

California Workers' Compensation System - Update

WCIRB Perspective

July 14, 2023

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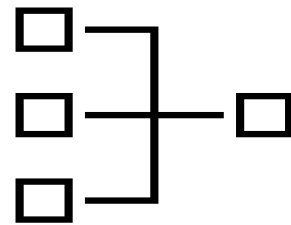
Workers' Compensation Insurance Rating Bureau of California

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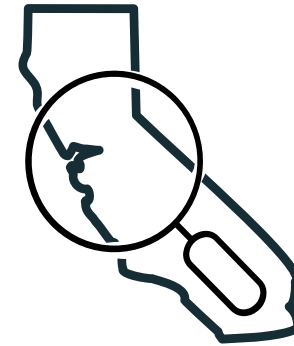
Discussion Topics



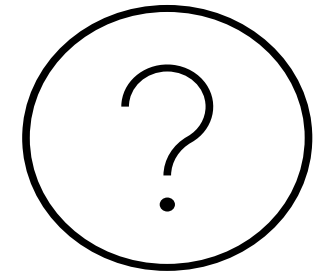
Introduction



Insurance
Market
Update



WCIRB
'Watch List'



Q&A



Introduction

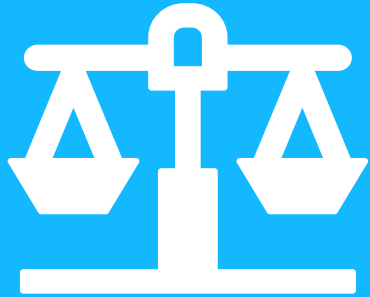


Who is the WCIRB

- The WCIRB is a private, nonprofit, licensed rating bureau for workers' compensation insurance
- The WCIRB is the California Insurance Commissioner's designated statistical agent
- All insurers licensed to write workers' compensation insurance in California are members of the WCIRB
- WCIRB funded primarily through assessments of insurers proportionate to their premium volume

The WCIRB is California's trusted, objective provider of actuarially-based information and research, advisory pure premium rates, and educational services integral to a healthy workers' compensation system.

WCIRB Roles and Responsibilities



Licensed Rating Organization

Licensed by the Insurance Commissioner to:

- Collect loss and expense statistics
- Formulate rules
- Examine policies and endorsements
- Conduct classification inspections
- Perform test audits
- Administer experience rating system



Designated Statistical Agent

The Insurance Commissioner's designated agent to:

- Develop advisory pure premium rates
- Develop uniform rules and regulations
- Administer standard classification system



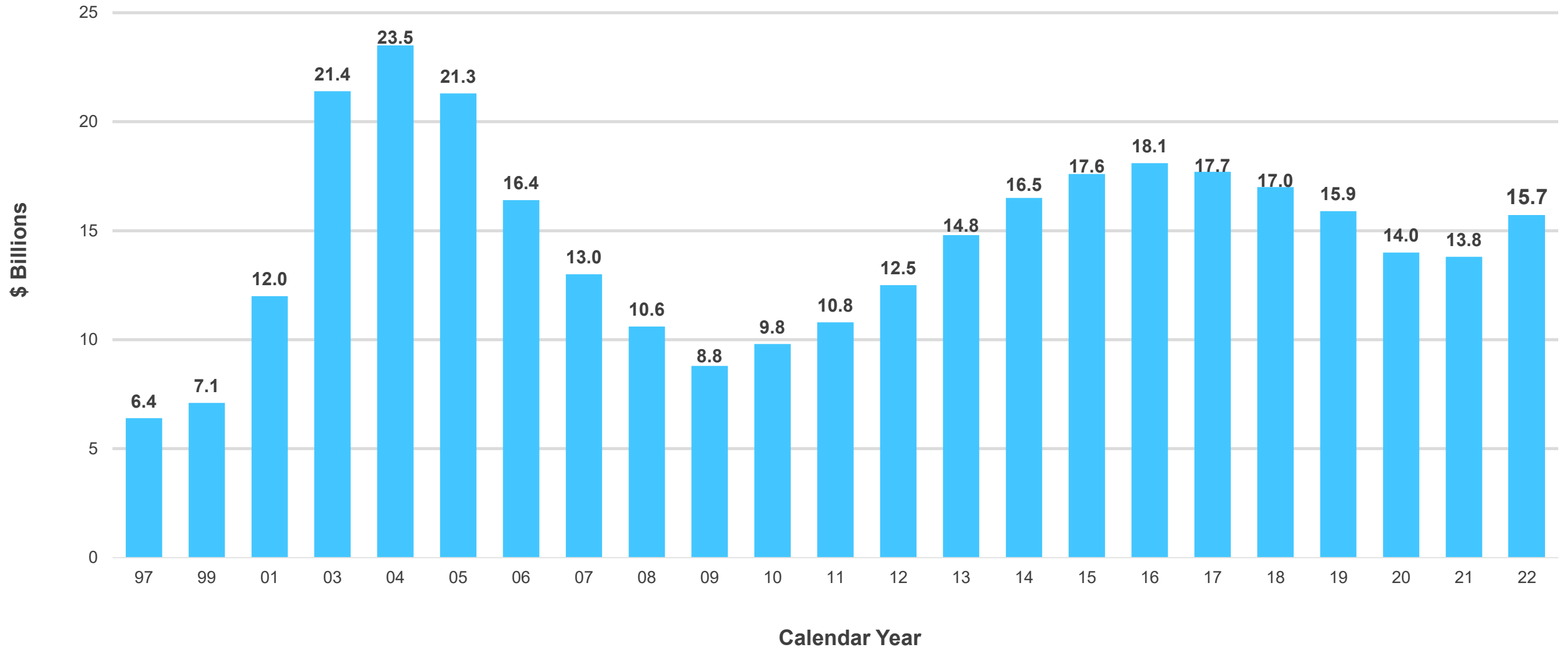
System Research and Education

- Provide analytics, research products and tools to facilitate decision-making
- Identify emerging trends and understand system implications
- Advance the health of the system through innovative research and education



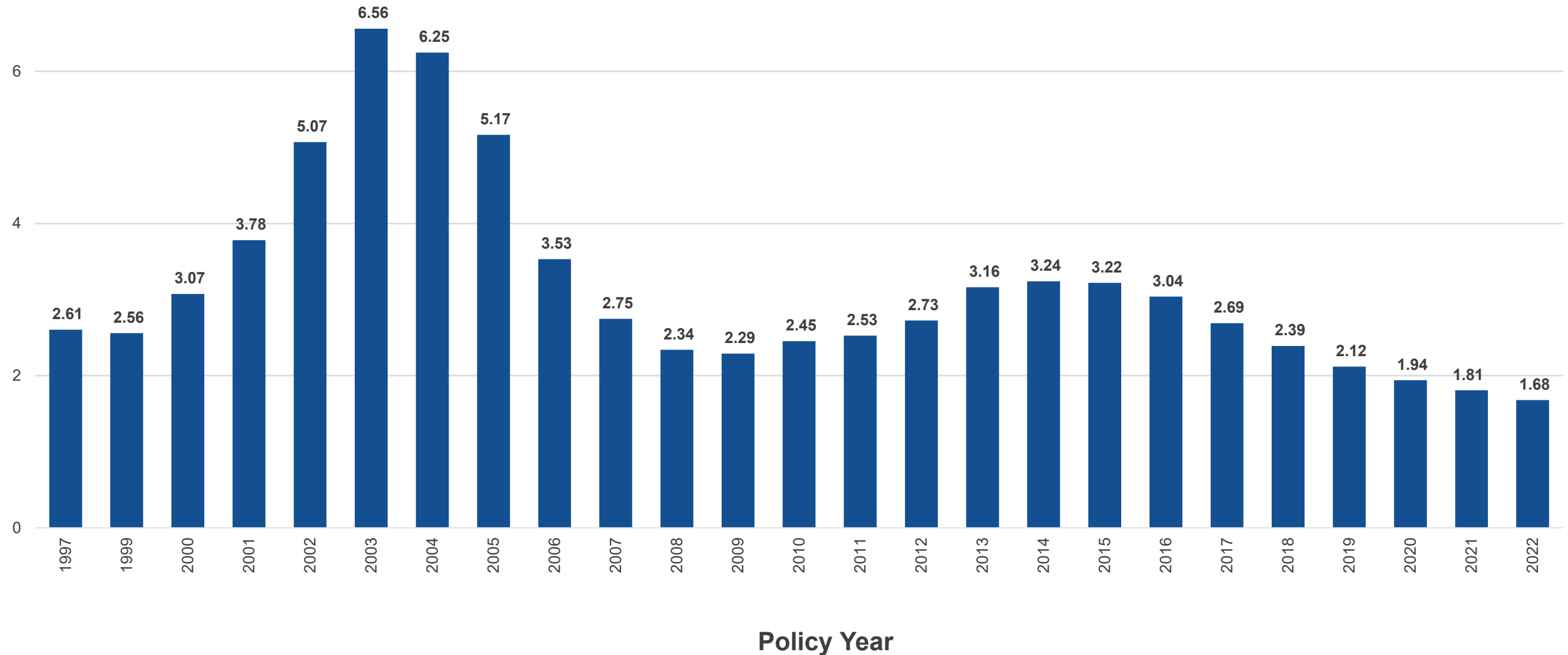
Insurance Market Update

Written Premium



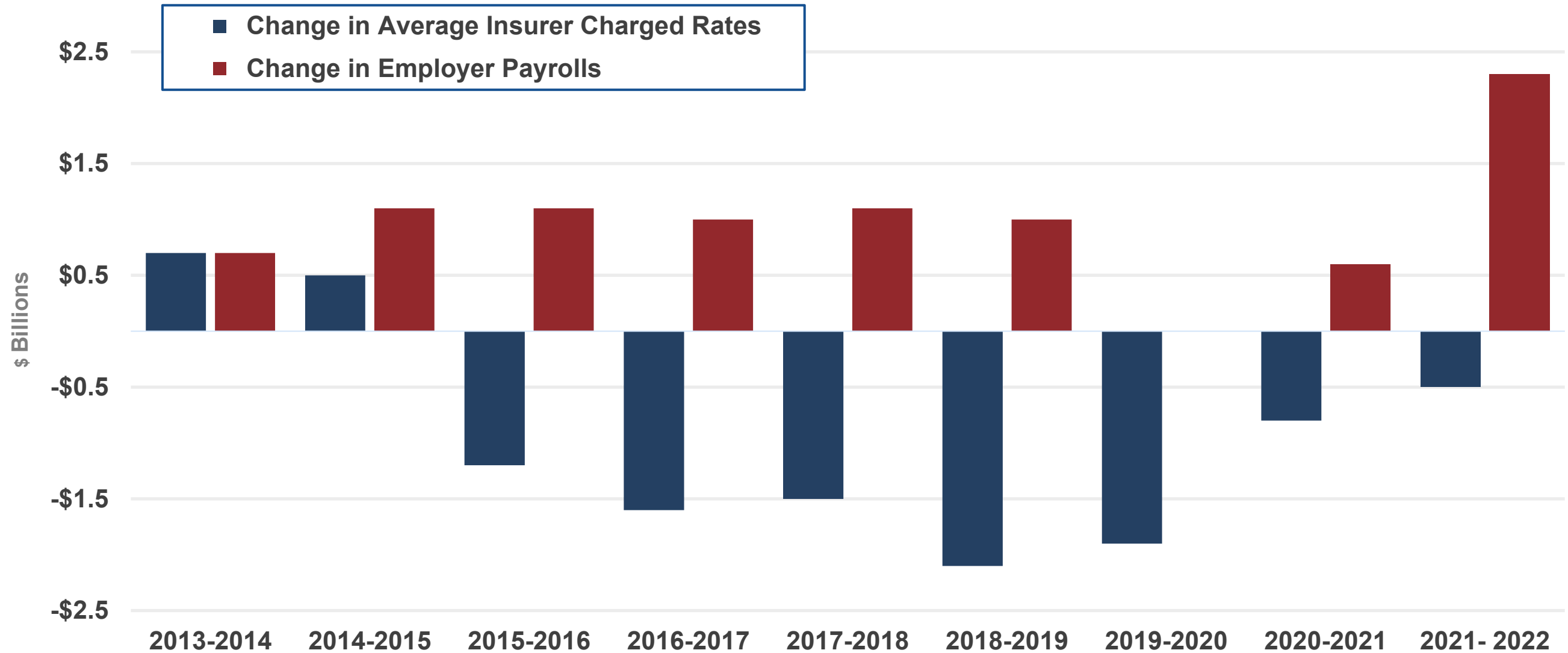
Source: WCIRB aggregate financial data as of December 31, 2022, gross of deductible credits.

Industry Average Charged Rate – Per \$100 of Payroll



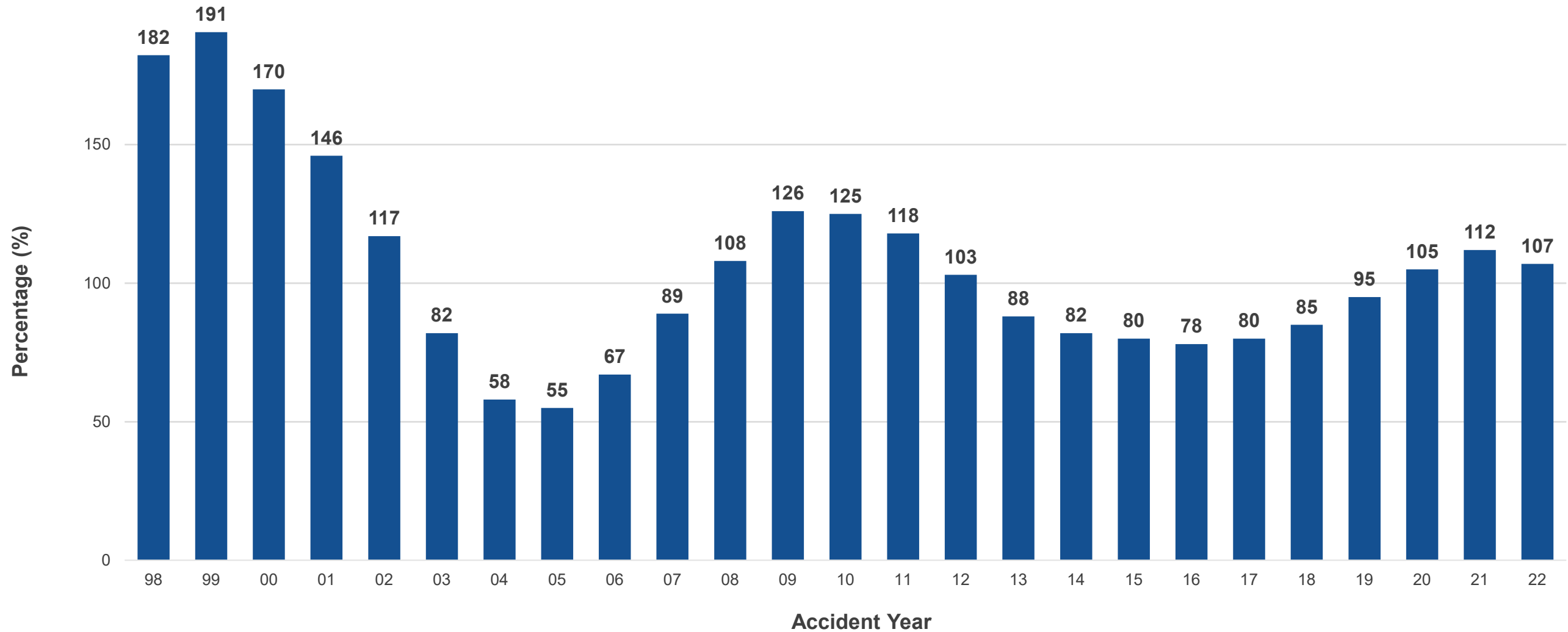
Source: WCIRB aggregate financial data. The 2022 estimate is preliminary.

Drivers of Written Premium



Source: WCIRB aggregate financial data calls as of December 31, 2022 and published California annual wage information published by the UCLA Anderson School of Business. The 2021-2022 figures is preliminary.

Projected Accident Year Combined Loss and Expense Ratios



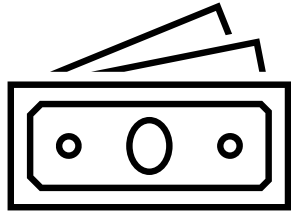
Source: WCIRB projections based aggregate financial data calls as of December 31, 2022. The 2022 ratio is preliminary.



‘Watch List’

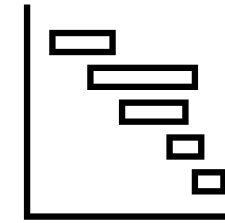
WCIRB's Watch List

1



The Economy

2



Claim Frequency

3



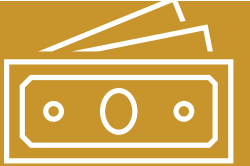
Medical Inflation

4



Frictional Costs

1. The Economy



Pandemic

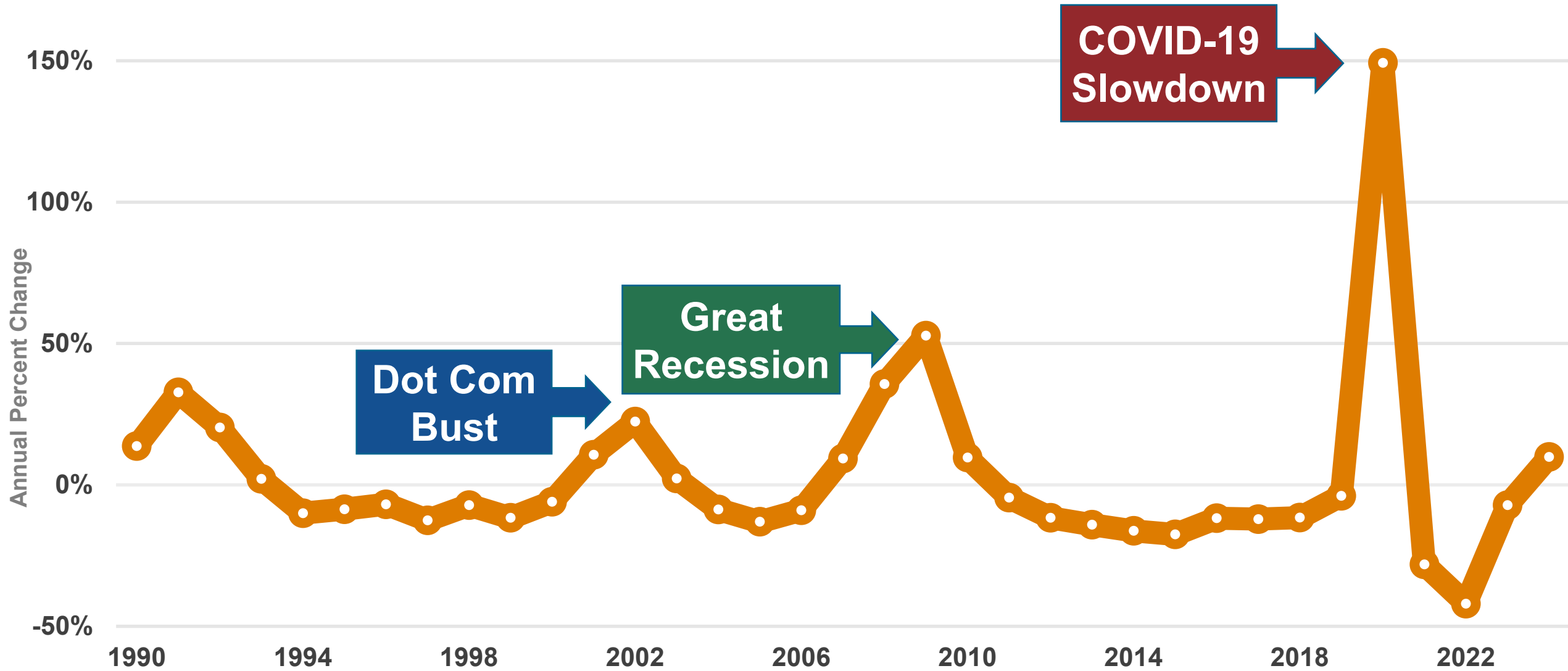
Shutdown

Recovery

Recession?

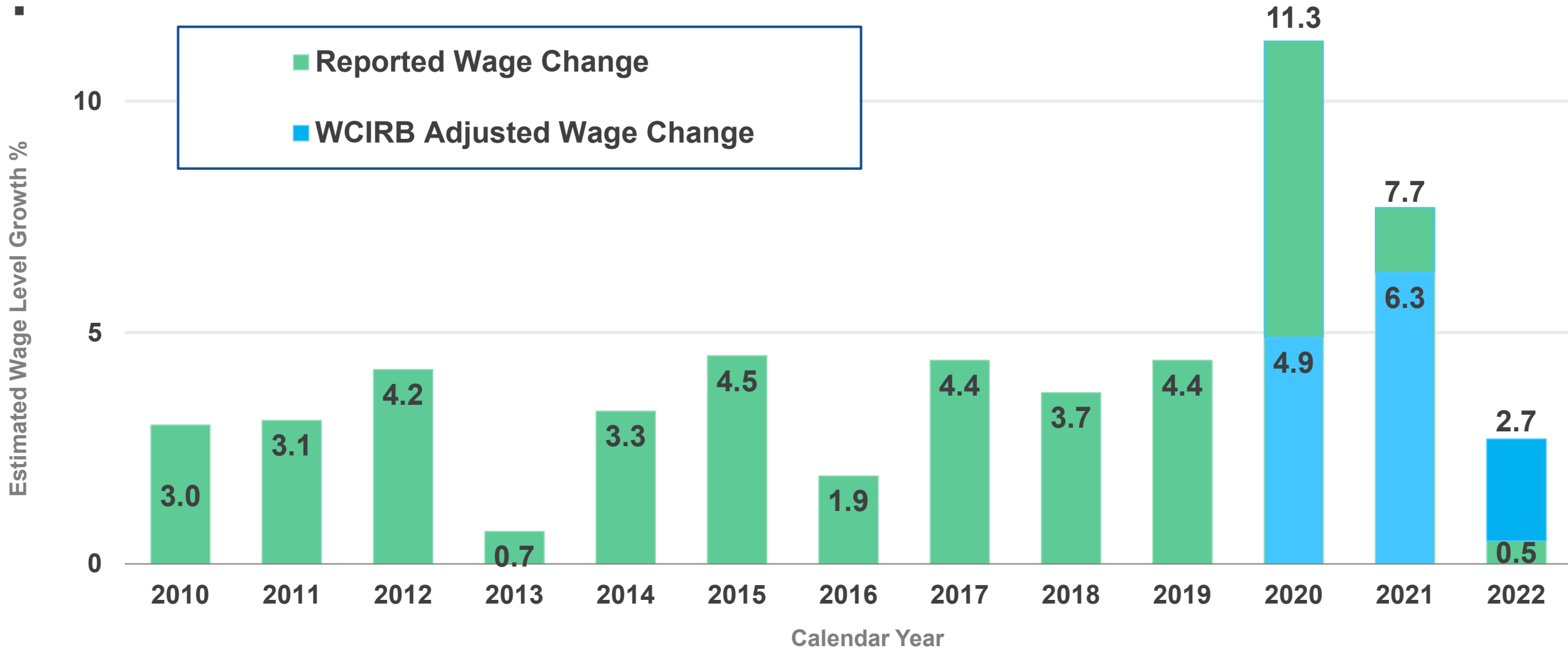
- Pandemic-driven unemployment was historic and uneven, hitting low paid workers the hardest.
- Economic recovery is showing industry sector differences.
- Effects of inflation controls are slowing growth in number of jobs and wages.
- **Is a recession likely?**

Annual Change in California Unemployment Rate



Source: Bureau of Labor Statistics with forecasts from UCLA Anderson School of Business as of December 2022.

Changes in the Statewide California Average Wage



Source:

- UCLA published economic data and forecasts as of March 2023.
- WCIRB adjusted wage changes are based on UCLA forecasts, American Community Survey, and Current Population Survey Extracts as published by the Economic Policy Institute

2. Claim Frequency



Long-Term Pattern

- Long-term rate of decline is moderating.

Pandemic Impact

- Sharp drop in non-COVID Claims in 2020 followed by bounce back in 2021

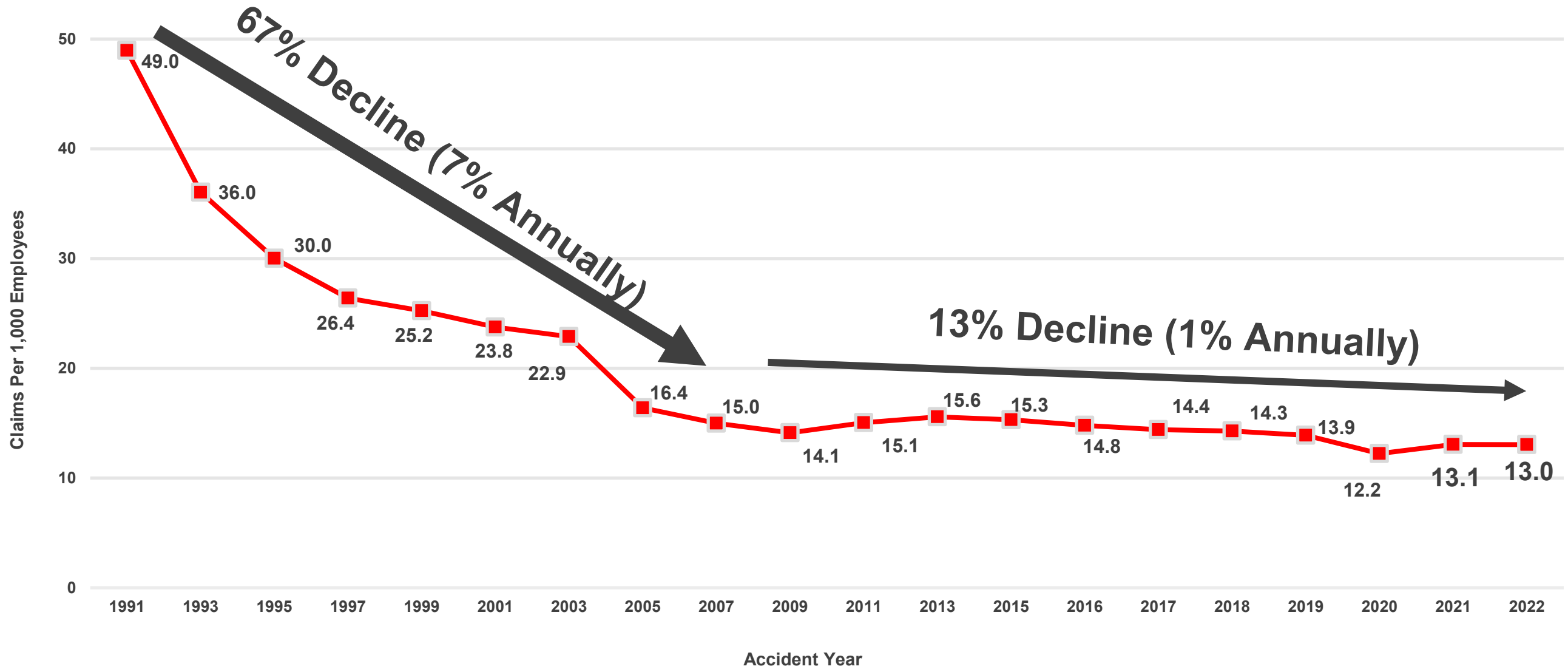
Cumulative Trauma

- Sharp rise in CT claims in industries hit hard by pandemic in 2020

Telecommuting

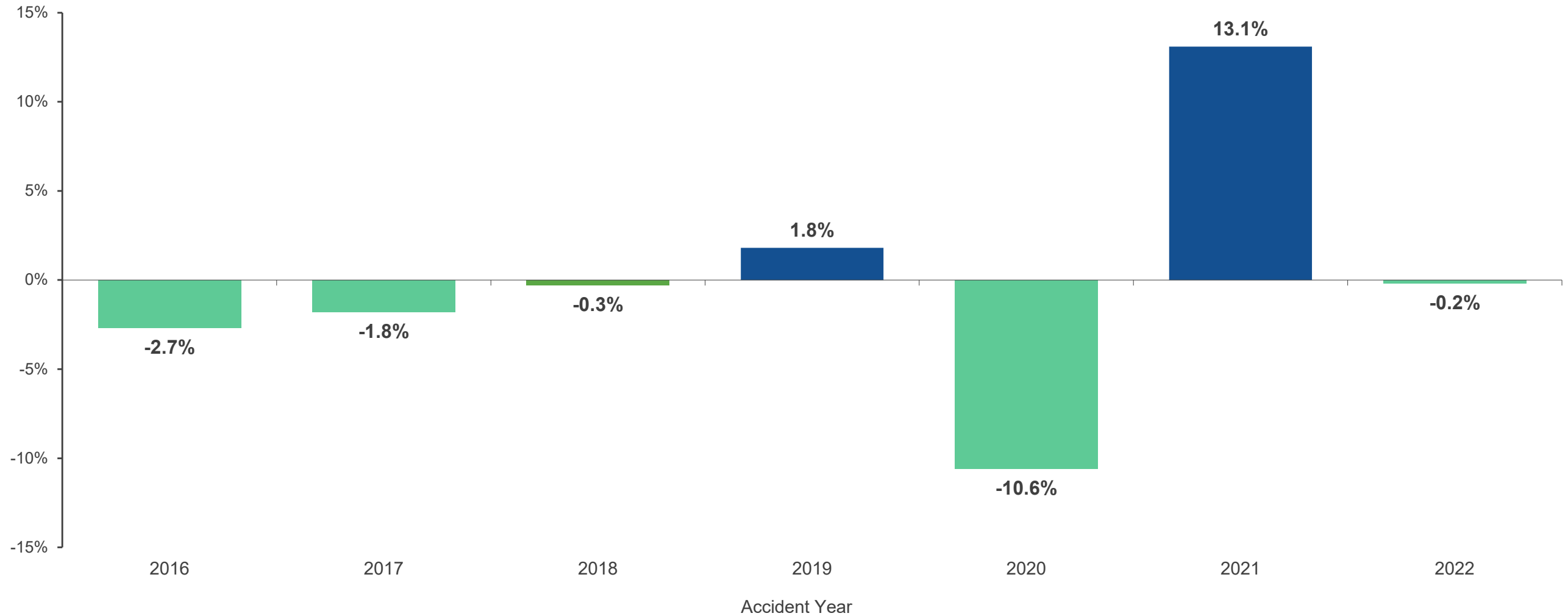
- Low frequency of claims in telecommuting class (preliminary)

Indemnity Claims Per 1,000 Employees



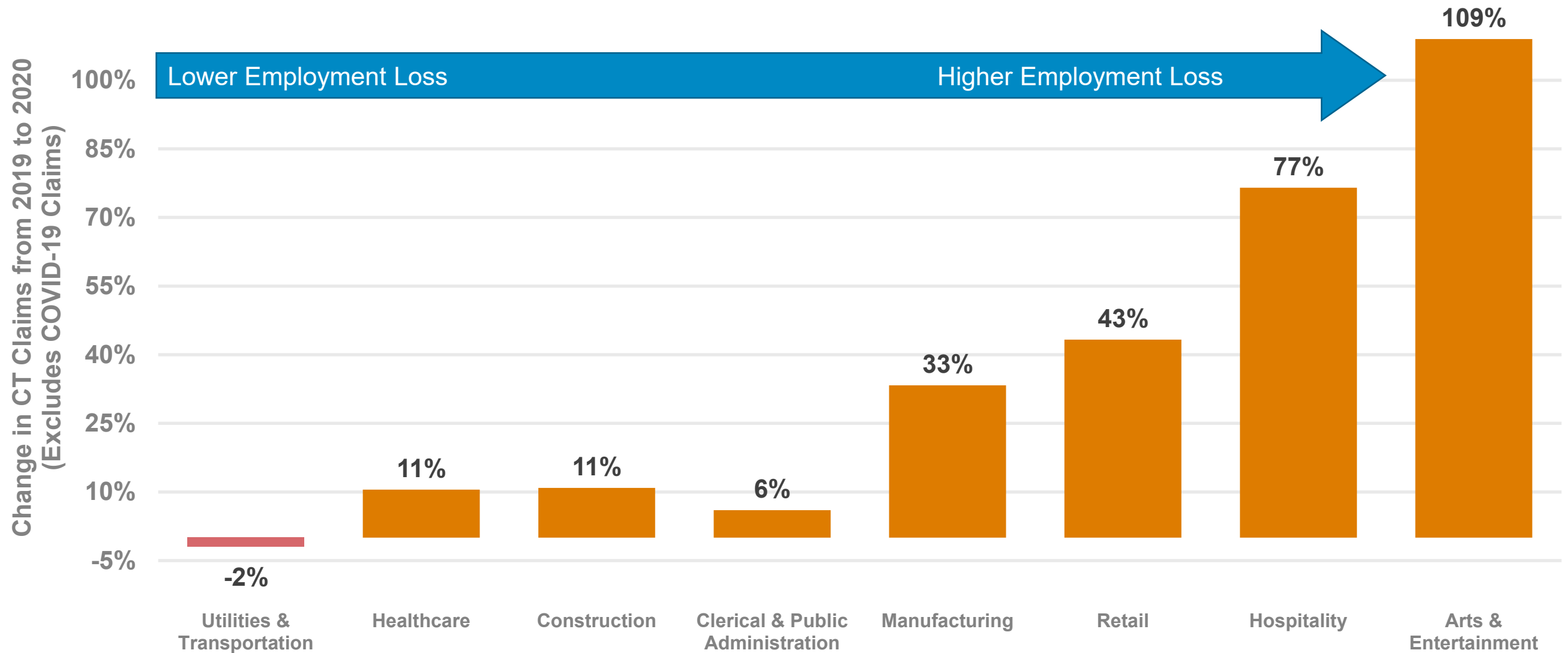
Source: WCIRB unit statistical and aggregate financial data, excluding COVID-19 claims.

Indemnity Claim Frequency Change (Class Mix Adjusted)



Source: WCIRB unit statistical and aggregate financial data, excluding COVID-19 claims.

Change in Cumulative Trauma Claims by Select Industry

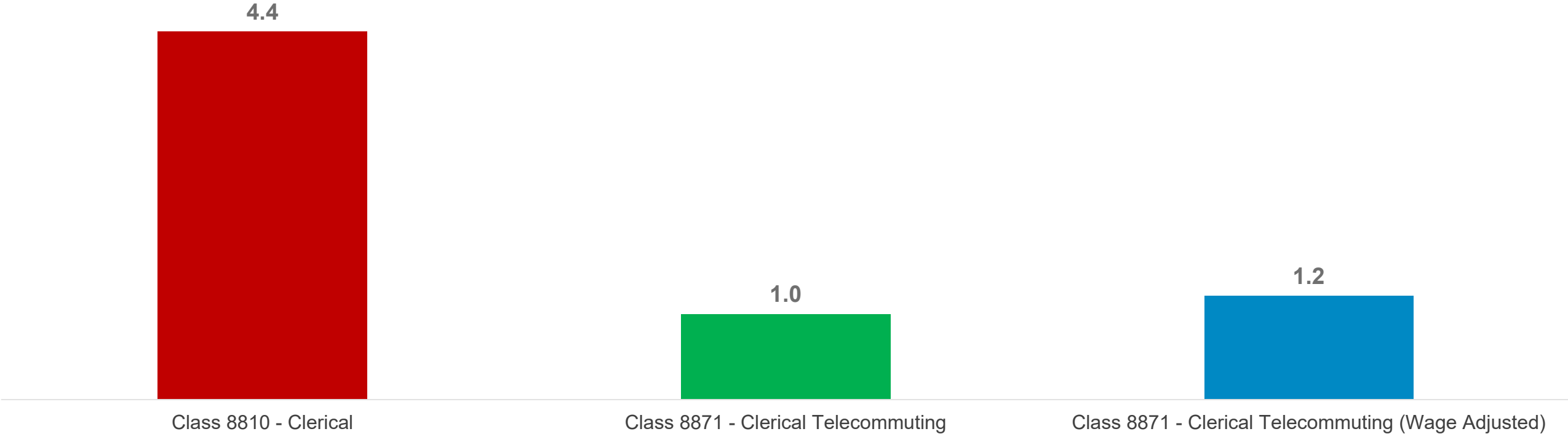


Source: WCIRB unit statistical reports evaluated as of first statistical report (18 months from policy inception). Excludes COVID-19 claims For AY2020, per 100 indemnity claims

Preliminary PY 2021 Claim Frequency – Class 8871 Vs. 8810

Claim Frequency per \$100M of Payroll (PY2021)

■ Class 8810 - Clerical ■ Class 8871 - Clerical Telecommuting ■ Class 8871 - Clerical Telecommuting (Wage Adjusted)



Source: WCIRB unit statistical data for policy year 2021 (preliminary). Excludes COVID-19 claims.

3. Medical Inflation



Long-Term Pattern

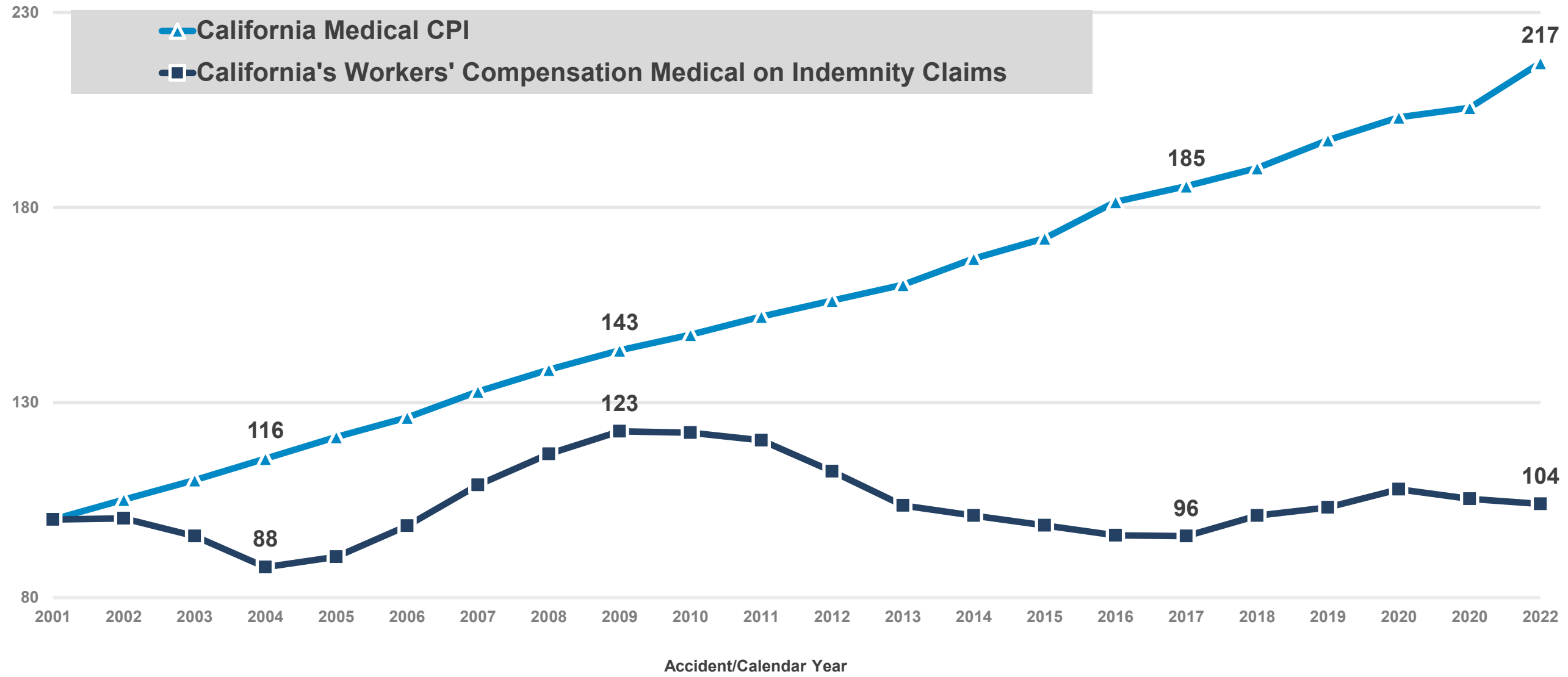
Medical Based Fee Schedules

Medical Utilization

Long COVID

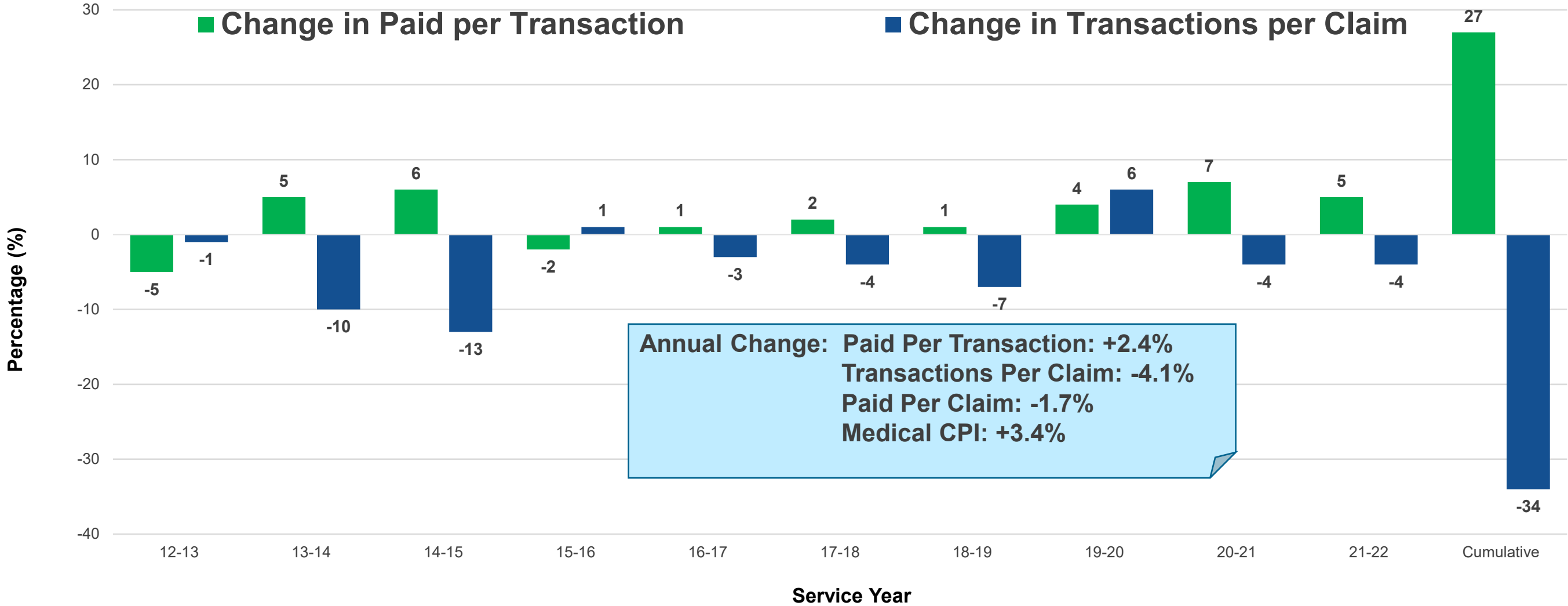
- With reforms, current average medical cost at 2001 level
- Medicare fee levels starting to rise
- Medical cost levels driven by utilization shifts not costs per service
- Long COVID remains a concern

Medical Cost Per Indemnity Claim – Indexed to 2001



Source: Workers' compensation medical on indemnity claims is based on WCIRB aggregate financial data as of March 31, 2022 (excluding COVID-19 claims). Medical CPI information is from the Bureau of Labor Statistics.

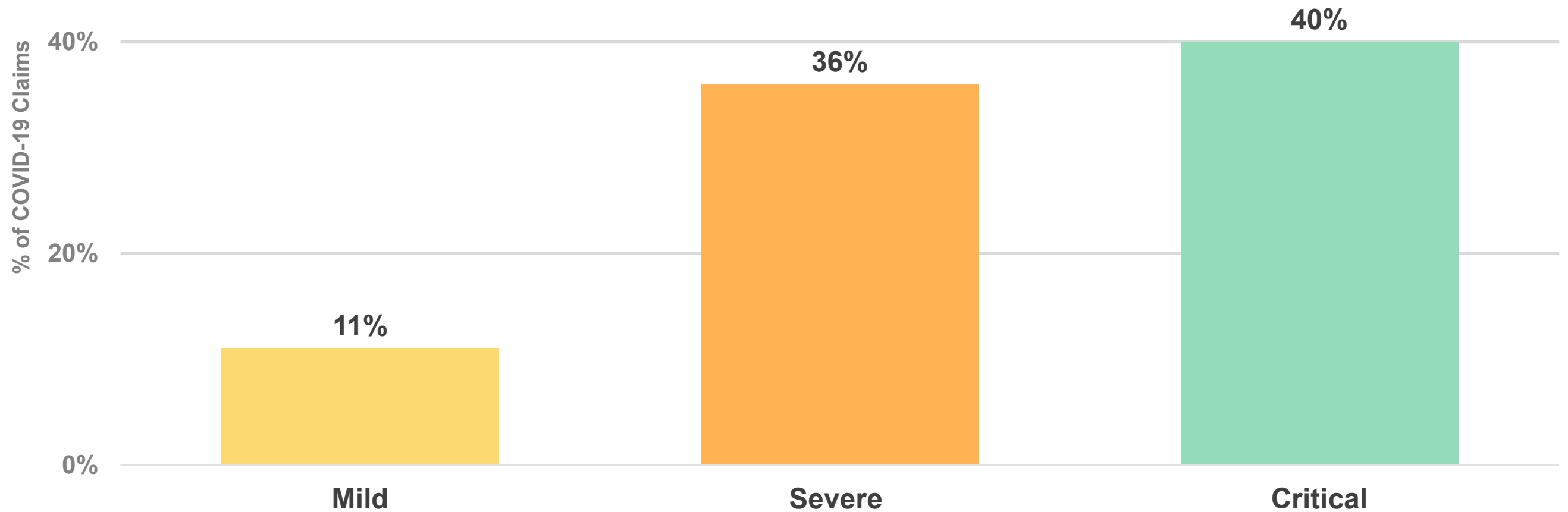
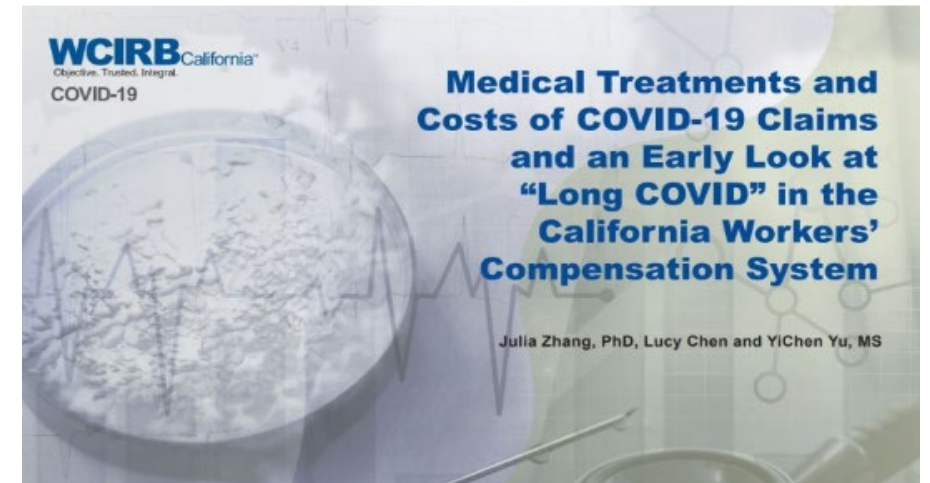
Change in Medical Cost Level Per Indemnity Claim



Source: WCIRB medical transaction data as February 7, 2023. (excluding COVID-19 claims). Medical CPI information is from the Bureau of Labor Statistics,

COVID-19 Claims with Treatment for “Long COVID” Symptoms

Four Months after Acute Care



Source: WCIRB medical transaction data on accident year 2020 claims.

4. Frictional Costs



Impact of Reform

High Compared to Other States

Drivers

- Frictional costs did not drop as quickly as losses following reform
- Frictional costs in California are higher than other states.
- Key drivers of the difference are longer claim duration, greater litigation in the LA Basin, higher proportions of permanent disability and CT claims.

Frictional Costs – Costs to Deliver \$1 in Benefits

Medicare



Private Group Health Insurance



Workers' Compensation
Median State



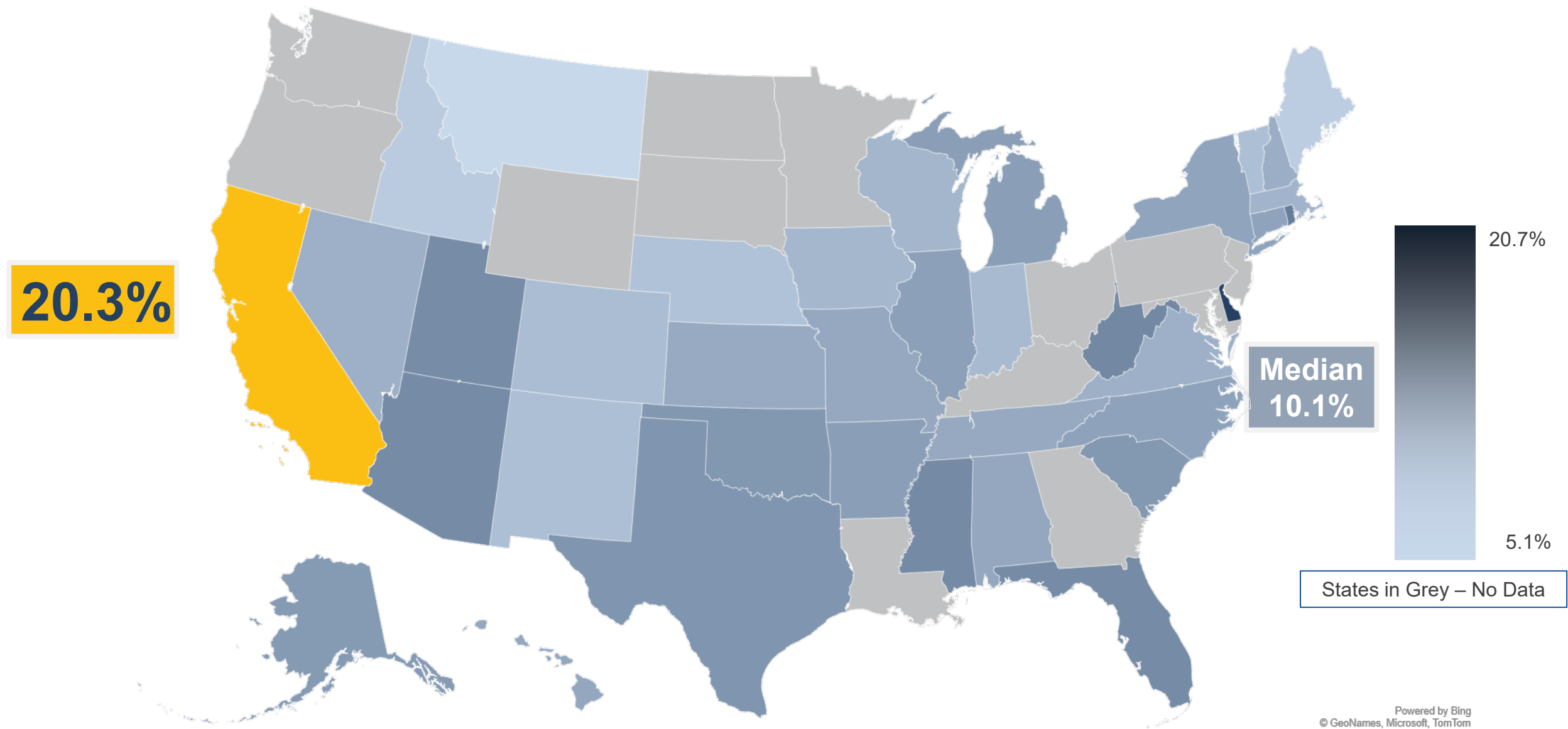
California Workers' Compensation



Source: WCIRB aggregate financial data calls, NCCI Annual Statistical Bulletin, Medicare and a number of published studies on group health administrative costs. 2021 NCCI Annual Statistical Bulletin

High Level of Disputes Leads to High Legal Expenses

Ratio of Allocated Loss Adjustment Expenses to Losses



Source: 2021 NCCI Annual Statistical Bulletin

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Q & A





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