

# WCIRB Quarterly Experience Report

As of December 31, 2018

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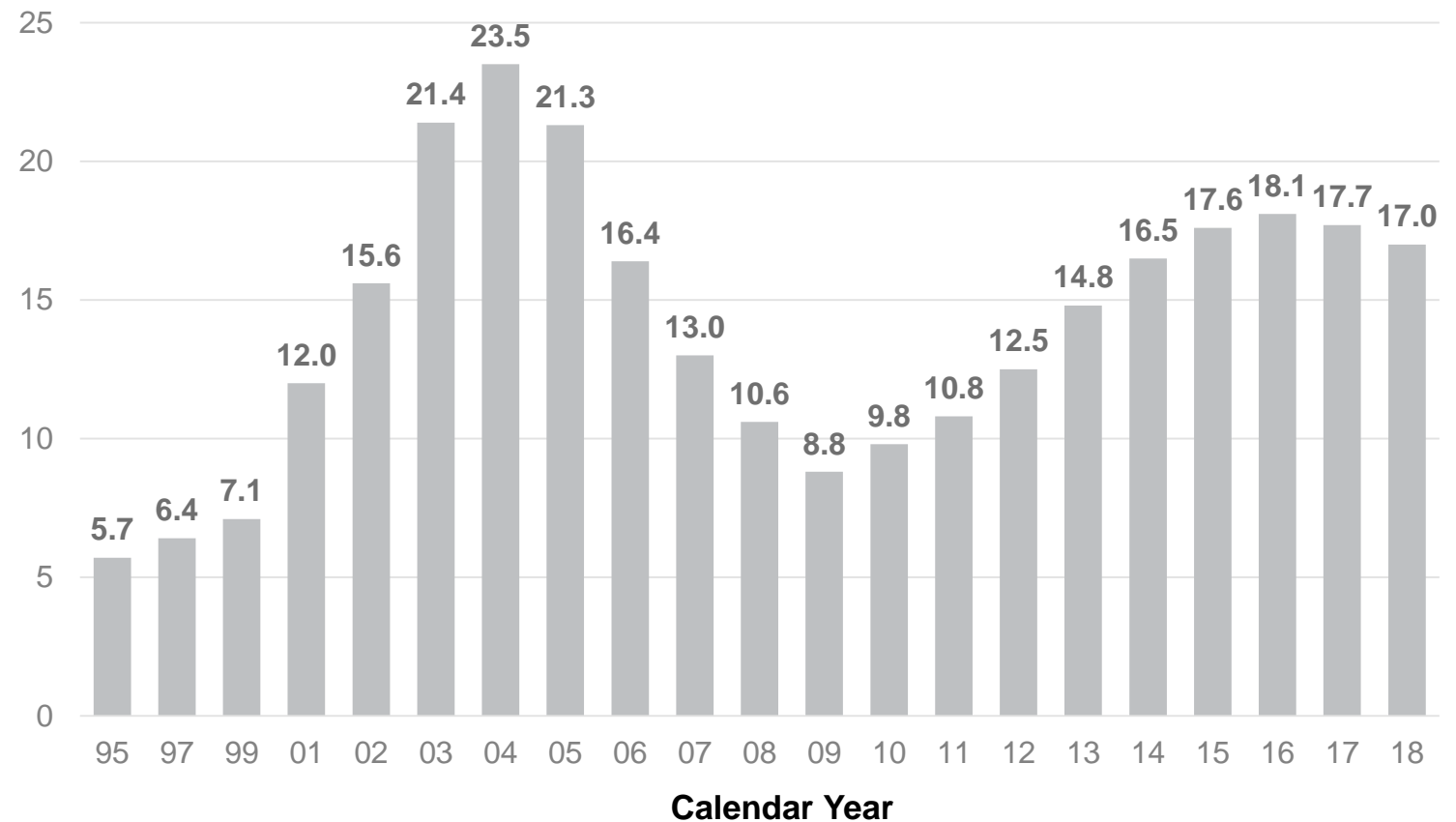
## Chart 1

- Written premium for 2018 is 4% below that for 2017 and 6% below that for 2016.
- The decreases in 2017 and 2018 following seven consecutive years of increases are primarily driven by decreases in insurer charged rates more than offsetting increases in employer payroll.

## Written Premium | Gross of Deductible Credits

As of December 31, 2018

\$ Billions





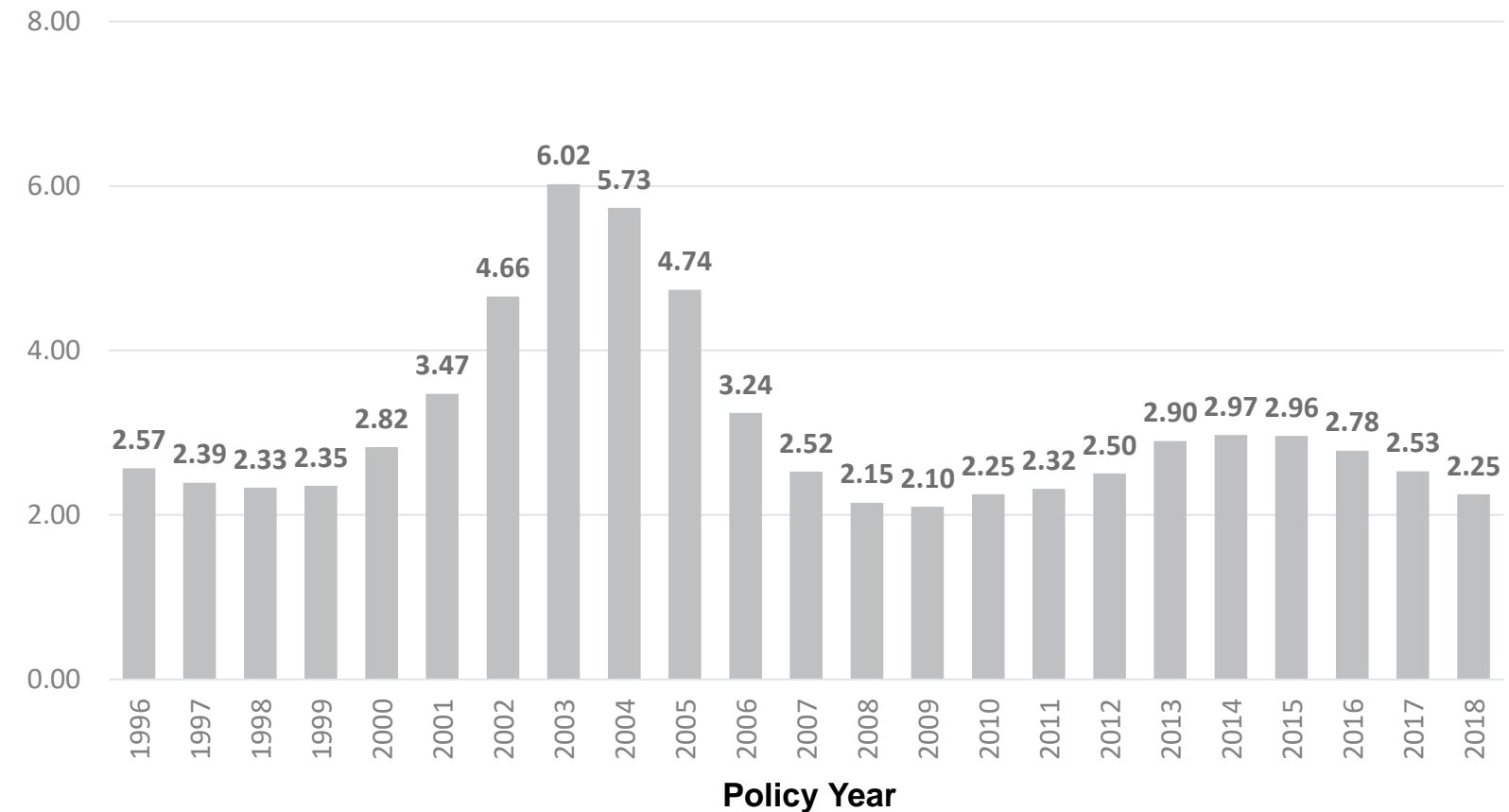
## Chart 2

- Average charged rates for 2018 are 11% below that for 2017 and 24% below the peak in 2014.
- The January 1, 2019 approved advisory pure premium rates are on average 42% below those for January 1, 2015.

## Industry Average Charged Rates

As of December 31, 2018

**Rate per \$100 Payroll**



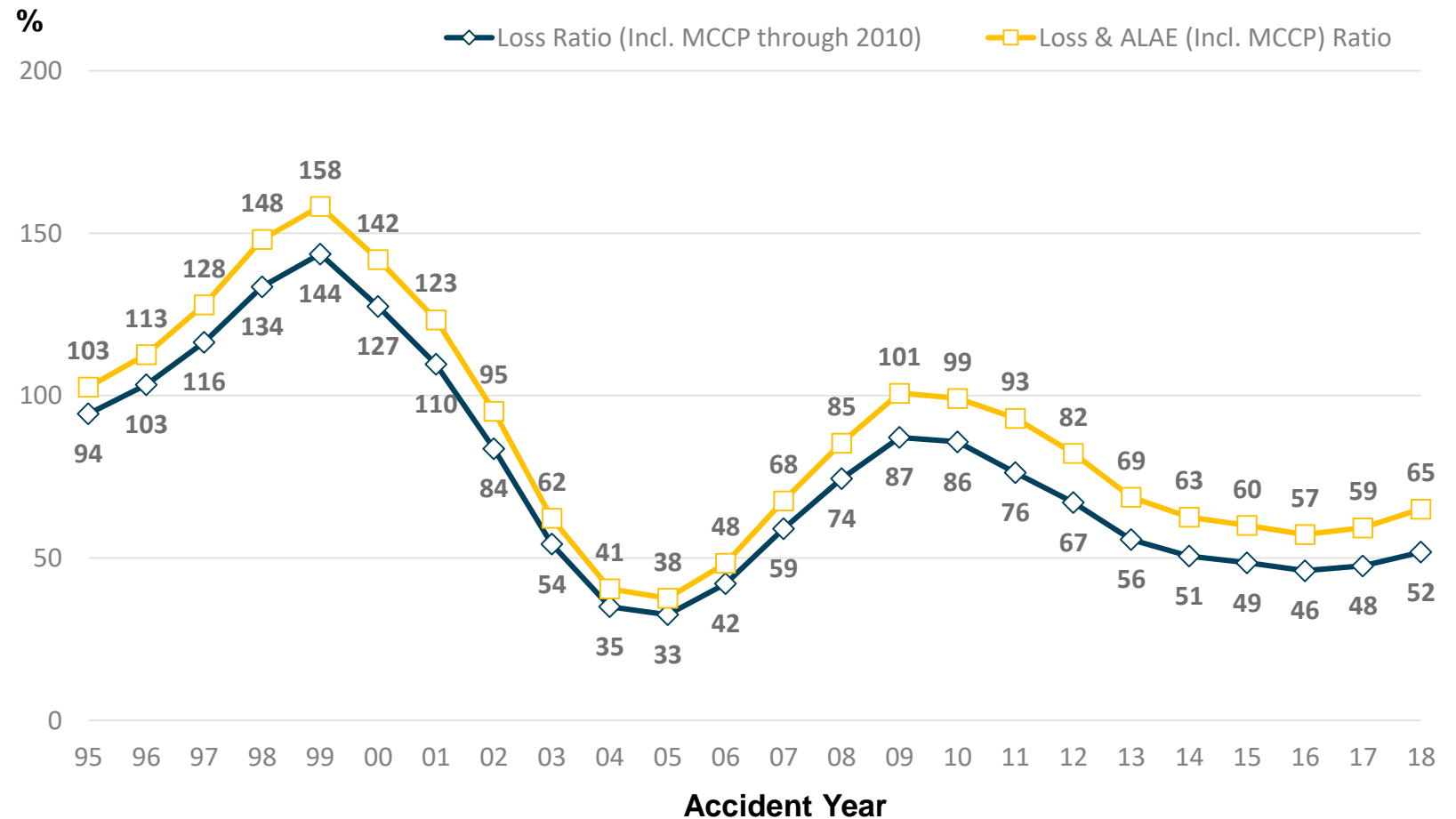


## Chart 3

- The projected loss and ALAE ratio for 2018 is 6 points above that for 2017, driven by higher severities for 2018 and lower premium rates.
- Despite the increase in the most recent two years, projections for other years are below those projected in prior quarters as a result of favorable loss development continuing to emerge throughout 2018.

## Ultimate Accident Year Loss Ratios

As of December 31, 2018



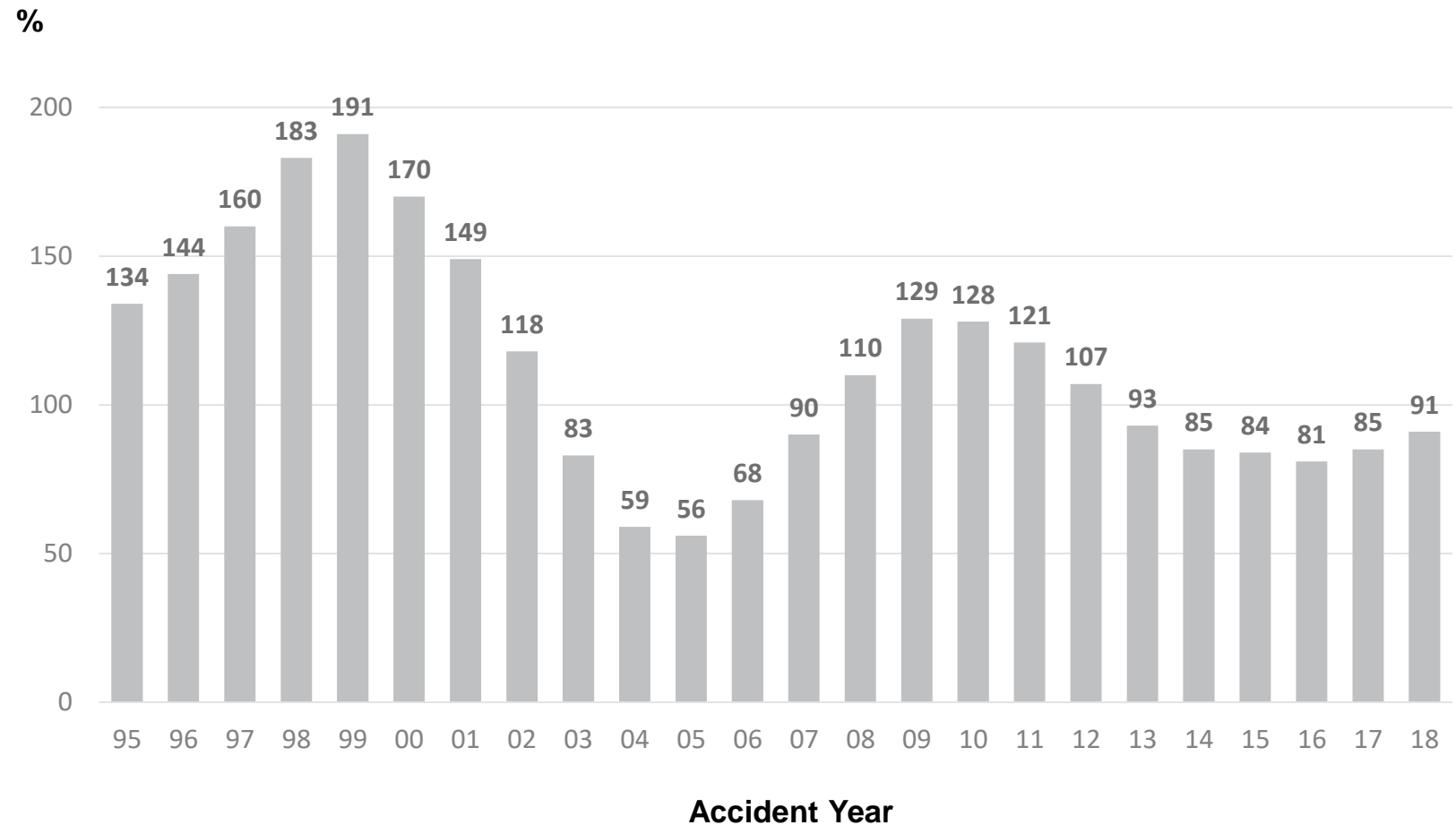


## Chart 4

- The projected combined ratio for 2018 is 6 points higher than 2017 as premium rates have dropped while average claim severities have increased.
- Despite the recent increase, combined ratios for the last six years remain below 100% and are the lowest since the 2004 through 2006 period.

## Projected Accident Year Combined Ratios

As of December 31, 2018



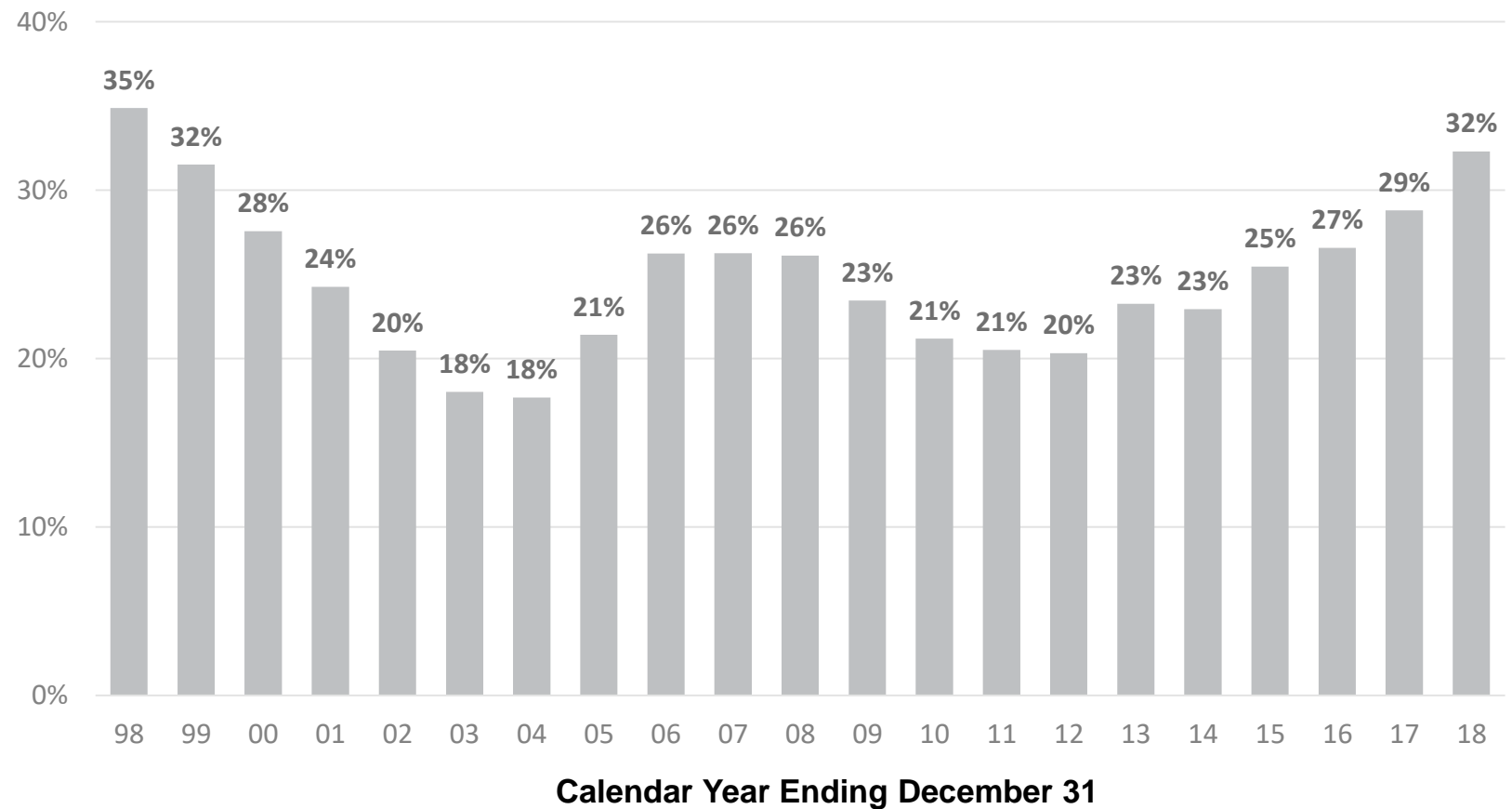


## Chart 5

- Indemnity claims continue to settle quicker, improving significantly over the last six years, largely driven by SB 863 and SB 1160 reforms.
- The closing ratio for 2018 represents a 19-year high.

## Percent of Open Indemnity Claims Closed in Next Year

As of December 31, 2018





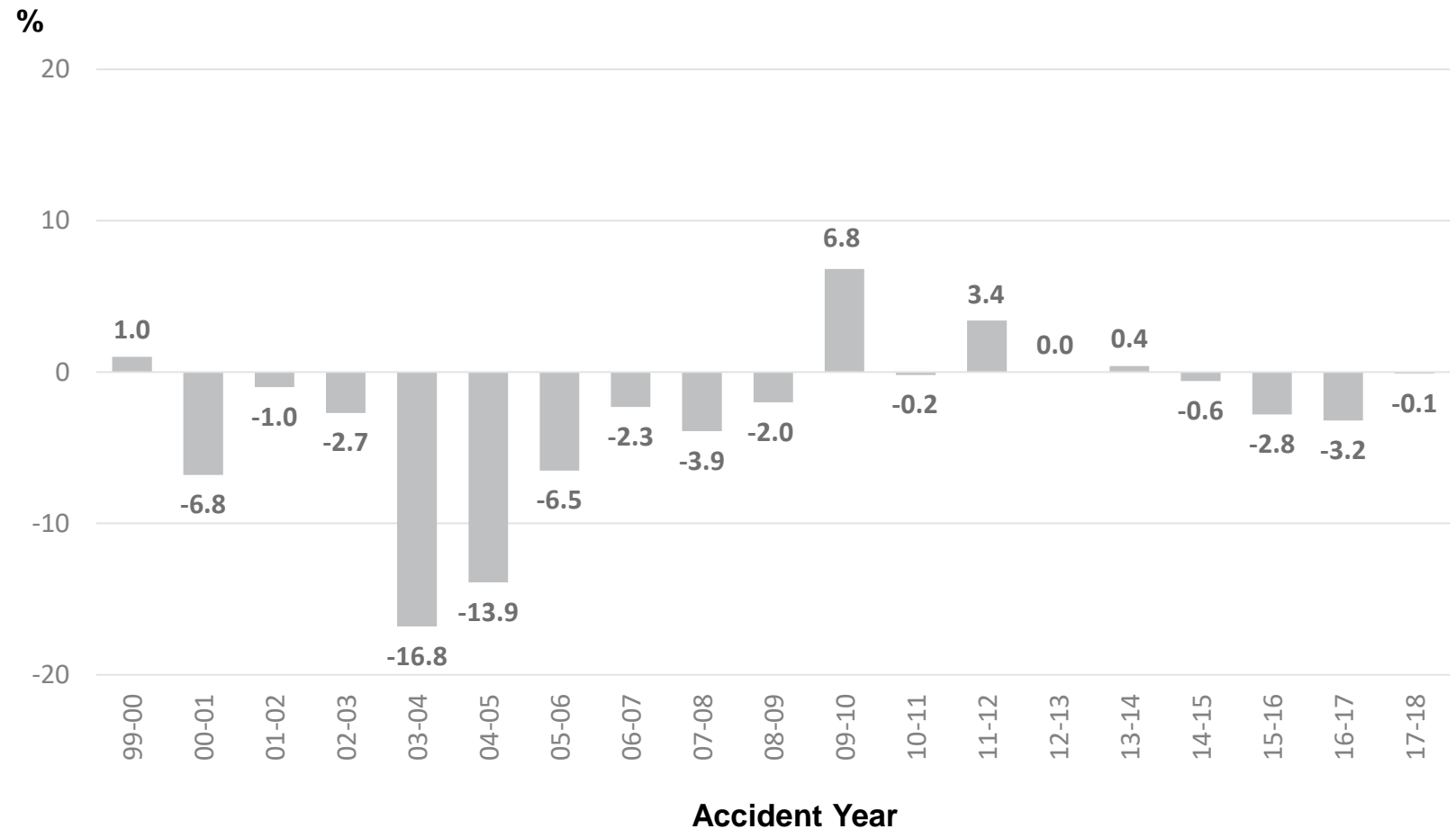


## Chart 6

- Claim frequency increased by 11% from 2009 to 2014, but has decreased by 7% from 2014 through 2018.
- Frequency increases since 2011 have largely been attributed to increases in cumulative injury claims and claims from the Los Angeles Basin area.
- The recent declining frequency is more consistent with patterns in other states and long-term trends in California.

## Change in Indemnity Claim Frequency

As of December 31, 2018



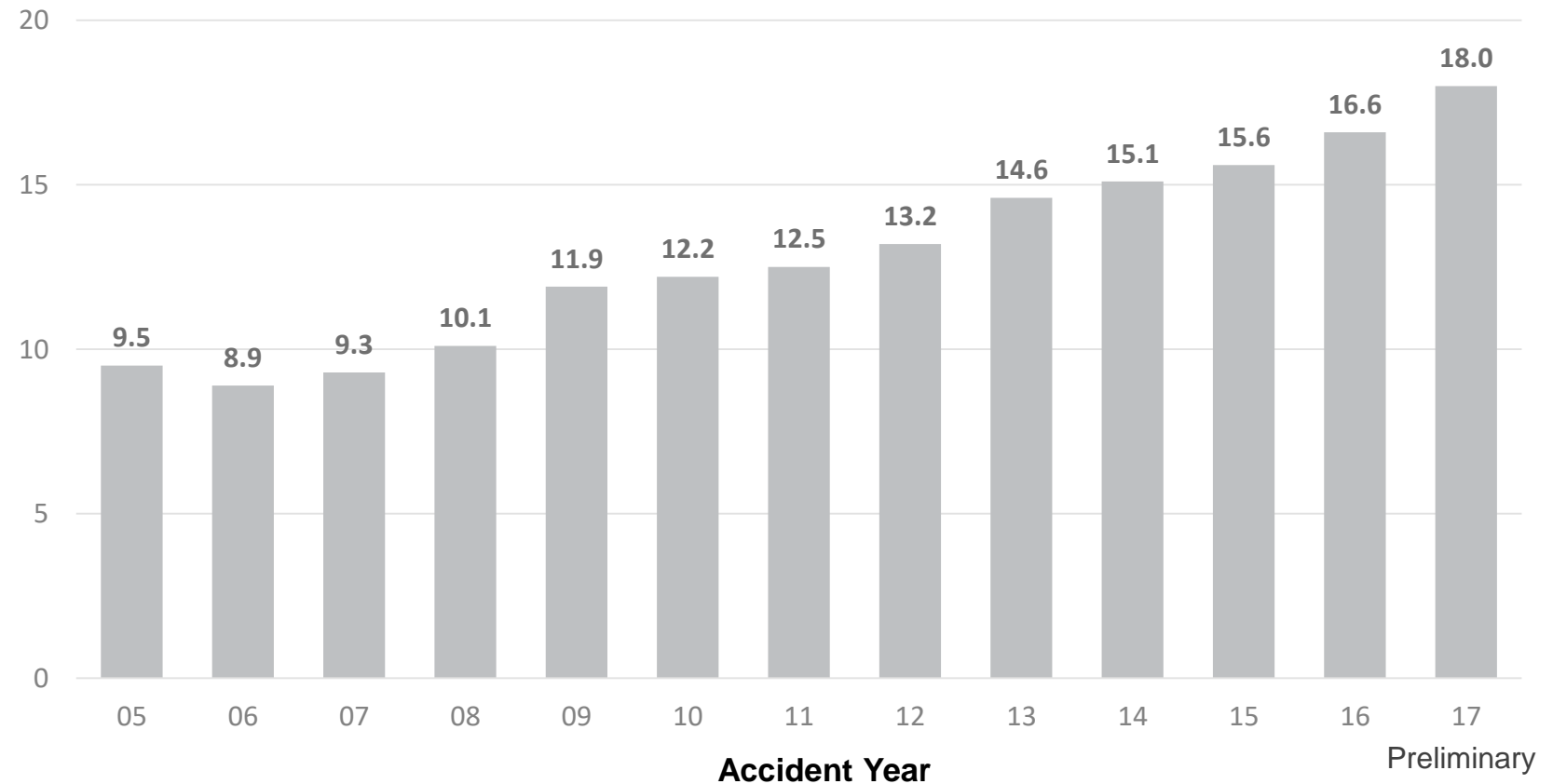




## Chart 7

- Cumulative trauma (CT) claim rates continue to be at high levels in 2017 and the ratio of CT claims to all indemnity claims has increased by over 89% since 2005.
- The sharp increase in CT claims since 2012 is in the Los Angeles and San Diego areas, as CT claims in other regions of CA have generally decreased.
- See the WCIRB's recent report on the world of CT claims for more information.

## Cumulative Trauma Claims per 100 Indemnity Claims





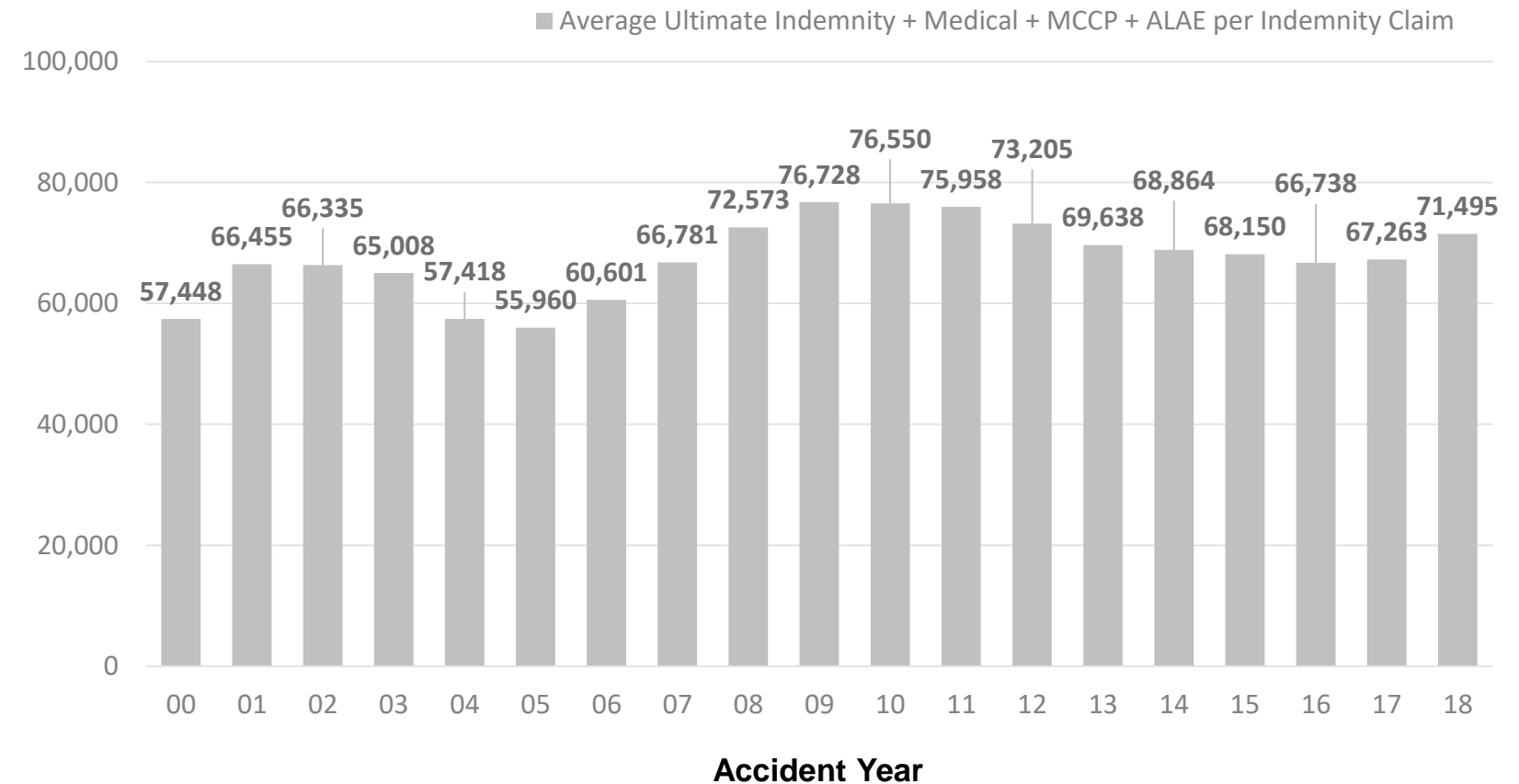
## Chart 8

- Projected claim severity for 2018 is 6% higher than that for 2017, the second year of increases following several years of modest declines in claim severities.
- 2018 is projected from claims valued at 12 months and the growth may moderate as the year matures, consistent with other recent accident years.

# Ultimate Total Loss and ALAE Severities

As of December 31, 2018

\$Dollars





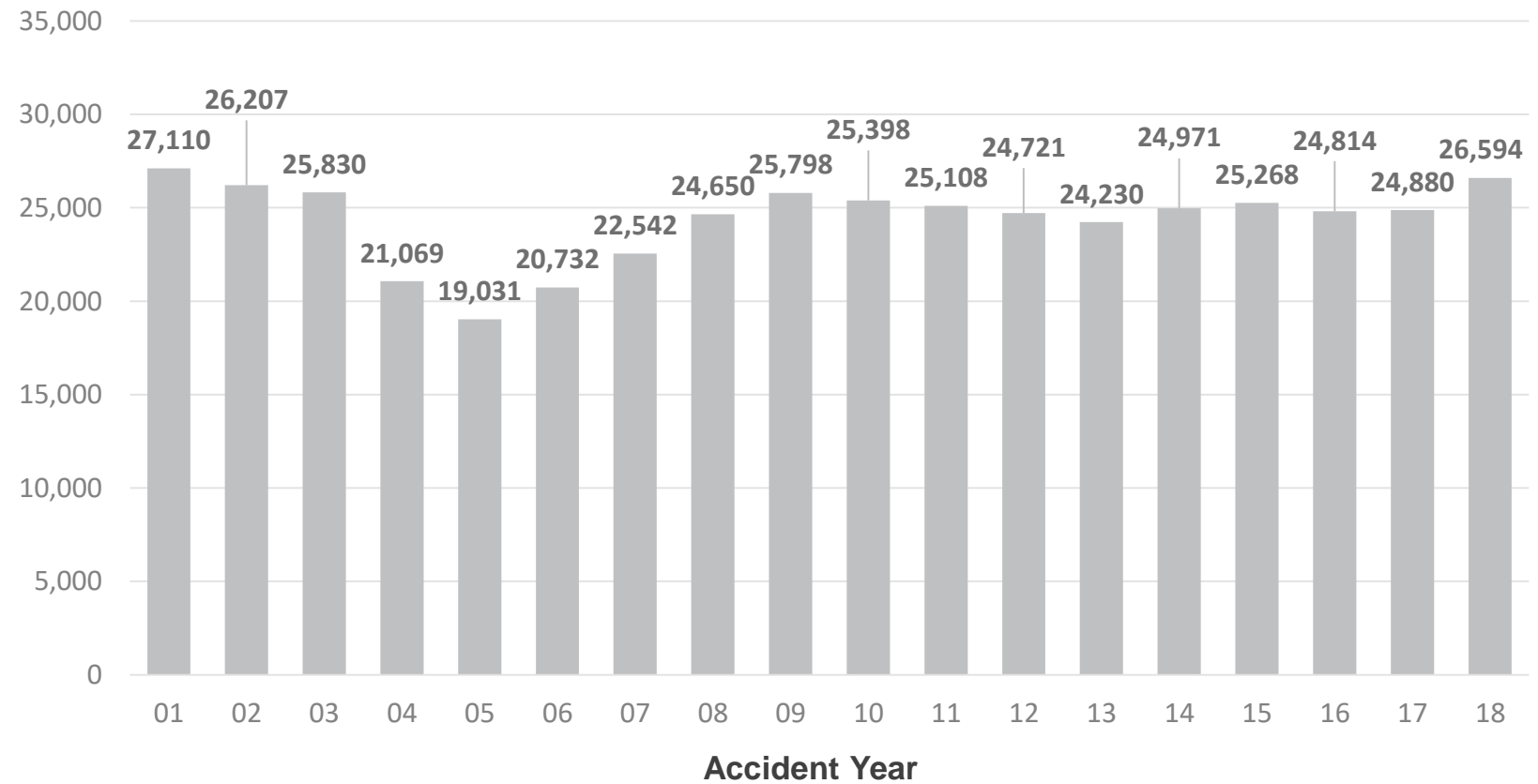
## Chart 9

- Indemnity severities over the last decade have been relatively flat, with 2018 only 3% higher than the 2009 level.
- It is unclear whether the modest increase projected for 2018 will hold or whether it will develop downward like other recent years.

## Ultimate Indemnity Severities

As of December 31, 2018

\$Dollars





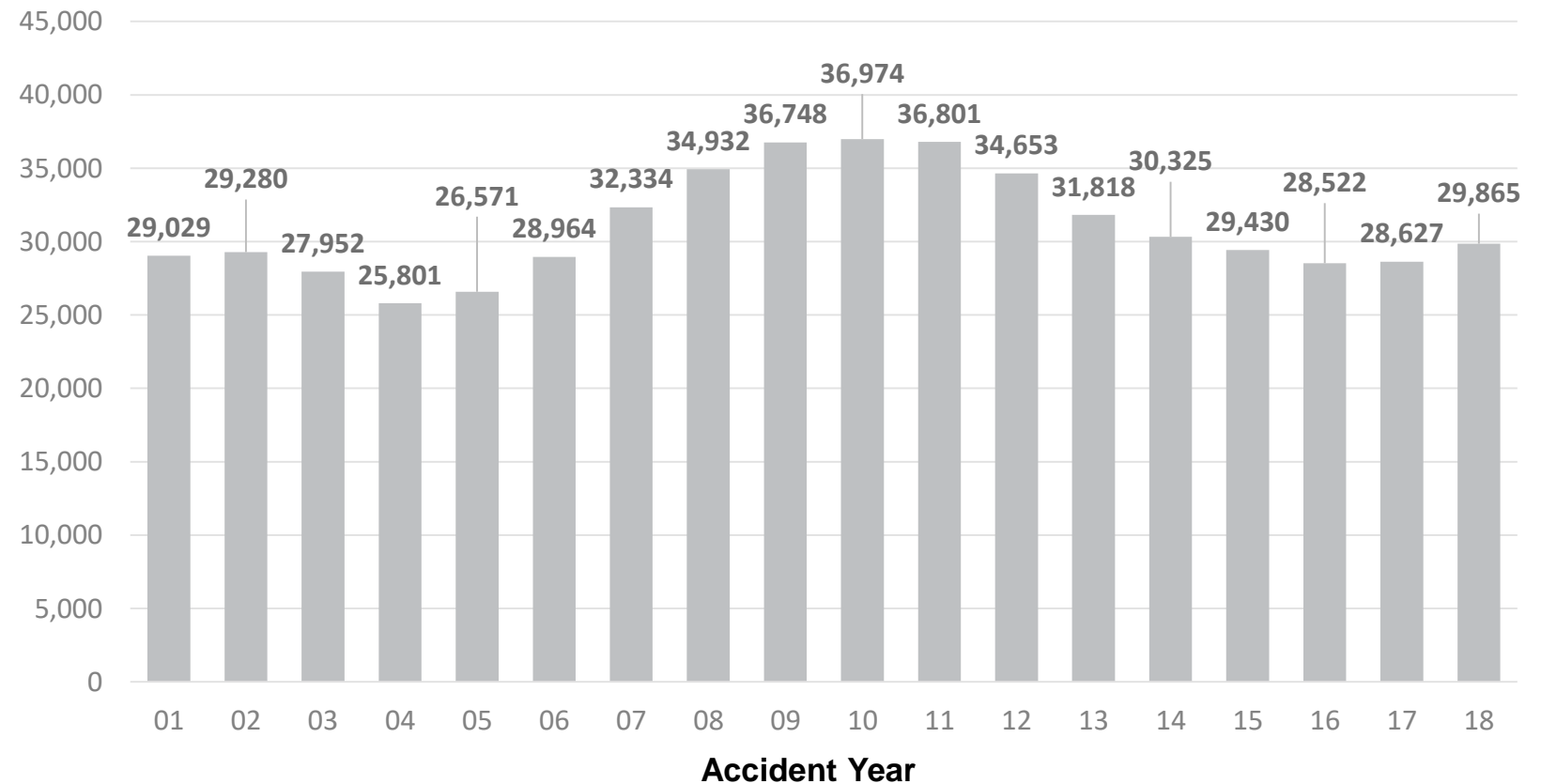
## Chart 10

- Decreases in medical severities from 2011 to 2015 were driven largely by SB 863 savings.
- The relatively flat severities since 2015 continue to be driven by recent reforms, reduced pharmaceutical costs and efforts to fight fraud.
- It is unclear whether the projected 4% increase for 2018 will develop downward as it has in recent years or if it represents a return the more typical rates of post-reform medical inflation.

## Ultimate Medical Severities

As of December 31, 2018

\$Dollars





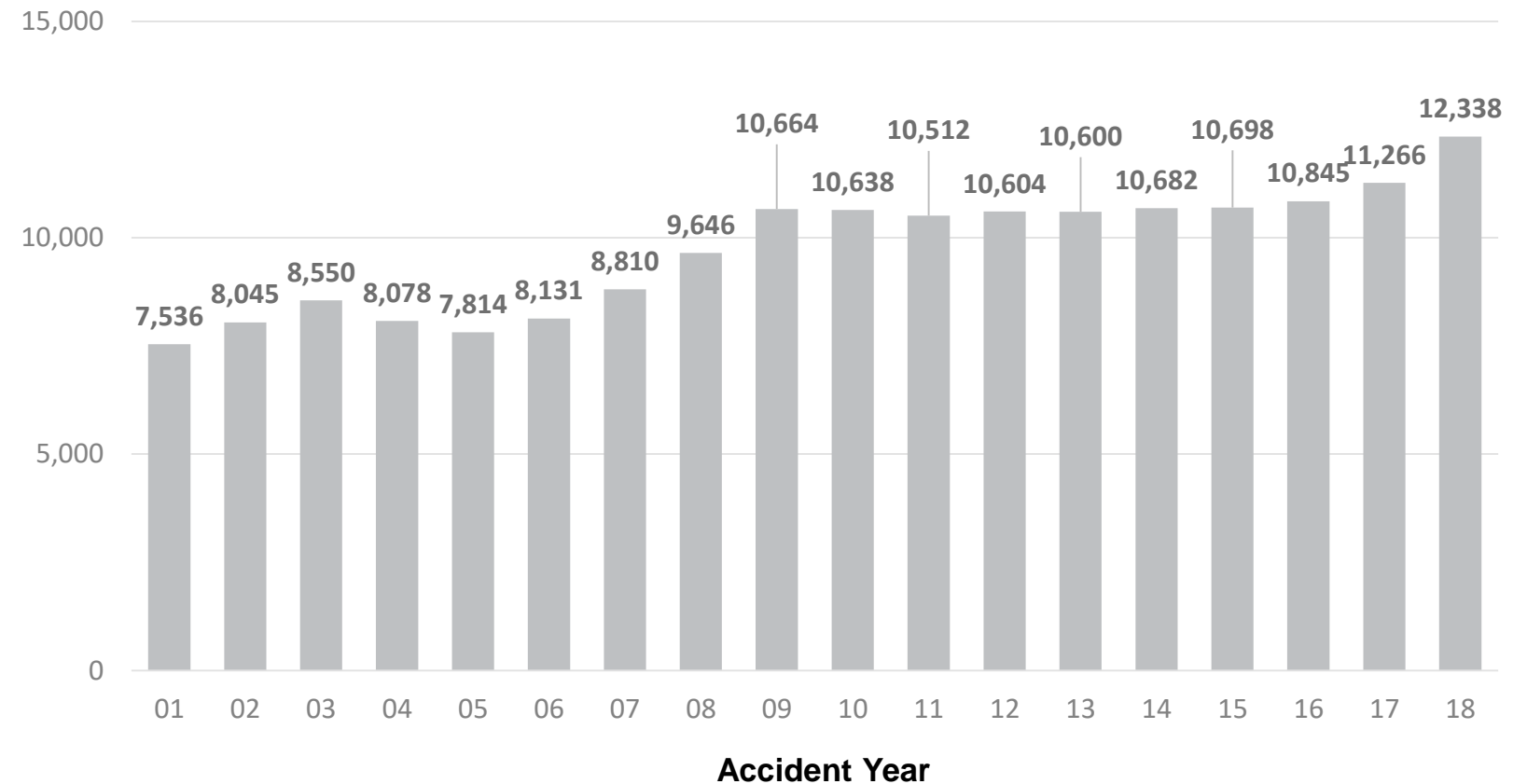
## Chart 11

- Projected ALAE severity for 2018 is 10% higher than that for 2017 and 17% higher than that for 2011.
- Average ALAE costs have tended to rise shortly after the implementation of reforms, even during periods where medical costs have declined.
- Improving claim settlement rates may moderate ALAE costs in the future.

## Ultimate ALAE (excl. MCCP) Severities

As of December 31, 2018

\$Dollars





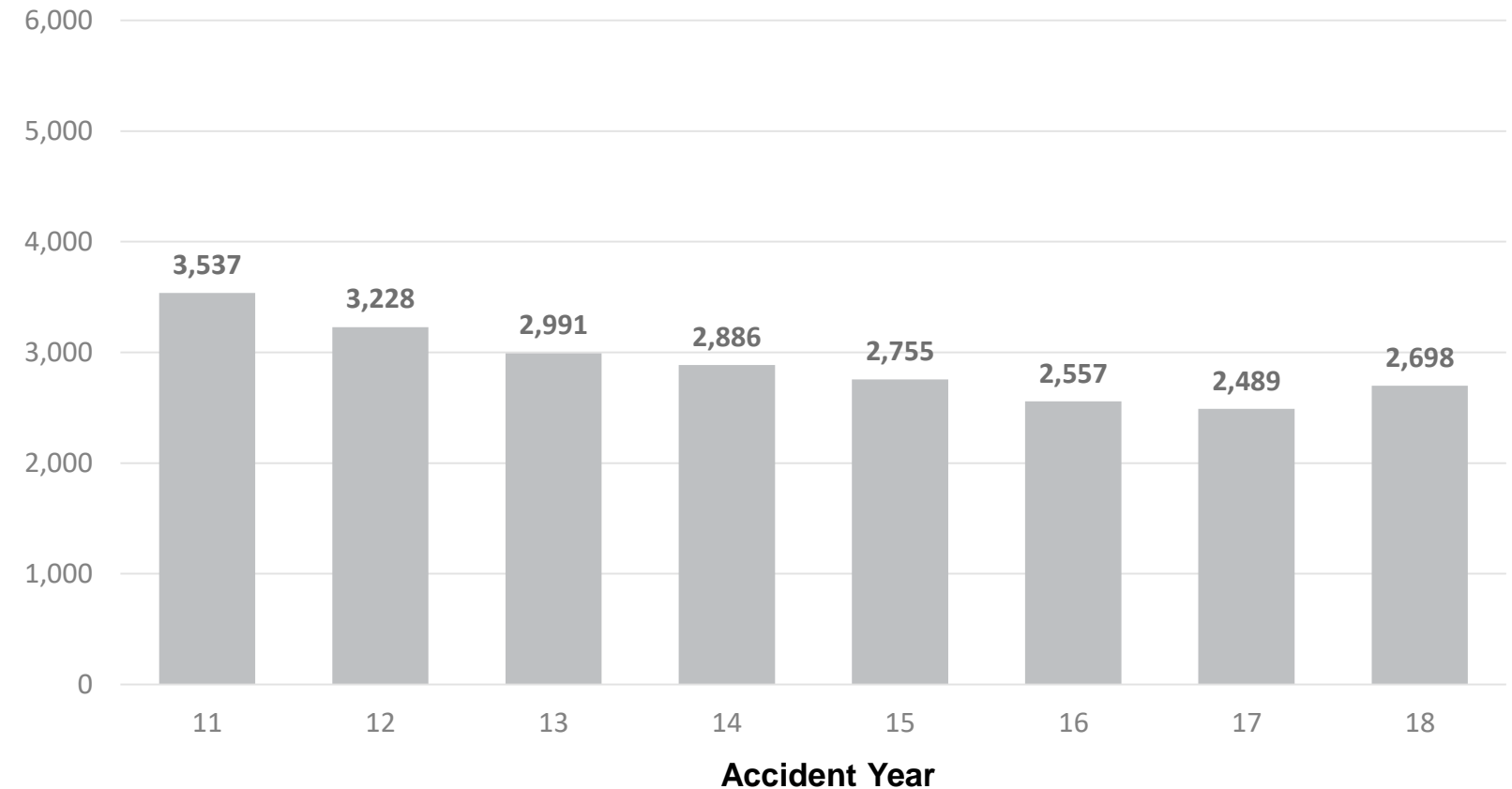
## Chart 12

- Projected MCCP cost severity for 2018 is 8% higher than that for 2017.
- Despite the increase for the most recent year, average MCCP costs have declined in the last several years as average medical costs have moderated and claim settlement rates have accelerated.

## Ultimate Medical Cost Containment (MCCP) Severities

As of December 31, 2018

\$Dollars



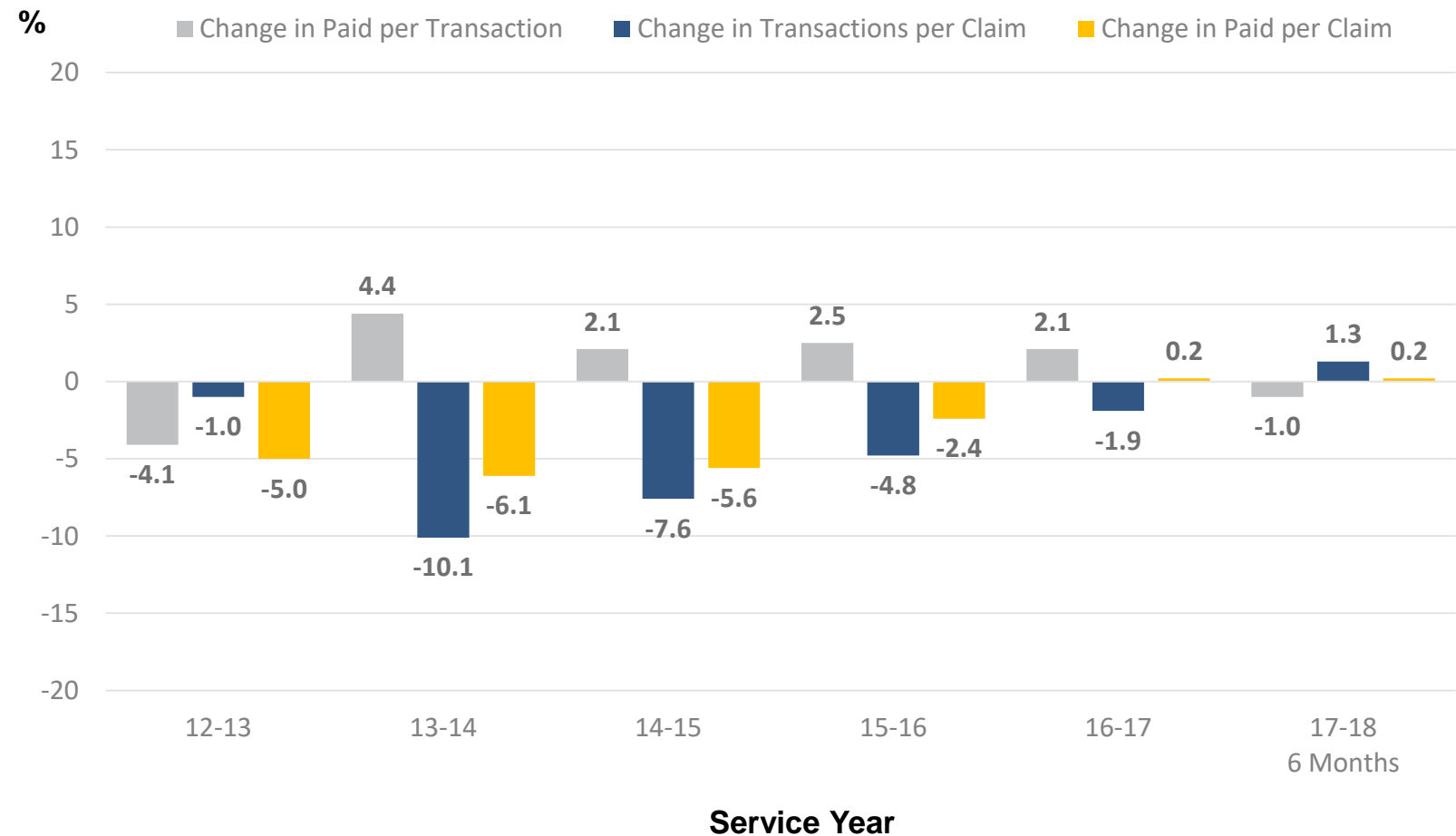


## Chart 13

- Medical service costs per claim decreased 18% from 2012 to 2016, primarily driven by a 22% decrease in the number of transactions per claim.
- Overall medical cost levels were relatively flat for both 2017 and the first six months of 2018.

## Change in Medical Service Cost Levels

As of June 30, 2018





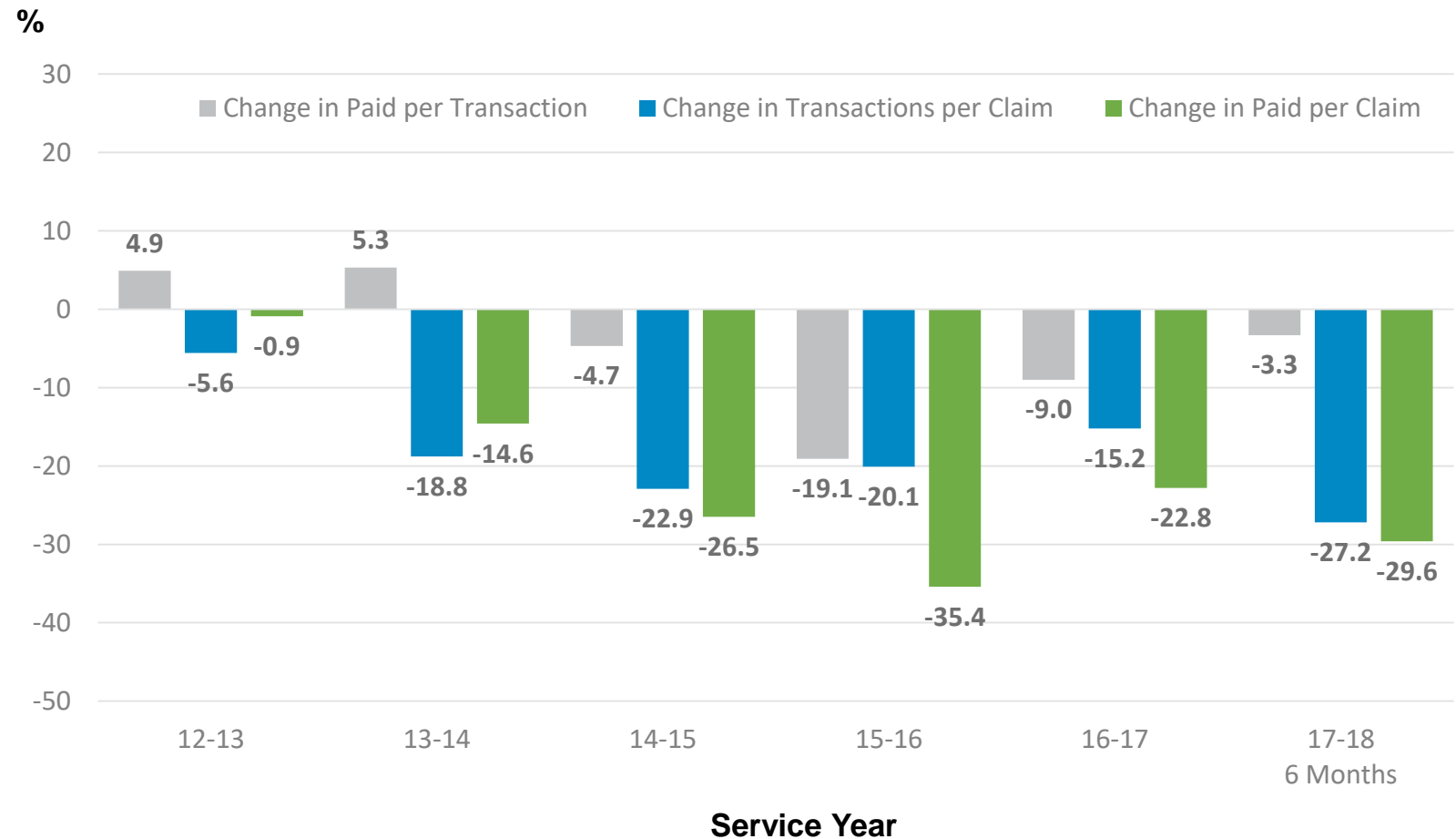


## Chart 14

- Pharmaceutical costs per claim decreased by 69% from 2012 to 2017.
- These reductions have been driven by SB 863's IMR & IBR, reduced opioid use, efforts to fight fraud and changes to Medi-Cal reimbursement rates.
- Pharmaceutical costs continued to decrease through the first six months of 2018, when the new drug formulary became effective. In total, pharmaceutical costs per claim are down 78% since 2012.

## Change in Pharmaceutical Cost Levels

As of June 30, 2018





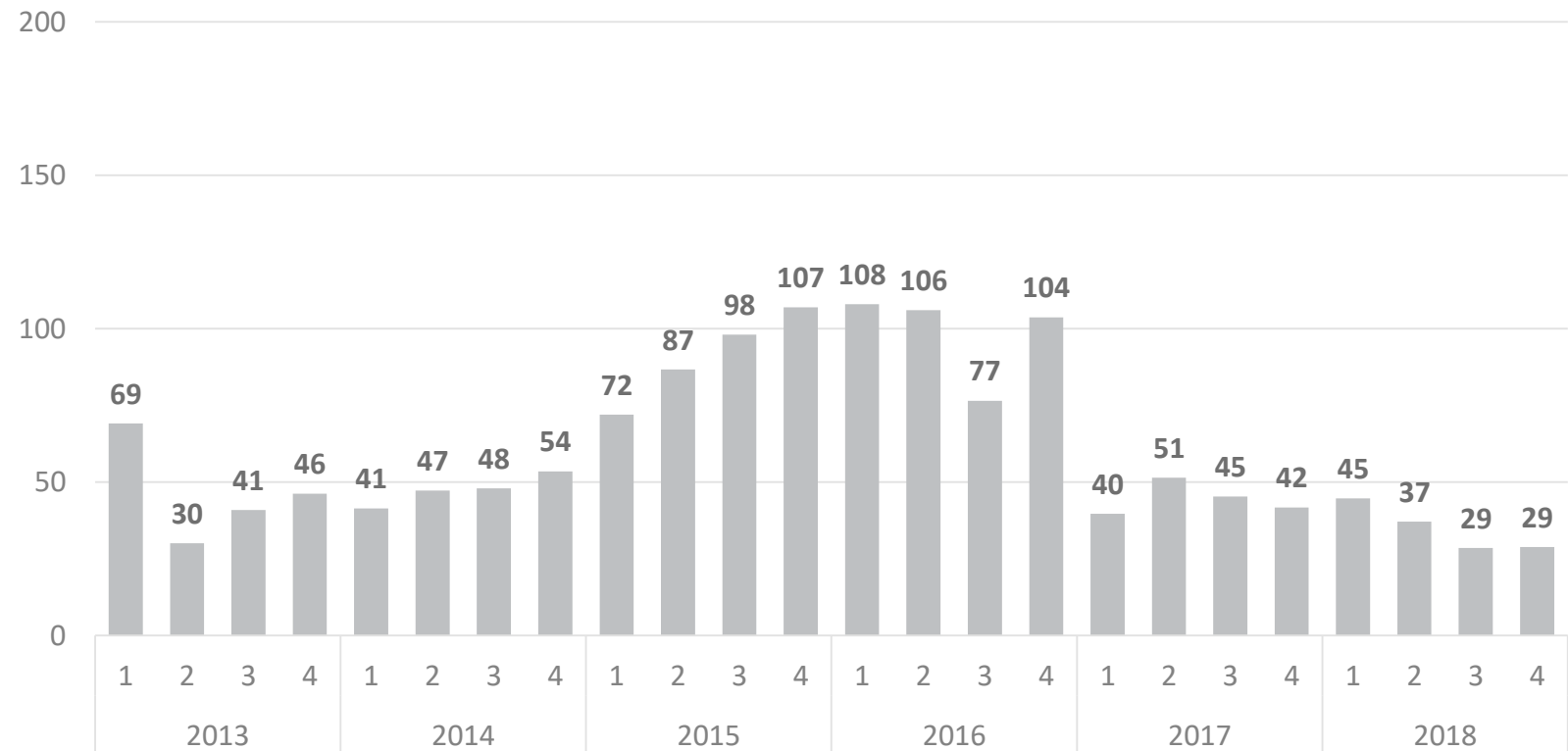
## Chart 15

- SB 1160 and AB 1244 made changes to the lien filing process effective in 2017.
- Some of the lien activity in the fourth quarter of 2016 through the first quarter of 2017 may be impacted by the SB 1160 and AB 1244 transition.
- Lien filings since 2016 have declined significantly, with the number of liens filed in the most recent two quarters 60% below pre-SB 1160 and AB 1244 levels.

## Number of Liens Filed

As of December 31, 2018

In Thousands



Filing Year & Quarter

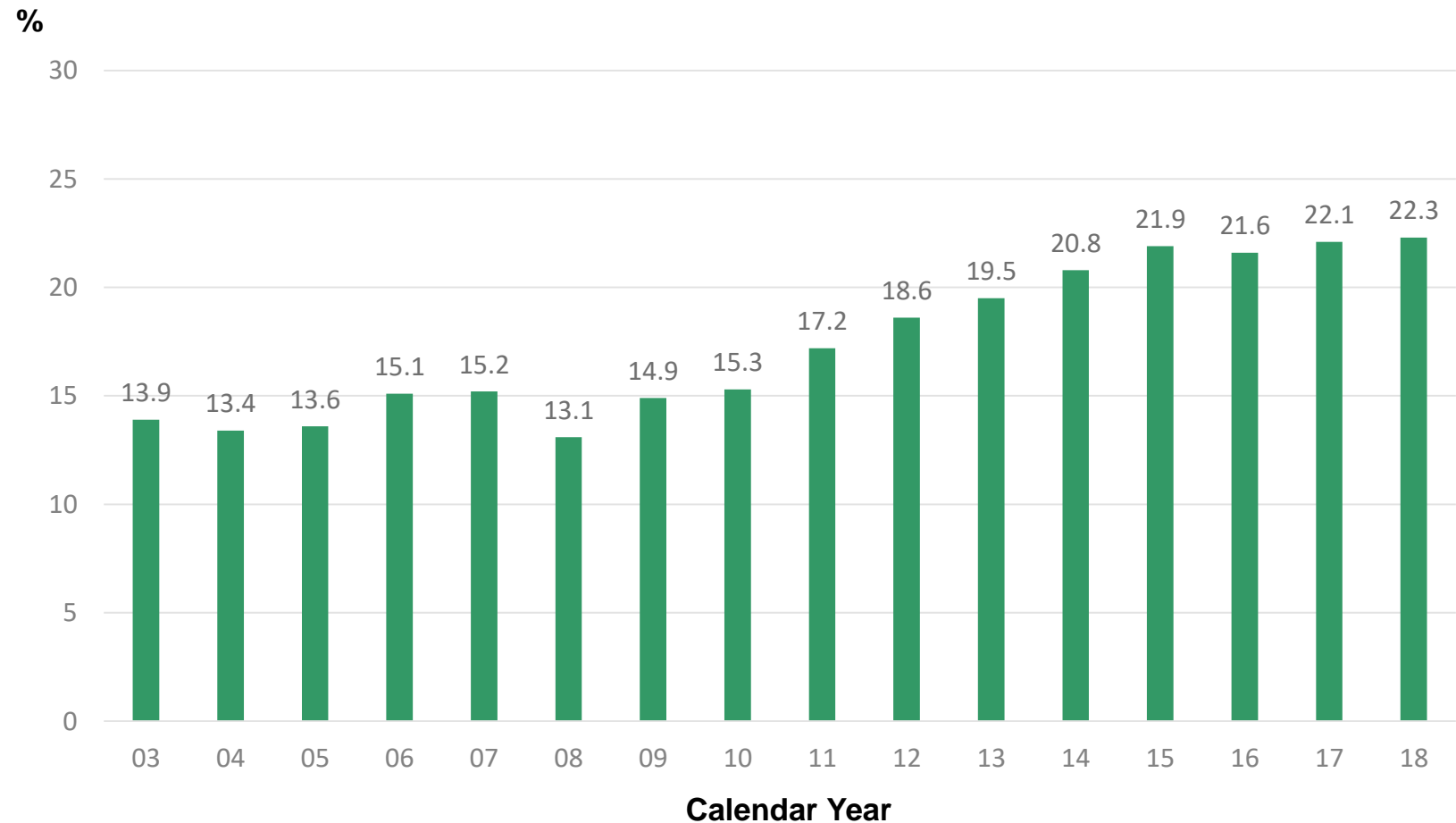


## Chart 16

- Ratios of ALAE to loss increased significantly from 2011 to 2015 in part due to increased cumulative trauma claim filings and the transition to SB 863.
- From 2015 to 2018, these ratios have been generally consistent as savings from recent reforms have not materialized in ALAE costs.

## Ratios of Paid ALAE to Paid Losses

As of December 31, 2018





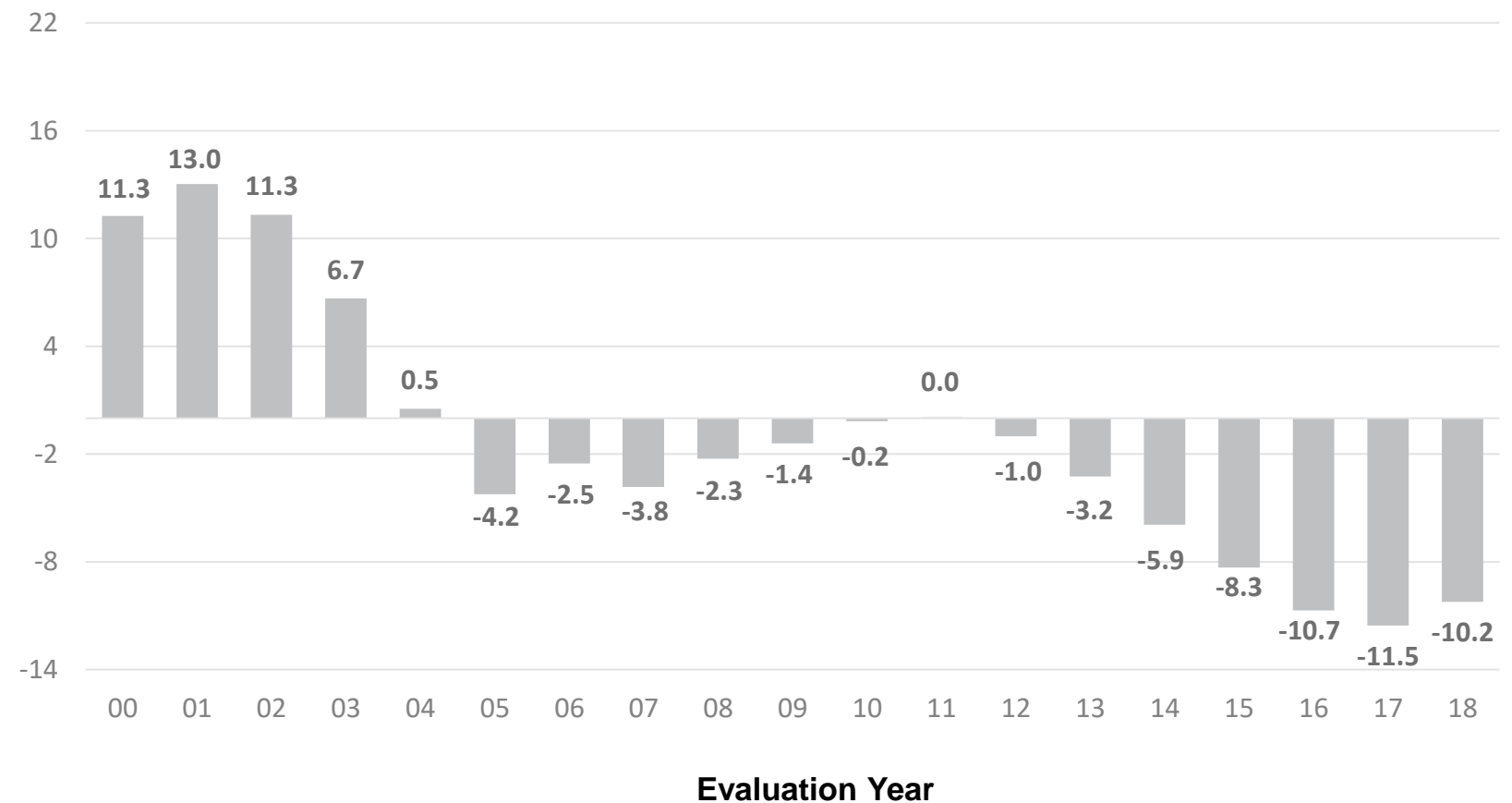
## Chart 17

- Projected total statewide ultimate losses for 2012 through 2018 evaluations are significantly below the amounts reported by insurers.

## Projected Ultimate Losses Less Reported Losses

As of December 31, 2018

**\$ Billions**





## General Notes

- This report reflects a compilation of individual insurer submissions of accident year and calendar year premium and loss data to the WCIRB. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with data submitted by other insurers, the source information underlying each insurer's data submission is not verified by the WCIRB.
- Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments using information reported by insurers through December 31, 2018. Although the actuarial methodologies and assumptions upon which these projections are predicated are periodically reviewed by the WCIRB's Actuarial Committee, the actual costs that will ultimately emerge could differ from the amounts projected. Many of these projections will be updated regularly by the WCIRB as more mature information on these claims is reported in subsequent quarters.
- The amounts and ratios shown represent statewide totals based on the amounts reported by insurers writing workers' compensation insurance in California. The results for any individual insurer can differ significantly from the statewide average. An individual insurer's results are related to its underwriting book of business, claims and reserving practices, as well as the nature of its reinsurance arrangements.
- Beginning with claims incurred on policies incepting on or after July 1, 2010, the cost of medical cost containment programs (MCCP) is reported to the WCIRB as allocated loss adjustment expense (ALAE) rather than as medical loss. As a result, some portion of MCCP costs for accident years 2010 and 2011 has been reported as medical loss and some portion has been reported as ALAE. For consistency, the amounts and ratios shown in these exhibits are adjusted to either include or exclude MCCP costs for all years shown to the extent possible.



# More Info

## **Chart 1: Written Premium**

- Source: WCIRB aggregate financial data calls.
- Written premium is gross of deductible credits.

## **Chart 2: Industry Average Charged Rates**

- Rates are based on WCIRB unit statistical data through 2016 and estimated based on aggregate financial data calls for 2017 and later.
- Rates are per \$100 of payroll.
- Rates are averages over policies incepting in the year (December 1 to December 31).

## **Chart 3: Ultimate Accident Year Loss Ratios**

- Ratios are projected based on WCIRB aggregate financial data call data as of December 31, 2018.
- MCCP costs are included in loss ratios for accident years 2010 and prior.
- MCCP costs are included in loss and ALAE ratios for all years shown.

## **Chart 4: Projected Accident Year Combined Ratios**

- Ratios are projected based on WCIRB aggregate financial data call data as of December 31, 2018.
- Combined ratios include losses, loss adjustment expenses, and other insurer expenses.

## **Chart 5: Percent of Open Indemnity Claims Closed in Next Year**

- Source: WCIRB aggregate financial data call data as of December 31, 2018.
- Figures represent the number of indemnity claims aged between 12 to 96 months closed during the year as a ratio of the number of claims open as of December 31 of the prior year.

## **Chart 6: Change in Indemnity Claim Frequency**

- Frequency is based on indemnity claim counts per exposure adjusted for wage level changes based on WCIRB unit statistical data through accident year 2017, and changes in reported indemnity claim counts compared to changes in statewide employment based on WCIRB aggregate financial data call data for accident year 2018.

## **Chart 7: Cumulative Trauma Claims per 100 Indemnity Claims**

- Source is WCIRB unit statistical data based on partial accident years. Claim counts are developed to an estimated ultimate level.
- Accident year 2017 data is preliminary.

## **Chart 8: Ultimate Loss & ALAE Severities**

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2018.
- Includes data for indemnity claims only.



## More Info (...continued)

### [Chart 9: Ultimate Indemnity Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2018.

### [Chart 10: Ultimate Medical Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2018.
- Includes data for indemnity claims only. MCCP costs have been excluded from all years for consistency of comparison.

### [Chart 11: Ultimate ALAE \(excl. MCCP\) Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2018.
- Includes data for indemnity claims only. MCCP costs are excluded from all years for consistency of comparison.

### [Chart 12: Ultimate Medical Cost Containment \(MCCP\) Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2018.
- Includes data for indemnity claims only.

### [Chart 13: Change in Medical Service Cost Levels](#)

- Source: WCIRB medical transaction data as of June 30, 2018.

### [Chart 14: Change in Pharmaceutical Cost Levels](#)

- Source: WCIRB medical transaction data as of June 30, 2018.

### [Chart 15: Number of Liens Filed](#)

- Source: the Division of Workers' Compensation.

### [Chart 16: Ratios of Paid ALAE to Paid Losses](#)

- Source: WCIRB aggregate financial data calls.
- MCCP costs paid on policies incepting prior to July 1, 2010 are considered loss and costs paid on policies incepting after July 1, 2010 are considered ALAE.

### [Chart 17: Projected Ultimate Losses Less Reported Losses](#)

- Insurer-reported losses include insurers' estimates of incurred but not reported (IBNR) losses that may, in part, reflect allocations of IBNR losses to line of business, state, and accident year, and are on a basis that does not reflect anticipated reinsurance recoveries or employer-paid deductibles. As a result, the amounts shown do not necessarily equate to specific estimates of the adequacy of insurers' reserves for unpaid losses.
- Projected ultimate losses are based on WCIRB aggregate financial data call data as of December 31, 2018.





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**Workers' Compensation Insurance Rating Bureau of California**

1221 Broadway, Suite 900  
Oakland, CA 94612  
888.CA.WCIRB (888.229.2472)