

California Workers' Compensation- Current Update

Presented by:
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WCIRB of California

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Phoenix, Arizona

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Presentation Summary

- Pure Premium Rate Filing Process
 - Insurance Market Update
 - Experience Rating Plan Changes
 - Looking Forward

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WCIRB Pure Premium Rate Filings – 2008 through 2011



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Pure Premium Rate Filing Process



- 2008 – 2011 Growing Disparity Between Filed and Approved Advisory Pure Premium Rates
- Misunderstanding over Advisory Nature of Pure Premium Rates and their Role in Insurer Pricing
- Many Insurers Filed for Rate Increases Despite No Changes in Advisory Pure Premium Rates
- Focus on Overall Indicated Increase not Cost Drivers
- Insurance Commissioner Directs Change in Process
 - Benchmarked to industry average filed pure premium rate
 - No change in proposed advisory pure premium rates
 - Provide additional information on insurer pricing and profitability (including average industry charged rate)

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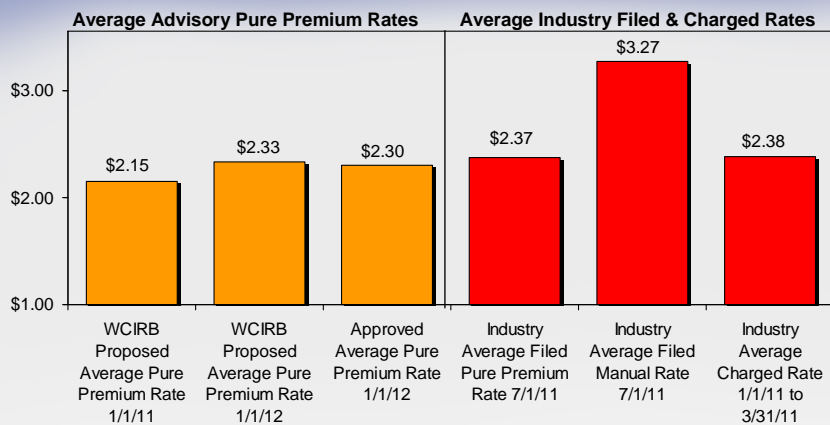
Industry Average Filed Pure Premium Rates



- Identified Top 120 Insurers (99% of market)
- Downloaded Insurer Filings and Manual Rates
- 20% of Insurers had Nonstandard Deviations - such as Sub-classes, Tiers or Territorial
- Industry Average Manual Rate by Class Based on Filed Rates and Unit Statistical Payrolls
- Average Filed PPRate by Class Determined by Removing Filed Underwriting Expense Loading
- Average Filed PPRates by Class Weighted to Derive Industry Average Filed PPRates

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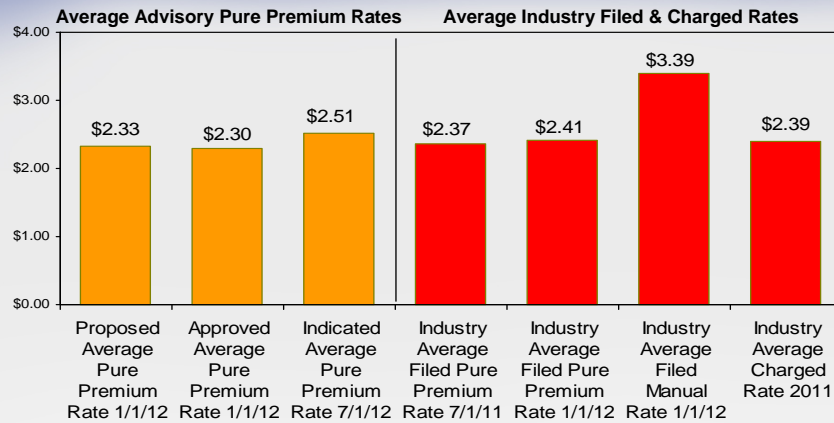
Average Rates Per \$100 of Payroll – 1/1/2012 Filing



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Average Rates Per \$100 of Payroll – 7/1/2012 Filing



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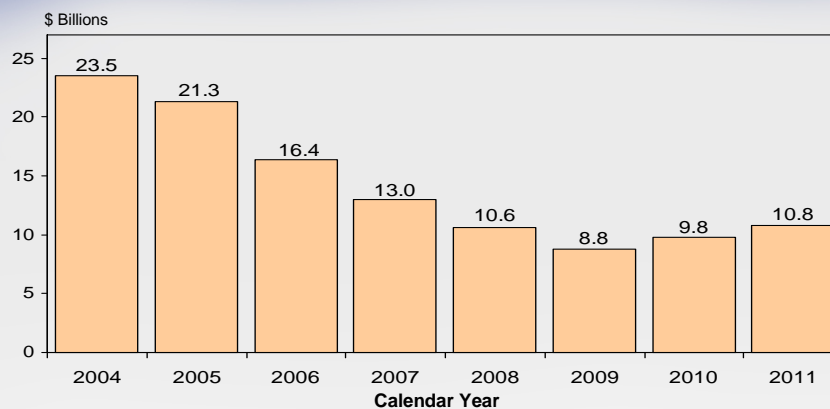
Insurance Market Update



- Premiums Increasing in 2011
- Charged Rates up Moderately
- Loss Environment
 - Frequency up in 2010 and 2011
 - Severities flat
 - Potential moderation of adverse loss development
 - Permanent disability costs rising
 - ALAE cost increasing
- Industry Profitability
- Industry Reserve Levels

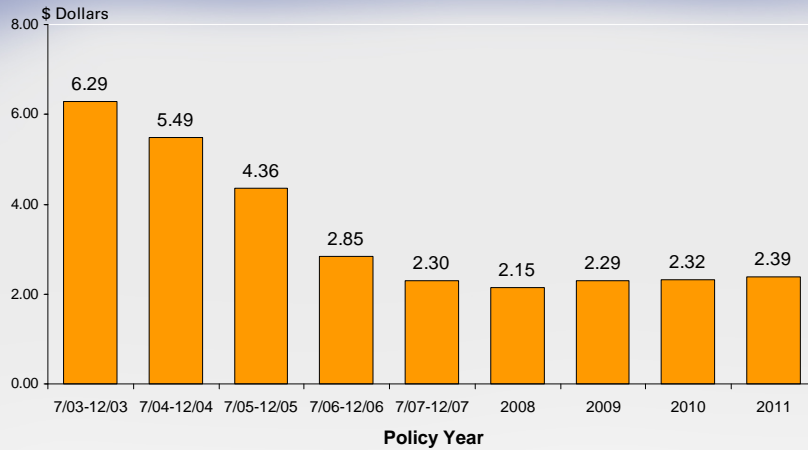
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Written Premium Gross of Deductible Credits



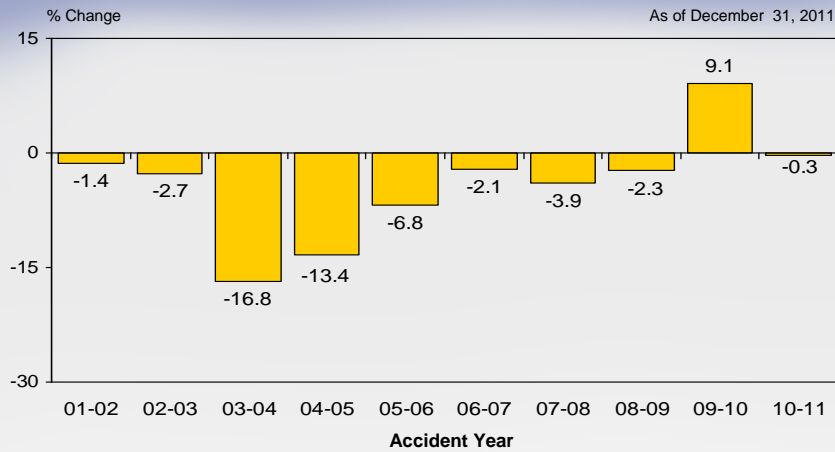
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Industry Average Charged Rate per \$100 of Payroll



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Estimated Change in Indemnity Claim Frequency



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Cumulative Injury Claim Percentage



Estimated Fifth Report Cumulative Injury Claims as a % of Indemnity Claims

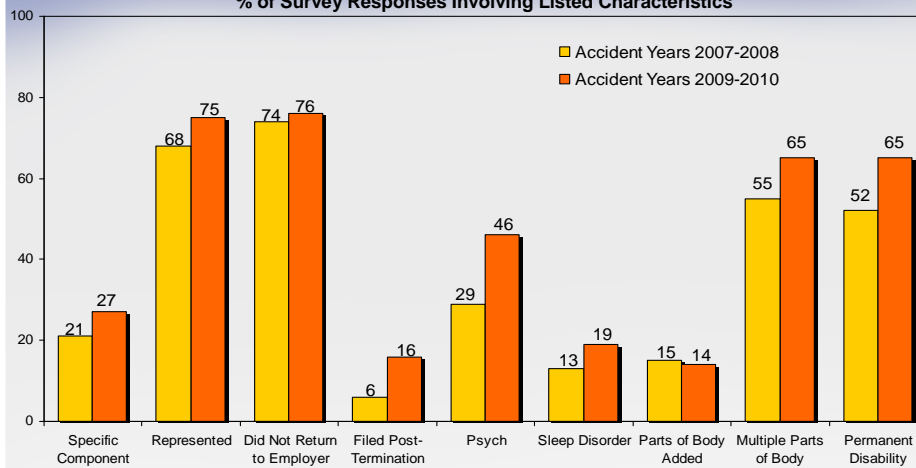


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Cumulative Injury Claim Survey Results

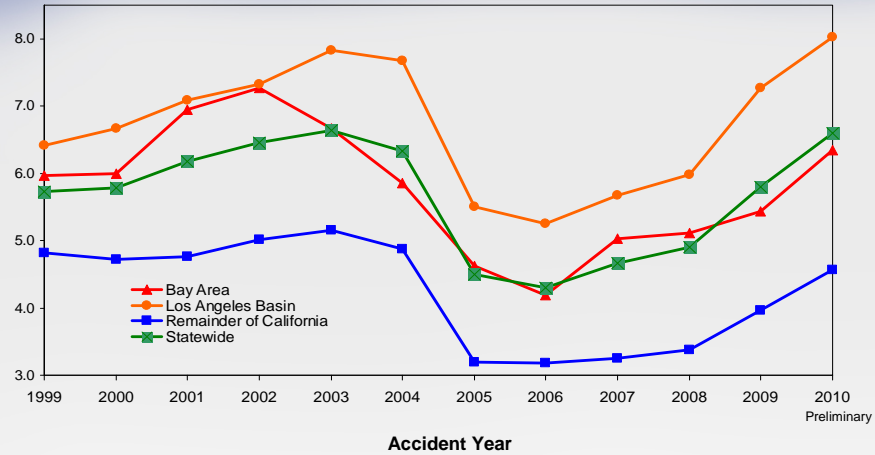


% of Survey Responses Involving Listed Characteristics



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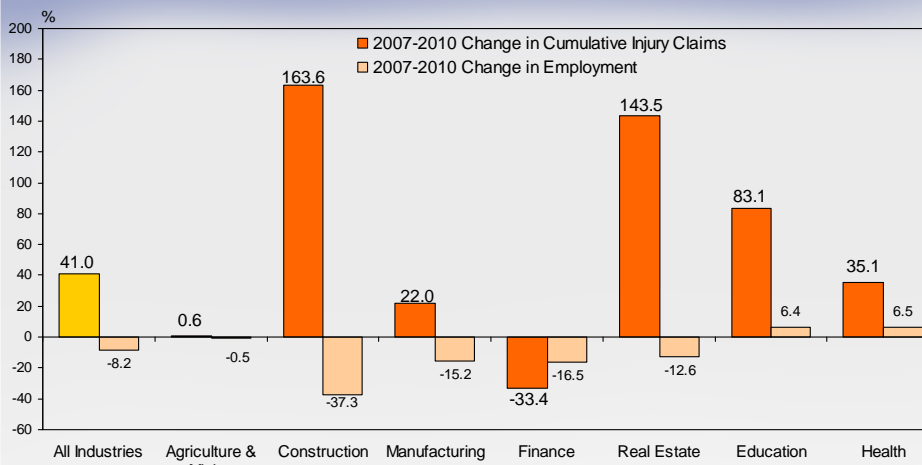
Cumulative Injury Claims per 100 Indemnity Claims



Source: First level unit statistical reports.

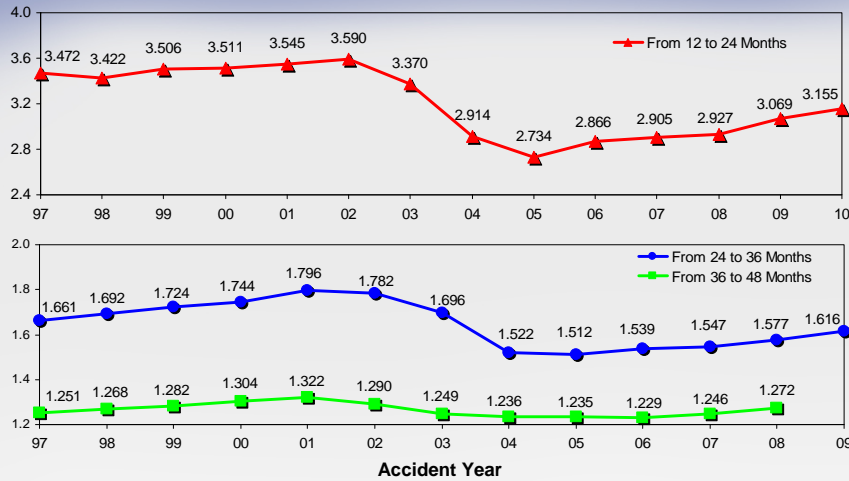
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Cumulative Injury Claims Relation to Economic Factors



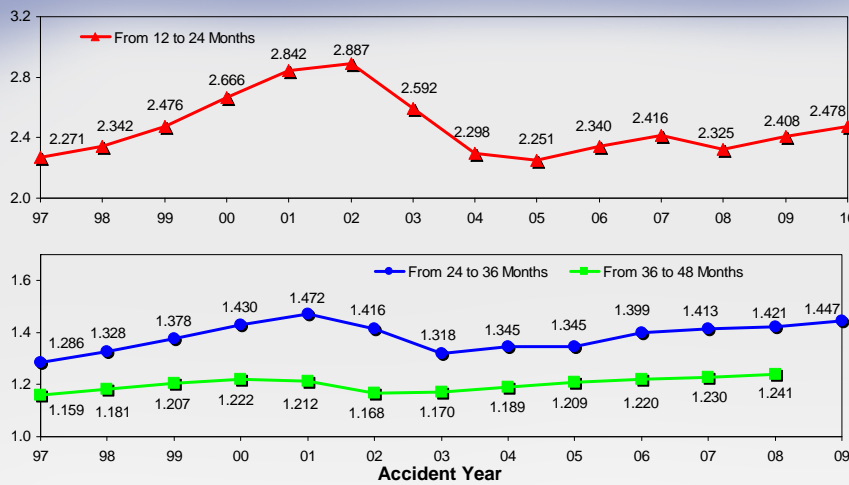
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Indemnity Paid Loss Development Factors



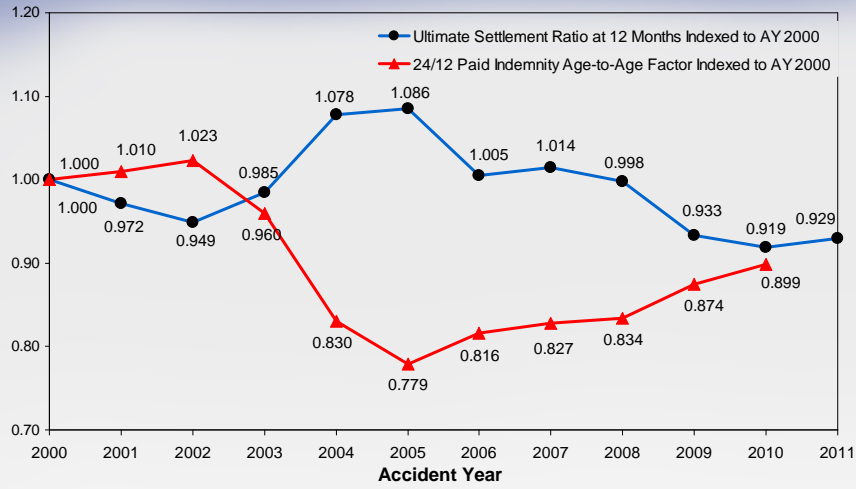
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Medical Paid Loss Development Factors



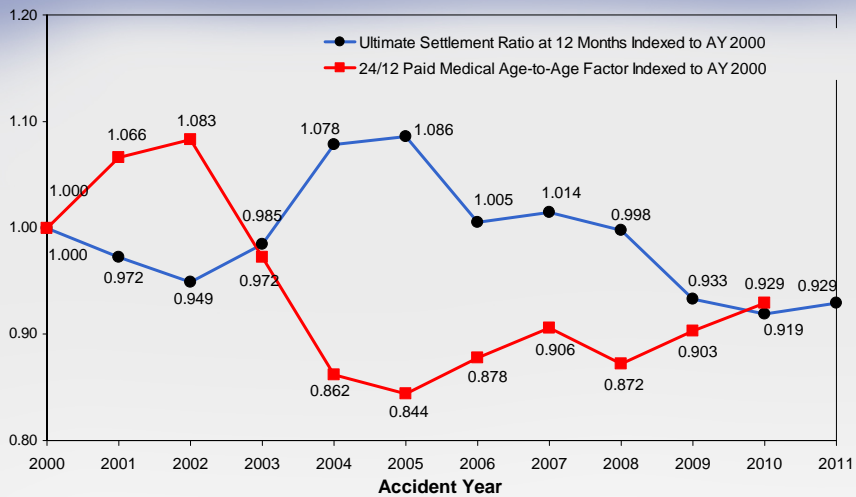
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Settlement Ratios Vs Paid Indemnity Development



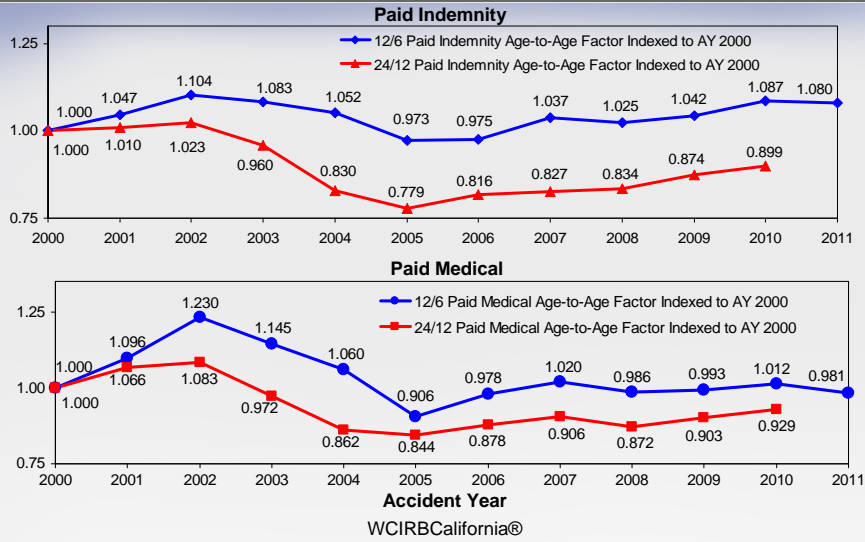
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Settlement Ratios Vs Paid Medical Development

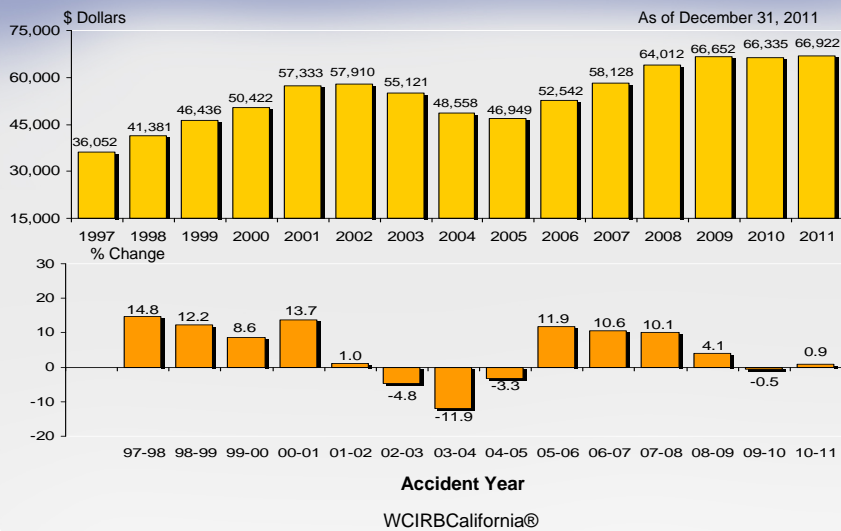


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6 -12 Month Development Vs. 12 - 24 Month Development



Projected Ultimate Total Loss Per Indemnity Claim



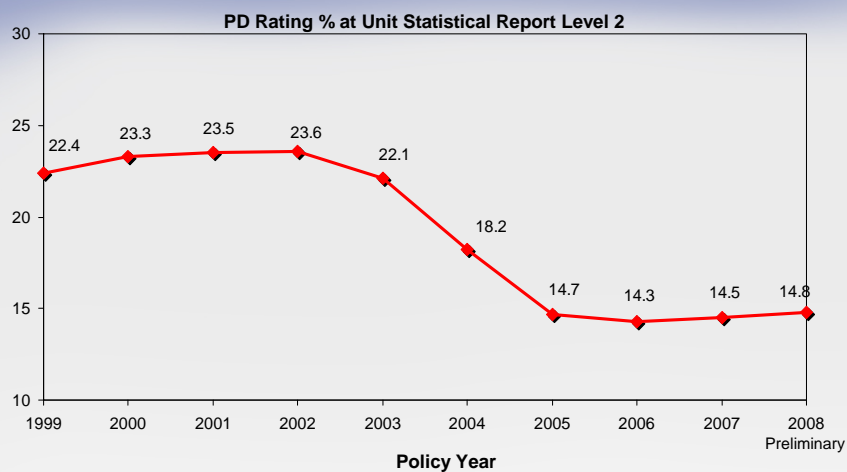
Permanent Disability Benefits



- California Among the Most Costly States Pre-Reform
- Reforms Reduced PD Benefit Costs by Two-Thirds
- Ogilvie and Almaraz/Guzman Decisions
 - Allow deviation from 2005 Permanent Disability Schedule
 - Increase potential subjectivity & inconsistency
 - WCIRB original estimates 5.8% overall cost estimate
 - Early indication of impact on settlements and average ratings generally consistent with original estimate

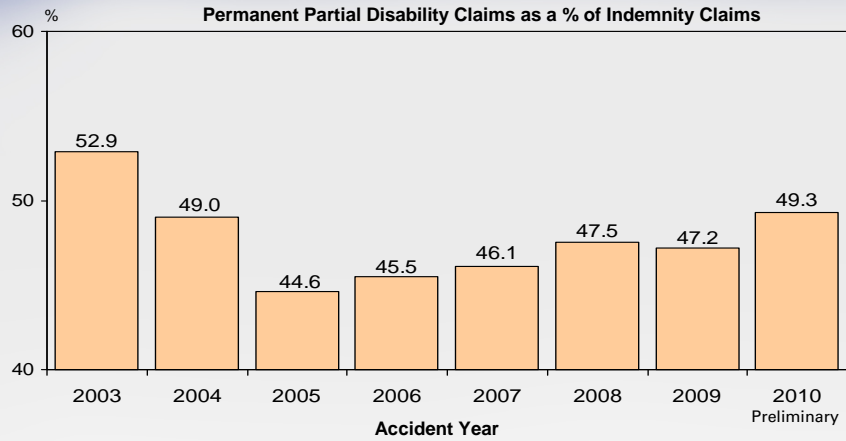
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Average PD Ratings



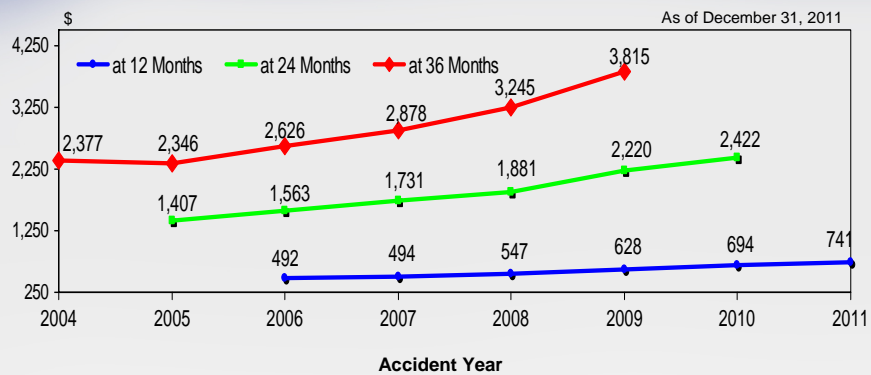
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PD Claims as a Percentage of Indemnity Claims



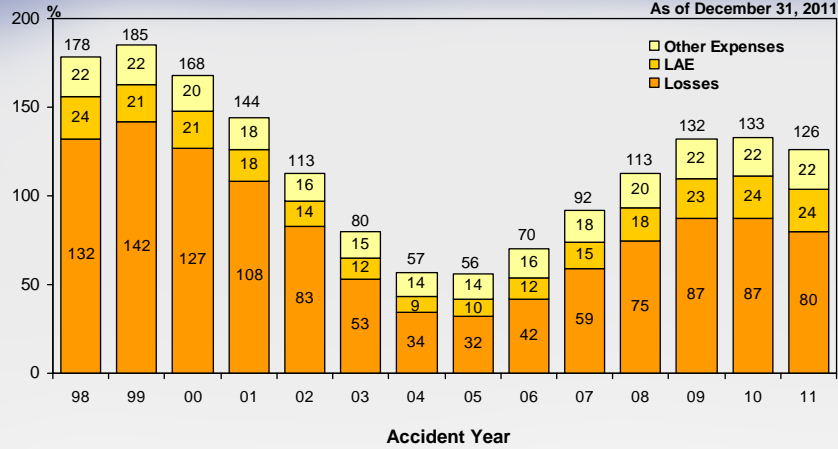
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Paid ALAE per Reported Indemnity Claim



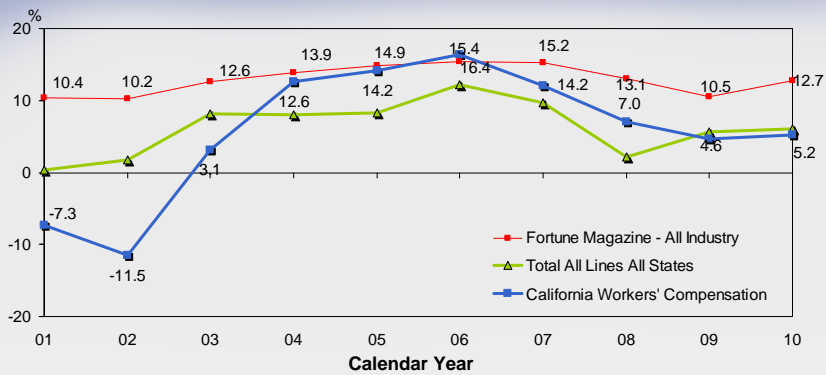
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Projected Accident Year Combined Ratios



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Average Return on Net Worth



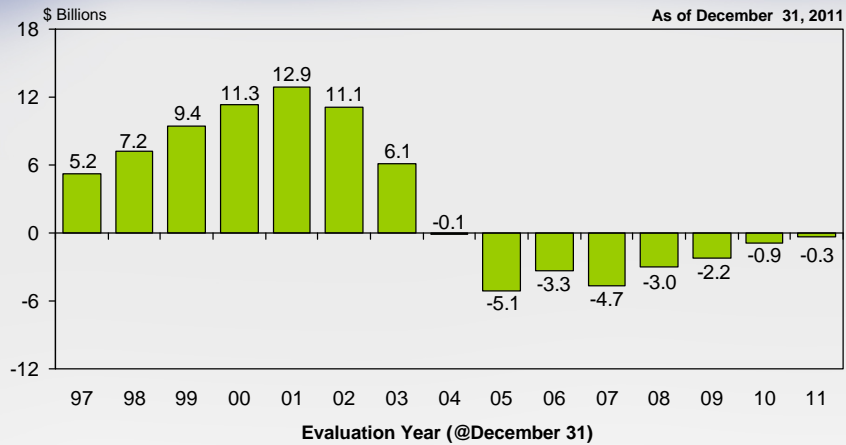
10-Year Arithmetic Average Return

California Workers' Compensation	5.6%
Fortune Magazine - All Industry	12.9%
Total P & C All Lines All States	6.2%

Source: NAIC Report on Profitability in 2010

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Estimated Ultimate Losses Less Reported Losses



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Experience Rating Plan Changes



- 2010 Changes
 - New \$7,000 primary/excess split
 - New B and W values
- 2011 Changes
 - “No Loss Rating” shown on each rate sheet
 - Explanatory summary with each rate sheet
 - Rate sheets provided to employers
- 2012 Changes
 - New formula & rate sheet format
- 2013 Changes
 - Updated credibility values and threshold

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Looking Forward



- Insurance Market
 - Increasing rates
 - Sluggish economic growth
 - Moderate growth in payroll
 - Cost trends (cumulative injury claims, ALAE, liens)
- Potential Legislative Regulatory Changes
 - PD benefit increases
 - Reform offsets
 - Medical delivery system (Utilization review, MPNs)
- WCIRB Initiatives

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