AASCIFNEWS

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WHAT'S INSIDE

AASCIF

American Association of State Compensation Insurance Funds

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PRESIDENT'S MESSAGE

As the incoming president of AASCIF, I am grateful to my predecessors—Jason Clark and Phil Kalin—who found creative ways to keep us connected and focused on our purpose of providing a forum for all of us to learn, grow, and ultimately provide excellent workers' compensation coverage that benefits both our policy holders and their workers.

Looking back at the last few years, I believe that being a part of AASCIF has provided tremendous value to me personally, and learning from my peers has helped me navigate all the challenges and changes we faced together.

Fortunately, it appears we are now in the post-pandemic era. That likely means different things to different people. Recently, I realized that it means travel is increasing, and all the hassles associated with it are back. I hope none of you were caught in the Southwest holiday debacle! One good thing about the last few years is I never once worried about spending the night in a cold airport miles from home.

In January, we held the first in-person all-committee meeting since 2019. The committees gathered in New Orleans to start the planning process for 2023, including planning for the annual meeting this summer in Denver. The committees got a great start on planning, and the process will continue over the next several months. I know that the team at Pinnacol has a great conference planned for us—after all, they had the opportunity to plan it twice, as we were originally going to Denver in 2020!

I hope that 2023 is off to a great start for all of you, and I look forward to continuing to learn from all of you as we move forward together.

Thank you,

Vern Steiner, President & CEO of the State Compensation Insurance Fund

AASCIF President

FEATURES From AASCIF

YOU SHOULD HELP IDENTIFY EMERGING RISKS

By Kelly Lutinski, Chief Risk Officer, Pinnacol Assurance

Submitted by the AASCIF ERM Committee

What is the definition of an emerging risk?

While the term is used regularly by ERM practitioners, there is not a consistent definition used across the insurance industry—or any industry.

The AASCIF ERM Committee has had interesting discussions on emerging risks, including an initial debate on the definition of an emerging risk. We all agree that, for something to be identified as an emerging risk, there needs to be ambiguity on how or when the risk will impact organizations. Think about the impact of climate change, the gig economy, or the pandemic, and how those risks did or could impact your organizations. These were all emerging risks—no one knew how they were going to impact our organizations or when.

Below are some examples of what the ERM Committee has deliberated:

- Is cyber an emerging risk since it is already on our risk dashboards?
- Are demographic changes that are not expected to impact organizations for 10–20 years emerging risks?
- Is climate change an emerging risk, or is it already here?

The ERM Committee did agree that how the term "emerging risk" is defined is incidental to the discussions and analysis that need to happen.

The Uncertainty of Emerging Risks

Emerging risks are unique and can be challenging to discuss. Their ambiguity can give the sense they are not important, especially when we are trying to address risks that are much more front-and-center. However, identifying emerging risks is important when it comes to strategic planning and operational resiliency. For example, the legalization of marijuana in Colorado was an emerging risk but did not become a risk on our dashboard; the importance of us discussing and creating awareness cannot be overstated.

By identifying trends around the globe and, specifically, in the insurance industry, organizations can begin predicting the different ways a risk could impact the organization, the likelihood of each prediction, and how quickly the prediction might occur (velocity). This allows discussions on the impact to the organization's strategic goals and, if necessary, allows for the organization to pre-plan for an emerging risk that may become apparent quickly (e.g., think about how quickly COVID-19 emerged).

So far, the emerging risks identified focused on the negative impacts they could have on an organization. An emerging risk could just as easily have positive impacts on an organization. Conning just put out a paper—"The Promise and Perils of Embedded Insurance"—on how embedded insurance is an emerging risk; if nothing is done at your organization, you could lose market share, or if you are proactive, you could gain new market share. With the ongoing changes in the insurance marketplace, there are plenty of emerging risks that need to be addressed so AASCIF funds can remain viable into the future.

How You Can Help

You are an expert at your job and are staying abreast of things going on in the industry and around the globe. You attend conferences and webinars, read books and periodicals, and (I'm sure) listen to podcasts.

You are hearing about new insurtechs, changes in existing technologies, economic and political trends, and the bad (or good) things that happened to other companies. All of these can be part of either a current risk discussion or an emerging risk discussion. Think about how some of the more ambiguous risks could impact your organization's resiliency and/or strategic plan.

As a result, you have knowledge that needs to be shared! There are no wrong answers or thoughts, and the ERM champions within your organizations would appreciate you sharing any emerging (or more current) risks you feel could impact your organization—or that might not. Being proactively engaged in the discussions surrounding emerging risks will help your organization and the industry.

RETURNS, YIELDS & OPPORTUNITIES: THE BONDS ARE BACK IN TOWN

By Jennifer Quisenberry, CIO, New England Asset Management

Submitted by the AASCIF Finance Committee

After disastrous asset returns in 2022, compelling and high-quality reinvestment opportunities available in 2023 mean that insurers can begin to reverse the effects of structurally low yields over the past decade, increase book yields, and enhance long-run enterprise value.

2022 In Review

The past year is one for the history books. Beyond the unprovoked invasion of Ukraine by Russia, a 40-year high in inflation, the collapse of high-flying crypto concerns, and the passing of an iconic queen, it was a historically disastrous year for asset returns.

"There is nothing new in the world except the history you do not know." – Harry S. Truman

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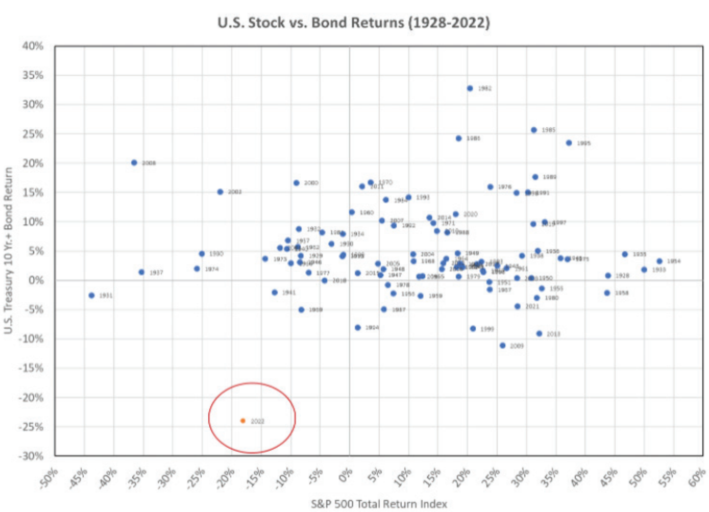
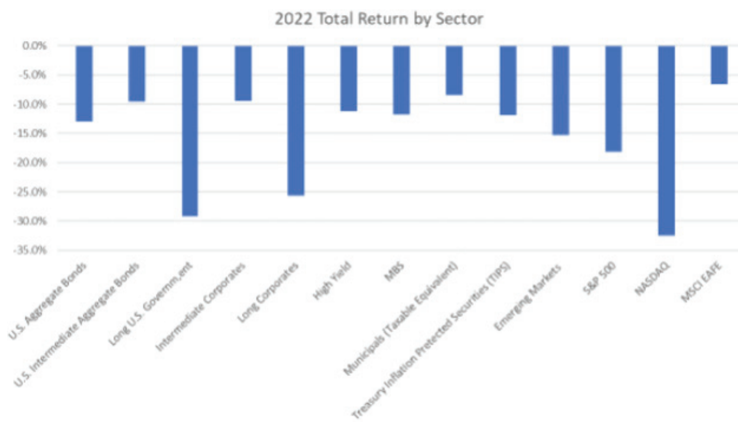
Who knew that long-dated Treasury bonds could decline by 24% in one year? Or that equities and bonds would decouple from their long-standing inverse correlation? Or that, for the first time, *both* stock and bonds could return *negative* 10+% over a year?



Source: NYU, Bloomberg, NEAM

Investment returns in 2022 were miserable. Long-duration assets fared worst, sector diversification provided little benefit, and Treasury Inflation Protection Securities faltered. It proved to be a year with "nowhere to run, nowhere to hide."

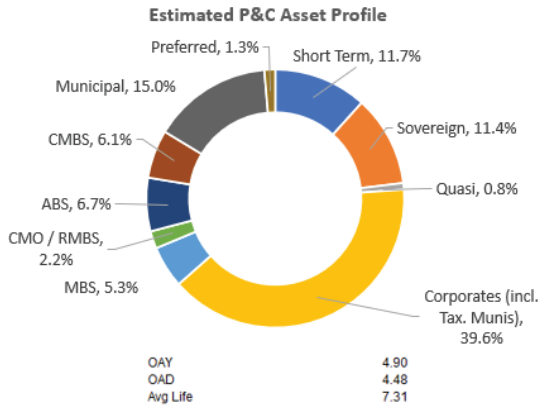


Source: ICE BofA, Bloomberg, NEAM

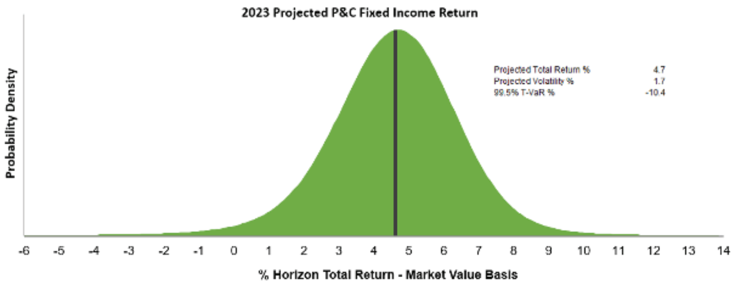
The breadth and depth of asset price declines caught most off guard. Surging inflation following excessive fiscal stimulus (courtesy of the $1.9 trillion American Rescue Plan)—combined with a spike in commodities prices with the onset of the war in Ukraine, rendered the notion of "transitory" inflation an illusion. The Federal Reserve was behind the curve and would need to act aggressively to catch up. In the end, risk assets could not withstand the tsunami of a 4.25% increase in the federal funds rate, wider credit spreads, and an overall tightening of financial conditions in 2022. Total returns ended sharply lower across the board.

2023 Outlook

As we turn the page to the new year, we are guardedly optimistic on the U.S. economic outlook and insurers' investment options within fixed income. Despite a plethora of recession indicators and prognostications, we point to fundamental strengths including healthy consumer balance sheets, absence of near-term corporate funding pressures, tight housing and labor markets, and a general lack of excesses (financial leverage and overbuilding, for example). While we expect economic activity to slow, we think the coming downturn will be moderate. The Fed is nearing the end of its rate-hiking cycle and will pause (while holding rates at a peak level of around 5%) during the coming year to assess the cumulative effects of its actions, in our view. Taking these factors into consideration, together with our expectations for yield curve and spread movements, we project a pre-tax total return of 4.7% for the P&C industry in 2023.



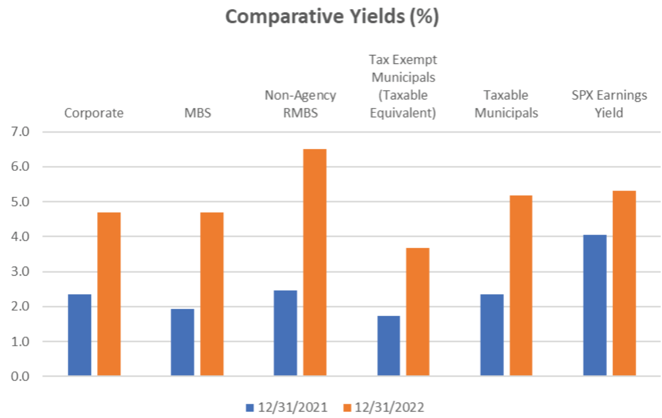
Source: S&P Global Market Intelligence, NEAM



Source: NEAM

Potential Opportunities

On the bright side, fixed income reinvestment yields are now attractive, enabling insurers to begin to rebuild book yield, which has been steadily deteriorating over the last decade. Industry book yields ended 2021 at 2.67% after declining 55 bps and 120 bps over the past five and 10 years, respectively. With higher treasury yields and the return to fair value for credit risk premiums, yields for high-quality securities are significantly more compelling compared to a year ago. Furthermore, bond investors don't need to reach for risky, volatile sectors to achieve attractive yield.



Source: Bloomberg, NEAM

We favor segments that may be overlooked, due to either liquidity or small market size, such as taxable municipal securities ("taxable munis"). At ~17% of the overall municipal market, taxable munis represent a small portion of the retail-dominated municipal securities market. Institutional investors are the primary sponsors of taxable munis, who view them as high-quality, higher yielding substitutes for investment grade corporate bonds.

Another sector to highlight is non-agency residential mortgage-backed securities (NA RMBS). Following the failures of NA RMBS during the global financial crisis of 2008–2009, the market reinvented itself to incorporate tighter underwriting criteria, detailed asset level disclosure, and fortified structural protections. The fundamental backdrop for housing remains strong with a shortage of homes available for sale, homeowners who refinanced at favorable mortgage rates, along with generational lows in loan-to-value ratios. Market yields of 5–6% for AAA rated bonds reflect liquidity and structural complexity considerations and offer extremely attractive risk adjusted return, in our view.

Key Takeaways

- The Federal Reserve is nearing the end of its rate-hiking cycle but remains vigilant in its fight to bring inflation down to target levels. The Fed Funds rate should continue to move slightly higher in Q1, and then remain there for the rest of the year.
- Tighter financial conditions are slowing the U.S. economy; we anticipate the downturn to be mild in magnitude.
- Attractive current yields for high-quality fixed income securities enable P&C firms to reverse years of book yield declines and to increase after-tax levels of net investment income and build long term enterprise value. We estimate 2023 pre-tax total returns of 4.7% for the industry.
- High grade, "under the radar" fixed income sectors such as taxable municipals and non-agency residential mort-gage-backed securities currently represent particularly attractive opportunities to generate incremental book yield while staying up in quality

CHATGPT: TRANSFORMATIONAL, OR FURTHER PROGRESS IN THE MACHINE LEARNING/ARTIFICIAL INTELLIGENCE JOURNEY?

By Kevin Bingham

Submitted by the AASCIF Analytics Committee

Kevin Bingham (kbingham@ceiwc.com) is the Chief Results Officer at Chesapeake Employers' Insurance and President & CEO of iCubed Ventures, LLC. *Special thanks go to Mike Pajerowski from Chesapeake Employers and Michael Greene from Deloitte Consulting for reviewing this article.*

The buzz around ChatGPT is intense. A Google search on "what is ChatGPT" returns 251 million search results in 0.80 seconds.[i] A visit to OpenAI's website states: "We've trained a model called ChatGPT which interacts in a conversational way. The dialogue format makes it possible for ChatGPT to answer follow up questions, admit its mistakes, challenge incorrect premises, and reject inappropriate requests." [ii]

However, is ChatGPT really the first of its kind? Have you ever deposited a check through your banking app? Has Facebook ever identified your family and friends to make it easier to tag them in pictures? Has Netflix ever recommended a movie to you? Surprise, each of these examples illustrate machine learning (ML) and artificial intelligence (AI). Handwriting recognition, facial recognition, and recommendation algorithms are just a few examples of ML/AI that impact our lives every day.

In this article, we will share a brief history on AI/ML and discuss what ChatGPT may mean for the future of our industry.

Does Anyone Remember Deep Blue or Watson?

ML and AI are not new. In fact, Arthur Samuel, an early pioneer in machine learning is credited with saying in the 1950s that machine learning is "the field of study that gives computers the ability to learn without being explicitly programmed." [iii]

In 1997, the chess-playing supercomputer Deep Blue beat Gary Kasparov, the world champion of chess in a six-game match. At the time, Kasparov had won 12 world chess titles in a row and was considered the greatest chess player of all time. Deep Blue won two games, lost one game, and played to three draws because of its ability to calculate as many as 100-billion to 200-billion positions in the three minutes allotted to a player per move in standard chess. [iv]

In 2011, IBM Watson beat Jeopardy champions Brad Rutter and Ken Jennings. In the PBS NOVA special titled "Smartest Machine on Earth: Can a Computer Win Jeopardy!?" the narrators tell the story of how IBM data scientists trained Watson's corpus using massive amounts of data, past Jeopardy questions, and real time Jeopardy Q&A feedback. The special shared illustrative examples of how Watson learned in real time from the answers given by other competitors:

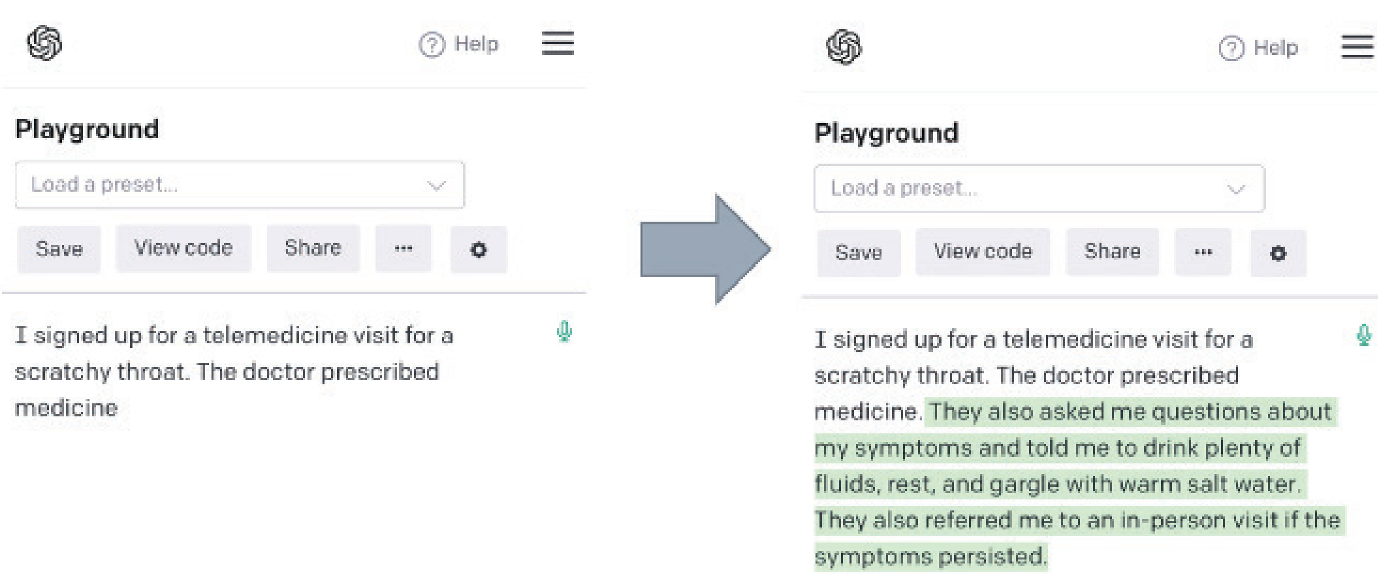
- Contestant selects category "Celebrations of the Month,"
- Contestant selects $200 clue "Administrative Professionals Day & National CPAs Goof-Off Day,"
- Watson buzzes in and answers incorrectly: "What is holiday?"
- A contestant buzzes in and answers correctly: "What is April?"
- Watson learns from the answer.
- Another contestant answers a second clue with another correct month.
- Watson learns from the answer.
- IBM Watson uses the previous two answers to correctly answer the rest of the clues in the category.

Although most people remember IBM Watson beating Jeopardy, the real advancement happened in 2013 when Memorial Sloan-Kettering and IBM Watson shared their oncology decision-making process at IBM's Edge2013 conference. Wellpoint's chief medical officer, Dr. Sam Nussbaum, shared how much medical information was being published each year, noting that medical information doubles every five years with nearly one-million articles being added every year to PubMed/MEDLINE. With the collection of the right data that integrated claims and clinical information, combined with IBM Watson's nurse- and patient-record-trained medical evidence, policies, and guidelines, oncologists were able to leverage AI to suggest customized treatment options through evidenced-based care. In 15 seconds, Watson analyzed two-hundred-million pages of clinical data, cross-referenced symptoms of one-million cancer patients and read millions of current medical journals to test hypotheses and assist in decision making. [v]

The Rise of ChatGPT

Fast forward today and everyone is talking about ChatGPT. This is largely because anyone can sign up for ChatGPT and try it in minutes. From watching numerous videos and learning about ChatGPT use on social media, examples discussed include using ChatGPT as a personal assistant, researching a company before a visit, co-authoring an article, debugging computer code, replicating the communication style of your favorite person, and more. On a more interesting note, ChatGPT has already passed the bar exam, MBA operations exam, medical license exam, and SAT.[vi]

To evaluate it, I signed up for Chat GPT and used it to discuss a telemedicine visit. I typed two sentences into the ChatGPT Playground (left). The green shaded area represents ChatGPT's response (right):



I do not know about you, but that sure sounds like the advice a nurse practitioner or doctor has given to many of us in the past. Interestingly enough, I recently shared this example with the attendees at Louisiana Worker's Compensation Corporation's 2023 OMNET Providers Network conference where we had a lively discussion of how a tool like this could someday serve as chatbot for medical practices. Star Trek—particularly the tricorder medical device—does not seem as far off as it used to these days!

What Does this Mean for Workers Compensation Insurers?

ChatGPT opens a whole new world of research and development for workers compensation insurers. The examples are many: Underwriters and customer service representatives could leverage ChatGPT to research companies in various target markets; IT departments could leverage ChatGPT to write and debug code; claims professionals could leverage ChatGPT to serve as a chatbot, answering first notice of loss questions and providing other vital information to the claims team; HR could leverage ChatGPT to create draft versions of different job descriptions; investor relations could use ChatGPT to create a draft version of a press release or earnings statement.

Although information returned from ChatGPT does provide a great starting point for most users, it does need to be thoroughly vetted since everything found on the internet may not be true. Even IBM Watson, who dominated the competition shared previously, missed the final jeopardy question when it answered: "What is Toronto?" to the question "Category U.S. Cities, its largest airport is named for a World War II hero, its second largest, for a World War II battle."[vii] In a similar fashion, workers compensation insurers will have to be just as cautious leveraging ChatGPT in any of their decision making processes until all of the unusual responses are worked out of the system.

Conclusion

I think entrepreneur Patrick Bet-David summed it up best: "Imagine a person whose read every single book ever written, every article, every video and meanwhile can recite all of it in seconds? That is ChatGPT." Although AI/ML has existed for decades, this is the first time in history that it has been placed in the hands of the masses.

If this is the first time you have heard of ChatGPT, we would recommend learning more immediately. With Microsoft's announcement of a new multibillion dollar investment in ChatGPT-maker OpenAI, there is little doubt that Microsoft Office users will eventually see these capabilities integrated into products like Bing, Power Point, Excel, and Word.[viii]

Although the initial excitement (i.e., halo effect) may fade over time, understanding where ChatGPT strategically fits in your organization might be worth the investment. Change is happening faster than ever before, and it looks like AI/ML is about to become a more critical part of every insurance company's journey.

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[i] what is chatgpt - Google Search

[ii] www.openai.com

[iii] Machine learning, explained | MIT Sloan

[iv] Deep Blue defeats Garry Kasparov in chess match - HISTORY

[v] Contingencies Magazine; The Convergence of Nudges, Habits, & Advanced Analytics, Kevin Bingham, March/April 2015

[vi] Twitter ChatGPT examples

[vii] IBM Challenge: Why Did Watson Think Toronto Is A U.S. City on 'Jeopardy!'? | TIME.com

KEMI'S YEAR THREE OF NEW WAY TO WORK: HOW OUR RESPONSE TO REMOTE WORK ENHANCED EMPLOYEE ENGAGEMENT WHILE MEETING AND EXCEEDING STRATEGIC OBJECTIVES

By Katy Grachek, SPHR, SHRM-SCP, Senior Director of Human Resources, Kentucky Employers' Mutual Insurance

Submitted by the AASCIF HR Committee

KEMI's employees are our greatest assets, and our strategies for positive employee engagement—including remote work arrangements—reinforce our overall commitment to them in our unique culture. "Remote work has proven to be a valuable addition to our business strategy, allowing us to enhance employee engagement and ultimately drive success," shared Jon Stewart, KEMI President & CEO. "Not only has it improved the work-life balance of our employees, but it has also positively impacted employee well-being and enabled us to meet and exceed our financial targets. This flexible approach to work has been a game-changer for our organization."

The KEMI 2022 Culture & Engagement Survey reflected an exceptionally high participation rate of 91% of all full-time and part-time employees, up 1% from the prior year. The employee engagement score was 86%, up 6% from 2021 and 11% higher than the U.S. Small Company benchmark for 200–500 employees. In addition, KEMI also led the U.S. benchmarks in all 16 factors (questions grouped by category). KEMI's engagement score of 86% is a stark contrast to the Gallup engagement survey report[1] released on January 25, 2023, which indicated only 32% of the nearly 15,000 randomly selected full- and part-time employees surveyed quarterly in 2022 were engaged in their work.

KEMI's response to remote work is uncommon. Three years past the start of the pandemic, we strategically chose to continue our remote and flexible hybrid work options. Our remote work factor results on the 2022 Culture & Engagement Survey were 97%, leading the benchmark by 7%. KEMI also chose to not mandate scheduled on-site work throughout the week. Yet, we continued to meet or exceed our financial objectives year-over-year. Our approach was to take the chance to fail, yet, the rewards were far beyond our expectations.

As the COVID pandemic was quickly escalating in March 2020, KEMI determined it was in the best interest of employees' health and well-being to proactively and immediately relocate employees to remote work beginning March 6, 2020.

It was no small orchestration, but we were well positioned to quickly implement this plan companywide since we had a history of successful performance from field staff and a small number of employees already working remotely. The essential mail room and finance employees remained on-site, but all other on-site employees were working from their home locations within one week. The innovative technology and equipment KEMI already maintained were critical aspects of this large-scale change. We already had virtual desktops that allowed employees to connect securely from any device, appropriate cyber protocols, multiple connectivity options for staff, and voice over internet phone (VOIP) in place. In addition, every employee had a laptop, dual monitors, keyboard, mouse, and ergonomic chair they simply took from their KEMI office, set-up at home, and connected to the internet to work remotely. The March 25, 2020, Executive Order of the Governor[2] subsequently mandated remote work.

Following these work relocations, the world was in upheaval. Our employees were facing child and elder care issues. Their children were suddenly connecting to school virtually, and employees were often needed to assist in the new educational environment. Family members were facing layoffs, friends and loved ones were diagnosed with COVID, hospitalized, and, in some cases, passed away. Contact with others outside of the home all changed, and the nation's mental health crisis was front and center. However, the area that had not changed for KEMI employees was support for employees' life-family needs as they continued purposeful work to keep our promise to protect and serve our policyholders and injured workers.

With these drastic changes for employees, KEMI understood frequent, intentional communication was critical. We could not solve all the employee's problems, and we did not have all the answers they were seeking, but we provided honesty, transparency, and trust that they would successfully perform their roles. The KEMI leadership team was expected to further develop their relationships with individuals inside and outside their units with frequent unplanned well-being check-ins via virtual calls, telephone calls, e-mails, chat messaging and texts, routine one-on-one employee meetings, virtual team meetings, and team building activities. The talent management cycle also included quarterly one-on-one performance and SMART Goals discussions, and monthly review of KEMI's strategy. The managers offered more flexibility in work arrangements and allowed temporary child and elder care during our standard business hours. Our focus for exempt employees moved from working a schedule to ensuring the work was completed as required throughout the week. As a result of these business strategies, the management factor (direct leader) was 93%, leading the benchmark by 8%, and the work and life blend factor was 91%, leading the benchmark by 8% on the 2022 Culture & Engagement Survey.

To address well-being and the mental health crisis, KEMI added Teladoc behavioral health services to our health plan. General medical services were already provided by Teladoc, and both services were—and continue to be—free to members. The behavioral health services utilization rate for January through October 2022 with a psychiatrist, psychologist, or licensed therapist was 120.7%. Alarmingly, 58% of the members that received these behavioral health services indicated they would not have sought treatment elsewhere. We openly discussed the mental health crisis and suicide prevention, promoting the resources available to employees and their families, while providing education and awareness for an entire month to reduce the negative stigma surrounding the utilization of mental health services. Our well-being strategies resulted in factor score of 91% on the 2022 Culture & Engagement Survey, 16% higher than the benchmark.

Overall, the leadership team believed remote and flexible work arrangements were very important to employees and their engagement, but these sentiments were quantified on the 2022 Culture & Engagement Survey. "Overall, my company is effectively set-up for remote working" scored 98% and "I believe I can do my best work as effectively remote as in the workplace" scored 95%. These extremely high results were also supported by another outstanding year of financial results and the appropriate business strategies for KEMI.

As a result of the pandemic, remote work arrangements are the norm at KEMI. We understand and frequently communicate our commitments to the employee experience and understand that how we work is the exception. Our employees understand and appreciate how their experience in our working model is different. Employees are actively and consistently engaged, leading KEMI to meet and exceed our business strategy and objectives—a win for all.

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[1] www.gallup.com/workplace/468233/employee-engagement-needs-rebound-2023.aspx

[2] https://governor.ky.gov/attachments/20200325_Executive-Order_2020-257_Healthy-at-Home.pdf

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WAGE INFLATION AND THE IMPACT ON PAYROLL

Submitted by the AASCIF Policyholder Services and Underwriting Committee featuring contributions from:

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Cynthia Luna, Director of Underwriting and Customer Service, New Mexico Mutual Group

Amanda Aponte, Senior Vice President and Chief Financial Officer, SFM Mutual Insurance Company

Rhonda Wills, Vice President – Residual Markets, SFM Mutual Insurance Company

Rex Blateri, Chief of Employer Services, Ohio Bureau of Workers Compensation

Daniel Myers, Chief of Actuarial, Ohio Bureau of Workers Compensation

Michael Huff, Business Development and Specialty Accounts Manager, Kentucky Employers' Mutual Insurance

Keith Bingham, Employer Services Program Manager, Washington Department of Labor and Industries

Since the pandemic began in March 2020, the U.S. Economy has been on a bit of a roller coaster. Factors like wage inflation, decreasing unemployment rates, increase in the Consumer Price Index, and the great employment reshuffle have all played their part.

In the world of workers' compensation, there has been a lot of presentations and articles written surrounding medical inflation. However, workers' compensation carriers are also impacted by wage inflation and a decrease in unemployment rates. Premium growth and audit additional premiums are two of the main factors that have resulted from the current job market.

Considering each state has its own set of factors that can influence economic conditions, the Policyholder Services committee wanted to share some of the experience that we have seen in our companies over the last couple of years.

North Dakota

With the prices of goods on the rise, the great resignation, and individuals switching jobs seeking better benefits to support their lifestyles, inflation has had a direct impact on business owners in the state of North Dakota. Employers have had no other choice but to respond by increasing payroll compensation to compete with its competitors in recruiting talent and retaining existing team members to ensure business operations go uninterrupted. This increase in payroll compensation has most undoubtedly had an impact on the premiums paid for workers' compensation insurance.

WSI utilizes a maximum taxable payroll for each worker that is capped at 70% of the state's average annual wage—better known as the "wage cap." The average annual wage cap becomes effective on July first each year and is determined by Job Service of North Dakota. The current fiscal period of July 1, 2022, to June 30, 2023, is currently at the rate of $38,400 and will increase to $40,800, effective in 2023. This is a 6.3% increase over the previous year, an increase of this magnitude has not been seen by the organization in the last 10 years.

In 2022, WSI has the lowest workers' compensation rates in the nation based upon a study conducted by the Oregon Department of Consumer and Business Services. WSI had an overall 4.2% manual rate decrease and stated a 10% increase for gross payroll reported in multiple industry groups such as agriculture, energy exploration, construction, and information technology for 2022 in comparison to that reported in 2021.

New Mexico

New Mexico is experiencing a significant increase in audited premiums since the pandemic. The overall earned payroll has increased by 12%. The payroll inflation is not necessarily driven by the increase in employees but by the increase in payroll-overhead of the existing employees. Our employers are challenged to retain a stable workforce within the competitive employment market. Another impact to payroll is a new law for mandatory sick pay imposed on designated employers. With increasing payrolls, inflation in the cost of building materials, equipment, resources, and other business expenses, we face the pressure to provide competitive pricing. On the other hand, policyholders are underbidding projects to obtain work, not considering that their inflated payrolls will also drive-up comp costs. Though agents do not feel the need to shop their renewals, the employers are taking it upon themselves to seek out savings. While premiums decrease due to competitive pricing and imposed rate reductions, inflation has impacted the medical cost of claims. Medical resources are limited in NM due to the increased cost of malpractice insurance driving providers to practice in other states. Given these factors, the challenge for 2023 is to achieve a combined ratio near 100%.

Minnesota

In 2022, SFM's insured payroll per covered employee grew 4.3%. Part-time employment grew faster than full-time employment when compared year-over-year, which drove individual wages to grow slightly faster than 4.3%.

This percentage exceeds average historical wage growth and is a result of inflation. Some of this increase is coming through on endorsements (4% increase over issued premium), and some policyholders are waiting for audit (5% increase over issued premium). SFM saw renewal payrolls over the last year outpace plan, which can be indicative of future expected wage pressure.

SFM's written premium grew by 2%, while premium written outside of their domiciliary borders grew by 13.7%. Payroll growth was up 8.0%.

Ohio

Ohio, one of four monopolistic workers compensation states, continues to evaluate payroll trends associated with multiple factors, primarily associated with the labor force coming out of the pandemic and inflation. For this newsletter, the evaluation mainly uses reported payroll for the three previous policy years.

However, before reviewing trends in reported payroll, let's look at a few contributing factors that influence those payroll trends. As reported in the Ohio Department of Jobs & Family Services Annual Report, "Ohio's unemployment rate declined throughout 2021, from 6.0% in January to 4.5% in October, November, and December. Ohio's unemployment rate for the last three months of 2021 was the lowest since January 2020." Additionally, the statewide average weekly wage increased 6% in 2022 compared to previous years' increases of 4% and 3%.

While discussing payroll trends with BWC Chief Actuary Daniel Myers, he states that the actuarial division is looking at payroll a couple different ways. Myers explained one way is that his staff looks at average weekly wages. Wage growth has been relatively constant between 2010 and 2019. There was a spike in average wages in 2020, which continued into 2021. There are likely 2 reasons for the sudden jump in 2020:

1. Low wage jobs were furloughed starting March 2020 because of Ohio Governor DeWine's emergency COVID shutdown of non-essential jobs.

2. Overtime was higher than normal since some employees were exposed to COVID and forced to quarantine (still

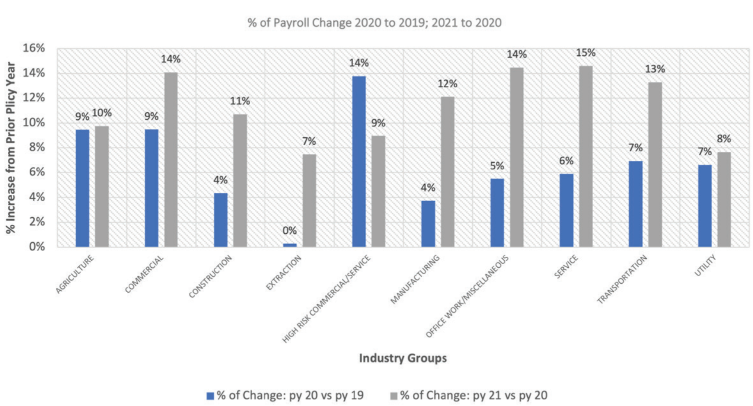
earning a paycheck while they used sick time and/or vacation time) while those who were available had to put in extra hours to keep business going.

Myers also described how the actuarial division splits out the change in payroll between the change in average weekly wage and trends in underlying employment practices. Not surprising, the calculation associated with employment practices indicates a retraction of employment during COVID and an expansion in the last year as Ohio opened back up closer to a pre-COVID business environment.

Lastly, the BWC underwriting and premium audit departments also evaluate payroll trends. However, they elect to view payroll using reported totals by industry groups. As the diagram below reflects, 70% of industry groups experienced an increase in total reported payroll of 10% or greater, compared to the previous year in which only one industry group increased greater than 10% percent. When factoring in the average payroll per policy within each industry group, 2021 indicated a 4% increase per in payroll per policy compared to the previous year which experienced a 1% reduction in payroll per policy.

In comparing policy years 2019 through 2021, with 2021 as the most recently completed policy year, the payroll totals indicate an overall increase of 13% when comparing 2021 to 2020, and 6% increase when comparing 2020 to 2019.

In summary, Ohio reported payroll increased as the average weekly wage increased year-to-year, while unemployment rates decreased. Additionally, Ohio businesses continue to return to full staffing coming out of the pandemic.



Kentucky

KEMI has been greatly impacted by wage inflation and a decrease in unemployment rates that have occurred over the last couple of years. One of the most relevant factors is the fact that KEMI's direct written premium increased 7.8% in 2021 and another 8.3% in 2022. There are three primary reasons for the increase in direct written premiums.

1. Active payroll insured at KEMI has grown by 8.96% over the last two years. This payroll growth transpired during a time when the number of policyholders insured decreased by 4.1%.
2. Audit additional premiums are at an all time high. KEMI conducted 9,446 audits in 2020, with a net result of $7,020,308 in additional premium or $743 of premium per audit conducted. In 2021, KEMI conducted 9,926 audits, resulting in additional premium of $6,478,737 or $653 per audit. In 2022, KEMI conducted 9,908 audits, resulting in additional premium of $12,782,808 or $1,290 per audit.
3. The coal mining industry has exploded over the last couple of years. Coal mining has always been a driving force to the Kentucky economy, alongside horse racing, agriculture, and bourbon. However, due to federal regulation introduced over 10 years ago, it suffered serious seatbacks. In 2011, Kentucky had 18,717 miners employed in-state. Fast forward to 2020, that number decreased to a record low of 3,808 miners. Over the last two years, coal has been in demand, and coal mining employment has increased 22.6%

Washington

Washington State charges premium based on hours worked, inflation does not affect premiums as in other states, which rely on payroll that is affected by inflation. This system of reporting premium hours does not negatively affect employers who pay higher wages.

In Closing

Although the full impact of inflation has not yet been determined for workers' compensation insurance, one thing is certain, we are all watching the trending factors of low loss rates during the pandemic, labor shifts indicating potential increases in the frequency of claims for the inexperienced labor force and increased premium credited to wage inflation.

AROUND AASCIF

SASKATCHEWAN

Slips, Trips, and Falls Remain Top Concern in Workplace Safety

While falls from heights in Saskatchewan reduced by 19% in 2021 compared to 2018, slips, trips, and falls remain among the leading causes of serious workplace injuries in the province. From 2010 to 2021, falls were tied for the third highest number of serious injury permanent functional impairment claims. From 2019 to 2021, falls from the same level were the leading cause of serious injuries.

"Many people don't realize that slipping, tripping, or falling can lead to serious life-altering injuries," says Kevin Mooney, the WCB's vice-president of prevention and employer services. "One incident could lead to lifelong injuries that could include sprained or broken bones, and traumatic brain injuries that could take months or years to heal, if at all. The effects from falling from any height can be catastrophic."

WorkSafe Saskatchewan's slips, trips, and falls campaign highlights the seriousness and potential lifetime-impact that can occur from falls from any height. Heading into its third year, the campaign targets different scenarios that may lead to serious injuries. The number one cause of workplace injuries among slips, trips, and falls in Saskatchewan is falling to a floor, walkway or other surface.

The top industries with the greatest number of falls from heights include health care, transportation, community and social services, municipal government (cities, towns and villages), and schools (elementary and secondary).

"Although the number of falls from heights injuries have reduced over the past few years, falls still accounted for 24% of serious injuries from 2010 to 2021," says Mooney. "The goal of our campaign is to not only highlight these dangers, but to help ensure workers and employers take the necessary precautions to prevent these injuries, even in places where the risks seem low, such as parking lots and stairways."

WorkSafe Saskatchewan has online resources for preventing falls at worksafesask.ca/prevention/slips-trips-falls.

WorkSafe Saskatchewan Continues to Raise Awareness of Asbestos Exposure Dangers

Although the number of workplace fatalities in Saskatchewan has decreased, asbestos exposure continues to be the number one cause of occupational deaths across the province.

From 2010 to 2021 in Saskatchewan, approximately 40% of fatalities in all industries were from occupational diseases. Of such fatalities, 67%—in all industries between 2010 and 2021—were asbestos-related.

While public awareness of the dangers of asbestos exposure has improved from 19% to 33%, WorkSafe Saskatchewan continues to work to increase awareness among the province's workers and employers regarding the long-term effects of asbestos exposure. WorkSafe Saskatchewan is the partnership between the WCB and the Saskatchewan Ministry of Labour Relations and Workplace Safety.

WorkSafe Saskatchewan's multimedia campaign focuses on industries that are seeing the highest number of work-related asbestos exposures. Those efforts include retail awareness at home improvement stores, outreach to municipalities, and paid digital and social media advertising. There are also a number of online resources available to help workers and employers manage asbestos testing.

"We want to remind and educate construction contractors and homeowners that asbestos remains a serious health issue," says Mooney. "If you take the time to test for asbestos before starting any construction or renovation project, you can protect yourself and others from asbestos exposure."