

# **EMPLOYERS<sup>®</sup>**



## **Employers Holdings, Inc.**

Investor Presentation

**Results Through 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 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.

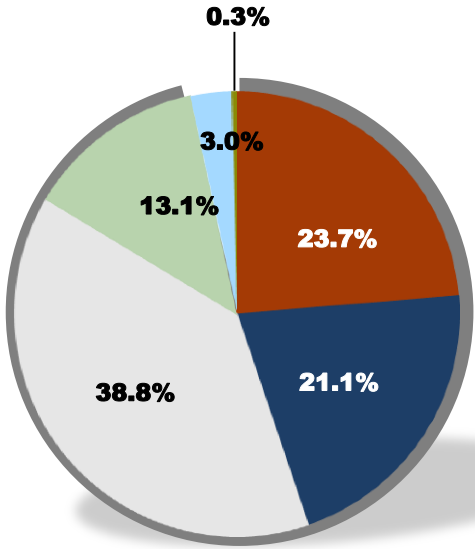
All forward looking statements made in this presentation reflect EMPLOYERS' current views with respect to future events, business transactions and business performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve 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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## Underwriting focus on select low hazard groups A - D

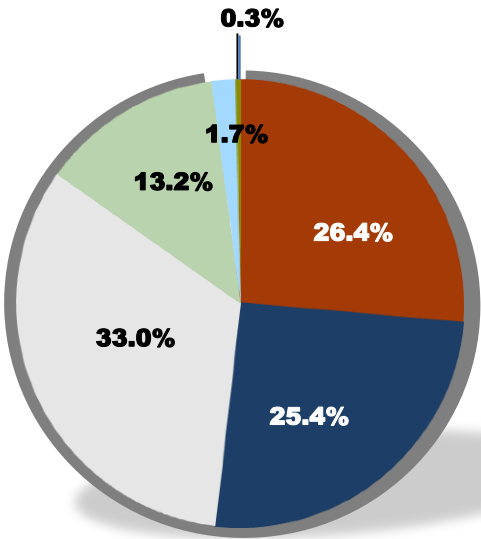


Hazard Group Percentage at December 31, 2013  
96.7% in Hazard Groups A – D

### 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
- ↑  
↓

Data shown as a % of in force premium

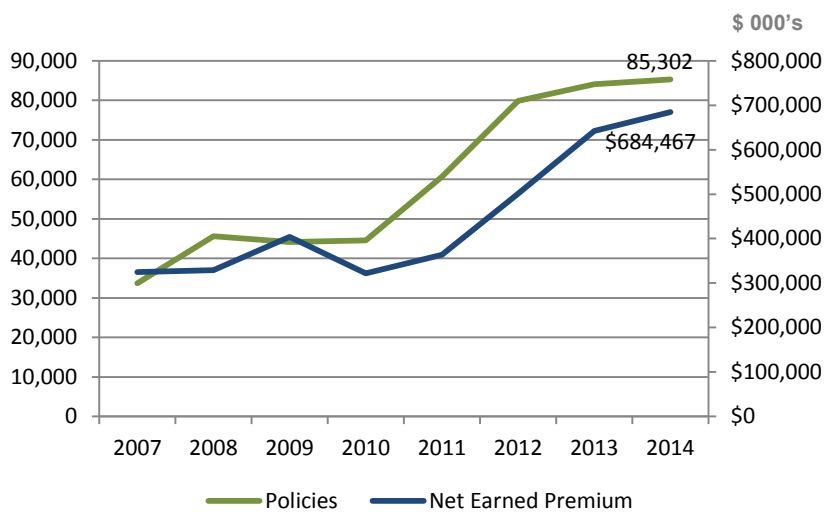


Hazard Group Percentage at December 31, 2014  
98.0% in Hazard Groups A – D

# Growth, Book Value & EPS

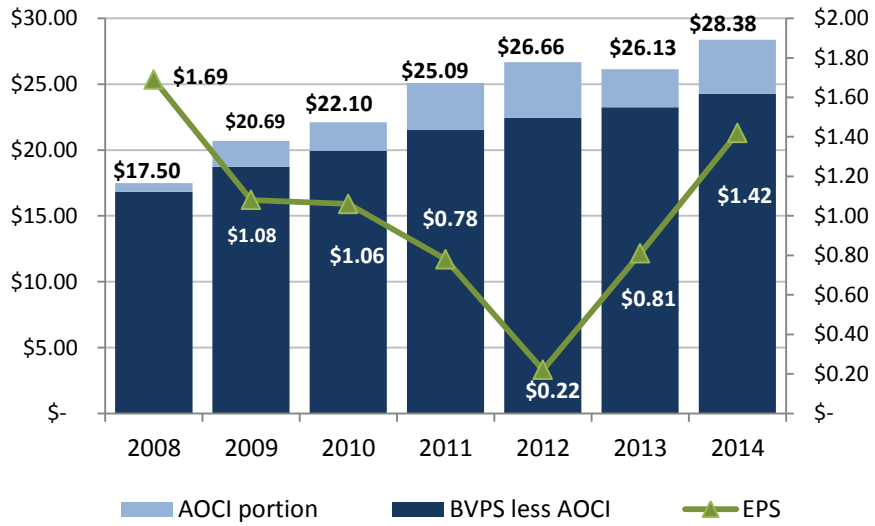
- Increased net earned premium 6.6% YOY at 12/31/14
  - Policy count increase of 1.5% YOY at 12/31/14
- Increased EPS, impacted by historically low yields and high loss provisions in recent years
- Changes in book value are, in part, driven by changes in unrealized gains

## Substantial growth in recent years



• Net earned premium is trailing twelve months in the quarters

## Adjusted book value and adjusted EPS

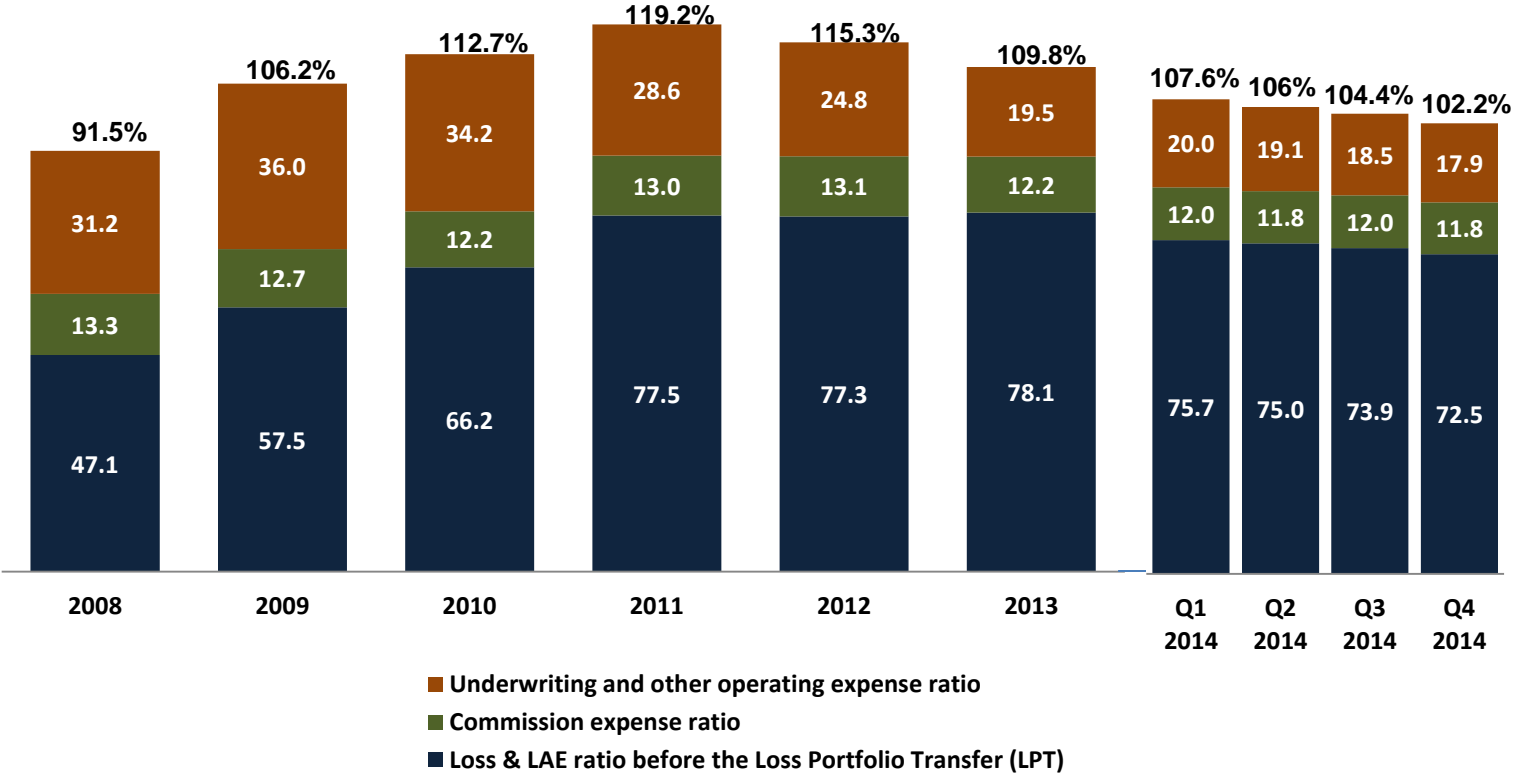


- Adjusted and restated for impacts of the LPT
- Adjusted book value includes accumulative other comprehensive income, net (AOCI, light blue shading)
- EPS is trailing twelve months in the quarters and per diluted share



# Improving Calendar Year Combined Ratio

**Combined ratio trending down with increasing earned premiums and cost controls in place – 102.2% in Q4 2014**



- ✓ Calendar year 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

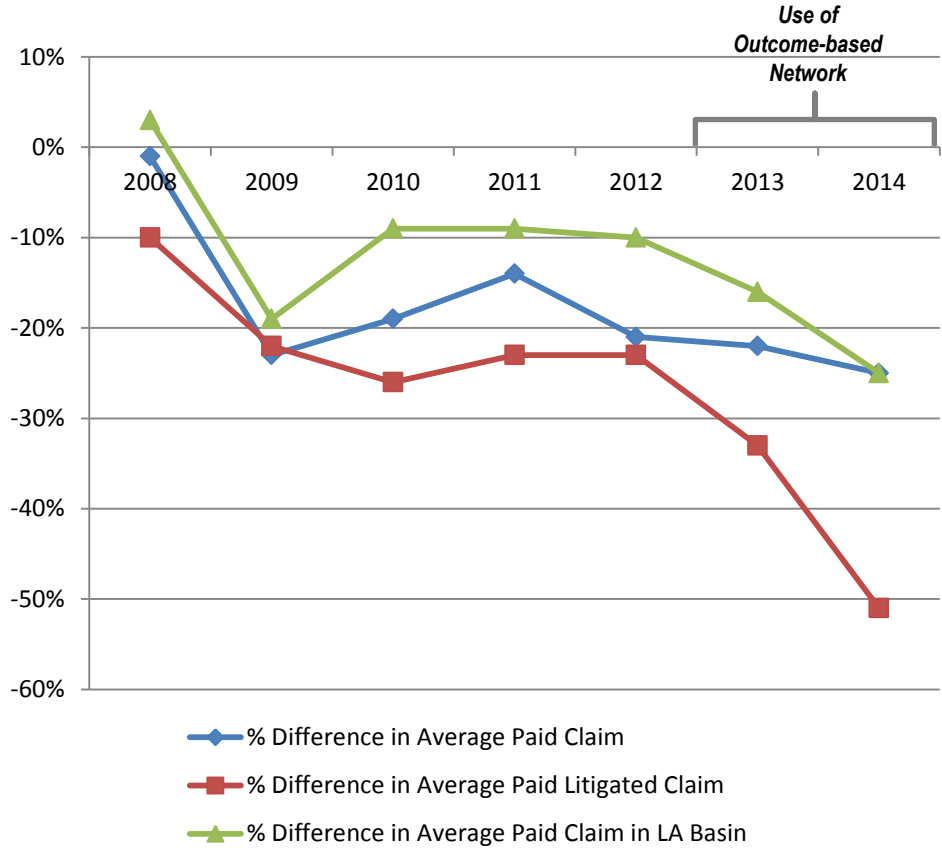
- \$8.6 million savings in 2014 (increase of \$4.6 million over 2013)

## Pharmacy benefit management program

- \$5.3 million savings in 2014

## Claims professionals average over a decade of experience

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 centralizing operational functions

## Underwriting/pricing strategies implemented

- Slowed policy count growth in California largely due to geographic concentration
- - Policy count growth (2014 YOY): -2% in California, 1.5% overall
- 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 in and outside California



## Reserve review

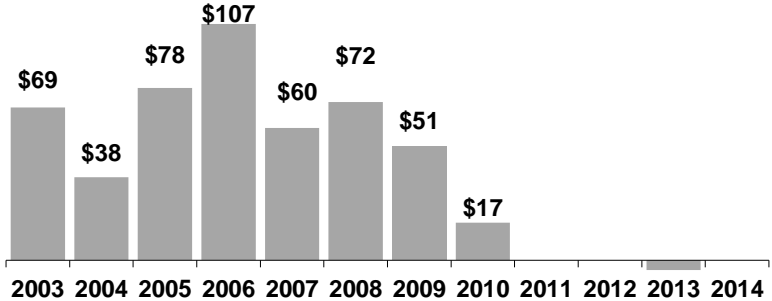
Quarterly evaluation of prior year reserves and current year loss picks

Consider point estimate of independent consulting actuary at June and December

Results from senior management to Board Audit Committee

## Reserve development

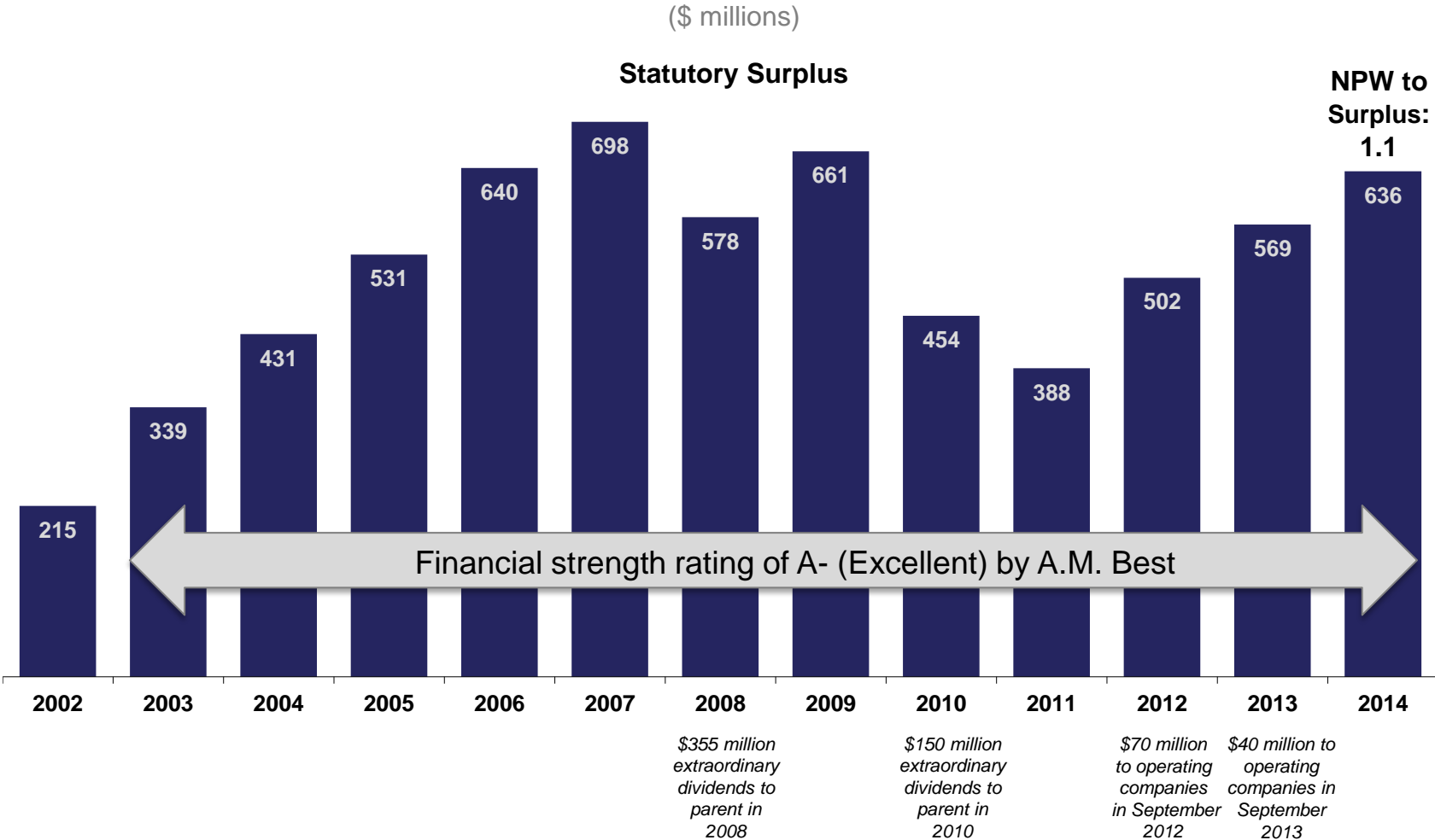
Net Calendar Year Reserve Development for Prior Accident Years (\$ million)



- Overall reserves have remained adequate throughout 2014

# Strong Capital Position

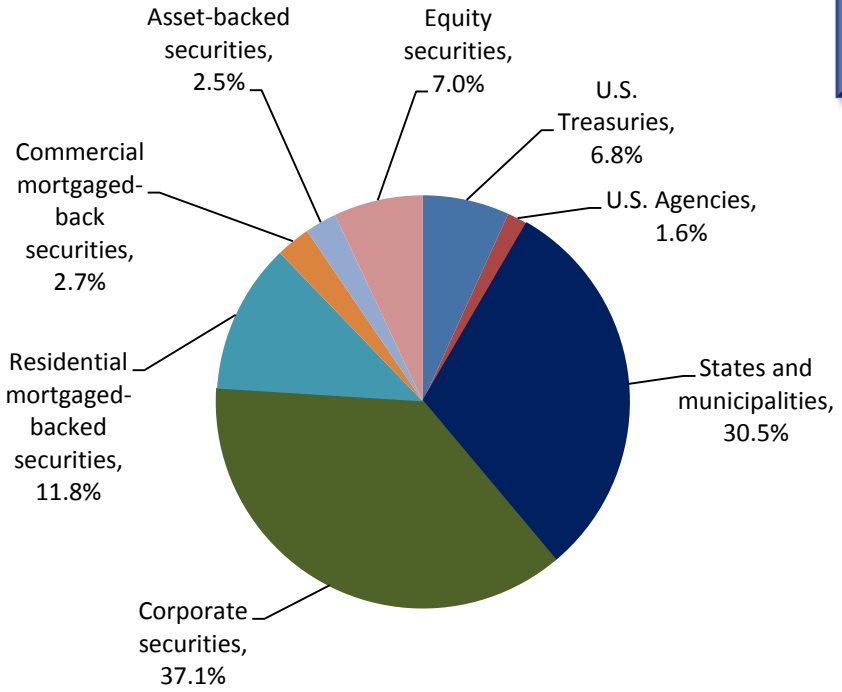
*Statutory surplus provides a solid basis for underwriting*



**NPW to Surplus:  
1.1**



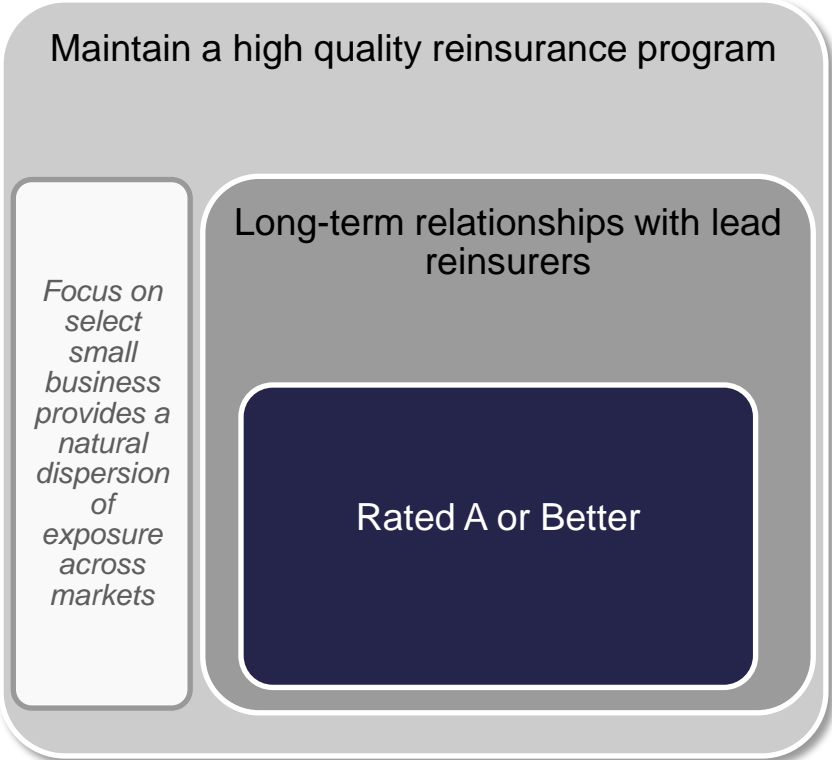
# High Quality Investment Portfolio



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

- **Fixed maturities have an average weighted rating of AA-**
- **3.2% average pre-tax book yield**
- **3.8% tax equivalent book yield**
- **Effective duration of 4.0**

## Reinsurance management

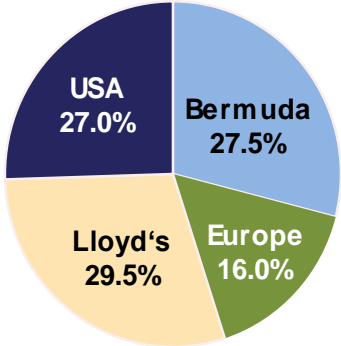


## Program structure, effective 7/1/14

Limits of \$200M

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

### Reinsurers by Market





- **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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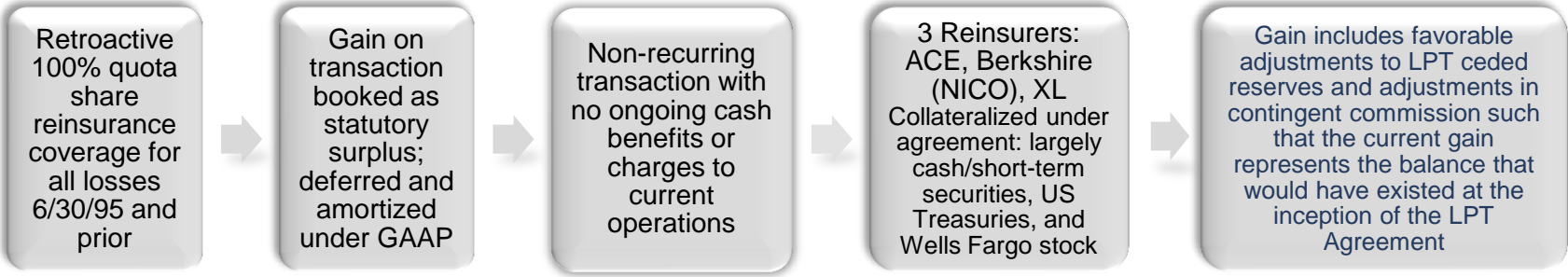


# Appendix





# 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 12/31/14	\$ 491

Accounting at 12/31/14	
	(\$ million)
Statutory Surplus Created	\$ 491
Cumulative Amortization To Date	\$ (284)
GAAP: Deferred Reinsurance Gain – LPT Agreement	<b>\$207.0</b>

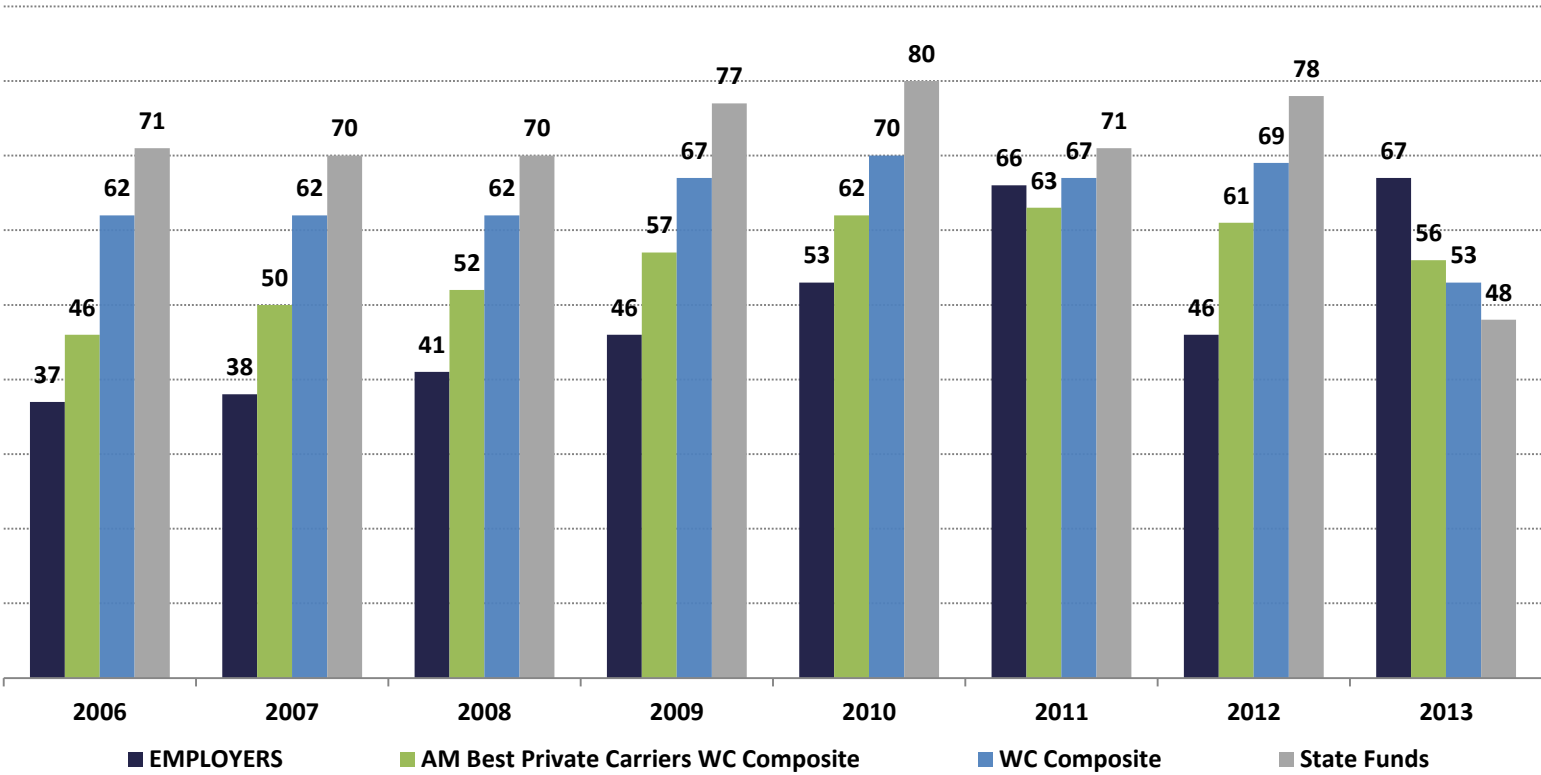
*Claims 6/30/1995 and approximately 2,681 claims open as of 12/31/14 with 6.5% closing each year*

*Remaining liabilities at 12/31/14: \$534.8 million*

# Selected Results

	12 Months Ended December 31,	
Income Statement (\$ million)	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

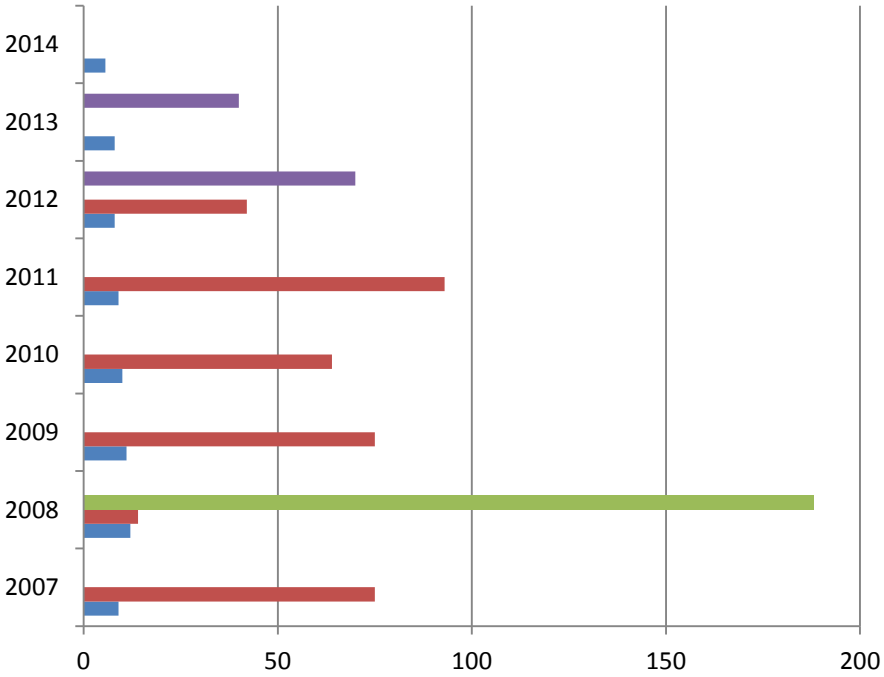
## EMPLOYERS® Historically low loss ratios (%)



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

# Capital Deployment

- \$170 million in cash and securities at the holding company (\$82 million restricted) at 12/31/2014
- Three uses of capital:
  1. Deploy into the business
  2. Opportunistic acquisitions/mergers
  3. Return to shareholders



- Deploy in 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
  - Nearly \$75 million in dividends, historically stable quarterly dividend of 6 cents per share, 2007 through 2014

(\$ Million)