Workers’ Compensation Market Trends

Presenters
David Belluscì
Scott Hague
James Neary
Glenn Shor
Anthony Valdivia

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California Workers’ Compensation Insurance Market Update

Presented by:
Dave Bellusci
WCIRB of California

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Presentation Summary

- Premiums & Rates
- Benefit Costs
- Insurer Results
- Current Issues
California Workers' Compensation Insurance Market Update

Written Premium Gross of Deductibles

As of September 30, 2008

$ Billion

Calendar Year

1995 1997 1999 2001 2003 2004 2005 2006 2007 2008 (estimated)

Average Insurer Rate Per $100 of Payroll

Policy Year

California Workers’ Compensation Insurance Market Update

Rate Comparison Based on Oregon Studies
California vs. National Median Average Rate

Estimated Ultimate Losses by Accident Year

As of September 30, 2008
California Workers’ Compensation Insurance Market Update

Estimated Percentage Change in Indemnity Claim Frequency by Accident Year

As of September 30, 2008

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Change in Indemnity Claim Frequency
California vs. NCCI States

As of September 30, 2008

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NCCI estimates are based on May 8, 2008 State of the Line Presentation (2007 estimate is preliminary).
California Workers' Compensation Insurance Market Update

Return on Net Worth

Source: NAIC Report on Profitability By Line By State in 2007

10-Year Arithmetic Average Return
- California Workers' Compensation: 2.9%
- All Lines: 7.1%
- Fortune Magazine – All Industry: 13.6%

Current Topics

WCIRB Filings

- WCIRB 1/1/09 Filing
  - WCIRB Proposed: +16% increase in pure premium rates
  - CDI Staff Recommended Decision: +9.4%
  - Commissioner Approved: +5%
  - Key Difference: Projected Medical Inflation
- Mid-Year Filing Likely
California Workers' Compensation Insurance Market Update

Current Topics

Impact of Recession

- Premiums
  - Declining workforce
  - Lower average wage growth
- Losses
  - Generally believed to reduce frequency
  - Severity impact uncertain