Ohio Bureau of Workers' Compensation
Comparative Data
January 2010

Prepared by Actuarial Division
January 2010

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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 BWC's June 30, 2009, 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 last section contains the NCCI State of the Line report for 2009 and PowerPoint presentation in its entirety, downloaded from the NCCI website.

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

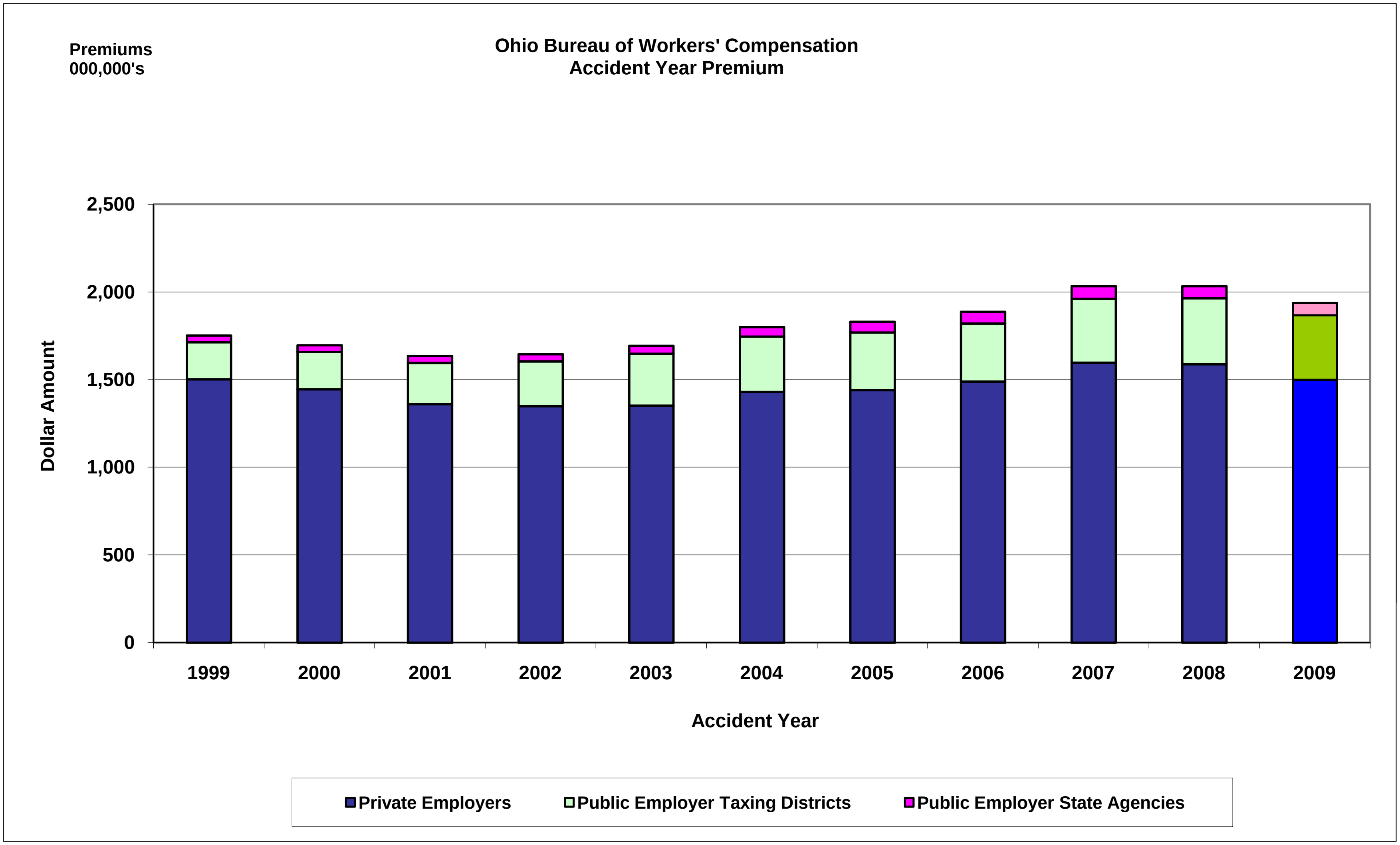
Description and Conclusions:
This chart is an eleven year history of premiums for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) by accident year. The premiums are stable for all employer groups. The cumulative change in rates for the PA employers for this eleven year period is an 11.74% rate decrease. The 2009 accident year is a different color to denote that it is estimated.

Source of Data:
The premiums are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants. Accident year 2009 is estimated.

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

Accident Year	Private Employers	Public Employer Taxing Districts	Public Employer State Agencies	Total Premium from Private and Public Employers
1999	1,502	212	38	1,752
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	1,489	331	68	1,888
2007	1,597	365	71	2,033
2008	1,589	376	69	2,034
2009	1,500	368	70	1,938
**	**750**	**184**	**35**	

**** These are the actual numbers for the 1st half of 2009. The 2nd half of 2009 is not available so we have doubled the 1st half to get an estimate for the whole calendar year.**



Source: June 30, 2009 Actuarial Audit, Oliver Wyman, Actuarial Consultants

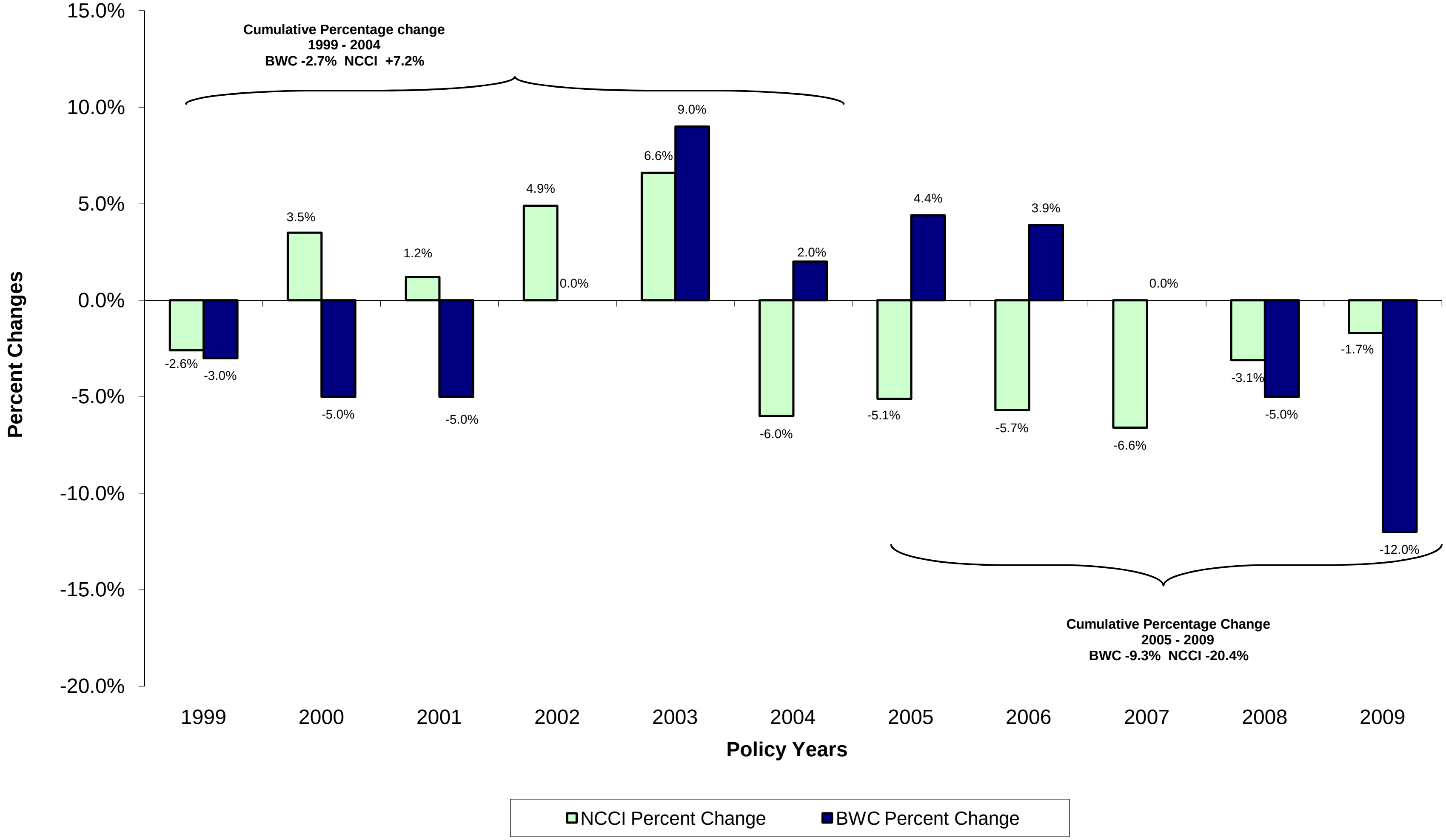
Accident year 2009 is estimated

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 1999 through 2009, the BWC's cumulative rate change was a decrease of 11.74%, while the rest of the industry had a cumulative decrease of 14.62%. The rates used in this chart are for the Private Employer group.

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from annual rate filings.

History of BWC Rate Changes and NCCI Rate/Loss Cost Level Changes



*NCCI Annual Issue Symposium 2009

*NCCI rate change for 2008 and 2009 is only for states approved through 4/17/2009.

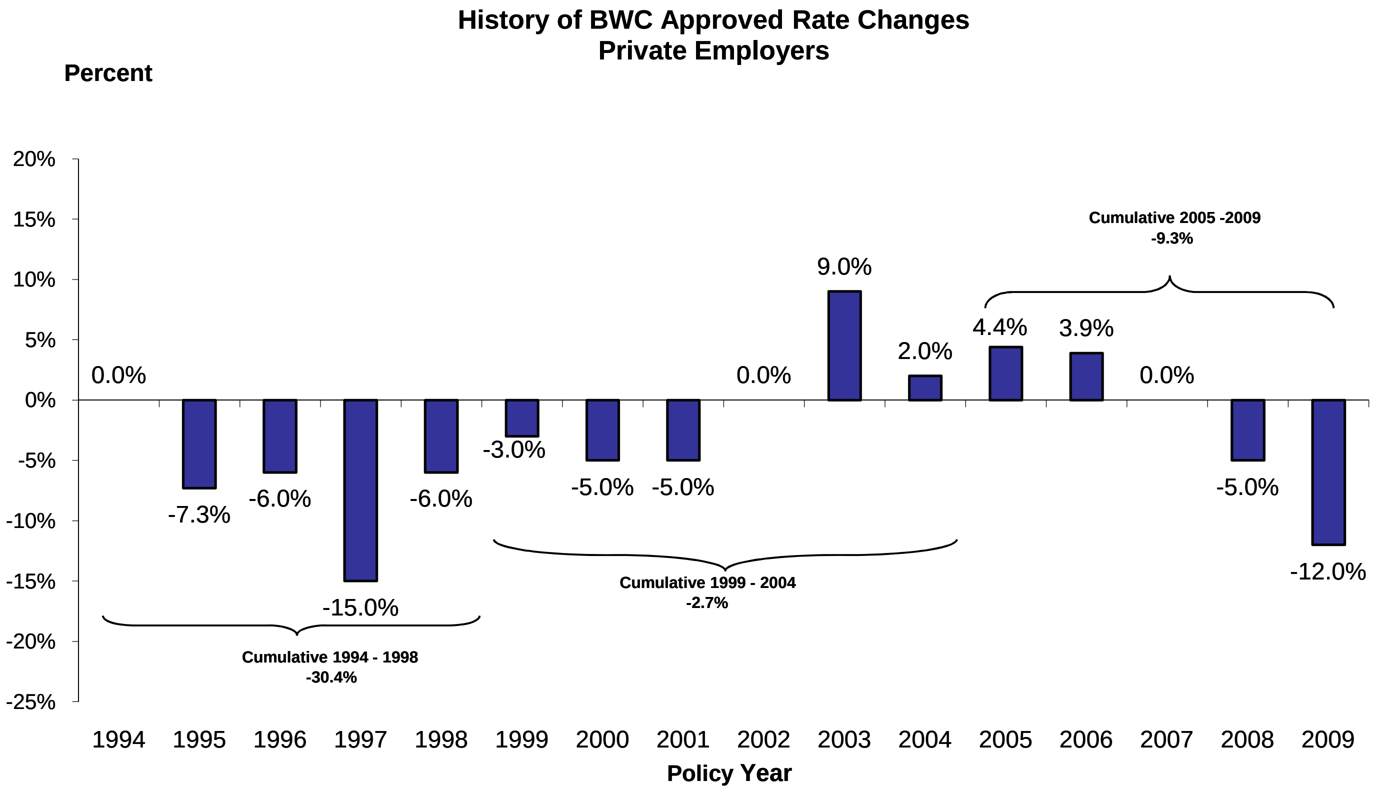
*BWC data from the annual Private Employer rate filings

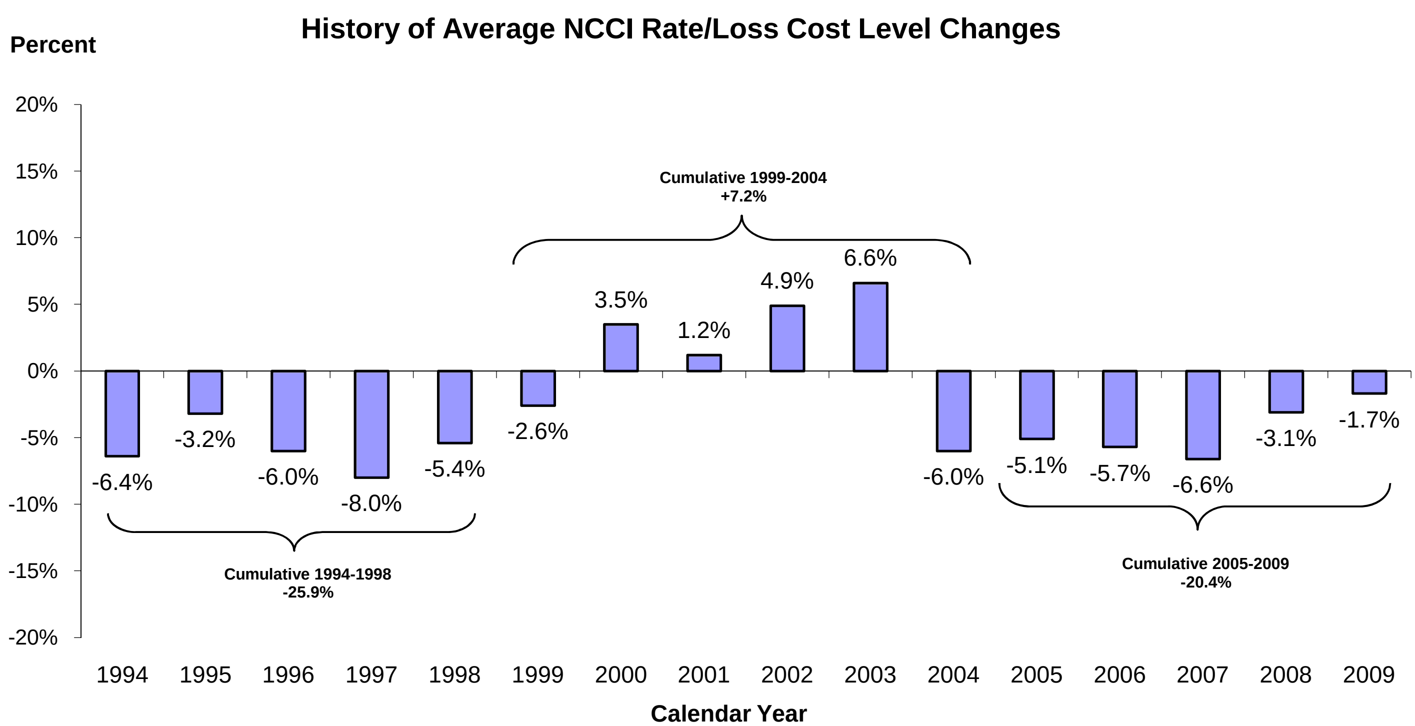
I:\Actuarial_Confidential\Executive Reporting\Executive Reporting\Complete Copy of State of the Line Jan 2010\05 History of BWC Premium Rate changes and NCCI.xlsx

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. For the period of 1994 through 2009, the BWC's cumulative rate change was a decrease of 38.55%, while the rest of the industry had a cumulative decrease of 36.72%. The rates used in this chart are for the Private Employer group.

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from annual rate filings.





* NCCI Annual Issue Symposium 2009
* NCCI rate change for 2008 and 2009 is only for states approved through 4/17/2009
* BWC data is based on Private employer rates

HISTORICAL
PERCENT CHANGE IN PRIVATE
EMPLOYER 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	7-1-2009	12.0% decrease
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

	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
7-1-2009		$1.55

*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
1-1-2009	5% decrease
1-1-2010	17% decrease

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
1-1-2009	2009	1.76
1-1-2010	2010	1.46

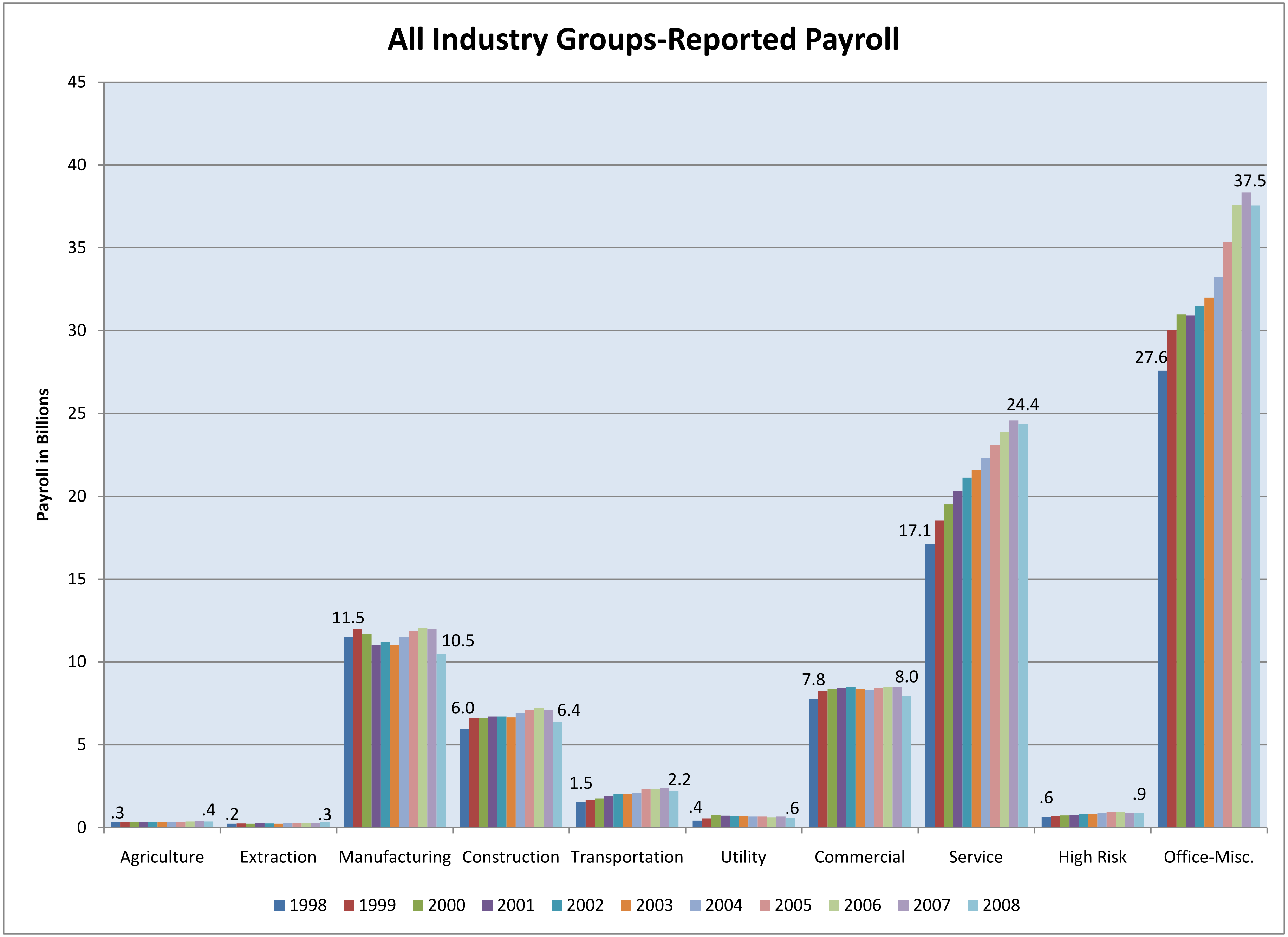
Chart Title: All Industry Groups – Reported Payroll
All Industry Groups – Wage Inflation Adjusted Payroll
10 graphs by Industry Group

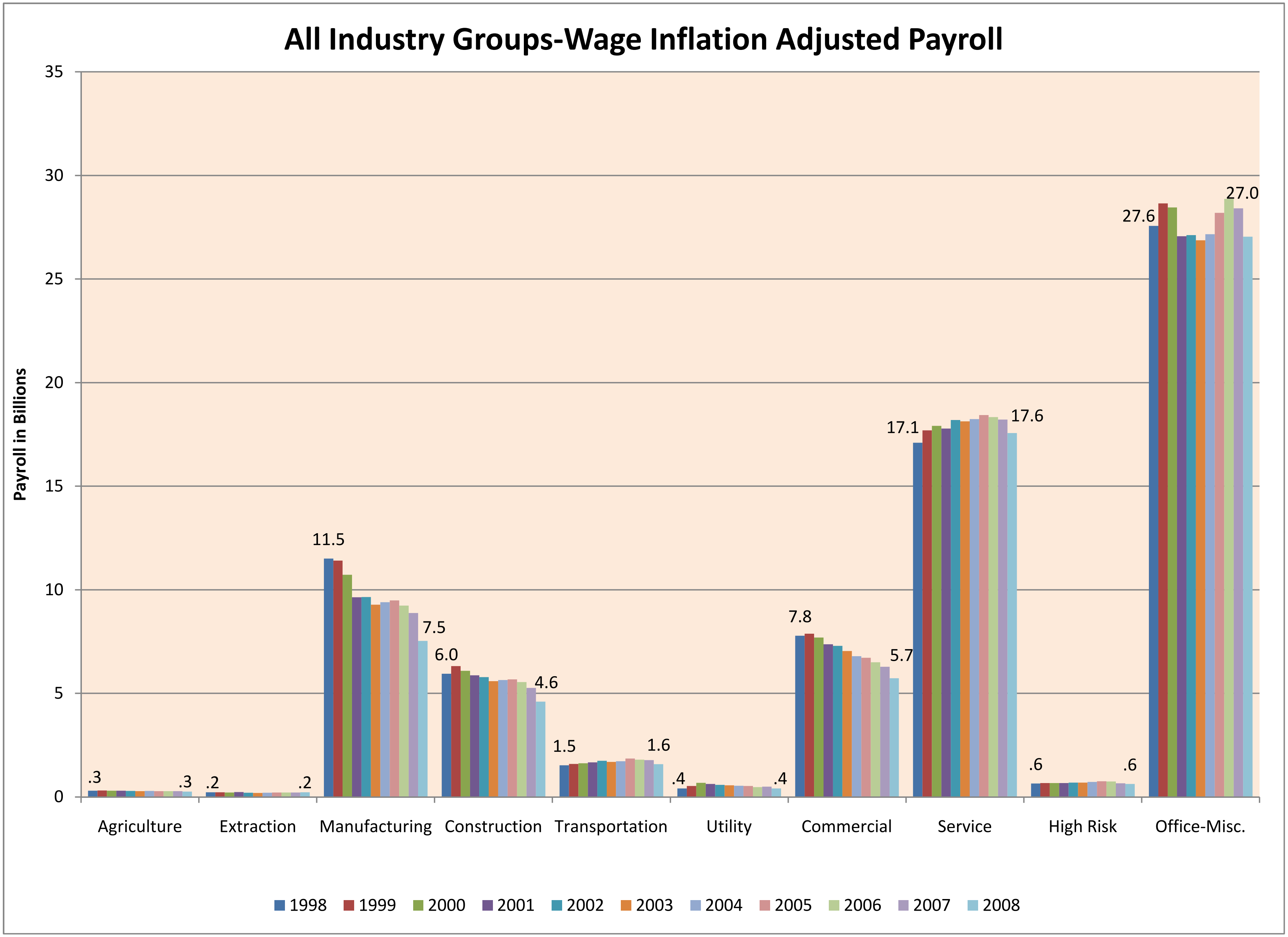
Description and Conclusions:
The following graphs show an eleven year history of reported payroll by industry group, payroll adjusted for wage inflation, and reported medical only and lost time claim counts by policy year.

The payroll was adjusted to take out the effect of wage inflation which allows us to look at the actual exposure base compared to the frequency of claims. The wage inflation factor is derived from the Ohio maximum weekly wage. The maximum weekly wages are created by the Actuarial Division using data from the Ohio Department of Job and Family Service's report on the Average Employment, Total payroll and Average Weekly Wage Earnings of All Ohio Workers Covered under the Ohio Unemployment Compensation Law.

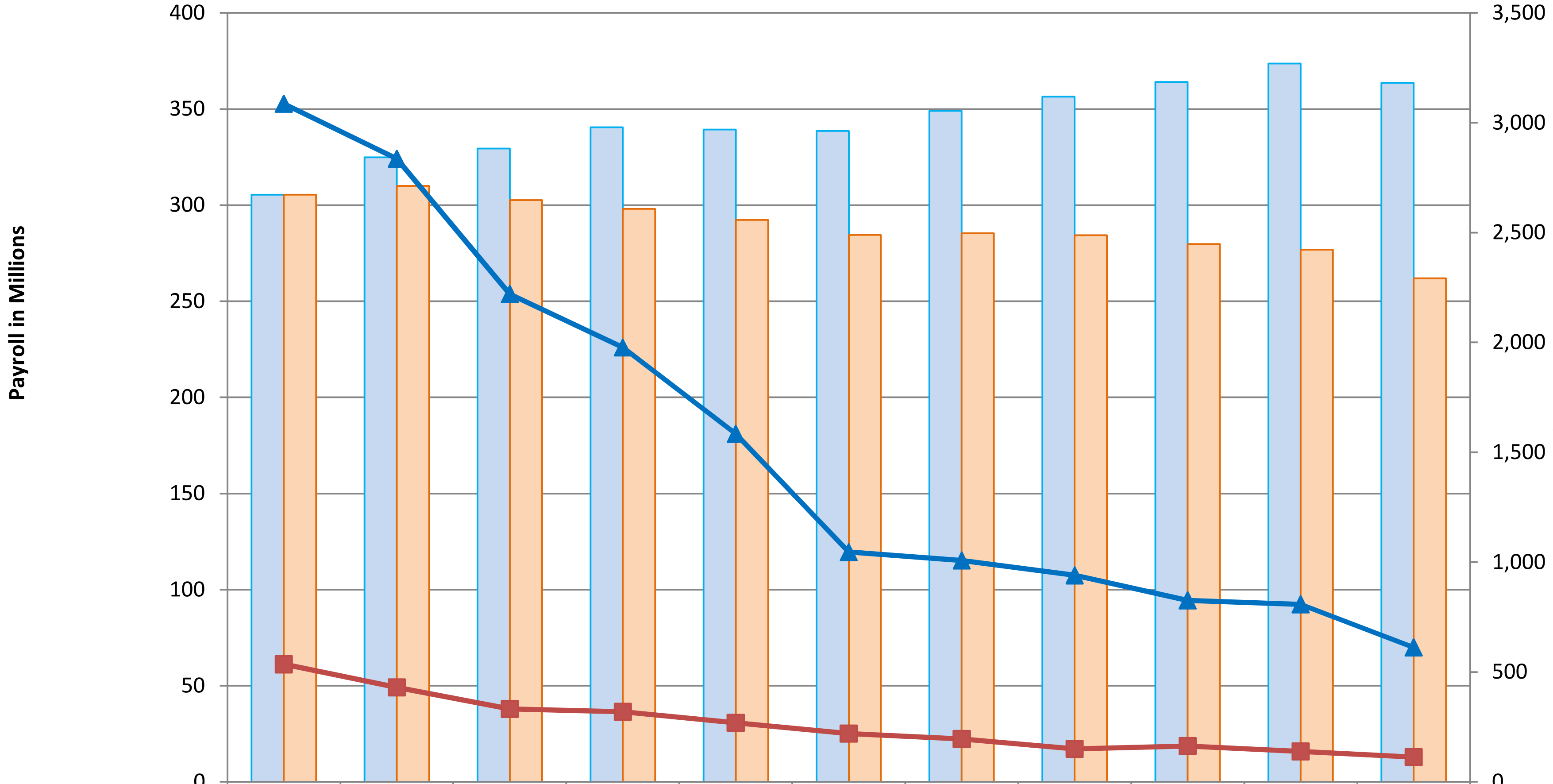
There is a positive correlation between the decrease of claim counts and the change in the wage inflation adjusted payroll for 8 of the industry groups. Positive correlation indicates that the changes in both measures are related to each other. Agriculture, Manufacturing, Construction, and Commercial show the greatest positive correlation. Extraction, Utility, High Risk and Office-Misc. are also positively correlated, but not to the extent as the previously mentioned industry groups. Two of the industry groups, Transportation and Service are negatively correlated.

Source of Data:
The payroll is taken from the BWC's data warehouse as of February 7, 2010. Wage inflation was calculated using the BWC's maximum Death and Temporary Total maximum wage indexed using policy year 1998 as the base year. Claim counts are also from the BWC's data warehouse as o February 7, 2010.


All Industry Groups-Reported Payroll
Payroll in Billions
45
40
35
30
25
20
15
10
5
0
Agriculture
Extraction
Manufacturing
Construction
Transportation
Utility
Commercial
Service
High Risk
Office-Misc.
.3
.4
.2
.3
11.5
10.5
6.0
6.4
1.5
2.2
.4
.6
7.8
8.0
17.1
24.4
.6
.9
27.6
37.5
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008

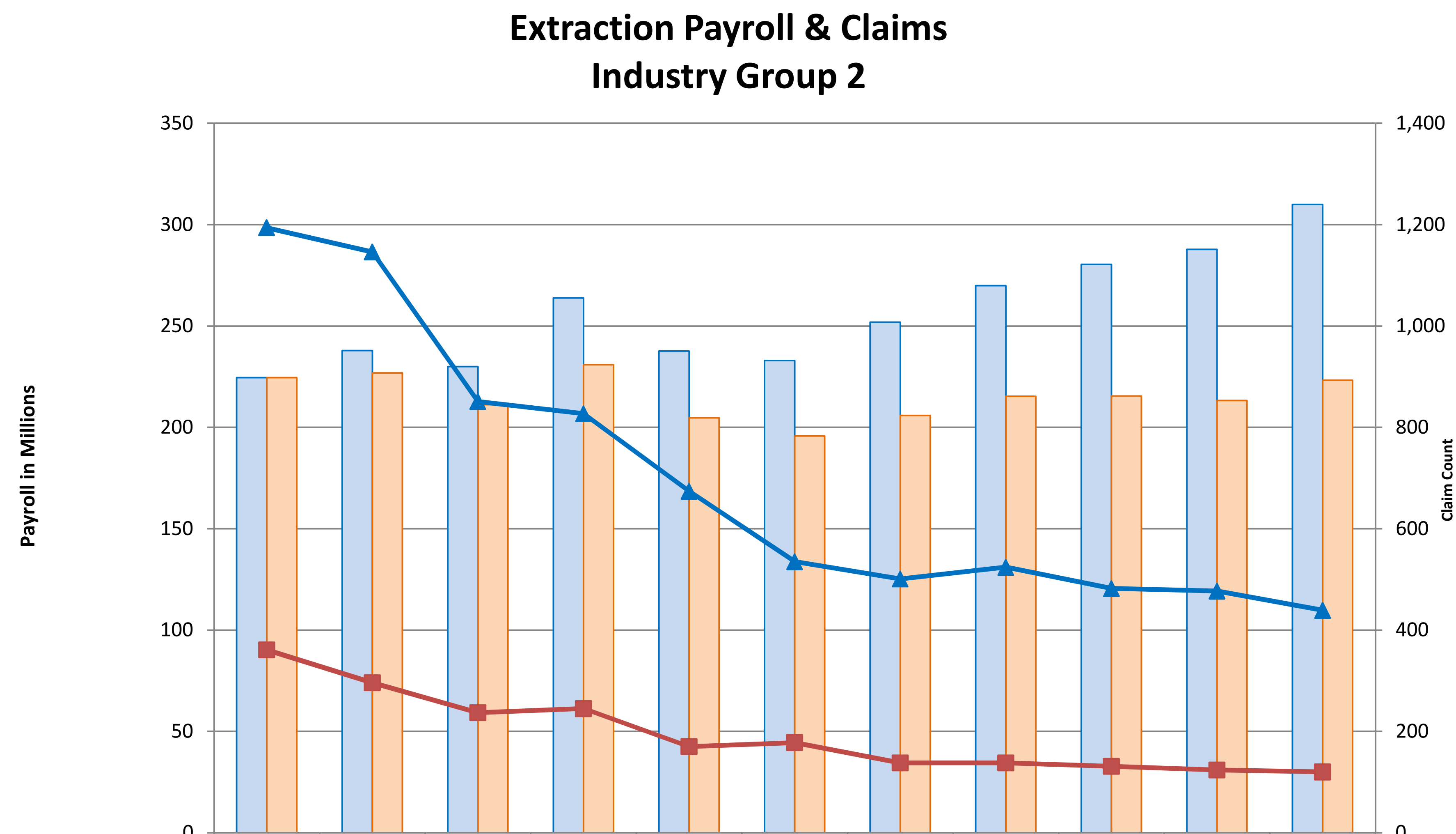

All Industry Groups-Wage Inflation Adjusted Payroll
Payroll in Billions
35
30
25
20
15
10
5
0
.3
.3
.2
.2
11.5
7.5
6.0
4.6
1.5
1.6
.4
.4
7.8
5.7
17.1
17.6
.6
.6
27.6
27.0
Agriculture
Extraction
Manufacturing
Construction
Transportation
Utility
Commercial
Service
High Risk
Office-Misc.
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008

Agriculture Payroll & Claims
Industry Group 1



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	305.37	324.86	329.44	340.56	339.35	338.65	349.12	356.36	364.02	373.62	363.63
Indexed Payroll*	305.37	309.96	302.59	298.12	292.34	284.49	285.31	284.35	279.74	276.86	261.95
LT Claims	535	430	332	319	269	220	195	150	163	138	113
MO Claims	3,086	2,836	2,220	1,977	1,584	1,046	1,008	940	826	808	612

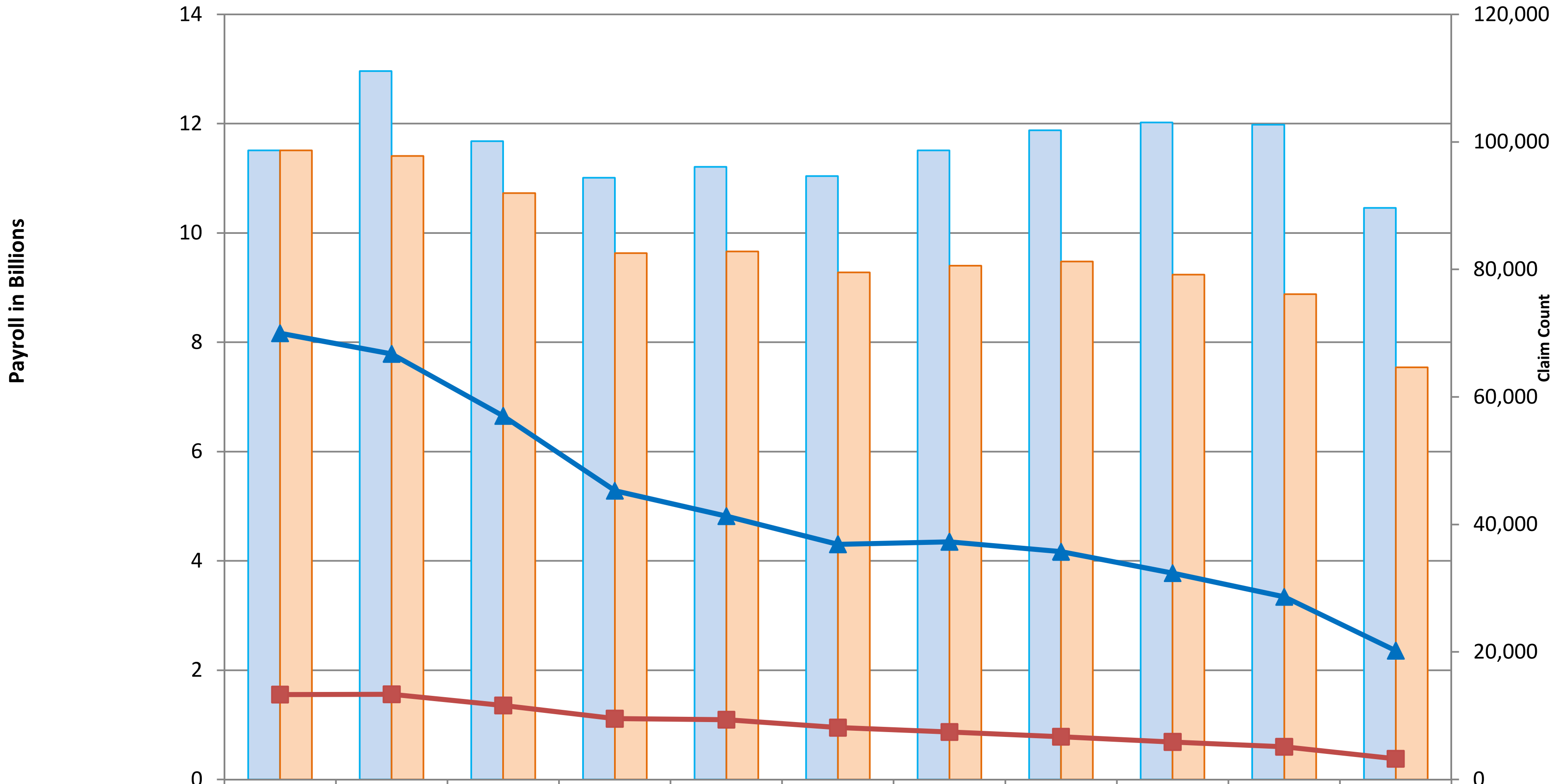
*Indexed payroll is wage inflation adjusted payroll.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	224.61	237.84	229.99	263.82	237.66	232.96	251.90	269.94	280.47	287.83	309.99
Indexed Payroll*	224.61	226.93	211.25	230.95	204.74	195.70	205.86	215.40	215.53	213.31	223.31
LT Claims	361	296	237	245	170	178	138	138	131	124	120
MO Claims	1,194	1,146	851	827	674	535	501	524	482	477	439

*Indexed payroll is wage inflation adjusted payroll.

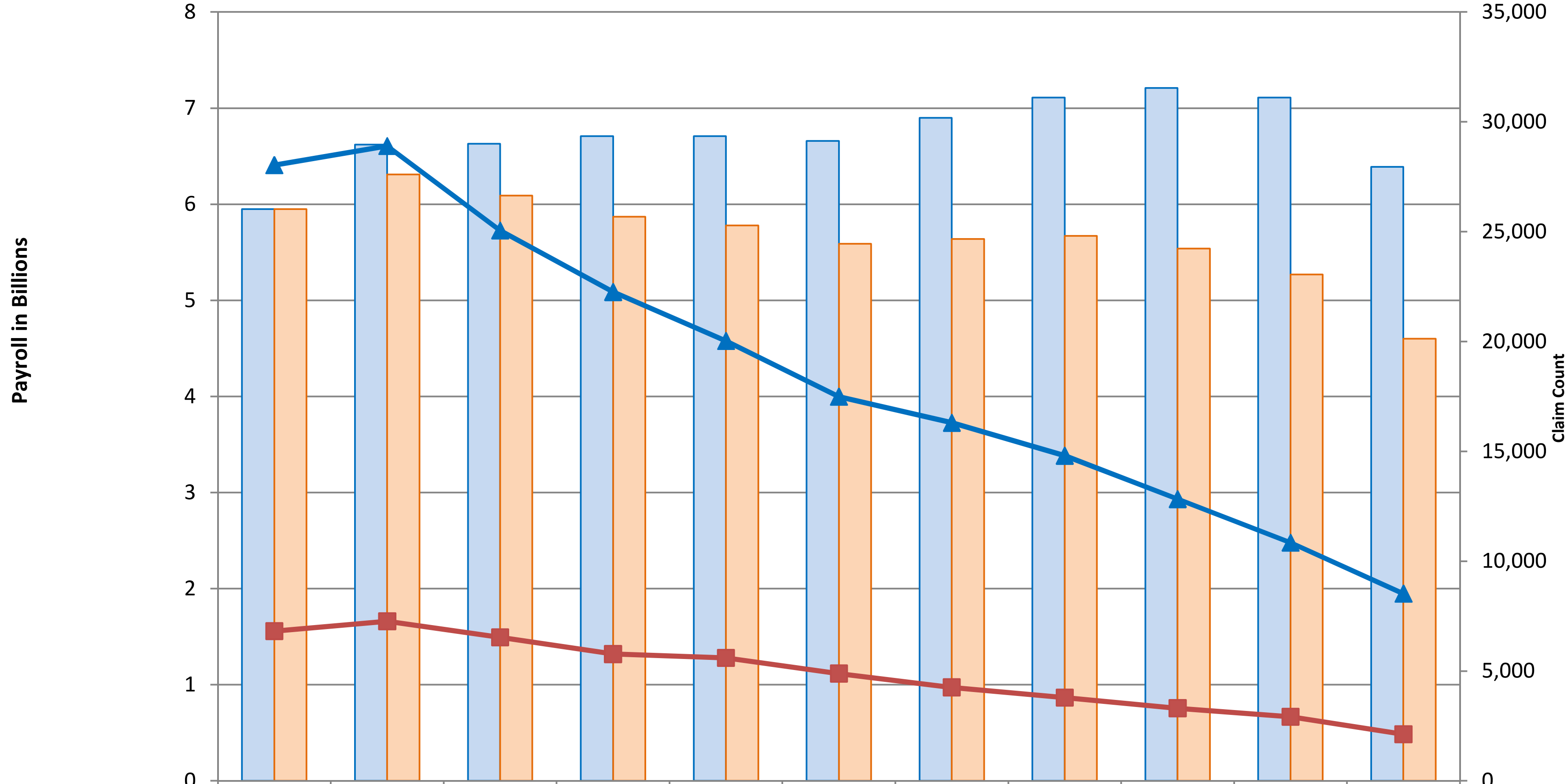
Manufacturing Payroll & Claims
Industry Group 3



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	11.51	12.96	11.68	11.01	11.21	11.04	11.51	11.88	12.02	11.98	10.46
Indexed Payroll*	11.51	11.41	10.73	9.63	9.66	9.28	9.40	9.48	9.24	8.88	7.54
LT Claims	13,329	13,372	11,606	9,527	9,378	8,128	7,442	6,702	5,889	5,140	3,233
MO Claims	69,972	66,747	57,019	45,279	41,294	36,884	37,278	35,715	32,351	28,635	20,197

*Indexed payroll is wage inflation adjusted payroll.

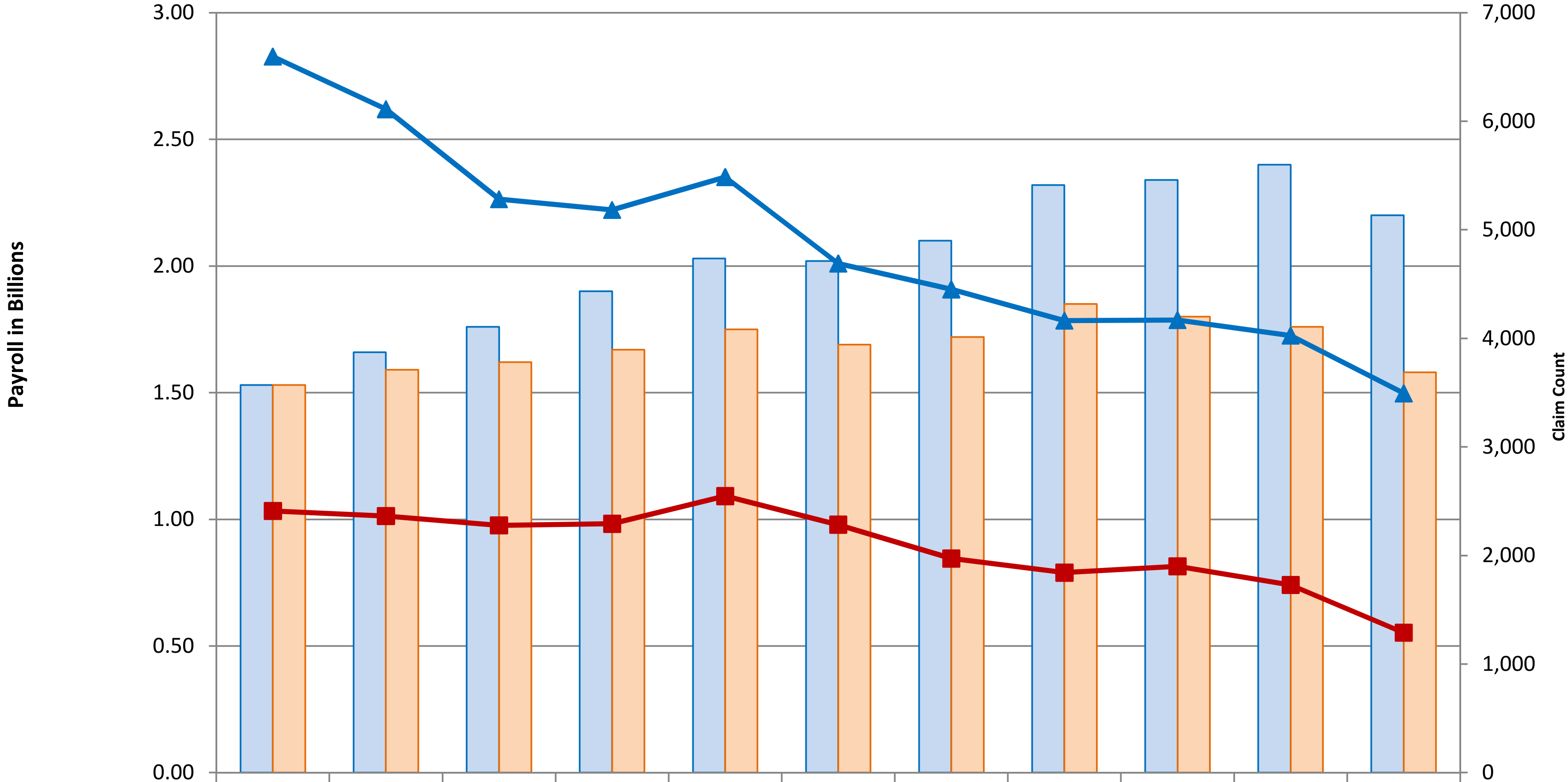
Construction Payroll & Claims
Industry Group 4



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	5.95	6.62	6.63	6.71	6.71	6.66	6.90	7.11	7.21	7.11	6.39
Indexed Payroll*	5.95	6.31	6.09	5.87	5.78	5.59	5.64	5.67	5.54	5.27	4.60
LT Claims	6,817	7,267	6,531	5,773	5,597	4,885	4,256	3,792	3,307	2,921	2,125
MO Claims	28,035	28,903	25,057	22,255	20,032	17,492	16,302	14,803	12,826	10,844	8,527

*Indexed payroll is wage inflation adjusted payroll.

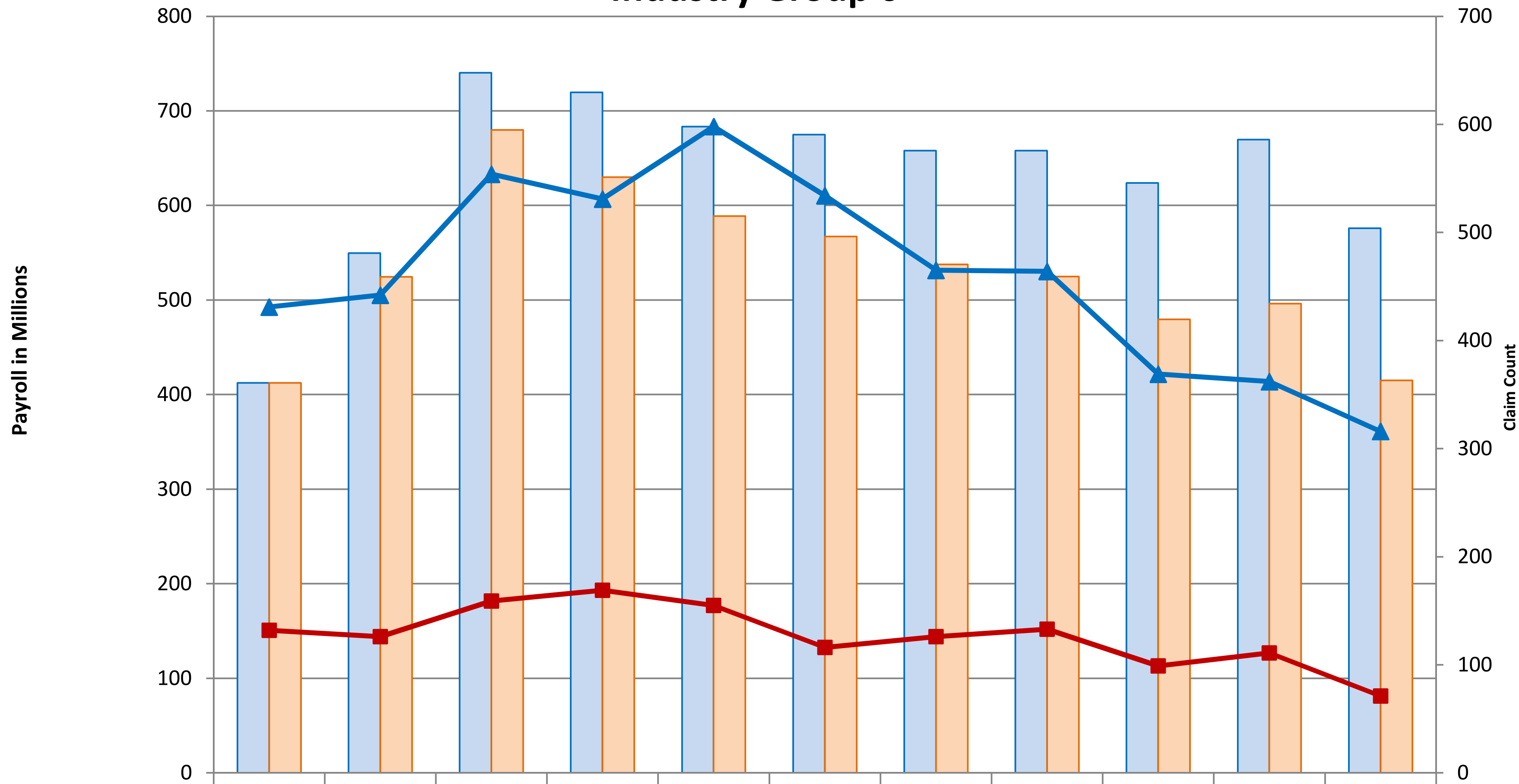
Transportation Payroll & Claims
Industry Group 5



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	1.53	1.66	1.76	1.90	2.03	2.02	2.10	2.32	2.34	2.40	2.20
Indexed Payroll*	1.53	1.59	1.62	1.67	1.75	1.69	1.72	1.85	1.80	1.76	1.58
LT Claims	2,410	2,364	2,278	2,292	2,547	2,284	1,972	1,842	1,900	1,728	1,289
MO Claims	6,595	6,111	5,282	5,183	5,486	4,690	4,452	4,164	4,170	4,027	3,494

*Indexed payroll is wage inflation adjusted payroll.

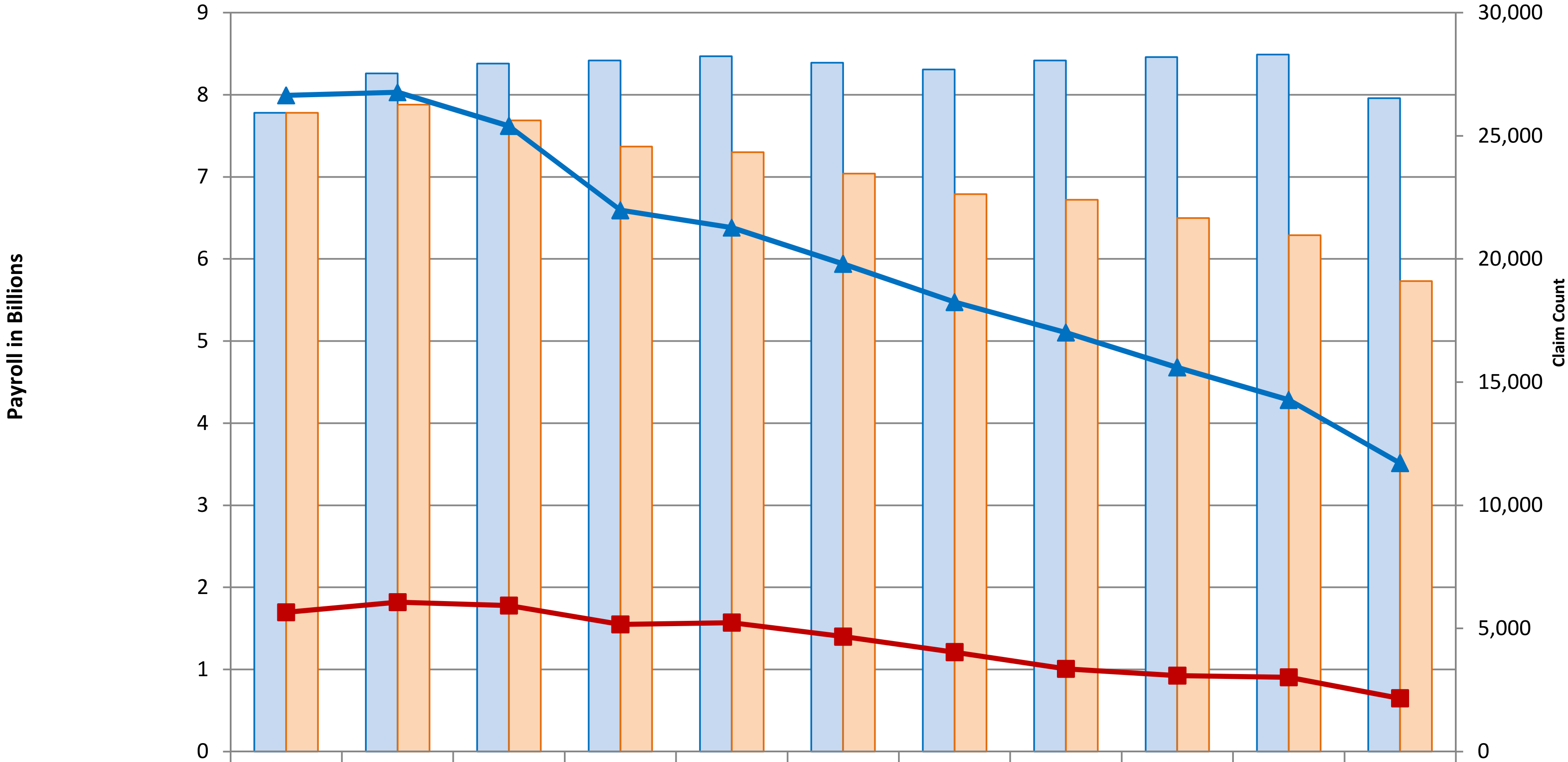
Utility Payroll & Claims
Industry Group 6



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	412.48	549.68	740.23	719.64	683.29	675.03	657.97	657.85	623.90	669.53	575.96
Indexed Payroll*	412.48	524.48	679.90	629.98	588.63	567.07	537.71	524.92	479.44	496.18	414.90
LT Claims	132	126	159	169	155	116	126	133	99	111	71
MO Claims	431	442	554	531	598	534	465	464	369	362	316

*Indexed payroll is wage inflation adjusted payroll.

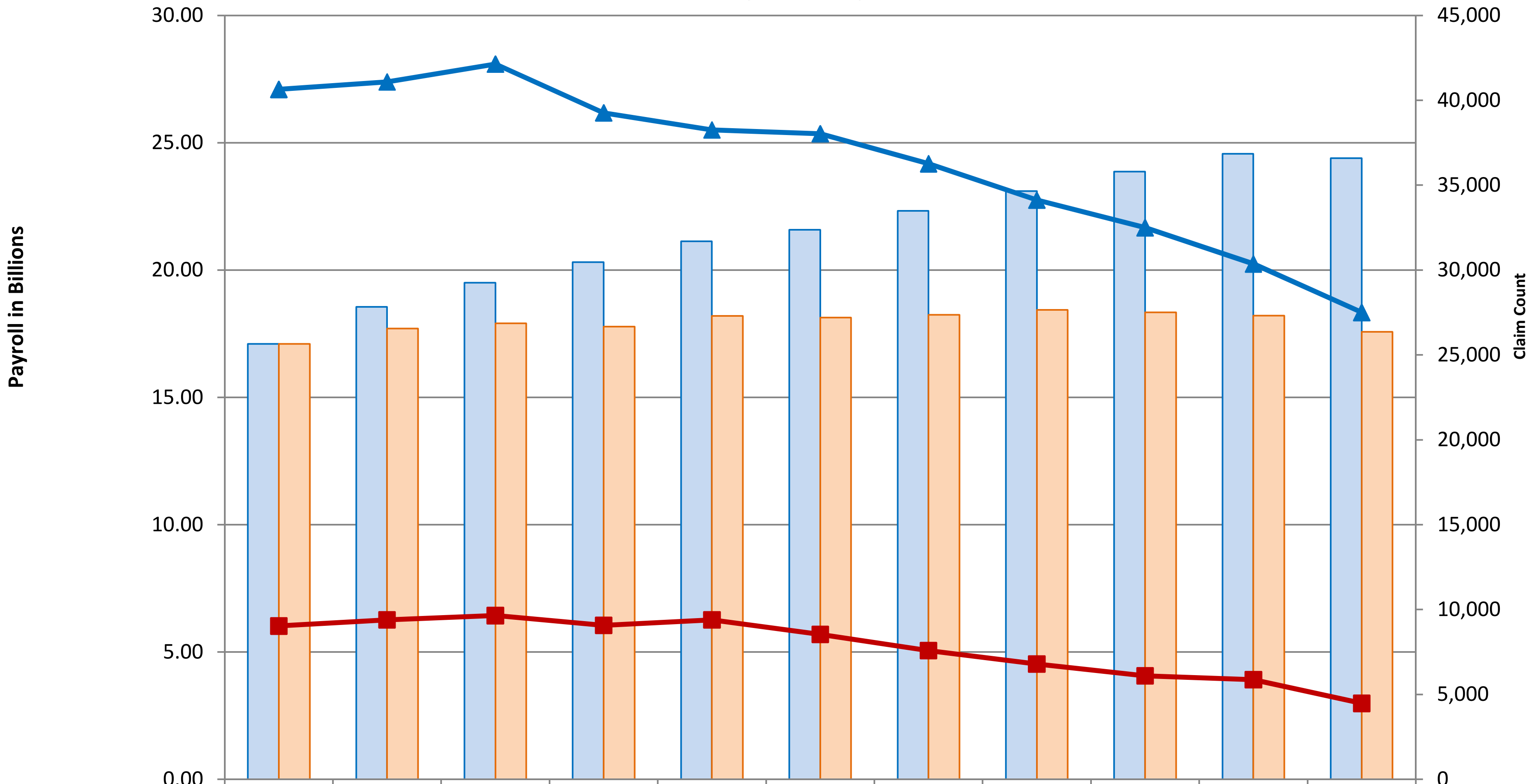
Commercial Payroll & Claims
Industry Group 7



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	7.78	8.26	8.38	8.42	8.47	8.39	8.31	8.42	8.46	8.49	7.96
Indexed Payroll*	7.78	7.88	7.69	7.37	7.30	7.04	6.79	6.72	6.50	6.29	5.73
LT Claims	5,649	6,065	5,928	5,164	5,234	4,665	4,035	3,352	3,081	3,016	2,160
MO Claims	26,645	26,770	25,405	21,978	21,274	19,804	18,251	17,015	15,598	14,276	11,713

*Indexed payroll is wage inflation adjusted payroll.

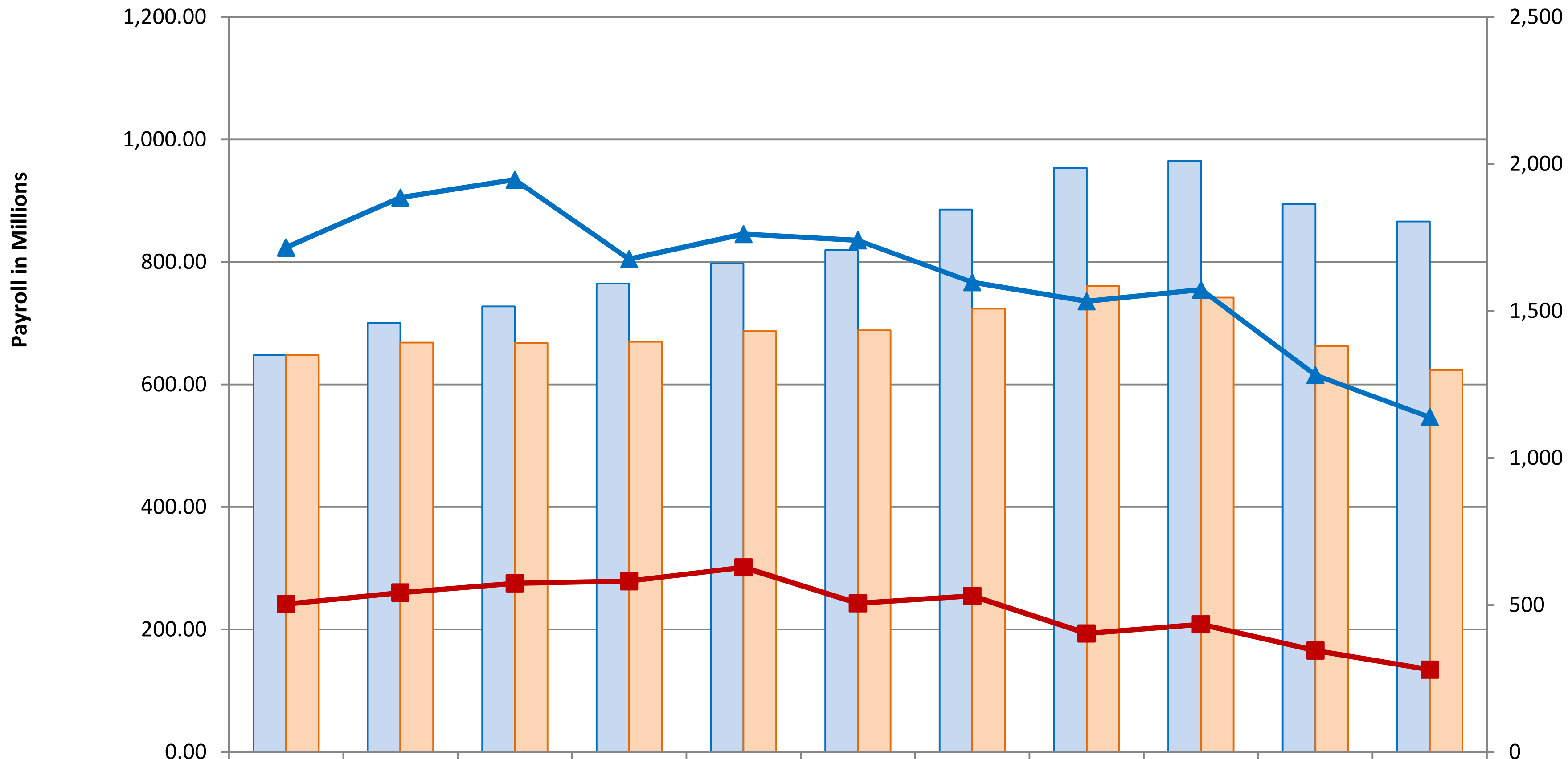
Service Payroll & Claims
Industry Group 8



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	17.10	18.55	19.50	20.31	21.13	21.58	22.32	23.10	23.87	24.57	24.39
Indexed Payroll*	17.10	17.70	17.91	17.78	18.20	18.13	18.24	18.43	18.34	18.21	17.57
LT Claims	9,029	9,390	9,643	9,068	9,394	8,531	7,581	6,792	6,093	5,868	4,472
MO Claims	40,642	41,080	42,132	39,260	38,257	38,028	36,264	34,120	32,493	30,362	27,501

*Indexed payroll is wage inflation adjusted payroll.

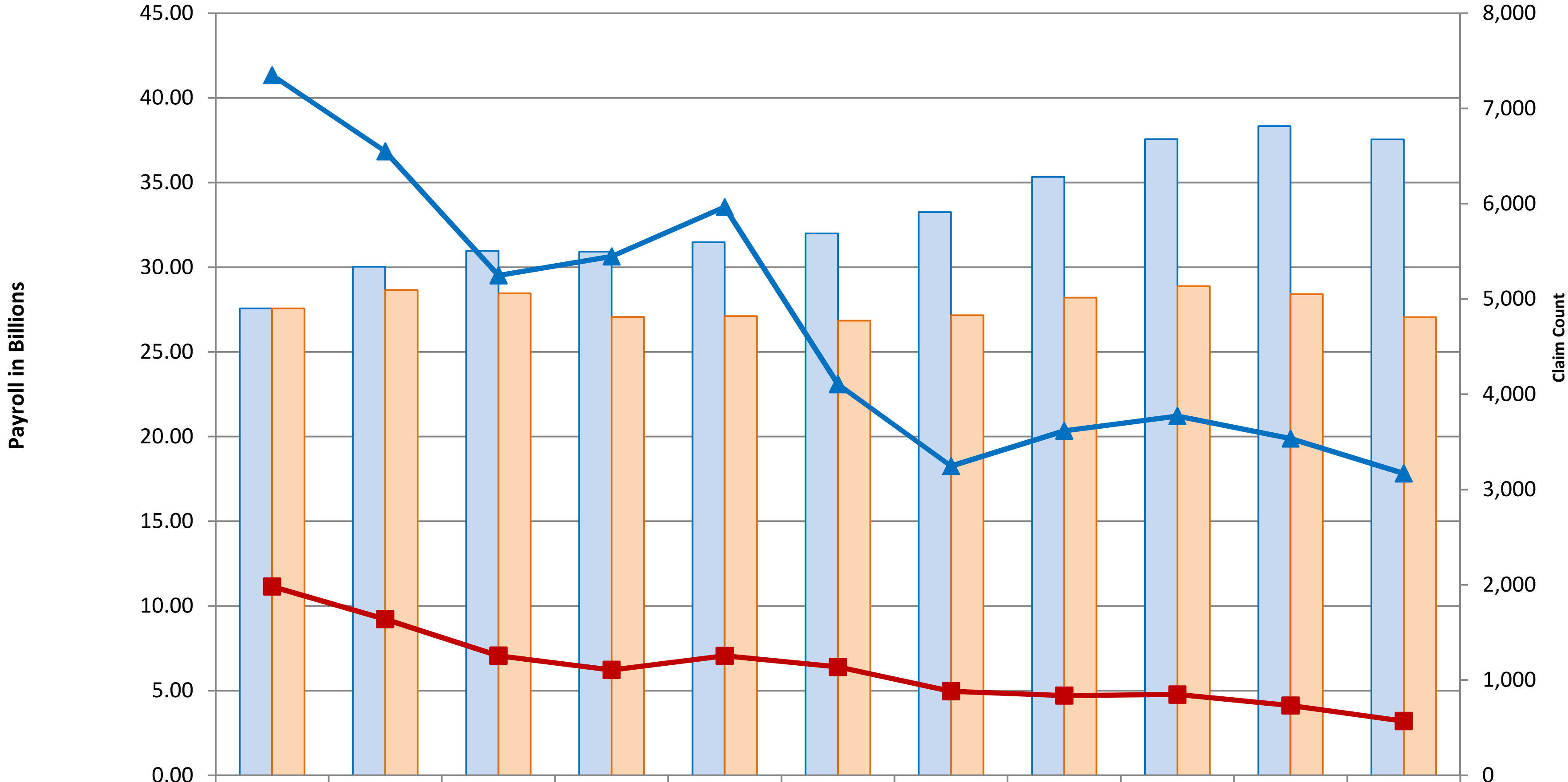
High Risk Commercial Payroll & Claims
Industry Group 9



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	648.00	700.71	727.38	764.95	797.80	819.48	885.89	953.56	965.28	894.70	865.96
Indexed Payroll*	648.00	668.58	668.11	669.64	687.00	688.41	723.97	760.88	741.78	663.06	623.82
LT Claims	503	542	574	581	628	506	531	403	434	345	280
MO Claims	1,716	1,886	1,947	1,677	1,762	1,741	1,598	1,533	1,573	1,282	1,139

*Indexed payroll is wage inflation adjusted payroll.

Office-Miscellaneous Payroll & Claims
Industry Group 10



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	27.57	30.03	30.98	30.92	31.48	31.99	33.25	35.34	37.57	38.34	37.55
Indexed Payroll*	27.57	28.65	28.46	27.07	27.12	26.84	27.17	28.20	28.87	28.41	27.05
LT Claims	1,982	1,639	1,256	1,107	1,255	1,137	883	837	848	732	570
MO Claims	7,348	6,550	5,247	5,446	5,964	4,105	3,245	3,616	3,770	3,534	3,168

*Indexed payroll is wage inflation adjusted payroll.

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 1995 through 2008. 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 46% decrease.

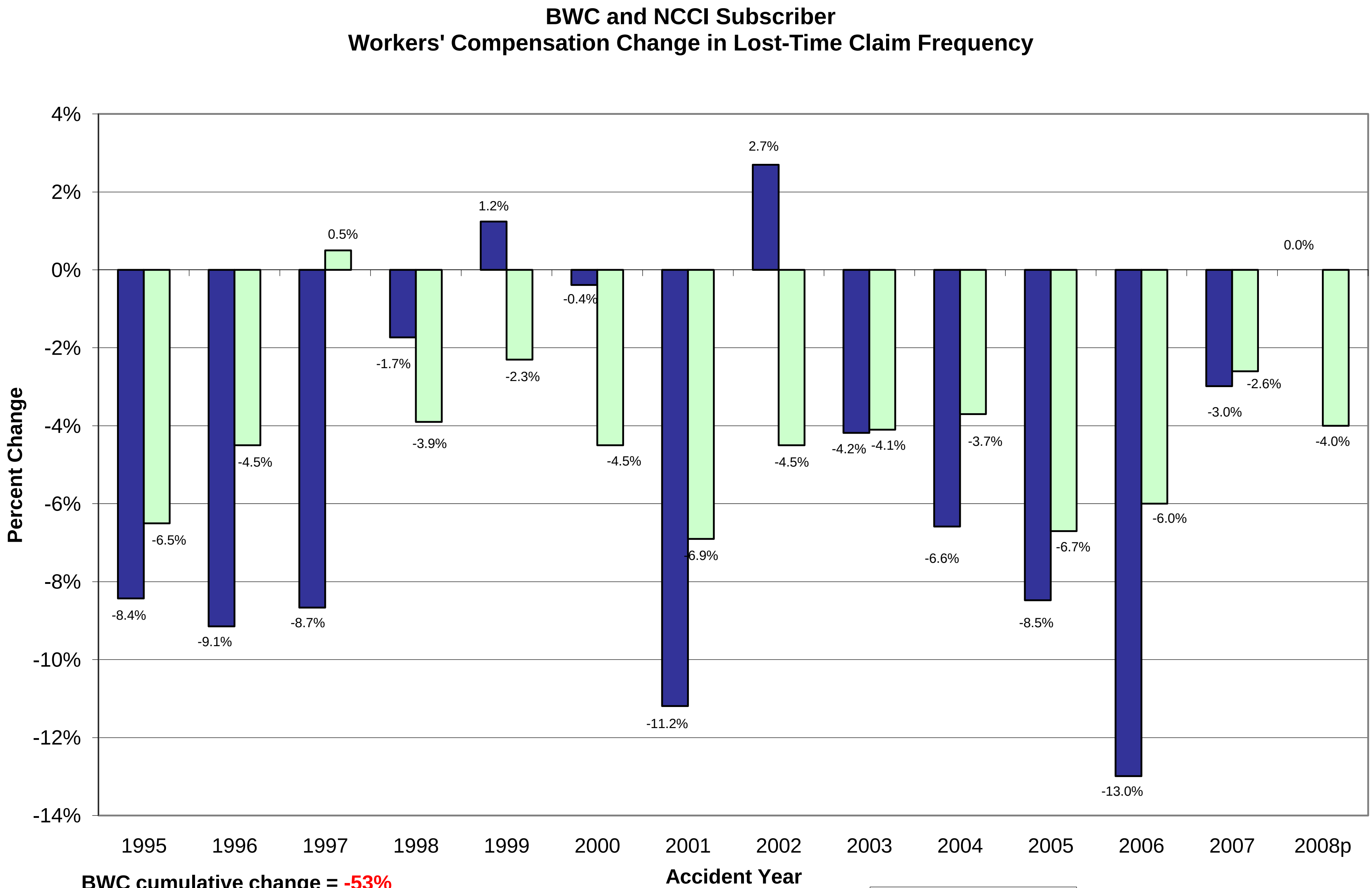
The actuarial audit indicates that the projected ultimate frequency of PTD claims (not shown below) is declining compared to previous audits. However, the Ohio BWC's actual number of newly awarded PTD claims continues to far exceed the national norm. The ultimate number of lost-time claims has decreased significantly since policy year 2000 by more than 28.55%. The June 2009 actuarial audit includes the following table of surrounding states.

Claim Frequencies per 100,000 workers:

2009 NCCI annual statistical bulletin				2008 NCCI annual statistical bulletin		
State	Policy Year	PTD count	Lost-time claim count	Policy Year	PTD count	Lost-time claim count
Illinois	04/05-03/06	16	1,117	04/04-03/05	13	1,156
Indiana	07/05-06/06	2	805	07/04-06/05	2	883
Kentucky	05/05-04/06	9	966	05/04-04/05	11	1,018
Michigan	04/05-03/06	7	970	04/04-03/05	5	978

BWC PA and PEC combined		
Policy Year	PTD Count	Lost – Time Claim Count
2000	78	2,788
2001	69	2,454
2002	72	2,537
2003	74	2,429
2004	72	2,317
2005	71	2,187
2006	70	1,964
2007	70	1,992

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.



BWC cumulative change = -53%
NCCI cumulative change = -46%
(1995 - 2008p) * p=preliminary

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freq chart

Chart Title: Ohio Bureau of Workers' Compensation Ratio of Discounted Indemnity and Medical Costs to Total Losses for Accident Years 1998 and 2008; NCCI Ratio of Indemnity and Medical Costs to Total Losses for Accident Years 1998 and 2008

Description and Conclusions:
This information shows the ratio of discounted indemnity and medical costs to total losses for injury years 1998 and 2008. In 1998, the majority of a claim's ultimate cost was wage replacement or indemnity for the Oho Bureau of Workers' Compensation while for NCCI states, the majority was medical costs. In 2008, the majority of a claim's ultimate cost is now medical costs for both. 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.

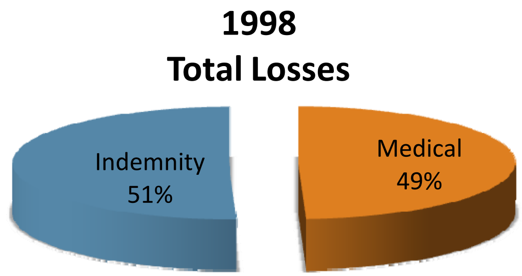
The June 2006 actuarial audit cites medical utilization trends as the cause of the medical increases.

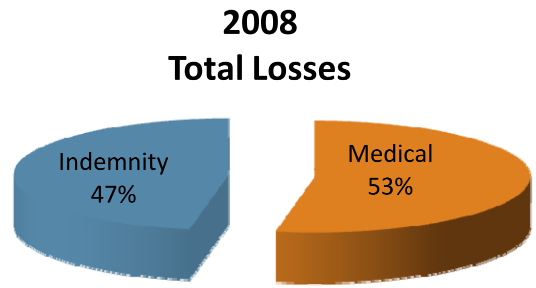
The 2008 NCCI State of the Line report states, "Medical costs continue to increase faster than wages, even though the increases seem to have tempered a bit in 2007. … Medical costs are 59% of total losses in NCCI states with many states in the 65%-70% range. The increased interest in medical benefits 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".

The 2009 NCCI State of the Line reports once again states, "Medical costs continue to increase faster than wages, even though the increases have tempered a bit in recent years. Many states continue to look for ways to control medical costs in their workers compensation systems. We typically analyze 150 to 200 proposed bills that might impact workers compensation costs in a year, with about one-third of those dealing with medical. Medical cost control remains a forefront issue in many states".

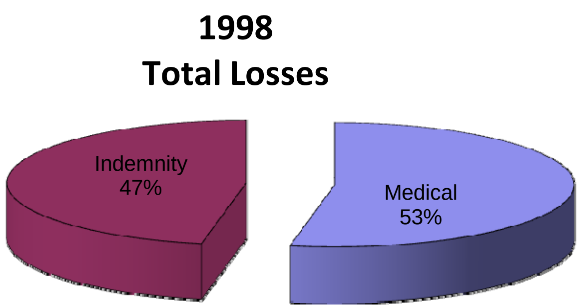
Source of Data: The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.

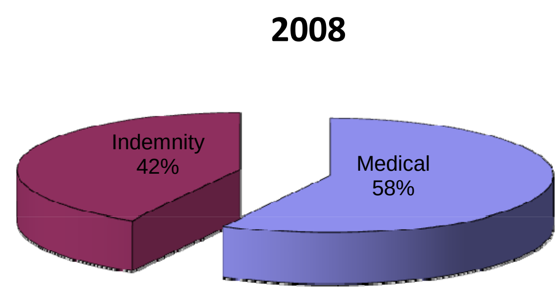
Ohio Bureau of Workers' Compensation Ratio of Discounted Indemnity and Medical Costs to Total Losses for Accident Years 1998 and 2008





NCCI Ratio of Indemnity and Medical Costs to Total Losses for Accident Years 1998 and 2008





* NCCI Annual Issue Symposium 2009
* All Claims-NCCI States
* NCCI information for 1998 is based on date through 12/31/2007; 2008 is based on data through 12/31/2008
* BWC data is based on Private employer claim costs from the 6/30/2009 Actuarial Audit

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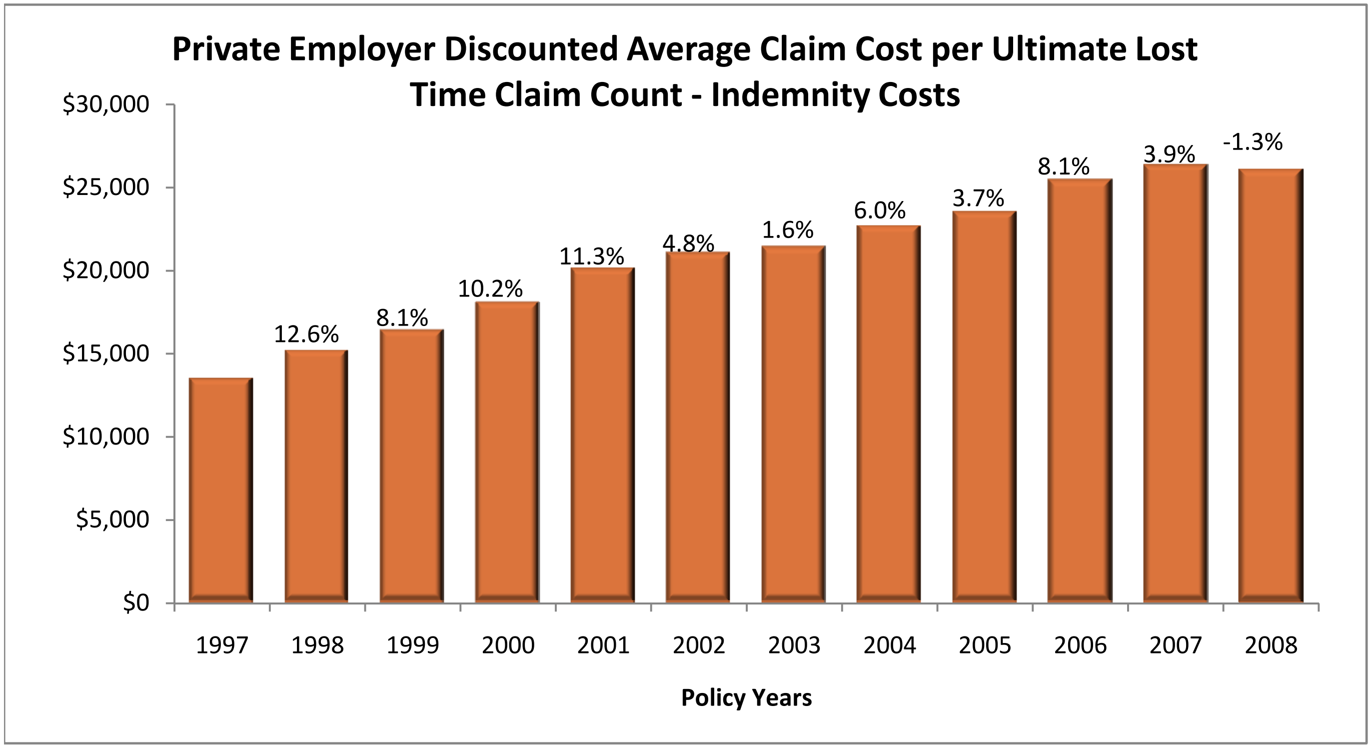
Ohio Bureau of Workers' Compensation
PA Discounted Average Claim Cost per Ultimate Lost Time Claim Count

Accident Year	Indemnity	Medical	Indemnity % Change	Medical % Change	Total Indemnity + Medical	% Medical Costs	% Indemnity Costs
1997	$13,441	$12,759					
1998	$15,136	$14,819	12.6%	16.1%	$29,955	49.5%	50.5%
1999	$16,358	$15,422	8.1%	4.1%	$31,780	48.5%	51.5%
2000	$18,020	$17,230	10.2%	11.7%	$35,250	48.9%	51.1%
2001	$20,054	$19,558	11.3%	13.5%	$39,612	49.4%	50.6%
2002	$21,007	$20,971	4.8%	7.2%	$41,978	50.0%	50.0%
2003	$21,338	$21,925	1.6%	4.5%	$43,263	50.7%	49.3%
2004	$22,624	$23,850	6.0%	8.8%	$46,474	51.3%	48.7%
2005	$23,456	$25,655	3.7%	7.6%	$49,111	52.2%	47.8%
2006	$25,357	$27,776	8.1%	8.3%	$53,133	52.3%	47.7%
2007	$26,335	$28,665	3.9%	3.2%	$55,000	52.1%	47.9%
2008	$25,984	$29,204	-1.3%	1.9%	$55,188	52.9%	47.1%

Data is from the June 30, 2009 Actuarial Audit

NCCI Data

	% Medical Costs	% Indemnity Costs
1998	53.0%	47.0%
2008	58.0%	42.0%



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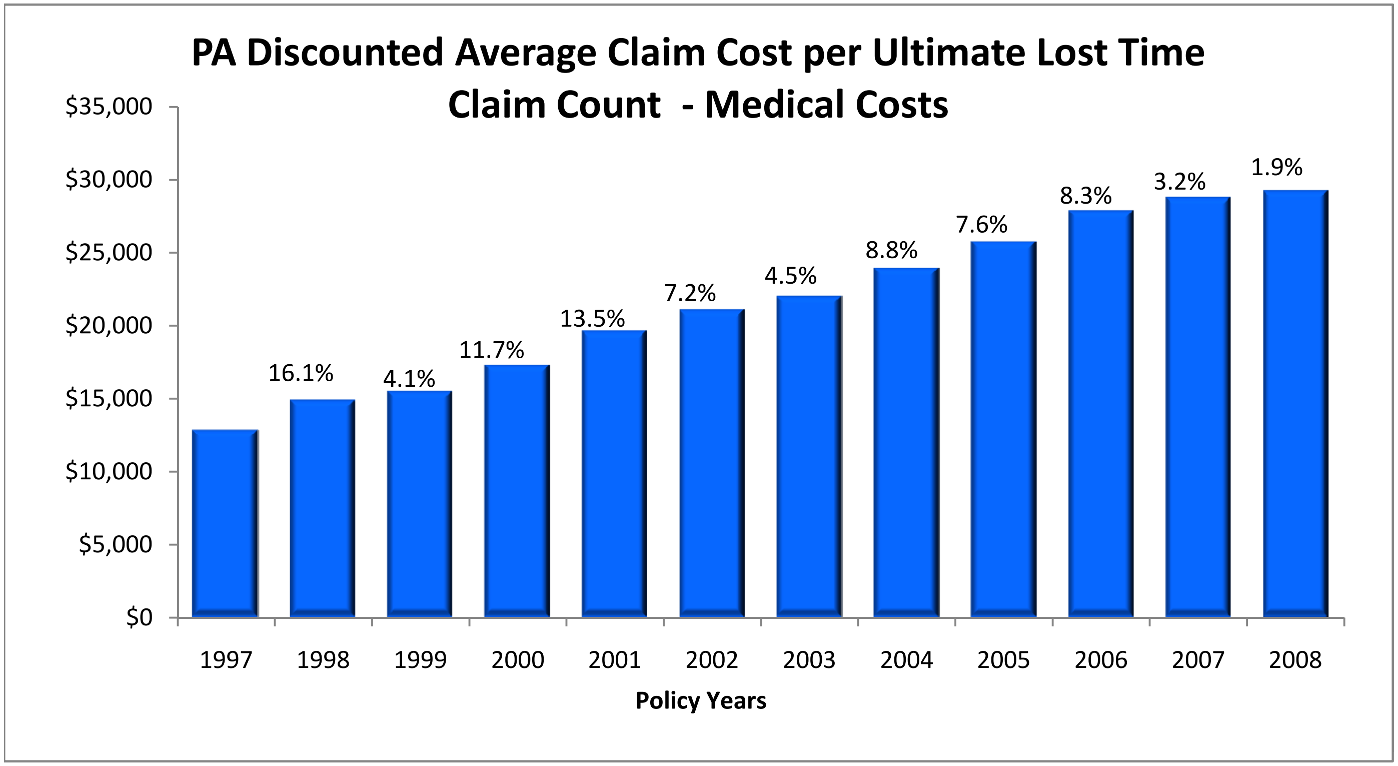

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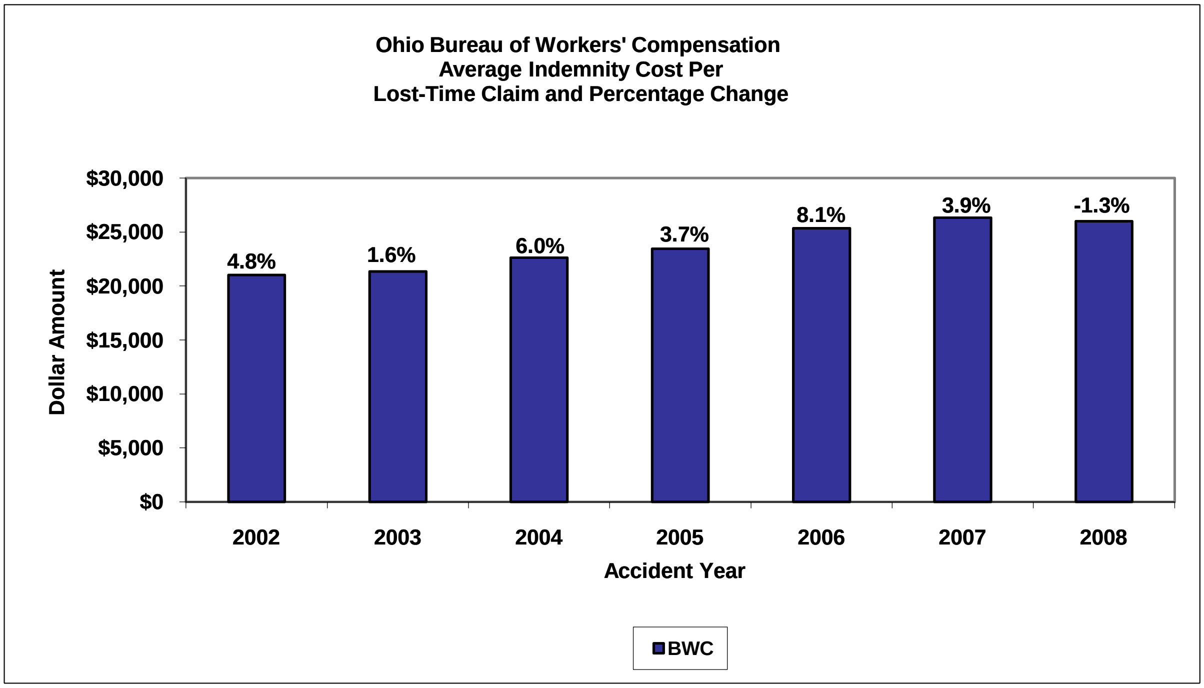
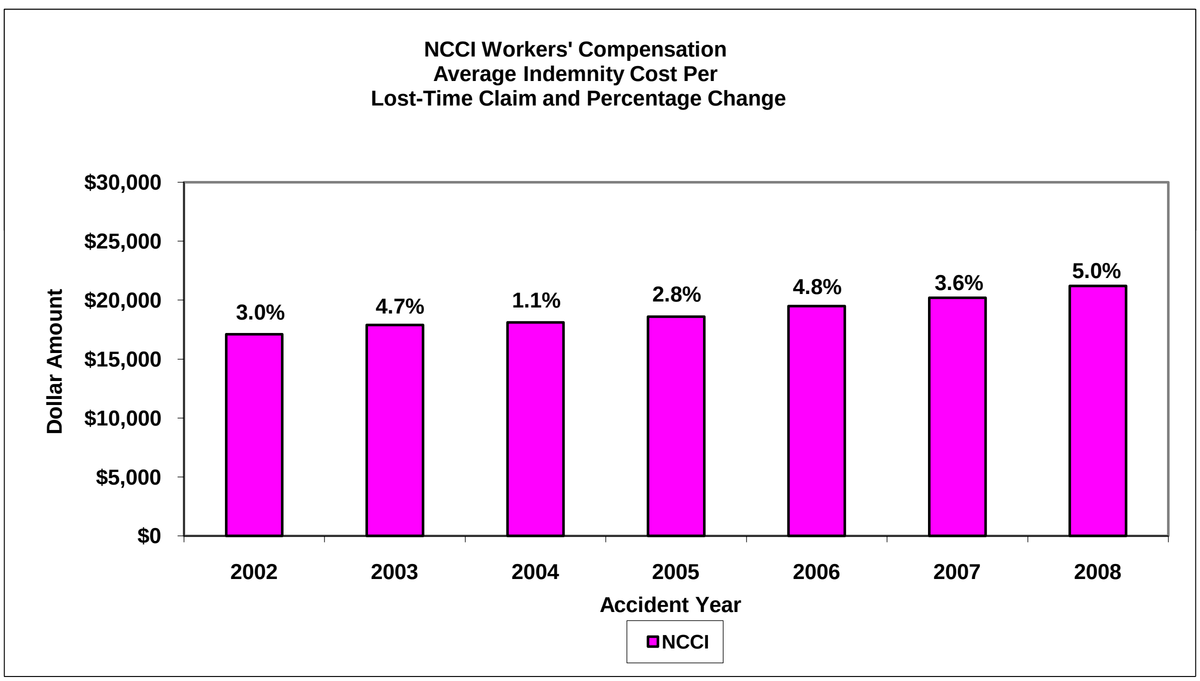
Chart Title: Ohio Bureau of Workers' Compensation Average Indemnity Cost per Lost-Time claim and Percentage Change/NCCI Average Indemnity Cost per Lost-Time claim and Percentage Change

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:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.





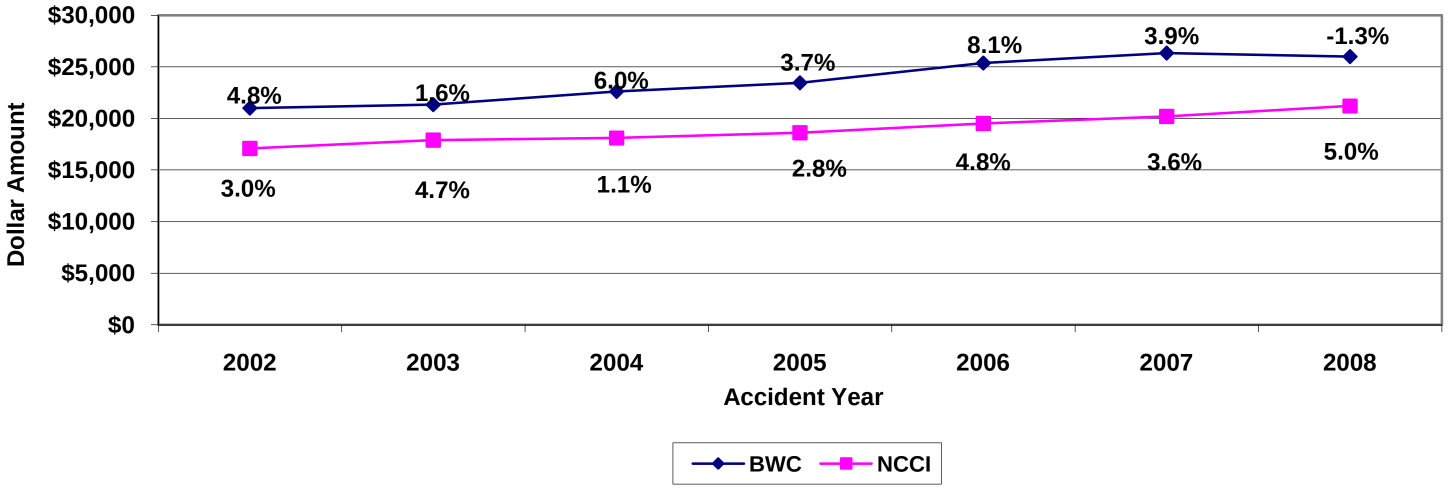
NCCI data from the NCCI Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary
BWC data from the June 30, 2009 Actuarial Audit, Oliver Wyman, Actuarial Consultants

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 line 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 or bottom of each point is the percentage change in the cost from the year before. Each point 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 of claims is higher overall.

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.

NCCI and Ohio Bureau of Workers' Compensation
Percentage Change in Average Indemnity Costs on
Lost-Time Claims



NCCI data from the NCCI Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary
BWC data from the June 30, 2009 Actuarial Audit, Oliver Wyman, Actuarial Consultants

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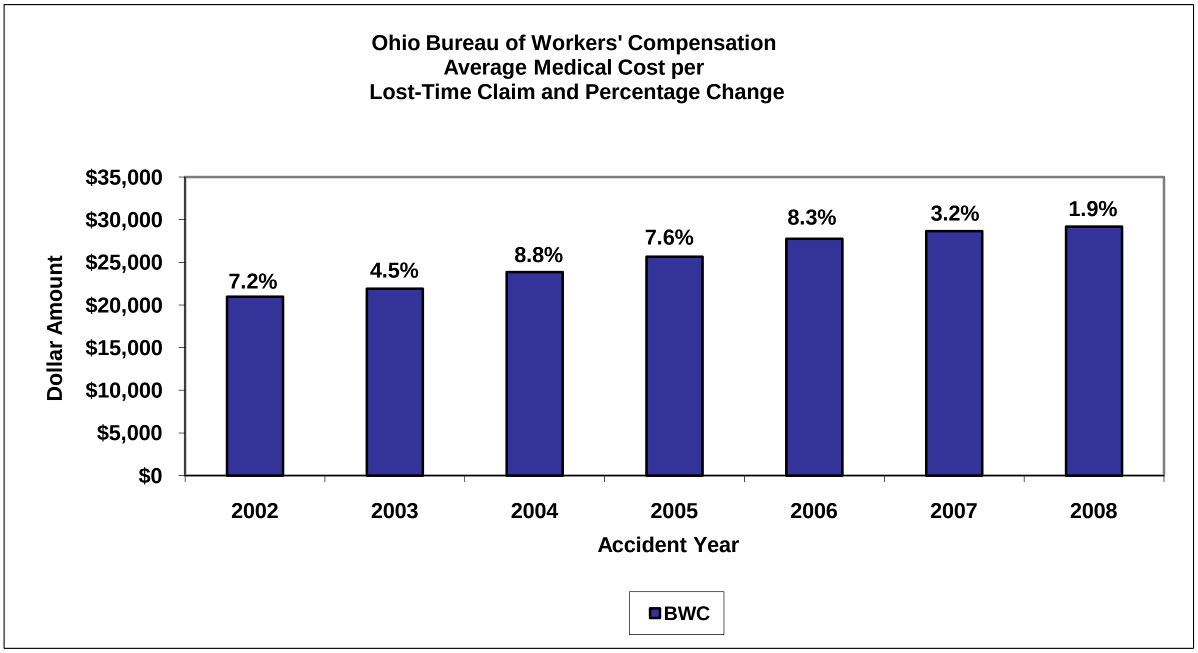
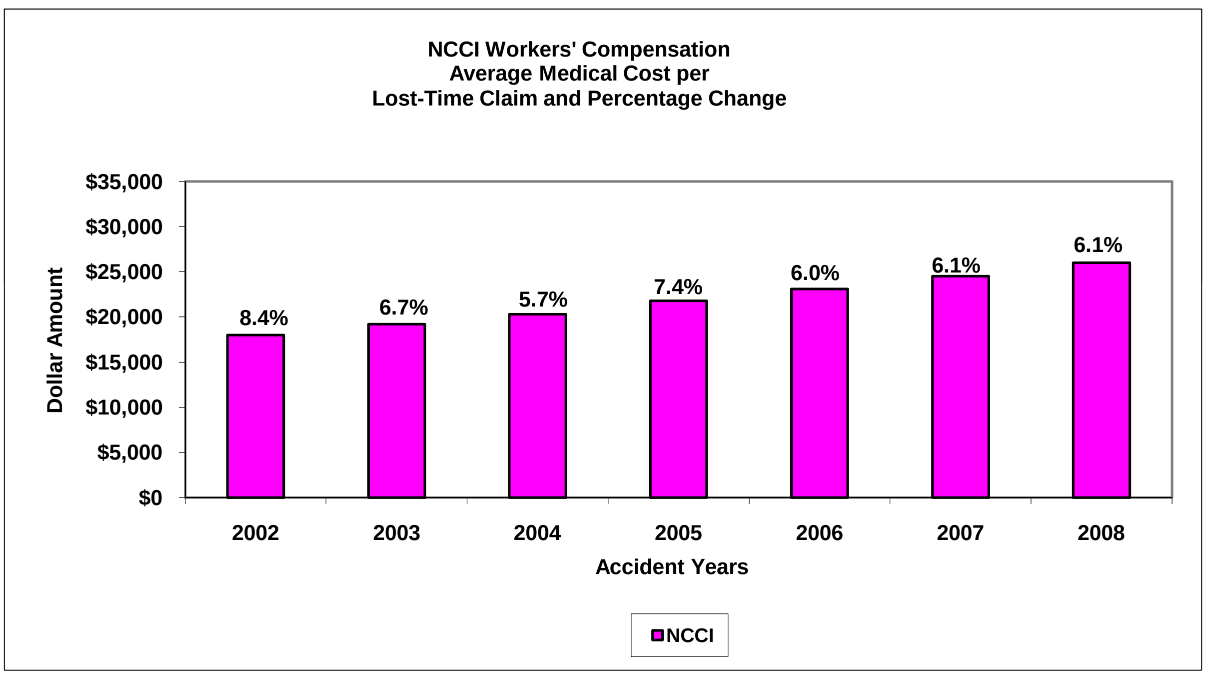




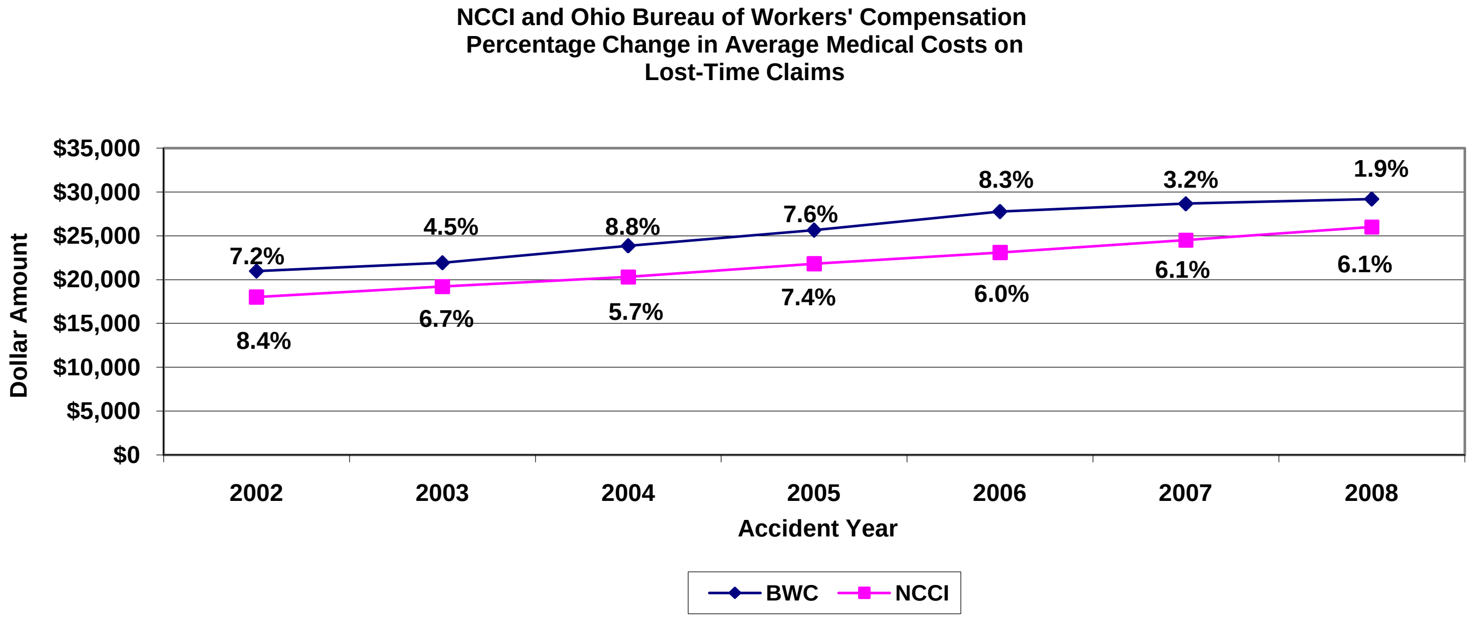
NCCI data from the NCCI Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary

BWC data from the June 30, 2009 Actuarial Audit, Oliver Wyman, Actuarial Consultants

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

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

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.



NCCI data from the NCCI Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary

BWC data from the June 30, 2009 Actuarial Audit, Oliver Wyman, Actuarial Consultants

Chart Title: Reported Lost Time Claim per $1M-Adjusted Payroll
Reported Death and PTD Claim per $1M-Adjusted Payroll
Reported Temporary Total and Permanent Partial Claim per $1M-Adjusted Payroll

Description and Conclusions:

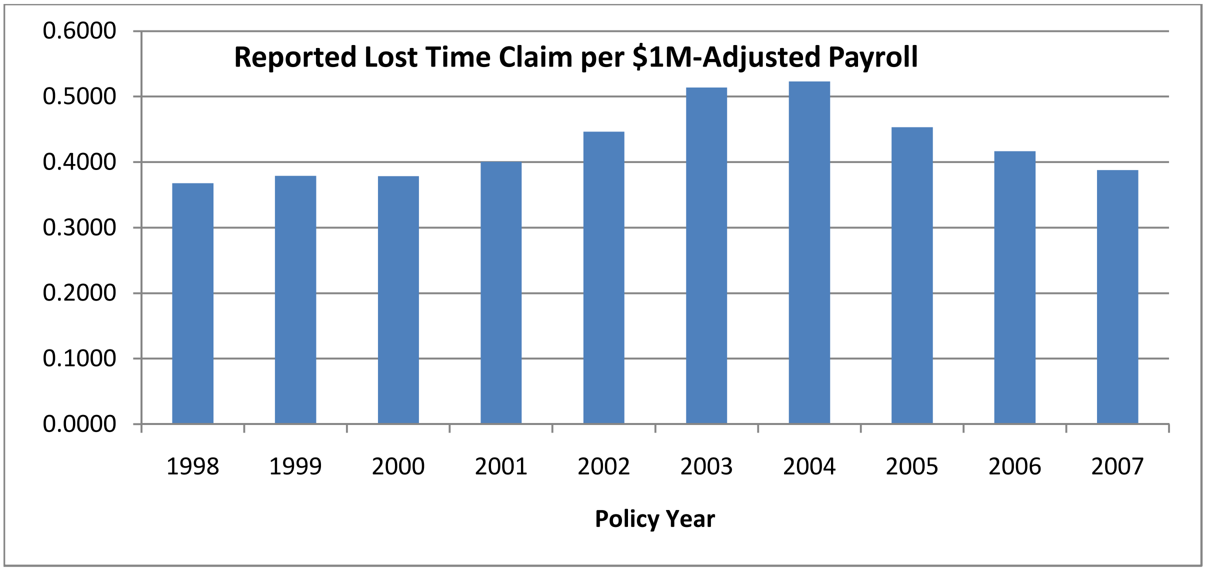
The Reported Lost Time Claim per $1M-Adjusted Payroll chart shows the amount of lost time claims reported per $1 million of wage inflation adjusted payroll. The claim counts per $1 million of wage inflation adjusted payroll is further broken out by claim type in the graphs labeled Reported Death and PTD Claim per $1M-Adjusted Payroll and Reported Temporary Total and Permanent Partial Claim per $1M-Adjusted Payroll.

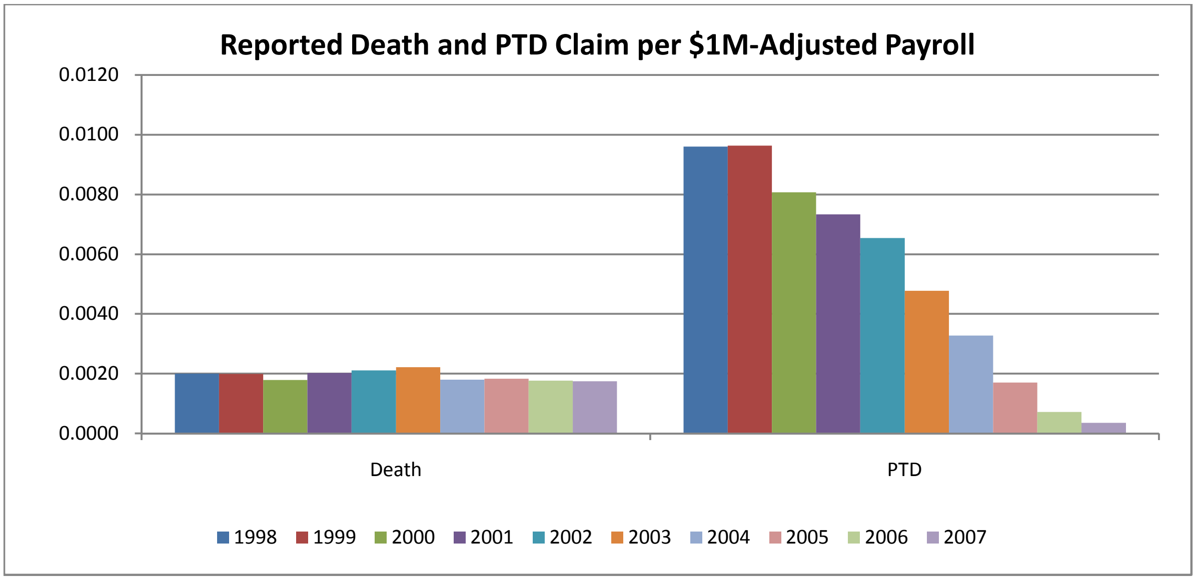
The PTD chart is misleading in that it is indicating a sharp decrease in the reported PTD claims. Typically, it takes an average of about 10 years before a claim files and becomes a PTD claim. The chart labeled All Employer PTD Incremental Claim Counts is a triangle of incremental reported PTD claims beginning in 1993 and the cumulative percent awarded compared to the ultimate PTD claim count from the Actuarial Audit as of June 30, 2009. The highlighted cells indicate when approximately 50% of the ultimate PTD have been awarded/reported and it is occurring at eight years after the original injury date.

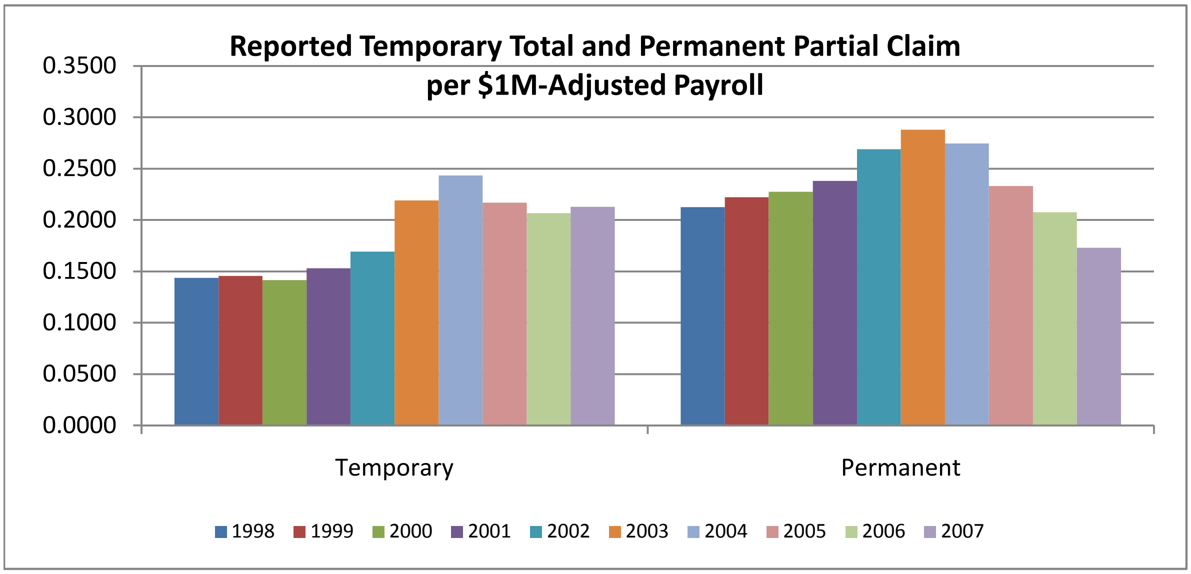
The Permanent chart reflects claim frequency higher than the frequency for Temporary claims. This is primarily as result of Percent Permanent Partial (%PP) awards in Ohio. MIRA II maps the claim injury type as Permanent if a %PP is awarded. The awards can be made on claims that are currently listed as Medical Only claims, therefore causing the claim to be considered permanent by the MIRA II system and also will include in the Permanent mapping of a claim where the percent award is greater than 0%.

Source of Data:
The payroll used in the calculation of claim frequency is taken from the BWC's data warehouse as of February 7, 2010. Wage inflation was calculated using the BWC's maximum Death and Temporary Total maximum wage indexed using policy year 1998 as the base year.

The claim data is obtained from the MIRA II claim reserving system and was obtained on February 8, 2010, with predictions as of Dec. 31, 2009. The claim injury type determined by the MIRA II system reflects the ultimate claim severity as of the evaluation date and is based primarily on the type and/or duration of indemnity payments. MIRA II will assign an injury type of Death and/or PTD to claims that have had actually death and/or PTD awards paid. Therefore MIRA II does not predict Death and/or PTD claims prior to the actual awards being paid. The claim counts include claims that are Open/Close, and Active/Inactive.


Reported Lost Time Claim per $1M-Adjusted Payroll
0.6000
0.5000
0.4000
0.3000
0.2000
0.1000
0.0000
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
Policy Year


Reported Death and PTD Claim per $1M-Adjusted Payroll
0.0120
0.0100
0.0080
0.0060
0.0040
0.0020
0.0000
Death
PTD
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007


Reported Temporary Total and Permanent Partial Claim
per $1M-Adjusted Payroll
0.3500
0.3000
0.2500
0.2000
0.1500
0.1000
0.0500
0.0000
Temporary
Permanent
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007

All Employer PTD Incremental Claim Counts

	Year of award														
Accident Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1994	16	41	64	80	74	87	64	74	68	64	54	52	33	52	25
1995	4	10	36	68	68	85	68	64	81	61	51	41	42	59	28
1996		3	13	27	55	70	77	72	64	72	53	49	40	45	34
1997			2	10	26	56	75	73	81	76	76	61	50	61	39
1998				3	17	37	55	75	96	87	89	75	57	97	58
1999					1	13	45	53	78	115	89	83	75	99	58
2000						1	13	52	88	99	129	107	89	95	81
2001							5	13	43	67	92	81	84	98	84
2002								5	13	46	66	88	72	126	97
2003									2	15	45	64	66	111	108
2004										2	17	44	55	98	98
2005											7	18	15	56	81
2006												4	15	24	33
2007													5	6	30
2008														5	11
2009															2
	20	54	115	188	241	349	402	481	614	704	768	767	698	1,032	867

All Employer PTD Incremental Claim Counts Percentage of Ultimate PTD Claim Count

	Year of award														
Accident Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1994	2%	6%	12%	20%	28%	36%	43%	50%	57%	64%	69%	74%	77%	83%	85%
1995	0%	1%	5%	12%	19%	28%	35%	42%	51%	57%	62%	67%	71%	77%	80%
1996		0%	2%	5%	11%	18%	27%	35%	42%	50%	55%	61%	65%	70%	74%
1997			0%	1%	4%	9%	17%	24%	32%	40%	47%	53%	58%	65%	68%
1998				0%	2%	5%	10%	17%	25%	33%	41%	48%	53%	62%	67%
1999					0%	1%	5%	10%	16%	26%	34%	41%	48%	56%	61%
2000						0%	1%	5%	12%	20%	30%	38%	45%	53%	59%
2001							0%	2%	5%	11%	19%	25%	32%	41%	48%
2002								0%	2%	5%	11%	18%	24%	35%	43%
2003									0%	1%	5%	11%	16%	26%	35%
2004										0%	2%	5%	10%	18%	27%
2005											1%	2%	4%	9%	16%
2006												0%	2%	4%	7%
2007													0%	1%	4%
2008														0%	1%
2009															0%
Grand Total															

Count
848
766
674
686
746
709
754
567
513
411
314
177
76
41
16
2
7,300

Utimate Count
995
955
914
1,002
1,116
1,161
1,278
1,185
1,192
1,176
1,170
1,122
1,130
1,133
1,126
1,136
17,791

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 1999 through 2009.

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 Division reporting on the Actual versus Expected payment reports.

Ohio BWC
PA, PEC, PES Employers
Temporary Total and Living Maintenance
Fiscal Year Payments

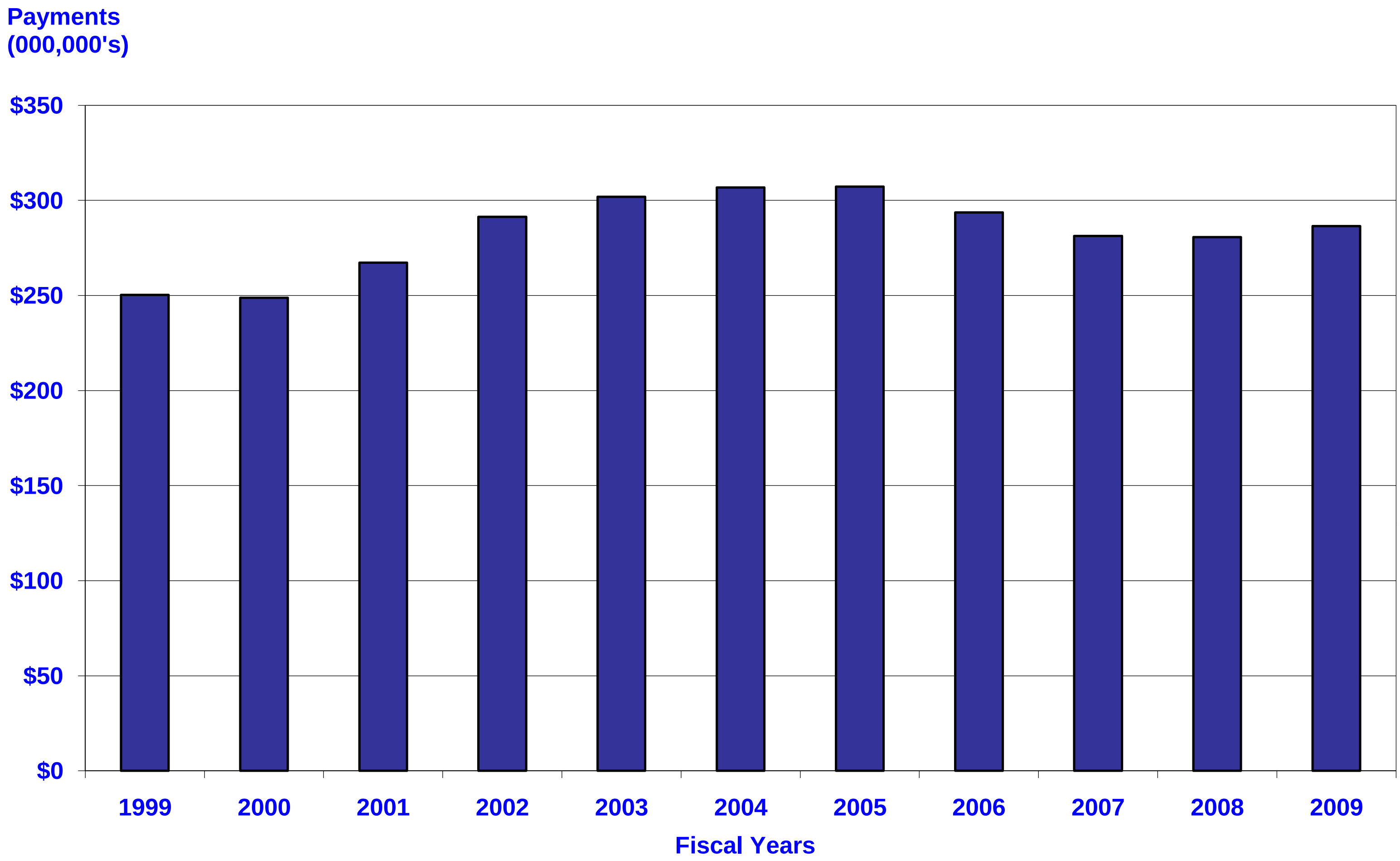


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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Permanent Total Disability and Lump Sum Advancements; Fiscal Year Payments

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 1999 through 2009.

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.

<u>The Price Supreme Court Decision</u>: 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 Division reporting on the Actual versus Expected payment reports.

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

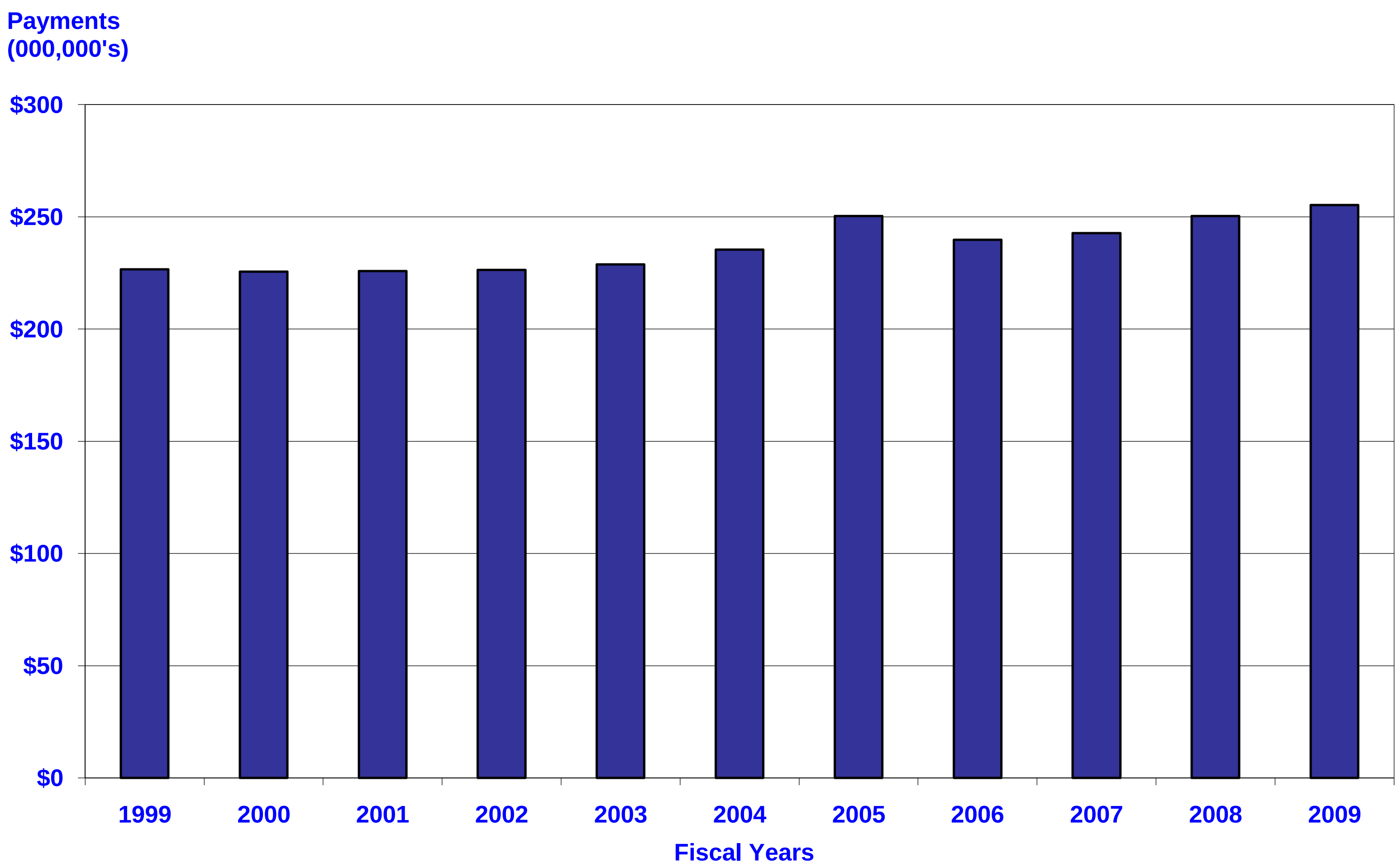

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Death; Fiscal Year Payments

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 1999 through 2009.

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 Division reporting on the Actual versus Expected payment reports.

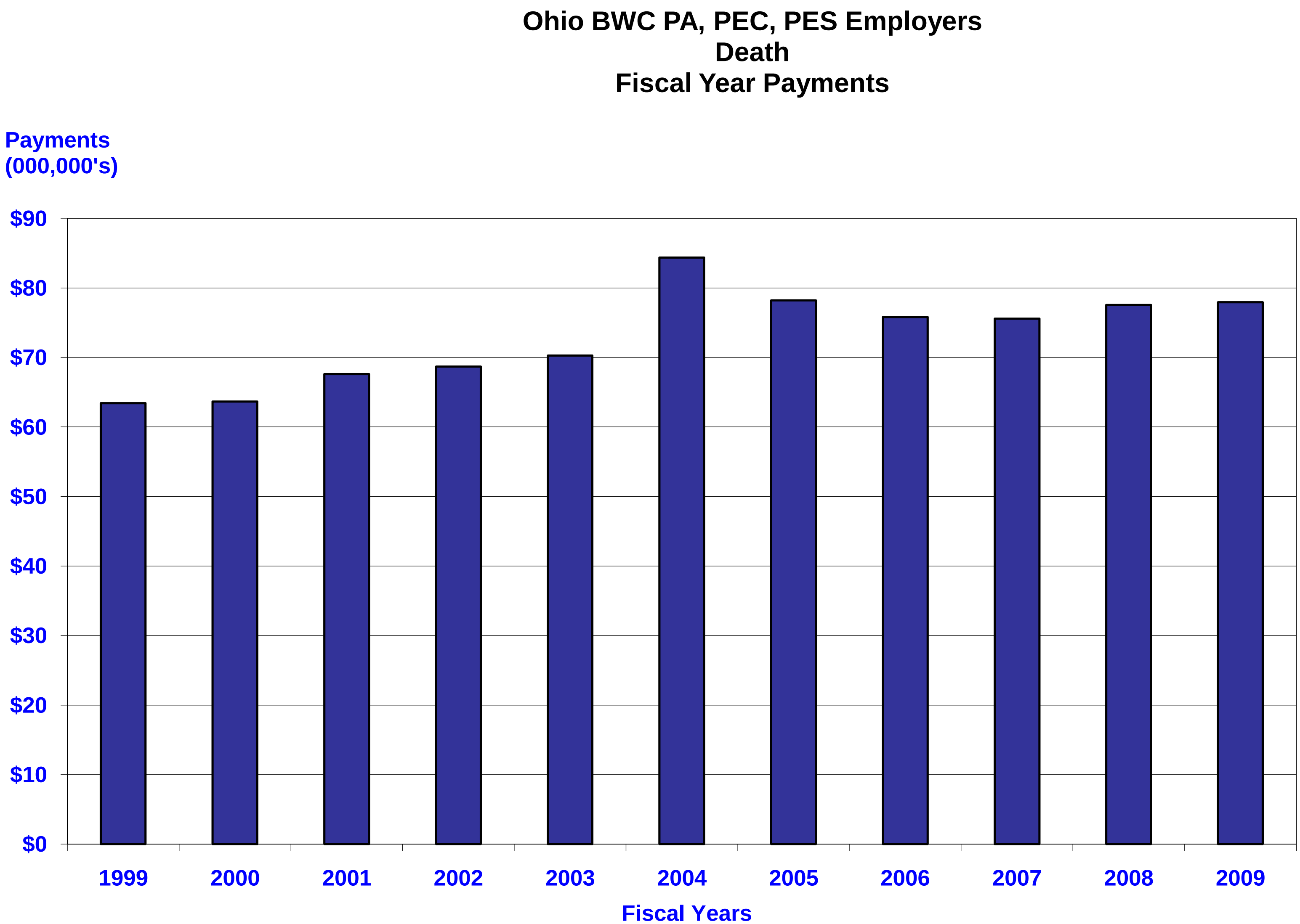

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Percent Permanent Partial; Fiscal Year Payments

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 1999 through 2009.

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.

There was a $4 million increase in payments from fiscal year 2008 to 2009. This is due to the number of %PP payments increasing from 33,594 in fiscal year 2008 to 35,071 in fiscal year 2009 and an increase in the average payment amount from $2,471 to $2,494. It is also likely that the large decrease in lump sum settlements attributed to this increase.

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

Ohio BWC PA, PEC, PES Employers
Percent Permanent Partial
Fiscal Year Payments

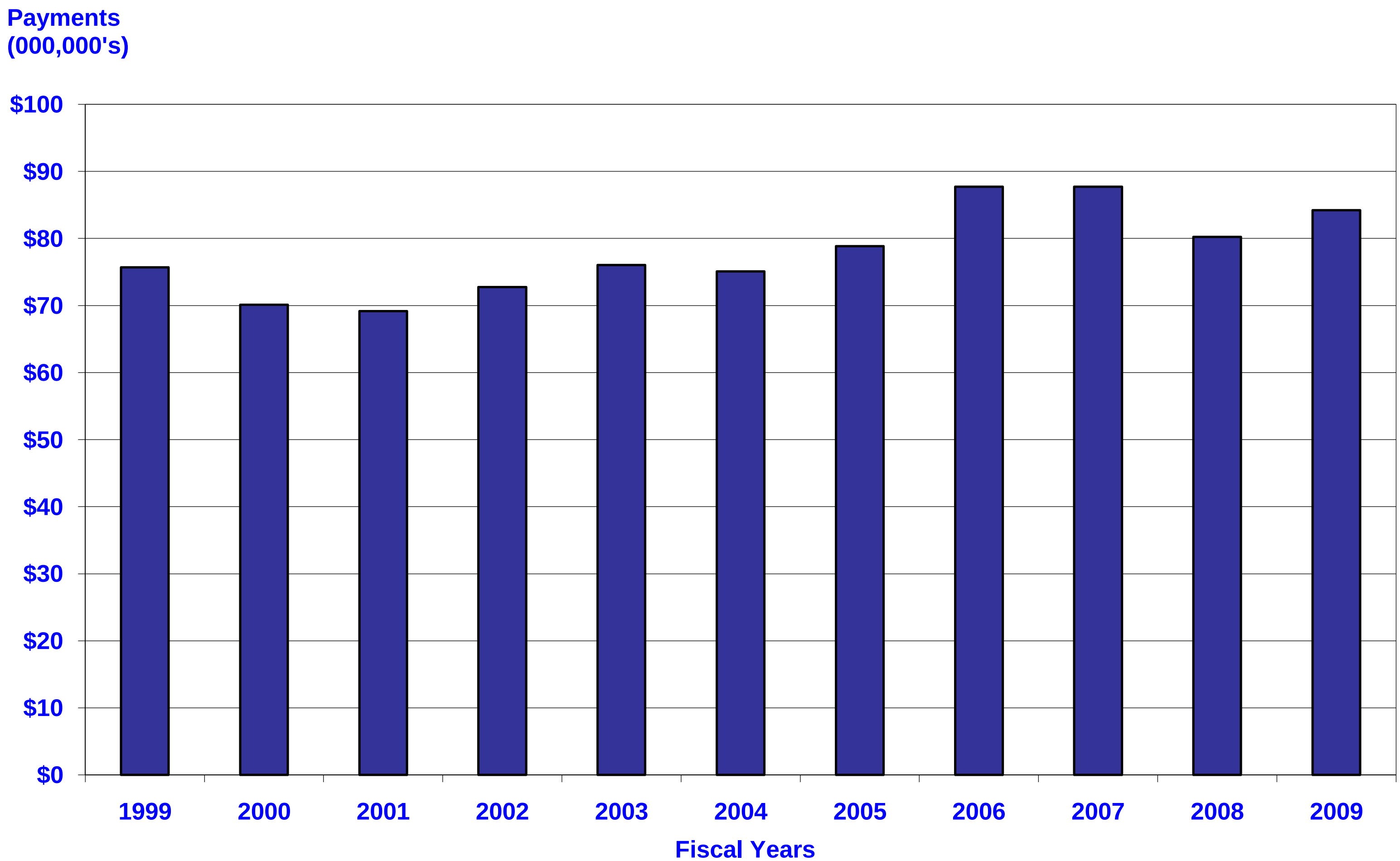

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Permanent Partial; Fiscal Year Payments

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 1999 through 2009.

Benefit Description:
A certain amount of permanent damage (called residual damage) may remain as a result of the injury. A scheduled loss (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.

Payments decreased approximately $569,000 from fiscal year 2008 to 2009. Although there were no law, rule, policy, procedure or process changes that can be contributed to the decrease in PP benefit payments, the count of PP payments and the average payment decreased from fiscal year 2008 to 2009. The payment counts decreased from 14,973 to 14,670, and the average payment decreased from $2,116 to $1,946.

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

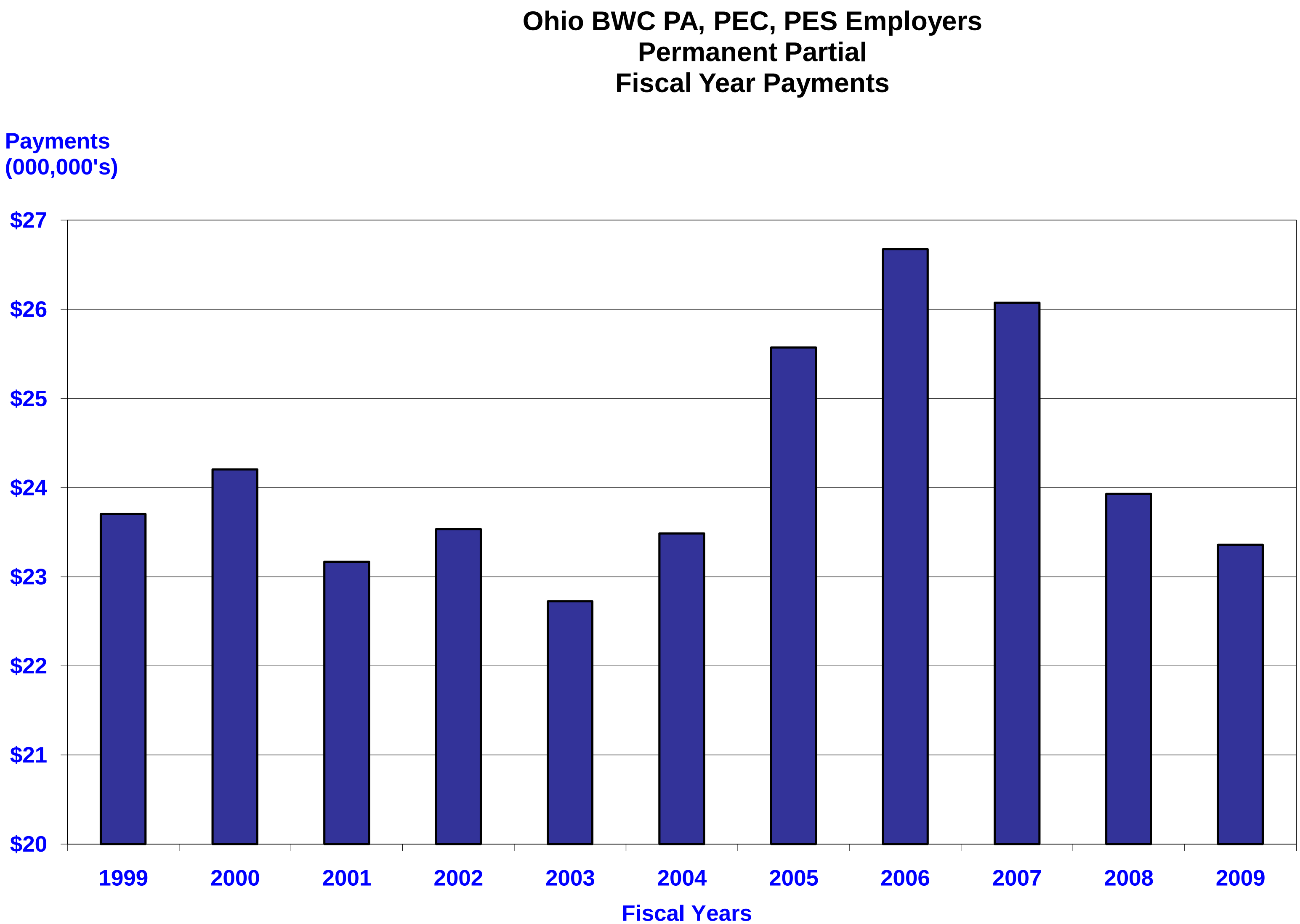

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Temporary Partial, Wage Loss, Living Maintenance Wage Loss and Change of Occupation; Fiscal Year Payments

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 1999 through 2009.

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 Division 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

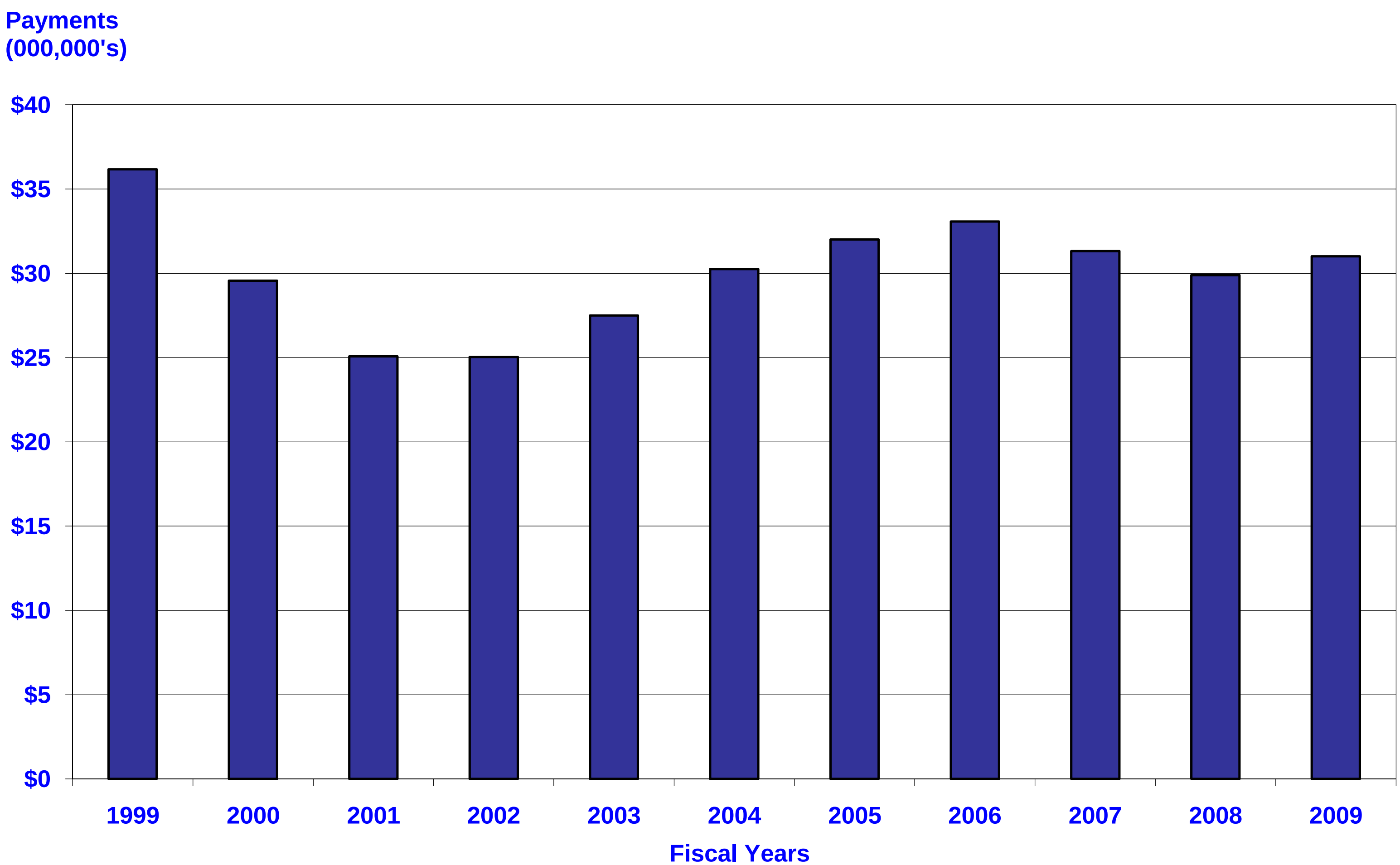

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Lump Sum Settlement; Fiscal Year Payments

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 1999 through 2009.

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 from fiscal year 2005 to fiscal year 2008 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.

The reduction in lump sum settlements for FY2008 to FY2009 is multi-fold. One, in late 2008 and early 2009, BWC began a comprehensive reevaluation of its settlement philosophy and process. As such some settlement strategies, such as the fast track settlement process were eliminated, thereby requiring all settlements to go through the formal settlement process. Second, with implementation of the new MIRAII system, we believe employers may be less likely to engage in settlements with the suppression of reserves at earlier dates and changes to reserving of claims receiving C92 awards specifically. Finally, at the end of the fiscal year, April 20th, several new processes were put in place during our redesign efforts. As a result, there was an initial learning curve that would have delayed action on some of these settlements.

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

Ohio BWC PA, PEC, PES Employers
Lump Sum Settlement
Fiscal Year Payments

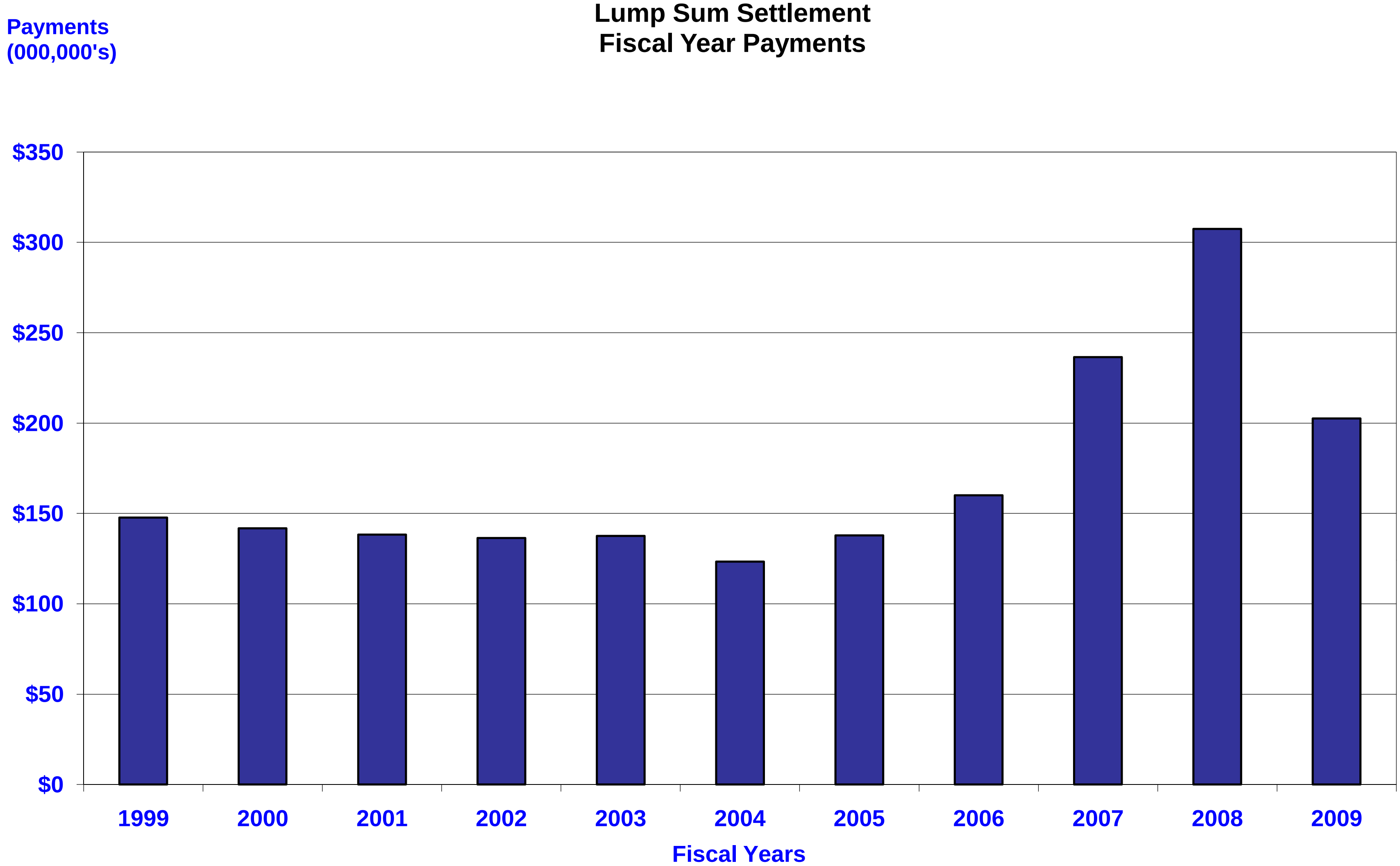

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Indemnity Totals; Fiscal Year Payments

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 1999 through 2009.

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

Ohio BWC PA, PEC, PES Employers
IndemnityTotals
Fiscal Year Payments

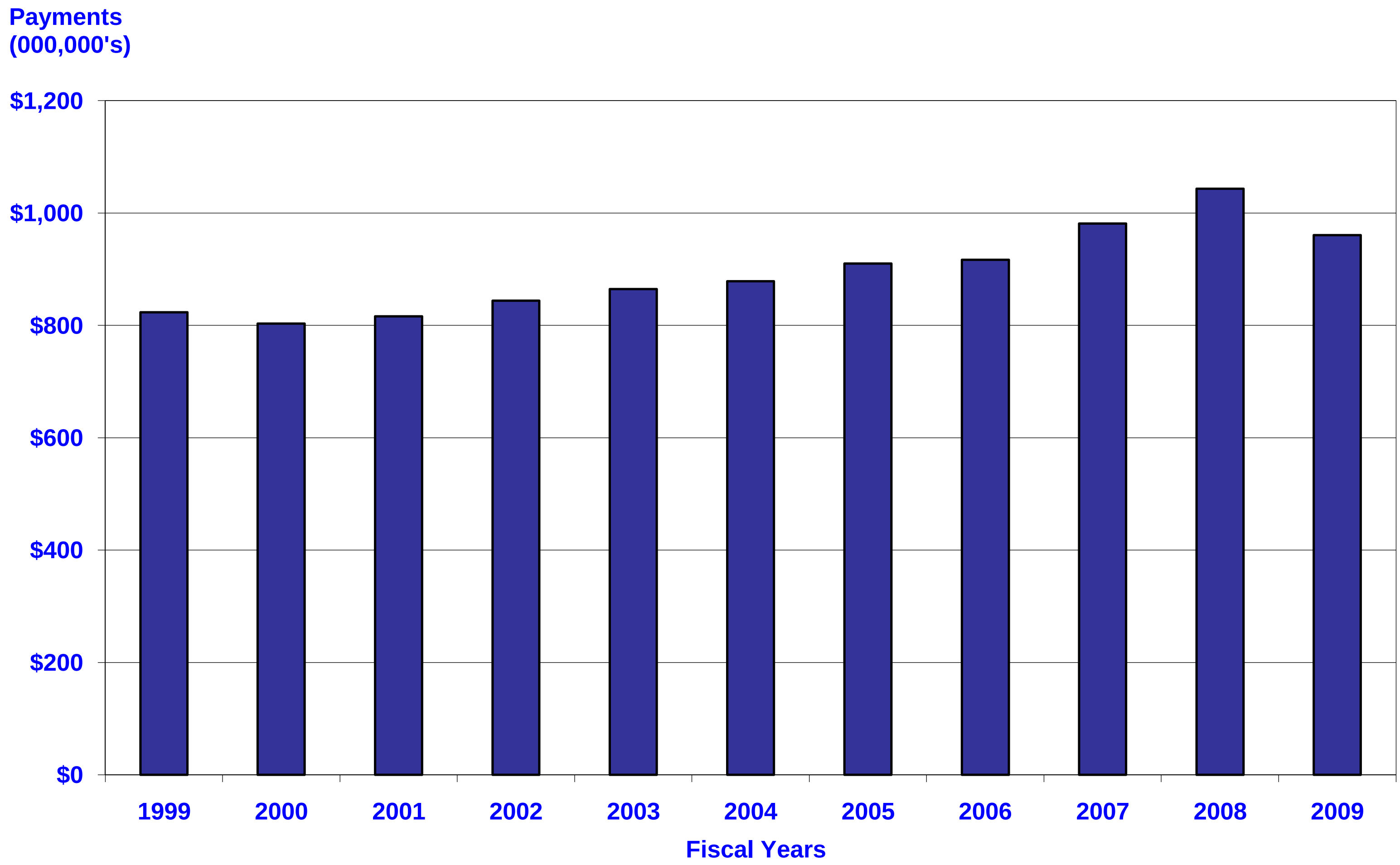

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Hospital; Fiscal Year Payments

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 1999 through 2009.

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.

There was a $4.2 million increase in hospital payments from fiscal year 2008 to fiscal year 2009. BWC continued to pay inpatient bills using the Diagnosis Related Group methodology. This methodology has a built-in "cost-of-living" increase. In addition, BWC went from paying 115% of Medicare in CY 2007 and 2008 to 120% of Medicare in 2009. This would have accounted for part of the cost increase. For both periods analyzed, outpatient hospital services were reimbursed according to the cost to charge methodology. Because this methodology pays a percent of charges, a portion of this increase may have been due to higher charges.

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

Ohio BWC PA, PEC, PES Employers
Hospital
Fiscal Year Payments

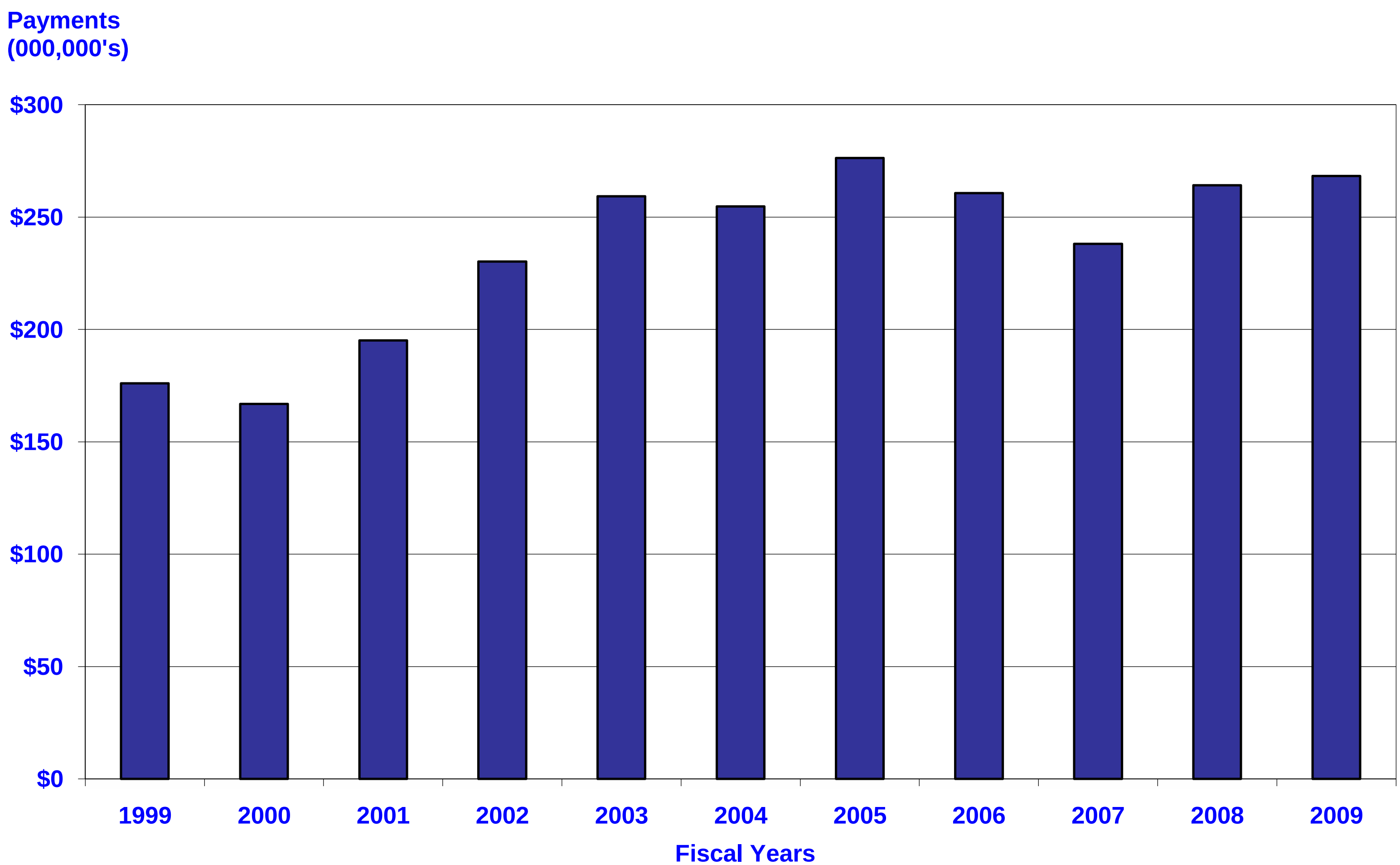

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Chart Title: Ohio Bureau of Workers’ Compensation; PA, PEC, PES Employers; Physician; Fiscal Year Payments

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 1999 through 2009.

Notable Events/Information:
There was a change in reimbursement level that increased reimbursement rates on bills with dates of service 2/19/2009 and later. The net decrease in expenditures most likely reflects decreased utilization as a result of fewer claims being active and receiving treatment.

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

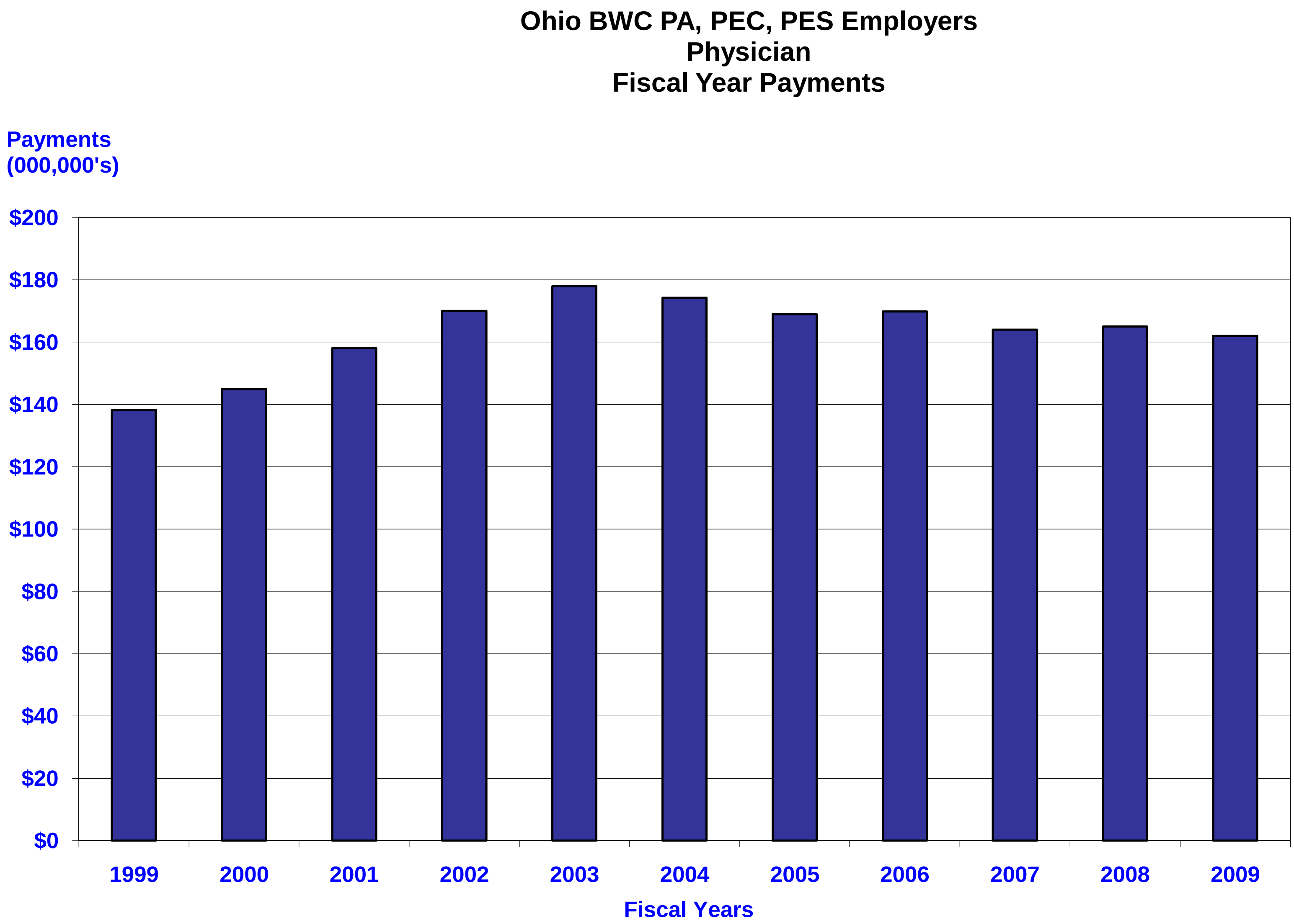

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Pharmacy; Fiscal Year Payments

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 1999 through 2009.

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 in 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.

The following changes in mediations available for treatment were made during late fiscal year 2008: payment was denied for Lidoderm, Actiqk Fentora, soma 250, Flector, Amarix, and Fexmid. These changes may have been a factor in the 1.4% overall reduction in prescription payments seen between fiscal year 2008 and 2009.

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

Ohio BWC PA, PEC, PES Employers
Pharmacy
Fiscal Year Payments

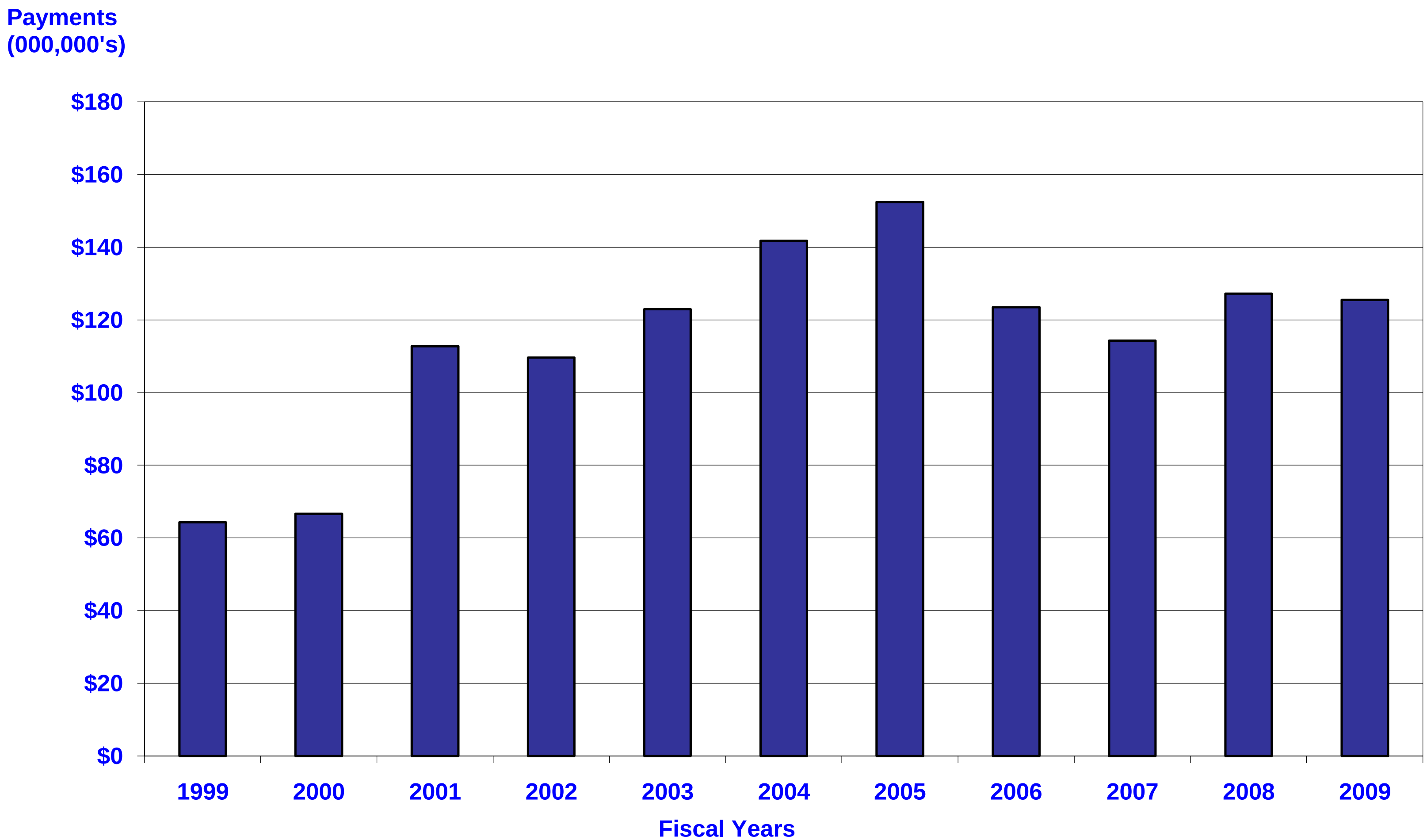

Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Chiropractor; Fiscal Year Payments

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 1999 through 2009.

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.

There was a slight change in reimbursement level that increased reimbursement rates on bills with dates of service 2/19/2009 and later. This may account for part of the change. In addition there may be increased utilization.

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

Ohio BWC PA, PEC, PES Employers
Chiropractor
Fiscal Year Payments

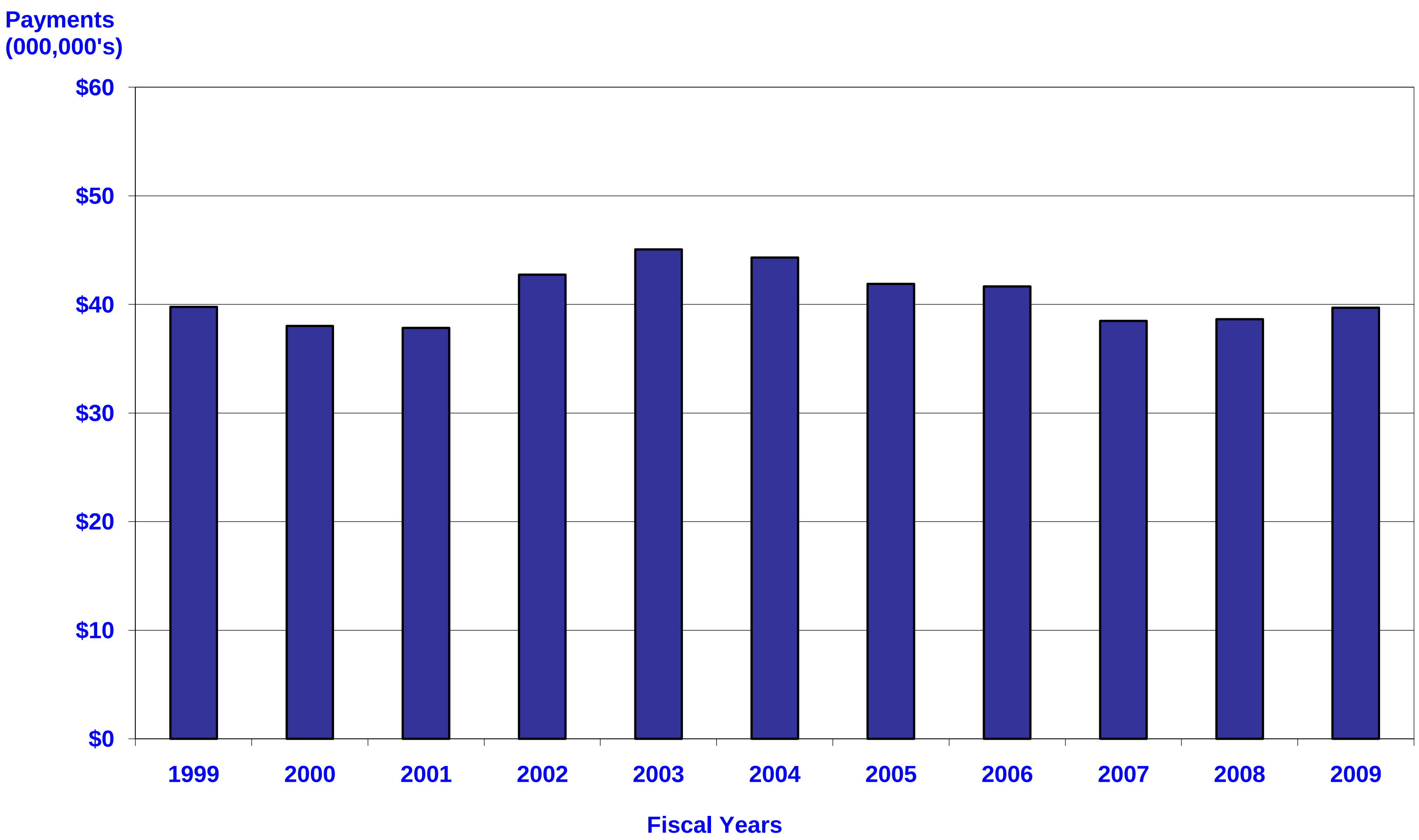

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Rehabilitation; Fiscal Year Payments

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 1999 through 2009.

Notable Events/Information:
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 Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Rehabilitation
Fiscal Year Payments

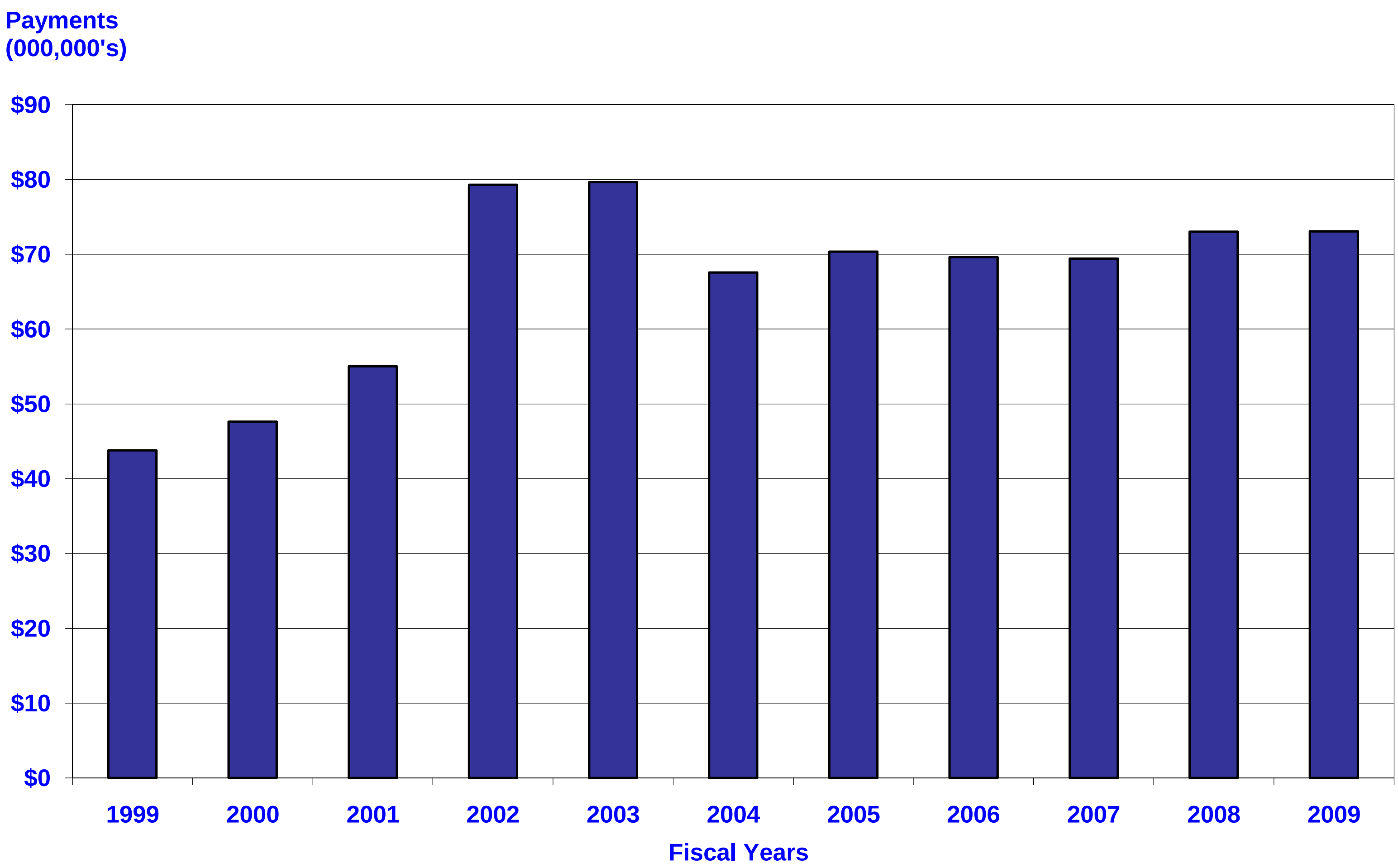

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Health Related Other; Fiscal Year Payments

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 1999 through 2009.

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.

Payments from fiscal year 2008 to fiscal year 2009 increased approximately $4.2 million. There was a change in reimbursement level that increased reimbursement rates on some bills with dates of service 2/19/2009 and later. This may account for part of the change. In addition, there may be increased utilization. There have been no new payment codes or provider codes added to the health related other payment bucket, so the increase is not due to any similar problem as in 1997.

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

Ohio BWC PA, PEC, PES Employers
Health Related Other
Fiscal Year Payments

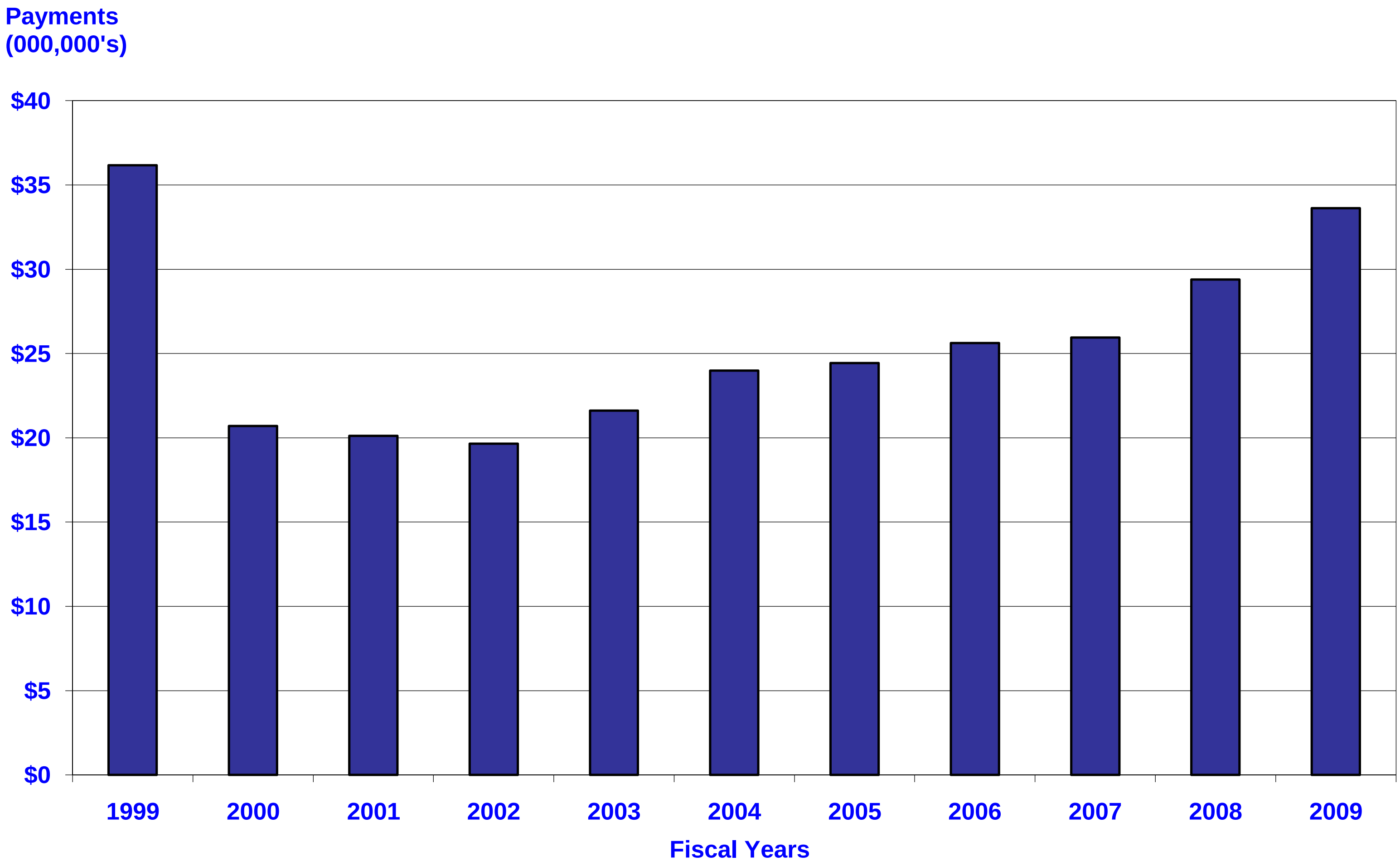

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Chart Title: Ohio Bureau of Workers' Compensation PA, PEC, PES Employers; Medical on Medical Only Claims; Fiscal Year Payments

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 1999 through 2009.

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 for fiscal year 2008. Without the settlement, payments would have decreased approximately $3.1 million from fiscal year 2007 to fiscal year 2008.

Payments decreased $12 million from fiscal year 2008 to fiscal year 2009. Because overall reimbursement rates increased in the second half of the fiscal year, this most likely reflects decreased utilization as a result of fewer claims being filed, remaining active and receiving treatment

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

Ohio BWC PA, PEC, PES Employers
Medical on Medical Only Claims
Fiscal Year Payments

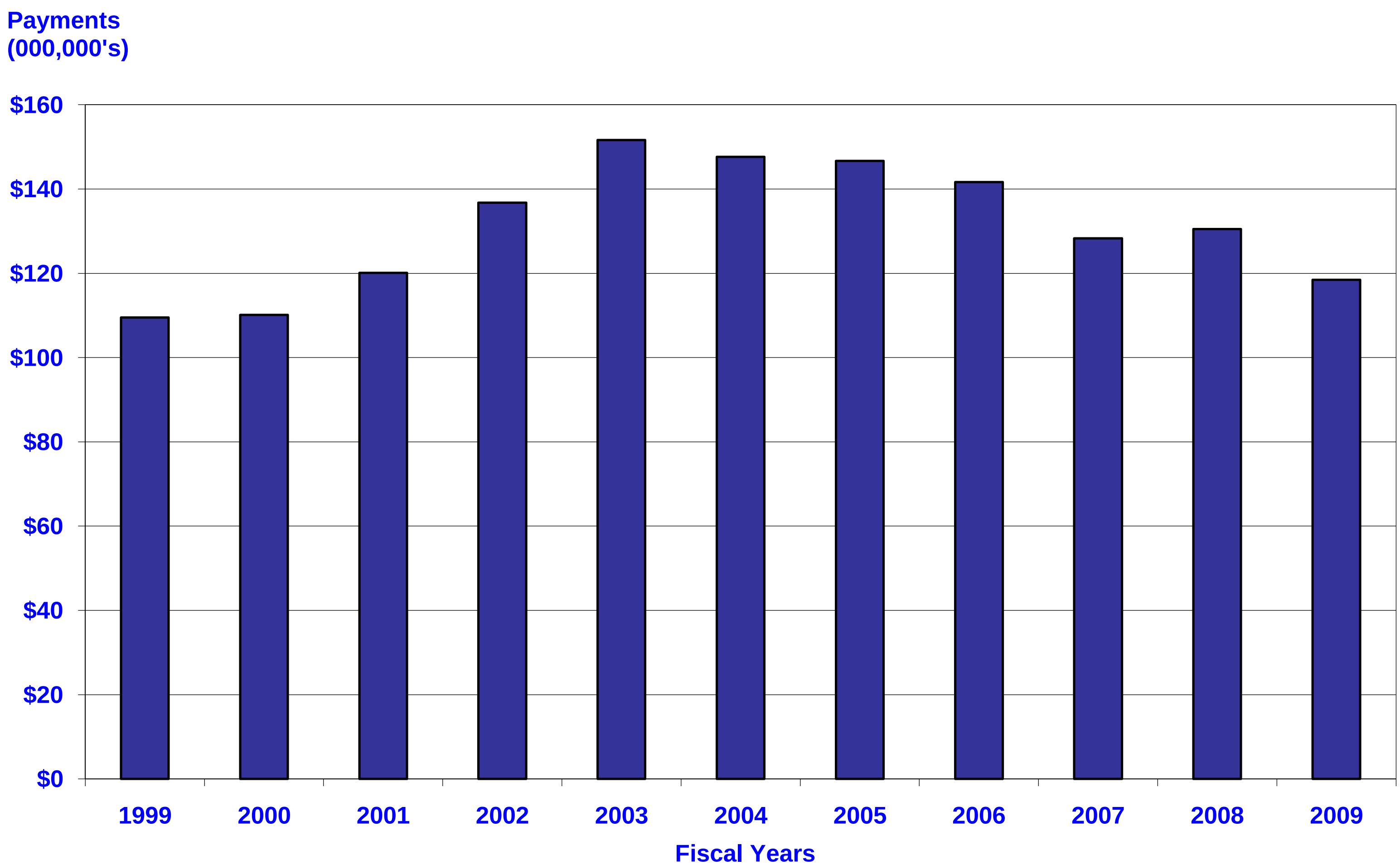
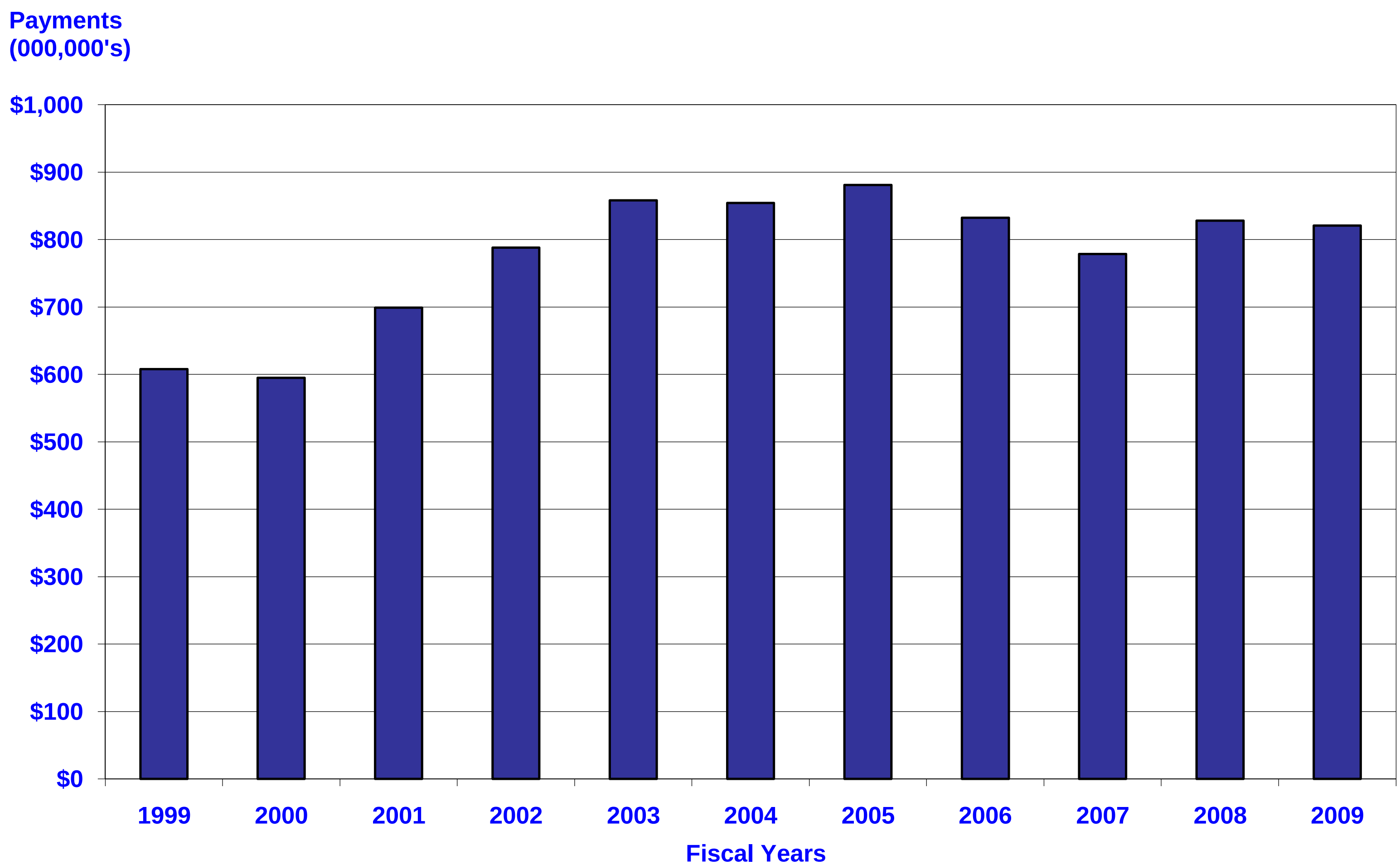


Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Medical Payment Totals; Fiscal Year Payments

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 2009.

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

Ohio BWC PA, PEC, PES Employers
Medical Totals
Fiscal Year Payments



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NCCI Holdings, Inc.

2009 STATE of the LINE

Analysis of Workers Compensation Results

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

The property/casualty insurance industry was like an island of stability in the stormy sea of the US financial markets in 2008 and early 2009. Although the results for the industry were mediocre at best—compared to banking, investment banking, and even life insurers—the results for property/casualty insurers looked relatively good. The property/casualty insurance industry was rewarded for its generally strong capital position, prudent management of risk, and a conservative asset side of its balance sheet. As of this writing, the property/casualty insurance markets continue to function quite normally, maintaining the capacity to write business and pay claims without interruption.

The workers compensation insurance industry also continues to function quite well with active competition for business and a shrinking residual market. The calendar combined ratio held steady in 2008, and underwriting results remain at near record levels. However, the low interest rate environment that has persisted for several years, combined with the dismal short-term performance of the equity markets, continues to leave the line with post-tax returns that barely return the industry's cost of capital. The calendar year net written premium declined for the second straight year for the private carriers—for the third year in a row if one includes the state funds. The 10% decline in premium for private carriers is the largest single year drop in premium for workers compensation since 1995.

Workers compensation insurance prices continued their declines in 2008 in most jurisdictions. However, in two of the states that have seen substantial bureau decreases in recent years due to reforms in 2003 (California and Florida), the decreases may be nearing an end. The countrywide claim frequency declines also continued, consistent with long-term trends. These declines, combined with some tempering of the growth in indemnity and medical claim costs and modest increases in average wages, allowed bureau loss costs and rates to drift downward in most jurisdictions for another year. When bureau-filed decreases are combined with carrier pricing actions and a slowing economy, it is not too surprising that the written premiums declined significantly.

The line is not without its challenges that we need to monitor. Many of these are unchanged from prior years:

- Medical costs remain the single biggest cost challenge the industry faces. Although their growth has moderated, they are still increasing at least twice the rate of general price inflation.
- Low investment yields, along with the potential of a stagnant stock market, will keep pressure on industry underwriting results. Combined ratios will need to be at historic lows for insurers to earn an adequate return on their capital.
- An increasing number of legislative proposals resulting from a changing political climate in many states may put upward pressure on indemnity costs if enacted.
- The political situation in Washington, with the potential to revamp the nation's healthcare and financial regulatory systems, makes for a period of particular uncertainty for workers compensation.
- The underwriting cycle is entering a period of uncertainty, along with much else in the economy.

For these reasons, NCCI's short-term view of the line is now guarded; the long-term outlook is cautionary.

The workers compensation calendar year combined ratio was 101 in 2008, unchanged from the final 2007 number. The pattern of combined ratios from 2004 to 2008 is looking eerily similar to the pattern from 1993–1997, at the low point of the last cycle. Hopefully, the industry is not repeating past cycles of deteriorating underwriting results. The 2008 accident year combined ratio is 100%, up 4 points from a revised 2007. The current underwriting cycle topped out in 2006 with an 85% combined ratio, more than a 58-point improvement since 1999.

NCCI estimates that the reserve position of the private carriers deteriorated to about a $6 billion deficiency at year-end 2008, up from a $2 billion deficiency last year. After consideration of the allowable discounting of the indemnity reserves of lifetime pension cases, the reserve position is essentially one of adequacy.

California is large enough to have some impact on the countrywide workers compensation numbers, particularly when its results are substantially different from most of the other states, as they have been in recent years. In 2008, those differences remained on a calendar year basis and are not significant on an accident year basis. Excluding California would increase the calendar year combined ratio by about 5 points to 106%. Excluding California from the accident year combined ratio would leave it unchanged at 100%.

As we expected with the economic slowdown, frequency continued to decrease in 2008. For NCCI states, the frequency change was -4%. The prior year's change was -2.6%. NCCI's research indicates that the recession would put additional downward pressure on frequency. Data from the Bureau of Labor Statistics for manufacturing back to the 1920s shows that frequency of workplace injuries dropped substantially even in the Great Depression.

Although the underwriting results remain quite good, and even the pre-tax operating gain is satisfactory, we continue to watch several challenges facing workers compensation insurers.

Medical costs continue to increase faster than wages, even though the increases have tempered a bit in recent years. Many states continue to look for ways to control medical costs in their workers compensation systems. We typically analyze 150 to 200 proposed bills that might impact workers compensation costs in a year, with about one-third of those dealing with medical. Medical cost control remains a forefront issue in many states.

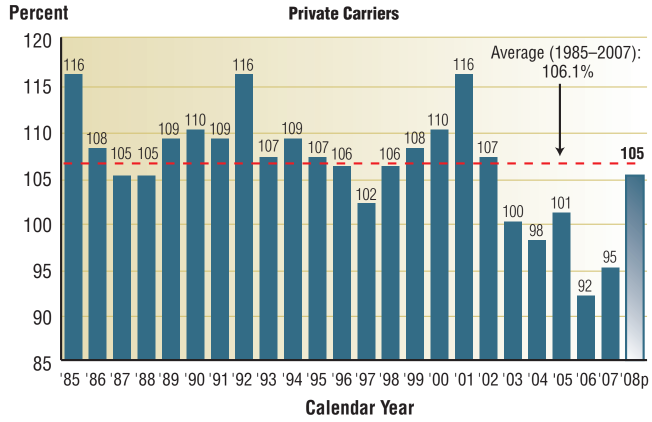
Indemnity claim costs also continue to outpace wage increases. In addition, we are seeing an increasing number of legislative proposals and judicial actions that may serve to increase indemnity costs and undo some of the reform efforts of recent years. The most significant recent judicial action in an NCCI state is the *Murray v. Mariner Health* decision of the Florida Supreme Court. This decision, handed down in September 2008, struck down limitations on claimant attorney fees contained in the major reform enacted by the Florida Legislature in 2003. NCCI made a law-only filing to change rates as a result of this decision. The Office of Insurance Regulation approved a 6.4% increase in rates effective April 1, with the potential for another increase next year of a similar magnitude. As of this writing, the legislature has passed legislation that restores the limits in the original reform and now awaits the governor's signature.

With the political climate changing and relatively good results experienced in the last few years by the insurance industry, some 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.

Low investment yields seem likely to be a fact of life for the foreseeable future. With the interest rates on fixed-rate home mortgages at all-time lows, the yield on 10-year treasuries less than 3%, and the meltdown of the financial markets, we cannot expect much relief anytime soon. When one thinks yields cannot go any lower, something always seems to happen. Last year at this time, 10-year treasuries were yielding 3.7%. Needless to say, the lower the investment yields, the lower the combined ratio needs to be to maintain a reasonable return on capital.

The political landscape has changed substantially since the November 2008 elections. The nation has a Democratic president with large Democratic majorities in both houses of Congress for the first time since 1993. The new administration has healthcare and revised federal regulation of the financial services industry as two major items on its agenda. Although it is too early to say what might happen, changes in either of these areas could have major implications on how the workers compensation insurance business operates.

Exhibit 1 Property/Casualty Industry Calendar Year Net Combined Ratios



p Preliminary
Source: 1985–2007, Best's Aggregates & Averages; 2008p, ISO

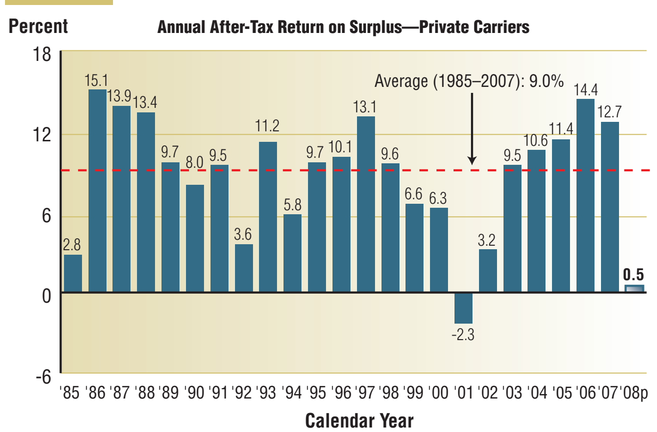
Exhibit 2 Return to Underwriting Losses

Net Combined Ratio—Private Carriers

	Calendar Year		
Line of Business (LOB)	**2006**	**2007**	**2008p**
Personal Auto	96%	98%	99%
Homeowners	90%	96%	117%
Other Liability (Incl Prod Liab)	95%	99%	101%
Workers Compensation	**93%**	**101%**	**101%**
Commercial Multiple Peril	93%	92%	106%
Commercial Auto	92%	94%	99%
Fire & Allied Lines (Incl EQ)	81%	70%	105%
All Other Lines	86%	93%	119%
Total P/C Industry	**92%**	**95%**	**105%**

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

Exhibit 3 Property/Casualty Industry Return on Surplus



p Preliminary
Source: 1985–2007, Best's Aggregates & Averages; 2008p After-Tax Net Income, ISO;
2008p Surplus, 2007 Best's Aggregates & Averages + 2008 ISO contributions to surplus
Note: After-tax return on average surplus, excluding unrealized capital gains

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.

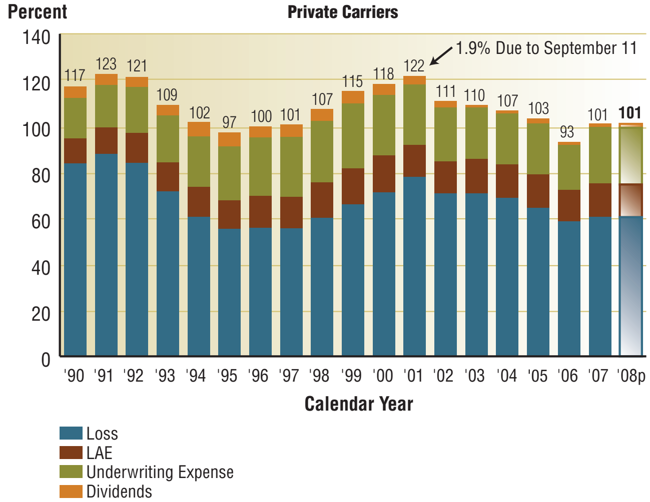
Property/Casualty Industry Results

The combined ratio for the property/casualty insurance industry increased 10 points in 2008 to 105% (Exhibit 1). This is the first significant underwriting loss in six years and the largest single year increase in the combined ratio in years. This increase in the combined ratio was primarily driven by weather-related catastrophes in the property lines, and led by the 21-point increase in homeowners combined ratio from 96% to 117% (Exhibit 2). Commercial multiperil also had a 14-point increase in combined ratio to 106%. Auto and the “liability lines” had modest increases in combined ratios. The other notable contributors to the industry’s deteriorating underwriting results were financial guarantee and mortgage guarantee insurance lines of business. Although the industry has very limited exposure to the financial and housing meltdown in general, these two relatively obscure lines were hit hard and are the major contributor to the 119% combined ratio in the “all other lines” category. In addition, the industry posted its second straight year of decreasing premium, the first time that has happened since the early 1930s.

The industry earned a meager 0.5% after tax return on surplus (Exhibit 3). The increased combined ratio plus the dismal performance of many financial markets produced the worst after-tax return on surplus since 2001, and one of the worst in history. As in past years, we noted how a combined ratio that may have led to a reasonable post-tax return on surplus in past years yielded a totally unsatisfactory result in today’s investment climate of low interest rates and poor equity market performance.

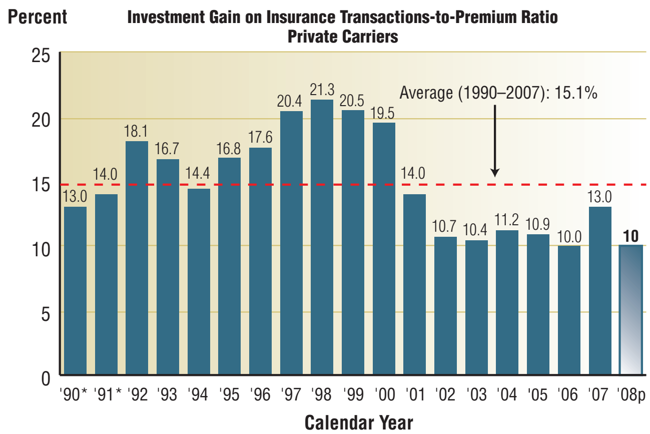
The property/casualty insurance industry’s surplus declined by 12% in 2008 to $462 billion. Not surprisingly, the reasons for the decline (the first since 2002) were related to the financial markets. Although the industry generally has an excellent portfolio of invested assets, conservatively invested, it was not immune to the financial meltdown. Realized capital losses were almost $20 billion. These realized losses were

Exhibit 4 **Workers Compensation Calendar Year Combined Ratio—Will History Repeat Itself?**



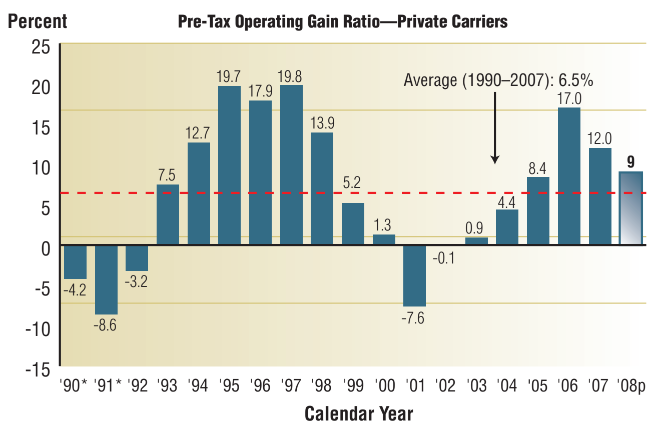
p Preliminary
Source: 1990–2007, Best’s Aggregates & Averages: 2008p, NCCI

Exhibit 5 **Workers Compensation Investment Returns Remain Below Historical Average**



p Preliminary
*Adjusted to include realized capital gains to be consistent with 1992 and after;
Source: 1990–2007, Best’s Aggregates & Averages; 2008p, NCCI
Investment Gain on Insurance Transactions includes Other Income

Exhibit 6 **Workers Compensation Results Remain Above Historical Average**



p Preliminary
*Adjusted to include realized capital gains to be consistent with 1992 and after;
Source: 1990–2007, Best’s Aggregates & Averages; 2008p, NCCI
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

made up of $5 billion of gains on sales of invested assets and $25 billion of other realized losses, as some assets became impaired as a result of the financial market turmoil. In addition, there were almost $53 billion of unrealized losses on marketable securities.

Even with these "hits" to surplus, the industry premium-to-surplus ratio remains at 0.94:1, leaving it in a very strong capital position. This past year has served as a reminder of why the industry needs to have a strong capital position to serve its customers. In addition to all the risks borne by the industry on the liability side of its balance sheet, there are also risks on the asset side of even a conservative portfolio of investments that need to be considered.

Workers Compensation Calendar Year Results

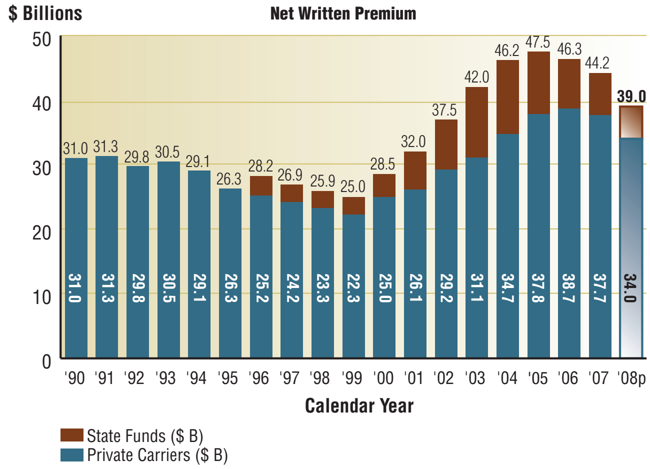
NCCI's preliminary analysis indicates that the workers compensation combined ratio for private carriers was 101% for 2008, unchanged from 2007 (Exhibit 4). The combined ratio is low by historic standards. However, the pattern of combined ratios for the last five years is starting to look a lot like the pattern in the peak of the last underwriting cycle in the mid-1990s. Hopefully, one good outcome of today's investment climate of low interest rates and equity market turmoil will be to encourage continued underwriting discipline as we move forward.

California is always large enough to impact the countrywide numbers for the line. Our estimate is that excluding California raises the countrywide calendar year combined ratio about 5 points this year, about the same as last year.

California continues to make news in the workers compensation arena. The Workers Compensation Insurance Rating Bureau of California recently filed its second straight increase in benchmark loss cost. The latest filing was for a 24% increase. This may mean that the cost reduction benefits of previously enacted reforms have ended.

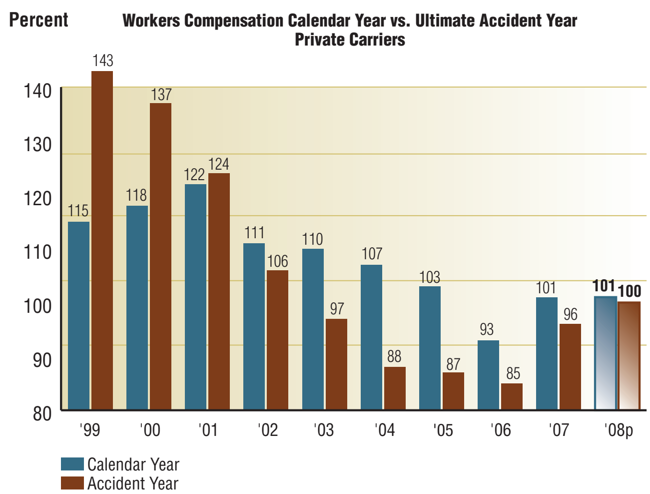
The investment gain associated with workers compensation insurance transactions returned to the 10% level, where it had been for several years after seeing a 3-point increase in 2007 (Exhibit 5). The investment gain ratio remains dramatically lower than in the late 1990s, when interest rates were higher and the stock market produced large gains. Note

Exhibit 7 **Workers Compensation Premium Continued to Decline in 2008**



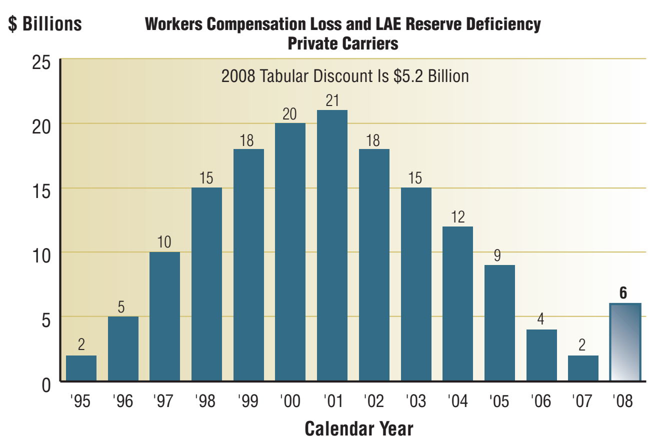
p Preliminary
Source: 1990–2007 Private Carriers, Best's Aggregates & Averages: 2008p, NCCI
1996–2008p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

Exhibit 8 **Accident Year Combined Ratios**



p Preliminary
Accident Year data is evaluated as of 12/31/2008 and developed to ultimate
Source: Calendar Years 1999–2007, Best's Aggregates & Averages;
Calendar Year 2008p and Accident Years 1999–2008p, NCCI analysis based on Annual Statement data
Includes dividends to policyholders

Exhibit 9 **Calendar Year Reserve Deficiencies**



Consider 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

that the investment gains contained in this exhibit have been somewhat immune to the realized and unrealized losses that impact surplus, since some of the impacts on surplus are not included in the investment gain in this display.

Combining the underwriting loss with the investment gains, the result is a pre-tax operating gain of 9% (Exhibit 6). This operating result is reasonably close to the industry's long-term cost of capital, assuming that, over time, the assets supporting the surplus earn a reasonable return.

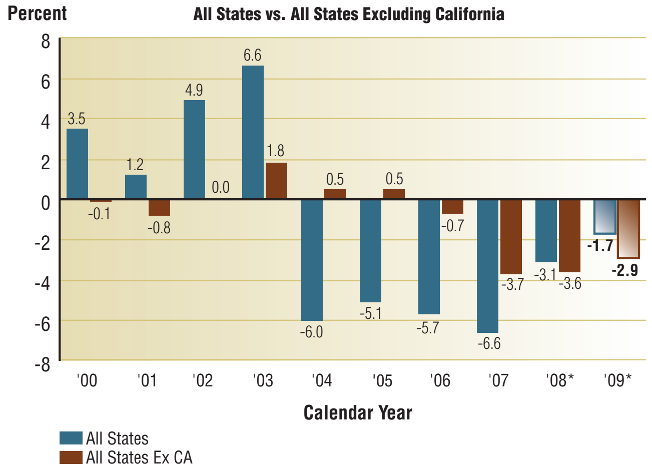
Workers Compensation Net Written Premium
Net written premiums, including the state funds, had a third year of decline in 2008, dropping more than 12% to $39 billion (Exhibit 7). The private carriers dropped by about 10% to $34 billion. This is the largest drop in workers compensation net written premium in many years. It was driven by significant price decreases resulting from bureau-filed decreases and carrier actions, as well as the impact of the dramatically slowing economy in the last half of 2008.

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 sixth consecutive year of no underwriting losses on an accident year basis. NCCI estimates the combined ratio for Accident Year 2008 at 100% (Exhibit 8). On an accident year basis, the current underwriting cycle peaked in 2006 at a combined ratio of 85%. Since Accident Year 1999 (the bottom of the current cycle), the combined ratio declined by 58 points. However, since the top of the current cycle in 2006, it has increased by 15 points, leaving it virtually identical with the calendar year result. 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 in 2003.

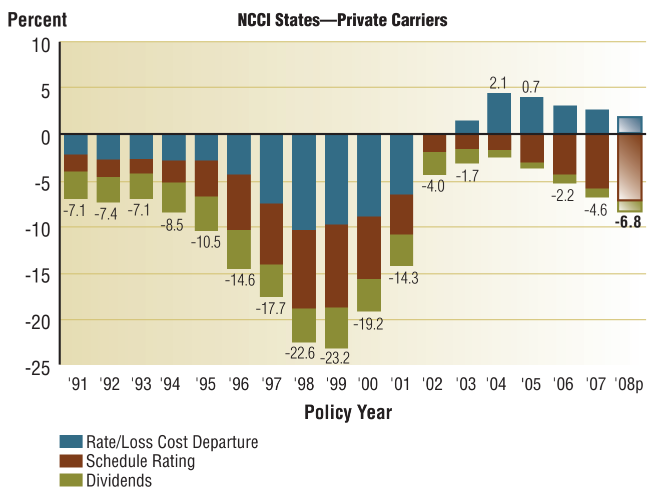
The exclusion of California from the 2008 countrywide accident year numbers leaves the 2008 accident year combined ratio virtually unchanged. This implies that the combined ratios have come into

Exhibit 10 Average Approved Bureau Rates/Loss Costs



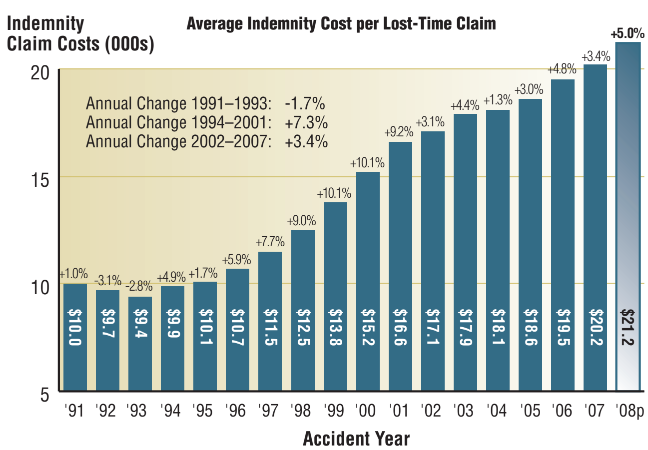
*States approved through 4/11/2008
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

Exhibit 11 Impact of Discounting on Workers Compensation Premium



p Preliminary
NCCI bechmark level does not include an underwriting contingency provision
Dividend ratios are based on calendar year statistics
Based on data through 12/31/2008 for the states where NCCI provides ratemaking services

Exhibit 12 Workers Compensation Indemnity Claim Costs Continue to Grow



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

line between California and the rest of the country on the current accident year, and the differences in the calendar year numbers result from adjustments to prior year reserve positions.

Reserve Position

The private carrier reserve position deteriorated slightly in 2008 for the first time in seven years. NCCI's estimate of the reserve position for the private carriers as of year-end 2008 shows a $6 billion deficiency (Exhibit 9). After allowing for the permissible discounting of the indemnity reserves for lifetime pension cases, the reserve position becomes essentially one of adequacy. Our analysis shows that the industry has made substantial progress on its reserve position over the last seven years. With the cycle turning, the industry will need to continue to work hard to maintain its strong reserve position.

Bureau Rate/Loss Cost Changes

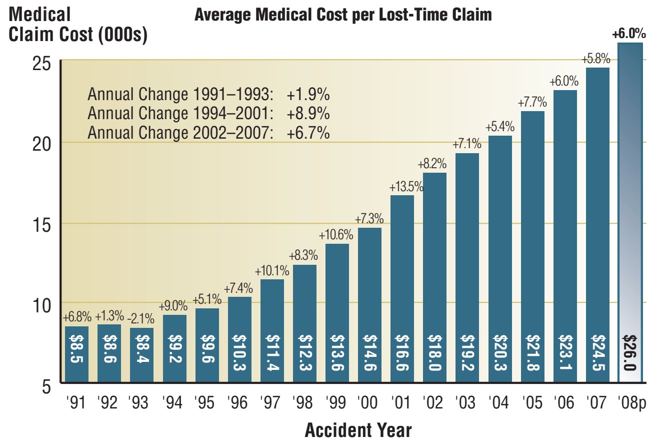
Exhibit 10 displays a history of bureau rate and loss cost changes since 2000. Excluding the impact of California changes (which were heavily affected by significant systems problems and subsequent reform-related reductions until 2008), the average of the rest of the states is quite modest until 2006. Since 2006, we have seen generally moderate declines for states other than California, as the significant claim frequency declines in recent years, combined with payroll growth, have more than offset the loss severity increases. The net effect was to decrease overall loss costs in the vast majority of states.

Carrier discounting from bureau loss costs/rates continues to increase, dropping another couple of points to nearly 7% less than bureau loss costs and rates in NCCI states (Exhibit 11).

Indemnity and Medical Average Claim Costs

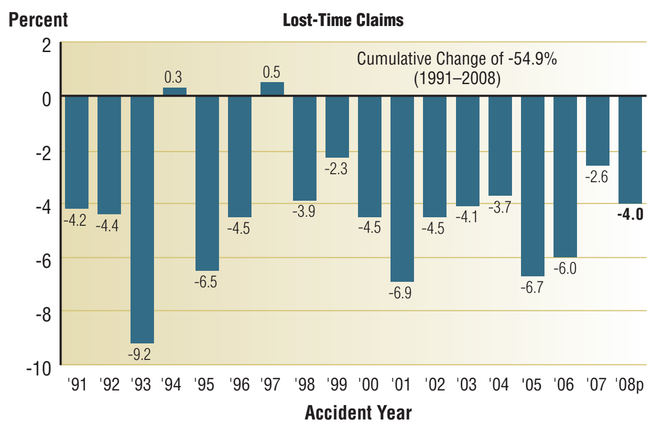
NCCI estimates that the average workers compensation indemnity claim cost increased 5% in 2008 (Exhibit 12). This follows the pattern of recent years that has seen the indemnity claim costs increase by between 1.5% and 5% each year, generally in the neighborhood of the 3.5% annual change in average wages over the same time period. The exhibit shows that average indemnity claim cost increases have moderated in recent years (2002–2008) compared to the 1994–2001 era when they rose an average of 7.3% per year.

Exhibit 13 Workers Compensation Medical Claim Cost Trends—Growth Continues in 2008



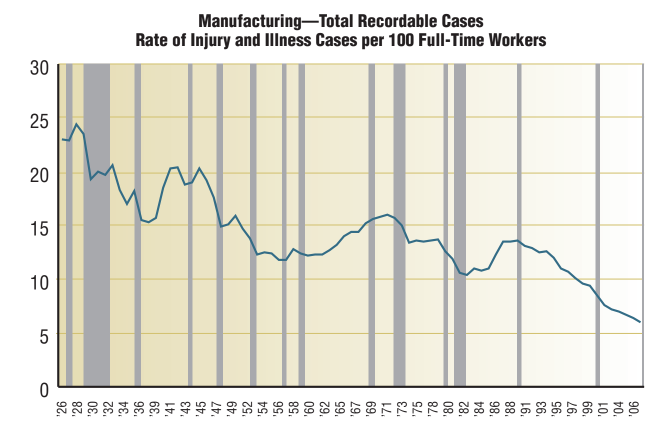
2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Exhibit 14 Workers Compensation Lost-Time Claim Frequency Continues to Decline



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Frequency is the change in lost-time claims per 100,000 workers as estimated from reported premium

Exhibit 15 Frequency
A Long-Term Drift Downward



Note: Recessions indicated by gray bars
Source: US Bureau of Labor Statistics; National Bureau of Economic Research

Medical average claim costs per lost-time claim continued to increase in 2008, although the increases have tempered a bit in the last few years (Exhibit 13). NCCI estimates that the average medical claim costs per lost-time claim increased by 6% in 2008. This is the third straight year when the average costs have increased about 6%. Those of you who follow these discussions from year to year may notice that we have seen some favorable development in the medical cost increases for Accident Years 2004–2006 as they have become more mature. We are encouraged that some of the industry's efforts to control medical costs are paying off. Our studies of prescription drug costs are definitely showing some favorable trends in that significant cost category in recent years.

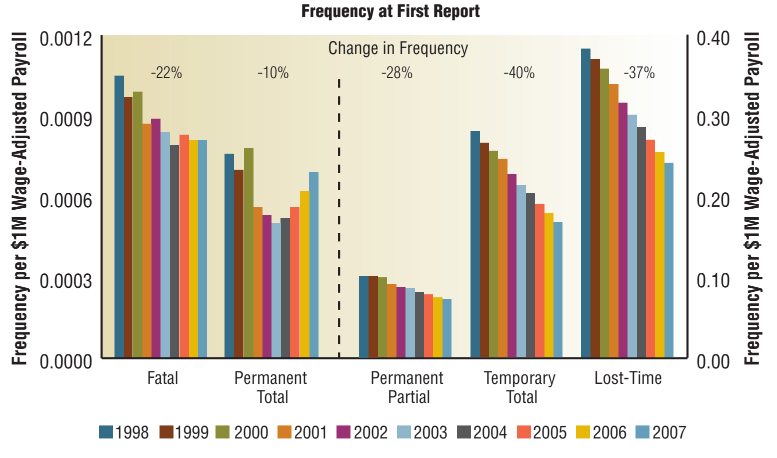
Claim Frequency Continues to Decline

Based on a preliminary analysis of data in NCCI states, the frequency of lost-time claims per 100,000 workers declined 4% in 2008 (Exhibit 14). This frequency drop is greater than the 2.6% decline recorded in 2007.

Our research indicates that the decline in claim frequency is a long-term phenomenon related to improved technology and its application in the economy to create ever safer workplaces over time. Further research has shown that economic slowdowns put additional downward pressure on claim frequency. Some have speculated that things might be different in this downturn given its likely depth. However, Exhibit 15 shows that even in the Great Depression, as well as the deep downturns of 1973–1974 and 1981–1982, manufacturing injury rates declined. New research by NCCI's economists explains that the driving force behind the reduction in frequencies relates to changing rates of job creation and job destruction during the economic cycle. For more detailed information, please refer to the research paper, "Workplace Injuries and Job Flows," by Frank Schmid on **ncci.com**.

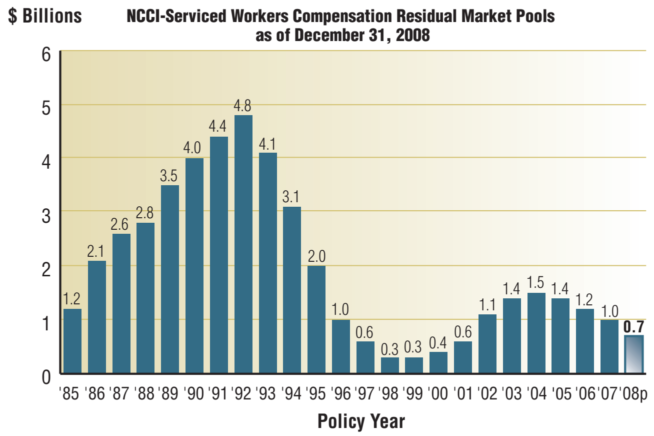
Exhibit 16 shows that frequency has declined quite consistently for all injury types except Permanent Total Disability (PTD). Although PTD frequency declined from 1998 to 2003, it has been rising since then. Our preliminary research as to the cause has ruled out most obvious explanations such as law changes, aging of the workforce, and a

Exhibit 16 Declines in Claim Frequency Are Consistent for All injury Types Except Permanent Total



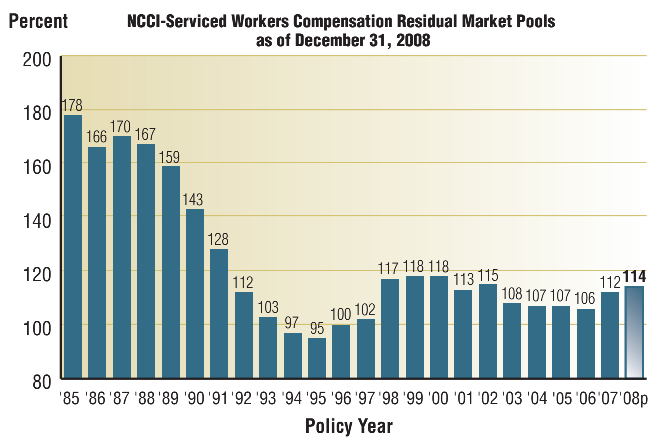
All NCCI States

Exhibit 17 Workers Compensation Residual Market Premium Volume Declines

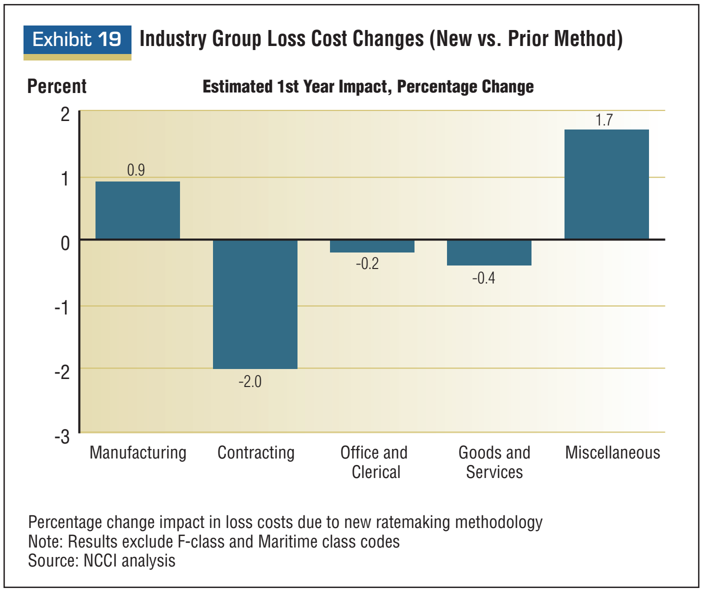


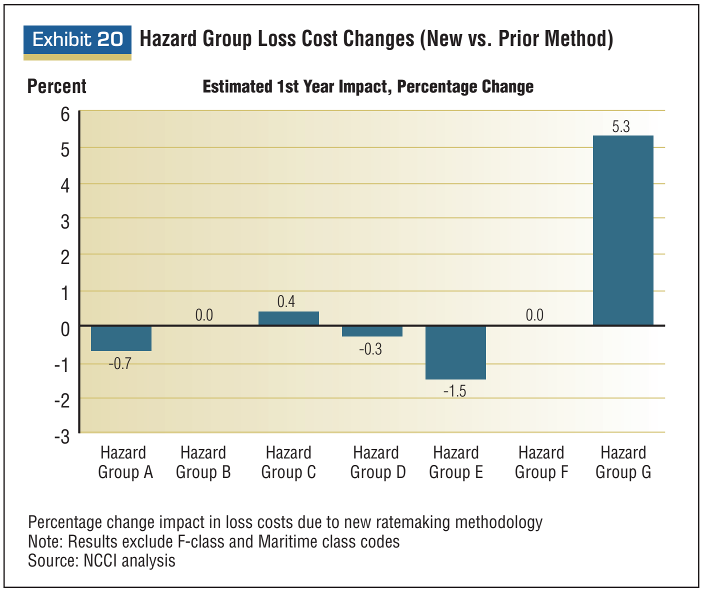
p Incomplete Policy Year projected to ultimate

Exhibit 18 Workers Compensation Residual Market Combined Ratios



p Incomplete Policy Year projected to ultimate





particular cause of injury. Other explanations currently under investigation include interaction of the workers compensation systems and Medicare set-asides for settled claims and the Social Security disability income system.

Residual Market Update

Depopulation of the residual market continues at a rapid rate in 2008. Premium dropped about 30% in 2008 and is now about $700 million, less than half the volume in 2004 (Exhibit 17). A few states continue to struggle to get their residual markets depopulated as rapidly as one might hope at this point in the cycle. Overall, the market share of the residual market pools serviced by NCCI for 2008 dropped to about 6%, down from 8% in 2007. It is less than 5% in states where NCCI calculates the rates for the residual market. This is a great improvement from the 13% market share peak that was reached in 2004 for this cycle.

The combined ratio for the residual market pools continues the recent pattern of being in the 105% to 115% range (Exhibit 18). The combined ratio has drifted up a bit in recent years as the pools have shrunk, leaving the more challenging risks in the residual market. However, just four states contribute almost 75% of the current policy year underwriting loss, leaving most pools at or near our self-funded objective.

NCCI's New Class Ratemaking Methodology

NCCI is introducing the most major changes to its class ratemaking methodology since the inclusion of the National Pure Premiums 40 years ago. The new methodology will be used in all of NCCI filings with an effective date of October 1, 2009 and later.

Features of the new methodology include:
- Lower loss limits by classification that will stabilize loss cost changes
- Revised methods to develop losses that are more stable and accurate for each classification
- Revised methods to include large losses that incorporate expected provisions resulting in better equity among classes

Exhibit 19 shows an estimate of the loss cost changes by industry group resulting from the new methodology. Exhibit 20 displays the same information by hazard group. Although the group changes may appear to be modest, keep in mind that individual classification changes within each group could be more significant. The changes displayed on these exhibits relate to improved class equity resulting from the new methodology. Another expected benefit of these changes to methodology is improved stability of loss costs/rates. This will result as the lower loss limits, revised loss development methods, and the use of the expected excess provision smooth the changes in loss costs/rates from year to year, particularly for smaller classes.

Looking Forward

The property/casualty insurance industry came through the financial turmoil of the last year in remarkably good shape. Even after the decline in surplus, it remains strongly capitalized for these uncertain times. The workers compensation part of that industry also had a good year. All the major financial performance measures for the workers compensation insurance industry continued to perform well in 2008. The calendar year and accident year underwriting results continued near breakeven, which in this investment climate is a necessity for the industry to hope to earn a reasonable return on its capital.

Other positive trends include:
- Frequency continues to decline
- Residual markets are depopulating in most states
- Reserves are reasonably adequate

Areas of concern include:
- Medical costs
- Reform challenges
- Low investment returns
- Uncertain political fallout from federal actions
- Underwriting cycle

NCCI will continue to work with all of our stakeholders in these times of uncertainty 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.

State of the Workers Compensation Line

Dennis C. Mealy, FCAS, MAAA
Chief Actuary
National Council on Compensation Insurance, Inc.
May 7, 2009

AIS
Annual Issues Symposium
2009

I. Property/Casualty Results

II. Workers Compensation Results

III. Current Topics of Interest

IV. Concluding Remarks

Property/Casualty Results

P/C Industry Net Written Premium—Another Decline

Private Carriers

Line of Business (LOB)	2006	2007	2008p	2007–2008p Change
Personal Auto	$160.2 B	$159.1 B	$159.9 B	0.5%
Homeowners	$54.5 B	$54.8 B	$56.2 B	2.5%
Other Liability (Incl Prod Liab)	$45.7 B	$44.3 B	$41.2 B	-7.0%
Workers Compensation	**$38.7 B**	**$37.7 B**	**$34.0 B**	**-9.8%**
Commercial Multiple Peril	$31.7 B	$31.1 B	$29.5 B	-5.0%
Commercial Auto	$26.7 B	$25.5 B	$23.7 B	-7.0%
Fire & Allied Lines (Incl EQ)	$20.0 B	$21.9 B	$25.0 B	14.5%
All Other Lines	$65.9 B	$66.2 B	$65.1 B	-1.8%
Total P/C Industry	**$ 443.5 B**	**$ 440.6 B**	**$ 434.6 B**	**-1.4%**

p Preliminary

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

Return to Underwriting Losses

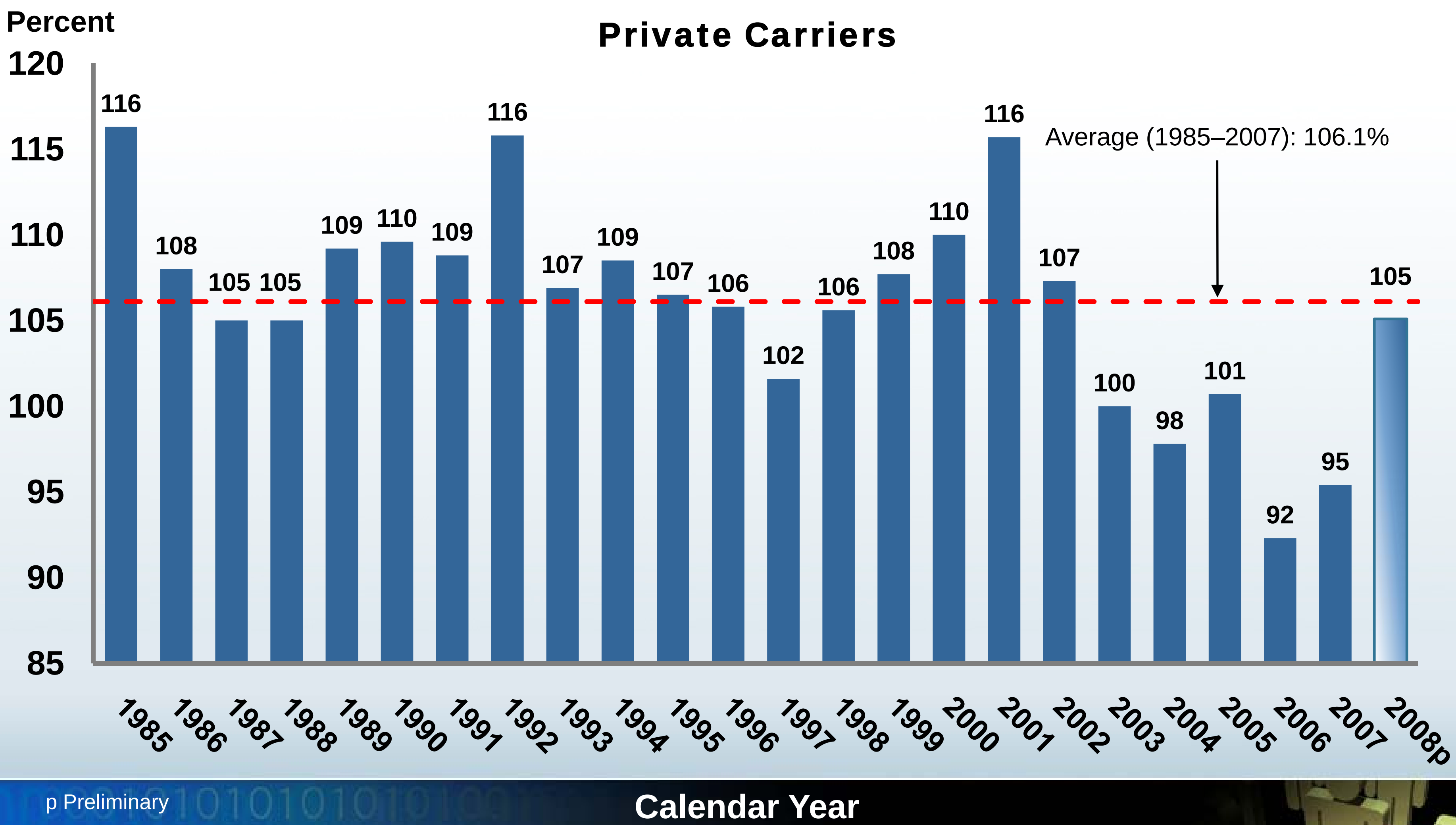
Net Combined Ratio—Private Carriers

Line of Business (LOB)	Calendar Year 2006	2007	2008p
Personal Auto	96%	98%	99%
Homeowners	90%	96%	117%
Other Liability (Incl Prod Liab)	95%	99%	101%
Workers Compensation	**93%**	**101%**	**101%**
Commercial Multiple Peril	93%	92%	106%
Commercial Auto	92%	94%	99%
Fire & Allied Lines (Incl EQ)	81%	70%	105%
All Other Lines	86%	93%	119%
Total P/C Industry	**92%**	**95%**	**105%**

p Preliminary

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

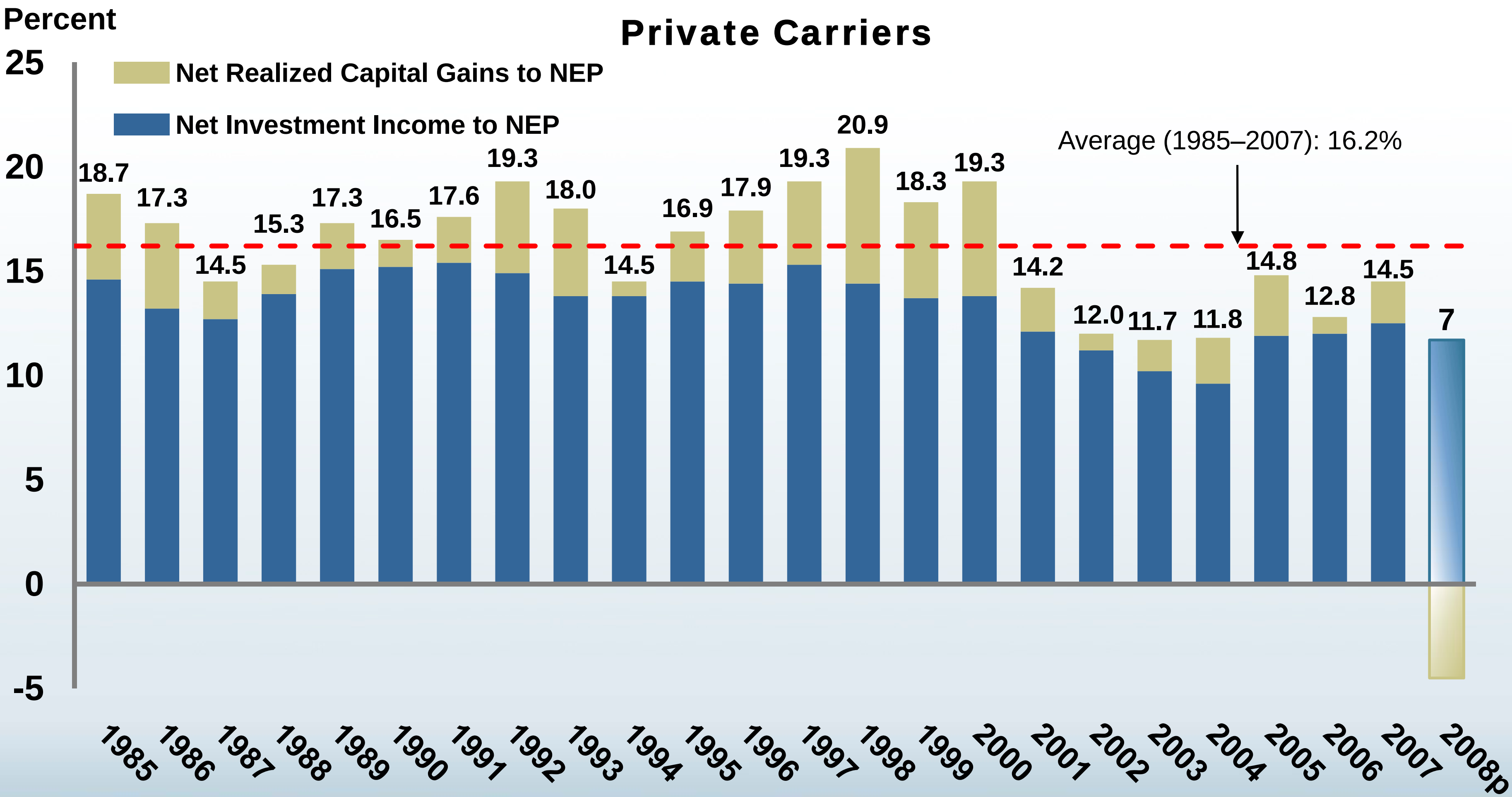
P/C Industry Calendar Year Net Combined Ratios



p Preliminary

Source: 1985–2007, Best's Aggregates & Averages; 2008p, ISO

Investment Gain Ratio Remains Below Historical Average

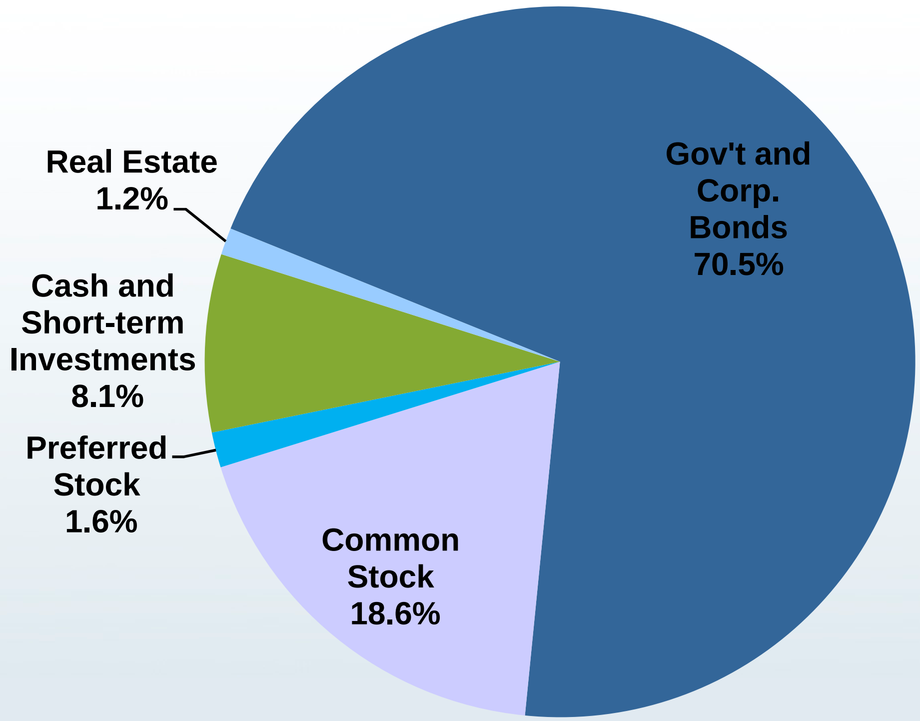


p Preliminary

Calendar Year

Source: 1985–2007, Best's Aggregates & Averages; 2008p, ISO

Bonds Comprised Roughly 70% of P&C Invested Assets and Yields Declined



Invested Asset Distribution as of December 31, 2007

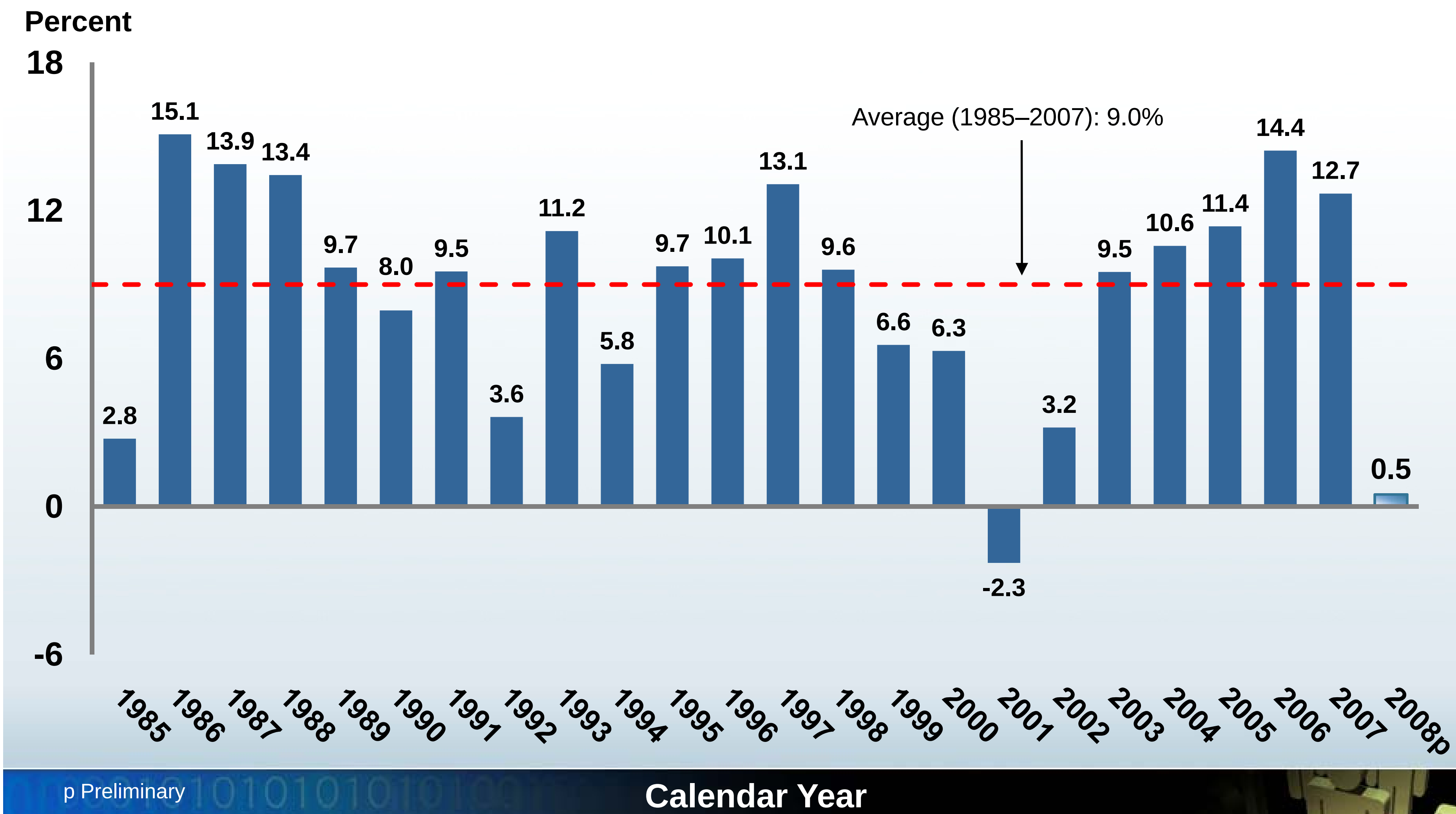
Portfolio Mix New Money Yield

2006	5.2%
2007	4.5%
2008	3.3%

Source: Invested Asset distribution, Best's Aggregates and Averages, 2008 Edition; Yields, NCCI

P/C Industry Return on Surplus

Annual After-Tax Return on Surplus—Private Carriers

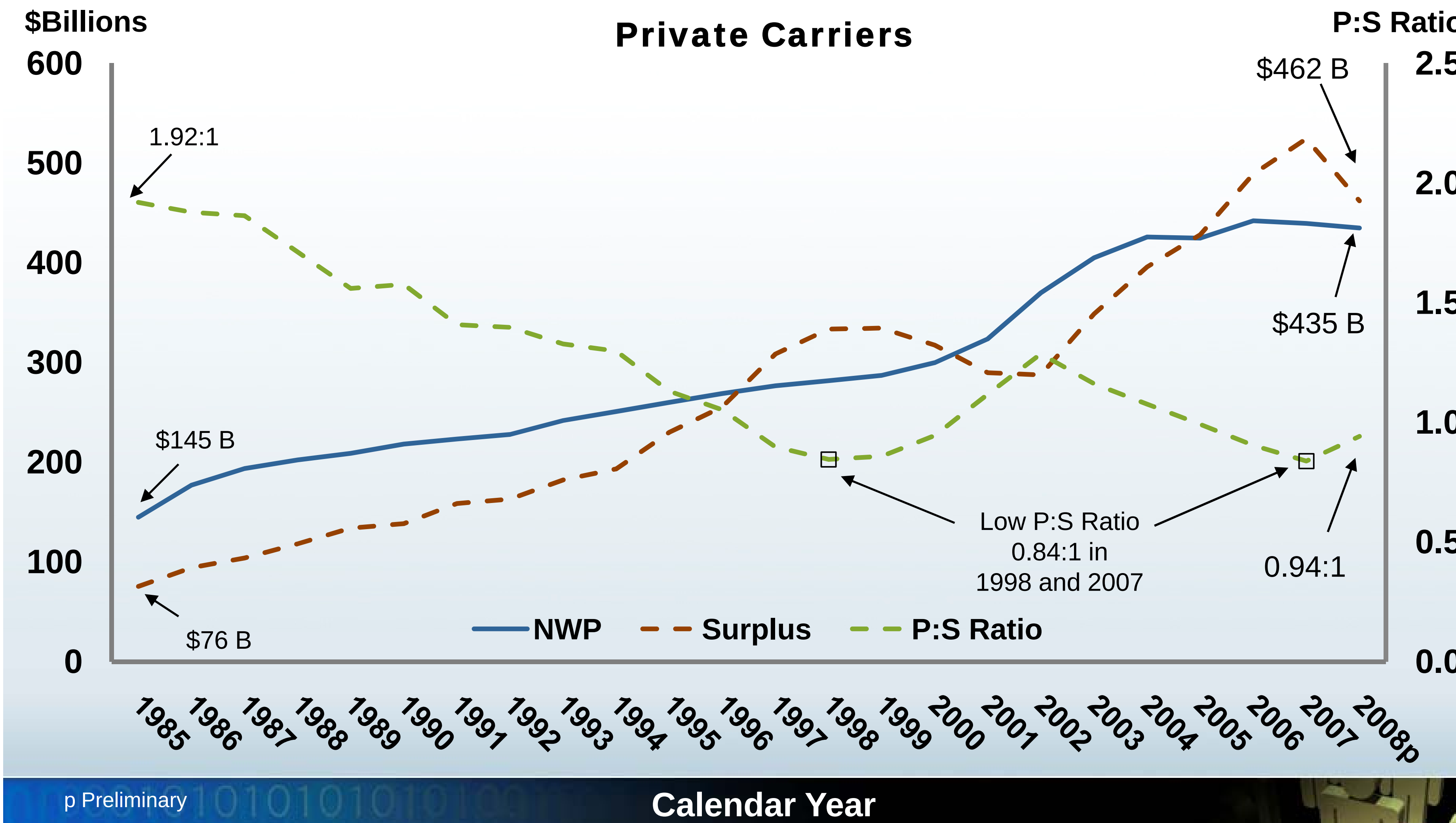


p Preliminary

Source: 1985–2007, Best's Aggregates & Averages; 2008p After-Tax Net Income, ISO;
2008p Surplus, 2007 Best's Aggregates & Averages + 2008 ISO contributions to surplus

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

P/C Industry Premium-to-Surplus Ratio Remains Strong



p Preliminary

Source: 1985–2007, Best's Aggregates & Averages;
2008p Surplus, 2007 Best's Aggregates & Averages + 2008 ISO contributions to surplus

Contributions to Surplus

Private Carriers

	2006	2007	2008p
Underwriting Gains/Losses	$ 31.1 B	$ 19.3 B	$ (21.2) B
Investment Income	$ 52.3 B	$ 55.1 B	$ 51.2 B
Realized Capital Gains/Losses	$ 3.5 B	$ 8.9 B	$ (19.8) B
Other Income	$ 1.2 B	$ (1.0) B	$ (0.1) B
Unrealized Capital Gains/Losses	$ 20.6 B	$ (0.6) B	$ (52.9) B
Federal Taxes	$ (22.4) B	$ (19.8) B	$ (7.7) B
Shareholder Dividends	$ (24.7) B	$ (32.2) B	$ (23.3) B
Contributed Capital	$ 3.8 B	$ 3.2 B	$ 11.2 B
Other Changes to Surplus	$ (4.9) B	$ (1.2) B	$ 0.3 B
Total	$ 60.4 B	$ 31.7 B	$ (62.3) B

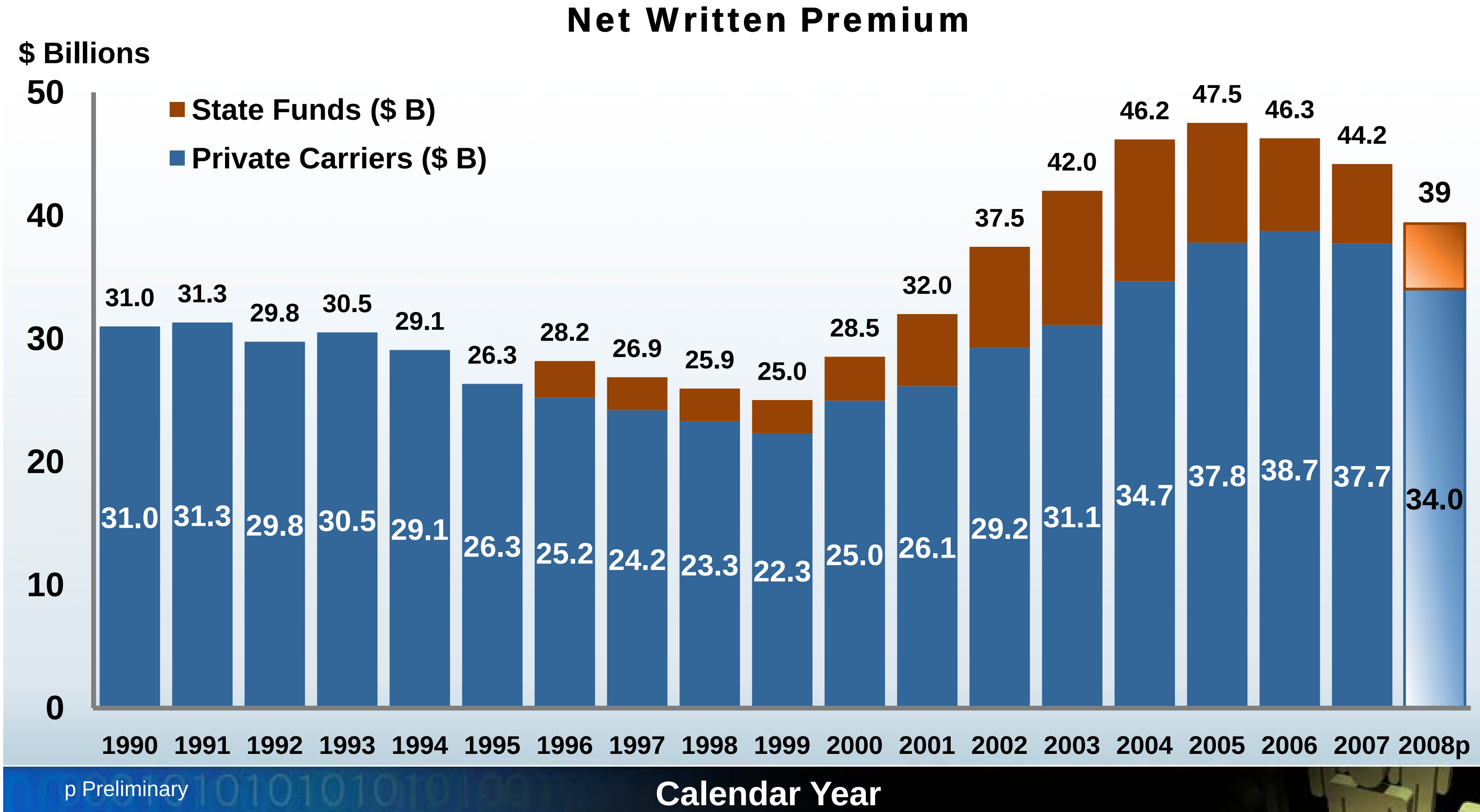
p Preliminary

Source: ISO

Workers Compensation

Results

Workers Compensation Premium Continued to Decline in 2008

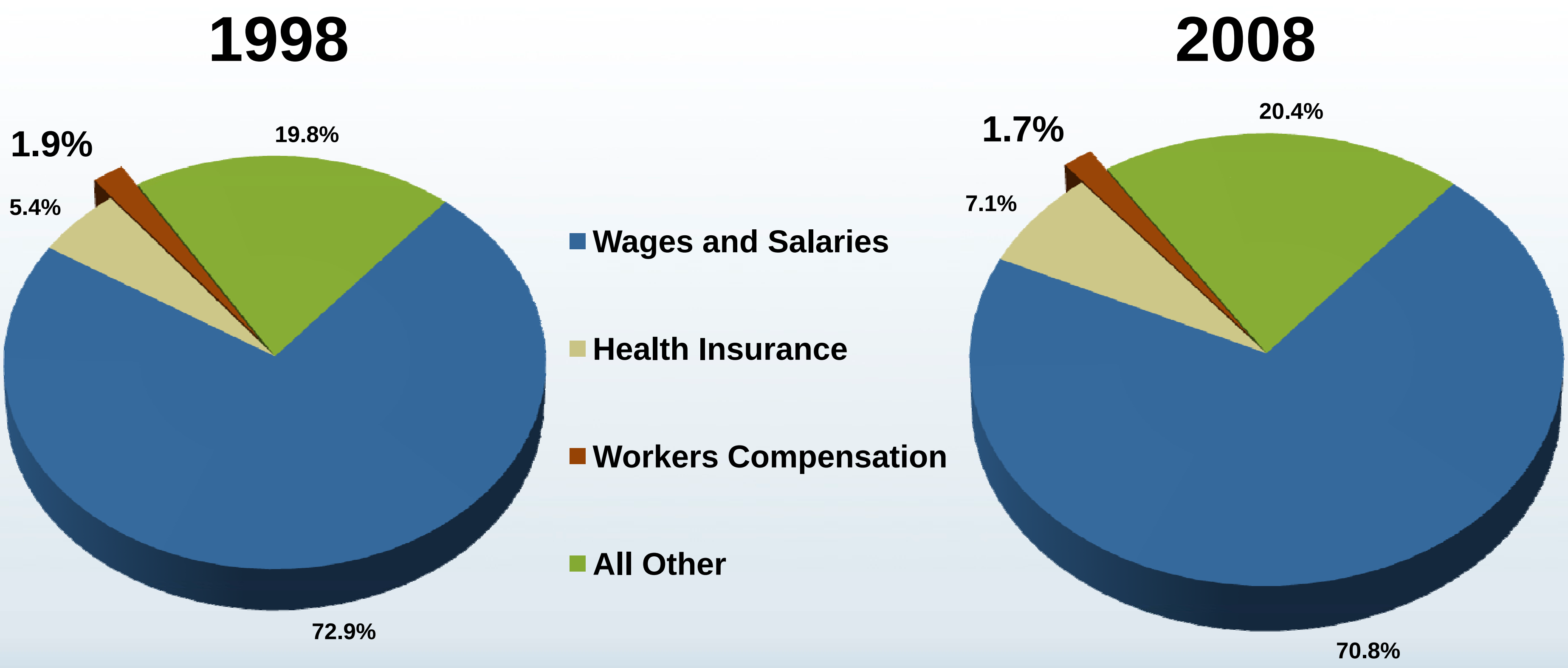


p Preliminary

Source: 1990–2007 Private Carriers, Best's Aggregates & Averages; 2008p, NCCI
1996–2008p 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

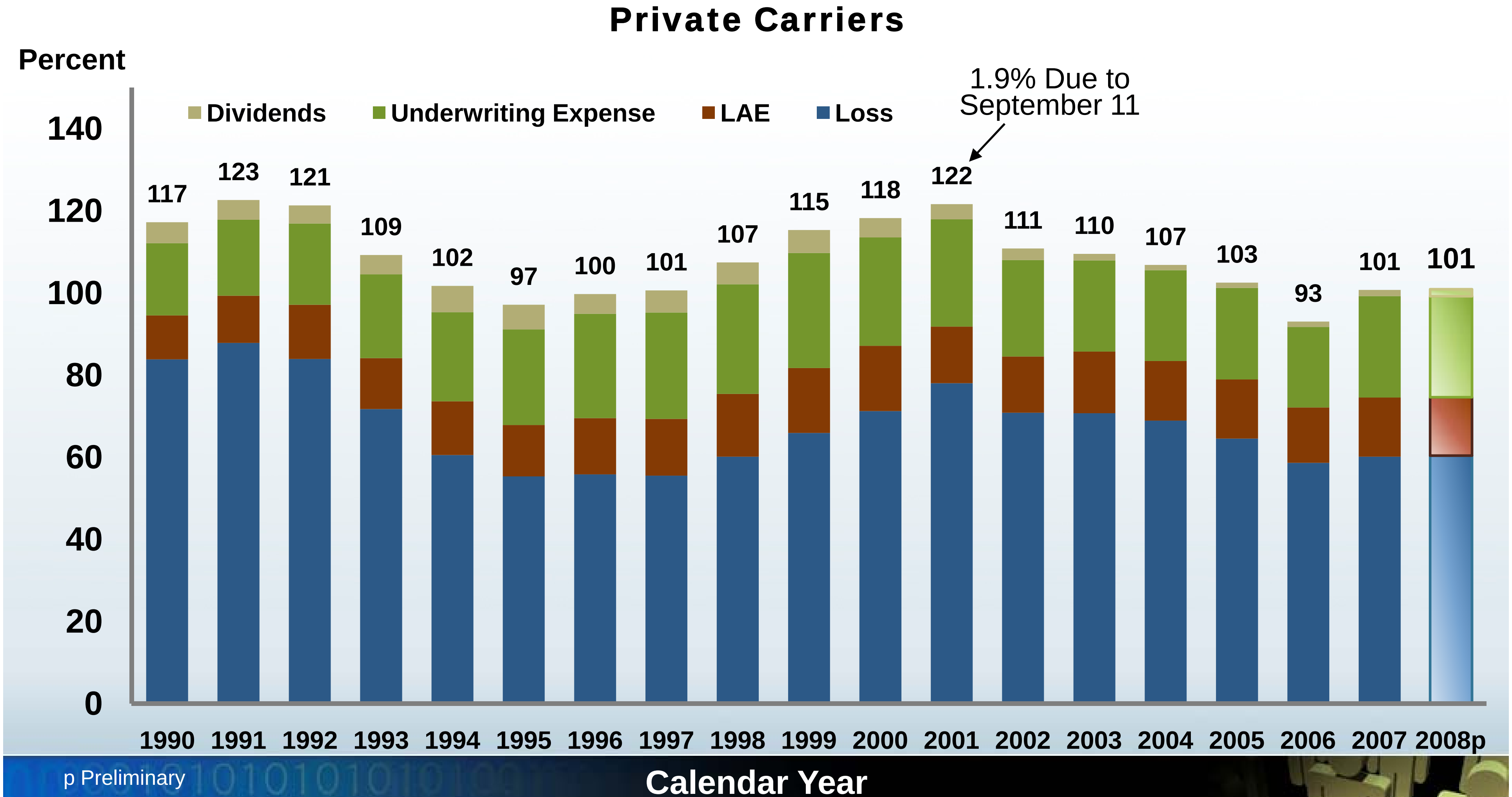
Employer Costs as Percentage of Total Compensation

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

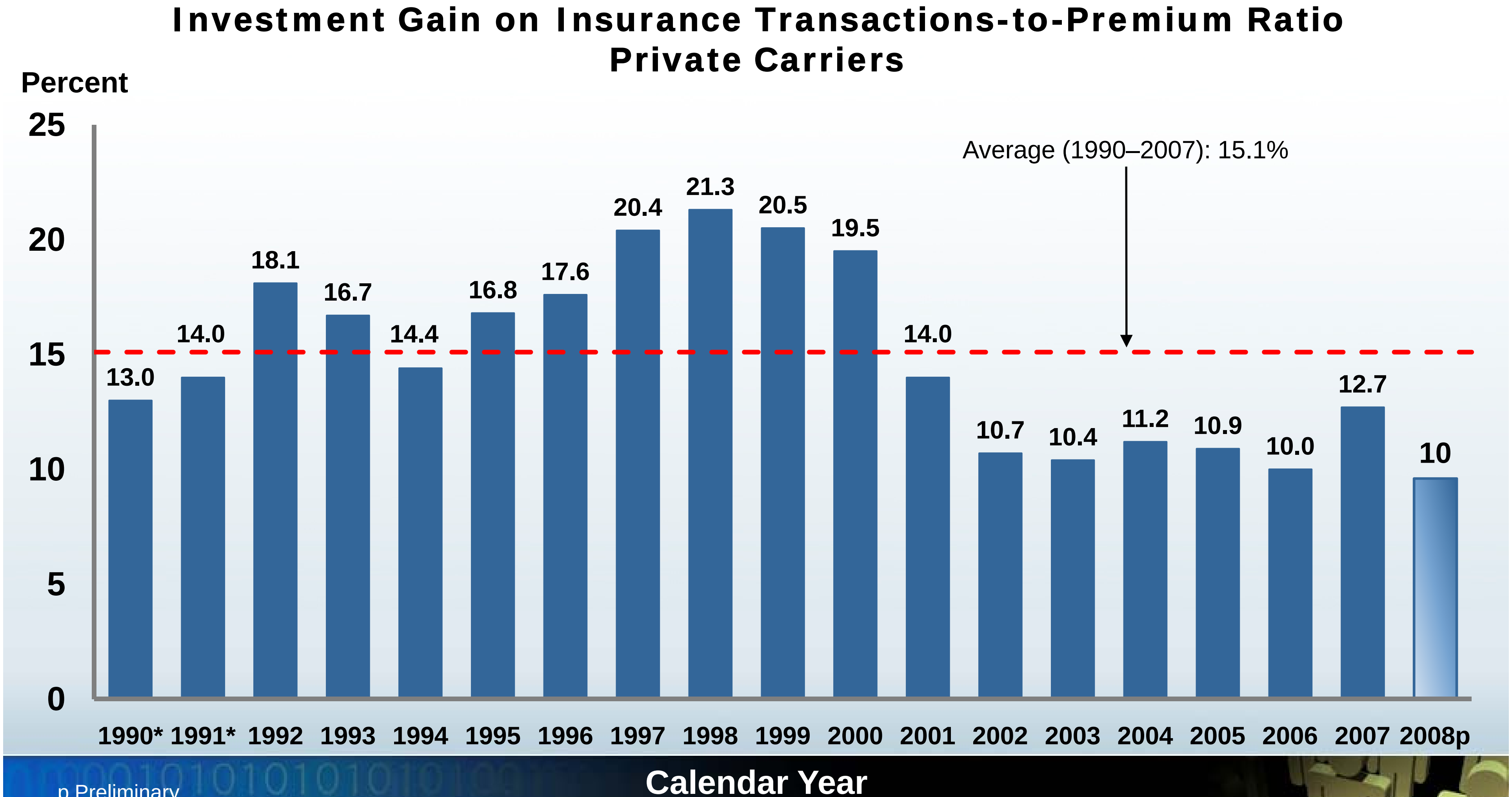
WC Calendar Year Combined Ratio—Will History Repeat Itself?



p Preliminary

Source: 1990–2007, Best's Aggregates & Averages; 2008p, NCCI

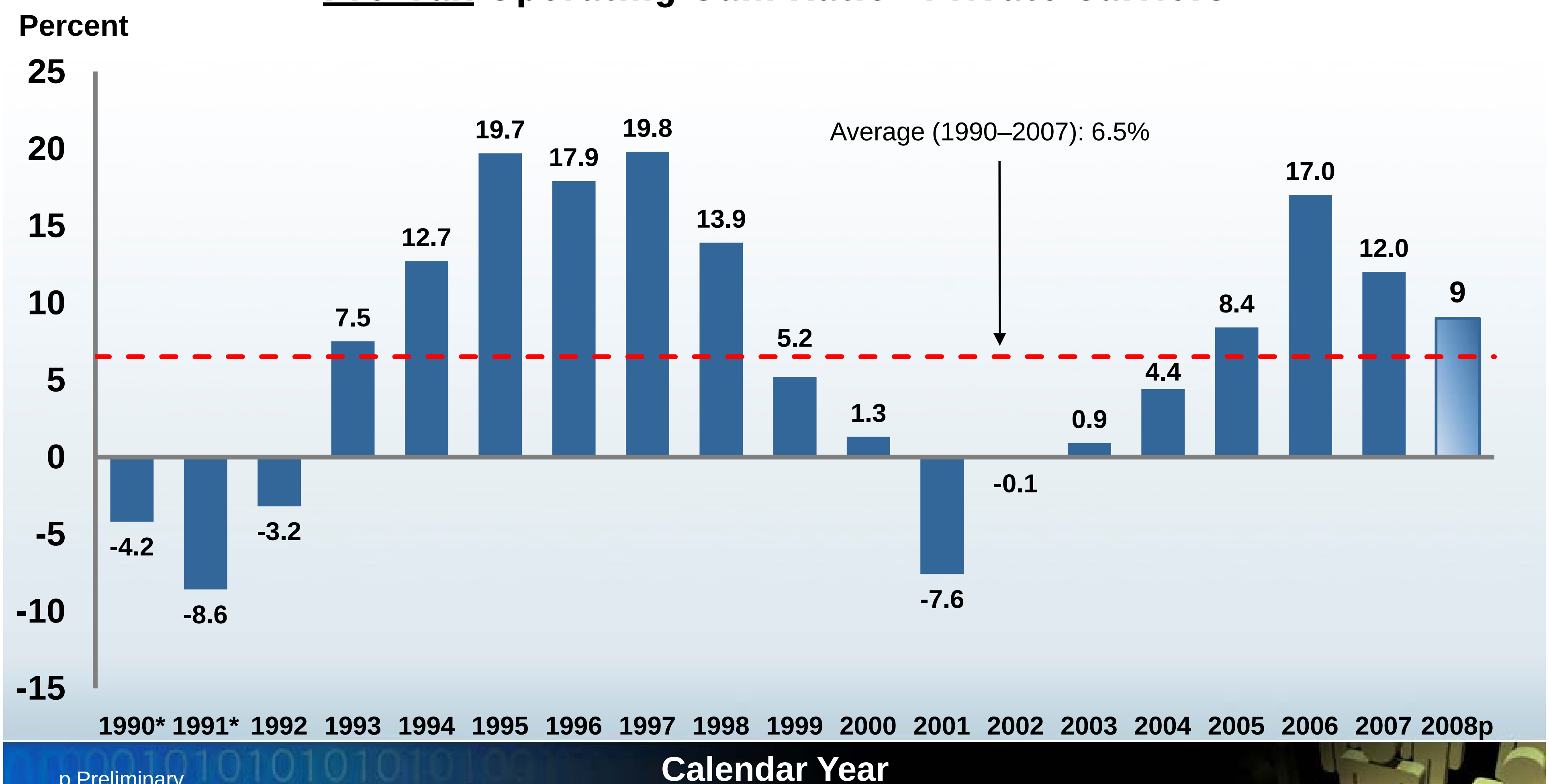
Workers Compensation Investment Returns Remain Below Historical Average



p Preliminary
* Adjusted to include realized capital gains to be consistent with 1992 and after ;
Source: 1990–2007, Best's Aggregates & Averages; 2008p, NCCI
Investment Gain on Insurance Transactions includes Other Income

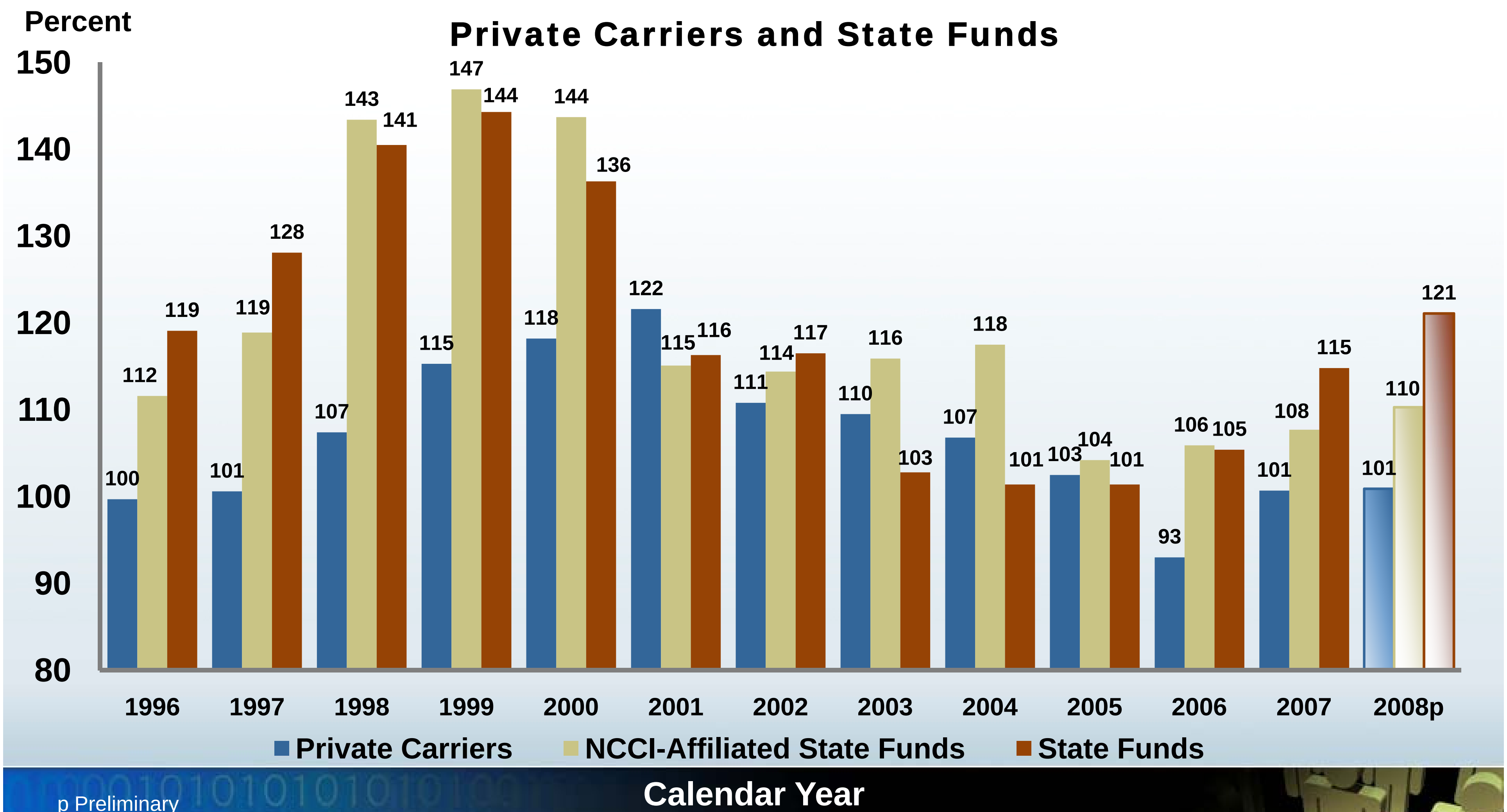
Workers Compensation Results Remain Above Historical Average

<u>Pre-Tax</u> Operating Gain Ratio—Private Carriers



p Preliminary
* Adjusted to include realized capital gains to be consistent with 1992 and after
Source: 1990–2007, Best's Aggregates & Averages; 2008p, NCCI
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

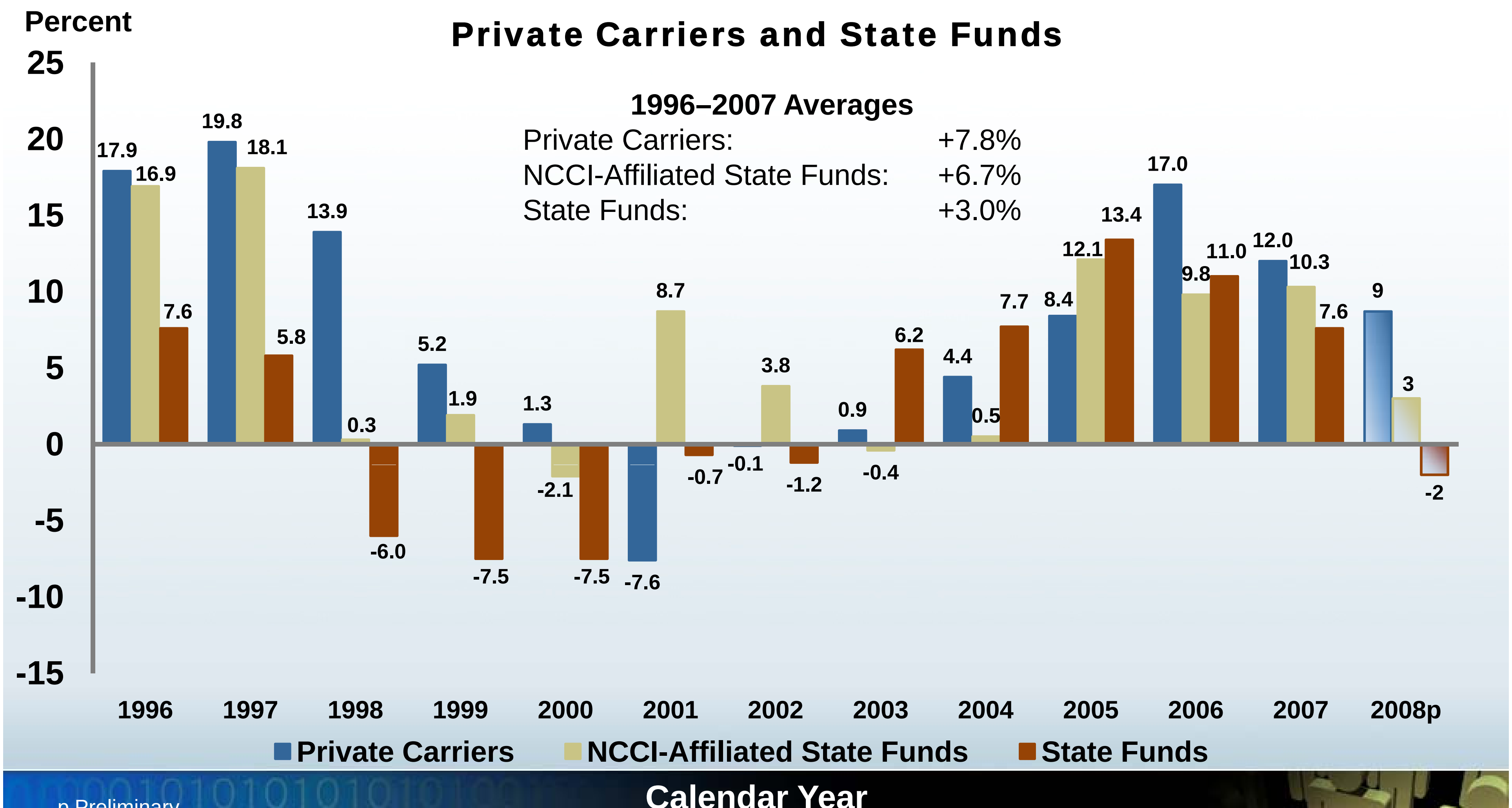
Workers Compensation
Calendar Year Net Combined Ratios



p Preliminary

Source: 1996–2007 Private Carriers, Best's Aggregates & Averages; 2008p, NCCI
1996–2008p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
1996–2008p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Workers Compensation Pre-Tax Operating Gain Ratios



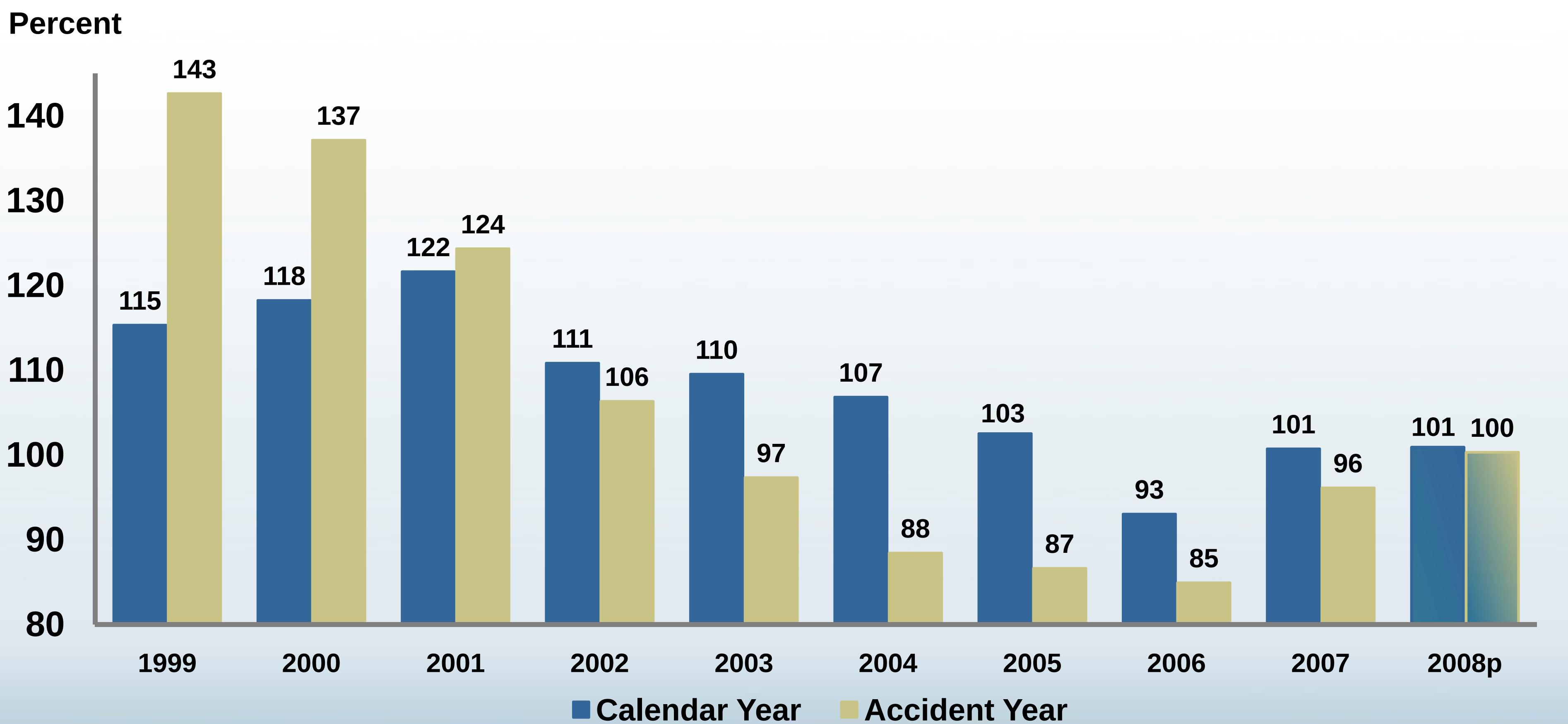
p Preliminary
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)
Source: 1996–2007 Private Carriers, Best's Aggregates & Averages; 2008p, NCCI
1996–2008p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
1996–2008p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Workers Compensation

Accident Year Results and Reserve Estimates

Accident Year Combined Ratios

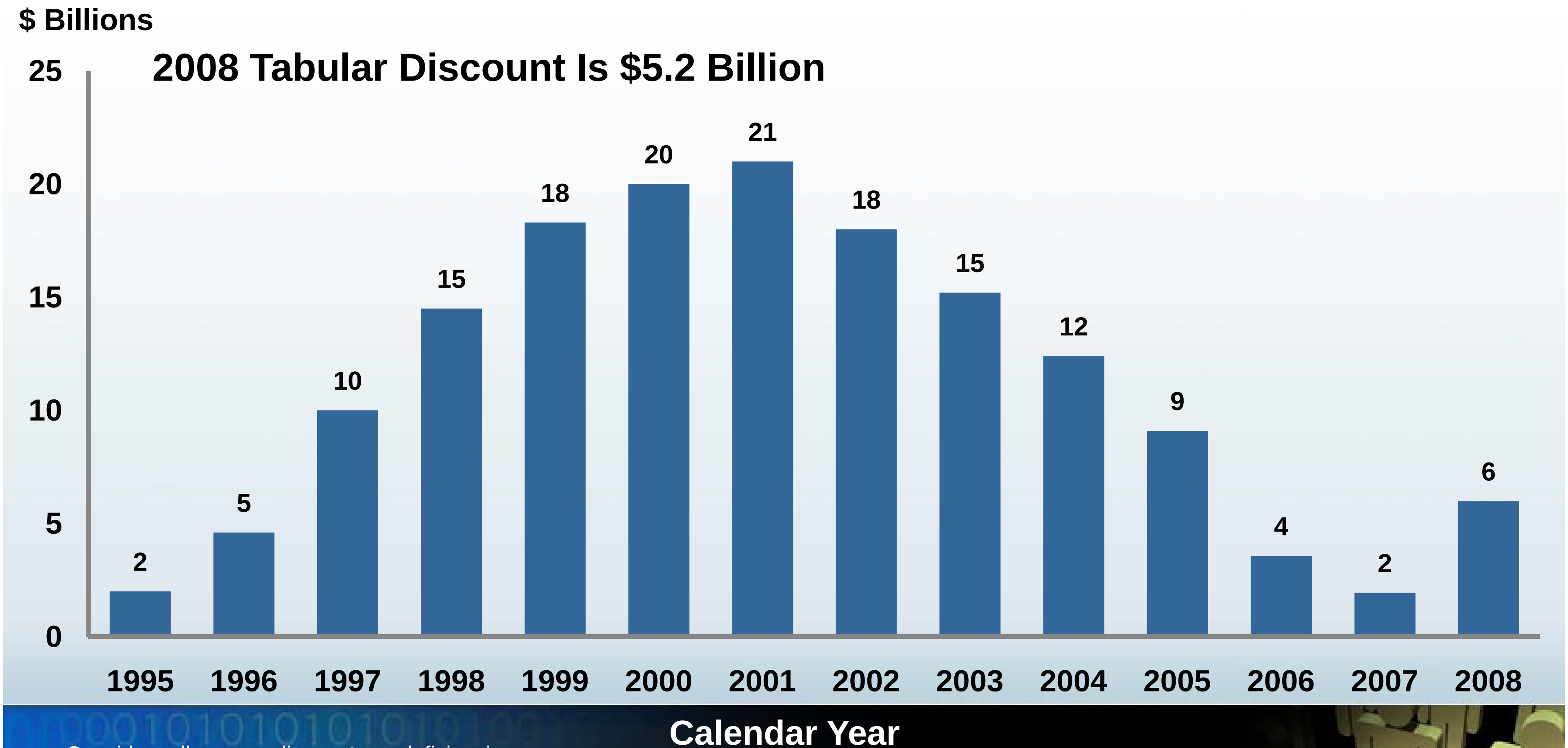
Workers Compensation Calendar Year vs. Ultimate Accident Year
Private Carriers



p Preliminary
Accident Year data is evaluated as of 12/31/2008 and developed to ultimate
Source: Calendar Years 1999–2007, Best's Aggregates & Averages;
Calendar Year 2008p and Accident Years 1999–2008p, NCCI analysis based on Annual Statement data
Includes dividends to policyholders

Calendar Year Reserve Deficiencies

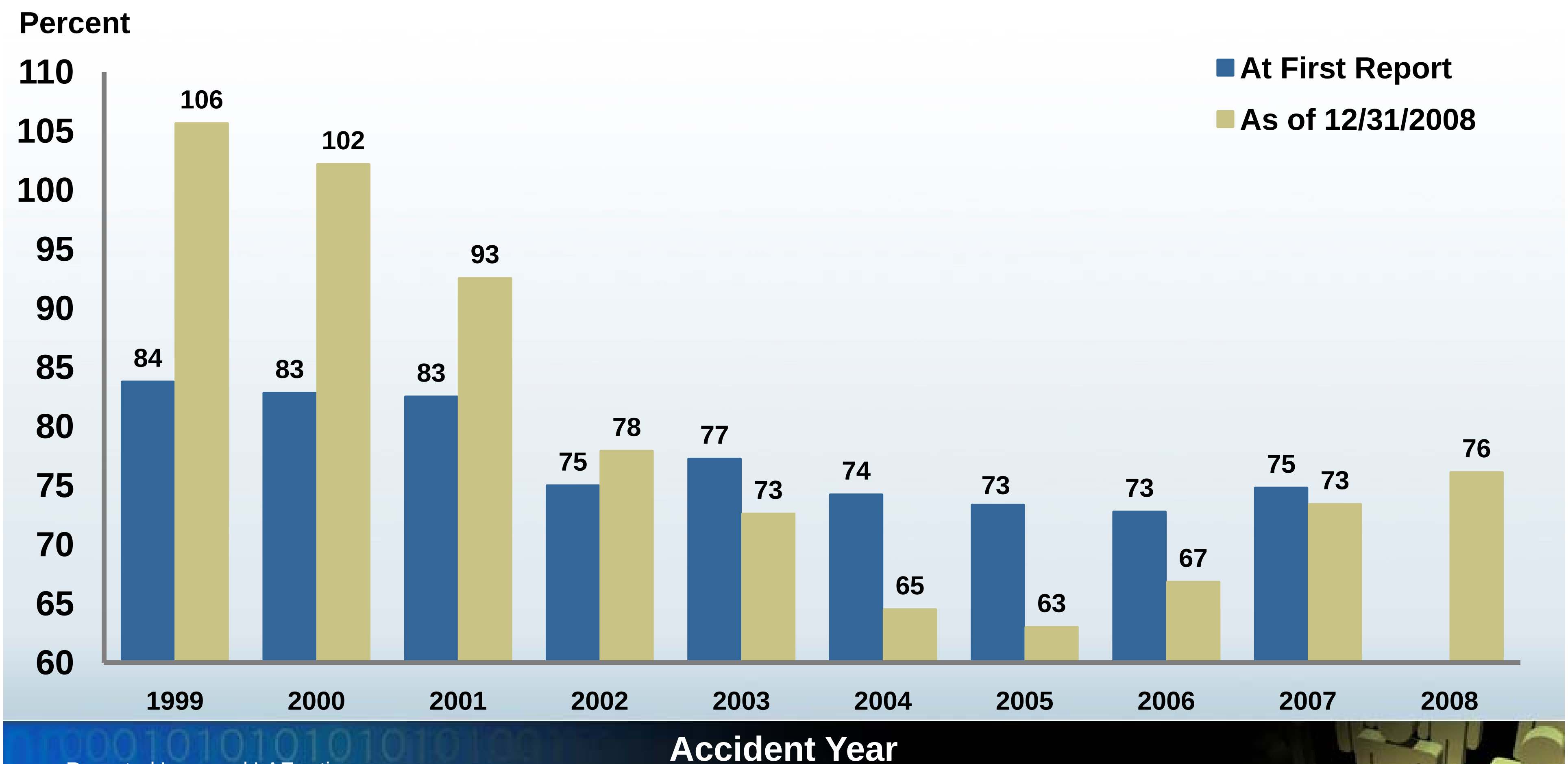
Workers Compensation Loss and LAE Reserve Deficiency
Private Carriers



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

Workers Compensation
Accident Year Loss and LAE Ratios

As Reported—Private Carriers

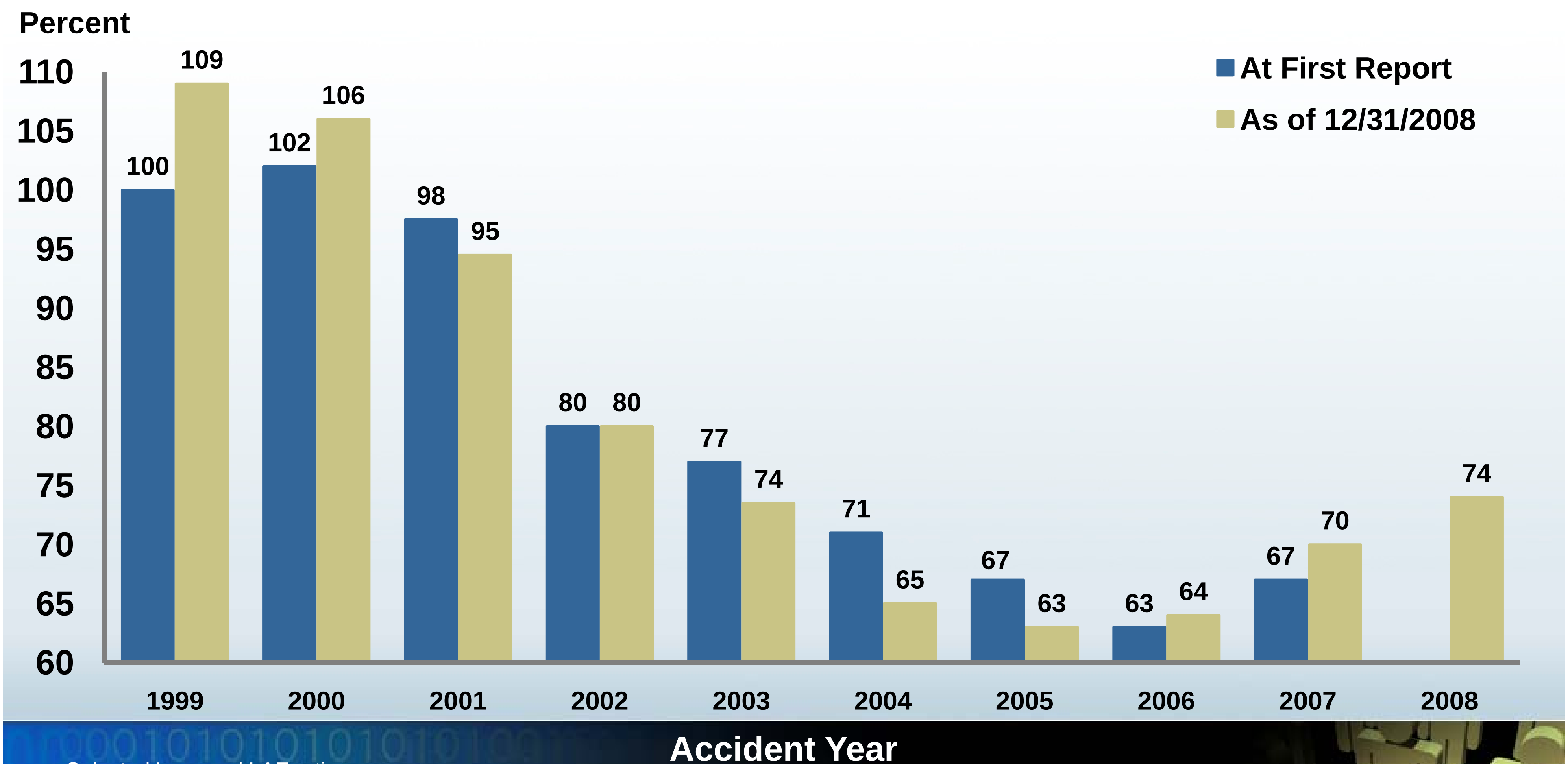


Reported Loss and LAE ratios

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

Workers Compensation Accident Year Loss and LAE Ratios

NCCI Selections—Private Carriers



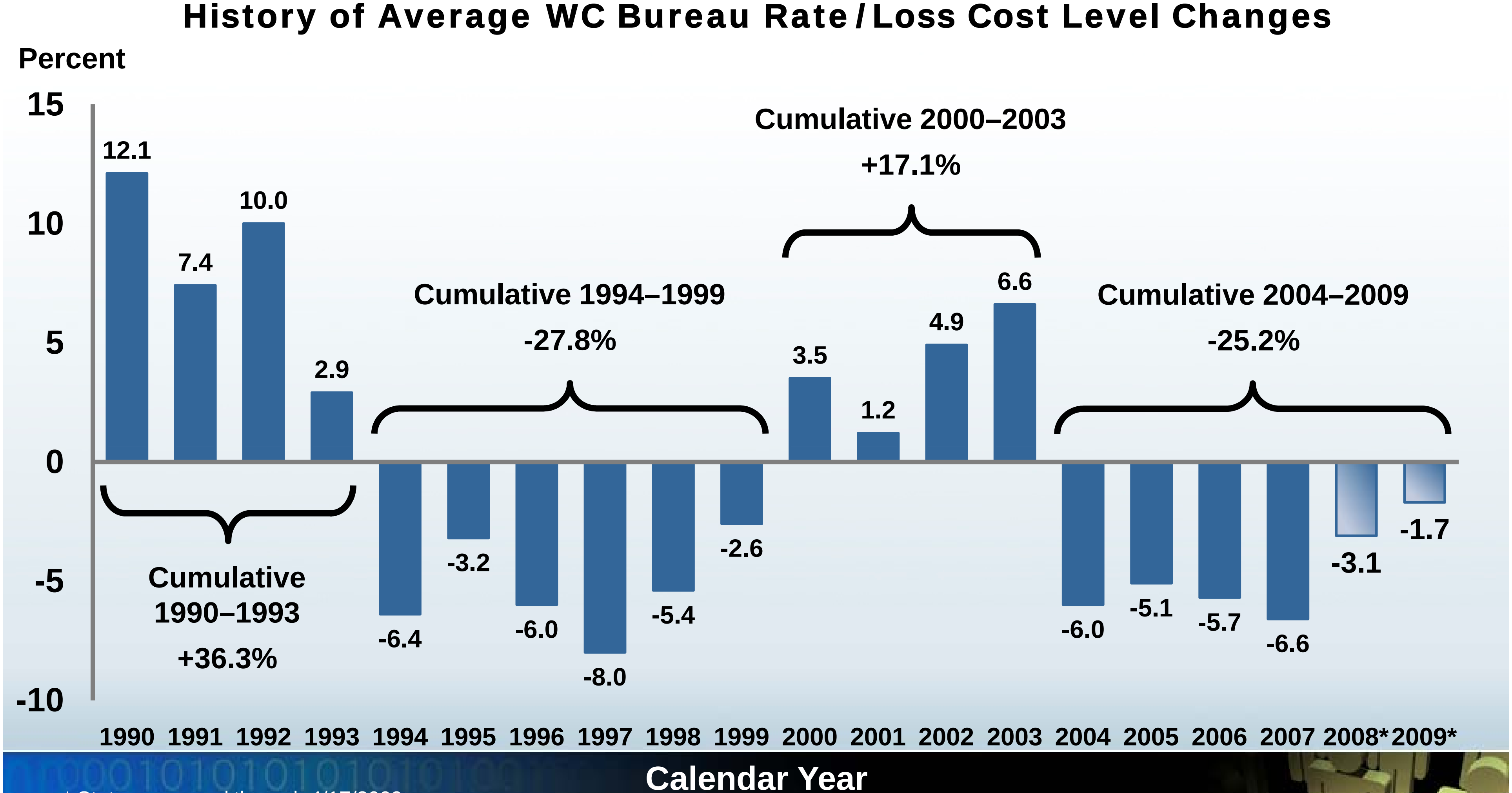
Selected Loss and LAE ratios

Source: NCCI Reserve Analysis

Workers Compensation

Premium Drivers

Average Approved Bureau Rates / Loss Costs

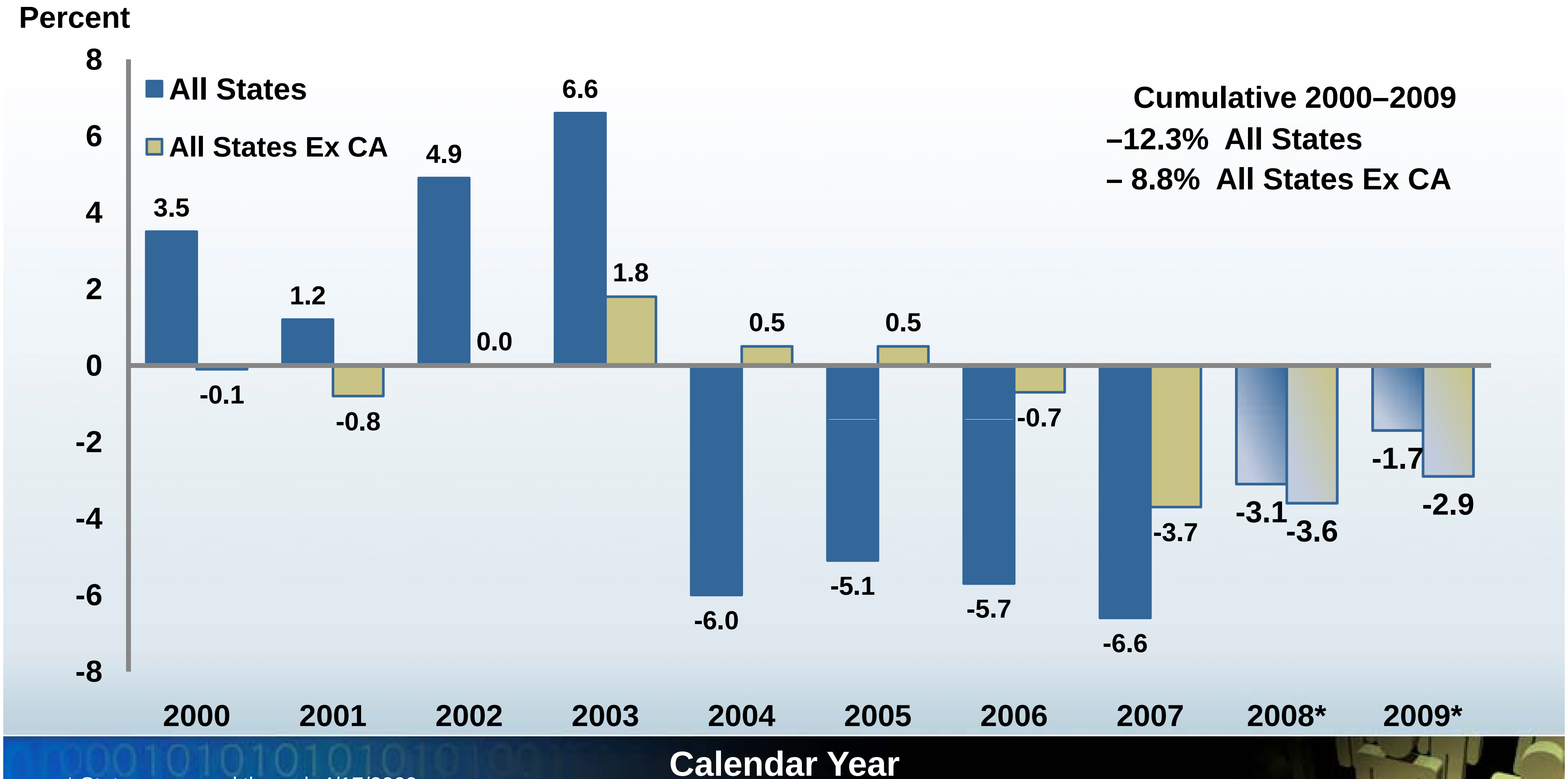


* States approved through 4/17/2009

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

Average Approved Bureau Rates/Loss Costs

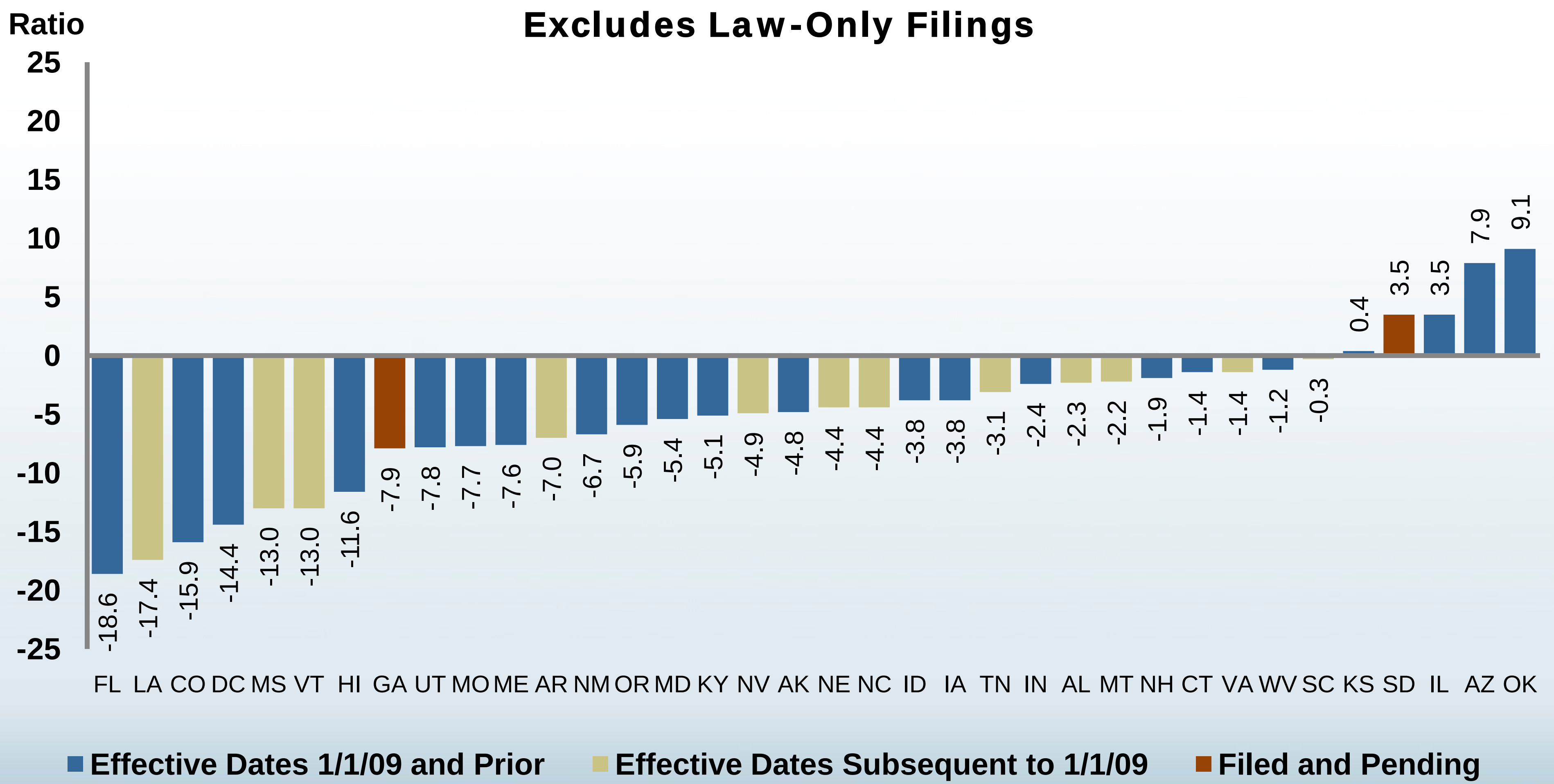
All States vs. All States Excluding California



* States approved through 4/17/2009

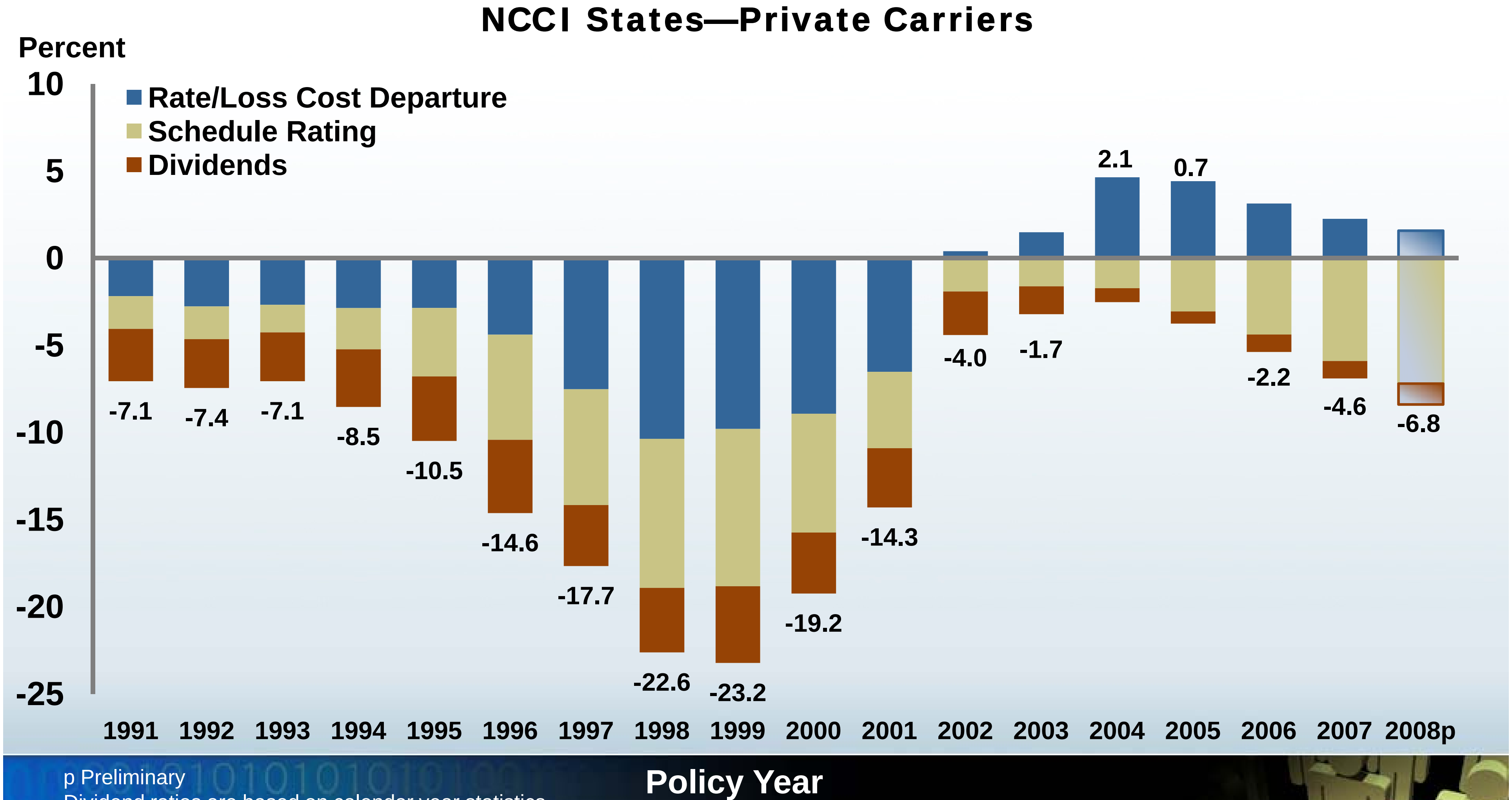
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

Current NCCI Voluntary Market Filed Rate / Loss Cost Changes



States filed through 4/24/2009

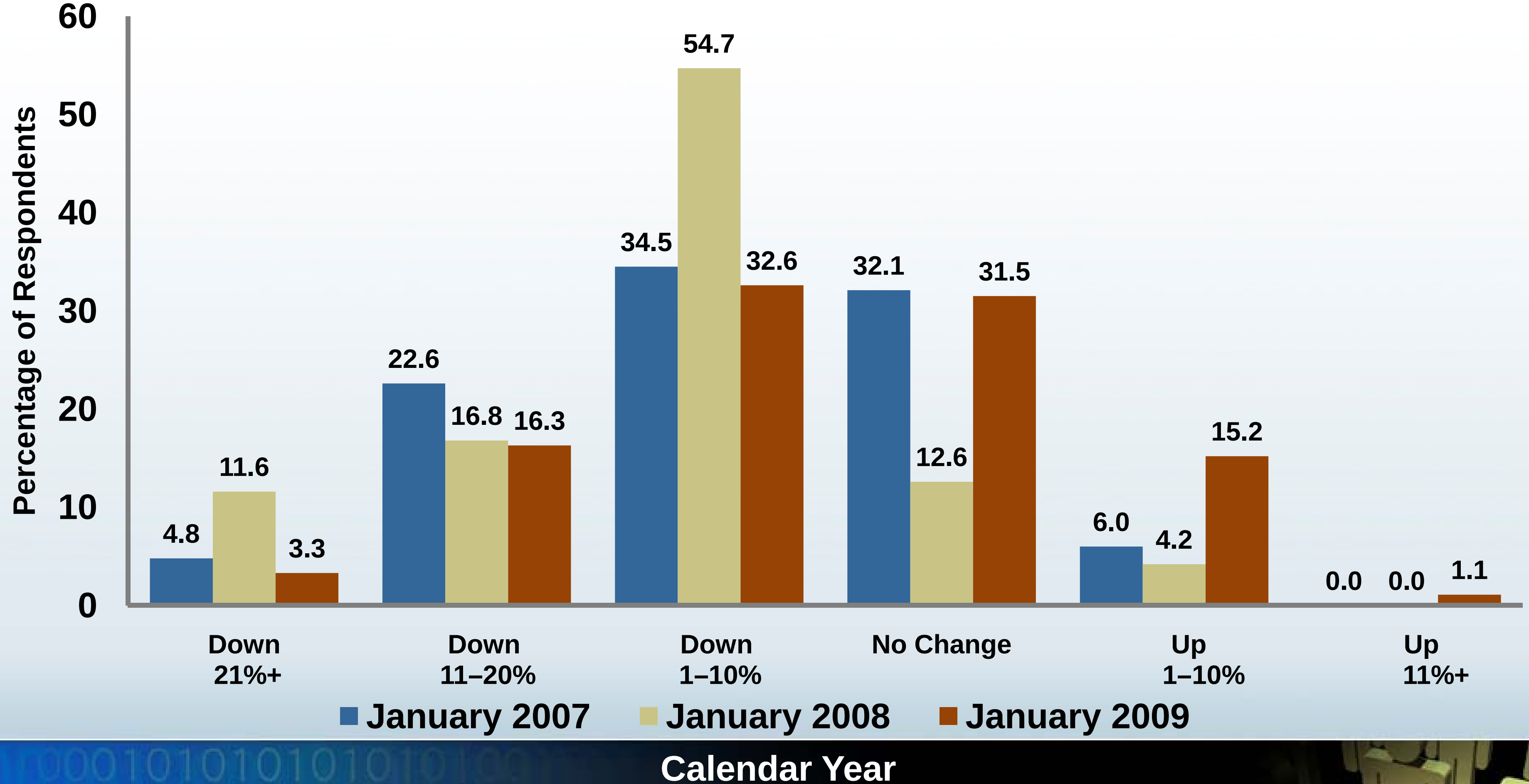
Impact of Discounting on Workers Compensation Premium



p Preliminary
Dividend ratios are based on calendar year statistics
NCCI benchmark level does not include an underwriting contingency provision
Based on data through 12/31/2008 for the states where NCCI provides ratemaking services

According to Goldman Sachs, Most Survey Respondents See Price Declines Moderating

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior



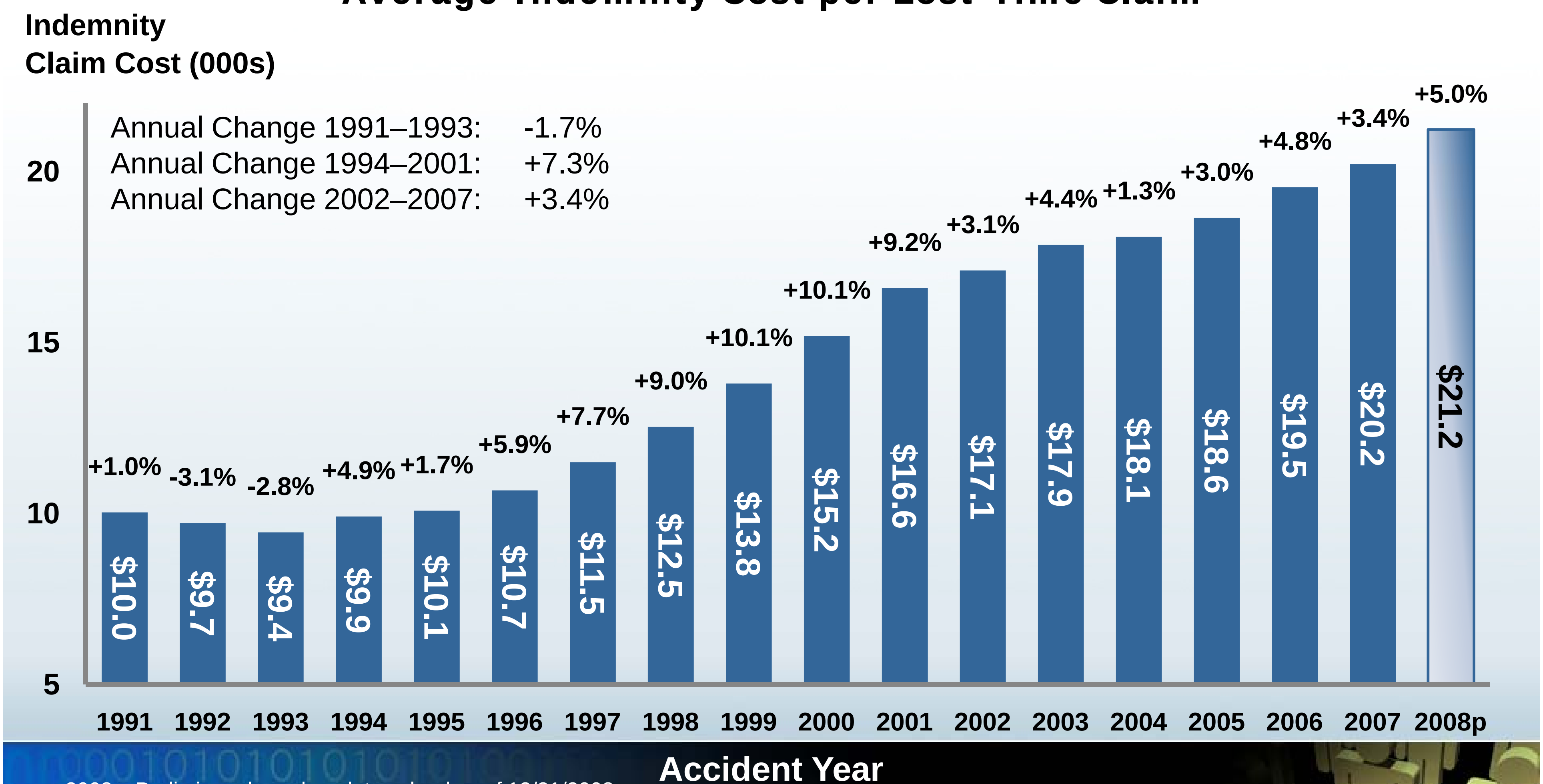
Source: Goldman Sachs Research, Proprietary Survey, "January 2009 Pricing Survey, Insurance: Property & Casualty" (Exhibit 8, Workers' Compensation, Percentage of Respondents)

Workers Compensation

Loss Drivers

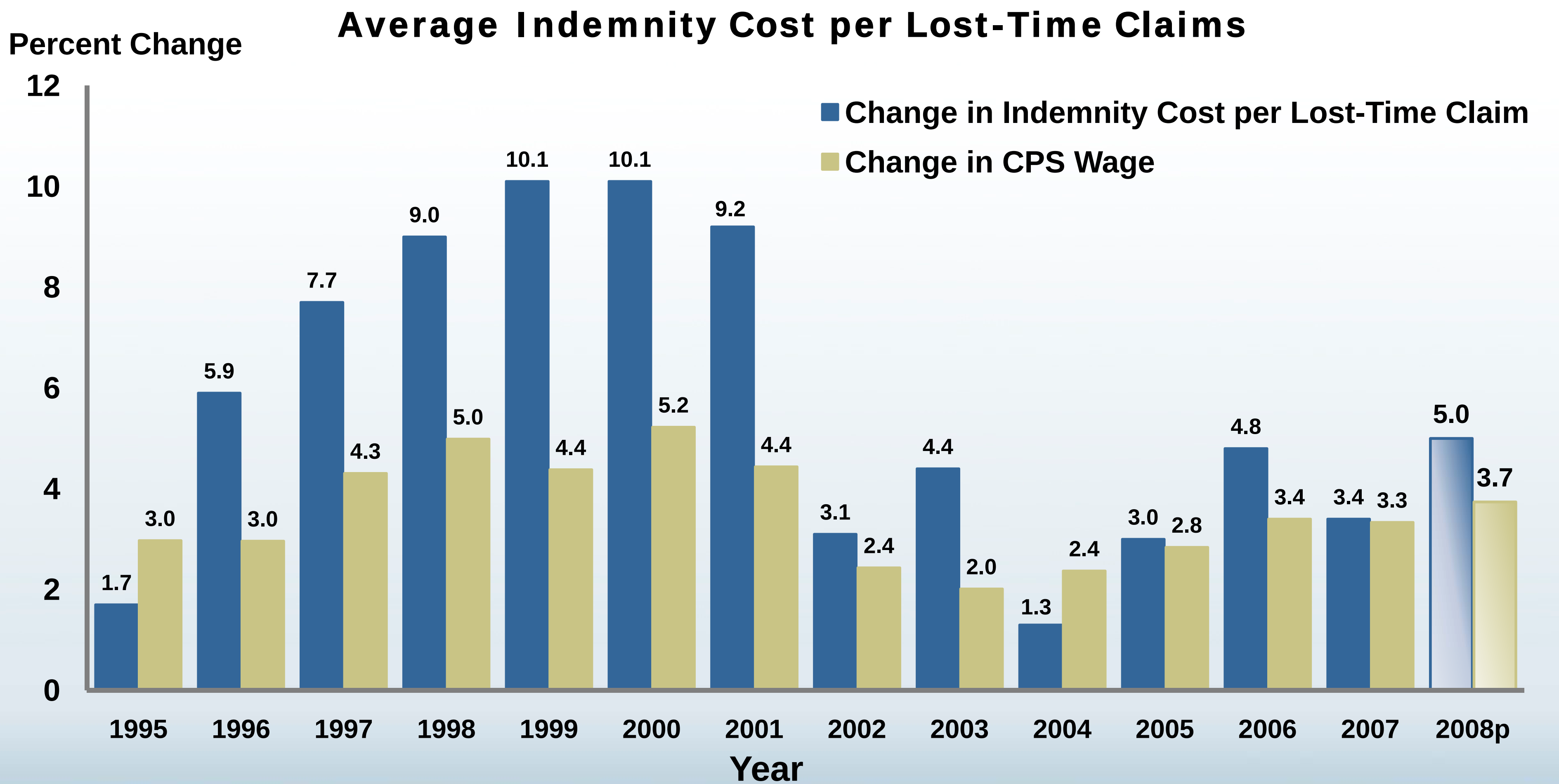
Workers Compensation Indemnity Claim Costs Continue to Grow

Average Indemnity Cost per Lost-Time Claim



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

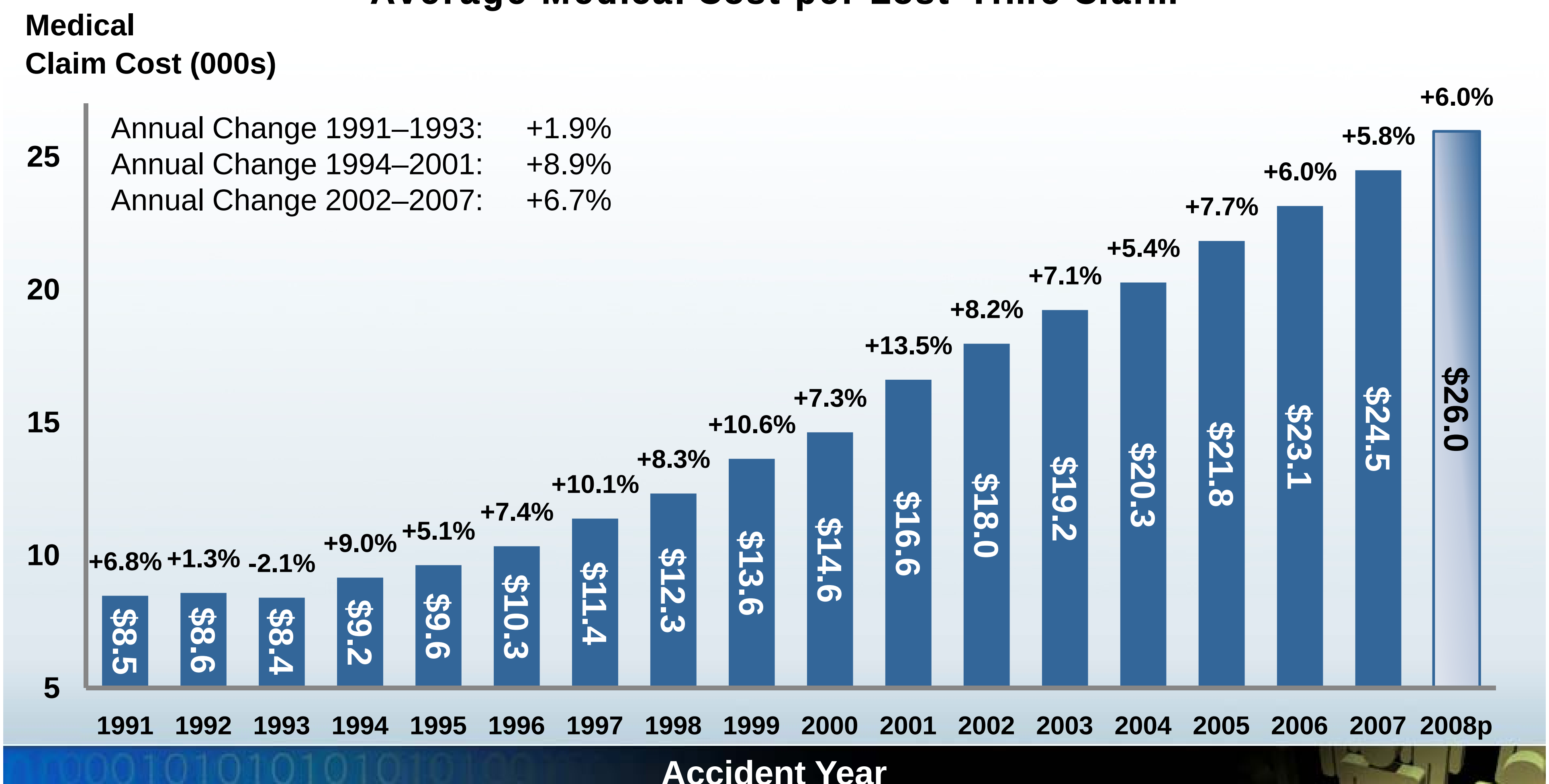
WC Indemnity Severity Outpacing Wage Inflation in 2008



Indemnity severity 2008p: Preliminary based on data valued as of 12/31/2008
Indemnity severity 1995–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Source: CPS Wage—All states (Current Population Survey), Economy.com;
Accident year indemnity severity—NCCI states, NCCI

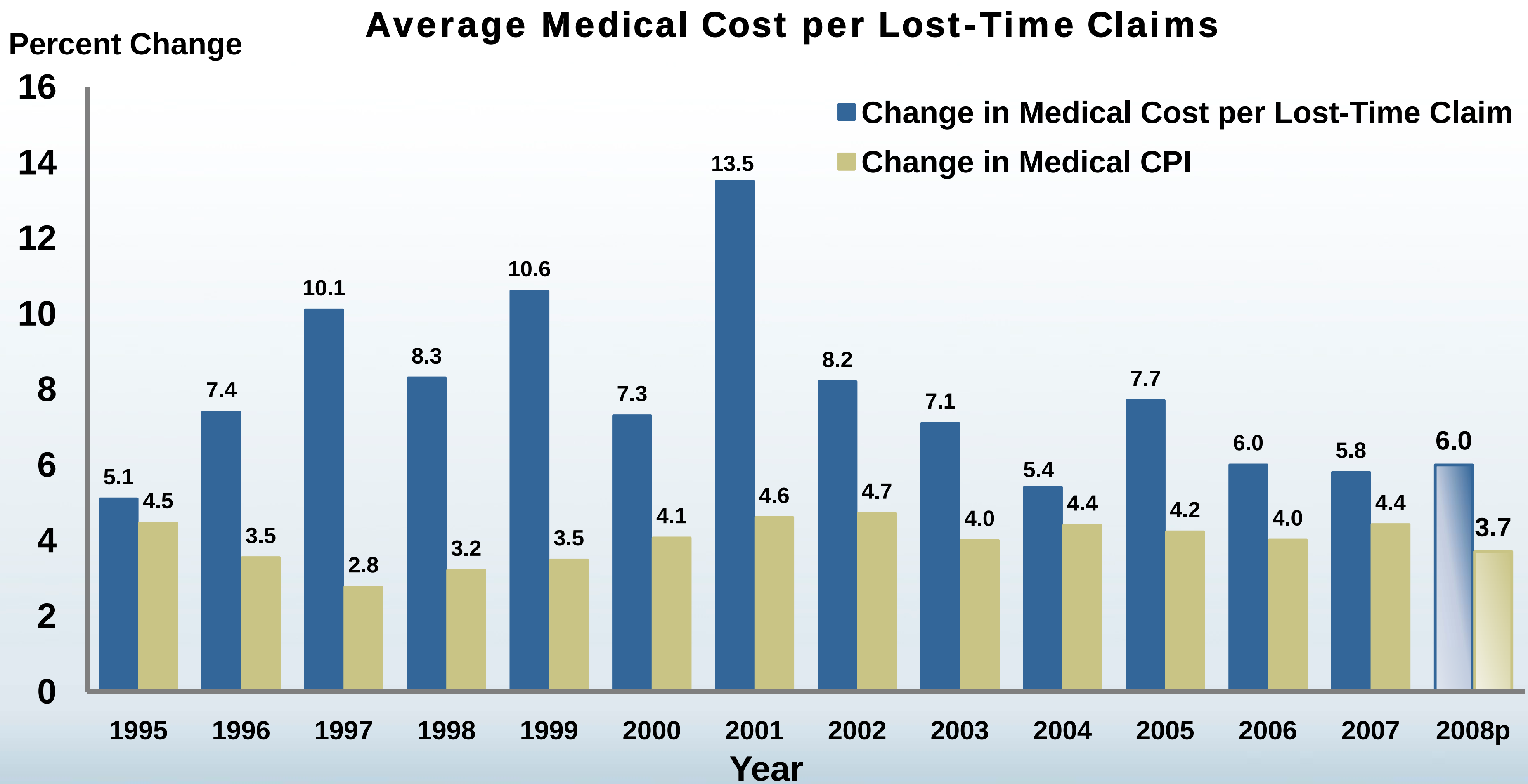
WC Medical Claim Cost Trends—Growth Continues in 2008

Average Medical Cost per Lost-Time Claim



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

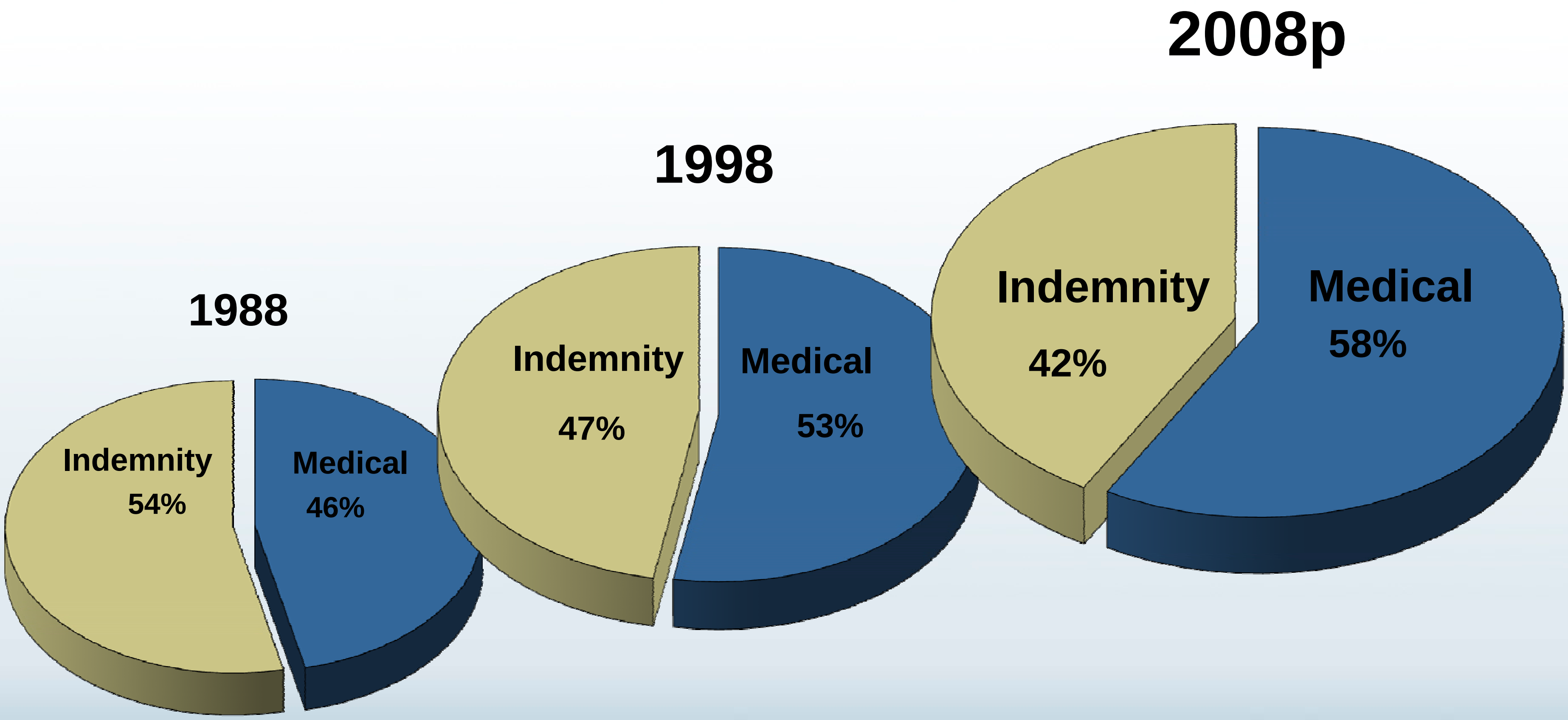
WC Medical Severity Still Growing Faster Than the Medical CPI



Medical severity 2008p: Preliminary based on data valued as of 12/31/2008
Medical severity 1995–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

Workers Compensation Medical Losses Are More Than Half of Total Losses

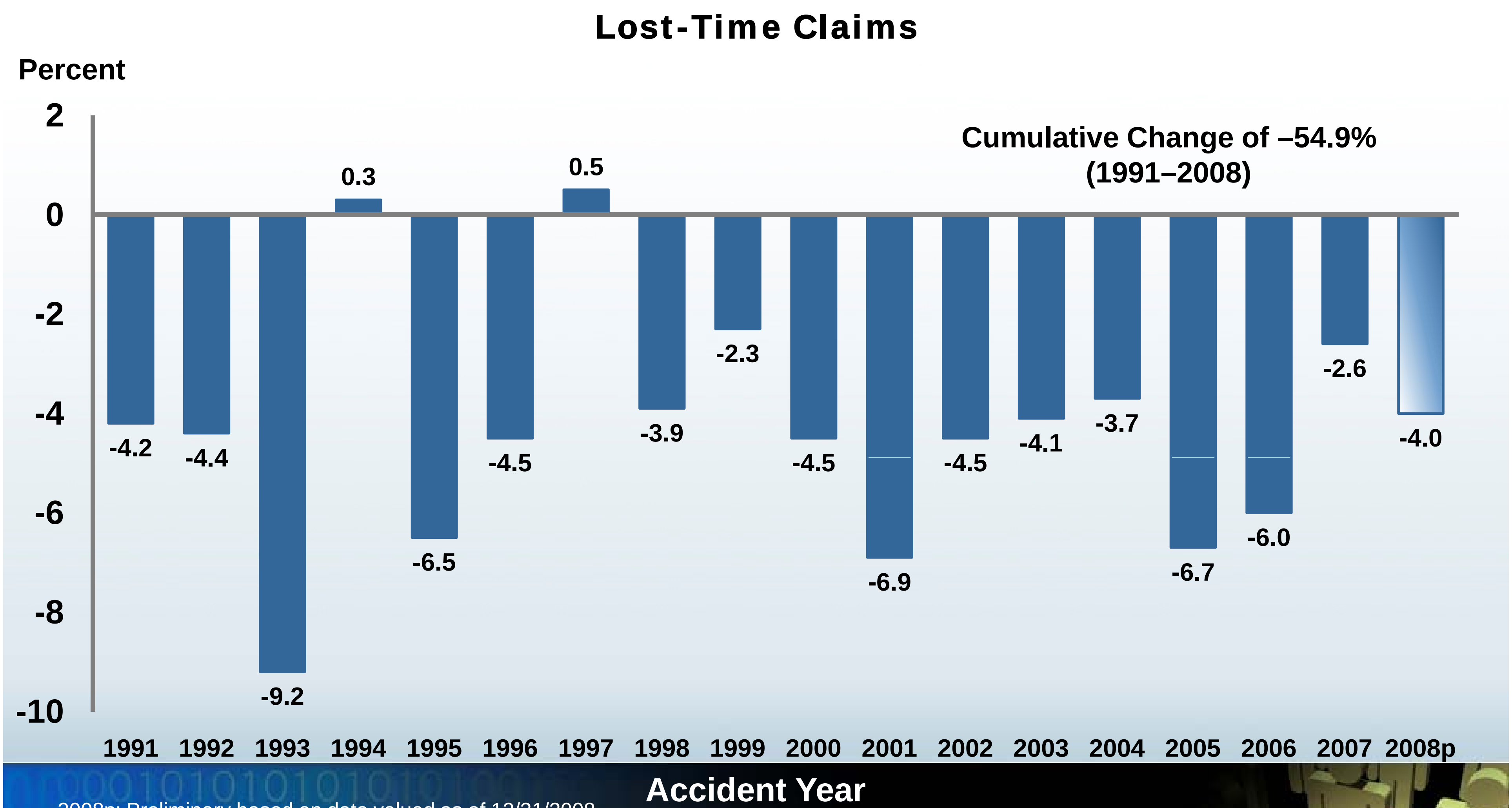
All Claims—NCCI States



Accident Year

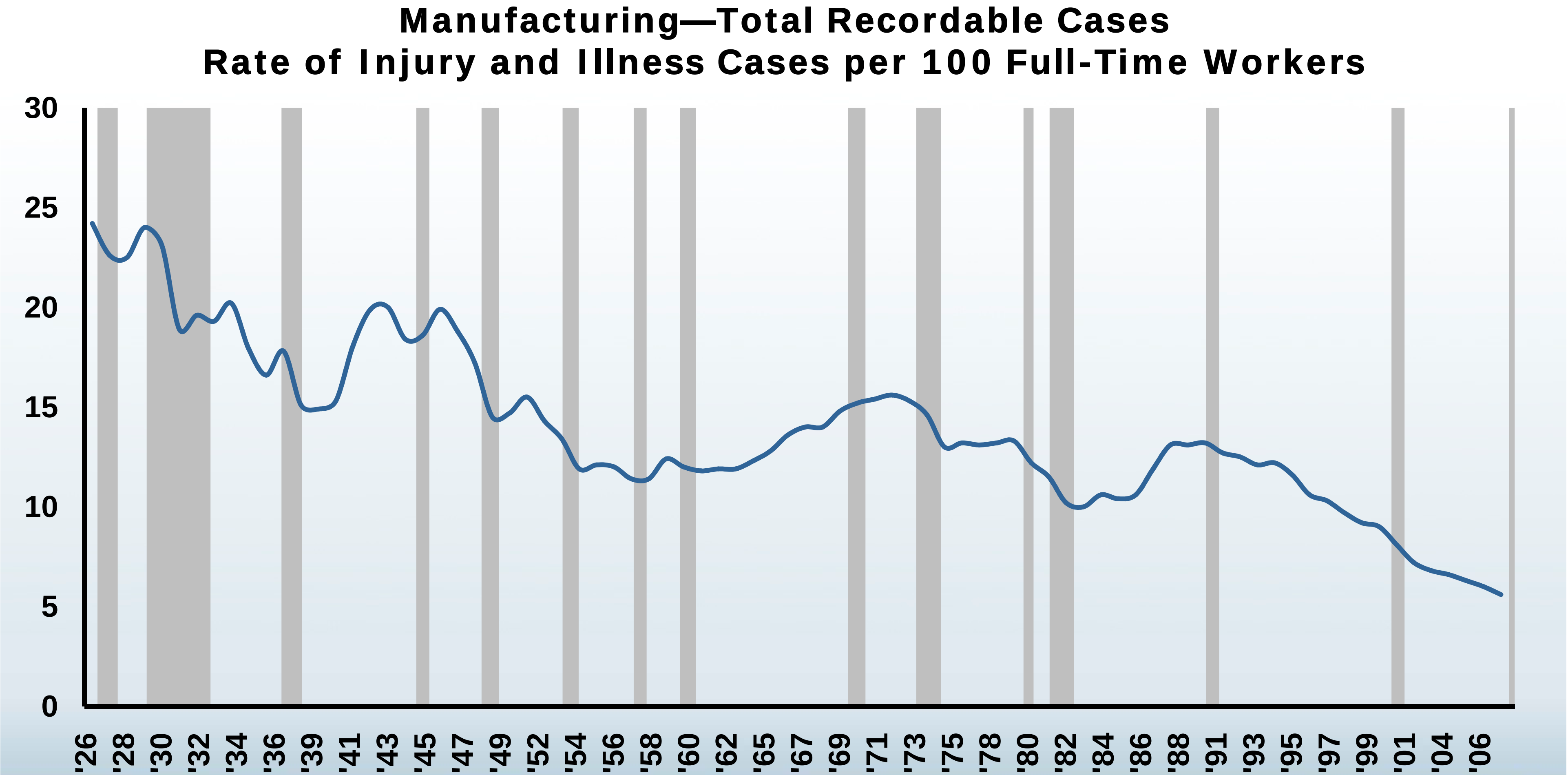
2008p: Preliminary based on data valued as of 12/31/2008
1988, 1998: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Workers Compensation Lost-Time Claim Frequency Continues to Decline



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Frequency is the number of lost-time claims per 100,000 workers as estimated from reported premium

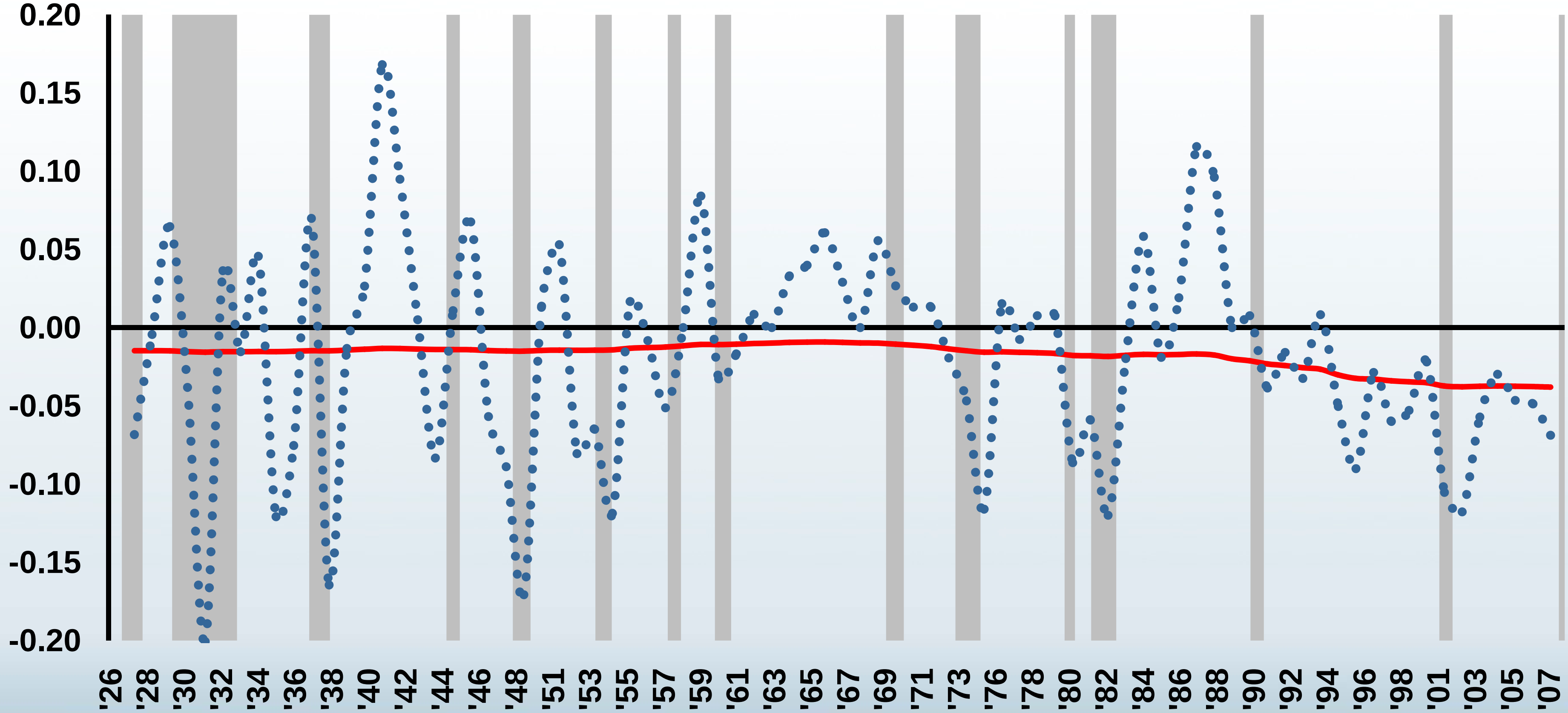
Frequency
A Long-Term Drift Downward



Note: Recessions indicated by gray bars
Source: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

The Business Cycle Impact on the Frequency Growth Rate in Isolation

Growth Rates, Workplace Illness and Injury—Manufacturing



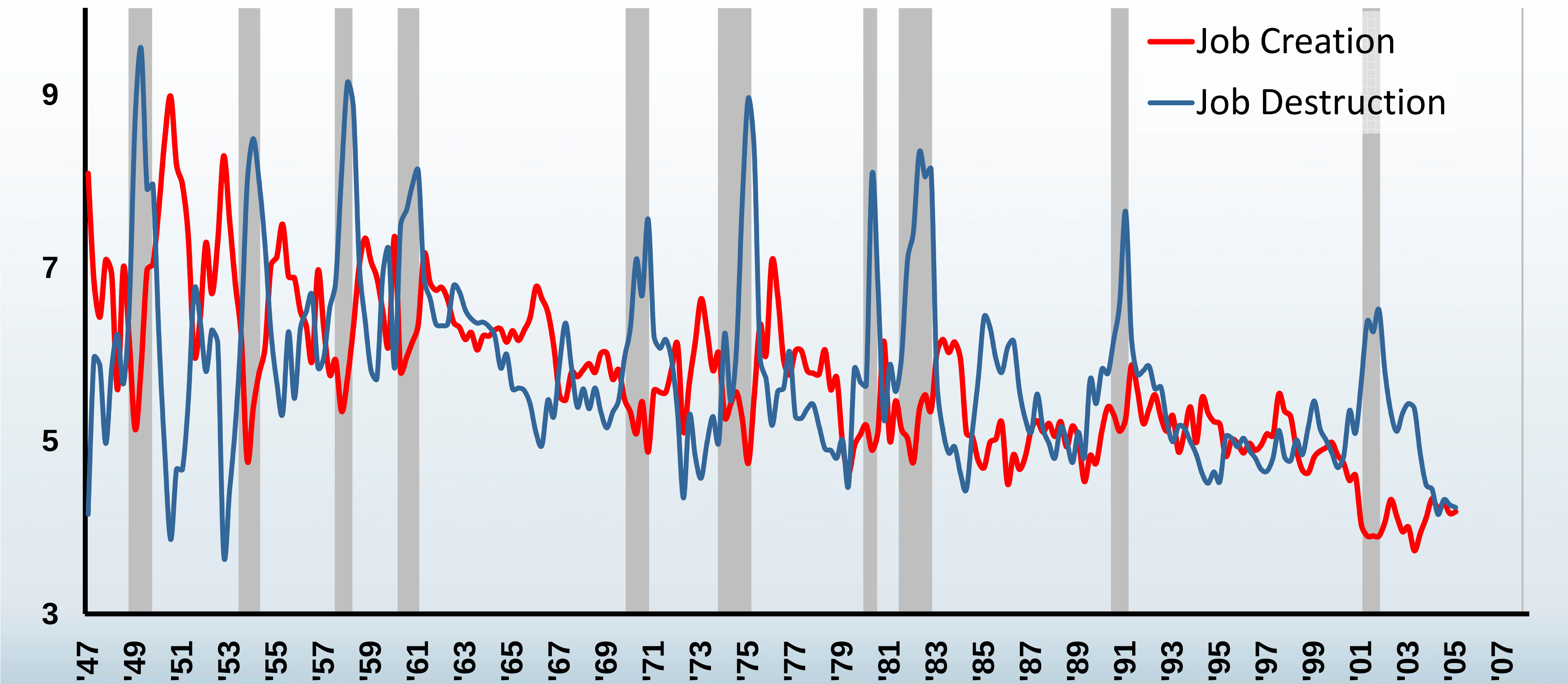
Note: Recessions indicated by gray bars
Source: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

Job Creation Is a Leading Indicator of the Change in WC Claim Frequency

- Job creation and job destruction increase frequency
- During recessions, job creation slows dramatically
- The rate of job creation bottoms at the trough of economic activity and rises sharply during the ensuing economic recovery
- During recession, job destruction increases
- NCCI’s statistical modeling shows that the decline in job creation dominates quantitatively

Cyclical Pattern of Job Creation and Job Destruction

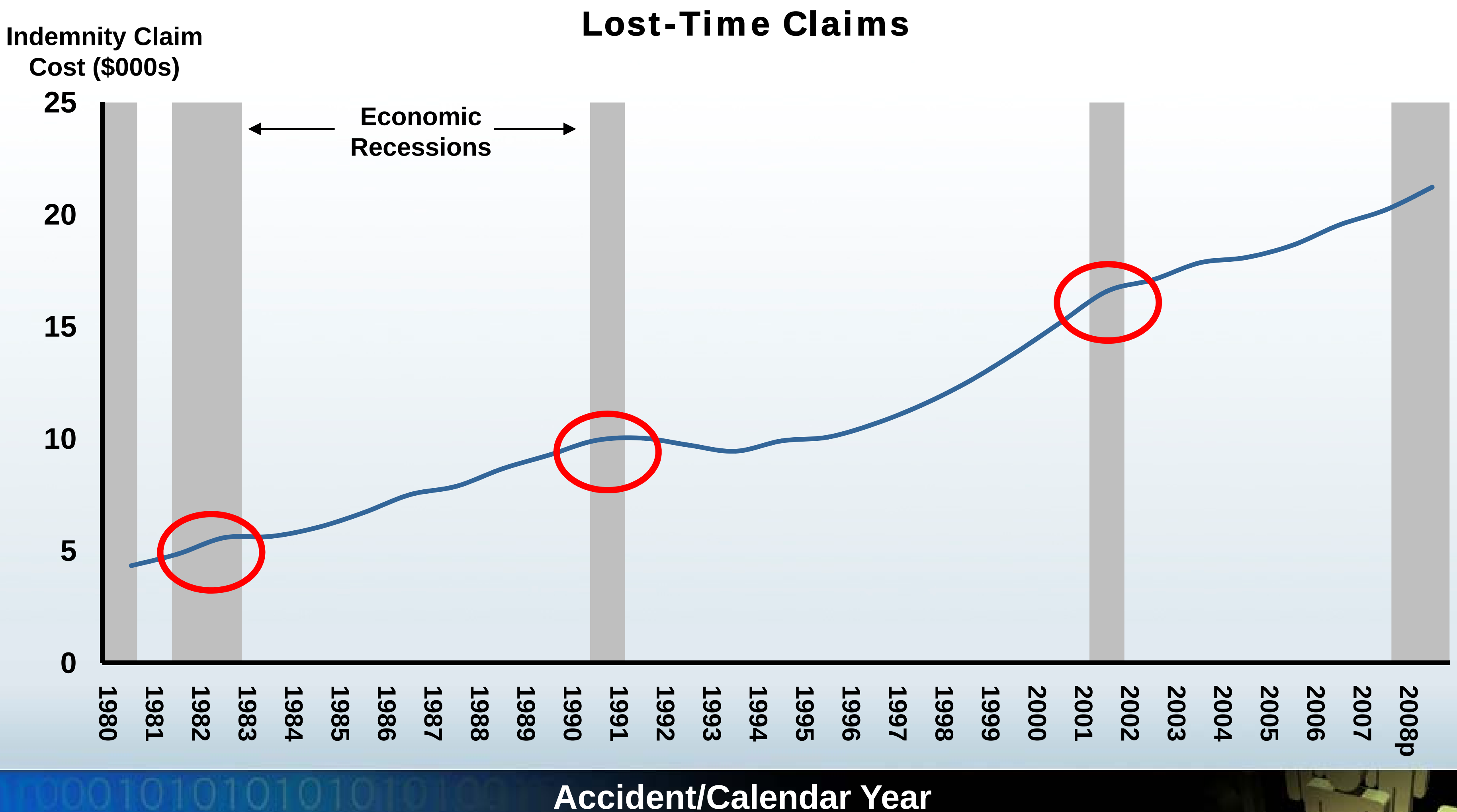
Rates of Job Creation and Job Destruction—Manufacturing



Note: Recessions indicated by gray bars

Source: Davis, S.J., R.J. Faberman, and J. Haltiwanger (2006) "The Flow Approach to Labor Markets: New Data Sources and Micro-Macro Links," Journal of Economic Perspectives 20(3), pp. 3-26.

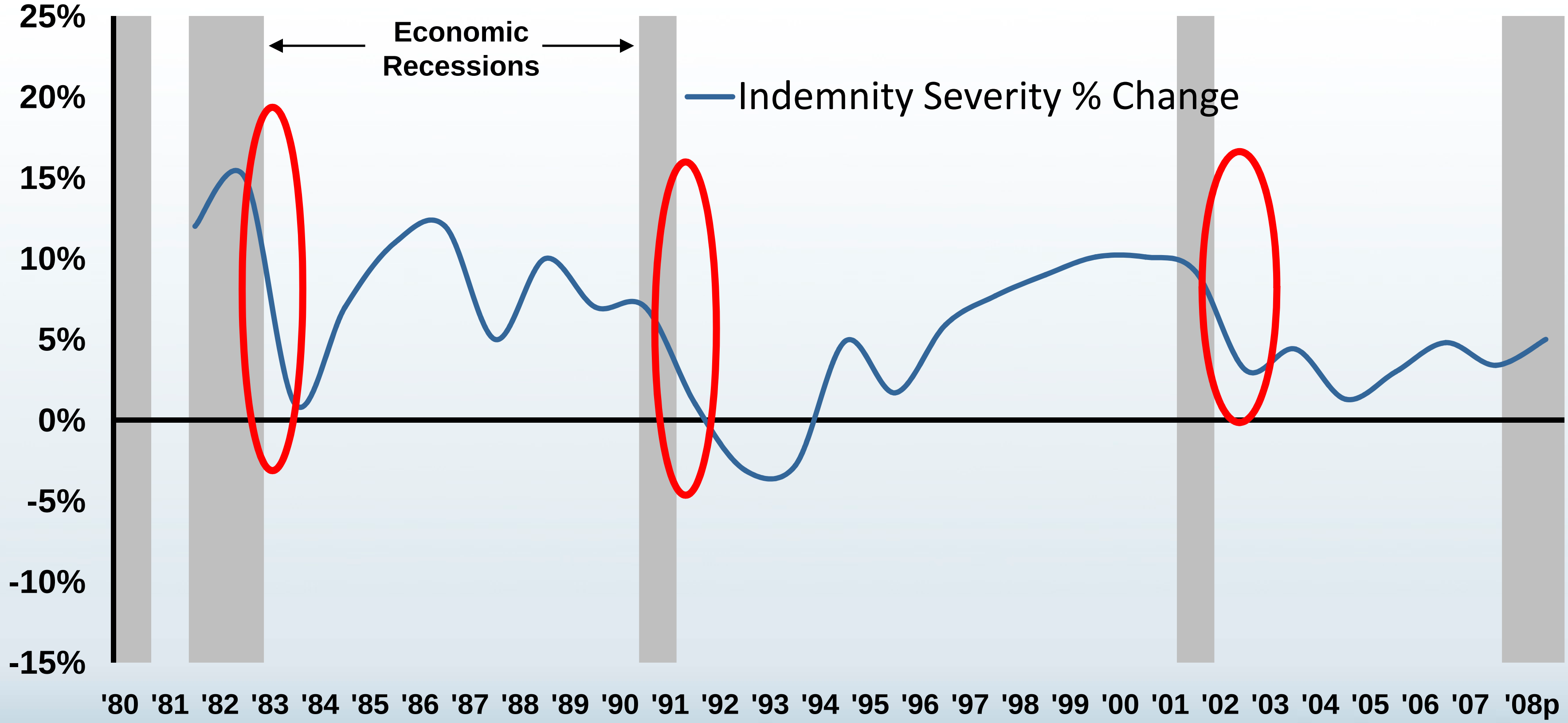
The Growth in Indemnity Severity Has Eased Coming Out of Prior Recessions



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Indemnity Severity Growth Rates Show a Lagged Response to Recessions

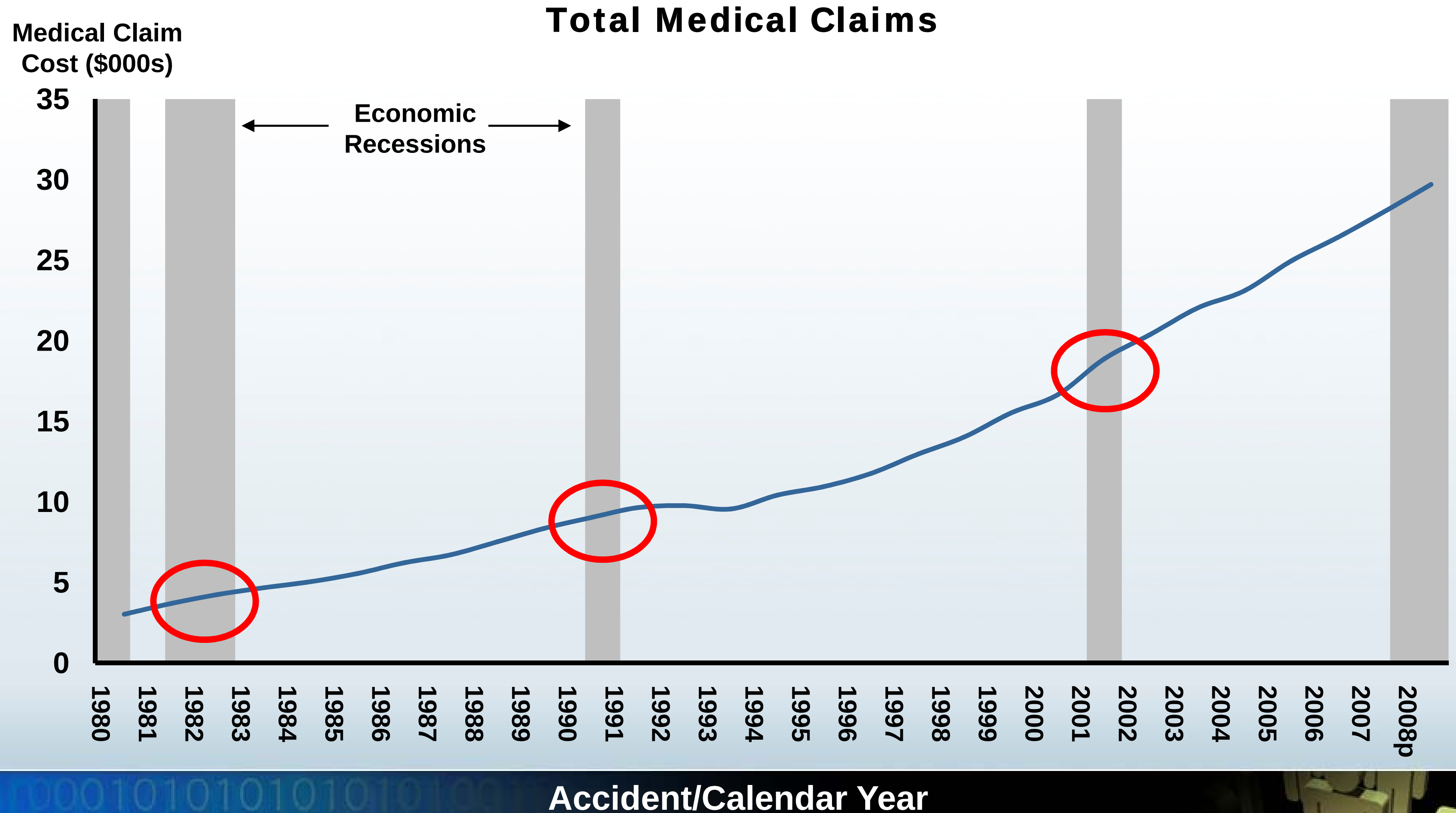
Percent Change, Lost-Time Claims



Accident/Calendar Year

2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

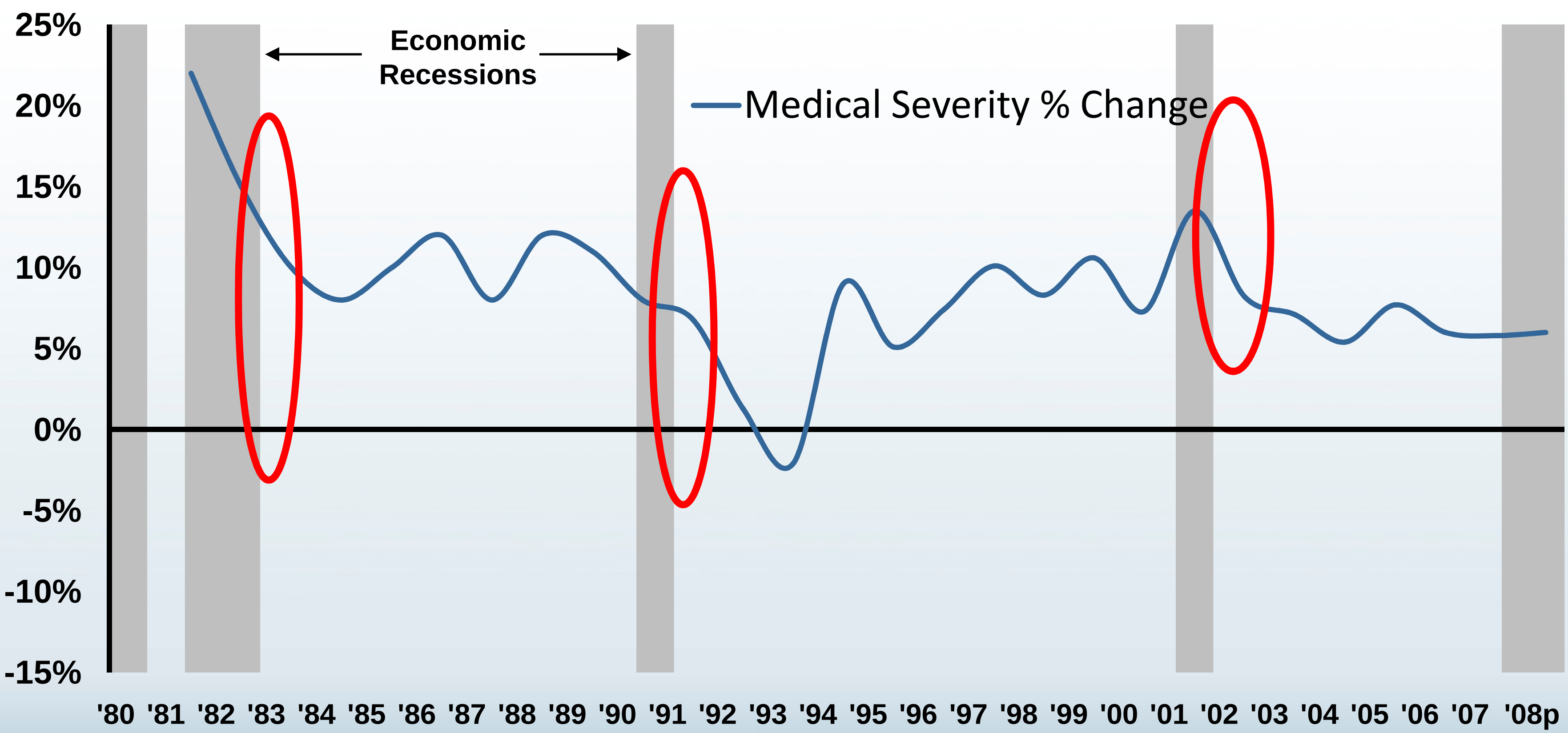
Medical Claim Costs Increased During Prior Recessions



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Medical Severity Growth Rates Show a Varied Response

Percent Change, Lost-Time Claims

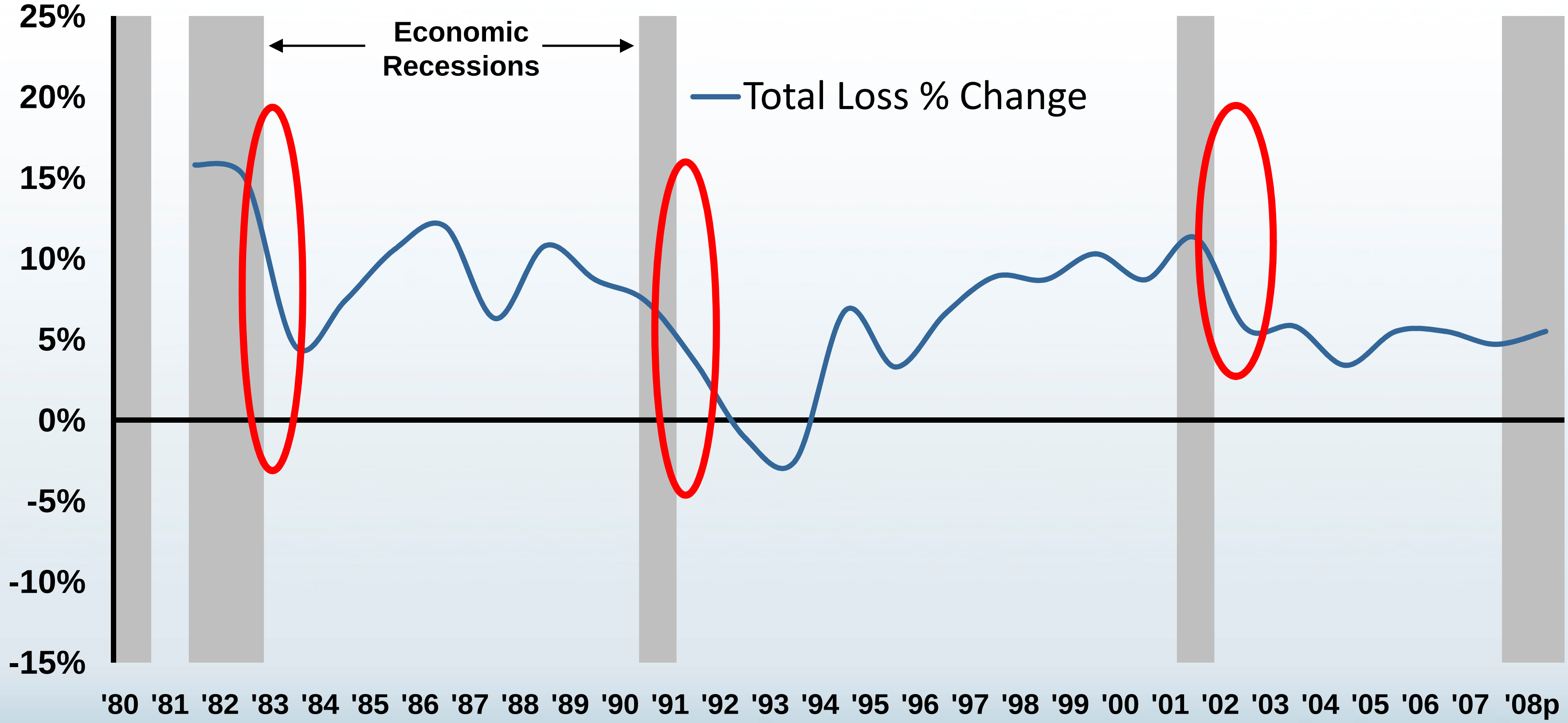


Accident/Calendar Year

2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Total Severity Growth Rates—Up and Down Response

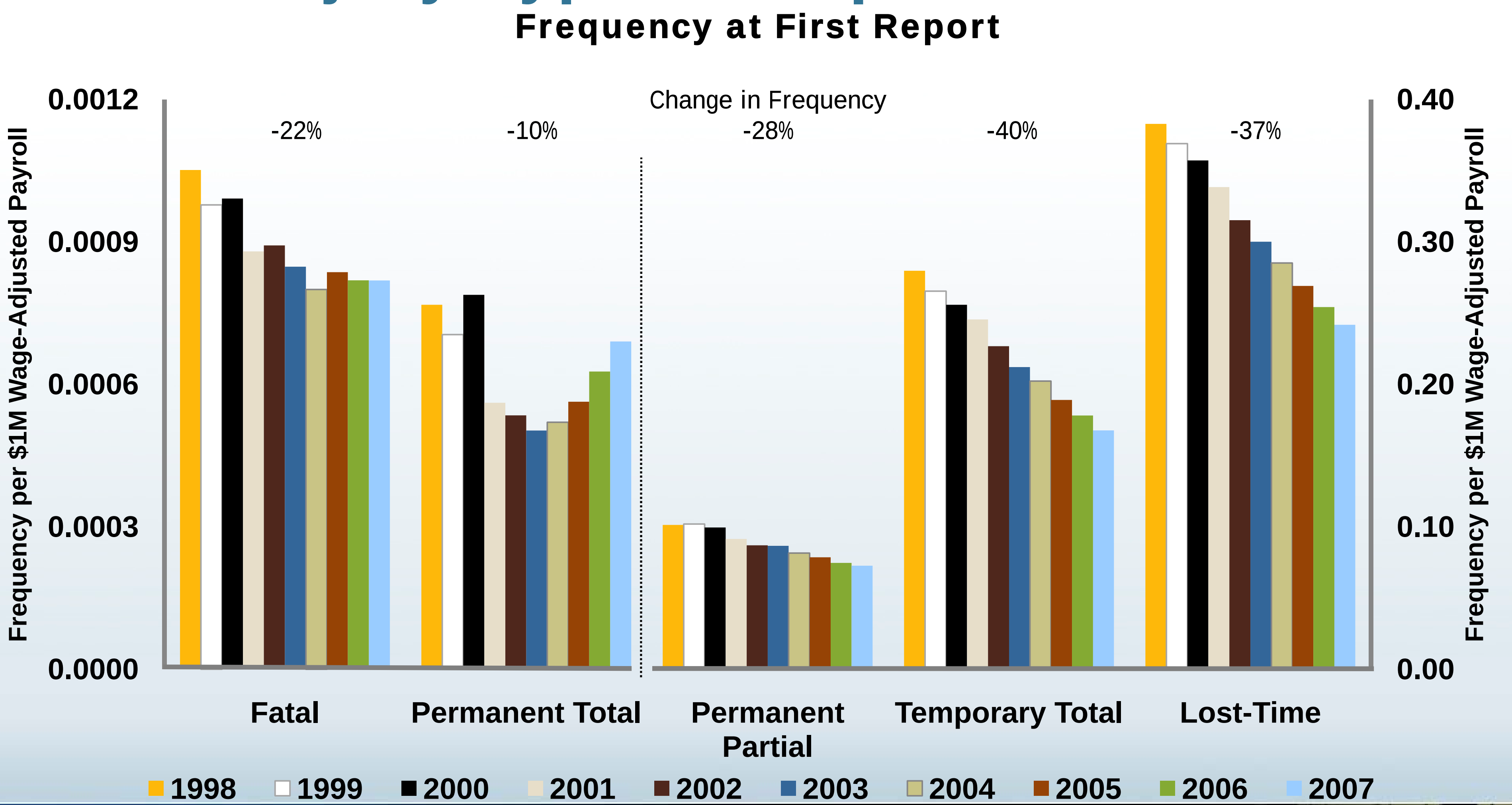
Percent Change, Lost-Time Claims



Accident/Calendar Year

2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

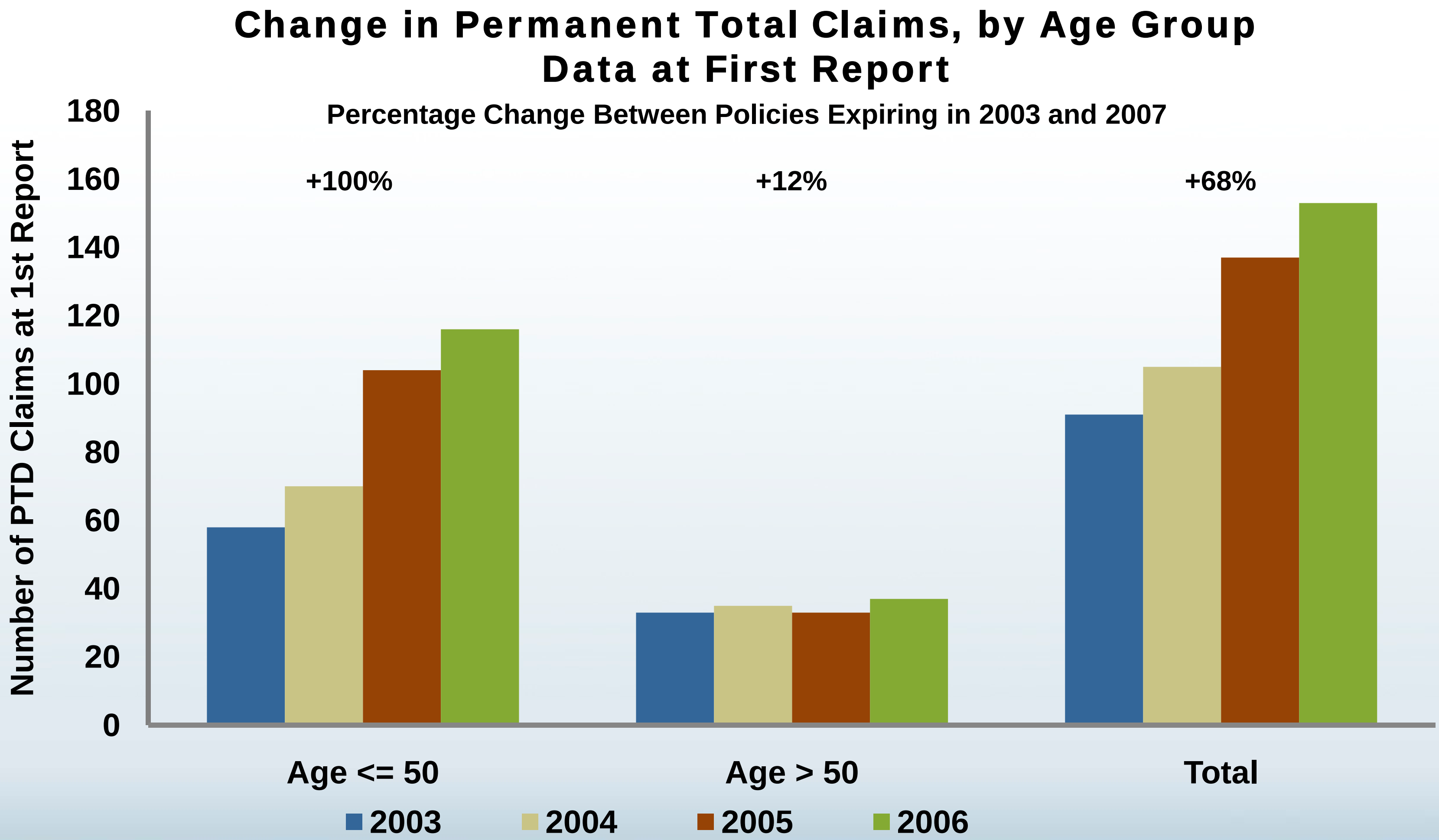
Declines in Claim Frequency Are Consistent for All Injury Types Except Permanent Total



All NCCI States

Source: NCCI Unit Statistical Plan data, First Report.

Increase in Permanent Total Claims
It Wasn't Older Workers

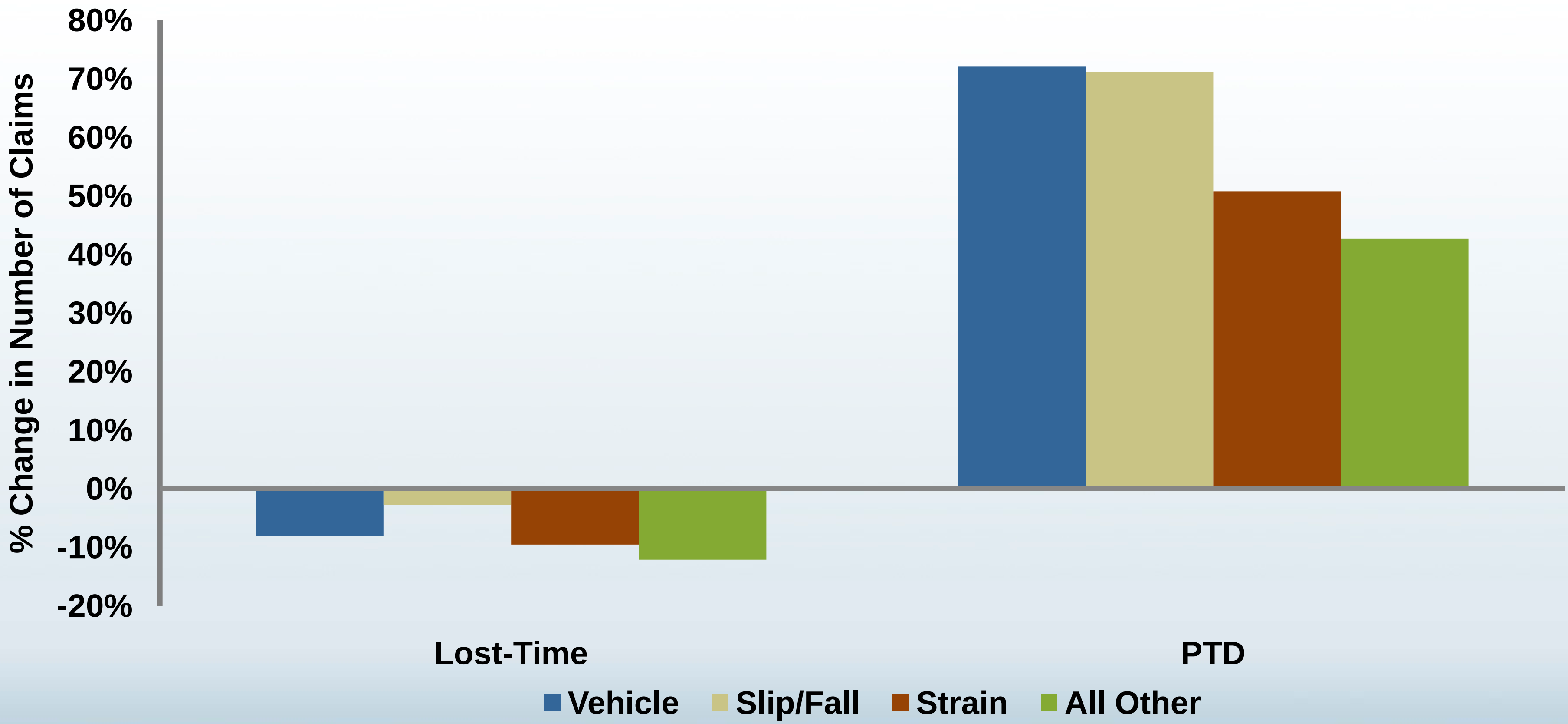


All NCCI States

Source: Sample data

Lost-Time and Permanent Total Disability Claims by Cause of Injury

Percentage Change, Data at First Report

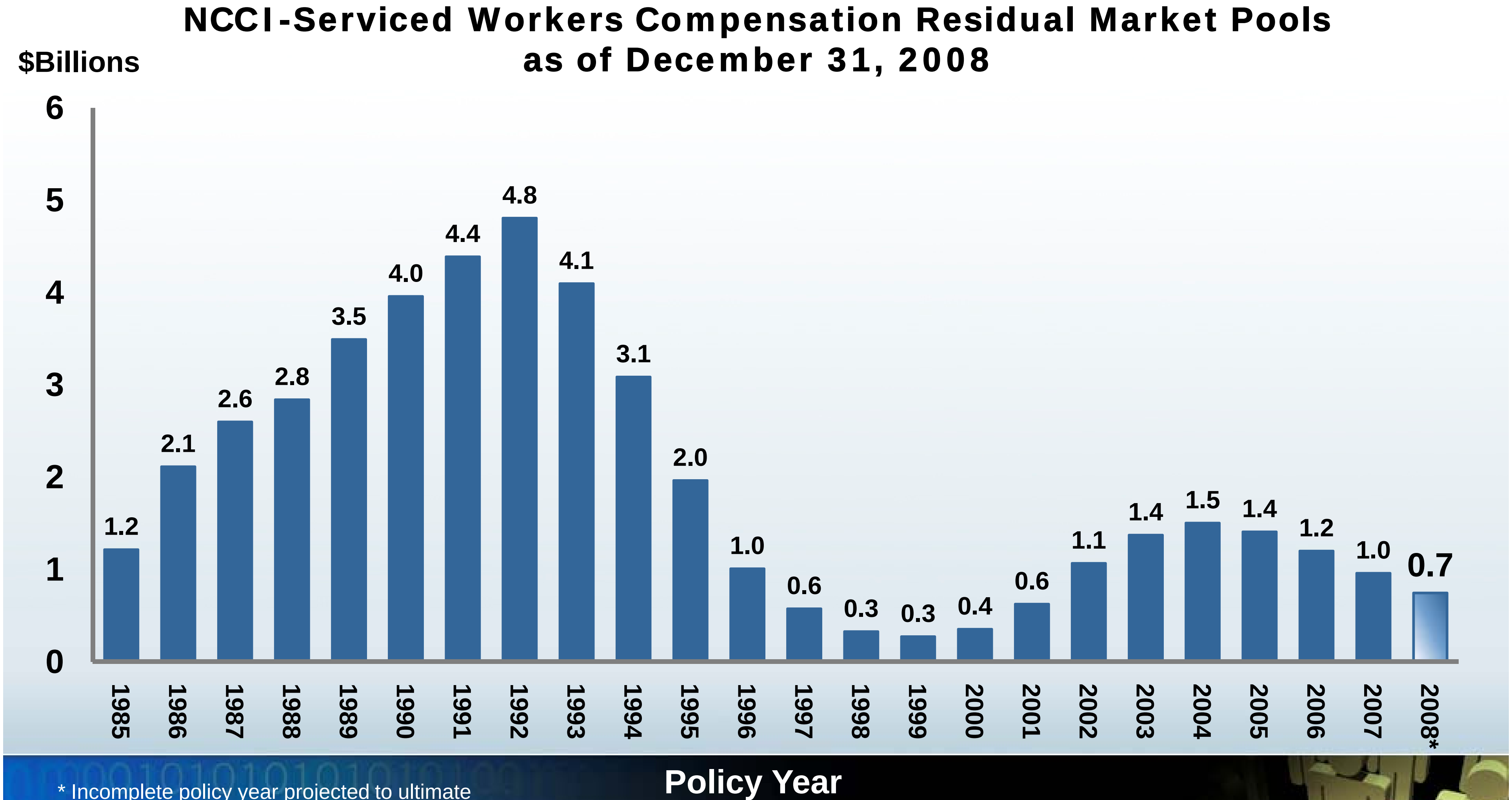


All NCCI States
Percentage change between policies expiring in 2003 and 2007
Source: NCCI Unit Statistical Plan data, First Report.

Workers Compensation

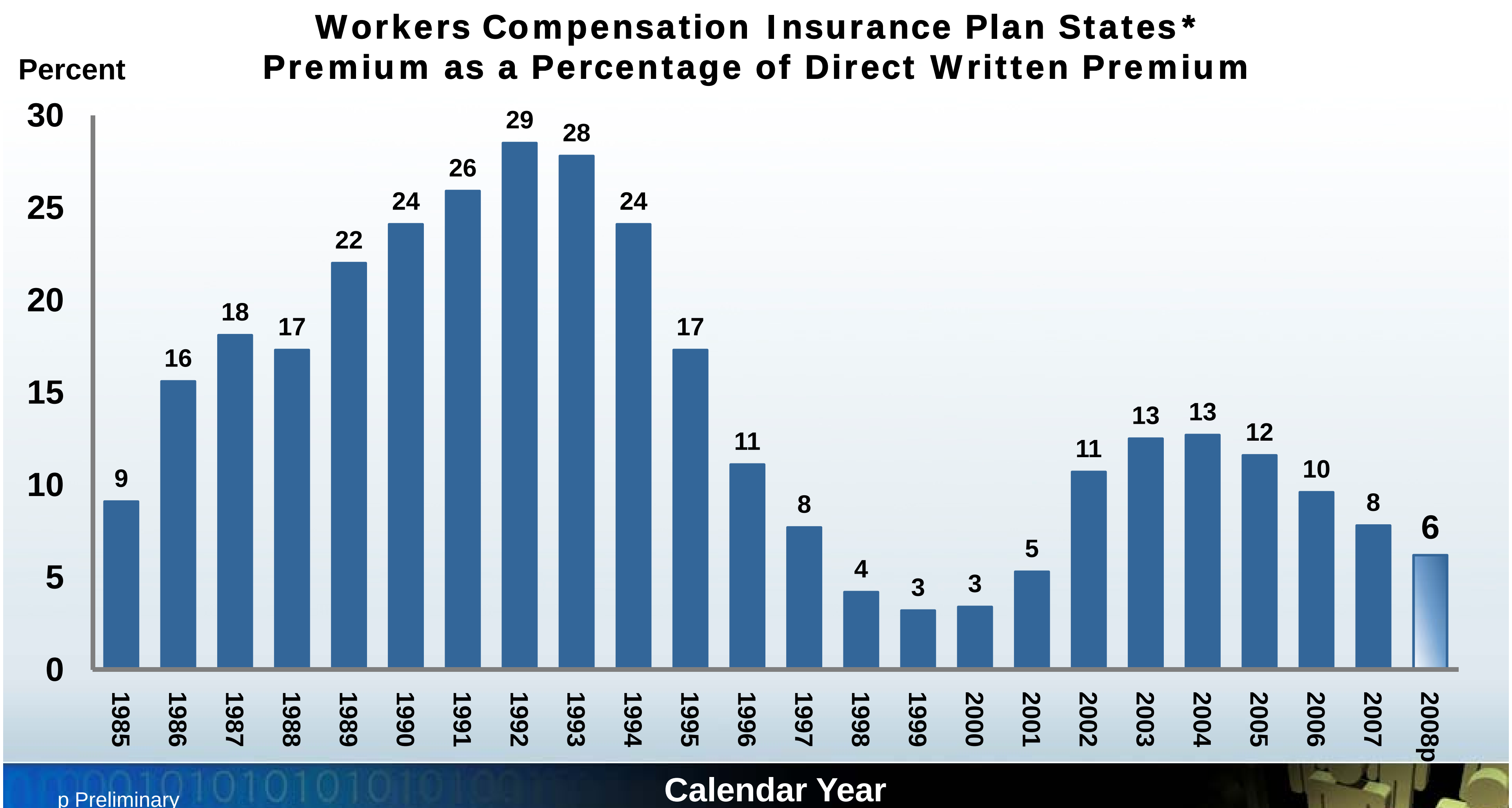
Residual Market

Workers Compensation Residual Market Premium Volume Declines



* Incomplete policy year projected to ultimate

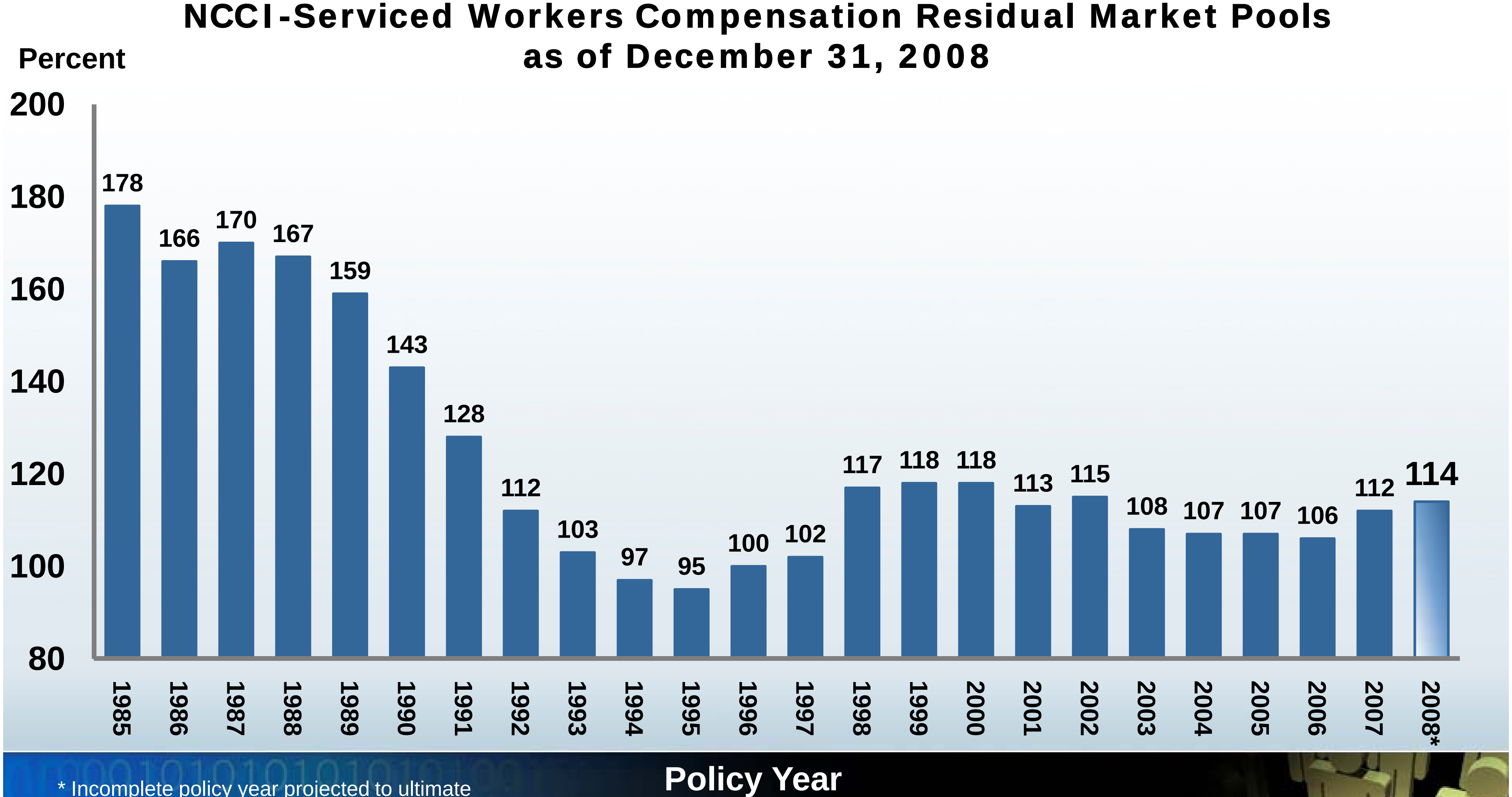
Workers Compensation Residual Market Shares Continue to Decline



p Preliminary

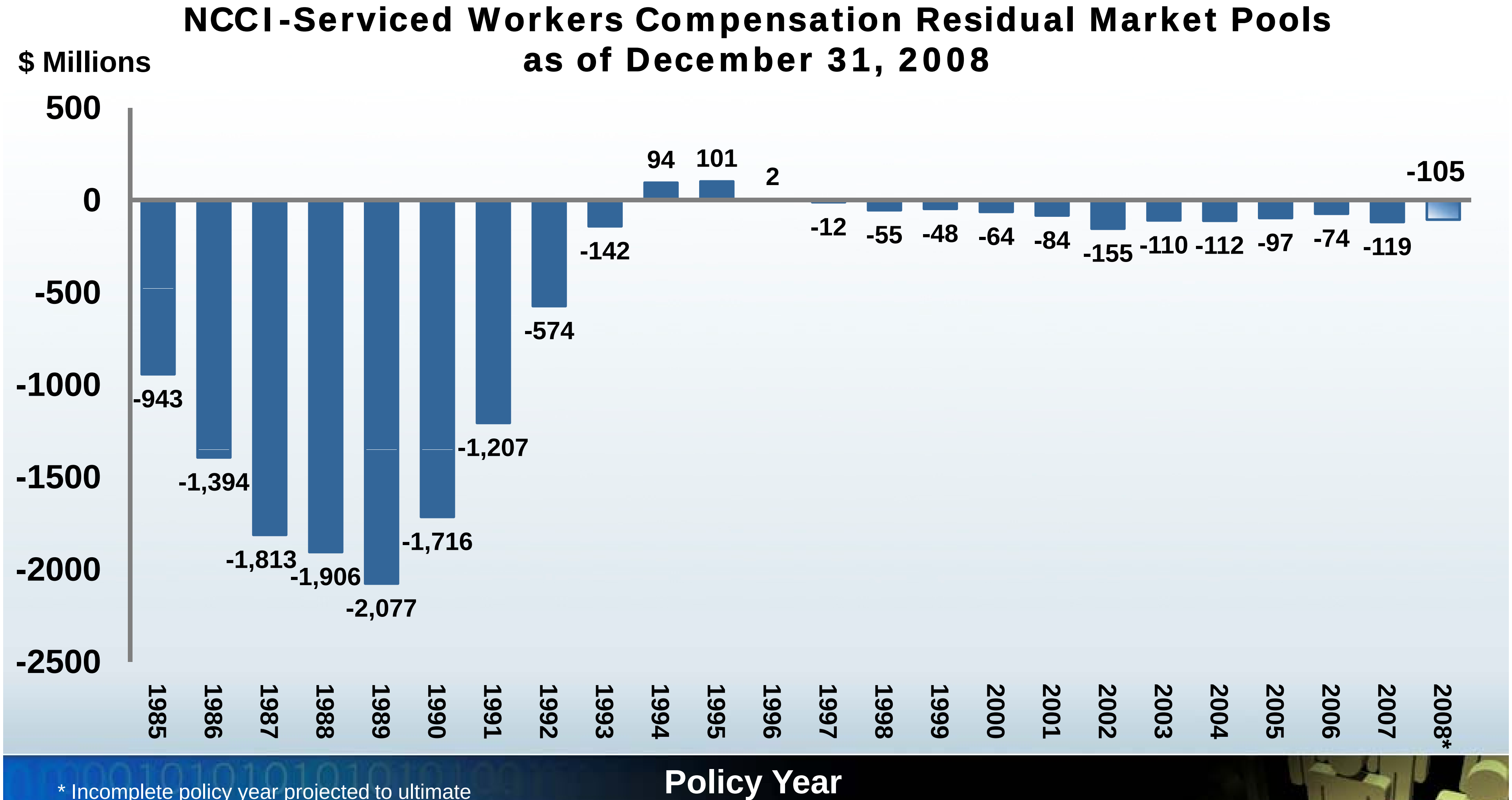
* NCCI Plan states plus DE, IN, MA, MI, NJ, NC

Workers Compensation Residual Market Combined Ratios



* Incomplete policy year projected to ultimate

Workers Compensation Residual Market Underwriting Results



* Incomplete policy year projected to ultimate

Residual Markets Depopulated

2008 vs. 2004

Size of Risk	2004	2008	Change
$ 0 – $ 2,499	110.9 M	103.7 M	**-6%**
$ 2,500 – $ 4,999	80.6 M	55.7 M	**-31%**
$ 5,000 – $ 9,999	106.2 M	67.7 M	**-36%**
$ 10,000 – $49,999	315.8 M	160.5 M	**-49%**
$ 50,000 – $99,999	149.4 M	56.5 M	**-62%**
$100,000 and over	236.5 M	56.6 M	**-76%**
Total	**999.5** M	**500.8** M	**-50%**

Total estimated annual premium on policies
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

Residual Markets Depopulated

First Quarter 2009 vs. First Quarter 2008

Size of Risk	2008	2009	Change
$ 0 – $ 2,499	26.3 M	20.1 M	**-24%**
$ 2,500 – $ 4,999	15.9 M	10.8 M	**-32%**
$ 5,000 – $ 9,999	21.9 M	12.6 M	**-43%**
$ 10,000 – $49,999	53.8 M	33.0 M	**-39%**
$ 50,000 – $99,999	18.6 M	11.7 M	**-37%**
$100,000 and over	20.7 M	11.5 M	**-45%**
Total	**157.2** M	**99.6** M	**-37%**

Total estimated annual premium on policies
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

Current Topics of Interest

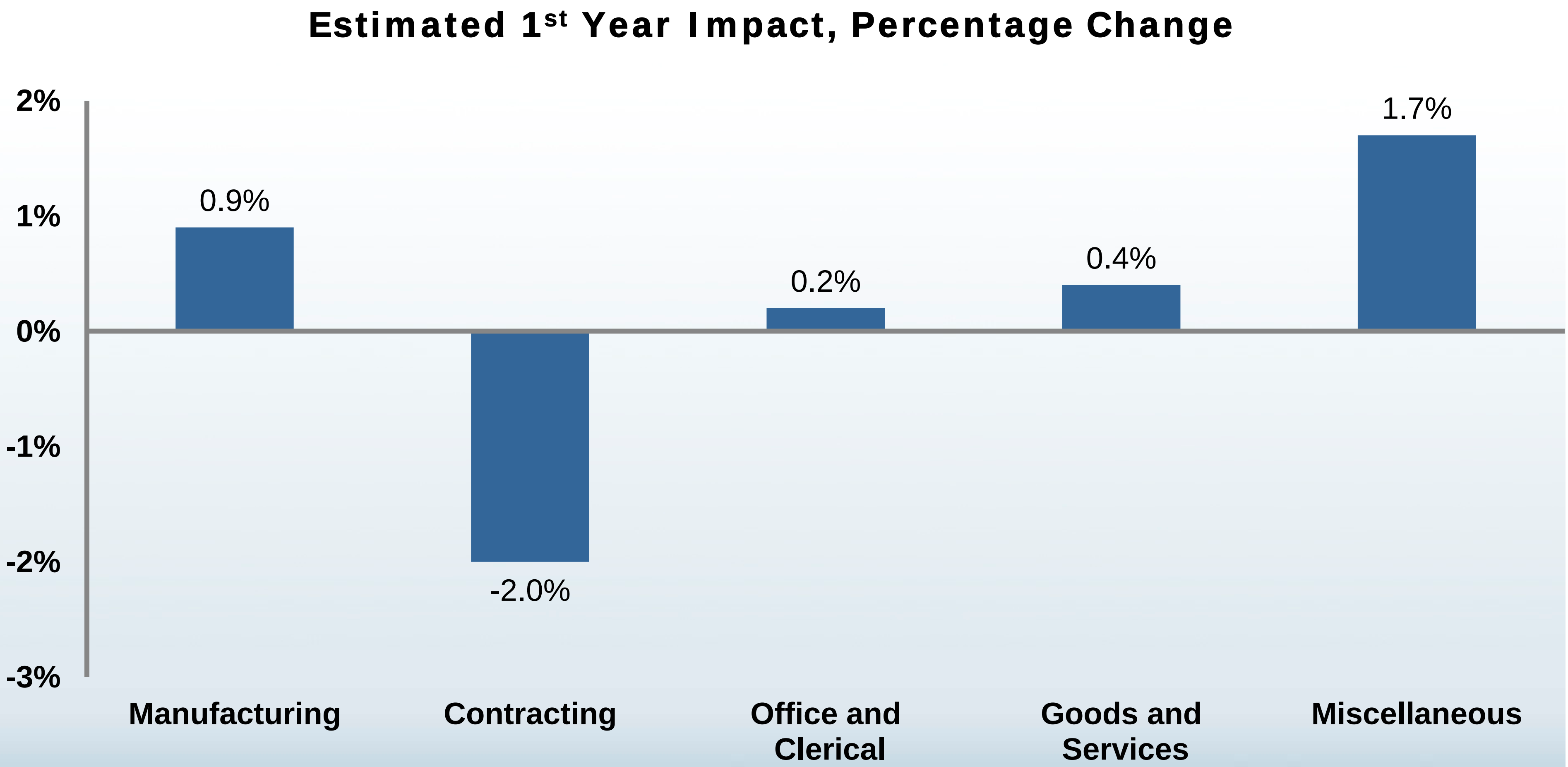
NCCI Developments in Class Ratemaking Methodology

- NCCI conducted a comprehensive review of all class ratemaking methodologies
- The review concluded in August 2008
- The goal of NCCI's new class ratemaking methodology is to improve accuracy, class equity, and loss cost stability from year to year
- The new methodology will be in NCCI loss cost filings effective October 1, 2009 and subsequent

Class Ratemaking Changes

- Lower loss limits
- Revised loss development approach using injured part of body
- Medical development differentiated between likely to develop and not likely to develop for reports 1 through 5
- Replaced use of serious and non-serious partial pure premiums with indemnity partial pure premiums
- Revised excess loss treatment to incorporate ELPPFs
- Revised industry group differentials using new methodology
- Adjusted class credibility to accommodate new partial pure premiums

Industry Group Loss Cost Changes New vs. Prior Method

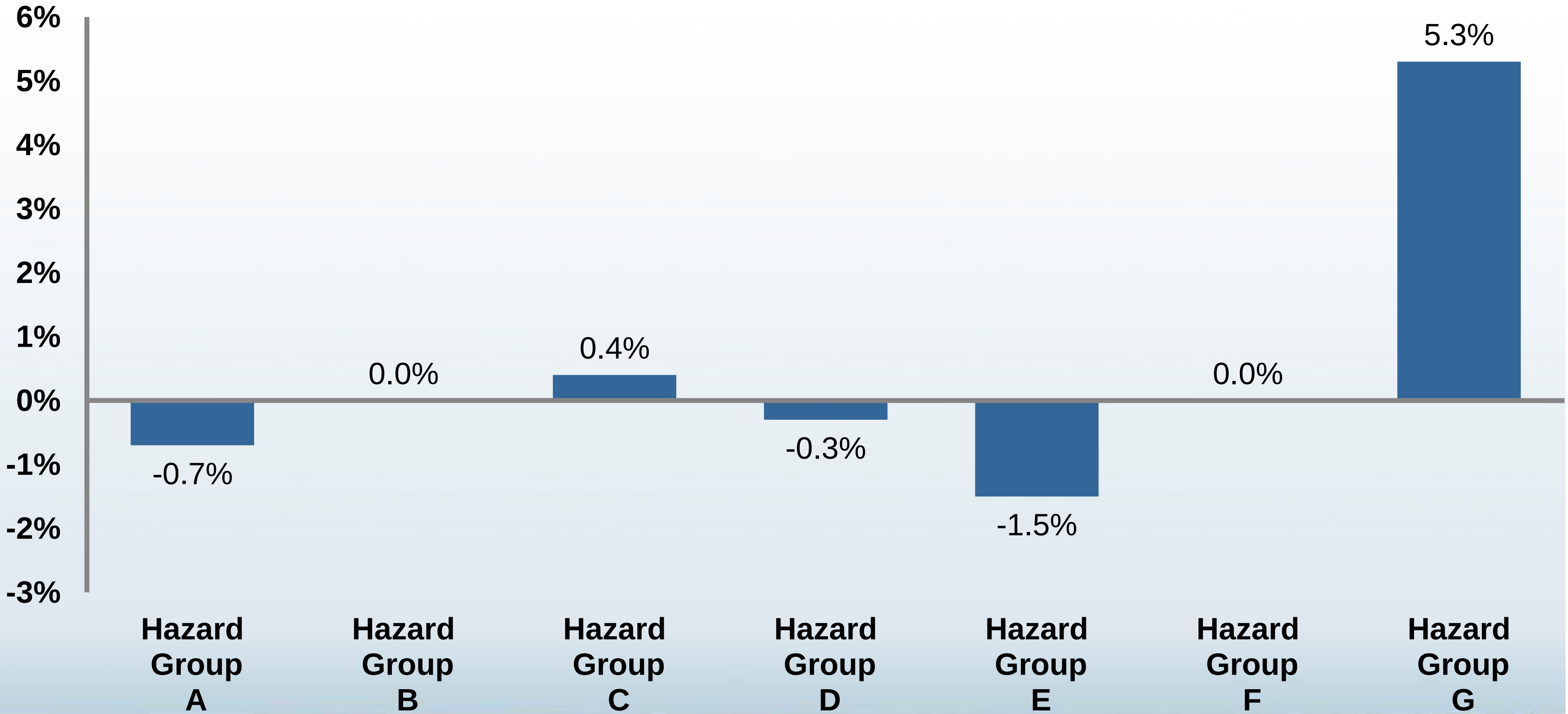


Percentage change impact in loss costs due to new class ratemaking methodology
Note: Results exclude F-Class and Maritime class codes

Source: NCCI analysis

Hazard Group Loss Cost Changes New vs. Prior Method

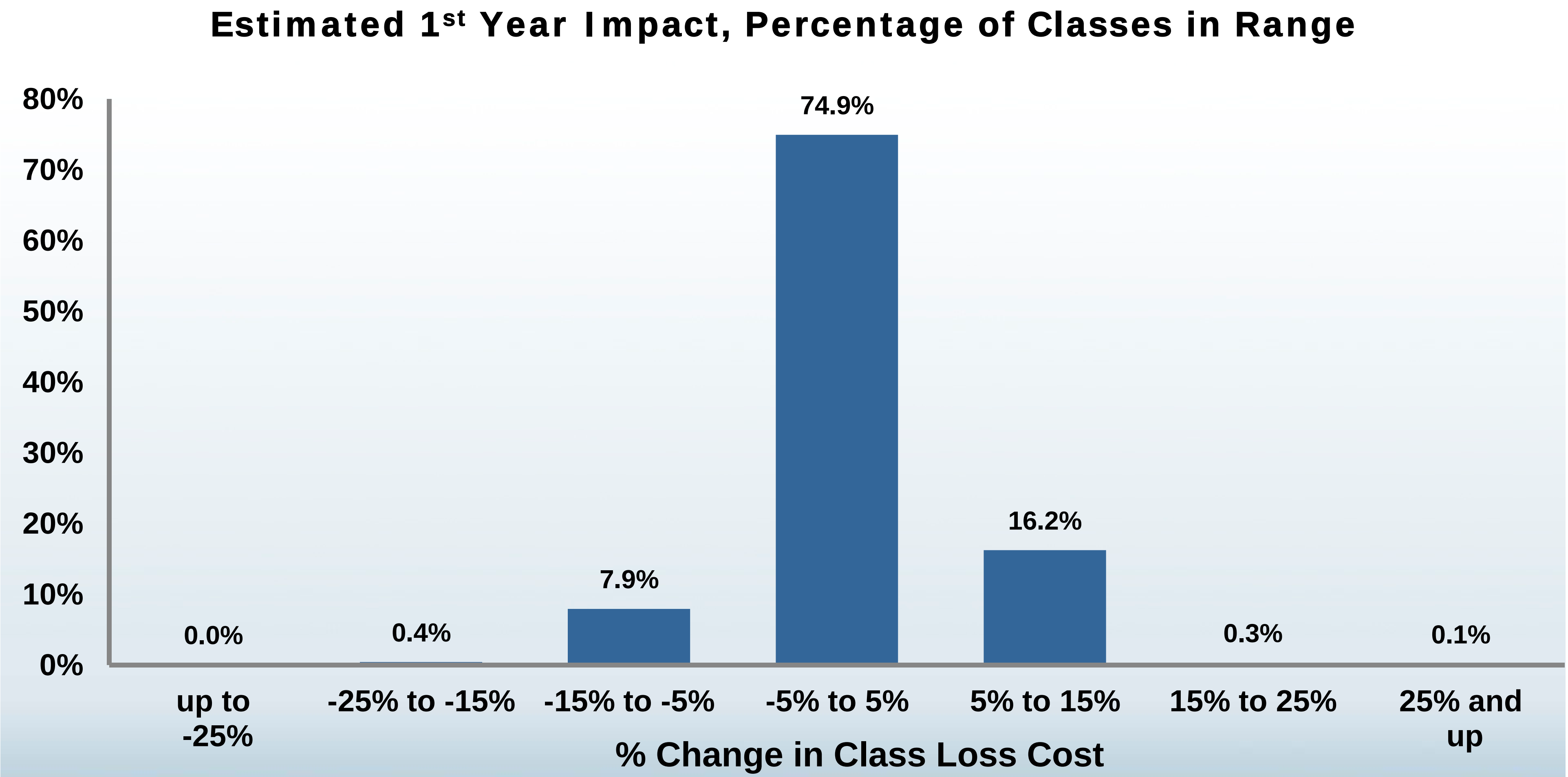
Estimated 1st Year Impact, Percentage Change



Percentage change impact in loss costs due to new class ratemaking methodology
Note: Results exclude F-Class and Maritime class codes

Source: NCCI analysis

Distribution of Class Loss Cost Changes New vs. Prior Method

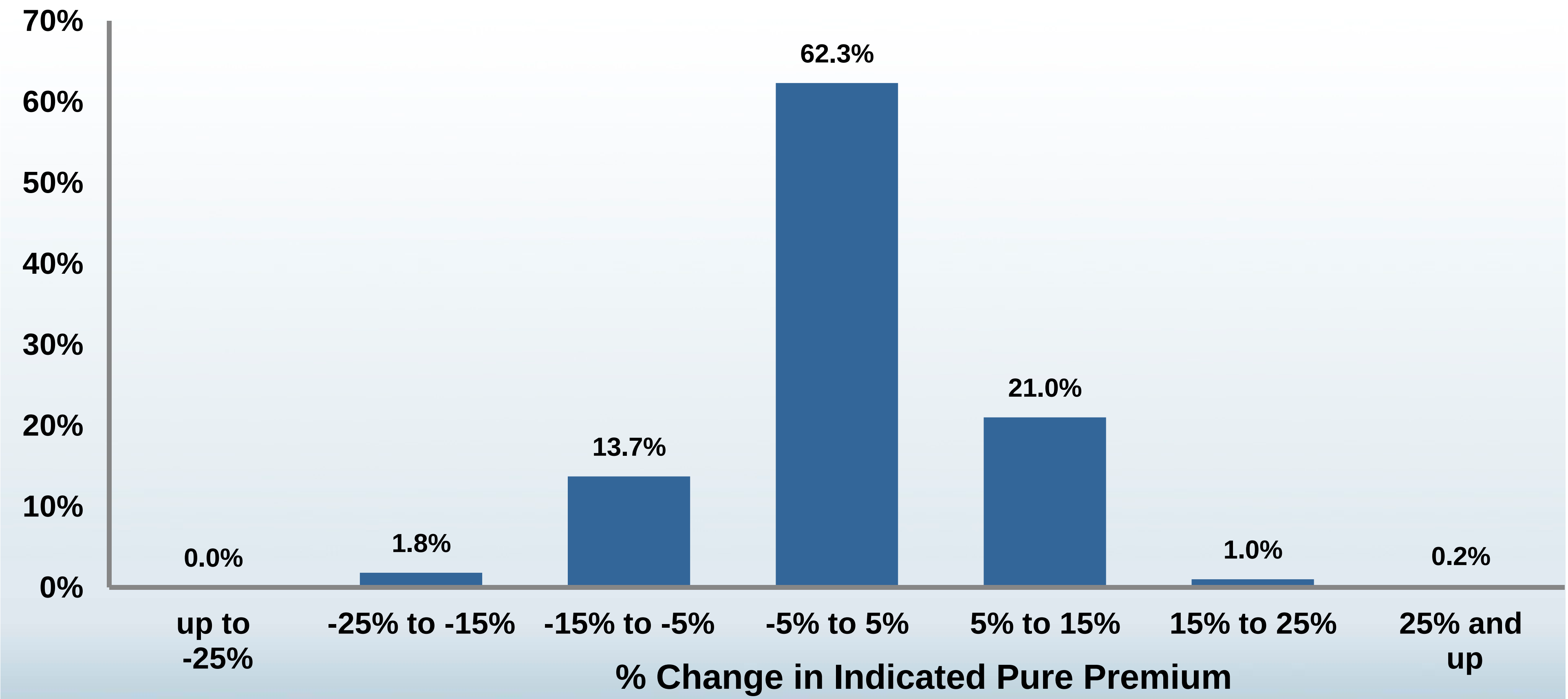


Percentage change impact in loss costs due to new class ratemaking methodology
Note: Results exclude F-Class and Maritime class codes

Source: NCCI analysis

Distribution of Changes: Large Class Codes, New vs. Prior Method

Estimated Long-Term Impact, Percentage of Classes in Range



Percentage change impact due to new class ratemaking methodology for classes with credibility greater than 50%
Note: Results exclude F-Class and Maritime class codes
Both Indemnity and Medical Credibility greater than 50%
Source: NCCI analysis

Anticipated Benefits of New Class Ratemaking Methodology

- Equity
  - New loss development using injured part of body
  - Medical development for likely and not likely
  - Expected excess by hazard group
  - Revised industry group calculations
- Stability
  - Lower loss limits
  - New loss development using injured part of body
  - Expected excess by hazard group
  - Revised industry group calculations
  - Revised credibility formulae

Experience Rating Plan Methodology Review

- Experience Rating Plan in midst of three-year review
- Excellent results in prior years' performance testing
- Number of years in the plan will remain the same
- Progress to date includes:
  - Review of performance by Hazard Group
    - Suggests that credibility should be modestly increased
  - Review of single vs. multiple split point options
    - We will maintain a single split point
  - Methodology for determining primary and excess credibility
    - We will use a Bayesian statistical approach

Concluding Remarks

In Summary

Positives

- Industry's Capital position
- WC Underwriting results
- Frequency continues to decline
- Residual market depopulation continues

Negatives

- Low investment returns continue to put pressure on underwriting results
- Potential reform erosion
- Medical costs still above inflation
- Uncertain political fallout from federal action
- Underwriting cycle

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**