

# WCIRB Quarterly Experience Report

As of September 30, 2020

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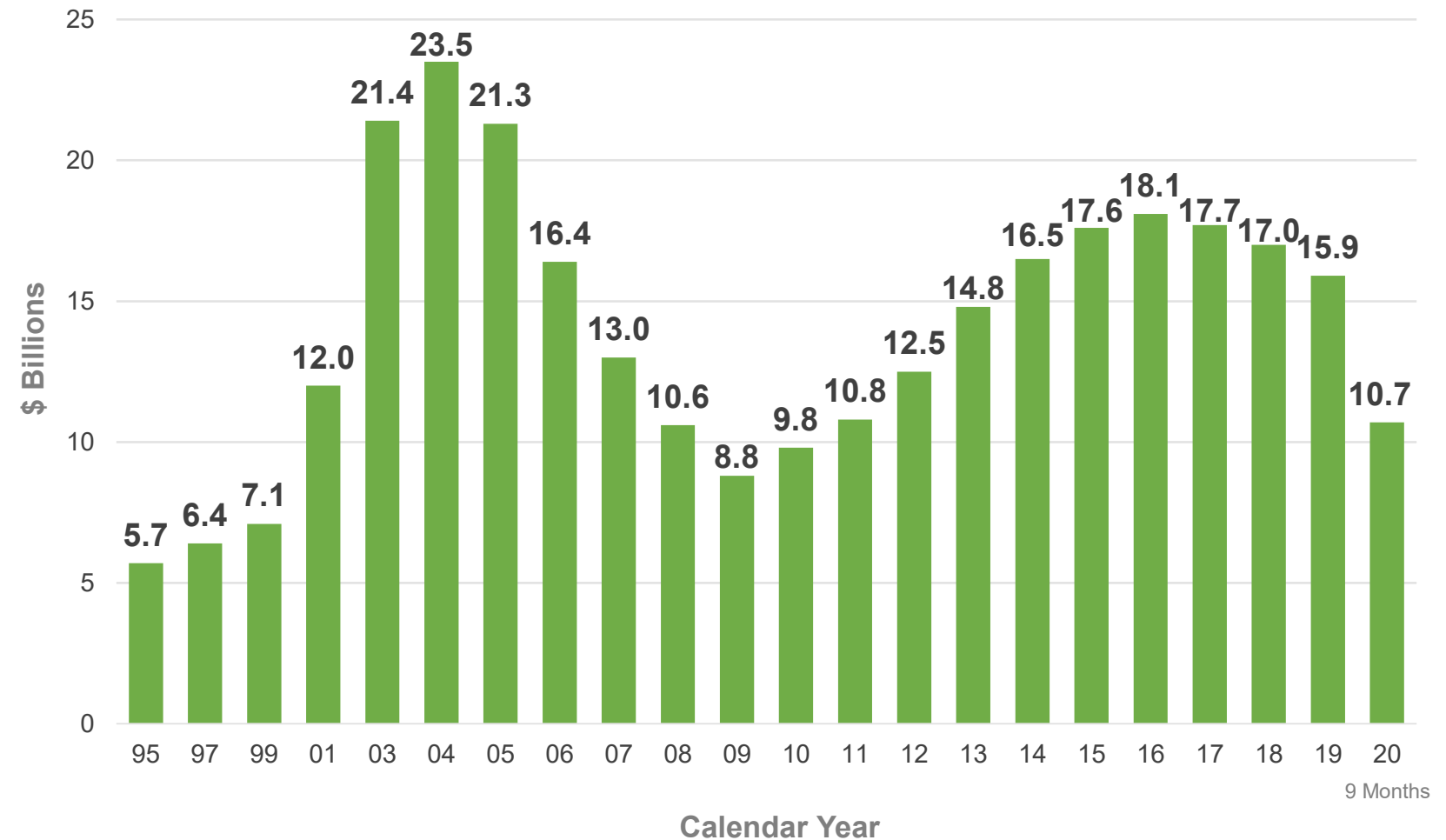


## Chart 1

- Written premium for the first nine months of 2020 is 12% below that for the first nine months of 2019.
- Written premium for the full calendar year of 2020 is expected to be the lowest since 2012.

## Written Premium | Gross of Deductible Credits

As of September 30, 2020







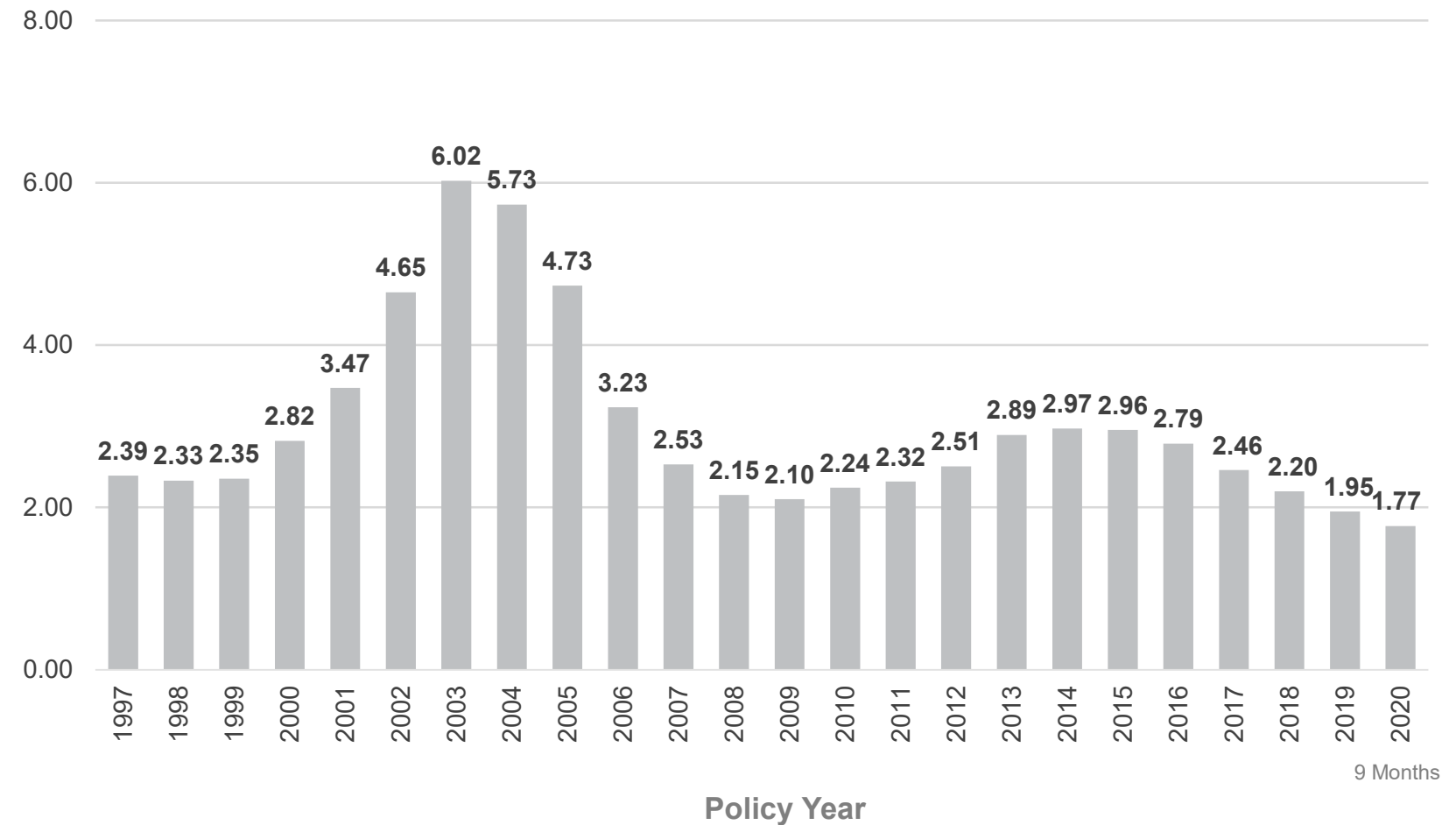
## Chart 2

- The average charged rate for the first nine months of 2020 is 9% below that of 2019 and 40% below the peak in 2014.
- The January 1, 2021 approved advisory pure premium rates, which do not include the cost of COVID-19 claims, are on average 50% below those for January 1, 2015 and 4.6% below those for January 1, 2020.

## Industry Average Charged Rates

As of September 30, 2020

Rate per \$100 Payroll



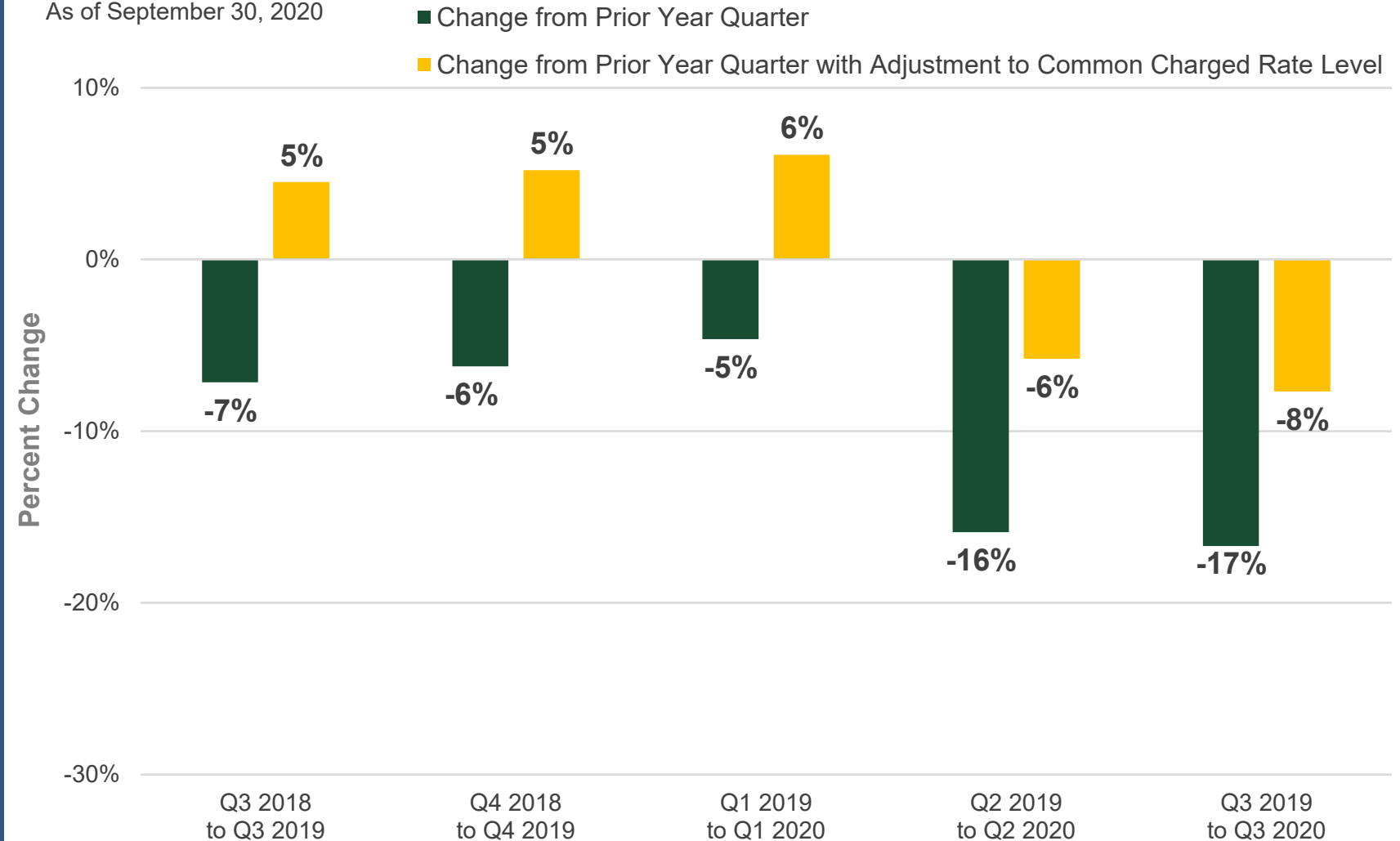


## Chart 3

- Premium decreases through the first quarter of 2020 had been driven by decreases in insurer charged rates. After adjusting to a common charged rate level, premiums grew consistent with economic growth.
- The large decrease in premium for the second and third quarters of 2020 is driven by the sudden and sharp slowdown in the economy.

# Quarterly Written Premium – Year-to-Year Percent Change

As of September 30, 2020



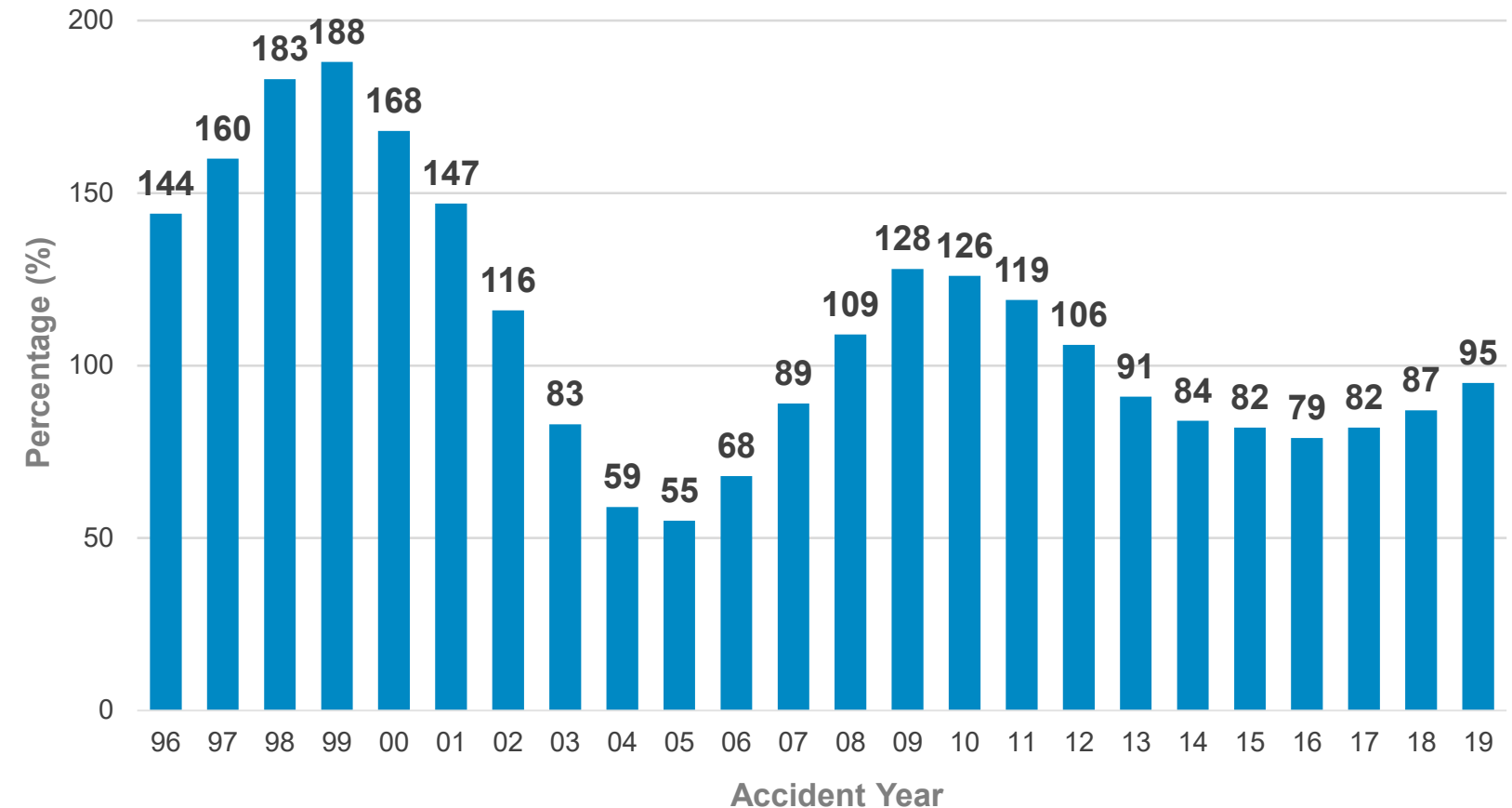


## Chart 4

- The projected combined ratio for 2019 is 16 points higher than the low point in 2016.
- Despite the recent increase, combined ratios for 2013 through 2019 are the lowest since the 2003 through 2007 period.
- Claim activity in the second quarter of 2020 was significantly slower due to the pandemic and shelter-in-place period and may not be indicative of future claim activity.
- Claim activity started to return to a more typical pattern in the third quarter of 2020.

## Projected Accident Year Combined Ratios

As of March 31, 2020



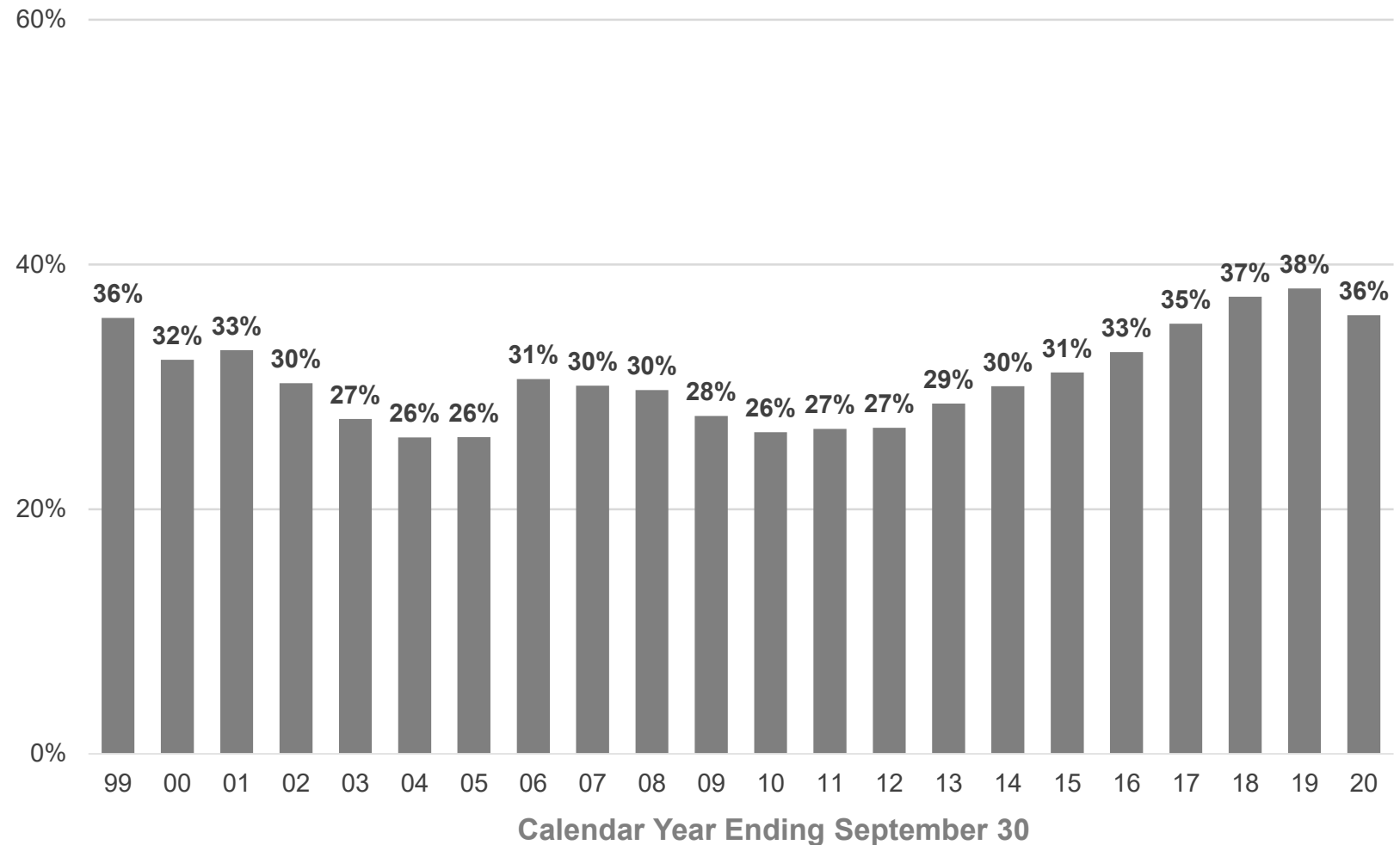


## Chart 5

- Indemnity claims have settled quicker over the last several years, largely driven by SB 863 and SB 1160 reforms.
- Average claim closing rates declined sharply in the second and third quarters of 2020 as a result of the pandemic.

## Percent of Open Indemnity Claims Closed in Next Year

As of September 30, 2020



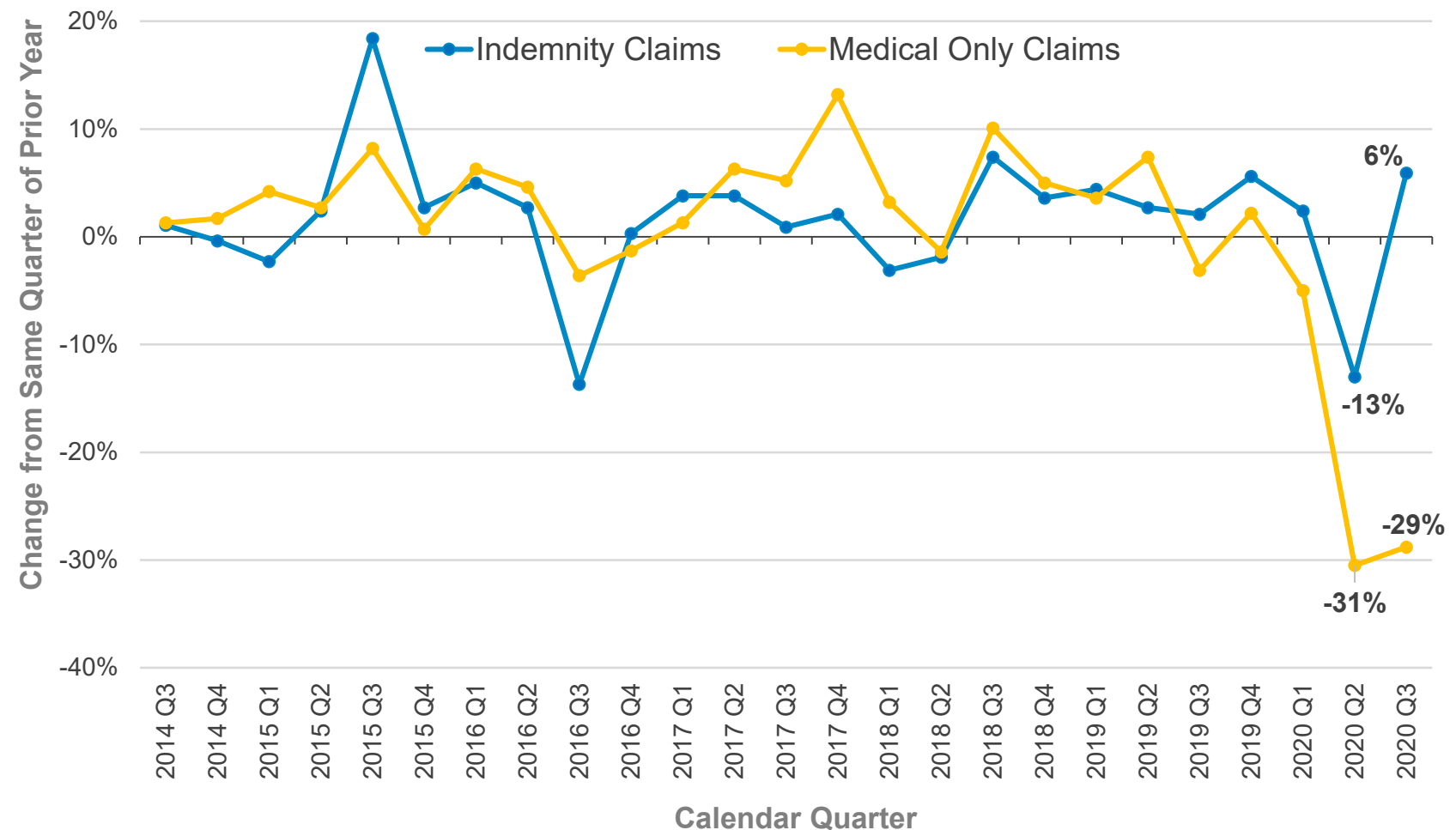


## Chart 6

- Reported indemnity claims in the second quarter of 2020 were 13% lower than the second quarter of 2019, while medical-only claims were 30% lower in both the second and third quarters.
- Reported indemnity claims in the third quarter of 2020 were 6% higher than the third quarter of 2019 as many COVID-19 claims have been filed.
- The recent lower (non-COVID-19) claim counts are due to the slowdown of economic activity, less work being done outside the home, and delays in reporting of claims during the shelter-in-place period.

## Change in Incremental Claim Counts

As of September 30, 2020



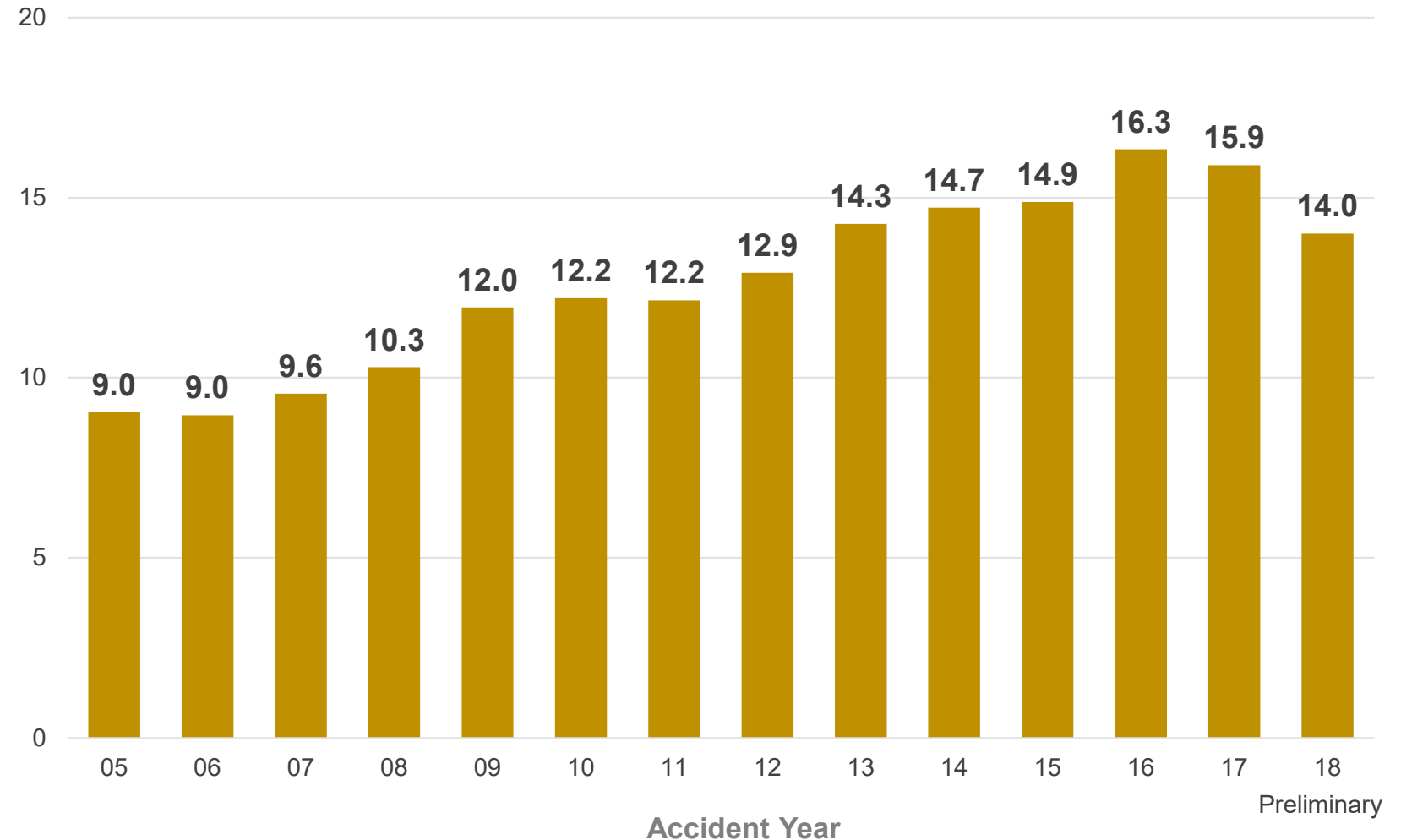




## Chart 7

- Cumulative trauma (CT) claim rates increased through 2016 to be more than 80% above the 2005 level.
- CT claim rates since 2016 have begun to decline but are still well above the pre-Great Recession levels.
- CT claim rates may increase again in 2020 as WCIRB research has shown that increases in CT claims have been correlated with economic downturns.

## Cumulative Trauma Claims per 100 Indemnity Claims



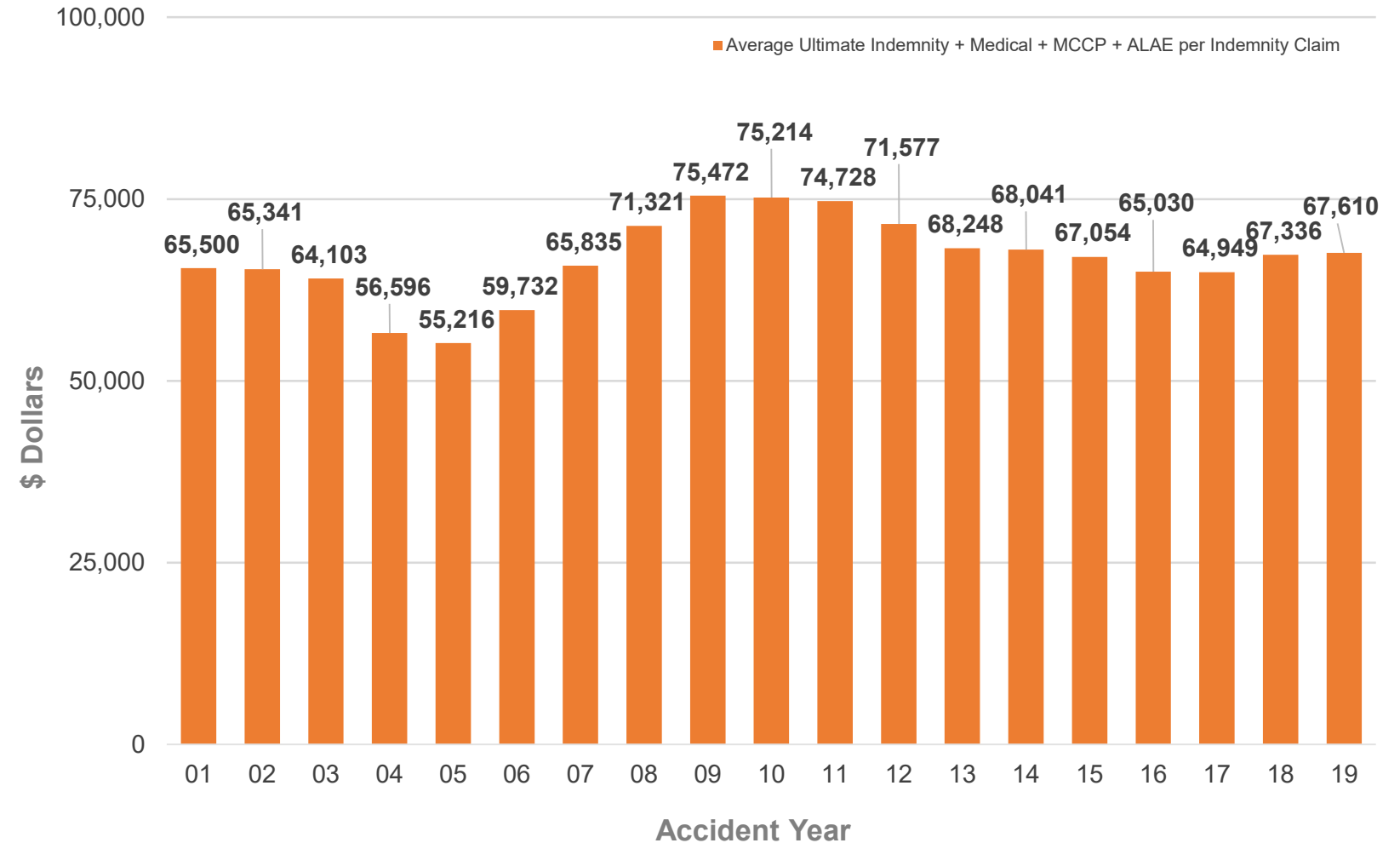


## Chart 8

- Projected total claim severity for 2019 is generally consistent with that for 2018.
- Since 2013, the change in total claim severity has been relatively modest.
- Average claim severities for accident year 2020 will be heavily impacted by COVID-19 claims and other claims-related issues arising from the pandemic.

# Ultimate Total Loss and ALAE Severities

As of March 31, 2020



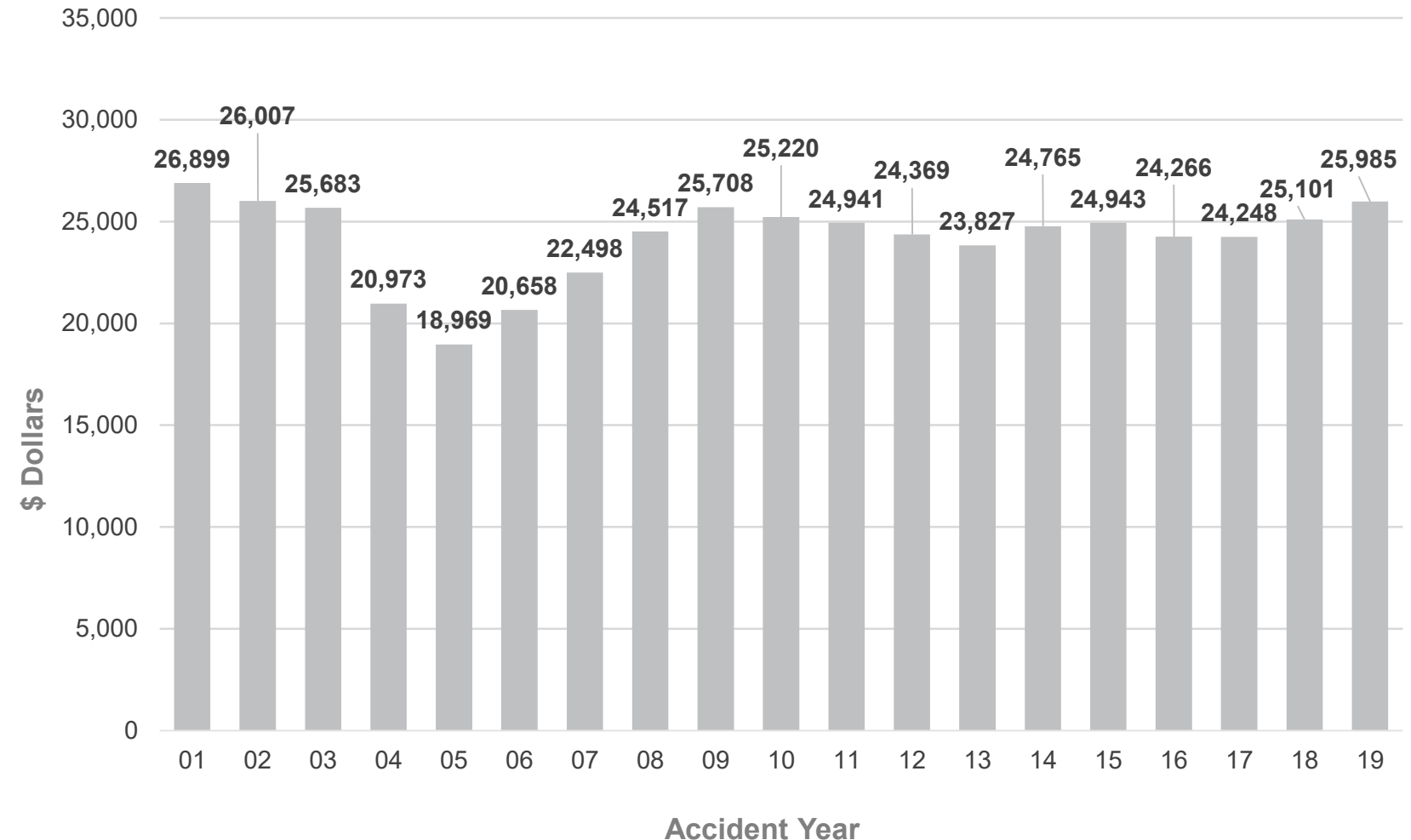


## Chart 9

- Following several years of flat indemnity severities, the projected indemnity severity for 2019 is 7% higher than 2017.
- Average indemnity costs may continue to increase as claims are remaining open longer in 2020.

## Ultimate Indemnity Severities

As of March 31, 2020



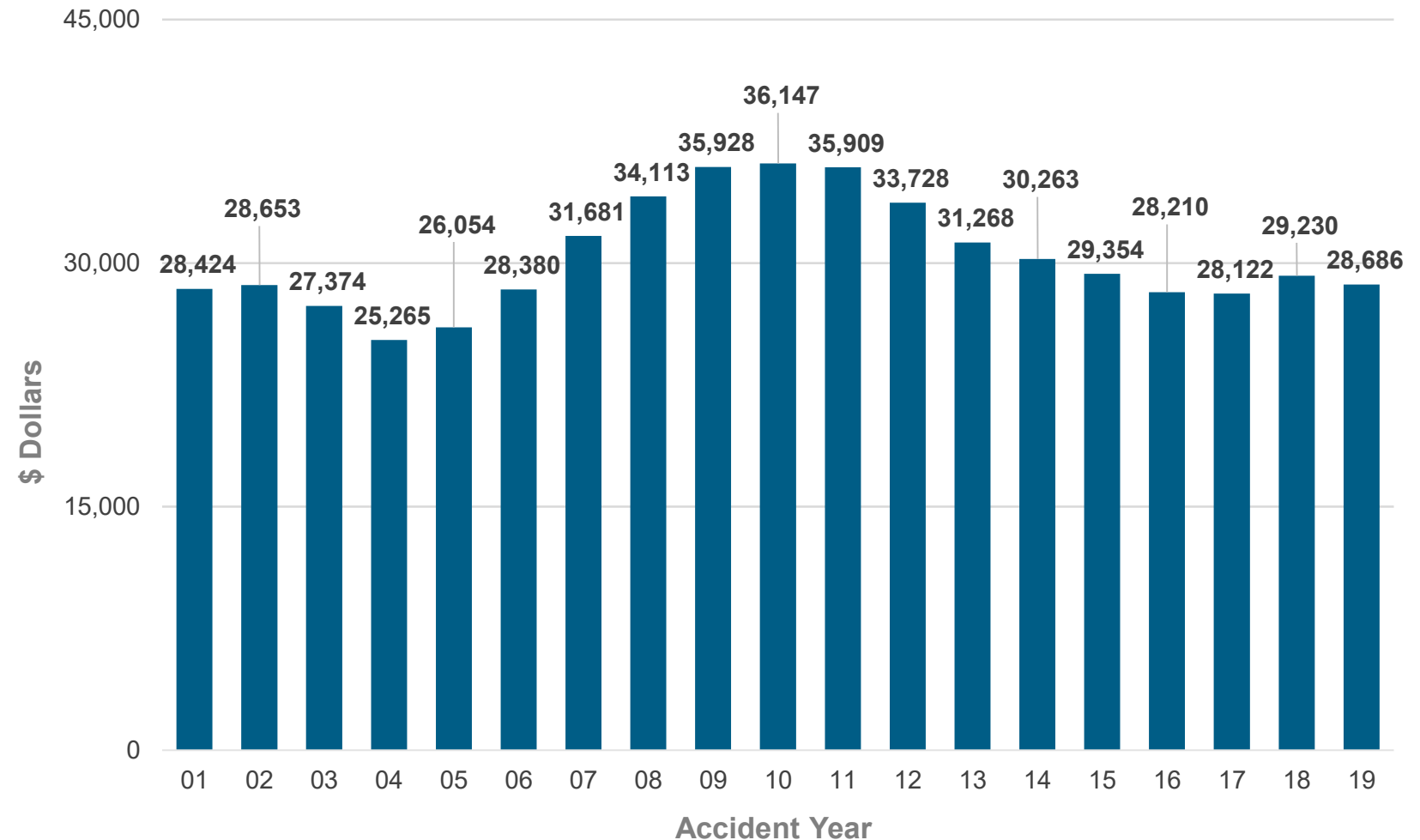


## Chart 10

- Medical severities have been relatively flat since 2016.
- Medical severities in 2020 may be impacted by delays in medical treatment during the shelter-in-place period. WCIRB research has shown that early delays in medical treatment are associated with higher medical costs later.

## Ultimate Medical Severities

As of March 31, 2020



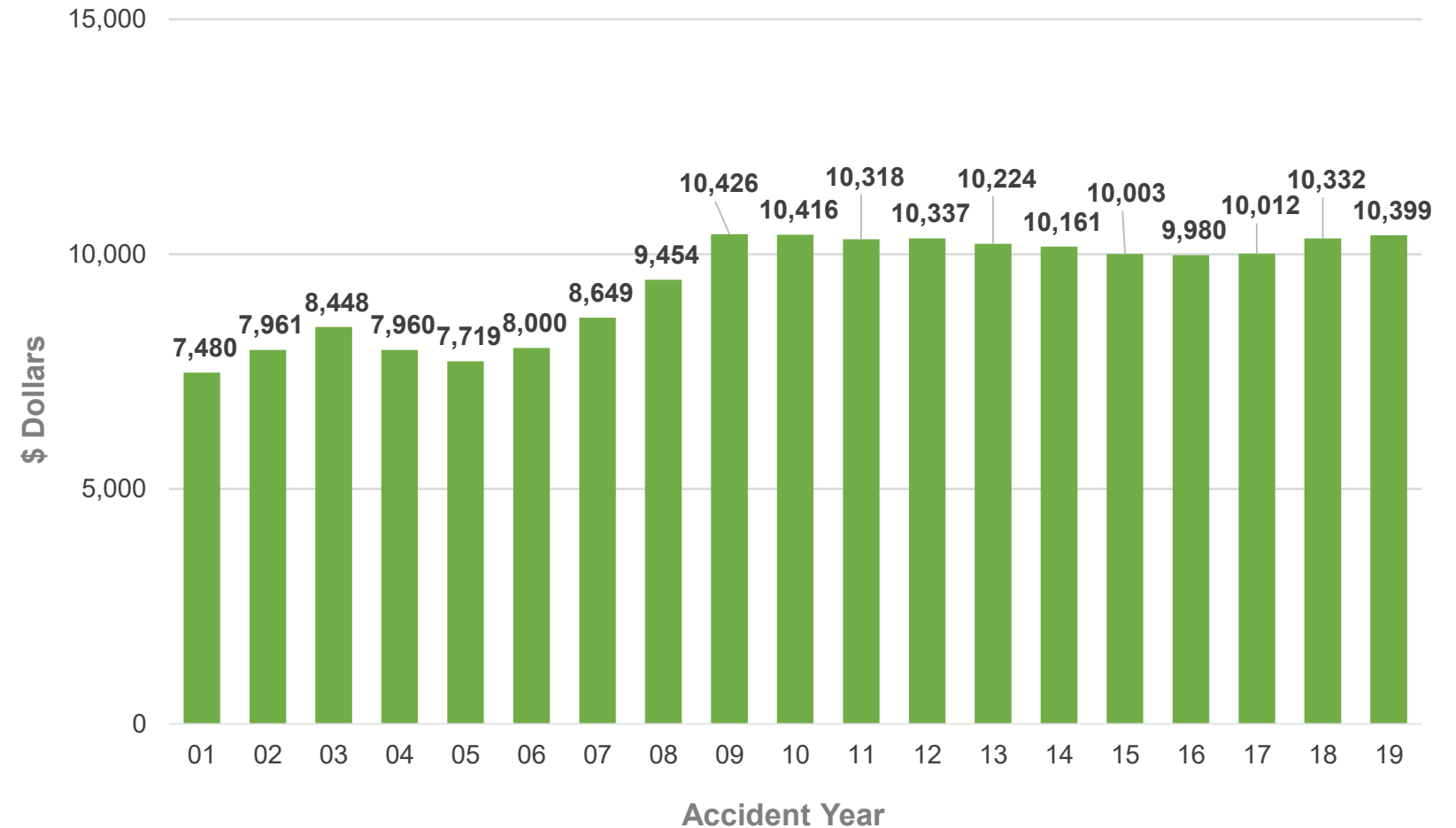


## Chart 11

- ALAE severities have been flat from 2009 through 2019.
- Projections of ultimate accident year ALAE costs have declined compared to recent prior quarters, in part driven by the quicker settling of indemnity claims.

## Ultimate ALAE (excl. MCCP) Severities

As of March 31, 2020





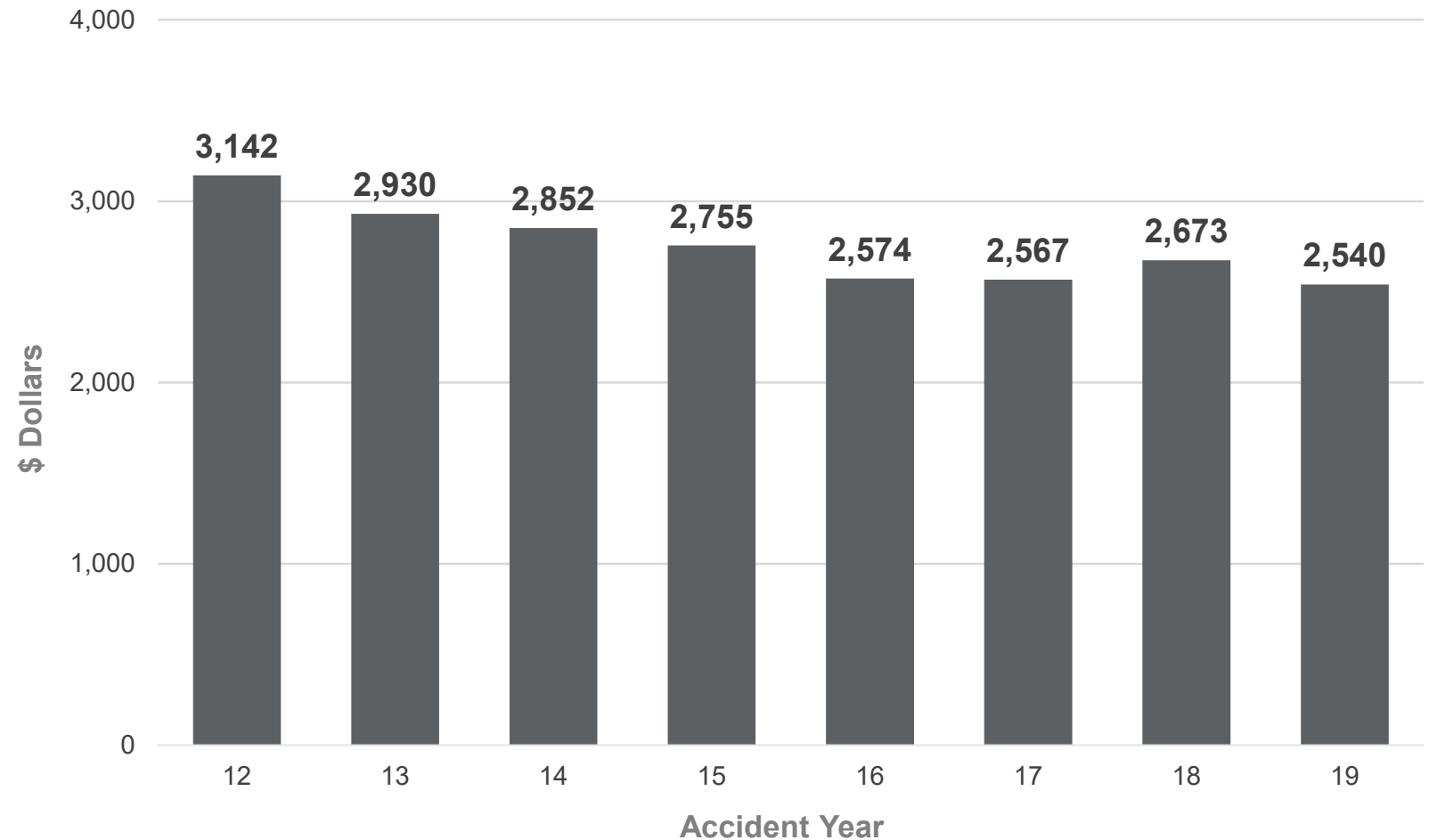


## Chart 12

- Average MCCP costs have generally declined in the last several years as average medical costs have moderated and claim settlement rates have accelerated.

## Ultimate Medical Cost Containment Program (MCCP) Severities

As of March 31, 2020



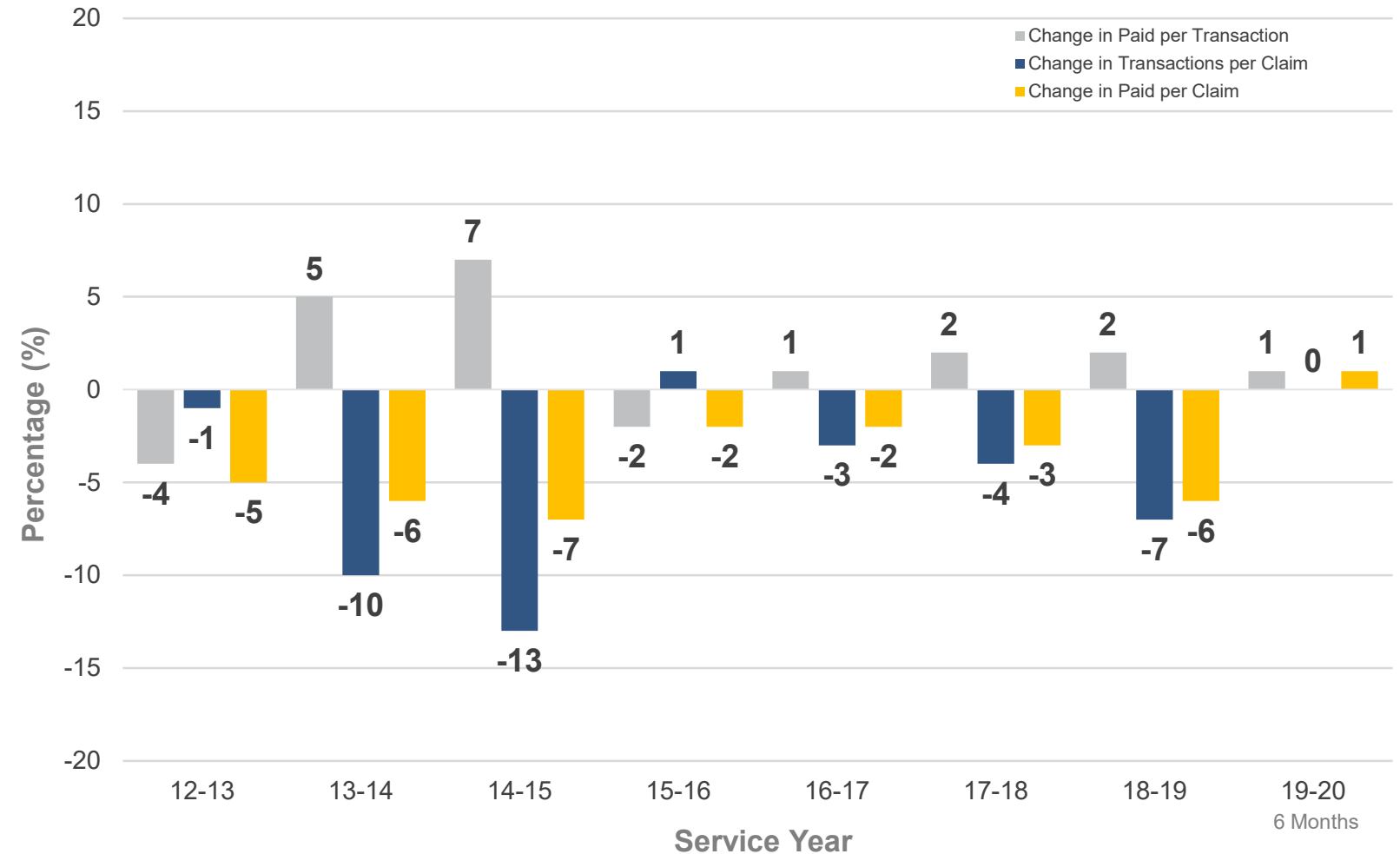


## Chart 13

- Medical service costs per claim decreased by 26% from 2012 through 2019, driven by decreases in the number of transactions per claim.
- Overall medical service costs per claim in the first half of 2020 are flat. However, costs per claim increased modestly in early 2020 but declined after the onset of the pandemic.

## Change in Medical Service Cost Levels

As of October 7, 2020

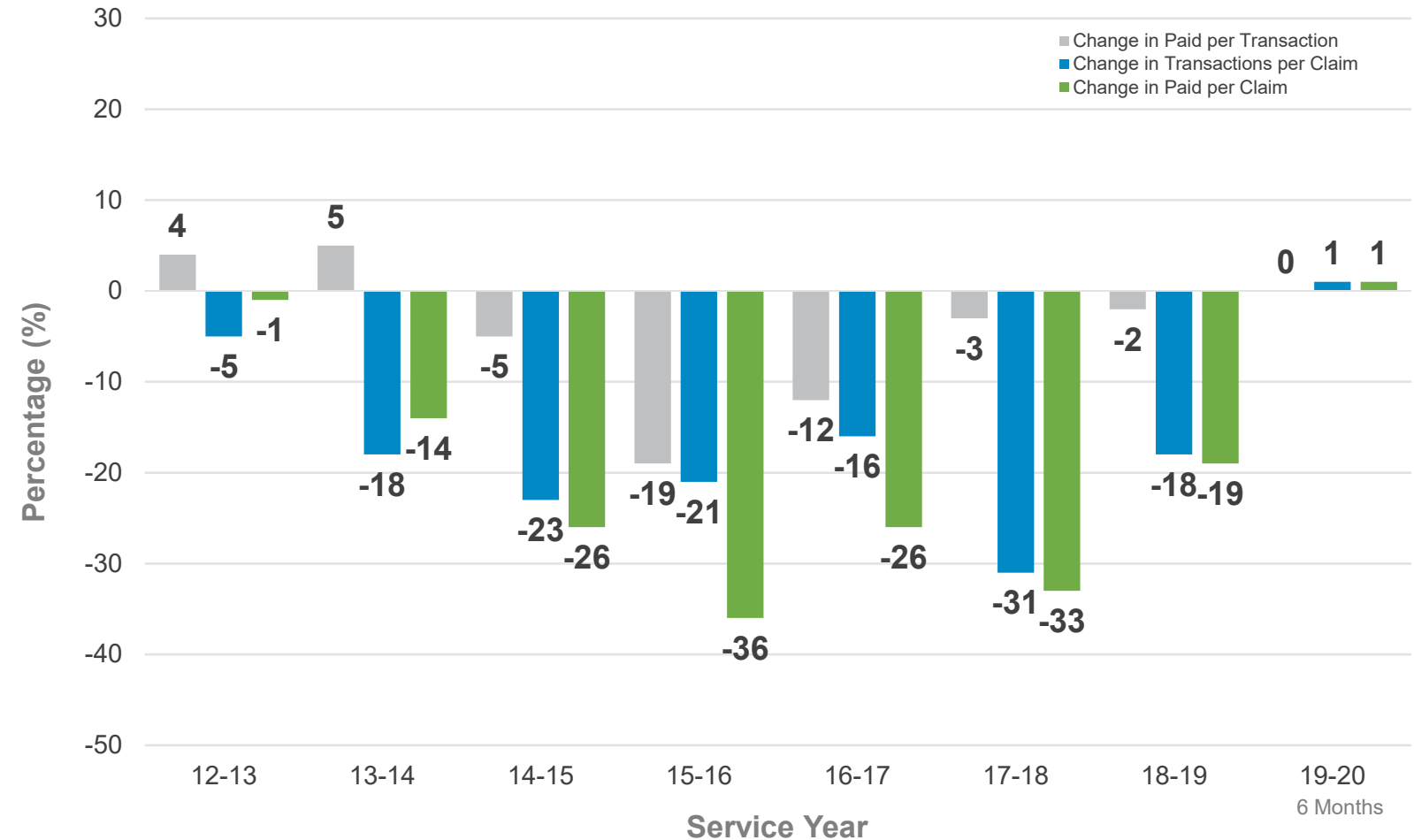


## Chart 14

- Pharmaceutical costs per claim decreased by 84% from 2012 through 2019.
- The flat pharmaceutical cost level for the first half of 2020 is driven by continued declines in early 2020 offset by sharp increases during the pandemic period.

## Change in Pharmaceutical Cost Levels

As of October 7, 2020



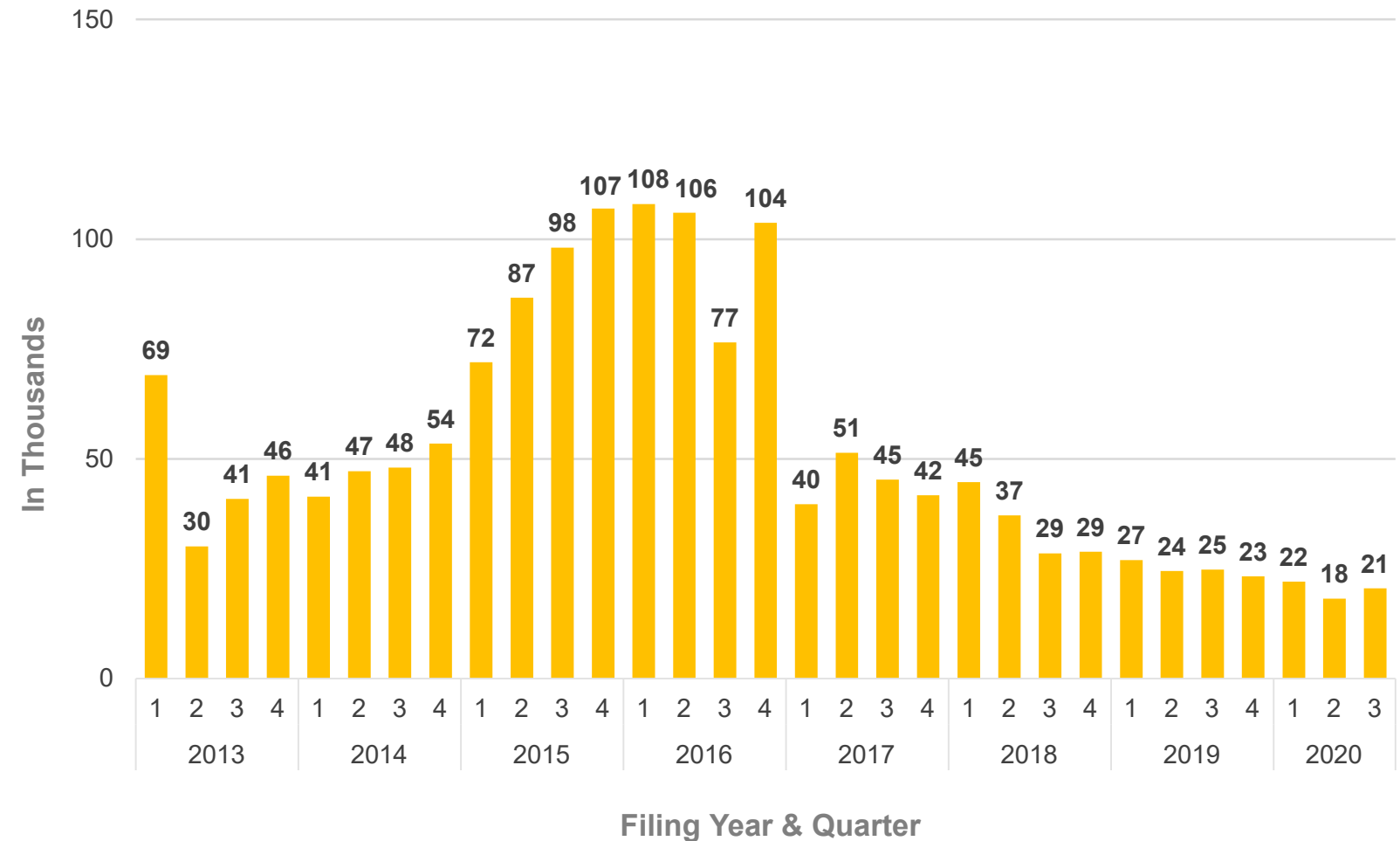


## Chart 15

- SB 1160 and AB 1244 made changes to the lien filing process effective in 2017.
- The number of liens filed in 2019 and 2020 are more than 60% below pre-SB 1160 and AB 1244 levels.

## Number of Liens Filed

As of September 30, 2020



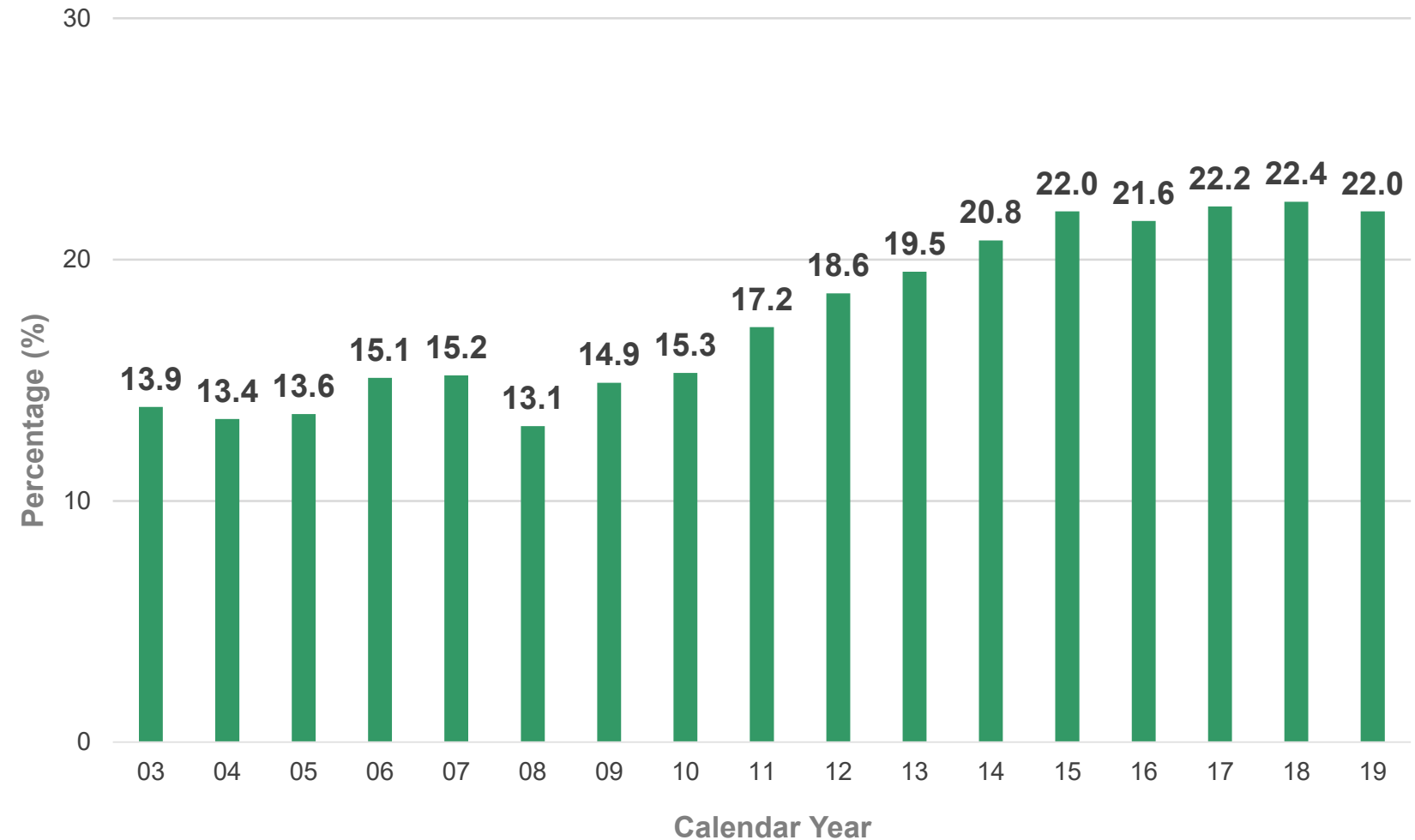


## Chart 16

- Ratios of ALAE to loss increased significantly from 2011 to 2015 in part due to increased cumulative trauma claim filings and the transition to SB 863.
- From 2015 to 2019, these ratios have been generally consistent as savings from recent reforms have not materialized in lower ALAE costs.

## Ratios of Paid ALAE to Paid Losses

As of March 31, 2020





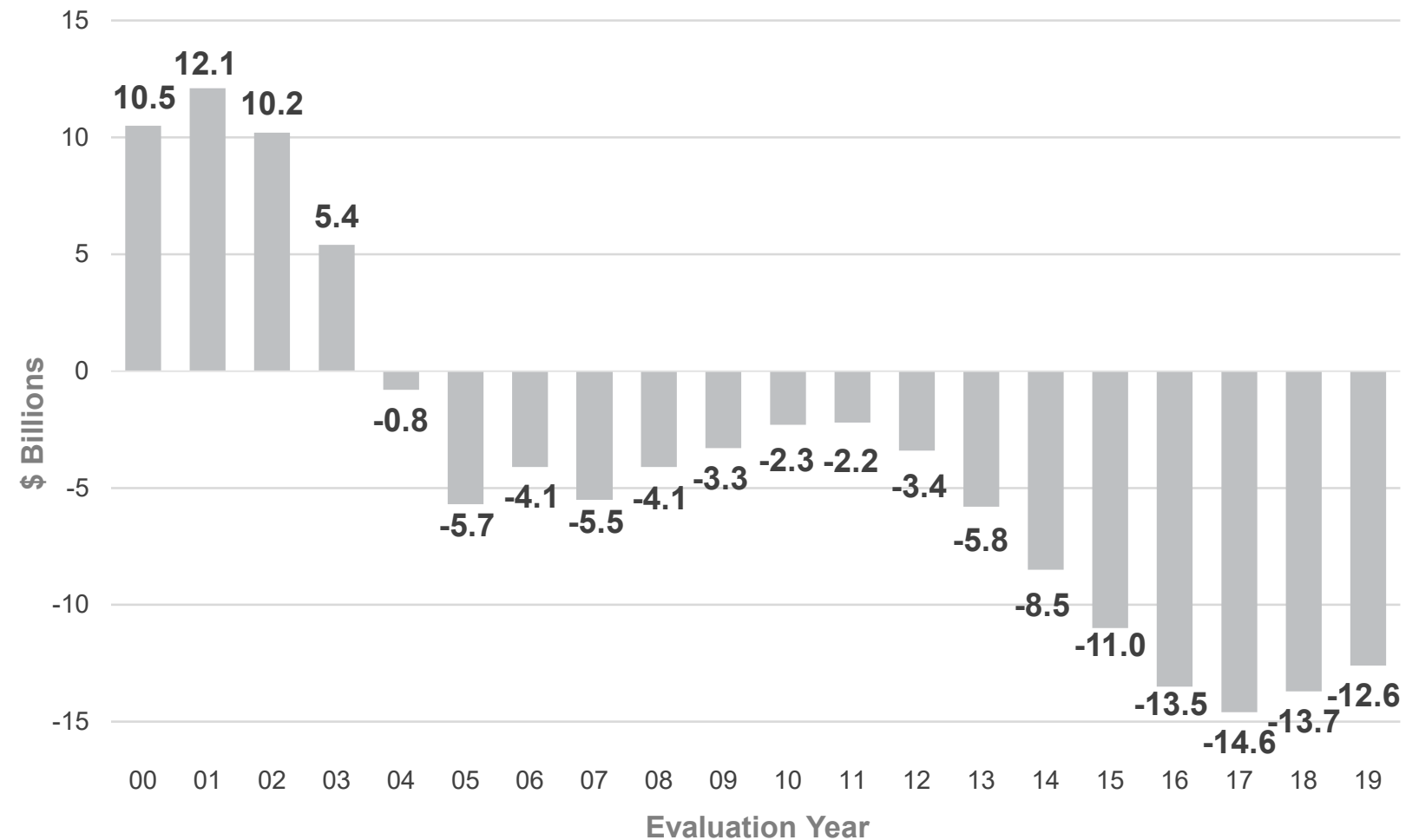


## Chart 17

- Projected total statewide ultimate losses for 2004 through 2019 evaluations are below the amounts reported by insurers.

## Projected Ultimate Losses Less Reported Losses

As of March 31, 2020





## General Notes

- 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.
- Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments using information reported by insurers through March 31, 2020 or September 30, 2020. Although the actuarial methodologies and assumptions upon which these projections are predicated are periodically reviewed 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.
- 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.
- 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 portions of MCCP costs for accident years 2010 and 2011 have been reported as medical loss and some portions have been reported as ALAE. For consistency, the amounts and ratios shown in these exhibits are adjusted to either include or exclude MCCP costs for all years shown to the extent possible.



## More Info

### **Chart 1: Written Premium**

- Source: WCIRB aggregate financial data calls.
- Written premium is gross of deductible credits.

### **Chart 2: Industry Average Charged Rates**

- Rates are based on WCIRB unit statistical data through 2017 and estimated based on aggregate financial data calls for 2018 and later.
- Rates are per \$100 of payroll.
- Rates are averages over policies incepting in the year (January 1 to December 31).

### **Chart 3: Quarterly Written Premium – Year-to-Year Percent Change**

- Source: WCIRB aggregate financial data calls.
- Written premium is gross of deductible credits.
- Figures represent the percent change in quarterly written premium amounts from a comparable period for the prior calendar year.

### **Chart 4: Projected Accident Year Combined Ratios**

- Ratios are projected based on WCIRB aggregate financial data call data as of March 31, 2020.
- Combined ratios include losses, loss adjustment expenses, and other insurer expenses.

### **Chart 5: Percent of Open Indemnity Claims Closed in Next Year**

- Source: WCIRB aggregate financial data call data as of September 30, 2020.
- Figures represent the number of indemnity claims aged between 21 to 105 months closed during the year as a ratio of the number of estimated ultimate claims open or not yet reported as of September 30 of the prior year.

### **Chart 6: Change in Incremental Claim Counts**

- Source: WCIRB aggregate financial data call data as of September 30, 2020.
- Figures represent the percent change in newly reported indemnity or medical-only claim counts in the quarter from the comparable amount for the same quarter of the prior calendar year.

### **Chart 7: Cumulative Trauma Claims per 100 Indemnity Claims**

- Source: WCIRB unit statistical data based on partial accident years. Claim counts are developed to an estimated ultimate level.
- Accident year 2018 data is preliminary.

### **Chart 8: Ultimate Loss & ALAE Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of March 31, 2020.
- Includes data for indemnity claims only.



## More Info (...continued)

### **Chart 9: Ultimate Indemnity Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of March 31, 2020.

### **Chart 10: Ultimate Medical Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of March 31, 2020.
- Includes data for indemnity claims only. MCCP costs have been excluded from all years for consistency of comparison.

### **Chart 11: Ultimate ALAE (excl. MCCP) Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of March 31, 2020.
- Includes data for indemnity claims only. MCCP costs are excluded from all years for consistency of comparison.

### **Chart 12: Ultimate Medical Cost Containment Program (MCCP) Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of March 31, 2020.
- Includes data for indemnity claims only.

### **Chart 13: Change in Medical Service Cost Levels**

- Source: WCIRB medical transaction data as of October 7, 2020.

### **Chart 14: Change in Pharmaceutical Cost Levels**

- Source: WCIRB medical transaction data as of October 7, 2020.

### **Chart 15: Number of Liens Filed**

- Source: The Division of Workers' Compensation.

### **Chart 16: Ratios of Paid ALAE to Paid Losses**

- Source: WCIRB aggregate financial data calls.
- MCCP costs paid on policies incepting prior to July 1, 2010 are considered loss and costs paid on policies incepting after July 1, 2010 are considered ALAE.

### **Chart 17: Projected Ultimate Losses Less Reported Losses**

- Insurer-reported 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 do not necessarily equate to specific estimates of the adequacy of insurers' reserves for unpaid losses.
- Projected ultimate losses are based on WCIRB aggregate financial data call data as of March 31, 2020.



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