INTRODUCTION

In its 104th year of operation, the Rating Board is welcoming change and embracing challenges with a renewed sense of purpose. By this State of the System report, the accompanying research studies, and the presentations made at the 2017 New York State Workers’ Compensation Forum, we are beginning to make our new vision – to serve as the objective thought-leader in the marketplace – a reality. We believe that by leading the workers’ compensation industry in this way, we will educate stakeholders, inform policymakers, and provide immeasurable value.

Thank you for continuing to support our efforts to provide insight into the State’s workers’ compensation system.

Jeremy Attie
President and CEO
Key figures

267
Number of carriers writing policies in 2016

$5.9 Billion
Direct written premium in calendar year 2016

534,532
Policies

102.1%
Combined ratio calendar year 2016

554
Classes

-4.5%
Approved Loss Cost Decrease
-2.8% Annual Experience Review
-1.7% 2017 Legislative Reforms
The difference between the lines primarily represents the self-insurance market.
Market Shares

Although the New York State Insurance Fund wrote over 41% of the direct written premium in the insured market, this premium represents only about 20% of the entire marketplace.

3
Direct Written Premium
- State Insurance Fund: 41.4%
- Private Carriers - Total: 58.6%

Direct Written Premium - Net of Deductible
- State Insurance Fund: 41.4%
- Private Carriers - Total: 50.7%

B
Standard Written Premium
- State Insurance Fund: 29.7%
- Private Carriers - Total: 36.4%

Standard Written Premium Including Self-Insured
- State Insurance Fund: 20.1%
- Private Carriers - Total: 24.6%
- Self-Insured: 23.0%

4
Market Share by Calendar Year (Direct Written Premium)

The State Insurance Fund market share decreased 2.7% in 2016.
# Market Shares

The **top 10** carrier groups by premium volume wrote 81% of the workers' compensation insured market in 2016.

<table>
<thead>
<tr>
<th>Carrier Group</th>
<th>Direct Written Premium ($ Millions)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Insurance Fund</td>
<td>2,438</td>
<td>41.4%</td>
</tr>
<tr>
<td>Travelers</td>
<td>431</td>
<td>7.3%</td>
</tr>
<tr>
<td>AmTrust</td>
<td>415</td>
<td>7.1%</td>
</tr>
<tr>
<td>The Hartford</td>
<td>357</td>
<td>6.1%</td>
</tr>
<tr>
<td>Chubb</td>
<td>317</td>
<td>5.4%</td>
</tr>
<tr>
<td>Zurich</td>
<td>196</td>
<td>3.3%</td>
</tr>
<tr>
<td>Berkshire Hathaway</td>
<td>179</td>
<td>3.1%</td>
</tr>
<tr>
<td>AIG</td>
<td>176</td>
<td>3.0%</td>
</tr>
<tr>
<td>Old Republic</td>
<td>159</td>
<td>2.7%</td>
</tr>
<tr>
<td>Liberty Mutual</td>
<td>144</td>
<td>2.5%</td>
</tr>
</tbody>
</table>
Top 10 Classifications

Payroll and Premium Data are collected by occupational classification

The top 10 governing classes by **payroll** represent 63% of the total statewide payroll and 20% of the standard premium.

The top 10 governing classes by **standard premium** represent 30% of the statewide premium and 43% of the payroll.
### Distribution by Premium Size

<table>
<thead>
<tr>
<th>Premium Range ($)</th>
<th>Policy Count</th>
<th>Standard Premium ($ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 4,999</td>
<td>413,679</td>
<td>461</td>
</tr>
<tr>
<td>5,000 - 9,999</td>
<td>43,030</td>
<td>305</td>
</tr>
<tr>
<td>10,000 - 49,999</td>
<td>57,375</td>
<td>1,252</td>
</tr>
<tr>
<td>50,000 - 99,999</td>
<td>10,023</td>
<td>700</td>
</tr>
<tr>
<td>100,000 - 249,999</td>
<td>6,455</td>
<td>986</td>
</tr>
<tr>
<td>250,000 - 499,999</td>
<td>2,151</td>
<td>746</td>
</tr>
<tr>
<td>500,000 - 999,999</td>
<td>1,094</td>
<td>752</td>
</tr>
<tr>
<td>1,000,000 and over</td>
<td>725</td>
<td>2,089</td>
</tr>
</tbody>
</table>

**Over $50,000**

Policies with premiums over $50,000 represent less than 4% of policies but account for 72% of premium

**Under $5,000**

Policies with premiums under $5,000 represent 77% of policies but account for only 6% of premium.
2017 Reform Components

Provisions Reflected in the 2017 Loss Cost Filings

MAXIMUM MEDICAL IMPROVEMENT

Cap on Time to Reach Maximum Medical Improvement ("MMI")

Temporary benefits for non-scheduled permanent partial claims are capped at 2.5 years (i.e., time to MMI), absent a board determination based on medical evidence, that MMI has not been reached.

WORKFORCE

Attachment to Workforce

Once a claim has been classified, claimants are no longer required to demonstrate attachment to the job market to receive indemnity benefits.

SAFETY NET

Extreme Hardship Safety Net

Reduces the eligibility criteria threshold to apply for an extreme hardship redetermination from an 81% loss of earning capacity to a 76% loss of earning capacity.

FIRST RESPONDERS

Stress-Related Injuries for First Responders

Certain emergency first responders (paid police officers and firefighters, EMTs, paramedics, certified emergency medical providers, and emergency dispatchers) who encounter extraordinary stress in a work-related emergency and file a mental injury claim, will no longer need to overcome the defense that the stress was not greater than that which usually occurs in the normal work environment.
Additional Provisions

Impairment Guidelines for Schedule-Loss-Of-Use
Implementation deadline: January 1, 2018

Prescription Drug Formulary
To be established by December 31, 2017
We are proud to report that in July of 2017, the New York State Department of Financial Services approved the Rating Board’s actuarially recommended 4.5% average loss cost decrease, ensuring that loss costs in the State remain at adequate levels. This approval represents the second straight year that the Department approved the loss cost change recommended by the Rating Board’s Actuarial Committee, and is the result of our tireless efforts to build a strong partnership with our regulators and maintain a healthy marketplace.

Jeremy Attie
President and CEO
Cumulative change for the last 20 years (1998 to 2017) is +15%

On October 1, 2017, the loss cost level will decrease for the first time since 2008

Generally, loss cost levels in neighboring states have been decreasing, some significantly
Market Pricing Variation

Although most private carriers have an LCM between 1.3 and 1.4...

...most of their premium is generated by policies with an LCM of under 1.2

Distribution of Private Carriers’ Approved Loss Cost Multipliers

<table>
<thead>
<tr>
<th>Loss Cost Multiplier Range</th>
<th>Number of Insurers</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.950 to 1.199</td>
<td>76</td>
</tr>
<tr>
<td>1.200 to 1.299</td>
<td>69</td>
</tr>
<tr>
<td>1.300 to 1.399</td>
<td>99</td>
</tr>
<tr>
<td>1.400 to 1.499</td>
<td>51</td>
</tr>
<tr>
<td>1.500 to 1.950</td>
<td>30</td>
</tr>
</tbody>
</table>

Distribution of Private Carriers’ Written Premium by Loss Cost Multiplier Range

<table>
<thead>
<tr>
<th>Loss Cost Multipliers</th>
<th>Direct Written Premium ($ Millions)</th>
<th>Standard Written Premium ($ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.950 to 1.199</td>
<td>1,111</td>
<td>2,489</td>
</tr>
<tr>
<td>1.200 to 1.299</td>
<td>891</td>
<td>1,554</td>
</tr>
<tr>
<td>1.300 to 1.399</td>
<td>683</td>
<td>877</td>
</tr>
<tr>
<td>1.400 to 1.499</td>
<td>475</td>
<td>499</td>
</tr>
<tr>
<td>1.500 to 1.950</td>
<td>292</td>
<td>307</td>
</tr>
</tbody>
</table>

Standard Written Premium Weighted Average LCM = 1.21

Direct Written Premium Weighted Average LCM = 1.27
There are several different programs that allow for pricing to better fit individual risks. These programs may be applicable depending on size of risk, experience, and other risk-specific factors.

Although only 20% of policies are experience rated, they represent almost 81% of the standard written premium in New York State.

### Schedule Rating
**Implemented on January 1, 2015**

<table>
<thead>
<tr>
<th>Schedule Rating</th>
<th>Policy Count</th>
<th>Policy Count Distribution</th>
<th>Schedule Rated Policy Distribution</th>
<th>Schedule Rated Premium Distribution</th>
<th>Average Rating Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies with Debts</td>
<td>4,027</td>
<td>0.7%</td>
<td>24.0%</td>
<td>16.2%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Policies with Credits</td>
<td>12,773</td>
<td>2.3%</td>
<td>76.0%</td>
<td>83.8%</td>
<td>-4.7%</td>
</tr>
<tr>
<td>Total Schedule Rated</td>
<td>16,800</td>
<td>3.1%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>-3.2%</td>
</tr>
</tbody>
</table>

Rating Board Policy Data – Policies Written in 2016
**Average Experience Modification**

The average intrastate experience rating modification factor in New York State is 0.975

Risk Count Distribution

Standard Premium Distribution
**Market Results**

Calendar year combined ratios have been stable for the last three years, but as of 2016, they are still in excess of 100%.

**INSIGHT**

For every dollar of premium collected, insurance carriers will pay out more than a dollar in losses and expenses (investment income not included).

Beginning in 2014, premiums do not include the New York State Assessment, resulting in a one-time adjustment to the expense ratio.

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### Calendar Year Combined Ratios

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</tr>
</thead>
<tbody>
<tr>
<td>Loss Ratio</td>
<td>69.0%</td>
<td>71.9%</td>
<td>82.6%</td>
<td>96.4%</td>
<td>77.4%</td>
<td>85.1%</td>
<td>72.2%</td>
<td>74.3%</td>
<td>66.0%</td>
<td>63.0%</td>
</tr>
<tr>
<td>Expense Ratio</td>
<td>37.0%</td>
<td>40.2%</td>
<td>46.1%</td>
<td>46.9%</td>
<td>45.4%</td>
<td>45.3%</td>
<td>38.5%</td>
<td>27.0%</td>
<td>35.2%</td>
<td>38.2%</td>
</tr>
<tr>
<td>Dividend Ratio</td>
<td>1.0%</td>
<td>1.2%</td>
<td>1.1%</td>
<td>0.9%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>1.0%</td>
<td>0.9%</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Combined Ratio</td>
<td>107.0%</td>
<td>113.3%</td>
<td>129.8%</td>
<td>144.2%</td>
<td>123.6%</td>
<td>131.3%</td>
<td>111.5%</td>
<td>102.3%</td>
<td>102.1%</td>
<td>102.1%</td>
</tr>
</tbody>
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### Accident Year Combined Ratios

The one-time 2014 expense ratio decrease is evident.

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**INSIGHT**

Since 2010, accident year loss ratios have been decreasing.
New York State Claim Frequency, Closure Rates, and Payment Pattern

**Claim frequency** is the number of lost time claims per $1M of premium

Over the last four years, claim frequency in New York State has been relatively flat.

### Lost Time Claim Frequency

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Average Claim Frequency</td>
<td>8.2</td>
<td>8.6</td>
<td>8.1</td>
<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
<td>7.9</td>
</tr>
<tr>
<td>Annual Change</td>
<td>0.0%</td>
<td>4.8%</td>
<td>-6.1%</td>
<td>-0.6%</td>
<td>-0.2%</td>
<td>0.2%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Cumulative Change</td>
<td>0.0%</td>
<td>4.8%</td>
<td>-1.6%</td>
<td>-2.2%</td>
<td>-2.4%</td>
<td>-2.3%</td>
<td>-3.4%</td>
</tr>
</tbody>
</table>

While 98.1% of the medical only claims are closed by third report, 0.4% of medical only claims remain open after tenth report.

Although almost 80.4% of lost time claims are closed by fourth report, the remaining open claims may take a long time to close.

8.4% of the lost time claims are still open after tenth report.

At tenth report, only 71.8% of losses have been paid out.
Indemnity Severity Trends

Indemnity Severity is the average indemnity cost per lost time claim

![Chart showing indemnity severity trends from 2007 to 2015]

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Indemnity Severity</td>
<td>$51,355</td>
<td>$53,051</td>
<td>$52,637</td>
<td>$52,082</td>
<td>$54,956</td>
<td>$55,012</td>
<td>$59,074</td>
<td>$62,503</td>
<td>$63,943</td>
</tr>
</tbody>
</table>

Indemnity Severity vs. Average Weekly Wage

**INSIGHT**

Indemnity severity has increased at a faster pace than the State’s average weekly wage

![Chart showing percentage change in indemnity severity and average weekly wage from 2007 to 2015]

- Cumulative Change in New York Indemnity Severity (2007 - 2015): +24.5%
Medical Severity is the average medical cost per lost time claim

Medical severity continues to increase but at a slower rate than in years past

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Medical Severity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$28,600</td>
</tr>
<tr>
<td>2008</td>
<td>$28,785</td>
</tr>
<tr>
<td>2009</td>
<td>$30,454</td>
</tr>
<tr>
<td>2010</td>
<td>$29,603</td>
</tr>
<tr>
<td>2011</td>
<td>$32,068</td>
</tr>
<tr>
<td>2012</td>
<td>$32,594</td>
</tr>
<tr>
<td>2013</td>
<td>$33,822</td>
</tr>
<tr>
<td>2014</td>
<td>$34,721</td>
</tr>
<tr>
<td>2015</td>
<td>$35,017</td>
</tr>
</tbody>
</table>

Changes in medical severity appear largely consistent with changes in the Medical Consumer Price Index
Unlike most states, indemnity losses in New York State represent a larger share of total losses than medical losses.
Distribution of Losses

Distribution of Total Claim Counts by Injury Type

Although medical only claims account for more than 60% of claims, they represent less than 3% of the total losses.

Distribution of Total Losses by Injury Type

Permanent partial claims account for 71.3% of the losses, even though they represent only 17.5% of the claims.
Distribution of Losses

29 Distribution of Total Losses by Industry Group

30 Distribution of Total Losses by Hazard Group

A - Least Severe
B
C
D
E
F
G - Most Severe
Group Severities

**INSIGHT** The Contracting Industry (Group 4) has the highest severity

Average Cost Per Lost Time Claim by Industry Group

![Graph showing the average cost per lost time claim by industry group.](image)

- **Insight**: Severity by hazard group is behaving as expected with the severity increasing by hazard group from A to G.

Average Cost Per Lost Time Claim by Hazard Group

![Graph showing the average cost per lost time claim by hazard group.](image)
Injuries to the lower back, knee, and shoulder represent a significant percentage of losses.
Distribution of Medical Costs

Distribution of Physician Services

Distribution of Facility Services
Opioids are the largest category of prescription drug spending.

Oxycodone and its combinations account for 15.8% of all prescription drug spending.

Prescription drug spending as a share of medical dollars increases as claims age.

After 10 years, the percentage of drug spending averages 47%.
We remain thankful for the support and involvement of our membership and other stakeholders in the marketplace, and we wish everyone continued success in the coming year.

Jeremy Attie
President and CEO
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- Losses Developed to Ultimate and Adjusted to Current Benefit Levels

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**Definition A**

**Direct Written Premium** is the premium charged on policies, after application of all premium adjustments, such as premium discounts, deductible credits, and the like.

**Definition B**

**Standard Premium** is the premium prior to the application of premium discounts and deductible credits.

**Definition C**

**Governing Class** is the occupational classification on a policy (e.g., plumbing) that generates the majority of premium, subject to a few exceptions set forth in the Workers’ Compensation and Employers Liability Manual.

**Definition D**

**Combined Ratio** represents the ratio of losses, expenses, and dividends to premiums. For example, a combined ratio of 110% means that for each dollar of premium collected, an insurer paid out $1.10 in losses and expenses. This statistic does not account for investment income.

**Definition E**

**Claims Report Level** appears on the Unit Statistical Reports and is the valuation period of a claim. The first report refers to the valuation of claims as of 18 months from the effective date of the policy. Each subsequent report is valued in 12 month increments. For example, the second report refers to claims valued 30 months from the effective date of the policy, and the 10th report refers to the valuation of claims 126 months (10.5) years after the effective date of the policy.