

# WCIRB Bulletin

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**Bulletin No. 2005-1**

**January 12, 2005**

525 Market Street, Suite 800 • San Francisco, CA 94105-2767 • 415.777.0777 • Fax 415.778.7007 • [www.wcirbonline.org](http://www.wcirbonline.org) • [wcirb@wcirbonline.org](mailto:wcirb@wcirbonline.org)

## **Summary of September 30, 2004 Experience**

The Workers' Compensation Insurance Rating Bureau of California has compiled a summary of insurer reports of loss and premium experience valued as of September 30, 2005. Attached is a copy of the summary.

**WCIRB**California™

## **WCIRB Summary of September 30, 2004 Insurer Experience**

**Released: January 12, 2005**

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## WCIRB Summary of September 30, 2004 Insurer Experience

The WCIRB has completed its initial review of September 30, 2004 experience submitted by insurers. This summary is based on data reported to the WCIRB by insurers who wrote approximately 98% of the statewide market, based on 2003 premium levels. In reviewing this information, the following should be noted:

1. Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments based on information reported through September 30, 2004. Although the actuarial methodologies upon which these projections are predicated are comprehensively and regularly tested and the underlying assumptions verified, 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.
2. The amounts and ratios shown represent statewide totals based on the amounts reported by all 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.
3. Insurer-reported losses, which, in Exhibit 9, are compared to WCIRB's estimates of ultimate losses, include estimates of insurers' incurred but not reported (IBNR) losses by 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 in Exhibit 9 do not necessarily equate to specific estimates of the adequacy of insurers' unpaid losses.
4. Some of the provisions of Assembly Bill No. 227 (AB 227), Senate Bill No. 228 (SB 228), and Senate Bill No. 899 (SB 899) affect the cost of claims incurred prior to the effective date of the legislation. Projections of ultimate losses and ultimate loss severities have been adjusted to reflect the impact of AB 227, SB 228, and SB 899 on unpaid losses as estimated by the WCIRB's Actuarial Committee.

Attached Exhibits 1 through 9, which summarize the WCIRB's review of reported September 30, 2004 experience, reflect the following information:

- California written premium (gross of deductible credits) reported for the first nine months of 2004 is \$18.1 billion. This is approximately 17% above the written premium reported for the first nine months of 2003 (Exhibit 1).
- The average statewide insurer rate (final insurer rates reflecting all rating plan adjustments except deductible credits, retrospective rating plan adjustments, and policyholder dividends) per \$100 of payroll for policies written in the third quarter of 2004 is \$5.34 (Exhibit 2). This is 7% below the rates charged on policies incepting in the first half of 2004 and 16% below the average rate charged for policies incepting in the second six months of 2003.
- After reflecting the estimated impact of AB 227, SB 228, and SB 899 on unpaid losses, ultimate accident year losses for 2003 are projected by the WCIRB to be \$11.6 billion.<sup>1</sup> This represents a decrease in estimated losses of approximately 9% from the ultimate losses currently projected for accident year 2002 (Exhibit 3).
- After reflecting the estimated impact of AB 227, SB 228, and SB 899 on unpaid losses, the WCIRB projects ultimate accident year loss ratios of 138%, 124%, 107%, 86%, and 57% for the 1999, 2000, 2001, 2002, and 2003 accident years, respectively (Exhibit 4). (Prior to the estimated

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<sup>1</sup> The 2003 accident year losses are projected based on reported loss amounts through only 21 months (i.e., September 30, 2004). Due to the relative immaturity of accident year losses valued as of 21 months and uncertainty as to the impact of recent legislation, there is significant uncertainty in this initial projection for accident year 2003.

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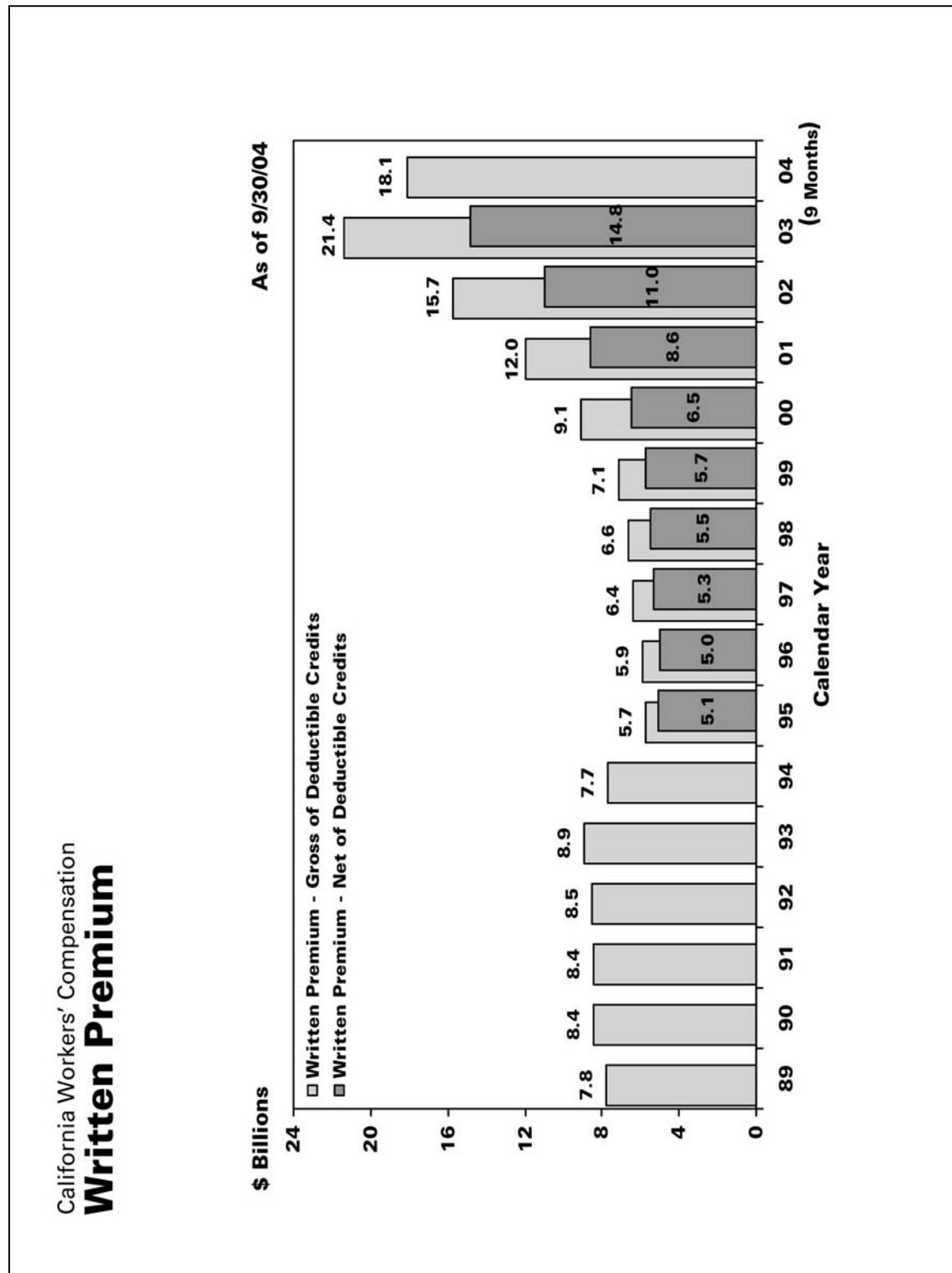
reduction in unpaid losses on pre-existing claims as a result of AB 227, SB 228, and SB 899, projected accident year loss ratios are 141%, 127%, 110%, 90%, and 61%.)

- After reflecting the estimated impact of AB 227, SB 228, and SB 899 on unpaid losses, the ultimate accident year 2003 combined loss and expense ratio is estimated by the WCIRB to be 85% (Exhibit 5). This reflects a continuing decrease in combined ratios since they peaked in 1999 at an estimated 182%, and is the lowest combined ratio projected by the WCIRB since 1993. (Prior to the estimated reduction in unpaid losses on pre-existing claims as a result of AB 227, SB 228, and SB 899, the projected accident year 2003 combined ratio is 89%.)
- The calendar period loss ratio reported for the nine months of 2004 is 62%. This ratio is 23 percentage points below the loss ratio reported for the first nine months of calendar year 2003 (Exhibit 6).
- Indemnity claim frequency for the first nine months of 2004 is estimated to be 18% lower than for the first nine months of 2003. Currently, 2004 indemnity claim frequency is estimated at approximately 44% of its all-time high in 1991 (Exhibit 7).<sup>2</sup>
- After reflecting the estimated impact of AB 227, SB 228, and SB 899 on unpaid losses, the WCIRB projects the average cost of a 2003 indemnity claim will be approximately \$50,400, which is 1% greater than the average cost of a 2002 indemnity claim and approximately 140% greater than the average cost of a 1994 indemnity claim (Exhibit 8, Sheet 1). While this represents an annual growth rate since 1994 of approximately 10%, which is well above the level of general and medical inflation, over the last two years, the average rate of growth has been only 2%. In fact, the average estimated accident year 2003 medical claim cost is slightly below that of accident year 2002 (Exhibit 8, Sheet 3).
- After reflecting the estimated impact of AB 227, SB 228, and SB 899 on unpaid losses, the WCIRB's current estimate of ultimate losses on all injuries that occurred on or before December 31, 2003 exceeds the amount reported by insurers for those injuries by \$7.3 billion (Exhibit 9, Sheet 1). As shown, this represents a significant decrease from the differences currently estimated for the immediately preceding five years (Exhibit 9, Sheet 2).

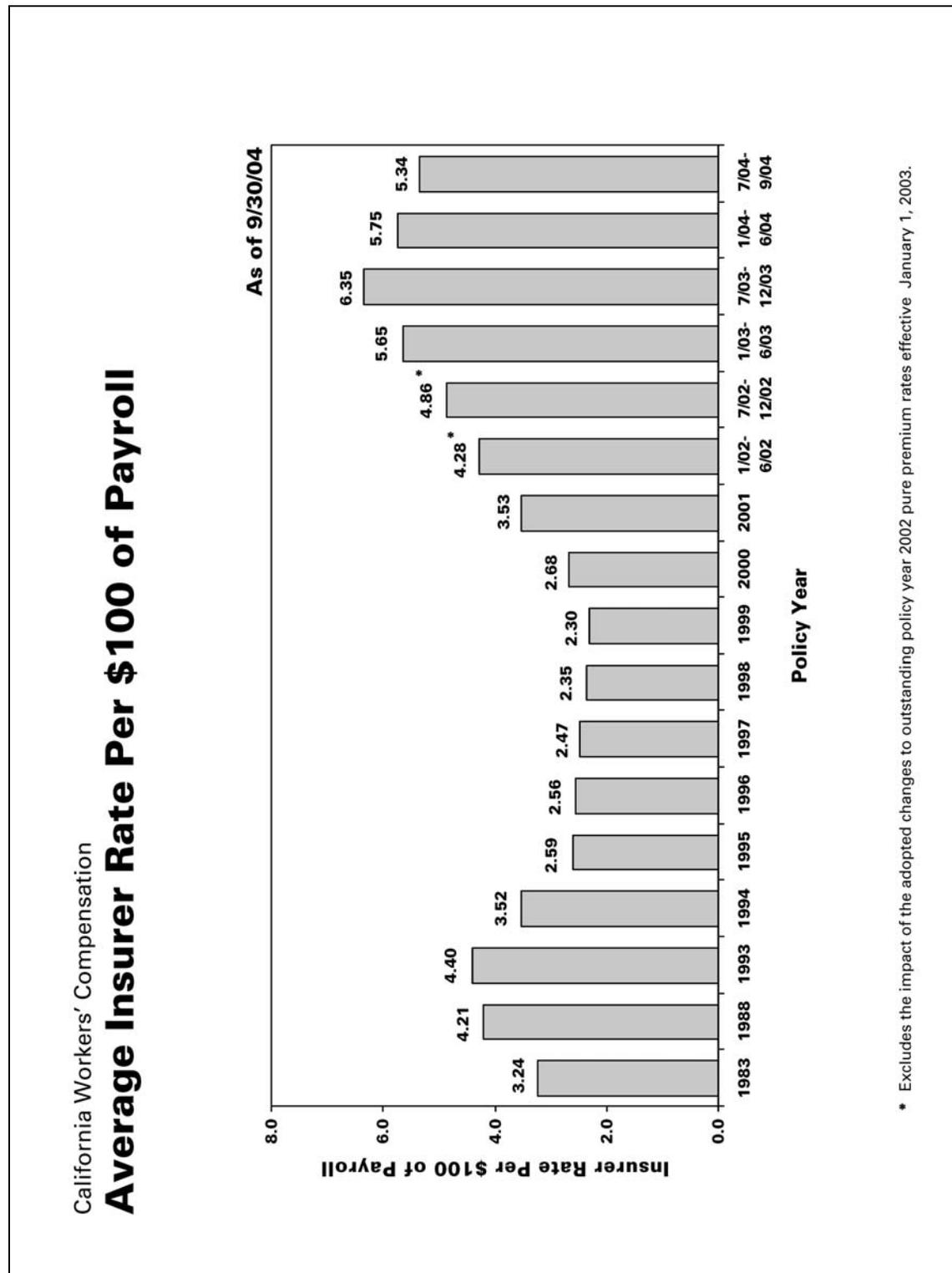
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<sup>2</sup> The indicated annual changes in frequency from 1999 to 2001 appear to be statistical anomalies and not accurate reflections of the annual changes.

**Exhibit 1**

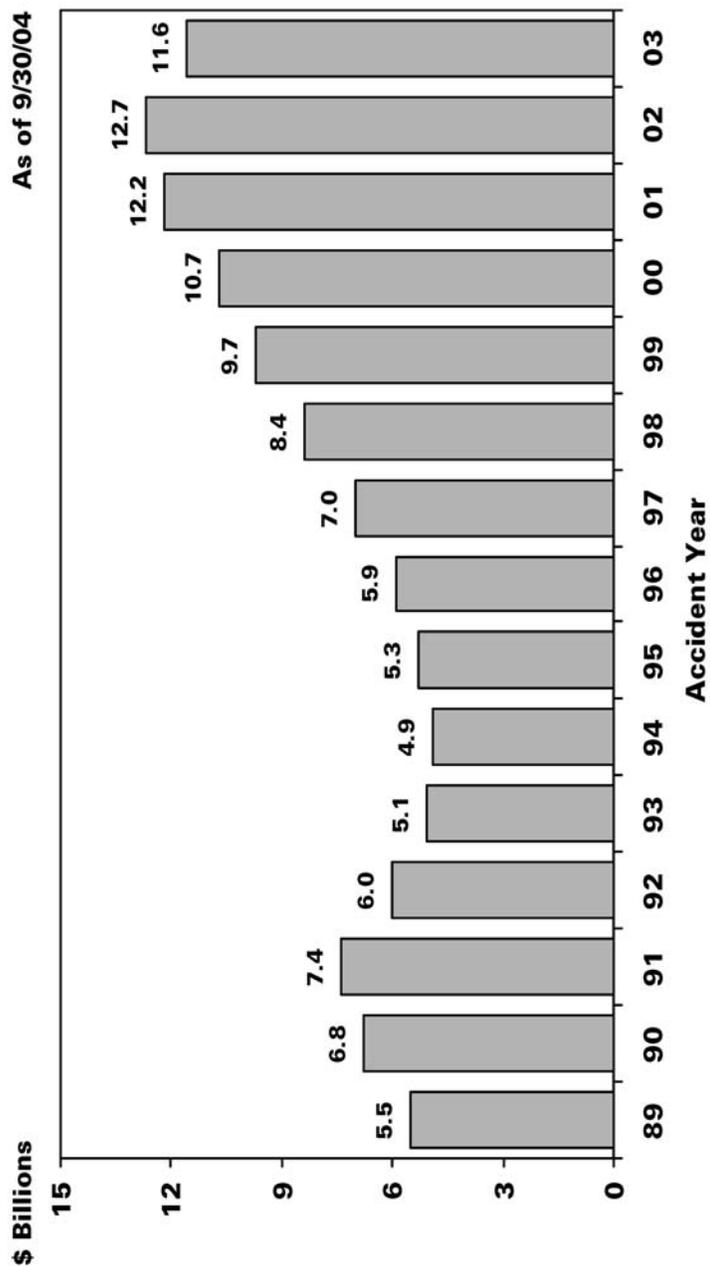


**Exhibit 2**



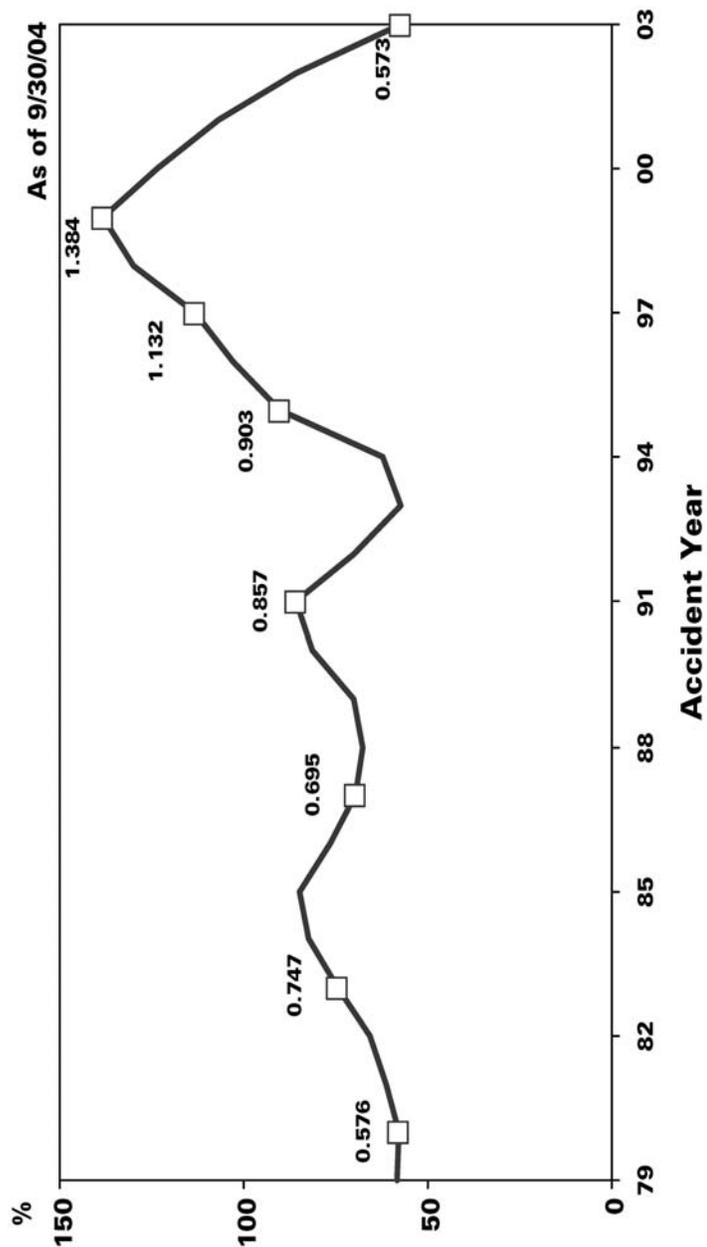
**Exhibit 3**

California Workers' Compensation  
**Estimated Ultimate Losses by Accident Year**  
(After Reflecting the Estimated Impact of AB 227, SB 228 & SB 899 on Unpaid Losses)



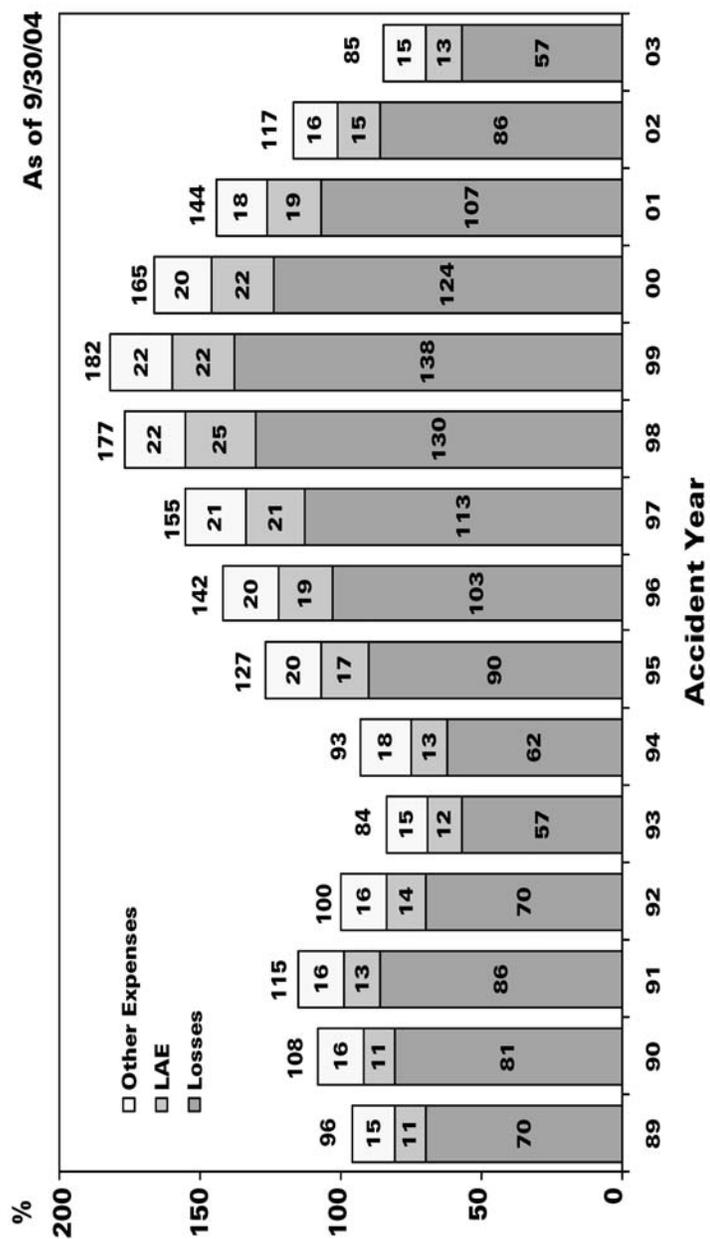
**Exhibit 4**

California Workers' Compensation  
**Ultimate Accident Year Loss Ratios**  
(After Reflecting the Estimated Impact of AB 227, SB 228 & SB 899 on Unpaid Losses)

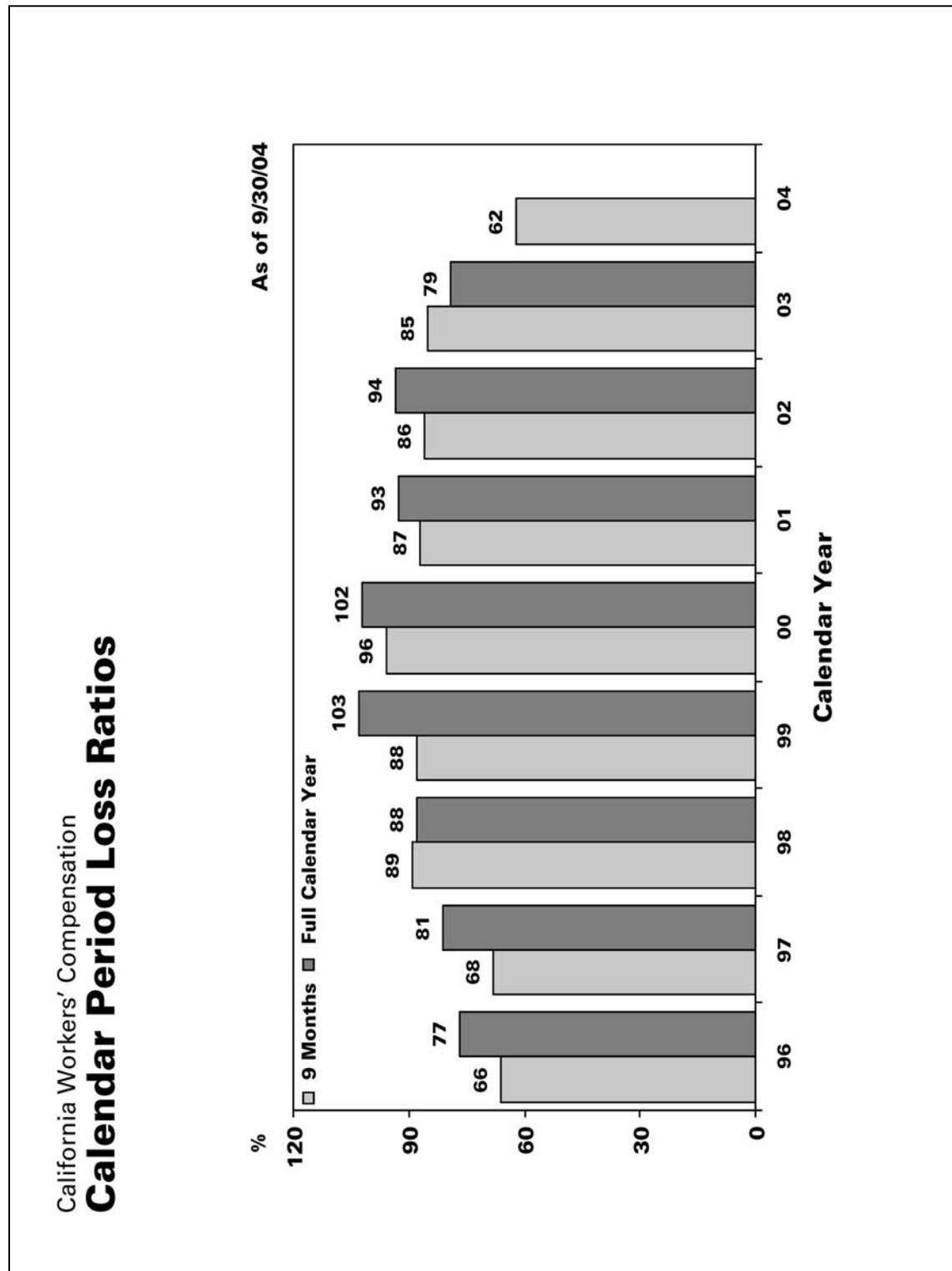


**Exhibit 5**

California Workers' Compensation  
**Accident Year Combined Loss and Expense Ratios**  
 (After Reflecting the Estimated Impact of AB 227, SB 228 & SB 899 on Unpaid Losses)

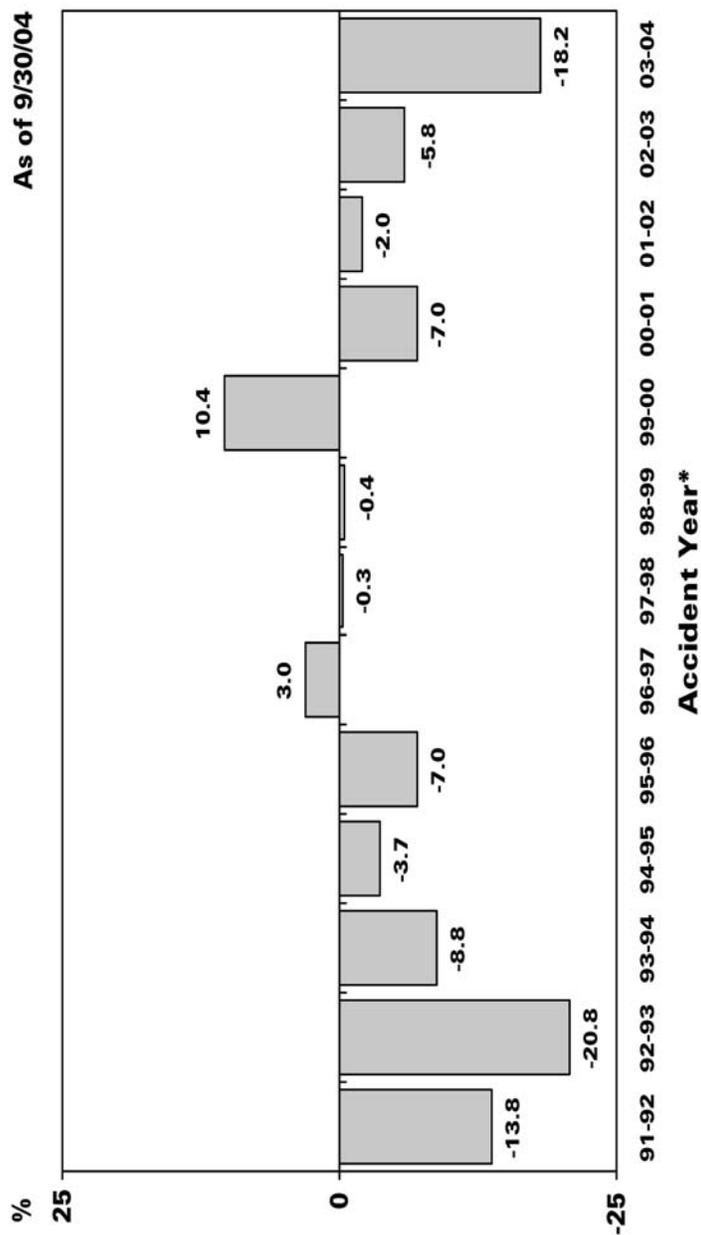


**Exhibit 6**



**Exhibit 7**

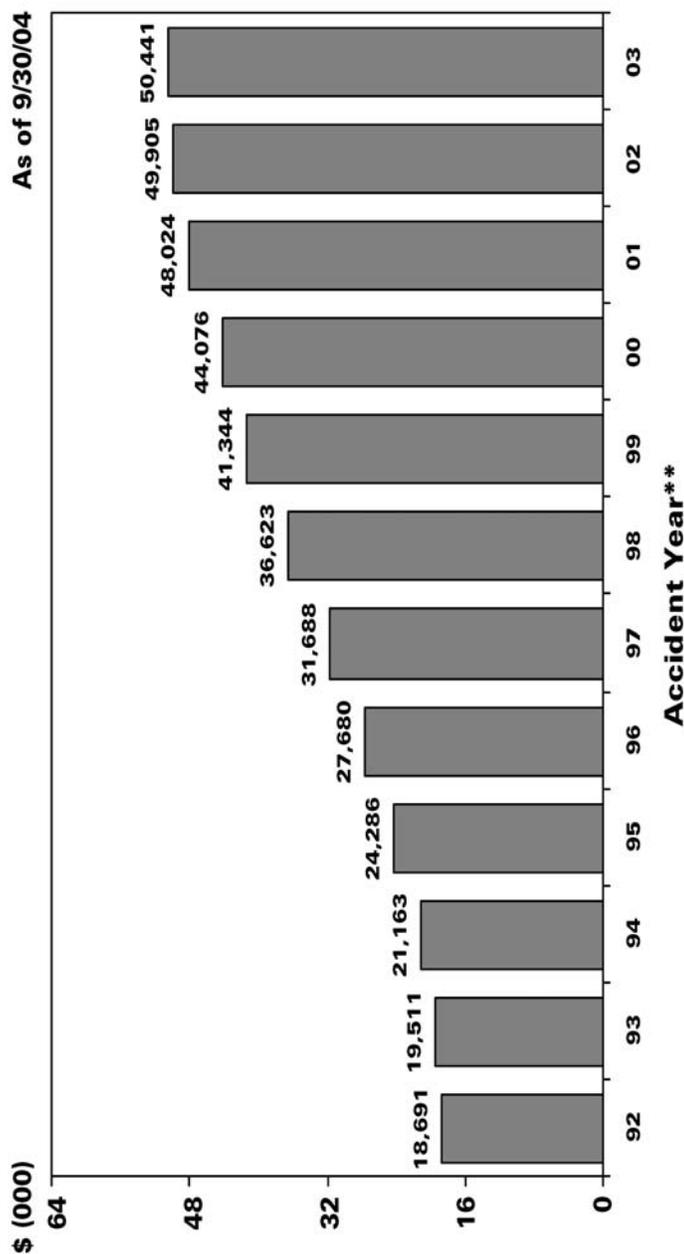
California Workers' Compensation  
**Estimated Percentage Change in Indemnity Claim Frequency by Accident Year**



\* Claim count information for accident years prior to 1991 is not available.

**Exhibit 8 Sheet 1**

California Workers' Compensation  
**Estimated Ultimate Total\* Loss Per Indemnity Claim**  
**(After Reflecting the Estimated Impact of AB 227, SB 228 & SB 899 on Unpaid Losses)**

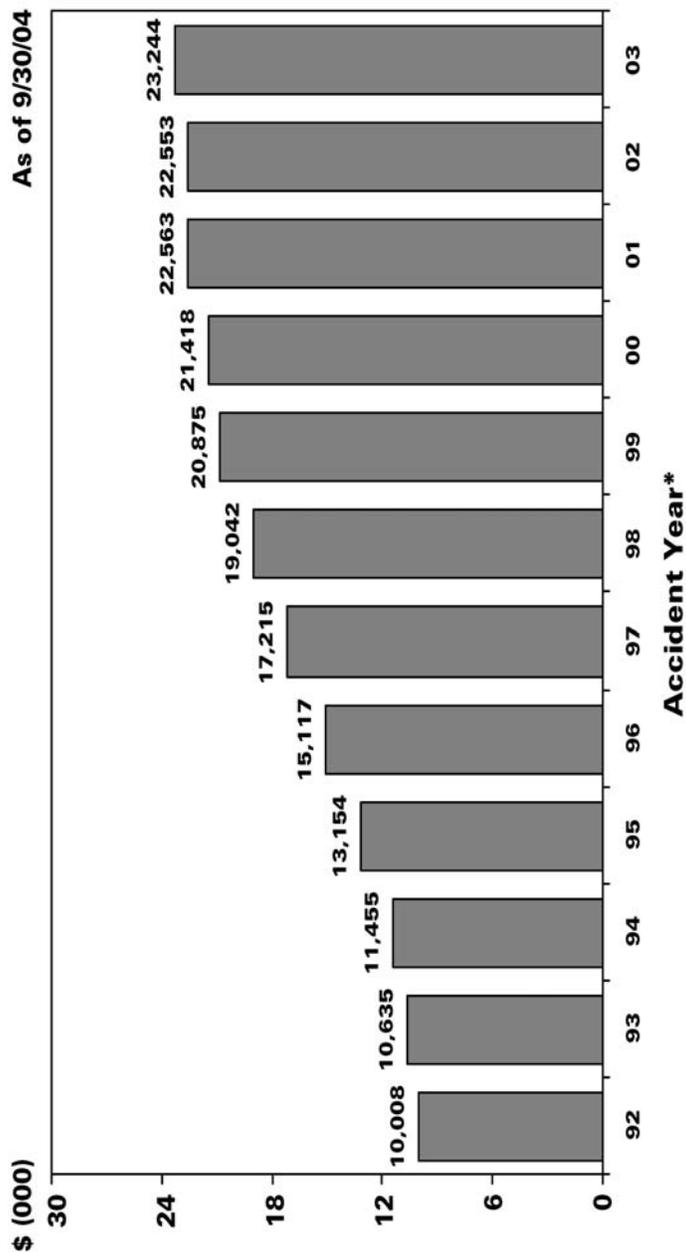


\* Excludes medical-only.

\*\* Claim count information for accident years prior to 1992 is not available.

**Exhibit 8 Sheet 2**

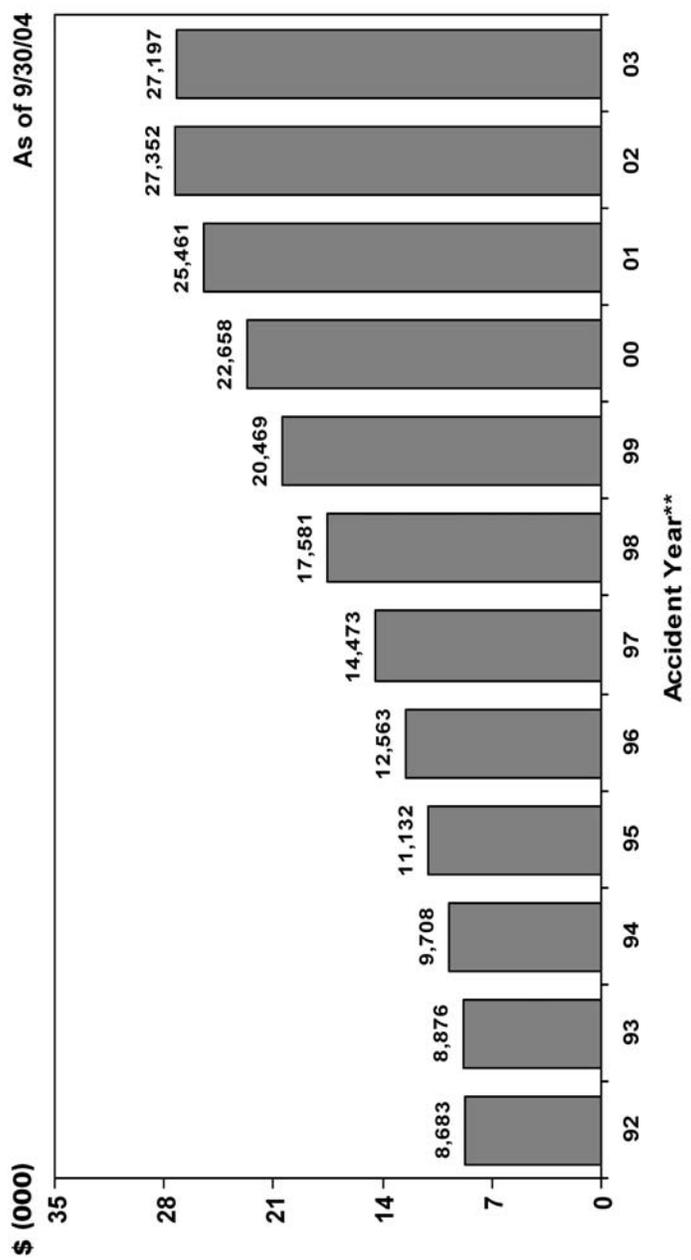
California Workers' Compensation  
**Estimated Ultimate Indemnity Per Indemnity Claim**  
 (After Reflecting the Estimated Impact of AB 227, SB 228 & SB 899 on Unpaid Losses)



\* Claim count information for accident years prior to 1992 is not available.

**Exhibit 8 Sheet 3**

California Workers' Compensation  
**Estimated Ultimate Medical\* Per Indemnity Claim**  
**(After Reflecting the Estimated Impact of AB 227, SB 228 & SB 899 on Unpaid Losses)**

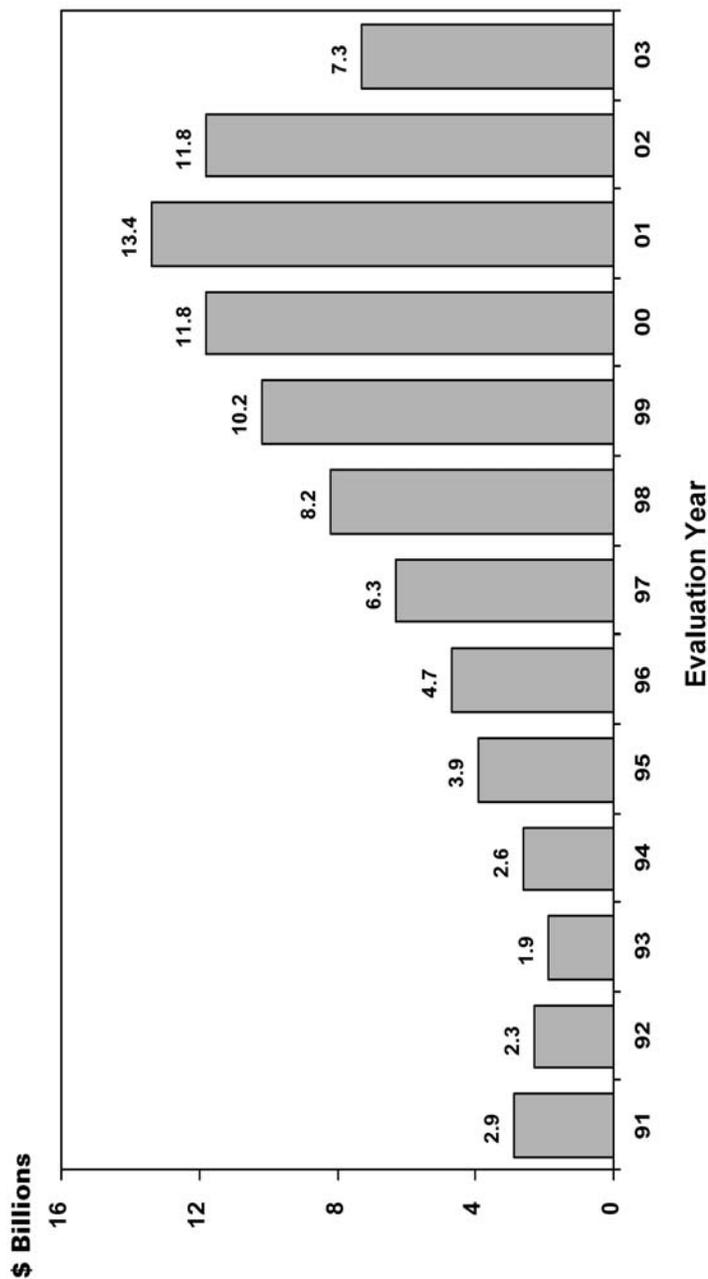


\* Excludes medical-only.

\*\* Claim count information for accident years prior to 1992 is not available.

**Exhibit 9 Sheet 1**

California Workers' Compensation  
**Estimated Ultimate Losses as of 9/30/04 Less Reported Losses at Successive December 31 Evaluations**  
(After Reflecting the Estimated Impact of AB 227, SB 228 & SB 899 on Unpaid Losses)



**Exhibit 9 Sheet 2**

California Workers' Compensation  
**Estimated Ultimate Losses as of 9/30/04 Less  
 Reported Losses at 12/31/03**  
 (After Reflecting the Estimated Impact of AB 227, SB 228 & SB 899 on  
 Unpaid Losses)

