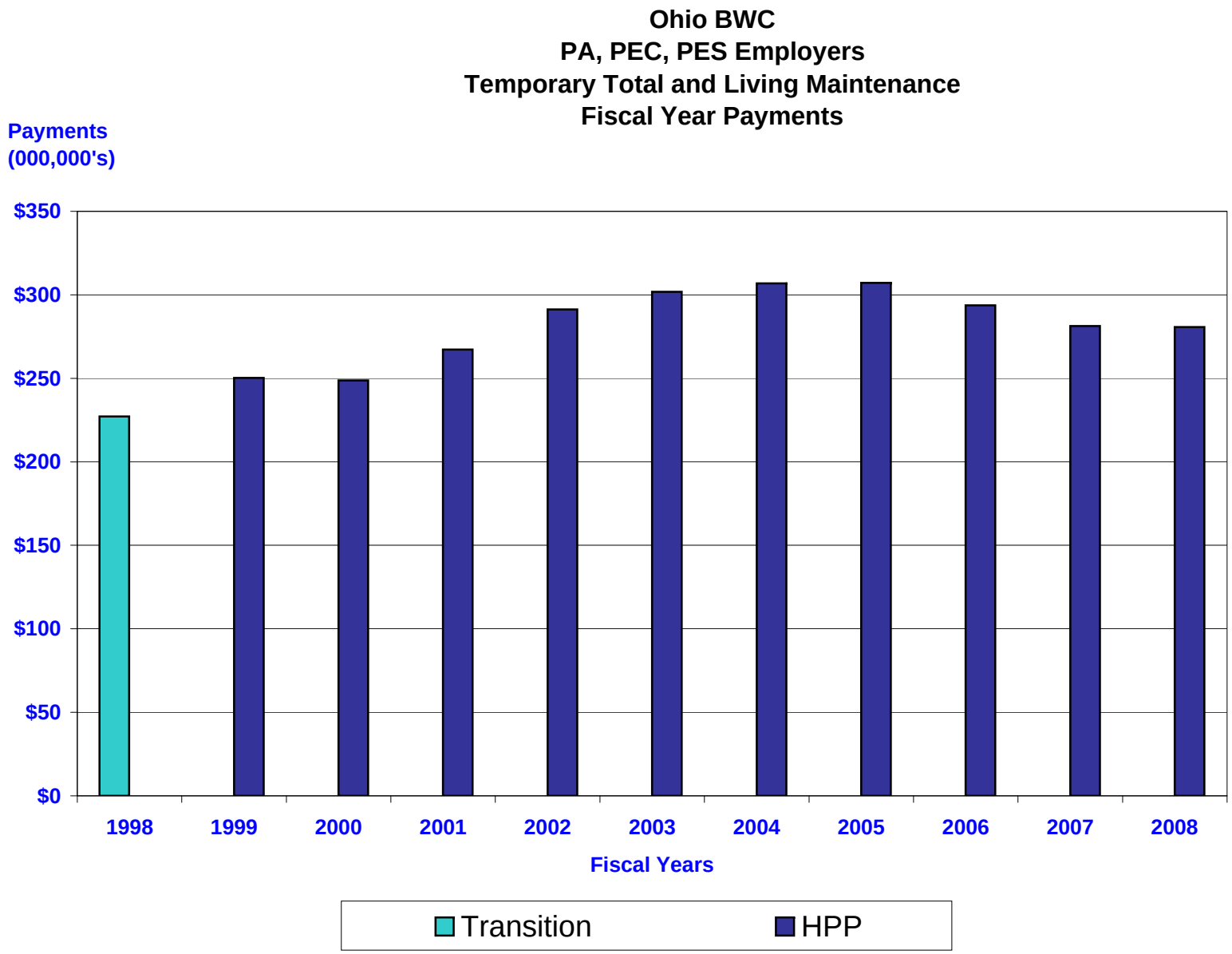

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Permanent Total Disability and Lump Sum Advancements; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Permanent Total Disability and Lump Sum Advancements benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

The increase of approximately $15 million between fiscal year 2004 and 2005 is attributable to an increase in both the PTD and the LSA benefits. An increase in PTD benefits of approximately $11 million is due to both an extra benefit payment of approximately $5.3 million and an increase in the average payment amount, which resulted in an approximately $7 million increase in benefits in fiscal year 2005.

The LSA benefits increased approximately $4.3 million between fiscal year 2004 and 2005. The average payment amount increased from $8,837 per LSA payment in fiscal year 2004 to $10,675 per LSA payment in fiscal year 2005. The number of LSA benefits payments increased by 158 payments.

The PTD payments for fiscal year 2006 have decreased by approximately $9M from FY 2005. As shown on the graph, the 2006 payments are similar to 2004 PTD payments with a $4.3M increase between 2004 and 2006.

Attorney fees and expenses were increased from $8,500 ($8,000 fees and $500 expenses) to 11,000 ($10,000 fees and $1,000 expenses) on 5/2/2007. Also, in December, 2004 BWC provided various options for paying back the advancement instead of reducing the rate for the life of the claim, although that is still an option. The IW can opt to pay back in 5, 10, 20 years or life of claim reduction. More applications may be filed for LSA due to flexibility in pay back options.

Benefit Description:
PTD benefits are to compensate the injured worker for permanent impairment of earning capacity. Compensation for PTD is payable for life. When an injured worker applies for permanent total disability, he/she must attend an Industrial Commission examination and hearing to determine if he/she meets the eligibility criteria for this type of compensation.

A Lump Sum Advancement (LSA) is the prepayment of future compensation. Advancement applications will be reviewed for meeting financial relief and rehabilitation purposes only. Advancements may be requested by injured workers or dependents (in case of death) who are currently receiving Permanent Total Disability, Scheduled Loss or Death Benefits.

Other Notable Events:
PTD rates on claims in which the injured worker was collecting regular social security benefits were not at the appropriate level. PTD claimants receiving social security *disability* benefits have a reduced PTD benefit rate. Apparently, this reduction was being systematically applied to all PTD claimants receiving any kind of social security benefit. The claims department has corrected this by reviewing claims that fall into this situation and adjusting the benefit rate and making reimbursement payments for back pay entitled. The impact to the payment reports was a slight increase in PTD benefits during the months of November and December 2002.

The Price Supreme Court Decision: This decision found that the PTD benefit rate that was based upon the injured workers' average weekly wage at the time of the injury was not appropriate for those injured workers who may have returned to work for a period of time before becoming PTD and where the injured workers' pay had increased substantially over the pay at the time of the injury.

On July 19, 2006 the Price Supreme Court Decision was overruled. The Supreme Court decision held that the original AWW rate established in a claim should not be adjusted.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Permanent Total Disability and Lump Sum Advancements
Fiscal Year Payments

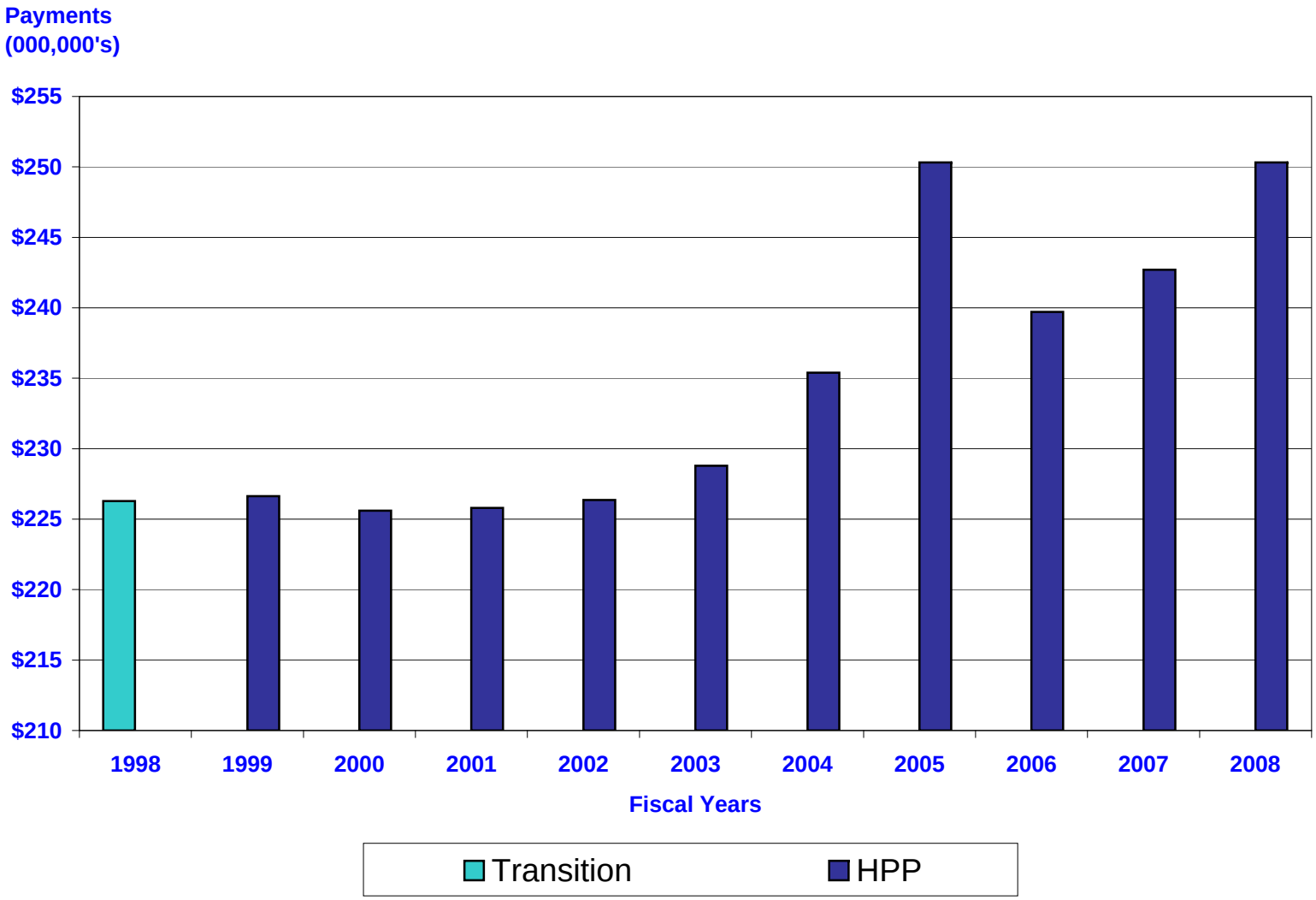

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Death; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total Death benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Benefit Description:
A death claim is filed by the dependents of an injured worker (IW) who died as a result of an industrial accident or occupational disease. Dependent death benefits will be based on the level of dependency or support each dependent had while the worker was living. Death benefits can be divided into two categories. The first is when death results instantaneously as a result of an injury. The second is when death is not an instantaneous but a proximate result of an injury or occupational disease.

Notable Events/Information:
From the May 2004 report, Death payments are about $2.3 M above expected. As a part of the death payments conversion to allow EFT payments, a "clean-up" of death payments occurred.

Death payments increased over the expected due to the death payment clean up that occurred in the months of March, April and May 2004. All death claims were reviewed as a part of a V3 death payment enhancement project that took place in 2004. The statistics compiled by the clean up team indicate that there were approximately $13.9 million in payments identified as being underpaid, and payments were made (where possible) as was evidenced in the actual vs. expected payment reports. The clean up statistics also indicate that the BWC overpaid death payments by $8 million. This information has been provided to the auditors to ensure that the future forecasts used in the actuarial and financial audits are not impacted by this aberration in payments.

Death payments have decreased from FY 2005 to FY 2006 by 3%. Death claim counts have decreased by 297 claims. The 2006 Actuarial Audit indicated lower actual payments then were expected.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

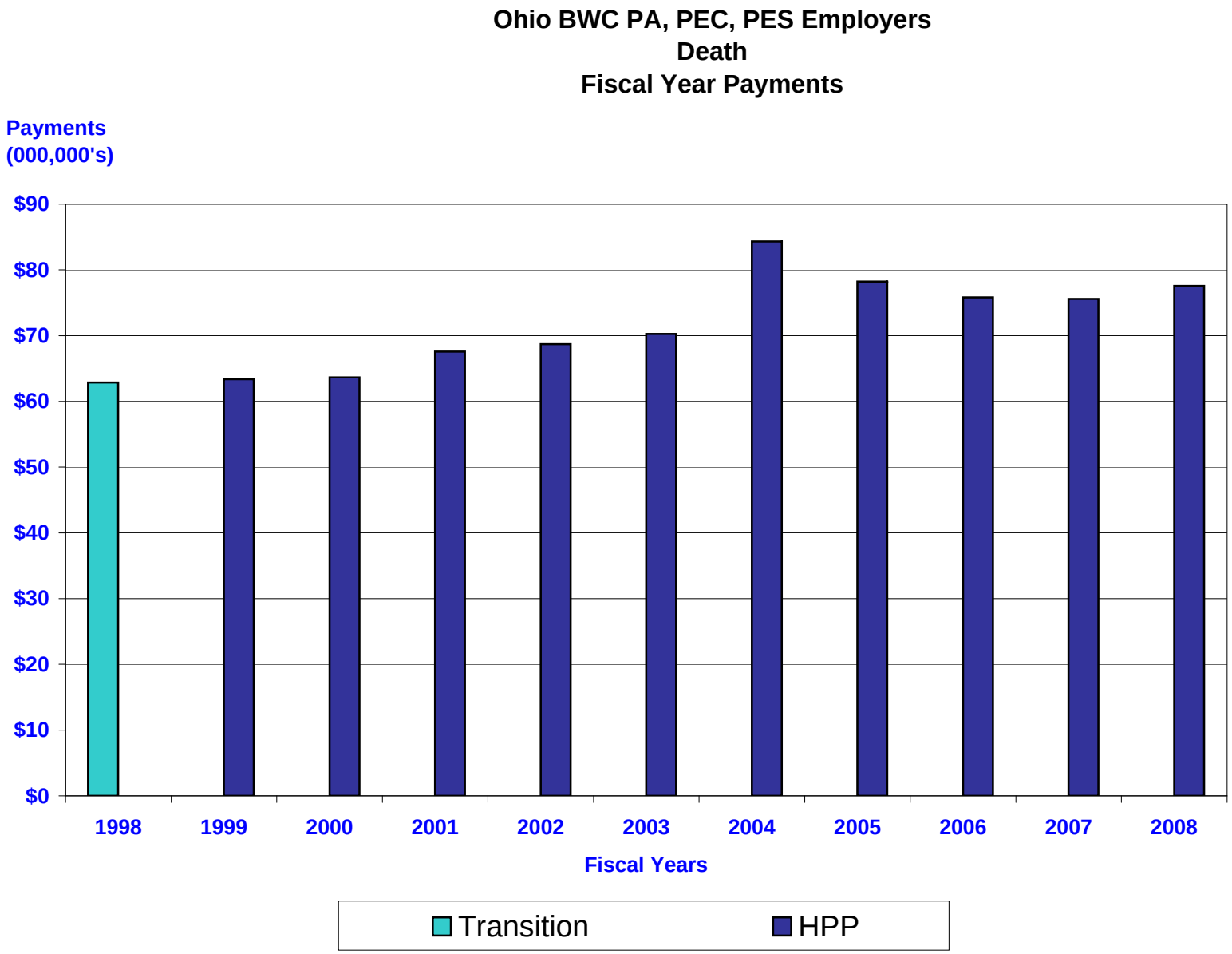

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Percent Permanent Partial; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total Percent Permanent Partial benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Benefit Description:
A certain amount of permanent damage (called residual damage) may remain as a result of the injury. %PP is compensation awarded for residual impairment resulting from an allowed injury or occupational disease The permanent impairment may be physical, psychological or psychiatric.

Notable Events/Information:
Payments for %PP benefits decreased approximately $7.5 million from fiscal year 2007 to 2008. This reduction is likely due to the "fast track" settlement process wherein BWC attempted to settle claims when a %PP award was requested in a claim; so BWC settled the claims instead of awarding the %PP.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

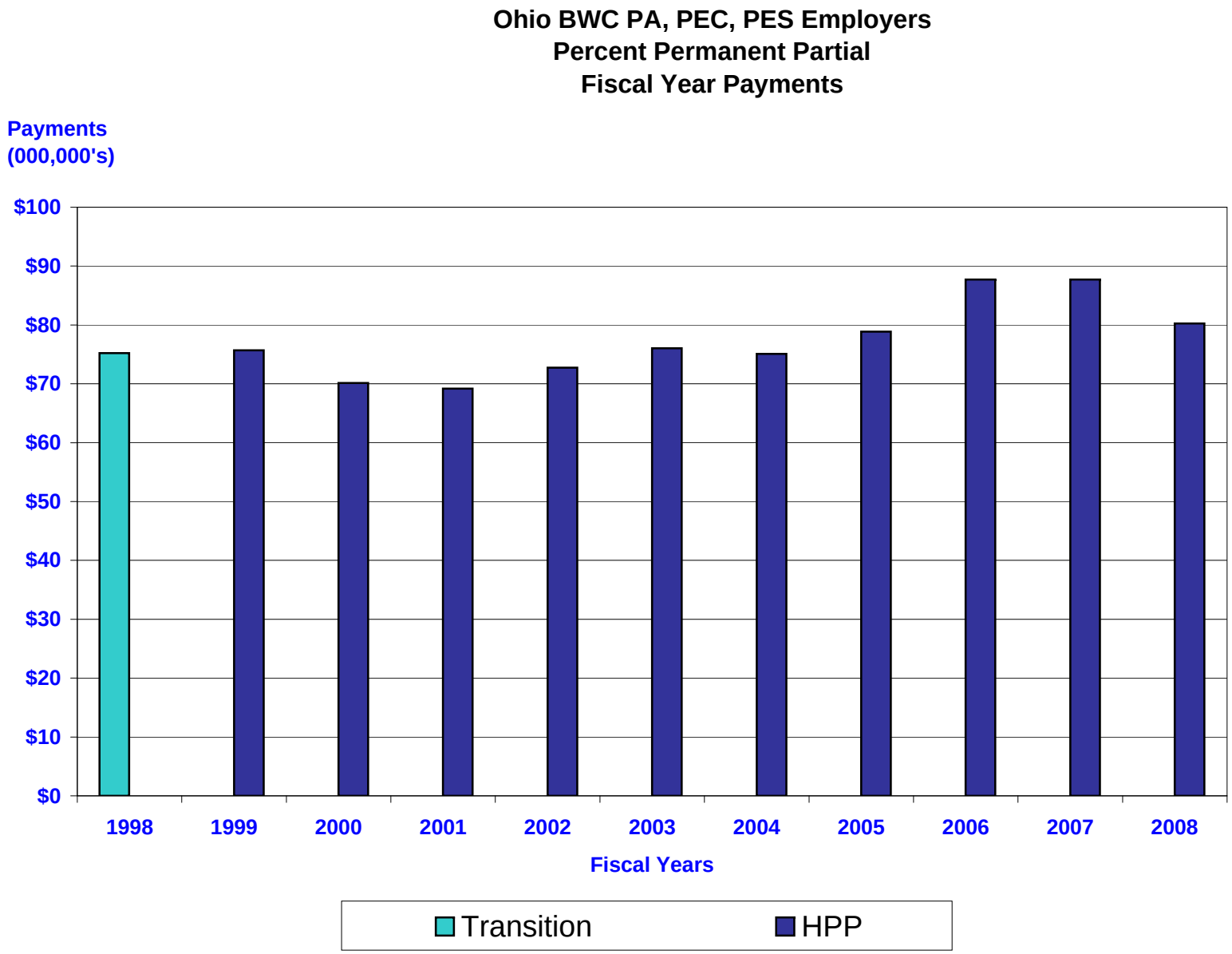

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Permanent Partial; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Permanent Partial benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Benefit Description:
A certain amount of permanent damage (called residual damage) may remain as a result of the injury. A scheduled loss (formerly known as a permanent partial) award encompasses amputations and loss of use, including vision and hearing. A scheduled loss award is based on the loss suffered by the injured worker prior to treatment, not on the injured worker's condition after treatment. A Facial Disfigurement Award (FD) is a one-time award granted for visible damage to the face or head with the potential to impair the injured worker's ability to secure or retain employment.

Notable Events/Information:
The increase of approximately $2 million between fiscal year 2004 and 2005 is an extra benefit payment of approximately $2.6 million which was off-set by a decrease in the average payment amount totaling $536,522.

BWC had an unusually high number of IW who were entitled to %PP and PP suddenly dying and the practice of paying accrued benefits to the beneficiaries in a lump sum settlement occurred. This may be the result of an aging workforce with more degenerative types of injuries and an increase of allowance for psychological conditions. PP payments increased 13.6% from FY 2004 to FY 2006.

Senate Bill 7 was passed in fiscal year 2007. It reduced the 40 week waiting period for filing of an application for PP to 26 weeks. While this may have led to an earlier awarding of benefits in the claim development and an increase in payments, the trend may be leveling off now. The number of payments has decreased about 4% from fiscal year 2007 to fiscal year 2008.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

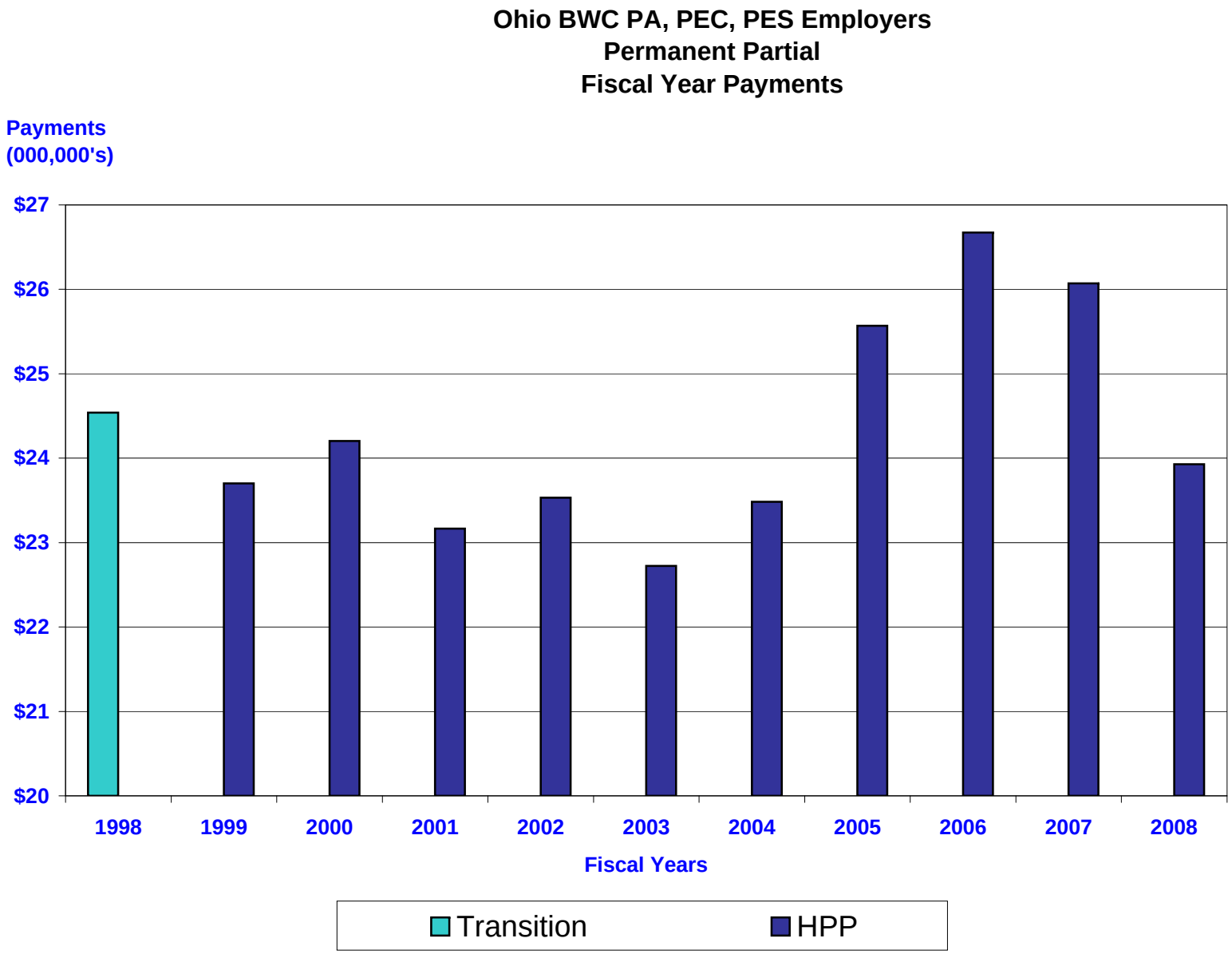

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Temporary Partial, Wage Loss, Living Maintenance Wage Loss and Change of Occupation; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total Temporary Partial, Wage Loss, Living Maintenance Wage Loss and Change of Occupation benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Benefit Description:
Living Maintenance Wage Loss may be paid to an injured worker with a date of injury on or after Aug. 22, 1986. The injured worker must have completed a rehabilitation plan and continues to have physical restrictions and experiences a wage loss upon return to work.

Wage Loss compensation may be paid to an injured worker that suffers a reduction in earnings as a direct result of restrictions from the allowed conditions in the claim. Wage loss is payable in claims with a date of injury or diagnosis on or after Aug. 22, 1986.

Working Wage Loss is payable when the IW returns to employment other than his or her former position of employment. This would include return to work with the employer of record or a new employer with different job duties, fewer hours and less pay resulting from the physical restrictions.

Non-Working Wage Loss is payable when the IW is unable to find suitable employment. In order to qualify for NWWL the injured worker must demonstrate that he/she is making a good faith effort to secure employment within his/her physical restrictions.

Change of Occupation is payable when the IW has contracted silicosis, coal miners pneumoconiosis, or asbestosis, and a change of occupation is medically advisable in order to substantially decrease further exposure to silica dust, asbestos, or coal dust.

Notable Events/Information:
The decrease in payments from fiscal year 2005 to fiscal year 2008 is likely due to the Settlement programs that BWC has implemented during that time period and it could also be because BWC implemented the Disability Management IME (DM IME) policy in early 2006. The DM IME claims management strategy is to facilitate the earliest possible safe return to work and to ensure appropriate and timely medical treatment.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Temporary Partial, Wage Loss, Living Maintenance Wage Loss and Change of Occupation
Fiscal Year Payments

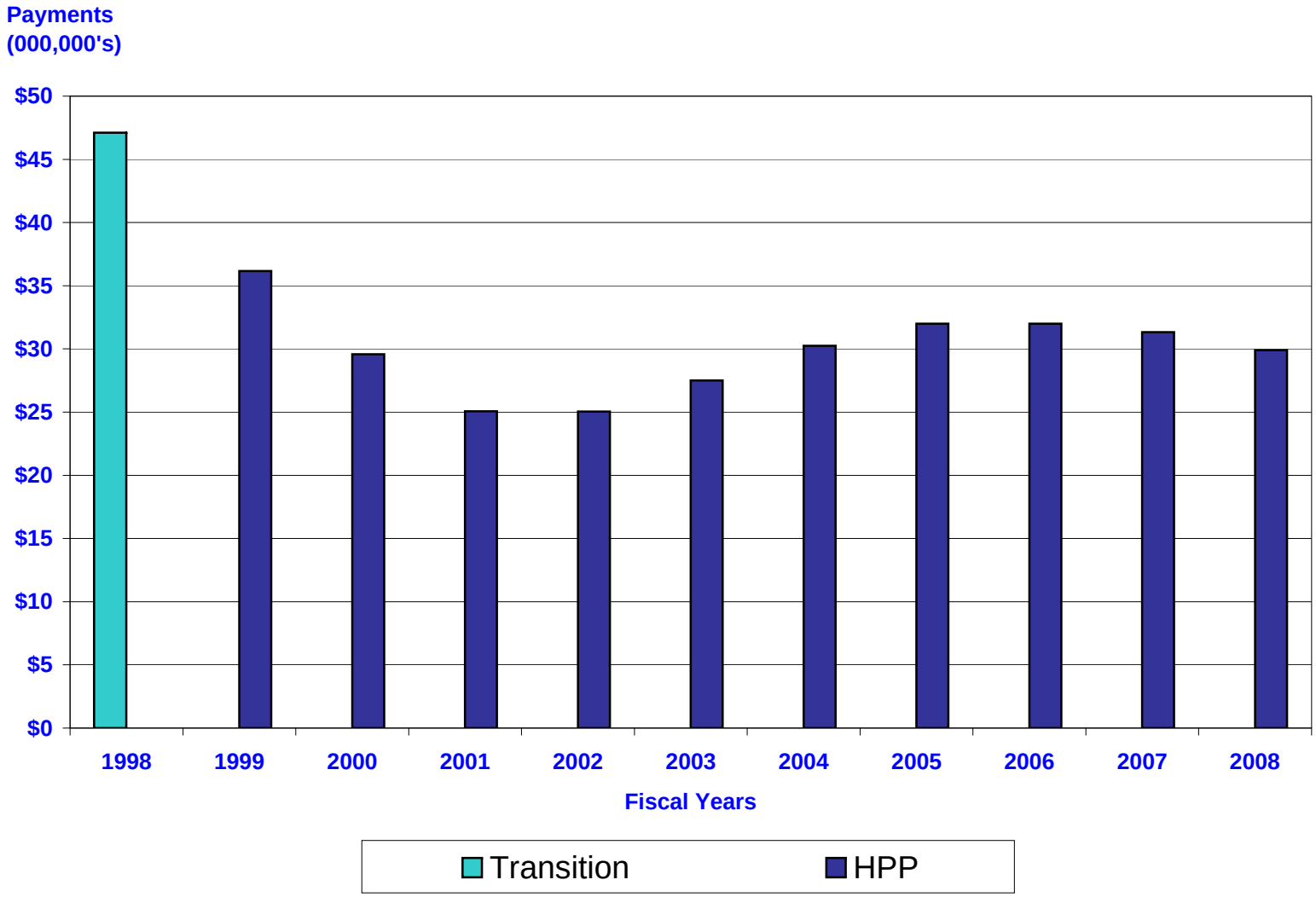

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Lump Sum Settlement; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total Lump Sum Settlement benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Benefit Description:
A lump sum settlement is a negotiated amount between the injured worker, the employer and the BWC to close a claim.

Notable Events/Information:
The steady increase in lump sum settlements over the last four fiscal years is due to various lump sum settlement initiatives that have been instituted at BWC in order to reduce BWC's future claim liability. One initiative was to target PTD and Death claims; another was to target claims that had a return to work date. Both initiatives were implemented late in fiscal year 2005. A subsequent initiative was implemented in fiscal year 2007. Claims that were mainly inactive, but became active after the filing of an application for %PP benefits, were targeted. Since fiscal year 2004, lump sum settlement payments have increased 149.3%.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

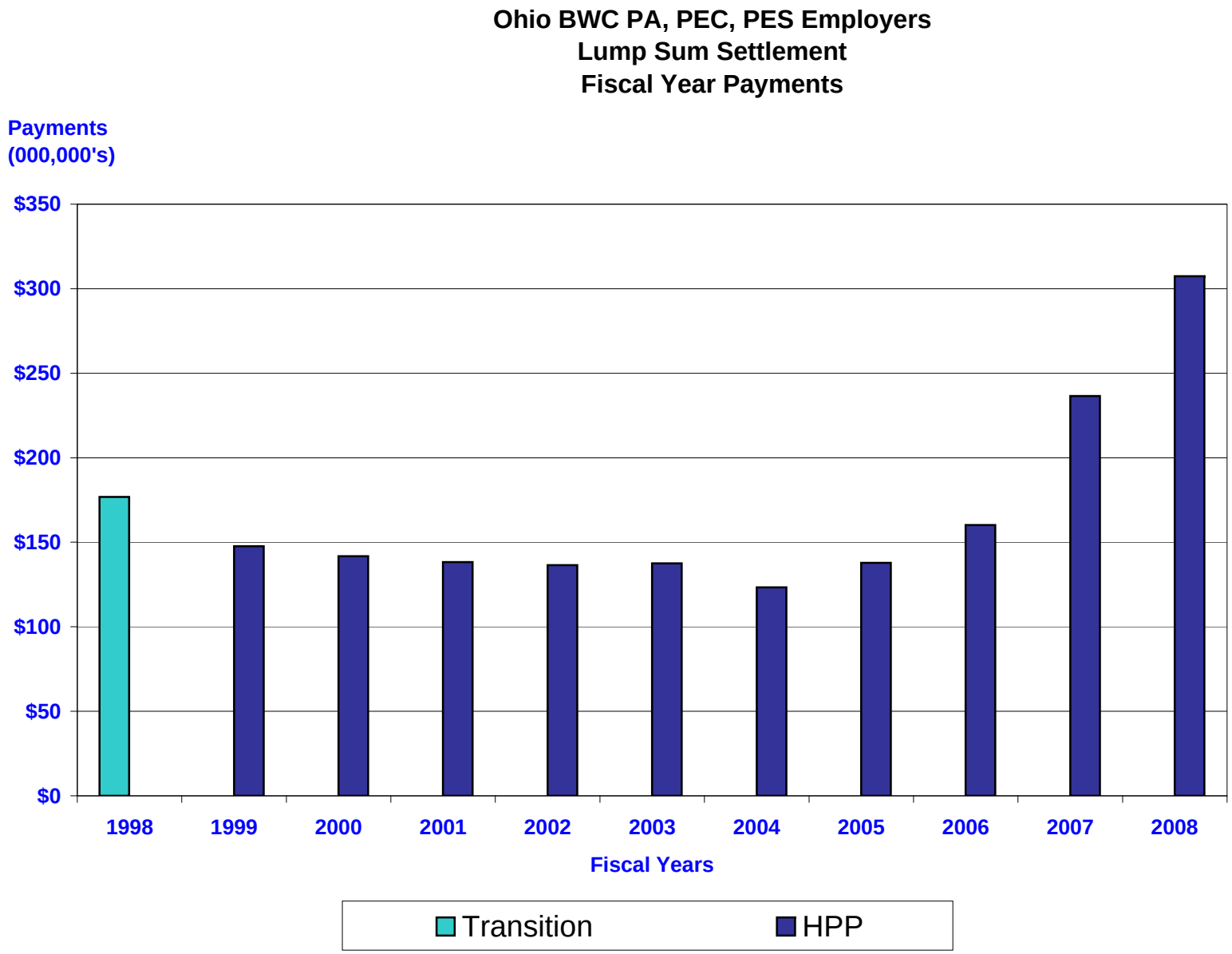

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Indemnity Totals; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total indemnity benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

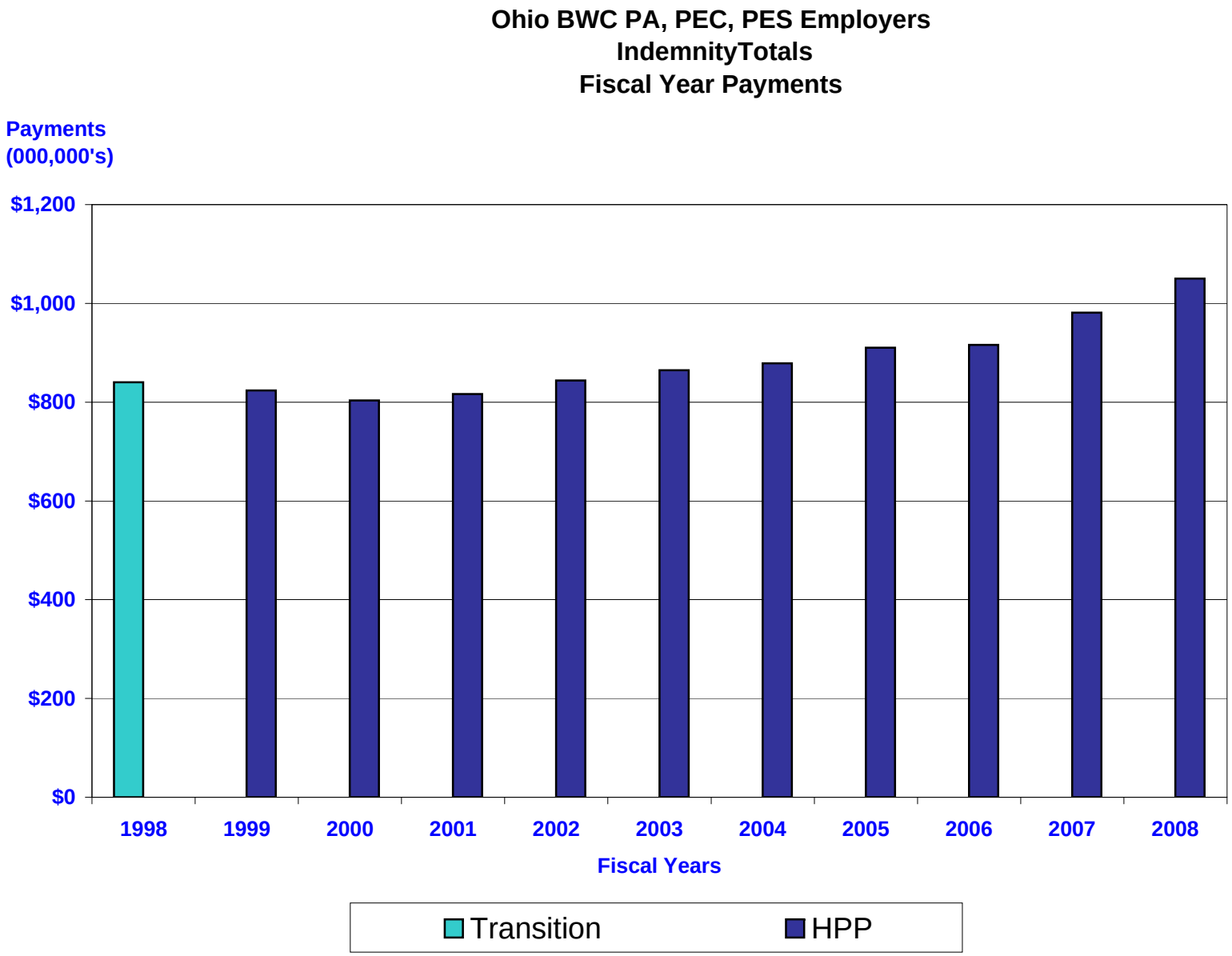

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Hospital; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Hospital benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Notable Events/Information:
Payments have decreased 13.8% from fiscal year 2005 to fiscal year 2007. This decrease is a result of changes to the fee schedules for inpatient and outpatient hospital charges. It is also being caused by a decrease in the number of claims being filed on an annual basis.

Settlement of the Ohio Hospital Association lawsuit in regards to how BWC sets its fee schedules accounts for about $23.7 million of the $26 million increase in hospital expenditures from fiscal year 2007 to fiscal year 2008.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

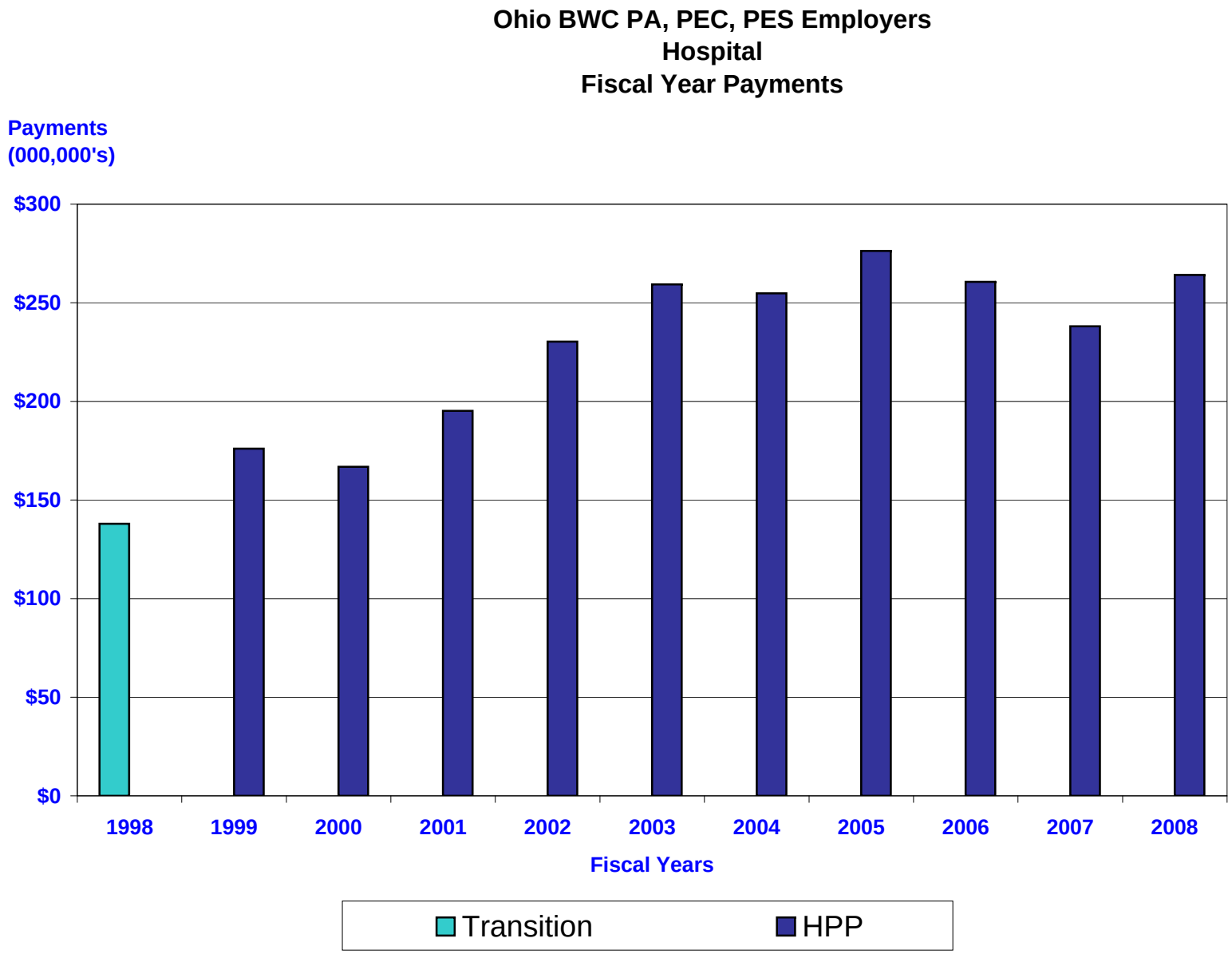

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Physician; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Physician benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008.The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

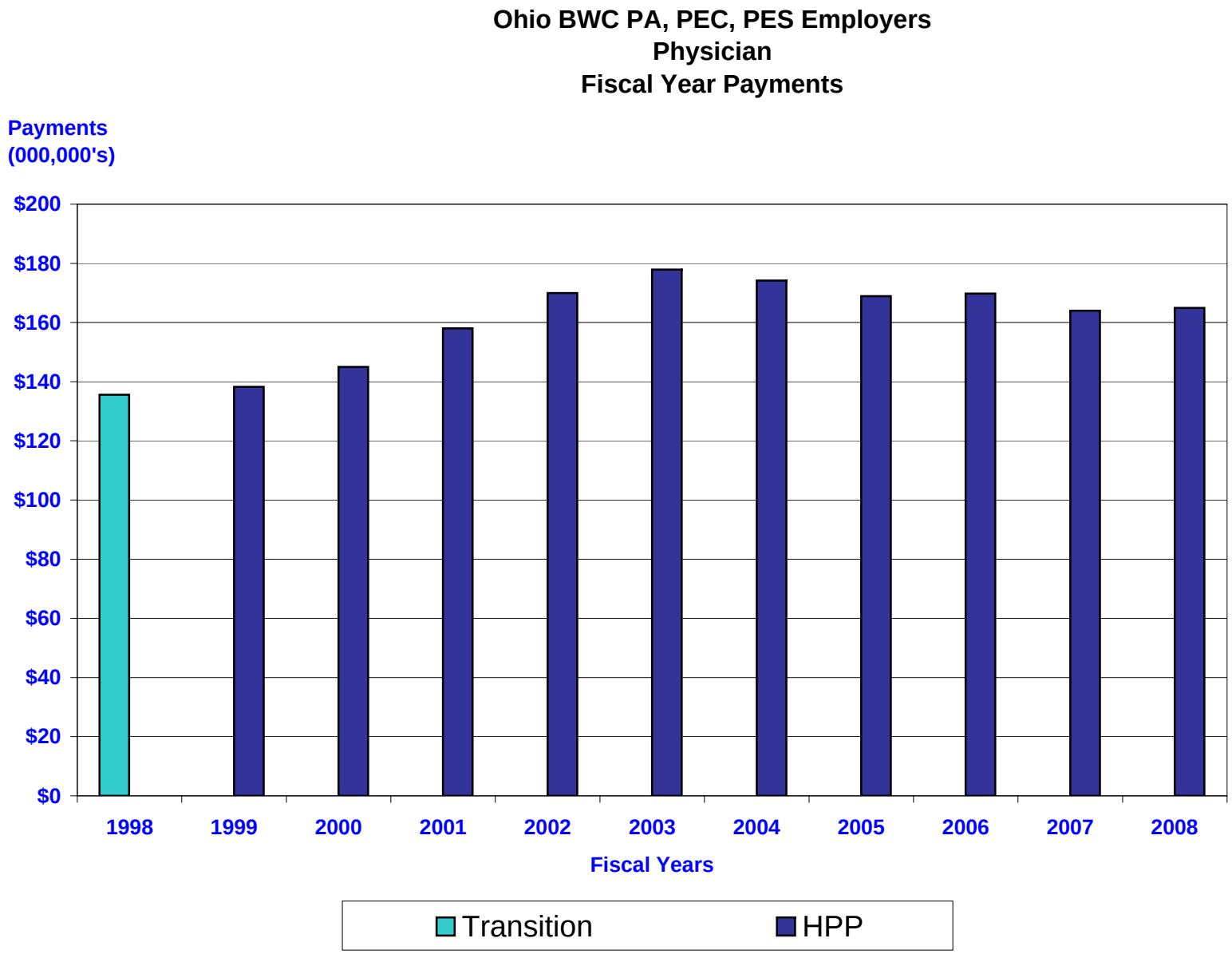

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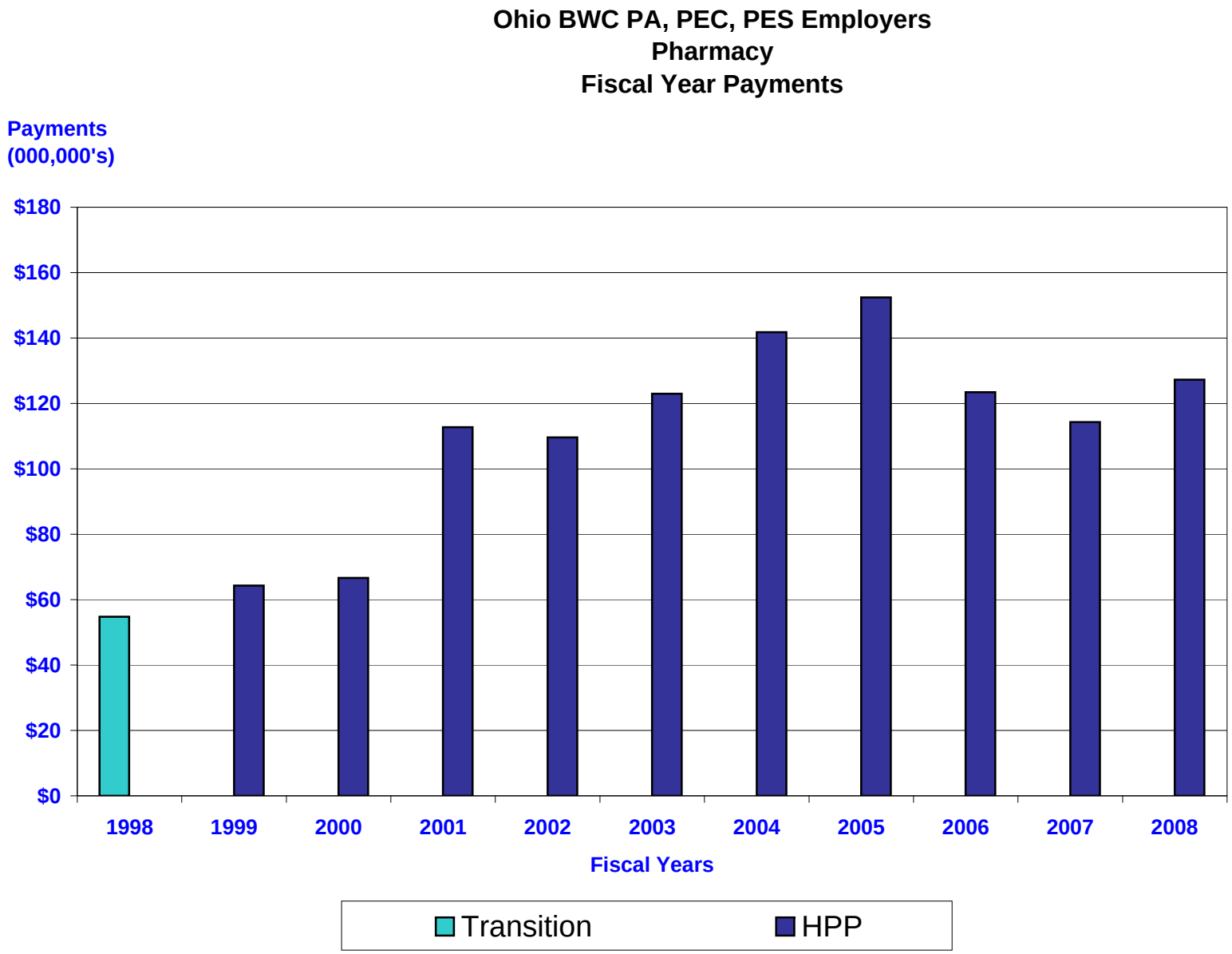
Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Pharmacy; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Pharmacy benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Notable Events/Information:
The BWC began a preferred drug program on 7-10-05 which impacted anti-inflammatory, analgesics and skeletal muscle relaxants. BWC and its PBM (Pharmacy Benefits Manager) also introduced MAC pricing and in December 2005 began a mandatory generic drug policy in which BWC pays only the amount of the generic drug for brand names in which a generic equivalent exists. These changes resulted in approximately $30 million savings in fiscal year 2006 compared to fiscal year 2005.

Payments increased approximately $13 million from fiscal year 2007 to fiscal year 2008. In fiscal year 2008 there were 53 warrants issued to Affiliated Computer Services (ACS) while in fiscal year 2007 there were only 52, an increase of approximately $2 million. Additionally, roughly $5.8 million of the increase is directly attributed to the drug OxyContin. Although BWC reimbursed for fewer Rxs for this drug in fiscal year 2008, the removal of the generic equivalents of this drug from the market in mid-fiscal year 2008 caused a major increase in cost for this drug. New drugs on the market that were introduced in fiscal year 2008 account for approximately $1.2 million in increases as well, with the drug Flector being responsible for almost $500 thousand of this amount. Price increases and increased utilization of Cymbalta and Lyrica resulted in an increase in cost for these drugs of about $1.3 million for Cymbalta and $1.6 million for Lyrica.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.



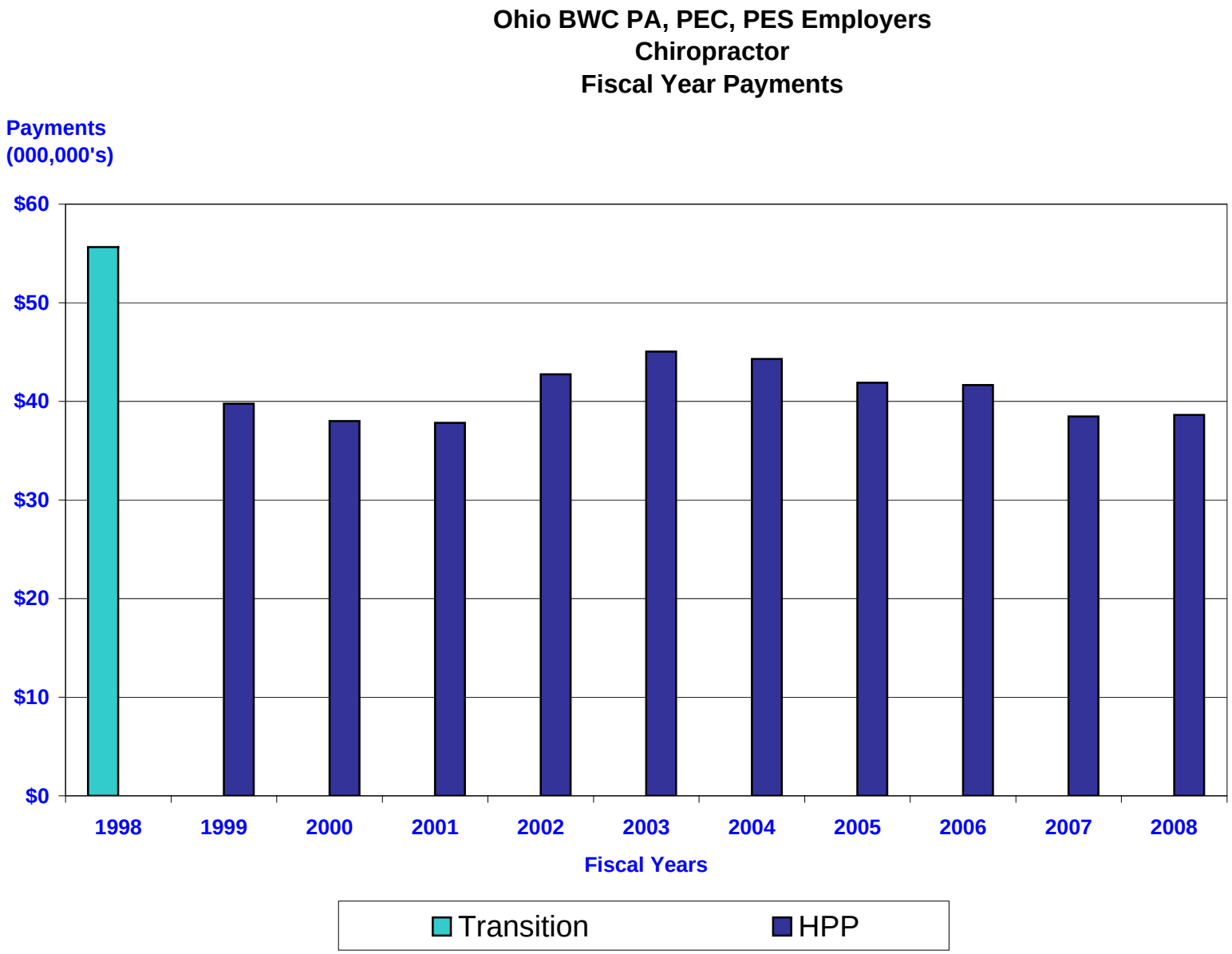
I:\Actuarial_Confidential\Executive Reporting\State of the Line October 2008\Graphs and Data\Rollup by 6 Months for trending of payments FY2008-Medical1

Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Chiropractor; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Chiropractor benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Notable Events/Information:
The Chiropractor payment category decreased at the time of the implementation of the HPP. Prior to HPP, the providers were all re-registered with the BWC and given new provider certification and numbers. There was a policy change to the way the Chiropractors were categorized. A new category, "group practice" was added and many of the Chiropractors were now captured in this category. The "group practice" code is included in the Physician benefit payment bucket.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.



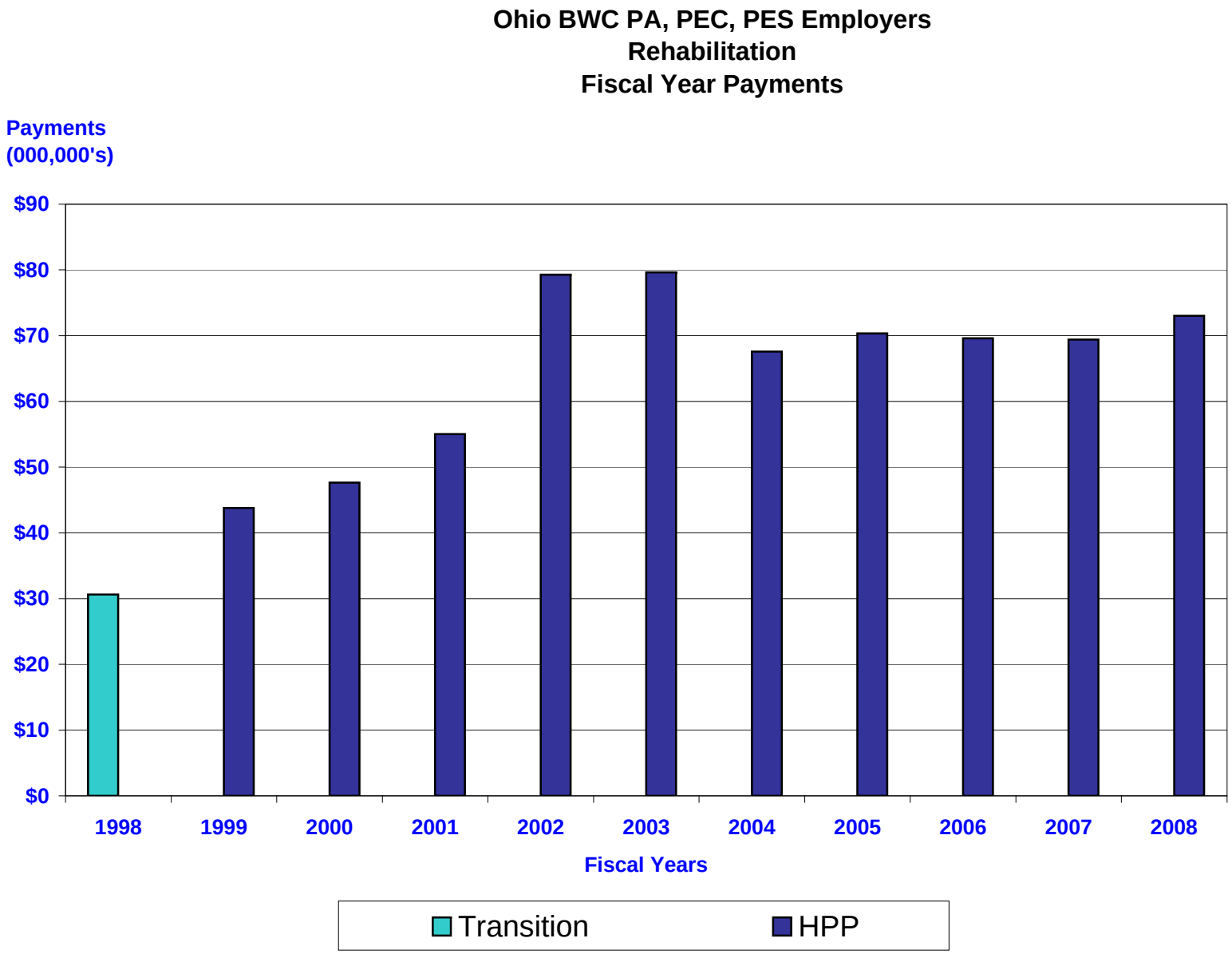
I:\Actuarial_Confidential\Executive Reporting\State of the Line October 2008\Graphs and Data\Rollup by 6 Months for trending of payments FY2008-Medical1

Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Rehabilitation; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Rehabilitation benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Rehabilitation benefits are "charged" to the SIF surplus account. Charges to this account are not included in the individual employer rate calculation and the costs are spread among all employers. This information is widely known and employers are encouraged by their third party administrators and some BWC employees to get their injured workers into rehab as a cost savings measure.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.



I:\Actuarial_Confidential\Executive Reporting\State of the Line October 2008\Graphs and Data\Rollup by 6 Months for trending of payments FY2008-Medical1

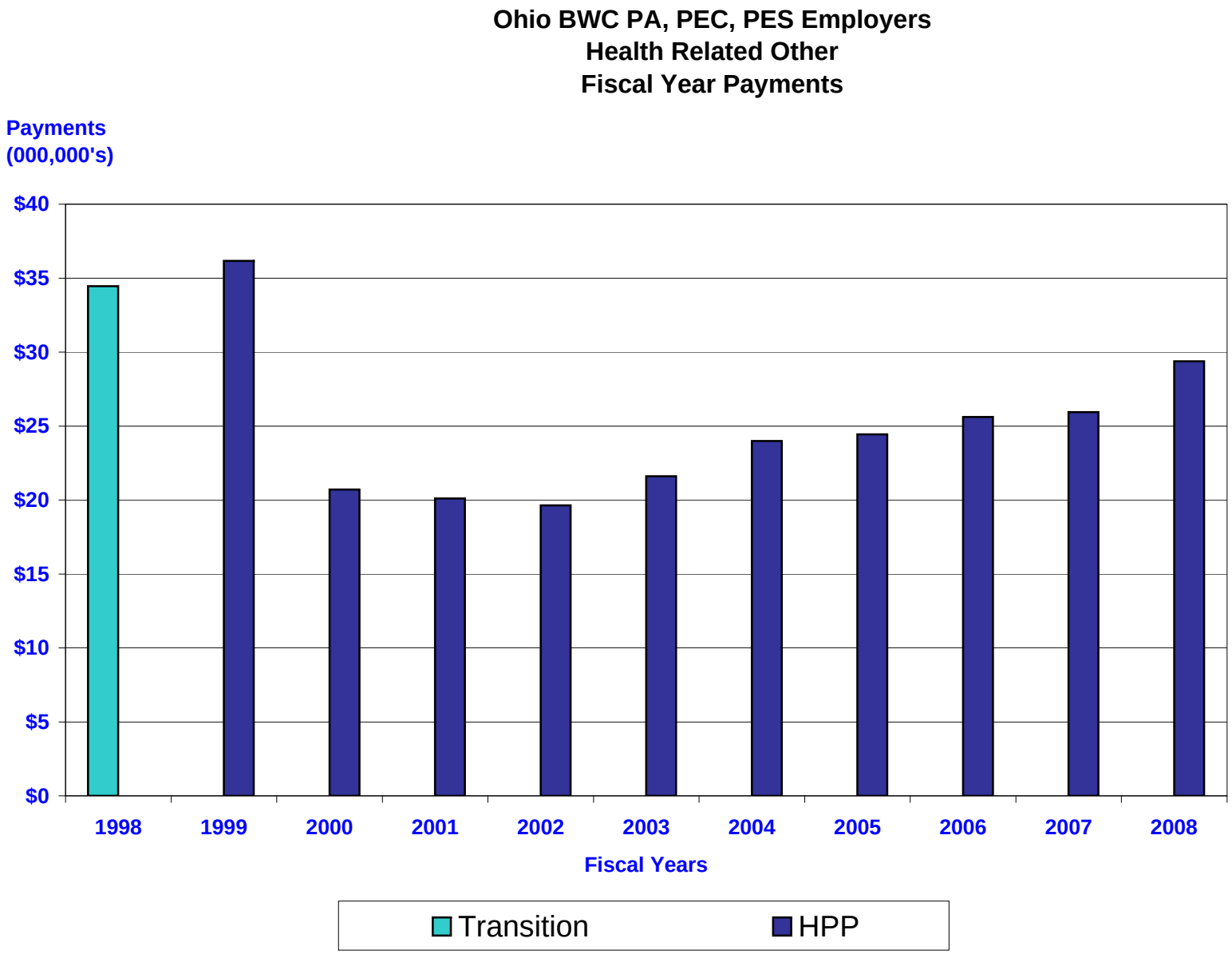
Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Health Related Other; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Health Related Other benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Notable Events/Information:
Beginning March 1, 1997, BWC implemented HPP (Health Partnership Program). We found that when the MCO's began paying BWC's claims the coding of the payments was incorrect and all the MCO payments were being added into our Health Related-Other field. This coding problem caused the increase in the Health Related-Other provider type and the decrease in all the other provider types for fiscal years 1997 to 1999.

Payments increased approximately $3.4 million from fiscal year 2007 to fiscal year 2008. There were no changes in reimbursement so this most likely reflects increased utilization. There is a trend towards shortened hospital length of stays (cost containment measure), which may have resulted in the increase in home healthcare services paid by BWC. Home healthcare services increased by $2.4 million dollars over the previous year, which accounts for a significant portion of the increased costs in this category.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.



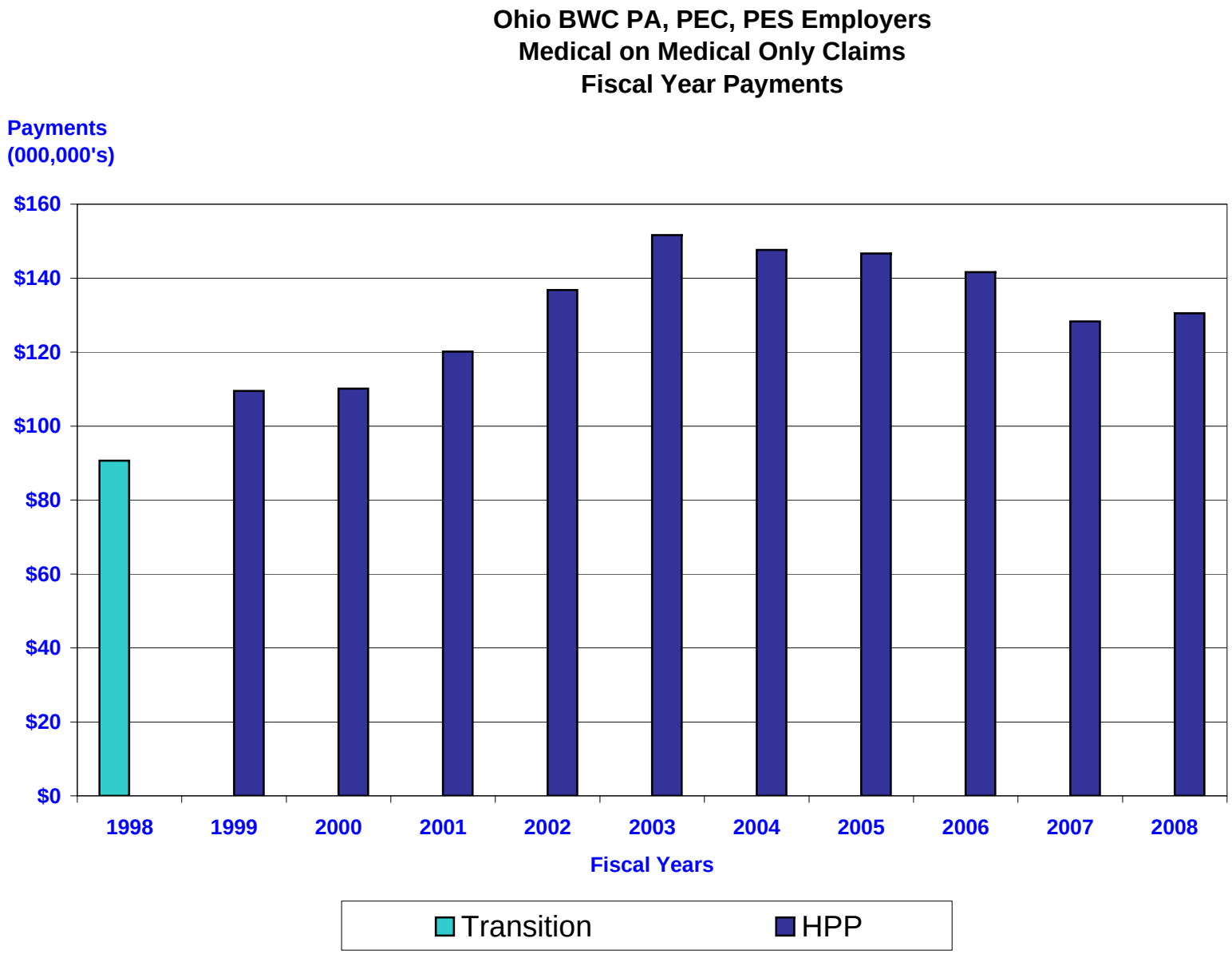
I:\Actuarial_Confidential\Executive Reporting\State of the Line October 2008\Graphs and Data\Rollup by 6 Months for trending of payments FY2008-Medical1

Chart Title: Ohio Bureau of Workers' Compensation PA, PEC, PES Employers; Medical on Medical Only Claims; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of medical benefit payments on medical-only Claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Notable Events/Information:
Settlement of the Ohio Hospital Association lawsuit in regards to how BWC sets its fee schedules accounted for about $5.3 million in this category. Without the settlement, payments would have decreased approximately $3.1 million from fiscal year 2007 to fiscal year 2008.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.



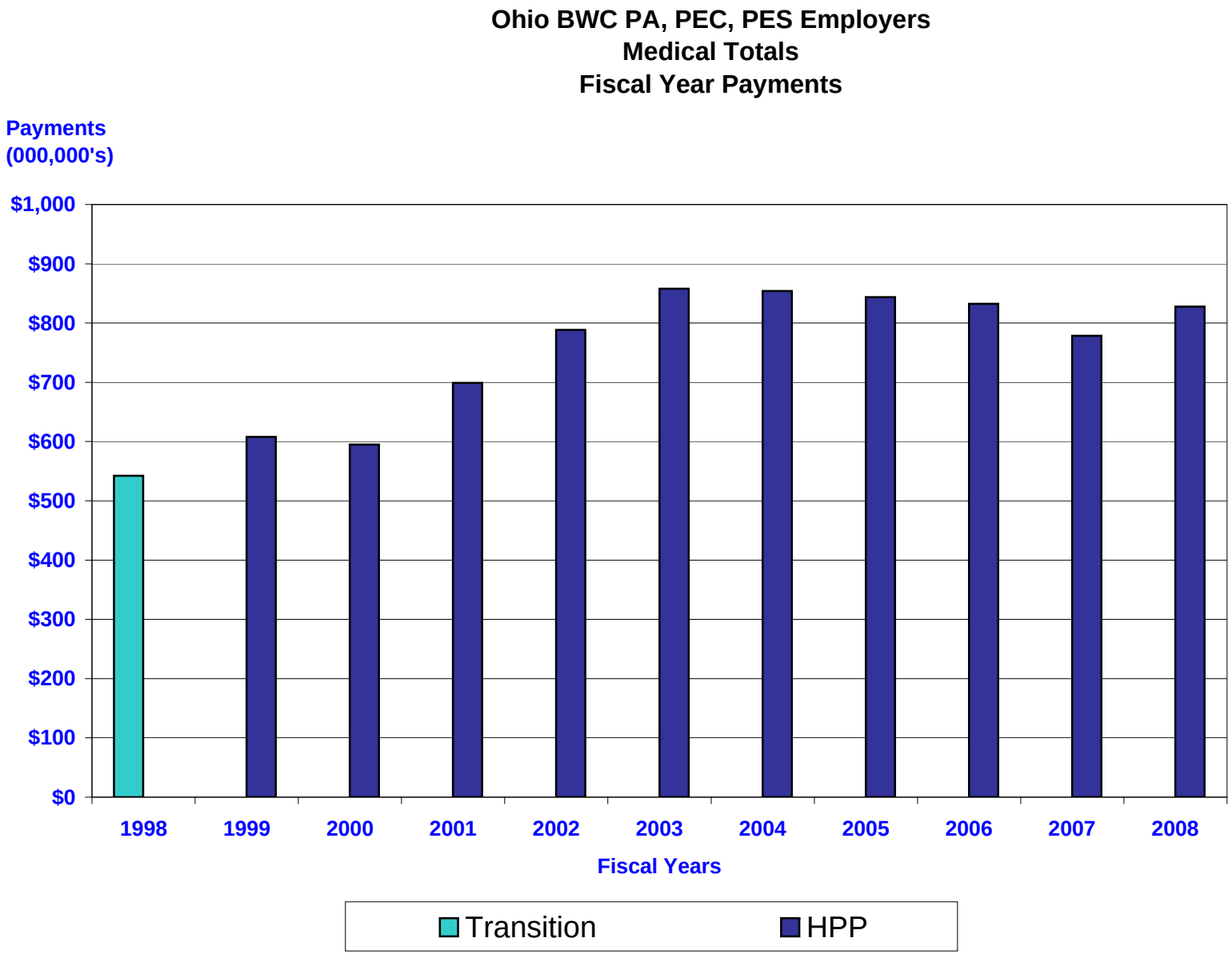
I:\Actuarial_Confidential\Executive Reporting\State of the Line October 2008\Graphs and Data\Rollup by 6 Months for trending of payments FY2008-Medical1

Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Medical Payment Totals; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total medical payments for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2008. The bar colors indicate the transition period between pre-Health Partnership Plan (HPP) legislation for the out-sourcing of the medical management of claims to Managed Care Organizations (MCO) and the period after the MCO's were up and running.

Source of Data:
BWC Actuarial Section reporting on the Actual versus Expected payment reports.

* Non-health related medical payments are included in these totals.



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NCCI Holdings, Inc.

2008 State of the Line

Analysis of Workers Compensation Results

By Dennis C. Mealy, FCAS, MAAA, Chief Actuary, National Council on Compensation Insurance, Inc.

The workers compensation insurance industry experienced another year of mostly solid results in 2007. The 99% calendar year combined ratio was the second straight year of underwriting profits for the line. In our search of the last 30 years or so of available history, we could find no other back-to-back years of underwriting profits for workers compensation. Although the underwriting results remain at near record levels, we continue to note that the low interest rate environment, combined with the modest performance of the equity markets, has left the line with post-tax returns on surplus that are far below record levels and barely returning the industry's cost of capital after the significant payments of federal income taxes. However, the calendar year net written premium declined for the private carriers for the first time in eight years. It was the second straight year of premium declines for the line, inclusive of the state funds.

Workers compensation insurance prices accelerated their declines in 2007. Significant reductions continued in California and Florida, as the reforms in those states favorably impacted costs and improved marketplace conditions. The favorable frequency trends continued and—along with payroll increases,—were more than enough to offset medical and indemnity claim cost increases. This resulted in bureau loss cost and rate filings that generally were downward last year, with a couple of notable exceptions. In addition, carrier discounting from bureau loss costs and rates increased as the marketplace reacts to the favorable results of recent years.

In a cyclical "long tail" business such as workers compensation insurance, we always need to be aware of the challenges that are impacting the business:

- Medical cost increases, although moderating somewhat in the last couple of years, are still the major issue putting upward pressure on costs
- Low investment yields, with the potential of a stagnant stock market, mean that combined ratios need to be at or near historic lows for insurers to earn an adequate return on capital
- The fluid political landscape in many states and at the federal level will put additional pressure on reforms
- The current underwriting cycle is past its cyclical peak

NCCI's short-term view of the line remains optimistic. However, the long-term outlook is cautionary due to the uncertainties that continue to face the business.

The workers compensation calendar year combined ratio was 99% in 2007, a 6-point deterioration from 2006. Our search of the historic results indicates that this could be the first time in memory that the workers compensation line has produced an underwriting profit for two consecutive years. (The results from 1995–1996 came very close to duplicating that feat.) The 2007 accident year combined ratio is 92%. On an accident year basis, the current underwriting cycle peaked in 2006, with an 84% combined ratio, more than a 55-point improvement since 1999.

Our estimates of the reserve position of the private carriers improved to about a $2 billion deficiency at year-end 2007. After consideration of the allowable discounting of the indemnity reserve of lifetime pension cases, the reserve position is full adequacy. This is in sharp contrast to the $21 billion deficiency at year-end 2001. Achieving reserve adequacy is one of the major accomplishments for the industry in the last five years.

As we pointed out last year, we must take into account the significant impact of California on the countrywide numbers. Excluding California would increase the calendar year combined ratio by about 5 points to over 104%. Excluding California from the accident year combined ratio would raise it from 92% to about 97%.

Frequency continued its downward path, but at a slower rate than the last couple of years. For NCCI states, the frequency change for 2007 was –2.5%. The prior two years had very large frequency decreases of almost 7%. The 2.5% decrease in 2007 is closer to the longer-term trend for the frequency decline. Our research indicates that the economic slowdown should put additional downward pressure on frequency. Data from the Bureau of Labor Statistics indicates that incident rates have declined in each of the last four recessions.

Although the underwriting results are excellent and the bottom line financial performance is good, we continue to watch several challenges facing workers compensation insurers.

Medical costs continue to increase faster than wages, even though the increases seem to have tempered a bit in 2007. Many states continue to look for ways to control medical costs in their workers compensation systems. Medical costs are 59% of total losses in NCCI states with many states in the 65%–70% range. The increased interest in medical benefits and costs is creating demand for ever more medical data to analyze the cost drivers of medical. To meet that demand, the NCCI Board of Directors approved a new Call for detailed medical transactions last fall after extensive discussions and input from many of our member companies. This Call will allow NCCI to continue to provide the highest quality evaluations of system reform proposals and legislation. As of this writing, NCCI has priced about 100 bills and legislative proposals in the 2007 legislative sessions, with about 25% of those dealing with medical benefits.

A year ago, the Federal Reserve had raised short-term interest rates to about 5.25%, up from 1% in 2004. However, with the bursting of the housing "bubble" and its fallout effects on our financial system and the broader economy, the Fed has again cut short-term rates significantly.

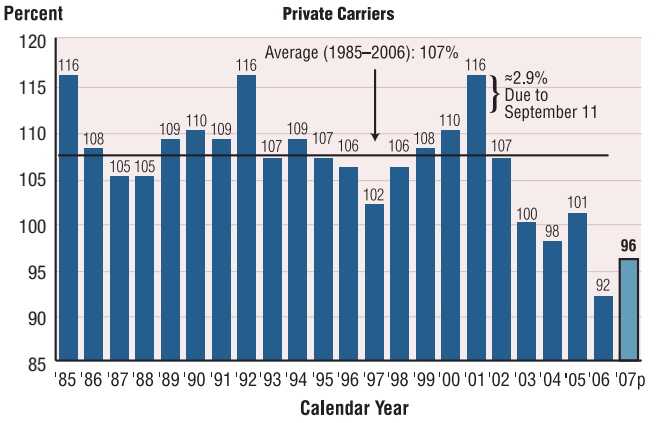
As of this writing, longer-term rates have also responded: 10-year US treasuries have a yield of 3.7%, which is a point lower than a year ago. This means that interest rates are again at historic lows and will be continuing to impact the yields on the insurance industry's portfolio of high quality income investments. Lower investment yields mean combined ratios need to stay at or near historic lows to earn the cost of capital in workers compensation insurance. So far, the industry seems to have escaped significant write-downs of its investment portfolio due to the subprime mortgage market.

The political landscape remains fluid in many states and nationally. The elections this fall will likely be as pivotal as those in 2006 in terms of the political sentiments of the country. Although NCCI legislative pricing activity has quieted down a bit from a year ago, we are likely to see significantly increased interest in workers compensation after the new legislatures are seated next January. There continues to be interest in revisiting issues that have been implemented in past reform efforts.

In some states, there have been legal challenges to recent reforms that are working their way through the process. For instance, a key provision of the 2003 Florida reforms dealing with claimant attorney fees will likely be decided by the Florida supreme court this summer. If this section of the reform is overturned, it could have a major impact on the effectiveness of the 2003 reforms that have significantly contributed to a 50% reduction in rates since they were enacted. Given the relatively good results posted for workers compensation insurers and the property/casualty industry, some parties may feel that now is an opportune time to review benefit levels and past reforms, to the potential detriment of efficiently running and well-balanced workers compensation systems.

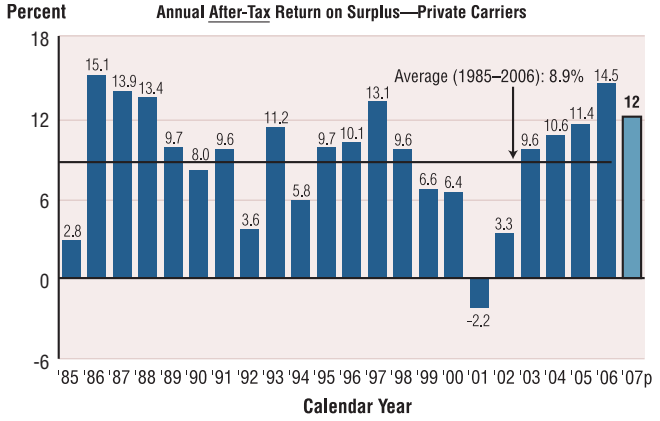
Congress passed the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) late last year, which extended the program for seven years. Hopefully, this will give policymakers, the business community, and the insurance industry some time to breathe and reflect a bit before having to take up the topic again. Although the extension was important to all the lines of insurance that it covers, workers compensation has

Exhibit 1 **Property/Casualty Industry Calendar Year Net Combined Ratios**



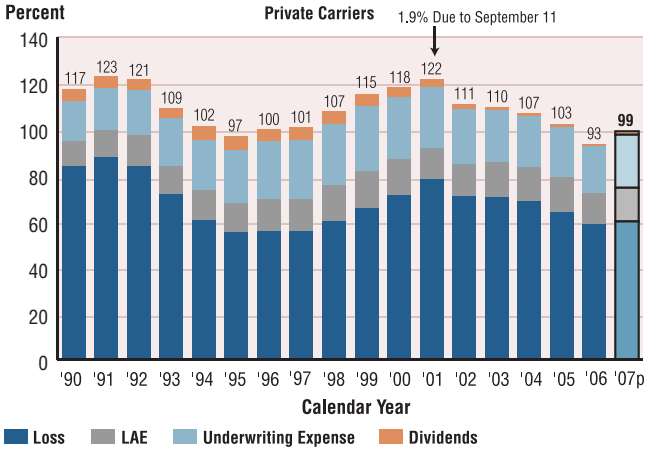
p Preliminary
Source: 1985–2006, A.M. Best Aggregates & Averages; 2007p, ISO

Exhibit 2 **Property/Casualty Industry Return on Surplus**



p Preliminary
Source: 1985–2006, A.M. Best Aggregates & Averages; 2007p After-Tax Income, ISO; 2007p Surplus, 2006 A.M. Best Aggregates & Averages + 2007 ISO contributions to surplus
Note: After-tax return on average surplus, excluding unrealized capital gains

Exhibit 3 **Workers Compensation Calendar Year Combined Ratio—Will History Repeat Itself?**



p Preliminary
Source: 1990–2006, A.M. Best Aggregates & Averages; 2007p, NCCI

unique characteristics that made it critically important for this line. Those differences include the inability to exclude terrorism from coverage and the fact that the residual markets must insure the terrorism exposure for employers not in the voluntary market.

A more detailed discussion of the workers compensation market follows a brief overview of the total property/casualty industry results. The results discussed are averages of all states and carriers; they can vary significantly from state to state and company to company.

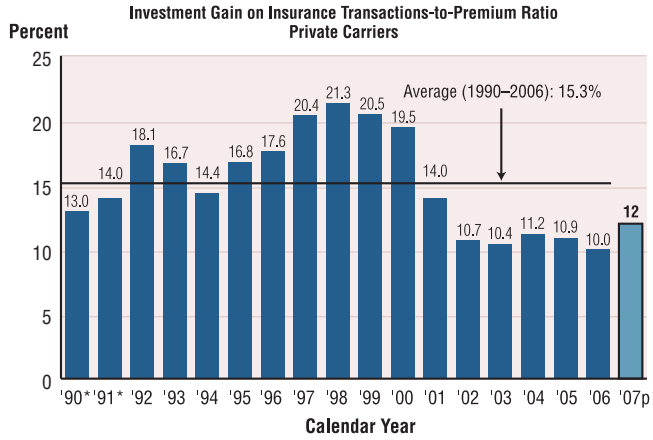
PROPERTY/CASUALTY INDUSTRY RESULTS

In 2007, the property/casualty insurance industry had another good year, posting a combined ratio of 96% (Exhibit 1). This was the second straight year of underwriting profits. The continued lack of significant catastrophes contributed to this result. However, storm clouds could be on the horizon, with the industry posting the first decline in net written premium in at least 50 years.

The industry earned a 12% after-tax return on surplus in 2007 (Exhibit 2). However, with the significant decline in interest rates over the last few years, the excellent combined ratio did not translate into the after-tax return on surplus that one might have expected based on historical relationships between the combined ratio and after-tax return. For instance, in 1993 the after-tax return on surplus was 11.2% but the combined ratio that year was 107. Today's low interest rate environment, which has persisted for several years, means that a lower combined ratio must be achieved to earn an adequate return on surplus. Also contributing to the need for lower combined ratios is the decline of the premium-to-surplus ratio over the last 20 years as the market recognized the increased catastrophic exposure, both natural and man-made, that the industry must insure. This reduces the leverage effect of positive underwriting results on the return on surplus.

The property/casualty insurance industry's surplus reached a record high of $521 billion at year-end 2007, up $32 billion from 2006. The increase in surplus is down significantly from the $61 billion in 2006, mainly due to lower underwriting profits ($19 billion in 2007 versus $31 billion in 2006) and a significant reduction in unrealized capital gains (a $0.5 billion loss in 2007 versus a $21 billion gain in 2006). The premium-to-surplus ratio dropped to 0.85:1, a level not seen since year-end 1998 near the peak of the stock market bubble of the late 1990s.

Exhibit 4 **Workers Compensation Investment Returns Remain Below Historical Average**



p Preliminary
*Adjusted to include realized capital gains to be consistent with 1992 and after
Investment Gain on Insurance Transactions includes Other Income
Source: 1990–2006, A.M. Best Aggregates & Averages; 2007p, NCCI

WORKERS COMPENSATION CALENDAR YEAR RESULTS

NCCI's preliminary analysis indicates that the workers compensation combined ratio for private carriers was 99% for 2007, up from 93% in 2006 (Exhibit 3). This is the second straight year of underwriting gains for the line, and it may be the first time in modern history that has happened. It does mark the end of five years of consistently improving combined ratios and indicates that the underwriting cycle has peaked.

The change in the combined ratio breaks down as follows:

- The loss ratio increased a bit more than a point to 60%
- The loss adjustment expense ratio is up a point to 14.6% of premium
- The underwriting expense ratio to premium rose 3 points to 23%
- The dividend ratio remains about 1% of premium

The underwriting expense ratio change is worth a couple of additional comments. From 2003 until 2005, the underwriting expense ratio had been hovering around 22%. Then in 2006 it took an unexpected drop of 2 points to 20%. For 2007, the underwriting expense ratio returned to a more normal level, up a point from the levels seen between 2003 and 2005, due to the decreased premium base.

Once again, California has a significant impact on these countrywide numbers for workers compensation private carriers. If California were excluded, the combined ratio for the remainder of the country would be about 104%, somewhat less remarkable than the 99% including that state. Results continue to be favorable in California, although not as favorable as a couple of years ago.

The investment gain associated with workers compensation insurance transactions is about 12% of premium, up a bit from the 10% we have been seeing in recent years (Exhibit 4). The level remains down dramatically from the late 1990s, when interest rates were higher and the stock market produced large gains. The increase this year is due to larger WC reserves in relation to WC premium as a result of the continued reserve strengthening of recent years, and falling premium. This fact, combined with a 14% increase in the property/casualty industry's investment income and realized gains, results in an increase in the investment gain ratio to premium for workers compensation.

Combining the underwriting gain with the investment gains, the result is a Pre-Tax operating gain of 13% (Exhibit 5). After including the investment gain on surplus and paying federal income taxes, the workers compensation industry earned about its cost of capital for the second straight year.

WORKERS COMPENSATION NET WRITTEN PREMIUM

Net written premiums for workers compensation, including the state funds, continued to decline in 2007, dropping almost 6% to $43 billion (Exhibit 6). The private carriers also lost premium in 2007, dropping about 3% to $37.5 billion. The opening of the West Virginia marketplace to private carriers on July 1, 2008 will offer some opportunity to write premium

that previously has not been available under the monopolistic fund system.

ACCIDENT YEAR RESULTS

Analyzing experience on an accident year basis can provide additional insights about the underlying performance of "long tail" lines like workers compensation without the distortions of prior year reserve adjustments.

The workers compensation insurance industry experienced its fifth consecutive year of underwriting gains on an accident year basis. NCCI estimates the combined ratio for Accident Year 2007 at 92% (Exhibit 7). On an accident year basis, the current underwriting cycle peaked in 2006 at a combined ratio of 84%. Since Accident Year 1999 (the bottom of the cycle), the combined ratio declined more than 55-points to the low point in 2006. Much of the improvement in the accident year combined ratios resulted from significant increases in carrier pricing since 1999 and the reforms in California and Florida. If we exclude California from the 2007 accident year combined ratio, we estimate that it becomes about 97% for the rest of the country.

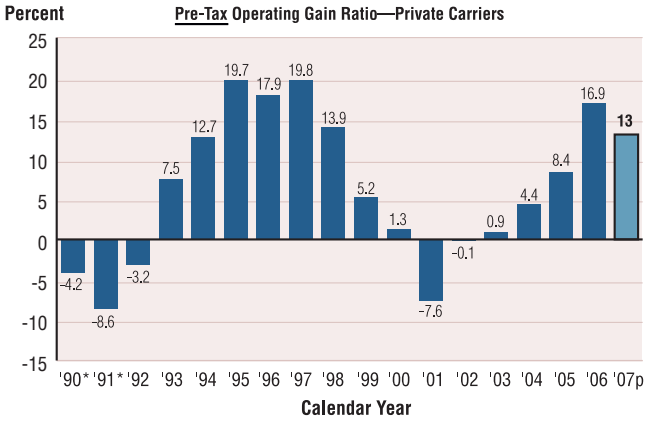
RESERVE POSITION IMPROVES AGAIN

The private carrier reserve position improved yet again in 2007. NCCI's estimate of the reserve position for the private carriers as of December 2007 shows a very slight $2 billion deficiency (Exhibit 8). This is a $2 billion improvement from 2006. After allowing for the permissible discounting of the indemnity reserves for lifetime pension cases, the reserve position becomes slightly more than adequate. Our analysis shows that the industry has made substantial progress on its reserve position over the last six years, eliminating a $21 billion inadequacy. With the cycle turning, the industry will need to work hard to keep its reserve position solid.

BUREAU RATE/LOSS COST CHANGES

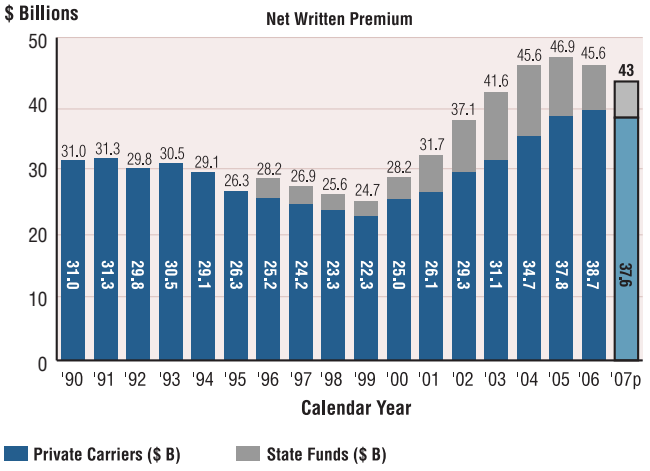
Exhibit 9 displays a history of bureau rate and loss cost changes since 2000. Excluding the impact of the California changes (which were heavily affected by significant systems problems and subsequent reform-related reductions), the average changes for the rest of the states are quite modest until 2007. For 2007 and 2008, we see some modest decreases for states other than California as the rapid frequency declines in recent years, combined with payroll growth,

Exhibit 5 Workers Compensation Results Declined



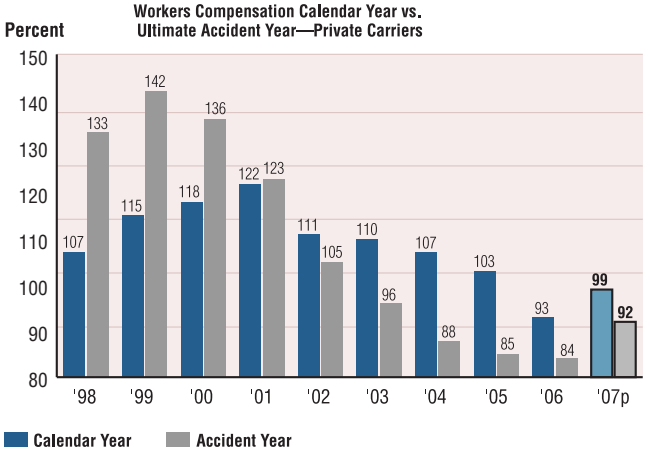
p Preliminary
*Adjusted to include realized capital gains to be consistent with 1992 and after
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)
Source: 1990–2006, A.M. Best Aggregates & Averages; 2007p, NCCI

Exhibit 6 Workers Compensation Premium Continues to Decline in 2007



p Preliminary
Source: 1990–2006 Private Carriers, A.M. Best Aggregates & Averages, 2007p, NCCI
1996–2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

Exhibit 7 Accident Year Combined Ratio—Another Underwriting Gain in 2007



p Preliminary
Accident Year data is evaluated as of 12/31/07 and developed to ultimate
Source: Calendar Years 1998–2006, A.M. Best Aggregates & Averages; Calendar Year 2007p and Accident Years 1998–2007p, NCCI analysis based on Annual Statement data
Includes dividends to policyholders

more than offset loss severity increases resulting in declining bureau loss costs/rates in many states. The continued favorable experience in Florida after the 2003 reforms also contributed to the declines in the bureau values.

Carrier discounting from bureau loss costs/rates continued to increase, dropping 2 more points in 2007 to –4% in NCCI states (Exhibit 10).

INDEMNITY AND MEDICAL AVERAGE CLAIM COSTS

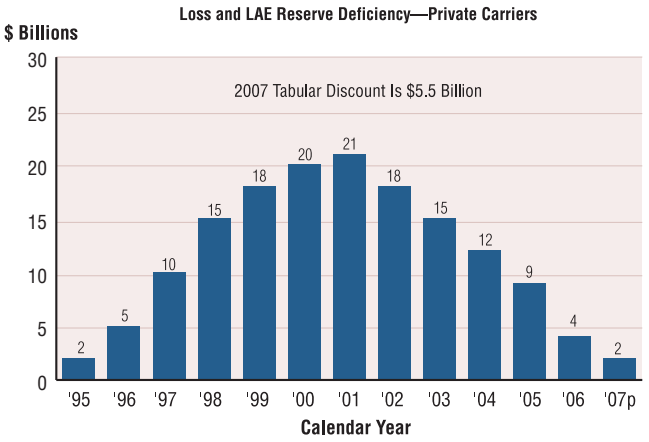
NCCI estimates that the average workers compensation indemnity claim cost increased 4% in 2007 (Exhibit 11). This is slightly lower than the 5% increase in 2006 and is only modestly higher than the change in average wage levels last year. In stable workers compensation systems, one would expect that the average change in indemnity claim costs would approximate the change in the average wage level. The exhibit shows that average indemnity cost increases have moderated in recent years (2002–2007) compared to the 1994–2001 era. From 1994–2001 the average annual increase in indemnity claim costs was over 7% versus the approximately 3% increase since then.

Medical average claim costs per lost time claim continued their upward march last year albeit at a somewhat slower pace than recent years (Exhibit 12). NCCI estimates that the change in average medical claim costs per lost time claim was up 6% in 2007. It is the lowest increase in average medical claims costs since 1995. Although 6% is the smallest increase in years, it is still outpacing the Medical CPI for 2007, which increased 4%. For NCCI states, medical benefits are getting very close to 60% of total losses, a milestone that likely will be reached in 2008.

CLAIM FREQUENCY CONTINUES TO DECLINE

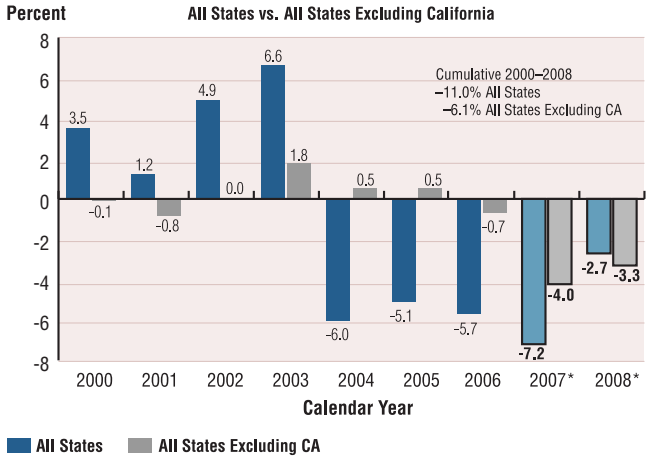
Based on a preliminary analysis of data in NCCI states, the frequency of lost-time claims declined 2.5% in 2007 (Exhibit 13). This is a significant tempering of the near 7% declines for the prior two years and returns the decline in frequency closer to the historic average of a 3–4% decline per year. The reduction in the frequency decline in 2007 may have played a role in the reduction in the severities increases we saw above. If the drop in smaller claims was not as significant as the prior

Exhibit 8 Workers Compensation Reserve Deficiencies Continue to Decline



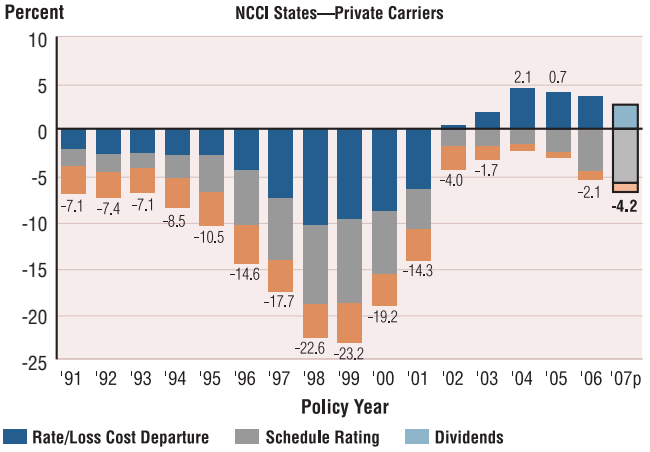
p Preliminary
Considers all reserve discounts as deficiencies
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections
Source: 1995–2007p, NCCI analysis

Exhibit 9 Average Approved Bureau Rates/Loss Costs



* States approved through 4/11/08
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

Exhibit 10 Impact of Discounting on Workers Compensation Premium



p Preliminary
NCCI benchmark level does not include an underwriting contingency provision
Dividend ratios are based on calendar year statistics
Based on data through 12/31/07 for the states where NCCI provides ratemaking services

two years, it would lower the increase in average severities we saw in 2007.

Our research indicates that the decline in claim frequency is a long-term phenomenon related to improved technology and competitive market forces and their application in the economy to create ever safer workplaces over time. However, some have speculated that the current economic slowdown could produce an increase in frequency as more workers lose their jobs. Exhibit 14 shows that for the last four recessions, frequency declines have continued and may have accelerated somewhat during each recession. NCCI will continue to analyze and monitor the frequency change closely to make sure that we are able to detect any changes in the recent pattern of decline.

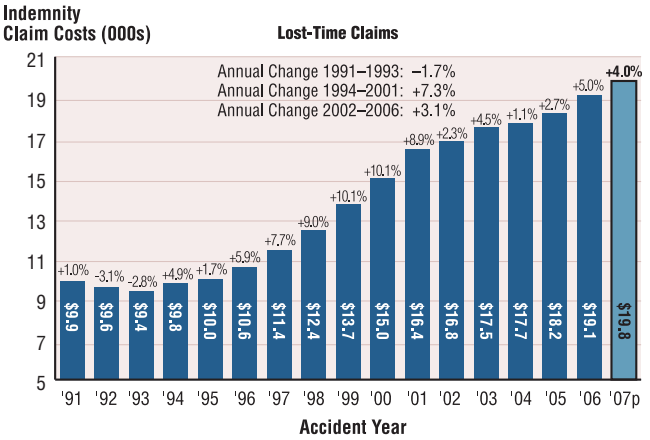
RESIDUAL MARKET UPDATE

Depopulation of the residual market continues at an accelerating pace in 2007 and 2008. Premiums have dropped to about $1 billion for Policy Year 2007, down from $1.2 billion in 2006 (Exhibit 15). Although most states are depopulating nicely, as one would expect at this point of the underwriting cycle, a few states continue to struggle to get their residual markets depopulating as rapidly as one would hope. Overall, the market share of the residual market pools serviced by NCCI for 2007 dropped to about 8%, down from about 10% in 2006. This is a great improvement from the 13% market share peak that was reached in 2004 in this cycle.

Up until recently, most of the businesses returning to the voluntary market were larger (greater than $10,000 of premium) policies. Beginning in 2007, we also are seeing a significant number of the smaller policies returning to the voluntary market. This is indicative of the healthy competition present in most states' workers compensation markets.

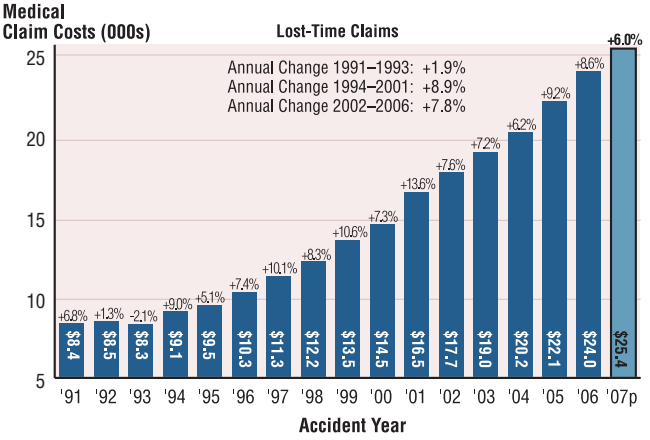
The combined ratio for the residual market pools continues the recent pattern of being in the 108%–112% range of recent years (Exhibit 16). The combined ratio is above our objective of self-funded residual markets; however, just four states contribute almost 90% of that underwriting loss, leaving most pools at or near our self-funded objective. We continue to strive for self-funded residual markets in states where NCCI files the rates for the residual market.

Exhibit 11 Workers Compensation Indemnity Claim Costs Growth Is Moderate



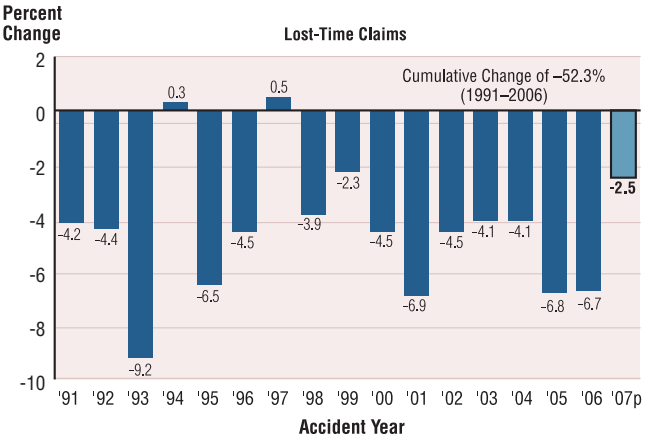
2007p: Preliminary based on data valued as of 12/31/07
1991–2006: Based on data through 12/31/06, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

Exhibit 12 Workers Compensation Claim Cost Trends—Growth Continues in 2007



2007p: Preliminary based on data valued as of 12/31/07
1991–2006: Based on data through 12/31/06, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

Exhibit 13 Workers Compensation Lost-Time Claim Frequency Continues to Decline



2007p: Preliminary based on data valued as of 12/31/07
1991–2006: Based on data through 12/31/06, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007 (TRIPRA)

Late in 2007, Congress reauthorized the Terrorism Risk Insurance Program for seven years with some modest changes (Exhibit 17). This should provide a little more certainty to the market than the two year extensions that had been the recent pattern of reauthorizations. The most significant change in TRIPRA from the prior version was the inclusion of domestic terrorism in the program.

As of this writing, NCCI is working with its catastrophe modeler to remodel the terrorism exposure, both to conform to TRIPRA parameters and to include the most up-to-date information on potential losses. Our plan is to make a national filing in our states in the second quarter of 2008 with a proposed effective date of September 1, 2008.

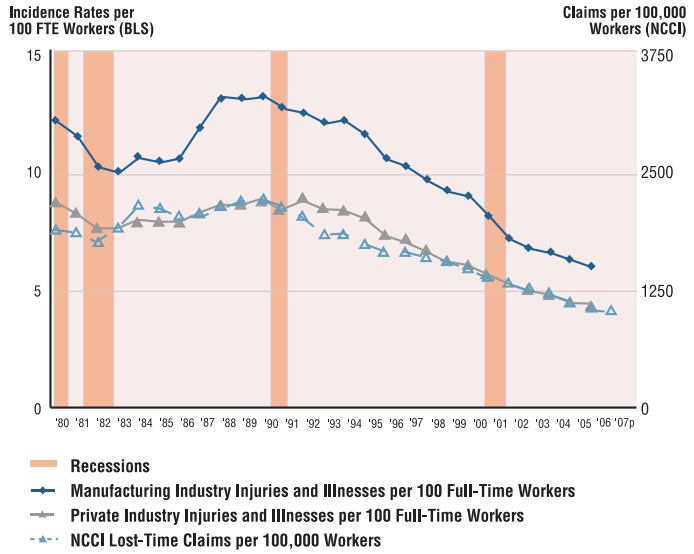
TOPICS OF CURRENT INTEREST

NCCI is in the midst of a review of the Experience Rating Plan. This is the first major review of the plan in over a decade. We will be examining all plan parameters, including the eligibility threshold. The extensive review will continue into 2010. Even though we have not extensively reviewed the plan in awhile, we do monitor its performance almost every year.

Exhibit 18 is a summary of our regular performance testing of the Plan. We divided the data into five groups of risks by the size of their experience modification. The group of bars on the left show that the manual loss ratios (before experience modifications are applied) are lowest for the risks with the lowest mods and highest for those with the highest mods. On the right, we display the loss ratios after the application of the experience modifications. In a perfect plan, we would expect the loss ratios for all these groups to be the same. As can be seen, they are virtually identical, indicating that the current plan is performing quite well.

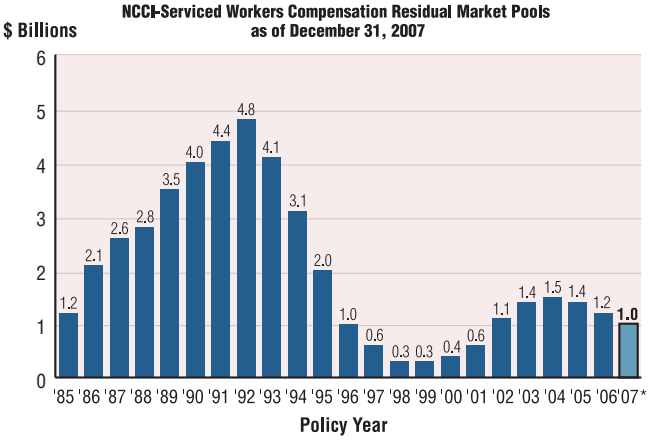
We are also in the middle of modifying our current class ratemaking methodologies. We expect to implement the most major changes to our class ratemaking methods in over 40 years in our 2009–2010 filing cycle. The changes impact the methods we currently use to develop losses as well as how we include a provision for large losses for each class. We are confident that the changes we are making will improve both the accuracy

Exhibit 14 Workplace Injury Incidence Rates Have Shown Declines in Last Four Economic Downturns



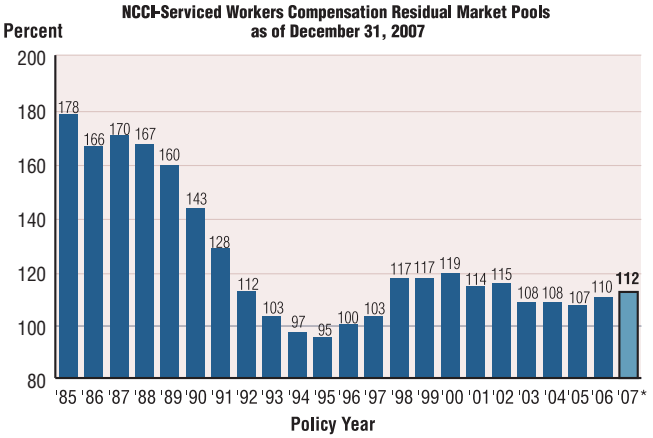
Source: US Department of Labor, Bureau of Labor Statistics (BLS), National Bureau of Economic Research, NCCI Frequency and Severity Analysis

Exhibit 15 Workers Compensation Residual Market Premium Volume Declines



* Incomplete policy year projected to ultimate

Exhibit 16 Workers Compensation Residual Market Combined Ratios



* Incomplete policy year projected to ultimate

and stability of our class rates and loss costs. Stay tuned for more information on these changes in the coming year as implementation gets closer.

LOOKING FORWARD

The workers compensation insurance industry had yet another solid year of financial performance in 2007. All major financial performance measures, continue to perform well. Calendar years underwriting results continue to show an underwriting gain for a second consecutive year. Accident year combined ratios, although increasing last year, still remain at near historically low levels. California favorably impacts the countrywide numbers by about 5 points. In addition, the bottom line financial results after investment income and federal income taxes, while still good, are only at or near historical averages due to the current environment of low interest rates and significant federal income taxes paid.

Other positive trends include:

- Residual markets are depopulating in most states
- Reserves appear adequate
- Frequency continues to decline
- The Federal Terrorism Risk Insurance Program was renewed for seven years

Areas of concern include:

- Medical costs
- Reform challenges
- Low investment returns
- Underwriting cycle

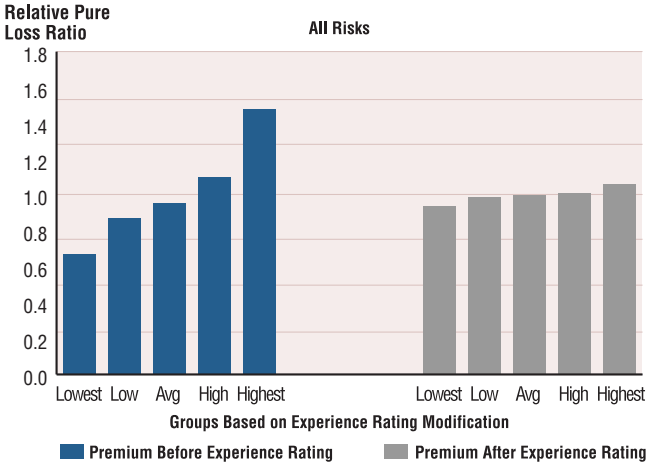
Our hope continues to be that low investment income and relatively stable loss costs will moderate this underwriting cycle compared to the last couple of cycles.

NCCI will continue to work with all of our stakeholders to help ensure that rates and loss costs are adequate, to provide unbiased quantification of the impacts of legislative reform proposals, and to strive for self-funded residual markets. In addition, we will continue to produce pertinent and timely research to help stakeholders understand current and emerging trends impacting workers compensation. All these objectives will help to maintain a healthy workers compensation insurance market that is able to deliver the promised benefits quickly, fairly, and efficiently to the injured worker and provide the proper incentives to have the safest workplaces possible.

Exhibit 17 Terrorism Risk Insurance Provisions

Provision	Original (TRIA)	Extension (TRIEA)	Revision and Extension (TRIPRA)
Coverage	Most commercial lines (med mal, financial guaranty specifically excluded).	All current TRIA lines (except comm. auto, surety, prof. liability, farmowners, burglary and theft).	No new lines of insurance added. Eliminated distinction between foreign and domestic terrorism.
Retentions	7%–10%–15%	17.5%–20%	20%
Fed. Contrib./ Insurer Co-Pay	90%–10%	90%–10% (yr. 1) 85%–15% (yr. 2)	85%–15%
Federal Program Payment Trigger	$5M	$5M (yr. 1 thru 3/31/06) $50M (yr. 1 after 3/31/06) $100M (yr. 2)	$100M
Expiration	12/31/05	12/31/07	12/31/14

Exhibit 18 Experience Rating Plan Performance Testing



Note: Includes nationwide data for all experience rated risks with policy effective dates 01/01/03 thru 12/31/03 at Third Report

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NCCI Holdings, Inc.

State of the Line

Dennis Mealy, FCAS, MAAA
NCCI Chief Actuary

May 8, 2008
Orlando, Florida

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AIS Annual Issues Symposium 2008

I. Property/Casualty Results

II. Workers Compensation Results

III. Current Topics of Interest

IV. Concluding Remarks

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Property/Casualty Results

P/C Industry Net Written Premium—A Rare Decline

Private Carriers

Line of Business (LOB)	2005	2006	2007p	2006–2007p Change
Personal Auto	$159.5 B	$160.2 B	$160.8 B	0.4%
Homeowners	$52.2 B	$54.5 B	$53.8 B	-1.4%
Other Liability (Incl Prod Liab)	$42.7 B	$45.7 B	$46.1 B	1.0%
Workers Compensation	**$37.8 B**	**$38.7 B**	**$37.6 B**	**-3.0%**
Commercial Multiple Peril	$29.6 B	$31.7 B	$31.4 B	-1.0%
Commercial Auto	$26.5 B	$26.7 B	$25.9 B	-3.0%
Fire & Allied Lines (Incl EQ)	$17.4 B	$20.0 B	$21.8 B	9.0%
All Other Lines	$59.8 B	$65.9 B	$63.5 B	-3.6%
Total P/C Industry	**$ 425.5 B**	**$ 443.5 B**	**$ 440.8 B**	**-0.6%**

p Preliminary

Source: Workers Compensation, NCCI;
All Other Lines, *Best's Review Preview* and ISO

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Another Year of Underwriting Gain

Net Combined Ratio—Private Carriers

Line of Business (LOB)	Calendar Year 2005	2006	2007p
Personal Auto	95%	96%	98%
Homeowners	100%	90%	95%
Other Liability (Incl Prod Liab)	113%	95%	99%
Workers Compensation	**103%**	**93%**	**99%**
Commercial Multiple Peril	97%	93%	94%
Commercial Auto	92%	92%	95%
Fire & Allied Lines (Incl EQ)	104%	81%	83%
All Other Lines	111%	86%	89%
Total P/C Industry	**101%**	**92%**	**96%**

p Preliminary

Source: Workers Compensation, NCCI;
All Other Lines, *Best's Review Preview* and ISO

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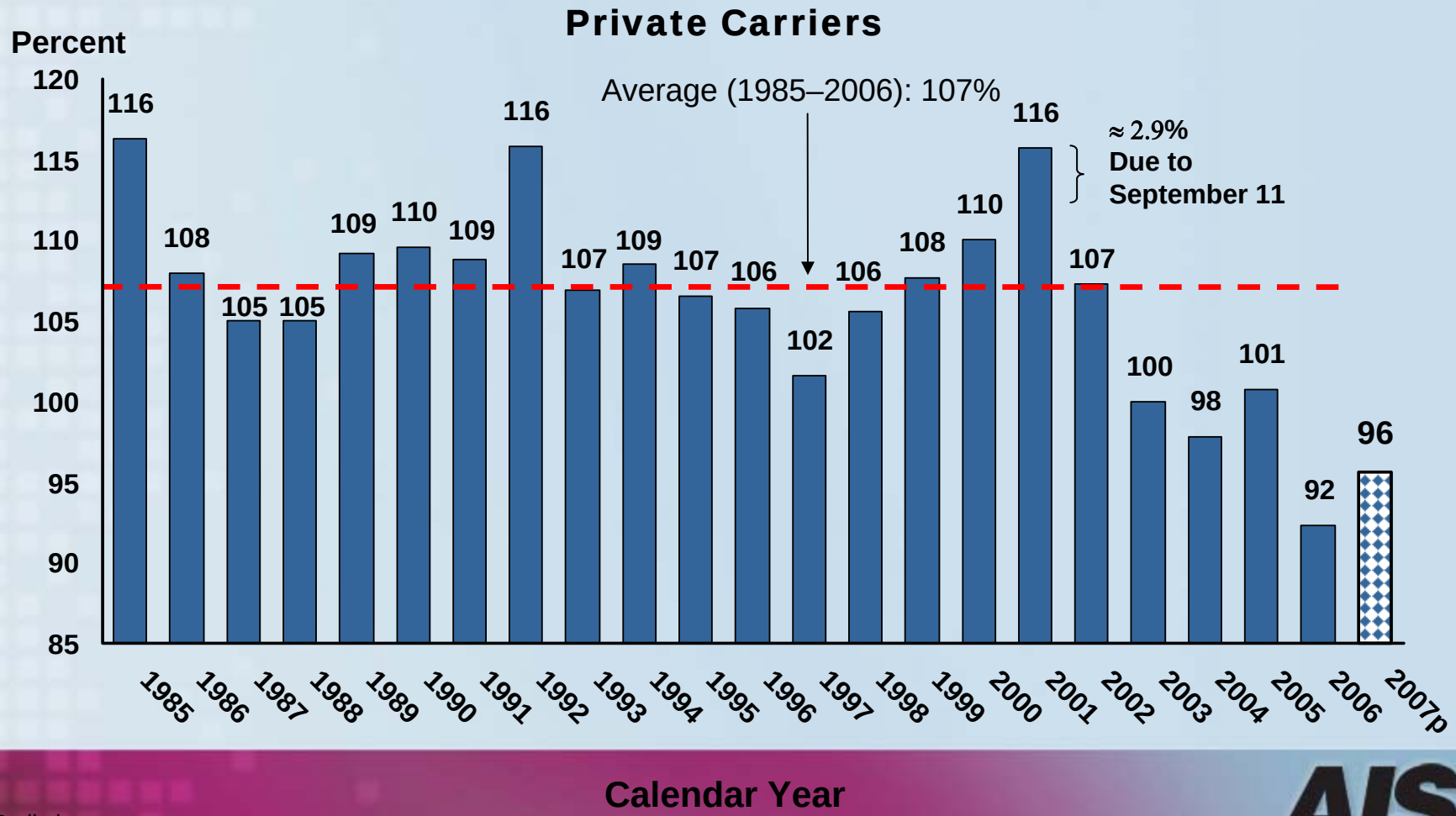
P/C Industry Calendar Year Net Combined Ratios



p Preliminary

Source: 1985–2006, *Best's Aggregates & Averages*; 2007p, ISO

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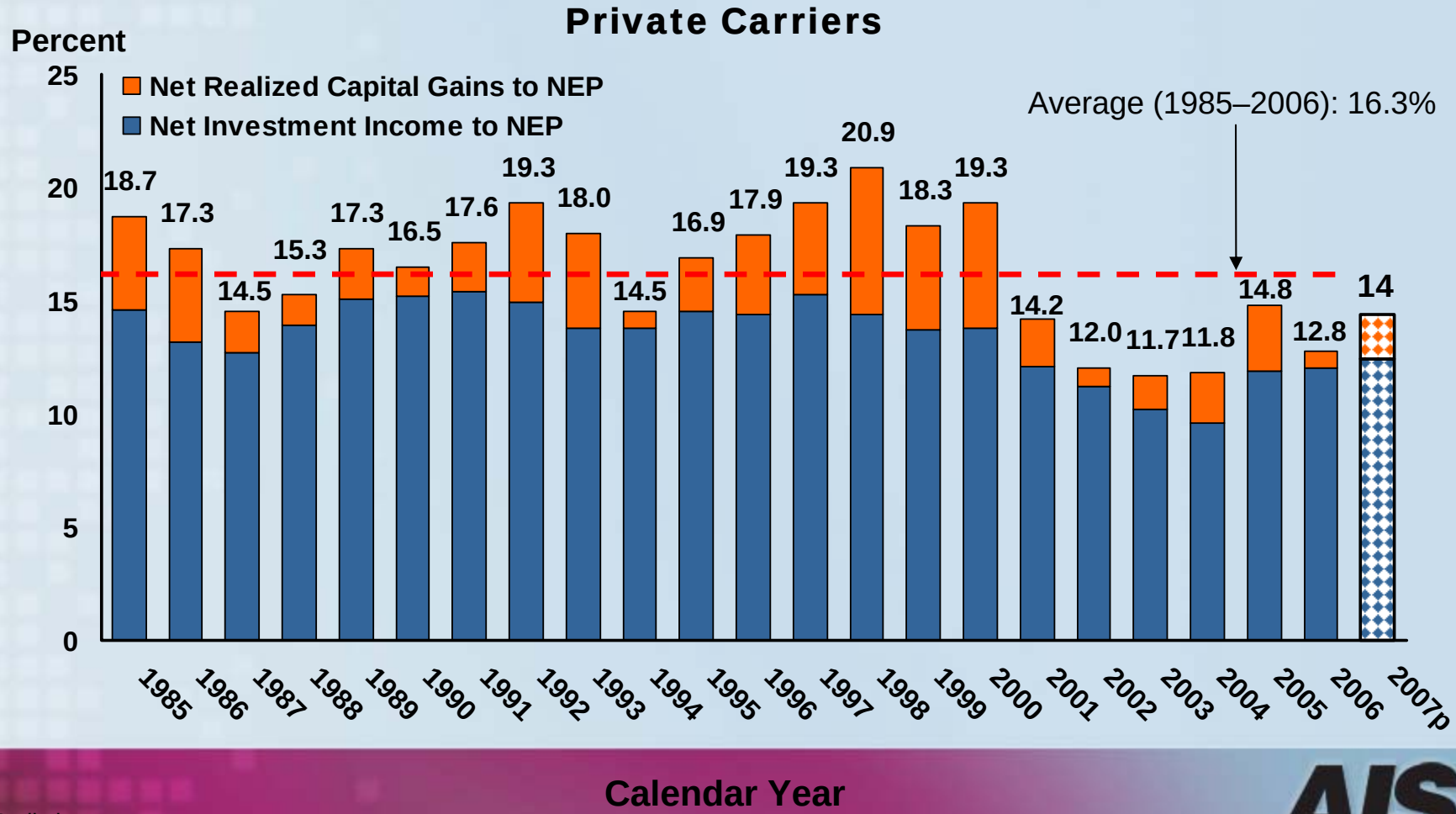
Investment Gain Ratio Remains Below Historical Average



p Preliminary

Source: 1985–2006, *Best's Aggregates & Averages*; 2007p, ISO

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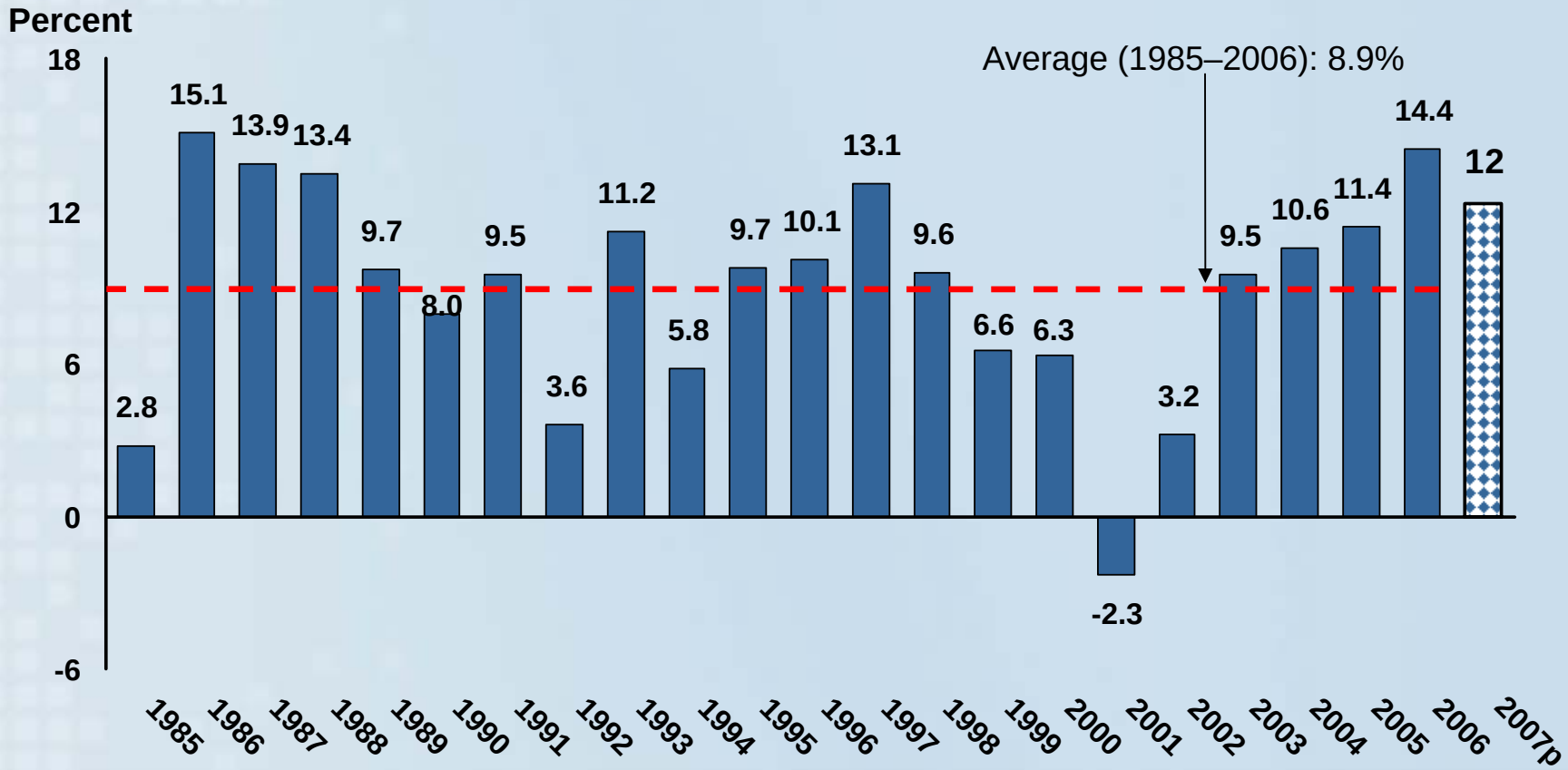
P/C Industry Return on Surplus

Annual After-Tax Return on Surplus—Private Carriers



Calendar Year

p Preliminary

Source: 1985–2006, *Best's Aggregates & Averages*; 2007p After-Tax Net Income, ISO;
2007p Surplus, 2006 *Best's Aggregates & Averages* + 2007 ISO contributions to surplus

Note: After-tax return on average surplus, excluding unrealized capital gains

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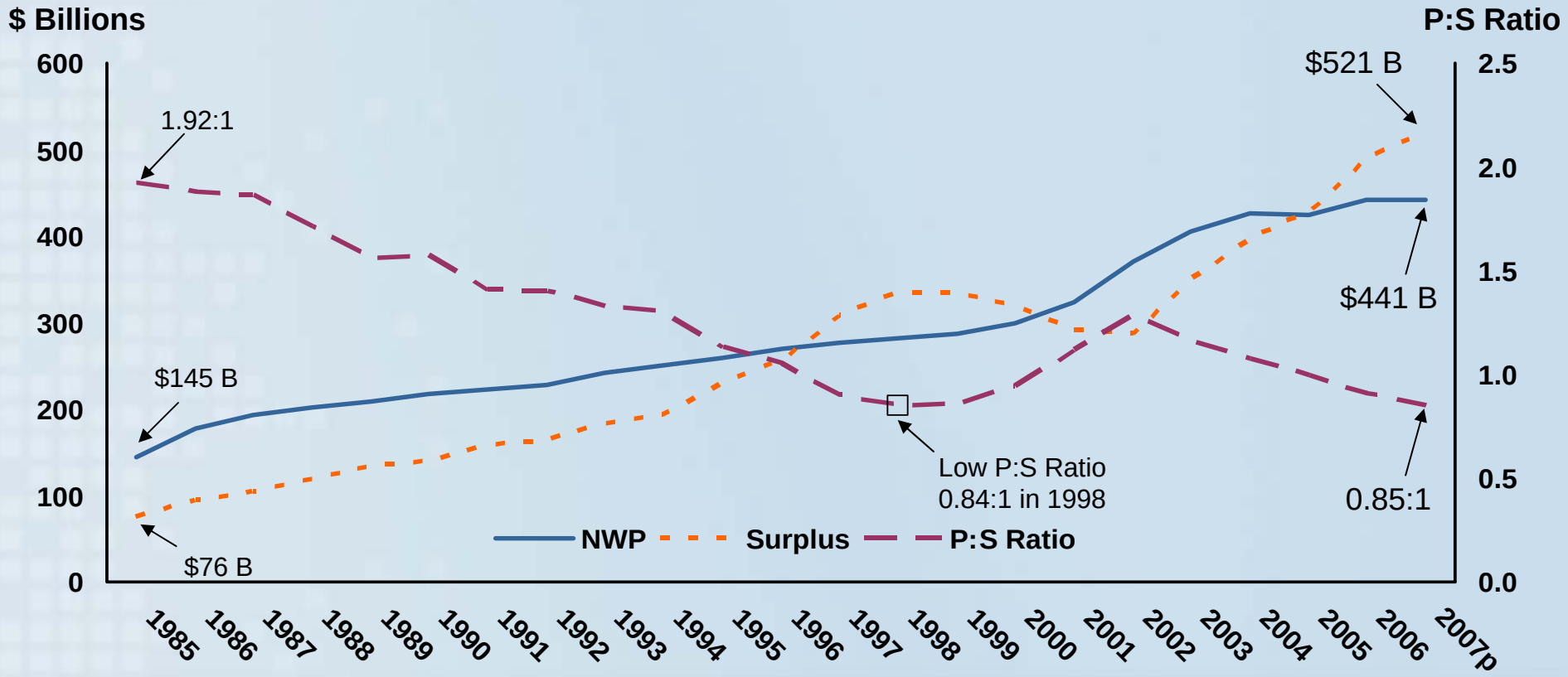
P/C Industry Premium-to-Surplus Ratio Approaches Previous Low

Private Carriers



Calendar Year

p Preliminary
Source: 1985–2006, *Best's Aggregates & Averages*;
2007p Surplus, 2006 *Best's Aggregates & Averages* + 2007 ISO contributions to surplus

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Contributions to Surplus

Private Carriers

	2005	2006	2007p
Underwriting Gains/Losses	$ (5.6) B	$ 31.1 B	$ 19.0 B
Investment Income	$ 49.7 B	$ 52.3 B	$ 54.6 B
Realized Capital Gains	$ 9.7 B	$ 3.5 B	$ 9.0 B
Other Income	$ 1.0 B	$ 1.2 B	$ (1.0) B
Unrealized Capital Gains	$ (3.4) B	$ 20.6 B	$ (0.5) B
Federal Taxes	$ (10.7) B	$ (22.4) B	$ (19.7) B
Shareholder Dividends	$ (15.6) B	$ (24.7) B	$ (32.0) B
Contributed Capital	$ 14.4 B	$ 3.8 B	$ 3.2 B
Other Changes to Surplus	$ (5.1) B	$ (4.9) B	$ (0.9) B
Total	$ 34.5 B	$ 60.4 B	$ 31.7 B

p Preliminary

Source: ISO

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Workers Compensation

Results

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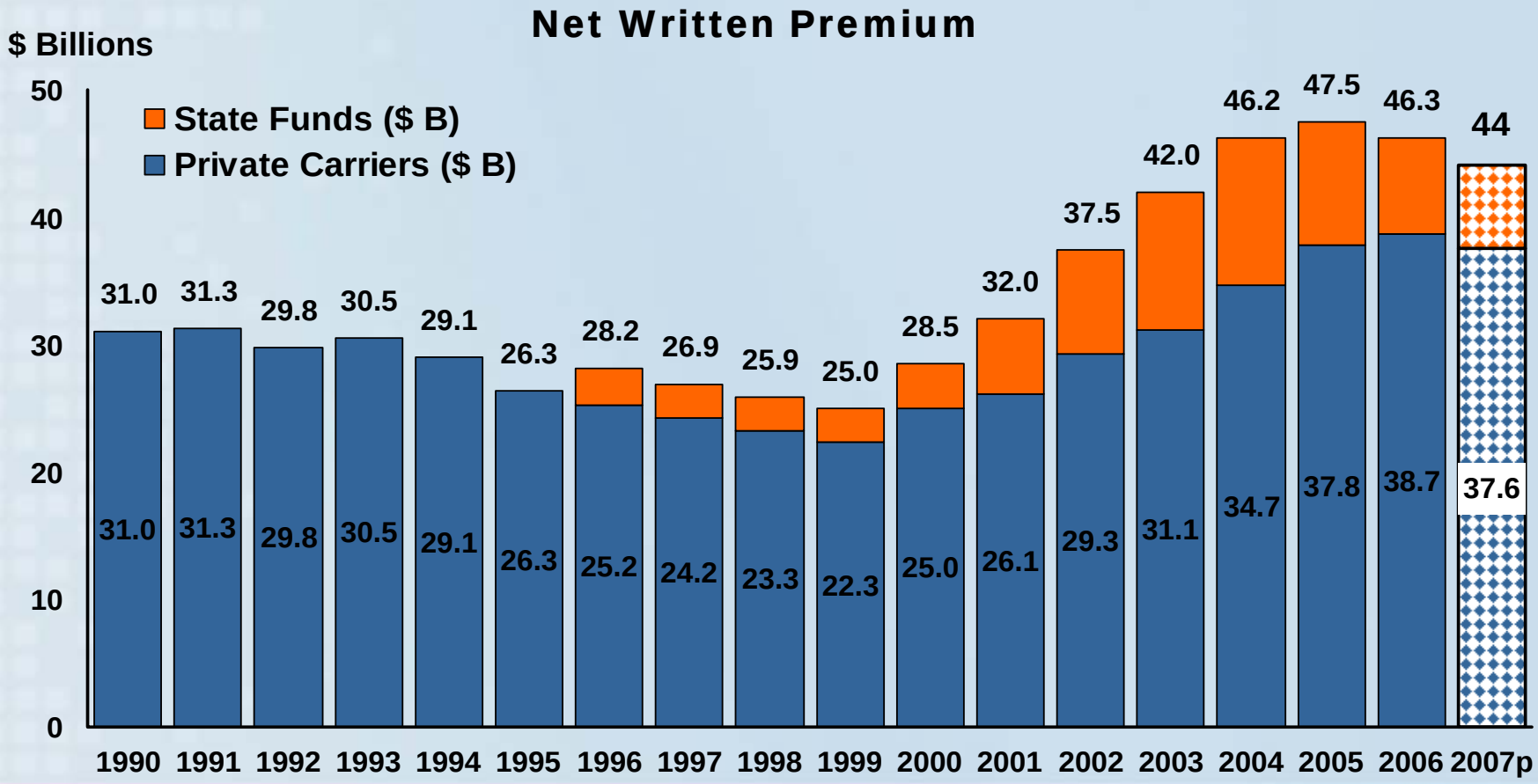
2008

Workers Compensation Premium Continues to Decline in 2007



p Preliminary

Source: 1990–2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI
1996–2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

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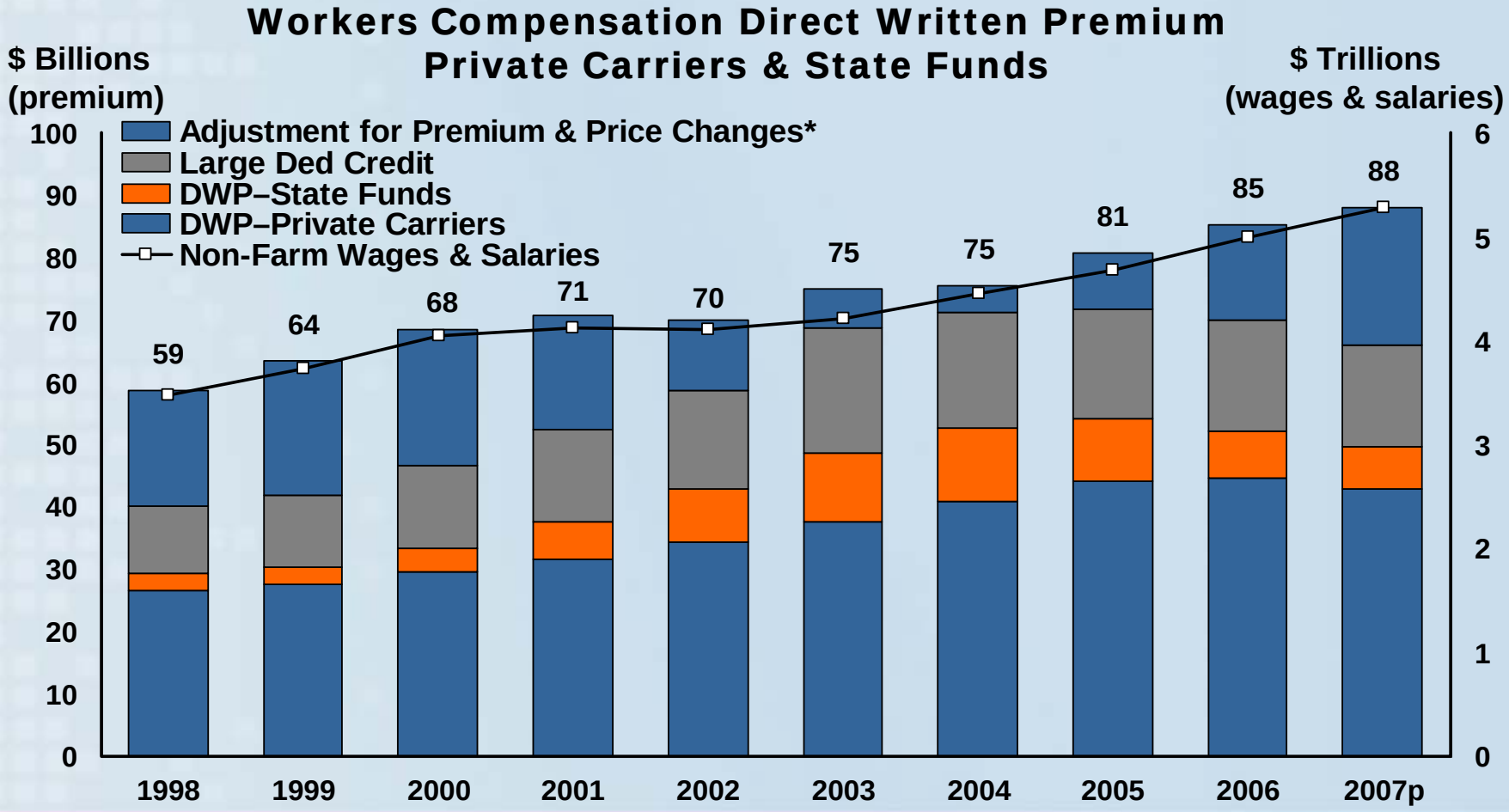
Adjusted Workers Compensation Premium Volume



p Preliminary
* Premium and price changes are indexed to the 1995 rate/loss cost level
Source: 1998-2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI
1998-2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

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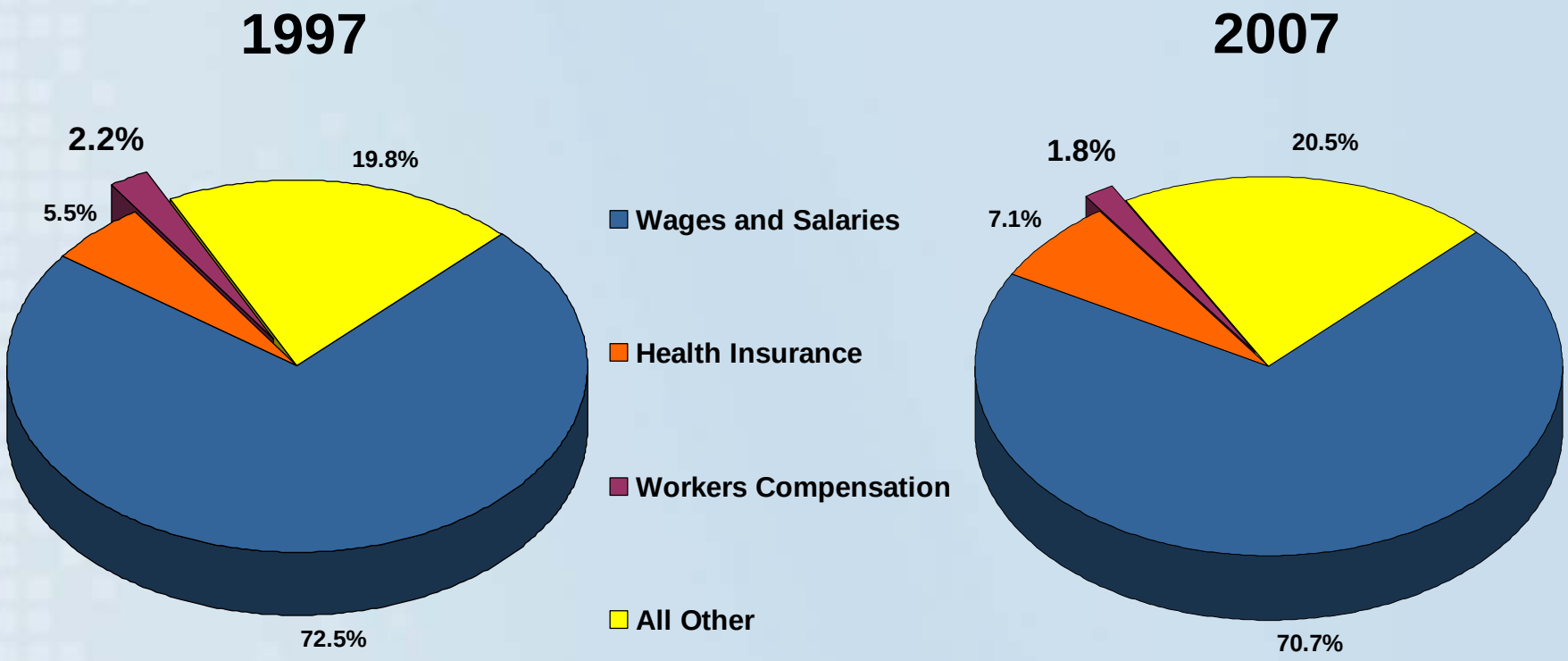
Employer Costs As Percentage of Total Compensation

Private Industry



All Other includes Paid Leave, Supplemental Pay, Insurance (other than Health), Social Security, Retirement and Savings
Source: US Department of Labor, Bureau of Labor Statistics

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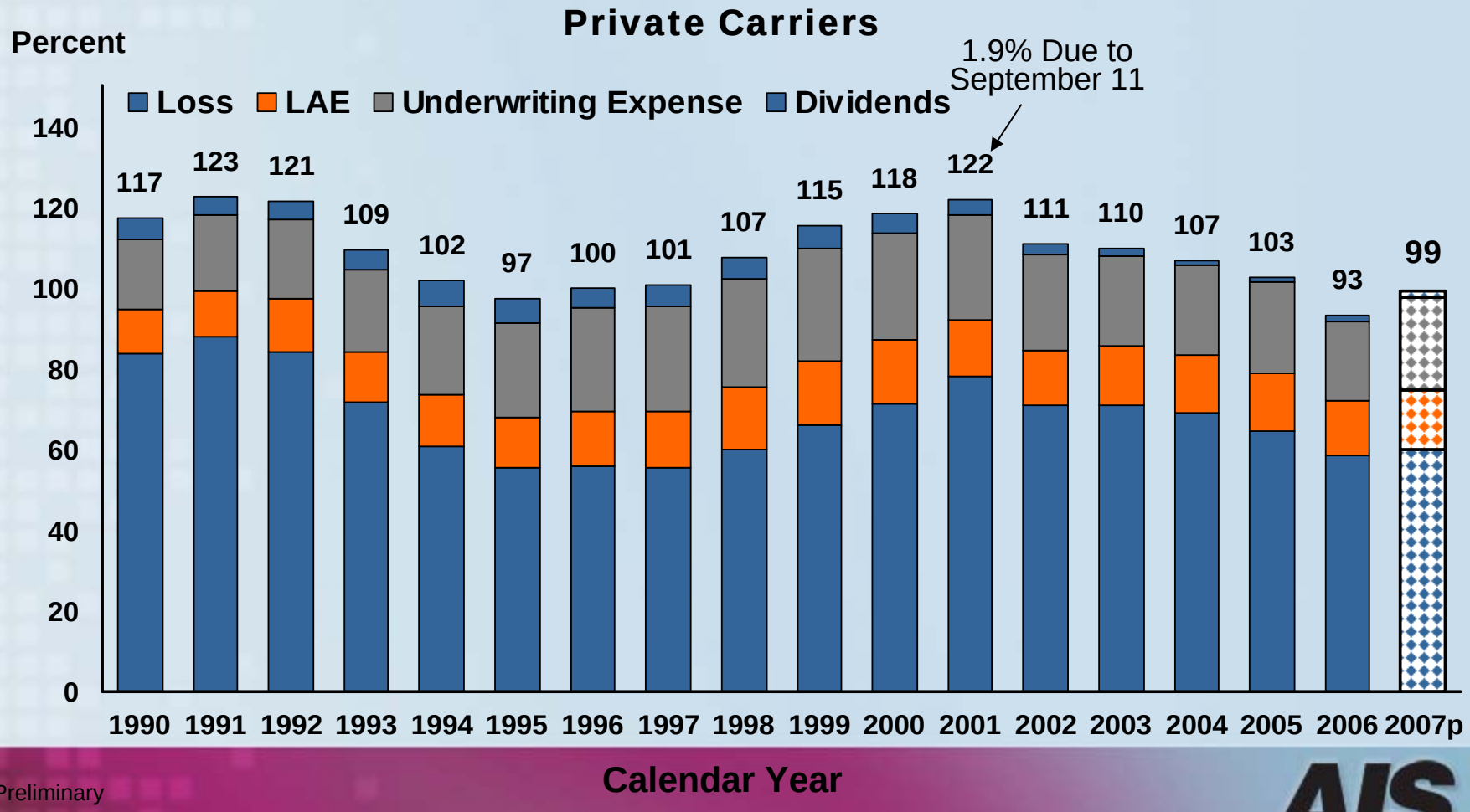
WC Calendar Year Combined Ratio—Will History Repeat Itself?



p Preliminary

Source: 1990–2006, *Best's Aggregates & Averages*; 2007p, NCCI

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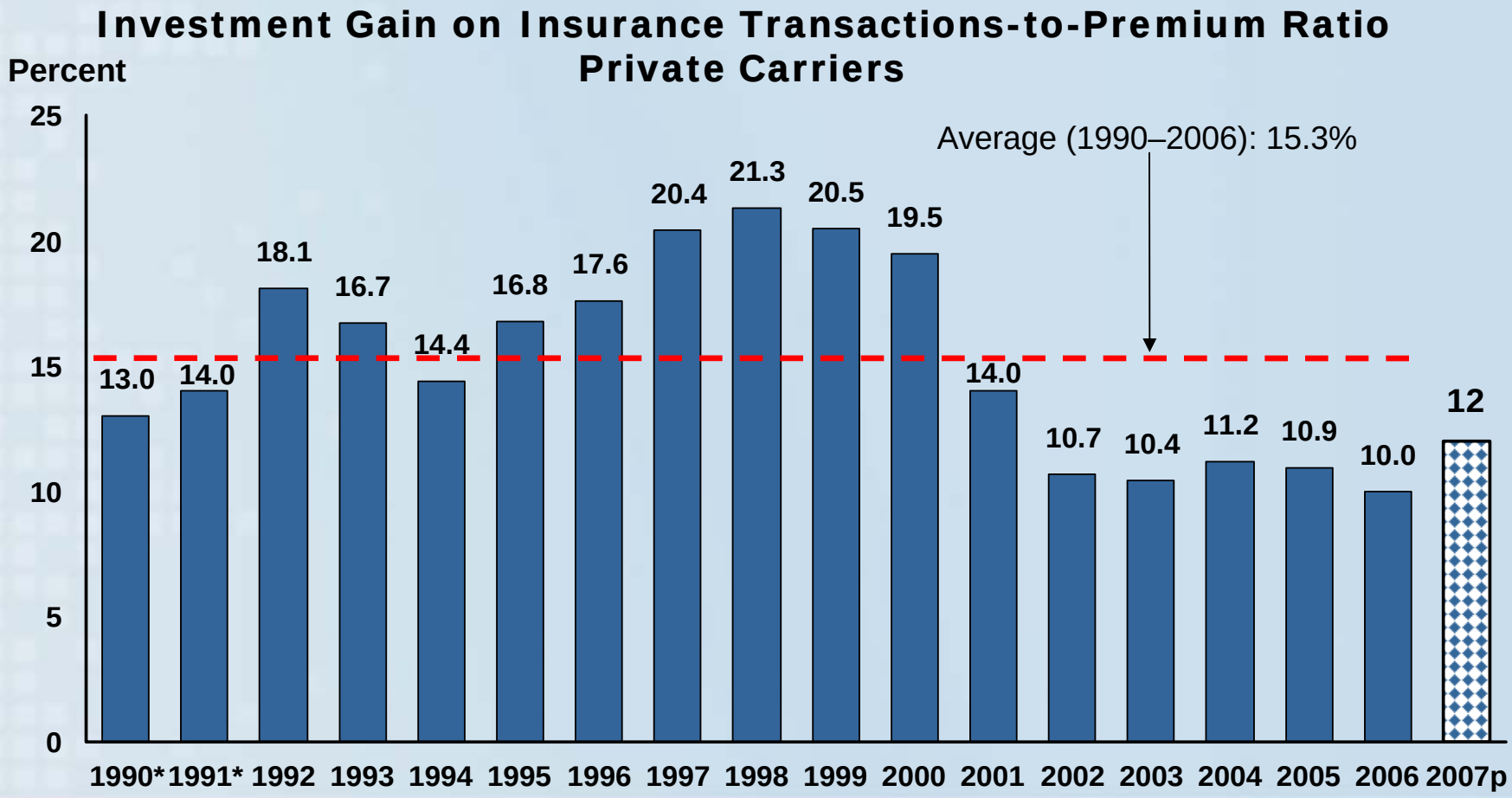
Workers Compensation Investment Returns Remain Below Historical Average



p Preliminary
* Adjusted to include realized capital gains to be consistent with 1992 and after
Investment Gain on Insurance Transactions includes Other Income
Source: 1990–2006, *Best's Aggregates & Averages*; 2007p, NCCI

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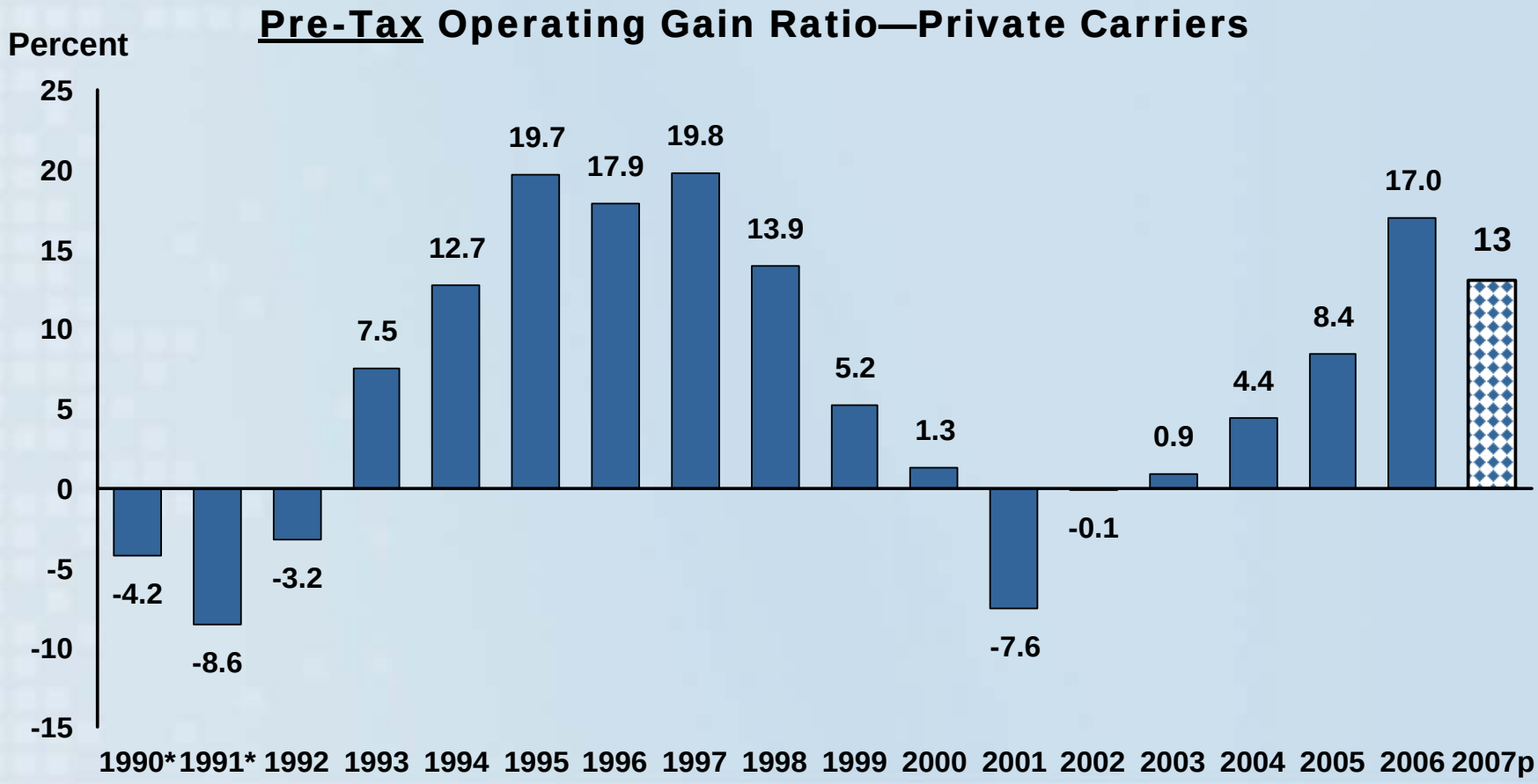
Workers Compensation Results Declined



p Preliminary
* Adjusted to include realized capital gains to be consistent with 1992 and after
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)
Source: 1990–2006, *Best's Aggregates & Averages*; 2007p, NCCI

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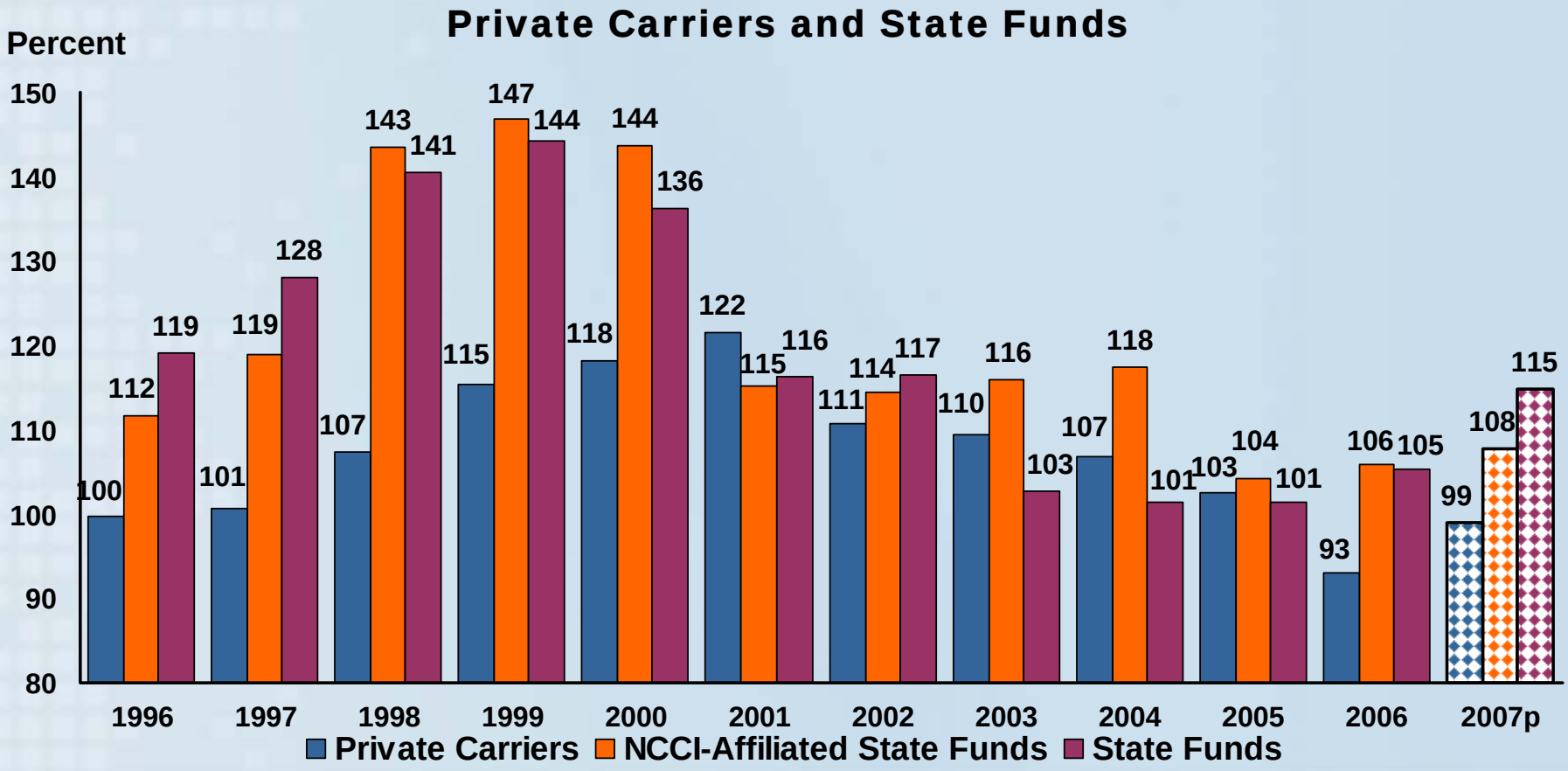
Workers Compensation
Calendar Year Net Combined Ratios



p Preliminary

Source: 1996–2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI
1996–2007p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
1996–2007p State Funds: AZ, ***CA***, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, ***TX***, UT Annual Statements

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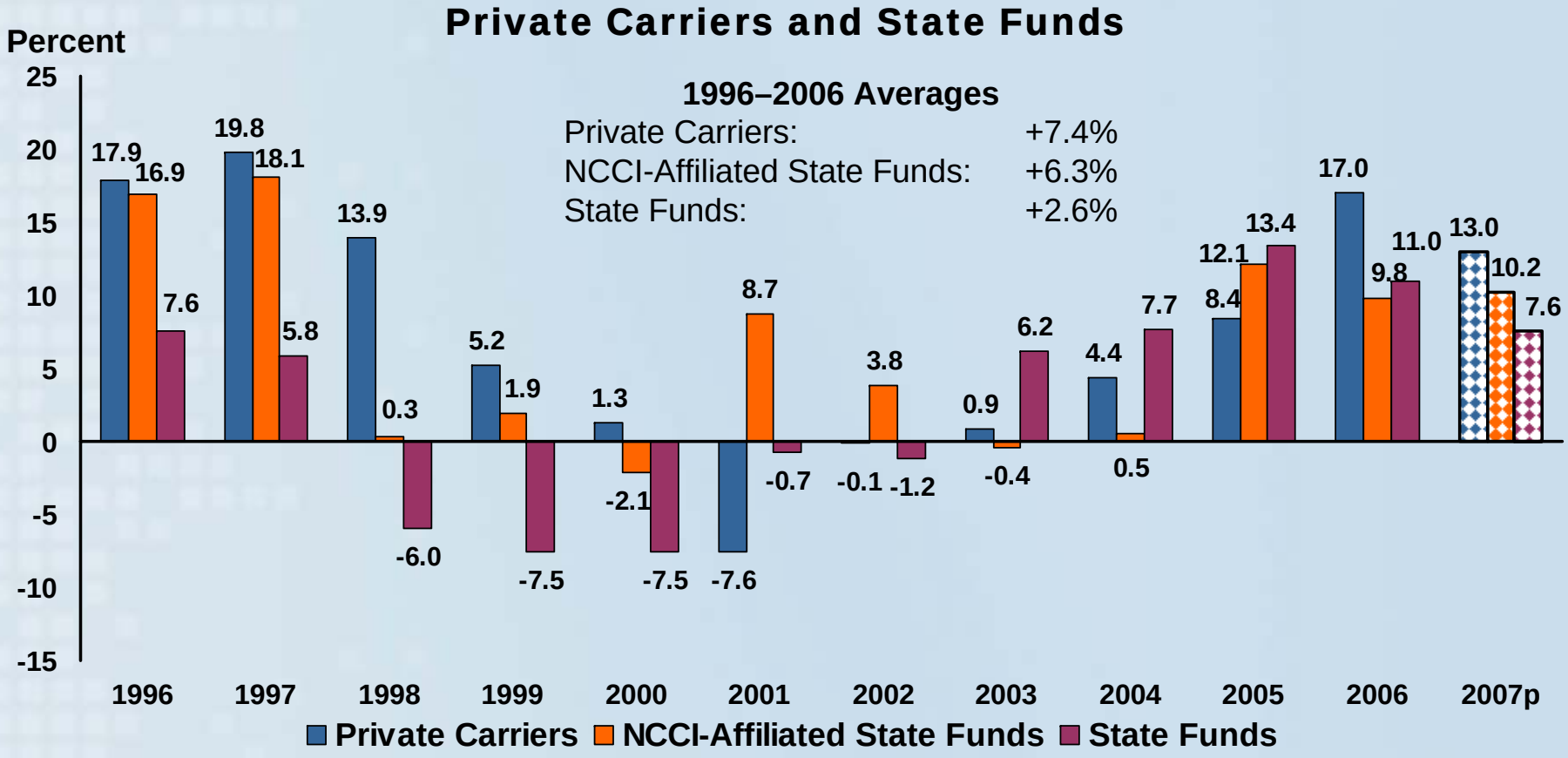
Workers Compensation
Pre-Tax Operating Gain Ratios



Calendar Year

p Preliminary
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)
Source: 1996–2006 Private Carriers, *Best's Aggregates & Averages*; 2007p, NCCI
1996–2007p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
1996–2007p State Funds: AZ, ***CA***, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, ***TX***, UT Annual Statements

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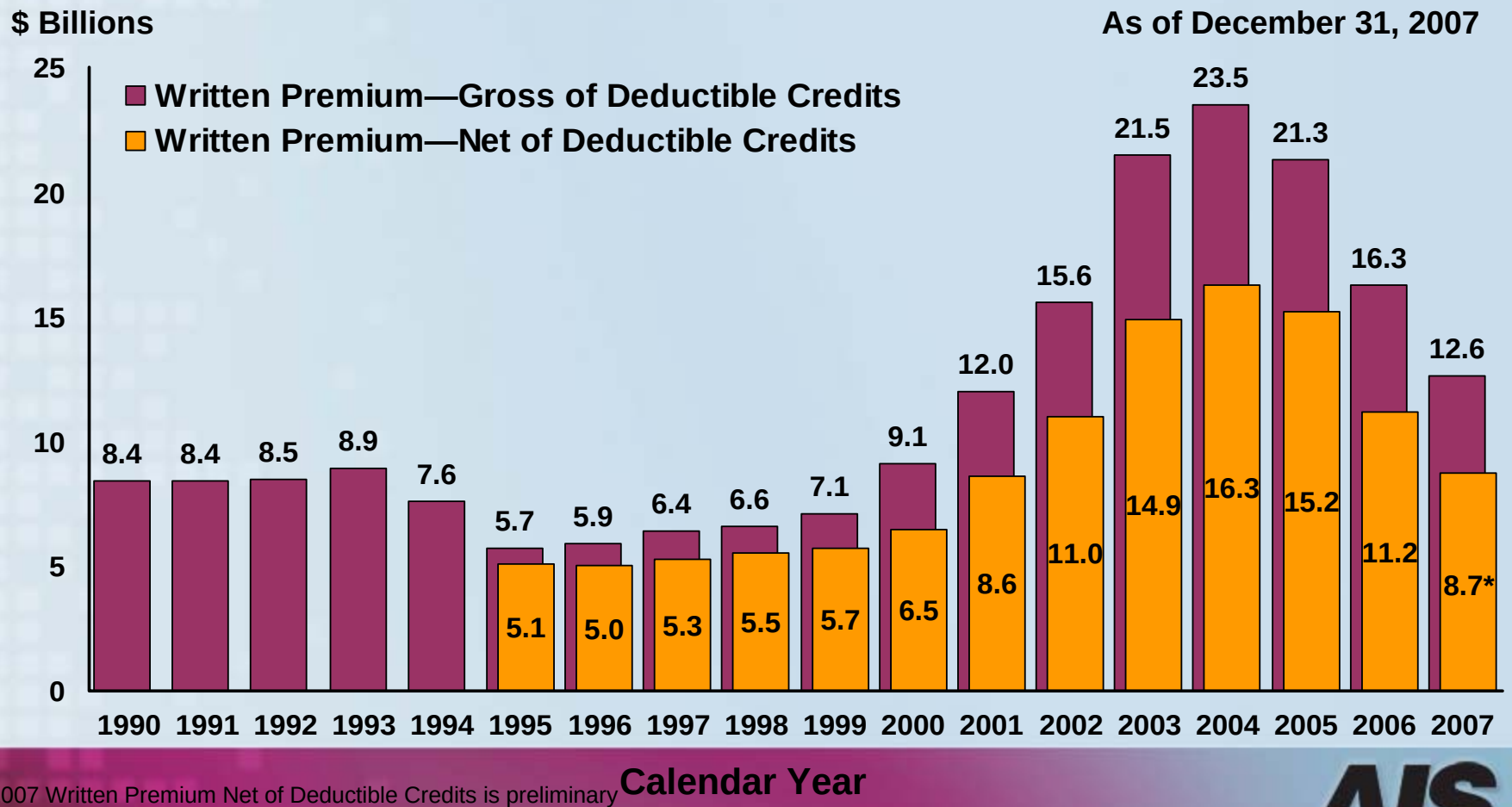
California Workers Compensation Written Premium



* 2007 Written Premium Net of Deductible Credits is preliminary
Data includes State Compensation Insurance Fund

Source: WCIRB California®

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California Workers Compensation CY Combined Loss and Expense Ratios

* 2007 Combined Loss and Expense Ratio is preliminary
Data includes State Compensation Insurance Fund

Source: WCIRB California®

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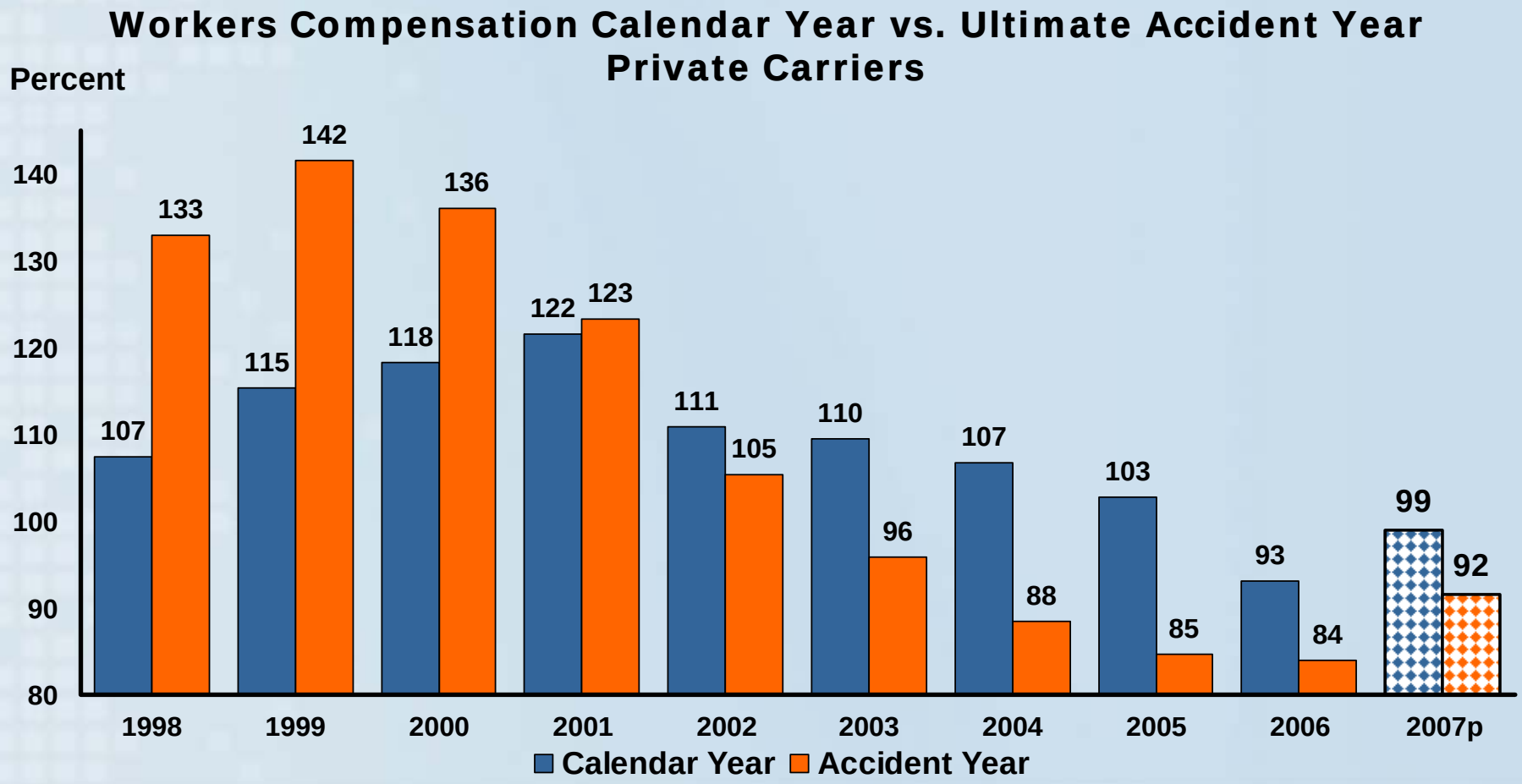
Workers Compensation

Accident Year Results and Reserve Estimates

Accident Year Combined Ratio—Another Underwriting Gain in 2007



p Preliminary
Accident Year data is evaluated as of 12/31/2007 and developed to ultimate
Source: Calendar Years 1998–2006, *Best's Aggregates & Averages*;
Calendar Year 2007p and Accident Years 1998–2007p, NCCI analysis based on Annual Statement data
Includes dividends to policyholders

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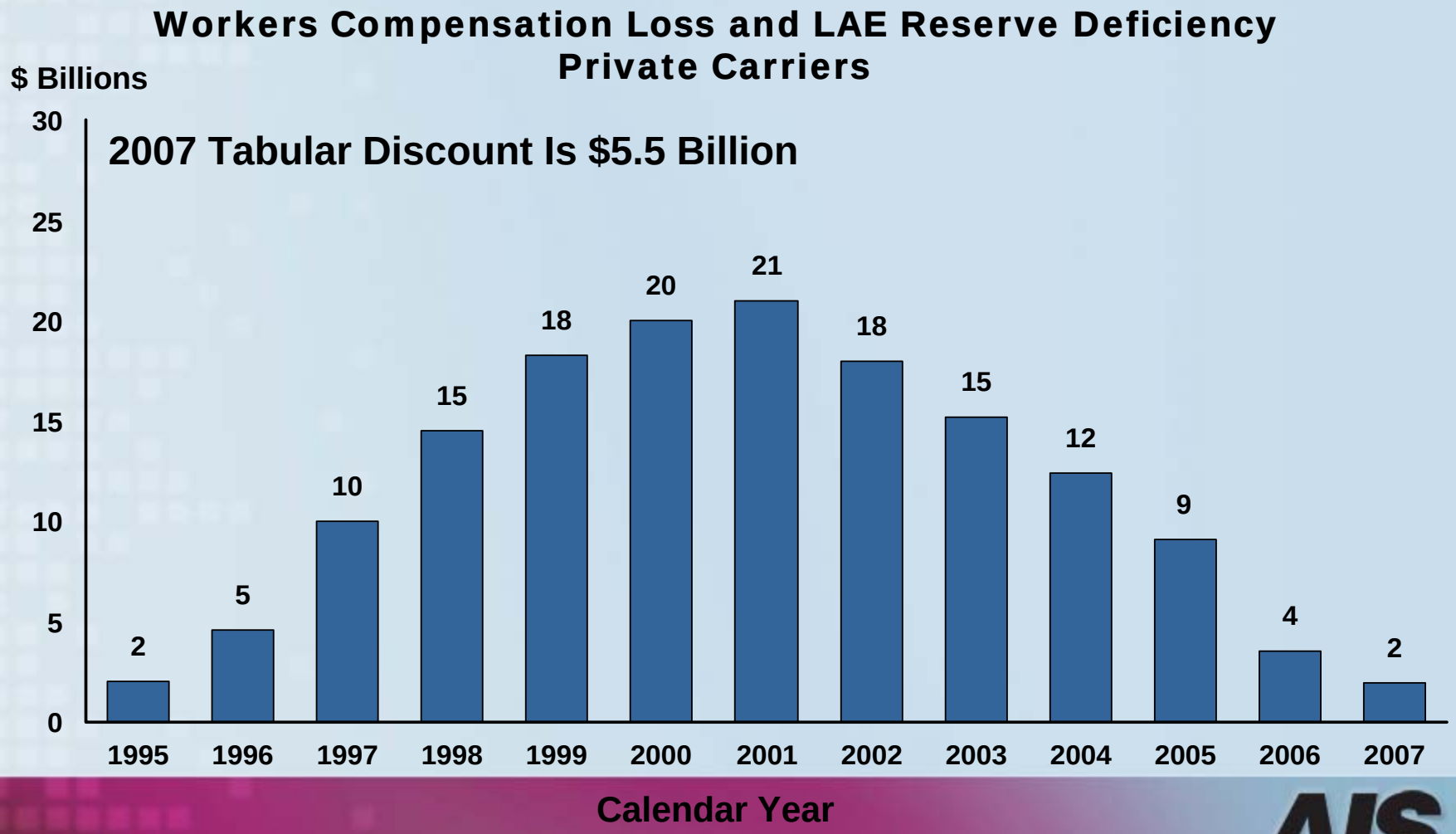
Calendar Year Reserve Deficiencies Continue to Decline



Considers all reserve discounts as deficiencies
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections
Source: NCCI analysis

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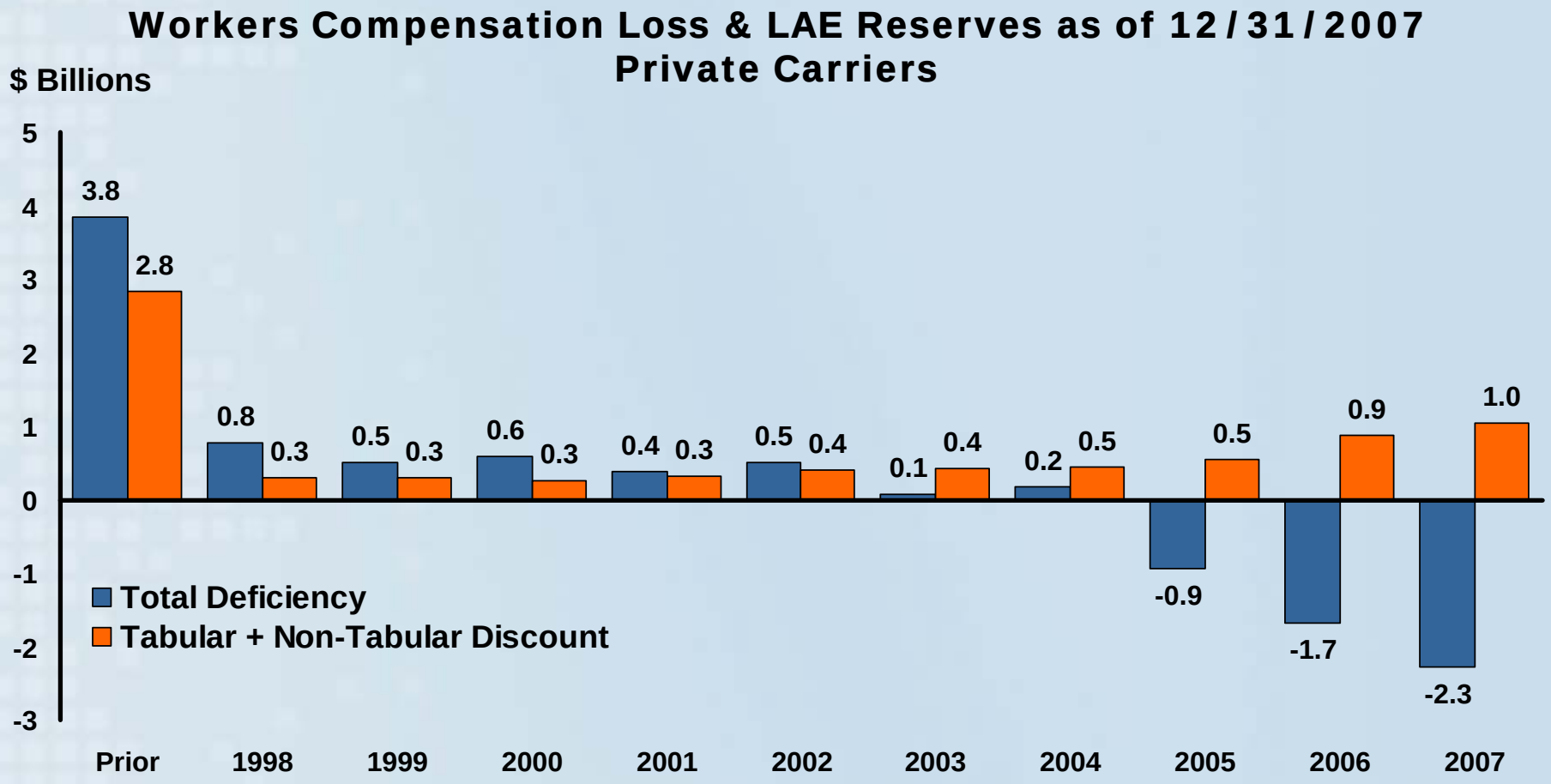
Reserve Deficiency by Accident Year



Considers all reserve discounts as deficiencies

Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers

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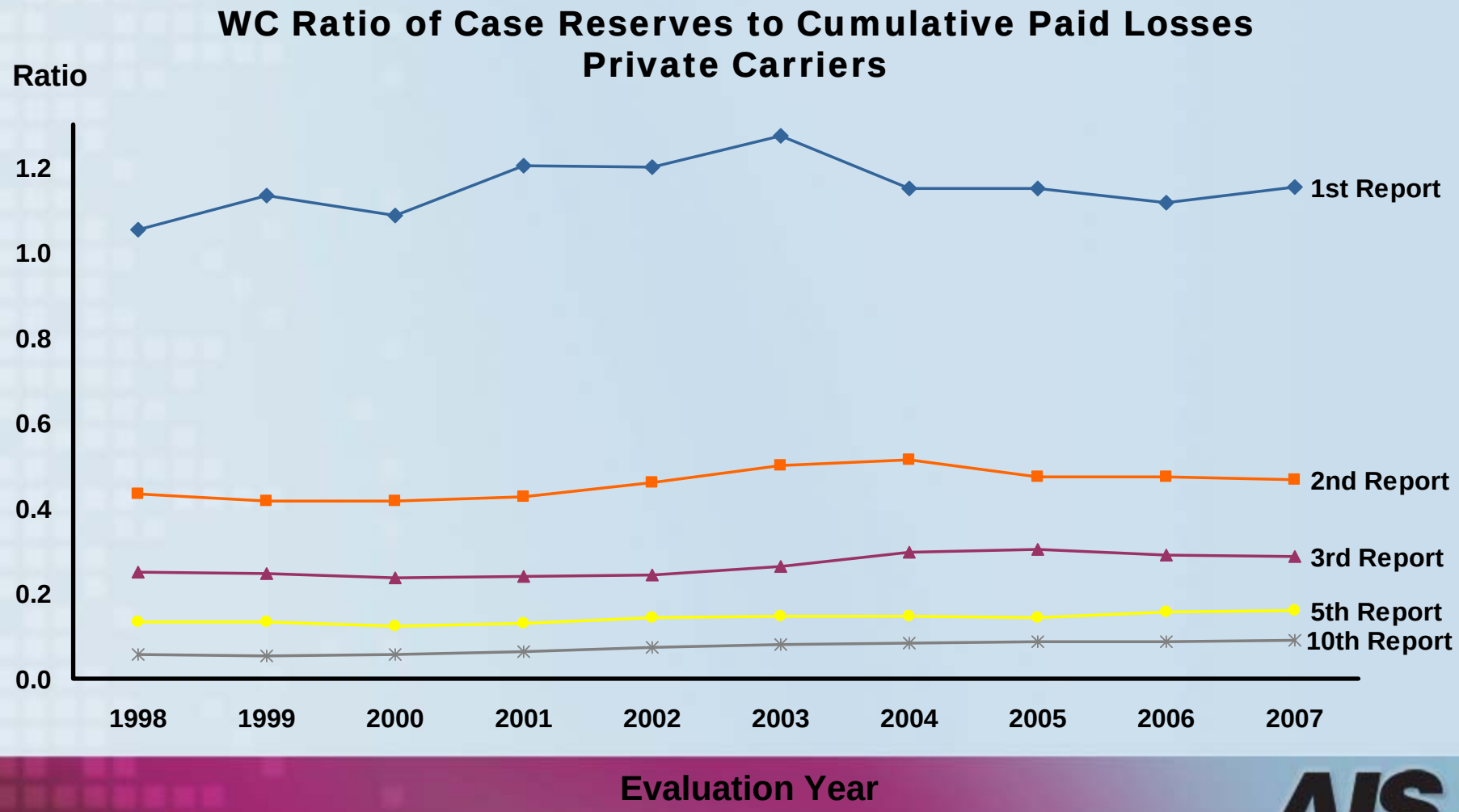
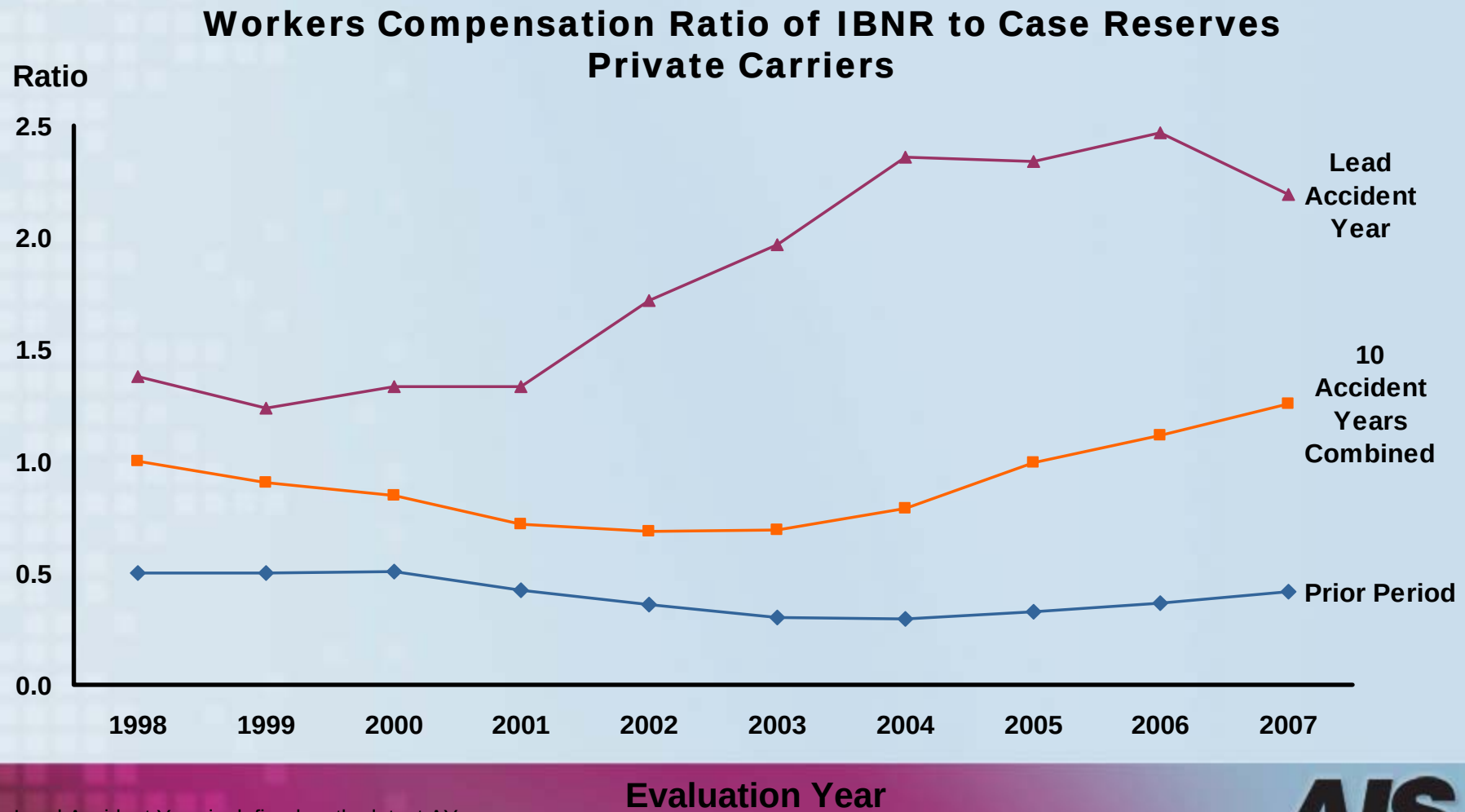
Case Reserves Are Stable Versus Paid Losses



Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers

Strengthening of Reserves Has Taken Place in IBNR



Lead Accident Year is defined as the latest AY
10 Accident Years Combined are defined as the latest 10 Accident Years (for a given evaluation year)
Prior period is defined as all accident years older than 10 years
Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers

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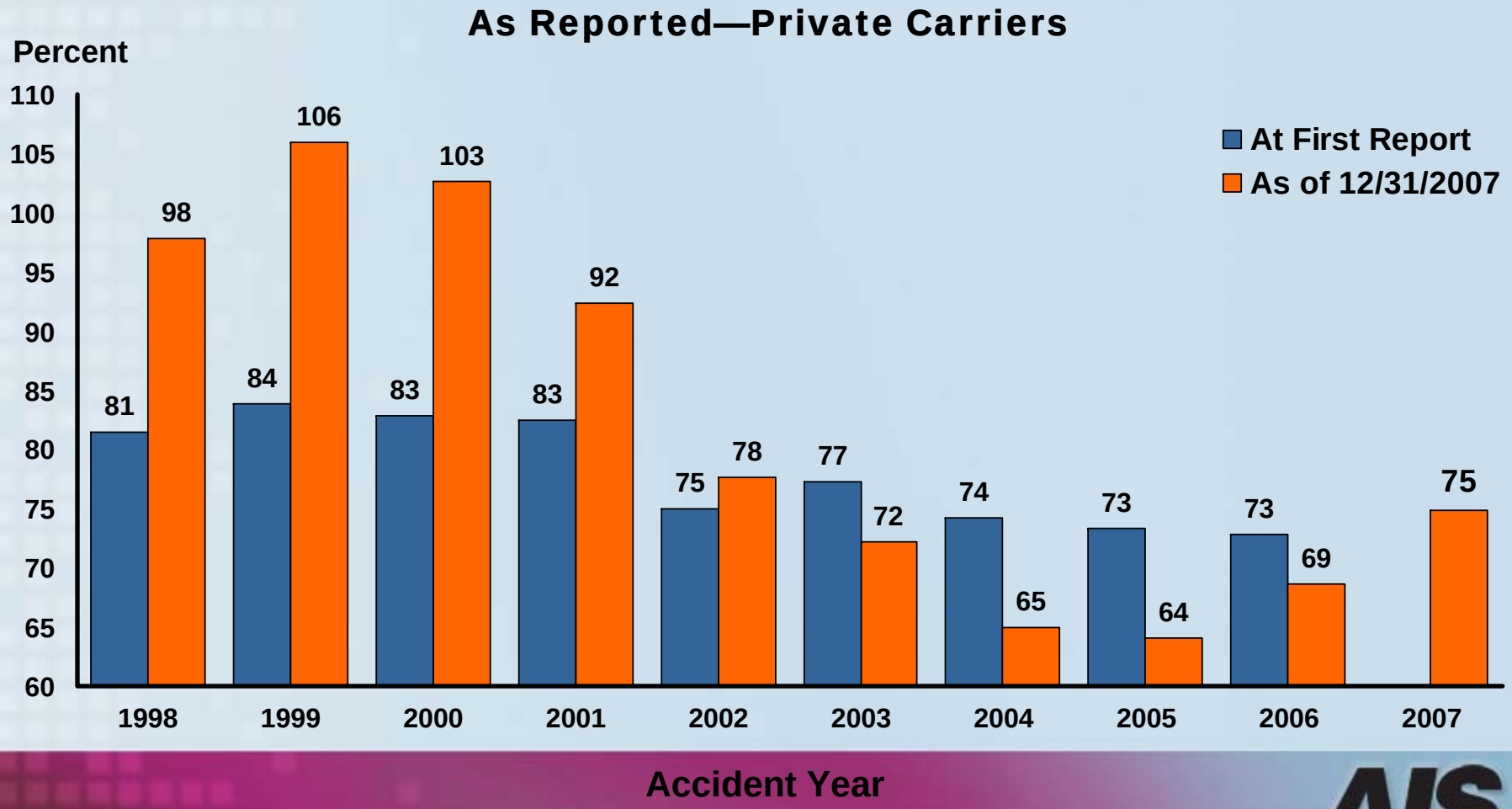
Workers Compensation
Accident Year Loss and LAE Ratios



Reported Loss and LAE ratios

Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers

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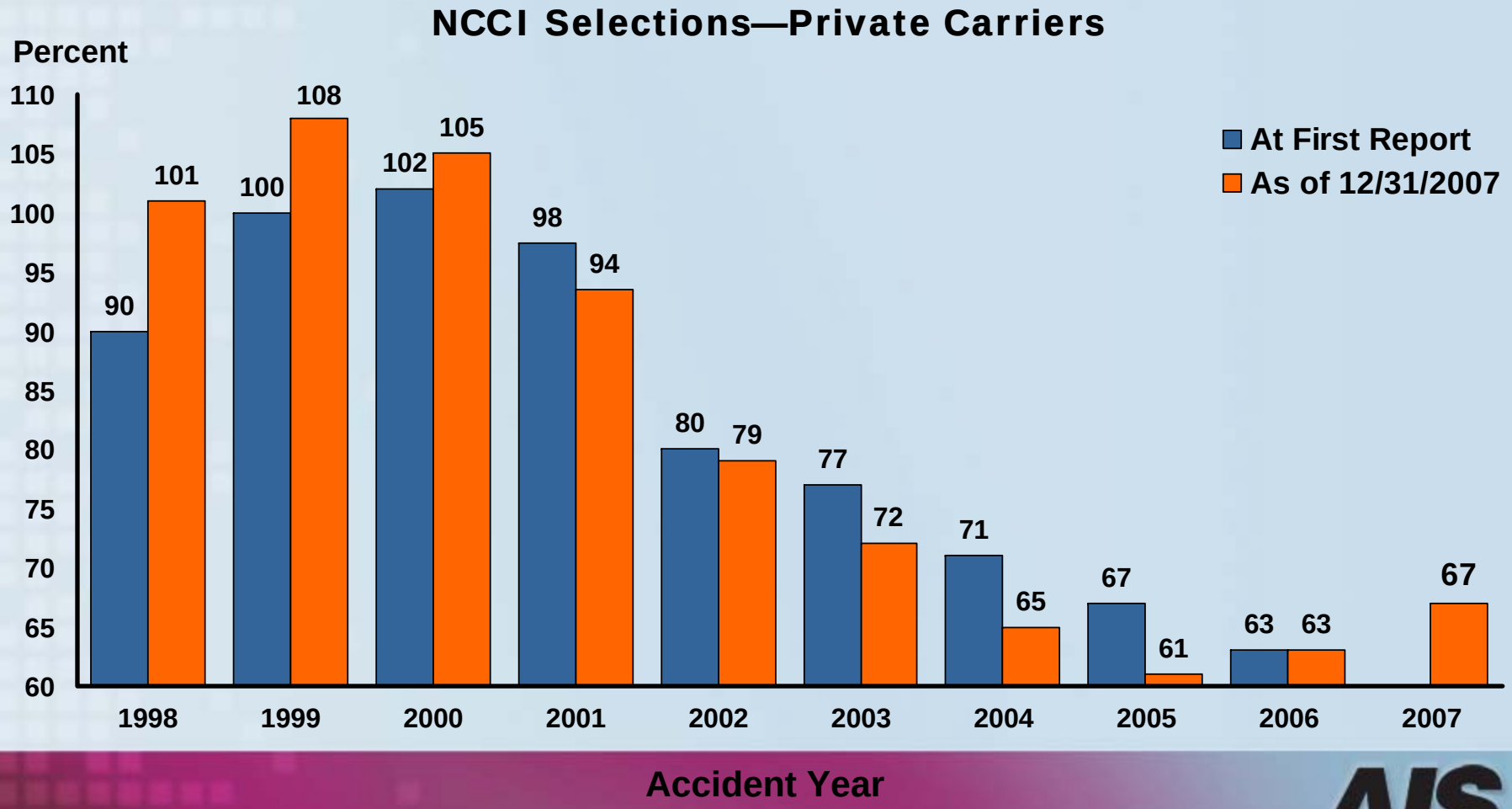
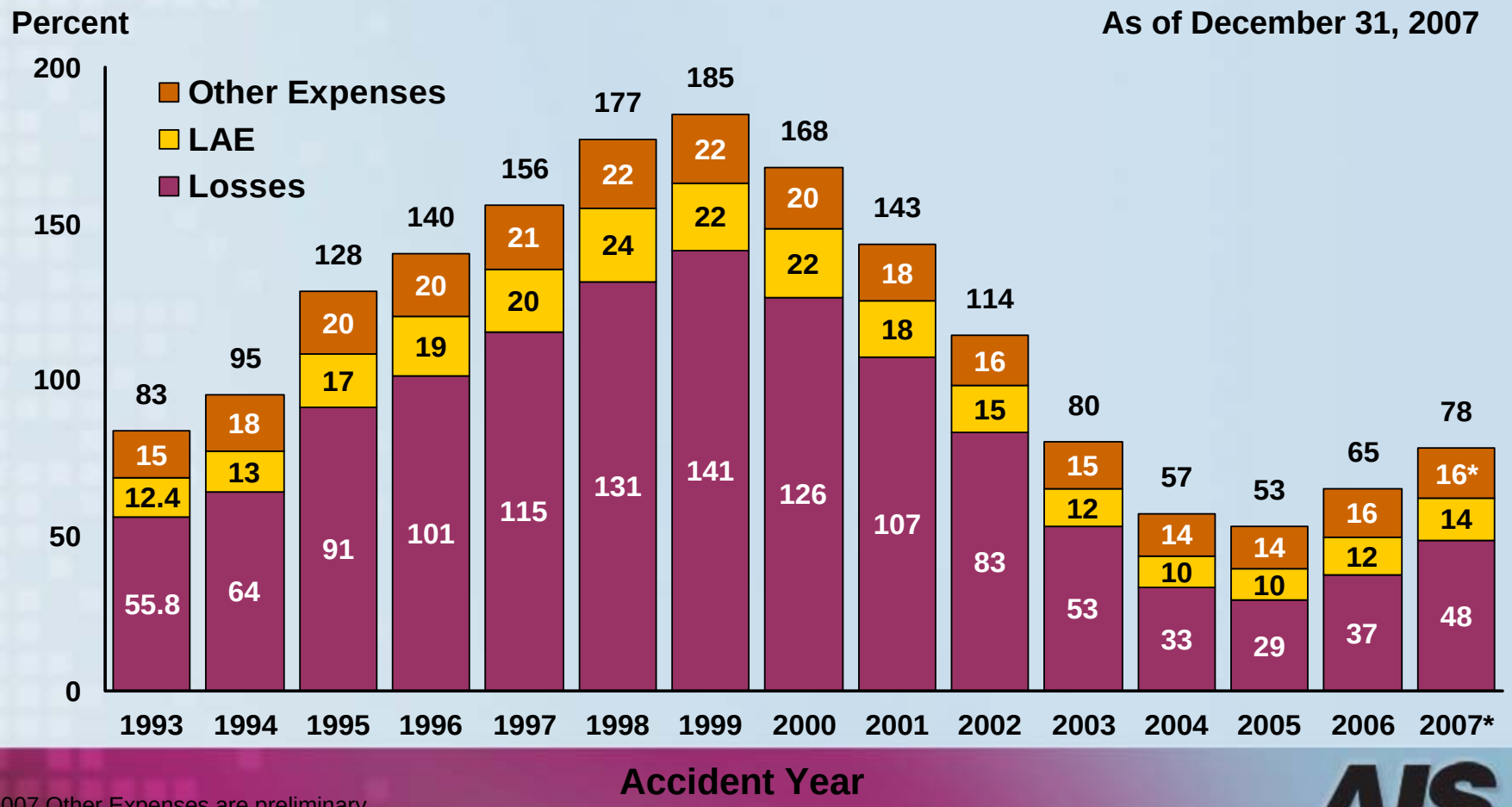
Workers Compensation
Accident Year Loss and LAE Ratios



Selected Loss and LAE ratios

Source: NCCI Reserve Analysis

California Workers Compensation AY Combined Loss and Expense Ratios



* 2007 Other Expenses are preliminary
Data includes State Compensation Insurance Fund

Source: WCIRB California®

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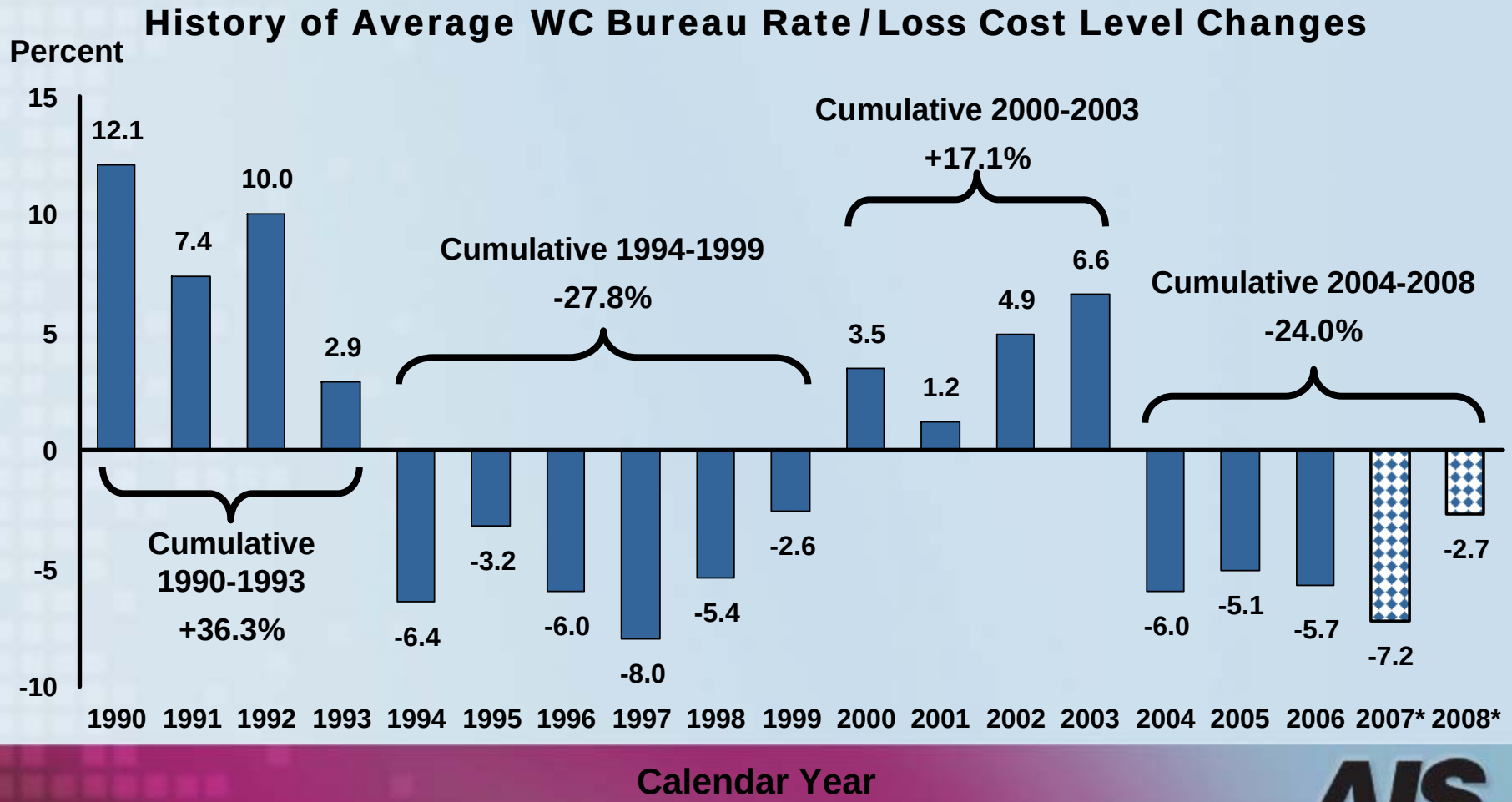
Workers Compensation

Premium Drivers

Average Approved Bureau Rates / Loss Costs



* States approved through 4/11/2008

Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

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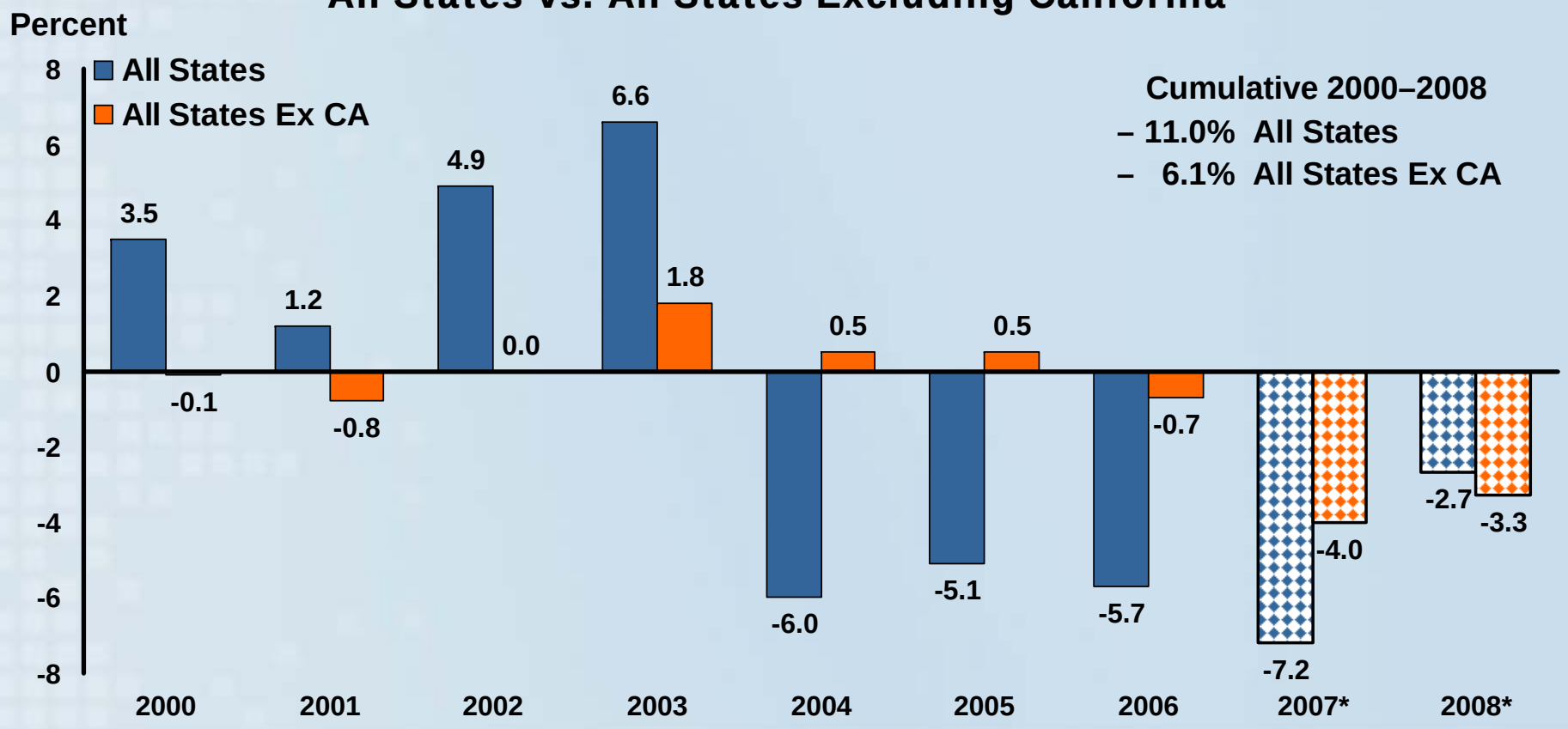
Average Approved Bureau Rates / Loss Costs

All States vs. All States Excluding California



Calendar Year

* States approved through 4/11/2008

Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

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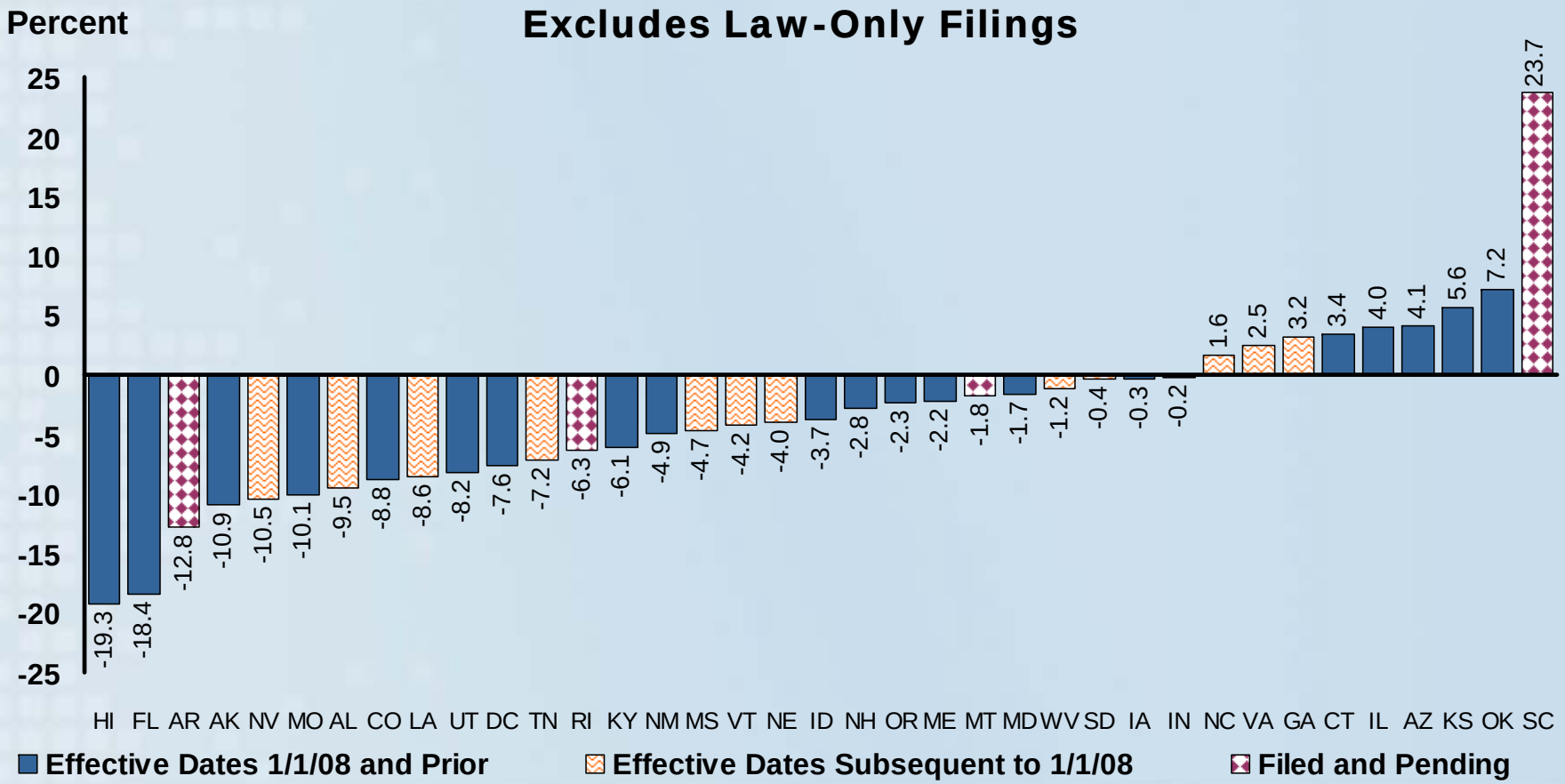
Current NCCI Voluntary Market Filed Rate / Loss Cost Changes



States filed through 4/18/2008

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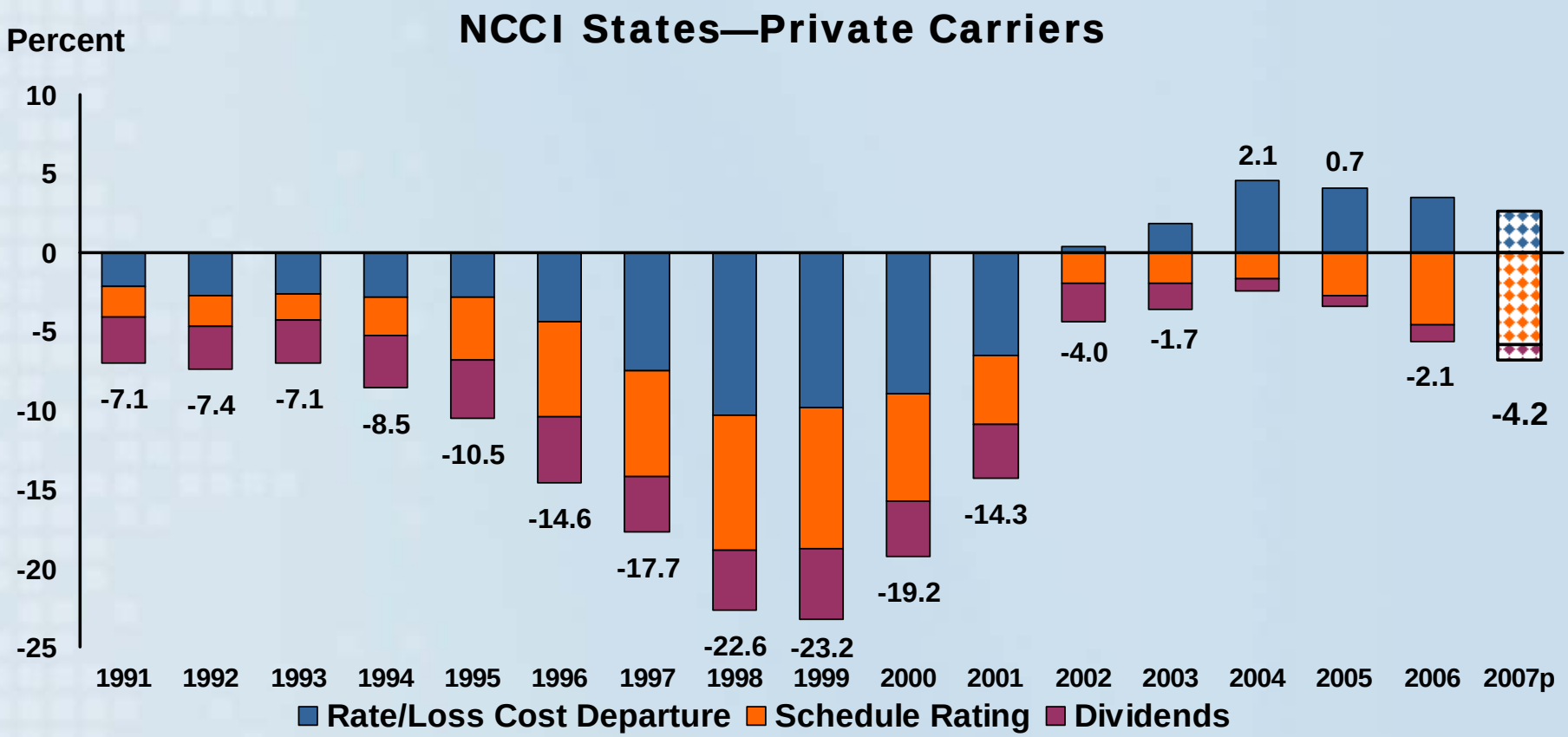
Impact of Discounting on Workers Compensation Premium



p Preliminary
NCCI benchmark level does not include an underwriting contingency provision
Dividend ratios are based on calendar year statistics
Based on data through 12/31/2007 for the states where NCCI provides ratemaking services

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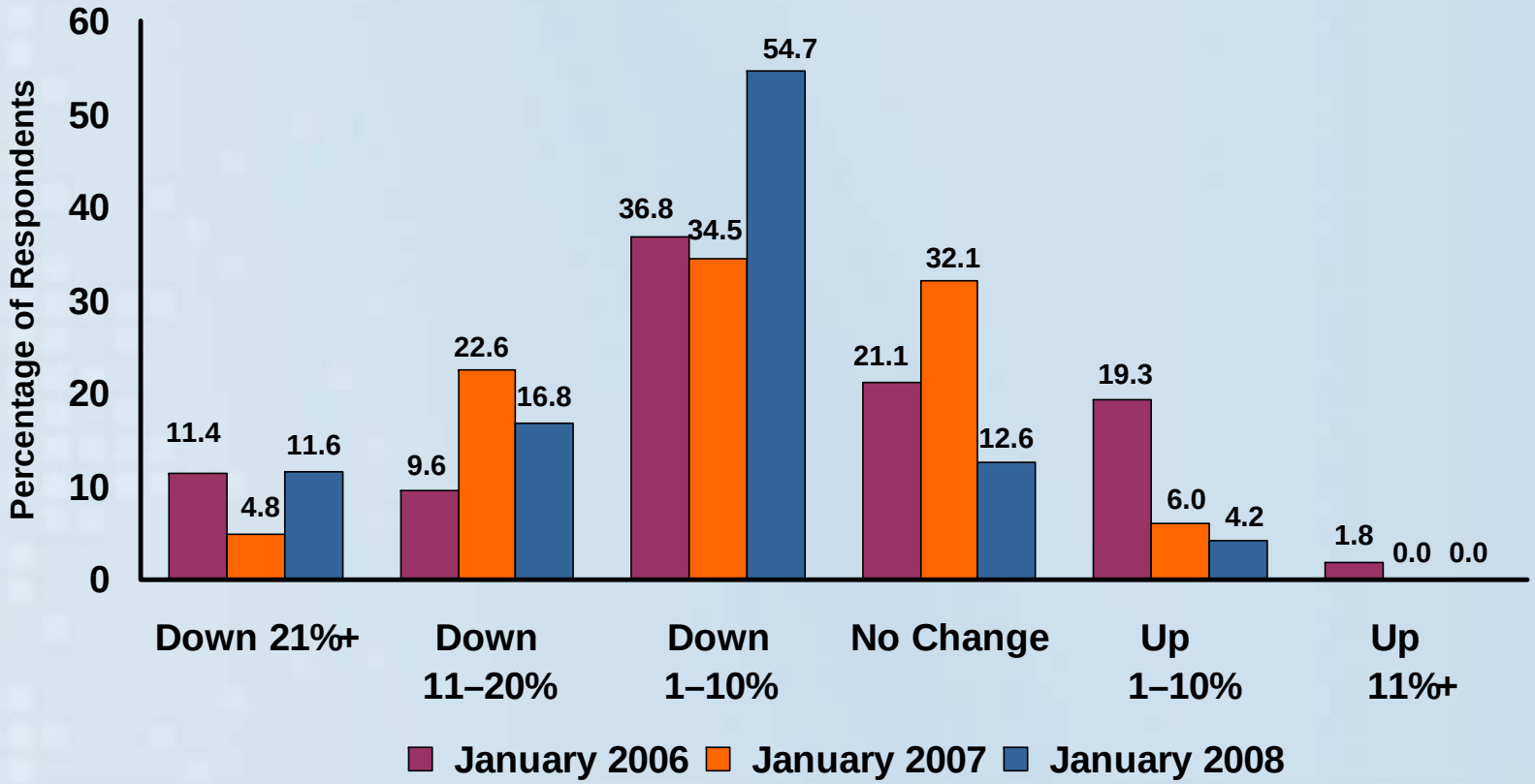
According to Goldman Sachs, Most Survey Respondents See Declining WC Prices

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior



Source: Goldman Sachs Research, "*Independent Insight | US Insurance: Non-Life,*" Proprietary Survey (Exhibit 8, Workers' Compensation, Percentage of Respondents)

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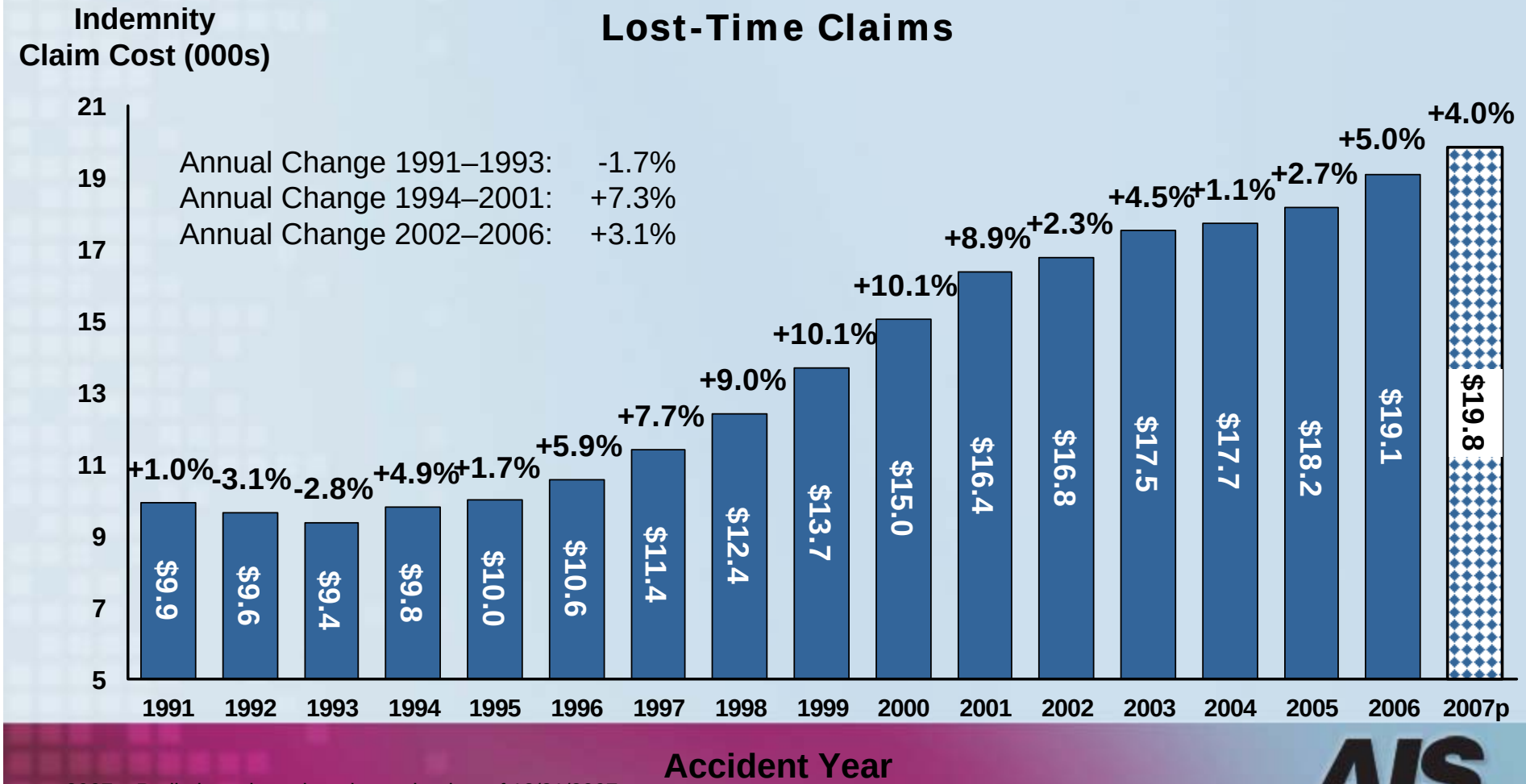
Workers Compensation

Loss Drivers

Workers Compensation Indemnity Claim Costs Growth Is Moderate



2007p: Preliminary based on data valued as of 12/31/2007
1991–2006: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

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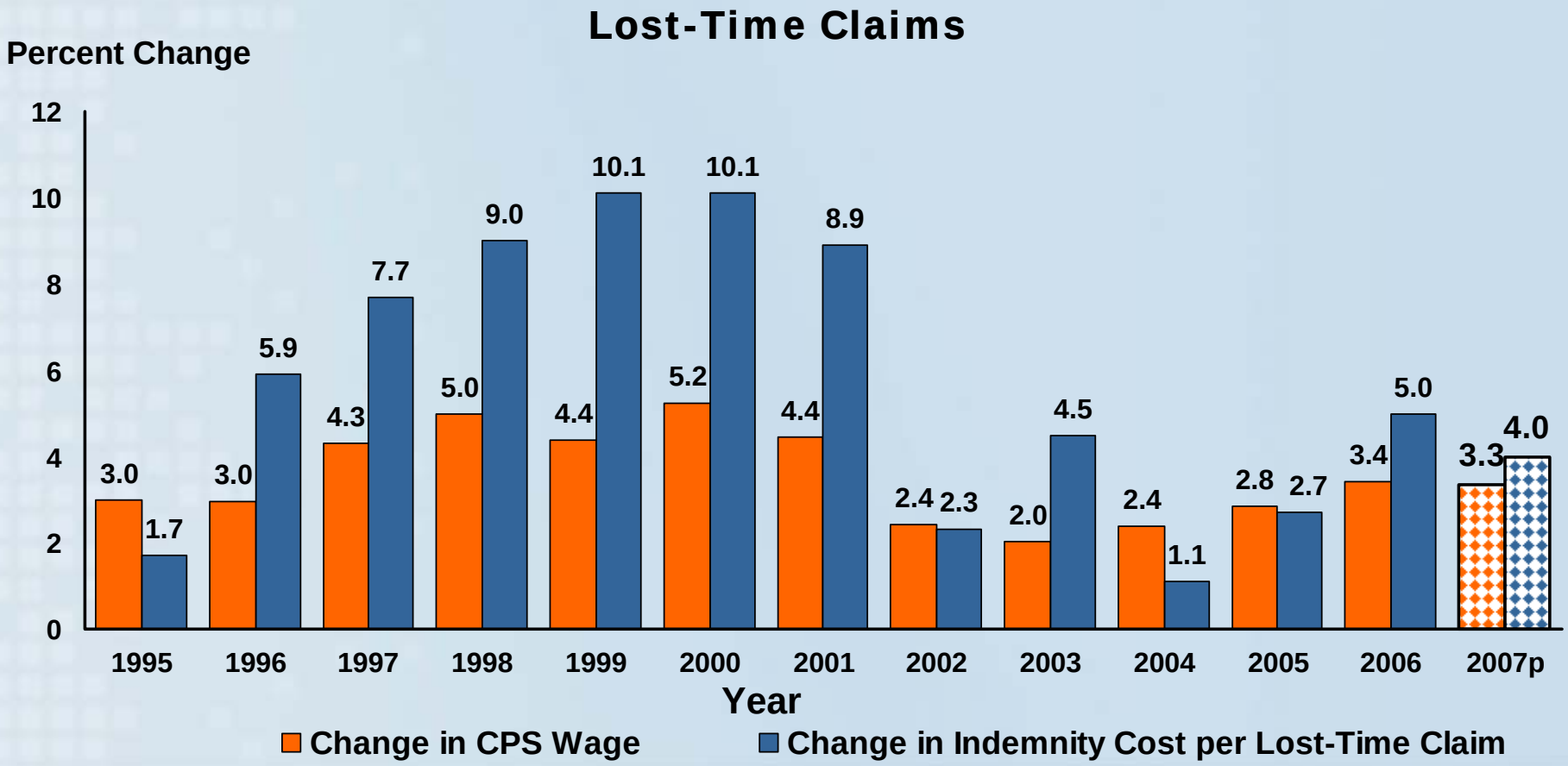
WC Indemnity Severity Outpacing Wage Inflation in 2007



Indemnity severity 2007p: Preliminary based on data valued as of 12/31/2007
Indemnity severity 1995–2006: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
Source: CPS Wage—All states (Current Population Survey), Economy.com;
Accident year indemnity severity—NCCI states, NCCI

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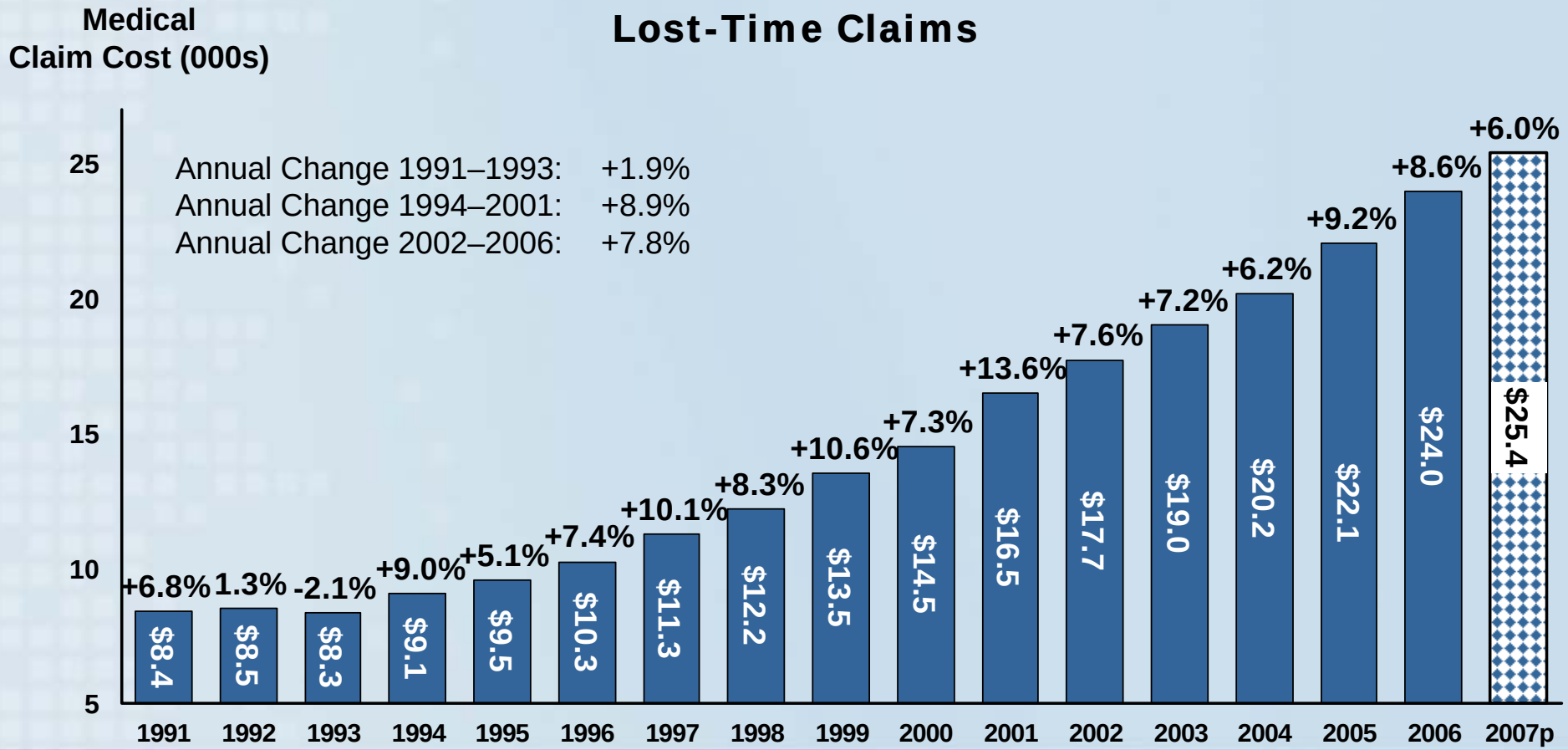
WC Medical Claim Cost Trends—Growth Continues in 2007



2007p: Preliminary based on data valued as of 12/31/2007
1991–2006: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

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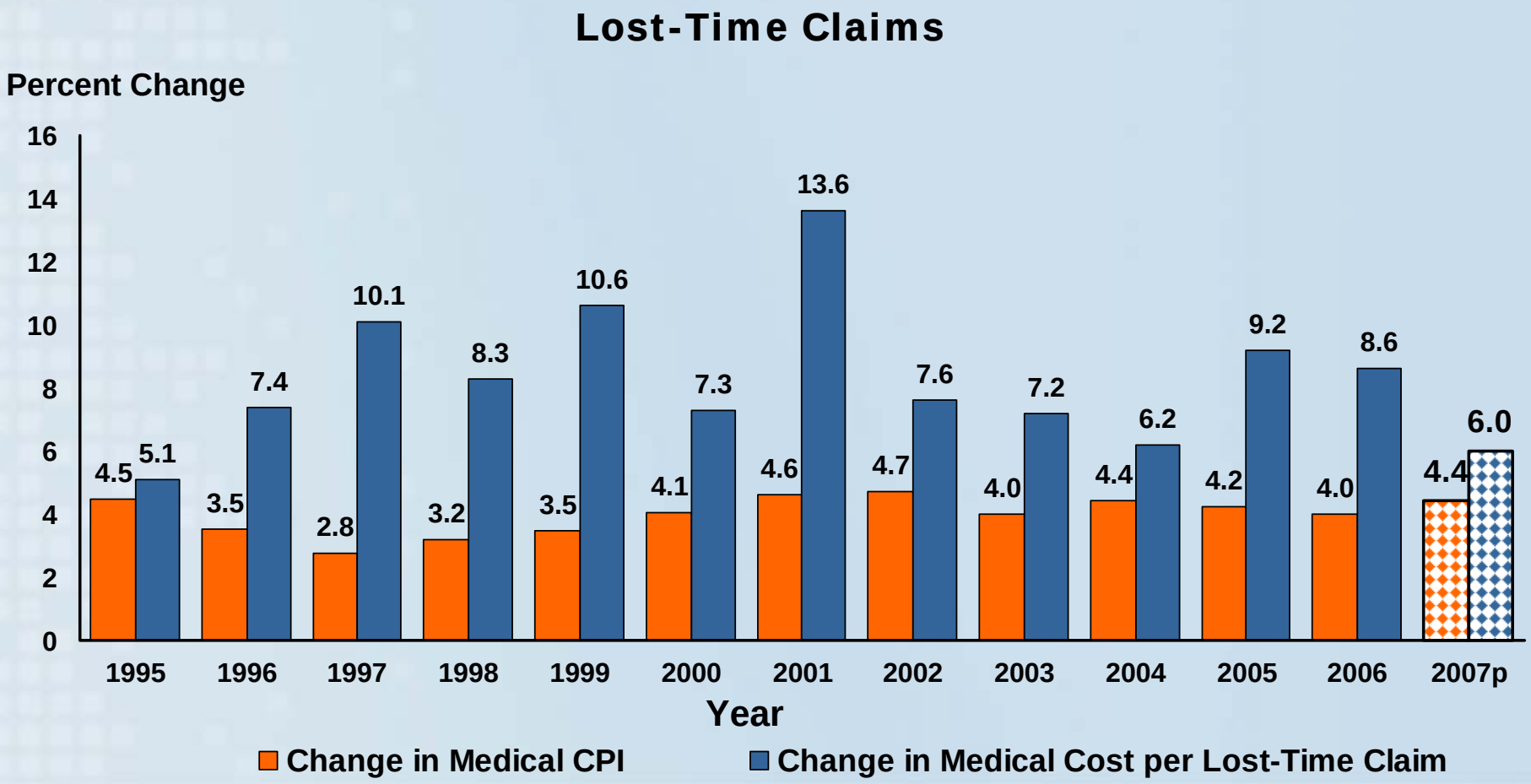
WC Medical Severity Still Growing Faster Than the Medical CPI



Medical severity 2007p: Preliminary based on data valued as of 12/31/2007
Medical severity 1995–2006: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

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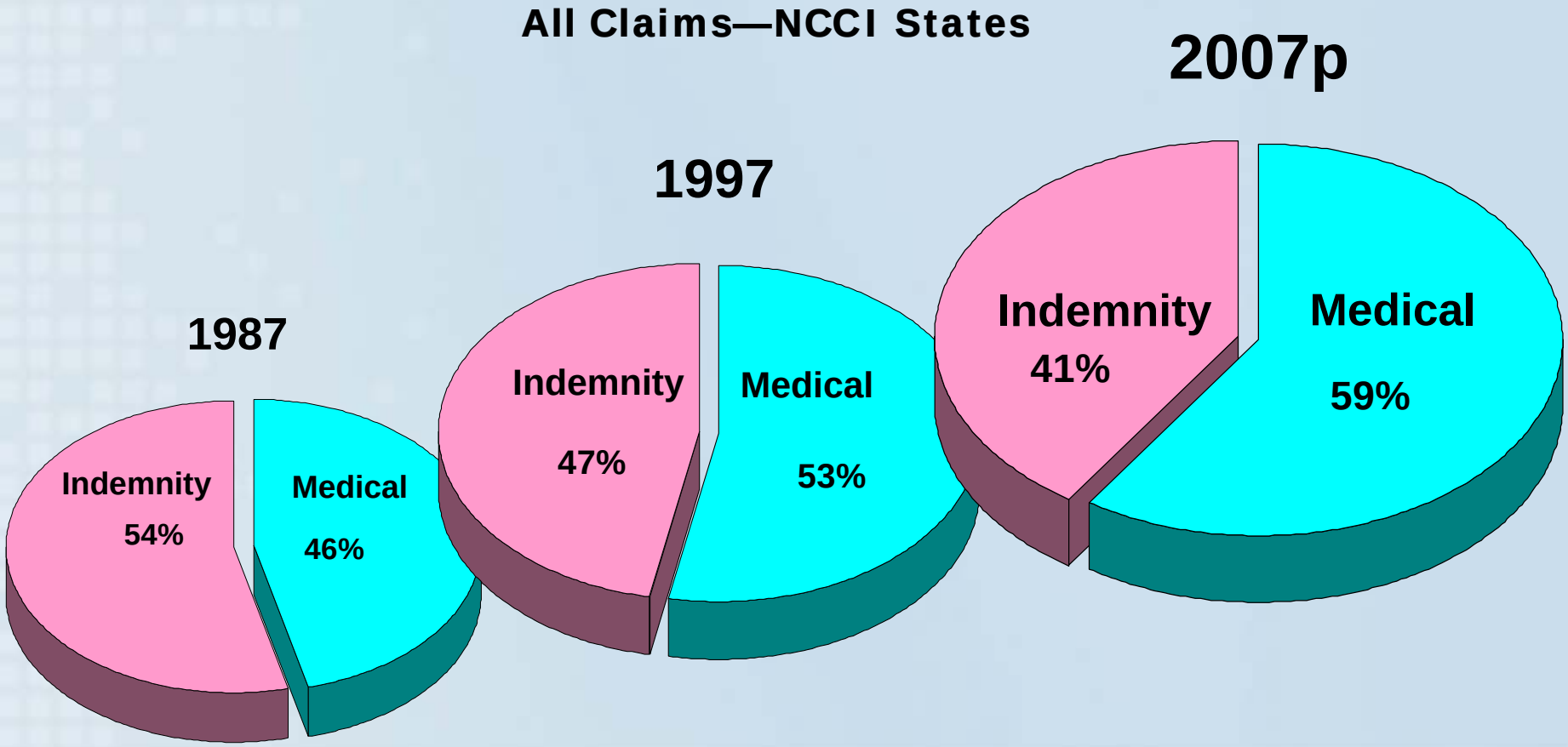
Workers Compensation Medical Losses Are More Than Half of Total Losses



2007p: Preliminary based on data valued as of 12/31/2007
1987, 1997: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

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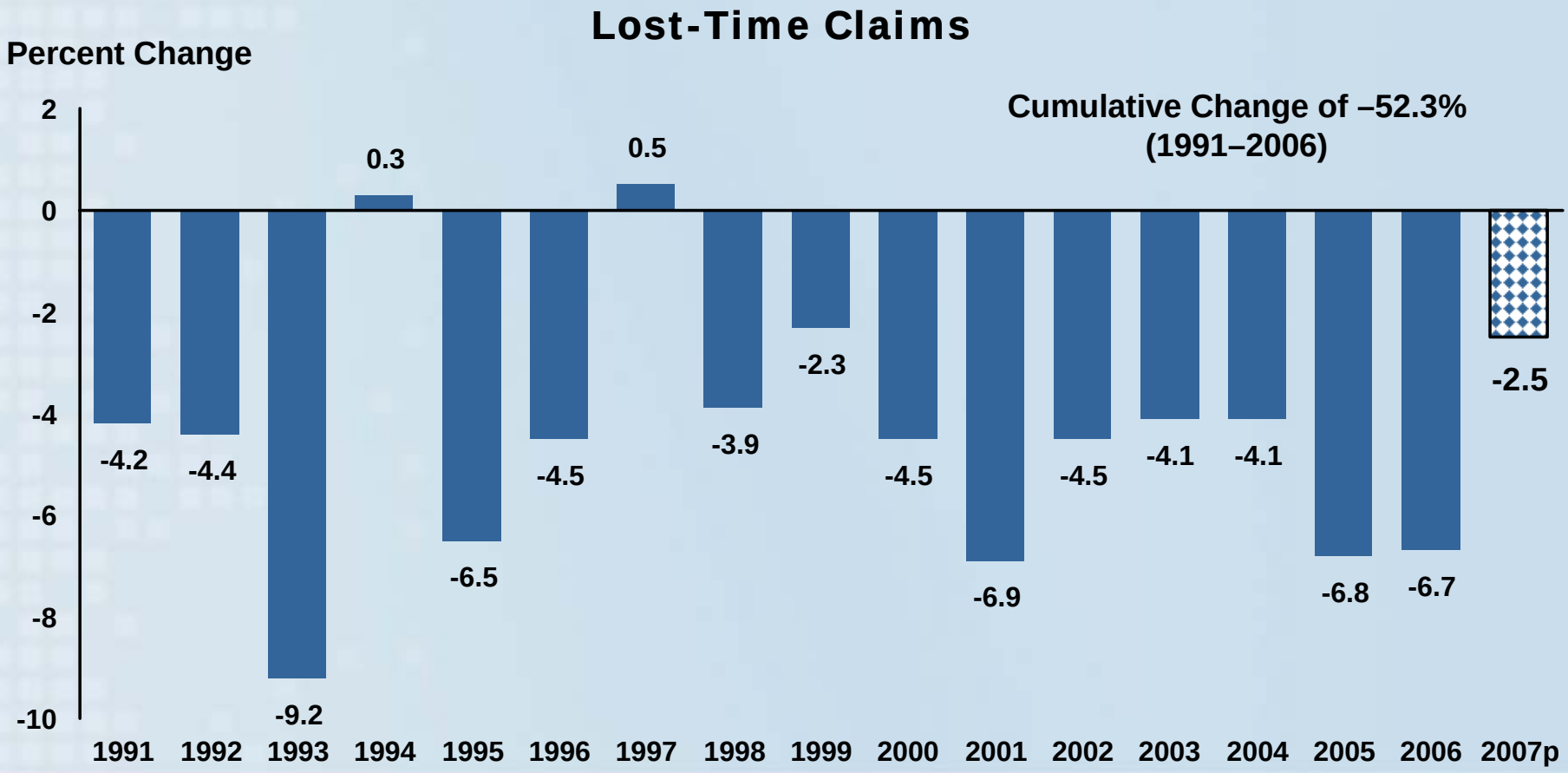
Workers Compensation Lost-Time Claim Frequency Continues to Decline



2007p: Preliminary based on data valued as of 12/31/2007
1991–2006: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

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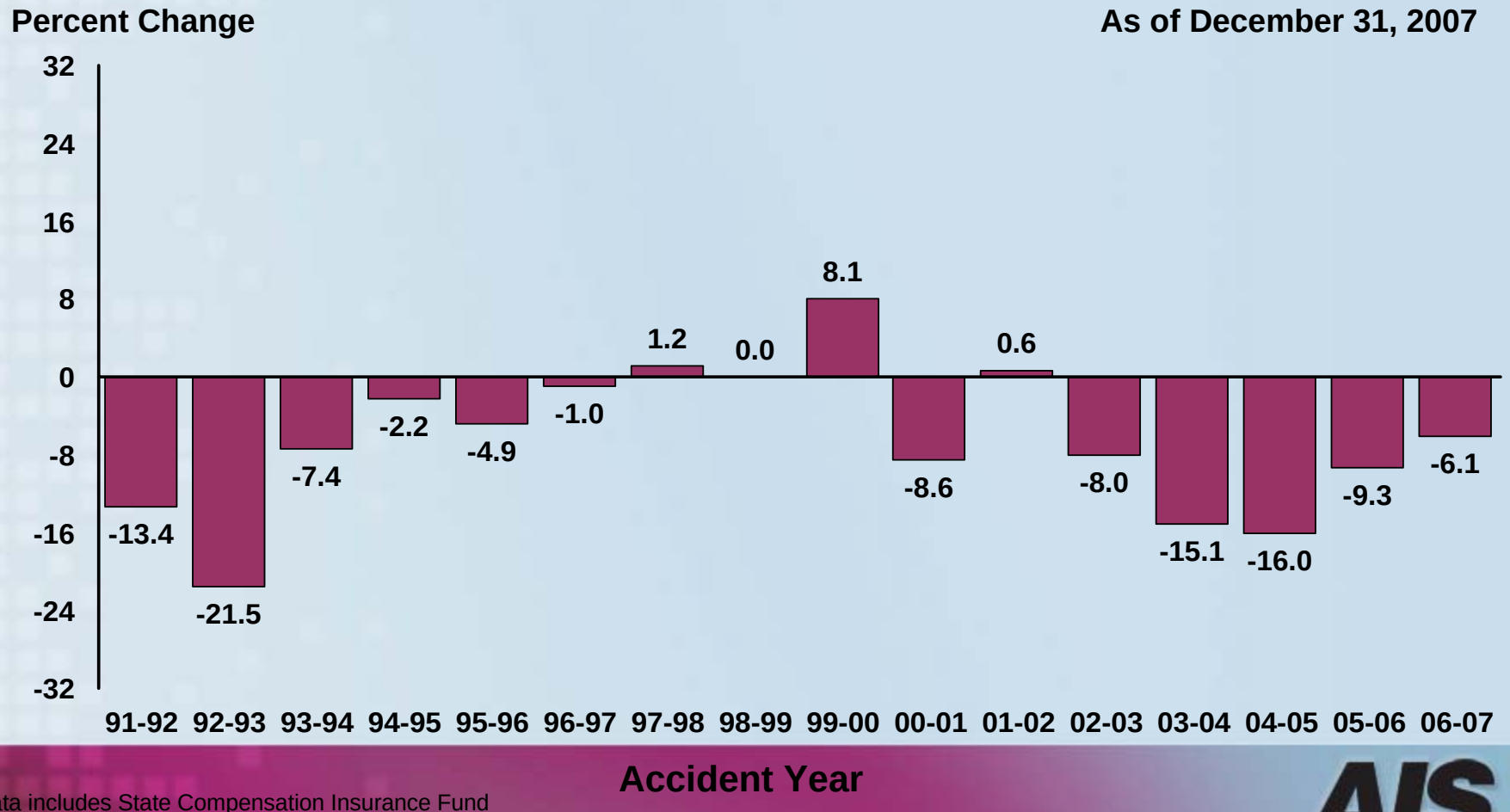
California Workers Compensation Estimated Percentage Change in Indemnity Claim Frequency by AY



Data includes State Compensation Insurance Fund

Source: WCIRB California®

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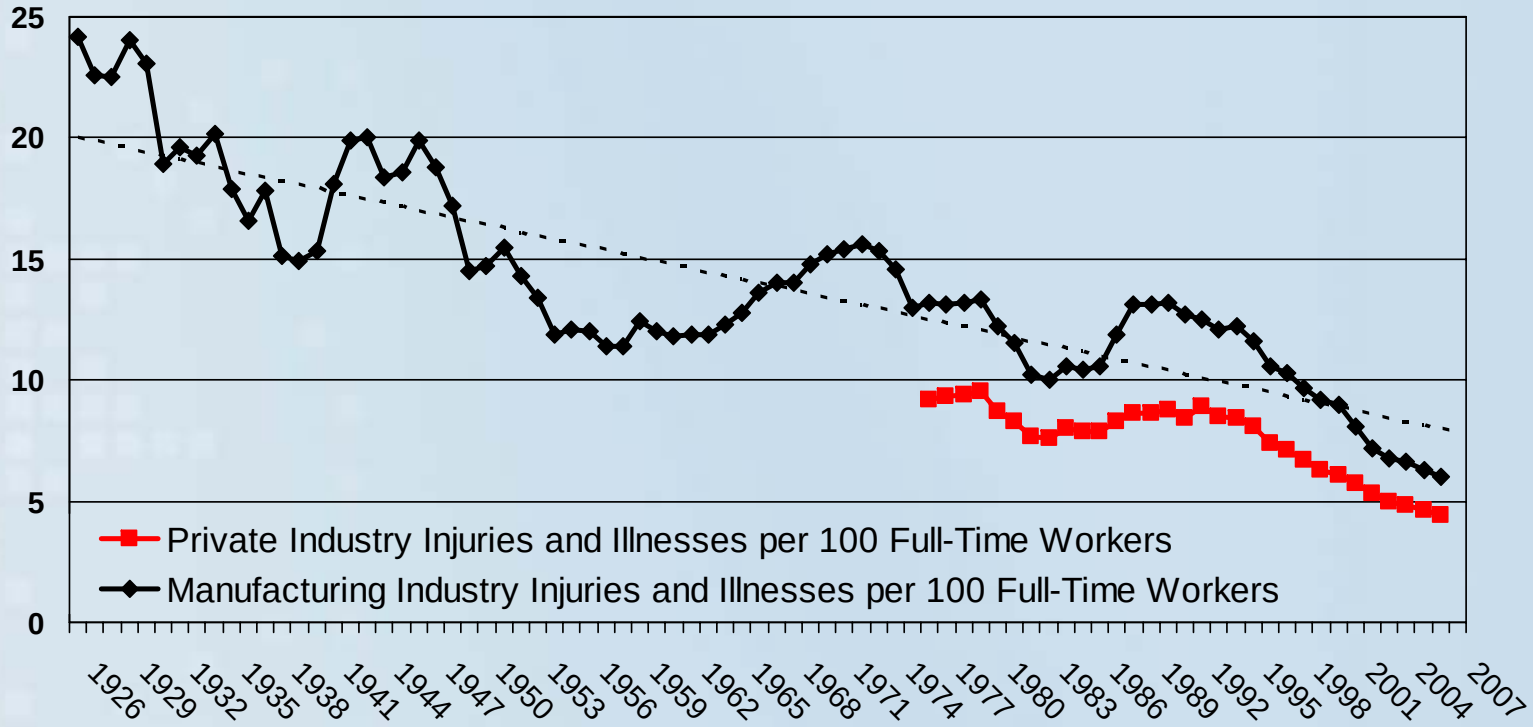
Rate of Work-Related Injuries Decreases Over Time Due to Improved Working Conditions

Rate of Injury per 100 FTE Workers



Source: US Department of Labor, Bureau of Labor Statistics

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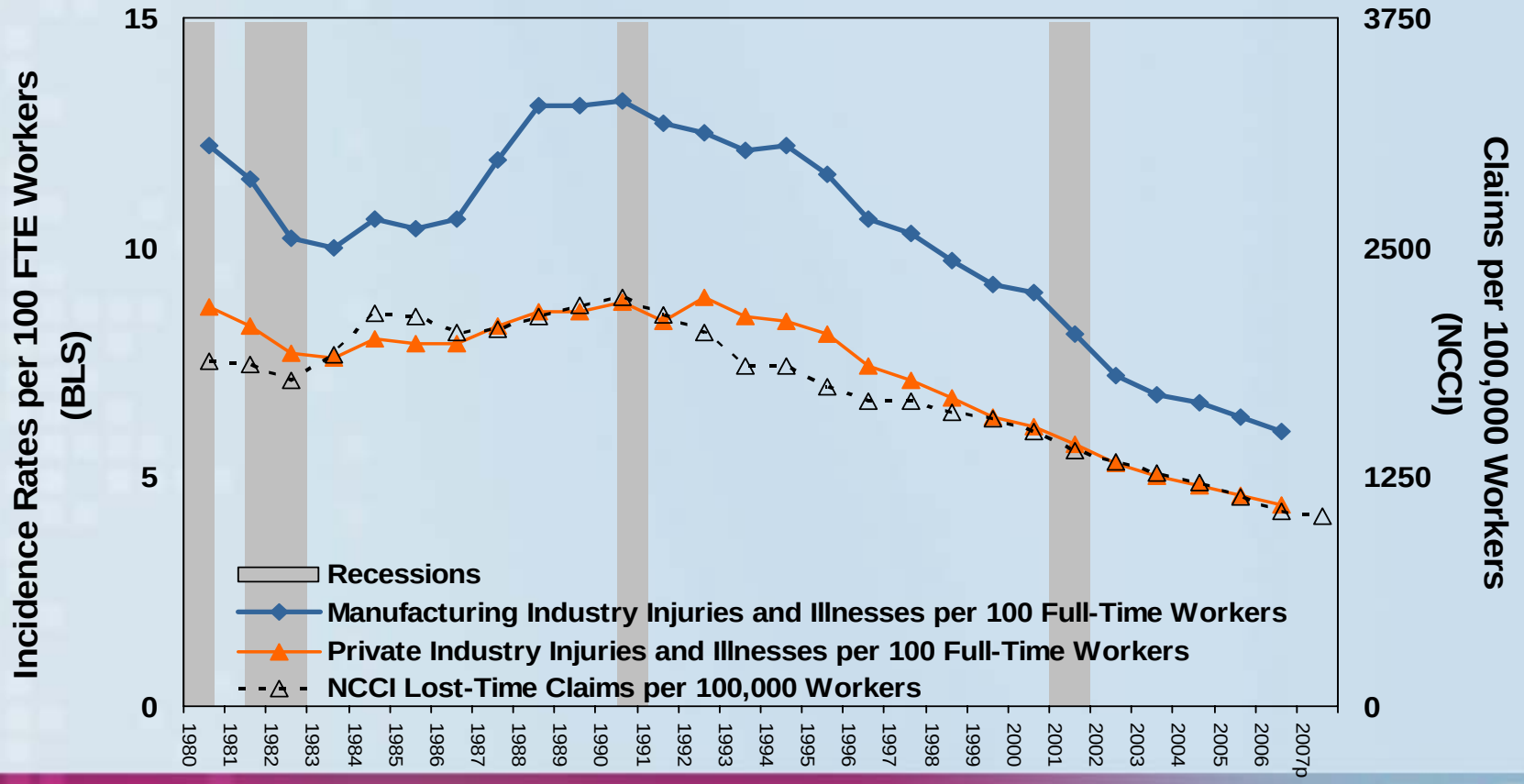
Workplace Injury Incidence Rates Have Shown Declines in Last Four Economic Downturns



p Preliminary

Source: US Department of Labor, Bureau of Labor Statistics (BLS), National Bureau of Economic Research
NCCI Frequency and Severity Analysis

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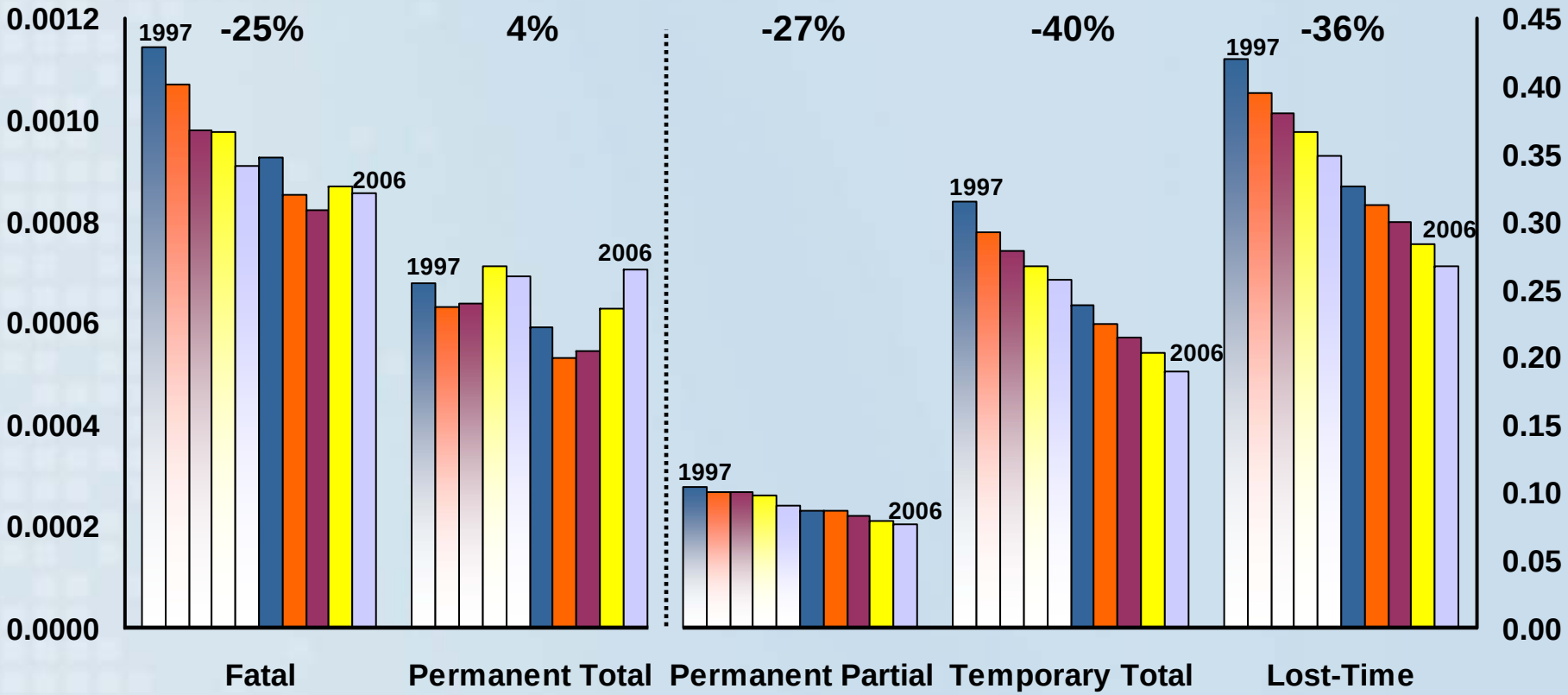
Claim Frequency Declined for All Injury Types Other Than Permanent Total

Percentage Change Between Policies Expiring in 1997 and 2006
Claim Frequency per $1M of Wage-Adjusted Payroll



All NCCI states except NV and TX
Source: NCCI Unit Statistical Plan data, First Report

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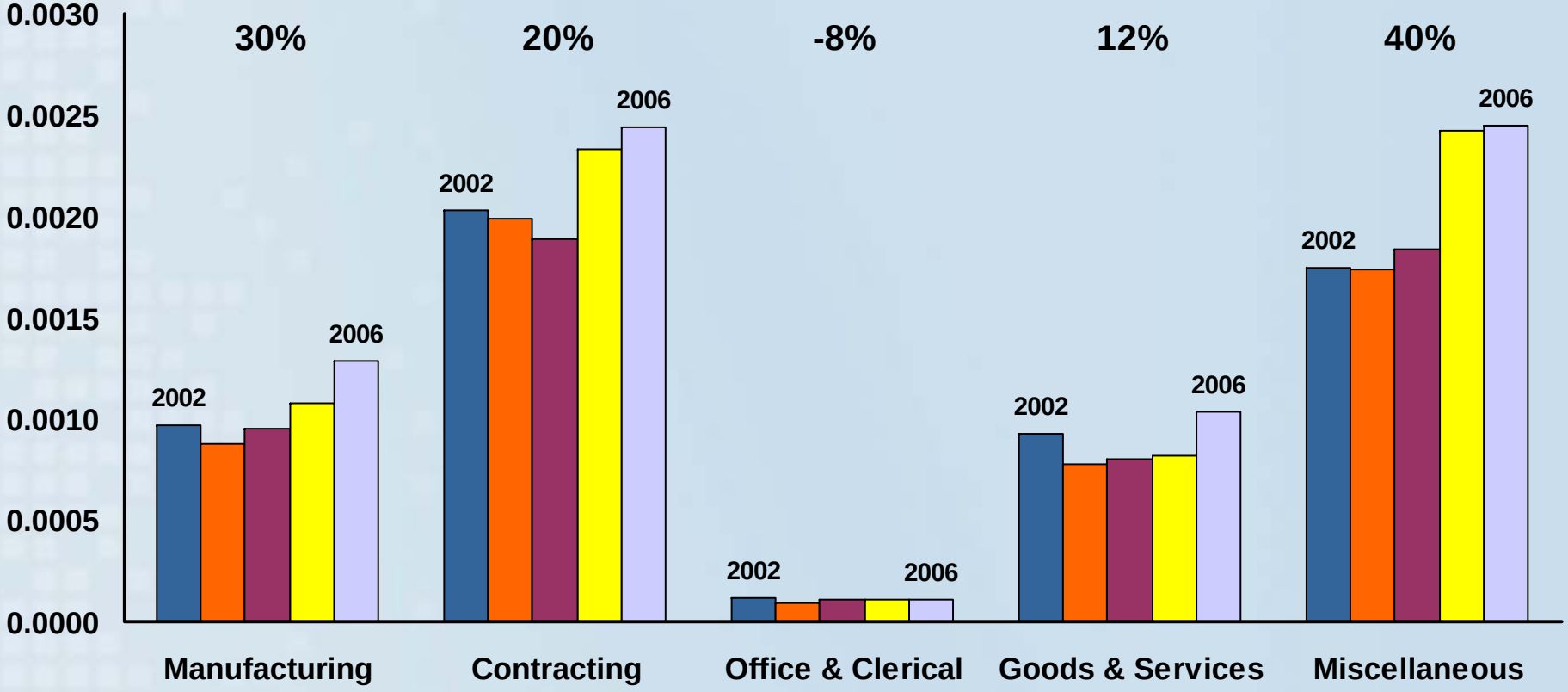
Permanent Total Claim Frequency by Industry Group

Percentage Change Between Policies Expiring in 2002 and 2006
Claim Frequency per $1M of Wage Adjusted Payroll



All NCCI states except NV and TX
Source: NCCI Unit Statistical Plan data, First Report

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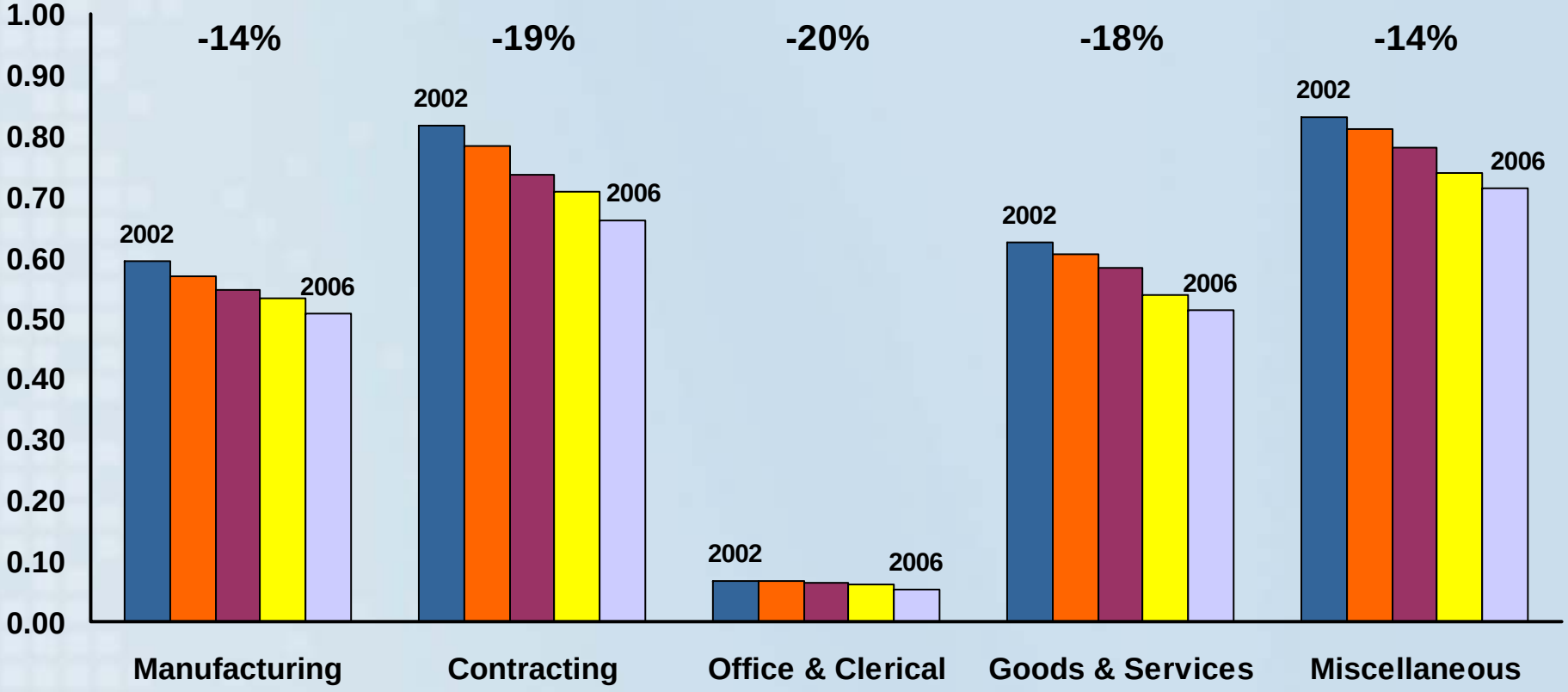
Lost-Time Claim Frequency Declined for All Industry Groups

Percentage Change Between Policies Expiring in 2002 and 2006
Claim Frequency per $1M of Wage-Adjusted Payroll



All NCCI states except NV and TX
Source: NCCI Unit Statistical Plan data, First Report

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Workers Compensation Residual Market

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Workers Compensation Residual Market Premium Volume Declines

NCCI-Serviced Workers Compensation Residual Market Pools as of December 31, 2007

* Incomplete Policy Year Projected to Ultimate

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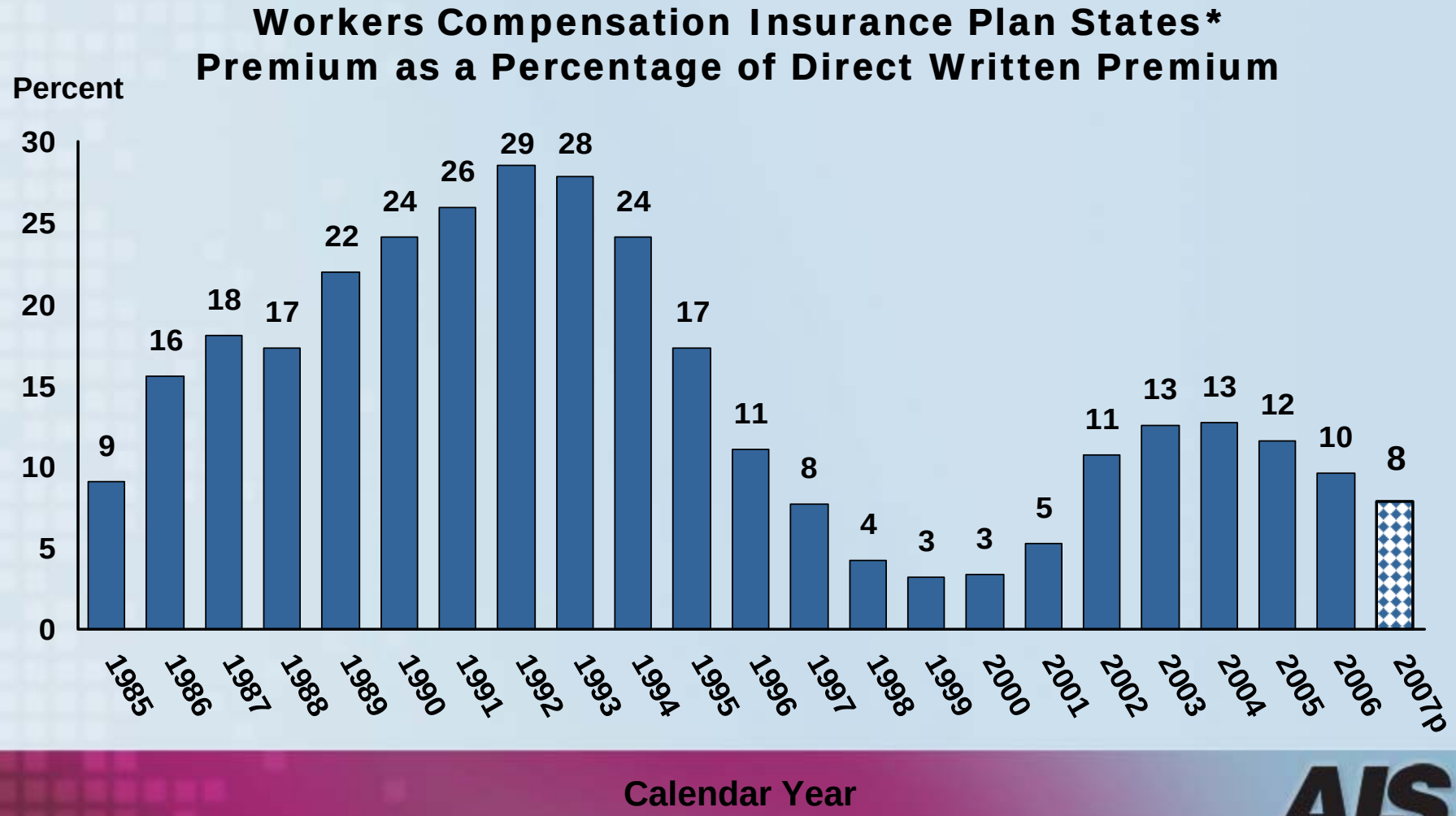
Workers Compensation Residual Market Shares Continue to Decline



p Preliminary
* NCCI Plan states plus DE, IN, MA, MI, NJ, NC

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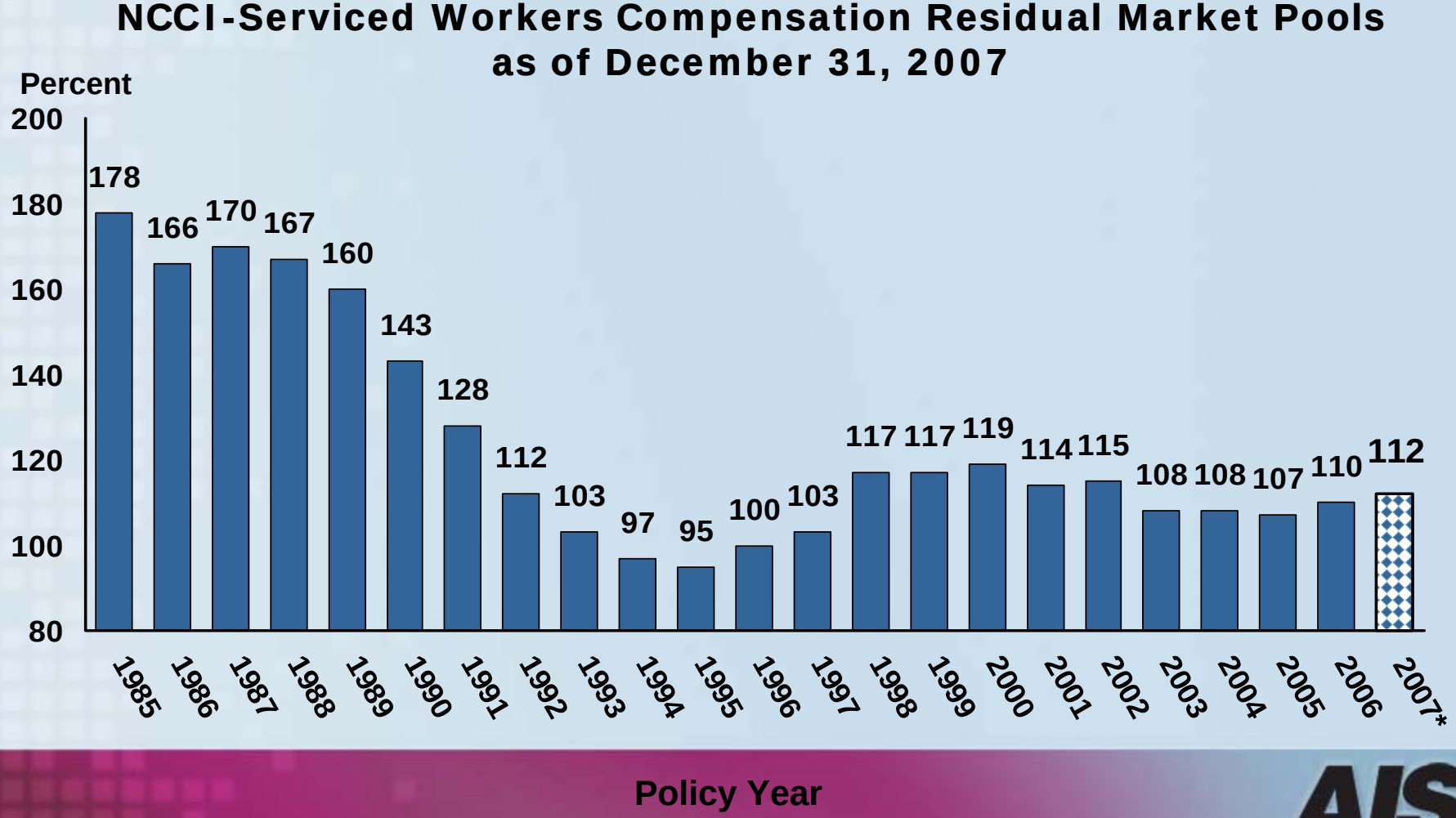
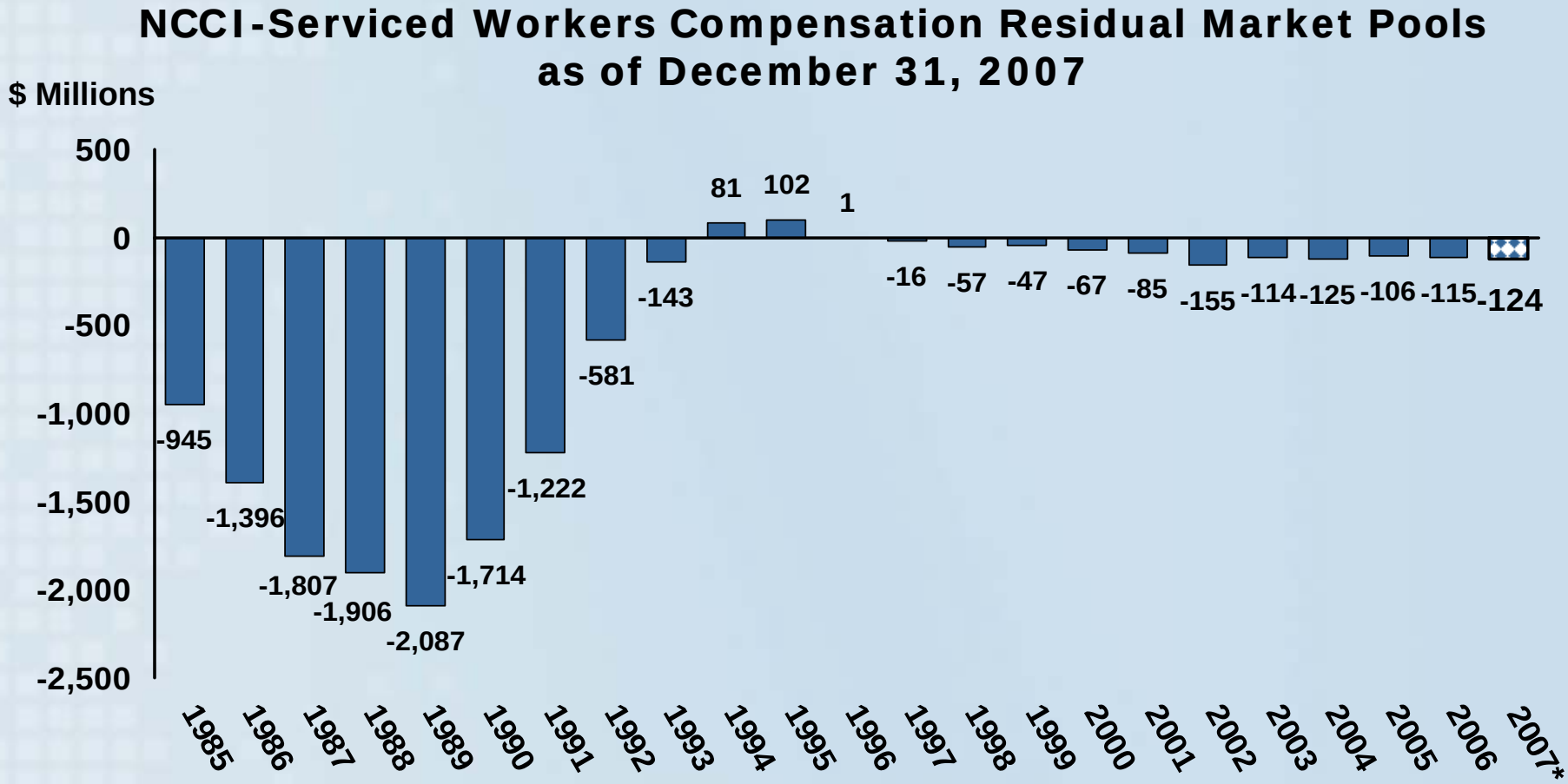
Workers Compensation Residual Market Combined Ratios



* Incomplete Policy Year Projected to Ultimate

Workers Compensation Residual Market Underwriting Results



* Incomplete Policy Year Projected to Ultimate

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Residual Markets Are Depopulating in Most States

First Quarter 2008 vs. First Quarter 2007

Size of Risk	2007	2008	Change
$ 0 – $ 2,499	36,146	32,868	**-9%**
$ 2,500 – $ 4,999	5,064	4,458	**-12%**
$ 5,000 – $ 9,999	3,332	3,092	**-7%**
$ 10,000 – $ 49,999	3,187	2,682	**-16%**
$ 50,000 – $ 99,999	379	268	**-29%**
$ 100,000 and over	167	121	**-28%**
Total	**48,275**	**43,489**	**-10%**

Total number of assigned risk policies in force
Includes residual market policies for:
AK, AL, AR, AZ, CT, DC, GA, ID, IL, IA, IN, KS, MS, NV, NH, NM, OR, SC, SD, VT, VA

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Current Topics of Interest

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Experience Rating Plan

- NCCI is conducting a major review of the Experience Rating Plan over the next two years
- Review will involve analysis of all parameters
- Additionally, we will investigate eligibility criteria
- Analysis to date reveals the plan is performing very well across hazard groups and policy sizes

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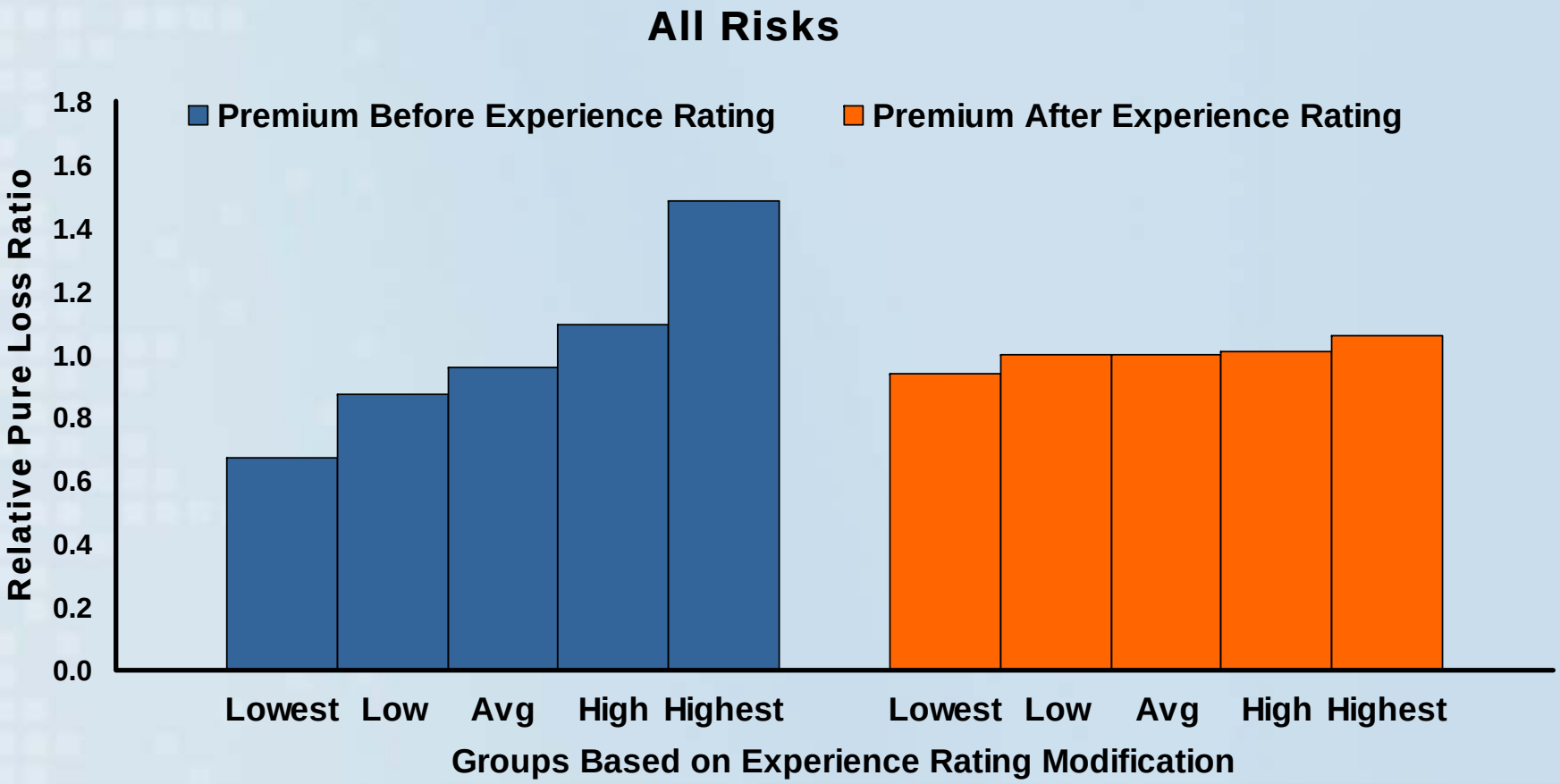
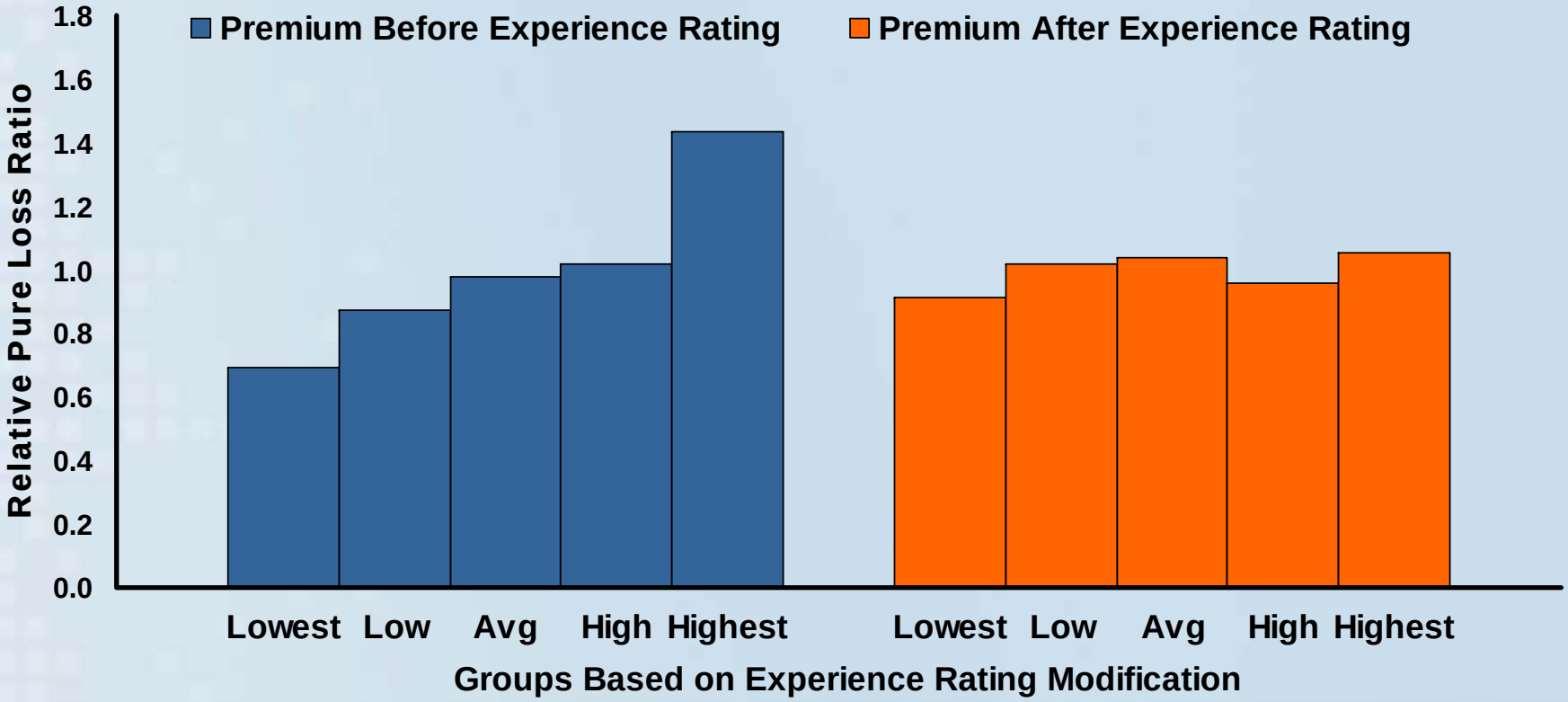
Experience Rating Plan Performance Testing



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003
developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

Experience Rating Plan Performance Testing

Risks With Expected Losses Between $10,000–$99,999



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003
developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

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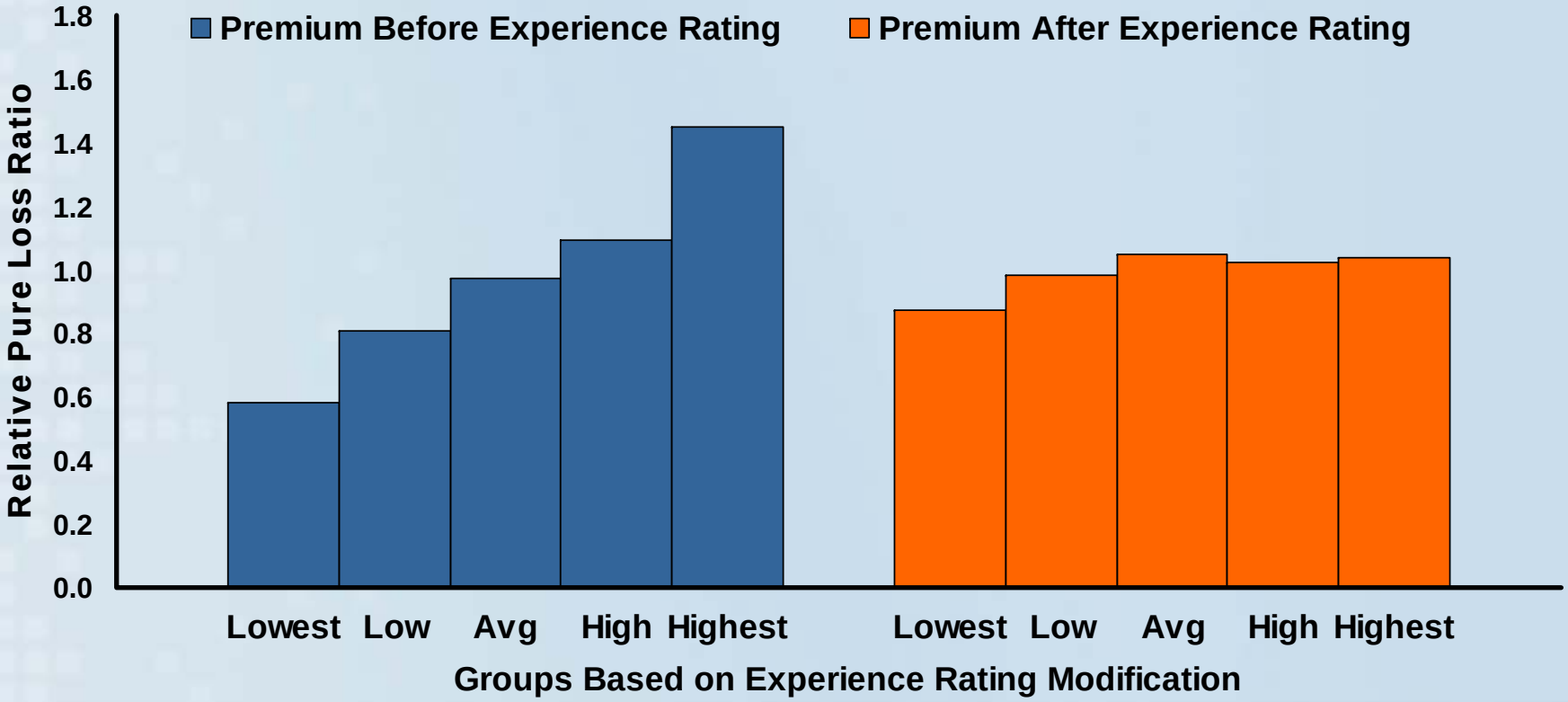
Experience Rating Plan Performance Testing

Risks With Expected Losses Between $100,000–$999,999



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003
developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

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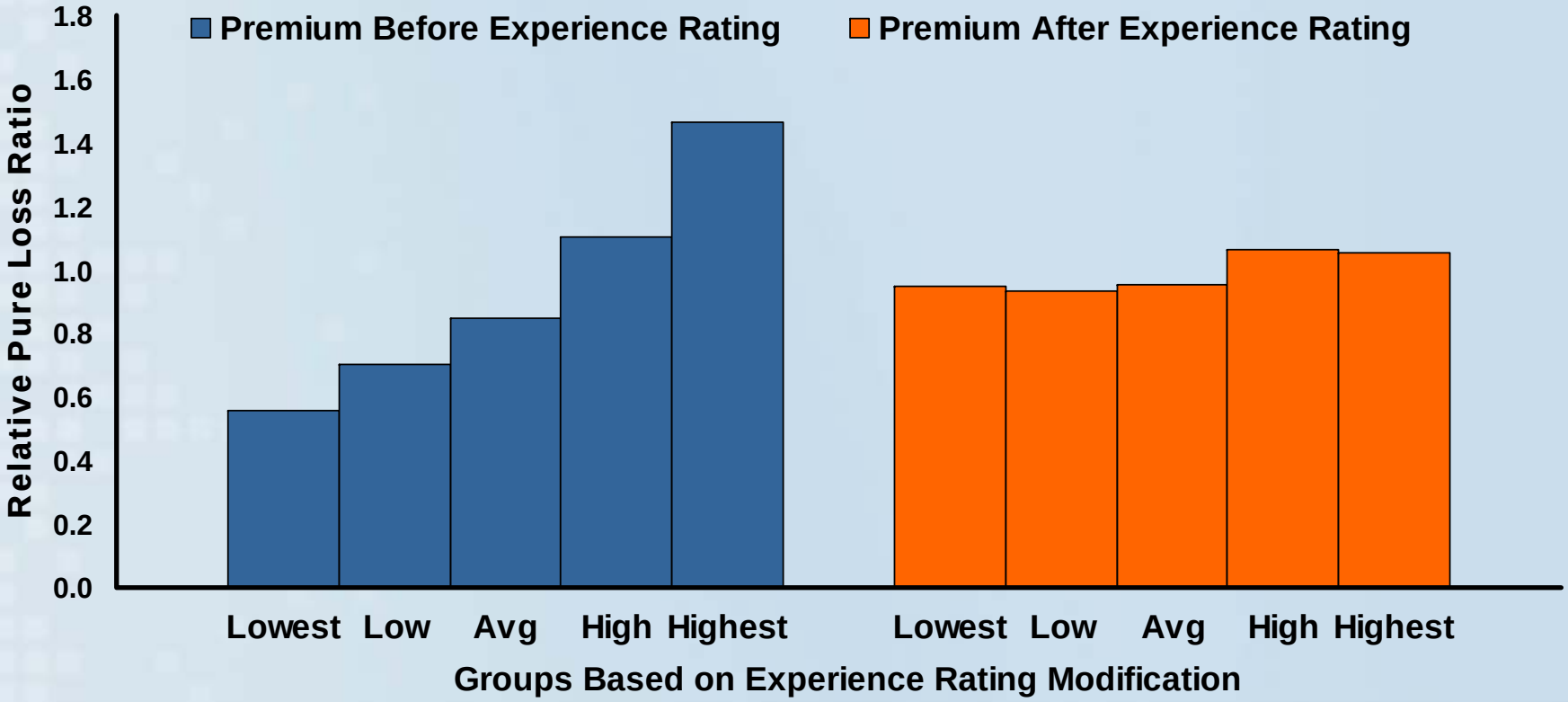
Experience Rating Plan Performance Testing

Risks With Expected Losses Between $1,000,000–$10,000,000



Note: Includes all experience rated risks with policy effective dates 01/01/2003 through 12/31/2003
developed up to Third Report for states where NCCI promulgates the Experience Rating Modification

Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA)

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Terrorism Risk Insurance Provisions

Provision	Original (TRIA)	Extension (TRIEA)	Revision and Extension (TRIPRA)
Coverage	Most commercial lines (med. mal., financial guaranty specifically excluded)	All current TRIA lines (except comm. auto, surety, prof. liability, farmowners, burglary and theft)	No new lines of insurance added Eliminated distinction between foreign and domestic terrorism
Retentions	7%–10%–15%	17.5%–20%	20%
Fed. Contrib./ Insurer Co-Pay	90%–10%	90%–10% (yr. 1) 85%–15% (yr. 2)	85%–15%
Federal Program Payment Trigger	$5M	$5M (yr. 1 through 3/31/06) $50M (yr. 1 after 3/31/06) $100M (yr. 2)	$100M
Expiration	12/31/05	12/31/07	12/31/14

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NCCI Response to TRIPRA

- NCCI has received updated terrorism model results from EQECAT
- A national filing is anticipated around June 1 with a proposed effective date of September 1, 2008
- Separate state filings will be made in states that have not approved the DTEC provision
- Statistical Code 9740 will be **redefined** from foreign terrorism to all certified acts of terrorism
- Statistical Code 9741 will be **redefined** from DTEC to other than certified acts of terrorism

Concluding Remarks

In Summary

Positives

- Underwriting results
- Frequency continues to decline
- Strongest reserve position in over two decades
- Residual market depopulation continues
- Terrorism backstop renewed for seven years

Negatives

- Low investment returns continue to put pressure on underwriting results
- Medical costs still above inflation
- Uncertain political fallout for industry
- Underwriting cycle

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Questions and More Information

- Questions on the State of the Line presentation? E-mail us at stateoftheline@ncci.com

- Download the complete presentation materials and watch a video overview of the State of the Line at **ncci.com**

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