



# Employers Holdings, Inc.

Sidoti & Company, LLC

Seventeenth Annual Emerging Growth Research Institutional Investor Forum

March 18, 2013



# Regulation FD

This slide presentation is for informational purposes only. It should be read in conjunction with our Form 10-K for the year 2012, 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 2012, 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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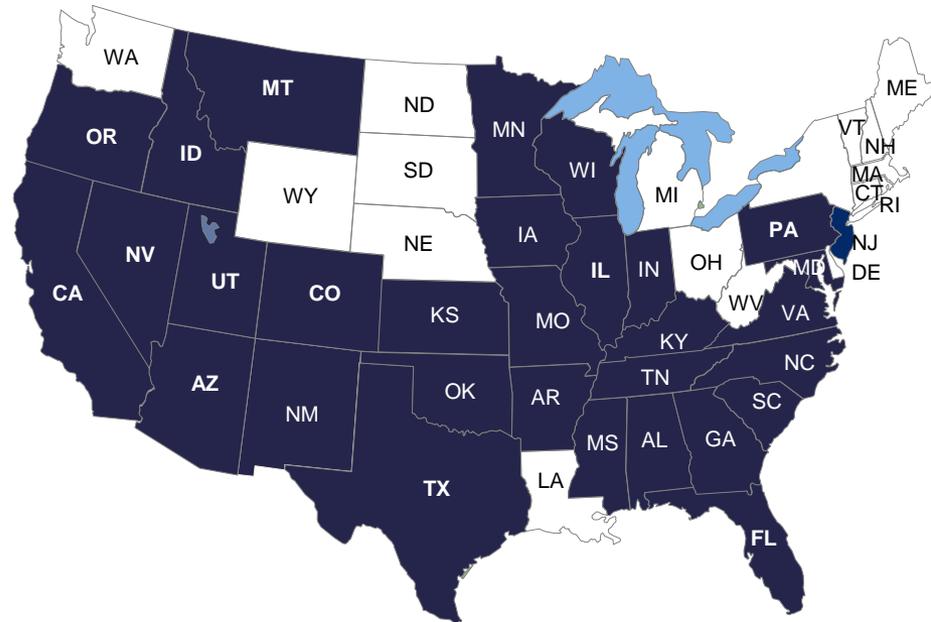


# Overview

- Workers' compensation mono-line writer
- 15<sup>th</sup> largest private writer in 2011, 18<sup>th</sup> largest overall
- Focus on small, low to medium hazard risks

- Distribution through agents and strategic partners
  - 4,120 agents = 77% in-force premium
  - Strategic partners = 22.6% in-force premium (principally ADP and Anthem Blue Cross of California)

- Writing in 31 states and the District of Columbia
  - Expanded into New Jersey in 2011
  - Operate in 76% of total market (2011 A.M. Best)



**At December 31, 2012**

**Average policy size: \$6,732**

**In force Premium**

**\$537 million**

CA = 59%

IL = 6%

GA = 4%

FL = 3%

NV = 3%

**Policy Count**

**79,814 Policies**

CA = 46,829

IL = 3,302

GA = 3,150

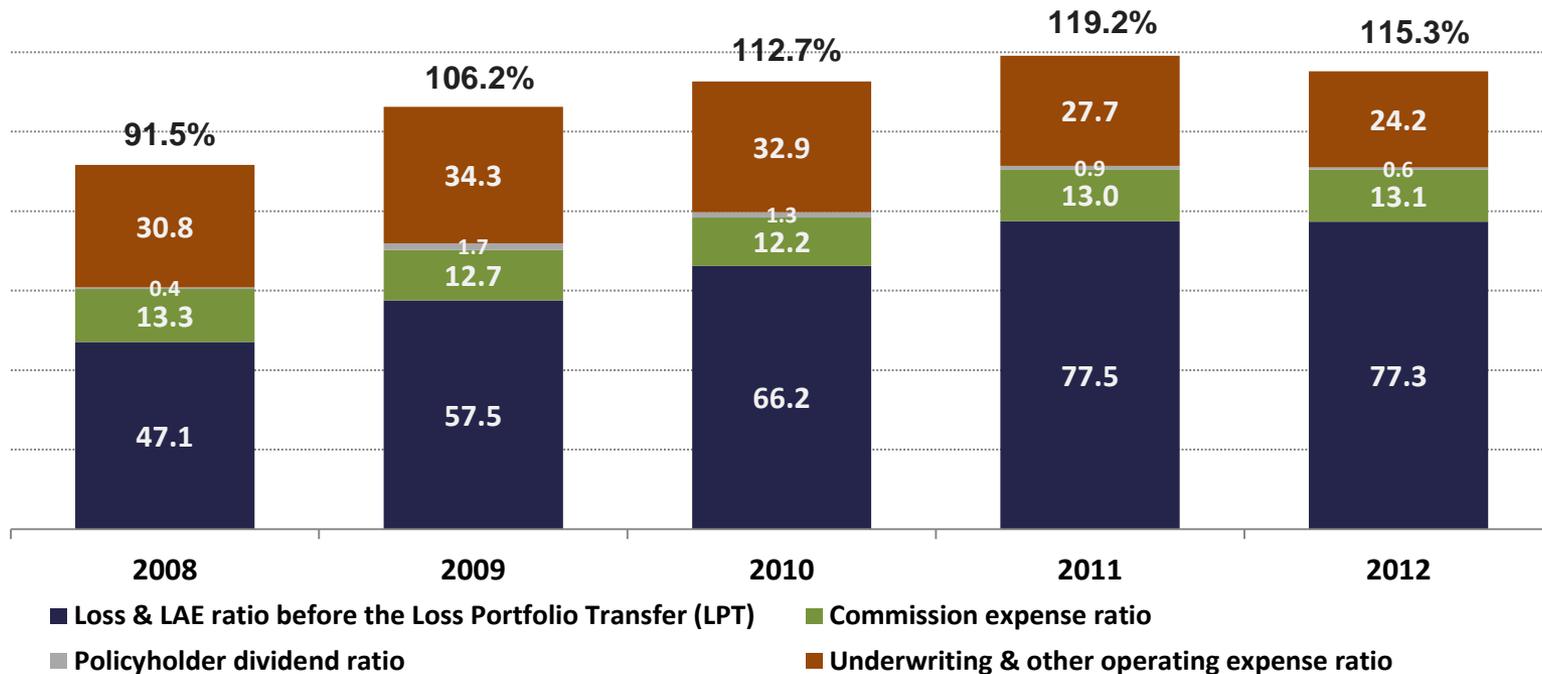
FL = 2,918

NV = 3,876



# Improving Calendar Year Combined Ratio

- Combined and underwriting expense ratios trending down with implementation of cost controls and increasing earned premiums; historically low annual expense ratio
- Loss ratios impacted by loss provision rates in the high seventies in 2011 and 2012 and increasing earned premiums
- Rate trends currently exceeding loss trends; plan to decrease loss provision rates incrementally throughout 2013 if rate objectives are achieved

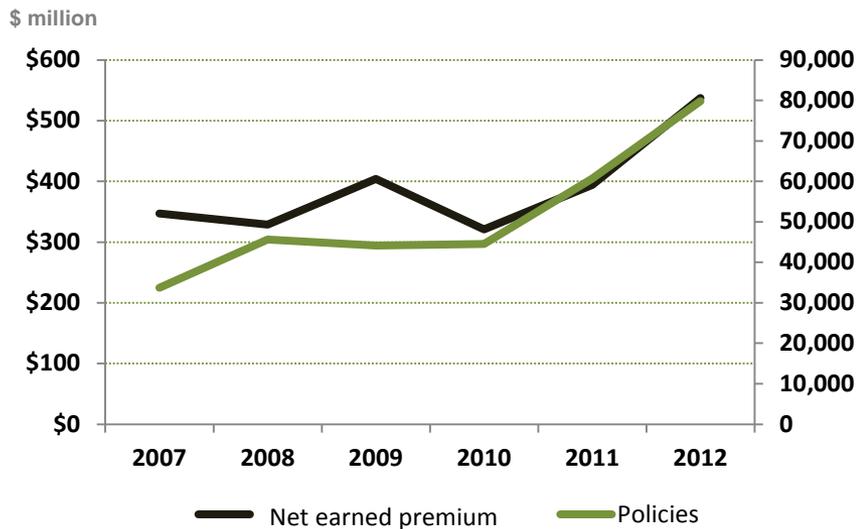


*Includes adjustments to the LPT Agreement deferred gain for favorable prior period development of ceded reserves and the LPT contingent profit commission (see Forms 8-K dated February 27, 2013 and Form 10-K for the period ending December 31, 2012)*

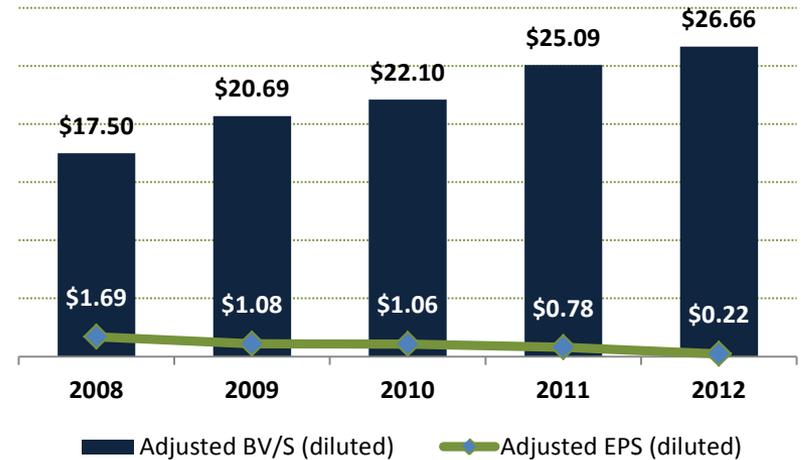
# Growth

- Substantial increases in net earned premium
  - Policy count increases of 32% and 36% in 2012 and 2011 YOY
  - Increase of 8% in net rate for 2012 YOY
- Growth of 6% YOY in adjusted book value
- EPS impacted by historically low yields and high loss provisions in recent years

## Substantial growth in recent years



## Adjusted book value and adjusted EPS

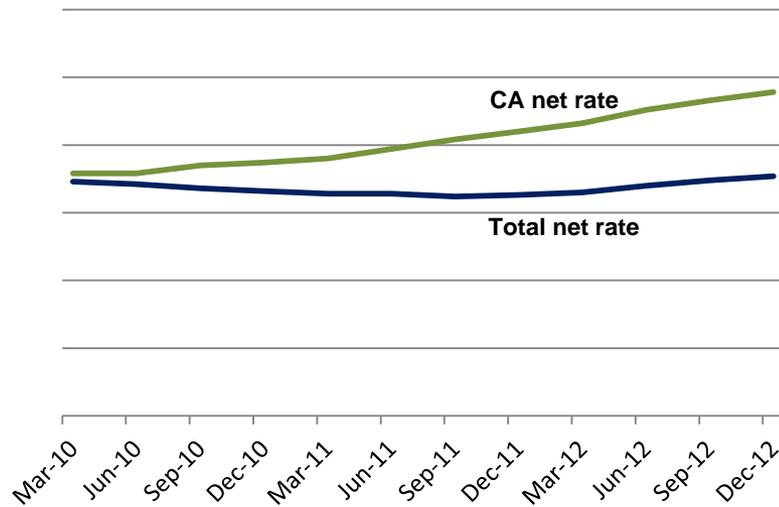


*(adjusted and restated for impacts of the LPT)*

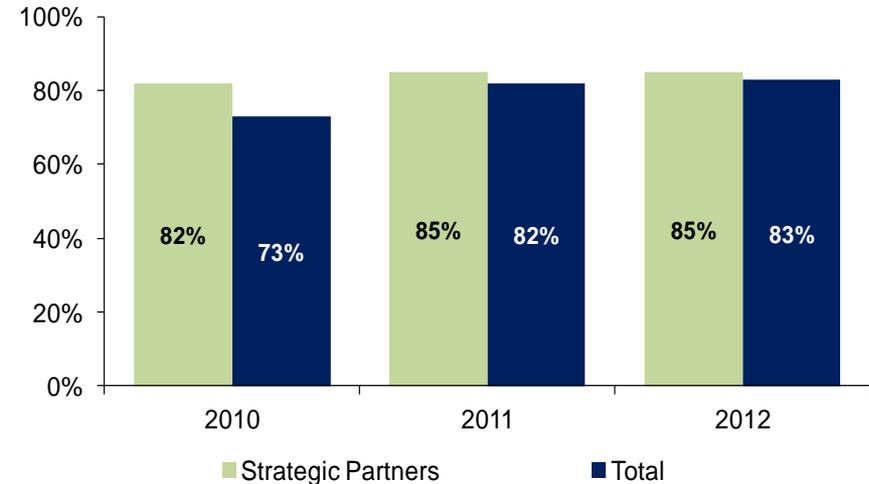
# Improving Rate and Stable Retention

- OVERALL change in net rate up 8.3% at year-end 2012 YOY
  - Many variables impact net rate including rate changes, underwriting risk profiles, pricing, changes in business mix
- Positive net rate change in top five states (California, Illinois, Georgia, Florida and Nevada) and overall at year-end 2012 YOY
- Policy retention stable

## Net rate (in-force premium per \$100 of payroll) increasing

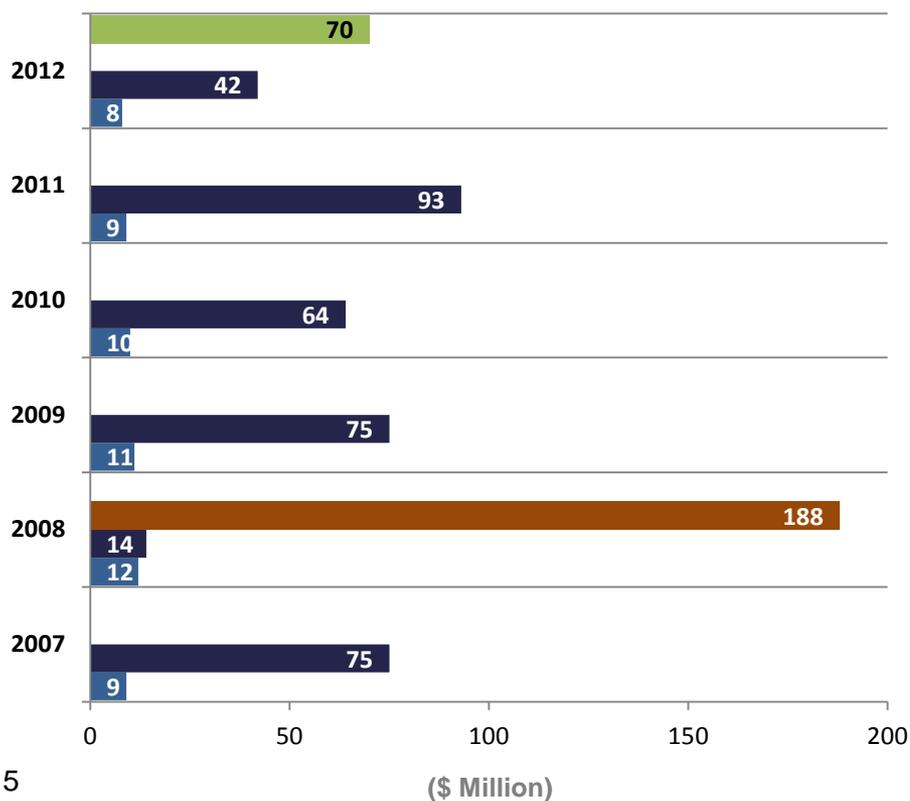


## Consistently high retention



# Capital Deployment

- Three uses of capital - \$216 million at 12/31/2012 in cash and securities at holding company - \$680 million deployed 2007 through 2012
  1. Deploy into the business
  2. Opportunistic acquisitions/mergers
  3. Return to shareholders
    - Share repurchases and dividends from 2007 through 2012 represent 120% of net income before the LPT



## Deploy in business

\$70 million paid to operating subsidiaries in September 2012 to support growth and financial ratings

## Strategic acquisitions

\$188 million purchase of AmCOMP Inc. in 2008 expanded footprint, increased scale

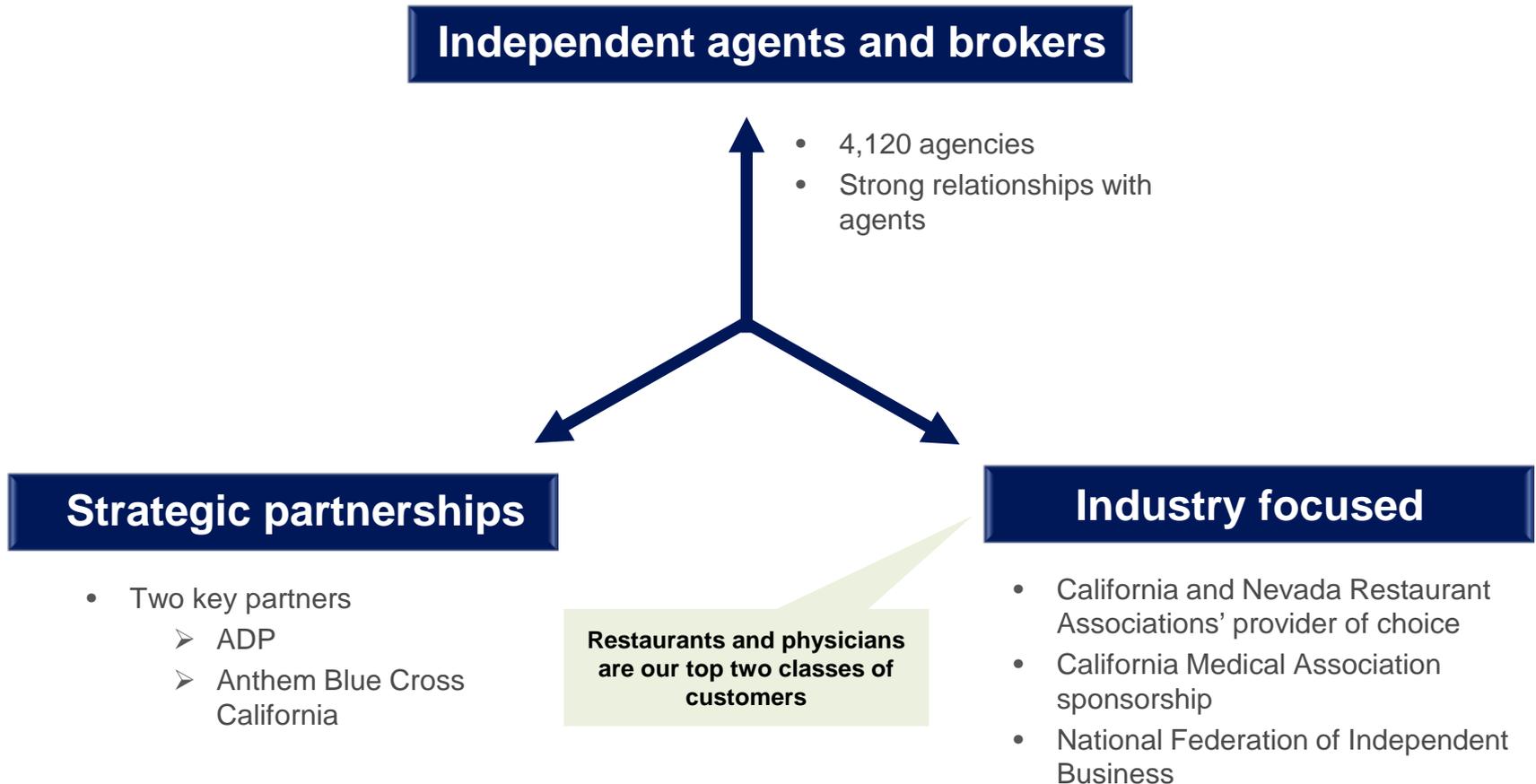
## Share repurchases

\$363 million returned to shareholders, 23.4 million common shares at an average price of \$15.51, 2007 through 2012

## Dividends

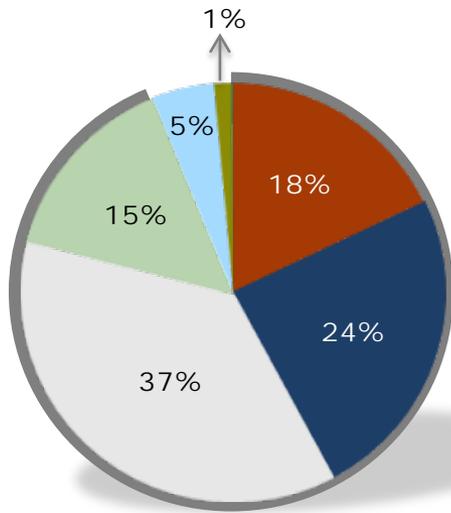
\$59 million in dividends, historically stable quarterly dividend of 6 cents per share, 2007 through 2012

# Unique Distribution Network



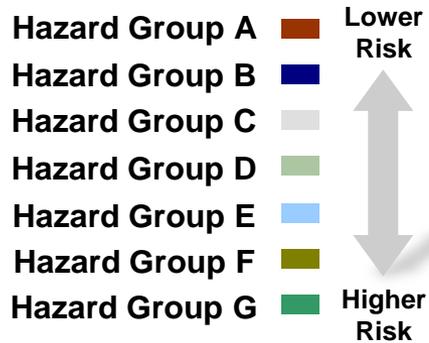
# Low Risk Focus

*Underwriting focus on select low hazard groups A - D*

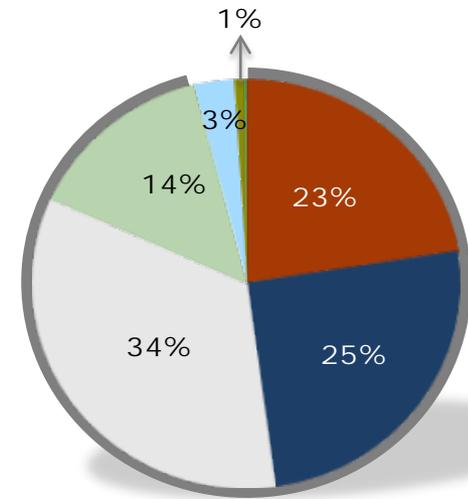


Hazard Group % at Dec. 31, 2011  
94% in Hazard Groups A – D

## NCCI Hazard Groups



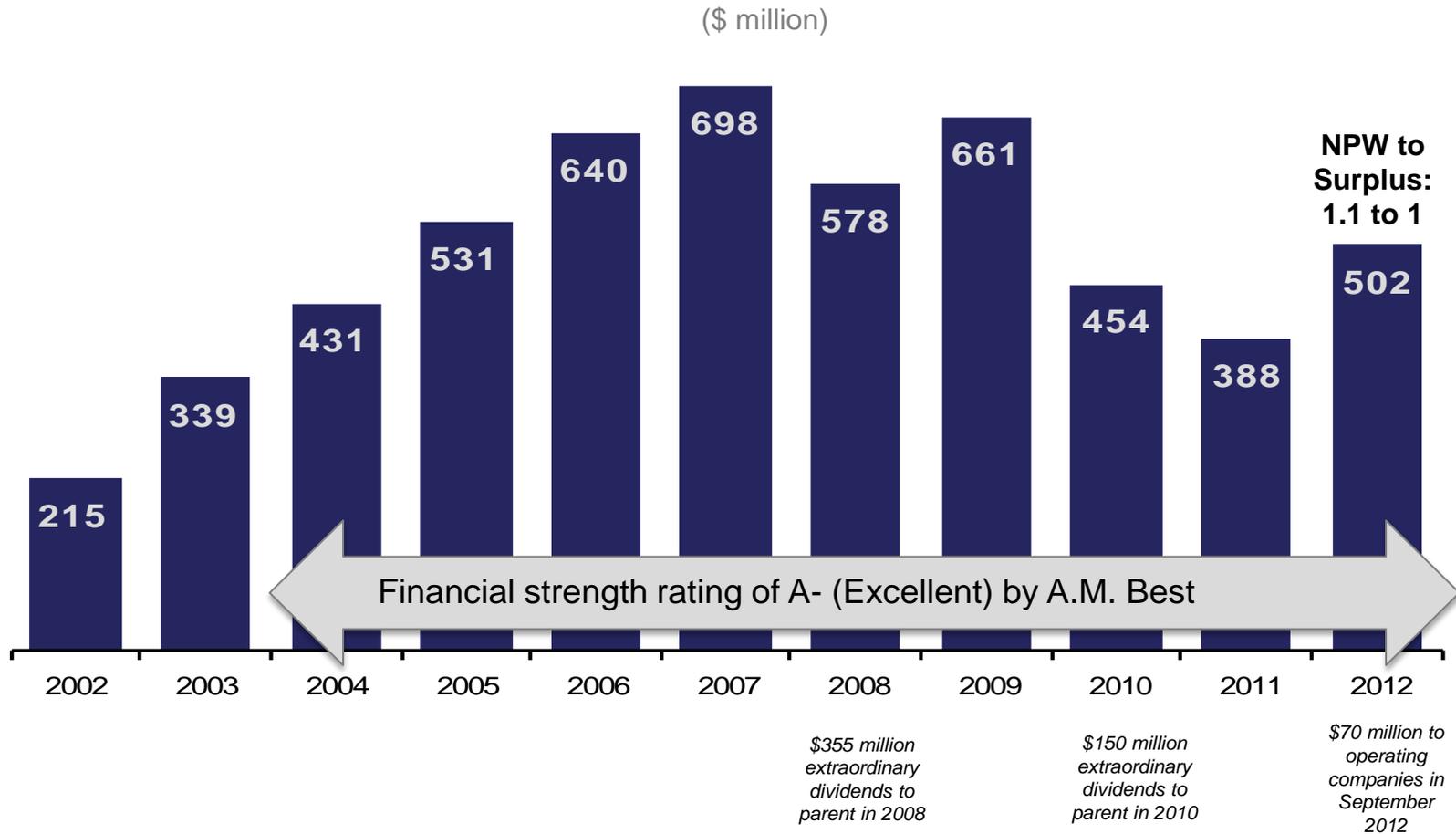
Data shown as a % of in force premiums



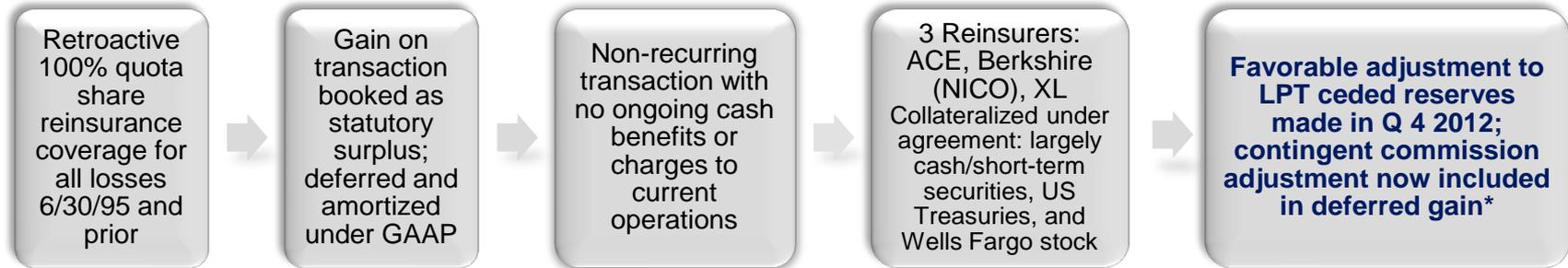
Hazard Group % at Dec. 31, 2012  
96% in Hazard Groups A – D

# Strong Capital Position

*Statutory surplus provides a solid basis for underwriting*



# 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 adjustments to the gain*	\$ (204)
Gain at 12/31/12	\$ 546

Accounting at 12/31/12	
	(\$ million)
Statutory Surplus Created	\$546
Cumulative Amortization To Date	(265)
GAAP: Deferred Reinsurance Gain – LPT Agreement	<b>\$281</b>

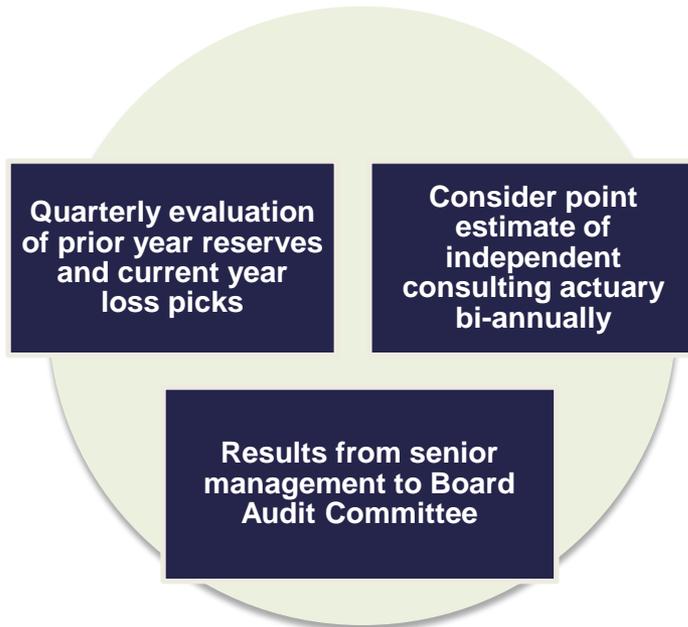
*Claims 6/30/1995 and prior – Approximately 3,064 claims open as of 12/31/12 with 4.5% closing each year*

*Remaining liabilities at 12/31/12: \$672 million*

*\*Any adjustment to the estimated reserves ceded under the LPT Agreement or any adjustment to the contingent profit commission under the LPT Agreement results in cumulative adjustments to the Deferred Gain, which are also included in losses and LAE incurred in the consolidated statement of income and comprehensive income, such that the Deferred Gain reflects the balance that would have existed had the revised reserves and/or the revised contingent profit commission been recognized at the inception of the LPT Agreement.*

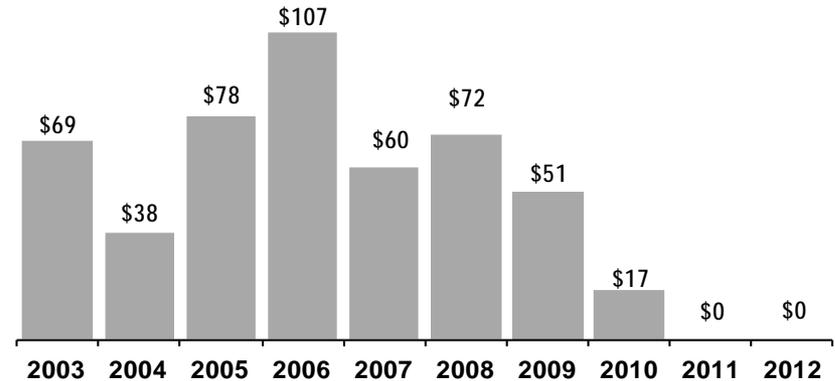
# History of Reserve Strength

## Reserve review



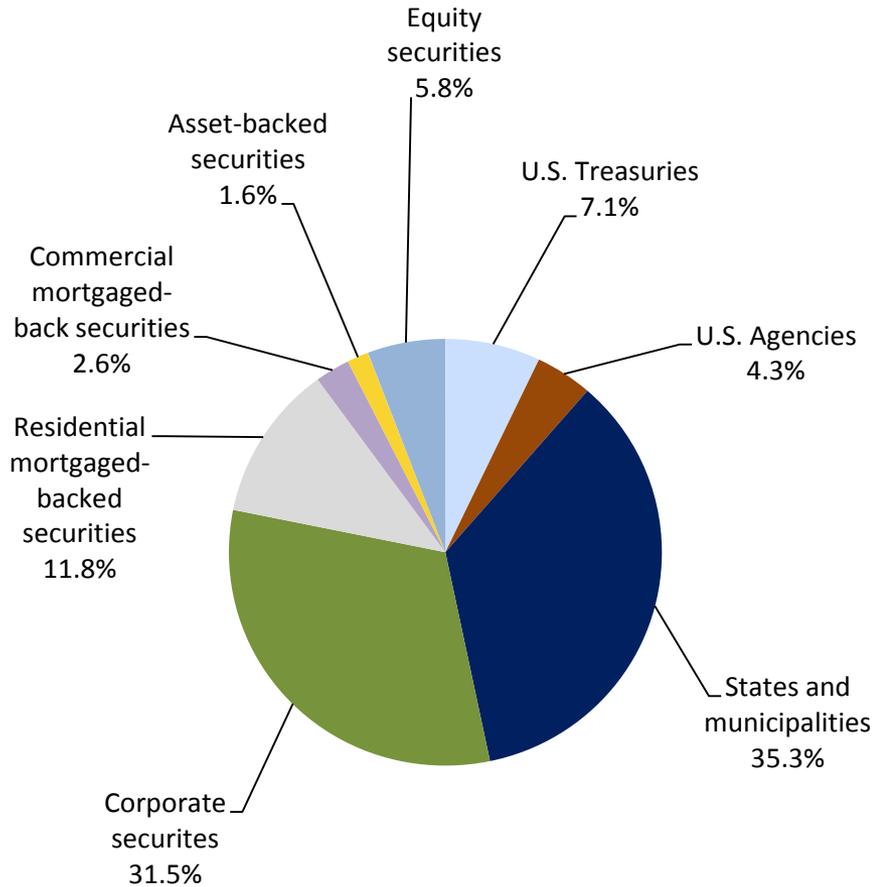
## Reserve development

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



*No favorable prior period development for voluntary business since the second quarter of 2010 – overall reserves have remained adequate*

# High Quality Investment Portfolio



**12/31/2012: \$2 billion fair market value**

- Fixed maturities have an average weighted rating of AA-
- 65.9% of the market value of our fixed maturities - rated AA or better
- 3.7% average book yield
- 4.4% tax equivalent book yield
- Effective duration of 4.2

# 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

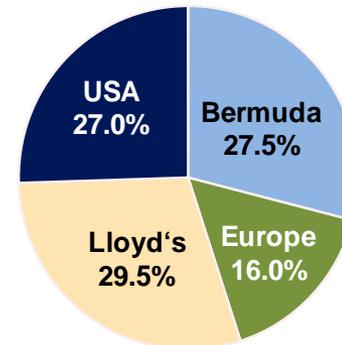
Rated A or better

## Program structure, effective 7/1/12

Limits of \$200M

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

## Reinsurers by Market



# Key Strengths



- **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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**EIG**  
**LISTED**  
**NYSE**



# Appendix

# Corporate Structure



# Operating Conditions

## Economic conditions

- High unemployment and underemployment
- Improved work hours
- Historically low investment yields

## Workers' compensation market

- High combined ratios
- Firming market
- Rate increases in largest markets

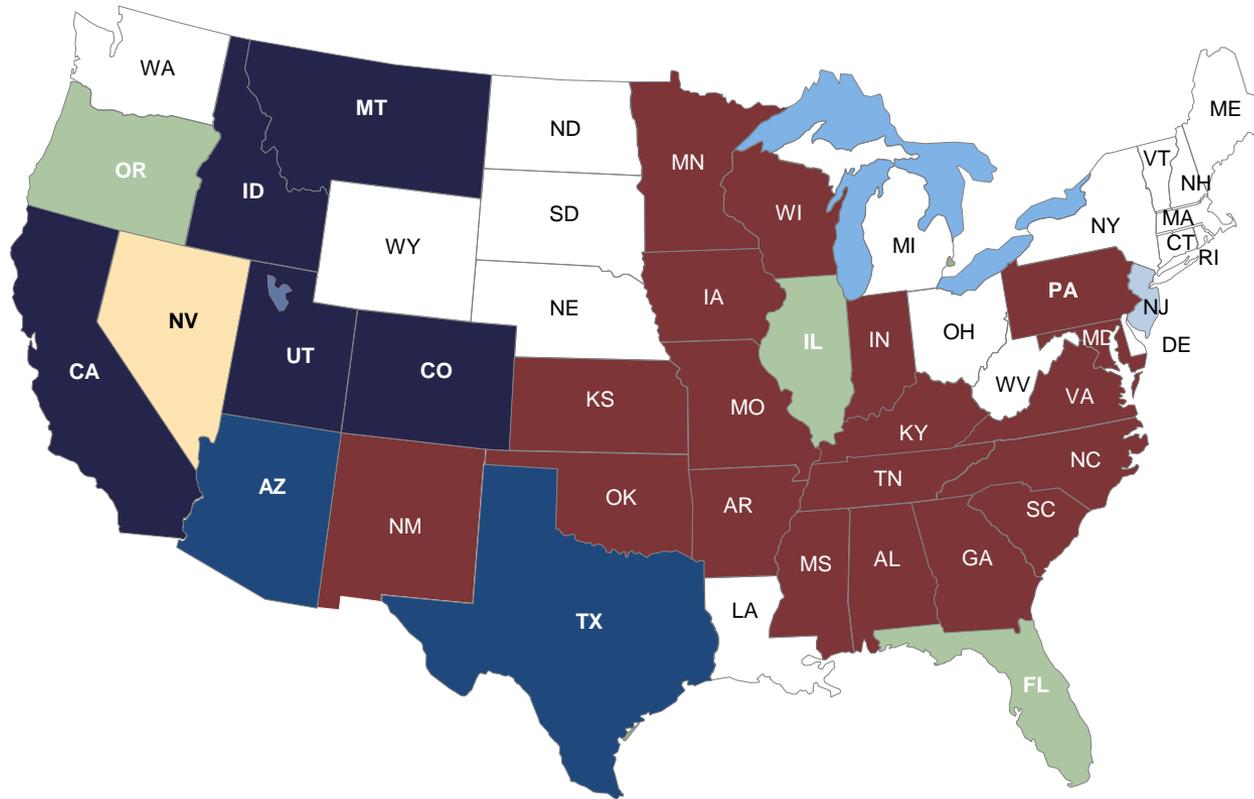
## P & C Segment

- Over capitalization
- Improving pricing

## EHI: solid financial position

- Significant capital
- Stable investment portfolio

# Selectively Expanding Footprint



2000
  2002
  2006
  2007
  2008
  2009–2012

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 – 2012  
Focus on  
growth in  
existing states;  
entry into New  
Jersey

## HISTORY

# Ongoing Distribution Network

## Partnerships

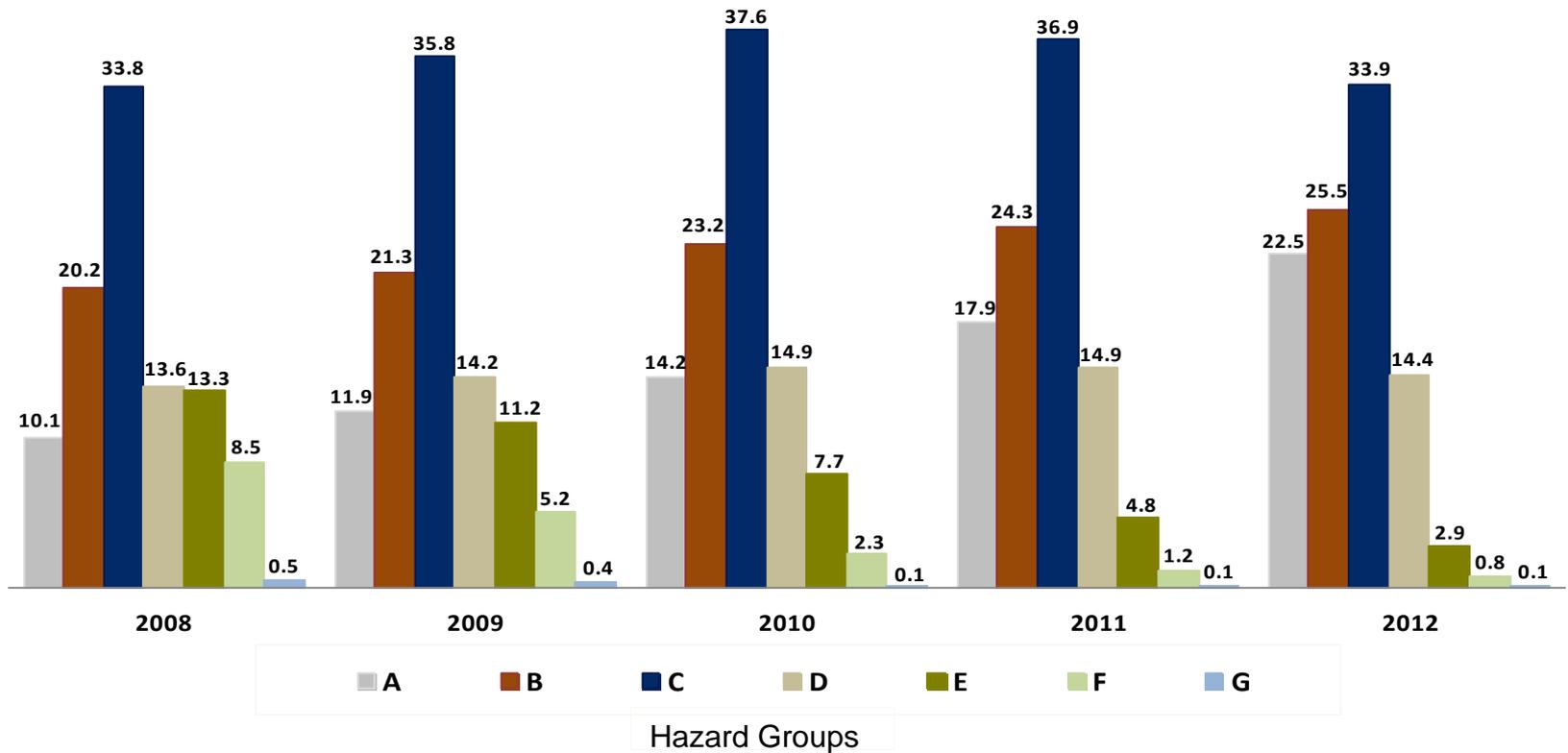


	<i>Largest payroll services company in the U.S. Partner since 2002 – business originates with ADP’s field sales staff and insurance agency with “Pay-by-Pay®” premium collection</i>
	<i>Largest group health carrier in CA – exclusive relationship – use medical provider network - Partner since 2002 – business originated by health agents with a single bill to customers</i>
	<i>Specialty provider of payroll and human resource services, 2<sup>nd</sup> largest payroll provider in U.S. Partner since Q 4 2012</i>
	<i>Specialty provider of payroll services / insurance broker Partner since Q4 2006, expanded alliance in 2008</i>
	<i>Provider of insurance software services – partner since Q4 2007</i>
	<i>Small business payroll services – partner since Q2 2008</i>
	<i>Online payroll services and payment processing One of the largest independent payroll processors in Southern CA Partner since Q1 2009</i>
	<i>First company in the U.S. to offer insurance coverage on-line or direct for professional service businesses with 10 employees or less Partner – Q4 2010</i>
	<i>New Partnerships</i>

# Business Mix

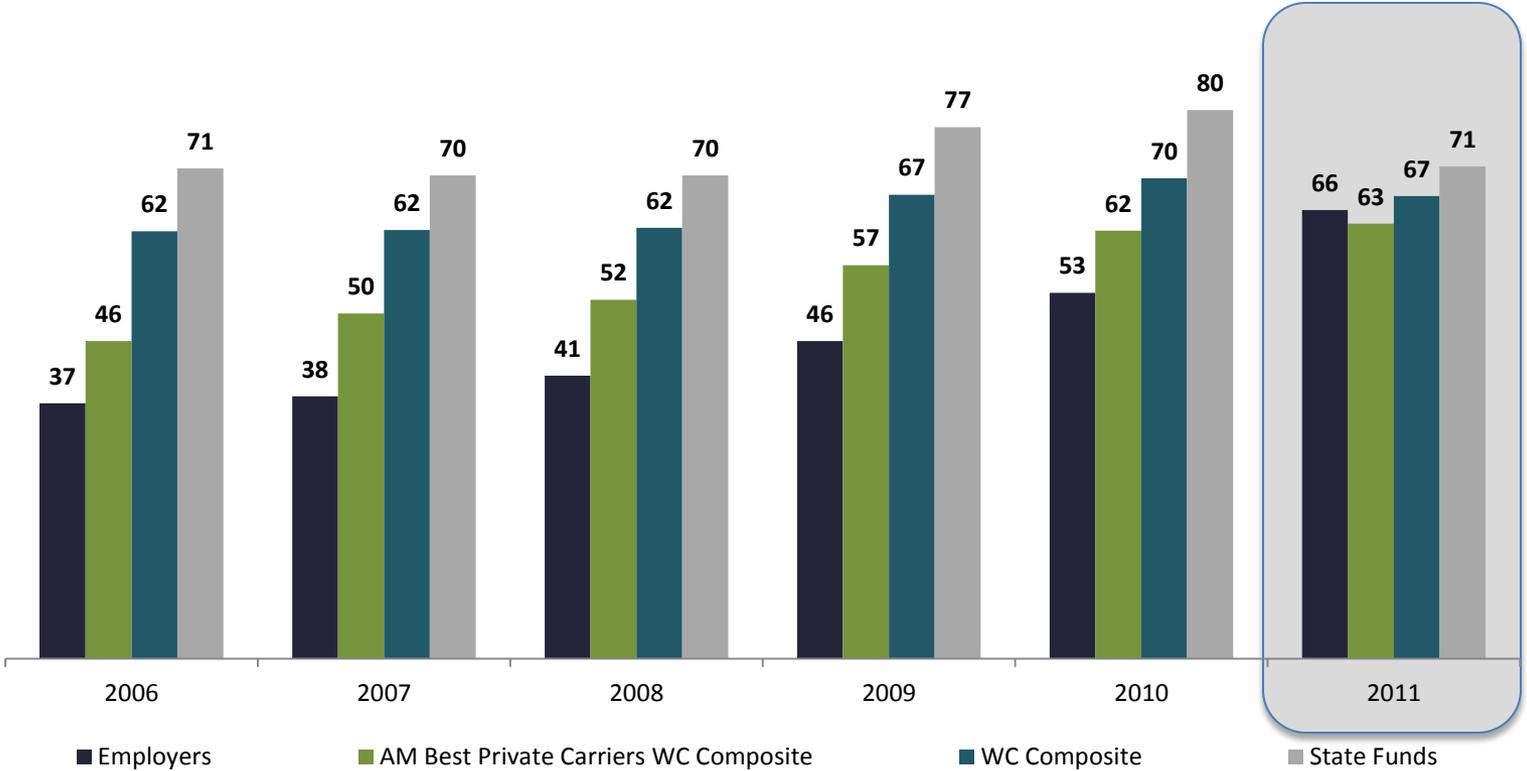
## % of In-Force Premium by Hazard Group

Groups A - G, 12/31/2008 – 12/31/2012



# Statutory Loss Ratios

EMPLOYERS: Historically low loss ratios (%)



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

# Selected Results

Income Statement (\$ million)	12 Months Ended December 31,	
	2011* (As Restated)	2012*
Gross written premium	418.5	580.3
Net written premium	410.0	569.7
Net earned premium	363.4	501.5
Net investment income	80.1	72.4
Net income	48.6	106.9
Net income before LPT	<b>29.3</b>	<b>7.0</b>
Balance Sheet (\$ million except per share data)	2011	2012
Total investments	1,950.7	2,149.5
Cash and cash equivalents	258.6	146.0
Total assets	3,482.3	3,511.3
Reserves for losses and LAE	2,272.4	2,231.5
Shareholders' equity	462.0	539.4
Equity including LPT deferred gain	827.9	820.4
Book value (equity plus LPT deferred gain) per share	<b>25.09</b>	<b>26.66</b>

\* Includes adjustments to the LPT Agreement deferred gain for favorable prior period development of ceded reserves (2012) and the LPT contingent profit commission (see Forms 8-K dated February 27, 2013 and Form 10-K for the period ending December 31, 2012)

# Superior Claims Management

## In-house medical management staff

- Coordinate care and manage medical costs

## Comprehensive fraud program

- \$2.9 million savings in 2012

## Rigorous quality assurance processes

- Compliance with best practices and regulatory requirements

## Dedicated subrogation unit

- Recoveries over \$2.0 million in 2012

## Pharmacy benefit management program

- \$3.4 million savings in 2012

## Claims professionals average over a decade of experience

# Filed Rate Changes: 04/01/12 thru 03/31/13

