

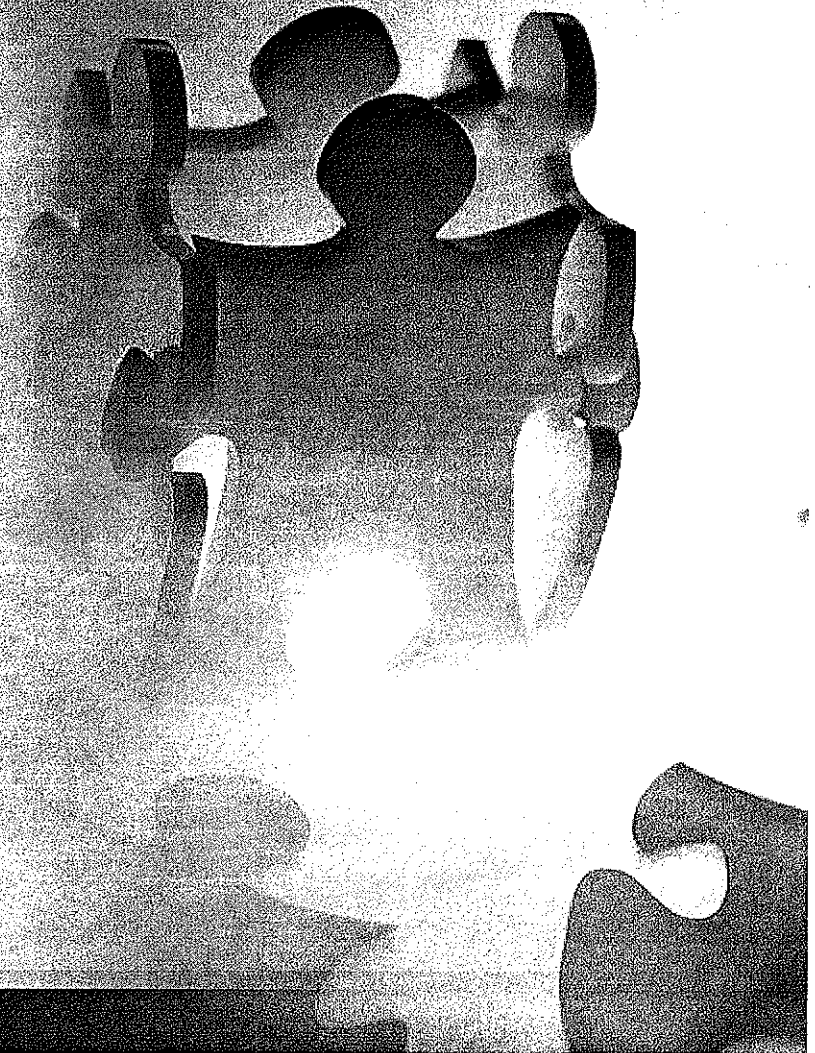


WORKING TOGETHER FOR RESULTS

Workers Compensation Residual Markets

Colorado Interim Committee
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NCCI



What is a Residual Market?

- In order to ensure that all eligible employers have some means of complying with their statutory obligations, all states have created a market of last resort – the residual market

Residual Market Mechanisms

- State Fund
- JUA (Joint Underwriting Association)
- Alternative Assigned Risk Plan
- Assigned Risk Reinsurance Pool

State Funds

- Guaranteed Market
- May have different Rate Levels
- Operated as:
 - State Agency
 - Quasi-Public Agency
 - Mutual –Type Insurer
 - Monopolistic Operation

Joint Underwriting Association

- Only in Florida
- Designed to be self-supporting
- 3 Different rating tiers, each with different surcharge amounts
- Assessable policies for largest firms (Tier 3) for any operating losses or deficits in that group of policies

Alternative Residual Market

Missouri, Nebraska and Tennessee

- Single carrier- selected by state – services the residual market
- Carrier issues all policies and retains all premiums, pays all claims to a predetermined loss ratio
- Voluntary market can be assessed for excess losses

Traditional Residual Market Plan

NCCI Managed Plans – 21 States

- Servicing carriers generally selected by bid process
- Carriers compensated by retaining a predetermined % of assigned premium
- Carriers service employers, issue policies, pay claims, etc as they would in voluntary market
- Any incurred overall deficit is paid by voluntary market carriers based on % of market share (i.e. carrier has a 15% market share, is responsible for 15% of operating loss)

Carrier Participation

- All carriers that are licensed and writing in a state must participate in the Plan and can do so by:
 - Participation in a Reinsurance Pool:
 - Carriers share in the operating results of the Pool
- Mechanism for those states where they are participating in proportion to their share of the total voluntary workers compensation insurance premium in that state

Carrier Participation - Continued

- Direct Assignment Carrier
 - Carriers are not participants in the Pool and are not reinsured by the Pool. They choose to participate in the Plan by receiving assignments and retaining the risk associated with such coverage.

Residual Market Operation

- State-approved rules governing administration:
 - Administration (Filings, Disputes, etc.)
 - Participation of carriers
 - Eligibility of employers
 - Quota management - random and equitable assignment
 - Policy issuance requirements
 - Duties & responsibilities of the Plan Administrator and assigned carriers

Plan Administration Responsibilities

- Assigned Risk Application Processing
- Plan Eligibility & Noncompliance/Compliance
- Plan Membership and Assignment Administration
- Filing Services
- Depopulation Initiatives
- Communications

Plan Administration Responsibilities - Continued

- Servicing Carrier Selection and Performance Oversight
- Incentive/Disincentive Programs
- Annual Self-Audit and Onsite Audit of Servicing Carriers to
Ensure Compliance With Performance Standards

Residual Markets Goals

- Self-Funded Residual Markets
- Service levels at or above voluntary market standards

Residual Market Snapshot All Pools, Serviced by NCCI Policy Year 2008 as of 9/30/08

- 2008 Written Premium - \$746 million#
- 2008 Operating Losses - \$105 million#
- 2008 Combined Ratio - 114% #
- 2008 Residual Market Share - 4.9%*

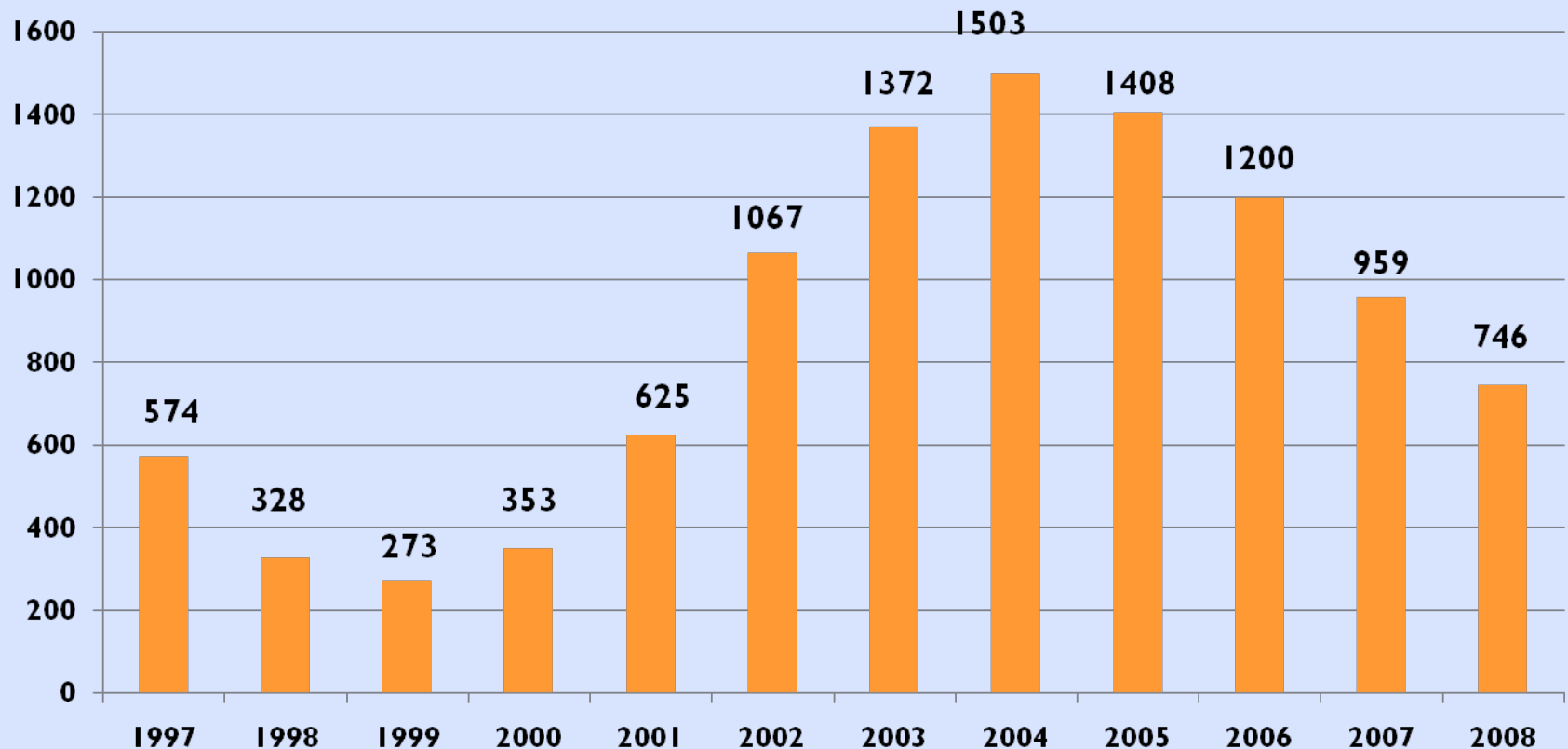
projected to ultimate

* preliminary

Written Residual Market Premium

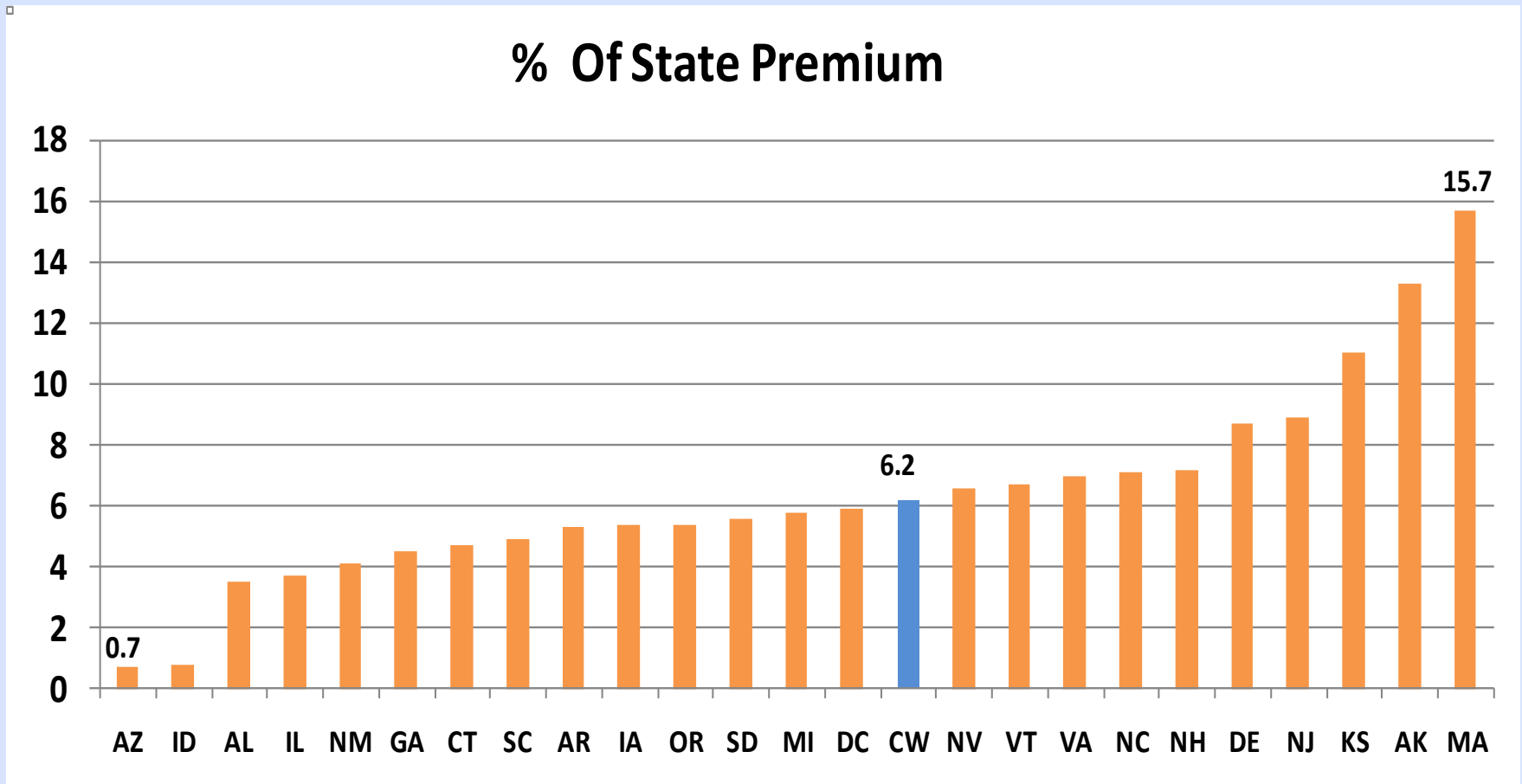
NCCI Serviced Pools

\$ Million



Residual Market Share

NCCI Administered States



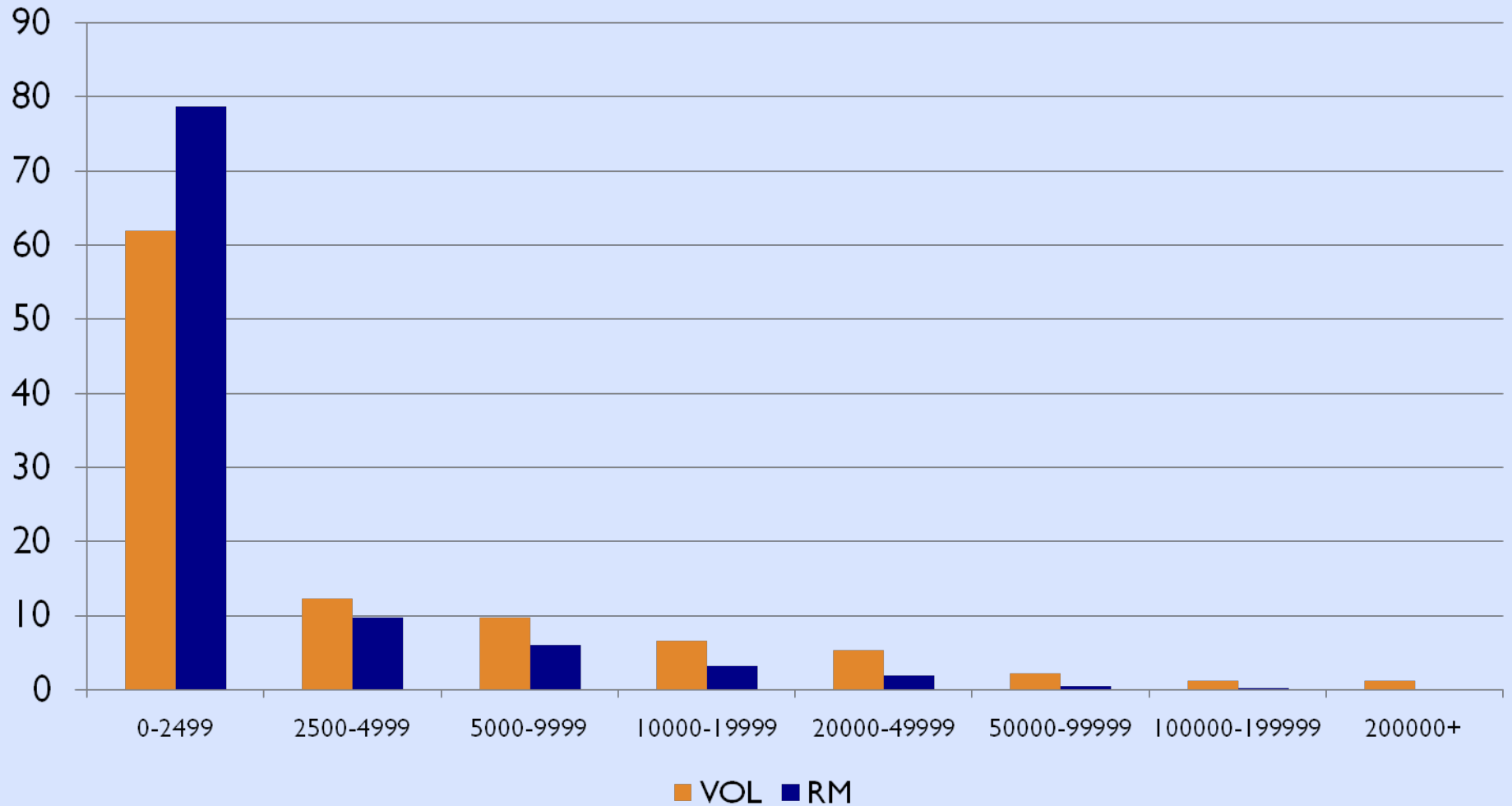
Countrywide Average Size Accounts of Residual Market Policies as of 12/31/08

\$ Prem Range	Policy Count	% of Policies	Total Prem \$	% of Prem	Avg Size Policy
\$0- \$2499	130,517	78.63%	\$104,153,757	20.23%	\$798
\$2500- \$4999	16,034	9.66%	\$56,757,155	11.02%	\$3,540
\$5000- \$9999	9,928	5.98%	\$69,160,428	13.43%	\$6,966
\$10000- \$19999	5,278	3.18%	\$73,193,269	14.21%	\$13,868
\$20000- \$49999	3,037	1.83%	\$91,806,285	17.83%	\$30,229
\$50000- \$99999	861	0.52%	\$58,459,911	11.35%	\$67,898
\$100000- \$199999	266	0.16%	\$35,702,601	6.93%	\$134,220
\$200000+	74	0.04%	\$25,716,507	4.99%	\$347,520
Total	165,995	100.00%	\$514,949,913	100.00%	\$3,102

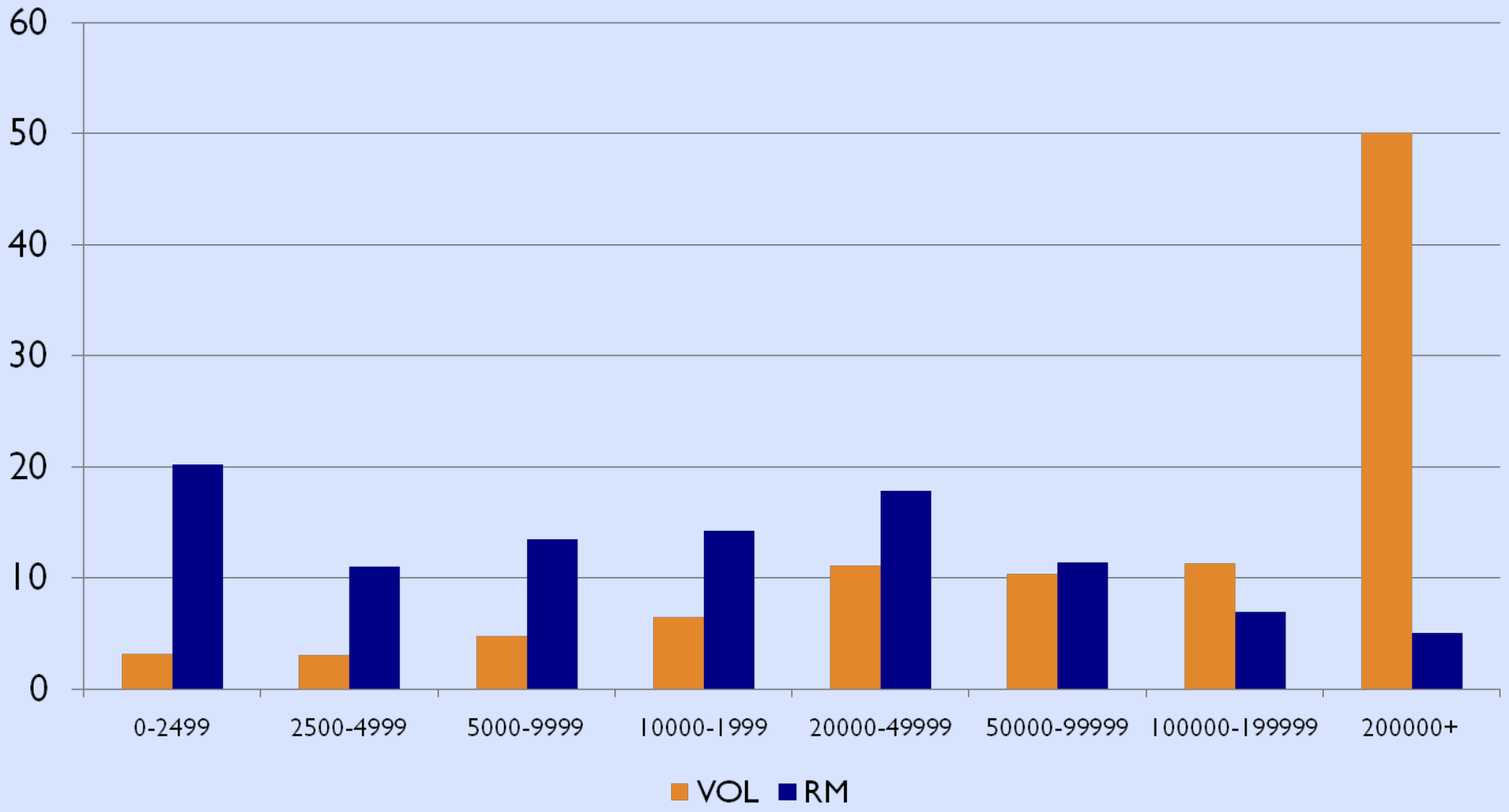
Countrywide Average Size Accounts of Voluntary Market Policies as of 12/31/08

\$ Prem Range	Policy Count	% of Policies	Total Prem \$	% of Prem	Ave Policy Size
\$0- \$2499	1,960,059	61.90%	\$1,430,635,819	3.10%	\$730
\$2500- \$4999	387,813	12.20%	\$1,385,339,140	3.00%	\$3,572
\$5000- \$9999	307,995	9.70%	\$2,179,390,099	4.70%	\$7,076
\$10000- \$19999	210,561	6.60%	\$2,961,420,568	6.40%	\$14,064
\$20000- \$49999	163,431	5.20%	\$5,100,216,413	11.10%	\$31,207
\$50000- \$99999	67,417	2.10%	\$4,715,456,623	10.30%	\$69,945
\$100000- \$199999	37,444	1.20%	\$5,196,147,231	11.30%	\$138,771
\$200000+	33,328	1.10%	\$22,994,087,170	50.00%	\$689,933
Total	3,168,048	100.00%	\$45,962,693,063	100.00%	\$14,508

VOLUNTARY -RESIDUAL MARKET DEMOGRAPHICS POLICY SIZE DISTRIBUTION %



VOLUNTARY -RESIDUAL MARKET DEMOGRAPHICS PREMIUM SIZE DISTRIBUTION %



Questions, Comments or Additional Information

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