

Wait! I Thought the Reserves Were Deficient?

An Update on California Workers Compensation



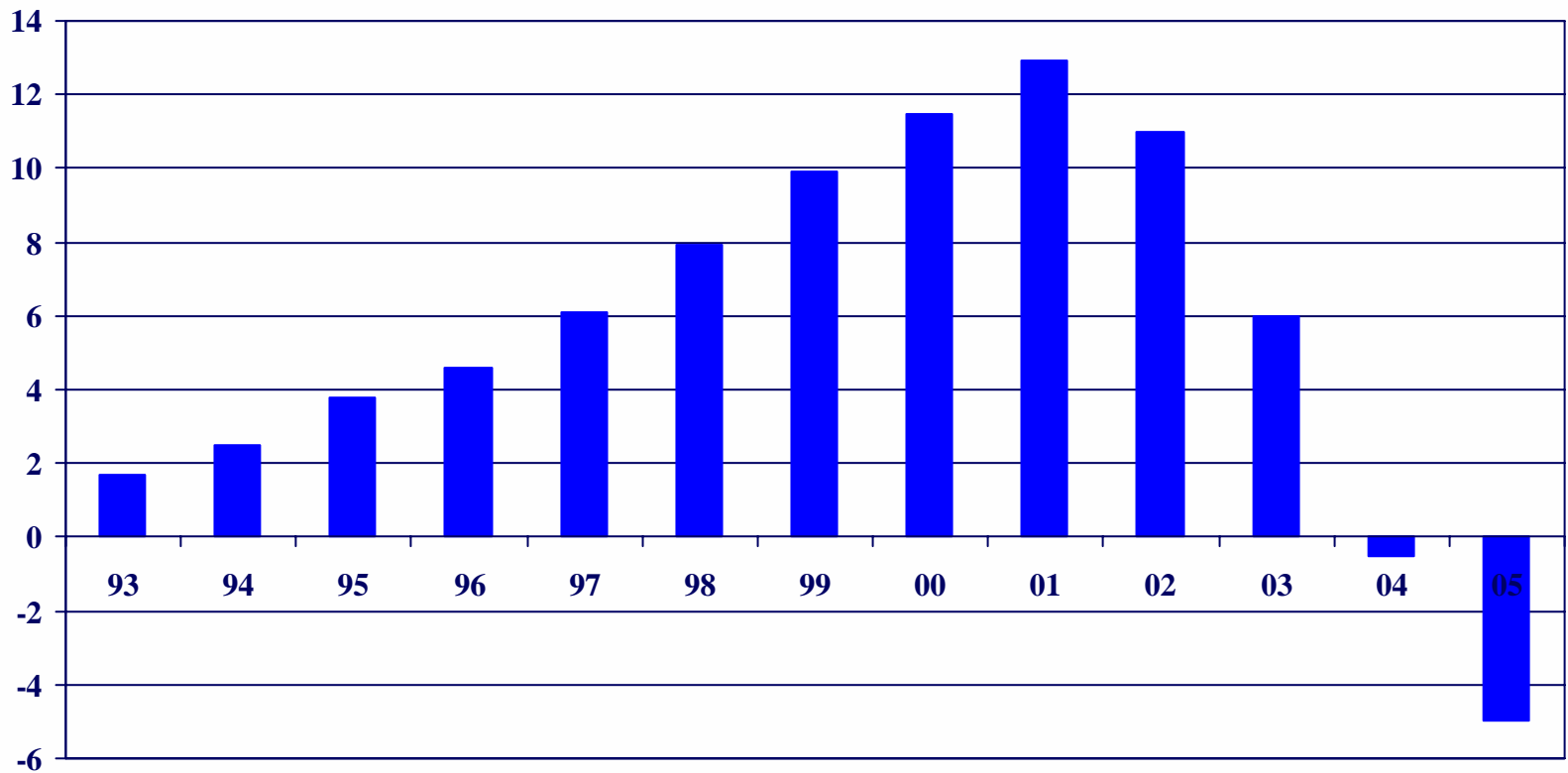
A MILLIMAN GLOBAL FIRM

Milliman

Consultants and Actuaries

**Guy Avagliano
Milliman, Inc.
September 12, 2006**

WCIRB Indicated Deficiency (\$B)



Source: WCIRB 2006 Annual Meeting

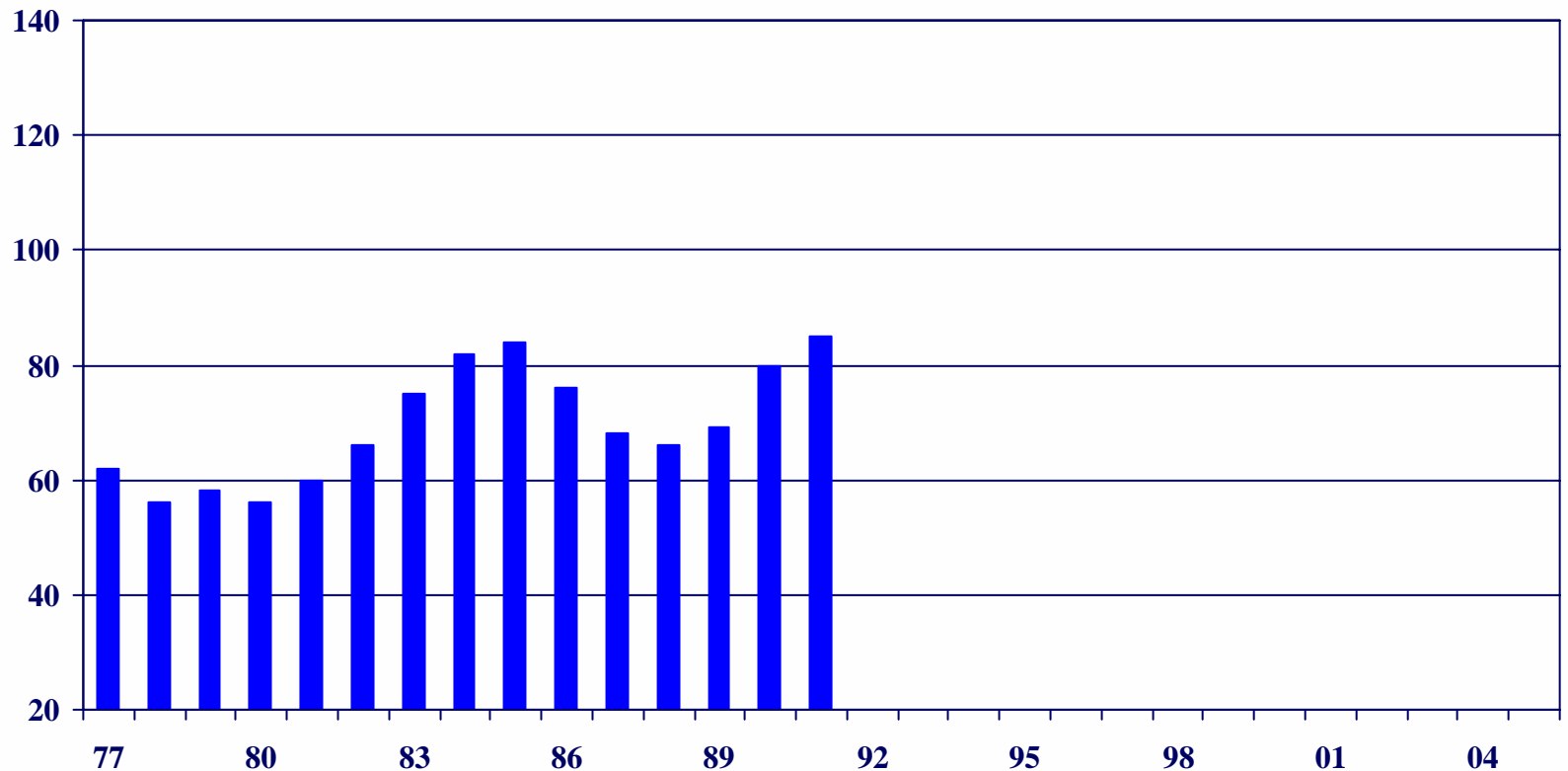


A Brief History

- **1989-91: High Loss Ratios**
 - Minimum rate law
 - Rampant fraud
 - Medical mills
 - Stress claims
 - Post termination claims



WCIRB Ultimate Loss Ratios @ 6/06



Source: WCIRB Actuarial Committee AC06-09-01

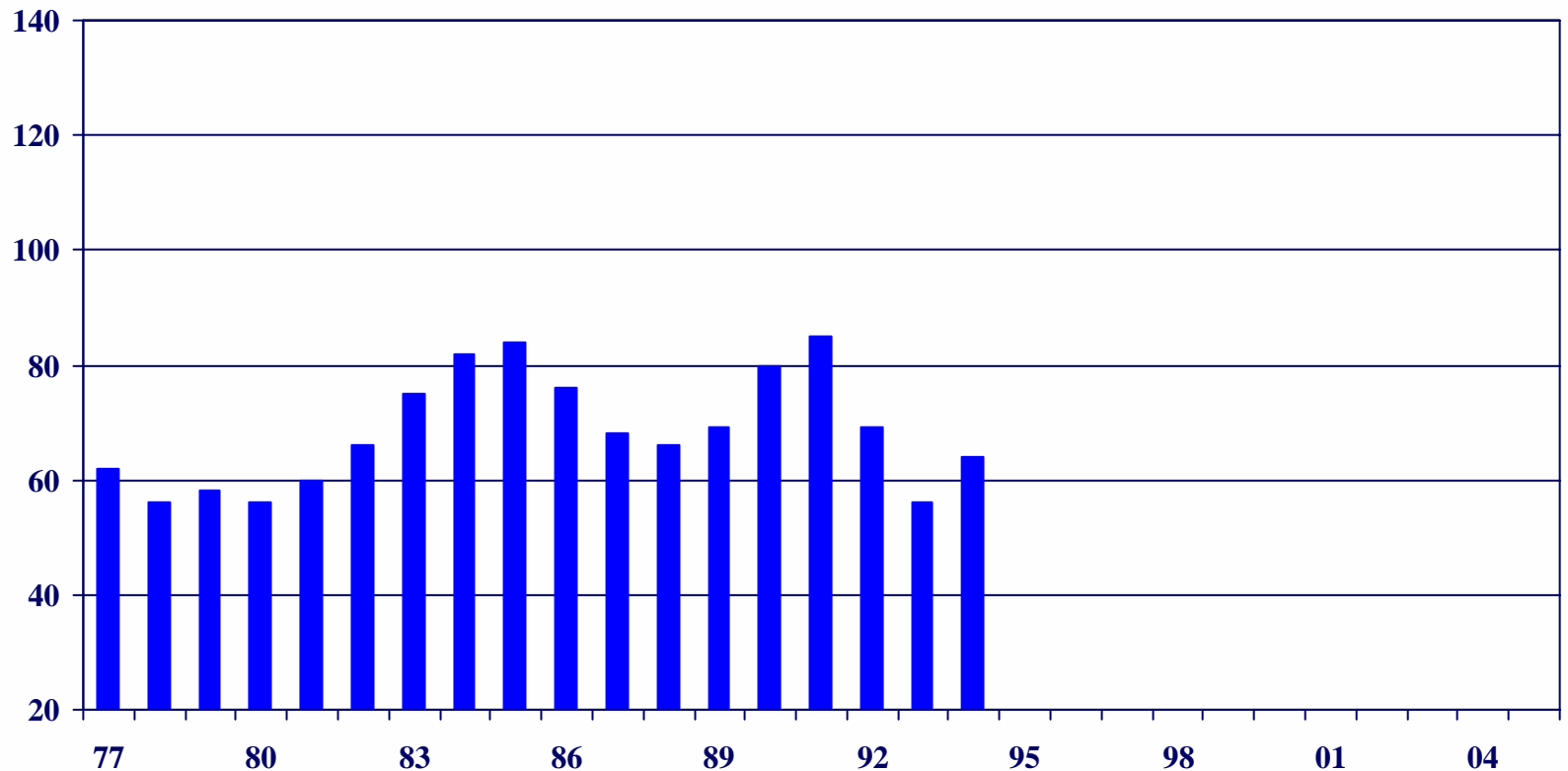


A Brief History

- **1989-91: High Loss Ratios**
- **1992-94: Low Loss Ratios**
 - Effective anti-fraud measures
 - Low medical inflation
 - Normal loss ratio cycle



WCIRB Ultimate Loss Ratios @ 6/06



Source: WCIRB Actuarial Committee AC06-09-01

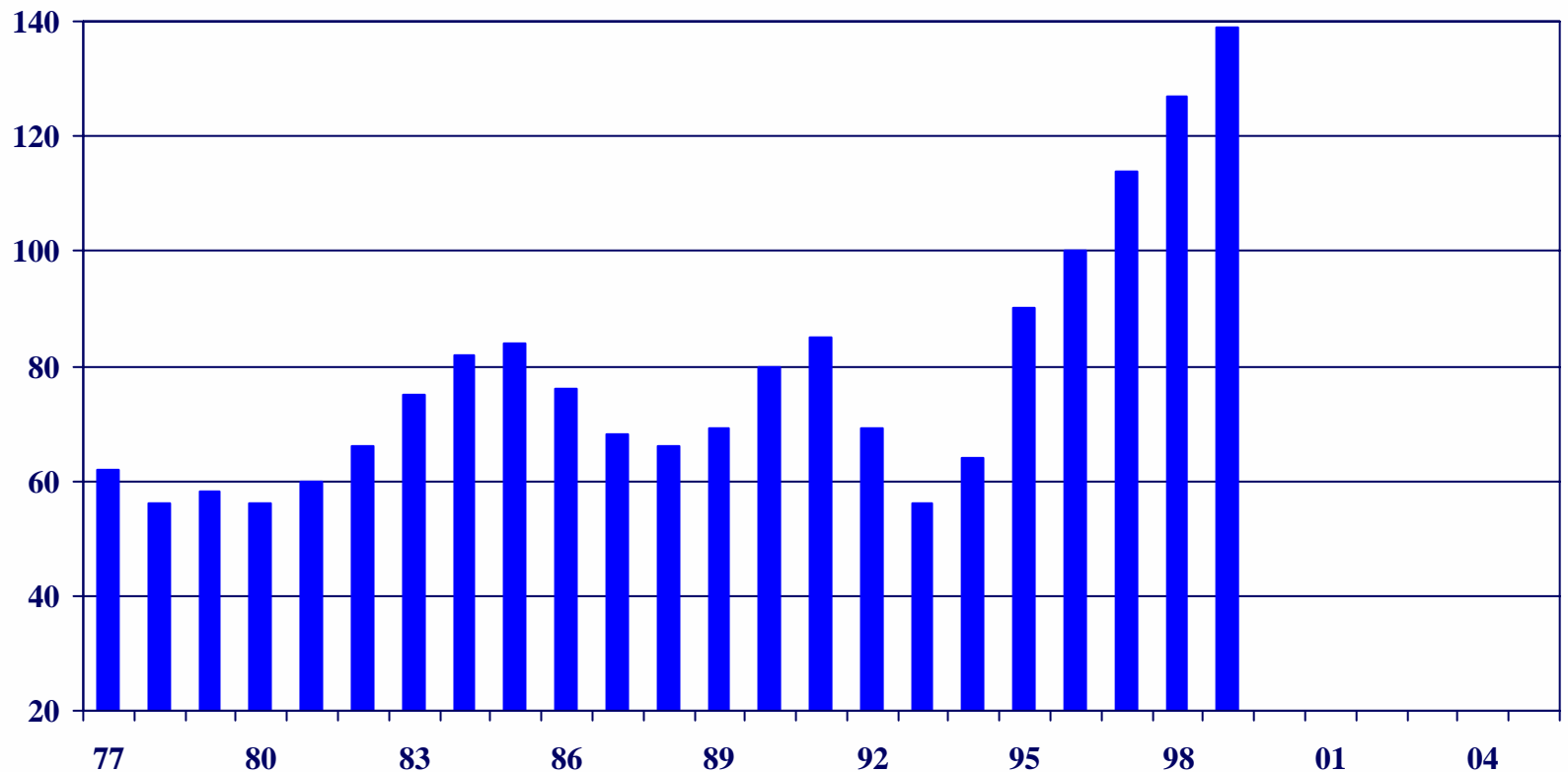


A Brief History

- **1989-91: High Loss Ratios**
- **1992-94: Low Loss Ratios**
- **1995-99: Increasing Loss Ratios**
 - Open Rating – deep discounts in pricing
 - Inadequate pure premiums
 - Cheap reinsurance
 - High severity trends, especially for medical
 - *Minniear*



WCIRB Ultimate Loss Ratios @ 6/06



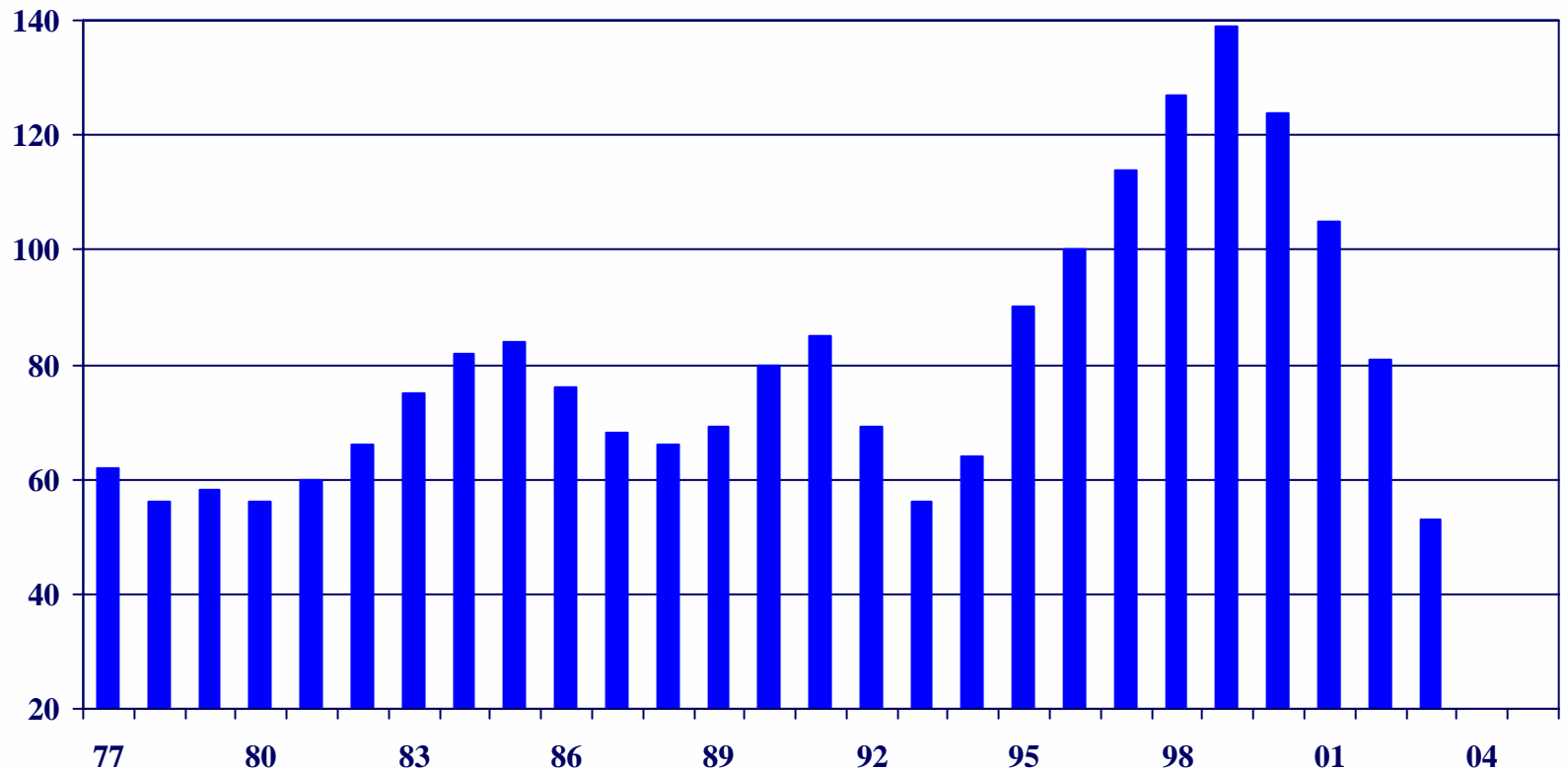
Source: WCIRB Actuarial Committee AC06-09-01

A Brief History

- **1989-91: High Loss Ratios**
- **1992-94: Low Loss Ratios**
- **1995-99: Increasing Loss Ratios**
- **2000-03: Improving Loss Ratios**
 - Rate increases (advisory)
 - Rate increases (effective)
 - Major legislative reforms



WCIRB Ultimate Loss Ratios @ 6/06



Source: WCIRB Actuarial Committee AC06-09-01

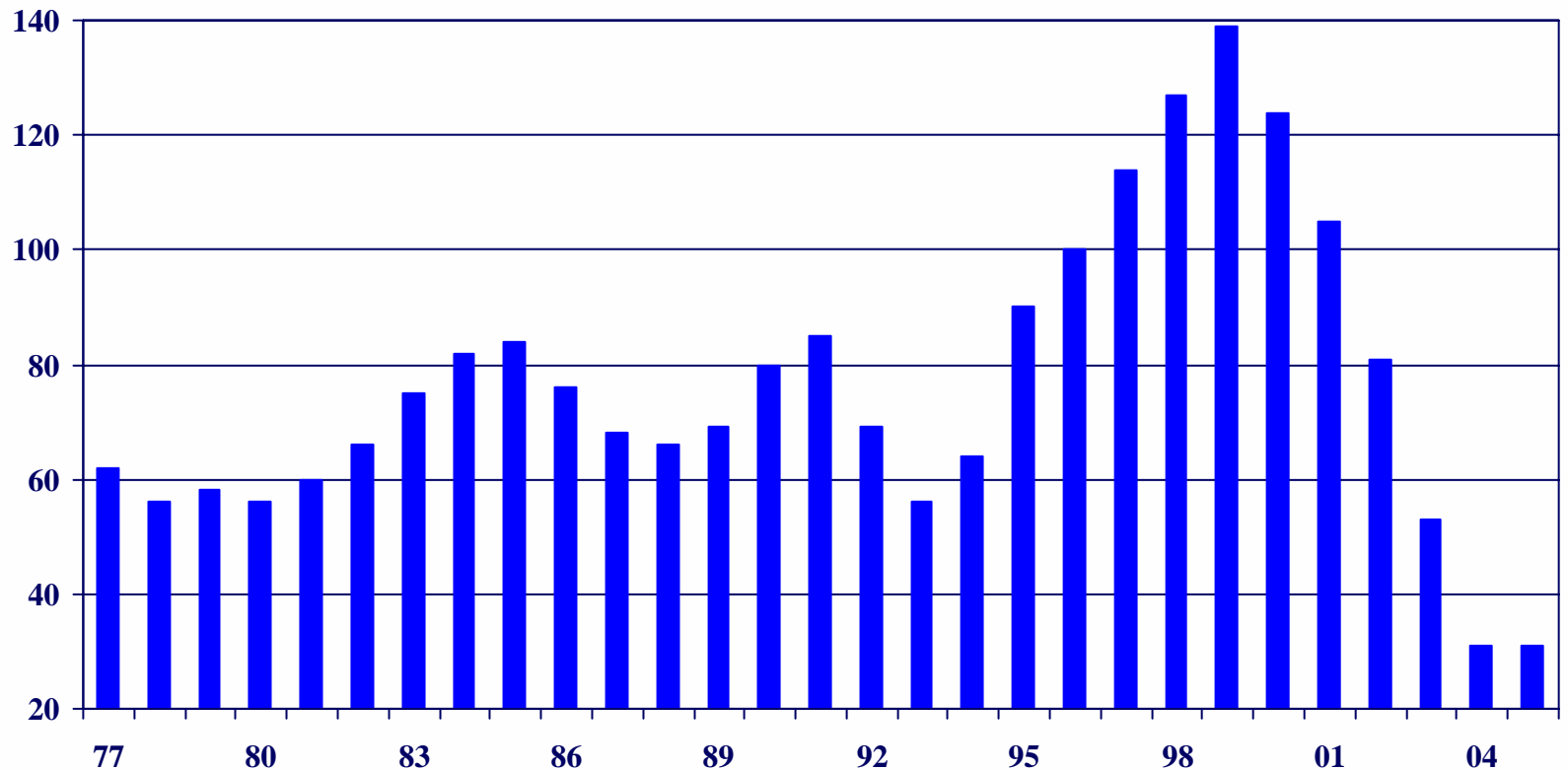


A Brief History

- **1989-91: High Loss Ratios**
- **1992-94: Low Loss Ratios**
- **1995-99: Increasing Loss Ratios**
- **2000-03: Improving Loss Ratios**
- **2004-05: Very Low Loss Ratios**
 - Rate decreases (but less than indications)
 - Frequency decreases
 - Better than anticipated reform impact



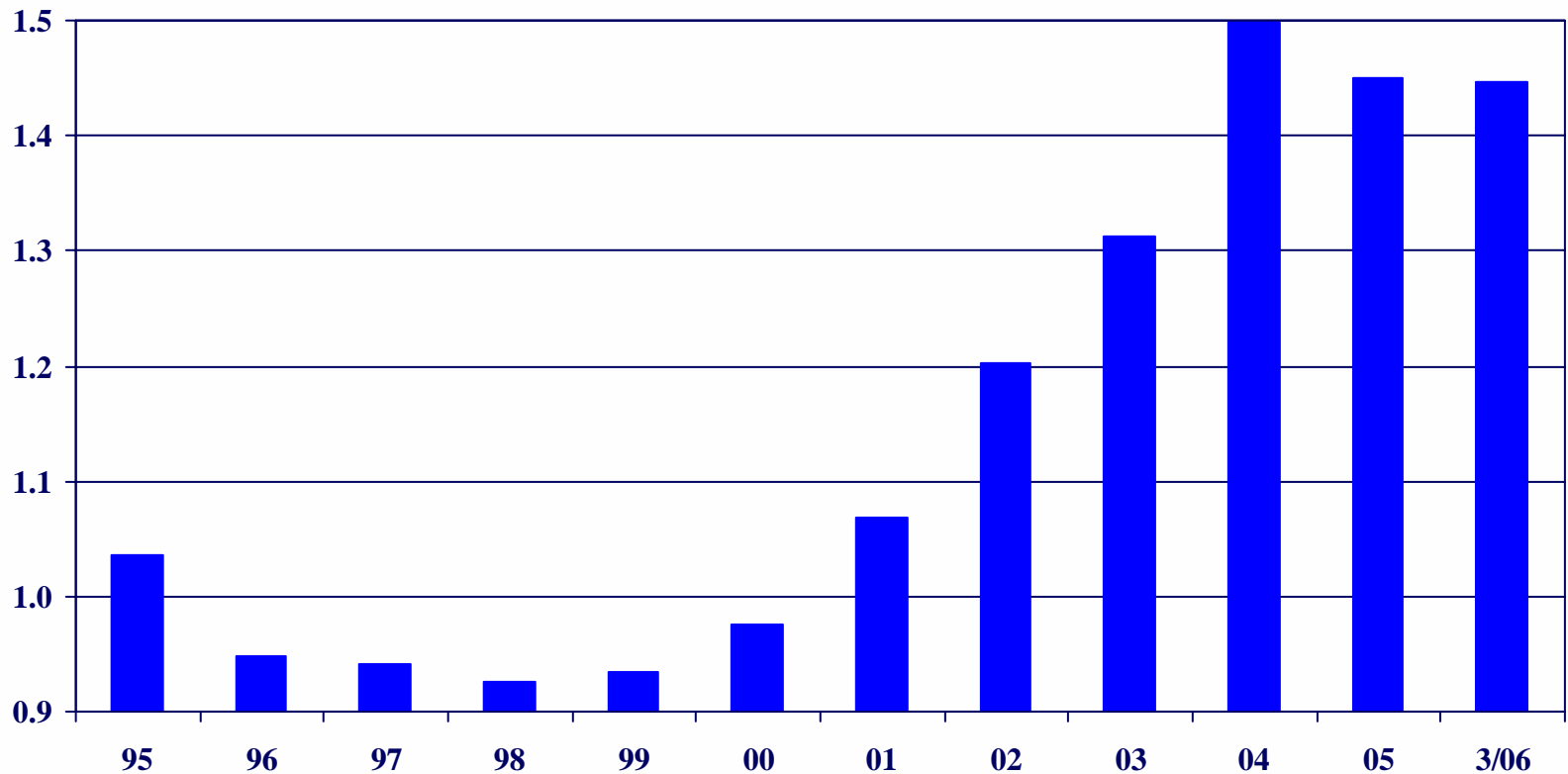
WCIRB Ultimate Loss Ratios @ 6/06



Source: WCIRB Actuarial Committee AC06-09-01

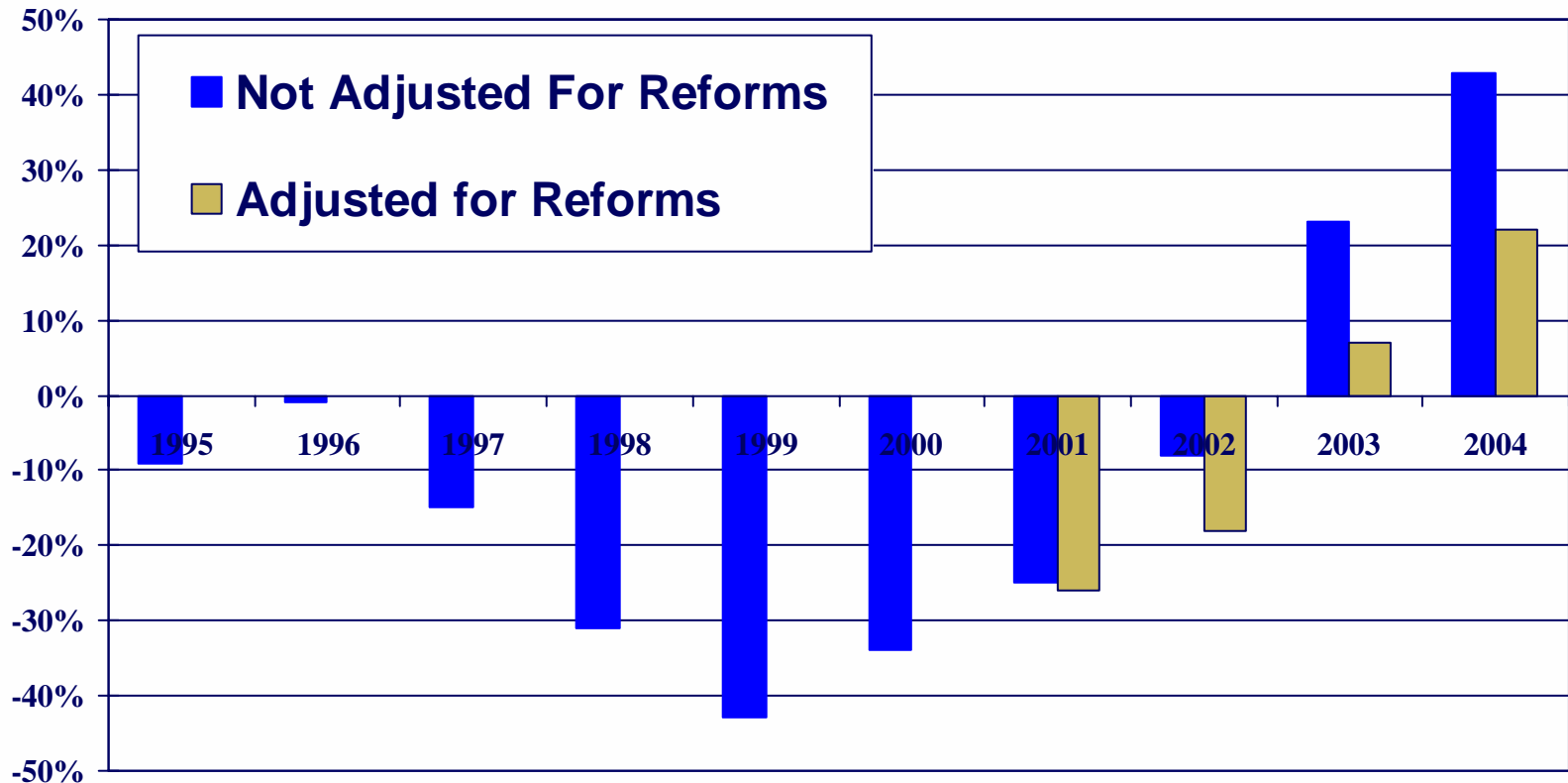


Effective LCM (vs. Advisory PP)



Source: WCIRB 2006 Annual Meeting

Retrospective Pure Premium Adequacy



Source: WCIRB Solvency Monitoring Reports



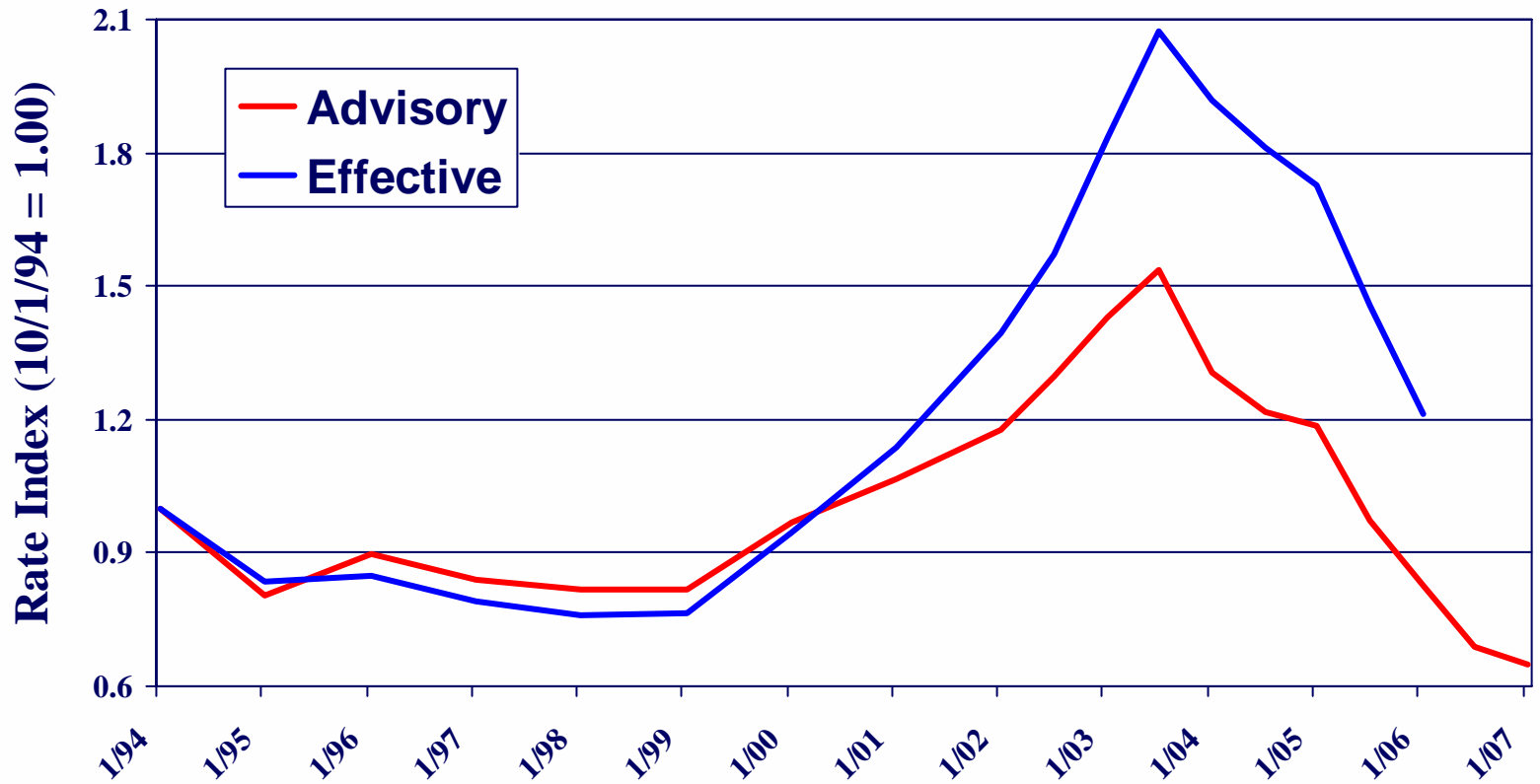
Rate Changes

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%, -16%
1/06, 7/06	-15%, -16%	-17% , n/a
1/07 (filed)	-6%	n/a

Source: WCIRB 2006 Annual Meeting



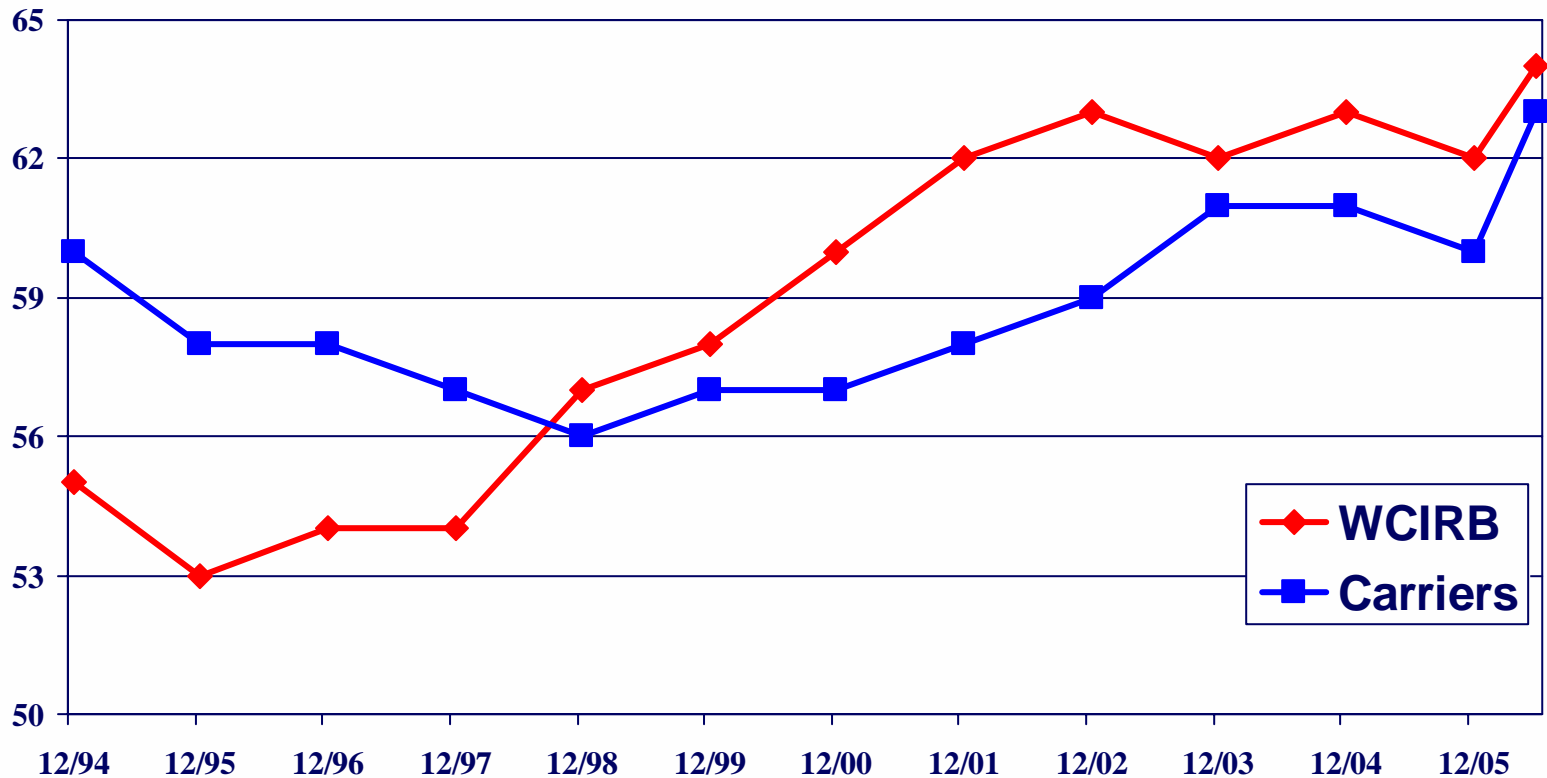
Rate Index



Source: WCIRB 2006 Annual Meeting



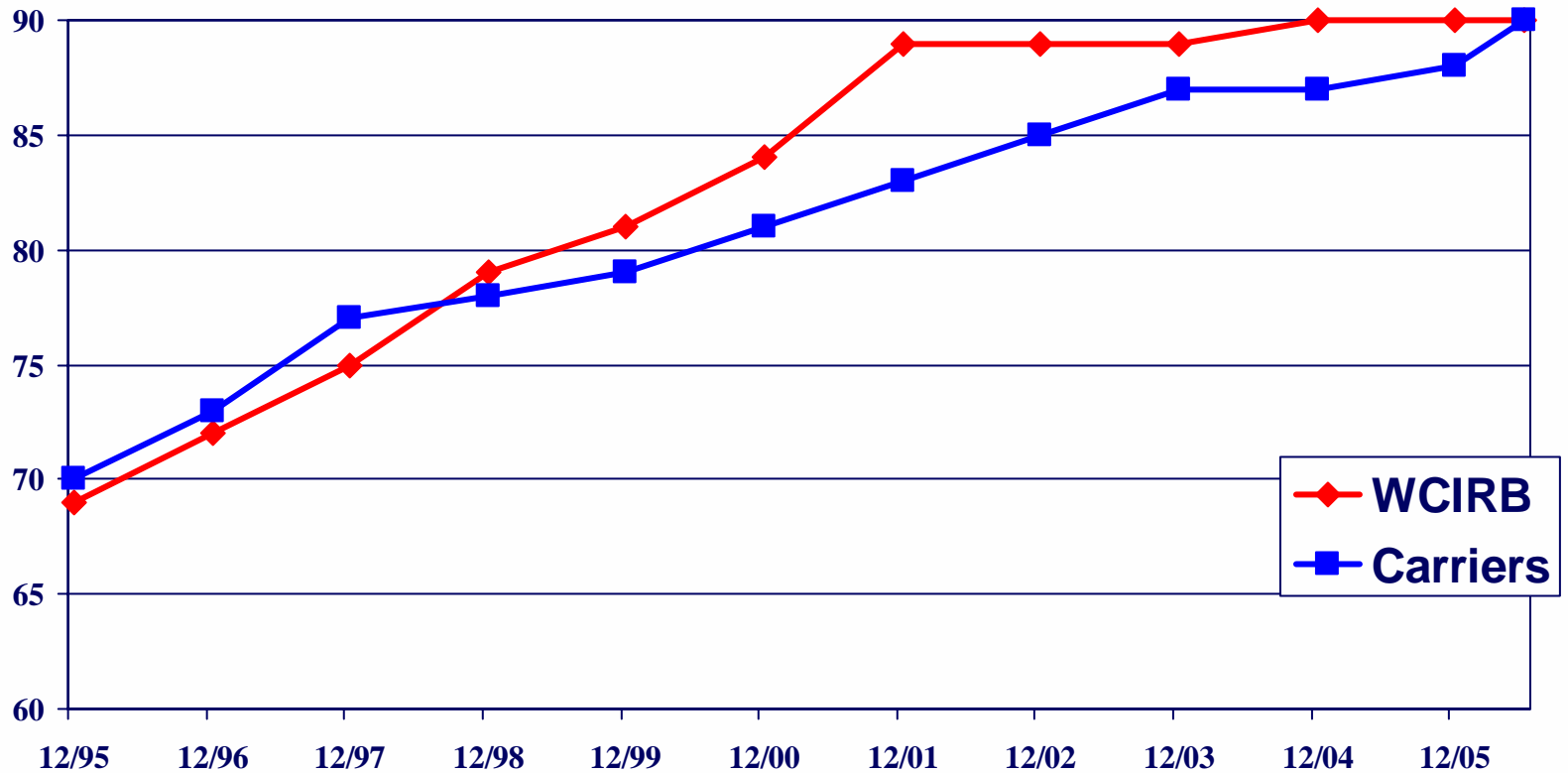
Development: Accident Year 1994



Source: WCIRB (Various Publications)



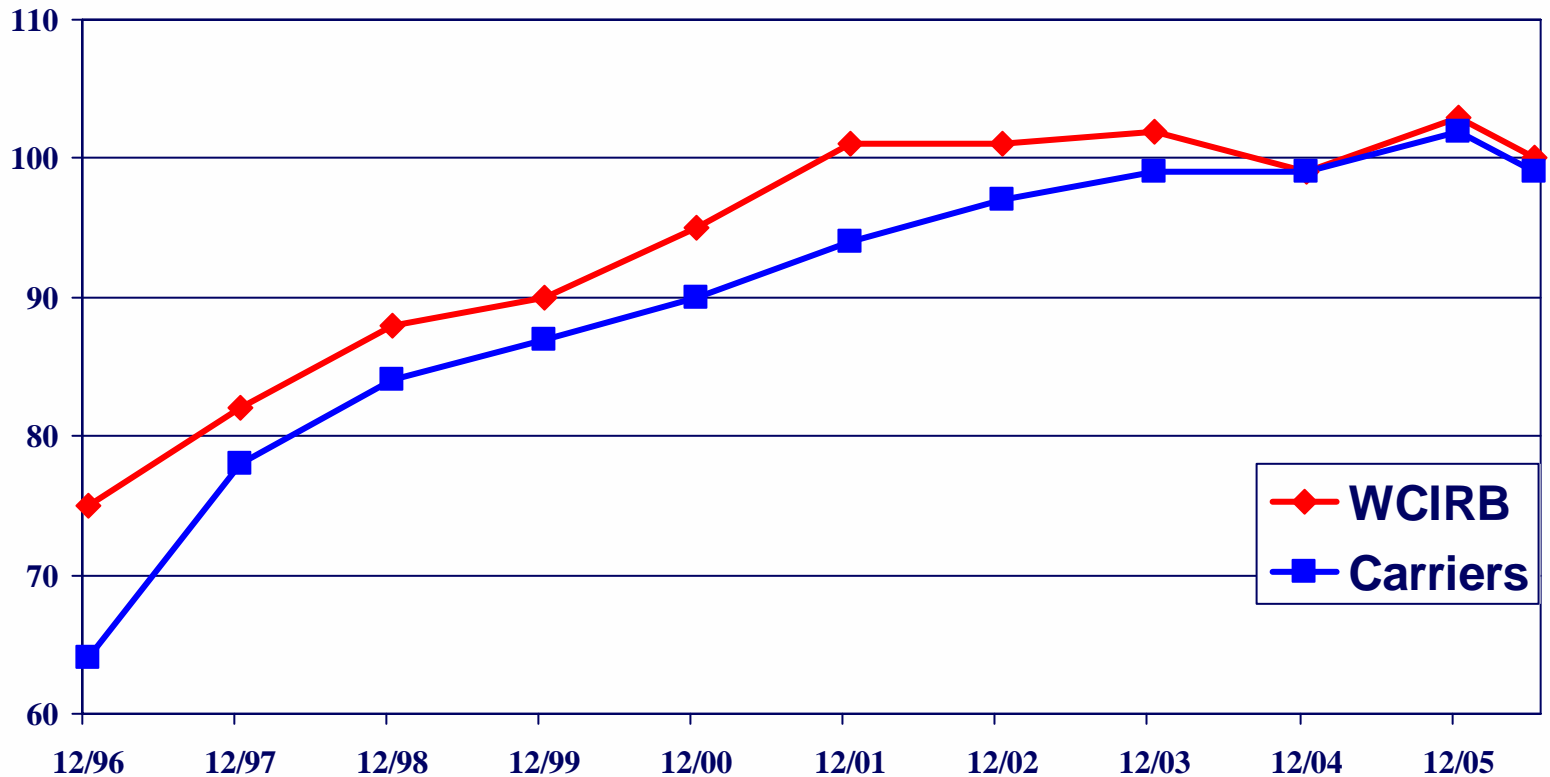
Development: Accident Year 1995



Source: WCIRB (Various Publications)



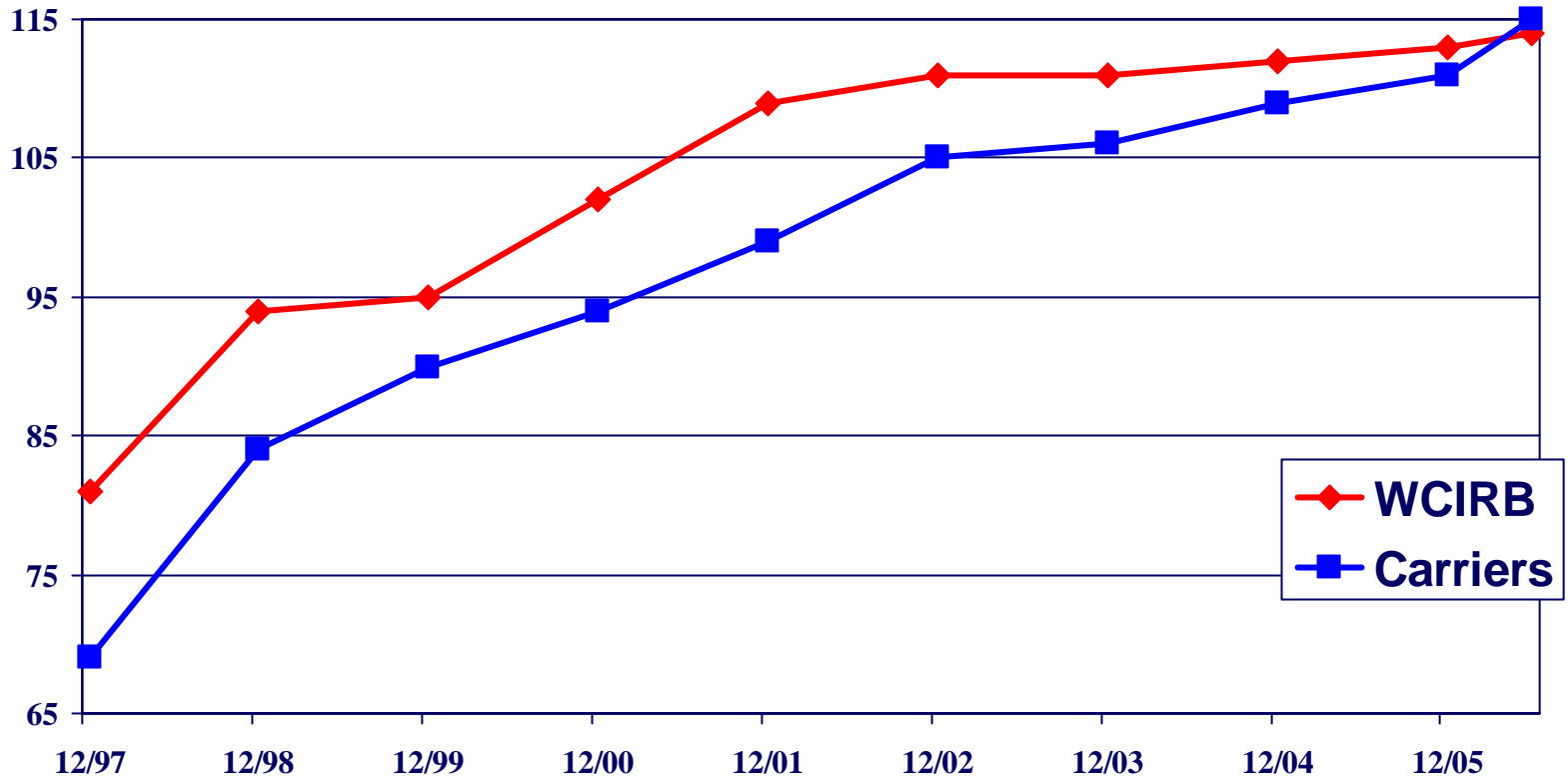
Development: Accident Year 1996



Source: WCIRB (Various Publications)



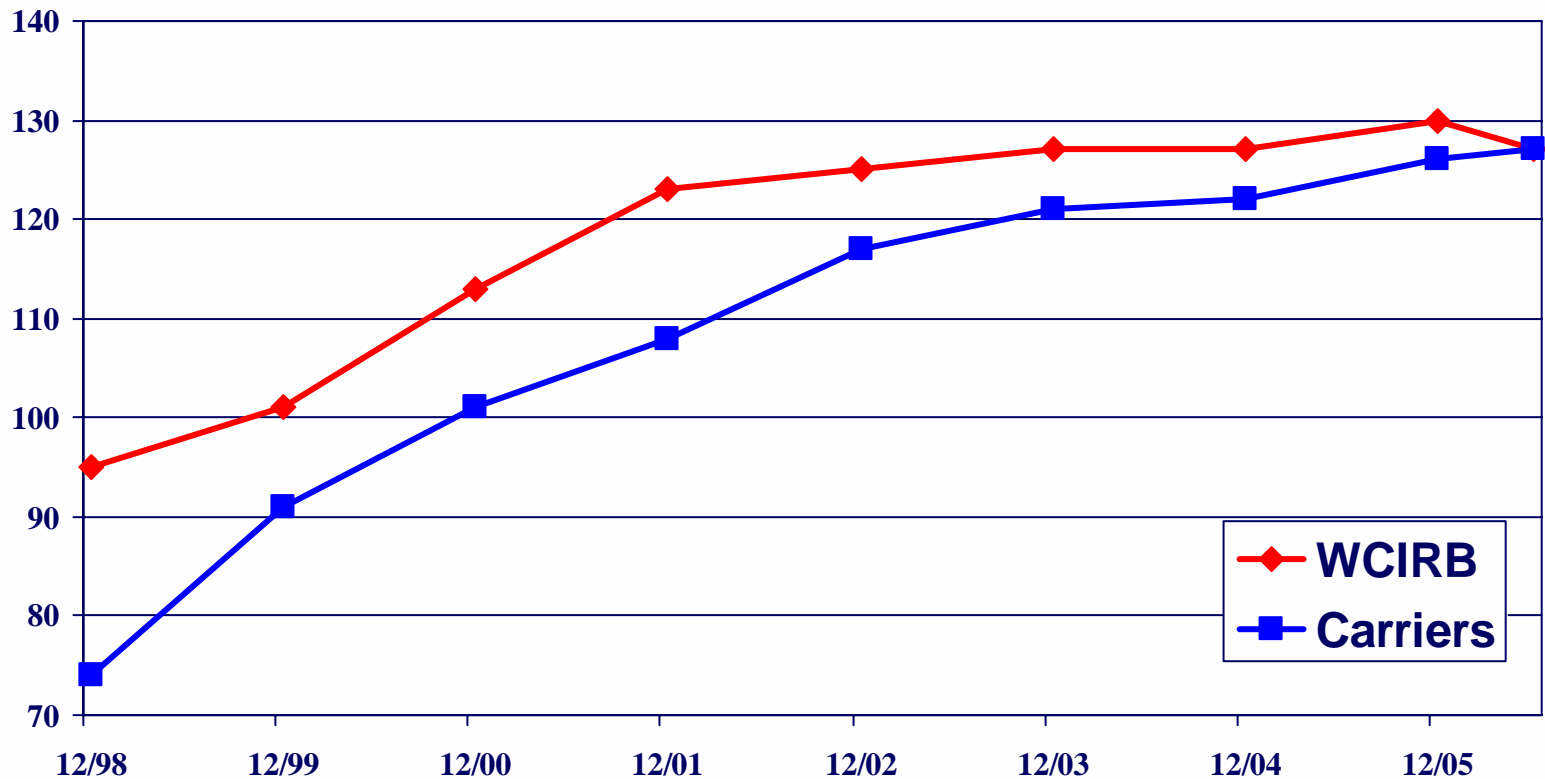
Development: Accident Year 1997



Source: WCIRB (Various Publications)



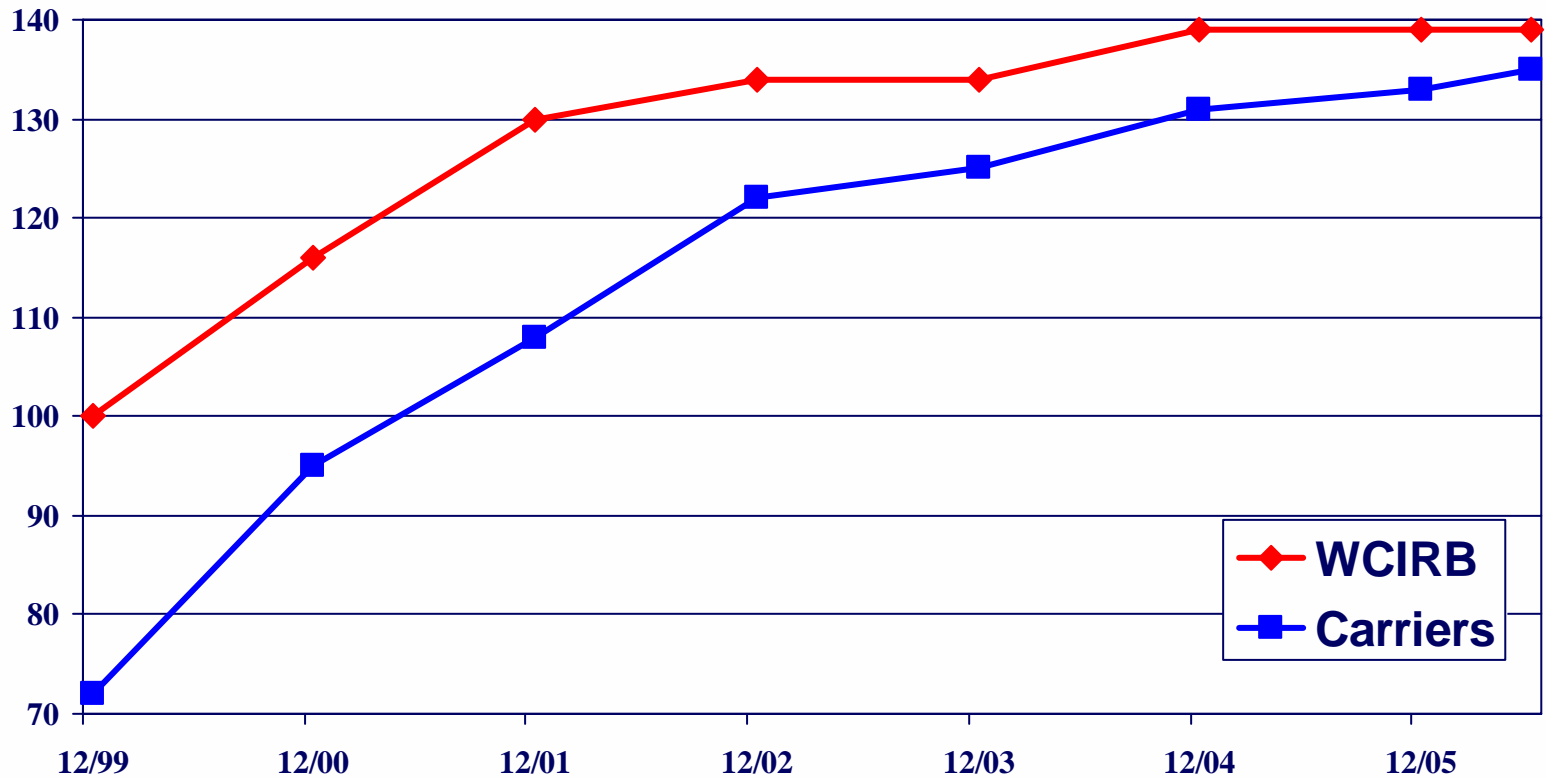
Development: Accident Year 1998



Source: WCIRB (Various Publications)



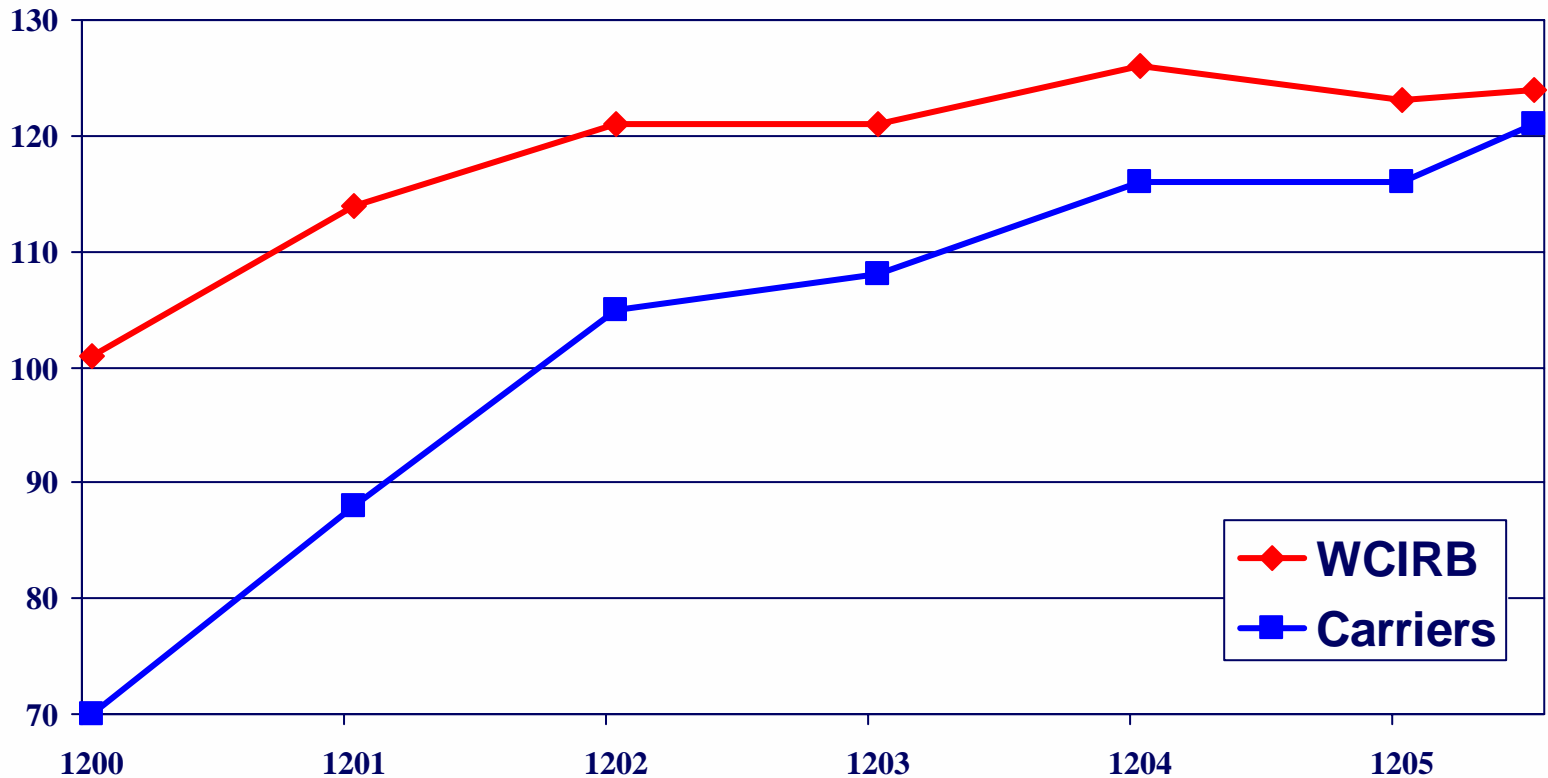
Development: Accident Year 1999



Source: WCIRB (Various Publications)



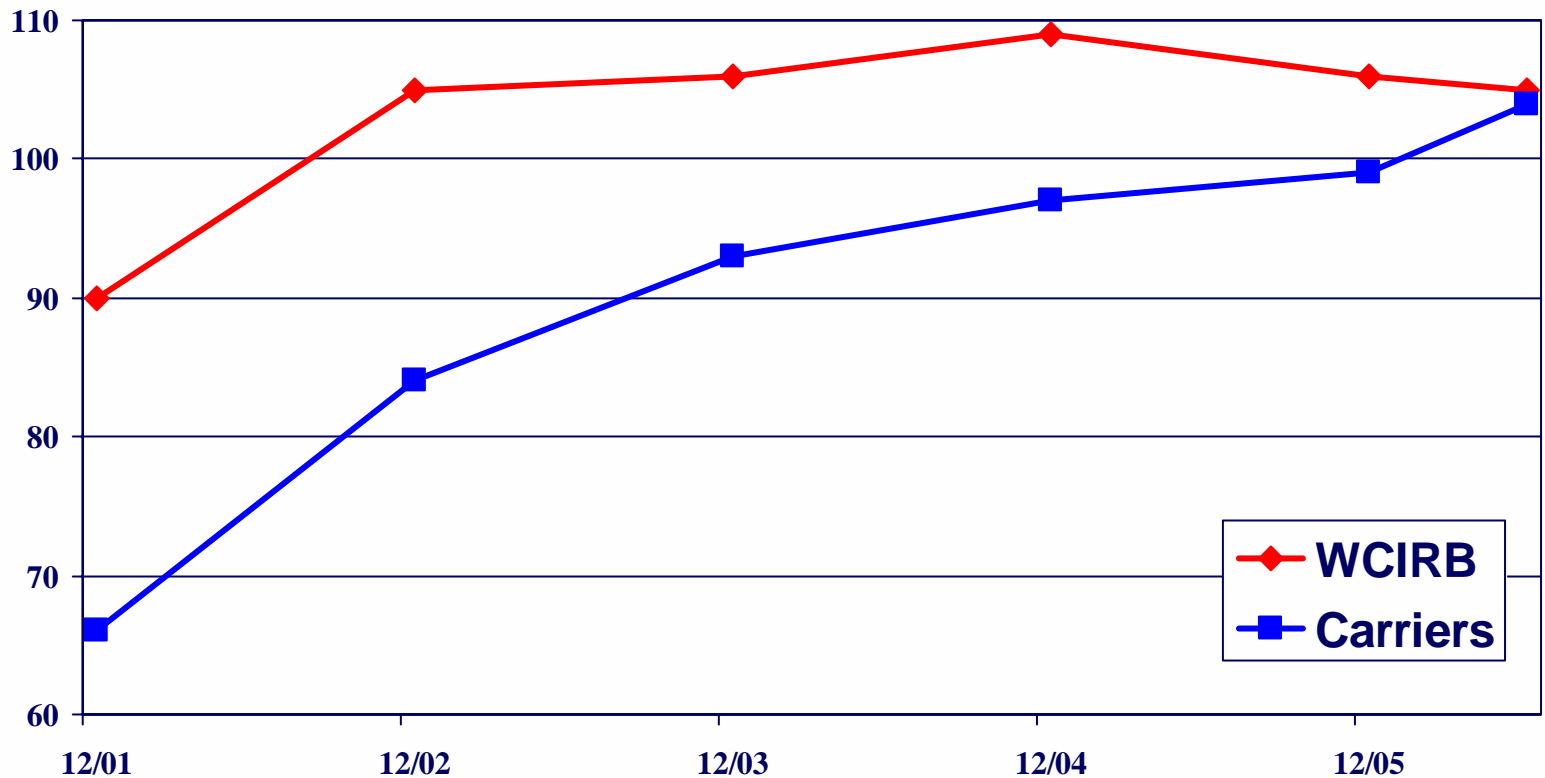
Development: Accident Year 2000



Source: WCIRB (Various Publications)



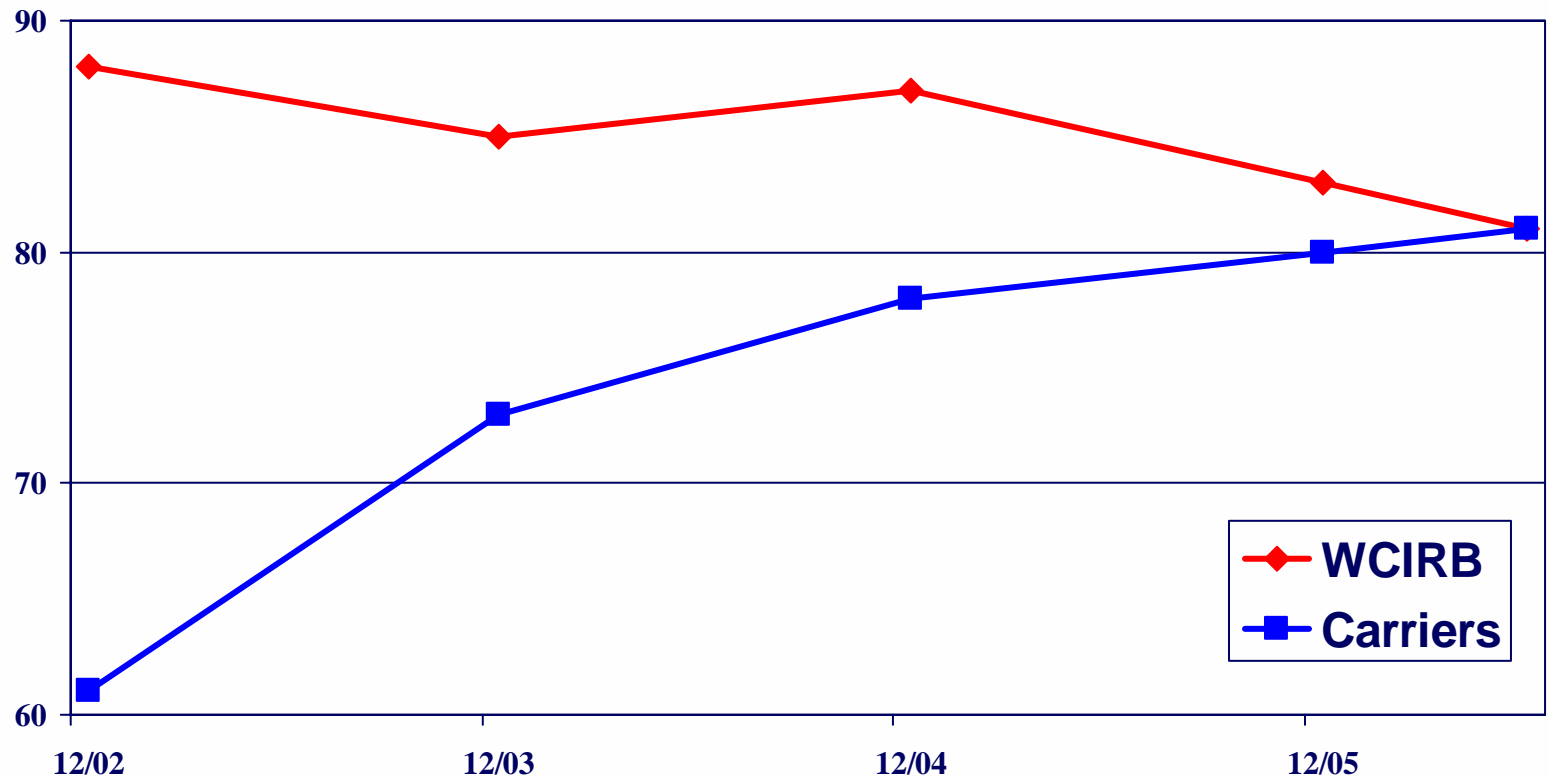
Development: Accident Year 2001



Source: WCIRB (Various Publications)



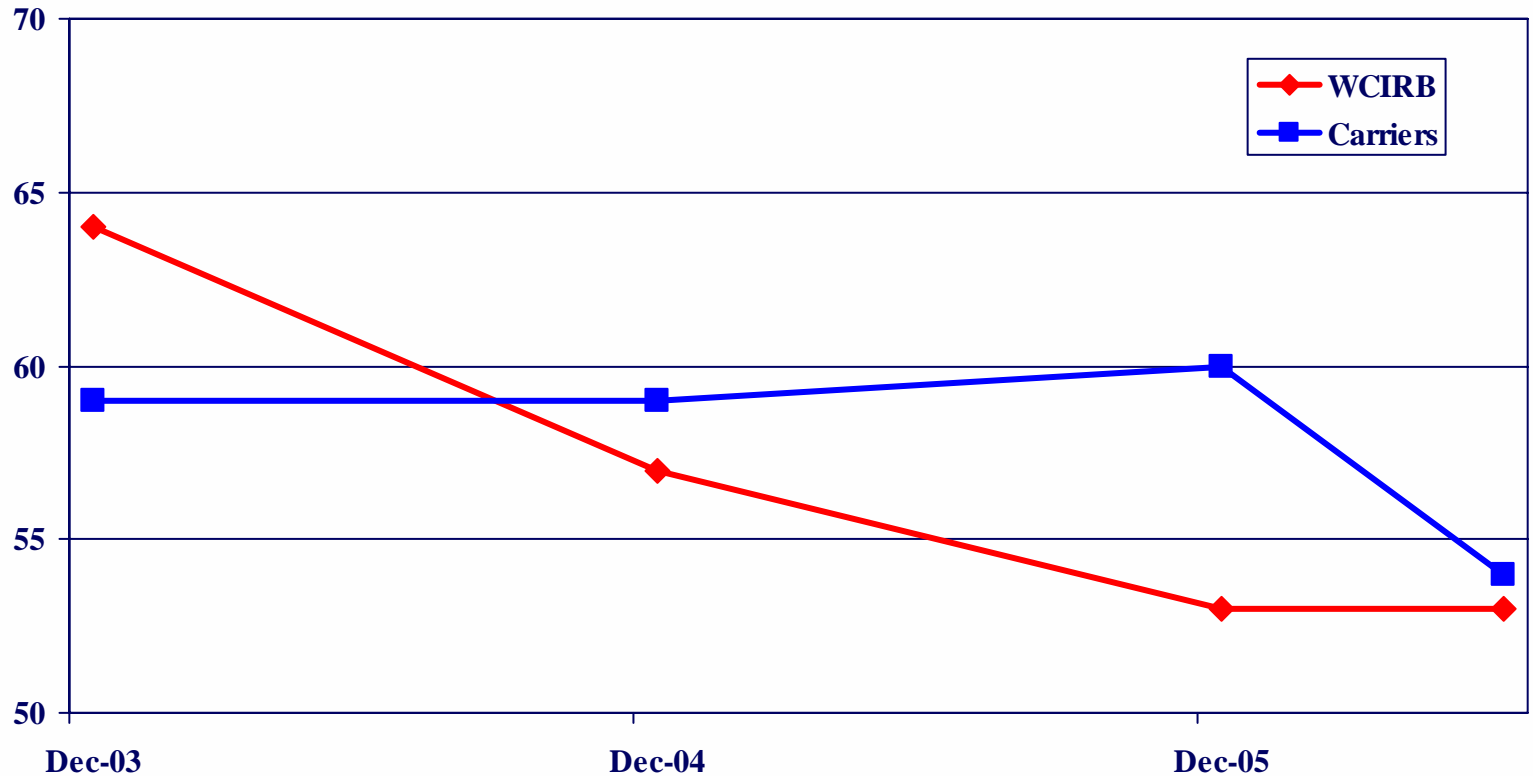
Development: Accident Year 2002



Source: WCIRB (Various Publications)



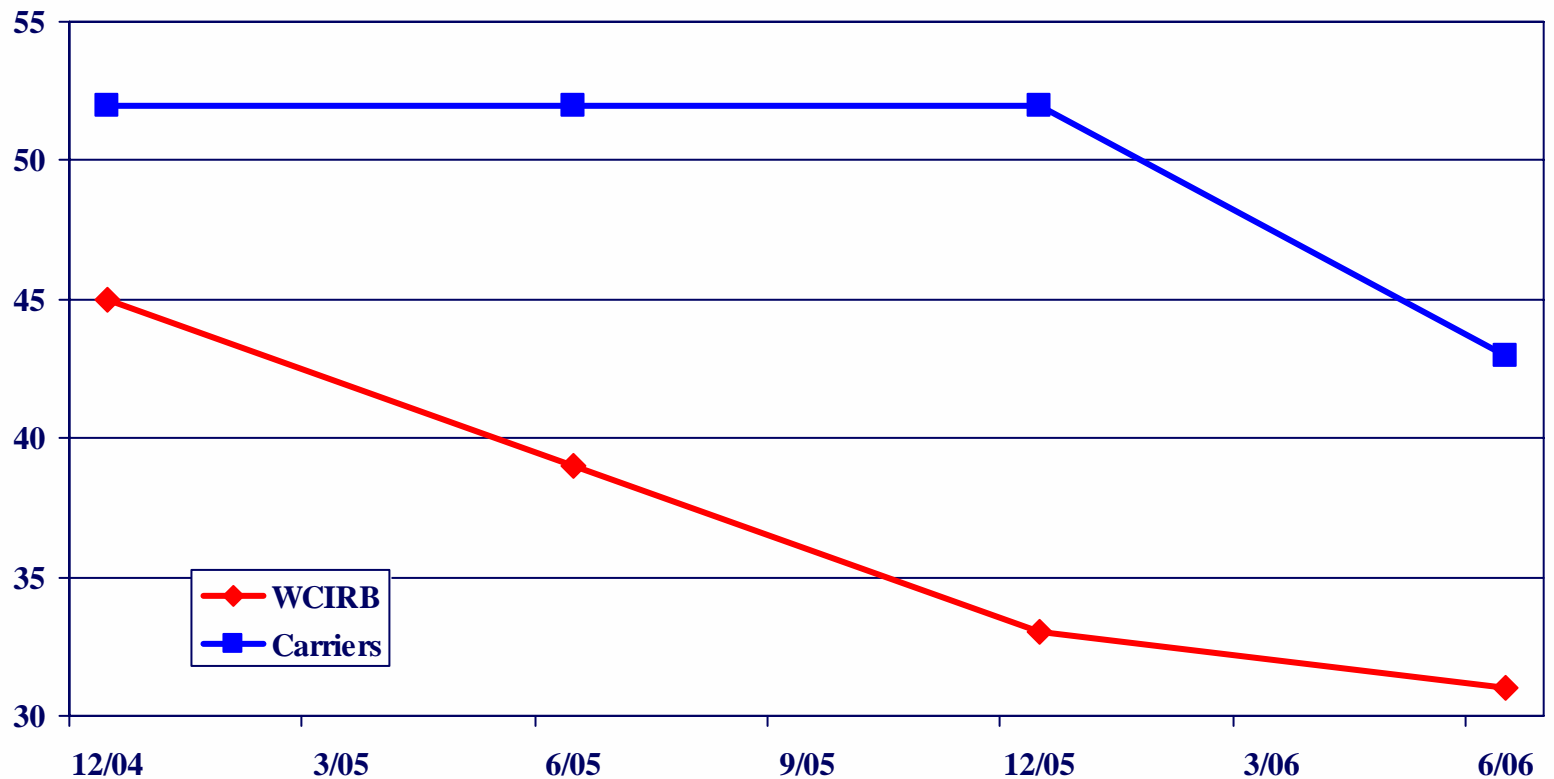
Development: Accident Year 2003



Source: WCIRB (Various Publications)



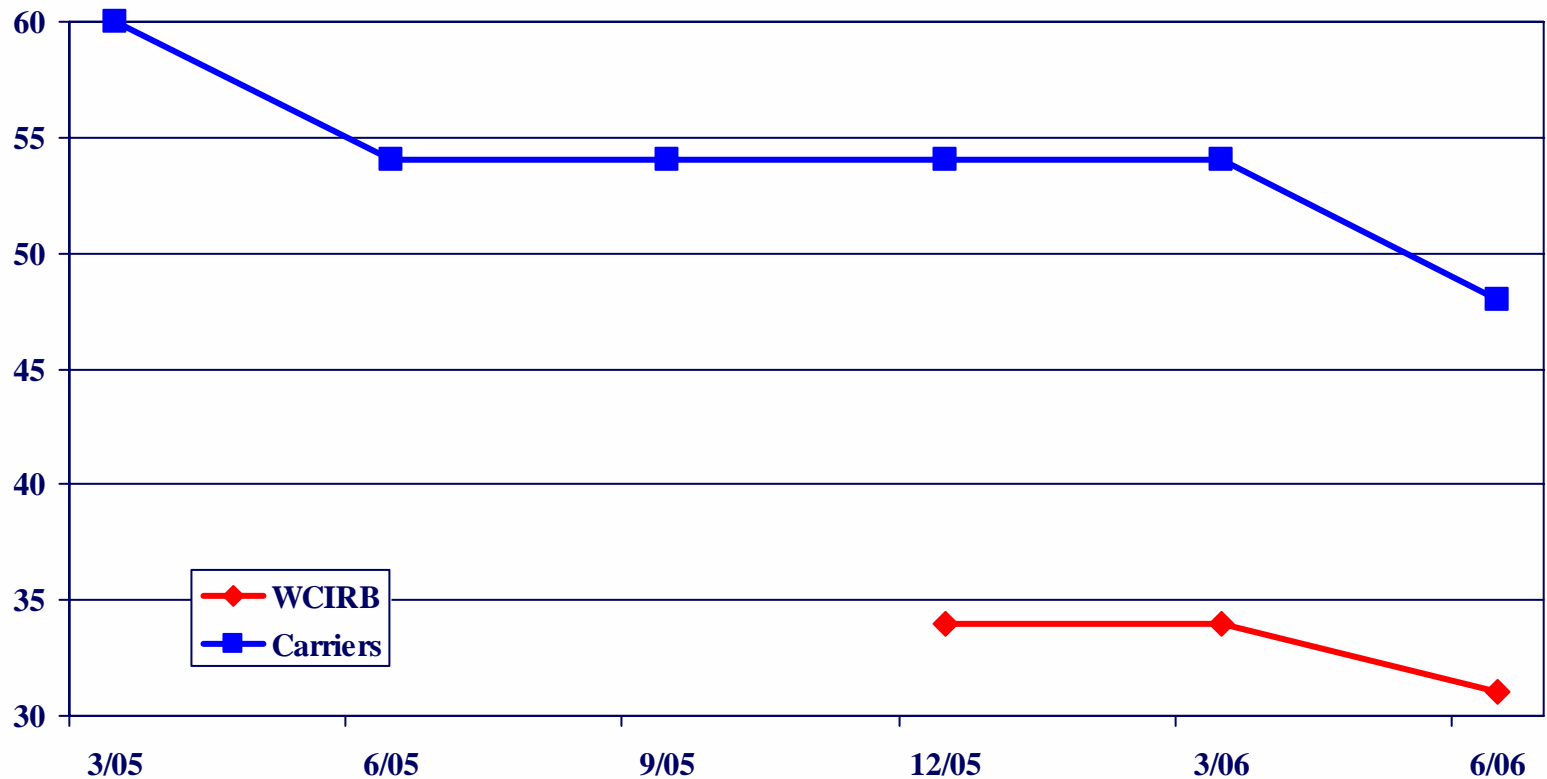
Development: Accident Year 2004



Source: WCIRB (Various Publications)



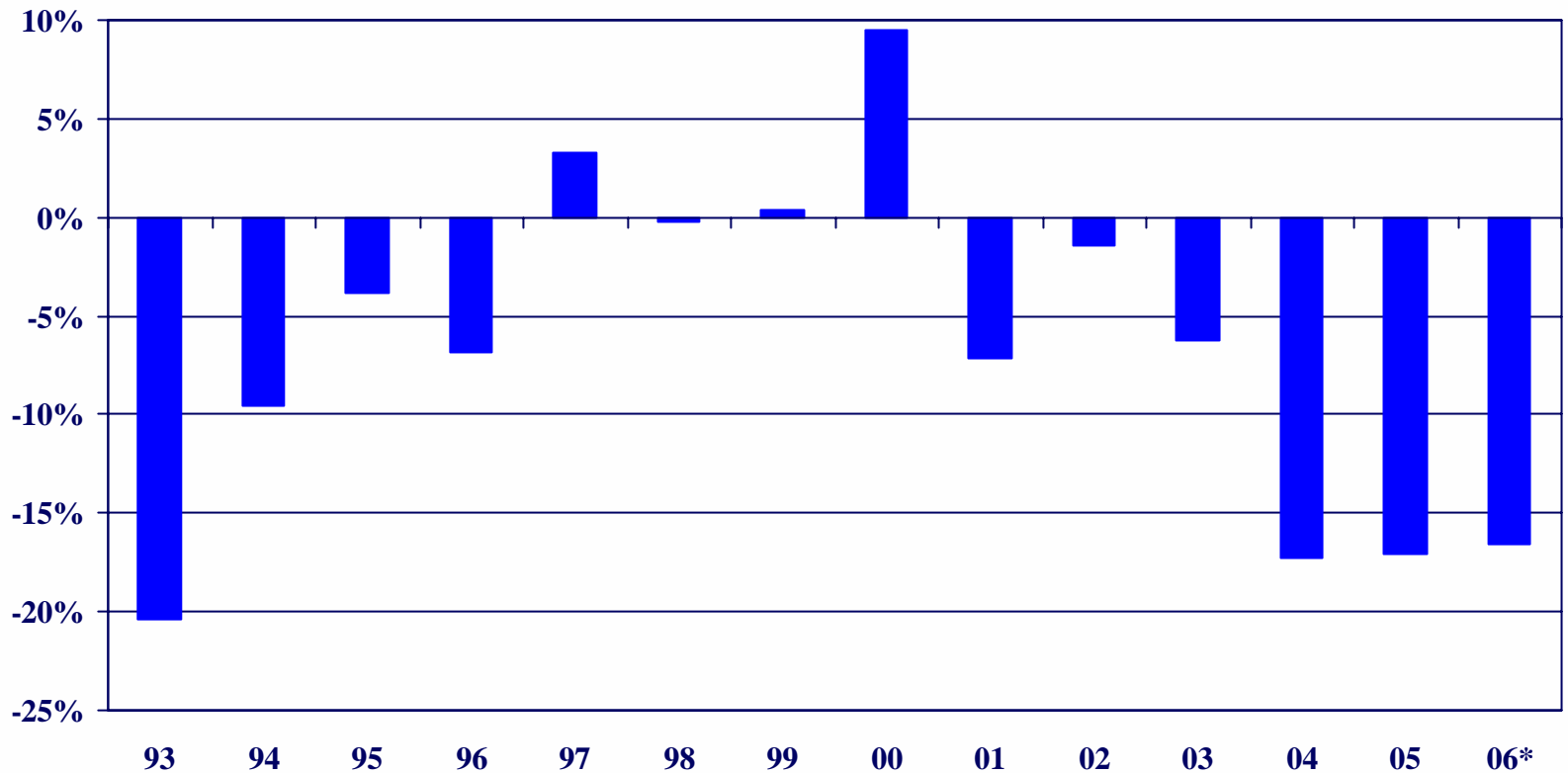
Development: Accident Year 2005



Source: WCIRB (Various Publications)



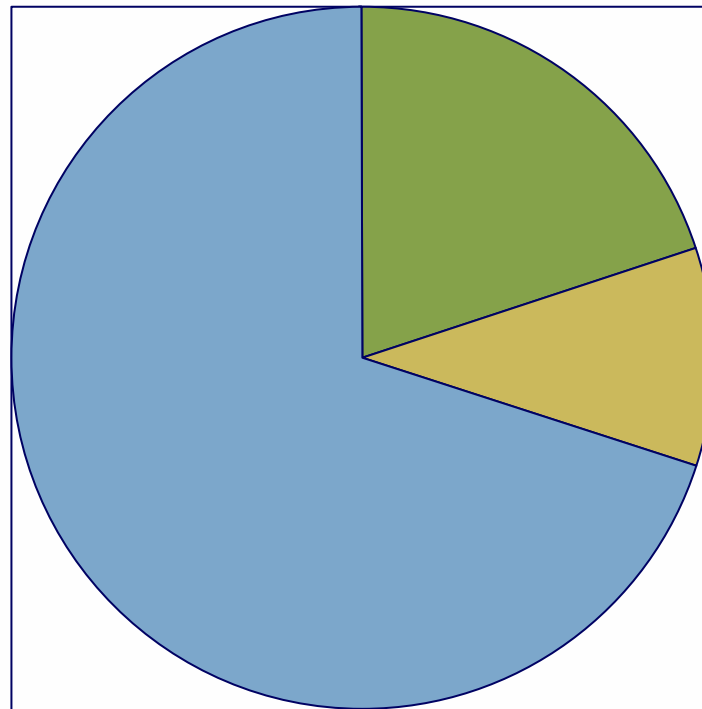
Changes in On-Level Frequency



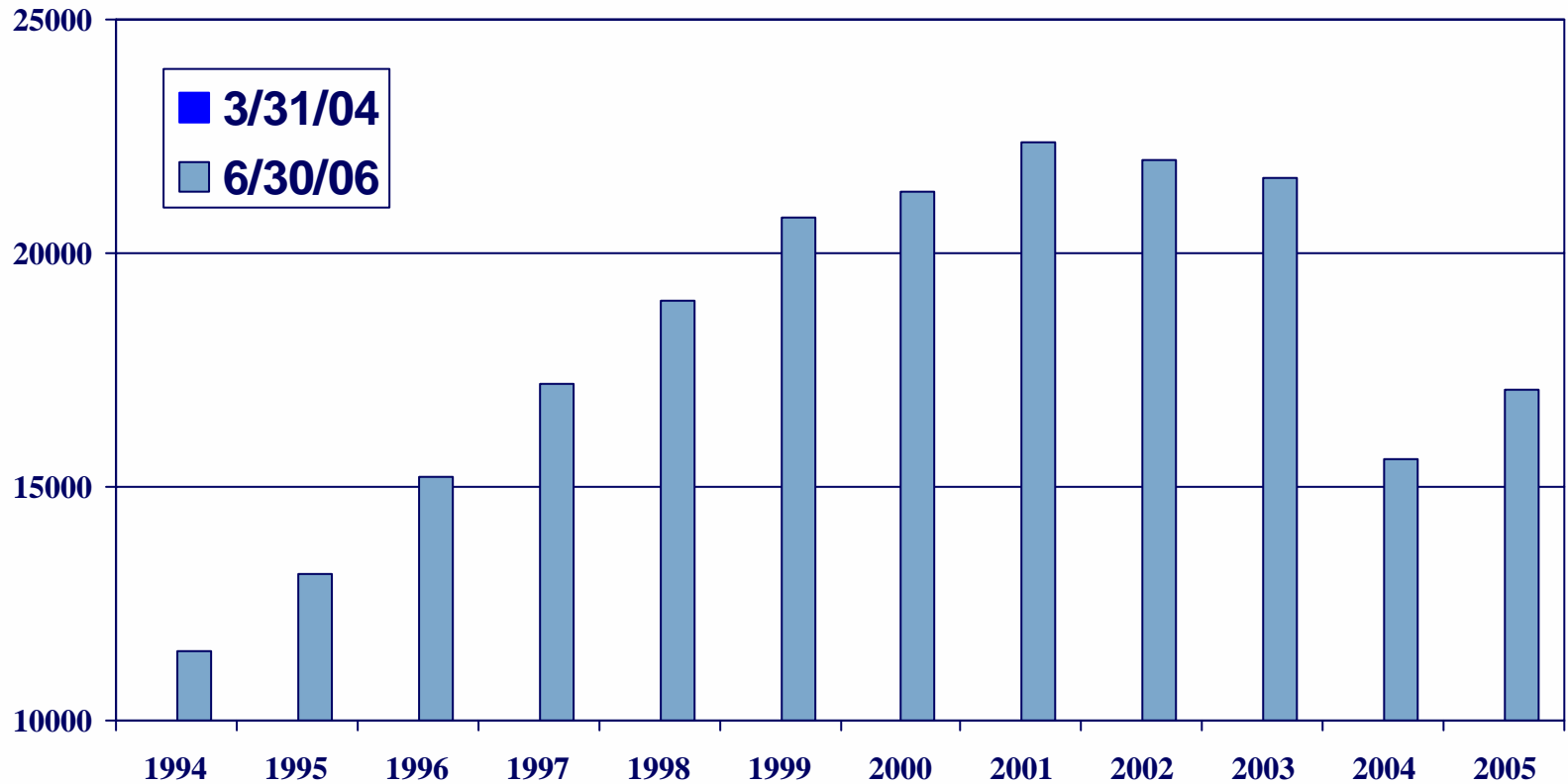
Source; WCIRB Actuarial Committee AC06-09-01



Drivers of Frequency Decreases



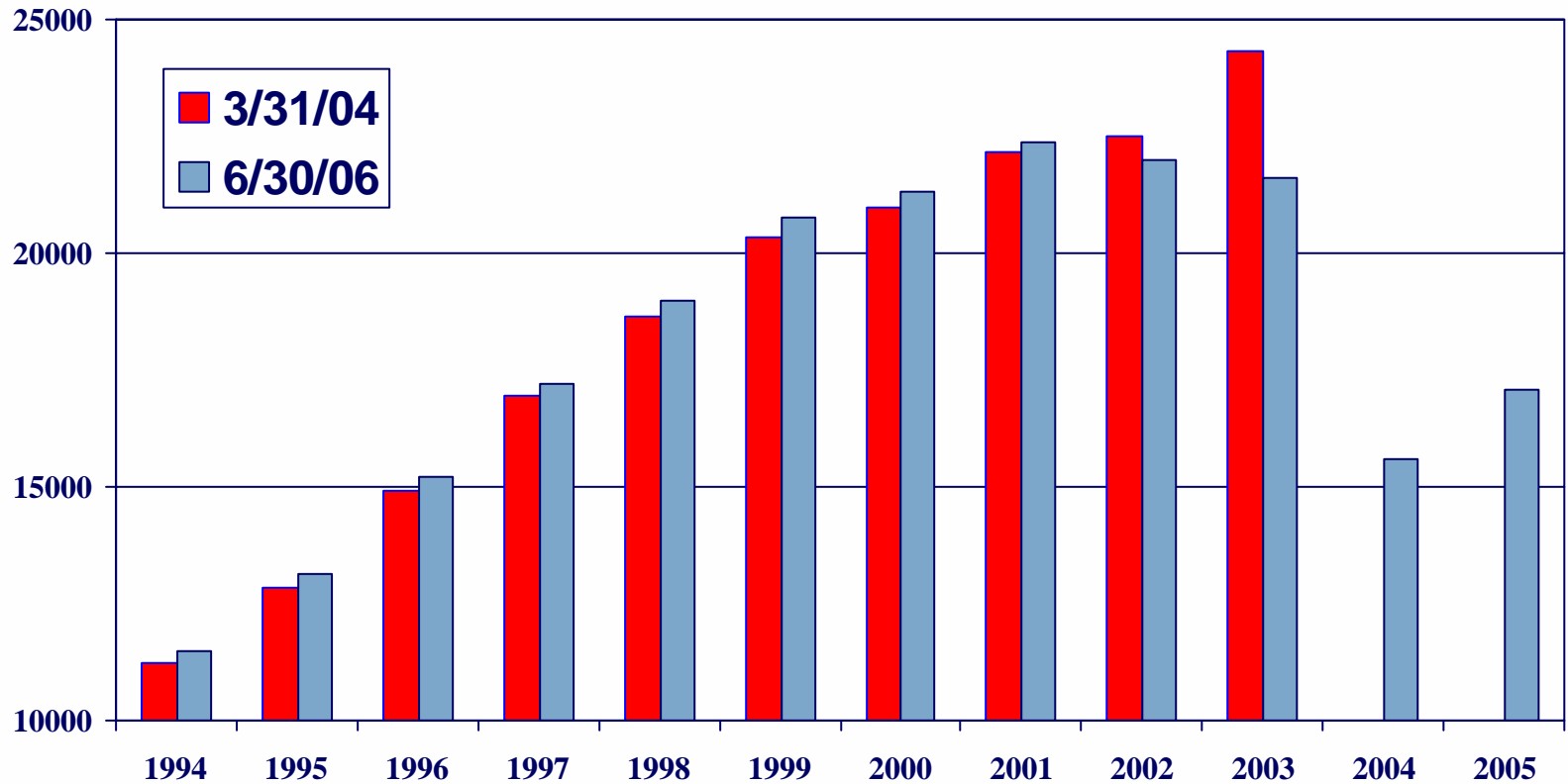
Indemnity Severity per Indemnity Claim



Source: WCIRB Actuarial Committee AC06-09-01



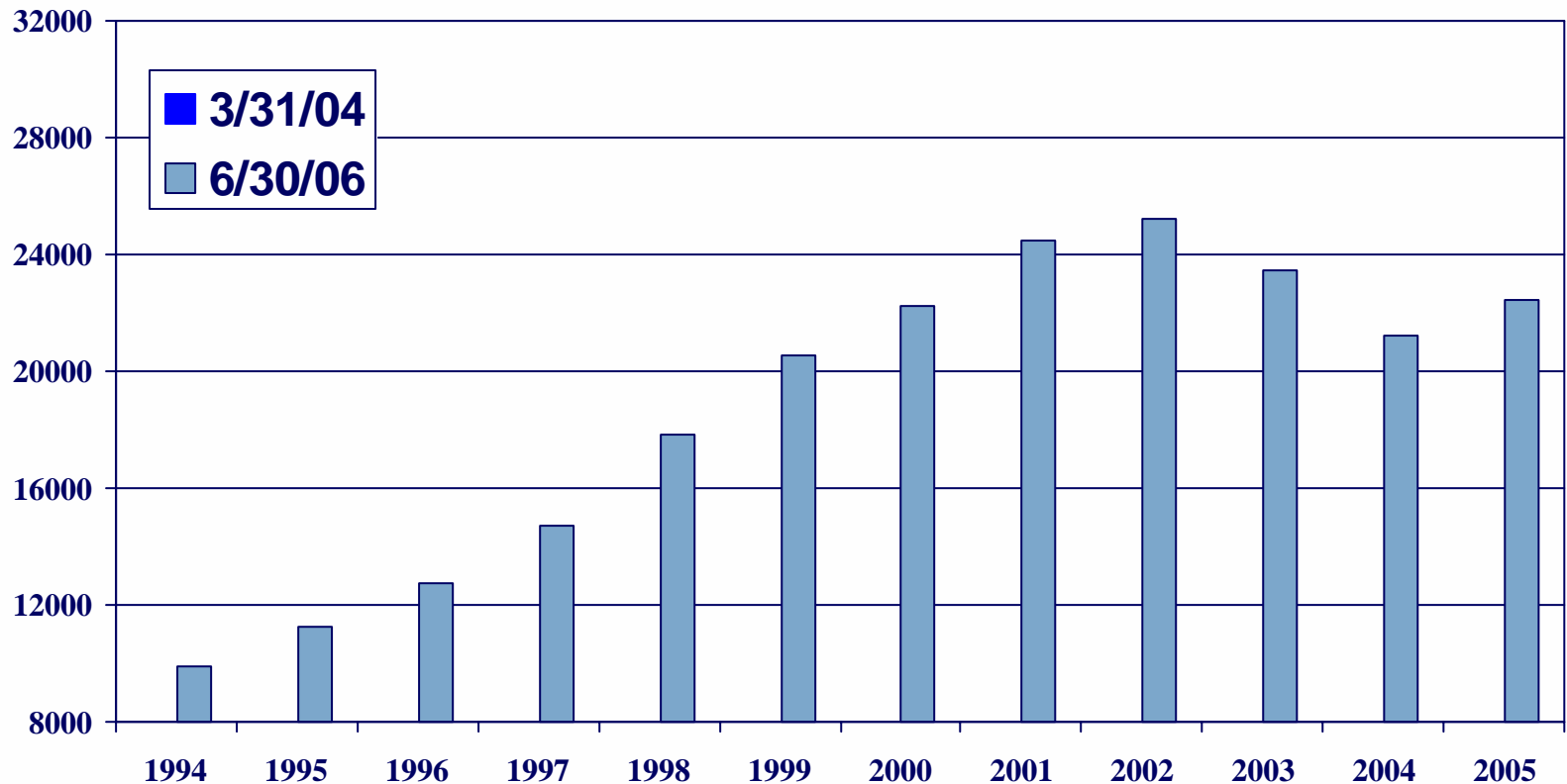
Indemnity Severity per Indemnity Claim



Source: WCIRB Actuarial Committee AC06-09-01



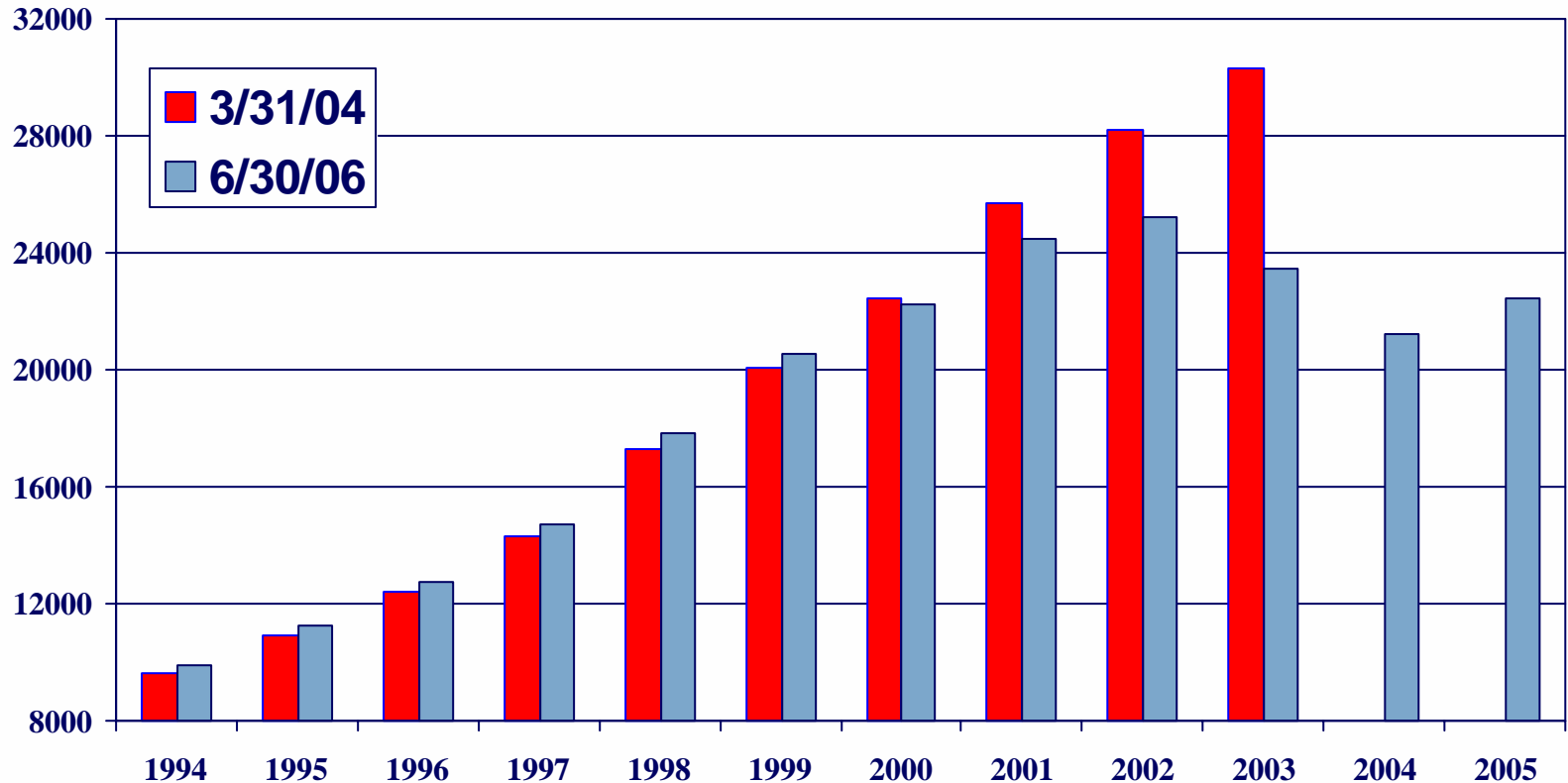
Medical Severity per Indemnity Claim



Source: WCIRB Actuarial Committee AC06-09-01



Medical Severity per Indemnity Claim



Source: WCIRB Actuarial Committee AC06-09-01



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**

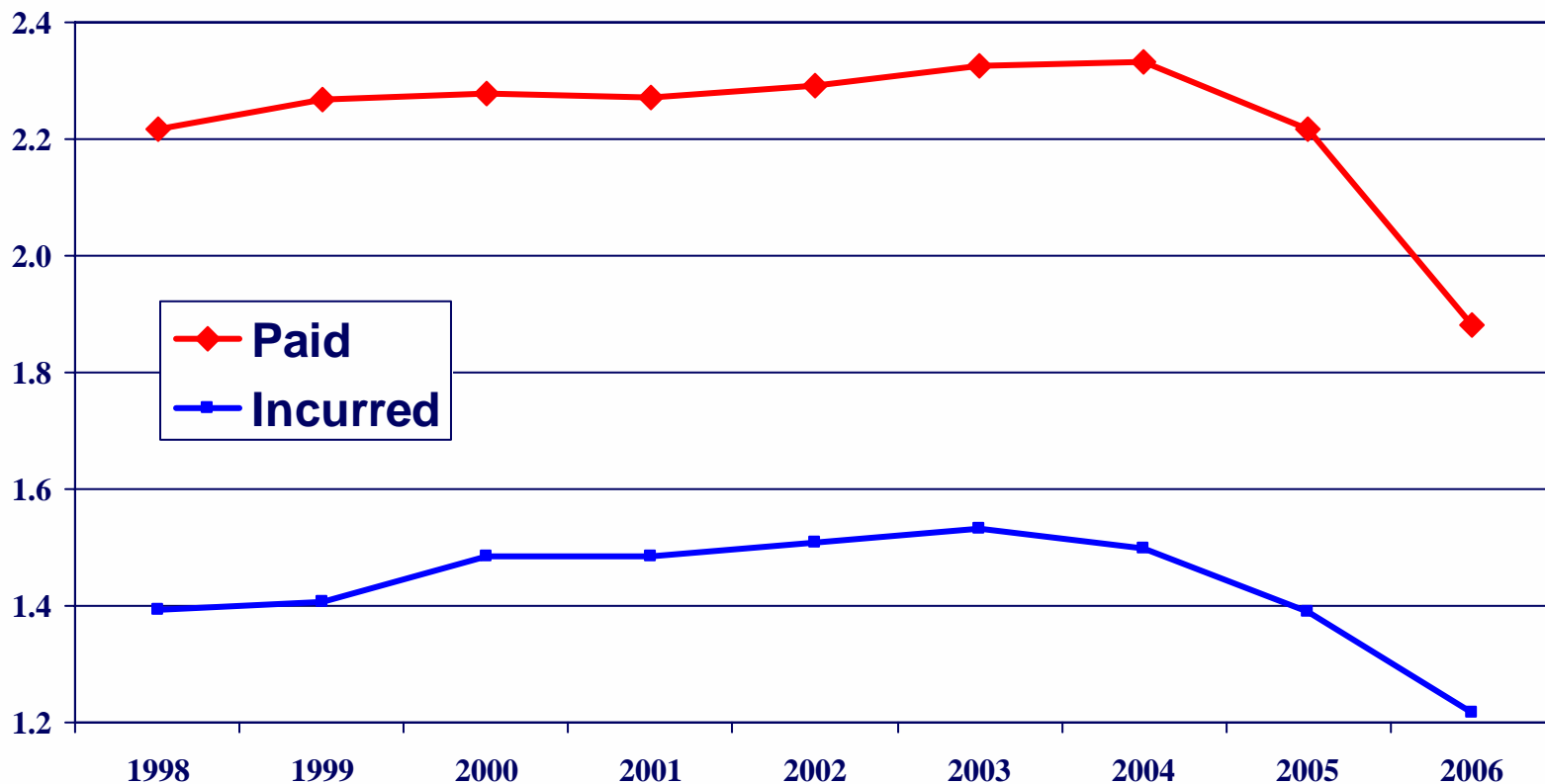


Legislation: SB 899

- 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



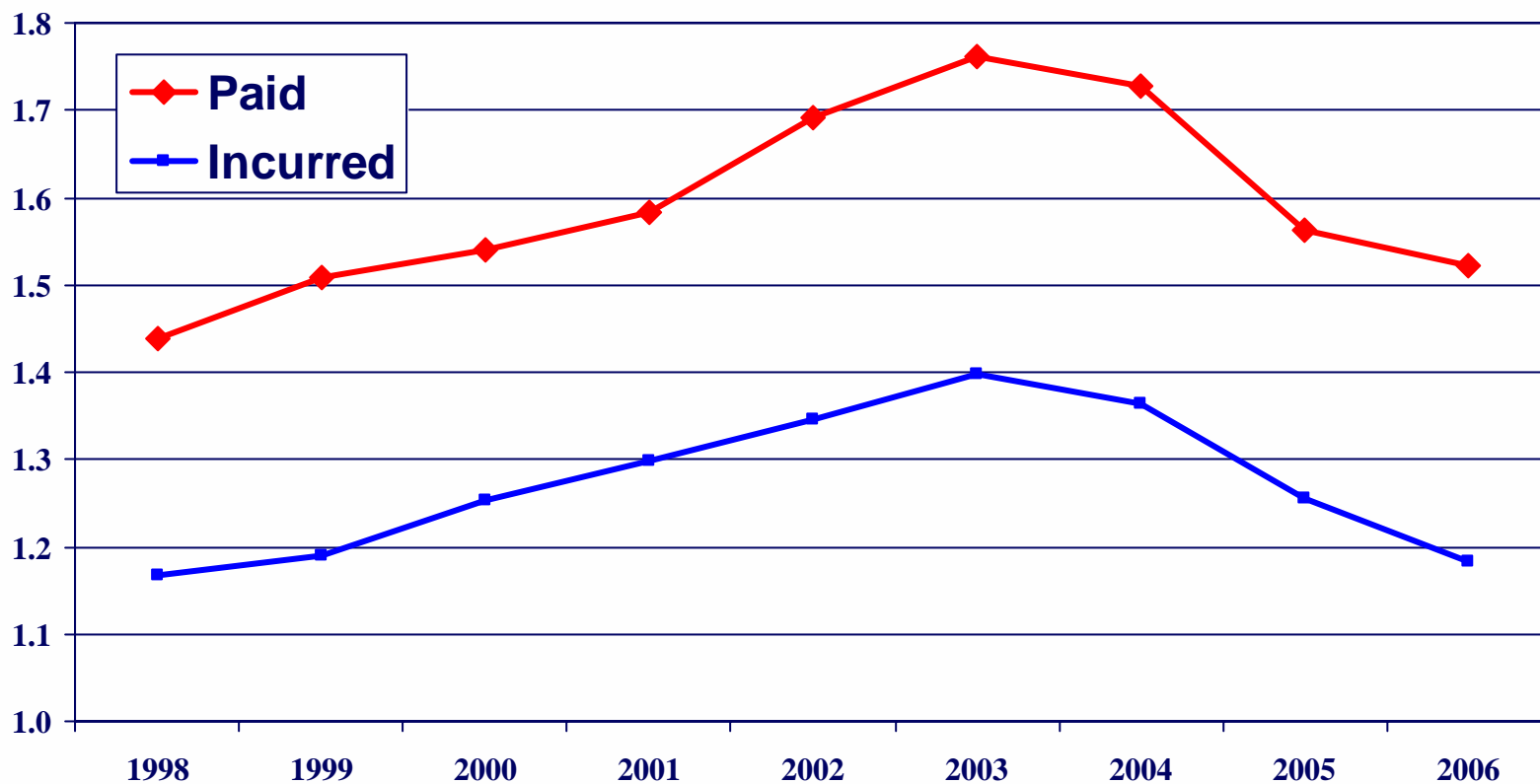
Indemnity Development (18-30)



Source: WCIRB Actuarial Committee AC06-09-01



Medical Development (18-30)



Source: WCIRB Actuarial Committee AC06-09-01



Loss Development Adjustments

■ Medical

- Fee schedule changes (CY 2003 & prior)
- Utilization (AY 2000 – AY 2004)

■ Indemnity

- Injury type mix (AY 2003 – AY 2005)
- PDRS/apportionment (retroactive impact)



Example – Medical Utilization

	0-6	6-18	18-30	DF
Cumulative Paid (Actual)	125	1,000	1,523	1.523
Incremental Paid (Actual)	125	875	523	
Adjustment	-25%	0%	0%	
Incremental Paid (Adjust)	94	875	523	
Cumulative Paid (Adjust)	94	969	1,492	1.540

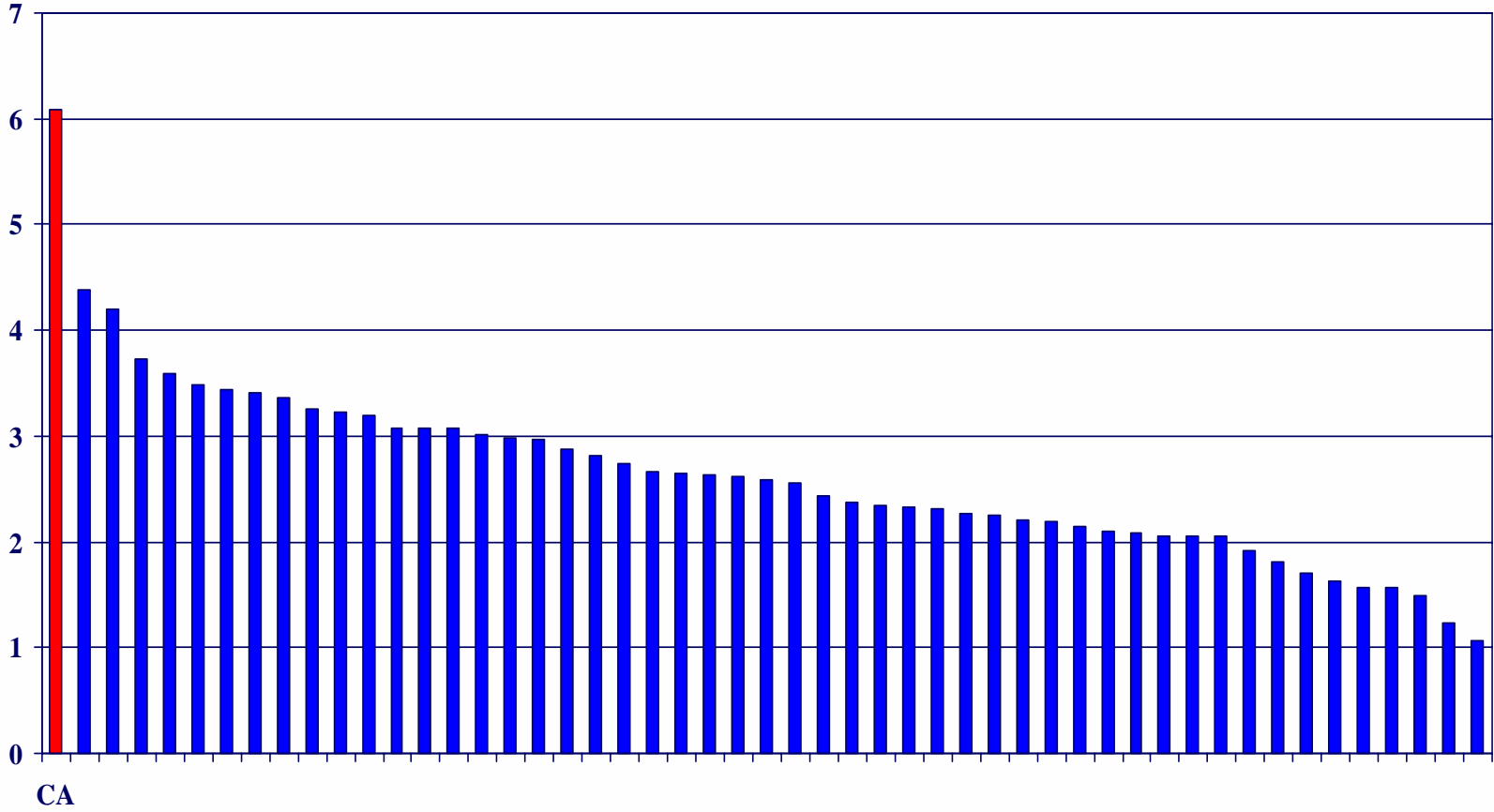


Loss Development Adjustments

Age	Paid Indemnity		Paid Medical	
	Before	After	Before	After
18-Ult	4.40	4.65	3.52	4.08
30-Ult	2.34	2.09	2.31	2.65
42-Ult	1.66	1.72	1.89	2.10



WC Cost By State (2003)



Source: Oregon DCBS



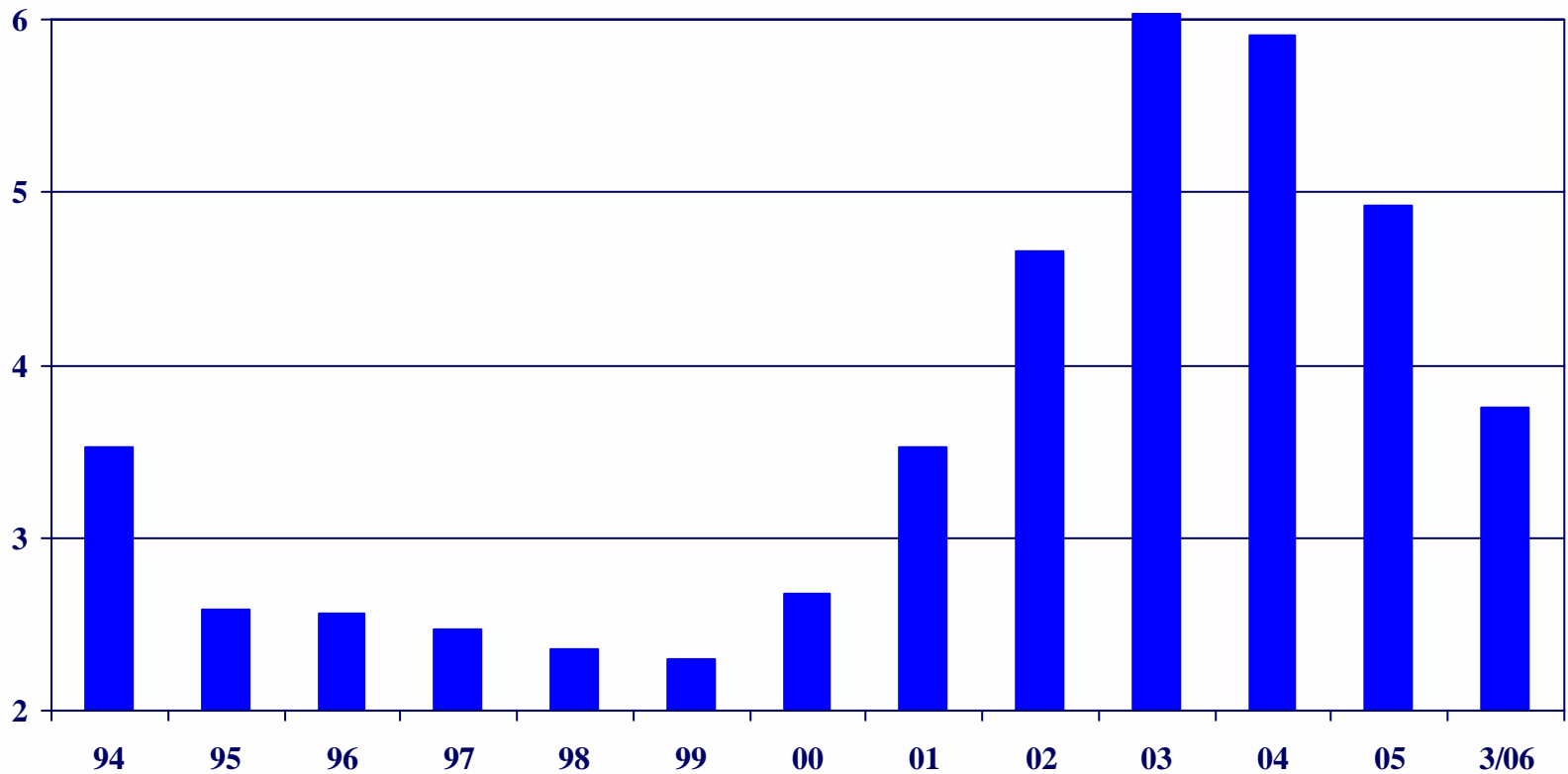
Last Year's Fearless Prediction!

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

We're Number 49!



Average Rate per \$100 of Payroll



Source: WCIRB 2006 Annual Meeting



This Year's Fearless Prediction!

- Could drop below \$3 for 2007
- Watch out Alaska, Hawaii, Ohio, etc.:

**We're Number
40 Something!**



Current Topics

■ SB 815

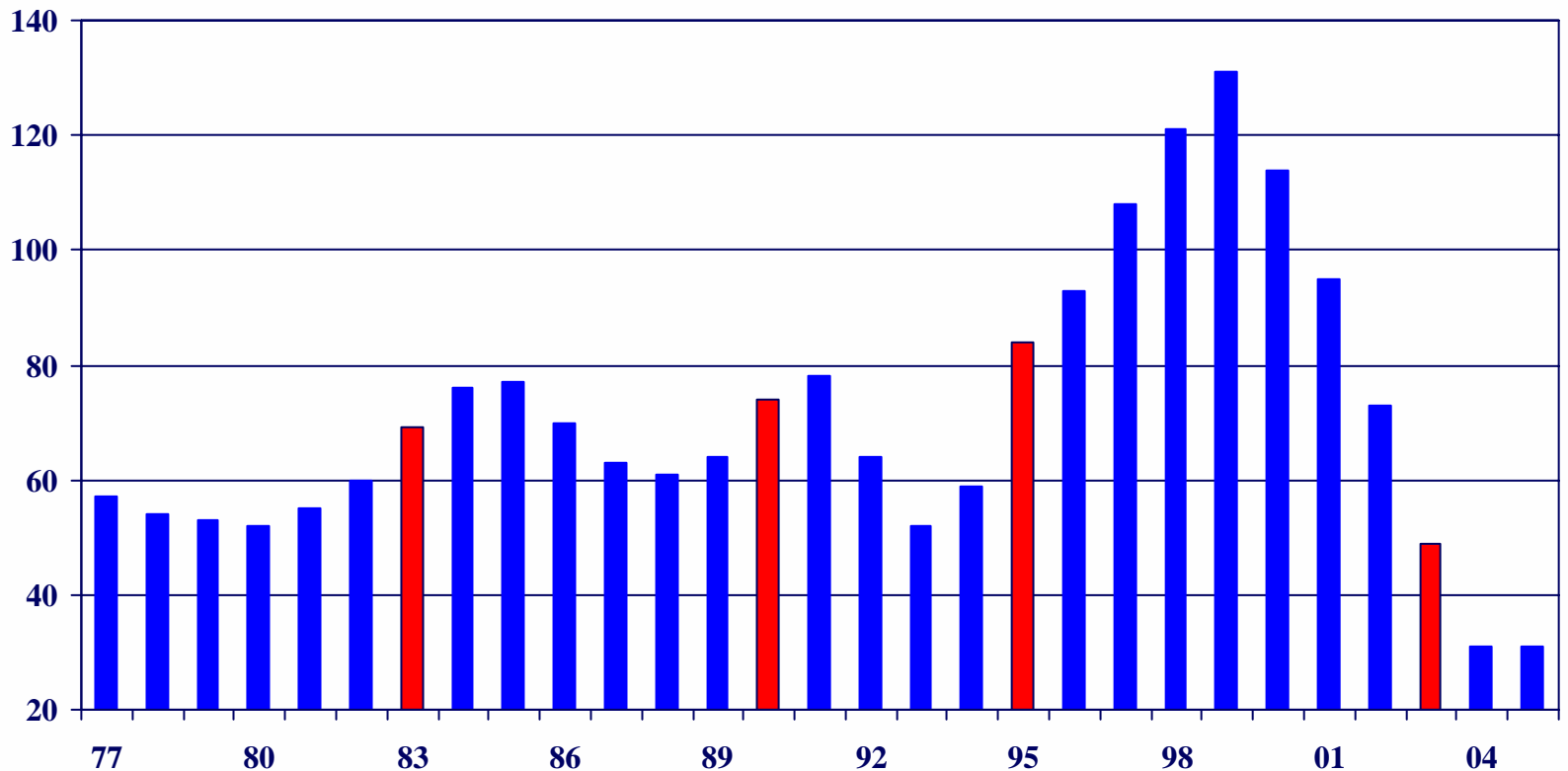
- Doubles PD award for same rating
- 17% increase over 3 years
- On Governor's desk; likely to veto

■ Apportionment

- Subtract percentages or dollars
 - $71\% - 62.5\% = 8.5\% \rightarrow \$3,360$
 - $\$100,165 - \$32,193 \rightarrow \$67,972$



Years with Major Benefit Changes



Source: WCIRB Actuarial Committee AC06-09-01