

December 19, 2017

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# **WCIRB Report on September 30, 2017 Insurer Experience**

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The WCIRB has completed its review and analysis of September 30, 2017 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:

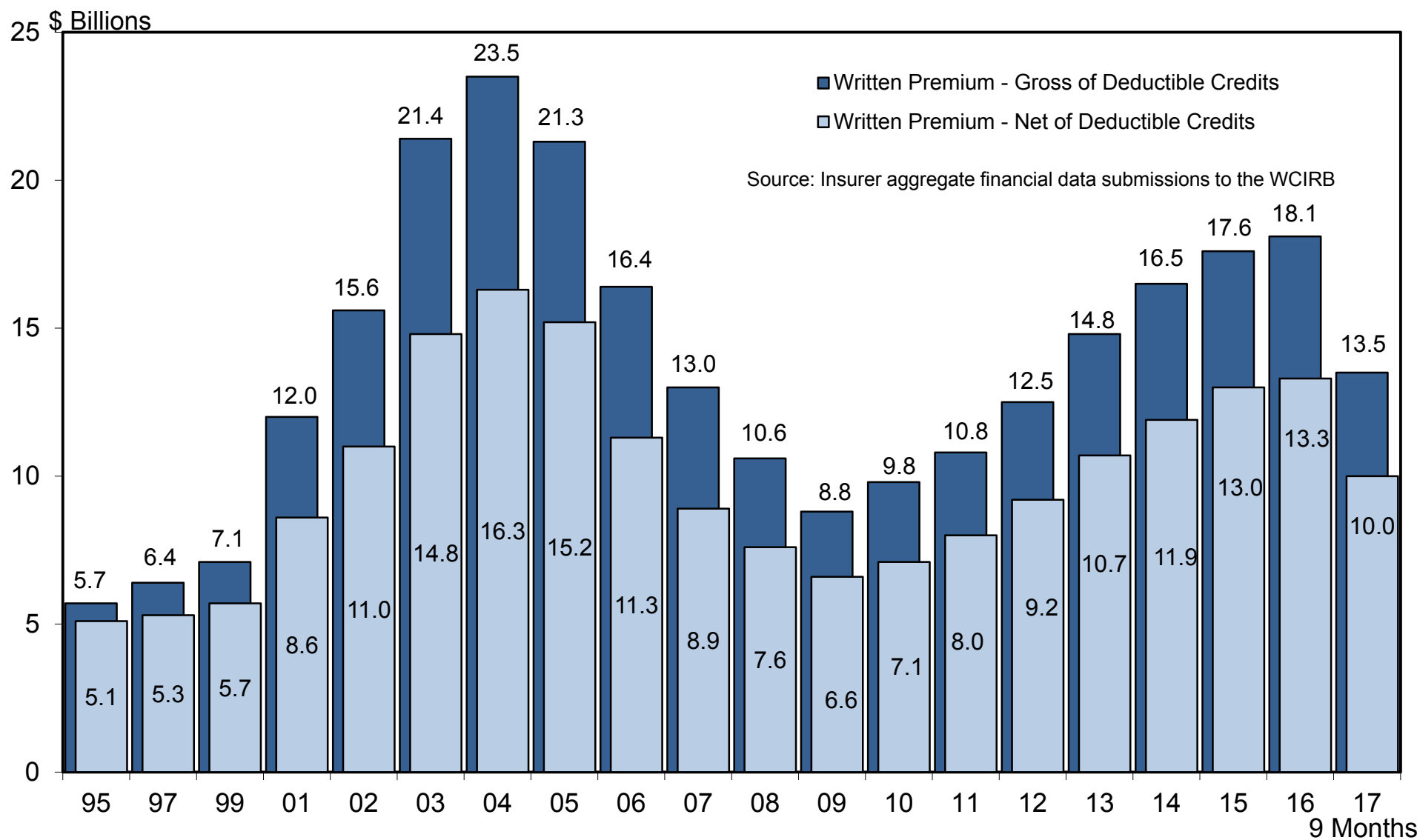
1. This report reflects a compilation of individual insurer submissions of accident year and calendar year premium and loss data to the WCIRB. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with 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 September 30, 2017. 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) 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 MCCP costs reported as medical loss have been shifted to ALAE.

Exhibits 1 through 9, which summarize the WCIRB's review of reported September 30, 2017 insurer experience, reflect the following information:

- California written premium (gross of deductible credits) for 2016 is approximately \$18.1 billion, which is 3% above the written premium reported for 2015 (Exhibit 1). Written premium for the first nine months of 2017 is \$13.5 billion, which is 4% below the written premium reported for the first nine months of 2016.

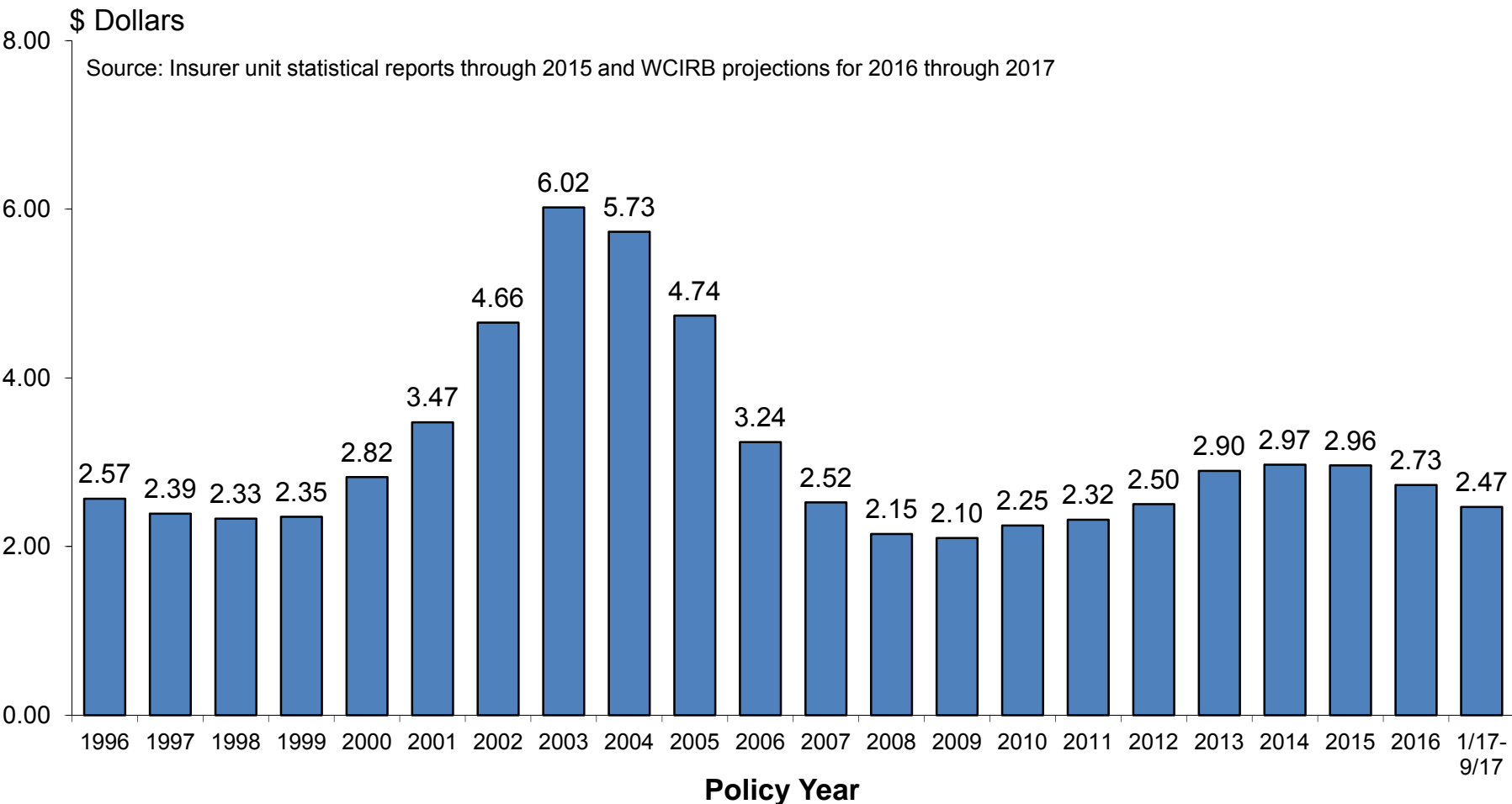
- The projected industry average charged rate (rates charged by insurers that reflect all rating plan adjustments except deductible credits, retrospective rating plan adjustments, terrorism charges, and policyholder dividends) per \$100 of payroll for policies incepting in the first nine months of 2017 is \$2.47 (Exhibit 2). This is 10% below the average rate charged in 2016 and 17% below the average rate charged in 2015. The approved January 1, 2018 advisory pure premium rates are on average approximately 30% below the January 1, 2015 advisory pure premium rates.
- The WCIRB projects total ultimate losses and ALAE for accident year 2016 to be approximately \$12.0 billion (Exhibit 3), which is 3% above the projection for accident year 2015 and represents the seventh consecutive year of increasing ultimate losses and ALAE.
- The WCIRB projects an ultimate accident year loss and ALAE ratio of 66.7% for accident year 2016 (Exhibit 4). This projection is slightly below the projections for the prior two accident years as well as the projections based on June 30, 2017 experience as a result of favorable loss development experienced in the third quarter of 2017.
- The WCIRB projects an ultimate accident year combined loss and expense ratio of 90% for 2016 (Exhibit 5). Of this ratio, 54% is attributable to the indemnity and medical loss ratio, 18% is attributable to the loss adjustment expense ratio, and 18% is attributable to the other expense ratio. This projection is generally consistent with the ratios for the prior two accident years, which represent the lowest combined ratios since the 2004 through 2006 period.
- The calendar year combined loss and expense ratio for 2016 reported by insurers is 94%, which is below the combined ratios for the last several years (Exhibit 6). The lower combined ratios reported for calendar years 2015 and 2016 are primarily a result of increased premium levels and significant reductions in insurer case reserves in 2015 and 2016.
- The WCIRB projects indemnity claim frequency for accident year 2016 to be approximately 1% below the frequency for 2015 but 10% above the frequency for 2009 (Exhibit 7). The frequency increases experienced in 2010 through 2014 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. 2015 and 2016 represent the first consecutive years of projected indemnity claim frequency decline since before the Great Recession. The projected indemnity claim frequency for the first nine months of 2017 is approximately 1% higher than that for 2016.
- The WCIRB projects the average cost (or “severity”) of a 2016 indemnity claim to be approximately \$78,000, which is 2% higher than the projected severity for 2015 (Exhibit 8.1). Total claim severity growth over the last several years has been relatively modest as increases in average indemnity and ALAE costs have been in part offset by declines in average medical costs through 2016.
- The WCIRB projects that the average indemnity cost of a 2016 indemnity claim is 13% higher than that for 2012, primarily a result of SB 863 increases to permanent disability benefits effective in 2013 and 2014 and wage inflation impacting average indemnity benefit levels (Exhibit 8.2). The projected average medical cost of a 2016 indemnity claim is 2% above that for 2015, which follows several years of flat to declining medical severities resulting from the medical cost savings arising from SB 863 (Exhibit 8.3). The projected average ALAE cost of a 2016 indemnity claim, excluding MCCP costs, is 3% above that of 2015 and 13% above that of 2012 (Exhibit 8.4).
- The WCIRB currently projects the total statewide ultimate losses on all injuries that occurred on or before December 31, 2016 is approximately \$5.4 billion less than the amounts reported by insurers (Exhibit 9).

# California Workers' Compensation Written Premium

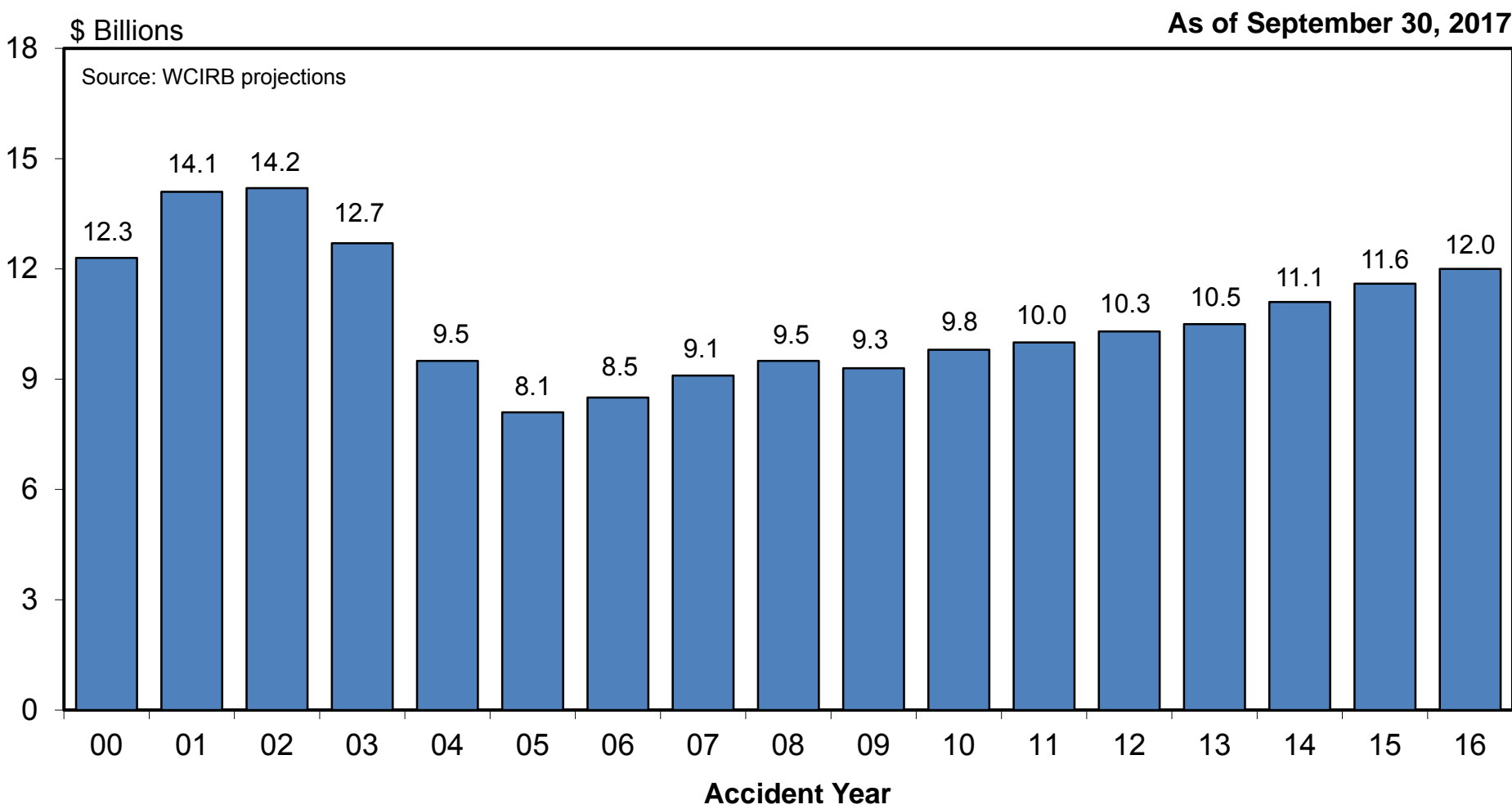


Calendar Year

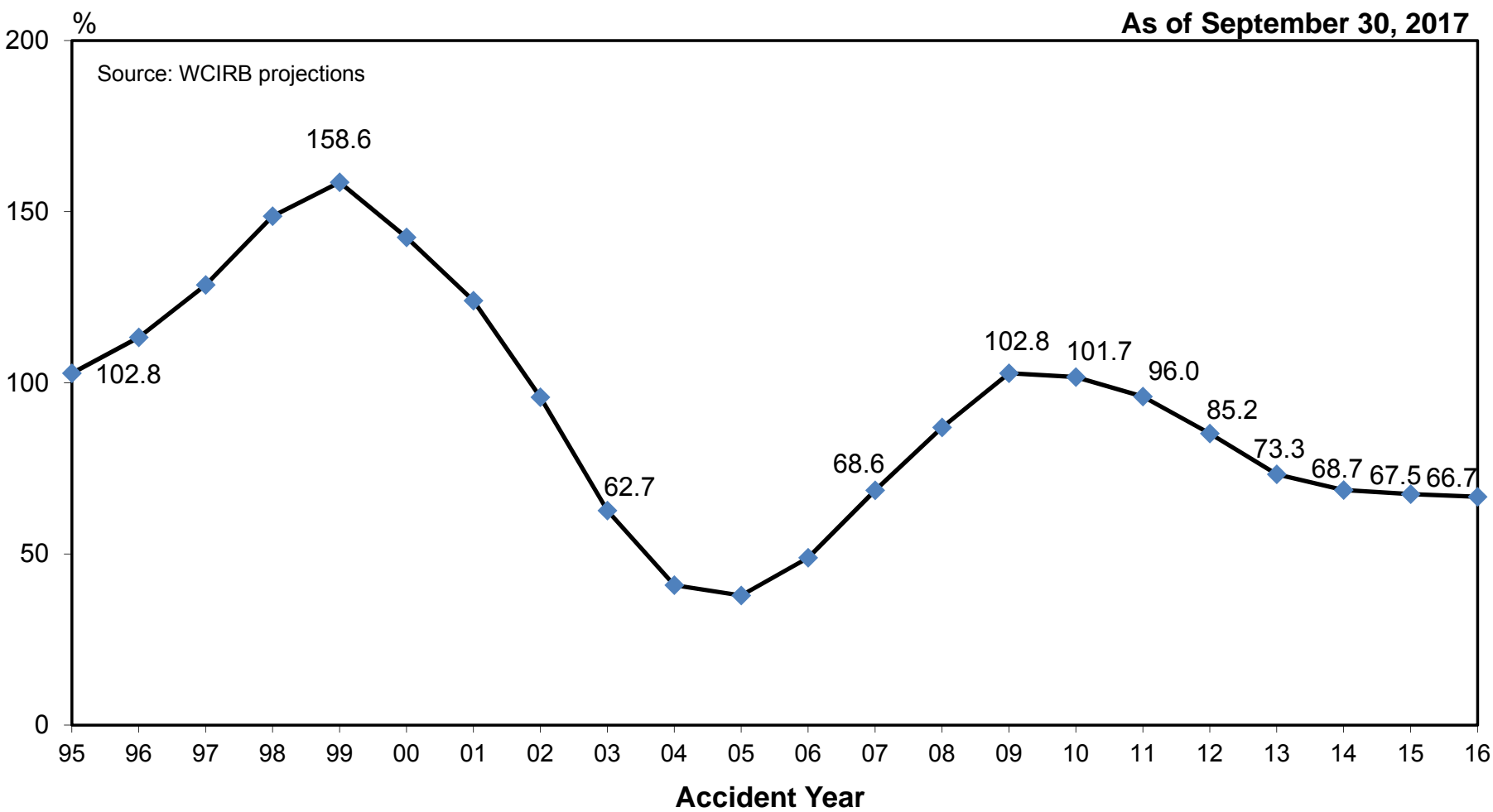
# California Workers' Compensation Industry Average Charged Rate per \$100 of Payroll



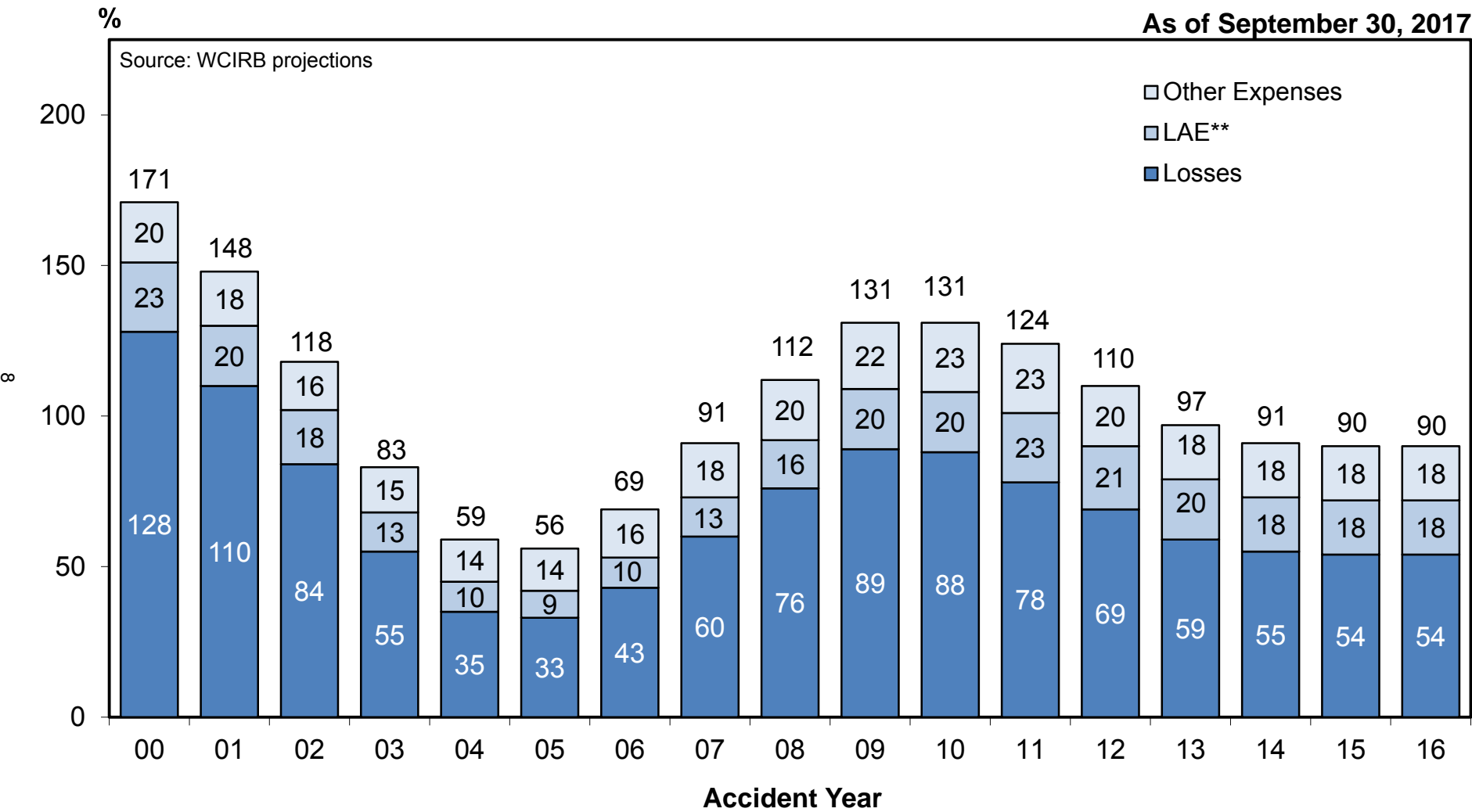
# California Workers' Compensation Projected Ultimate Losses and ALAE by Accident Year



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



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

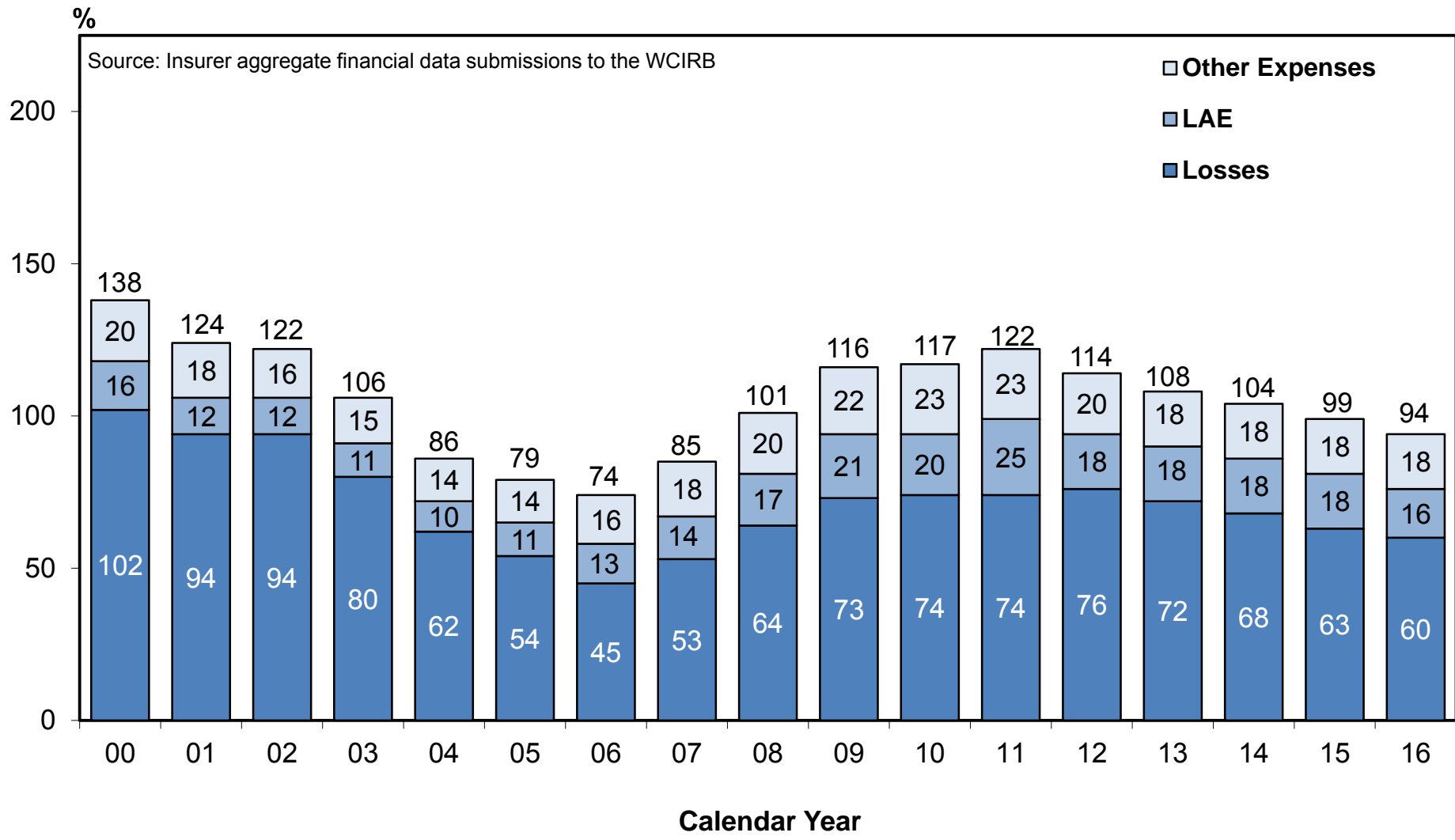


\* The cost of medical cost containment programs is reflected in LAE for accident years 2011 and subsequent. It is reflected in losses for all other accident years.

\*\* LAE ratios include experience of private insurers only.

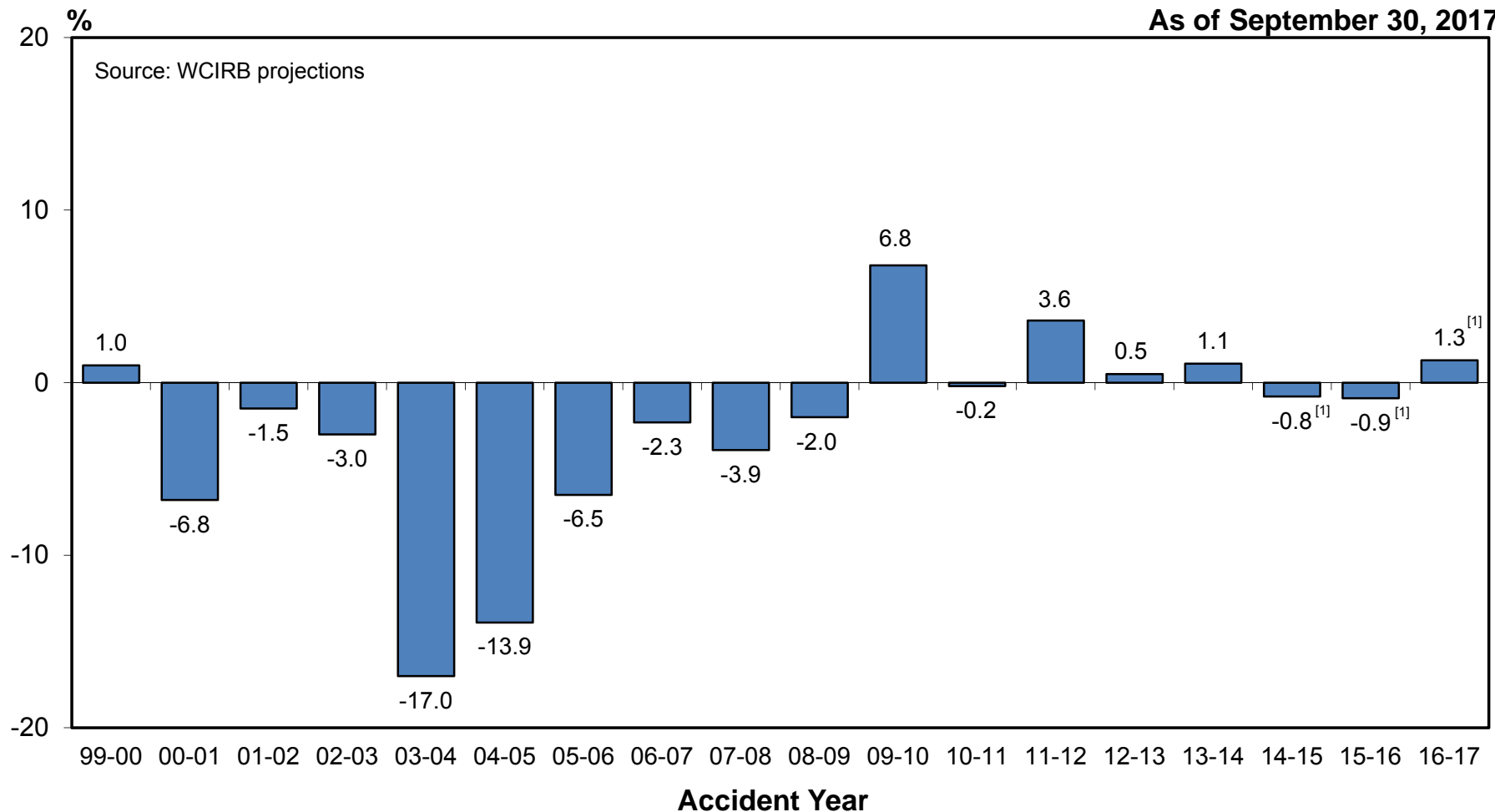


# California Workers' Compensation Calendar Year Combined Loss and Expense Ratios



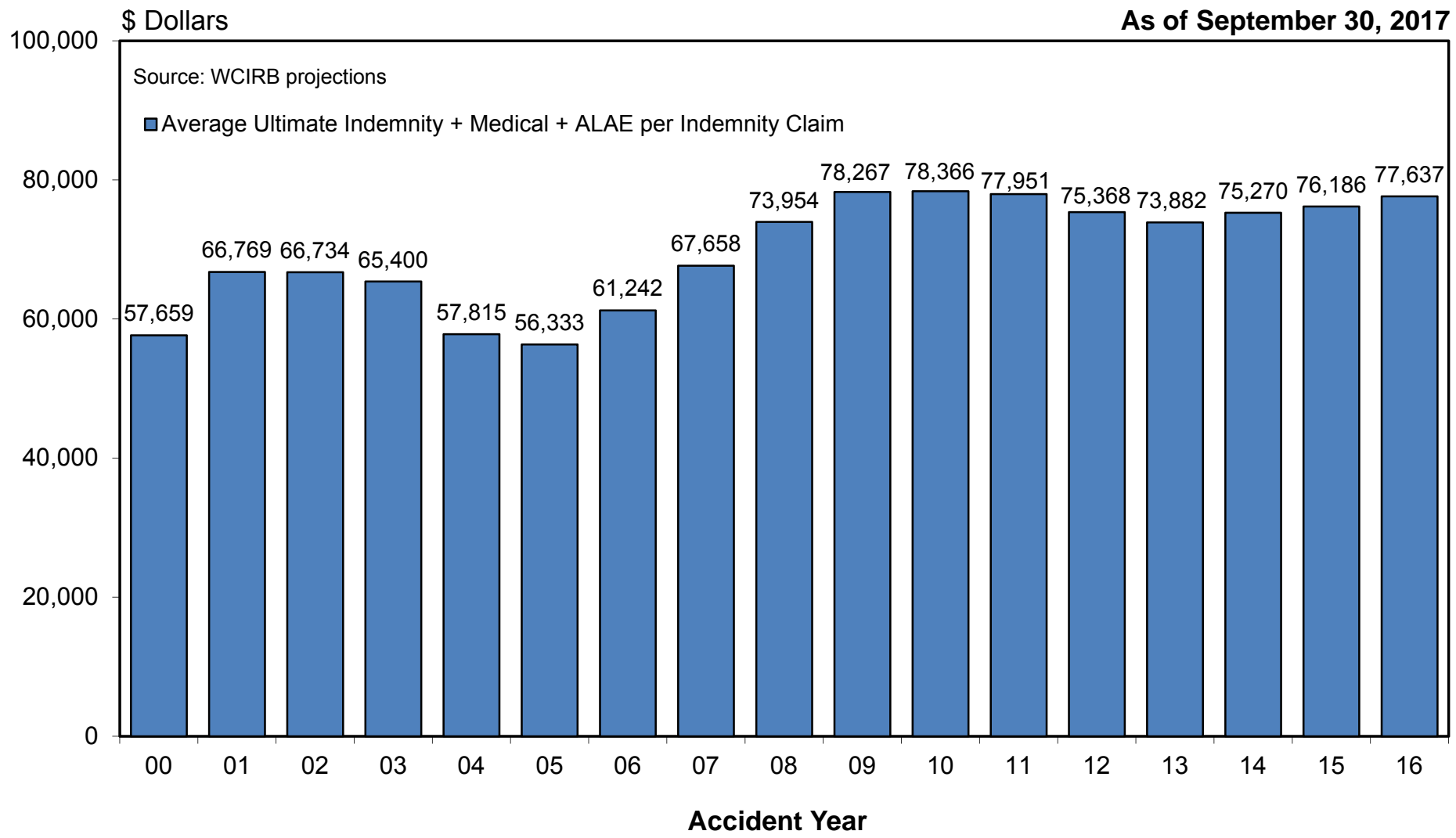
# California Workers' Compensation Projected Percentage Change in Indemnity Claim Frequency by Accident Year

As of September 30, 2017



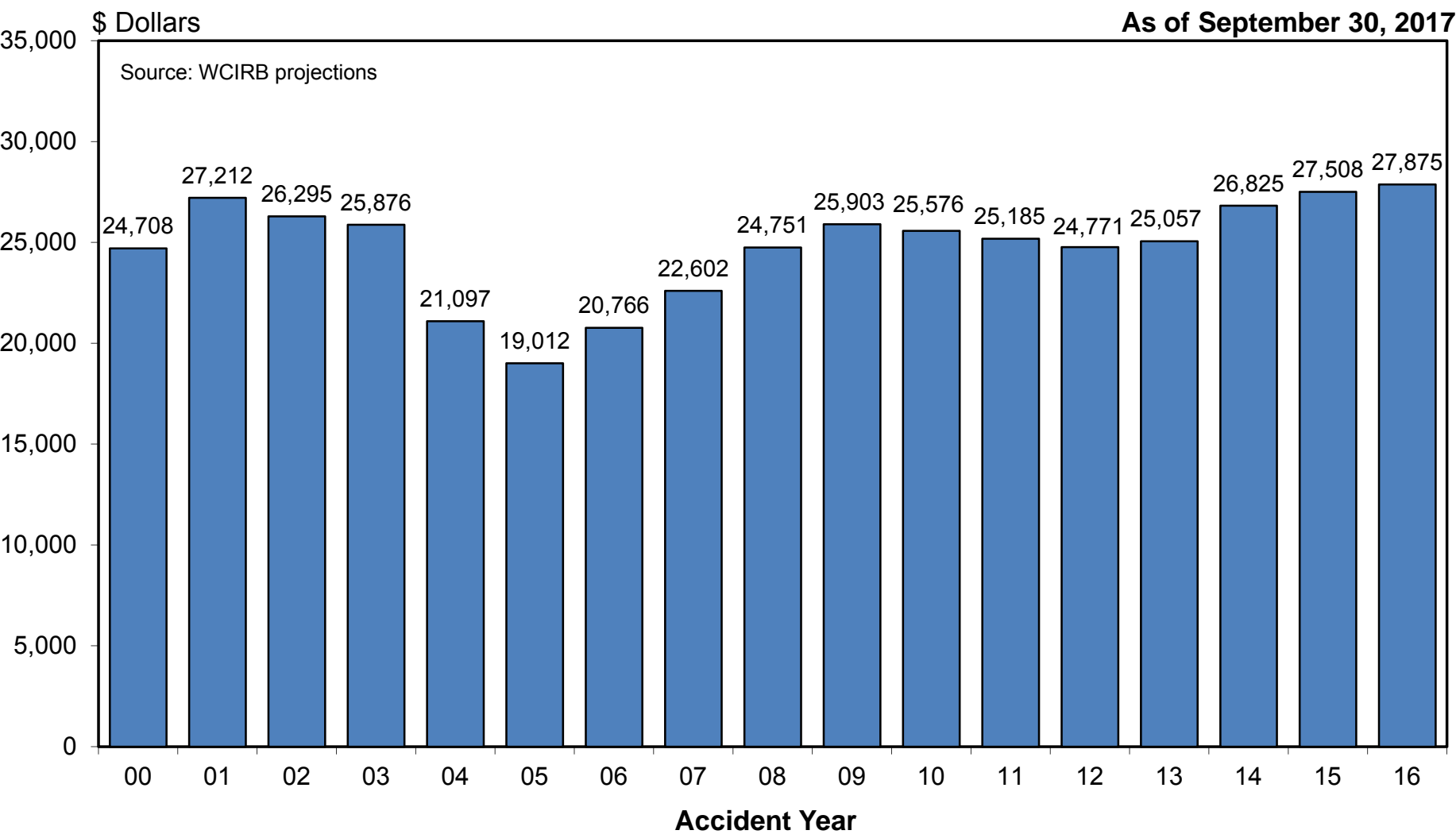
<sup>(1)</sup> The 2014-2015 estimate is based on partial year unit statistical data. The 2015-2016 and 2016-2017 estimates are based on a comparison of claim counts based on WCIRB accident year experience as of September 30, 2017 relative to the estimated change in statewide employment. Prior years are based on unit statistical data.

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

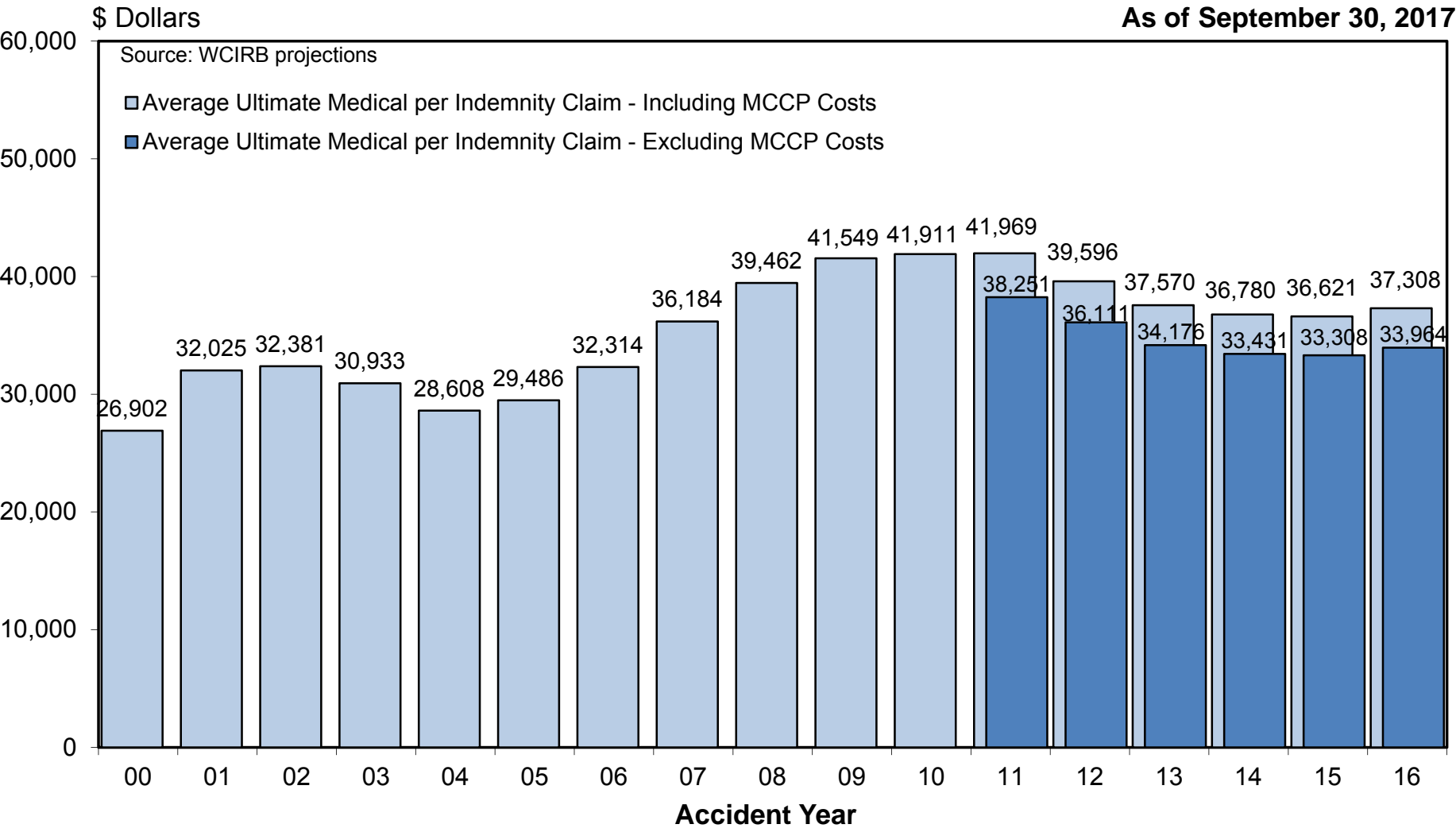


\* Excludes medical-only.

# California Workers' Compensation Projected Ultimate Indemnity per Indemnity Claim

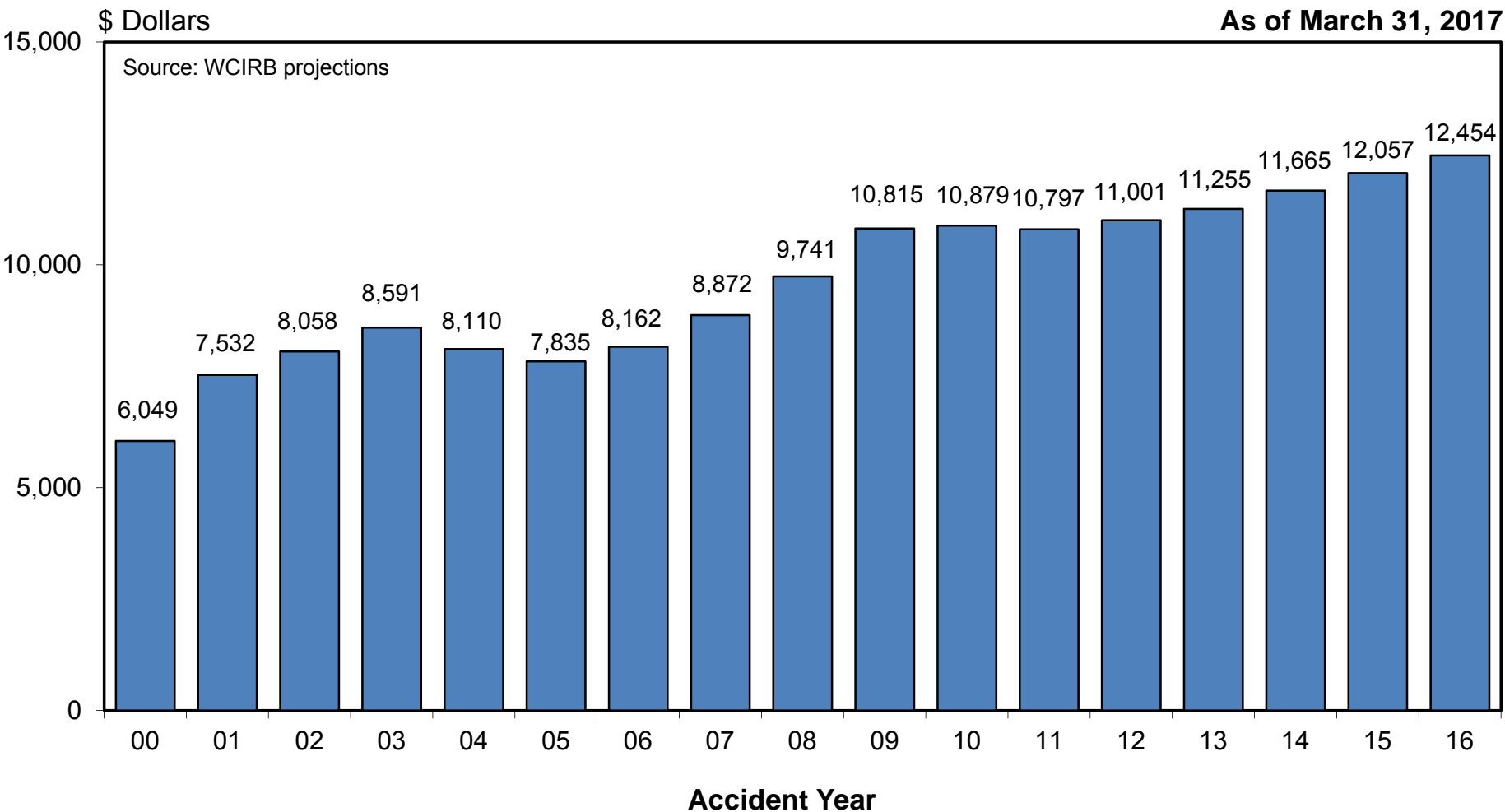


# California Workers' Compensation Projected Ultimate Medical\* per Indemnity Claim



\* Excludes medical-only.

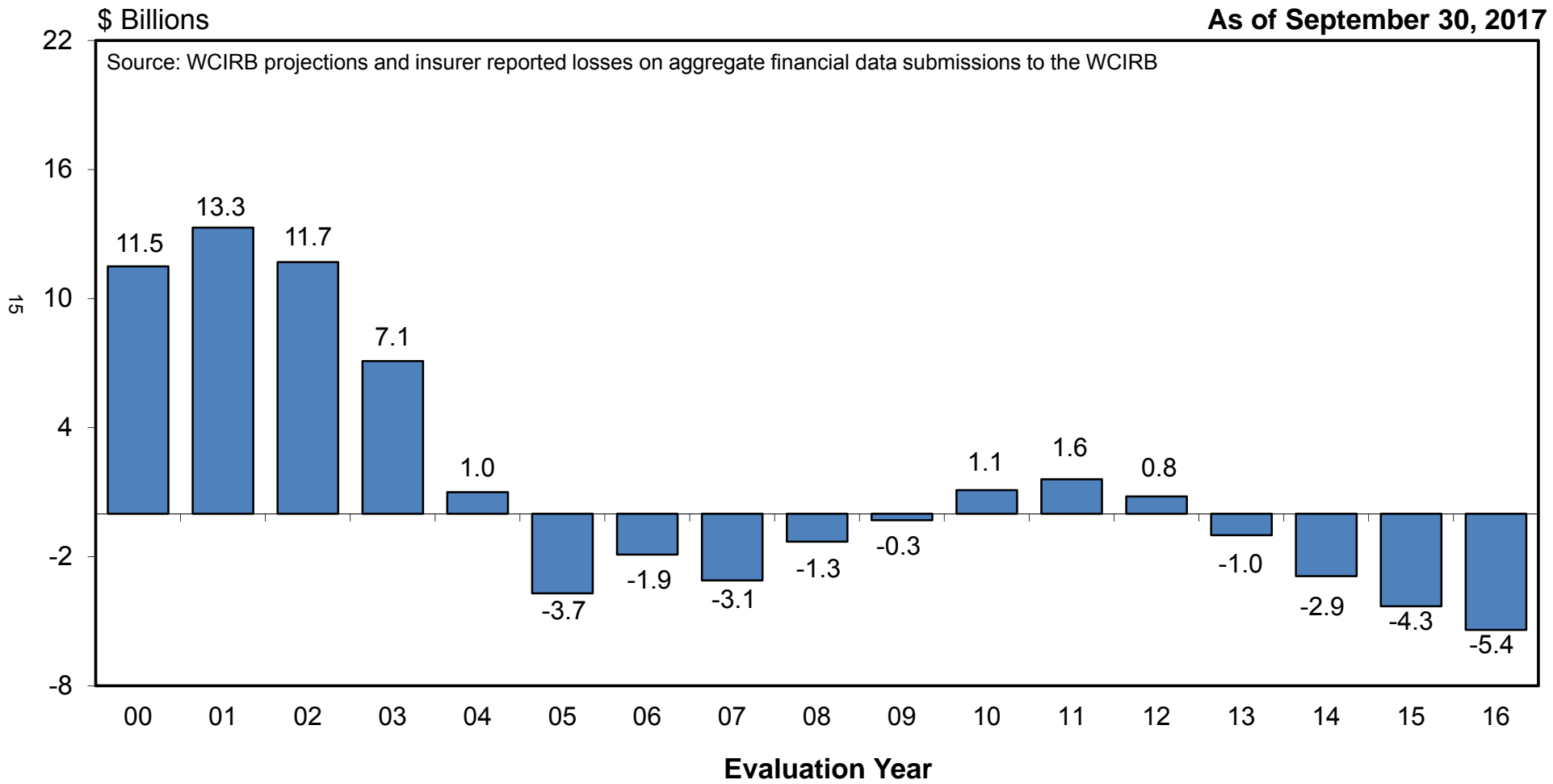
# California Workers' Compensation Projected Ultimate ALAE per Indemnity Claim\* (Excluding MCCP Costs)



\* 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**

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