



Residual Market Plan and Pool Functions

Jim Nau, CPCU, ARM, WCP

Economic Affairs Interim Committee
Helena, Montana
May 13, 2014

© Copyright 2014 National Council on Compensation Insurance, Inc. All Rights Reserved.

What is NCCI?

- Organized 80 years ago at urging of predecessor to NAIC
- Membership organization operating under not-for-profit philosophy
- Providing services to more than 900 reporting organizations
- Operating in 40 states
- Fees for NCCI services are paid for by carriers

© Copyright 2014 National Council on Compensation Insurance, Inc. All Rights Reserved.



What does NCCI do?

Works with the states to develop and maintain a uniform infrastructure in states with competitive market structure

Statistical Agent Services

- Collection and validation of various types of data
- Summarizing data and providing reports to regulators

Advisory/Rating Bureau Services

- Filing of rates & rating values
- Production of experience mods
- Develop/Maintain classification system
- Develop/Maintain state specific programs
- Regulatory & legislative reform analysis
- Residual market services



What is a Residual Market?

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

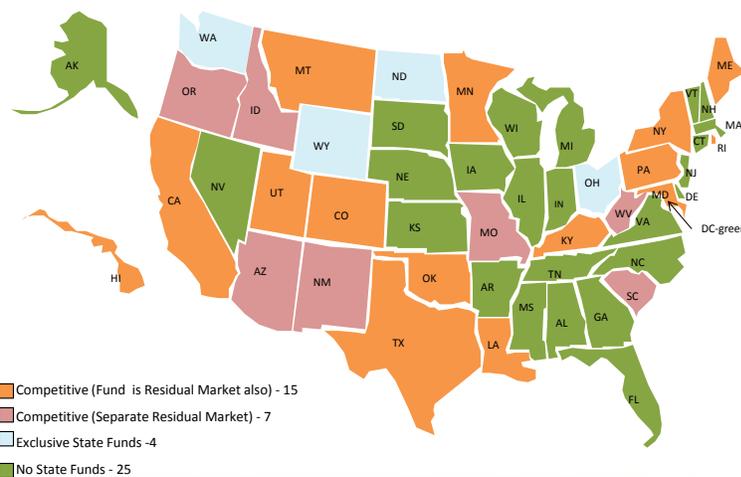


What is a Residual Market?

- Can operate in various ways under various names:
 - State Fund
 - Joint Underwriting Association (JUA)
 - Assigned Risk Reinsurance Pool
 - Workers Compensation Insurance Plan (WCIP)



State Funds Plus Type of Residual Market



What is the Plan?

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



What is the Pool?

- Quota share reinsurance agreement among participating insurers to share in the operating results arising out of Plan assignments
- National Workers Compensation Reinsurance Association's "National Pool", administered by NCCI, is the largest Pool
- Other NCCI-serviced Pools include Massachusetts, Michigan, and New Mexico



Where Does NCCI Provide Plan or Pool Administration Services?

- NCCI provides Plan Administration services in the following states as of January 2014:
 - AL, AK, AR, AZ, CT, DC, GA, IA, ID, IL, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV
 - Other Plan Services: DE, IN, NC

- NCCI provides Pool Administration services in the following states as of January 2014:
 - National Pool: AL, AK, AR, AZ, CT, DE, DC, GA, ID, IA, IL, KS, NH, NJ, NV, NC, OR, SC, SD, VA, VT, WV
 - New Mexico Pool

- Financial and Actuarial Services: MA, MI

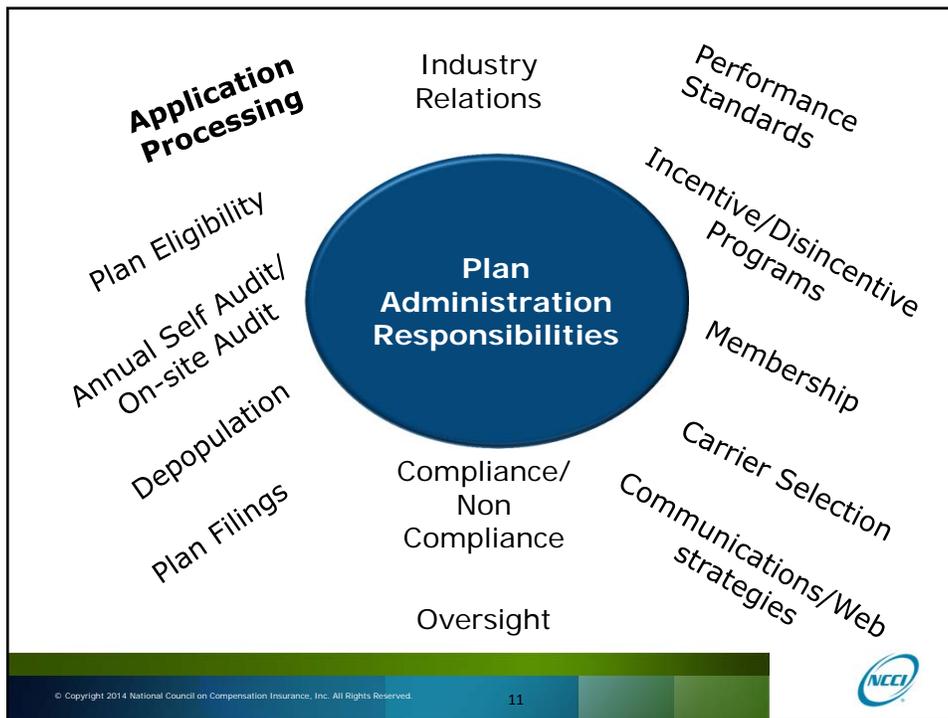
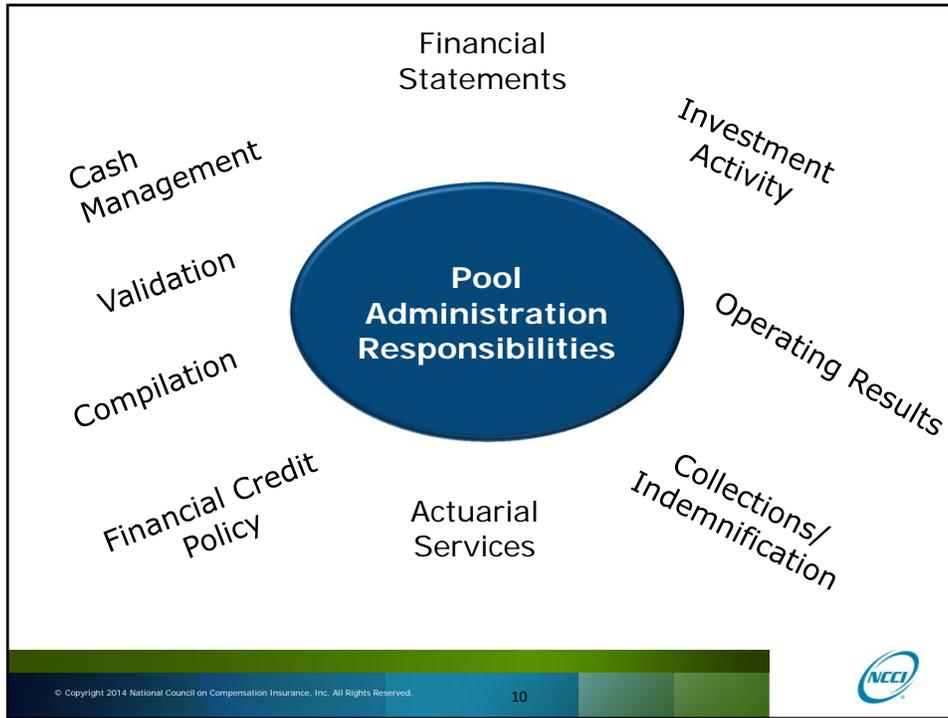


Carrier Participation

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

 - 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.





What is the Goal of Residual Market Plan and Pool Administration?

To maintain *self-funded* Residual Markets, which are noted for *high quality* services and aided by *automation*



Residual Market Premium Report By State as of 12/31/2013

Assigned Risk Plan		
State	Total # Policies	Total Premium
AK	8,218	\$37,542,248
AL	1,610	\$10,968,793
AR	6,375	\$22,879,010
AZ	3,568	\$44,547,259
CT	12,285	\$48,835,564
DC	1,227	\$8,414,940
GA	16,315	\$51,470,349
IA	4,523	\$43,477,986
ID	587	\$1,505,337
IL	27,237	\$118,436,350
IN	7,994	\$62,210,033
KS	8,880	\$43,549,360
MS	2,556	\$19,533,671
NH	5,355	\$26,199,741
NM	2,637	\$16,224,250
NV	4,379	\$22,715,618
OR	8,746	\$35,197,541
SC	10,270	\$32,092,572
SD	1,608	\$9,402,781
VA	14,223	\$59,584,622
VT	3,578	\$17,250,321
WV	2,146	\$16,514,341
Total	154,317	\$748,552,687

Countrywide Average Size Accounts of Residual Market Policies as of 12/31/2013

Premium Range	Policy Count	% of Policies	Total Premium	% of Premium	Average Size Policy
\$0- \$2499	111,591	72.3%	\$105,322,596	14.1%	\$944
\$2500- \$4999	17,104	11.1%	\$60,652,670	8.1%	\$3,546
\$5000- \$9999	11,738	7.6%	\$82,553,619	11.0%	\$7,033
\$10000- \$19999	6,995	4.5%	\$97,716,883	13.1%	\$13,970
\$20000- \$49999	4,475	2.9%	\$137,100,445	18.3%	\$30,637
\$50000- \$99999	1,502	1.0%	\$104,070,972	13.9%	\$69,288
\$100000- \$199999	704	0.5%	\$97,003,209	13.0%	\$137,789
\$200000+	208	0.1%	\$64,132,293	8.6%	\$308,328
Total	154,317	100.0%	\$748,552,687	100.0%	\$4,851



Residual Market Demographics Top 5 Classification Codes as of 12/31/2013

Plan Administration Policy Count

- 5645-Carpentry (8.2%)
- 5437-Carpentry, Interior Trim (4.7%)
- 5474-Painting (4.4%)
- 7228-Trucking, Local (3.9%)
- 5551-Roofing (2.9%)

Plan Administration Premium

- 5645-Carpentry (4.7%)
- 7228-Trucking, Local (3.6%)
- 7229-Trucking, Long Distance (3.0%)
- 5551-Roofing (2.9%)
- 8835-Nursing, Home Health (2.4%)



Residual Market Share

Residual Market Plan Premiums as a Percentage of NCCI-Reported Direct Premiums Written Calendar Years 2009–2013

¹ 2013 Preliminary.

² Subtotals in this chart represent NCCI Plan-administered states.

State	2013 ¹ (%)	2012 (%)	2011 (%)	2010 (%)	2009 (%)
Alabama	4.3	3.6	2.9	1.8	2.6
Alaska	15.3	13.7	12.7	12.1	11.9
Arizona	6.7	4.3	2.2	1.8	0.7
Arkansas	10.2	8.5	5.4	4.8	4.5
Connecticut	6.5	5.1	3.8	3.5	4.3
District of Columbia	6.1	5.7	4.1	4.2	4.8
Georgia	5.5	5.0	5.1	3.5	3.4
Idaho	0.6	0.7	0.6	0.5	0.7
Illinois	5.3	4.3	2.7	2.7	2.7
Iowa	6.3	5.0	4.1	3.3	4.4
Kansas	10.7	9.0	6.9	6.3	8.4
Nevada	9.9	7.4	5.8	4.7	4.6
New Hampshire	10.3	8.1	6.7	5.1	5.9
New Mexico	5.7	3.7	3.0	2.6	2.9
Oregon	6.8	5.0	3.7	4.2	4.5
South Carolina	5.6	4.4	3.4	3.5	3.9
South Dakota	6.3	5.4	4.8	4.4	5.1
Vermont	11.1	8.5	6.8	6.1	5.7
Virginia	7.1	6.1	4.7	4.1	5.3
West Virginia	5.2	4.3	2.7	2.0	0.8
Subtotals ²	6.6	5.3	4.0	3.5	3.8
Delaware	16.0	12.0	8.6	5.9	6.6
Massachusetts	20.0	18.0	13.9	12.0	13.6
Michigan	6.7	6.1	5.2	5.1	4.8
New Jersey	12.0	8.9	6.7	6.7	8.8
North Carolina	5.3	4.3	3.5	3.9	4.3
Grand Totals	8.0	6.5	5.0	4.6	5.1

