

# 2021 State of the System

The Workers' Compensation Insurance Rating Bureau of California  
Report on California's Workers' Compensation System

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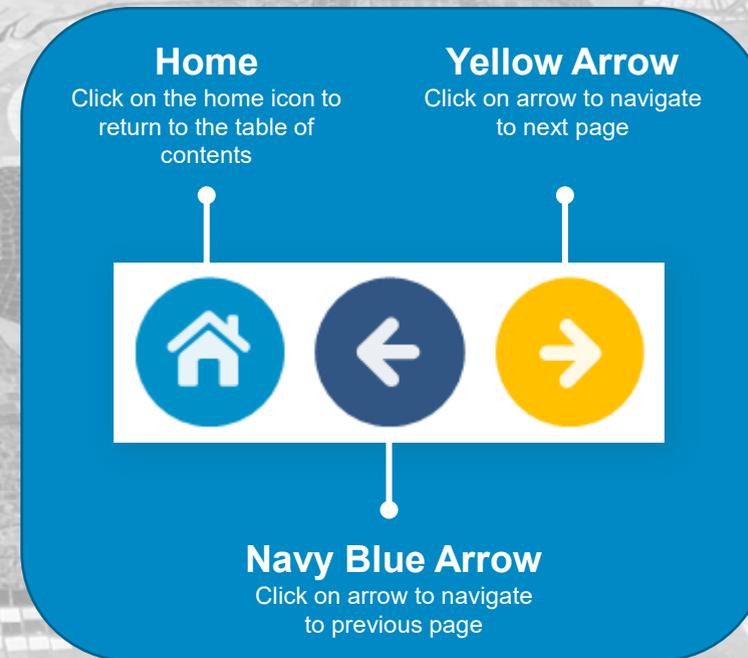
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## How to use this workbook

Open the interactive workbook in Adobe Reader.

Navigate through the document using the buttons at the top of the screen.



**Please note:** Interactivity is not available on smartphones or on tablet devices. You must use Adobe Reader for the full functionality to work.

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## Report Summary: 2021 State of the System

Almost 150,000 COVID-19 claims have been filed in the California workers' compensation system. ([Chart 5](#)) The impact of the filing of so many COVID-19 claims in 2020 on claim frequency was in part offset by a reduction in the number of non-COVID-19 claims filed. ([Chart 21](#))

Premium levels dropped sharply in 2020 due to continued insurer rate decreases and the pandemic-related economic slowdown. Premiums are forecast to increase modestly in 2021 with economic recovery and the impact of insurer rate decreases moderating. ([Chart 12](#))

The insurance market remains stable and non-concentrated. ([Chart 56](#)) Insurer charged rates continue to decrease and are now at a 50-year low. ([Chart 14](#))

Average indemnity claim costs are rising, ([Chart 28](#)) while average medical claim costs remain relatively flat. ([Chart 32](#)) The impact of the pandemic on average claim costs in the long-term remains uncertain.

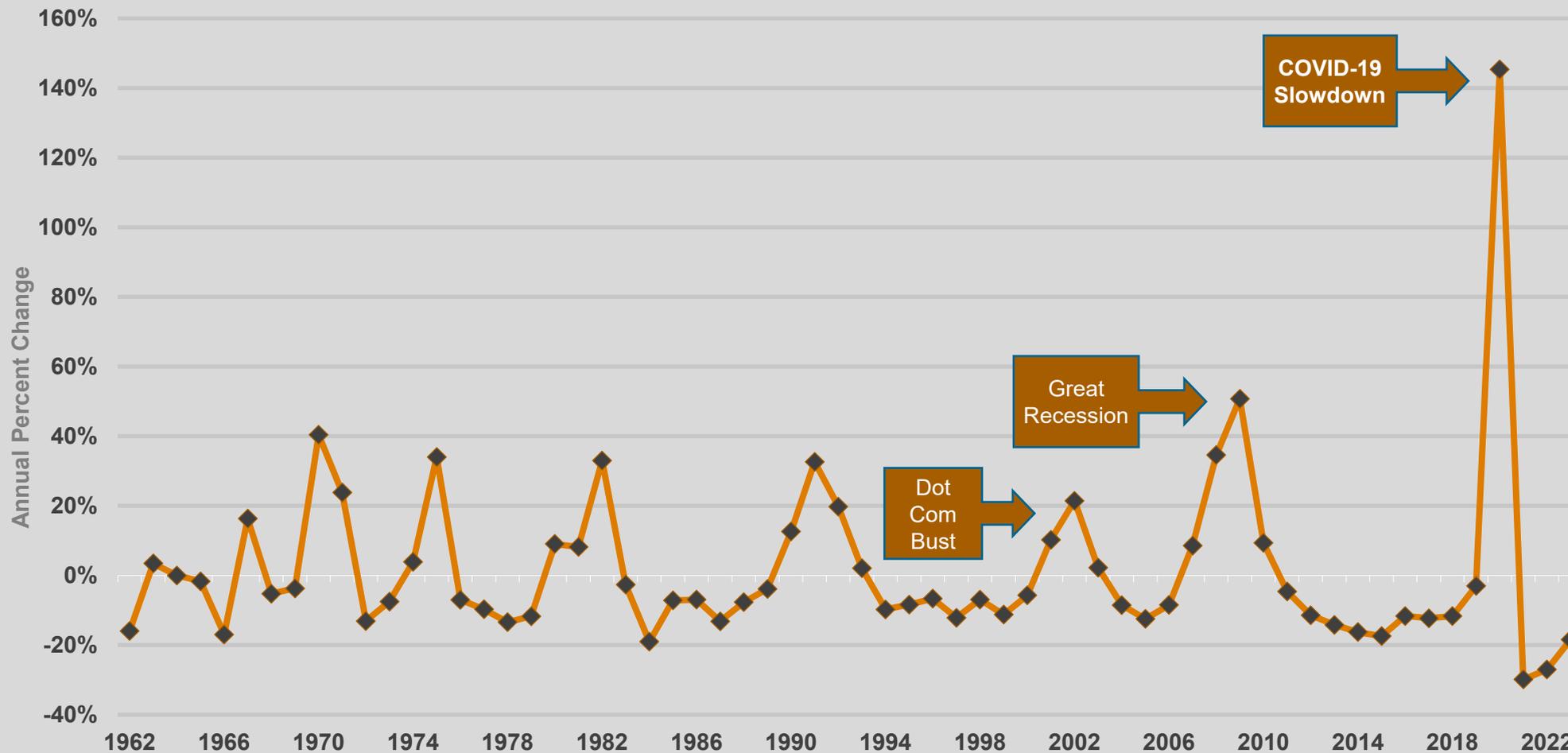
With an influx of COVID-19 claims, the projected combined ratio for 2020 is over 100% for the first time since 2012. ([Chart 58](#)).

# COVID-19 Pandemic

# 01

01  
COVID-19 Pandemic

Chart 1: Change in California Unemployment Rate



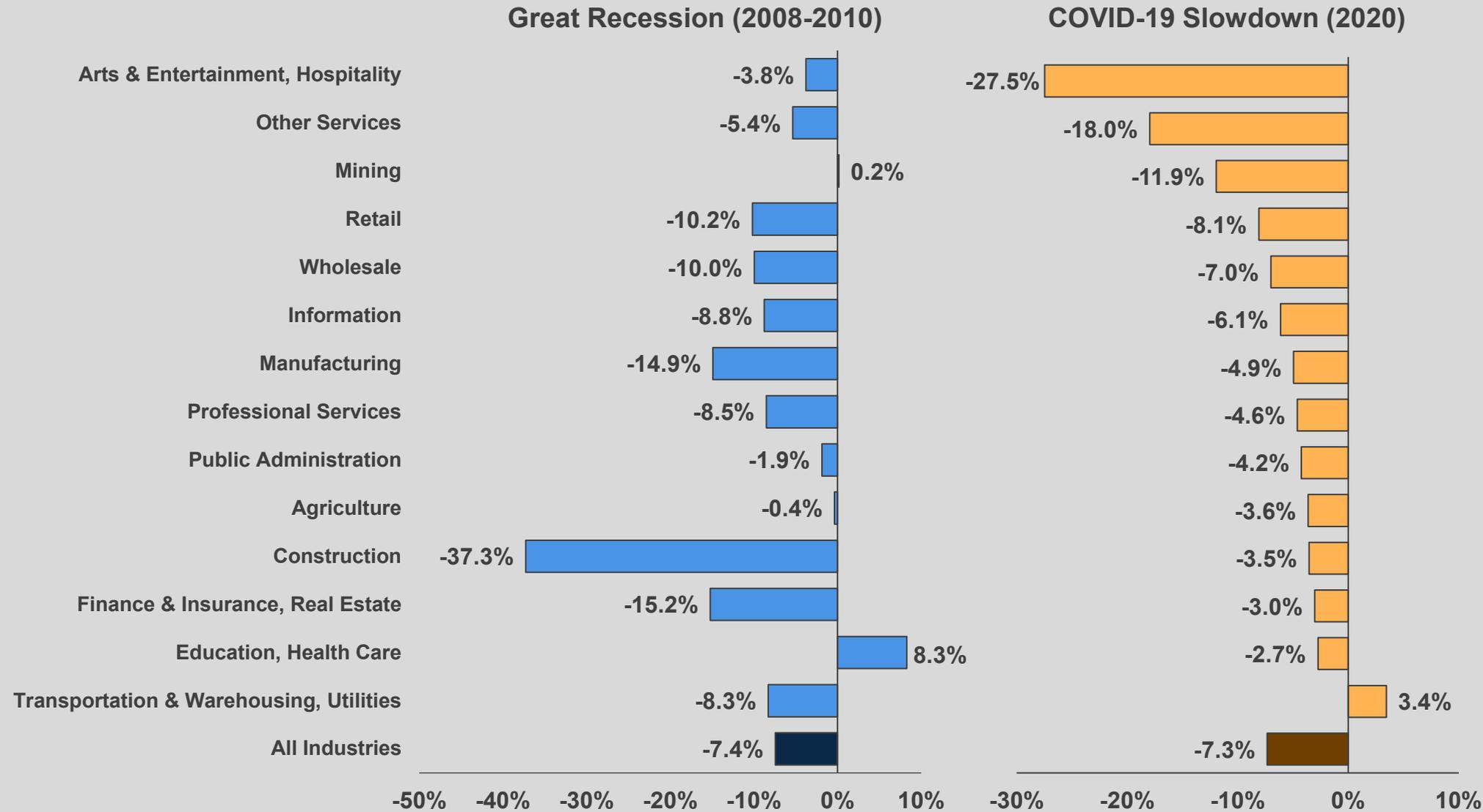
💡 Insights & Recent Trends

- The COVID-19 economic slowdown resulted in the largest and most sudden increase in the unemployment rate in decades, even when compared to prior recessions.
- The sharp and sudden employment drops in 2020 significantly impacted workers' compensation exposure, the number of claim filings and claims activity.
- Economists are forecasting a return to the pre-pandemic unemployment rate by 2023.

More Info →

01  
COVID-19 Pandemic

# Chart 2: California Employment Change by Industry

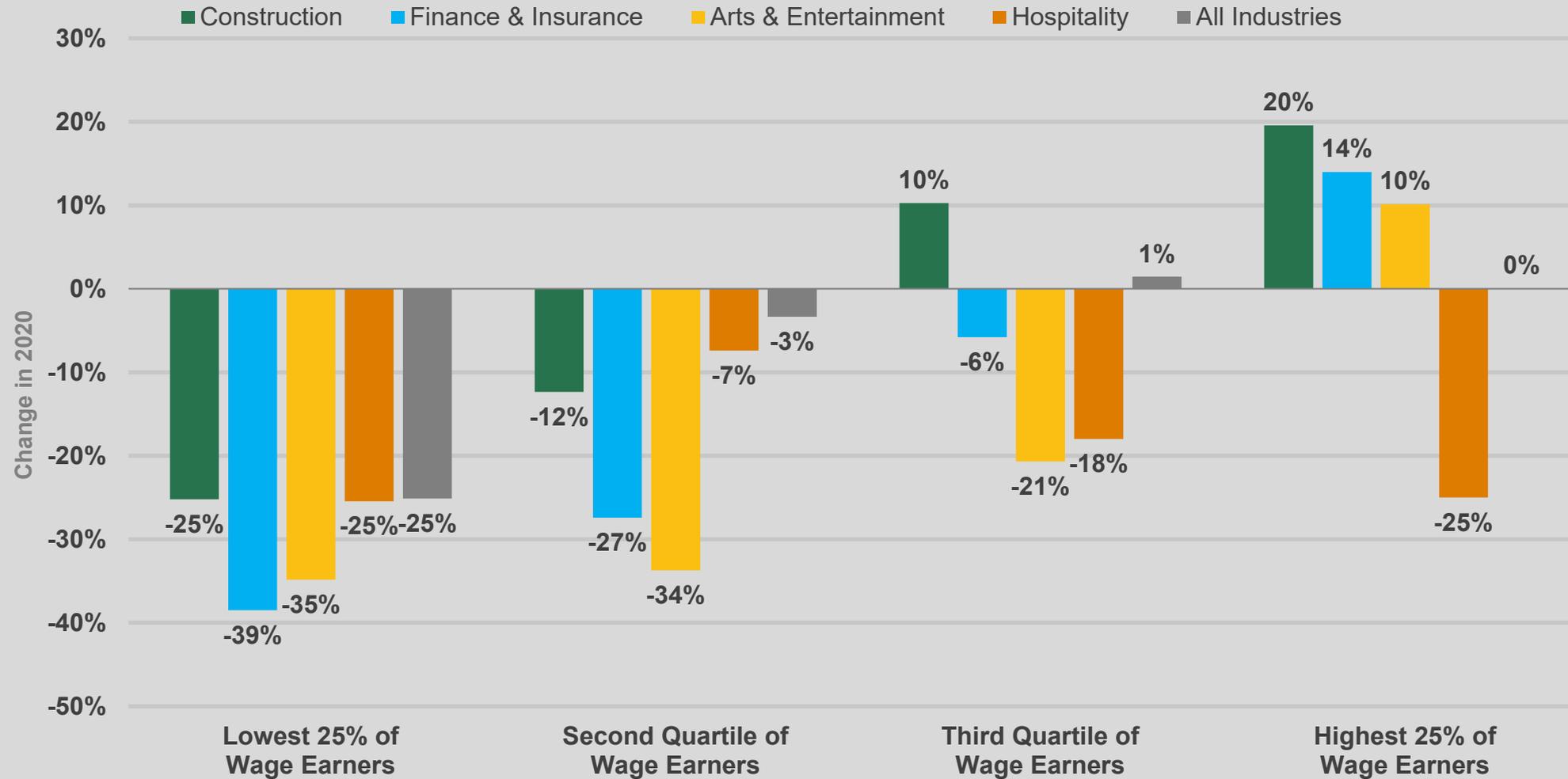


**Insights & Recent Trends**

- While job losses during the Great Recession were greatest in the Construction industry, the job losses during the COVID-19 economic slowdown were greatest in the Arts & Entertainment and Hospitality industries.
- From a workers' compensation perspective, the Arts & Entertainment and Hospitality industries are characterized by relatively high premium rates and claim frequency, but lower than average indemnity claim severities and wage levels.

[More Info](#) →

**Chart 3: California Employment Change by Wage Level**



**Insights & Recent Trends**

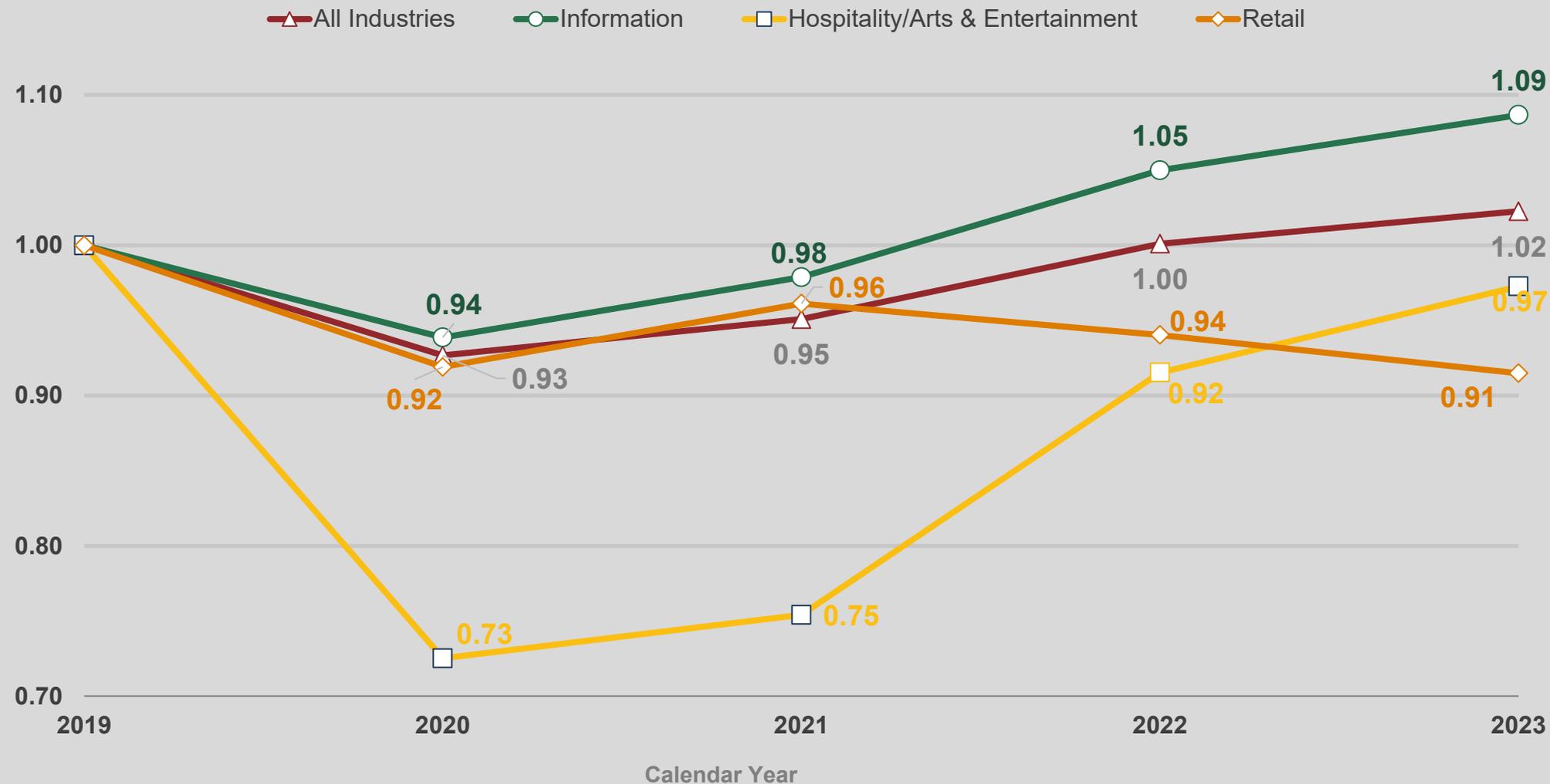
- Across most industries, employment losses in 2020 were greatest for the lowest wage earners.
- In many industries, there were employment gains in the highest 25% of wage earners in 2020.
- The Hospitality industry experienced drops in employment across all wage level categories.
- The disproportionate changes in employment by wage level pushed measures of average wages in 2020 artificially upward.

[More Info](#) →



01  
**COVID-19 Pandemic**

**Chart 4: California Employment Change Forecasts Indexed to 2019**

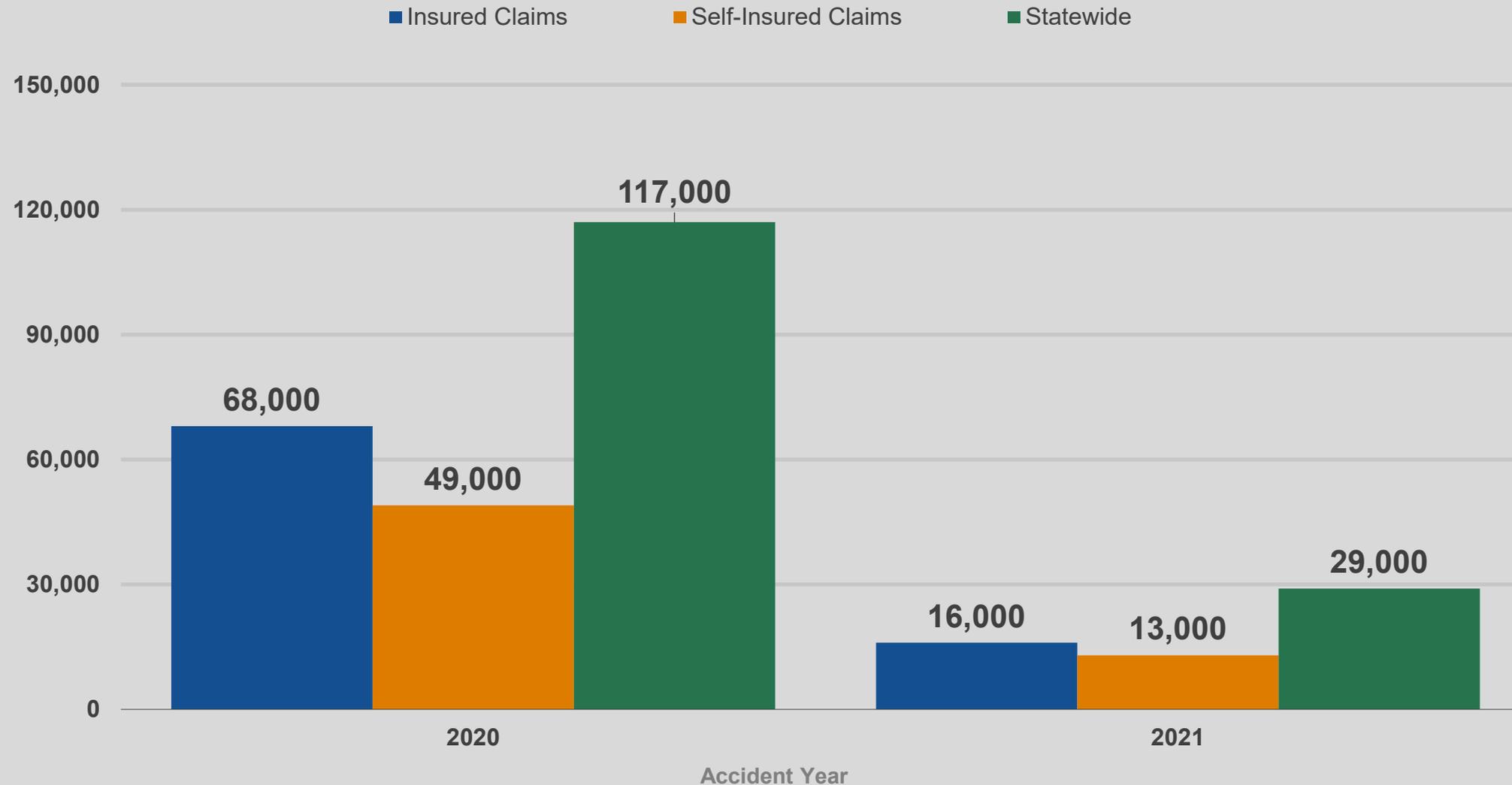


**Insights & Recent Trends**

- Economists are forecasting total California employment to reach the pre-pandemic level by 2022.
- The Hospitality and Arts & Entertainment industries, which experienced the greatest 2020 employment declines, are not forecast to reach the pre-pandemic employment level until after 2023.
- The Retail industry is forecast to have continued employment declines through 2023, with declines in 2022 and 2023 not directly related to the pandemic.

01  
COVID-19 Pandemic

**Chart 5: Filed COVID-19 Workers' Compensation Claims**

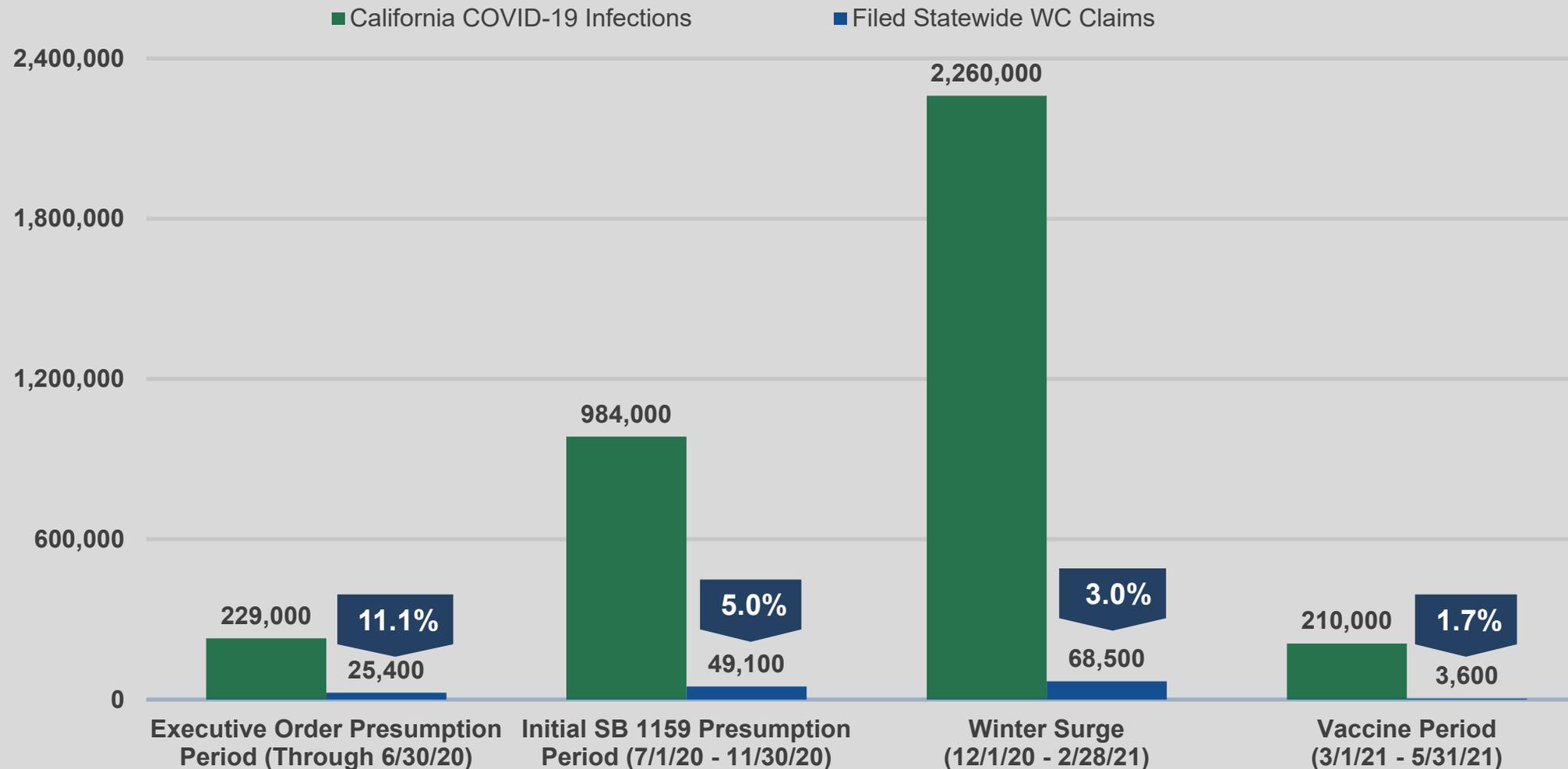


**Insights & Recent Trends**

- Over one-half of the almost 150,000 COVID-19 claims filed in the California workers' comp system as of June 1, 2021 were within the insured system.
- The vast majority of claims were filed through February 2021. Following the "winter surge" of infections and the rollout of vaccines, the number of COVID-19 claims filed after February has been modest.

01  
COVID-19 Pandemic

**Chart 6: COVID-19 Workers' Compensation Claims Relative to Statewide Infections**

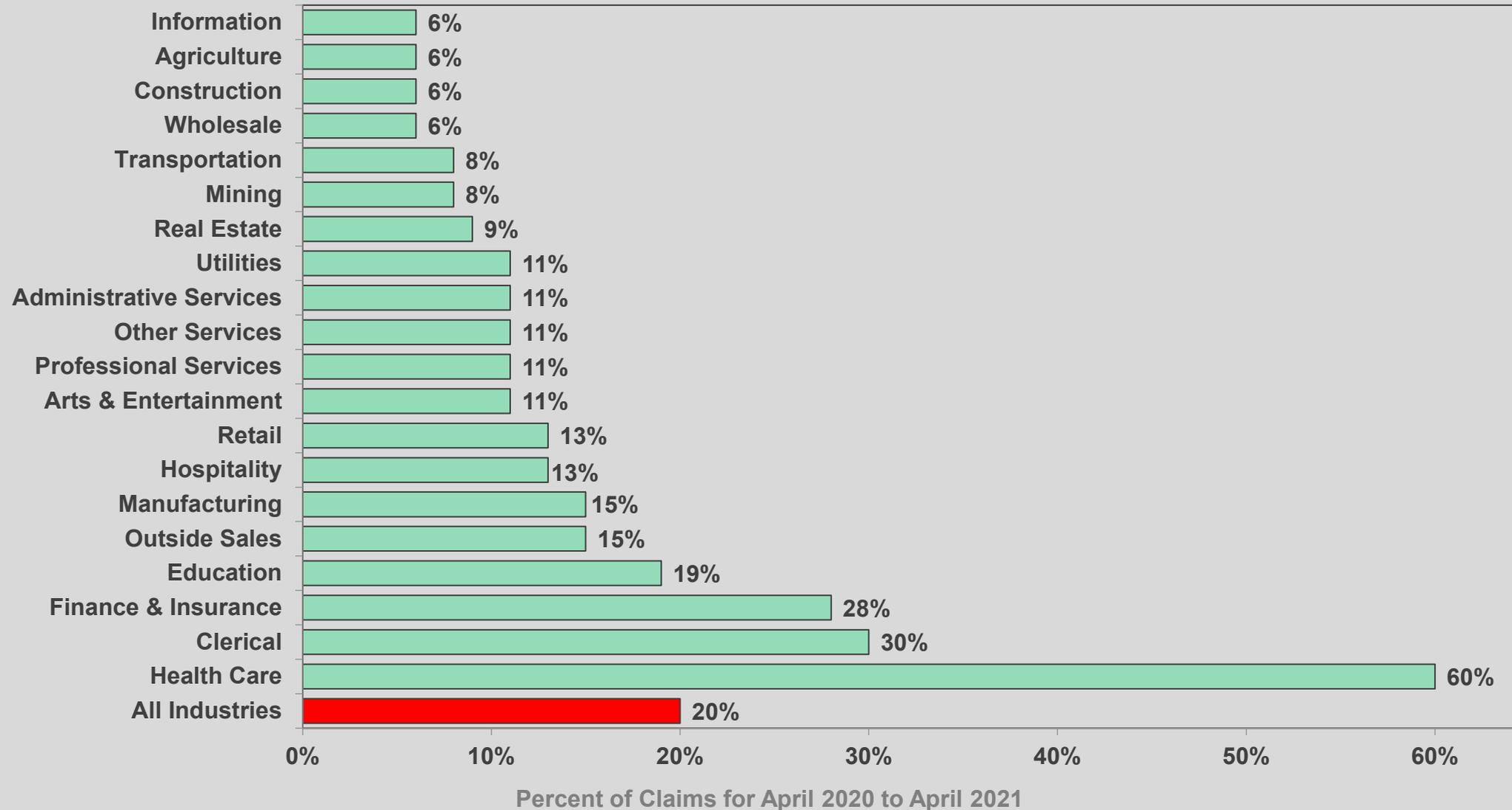


**Insights & Recent Trends**

- Over time, the ratio of COVID-19 claims relative to statewide infections declined as the COVID-19 workers' compensation presumption created by Senate Bill (SB) No. 1159 was more restrictive than the Governor's Executive Order issued in spring 2020.
- The winter surge resulted in over 2 million infections statewide and the largest volume of COVID-19 workers' compensation claims filed during the pandemic.

01  
COVID-19 Pandemic

# Chart 7: COVID-19 Claims as a Percent of Indemnity Claims

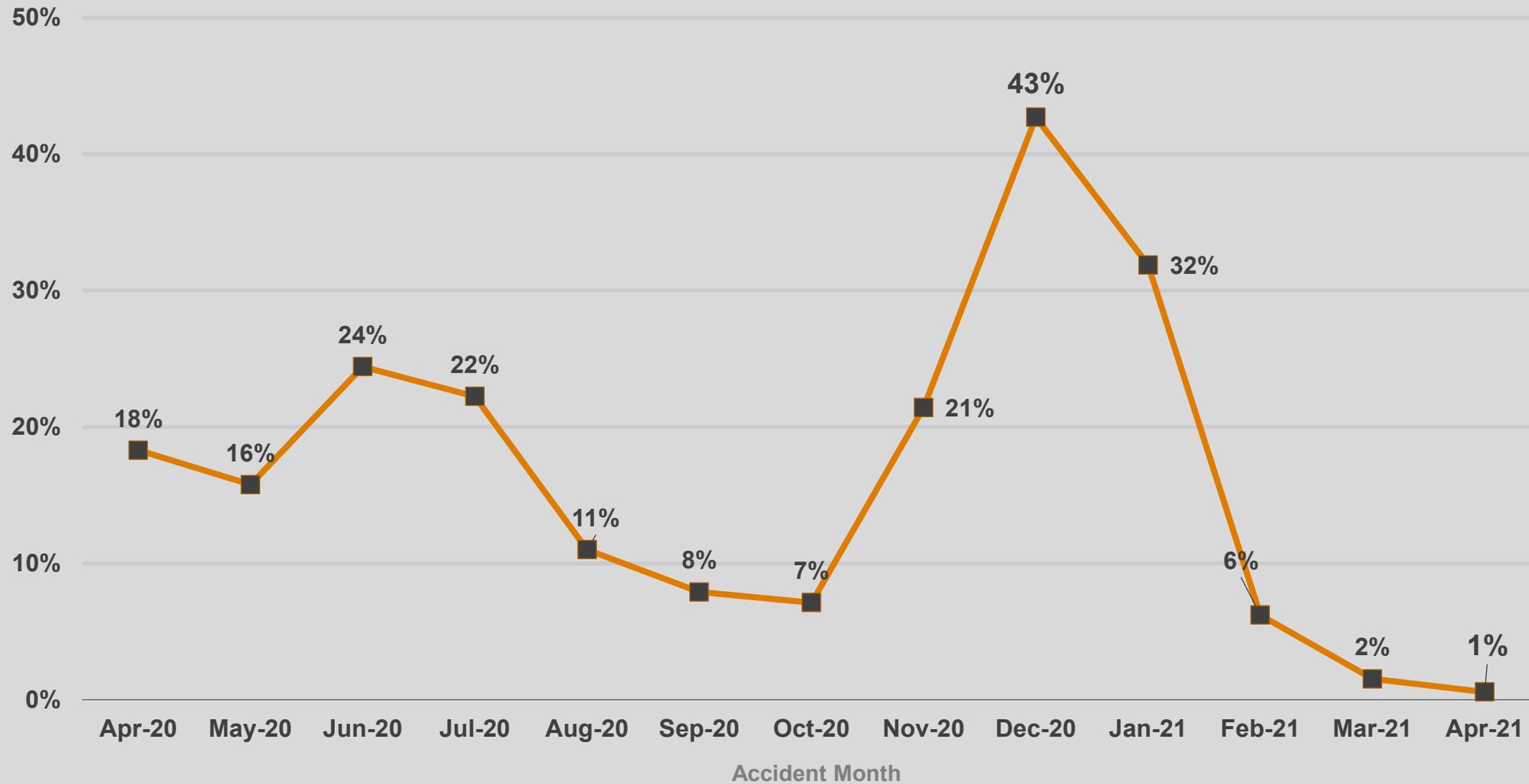


**Insights & Recent Trends**

- From April 2020 to April 2021, over one-half of indemnity claims for Health Care workers were for COVID-19.
- Industries with relatively low proportions of COVID-19 claims include industries with many employees working at home such as Information as well as those that had some employees continuing to work at the employer's facility or in the field such as Agriculture, Construction, Wholesale and Transportation.

01  
COVID-19 Pandemic

**Chart 8: COVID-19 Claims as a Percent of Indemnity Claims Over Time**

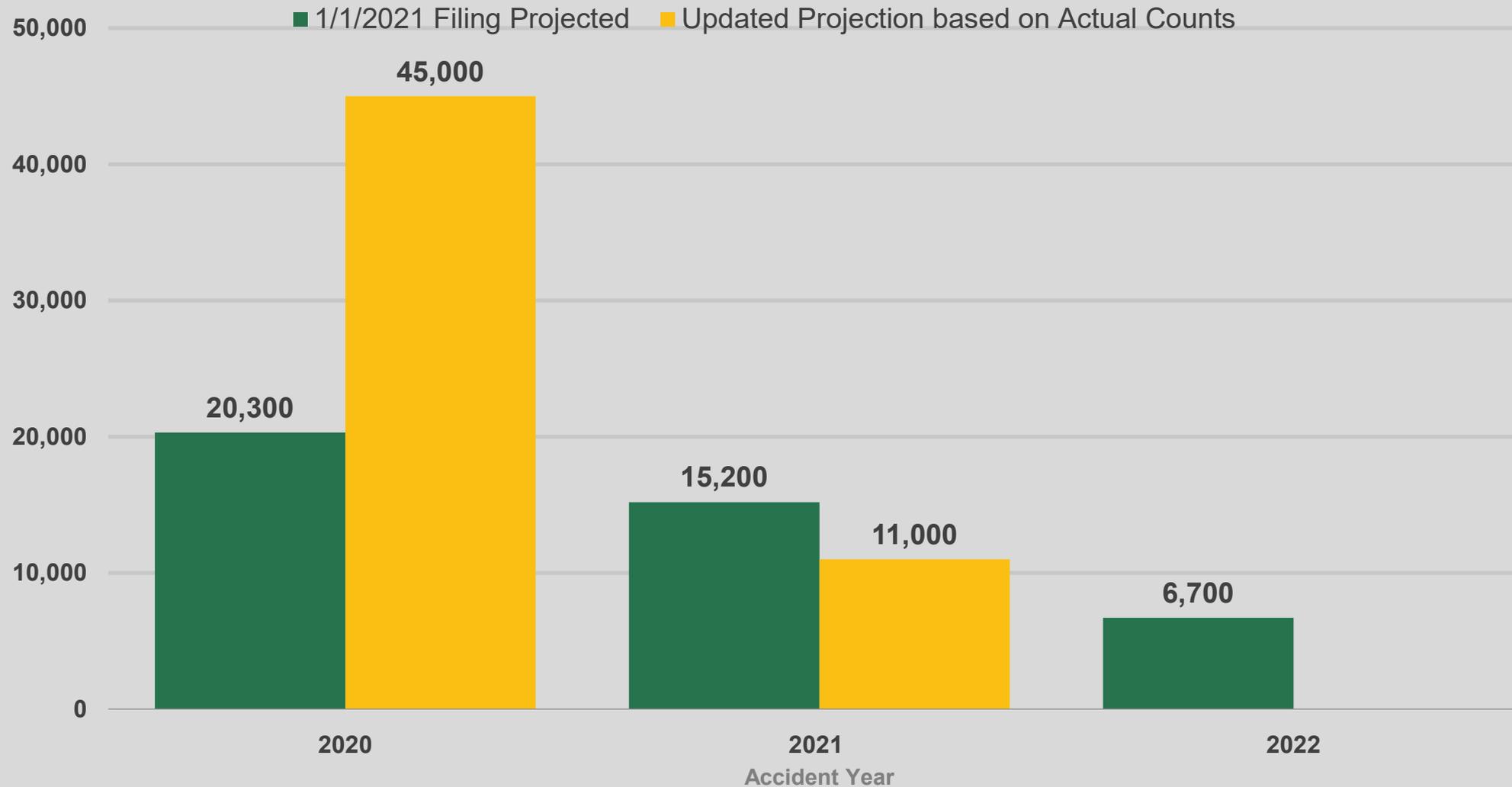


**Insights & Recent Trends**

- COVID-19 claims as a percent of all indemnity claims peaked in December 2020 during the winter surge of infections.
- As vaccines rolled out in spring 2021, the proportion of COVID-19 claims has been very modest.

01  
**COVID-19 Pandemic**

**Chart 9: Projected COVID-19 Claims for the Insured System**



**Insights & Recent Trends**

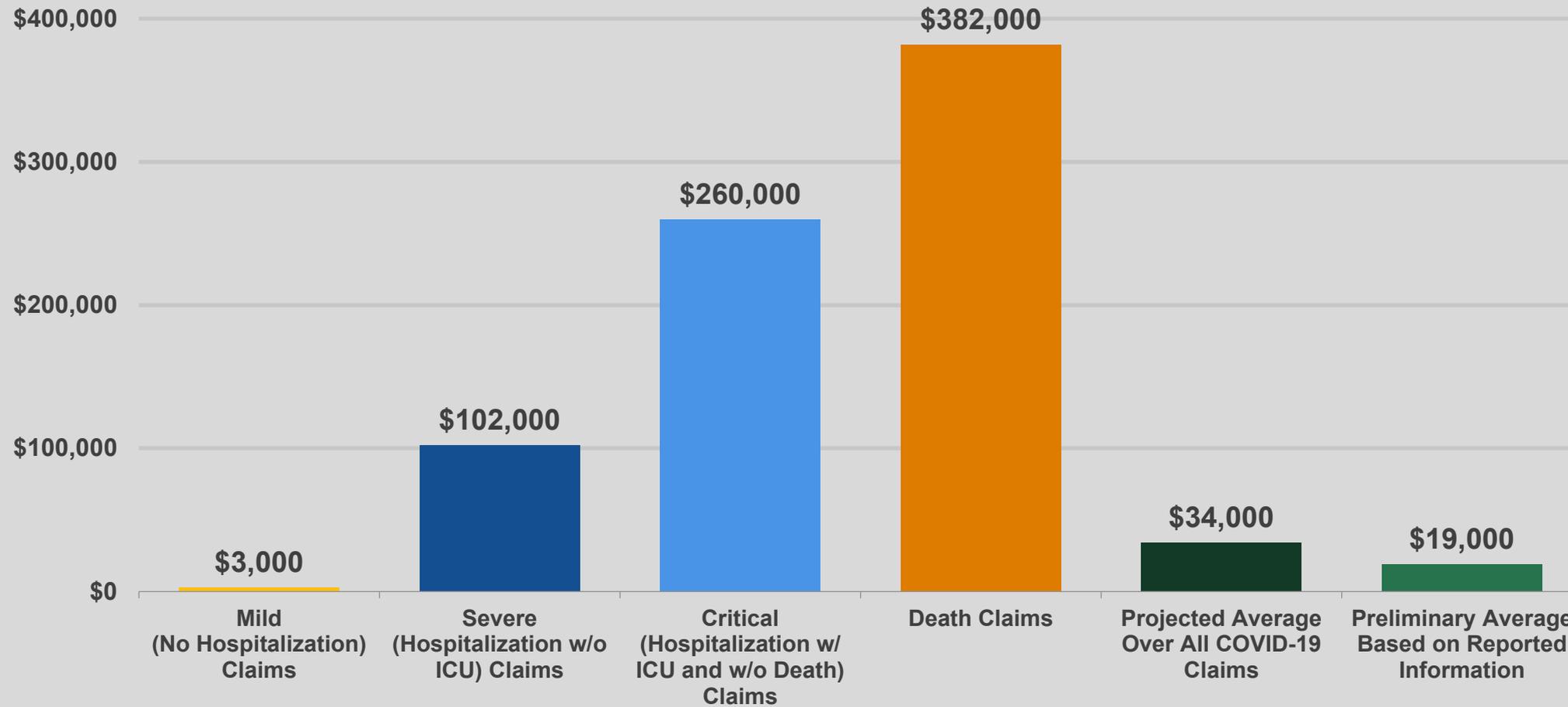
- In part due to the winter surge of infections, the estimated number of ultimate COVID-19 claims for accident year 2020 (excluding denied claims) in the insured system was more than twice the WCIRB’s projection in the January 1, 2021 Pure Premium Rate Filing.
- With the accelerated rollout of vaccines in California, the updated projected ultimate number of COVID-19 claims for accident year 2021 are somewhat below the WCIRB’s January 1, 2021 filing projection.

[More Info](#) ➔



01  
COVID-19 Pandemic

**Chart 10: Projected COVID-19 Average Claim Costs**



**Insights & Recent Trends**

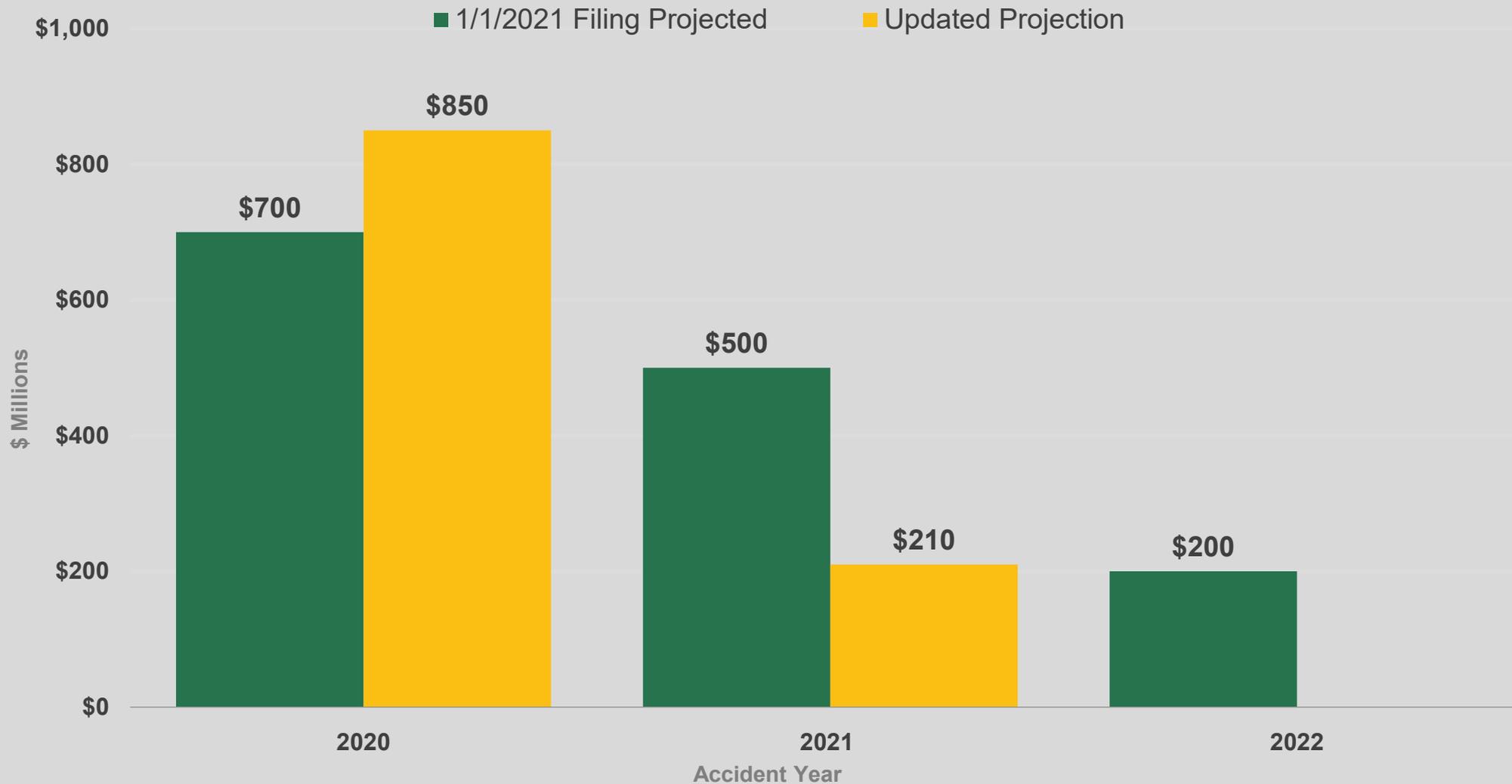
- The projected average cost of a COVID-19 claim differs significantly by the severity of the illness.
- The preliminary estimated average cost of a COVID-19 claim is below initial projections, which is likely due to a higher proportion of mild claims being filed than initially projected.
- In particular, a much higher than projected share of COVID-19 claims has been filed by younger workers. Younger individuals are more likely to have mild COVID-19 symptoms.

[More Info](#) →



01  
COVID-19 Pandemic

**Chart 11: Projected COVID-19 Claim Costs for the Insured System**



**Insights & Recent Trends**

- Currently projected costs of COVID-19 claims in the insured system for accident years 2020 and 2021 are over \$1 billion in total.
- With the accelerated rollout of vaccines and California potentially approaching herd immunity, COVID-19 claim costs for the remainder of 2021 and 2022 may be small.

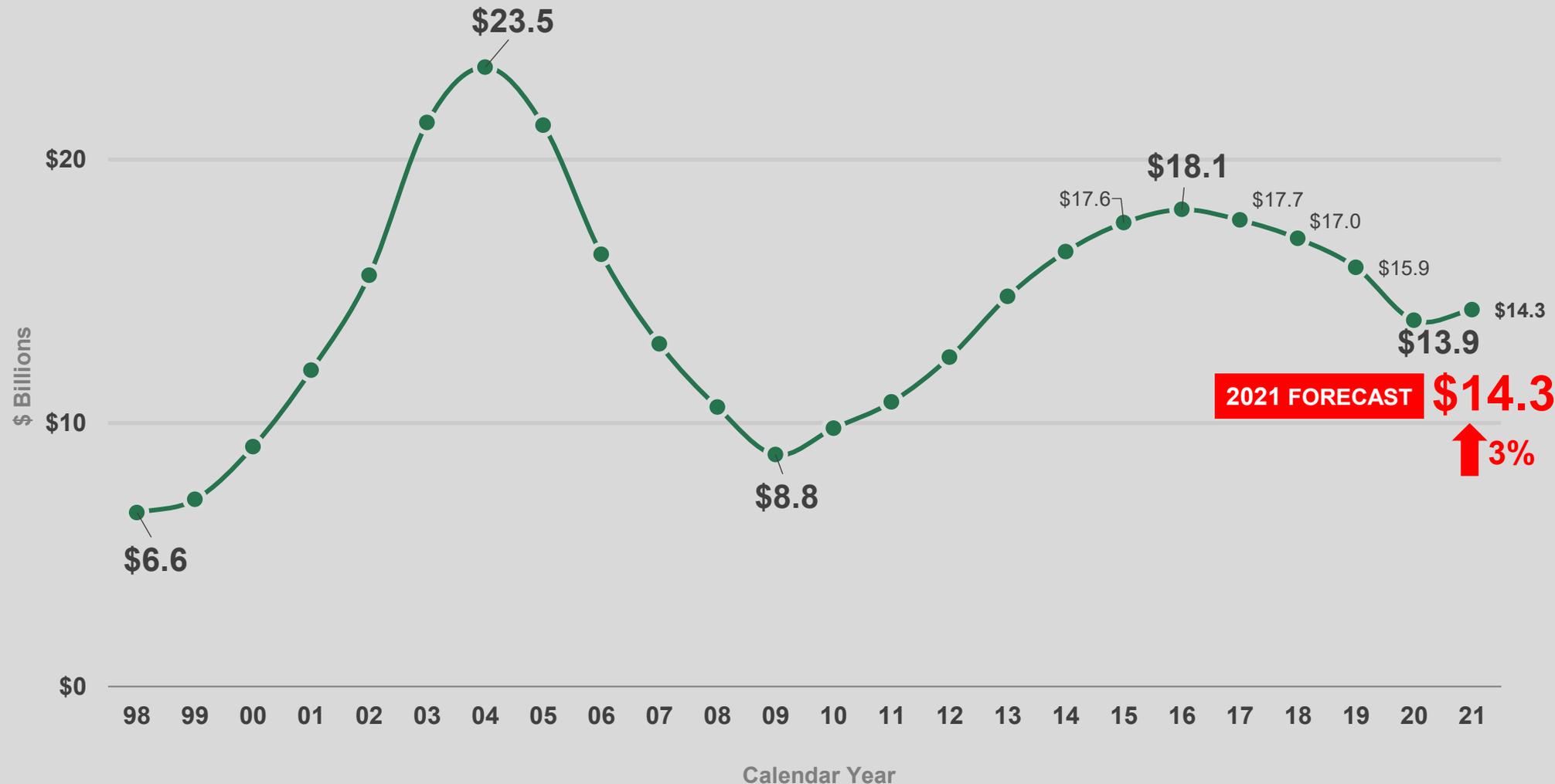
[More Info](#) →



# Premium and Rates

02

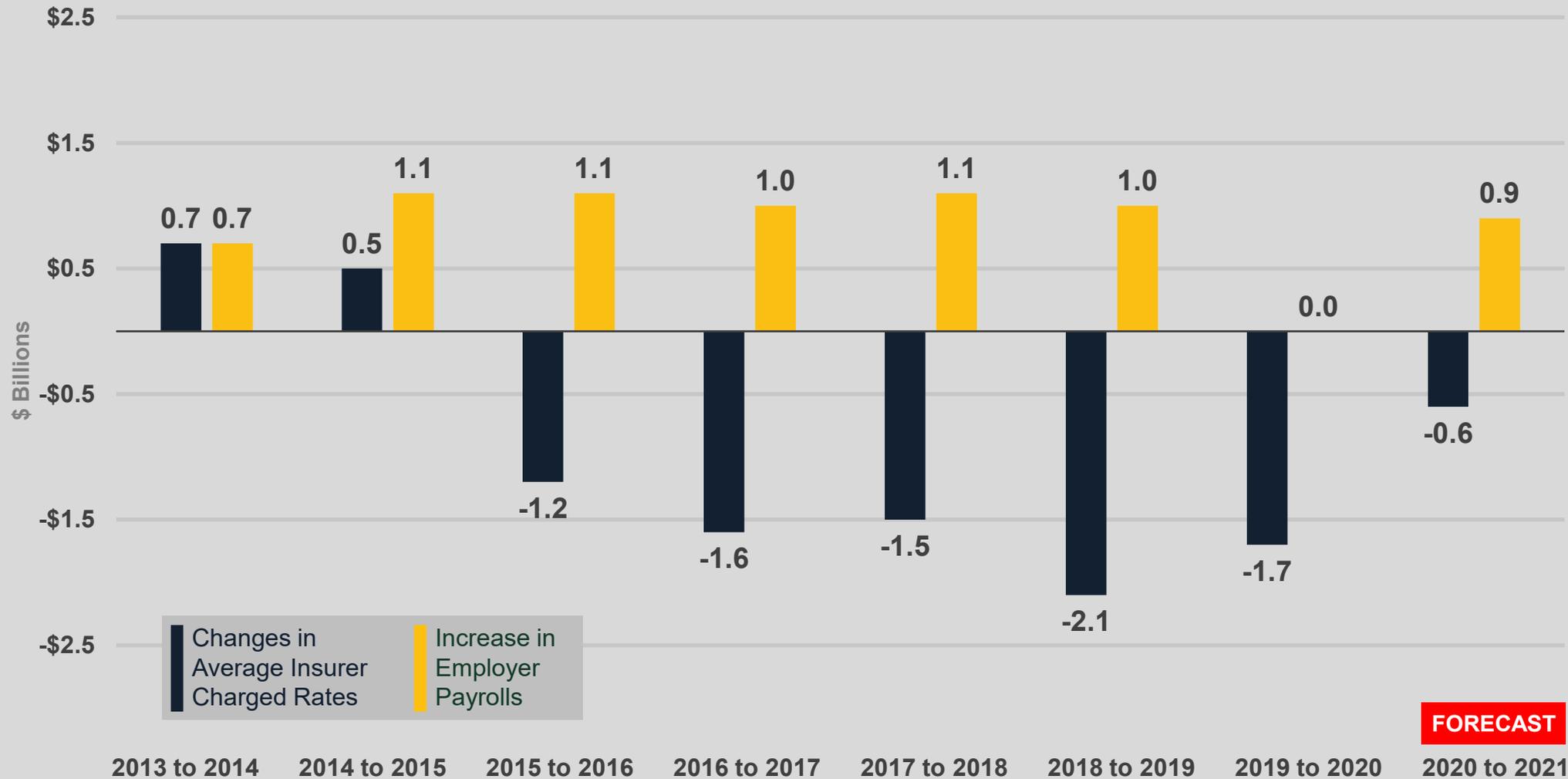
Chart 12: Reported Written Premium



**Insights & Recent Trends**

- In 2020, with the rapid economic downturn brought on by the COVID-19 pandemic combined with continued insurer rate decreases, premium reached an eight-year low, 23% below the 2016 peak.
- Total written premium is forecast to increase modestly in 2021 with the economic recovery and moderation of the impact of declining premium rates, but would still be well below the level from 2014 to 2019.

**Chart 13: Drivers of Written Premium Changes**



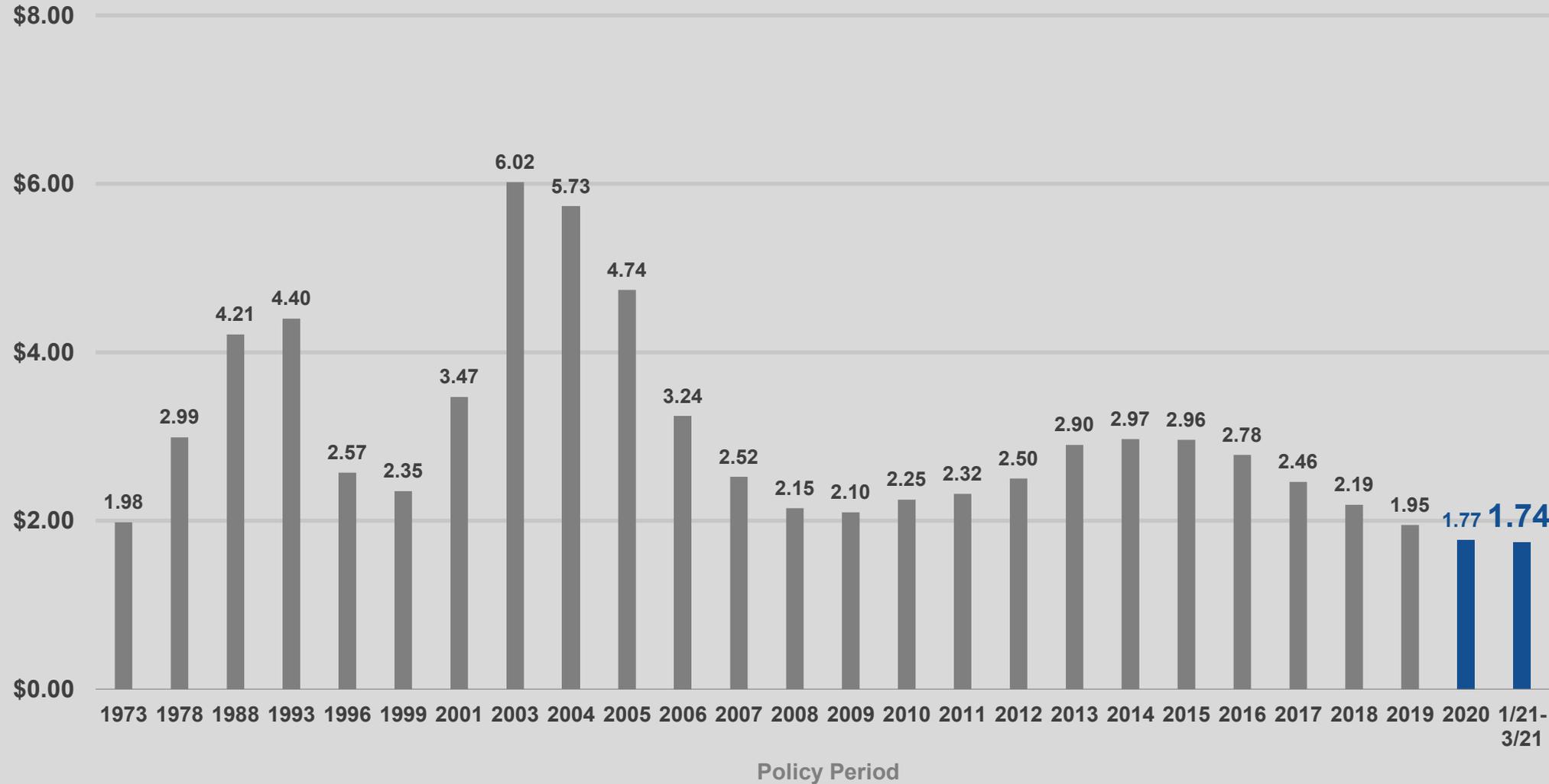
**Insights & Recent Trends**

- Continued increases in the workforce and in average wage levels were more than offset by insurer rate decreases, resulting in premium declines in 2016 through 2019.
- The COVID-19 economic slowdown resulted in 2020 payroll levels comparable to 2019. With continued decreases in insurer rates, premium declined significantly in 2020.
- Forecast growth in employer payrolls in 2021 combined with a more modest decline in average insurer rates ([Chart 14](#)) result in a forecast of modest growth in premium for 2021.

More Info →



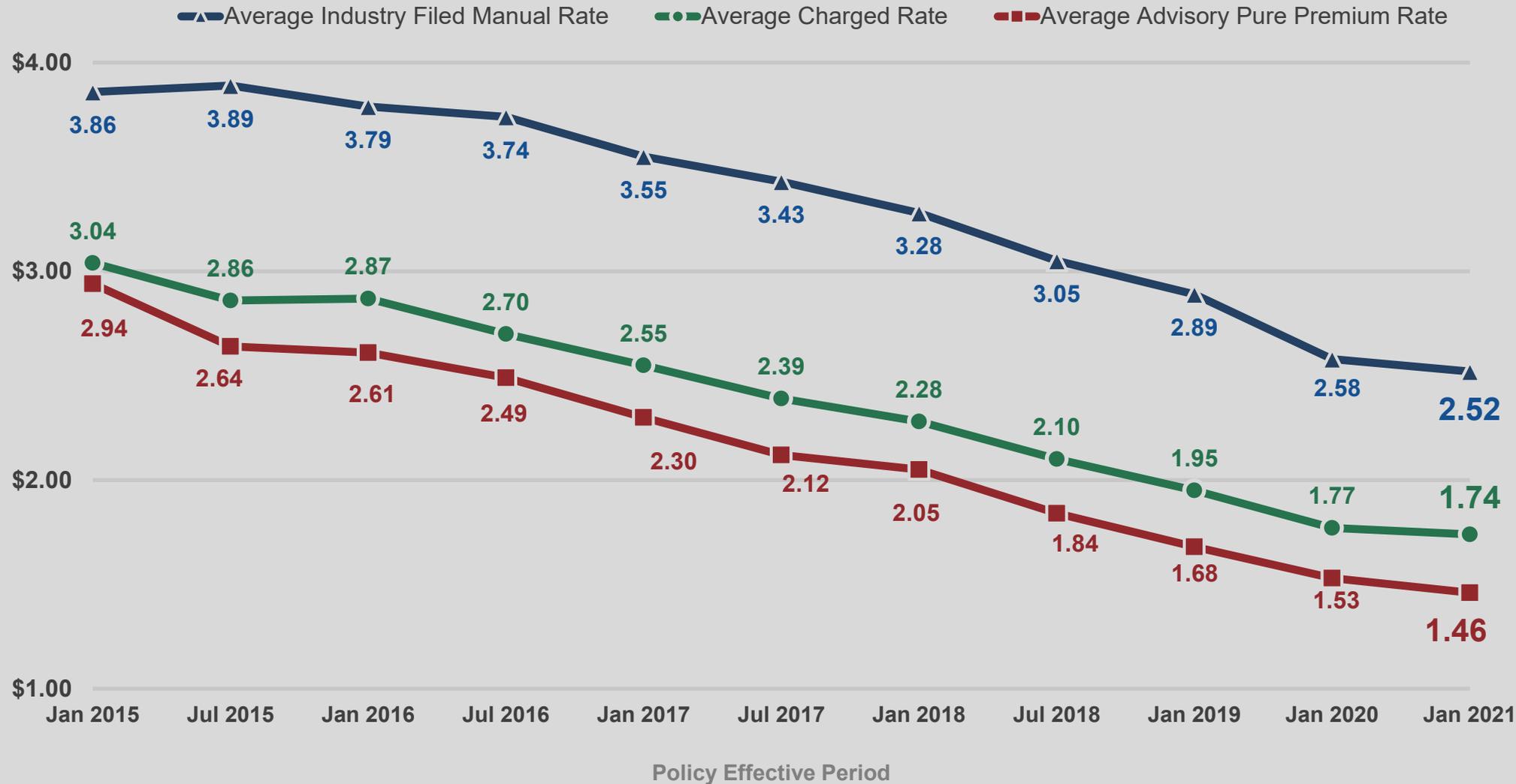
**Chart 14: Average Charged Rate per \$100 of Payroll**



**Insights & Recent Trends**

- Average charged insurer rates are down over 40% since 2015.
- Current charged rates are at the lowest level in approximately 50 years, as over the long term, declining claim frequency and increasing wage levels have offset rising medical costs and increases in indemnity benefits.
- Average insurer rates charged for the first quarter of 2021 are only 2% below the rates charged in 2020, possibly signaling a sign of moderating insurer rate decreases and potential future hardening of the insurance market.

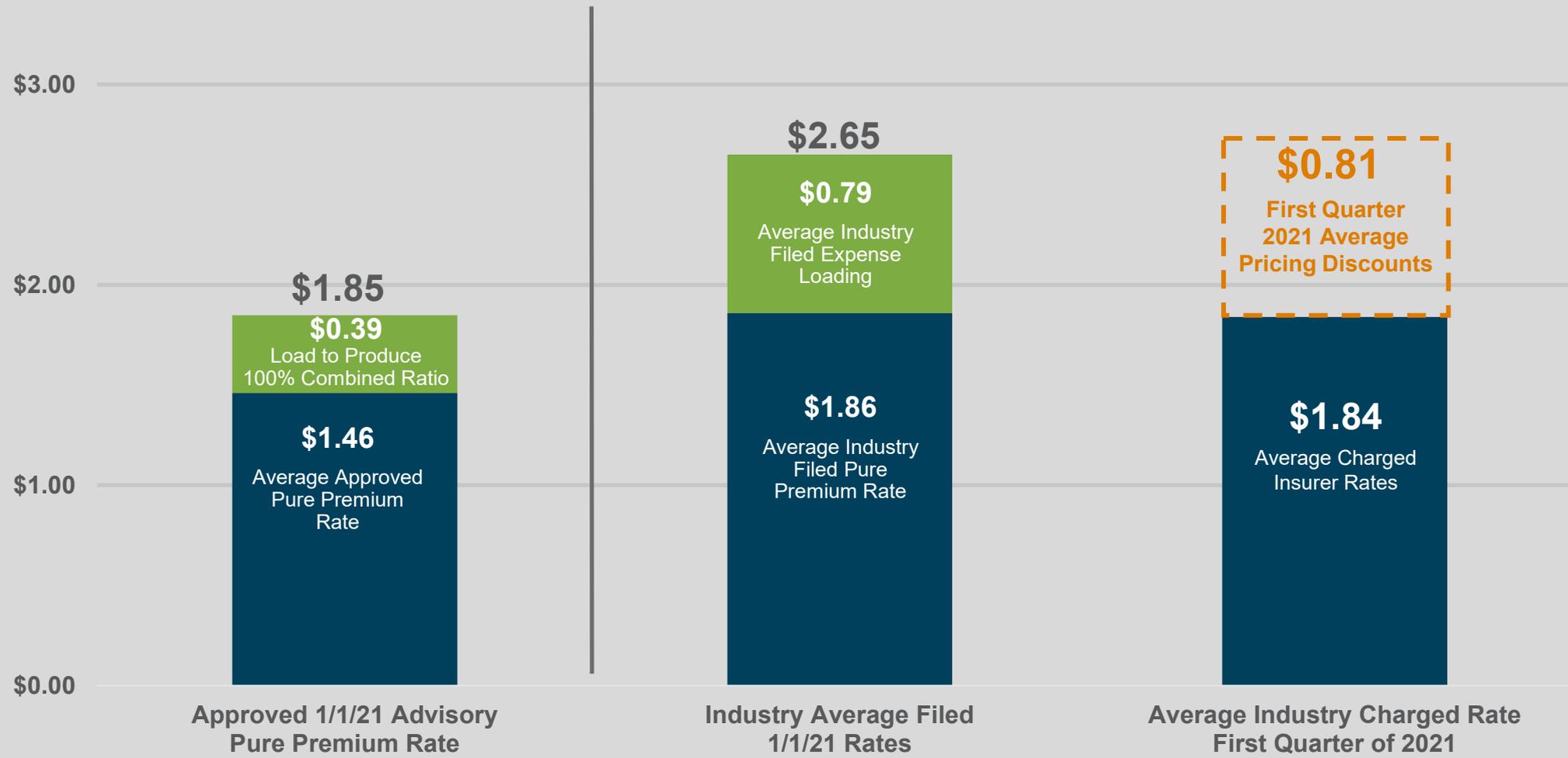
Chart 15: Changes in Average Rates Since 2015



💡 Insights & Recent Trends

- The Insurance Commissioner has approved 10 consecutive advisory pure premium rate decreases since 2015 totaling almost 50%.
- Declines in average charged rates have followed the Insurance Commissioner’s approved decreases in advisory pure premium rates.
- Average insurer manual rates are significantly above the rates charged to employers, indicating that insurers are, on average, applying significant pricing discounts to their filed rates.

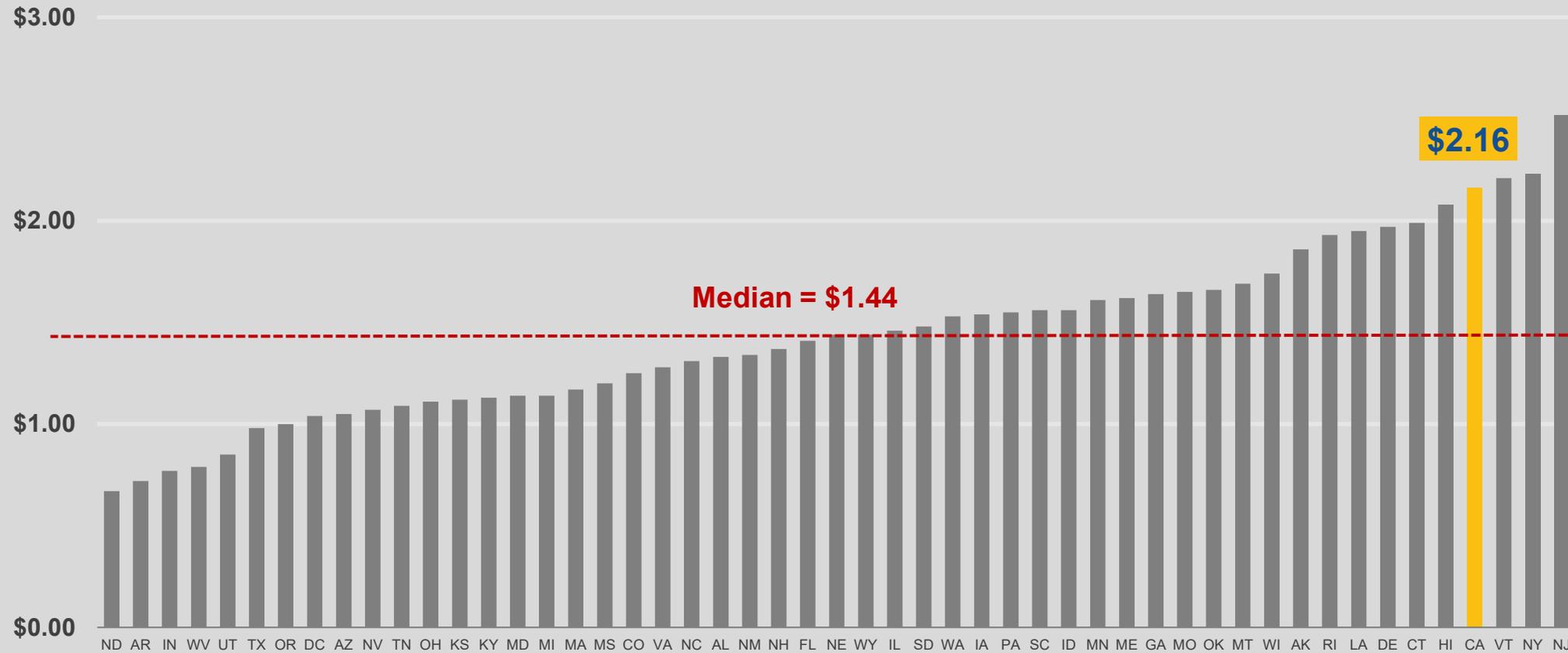
Chart 16: January 2021 Rate Components



Insights & Recent Trends

- Advisory pure premium rates, after loading for other expenses to approximate a 100% combined ratio, are generally consistent with the average rates ultimately charged to employers.
- Average industry pricing discounts from filed rates, including the net impact of schedule rating, are about 30%.

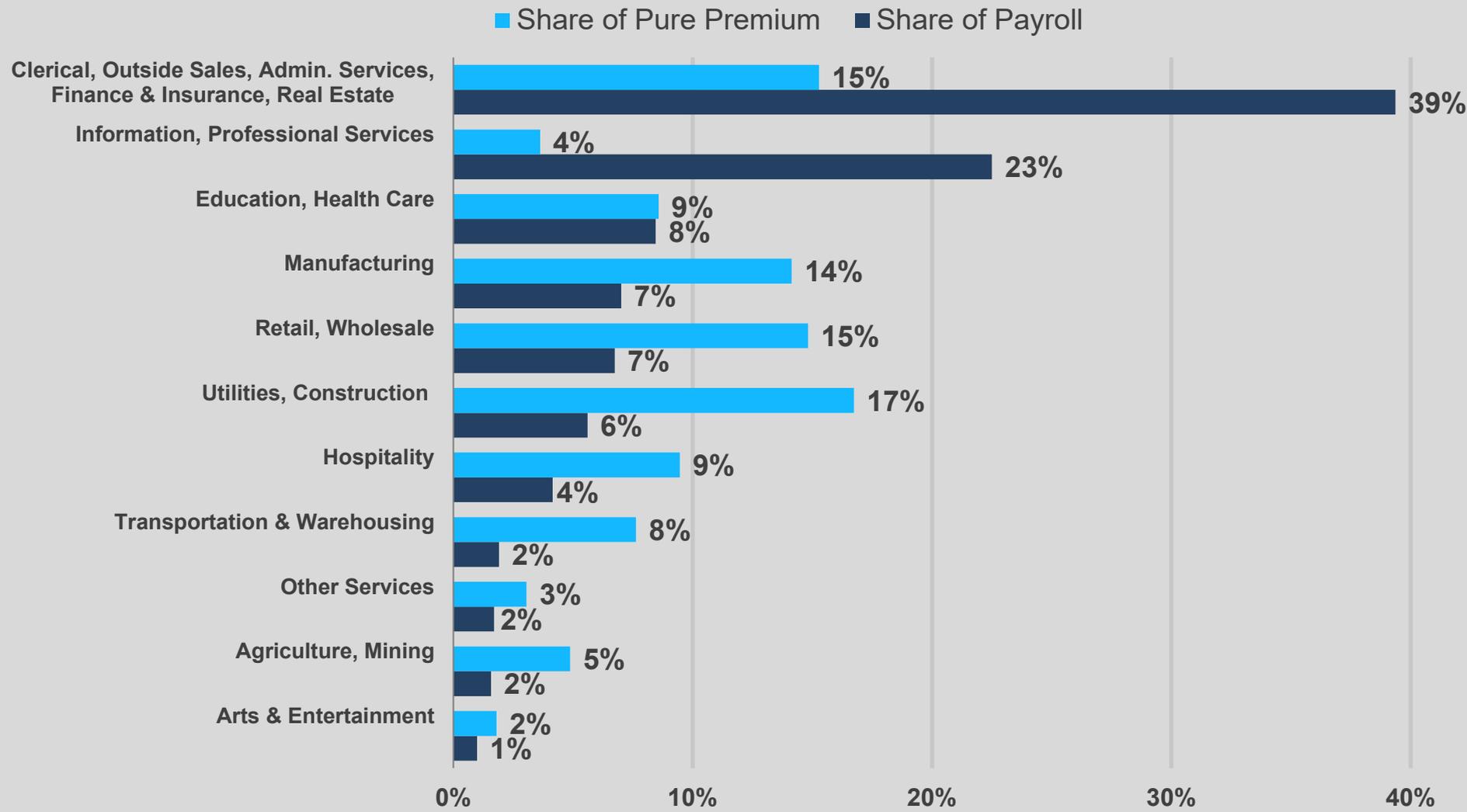
**Chart 17: Rate Comparison by State Based on Oregon Studies**



**Insights & Recent Trends**

- California had the highest rates in the country until 2018, when rate declines moved it from the top spot.
- California rates still remain high and are well above the countrywide median.
- California's higher than average rates are largely driven by:
  - High frequency of permanent disability claims ([Chart 27](#))
  - A more prolonged pattern of medical treatments ([Chart 39](#))
  - Much higher than average costs of handling claims and delivering benefits ([Chart 44](#))

**Chart 18: Pure Premium and Insured Payroll by Industry**



**Insights & Recent Trends**

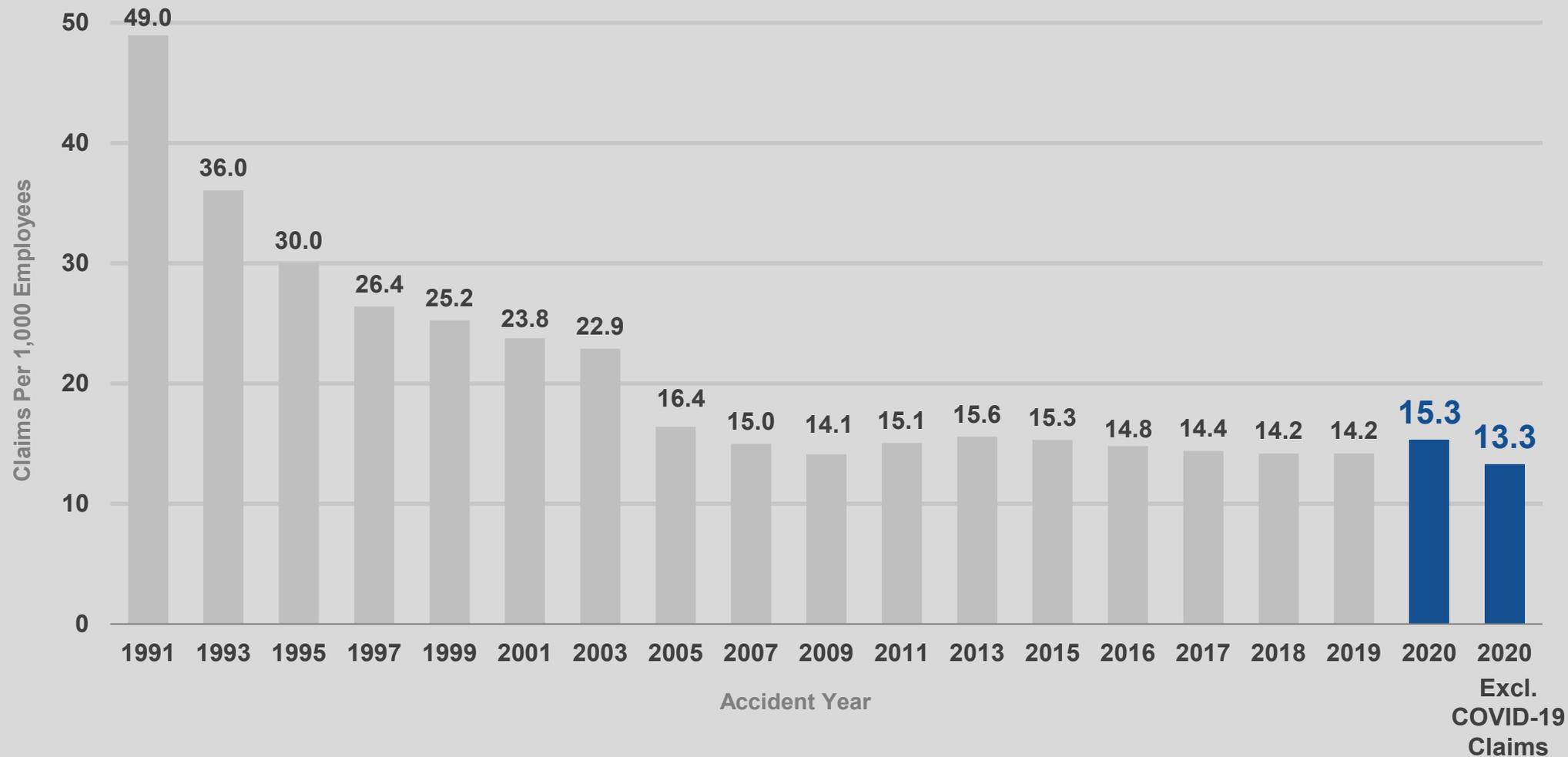
- With California’s diverse economy, no industry grouping generates more than 17% of statewide advisory pure premium.
- The “white collar” type industries comprise a majority of statewide payroll but a small share of pure premium.
- The Utilities and Construction industries comprise only 6% of statewide payroll but almost triple the share of pure premium, as rates for these industries are higher.

# Claim Frequency

# 03

03  
**Claim Frequency**

**Chart 19: Indemnity Claims per 1,000 Employees**



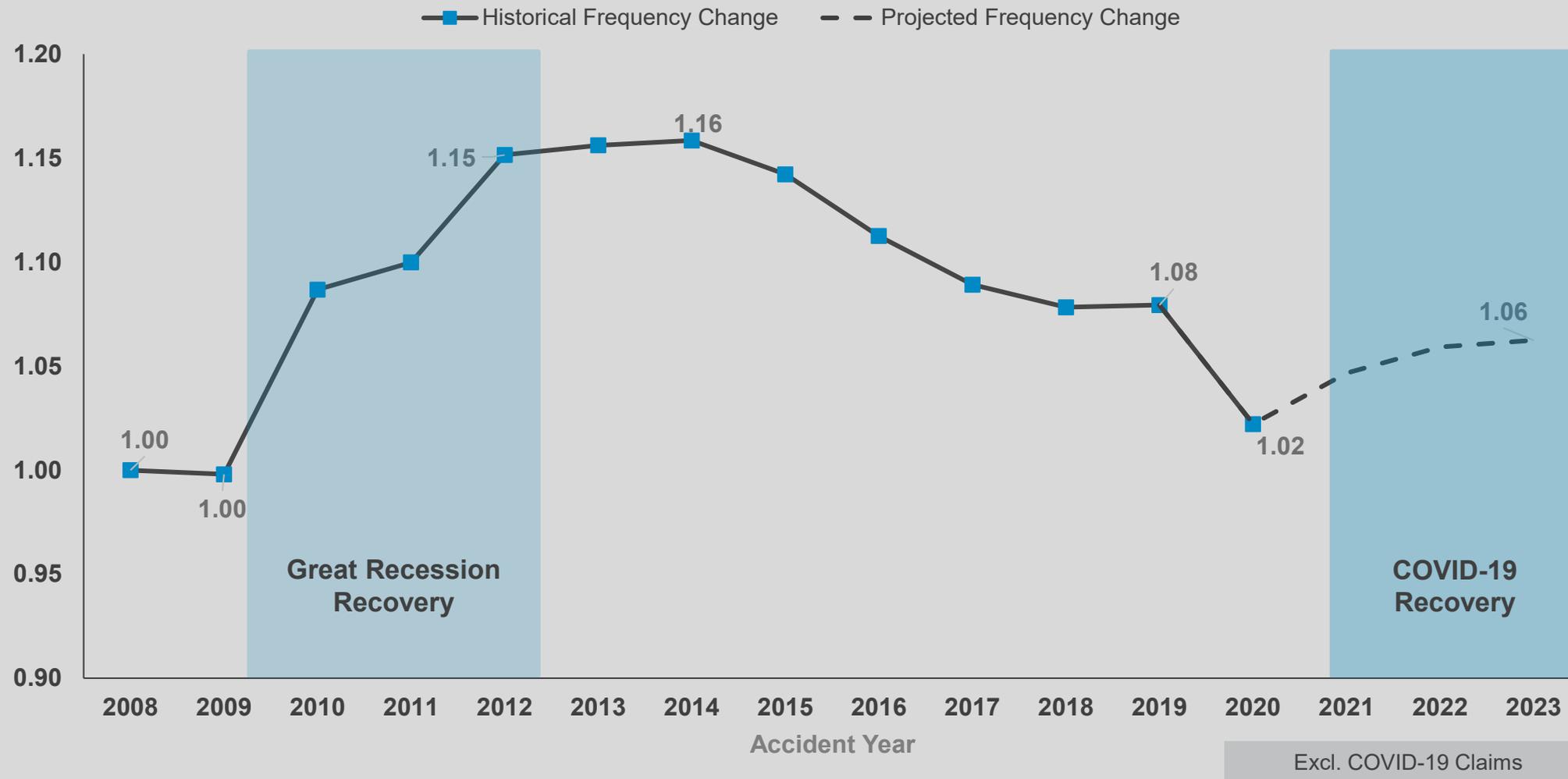
**Insights & Recent Trends**

- Claim frequency declined for decades in California due to factors such as a shift toward a more service-based economy, increased mechanization and improved safety efforts.
- Over the last several years, indemnity claim frequency has been relatively flat due in part to increases in cumulative trauma (CT) claims and claims filed after the termination of the employee, offsetting the typical rate of decline.
- Indemnity claim frequency in 2020 increased by 8%, driven by COVID-19 claim filings. Excluding COVID-19 claims, 2020 frequency declined by 6%.

[More Info](#) →

03  
**Claim Frequency**

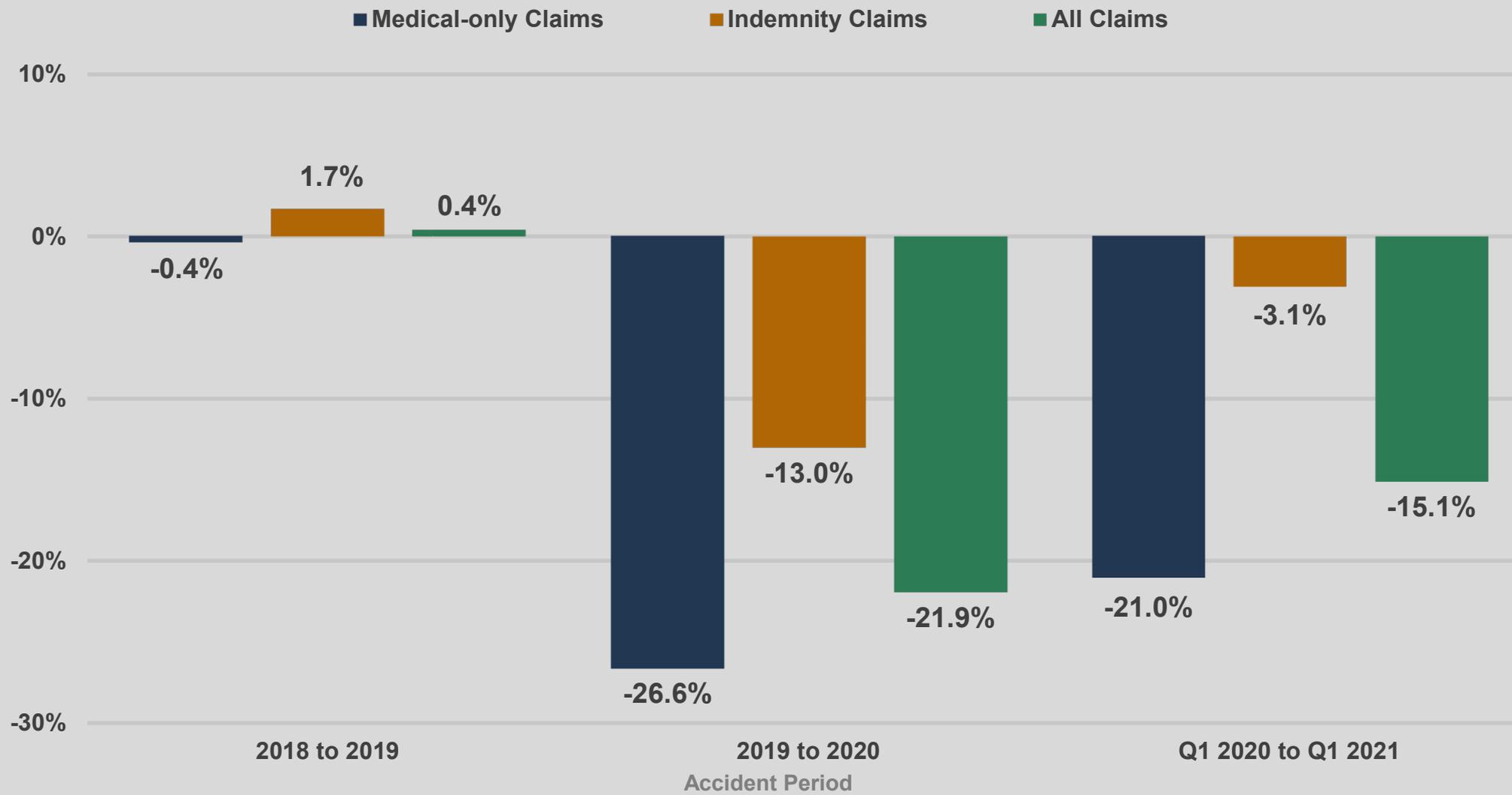
**Chart 20: Indemnity Claim Frequency Indexed to 2008**



**Insights & Recent Trends**

- During the recovery from the Great Recession from 2010 to 2012, indemnity claim frequency increased by over 15%.
- The sharp and sudden slowdown in the economy in 2020 resulted in a sharp decrease in the frequency of non-COVID-19 indemnity claims.
- The WCIRB forecasts modest increases in non-COVID-19 claim frequency from 2021 to 2023 during the economic recovery.
- Claim frequency tends to increase during economic recovery periods as newer, more inexperienced workers enter the workforce.

**Chart 21: Percent Change in Non-COVID-19 Claims Filed**

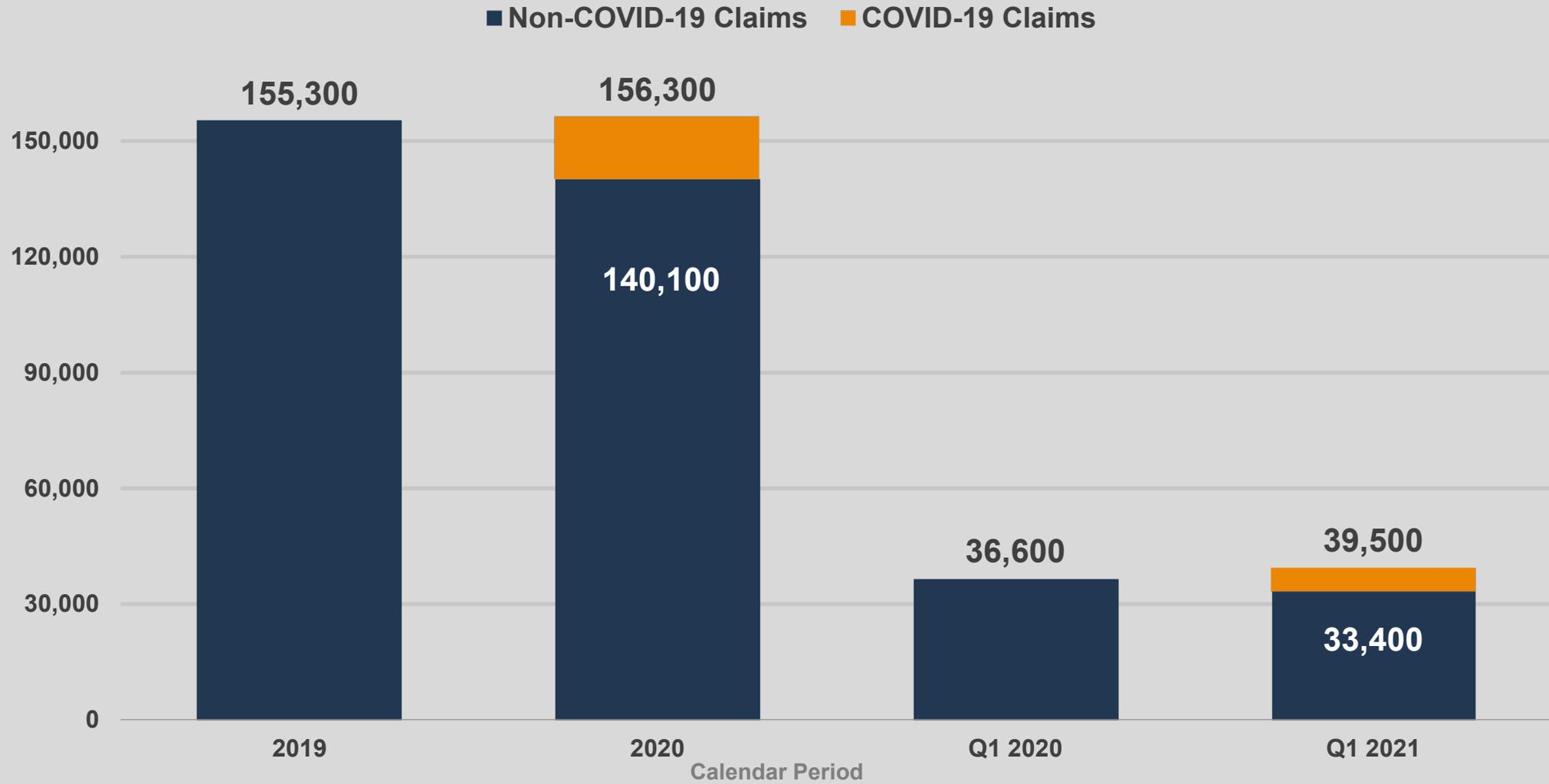


**Insights & Recent Trends**

- Due to the slowdown in the economy caused by the pandemic, the number of non-COVID-19 claims filed in 2020 and the first quarter of 2021 were significantly below the pre-pandemic level.
- Despite a significantly lower level of employment, the number of non-COVID-19 indemnity claims filed for the first quarter of 2021 was only 3% below the first quarter of 2020 (which was pre-pandemic).
- Decreases in the number of medical-only claims have been much sharper than decreases in the number of indemnity claims for 2020 and 2021.

03  
**Claim Frequency**

**Chart 22: Number of Indemnity Claims Filed**

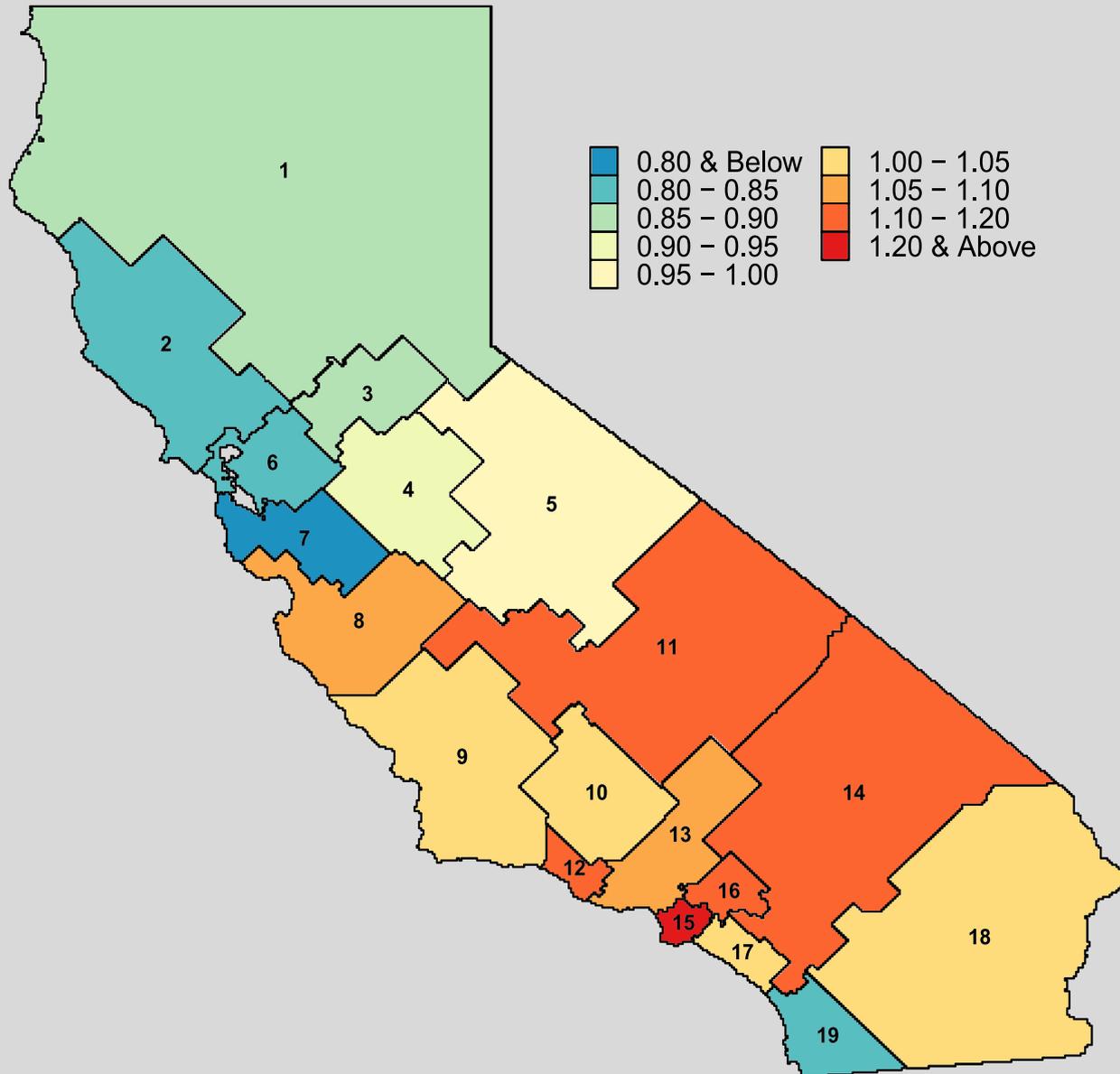


**Insights & Recent Trends**

- After including COVID-19 claims, the number of indemnity claims filed for the insured system in 2020 and the first quarter of 2021 were above the comparable pre-pandemic periods despite significantly lower levels of employment.

03  
**Claim Frequency**

**Chart 23: Regional Differences in Indemnity Claim Frequency**



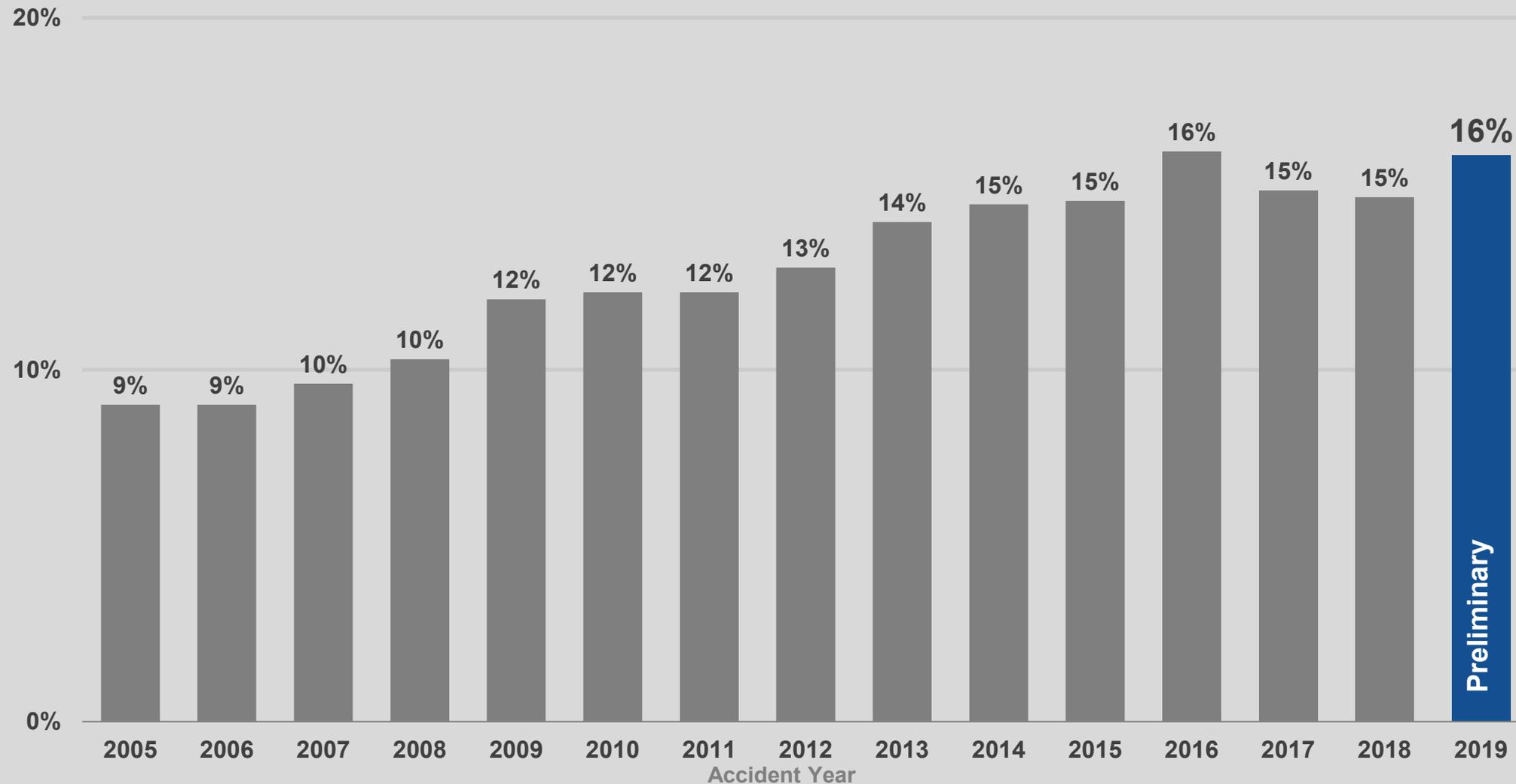
- 01 – Yuba City/Redding/Far North
- 02 – Sonoma/Napa
- 03 – Sacramento
- 04 – Stockton/Modesto/Merced
- 05 – Fresno/Madera
- 06 – Bay Area
- 07 – Peninsula/Silicon Valley
- 08 – Santa Cruz/Monterey/Salinas
- 09 – SLO/Santa Barbara
- 10 – Bakersfield
- 11 – Tulare/Inyo
- 12 – Ventura
- 13 – Santa Monica/San Fernando Valley
- 14 – San Bernardino/West Riverside
- 15 – LA/Long Beach
- 16 – San Gabriel Valley/Pasadena
- 17 – Orange County
- 18 – Imperial/Riverside
- 19 – San Diego

**Insights & Recent Trends**

- There are significant differences in frequency rates across California, even after adjusting for regional differences in industrial mix and wage levels.
- The Los Angeles (LA)/Long Beach region has the highest claim frequency, about one-third above the statewide average.
- The Peninsula/Silicon Valley region has the lowest frequency, about one-quarter below the statewide average.

03  
**Claim Frequency**

**Chart 24: Percent of Indemnity Claims Involving Cumulative Trauma**

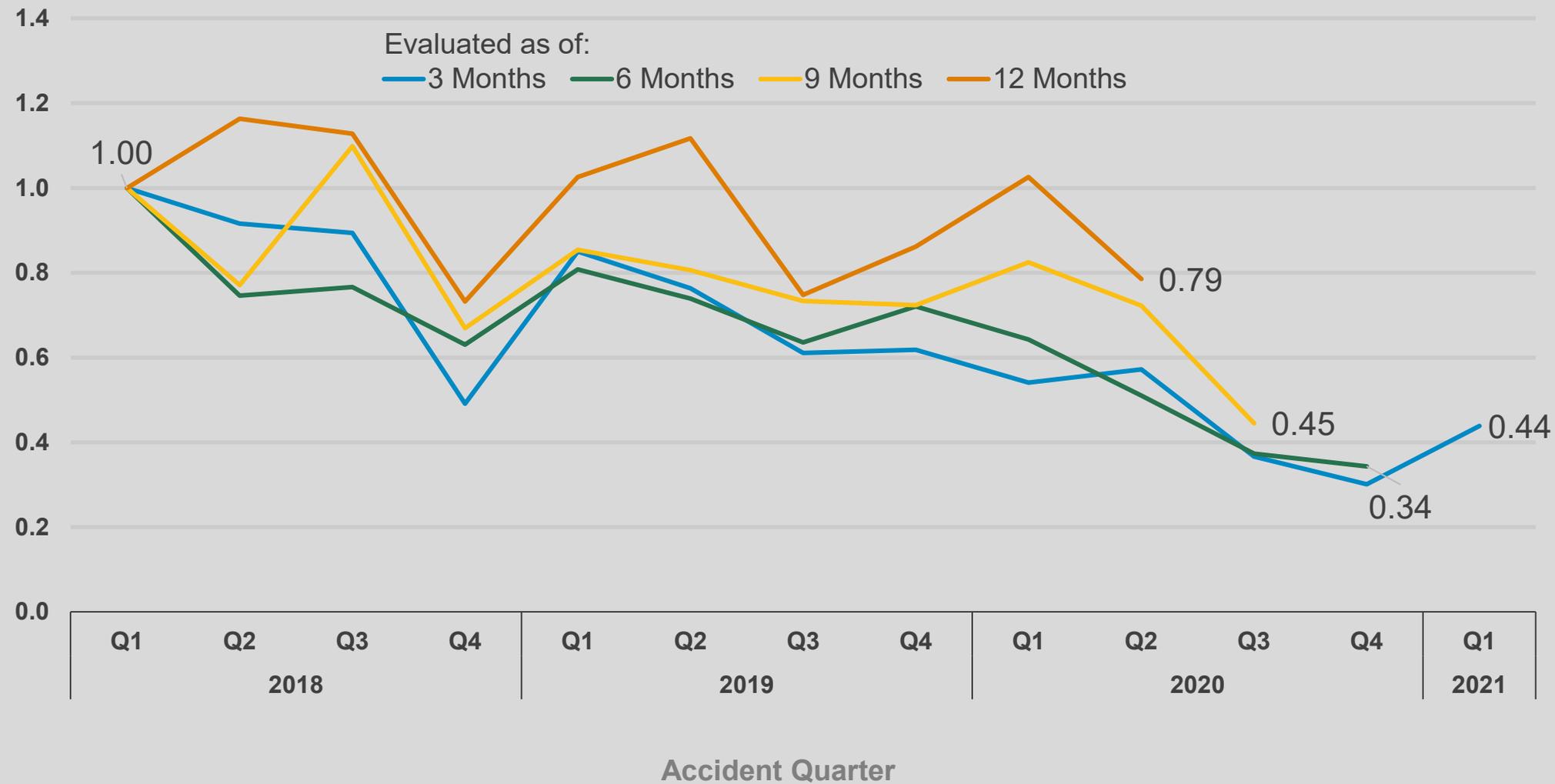


**Insights & Recent Trends**

- CT claim rates increased steadily from 2006 to 2016 and have been generally consistent since 2016.
- In particular, CT claim rates increased significantly following the Great Recession of 2008-2009.
- The vast majority of CT claims are in the Los Angeles Basin and San Diego, and approximately 40% are filed following the termination of the employee.

03  
**Claim Frequency**

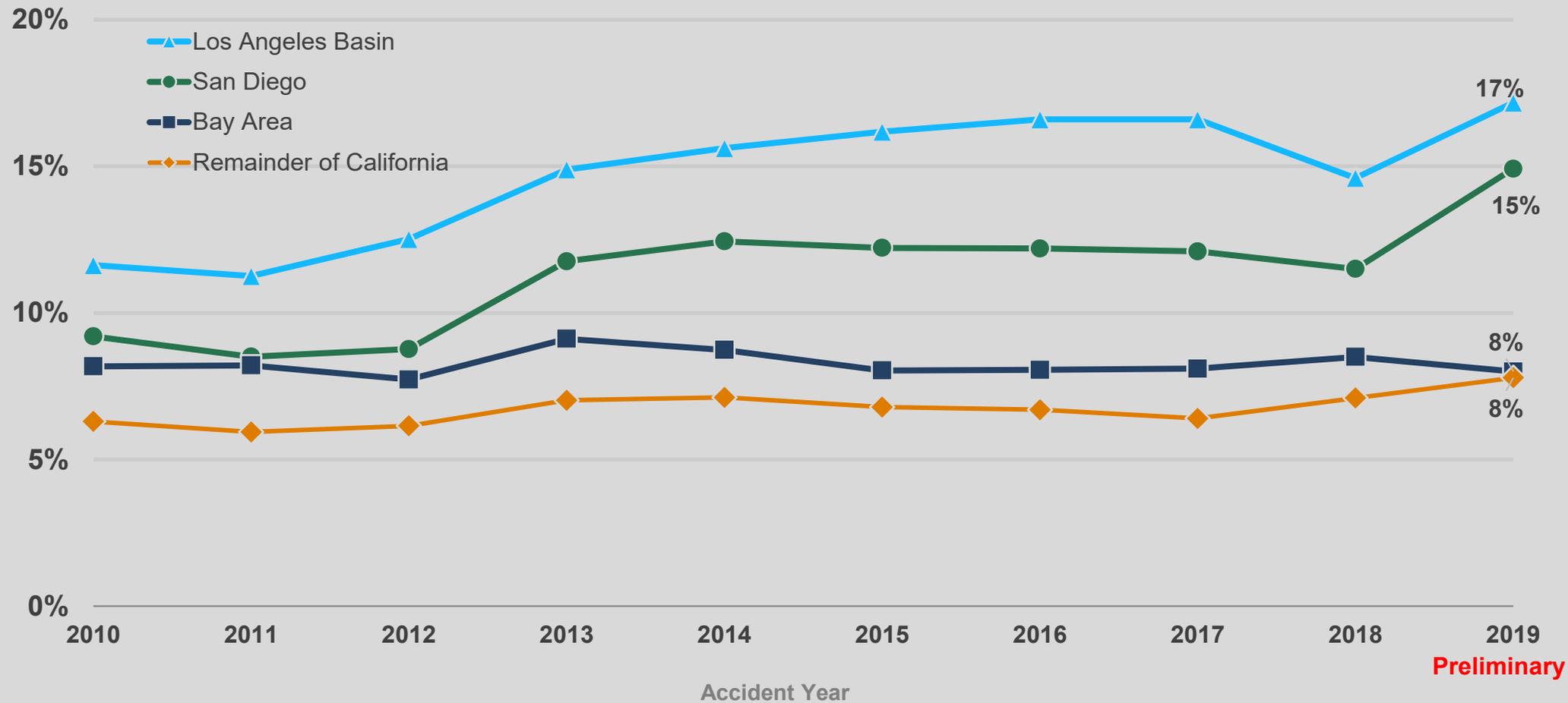
**Chart 25: Cumulative Trauma Claim Share Indexed to Q1 2018**



**Insights & Recent Trends**

- Preliminary estimates suggest the CT claim share of indemnity claims for accident years 2020 and 2021 are significantly below the 2018 and 2019 levels.

**Chart 26: Percent of Cumulative Trauma Claims by Region**

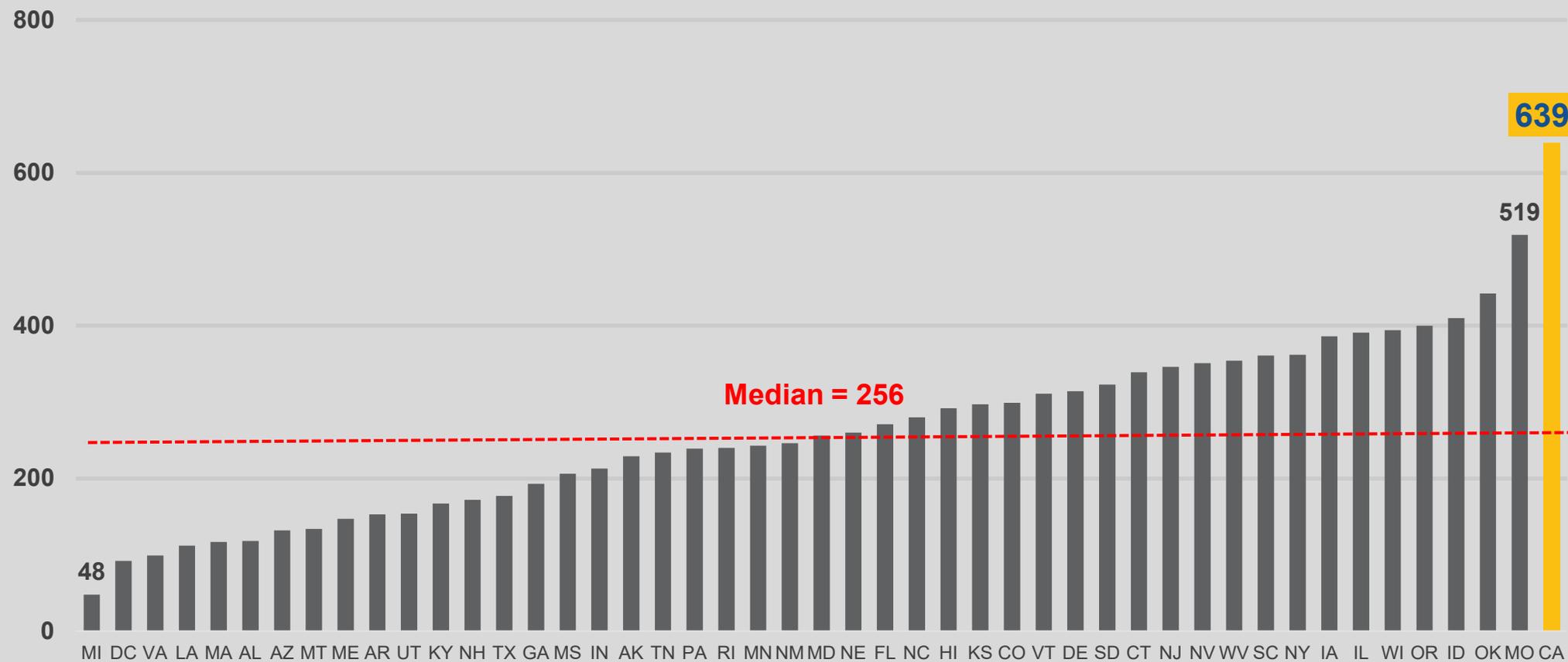


**Insights & Recent Trends**

- The vast majority of increases in CT claims since 2012 came from the Los Angeles Basin and San Diego areas.

03  
**Claim Frequency**

**Chart 27: Permanent Disability Claims per 100,000 Employees**



**Insights & Recent Trends**

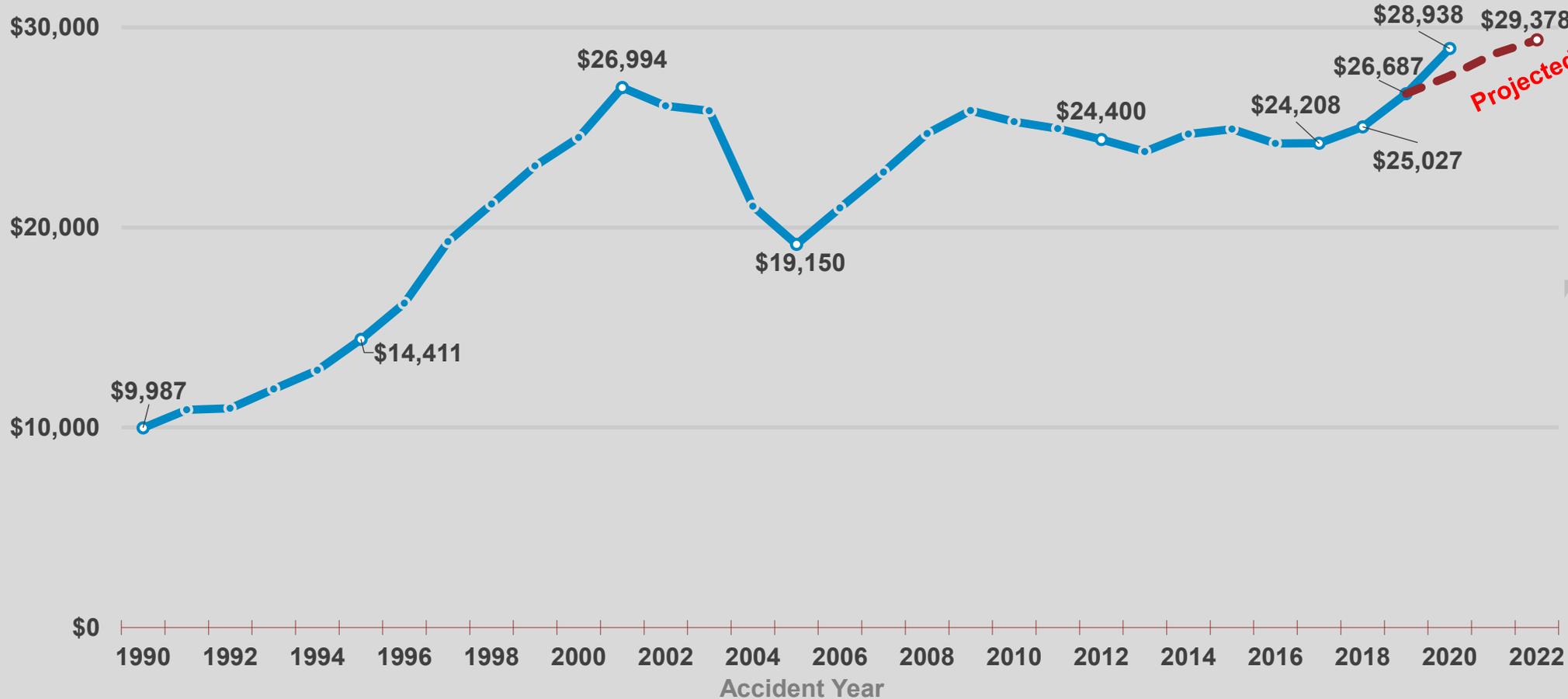
- California has by far the highest permanent partial disability claim frequency in the country, approximately two-and-a-half times the countrywide median.
- California high frequency is not driven by industrial mix or the number of severe injuries, which are comparable to those from other lower-frequency states.
- PD claim frequency is significantly higher in the Los Angeles Basin area than in the rest of the state.

# Claim Severity

04

04  
Claim Severity

**Chart 28: Average Indemnity Cost per Indemnity Claim**



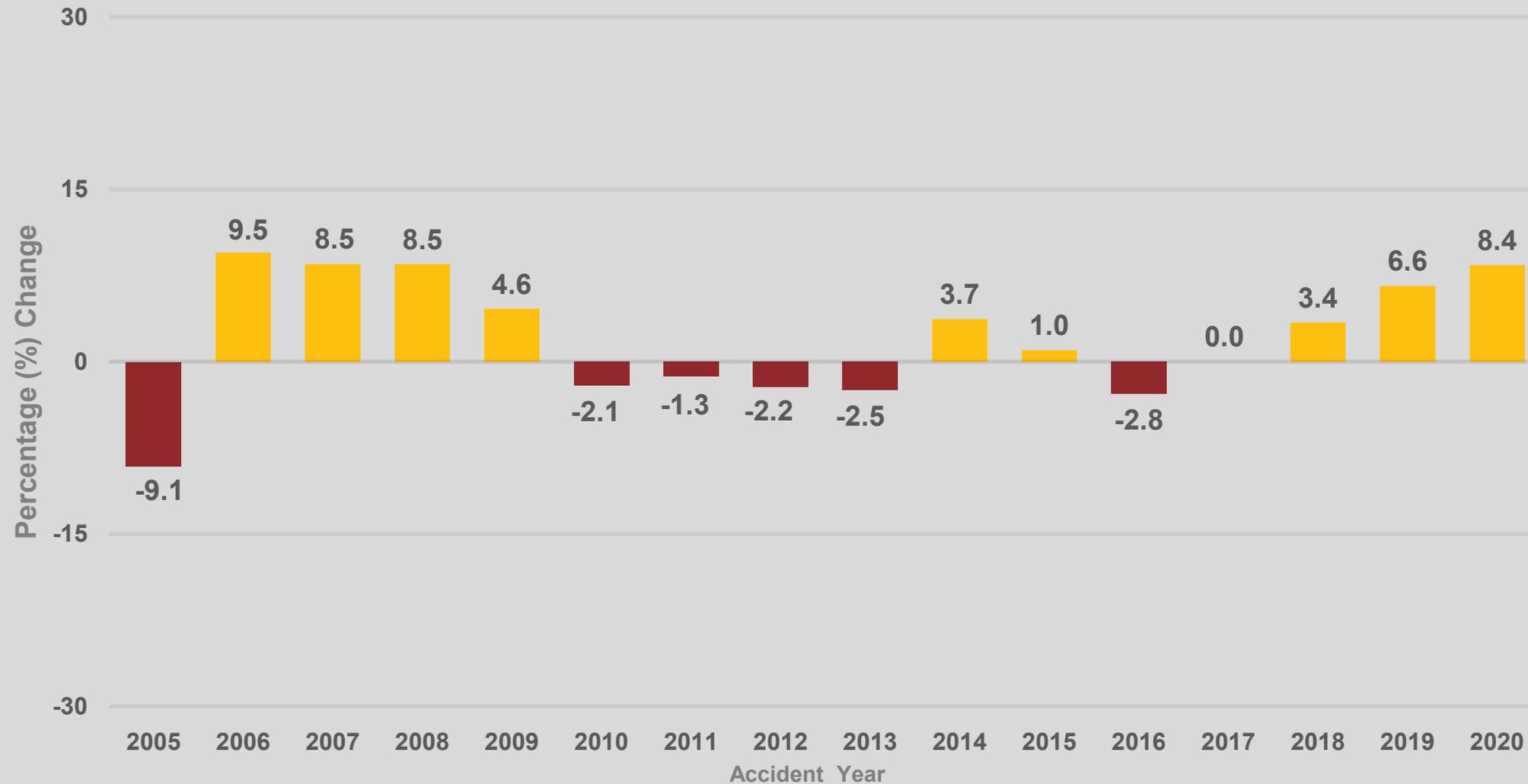
**Insights & Recent Trends**

- Average indemnity costs per claim were generally flat from 2009 to 2017, driven by SB 863 reducing the duration of temporary disability and acceleration in the rate claims were settling.
- In 2018 through 2020, average indemnity costs increased as wage levels increased and claim settlement rates were plateauing. [\(Chart 43\)](#)
- The projected average indemnity cost for 2020 is preliminary and is heavily impacted by the pandemic. [\(Chart 29\)](#)
- The WCIRB projects a steady increase in average indemnity costs through 2022 comparable to the 2019 (pre-pandemic) level.

More Info →

04  
Claim Severity

**Chart 29: Change in Average Indemnity Cost per Indemnity Claim**

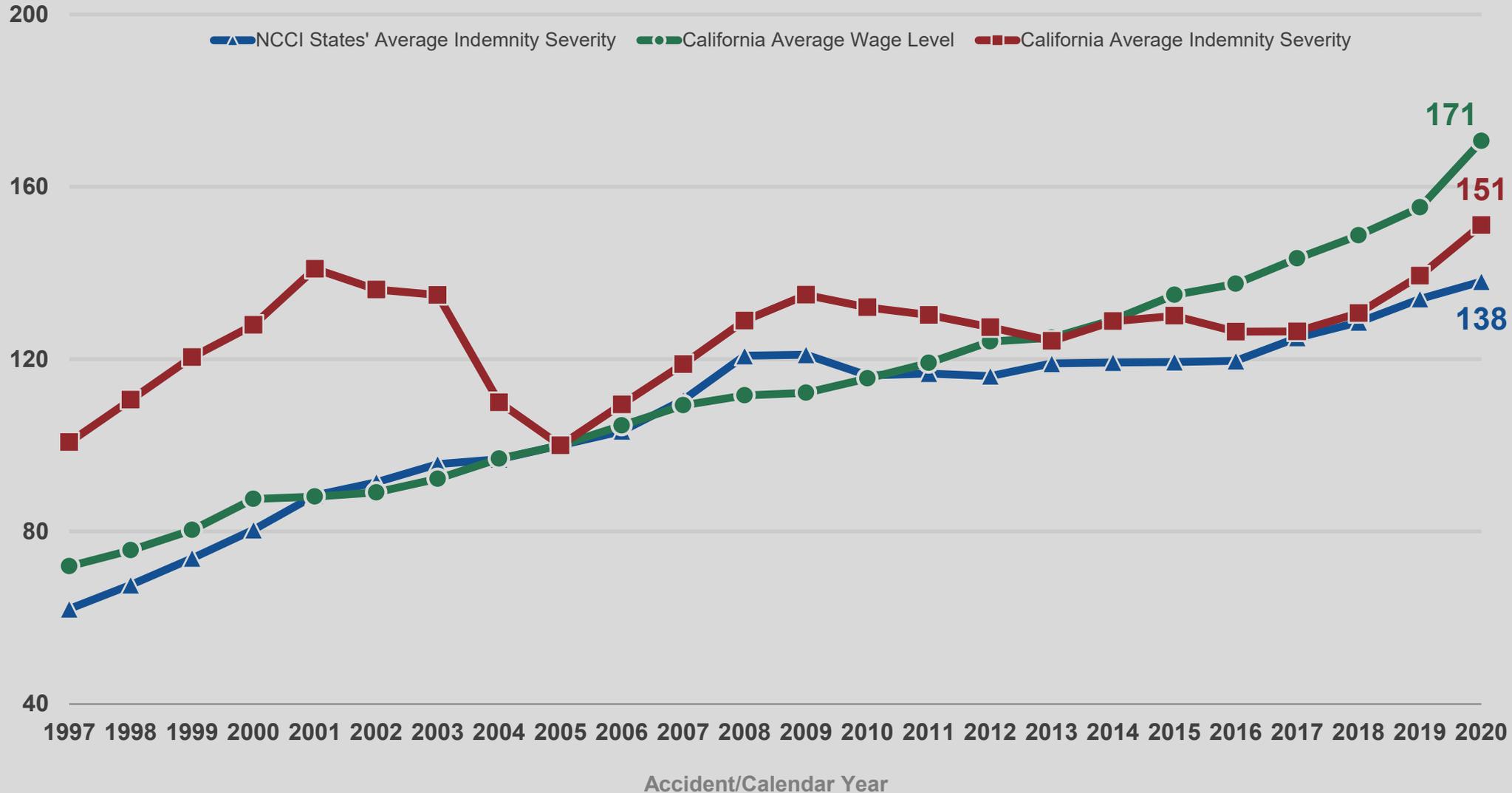


**Insights & Recent Trends**

- The increases in average indemnity costs per claim from 2018 to 2020 suggest moderation of the impact of the SB 863 reforms and claim settlement rate increases that kept average indemnity costs relatively flat prior to 2018.
- The large increase in 2020 is preliminary and is primarily based on temporary disability (TD) benefits paid. TD benefits have higher weekly maximums than permanent disability (PD) benefits, are paid earlier than PD benefits and are more affected by shifts in the wage distribution of workers, as has occurred during the pandemic.

04  
**Claim Severity**

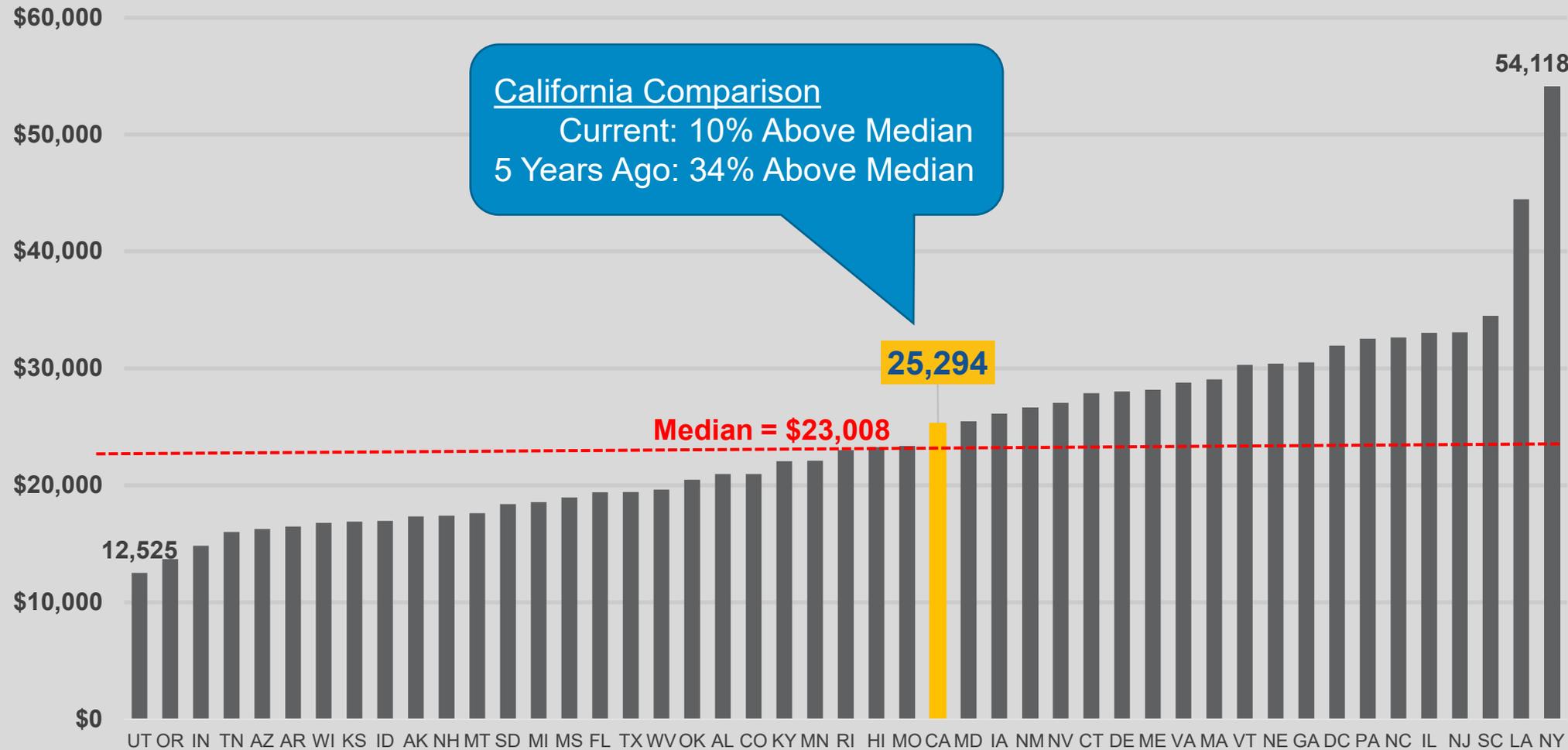
**Chart 30: Indemnity Cost Level Indexed to 2005**



**Insights & Recent Trends**

- California average indemnity costs were significantly higher than National Council on Compensation Insurance (NCCI) states in the early 2000s prior to the SB 899 reforms.
- Since 2005, changes in average indemnity costs for California and NCCI states have been generally consistent.
- Since 2010, growth in average California wages has outpaced growth in California average indemnity costs.

**Chart 31: Indemnity Cost per Indemnity Claim by State**



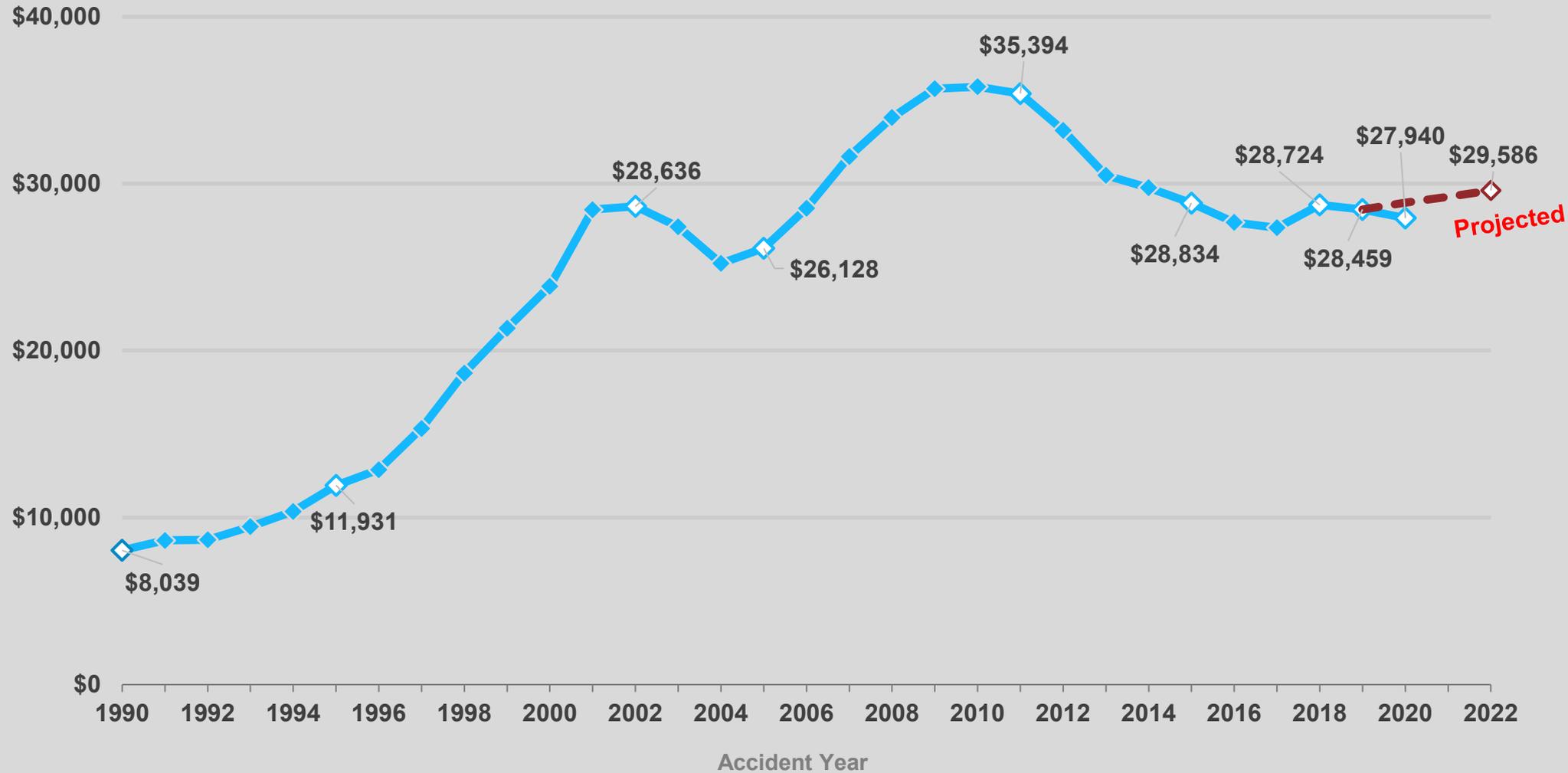
**California Comparison**  
Current: 10% Above Median  
5 Years Ago: 34% Above Median

**Insights & Recent Trends**

- Average indemnity costs in California are more consistent with other states compared to other system components but are still about 10% above the countrywide median.
- Higher-than-average indemnity costs in California are largely driven by the high proportion of indemnity claims involving PD ([Chart 27](#)) and high wage levels.
- Over the last several years, driven by a period of generally flat indemnity costs, ([Chart 28](#)) California average indemnity costs have moved closer to the median state.

04  
Claim Severity

**Chart 32: Average Medical Cost per Indemnity Claim**



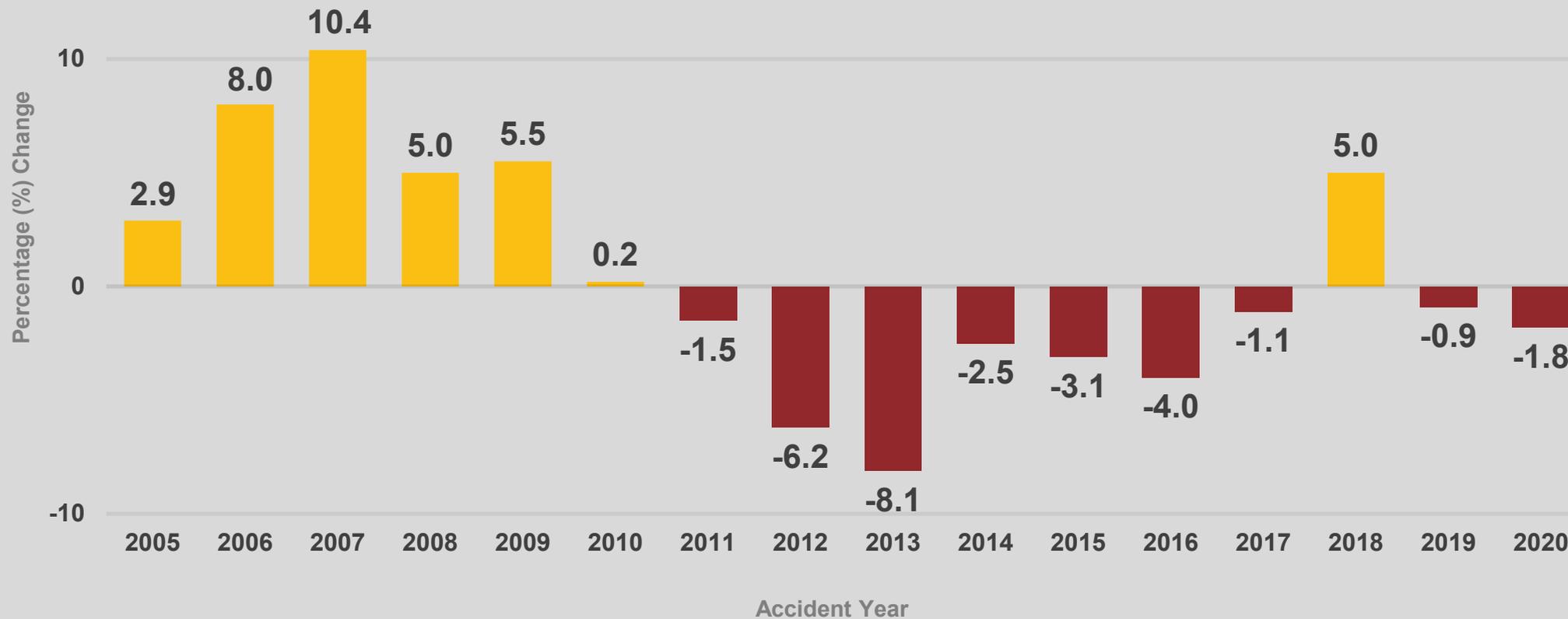
**Insights & Recent Trends**

- From 2011 to 2016, average medical costs declined sharply, primarily driven by reforms, reduced pharmaceutical costs and efforts to reduce medical provider fraud.
- Average medical costs since 2016 have been generally flat compared to other post-reform periods.
- The projected average medical cost for 2020 is preliminary and may be impacted by deferred medical treatment on claims during the pandemic.
- The WCIRB projects modest increases in average medical costs through 2022 comparable to the 2019 (pre-pandemic) level.

[More Info](#) →

04  
**Claim Severity**

**Chart 33: Change in Average Medical Cost per Indemnity Claim**



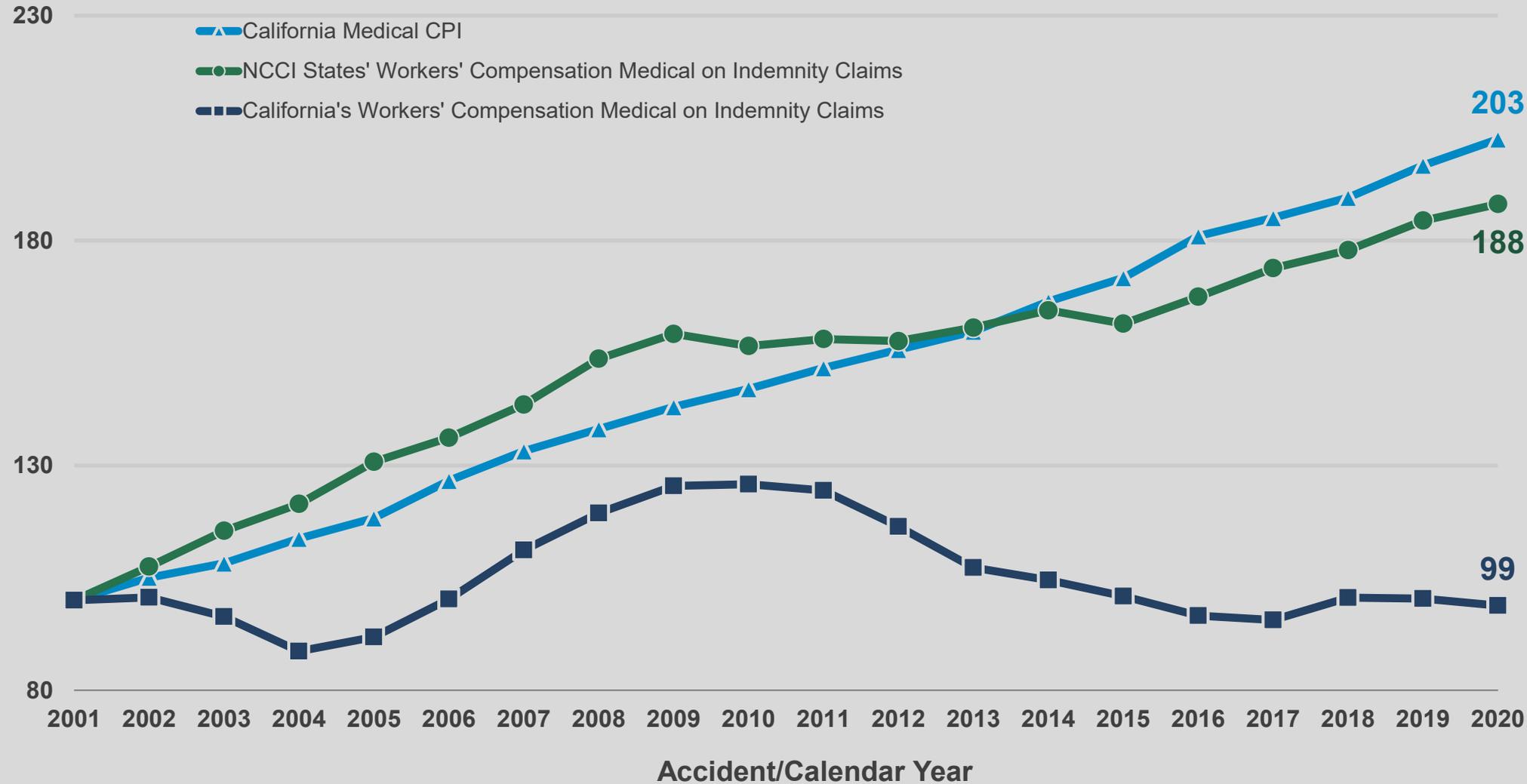
**Insights & Recent Trends**

- Following seven years of declining average medical costs, medical severity increased in 2018, in part driven by a relatively higher volume of large claims and annual inflation adjustments to medical fee schedules.
- Average medical costs decreased modestly in 2019 and 2020, in part driven by decreases in the utilization of medical services.
- The decrease in 2020 is preliminary and may be related to the pandemic impacting the mix of claims being filed and the mix of medical services being provided [\(Chart 55\)](#) as more costly services such as surgeries may have been deferred.

[More Info](#) →

04  
Claim Severity

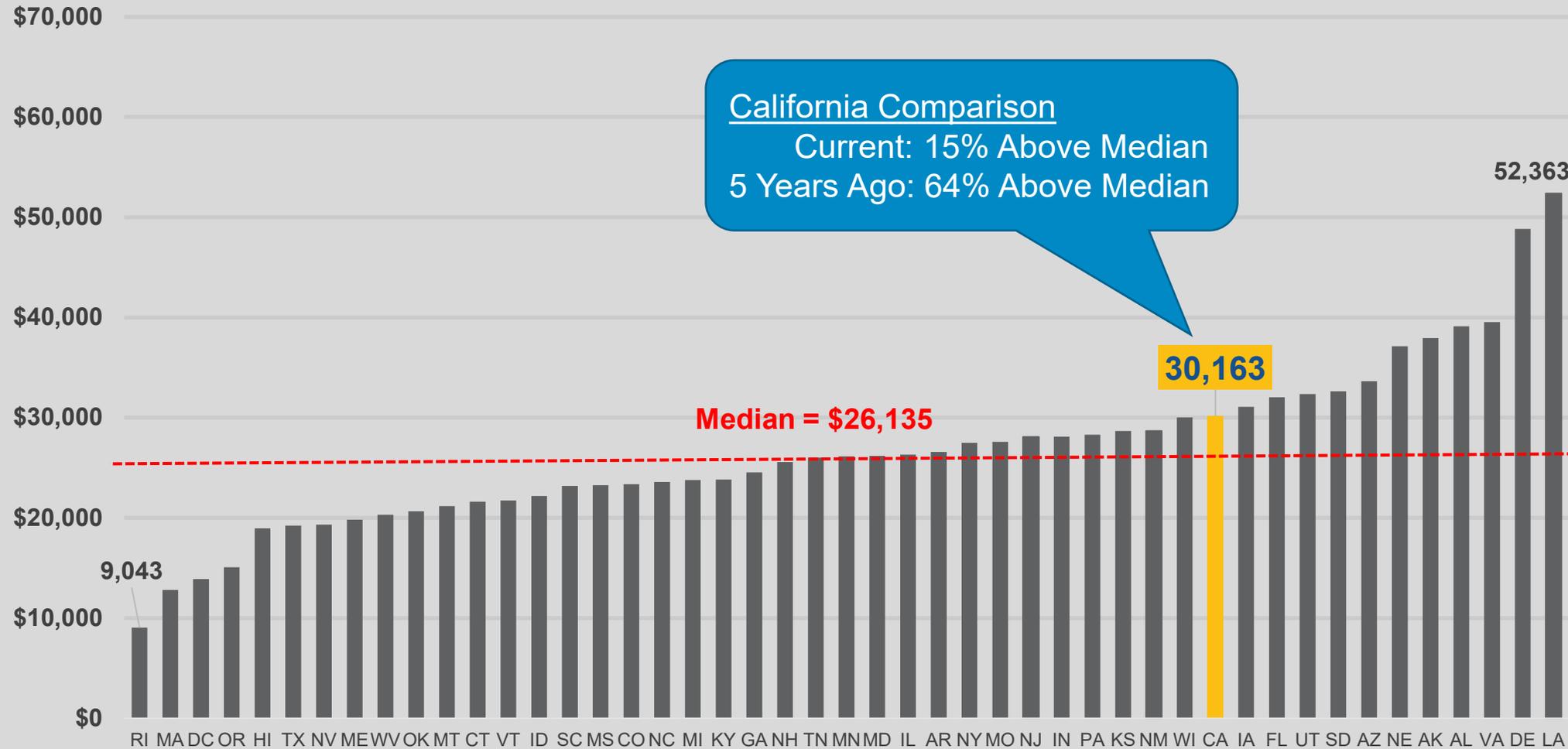
**Chart 34: Medical Cost Level Indexed to 2001**



**Insights & Recent Trends**

- Due to reforms such as SB 899 (2004) and SB 863 (2012), the rate of growth in California workers' compensation medical costs is far below that of other states and overall medical costs measured by the Consumer Price Index (CPI).
- The average medical per indemnity claim in 2020 is generally consistent with what it was in 2001, while average medical costs in other systems have approximately doubled in that time.

**Chart 35: Medical Cost per Indemnity Claim by State**

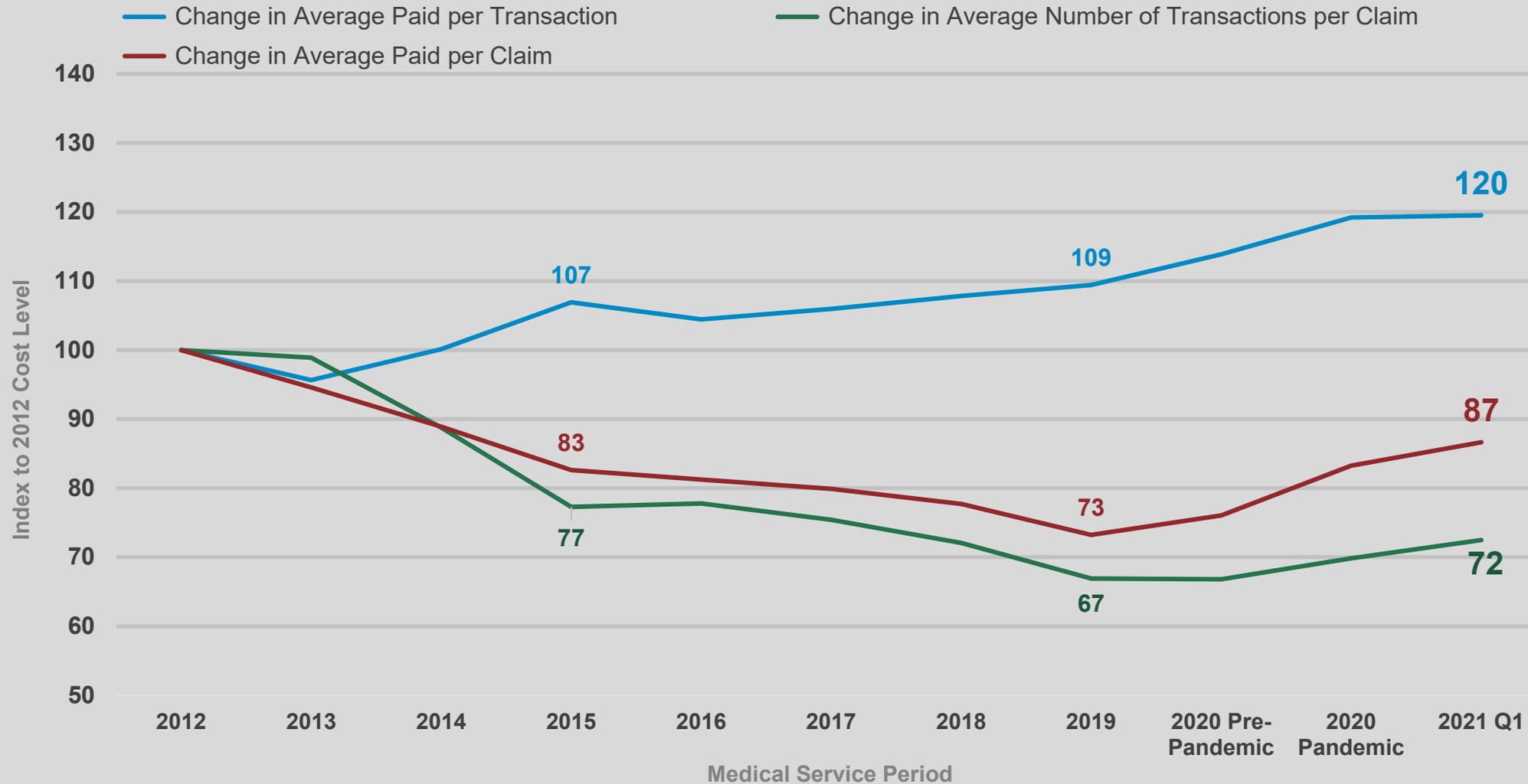


**Insights & Recent Trends**

- Several years ago, California was among the top states for average medical costs per claim.
- With recent medical cost reductions in California and continued medical inflation in other states, (Chart 34) California average medical per indemnity claim is now only 15% above the median state.

04  
**Claim Severity**

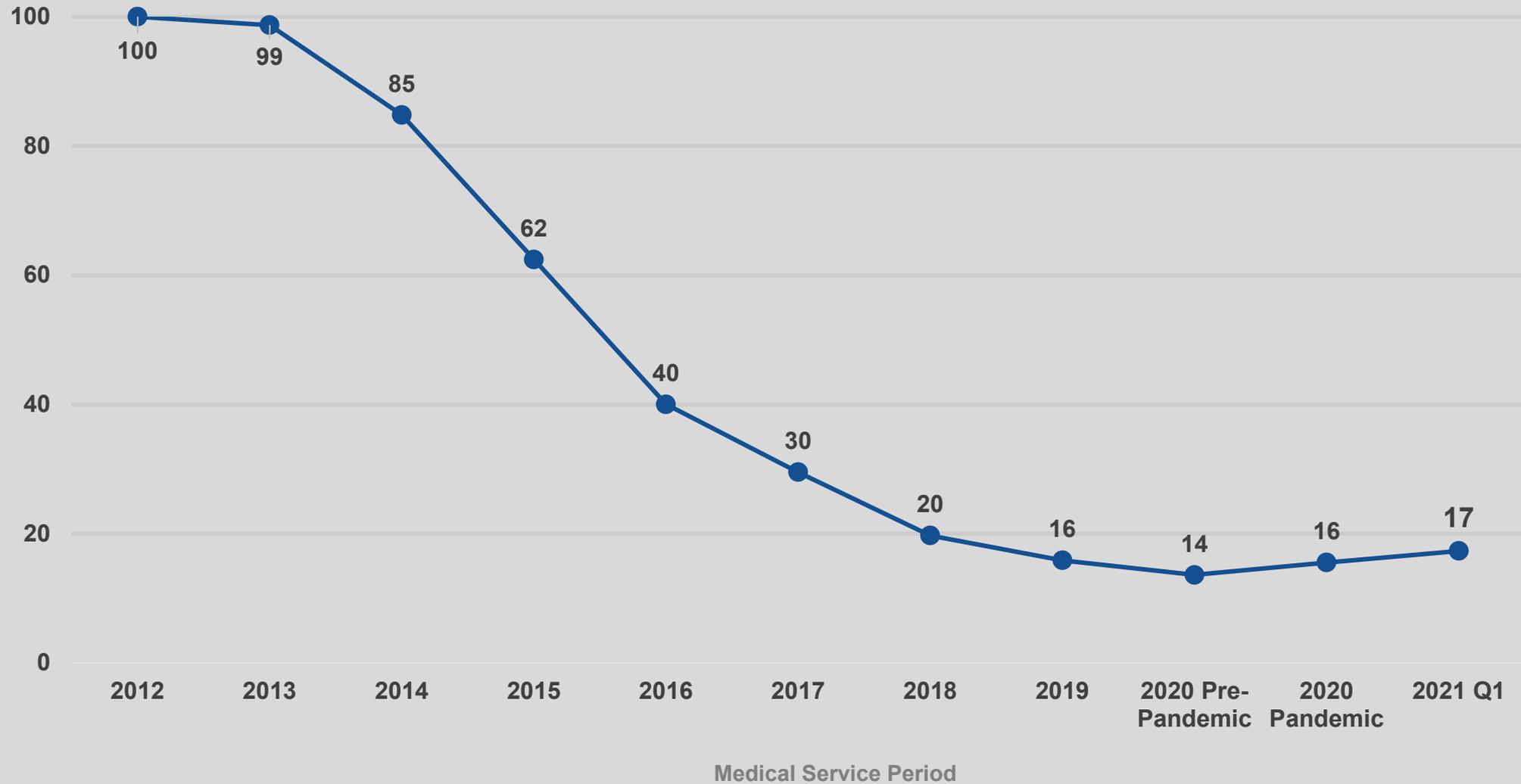
**Chart 36: Medical Service Cost Level Indexed to 2012**



**Insights & Recent Trends**

- Changes in average medical paid per transaction had been relatively modest through 2019.
- The number of medical service transactions per claim decreased by 33% from 2012 to 2019, which is largely attributable to SB 863 and declining pharmaceutical use and cost. [\(Chart 37\)](#)
- After declining through 2019, medical paid per claim started to trend upward in 2020, particularly during the pandemic, driven by increases in both average number of transactions per claim and average paid per transaction.

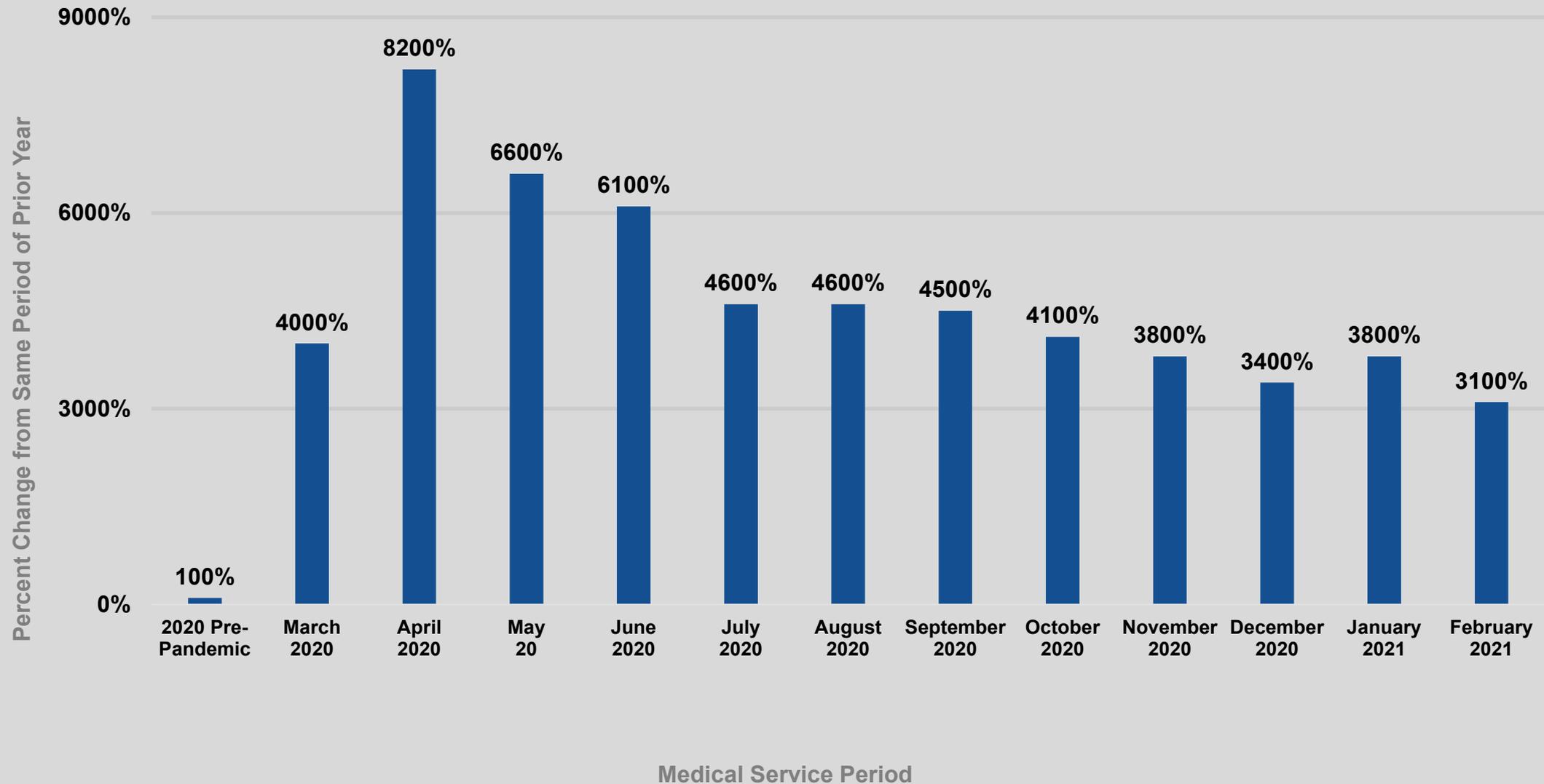
**Chart 37: Pharmaceutical Cost Level Indexed to 2012**



**Insights & Recent Trends**

- Key factors driving the over 85% decrease in pharmaceutical costs per claim from 2012 to the pre-pandemic period in 2020 include:
  - Independent medical review (IMR)
  - Reduced spinal surgeries
  - National trends toward reduced opioid use
  - The new drug formulary
- Pharmaceutical costs have begun to rise modestly in the pandemic period through the first quarter of 2021 but remain well below the levels of 2018 and prior.

**Chart 38: Change in Average Telemedicine Transactions per Claim**



**Insights & Recent Trends**

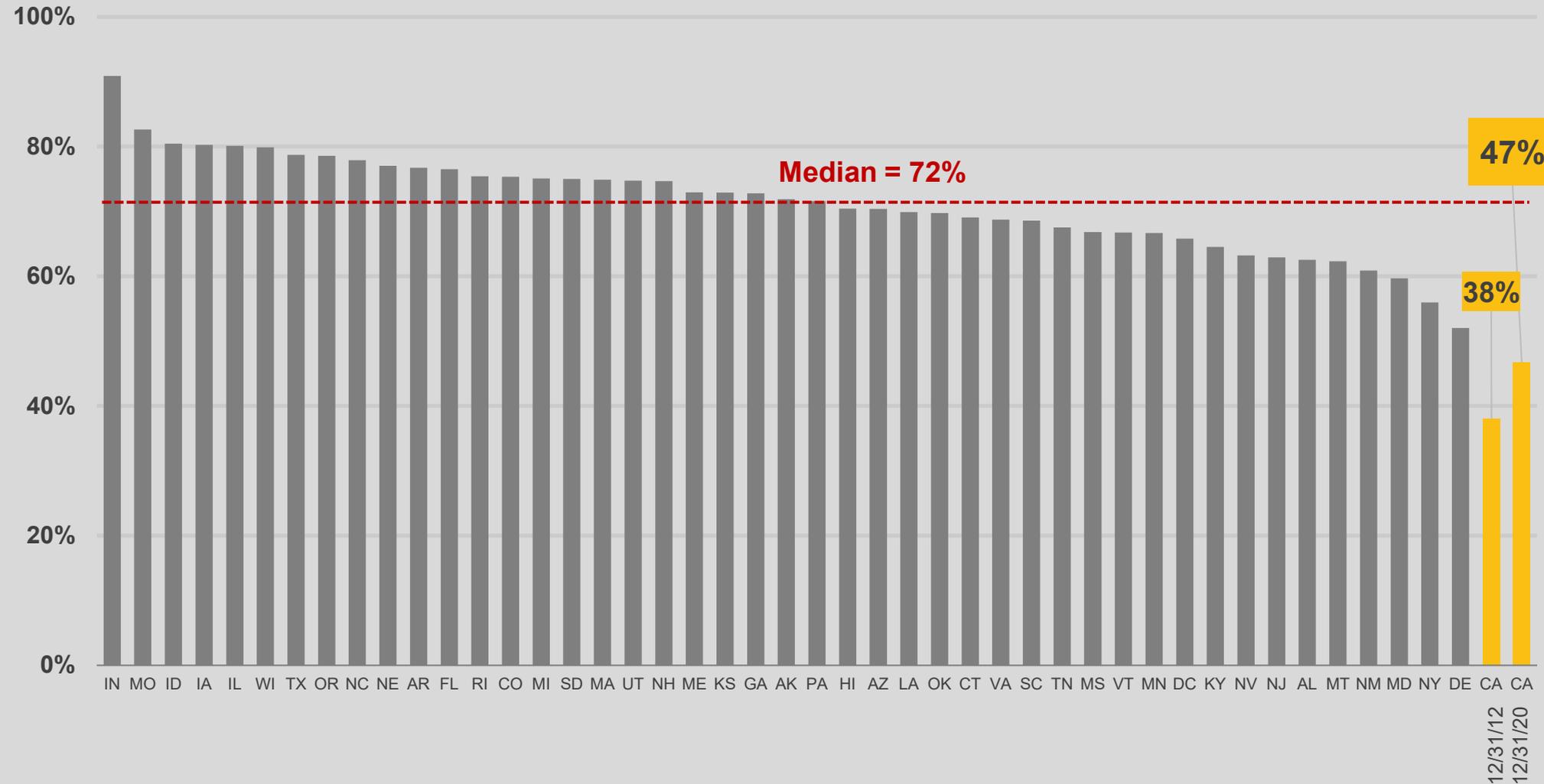
- Prior to the pandemic, use of telemedicine services had been growing but was still relatively rare in the California workers' compensation.
- Use of telemedicine services soared during the COVID-19 pandemic. The average telemedicine services per claim increased more than 80-fold in April 2020 compared to the same period in 2019.
- The average use of telemedicine services started to stabilize in the third quarter of 2020 but remained approximately 40 times higher than the 2019 level.

[More Info](#) →

# Claim Duration

05

**Chart 39: Percent of Ultimate Medical Cost Paid at 3 Years**

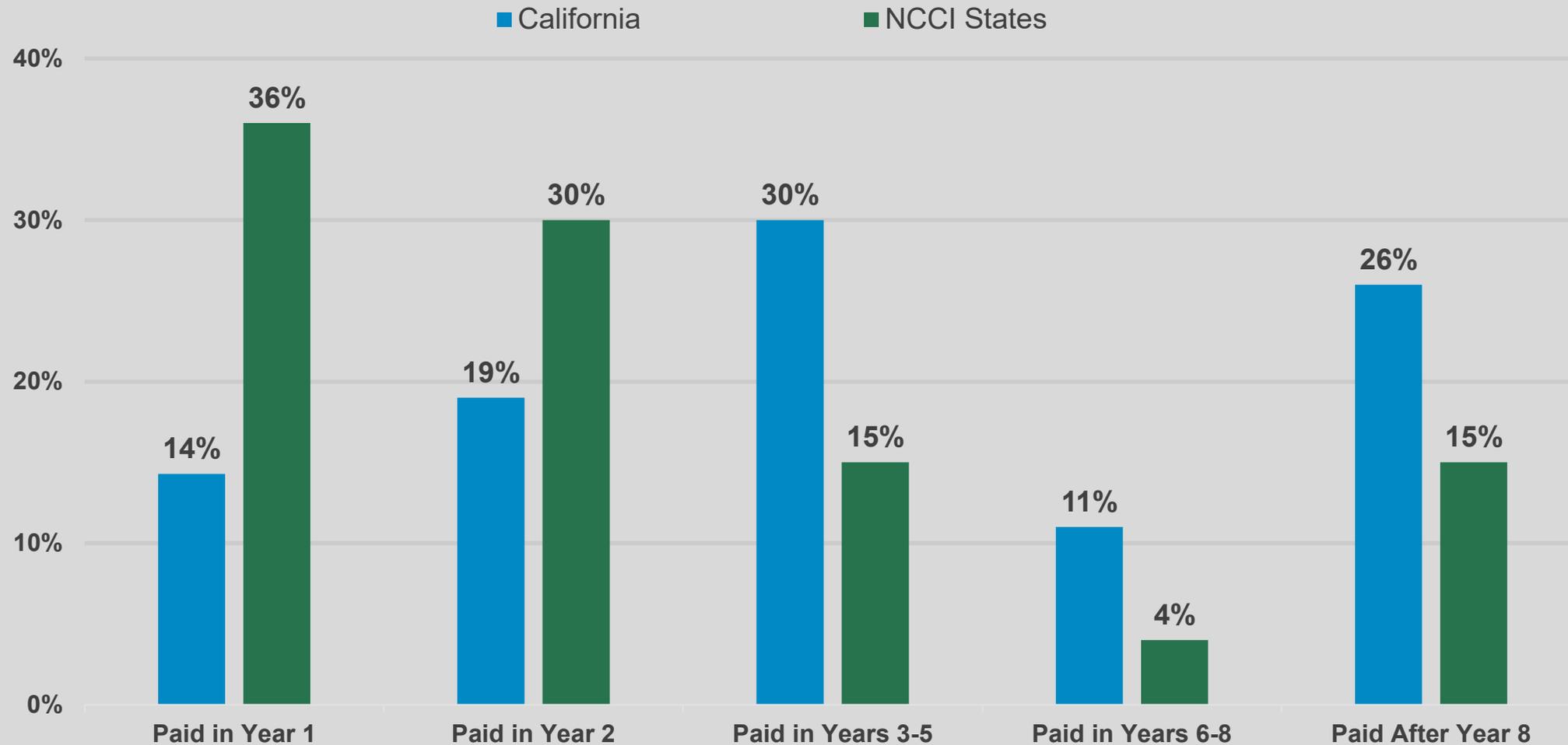


**Insights & Recent Trends**

- The percentage of ultimate medical paid after three years increased from 38% in 2012 to 47% in 2020, driven largely by the SB 863 reforms.
- California still has longer duration of medical payments compared to other states, driven by:
  - The time it takes to report claims ([Chart 41](#))
  - The length of time claims stay open ([Chart 42](#))
  - A high proportion of PD claims ([Chart 27](#)) and CT claims ([Chart 24](#))
  - High frictional costs ([Chart 44](#))



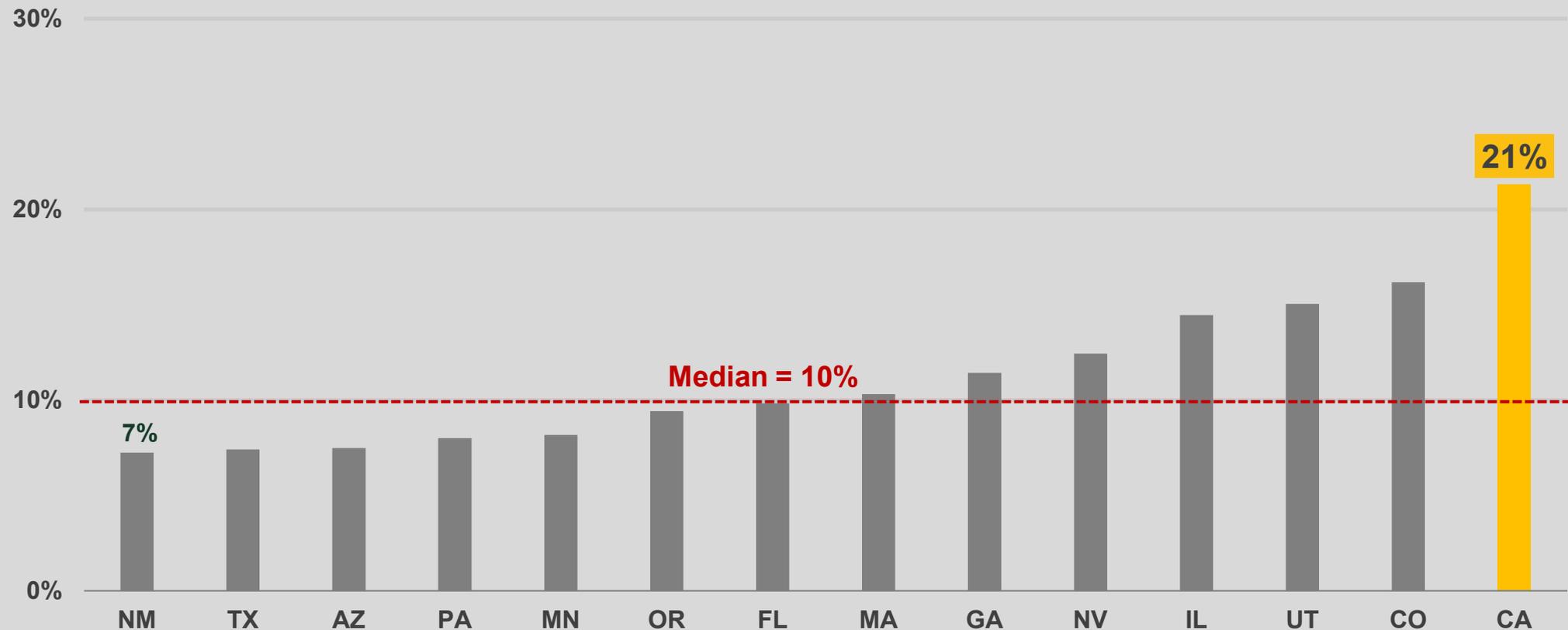
**Chart 40: Percent of Medical Losses Paid by Year**



**Insights & Recent Trends**

- Almost two-thirds of all medical losses are paid in the first two years from the year of injury in NCCI states, compared to about one-third in California.
- 37% of medical losses in California are paid after 5 years, compared to 19% for NCCI states.
- The slower payment rate of medical losses in California are in part driven by a slower reporting of indemnity claims ([Chart 41](#)) and a slower claim settlement process. ([Chart 42](#))

**Chart 41: Percent of Indemnity Claims Unreported at 12 Months**

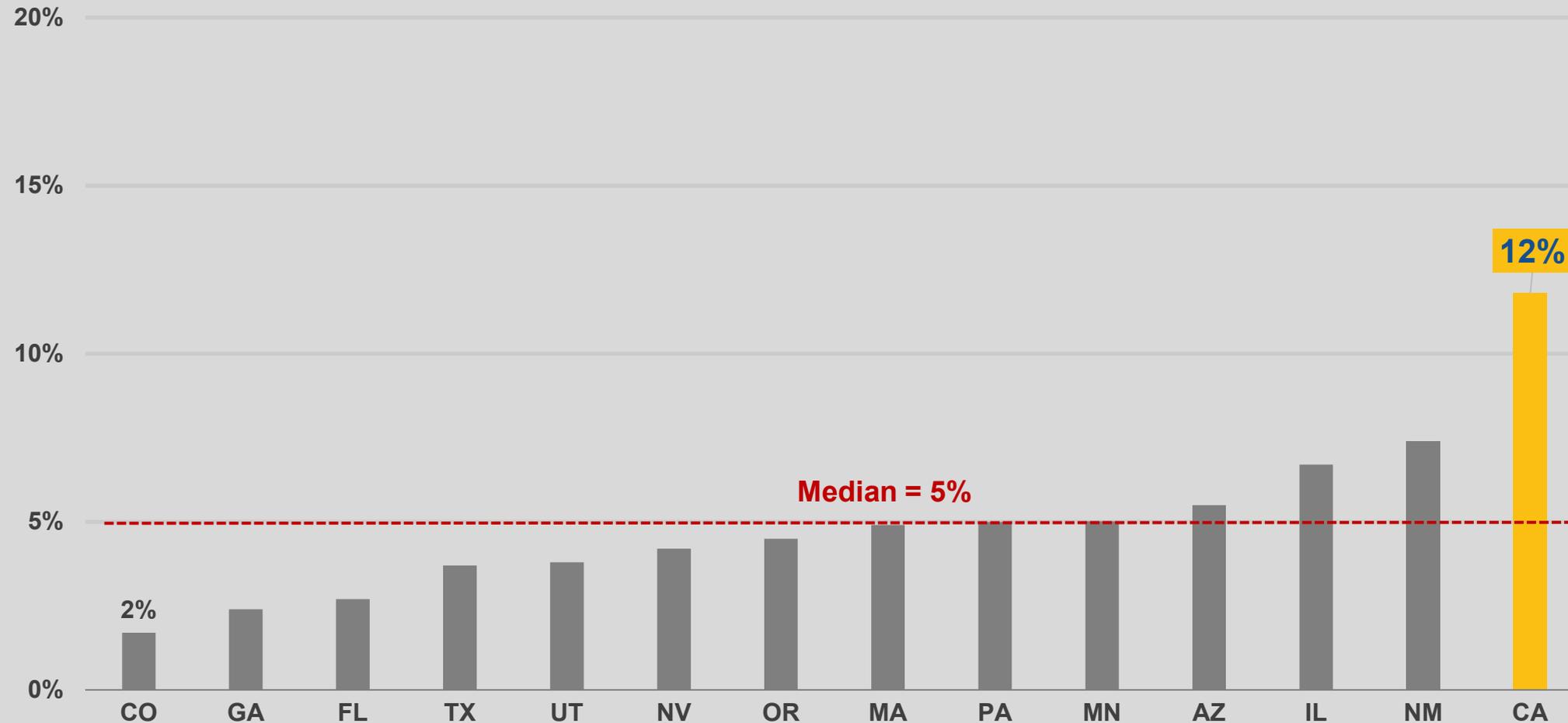


**Insights & Recent Trends**

- California has a very slow pattern of indemnity claim reporting at 12 months, with the proportion of claims unreported almost twice the comparison state median.
- A large proportion of the late-reported claims in California involve CT injuries, (Chart 24) many of which are filed following the employee's termination.

05  
Claim Duration

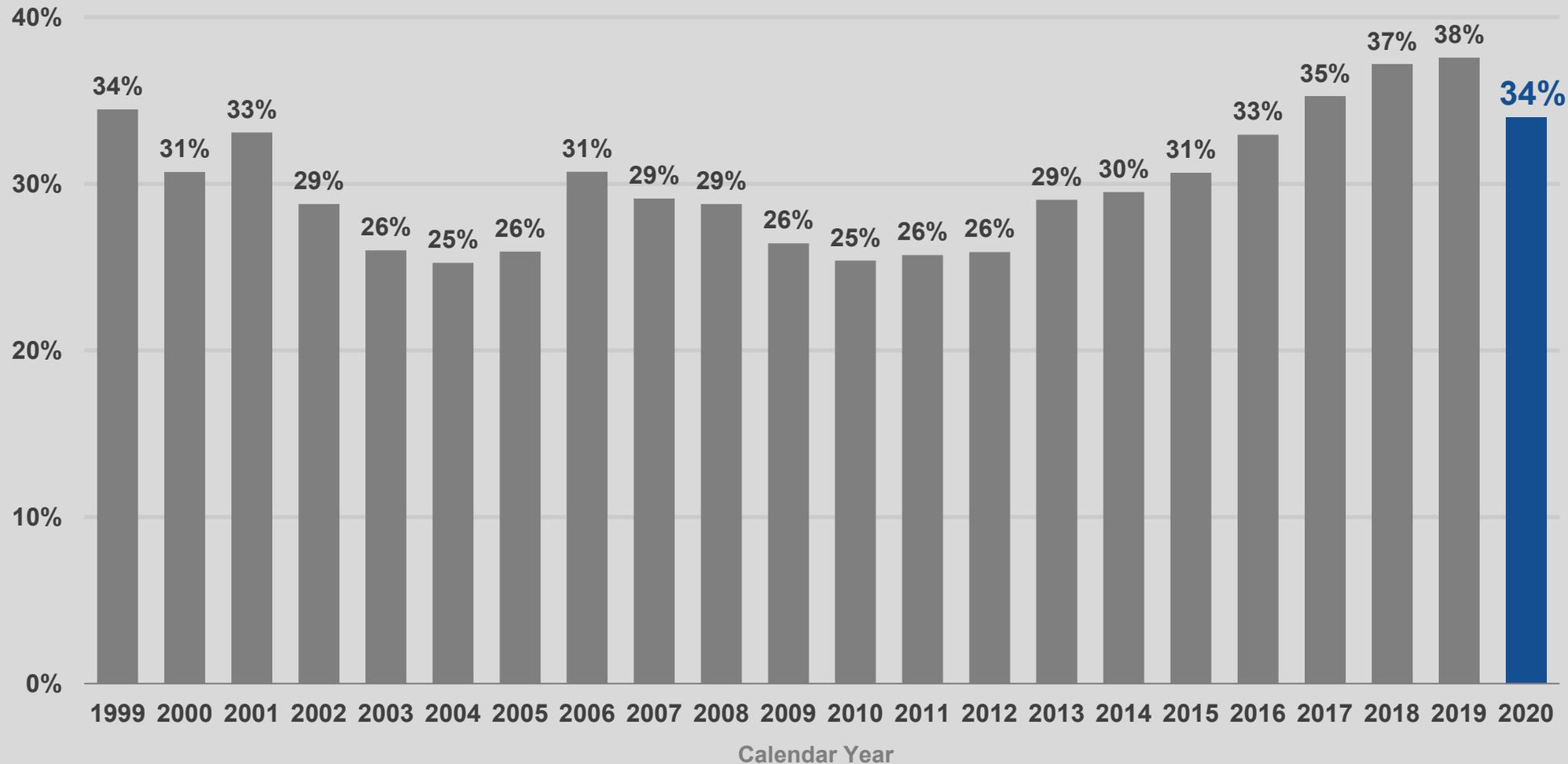
**Chart 42: Percent of Indemnity Claims Open at 60 Months**



**Insights & Recent Trends**

- The proportion of California indemnity claims open at 60 months is more than twice the comparison state median, despite a recent acceleration in claim closure rates.
- The slower rate of claim closure in California is owing to:
  - A high proportion of CT claims filed, which settle slower than other claims ([Chart 24](#))
  - Medical lien filings ([Chart 51](#))
  - Higher rates of PD claim frequency ([Chart 27](#))
  - Greater complexity in handling and settling claims

**Chart 43: Percent of Open Indemnity Claims Closed During Next Year**



**Insights & Recent Trends**

- From 2012 to 2019, indemnity claim closing rates increased, in part attributable to SB 863 provisions related to liens, IMR, independent bill review, reduced opioid use and a reduced number of spinal surgeries.
- In 2020, average indemnity claim closing rates declined sharply as the COVID-19 pandemic and stay-at-home orders slowed the claims process.

# Frictional Costs

06

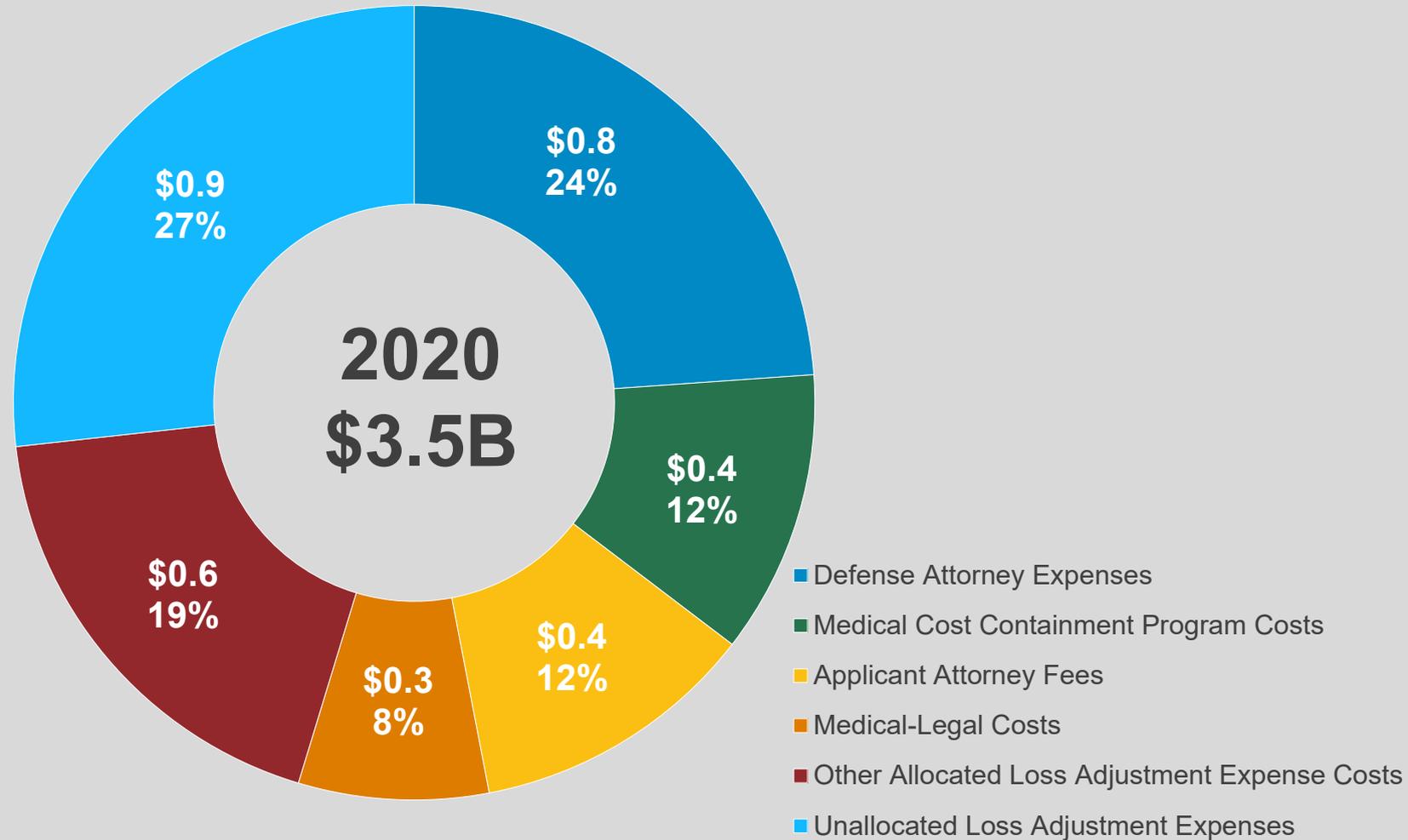
# Chart 44: Cost to Deliver \$1 of Benefits

Medicare		\$0.02
Private Group Health Insurance		\$0.18
Workers' Compensation Median State		\$0.25
California Workers' Compensation		\$0.48

## Insights & Recent Trends

- California claims' administrative costs are multiples higher than other medical benefit systems such as Medicare and the average for private group health insurance.
- Although there have been some reductions in average claims administrative costs in California in recent years ([Chart 46](#)), the cost to provide \$1 of benefits in California remains almost double that of the median state workers' compensation system.

**Chart 45: Distribution of 2020 Paid Frictional Costs**

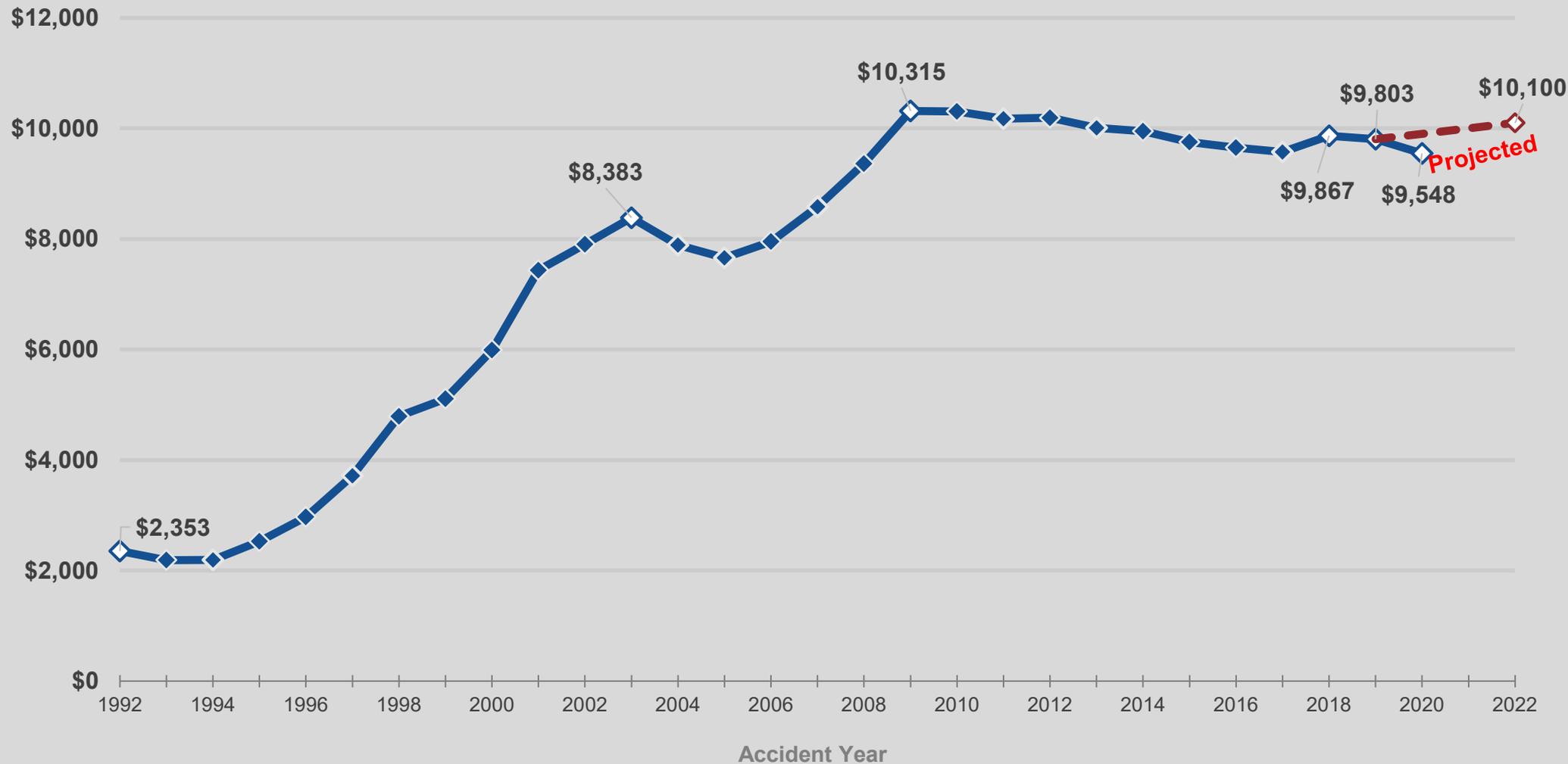


**Insights & Recent Trends**

- The majority of frictional costs paid are for the handling of claims and the resolving of claim disputes.
- The \$3.5 billion of frictional costs paid in 2020 is comparable to the cost of paid indemnity benefits (after excluding applicant’s attorney fees, which are typically reported in indemnity benefits). [\(Chart 53\)](#)

06  
**Frictional Costs**

**Chart 46:** Average Allocated Loss Adjustment Expenses per Indemnity Claim

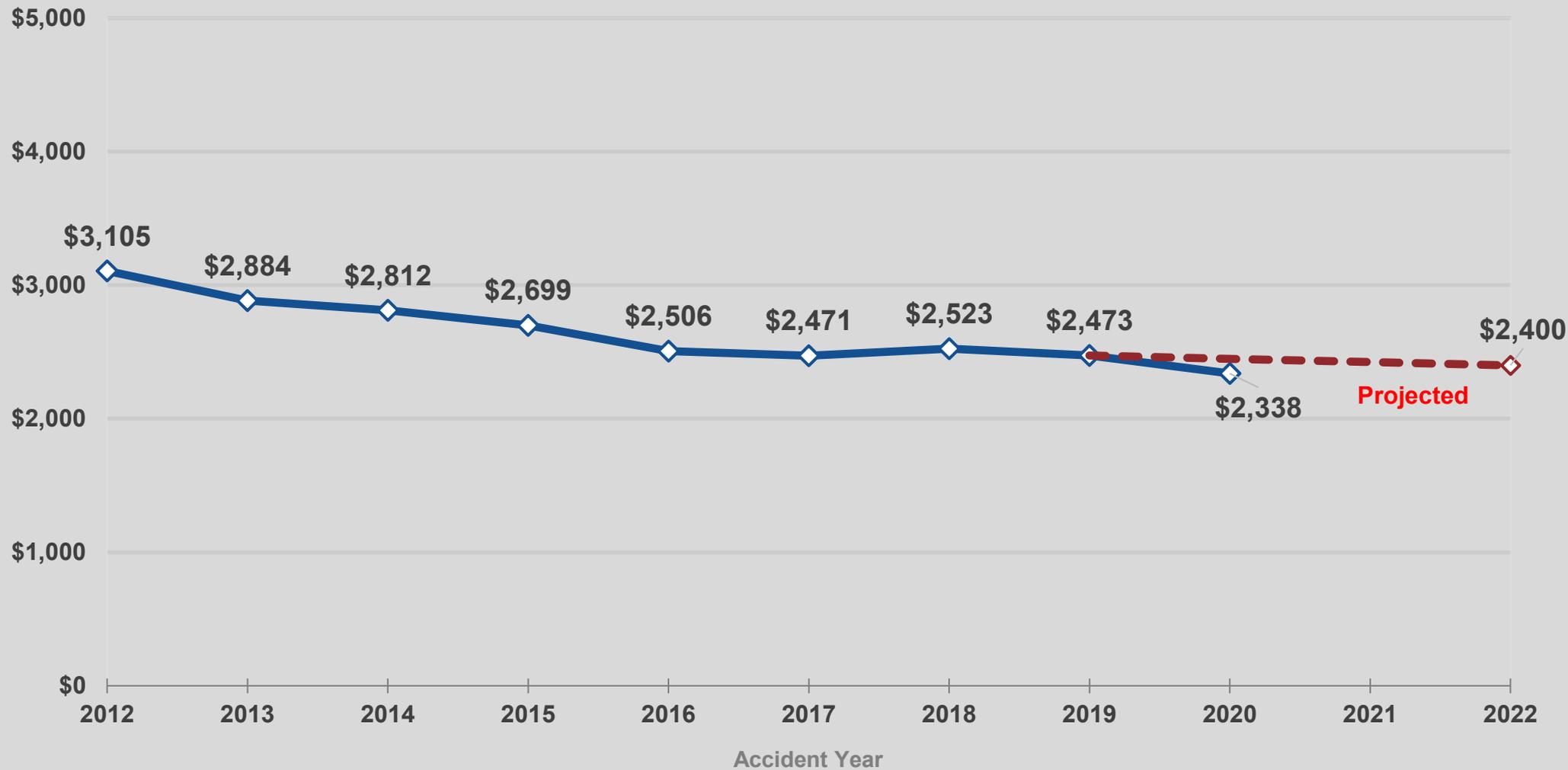


**Insights & Recent Trends**

- Average allocated loss adjustment expense (ALAE) costs increased significantly through 2009.
- Average ALAE costs have been relatively flat since 2009, driven by acceleration in claim settlement rates reducing the duration of indemnity claims.
- As with other system components, the average ALAE costs for 2020 are preliminary and in part driven by a slowdown in the claims process during the pandemic.
- With claim settlement rates beginning to decline ([Chart 43](#)), the WCIRB projects modest increases in average ALAE costs through 2022.

06  
**Frictional Costs**

**Chart 47: Average Medical Cost Containment Program Cost per Indemnity Claim**

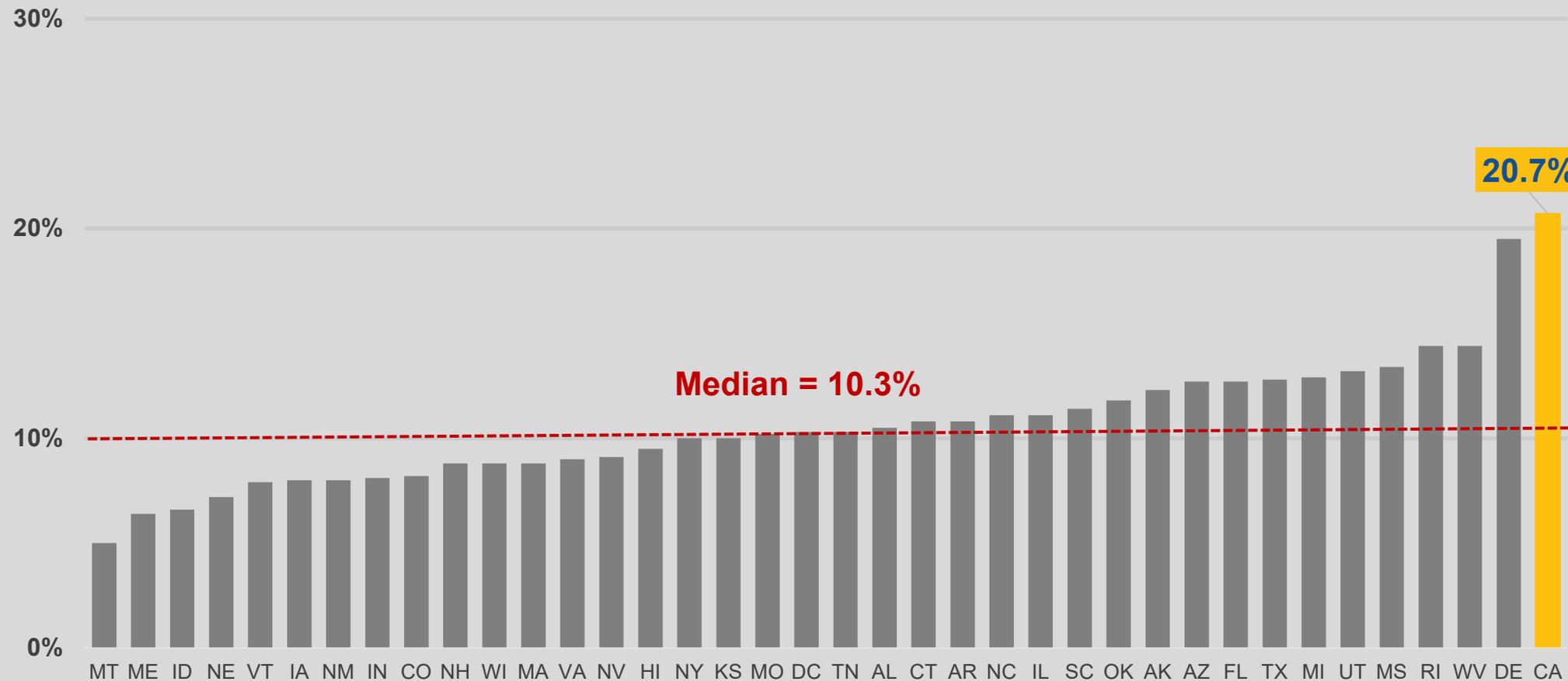


**Insights & Recent Trends**

- As medical costs declined, [\(Chart 32\)](#) average medical cost containment program (MCCP) costs also decreased since 2012.
- Beginning in 2018, SB 1160 restricted the use of utilization review within the first 30 days of an injury, which was expected to reduce MCCP costs.
- Although MCCP costs increased in 2018 rather than declining as projected, in 2019 and 2020 average MCCP costs declined modestly.
- The WCIRB projects a modest decline in average MCCP costs through 2022.

06  
**Frictional Costs**

**Chart 48: Ratios of Allocated Loss Adjustment Expenses to Losses**

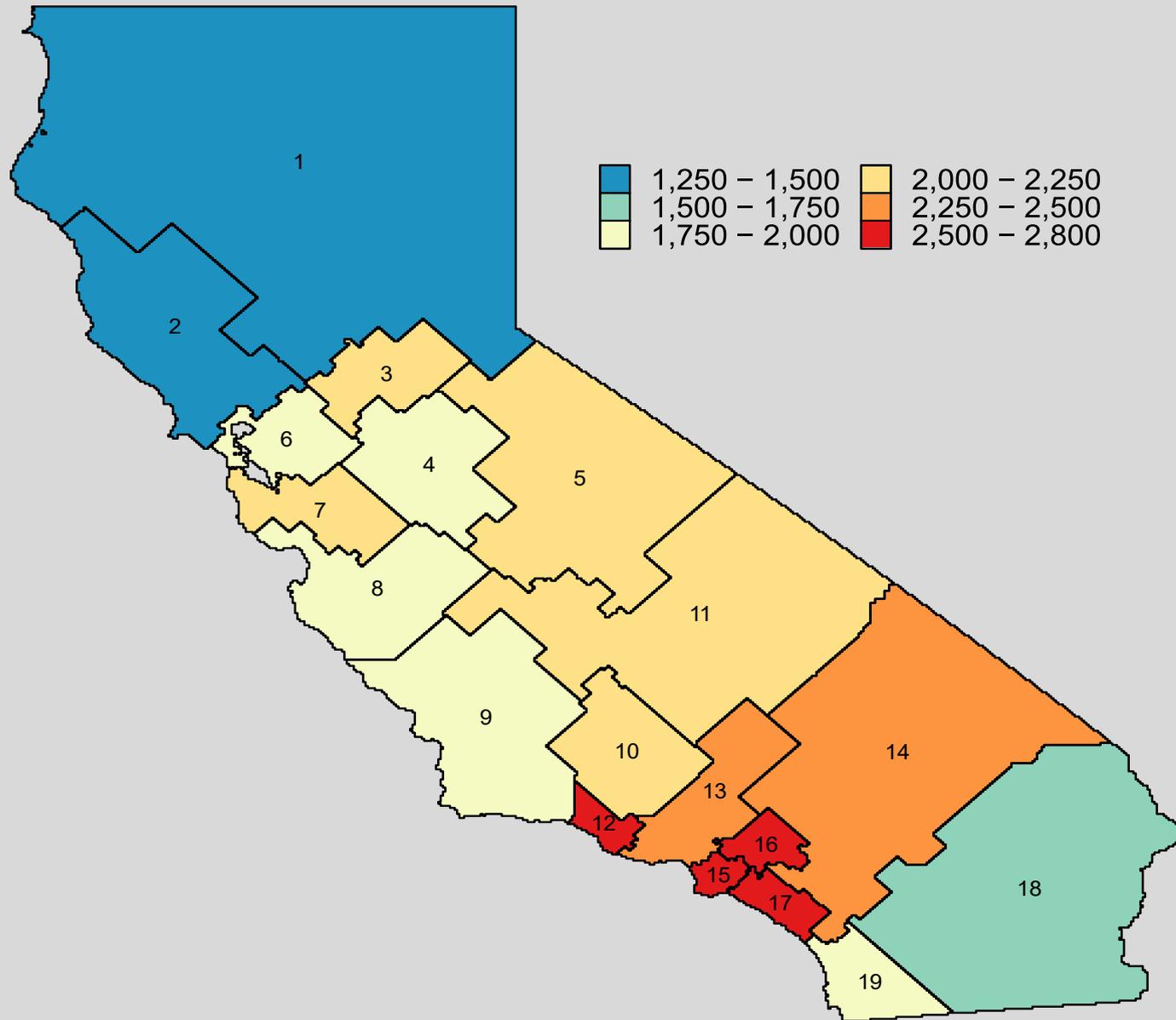


**Insights & Recent Trends**

- Despite recent flat average ALAE costs, [\(Chart 46\)](#) California’s ratio of ALAE to losses is the highest in the country and twice the countrywide median.
- Drivers of high California expenses:
  - High proportion of PD claims [\(Chart 27\)](#) and CT claims [\(Chart 24\)](#)
  - High rates of representation and litigation on claims
  - Longer duration of claims [\(Chart 42\)](#)
  - High volume of liens [\(Chart 51\)](#)

06  
Frictional Costs

**Chart 49: Median Paid ALAE on Permanent Disability Claims**

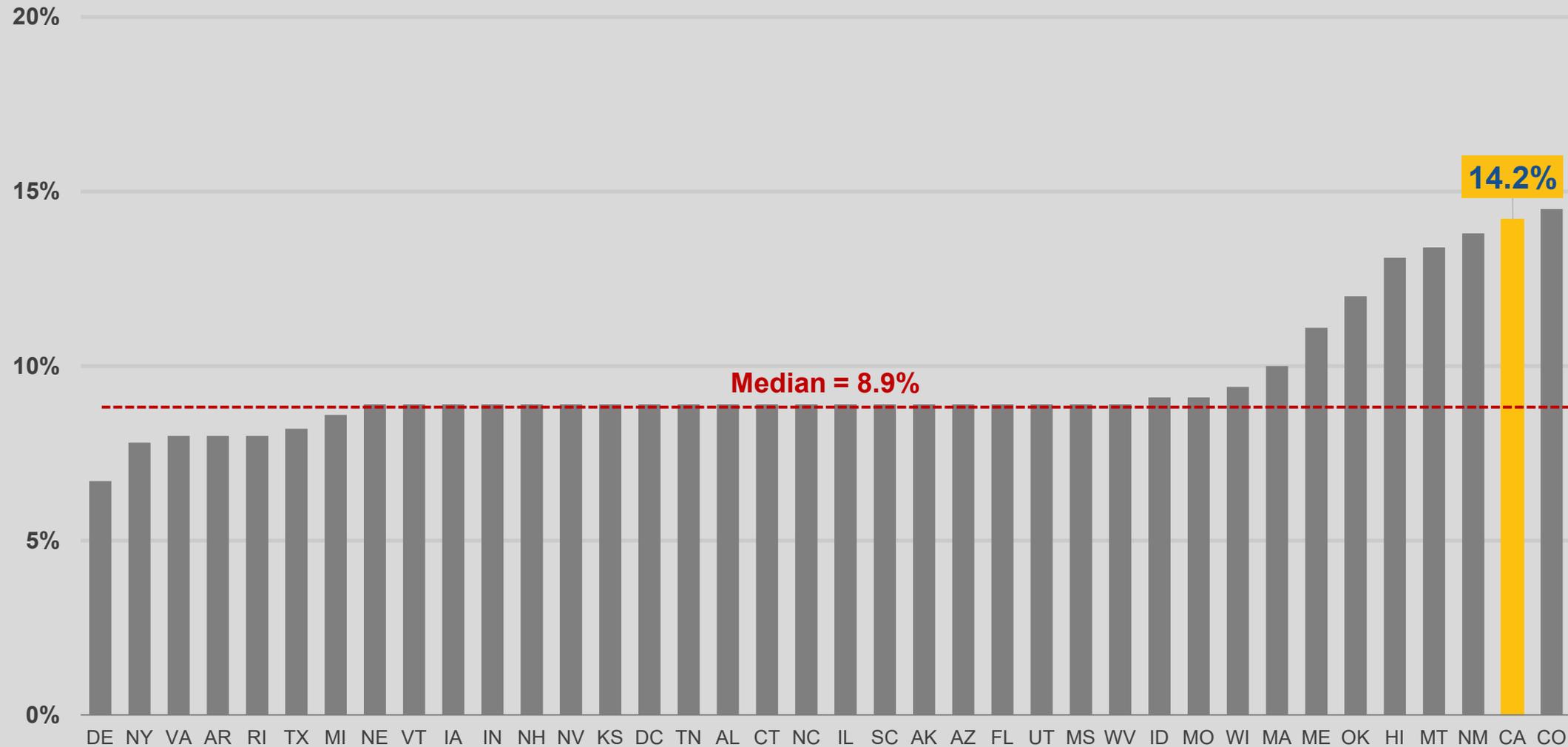


- 01 – Yuba City/Redding/Far North
- 02 – Sonoma/Napa
- 03 – Sacramento
- 04 – Stockton/Modesto/Merced
- 05 – Fresno/Madera
- 06 – Bay Area
- 07 – Peninsula/Silicon Valley
- 08 – Santa Cruz/Monterey/Salinas
- 09 – SLO/Santa Barbara
- 10 – Bakersfield
- 11 – Tulare/Inyo
- 12 – Ventura
- 13 – Santa Monica/San Fernando Valley
- 14 – San Bernardino/West Riverside
- 15 – LA/Long Beach
- 16 – San Gabriel Valley/Pasadena
- 17 – Orange County
- 18 – Imperial/Riverside
- 19 – San Diego

**Insights & Recent Trends**

- Paid ALAE is significantly higher in the LA Basin regions.
- The lowest paid ALAE tends to be in the more rural areas of California.

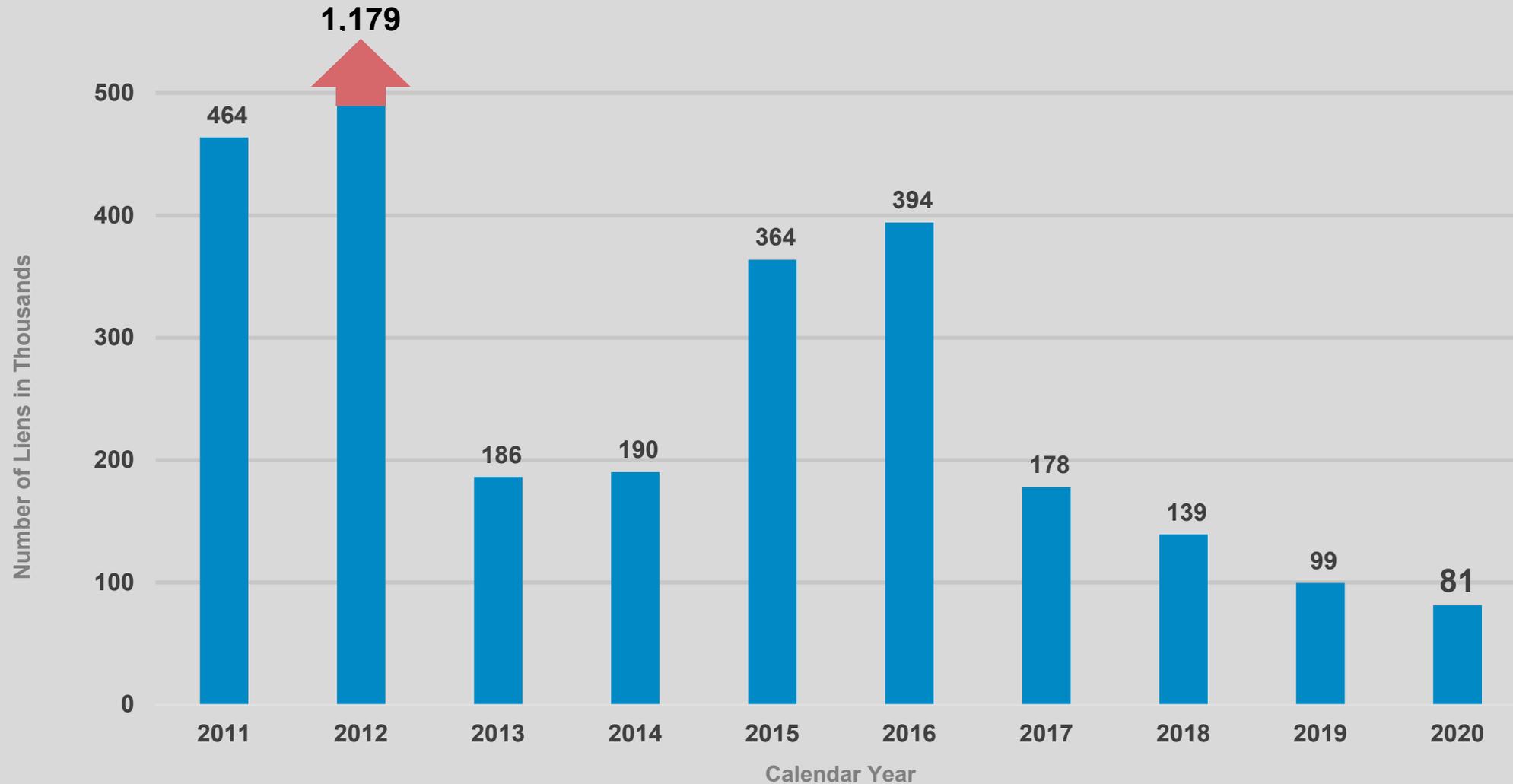
**Chart 50: Ratios of Unallocated Loss Adjustment Expenses to Losses**



**Insights & Recent Trends**

- California has the second highest ratio of unallocated loss adjustment expenses (ULAE) to loss in the country, with a ratio over 50% higher than the median state.
- California claims are typically more complex to handle as they are open longer and more often involve complex issues such as PD and CT.
- California also has higher wages and cost-of-living expenses than most other states, which also impact ULAE costs.

**Chart 51: Number of Lien Filings**



**Insights & Recent Trends**

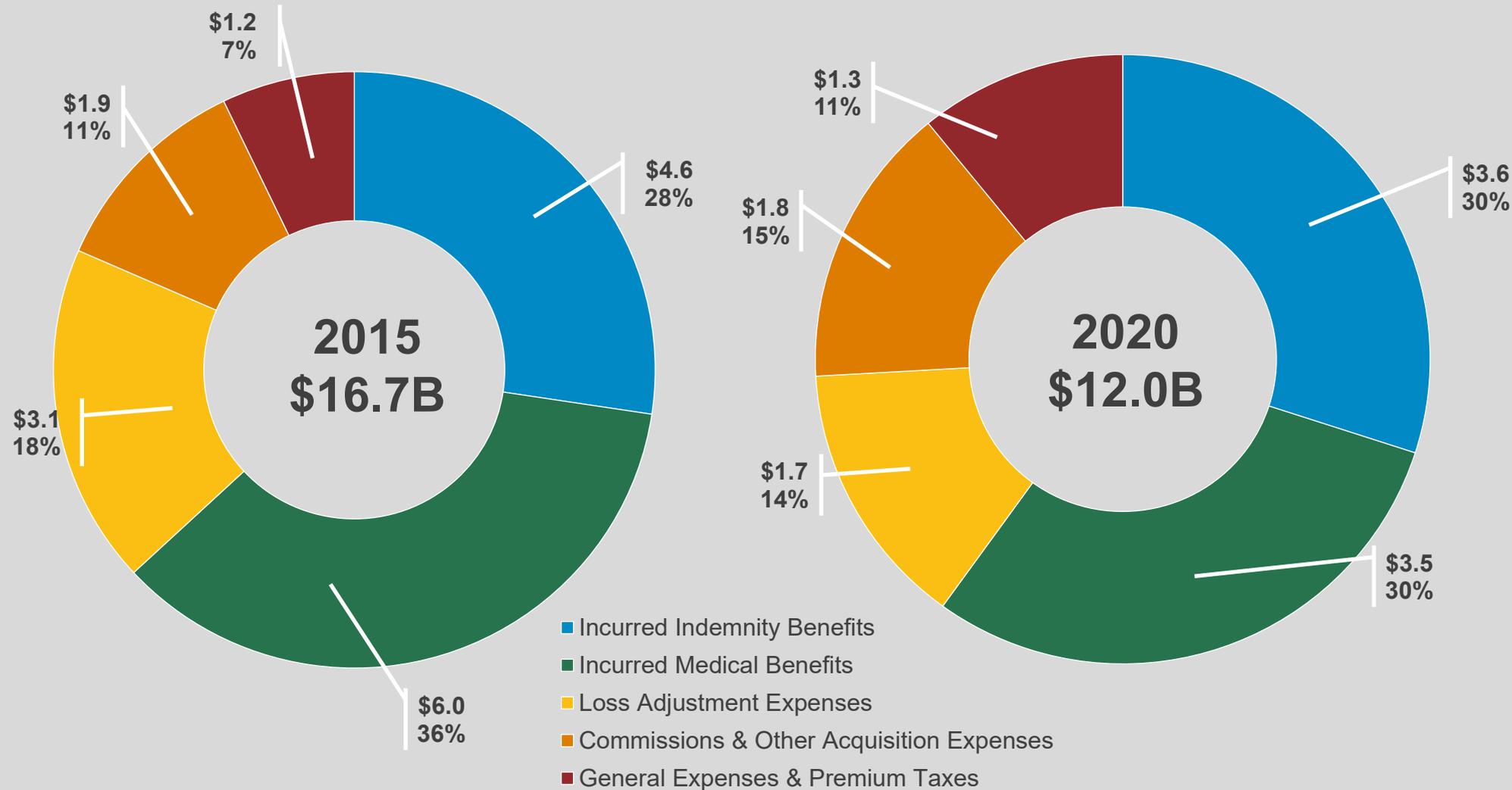
- Following the implementation of reforms related to lien filings of SB 863 (in 2013) and SB 1160 and Assembly Bill (AB) 1244 (in 2017), the number of lien filings dropped significantly.
- The number of liens filed in 2020 is over 70% below the pre-SB 1160 and AB 1244 level.
- Although lien filings in California are at a historical low, they are virtually nonexistent in other workers' compensation systems.

# Claim Cost Distributions

# 07

07  
Claim Cost Distributions

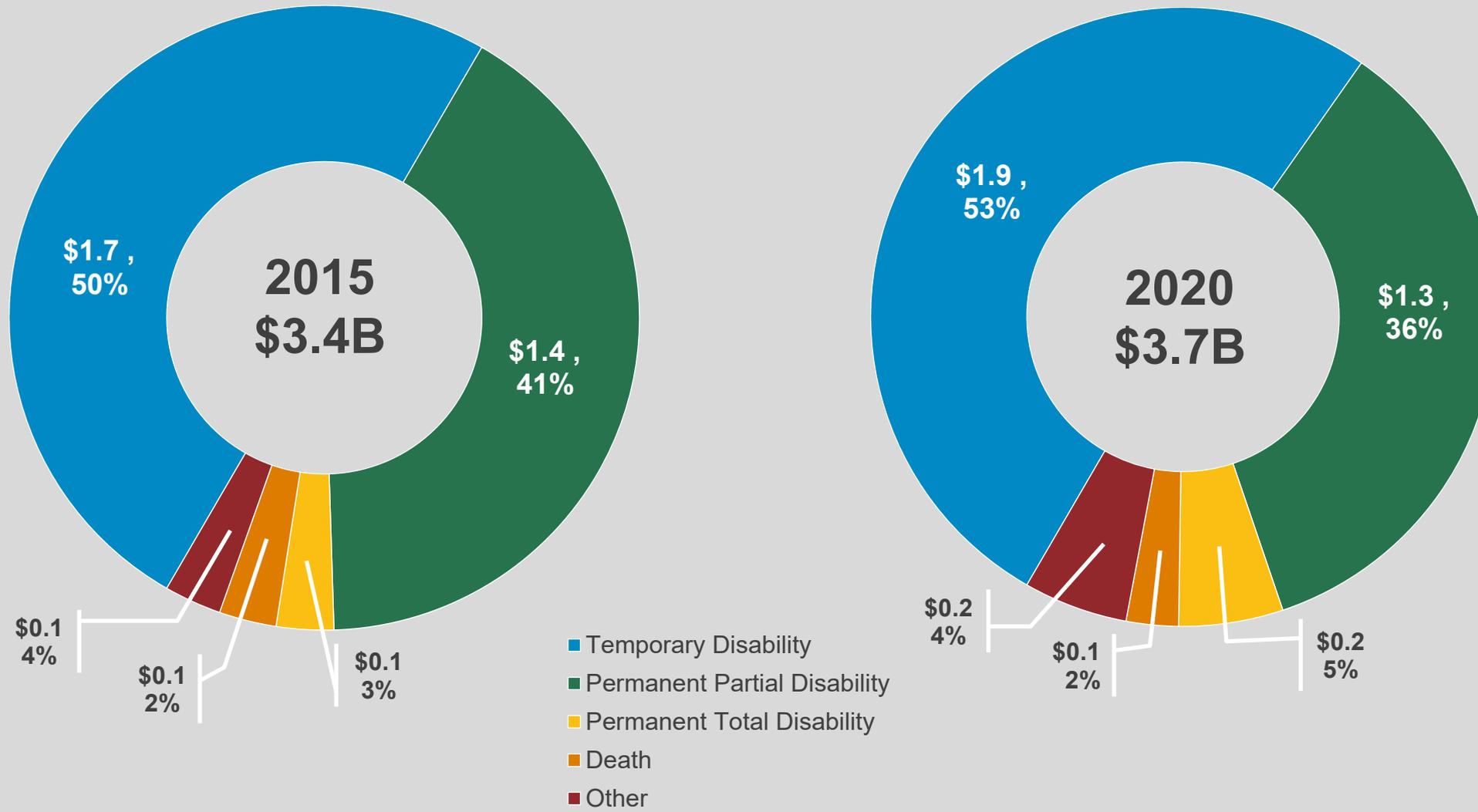
Chart 52: Distribution of Insured System Costs



Insights & Recent Trends

- Medical benefits' share of total costs declined by \$2.5 billion or 6 percentage points over the last five years.
- Indemnity benefits' share of total costs remained relatively consistent over the last five years.
- Total costs in the insured system in 2020 is highly impacted by the COVID-19 pandemic, which led to reductions in premiums (Chart 12) and a slowdown of claims activity in 2020.

**Chart 53: Distribution of Paid Indemnity Benefits**

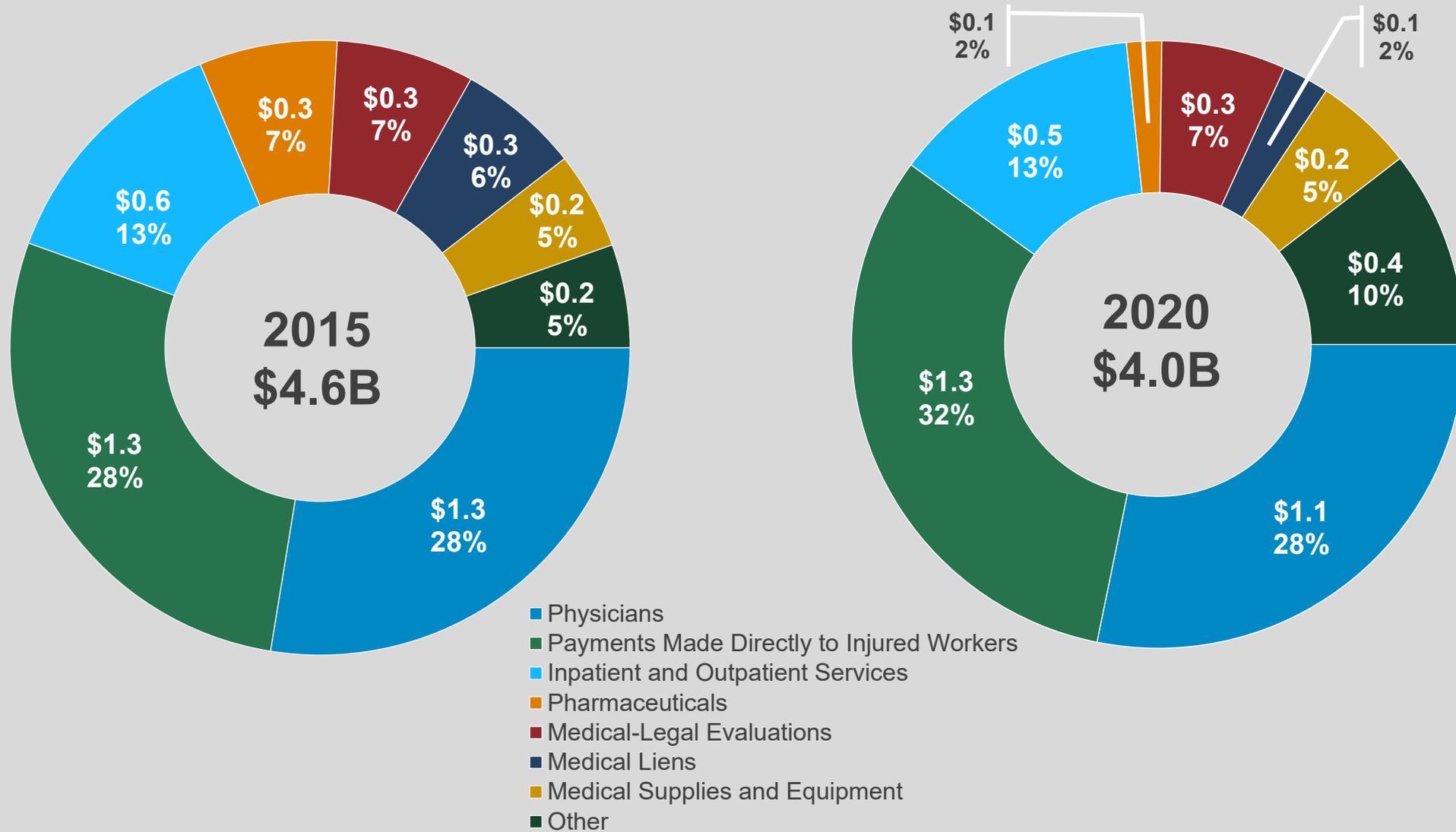


**Insights & Recent Trends**

- TD and permanent partial disability benefits comprise approximately 90% of indemnity benefits.
- The share of indemnity benefits for permanent partial disability decreased over the last five years as, unlike most other types of indemnity benefits, there are no annual cost-of-living adjustments.

07  
**Claim Cost Distributions**

**Chart 54: Distribution of Paid Medical Benefits**



**Insights & Recent Trends**

- The share of medical payments for pharmaceuticals and medical liens decreased significantly over the last five years.
- Payments made directly to injured workers, which are primarily for future medical services, increased due in part to accelerations in claim settlement rates though 2019. [\(Chart 43\)](#)
- The shares of medical costs in other categories remained relatively consistent over the last five years.

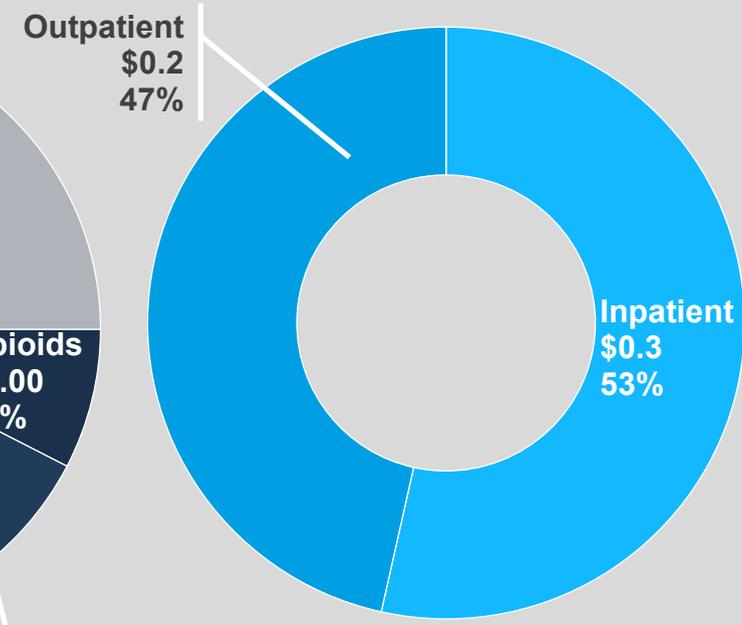
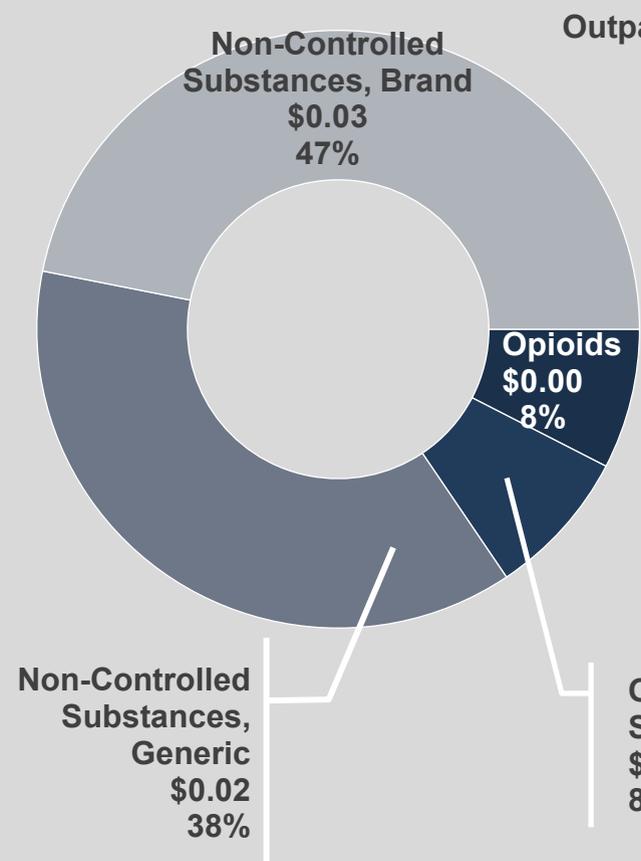
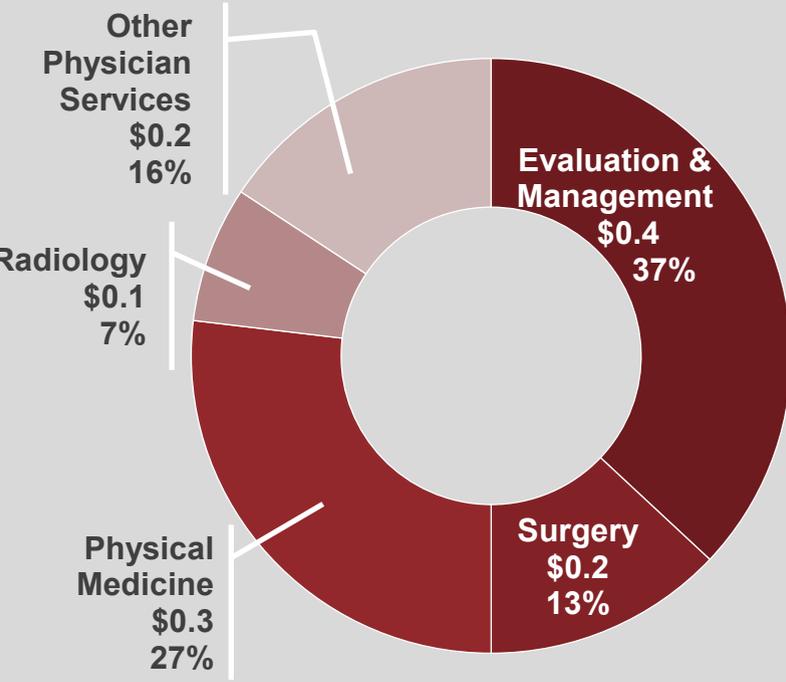
# Chart 55: Distribution of 2020 Paid Medical by Category

## Insights & Recent Trends

**Physician Services**  
\$1.2B

**Pharmaceuticals**  
\$0.1B

**Inpatient & Outpatient Services**  
\$0.5B



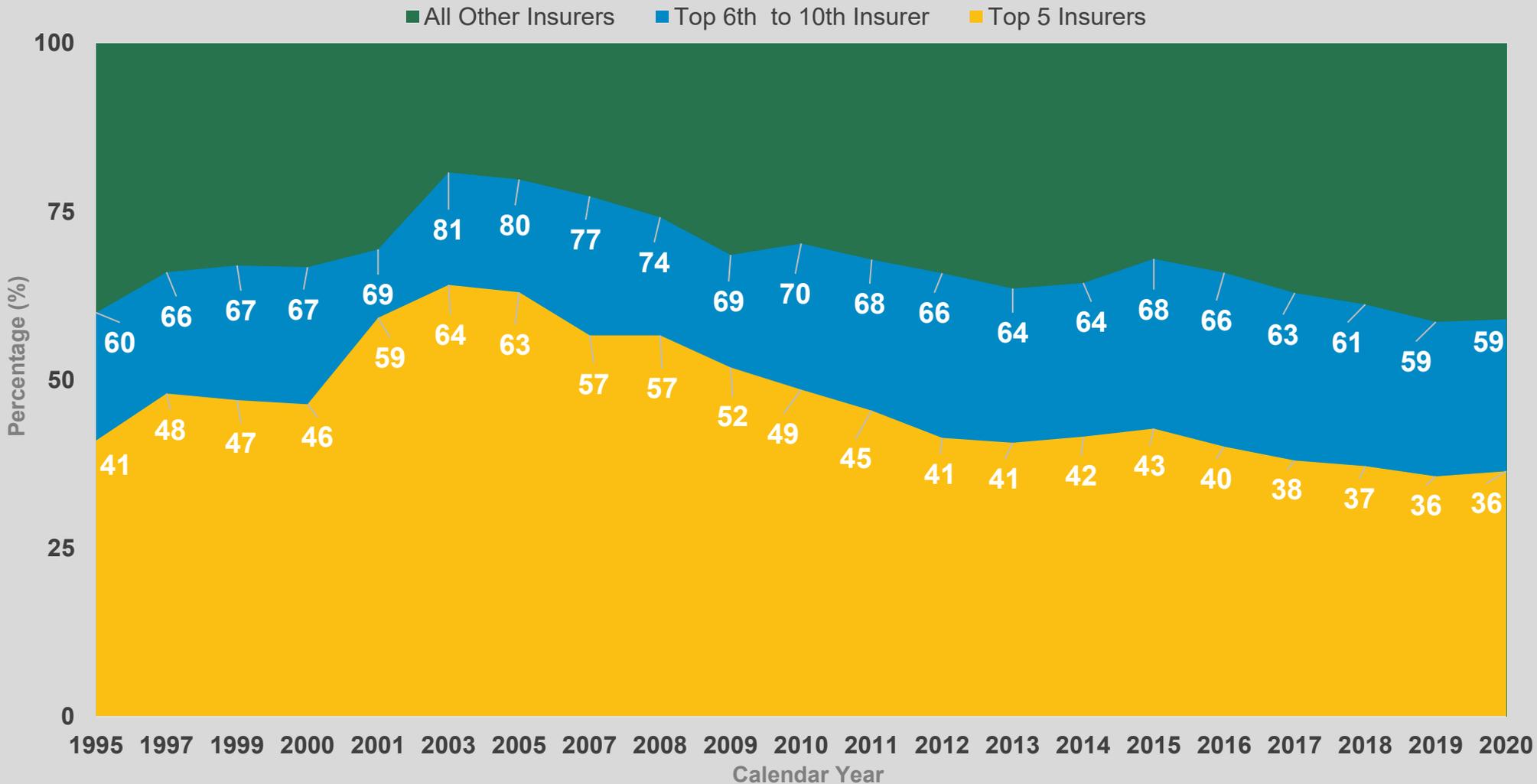
- Payments for evaluation and management and physical medicine services represented over 60% of all physician services payments in 2020.
- More than three-quarters of pharmaceutical payments were for non-controlled substances in 2020.
- Opioid payments continue to shrink and comprised only 8% of all pharmaceutical costs in 2020.

# Industry Results

08



**Chart 56: Market Concentration Ratios**



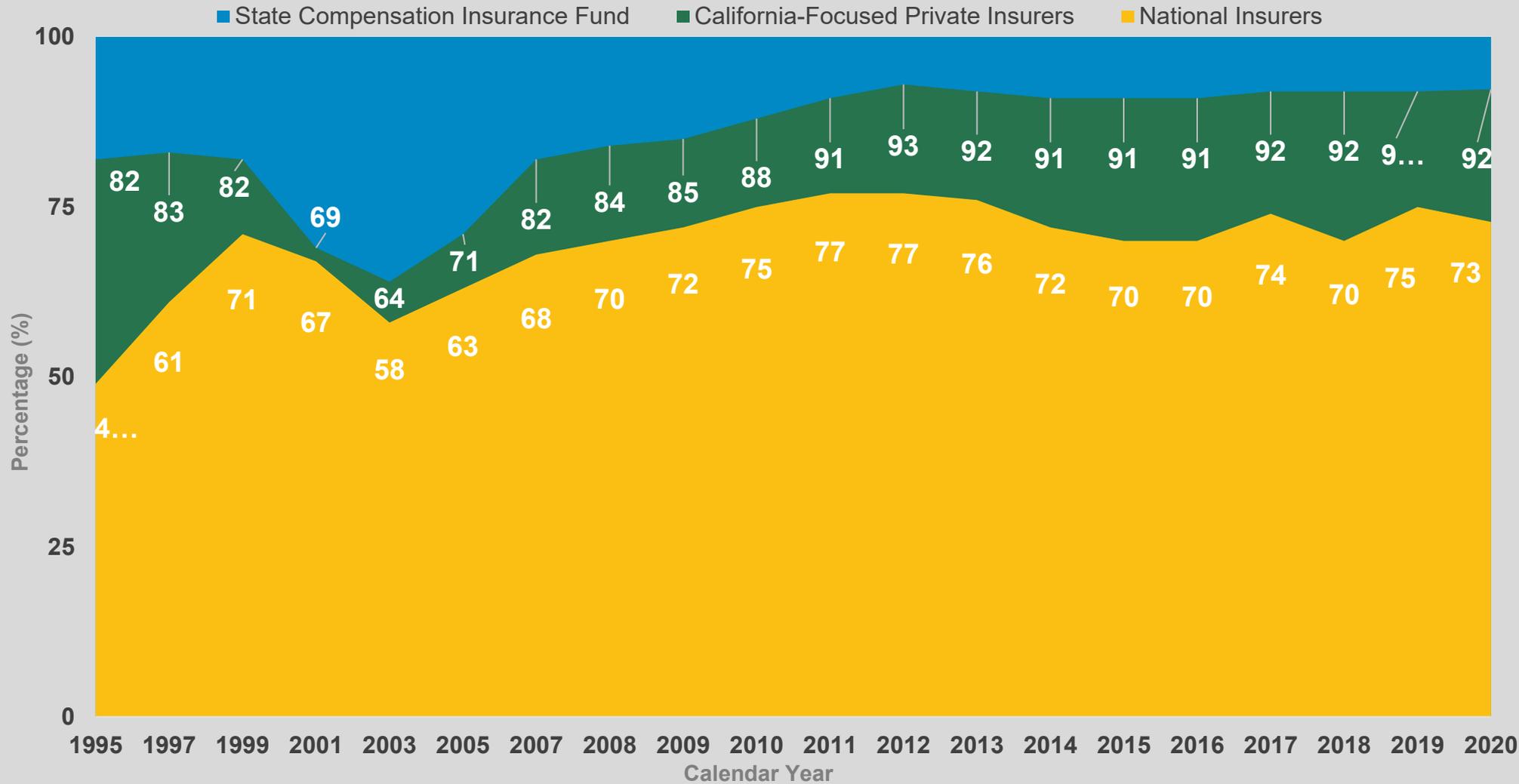
**Insights & Recent Trends**

- The concentration of the California workers' compensation market peaked in the early 2000s, as the largest 10 insurers controlled over 80% of the market.
- Market concentration ratios in 2020 were the lowest in decades, as the largest 10 insurers controlled less than 60% of the market.

[More Info](#) →



**Chart 57: Market Share by Type of Insurer**



**Insights & Recent Trends**

- The State Compensation Insurance Fund’s share of the market was at a historical low in 2020.
- The share of private insurers that focus most of their workers’ compensation business in California has been relatively consistent since 2013.

**Chart 58: Projected Combined Loss and Expense Ratios**



**Insights & Recent Trends**

- Combined ratios in California have historically been volatile.
- Recent industry ratios have been fairly stable, with seven consecutive years of combined ratios below 100% from 2012 to 2019.
- Combined ratios since 2016 have been increasing primarily due to lower premium levels ([Chart 12](#)) driven by lower insurer rates ([Chart 14](#)) and higher expense ratios.
- The combined ratio for 2020 is the first above 100% since 2012. Excluding the impact of COVID-19 claims, the 2020 combined ratio would be 96%.

[More Info](#)

**Chart 59: Private Insurer Reported Combined Ratios**

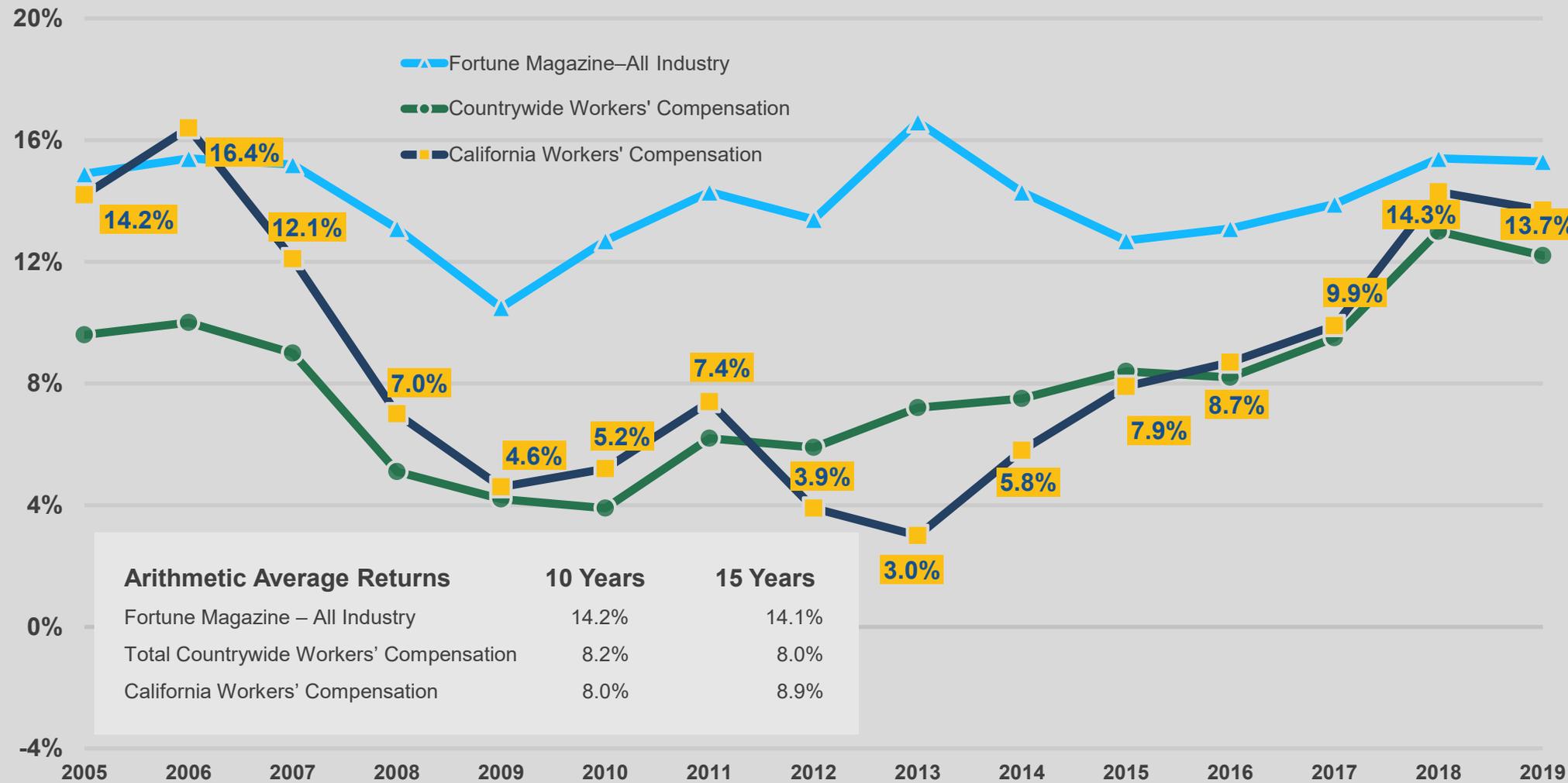
■ California (Private Insurers)   ■ Countrywide (Private Insurers)



**Insights & Recent Trends**

- California private insurer reported combined ratios have over the long term been relatively volatile.
- Since 2016, California private insurer combined ratios have been below the countrywide ratios.

**Chart 60: Average Return on Net Worth**



**Insights & Recent Trends**

- California workers' compensation returns have been more volatile than the rest of the country.
- Over the long term, average California workers' compensation returns have been generally comparable to the countrywide average for workers' comp but well below the Fortune magazine all-industry average.

# More Info

# Appendix

More Info

**Chart 1: Change in California Unemployment Rate**

- Shows the change in the average unemployment rate over the calendar year compared to the prior calendar year
- The average California unemployment rate in 2019 was 4.2% and in 2020 was 10.2%, for a one-year increase of 145%
- During the peak of the economic slowdown in the second quarter of 2020, the California unemployment rate was 15.2%

**Source Data**

- Historical data is based on the Bureau of Labor Statistics
- Forecasts for 2021 to 2023 are based on the UCLA Anderson School of Business as of June 2021



**Chart 2: California Employment Change by Industry**

- Data for the Great Recession includes a three-year change from 2007 to 2010, while data for the COVID-19 economic slowdown includes a one-year change from 2019 to 2020

**Source Data**

- Bureau of Labor Statistics data compiled by the UCLA Anderson School of Business



The detailed data underlying these charts (in Excel format) is also available on the [WCIRB's website](#) or by [CLICKING HERE](#).

**Chart 3: California Employment Change by Wage Level**

- Shows the change in employment by wage level quartile within an industry
- For example, the change in employment for the "Lowest 25% of Wage Earners" in the Hospitality industry represent the decrease in the number of Hospitality workers making less than \$15 per hour from 2019 to 2020

**Source Data**

- Current Population Survey data from the Census Bureau as compiled by the Economic Policy Institute (Version 1.0.15, <https://microdata.epi.org>)



**Chart 4: California Employment Change Forecasts Indexed to 2019**

- Shows the annual change in employment level forecast through 2023 compared to the 2019 level
- Values below 1.00 indicate a decrease in employment compared to the 2019 level, while values above 1.00 indicate an increase in employment compared to the 2019 level

**Source Data**

- UCLA Anderson School of Business as of June 2021



## More Info

### Chart 5: Filed COVID-19 Workers' Compensation Claims

- A COVID-19 workers' compensation claim is a claim arising out of a diagnosis of COVID-19 (reported with Nature of Injury Code 83)

#### Source Data

- Division of Workers' Compensation data as of June 1, 2021
- Includes workers' compensation claims that were initially denied



### Chart 6: COVID-19 Workers' Compensation Claims Relative to Statewide Infections

- Shows the number of COVID-19 workers' compensation claims filed and the number of COVID-19 infections reported over a similar period
- Each ratio approximates the "conversion rate" of COVID-19 infections to workers' compensation claims
- The COVID-19 presumption included in the Governor's May 6, 2020 Executive Order (N-62-20) covered all workers working outside their home through July 5, 2020
- The COVID-19 presumption included in SB 1159 covers health care workers and first responders as well as employees at employers where an "outbreak" of COVID-19 occurs after July 5, 2020

#### Source Data

- The COVID Tracking Project (<https://covidtracking.com/>) and the California Department of Public Health for total COVID-19 infections
- Division of Workers' Compensation data for COVID-19 claims
- Data is based on the entire system (including self-insured employers) and includes workers' compensation claims that were initially denied



### Chart 7: COVID-19 Claims as a Percent of Indemnity Claims

- Shows the number of COVID-19 claims relative to the total number of indemnity claims filed between April 2020 and April 2021

#### Source Data

- WCIRB transactional indemnity data as of June 2021
- Data is based on the insured system only and excludes denied claims
- Industries are based on WCIRB classifications mapped to the North American Industry Classification System (NAICS) sectors



### Chart 8: COVID-19 Claims as a Percent of Indemnity Claims Over Time

- Shows the number of COVID-19 claims relative to the total number of indemnity claims filed by accident month

#### Source Data

- WCIRB transactional indemnity data as of June 2021
- Data is based on the insured system only and excludes denied claims



More Info

**Chart 9: Projected COVID-19 Claims for the Insured System**

- In the WCIRB's January 1, 2021 Pure Premium Rate Filing, projections of COVID-19 claims were based on claim filings through August 2020, published models of infection waves through the end of 2020 and judgmental assumptions for the relative number of COVID-19 claims in 2021 and 2022
- Current projections for accident years 2020 and 2021 are based on reported COVID-19 claims as of June 2021 developed to an estimated ultimate level based on aggregate claim reporting patterns and assuming no further COVID-19 infection waves for the remainder of 2021

**Source Data**

- WCIRB transactional indemnity data as of June 2021
- Data is based on the insured system only and excludes denied claims



**Chart 10: Projected COVID-19 Average Claim Costs**

- Mild COVID-19 claims include mild illnesses that do not require hospitalization
- Severe COVID-19 claims include hospitalization but not a stay in an intensive care unit (ICU)
- Critical COVID-19 claims include a stay in an ICU including the use of ventilator support but do not result in the death of the employee
- The projected cost of a COVID-19 claim reflected in the WCIRB's January 1, 2021 Pure Premium Rate Filing assumed approximately 82% of COVID-19 claims are mild claims

**Source Data**

- See [Evaluation of Cost Impact of Governor Newsom's Executive Order on Rebuttable Presumption for California COVID-19 Workers' Compensation Claims](#) for source data and methodology
- Preliminary average cost of a COVID-19 claim is based on WCIRB aggregate financial data calls as of March 31, 2021 developed to an estimated ultimate cost level



**Chart 11: Projected COVID-19 Claim Costs for the Insured System**

- In the WCIRB's January 1, 2021 Pure Premium Rate Filing, projections of COVID-19 claim costs were based on claim filings through August 2020, estimates of average claim size based on the WCIRB's evaluation of the Governor's May 6, 2020 Executive Order, published models of infection waves through the end of 2020 and judgmental assumptions for the relative number of COVID-19 claims in 2021 and 2022
- Current projections for accident years 2020 and 2021 are based on reported COVID-19 claims as of June 2021 (Chart 9) and reported average incurred cost of a COVID-19 claim as of March 31, 2021 (Chart 10) developed to an estimated ultimate cost level and assuming no further COVID-19 infection waves for the remainder of 2021

**Source Data**

- WCIRB transactional indemnity data as of June 2021 and aggregate financial data calls as of March 31, 2021
- Data is based on the insured system only and excludes denied claims



More Info

**Chart 12: Reported Written Premium**

- Total premium from workers' compensation policies in California
- Does not reflect premium credits for policies that include deductibles (i.e., data is on a "first-dollar" basis)

**Source Data**

- WCIRB aggregate financial data calls
- 2021 premium estimate is primarily based on first quarter 2021 premium reported to the WCIRB and projected changes in statewide employment and wage levels for the remainder of 2021



**Chart 13: Drivers of Written Premium Changes**

- Annual California premium growth attributed to changes in average insurer rates and economic expansion as reflected in changes in employer payrolls
- Changes in premium are impacted by several other factors such as changes in the mix of industries, the change in the average experience modification, more or less premium captured in audits of older policies and transitions in and out of self-insurance
- In particular, changes in written premium in 2020 may be more driven by shifts in the industrial mix than in typical years given the sharp downturn in the economy in 2020 (see Chart 2)

**Source Data**

- WCIRB aggregate financial data calls and published California annual wage information published by the UCLA Anderson School of Business
- Premiums are based on written premium gross of any deductible credits



**Chart 14: Average Charged Rate per \$100 of Payroll**

- Average rates per \$100 of payroll charged by insurers in California
- Shows the average cost of workers' compensation insurance paid by California employers
- Differs from advisory pure premium rates approved by the California Insurance Commissioner, which are advisory and only reflect the estimated cost of losses and loss adjustment expenses
- Since 1995, insurers file their own premium rates with the Insurance Commissioner that may in part be based on the Commissioner's approved advisory pure premium rates
- Data is categorized by the year the policies inception

**Source Data**

- WCIRB unit statistical data (through 2018) and aggregate financial data calls
- The average rate for 2021 is based on the first quarter only
- For consistency of comparison, average rates for 2020 and the first quarter of 2021 do not include the impact of maximum payroll limitations applied to five classifications beginning in 2020



More Info

**Chart 15: Changes in Average Rates Since 2015**

- Rates shown are per \$100 of payroll and are gross of deductible credits
- Advisory pure premium rates are based on those approved by the Insurance Commissioner and only include the cost of losses and loss adjustment expenses
- Industry filed manual rates include provisions for losses and loss adjustment expenses as well as provisions for insurer general expenses, acquisition expenses, taxes and fees and any profit provisions
- Average charged rates are based on the premiums actually charged to employers and include the impact of schedule credits and other premium adjustment plans

**Source Data**

- WCIRB unit statistical data and aggregate financial data calls and insurer rate filings with the California Department of Insurance
- For consistency of comparison, average charged rates for 2020 and 2021 do not include the impact of maximum payroll limitations applied to five classifications beginning in 2020



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**Chart 15**

**Chart 16: January 2021 Rate Components**

- Rates shown are per \$100 of payroll and are gross of deductible credits
- Advisory pure premium rates are based on those approved by the Insurance Commissioner and only include the cost of losses and loss adjustment expenses
- Industry filed manual rates include provision for the losses and loss adjustment expenses as well as provisions for insurer general expenses, acquisition expenses, taxes and fees and any profit provisions
- Average charged rates are based on the premiums actually charged to employers and include the impact of schedule credits and other premium adjustment plans

**Source Data**

- WCIRB aggregate financial data calls and insurer rate filings with the California Department of Insurance
- The average approved advisory pure premium rate is adjusted to a “full” rate basis using an expense ratio of 21% of premium, which approximates a 100% combined ratio
- All average rates include the impact of maximum payroll limitations applied to five classifications beginning in 2020



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**Chart 16**



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**Chart 17: Rate Comparison by State Based on Oregon Studies**

- California average charged insurer rates per \$100 payroll compared to other states' average charged insurer rates
- Based on the state of Oregon biennial study of workers' compensation rates with each state's average rates adjusted to the Oregon industrial mix
- Shows how California workers' compensation rates compare to those charged in other states

**Source Data**

- Oregon Workers' Compensation Premium Rate Ranking Calendar Year 2020
- Data is based on the Oregon classification mix, and as a result, the California average rates shown differ from other measures of the California average charged insurer rate



**Chart 18: Pure Premium and Insured Payroll by Industry**

- Total proportion of premium (based on the Insurance Commissioner's approved advisory pure premium rates) and insured payroll attributed to each industrial sector
- Shows the concentration of insured employer payrolls by industry
- Shows the relationship between payroll and advisory pure premium by industry

**Source Data**

- WCIRB unit statistical data for policy year 2018
- The data is prior to the COVID-19 pandemic, which significantly impacts the distribution of costs by industry in 2020 and later
- Industries are based on WCIRB classifications mapped to the North American Industry Classification System (NAICS) sectors



**Chart 19: Indemnity Claims per 1,000 Employees**

- Estimated number of workers' compensation indemnity claims filed in California per 1,000 insured employees
- Shows trends in the frequency of workers' compensation injuries
- Changes in claim frequency can be driven by changes in the mix of industries in California, the mechanization within industries, workplace safety practices, indemnity benefit levels and the overall state of the California economy
- Data is categorized by the year the injury occurred (accident year)

**Source Data**

- WCIRB unit statistical data (through 2019) and aggregate financial data calls (2020)



**Chart 20: Indemnity Claim Frequency Indexed to 2008**

- Changes in indemnity claim frequency relative to the claim frequency in 2008
- Absent other factors, WCIRB models show that claim frequency is expected to decline modestly from year to year

**Source Data**

- Historical data is based on WCIRB unit statistical data (through 2019) and aggregate financial data calls (2020)
- Forecasts are based on the WCIRB's econometric indemnity claim frequency model, which measures changes in claim frequency based on changes in indemnity benefit levels, the California economy and other factors



More Info

**Chart 21: Percent Change in Non-COVID-19 Claims Filed**

- Change in the number of claims filed in the accident period (year or quarter) compared to the same period from the prior year
- These changes are based on the number of claims filed and do not include changes in workers' compensation exposures (i.e., insured payroll or number of employees), which will also impact the number of claims filed in a given year

**Source Data**

- WCIRB aggregate financial data calls, excluding COVID-19 claims



**Chart 22: Number of Indemnity Claims Filed**

- Number of indemnity claims filed in the calendar period (year or quarter) for the insured system only
- Data is categorized by calendar period and includes claims filed in that period regardless of when the claim occurred

**Source Data**

- WCIRB aggregate financial data calls



**Chart 23: Regional Differences in Indemnity Claim Frequency**

- Heat map of California regions showing indemnity claim frequency levels relative to the statewide average frequency
- Shows which regions in California have higher or lower claim frequency rates when compared to the state as a whole
- The mix of industries and average wage levels can significantly impact claim frequency rates, so the data is adjusted to remove these differences across regions to show the figures on a comparable basis

**Source Data**

- WCIRB unit statistical data for policy year 2018 at 1st report level
- Region information obtained by linking WCIRB policy and unit statistical data with Dun and Bradstreet (D&B Hoovers) location information as well as WCIRB medical transaction data
- For more information on the study of regional cost differences within California, see the [2020 WCIRB Geo Study](#)



**Chart 24: Percent of Indemnity Claims Involving Cumulative Trauma**

- Proportion of total indemnity claims that involve a cumulative trauma injury
- Most workers' compensation claims (i.e., non-cumulative trauma injuries) result from a single accident or specific incident causing injury
- Cumulative trauma injuries result from a prolonged period of exposure (many years in some cases) causing cumulative trauma over time

**Source Data**

- WCIRB unit statistical data developed to an estimated ultimate level (2019 is preliminary)
- Cumulative trauma also includes occupational disease claims
- For more information on cumulative trauma claim trends, see the WCIRB's report on [The World of Cumulative Trauma Claims](#)



More Info

**Chart 25: Cumulative Trauma Claim Share Indexed to Q1 2018**

- Proportion of total indemnity claims that involve a cumulative trauma injury indexed to the level of the first quarter of 2018
- Data is categorized by the quarter in which the claim occurred (accident quarter) and the number of months since the date of injury (evaluation period)

**Source Data**

- WCIRB transactional indemnity data
- Cumulative trauma also includes occupational disease claims
- For more information on cumulative trauma claim trends, see the WCIRB's report on [The World of Cumulative Trauma Claims](#)



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**Chart 25**

**Chart 26: Percent Cumulative Trauma Claims by Region**

- Proportion of total indemnity claims within regions of California that involve a cumulative trauma injury
- The data is shown for early reported cumulative trauma claims; since cumulative trauma claims are often late reported, the regional differences may be even greater when including late-reported claims

**Source Data**

- WCIRB unit statistical data at 1<sup>st</sup> unit statistical report level (2019 is preliminary)
- Regions are based on the address reported on the California workers' compensation policy
- Cumulative trauma also includes occupational disease claims
- For more information on cumulative trauma claim trends, see the WCIRB's report on [The World of Cumulative Trauma Claims](#)



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**Chart 26**

**Chart 27: Permanent Disability Claims per 100,000 Employees**

- Comparison of California permanent partial disability claim frequency per 100,000 insured employees to that of other states
- Approximately one-half of all indemnity claims in California involve some form of permanent disability
- Claims involving permanent disability generate the vast majority of costs in the workers' compensation system
- Permanent partial disability in California is determined based on the American Medical Association (AMA) Guides 5th Edition
- Other states that utilize the AMA Guides 5th Edition do not have a significantly higher rate of permanent disability claims

**Source Data**

- 2021 NCCI Annual Statistical Bulletin for policy year 2017 and WCIRB unit statistical data



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**Chart 27**

**Chart 28: Average Indemnity Cost per Indemnity Claim**

- Average cost of indemnity benefits per indemnity claim
- Changes in indemnity cost per claim can be driven by changes in statutory benefit levels, changes in average weekly wage levels on which a large proportion of indemnity benefits are predicated, changes in the duration of claims and changes in the mix of the types of indemnity benefits (such as temporary disability or permanent disability benefits)

**Source Data**

- WCIRB aggregate financial data calls as of March 31, 2021 excluding COVID-19 claims
- Values are developed to a final or ultimate cost basis by the WCIRB
- Projections through 2022 are based on the WCIRB's September 1, 2021 Pure Premium Rate Filing



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**Chart 28**



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**Chart 29: Change in Average Indemnity Cost per Indemnity Claim**

- Annual percent changes in average indemnity costs for California by accident year

**Source Data**

- WCIRB aggregate financial data calls as of March 31, 2021 excluding COVID-19 claims
- Values are developed to a final or ultimate cost basis by the WCIRB



**Chart 30: Indemnity Cost Level Indexed to 2005**

- California average indemnity costs indexed to the 2005 level compared to the composite estimate for NCCI states
- California average indemnity costs are also compared to the growth in average annual wages earned by California employees
- Data is categorized by year of injury for the California and NCCI state data and calendar year for the average wage data

**Source Data**

- WCIRB aggregate financial data calls as of March 31, 2021 excluding COVID-19 claims, developed to a final or ultimate cost basis by the WCIRB
- NCCI 2021 State of the Line Guide for NCCI state data (2020 is preliminary)
- Bureau of Labor Statistics for average wage data



**Chart 31: Indemnity Cost per Indemnity Claim by State**

- Comparison of California average indemnity cost per indemnity claim to that of other states

**Source Data**

- 2021 NCCI Annual Statistical Bulletin based on policy year 2017 at 1st report level developed to a final or ultimate cost basis



**Chart 32: Average Medical Cost per Indemnity Claim**

- Average cost of medical benefits per indemnity claim by accident year
- Changes in medical costs per claim can be driven by changes in reimbursement rates from California medical fee schedules, legislative reforms impacting the medical benefit delivery system, changes in the utilization of medical services and overall medical cost inflation

**Source Data**

- WCIRB aggregate financial data calls as of March 31, 2021 excluding COVID-19 claims
- Data excludes the cost of medical-only claims and, for consistency of comparison, excludes the cost of medical cost containment programs for accident years 2011 and prior
- Values are developed to a final or ultimate cost basis by the WCIRB
- Projections through 2022 are based on the WCIRB's September 1, 2021 Pure Premium Rate Filing.



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**Chart 33: Change in Average Medical Cost per Indemnity Claim**

- Annual percent changes in average medical cost per indemnity claim for California

**Source Data**

- WCIRB aggregate financial data calls as of March 31, 2021 excluding COVID-19 claims
- Values are developed to a final or ultimate cost basis by the WCIRB
- Values for 2012 and forward exclude the cost of medical cost containment programs while values for 2011 and prior include these costs



**Chart 34: Medical Cost Level Indexed to 2001**

- The average medical cost indexed to the 2001 level for workers' compensation systems and for the medical component of the Consumer Price Index (CPI)
- Data is categorized by year of injury for the California and NCCI state data and calendar year for the medical CPI data

**Source Data**

- WCIRB aggregate financial data calls as of March 31, 2021 excluding the cost of medical-only claims and COVID-19 claims, developed to a final or ultimate cost basis by the WCIRB
- NCCI 2021 State of the Line Guide for NCCI state data (2020 is preliminary)
- California Medical CPI data is based on the Consumer Price Index Forecast by the California Department of Finance based on the average for the San Francisco and Los Angeles regions



**Chart 35: Medical Cost per Indemnity Claim by State**

- Comparison of California average medical cost per indemnity claim to that of other states

**Source Data**

- 2021 NCCI Annual Statistical Bulletin based on policy year 2017 at 1st report level developed to a final or ultimate cost basis



**Chart 36: Medical Service Cost Level Indexed to 2012**

- Changes in the average paid per medical service transaction, the average number of medical service transactions per claim and the average total paid for medical services per claim indexed to the 2012 level
- Data is categorized by the period (year or quarter) in which the medical service was provided

**Source Data**

- WCIRB medical transaction data as of July 7, 2021



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**Chart 37: Pharmaceutical Cost Level Indexed to 2012**

- Changes in the average total paid for pharmaceuticals per claim indexed to the 2012 level
- Data is categorized by the period in which the medical service was performed
- The 2020 pre-pandemic period includes services from January 1, 2020 through March 14, 2020
- The 2020 pandemic period includes services from March 15, 2020 through December 31, 2020

**Source Data**

- WCIRB medical transaction data as of July 7, 2021



**Chart 38: Change in Telemedicine Transactions per Claim**

- Pre-pandemic telemedicine services are defined as any procedures with Place of Service 02 or modifier 95 (excluding Special Services & Reports, Medical Legal, Copy Services, and Interpreter Services)
- For telemedicine services after March 1, 2020, only services from the CMS list of telehealth services are included pursuant to the DWC rules

**Source Data**

- WCIRB medical transaction data as of July 7, 2021



**Chart 39: Percent of Ultimate Medical Cost Paid at 3 Years**

- Comparison of the estimated percentage of ultimate medical costs paid after three years to that of other states
- High numbers represent states that pay medical costs faster while low numbers represent states that pay medical costs slower
- Two California estimates are shown, one projected as of December 31, 2012 and one projected as of December 31, 2020

**Source Data**

- 2021 NCCI Annual Statistical Bulletin based on the average of the two most recent development years and WCIRB aggregate financial data calls



**Chart 40: Percent of Medical Losses Paid by Year**

- Comparison of the estimated percentage of ultimate medical costs paid in each year to that for the composite of NCCI states
- Workers' compensation claims can remain open and receive medical treatment for several years after the injury occurs
- Pharmaceuticals and medical liens are more often paid several years after the year the injury occurs while physician services are more often paid earlier

**Source Data**

- 2021 NCCI Annual Statistical Bulletin based on the average of the two most recent development years and WCIRB aggregate financial data calls



More Info

**Chart 41: Percent of Indemnity Claims Unreported at 12 Months**

- Comparison of the California percentage of the estimated total number of indemnity claims that have not yet been reported by the end of the first 12 months of the year of injury to that of other states
- Workers' compensation indemnity claims can sometimes be reported much later after the time of the injury, for a variety of reasons

**Source Data**

- California figures are from WCIRB aggregate financial data calls
- Individual state summaries were provided by NCCI, the Minnesota Workers' Compensation Insurers Association, the Workers' Compensation Rating and Inspection Bureau of Massachusetts and the Pennsylvania Compensation Rating Bureau



**Chart 42: Percent of Indemnity Claims Open at 60 Months**

- Comparison of the California percentage of the reported number of indemnity claims that are still open at 60 months (or 5 years) from the beginning of the year of injury to that of other states
- Workers' compensation claims remain open while statutory indemnity benefits are paid and medical treatment is provided to injured workers
- Other factors that may keep claims open include the existence of unsettled medical liens or unresolved disputes regarding medical treatment or the extent of permanent disability

**Source Data**

- California figures are from WCIRB aggregate financial data calls
- Individual state summaries were provided by NCCI, the Minnesota Workers' Compensation Insurers Association, the Workers' Compensation Rating and Inspection Bureau of Massachusetts and the Pennsylvania Compensation Rating Bureau



**Chart 43: Percent of Open Indemnity Claims Closed During Next Year**

- Ratio of the number of indemnity claims closed during a calendar year to the number of claims open at the beginning of the year
- Higher closing rates indicate claims have been moving quicker through the system, reducing future costs

**Source Data**

- WCIRB aggregate financial data calls



**Chart 44: Cost to Deliver \$1 of Benefits**

- Compares the cost in California to deliver \$1 of benefits measured as loss adjustment expense costs and other related claims administrative costs to claims administrative costs in other systems that provide medical benefits
- California claims administrative costs include allocated loss adjustment expenses, unallocated loss adjustment expenses, medical-legal costs, applicant attorney fees and the cost of medical cost containment programs

**Source Data**

- Workers' compensation figures are from WCIRB aggregate financial data calls and the 2021 NCCI Annual Statistical Bulletin
- Medicare figures are from the Centers for Medicare and Medicaid Services 2018 Medicare Trustees Report
- Private group health insurance figures are estimated from a number of published studies on group health administrative costs



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**Chart 45: Distribution of 2020 Paid Frictional Costs**

- Distribution of the major categories of frictional costs including allocated loss adjustment expenses (ALAE), unallocated loss adjustment expenses (ULAE), applicant attorney fees, medical cost containment program costs and medical-legal costs paid in 2020
- ALAE are the costs associated with defending workers' compensation claims when there are disputes (defense attorney expenses and other ALAE costs) and managing the cost of medical treatment (medical cost containment)
- ULAE are the costs associated with insurer claims staff in administering workers' compensation claims
- Applicant attorney fees are shown as frictional costs but are reported in indemnity benefits as they are typically based on a portion of the permanent disability award provided to the claimant
- Medical-legal costs are shown as frictional costs but are reported in medical benefits

**Source Data**

- WCIRB aggregate financial data calls and medical transaction data



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**Chart 45**

**Chart 46: Average Allocated Loss Adjustment Expenses per Indemnity Claim**

- Average cost of loss adjustment expenses that can be allocated to a particular claim ("allocated loss adjustment expenses" or "ALAE")
- ALAE costs include the cost of attorney and other legal expenses in defending claims, the cost of medical cost containment programs, the cost of independent medical review and independent medical bill review and other court-related expenses
- Legal expenses arise on claims during disputes over medical treatment or the extent of permanent disability, in the course of handling liens filed on claims and during the process of settling claims

**Source Data**

- WCIRB aggregate financial data calls as of December 31, 2020 for private insurers writing workers' compensation business in California, excluding COVID-19 claims
- Values are developed to a final or ultimate cost basis by the WCIRB
- Figures exclude the cost of medical cost containment programs for consistency of comparison
- Projections through 2022 are based on the WCIRB's September 1, 2021 Pure Premium Rate Filing



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**Chart 46**



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**Chart 47: Average Medical Cost Containment Program Cost per Indemnity Claim**

- Average cost of medical cost containment program (MCCP) costs per indemnity claim
- MCCP costs include the cost of utilization review, bill review and medical provider network fees
- Although used to help manage the cost of medical treatment, MCCP costs are considered allocated loss adjustment expenses by the WCIRB since they are not a direct benefit

**Source Data**

- WCIRB aggregate financial data calls as of December 31, 2020 excluding COVID-19 claims
- Values are developed to a final or ultimate cost basis by the WCIRB
- Projections through 2022 are based on the WCIRB's September 1, 2021 Pure Premium Rate Filing



**Chart 48: Ratios of Allocated Loss Adjustment Expenses to Losses**

- Comparison of the ratio of allocated loss adjustment expenses (ALAE) to losses for California to that of other states
- ALAE includes the cost of attorney and other legal expenses in defending claims, the cost of medical cost containment programs and other court-related expenses

**Source Data**

- 2021 NCCI Annual Statistical Bulletin



**Chart 49: Median Paid ALAE on Permanent Disability Claims**

- Heat map of median paid allocated loss adjustment expenses on permanent disability claims for California regions

**Source Data**

- WCIRB unit statistical data for policy year 2018 at 1st report level
- Region information obtained by linking WCIRB policy and unit statistical data with Dun and Bradstreet (D&B Hoovers) location information as well as WCIRB medical transaction data
- For more information on the study of regional cost differences within California, see the [2020 WCIRB Geo Study](#)



**Chart 50: Ratios of Unallocated Loss Adjustment Expenses to Losses**

- Comparison of the ratio of unallocated loss adjustment expenses (ULAE) to losses for California to that of other states
- ULAE includes the cost of insurer claim staff to administer claims and other claims-related expenses that cannot be allocated to a particular claim
- ULAE is significantly correlated with the length of time claims remain open

**Source Data**

- 2021 NCCI Annual Statistical Bulletin



More Info

**Chart 51: Number of Lien Filings**

- Shows the total number of liens filed by calendar year based on the date the lien was filed
- SB 863 included a number of provisions related to liens that became effective in 2013 including a lien filing fee and a statute of limitations on lien filings
- SB 1160 and AB 1244 provided additional reforms to lien filings including restrictions on the ability to reassign liens to third parties, a requirement that every lien be filed with a declaration under penalty of perjury and a stay on liens filed by providers indicted for fraud

**Source Data**

- California Division of Workers' Compensation Electronic Adjudication Management System



**Chart 52: Distribution of Insured System Costs**

- Distribution of total California workers' compensation insured system costs incurred in 2015 and 2020 by cost component
- Shows the major cost categories funded by the workers' compensation insurance premiums paid by California employers
- Data shown in billions of dollars as well as the percentage of the total system costs for that year

**Source Data**

- WCIRB aggregate financial data calls
- Changes in total insurer reserves by calendar year have been apportioned to indemnity and medical benefits based on the distribution of indemnity and medical payments during the calendar year



**Chart 53: Distribution of Paid Indemnity Benefits**

- Distribution of indemnity benefits paid in 2015 and 2020 by type of benefit
- Indemnity benefits are provided to injured workers or, in the case of fatal injuries, to their dependents to partially compensate for lost wages, with additional benefits provided if a worker suffers a permanent disability
- Indemnity benefits by type generally depend on the extent of the injury to the injured worker, the injured worker's pre-injury weekly wage and statutorily defined benefit levels

**Source Data**

- WCIRB aggregate financial data calls



**Chart 54: Distribution of Paid Medical Benefits**

- Distribution of medical benefits paid in 2015 and 2020 by type of medical service
- Includes information on a variety of medical treatments that are provided to injured workers, including physician visits, prescription medications, medical-legal evaluations and surgeries

**Source Data**

- WCIRB aggregate financial data calls and medical transaction data
- Figures exclude medical cost containment program payments (which are included as a portion of loss adjustment expenses; see Chart 45)



More Info

**Chart 55: Distribution of 2020 Paid Medical by Category**

- Distribution of physician services, inpatient and outpatient services and pharmaceutical payments made in 2020 by detailed type of service

**Source Data**

- WCIRB medical transaction data



**Chart 56: Market Concentration Ratios**

- Shows the proportion of California premium written by the largest 5 insurers in the state, the 6<sup>th</sup> through 10<sup>th</sup> largest insurers and the remaining insurers collectively
- A highly concentrated market where the largest insurers write the vast majority of the premium is generally less competitive than a low concentrated market

**Source Data**

- WCIRB aggregate financial data calls
- Insurers are grouped at the National Association of Insurance Commissioners (NAIC) group level



**Chart 57: Market Share by Type of Insurer**

- Shows the proportion of California premium written by the State Compensation Insurance Fund, private insurers that write 80% or more of their workers' compensation business in California (i.e., "California-Focused Private Insurers") and private insurers that write a large proportion of their workers' compensation business in other states (i.e., "National Insurers")
- A market where insurers focused in California write a large share of the workers' compensation business is one sign of a healthy market

**Source Data**

- WCIRB aggregate financial data calls
- California-Focused Private Insurers are private insurers that write 80% or more of their workers' compensation business in California



**Chart 58: Projected Combined Loss and Expense Ratios**

- Ratios of WCIRB projected losses and expenses to insurer premium by accident year
- Combined ratios are a commonly used measure to evaluate the profitability of insurers from an underwriting perspective
- Due to investment income earned on collected premiums as claims are paid out over many years, insurers can generate a profit with a combined ratio above 100%, assuming a favorable investment climate
- Industry combined ratios significantly over 110% could, over a sustained period, threaten the competitive viability of the insurance market

**Source Data**

- WCIRB projections based on aggregate financial data calls as of March 31, 2021



**Chart 59: Private Insurer Reported Combined Ratios**

- Comparison of the ratio of losses and expenses to insurer premium for private insurers writing workers' compensation business in California to the countrywide average for private insurers by calendar year
- These ratios differ from those shown on Chart 58 in that they are for private insurers only and are based on reported losses during the calendar year on all open claims regardless of when the claim occurred

**Source Data**

- California ratios are based on WCIRB aggregate financial data calls
- Countrywide estimate is based on the NCCI 2021 State of the Line Guide computed based on Annual Statement data (the 2020 estimate is preliminary)
- Excludes the impact of the State Compensation Insurance Fund and other state funds



**Chart 60: Average Return on Net Worth**

- Summary of total return on net worth for California workers' compensation compared to countrywide workers' compensation and the Fortune magazine all-industry average
- Reflects the impact of investment income, federal income taxes and insurer profits, as reported by the National Association of Insurance Commissioners (NAIC), that are not included in insurer combined ratios

**Source Data**

- NAIC Report on Profitability in 2019
- The NAIC estimates the total return to the industry after reflecting premiums, losses and expenses, as well as allocations of an insurer's total investment income, federal income taxes and policyholder surplus to California workers' compensation



**More Info**



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