



*America's small business insurance specialist.®*



March, 2011

**Employers Holdings, Inc.**  
Investor Presentation





# 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 2010, 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 is included in this presentation or in our Form 10-K for the year 2010, 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.

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.

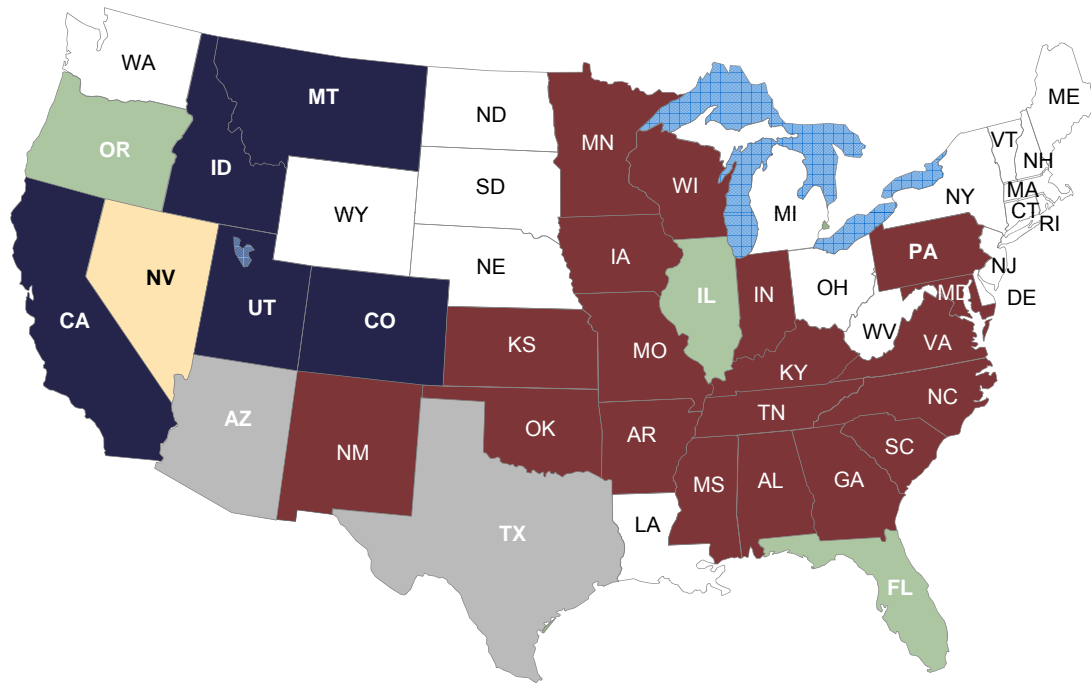
We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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## Overview



## Selectively Expanding Footprint

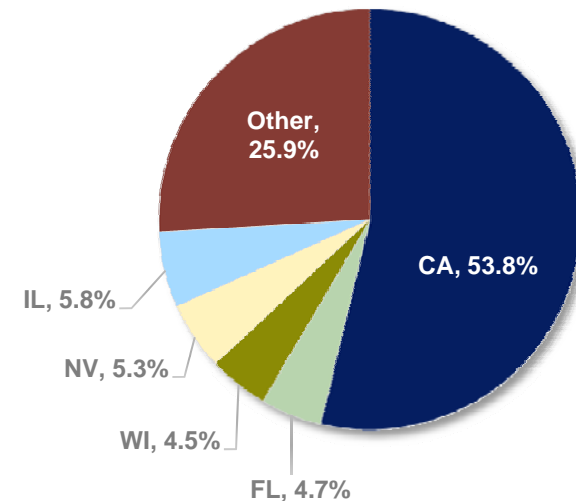


2000	2002	2006	2007	2008
1913 – 1999 State WC fund in NV 2000 Privatization	2002 Acquisition, book of business in CA, UT, ID, MT, CO	2005 Formation of mutual hold co 2006 Entry into TX, AZ	2007 Demutualization and IPO – entry into FL, IL and OR	2008 Acquisition of AmCOMP Incorporated, entry into IA

### Highlights

(at December 31, 2010)

- 12 Mo. NPW: \$313 million
- Adjusted BV per share: \$22.08
- Q4 CR before LPT: 113.3%



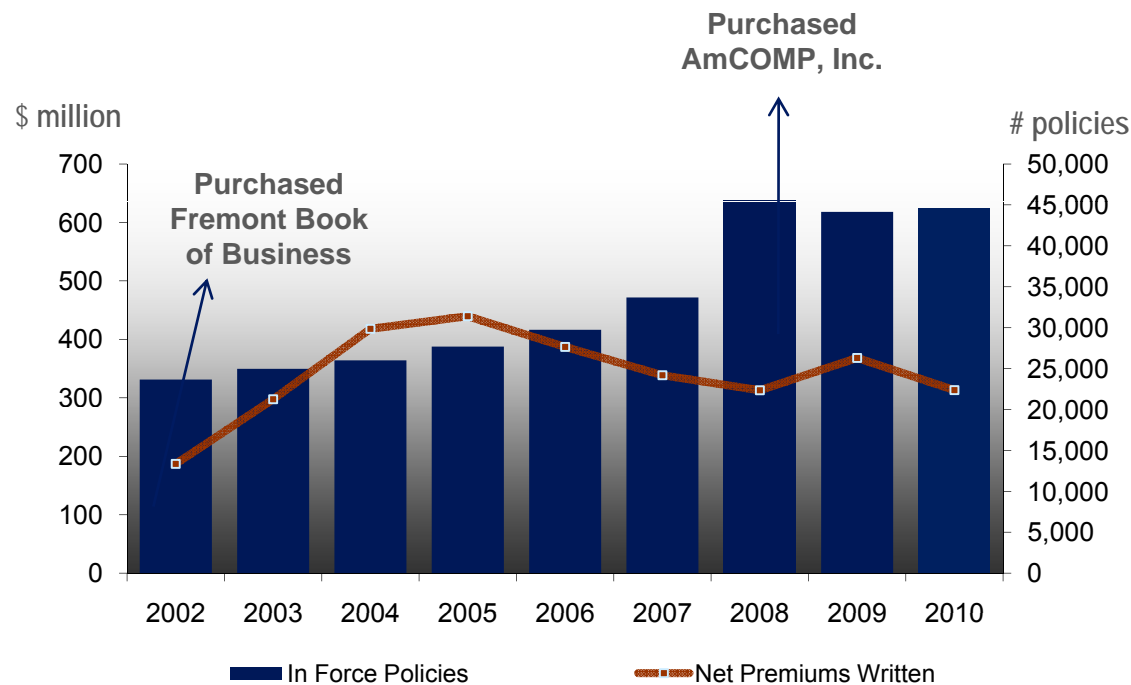
In Force Premiums Written (%)  
12/31/10

## Current trends - actions

Current operating environment is characterized by high levels of unemployment, reduced work hours, price competition and historically low yields.



# Market Penetration



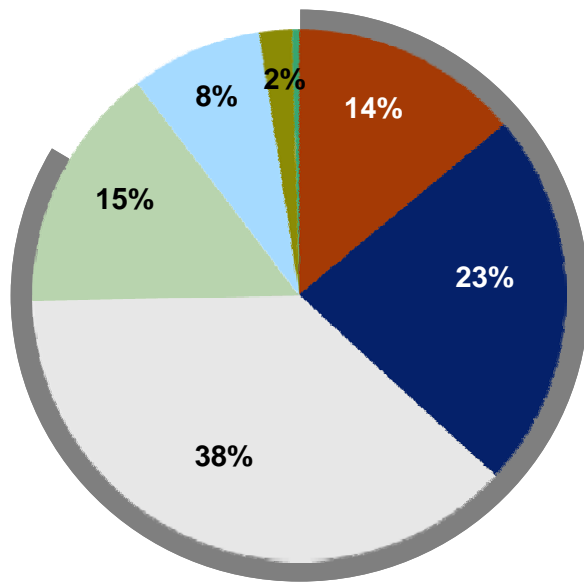
Policy Count 2002-2010  
CAGR = 8.3%

NPW 2002-2010  
CAGR = 6.7%



# Disciplined Risk Selection

*Focused guidelines and selection within industry-defined classes*



% In Force Premiums, 12/31/10

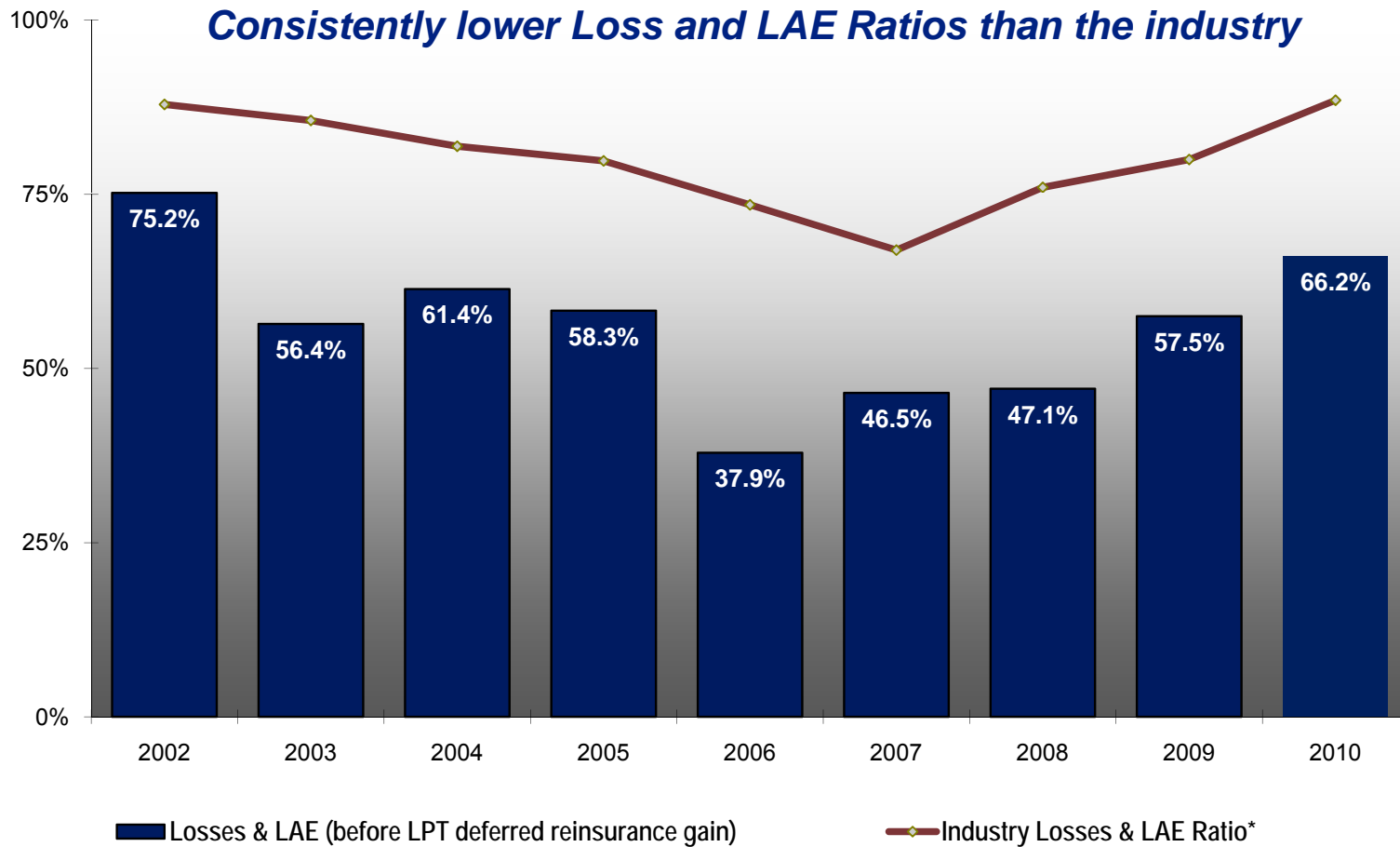
EMPLOYERS = 90% of Total In Force Premium, Hazard Groups A – D

- 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
- ↑  
↓

NCCI Hazard Group	EMPLOYERS Top 10 Classes	% In Force Premium
A	Restaurants	11.2
C	Physicians/Clerical	8.9
D	Automobile Services	8.0
B	Wholesale Stores	4.6
B	College Employees	3.0
B	Retail Stores	2.7
B	Hotel Employees	2.0
D	Machine Shops	2.0
C	Clerical	1.9
C	Grocery/Provisions Stores	1.7
	<b>Total Top 10</b>	<b>46.0</b>

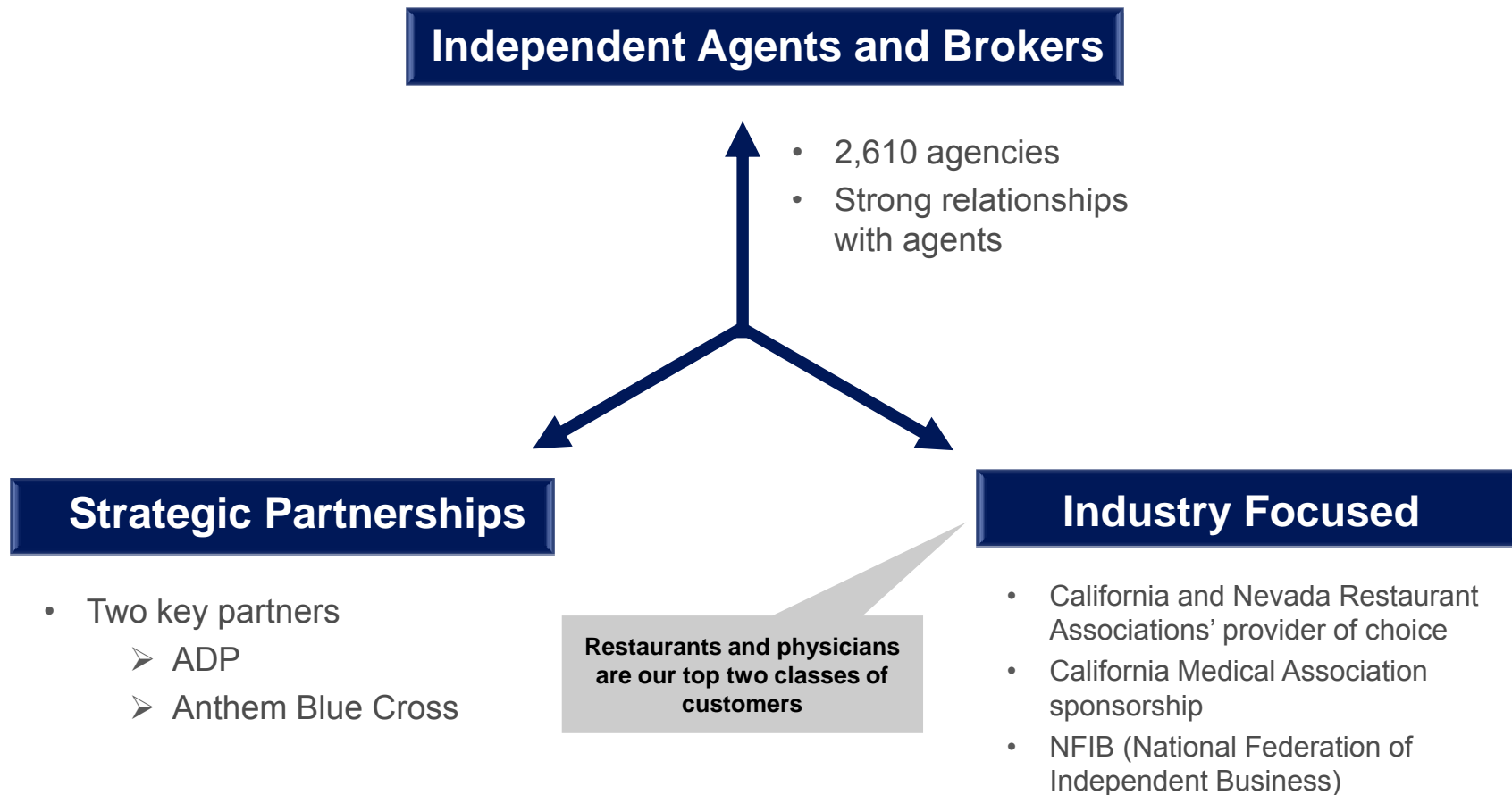


# Delivering Superior Loss Ratios



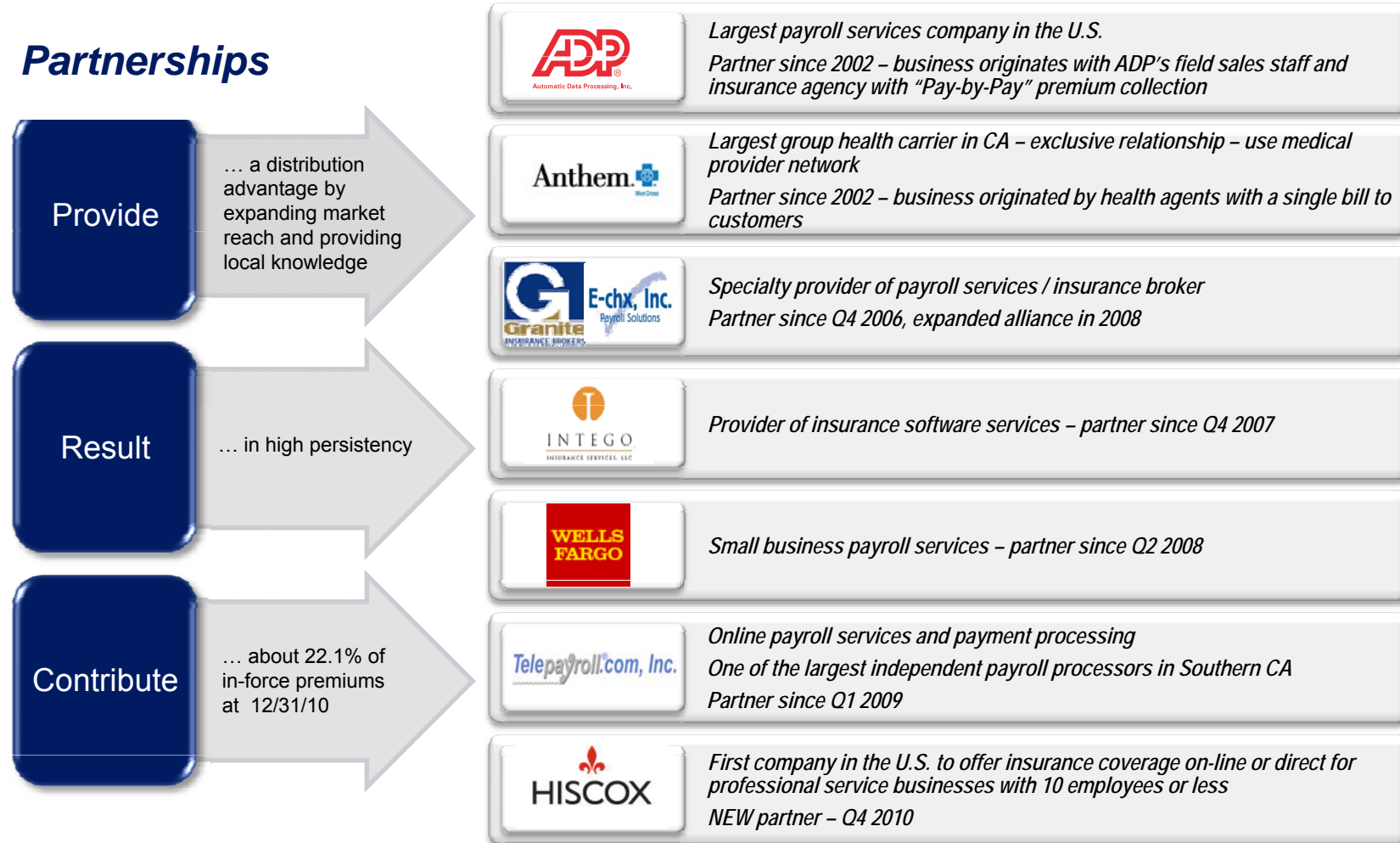
\* A.M. Best, "Aggregates and Averages" and "QAR" (For 2010, estimate based on first nine months)

# Unique Distribution Network



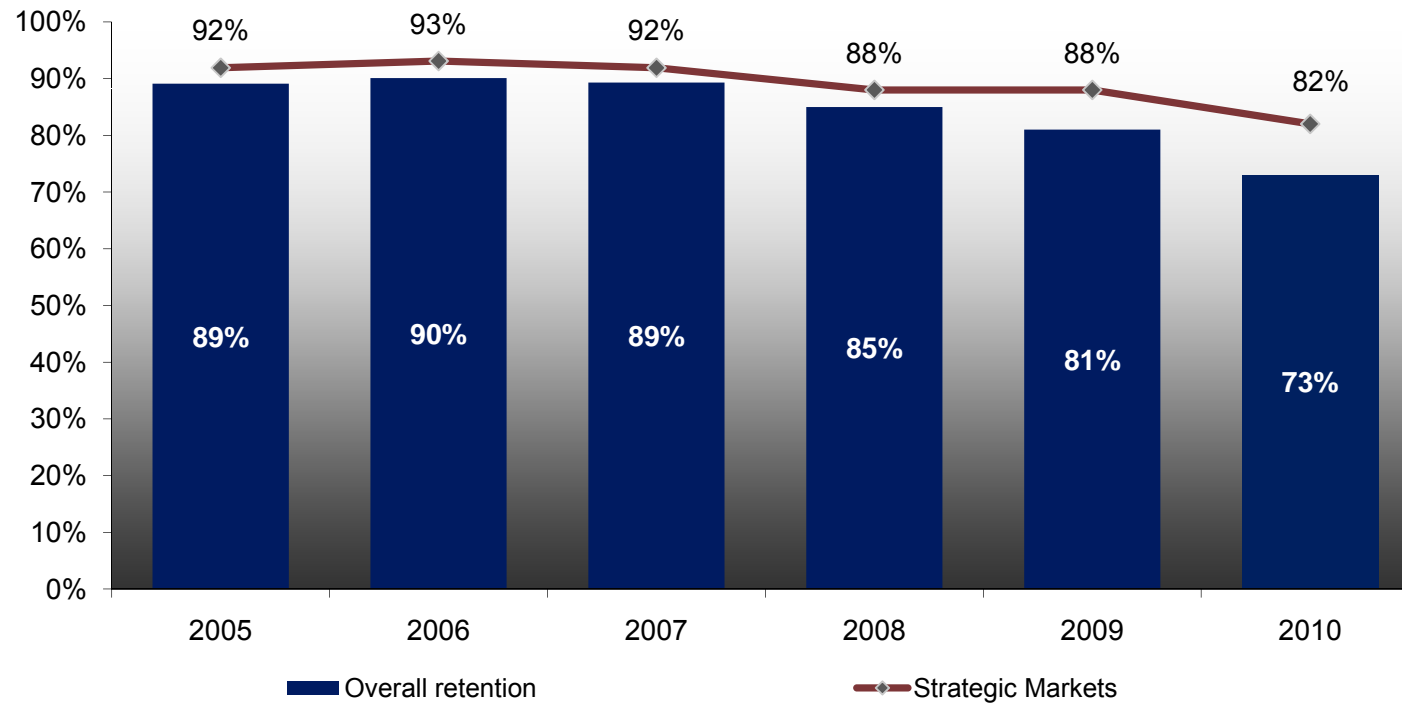
## Increasing Points of Access

### Partnerships



# Strong Retention Rates

*Strategic partnerships result in consistently higher retention rates*



## 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

- \$5.2 million savings in 2010

### Rigorous quality assurance processes

- Ensure compliance with best practices and regulatory requirements

### Dedicated subrogation unit

- Recoveries over \$2.9 million in 2010

### Pharmacy benefit management program

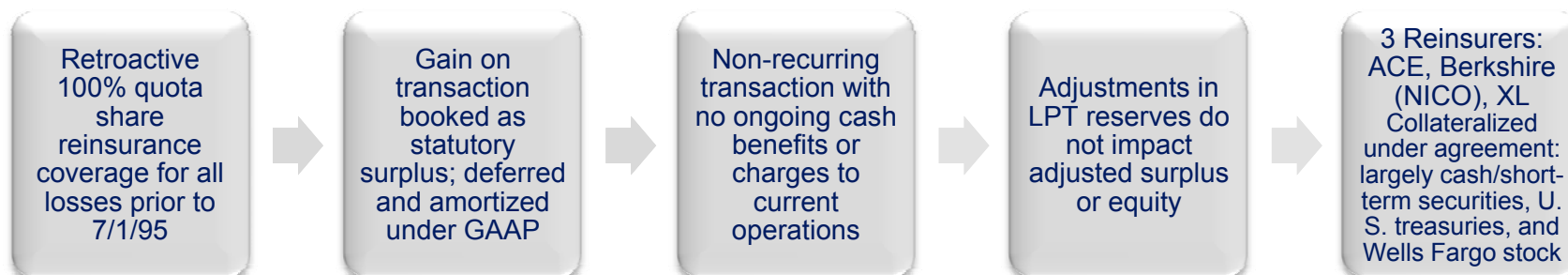
- Savings over \$3.1 million in 2010

### Claims professionals average over a decade of experience

## Key Highlights

<b>Net Income</b>	<ul style="list-style-type: none"><li>• Increased Q 4 2010 GAAP net income 25 cents per share or by 78.9% YOY</li><li>• Increased net income before the LPT 24 cents per share or by 132.6% YOY</li></ul>
<b>Net premiums written</b>	<ul style="list-style-type: none"><li>• Increased 8.4% in Q 4 2010 YOY</li></ul>
<b>Policy Count</b>	<ul style="list-style-type: none"><li>• Increased 1% YOY</li><li>• Increased 5.1% in California YOY</li></ul>
<b>Underwriting and other operating expense</b>	<ul style="list-style-type: none"><li>• Decreased Q 4 2010 \$13.2 million or 36.5% YOY</li><li>• Full year decrease of \$32.7 million or 23.6% compared with 2009</li></ul>
<b>Net Rate (change YOY)</b>	<ul style="list-style-type: none"><li>• Positive in California in 2010</li><li>• Negative 5% overall in 2010 compared with negative 7% in 2009</li></ul>
<b>Share Repurchases</b>	<ul style="list-style-type: none"><li>• Completed \$50 million in Q 3 2010 and announced \$100 million share repurchase program</li></ul>
<b>Book Value per Share</b>	<ul style="list-style-type: none"><li>• Book value per share growth of 6.8% since 12/31/09 from \$20.67 to \$22.08 at 12/31/10</li></ul>

# Loss Portfolio Transfer (LPT)



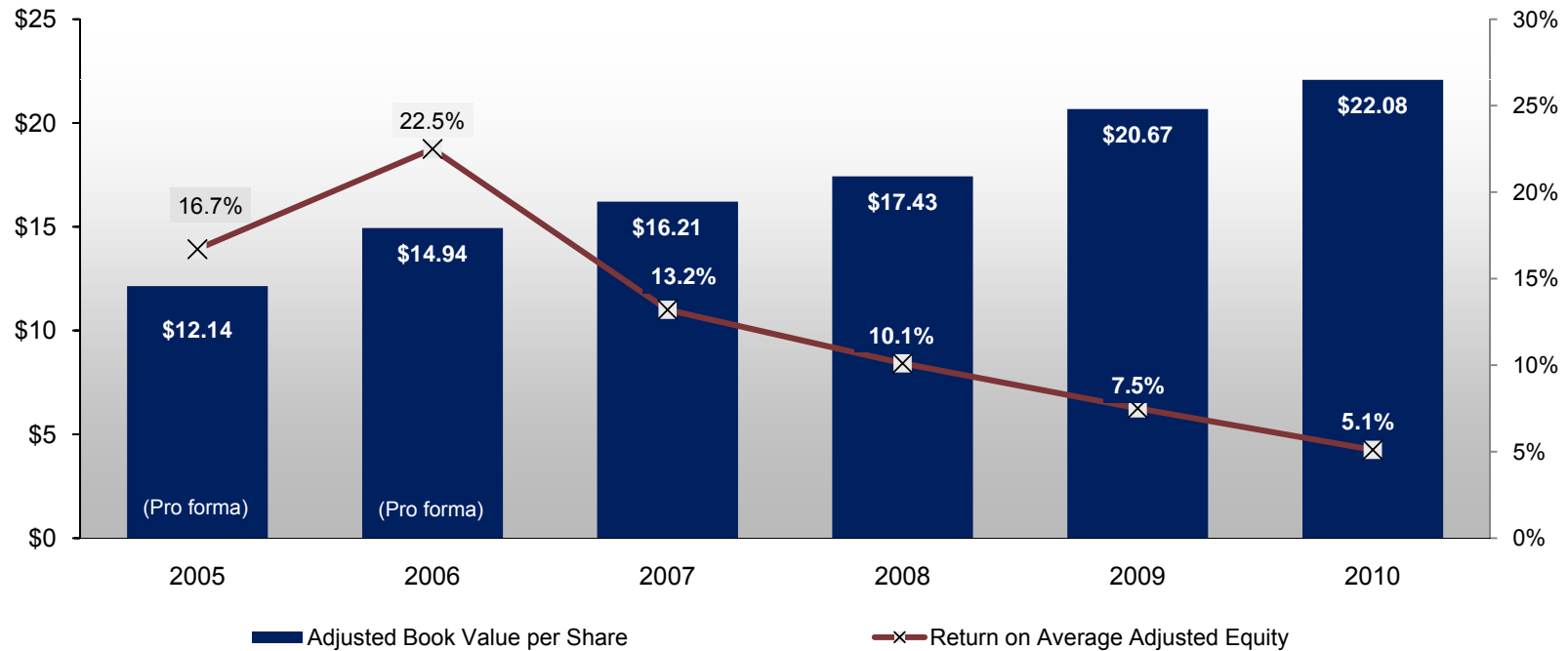
Contract	
	(\$ million)
Total Coverage	\$2,000
Original Reserves (Liabilities) Transferred	\$1,525
Consideration	\$ 775
Gain at 1/1/2000	750
Subsequent Reserve Adjustments	(147.5)
Gain at 12/31/10	\$602.5

Accounting at 12/31/10	
	(\$ million)
Statutory Surplus Created	\$602.5
Cumulative Amortization To Date	(232.2)
GAAP: Deferred Reinsurance Gain – LPT Agreement	<b>\$370.3</b>

**Claims 6/30/1995 and prior – Approximately 3,400 claims open as of 12/31/10 with 4.5% closing each year**

**Remaining liabilities at 12/31/10: \$846.7 million**

# 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



# History of Reserve Strength

Net reserves for workers' comp industry estimated to be deficient by \$9 Billion at 12/31/09 <sup>(1)</sup>

## Reserve Review



## Reserve Development

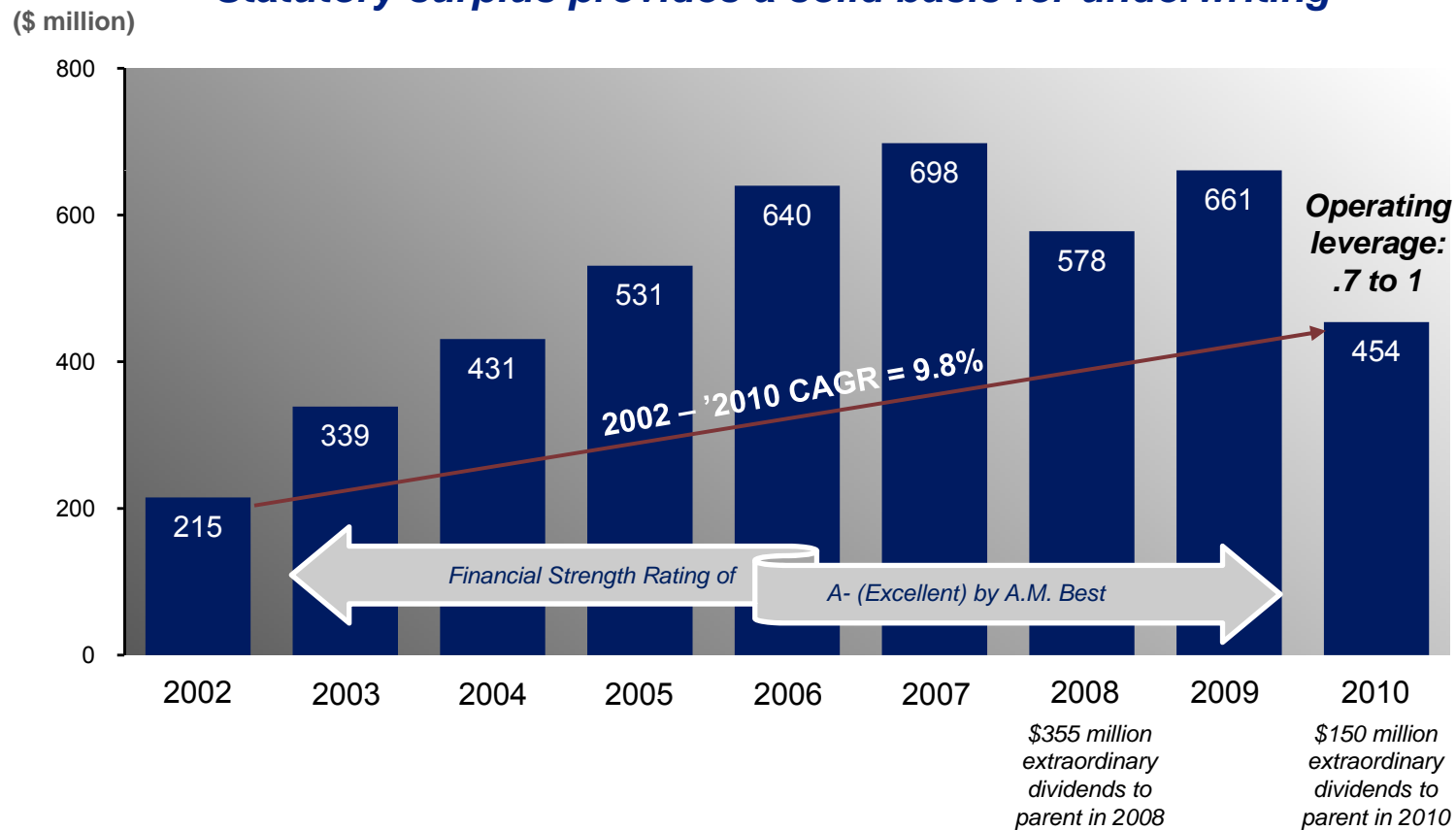
Net Calendar Year Reserve Releases for Prior Accident Years (\$ million)



(1) NCCI, "State of the Line" – May 6, 2010 – an increase of 50% from \$6 billion in 2008

# Strong Capital Position

*Statutory surplus provides a solid basis for underwriting*



## Prudent Capital Management

### Holding Company Flexibility at 12/31/10

- **Debt to total capital ratio – 13.3%**
- **\$375 million in cash and securities**

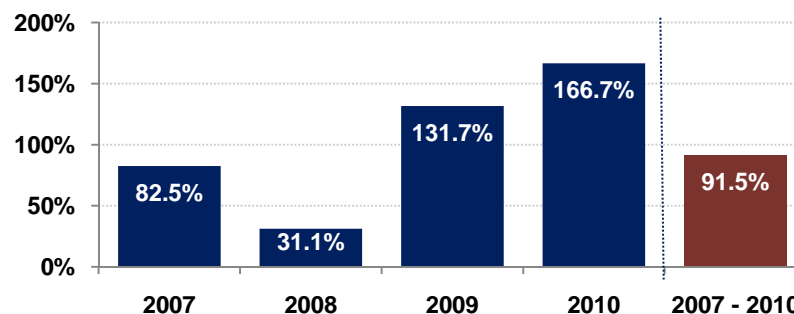
### Investing in the Future

- **Generating capital to invest in operations/securities**
- **Deploying capital – opportunistic acquisitions**
  - Acquired AmCOMP (October, 2008) – equity value \$189 million
- **Controlling costs**
  - Underwriting and other operating expense declined 36.5% year over year in the fourth quarter
  - TOTAL expected savings from cost controls: \$34 million beginning in 2011 (75% operating expense; 25% LAE)

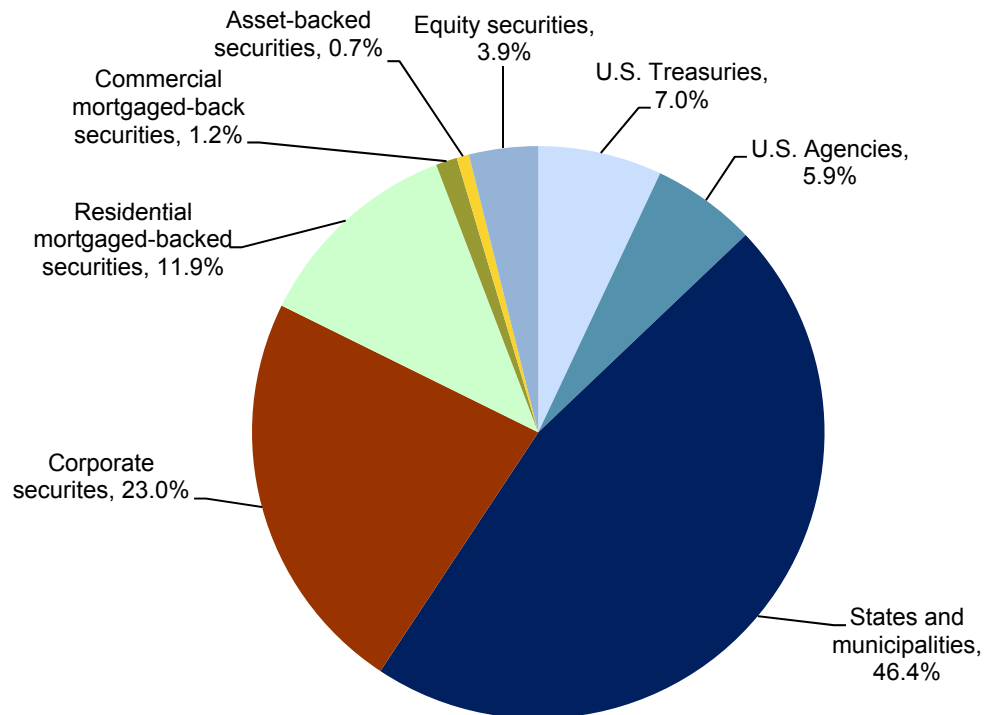
### Returning Capital to Shareholders

- **Dividends - \$0.24 per share or \$10 million per year – subject to Board approval**
- **Share Repurchases – in 2010, \$50 million program completed and \$14.4 million executed of the \$100 million authorized through June, 2012**

Common share repurchases and dividends as a percent of net income before the LPT



## High Quality Investment Portfolio



Portfolio at 12/31/10

### \$2.1 billion fair market value

- 96% fixed maturities with an average weighted rating of AA
- Average book yield of 4.2%
- Tax equivalent book yield of 5.3%
- Effective duration of 4.9
- Managed by Conning Asset Management

# 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

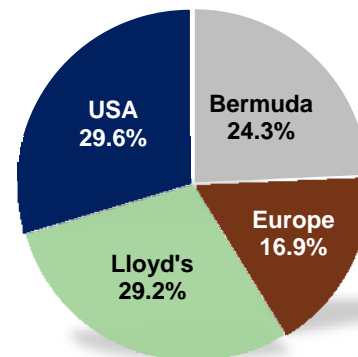
Rated A or better

## Program Structure, Effective 7/1/10

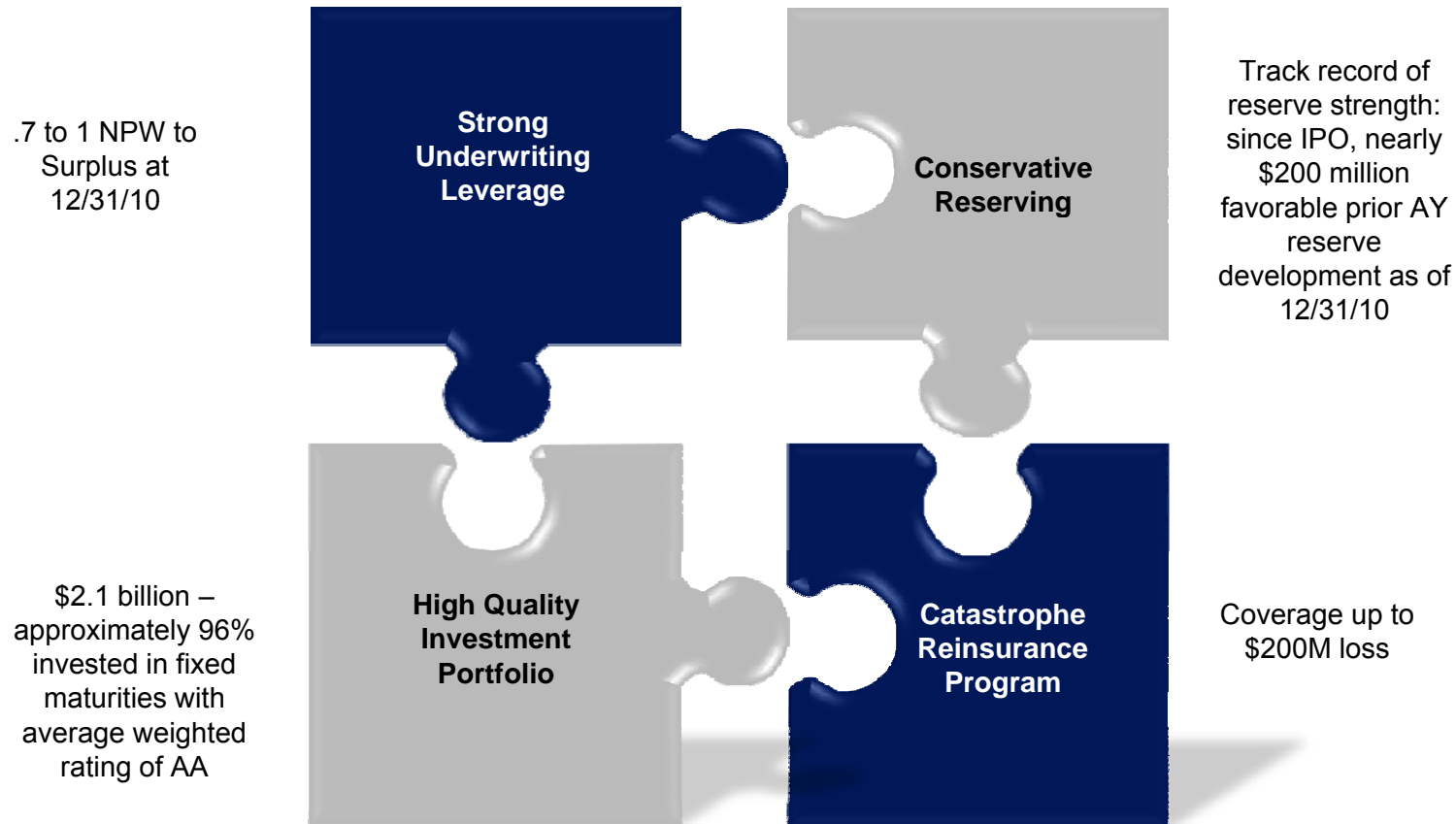
Limits of \$200M

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

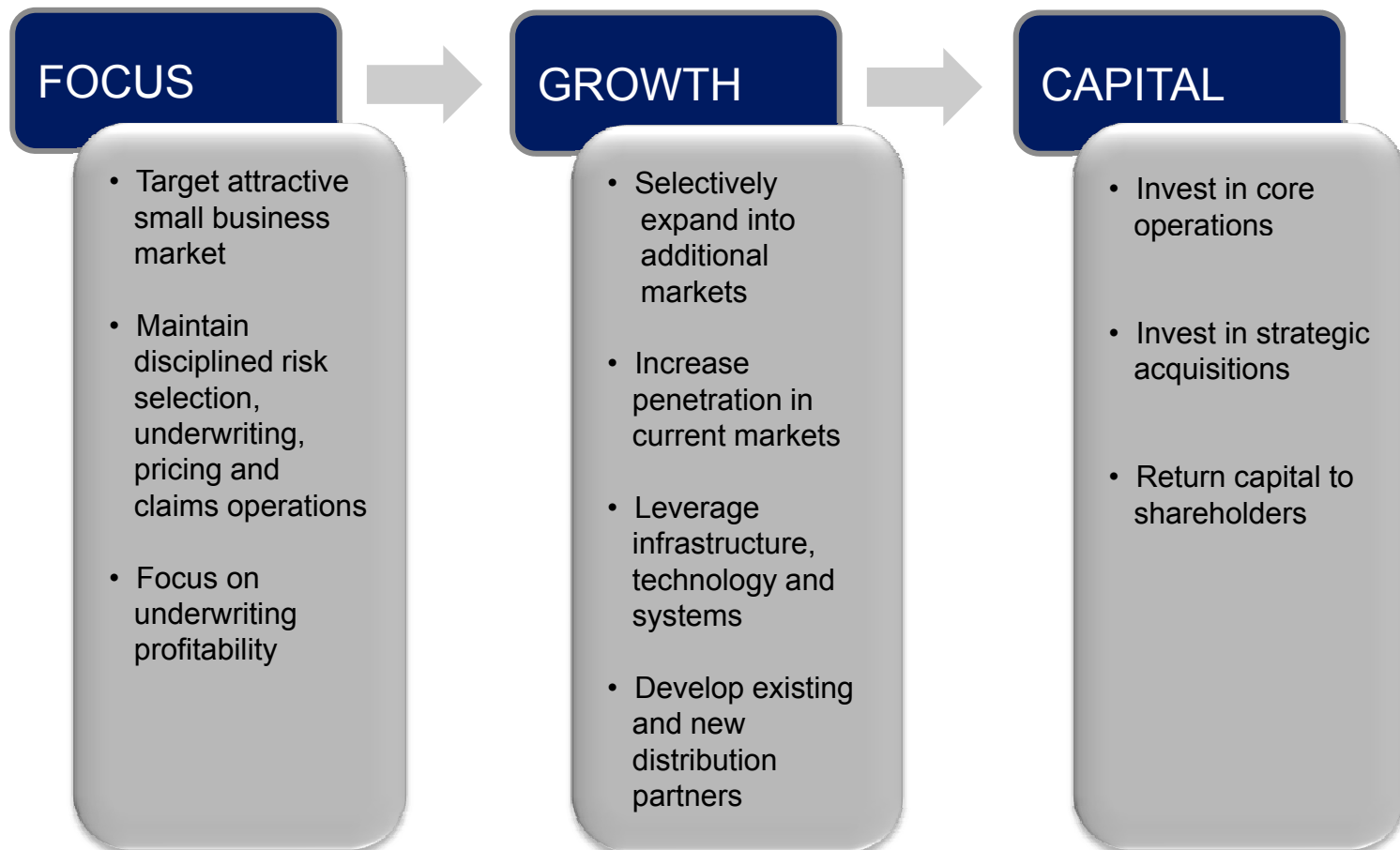
### Reinsurers by Market



## Summary of Financial Strength



## Key Strategies



## Key Strengths

- ***Strong underwriting franchise with established presence in attractive markets***
  - 98 year operating history – attractive, underserved target market segment with growth opportunities
- ***Unique, long-standing strategic distribution relationships***
- ***Conservative risk profile and prudent capital management***
- ***Strong financial position and strong balance sheet***
  - rated A- by A.M. Best
- ***Experienced management team with deep knowledge of workers' compensation***
  - average 28 years experience with the ability to manage through challenging operating conditions





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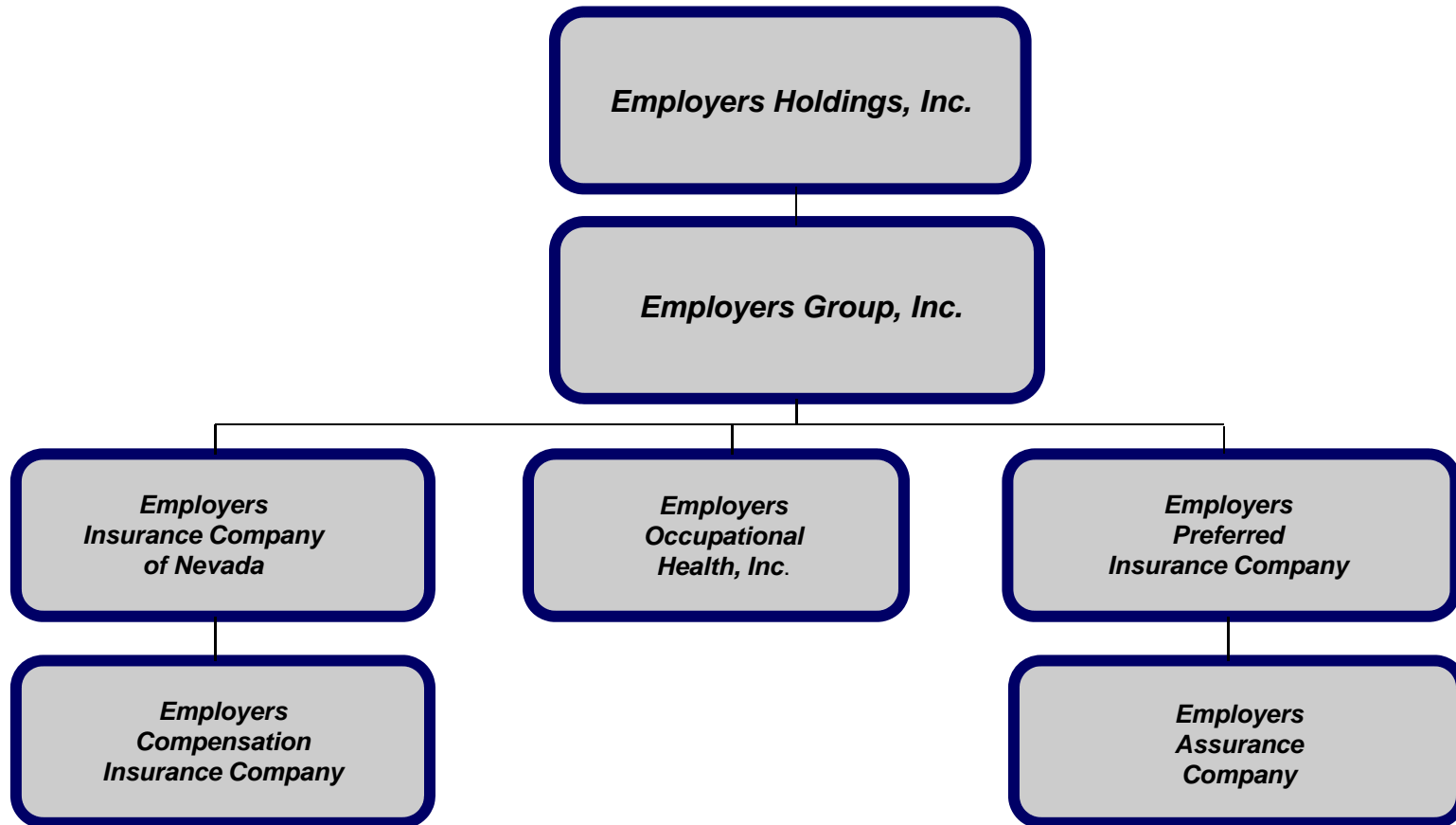
# Appendix

## Stock Ownership Limitations

As a reminder to investors, Employers Holdings, Inc. (EMPLOYERS) owns four insurance companies, domiciled in three 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, EMPLOYERS 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 EMPLOYERS, which was 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 EMPLOYERS 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 EMPLOYERS 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.

# Operating Organization



## Selected Operating Results

Income Statement (\$ million)	2005	2006	2007	2008	2009	2010
Gross Written Premium	\$ 451.4	\$ 386.8	\$ 351.8	\$ 318.4	\$ 379.9	\$ 322.3
Net Written Premium	432.5	372.2	339.7	308.3	368.3	313.1
Net Earned Premium	438.3	393.0	346.9	328.9	404.2	321.8
Net Investment Income	54.4	68.2	78.6	78.1	90.5	83.0
Net Income	137.6	171.6	120.3	101.8	83.0	62.8
Net Income Before LPT	93.8	152.2	102.2	83.4	65.0	44.6
Balance Sheet (\$ million)	2005	2006	2007	2008	2009	2010
Total Investments	\$ 1,595.8	\$ 1,715.7	\$ 1,726.3	\$ 2,042.9	\$ 2,029.6	\$ 2,080.5
Cash and Cash Equivalents *	61.1	80.0	149.7	202.9	191.6	136.8
Total Assets	3,188.8	3,266.8	3,264.3	3,825.1	3,676.7	3,480.1
Reserves for Loss and LAE	2,350.0	2,307.8	2,269.7	2,506.5	2,425.7	2,279.7
Shareholders' Equity	144.6	303.8	379.5	444.7	498.4	490.1
Equity Including LPT Deferred Gain	607.0	746.8	804.5	851.3	887.0	860.5

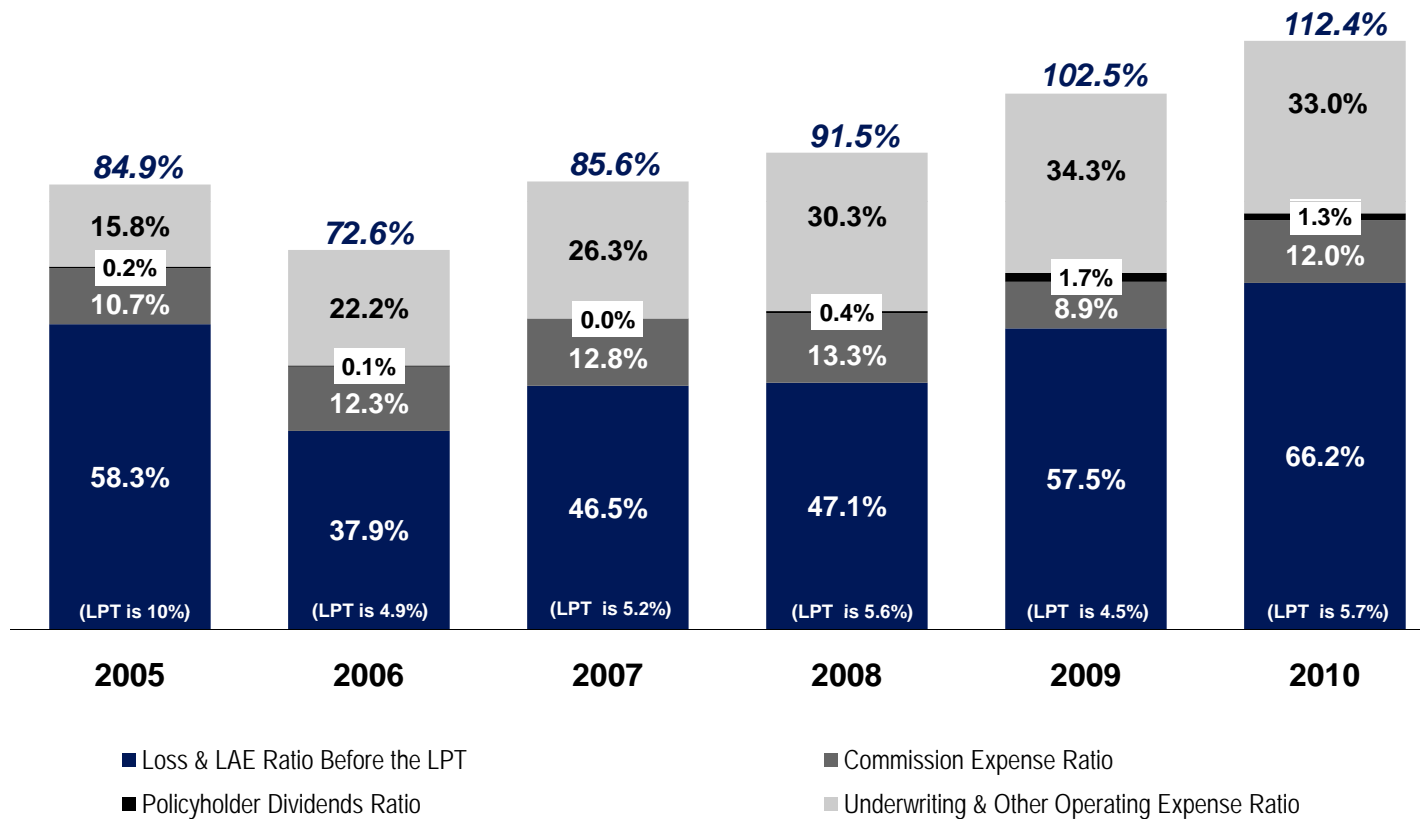
\* Includes Restricted cash and cash equivalents

## Selected Quarterly Operating Results

<b>INCOME STATEMENT</b> (\$ million except per share)	<b>Q 1 2010</b>	<b>Q 2 2010</b>	<b>Q3 2010</b>	<b>Q 4 2010</b>
Net premiums earned	79.3	78.2	80.7	83.6
Net investment income	21.3	20.6	20.7	20.4
GAAP net income	16.1	16.5	10.1	20.1
Net income before the LPT	11.7	12.1	5.3	15.4
Earnings per share before the LPT	0.27	0.29	0.13	0.39
<b>BALANCE SHEET (\$ million)</b>	<b>3/31/10</b>	<b>6/30/10</b>	<b>9/30/10</b>	<b>12/31/10</b>
Total investments	2,027.4	2,012.3	2,084.2	2,080.5
Cash and cash equivalents *	190.3	193.1	144.0	136.8
Total assets	3,651.5	3,614.2	3,583.2	3,480.1
Reserves for loss and LAE	2,393.9	2,359.4	2,325.8	2,279.7
Shareholders' equity	509.2	521.3	528.8	490.1
Equity including LPT deferred gain	893.4	901.1	903.8	860.5
<b>UNDERWRITING</b>	<b>Q 1 2010</b>	<b>Q 2 2010</b>	<b>Q3 2010</b>	<b>Q 4 2010</b>
Loss ratio before LPT	56.3%	63.2%	71.3%	73.5%
Combined ratio before LPT	111.3%	107.4%	117.5%	113.3%
Change in net rate (premium in-force/insured payroll)	-5% (since 6/30/09)	-6% (since 6/30/09)	-6% (since 9/30/09)	-5% (since 12/31/09)
Change in insured payroll	-17% (since 6/30/09)	-16% (since 6/30/09)	-15% (since 9/30/09)	-12% (since 12/31/09)
<b>FINANCIAL</b>	<b>3/31/10</b>	<b>6/30/10</b>	<b>9/30/10</b>	<b>12/31/10</b>
Book value per share	\$20.91	\$21.63	\$22.69	\$22.08
Return on average adjusted equity (12 mos.)	6.9%	6.4%	3.9%	5.1%

\* Includes Restricted cash and cash equivalents

# Calendar Year Combined Ratio





# Filed Rate Changes: 04/01/10 thru 03/15/11

