

# **EMPLOYERS<sup>®</sup>**



## **Employers Holdings, Inc.**

Investor Presentation

Results Through Q1 2015

# Regulation FD

This slide presentation is for informational purposes only. It should be read in conjunction with our Form 10-K for the year 2014, 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 2014, 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.

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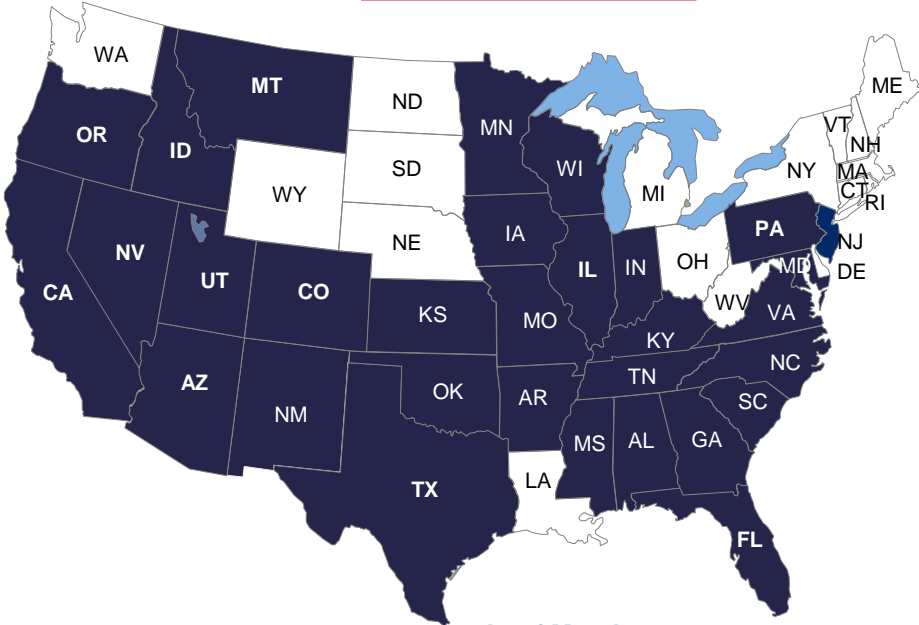
We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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# Overview

- **Workers' compensation mono-line writer**
  - **Focused on small, low to medium hazard risks**
- 
- **Distribution through agencies and strategic partners**
    - 4,721 agencies (includes 1,237 Anthem Blue Cross of California agencies)
    - Alternative distribution = 24% 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
    - Long-term goal to operate in all of the continental United States, except monopolistic states

## **EMPLOYERS**



As of March 31,

	2015	2014	YOY % Change
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**In-force Premium (\$ million)**

California	365.7	377.8	(3.2) %
Other	<u>260.2</u>	<u>252.4</u>	3.1 %
TOTAL	625.9	630.2	(0.7) %

**In-force Policies**

California	45,915	48,732	(5.8) %
Other	<u>38,689</u>	<u>36,569</u>	5.8 %
TOTAL	84,604	85,301	(0.8) %

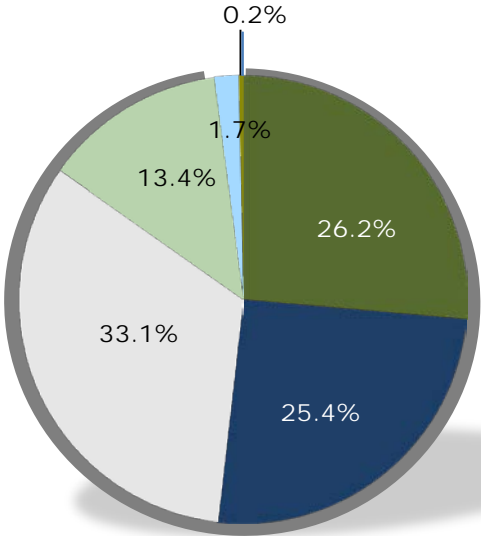
**Average policy size: \$7,399**



## Underwriting focus on select low to medium hazard groups A - D

### EMPLOYERS Top 10 types of insureds:

- Restaurants
- Automobile Service or Repair Shops
- Hotels, Motels, and Clubs
- Dentists, Optometrists, and Physicians
- Gasoline Stations
- Wholesale Stores
- Real Estate Management
- Apparel Manufacturing
- Groceries and Provisions
- Schools-Colleges and Religious Organizations



Hazard Group Percentage at March 31, 2015  
98.1% in Hazard Groups A – D

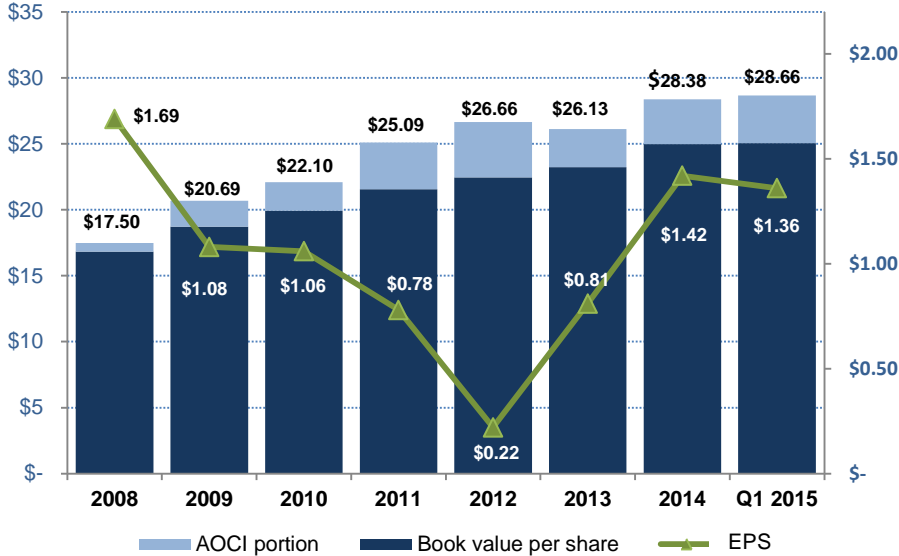
Data shown as a % of in force premium

### NCCI Hazard Groups

- Hazard Group A ■ Lower Risk
  - Hazard Group B ■
  - Hazard Group C ■
  - Hazard Group D ■
  - Hazard Group E ■
  - Hazard Group F ■
  - Hazard Group G ■ Higher Risk
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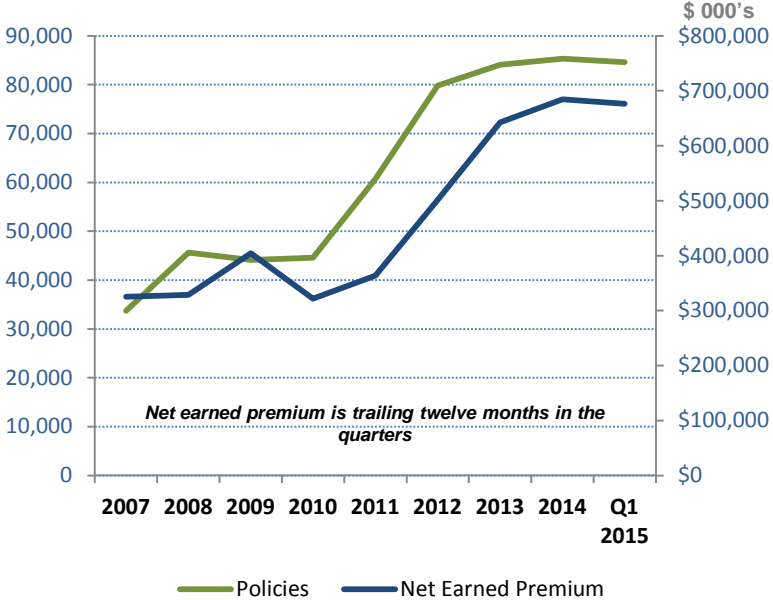
# Growth and Performance

### Book value and EPS (adjusted for the LPT)



- Book value per diluted share is equity plus the deferred reinsurance gain related to the LPT, and includes accumulative other comprehensive income, net (AOCI)
- Earnings per share (EPS) is net income before the LPT per diluted share and is annualized in the quarters
- Increased EPS and operating ROE, impacted by historically low yields year over year
- Increased book value per share impacted, in part, by unrealized gains year over year

### Growth: policies, net earned premium

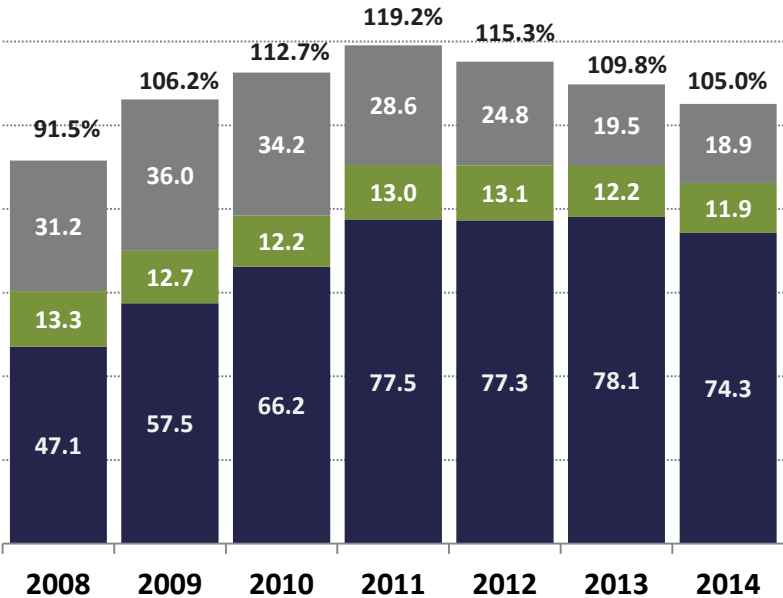


- Decline in premium and policies in Q1 2015 due to pricing/re-underwriting initiatives in southern California

# Improving Calendar Year Combined Ratio

## Annual

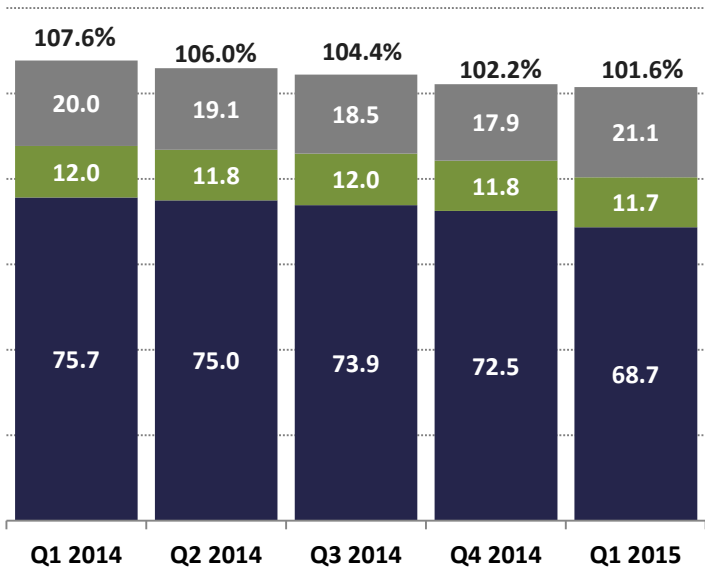
Improvement of 4.8 percentage points: 2014 vs. 2013



- Underwriting and other operating expense ratio
- Commission expense ratio
- Loss & LAE ratio before the Loss Portfolio Transfer (LPT)

## Quarterly

Improvement of 6 percentage points: Q1 2015 vs. Q1 2014



- Underwriting and other operating expense ratio
- Commission expense ratio
- Loss & LAE ratio before the Loss Portfolio Transfer (LPT)

- ✓ Calendar year combined ratio before the impact of LPT
- ✓ 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

- \$8.6 million savings in 2014 (increase of \$4.6 million over 2013)

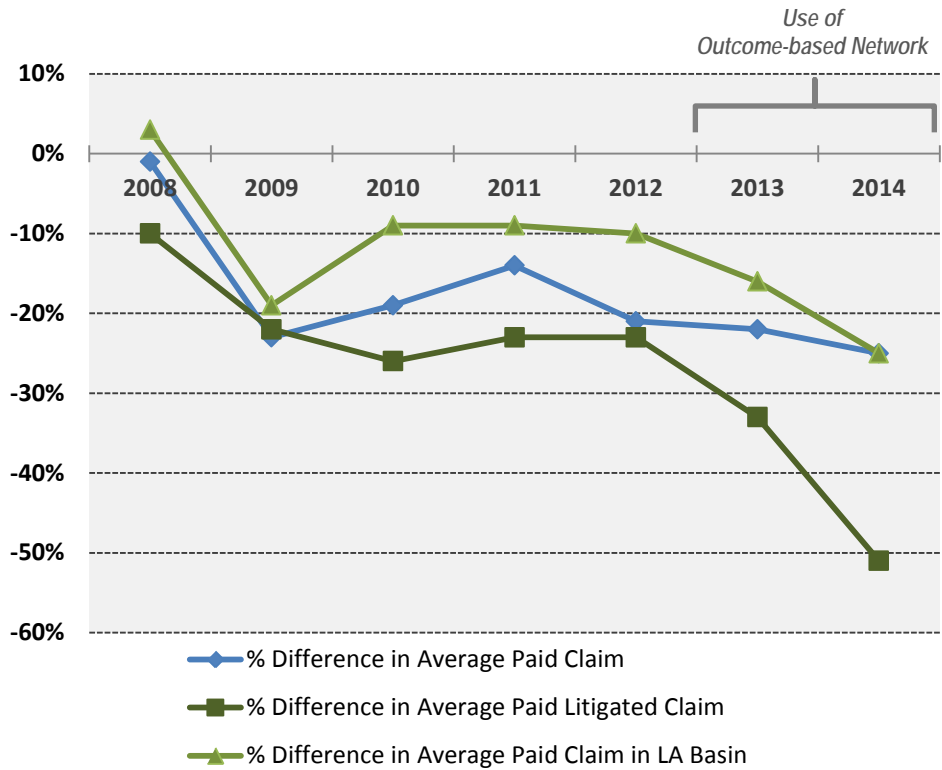
## Pharmacy benefit management program

- \$5.3 million savings in 2014

## Claims professionals average over a decade of experience

- Increased claims settlement activity

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 – As of February, 2015; 2014 data is January through June



## Have appointed key staff positions and are centralized operational functions

### Underwriting/pricing strategies implemented

- Slowed policy count growth in California largely due to geographic concentration
- Three-company pricing platform in California with territorial multipliers
- Increasing prices for underperforming class codes
- Non-renewing poor performing business
- Targeting attractive classes of business inside and outside California

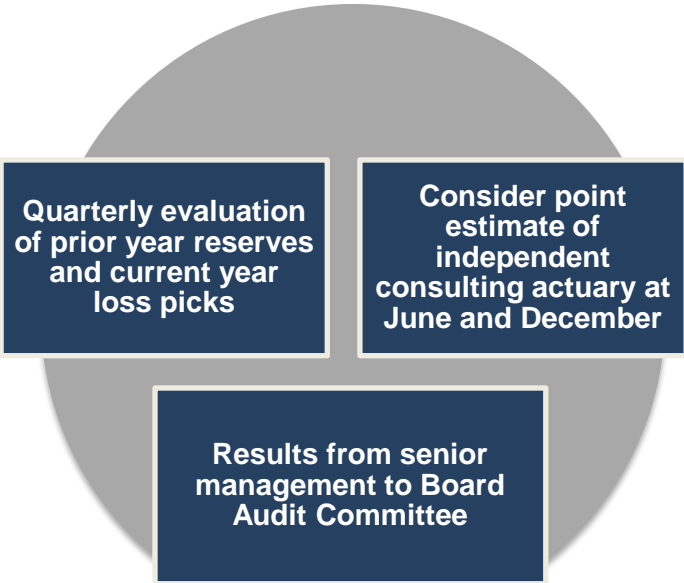
### *Results:*

	<u>As of March 31,</u>	
	<u>YOY % Change</u>	
	<u>Overall</u>	<u>California</u>
<b>In-force premium</b>	(0.7)	(3.2)
<b>In-force policy count</b>	(0.8)	(5.8)
<b>Average in-force policy size</b>	0.1	2.7
<b>In-force payroll exposure</b>	3.6	(13.9)
<b>Net rate</b>	3.1	12.4



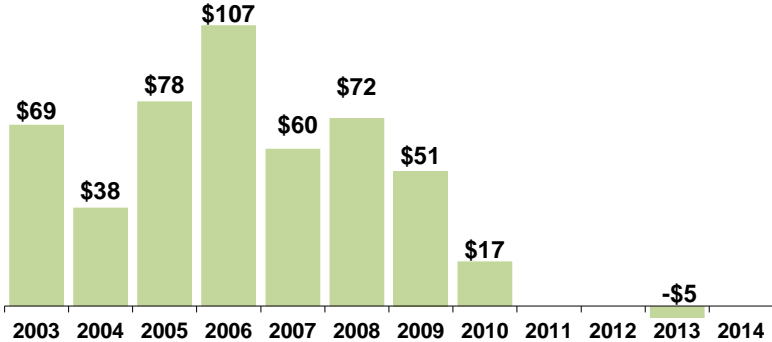
# History of Reserve Strength

## Reserve review



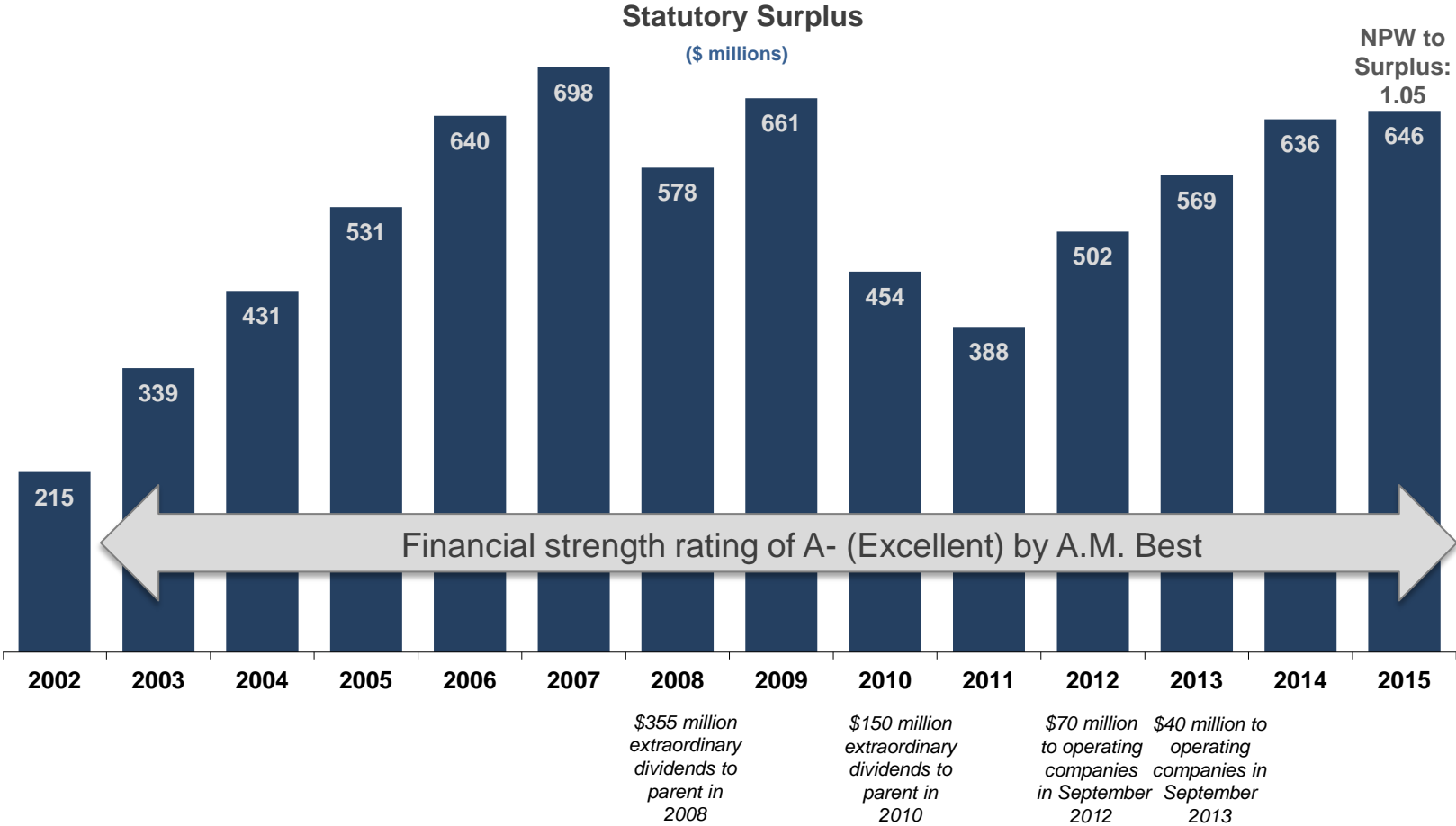
## Reserve development

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

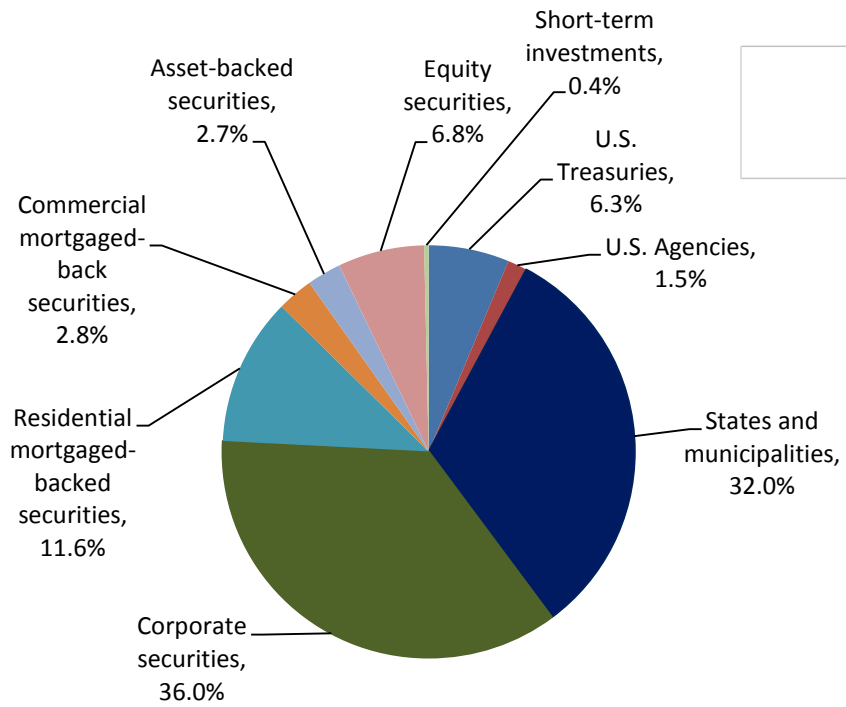


No changes to overall reserves at March 31, 2015

## Statutory surplus provides a solid basis for underwriting



# High Quality Investment Portfolio



**\$2.5 billion fair market value**

**March 31, 2015**

- **Fixed maturities have an average weighted rating of AA-**
- **3.1% average pre-tax book yield**
- **3.8% tax equivalent book yield**
- **Effective duration of 4.1**

## 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

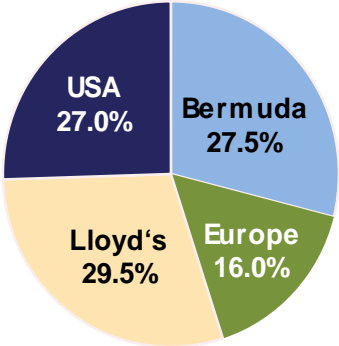
## Program structure, effective 7/1/14

Limits of \$200M

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

Maximum any one life - \$20 million on excess layers

## Reinsurers by Market



## **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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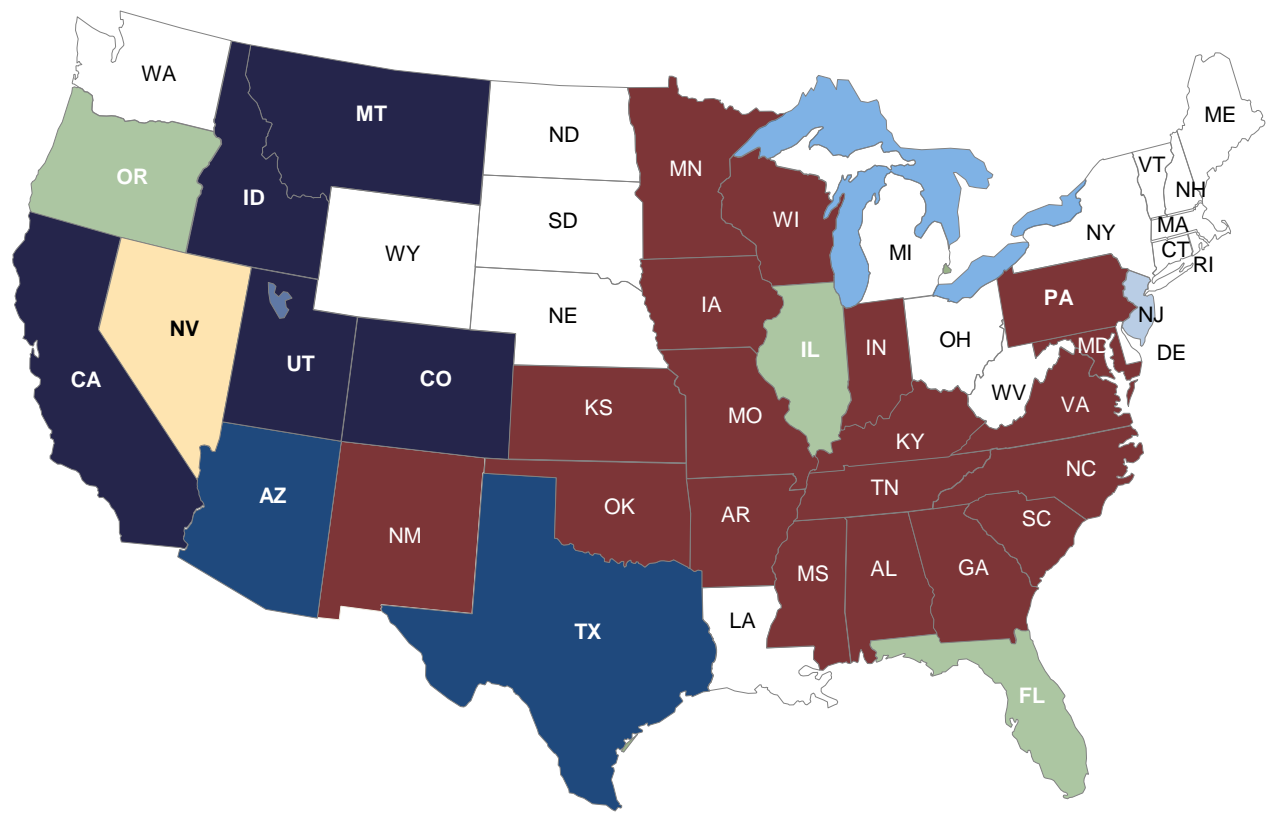
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# Appendix

# Selectively Expanding Footprint



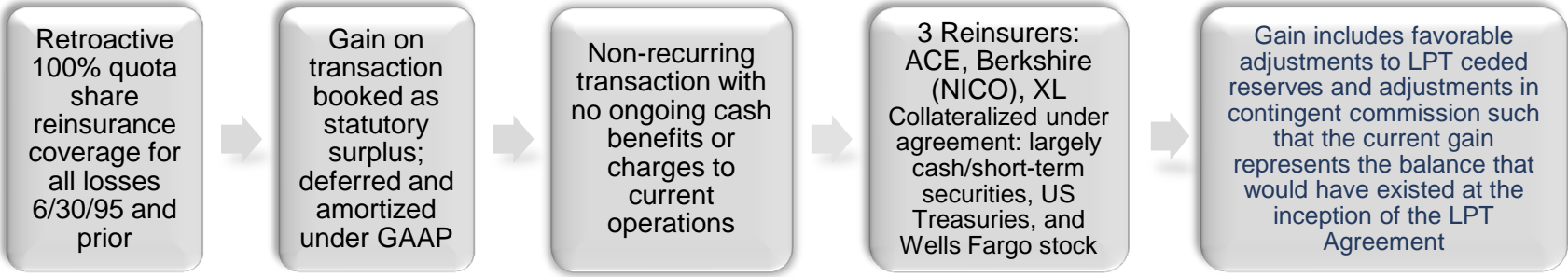
2000	2002	2006	2007	2008	2009–2014
1913 – 1999 State WC fund in NV  2000 Privatization	2002 Acquisition, book of business in CA, UT, ID, MT, CO	2005 Formation of mutual hold co  2006 Entry into TX, AZ	2007 Demutualization and IPO; entry into FL, IL and OR	2008 Acquisition of AmCOMP Incorporated, entry into IA	2009 – 2014 Focus on growth in existing states; entry into New Jersey

## HISTORY





# 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	(322)
Subsequent LPT contingent commission adjustments	63
Gain at 3/31/15	\$ 491

Accounting at 3/31/15	
	(\$ million)
Statutory Surplus Created	\$ 491.0
Cumulative Amortization To Date	\$ (286.9)
GAAP: Deferred Reinsurance Gain – LPT Agreement	<b>\$204.1</b>

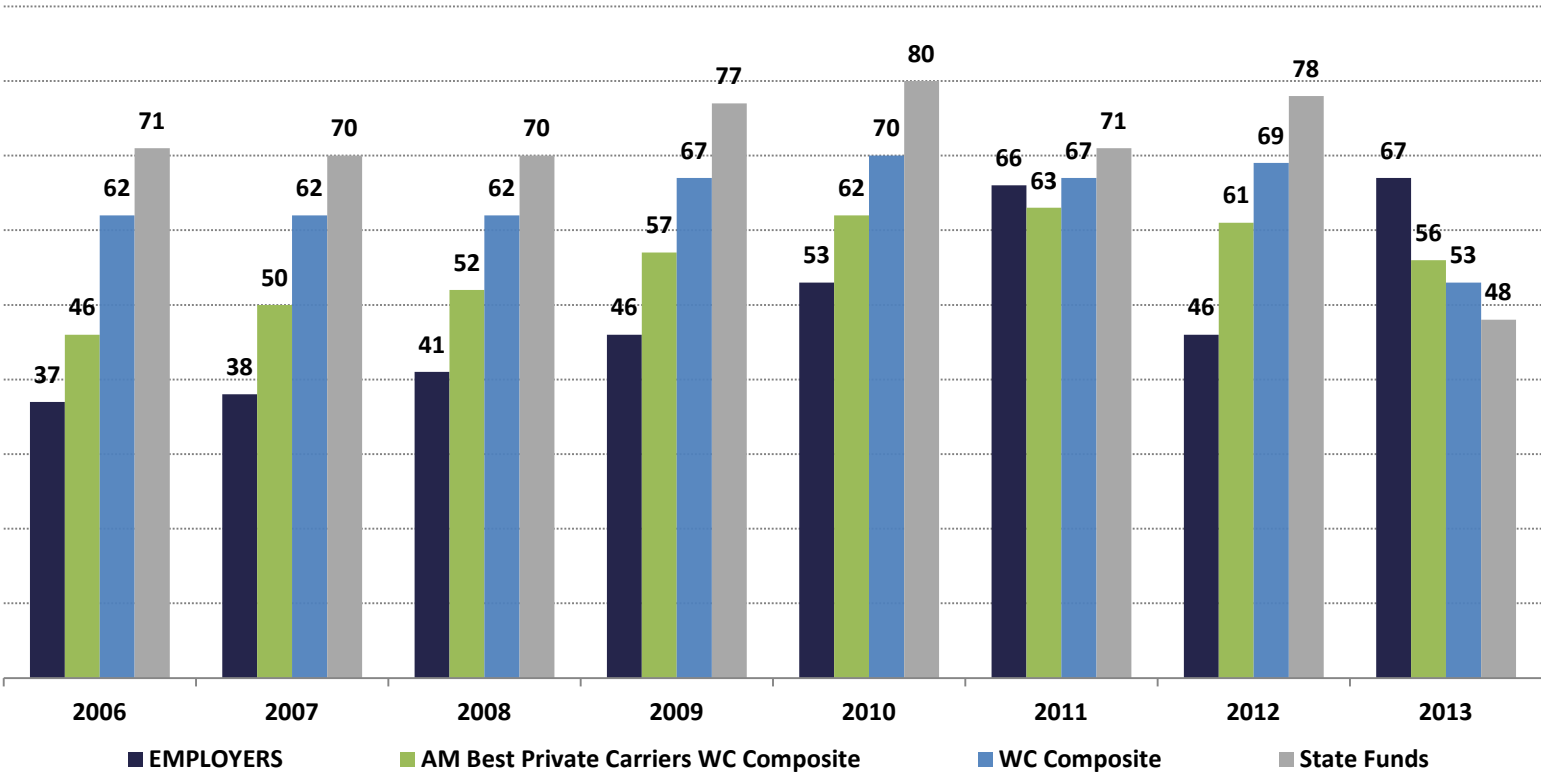
*Claims 6/30/1995 and prior: approximately 2,640 claims open as of 3/31/15 with 6.5% closing each year*

*Remaining liabilities at 3/31/15: \$527.9 million*

# Selected Results

Income Statement (\$ million)	12 Months Ended December 31,	
	2014	2013
Gross written premium	697.7	689.9
Net written premium	687.6	678.5
Net earned premium	684.5	642.3
Net investment income	72.4	70.8
Net income	100.7	63.8
Net income before LPT	45.7	25.9
Balance Sheet (\$ million except per share data)	2014	2013
Total investments	2,448.5	2,344.9
Cash and cash equivalents	103.6	34.5
Total assets	3,769.7	3,643.4
Reserves for losses and LAE	2,369.7	2,330.5
Shareholders' equity	686.8	568.7
Equity including LPT deferred gain	893.9	817.8
Book value (equity plus LPT deferred gain) per share	28.38	26.13

## EMPLOYERS® Historically low loss ratios (%)



A.M. Best data, or derived from A.M. Best data . Results for 2014 will be available August 2015

# Capital Deployment

- \$158.5 million in cash and securities at the holding company (\$74 million restricted) at 3/31/2015
- Three uses of capital:
  1. Deploy into the business
  2. Opportunistic acquisitions/mergers
  3. Return to shareholders

