EMPLOYERS®

America's small business insurance specialist.®

June, 2009

**Employers Holdings, Inc.**

Investor Presentation

EIG LISTED NYSE

# Overview

| | | |
|---|---|---|
| **Business** | • Specialty provider of workers' compensation insurance<br>• Coverage required by statute<br>➢ Medical, temporary/permanent indemnity, death | ***$45 billion per year industry*** *(2008, A.M. Best)* |
| **Customers** | • Small "main street" businesses<br>➢ Small business accounts for over 70% of new jobs<br>• Low-to-medium hazard exposure industries<br>➢ Top classes include restaurants, physicians, dentists, clerical, retail stores<br>• Distribution through agents and strategic partners | ***Highly focused business model*** |
| **Geographic** | • 30 states with concentrations in CA, FL, WI and NV<br>➢ Unique markets by state and area | ***Operate in 74% of total market*** *(2008, A.M. Best)* |

# Key Strategies

## FOCUS

- Target attractive, underserved small business market
- Maintain disciplined risk selection, underwriting, pricing and claims operations
- Focus on underwriting profitability

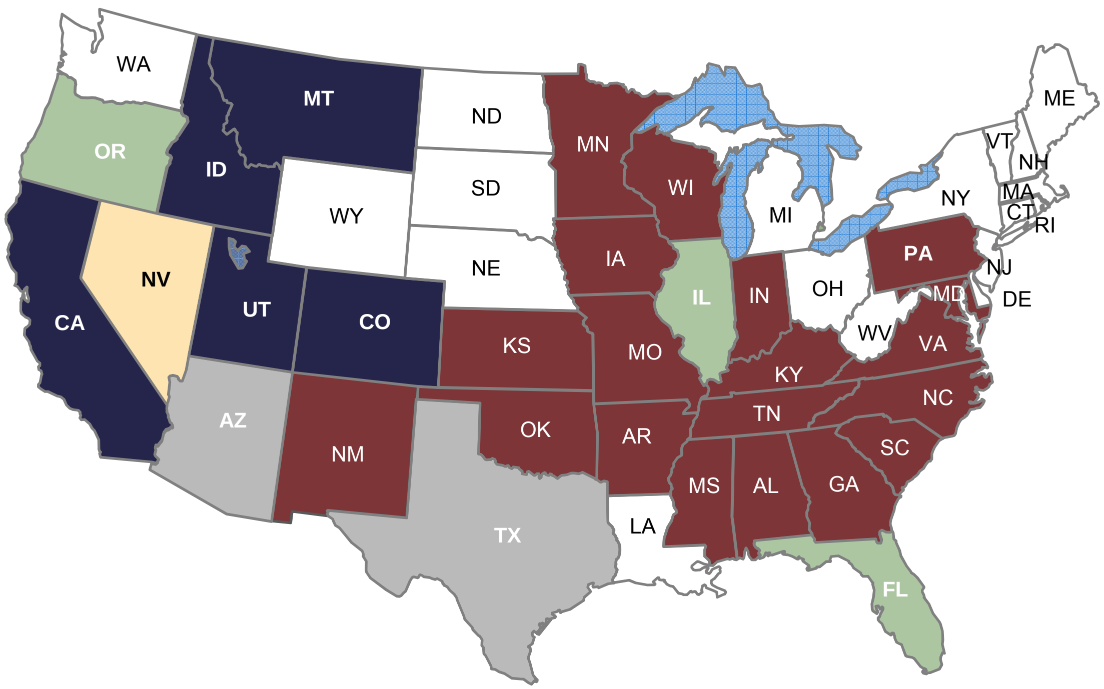
## GROWTH

- Selectively expand into additional markets
- Increase penetration in current markets
- Leverage infrastructure, technology and systems
- Develop existing and new distribution partners

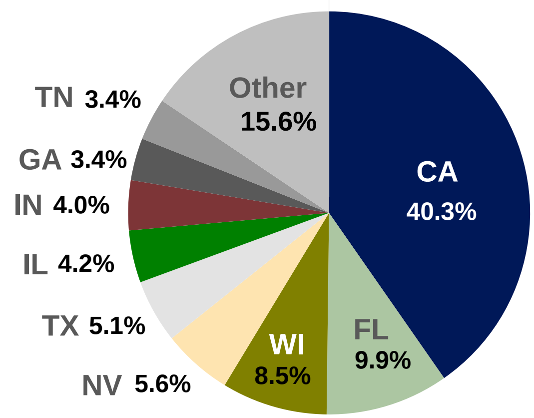
## CAPITAL

- Manage capital prudently
- Invest in core operations
- Invest in strategic acquisitions
- Return capital to shareholders

# Selectively Expanding Footprint




| 2000 | 2002 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| 1913 – 1999 State WC fund in NV<br><br>2000 Privatization | 2002 Acquisition, book of business in CA, UT, ID, MT, CO | 2005 Formation of mutual hold co<br><br>2006 Entry into TX, AZ | 2007 Demutualization and IPO – entry into FL, IL and OR | 2008 Acquisition of AmCOMP Incorporated, entry into IA |




**Direct Premiums Written (%) at 3/31/09**

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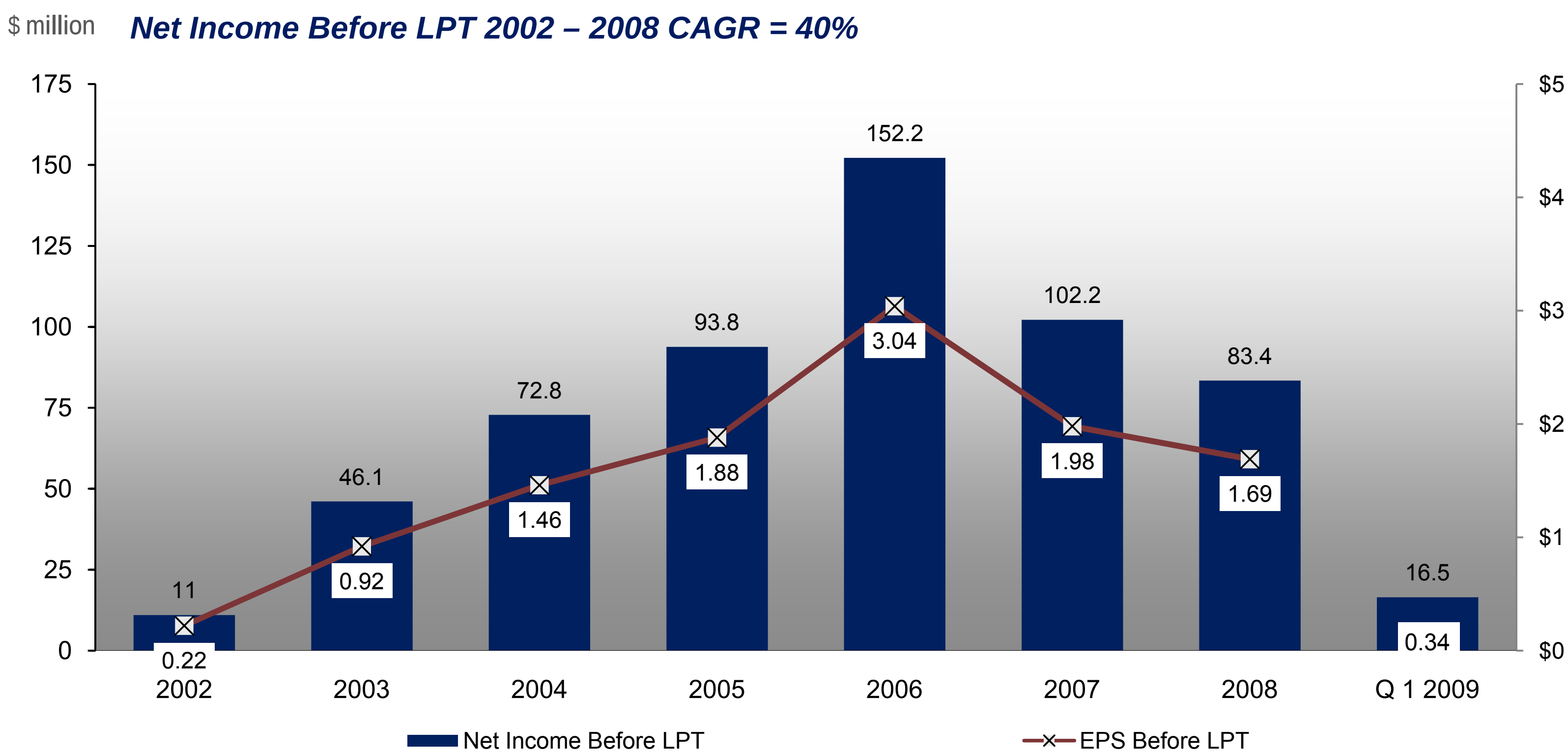
# Continuing Profits




**NOTE:** 50,000,002 pro forma shares prior to February 5, 2007 (IPO date)



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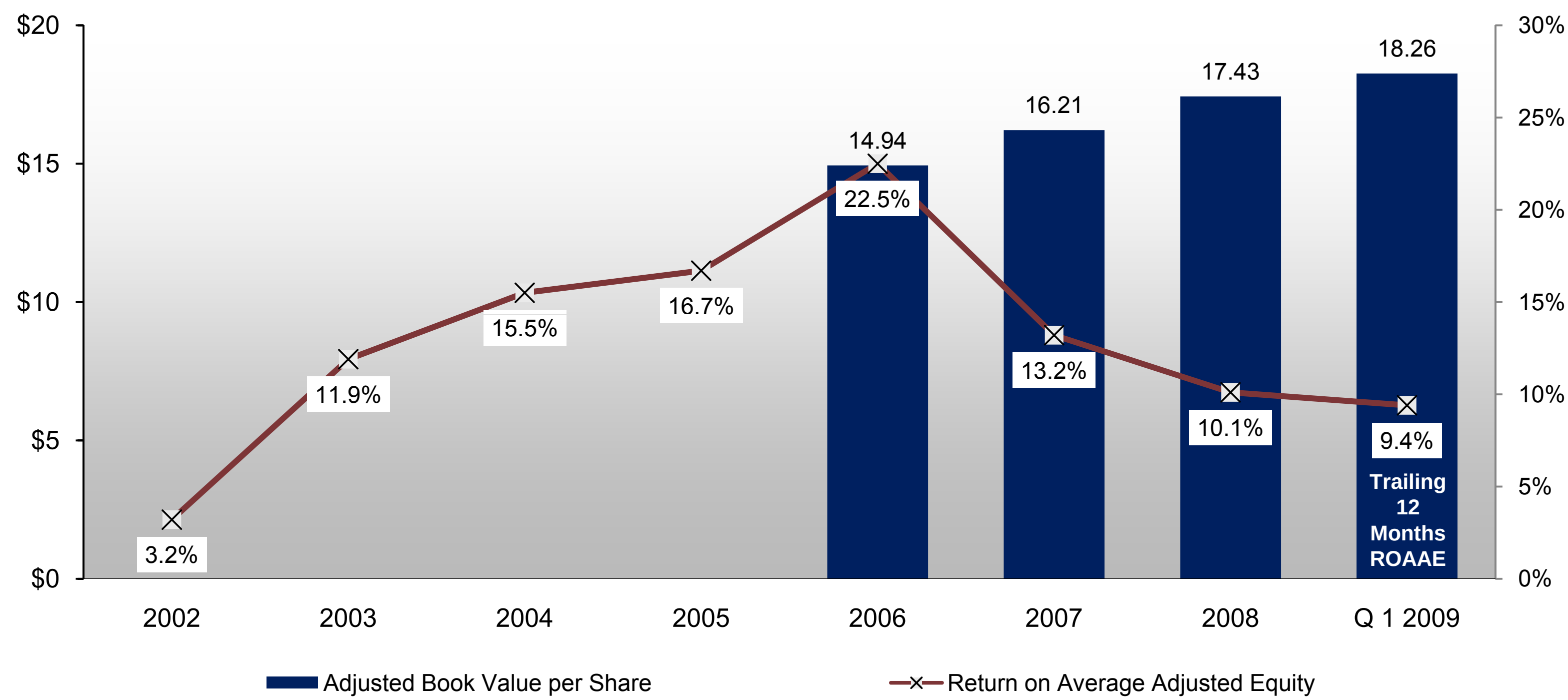
# Return on Average Adjusted Equity, Increasing Book Value per Share




**NOTE:** 50,000,002 pro forma shares prior to February 5, 2007 (IPO date)
Return on Average Equity includes deferred gain related to the LPT – equity in the ROE calculation is averaged for the period

# Update

Economic contraction, competition

Regulatory, legislative, pricing

Acquisition: achieving strategic gains

# Acquisition Outcomes

### Excellent strategic fit – small business focus

### Improved scale

- From 11 to 30 states
- More geographically diversified – at Q1 2009, CA is only 40% of direct written premium

### Immediate growth in premium volume

- 58% increase in NPW (Q 1 2009 vs. Q 1 2008)
- Estimated annual premium growth largest in WI, IL, GA (Q 1 2009)

### Financial benefits

- Investment spend of $189 million for operations
- Deployed capital in core assets with history of profits

### Financial benefits (cont.)

- $12 million pre-tax savings, 2009
- $20 to $22 million savings, 2010

### Integration on Track

- People
- Branches
- Business

# Integration on Track

## PEOPLE

- Senior management staffing changes implemented
- 14% staff reduction underway

## BRANCHES

- Consolidating corporate functions into corporate headquarters
  - Centralizing support functions of 18 branch offices
- Field organization in place
  - 5 business units
- Complete rebranding of 9 acquired branch offices
- Opened Charlotte Customer Service Support Center, centralizing call/imaging/mail center on the East Coast for improved customer service and operational efficiencies

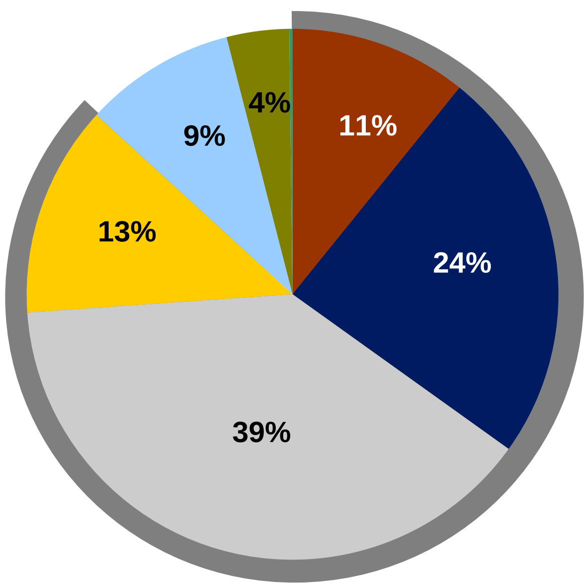
## BUSINESS

- Underwriting quality
  - Reviewed 20 to 30 largest accounts in each branch
  - Established quality assurance function with common underwriting requirements and processes
- Claims
  - Conversion of claims system partially implemented and to be completed in early 2010
  - Consolidated Florida claims handling in Maitland
- Loss Control
  - Loss control technical manual revised consistent with strategy in coordination with Underwriting and Claims

# Disciplined Underwriting

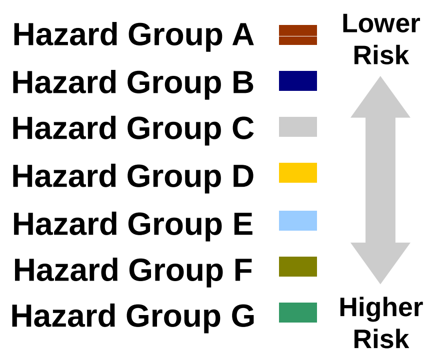
# Disciplined Risk Selection

***Further Differentiate Risks within Industry-defined Customer Classes***




% of Premiums Written, 12/31/08

EMPLOYERS = 87% of Premiums Written, Hazard Groups A – D




| NCCI Hazard Group | Top 10 Classes in 2008 | % Direct Written Premium |
|---|---|---|
| C | Physicians and Clerical | 6.8 |
| A | Restaurants | 6.5 |
| B | Wholesale Stores | 5.1 |
| B | Retail Stores | 2.9 |
| B | College Employees | 2.7 |
| C | Clothing Manufacturers | 2.6 |
| D | Automobile Services | 2.3 |
| C | Clerical | 2.2 |
| D | Machine Shops | 2.0 |
| C | Retail Grocery/Provisions Stores | 1.8 |
| | **Total Top 10** | **34.9** |

# Superior Claims Management

## In-house medical management staff

- Coordinate care and manage medical costs
- URAC accreditation in case management and utilization review

## Comprehensive fraud program

- $4.2 million savings in 2008

## Rigorous quality assurance processes

- Ensure compliance with best practices and regulatory requirements

## Dedicated subrogation unit

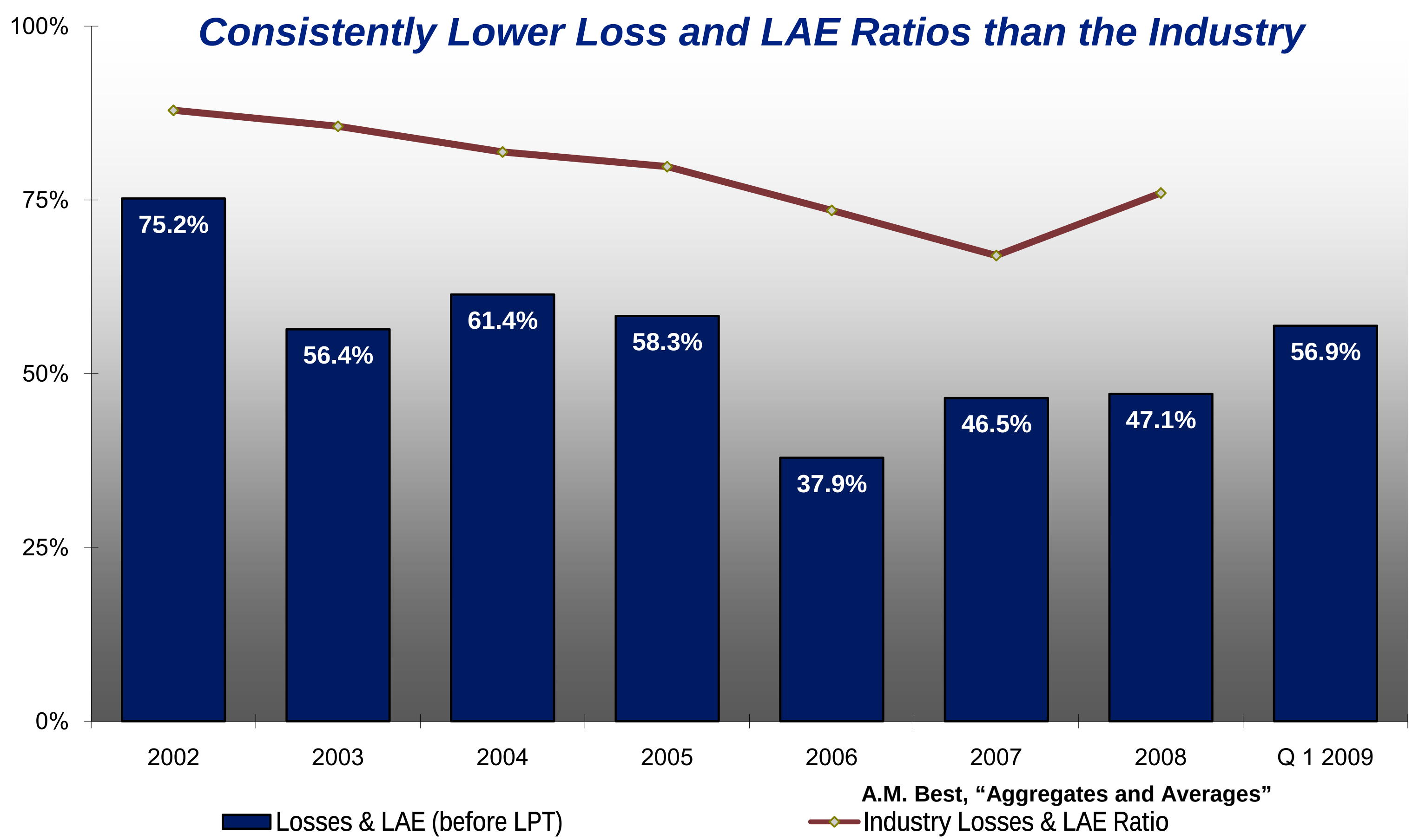
- Recoveries over $3.9 million in 2008

## Pharmacy benefit management program

- Savings over $2.9 million in 2008

## Claims professionals average over a decade of experience

# Delivering Superior Loss Ratios



# Unique Distribution Network

## Independent Agents and Brokers

- Over 1,900 in place
- Strong relationships with agents

## Strategic Partnerships

- ADP
- Wellpoint
- E-chx / Granite
- Intego Services
- Wells Fargo
- Telepayroll

**Physicians and restaurants are our top two classes of customers**

## Industry Focused

- California Restaurant Association provider of choice
- California Medical Association sponsorship
- NFIB (National Federation of Independent Businesses)

# Increasing Points of Access

## Strategic Partnerships

**Provide**
- a distribution advantage by expanding market reach and providing local knowledge

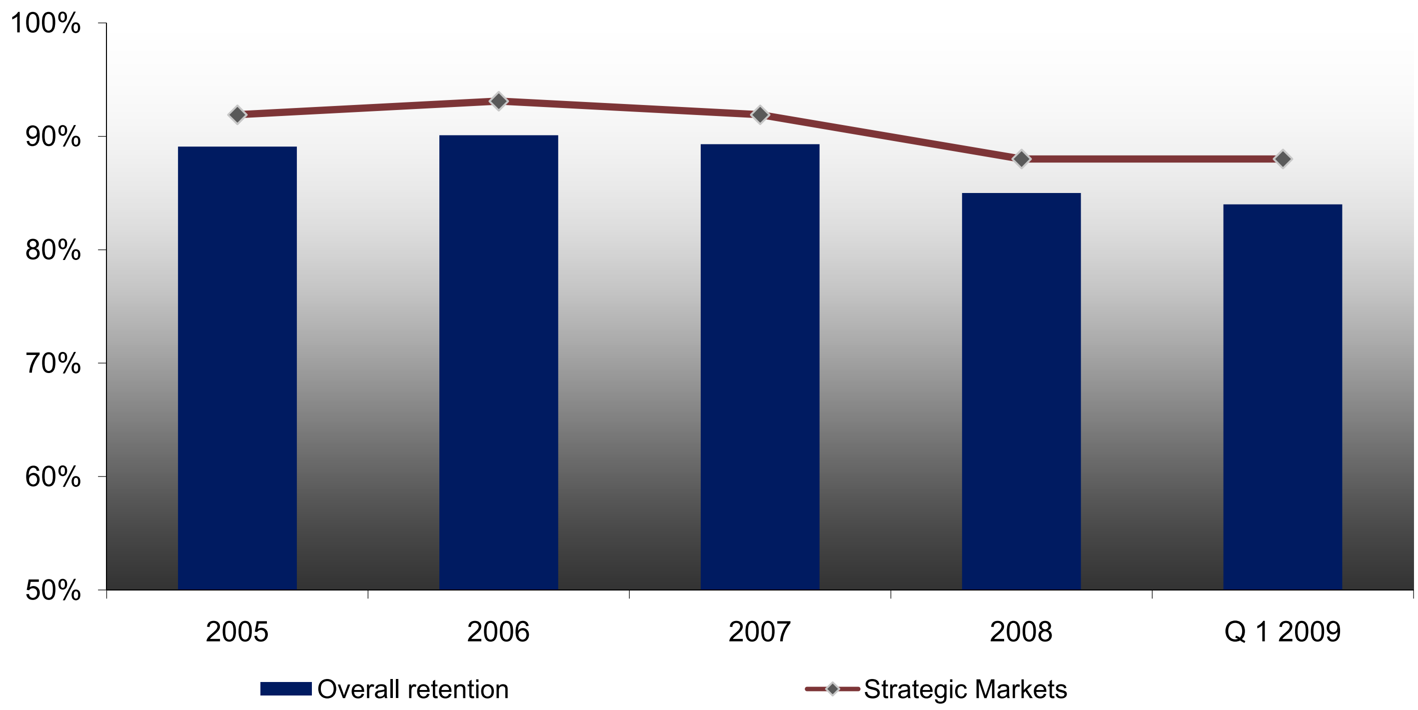
**Result**
- in high persistency

**Contribute**
- about 15% of direct premiums written

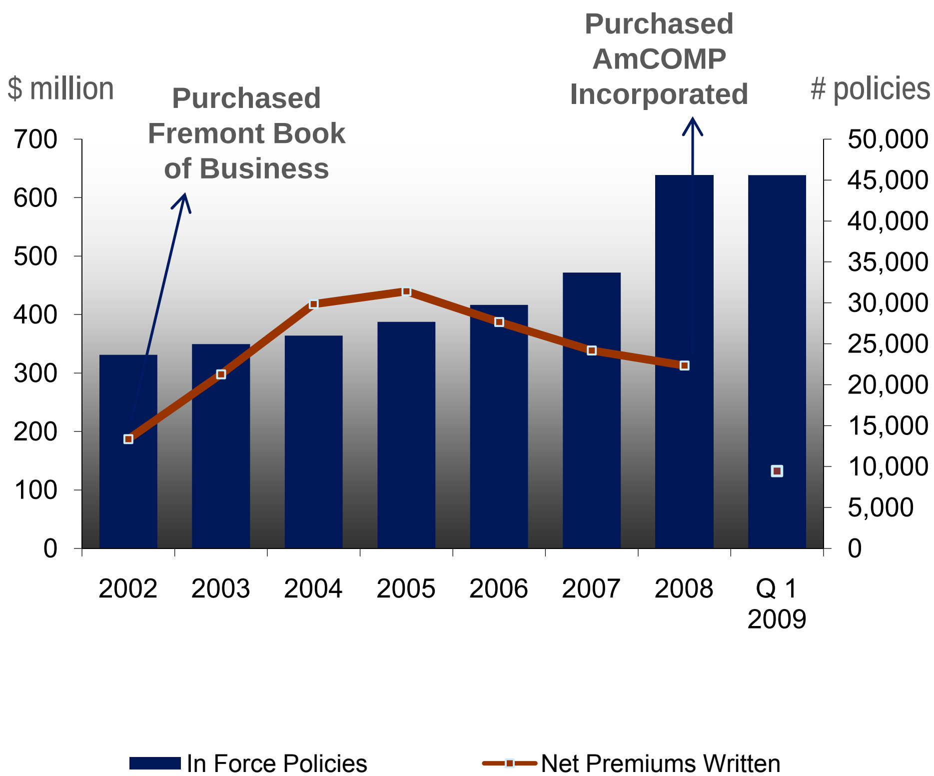
| | |
| --- | --- |
| ADP® Automatic Data Processing, Inc. | Largest payroll services company in the US with over 45,000 clients<br>Program since 2002 – business originates with ADP's field sales staff and insurance agency with "Pay-by-Pay®" premium collection |
| Anthem | Largest group health carrier in CA – exclusive relationship – use medical provider network<br>Partner since 2002 – business originated by health agents with a single bill to customers |
| Granite Insurance Brokers / E-chx, Inc. Payroll Solutions | Specialty provider of payroll services / insurance broker<br>Partner since Q 4 2006, expanded alliance in 2008 |
| INTEGO Insurance Services, LLC | Provider of insurance software services<br>Partner since Q 4 2007 |
| WELLS FARGO | Small business payroll services<br>Partner since Q 2 2008 |
| Telepayroll.com, Inc. | Online payroll services and payment processing<br>One of the largest independent payroll processors in Southern CA<br>Partner since Q 1 2009 |

# Strong Retention Rates

***Strategic Partnerships Result in Consistently Higher Retention Rates***



# Increasing Market Penetration – Unit Count



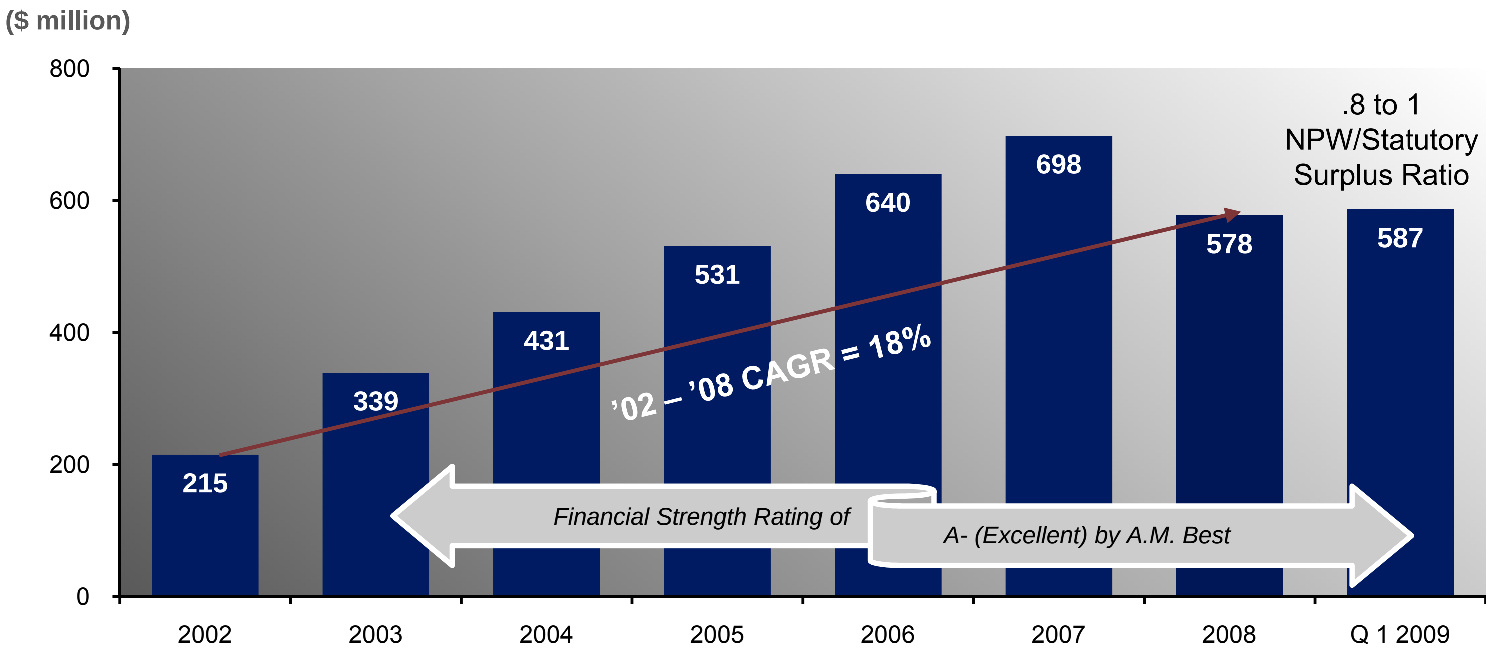

*NPW 2002 – 2008 CAGR, 9%*

*Policy Count 2002 – 2008 CAGR,12%*

- Substantive M & A growth
- Responsible, strong in force policy growth
  - — 33.2% increase (3/31/08 to 3/31/09)
- Maintaining underwriting discipline

# Strong Capital Position

## *Strong Growth in Statutory Surplus Provides a Solid Basis for Underwriting*




*$355 million extraordinary dividends to parent in 2008*

# Loss Portfolio Transfer (LPT)

Retroactive 100% quota share reinsurance coverage for all losses prior to 7/1/95

Gain on transaction booked as statutory surplus; deferred and amortized under GAAP

Non-recurring transaction with no ongoing cash benefits or charges to current operations

3 Reinsurers: ACE, Berkshire (NICO), XL
Fully collateralized under agreement: largely cash/short-term, U. S. treasuries; and Wells Fargo stock

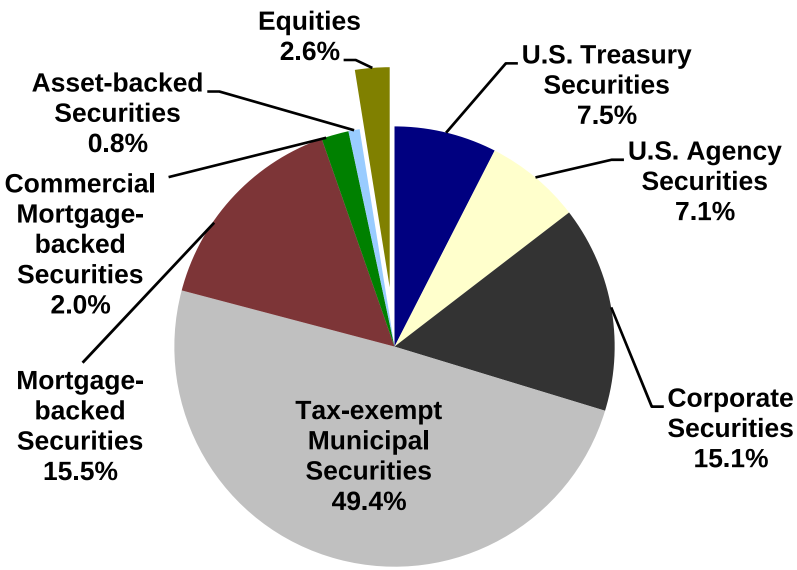
| Contract | ($ million) |
|---|---|
| Total Coverage | $2,000 |
| | |
| Original Reserves (Liabilities) Transferred | $1,525 |
| Consideration | $ 775 |
| Gain at 1/1/2000 | 750 |
| Subsequent Reserve Adjustments | (147.5) |
| Gain at 3/31/09 | $602.5 |

| Accounting at 3/31/09 | ($ million) |
|---|---|
| Statutory Surplus Created | $602.5 |
| Cumulative Amortization To Date | (200.3) |
| | |
| GAAP: Deferred Reinsurance Gain – LPT Agreement | **$402.2** |

***Youngest claim is 14 years old – 3,656 claims open as of 3/31/09 with 5% closing each year***

***Remaining liabilities at 3/31/09: $920 million***

# High Quality Investment Portfolio




Portfolio at 3/31/09

**$2.08 billion fair market value**

- Approximately 80% AA rated
- Book yield of 4.7%
- Tax equivalent book yield of 5.6%
- Effective duration of 4.97
- 2008: added $418 million acquired assets
- Managed by Conning Asset Management
- Minimal impacts during challenging markets
  - Q 1 2009 OTTI of $1.8 million
  - 2008 OTTI of $12.7 million

# History of Reserve Strength

***Net reserves for workers' compensation industry estimated to be deficient by $6 billion at 12/31/08*** **(1)**

## Reserve Review

Quarterly evaluation of prior year reserves and current year loss picks

Consider point estimate of independent consulting actuary

- Twice annually

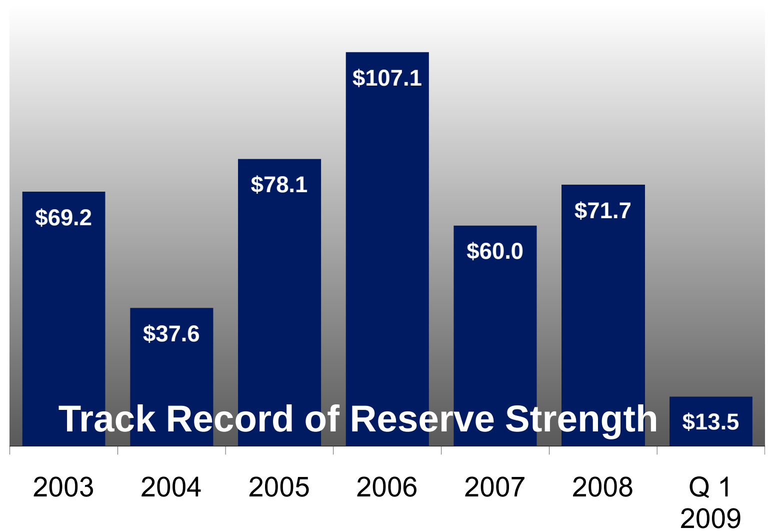
Results from senior management to Board Audit Committee

OUTLOOK:

- Going forward, we expect current AY loss provision rates to be closer to consulting actuary estimates

## Reserve Development

**Net Calendar Year Reserve Releases for Prior Accident Years** **($ million)**




(1) NCCI, "2009 State of the Line"

# 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

100% rated A or better

## Program Structure

- Priced annually, effective 7/1/2008
- Limits of $200M
- Retention of $5M
- Catastrophe excess of loss includes maximum any one life of $10M
- Includes terrorism, excludes nuclear, biological, chemical, and radiological

# Prudent Capital Management

## Holding Company Flexibility

$80 million in cash

$18 million in additional upstream dividends in 2009

Over $200 million in fixed maturities

(Over $100 million in maturing securities over the next year at operating subsidiaries)

## Investing in the Future

### *Generating capital*

Investing in operations

Investing in securities

### *Redeploying capital in profitable operations*

Acquisition equity value of $189 million

$150 million Wells Fargo secured line of credit

### *Cost containment*

2008 operating expenses flat (vs. 2007); Q1 2009 expenses down, excluding acquired operations and restructuring/integration costs

14% staff reduction, consolidation of functions

Extensive budget review

## Returning Capital to Shareholders

| | |
|---|---|
| ***Dividends*** | $0.24 per share or approximately $12 million per year – future dividends subject to Board approval |
| ***Share Repurchases*** | 2008 Stock Repurchase Program: 2.4 million shares repurchased at 3/31/09, average price = $12.31 per share<br>Since the IPO (02/05/07), repurchased 6.3 million shares, average price = $16.56 per share |

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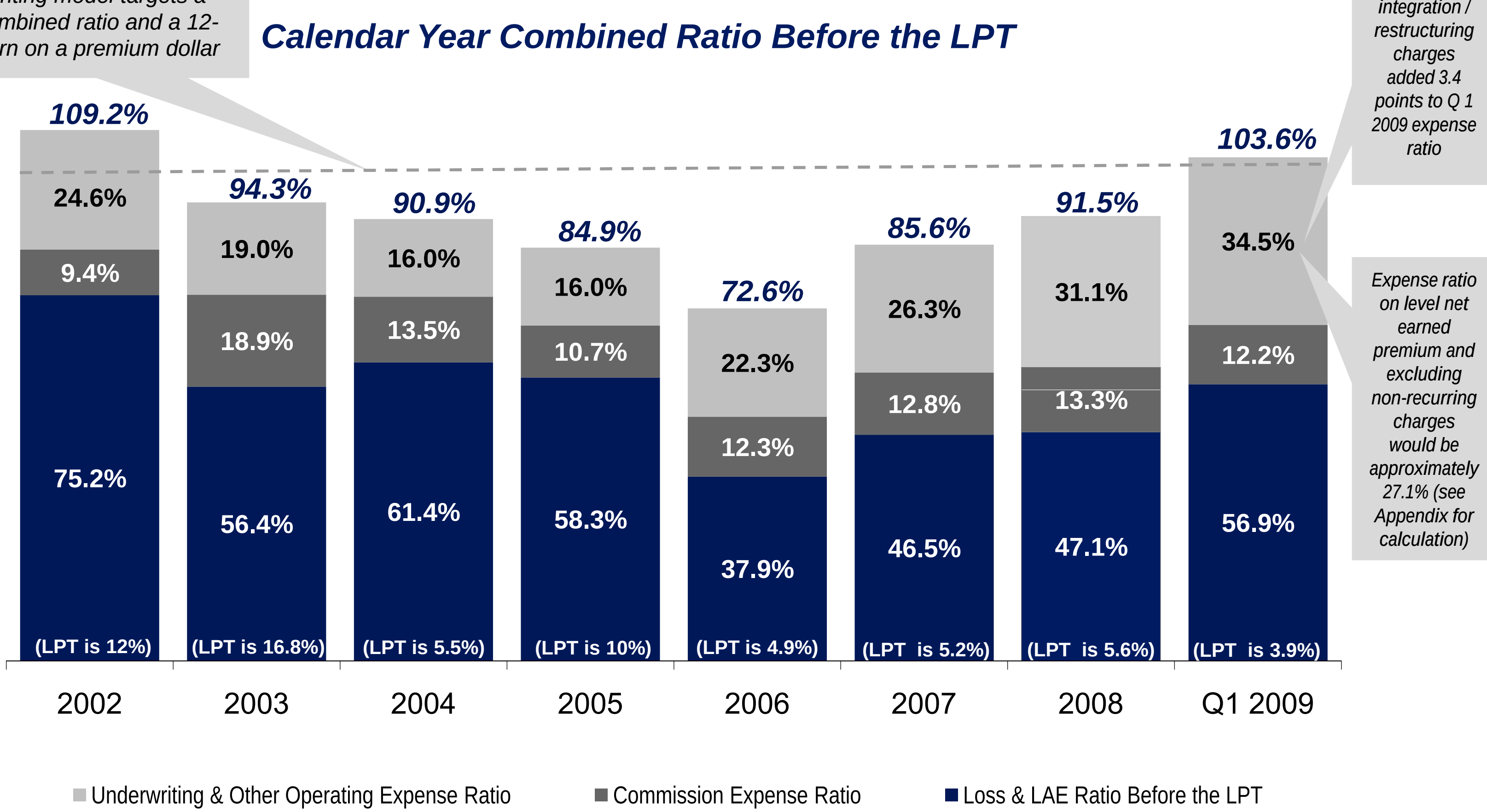
# Consistently Profitable Underwriting

Underwriting model targets a 100% combined ratio and a 12-13% return on a premium dollar




**NOTE:** LPT percentages include reserve adjustments



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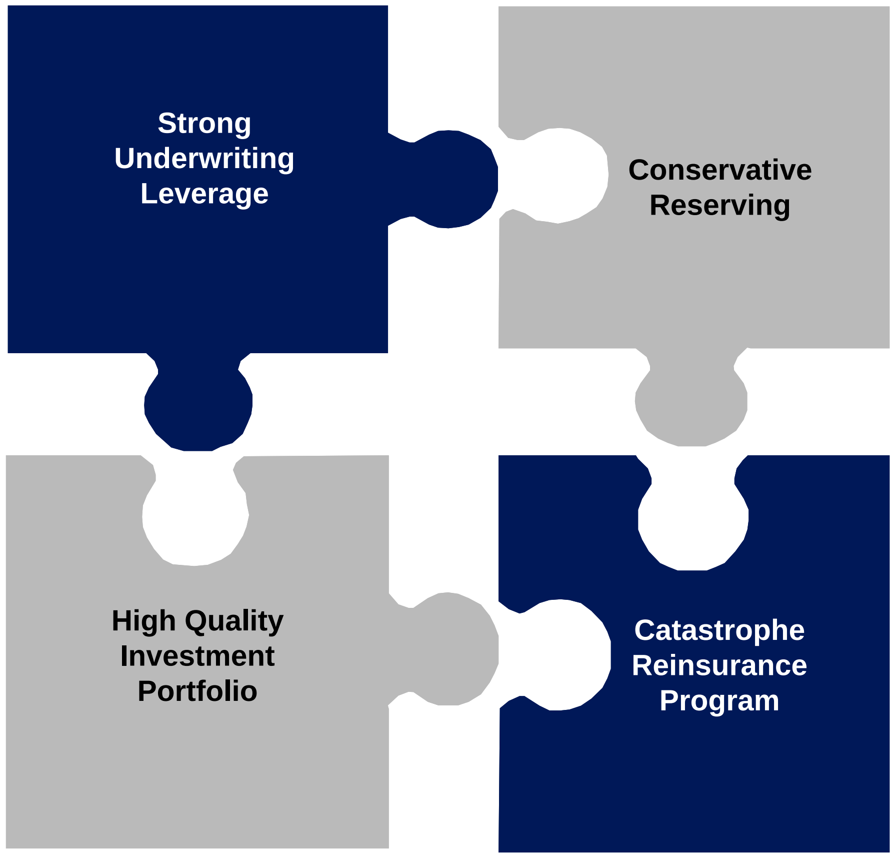
# Selected Operating Results

| Income Statement ($ million) | 2005 | 2006 | 2007 | 2008 | Q1 2009 |
|---|---|---|---|---|---|
| Gross Written Premium | $ 458.7 | $ 401.8 | $ 350.7 | $ 322.9 | $ 128.1 |
| Net Written Premium | 439.7 | 387.2 | 338.6 | 312.8 | 124.7 |
| Net Earned Premium | 438.3 | 393.0 | 346.9 | 328.9 | 111.6 |
| Net Investment Income | 54.4 | 68.2 | 78.6 | 78.1 | 23.3 |
| Net Income | 137.6 | 171.6 | 120.3 | 101.8 | 20.9 |
| Net Income Before LPT | 93.8 | 152.2 | 102.2 | 83.4 | 16.5 |
| **Balance Sheet ($ million)** | **2005** | **2006** | **2007** | **2008** | **Q1 2009** |
| Total Investments | $ 1,595.8 | $ 1,715.7 | $ 1,726.3 | $ 2,042.9 | $ 2,083.2 |
| Cash and Cash Equivalents | 61.1 | 80.0 | 149.7 | 202.9 | 190.4 |
| Total Assets | 3,094.2 | 3,195.7 | 3,191.2 | 3,756.7 | 3,764.8 |
| Reserves for Loss and LAE | 2,350.0 | 2,307.8 | 2,269.7 | 2,506.5 | 2,494.6 |
| Shareholders' Equity | 144.6 | 303.8 | 379.5 | 444.7 | 459.9 |
| Equity Including LPT Deferred Gain | 607.0 | 746.8 | 804.5 | 851.3 | 862.2 |

# Summary of Financial Strength

.8 to 1 Surplus to NPW at 3/31/09

Track record of reserve strength: since IPO, $145 million favorable prior AY reserve development as of 3/3109




$2 billion – over 97% invested in fixed maturities with average rating AA

Coverage up to $200 million loss

# Key Strengths

- ***Established enterprise with consistently strong performance*** **–** 96 year operating history
- ***Focused operations and disciplined underwriting*** – attractive, underserved target market segment with growth opportunities
- ***Unique and long-standing strategic distribution relationships*** – resulting in higher retention
- ***Financial strength and flexibility*** **–** strong balance sheet, conservative reserving, negligible asset exposure to recent sub-prime market dislocations
- ***Experienced management team with deep knowledge of workers' compensation*** **–** average 26 years experience with the ability to manage through challenging operating conditions

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# Stock Ownership Limitations

As a reminder to investors, Employers Holdings, Inc. ("EIG") owns several insurance companies, domiciled in several different states. These wholly-owned insurers are regulated by insurance commissioners and are subject to the statutes and regulations of the various states where they are domiciled and authorized to transact insurance. As a result, EIG has the following stock ownership limitations, which must be satisfied prior to certain stock transactions.

- For a period of five years following the effective date of the Plan of Conversion of EIG, which is February 5, 2007, no person may directly or indirectly acquire or offer to acquire in any manner beneficial ownership of 5% or more of any class of EIG's voting securities without the prior approval by the Nevada Commissioner of Insurance of an application for acquisition under Section 693A.500 of the Nevada Revised Statutes.

- Under Nevada insurance law, the Nevada Commissioner of Insurance may not approve an application for such acquisition unless the Commissioner finds that (1) the acquisition will not frustrate the plan of conversion as approved by our members and the Commissioner, (2) the board of directors of Employers Insurance Company of Nevada has approved the acquisition or extraordinary circumstances not contemplated in the plan of conversion have arisen which would warrant approval of the acquisition, and (3) the acquisition is consistent with the purpose of relevant Nevada insurance statutes to permit conversions on terms and conditions that are fair and equitable to the members eligible to receive consideration.

- Furthermore, any person or entity who individually or together with an affiliate (as defined by applicable law) seeks to directly or indirectly acquire in any manner, at any time, beneficial ownership of 5% or more of any class of EIG's voting securities, will be subject to certain requirements, including the prior approval of the proposed acquisition by certain state insurance regulators, depending upon the circumstances involved. Any such acquisition without prior satisfaction of applicable regulatory requirements may be deemed void under state law.

# Safe Harbor Disclosure

This slide presentation is for informational purposes only. It should be read in conjunction with our Form 10-K for the year 2008, our Form 10-Q for the first quarter of 2009 and our Forms 8-K 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.

**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 is included in this presentation or in our Form 10-K for the year 2008, our Form 10-Q for the first quarter of 2009 and our Forms 8-K filed with the Securities and Exchange Commission (SEC) and available in the "Investor Relations" section of our website at www.employers.com.

**Forward-looking Statements**

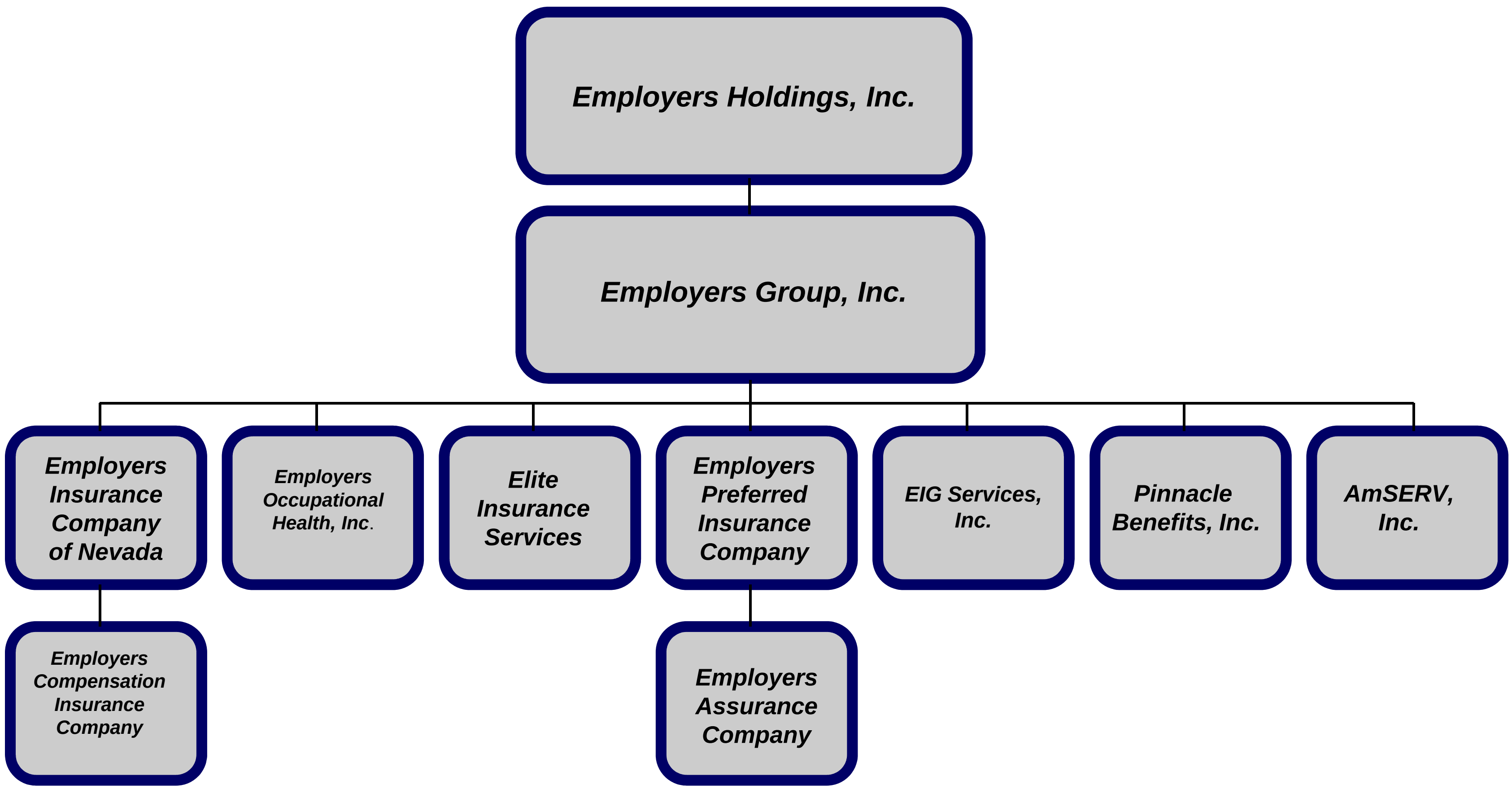
This presentation may contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding anticipated future results and can be identified by the fact that they do not relate strictly to historical 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.

Any 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.

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

# Appendix

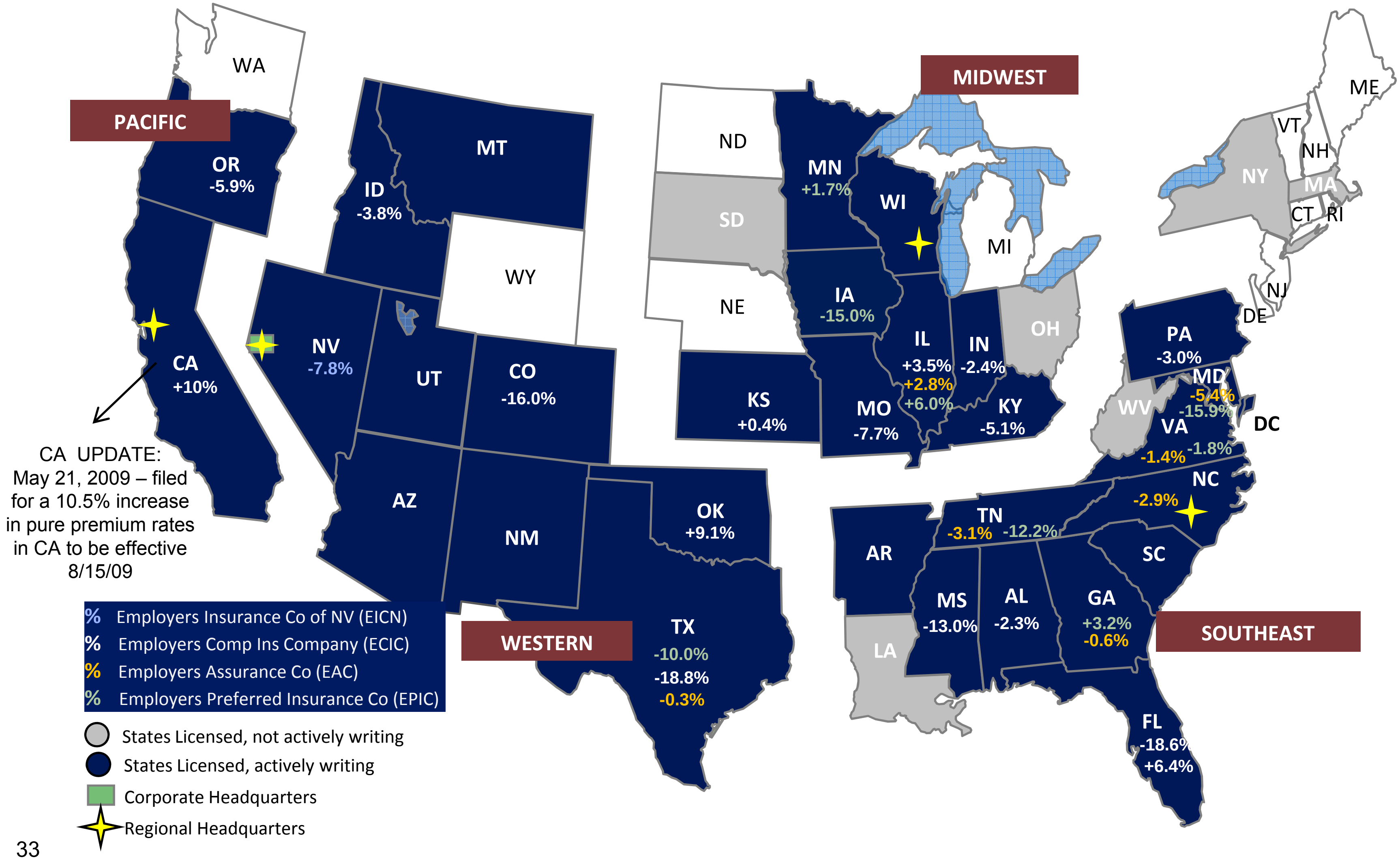
# Organization



## COMPUTATION OF ADJUSTED EXPENSE RATIO ON LEVEL PREMIUMS

| | Three Months Ending 3/31/2008 | | Three Months Ending 3/31/2009 | |
|---|---|---|---|---|
| | (millions) | | | |
| Earned Premium | | | | |
| Employers | $ 75.8 | | $ 111.6 | |
| Acquired operations | 52.2 | | - | |
| | 128.0 | D | 111.6 | A |
| Underwriting & Other Operating Expenses | | | 36.5 | |
| Policyholder Dividends | | | 2.0 | |
| Total Expenses | | | 38.5 | B |
| Less: One-time restructuring charge | | | 3.8 | |
| **Net** Underwriting & Other Operating Expenses | | | $ 34.7 | C |
| **Expense ratio** | | | **34.5%** | B/A |
| **Adjusted Expense ratio (net)** | | | **31.1%** | C/A |
| **Adjusted Expense ratio (net) on Level Premiums (1stQ-'08)** | | | **27.1%** | C/D |

# Regional Organization, Pricing Trends in 2009 at 5/1/09



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