Workers’ Comp – “Delivering” on the Promise

2019 NCCI’s Annual Issues Symposium – Gen Re Summary & Highlights

by Bill Lentz, Gen Re, New York

Solid financials, including further underwriting gains and continued profitability, have made 2018 another positive year for the Workers’ Compensation industry. In marking an eight-year trend of improving results, positive developments include a lower combined ratio, an overall increase in net written premium, a further decrease in claim frequency, and an increase in pretax operating gains.

The 2018 Calendar Year combined ratio of 83% for private carriers represents the fifth consecutive year that the Workers’ Comp line of business has posted an underwriting gain. It is also the lowest combined ratio on record for Workers’ Comp going back to the 1930s.

Loss development has been positive over the last five years with paid development having decreased by almost 4% since year-end 2013, while paid plus case development has dropped by about 6% during the same period. While indemnity severity continues to rise, it has been outpaced by wage inflation since 2008, reversing the trend of the prior 10 years.

The medical severity increase was nominal and has been closely tracking with medical care prices. Severity was previously growing 4.3% per year faster than medical care prices during 1998-2008.

Where are these good results coming from? NCCI believes the downward trend of opioid utilization is helping to temper medical severity while also favorably impacting indemnity severity by shortening the duration of claims. Additional factors may also include the industry’s increased use of technology leading to an improved ability to triage claims, along with...
a continued strong focus on safety and medical cost containment.

Of course, these favorable results have also led to rate decreases across the country. In 2018, every NCCI state, except for Hawaii, experienced a decrease in rate.

**NCCI CEO Overview**

The theme of this year’s Annual Issues Symposium (AIS) was “Powered by Insight.” Very appropriate, given the powerful insights and informative trends provided by NCCI and its line-up of expert presenters.

NCCI President and CEO Bill Donnell opened the 2019 AIS by stating that NCCI continues to work hard in finding new and innovative ways to provide values to its stakeholders. To this end, NCCI has made efforts to modernize its content and has increased its publication of research papers on relevant and timely topics. Mr. Donnell acknowledged the unprecedented run of positive results, and addressed the concerns NCCI receives in their surveys, which fall into three categories:

> Market Dynamics – The realities of today vs. what the future holds
Concerning a potential negative swing, Mr. Donnell stated that there will always be peaks and valleys due to the cyclical nature of the Workers’ Comp industry. However, because of shorter feedback loops and improved analytics, we have access to better information and market data in a faster manner than ever before. Mr. Donnell agrees with a 2018 quote from A.M. Best that states, “Technology has played a key role in diminishing the amplitude of [WC] market cycles.”

Another factor he discussed relates to the core carrier functions of underwriting, reserving, and claims. In his view, how these functions are carried out makes all the difference. Insurers with strong core functions create a sustainable business for themselves, along with a stable and solvent marketplace.

> Changing Workforce – How changes may impact loss frequency
A recent NCCI study shows that the number of workers aged 55 and over has doubled since 1997. While the gender mix remains stable, workforce growth in service sectors continues to outpace manufacturing and other sectors. While loss frequency has continued its 20-year decline, the decrease has occurred across all demographics, regardless of age, gender, sector, etc. As such, the drop in frequency is not related to the demographic changes that have occurred over the years.

> Regulatory Landscape – Impact on the stability of the WC system
Concerns on this front include familiar topics, such as marijuana, exclusive remedy and opt-out, along with new ones including InsurTech innovations and “Medicare for all.” The underlying concern is the stability of the Workers’ Comp system and whether any of these issues could undermine its health. According to Mr. Donnell, maintaining stability in the face of such challenges comes down to trust, transparency, and supporting an open dialogue to reduce uncertainty.

Mr. Donnell affirmed that the U.S. Workers’ Comp system is healthy and performing well. However, the Workers’ Comp industry must remain strong to face challenges, to fulfill its purpose, and meet its commitments. He reminded everyone that there is a human side to Workers’ Comp: Behind every work-related injury is a person. Also, Mr. Donnell had one descriptive word for the state of Workers’ Comp in 2019: “Delivery.” For over 100 years, Workers’ Comp has been delivering on its promise to help injured workers and their families when they need it most. Remaining on the path to stability and a healthy system will allow Workers’ Comp to continue to deliver.

**State of the Line**

The State of the Line report was again presented by Kathy Antonello, Chief Actuary for NCCI, and she provided a detailed review. The full report is available at NCCI.com; however, here are some selected highlights from her presentation (note the 2018 data is preliminary):

> WC Premium – While direct written premium was flat, net written premium for private carriers increased by 8.5%, from $39.8B in 2017 to $43.2B in 2018. Most of this growth came from the elimination of the tax advantage of ceding to offshore affiliates. With this increase, private carrier and state fund combined net written premium of $48.6B has finally exceeded its pre-recession peak of $47.8B from 2005.

> WC Combined Ratio – The calendar-year combined ratio for private carriers further improved to 83% (a 6-point difference from 89% in 2017). The improvement came from the loss component as the other components remained flat. The 2018 accident-year combined ratio for private carriers is 97%, up one point from 96% in 2017. NCCI expects accident years 2017 and 2018 to develop much more favorably over time.

> Investment Results – WC investment gain on insurance transactions slipped to 9% for 2018 from 12.6% in 2017. While this result is good when considering the current interest rate environment, it remains below the long-term average of 12.9%.

> Pre-Tax Operating Gain – The pre-tax operating gain of 26% for 2018 is almost four times the 20-year average and is largely due to the continued improvement in the combined ratio in recent years.

> Reserve Adequacy – NCCI believes reserve redundancies have been building since 2012, resulting in the estimation that, in 2018, reserves for private carriers are redundant by $5B, and so, reserve deficiencies have evaporated.

> Claim Frequency – WC lost-time claim frequency is estimated at a -1% change for 2018. NCCI believes economic factors could have contributed to this more moderate decrease in frequency, as a strong economy with new job growth could put upward pressure on claim frequency.

> Indemnity Severity – The 2018 average indemnity claim severity is $24,600, which is a moderate 3% increase over 2017.
Loss Development
From First to Eighth Report – NCCI States

- Decreased by almost 4%
- Dropped by about 6%

Based on NCCI’s Financial Call data for all states where NCCI provides ratemaking services, excluding NV, TX and WV.

WC Lost-Time Claim Frequency
Change in Claims per $1M Pure Premium, Private Carriers and State Funds – NCCI States

- 2010 and 2011 adjusted primarily for significant changes in audit activity
- Source: NCCI’s Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2017.
- Values displayed reflect the methodology underlying the most recent rate/loss cost filing
- Includes all states where NCCI provides ratemaking services; NV is excluded through 2001, TX is excluded through 2006, and WV is excluded through 2011.

Relative Growth Rates – Indemnity Severity vs. Wage Inflation
Private Carriers and State Funds – NCCI States

- Indemnity claim severity grew 2.3% per year faster than wages
- Wage inflation outpaced changes in indemnity claim severity by 1.2% per year, on average

Relative Growth Rates – Medical Severity vs. Price Inflation
Private Carriers and State Funds – NCCI States

- Medical lost-time claim severity grew 4.3% per year faster than medical care prices
- Changes in medical lost-time claim severity and medical care prices tracked one another

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The difference is… the quality of the promise

Rate decreases aside, it’s been another great year for Workers’ Comp! As Bill Donnell put it, we have been experiencing “an unprecedented run of positive results.” We would all like to see continued stability and success – however, as Mr. Donnell also properly noted, Workers’ Comp is a cyclical industry.

While positive loss trends continue at this time, the future is filled with uncertainty, and we can be sure there will be challenges. What will medical inflation be? What will be the next opioid-like issue? What may cause frequency to reverse course? These are some of the concerns that we hear.

Although no one can predict the future, Gen Re agrees with Mr. Donnell in the importance of strong core functions: underwriting, reserving, and claim handling. We would add loss control to this list as well. Focusing on these disciplines would more likely lead a carrier through challenging times.

The strength of your partners also matters. Like the Workers’ Comp industry, Gen Re also has been delivering on its reinsurance promise for almost 100 years. Workers’ Comp is a long-term line of business and requires long-term thinking and planning. Challenges can present both threats and opportunities. We would like to see further favorable results, and we look forward to working with our clients towards their continued successes.

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**NCCI’s State of the Line (cont’d)**

*Medical Severity* – The average medical cost per lost-time claim increased by a nominal 1% to $28,900 in 2018. While medical severity grew 4.3% per year faster than medical care prices from 1998 to 2008, the two have closely tracked one another over the subsequent 10 years through 2018, with both increasing at a very low pace.

*WC Residual Market* – The 2018 residual market pool premium of $1B remains unchanged as does the residual market share. This stability is another indication of a healthy system. The 2018 preliminary combined ratio for the pool is 107% as compared to 106% for 2017; however, this is expected to be revised lower as the policy year matures.

*Utilization of Opioids* – NCCI’s research has determined that in 2013, 55% of injured workers who were provided at least one prescription were also prescribed an opioid. By the end of 2017, that number had dropped to 40%.

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**The Big Picture**

**Summary of NCCI Observations**

**Positives:**

> Combined ratio improvement – lowest level since 1930s
> Further decrease in opioid utilization
> Moderate indemnity and medical severity
> Reserve deficiencies evaporated
> Employment, wages and payroll increased

**Challenges:**

> Lower investment gains
> Rate decreases
> Low unemployment could present risk of uptick in frequency

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**About NCCI**

Founded in 1923, the mission of the National Council on Compensation Insurance (NCCI) is to foster a healthy workers compensation system. In support of this mission, NCCI gathers data, analyzes industry trends, and provides objective insurance rate and loss cost recommendations. These activities – combined with a comprehensive set of tools and services – make NCCI the source you trust for workers compensation information.

We express our appreciation to NCCI for giving us permission to reproduce materials from its 2019 Annual Issues Symposium.

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