

# WCIRB Quarterly Experience Report

As of June 30, 2020

[Enter Report](#)





# Table of Contents

- |   |  |
|---|--|
| 1. <a href="#"><u>Written Premium</u></a>   | 12. <a href="#"><u>Ultimate Medical Cost Containment (MCCP) Severities</u></a> |
| 2. <a href="#"><u>Industry Average Charged Rates</u></a>                          | 13. <a href="#"><u>Change in Medical Service Cost Levels</u></a>               |
| 3. <a href="#"><u>Quarterly Written Premium – Year-to-Year Percent Change</u></a> | 14. <a href="#"><u>Change in Pharmaceutical Cost Levels</u></a>                |
| 4. <a href="#"><u>Projected Accident Year Combined Ratios</u></a>                 | 15. <a href="#"><u>Number of Liens Filed</u></a>                               |
| 5. <a href="#"><u>Percent of Open Indemnity Claims Closed in Next Year</u></a>    | 16. <a href="#"><u>Ratios of Paid ALAE to Paid Losses</u></a>                  |
| 6. <a href="#"><u>Change in Incremental Claim Counts</u></a>                      | 17. <a href="#"><u>Projected Ultimate Losses Less Reported Losses</u></a>      |
| 7. <a href="#"><u>Cumulative Trauma Claims per 100 Indemnity Claims</u></a>       | <a href="#"><u>General Notes</u></a>   |
| 8. <a href="#"><u>Ultimate Total Loss &amp; ALAE Severities</u></a>               | <a href="#"><u>More Info</u></a>   |
| 9. <a href="#"><u>Ultimate Indemnity Severities</u></a>                           |  |
| 10. <a href="#"><u>Ultimate Medical Severities</u></a>                            |  |
| 11. <a href="#"><u>Ultimate ALAE (excl. MCCP) Severities</u></a>                  |  |



## Chart 1

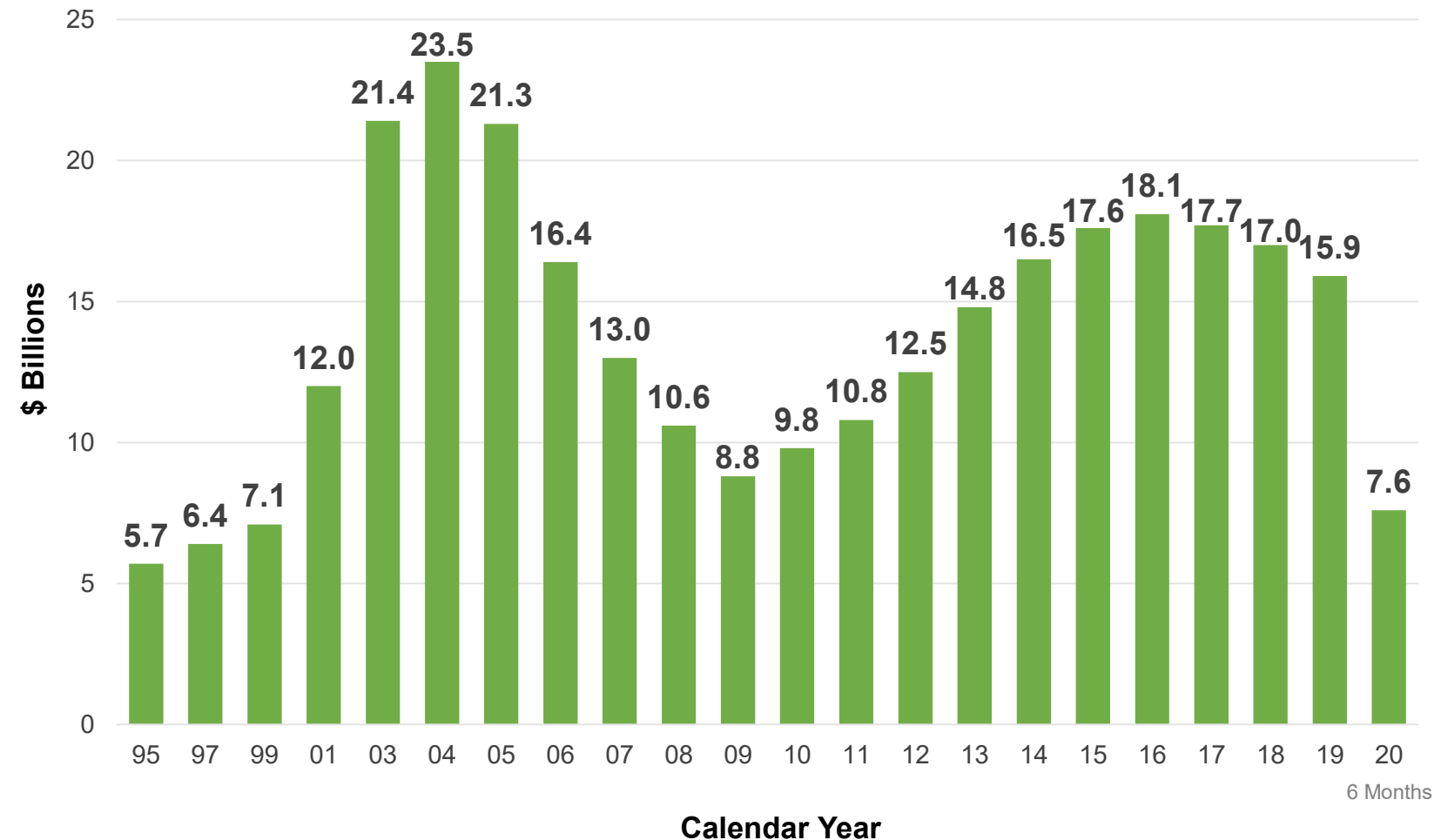
Written premium for 2019 is 7% below that for 2018 and 12% below the peak in 2016.

Written premium for the first two quarters of 2020 is 11% below that for the first two quarters of 2019.

The impact of the COVID-19 crisis on the California economy is expected to significantly reduce employer payroll and insurer premium for the remainder of 2020.

## Written Premium | Gross of Deductible Credits

As of June 30, 2020







## Chart 2

The average charged rate for the first two quarters of 2020 is 8% below that for 2019 and 40% below the peak in 2014.

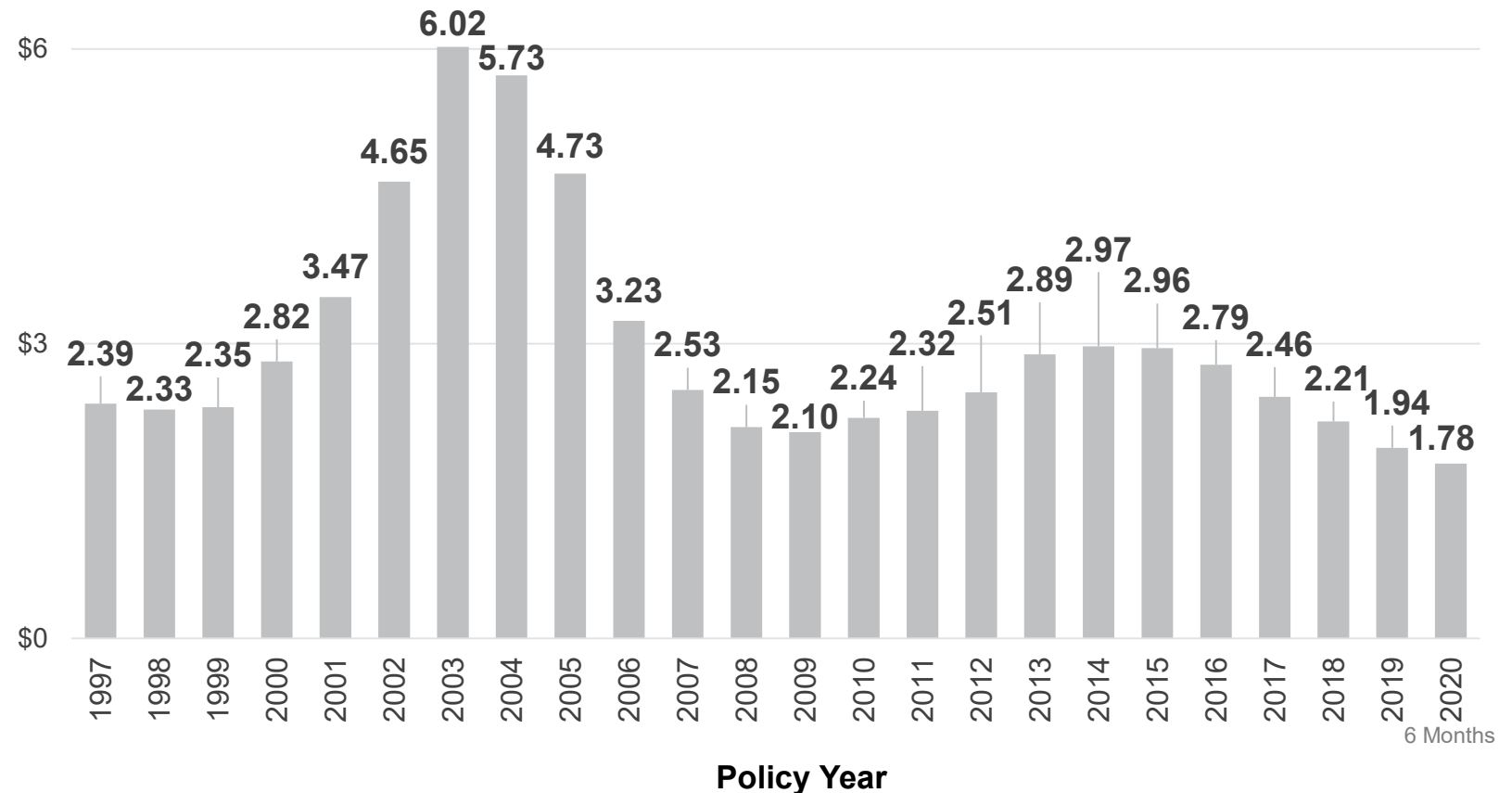
The January 1, 2020 approved advisory pure premium rates are on average 47% below those for January 1, 2015.

Absent COVID-19, the indicated average advisory pure premium rate for January 1, 2021 was slightly below the 2020 level. However, when including the COVID-19 claim impact, the WCIRB proposed a 2.6% increase in average advisory pure premium rates.

## Industry Average Charged Rates

As of June 30, 2020

Rate per \$100 Payroll



6 Months



## Chart 3

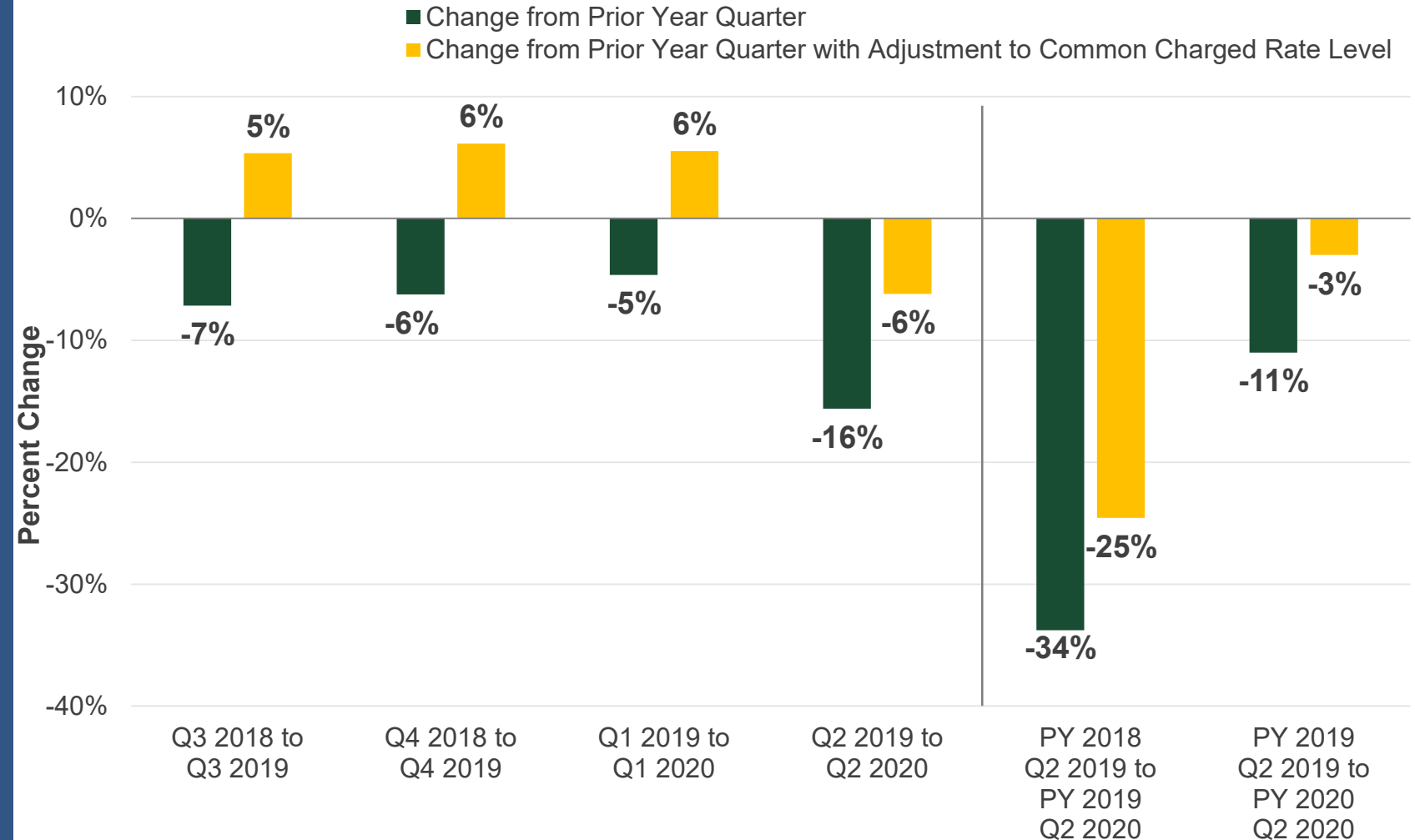
Premium decreases through the first quarter of 2020 had been driven by decreases in insurer charged rates. After adjusting to a common charged rate level, premiums grew consistent with economic growth.

The large decrease in premium for the second quarter of 2020 is driven by the sudden and sharp slowdown in the economy.

The decrease in the second quarter of 2020 premiums compared to second quarter of 2019 premiums is largest on 2019 policies.

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

As of June 30, 2020





## Chart 4

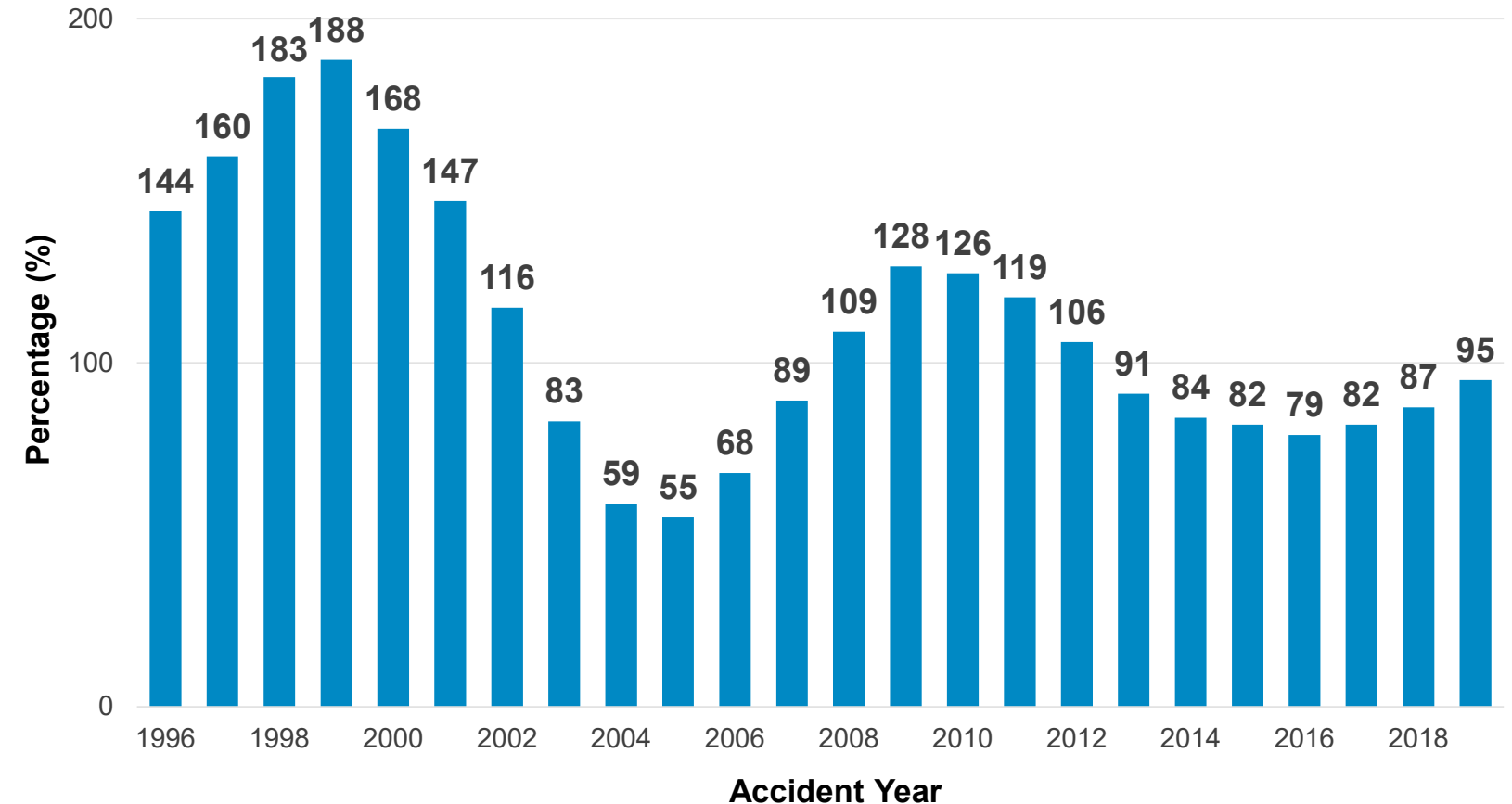
The projected combined ratio for 2019 is 8 points higher than 2018 and 16 points higher than the low point in 2016 as premium levels have lowered while claim costs increased moderately.

Despite the recent increase, combined ratios for 2013 through 2019 are below 100% and are the lowest since the 2003 through 2007 period.

Claim activity in the second quarter of 2020 was significantly slower due to the pandemic and shelter-in-place period and may not be indicative of future claim activity.

# Projected Accident Year Combined Ratios

As of March 31, 2020





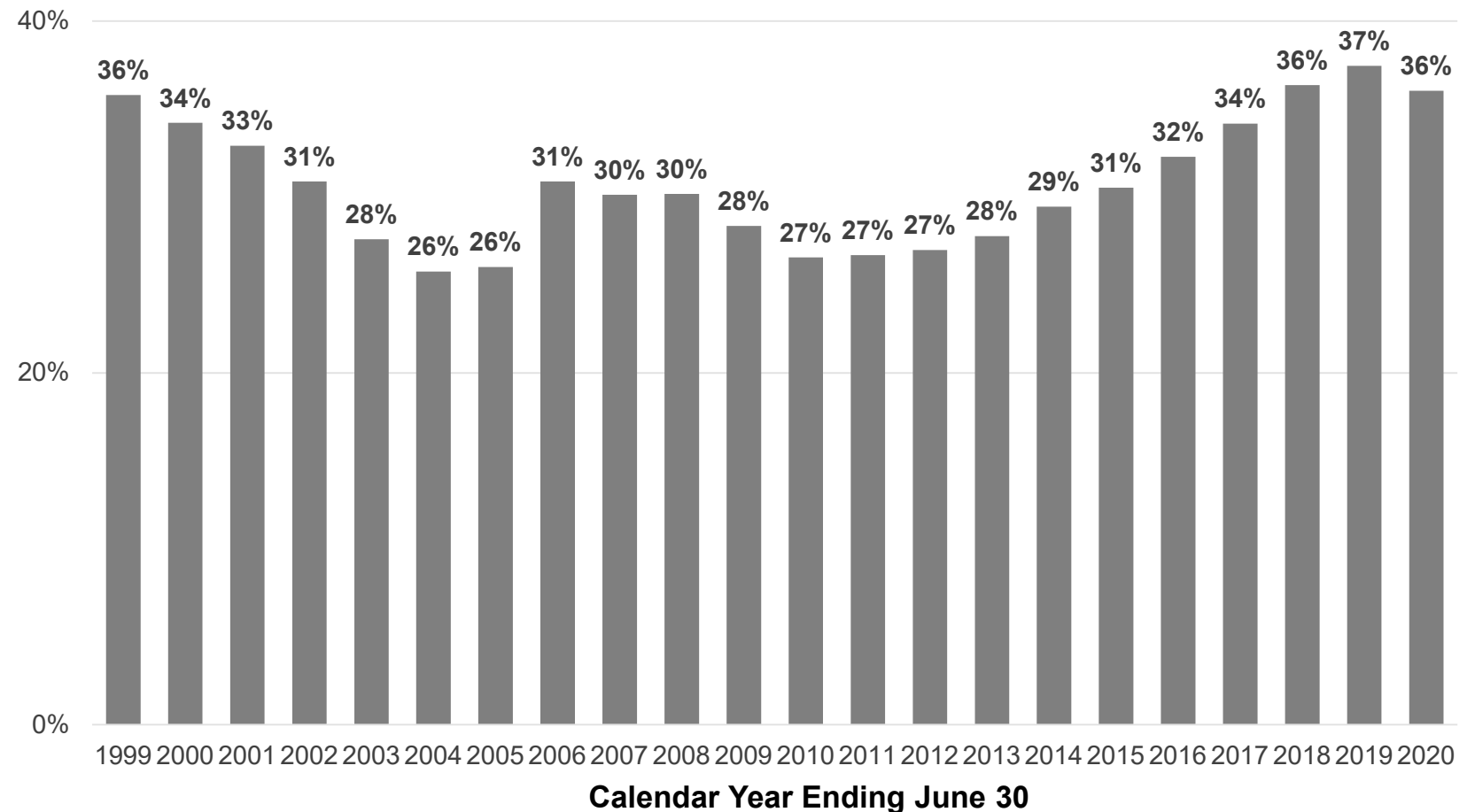
## Chart 5

Indemnity claims have settled quicker over the last several years, largely driven by SB 863 and SB 1160 reforms.

Average claim closing rates declined sharply in the second quarter of 2020 as a result of the pandemic and shelter-in-place period.

## Percent of Open Indemnity Claims Closed in Next Year

As of June 30, 2020





## Chart 6

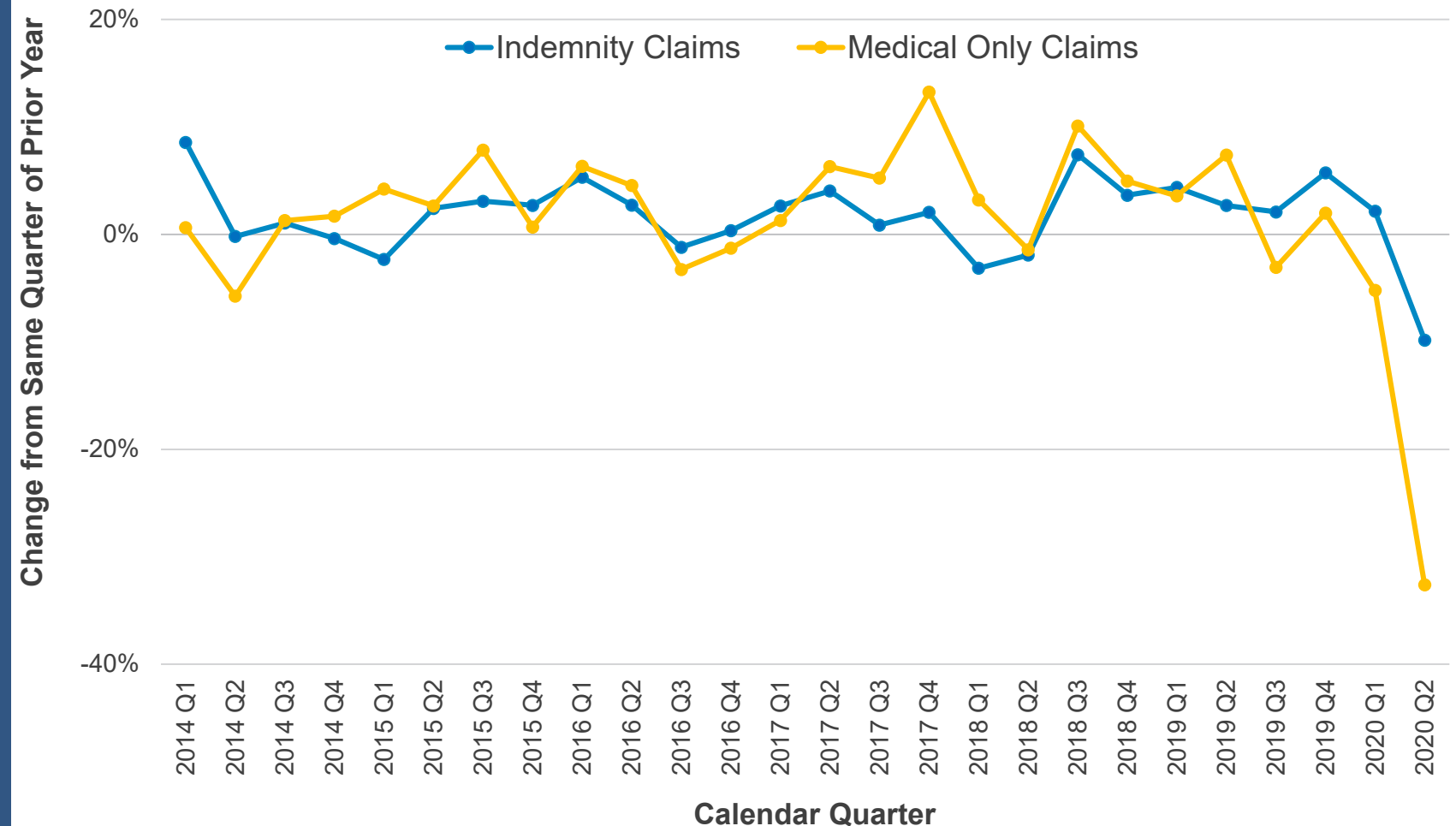
Incremental reported claims have generally increased through 2019.

Reported indemnity claims in the second quarter of 2020 were 10% lower than the second quarter of 2019, while medical-only claims were one-third lower.

The recent lower claim counts are likely due to the slowdown of economic activity, less work being done outside the home, and delays in reporting of claims during the shelter-in-place period.

## Change in Incremental Claim Counts

As of June 30, 2020







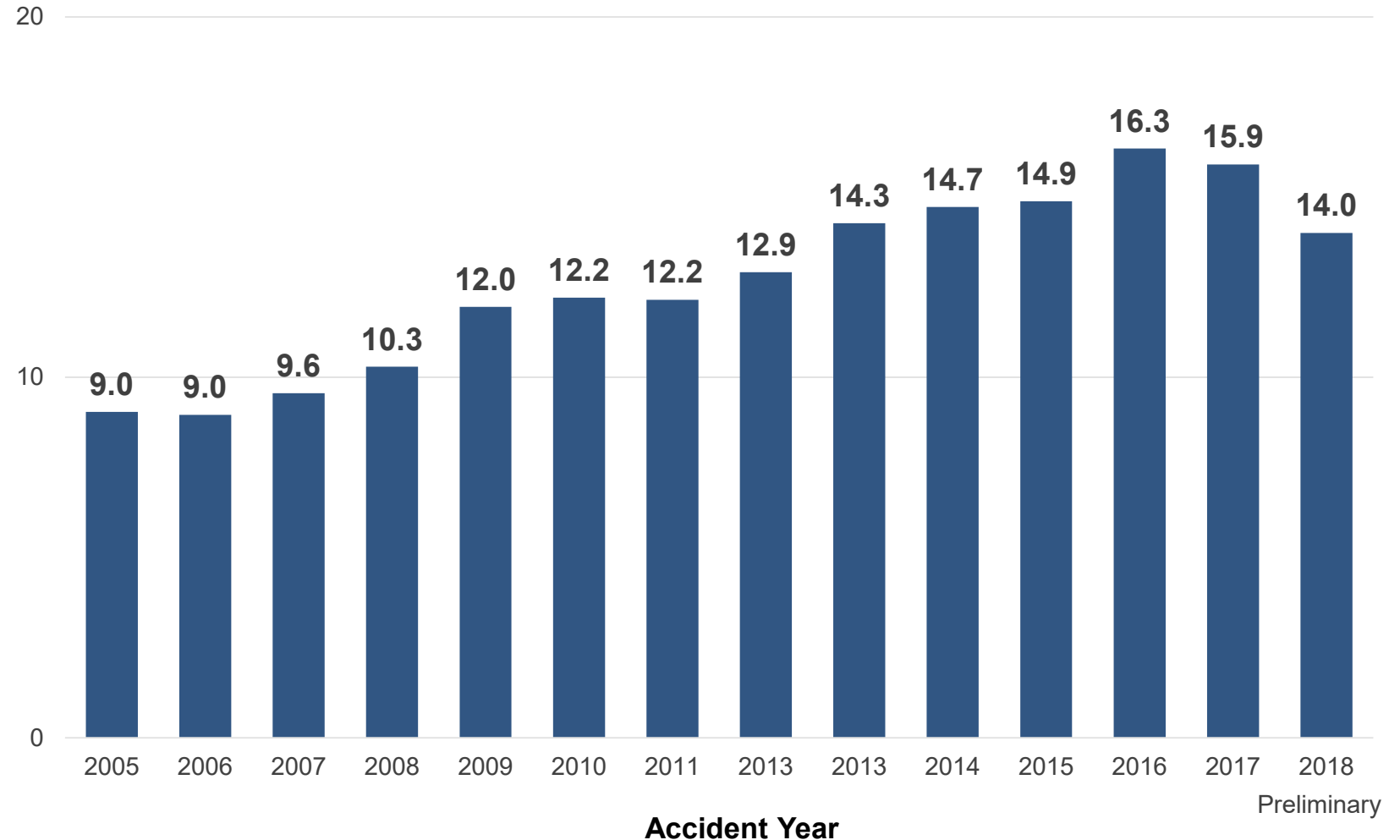
## Chart 7

Cumulative trauma (CT) claim rates increased through 2016 to be more than 80% above the 2005 level.

CT claim rates since 2016 have begun to decline but are still well above the pre-Great Recession levels.

CT claim rates may increase again in 2020 as WCIRB research has shown that increases in CT claims have been correlated with economic downturns.

## Cumulative Trauma Claims per 100 Indemnity Claims





## Chart 8

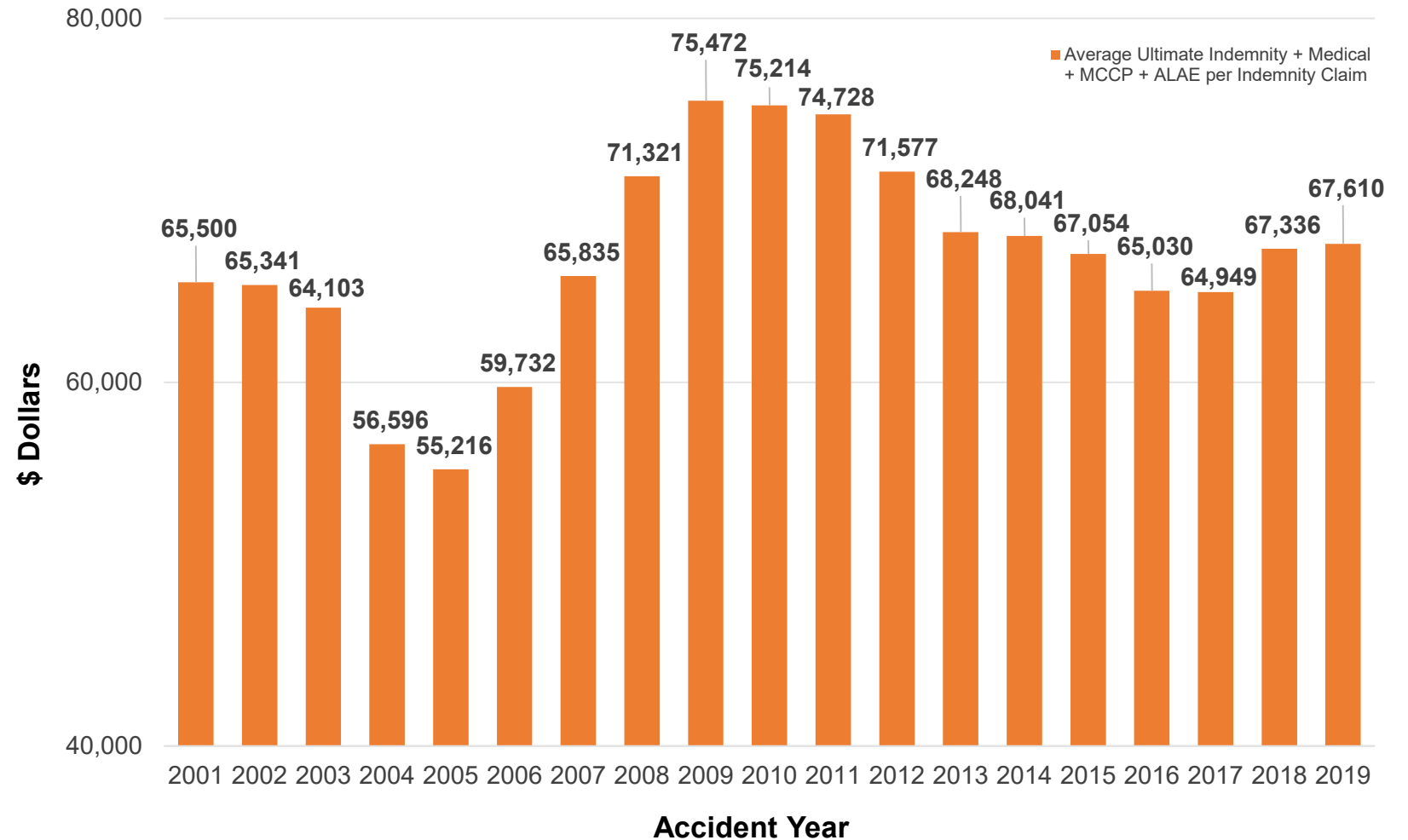
Projected total claim severity for 2019 is generally consistent with that for 2018.

Since 2013, the change in total claim severity has been relatively modest.

Average claim severities for accident year 2020 will be heavily impacted by COVID-19 claims and other issues arising from the pandemic that impact claim activity.

# Ultimate Total Loss and ALAE Severities

As of March 31, 2020



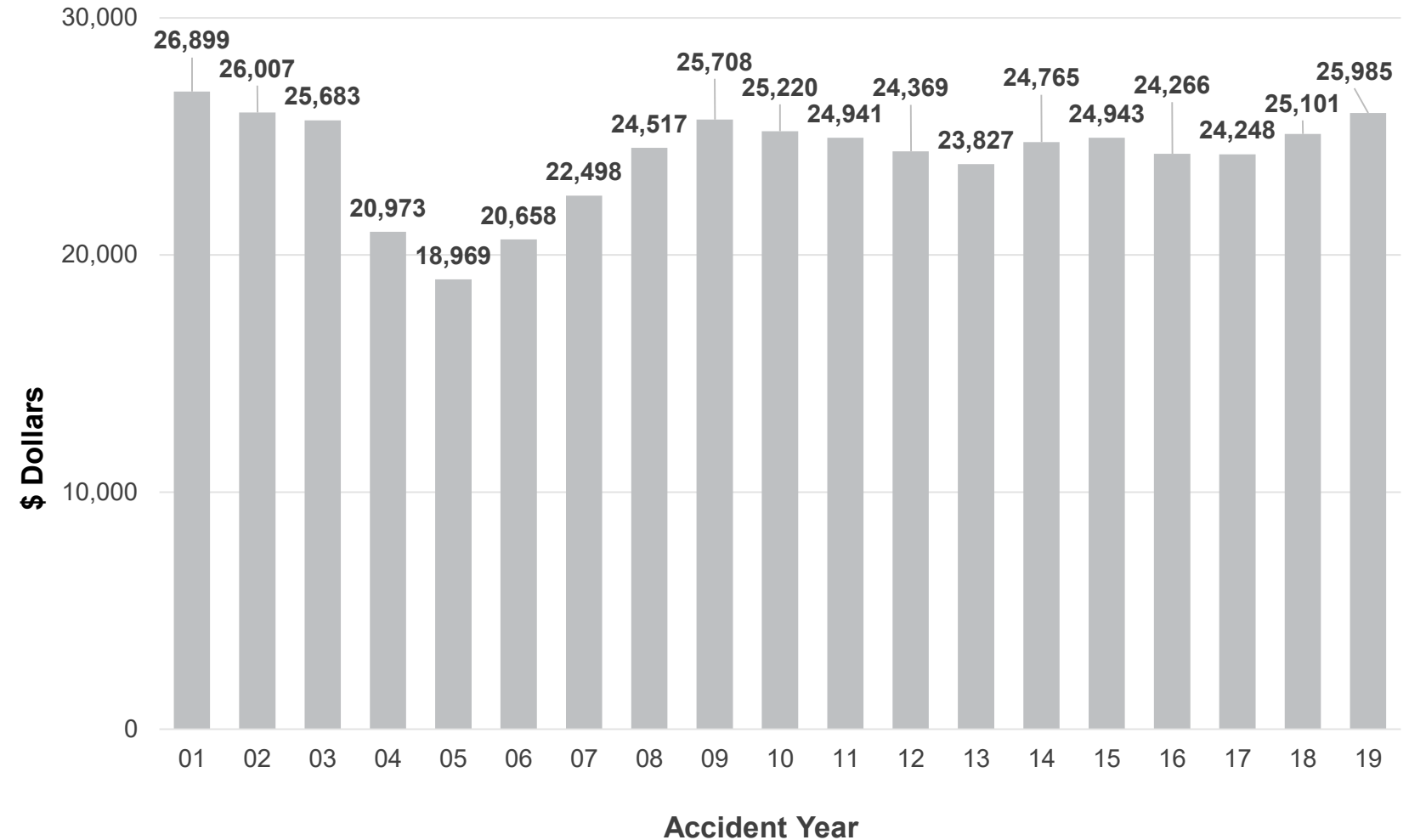


## Chart 9

Following several years of flat indemnity severities, the projected indemnity severity for 2019 is 4% higher than 2018 and 7% higher than 2017.

# Ultimate Indemnity Severities

As of March 31, 2020





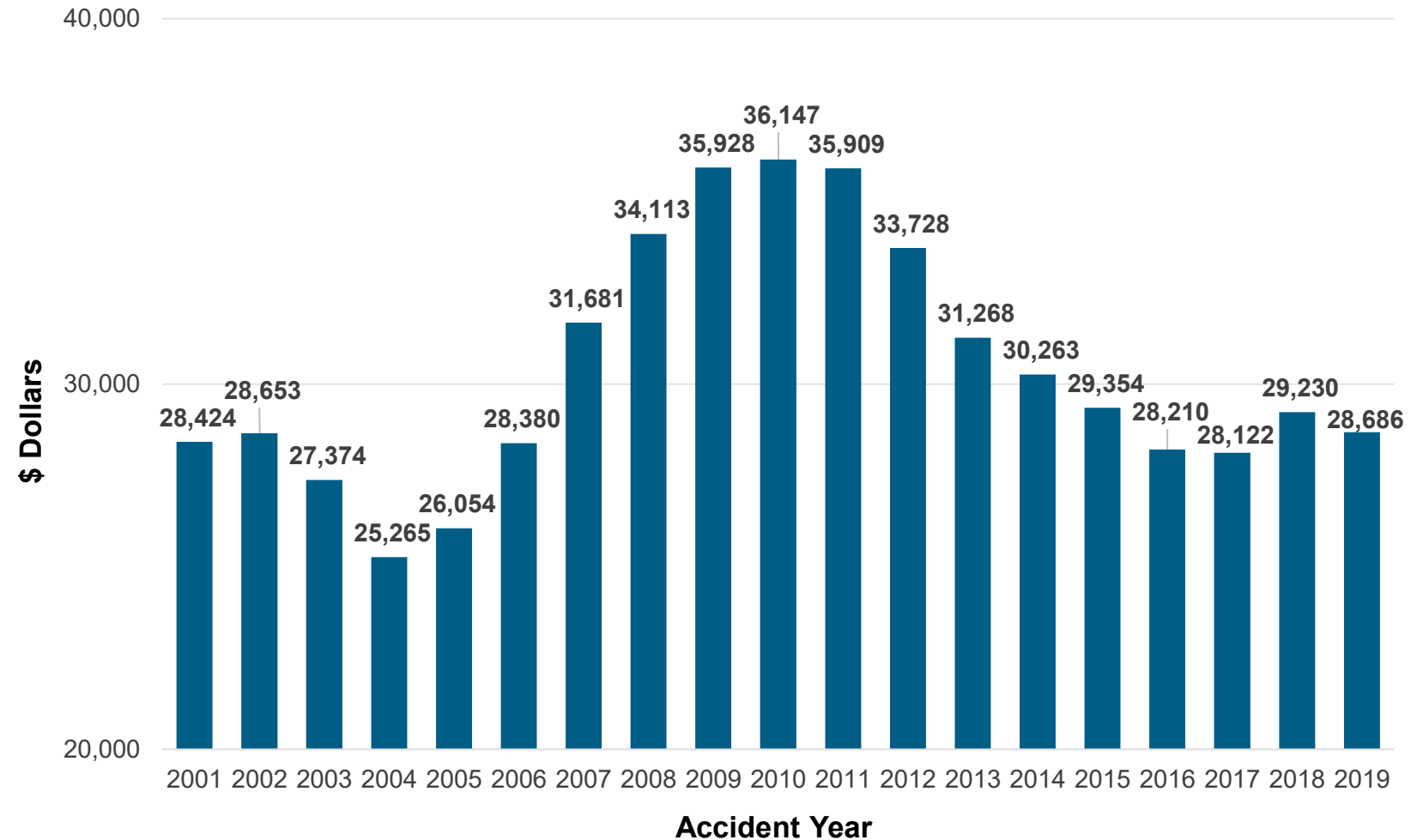
## Chart 10

The projected medical severity increased by 4% in 2018, in part driven by a relatively higher volume of large claims and annual inflation adjustments to medical fee schedules.

The projected medical severity decreased by 2% in 2019. An initial review of 2019 suggests decreases in the utilization of medical services and flattening claim settlement rates (prior to the pandemic) impacting average medical costs.

## Ultimate Medical Severities

As of March 31, 2020



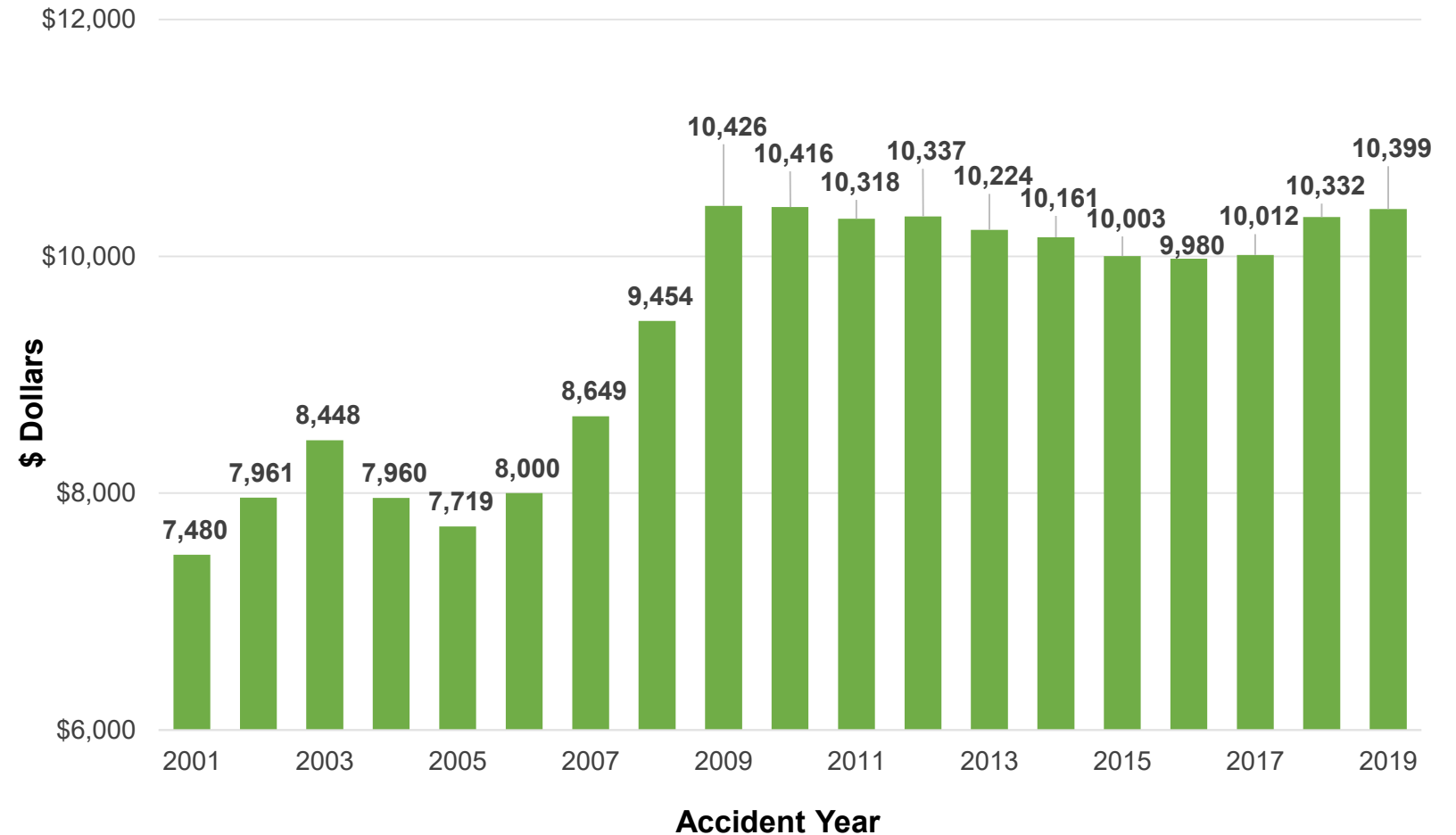
## Chart 11

ALAE severities have been flat from 2009 through 2019.

Projections of ultimate accident year ALAE costs have declined compared to recent prior quarters, in part driven by the quicker settling of indemnity claims.

# Ultimate ALAE (excl. MCCP) Severities

As of March 31, 2020







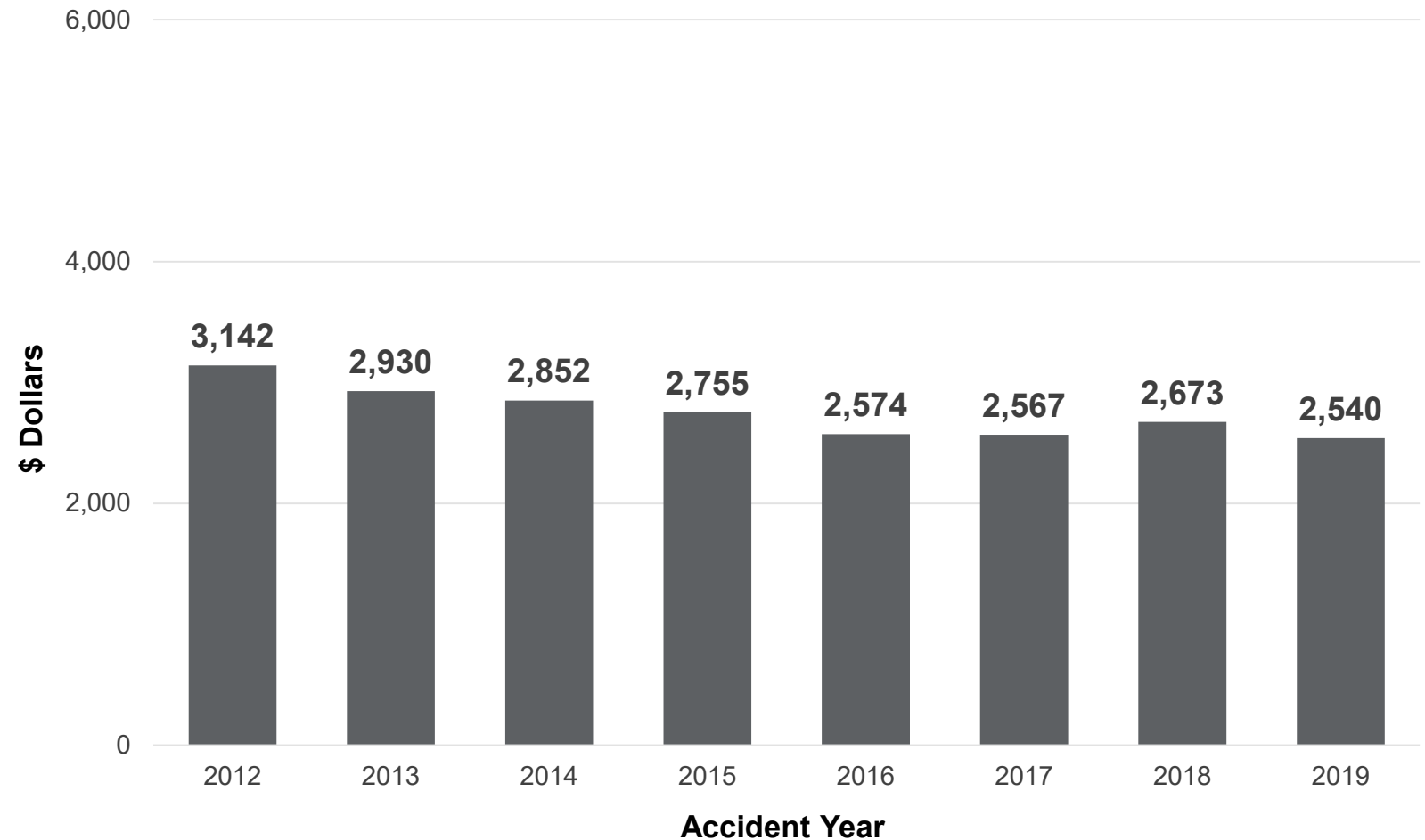
## Chart 12

Projected MCCP cost severity for 2019 is 5% lower than that for 2018.

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, 2020





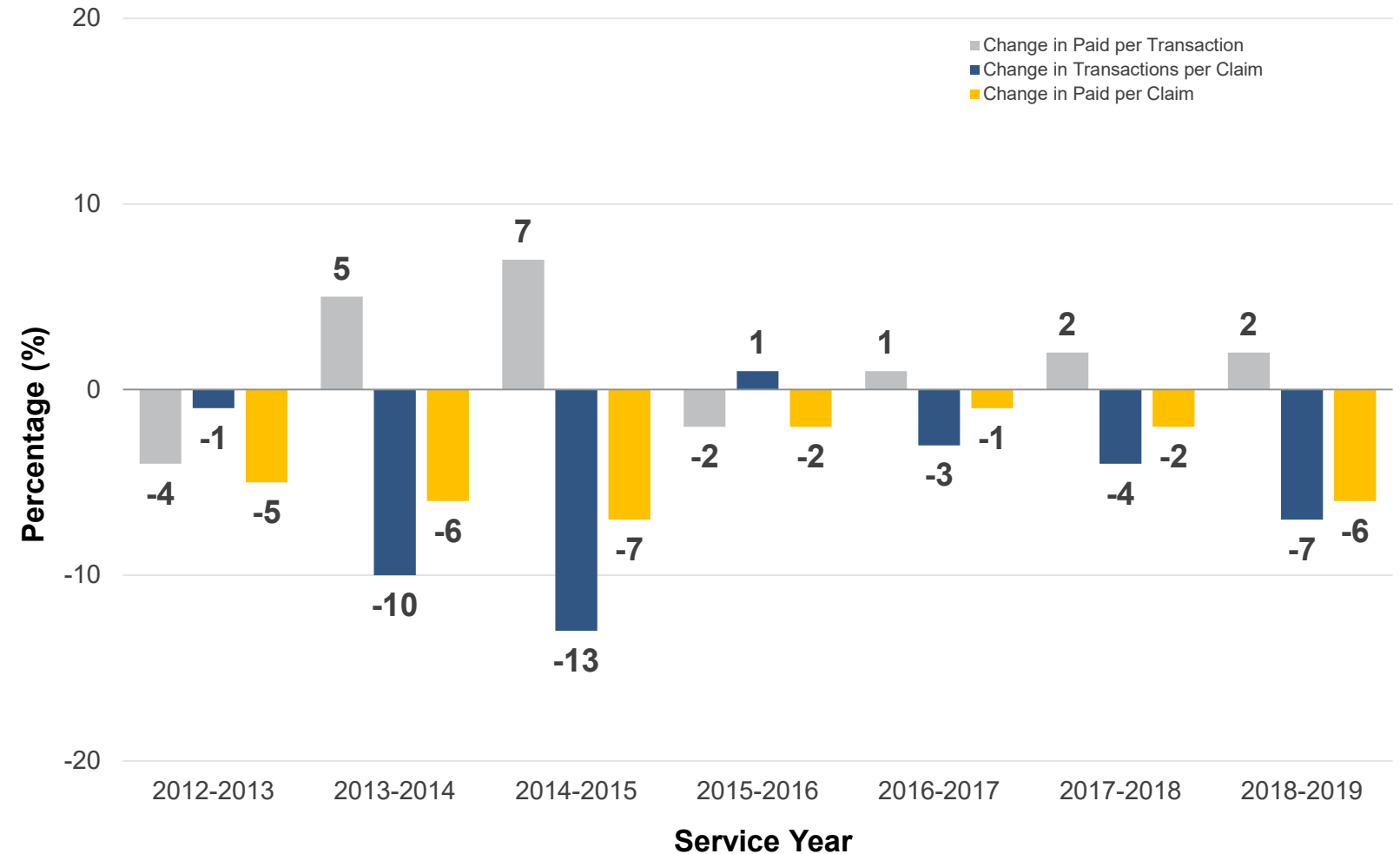
## Chart 13

Medical service costs per claim decreased by 26% from 2012 through 2019, driven by decreases in the number of transactions per claim.

A WCIRB review of preliminary information from the second quarter of 2020 suggests reductions in activity for most medical service categories during this period.

## Change in Medical Service Cost Levels

As of April 7, 2020



## Chart 14

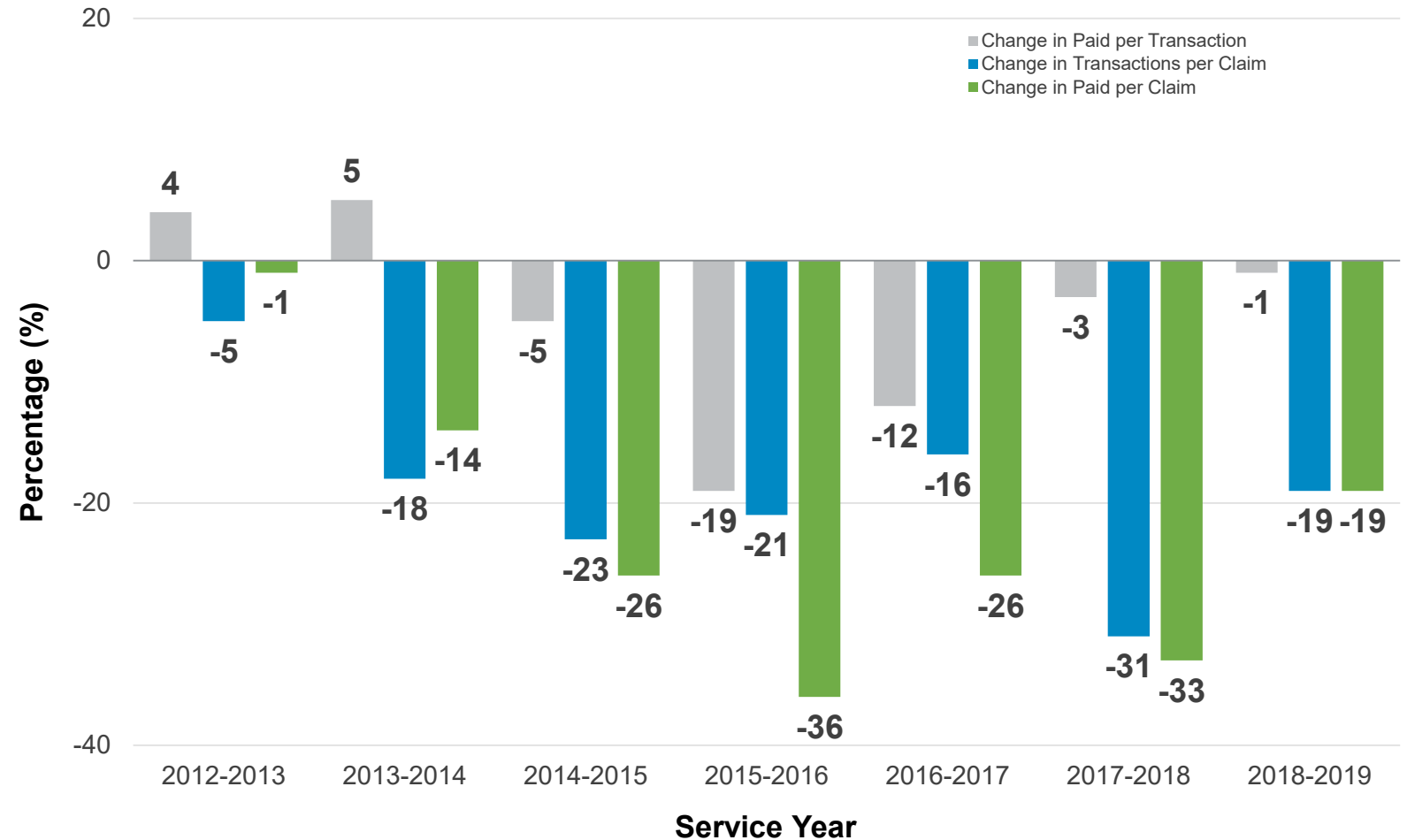
Pharmaceutical costs per claim decreased by 84% from 2012 through 2019.

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 2018 drug formulary.

A WCIRB review of preliminary information from the second quarter of 2020 suggests pharmaceutical costs beginning to increase.

## Change in Pharmaceutical Cost Levels

As of April 7, 2020





## Chart 15

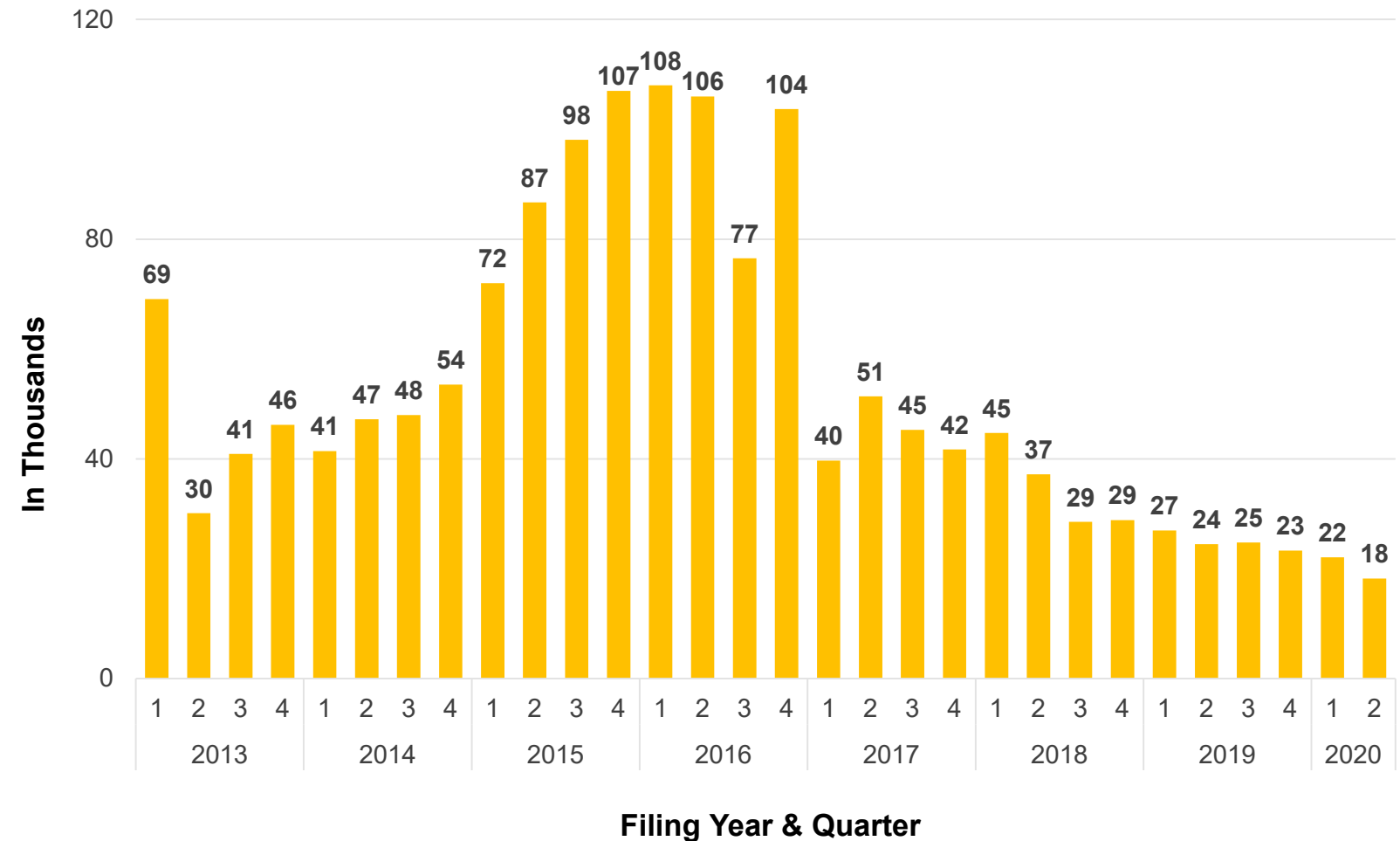
SB 1160 and AB 1244 made changes to the lien filing process effective in 2017.

The number of liens filed in 2019 and 2020 are more than 60% below pre-SB 1160 and AB 1244 levels.

Lien filings decreased in the first two quarters of 2020, though some of the decrease is likely due to the pandemic.

## Number of Liens Filed

As of June 30, 2020





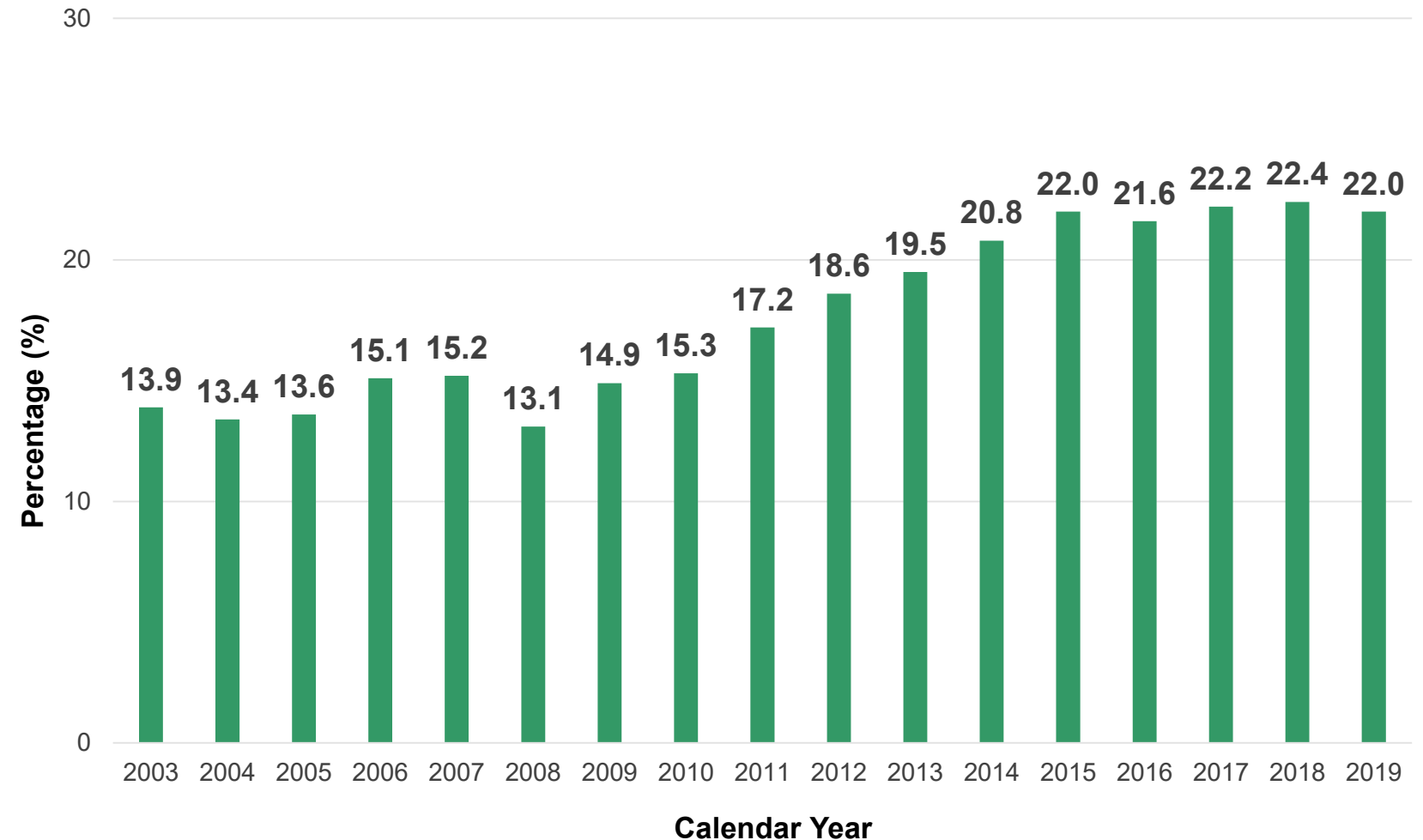
## Chart 16

Ratios of ALAE to loss increased significantly from 2011 to 2015 in part due to increased cumulative trauma claim filings and the transition to SB 863.

From 2015 to 2019, these ratios have been generally consistent as savings from recent reforms have not materialized in lower ALAE costs.

## Ratios of Paid ALAE to Paid Losses

As of March 31, 2020





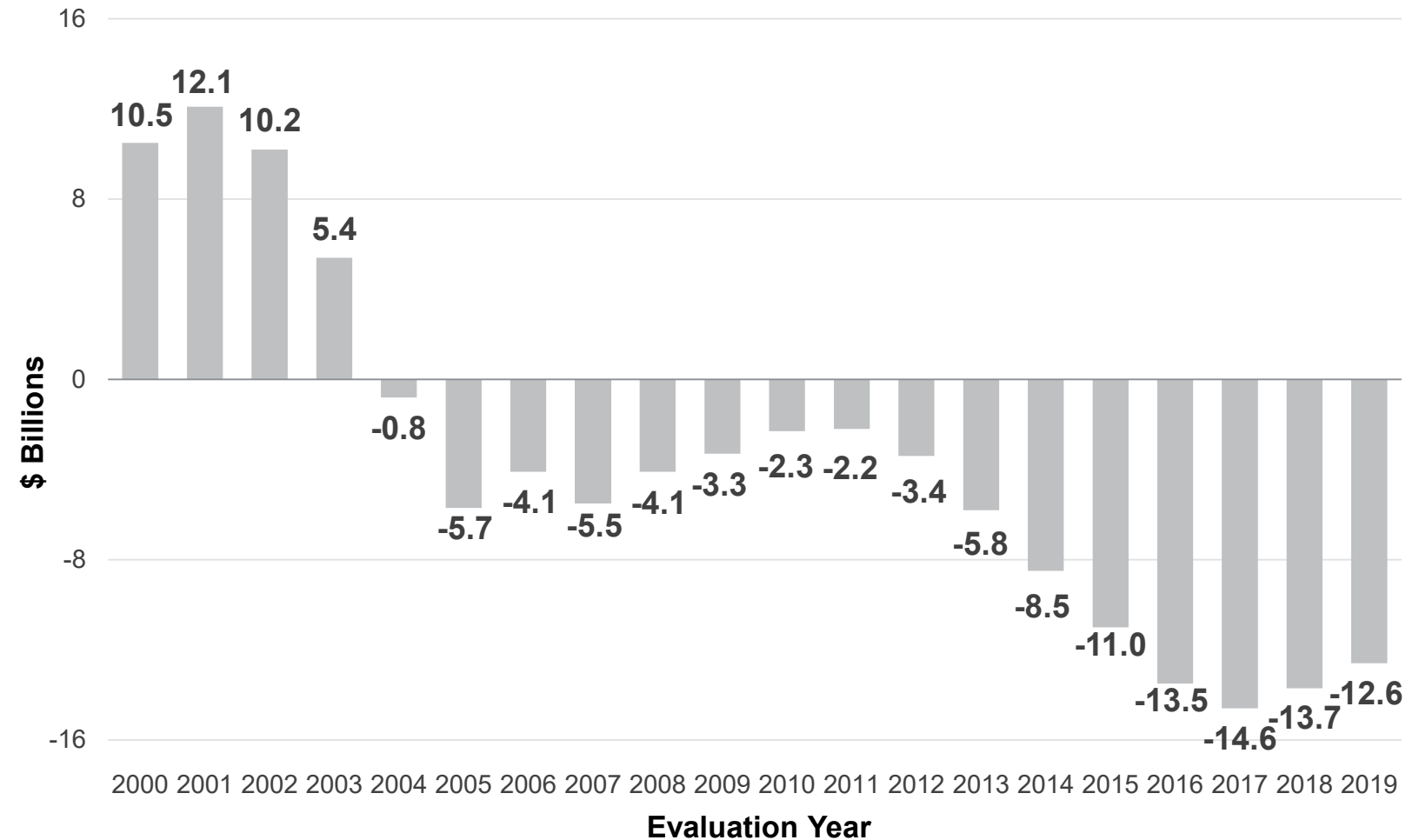


## Chart 17

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

### Projected Ultimate Losses Less Reported Losses

As of March 31, 2020





## General Notes

- This report reflects a compilation of individual insurer submissions of accident year and calendar year premium and loss data to the WCIRB. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with data submitted by other insurers, the source information underlying each insurer's data submission is not verified by the WCIRB.
- Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments using information reported by insurers through March 31, 2020 or June 30, 2020. Although the actuarial methodologies and assumptions upon which these projections are predicated are periodically reviewed by the WCIRB's Actuarial Committee, the actual costs that will ultimately emerge could differ from the amounts projected. Many of these projections will be updated regularly by the WCIRB as more mature information on these claims is reported in subsequent quarters.
- The amounts and ratios shown represent statewide totals based on the amounts reported by insurers writing workers' compensation insurance in California. The results for any individual insurer can differ significantly from the statewide average. An individual insurer's results are related to its underwriting book of business, claims and reserving practices, as well as the nature of its reinsurance arrangements.
- Beginning with claims incurred on policies incepting on or after July 1, 2010, the cost of medical cost containment programs (MCCP) is reported to the WCIRB as allocated loss adjustment expense (ALAE) rather than as medical loss. As a result, some portions of MCCP costs for accident years 2010 and 2011 have been reported as medical loss and some portions have been reported as ALAE. For consistency, the amounts and ratios shown in these exhibits are adjusted to either include or exclude MCCP costs for all years shown to the extent possible.



# More Info

## **Chart 1: Written Premium**

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

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

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

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

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

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

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

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

- Source: WCIRB aggregate financial data call data as of June 30, 2020.
- Figures represent the number of indemnity claims aged between 18 to 102 months closed during the year as a ratio of the number of estimated ultimate claims open or not yet reported as of June 30 of the prior year.

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

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

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

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

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

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



## More Info (...continued)

### [Chart 9: Ultimate Indemnity Severities](#)

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

### [Chart 10: Ultimate Medical Severities](#)

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

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

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

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

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

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

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

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

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

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

- Source: The Division of Workers' Compensation.

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

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

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

- Insurer-reported losses include insurers' estimates of incurred but not reported (IBNR) losses that may, in part, reflect allocations of IBNR losses to line of business, state, and accident year, and are on a basis that does not reflect anticipated reinsurance recoveries or employer-paid deductibles. As a result, the amounts shown do not necessarily equate to specific estimates of the adequacy of insurers' reserves for unpaid losses.
- Projected ultimate losses are based on WCIRB aggregate financial data call data as of March 31, 2020.



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1221 Broadway, Suite 900  
Oakland, CA 94612  
888.CA.WCIRB (888.229.2472)

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