

# WCIRB Report on June 30, 2014 Insurer Experience

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**WCIRB Report on June 30, 2014 Insurer Experience**

The WCIRB has completed its review and analysis of June 30, 2014 experience submitted by insurers. This report is based on data reported to the WCIRB by insurers who wrote almost 100% of the statewide market. In reviewing this information, the following should be noted:

1. This report reflects a compilation of individual insurer submissions of accident year and calendar year premium and loss data to the WCIRB. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with data submitted by other insurers, the source information underlying each insurer's data submission is not verified by the WCIRB.
2. Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments using information reported by insurers through June 30, 2014. Although the actuarial methodologies and assumptions upon which these projections are predicated are periodically analyzed and tested by the WCIRB's Actuarial Committee, the actual costs that will ultimately emerge could differ from the amounts projected. Many of these projections will be updated regularly by the WCIRB as more mature information on these claims is reported in subsequent quarters.
3. The amounts and ratios shown represent statewide totals based on the amounts reported by insurers writing workers' compensation insurance in California. The results for any individual insurer can differ significantly from the statewide average. An individual insurer's results are related to its underwriting book of business, claims and reserving practices, as well as the nature of its reinsurance arrangements.
4. Insurer-reported losses, which are compared in Exhibit 9 to the WCIRB's projections of ultimate losses, include insurers' estimates of incurred but not reported (IBNR) losses that may, in part, reflect allocations of IBNR losses to line of business, state, and accident year, and are on a basis that does not reflect anticipated reinsurance recoveries or employer-paid deductibles. As a result, the amounts shown in Exhibit 9 do not necessarily equate to specific estimates of the adequacy of insurers' reserves for unpaid losses.
5. Senate Bill No. 863 (SB 863), which was enacted in 2012, increases benefits and provides for a number of structural changes to the California workers' compensation benefit delivery system starting in 2013. Some provisions of SB 863 impact costs on older claims. WCIRB projections of ultimate losses and ultimate loss severities have been adjusted to reflect the impact of SB 863 on unpaid losses arising from pre-2013 injuries based on methodologies developed by the WCIRB's Actuarial Committee.
6. Beginning with claims incurred on policies incepting on or after July 1, 2010, the cost of medical cost containment programs (MCCP) is reported to the WCIRB as allocated loss adjustment expense (ALAE) rather than as medical loss. As a result, some portion of MCCP costs for accident years 2010 and 2011 has been reported as medical loss and some portion has been reported as ALAE. In order to provide consistent comparisons across years, to the extent appropriate, the amounts and ratios shown represent the combined cost of losses and ALAE. In several other exhibits, in order to facilitate consistent comparison from year-to-year of medical losses and ALAE, accident year 2010 MCCP costs reported as ALAE have been shifted to medical loss and the estimated amount of accident year 2011 MCCP costs reported as medical loss have been shifted to ALAE.

Exhibits 1 through 9, which summarize the WCIRB's review of reported June 30, 2014 insurer experience, reflect the following information:

- California written premium (gross of deductible credits) for calendar year 2013 is approximately \$14.8 billion (Exhibit 1). This is approximately 18% above the written premium reported for 2012 and 68% above the written premium reported for 2009. Written premium for the first six months of 2014 is approximately \$8.2 billion, which is approximately 9% above the written premium reported for the first six months of 2013.
- The projected industry average charged rate (rates charged by insurers that reflect all rating plan adjustments except deductible credits, retrospective rating plan adjustments, terrorism charges, and policyholder dividends) per \$100 of payroll for policies written between January 1, 2014 and June 30, 2014 is \$2.96 (Exhibit 2). This is approximately 4% above the average rate charged for 2013 and 41% above the average rate charged for 2009. However, the average rate charged for the first six months of 2014 remains approximately 53% less than the average rate charged for the second six months of 2003.
- The WCIRB projects total ultimate losses and ALAE for accident year 2013 to be \$12.7 billion (Exhibit 3). While approximately 6% above the projection for accident year 2012 and 27% above the projection for accident year 2009, it remains below the highs experienced prior to the 2002 through 2004 reforms.
- The WCIRB projects an ultimate accident year loss and ALAE ratio of 88.0% for accident year 2013 (Exhibit 4). This projection is below that of the prior four accident years primarily as a result of increased premium levels and relatively low claim severity growth in 2013.
- The WCIRB projects an ultimate accident year combined loss and expense ratio of 113% for 2013 (Exhibit 5). This projection is below that of the last several accident years primarily as a result of increased premium levels and relatively low claim severity growth in 2013.
- The calendar year combined loss and expense ratio for 2013 reported by insurers is 109%, which is somewhat below the combined ratios for the last few years but represents the sixth straight calendar year with a combined ratio of over 100% (Exhibit 6).
- The WCIRB projects indemnity claim frequency for accident year 2013 to be 4.1% above the frequency for 2012 and approximately 14% above the frequency for 2009 (Exhibit 7). The projected indemnity claim frequency for the first six months of 2014 is 1.9% higher than that for the first six months of 2013. A preliminary analysis of the 2012 frequency increase by the WCIRB largely attributed it to increases in cumulative injury claims, late reported indemnity claims, permanent disability claims, claims involving injuries to multiple body parts, and claims from the Los Angeles area. While projected indemnity claim frequency has continued to increase following the sharp 2010 increase rather than returning to the historical long-term decline, the 2014 frequency remains more than 25% below the indemnity claim frequency experienced prior to the 2002 through 2004 reforms.
- The WCIRB projects the average cost (or "severity") of a 2013 indemnity claim to be approximately \$87,000, which is generally consistent with the projected severities for accident years 2011 and 2012 (Exhibit 8.1). The projected 2013 average loss and ALAE severity reflects an increase of approximately \$30,000 (or more than 52%) since the full implementation in 2005 of the reforms of 2002 through 2004. The projected average indemnity cost of a 2013 indemnity claim is fairly consistent with projected severities for the last several years (Exhibit 8.2), while the

projected average medical cost (including MCCP costs) of a 2013 indemnity claim is somewhat lower than that of the prior year two years (Exhibit 8.3). Despite the enactment of SB 863, which was forecast to decrease ALAE costs, the projected average ALAE cost of a 2013 indemnity claim, excluding MCCP costs, is approximately 6% above that of the prior year and approximately 92% higher than the average ALAE severity for 2005 (Exhibit 8.4).<sup>1</sup>

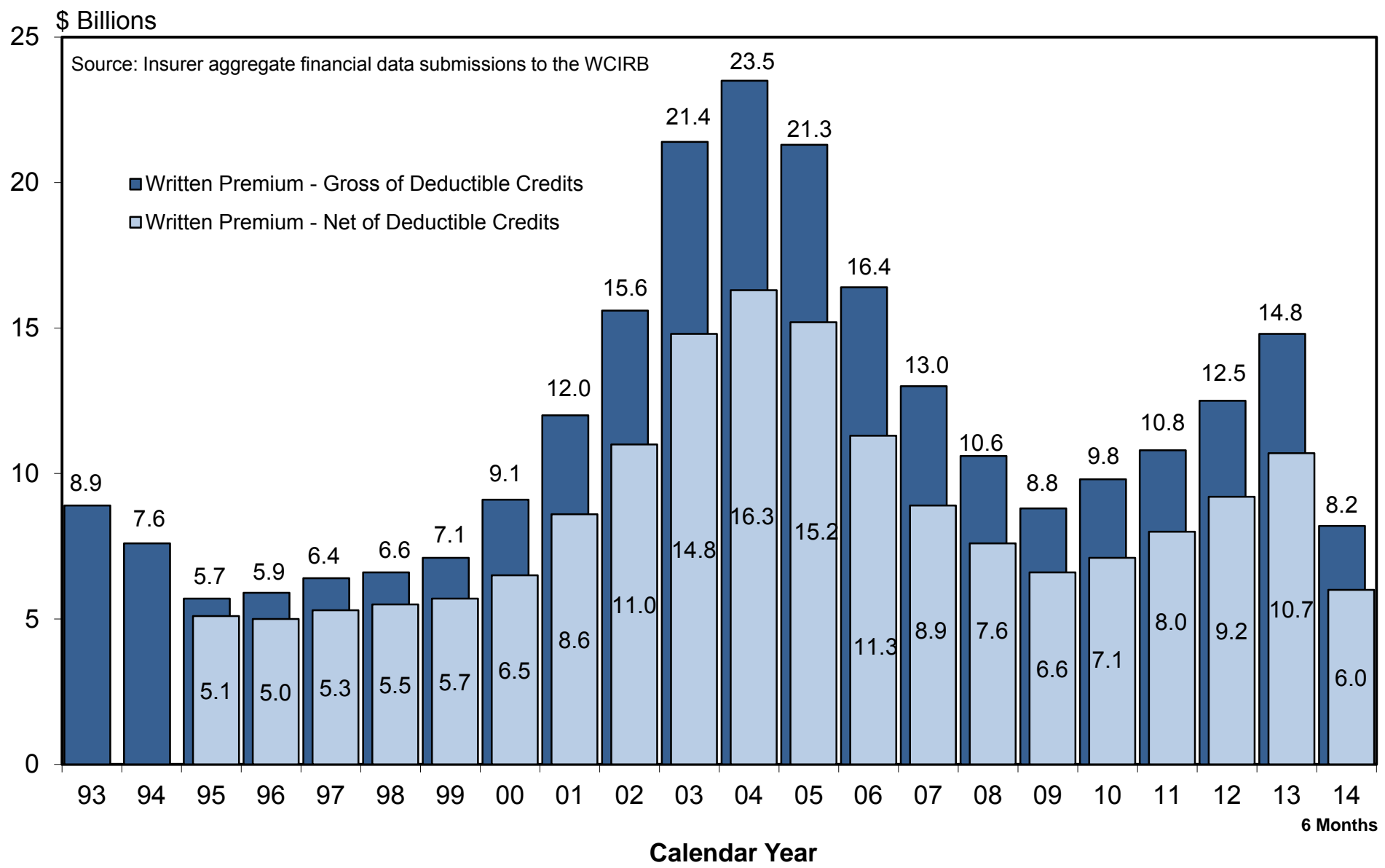
- The WCIRB currently projects the total statewide ultimate losses on all injuries that occurred on or before December 31, 2013 to be approximately \$10.5 billion more than the amounts reported by insurers (Exhibit 9).

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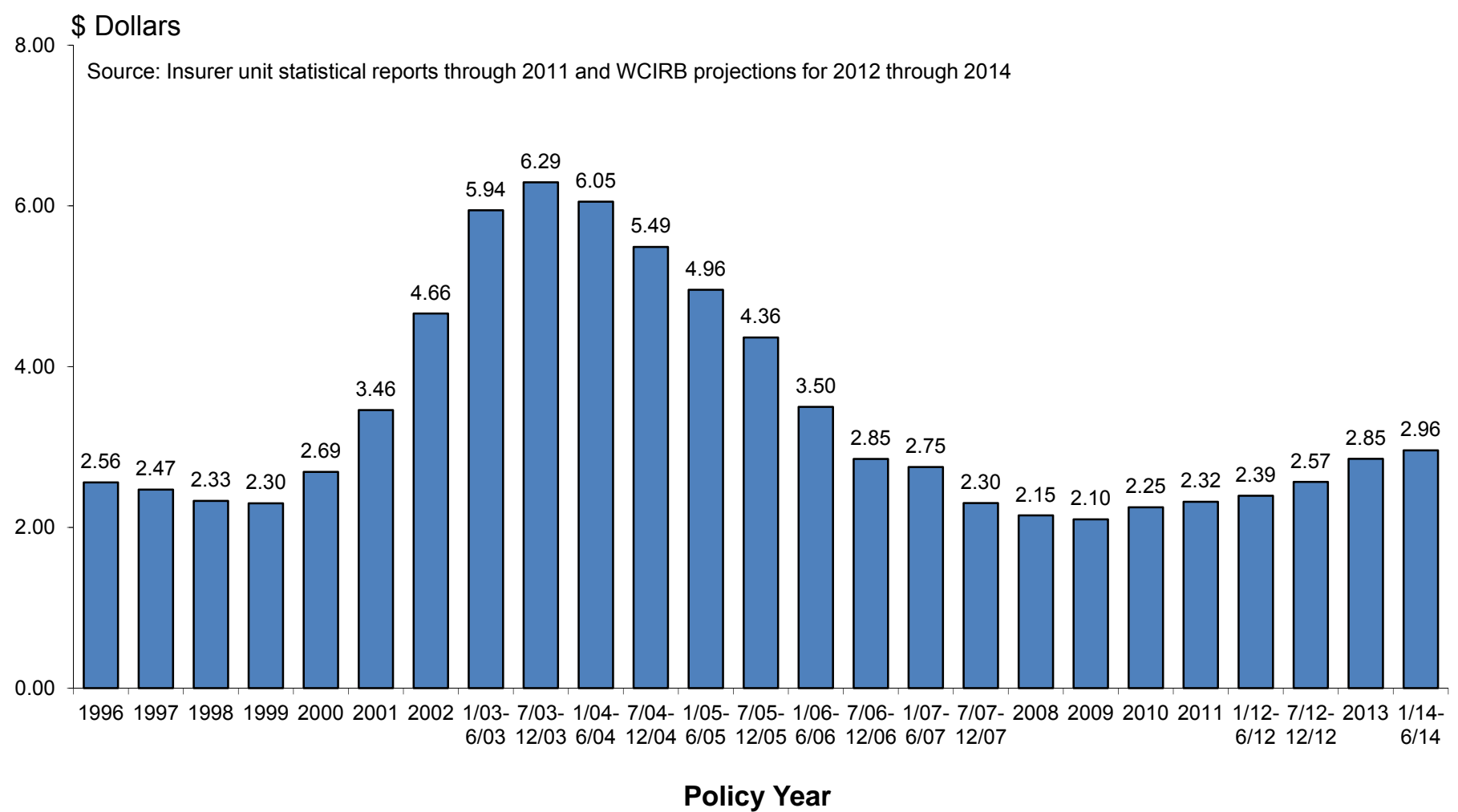
<sup>1</sup> The ultimate ALAE per indemnity claim amounts shown on Exhibit 8.4 are projected based on March 31, 2014 experience.



# California Workers' Compensation Written Premium

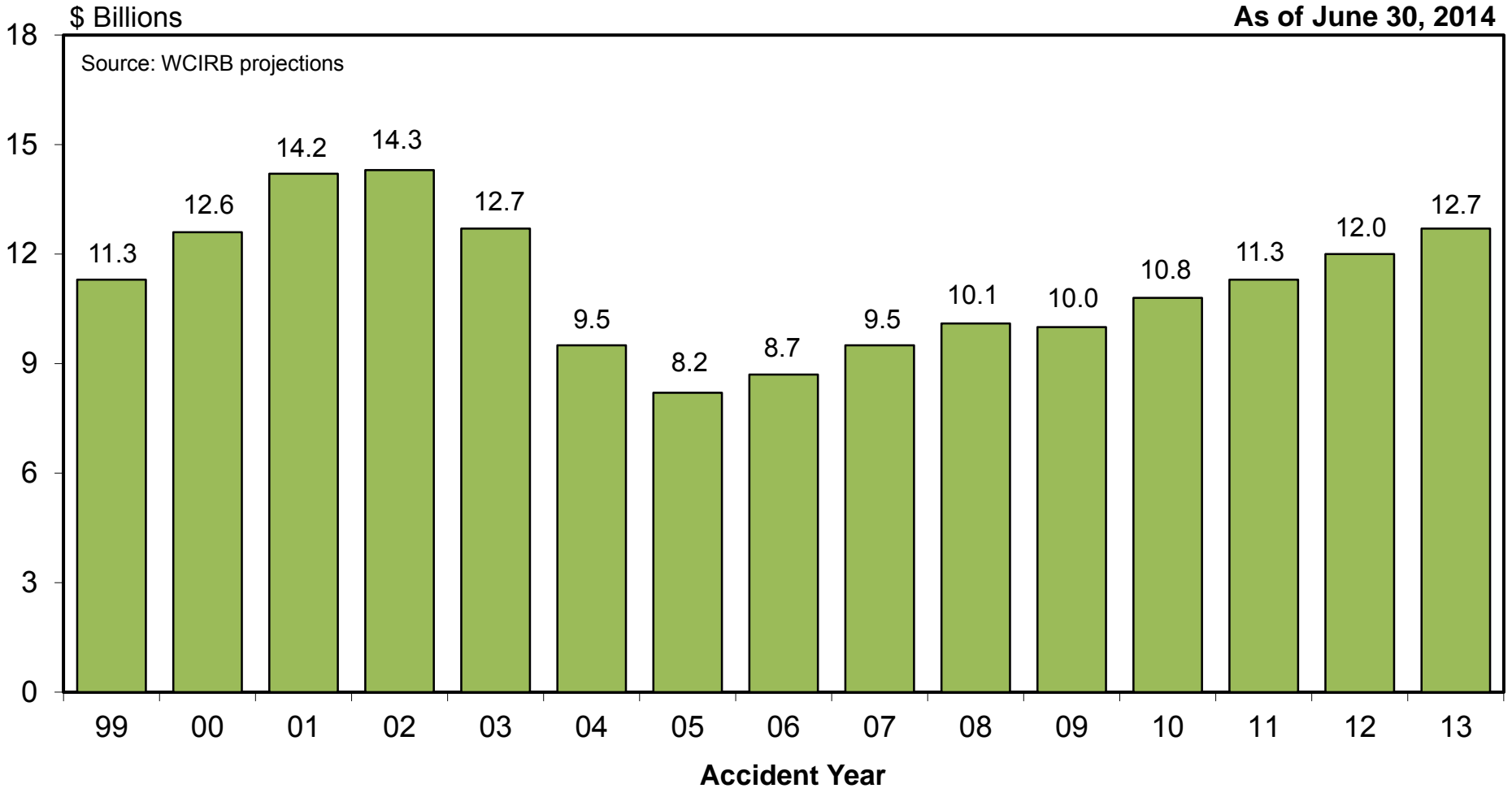


# California Workers' Compensation Industry Average Charged Rate per \$100 of Payroll

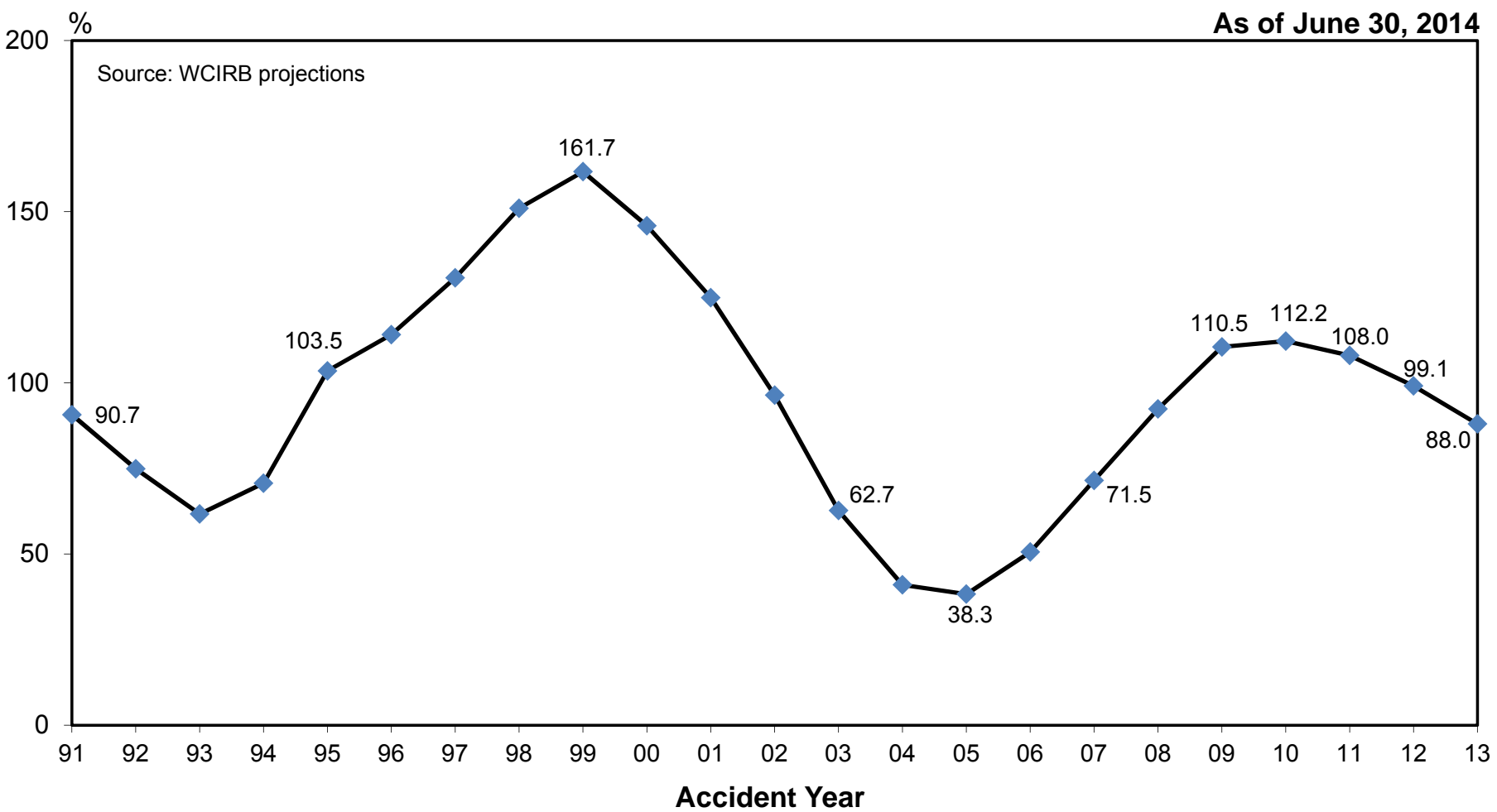




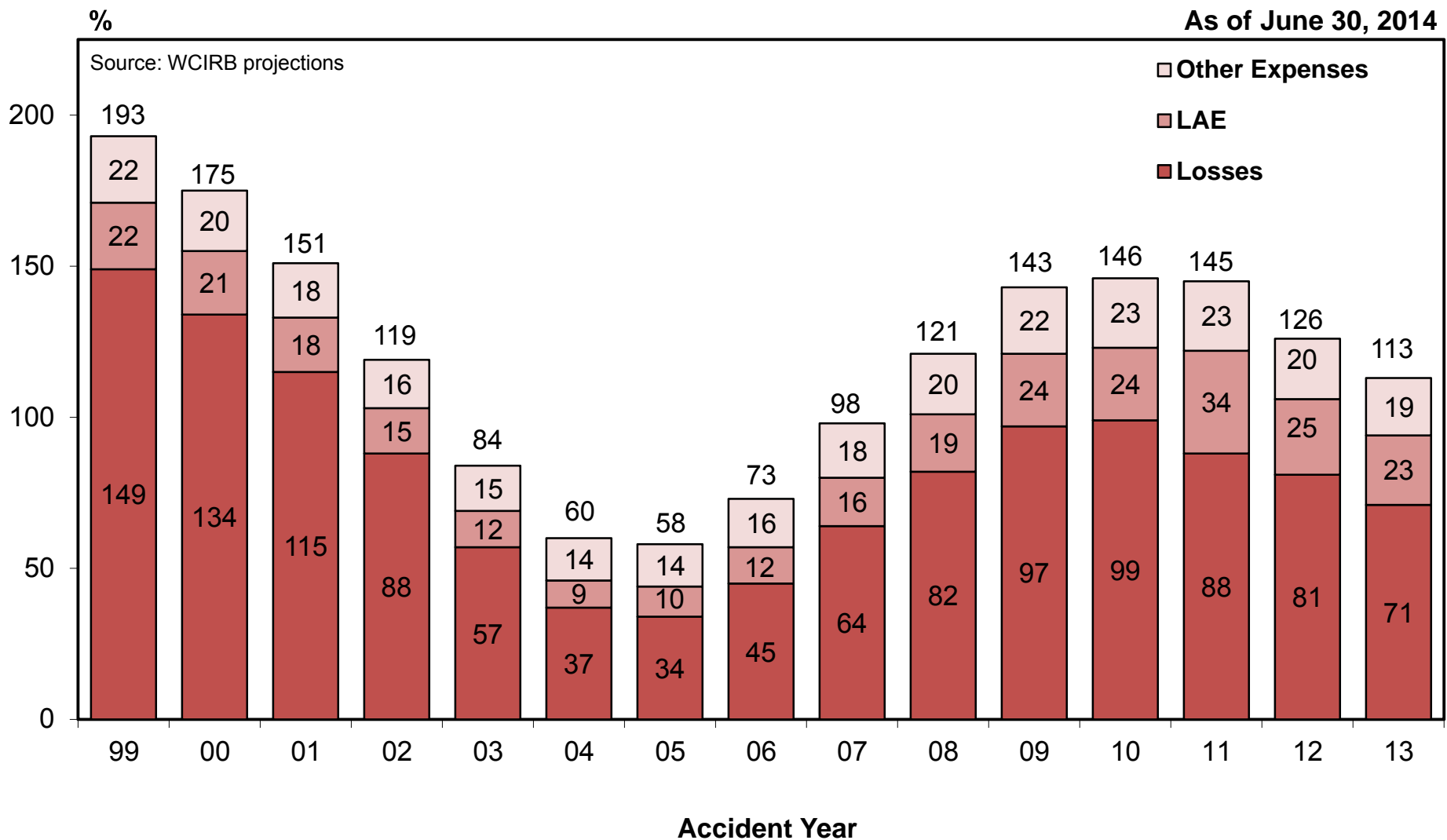
# California Workers' Compensation Projected Ultimate Losses and ALAE by Accident Year



# California Workers' Compensation Projected Ultimate Accident Year Loss and ALAE Ratios

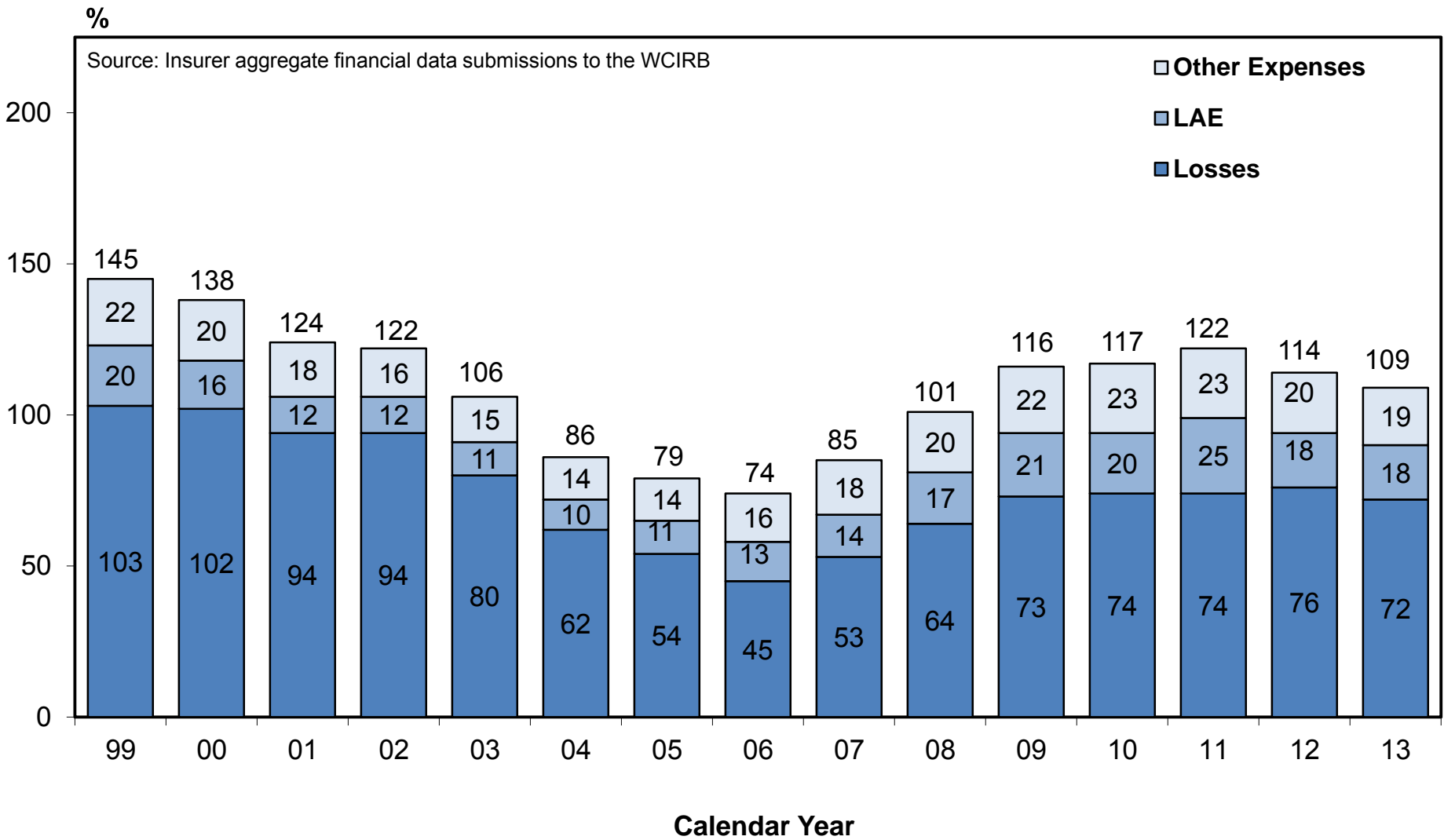


# California Workers' Compensation Projected Accident Year Combined Loss and Expense Ratios \*

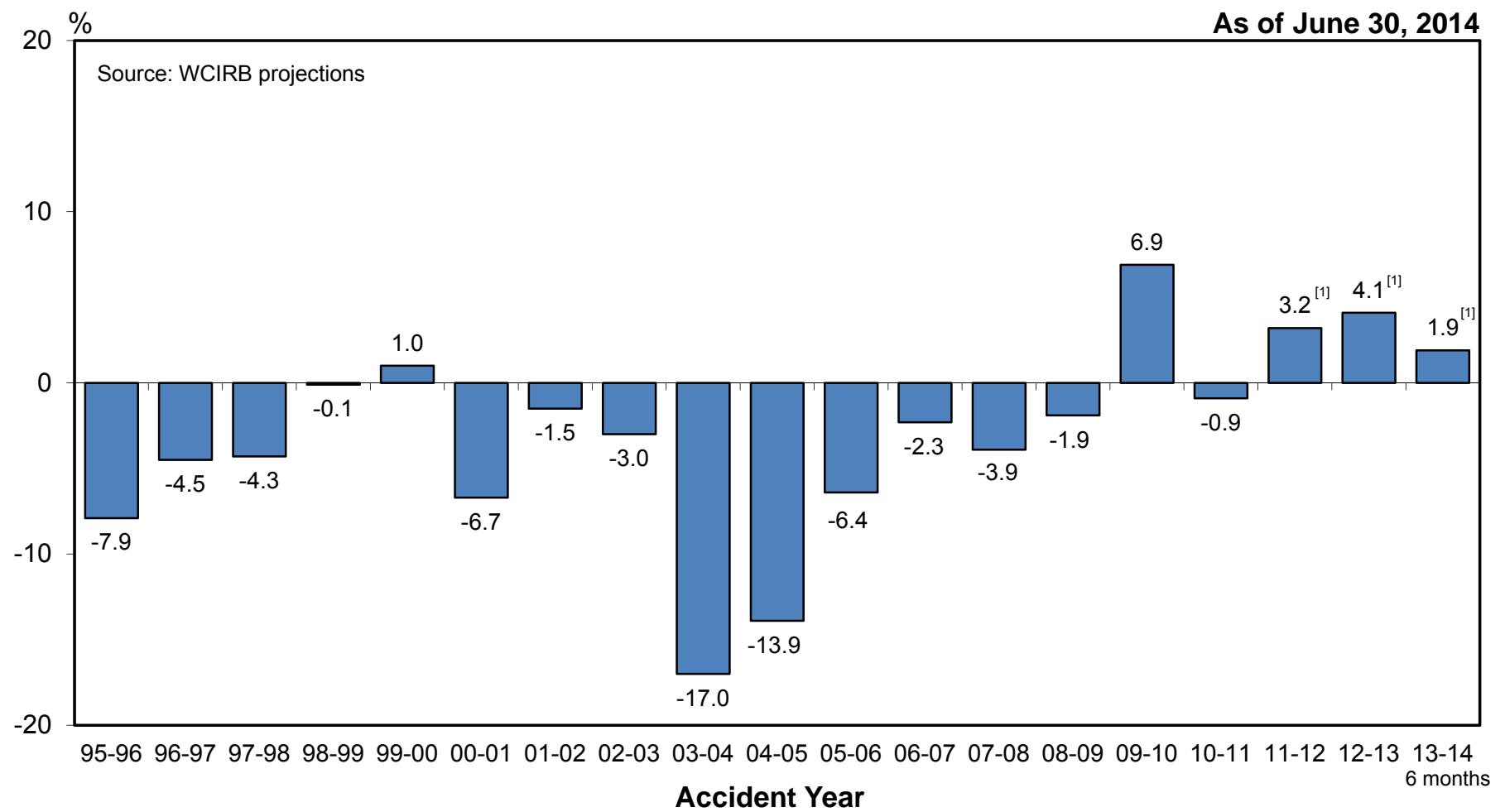


\* The cost of medical cost containment programs is reflected in LAE for accident years 2011 and subsequent. It is reflected in losses for all other accident years.

# California Workers' Compensation Calendar Year Combined Loss and Expense Ratios

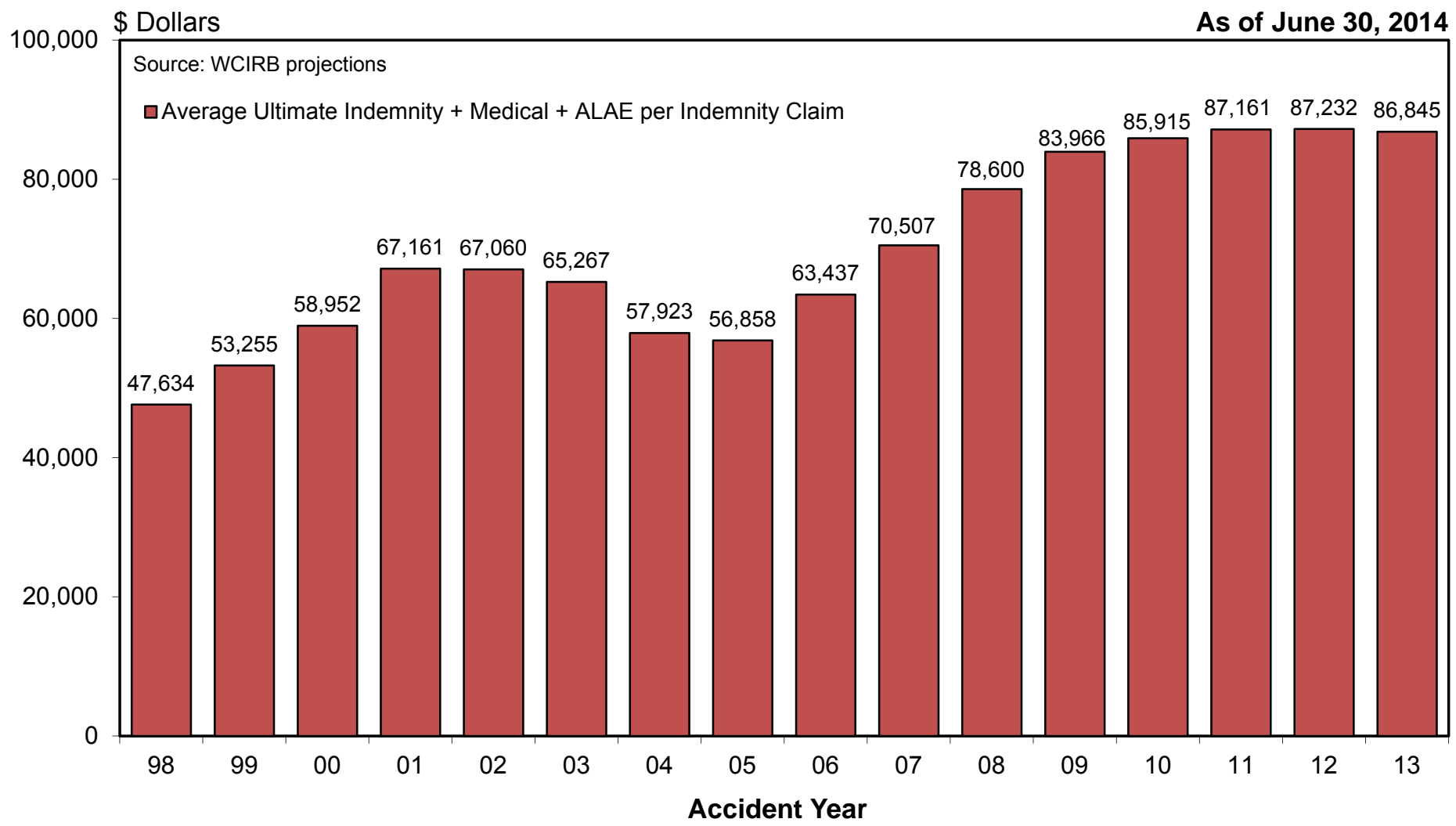


# California Workers' Compensation Projected Percentage Change in Indemnity Claim Frequency by Accident Year



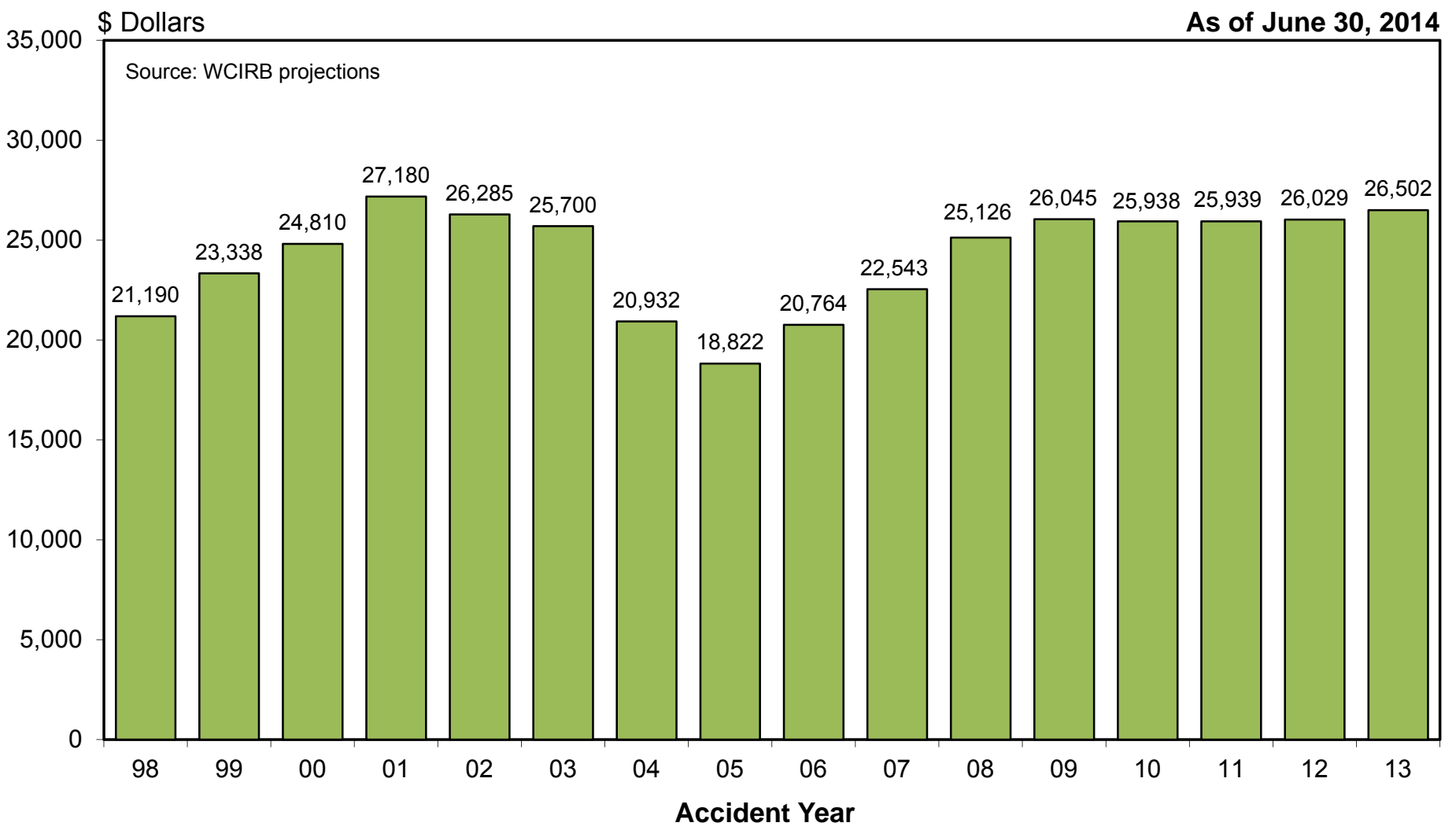
<sup>(1)</sup> The 2011-2012 estimate is based on partial year unit statistical data. The 2012-2013 and 2013-2014 estimates are based on a comparison of claim counts from WCIRB accident year experience as of June 30, 2014 relative to the estimated change in statewide employment.

# California Workers' Compensation Projected Ultimate Total Loss\* and ALAE per Indemnity Claim

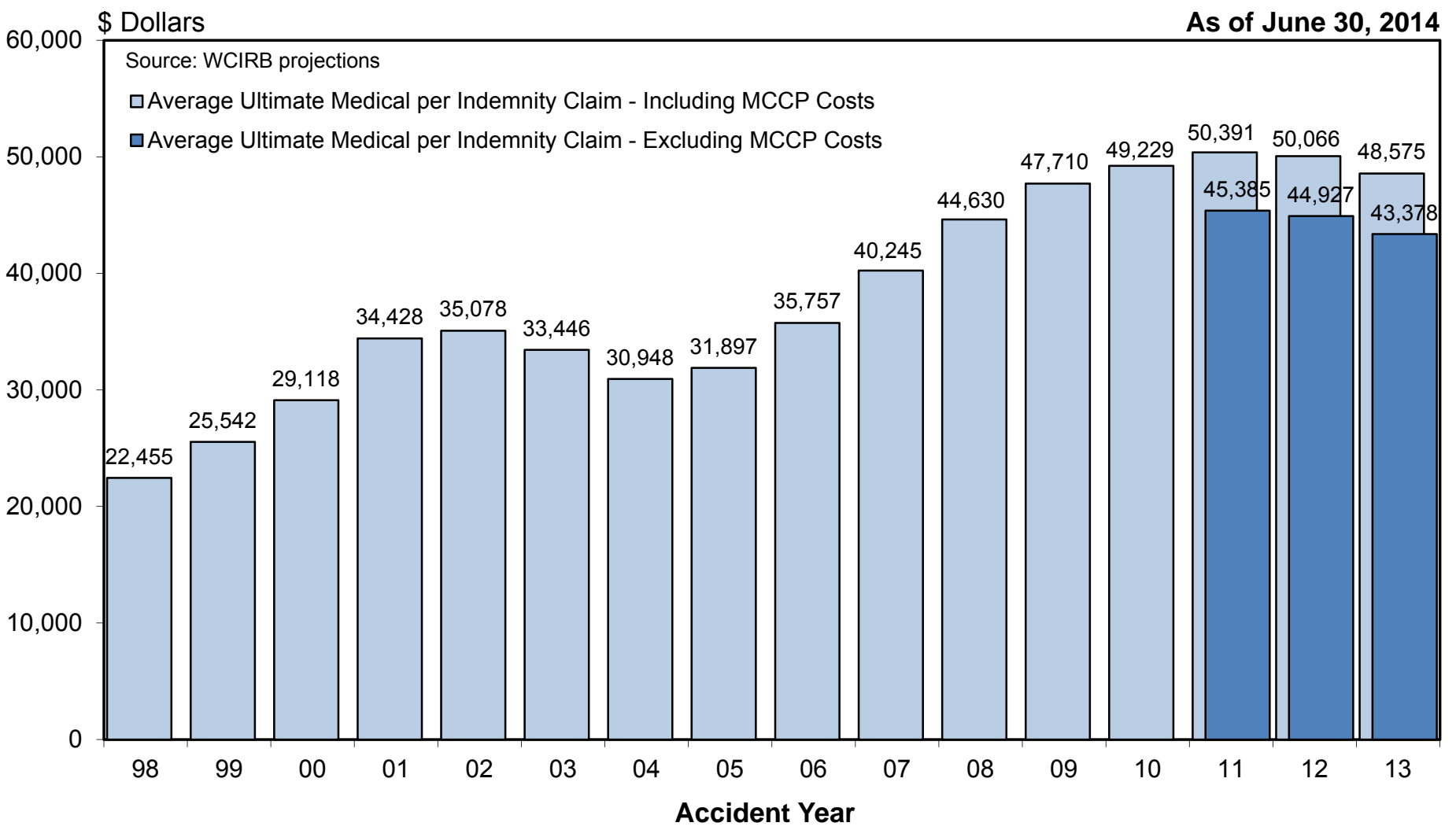


\* Excludes medical-only.

# California Workers' Compensation Projected Ultimate Indemnity per Indemnity Claim



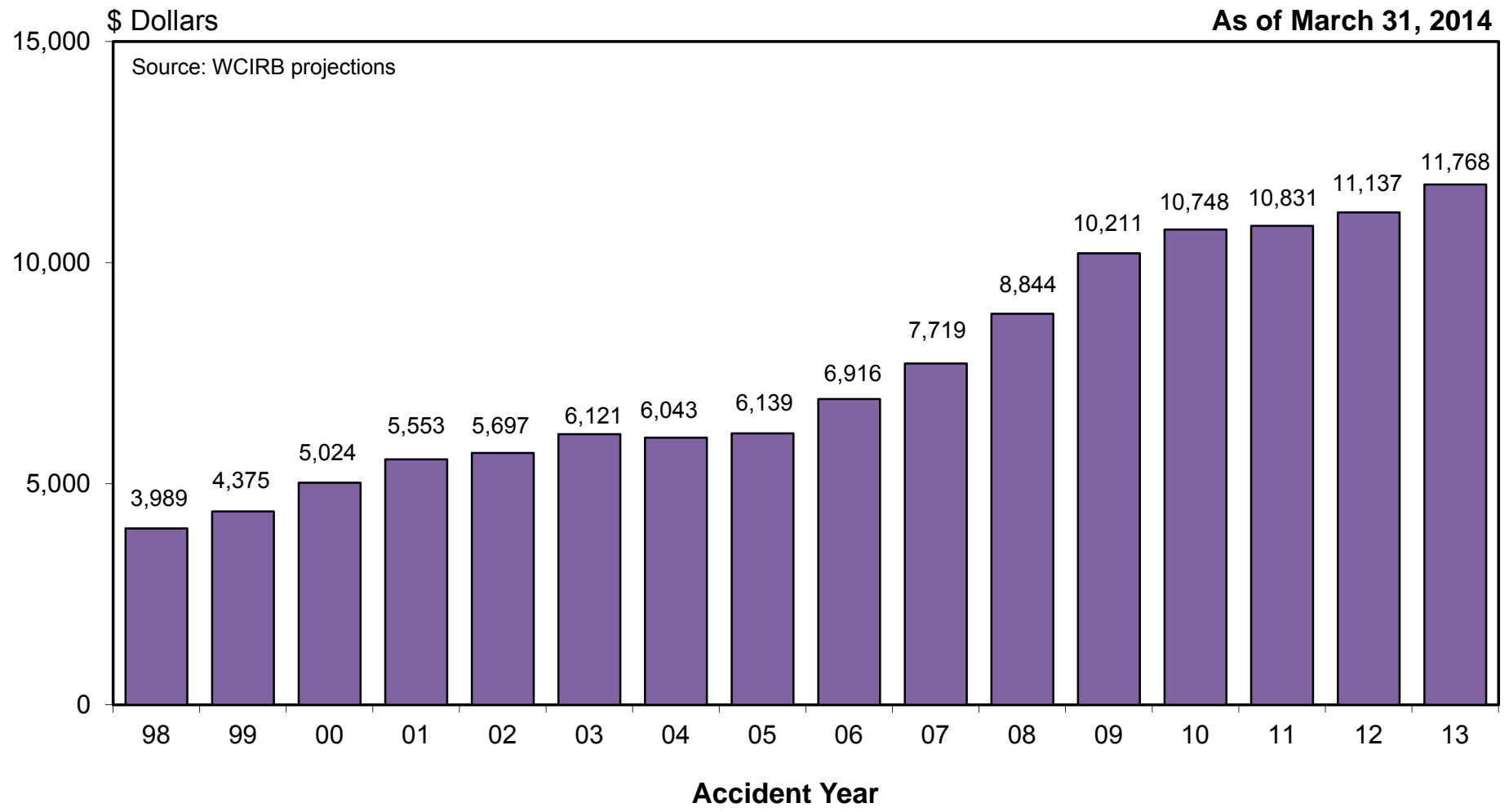
# California Workers' Compensation Projected Ultimate Medical\* per Indemnity Claim



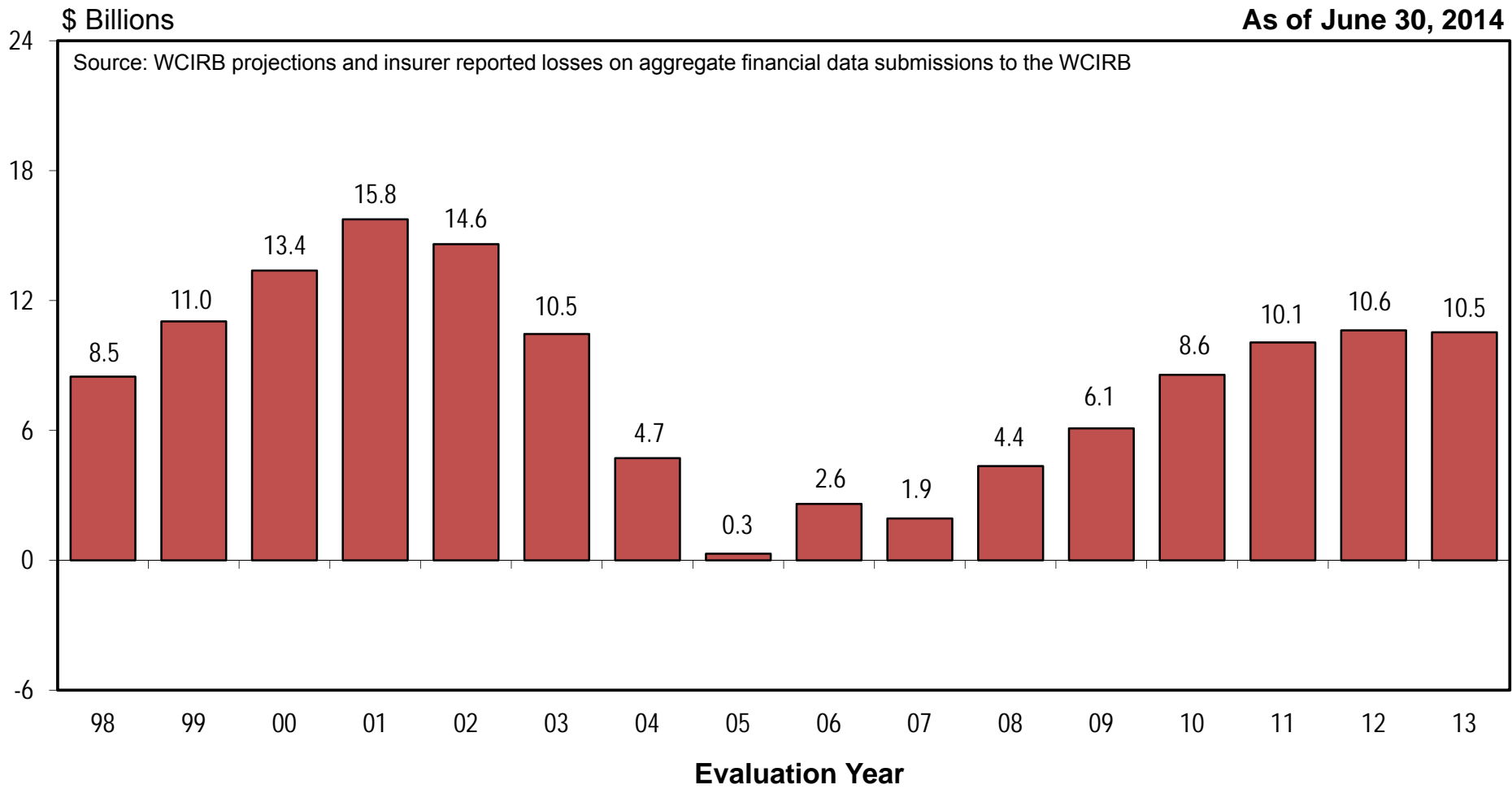
\* Excludes medical-only.



# California Workers' Compensation Projected Ultimate ALAE per Indemnity Claim (Excluding MCCP Costs)



# California Workers' Compensation Projected Ultimate Losses Less Reported Losses at Successive December 31 Evaluations



Note: The cost of medical cost containment programs is excluded from losses for accident years 2011 and subsequent and included in losses for all other accident years.