

California Workers Compensation:

Up or Down?

A Brief History

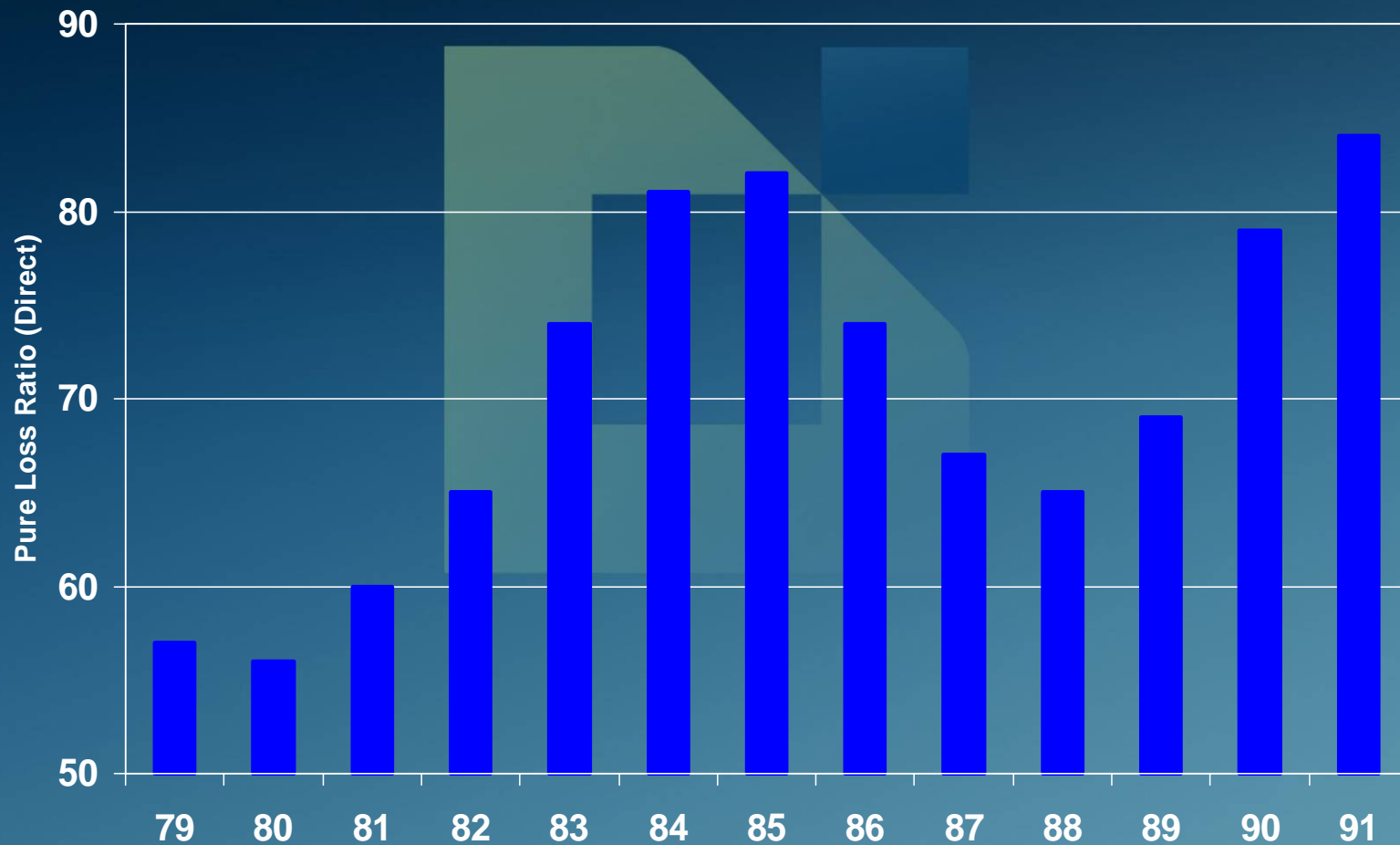
■ 1994 & Prior

- WCIRB Made Full Rates
- Minimum Rate Law
- Target Loss (Pure) Ratio = 65%
- Competition: Dividends and Service

■ 1995 & Subsequent

- Loss & LAE only
- Open Rating (Advisory)
- Competition: Up Front Credits

WCIRB Estimated ULR @ 3/08

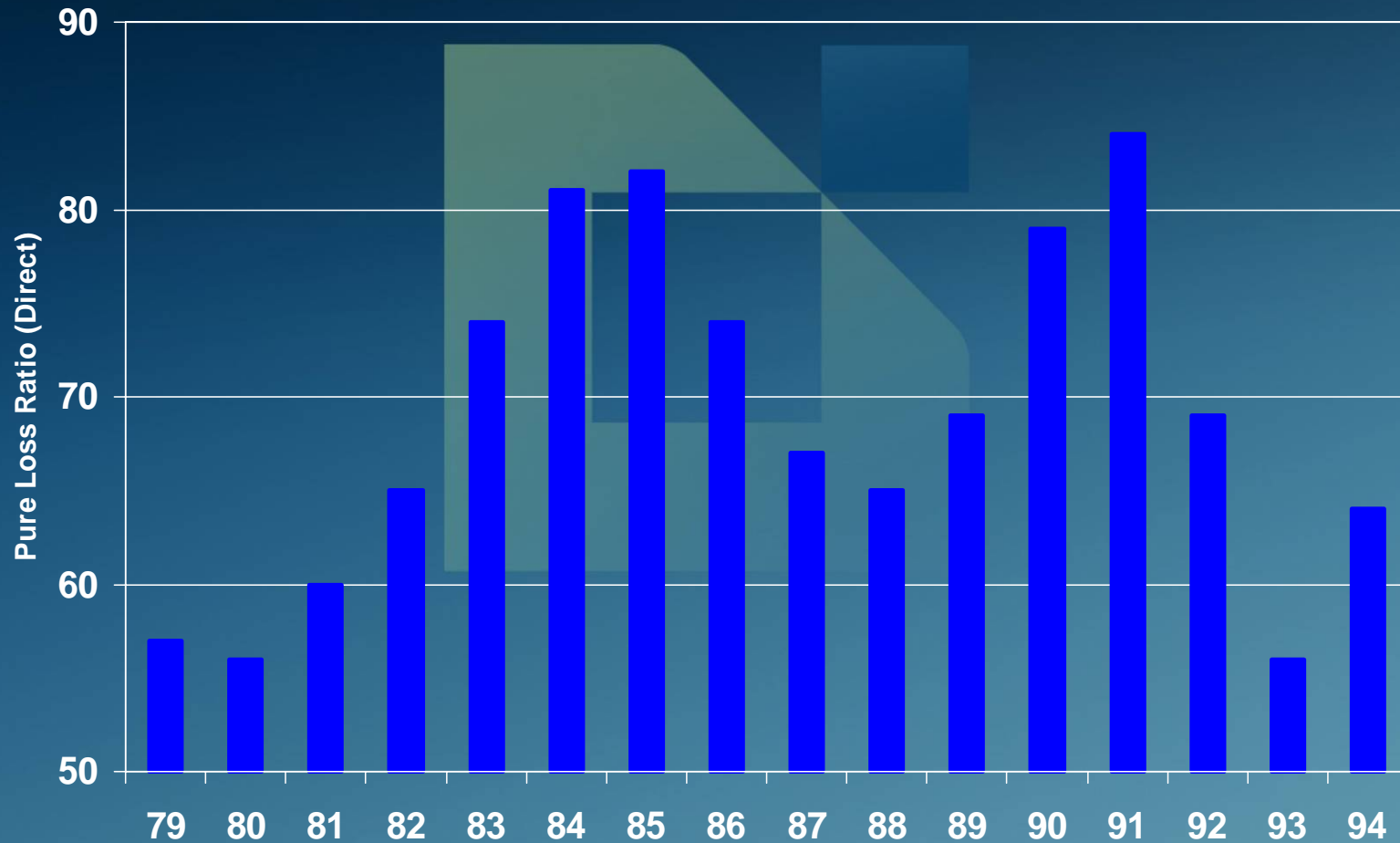


Source: WCIRB

A Brief History

- **1989-91: High Loss Ratios**
 - Rampant Fraud
 - Medical Mills & Cappers
 - Stress & Post-Termination Claims
 - High Frequency

WCIRB Estimated ULR @ 3/08

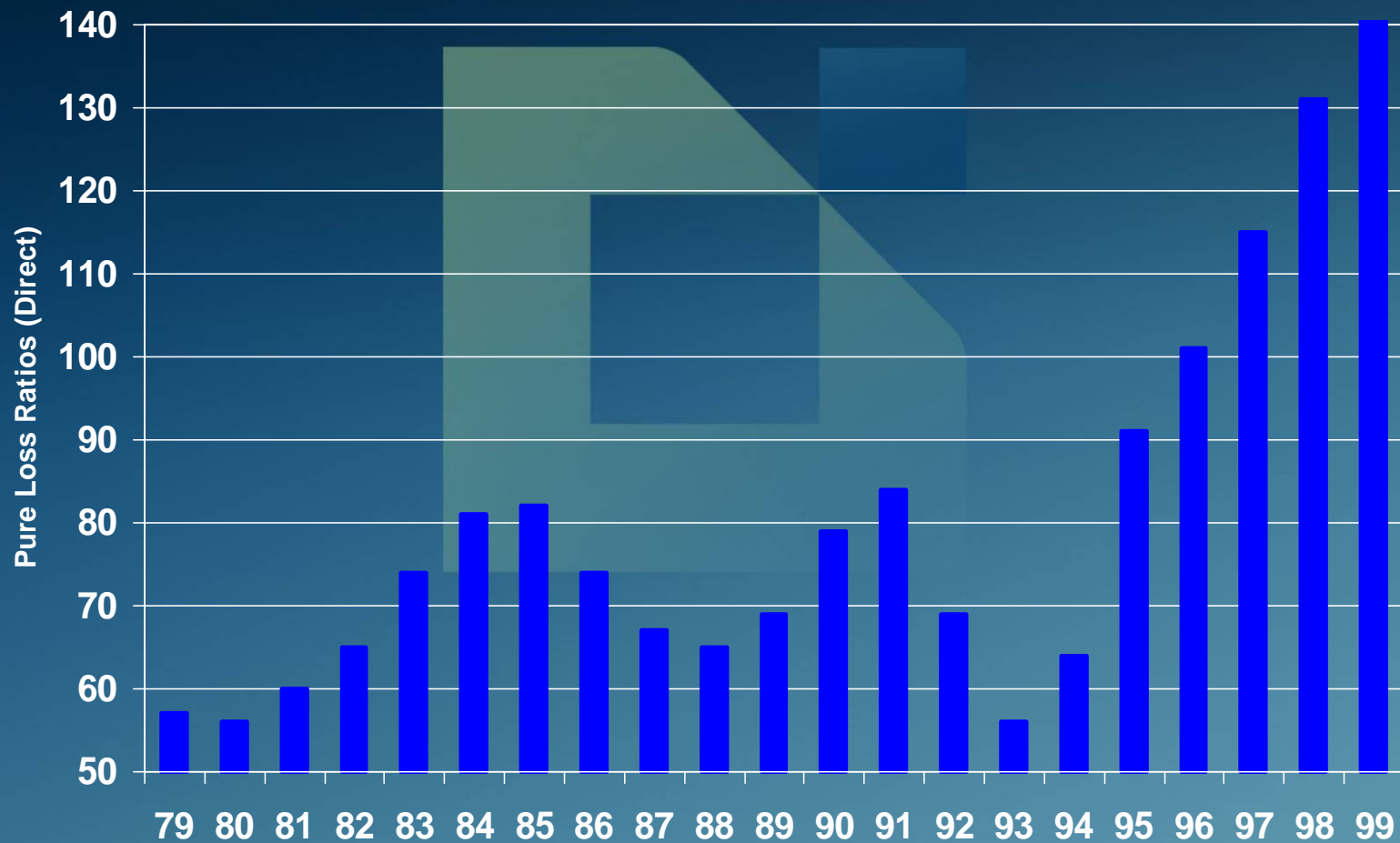


Source: WCIRB

A Brief History

- **1992-94: Low Loss Ratios**
 - Effective Anti-Fraud Measures
 - Low Medical Inflation
 - Healthcare Firms Enter Market

WCIRB Estimated ULR @ 3/08

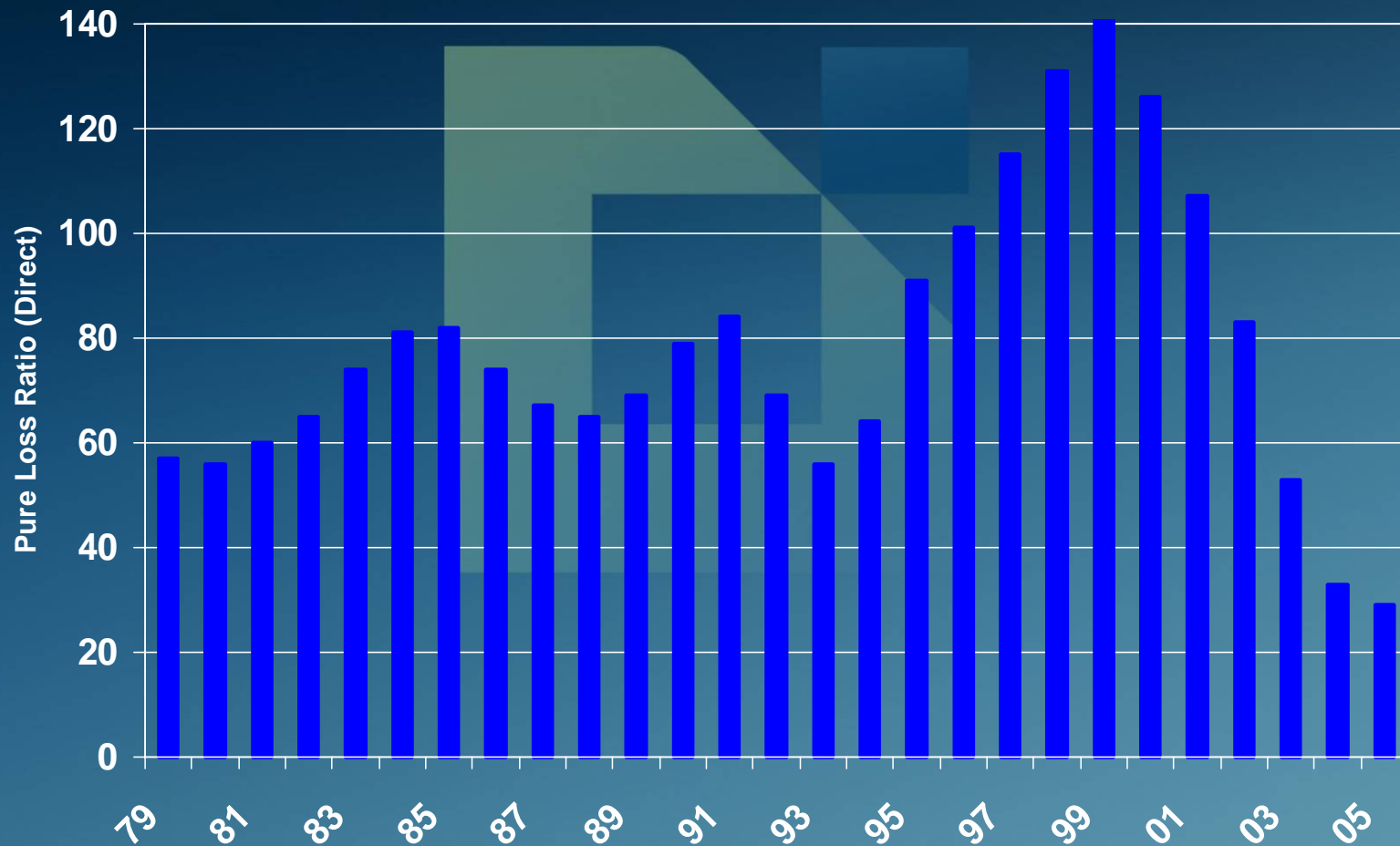


Source: WCIRB

A Brief History

- **1995-99: Increasing Loss Ratios**
 - Deep Discounting in Pricing
 - Inadequate Pure Premiums
 - Cheap Reinsurance (Unicover)
 - High Severity Trends (especially for Medical)
 - *Minniear* (Treating Physician Presumption)
 - About 30 Insolvencies

WCIRB Estimated ULR @ 3/08

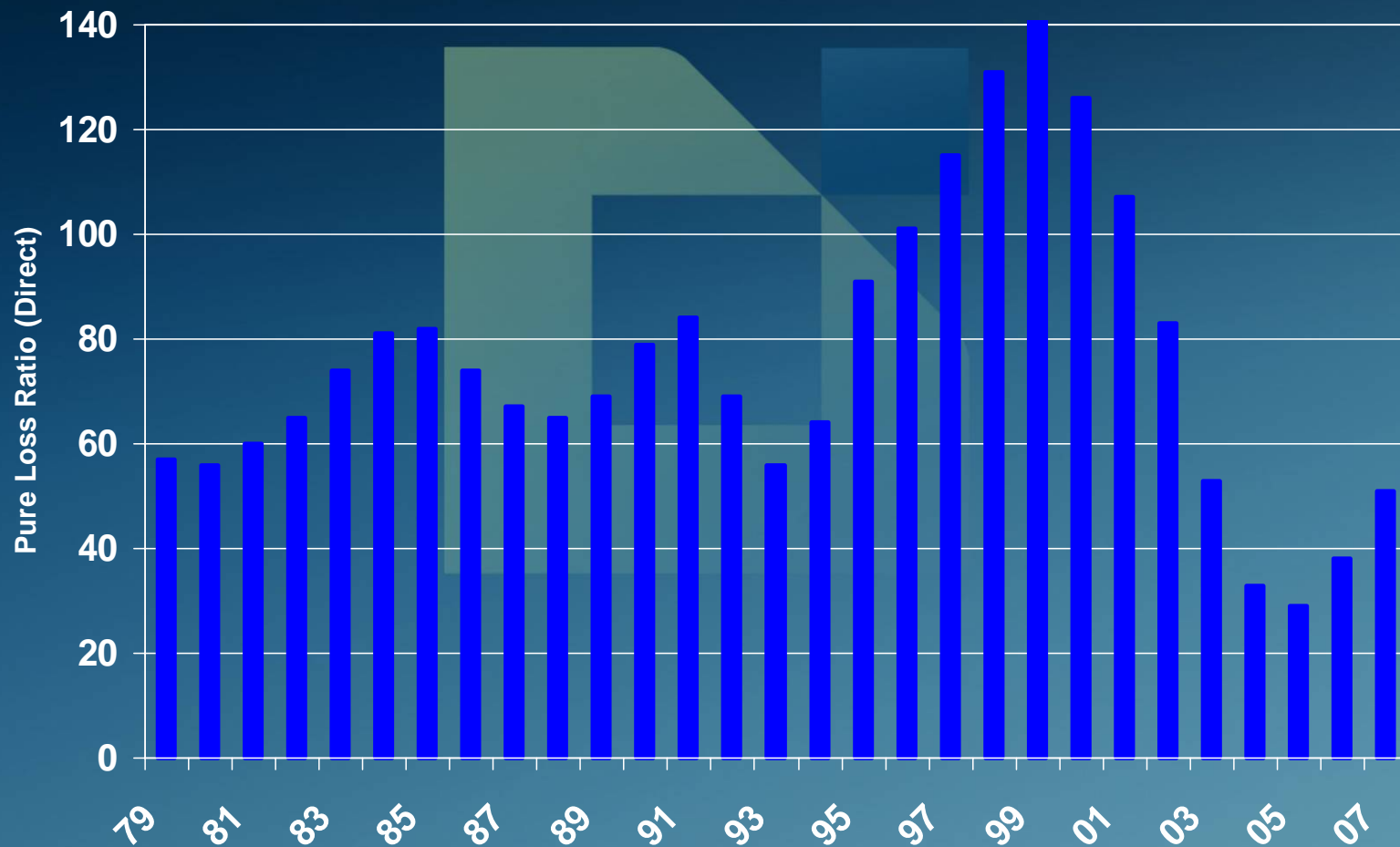


Source: WCIRB

A Brief History

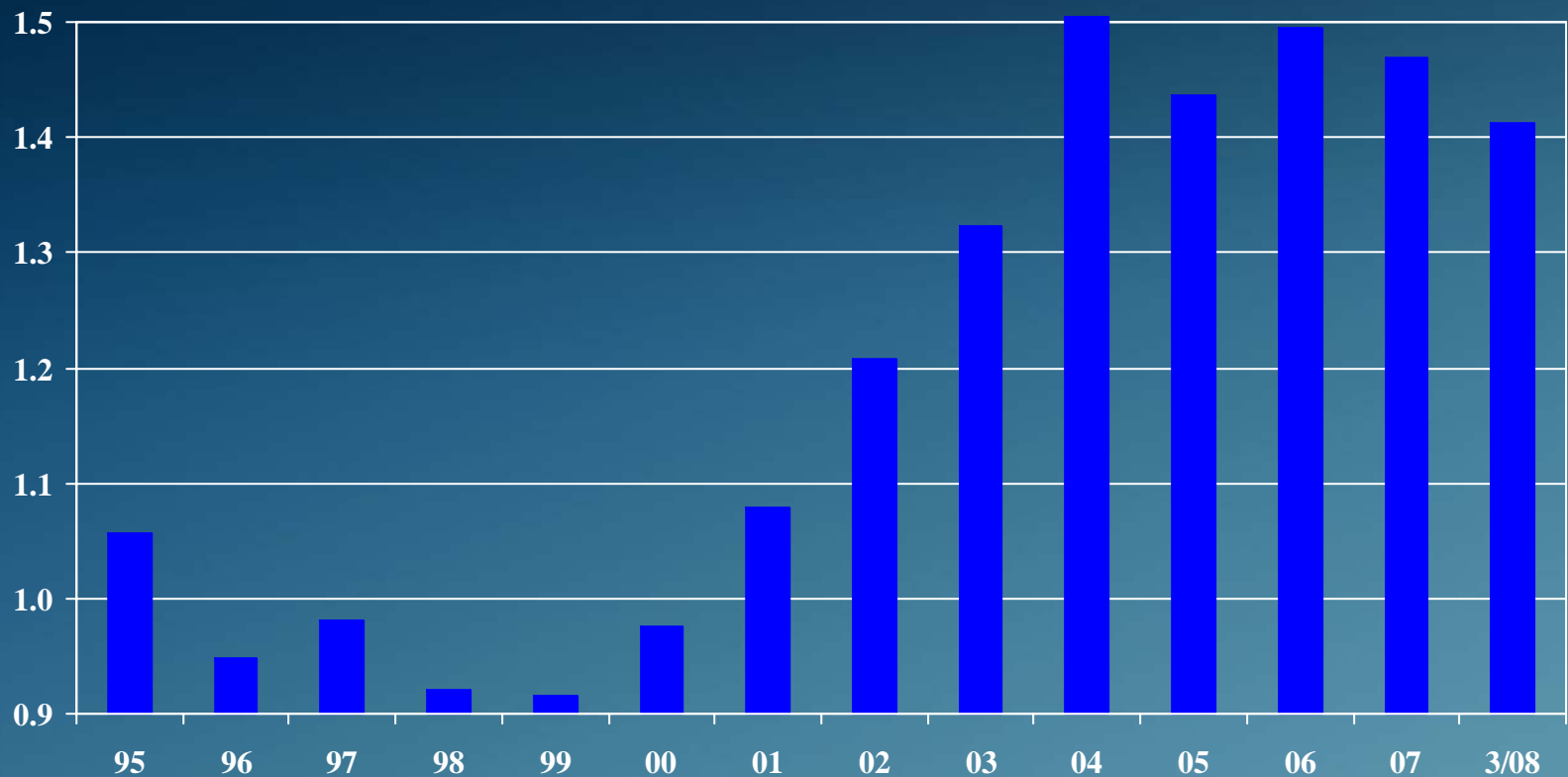
- **2005-07: Increasing Loss Ratios**
 - Rate Decreases (Starting in 2004)
 - Some Reform Erosion
 - AB 338 (Temporary Disability)
 - New PDR Schedule
 - Frequency Starting to Stabilize
 - Severity Increasing at Pre-Reform Levels

WCIRB Estimated ULR @ 3/08



Source: WCIRB

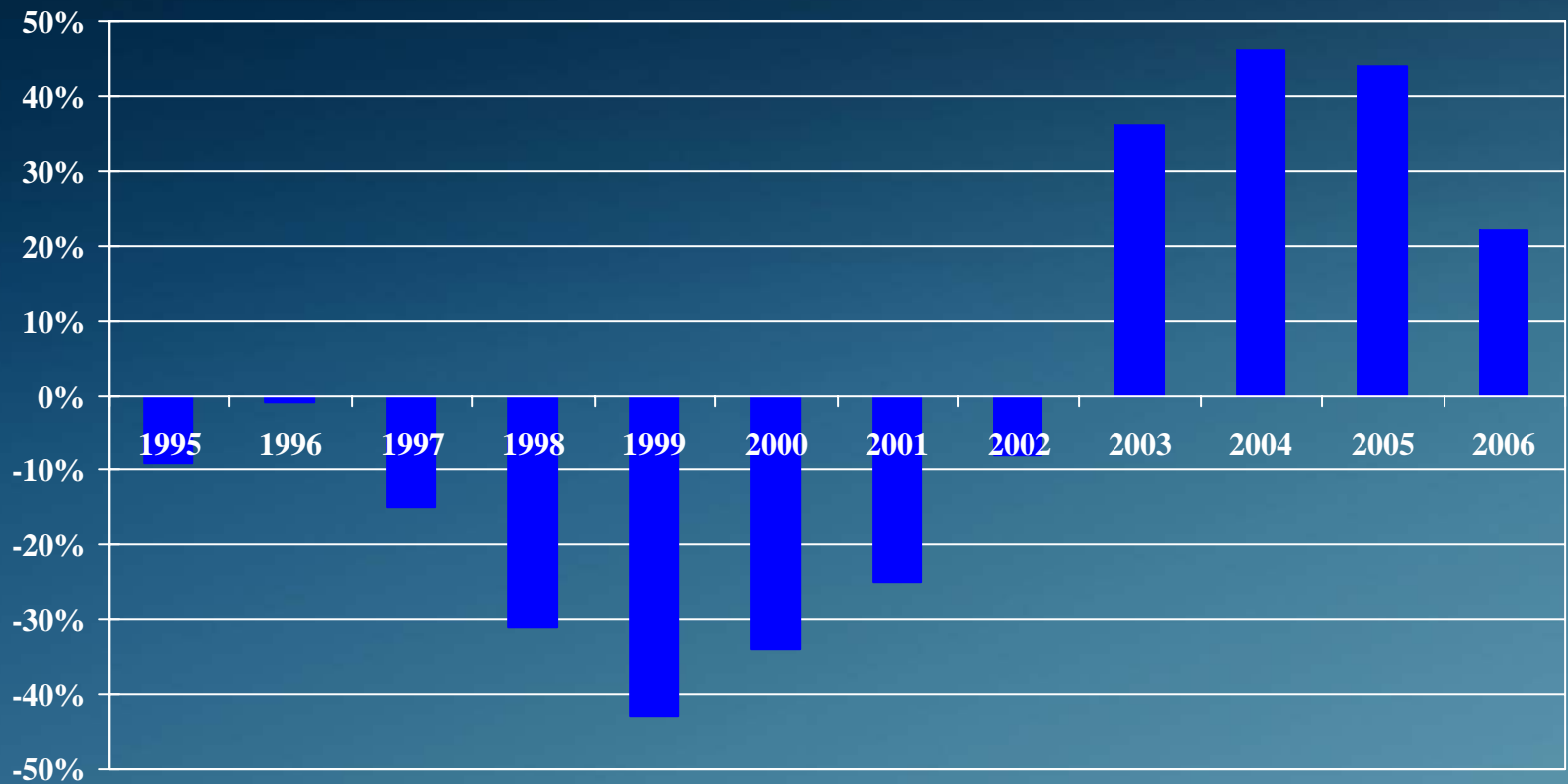
Effective LCM vs. Advisory PP



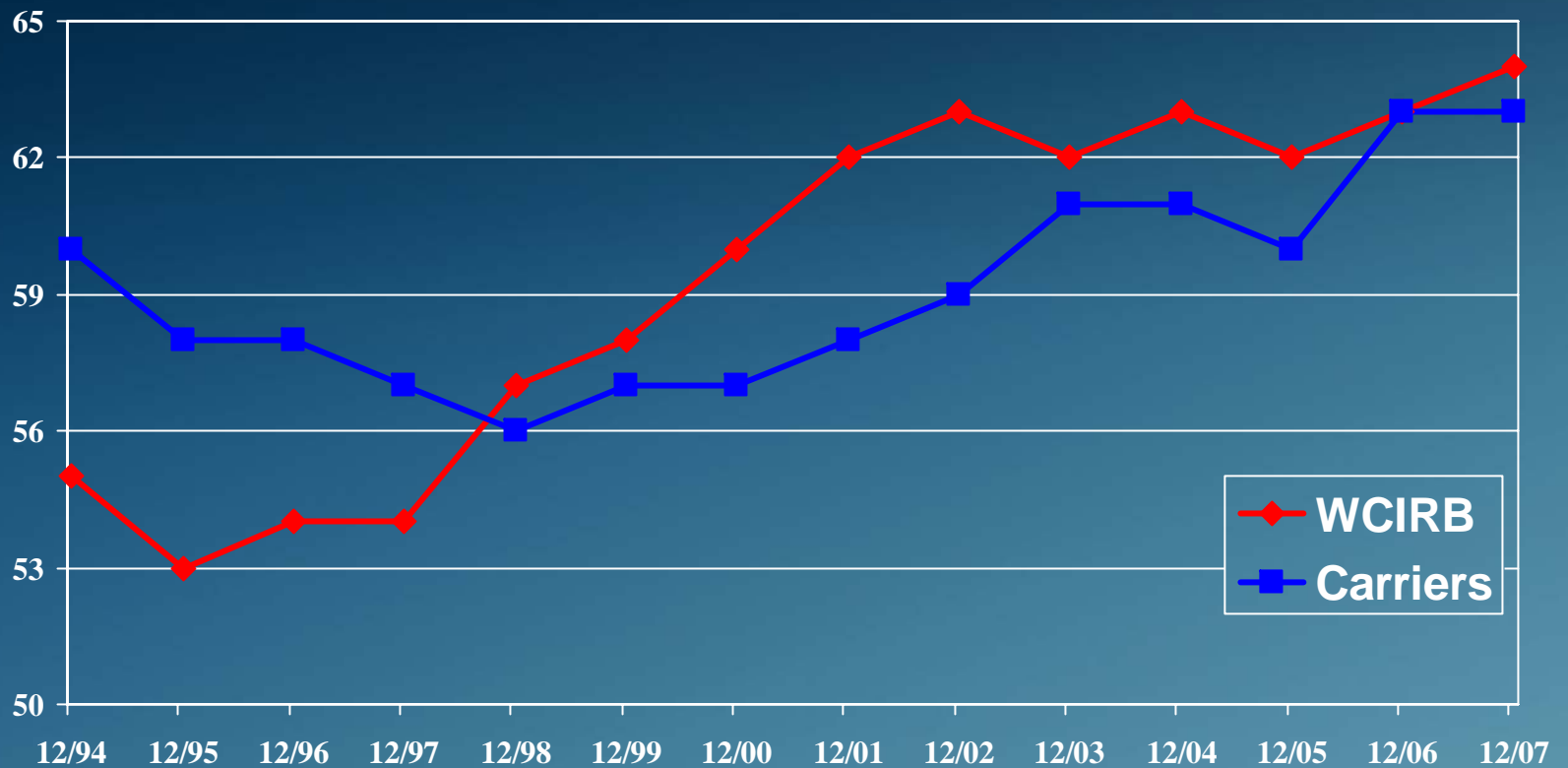
Pure Premium Changes

Effective	Approved	Effective
1/01	+10%	+29%
1/02, 7/02	+10%, +10%	+22%, +13%
1/03, 7/03	+11%, +7%	+16%, +12%
1/04, 7/04	-15%, -7%	-5%, -4%
1/05, 7/05	-2%, -18%	-10%, -15%
1/06, 7/06	-15%, -16%	-15% , -12%
1/07, 7/07	-10%, -14%	-12%, -17%
1/08	0%	-3%
1/09 (w/ PRDS)	+16% (+20%)	n/a

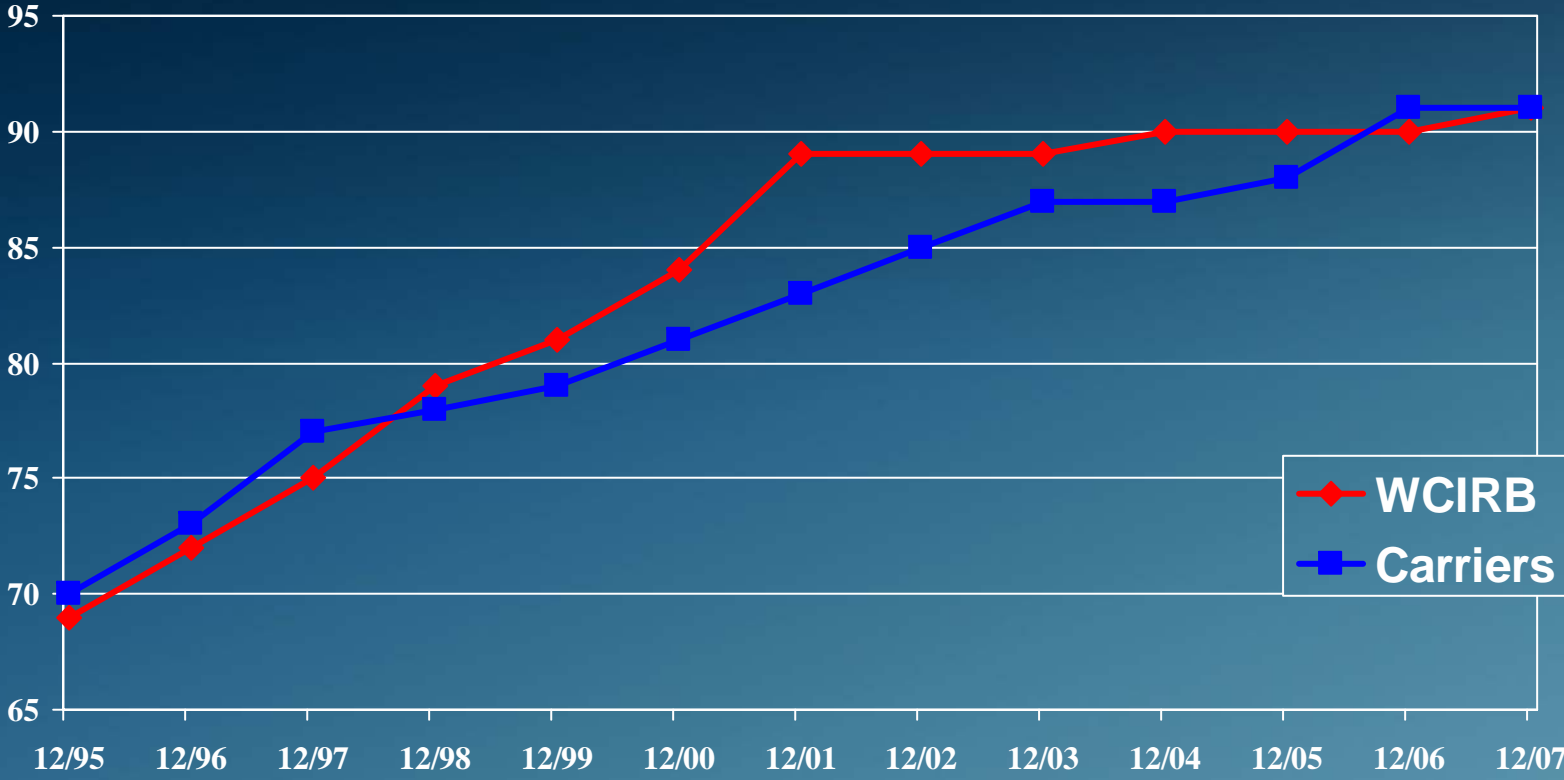
Retrospective Pure Premium Adequacy



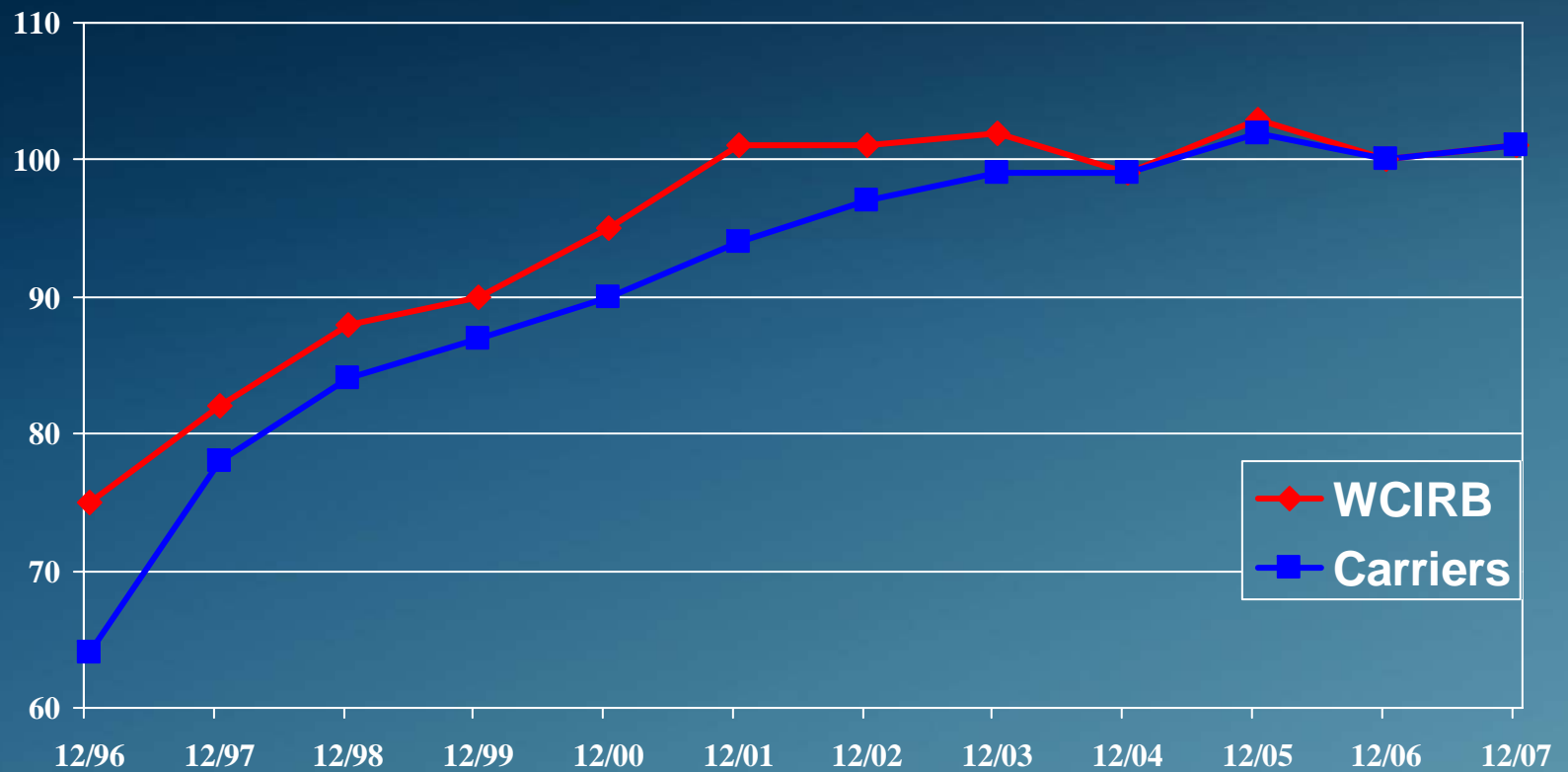
Development: Accident Year 1994



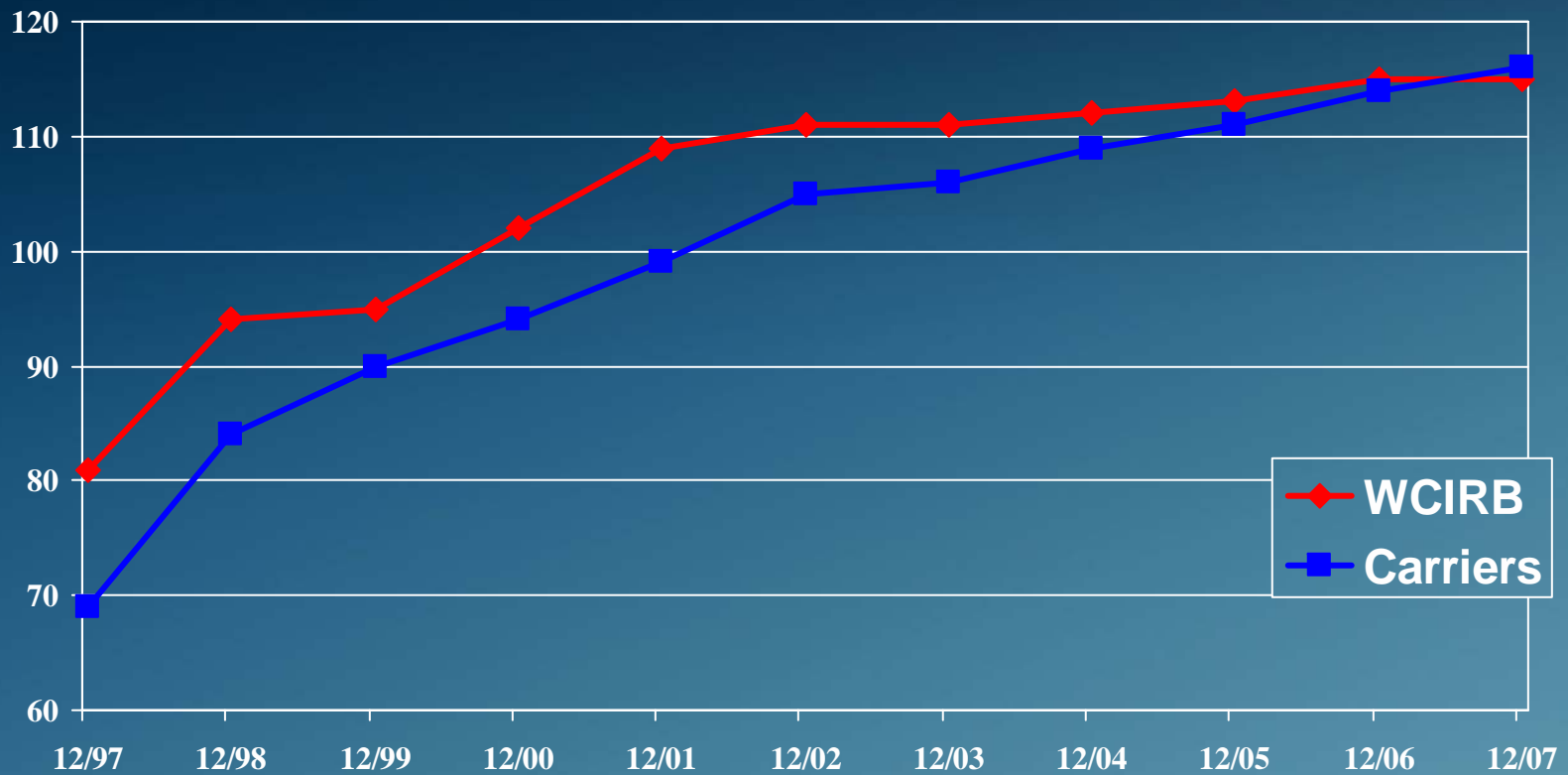
Development: Accident Year 1995



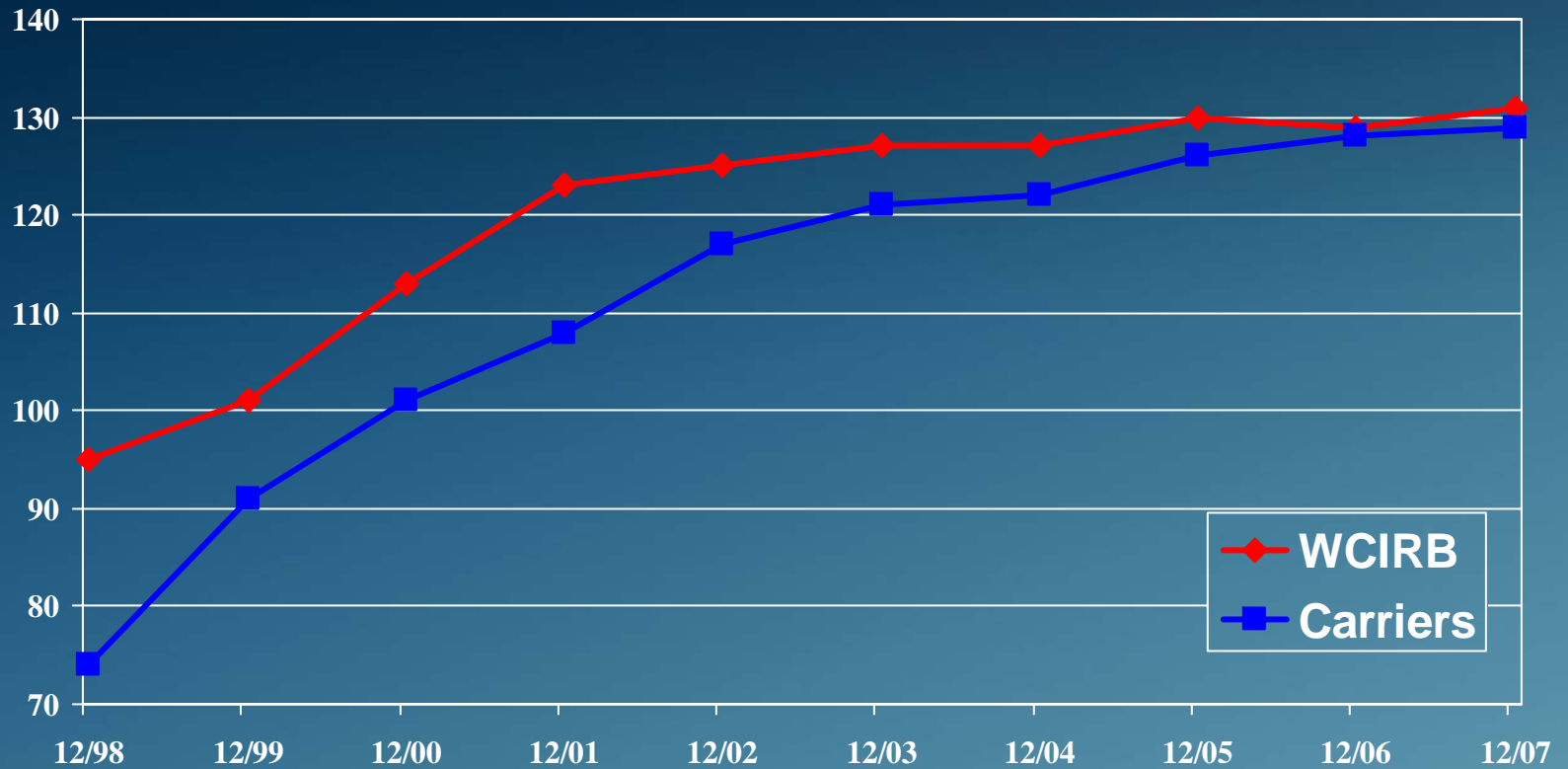
Development: Accident Year 1996



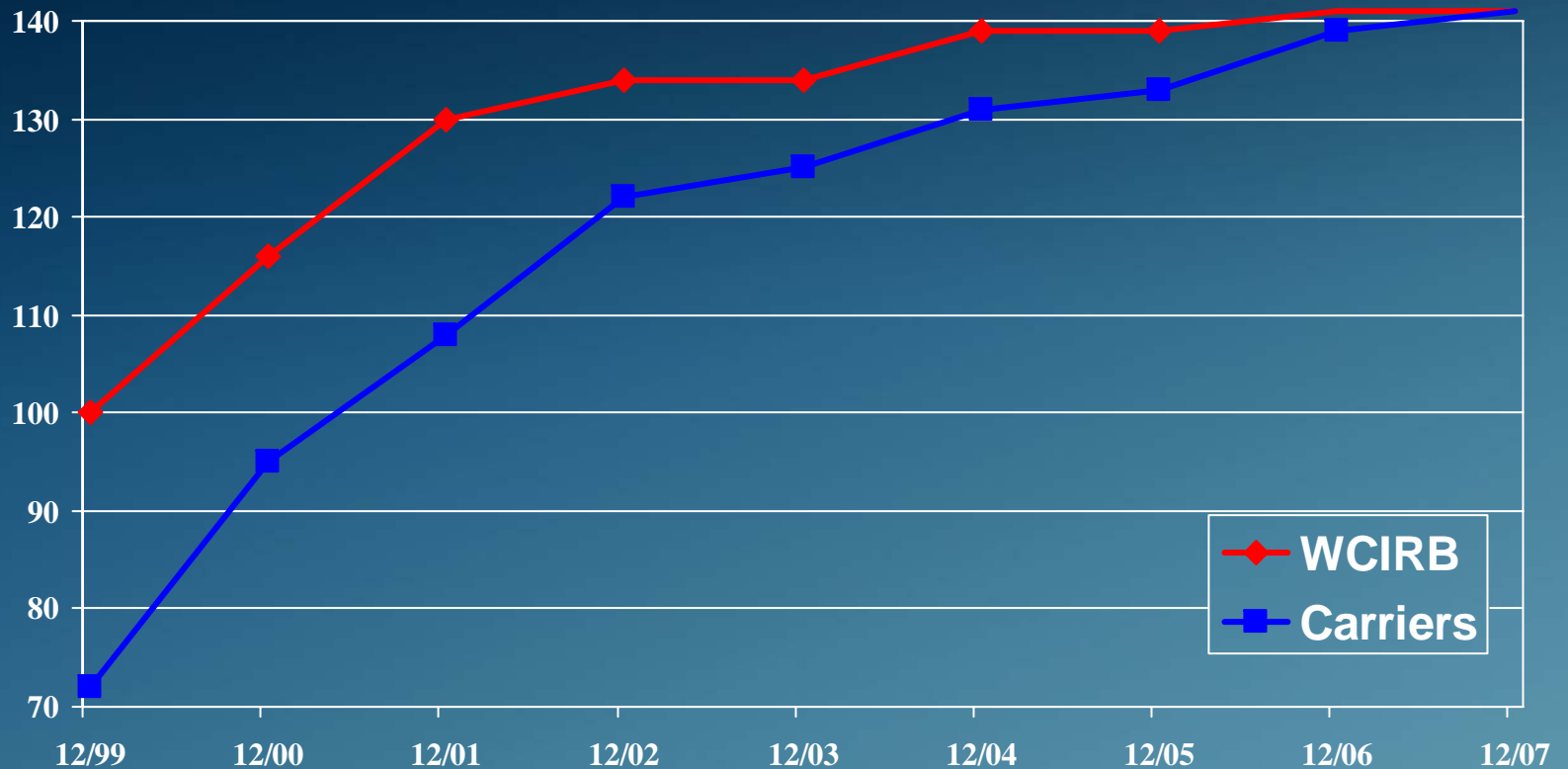
Development: Accident Year 1997



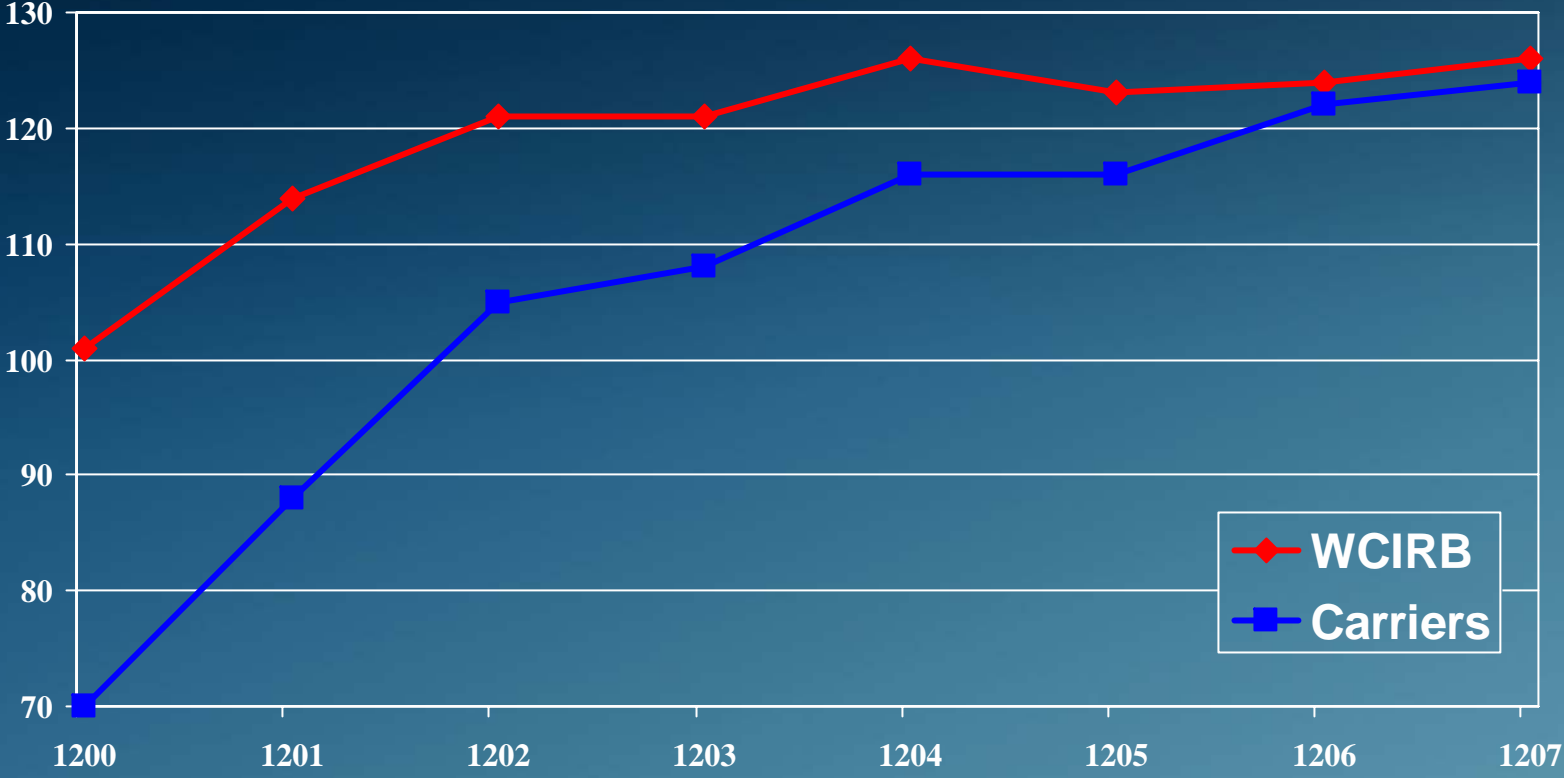
Development: Accident Year 1998



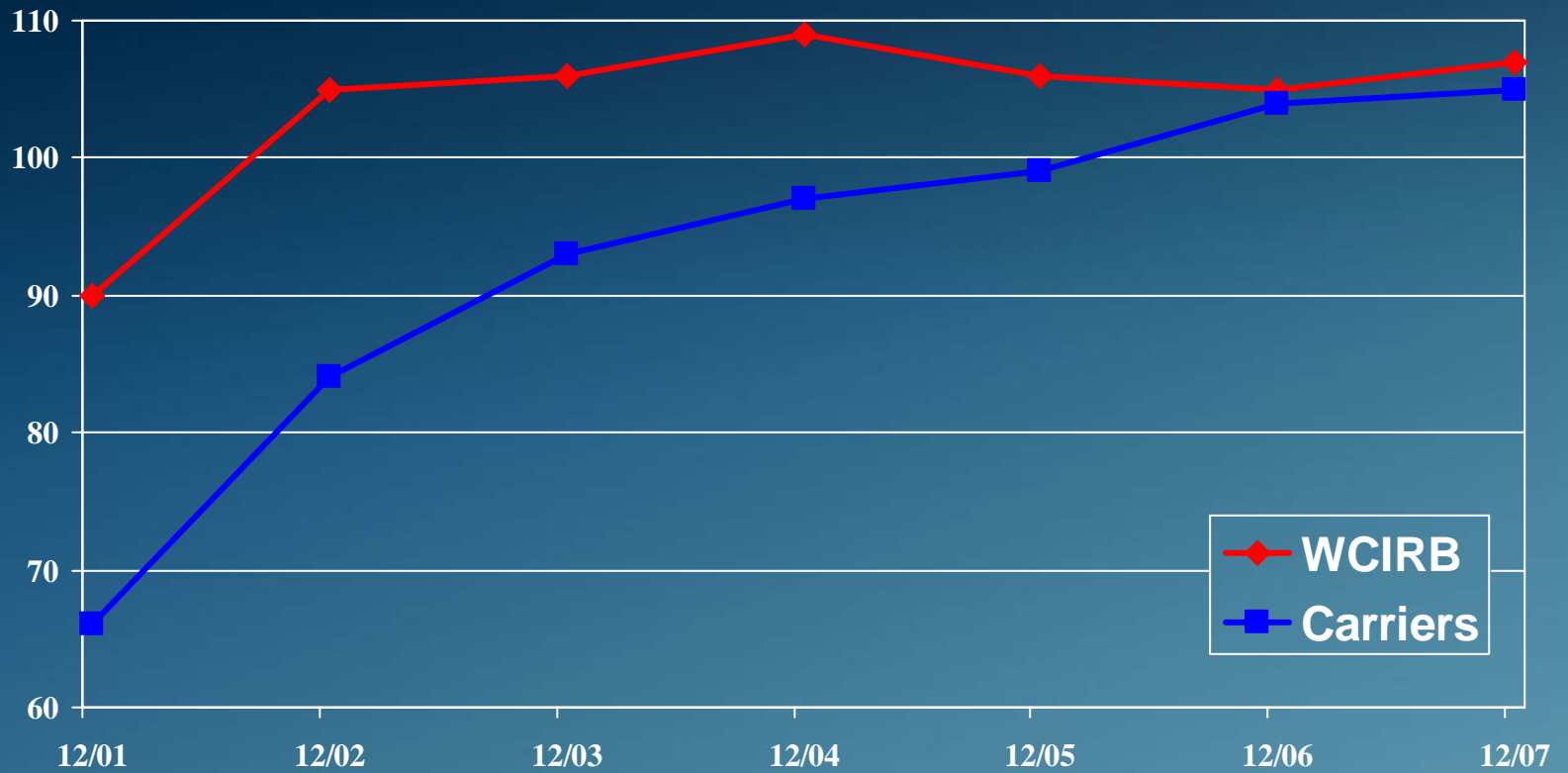
Development: Accident Year 1999



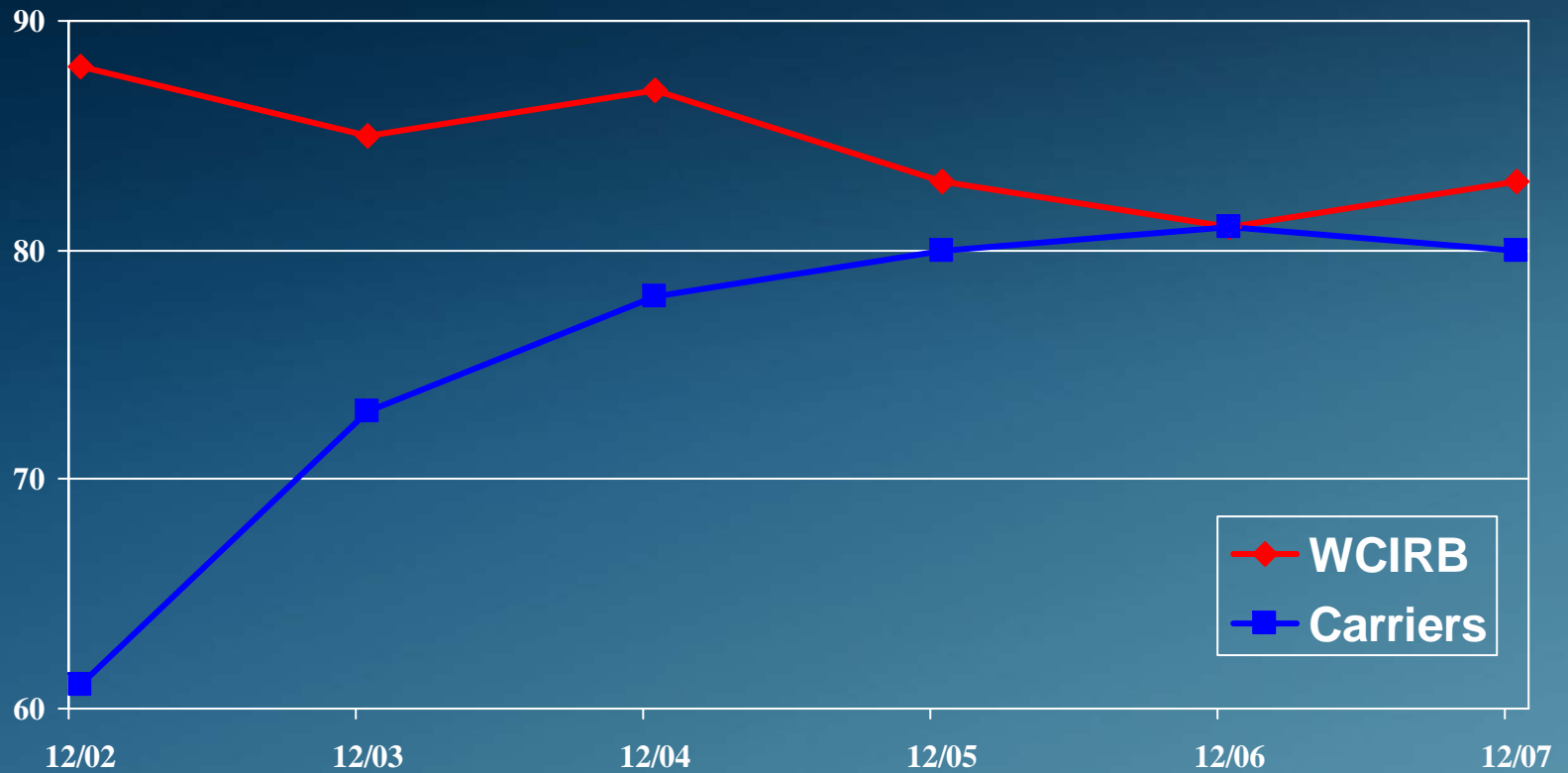
Development: Accident Year 2000



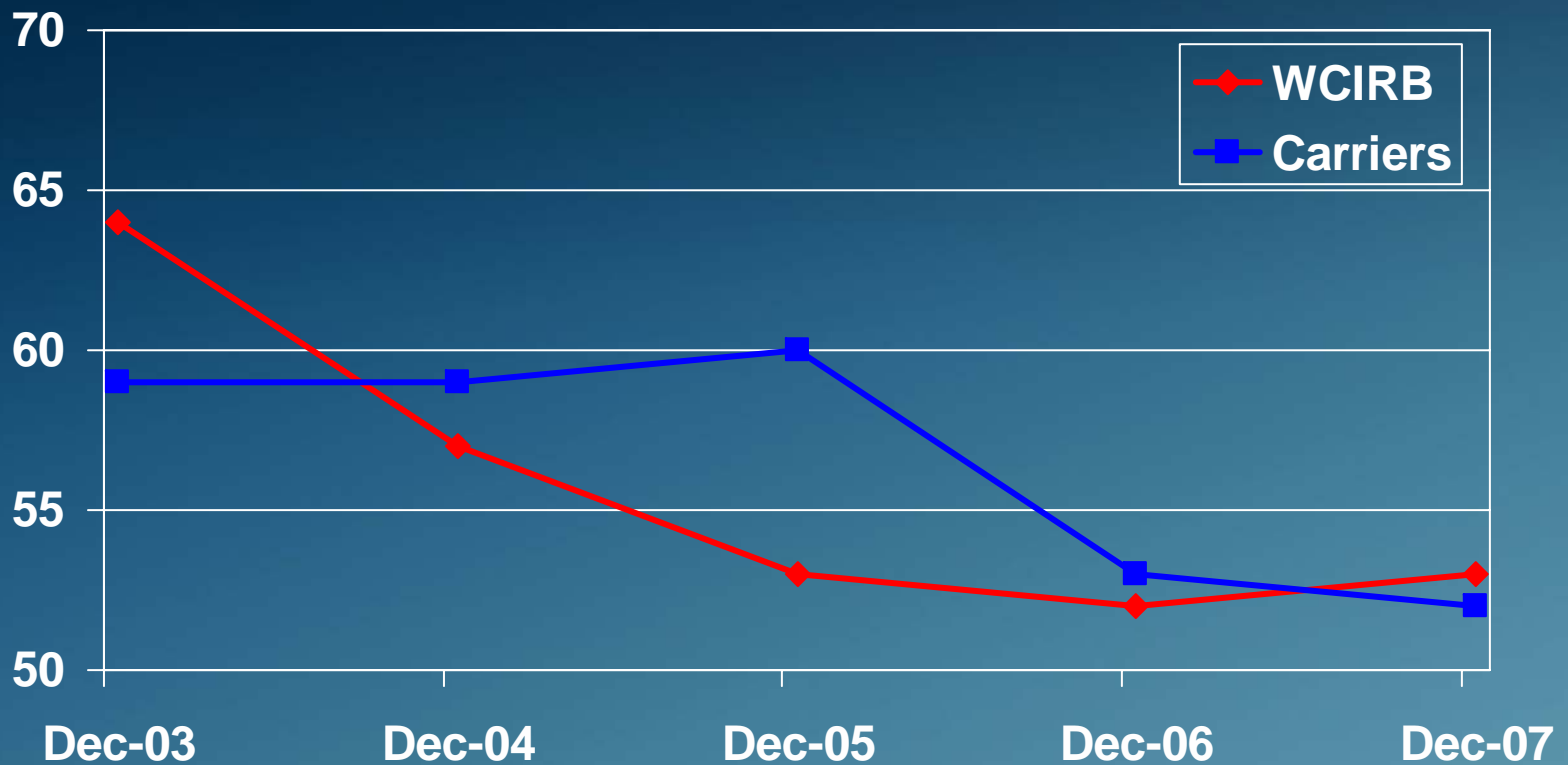
Development: Accident Year 2001



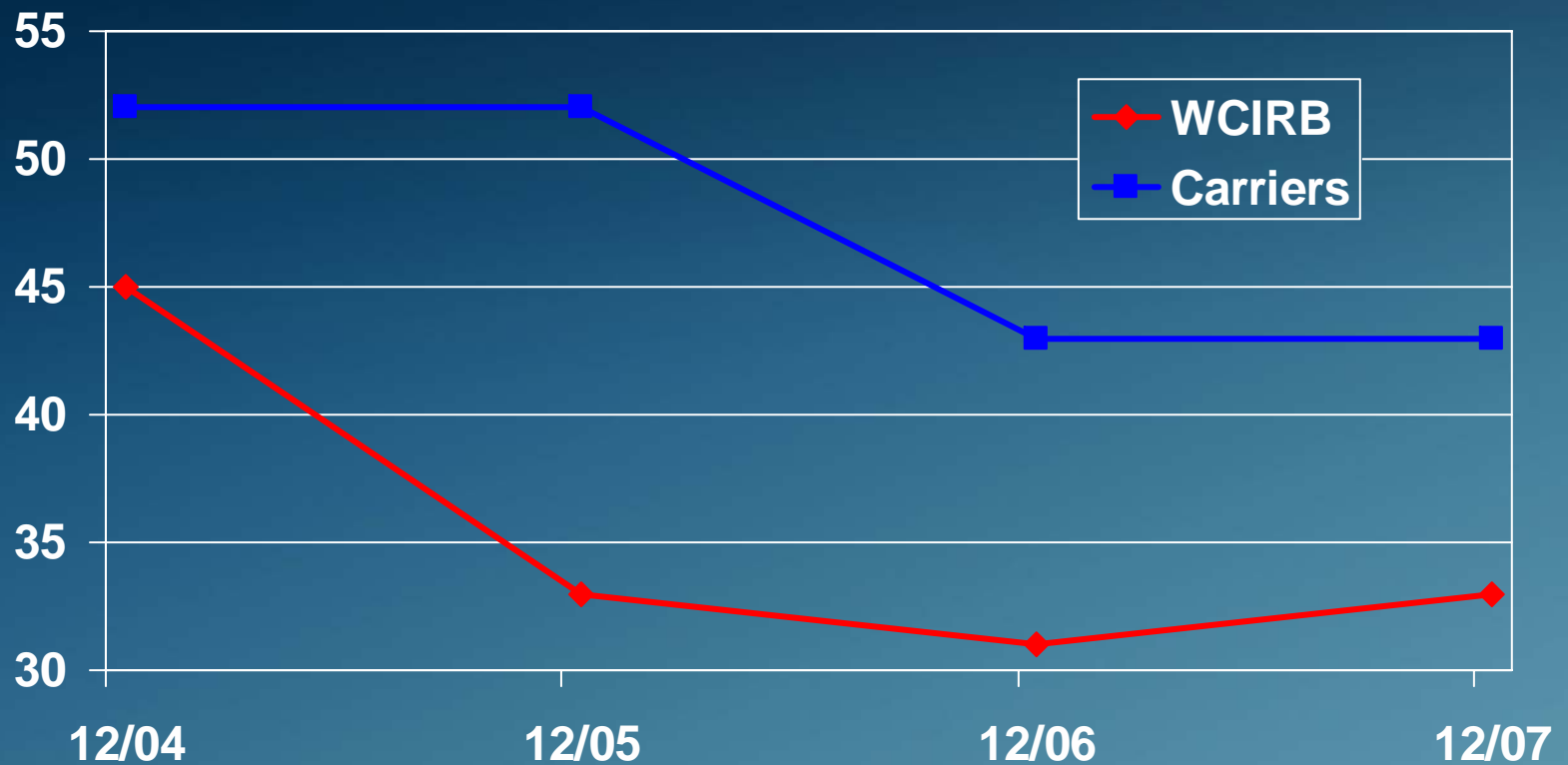
Development: Accident Year 2002



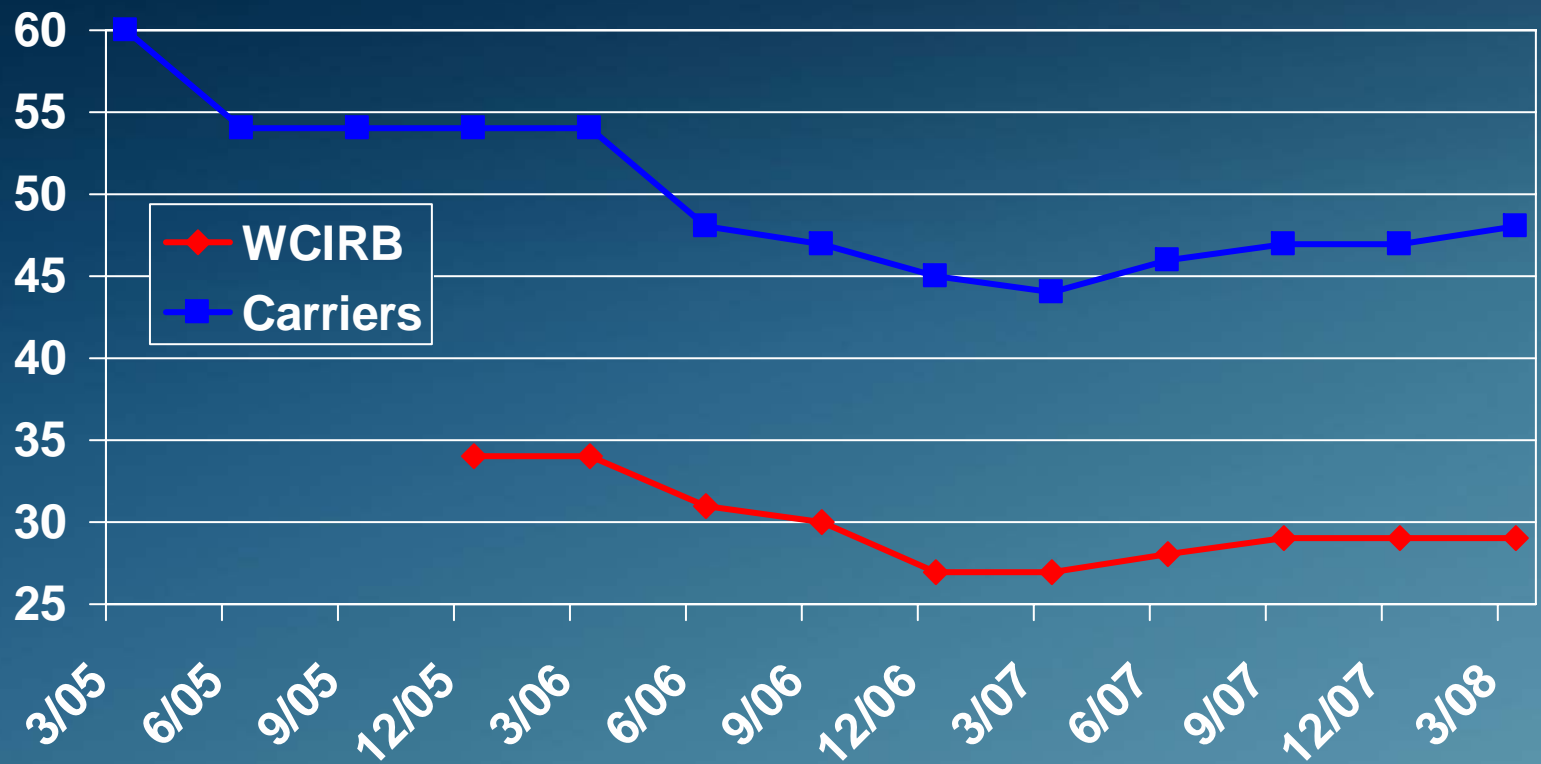
Development: Accident Year 2003



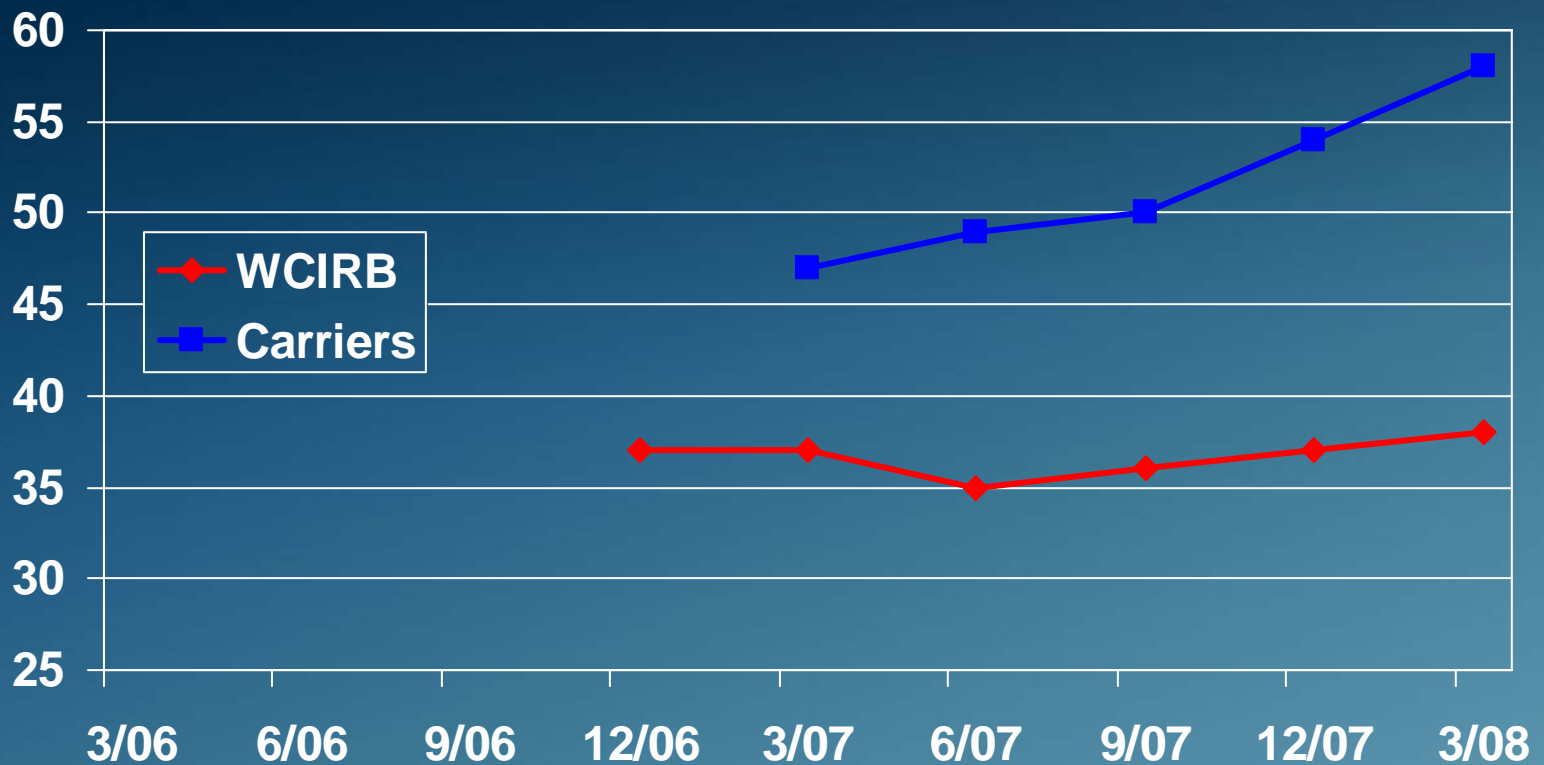
Development: Accident Year 2004



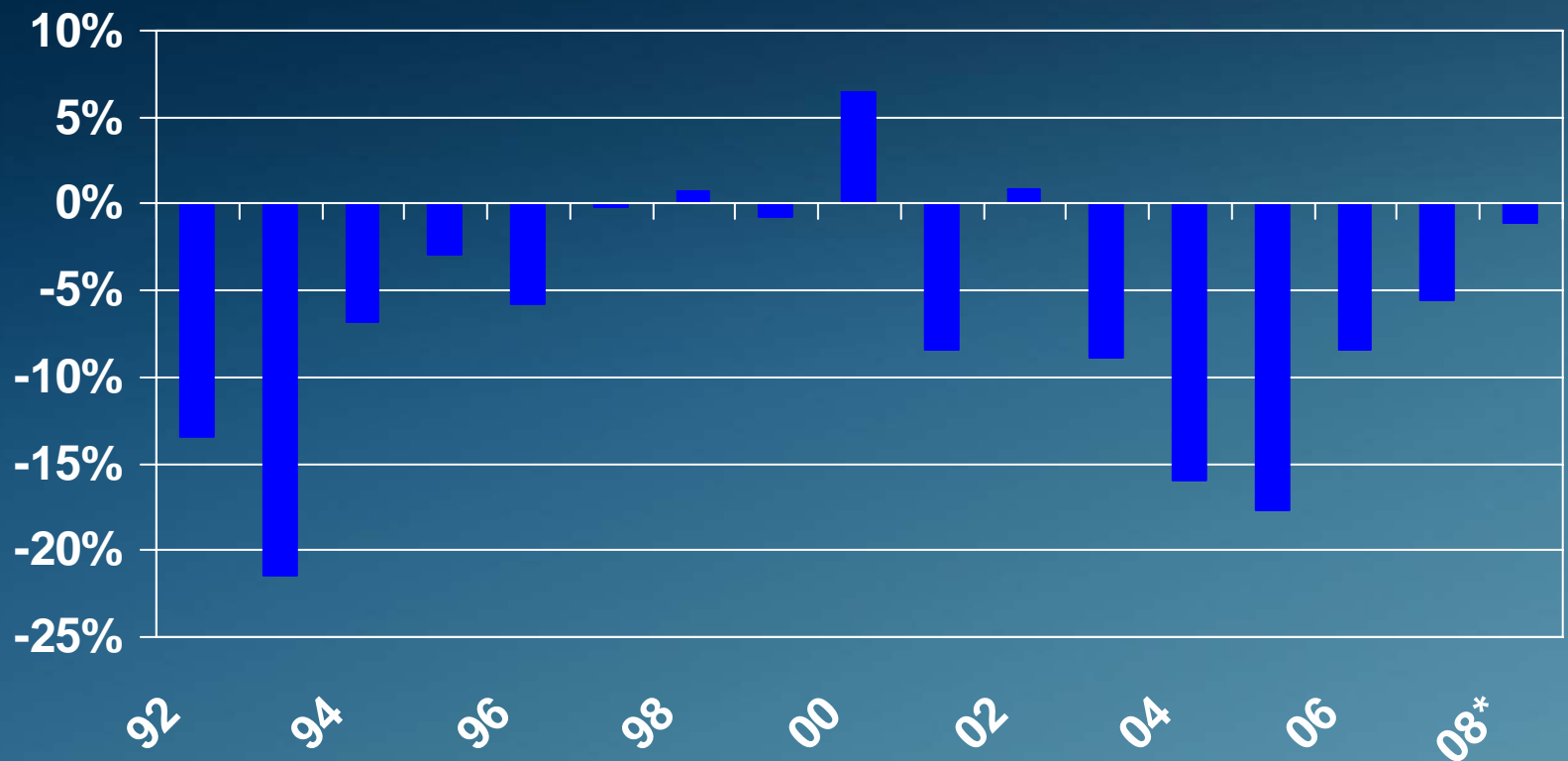
Development: Accident Year 2005



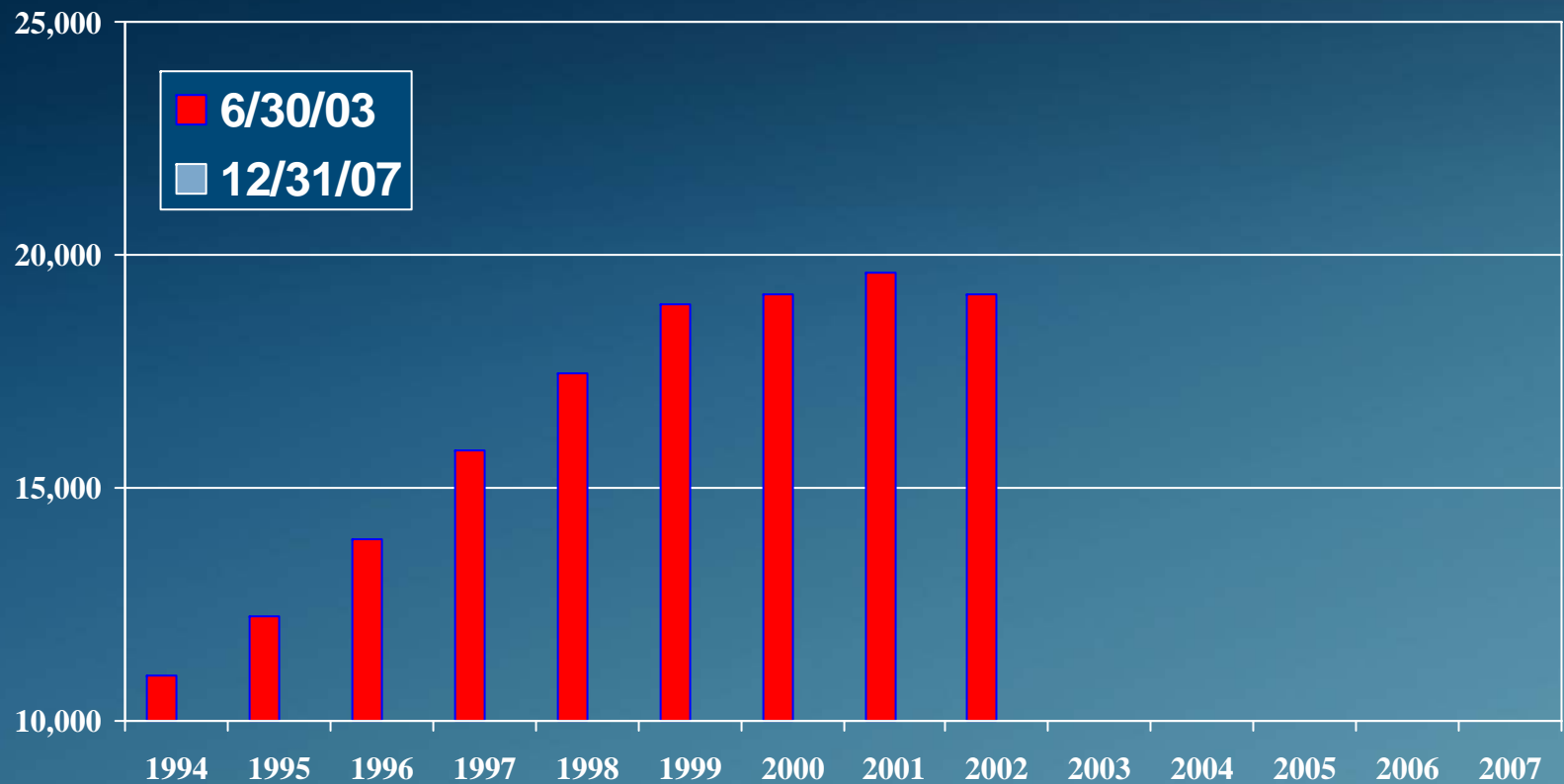
Development: Accident Year 2006



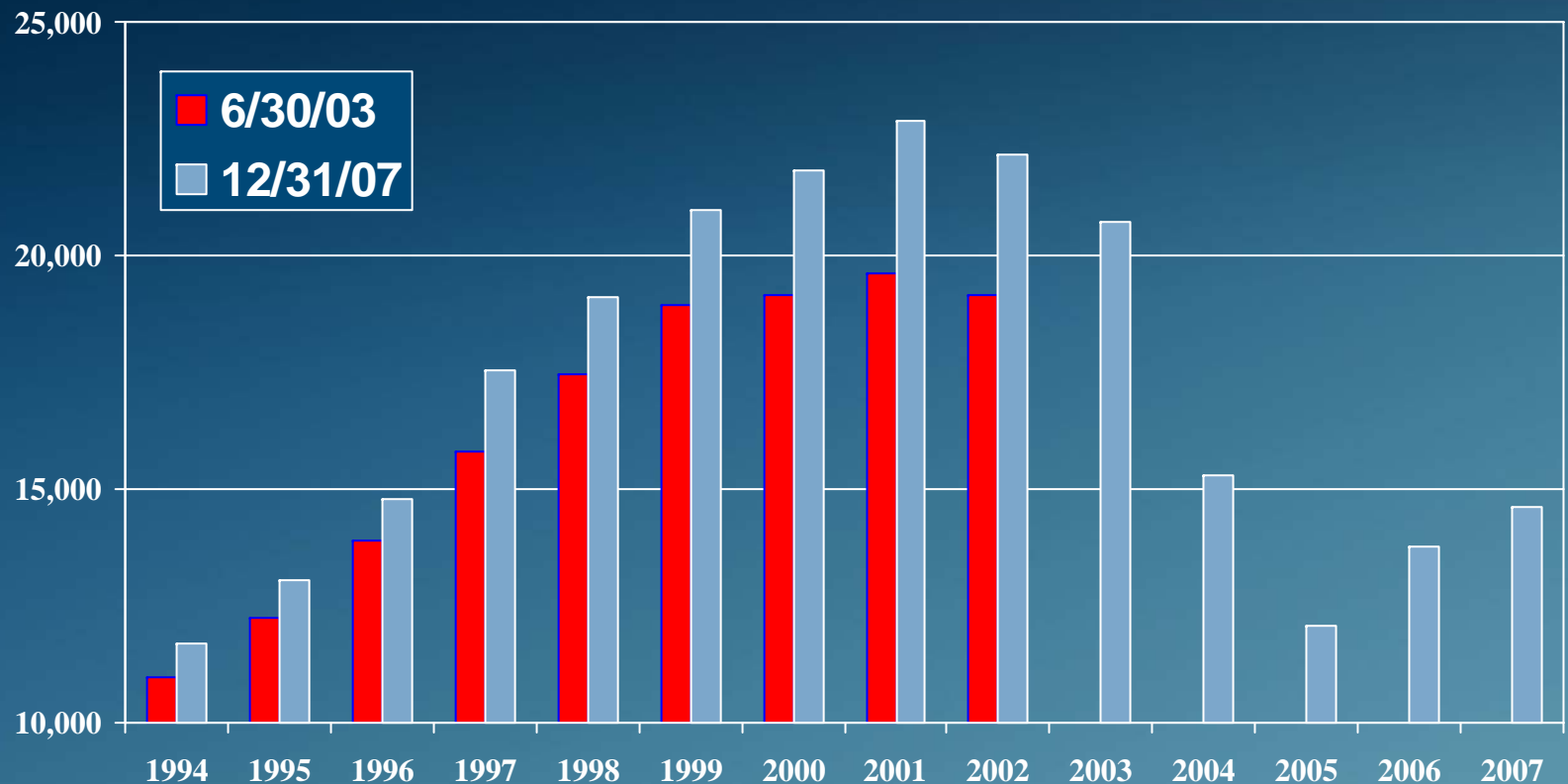
Changes in On-Level Frequency



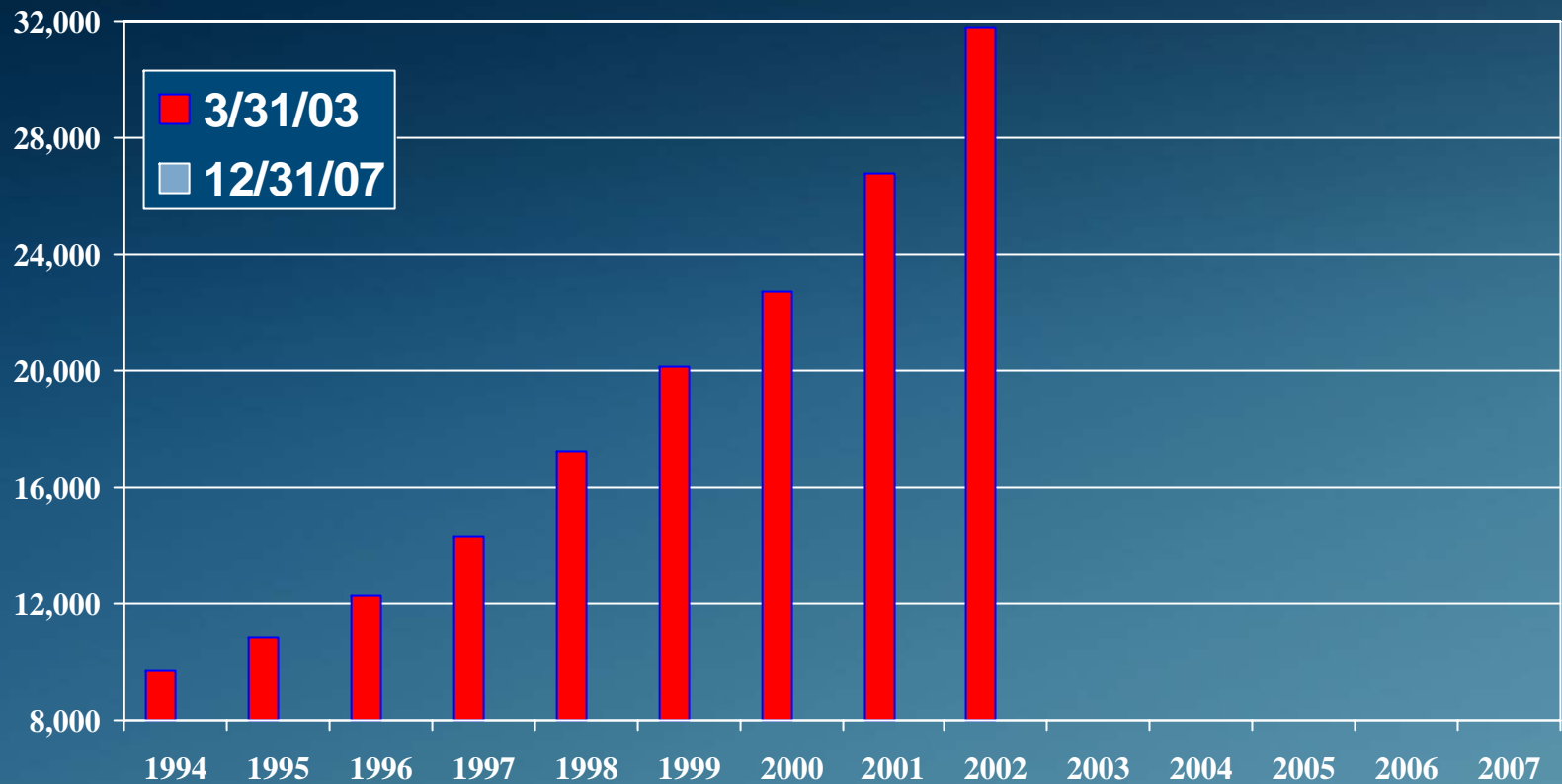
Indemnity Severity per Indemnity Claim



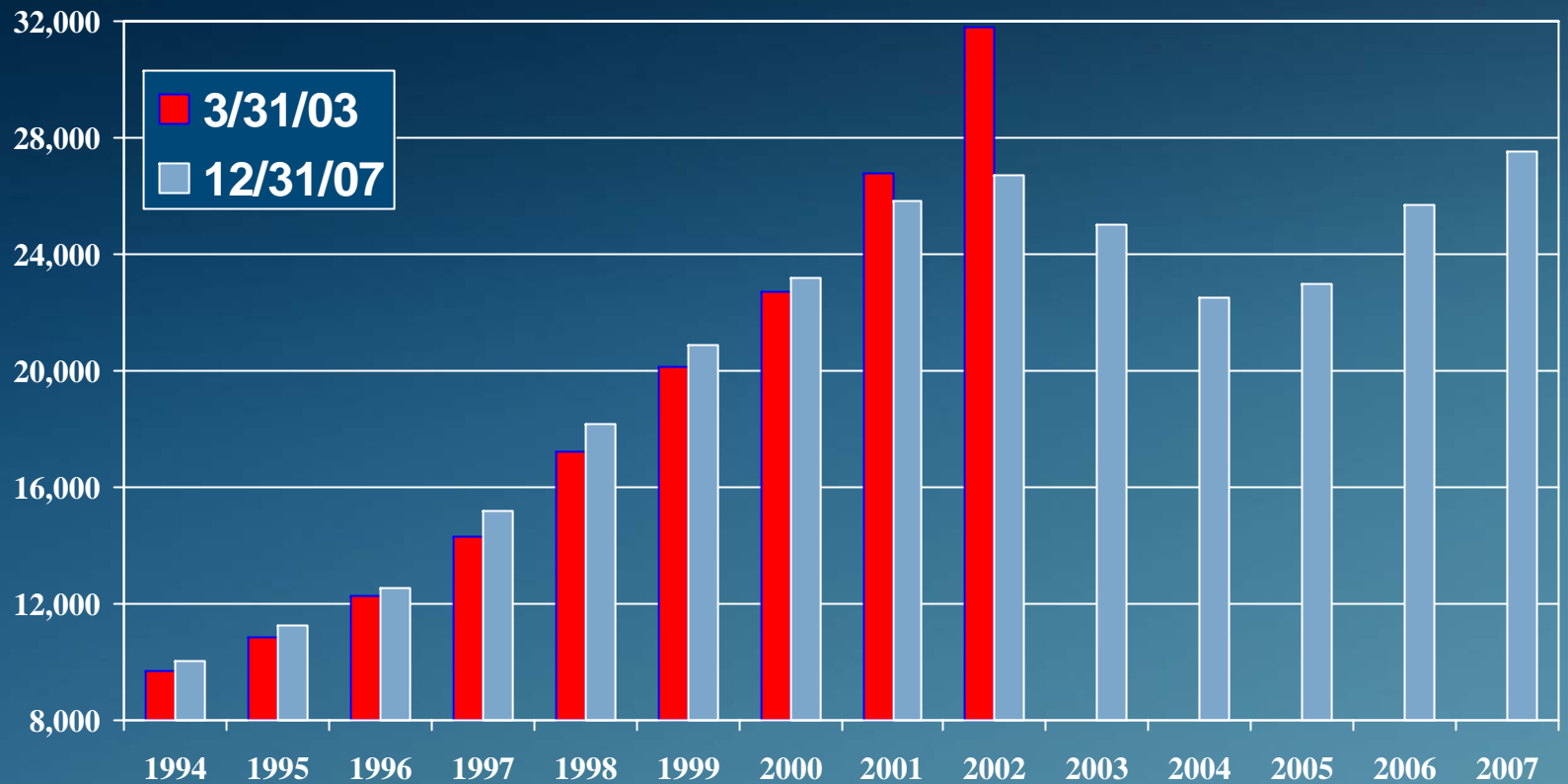
Indemnity Severity per Indemnity Claim



Medical Severity per Indemnity Claim



Medical Severity per Indemnity Claim



Rate Comparison: CA vs. National

Year	Rate	Rank	% of Median
1994	5.04	15	116%
1996	4.11	13	116%
1998	4.86	1	181%
2000	3.34	3	148%
2002	5.23	1	216%
2004	6.08	1	236%
2006	4.13	2	166%
2008 e	2.60	20	110%

Loss Adjustment Expenses (to Loss)

