

# WCIRB Quarterly Experience Report

As of December 31, 2022

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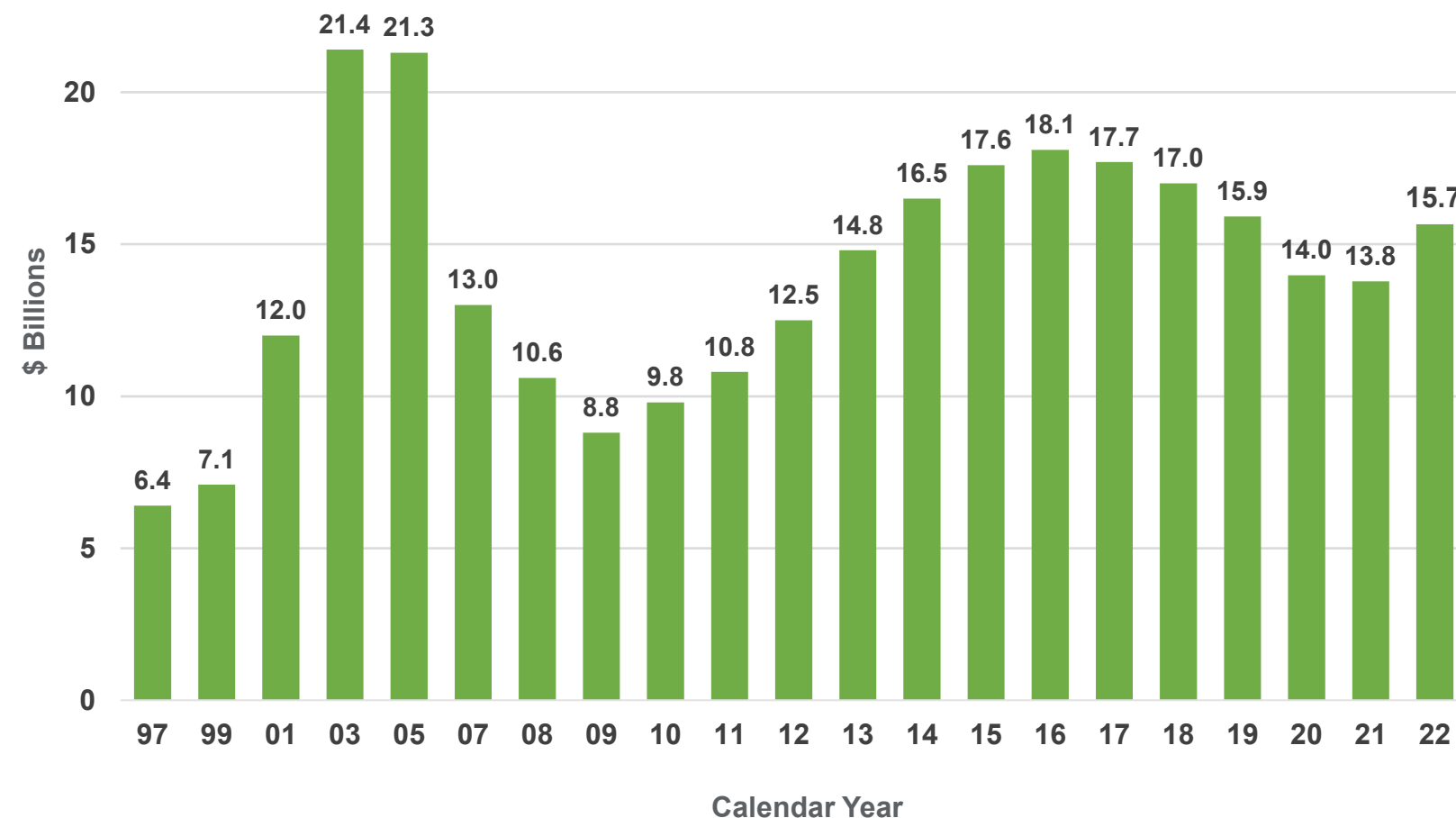
## Chart 1

Written premium decreased sharply in 2020 and remained low in 2021 due to the pandemic-related economic downturn combined with continued insurer rate decreases.

Despite continued declines in insurer rates, written premium in 2022 is 14% higher than 2021 and at approximately the pre-pandemic level. The increase is being driven by higher employee wage levels and the economic recovery.

## Written Premium | Gross of Deductible Credits

As of December 31, 2022







## Chart 2

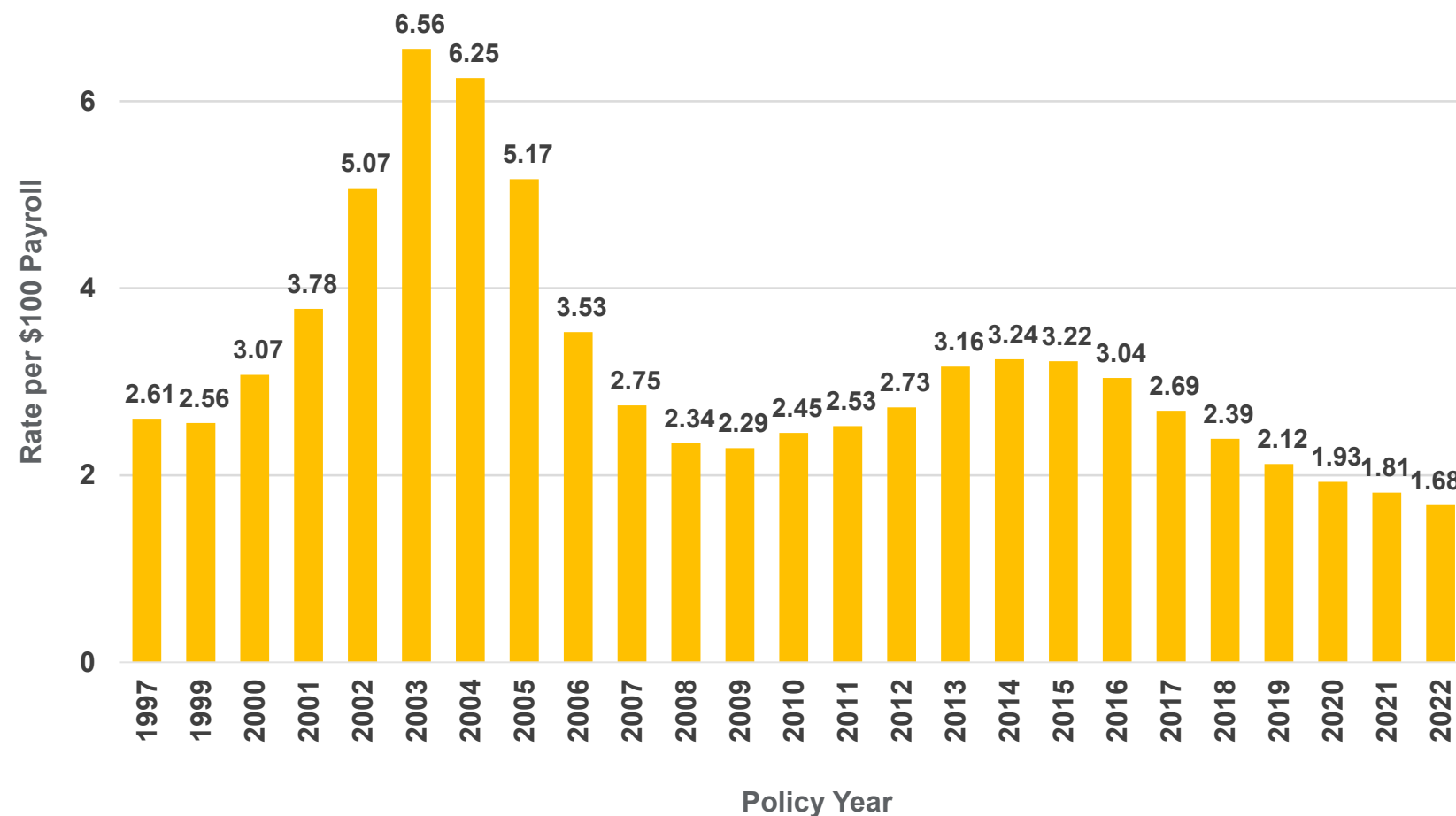
The average charged rate for 2022 is 7% below 2021 and the lowest in decades.

Average insurer rate declines have moderated in the last two years.

The WCIRB proposed a modest overall increase of 0.3% in advisory pure premium rates in its September 1, 2023 Pure Premium Rate Filing.

## Industry Average Charged Rates

As of December 31, 2022



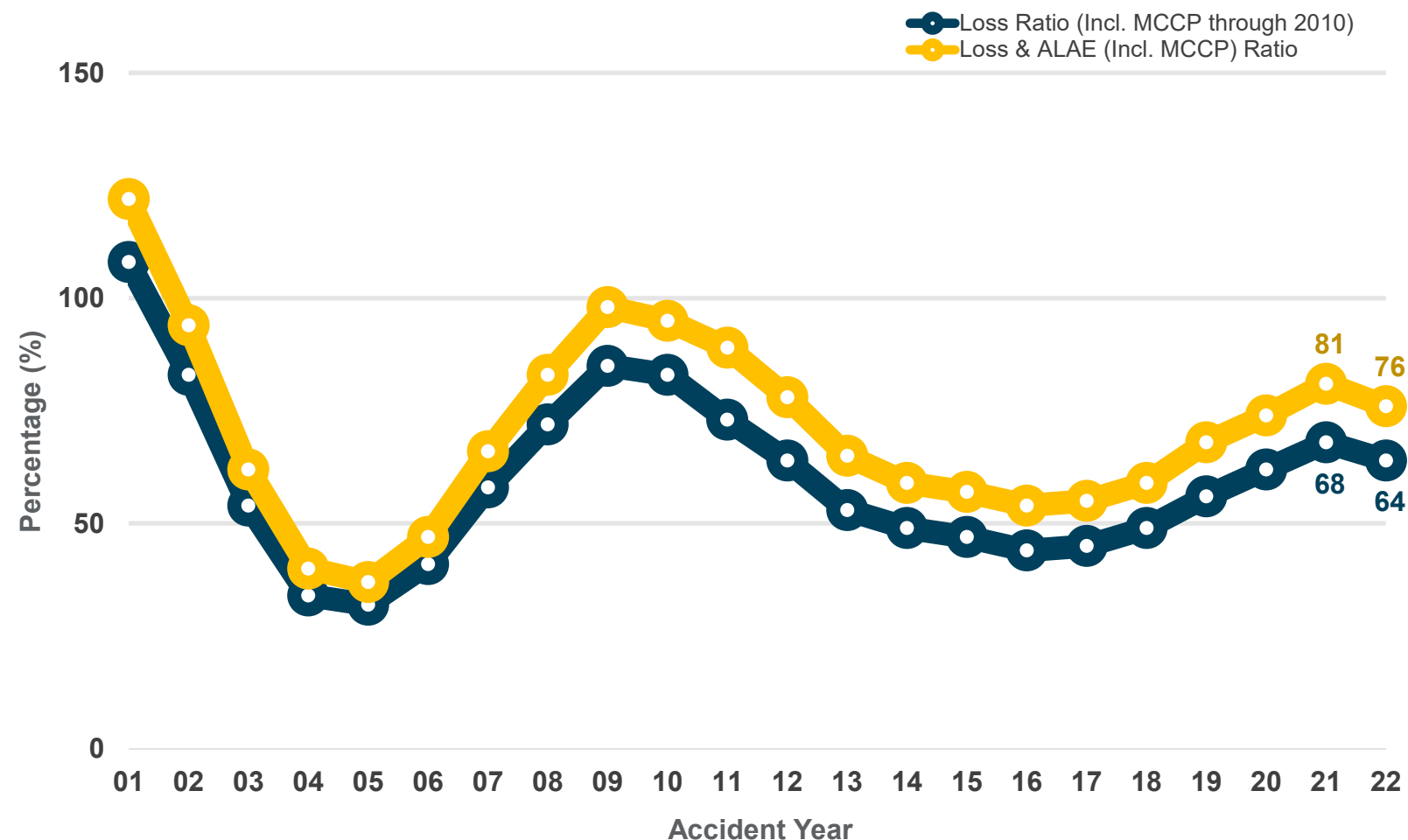


## Chart 3

After four consecutive increases, the projected loss ratio, including the cost of COVID-19 claims, dropped 4 points in accident year 2022.

## Ultimate Accident Year Loss Ratios

As of December 31, 2022





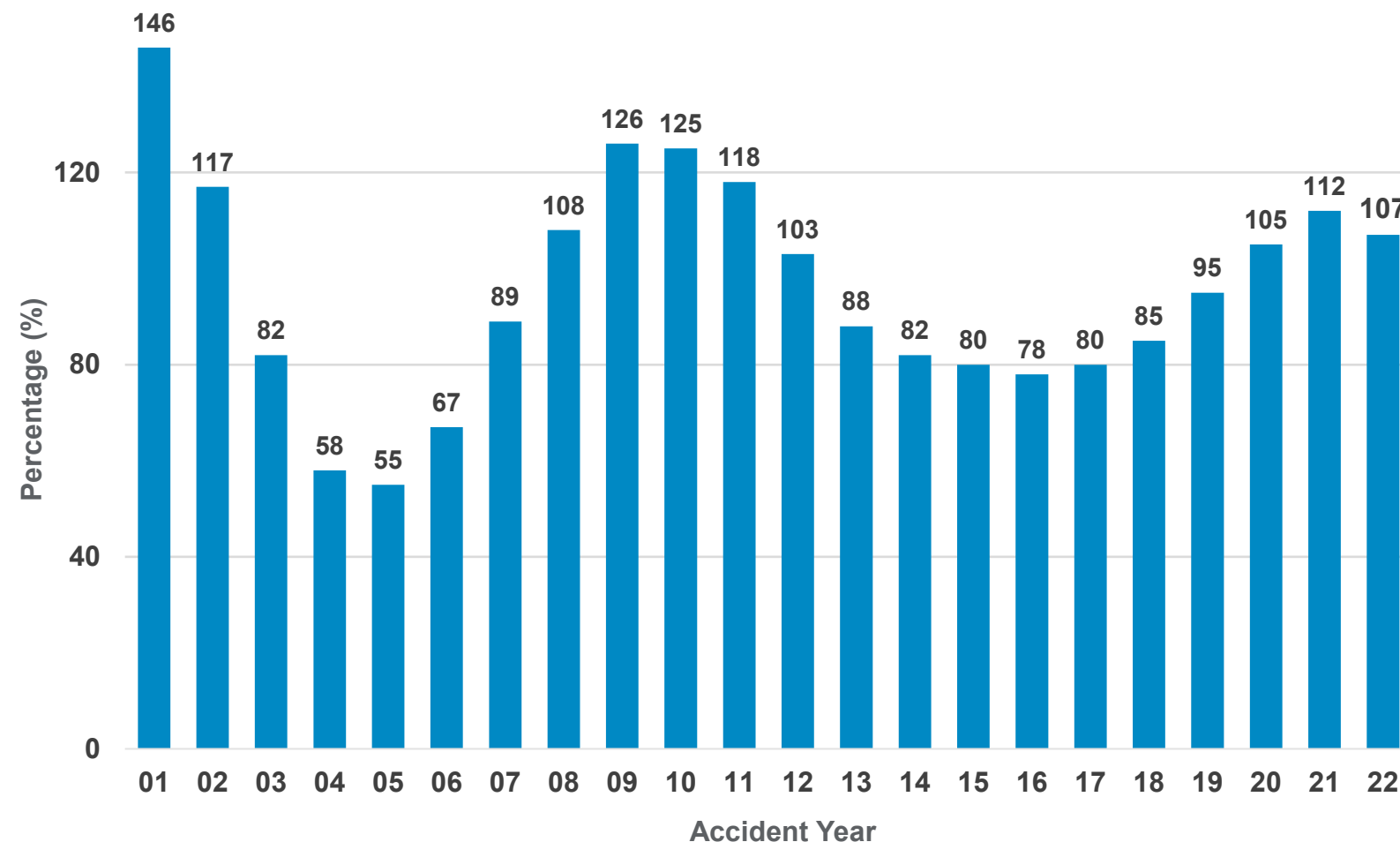
## Chart 4

After increasing over the prior four years, the projected combined ratio for 2022, including COVID-19 claims, is 5 points lower than in 2021.

The lower combined ratio in 2022 is driven by a significant increase in premium due to higher payrolls and very modest changes in claim frequency and severity.

## Projected Accident Year Combined Ratios

As of December 31, 2022





## Chart 5

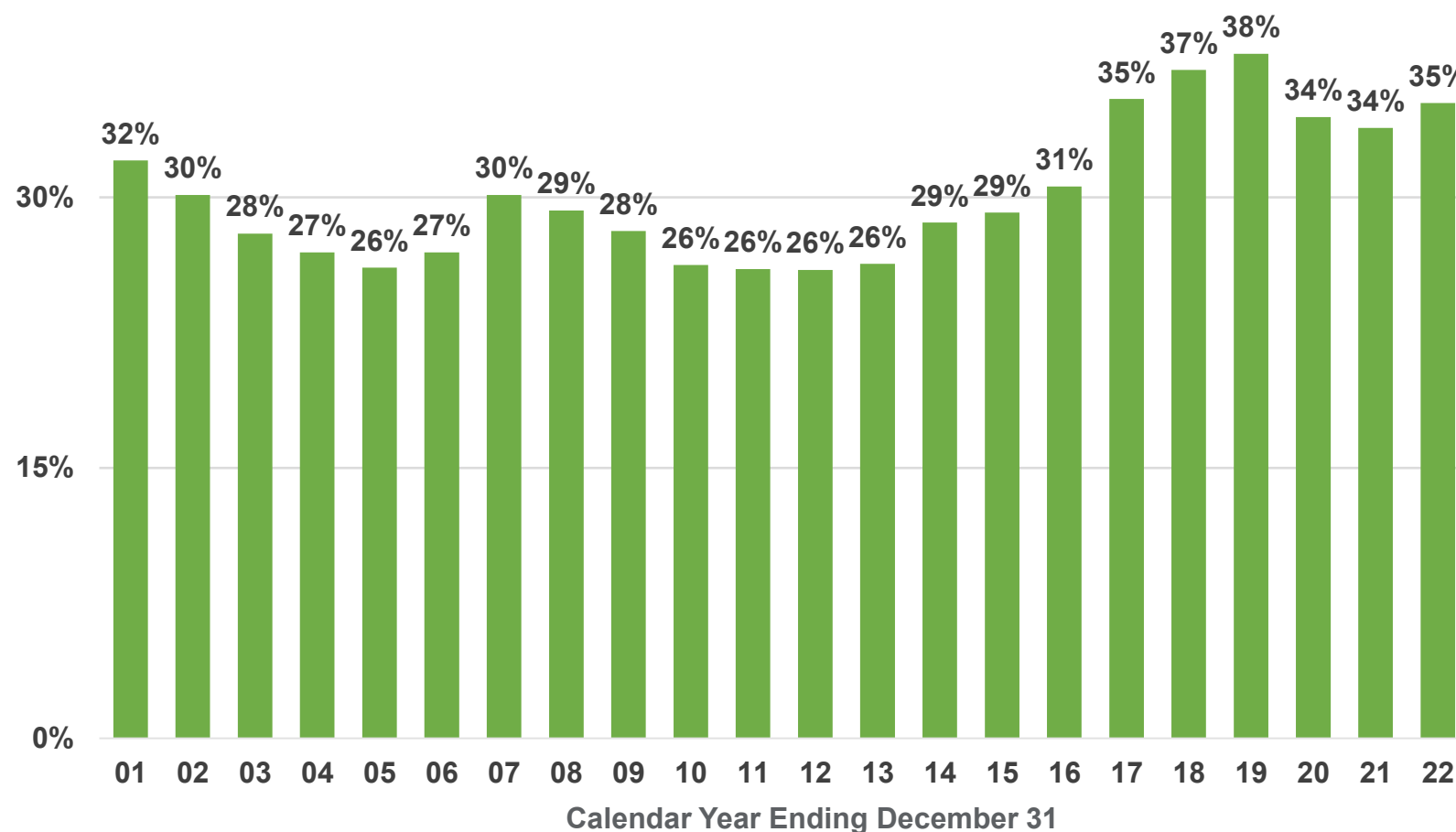
Indemnity claims had been settling more quickly through the first quarter of 2020, primarily driven by the reforms of SB 863 and SB 1160.

Average claim closing rates declined sharply beginning in the second quarter of 2020 due to the pandemic.

Average claim closing rates are beginning to increase in 2022 but remain below the pre-pandemic high.

## Percent of Open Indemnity Claims Closed in Next Year

As of December 31, 2022





## Chart 6

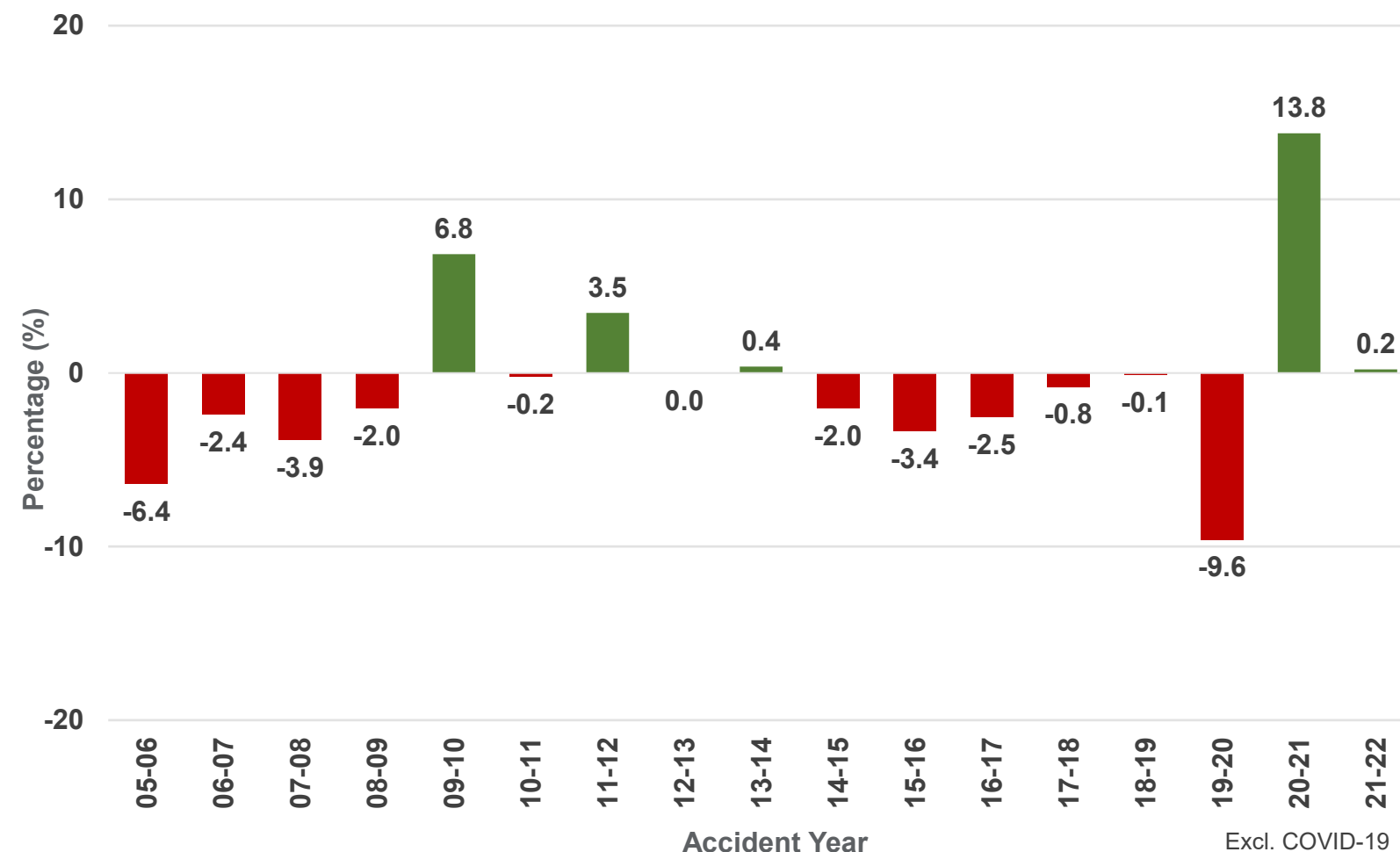
The sharp changes in non-COVID-19 claim frequency in 2020 and 2021 were driven by the pandemic-related economic downturn in 2020 and subsequent recovery in 2021.

The change in claim frequency from 2019 to 2021 is 3%, which is more comparable to the modest increasing frequency trend during the immediate pre-pandemic period.

Claim frequency for 2022 is comparable to 2021 and consistent with the pre-pandemic trend.

## Change in Indemnity Claim Frequency

As of December 31, 2022







## Chart 7

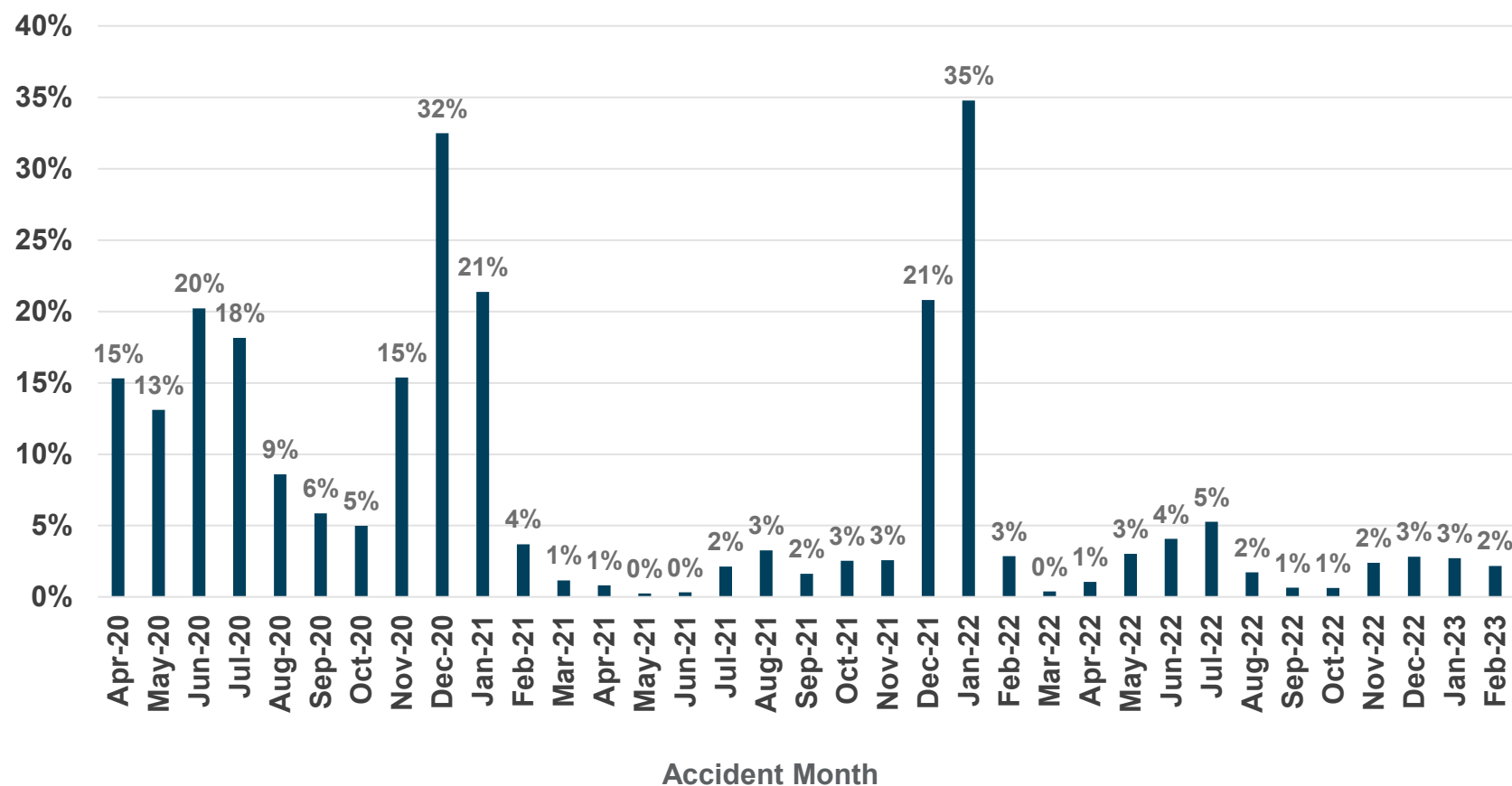
A significant surge in the share of COVID-19 claims occurred in December 2021 and January 2022, driven by the Omicron variant.

The COVID-19 share of indemnity claims dropped significantly following the January 2022 surge and averaged about 2% for the last twelve months.

Given this recent pattern and the declining average cost of a COVID-19 claim, the WCIRB's September 1, 2023 Pure Premium Rate Filing did not include a load for future COVID-19 claims.

## COVID-19 Share of Indemnity Claims

As of March 7, 2023





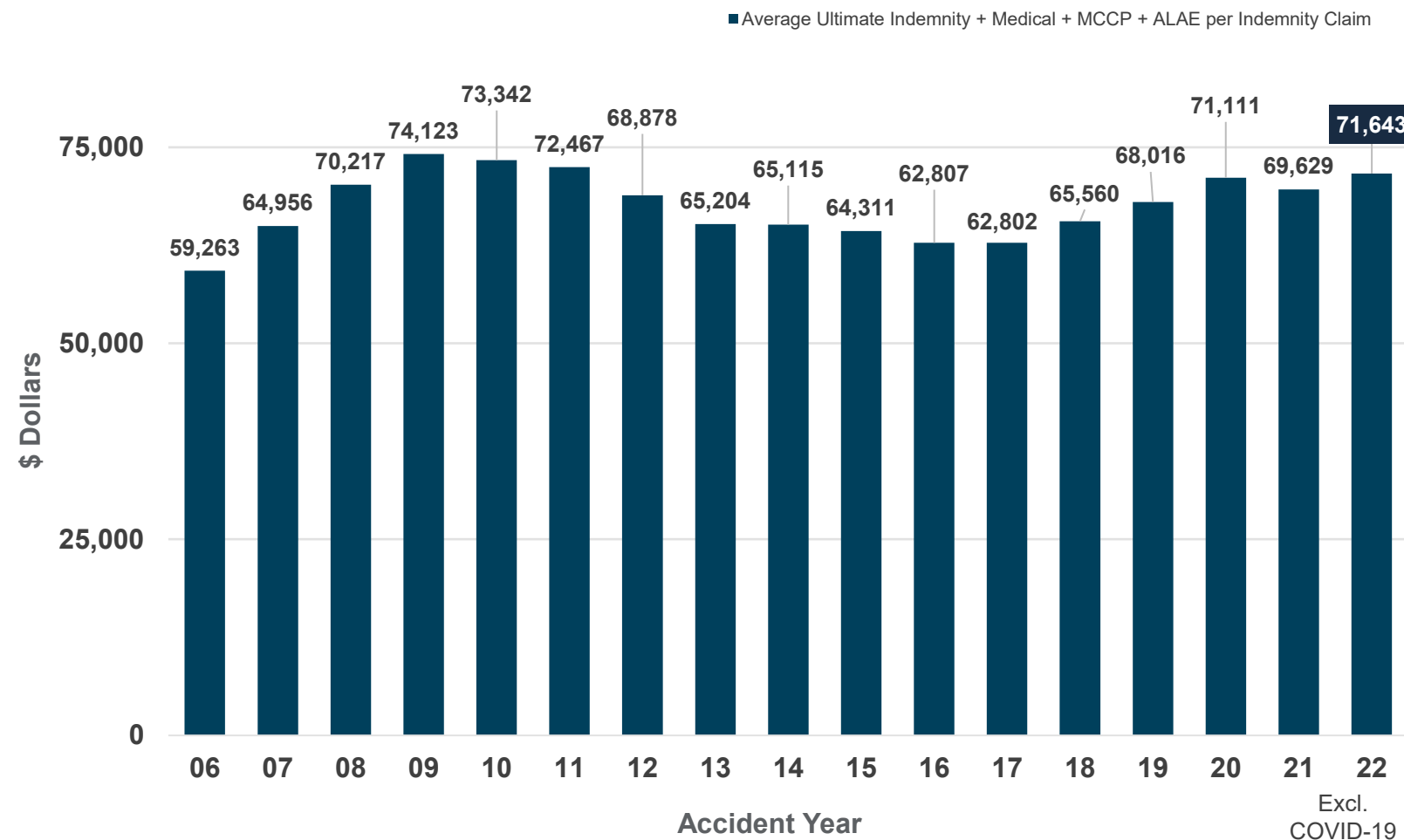
## Chart 8

Projected total indemnity claim severity for 2022, excluding COVID-19 claims, is 3% higher than 2021 and 14% above 2017.

The 2022 average severity is the highest in more than a decade since prior to the SB 863 reforms.

## Ultimate Total Loss and ALAE Severities

As of December 31, 2022





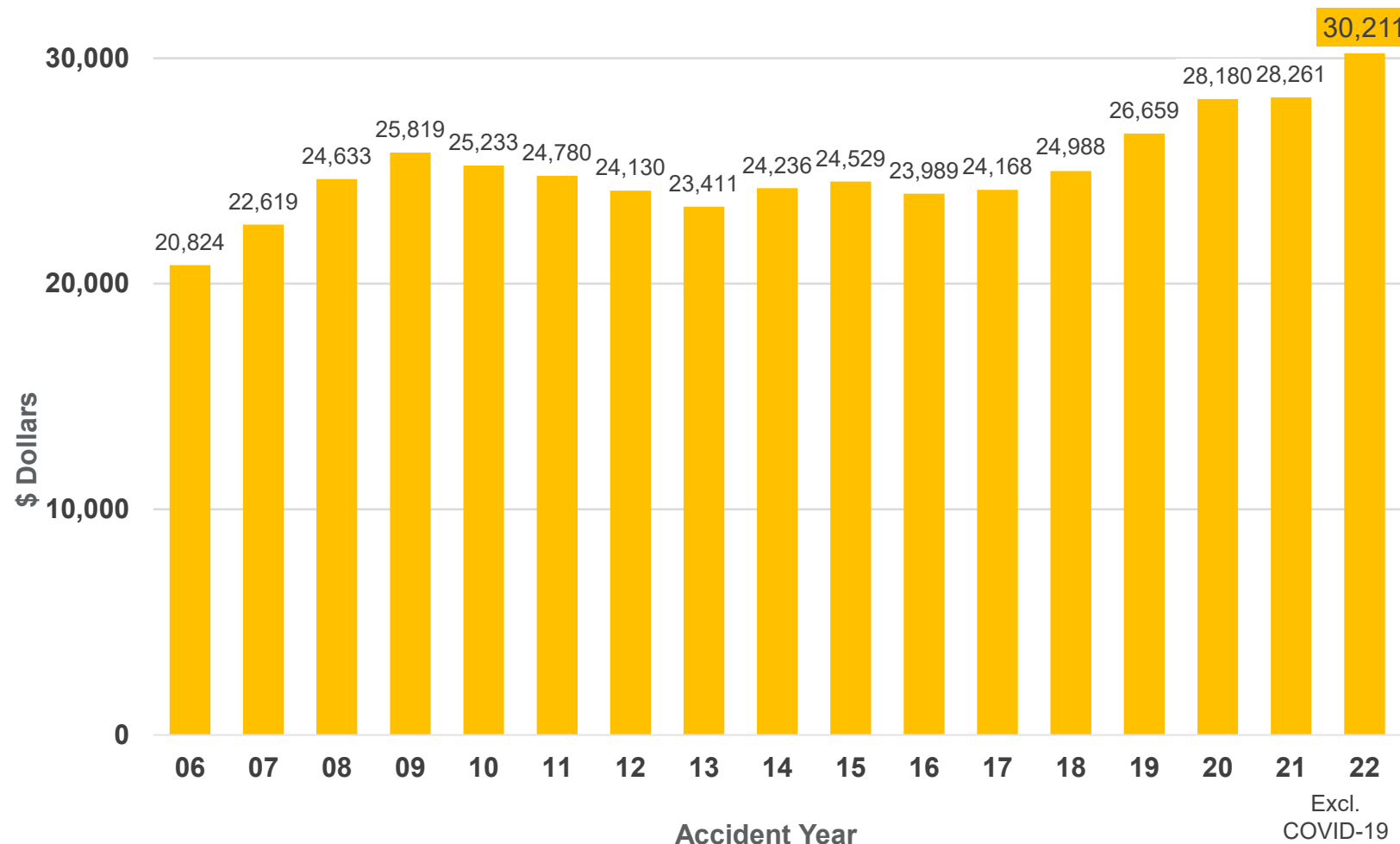
## Chart 9

Following several years of modest changes, indemnity severity has increased steadily since 2017. Accident year 2022 indemnity severity is 7% higher than 2021 and 25% higher than 2017.

Recent growth in indemnity claim severities has been in part driven by higher-than-typical average wage inflation during the pandemic.

# Ultimate Indemnity Severities

As of December 31, 2022



## Chart 10

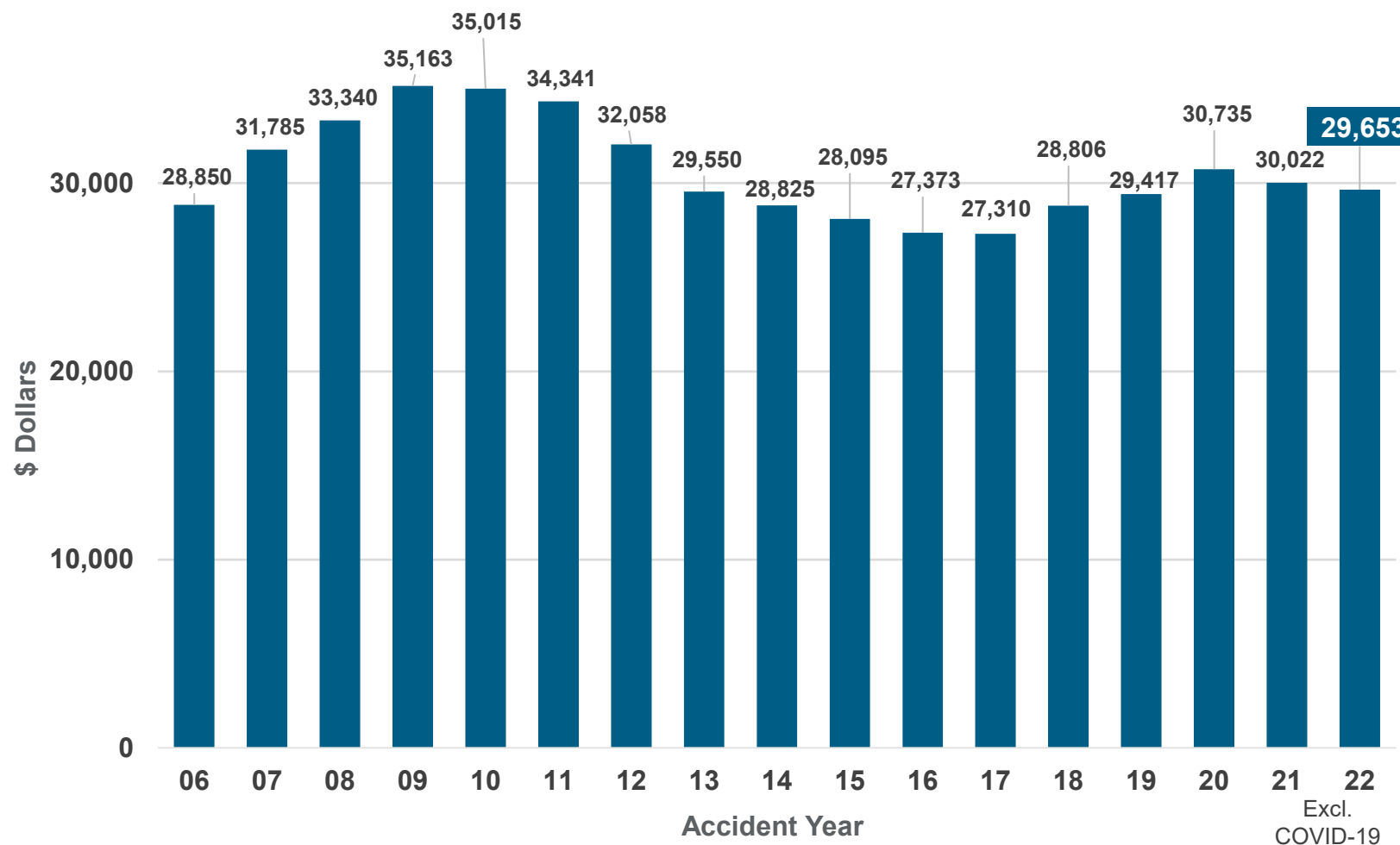
The projected medical severity for 2022 is 1% lower than 2021 and 9% higher than 2017.

Some of the recent growth in medical severities may be attributable to claims staying open longer since the start of the pandemic and increases to medical fee schedule reimbursements effective in early 2021.

The slightly declining medical severities in 2021 and 2022 are driven by reduced utilization of medical services partially offset by regular inflationary updates to medical fee schedules.

## Ultimate Medical Severities

As of December 31, 2022



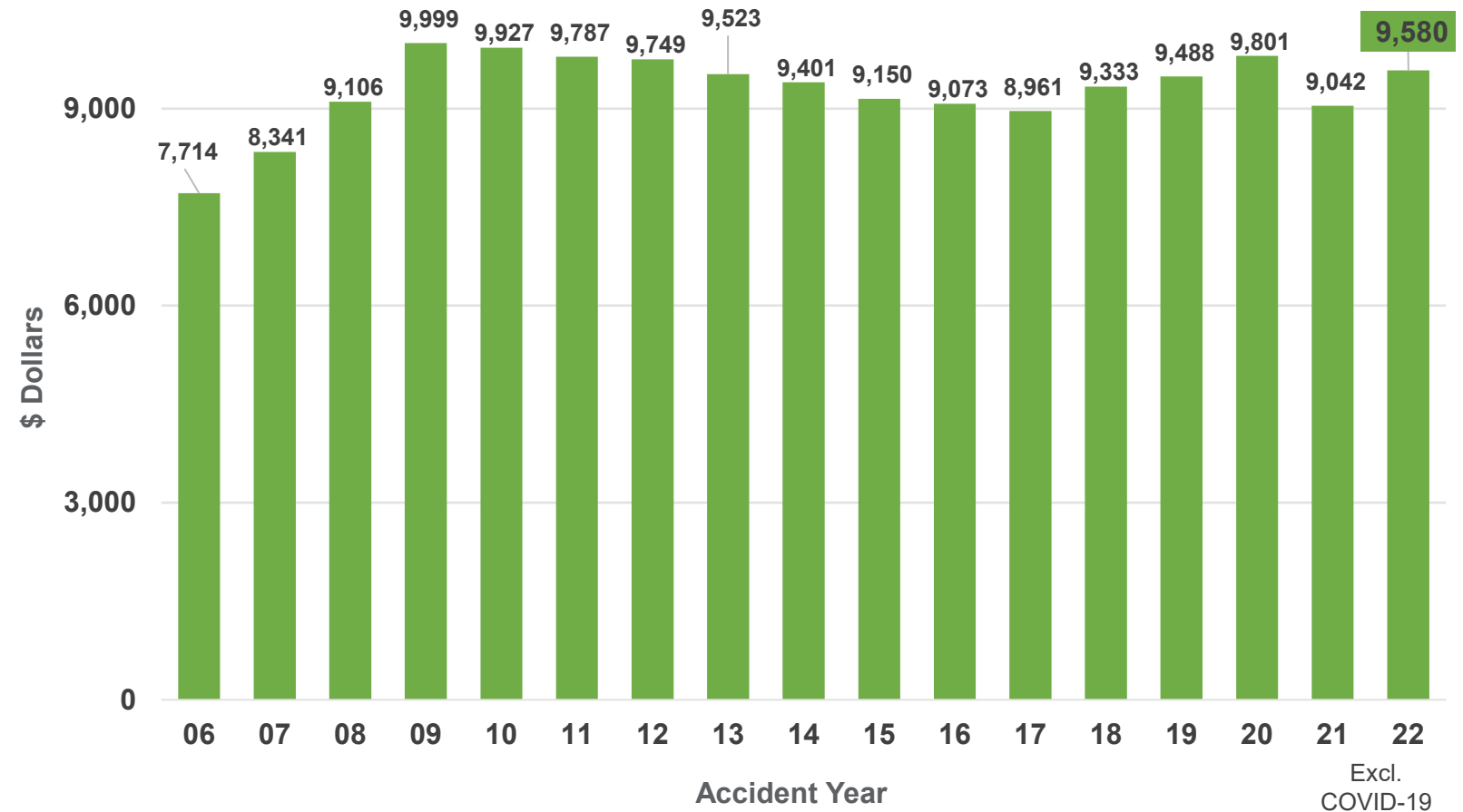
## Chart 11

ALAE severity has been generally flat from 2009 through 2022.

The relatively flat ALAE severity trend is driven by reduced frictional costs following the SB 863 and SB 1160 reforms, offset by increasing shares of cumulative trauma claims, which tend to have higher frictional costs.

## Ultimate ALAE (excl. MCCP) Severities in (000s)

As of December 31, 2022



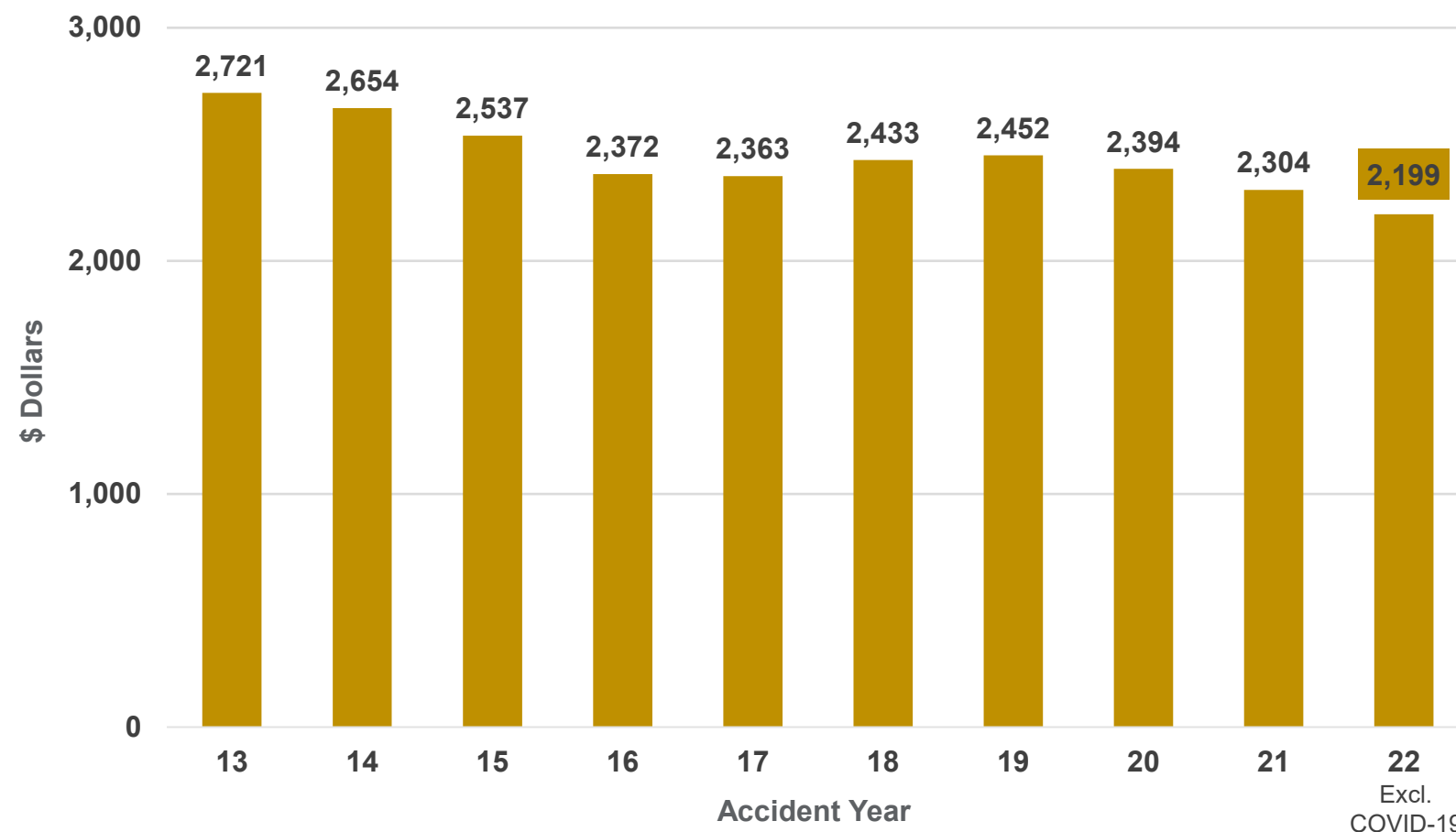


## Chart 12

Average MCCP costs per claim have decreased by 19% since 2013, corresponding with the decline in average medical costs following the SB 863 reforms.

### Ultimate Medical Cost Containment Program (MCCP) Severities

As of December 31, 2022



## Chart 13

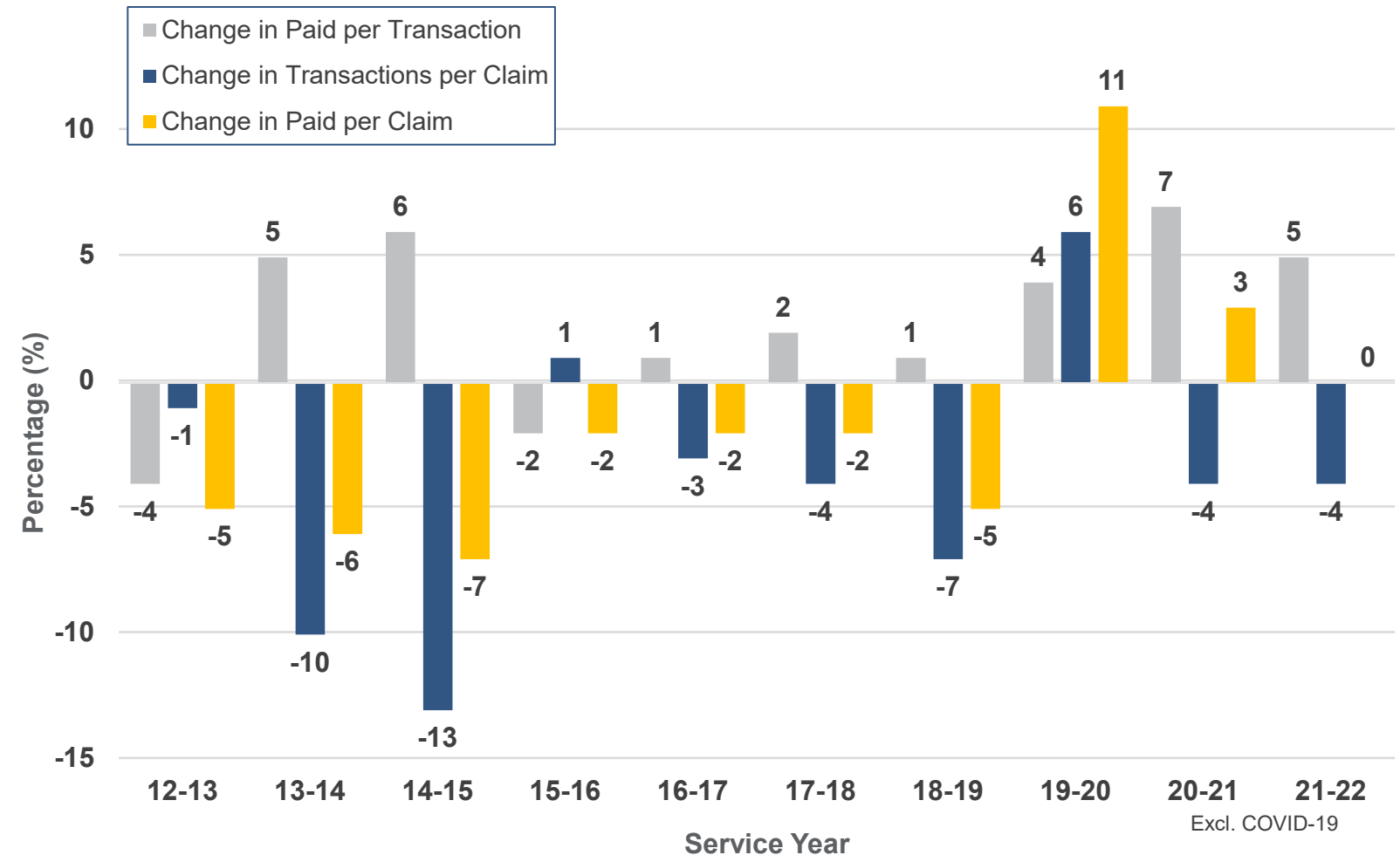
Average medical service costs paid per claim in 2022 is consistent with 2021, as higher payments per transaction were offset by fewer transactions per claim.

Some of the paid-per-claim growth in 2021 is attributable to higher fee schedule reimbursement levels for evaluation and management and medical-legal services effective in early 2021.

The decline in the number of transactions per claim in 2022 appears to be consistent across most service types.

## Change in Medical Service Cost Levels

As of February 7, 2023



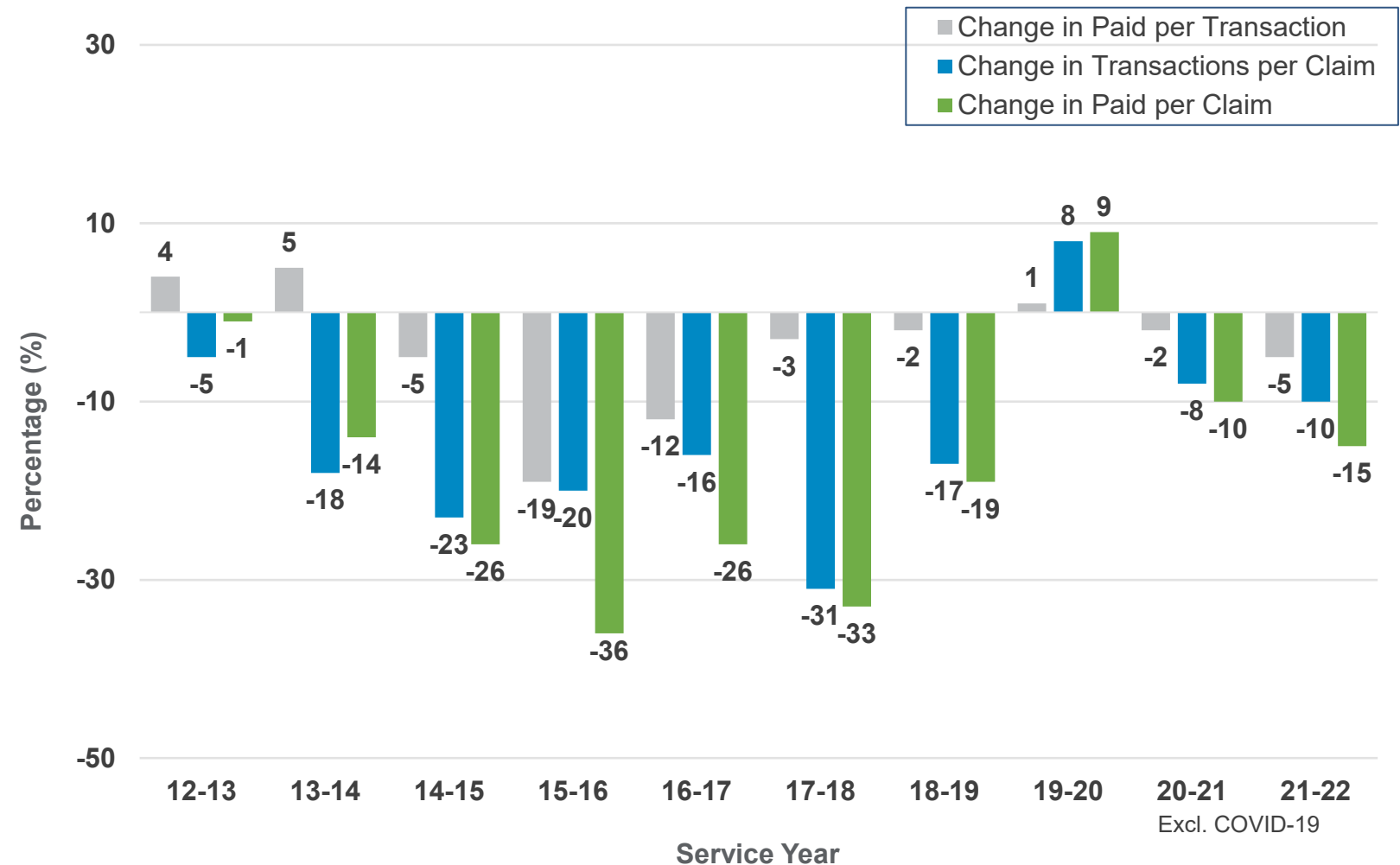
## Chart 14

Pharmaceutical costs per claim decreased by 87% from 2012 through 2022.

After increasing during the early pandemic period in 2020, average pharmaceutical costs per claim reverted to the pre-pandemic trend in 2021 and declined another 15% in 2022.

## Change in Pharmaceutical Cost Levels

As of February 7, 2023





## Chart 15

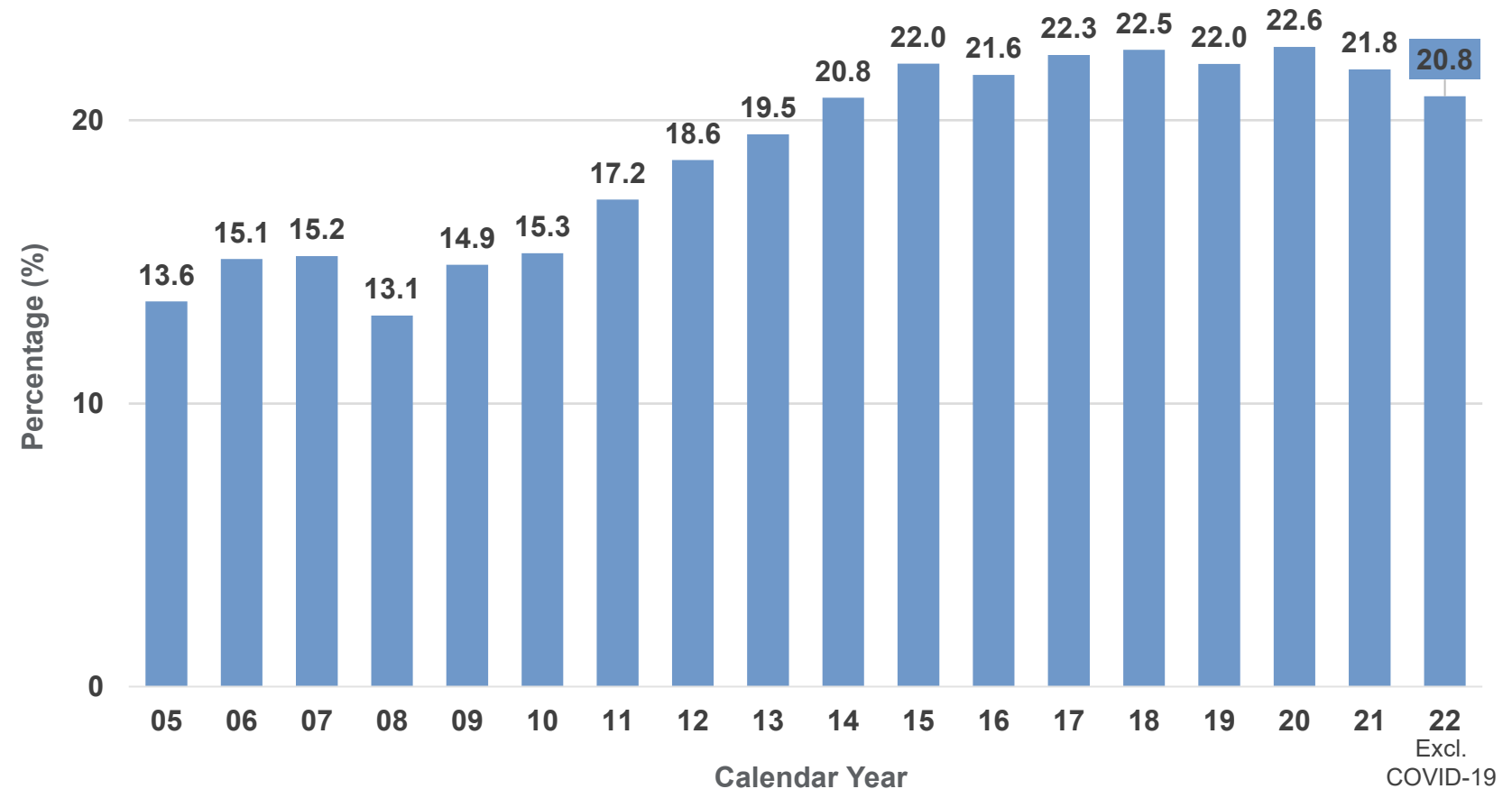
Ratios of ALAE to loss increased significantly from 2011 to 2015 in part due to increased cumulative trauma claim filings and the transition to SB 863.

From 2015 to 2021, these ratios have generally been consistent.

The ratio of ALAE to loss declined modestly in 2021 and 2022.

## Ratios of Paid ALAE to Paid Losses

As of December 31, 2022

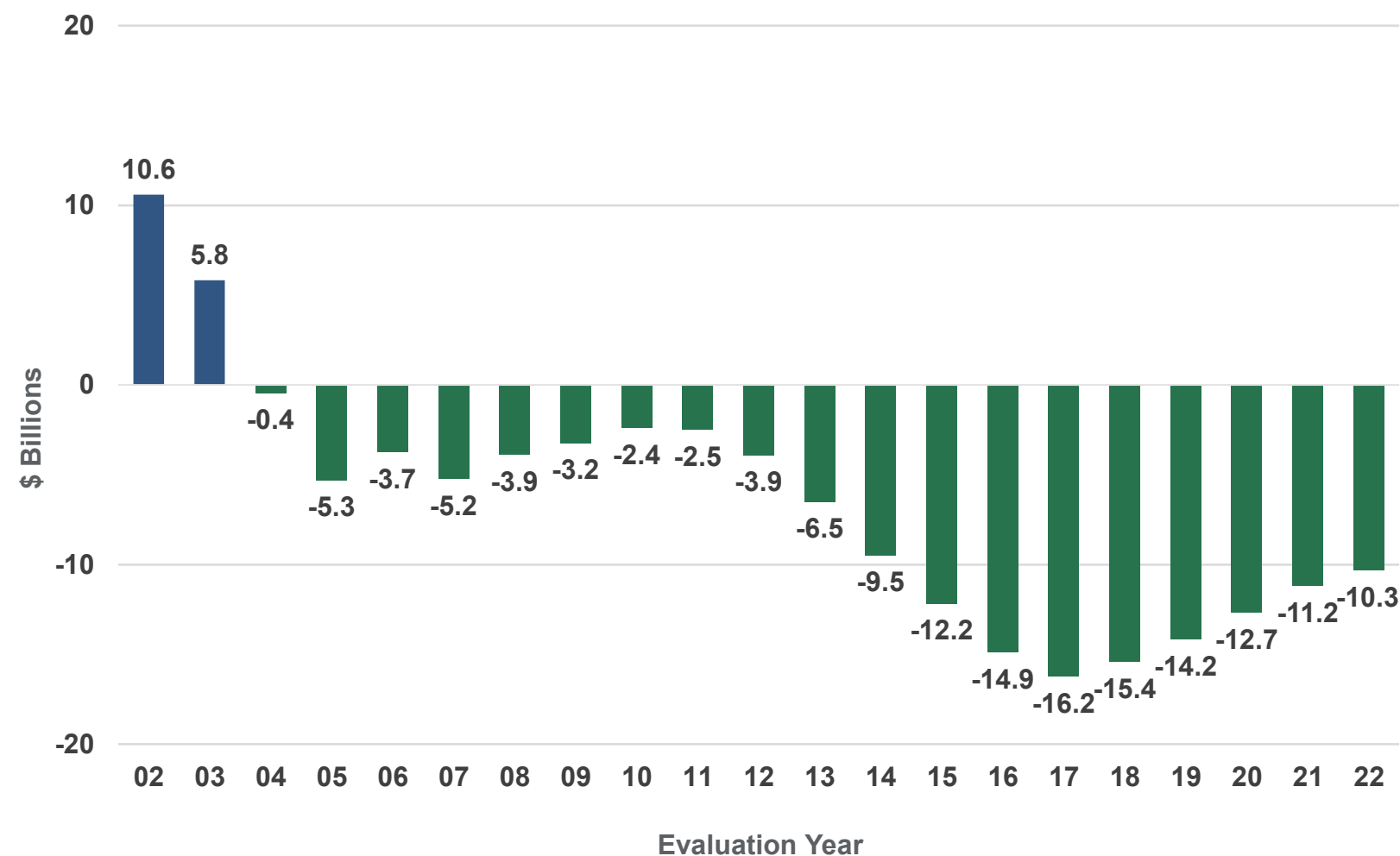


## Chart 16

Projected total statewide ultimate losses for 2005 through 2022 evaluations are below insurers' reported amounts.

### Projected Ultimate Losses Less Reported Losses

As of December 31, 2022







## General Notes and Limitations

- The information presented reflects a compilation of individual insurer submissions of information 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 WCIRB can make no warranty with respect to the information provided by third parties.
- Unless otherwise noted, the information in this report is based on the reported experience of insured employers only and may or may not be indicative of the experience of the state as a whole including self-insured employers.
- WCIRB estimates are based on information and projections as of December 31, 2022. If subsequent information becomes available that changes the basis of our assumptions, these estimates would of course be affected.
- 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.
- Some of the information presented herein may be based on data from only a partial time period or at an initial preliminary evaluation. Once more complete and mature information becomes available, estimates could differ.
- 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 of a diagnosis of COVID-19 have been filed for accident years 2020 to 2022. The amounts and ratios for accident years 2020 to 2022 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 2019 and estimated based on aggregate financial data calls for 2020 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, all rates include an adjustment for classification payroll limitations adopted effective January 1, 2020 and September 1, 2022.

## Chart 3: Ultimate Accident Year Loss Ratios



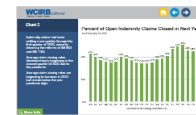
- Ratios are projected based on WCIRB aggregate financial data call data as of December 31, 2022.
- MCCP costs are included in loss ratios for accident years 2010 and prior.
- MCCP costs are included in loss and ALAE ratios for all years shown.
- COVID-19 claims are included in the projections for accident years 2020 to 2022.

## Chart 4: Projected Accident Year Combined Ratios



- Ratios are projected based on WCIRB aggregate financial data call data as of December 31, 2022.
- Combined ratios include losses, loss-adjustment expenses and other insurer expenses.
- COVID-19 claims are included in the projections for accident years 2020 to 2022.

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



- Source: WCIRB aggregate financial data call data as of December 31, 2022.
- 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.



## More Info (...continued)

### 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 2021 and changes in reported indemnity claim counts compared to changes in statewide employment based on WCIRB aggregate financial data call data for accident year 2022.
- COVID-19 claims are excluded from accident years 2020 through 2022.

### Chart 7: COVID-19 Share of Indemnity Claims



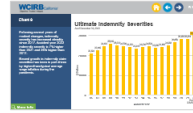
- Source: WCIRB indemnity transaction data through March 7, 2023. Excludes denied claims.
- Represents indemnity claims for the accident month that have been reported by March 7, 2023.

### Chart 8: Ultimate Loss & ALAE Severities



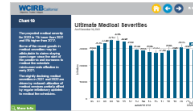
- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2022.
- Includes data for indemnity claims only.
- COVID-19 claims are excluded from accident years 2020 to 2022.

### Chart 9: Ultimate Indemnity Severities



- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2022.
- COVID-19 claims are excluded from accident years 2020 to 2022.

### Chart 10: Ultimate Medical Severities



- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2022.
- Includes data for indemnity claims only.
- MCCP costs are excluded from all years for consistency of comparison.
- COVID-19 claims are excluded from accident years 2020 to 2022.

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



- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2022.
- Includes data for indemnity claims only.
- MCCP costs are excluded from all years for consistency of comparison.
- COVID-19 claims are excluded from accident years 2020 to 2022, reported as of December 31 of the prior year.



## More Info (...continued)

### Chart 12: Ultimate Medical Cost Containment Program (MCCP) Severities



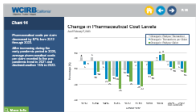
- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2022.
- Includes data for indemnity claims only.
- COVID-19 claims are excluded from accident years 2020 to 2022.

### Chart 13: Change in Medical Service Cost Levels



- Source: WCIRB medical transaction data as of February 7, 2023.
- Costs from COVID-19 claims are excluded from the 2020 to 2022 periods.

### Chart 14: Change in Pharmaceutical Cost Levels



- Source: WCIRB medical transaction data as of February 7, 2023.
- Costs from COVID-19 claims are excluded from the 2020 to 2022 periods.

### Chart 15: 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 years 2020 to 2022.

### Chart 16: 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, 2022.
- COVID-19 claims are included in the projections for accident years 2020 to 2022.



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