



April 26, 2005

Circular 2005-05

To: All Members

Re: Profitability Results

The National Association of Insurance Commissioners (NAIC) recently released its latest report "*Report on Profitability by Line by State in 2003*" published in March 2005. The data used in this report were extracted from insurance company annual statements filed with the NAIC.

As has been the trend for over ten years, the Indiana workers compensation results are better than the countrywide results. These positive results attract insurance companies to Indiana. *They want to do business here.* Because of the higher anticipated return on investments, there exists a pro-jobs economic climate. Insurance companies can afford to provide better quality jobs and increase payroll. And once doing business in Indiana, they are more inclined to keep operations here.

A key strategy of the new Indiana Economic Development Corporation is to find good companies to pursue, identify economic tools used by other states that Indiana could adopt, and eliminate ineffective incentives. Fortunately Indiana enjoys a strong economic tool to attract business to the state in our healthy workers compensation insurance climate. This climate is favorable for both insurance companies and their customers – our Hoosier employers who buy over 100,000 workers compensation insurance policies every year.

Indiana employers enjoy about the lowest workers compensation insurance cost in the country. According to the state of Oregon in its report titled "2004 Oregon Workers' Compensation Premium Ranking," Indiana ranks 50 out of 51 jurisdictions with a rate of \$1.24. "Loaded" rate indices range from a low of \$1.06 in North Dakota to a high of \$6.08 in California. As the most cost-effective state rating bureau in the country, the ICRB continually commits to its core value to be the "best deal" for Indiana business.

Sincerely,

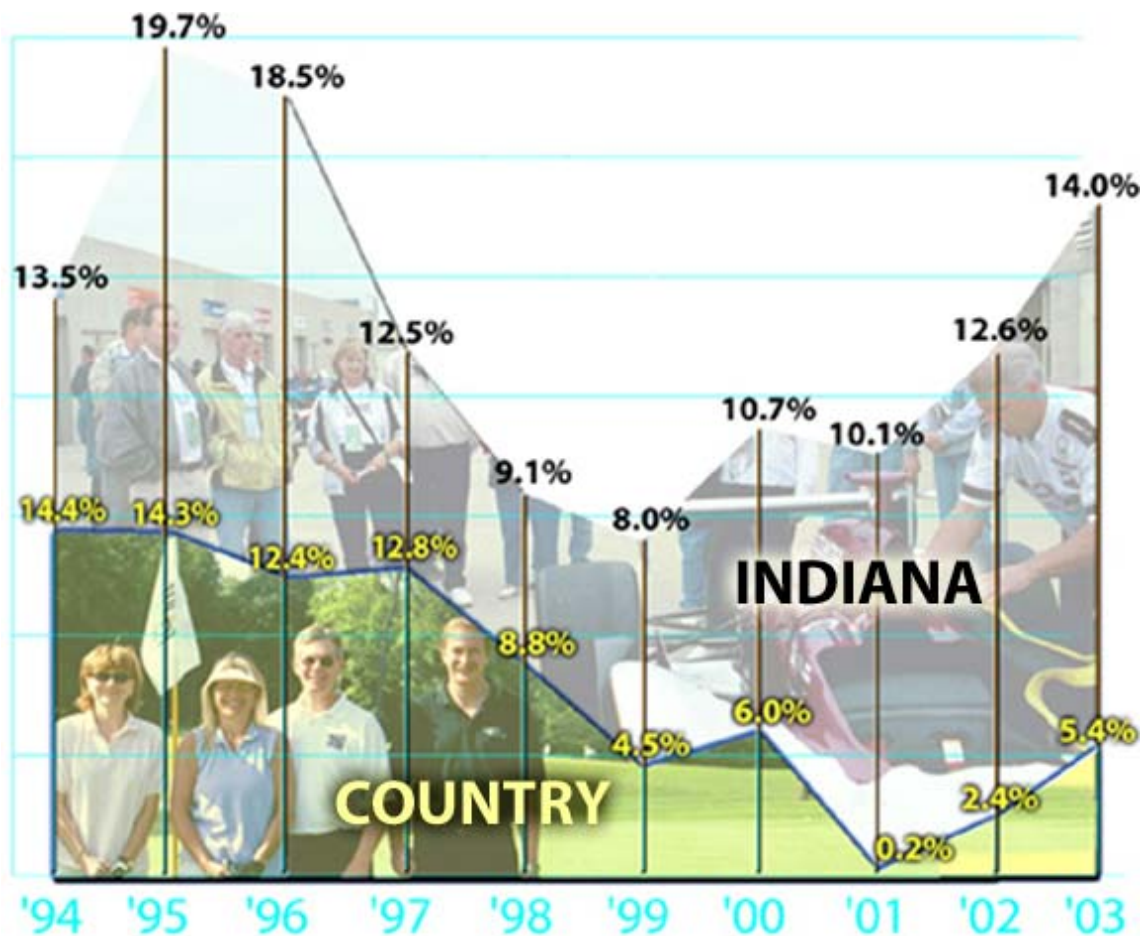
Ronald W. Cooper, CWCP
President

Attachments: WC Results – Profitability
2004 Oregon Workers' Compensation Premium Ranking

WC Results - Profitability

Whereas combined ratios exclude the effect of investment income, return on net worth includes return on investment. Return on net worth therefore, is an important measure when looking at the success of a line of insurance since large sums of money are set aside for the payment of future losses (reserves). This is especially relevant for the workers compensation line.

The return on net worth calculation helps to evaluate the profits earned in relation to the net worth that is committed to that market. The return is equal to profit after taxes divided by allocated capital and surplus adjusted to place it on a GAAP basis.



**Percent of Direct Premiums Earned
Return on Net Worth**

Source: NAIC "Profitability by Line by State in 2003" published March 2005

Disclaimers:

1. NAIC recommends that readers be aware of caveats and limitations on the uses of these data and should read disclaimers in introduction of report.
2. NAIC report is intended to be an important starting point that could be combined with other information in a complete market performance analysis.
3. NAIC feels that the usefulness of showing return on net worth by state and by line outweighs the fact that it may not exactly match any actual process undertaken by individual carriers.



2004 Oregon Workers' Compensation Premium Rate Ranking Summary

Department of Consumer & Business Services

December 2004

By Derek Reinke and Mike Manley

Oregon employers in the voluntary market pay, on average, the forty-second highest workers' compensation premium rates in the nation.

Oregon's premium rate index is \$2.05 per \$100 of payroll. National premium rate indices range from a low of \$1.06 in North Dakota to a high of \$6.08 in California. Three jurisdictions have an index rating

above \$4.00; 13 are in the \$3.00-\$3.99 range; 26 are in the \$2.00-\$2.99 range; and nine have indices under \$2.00. Indices are based on data from 51 jurisdictions, for rates in effect as of January 1, 2004.

Classification codes from the National Council on Compensation Insurance (NCCI) were used in this study. Of the approximately 450 active classes in Oregon, 50

Figure 1. 2004 Workers' compensation premium rates

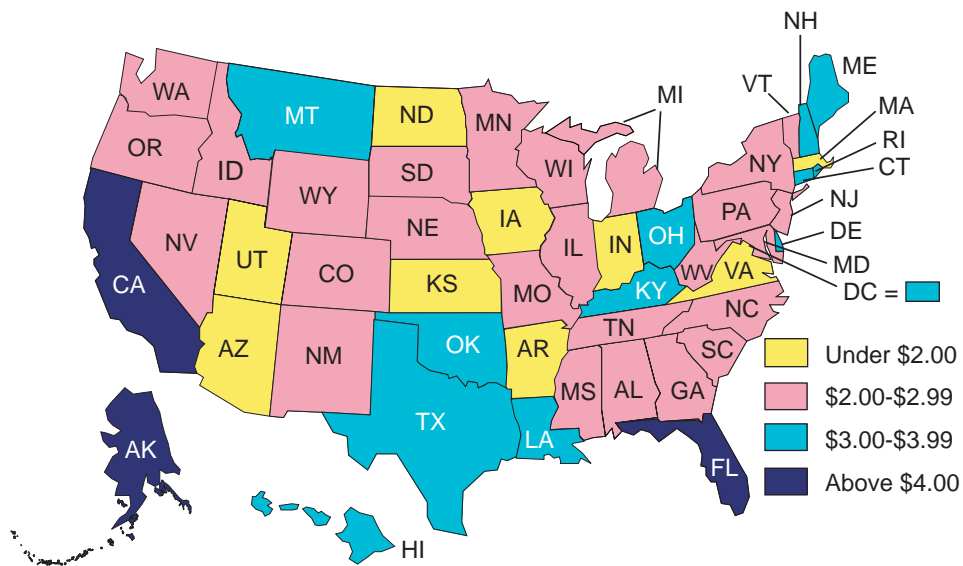


Table 1. Oregon's ranking in the top 10 classifications

Occupation	Ranking
Clerical office employees NOC	46
Salespersons - outside	47
College: Professional employees and clerical	44
Physician and clerical	31
Restaurant NOC	37
Store: Retail, NOC	43
Automobile service/repair center and drivers	33
Hospital: Professional employees	29
Trucking: Local and long haul - all employees & drivers	25
Television/radio/telephone/telecommunication device	45

were selected based on relative importance as measured by share of losses in Oregon. To control for differences in industry distributions, each state's rates were weighted by 1998-2000 Oregon payroll to obtain an average manual rate for that state. Listed in Table 1 are Oregon's rankings in the 10 largest (by payroll) of the 50 classifications used.

Table 2 (on the back) contains the premium rate ranking for all 51 jurisdictions.

Table 2. Workers' compensation premium rate ranking

2004 Ranking	2002 Ranking	State	Index Rate	Effective Date
1	1	California	6.08	January 1, 2004
2	15	Alaska	4.39	January 1, 2004
3	2	Florida	4.20	October 1, 2003
4	3	Hawaii	3.73	January 1, 2004
5	14	Ohio	3.59	July 1, 2003
6	16	Kentucky	3.48	September 1, 2003
7	4	Delaware	3.44	December 1, 2003
8	10	Montana	3.41	July 1, 2003
9	7	Louisiana	3.37	January 1, 2004
10	17	District of Columbia	3.26	November 1, 2003
11	13	Connecticut	3.23	January 1, 2004
12	18	New Hampshire	3.19	January 1, 2004
13	8	Maine	3.08	January 1, 2004
14	5	Texas	3.08	January 1, 2003
15	19	Oklahoma	3.07	2/1/02 State Fund, 1/1/04 private
16	6	Rhode Island	3.01	November 1, 1998
17	25	Vermont	2.99	April 1, 2003
18	9	New York	2.97	December 1, 2003
19	12	Alabama	2.88	March 1, 2004
20	23	Pennsylvania	2.82	April 1, 2003
21	22	Minnesota	2.74	January 1, 2004
22	26	Missouri	2.67	January 1, 2004
23	20	Illinois	2.65	January 1, 2004
24	24	West Virginia	2.64	July 1, 2003
25	29	Tennessee	2.62	March 1, 2003
26	11	Nevada	2.58	January 1, 2004
27	36	New Mexico	2.56	January 1, 2004
28	38	Wyoming	2.43	January 1, 2004
29	31	New Jersey	2.38	January 1, 2004
30	30	Michigan	2.34	January 1, 2004
31	21	Colorado	2.33	January 1, 2004
32	34	North Carolina	2.32	August 29, 2003
33	32	Wisconsin	2.27	October 1, 2003
34	27	Idaho	2.25	January 1, 2004
35	45	Washington	2.20	January 1, 2004
36	33	Mississippi	2.19	March 1, 2003
37	28	Georgia	2.14	November 1, 2001
38	39	Nebraska	2.10	February 1, 2003
39	42	South Carolina	2.08	January 1, 2004
40	40	Maryland	2.06	January 1, 2004
41	48	South Dakota	2.05	July 1, 2003
42	35	OREGON	2.05	January 1, 2004
43	43	Iowa	1.91	January 1, 2004
44	41	Kansas	1.81	January 1, 2004
45	37	Massachusetts	1.70	September 1, 2003
46	44	Utah	1.63	December 1, 2003
47	49	Virginia	1.57	April 1, 2003
48	47	Arkansas	1.57	July 1, 2001
49	46	Arizona	1.49	October 1, 2003
50	50	Indiana	1.24	January 1, 2004
51	51	North Dakota	1.06	July 1, 2003

Based on updated information, the 2002 ranking has been revised since it was originally published.

Although some states may appear to have the same index rate, the ranking is based on calculations prior to rounding to two decimal places. The index rates reflect appropriate adjustments for the characteristics of each individual state's residual market. Rates vary by classification and insurer in each state. Actual cost to an employer can be adjusted by the employer's experience rating, premium discount, retrospective rating, and dividends.

Employers can reduce their workers' compensation rates through accident prevention, safety training, and by helping injured workers return to work.

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