

WCIRB Quarterly Experience Report

As of September 30, 2019

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Chart 1

- Written premium for 2018 is 4% below that for 2017 and 6% below that for 2016.
- The decreases since 2016 are primarily driven by decreases in insurer charged rates more than offsetting increases in employer payroll.
- Written premium for the first 9 months of 2019 is 7% below the same period for 2018, suggesting that premium decreases are escalating in 2019.

Written Premium | Gross of Deductible Credits

As of September 30, 2019

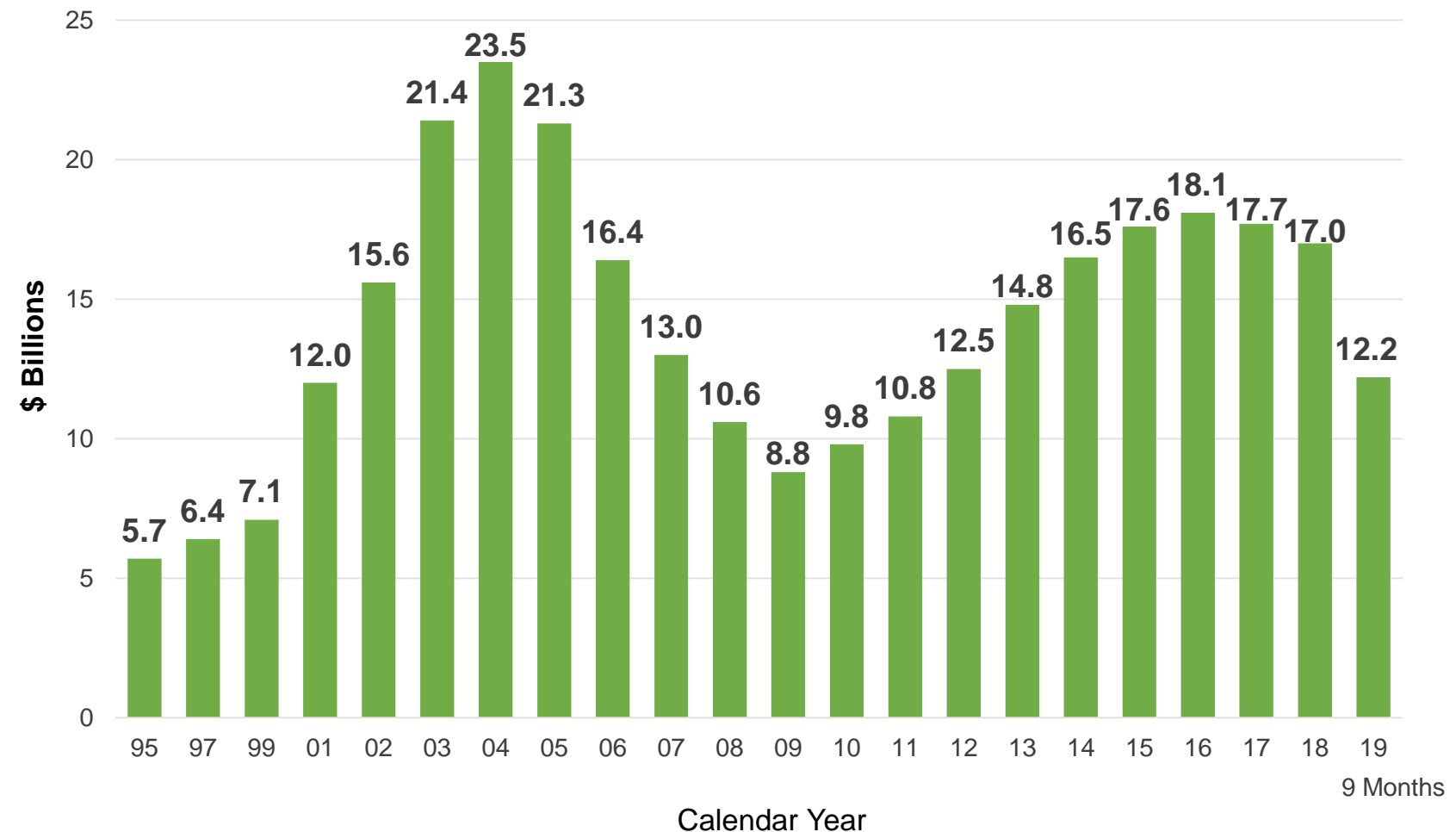




Chart 2

- The Average charged rate for the first 9 months of 2019 is 11% below that for 2018 and 32% below the peak in 2014.
- The January 1, 2020 approved advisory pure premium rates are on average 47% below those for January 1, 2015.

Industry Average Charged Rates

As of September 30, 2019

Rate per \$100 Payroll

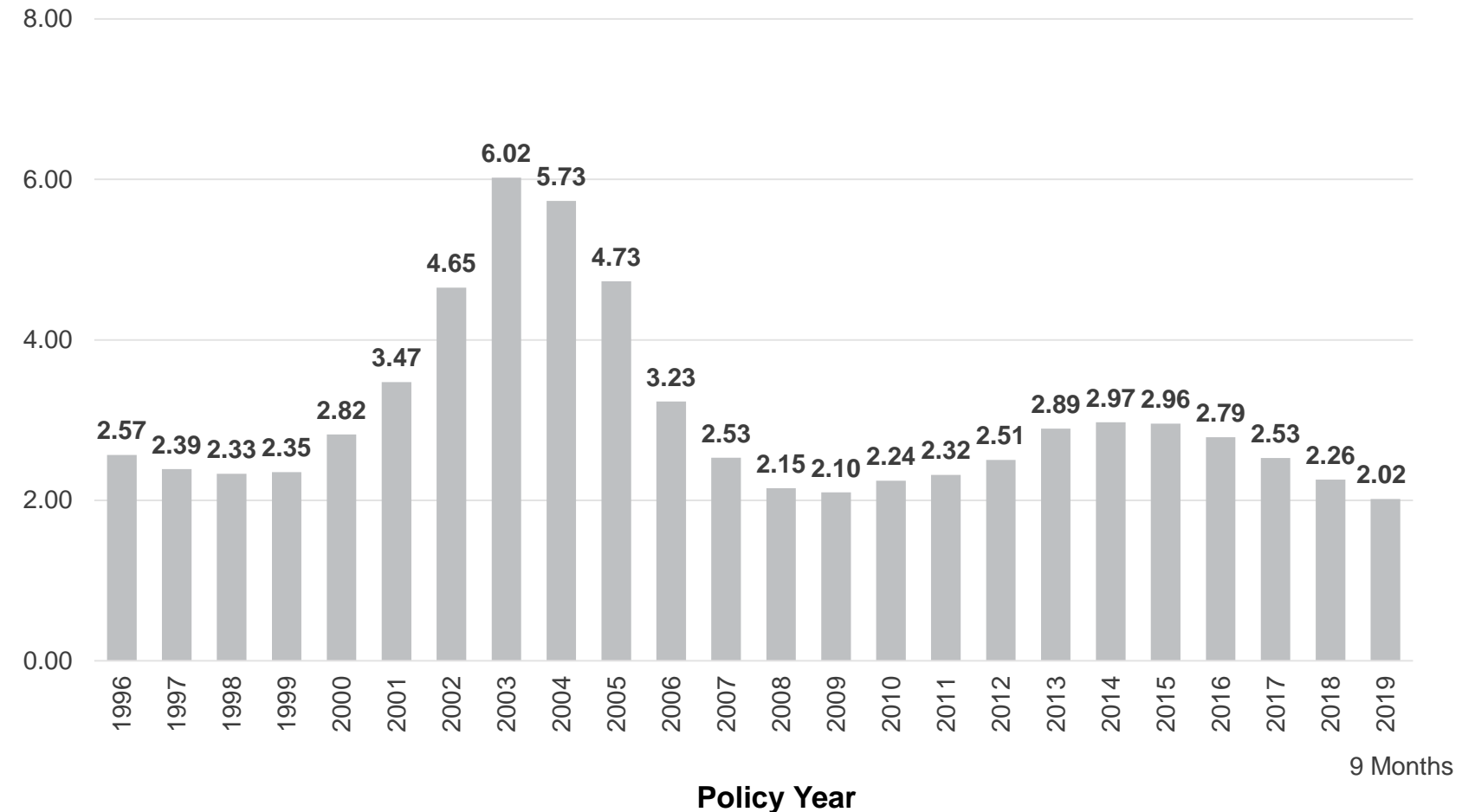




Chart 3

- The projected loss ratio for 2018 is 3 points above that for 2017, driven by higher severities for 2018 and lower premium rates.
- These ultimate projections as of September 30, 2019 are generally consistent with those as of June 30, 2019 and March 31, 2019 as recent trends in downward loss development are moderating.

Ultimate Accident Year Loss Ratios

As of September 30, 2019

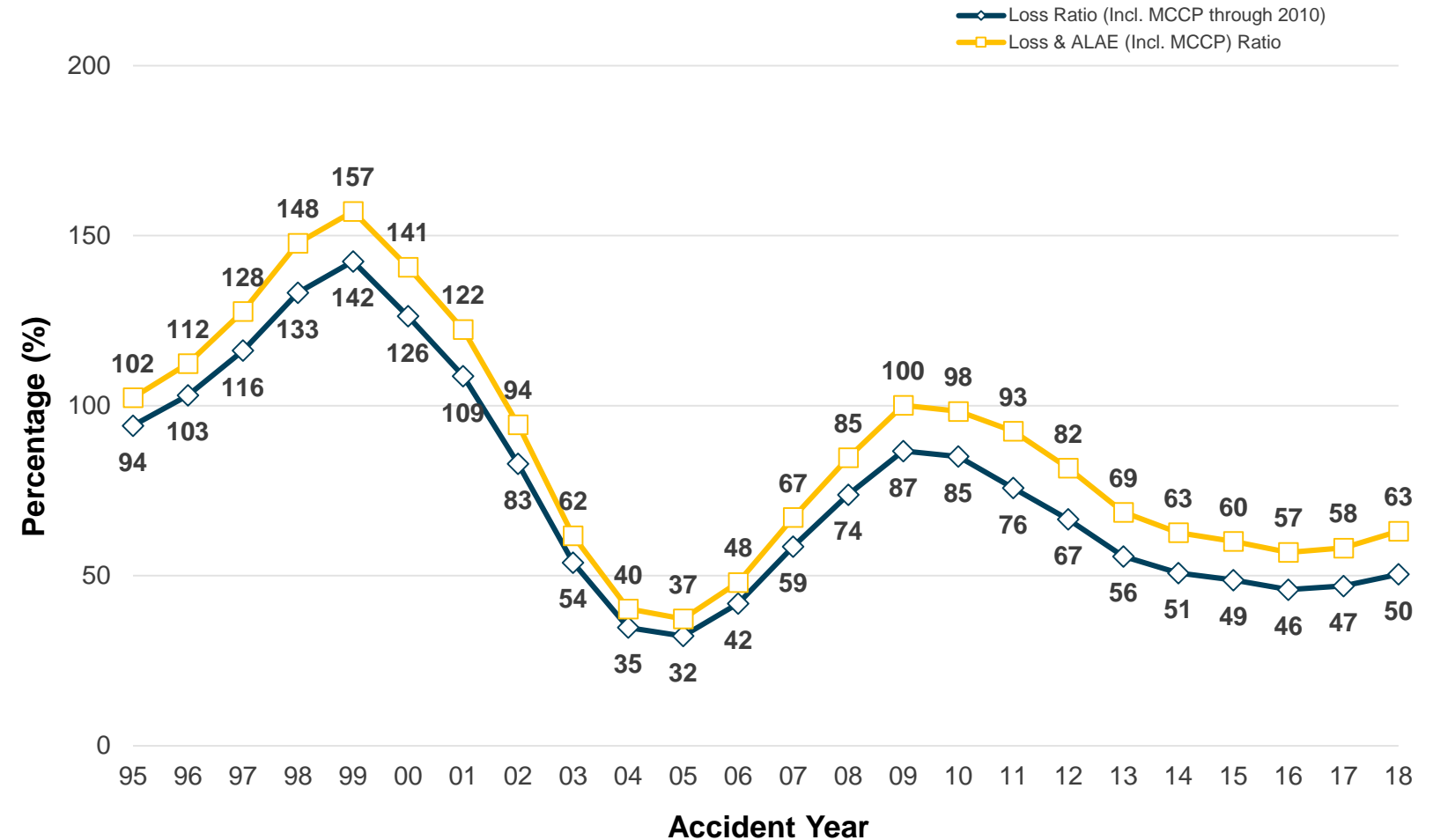




Chart 4

- The projected combined ratio for 2018 is 5 points higher than 2017 as premium levels have lowered while average claim severities increased moderately.
- Despite the recent increase, combined ratios for the last six years remain below 100% and are the lowest since the 2003 through 2007 period.

Projected Accident Year Combined Ratios

As of September 30, 2019

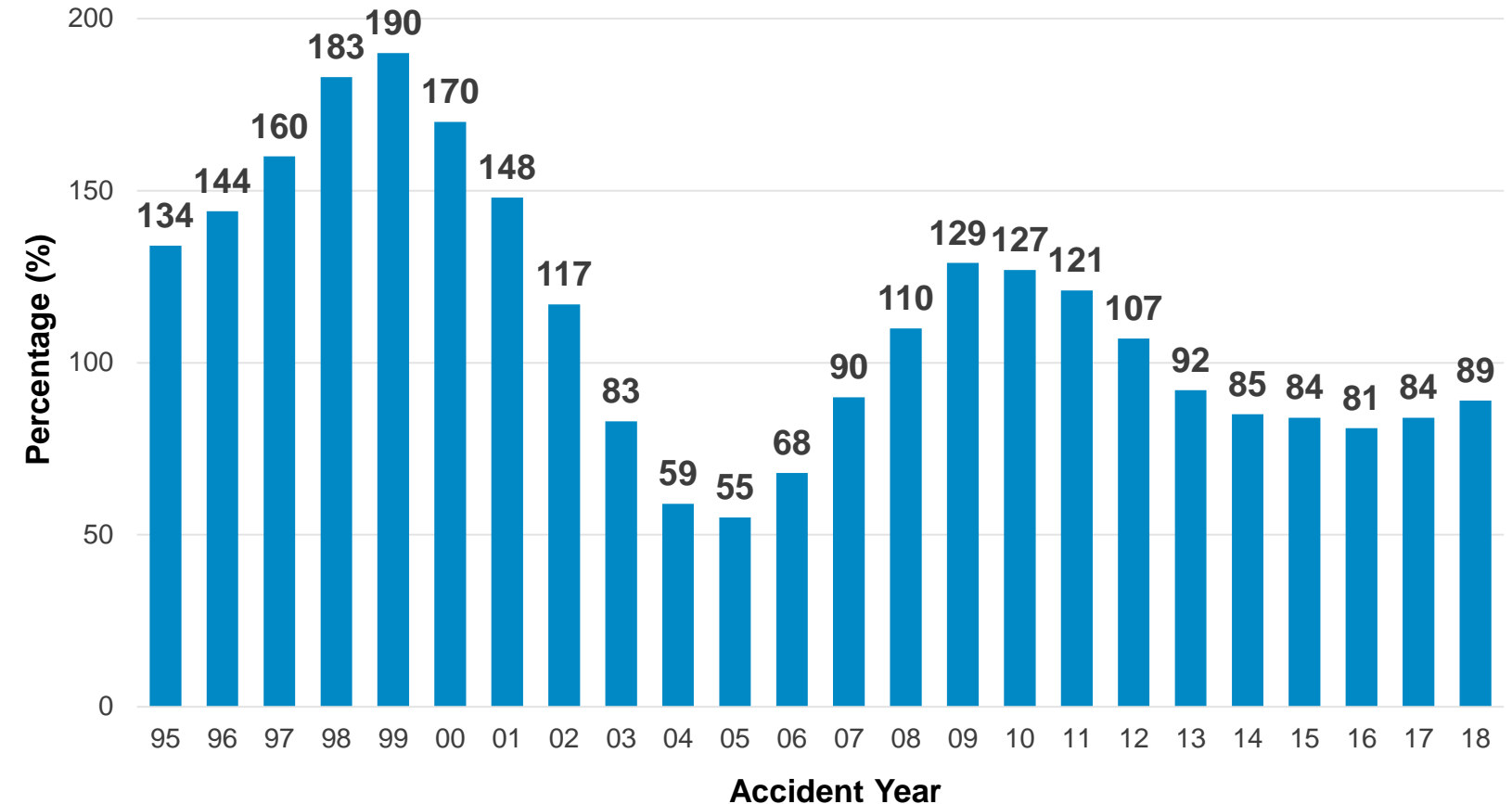




Chart 5

- Indemnity claims have settled quicker over the last several years, largely driven by SB 863 and SB 1160 reforms.
- The ratio for 2019 is only modestly higher than 2018, which is driven by more recent accident years, suggesting claim settlement rates may be plateauing.

Percent of Open Indemnity Claims Closed in Next Year

As of September 30, 2019

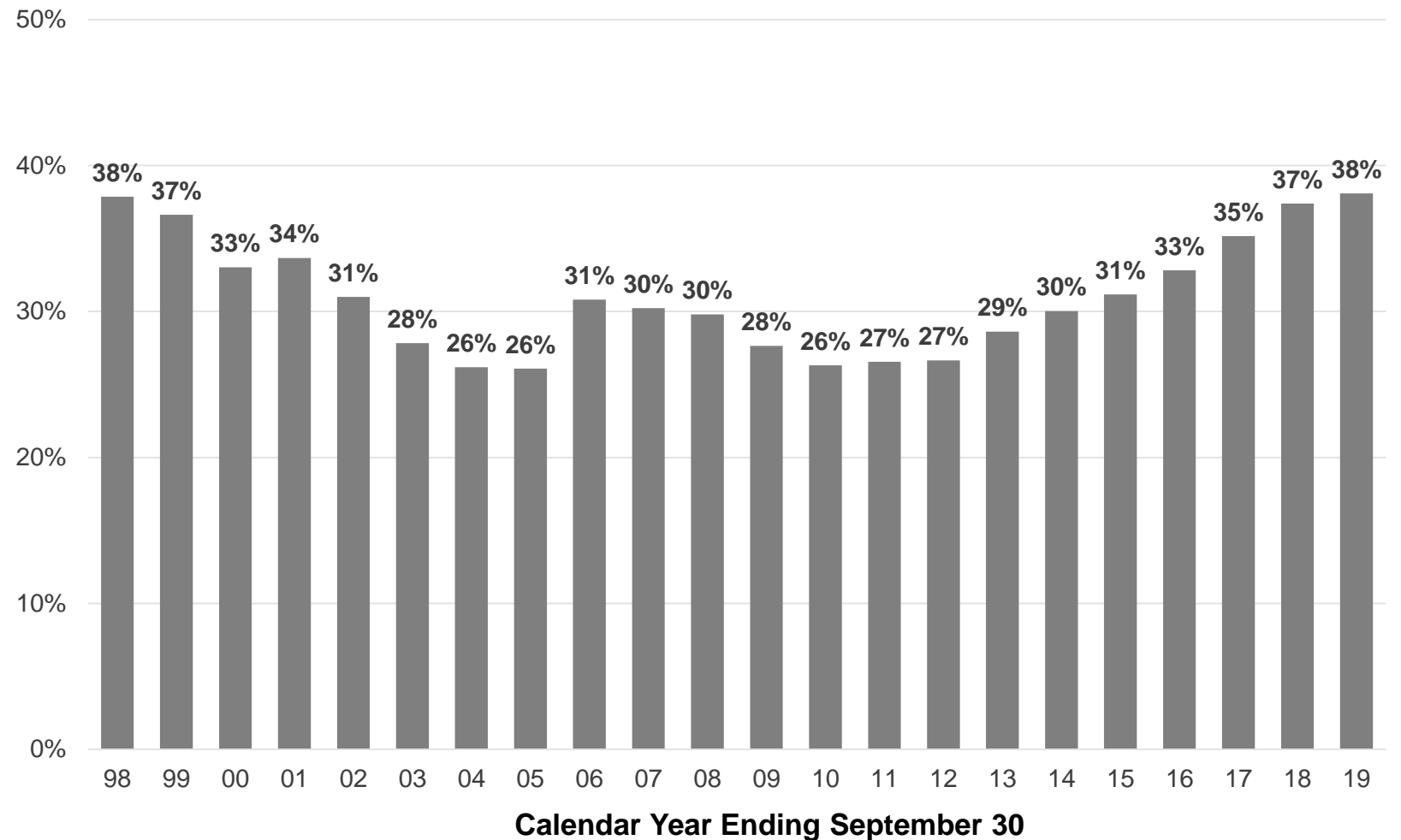




Chart 6

- Claim frequency increased by 11% from 2009 to 2014, but has decreased by 6% from 2014 through the first 9 months of 2019.
- The recent declining frequency is more consistent with patterns in other states though more modest compared to decreases in other states as well as the long-term trend in California.

Change in Indemnity Claim Frequency

As of September 30, 2019

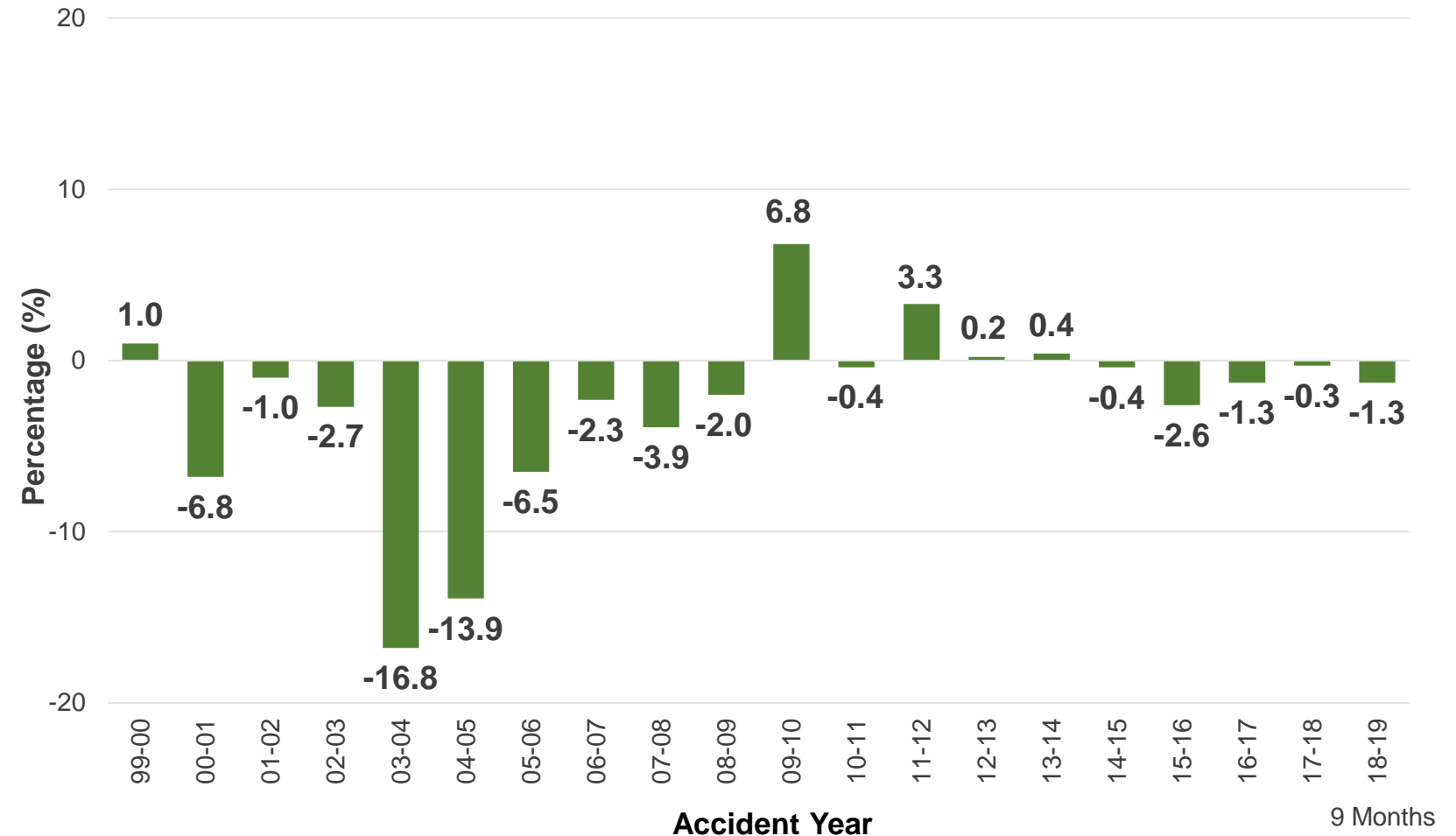




Chart 7

- Cumulative trauma (CT) claim rates continue to increase in 2017 and the ratio of CT claims to all indemnity claims has increased by over 80% since 2005.
- The sharp increase in CT claims since 2012 is in the Los Angeles and San Diego areas, as CT claims in other regions of CA have generally decreased.
- See the WCIRB's recent report on *The World of Cumulative Trauma Claims* for more information.

Cumulative Trauma Claims per 100 Indemnity Claims

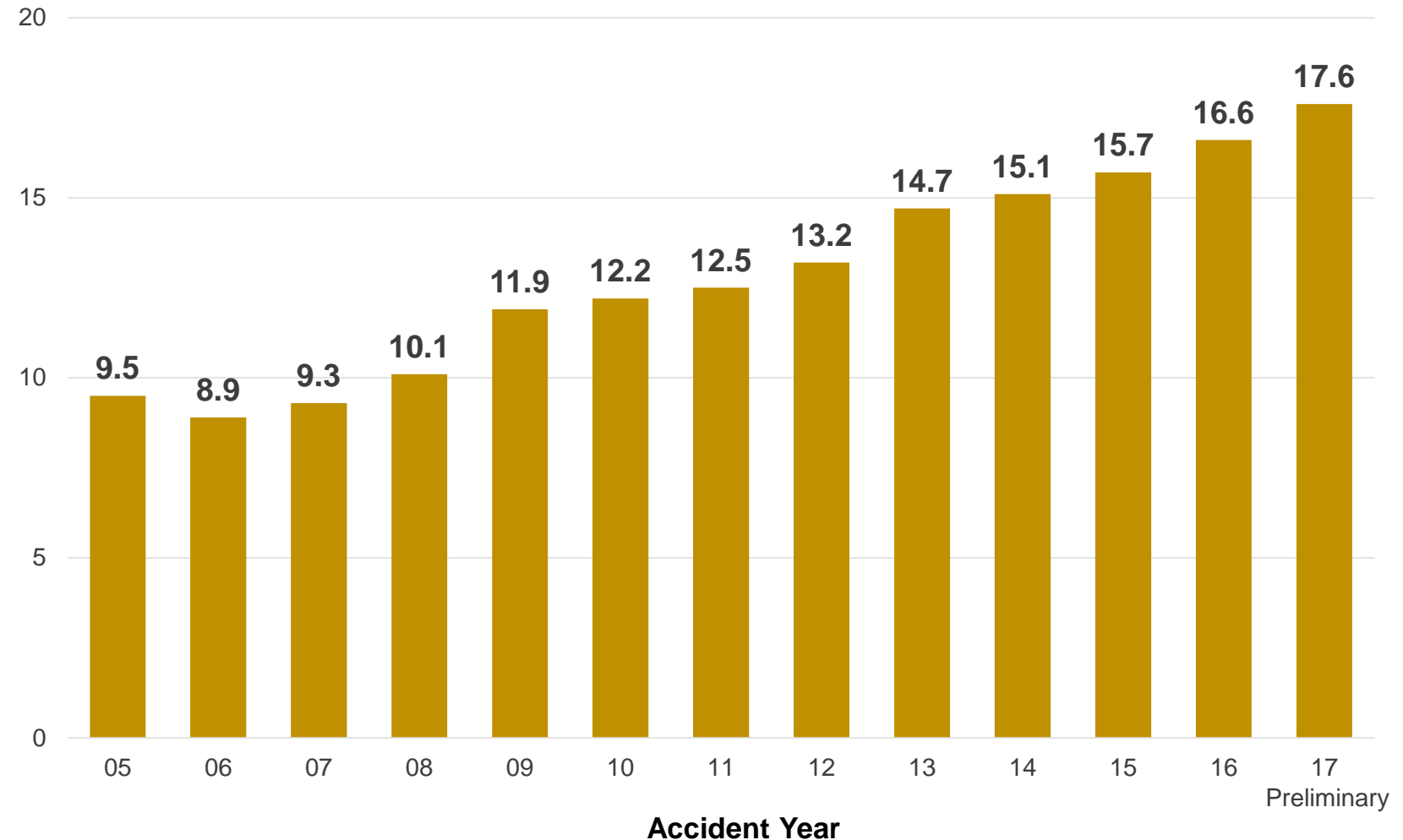




Chart 8

- Projected claim severity for 2018 is 5% higher than that for 2017, following several years of modest declines in claim severities.
- 2018 is projected from claims valued at 21 months and while the growth may still moderate as the year matures, the growth rate as of September 30, 2019 is consistent with that of the prior quarterly evaluation.

Ultimate Total Loss and ALAE Severities

As of September 30, 2019

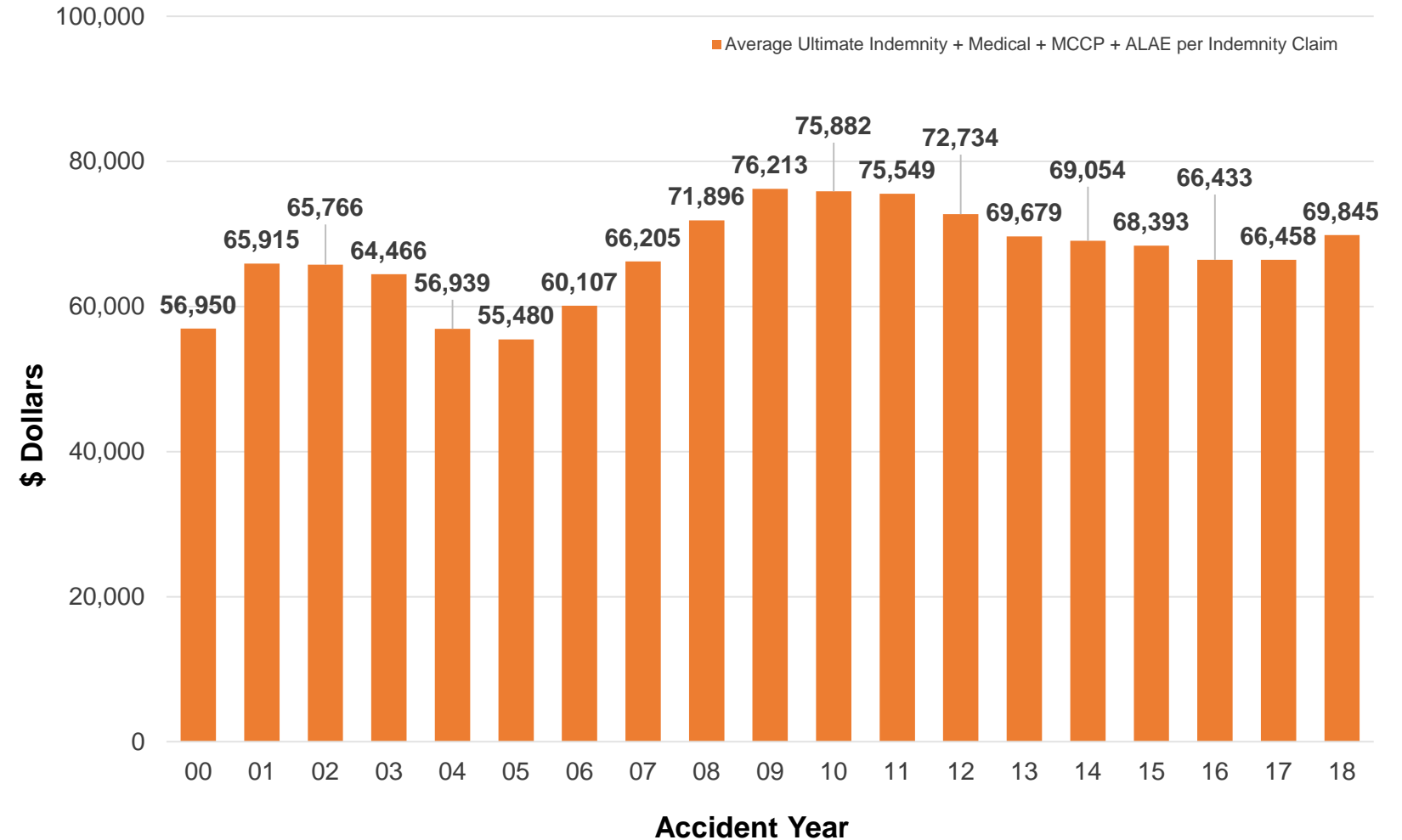




Chart 9

- Indemnity severities over the last several years have been very flat, with the 2018 projected severity consistent with the 2009 severity.
- The 2018 projected indemnity severity increase of 4% over 2017 is consistent with that projected a quarter ago.

Ultimate Indemnity Severities

As of September 30, 2019

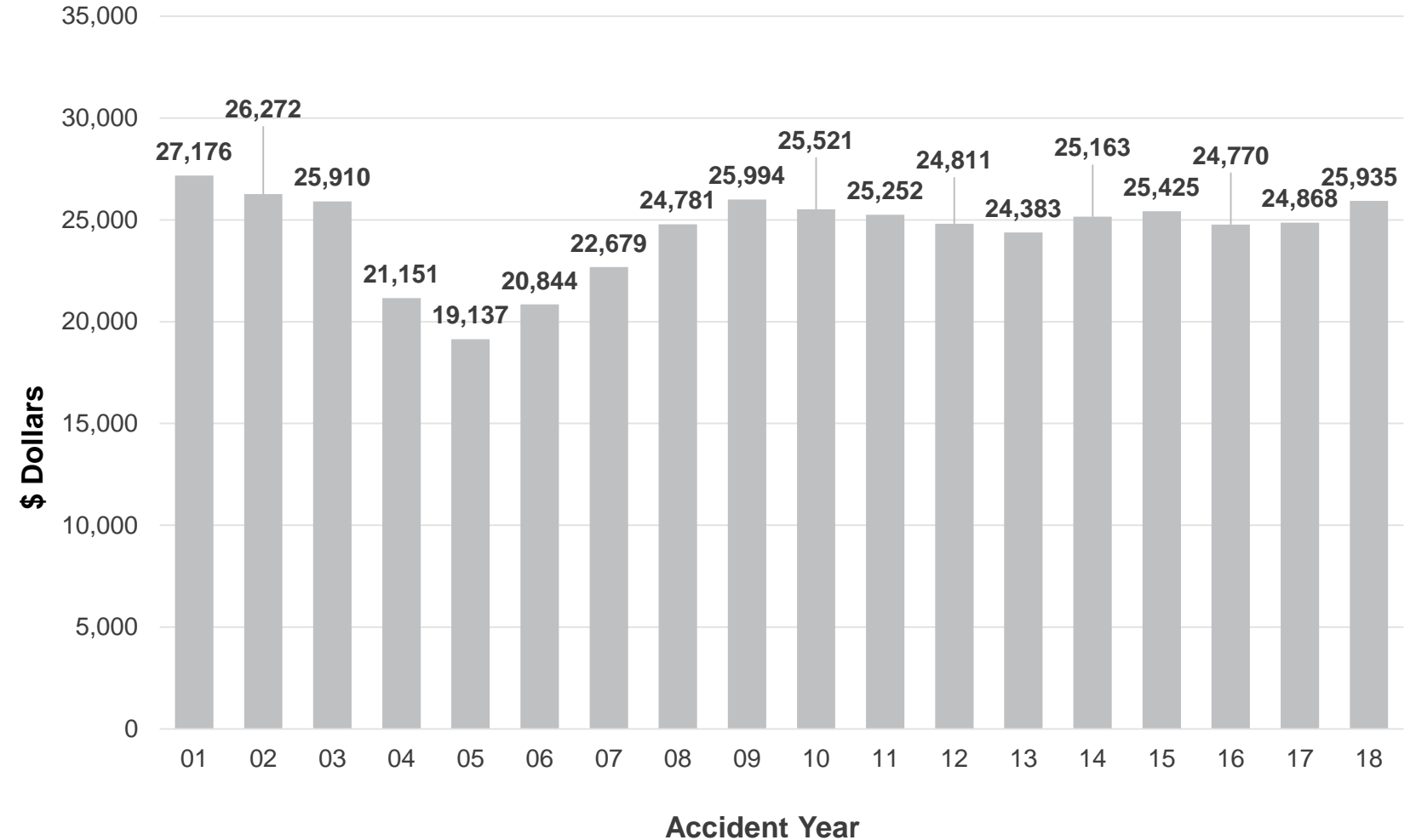




Chart 10

- Decreases in medical severities from 2011 to 2015 were driven largely by savings arising from SB 863.
- The relatively flat severities since 2015 continue to be driven by recent reforms, declining drug costs, and efforts to fight fraud.
- The projected 4% increase for 2018 suggests the impact of recent reforms may be moderating.

Ultimate Medical Severities

As of September 30, 2019

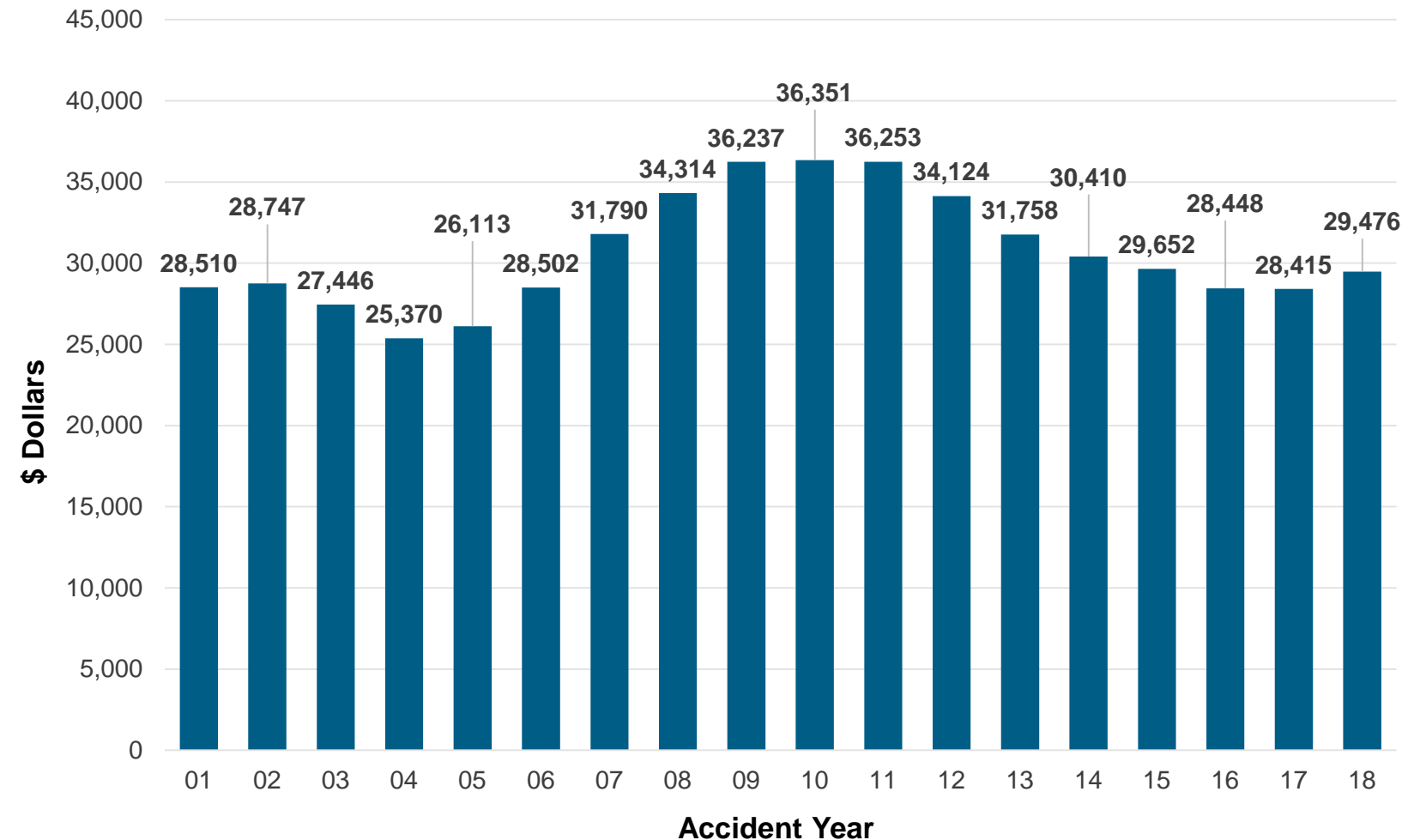




Chart 11

- ALAE severities have been flat from 2009 through 2017 despite reductions in average loss severities driven by recent reforms.
- The 10% increase indicated for 2018 is based on 15 months and will likely moderate as the accident year matures.

Ultimate ALAE (excl. MCCP) Severities

As of March 31, 2019





Chart 12

- Projected MCCP cost severity for 2018 is 8% higher than that for 2017.
- The 2018 increase is counter to expectations of reduced utilization review due to SB 1160 and the drug formulary.
- Despite the increase for the most recent year, average MCCP costs have generally declined in the last several years as average medical costs have moderated and claim settlement rates have accelerated.

Ultimate Medical Cost Containment (MCCP) Severities

As of March 31, 2019

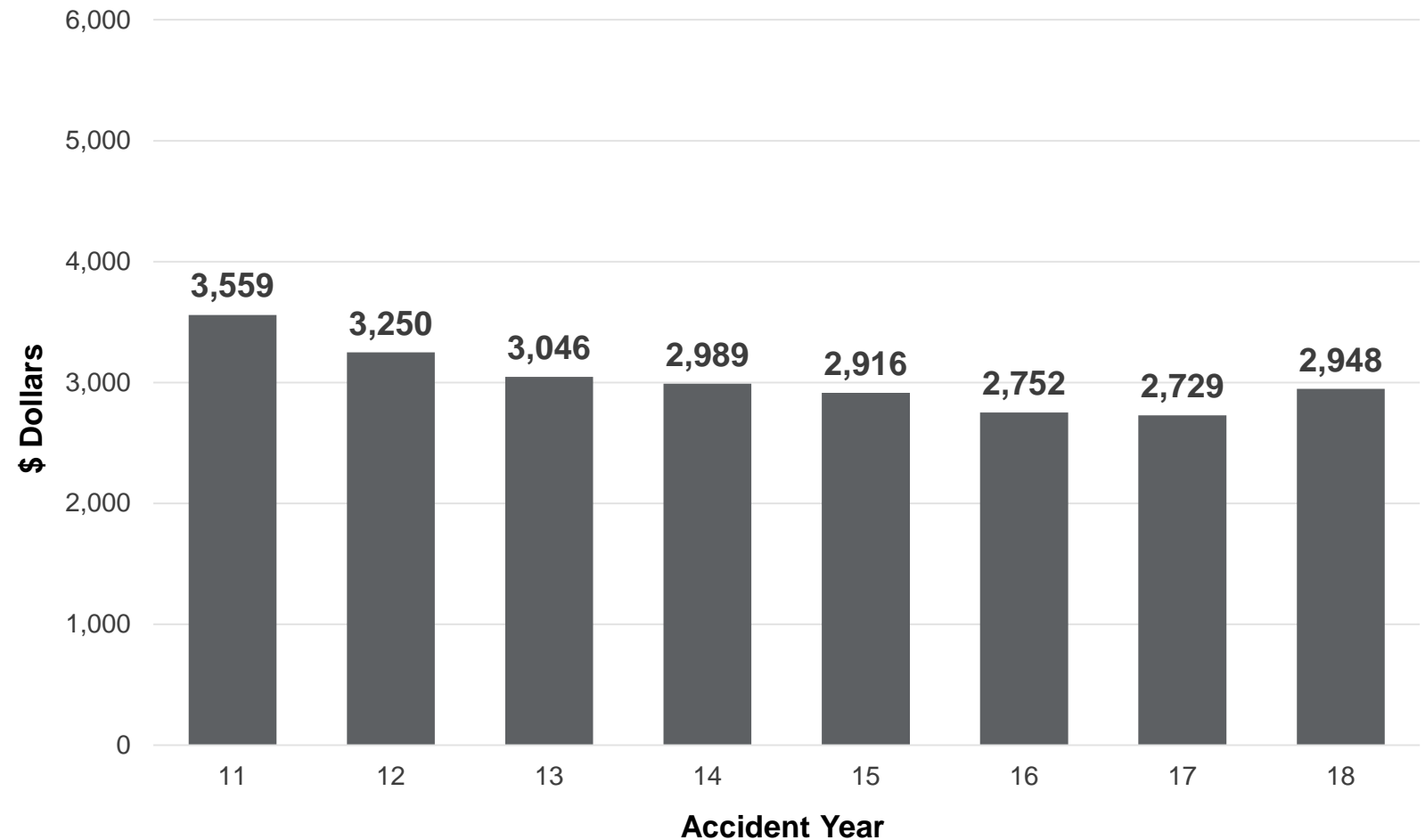




Chart 13

- Pharmaceutical costs per claim decreased by 24% from 2012 through the first half of 2019, driven by decreases in the number of transactions per claim.

Change in Medical Service Cost Levels

As of October 7, 2019

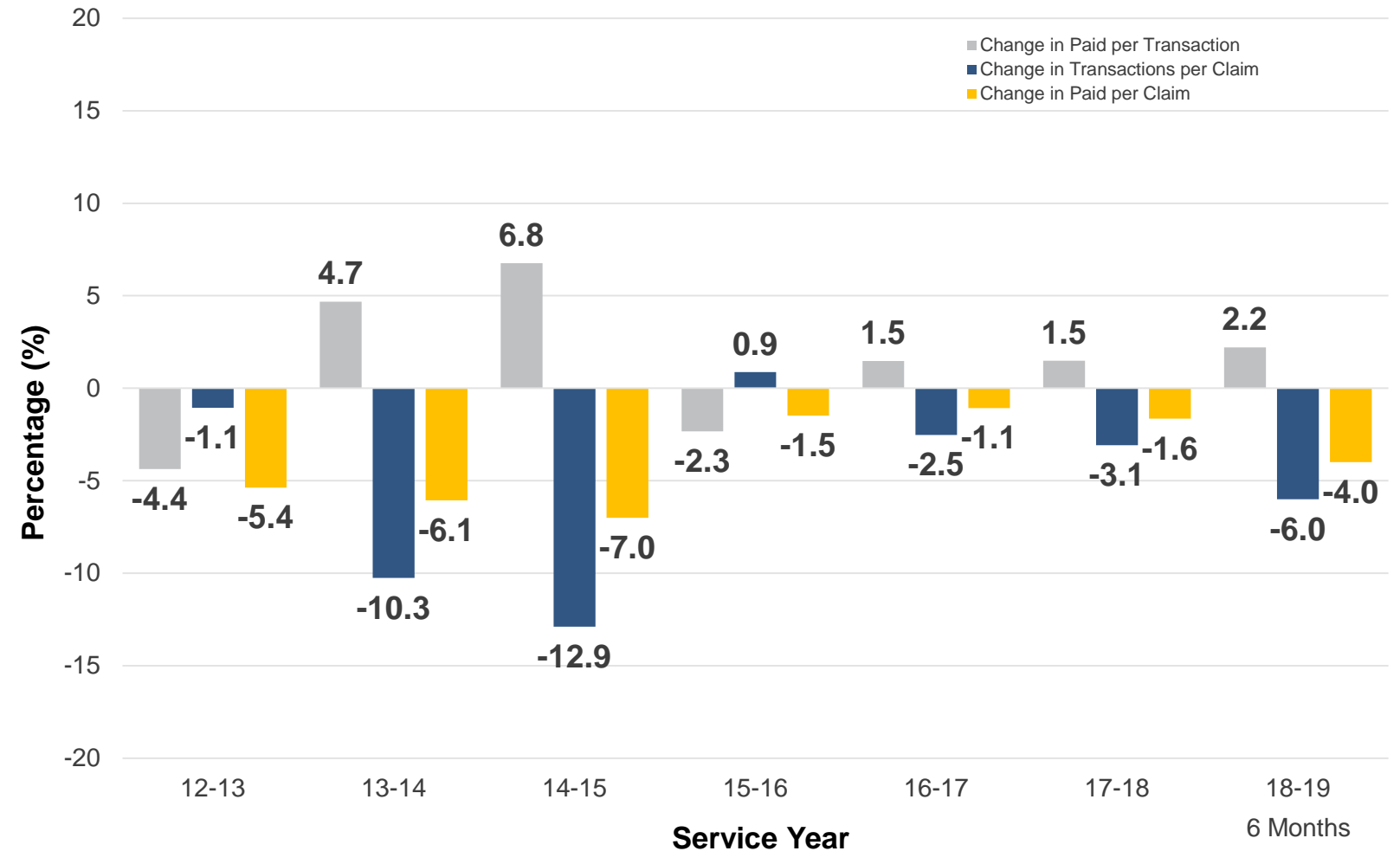




Chart 14

- Pharmaceutical costs per claim decreased more than 80% from 2012 through the first half of 2019.
- These reductions have been driven by SB 863's IMR & IBR, reduced utilization of opioids, changes to Medi-Cal reimbursement rates, efforts to combat fraud, and the new drug formulary.
- Pharmaceutical utilization continued to decrease significantly in 2018 and 2019, the first periods in which the new drug formulary is in effect.

Change in Pharmaceutical Cost Levels

As of October 7, 2019

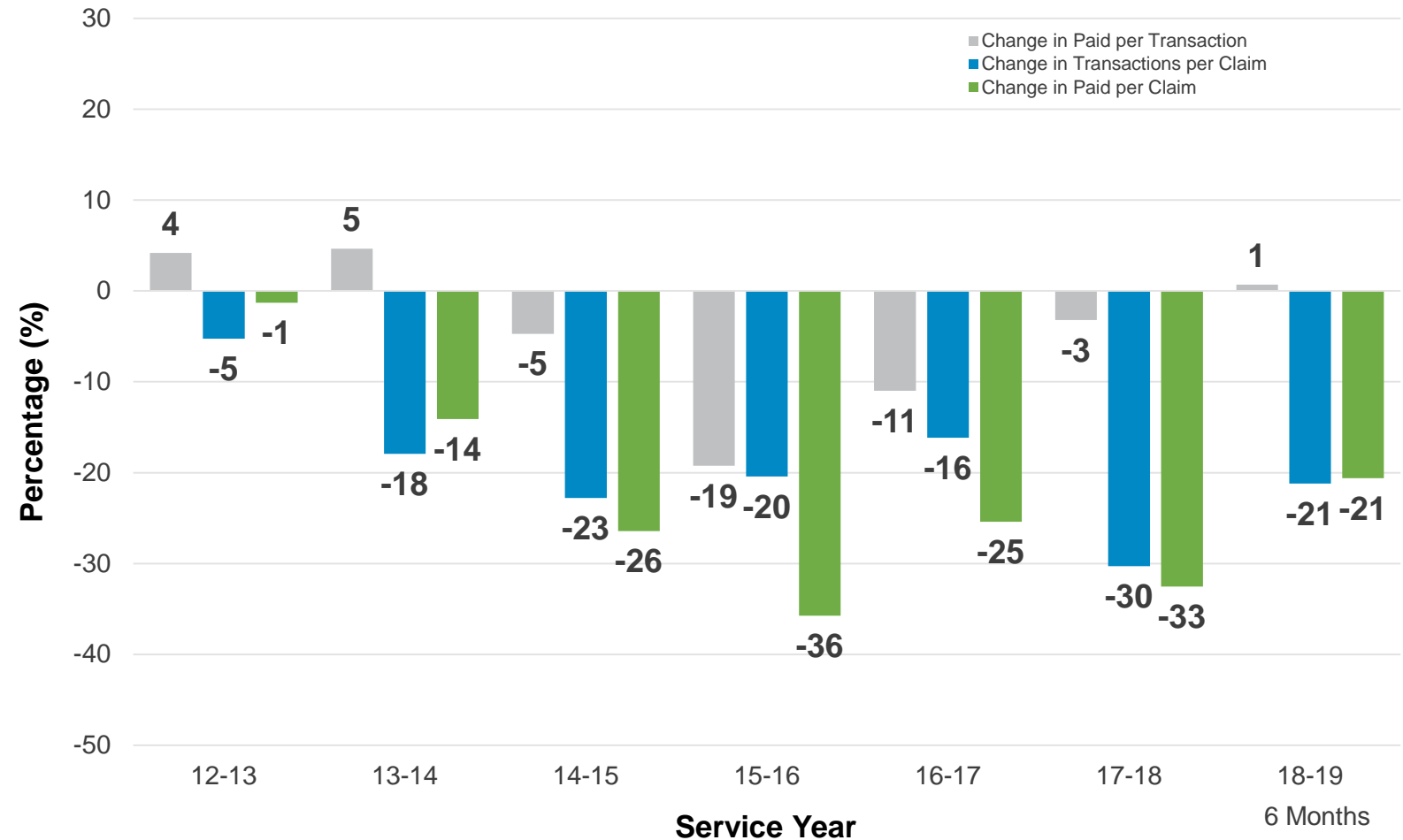




Chart 15

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

Number of Liens Filed

As of September 30, 2019

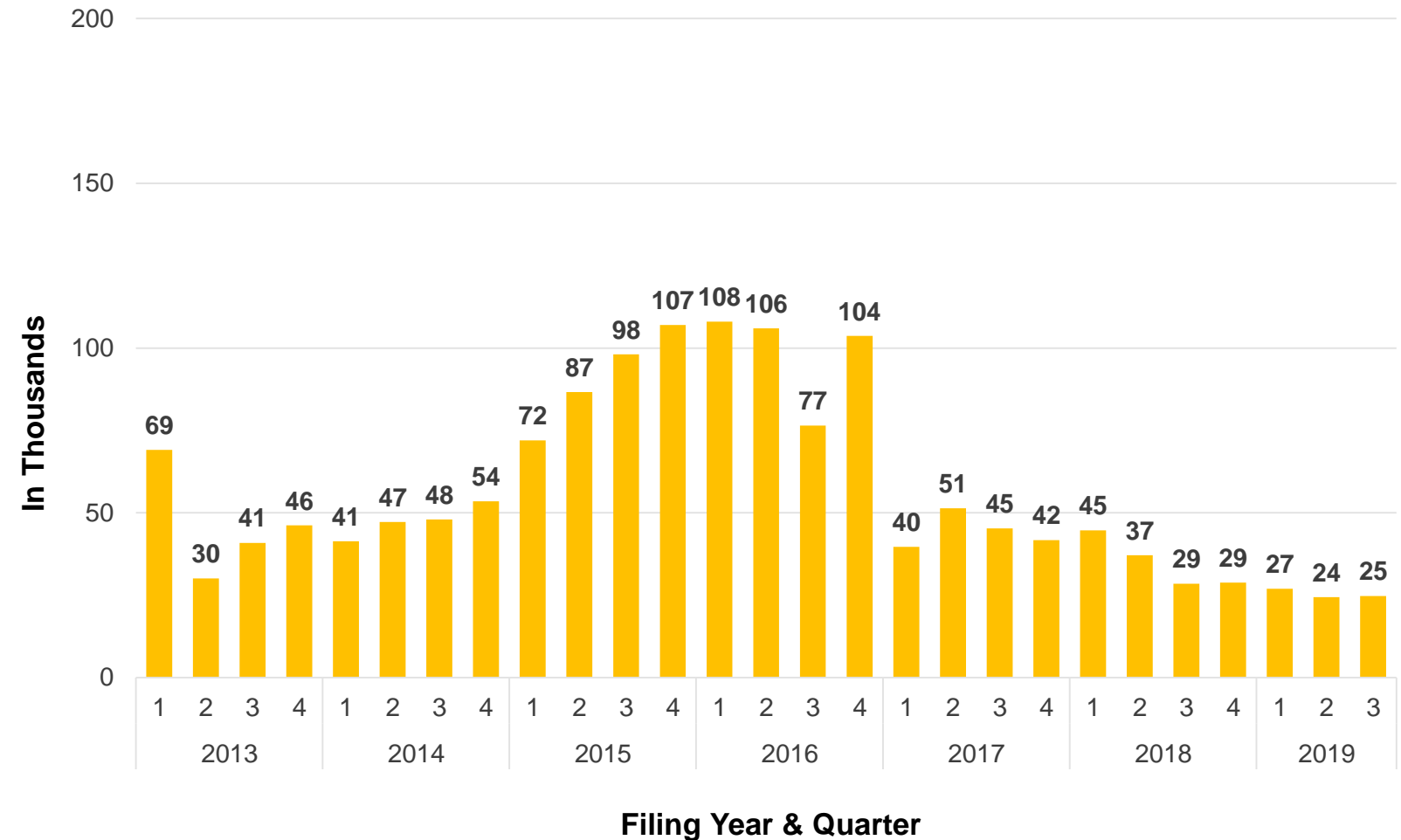




Chart 16

- Ratios of ALAE to loss increased significantly from 2011 to 2015 in part due to increased cumulative trauma claim filings and the transition to SB 863.
- From 2015 to 2018, these ratios have been generally consistent as savings from recent reforms have not materialized in lower ALAE costs.

Ratios of Paid ALAE to Paid Losses

As of December 31, 2018

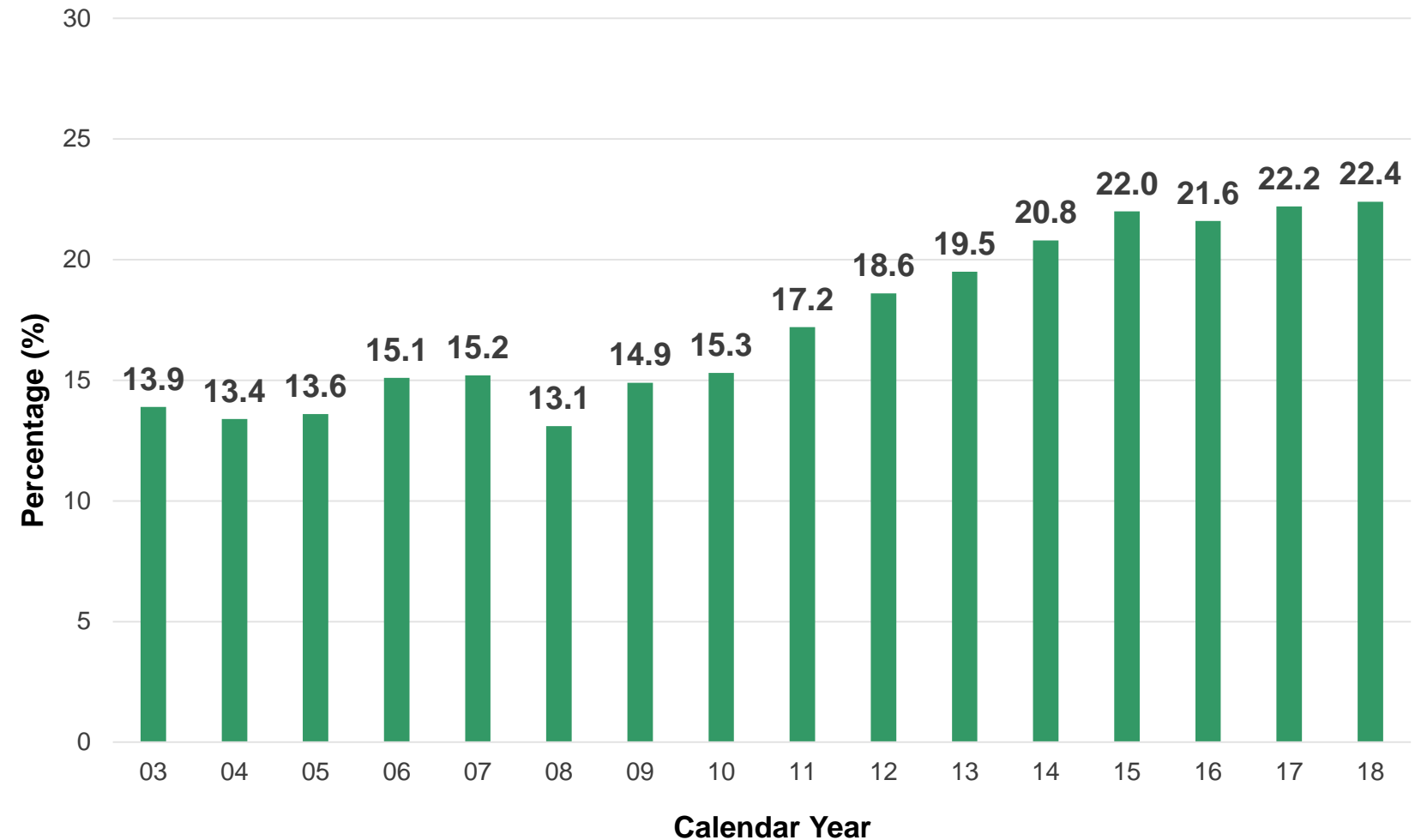


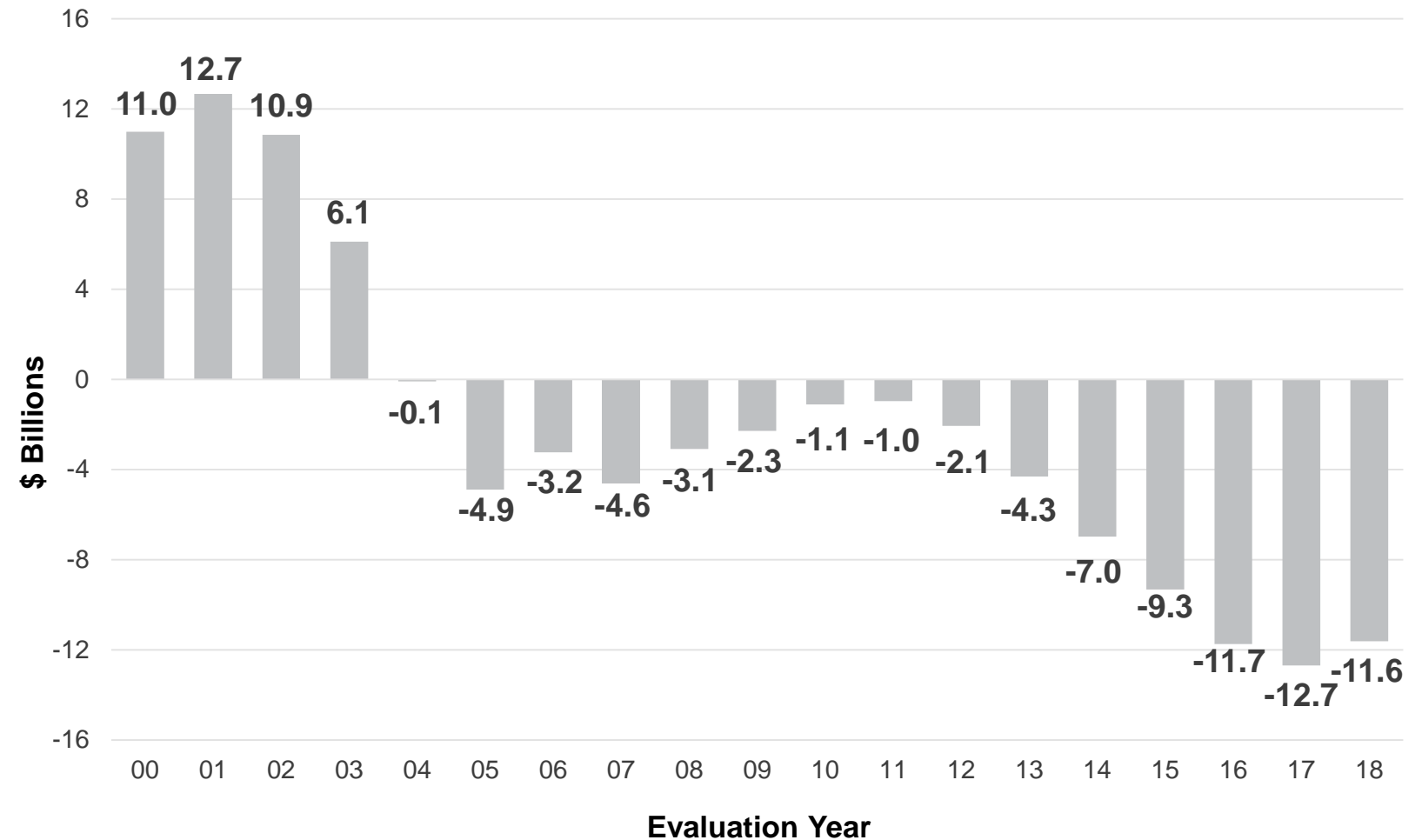


Chart 17

- Projected total statewide ultimate losses for 2005 through 2018 evaluations are below the amounts reported by insurers.

Projected Ultimate Losses Less Reported Losses

As of September 30, 2019





General Notes

- This report reflects a compilation of individual insurer submissions of accident year and calendar year premium and loss data to the WCIRB. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with data submitted by other insurers, the source information underlying each insurer's data submission is not verified by the WCIRB.
- Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments using information reported by insurers through September 30, 2019. Although the actuarial methodologies and assumptions upon which these projections are predicated are periodically reviewed by the WCIRB's Actuarial Committee, the actual costs that will ultimately emerge could differ from the amounts projected. Many of these projections will be updated regularly by the WCIRB as more mature information on these claims is reported in subsequent quarters.
- The amounts and ratios shown represent statewide totals based on the amounts reported by insurers writing workers' compensation insurance in California. The results for any individual insurer can differ significantly from the statewide average. An individual insurer's results are related to its underwriting book of business, claims and reserving practices, as well as the nature of its reinsurance arrangements.
- Beginning with claims incurred on policies incepting on or after July 1, 2010, the cost of medical cost containment programs (MCCP) is reported to the WCIRB as allocated loss adjustment expense (ALAE) rather than as medical loss. As a result, some portions of MCCP costs for accident years 2010 and 2011 have been reported as medical loss and some portions have been reported as ALAE. For consistency, the amounts and ratios shown in these exhibits are adjusted to either include or exclude MCCP costs for all years shown to the extent possible.



More Info

Chart 1: Written Premium

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

Chart 2: Industry Average Charged Rates

- Rates are based on WCIRB unit statistical data through 2016 and estimated based on aggregate financial data calls for 2017 and later.
- Rates are per \$100 of payroll.
- Rates are averages over policies incepting in the year (December 1 to December 31).

Chart 3: Ultimate Accident Year Loss Ratios

- Ratios are projected based on WCIRB aggregate financial data call data as of September 30, 2019.
- MCCP costs are included in loss ratios for accident years 2010 and prior.
- MCCP costs are included in loss and ALAE ratios for all years shown.

Chart 4: Projected Accident Year Combined Ratios

- Ratios are projected based on WCIRB aggregate financial data call data as of September 30, 2019.
- Combined ratios include losses, loss adjustment expenses, and other insurer expenses.

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

- Source: WCIRB aggregate financial data call data as of September 30, 2019.
- Figures represent the number of indemnity claims aged between 21 to 105 months closed during the year as a ratio of the number of estimated ultimate claims open or not yet reported as of September 30 of the prior year.

Chart 6: Change in Indemnity Claim Frequency

- Frequency is based on indemnity claim counts per exposure adjusted for wage level changes based on WCIRB unit statistical data through accident year 2017, and changes in reported indemnity claim counts compared to changes in statewide employment based on WCIRB aggregate financial data call data for accident year 2018 and the first 9 months of 2019.

Chart 7: Cumulative Trauma Claims per 100 Indemnity Claims

- Source: WCIRB unit statistical data based on partial accident years. Claim counts are developed to an estimated ultimate level.
- Accident year 2017 data is preliminary.

Chart 8: Ultimate Loss & ALAE Severities

- Severities are projected based on WCIRB aggregate financial data call data as of September 30, 2019.
- Includes data for indemnity claims only.



More Info (...continued)

[Chart 9: Ultimate Indemnity Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of September 30, 2019.

[Chart 10: Ultimate Medical Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of September 30, 2019.
- Includes data for indemnity claims only. MCCP costs have been excluded from all years for consistency of comparison.

[Chart 11: Ultimate ALAE \(excl. MCCP\) Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of March 31, 2019.
- Includes data for indemnity claims only. MCCP costs are excluded from all years for consistency of comparison.

[Chart 12: Ultimate Medical Cost Containment \(MCCP\) Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of March 31, 2019.
- Includes data for indemnity claims only.

[Chart 13: Change in Medical Service Cost Levels](#)

- Source: WCIRB medical transaction data as of October 7, 2019.

[Chart 14: Change in Pharmaceutical Cost Levels](#)

- Source: WCIRB medical transaction data as of October 7, 2019.

[Chart 15: Number of Liens Filed](#)

- Source: The Division of Workers' Compensation.

[Chart 16: Ratios of Paid ALAE to Paid Losses](#)

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

[Chart 17: Projected Ultimate Losses Less Reported Losses](#)

- Insurer-reported losses include insurers' estimates of incurred but not reported (IBNR) losses that may, in part, reflect allocations of IBNR losses to line of business, state, and accident year, and are on a basis that does not reflect anticipated reinsurance recoveries or employer-paid deductibles. As a result, the amounts shown do not necessarily equate to specific estimates of the adequacy of insurers' reserves for unpaid losses.
- Projected ultimate losses are based on WCIRB aggregate financial data call data as of September 30, 2019.



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