



California Workers' Compensation: Reform Has Run Its Course

CAS Annual Meeting
Seattle, Washington
November 16-19, 2008

Roberta J. Garland, FCAS, MAAA



The History

1995

- **Open Rating – Led to Severe Under-pricing and Insurer Insolvencies**

2001 - 2002

- **Dramatic increases in claim costs, insurer insolvencies, large reserve additions needed for insurers and self-insurers**

2003 - 2004

- **Governor recalled**
- **Workers' Compensation becomes major campaign issue in election**

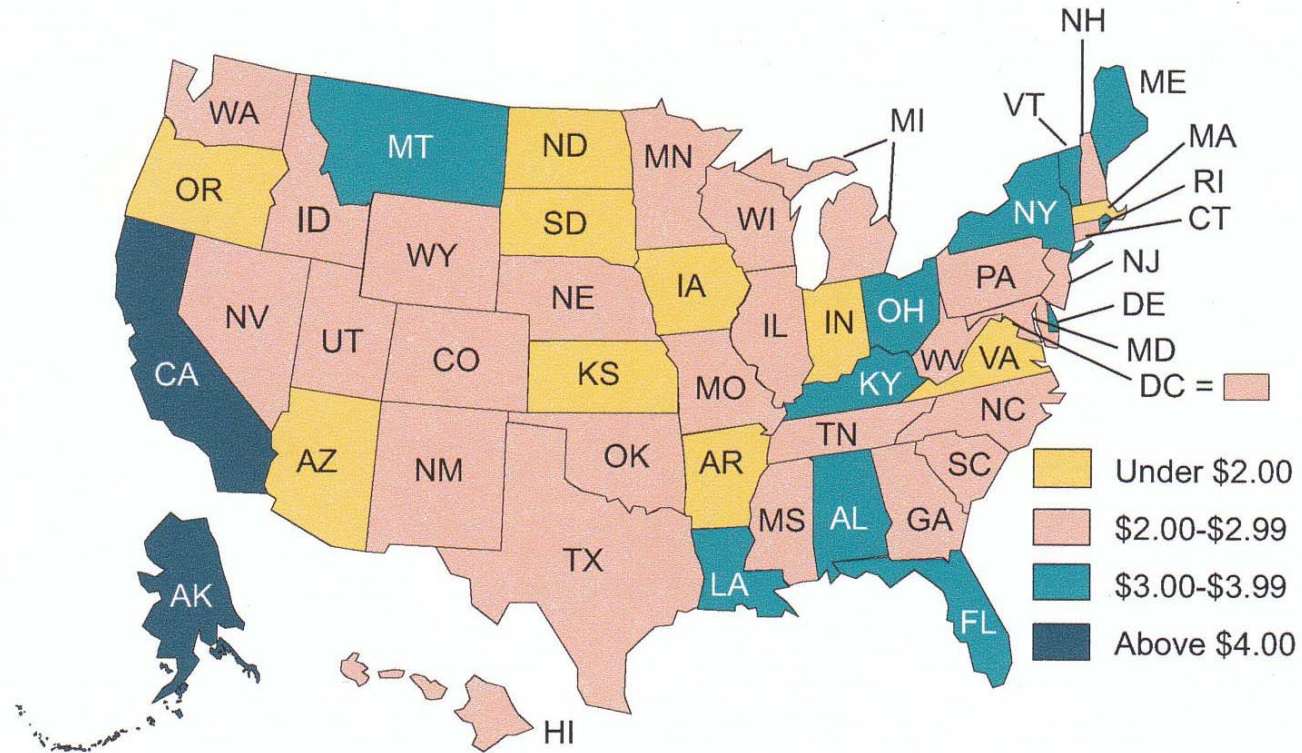
2004 - 2005

- **Reforms enacted and have proven very successful**

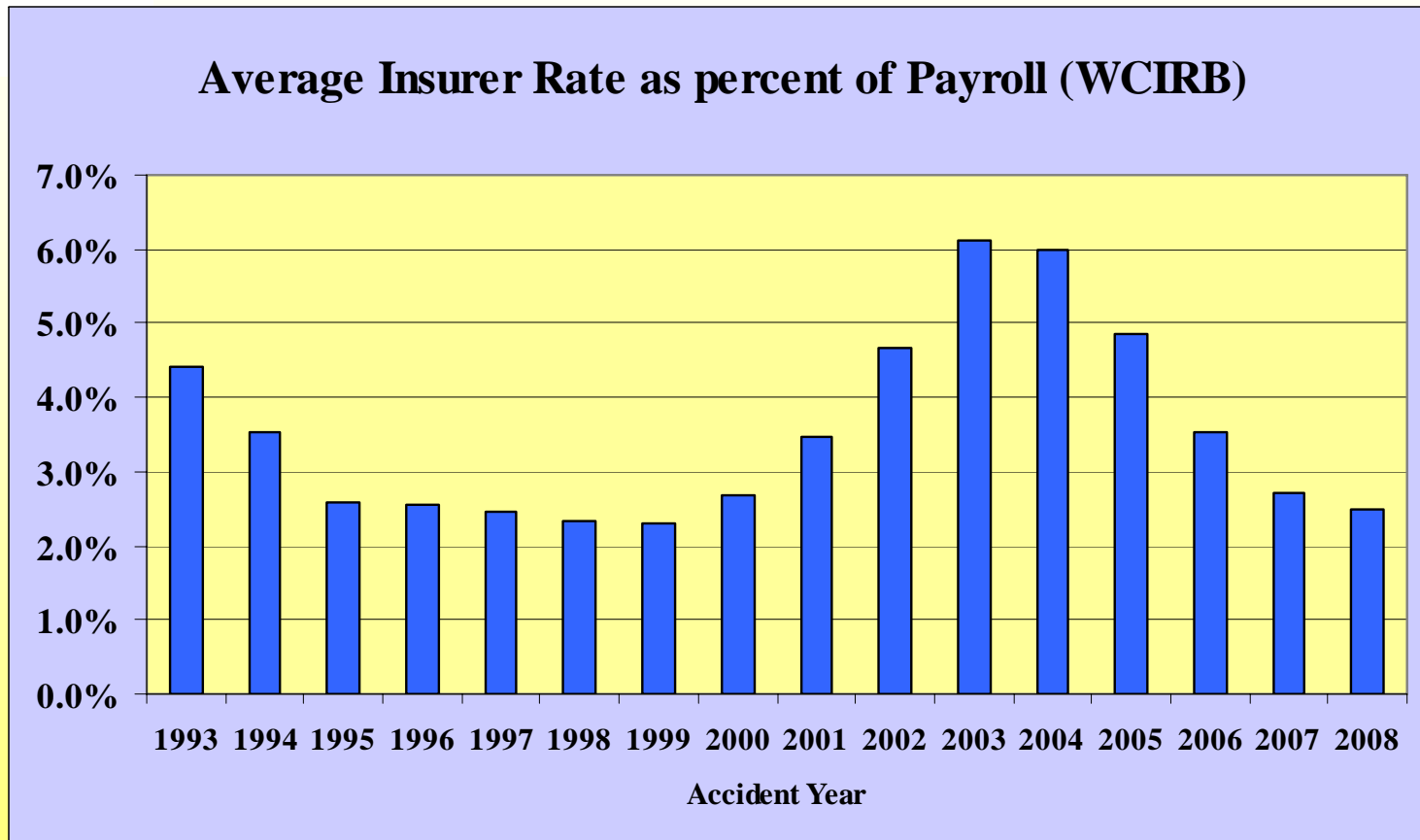
2004 - 2008

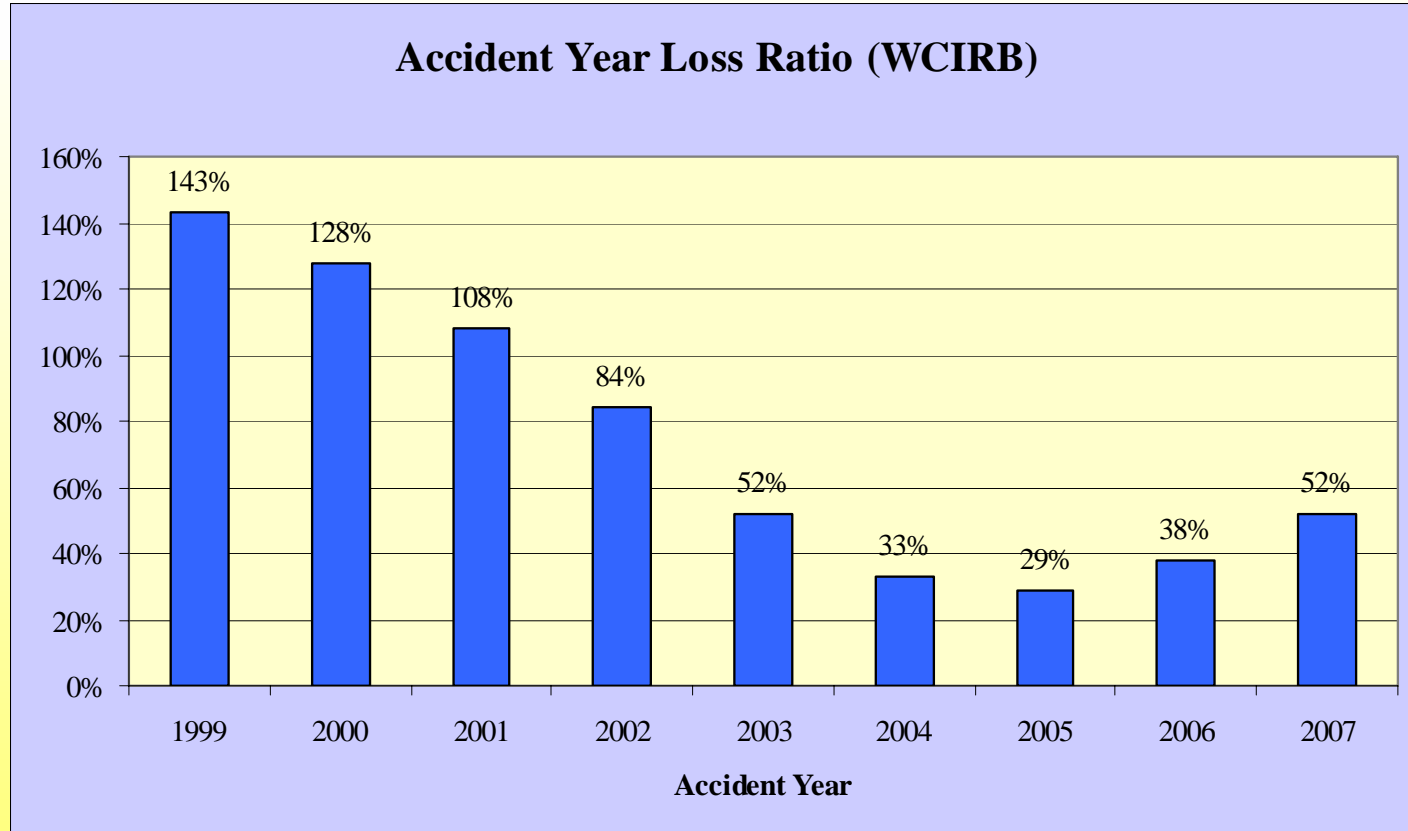
- **Claim costs and premiums have been cut more than half in many cases**

WC Premium Rate Index per \$100 Payroll



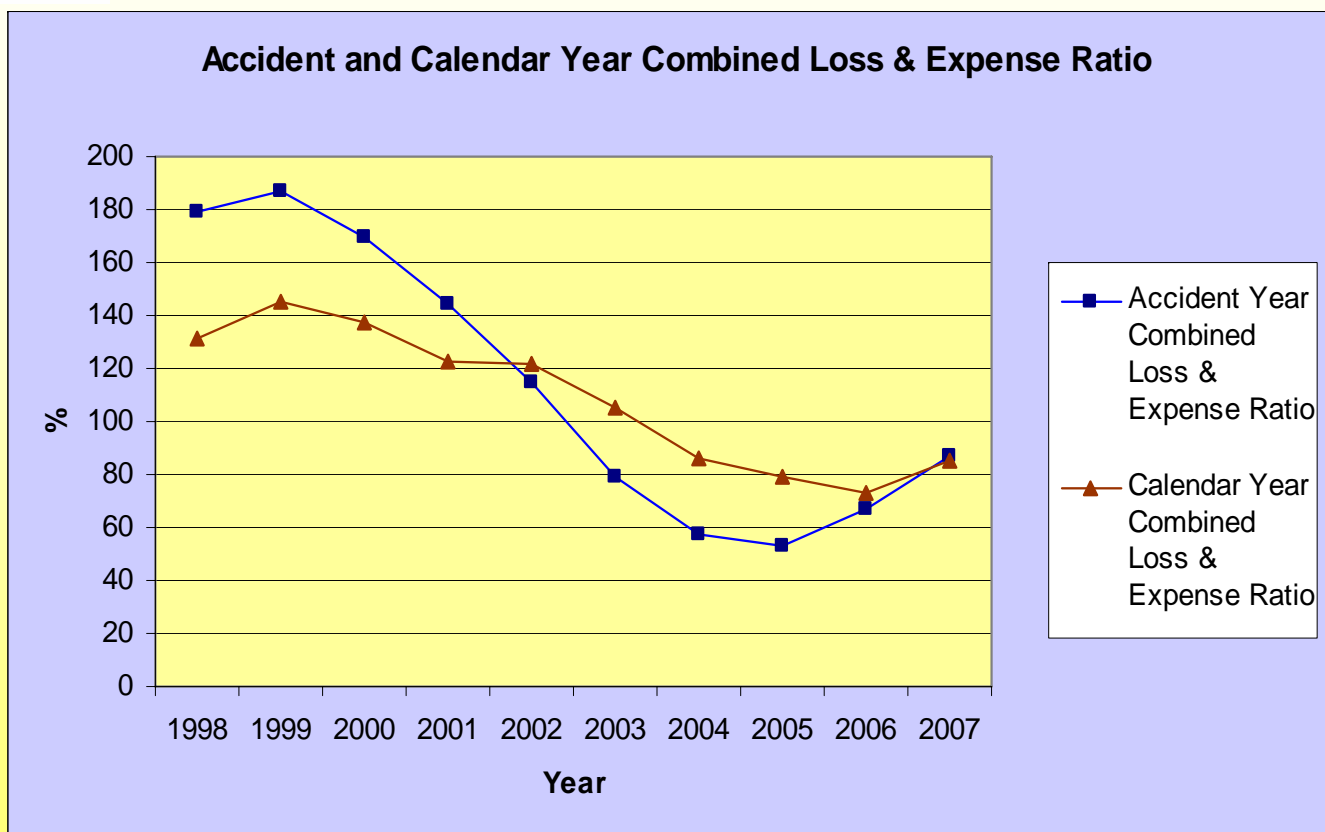
Source: Oregon DOI 2006







Insurer Profits in the Last Few Years are High



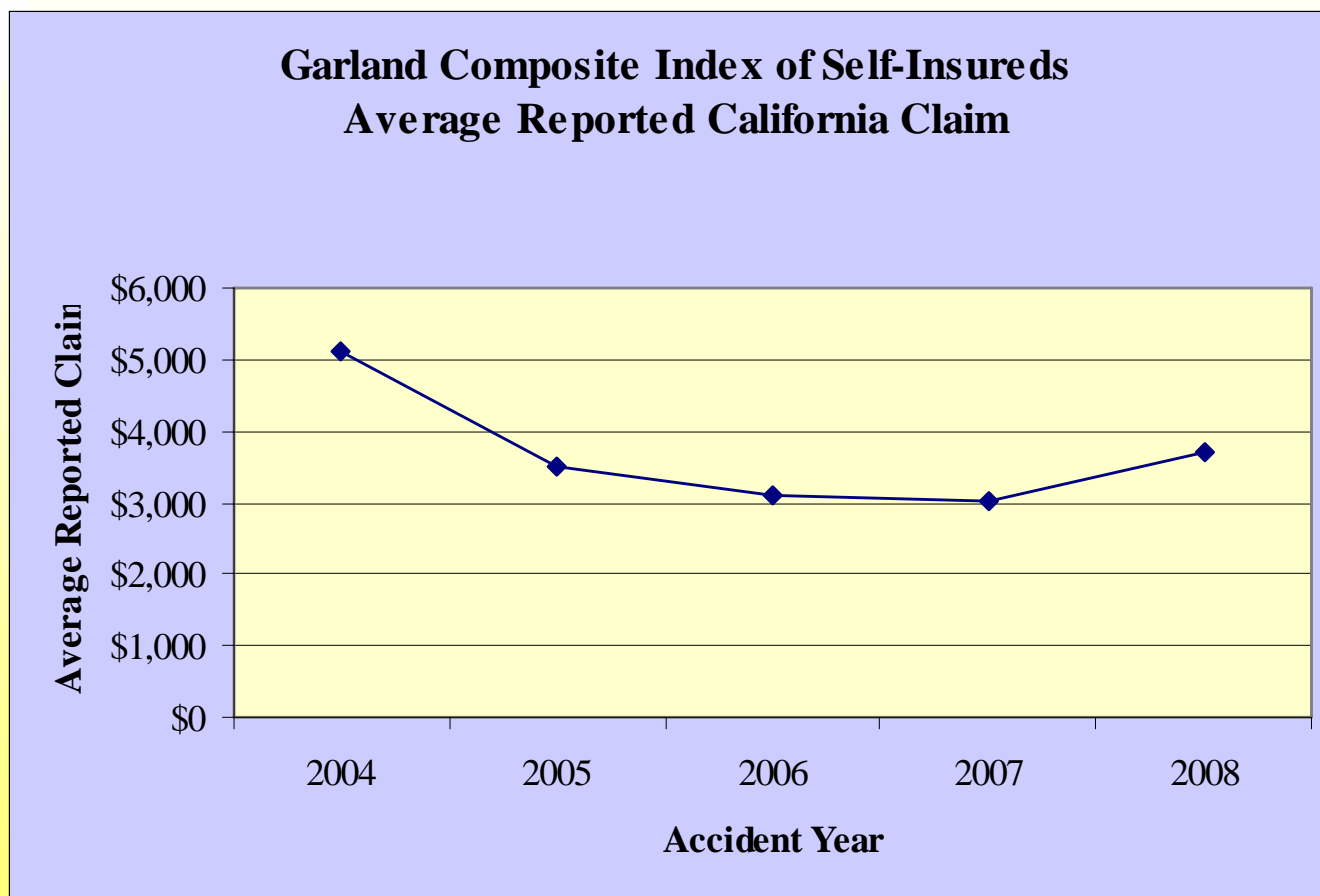


Has the reduction in claims cost run its course?

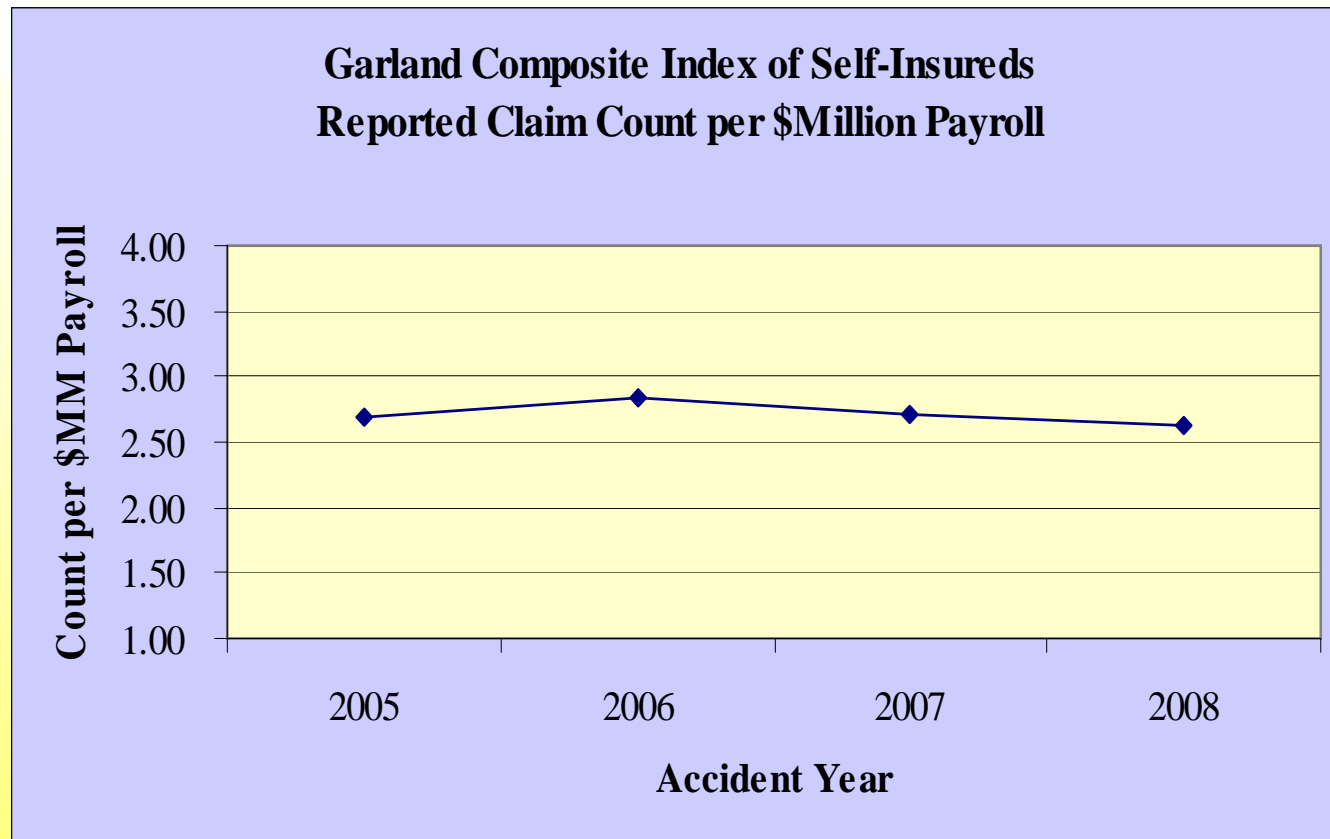
- Medical inflation seems to be increasing again
- Uptick in average reported claim cost
- Claim frequency flat or moderately increasing
- Increased political pressure on behalf of injured workers
- Next governor??



Leading Indicator Shows Increasing Claim Severity



Claim Frequency Shows Little Change





Efforts to Increase Permanent Disability Benefits have not been successful to date

- SB815, SB 936 and SB1717 introduced by Senate President pro Tem Perata have been vetoed by Governor, citing it is too early to determine the results of reform
- However, there is growing concern over adequacy of benefits paid to permanently injured workers
- SB1717 would double length of PD benefits over three years
- Schwarzenegger offered revisions in PD rating schedule but these were seen as insufficient by labor supporters



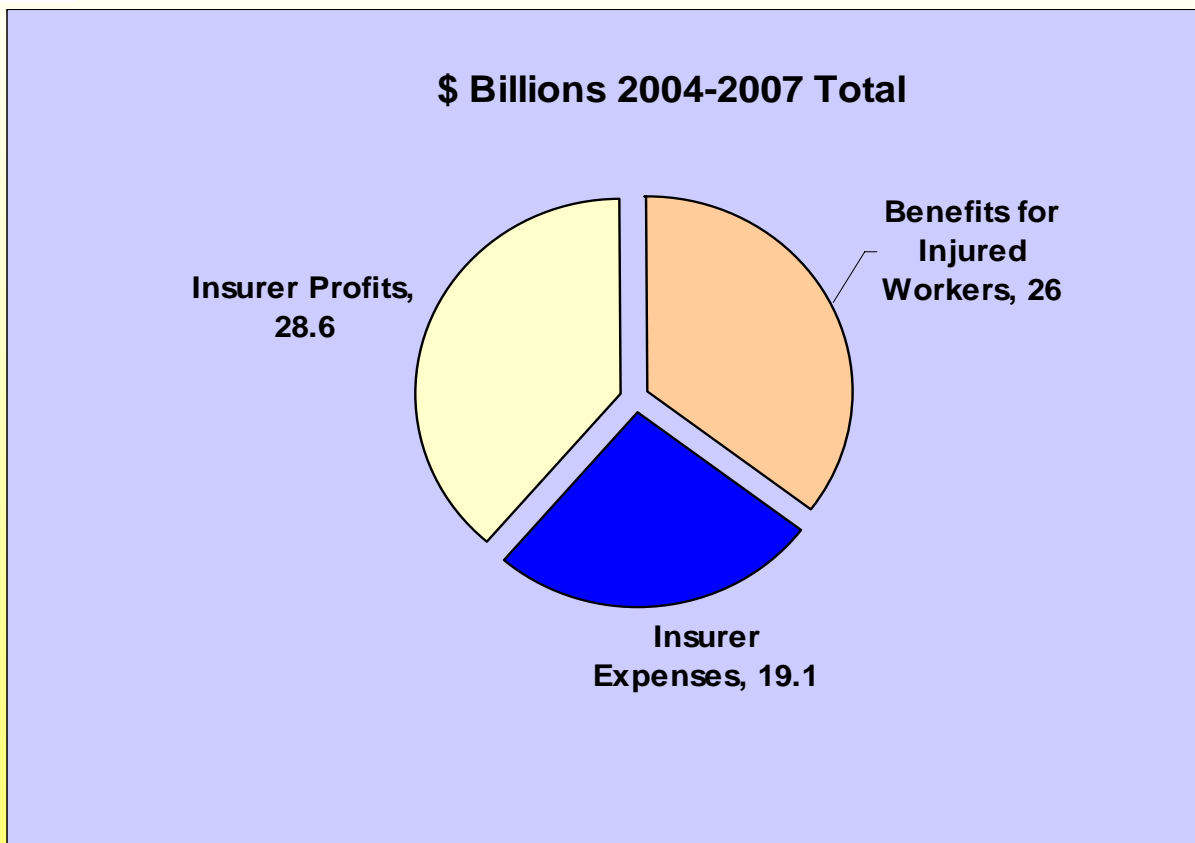
Presentation to California Senate Labor and Industrial Relations Committee by California Applicant's Attorneys Association

- Injured workers are not being compensated adequately
- California PD benefits are among the lowest in the country
- California PD benefits are often less than half of the national average
- Insurer profits are too high
- Committee passed SB1717



Distribution of Premium

Chart Shown to California Senate Labor and Industrial Relations Committee



Source: California Progress Report Website



Latest Rate Filing Activity

(Effective 2009)

- WCIRB files for 16% rate increase, citing increased medical losses
- Department of Insurance staff recommended 9.4% increase
- Insurance Commissioner approved 5% increase, citing insurer profitability
- The term “Pure premium advisory rate” replaced by “Workers’ compensation claims cost benchmark”



The Future????

- Will continue to be a political issue
- Will be an issue in next gubernatorial campaign
- Claim costs have probably bottomed out and will increase at least with inflation
- SB1717 or look-alike would double number of weeks for PD benefits, eliminate “bump-down” in benefits when employer offers modified or alternative duty
- Garamendi for Governor?
- Poizner for Governor?