California Workers' Compensation Institute

1111 Broadway Suite 2350, Oakland CA 94607
(510) 251-9470

BULLETIN

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The latest National Association of Insurance Commissioners (NAIC) profitability report shows California workers' comp insurers' return on net worth declined from 3.9 percent in 2012 to 3.0 percent in 2013 -- the lowest level in a decade, ranking the state 45th out of 46 states that operate without a monopolistic state fund.

Each year, the NAIC, made up of insurance regulators from all 50 states, the District of Columbia and four U.S. territories, publishes its "Report on Profitability by Line by State." The calendar year 2013 report, issued at the end of 2014, provides complete, direct income statement and surplus information for every line of insurance and for every state, derived from insurer annual statements reported to NAIC. The report breaks down all elements of underwriting results, showing investment income, pretax gains or losses, federal income taxes, after-tax gains or losses, surplus, and after-tax returns on surplus. It is the most complete and objective tool for tracking the profitability of specific lines of insurance and for comparing results among states.

In monitoring workers' compensation insurer profitability, the NAIC calculates return on net worth figures from the past decade for insurers in California and nationwide. Because workers' compensation is a long-tailed line of insurance in which losses accrue over many years, a 10-year historical average is calculated to smooth out year-to-year fluctuations and provide a broader perspective and a longer-term view of how the industry has fared. While publicly traded companies aim for a 15 percent rate of return, that goal is rarely achieved, so a 12 percent return, slightly below the 10-year average for Fortune's All Industry sector, is considered a more plausible goal.

NAIC 2004-2013 Profitability Report (comparisons of Avg. Rates of Return on Net Worth)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	04-13 Avg
Calif WC	12.6%	14.2%	16.4%	12.1%	7.0%	4.6%	5.2%	7.4%	3.9%	3.0%	8.6%
Calif All Lines	14.8%	14.5%	17.1%	11.9%	6.0%	9.4%	9.7%	8.4%	7.4%	7.6%	10.7%
US WC	10.1%	9.6%	10.0%	9.0%	5.1%	4.2%	3.9%	6.2%	5.9%	7.2%	7.1%
US All Lines	10.0%	5.3%	14.4%	12.5%	2.4%	6.3%	8.0%	4.9%	5.8%	9.0%	7.9%
NAIC P&C	8.0%	8.3%	12.2%	9.7%	2.2%	5.7%	6.0%	3.4%	5.2%	8.0%	6.9%
Fortune All Ind	13.9%	14.9%	15.4%	15.2%	13.1%	10.5%	12.7%	14.3%	13.4%	16.6%	14.0%

Source: National Association of Insurance Commissioners Report on Profitability by Line By State, Dec. 2014

The 10-year lookback in the latest NAIC report shows that as an industry, California workers' compensation insurers met or exceeded the 12 percent benchmark from 2004-2007, coinciding with the implementation of the 2002-2004 legislative reforms, but after peaking in 2006, the returns dwindled and sank to new lows for the decade in 2012 and 2013. California workers' compensation insurers' 3 percent return for 2013 was less than half the 7.2 percent average recorded for all workers' compensation insurers nationwide, and far below the 8.8 percent average for the 45 other states without a monopolistic state fund. However, taking the longer-term perspective, the 10-year average shows that over the past decade California workers' comp insurers netted an 8.6 percent return on net worth, beating the 10-year returns for all workers' compensation insurers, all property and casualty insurers, and all lines of insurance nationwide, though it was less than the 10-year returns for all lines of insurance in California and for Fortune's All Industry sector.

The NAIC issued its “Report on Profitability by Line by State in 2013” in December 2014. For additional details and ordering information, see the press release that has been posted on the NAIC website at http://www.naic.org/Releases/2014_docs/naic_releases_report_on_profitability_by_line_by_state_in_2013.htm.

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