

August 30, 2016

WCIRB Report on March 31, 2016 Insurer Experience

WCIRB Report on March 31, 2016 Insurer Experience

The WCIRB has completed its review and analysis of March 31, 2016 experience submitted by insurers. This report is based on data reported to the WCIRB by insurers who wrote almost 100% of the statewide market. In reviewing this information, the following should be noted:

1. This report reflects a compilation of individual insurer submissions of accident year and calendar year premium and loss data to the WCIRB. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with data submitted by other insurers, the source information underlying each insurer's data submission is not verified by the WCIRB.
2. Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments using information reported by insurers through March 31, 2016. 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.
3. The amounts and ratios shown represent statewide totals based on the amounts reported by insurers writing workers' compensation insurance in California. The results for any individual insurer can differ significantly from the statewide average. An individual insurer's results are related to its underwriting book of business, claims and reserving practices, as well as the nature of its reinsurance arrangements.
4. Insurer-reported losses, which are compared in Exhibit 9 to the WCIRB's projections of ultimate losses, include insurers' estimates of incurred but not reported (IBNR) losses that may, in part, reflect allocations of IBNR losses to line of business, state, and accident year, and are on a basis that does not reflect anticipated reinsurance recoveries or employer-paid deductibles. As a result, the amounts shown in Exhibit 9 do not necessarily equate to specific estimates of the adequacy of insurers' reserves for unpaid losses.
5. Senate Bill No. 863 (SB 863), which was enacted in 2012, increased benefits and provided for a number of structural changes to the California workers' compensation benefit delivery system starting in 2013. Some provisions of SB 863 impact costs on older claims. WCIRB projections of ultimate losses and ultimate loss severities have been adjusted to reflect the impact of SB 863 based on methodologies developed by the WCIRB.
6. Beginning with claims incurred on policies incepting on or after July 1, 2010, the cost of medical cost containment programs (MCCP) is reported to the WCIRB as allocated loss adjustment expense (ALAE) rather than as medical loss. As a result, some portion of MCCP costs for accident years 2010 and 2011 has been reported as medical loss and some portion has been reported as ALAE. In order to provide consistent comparisons across years, to the extent appropriate, the amounts and ratios shown represent the combined cost of losses and ALAE. In several other exhibits, in order to facilitate consistent comparison from year to year of medical losses and ALAE, accident year 2010 MCCP costs reported as ALAE have been shifted to medical

loss and the estimated amount of accident year 2011 MCCC costs reported as medical loss have been shifted to ALAE.

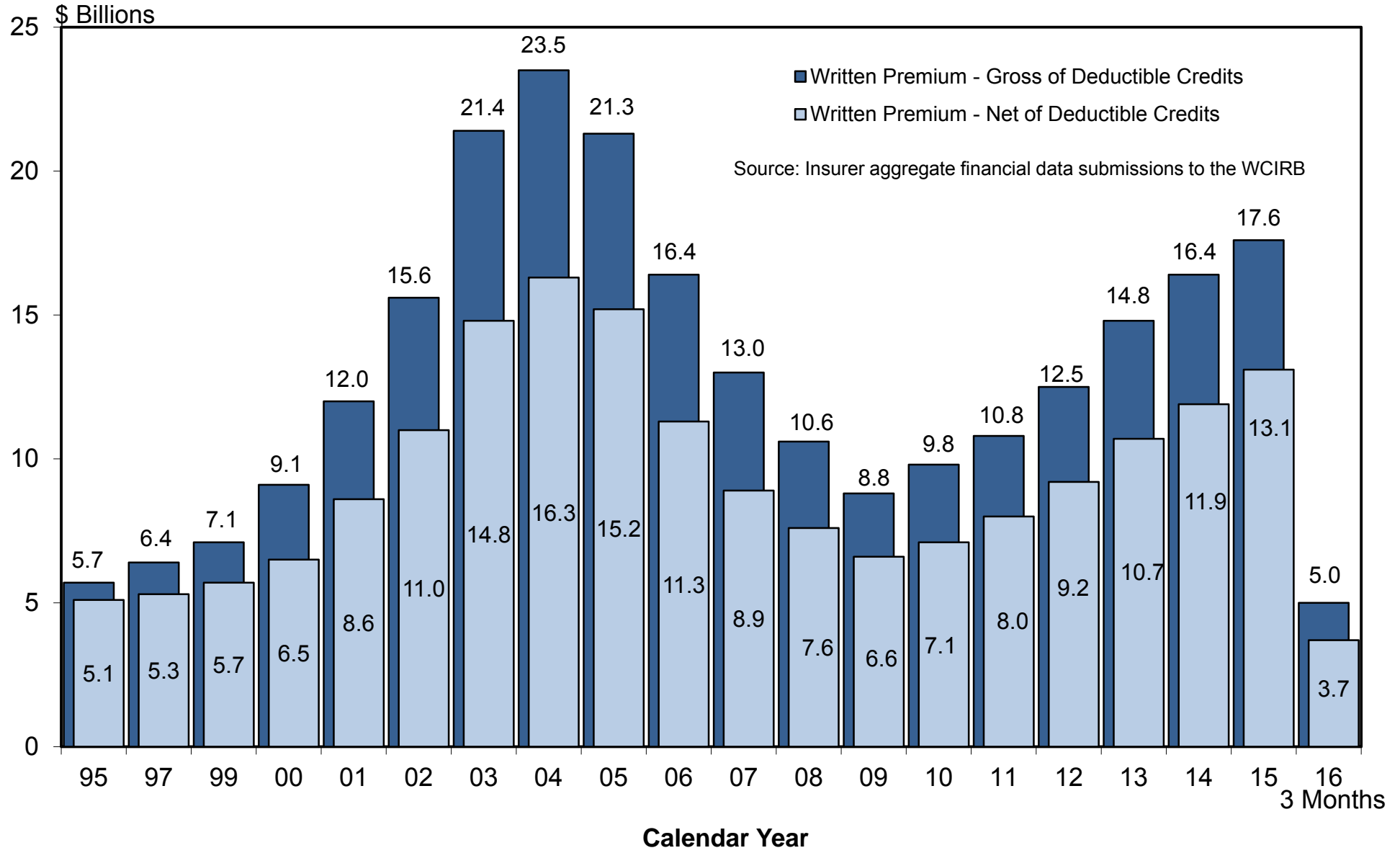
Exhibits 1 through 9, which summarize the WCIRB's review of reported March 31, 2016 insurer experience, reflect the following information:

- California written premium (gross of deductible credits) for 2015 is approximately \$17.6 billion, which is 7% above the written premium reported for 2014 (Exhibit 1). Written premium for the first quarter of 2016 is approximately \$5.0 billion, which is 4% above the written premium reported for the first quarter of 2015.
- The projected industry average charged rate (rates charged by insurers that reflect all rating plan adjustments except deductible credits, retrospective rating plan adjustments, terrorism charges, and policyholder dividends) per \$100 of payroll for policies incepting between January 1, 2016 and March 31, 2016 is \$2.89 (Exhibit 2). This is 5% below the average rate charged for the first six months of 2015.
- The WCIRB projects total ultimate losses and ALAE for accident year 2015 to be \$12.8 billion (Exhibit 3), which is 6% above the projection for accident year 2014 and 32% above the projection for accident year 2009.
- The WCIRB projects an ultimate accident year loss and ALAE ratio of 74.7% for accident year 2015 (Exhibit 4). This projection is consistent with the projection for accident year 2014 and is lower than the projections for recent prior accident years, which is primarily the result of increased premium levels and modest claim severity growth.
- The WCIRB projects an ultimate accident year combined loss and expense ratio of 99% for 2015 (Exhibit 5). Of this ratio, 59% is attributable to the indemnity and medical loss ratio and 40% is attributable to the loss adjustment and other expense ratio. This projection is consistent with the ratio for 2014 and these ratios represent the first projected accident year combined ratios below 100% since 2007.
- The calendar year combined loss and expense ratio for 2015 reported by insurers is 98%, which is below the combined ratios for the last several years and is the first year since 2007 with a combined ratio below 100% (Exhibit 6). The lower combined ratio reported for 2015 is primarily a result of increased premium levels and significant reductions in insurer case reserves in 2015.
- The WCIRB projects indemnity claim frequency for accident year 2015 to be 0.4% below the frequency for 2014 but 14% above the frequency for 2009 (Exhibit 7). The frequency increases generally experienced over the last five years are largely attributed to increases in cumulative injury claims, late reported indemnity claims, claims involving injuries to multiple body parts, and claims from the Los Angeles Basin area. The projected indemnity claim frequency for the first quarter of 2016 is 3.1% above that for 2015, indicating that a return to the historical long-term pattern of declining claim frequency may not be imminent.
- The WCIRB projects the average cost (or "severity") of a 2015 indemnity claim to be approximately \$84,000, which is 3% higher than the projected severity for 2014 and 6% higher than that for 2013 (Exhibit 8.1). The projected average indemnity cost of a 2015 indemnity claim is 4% higher than that for

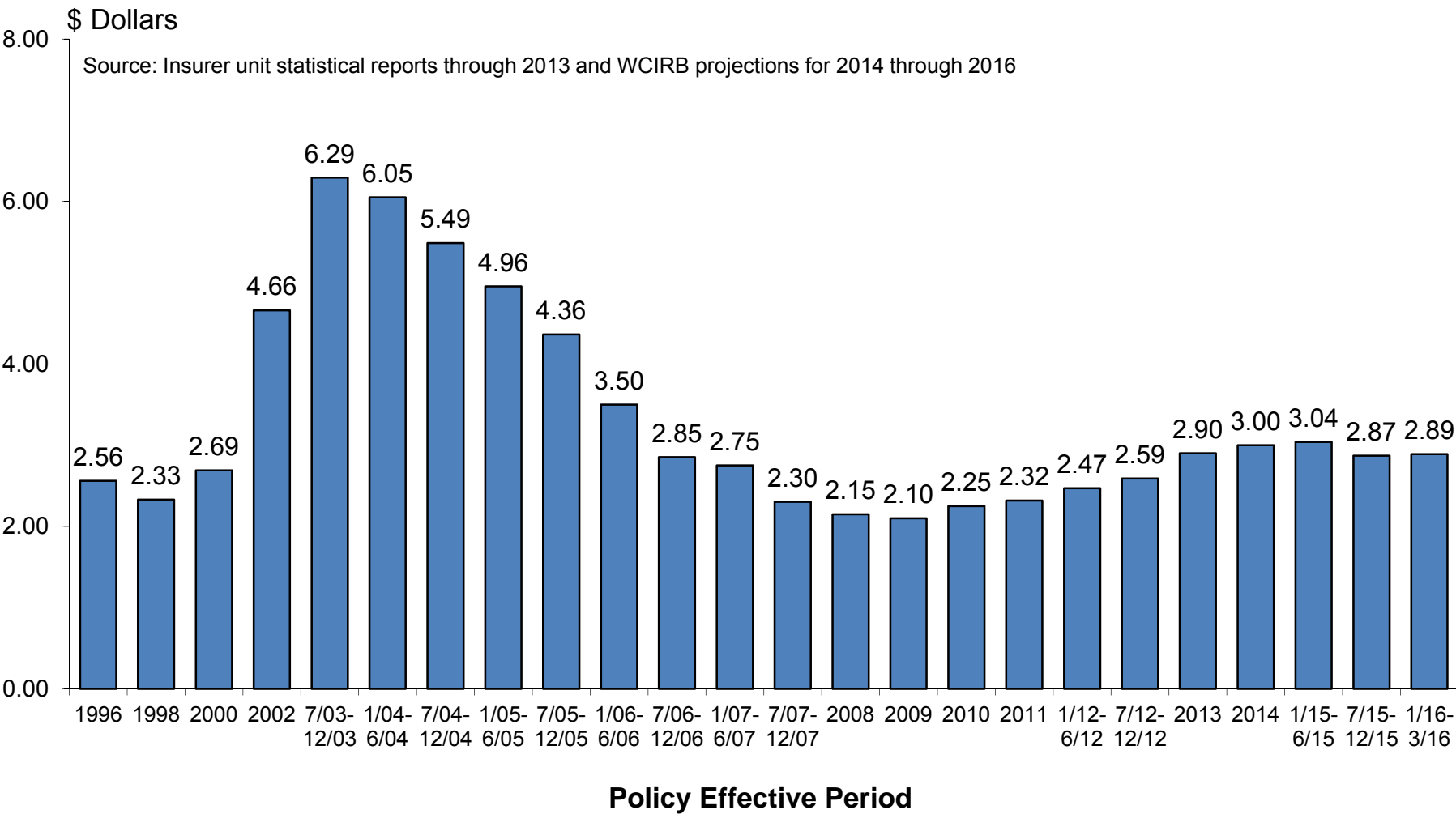
2014 and 14% higher than that for 2012, primarily a result of SB 863 increases to permanent disability benefits effective in 2013 and 2014 (Exhibit 8.2). The projected average medical cost of a 2015 indemnity claim is consistent with that for 2014 but is 8% below the projected average medical cost for 2011 (Exhibit 8.3), largely a result of medical cost savings arising from SB 863. However, the projected average ALAE cost of a 2015 indemnity claim, excluding MCCP costs, is 9% above that of 2014 and 20% higher than the average ALAE severity for 2012 (Exhibit 8.4), despite forecast reductions in ALAE costs expected to arise from SB 863.

- The WCIRB currently projects the total statewide ultimate losses on all injuries that occurred on or before December 31, 2015 to be approximately \$1.3 billion more than the amounts reported by insurers (Exhibit 9).

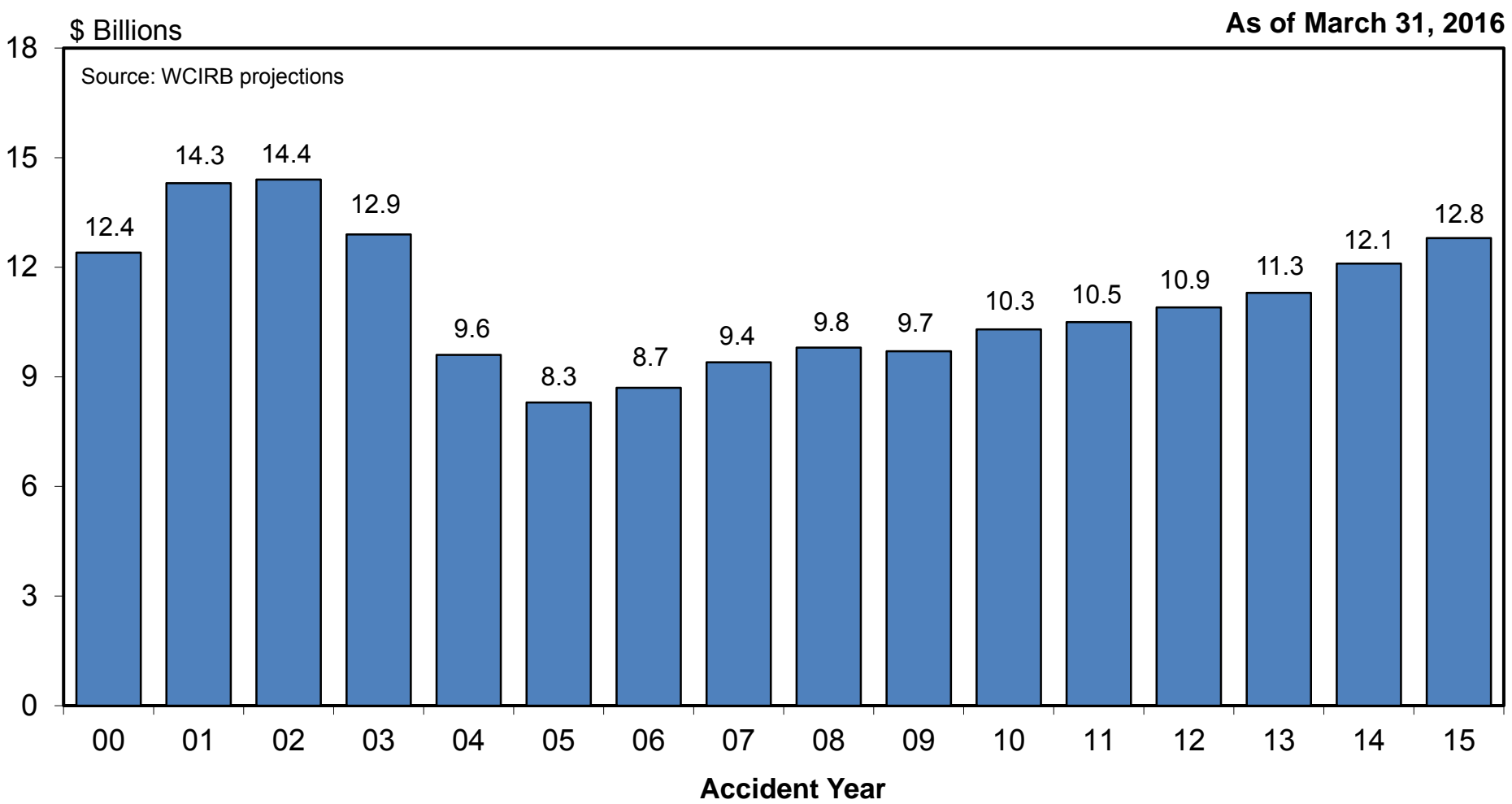
California Workers' Compensation Written Premium



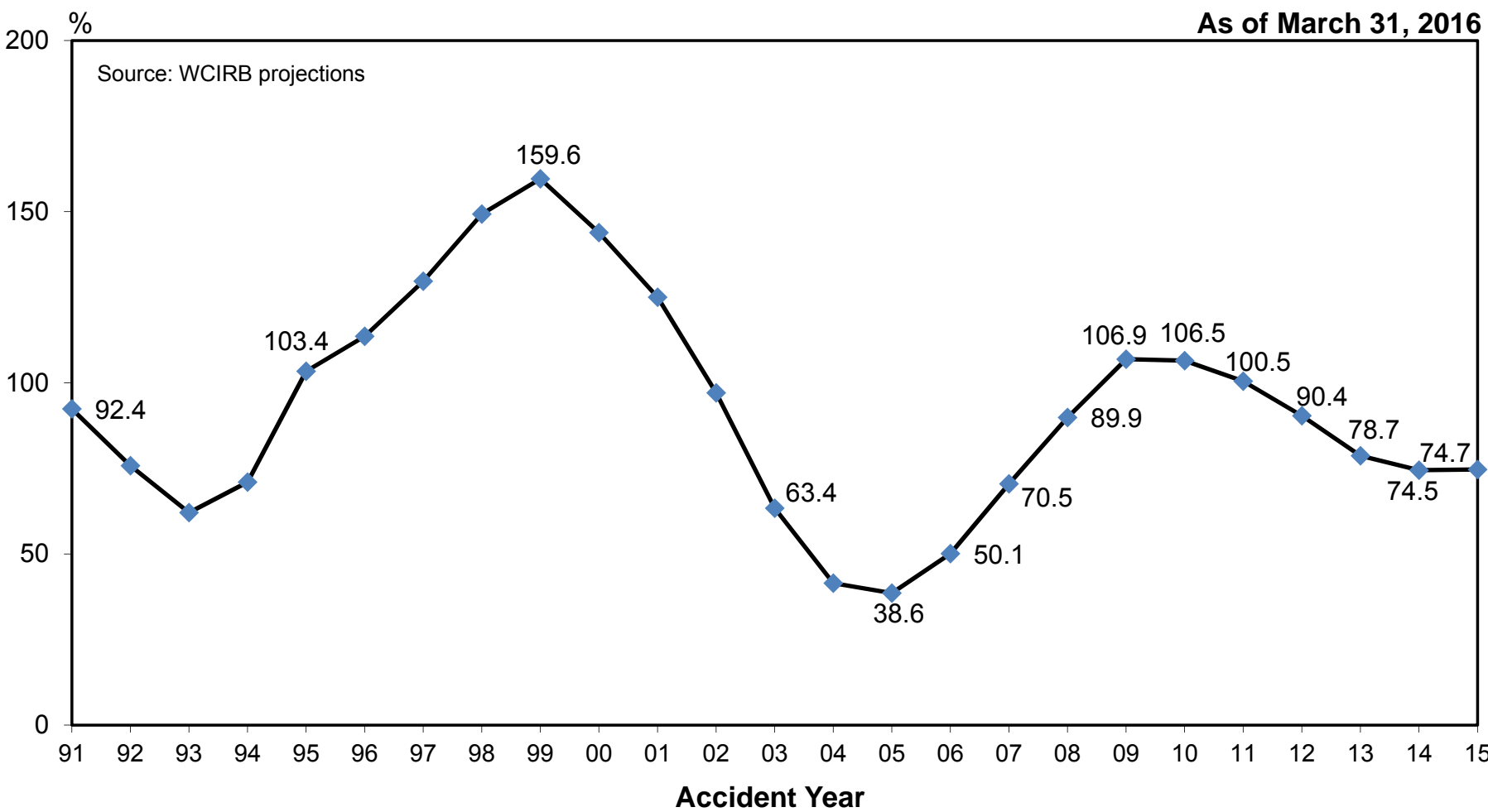
California Workers' Compensation Industry Average Charged Rate per \$100 of Payroll



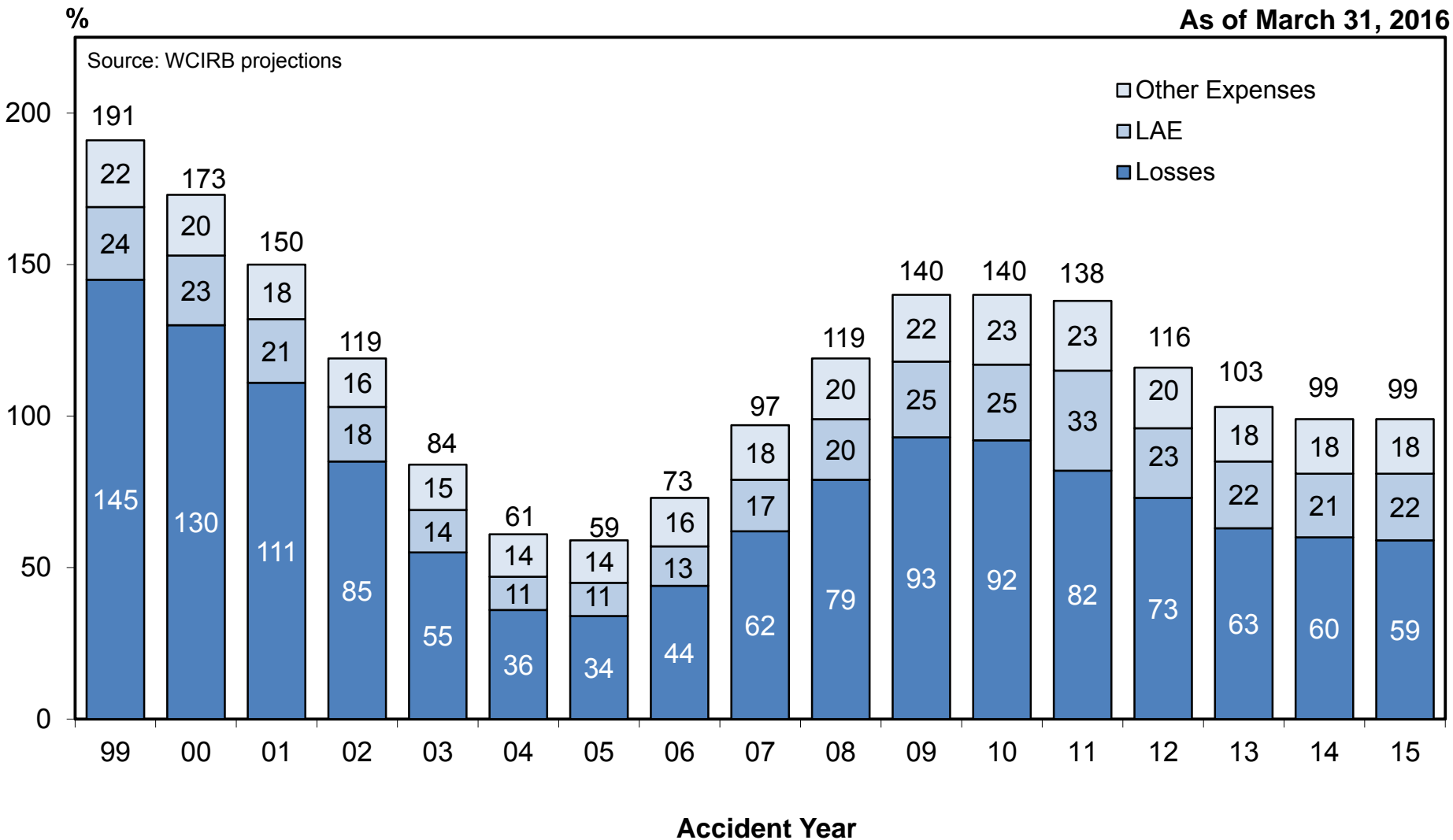
California Workers' Compensation Projected Ultimate Losses and ALAE by Accident Year



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

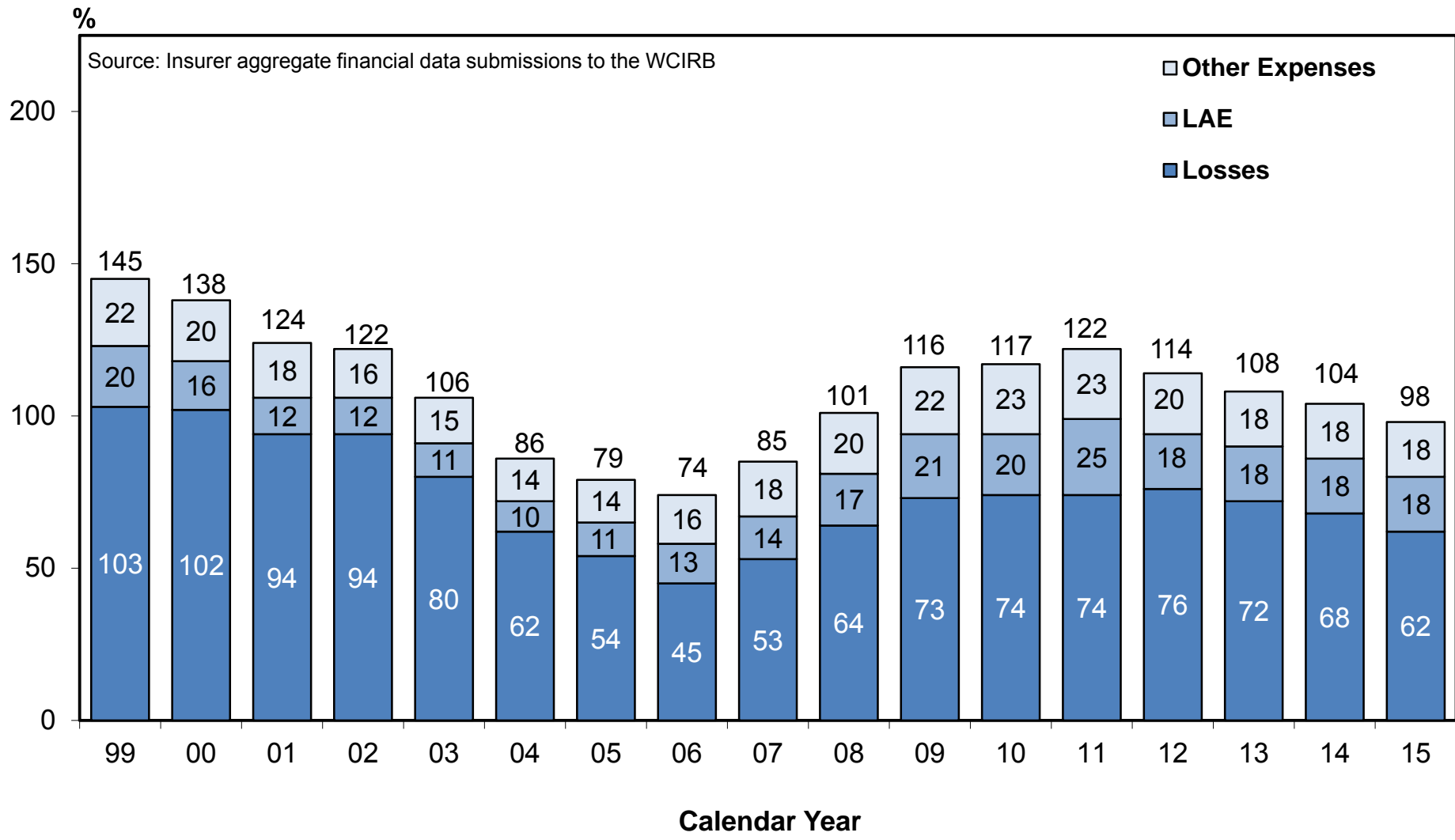


California Workers' Compensation Projected Accident Year Combined Loss and Expense Ratios *

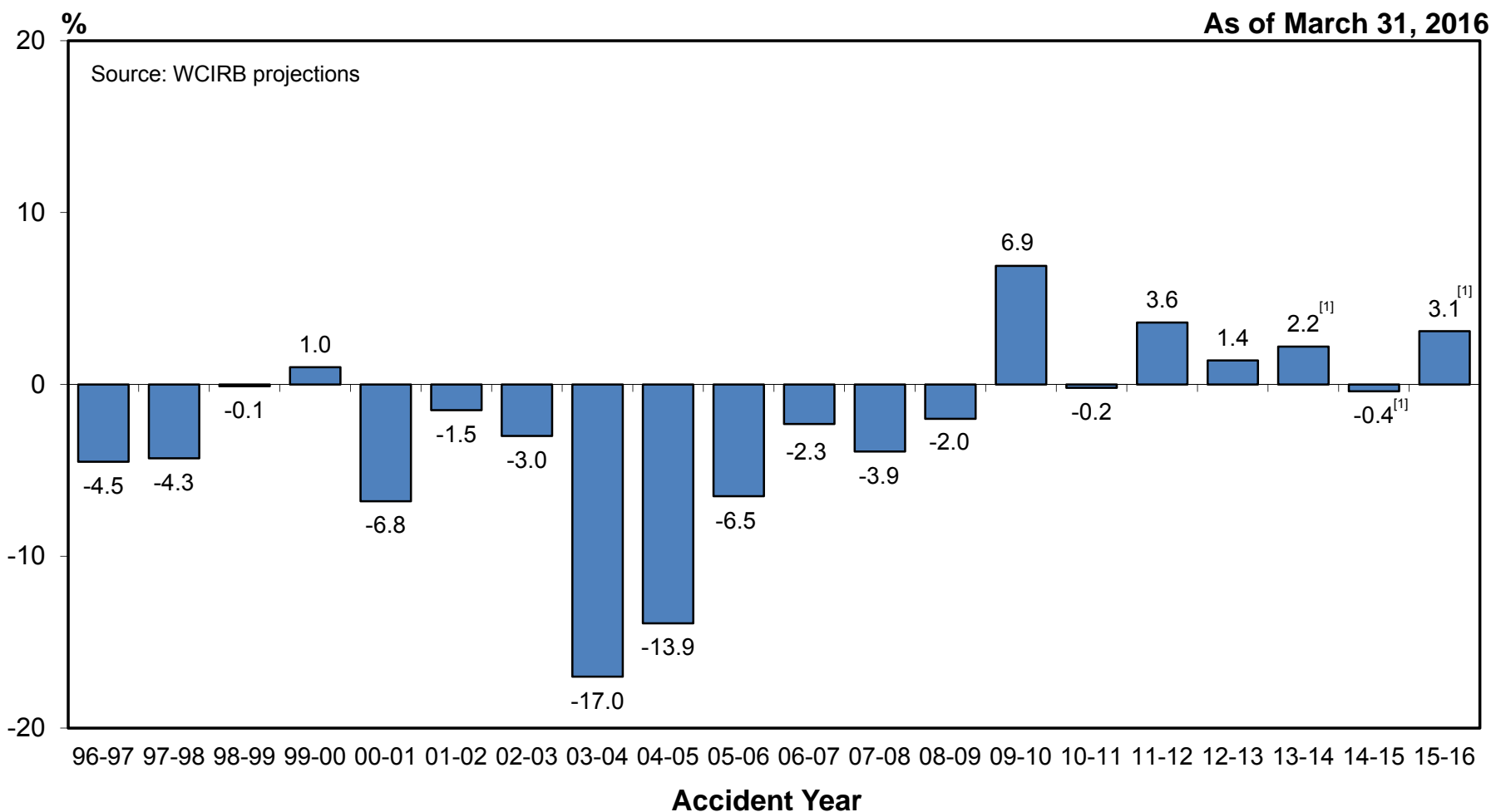


* The cost of medical cost containment programs is reflected in LAE for accident years 2011 and subsequent. It is reflected in losses for all other accident years.

California Workers' Compensation Calendar Year Combined Loss and Expense Ratios

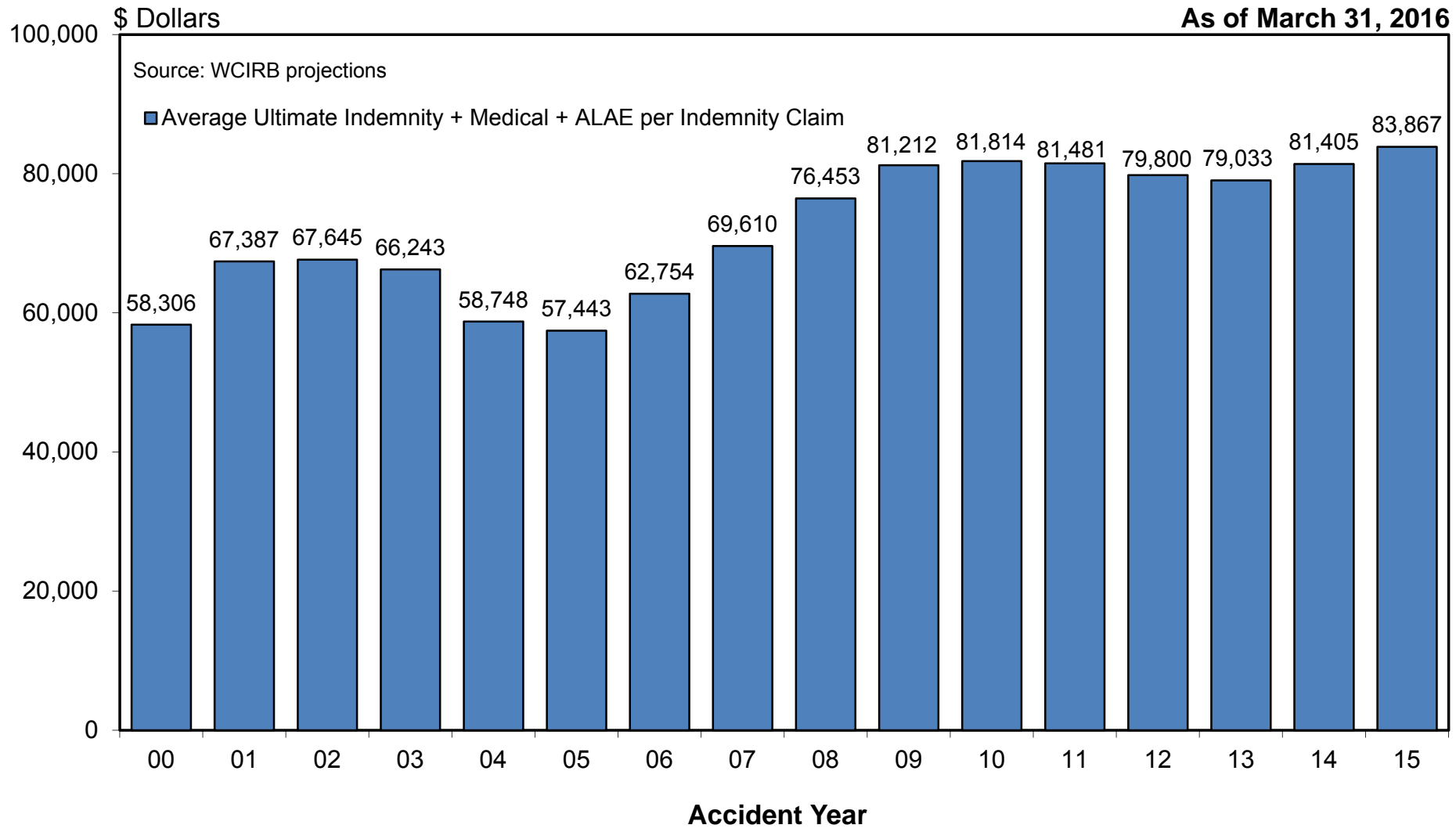


California Workers' Compensation Projected Percentage Change in Indemnity Claim Frequency by Accident Year



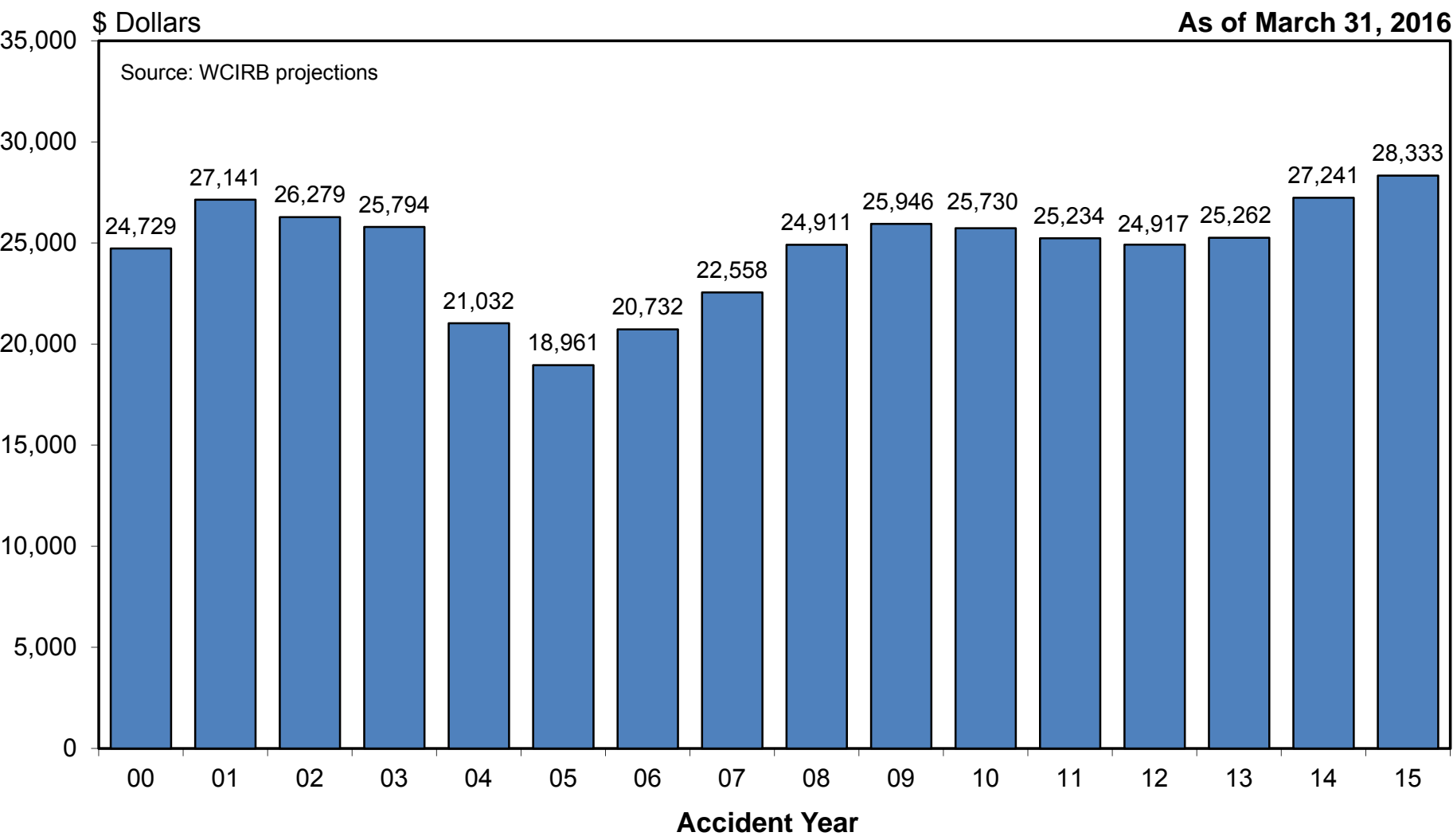
⁽¹⁾ The 2013-2014 estimate is based on partial year unit statistical data. The 2014-2015 and 2015-2016 estimates are based on a comparison of claim counts based on WCIRB accident year experience as of March 31, 2016 relative to the estimated change in statewide employment. Prior years are based on unit statistical data.

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

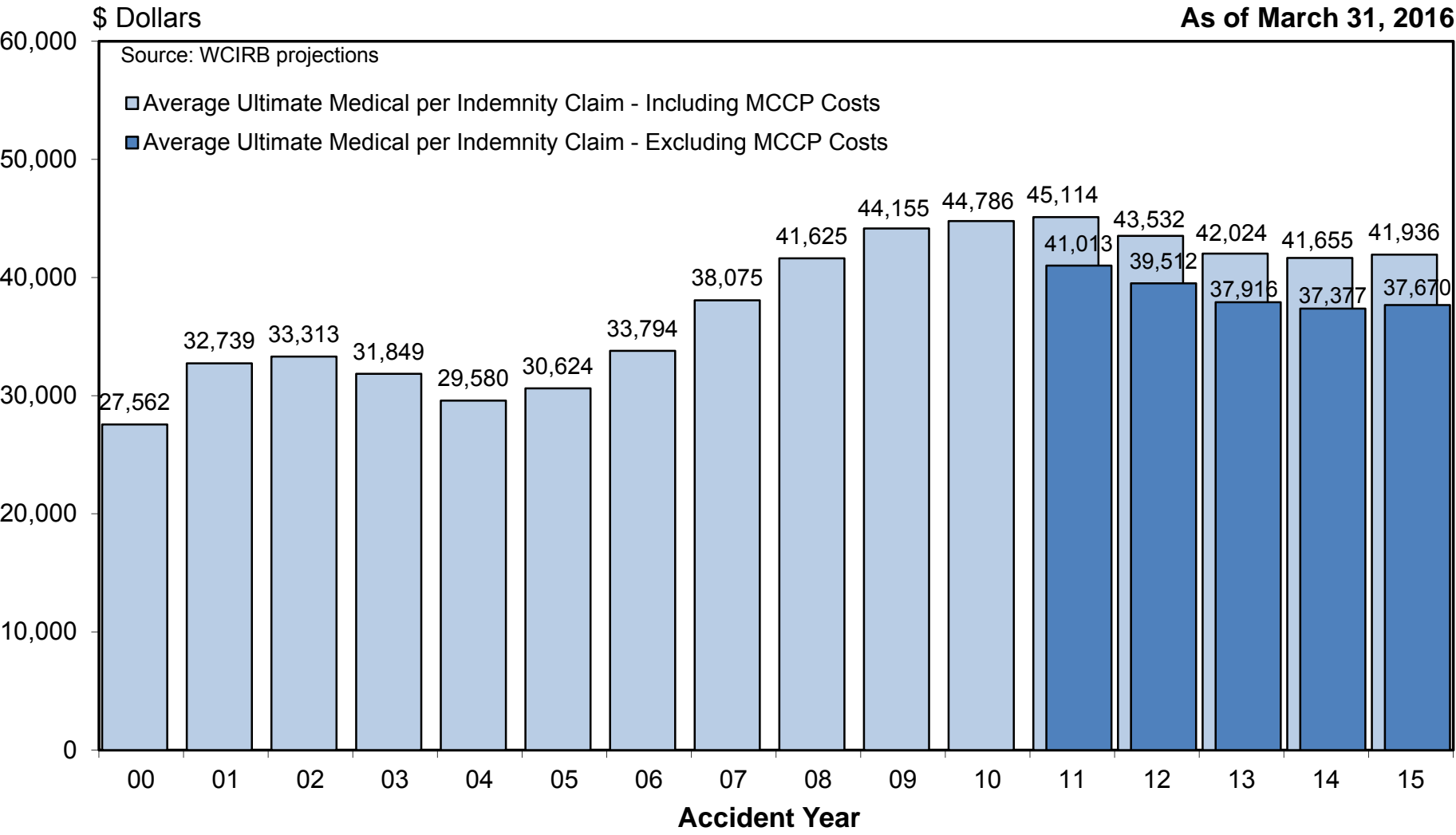


* Excludes medical-only.

California Workers' Compensation Projected Ultimate Indemnity per Indemnity Claim

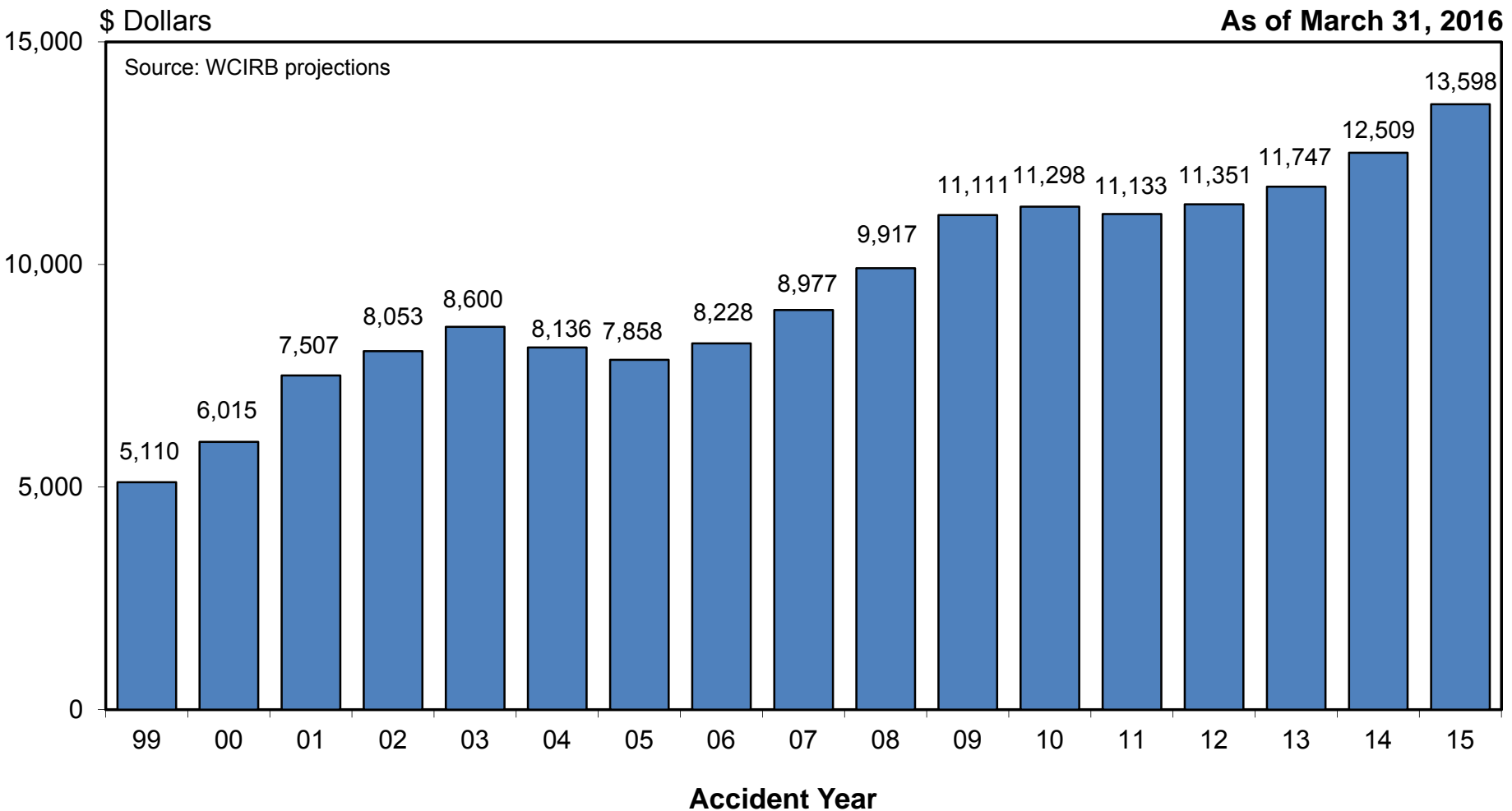


California Workers' Compensation Projected Ultimate Medical* per Indemnity Claim



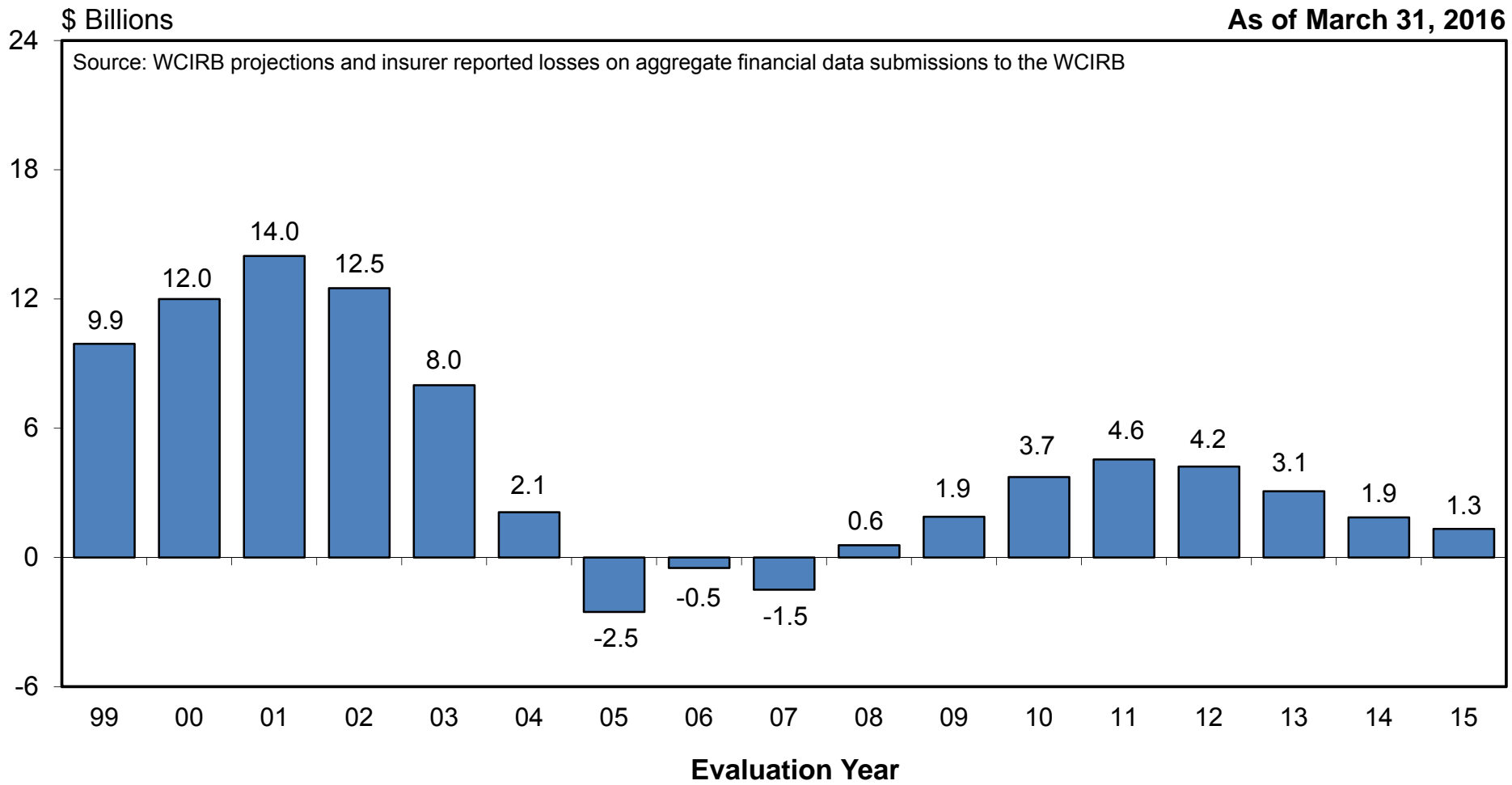
* Excludes medical-only.

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



* Based on data submitted by private insurers only.

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



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

Notice

This *Report on March 31, 2016 Insurer Experience* (Report) was developed by the Workers' Compensation Insurance Rating Bureau of California (WCIRB) for the convenience of its users. The WCIRB has made reasonable efforts to ensure the accuracy of this Report. You must make an independent assessment regarding the use of this Report based upon your particular facts and circumstances.

© 2016 Workers' Compensation Insurance Rating Bureau of California. All rights reserved.

No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including, without limitation, photocopying and recording, or by any information storage or retrieval system without the prior written permission of the Workers' Compensation Insurance Rating Bureau of California (WCIRB), unless such copying is expressly permitted in this copyright notice or by federal copyright law. No copyright is claimed in the text of statutes and regulations quoted within this work.

Each WCIRB member company, including any registered third party entities, (Company) is authorized to reproduce any part of this work solely for the following purposes in connection with the transaction of workers' compensation insurance: (1) as necessary in connection with Company's required filings with the California Department of Insurance; (2) to incorporate portions of this work, as necessary, into Company manuals distributed at no charge only to Company employees; and (3) to the extent reasonably necessary for the training of Company personnel. Each Company and all agents and brokers licensed to transact workers' compensation insurance in the state of California are authorized to physically reproduce any part of this work for issuance to a prospective or current policyholder upon request at no charge solely for the purpose of transacting workers' compensation insurance and for no other purpose. This reproduction right does not include the right to make any part of this work available on any website or on any form of social media.

Workers' Compensation Insurance Rating Bureau of California, WCIRB, WCIRB California, WCIRB Connect, WCIRB Inquiry, X-Mod Direct, eSCAD and the WCIRB California logo (WCIRB Marks) are registered trademarks or service marks of the WCIRB. WCIRB Marks may not be displayed or used in any manner without the WCIRB's prior written permission. Any permitted copying of this work must maintain any and all trademarks and/or service marks on all copies.

To seek permission to use any of the WCIRB Marks or any copyrighted material, please contact the WCIRB at customerservice@wcirb.com.