

## **UPDATE: THE CALIFORNIA WORKERS' COMPENSATION INSURANCE INDUSTRY**

### **Background**

In California, approximately two-thirds of the total State payroll is covered for workers' compensation through insurance policies, while the remainder is through self-insurance. There are more than 200 private for-profit insurers and one public nonprofit insurer, the State Compensation Insurance Fund (SCIF).

The California Department of Insurance (CDI) oversees these insurers. To accomplish its principal objective to protect insurance policyholders in the State, CDI examines insurance companies to ensure that operations are consistent with Insurance Code requirements.

#### *Minimum Rate Law and Open Rating*

In 1993, workers' compensation reform legislation repealed California's 80-year-old minimum rate law and in 1995 replaced it with an open-competition system of rate regulation, in which insurers set their own rates based on "pure premium advisory rates" developed by the Workers' Compensation Insurance Rating Bureau (WCIRB). These rates, approved by the Insurance Commissioner (IC) and subject to annual adjustment, are based on historical loss data for more than 500 job categories.

Under this "open rating" system, these recommended, non-mandatory pure premium rates are intended to cover the average costs of benefits and loss-adjustment expenses for all employers in an occupational class and thus provide insurers with benchmarks for pricing their policies. Insurers typically file rates intended to cover other costs and expenses, including unallocated loss-adjustment expenses, as well as an operating profit.

### **Insurance Market After Elimination of Minimum Rate Law**

Subsequent to the repeal of the minimum rate law effective January 1995, changes were noted in the actions of insurers and employers.

#### *Price Competition*

Open rating apparently spurred competition among insurers seeking to retain or add to their market share. Some insurers attempted to increase their market share by writing coverage at low prices that eventually proved to be below loss costs. This deregulated market kept premium rates near their historic lows throughout the second half of the 1990s, even though losses were no longer declining.

As the link between the price of insurance and loss costs became more and more tenuous, some insurers left the State, others ceased underwriting workers' compensation or merged with or were acquired by other carriers, and still others, including several of the State's largest insurers, became insolvent and had to be taken over or supervised by the State. As a result, the workers' compensation market became much more concentrated than in the past. Aside from SCIF, only a few large national carriers accounted for the largest portion of the statewide premium.

**Insurers Liquidated Since 2000**

**2000**

California Compensation Insurance Company  
 Combined Benefits Insurance Company  
 Commercial Compensation Casualty Insurance Company  
 Credit General Indemnity Company  
 LMI Insurance Company  
 Superior National Insurance Company  
 Superior Pacific Insurance Company

**2001**

Credit General Insurance Company  
 Great States Insurance Company  
 HIH America Compensation & Liability Insurance Company  
 Amwest Surety Insurance Company  
 Sable Insurance Company  
 Reliance Insurance Company  
 Far West Insurance Company  
 Frontier Pacific Insurance Company

**2002**

PHICO  
 National Auto Casualty Insurance Company  
 Paula Insurance Company  
 Alistar Insurance Company  
 Western Specialty Insurance Company

**2003**

Western Growers Insurance Company  
 Legion Insurance Company  
 Villanova Insurance Company  
 Home Insurance Company  
 Fremont Indemnity Corporation  
 Wasatch Crest Insurance Co. (No WC policies)  
 Pacific National Insurance Company  
 Miller Insurance Company

**2004**

Protective National Insurance Company  
 Holland-America Insurance Company  
 Casualty Reciprocal Exchange  
 Commercial Casualty Insurance Company  
 American Bonding Company

(continues)

*Insurance Market Changes (UPDATED)*

Since 2000, a significant number of workers' compensation insurance companies have experienced problems with payment of workers' compensation claims. Fifty one insurance companies underwent liquidation, and 26 companies withdrew from offering workers' compensation insurance after that year. However, since 2004, 86 insurance/reinsurance companies have entered the California workers' compensation market, while only 23 companies withdrew from the market.<sup>58</sup>

*Changing Insurers<sup>59</sup>*

WCIRB estimated that before open rating, about 25 percent of California employers with experience modifications (Ex-mods) changed insurance carriers each year. After open rating, about 35 percent of these employers did so. However, in many post-open rating situations, employers had no choice but to change insurers, as the market had deteriorated to the point that many carriers, including several of the State's largest workers' compensation insurers went out of business or stopped offering workers' compensation in California.

*Reinsurance<sup>60</sup>*

After open rating, many carriers shifted the risk of their workers' compensation claims to other insurance companies, some of which were inexperienced with the California workers' compensation insurance market. It was reported that many carriers used reinsurance aggressively in order to mitigate the risk of having to make large future payoffs. Some primary workers' compensation carriers offered extremely low rates that proved to be inadequate in the face of soaring losses. Some reinsurance companies also sold off their risk to other reinsurers in a process called "retrocession." During 1999, several major reinsurance pools experienced financial difficulty and ceased operations.

**Impact of Workers' Compensation Reforms on Insurance Companies**

Workers' compensation reform legislation in 2003 and 2004, Senate Bill (SB) 228, Assembly Bill (AB) 227, and SB 899, were enacted with the intention of controlling costs and improving the benefit-delivery process in the workers' compensation system.

In 2007, SB 316 eliminated a duplicative reserve requirement that was inadvertently not removed when risk-based capital requirements went into effect for workers' compensation insurers in 2002. That same bill also mandated a study by the Commission on Health and Safety and Workers' Compensation (CHSWC) of the causes of many of the insolvencies in this decade.

<sup>58</sup> The information on the companies that have withdrawn and entered the market since 2004 are based on data provided by CDI and cover period through October 31, 2015.

<sup>59</sup> Source: <http://www.dir.ca.gov/CHSWC/StateInsuranceIndustry2002/Stateinsuranceindustry042002.html>.

<sup>60</sup> Ibid.

(continued)

**Insurers Liquidated Since 2000**

**2005**

Cascade National Insurance  
Company/Washington  
South Carolina Insurance Company/South  
Carolina  
Consolidated American Insurance  
Company/South Carolina

**2006**

Vesta Fire Insurance Company  
Hawaiian Insurance & Guaranty Company  
Municipal Mutual Insurance Company

**2010**

Insurance Corporation of New York (The)

**2011**

Atlantic Mutual Insurance Co./New York  
Centennial Insurance Company/New York  
Reinsurance Company of America/Illinois

**2012**

Frontier Insurance Company of New York

**2013**

Lumbermens Mutual Casualty Group of  
Illinois  
Tokio Marine & Nichido Fire  
Insurance Co., Ltd.  
Ullico Casualty Company/Delaware

**2014**

Freestone Insurance Company/Delaware  
Red Rock Insurance Company/Oklahoma

**2015**

Lincoln General Insurance Company

Source: CIGA

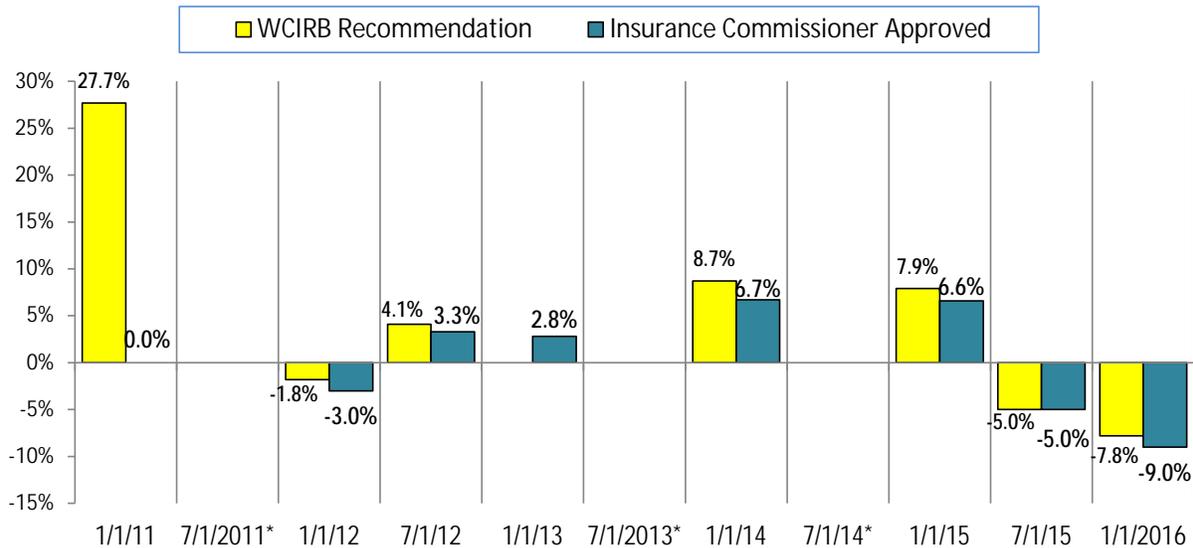
The study has been completed and includes recommendations to contain the risk of future insolvencies. (See "California's Volatile Workers' Compensation Insurance Market: Problems and Recommendations for Change.")

**Workers' Compensation Advisory Premium Rates**

As a result of the 2003 legislative reforms, WCIRB recommended changes and the Insurance Commissioner (IC) approved either decreases or no changes in the pure premium advisory rates between January 1, 2004, and July 1, 2012, with the exception of January 1, 2009, filing. When decisions have been issued, the IC approved increases for all periods from July 1, 2012, to January 1, 2015, filings. The IC approved decreases in the pure premium advisory rates in two consecutive periods beginning from July 1, 2015.

The WCIRB did not submit its January 1, 2013, pure premium rate filing to the California IC. On November 30, 2012, the Commissioner issued a decision approving new advisory pure premium rates effective January 1, 2013, that average \$2.56 per \$100 of payroll, which is 2.8 percent higher than the industry average filed pure premium rate of \$2.49 per \$100 of payroll as of November 9, 2012. Also, WCIRB did not submit July 1, 2013, and July 1, 2014, pure premium rate filings, and the IC did not issue the interim advisory rates for these periods. (A history of pure premium rates since 1993 appears later in this section.)

Figure 131: Percentage Changes in Workers' Compensation Advisory Premium Rates, WCIRB Recommendation and Insurance Commissioner's Decision Compared to Corresponding Industry Average Filed Pure Premium Rate

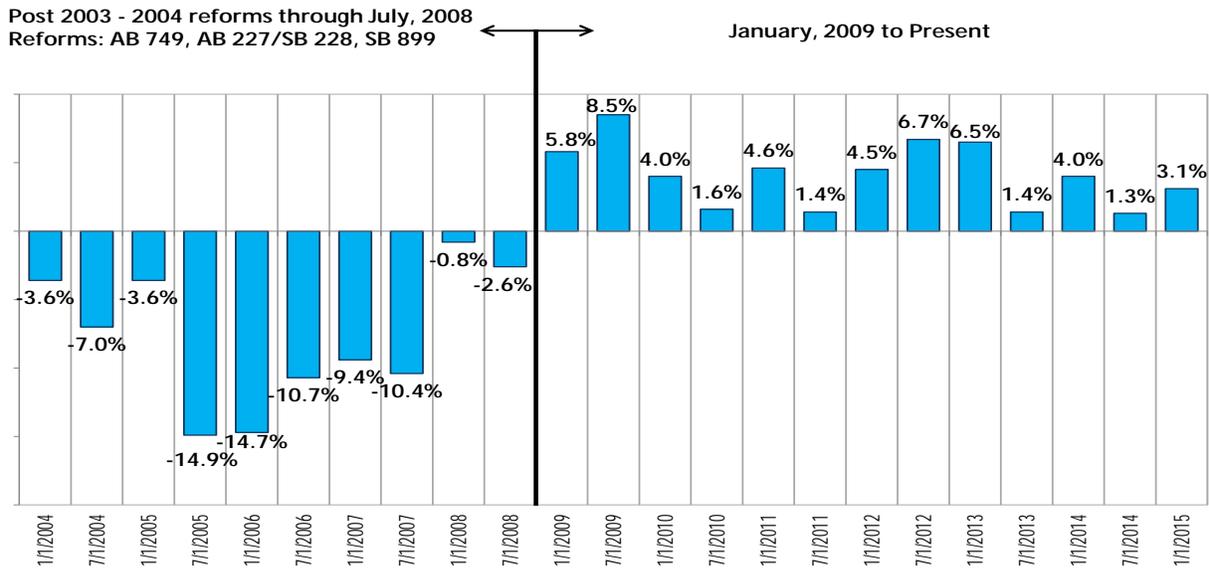


\* WCIRB and/or Insurance Commissioner did not take actions

**California Workers' Compensation Manual Rate Changes Filed by Insurers**

As a result of the 2003 workers' compensation legislative reforms and the subsequent decisions by the IC on advisory premium rates, workers' compensation insurers reduced their average filed manual rates between 2004 and 2008. However, in 2009, average rates filed by insurers increased and have continued to increase since then (see Figure 132).

Figure 132: Average Workers' Compensation Manual Rate, Changes Filed by Insurers



Data Source: California Department of Insurance (CDI)

### California Workers' Compensation Rate Changes

Workers' compensation legislative reforms enacted in 2003 and subsequent decisions by the IC on advisory claims cost benchmarks and pure premium rates led insurers to file a series of significant manual rate reductions from 2004 through 2008. Despite recent manual rate increases filed by insurers, which helped lead to additional legislative reforms passed in 2012 (SB 863), the top ten California workers' compensation insurers still maintain greatly reduced filed manual rates from those in 2003 (see Table 60).

As of April 1, 2015, the cumulative premium weighted average manual rate filed by insurers with the CDI since the enactment of the 2003 reforms is approximately 26 percent for all underwriters, including the State Compensation Insurance Fund (SCIF). Eight consecutive advisory benchmark rate reductions occurred as a result of the passage of AB 227, SB 228, and SB 899, and insurers filed cumulative manual rate reductions averaging 56 percent from January 2004 through July 2008. The first post-2003 reform advisory benchmark rate increase occurred effective January 1, 2009 (+5.0 percent), and insurers responded by increasing filed rates by 5.8 percent. Filed manual rates have moderately increased annually thereafter, in some instances when the advisory benchmark rates remained unchanged. Also, in response to the January 1, 2015, advisory benchmark rate revision of +2.2 percent, filed insurer manual rates increased 3.1 percent.<sup>61</sup>

WCIRB reports that the average rate charged for 2014 is approximately 53 percent less than the average rate charged prior to the enactment of AB 227, SB 228, and SB 899 in 2003. The average rate per \$100 of payroll fell from \$6.29 in the second half of 2003 to \$2.97 for 2014 policies.<sup>62</sup>

Since the first reform package was chaptered in 2003, 86 new insurers have filed to enter the California market and existing private insurers have increased their underwritings. The significant rate reductions, totaling 26 percent since the first reforms were enacted, and SCIF's declining market share point to the dramatic initial success of the 2003 cost containment reforms and a stabilizing market with increased capacity and greater rate competition.

<sup>61</sup> California Department of Insurance, RFLA3 Rate Filing Bureau.

<sup>62</sup> WCIRB Report on September 30, 2015, Insurer Experience, released December 15, 2015, Exhibit 2.

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However, the projected ultimate accident year combined loss and expense ratios from 2008 to 2011, when the ratio hit 116 percent in 2009, 117 percent in 2010, and 122 percent in 2011,<sup>63</sup> reflect an erosion of the effectiveness of the 2003 cost containment reforms over time. Nonetheless, recent loss trends are encouraging, as the projected ultimate accident year combined loss and expense ratio for 2013 was down to 109 percent and 2014 ratio was 104 percent.<sup>64</sup> Further, the impact or savings from the latest reform, SB 863 passed in 2012 and effective January 1, 2013, may be starting to materialize as the January 1, 2016, approved pure premium rates are on average 2.0 percent lower than the approved July 1, 2015, advisory pure premium rates.

**Table 60: California Workers' Compensation Top 10 Insurers Rate Filing Changes**

COMPANY NAME	GROUP NAME	Market Share 2013	Cumulative Rate Change 1-04 to 4-15	1Q 2015 % Filed Rate Change*	7-1-2014 % Filed Rate Change*	4-1-2013 % Filed Rate Change*	1-1-2013 % Filed Rate Change*
State Compensation Insurance Fund		13.38%	-36.08%	9.00%	5.7%	-7.00%	0.00%
Travelers Property Casualty Company of America	Travelers Group	6.17%	-29.36%	1.03%	4.0%	7.00%	7.00%
Insurance Company of the West	American Assets Group	4.67%	-27.56%	0.0%	2.5%	n/a	8.50%
Cypress Insurance Company	Berkshire Hathaway Group	3.80%	-45.95%	2.6%	6.08%	2.00%	2.00%
Security National Insurance Company**	AmTrust NGH Group	3.59%	-45.53%	3.0%	6.96%	9.70%	n/a
Zurich American Insurance Company	Zurich Ins Group	3.09%	-36.12%	4.20%	3.40%	8.50%	8.30%
California Insurance Company	Berkshire Hathaway Group	2.92%	-32.30%	2.20%	7.60%	n/a	0.00%
Everest National Insurance Company	Everest Reins Holdings Grp	2.90%	-20.26%	1.30%	12.10%	10.10%	7.70%
Zenith Insurance Company**	Fairvax Financial Group	2.82%	-7.88%	4.50%	4.30%	1.80%	6.70%
National Union Fire Insurance Co of Pittsburgh, PA	AIG Group	2.55%	-27.22%	0.00%	5.00%	10.10%	8.30%

\* Indicated % filed rate change reflects cumulative rate change(s) in effect as of that date from the rates in effect on the preceding date.

\*\* Security National Insurance Company entered the California market in 2008.

**Workers' Compensation Premium**

After elimination of the minimum rate law, the total written premium declined from a high of \$8.9 billion in 1993 to a low of \$5.7 billion (\$5.1 billion net of deductible) in 1995. The written premium grew slightly from 1996 to 1999 due to growth of insured payroll, an increase in economic growth, movement from self-insurance to insurance, and other factors, rather than due to increased rates. However, even with well over a million new workers covered by the system, the total premium paid by employers remained below the level seen at the beginning of the 1990s.

<sup>63</sup> Ibid., Exhibit 6.

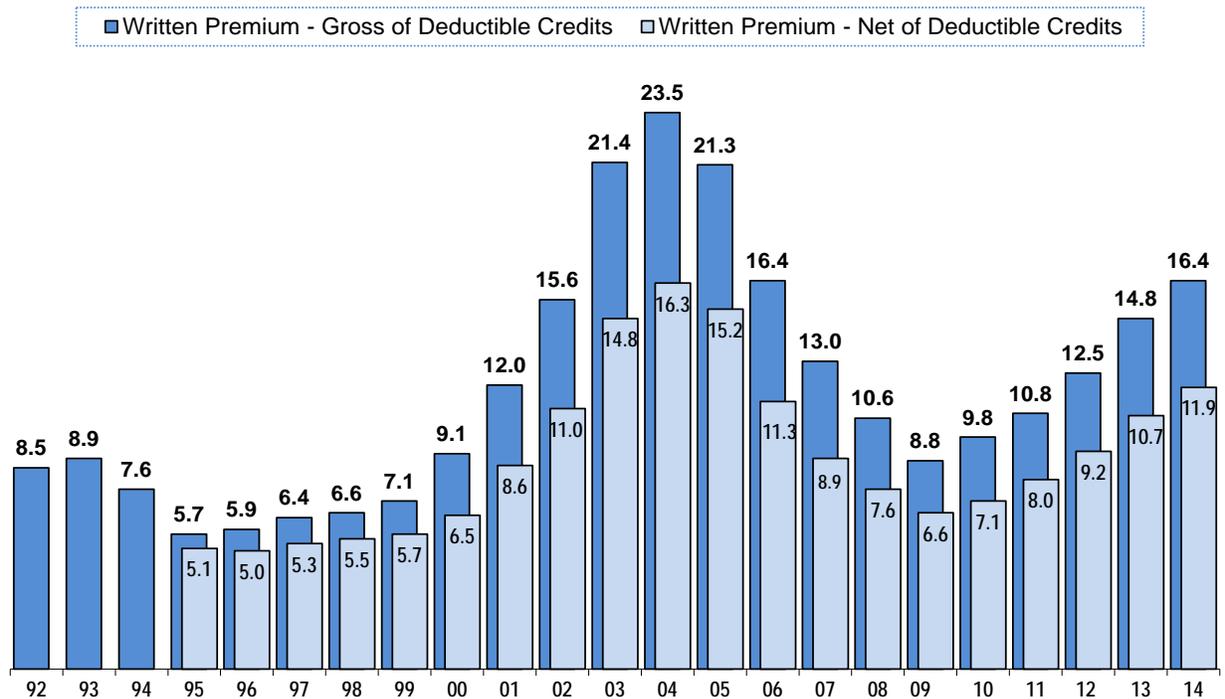
<sup>64</sup> Ibid.

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At the end of 1999, the IC approved an 18.4 percent pure premium rate increase for 2000, and the market began to harden after five years of open rating, though rates remained less than two-thirds of the 1993 level. Since then, the market has continued to firm, with the IC approving a 10.1 percent increase in the advisory rates for 2001 and a 10.2 percent increase for 2002. The total written premium increased by 37 percent to \$21.4 billion from 2002 to 2003 and increased by about 10 percent to a peak of \$23.5 billion from 2003 to 2004. The written premium declined by almost 63 percent from \$23.5 billion to \$8.8 billion between 2004 and 2009 due to rate decreases. From 2009 to 2014, there was an 86 percent increase in the written premium.

Figure 133 shows the California workers' compensation written premium before and after the application of deductible credits. Note that these amounts exclude dividends.

Figure 133: Workers' Compensation Written Premium as of September 30, 2015 (Billion \$)



Data Source: WCIRB Report on September 30, 2015 Insurer Experience, released December 15, 2015, Exhibit 1

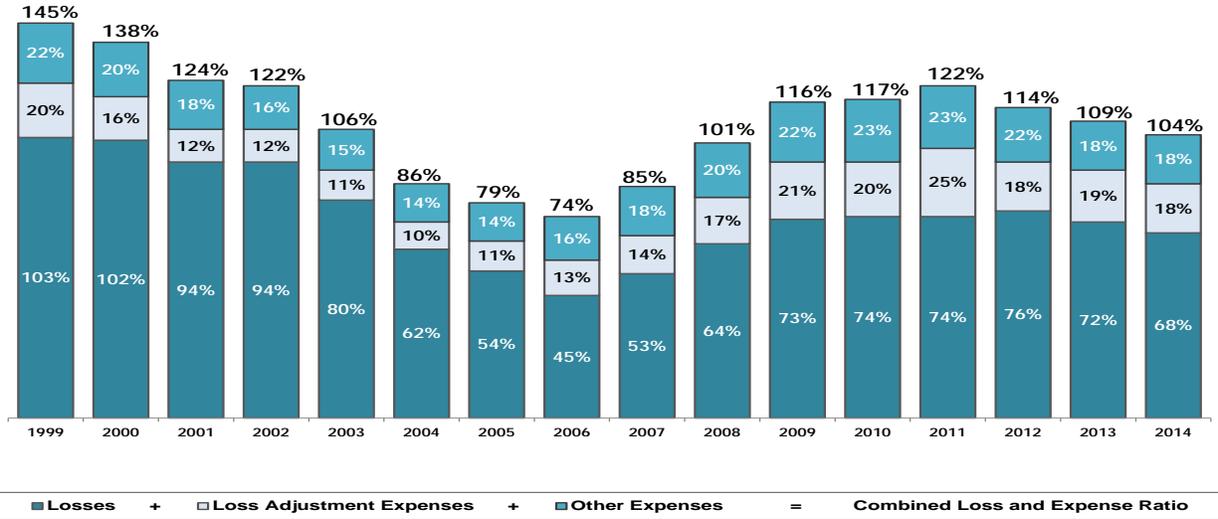
### Combined Loss and Expense Ratio

The accident year combined loss and expense ratio, which measures workers' compensation claims payments and administrative expenses against the earned premium, increased during the late 1990s, declined from 1999 through 2006, and increased annually from 2006 to 2011. The combined loss and expense ratio decreased from 122 percent to 104 percent from 2011 to 2014.

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In accident year 2014, insurers' claim costs and expenses amounted to \$1.04 for every dollar of premium collected.

**Figure 134: California Workers' Compensation Combined Loss and Expense Ratios**  
(Projected accident year, as of September 30, 2015)



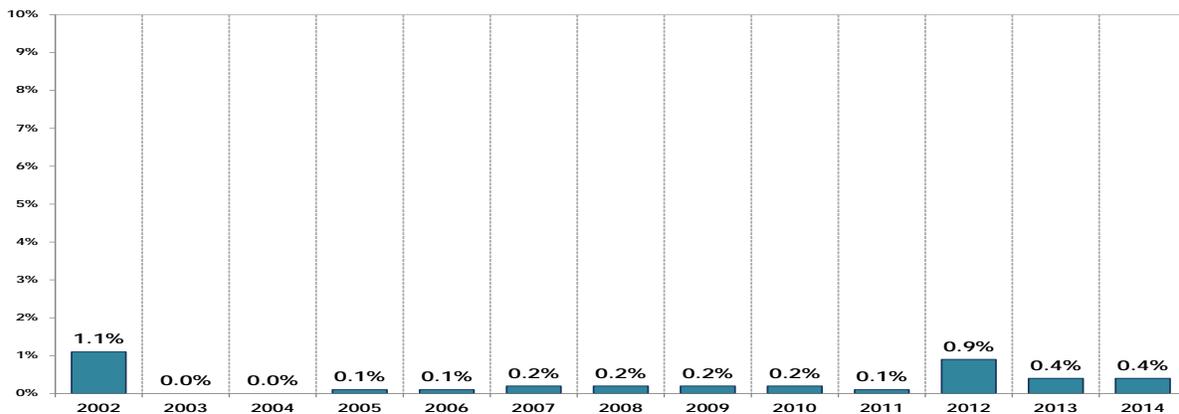
Data Source: WCIRB Report on September 30, 2015 Insurer Experience, released December 15, 2015, Exhibit 6

WCIRB estimates that the total cost of benefits for injuries occurring prior to January 1, 2015, was approximately \$3.9 billion more than insurer-reported loss amounts.<sup>65</sup> These estimates are somewhat below those presented in recent prior summaries as a result of favorable loss development experienced in recent quarters.

### Policy Holder Dividends

Dividends paid to policyholders were 1 percent in 2002, not paid in 2003 and 2004, and then reinstated from 2005 through 2011 at a very low rate. Dividends paid to policyholders increased up to 0.9 percent in 2012 and then decreased to 0.4 percent in 2013 and 2014.

**Figure 135: Insurer Policy Holder Dividends as a Percentage of Earned Premium (by Calendar Year)**



Data Source: WCIRB

<sup>65</sup> Ibid., Exhibit 9.

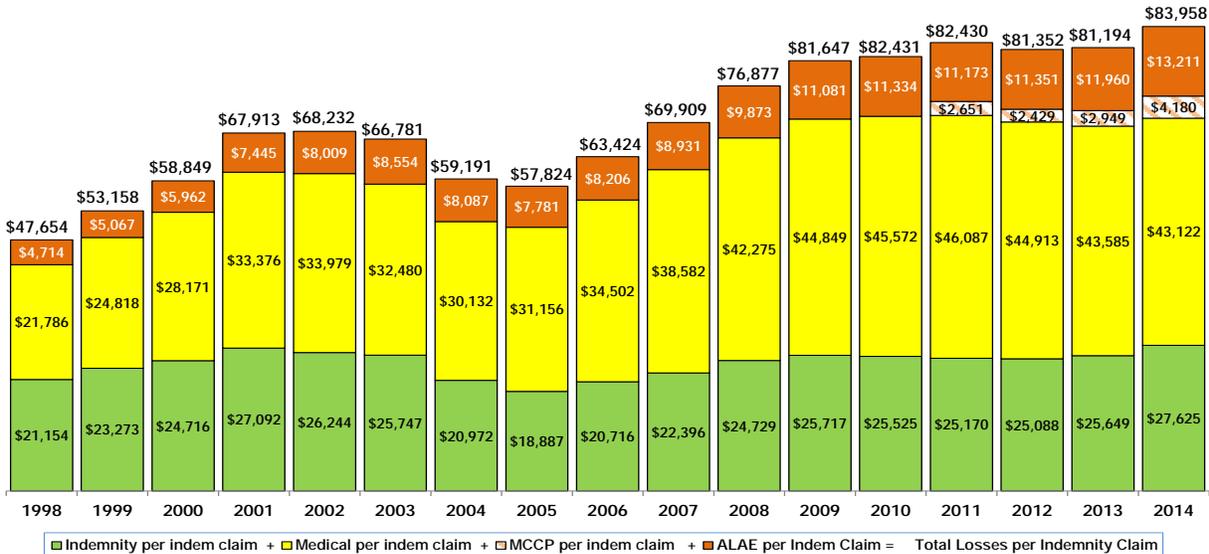
**Average Ultimate Total Loss**

Figure 136 shows changes in indemnity and medical components of the projected ultimate total loss per workers' compensation indemnity claim.

Beginning with claims incurred on policies incepting on or after July 1, 2010, the cost of medical cost containment programs (MCCP) is reported to WCIRB as allocated loss adjustment expenses (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. In order to facilitate a consistent year-to-year comparison of medical losses and ALAE, accident year 2010 MCCP costs reported as ALAE were shifted to medical loss, and the estimated accident year 2011 MCCP costs reported as medical loss were shifted to ALAE.<sup>66</sup> In order to provide consistent comparisons across years in Figure 136, to the extent appropriate, the amounts and ratios shown represent the combined cost of losses and ALAE, with MCCP amounts shown separately.

The total average cost of indemnity claims increased by 43 percent from 1998 to 2002 and then decreased by 15 percent from 2002 to 2005, reflecting the impact of AB 227, SB 228, and SB 899. The projected 2014 average loss and ALAE severity reflects an increase of almost 45 percent since 2005. The projected average indemnity cost of a 2014 indemnity claim increased by 8 percent from that for 2013, primarily a result of SB 863 increases to permanent disability benefits in 2014. The projected average medical cost—including MCCP costs—of a 2014 indemnity claim declined for the third straight year and is 6 percent below the projected average medical cost for 2011. Please note that WCIRB's estimates of average indemnity claim costs have not been indexed to take into account wage increase and medical inflation. The projected average ALAE cost of a 2014 indemnity claim, excluding MCCP costs, is approximately 10 percent above that of 2013 and approximately 16 percent higher than the average ALAE severity for 2012, despite forecast reductions in ALAE costs expected to arise from SB 863.<sup>67</sup>

Figure 136: Estimated Ultimate Total Loss\* and ALAE per Indemnity Claim as of September 30, 2015



\* Excluded medical-only

Note: Before July 1, 2010, the costs of Medical Cost Containment Program (MCCP) that could be allocated to a particular claim were reported as medical losses. After July 1, 2010, MCCP is reported as ALAE.

Data Source: WCIRB

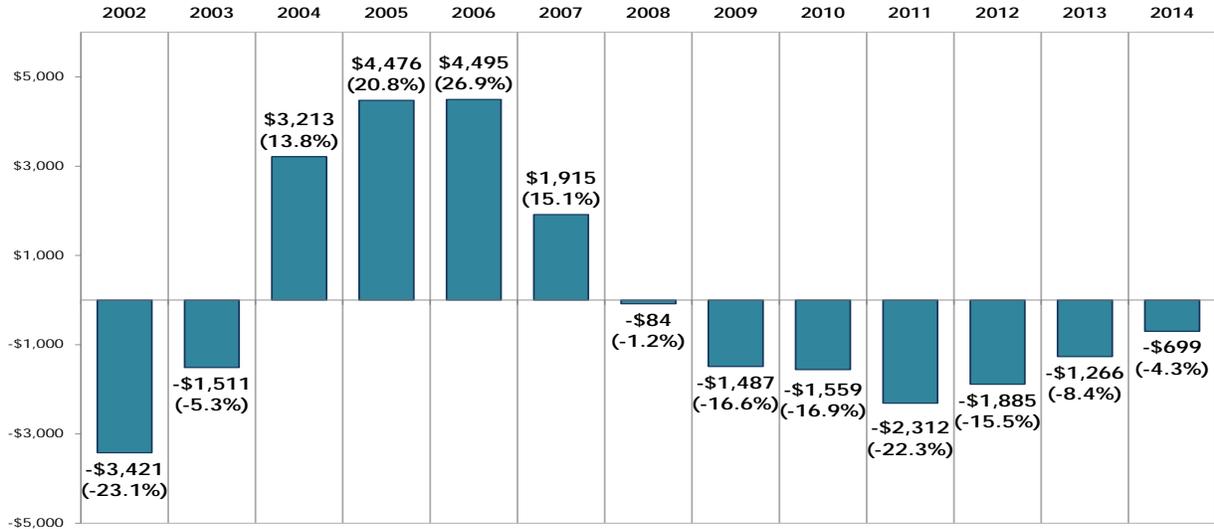
<sup>66</sup> Ibid., p. 1.

<sup>67</sup> Ibid., p. 2.

### Insurer Profit/Loss

Workers' compensation insurers experienced large fluctuations in profits and losses during the past decade, as measured by actual dollars and percentage of earned premium. From the implementation of the reforms of 2004 until 2008, insurer underwriting profits were uncharacteristically high. Investment income typically was the main source of insurer profits, but underwriting profits from policies was a new development. In 2008, workers' compensation insurers experienced losses for the first time since 2004. The pre-tax underwriting losses increased to 17 percent in both 2009 and 2010, reached 22.3 percent of earned premium in 2011, and fell back to almost 16 percent in 2012, and then to 4.3 percent in 2014.

Figure 137: Insurer Pre-Tax Underwriting Profit/Loss, 2002-2014 (Million \$ and as a Percentage of Earned Premium)



Data Source: WCIRB

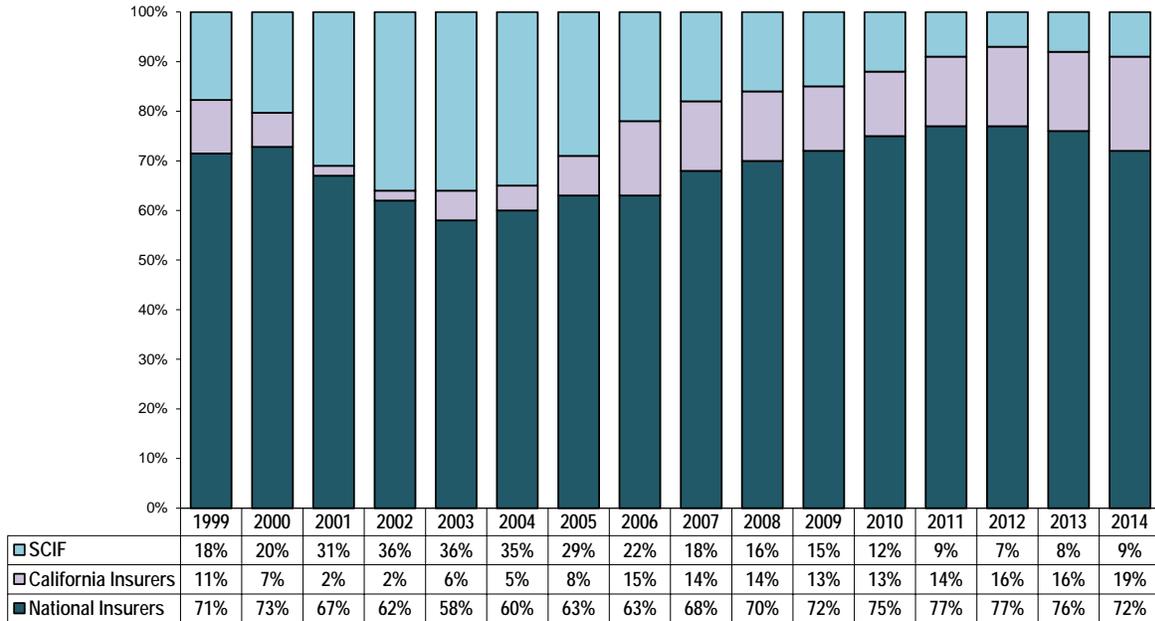
### Current State of the Insurance Industry

#### Market Share

A number of California insurers left the market or reduced their underwritings as a result of the decrease in profitability, contributing to a major redistribution of market share among insurers since 1993. Figure 138 shows changes in the workers' compensation insurance market share from 1999 to 2014.

According to WCIRB, from 2002 through 2004, SCIF attained about 35 percent of the California workers' compensation insurance market, double the market share it had in the 1990s. However, between 2004 and 2014, SCIF's market share decreased to 9 percent. The market share of California domestic insurers, excluding SCIF, increased from 5 percent in 2004 to 15 percent in 2006 and then, in 2014, reached its highest level, of 19 percent, since 1997, when it was 22 percent.

Figure 138: Workers' Compensation Insurance Market Share in California by Type of Insurer Based on Written Premium Prior to Deductible Credits



Source: WCIRB aggregate financial data calls

Please note that totals may not equal to 100 percent due to rounding.

"California Insurers" are defined as private insurers who write at least 80 percent of their workers' compensation business in California.

### Impact of September 11, 2001, on Insurance Industry

The problems in the reinsurance market caused by the tragic events of September 11, 2001, have significantly affected the cost and availability of catastrophe reinsurance and, correspondingly, have a significant effect on the cost of workers' compensation insurance. This effect extends to more than acts of terrorism and is a critical component of any evaluation of the California workers' compensation insurance marketplace. The insurance industry has remained concerned about the renewal of the Terrorism Risk Insurance Act, often known as TRIA, which was reauthorized in 2007 to extend to December 2014. Now known as TRIPRA, the Terrorism Risk Insurance Program Reauthorization Act of 2015 amends the expiration date of the Terrorism Risk Insurance Program (TRIP) to December 31, 2020.

**Advisory Workers' Compensation Pure Premium Rates  
A History Since the 1993 Reform Legislation**

**1993**

***Insurance Commissioner action:***

Pure premium rate reduction of 7 percent effective July 16, 1993, due to a statutory mandate.

**1994**

***WCIRB recommendation:***

No change in pure premium rates.

***Insurance Commissioner action:***

Two pure premium rate decreases: a decrease of 12.7 percent effective January 1, 1994; and a second decrease of 16 percent effective October 1, 1994.

**1995**

***WCIRB recommendation:***

A 7.4 percent decrease from the pure premium rates that were in effect on January 1, 1994.

***Insurance Commissioner action:***

A total of 18 percent decrease to the premium rates in effect on January 1, 1994, approved effective January 1, 1995 (including the already approved 16 percent decrease effective October 1, 1994).

**1996**

***WCIRB recommendation:***

An 18.7 percent increase in pure premium rates.

***Insurance Commissioner action:***

An 11.3 percent increase effective January 1, 1996.

**1997**

***WCIRB recommendation:***

A 2.6 percent decrease in pure premium rates.

***Insurance Commissioner action:***

A 6.2 percent decrease effective January 1, 1997.

**1998**

***WCIRB recommendation:***

The initial recommendation for a 1.4 percent decrease was later amended to a 0.5 percent increase.

***Insurance Commissioner action:***

A 2.5 percent decrease effective January 1, 1998.

**1999**

***WCIRB recommendation:***

The WCIRB initial recommendation of a 3.6 percent pure premium rate increase for 1999 was later amended to a recommendation for a 5.8 percent increase.

***Insurance Commissioner action:***

No change in pure premium rates in 1999.

**2000**

***WCIRB recommendation:***

An 18.4 percent increase in the pure premium rate for 2000.

***Insurance Commissioner action:***

An 18.4 percent increase effective January 1, 2000.

**2001**

***WCIRB recommendations:***

The WCIRB initial recommendation of a 5.5 percent increase in the pure premium rate was later amended to a recommendation for a 10.1 percent increase.

***Insurance Commissioner action:***

A 10.1 percent increase effective January 1, 2001.

**January 1, 2002**

***WCIRB recommendations:***

The WCIRB initial recommendation of a 9 percent increase in the pure premium rate was later amended to a recommendation for a 10.2 percent increase effective January 1, 2002.

***Insurance Commissioner action:***

The Insurance Commissioner approved a 10.2 percent increase effective January 1, 2002.

**April 1, 2002**

***WCIRB recommendations:***

On January 16, 2002, the WCIRB submitted recommended changes to the California Workers' Compensation Uniform Statistical Reporting Plan—1995, effective March 1, 2002, and the California Workers' Compensation Experience Rating Plan—1995, effective April 1, 2002, related to insolvent insurers and losses associated with the September 11, 2001, terrorist actions. No increase in advisory premium rates was proposed.

***Insurance Commissioner action:***

The Insurance Commissioner approved the WCIRB's requests effective April 1, 2002.

**July 1, 2002**

***WCIRB recommendation:***

The WCIRB filed a mid-term recommendation that pure premium rates be increased by 10.1 percent effective July 1, 2002, for new and renewal policies with anniversary rating dates on or after July 1, 2002.

***Insurance Commissioner action:***

On May 20, 2002, the Insurance Commissioner approved a mid-term increase of 10.1 percent effective July 1, 2002.

**January 1, 2003**

***WCIRB recommendations:***

On July 31, 2002, the WCIRB proposed an average increase in pure premium rates of 11.9 percent for 2003. On September 16, 2002, the WCIRB amended the proposed 2003 pure premium rates submitted to the California Department of Insurance (CDI). Based on updated loss experience valued as of June 30, 2002, the WCIRB proposed an average increase of 13.4 percent in pure premium rates to be effective on January 1, 2003, and later policies.

**January 1, 2003**

***Insurance Commissioner action:***

On October 18, 2002, the Insurance Commissioner approved a 10.5 percent increase in pure premium rates applicable to policies with anniversary rating dates in 2003. This increase takes into account the increases in workers' compensation benefits enacted by AB 749 for 2003.

**July 1, 2003**

***WCIRB recommendation:***

The WCIRB filed a mid-term recommendation on April 2, 2003, that pure premium rates be increased by 10.6 percent effective July 1, 2003, for policies with anniversary dates on or after July 1, 2003.

***Insurance Commissioner action:***

The Insurance Commissioner approved a 7.2 percent increase in pure premium rates applicable to new and renewal policies with anniversary rating dates on or after July 1, 2003.

**January 1, 2004**

***WCIRB recommendations:***

On July 30, 2003, the WCIRB proposed an average increase in advisory pure premium rates of 12.0 percent to be effective on January 1, 2004, for new and renewal policies with anniversary rating dates on or after January 1, 2004.

The original WCIRB filing of an average increase of 12 percent on July 30, 2003, was later amended on September 29, 2003, to an average decrease of 2.9 percent to reflect the WCIRB's initial evaluation of AB 227 and SB 228.

In an amended filing made on November 3, 2003, the WCIRB recommended that pure premium rates be reduced, on average, from 2.9 percent to 5.3 percent.

***Insurance Commissioner action:***

On November 7, 2003, the Insurance Commissioner approved a 14.9 percent decrease in advisory pure premium rates applicable to new and renewal policies with anniversary rating dates on or after January 1, 2004.

**July 1, 2004**

***WCIRB recommendation:***

On May 13, 2004, the WCIRB proposed advisory pure premium rates that are a 2.9 percent decrease from the January 1, 2004, approved pure premium rates. These rates reflect the WCIRB's analysis of the impact of provisions of SB 899 on advisory pure premium rates.

***Insurance Commissioner action:***

In a decision issued May 28, 2004, the Insurance Commissioner approved a 7.0 percent decrease in pure premium rates, effective July 1, 2004, with respect to new and renewal policies, as compared to the approved January 1, 2004, pure premium rates.

**January 1, 2005**

***WCIRB recommendation:***

On July 28, 2004, the WCIRB proposed advisory premium rates applicable to new and renewal policies with anniversary rating dates on or after January 1, 2005, that are, on average, 3.5 percent greater than the July 1, 2004, advisory pure premium rates approved by the Insurance Commissioner.

***Insurance Commissioner action:***

In a decision issued November 17, 2004, the Insurance Commissioner approved a total 2.2 percent decrease in advisory pure premium rates applicable to new and renewal policies with anniversary rating dates on or after January 1, 2005

**July 1, 2005**

***WCIRB recommendations:***

On March 25, 2005, the WCIRB submitted a filing to the California Insurance Commissioner recommending a 10.4 percent decrease in advisory pure premium rates effective July 1, 2005, on new and renewal policies.

On May 19, 2005, in recognition of the cost impact of the new Permanent Disability Rating Schedule adopted pursuant to SB 899, the WCIRB amended its recommendation. In lieu of the 10.4 percent reduction originally proposed in March, the WCIRB recommended a 13.8 percent reduction in pure premium rates effective July 1, 2005. In addition, the WCIRB recommended a 3.8 percent reduction in the pure premium rates effective July 1, 2005, with respect to the outstanding portion of policies incepting January 1, 2005, through June 30, 2005.

***Insurance Commissioner action:***

On May 31, 2005, the Insurance Commissioner approved an 18 percent decrease in advisory pure premium rates effective July 1, 2005, applicable to new and renewal policies with anniversary rating dates on or after July 1, 2005. As a result of the change in pure premium rates, the experience rating eligibility threshold was reduced to \$23,288. The Insurance Commissioner also approved a 7.9 percent decrease in pure premium rates, effective July 1, 2005, applicable to policies that are outstanding as of July 1, 2005. The reduction in pure premium rates applicable to these policies reflects the estimated impact on the cost of benefits of the new Permanent Disability Rating Schedule.

**January 1, 2006**

***WCIRB recommendations:***

On July 28, 2005, the WCIRB submitted to the California Insurance Commissioner a proposed 5.2 percent average decrease in advisory pure premium rates as well as changes to the California Workers' Compensation Uniform Statistical Reporting Plan—1995 and the California Workers' Compensation Experience Rating Plan—1995.

On September 15, 2005, the WCIRB amended its filing to propose an average 15.9 percent decrease in pure premium rates based on insurer loss experience valued as of June 30, 2005, and a re-evaluation of the cost impact of the January 1, 2005, Permanent Disability Rating Schedule.

***Insurance Commissioner action:***

On November 10, 2005, the Insurance Commissioner approved an average 15.3 percent decrease in advisory pure premium rates effective January 1, 2006, applicable to new and renewal policies with anniversary rating dates on or after January 1, 2006. As a result of the change in pure premium rates, the experience rating eligibility threshold was reduced to \$20,300.

**July 1, 2006**

***WCIRB recommendations:***

On March 24, 2006, the WCIRB submitted a rate filing to the California Department of Insurance recommending a 16.4 percent decrease in advisory pure premium rates to be effective on policies incepting on or after July 1, 2006. The recommended decrease in pure premium rates is based on an analysis of loss experience valued as of December 31, 2005. The WCIRB filing also includes an amendment to the California Workers' Compensation Experience Rating Plan-1995, effective July 1, 2006, to adjust the experience rating eligibility threshold to reflect the proposed change in pure premium rates. A public hearing on the matters contained in the WCIRB's filing was held April 27, 2006.

***Insurance Commissioner action:***

On May 31, 2006, the Insurance Commissioner approved a 16.4 percent decrease in advisory pure premium rates effective July 1, 2006, applicable to new and renewal policies as of the first anniversary rating date of a risk on or after July 1, 2006. In addition, the experience rating eligibility threshold was reduced to \$16,971 to reflect the decrease in pure premium rates.

**January 1, 2007**

***WCIRB recommendation:***

On October 10, 2006, the WCIRB recommended a 6.3 percent decrease in advisory pure premium rates decrease for California policies incepting January 1, 2007.

***Insurance Commissioner action:***

On November 2, 2006, the Insurance Commissioner approved an average 9.5 percent decrease in advisory pure premium rates effective January 1, 2007, applicable to new and renewal policies with anniversary rating dates on or after January 1, 2007. As a result of the change in pure premium rates, the experience rating eligibility threshold was reduced to \$16,000.

**July 1, 2007**

***WCIRB recommendation:***

On March 30, 2007, the WCIRB recommended an 11.3 percent decrease in advisory pure premium rates for California to be effective on policies incepting on or after July 1, 2007.

***Insurance Commissioner action:***

On May 29, 2007, the Insurance Commissioner approved an average 14.2 percent decrease in advisory pure premium rates effective July 1, 2007, applicable to new and renewal policies with anniversary rating dates on or after July 1, 2007. As a result of the change in pure premium rates, the experience rating eligibility threshold was reduced to \$13,728.

**January 1, 2008**

***WCIRB recommendations:***

On September 23, 2007, the WCIRB recommended 4.2 percent increase in advisory pure premium rates for California to be effective on policies incepting on or after January 1, 2008.

On October 13, 2007, the Governor signed Assembly Bill (AB) 338 which extends the time period for which temporary disability payments may be taken. On October 19, 2007, the WCIRB amended its January 1, 2008 pure premium rate filing to propose an overall 5.2 percent increase in pure premium rates in lieu of 4.2 percent to incorporate the impact of AB 338.

***Insurance Commissioner action:***

On November 28, 2007, the Insurance Commissioner approved no overall change to the advisory pure premium rates effective January 1, 2008.

**July 1, 2008**

***WCIRB recommendation:***

On March 26, 2008, accepting a recommendation made by the WCIRB Actuarial Committee, the WCIRB Governing Committee decided that the WCIRB would not propose a change in advisory pure premium rates for California to be effective on policies incepting on or after July 1, 2008.

**January 1, 2009**

***WCIRB recommendations:***

On August 13, 2008, the WCIRB recommended a 16 percent increase in advisory pure premium rates for California to be effective on policies incepting on or after January 1, 2009. See the WCIRB website below for further details and updates to this information.

At its September 10, 2008, meeting, the Governing Committee agreed that the WCIRB's January 1, 2009, pure premium rate filing should be amended to reflect the most recent accident year experience valued as of June 30, 2008, as well as a revised loss development methodology. The original filing should be supplemented to include a recommendation that the proposed January 1, 2009, pure premium rates be adjusted to reflect (a) the impact of the Division of Workers' Compensation proposed changes to the Permanent Disability Rating Schedule (+3.7%) if adopted as proposed and (b) the impact of SB 1717 (+9.3%) if signed into law by the Governor.

***Insurance Commissioner action:***

On October 24, 2008, the Insurance Commissioner approved a 5 percent increase in pure premium rates effective January 1, 2009, applicable to new and renewal policies with anniversary rating dates on or after January 1, 2009.

**July 1, 2009**

***WCIRB recommendations:***

On March 27, 2009, WCIRB recommended a 24.4 percent increase in advisory pure premium rates for California to be effective on policies incepting on or after July 1, 2009.

WCIRB amended its filing on April 23, 2009, to reflect the revised aggregate financial data calls recently submitted by an insurer to WCIRB. These revisions reduced the indicated July 1, 2009, increase in the claims cost benchmark from 24.4 percent to 23.7 percent.

***Insurance Commissioner action:***

On July 8, 2009, the Insurance Commissioner approved no change to the pure premium rates effective July 1, 2009, applicable to new and renewal policies with anniversary rating dates on or after July 1, 2009.

**January 1, 2010**

***WCIRB recommendation:***

On August 18, 2009, the WCIRB submitted a pure premium rate filing to the California Insurance Commissioner recommending a 22.8 percent increase in advisory pure premium rates with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2010.

***Insurance Commissioner action:***

On November 9, 2009, the Insurance Commissioner approved no change to the pure premium rates effective January 1, 2010, applicable to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2010.

**July 1, 2010**

***WCIRB recommendations:***

On April 7, 2010, WCIRB voted not to submit a pure premium rate filing for July 1, 2010. The WCIRB's analysis of pure premium and loss experience valued as of December 31, 2009, showed that the indicated July 1, 2010, change in pure premium rates was essentially unchanged from the indication reflected in the January 1, 2010 filing.

***Insurance Commissioner action:***

The Insurance Commissioner did not issue an interim advisory rate for this period.

**January 1, 2011**

***WCIRB recommendation:***

On August 18, 2010, the WCIRB submitted a pure premium rate filing to the California Insurance Commissioner recommending a 29.6 percent increase in advisory pure premium rates with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2011. On September 27, 2010, the WCIRB amended its January 1, 2011, filing to propose a change in the claims cost benchmark of +27.7 percent in lieu of the +29.6 percent reflected in its August 18, 2010, filing.

***Insurance Commissioner action:***

On November 18, 2010, the Insurance Commissioner approved no change to the pure premium rates effective January 1, 2011, applicable to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2011. Other proposed changes to the USRP, ERP and Miscellaneous Regulations were approved as filed with the exception that the experience rating eligibility was increased to \$16,700 to reflect the 0 percent approved change in the Claims Cost Benchmark.

**July 1, 2011**

***WCIRB recommendations:***

On May 19, 2011, the WCIRB decided not to submit a pure premium rate filing for July 1, 2011. The WCIRB noted that a decision on a mid-year filing would likely not be available prior to the WCIRB's January 1, 2012, Advisory Pure Premium Rate Filing in mid-August, and two pending filings with the CDI had the potential to create a confusion.

***Insurance Commissioner action:***

The Insurance Commissioner did not issue an interim advisory rate for this period.

**January 1, 2012**

***WCIRB recommendations:***

On August 22, 2011, the WCIRB submitted its January 1, 2012, pure premium rate filing to the California Insurance Commissioner. The pure premium rates proposed in this filing are benchmarked to the average insurer filed pure premium rate. The average of 494 classification pure premium rates is \$2.33 per \$100 of payroll and 1.8 percent less than the corresponding average of insurer filed pure premium rates for July 1, 2011.

***Insurance Commissioner action:***

On November 4, 2011, the Commissioner issued a decision approving new advisory pure premium rates effective January 1, 2012, which average \$2.30 per \$100 of payroll.

**July 1, 2012**

***WCIRB recommendations:***

On April 12, 2012, the WCIRB submitted its July 1, 2012, pure premium rate filing to the California Insurance Commissioner recommending an increase in advisory pure premium rates effective July 1, 2012. The advisory pure premium rates proposed for the 494 standard classifications currently in effect average \$2.51, which is 4.1 percent more than the corresponding industry average filed pure premium rate of \$2.41 as of January 1, 2012.

***Insurance Commissioner action:***

On May 29, 2012, the Commissioner issued a decision approving new advisory pure premium rates effective July 1, 2012, which average \$2.49 per \$100 of payroll.

**January 1, 2013**

***WCIRB recommendations:***

On October 1, 2012, the WCIRB submitted its January 1, 2013, pure premium rate filing to the California Insurance Commissioner. The WCIRB did not recommend a January 1, 2013, increase in the advisory pure premium rate level. Instead, the WCIRB proposed January 1, 2013, pure premium rates that average \$2.38 per \$100 of payroll, which is the industry average filed pure premium rate as of July 1, 2012. The amended January 1, 2013, Pure Premium Rate Filing incorporated new proposed advisory pure premium rates as well as proposed changes to the reporting requirements of the *California Workers' Compensation Uniform Statistical Reporting Plan—1995* and to the eligibility threshold of the *California Workers' Compensation Experience Rating Plan—1995*.

***Insurance Commissioner action:***

On November 30, 2012, the Commissioner issued a decision approving new advisory pure premium rates effective January 1, 2013, that average \$2.56 per \$100 of payroll which is 2.8 percent higher than the industry average filed pure premium rate of \$2.49 per \$100 of payroll as of November 9, 2012.

**July 1, 2013**

***WCIRB recommendations:***

On April 3, 2013, after some discussion, the WCIRB Governing Committee unanimously agreed not to submit a July 1, 2013, Pure Premium Rate Filing. Instead, the Actuarial Committee agreed to continue reviewing insurer experience in preparation for the regular January 1, 2014, Pure Premium Rate Filing to be submitted in August.

***Insurance Commissioner action:***

The Insurance Commissioner did not issue an interim advisory rate for this period

**January 1, 2014**

***WCIRB recommendations:***

On October 23, 2013, the WCIRB and public members voted unanimously to amend the WCIRB's January 1, 2014, Pure Premium Rate Filing to propose an additional 1.8 percent increase in pure premium rates to reflect the increased costs of the new physician fee schedule recently adopted by the Division of Workers' Compensation (DWC). With this amendment, the WCIRB proposed January 1, 2014, advisory pure premium rates that average \$2.75 per \$100 of payroll which is 8.7 percent greater than the industry average pure premium rate of \$2.53 as of July 1, 2013. (The original Filing submitted on September 13, 2013, proposed an industry average pure premium rate of \$2.70, which is 6.9 percent higher than the July 1, 2013, industry average pure premium rate.)

***Insurance Commissioner action:***

On November 22, 2013, the California Department of Insurance (CDI) issued a decision regarding the WCIRB's January 1, 2014, Pure Premium Rate Filing approving advisory pure premium rates effective January 1, 2014, that average \$2.70 per \$100 of payroll, which is 6.7 percent higher than the average filed pure premium rate as of July 1, 2013.

**July 1, 2014**

***WCIRB recommendations:***

On April 3, 2014, after some discussion, the WCIRB Governing Committee unanimously agreed not to submit a July 1, 2014, Pure Premium Rate Filing.

***Insurance Commissioner action:***

The Insurance Commissioner did not issue a decision with respect to the pure premium rate for this period.

**January 1, 2015**

***WCIRB recommendations:***

On September 4, 2014, the WCIRB voted to amend the WCIRB's January 1, 2015, Pure Premium Rate Filing to propose advisory pure premium rates that average \$2.77 per \$100 payroll in lieu of the advisory pure premium rates averaging \$2.86 per \$100 of payroll that were proposed in the WCIRB's initial August 19, 2014, Filing. The new proposed average pure premium rate of \$2.77 is 7.9 percent higher than the corresponding industry average filed pure premium rate of \$2.57 as of July 1, 2014.

***Insurance Commissioner action:***

On November 14, 2014, the Insurance Commissioner issued a decision regarding the WCIRB's January 1, 2015, Pure Premium Rate Filing approving advisory pure premium rates effective January 1, 2015, that average \$2.74 per \$100 of payroll, which is 6.6 percent higher than the average filed pure premium rate as of July 1, 2014, of \$2.57 per \$100 of payroll and 2.2 percent above the average approved January 1, 2014, pure premium rate of \$2.68 per \$100 of payroll.

**July 1, 2015**

***WCIRB recommendations:***

On April 6, 2015, the WCIRB submitted a July 1, 2015, Pure Premium Rate Filing to the California Department of Insurance (CDI) proposing advisory pure premium rates effective July 1, 2015, that average \$2.46 per \$100 of payroll. The average proposed advisory pure premium rate is 5.0 percent lower than the corresponding industry average filed pure premium rate of \$2.59 as of January 1, 2015, and 10.2 percent less than the approved average January 1, 2015, advisory pure premium rate of \$2.74.

***Insurance Commissioner action:***

On May 7, 2015, the Commissioner approved the WCIRB's proposed advisory pure premium rates that average \$2.46 per \$100 of payroll. The approved pure premium rates are, on average, 5.0 percent less than the industry average filed pure premium rate as of January 1, 2015, of \$2.59 and 10.2 percent less than the average of the approved January 1, 2015, advisory pure premium rates of \$2.74. The approved advisory pure premium rates are effective July 1, 2015, for new and renewal policies.

**January 1, 2016**

***WCIRB recommendations:***

On August 19, 2015, the WCIRB submitted its January 1, 2016, Pure Premium Rate Filing to the California Insurance Commissioner. The pure premium rates for the 491 standard classifications proposed to be effective January 1, 2016, average \$2.45 per \$100 of payroll, which is \$0.21, or 7.8 percent, less than the corresponding industry average filed pure premium rate of \$2.66 as of July 1, 2015, and \$0.02 or 0.8 percent less than the average approved July 1, 2015, advisory pure premium rate of \$2.47.

***Insurance Commissioner action:***

On October 20, 2015, the Insurance Commissioner issued a decision regarding the WCIRB's January 1, 2016, Pure Premium Rate Filing, approving advisory pure premium rates that averaged \$2.42 per \$100 of payroll. The approved pure premium rates were, on average, 9.0 percent less than the industry average filed pure premium rate as of July 1, 2015, of \$2.66 and 2.0 percent less than the average of the approved July 1, 2015, advisory pure premium rates of \$2.47.

Source: WCIRB.