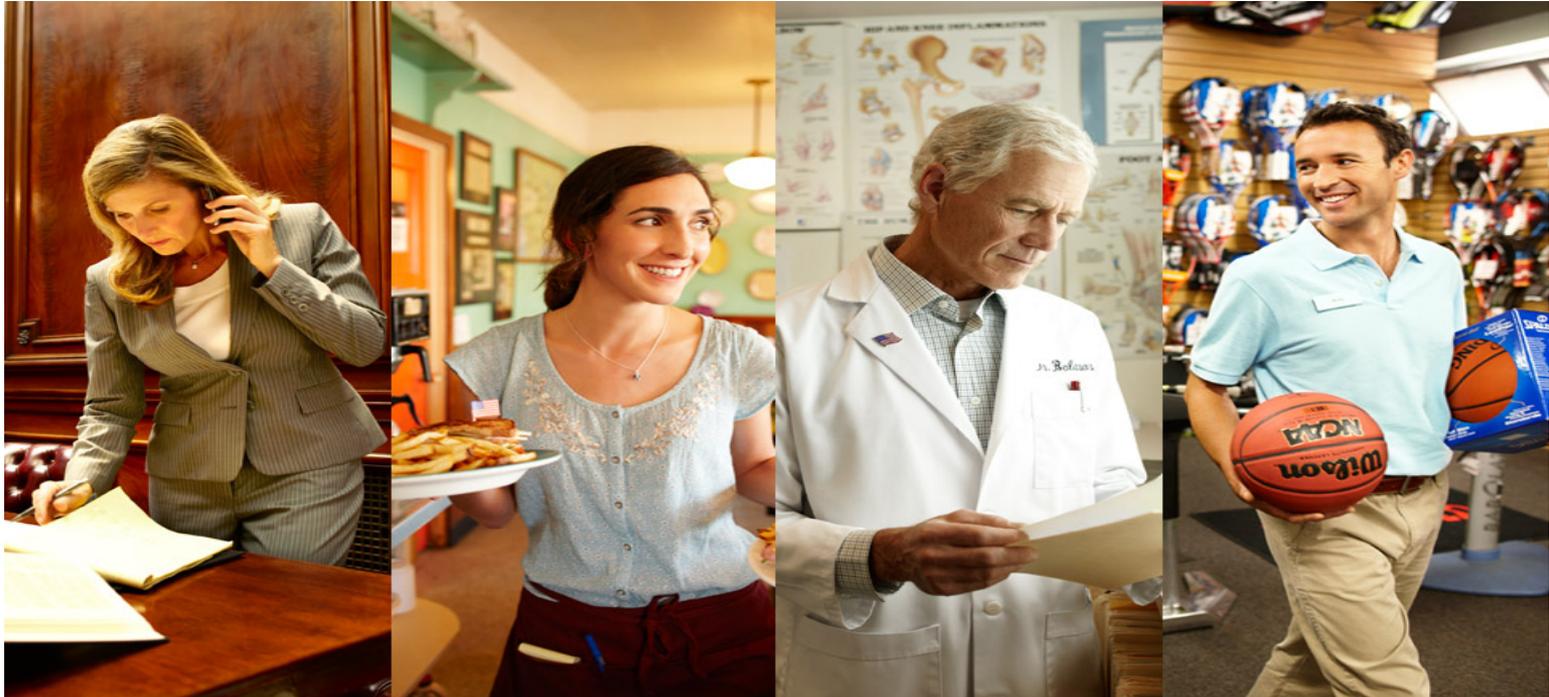


# **EMPLOYERS<sup>®</sup>**



## **Employers Holdings, Inc.**

Investor Presentation

**Results Through Q 1 2014**

# Regulation FD

This slide presentation is for informational purposes only. It should be read in conjunction with our Form 10-K for the year 2013, our Form 10-Qs and our Form 8-Ks filed with the Securities and Exchange Commission (SEC), all of which are available on the "Investor Relations" section of our website at [www.employers.com](http://www.employers.com).

## **Non-GAAP Financial Measures**

In presenting Employers Holdings, Inc.'s (EMPLOYERS) results, management has included and discussed certain non-GAAP financial measures, as defined in Regulation G. Management believes these non-GAAP measures better explain EMPLOYERS results allowing for a more complete understanding of underlying trends in our business. These measures should not be viewed as a substitute for those determined in accordance with GAAP. The reconciliation of these measures to their most comparable GAAP financial measures may be included in this presentation or in our Form 10-K for the year 2013, our Form 10-Qs and our Form 8-Ks filed with the Securities and Exchange Commission (SEC) and available in the "Investor Relations" section of our website at [www.employers.com](http://www.employers.com).

## **Forward-looking Statements**

This presentation may contain certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward looking statements include statements regarding anticipated future results and can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like "believe", "expect", "anticipate", "estimate" and "intend" or future or conditional verbs such as "will", "would", "should", "could" or "may". All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by these cautionary statements.

All forward looking statements made in this presentation reflect EMPLOYERS' current views with respect to future events, business transactions and business performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. The business of EHI and those engaged in similar lines of business could be affected by, among other things, competition, pricing and policy term trends, the levels of new and renewal business achieved, market acceptance, changes in demand, the frequency and severity of catastrophic events, actual loss experience including observed levels of increased indemnity claims frequency and severity in California, uncertainties in the loss reserving and claims settlement process, new theories of liability, judicial, legislative, regulatory and other governmental developments, litigation tactics and developments, investigation developments, the amount and timing of reinsurance recoverables, credit developments among reinsurers, changes in the cost or availability of reinsurance, market developments (including adverse developments in financial markets as a result of, among other things, changes in local, regional or national economic conditions and volatility and deterioration of financial markets), credit and other risks associated with EHI's investment activities, significant changes in investment yield rates, rating agency action, possible terrorism or the outbreak and effects of war and economic, political, regulatory, insurance and reinsurance business conditions, relations with and performance of employees and agents, and other factors identified in EHI's filings with the SEC. Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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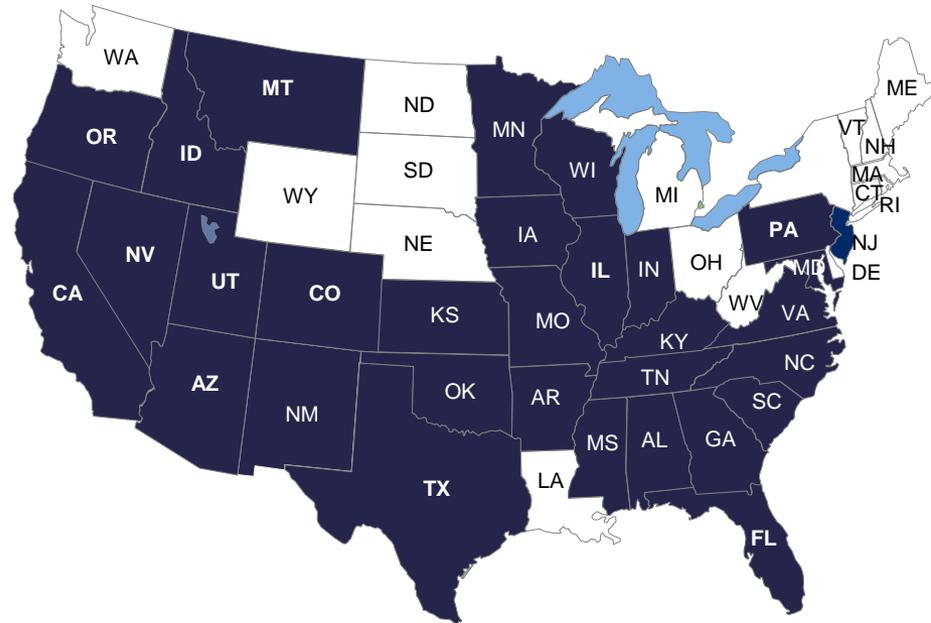
# Overview

- Workers' compensation mono-line writer
- Focused on small, low to medium hazard risks

- Distribution through agencies and strategic partners
  - 4,614 agencies  
(includes 1,197 Anthem/BC agencies)
  - Strategic partners = 23% in-force premium (partners include ADP, Paychex and Anthem Blue Cross of California)

- Writing in 31 states and the District of Columbia
  - Operate in approximately three quarters of total market

**EMPLOYERS<sup>®</sup>**



**At March 31, 2014**

**Average policy size: \$7,388**

**In force Premium**  
**\$630.2 million**

**Policy Count**  
**85,301 Policies**

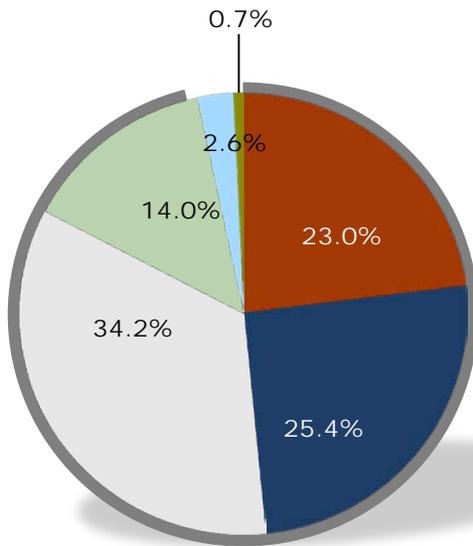
CA = 60.0%  
IL = 4.8%  
GA = 4.0%  
FL = 3.4%  
NC = 2.4%

CA = 48,732  
IL = 3,152  
GA = 3,865  
FL = 3,549  
NV = 2,131

**EIG**  
**LISTED**  
**NYSE**

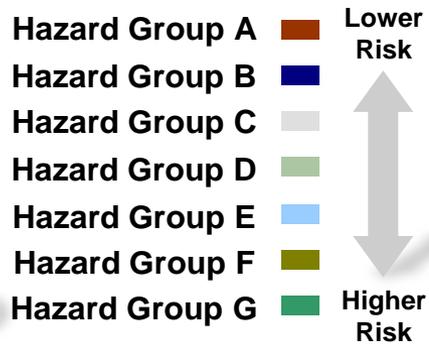
# Low Risk Focus

## *Underwriting focus on select low hazard groups A - D*

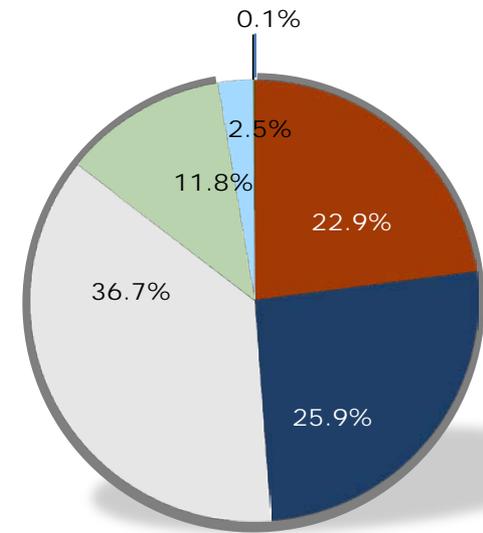


Hazard Group % at March 31, 2013  
96.6% in Hazard Groups A – D

### NCCI Hazard Groups



Data shown as a % of in force premium

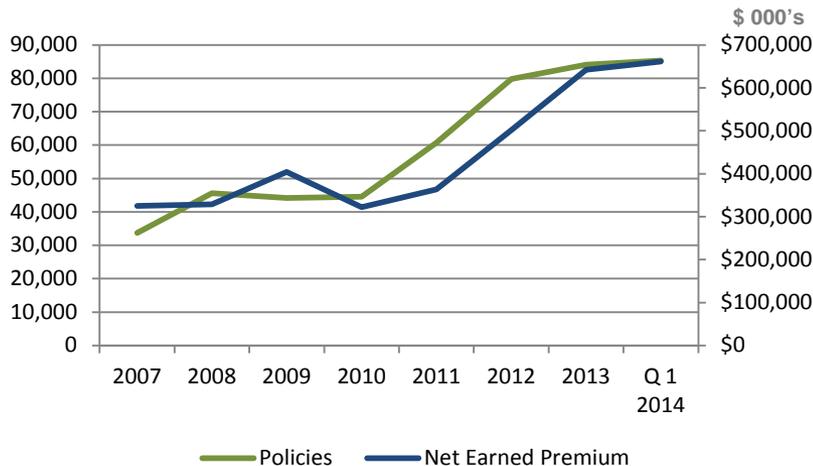


Hazard Group % at March 31, 2014  
97.3% in Hazard Groups A – D

# Growth, Book Value & EPS

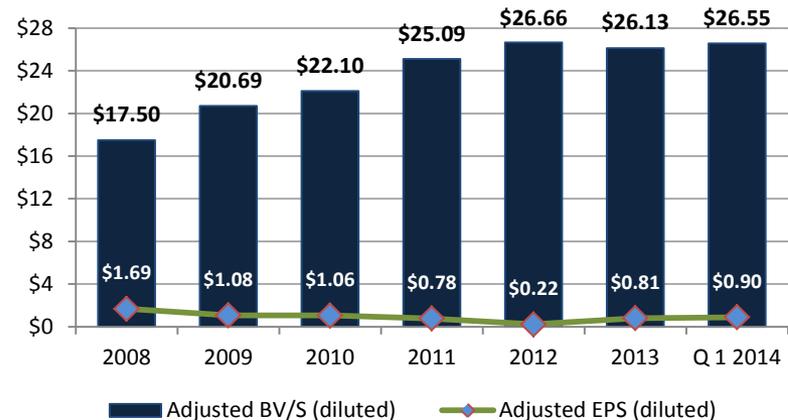
- Increased net earned premium 13% YOY at 3/31/14
  - Policy count increase of 4.8% YOY at 3/31/14
  - Increase of 6.5% in overall net rate YOY at 3/31/14
- Increased EPS, impacted by historically low yields and high loss provisions in recent years
- Changes in book value are, in part, driven by changes in unrealized gains

## Substantial growth in recent years



- Net earned premium is trailing twelve months in the quarters

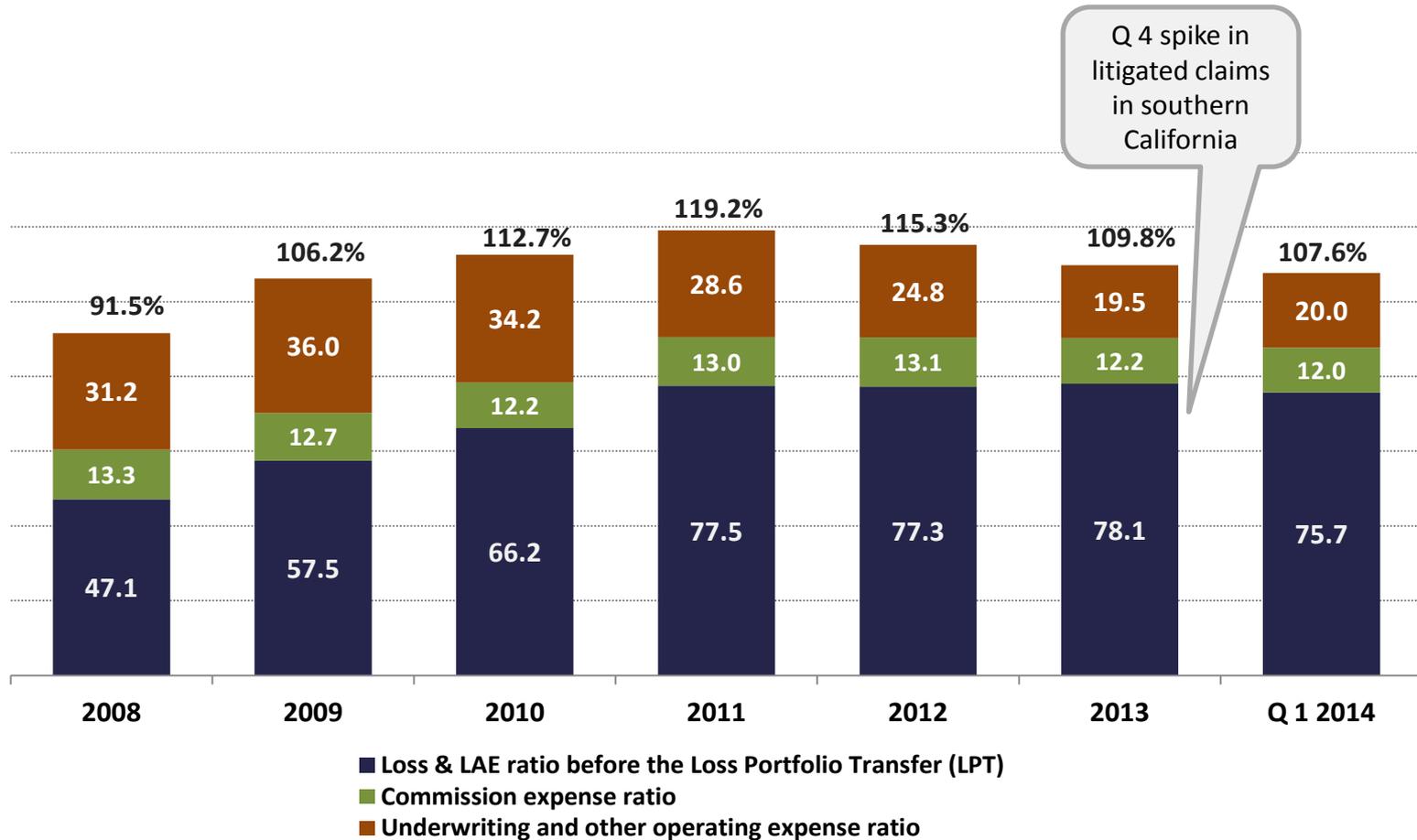
## Adjusted book value and adjusted EPS



- Adjusted and restated for impacts of the LPT
- Adjusted book value includes unrealized gains
- EPS is trailing twelve months in the quarters

# Improving Calendar Year Combined Ratio

**Combined ratio trending down with increasing earned premiums and cost controls in place**



✓ GAAP combined ratio

✓ Loss and LAE ratio excludes LPT Agreement adjustments for favorable prior period development of ceded reserves and the LPT contingent profit commission

# Superior Claims Management

## In-house medical management staff

- Manage care and medical costs

## Rigorous quality assurance processes

- Compliance with best practices and regulatory requirements

## Comprehensive fraud program / dedicated subrogation unit

- \$3.9 million fraud savings in 2013
- Recoveries over \$2.3 million in 2013

## Pharmacy benefit management program

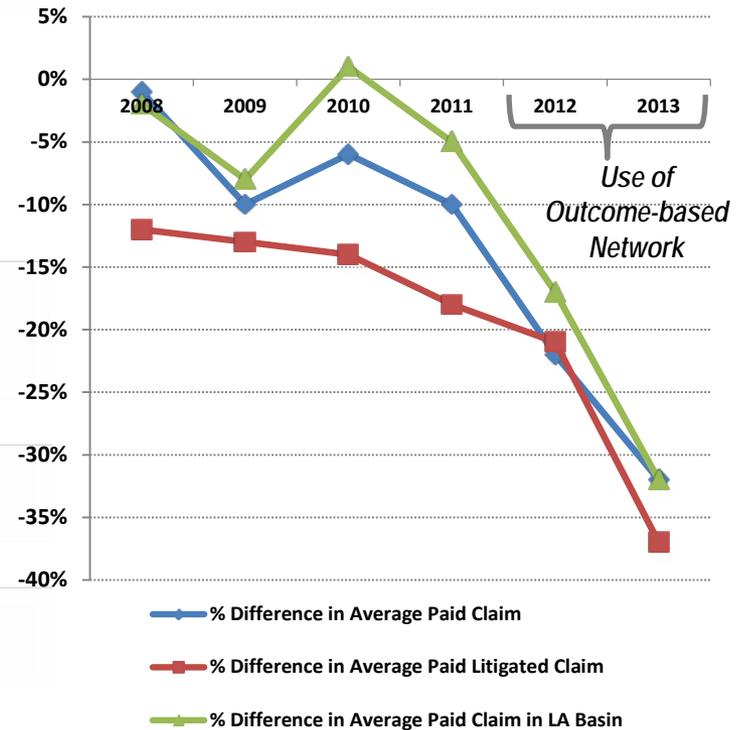
- \$4.6 million savings in 2013

## Outcome-based network

- Direct claimants to better providers

## Claims professionals average over a decade of experience

Percent difference in the average cost per paid claim in California for EMPLOYERS® compared to the California industry average



Source: California Workers' Compensation Institute, data – 2008 through June 30, 2013

# Initiatives: Restructuring / Underwriting

Have appointed key staff positions and are centralizing operational functions

## Underwriting/pricing strategies implemented

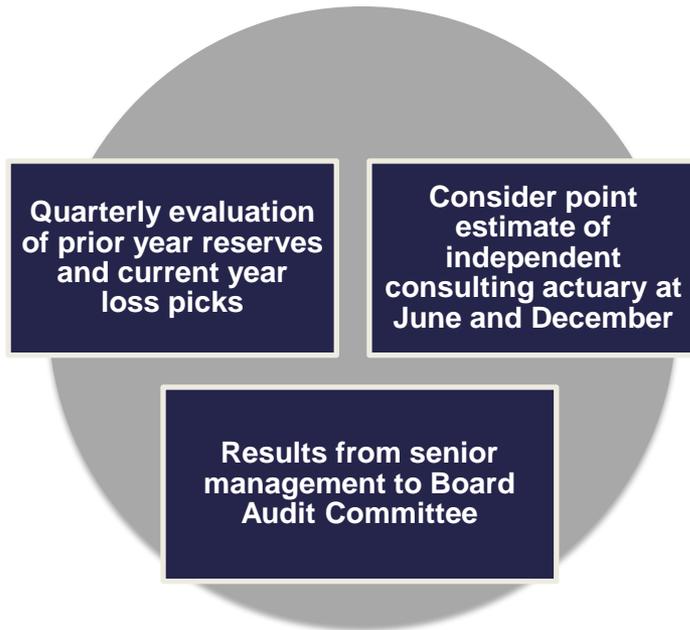
- Slowed policy count growth in California largely due to geographic concentration
- Adjusted pricing in California in 2013 through schedule credits/debits
- Three-company pricing platform in California with territorial multipliers in place and quoting policies effective June 1, 2014
- Non-renewing poor performers (a small percentage of California policies)
- Increasing prices for chronically underperforming class codes
- Targeting attractive classes of business in and outside California

Policy count growth (Q 1 2014 YOY):  
4.8% overall and 3% in California

Change in net rate (Q 1 2014 YOY):  
6.5% overall and 9.8% in California

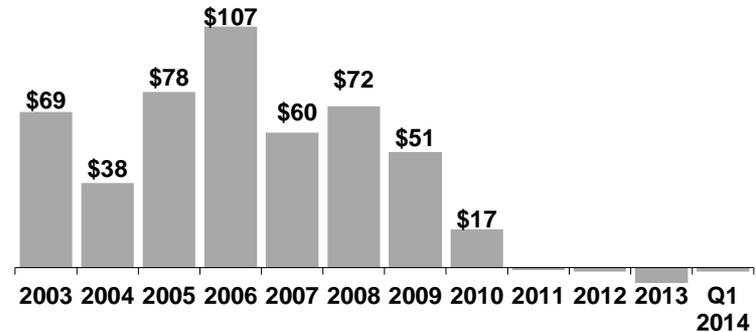
# History of Reserve Strength

## Reserve review



## Reserve development

Net Calendar Year Reserve Development for Prior Accident Years  
(\$ million)



- Carried reserves are our best estimate of outstanding unpaid losses and LAE
- Favorable development for prior periods through 2010
- Modest unfavorable development of \$5 million in Q 4 2013

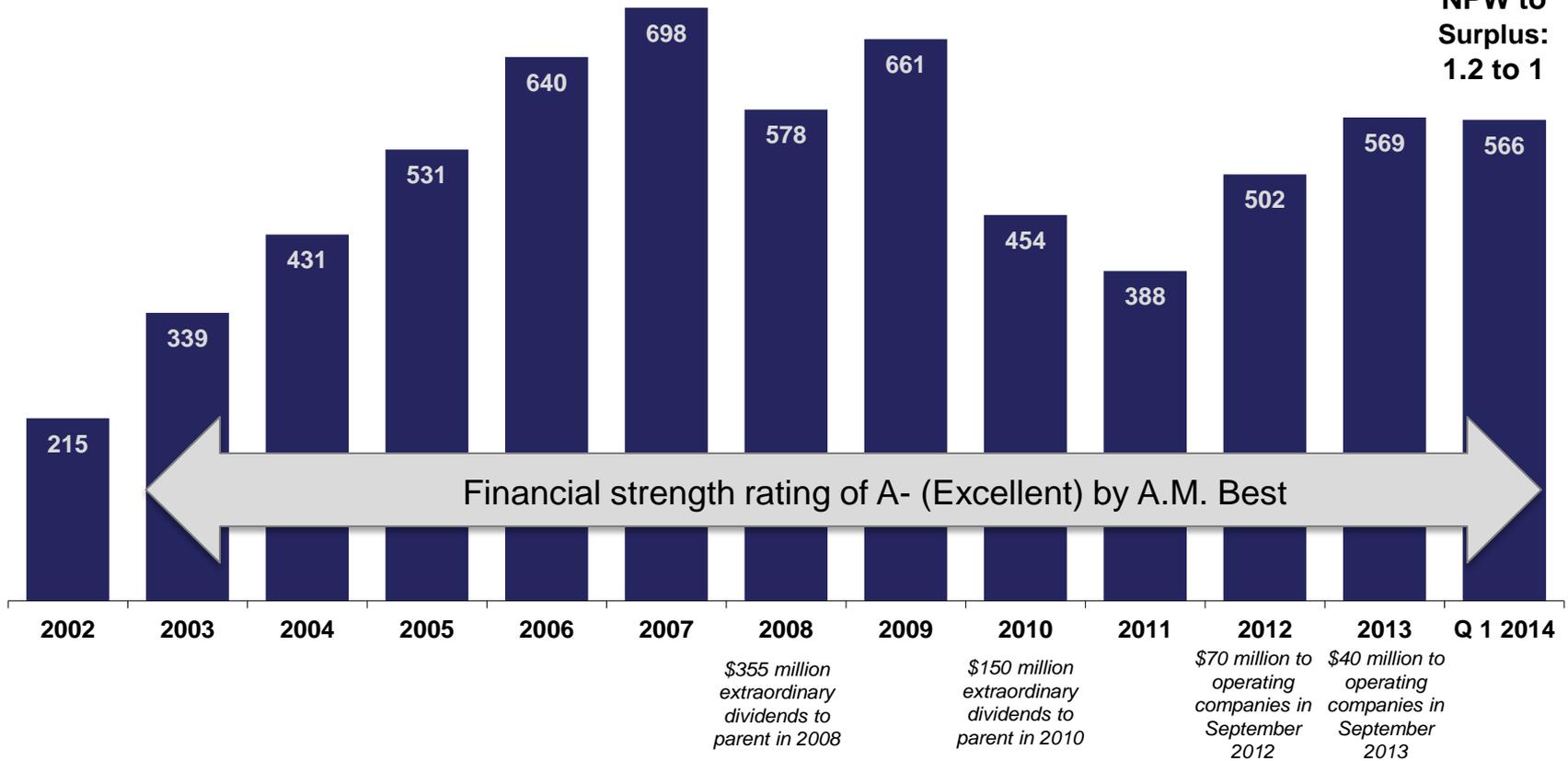
# Strong Capital Position

*Statutory surplus provides a solid basis for underwriting*

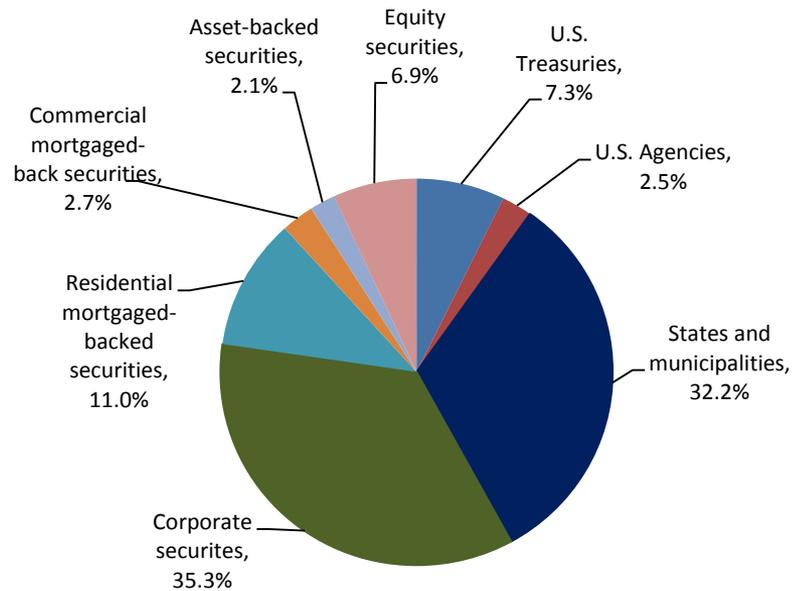
(\$ millions)

## Statutory Surplus

**NPW to  
Surplus:  
1.2 to 1**



# High Quality Investment Portfolio



**March 31, 2014:  
\$2.4 billion fair market value**

- **Fixed maturities have an average weighted rating of AA-**
- **3.3% average pre-tax book yield**
- **4.0% tax equivalent book yield**
- **Effective duration of 4.2**

# High Quality Reinsurance

## Reinsurance management

Maintain a high quality reinsurance program

*Focus on select small business provides a natural dispersion of exposure across markets*

Long-term relationships with lead reinsurers

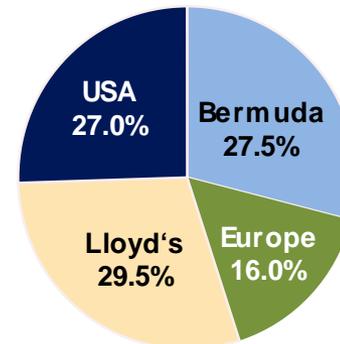
Rated A or Better

## Program structure, effective 7/1/13

Limits of \$200M

Retention of \$5M plus \$2M annual aggregate deductible

## Reinsurers by Market



# Key Strengths

## **EMPLOYERS**<sup>®</sup>

- **OVER 100 YEAR OPERATING HISTORY**
- Strong underwriting franchise with established presence in attractive markets
- Realized growth, expense management, improving operating ratios
- Unique, long-standing strategic distribution relationships
- Conservative risk profile and prudent capital management
- Strong financial position and strong balance sheet
- Experienced management team with deep knowledge of workers' compensation
- Demonstrated ability to manage through challenging operating conditions

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# Appendix



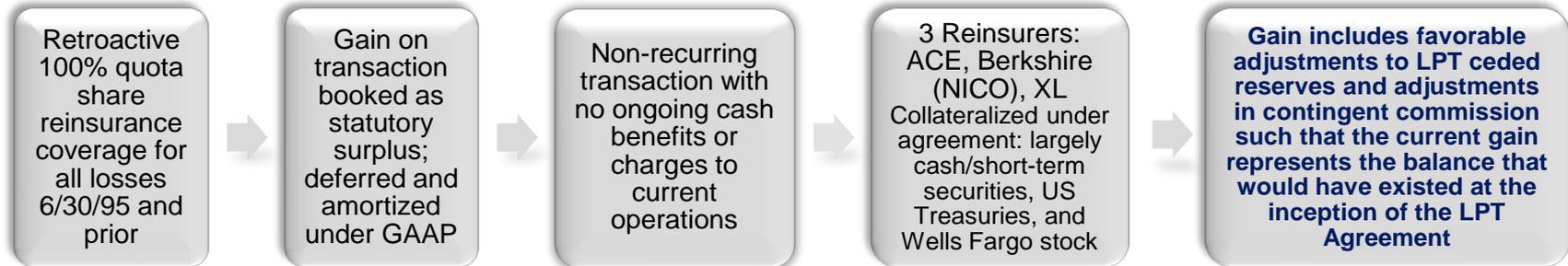
# Ongoing Distribution Network

## Partnerships



	<p><i>Largest payroll services company in the U.S.</i>  <i>Partner since 2002 – business originates with ADP’s field sales staff and insurance agency with “Pay-by-Pay®” premium collection</i></p>
	<p><i>Largest group health carrier in CA – exclusive relationship – use medical provider network - Partner since 2002 – business is originated by health or casualty agents with a single bill to customers</i></p>
	<p><i>Specialty provider of payroll and human resource services, 2<sup>nd</sup> largest payroll provider in U.S.</i>  <i>Partner since 2012</i></p>
	<p><i>Specialty provider of payroll services / insurance broker</i>  <i>Partner since 2006, expanded alliance in 2008</i></p>
	<p><i>Provider of insurance software services – partner since 2007</i></p>
	<p><i>Small business payroll services – partner since 2008</i></p>
	<p><i>Online payroll services and payment processing</i>  <i>One of the largest independent payroll processors in Southern CA</i>  <i>Partner since 2009</i></p>

# Loss Portfolio Transfer (LPT)



Contract	
	(\$ million)
Total Coverage	\$2,000
Original Reserves (Liabilities) Transferred	\$1,525
Consideration	775
Gain at 6/30/1999	\$ 750
Subsequent LPT reserve adjustments	(276)
Subsequent LPT contingent commission adjustments	50
Gain at 3/31/14	\$ 524

Accounting at 3/31/14	
	(\$ million)
Statutory Surplus Created	\$524
Cumulative Amortization To Date	\$ (279)
GAAP: Deferred Reinsurance Gain – LPT Agreement	<b>\$245</b>

*Claims 6/30/1995 and prior – approximately 2,829 claims open as of 3/31/14 with 5.5% closing each year*

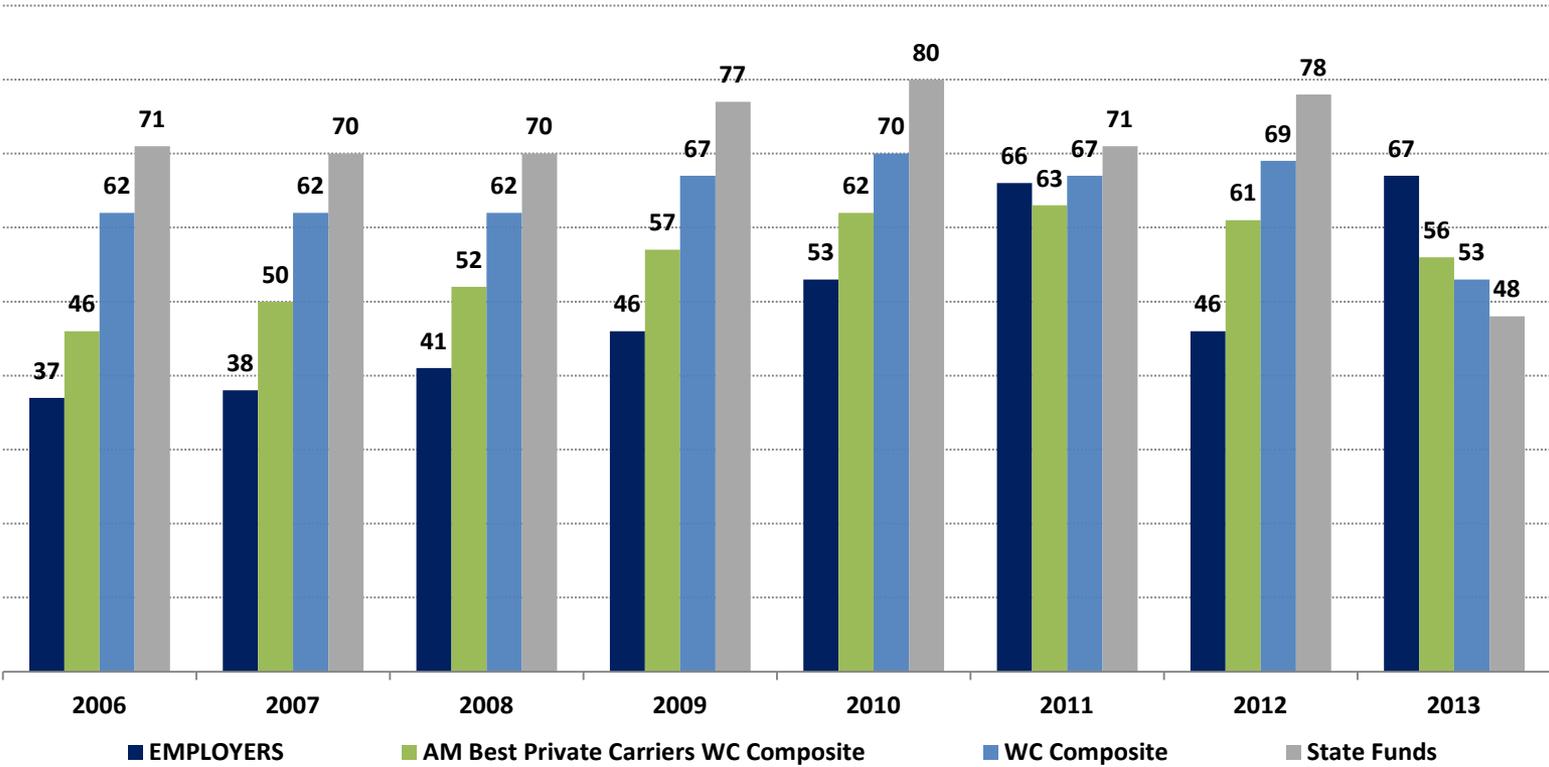
*Remaining liabilities at 3/31/14: \$603.5 million*

# Selected Results

Income Statement (\$ million)	12 Months Ended December 31,	
	2013	2012
Gross written premium	689.9	580.3
Net written premium	678.5	569.7
Net earned premium	642.3	501.5
Net investment income	70.8	72.4
Net income	63.8	106.9
Net income before LPT	<b>25.9</b>	<b>7.0</b>
Balance Sheet (\$ million except per share data)	2013	2012
Total investments	2344.9	2149.5
Cash and cash equivalents	34.5	140.7
Total assets	3643.4	3511.3
Reserves for losses and LAE	2330.5	2231.5
Shareholders' equity	568.7	539.4
Equity including LPT deferred gain	817.8	820.4
Book value (equity plus LPT deferred gain) per share	<b>26.13</b>	<b>26.66</b>

# Statutory Loss Ratios

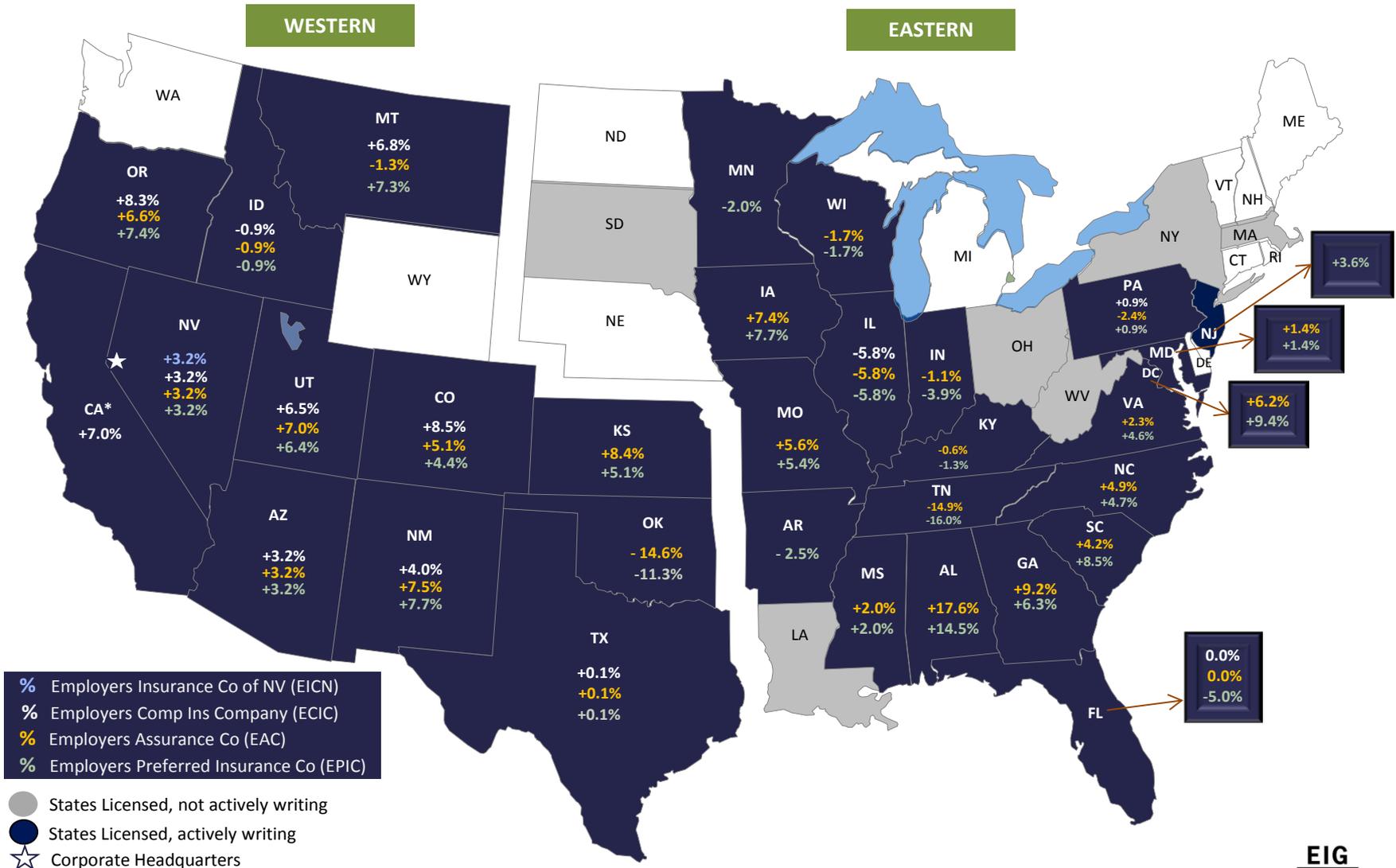
## EMPLOYERS® Historically low loss ratios (%)



A.M. Best data, or derived from A.M. Best data



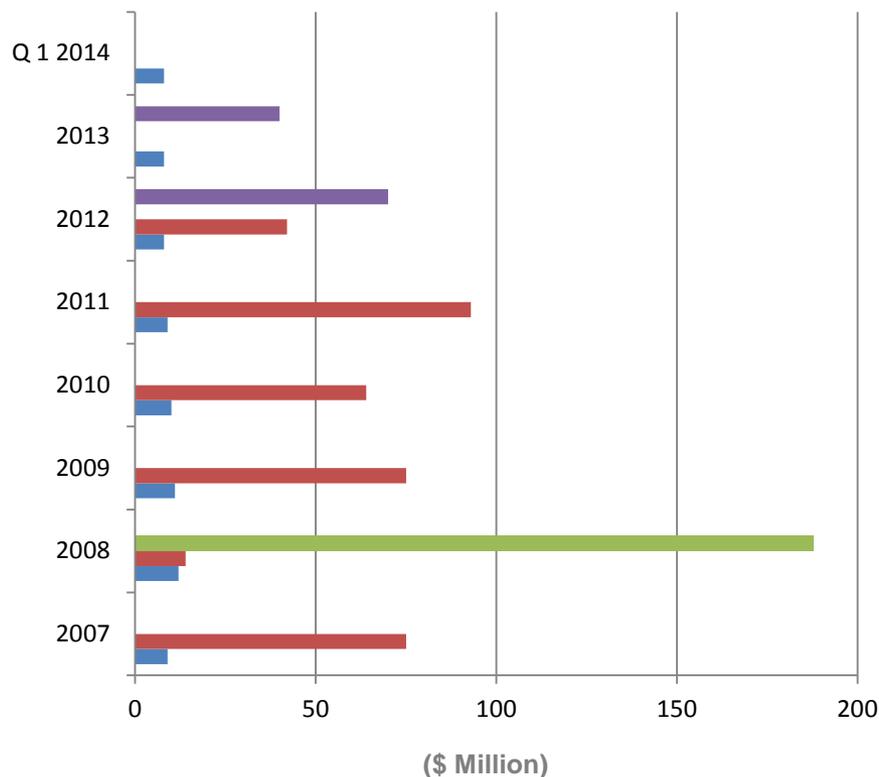
# Filed Rate Changes: 07/01/13 thru 06/30/14



\*This is an average overall change in California for ECIC, EAC and EPIC

# Capital Deployment

- \$170 million in cash and securities at the holding company (\$85 million restricted) at 3/31/2014
- \$736 million deployed 2007 through Q 1 2014. Three uses of capital:
  1. Deploy into the business
  2. Opportunistic acquisitions/mergers
  3. Return to shareholders



- **Deploy into business**  
 \$40 million to operating subsidiaries in September, 2013  
 \$70 million to operating subsidiaries in September, 2012  
 --- in support of growth and financial ratings
- **Strategic acquisitions**  
 \$188 million purchase of AmCOMP Inc. in 2008 expanded footprint, increased scale
- **Share repurchases**  
 \$363 million returned to shareholders, 23.4 million common shares at an average price of \$15.51, 2007 through 2013
- **Dividends**  
 \$75 million in dividends, historically stable quarterly dividend of 6 cents per share, 2007 through Q 1 2014