

# WCIRB Quarterly Experience Report

As of December 31, 2020

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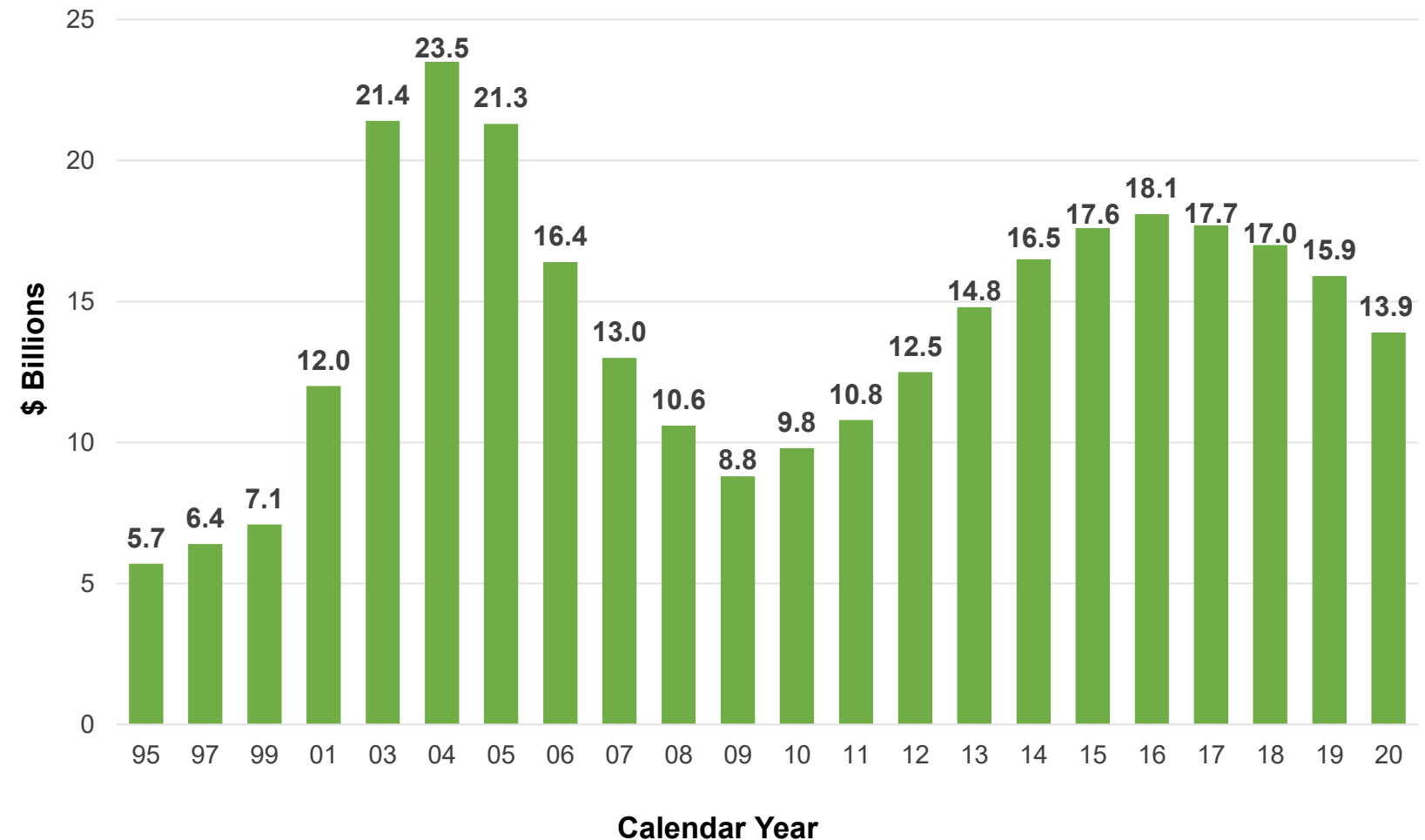


## Chart 1

- Written premium for 2020 is \$2 billion or 13% below that for 2019 and is the lowest since 2012.
- Continued decreases in average insurer charged rates are driving the 2020 premium decrease as 2020 payroll levels were relatively consistent with 2019.

## Written Premium | Gross of Deductible Credits

As of December 31, 2020







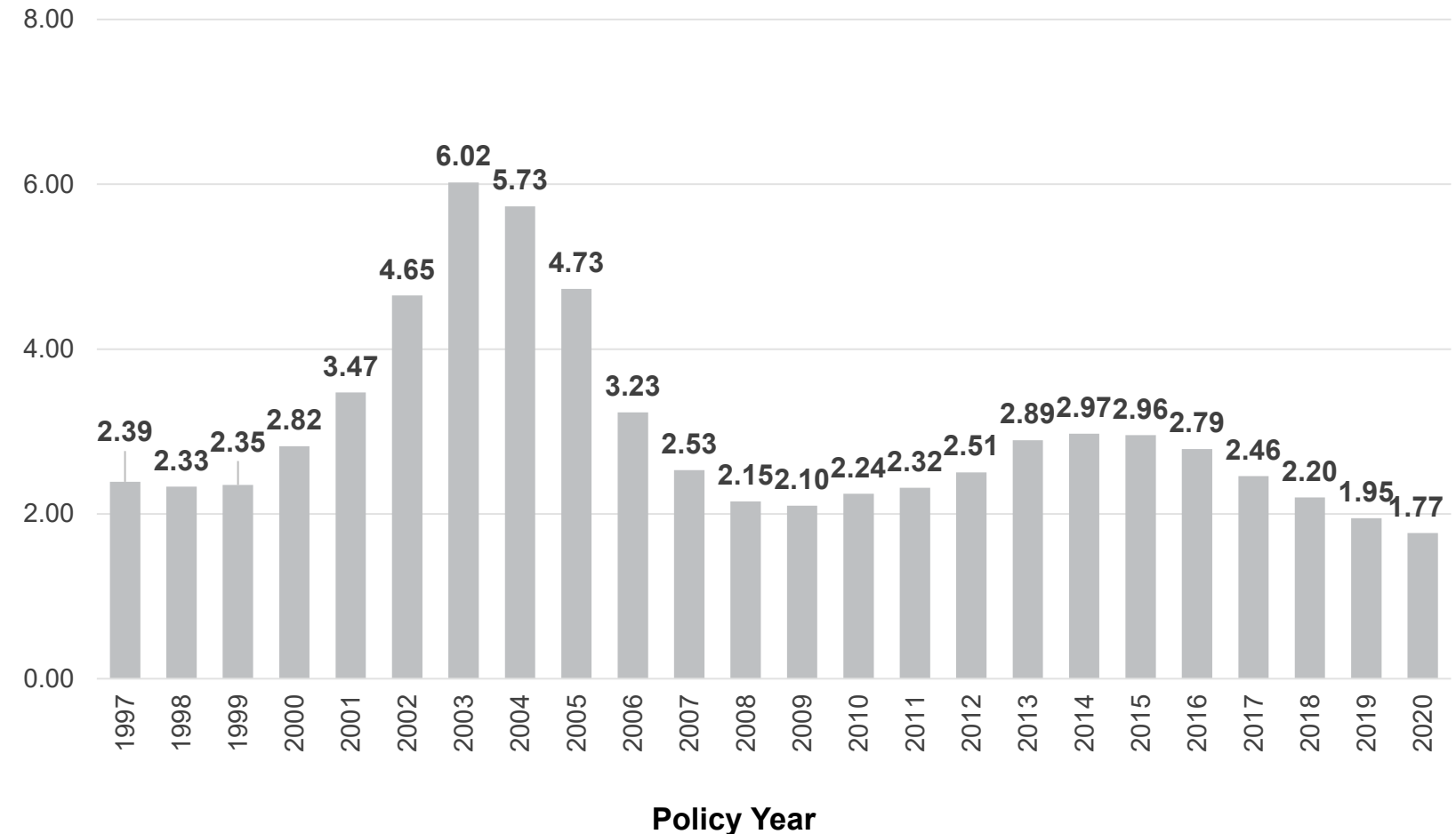
## Chart 2

- The average charged rate for 2020 is 9% below that of 2019 and 40% below the peak in 2014.
- Since 2015, there have been 10 consecutive pure premium rate decreases totaling approximately 50%.
- The WCIRB's proposed September 1, 2021 advisory pure premium rates are on average 2.7% above the approved January 1, 2021 rates, which exclude the cost of COVID-19 claims, and 2.0% below the approved January 1, 2020 rates.

## Industry Average Charged Rates

As of December 31, 2020

**Rate Per \$100 Payroll**



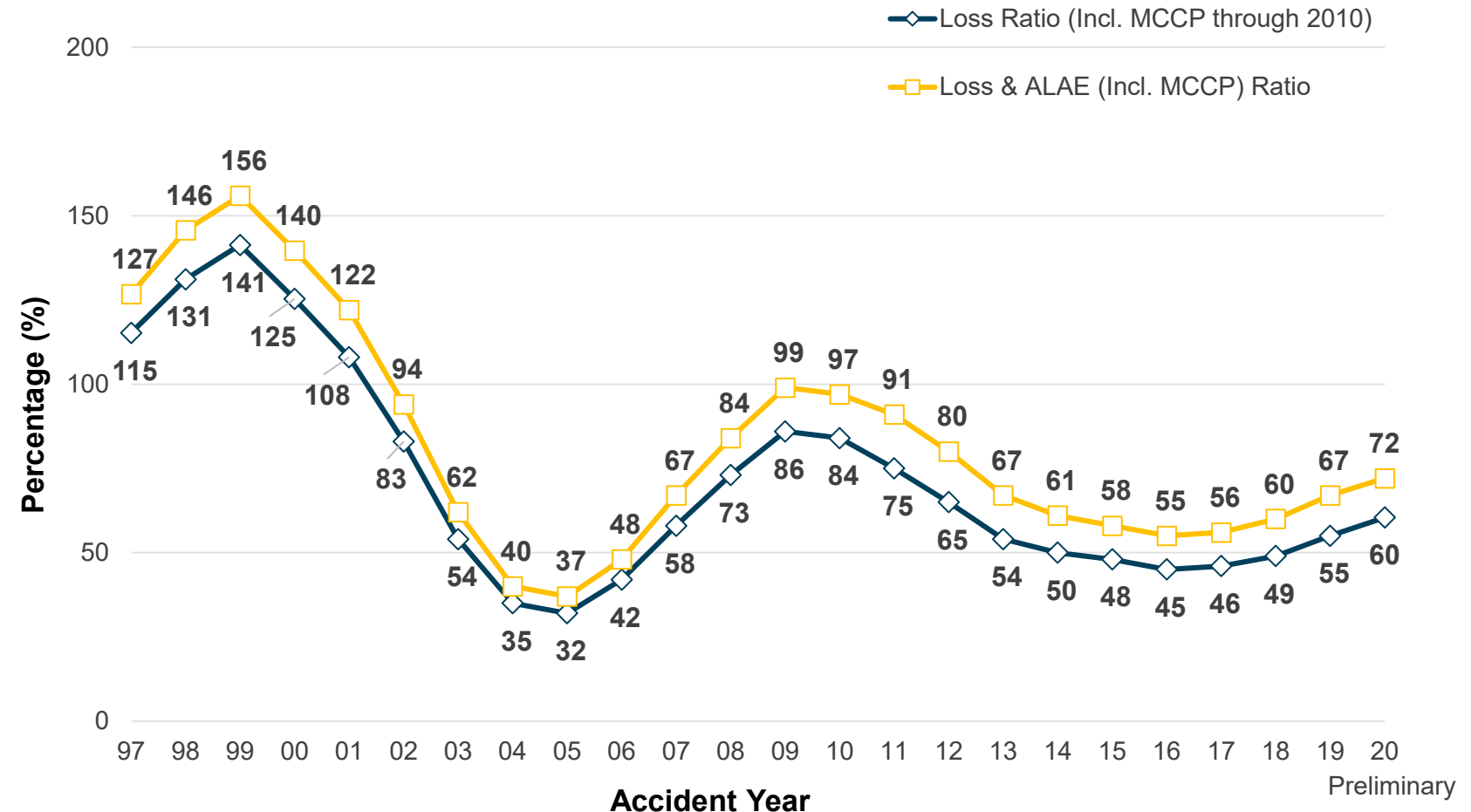


## Chart 3

- The preliminary projected loss ratio for 2020, including COVID-19 claims, is 5 points above that for 2019.
- Excluding COVID-19 claims reduces the projected loss ratio for 2020 by approximately 4 points.
- Projected loss development for accident year 2020 is preliminary in that the projected development for COVID-19 claims and non-COVID-19 claims in 2020 may differ from a more typical accident year.

# Ultimate Accident Year Loss Ratios

As of December 31, 2020



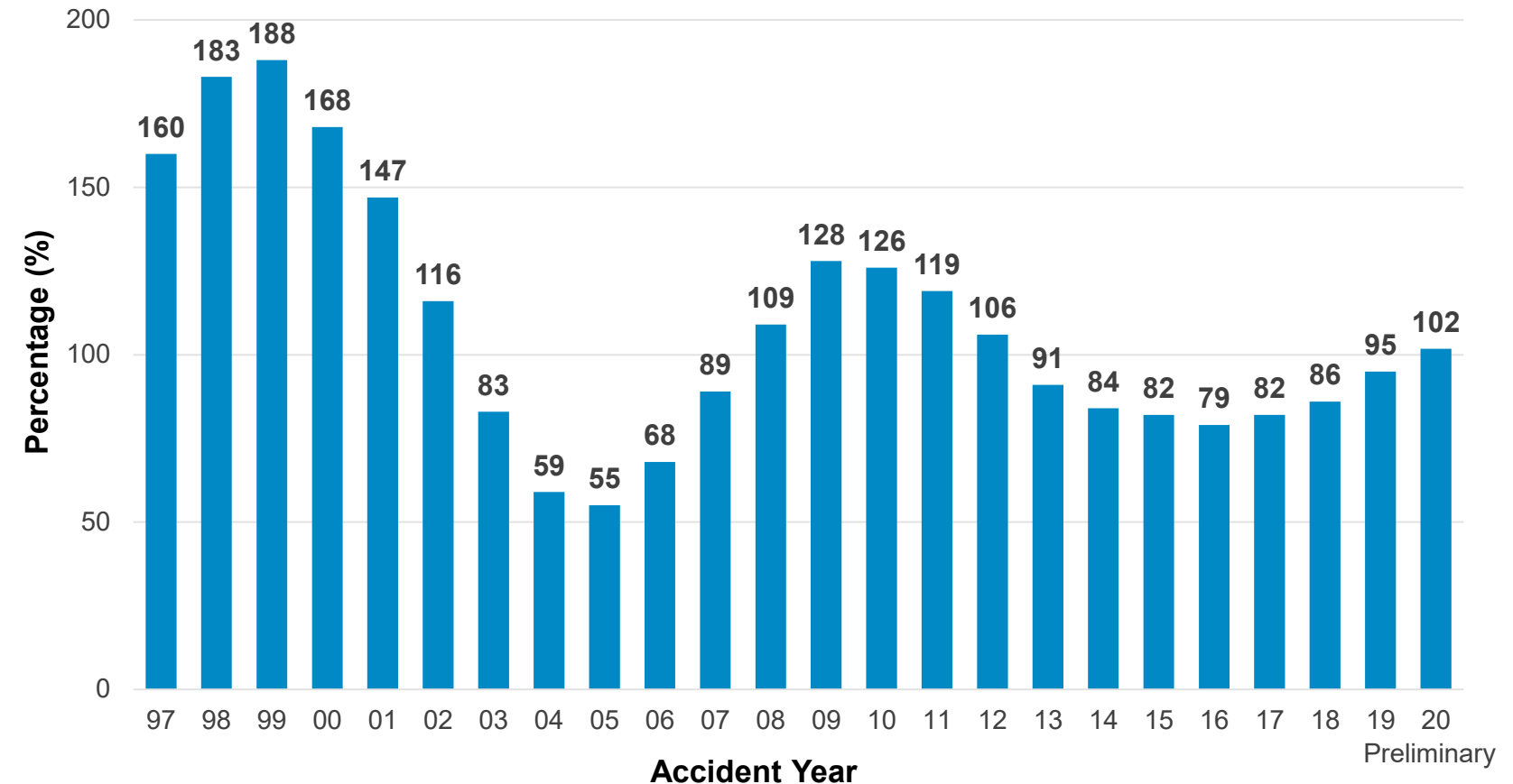


## Chart 4

- The preliminary projected combined ratio for 2020, including COVID-19 claims, is 7 points higher than 2019 and 23 points higher than the low point in 2016.
- Excluding COVID-19 claims, the projected combined ratio for 2020 is 96% which is more comparable to the 2019 ratio.

# Projected Accident Year Combined Ratios

As of December 31, 2020



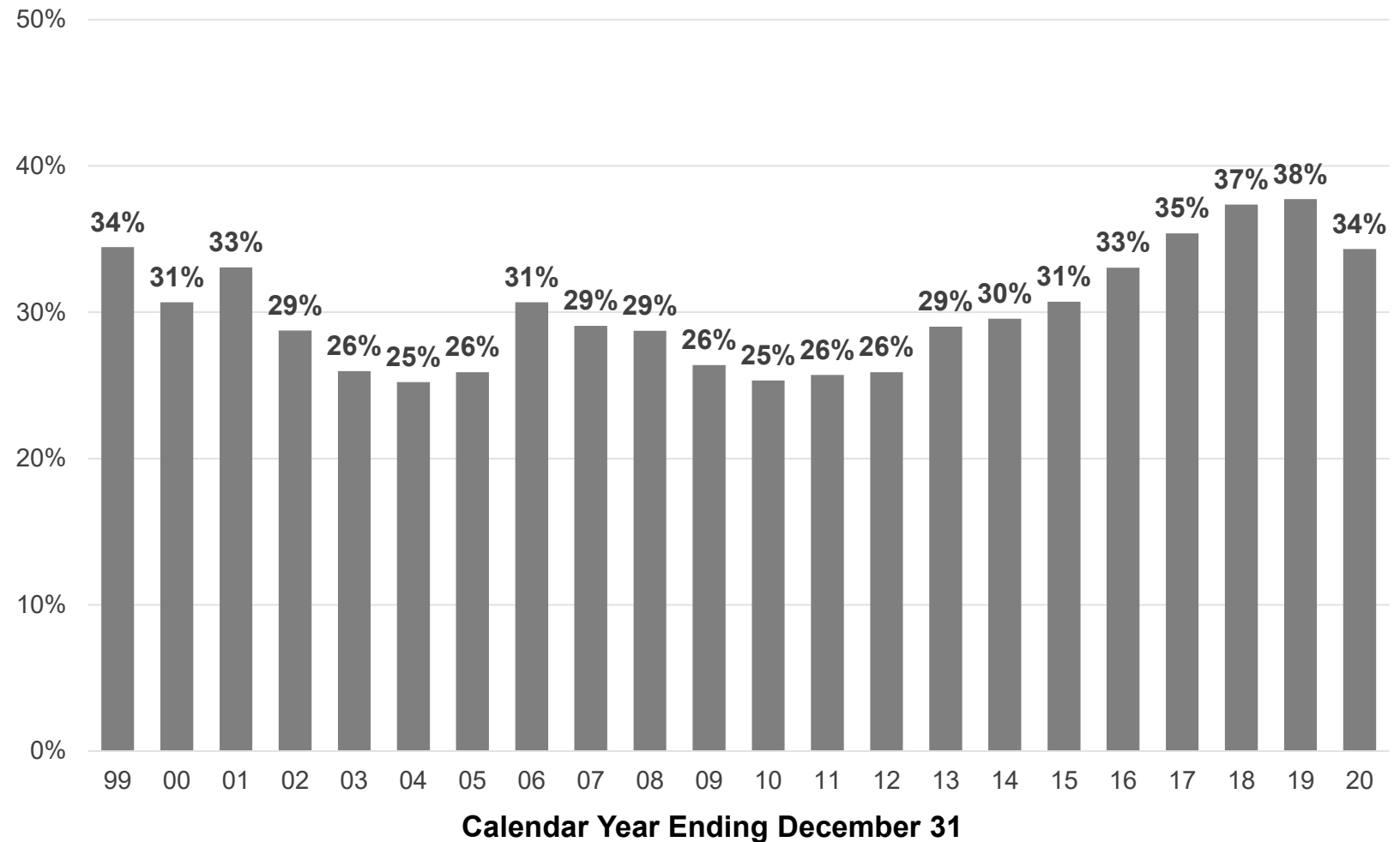


## Chart 5

- Indemnity claims had been settling quicker through 2019, largely driven by the reforms of SB 863 and SB 1160.
- Average claim closing rates declined sharply beginning in the second quarter of 2020 as a result of the pandemic and have continued to decline for the remainder of the year.

## Percent of Open Indemnity Claims Closed in Next Year

As of December 31, 2020



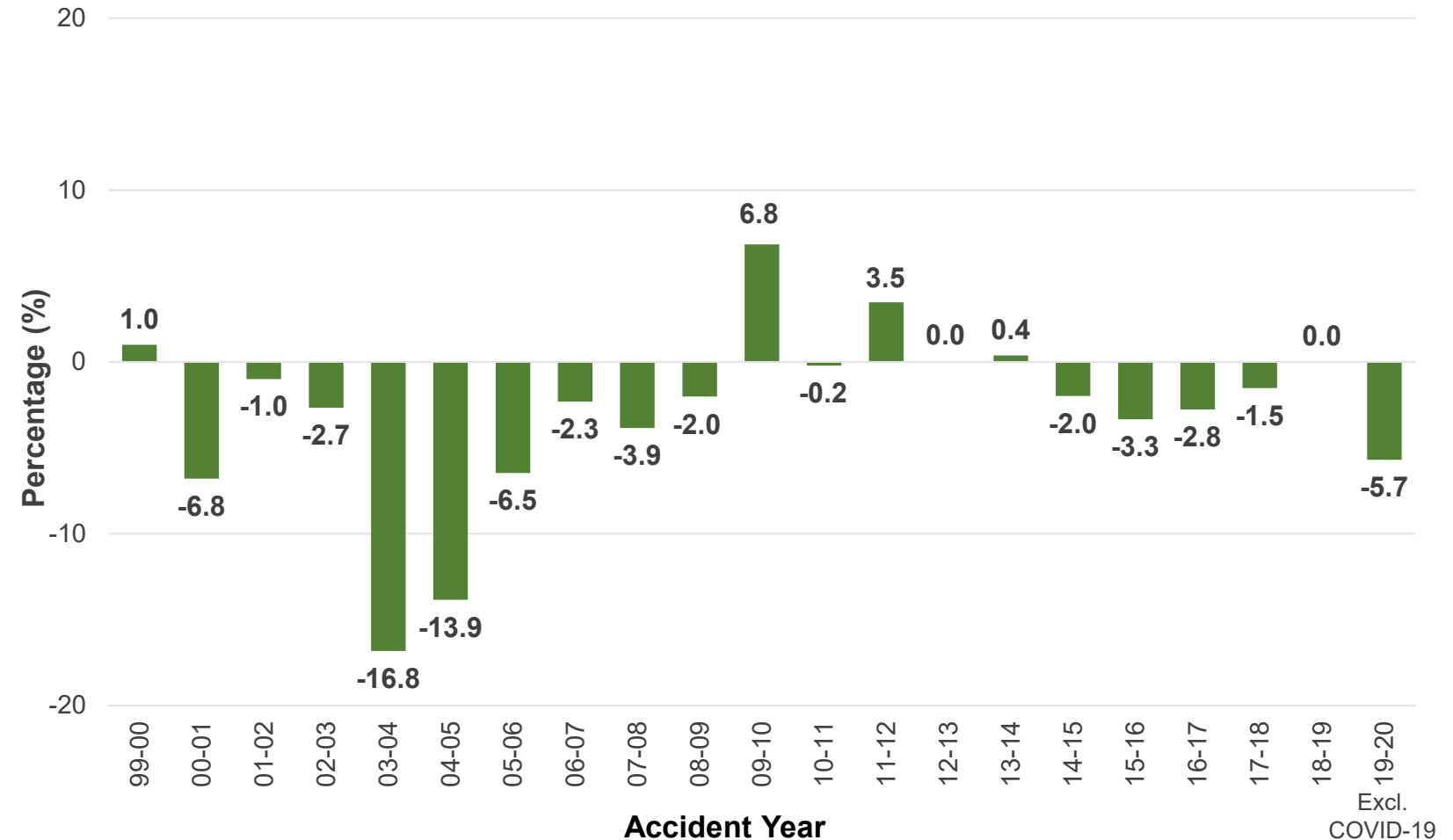


## Chart 6

- During the recovery from the Great Recession, indemnity claim frequency increased by 10% from 2009 through 2012.
- From 2012 through 2019, indemnity claim frequency decreased modestly at a rate of approximately -1% per year.
- The sharp decrease in 2020 claim frequency, excluding COVID-19 claims, is likely driven by the sharp downturn in the economy caused by the pandemic and stay-at-home orders.

## Change in Indemnity Claim Frequency

As of December 31, 2020





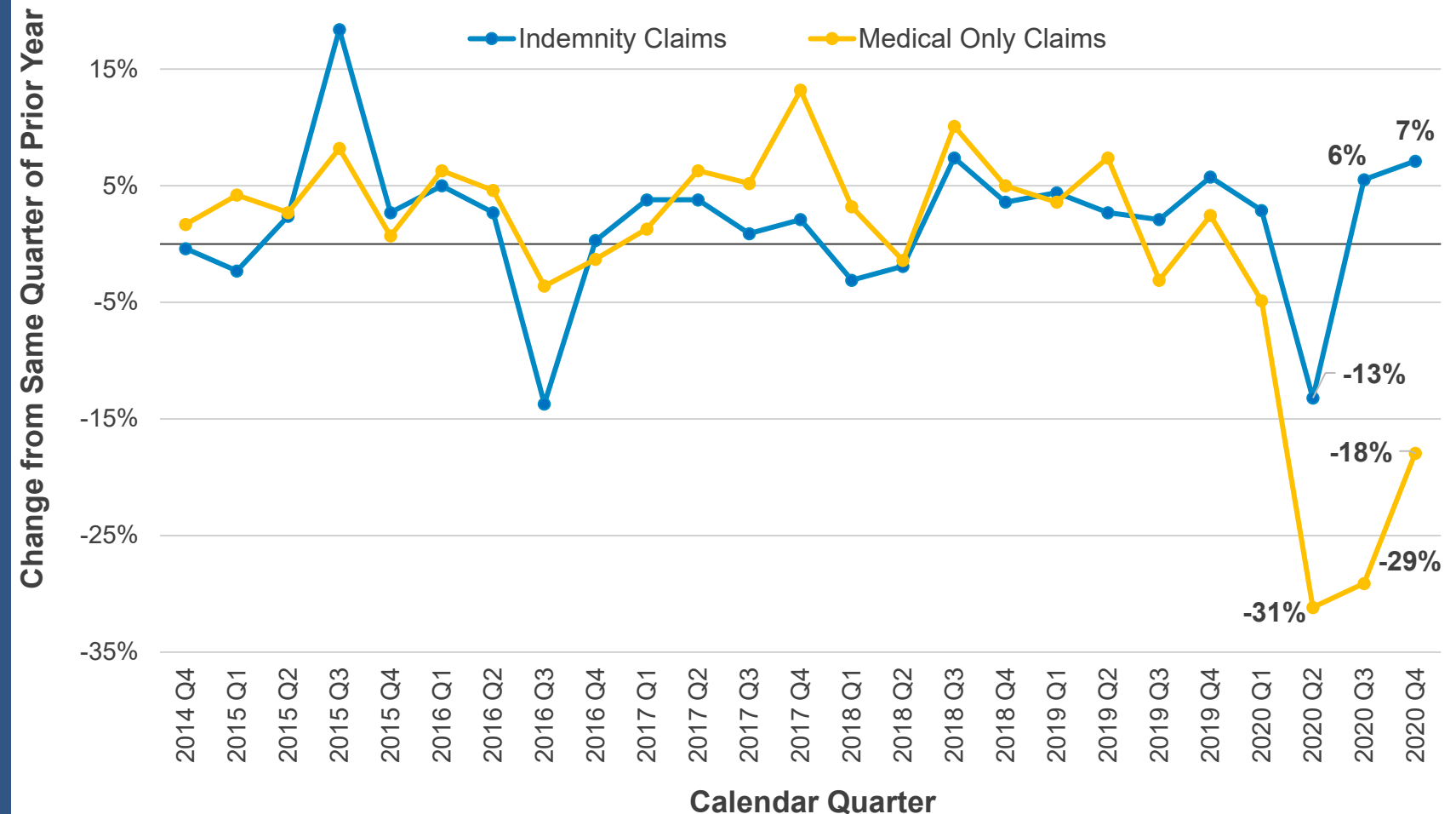


## Chart 7

- Reported indemnity and medical-only claims in the second quarter of 2020 were significantly below the second quarter of 2019, as exposure levels were much lower during the stay-at-home period.
- Despite reduced employment levels, reported indemnity claims in the third and fourth quarters of 2020 were higher than 2019 as over 16,000 COVID-19 indemnity claims have been filed through December 31, 2020.

## Change in Incremental Claim Counts

As of December 31, 2020

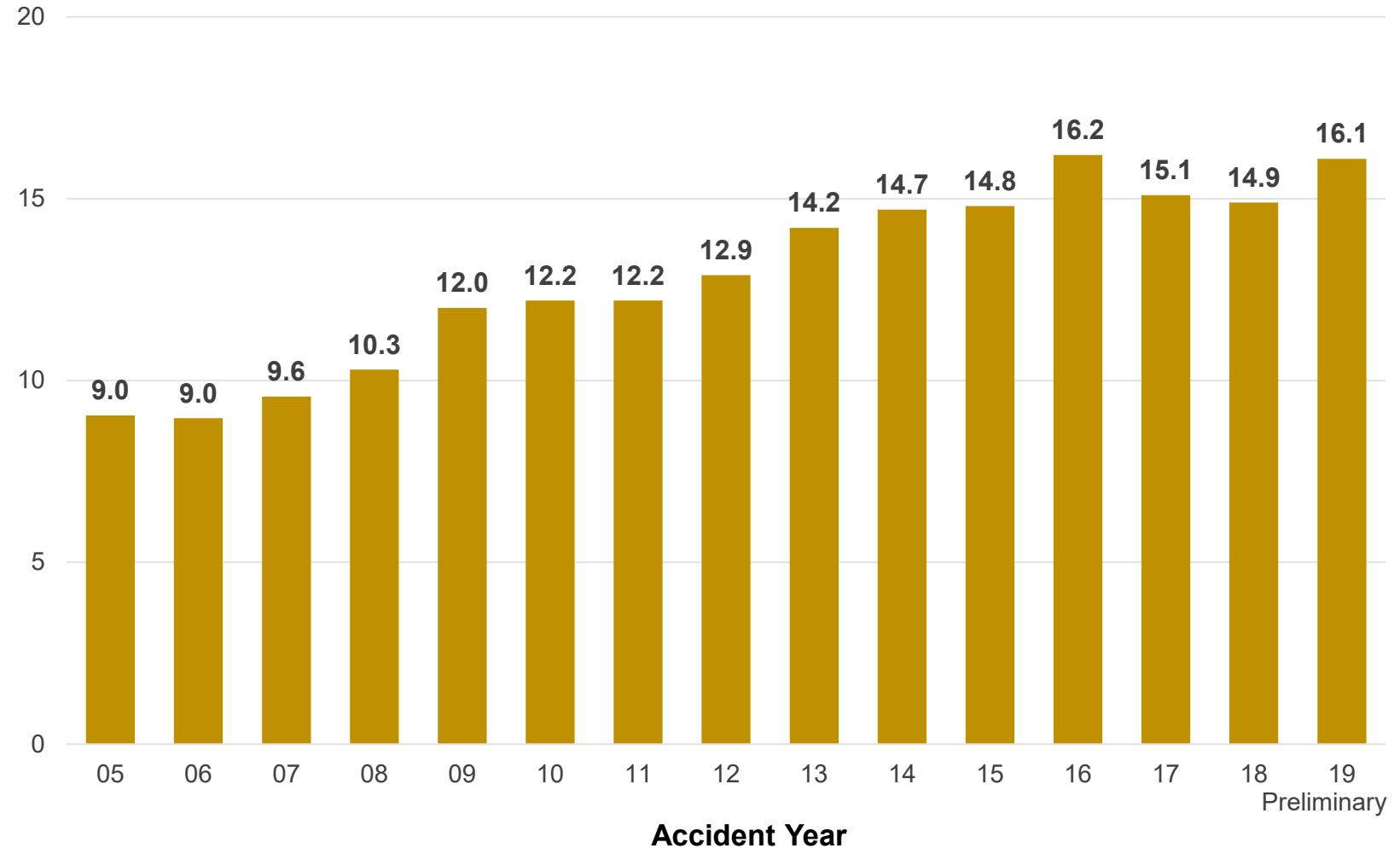




## Chart 8

- Cumulative trauma (CT) claim rates increased through 2016 to be 80% above the 2005 level.
- CT claim rates in 2019 are generally consistent with the all-time high in 2016.
- 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



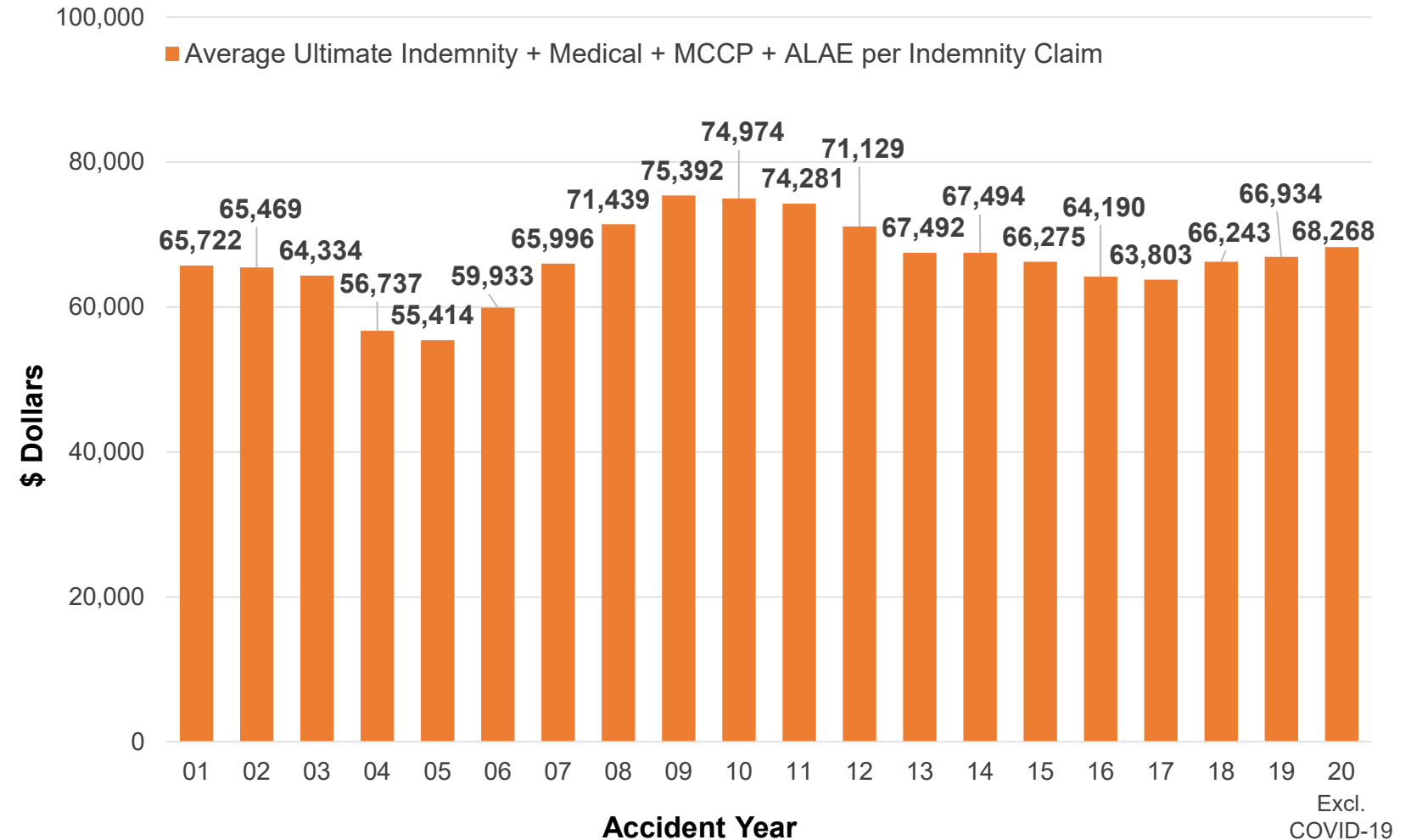


## Chart 9

- Projected total claim severity excluding COVID-19 claims for 2020 is 2% higher than that for 2019.
- Since 2013, the change in total claim severity has been relatively modest.

# Ultimate Total Loss and ALAE Severities

As of December 31, 2020



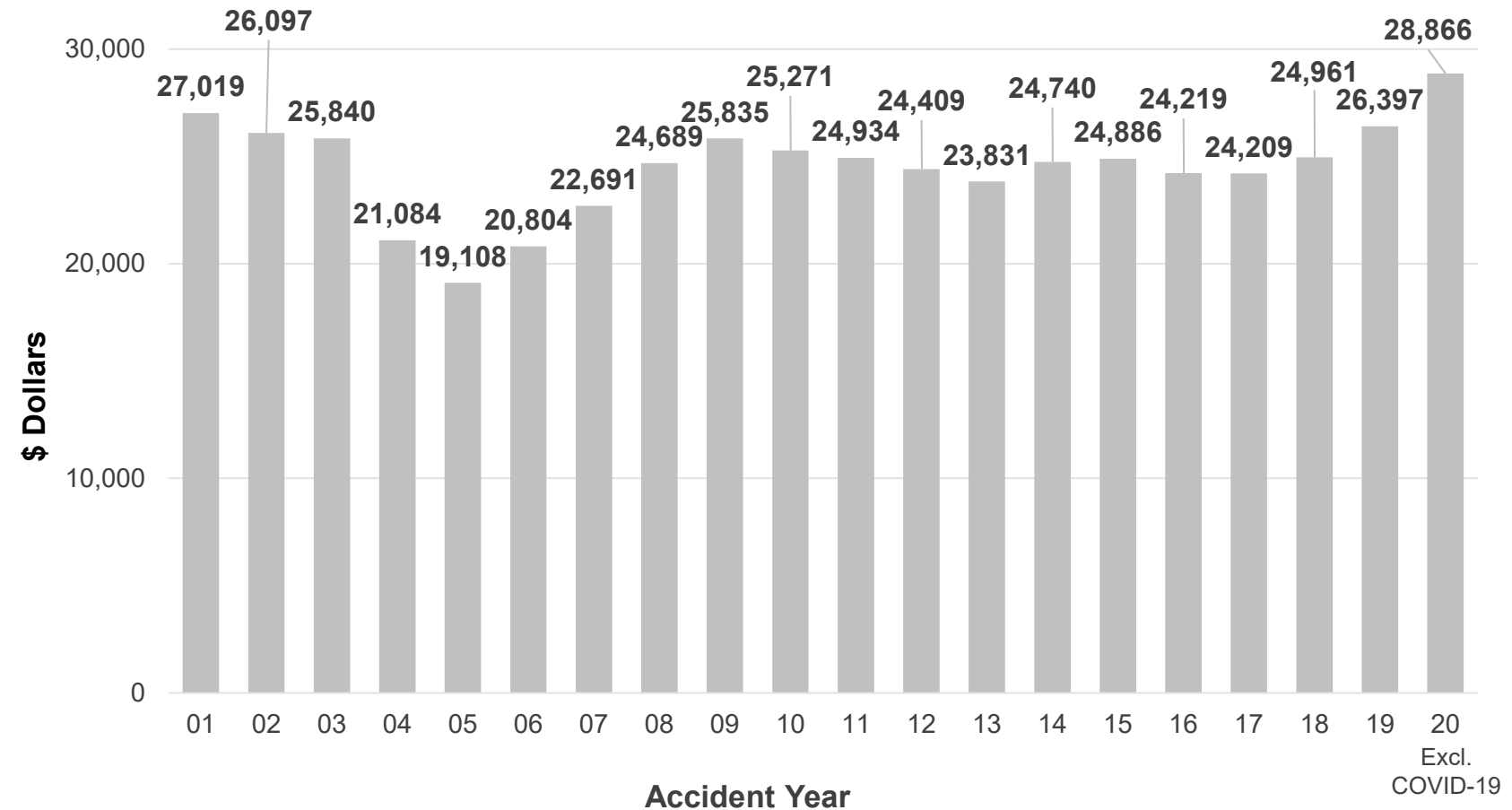


## Chart 10

- Following several years of flat indemnity severities, the projected indemnity severity for 2019 is 9% higher than 2017.
- Projected indemnity severity for 2020 excluding COVID-19 claims is 9% higher than 2019. This estimate is preliminary as it is primarily based on temporary disability (TD) benefits paid on 2020 claims.
- TD benefits can be significantly impacted by shifts in the distribution of wages such as what occurred during the 2020 economic downturn.

## Ultimate Indemnity Severities

As of December 31, 2020



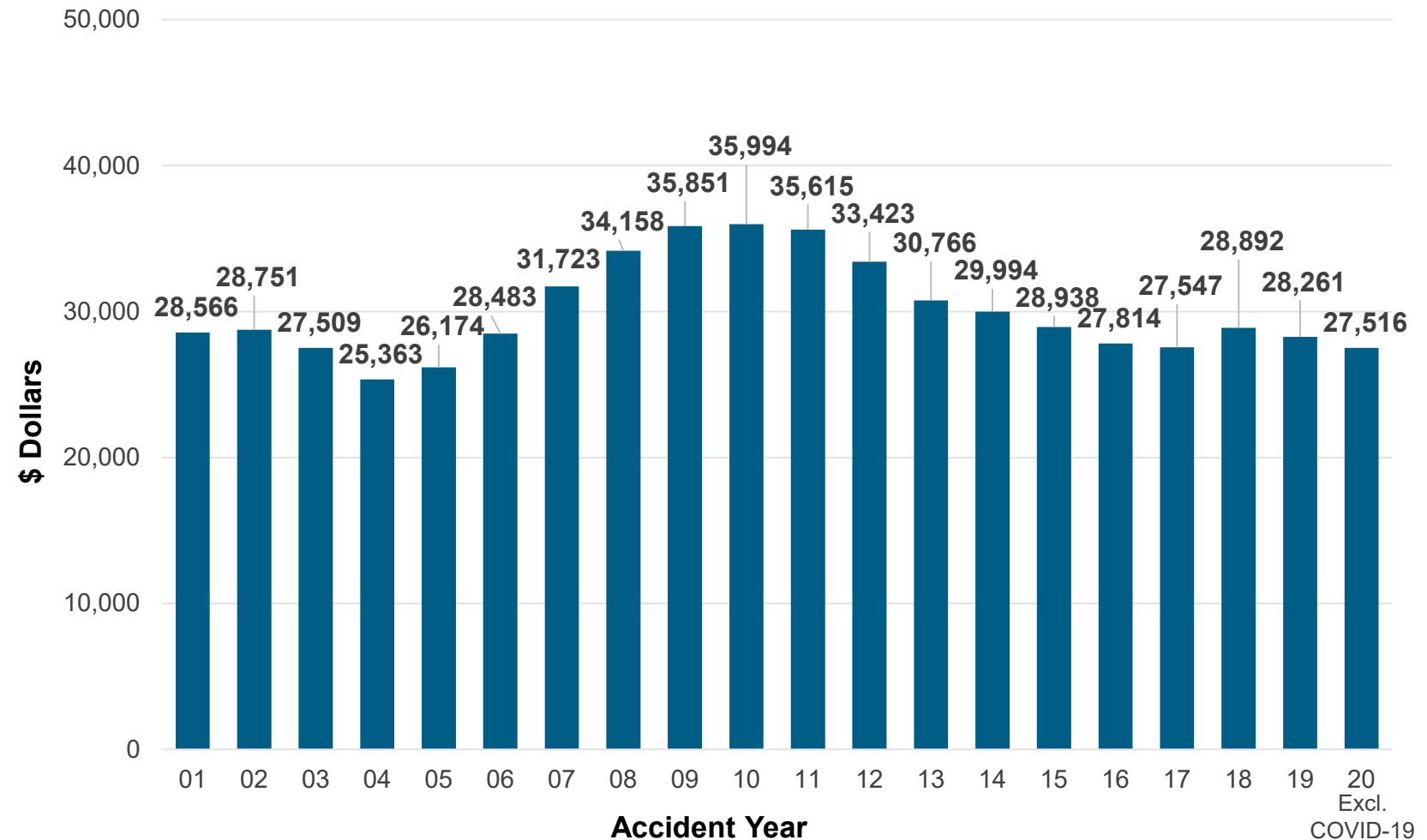


## Chart 11

- Medical severities have been relatively flat since 2016.
- Excluding the impact of COVID-19 claims, the projected medical severity for 2020 is 3% lower than 2019.
- Projected medical severity for 2020 is preliminary and is likely impacted by shifts in the mix of injuries and delay or deferral in medical treatment during the pandemic period.

## Ultimate Medical Severities

As of December 31, 2020





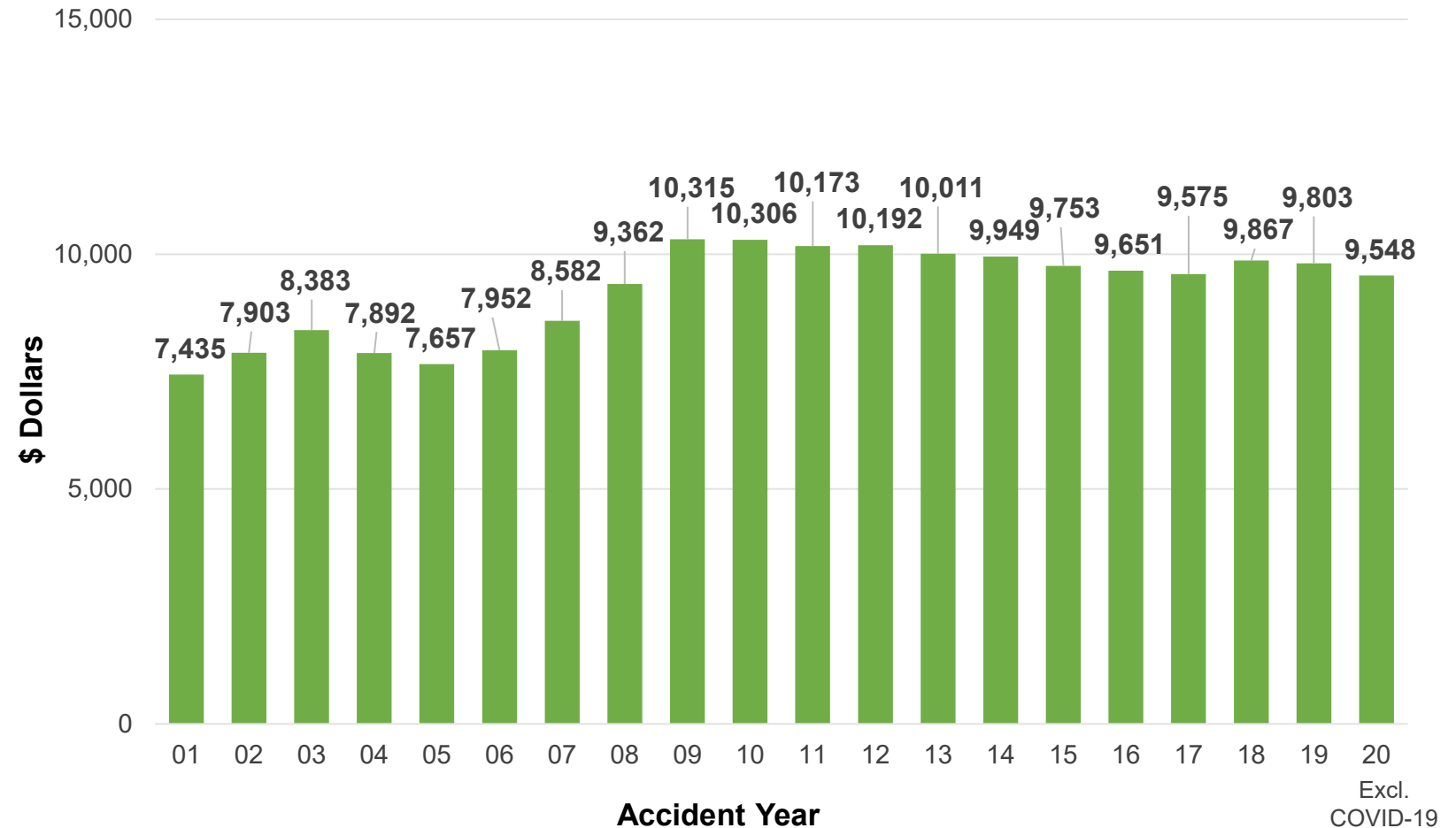


## Chart 12

- ALAE severities have been flat from 2009 through 2020.
- As with average indemnity and medical costs, projected ALAE severity excluding COVID-19 claims for 2020 may be impacted by the slowdown of the claims process during the pandemic period.

## Ultimate ALAE (excl. MCCP) Severities

As of December 31, 2020



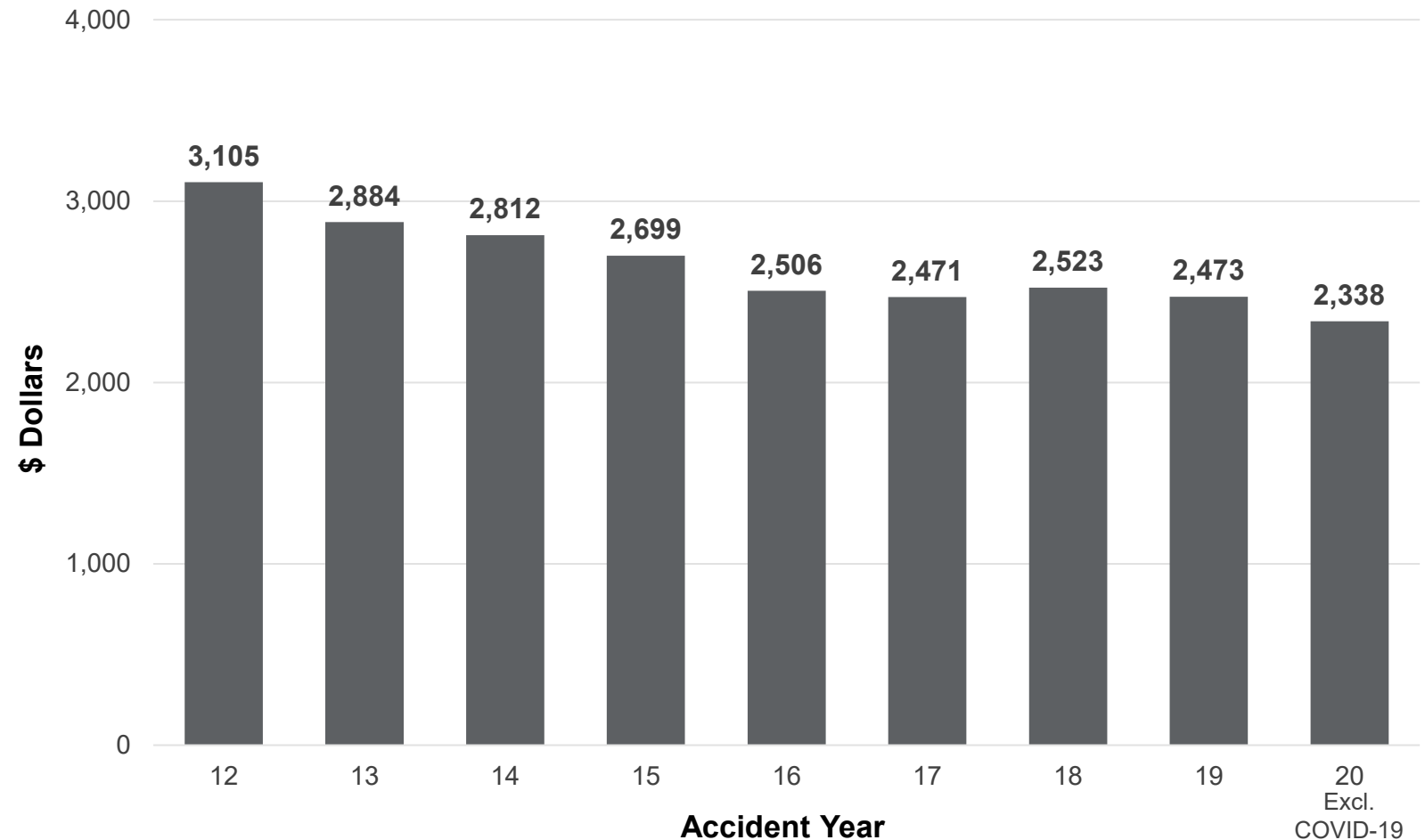


## Chart 13

- Average MCCP costs have generally declined in the last several years as average medical costs have moderated.

# Ultimate Medical Cost Containment Program (MCCP) Severities

As of December 31, 2020



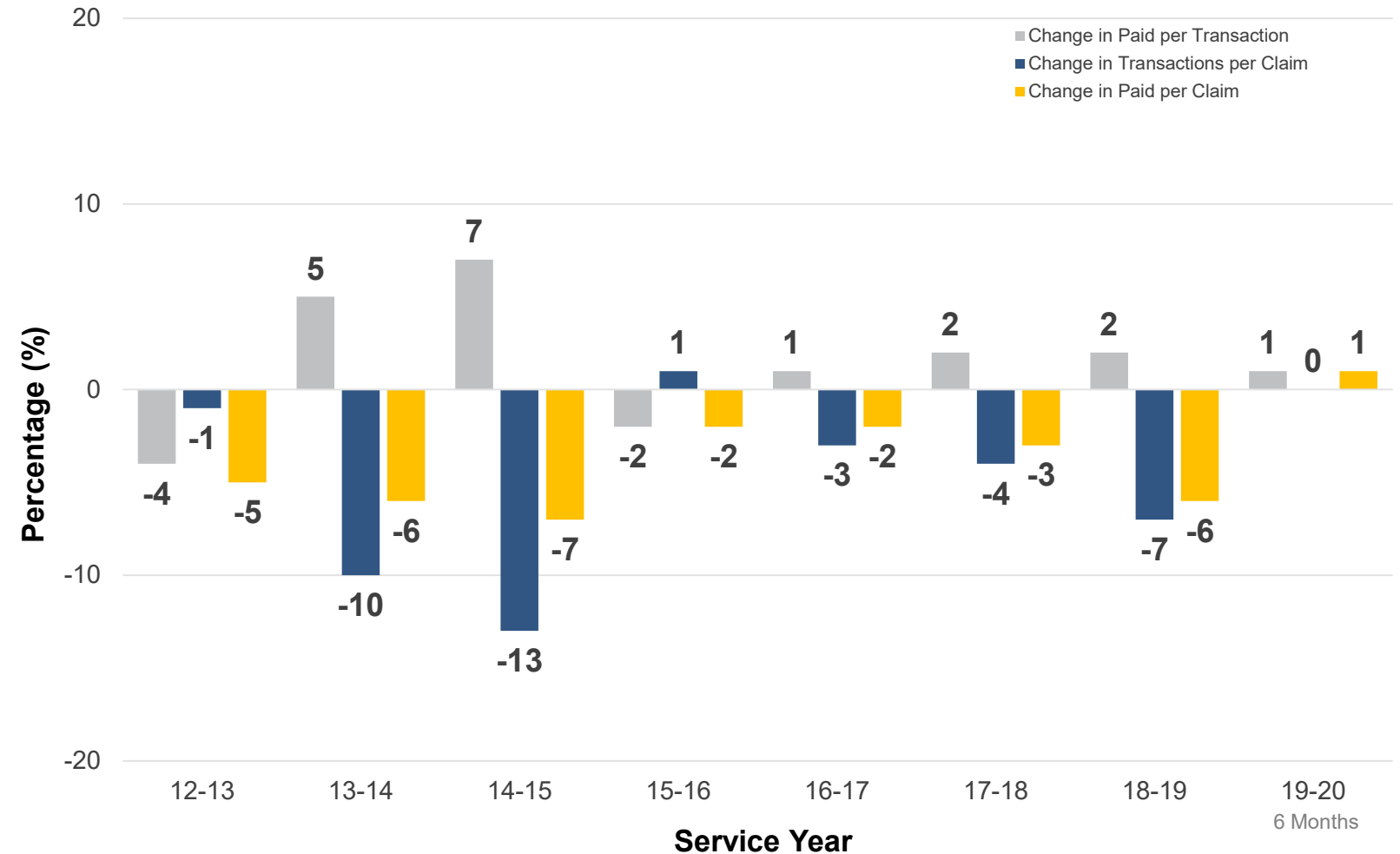


## Chart 14

- Medical service costs per claim decreased by 26% from 2012 through 2019, driven by decreases in the number of transactions per claim.
- Overall medical service costs per claim in the first half of 2020 are flat. However, costs per claim increased modestly in early 2020 but declined after the onset of the pandemic.
- Preliminary data from the second half of 2020 shows a gradual return to a more typical medical service pattern.

## Change in Medical Service Cost Levels

As of October 7, 2020



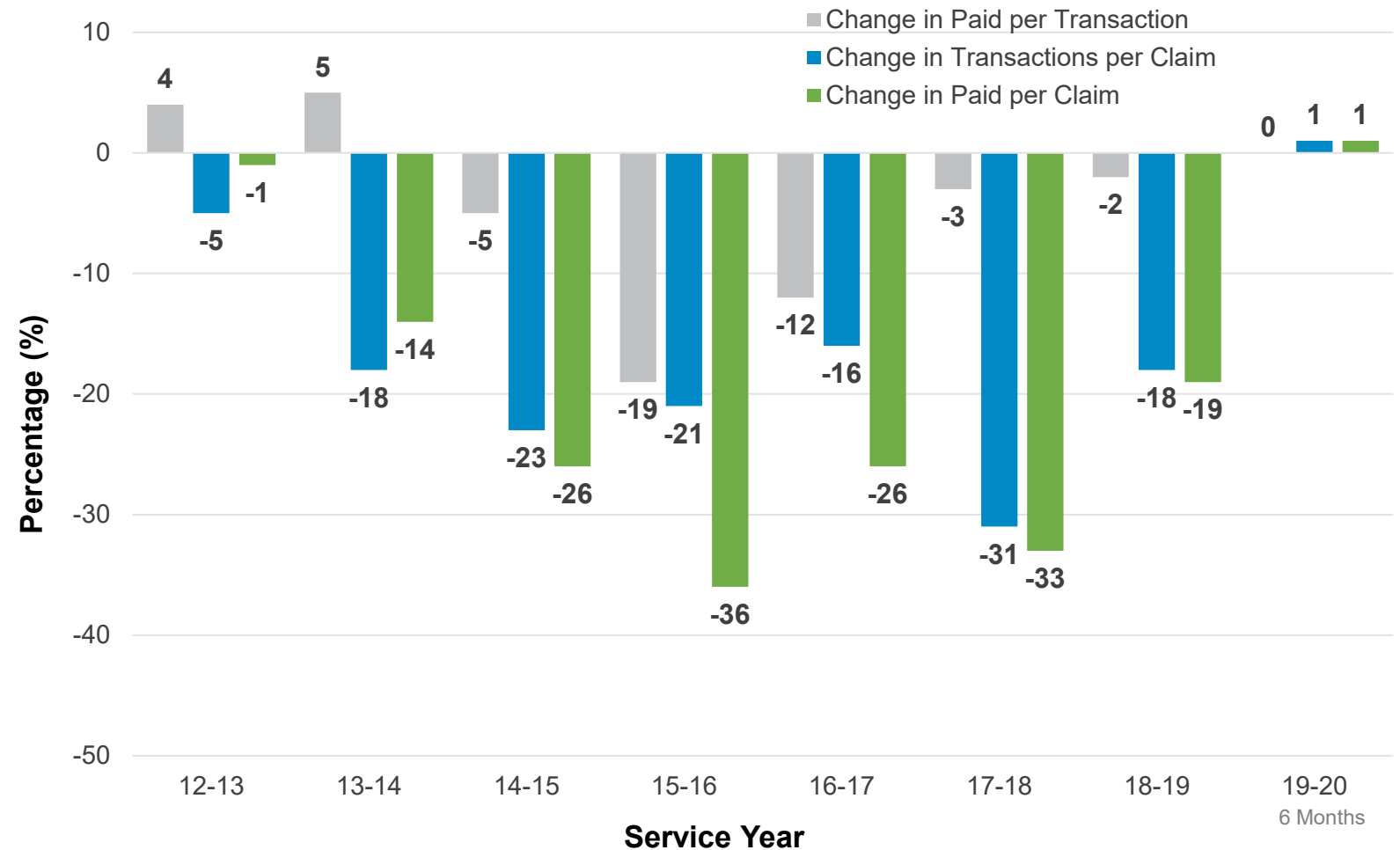


## Chart 15

- Pharmaceutical costs per claim decreased by 84% from 2012 through 2019.
- The flat pharmaceutical cost level for the first half of 2020 is driven by continued declines in early 2020 prior to the pandemic offset by sharp increases during the early months of the pandemic period.

## Change in Pharmaceutical Cost Levels

As of October 7, 2020



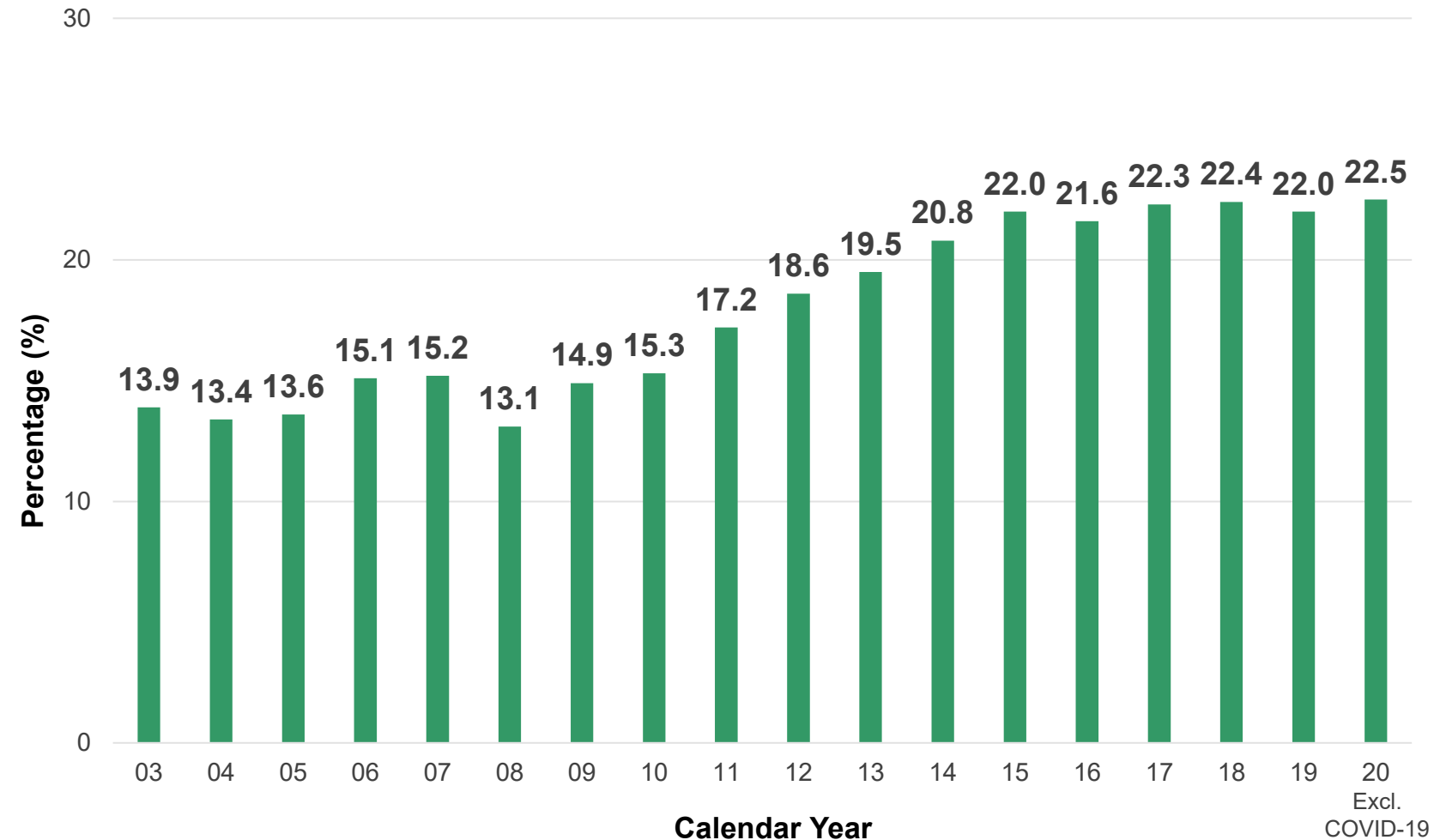


## Chart 16

- 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 2020, these ratios have been generally consistent.

## Ratios of Paid ALAE to Paid Losses

As of December 31, 2020





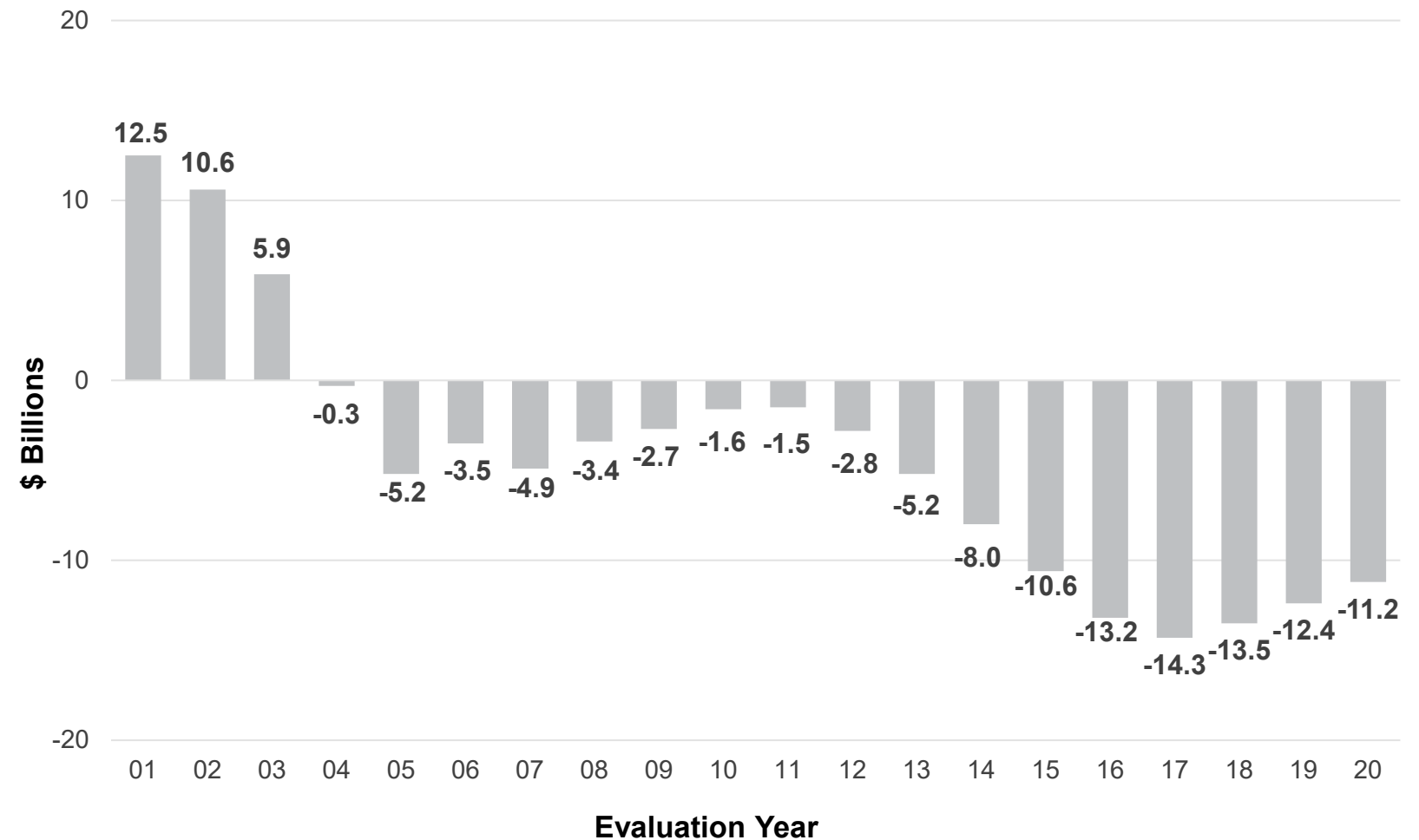


## Chart 17

- Projected total statewide ultimate losses for 2004 through 2020 evaluations are below the amounts reported by insurers.

## Projected Ultimate Losses Less Reported Losses

As of December 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 December 31, 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.
- Thousands of claims arising out a diagnosis of COVID-19 have been filed for accident year 2020. The amounts and ratios for accident year 2020 shown in these exhibits generally include COVID-19 claims unless otherwise specified. For other exhibits, COVID-19 claims are excluded based on the WCIRB's aggregate financial data calls to facilitate consistency of comparison with pre-pandemic years.



## 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).
- For consistency of comparison, average charged rates for 2020 exclude the impact of new maximum payroll limitations effective for five classifications beginning in 2020.

### **Chart 3: Ultimate Accident Year Loss Ratios**

- Ratios are projected based on WCIRB aggregate financial data call data as of December 31, 2020.
- 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.
- COVID-19 claims are included in the projections for accident year 2020.

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

- Ratios are projected based on WCIRB aggregate financial data call data as of December 31, 2020.
- Combined ratios include losses, loss adjustment expenses and other insurer expenses.
- COVID-19 claims are included in the projections for accident year 2020.

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

- Source: WCIRB aggregate financial data call data as of December 31, 2020.
- Figures represent the number of indemnity claims aged between 12 to 96 months closed during the year as a ratio of the number of estimated ultimate claims open or not yet reported as of December 31 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 2019, and changes in reported indemnity claim counts compared to changes in statewide employment based on WCIRB aggregate financial data call data for accident year 2020.
- COVID-19 claims are excluded from accident year 2020.



## More Info (...continued)

### **Chart 7: Change in Incremental Claim Counts**

- Source: WCIRB aggregate financial data call data as of December 31, 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 8: Cumulative Trauma Claims Per 100 Indemnity Claims**

- Source: WCIRB unit statistical data. Claim counts are developed to an estimated ultimate level.
- Accident year 2019 data is preliminary.

### **Chart 9: Ultimate Loss & ALAE Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2020.
- Includes data for indemnity claims only.
- COVID-19 claims are excluded from accident year 2020.

### **Chart 10: Ultimate Indemnity Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2020.
- COVID-19 claims are excluded from accident year 2020.

### **Chart 11: Ultimate Medical Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2020.
- Includes data for indemnity claims only.
- MCCP costs are excluded from all years for consistency of comparison.
- COVID-19 claims are excluded from accident year 2020.

### **Chart 12: Ultimate ALAE (excl. MCCP) Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2020.
- Includes data for indemnity claims only.
- MCCP costs are excluded from all years for consistency of comparison.
- COVID-19 claims are excluded from accident year 2020.

### **Chart 13: Ultimate Medical Cost Containment Program (MCCP) Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2020.
- Includes data for indemnity claims only.
- COVID-19 claims are excluded from accident year 2020.



## More Info (...continued)

### **Chart 14: Change in Medical Service Cost Levels**

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

### **Chart 15: Change in Pharmaceutical Cost Levels**

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

### **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.
- COVID-19 claims are excluded from accident year 2020.

### **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 December 31, 2020.
- COVID-19 claims are included for accident year 2020.





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