



California Workers Compensation Where Do We Go Now?

Presented by:
Dave Bellusci, FCAS, MAAA
WCIRB of California

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San Diego, California
May 23-26, 2010

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Agenda



- 2002 through 2004 Reforms
- Current Market Outlook
- Looking Forward

2002 Through 2004 Reforms



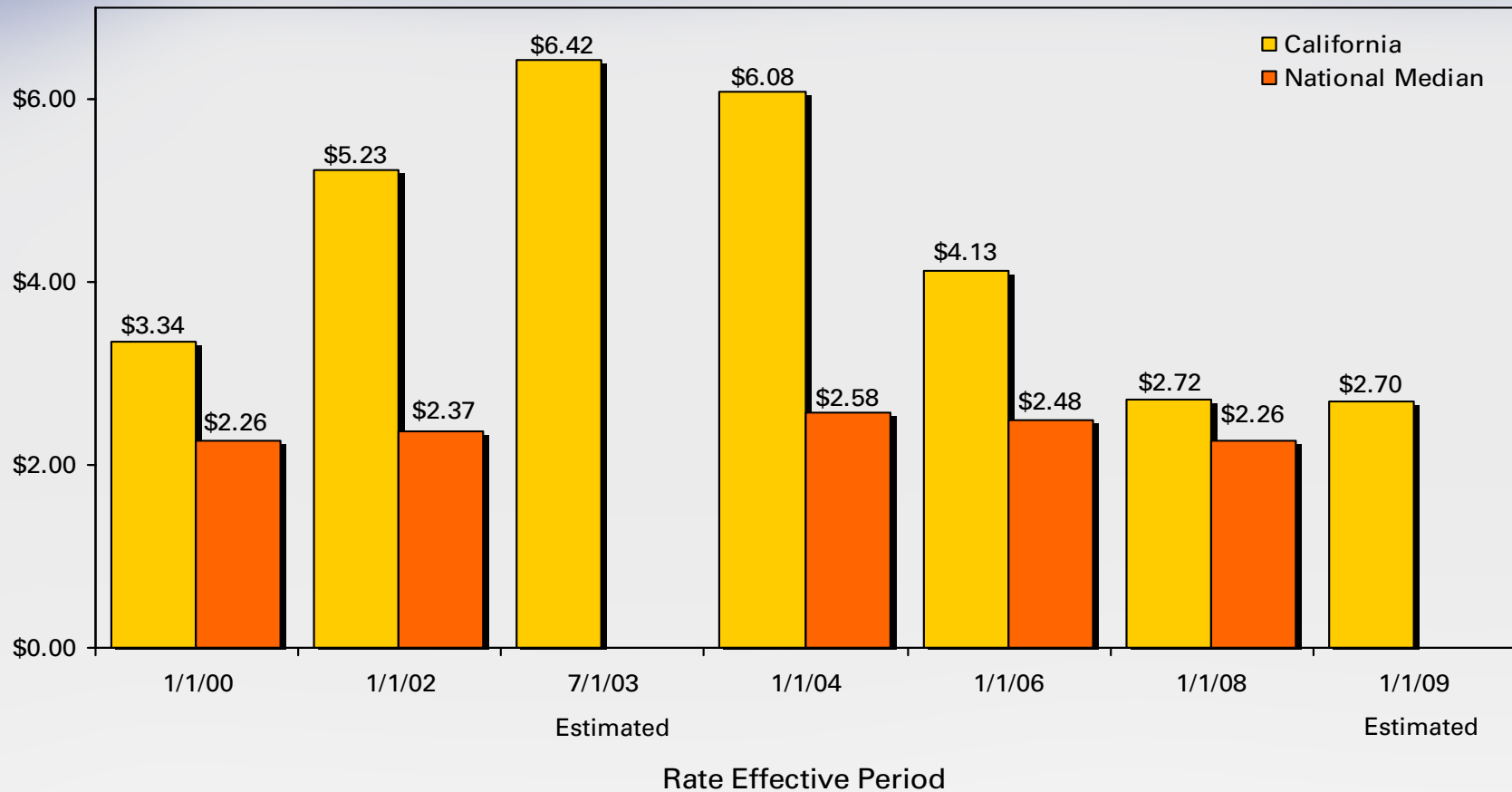
- AB 749 Enacted in February 2002
 - 4 year phase-in of benefit increases
 - Primary treating physician presumption repealed
- AB 227 & SB 228 Enacted in September 2003
 - Medical fee schedules
 - Medical utilization standards
 - Vocational rehabilitation eliminated
- SB 899 Enacted in April 2004
 - 2 year cap on temporary disability
 - New permanent disability schedule
 - Medical provider network system

Combined Impact of 2002 through 2004 Reforms



- WCIRB Prospective Estimate: -49% (-\$10 bb.)
- Major Effect on Loss Development
- Size of Loss Distribution Also Affected
- WCIRB Retrospective Estimate: -66% (-\$14 bb.)
- Bickmore & Associates 2006 Study
 - Estimated annual savings: \$8 billion to \$15 billion
 - Estimated savings on pre-1/1/04 claim reserves: \$6 billion to \$11 billion

California Vs National Median Rate Per \$100 of Payroll



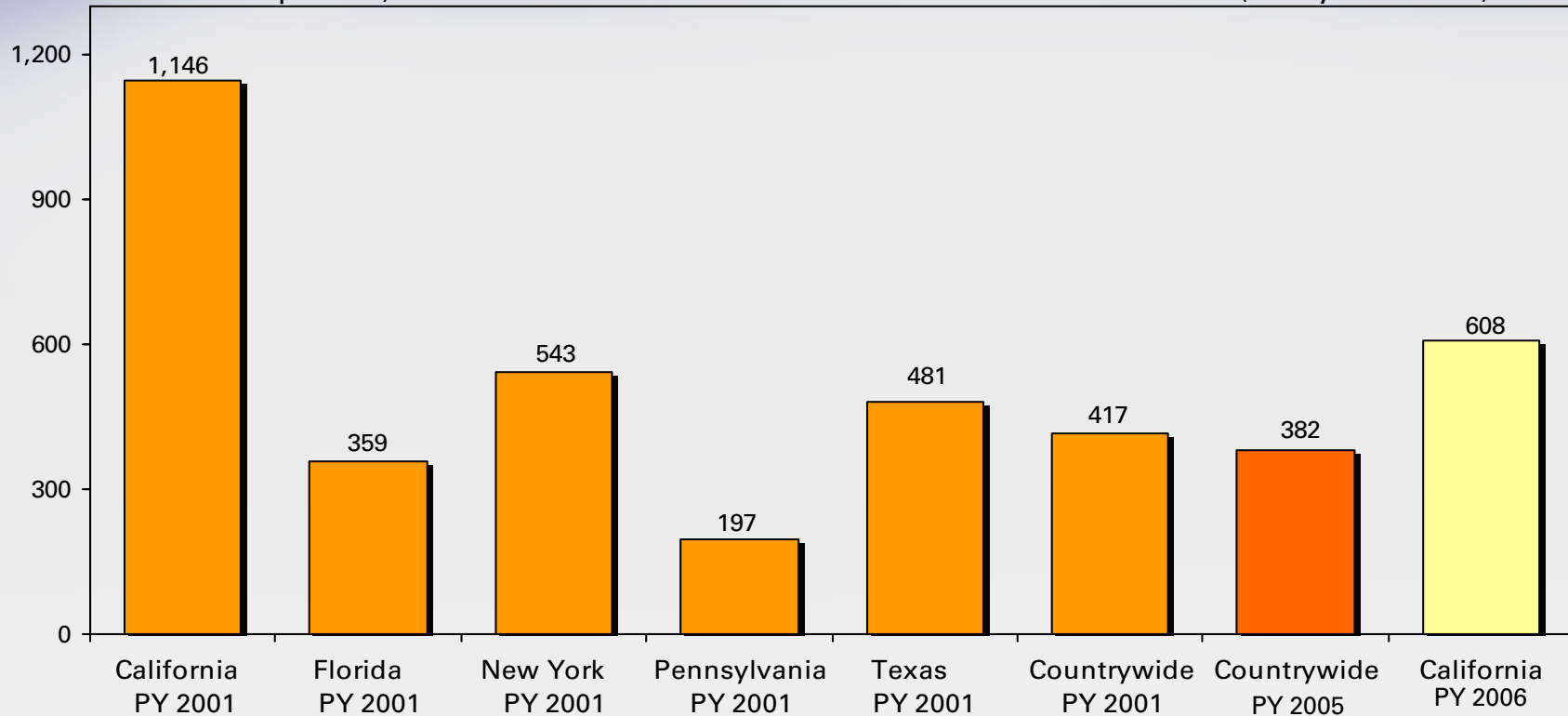
National median rates based on State of Oregon studies.

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Permanent Partial Disability Claims Per 100,000 Workers

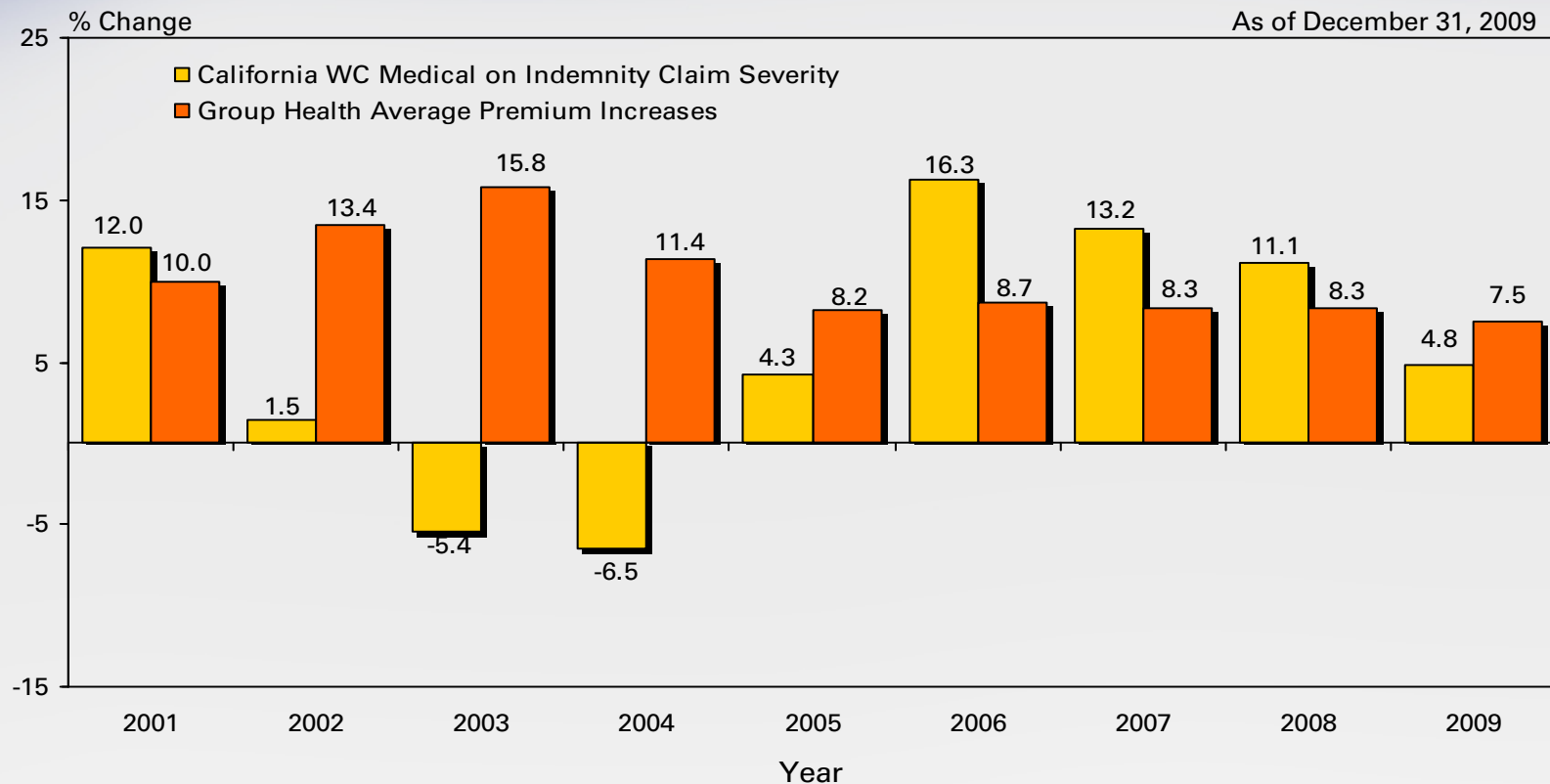


PD Claims per 100, 000 workers based on NCCI 2005 Annual Statistical Bulletin (Policy Year 2001)



Medical Cost Growth

California WC Claim Severity Vs. Group Health Premiums



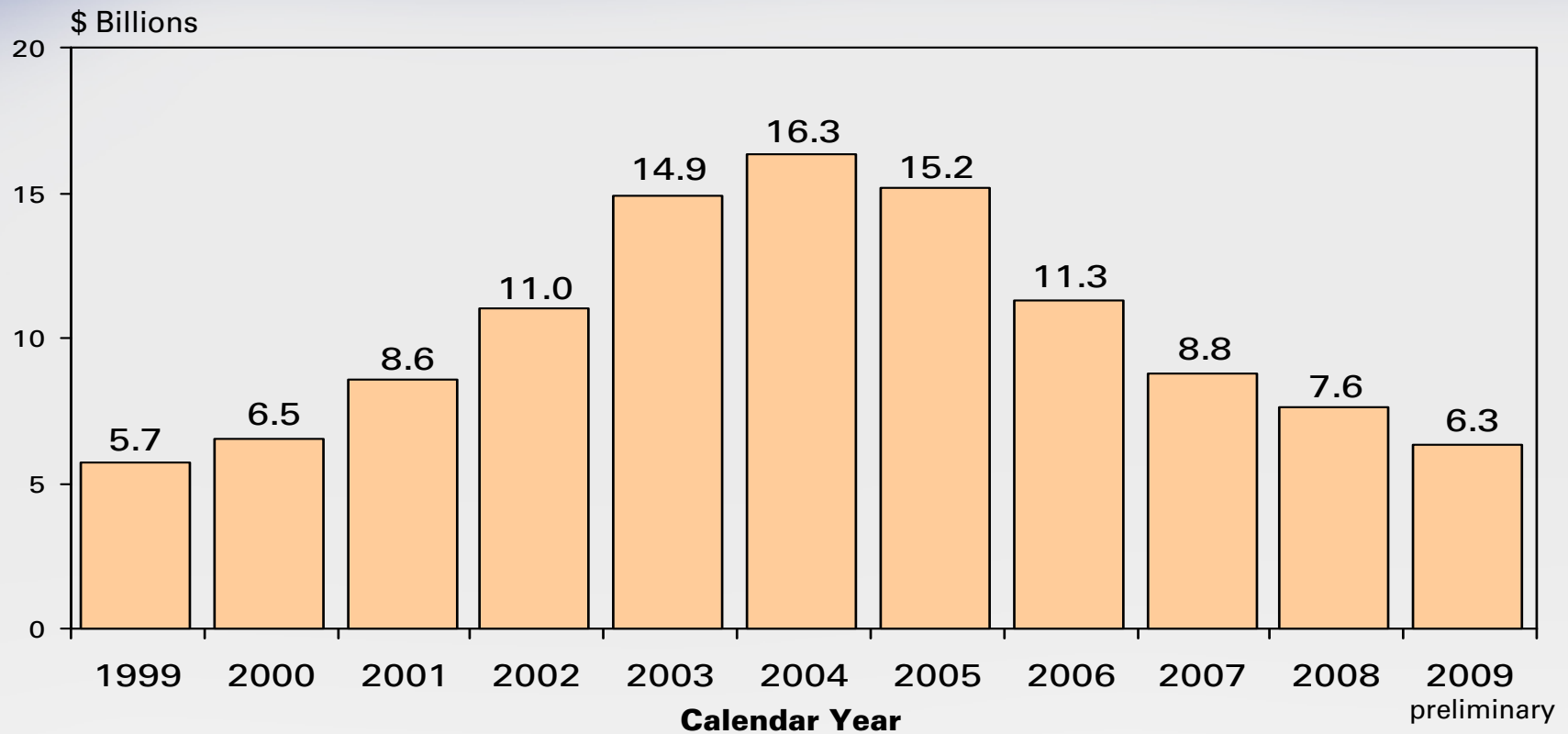
Group health cost information from *California Employer Health Benefits Survey* published by the California Healthcare Foundation, December 2009.

Agenda



- Impact of 2002 through 2004 Reforms
- **Current Market Outlook**
 - Premiums & market shares
 - Recent CDI pure premium rate decisions
 - Loss experience
 - Recent judicial decisions related to permanent disability
 - Insurer results

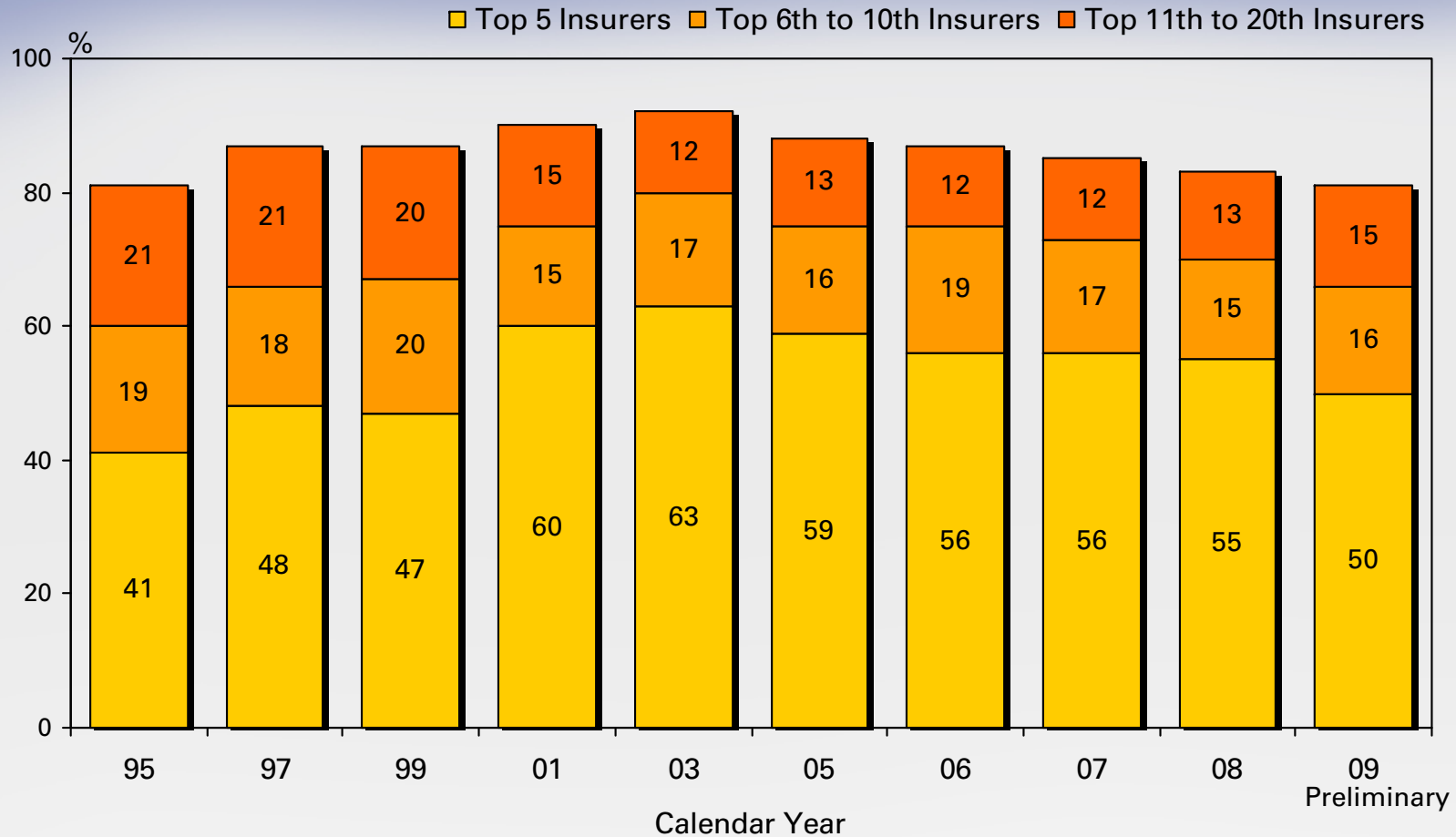
Written Premium Net of Deductible Credits



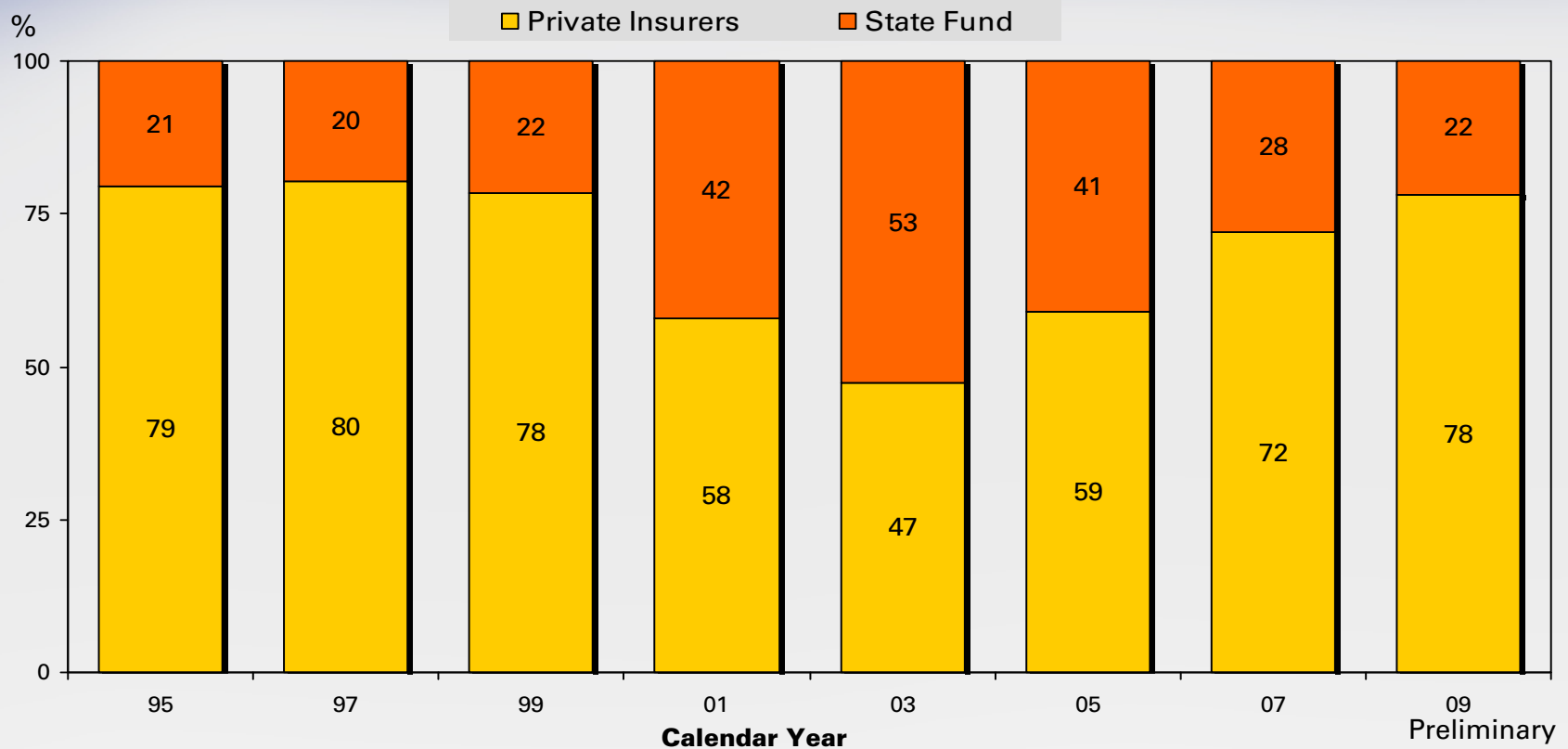
Components of 16% Decline in 2009 Earned Premium



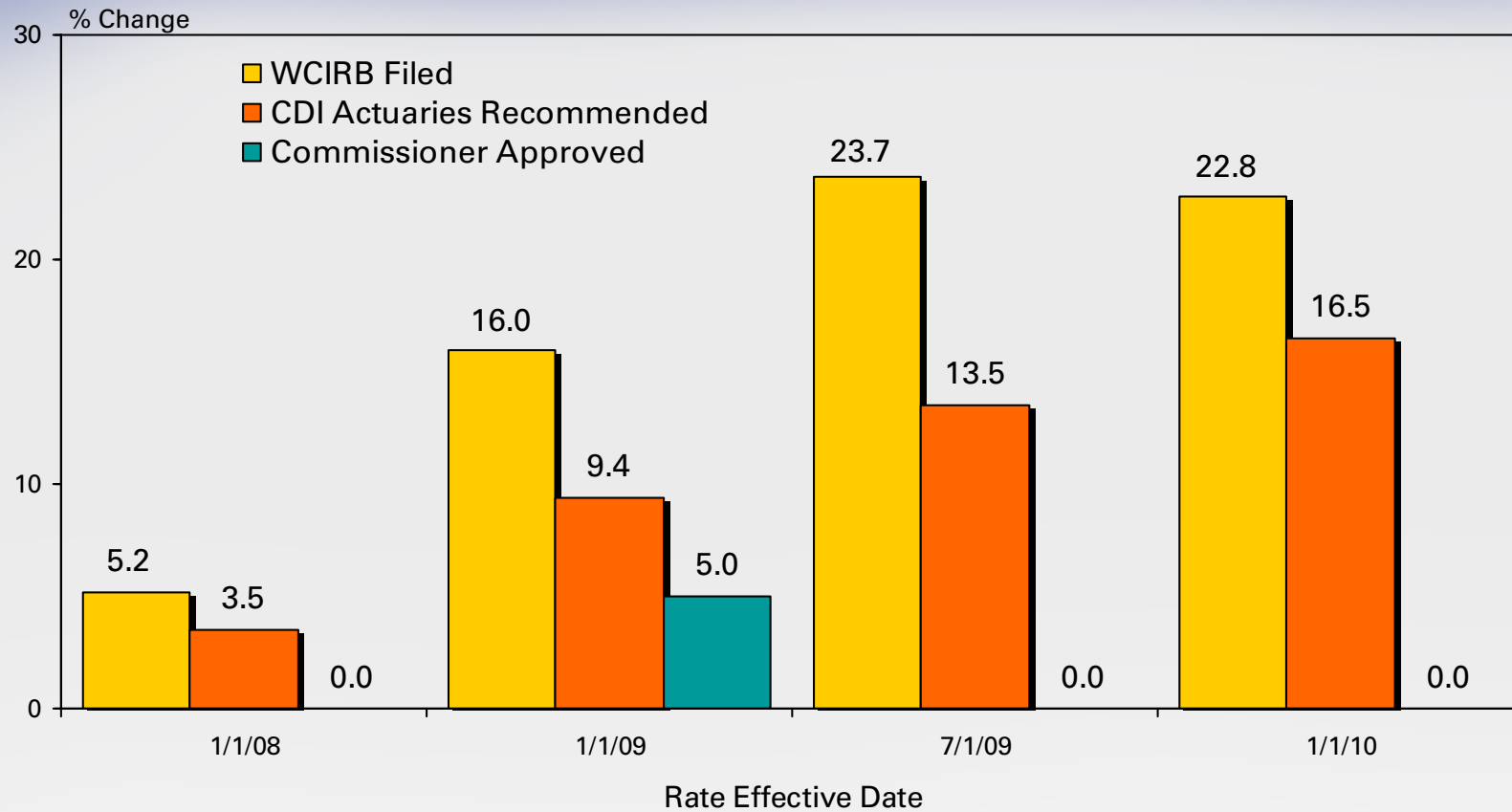
Market Concentration Ratios



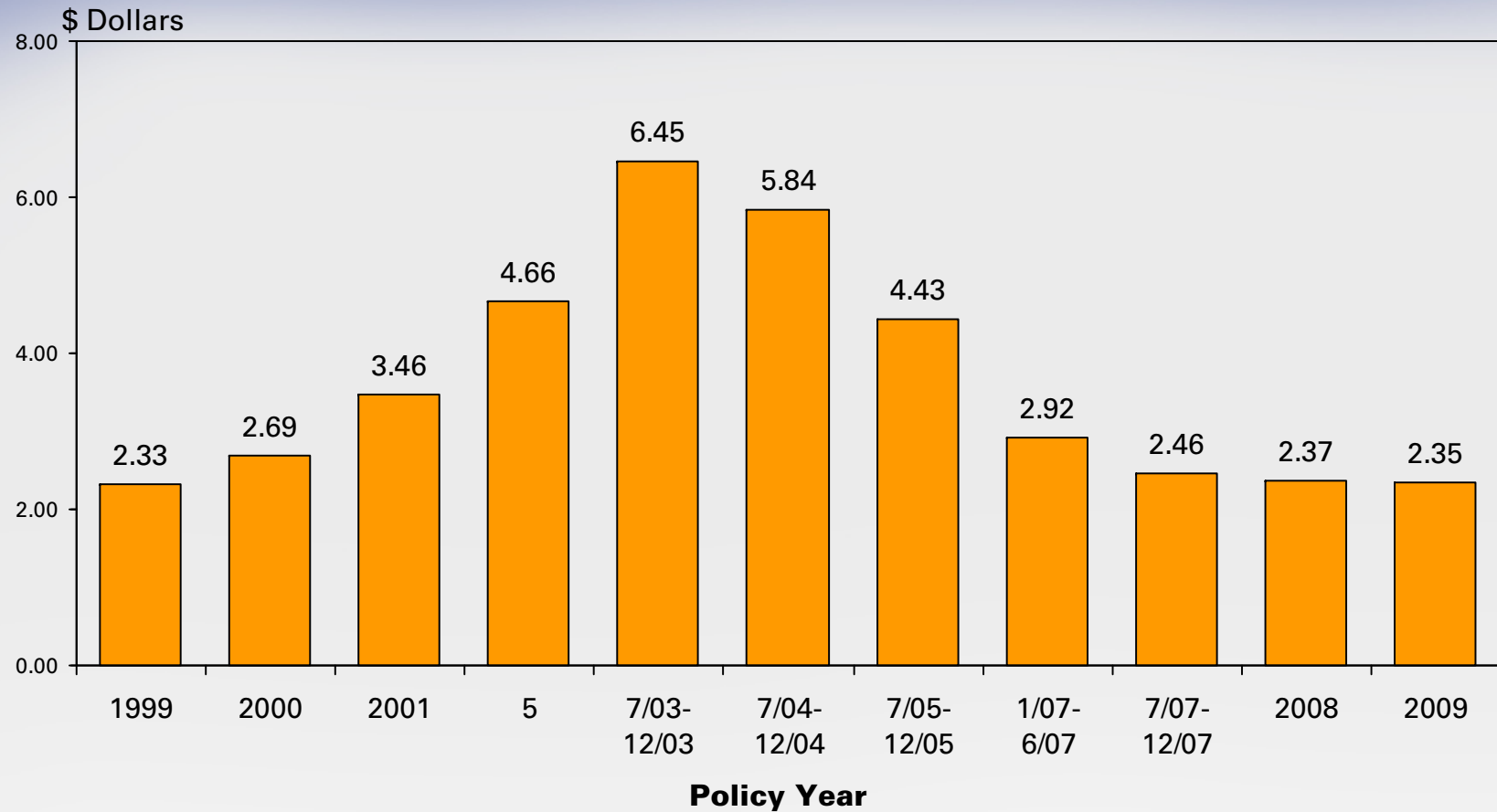
State Fund Market Share (Net of Deductible Credits)



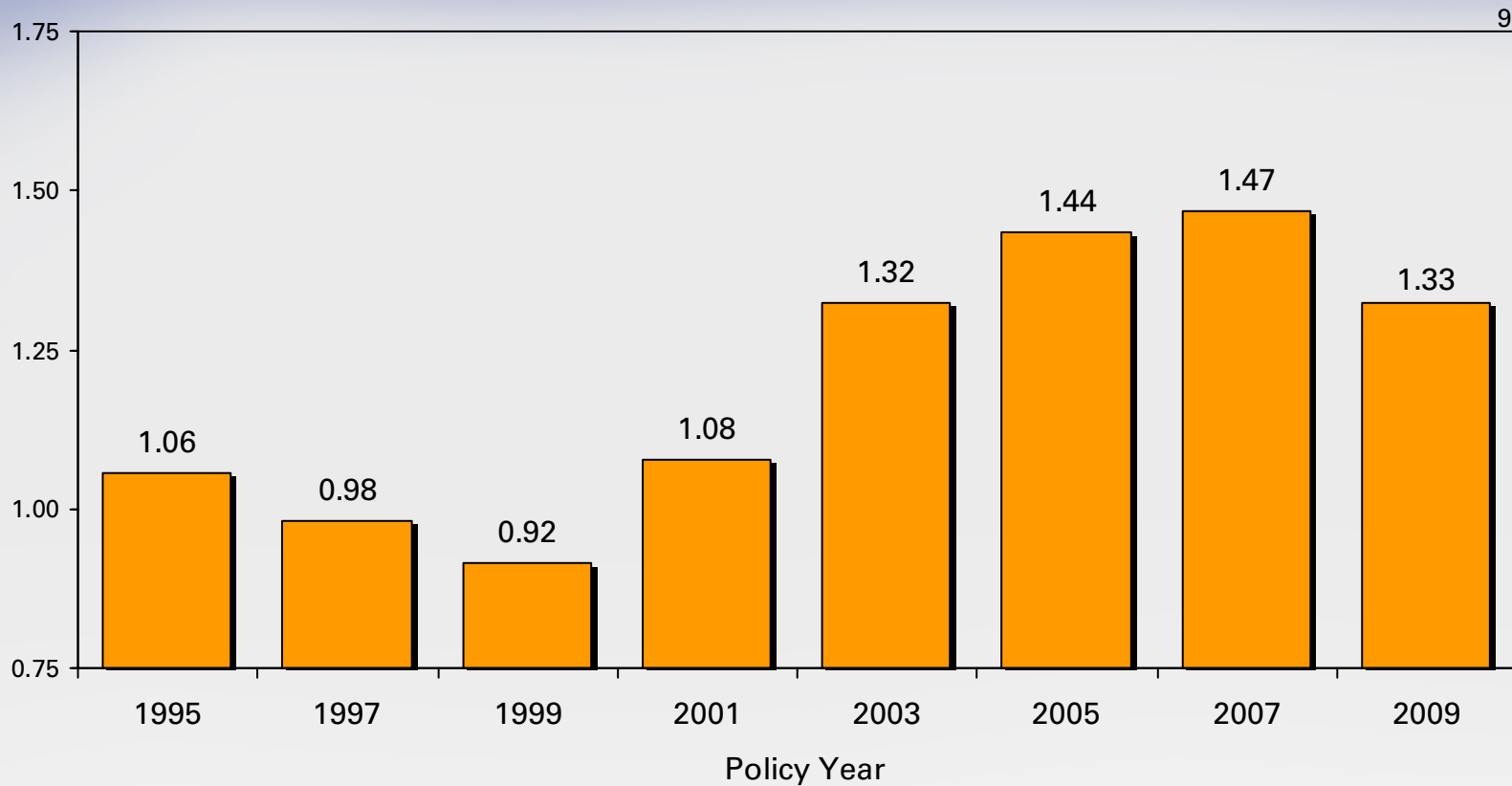
Recent WCIRB Filed Pure Premium Rate Changes



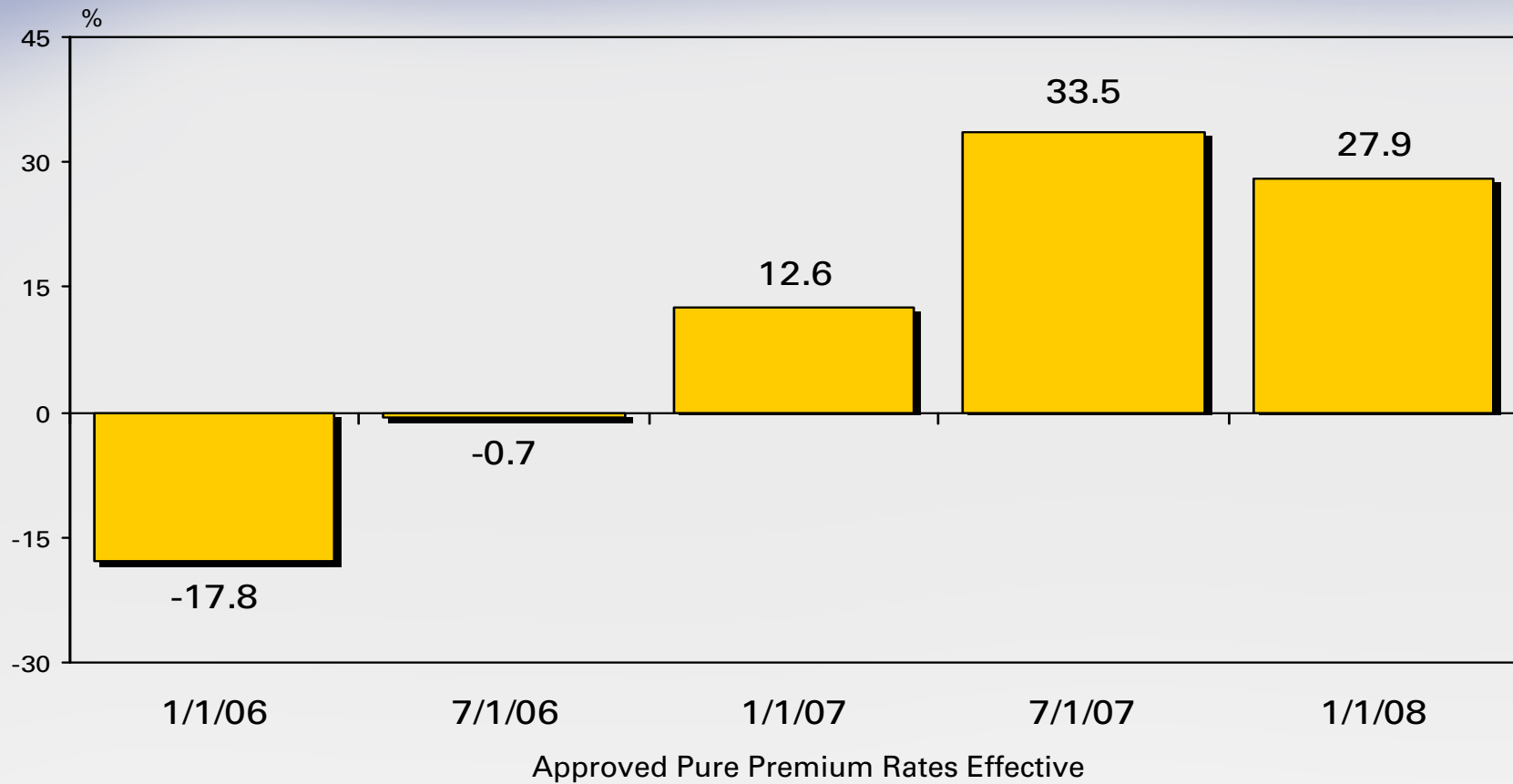
Average Insurer Rate per \$100 of Payroll



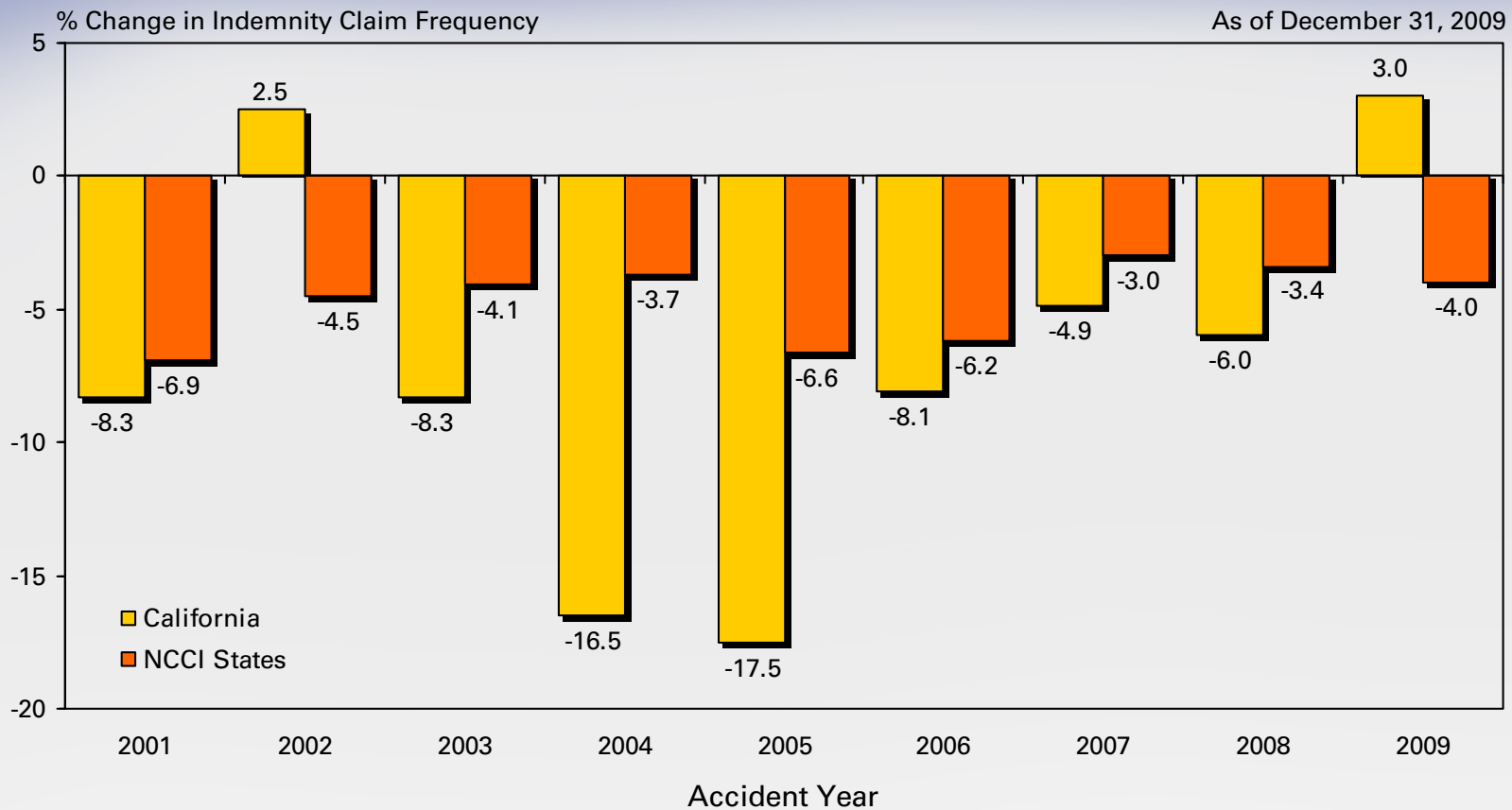
Ratio of Insurer Rates to Pure Premium Rates



Inadequacy/Redundancy in Pure Premium Rates

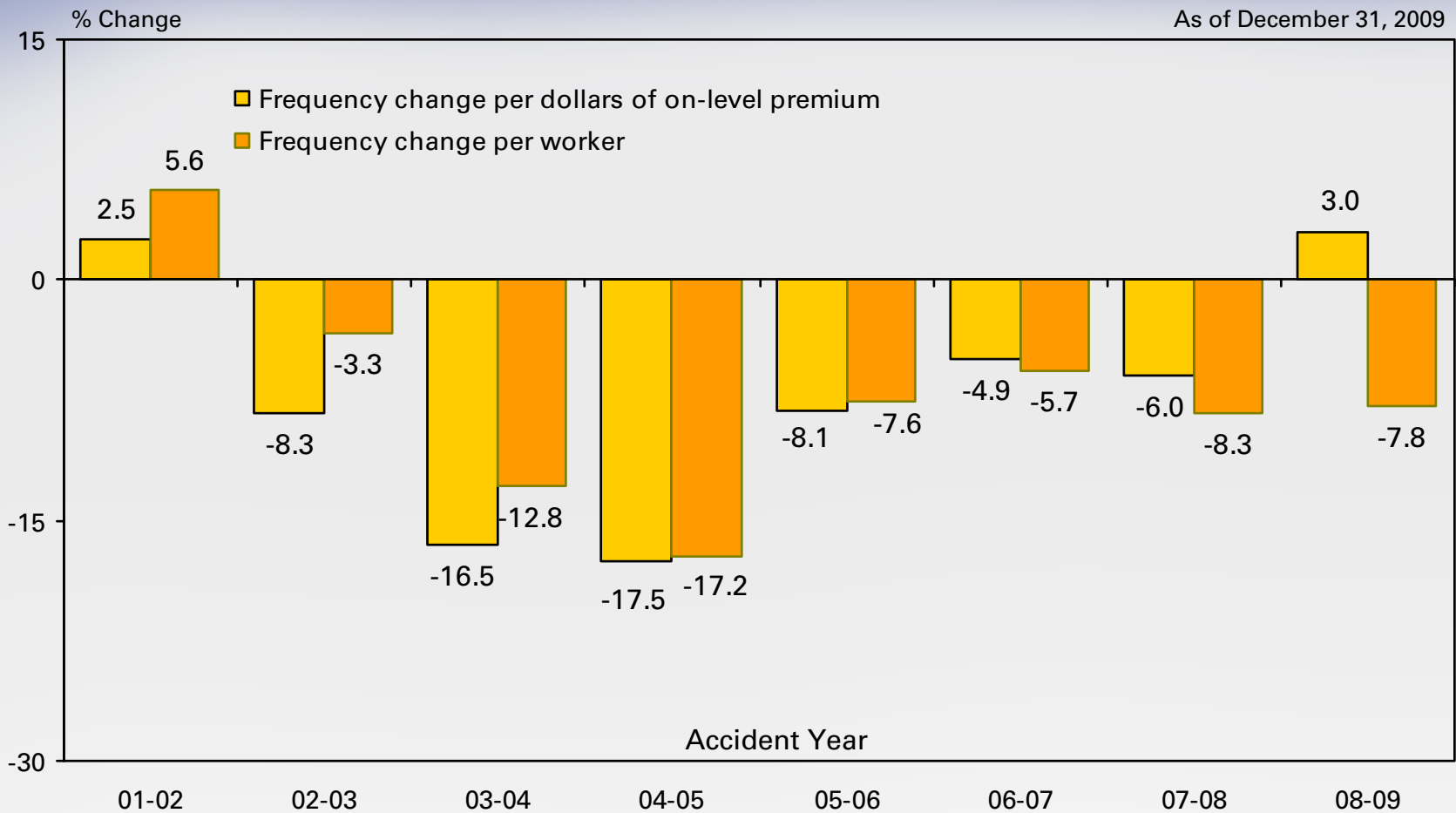


Change in Claim Frequency California vs. NCCI States

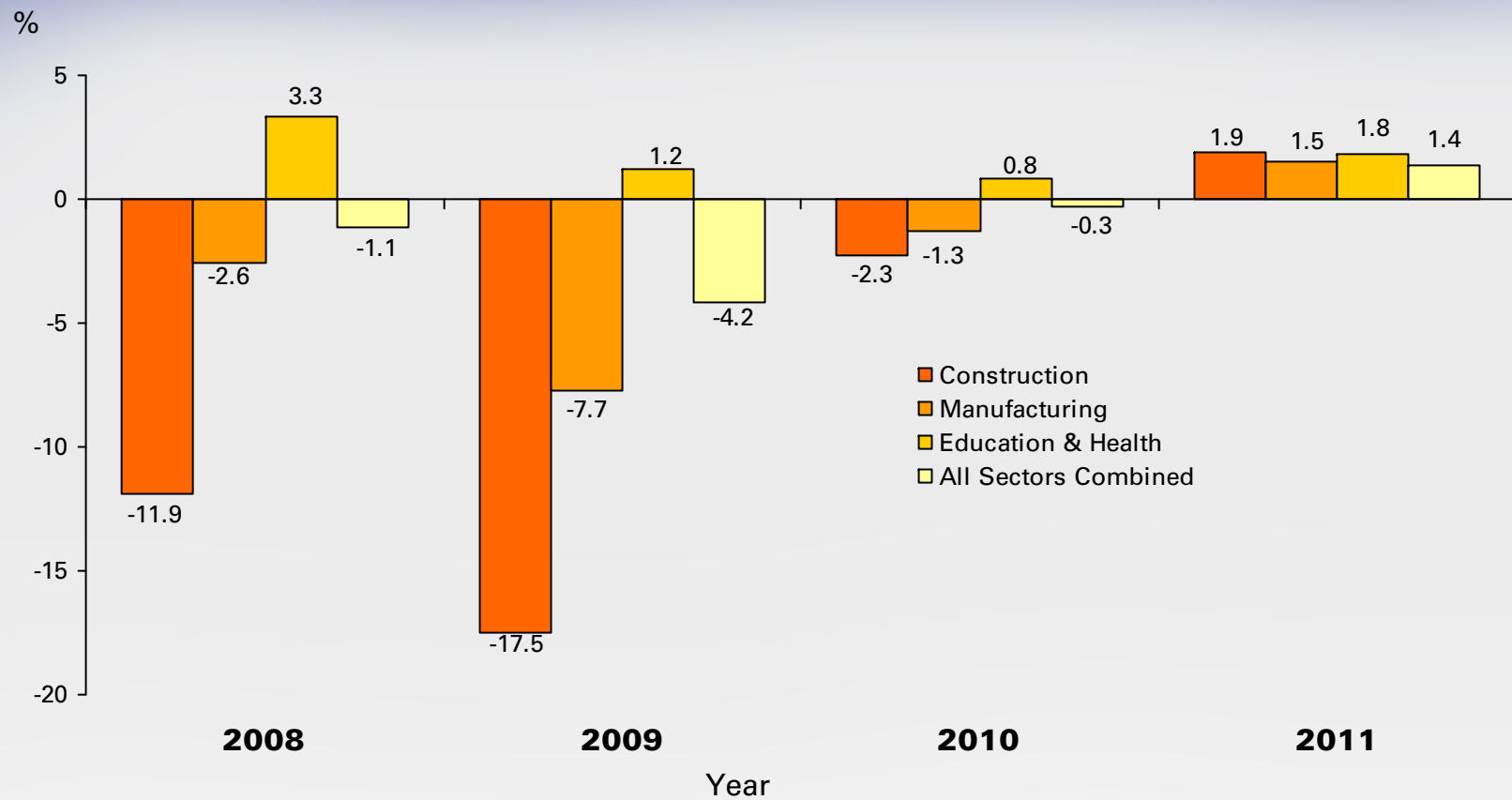


NCCI estimates are based on May 6, 2010 State of the Line Presentation (2009 estimate is preliminary).

Estimated Change in Indemnity Claim Frequency



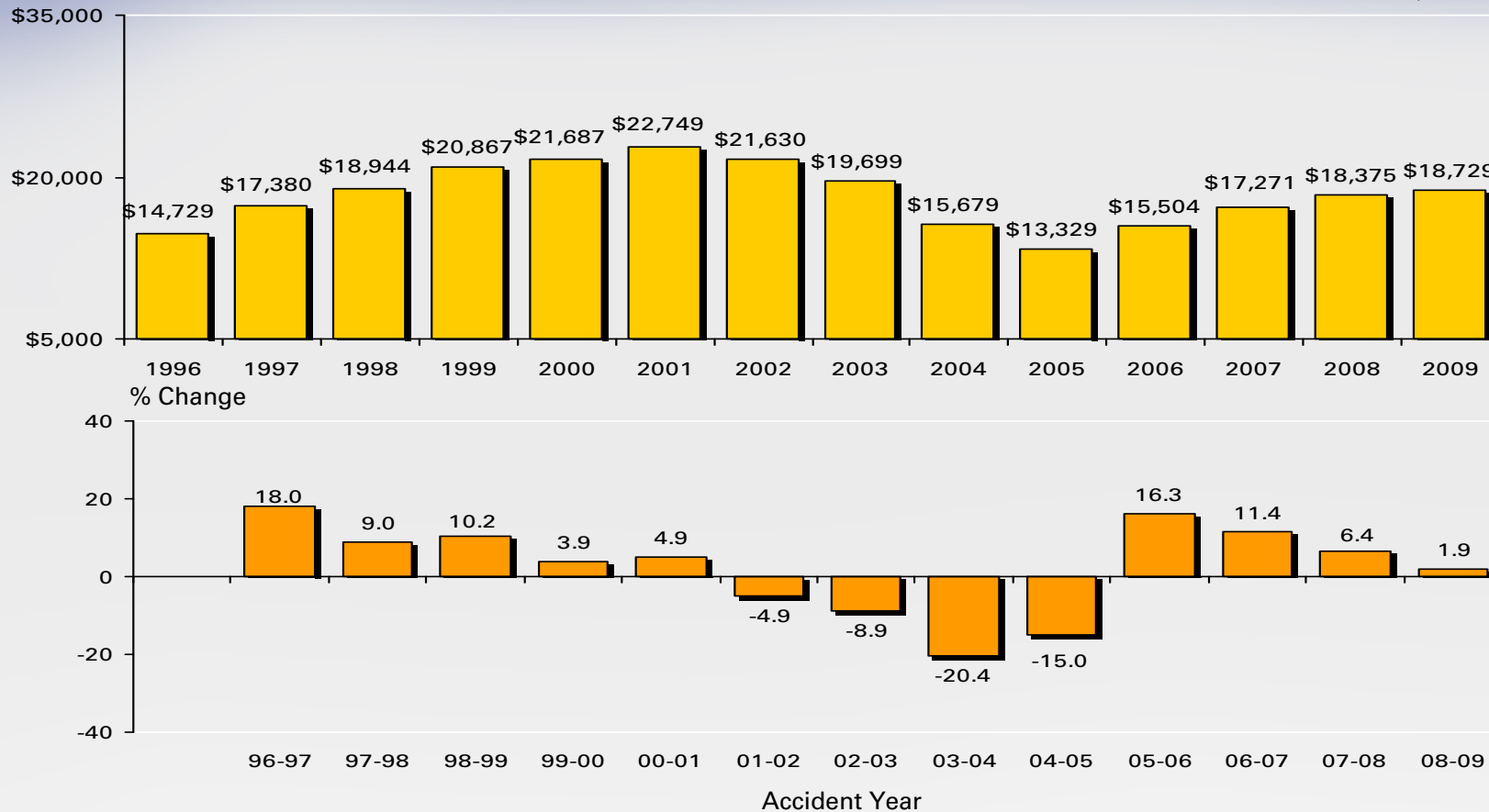
Ca. Employment Growth Based on UCLA Data



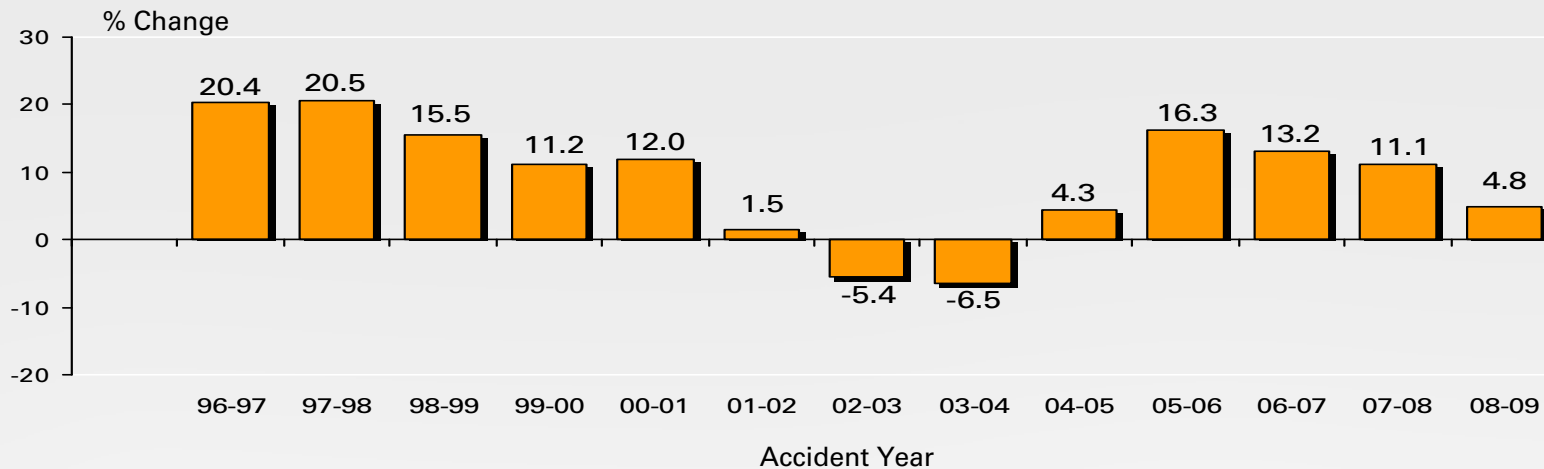
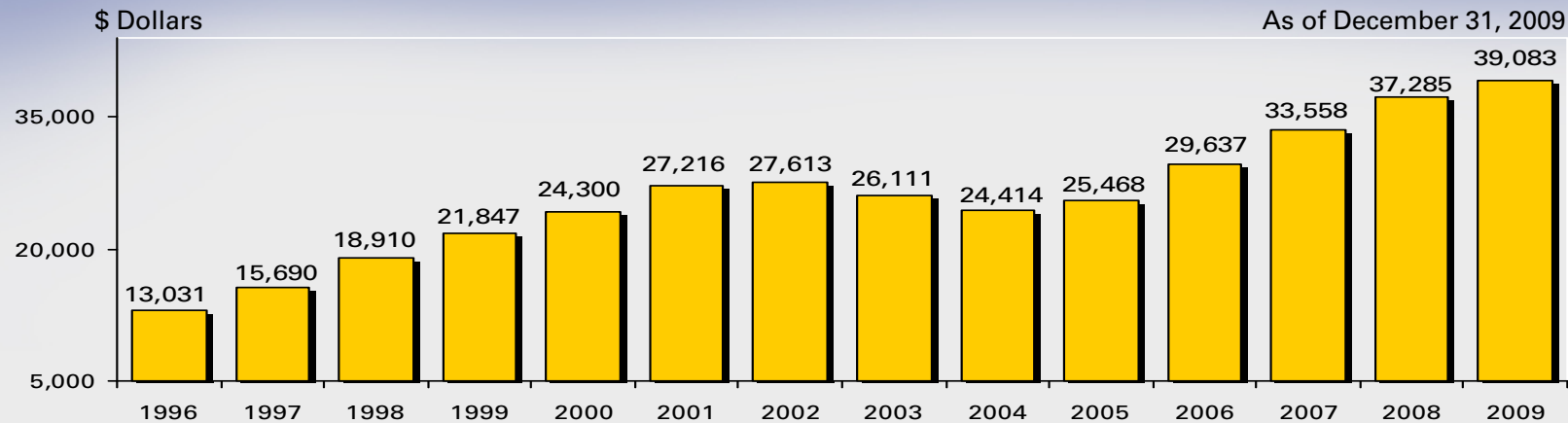
Estimated Indemnity Loss per Indemnity Claim



As of December 31, 2009



Estimated Medical Loss Per Indemnity Claim



Ogilvie & Almaraz/Guzman WCAB Decisions



- Pre-Reform – California PD Costs Among Highest
- Reforms Reduced PD Costs by Two-thirds
- Multiple Challenges to PD Reforms
- Ogilvie Decision
 - Future Earnings Capacity (FEC) adjustment rebuttable if can show by wage study that injured worker's wage loss outside range reflected in applicable FEC factor
- Almaraz/Guzman Decision
 - AMA Guides' impairment is rebuttable if a more accurate measure of impairment can be determined from other sections of the AMA Guides

Ogilvie & Almaraz/Guzman

Initial WCIRB Cost Evaluation



- **+5.8% Overall Estimated Cost Impact**
 - +2.0% impact from increased ratings on currently ratable PD claims
 - +0.8% from increased proportion of lost-time claims involving PD
 - +1.7% from increased claim frequency
 - +0.8% from increased frictional costs
- **Actual Cost Impact Could be Significantly Higher**

Ogilvie & Almaraz/Guzman

WCIRB Cost Evaluation Update

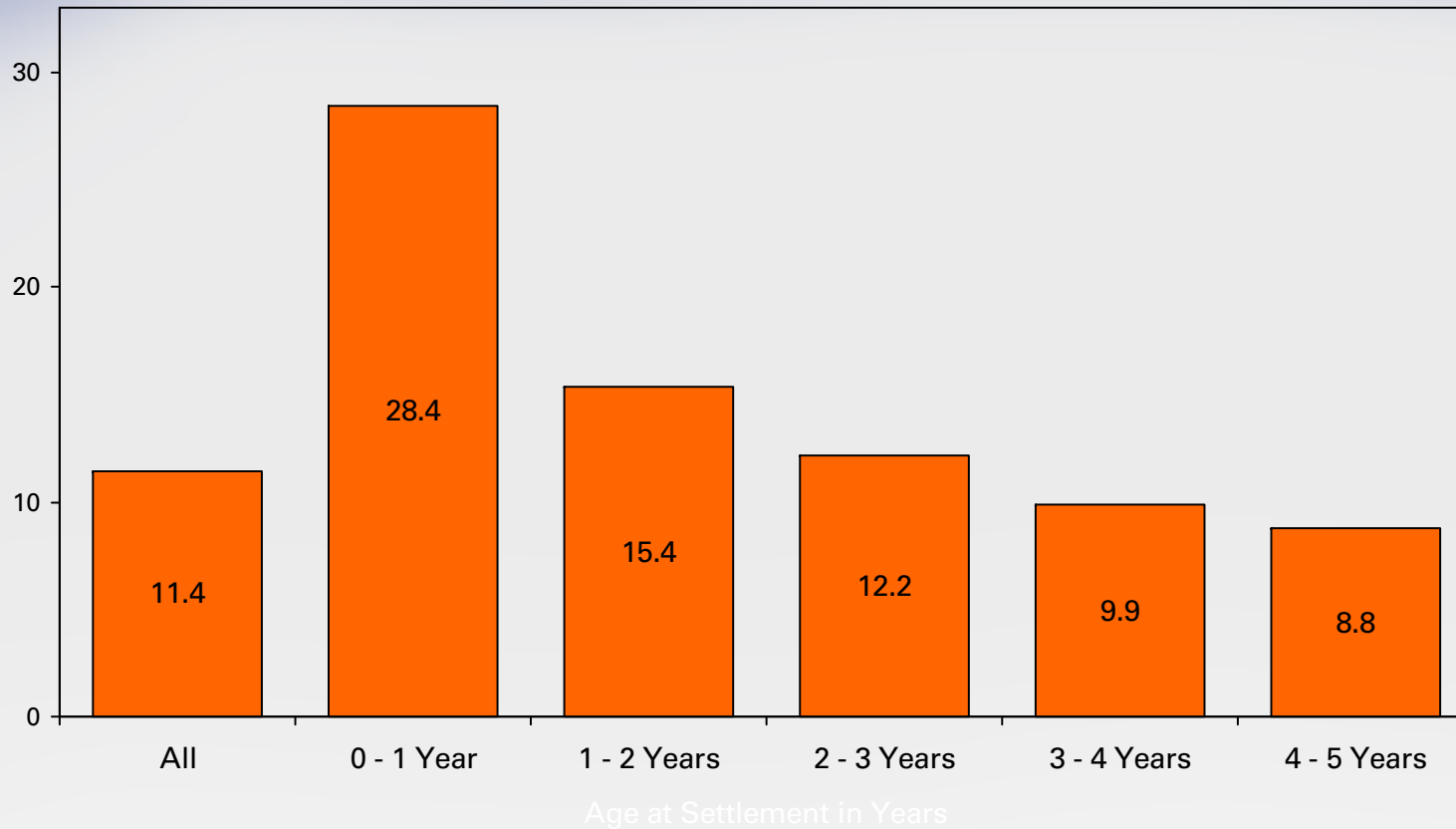


- Each Component of Estimate Re-assessed
 - Re-calculation based on updated cost distributions
 - Review of post-WCAB decision indicators
- Impacts of Decisions Already Partially Reflected in Permanent Disability Costs
 - Loss development projections adjusted

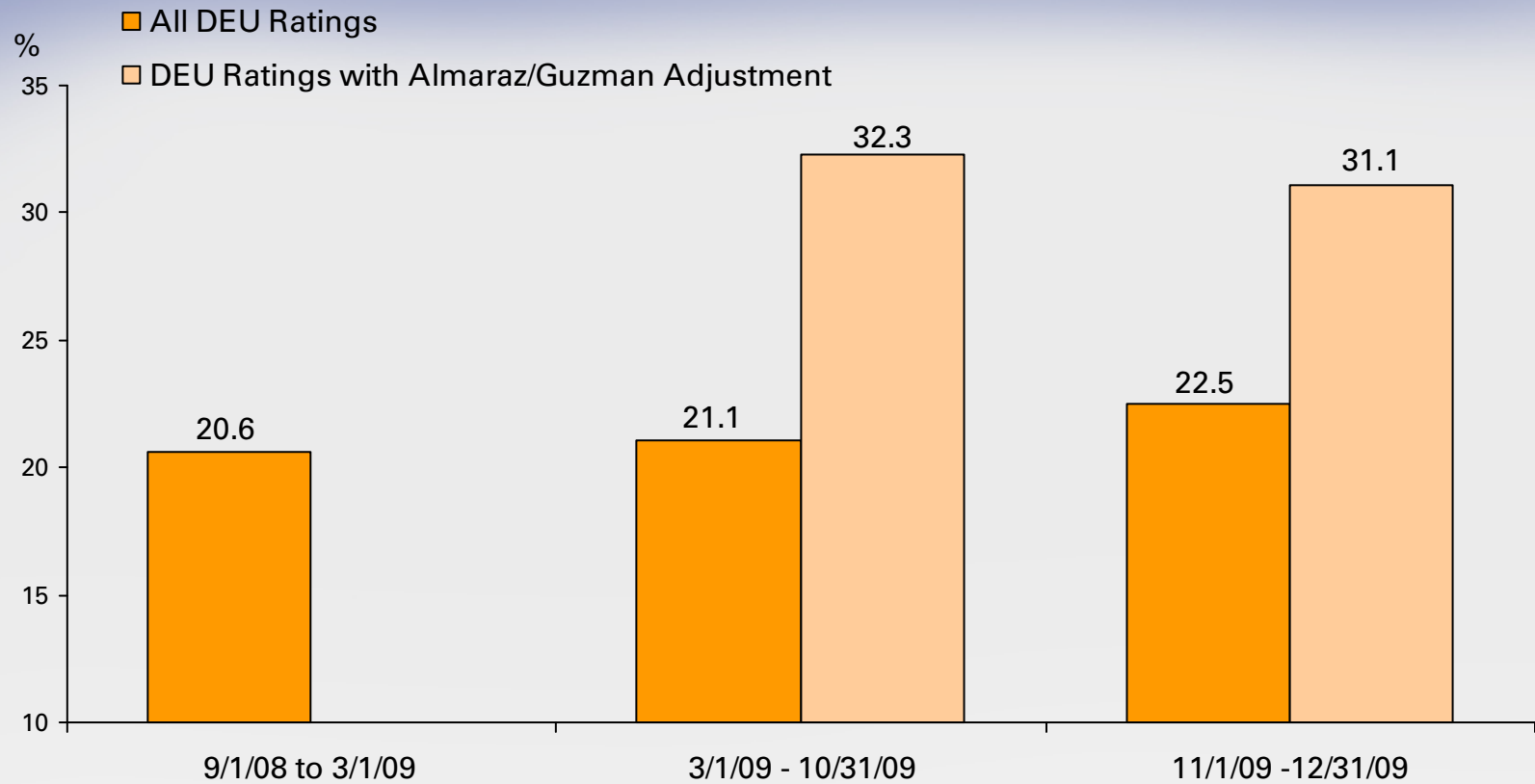
Ogilvie & Almaraz/Guzman Impact on Settlements



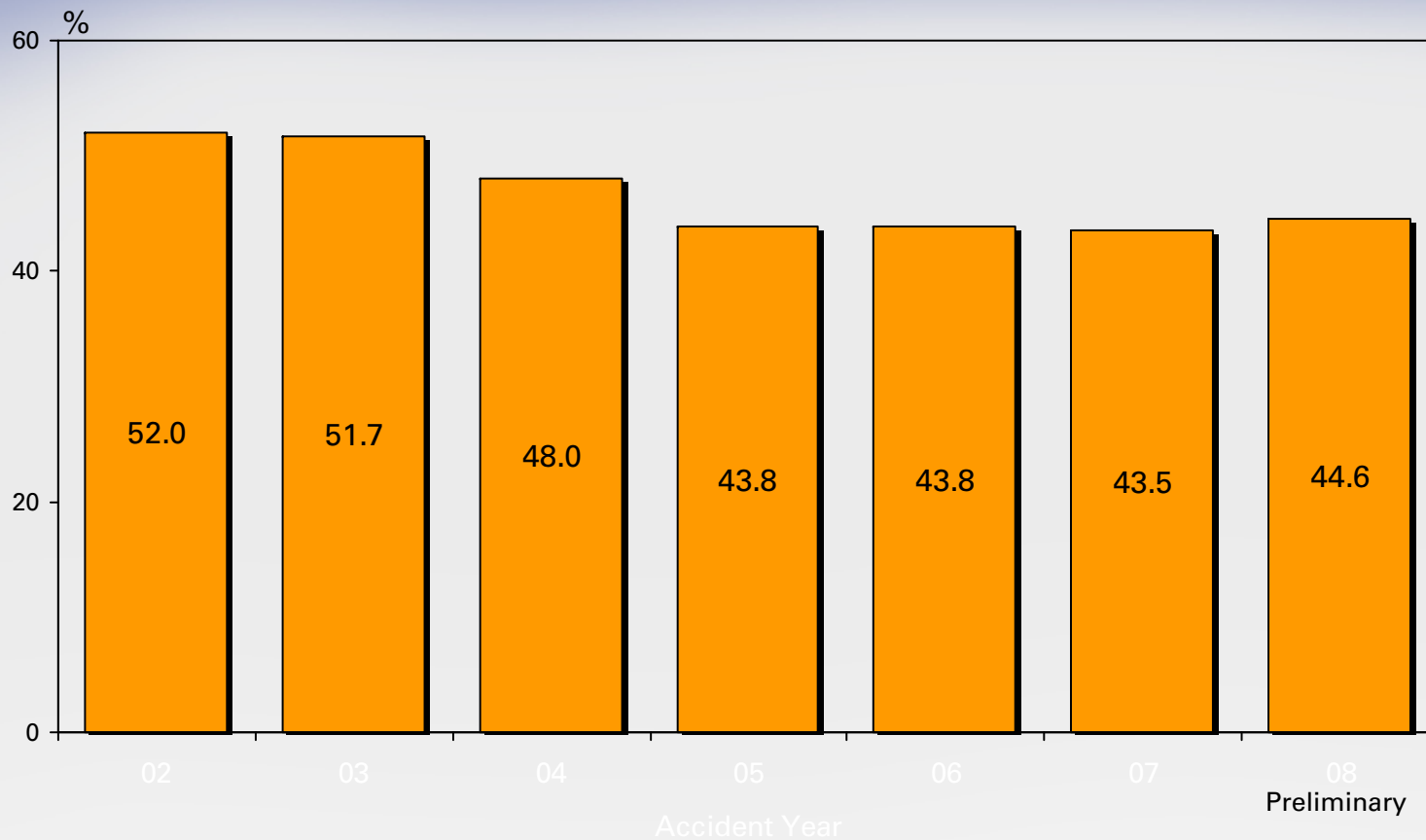
% increase in settlement costs on post March 1, 2009 settlements by age at settlement



Average Disability Evaluation Unit (DEU) PD Rating



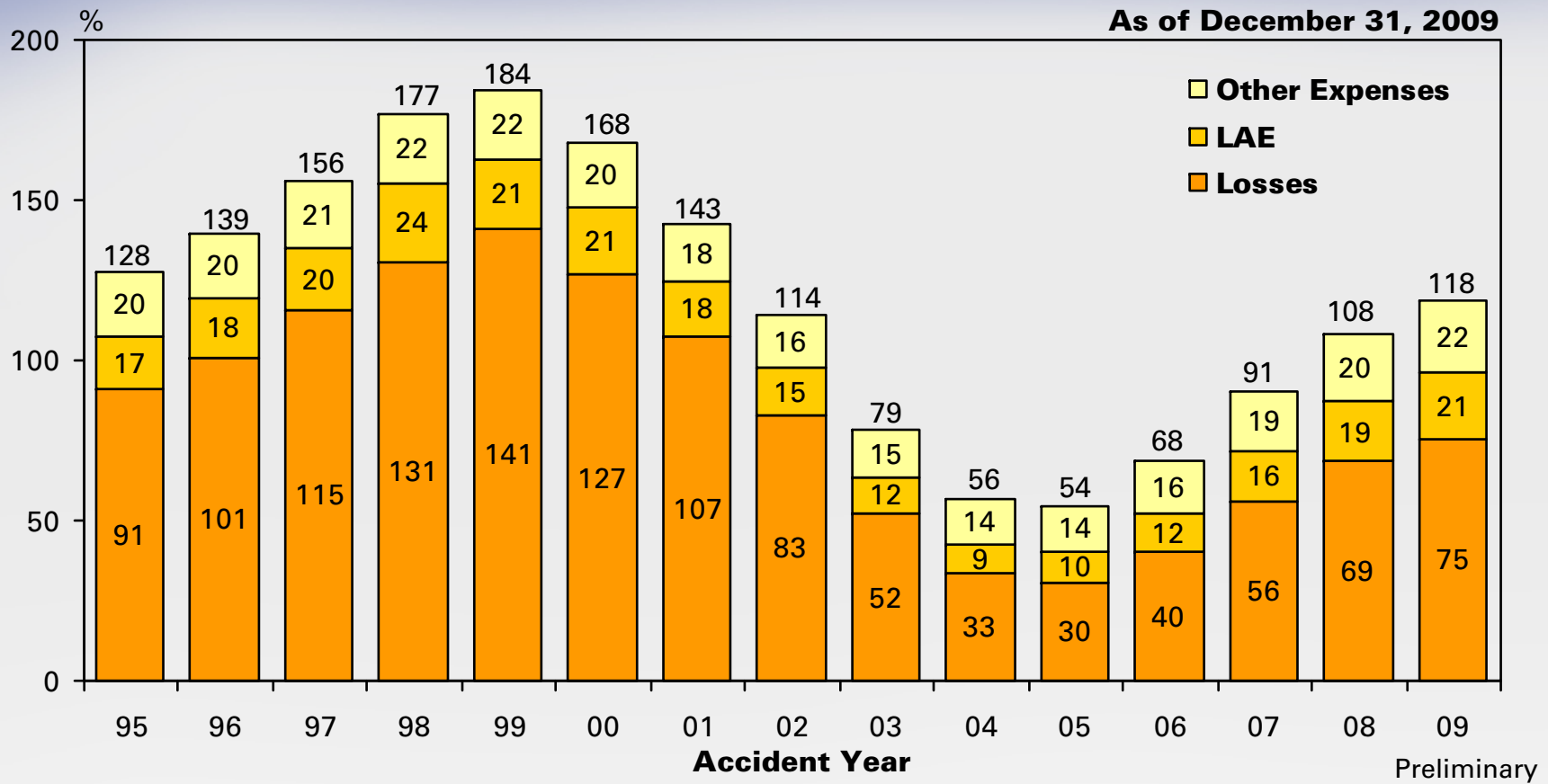
Proportion of Indemnity Claims Involving Permanent Disability



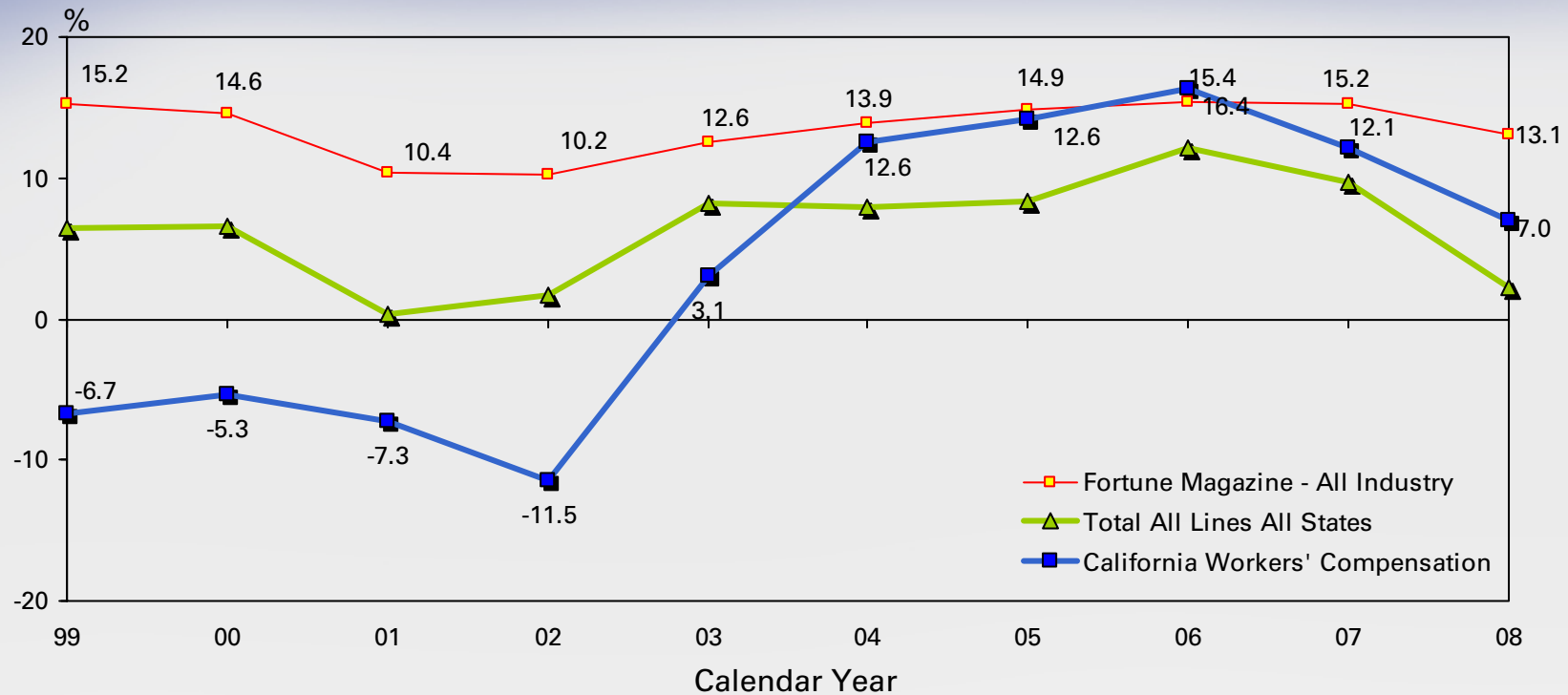
Source: WCIRB unit statistical data.

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California Accident Year Combined Loss and Expense Ratios



California Return on Net Worth

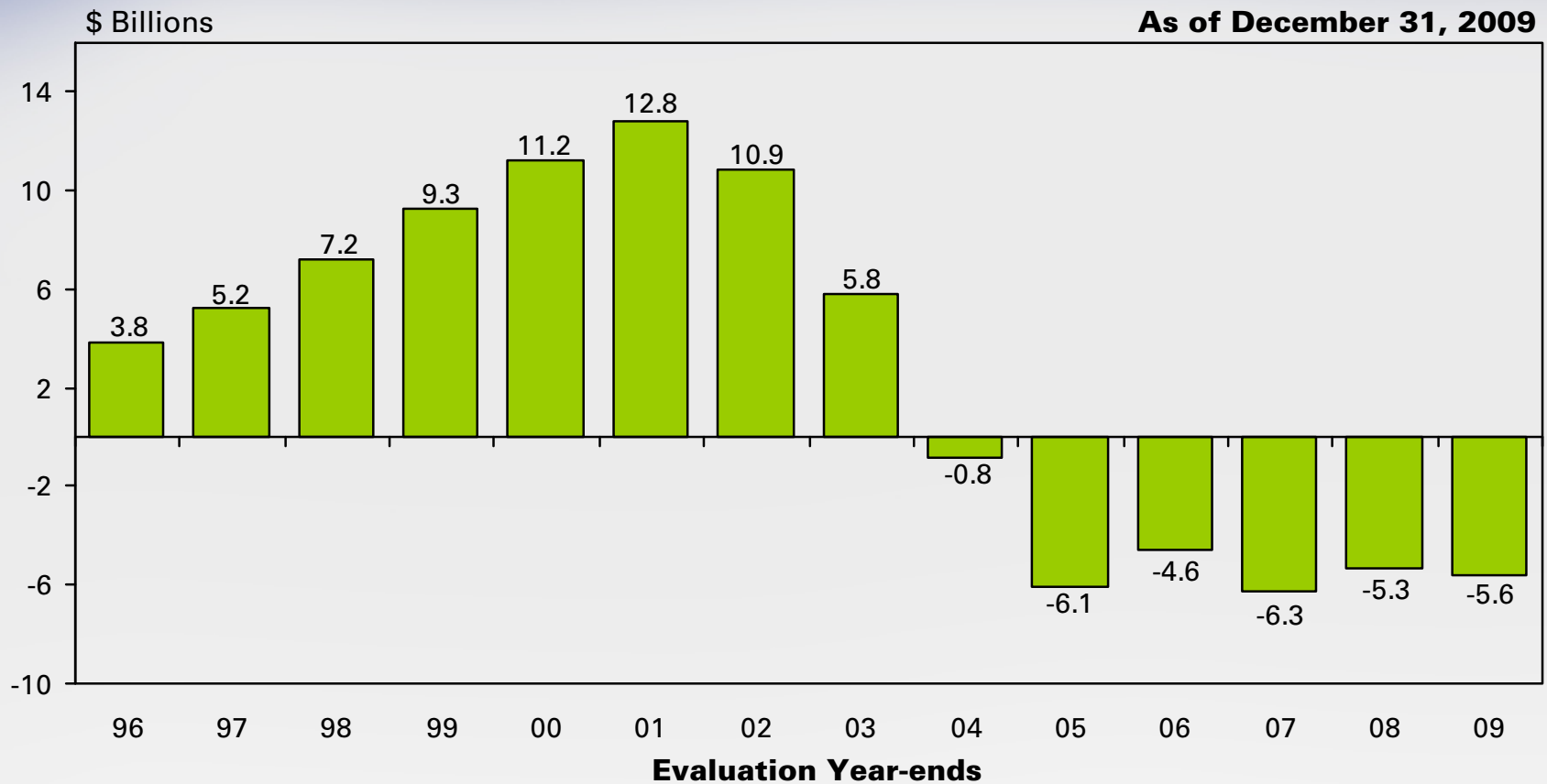


10-Year Arithmetic Average Return

California Workers' Compensation	3.5%
All Property Casualty Lines & States	5.4%
Fortune Magazine - All Industry	12.0%

Source: NAIC Report on Profitability by Line by State in 2008

Estimated Ultimate Losses Less Reported Losses



Agenda



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- Current Market Outlook
- **Looking Forward**

Looking Forward



- Pricing & Premiums
 - Many insurers have filed for rate increases
 - Average final rates have thus far remained flat
 - Slowly rebounding economy
 - 2010 premiums not likely to increase sharply
- Claim Costs
 - Long-term frequency declines may moderate
 - Level of severities changes uncertain
 - Full impact of WCAB decisions still unknown

Looking Forward



- Insurance Market
 - 2009 results deteriorating
 - Inadequate pure premium rates
 - State Fund market share declining
- Legislation/Regulation
 - No major legislation likely in 2010
 - Potential medical fee schedule changes
 - New administration in 2011