

Workers' Compensation – Selected State Issues California Update

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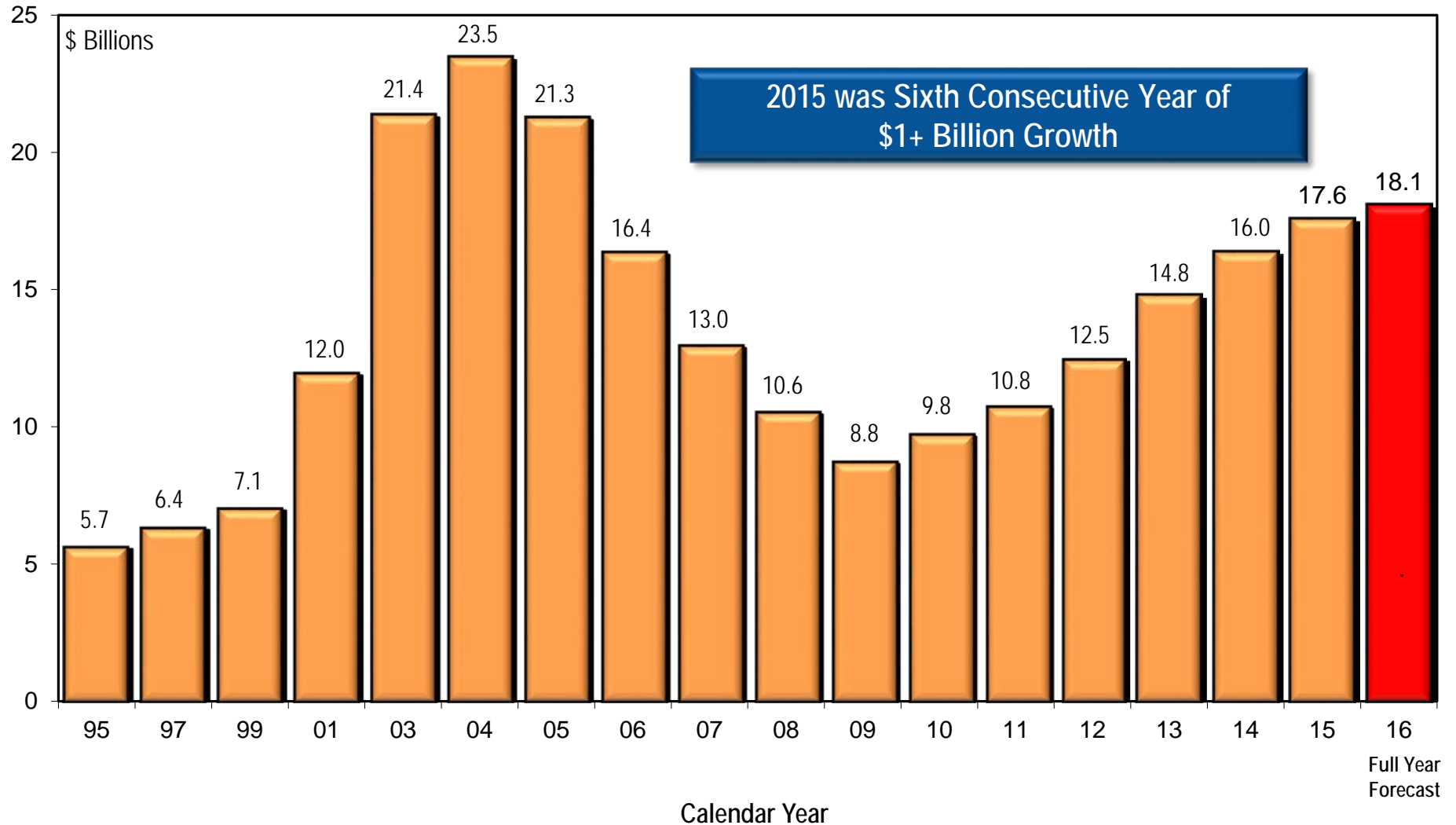
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Overview

- **California Workers' Compensation Market Overview**
- California Cost Drivers
- Recent Legislative Activity

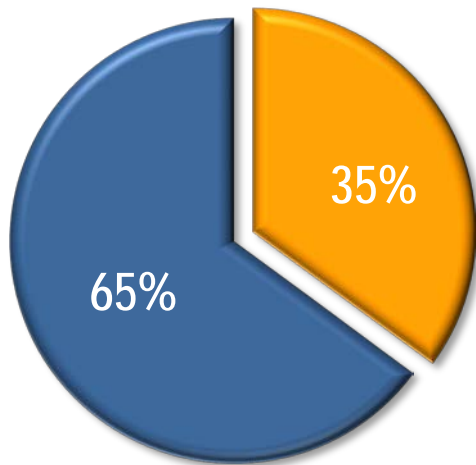
Reported Written Premium Gross of Deductible Credits



California Written Premium as Percentage of Countrywide Premium

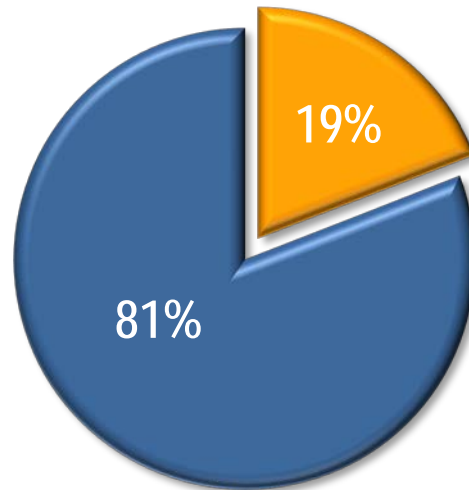
2004 Market Share

- California
- Remainder of Country



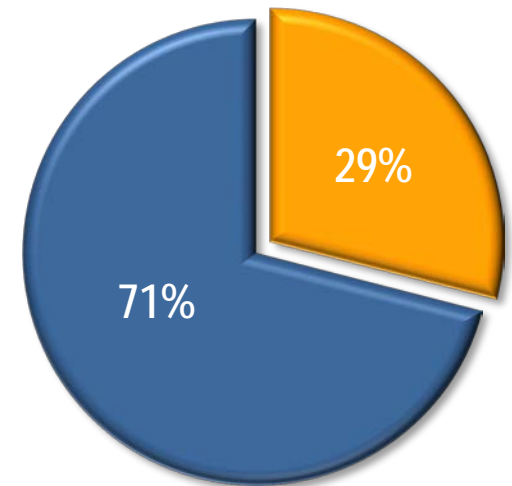
2009 Market Share

- California
- Remainder of Country



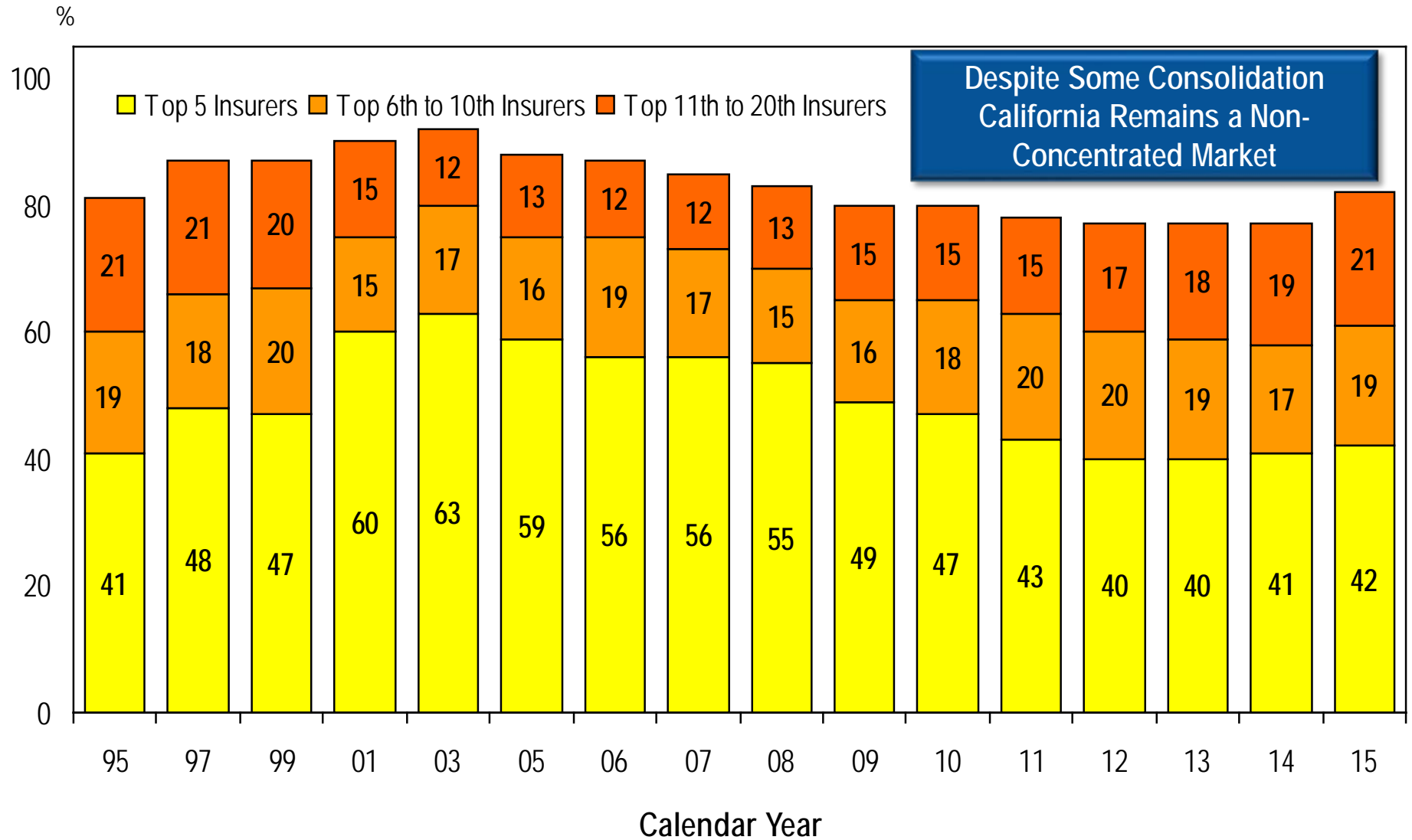
2015 Market Share

- California
- Remainder of Country



Sources: WCIRB aggregate financial data calls and NCCI May 13, 2016 State of the Line Presentation (2015 estimate is preliminary). Premiums are net of deductible credits.

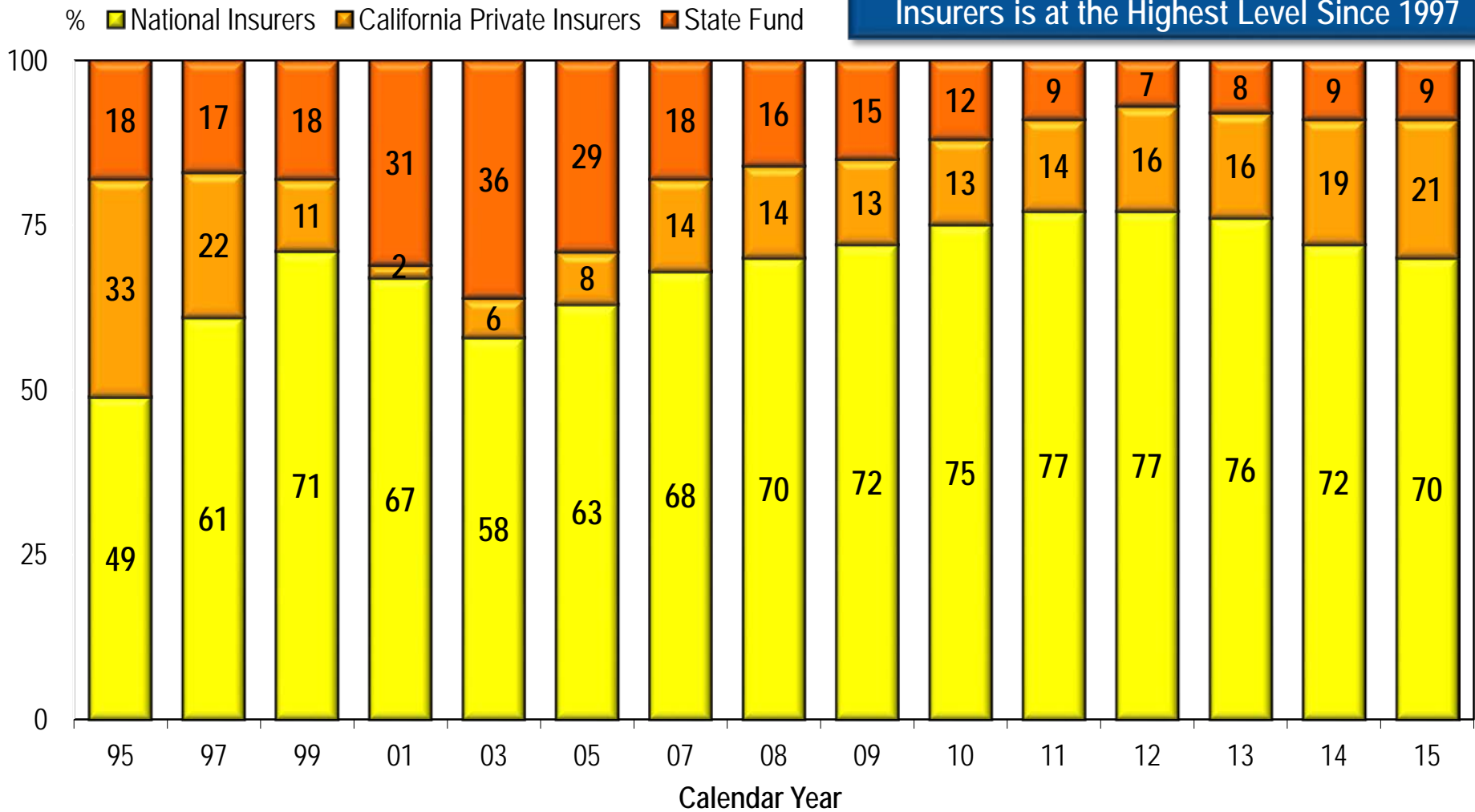
Market Concentration Ratios



Source: WCIRB aggregate financial data calls based on written premiums prior to deductible credits.

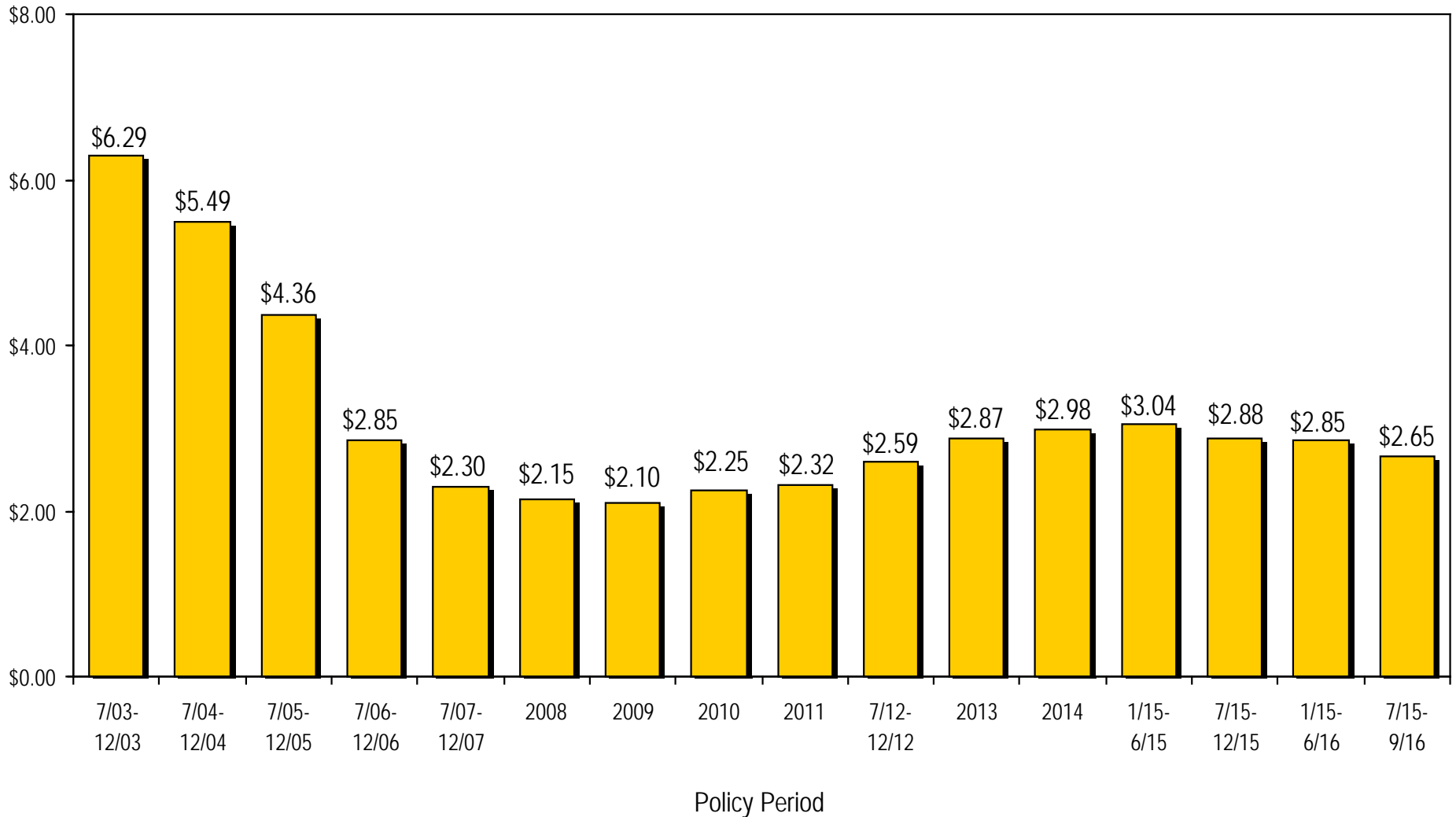
Market Share by Type of Insurer

The Market Share of California-focused Private Insurers is at the Highest Level Since 1997

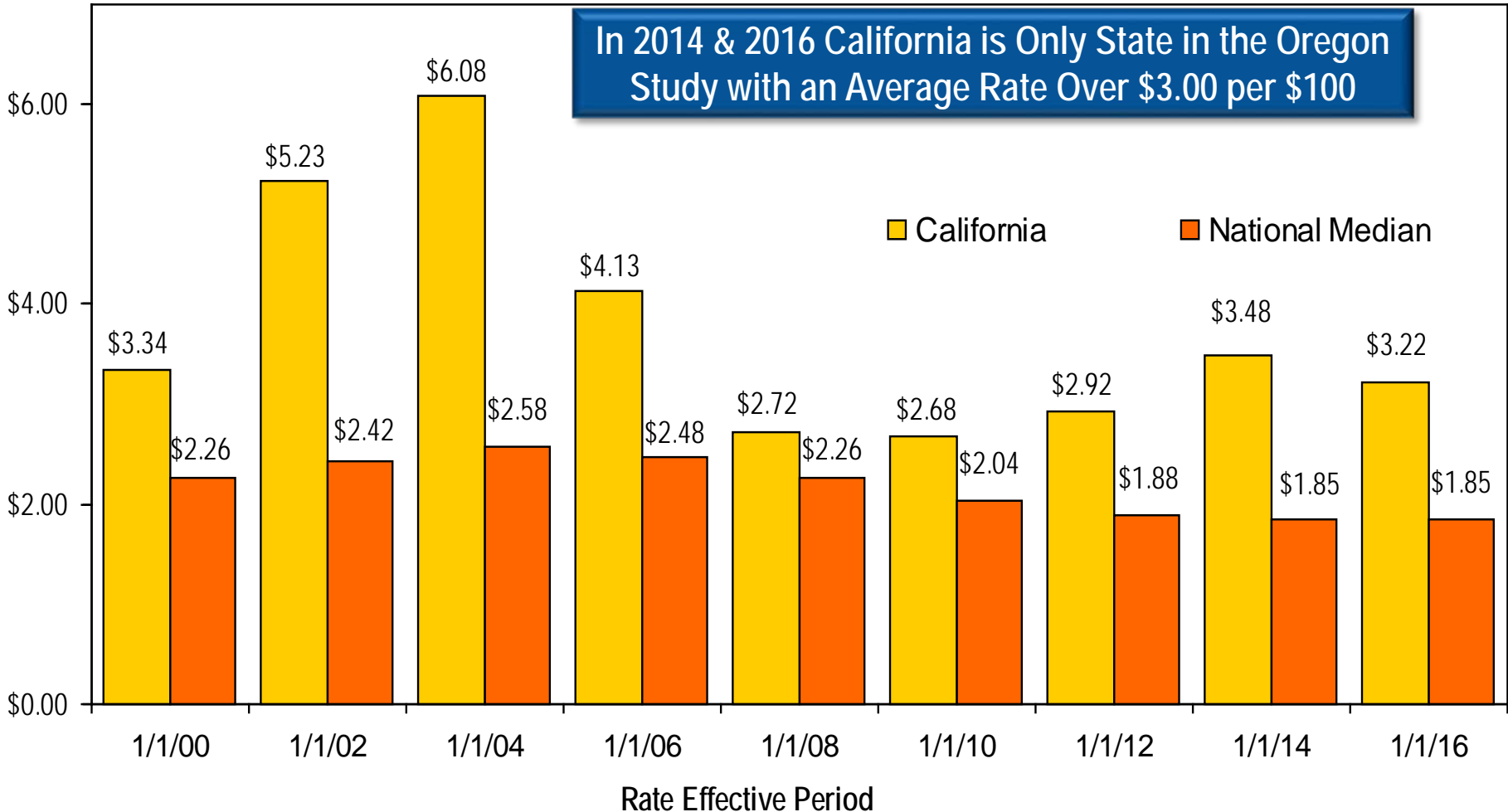


Source: WCIRB aggregate financial data calls. Based on written premiums prior to deductible credits. "California Private Insurers" are defined as private insurers who write at least 80% of their workers' compensation business in California.

Estimated Average Charged Insurer Rate Per \$100 of Payroll

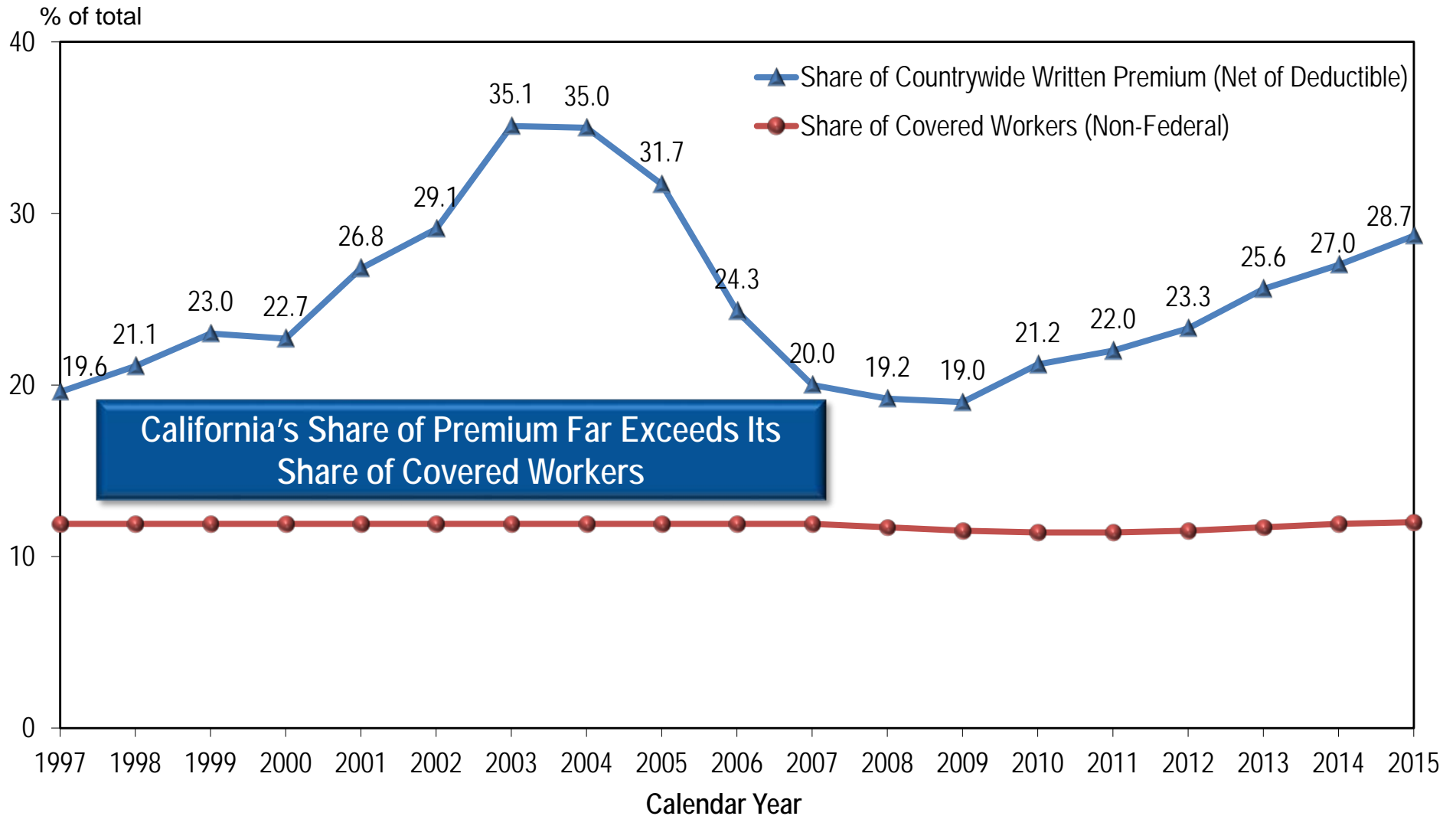


Rate Comparison Based on Oregon Studies California* vs. National Median Average Charged Rate



Source: The information is based on the state of Oregon biennial rate comparison and is based on the Oregon classification mix and, as a result, the California average rates shown on this exhibit differ from other measures of the average California rate.

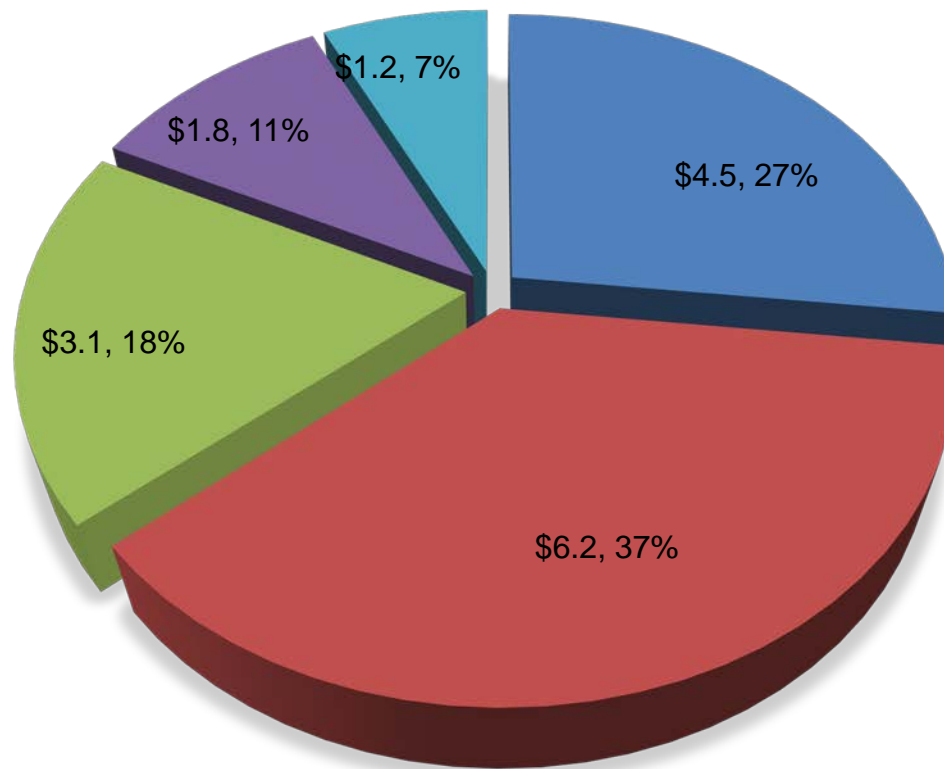
California Share of Premiums vs. Covered Workers



Source: Countrywide premiums are from NCCI May 13, 2016 State of the Line Presentation. California premiums are from WCIRB calls for aggregate financial information. Covered workers counts are from National Academy of Social Insurance studies on Workers' Compensation. The 2014 and 2015 covered worker counts have been projected by the WCIRB from the 2013 counts based on government published economic data.

Distribution of \$17 Billion Total Insured System Costs in 2015 (Dollars in Billions)

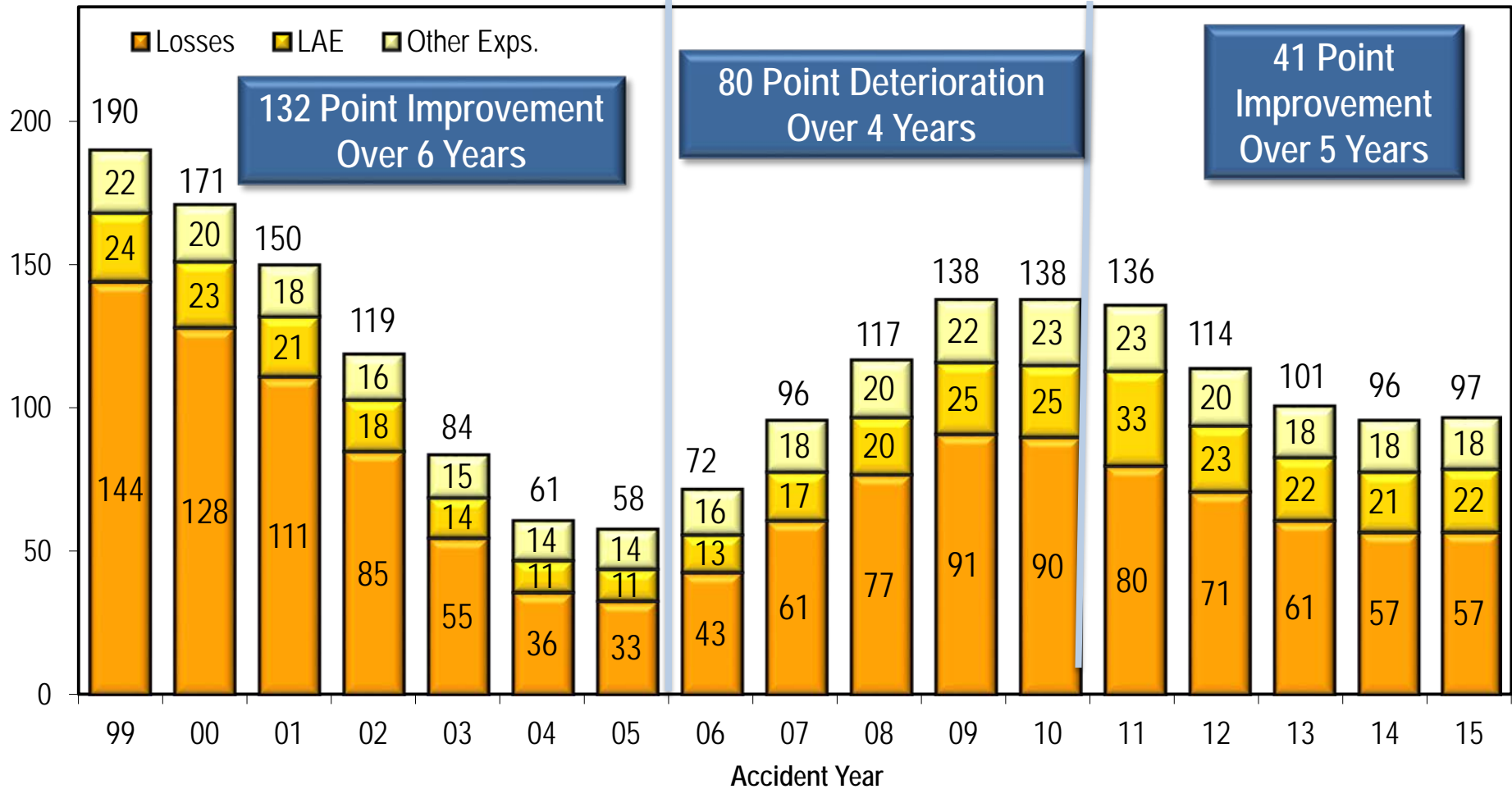
- Incurred Indemnity Benefits
- Incurred Medical Benefits
- Loss Adjustment Expenses
- Commissions & Other Acquisition Expenses
- General Expenses & Premium Taxes



Source: WCIRB aggregate financial data calls.

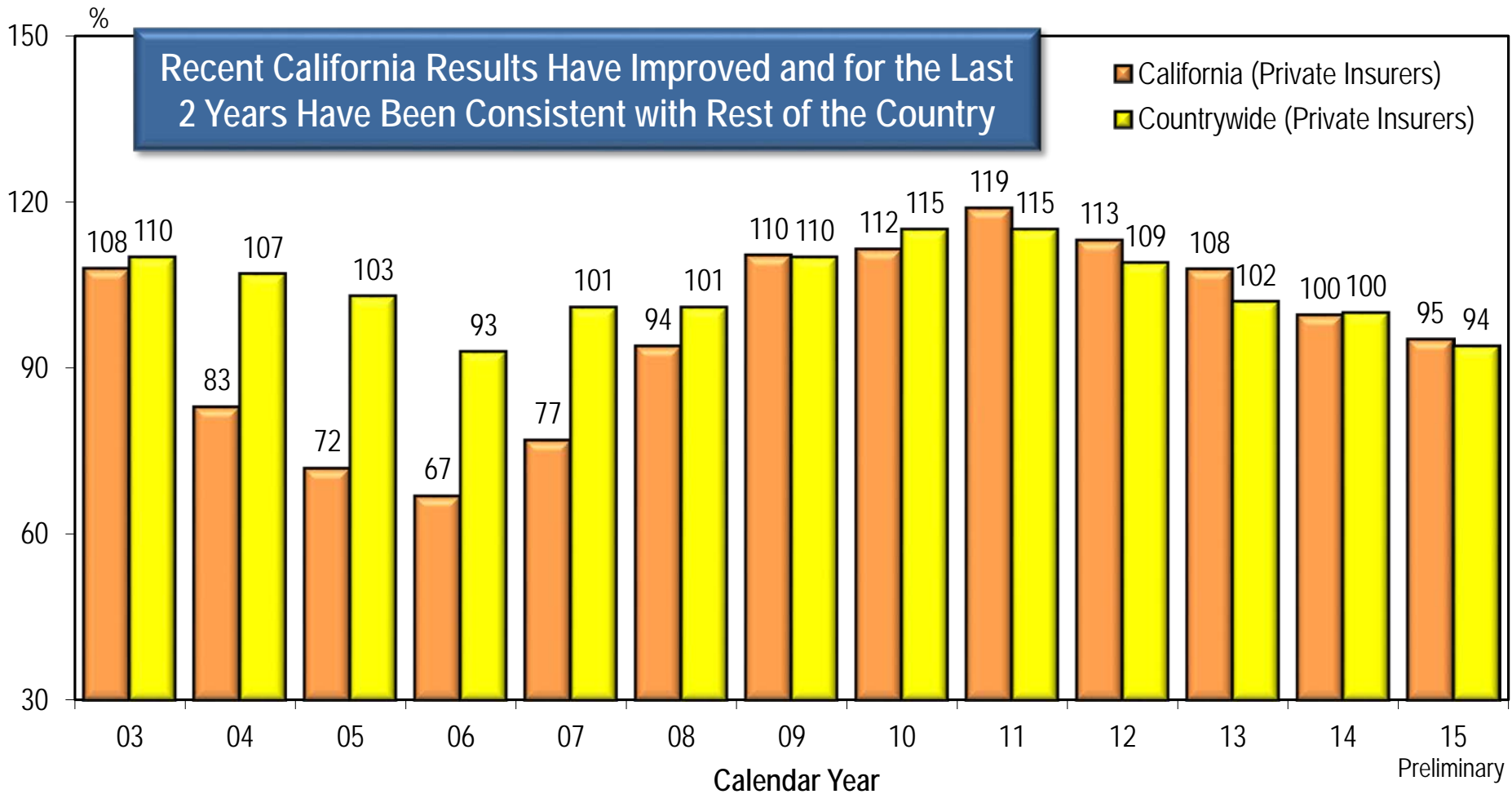
Accident Year California Projected Combined Loss and Expense Ratios

As of September 30, 2016



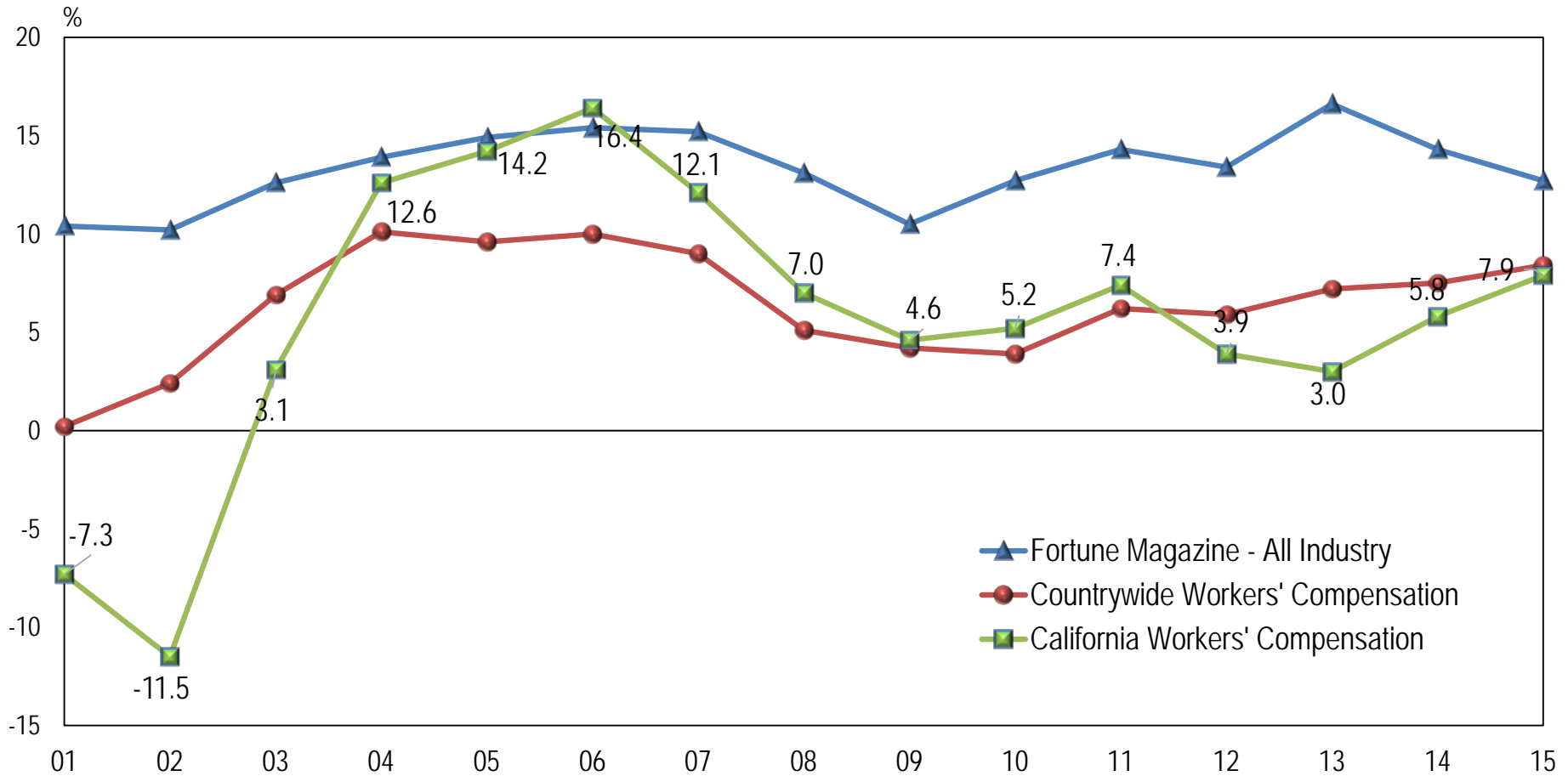
* Source: WCIRB aggregate financial data calls. The cost of medical cost containment programs is reflected in LAE for accident years 2011 and subsequent. It is reflected in losses for all other accident years.

Calendar Year Insurer Reported Combined Loss and Expense Ratios – Private Insurers



Sources: Countrywide estimate from NCCI May 13, 2016 State of the Line Presentation. The 2015 estimate is preliminary. California ratios based on WCIRB calls for aggregate financial information.

Average Return on Net Worth by Calendar Year



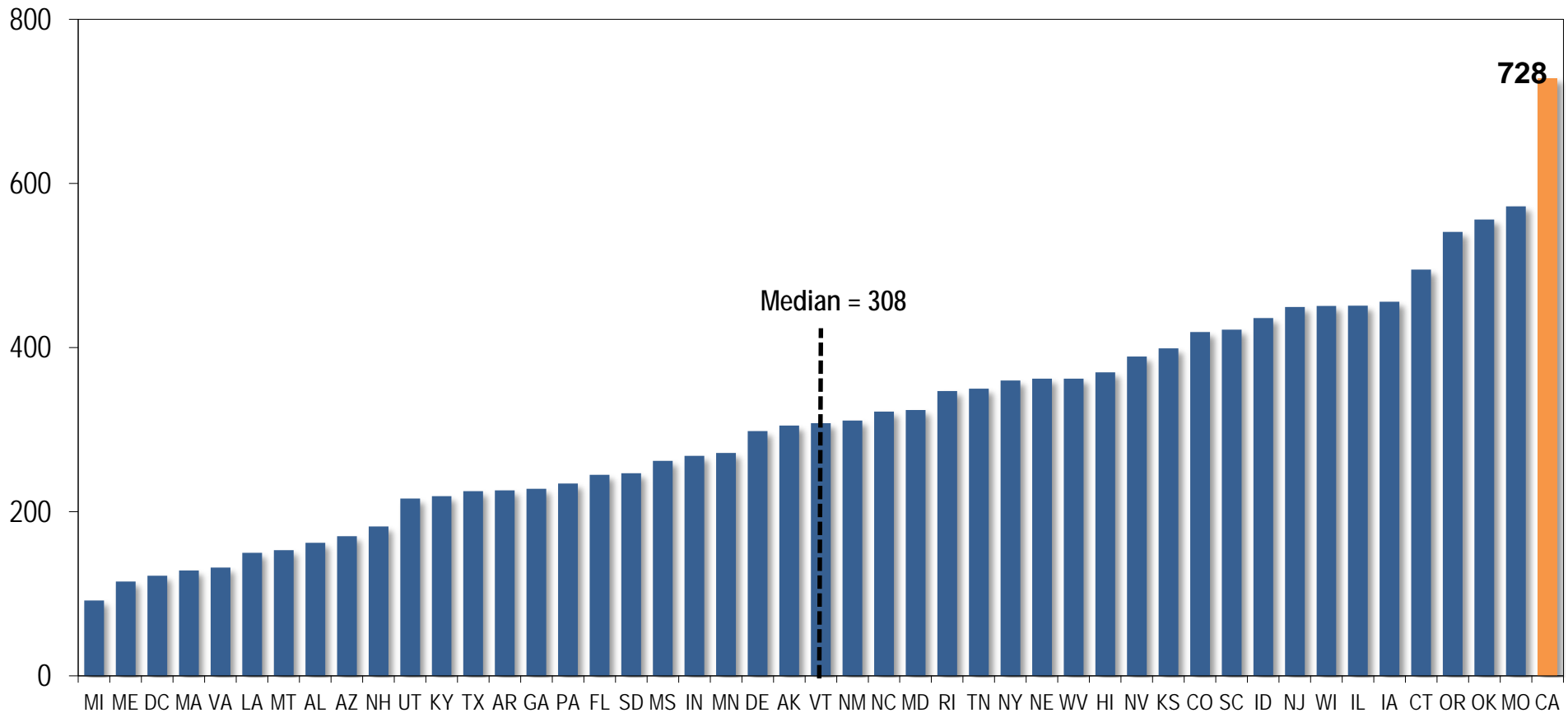
<u>Arithmetic Average Returns</u>	<u>10 Years</u>	<u>15 Years</u>
Fortune Magazine – All Industry	13.3%	13.5%
Total Countrywide Workers' Compensation	6.7%	6.4%
California Workers' Compensation	7.3%	5.6%

Source: NAIC Report on Profitability in 2015.

California Cost Drivers

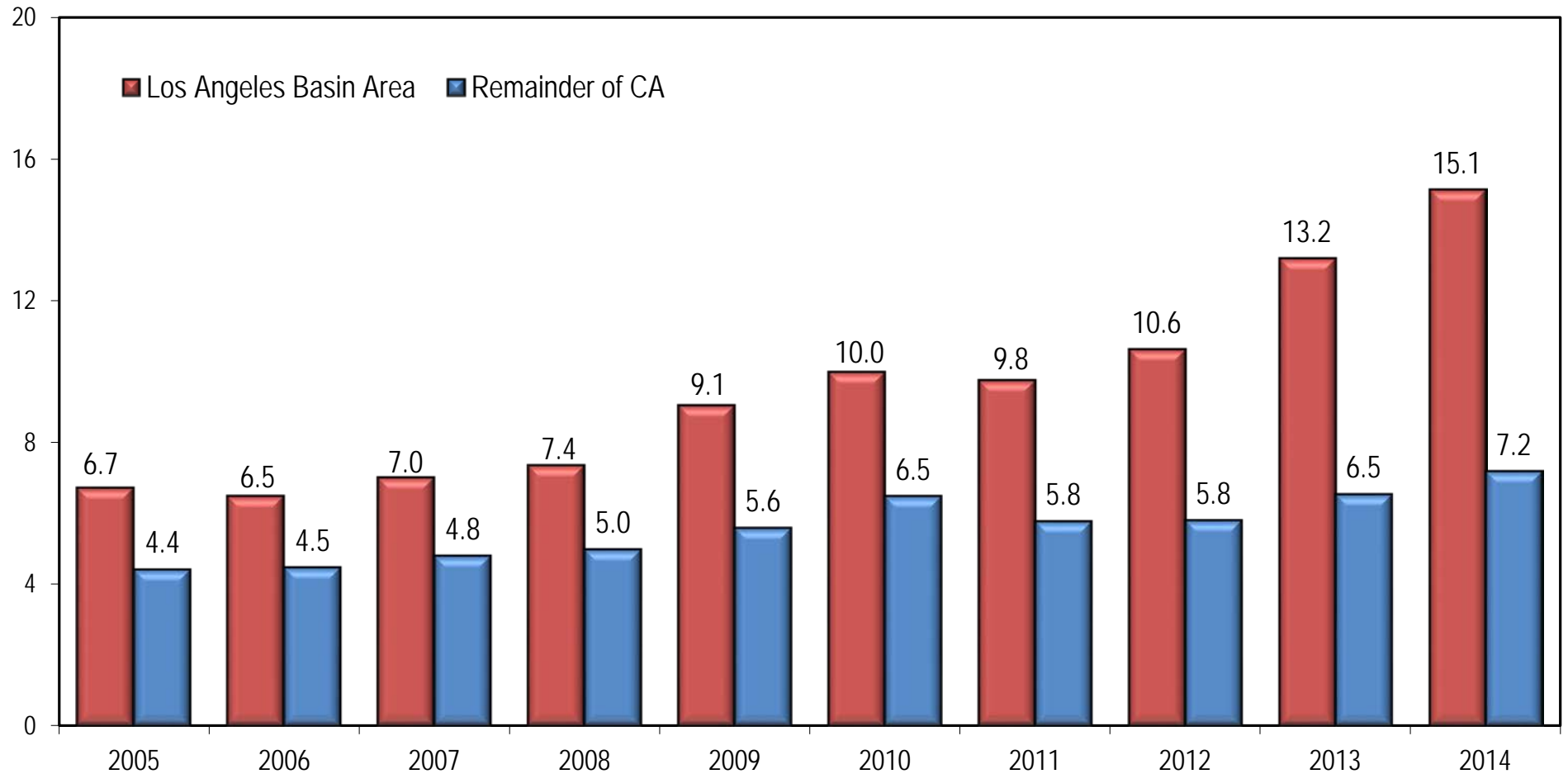
- Permanent Disability Claim Frequency
- Cumulative Trauma Claims
- Geographical Differences
- Long-Tail of Medical
- Impact of Medical Inflation
- Frictional Costs
- Liens

Estimated Permanent Partial Disability Claims per 100,000 Employees



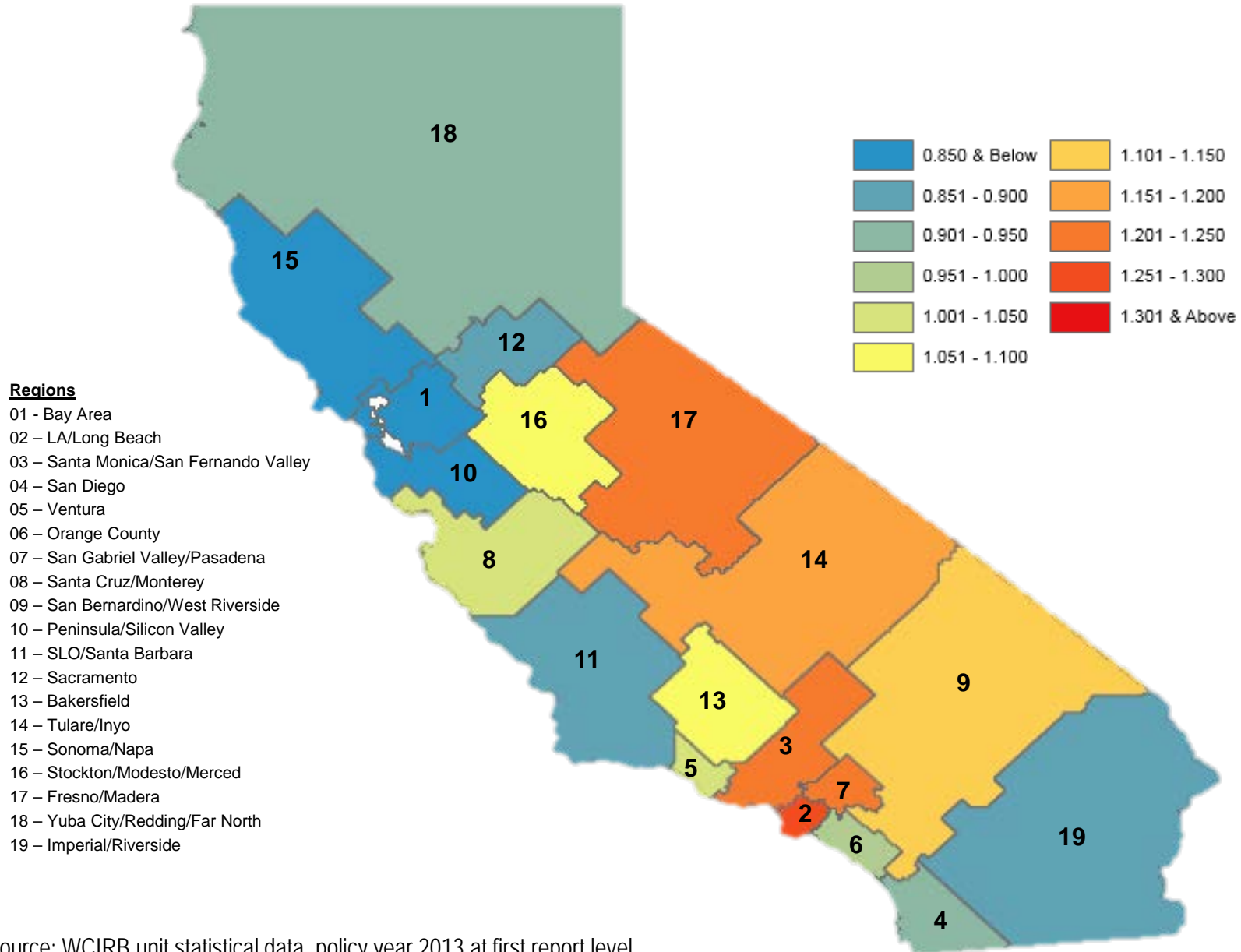
Source: 2016 NCCI Annual Statistical Bulletin for 2012 policy year at first report level.

Cumulative Injury Claims per 100 Indemnity Claims by Region and Accident Year



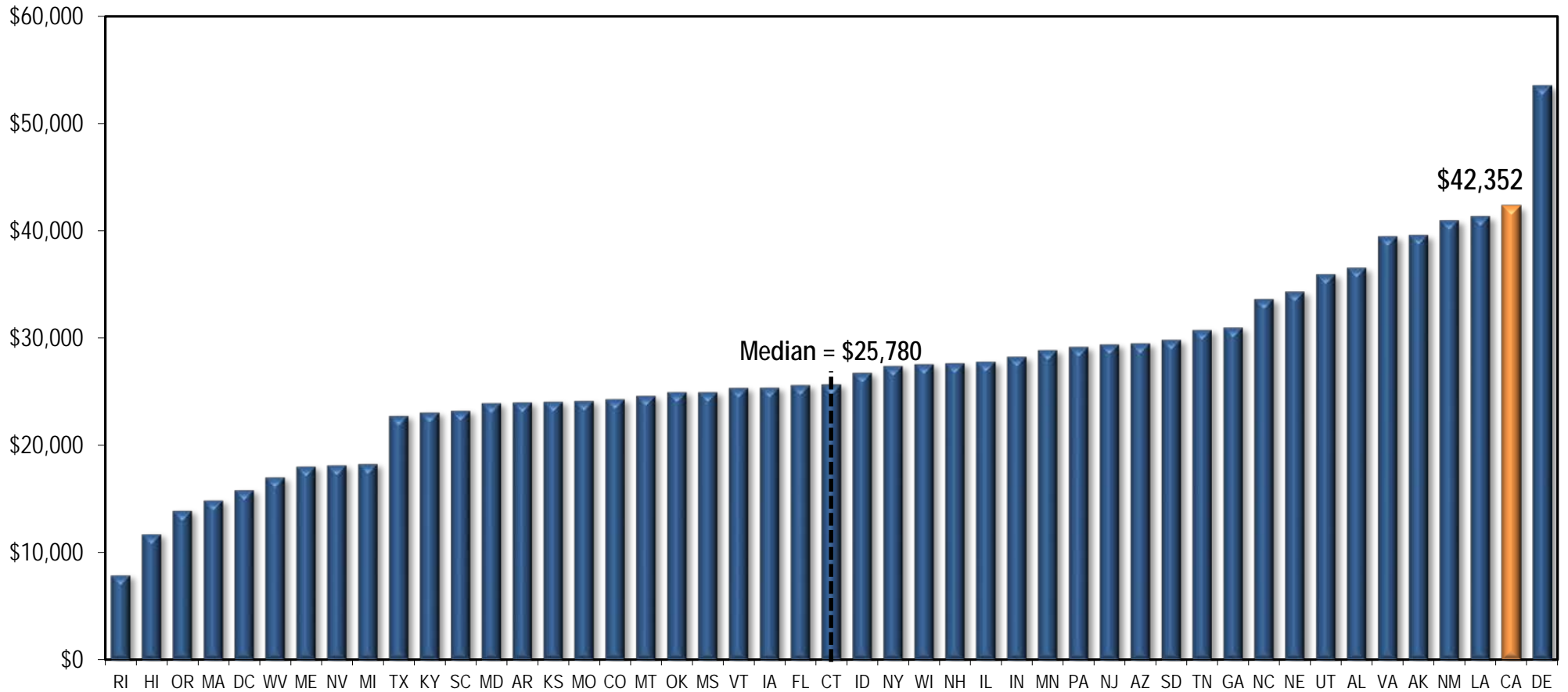
Source: WCIRB unit statistical data (first report level).

Indemnity Claim Frequency Relative to Statewide by Region Adjusted for Regional Wage Differences and Industrial Mix



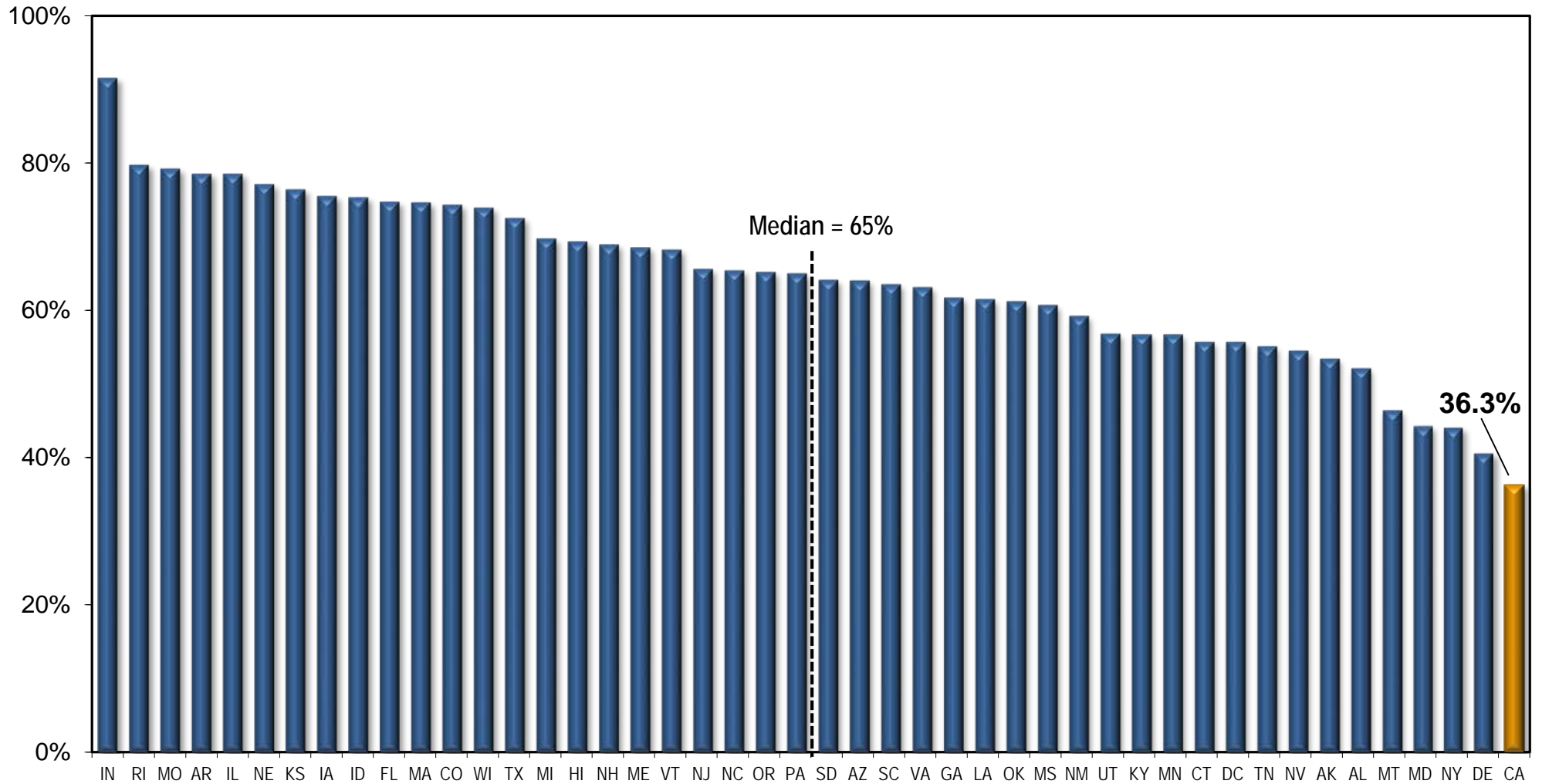
Source: WCIRB unit statistical data, policy year 2013 at first report level.

Countrywide Medical Cost per Indemnity Claim



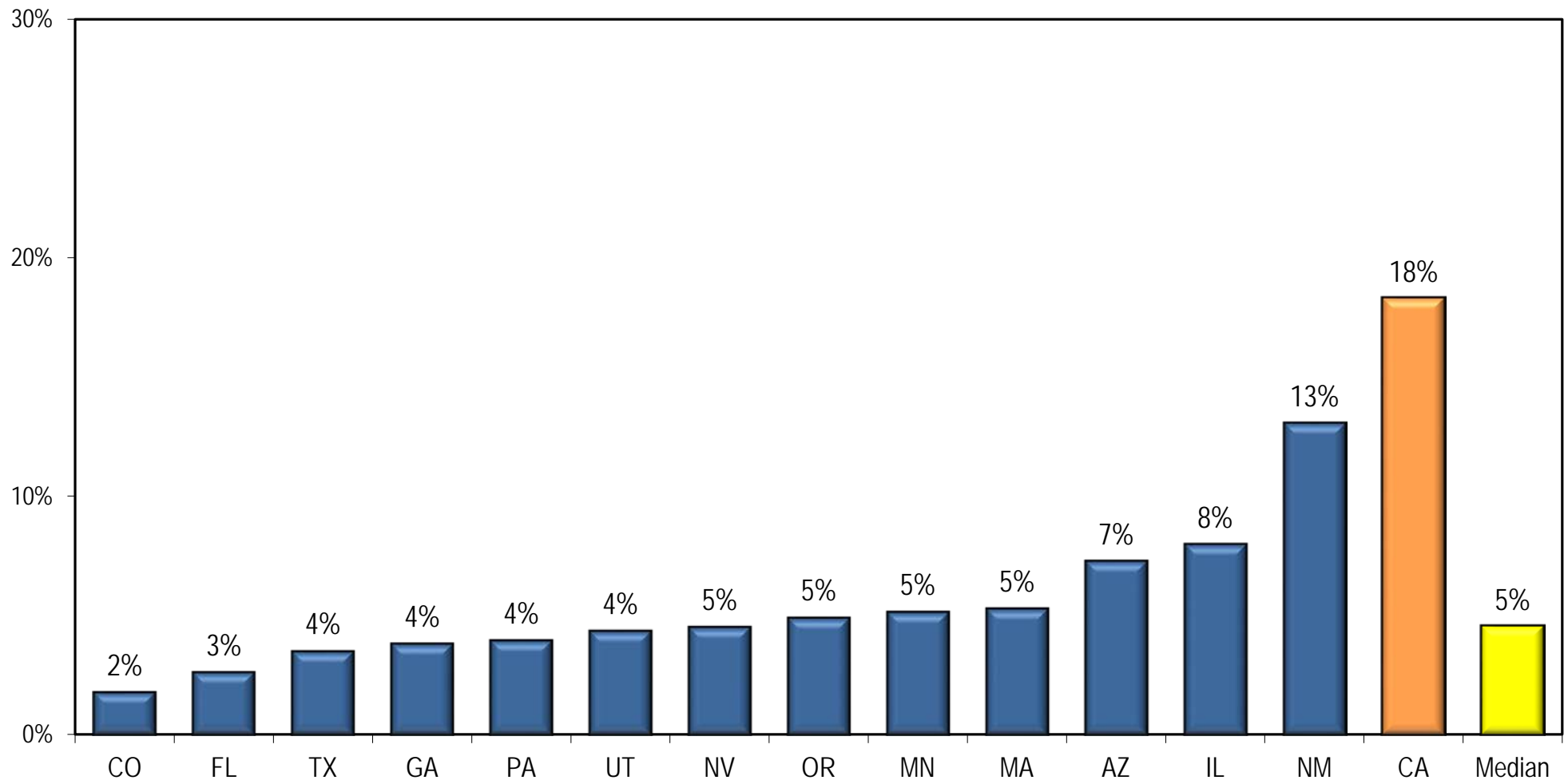
Source: 2016 NCCI Annual Statistical Bulletin based on 2012 policy year at first report level developed to ultimate.

Percentage of Ultimate Medical Cost Paid at 3 Years



Source: NCCI Annual Statistical Bulletin – 2016 Edition.

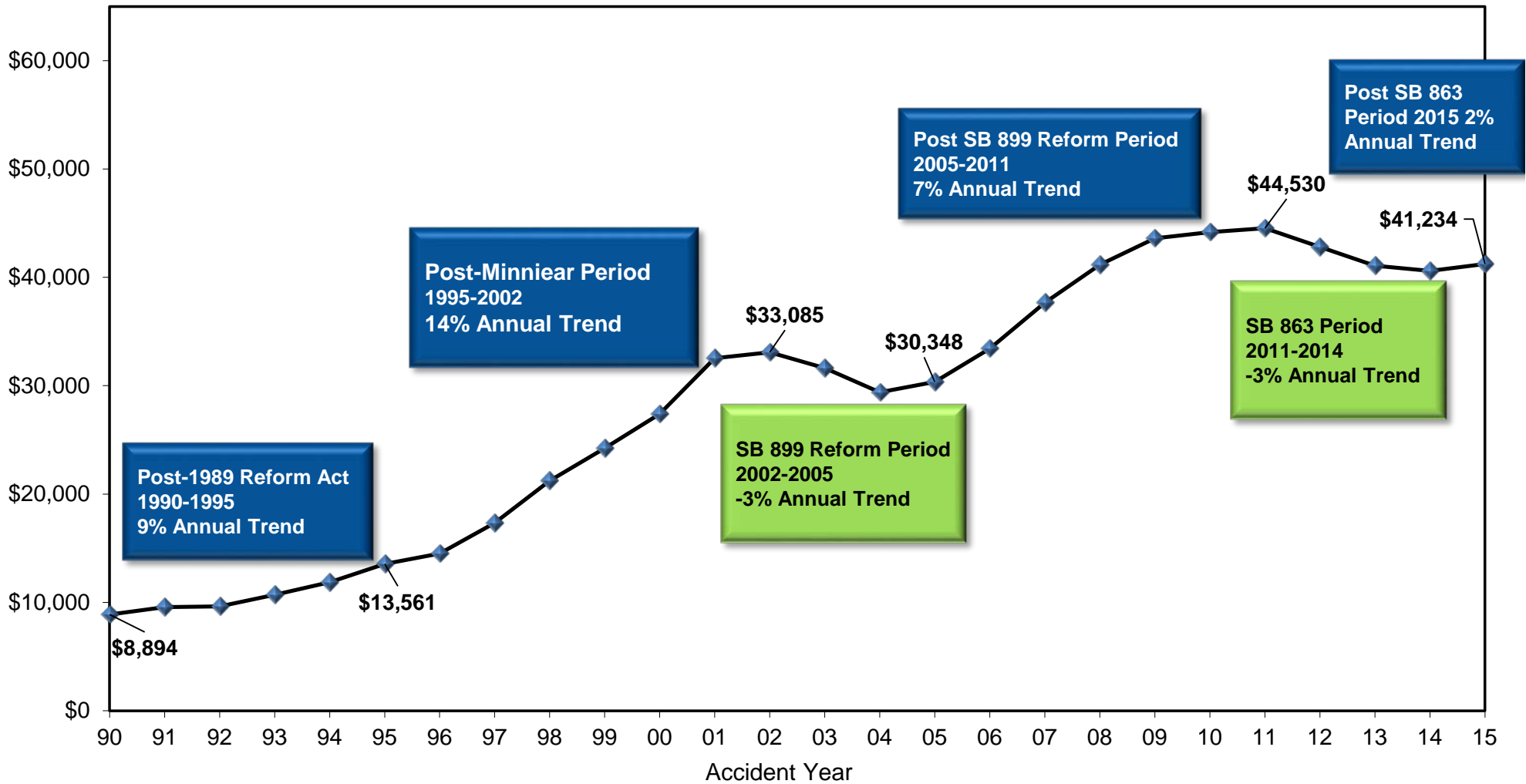
Percentage of Reported Indemnity Claims Open after 60 Months



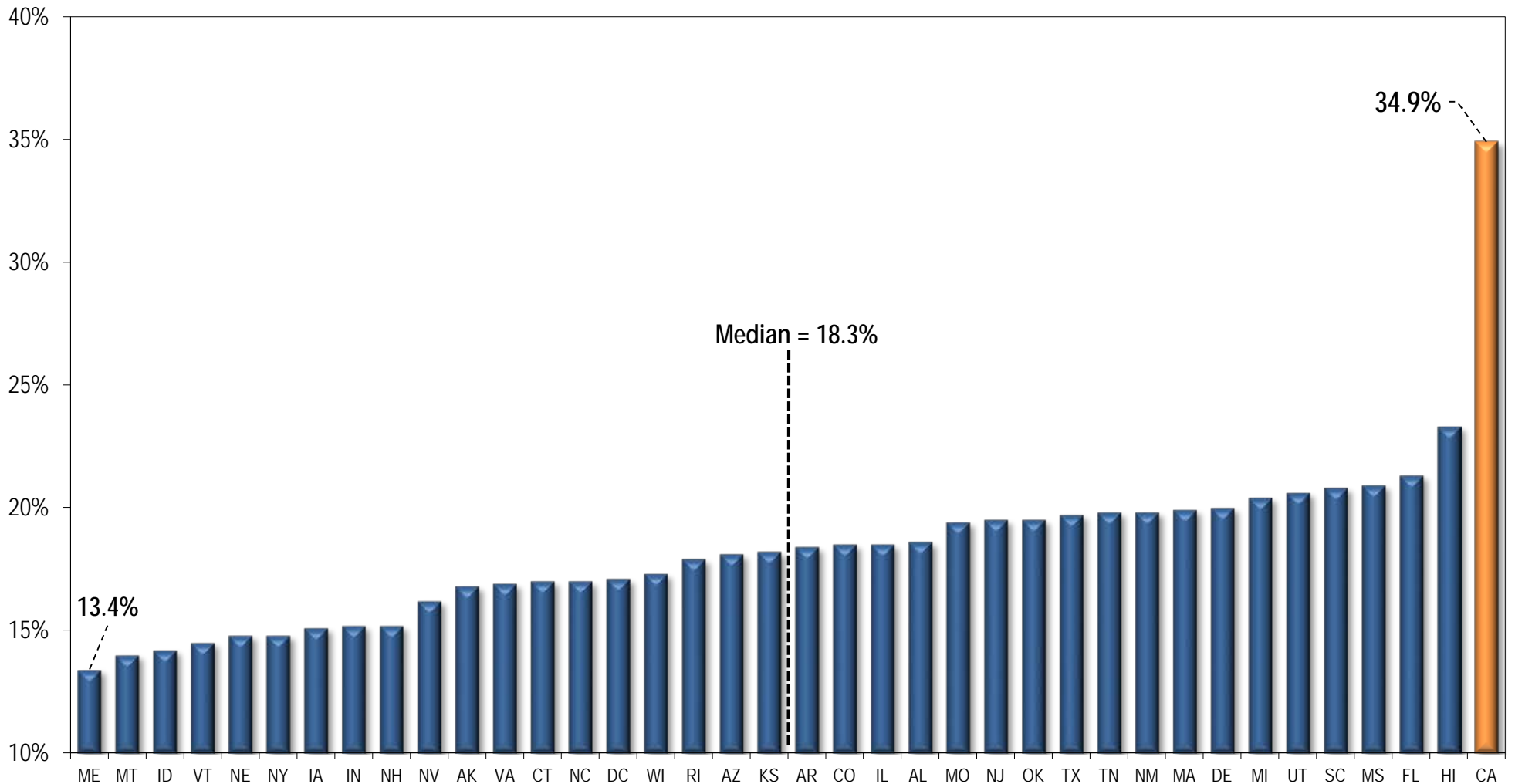
Source: WCIRB calls for aggregate financial data and individual state summaries provided by NCCI, the Minnesota Workers' Compensation Insurers Association, the Workers Compensation Rating & Inspection Bureau of Massachusetts, and the Pennsylvania Compensation Rating Bureau.

Estimated Ultimate Medical (Including MCCP) Per Indemnity Claim

As of June 30, 2016

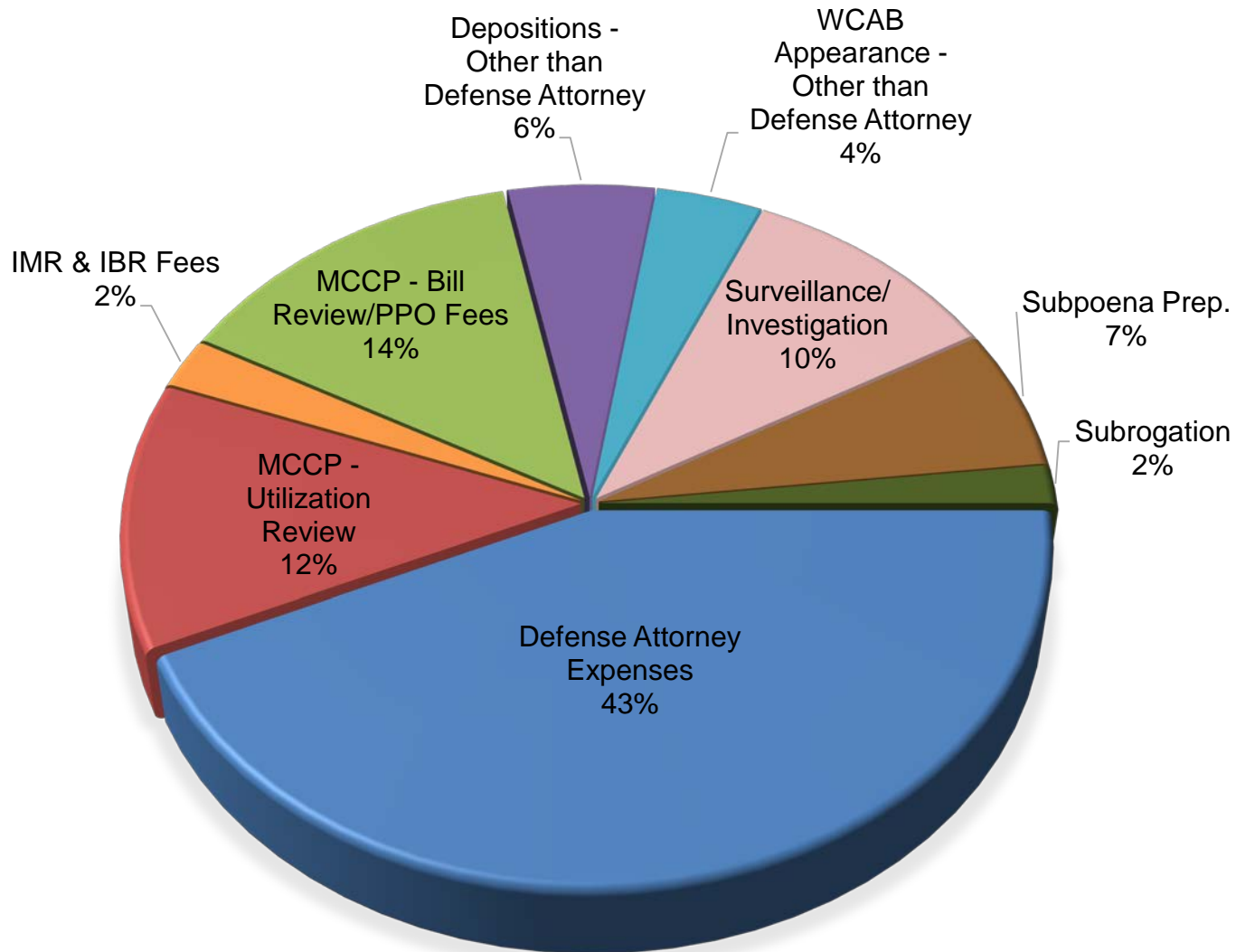


Countrywide Ratios of Loss Adjustment Expense Costs to Losses



Source: NCCI Annual Statistical Bulletin – 2016 Edition

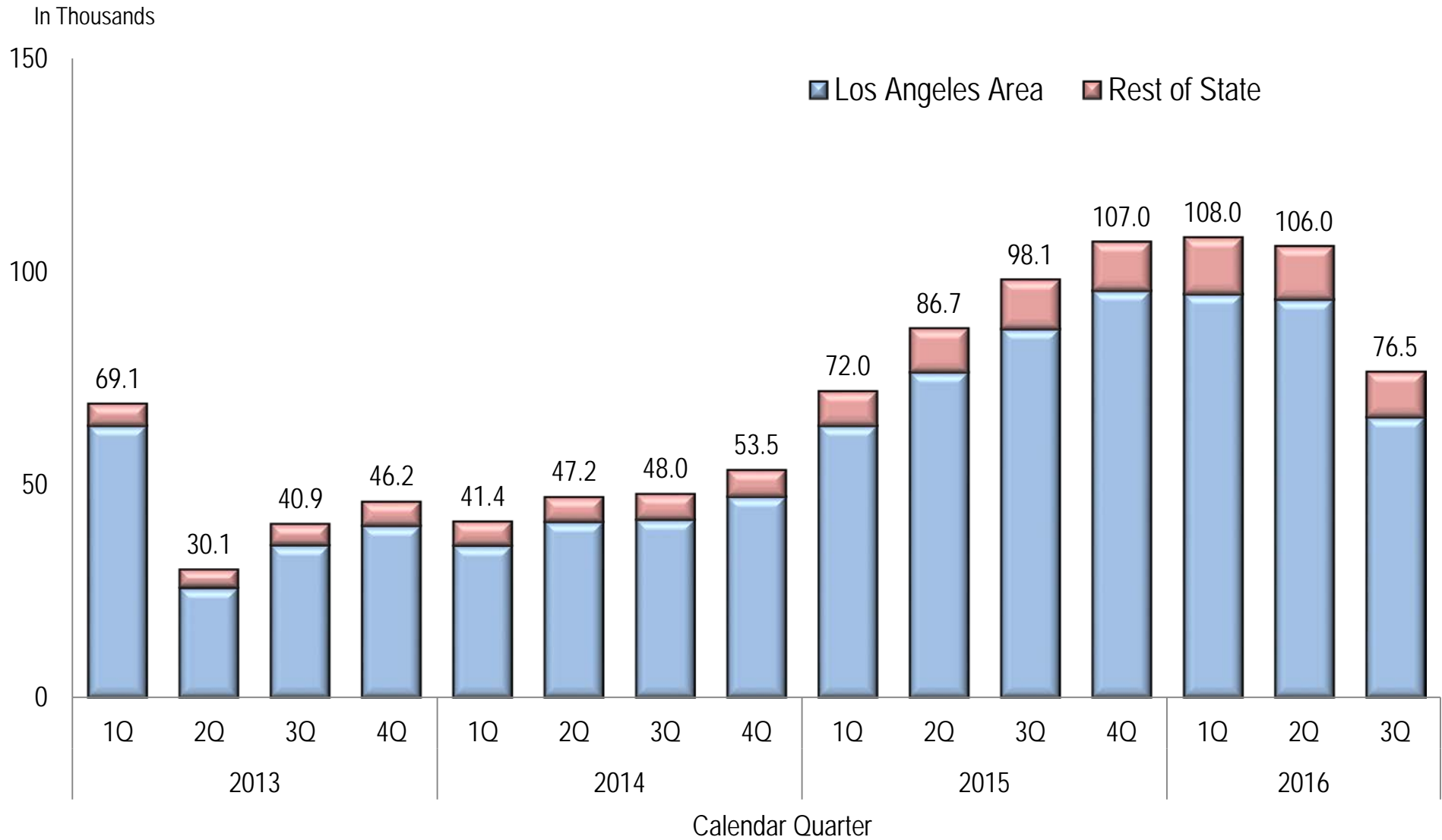
Distribution of Calendar 2015 Year Paid ALAE Costs



Source: WCIRB calls for aggregate financial data, CWCI information on the cost of medical cost containment programs, and WCIRB ALAE claim survey. ALAE amounts shown include all medical cost containment program costs including those reported in medical losses.



Number of Liens Filed



Source: EAMS Liens Data

Recent Legislative Activity

- SB 863 – Enacted in 2012
- AB 1124 – Enacted in 2015
- SB 1160 & AB 1244 – Enacted in 2016

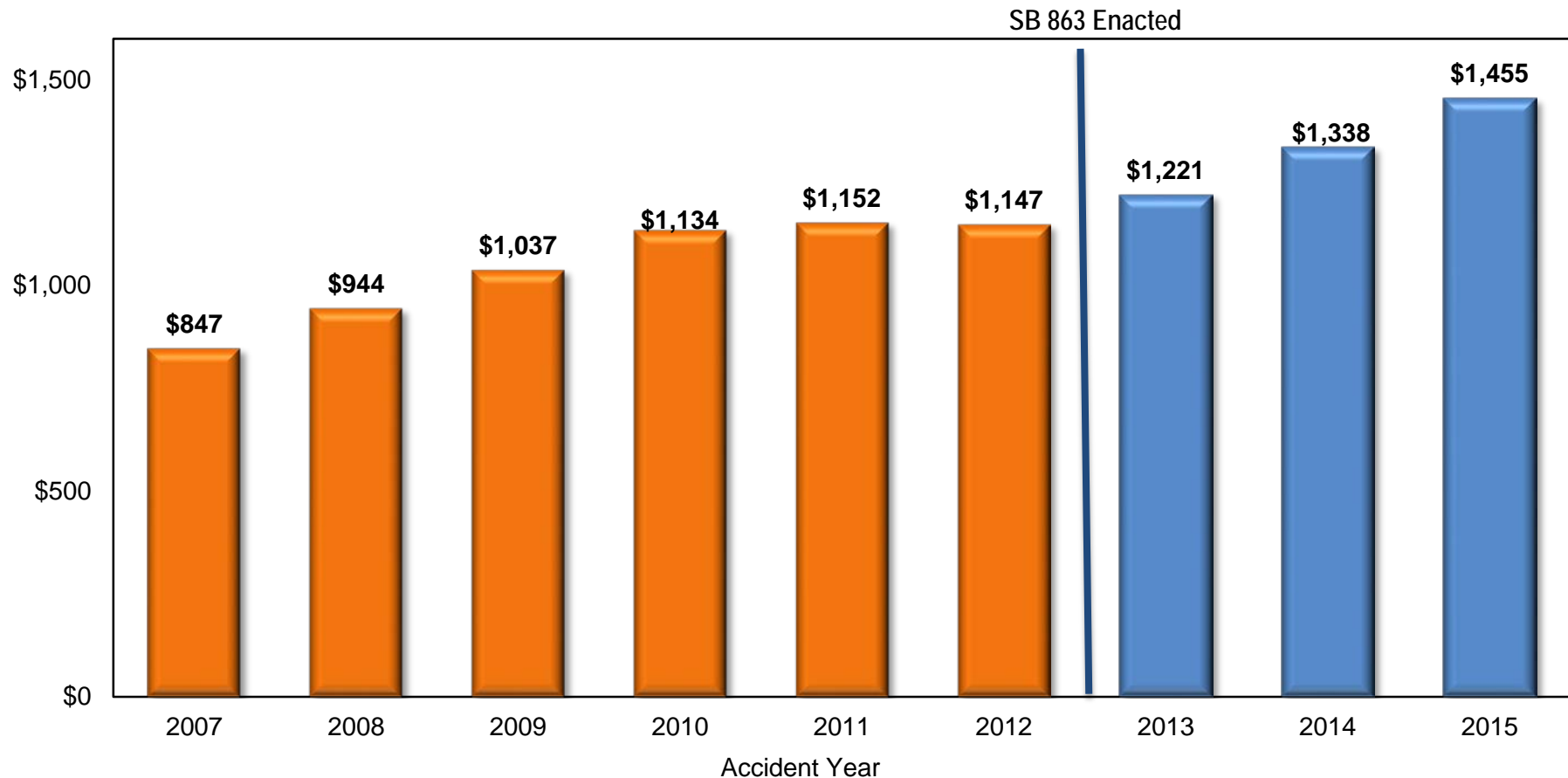
SB 863 Summary

- Signed by the Governor on September 18, 2012
- Permanent Disability Benefit Increases in 2013 and 2014
- Series of Structural Reforms to Benefit Delivery System
 - Reduce frictional costs
 - Streamline medical delivery & medical dispute resolution
- Initially Evaluated by WCIRB as Modest Net Savings
- WCIRB Retrospectively Evaluating Cost Impacts

SB 863 – WCIRB Cost Monitoring Results

- Higher Permanent Disability Benefits Emerging as Expected
- Frictional Cost Savings Not Emerging
- Medical Cost Levels Dropping
- Claim Settlement Rates Accelerating
- WCIRB Now Estimates \$1.3 Billion in Annual Savings
 - Advisory Pure Premium Rates Down by 20%+

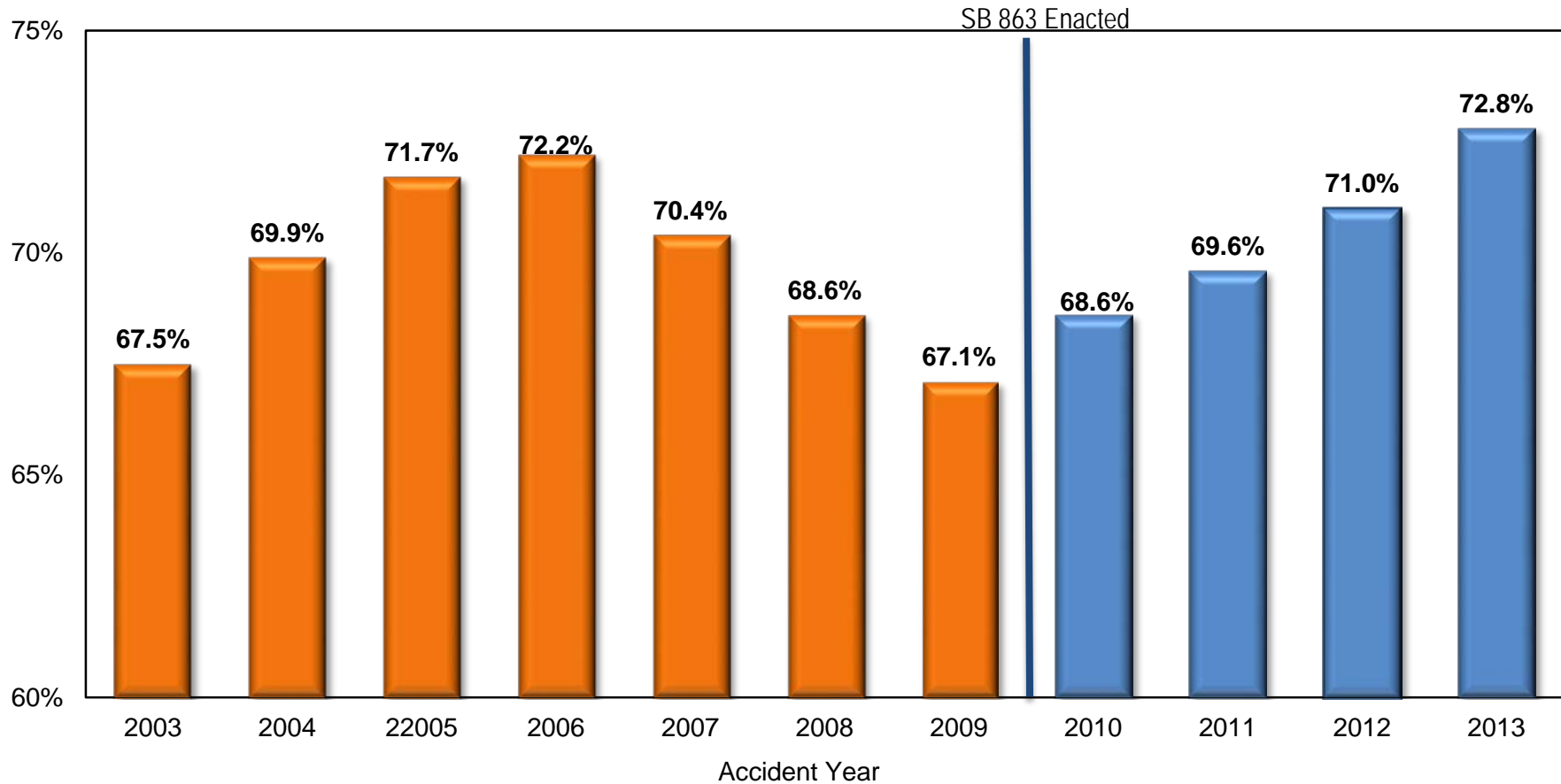
ALAE Costs Continuing to Increase after SB 863 Paid ALAE Per Indemnity Claim (at 15 Months)



Source: Reported paid ALAE and indemnity claim counts by accident year evaluated as of 15 months for private insurers only and excluding the cost of medical cost containment programs.








Claim Settlement Rates Accelerating After SB 863

% of Indemnity Claims Closed at 45 Months



Source: Reported and closed indemnity claim counts by accident year evaluated as of 45 months.

WCIRB SB 863 Cost Monitoring – Indemnity Reforms

SB 863 Provisions	WCIRB Original Cost Estimates (\$s in billions)	Current Monitoring Results Impact on Net SB 863 Savings	Updated Estimates (\$s in billions)
Changes to Weekly PD Benefits	+\$0.6		+\$0.6
Replacement of FEC Factor	+\$0.6		+\$0.6
Elimination of PD Add-ons	(\$0.2)		(\$0.2)
Three-Tiered Weekly PD Benefits	(\$0.1)		(\$0.1)
<u>Ogilvie</u> Decision	(\$0.2)		(\$0.1)
Indemnity Claim Frequency	Small Increase		---
Indemnity Severities (Incl. Trend)	Increase		---
Total Indemnity Reforms	+\$0.7	---	+\$0.8

WCIRB SB 863 Cost Monitoring – Medical & LAE Reforms

SB 863 Provisions	WCIRB Original Cost Estimates (\$s in billions)	Current Monitoring Results Impact on Net SB 863 Savings	Updated Estimates (\$s in billions)
Liens	(\$0.5)	≡	(\$0.5)
Surgical Implant Hardware	(\$0.1)	▲	(\$0.1)
ASC Fees	(\$0.1)	≡	(\$0.1)
IMR – Impact on Frictional Costs	(\$0.2)	▼	+\$0.1
IMR – Impact on TD Duration	(\$0.2)	▼	\$0.0
MPN Strengthening	(\$0.2)	≡	(\$0.2)
RBRVS Fee Schedule	+\$0.3	▲	(\$0.3)
Copy Services Fee Schedule	\$0.0	≡	\$0.0
Medical Severities (Incl. Trend)	Increase	▲	(\$1.0)
ALAE and ULAE Severities	Significant Decline	▼	---
Total Medical & LAE Reforms	(\$0.9)	---	(\$2.1)
Total Estimate – All Items	(\$0.2)	---	(\$1.3)

AB 1124

- Signed by the Governor on October 6, 2015
- Authorizes Administrative Director to Establish a Drug Formulary by July 1, 2017
- Administrative Director in Process of Developing Formulary
- Pharmaceuticals Fastest Growing Medical Cost up to SB 863
- Significant Reductions in Pharmaceutical Cost Since SB 863
- Cost Impact Uncertain
 - CWCI Estimated Texas-like Formulary could save \$124 mm. and Washington-like Formulary could save \$420 mm. annually

SB 1160 & AB 1244

- Signed by the Governor on September 30, 2016
- Restricts Utilization Review in the First 30 Days
- Restrict Lien Filings

Overview

Questions?

Contact Information: dbellusci@wcirb.com