

Employers Holdings, Inc.
Form 10-K
March 01, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

R ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the fiscal year ended December 31, 2012

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from ____ to ____

Commission file number: 001-33245

EMPLOYERS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction

of incorporation or organization)

10375 Professional Circle, Reno, Nevada 89521

(Address of principal executive offices and zip code)

(888) 682-6671

(Registrant's telephone number, including area code)

04-3850065

(I.R.S. Employer

Identification Number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, \$0.01 par value per share

Securities registered pursuant to Section 12(g) of the Act: None

Name of each exchange on which registered

New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes o No R

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2012 was \$558,293,802.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Class	February 21, 2013
Common Stock, \$0.01 par value per share	30,775,229 shares outstanding

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to the 2013 Annual Meeting of Stockholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

EXPLANATORY NOTE

We are revising our consolidated financial statements for the fiscal years ended December 31, 2011 and 2010, and our selected financial data for the fiscal years ended December 31, 2011, 2010, 2009, and 2008 in this Annual Report on Form 10-K for the fiscal year ended December 31, 2012. These revisions are the result of the need to correct the manner in which we account for the contingent profit commission to which we are entitled under the Loss Portfolio Transfer Agreement (LPT Agreement). We assessed the impact of these revisions and concluded that they were not material to any of our financial statements for the each of the three quarters within the nine months ended September 30, 2012, or fiscal years ended December 31, 2011, 2010, 2009, or 2008. As a result, we have not filed amendments to any of our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q. We have revised these historical financial results in this Annual Report on Form 10-K. Although the effect of these revisions was not material to those previously issued financial statements, the cumulative effect of reflecting these revisions in the current year would have been material for the fiscal year ended December 31, 2012. Since these revisions are treated as corrections to our prior period financial results, the revisions are considered to be a restatement under U.S. generally accepted accounting principles (GAAP). Accordingly, the revised financial information included in this Annual Report on Form 10-K has been identified as “restated.”

In 1999, the Nevada State Industrial Insurance System (the Fund) entered into a retroactive 100% quota share reinsurance agreement through a loss portfolio transfer transaction with third party reinsurers. On January 1, 2000, one of our insurance subsidiaries, Employers Insurance Company of Nevada, assumed all of the assets, liabilities and operations of the Fund, including the Fund's rights and obligations associated with the LPT Agreement. The LPT Agreement was a non-recurring transaction which does not affect our ongoing operations. In the quarter ended December 31, 2012, we concluded that a modification was necessary in order to properly apply reinsurance accounting principles to the contingent profit commission under the LPT Agreement. This modification resulted in a change in the manner in which we record the estimate of contingent commission receivable–LPT Agreement, which impacts the amortization of the deferred reinsurance gain–LPT Agreement and is reflected in losses and loss adjustment expense (LAE) incurred in our consolidated statements of income and comprehensive income. The effect of the revisions to the previously issued consolidated statements of income and comprehensive income for the years ended December 31, 2011 and 2010 was to increase the commission expense and decrease the losses and LAE, with the net effect of increasing net income and earnings per share. Additionally, total stockholders' equity at December 31, 2011 decreased and there was an increase to the contingent commission receivable–LPT Agreement and the deferred reinsurance gain–LPT Agreement on the consolidated balance sheets as of December 31, 2011. Note 2 to the consolidated financial statements included in this Annual Report on Form 10-K contains tabular disclosures that set forth certain restated financial information.

For more information regarding the impact on our financial results, please refer to Part II, Item 6, “Selected Financial Data,” and Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” and to our Consolidated Financial Statements included in Part II, Item 8, including Note 2, “Revision of Previously Issued Consolidated Financial Statements,” and Note 21, “Selected Quarterly Financial Data (Unaudited).”

The following tables present the summary impacts of the restatement adjustments on our previously reported consolidated retained earnings at December 31, 2009 and consolidated net income and earnings per share for the years ended December 31, 2011 and 2010 (in thousands, except per share data):

Retained earnings at December 31, 2009 (previously reported)		\$266,491	
LPT Contingent Commission Adjustment		(13,183)
Retained earnings at December 31, 2009 (as restated)		\$253,308	
	December 31,		
	2011		2010
Net income (previously reported)	\$48,313		\$62,799
Adjustment	310		670
Net income (as restated)	\$48,623		\$63,469

Earnings per common share:

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Basic (previously reported)	\$ 1.30	\$ 1.52
Adjustment	—	0.01
Basic (as restated)	\$ 1.30	\$ 1.53
Diluted (previously reported)	\$ 1.29	\$ 1.51
Adjustment	0.01	0.02
Diluted (as restated)	\$ 1.30	\$ 1.53

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FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements if accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed. You should not place undue reliance on these statements, which speak only as of the date of this report. Forward-looking statements include those related to our expected financial position, business, financing plans, litigation, future premiums, revenues, earnings, pricing, investments, business relationships, expected losses, loss reserves, acquisitions, competition, and rate increases with respect to our business and the insurance industry in general. Statements including words such as “expect,” “intend,” “plan,” “believe,” “estimate,” “may,” “anticipate,” “will” or similar statements of a future or forward-looking nature identify forward-looking 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, except as required by law. All forward-looking statements address matters that involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results, depending on a number of factors. These risks and uncertainties include, but are not limited to, those set forth in Item 1A, “Risk Factors” and the other documents that we have filed with the Securities and Exchange Commission.

NOTE REGARDING RELIANCE ON STATEMENTS IN OUR CONTRACTS

The agreements included or incorporated by reference as exhibits to this Annual Report on Form 10-K may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and:

- were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified in such agreement by disclosures that were made to the other party in connection with the negotiation of the applicable agreement;
- may apply contract standards of “materiality” that are different from “materiality” under the applicable securities laws; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

Notwithstanding the inclusion of the foregoing cautionary statements, we acknowledge that we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

PART I

Item 1. Business

General

Employers Holdings, Inc. (EHI) is a holding company incorporated in Nevada in 2005. Unless otherwise indicated, all references to “we,” “us,” “our,” the “Company” or similar terms refer to EHI together with its subsidiaries. We had 667 full-time employees at December 31, 2012 and our principal executive offices are located at 10375 Professional Circle in Reno, Nevada.

Our insurance subsidiaries have each been assigned an A.M. Best Company (A.M. Best) rating of “A-” (Excellent), with a “negative” financial outlook.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports, and Proxy Statement for our Annual Meeting of Stockholders are available free of charge on our website at www.employers.com as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC). Our website also provides access to reports filed by our Directors, executive officers and certain significant stockholders pursuant to Section 16 of the Securities Exchange Act of 1934. In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, and charters for the standing committees of our Board of Directors are available on our website. Copies of these documents may also be obtained free of charge by written request to Investor Relations, 10375 Professional Circle, Reno, Nevada 89521-4802. The SEC also maintains a website at www.sec.gov that contains the information that we file electronically with the SEC.

Description of Business

We are a specialty provider of workers' compensation insurance focused on select small businesses in low to medium hazard industries. We employ a disciplined, conservative underwriting approach designed to individually select specific types of businesses, predominantly those in the lowest four of the seven workers' compensation insurance industry defined hazard groups, that we believe will have fewer and less costly claims relative to other businesses in the same hazard groups. Workers' compensation is provided for under a statutory system wherein most employers are required to provide coverage for their employees' medical, disability, vocational rehabilitation, and/or death benefit costs for work-related injuries or illnesses. We operate as a single reportable segment and conduct operations in 31 states and the District of Columbia, with a concentration in California, where over one-half of our business is generated. We had total assets of \$3.5 billion at December 31, 2012 and 2011. The following table highlights key results of our operations for the last three years.

For the Years Ended	Net Premiums Written (in thousands, except ratios)	Total Revenue	Net Income	Statutory Combined Ratio ⁽¹⁾	
December 31, 2012	\$569,676	\$579,182	\$106,891	85.8	%
December 31, 2011 (As Restated)	410,038	464,154	48,623	112.1	
December 31, 2010 (As Restated)	313,098	415,604	63,469	109.8	

Our combined ratio on a statutory basis is a measure of underwriting profitability. Elsewhere in this report, unless (1) otherwise stated, the term “combined ratio” refers to a calculation based on U.S. generally accepted accounting principles (GAAP).

The statutory combined ratio for the year ended December 31, 2012 includes the impact of a \$100.0 million favorable adjustment to the ceded reserves under the Loss Portfolio Transfer Agreement. See Note 3 in the Notes to our Consolidated Financial Statements.

Our statutory combined ratio for the five years ended December 31, 2011 was 99.5%, compared to the industry composite statutory combined ratio of 115.2% for the same five-year period (calculated by A.M. Best for individual companies that have more than 50% of their business in workers' compensation).

Our insurance subsidiaries are domiciled in the following states:

State of Domicile

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Employers Insurance Company of Nevada (EICN)
Employers Compensation Insurance Company (ECIC)
Employers Preferred Insurance Company (EPIC)
Employers Assurance Company (EAC)
Products and Services

Nevada
California
Florida
Florida

Workers' compensation provides insurance coverage for the statutorily prescribed benefits that employers are required to provide to their employees who may be injured or suffer illness in the course of employment. The level of benefits varies by state, the

nature and severity of the injury or disease, and the wages of the injured worker. Each state has a statutory, regulatory, and adjudicatory system that sets the amount of wage replacement to be paid, determines the level of medical care required to be provided, establishes the degree of permanent impairment, and specifies the options in selecting healthcare providers. These state laws generally require two types of benefits for injured employees: (a) medical benefits, including expenses related to the diagnosis and treatment of an injury, disease, or both, as well as any required rehabilitation, and (b) indemnity payments, which consist of temporary wage replacement, permanent disability payments, and death benefits to surviving family members.

Disciplined Underwriting

Our strategy is to focus on disciplined underwriting and continue to pursue profitable growth opportunities across market cycles. We carefully monitor market trends to assess new business opportunities that we expect will meet our pricing and risk standards. We price our policies based on the specific risks associated with each potential insured rather than solely on the industry class in which a potential insured is classified. Our disciplined underwriting approach is a critical element of our culture and we believe that it has allowed us to offer competitive prices, diversify our risks, and out-perform the industry.

The following table compares our statutory loss and loss adjustment expense (LAE) ratio, a measure which relates inversely to our underwriting profitability, to the statutory industry composite loss and LAE ratio reported by A.M. Best (calculated for U.S. insurance companies having more than 50% of their premiums generated by workers' compensation insurance products).

Year	Statutory Loss and LAE Ratio		
	EHI ⁽¹⁾	A.M. Best	
2007	46.4	% 77.7	%
2008	51.4	78.6	
2009	57.5	86.1	
2010	66.2	87.4	
2011	77.6	89.6	
2012	57.4	N/A ⁽²⁾	

(1) Our statutory loss and LAE ratio includes changes to reserves for losses and LAE established for prior periods.

(2) As of the date of this report, statutory industry composite loss and LAE ratio data was not available for 2012.

We execute our underwriting processes through automated systems and experienced underwriters with specific knowledge of local markets. We have developed automated underwriting templates for specific classes of business that produce faster quotes when certain underwriting criteria are met. Our underwriting guidelines consider many factors, such as type of business, nature of operations, and risk exposures, and are designed to minimize or prevent underwriting of certain undesirable classes of business.

Loss Control

Our loss control professionals provide consultation to policyholders to assist them in preventing losses and containing costs once claims occur. They also assist our underwriting personnel in evaluating potential and current policyholders and are an important part of our underwriting discipline.

Premium Audit

We conduct premium audits on substantially all of our policyholders annually upon the policy expiration. Premium audits allow us to comply with applicable state and reporting bureau requirements and to verify that policyholders have accurately reported their payroll and employee job classifications. We also selectively perform interim audits on certain classes of business or if unusual claims are filed or concerns are raised regarding projected annual payrolls, which could result in substantial variances at final audit.

Claims and Medical Case Management

The role of our claims department is to actively and efficiently investigate, evaluate, and pay claims, and to aid injured workers in returning to work in accordance with applicable laws and regulations. We have implemented rigorous claims guidelines and control procedures in our claims units and have claims operations throughout the markets we serve. We also provide medical case management services for those claims that we determine will benefit from such involvement.

Our claims department also provides claims management services for those claims incurred by the Nevada State Industrial Insurance System (the Fund) and assumed by EICN and subject to a 100% retroactive reinsurance agreement (the LPT Agreement) with dates of injury prior to July 1, 1995. Additional information regarding the LPT Agreement is set forth under “–Reinsurance–LPT Agreement.” We receive a management fee from the third party reinsurers equal to 7% of the loss payments on these claims.

We utilize medical provider networks affiliated with Anthem Blue Cross of California (Anthem) and Coventry Health Care, Inc. and make every appropriate effort to direct injured workers into these networks for medical treatments. In addition to our medical

networks, we work closely with local vendors, including attorneys, medical professionals, and investigators, to bring local expertise to our reported claims. We pay special attention to reducing costs and have established discounting arrangements with the aforementioned service providers. We use preferred provider organizations, bill review services, and utilization management to closely monitor medical costs.

We actively pursue fraud and subrogation recoveries to mitigate claims costs. Subrogation rights are based upon state and federal laws, as well as the insurance policies we issue. Our fraud and subrogation efforts are handled through dedicated units.

Information Technology

Core Operating Systems

We have an efficient, cost-effective and scalable infrastructure that complements our geographic reach and business model and have developed a highly automated underwriting system. This technology allows for the electronic submission, review, and quoting of insurance applications that applies our underwriting standards and guidelines. This policy administration system reduces transaction costs and provides for more efficient and timely processing of applications for small policies that meet our underwriting standards. We believe this approach saves our independent agents and brokers considerable time in processing customer applications and maintains our competitiveness in our target markets. We will continue to invest in technology and systems across our business to maximize efficiency, customer self-service, and create increased capacity that will allow us to lower our expense ratios while growing premiums.

Business Continuity/Disaster Recovery

We maintain business continuity and disaster recovery plans for our critical business functions, including the restoration of information technology infrastructure and applications. We have two data centers that act as production facilities and as disaster recovery sites for each other. In addition, we utilize an off-site data storage facility for critical customer and systems data.

Customers and Workers' Compensation Premiums

The workers' compensation insurance industry classifies risks into seven hazard groups, as defined by the National Council on Compensation Insurance (NCCI), based on severity of claims, with businesses in the first or lowest group having the lowest claims costs.

We target select small businesses engaged in low to medium hazard industries. Our historical loss experience has been more favorable for lower industry defined hazard groups than for higher hazard groups. Further, we believe it is generally less costly to service and manage the risks associated with these lower hazard groups. Our underwriters use their local market expertise and disciplined underwriting to select specific types of businesses and risks within the classes of business we underwrite that allow us to generate loss ratios that are consistently better than the industry average.

The following table sets forth our in-force premiums by hazard group and as a percentage of our total in-force premiums as of December 31:

Hazard Group	2012 (in thousands, except percentages)	Percentage of 2012 Total	2011	Percentage of 2011 Total	2010	Percentage of 2010 Total
A	\$120,863	22.5	% \$70,398	17.9	% \$45,537	14.2
B	136,849	25.5	95,783	24.3	74,435	23.2
C	182,416	33.9	145,282	36.9	120,656	37.6
D	77,148	14.4	58,534	14.9	47,906	14.9
E	15,850	2.9	19,094	4.8	24,592	7.7
F	4,128	0.8	4,682	1.2	7,531	2.3
G	88	<0.1	148	<0.1	480	0.1
Total	\$537,342	100.0	% \$393,921	100.0	% \$321,137	100.0

Our in-force premiums for our top ten types of insureds and as a percentage of our total in-force premiums as of December 31, 2012 were as follows:

Employer Classifications	In-force Premiums (in thousands, except percentages)	Percentage of Total	
Restaurants	\$117,109	21.8	%
Dentists, Optometrists, and Physicians	36,142	6.7	
Automobile Service or Repair Shops	34,444	6.4	
Hotels, Motels, and Clubs	28,661	5.3	
Wholesale Stores	27,503	5.1	
Gasoline Stations	19,783	3.7	
Real Estate Management	16,002	3.0	
Schools – Colleges and Religious Organizations	15,038	2.8	
Groceries and Provisions	13,090	2.4	
Apparel Manufacturing	11,993	2.2	
Total	\$319,765	59.4	%

We currently write business in 31 states and the District of Columbia. Our business is concentrated in California, which makes the results of our operations more dependent on the trends that are unique to that state and that may differ from national trends. State legislation, local competition, economic and employment trends, and workers' compensation medical costs trends can be material to our financial results.

As of December 31, 2012, our policyholders had average annual in-force premiums of \$6,732. We are not dependent on any single policyholder and the loss of any single policyholder would not have a material adverse effect on our business.

Our total in-force premiums and number of policies in-force by state were as follows as of December 31:

State	2012		2011		2010	
	In-force Premiums	Policies In-force	In-force Premiums	Policies In-force	In-force Premiums	Policies In-force
	(dollars in thousands)					
California	\$317,890	46,829	\$221,910	36,867	\$172,621	29,244
Illinois	30,555	3,302	24,744	2,433	18,617	932
Georgia	22,985	3,150	16,393	2,050	10,772	757
Florida	17,676	2,918	15,226	2,399	15,071	1,963
Nevada	15,522	3,876	14,639	3,718	16,940	3,596
Other	132,714	19,739	101,009	13,226	87,116	8,069
Total	\$537,342	79,814	\$393,921	60,693	\$321,137	44,561

The following trends affected our workers' compensation business from 2010 through 2012:

- In-force premiums increased 67.3%, primarily due to an increasing number of policies in-force and higher premium rates; and

- Total policies in-force increased 79.1%, reflecting our efforts to continue to grow our business profitably across market cycles.

We cannot be certain how these trends will ultimately impact our consolidated financial position and results of operations.

Our premiums are generally a function of the applicable premium rate, the amount of the insured's payroll, and if applicable, a factor reflecting the insured's historical loss experience (experience modification factor). Premium rates vary by state according to the nature of the employees' duties and the business of the employer. The premium is computed by applying the applicable premium rate to each class of the insured's payroll after it has been appropriately classified. Total policy premium is determined after applying an experience modification factor and a further adjustment, known as a schedule rating adjustment, which may be made in certain circumstances, to increase or decrease the policy premium. Schedule rating adjustments are made based on individual risk characteristics of the

insured and subject to maximum amounts as established in our premium rate filings.

Our premium rates are based upon actuarial analyses for each state in which we do business, except in “administered pricing” states, primarily Florida and Wisconsin, where premium rates are set by state insurance regulators.

In September 2012, the California legislature passed Senate Bill No. 863 (SB 863), which was subsequently signed into law. SB 863 includes a number of reforms to California's workers' compensation system, including increases to permanent disability benefits offset by reforms designed to reduce costs in the system. According to the Workers' Compensation Insurance Rating Bureau, the cost savings are expected to be achieved through a number of measures, including: the creation of a new dispute resolution process outside of the Workers' Compensation Appeals Board for medical treatments and billing issues; new controls on liens; and calls for new fee schedules for physicians, interpreters, ambulatory surgery centers, and home health care.

Any cost savings associated with SB 863 will be dependent on the implementation of the provisions of the bill and are not included in our current rate filings. We will evaluate SB 863's mandated regulations as they are adopted and will adjust our rate filings as indicated. We can offer no assurance that SB 863 will result in any cost savings for us or when any cost savings might occur.

In California, where we generated 59% of our in-force premiums, we set our premium rates based upon actuarial analyses of current and anticipated loss trends with a goal of maintaining underwriting profitability. Due to increasing loss costs, primarily medical cost inflation, we increased our filed premium rates in California by a cumulative 41.3% since February 1, 2009.

The following table sets forth the percentage increases to our filed California rates effective for new and renewal policies incepting on or after the dates shown.

Effective Date	Premium Rate Change Filed in California	%
February 1, 2009	10.0	
August 15, 2009	10.5	
March 15, 2010	3.0	
March 15, 2011	2.5	
September 15, 2011	3.9	
June 15, 2012	6.0	

Losses and LAE Reserves and Loss Development

We are directly liable for losses and LAE under the terms of the insurance policies our insurance subsidiaries write. Significant periods of time can elapse between the occurrence of an insured loss, the reporting of the loss to us and our payment of that loss. Loss reserves are reflected on our consolidated balance sheets under the line item caption "Unpaid losses and loss adjustment expenses." Estimating reserves is a complex process that involves a considerable degree of judgment by management and is inherently uncertain. Loss reserve estimates represent a significant risk to our business and we attempt to mitigate by frequently and routinely reviewing loss cost trends.

For a detailed description of our reserves, the judgments, key assumptions and actuarial methodologies that we use to estimate our reserves, and the role of our consulting actuary, see "Item 7 –Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations –Critical Accounting Policies –Reserves for Losses and LAE" and Note 11 in the Notes to our Consolidated Financial Statements.

The following tables show changes in the historical loss reserves, on a gross basis and net of reinsurance, at December 31 for each of the 10 years prior to 2012 for EICN and ECIC, and for each of the years ended December 31, 2008 through December 31, 2011 for EPIC and EAC. This information is presented on a GAAP basis and the paid and reserve data is presented on a calendar year basis.

The top line of each table shows the net and gross reserves for unpaid losses and LAE recorded at each year-end. Such amount represents an estimate of unpaid losses and LAE occurring in that year as well as future payments on claims occurring in prior years. The upper portion of these tables (net and gross cumulative amounts paid, respectively) present the cumulative amounts paid during subsequent years on those losses for which reserves were carried as of each specific year. The lower portions (net and gross reserves re-estimated, respectively) show the re-estimated amounts of the previously recorded reserves based on experience as of the end of each succeeding year. The re-estimated amounts change as more information becomes known about the actual losses for which the initial reserve was carried. An adjustment to the carrying value of unpaid losses for a prior year will also be reflected in the adjustments for each subsequent year. The gross cumulative redundancy (deficiency) line represents the cumulative

change in estimates since the initial reserve was established. It is equal to the difference between the initial reserve and the latest re-estimated reserve amount. A redundancy means that the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate.

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2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
(in thousands)