



National
Council on
Compensation
Insurance, Inc.

Oklahoma

state advisory forums

2010

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Oklahoma Workers Compensation State Advisory Forum

- Welcoming Comments
- Guest Speaker—Commissioner Kim Holland
- Forces of Change: Legislative, Regulatory, and Business
- Oklahoma/National Comparative Overview
- Claim Frequency
- Indemnity and Medical Severity
- Prescription Drug Study Update
- What's NCCI Doing?



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Forces of Change

Major Forces Driving Change in Workers Compensation

Legislative

Regulatory

Business



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Legislative and Regulatory



2010 Oklahoma Elections

Upcoming Elections:

- Governor
- Attorney General
- Insurance Commissioner
- Labor Commissioner
- US Congress
 - One Senate seat up for election
 - 5/5 House seats up for election
- State Legislature
 - 24/48 in the Senate
 - 101/101 in the House

2010 Oklahoma Legislative Session: Enacted Bills

- **HB 2650:**

- Terminates Permanent Total Disability indemnity benefits at latest of full Social Security retirement eligibility or 15 years
- Sets the Permanent Partial Disability indemnity maximum weekly compensation at \$323 for 5 years and sets the minimum weekly compensation to \$150
- Amends the definitions of “major cause” and “objective medical evidence”
- Includes the definitions of “continuing medical maintenance” and “surgery”
- Other restrictions of Permanent Partial Disability awards related to Soft Tissue Injury compensation

2010 Oklahoma Legislative Session: Enacted Bills (cont'd)

- **HB 2650 (cont'd):**

- Clarifies definition of course and scope of employment related to a compensable WC injury
- Creates exception to WC exclusive remedy for intentional tort
- Clarifies procedures for light duty return to work
- Permanent disfigurement award will not be made if permanent partial disability was also awarded for the same body part
- WC Court is bound by Physician Advisory Committee findings and recommendations with respect to most medical care

2010 Oklahoma Legislative Session: Enacted Bills (cont'd)

- **HB 1611:**

- WC claims adjuster licensing requirements including continuing education credit requirements

- **HB 2652:**

- Decreases the number of WC Court Judges from ten to eight; five judges in Oklahoma City and three in Tulsa. Creates one eight-year term limit and requires appointment by the Governor and confirmation by the Senate. Requires five years of workers compensation experience prior to appointment.

2010 Oklahoma Legislative Session: Enacted Bills (cont'd)

- **HB 2911:**

- Prohibits creation of a new business entity for the purpose of avoiding payment of a WC judgment

- **SB 1973:**

- Sets grounds by which the Supreme Court can set aside an order
- Requires claimant to attend mediation unless otherwise agreed
- Provides for various fees

Legislative Environment

- The economy continues to have an effect on the amount and scope of legislative proposals this session—a smaller number of WC initiatives
- Misclassification of workers/independent contractors continues to be a key issue in many states this legislative session
- Regulatory turnover continues with many veteran DOI and DOL commissioners and staff retiring or seeking other state offices
- Fall elections are a period of great uncertainty—37 governor races

Financial Services Modernization/Reform

Dodd-Frank Wall Street Reform and Consumer Protection Act

- Signed into law on 7/21/10 to promote financial stability of the U.S. and overhaul regulations in financial sector
- Creates new Federal Insurance Office (FIO)
 - Monitor insurance industry to gain expertise
 - Collect data and information (no subpoena authority) from insurers, their affiliates, and entities such as NCCI
 - No supervisory or regulatory authority over “the business of insurance”
- Establishes new Consumer Financial Protection Agency
 - Cannot define as financial activity engaging in the “business of insurance” and cannot establish rates for premiums for an insurance product or service

Health Reform

- **Direct impacts on workers compensation:**
 - Changes to Black Lung Act
 - Automatic survivor benefit paid upon death of miner with already-approved federal Black Lung claim
 - Reinstates rebuttable presumption that death or total disablement of miner is result of black lung disease if miner had 15+ yrs. underground coal mine employment, was disabled by respiratory condition, and x-ray was negative for “complicated” black lung disease
 - Changes to Medicare Reimbursement Levels
- **Indirect impacts on workers compensation costs include:**
 - Increased healthcare coverage for individuals
 - Taxes on medical devices, drug makers, health insurers
 - Possible reduction in fraud and abuse

Medicare Workers Compensation-Related Reporting

- Responsible Reporting Entities (RREs) are required to report payments, settlements, etc., received by Medicare or Medicare-eligible claimants to Centers for Medicare and Medicaid Services (CMS)
- Mandatory reporting 1/11 to 3/11 for information from 4th quarter 2010
- RREs include insurance companies
- Possible Penalties for Non-compliance:
 - \$1,000 per day per claimant
 - targeted to begin 2010 or 2011

Medicare Secondary Payer Act (MSP)

- NCCI data reporting not impacted by this issue
- Legislation has been proposed to remedy problems related to most carrier issues including “Medicare Set-Aside Agreements (MSAs)” but is unlikely to see any action in near future
- Government Accountability Office (GAO) will conduct a detailed study of MSP issues related to CMS reporting and settlement procedures within the next 3-4 months; study could serve as basis for new legislation and/or rules next year



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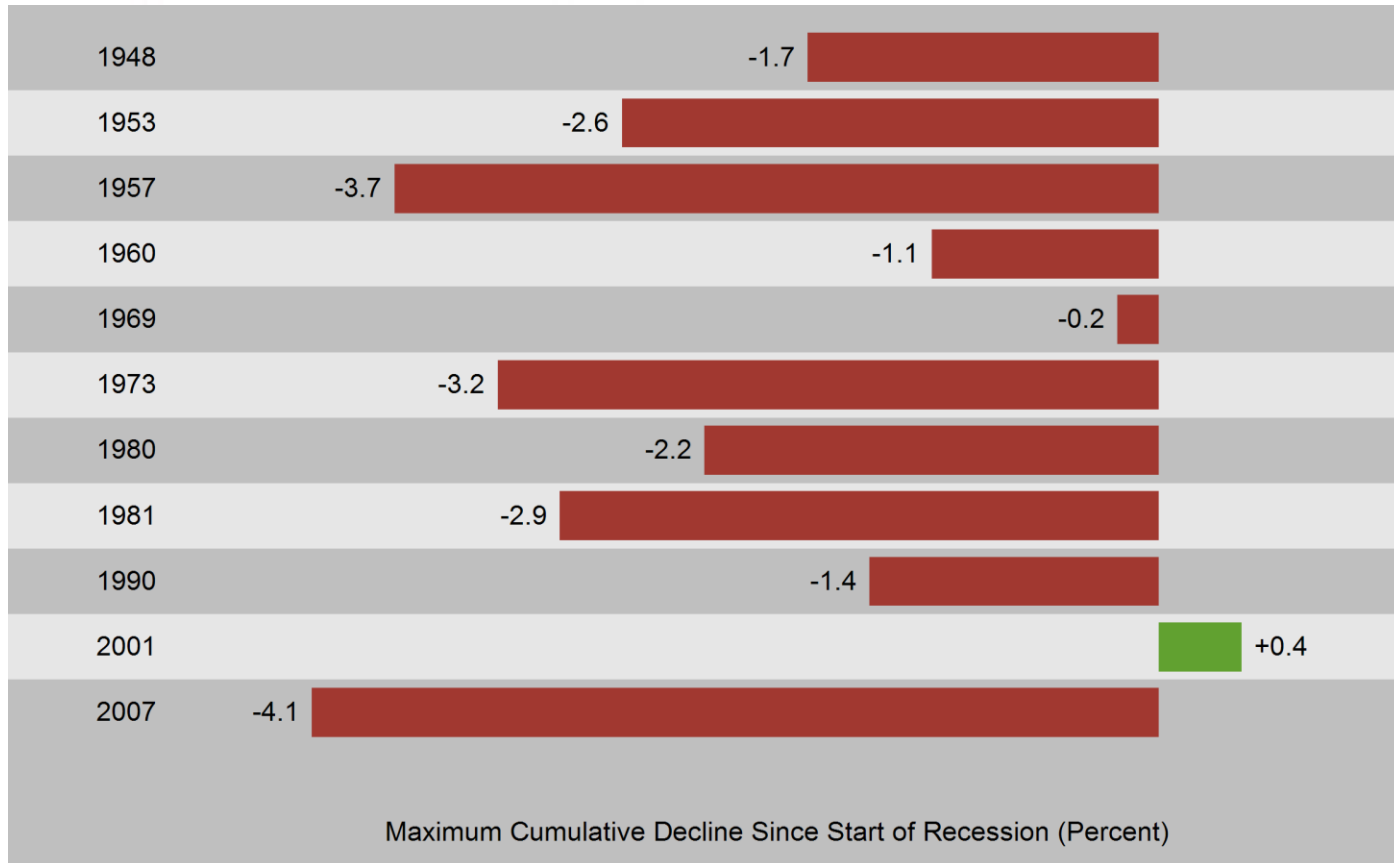
The State of the Economy

The flames are all long gone, but the pain lingers on

Pink Floyd, The Wall

Severity of Recession: Output

The 2007 Recession Is One of the Most Severe Post-War Contractions



Severity is measured as the maximum cumulative percentage decline from the onset of the recession (peak of economic activity, as defined by the NBER); output is measured as Real GDP, billions of chained 2000 dollars, seasonally adjusted.

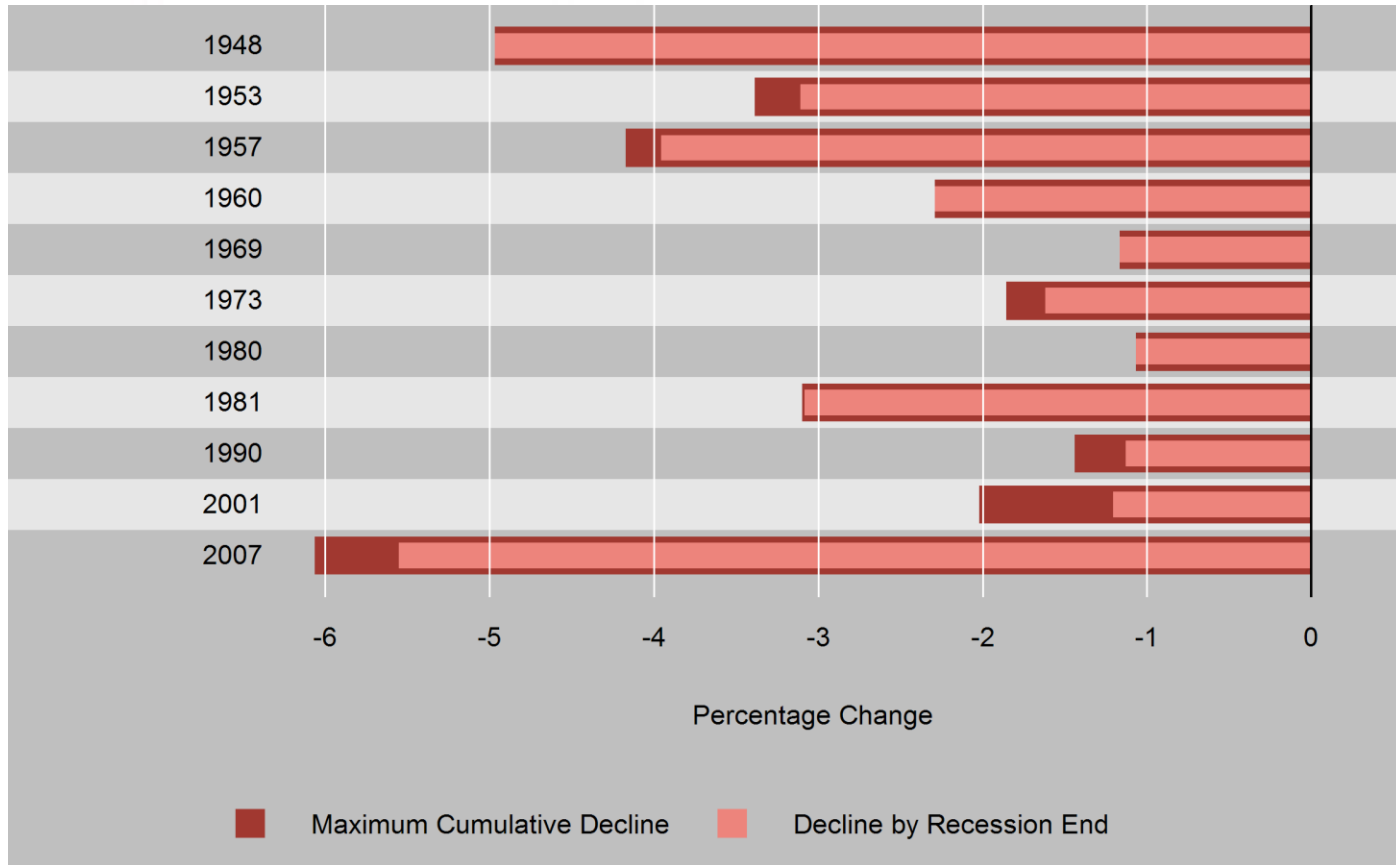
Recessions are identified by the calendar year in which they started.

Sources: Moody's Economy.com, <http://www.economy.com>; NBER, <http://www.nber.org/cycles.html>; BEA, <http://www.bea.gov>.

Frequency of observation: quarterly; latest available data point: Q2/2010

Severity of Recession: Employment

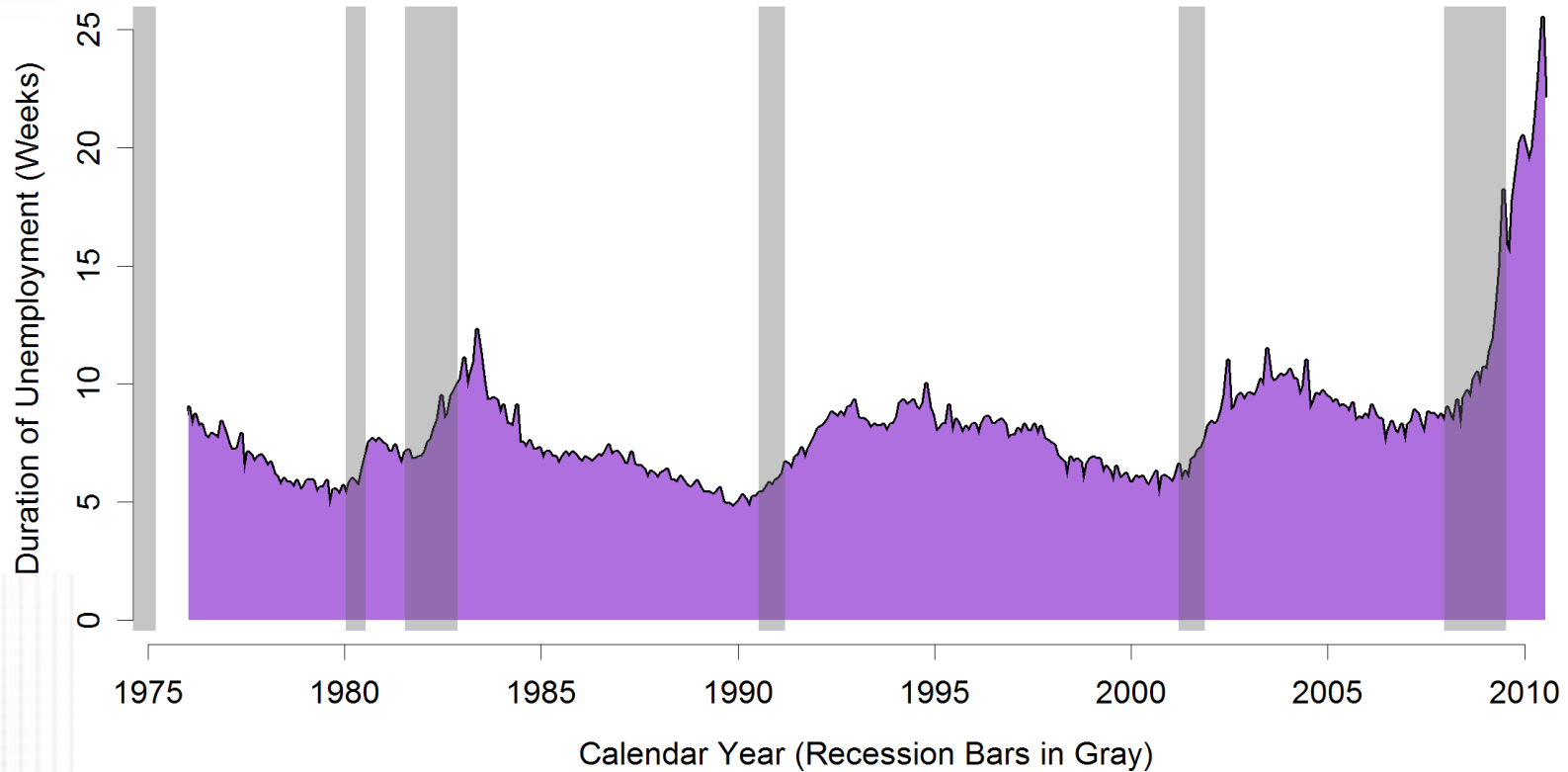
Employment Has Been Hit Particularly Hard—"Jobless" Recoveries Are Not Unusual



Severity is measured as the maximum cumulative percentage decline from the onset of the recession (peak of economic activity, as defined by the NBER); employment is measured as Total Nonfarm, Current Employment Statistics Survey, seasonally adjusted. Recessions are identified by the calendar year in which they started.
Sources: Moody's Economy.com, <http://www.economy.com>; NBER, <http://www.nber.org/cycles.html>; BLS, <http://www.bls.gov>.
Frequency of observation: monthly; latest available data point: July 2010

Median Unemployment Duration

Half of the Unemployed Have Been Out of Work for More Than Five Months



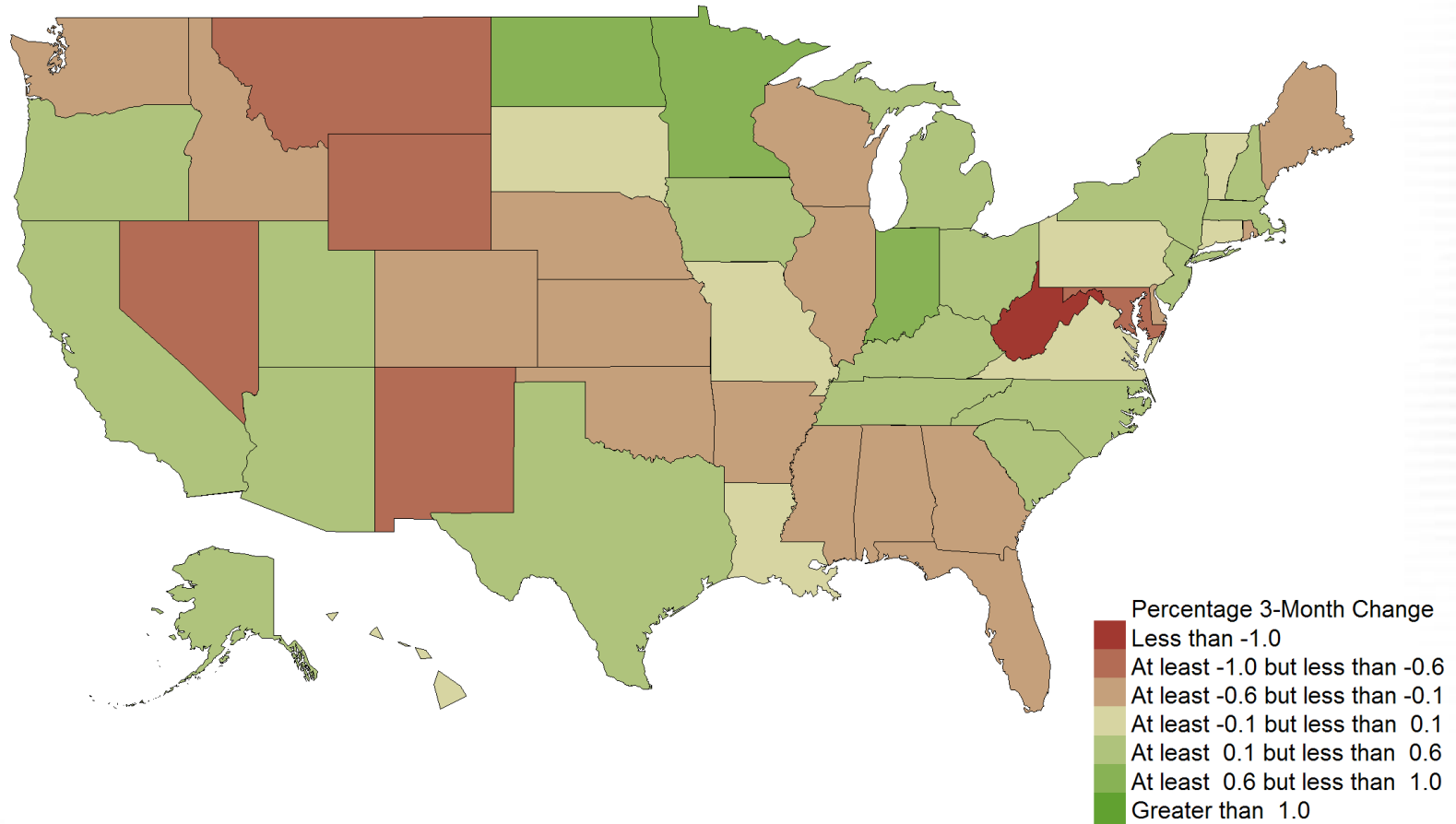
The median unemployment duration is based on seasonally adjusted data.
Frequency of observation: monthly; latest available data point: July 2010.
Source: Moody's Economy.com, <http://www.economy.com>; US Bureau of Labor Statistics (BLS), <http://www.bls.gov>

The Economy and Workers Compensation

Exposure

- Higher unemployment reduces exposure
- If employers reduce wage rates to avoid layoffs, basis of premium is reduced while exposure remains constant
- Workers Compensation premium very sensitive to high-rate sectors—construction and manufacturing

The Economy on the Timeline: January 2010

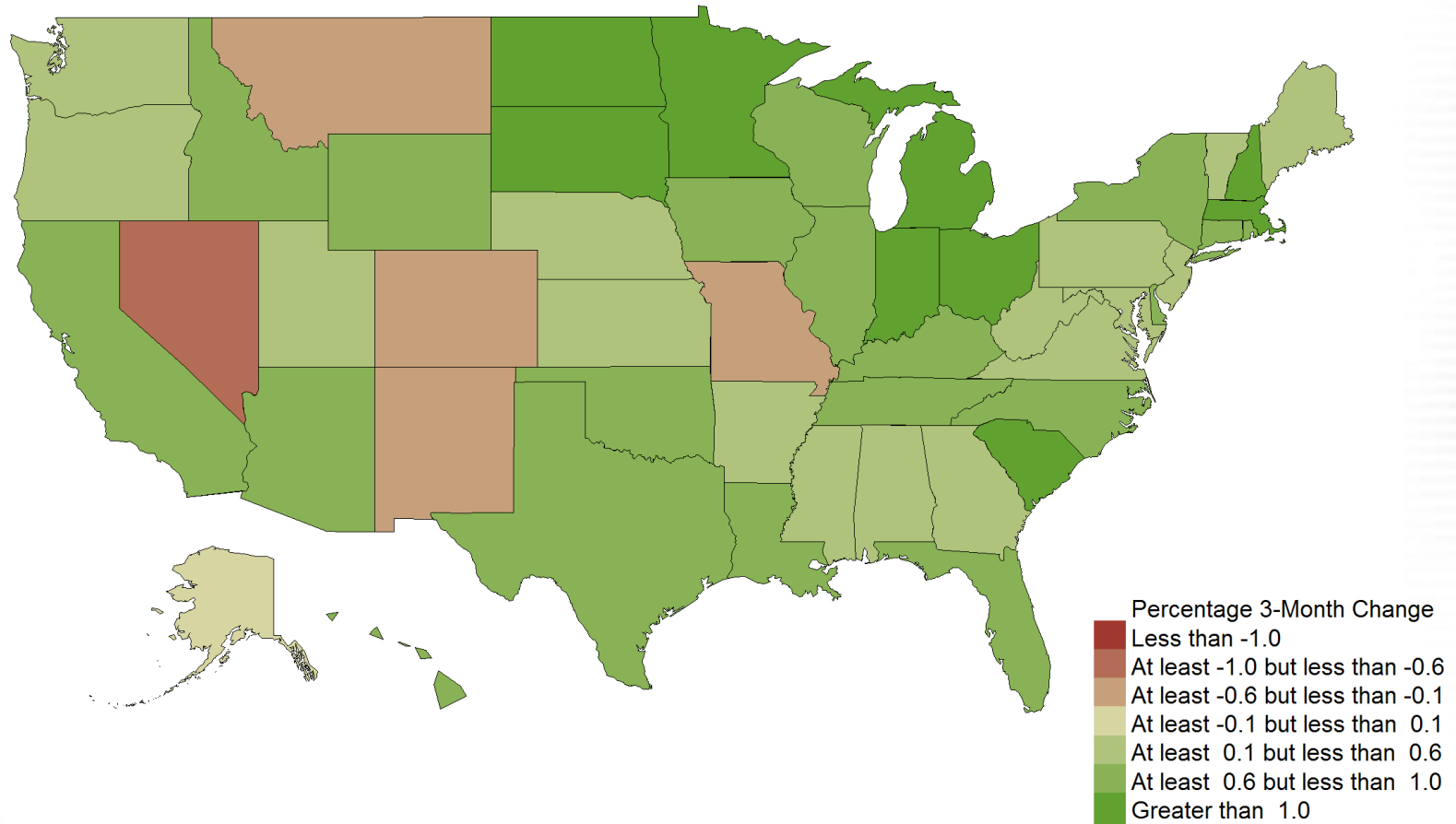


The map shows state coincidence indexes, which combine four state-level indicators to summarize current economic conditions in a single statistic. The four variables are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average).

Frequency of observation: monthly; latest observation: July 2010.

Source: FRB of Philadelphia, <http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincent>

The Economy on the Timeline: April 2010

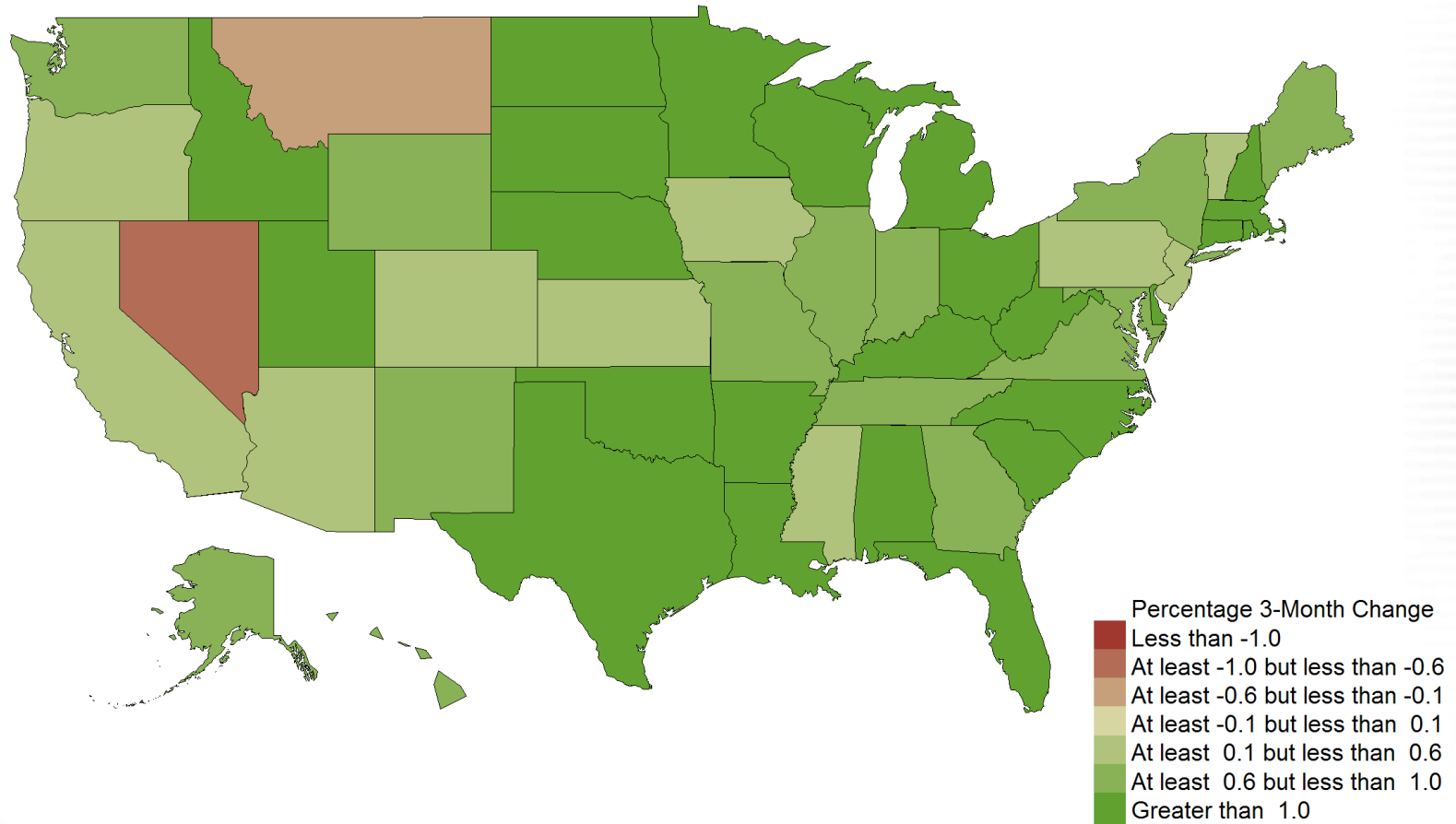


The map shows state coincidence indexes, which combine four state-level indicators to summarize current economic conditions in a single statistic. The four variables are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average).

Frequency of observation: monthly; latest observation: July 2010.

Source: FRB of Philadelphia, <http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincent>

The Economy on the Timeline: July 2010



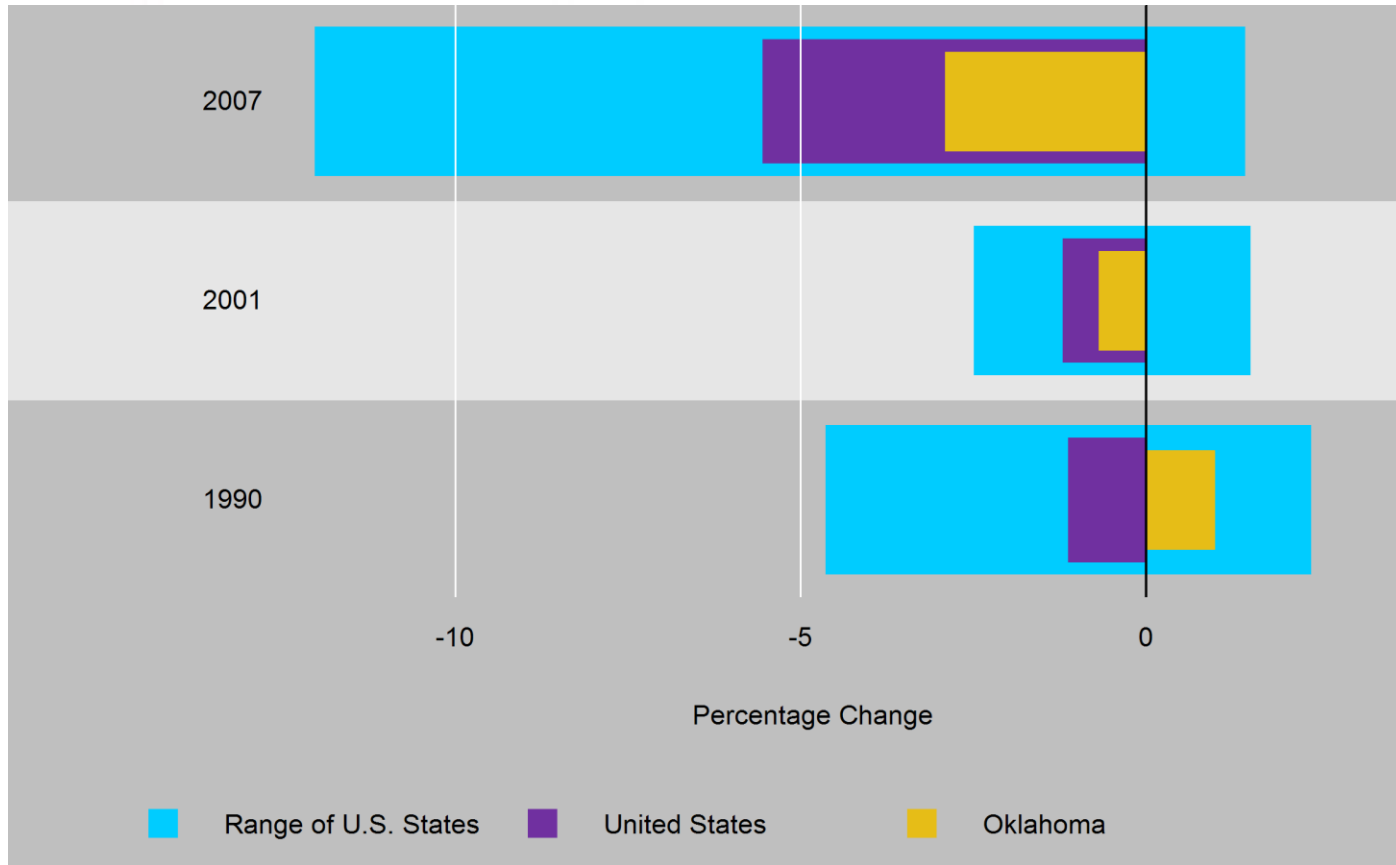
The map shows state coincidence indexes, which combine four state-level indicators to summarize current economic conditions in a single statistic. The four variables are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average).

Frequency of observation: monthly; latest observation: July 2010.

Source: FRB of Philadelphia, <http://www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident>

Oklahoma

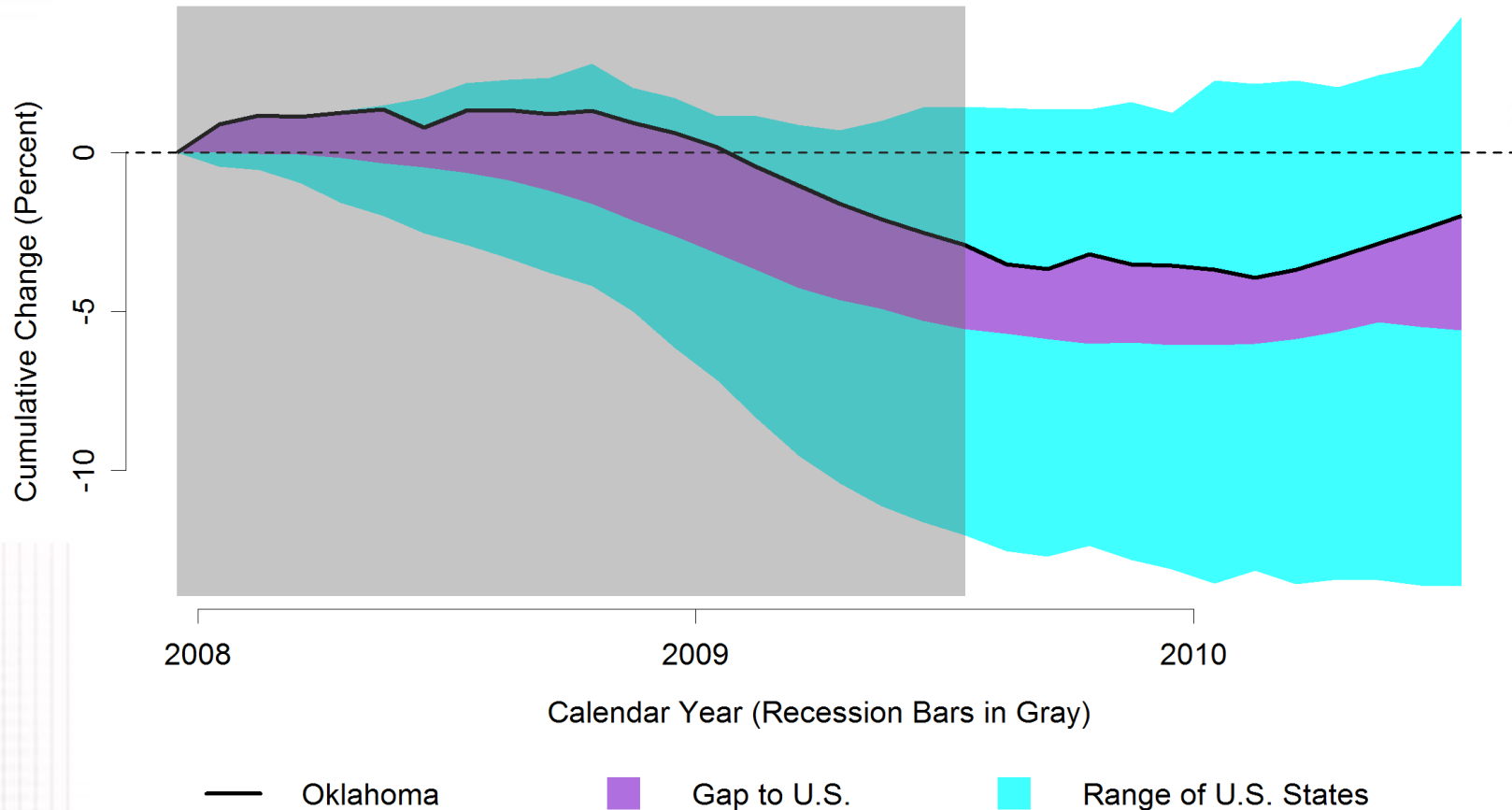
Job Losses in the Past Recessions Were Clearly Below the National Average



Percentage change from the onset of the recession (peak of economic activity, as defined by the NBER) to the onset of the recovery (trough of economic activity); Current Employment Statistics Survey, seasonally adjusted.
Frequency of observation: monthly; latest observed data point: June 2010.
Sources: Moody's Economy.com, <http://www.economy.com>; US Bureau of Labor Statistics (BLS), <http://www.bls.gov/ces>

Oklahoma

Nonfarm Employment Is Quickly Approaching Pre-Recession Levels



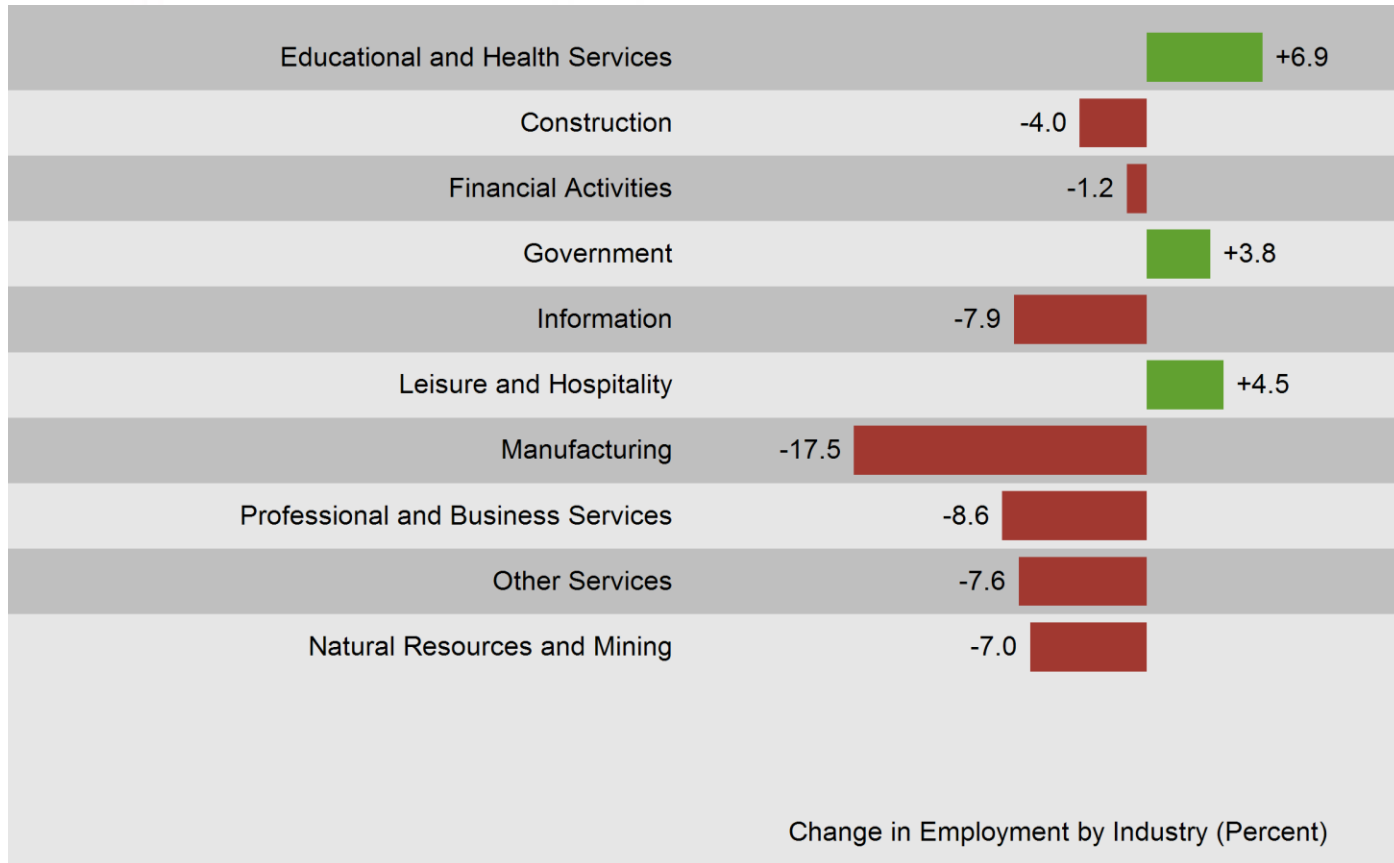
Nonfarm Employment, seasonally adjusted.

Frequency of observation: monthly; latest available data point: July 2010. Tick marks indicate beginning of year.

Source: Moody's Economy.com, <http://www.economy.com>; US Bureau of Labor Statistics (BLS), <http://www.bls.gov>

Oklahoma

In Most Industries, Employment Has Not Yet Recovered From the Recession



Percentage change since the onset of the recession (peak of economic activity, as defined by the NBER); Current Employment Statistics Survey, seasonally adjusted. Frequency of observation: monthly; latest observed data point: June 2010.
Sources: Moody's Economy.com, <http://www.economy.com>; US Bureau of Labor Statistics (BLS), <http://www.bls.gov/ces>

The Economy and Workers Compensation

Frequency

- Frequency rates fell six out of seven recessions
- Recessions typically put downward pressure on frequency
- During recovery, employment growth applies upward pressure on frequency

Frequency and the Business Cycle

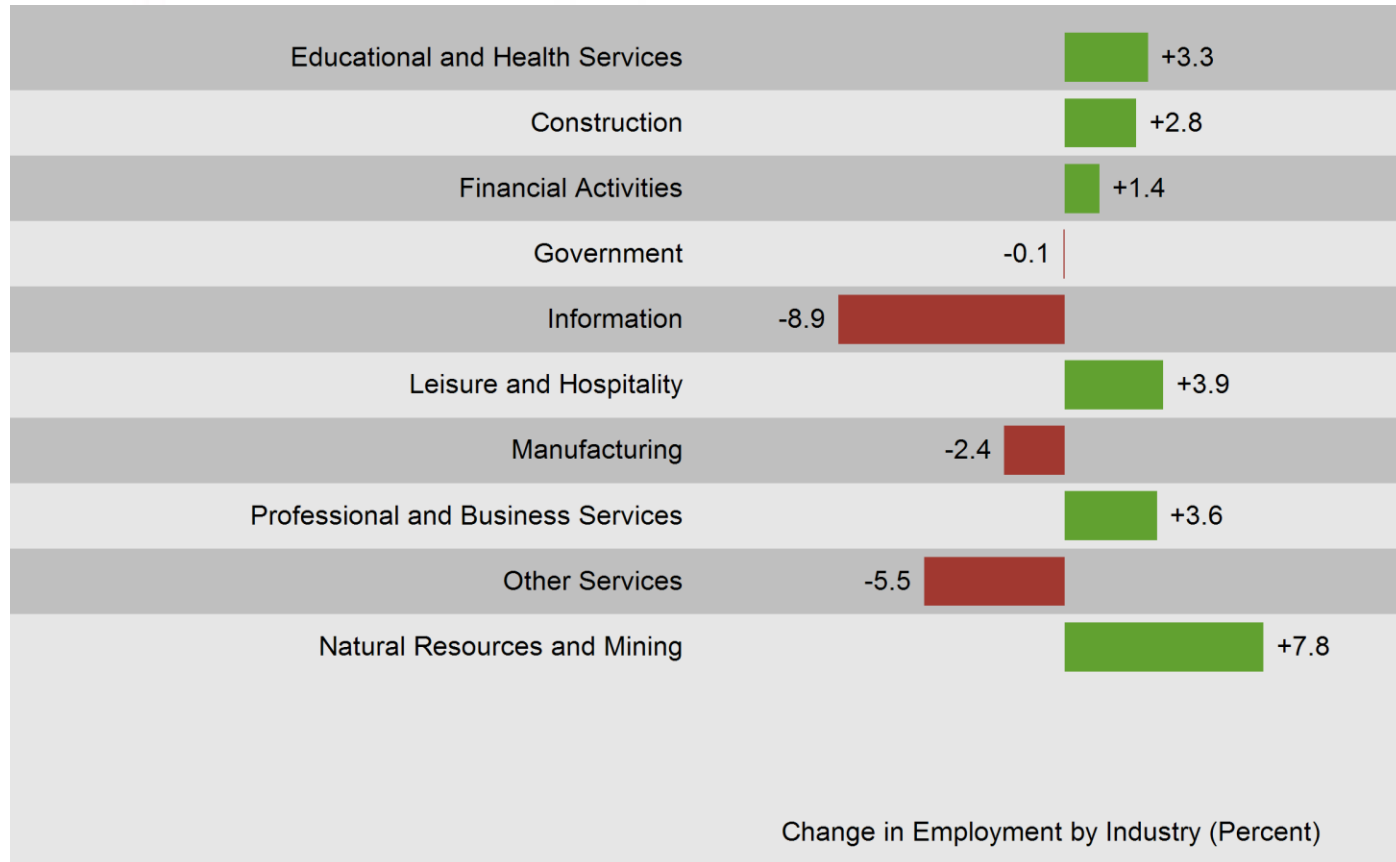
The Business Cycle Behavior of Frequency Is Driven by Job Creation

- During recessions, there are many establishments cutting jobs (**job destruction**) and only a few adding jobs (**job creation**)
- Job creation means adding employees, who are typically inexperienced in the new job; because employees with short tenure are overrepresented among the injured, faster job creation (as is observed during economic recoveries) causes frequency to drop less than it would drop otherwise, or even causes frequency to rise temporarily
- During recessions, the impact of slowing job creation more than offsets the opportunistic filing of workers compensation claims following layoffs

For an empirical study on the link between frequency and the business cycle see Schmid, Frank A. (2009) *Job Flows and Workplace Injuries*, <http://www.ncci.com/Documents/WorkplaceInjuries-0709.pdf>

Oklahoma

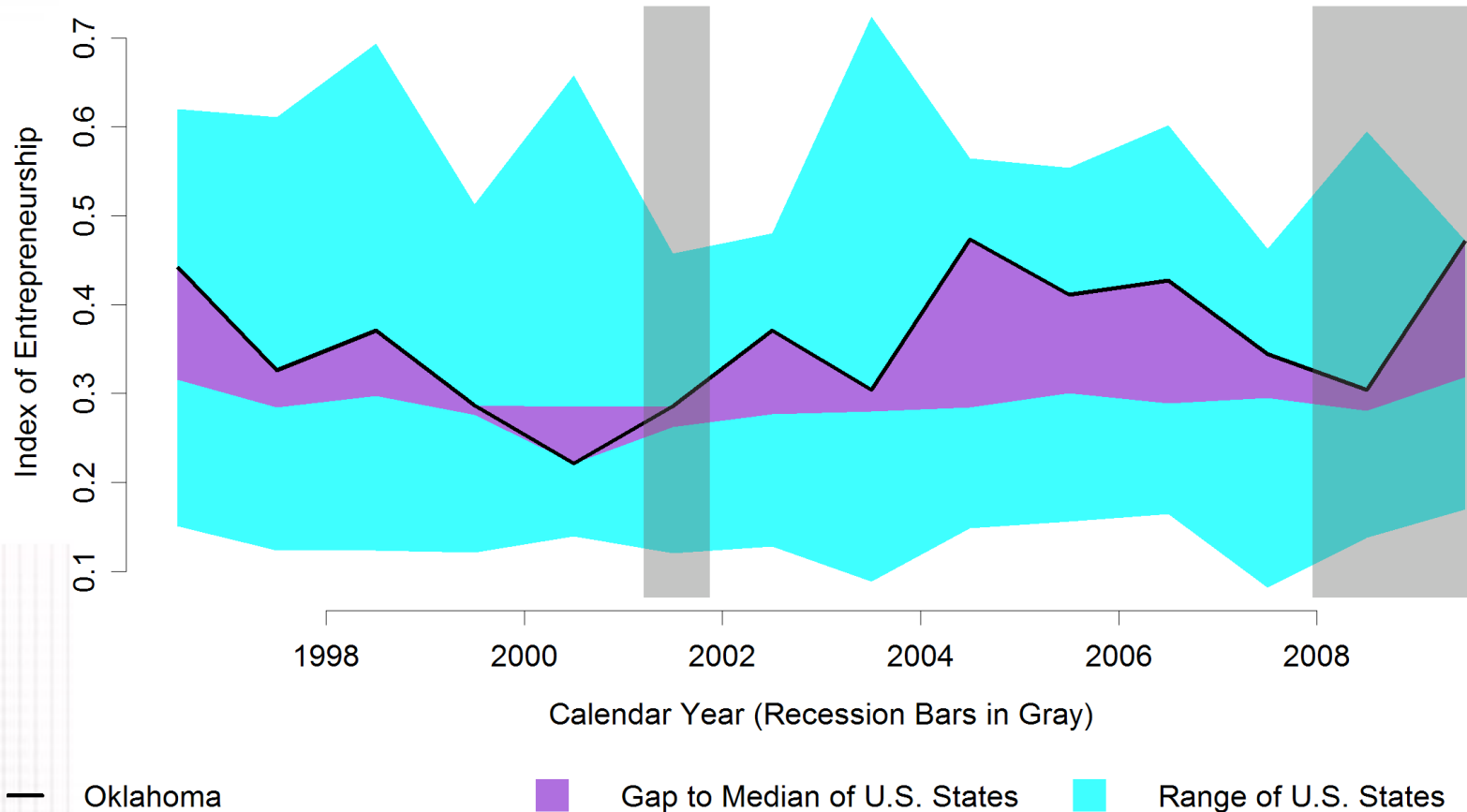
There Has Been Strong Employment Growth Since the Onset of the Recovery



Percentage change since the onset of the recovery (trough of economic activity, as defined by the NBER); Current Employment Statistics Survey, seasonally adjusted. Frequency of observation: monthly; latest observed data point: June 2010.
Sources: Moody's Economy.com, <http://www.economy.com>; US Bureau of Labor Statistics (BLS), <http://www.bls.gov/ces>

Oklahoma

In Recent Years, Entrepreneurship Has Been Significantly Above Average



Displayed is the Kauffman Index of Entrepreneurial Activity, which is defined as the percentage of individuals (ages 20–64) who do not own a business in the first survey month but then start a business in the following month with 15 or more hours worked. Frequency of observation: annual; latest available data point: 2009. Source: Kauffman Foundation, <http://www.kauffman.org>

The Economy and Workers Compensation

Caveats

- Every recession is unique
- Impact of the Economic Stimulus Plan on states

Conclusion—Uncertainty



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Oklahoma/National Comparative Overview

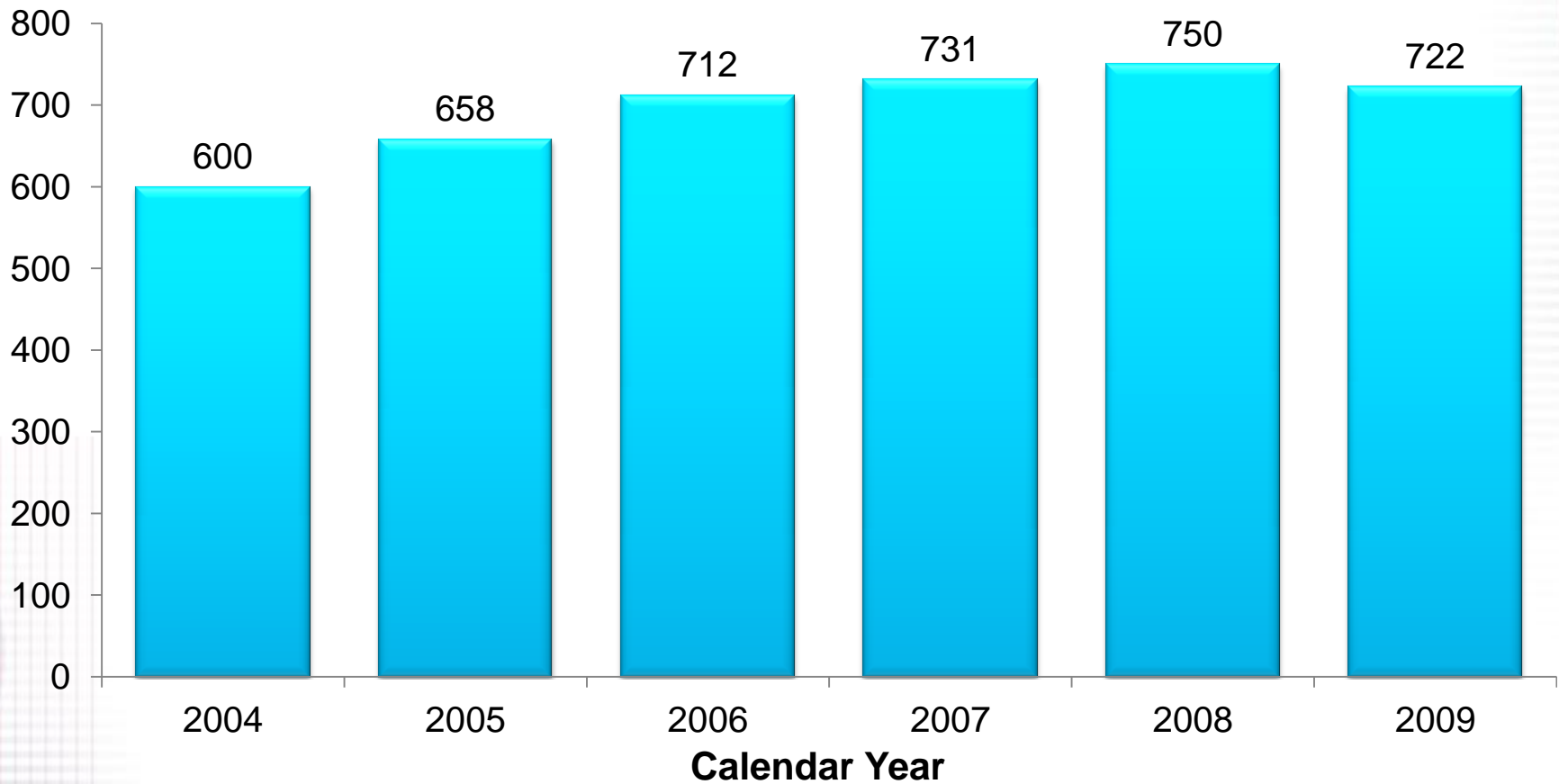
Oklahoma Workers Compensation System— An Overview

- Decline in premium volume in Oklahoma has lagged behind the countrywide total
- Accident year combined ratio stable from year to year, but high relative to other NCCI states
- Lost-time claim frequency rate has moderated in recent years
- Average permanent partial disability costs, but significantly higher than average frequency

Oklahoma's Workers Compensation Premium Volume

Direct Written Premium

\$ Millions

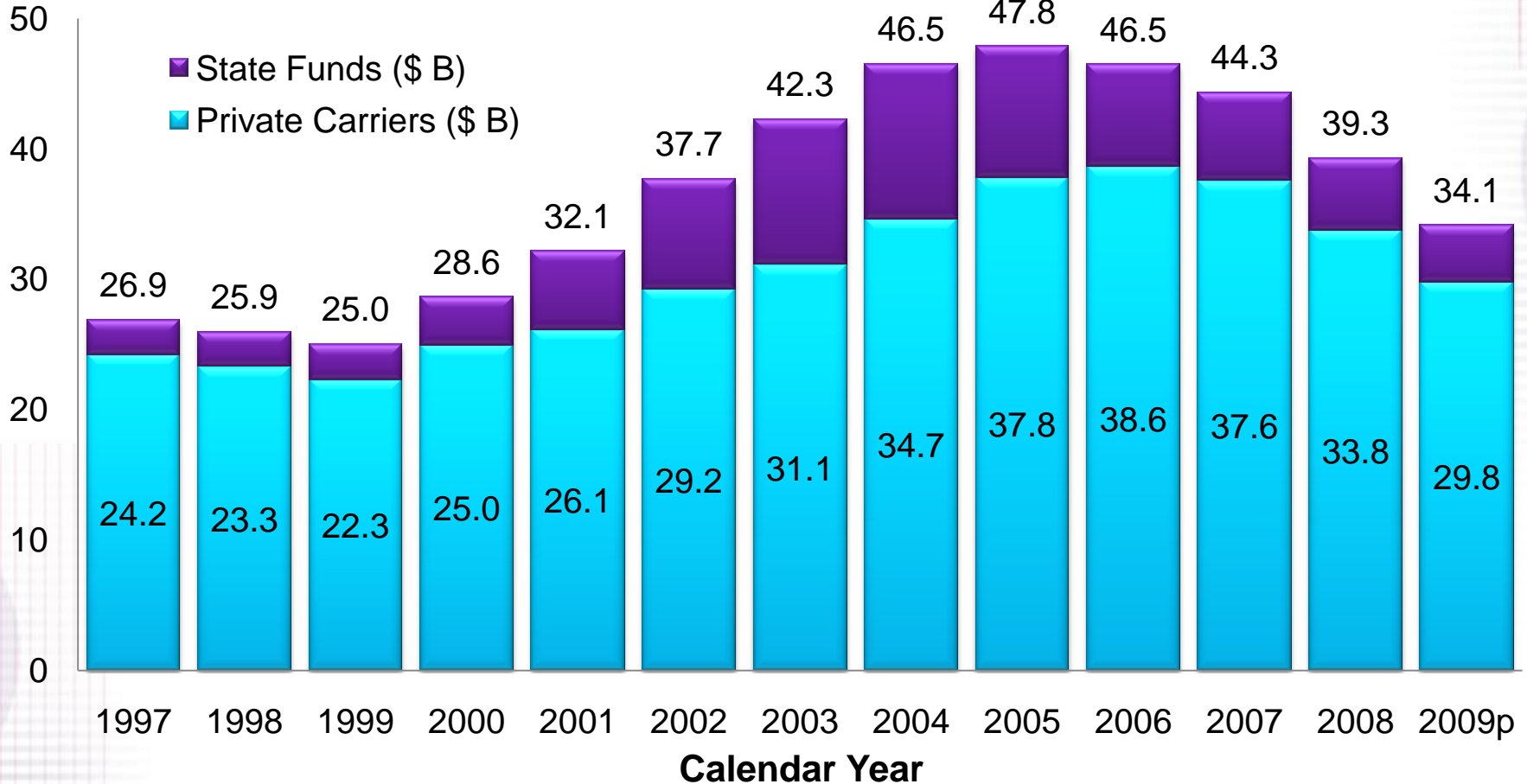


Source: NAIC Annual Statement data

Workers Compensation Premium Continues Its Sharp Decline

Net Written Premium

\$ Billions



p Preliminary

Source: 1997-2008 Private Carriers, *Best's Aggregates & Averages*; 2009p, NCCI

1997-2009p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

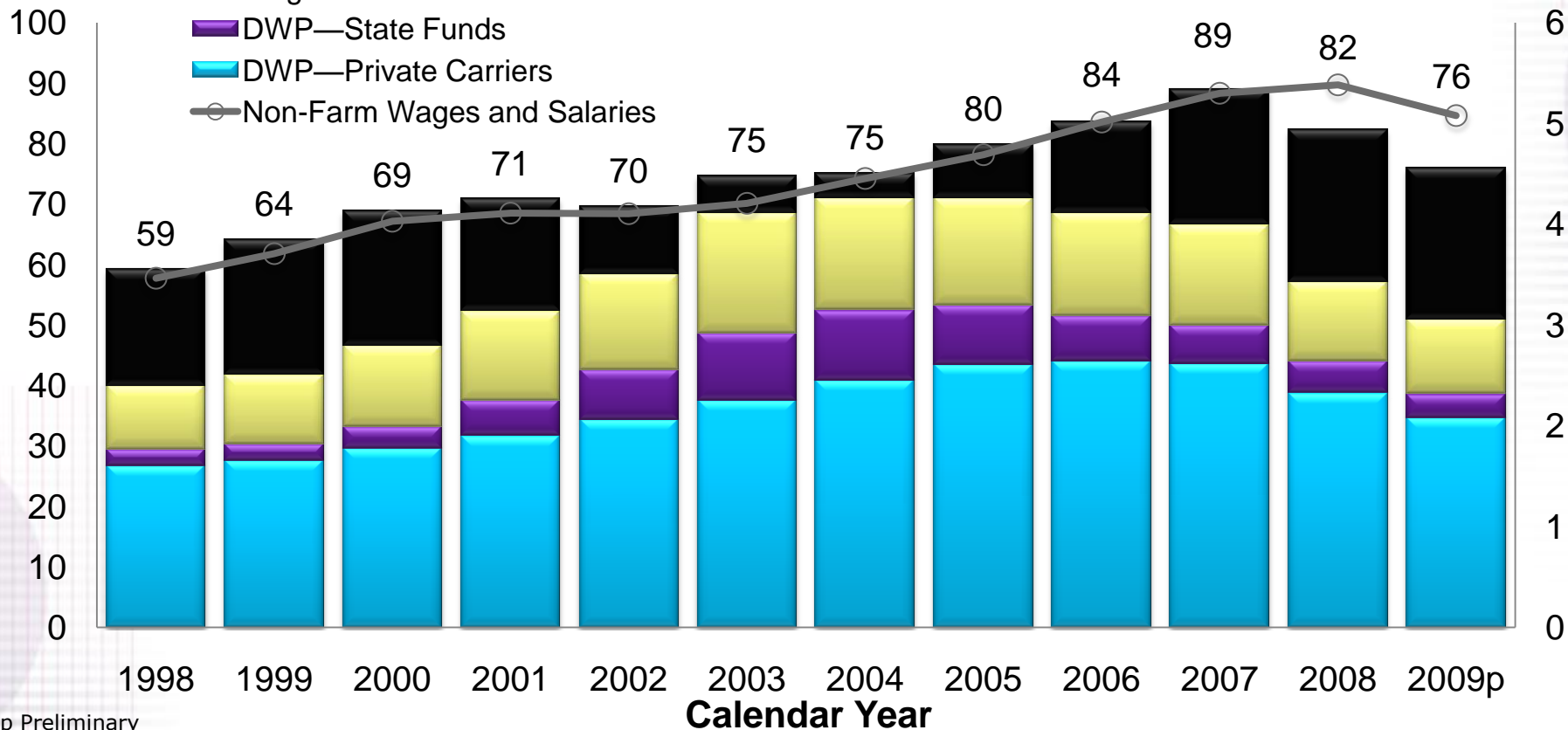
Adjusted Workers Compensation Premium Volume

Workers Compensation Direct Written Premium Private Carriers and State Funds

\$ Billions
(premium)

\$ Trillions
(wages and salaries)

- Adjustment for Premium and Price Changes
- Large Ded Credit
- DWP—State Funds
- DWP—Private Carriers
- Non-Farm Wages and Salaries



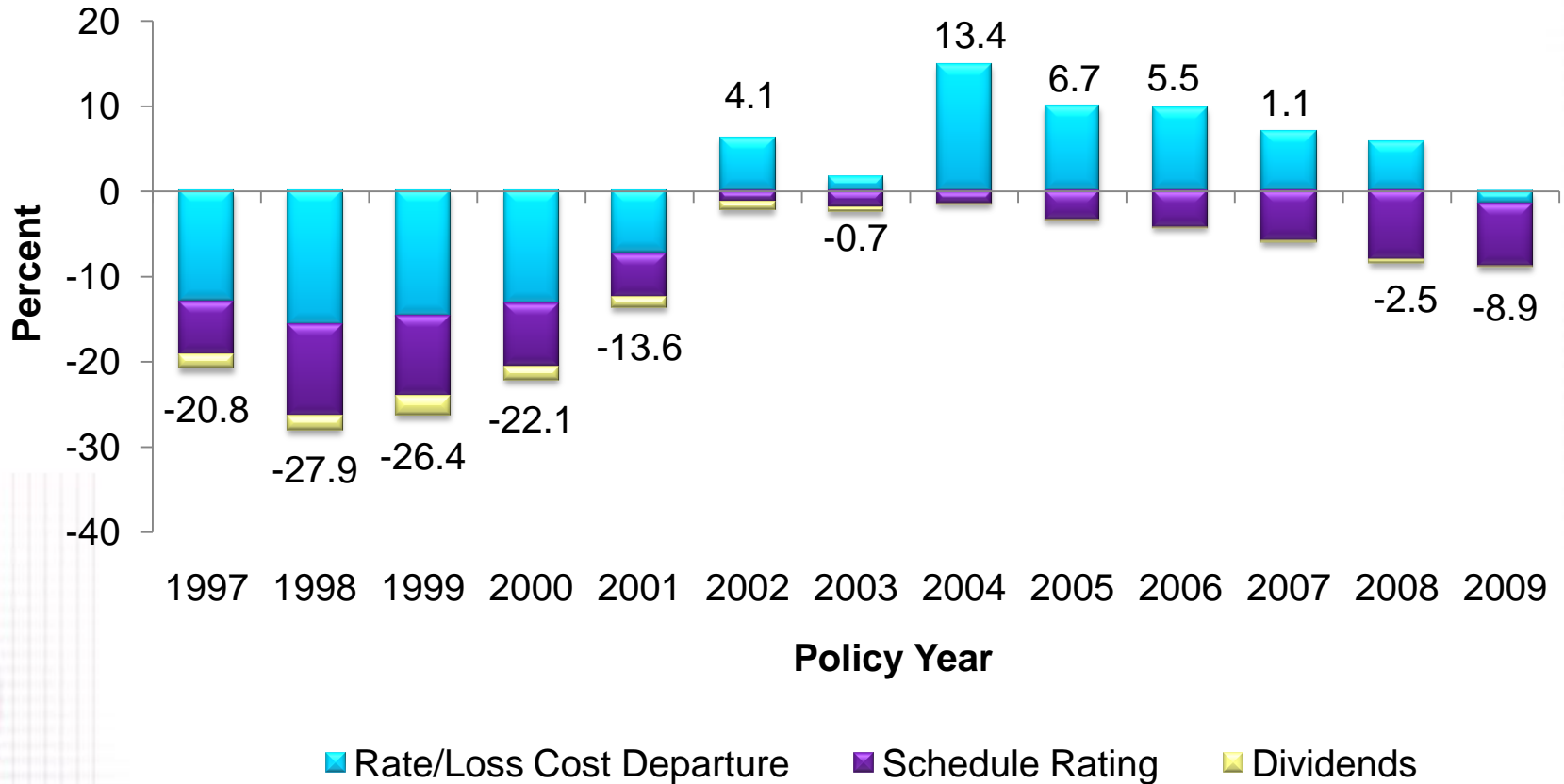
p Preliminary

Source: 1998–2008 Private Carriers, *Best's Aggregates & Averages*; 2009p, NCCI

1998–2009p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Adjustment for premium and price level changes relative to 1995; premium adjustment to 1995 rate level

The Impact on Premium of Loss Cost Departures, Schedule Rating, and Dividends in Oklahoma

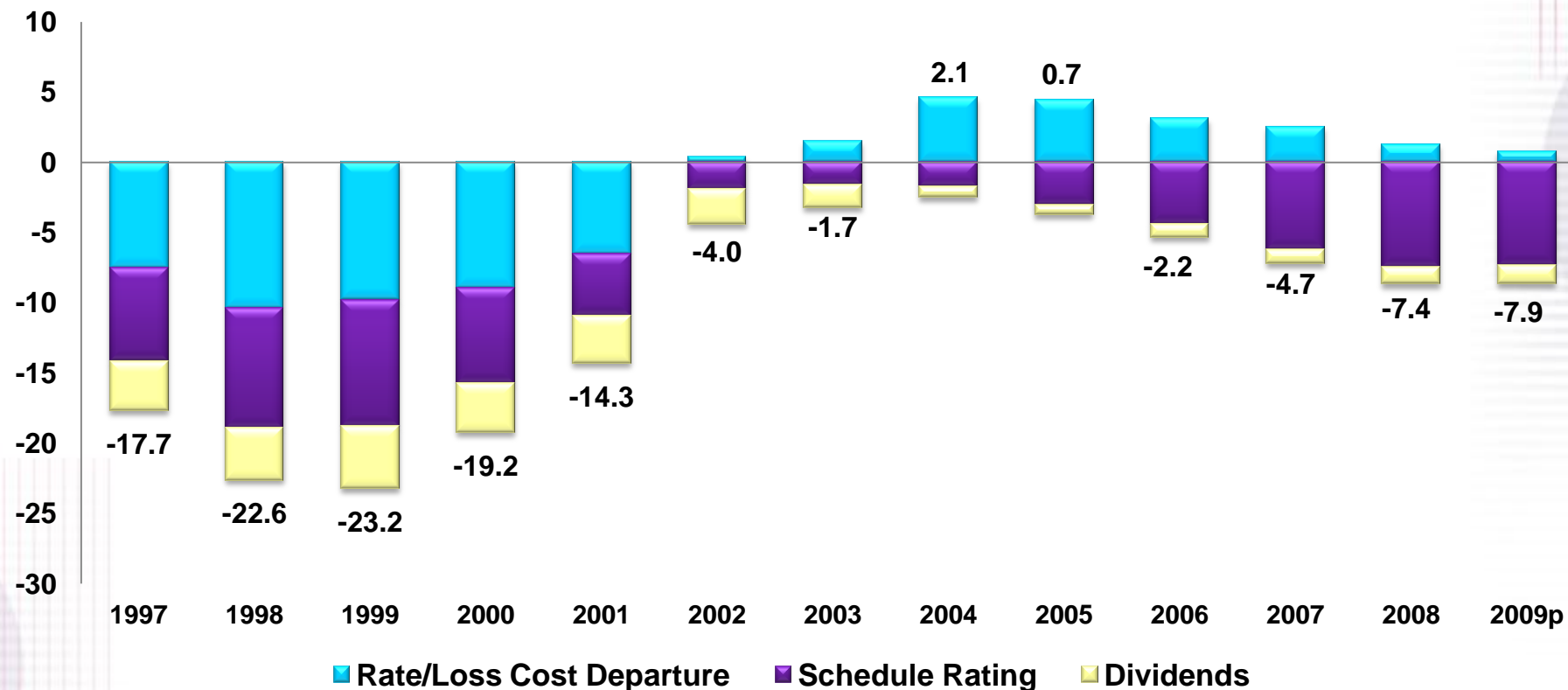


Based on data through 12/31/2009.
Dividend ratios are based on calendar year statistics.

Countrywide Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers

Percent



Policy Year

■ Rate/Loss Cost Departure ■ Schedule Rating ■ Dividends

p Preliminary

Dividend ratios are based on calendar year statistics

NCCI benchmark level does not include an underwriting contingency provision

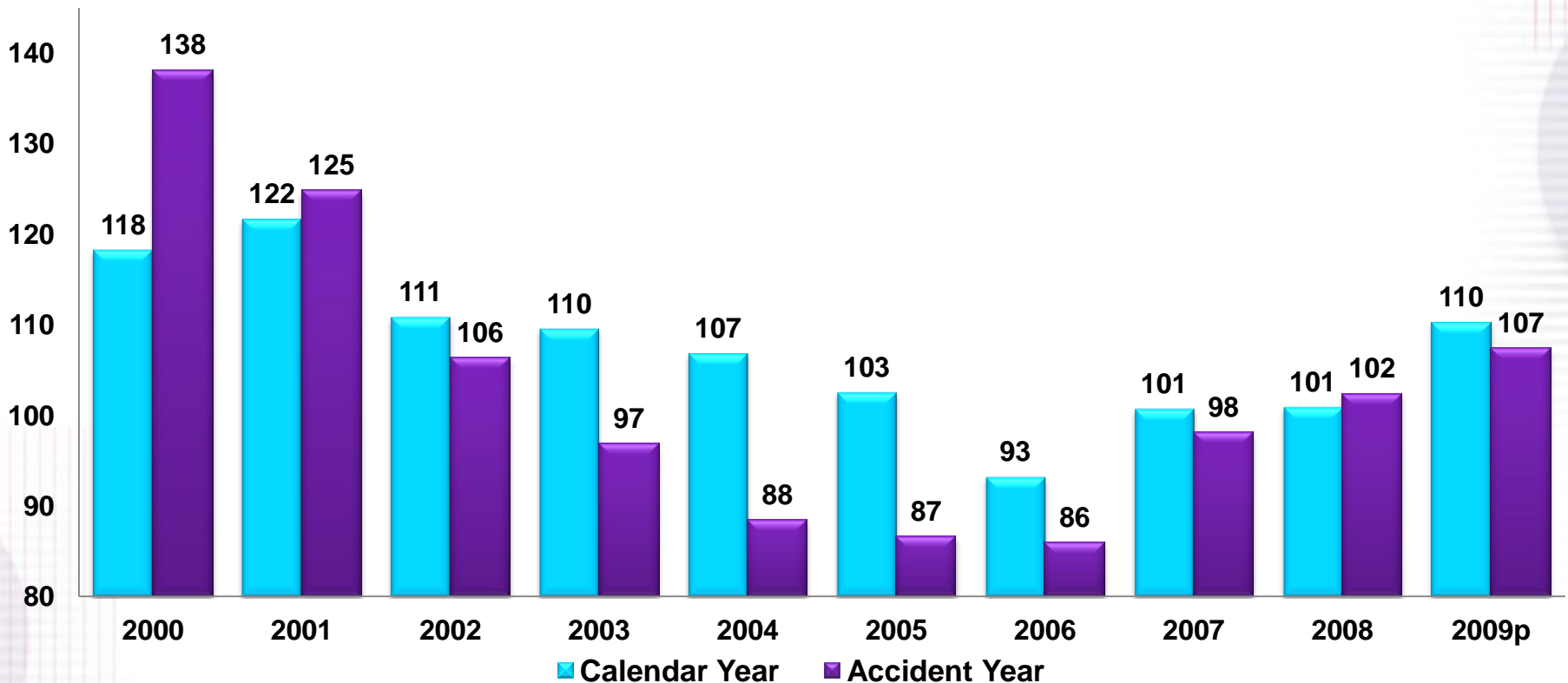
Based on data through 12/31/2009 for the states where NCCI provides ratemaking services



Countrywide Combined Ratios

Workers Compensation Calendar Year vs. Ultimate Accident Year Private Carriers

Percent



p Preliminary

Accident Year data is evaluated as of 12/31/2009 and developed to ultimate

Source: Calendar Years 2000–2008, *Best's Aggregates & Averages*;

Calendar Year 2009p and Accident Years 2000–2009p, NCCI analysis based on Annual Statement data

Includes dividends to policyholders

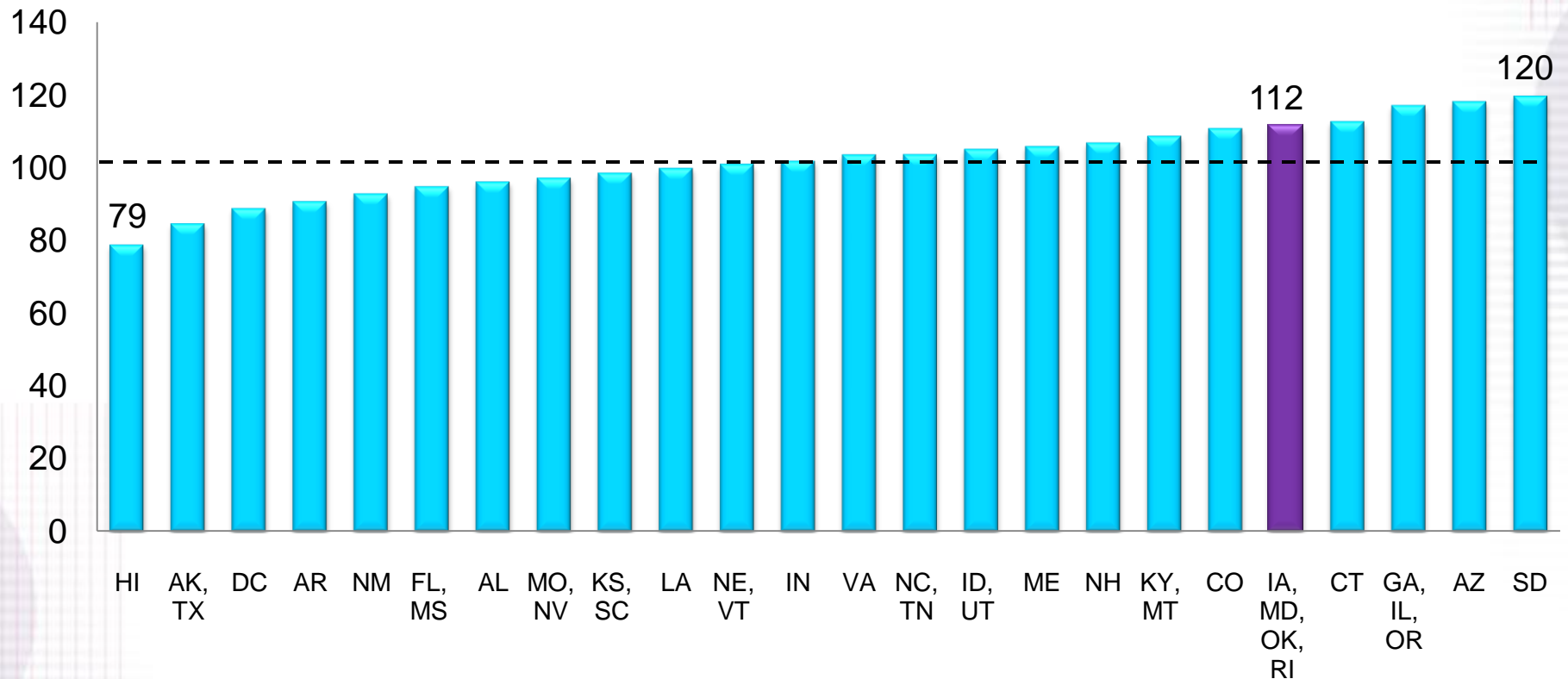


Where Does Oklahoma Stand?



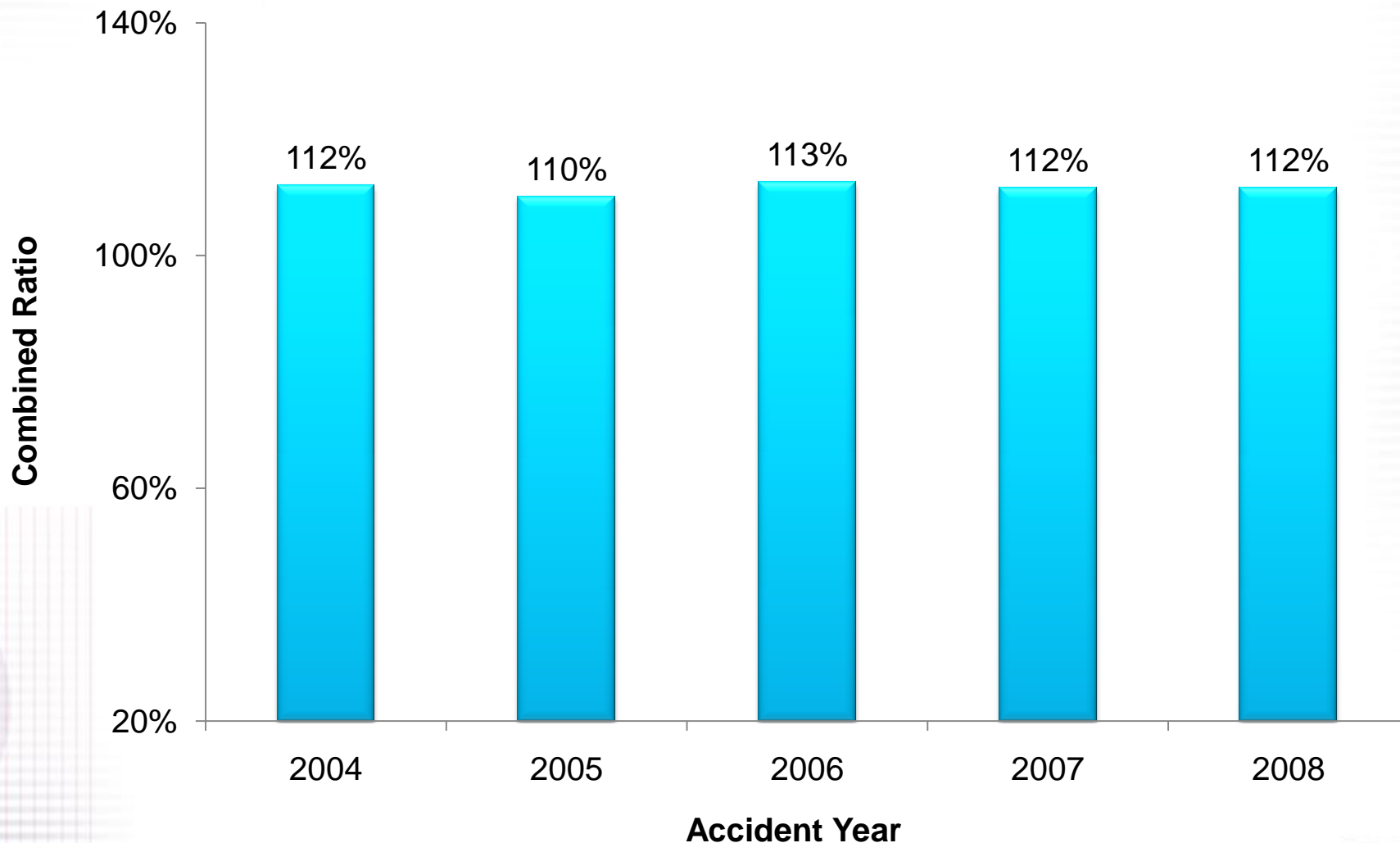
Results Vary From State to State

Accident Year 2008 Combined Ratios



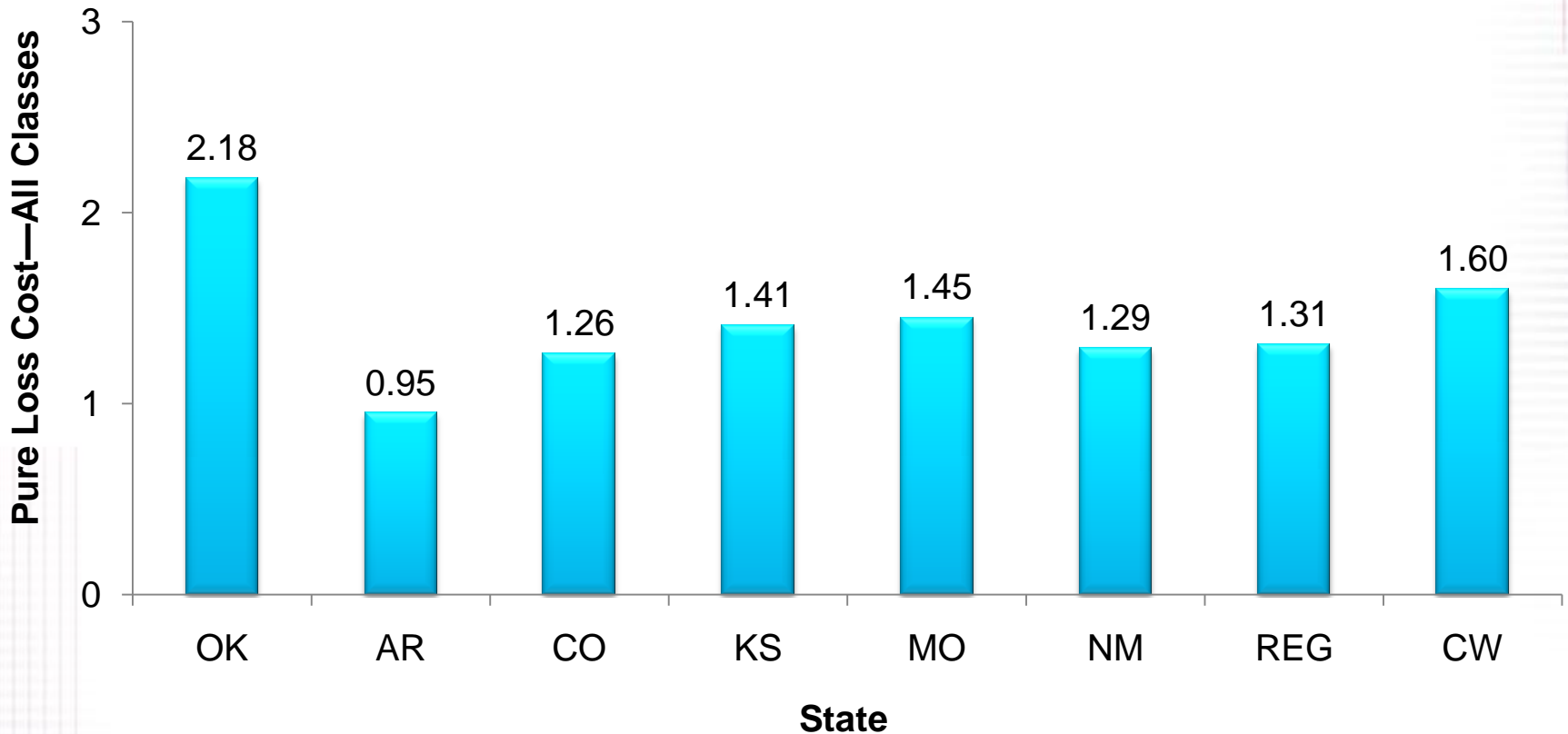
Data is evaluated as of 12/31/2008.

Oklahoma Accident Year Combined Ratios



Source: NCCI financial data, NAIC Annual Statement data.

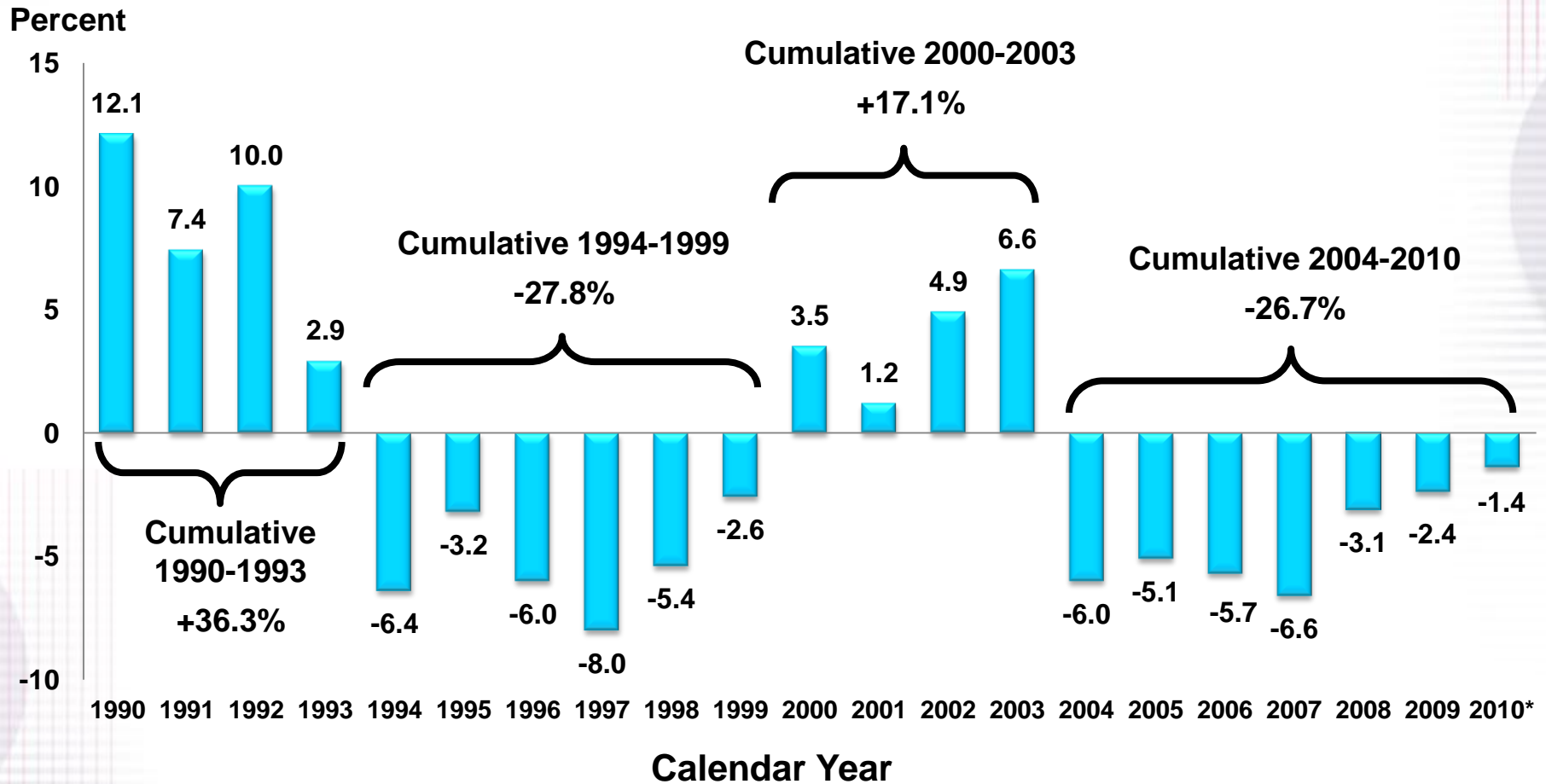
Current Average Voluntary Pure Loss Costs Using Oklahoma's Payroll Distribution



Based on the latest NCCI approved rates and loss costs in the various states.

Countrywide Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes



* Preliminary

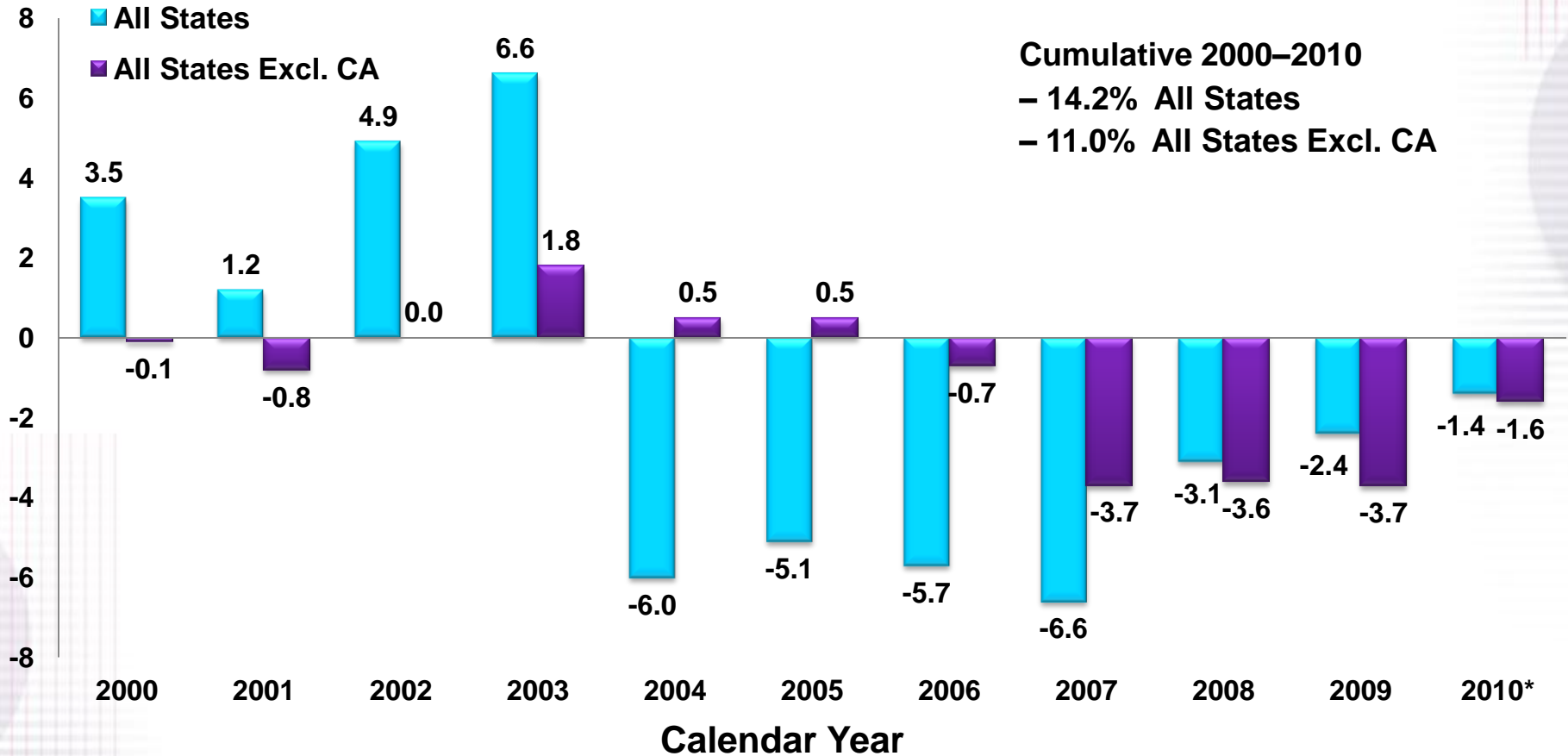
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization



Countrywide Average Approved Bureau Rates/Loss Costs

All States vs. All States Excluding California

Percent



* Preliminary

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

2010/2011 Filing Cycle

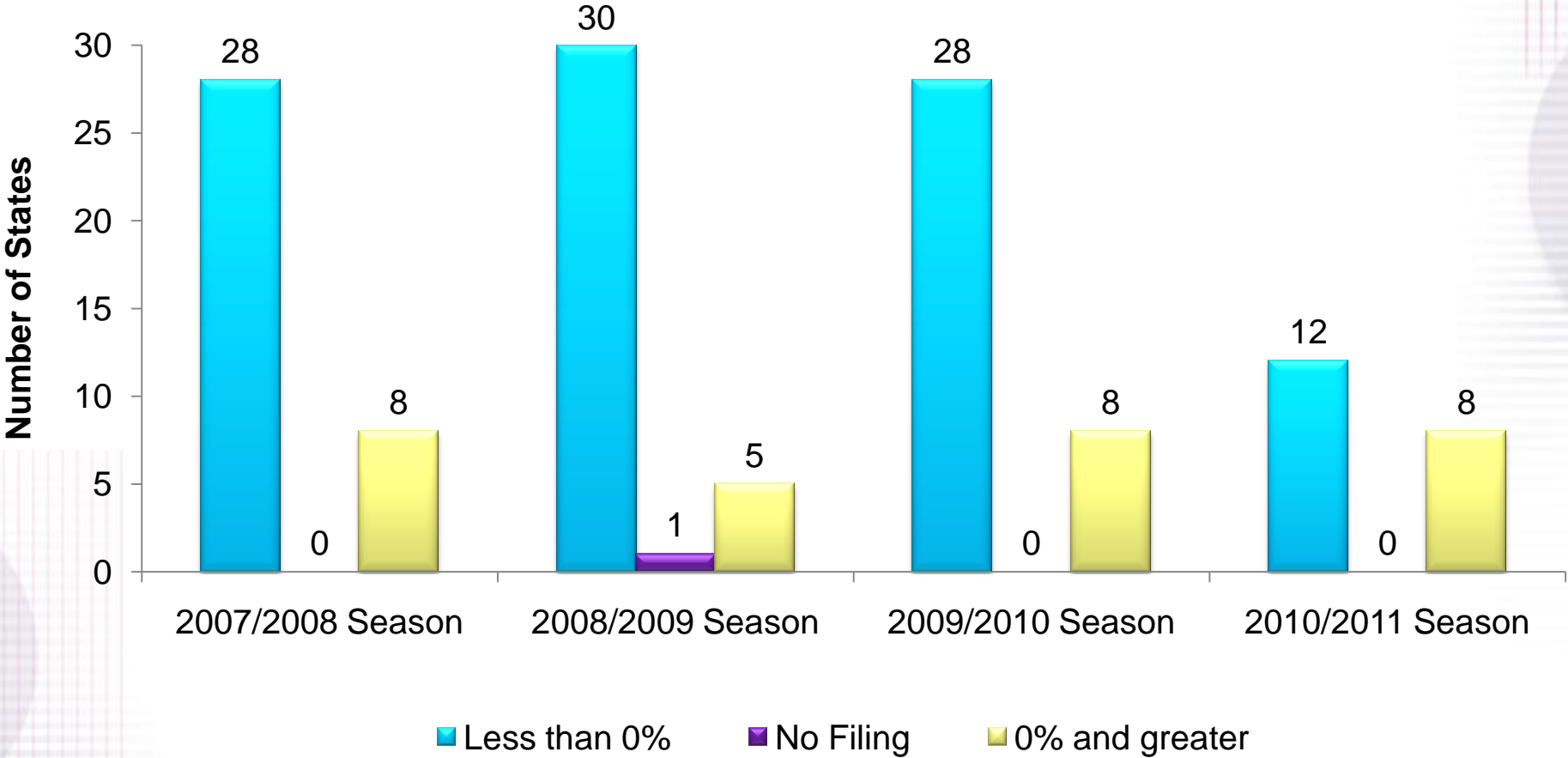
NCCI Voluntary Market Filing Activity

- Data for 20 states has been reviewed
 - 8 states have filed a change of 0% or greater
 - 12 states have filed decreases
- Range of voluntary filings: -12.4% to +8.3%

Based on data evaluated as of 12/31/2009.

Status of NCCI Filing Activity

Voluntary Market Filings



State Voluntary Market Filed Rates/Loss Costs Midwestern NAIC Zone

Iowa*	1/1/11	+4.7%
South Dakota	7/1/10	+4.4%
Wisconsin	10/1/10	+3.35%
Oklahoma*	1/1/11	+1.7%
Illinois*	1/1/11	+0.4%
Indiana	1/1/10	-0.8%
Minnesota	1/1/11	-1.7%
Kansas*	1/1/11	-2.6%
Michigan	1/1/10	-3.1%
Nebraska	2/1/10	-3.2%
Missouri	1/1/11	-4.4%

* Pending

What's Driving Oklahoma's Loss Cost Changes?

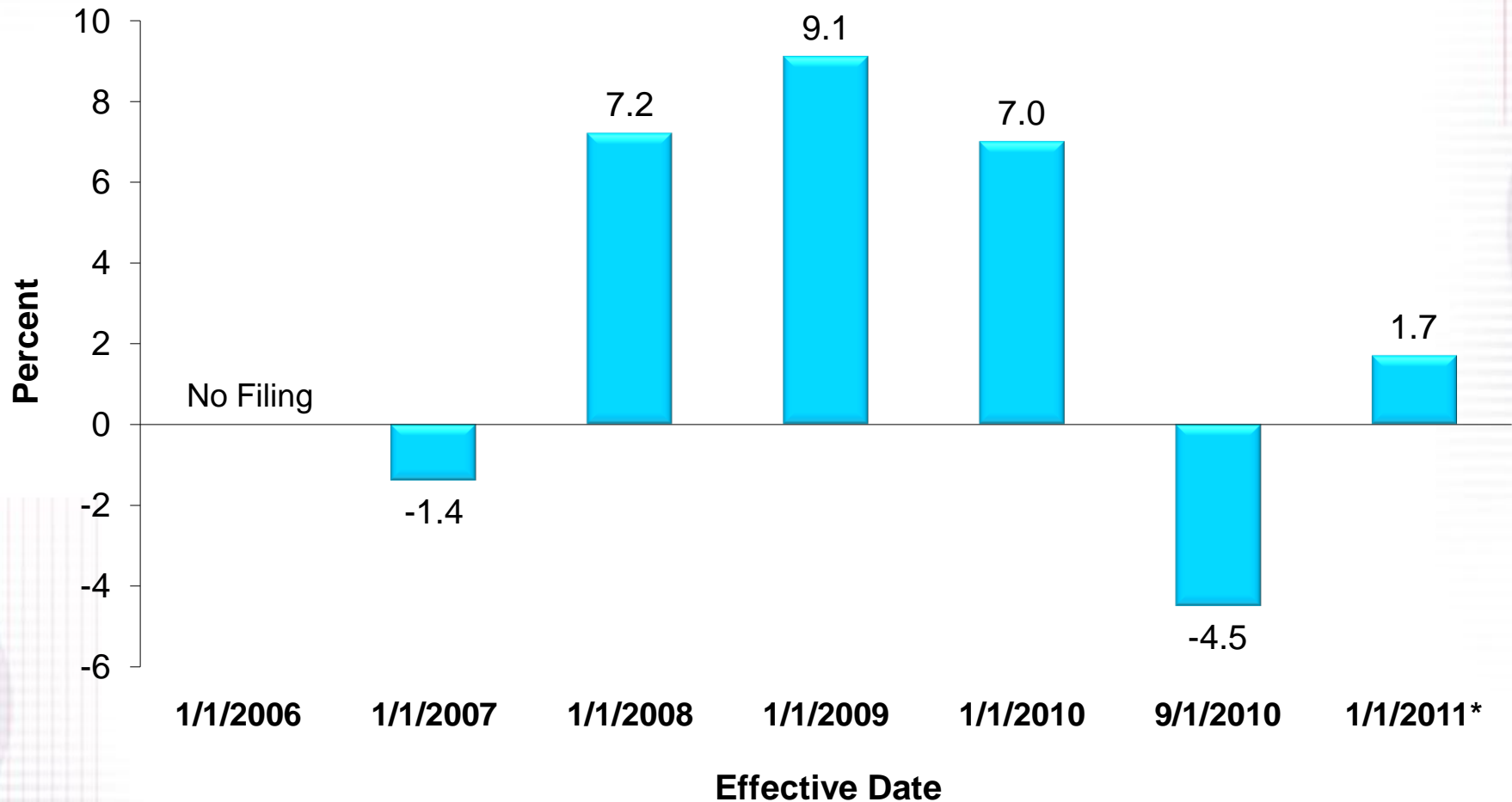


Breakdown of Oklahoma January 1, 2011 Loss Cost Recommendation

Loss Cost Components	Impact
Due to Change in Experience and Trend	+1.0%
Due to Change in Maximum Weekly Benefits Effective November 1, 2010	-0.1%
Due to Change in Medical Fee Schedule Effective January 1, 2010	+0.2%
Due to Change in Loss Adjustment Expenses	+0.6%
Overall Loss Cost Level Change	+1.7%

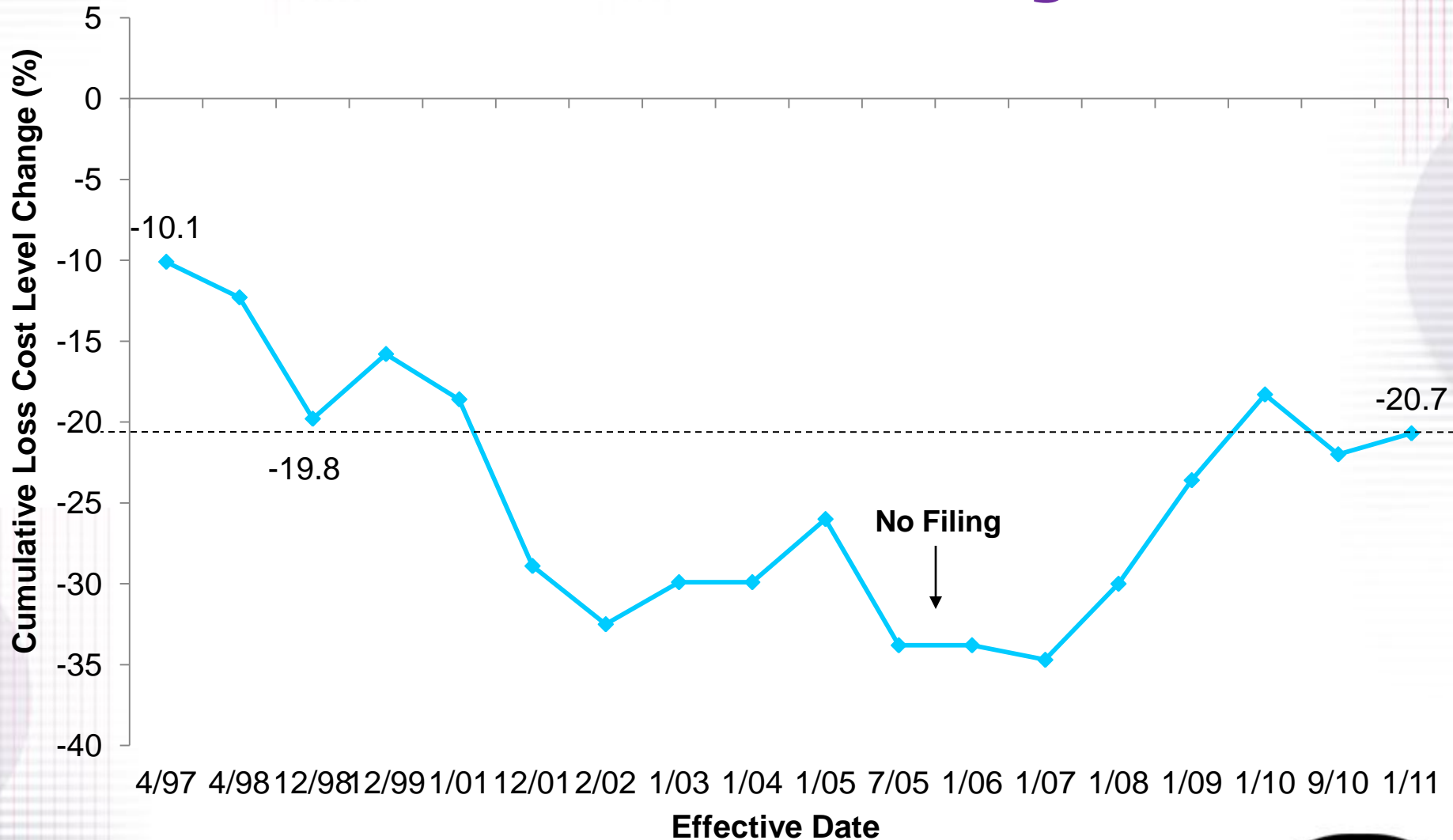
Oklahoma's Filing Activity

Voluntary Loss Cost Level Changes

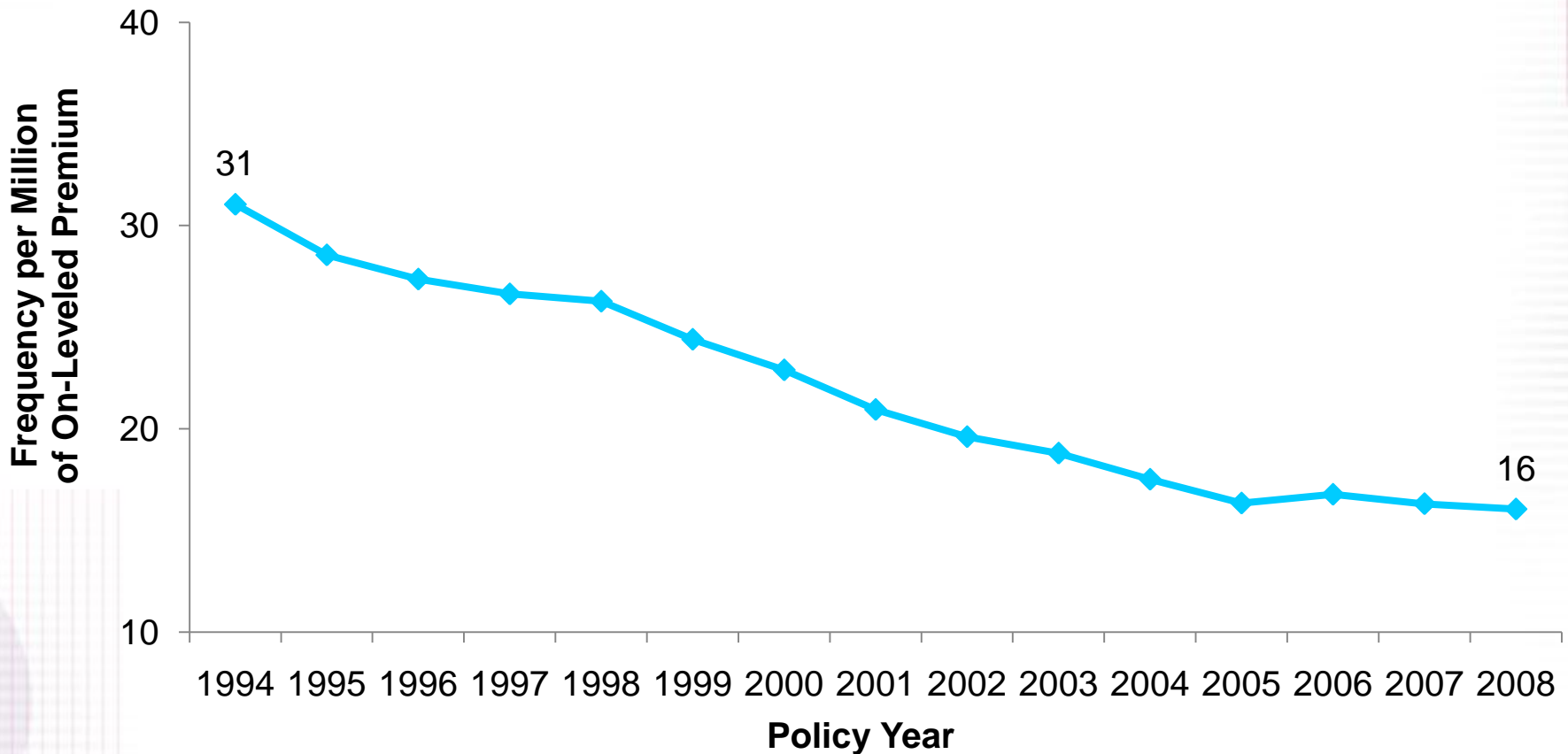


* Pending

Oklahoma's Cumulative Loss Cost Level Change

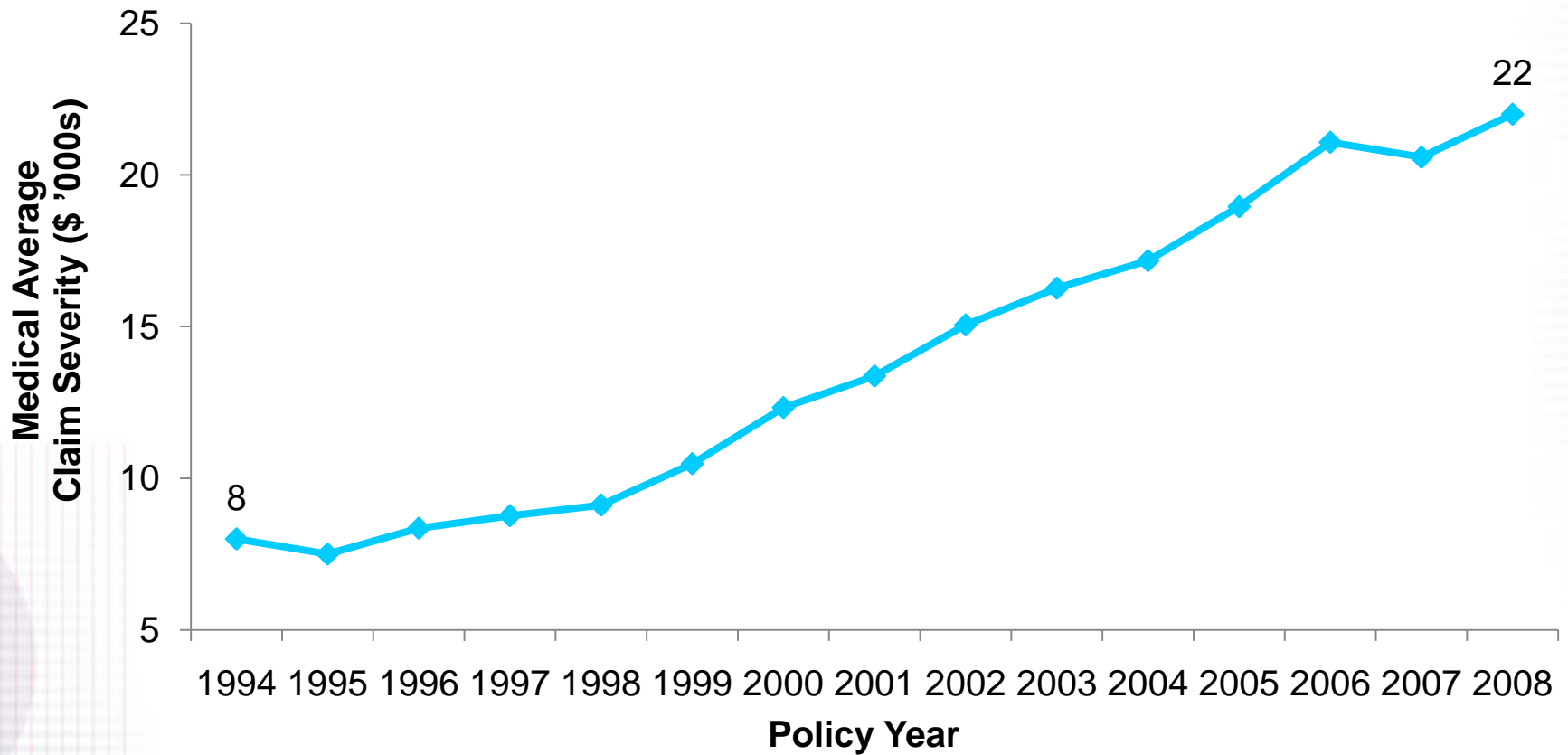


Oklahoma Claim Frequency Has Moderated in Recent Years



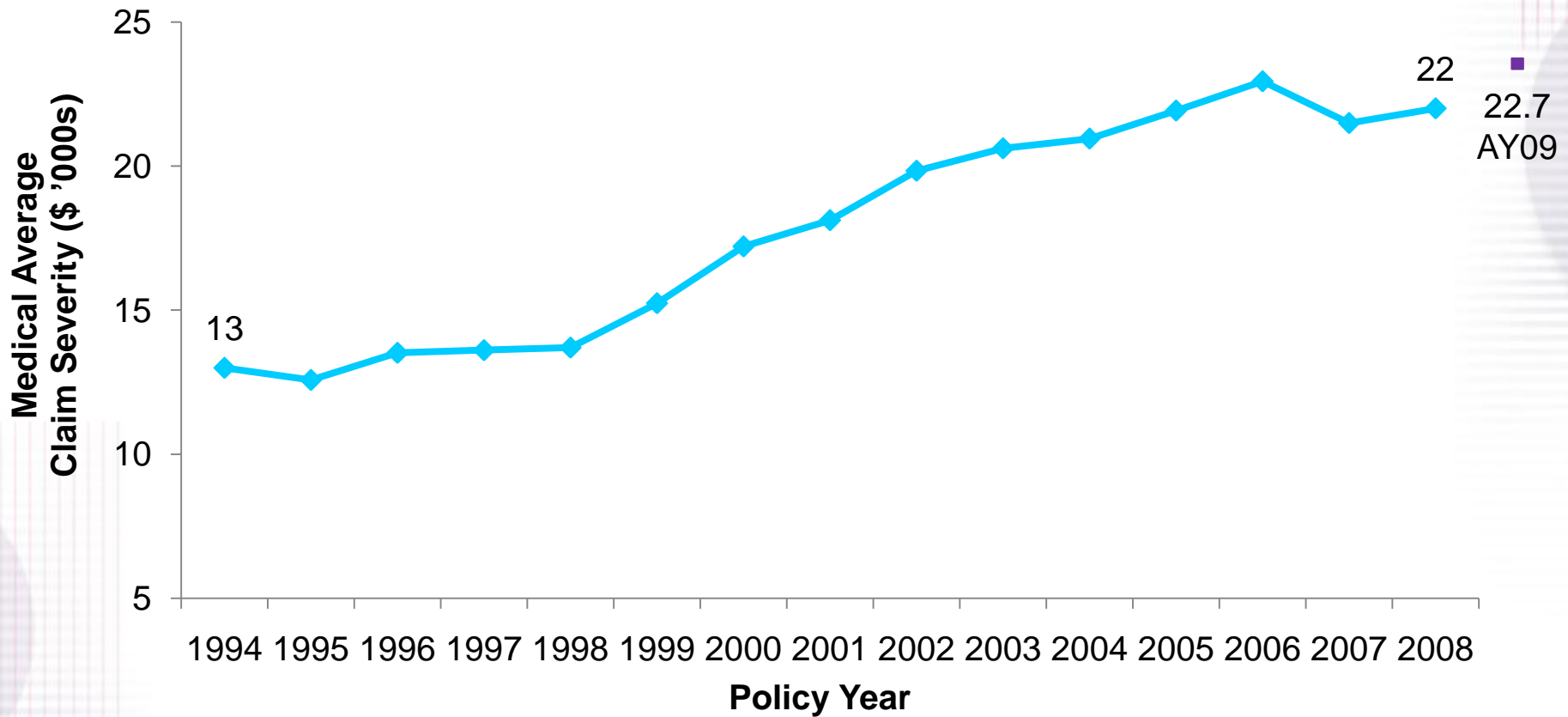
Based on NCCI's financial data.
Frequency of lost-time claims.

Oklahoma's Average Medical Severity



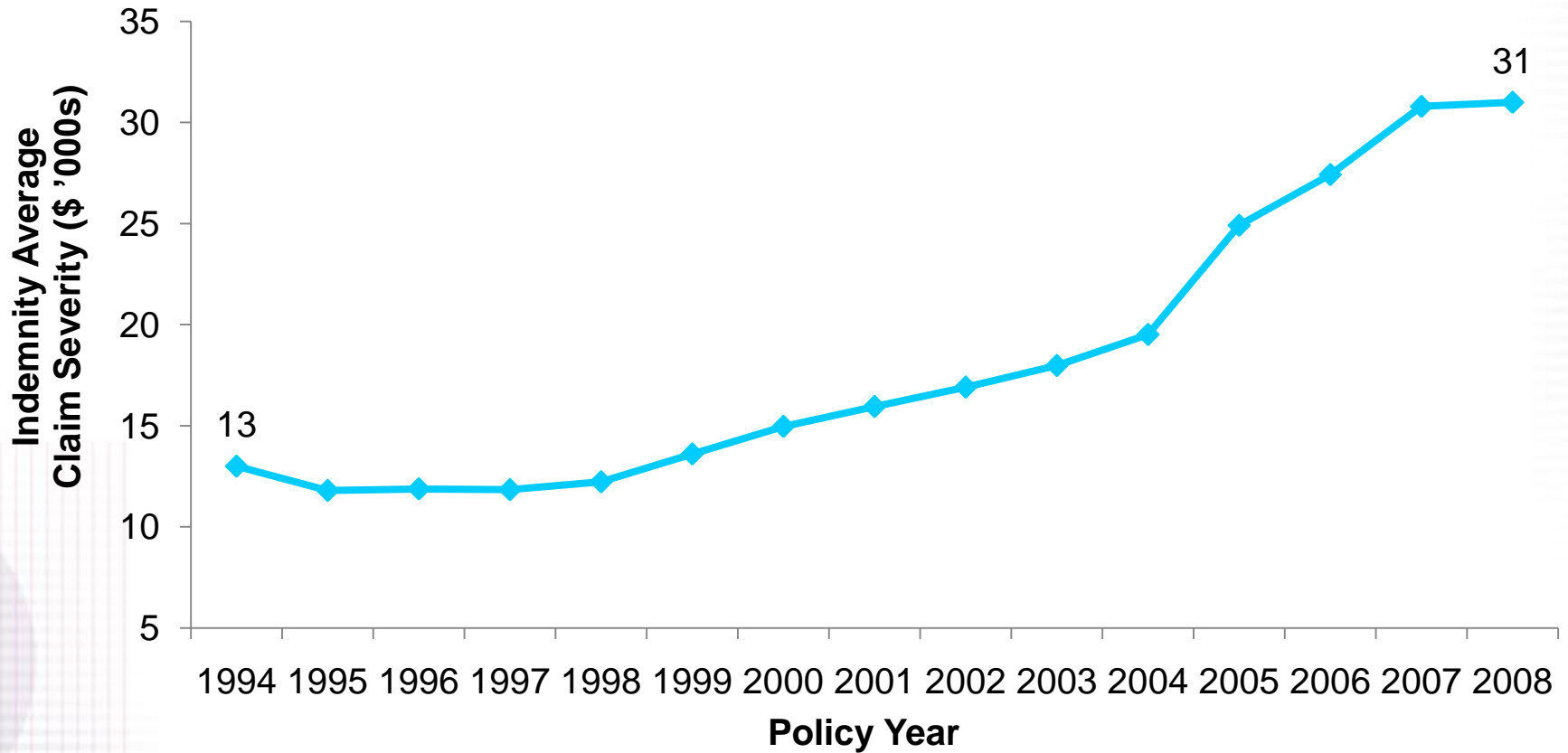
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

Oklahoma's Average Medical Severity in Excess of Wage Growth



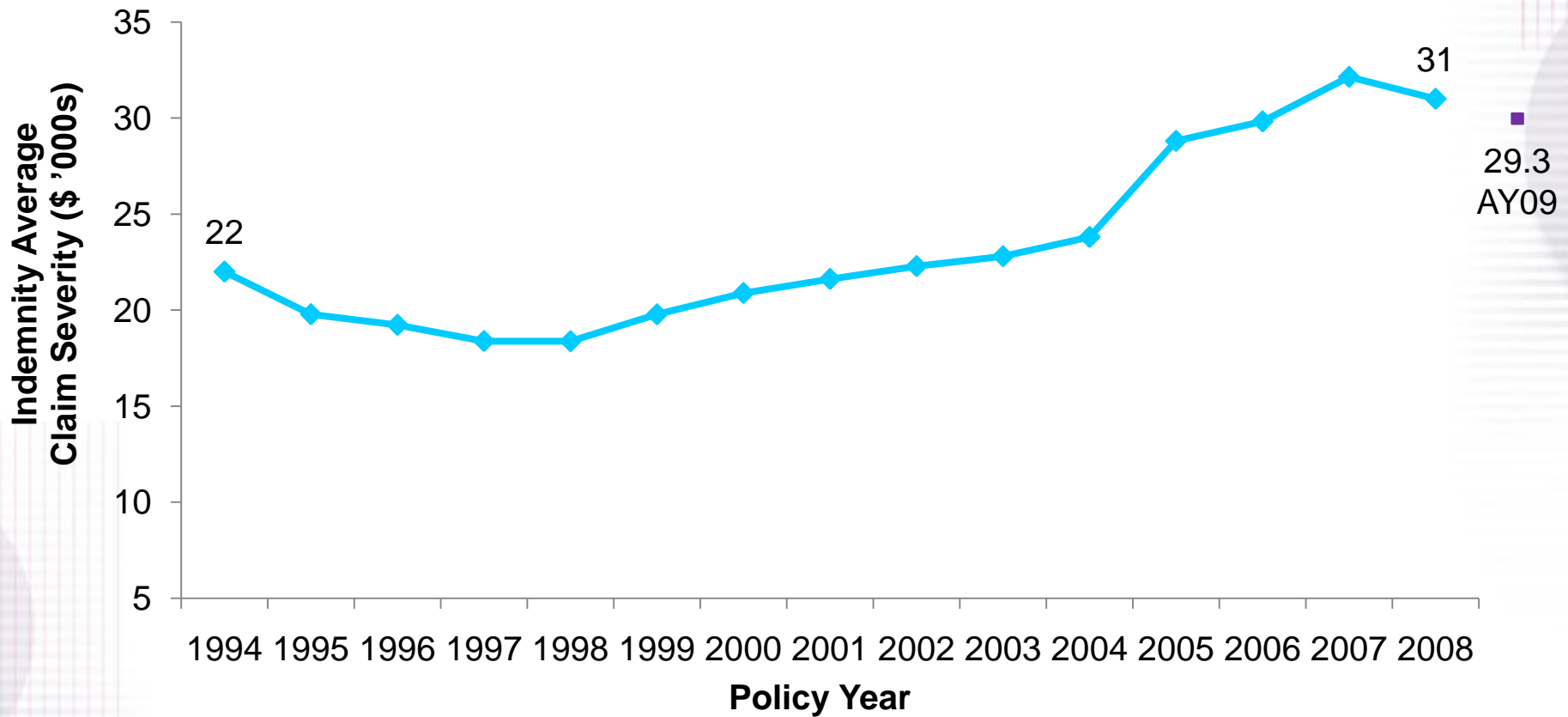
The severity figures shown are in excess of wage trend.
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

Oklahoma's Average Indemnity Severity



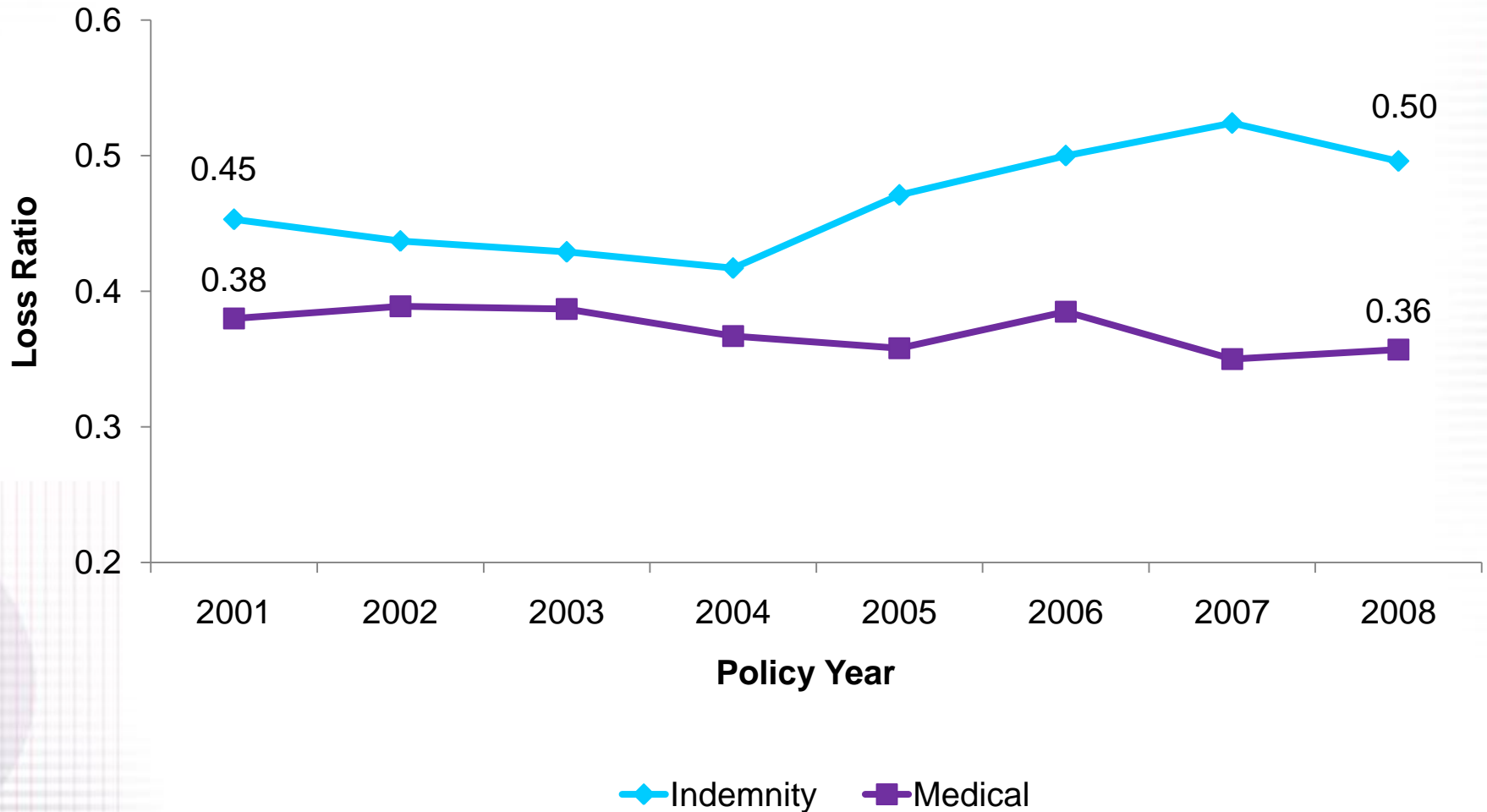
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

Oklahoma's Average Indemnity Severity in Excess of Wage Growth



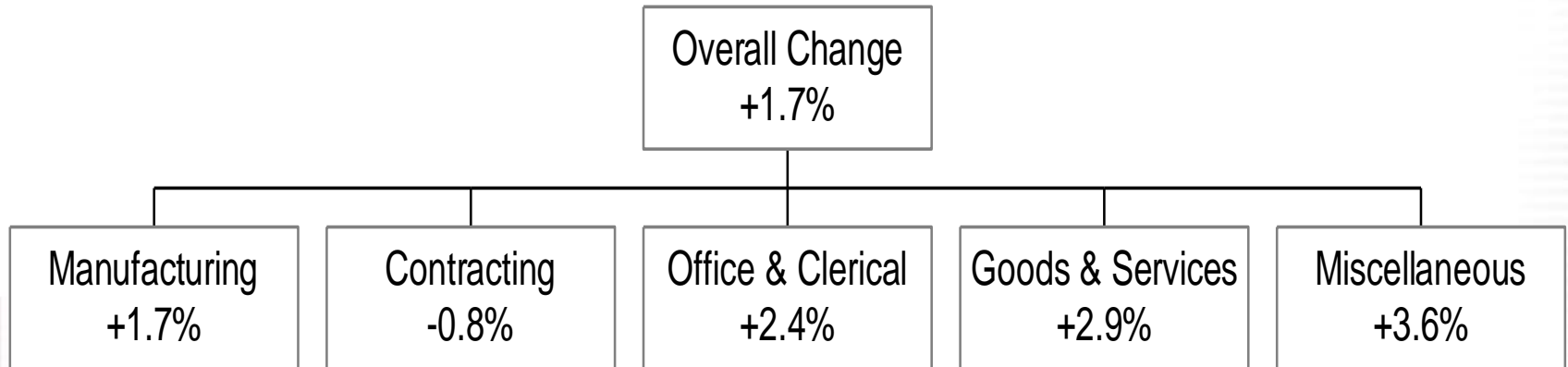
The severity figures shown are in excess of wage trend.
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

Oklahoma's Indemnity and Medical Loss Ratios



Based on NCCI's financial data at current benefit level and developed to ultimate.

Oklahoma January 1, 2011 Filing Average Changes by Industry Group





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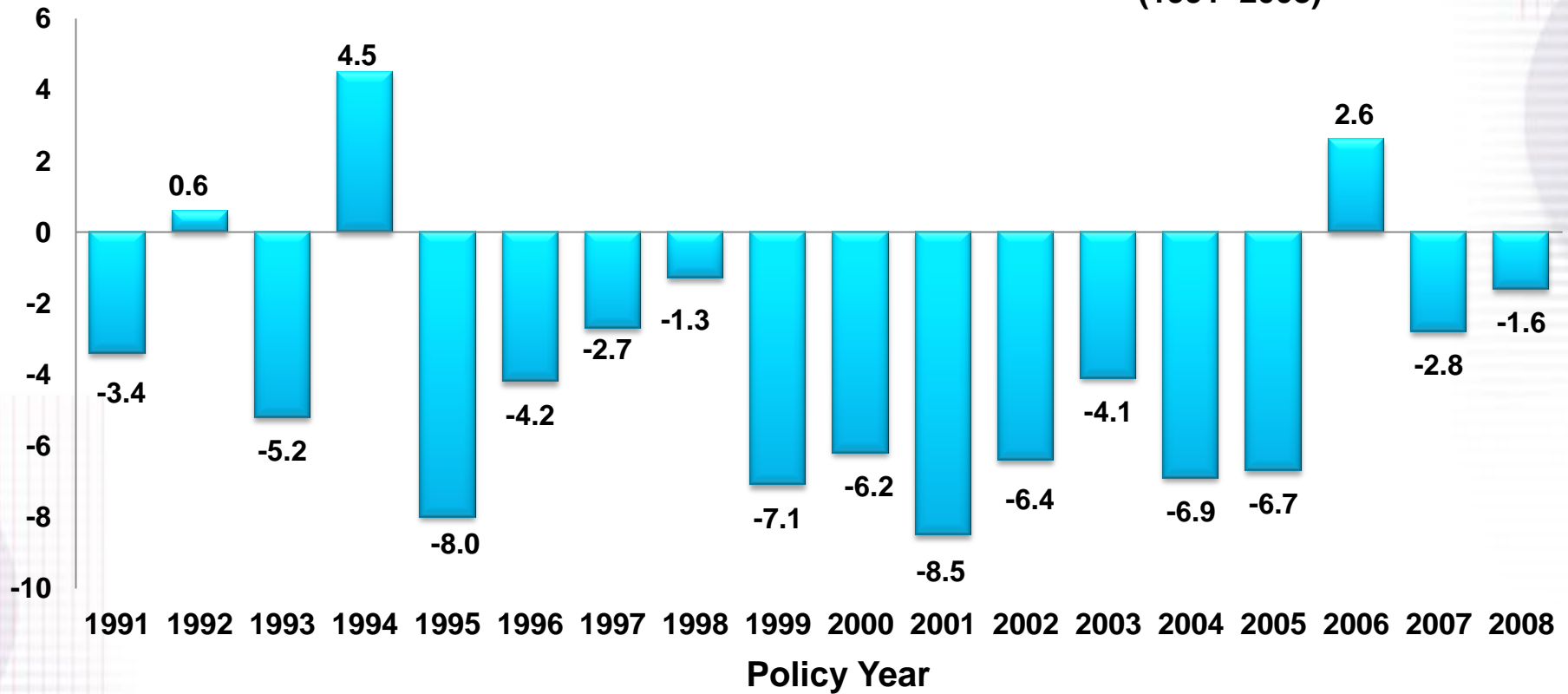
Claim Frequency

Oklahoma Workers Compensation Lost-Time Claim Frequency

Lost-Time Claims

Percent Change

Cumulative Change of **-50.2%**
(1991-2008)



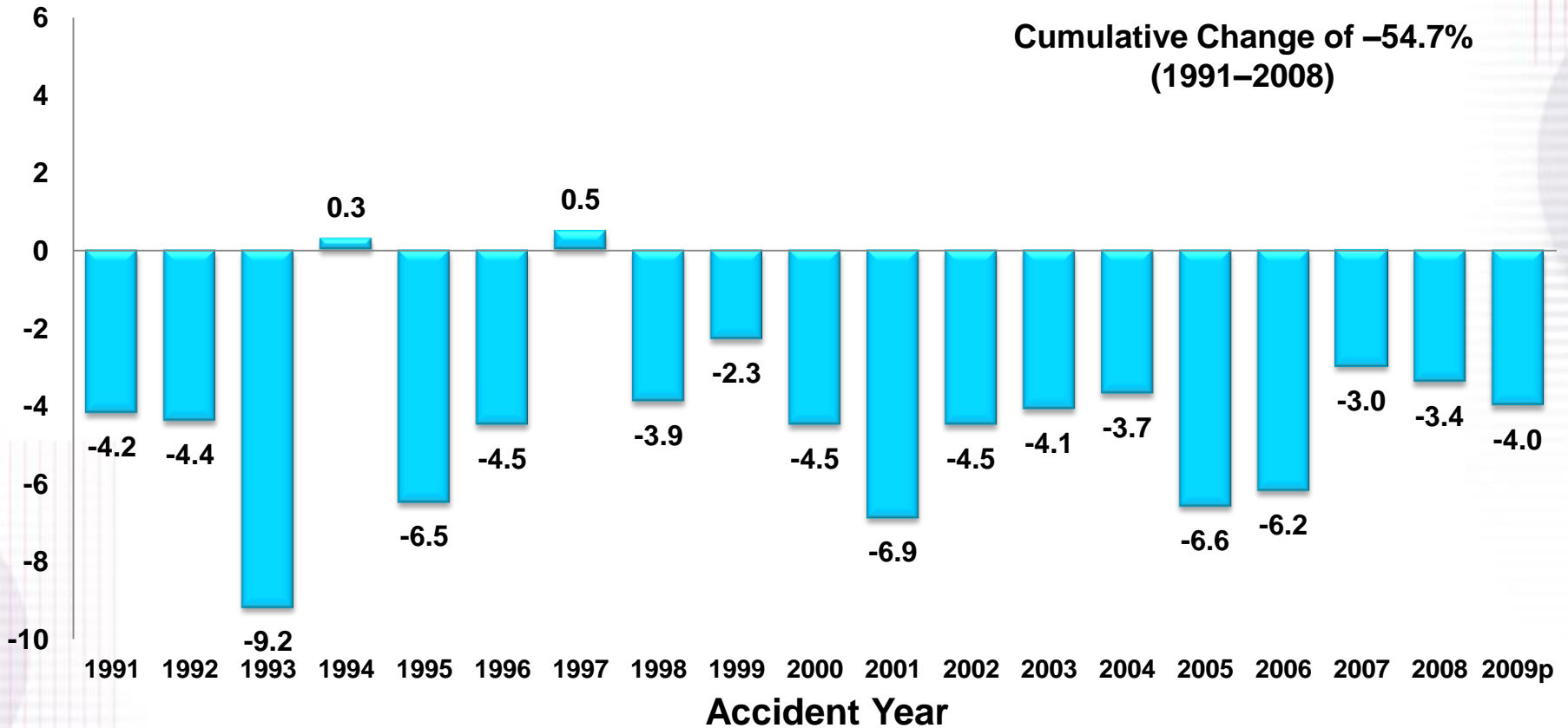
Based on data through 12/31/09, developed to ultimate.

Countrywide Workers Compensation Lost-Time Claim Frequency Continues to Decline

Percent Change

Lost-Time Claims

Cumulative Change of **-54.7%**
(1991-2008)



2009p: Preliminary based on data valued as of 12/31/2009

1991-2008: Based on data through 12/31/2008, developed to ultimate

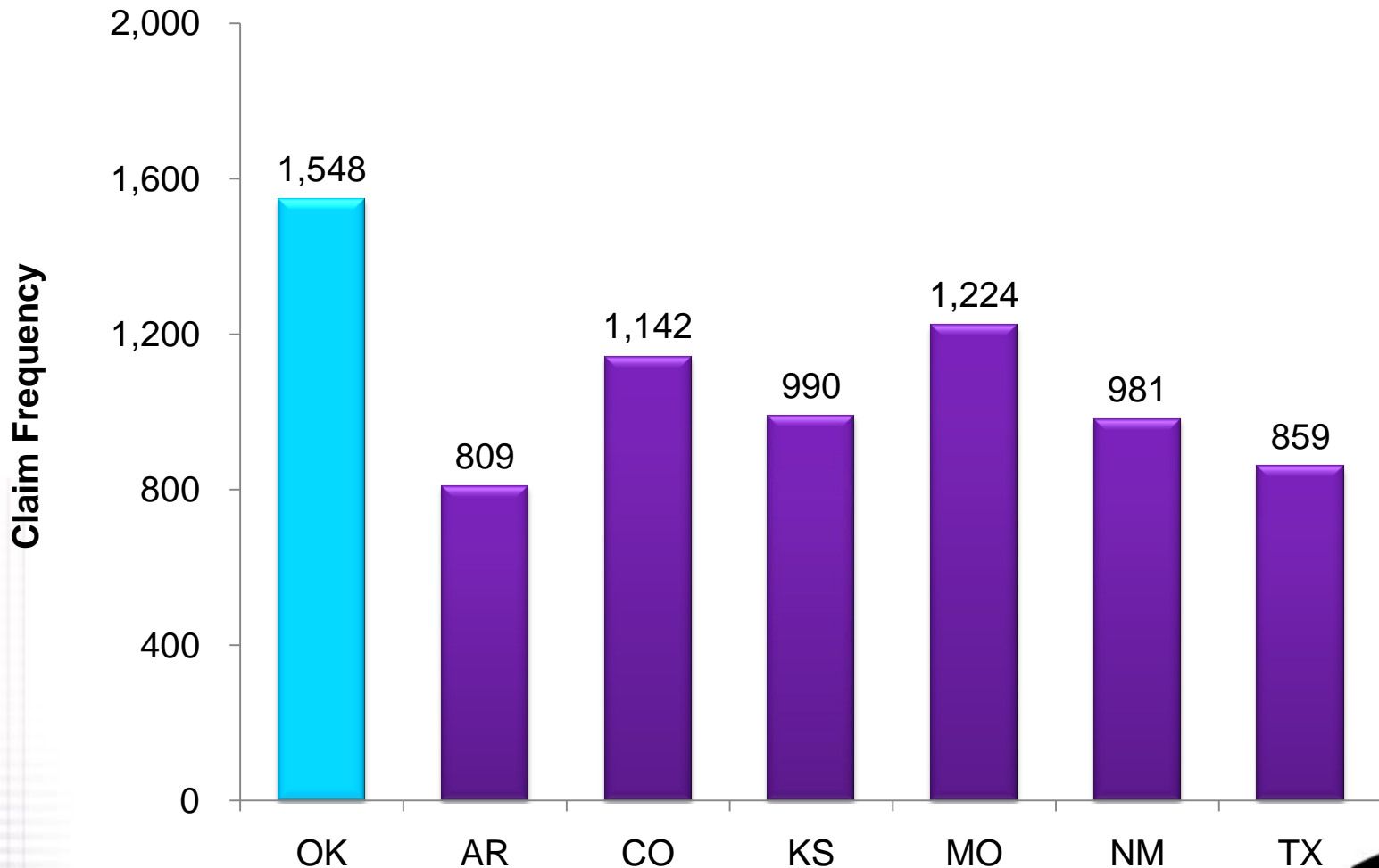
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Frequency is the number of lost-time claims per 100,000 workers as estimated from reported premium



Oklahoma's Average Lost-Time Claim Frequency

Frequency per 100,000 Workers—Lost-Time Claims

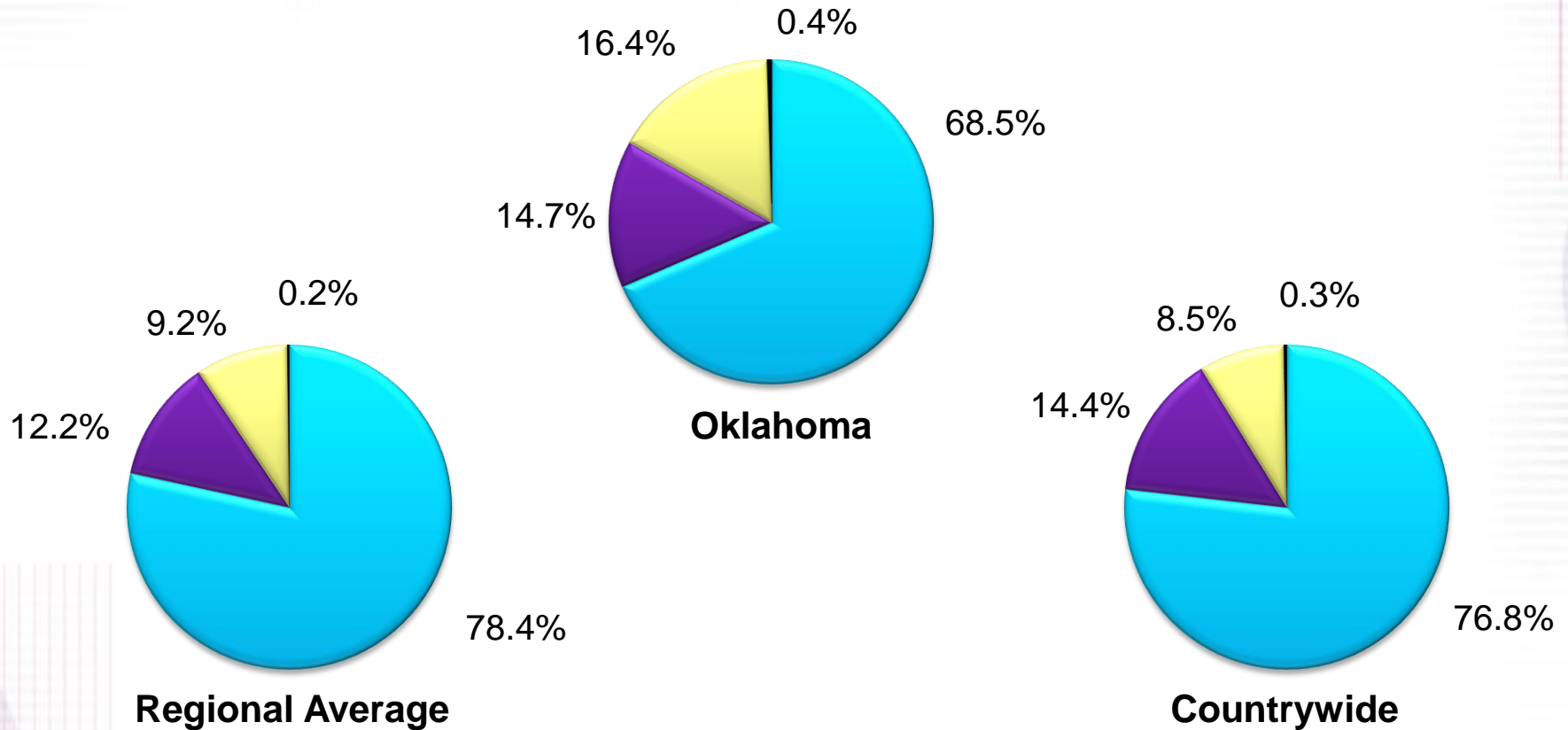


Based on NCCI's *Statistical Plan* data.

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Oklahoma's Distribution of Claims by Injury Type

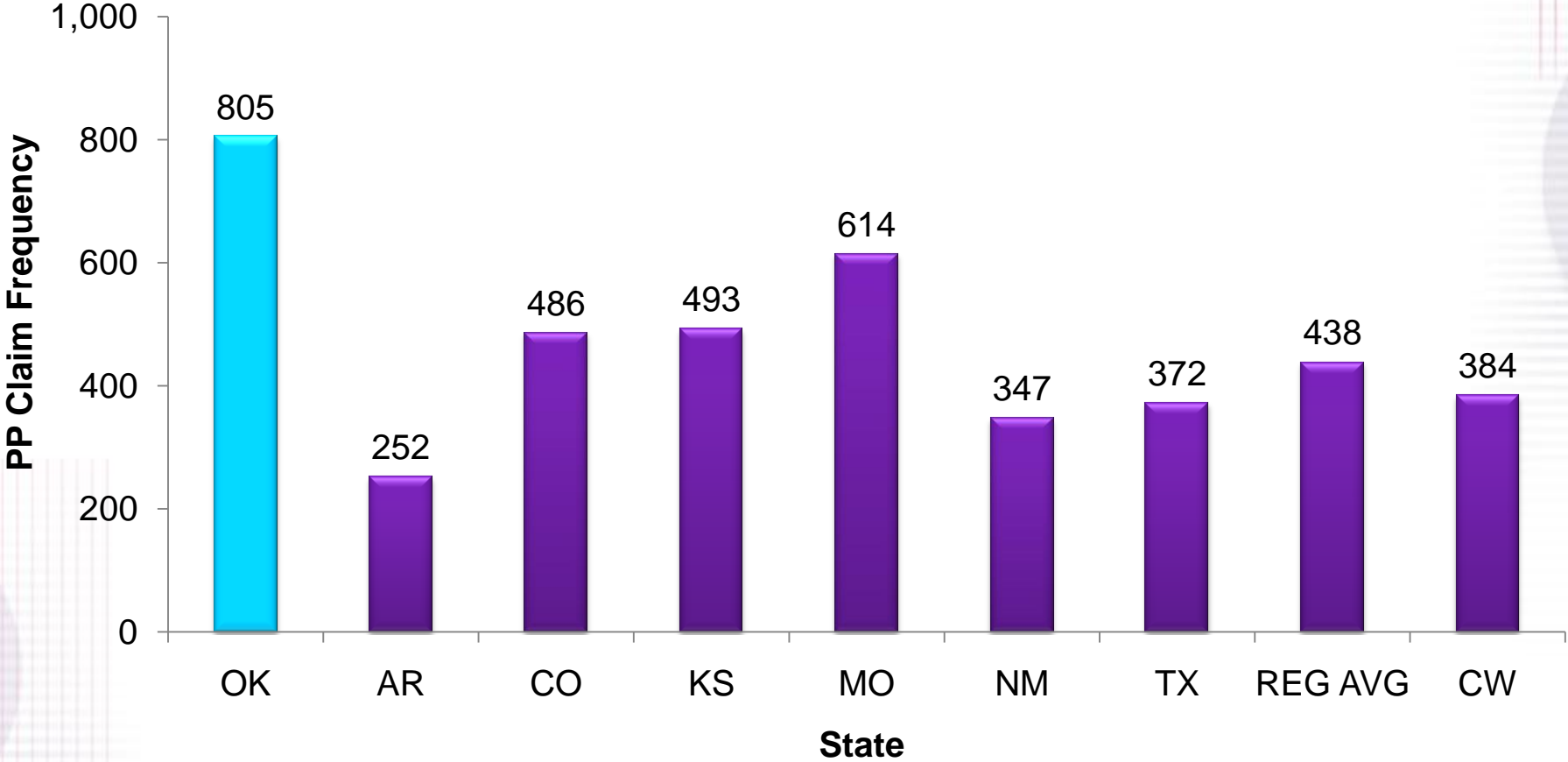


■ Medical Only
 ■ Temporary Total
 ■ Permanent Partial
 ■ Permanent Total/Fatal

Regional states are Arkansas, Colorado, Kansas, Missouri, and New Mexico.
 Countrywide and regional averages exclude Texas.
 Based on NCCI's **Statistical Plan** data.

Oklahoma Claim Frequency: Permanent Partial Disability

Permanent Partial Frequency per 100,000 Workers



Countrywide and regional averages exclude Texas.
Based on NCCI's **Statistical Plan** data.



Claim Frequency Takeaways

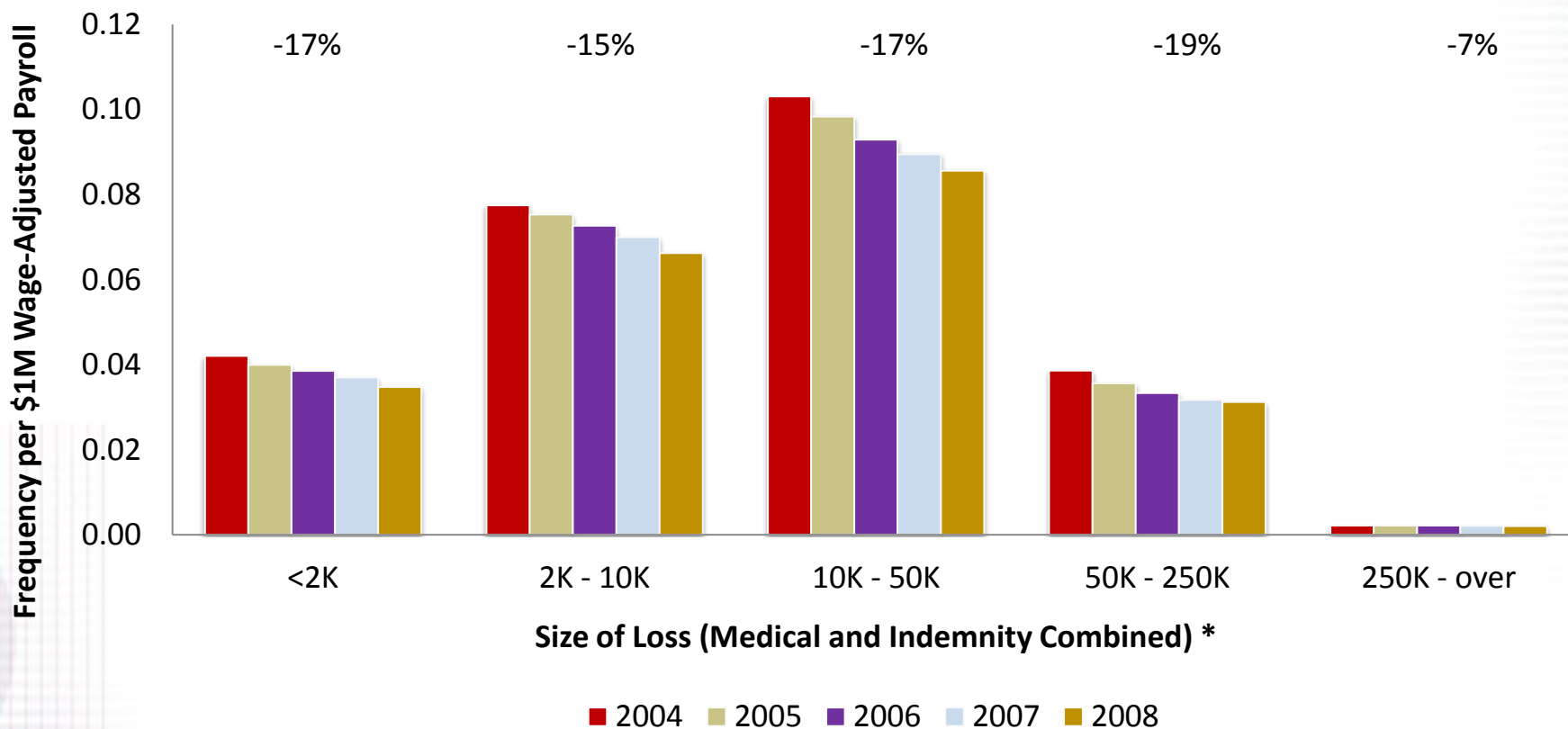
- Oklahoma claim frequency rate has moderated in recent years, but the number of lost-time claims, on the whole, is higher than average
- Permanent Partial injuries represent a greater proportion of lost-time claims in Oklahoma
- Countrywide frequency continues to decline; in fact, for each of the last 12 years (and 17 of the last 19), on-the-job claim frequency for workers compensation injuries has declined from the previous year's level

Countrywide Claim Frequency Study Uses Workers Compensation Statistical Plan Data

- Policy Years expiring in 1999 through 2008
- States where NCCI provides ratemaking services, excluding West Virginia
- Data as of 1st Report (6 months after policy expiration)
- Frequency is defined as reported lost-time claims per \$1M in wage-adjusted payroll, unless otherwise noted

After Adjusting for Inflation, a Consistent Decline Can Be Seen for Claims Below \$250,000

2004 to 2008 Frequency Change



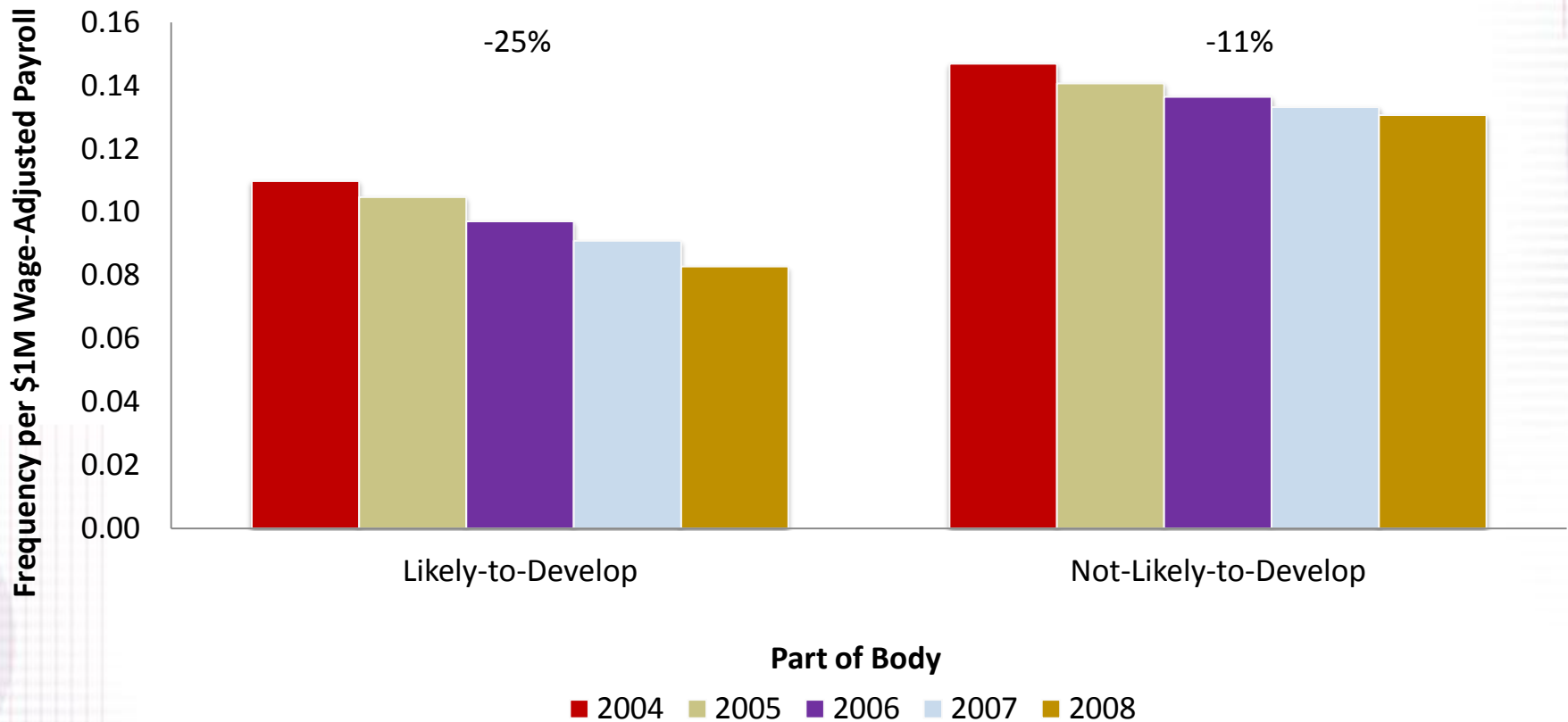
Lost-Time Frequency at 1st report, **Statistical Plan** data, for all states where NCCI provides ratemaking services, excl. WV
For Policy Years Expiring 2004-2008

* Adjusted for wage and medical inflation



Likely-To-Develop Part of Body Claims Exhibited the Largest Frequency Decline

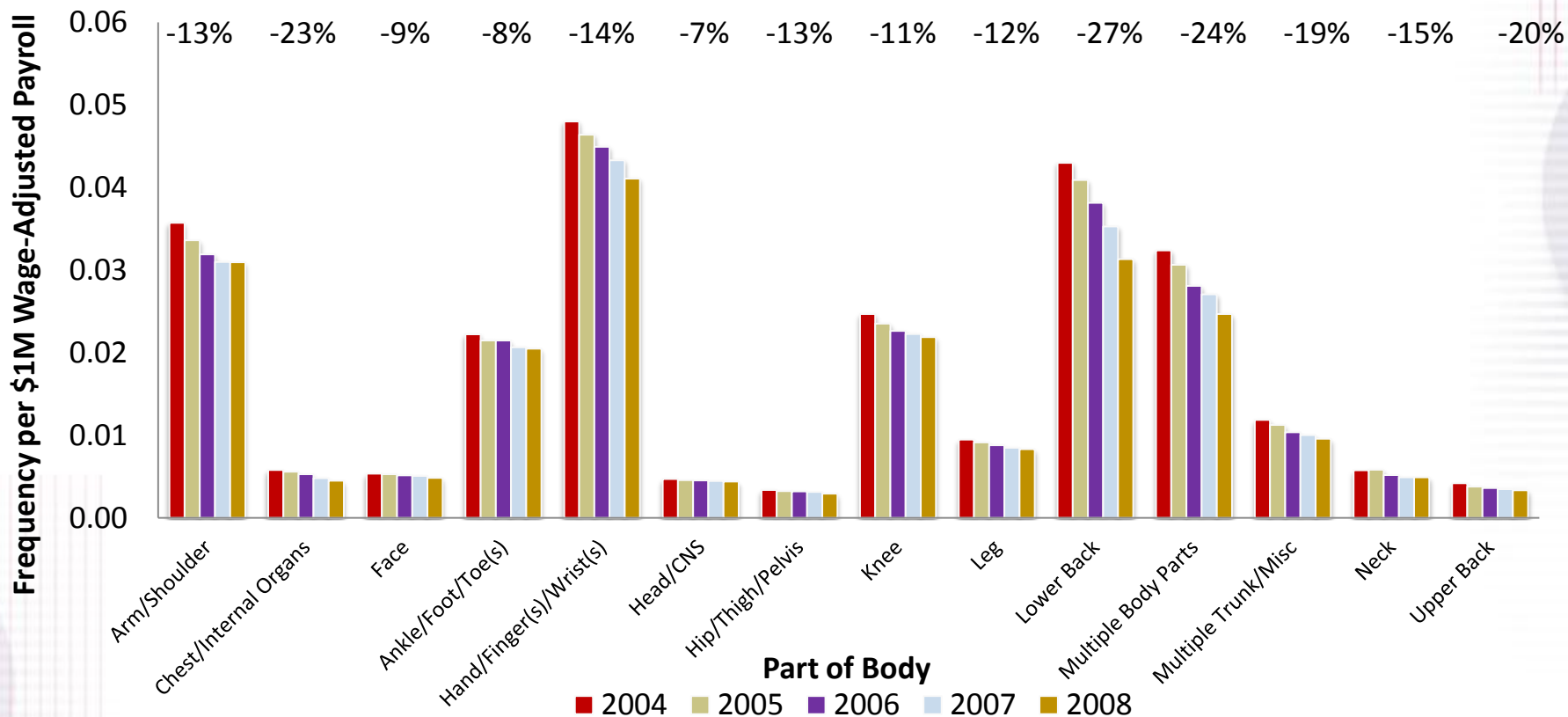
2004 to 2008 Frequency Change



Lost-Time Frequency at 1st report, **Statistical Plan** data, for all states where NCCI provides ratemaking services, excl. WV
For Policy Years Expiring 2004-2008

Lower Back and Multiple Body Parts Exhibited the Sharpest Declines

2004 to 2008 Frequency Change

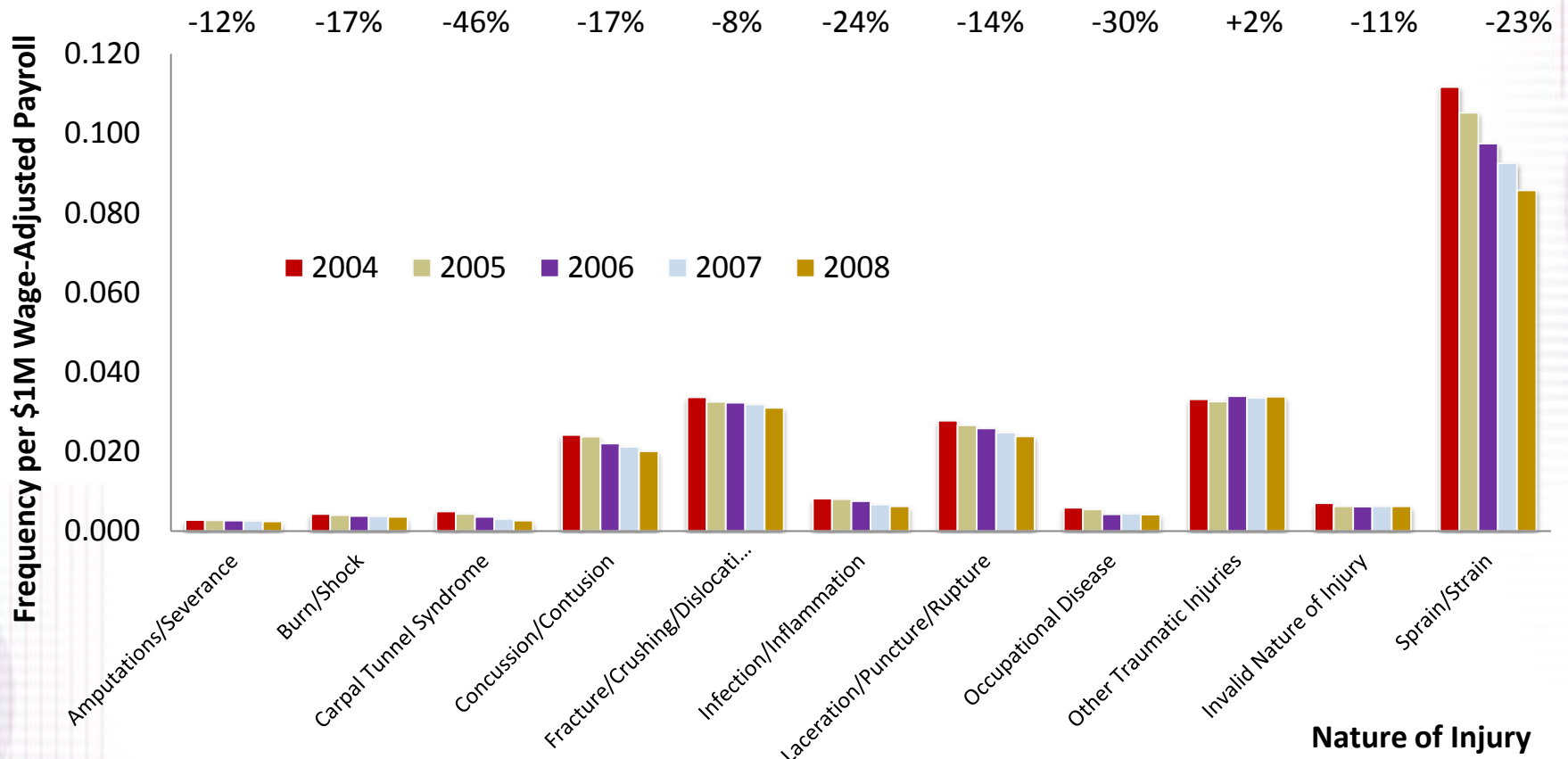


Lost-Time Frequency at 1st report, **Statistical Plan** data, for all states where NCCI provides ratemaking services, excl. WV
For Policy Years Expiring 2004-2008



Frequency of Carpal Tunnel Claims Declined 46%

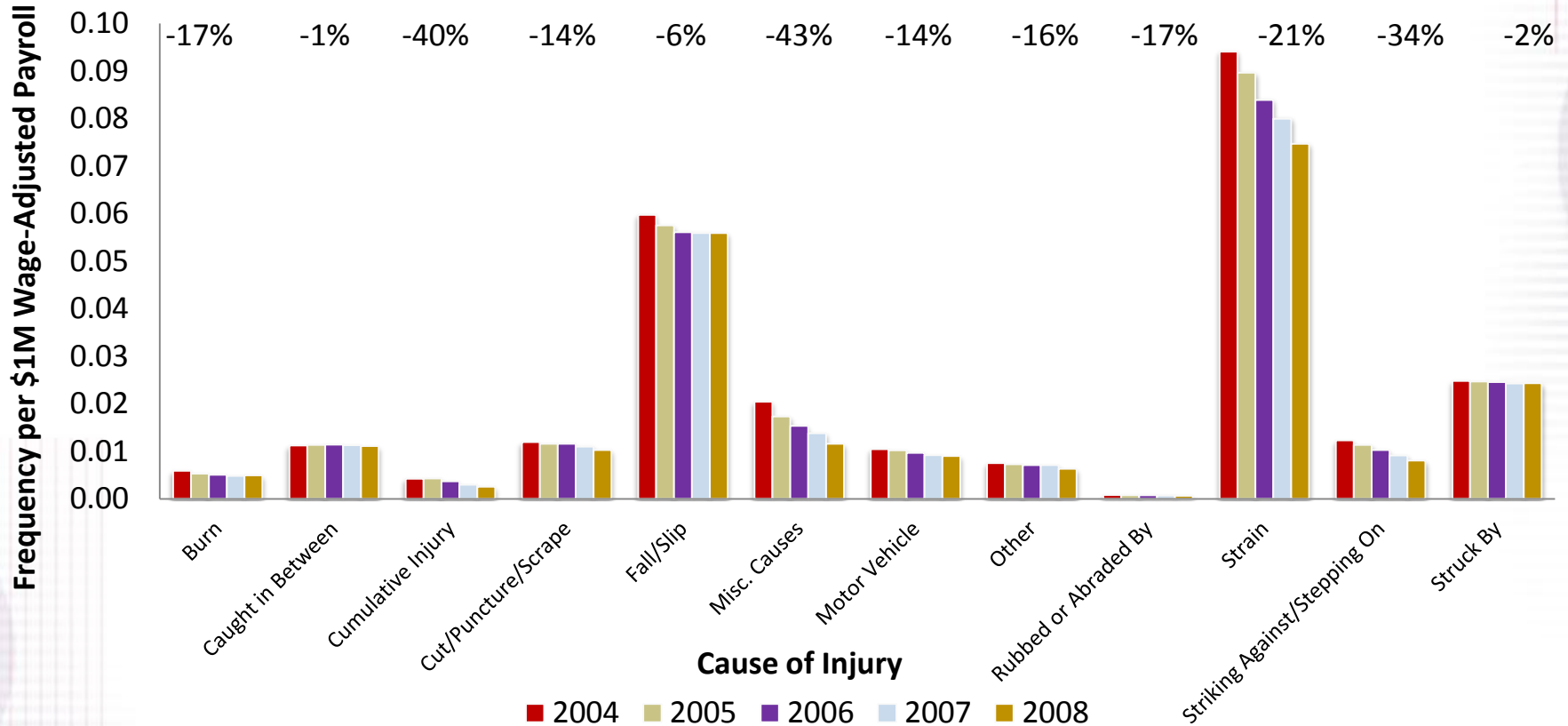
2004 to 2008 Frequency Change



Lost-Time Frequency at 1st report, **Statistical Plan** data, for all states where NCCI provides ratemaking services, excl. WV
For Policy Years Expiring 2004-2008

Frequency of Cumulative Injury Claims Declined 40%

2004 to 2008 Frequency Change

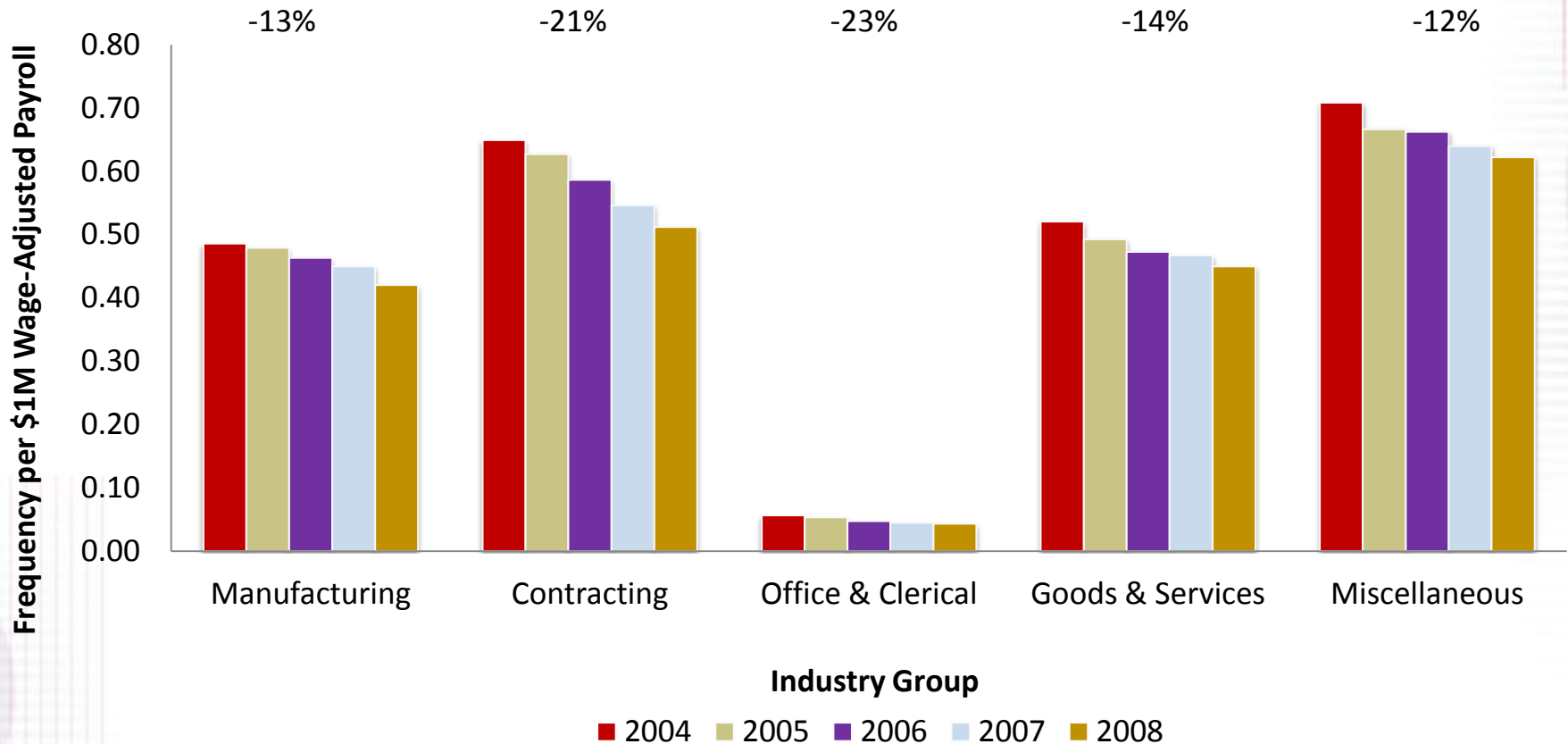


Lost-Time Frequency at 1st report, **Statistical Plan** data, for all states where NCCI provides ratemaking services, excl. WV
For Policy Years Expiring 2004-2008



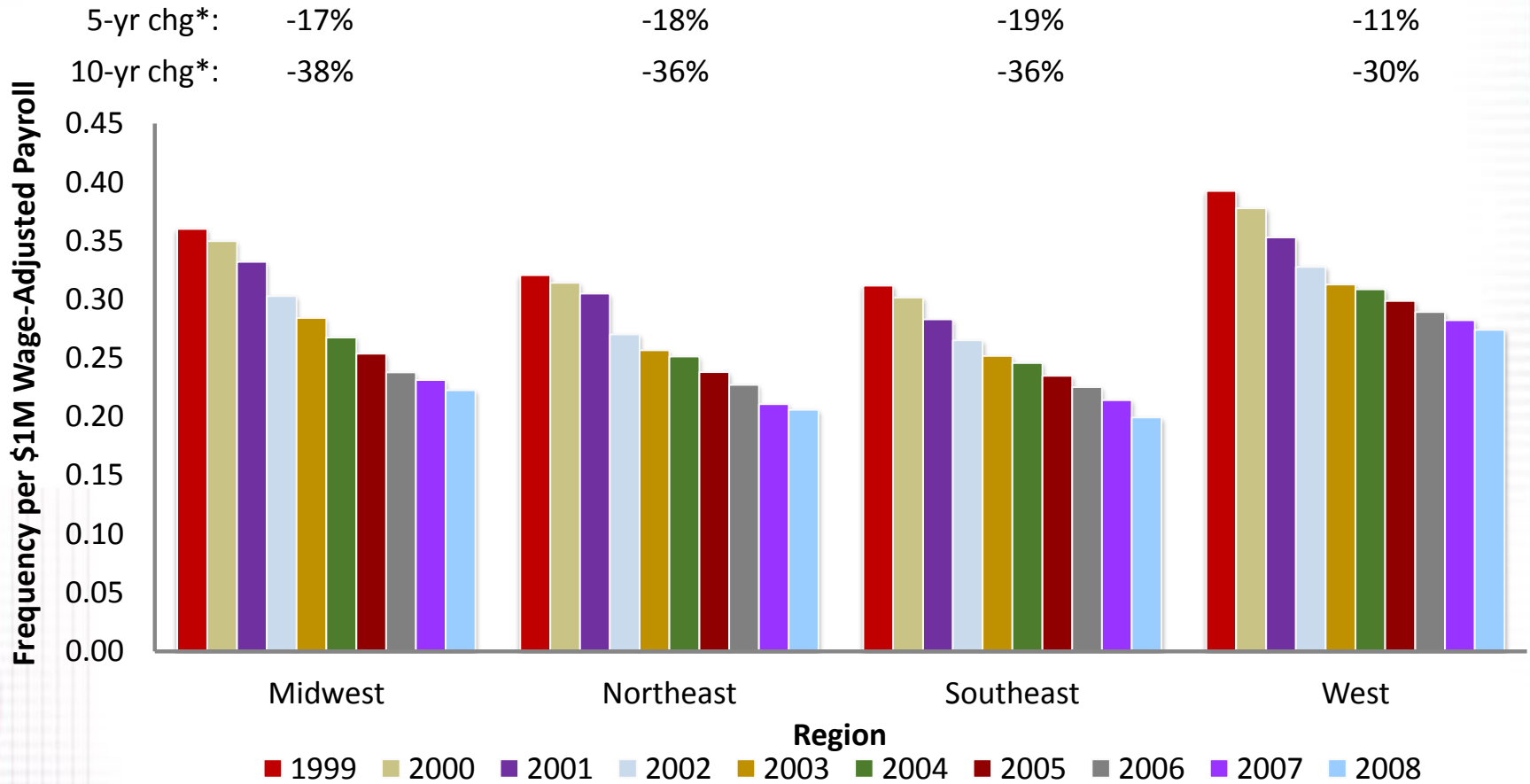
Frequency by Industry Group

2004 to 2008 Frequency Change



Lost-Time Frequency at 1st report, **Statistical Plan** data, for all states where NCCI provides ratemaking services, excl. WV
For Policy Years Expiring 2004-2008

The Western Region Has Exhibited the Lowest Frequency Decline



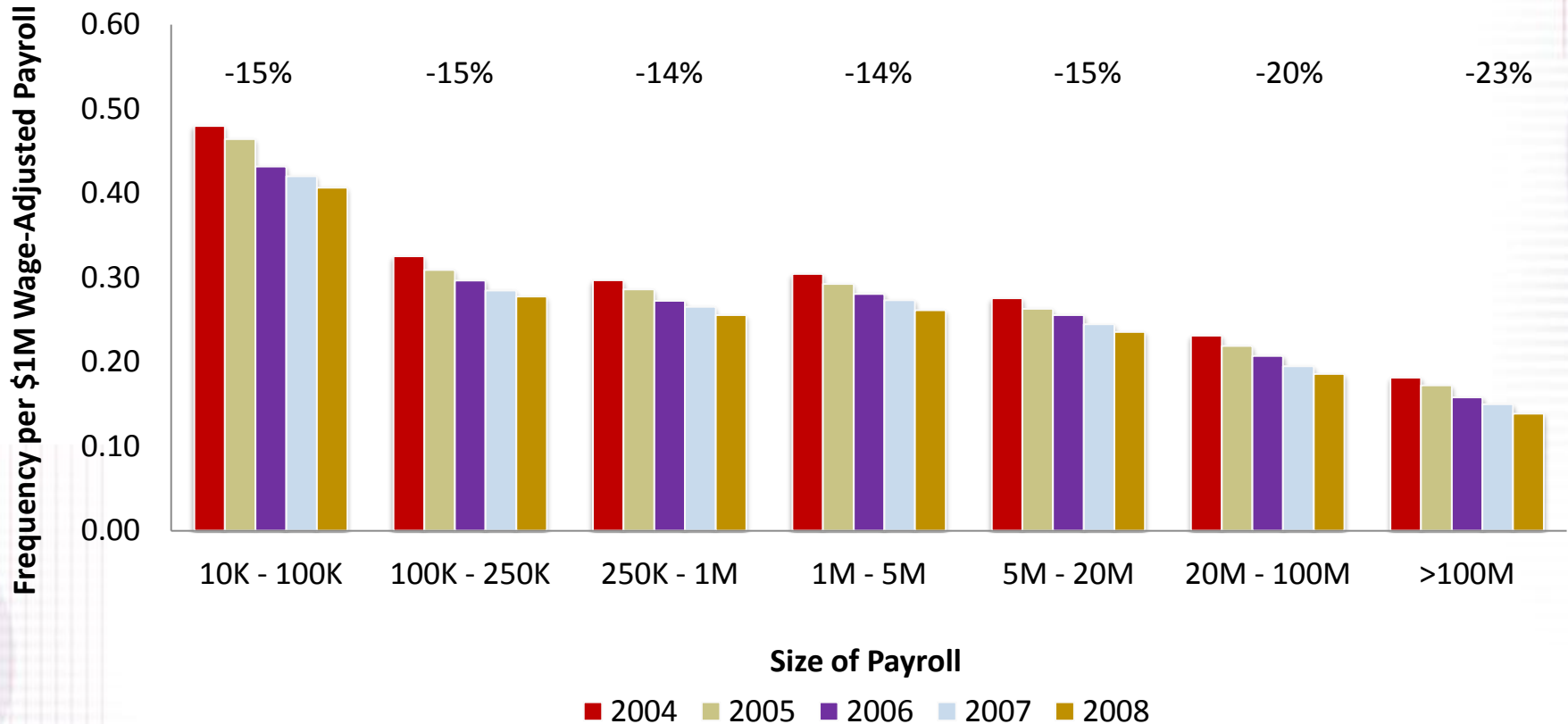
Lost-Time Frequency at 1st report, **Statistical Plan** data, for all states where NCCI provides ratemaking services, excl. WV
 For Policy Years Expiring 1999–2008

* 5-year change is 2004 to 2008; 10-year change is 1999 to 2008



Frequency Decline Is More Pronounced for High Payroll Policies

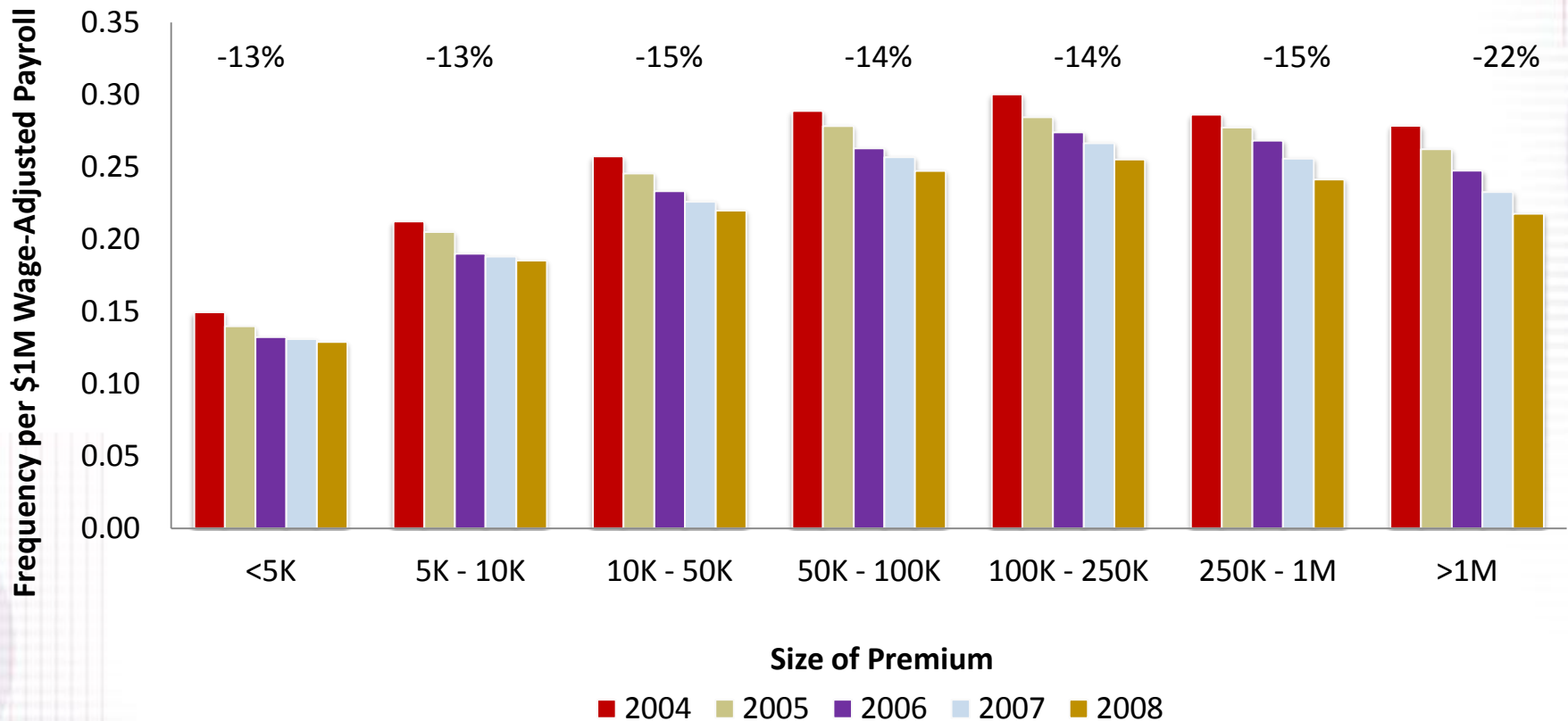
2004 to 2008 Frequency Change



Lost-Time Frequency at 1st report, **Statistical Plan** data, for all states where NCCI provides ratemaking services, excl. WV
 For Policy Years Expiring 2004-2008
 Employers in each range are not held constant from year to year

Frequency Decline Is Very Consistent for Policies With Less Than \$1M in Premium

2004 to 2008 Frequency Change



Lost-Time Frequency at 1st report, **Statistical Plan** data, for all states where NCCI provides ratemaking services, excl. WV
 For Policy Years Expiring 2004-2008
 Employers in each range are not held constant from year to year

Key Findings

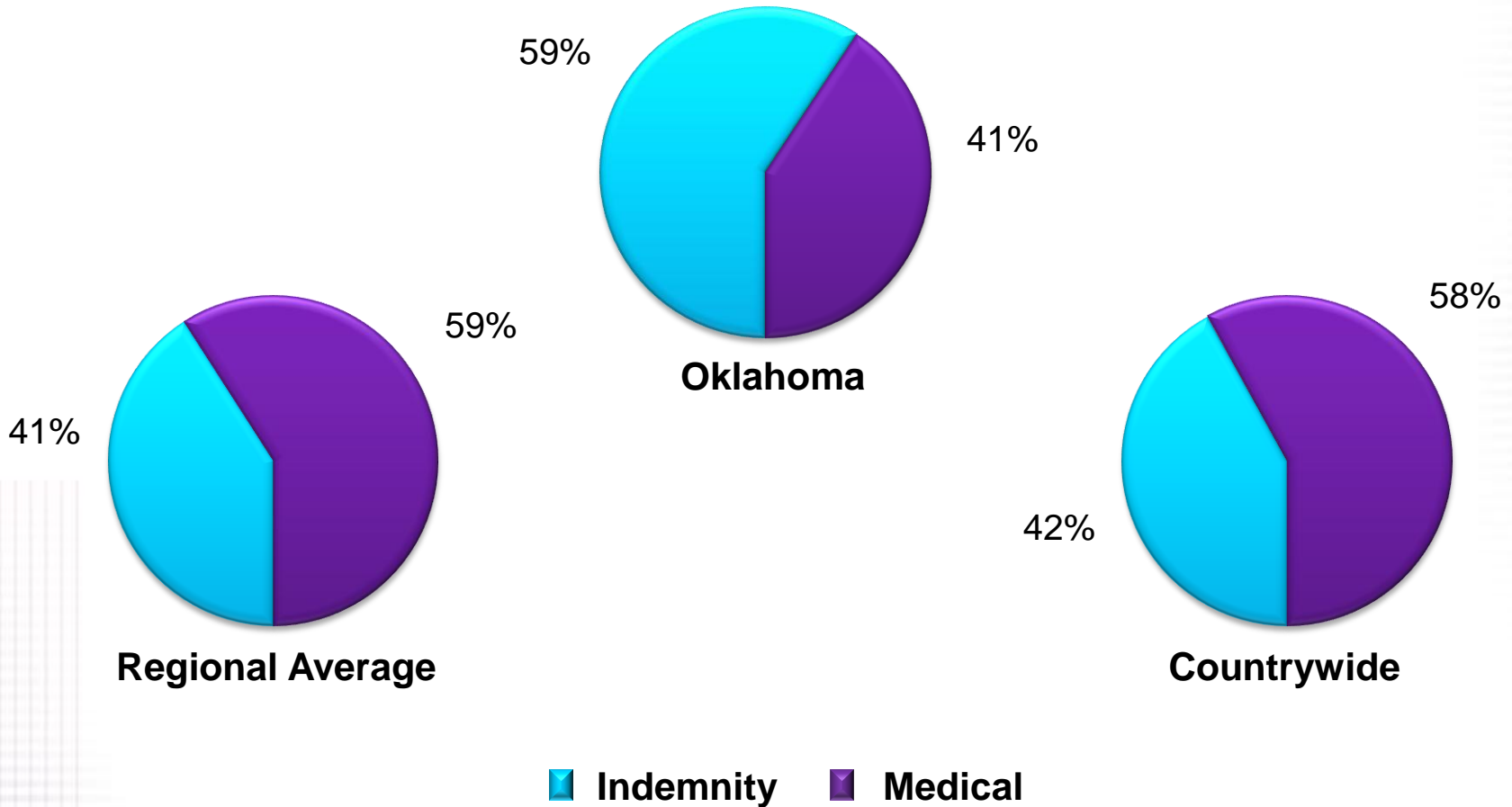
- Over the latest five years, the decline in frequency continues to be widespread. Frequency declines were observed for all industries, geographic regions, and employer sizes, as well as for most claim types.
- Injury type differences notwithstanding, frequency changes are relatively consistent by size of loss for claims under \$250,000.
- Claims considered “Likely-to-Develop” exhibited a larger percentage frequency decline than those considered “Not-Likely-to-Develop.”
- Some of the more complex claims, such as carpal tunnel and lower back, declined more than average over the latest five years.



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Indemnity and Medical Costs

Indemnity Benefits Constitute the Majority of Total Benefit Costs in Oklahoma

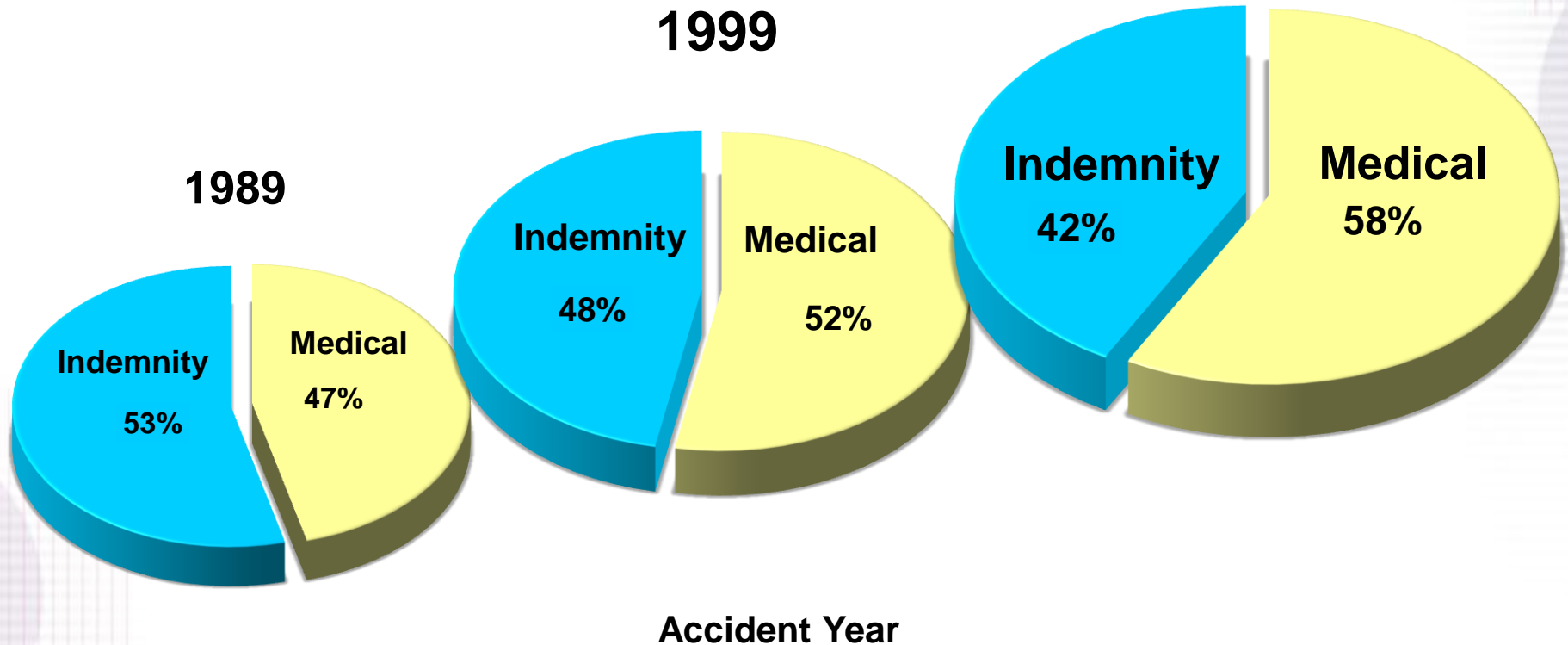


Regional states are Arkansas, Colorado, Kansas, Missouri, and New Mexico.

Workers Compensation Medical Losses Are More Than Half of Total Losses

All Claims—NCCI States

2009p



2009p: Preliminary based on data valued as of 12/31/2009
1989, 1999: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

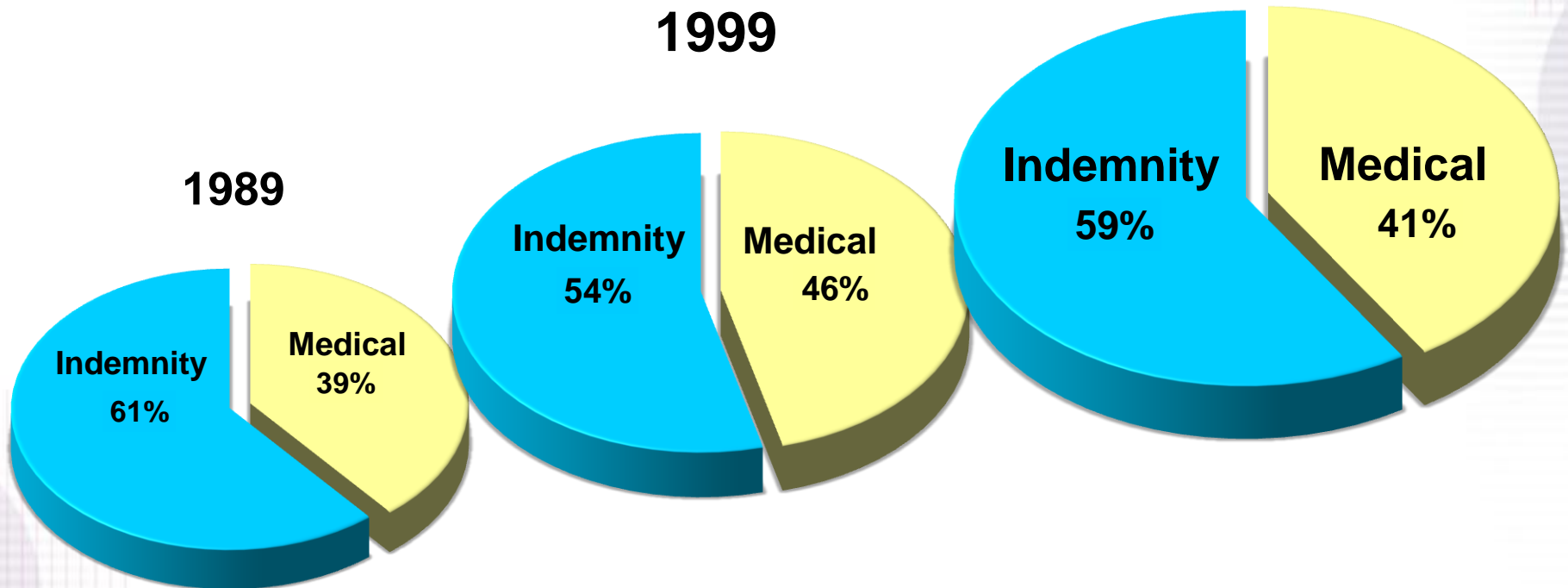
Workers Compensation Indemnity Losses Are More Than Half of Total Losses

All Claims—Oklahoma

2009

1999

1989



Accident Year

1999, 2009: Based on data valued as of 12/31/2009
1989: Based on data through 12/31/2007, developed to ultimate
Private Carrier and State Fund
Excludes high deductible policies



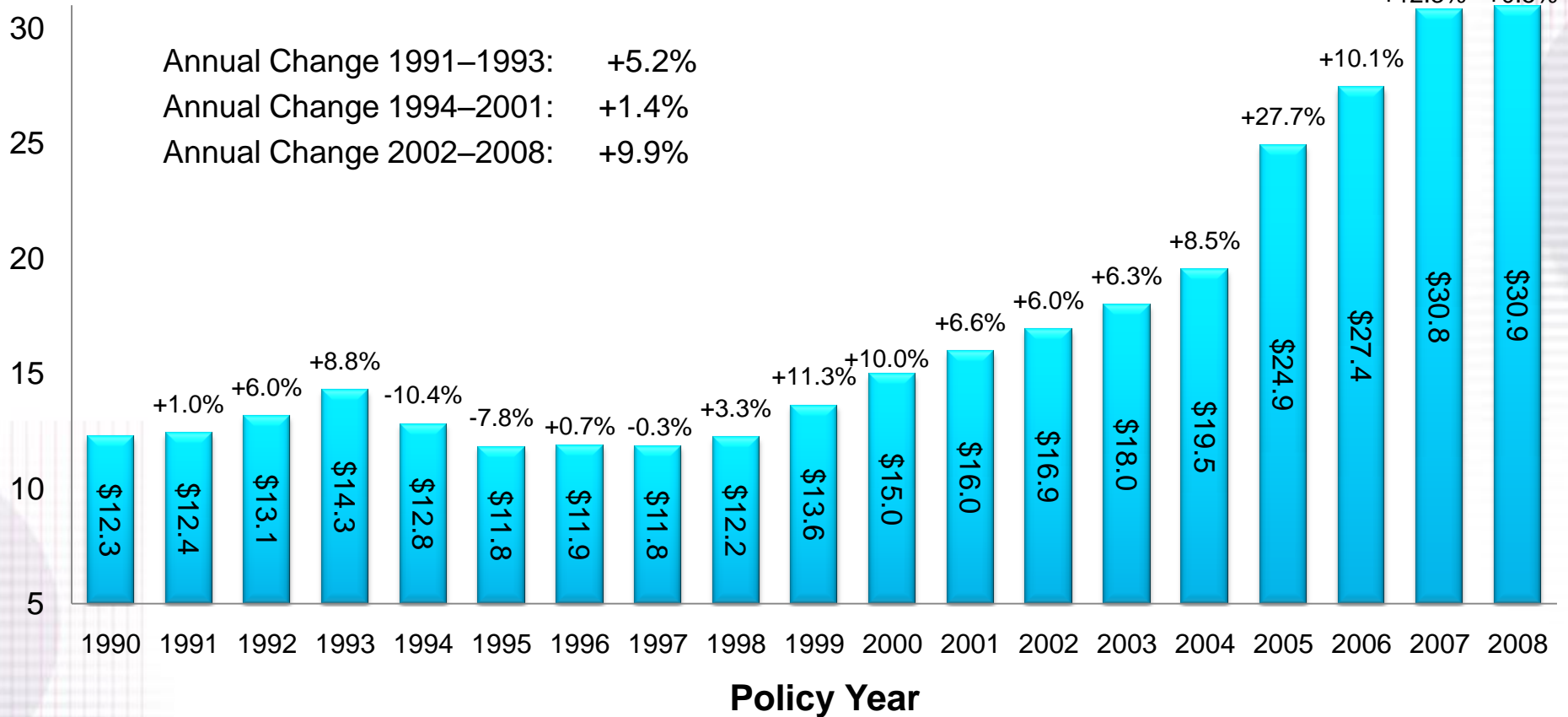
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Indemnity and Medical Severity

Oklahoma Workers Compensation Indemnity Claim Costs

Average Indemnity Cost per Lost-Time Claim

Indemnity Claim Cost ('000s)



Based on data through 12/31/2009, developed to ultimate
 Private Carrier and State Fund
 Excludes high deductible policies

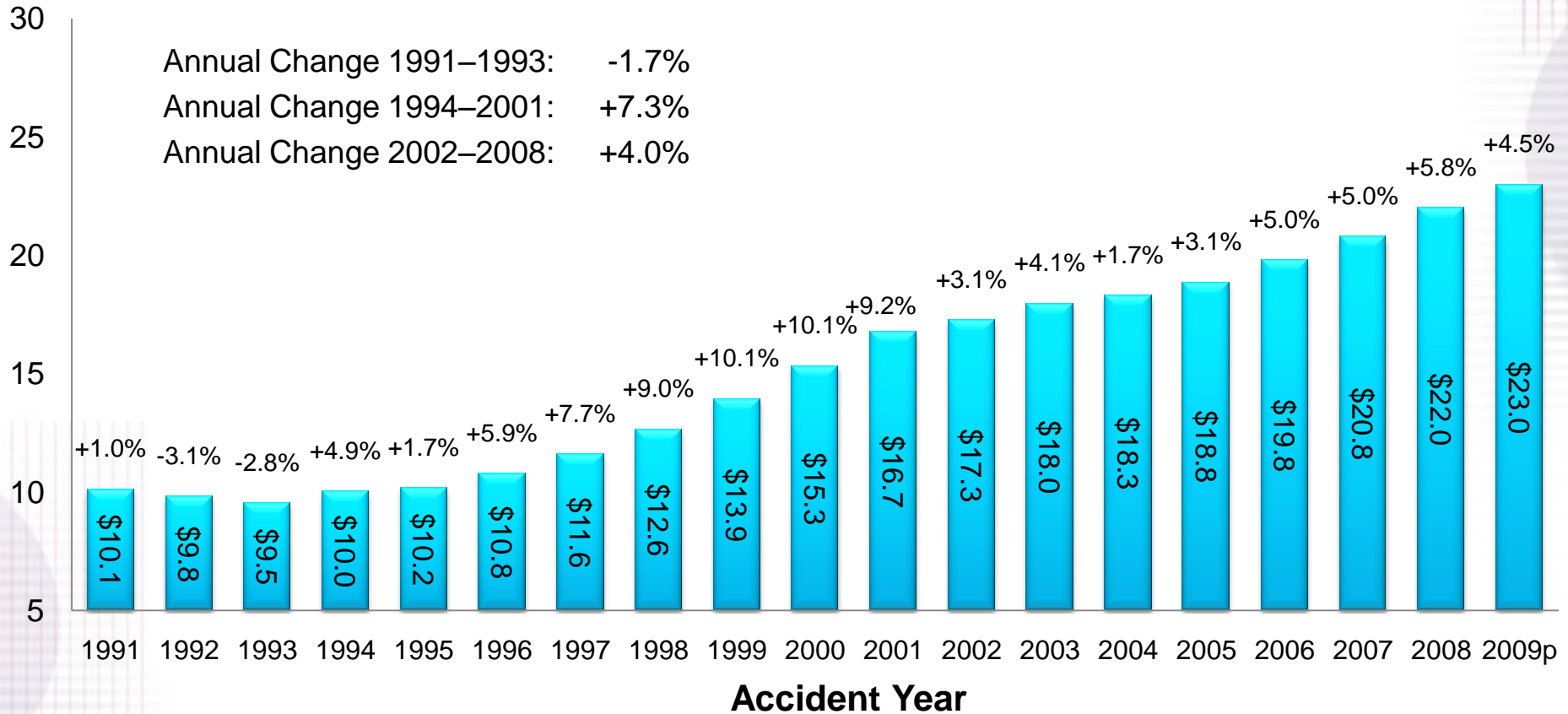


Countrywide Workers Compensation Indemnity Claim Costs Continue to Grow

Average Indemnity Cost per Lost-Time Claim

Indemnity Claim Cost ('000s)

Annual Change 1991–1993: -1.7%
 Annual Change 1994–2001: +7.3%
 Annual Change 2002–2008: +4.0%



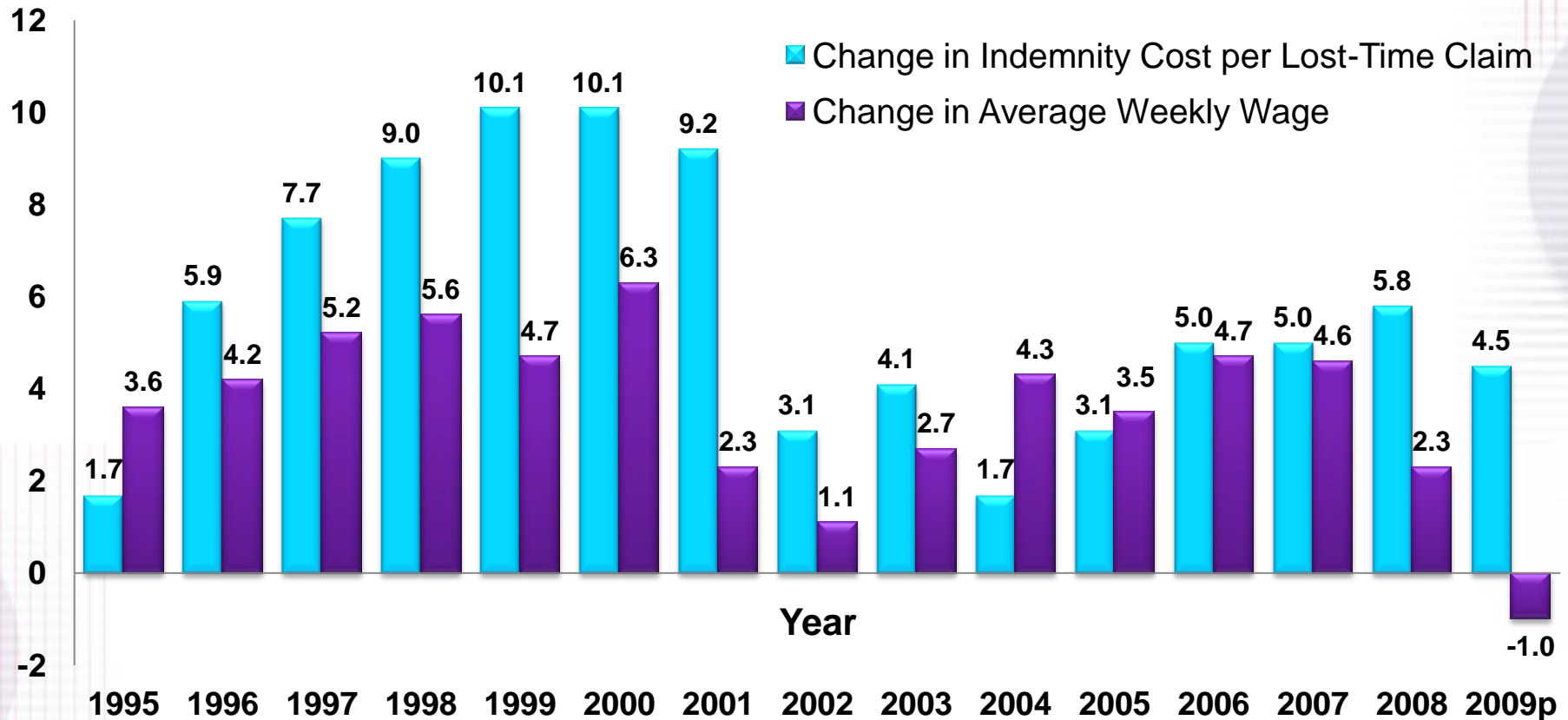
2009p: Preliminary based on data valued as of 12/31/2009
 1991–2008: Based on data through 12/31/2008, developed to ultimate
 Based on the states where NCCI provides ratemaking services, including state funds
 Excludes high deductible policies



Countrywide Indemnity Severity Continues to Outpace Wage Inflation

Average Indemnity Cost per Lost-Time Claim

Percent Change



Indemnity severity 2009p: Preliminary based on data valued as of 12/31/2009

Indemnity severity 1995–2008: Based on data through 12/31/2008, developed to ultimate

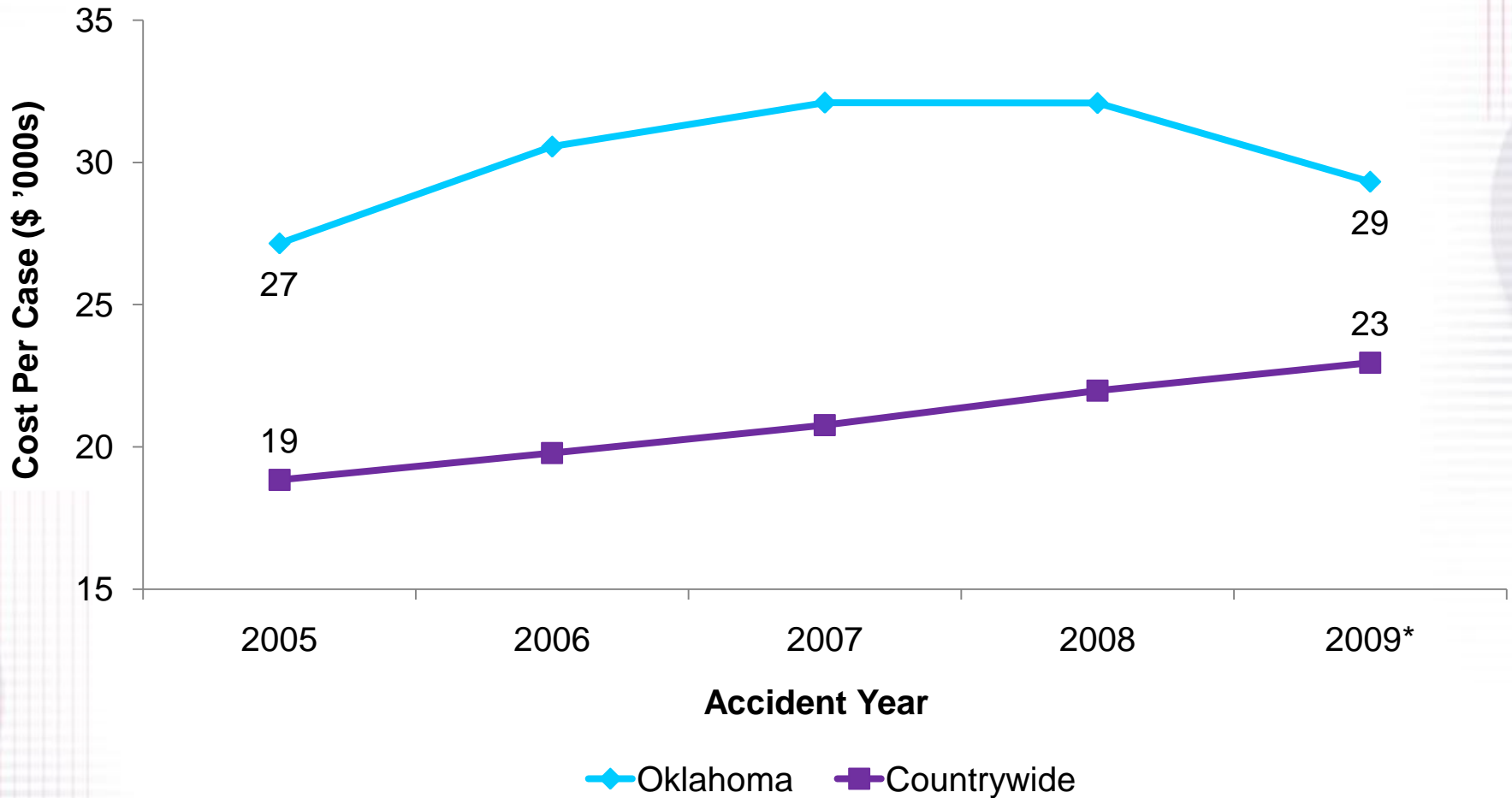
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Source: Average Weekly Wage 1995–2008: Quarterly Census of Employment and Wages, Economy.com; 2009p, NCCI

Accident year indemnity severity—NCCI states, NCCI

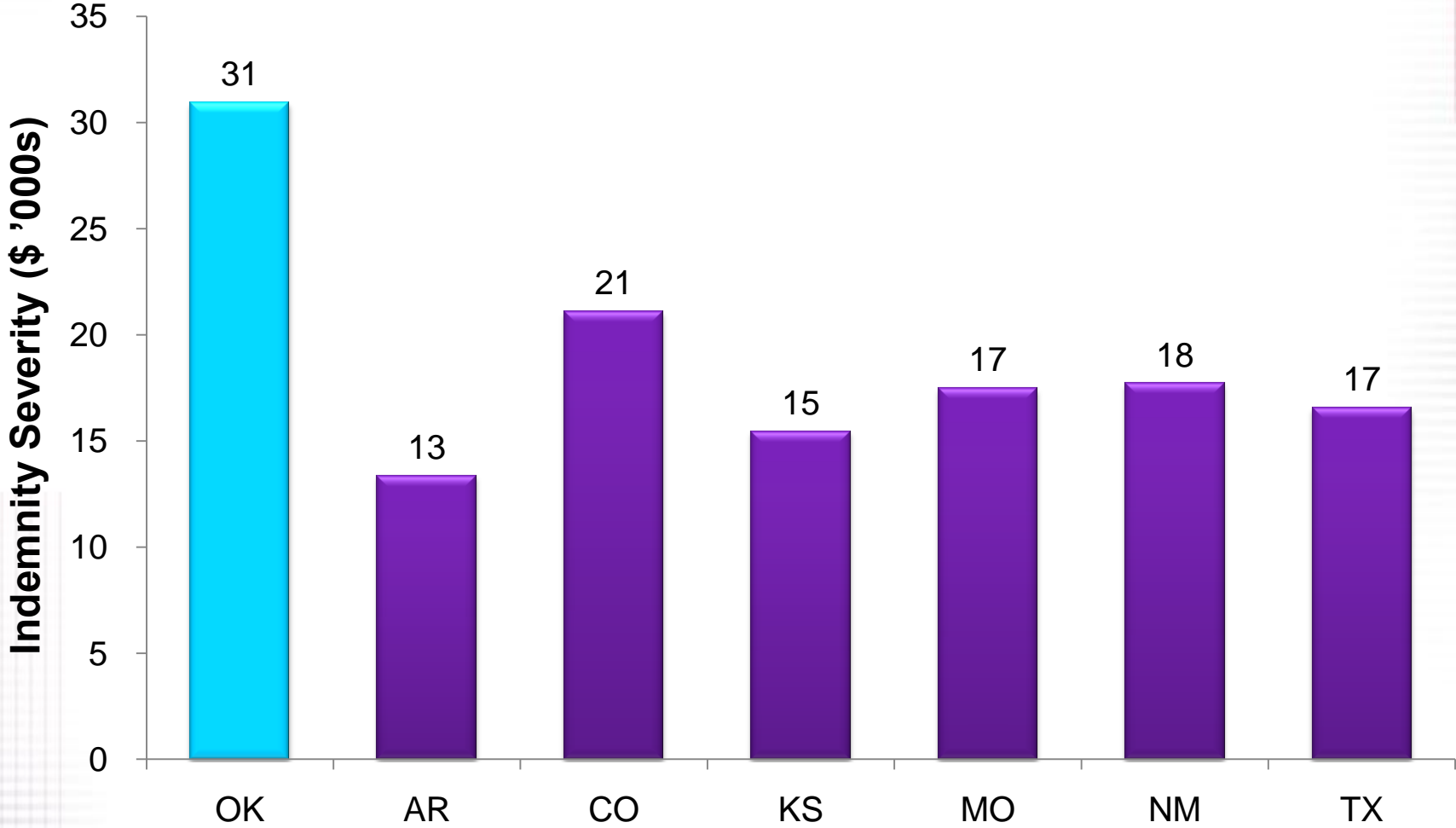


Oklahoma Indemnity Average Cost per Case vs. Countrywide



* Countrywide figure is preliminary
Source: NCCI financial data valued as of 12/31/09

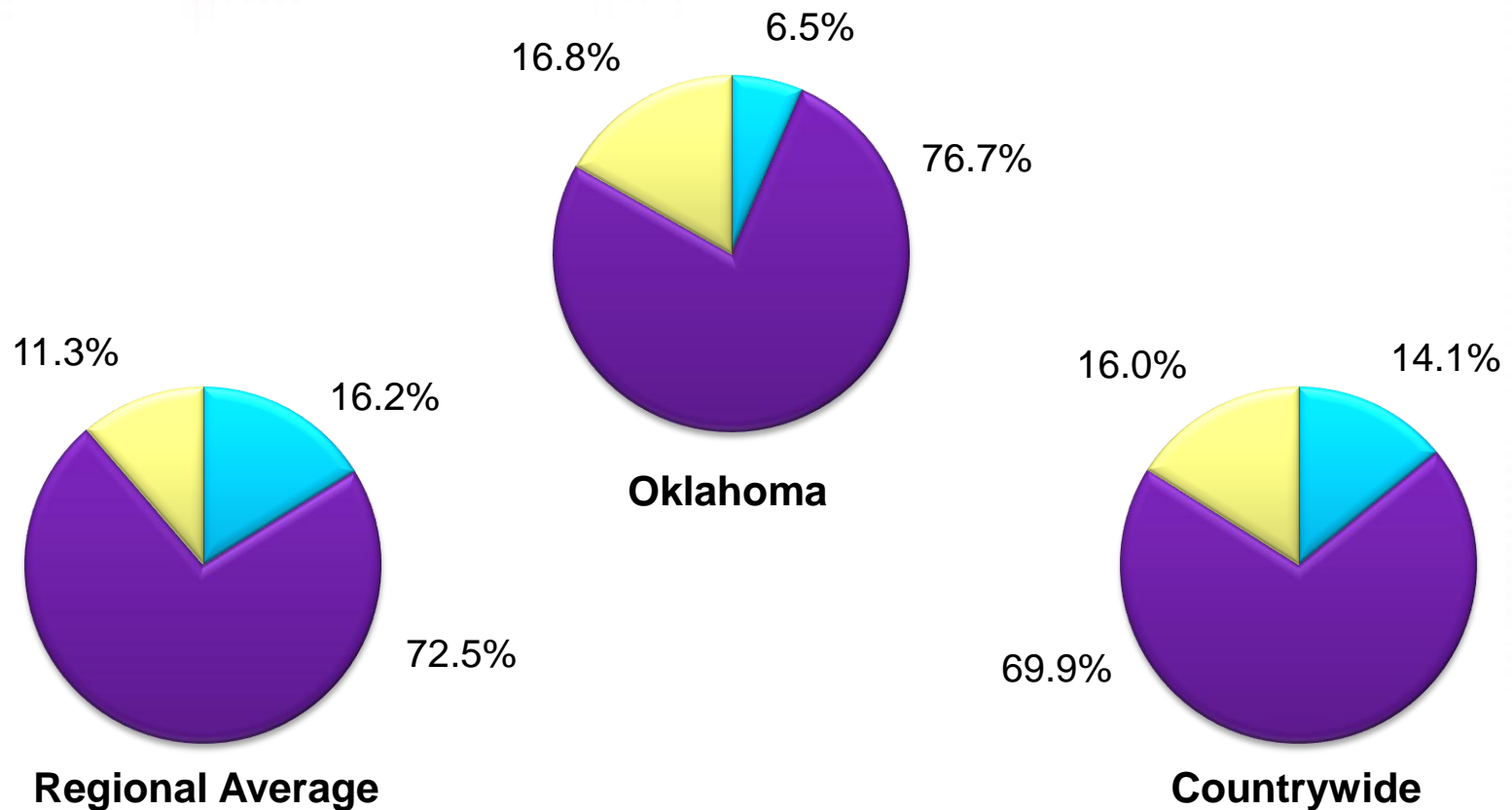
Oklahoma Indemnity Average Claim Severity



Based on NCCI's financial data for lost-time claims.



Oklahoma's Indemnity Loss Distribution by Injury Type



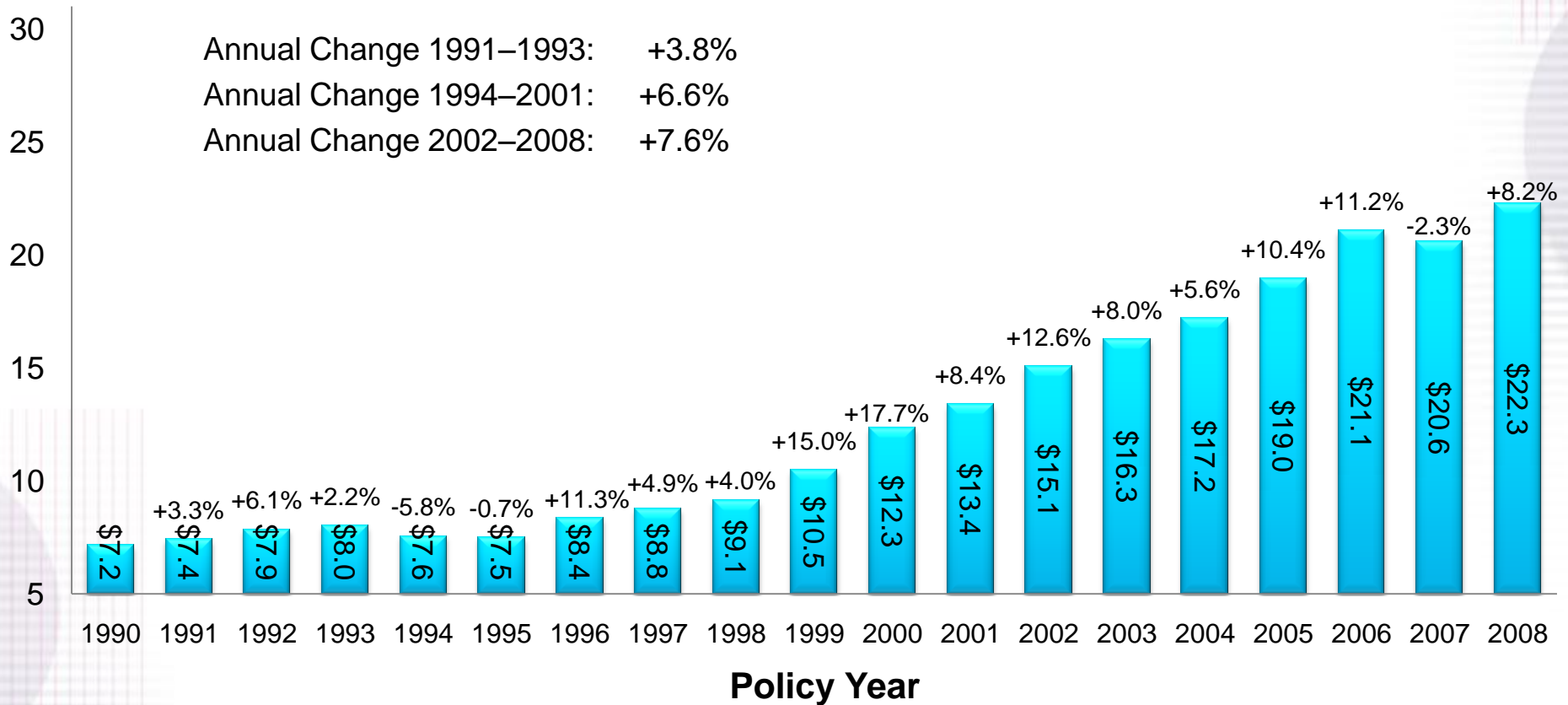
■ Temporary Total
 ■ Permanent Partial
 ■ Permanent Total/Fatal

Regional states are Arkansas, Colorado, Kansas, Missouri, and New Mexico.
 Countrywide and regional averages exclude Texas.
 Based on NCCI's **Statistical Plan** data.

Oklahoma Workers Compensation Medical Claim Cost Trends

Average Medical Cost per Lost-Time Claim

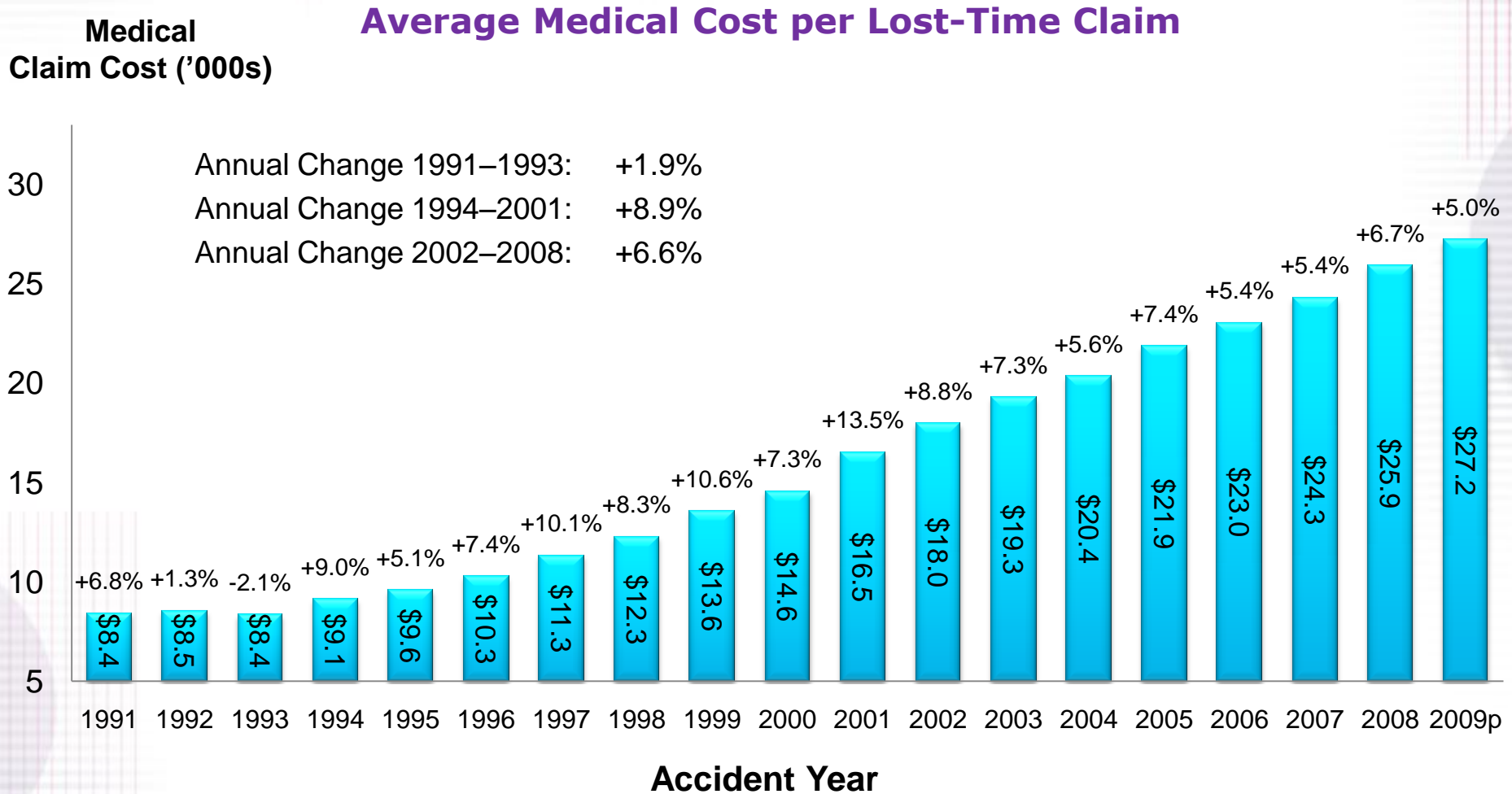
Medical Claim Cost ('000s)



Based on data through 12/31/2009, developed to ultimate
Private Carrier and State Fund
Excludes high deductible policies



Countrywide Workers Compensation Medical Claim Cost Trends



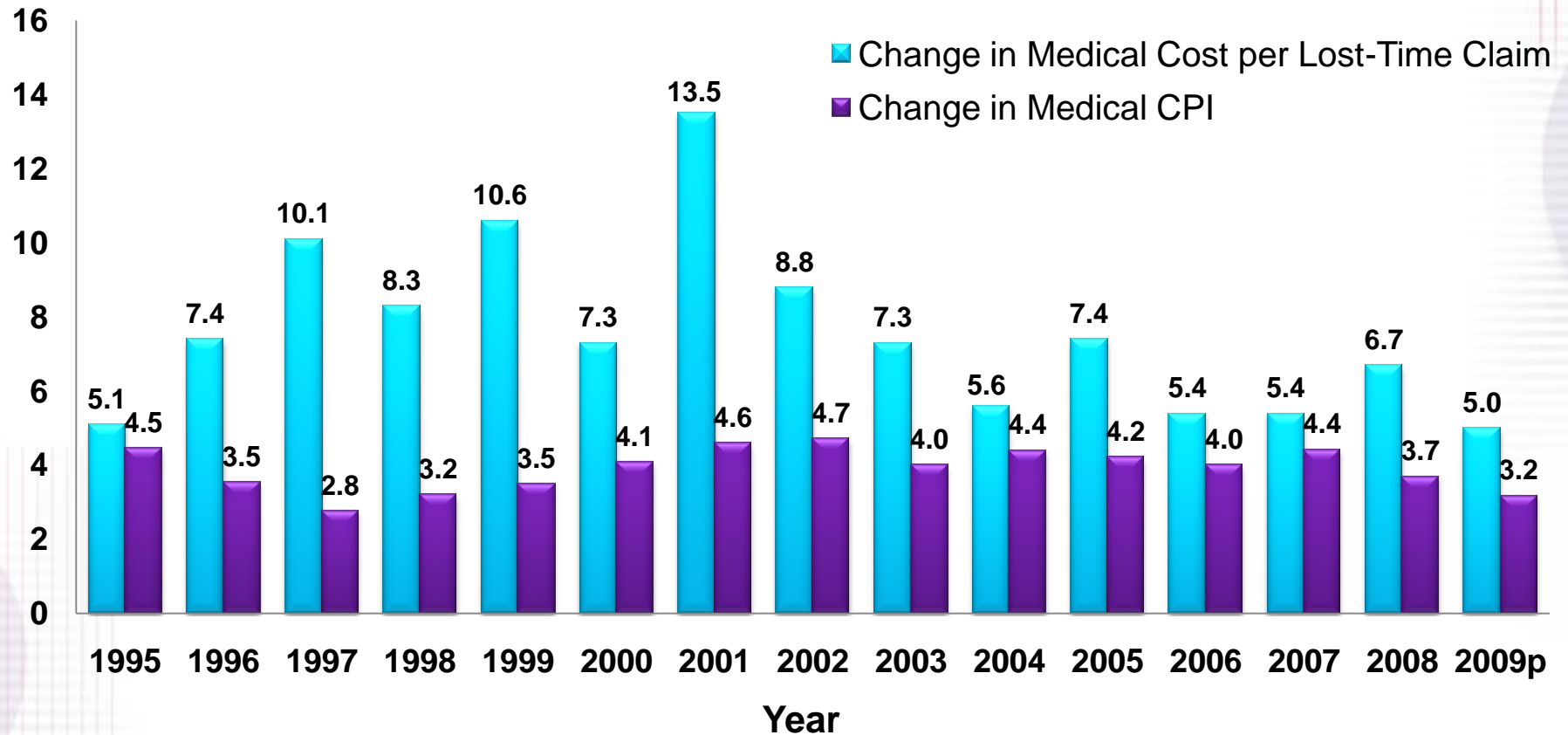
2009p: Preliminary based on data valued as of 12/31/2009
 1991–2008: Based on data through 12/31/2008, developed to ultimate
 Based on the states where NCCI provides ratemaking services, including state funds
 Excludes high deductible policies



Countrywide WC Medical Severity Is Still Growing Faster Than the Medical CPI

Average Medical Cost per Lost-Time Claim

Percent Change



Medical severity 2009p: Preliminary based on data valued as of 12/31/2009

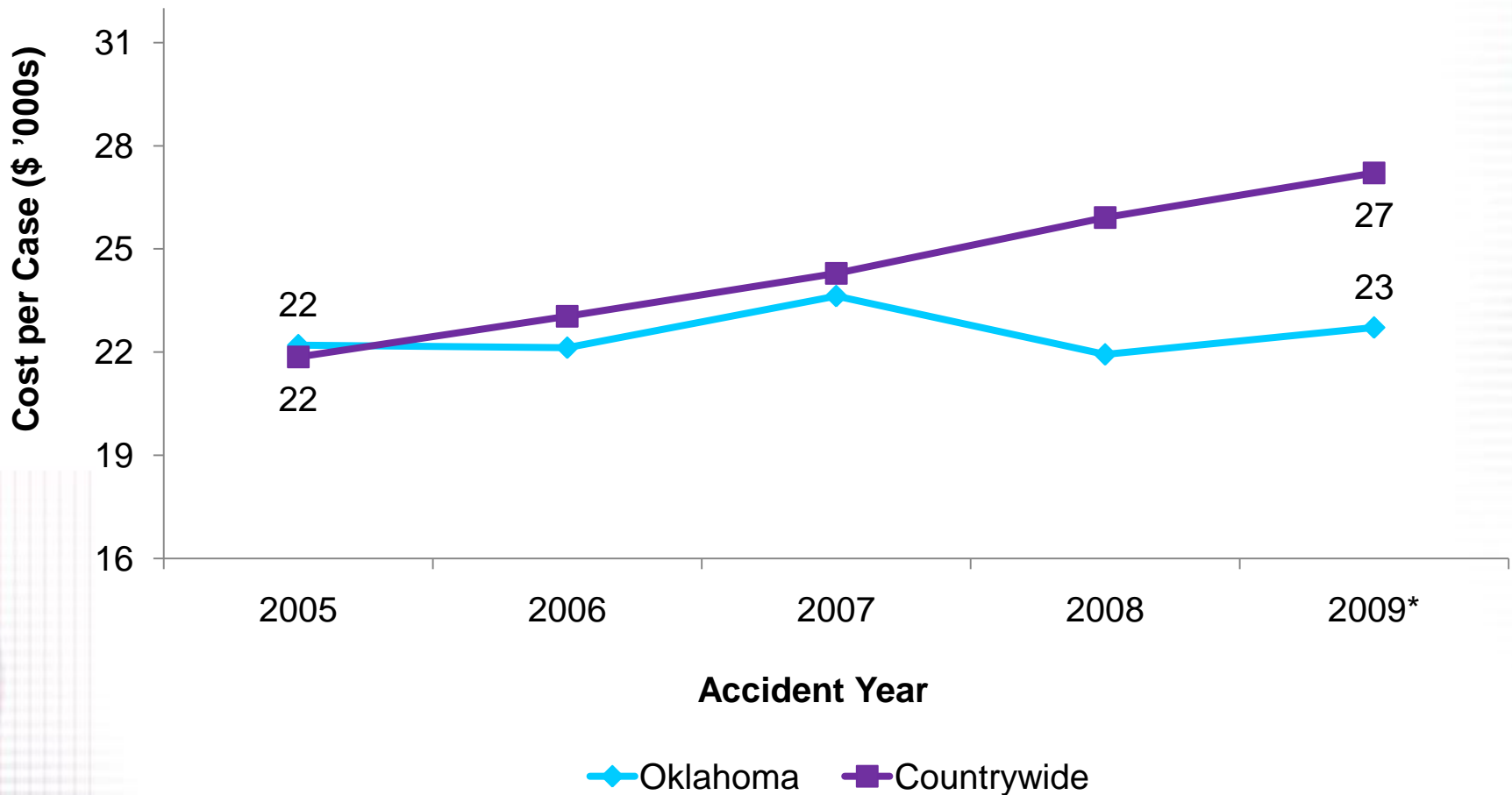
Medical severity 1995–2008: Based on data through 12/31/2008, developed to ultimate

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



Oklahoma Medical Average Cost per Case vs. Countrywide



* Countrywide figure is preliminary

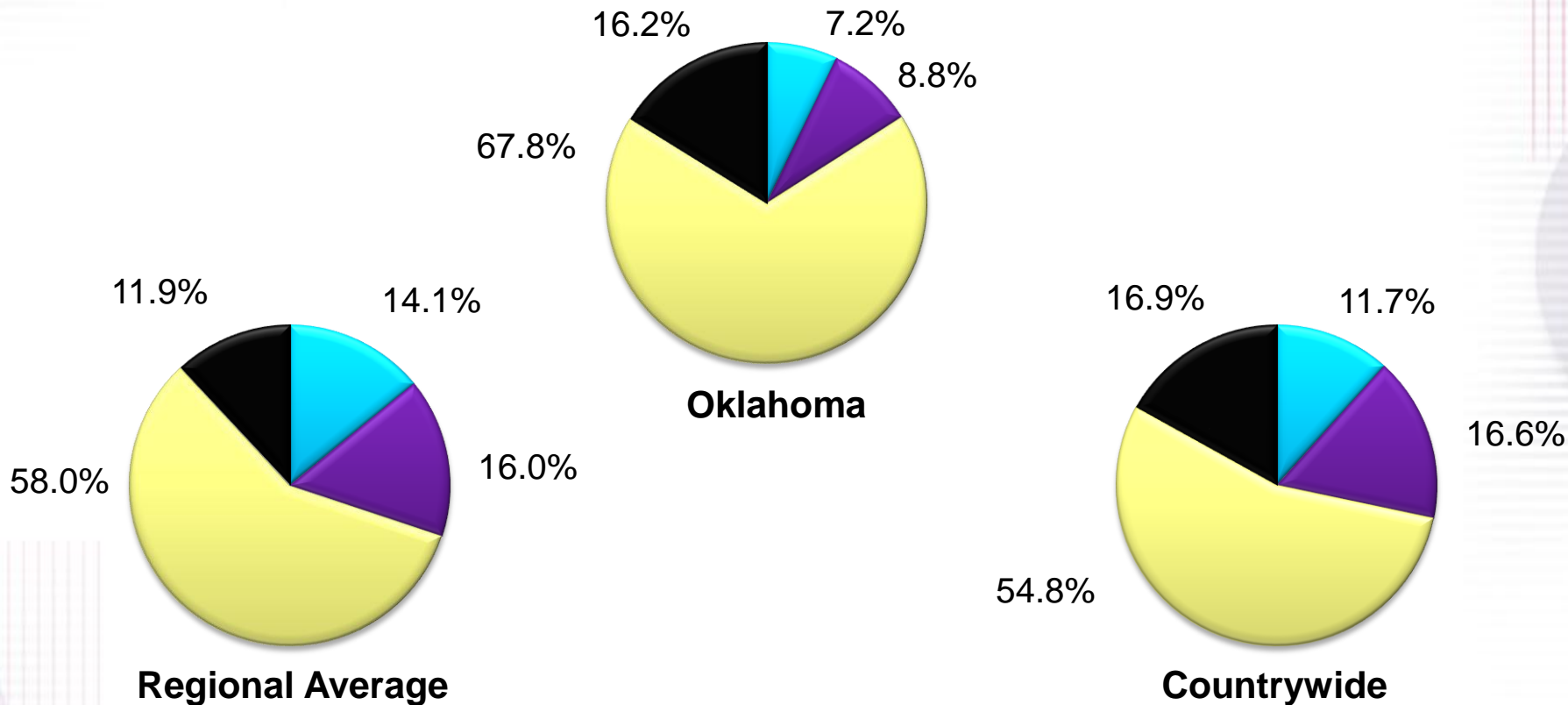
Source: NCCI financial data valued as of 12/31/09

Oklahoma's Medical Average Claim Severity Compared With Neighboring States



Based on NCCI's financial data for lost-time claims.

Oklahoma's Medical Loss Distribution by Injury Type



■ Medical Only
 ■ Temporary Total
 ■ Permanent Partial
 ■ Permanent Total/Fatal

Regional states are Arkansas, Colorado, Kansas, Missouri, and New Mexico.
 Countrywide and regional averages exclude Texas.
 Based on NCCI's **Statistical Plan** data.

Workers Compensation Severity: Oklahoma and Countrywide

- The change in the average indemnity cost per case in Oklahoma appears relatively flat in the latest policy year, following consecutive years of double-digit increases
- The increase in the average medical cost per case has slowed to some extent in recent years
- Countrywide medical and indemnity costs continue to rise—somewhat negating the good news regarding reduced claims



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Prescription Drug Study 2010 Update

Key Findings

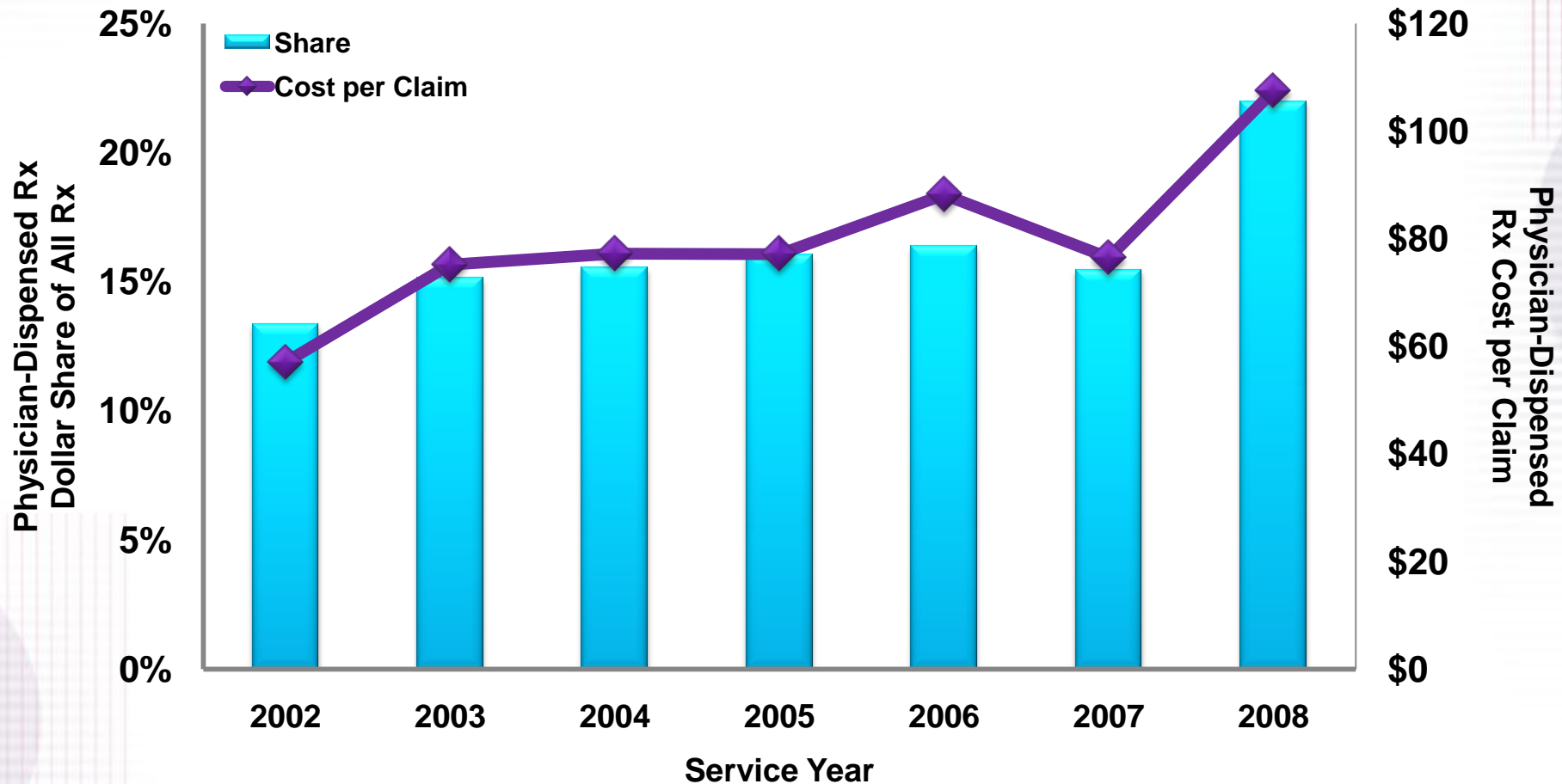
- Physician-dispensed drugs are an increasing share of prescription drug costs in recent years for most states
- Repackaging is tied to physician-dispensed drugs but only tells part of the story

Study Design

- Data is based on a nationwide* sample
- Data includes claims for injuries occurring from 1994 to 2008 and services from 1996 to 2008
- Evaluated as of June 2009

* States where NCCI provides ratemaking services, excl. WV, plus CA, DE, MA, MI, MN, NJ, NY, PA, and WI

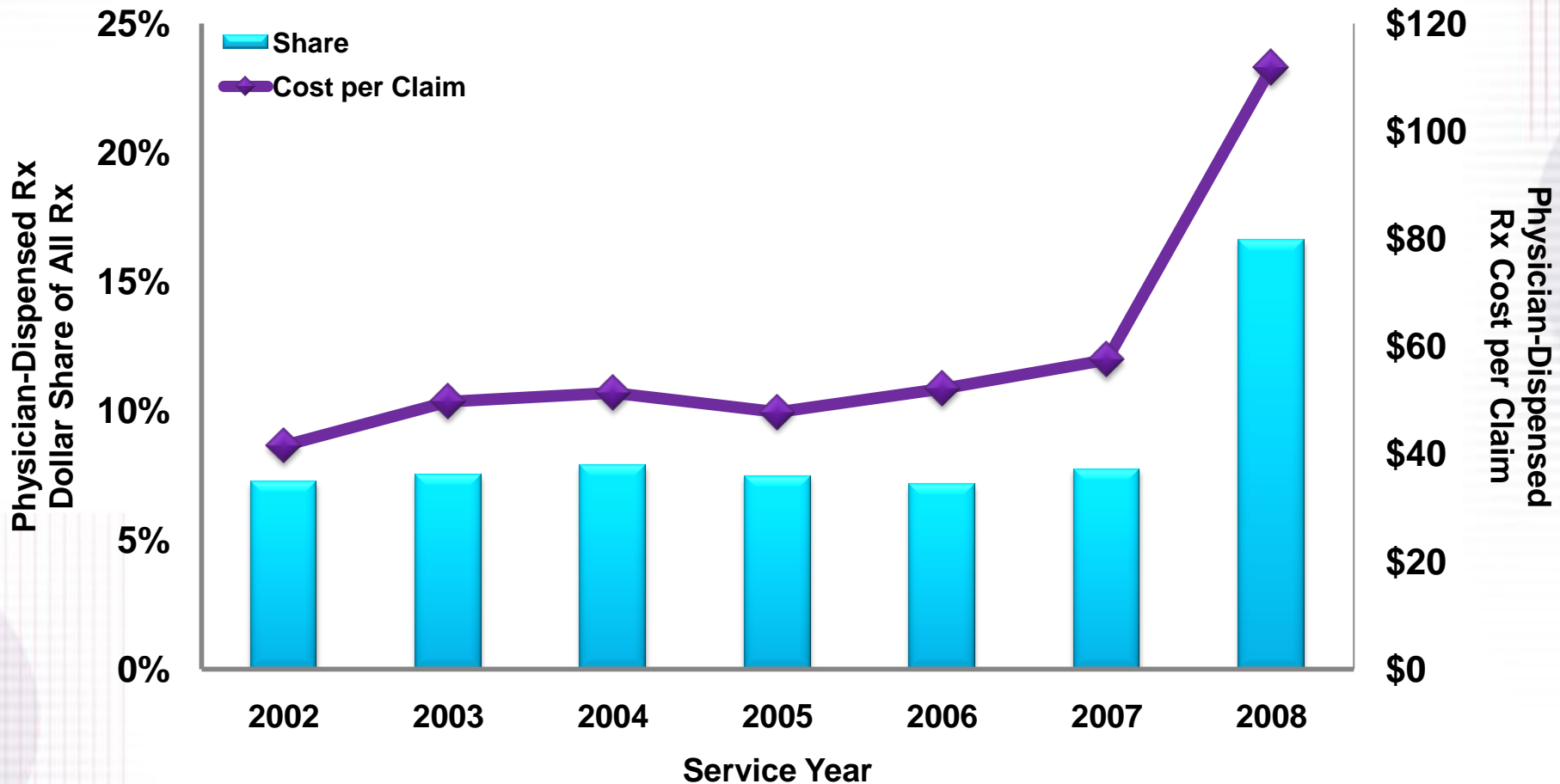
Physician Dispensing Increased in Service Year 2008



Source: Derived from sample data provided by carriers
 1st through 9th relative service year
 Average cost per claim with physician-dispensed drugs
 Aggregation of states where NCCI provides ratemaking services, excl. WV, plus CA, DE, MA, MI, MN, NJ, NY, PA, and WI



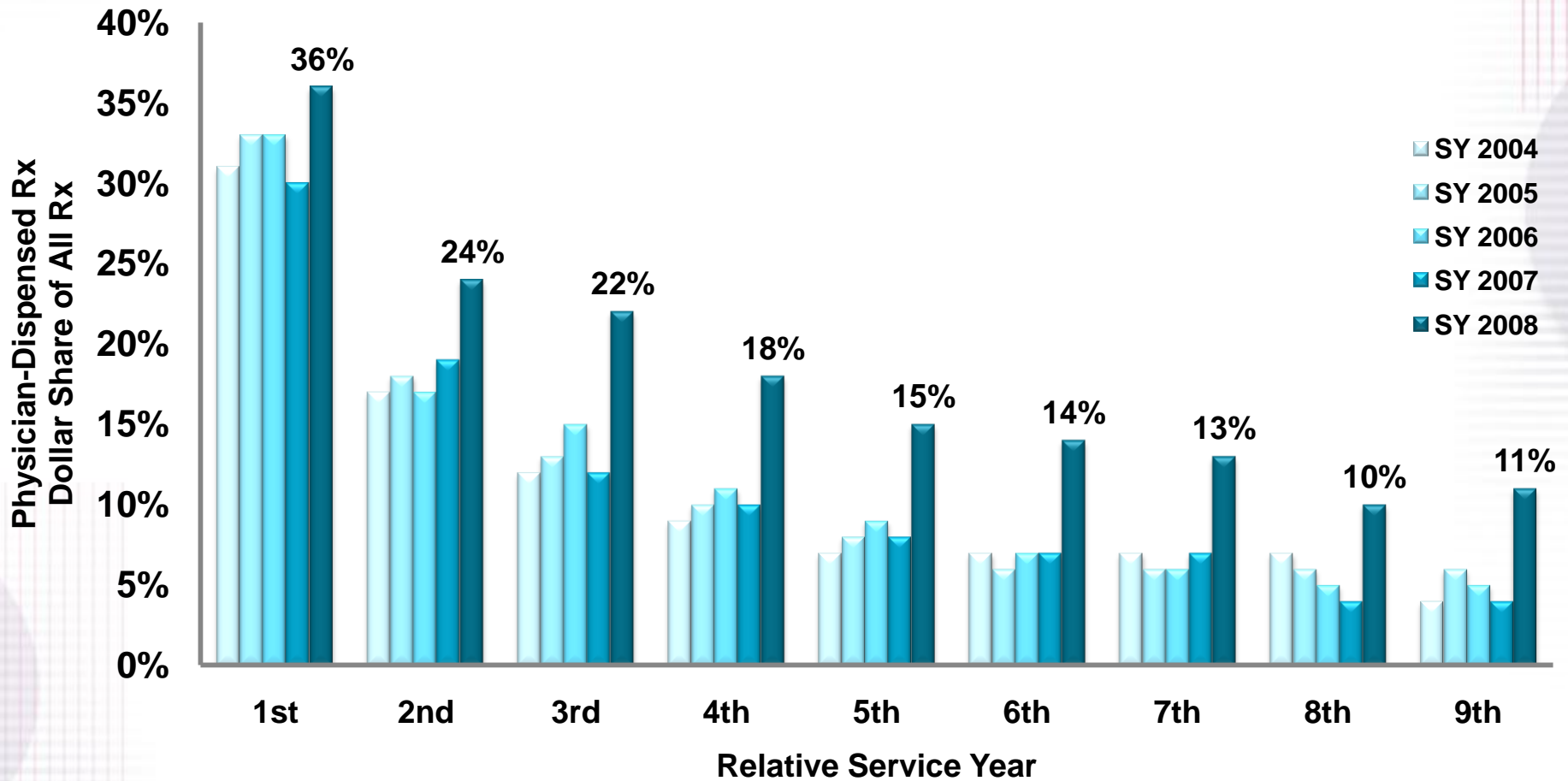
Physician Dispensing Increased Even More, Excluding California



Source: Derived from sample data provided by carriers
 1st through 9th relative service year
 Average cost per claim with physician-dispensed drugs
 Aggregation of states where NCCI provides ratemaking services, excl. WV, plus DE, MA, MI, MN, NJ, NY, PA, and WI



Physicians Have Started to Dispense Drugs for Both Newer and Older Claims

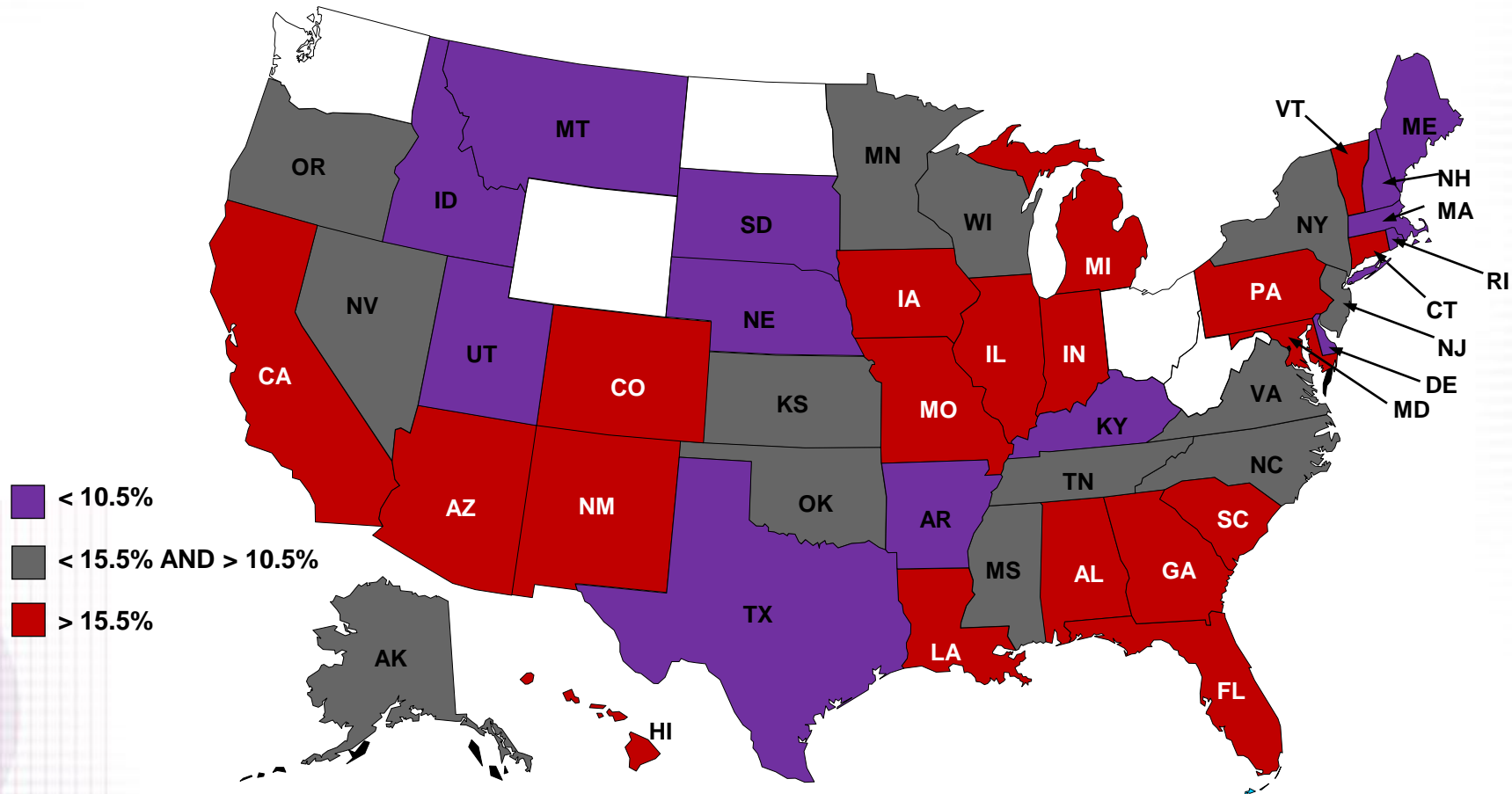


Source: Derived from sample data provided by carriers
 Aggregation of states where NCCI provides ratemaking services, excl. WV, plus CA, DE, MA, MI, MN, NJ, NY, PA, and WI



Physician-Dispensed Drugs Paid Share of Rx Varies by State

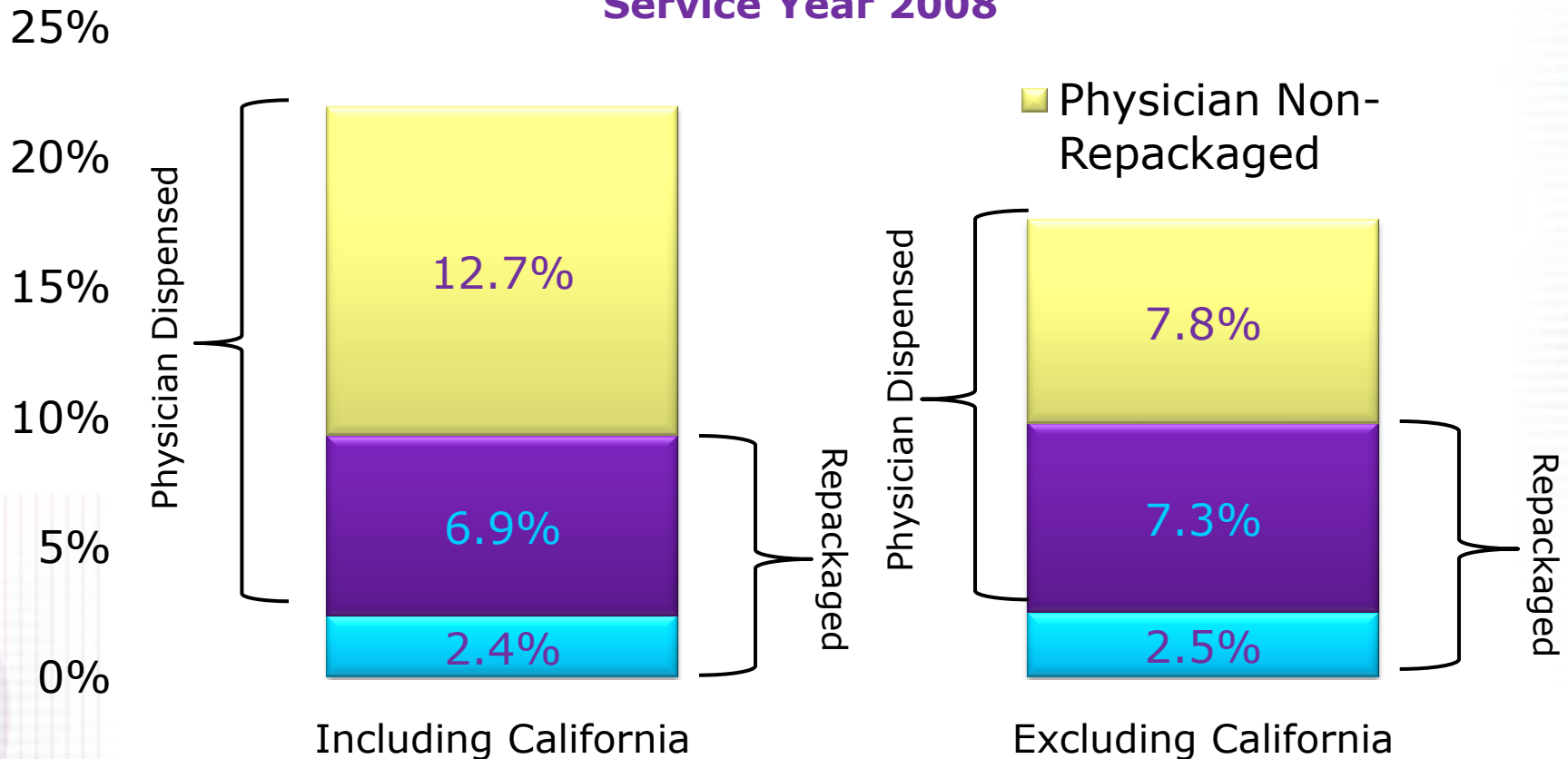
Service Year 2008



Source: Derived from sample data provided by carriers
1st through 9th relative service year
Statistics are based on at least \$130,000 paid Rx for each state service year combination

Over Half of Physician-Dispensed Drug Costs Come From Repackaged Drugs

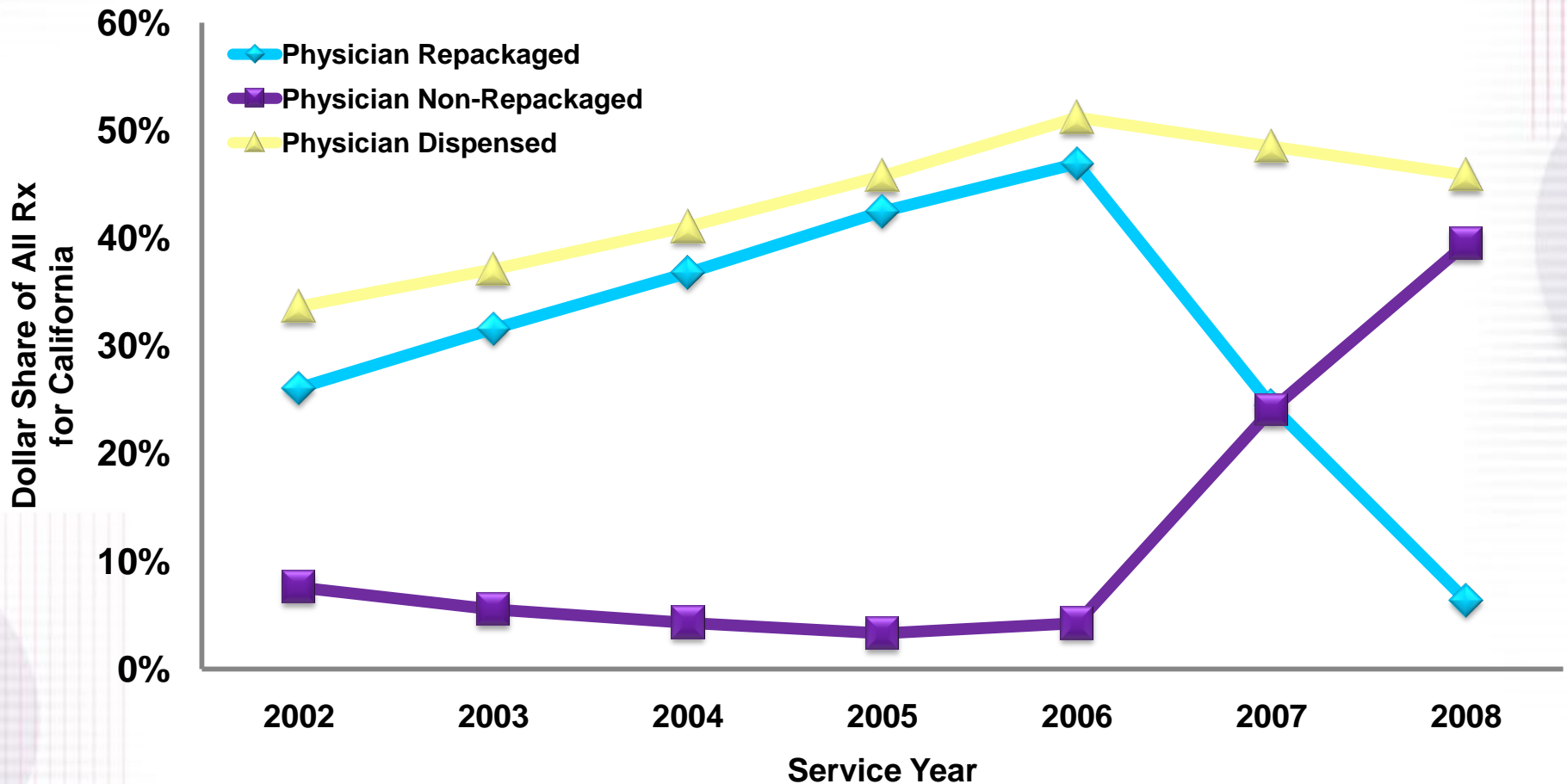
Shares of Total Workers Compensation Prescription Drugs Service Year 2008



Source: Derived from sample data provided by carriers

Aggregation of states where NCCI provides ratemaking services, excl. WV, plus CA, DE, MA, MI, MN, NJ, NY, PA, and WI

California Reform Reduced Physician-Dispensed Repackaged Drugs



Source: Derived from sample data provided by carriers
Unidentifiable drugs are excluded
1st through 9th relative service year



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NCCI Initiatives

NCCI Initiatives

Key stakeholder education:

- On-demand webinars
- Legislative analysis
- In-depth analysis:
 - Medical Severity Study
 - TTD Benefit Duration
 - Reserving in the Age of Obesity
 - Medicare and WC Medical Cost Containment



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Q & A



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Closing Remarks

Thank You!



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Glossary

Glossary

- **Assigned Risk Adjustment Program (ARAP)**—An assigned risk market program that surcharges residual market risks based on the magnitude of their experience rating modification.
- **Calendar Year (CY)**—Experience of earned premium and loss transactions occurring within the calendar year beginning January 1, irrespective of the contractual dates of the policies to which the transactions relate and the dates of the accidents.
- **Calendar-Accident Year (AY)**—The accumulation of loss data on all accidents with the date of occurrence falling within a given calendar year. The premium figure is the same as that used in calendar year experience.
- **Claim Frequency**—The number of claims per unit of exposure. For example, the number of claims per million dollars of premium or per one hundred workers.

Glossary

- **Claim Severity**—The average cost of a claim. Severity is calculated by dividing total losses by the total number of claims.
- **Combined Ratio**—The sum of the (i) loss ratio, (ii) expense ratio, and (iii) dividend ratio for a given time period.
- **Detailed Claim Information (DCI)**—An NCCI Call that collects detailed information on an individual workers compensation lost-time claim basis, such as type of injury, whether or not an attorney was involved, timing of the claim's report to the carrier, etc.
- **Direct Written Premium (DWP)**—The gross premium income adjusted for additional or return premiums, but excluding any reinsurance premiums.

Glossary

- **Indemnity Benefits**—Payments by an insurance company to cover an injured worker's time lost from work. These benefits are also referred to as "wage replacement" benefits.
- **Loss Ratio**—The ratio of losses to premium for a given time period.
- **Lost-Time (LT) Claims**—Claims resulting in indemnity benefits (and usually medical benefits) being paid to or on behalf of the injured worker for time lost from work.
- **Medical-Only Claims**—Claims resulting in only medical benefits being paid on behalf of an injured worker.
- **Net Written Premium (NWP)**—The gross premium income adjusted for additional or return premiums and including any additions for reinsurance assumed and any deductions for reinsurance ceded.

Glossary

- **Permanent Partial (PP)**—Disability that prevents the insured from working at their own (and sometimes any) occupation. A disability is considered to result in partial permanent loss of earning power.
- **Policy Year (PY)**—Premium and loss data on business for a 12-month period for policies with inception dates within the 12-month period.
- **Schedule Rating**—A debit and credit plan that recognizes variations in the hazard-causing features of an individual risk.
- **Take-Out Credit Program**—An assigned risk program that encourages carriers to write current residual market risks in the competitive voluntary marketplace.
- **Temporary Total (TT)**—A disability that totally disables a worker for a temporary period of time.



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Appendix

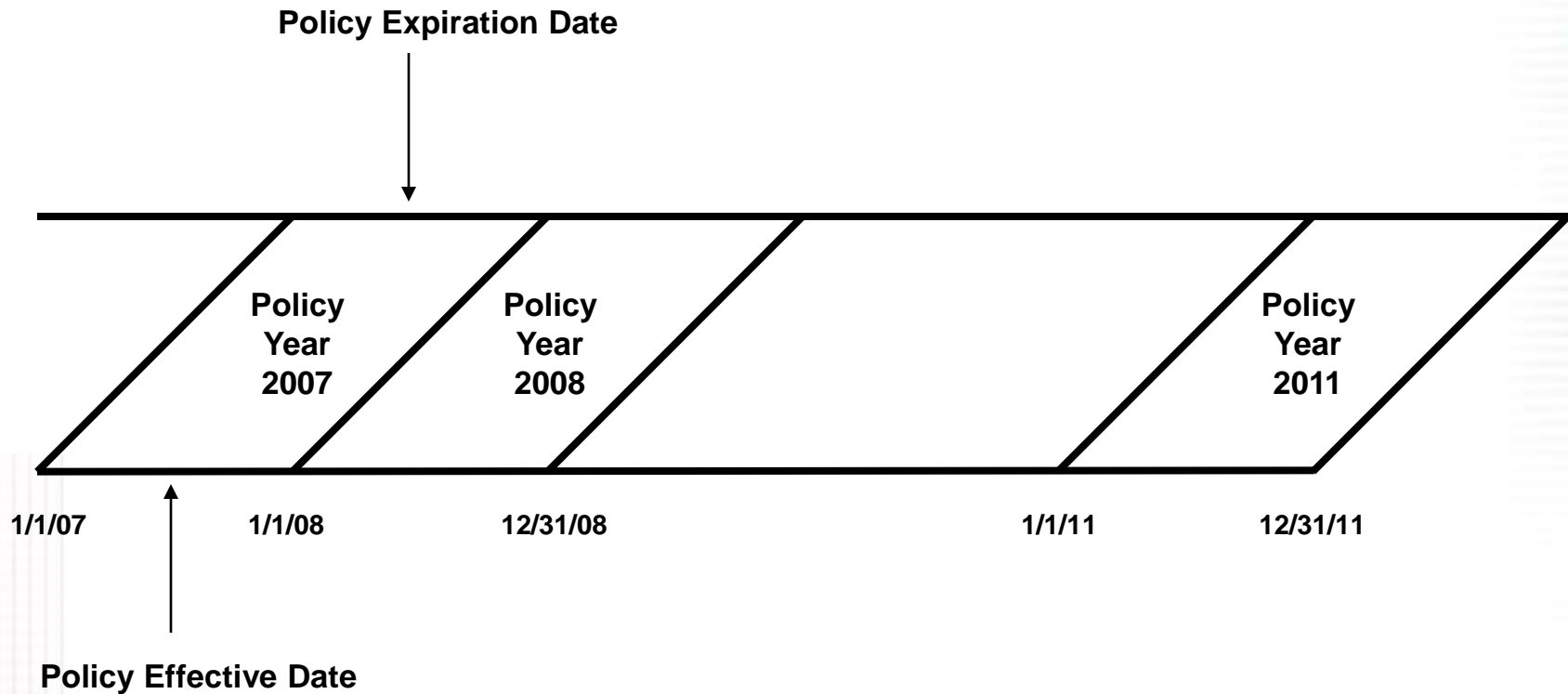
NCCI Workers Compensation Databases

- Financial Aggregate Calls
 - Used for aggregate ratemaking
- ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)***
 - Used for class ratemaking
- Detailed Claim Information
 - In-depth sample of lost-time claims
- Policy Data
 - Policy declaration page information

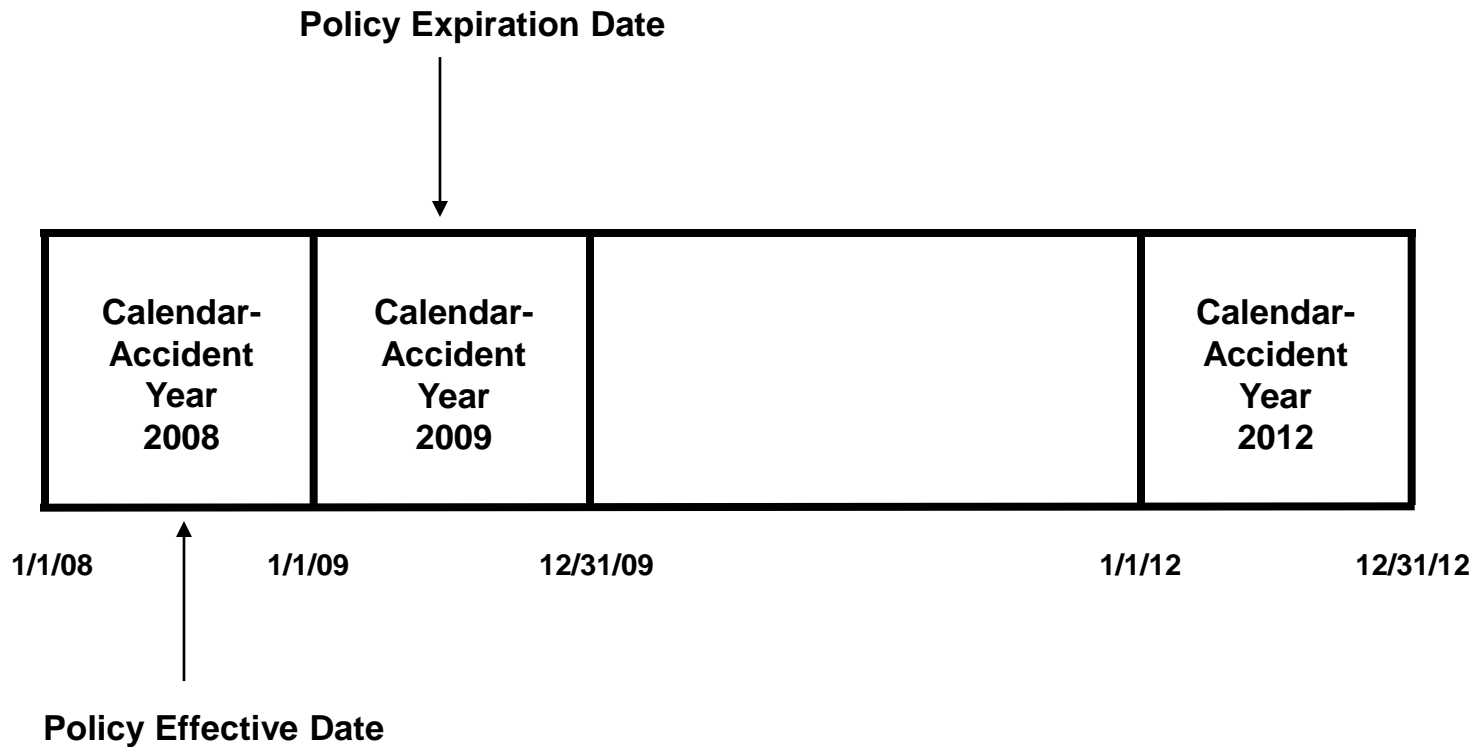
Financial Aggregate Calls

- Collected annually
 - Policy and calendar-accident year basis
 - Statewide and assigned risk data
- Premiums, losses, and claim counts
 - Evaluated as of December 31
- Purpose
 - Basis for overall aggregate rate indication
 - Research

Policy Year Financial Aggregate Data



Calendar-Accident Year Financial Aggregate Data



Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan) Data

- Experience by policy detail
 - Exposure, premium, experience rating modifications
 - Individual claims by injury type
- Purposes
 - Classification relativities
 - Experience Rating Plan
 - Research

Valuation of Statistical Plan Data

