COMPLETE ACTUARIAL SOLUTIONS COMPANY

The CASCO Bulletin

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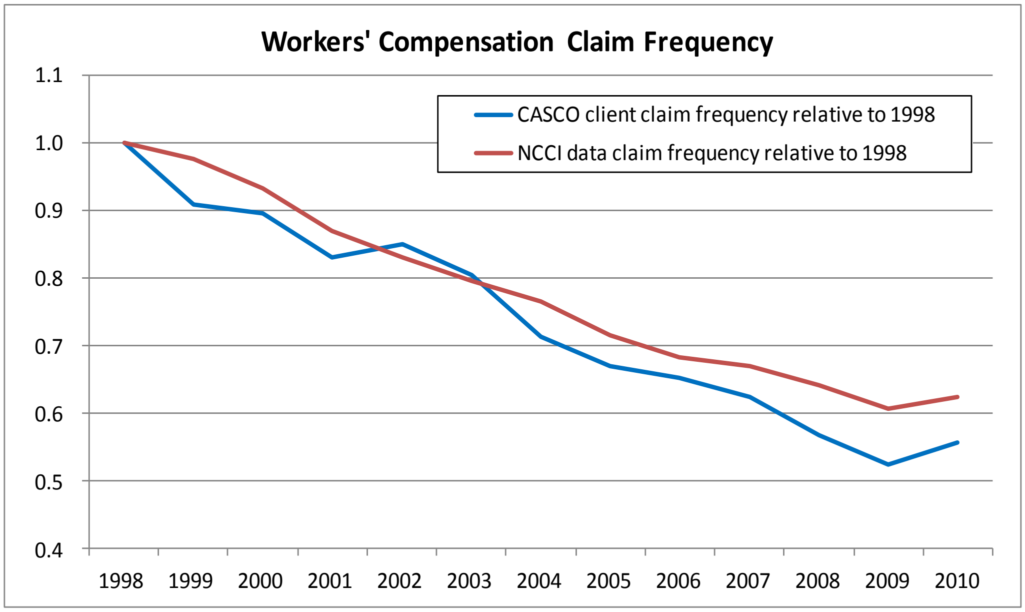
Workers' Compensation Claim Frequency

After several years of steady decline in workers' compensation claim frequency, data from CASCO clients and a recent report by the NCCI indicate an uptick in frequency during 2010. The graph below shows average frequency per payroll for workers' compensation claims (lost-time and medical-only) for CASCO clients from 1998 to 2010. In 2010 the frequency increased by 6.2%, in contrast with an average annual decline of 5.4% from 1998 to 2009. The graph also shows data from a recent report by the NCCI that showed similar results. The report found that frequency for lost-time workers' compensation claims increased 3% in 2010, marking the first increase since 1997. Prior to the 2010 increase, frequency had been declining at an average rate of 4.3% per year since 1990, with only 1994 and 1997 seeing increases.

Following years of steady decreases, both NCCI and CASCO client data show an uptick in claim frequency in 2010.



NCCI proposed that a number of factors related to the recovery from the recent recession put upward pressure on the 2010 frequency measure. These include an increase in new hires that may have higher expected claim frequencies than longer-tenured workers and a possible influx of small lost-time claims that may have been medical-only claims in previous years. From the CASCO client data, it is interesting to note that the only other time since 1998 that frequency increased was a 2.3% increase in 2002 when the economy was also recovering from recession. If the recession recovery contributed to the increase in claim frequency in 2010, then this upward pressure may continue given the much greater magnitude of this recession and the potentially longer recovery period. *Continued next page.*

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Workers' Compensation Claim Frequency (continued)

CASCO's client base contains many healthcare providers and universities with workforces that have generally been less directly affected by this recession cycle than the wider economy. The fact that claim frequency for CASCO clients has followed a similar pattern to the countrywide NCCI data suggests that the recession cycle can still effect workers' compensation experience for organizations that did not experience significant layoffs or recovery-based hiring.

While the experience of any individual organization may differ from industry-wide trends, the increase in industry-wide claim frequency in 2010 should be noted by organizations that have come to expect consistently improving or flat workers' compensation loss experience in recent years.

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Ask the Actuary: Year-End Actuarial Analyses

Actuarial analyses project outstanding liabilities used by company management in establishing financial statement loss reserves at fiscal year-end. For RRGs and other insurers, the year-end analysis also supports regulatory filings, including the NAIC Statement of Actuarial Opinion (SAO). While self-insurers and captives may not have the same regulatory requirements, many of the SAO items below are also considered during their actuarial analyses. Additionally, the issues touched upon by these items are of interest to auditors and should be considered by management when assessing the program's financial position.

Q: Besides loss and loss expense reserves, what are some other important items to be aware of in the SAO?

Risk of Material Adverse Deviation – In order to assist regulators in identifying potential problems, actuaries are required to discuss significant risks or uncertainties that could result in material adverse deviation of the loss reserves (i.e., significant upward adjustments). The amount considered to be material is chosen by the actuary, based on company-specific factors such as type of business written, capitalization level, geographic spread of risk, or coverage limits provided.

Premium Deficiency Reserve – If an unearned premium reserve must be established at fiscal year-end because, for example, the company's fiscal year and policy year do not coincide, the actuary must review the adequacy of that unearned premium reserve using current data to determine whether a premium deficiency reserve is needed. A premium deficiency reserve is required when losses are expected to exceed premiums/ funding for the remainder of the unexpired policies. This creates an additional liability amount that needs to be reflected on the company's financial statements.

Ask the Actuary: Year-End Actuarial Analyses (continued)

Reinsurance Collectability – The actuary should consider ceded amounts with troubled reinsurers (e.g., those in liquidation or rehabilitation) or ceded amounts in dispute and discuss the ramifications of such amounts if they are significant relative to net reserves and surplus. However, the actuary may only have access to a limited amount of information with which to review and comment on the financial condition of reinsurers.

Risk-Based Capital (RBC) Calculations & Financial Ratio (IRIS) results – These are RRG and insurer-specific calculations that are provided to the actuary for review. The risk-based capital formula attempts to measure the amount of capital/surplus needed to absorb the many types of risk that insurance companies are exposed to, such as asset, credit, underwriting, reserving, and premium risk. The IRIS ratios are a predecessor to the RBC calculations and are used to raise red flags related to items such as rate of premium growth, investment yield, changes in surplus, and loss reserve development. The actuary should review these amounts and provide comment when appropriate.

Interesting Articles

NCCI research on the aging workforce and workers' compensation
In terms of loss costs per worker, the major difference among age groups occurs between the 25 to 34 and the 35 to 44 age groups. Differences in workers' compensation loss costs by age in recent years primarily reflect differences in severities.

Property casualty insurers' combined ratio for 2011 estimated at 107.5%
The industry's combined ratio is expected to deteriorate 6.5 points to 107.5 for 2011 from 101.0 in 2010.

Workers' compensation losses contribute to steep drop in net income for The Hartford
The Hartford reported 2011 net income of $662 million, down 61 percent from 2010 when it posted $1.68 billion net income, in part due to adverse workers' compensation experience .

Market Focus

In this issue, we look at countrywide medical malpractice experience.

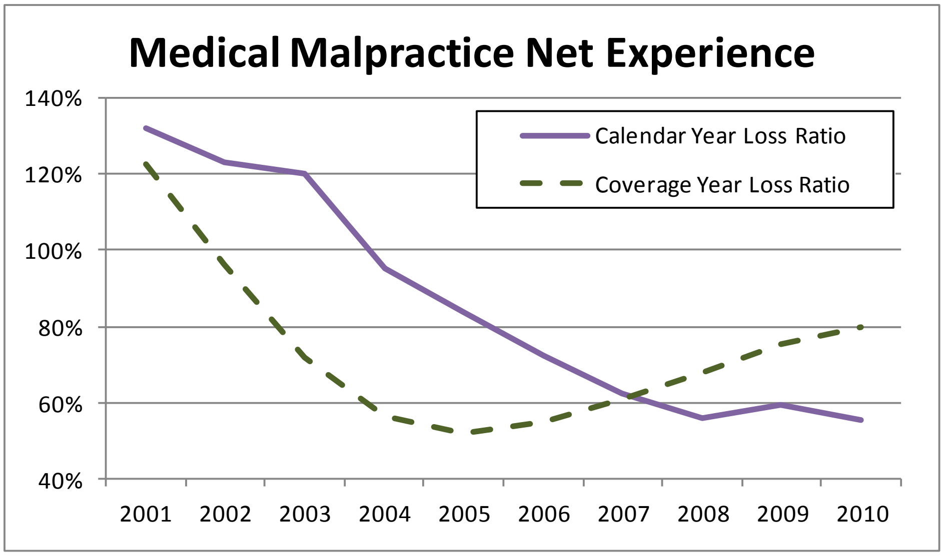
Coverage year loss ratios grew by nearly 10% per year from 2005 through 2010. Reserve releases from prior coverage years have allowed calendar year results to remain stable in recent years.

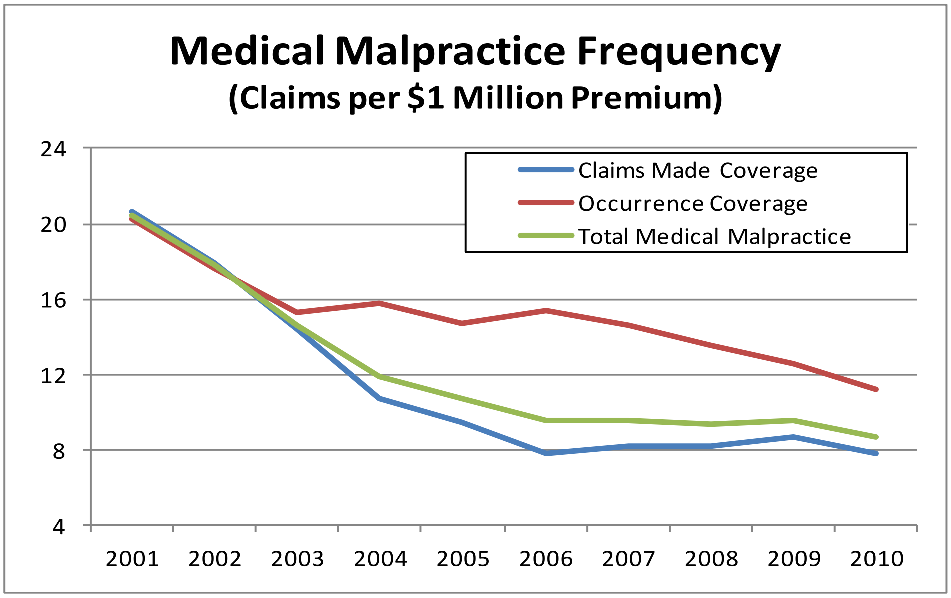
Frequency, as related to premium, has been stable since 2006. Decreases between 2001 and 2006 are likely due to the impact of rate increases.

Market Focus: Countrywide Medical Malpractice

The following graphs are based on insurer information from the National Association of Insurance Commissioners (NAIC) annual statements as aggregated by A.M. Best.

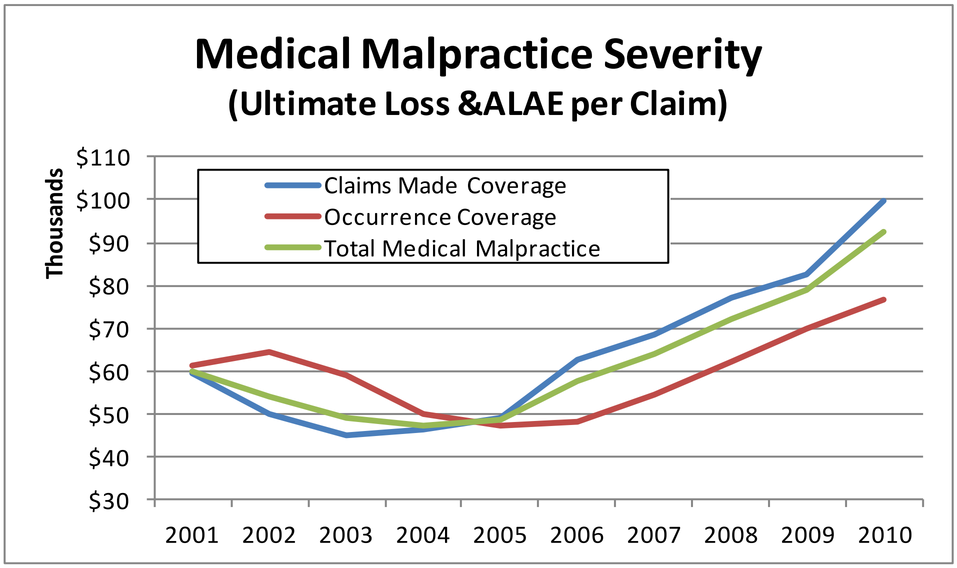
Reported medical malpractice financial results for the industry have generally improved over the past 10 years (see calendar year loss ratios below). However, current estimates of coverage year data reveals that experience has actually been deteriorating since 2005 with releases of prior year reserves serving to "prop up" reported financial results and mask the underlying trends. In recent years, claim frequency has been relatively stable while claim severity has been increasing by 13% annually since 2005. These increases in coverage year results are an indication that a hard market could be on the horizon.





Market Focus: Countrywide Medical Malpractice (continued)

After several years of stable or modestly decreasing severities, medical malpractice severity has increased by roughly 13% per year since 2005.



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We provide ongoing actuarial services to over 100 clients in several areas:

- Professional and General Liability
- Directors' & Officers' Liability
- Workers' Compensation
- Automobile Liability
- Managed Care Errors & Omissions
- Medical Benefits Stop Loss Risk
- Disability Benefits

We help clients with:

- Annual funding/pricing analyses
- Liability and cost projections for accounting and budgeting
- Formal opinions and reports to meet regulatory and audit needs
- Communication with auditors, regulators, and excess insurers
- Other regulatory or administrative problems
- Impact analysis of judicial/law changes affecting program costs
- Strategic risk financing studies
- Retention limit analysis (single and multi-line)
- Internal cost allocation
- Pro-forma projections of program results under varying scenarios
- Cash-flow forecasts to help in setting investment strategy
- Evaluation of insurance products
- Projecting costs for acquisitions and new ventures
- Expert witness testimony
- Benchmarking data on loss costs, trends, retention limits, and more

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