

# Workers' Comp Historical Results: National View and California

Presented by Joshua Youdovin  
Casualty Loss Reserve Seminar

# Agenda

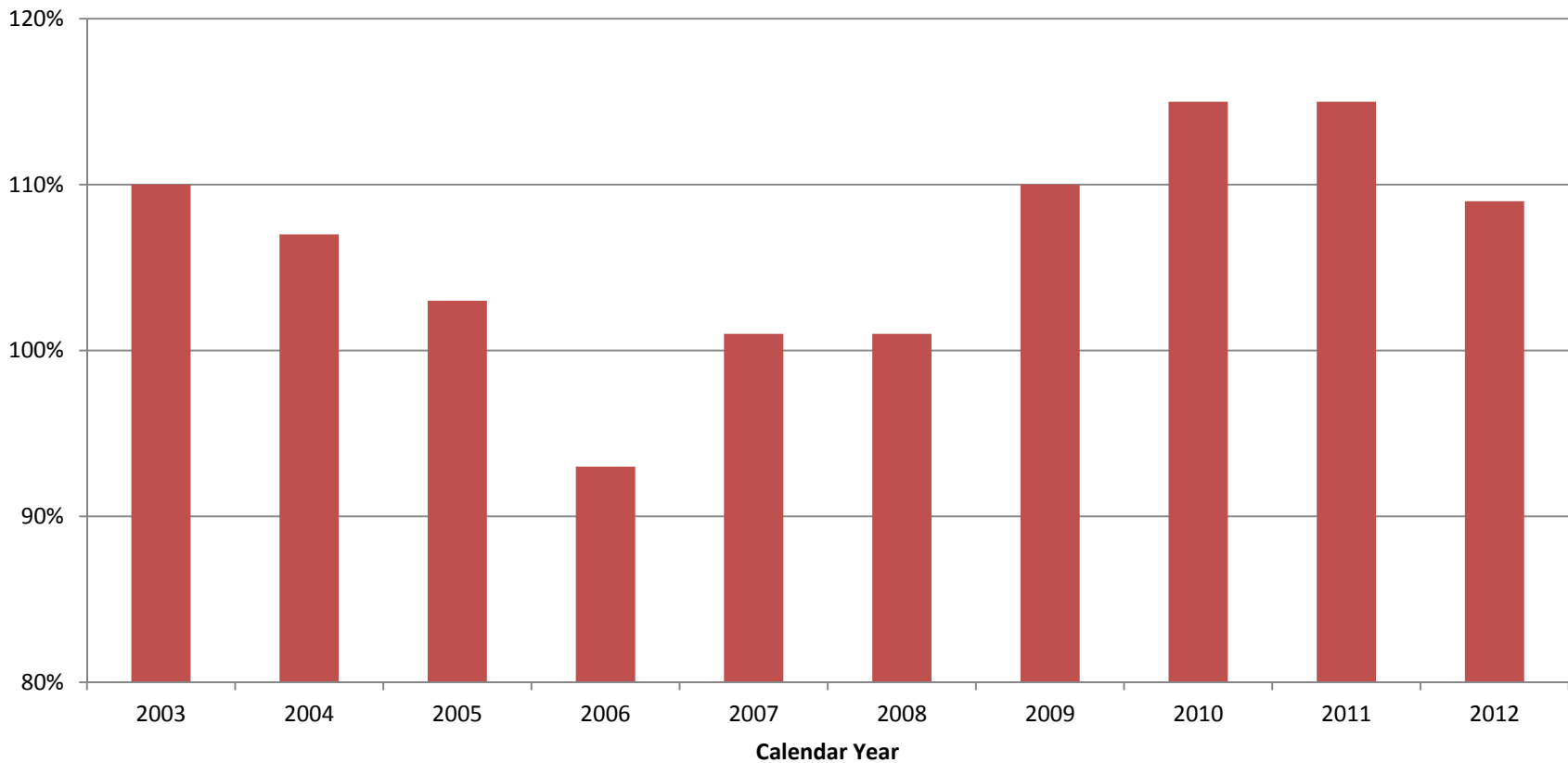
- National Trends in Workers' Compensation
- California Workers' Compensation History

# National Trends in Workers' Comp

- Overall results
- Premium Growth
- Premium Drivers
- Loss Drivers
- Reserve Deficiencies

# Workers' comp results showed modest improvement in 2012

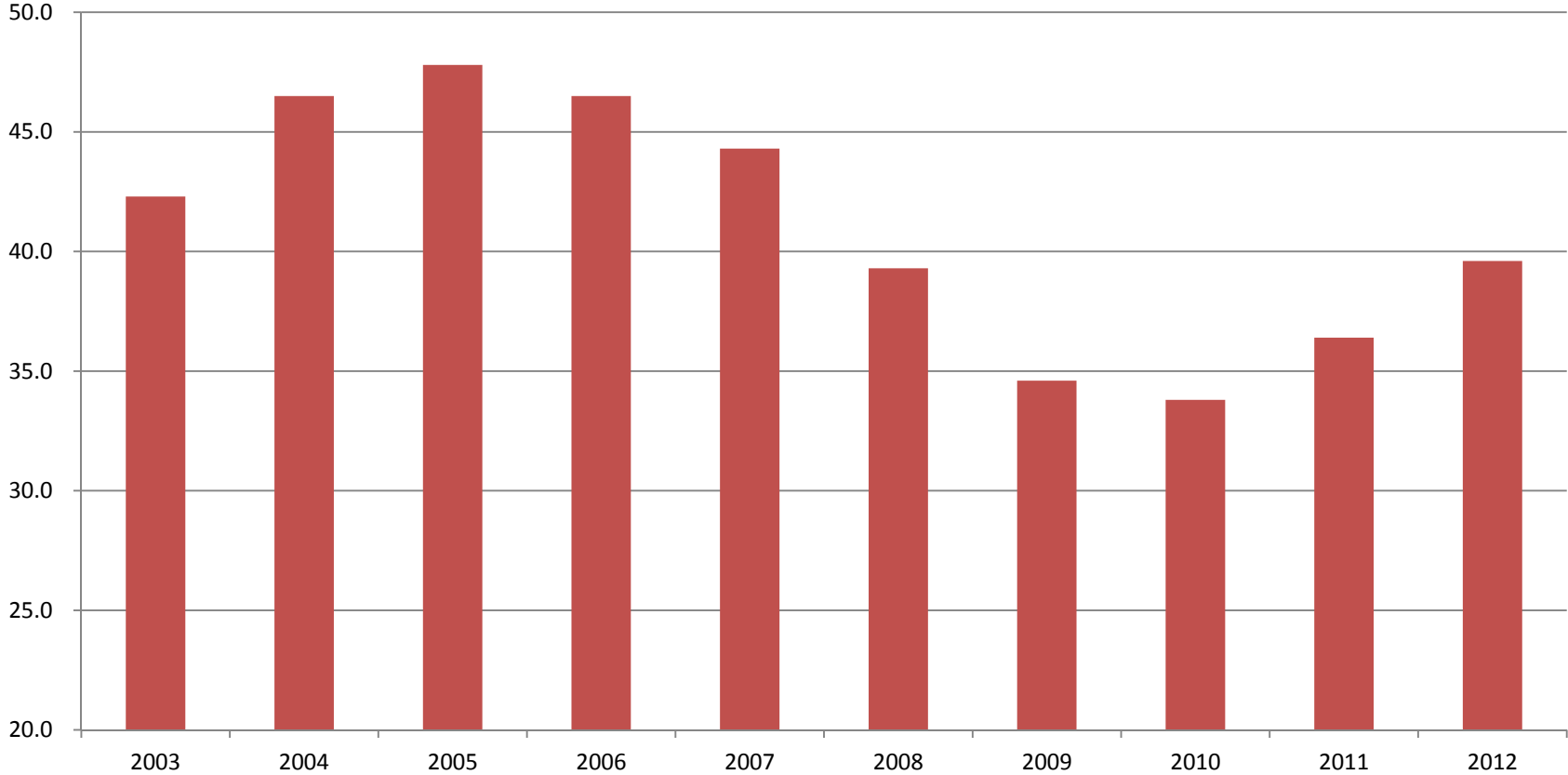
Historical WC Combined Ratios: US



Source: NCCI "State of the Line", May 2013

# Premiums have been growing, but still well below peak in 2005

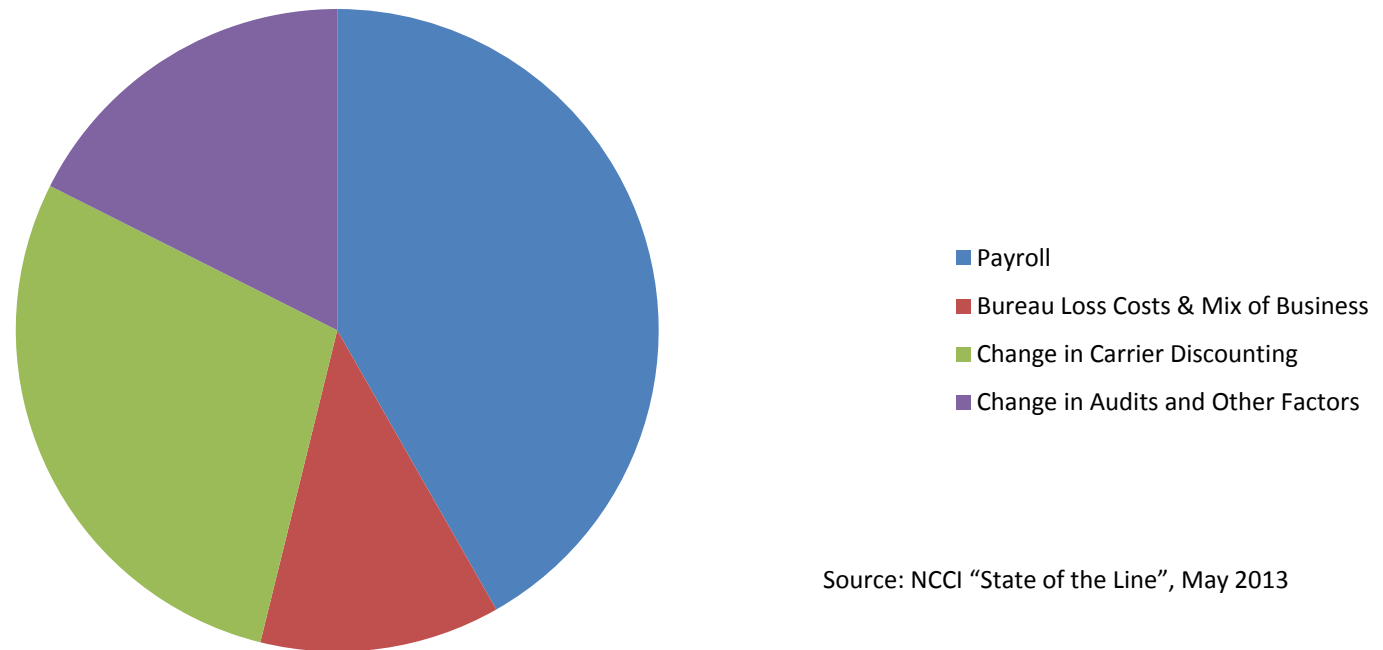
WC Net Written Premium: US



Source: NCCI "State of the Line", May 2013

# 2012 Premium Drivers

## Drivers of 2012 Premium Increase: NCCI States

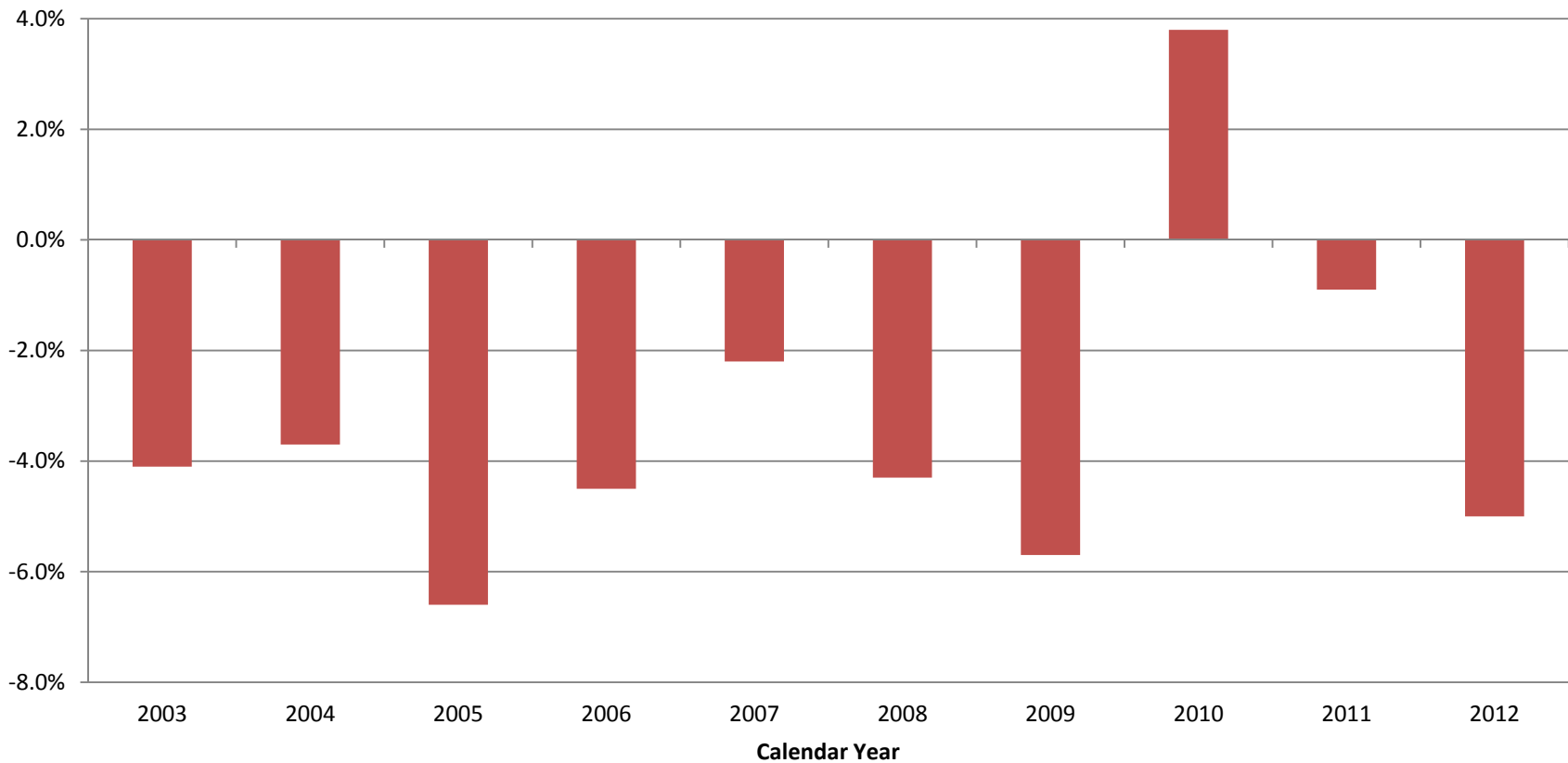


Source: NCCI "State of the Line", May 2013

- Soft market and unemployment drove down premiums in 2007-10
- Trend of rate increases and economic recovery continuing through 2013
- Insurers giving fewer credits, more debits, lower dividends

# Frequency has dropped in 9 of the last 10 years

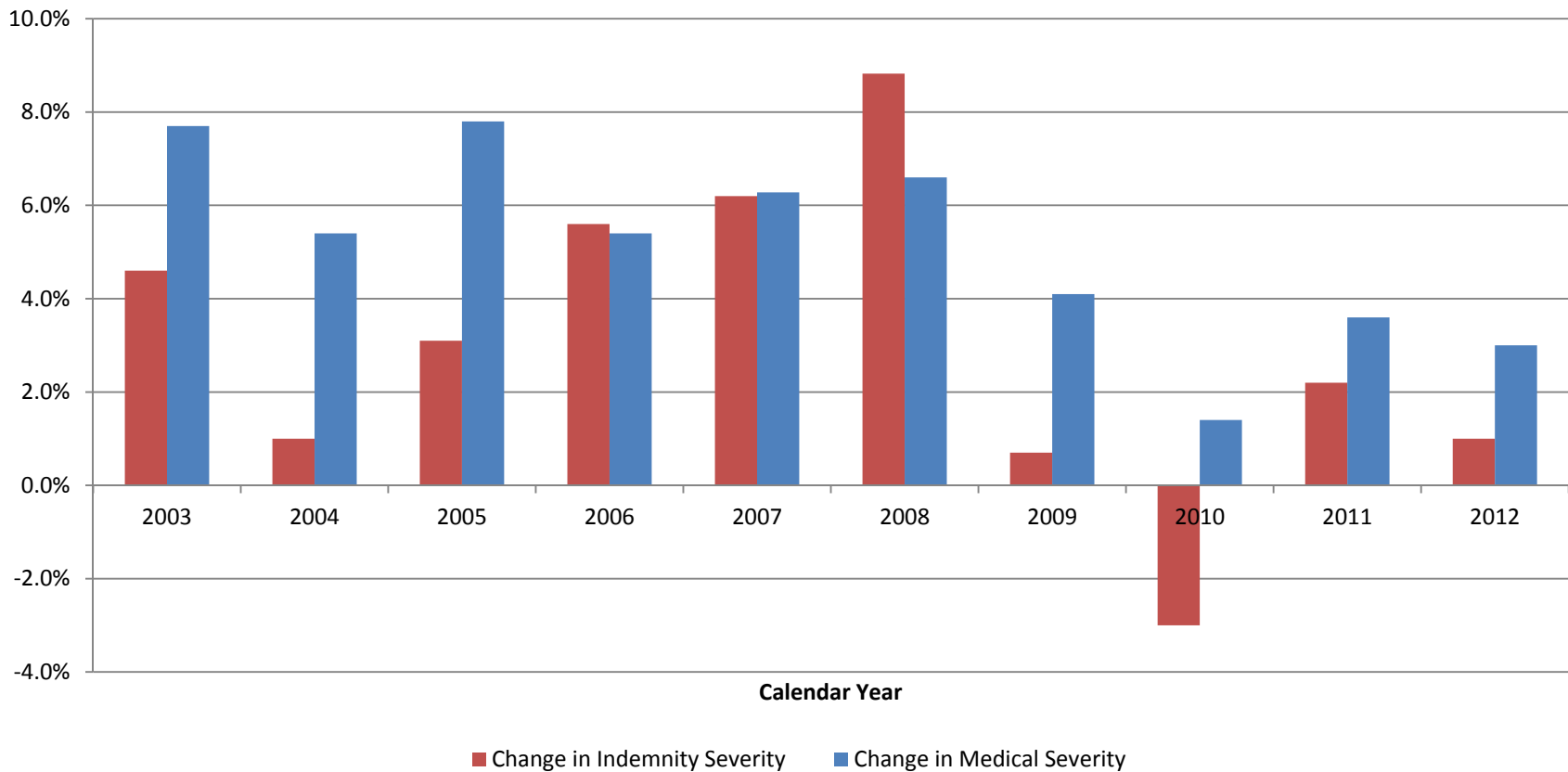
NCCI Adjusted Historical Change in Frequency: US



Source: NCCI "State of the Line", May 2013

# Severity increases have moderated in recent years

## Historical Change in Severity: US

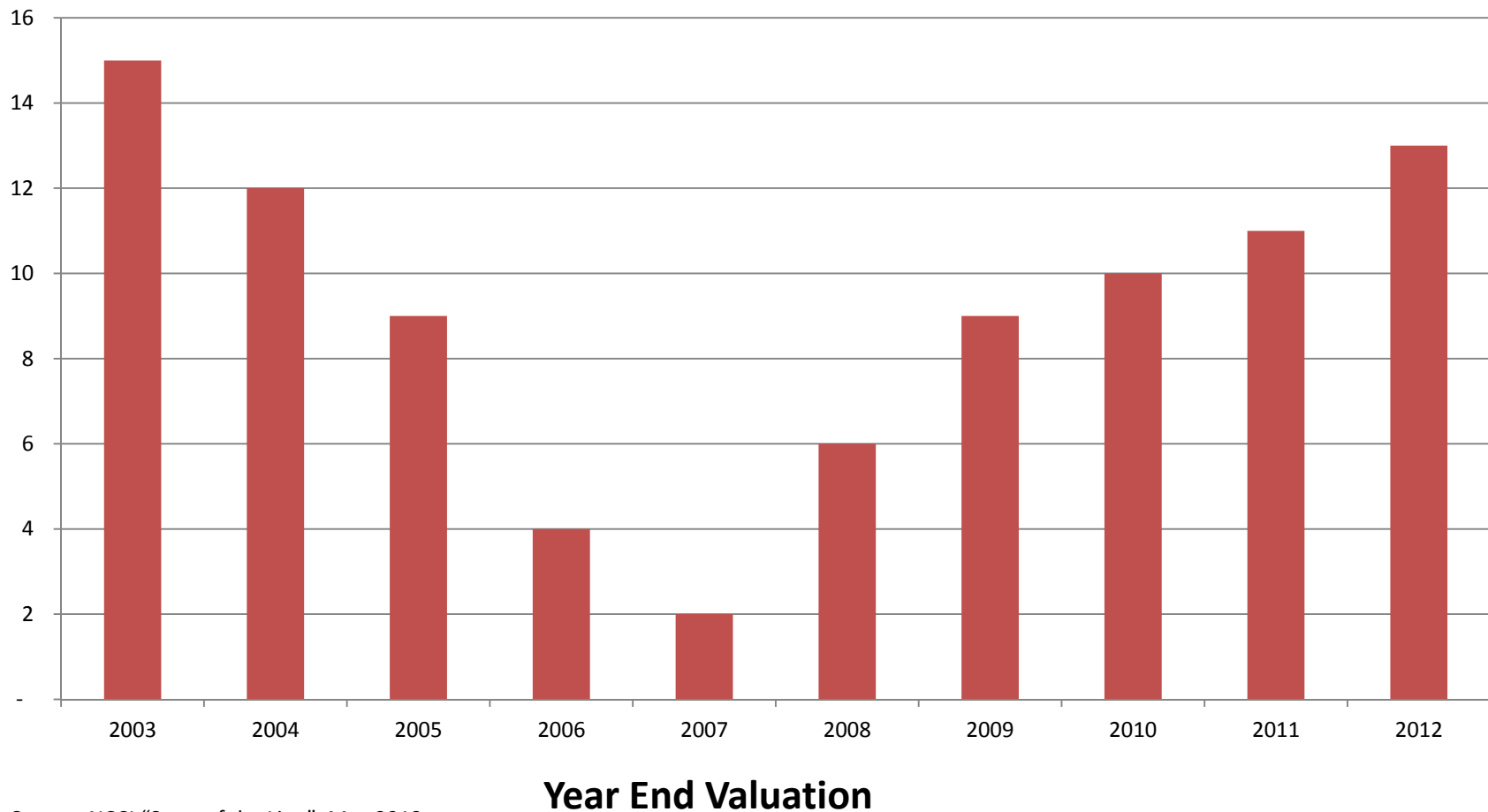


Source: NCCI "State of the Line", May 2013



# Reserve deficiencies may have grown over the past several years

**NCCI Estimated Reserve Deficiencies: Private Carriers US (\$bn)**

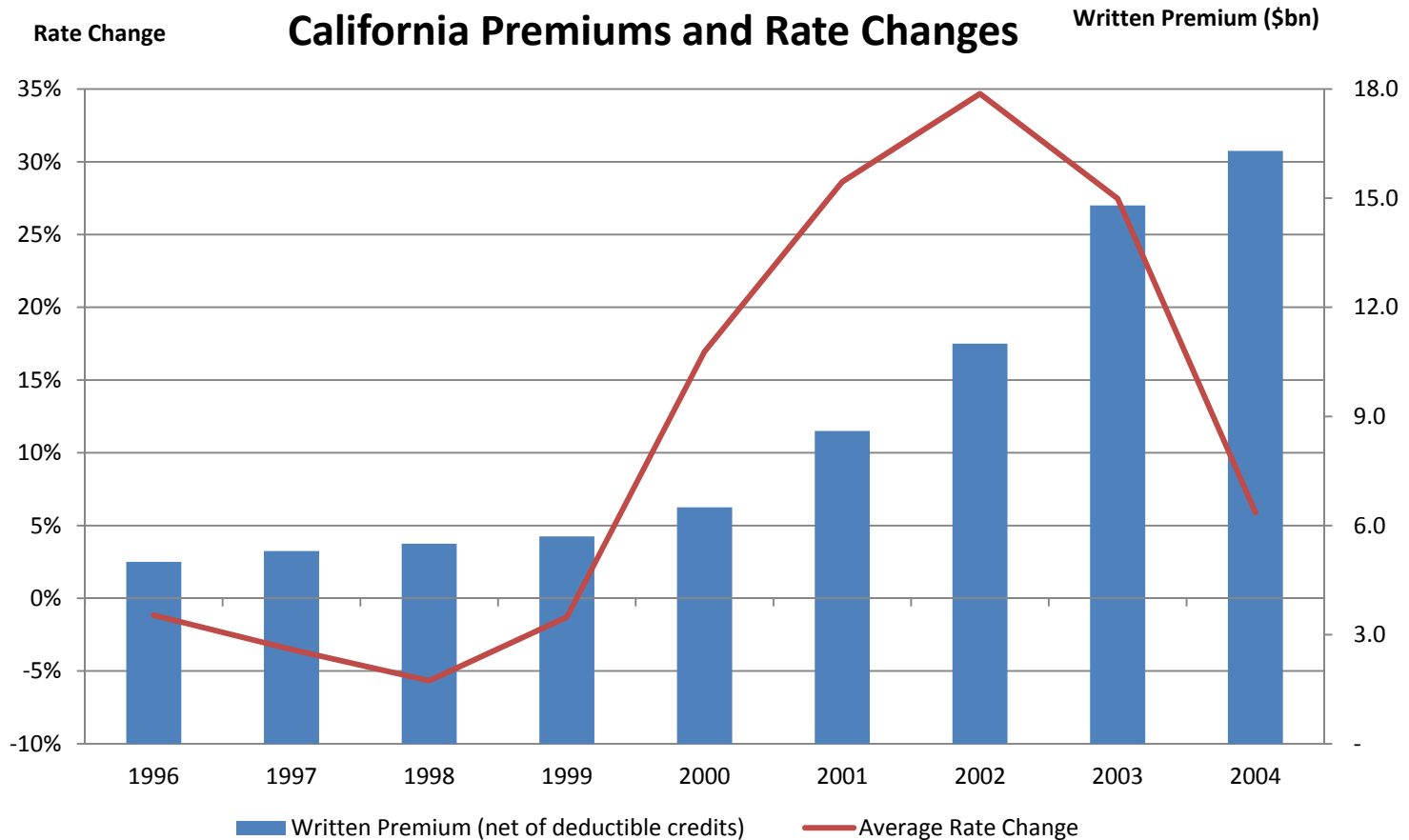


Source: NCCI "State of the Line", May 2013

# California Workers' Comp History

- Before 2002
- Reforms of 2002-04
- 2005-12: Results deteriorate

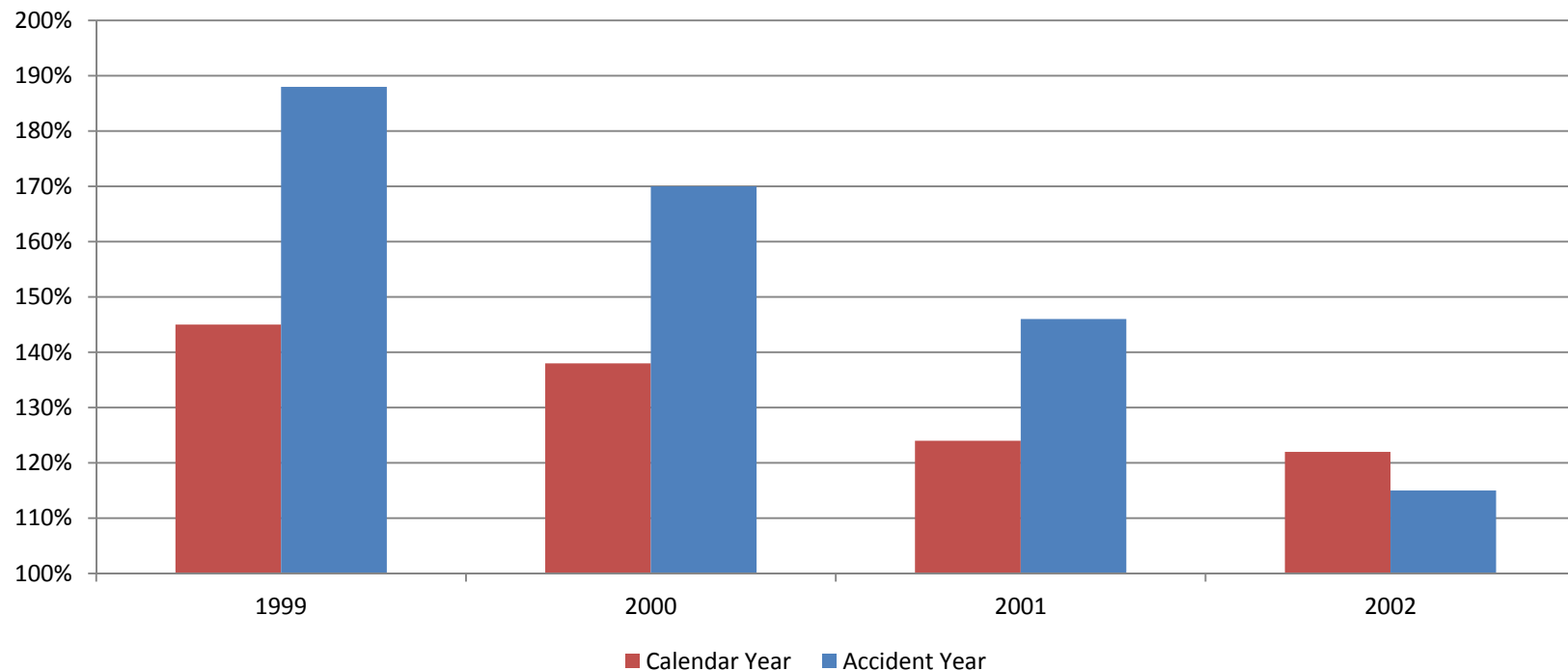
# California WC premiums rose considerably from 2000-04



Average charged rate per \$100 of payroll rose from 2.7 to 6.3 between 2000 and 2004

# Even rate increases could not bring California insurers close to underwriting profitability

## California WC Combined Ratios



Many workers' comp insurers became insolvent or exited the market as a result of underwriting losses

# AB 110 and the Minniear Decision

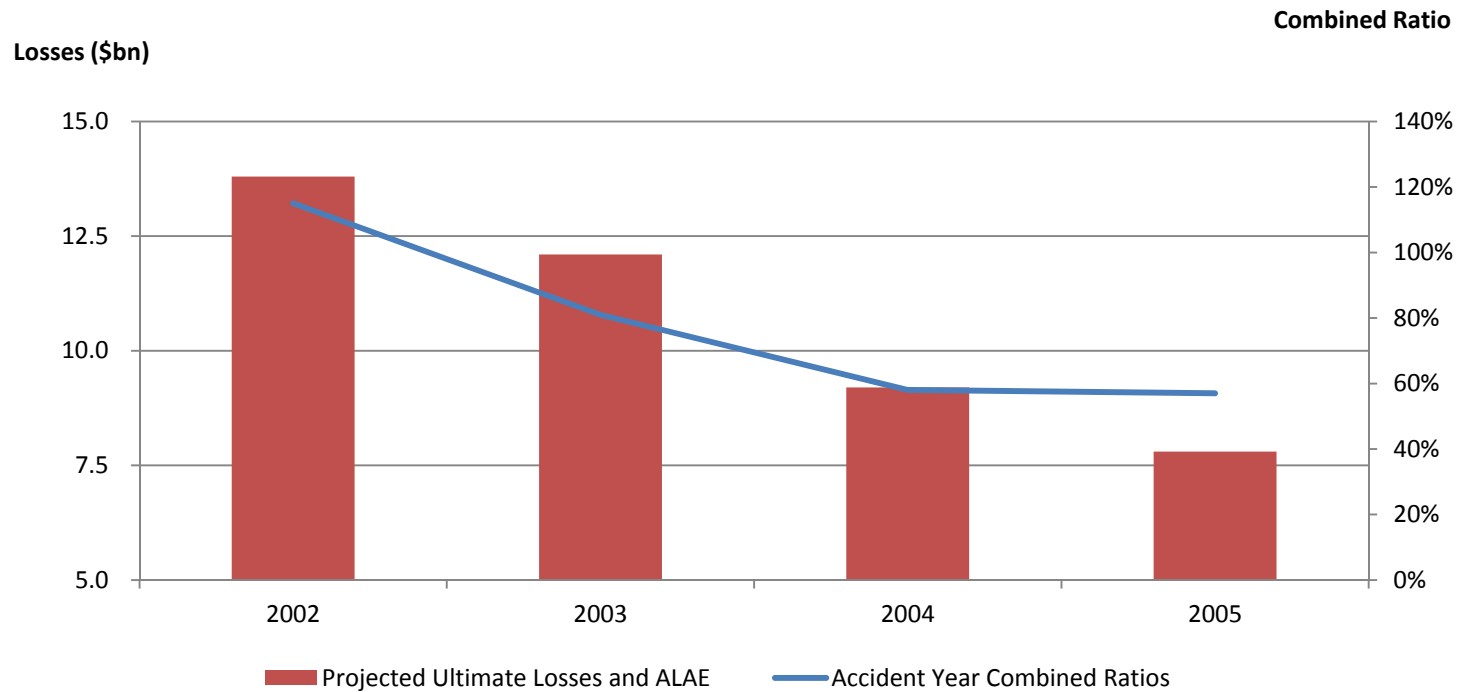
- Opinion of primary treating physician was presumed to be correct in legal proceedings regarding permanent disability
- Limited an insurer's ability to challenge medical utilization
- Resulted in significant increase in medical claims

# Reforms from 2002-04 controlled the “bleeding”

- Caps on temporary disability payments
- Objective medical standards established
- Doctor’s presumption of correctness repealed
- Authorized medical provider networks
- Utilization review process
- Caps on physical therapy visits

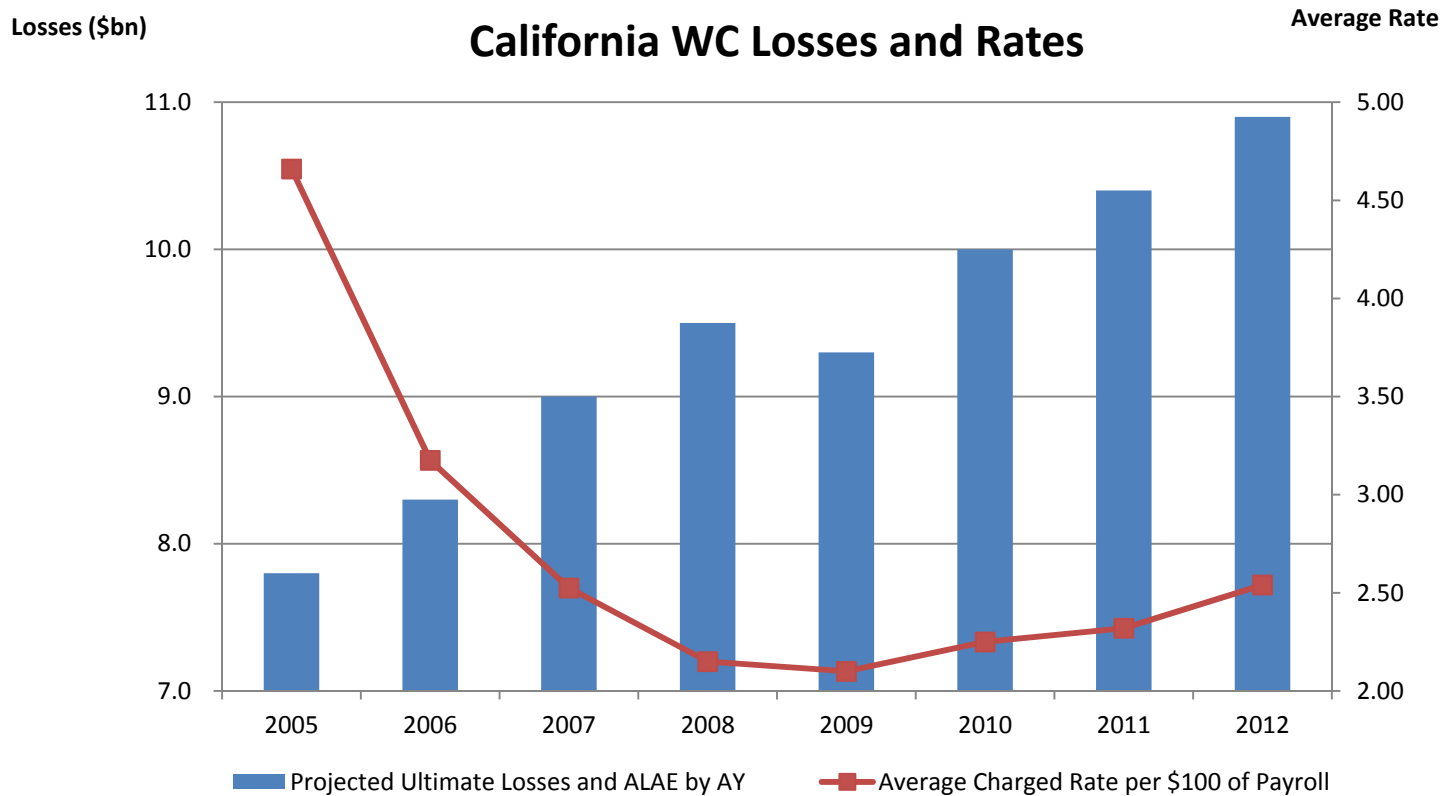
# California reforms: Now that's better....

## Projected Ultimate Losses and ALAE: California WC



Reforms led to a 43% drop in losses between 2002 and 2005

# Accident year losses rose after 2005. Policy year rates were slow to catch on.



Source: WCIRB of California  
Evaluated as of December 2012

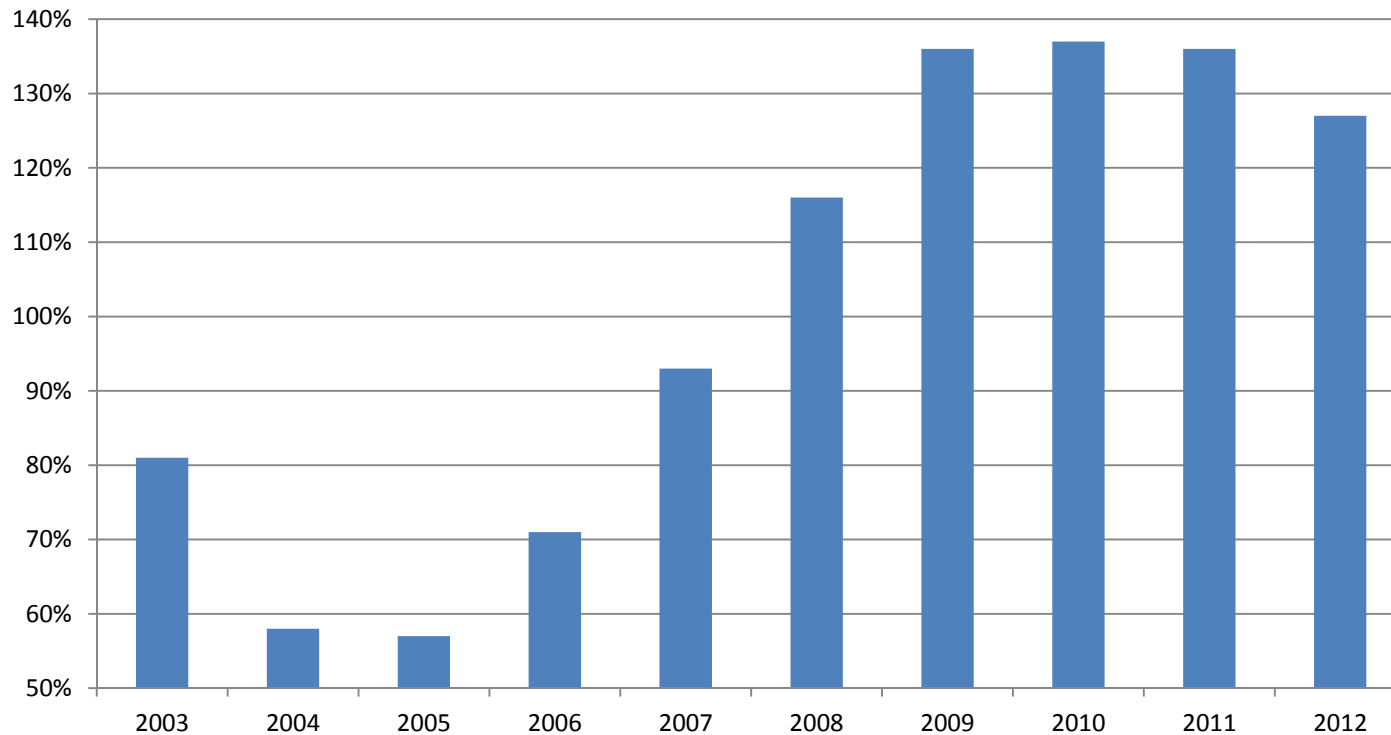


# Drivers of loss costs

- Doctors used compound drugs to avoid fee schedules
- Higher use of opioids
- Increase in average duration of temporary disability claims during recession
- Ogilvie and Guzman cases eroded use of AMA guidelines for permanent disability

# Once again, profits deteriorated in California

California WC Accident Year Combined Ratios



Source: WCIRB of California  
Evaluated as of December 2012