



**WCIRB**California®  
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# WCIRB Quarterly Experience Report

As of December 31, 2019

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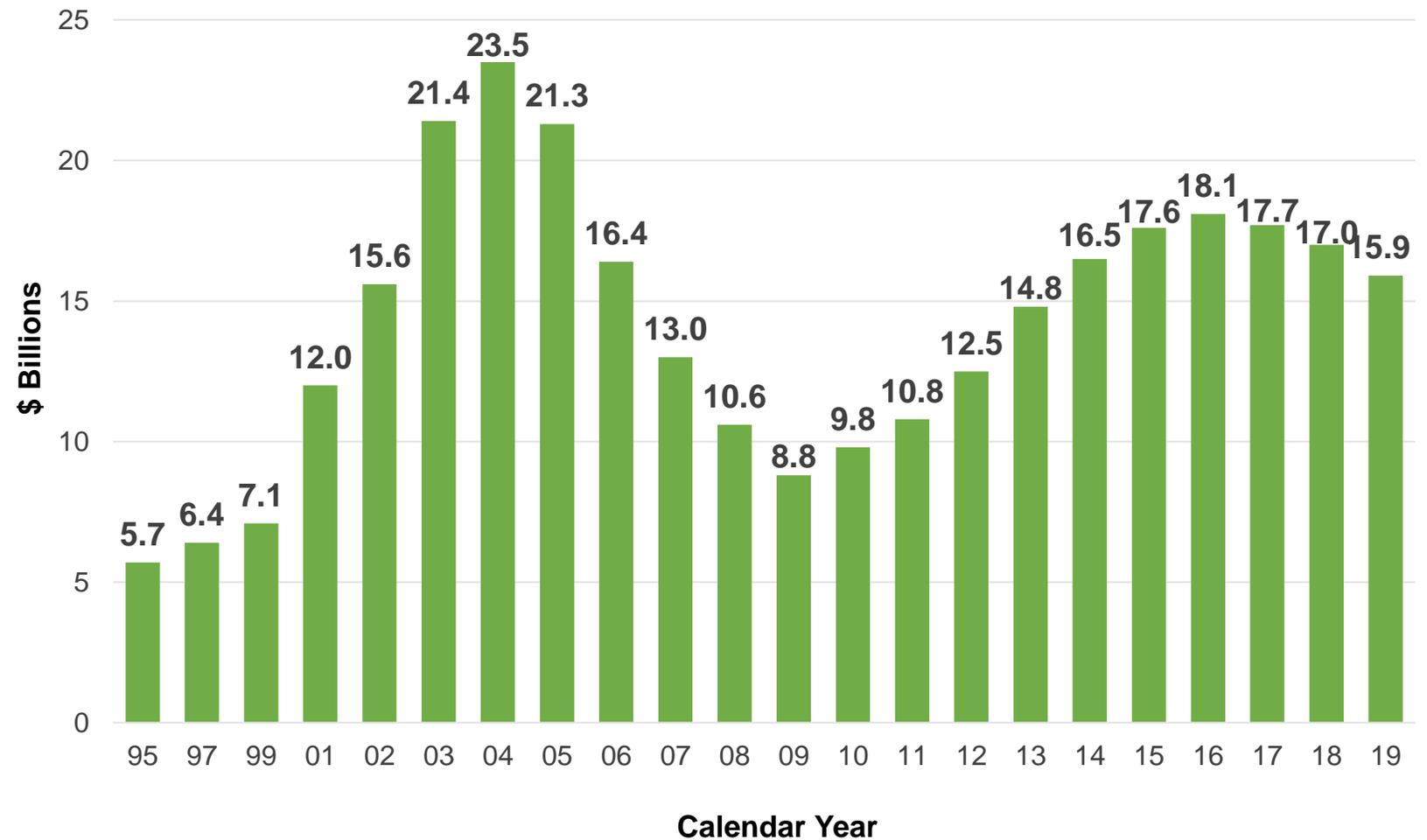


## Chart 1

- Written premium for 2019 is 6% below that for 2018 and 12% below the peak in 2016.
- The decreases since 2016 are primarily driven by decreases in insurer charged rates more than offsetting increases in employer payroll.
- The impact of the COVID-19 crisis on the California economy is expected to significantly reduce employer payroll and insurer premium in 2020.

# Written Premium | Gross of Deductible Credits

As of December 31, 2019





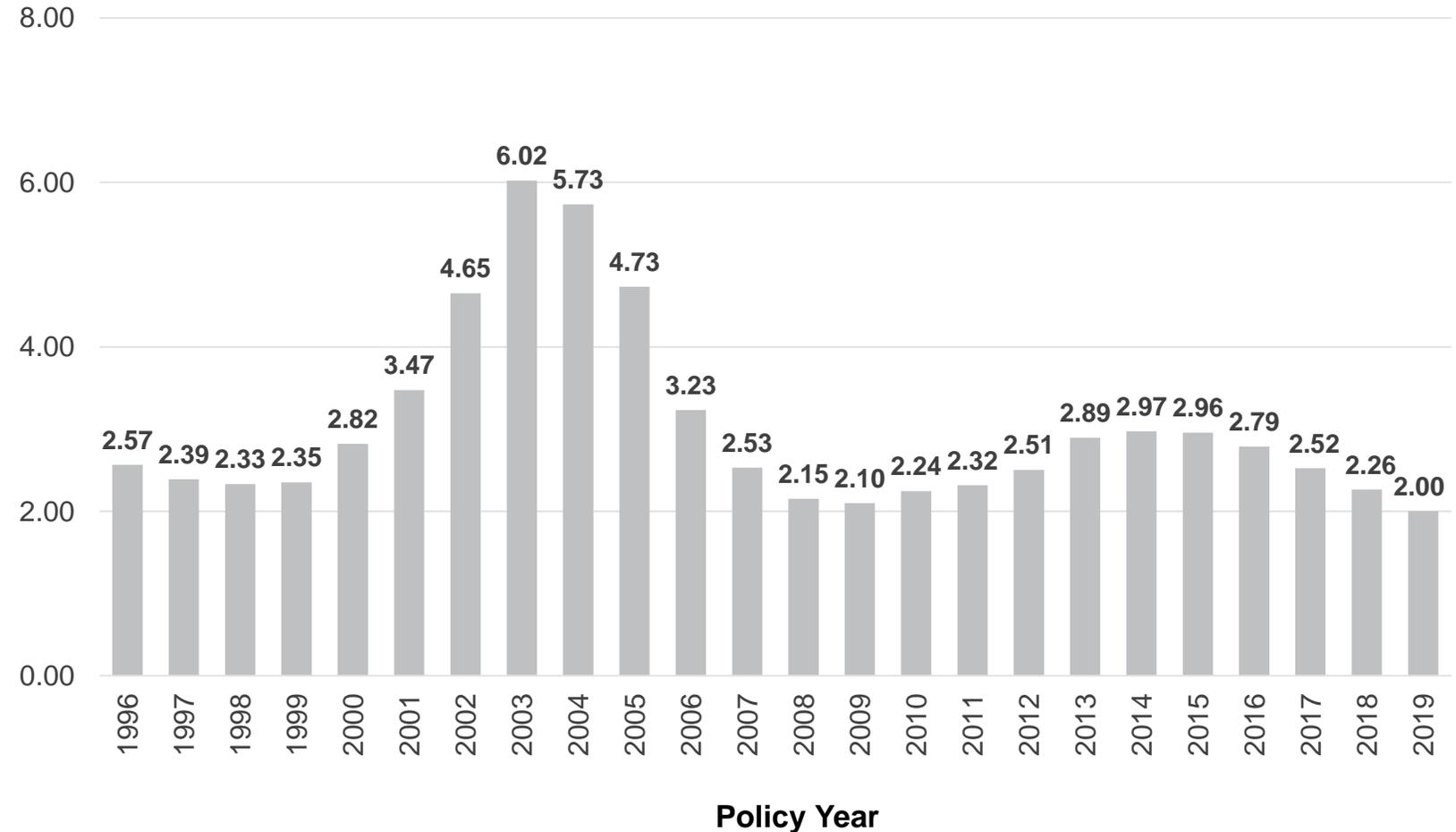
## Chart 2

- The average charged rate for 2019 is 12% below that for 2018 and 33% below the peak in 2014.
- The January 1, 2020 approved advisory pure premium rates are on average 47% below those for January 1, 2015.

# Industry Average Charged Rates

As of December 31, 2019

### Rate per \$100 Payroll



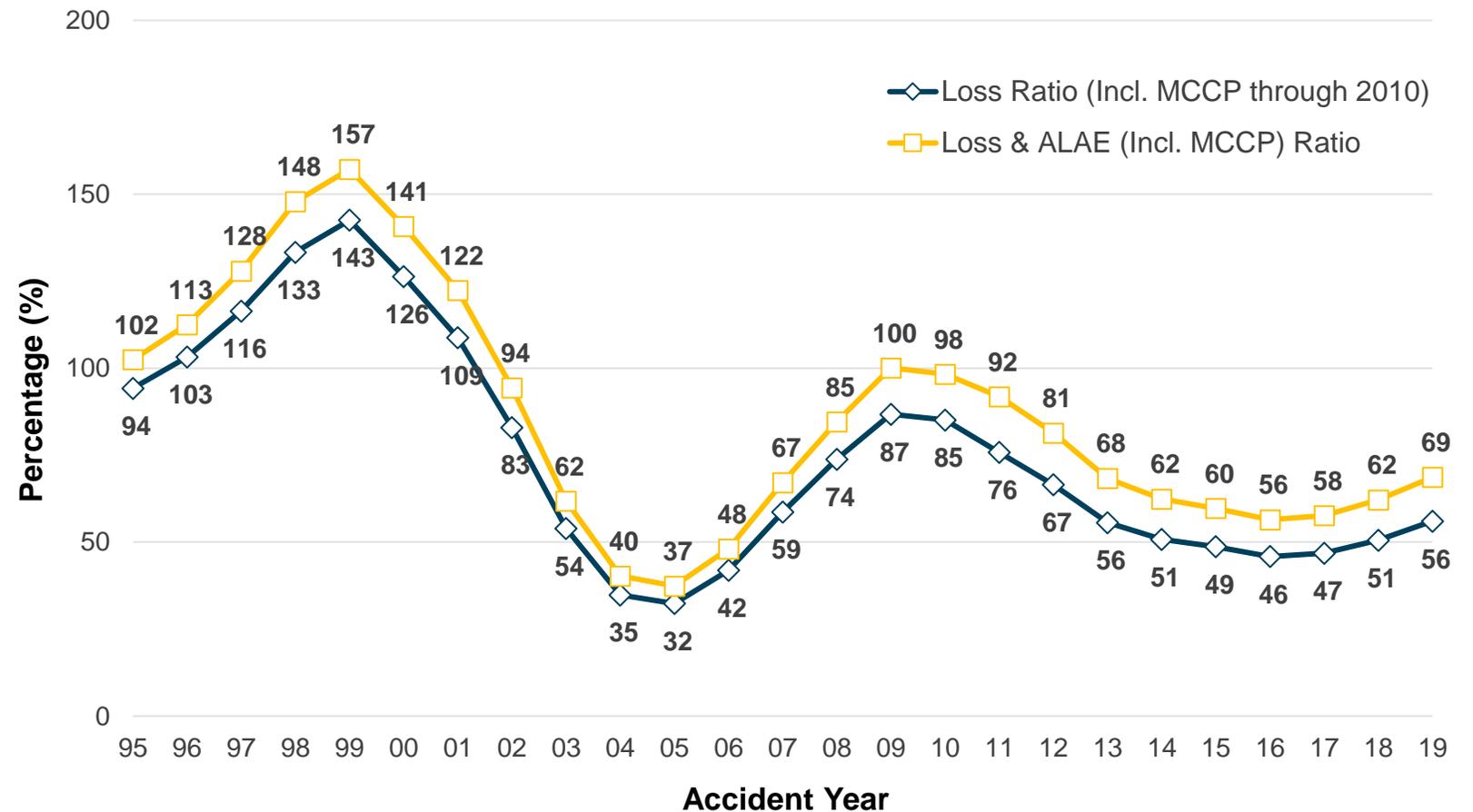


### Chart 3

- The projected loss ratio for 2019 is 5 points above that for 2018, primarily driven by lower premium rates.
- These ultimate projections as of December 31, 2019 are generally consistent with those as of the prior three quarters as the trends in downward loss have moderated through December 31, 2019.

## Ultimate Accident Year Loss Ratios

As of December 31, 2019



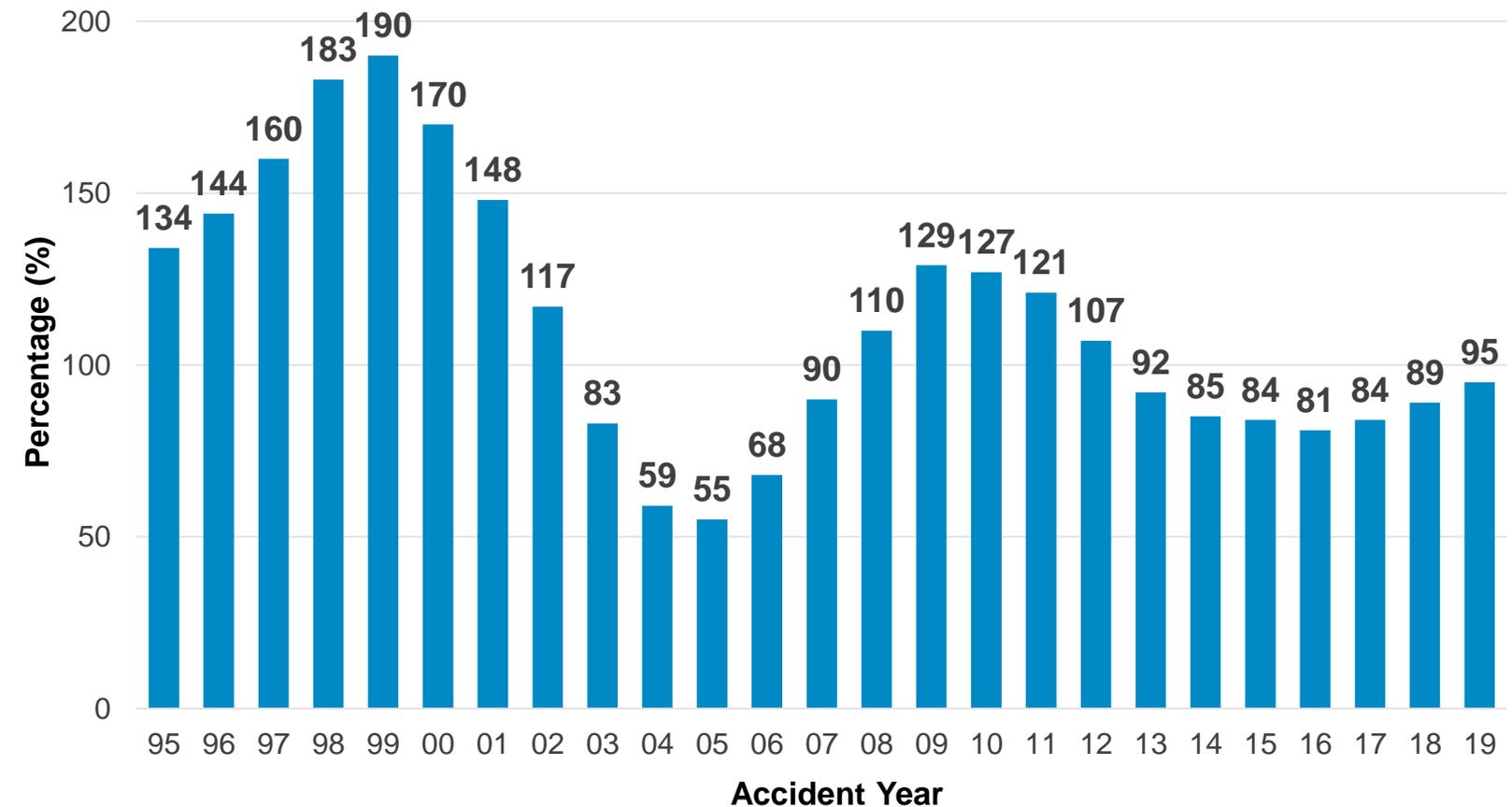


## Chart 4

- The projected combined ratio for 2019 is 6 points higher than 2018 and 14 points higher than the low point in 2016 as premium levels have lowered while average claim severities increased moderately.
- Despite the recent increase, combined ratios for 2012 through 2019 are each below 100% and are the lowest since the 2003 through 2007 period.
- The COVID-19 crisis is likely to significantly reduce premium levels in 2020 and may increase overall costs leading to further increases in the combined ratio.

# Projected Accident Year Combined Ratios

As of December 31, 2019



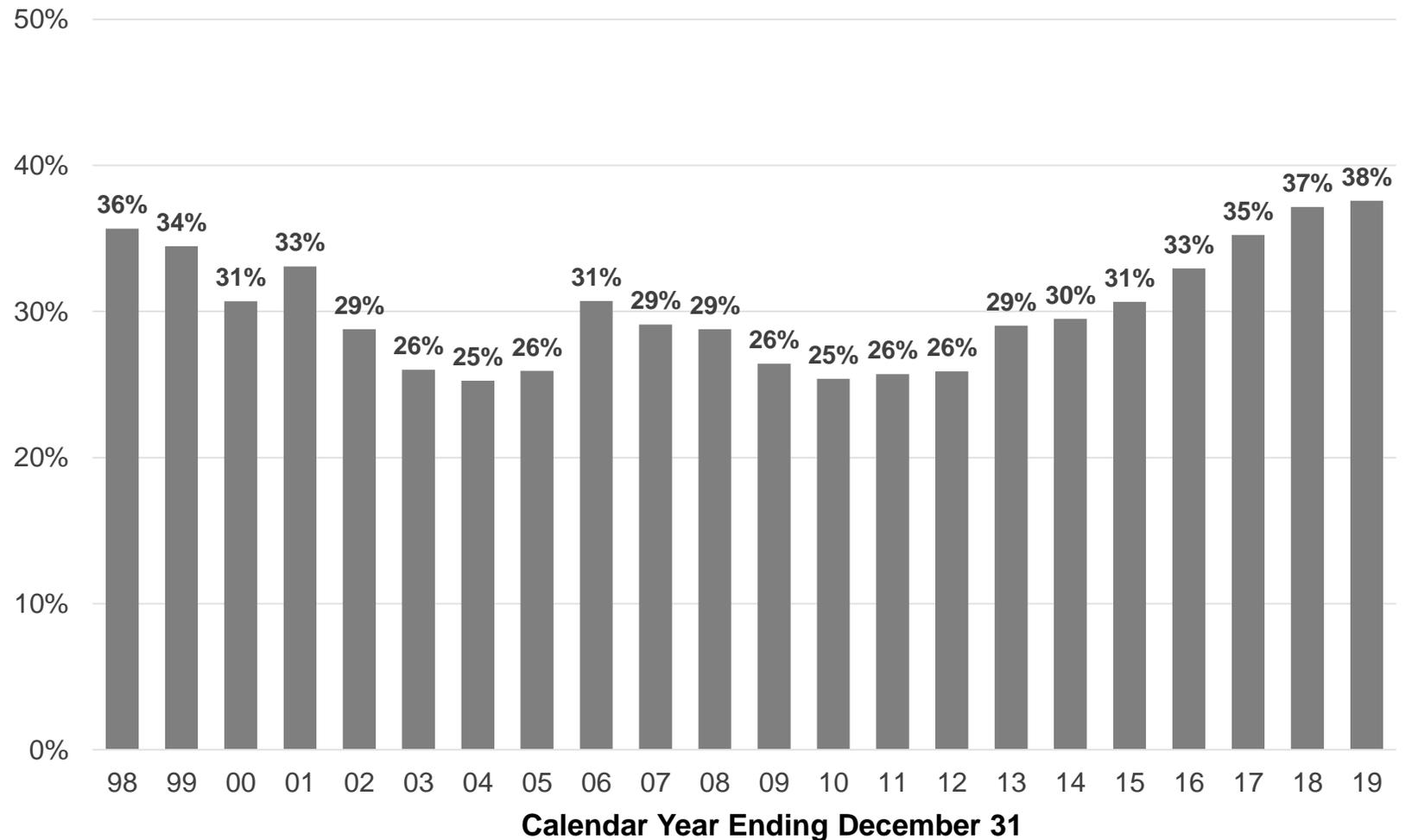


## Chart 5

- Indemnity claims have settled quicker over the last several years, largely driven by SB 863 and SB 1160 reforms.
- The ratio for 2019 is only modestly higher than 2018, which is driven by more recent accident years, suggesting claim settlement rates may be plateauing.
- Claim activity is expected to slow down by the end of the first quarter of 2020 and continue into the second quarter as a result of the COVID-19 crisis.

## Percent of Open Indemnity Claims Closed in Next Year

As of December 31, 2019



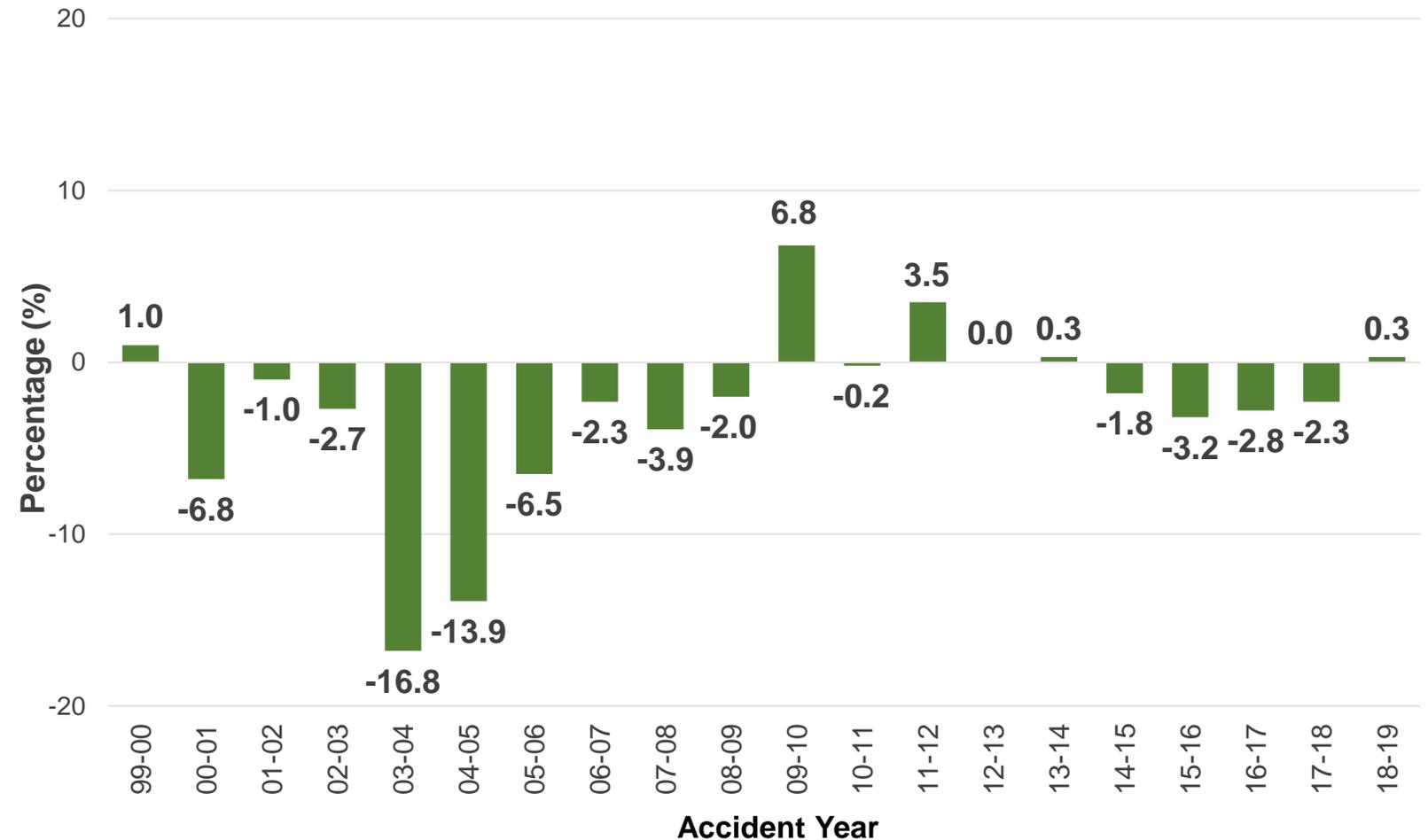


## Chart 6

- Claim frequency increased by 11% from 2009 to 2014, but decreased by 10% from 2014 to 2018 and has remained relatively flat in 2019.
- The impact of the COVID-19 crisis on claim frequency is not yet clear. Although some claims arising from exposure to the virus are being filed, the slowdown in economic activity may otherwise reduce claim filings.

# Change in Indemnity Claim Frequency

As of December 31, 2019

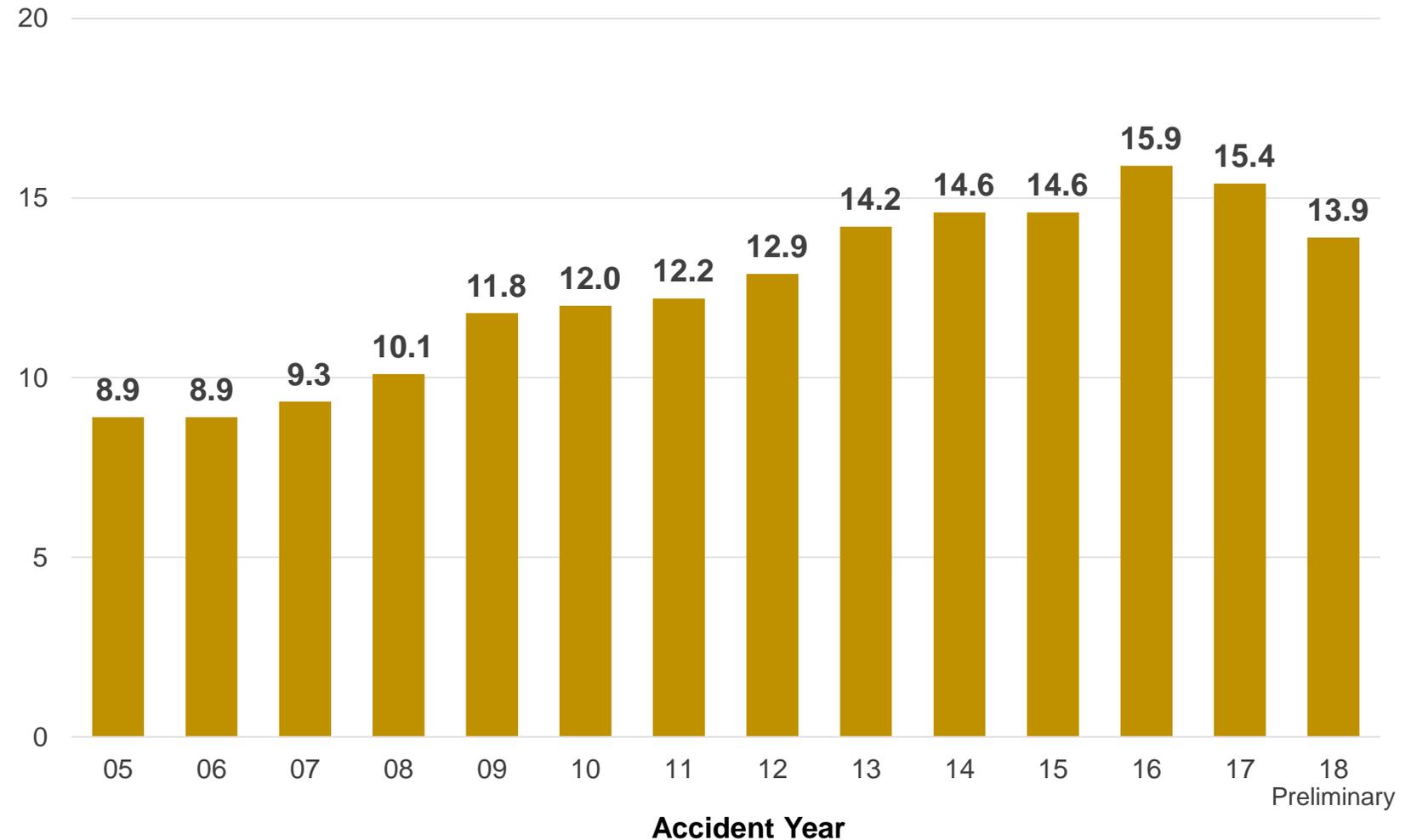




## Chart 7

- Cumulative trauma (CT) claim rates increased through 2016 to be almost 80% above the 2005 level.
- 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.
- CT claim rates since 2016 have begun to decline but are still well above the pre-Great Recession levels.

## Cumulative Trauma Claims per 100 Indemnity Claims



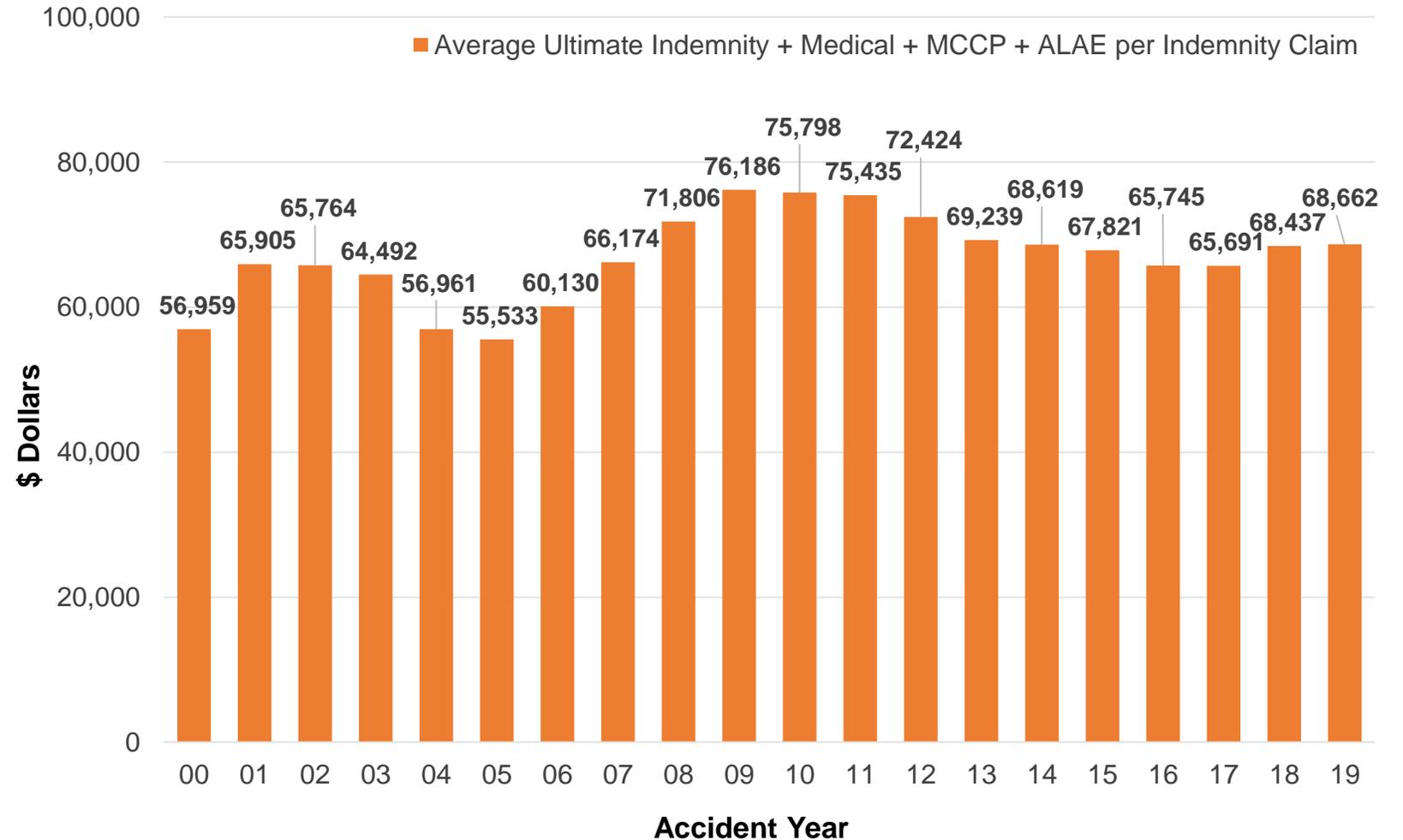


## Chart 8

- Projected total claim severity for 2019 is generally consistent with that for 2018.
- Since 2013, the change in total claim severity has been relatively modest.

# Ultimate Total Loss and ALAE Severities

As of December 31, 2019



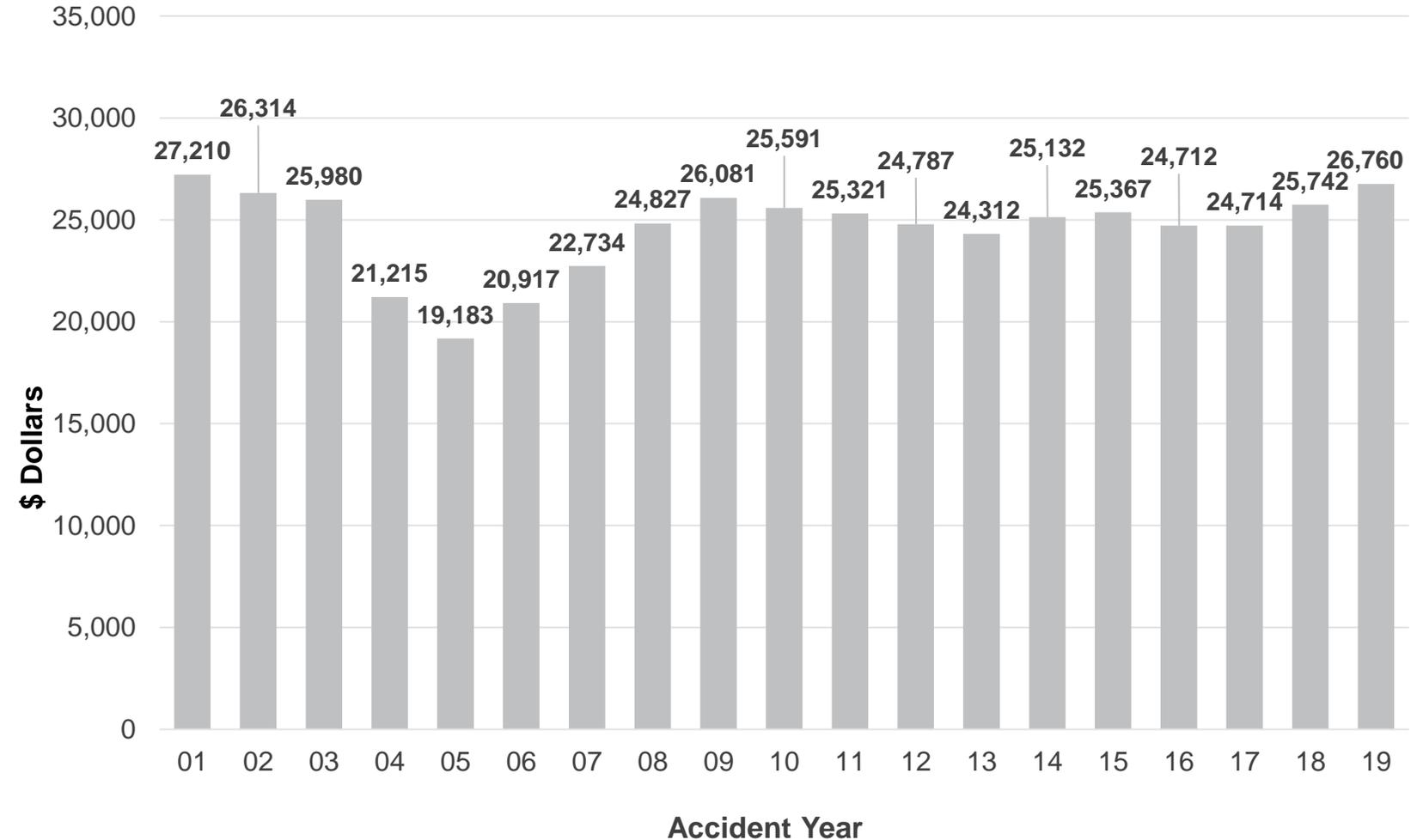


## Chart 9

- Following several years of flat indemnity severities, the projected indemnity severity for 2019 is 4% higher than 2018 and 8% higher than 2017.

# Ultimate Indemnity Severities

As of December 31, 2019



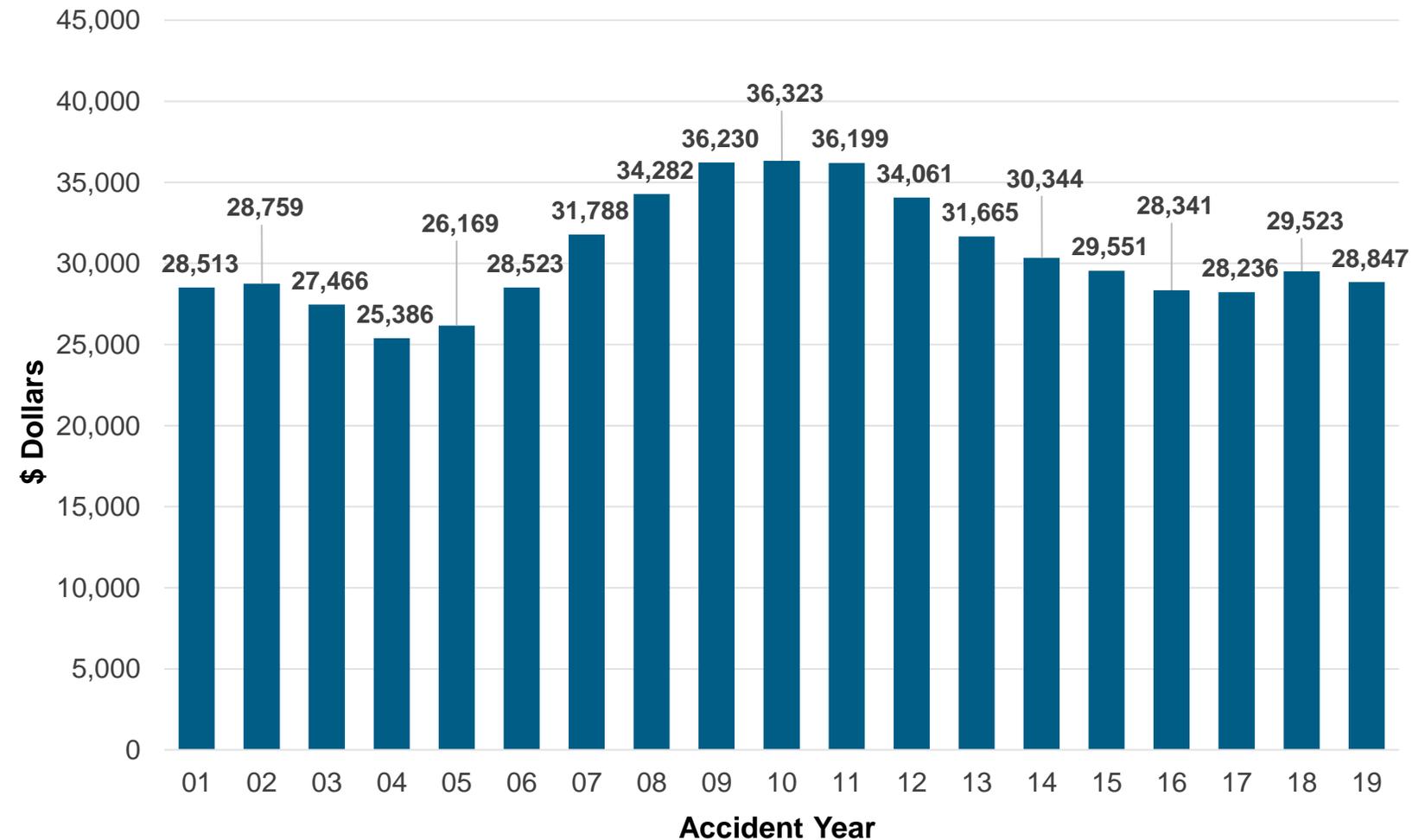


## Chart 10

- The projected medical severity increased by 5% in 2018, in part driven by a relatively higher volume of large claims and annual inflation adjustments to medical fee schedules.
- The projected medical severity decreased by 2% in 2019. An initial review of 2019 suggests decreases in the utilization of medical services and flattening claim settlement rates are impacting average medical costs.

# Ultimate Medical Severities

As of December 31, 2019



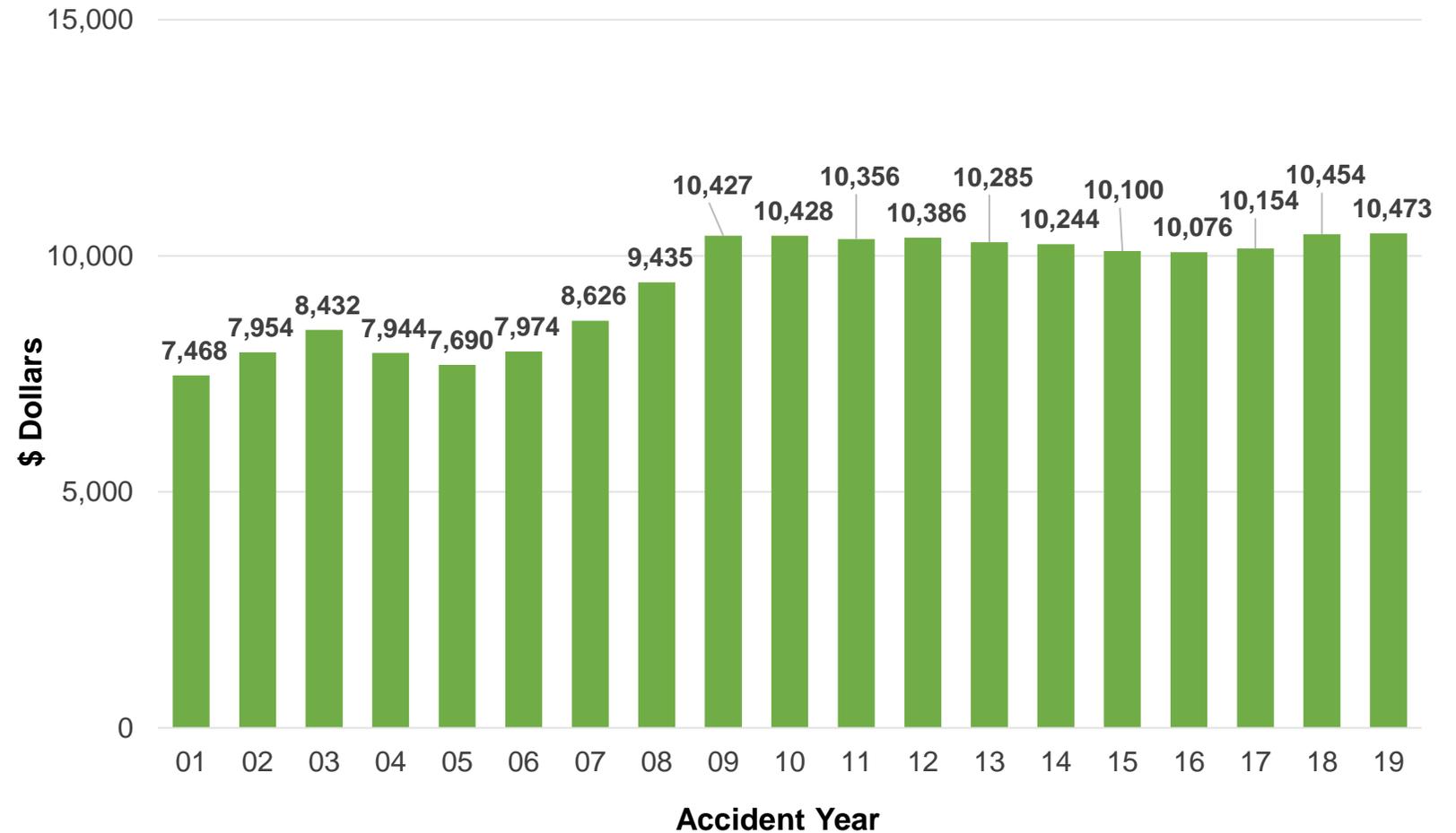


## Chart 11

- ALAE severities have been flat from 2009 through 2019 despite reductions in average loss severities driven by reforms.

# Ultimate ALAE (excl. MCCP) Severities

As of December 31, 2019



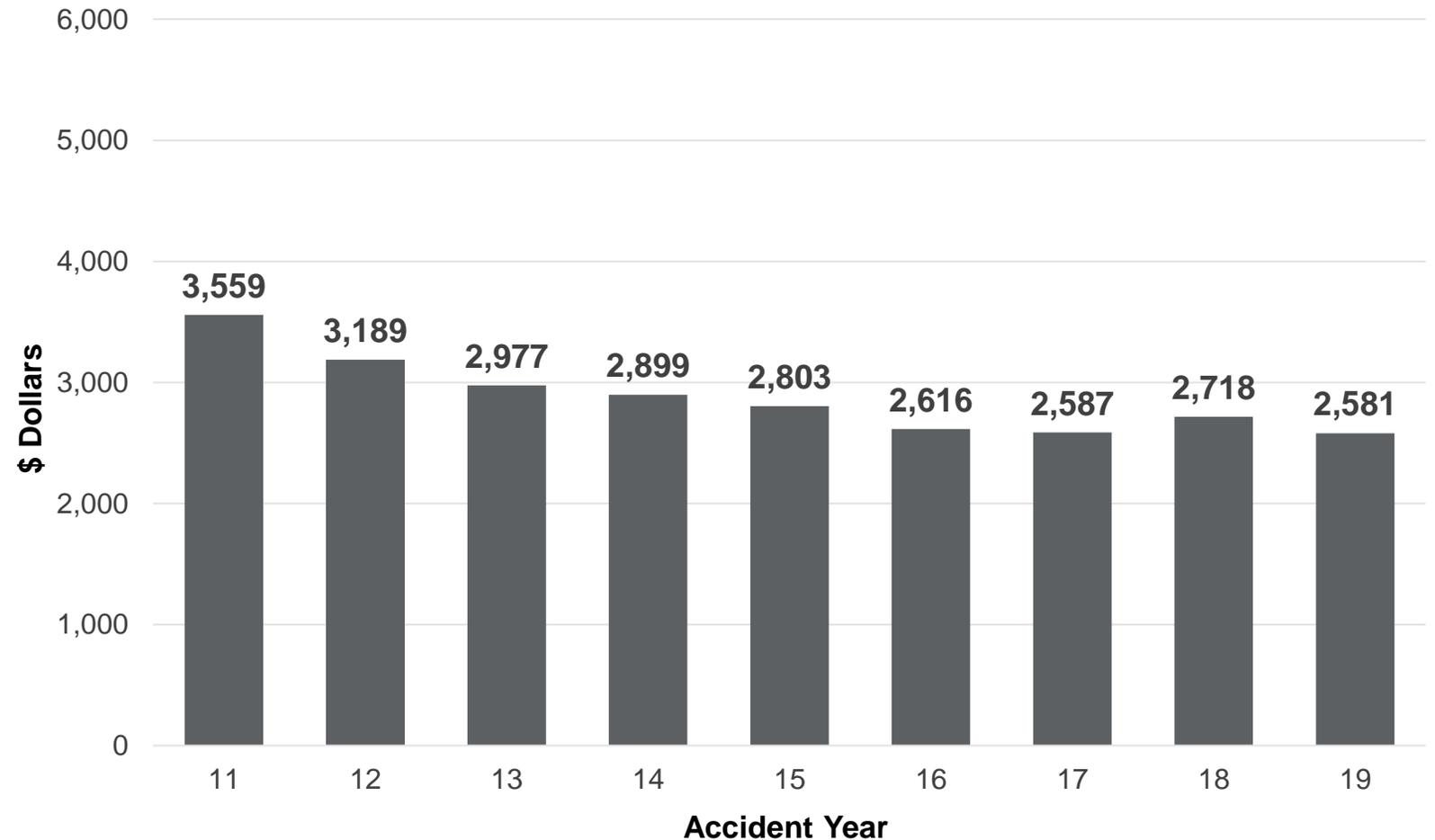


## Chart 12

- After an increase in 2018, projected MCCP cost severity for 2019 is 5% lower than that for 2018.
- Average MCCP costs have generally 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, 2019



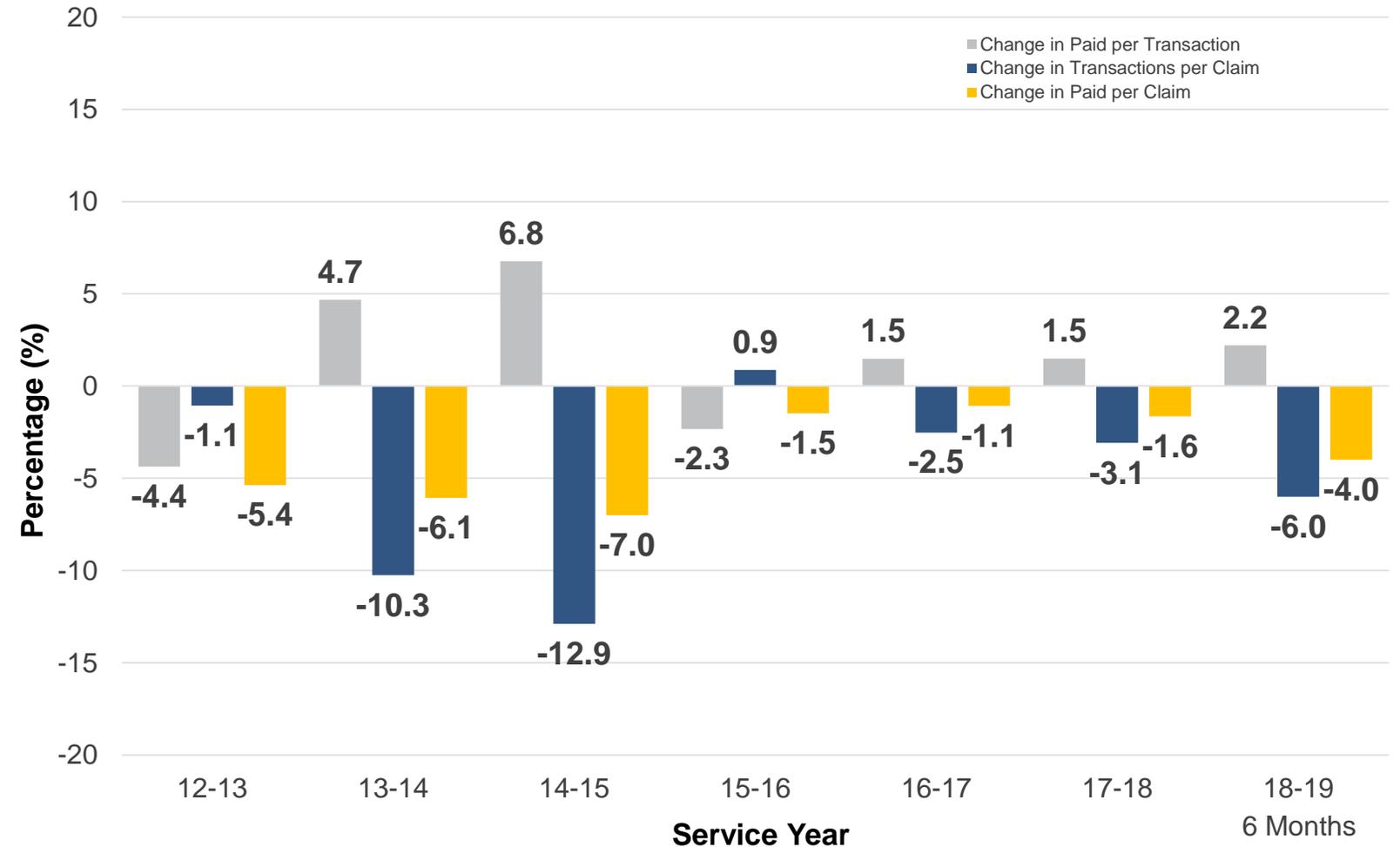


## Chart 13

- Medical service costs per claim decreased by 24% from 2012 through the first half of 2019, driven by decreases in the number of transactions per claim.

# Change in Medical Service Cost Levels

As of October 7, 2019



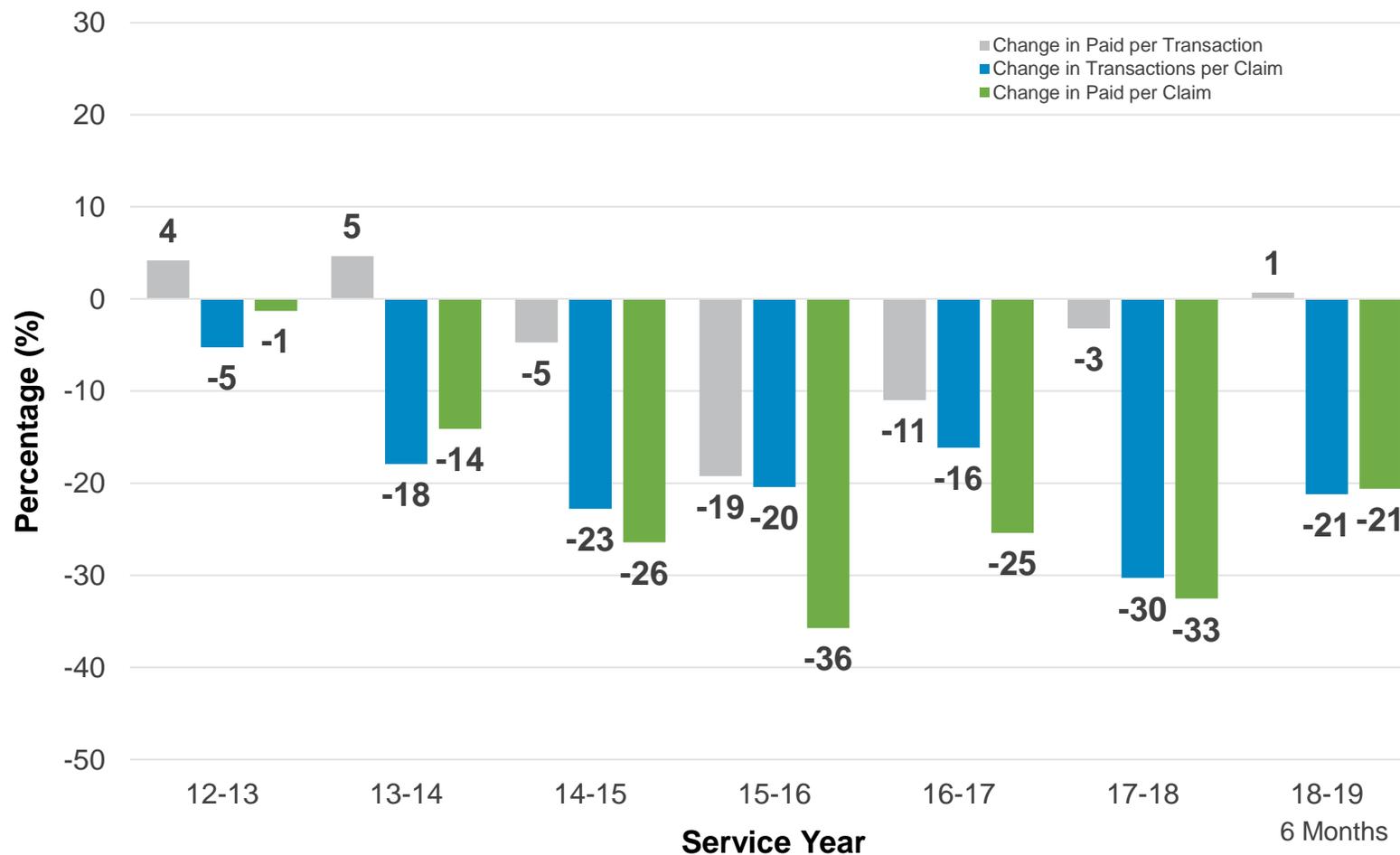


## Chart 14

- Pharmaceutical costs per claim decreased more than 80% from 2012 through the first half of 2019.
- These reductions have been driven by SB 863's IMR & IBR, reduced utilization of opioids, changes to Medi-Cal reimbursement rates, efforts to combat fraud, and the new drug formulary.
- Pharmaceutical utilization continued to decrease significantly in 2018 and 2019, the first periods in which the drug formulary is in effect.

# Change in Pharmaceutical Cost Levels

As of October 7, 2019



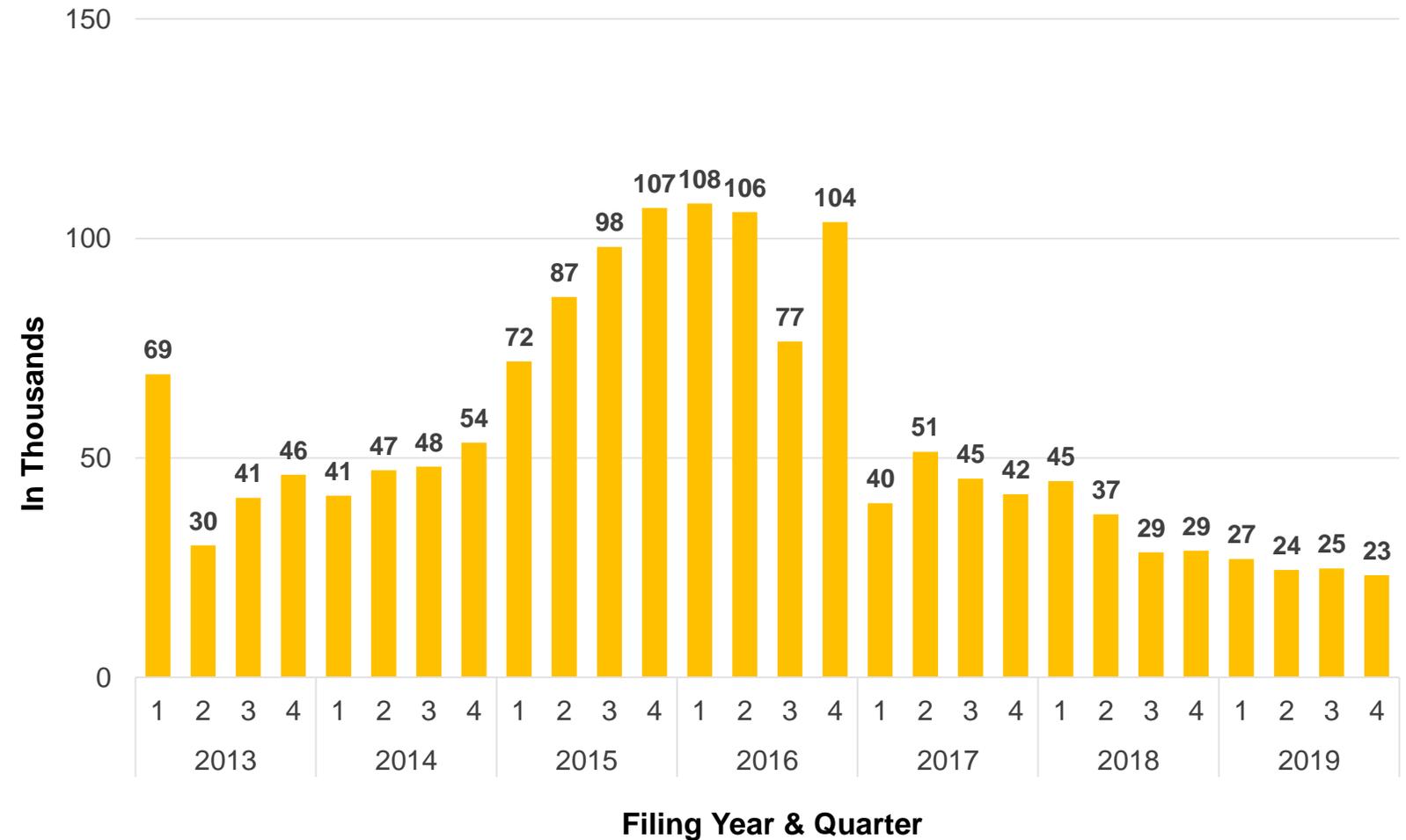


## Chart 15

- SB 1160 and AB 1244 made changes to the lien filing process effective in 2017.
- The number of liens filed in 2019 are more than 60% below pre-SB 1160 and AB 1244 levels.

# Number of Liens Filed

As of December 31, 2019



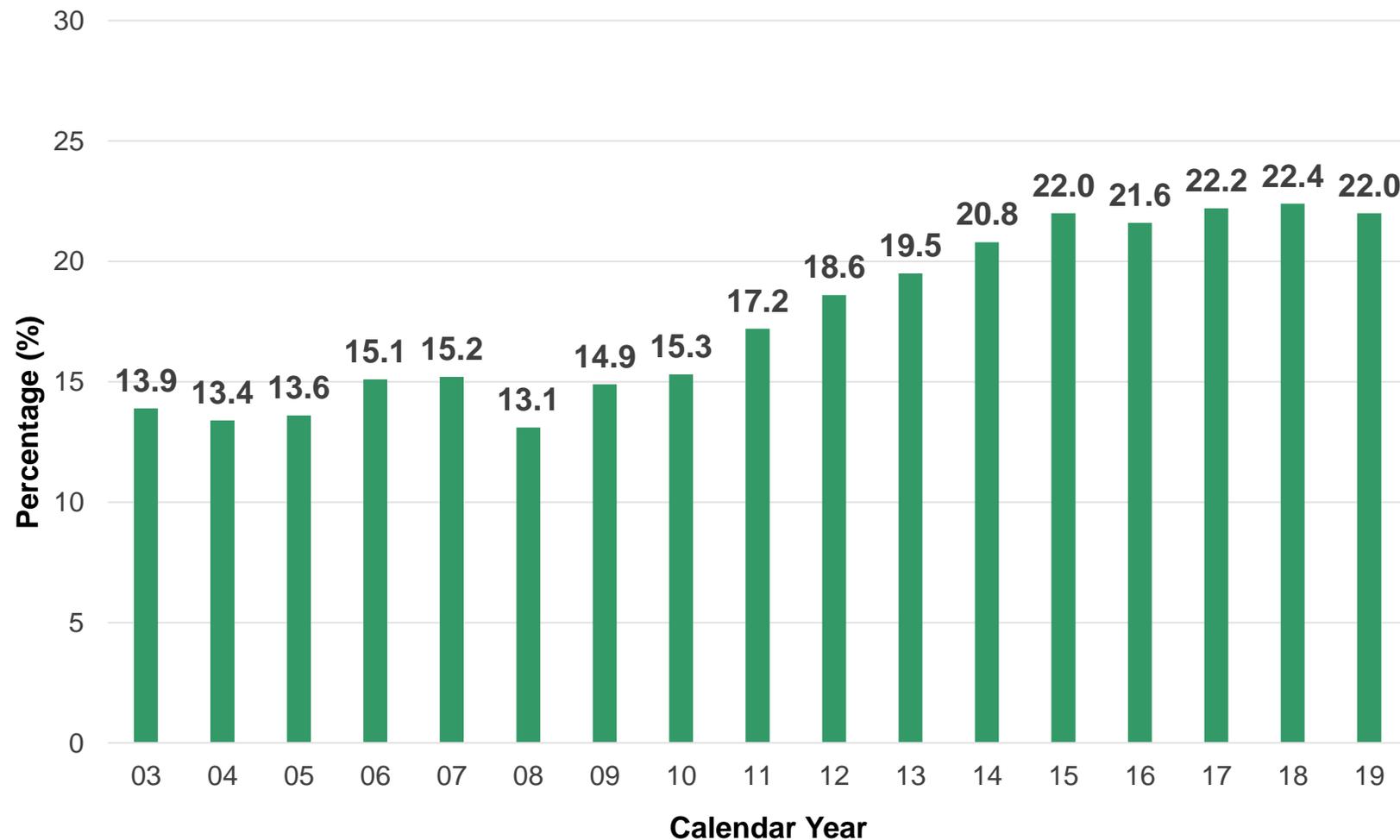


## Chart 16

- 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 2019, these ratios have been generally consistent as savings from recent reforms have not materialized in lower ALAE costs.

# Ratios of Paid ALAE to Paid Losses

As of December 31, 2019



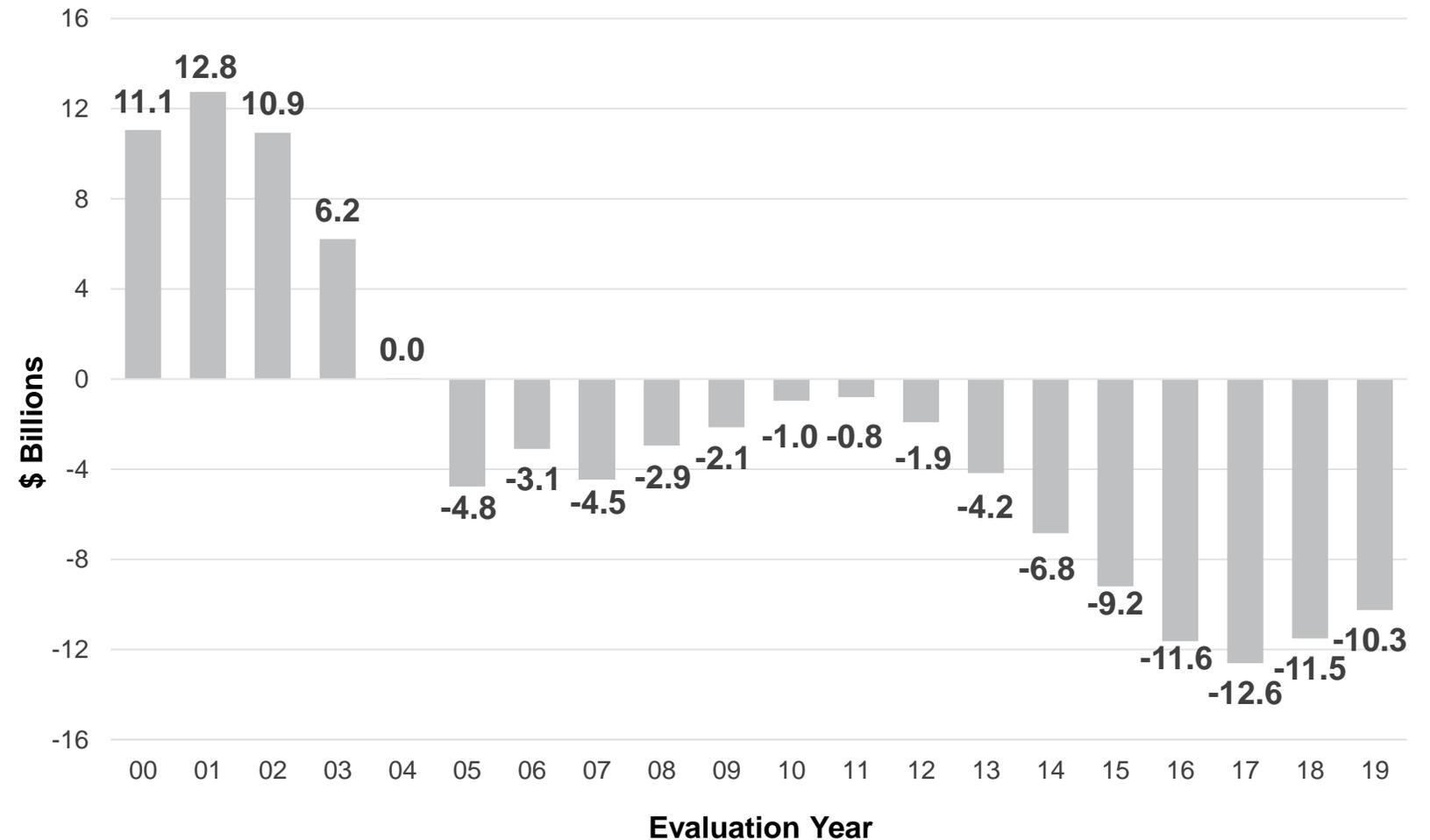


## Chart 17

- Projected total statewide ultimate losses for 2005 through 2019 evaluations are below the amounts reported by insurers.

# Projected Ultimate Losses Less Reported Losses

As of December 31, 2019





## 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, 2019. 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 portions of MCCP costs for accident years 2010 and 2011 have been reported as medical loss and some portions have 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, 2019.
- 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, 2019.
- 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, 2019.
- Figures represent the number of indemnity claims aged between 12 to 96 months closed during the year as a ratio of the number of estimated ultimate claims open or not yet reported 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 2018, and changes in reported indemnity claim counts compared to changes in statewide employment based on WCIRB aggregate financial data call data for accident year 2019.

### [Chart 7: Cumulative Trauma Claims per 100 Indemnity Claims](#)

- Source: WCIRB unit statistical data based on partial accident years. Claim counts are developed to an estimated ultimate level.
- Accident year 2018 data is preliminary.

### [Chart 8: Ultimate Loss & ALAE Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2019.
- 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, 2019.

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

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2019.
- 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, 2019.
- 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, 2019.
- Includes data for indemnity claims only.

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

- Source: WCIRB medical transaction data as of October 7, 2019.

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

- Source: WCIRB medical transaction data as of October 7, 2019.

### [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, 2019.



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