

California Workers Compensation: Are We There Yet?



A MILLIMAN GLOBAL FIRM

Milliman

Consultants and Actuaries

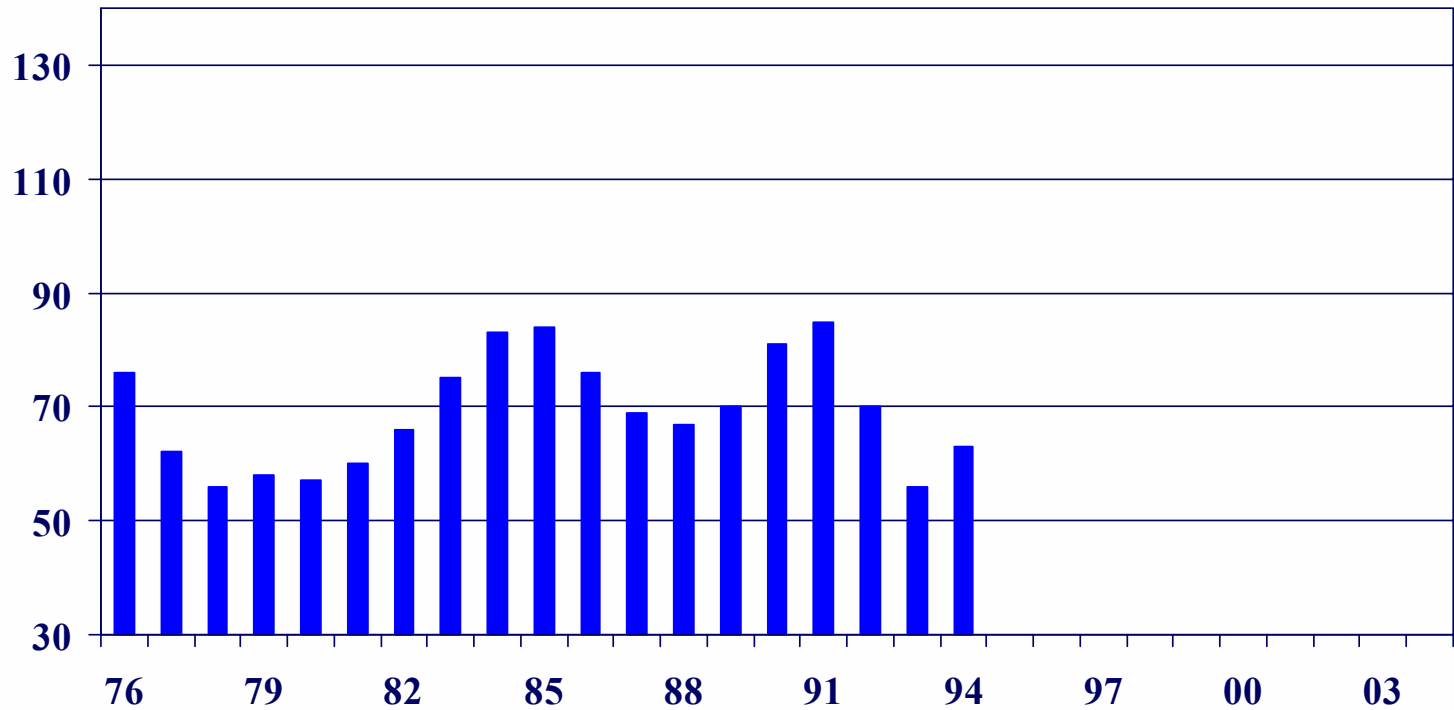
Guy Avagliano
Milliman, Inc.
September 13, 2005

A Brief History

- **1992-94: Low Loss Ratios**
 - Effective anti-fraud measures
 - Low medical inflation
 - Normal loss ratio cycle



WCIRB Ultimate Loss Ratios @ 3/05

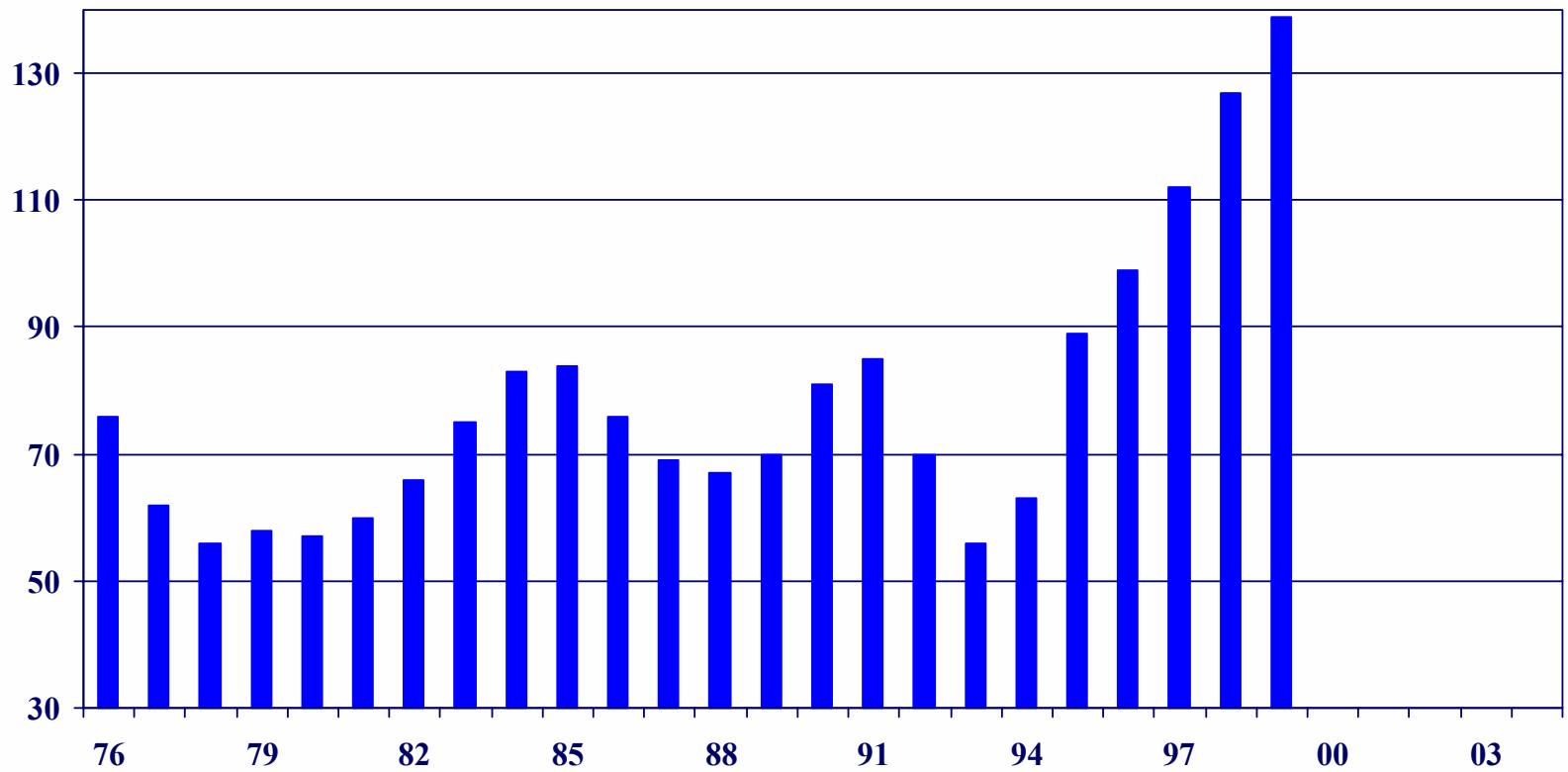


A Brief History

- **1992-94: Low Loss Ratios**
- **1995-99: Increasing Loss Ratios**
 - Deep discounts in pricing (open rating)
 - Inadequate pure premiums
 - Cheap reinsurance
 - High severity trends, especially for medical



WCIRB Ultimate Loss Ratios @ 3/05

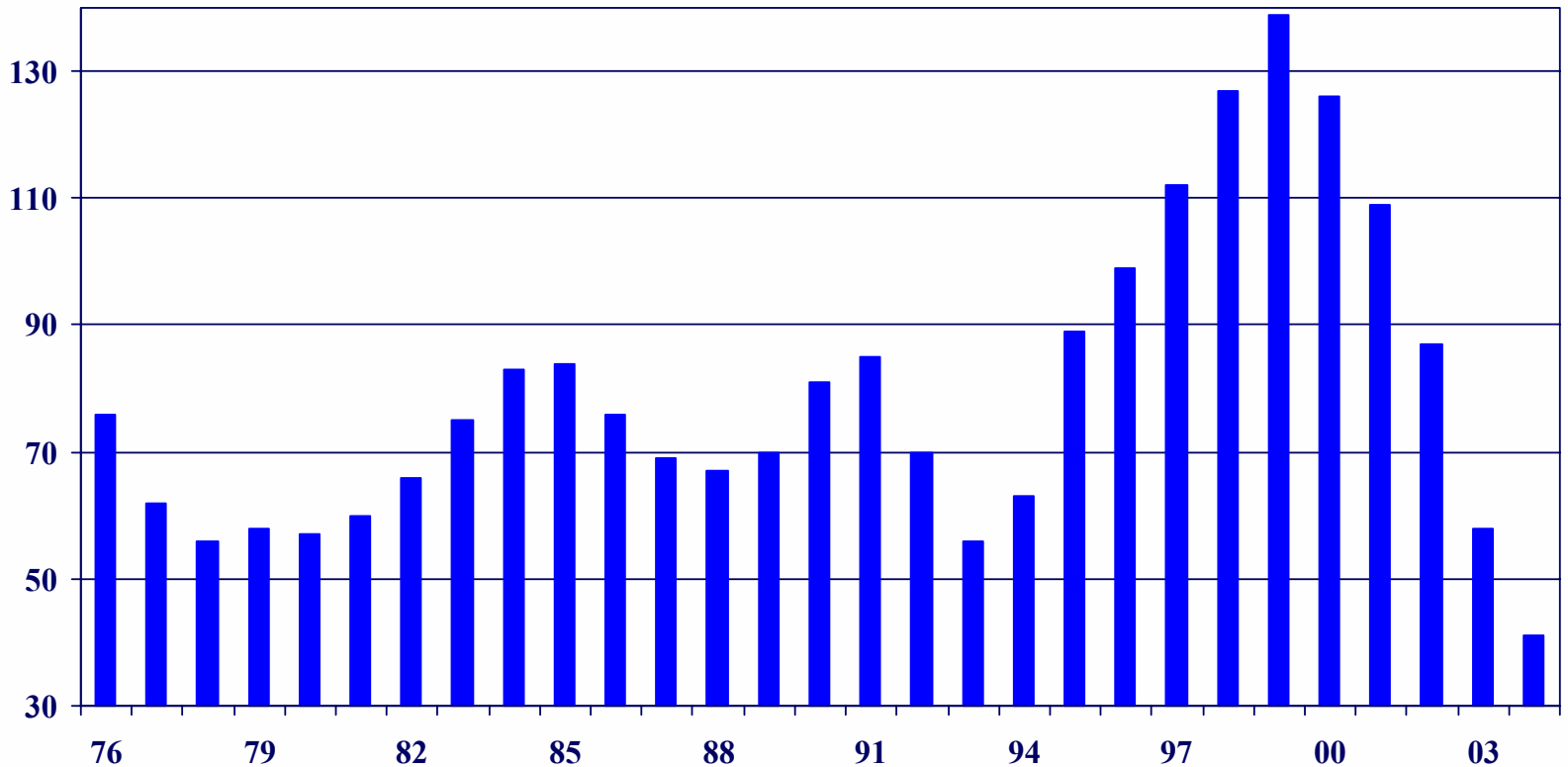


A Brief History

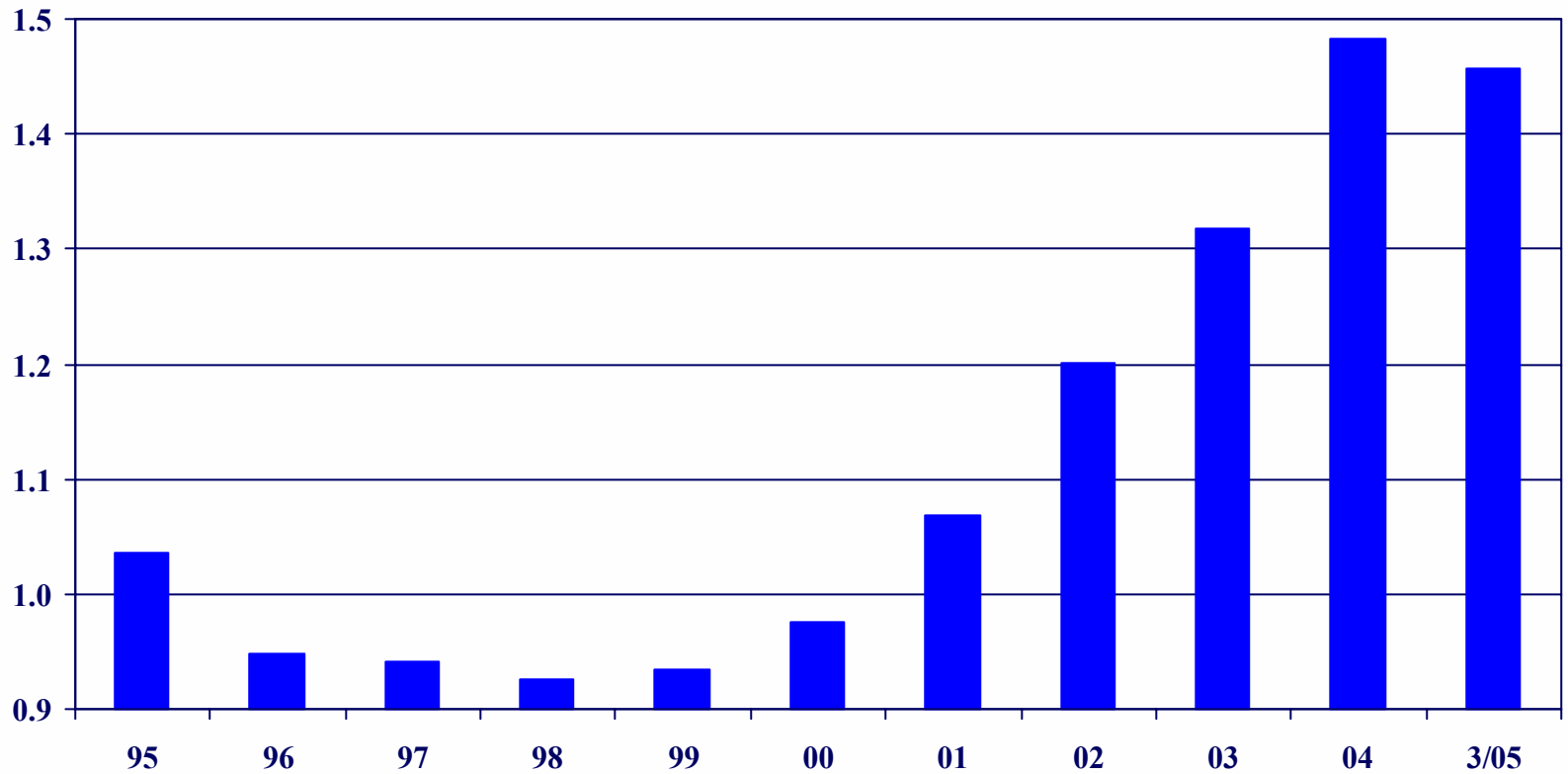
- **1992-94: Low Loss Ratios**
- **1995-99: Increasing Loss Ratios**
- **2000-04: Improving Loss Ratios**
 - Rate increases (advisory)
 - Rate increases (effective)
 - Major legislative changes
 - Declining frequency



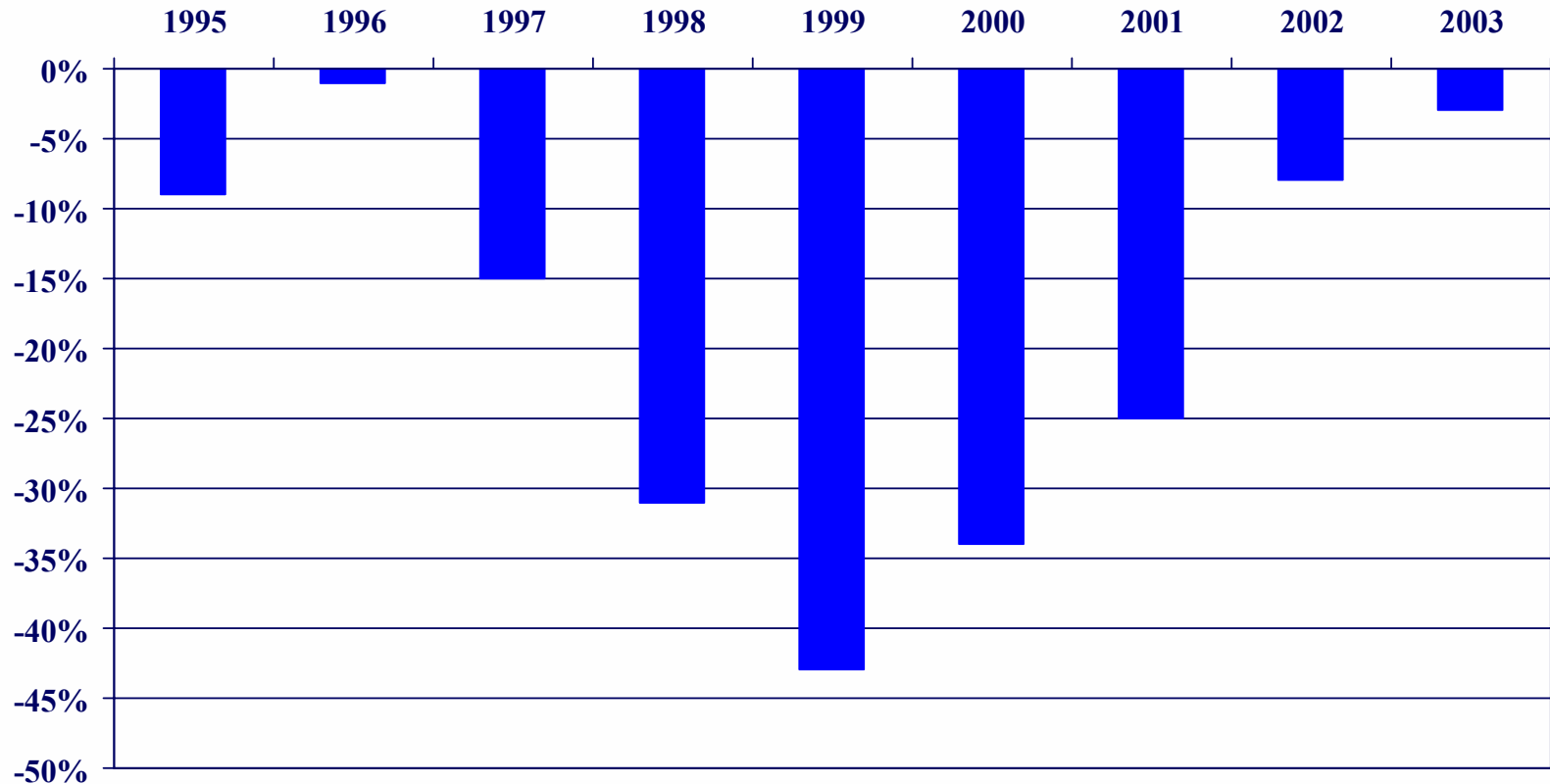
WCIRB Ultimate Loss Ratios @ 3/05



Effective LCM (vs. Advisory PP)



Retrospective Pure Premium Adequacy

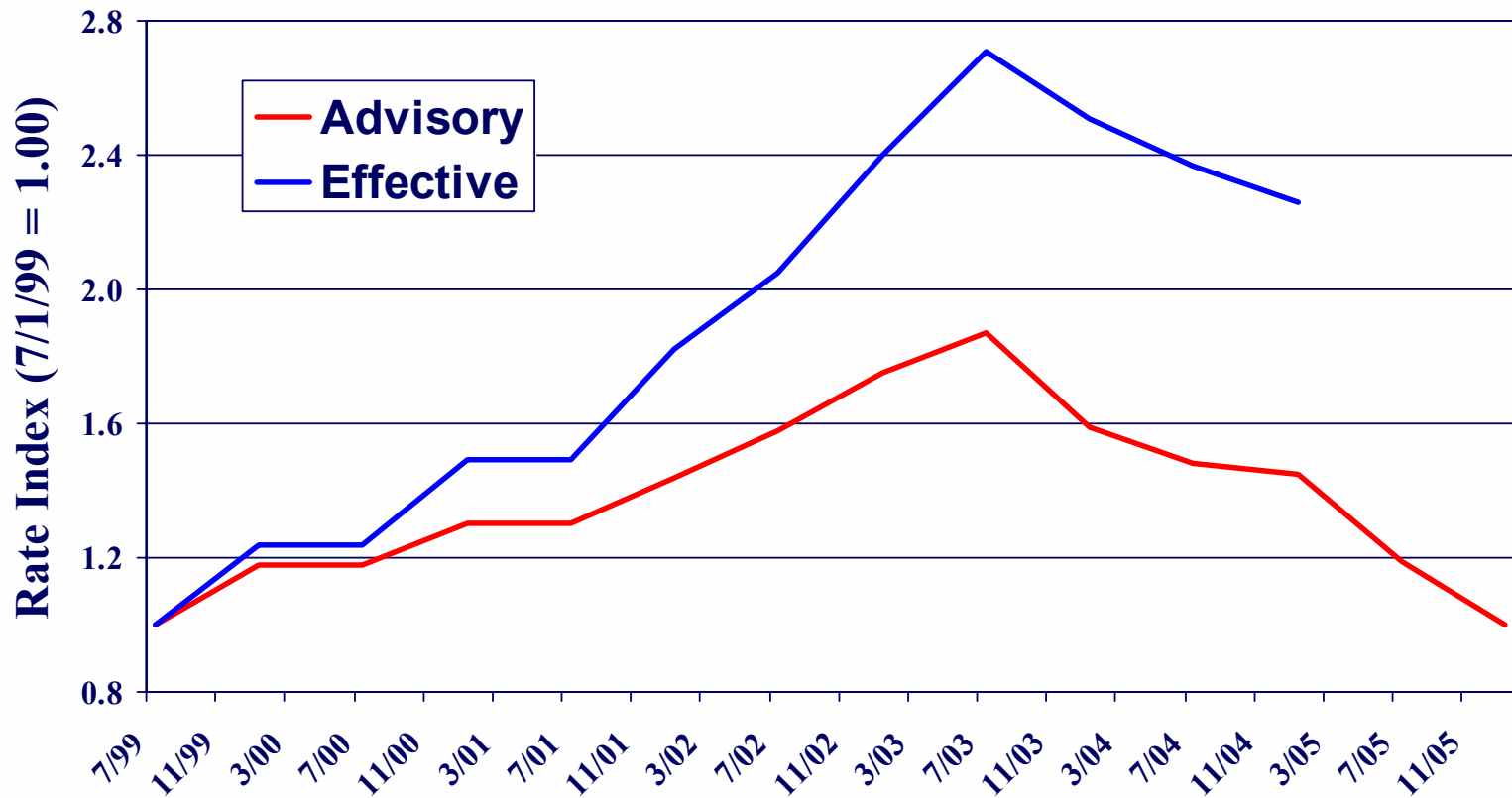


Rate Changes

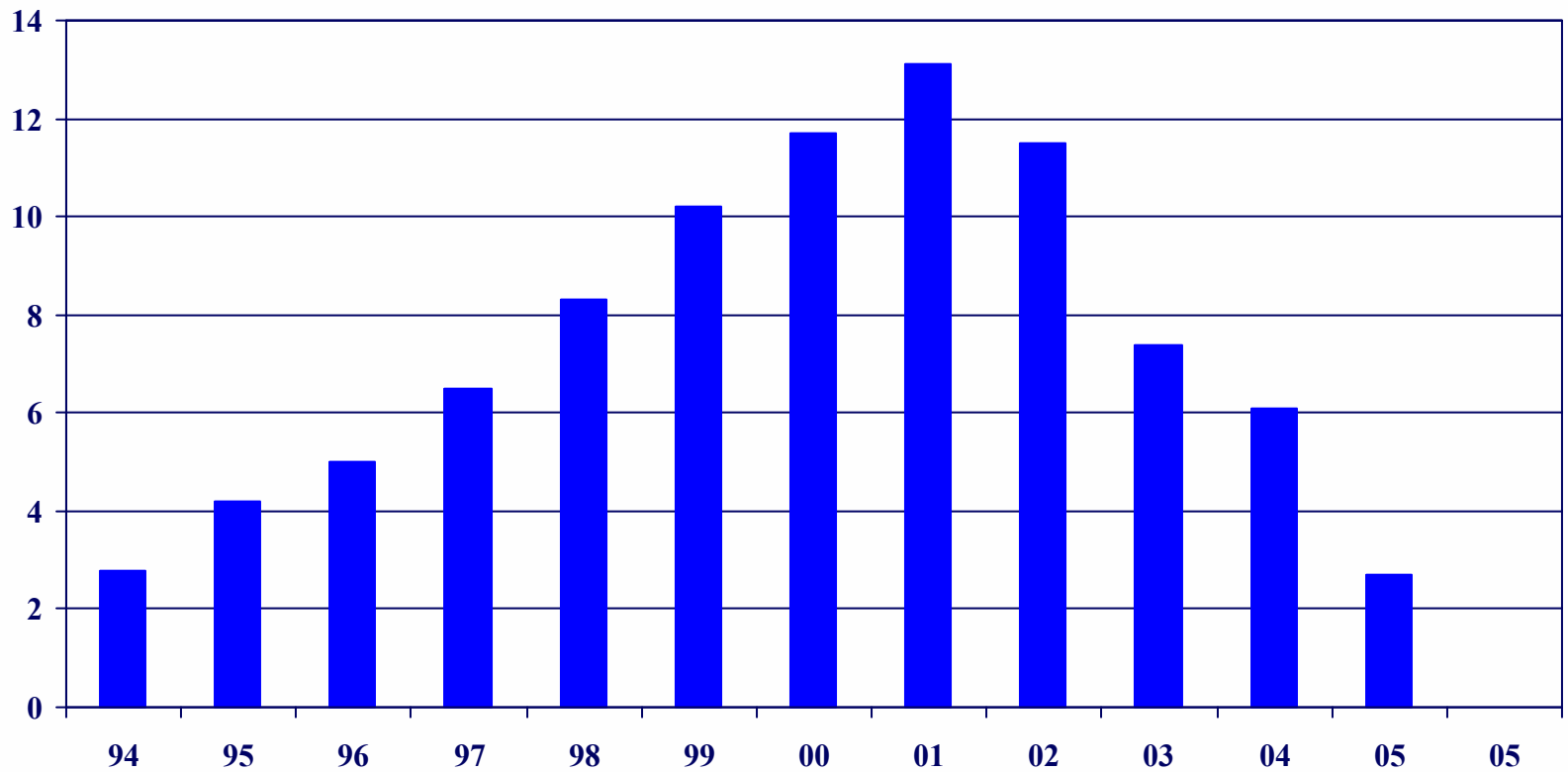
Effective	Approved	Effective
1/00	+18%	+24%
1/01	+10%	+21%
1/02, 7/02	+10%, +10%	+23%, +13%
1/03, 7/03	+11%, +7%	+17%, +13%
1/04, 7/04	-15%, -7%	-8%, -6%
1/05, 7/05	-2%, -18%	-5%, n/a
1/06 (filed)	-16%	n/a



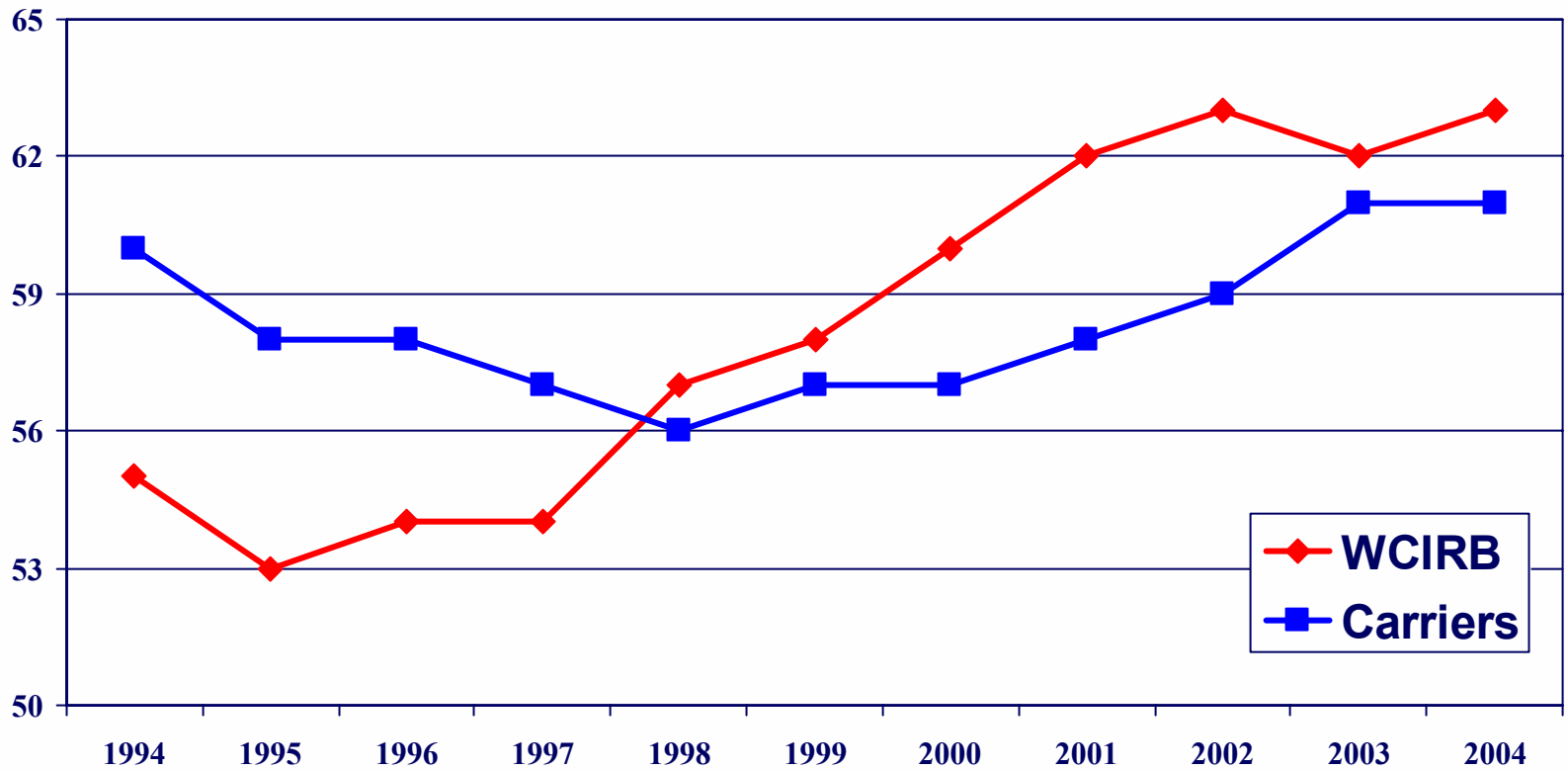
Rate Index



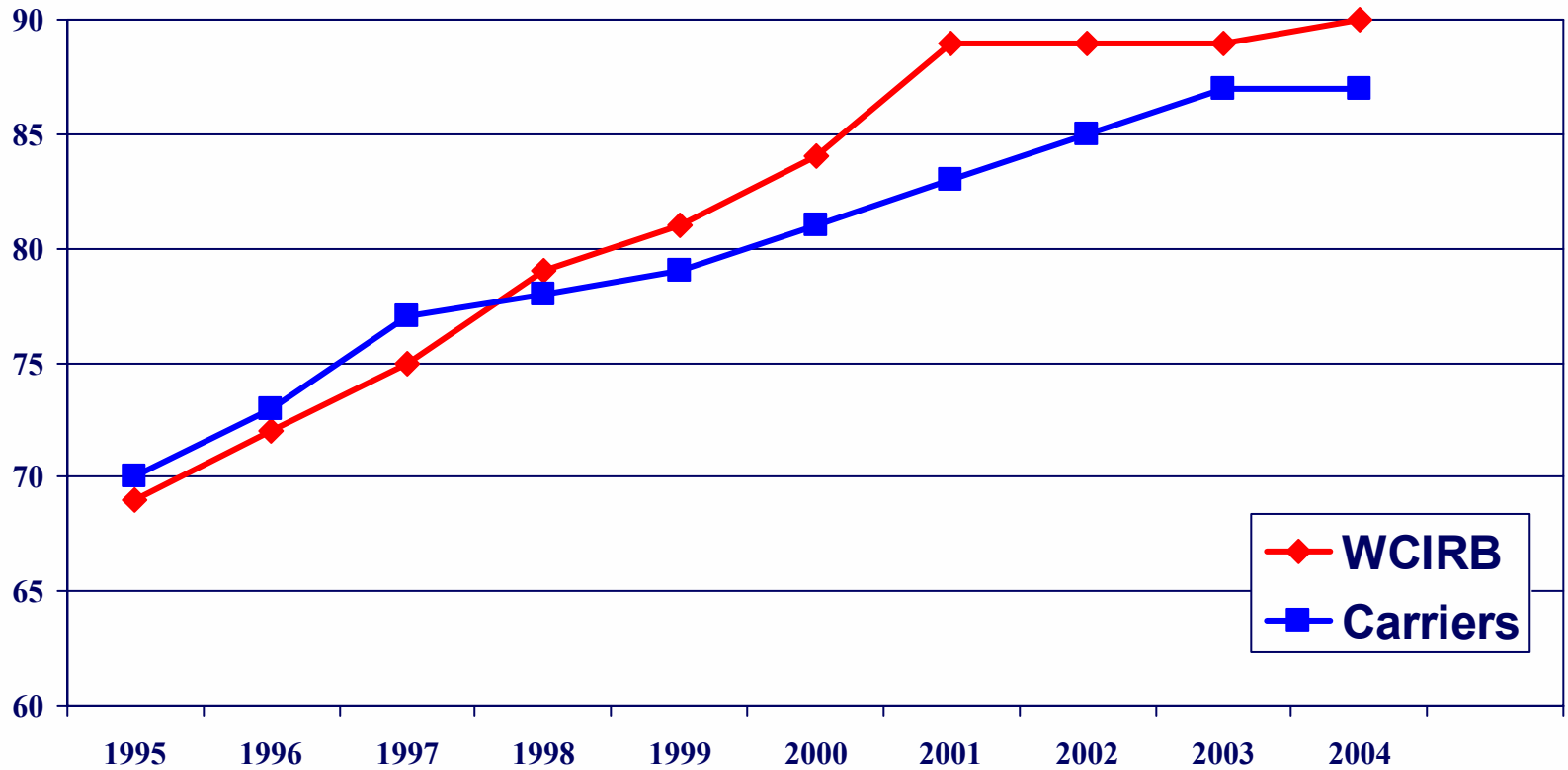
WCIRB Indicated Deficiency (\$B)



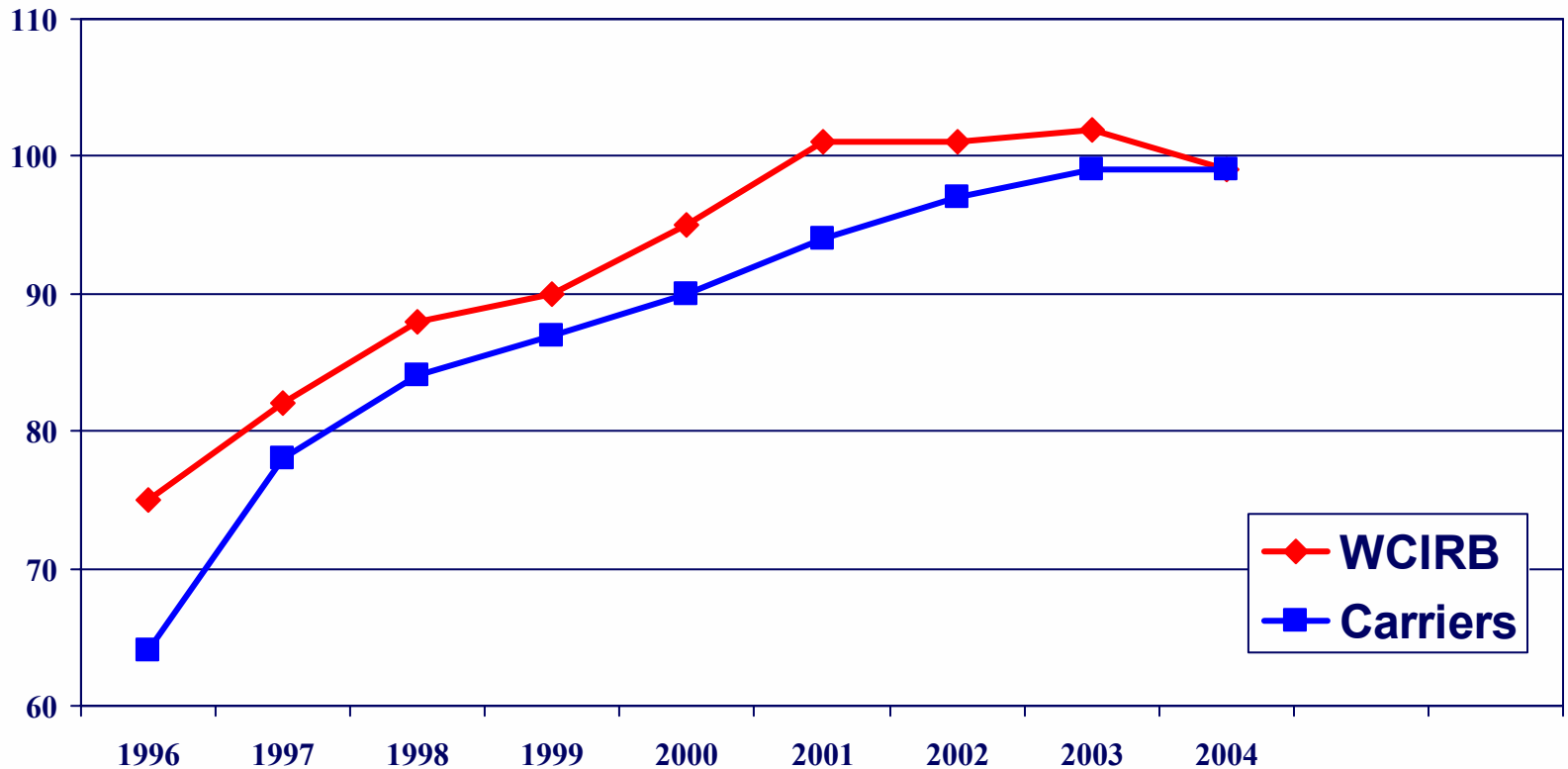
Development: Accident Year 1994



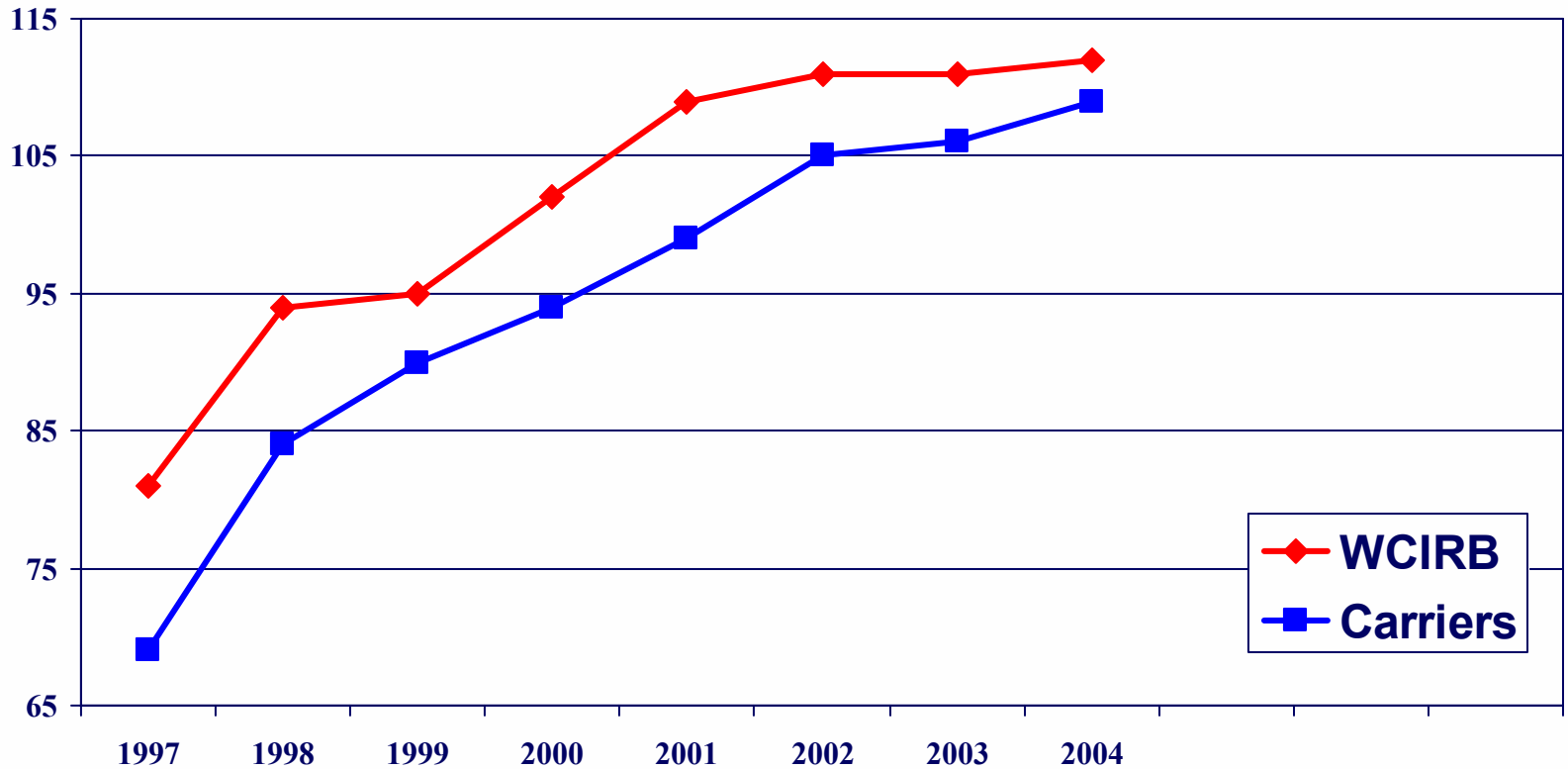
Development: Accident Year 1995



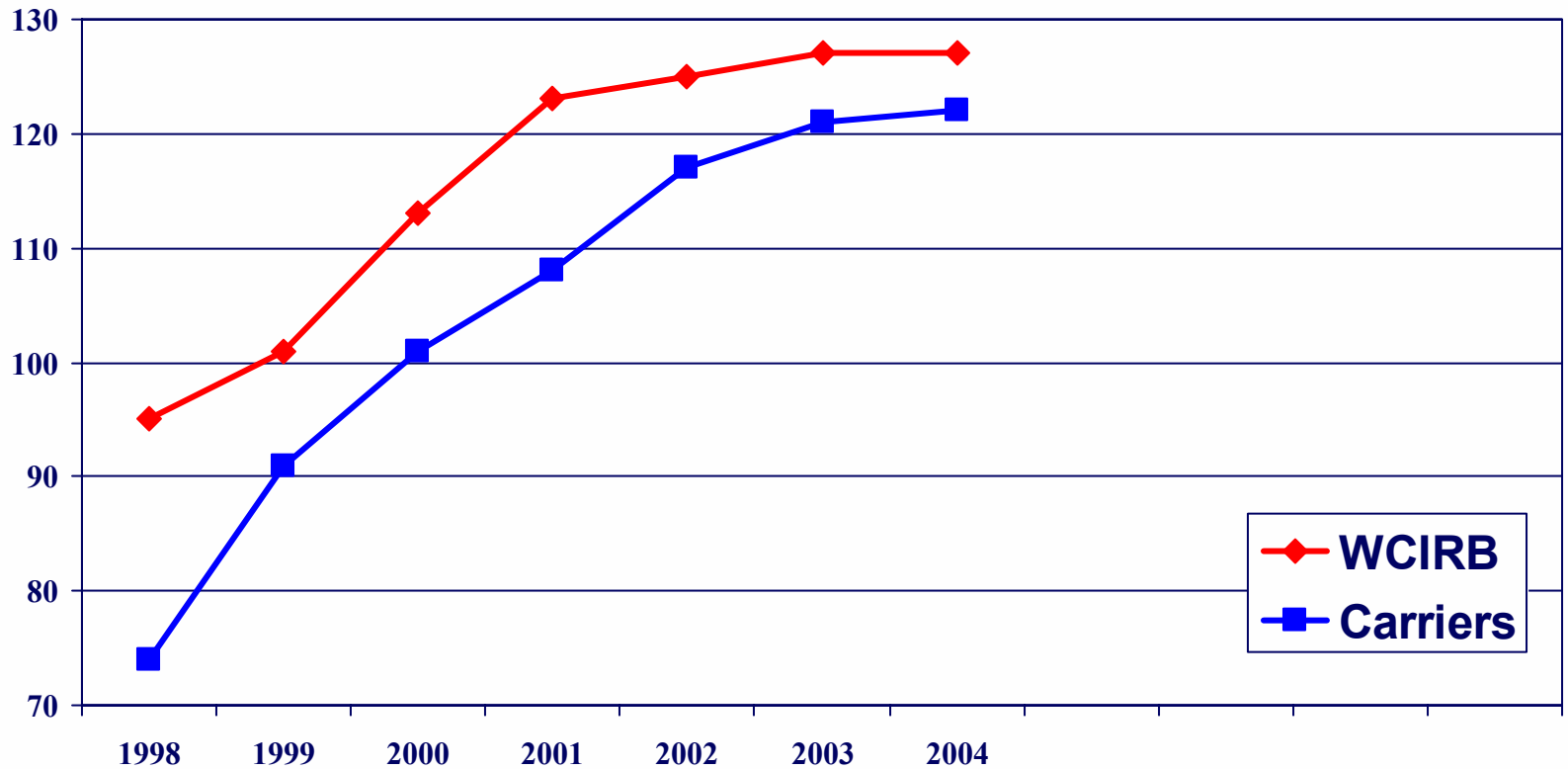
Development: Accident Year 1996



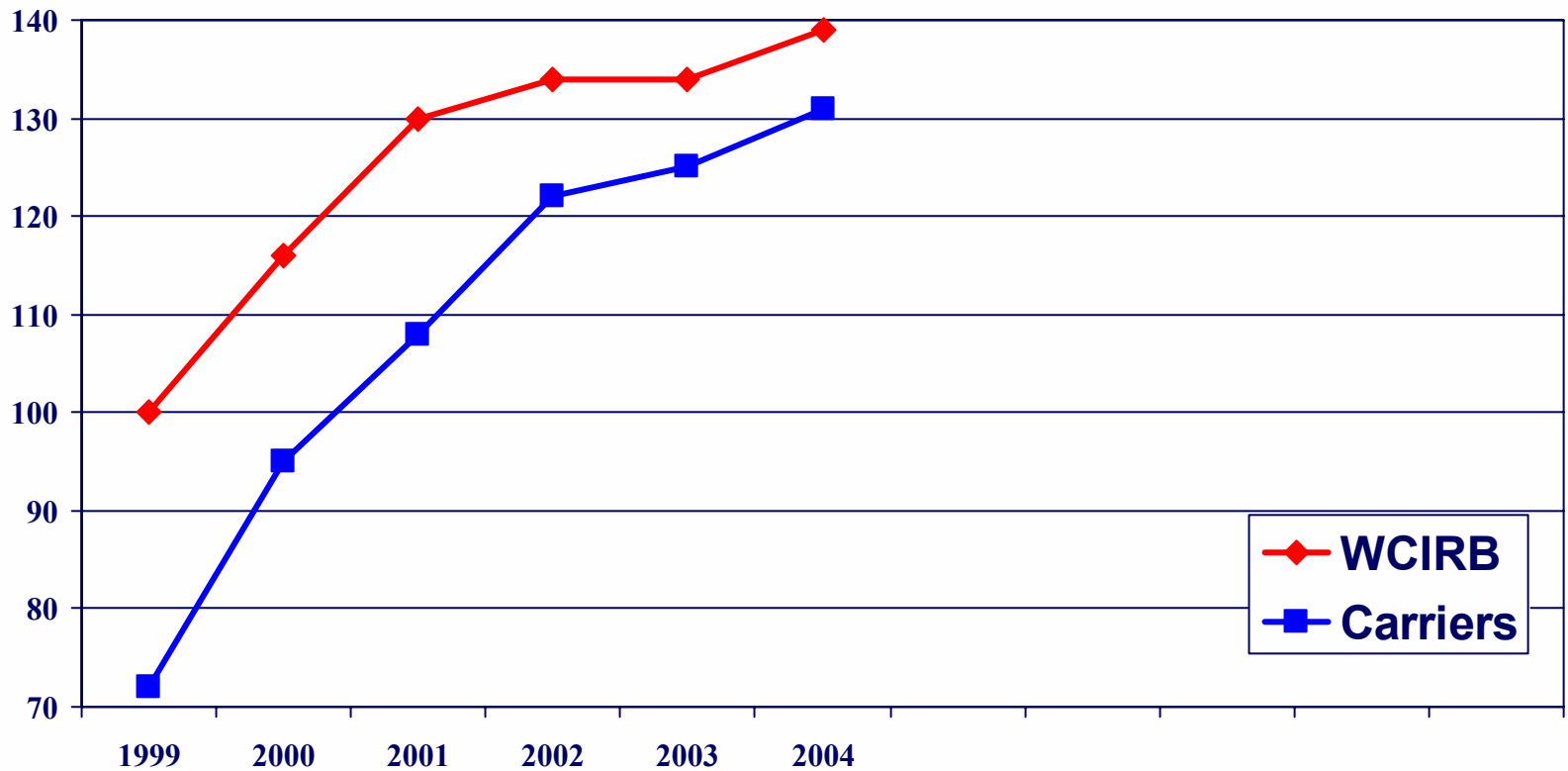
Development: Accident Year 1997



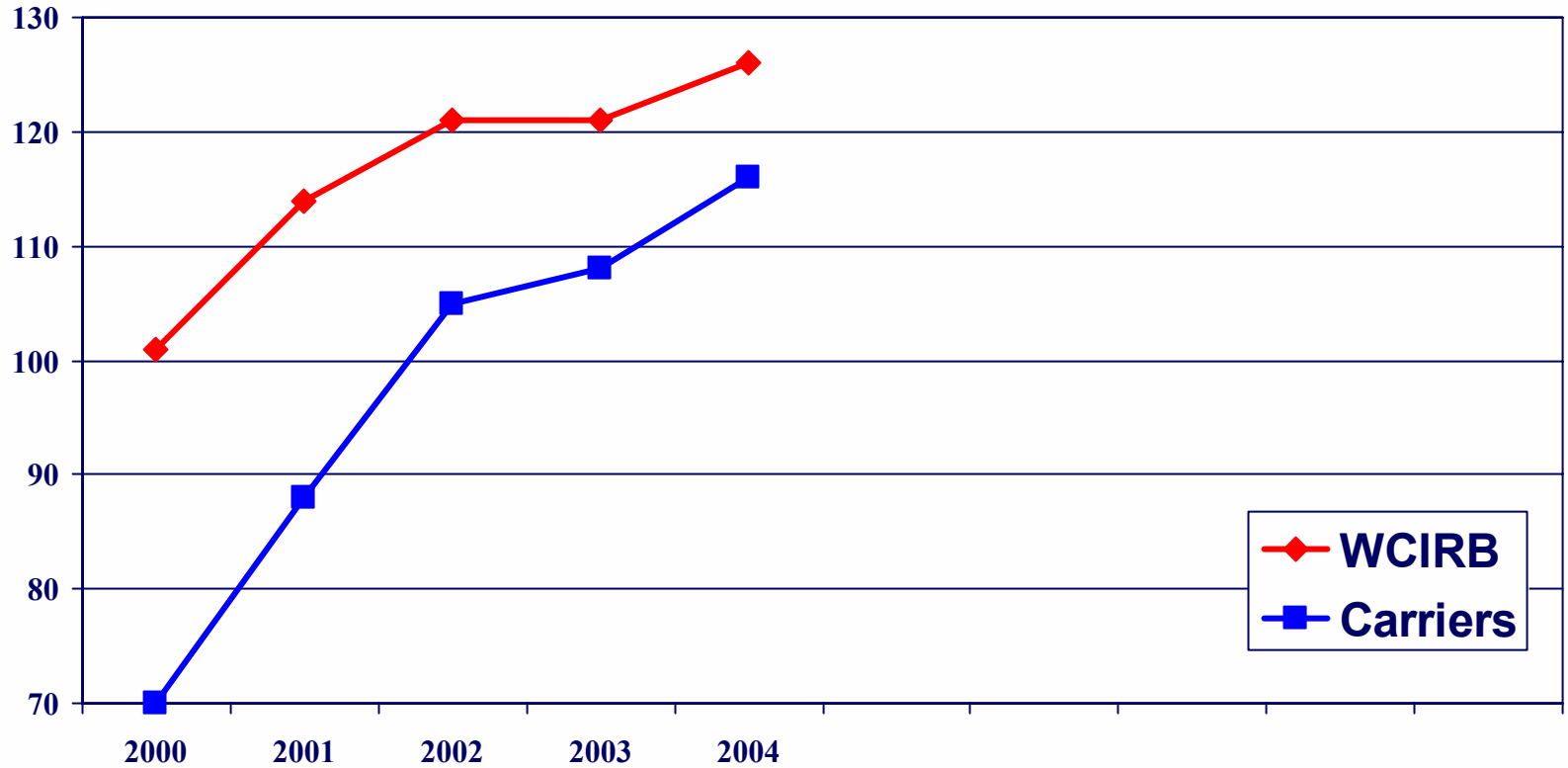
Development: Accident Year 1998



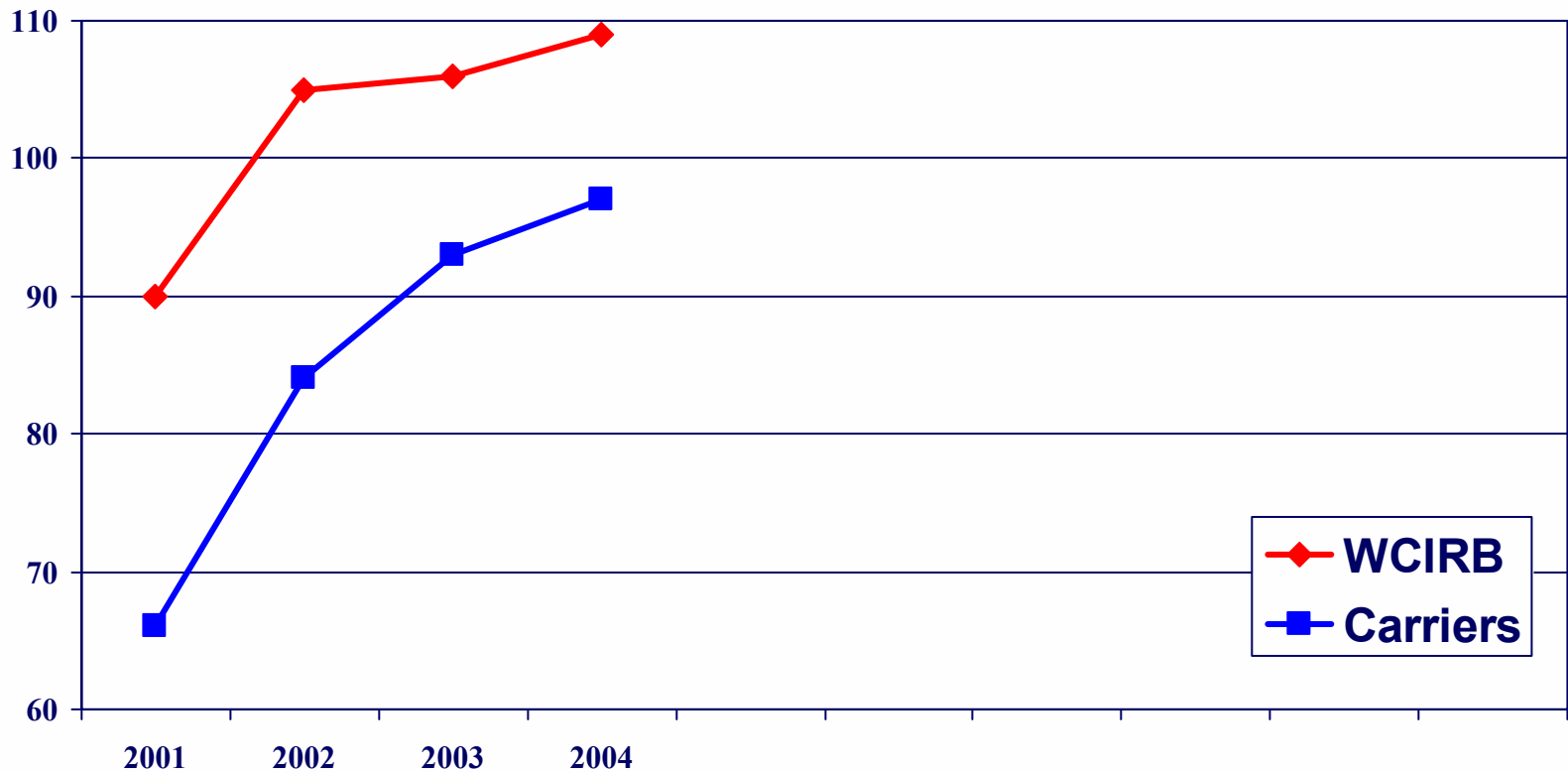
Development: Accident Year 1999



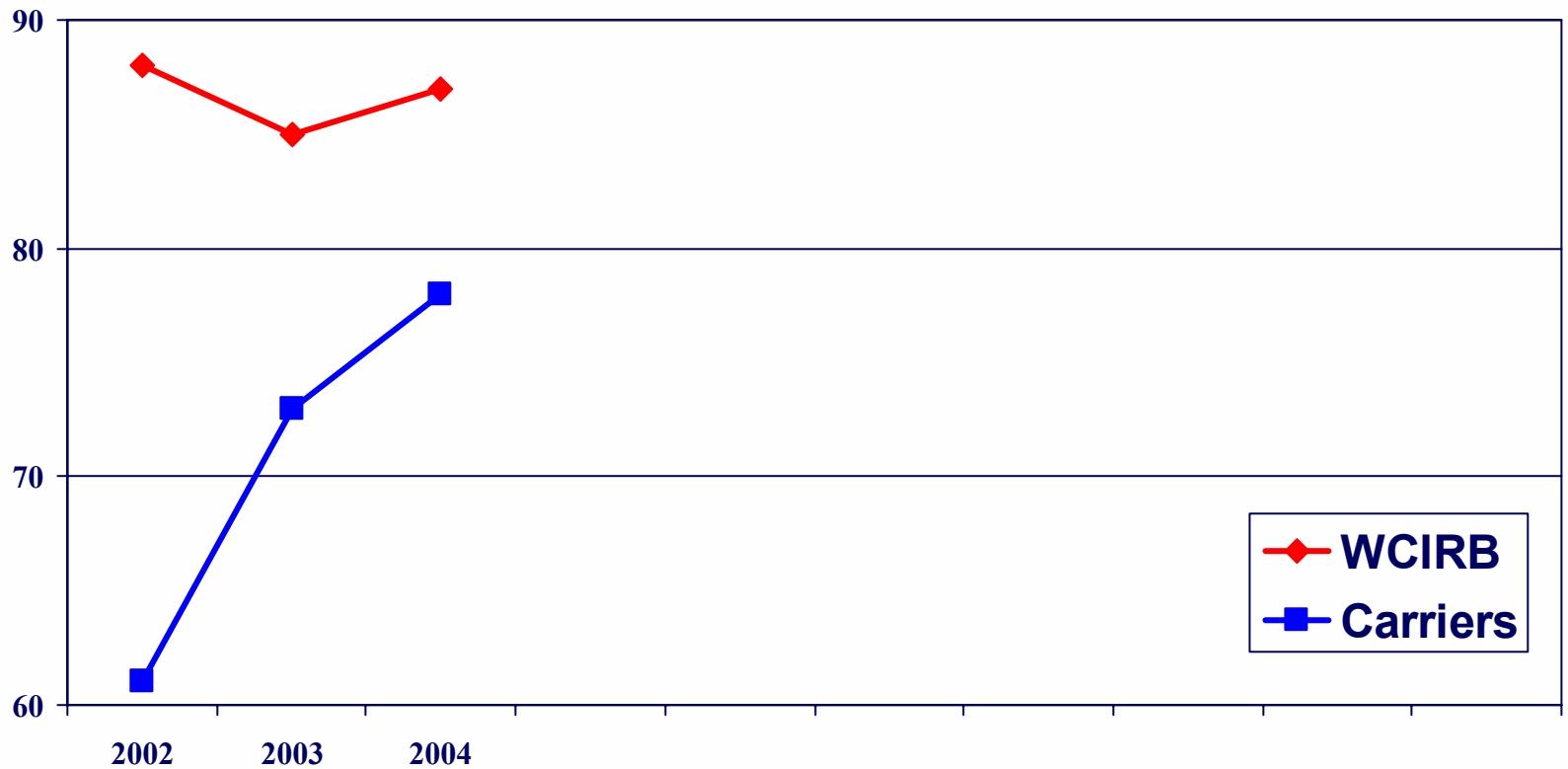
Development: Accident Year 2000



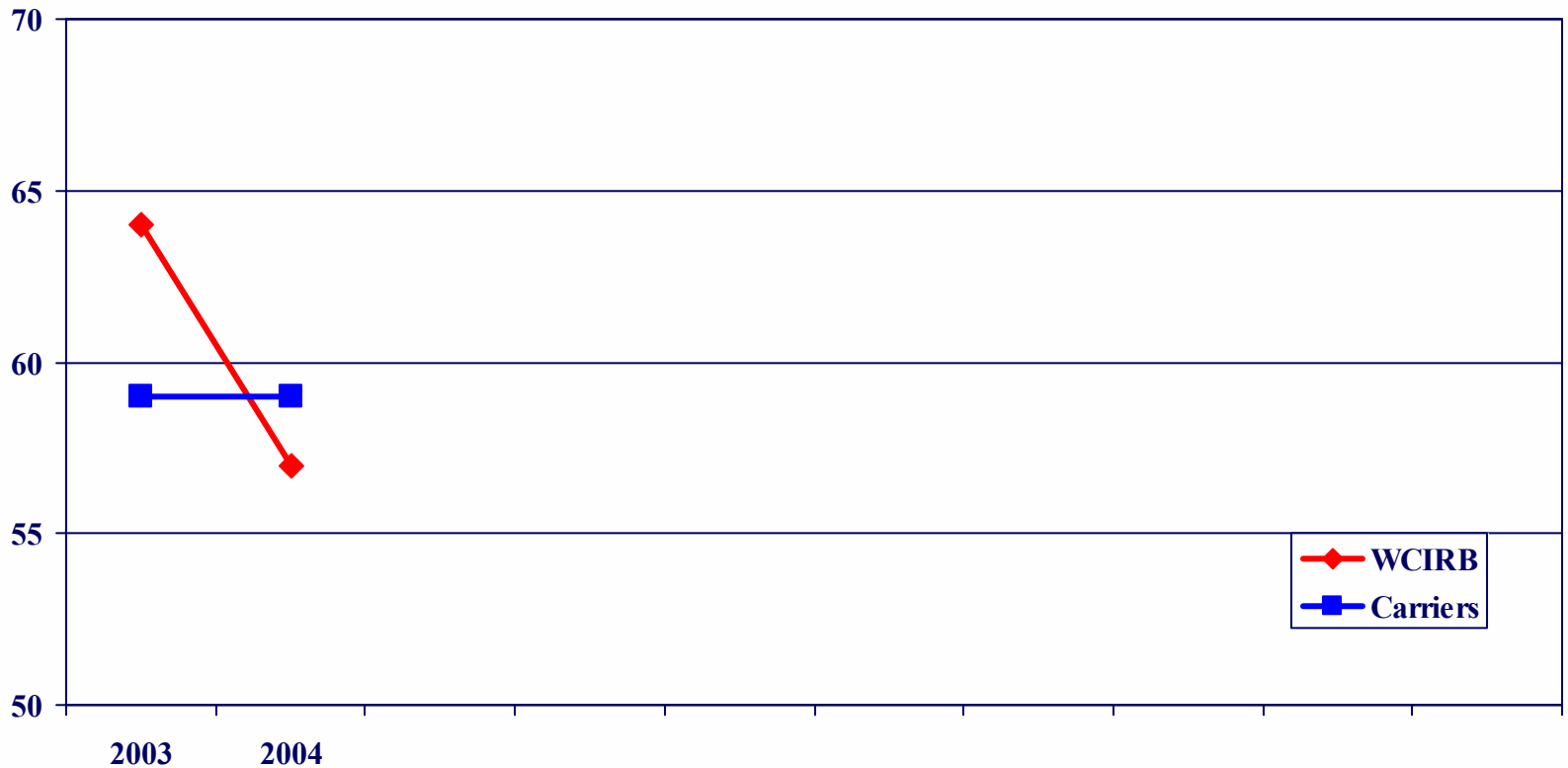
Development: Accident Year 2001



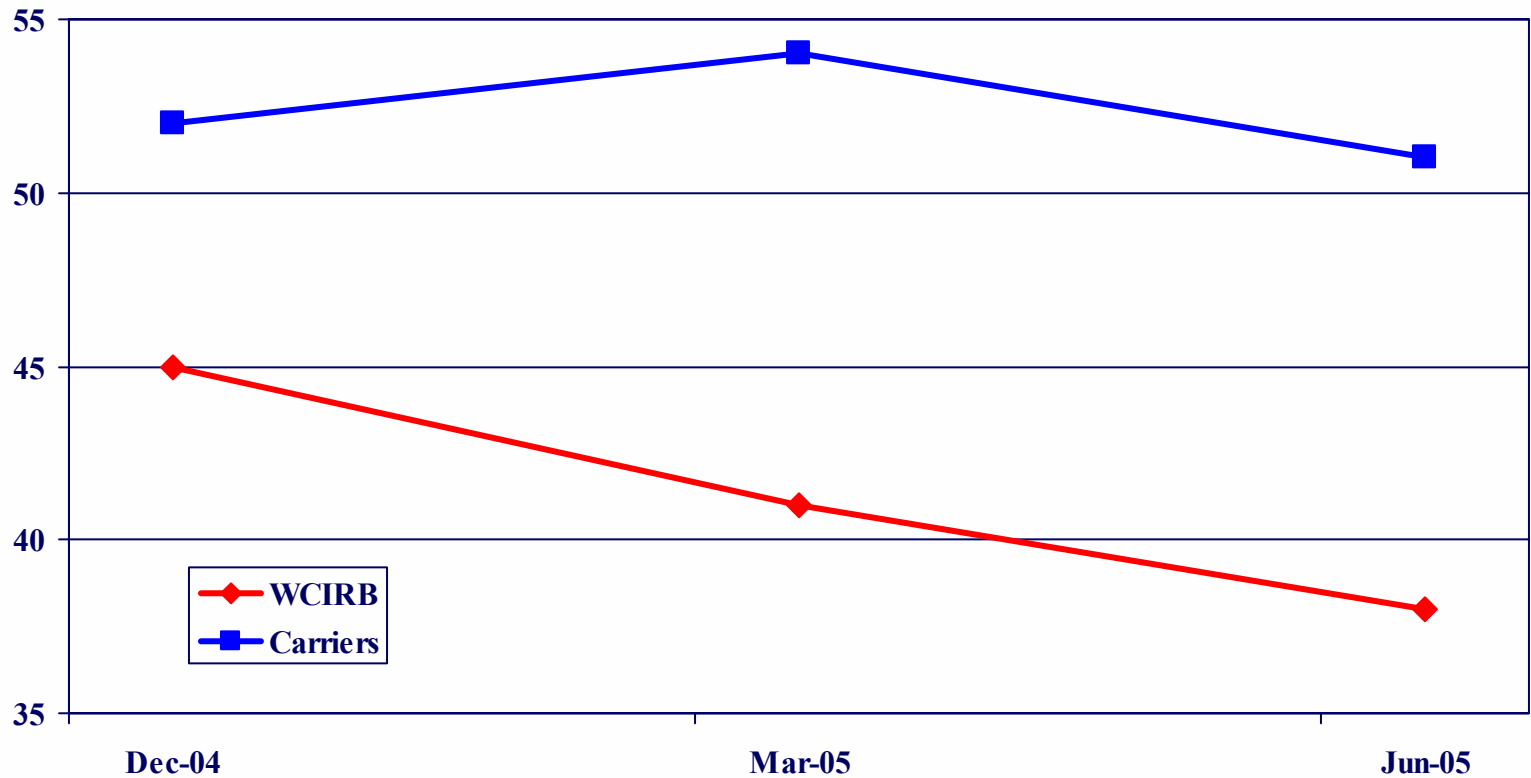
Development: Accident Year 2002



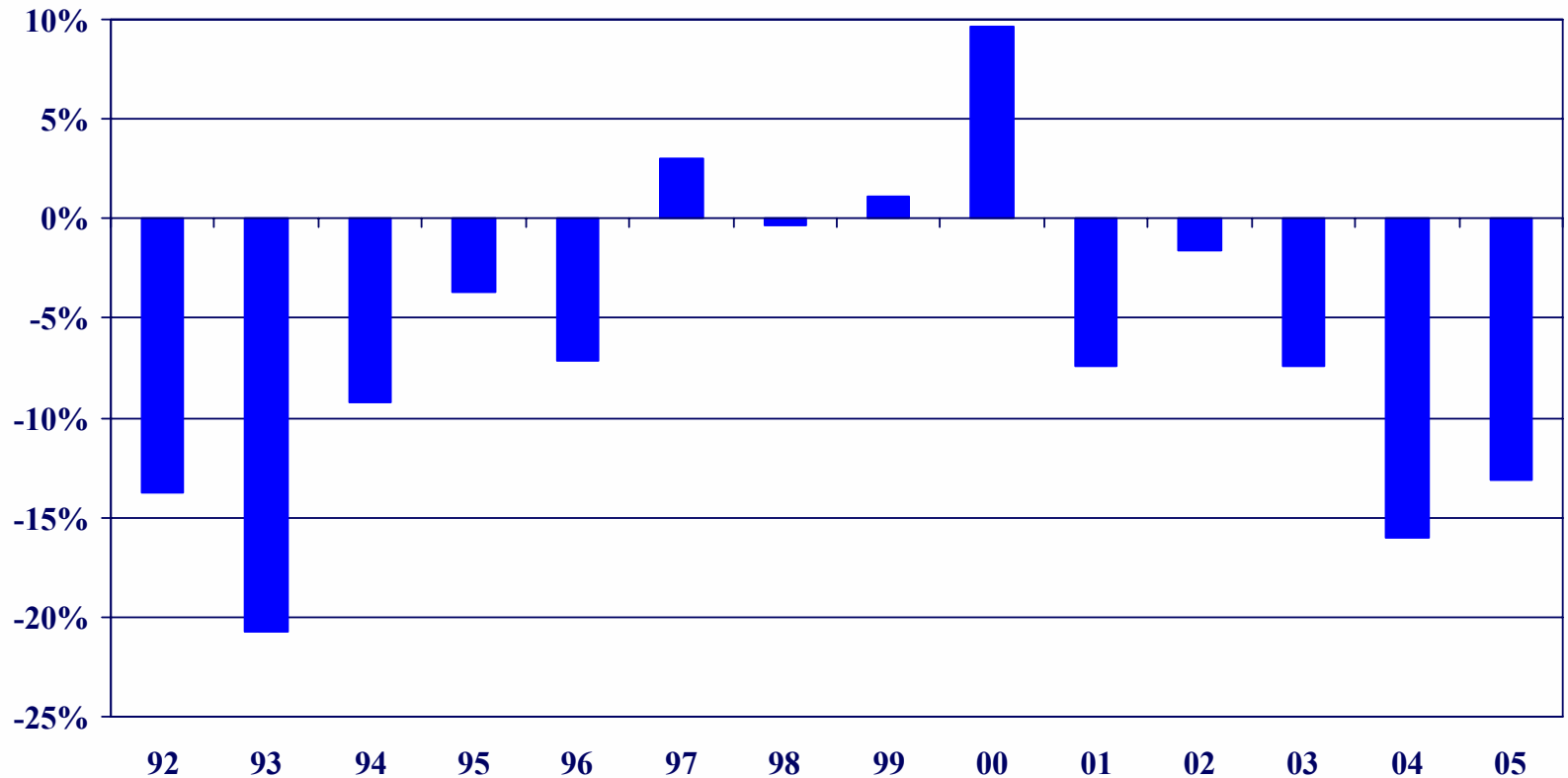
Development: Accident Year 2003



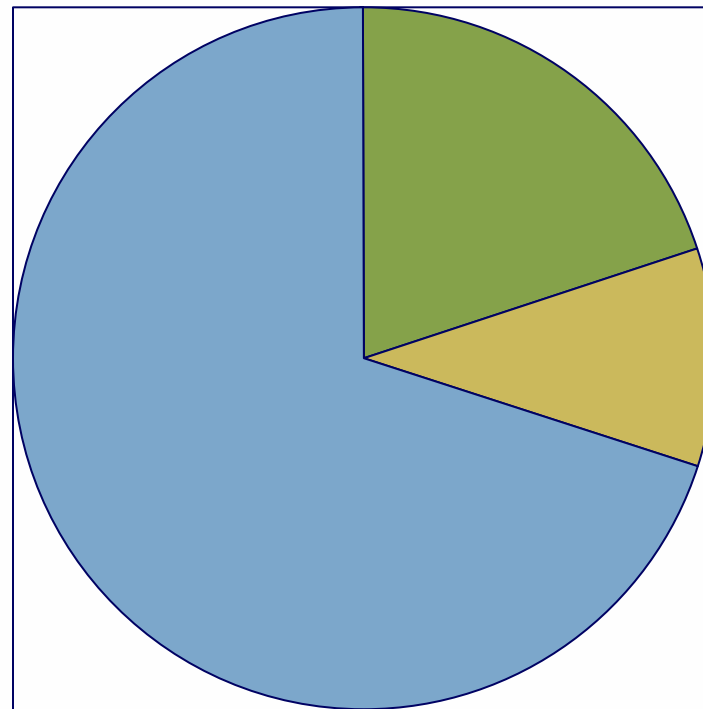
Development: Accident Year 2004



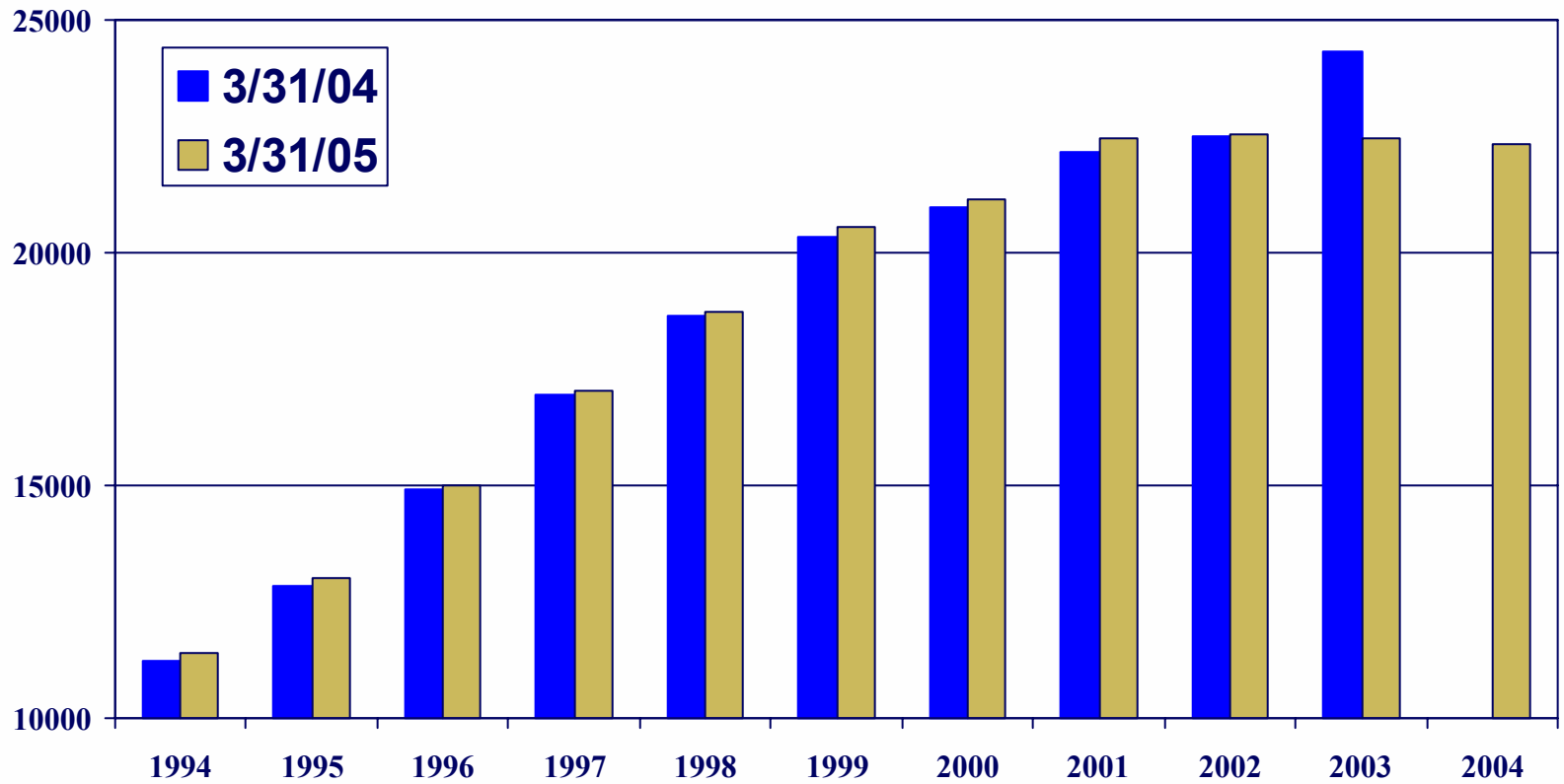
Changes in On-Level Frequency



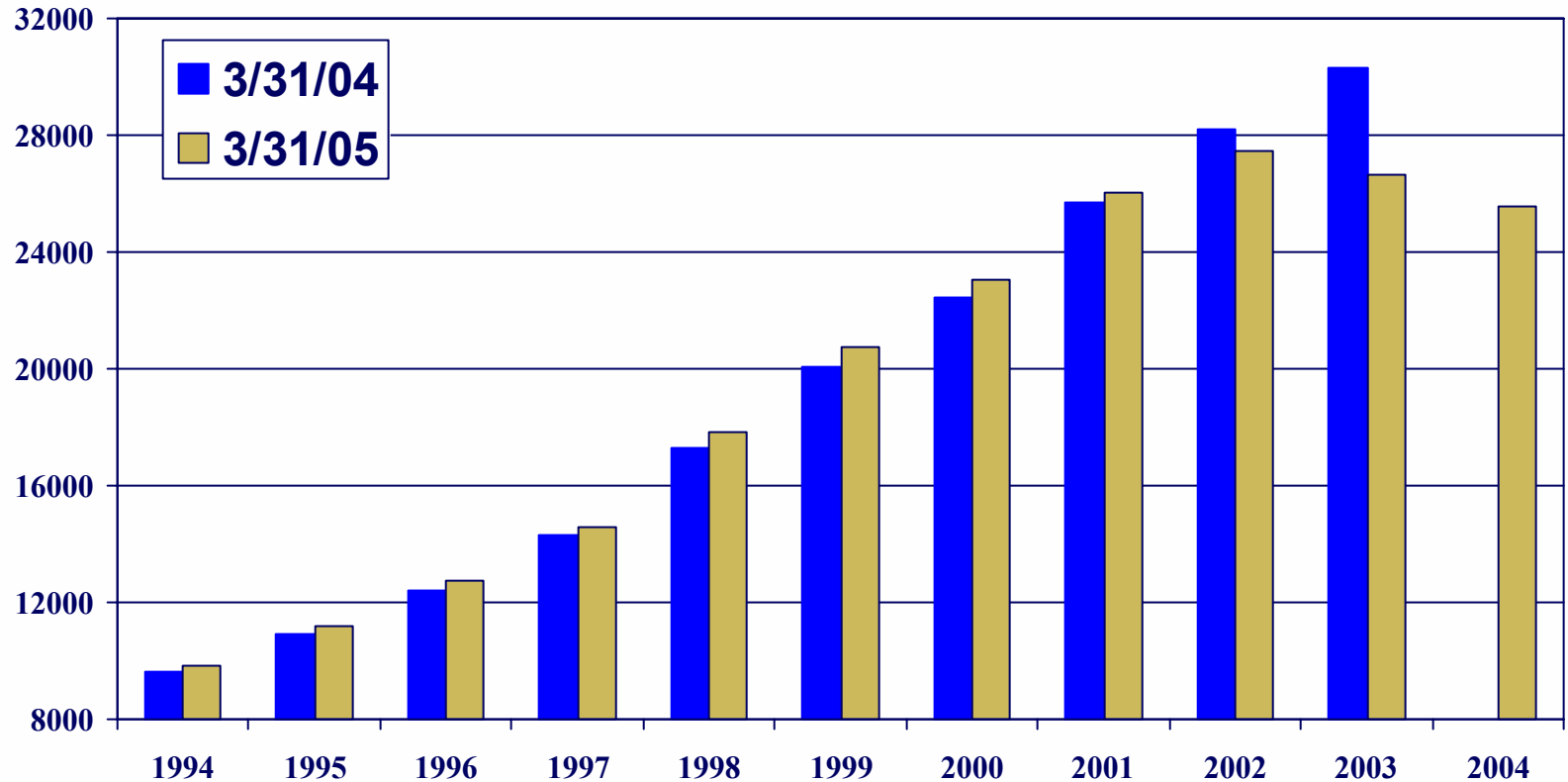
Drivers of 2004 Frequency Decrease



Indemnity Severity per Indemnity Claim



Medical Severity per Indemnity Claim



Legislation: AB 749

- Effective 2003 through 2006
- Significant benefit increases
- Indexing of some benefits
- Partial Repeal of Primary Treating Physician Presumption
- Similar legislation vetoed three times



Legislation: AB 227 & SB 228

- **Effective 1/1/04 (mostly)**
- **Fee Schedule Changes**
 - Physician, pharmaceuticals
 - Inpatient, outpatient
- **Medical Utilization**
 - Utilization standards (ACOEM, CHSWC)
 - Hard caps on chiropractors, physical therapists
- **Voc rehab replaced with education vouchers**



Legislation: SB 899

- Effective 4/19/04 & 1/1/05
- TD caps (104/240 weeks)
- Apportionment
- PD (weeks, two-tiers, **new schedule**)
 - Savings estimates: -50%
- Utilization Guidelines
- Medical Networks
- 5814 Penalties

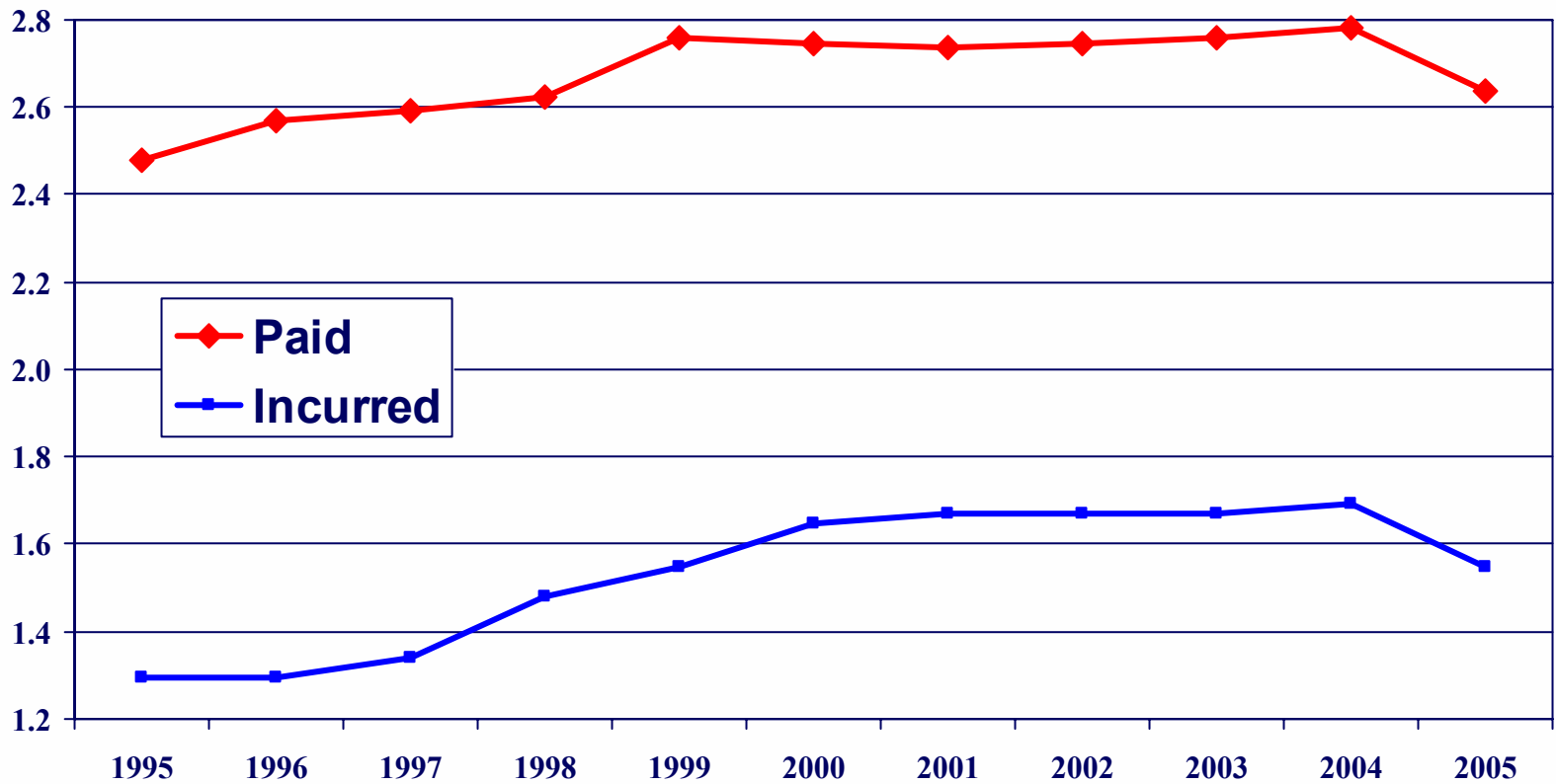


Legislation: Impact on Policy Year 2005

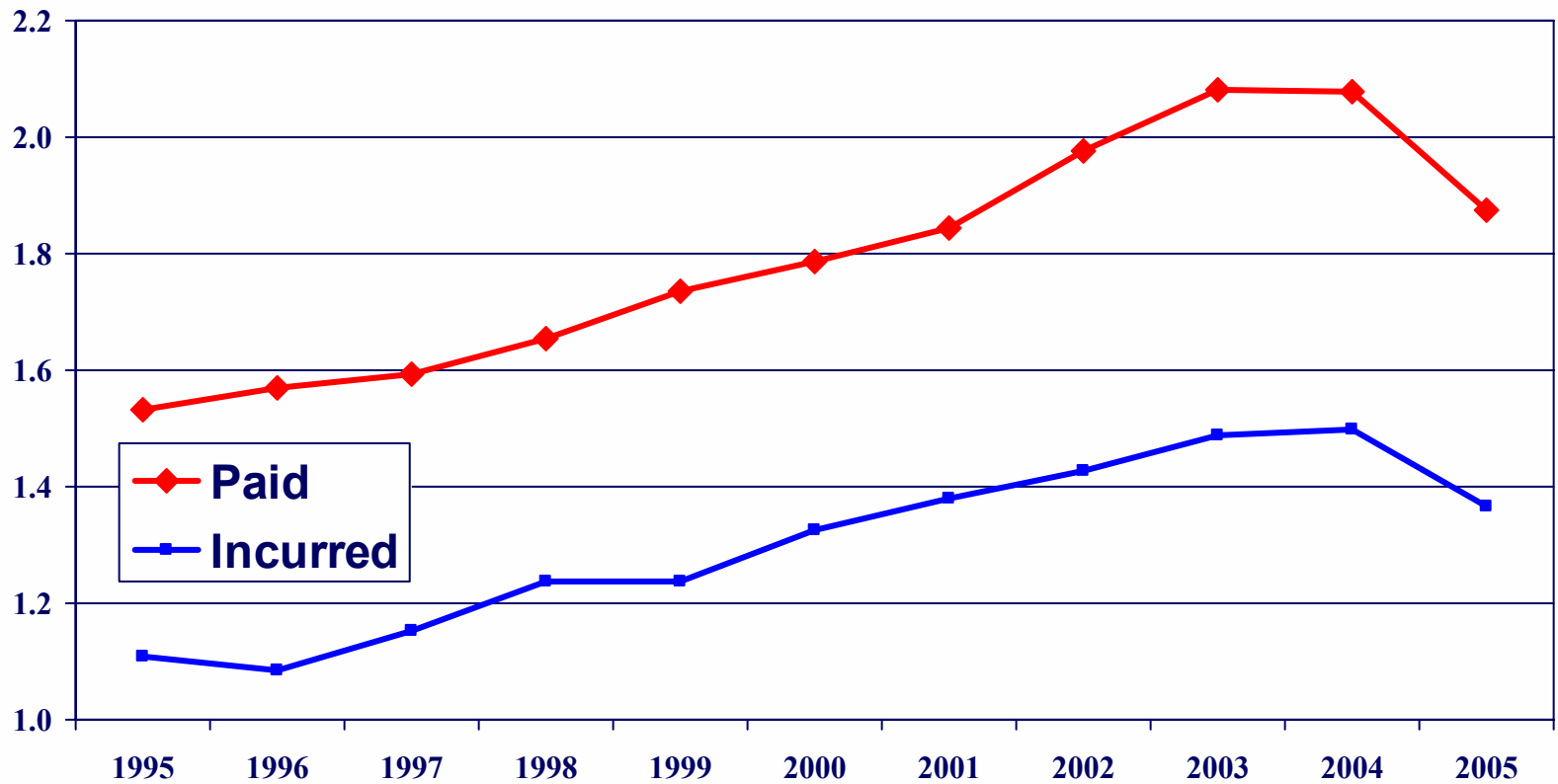
Legislation	Indemnity	Medical	Combined
AB 227 & SB 228	-12.6%	-14.5%	-13.7%
SB 899	-11.6%	-1.0%	-5.4%
Medical Utilization	0.0%	-25.0%	-14.9%
Total			-30.9%



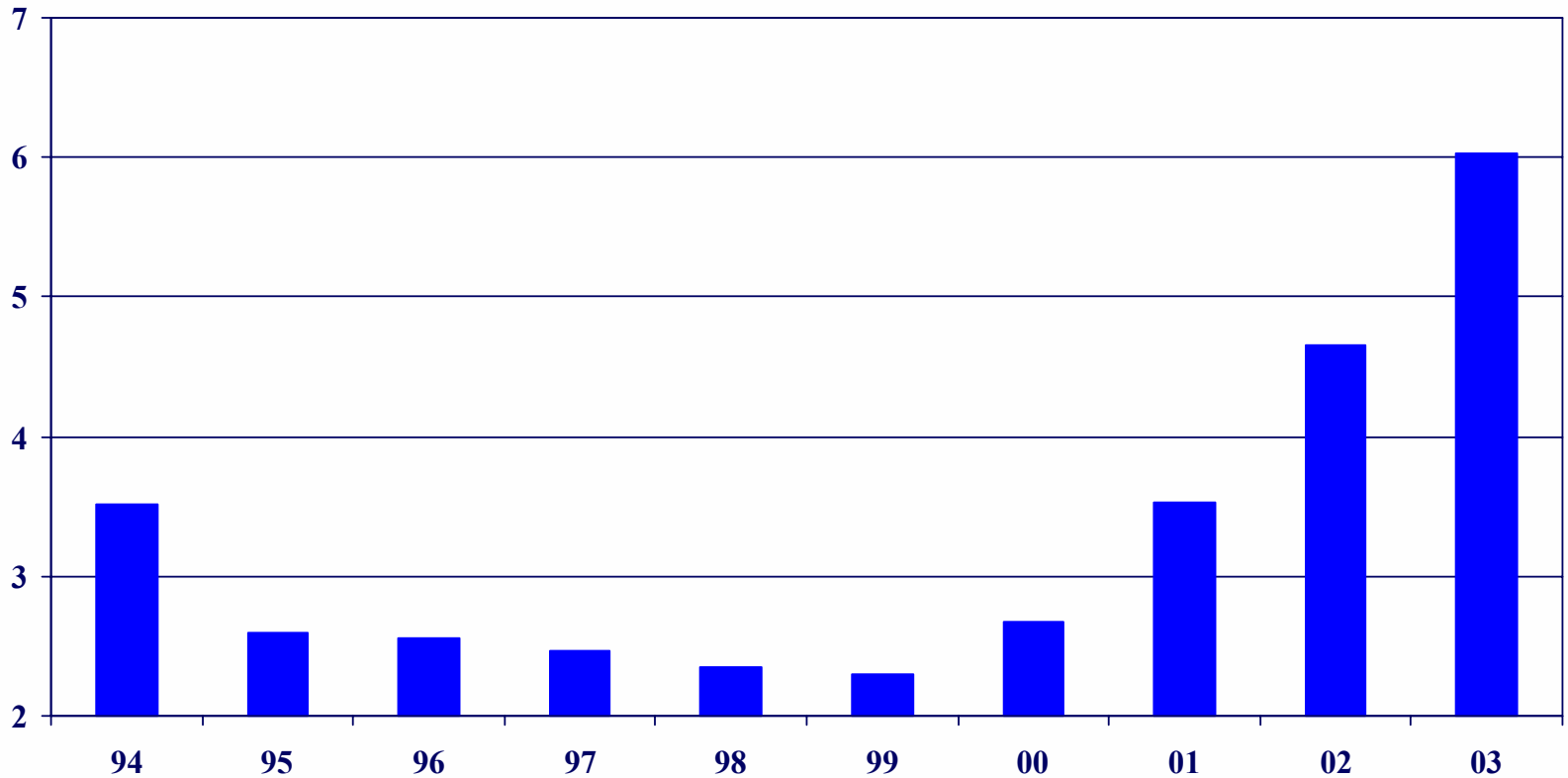
Indemnity Development (15-27)



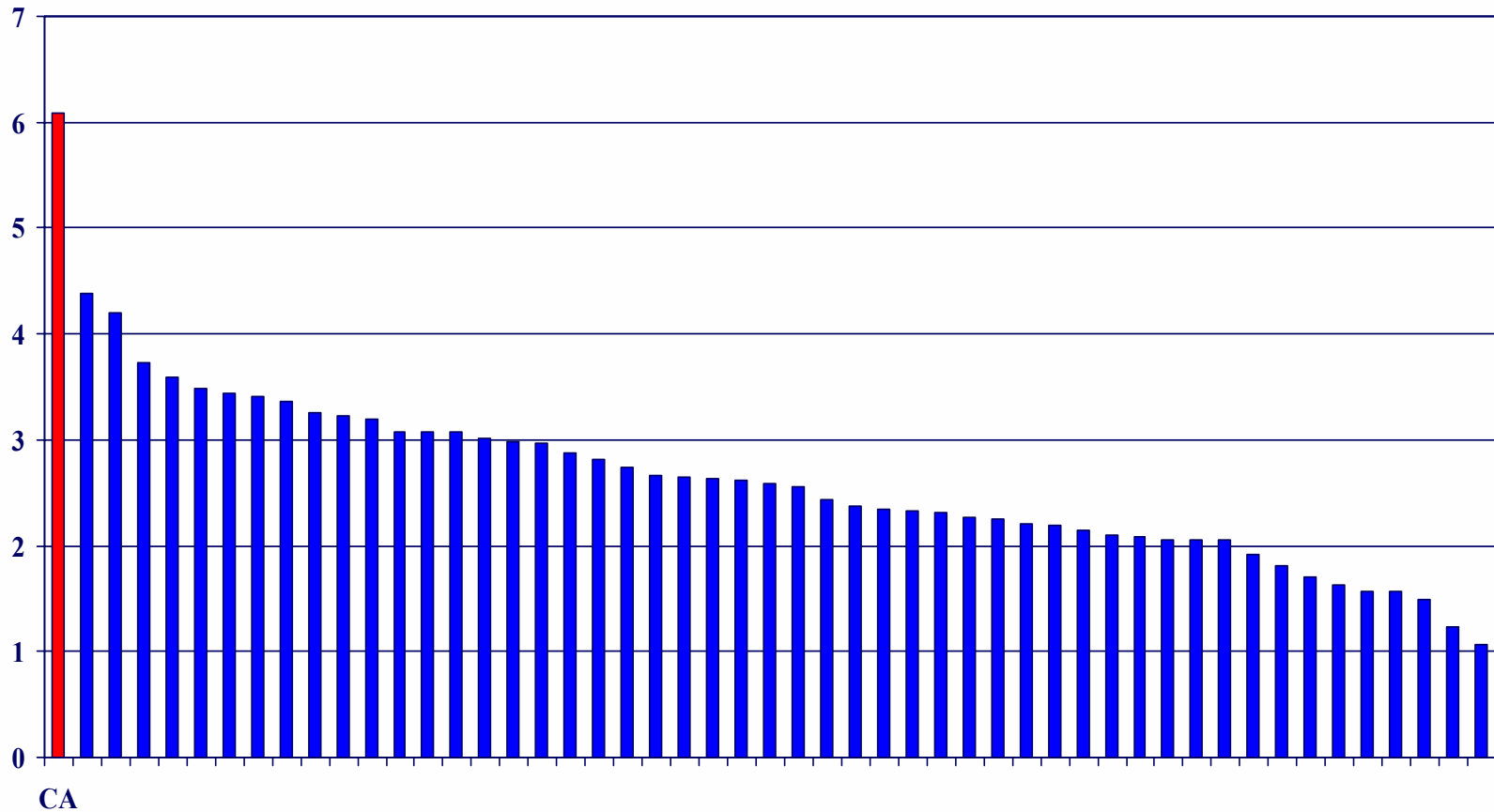
Medical Development (15-27)



Average Rate per \$100 of Payroll



WC Cost By State (2003)



Projected Average Rate

- Could drop below \$4 for 2006
- Watch out Alaska:

We're Number 49!

