

# Actuarial Committee

## Meeting Agenda

| Date   | Time    | Location  | Staff Contact     |
|--|---------|---|-------------------|
| September 1, 2016  | 9:30 AM | WCIRB California<br>1221 Broadway, Suite 900<br>Oakland, CA | David M. Bellusci |
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Released: August 25, 2016

To Members of the Actuarial Committee, WCIRB Members and All Interested Parties:

**I. Approval of Minutes**

Meeting held on August 3, 2016

**II. Working Group Meeting Summaries**

Claims Working Group Meeting held July 29, 2016

**III. New Business**

A. AC16-09-01: 6/30/2016 Experience – Review of Methodologies

B. AC16-09-02: Potential Impact of 2016 Legislation

**IV. Matters Arising at Time of Meeting**

**V. Next Meeting Date:** November 8, 2016

**VI. Adjournment**

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**Claims Working Group**

# Meeting Summary

To: Participants of the Claims Working Group  
Date: August 16, 2016

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**RE: Summary of July 29, 2016 Meeting**

## **Discussion Topics**

At the meeting, the following topics were discussed.

### **1. Third Quarter 2016 Review of Diagnostics**

The meeting materials included the WCIRB's standard set of diagnostics that are reviewed by the Actuarial Committee and the Claims Working Group on a semi-annual basis. Among the diagnostics discussed by the Working Group were the following:

- a. Permanent indemnity claims as a share of total claims continued to increase in 2014. A Working Group member noted that part of the decrease in medical only claims could be caused by the increase in cumulative trauma (CT) claims.
- b. The percentage of permanent disability claims with legal representation increased in both Northern and Southern California for both accident years 2012 and 2013. Staff presented representation rates by WCAB office to the Working Group showing that the increase was wide spread throughout Northern California.
- c. The number of expedited hearings increased in the first quarter of 2016, after a small decrease in calendar year 2015. A Working Group member noted that the 2<sup>nd</sup> Appellate District's decision in *State Compensation Insurance Fund v. Workers' Compensation Appeals Board and Dorothy Margaris* could reduce the number of expedited hearings by upholding the use of Independent Medical Review (IMR) even when the IMR decision is untimely. However, it was noted that it might be some time before the issue of late IMR reports is fully resolved.
- d. Lien filings continued to increase in the first quarter of 2016. Staff had previously noted that part of the increase in lien filings in 2015 and 2016 could be from older claims that were newly affected by the 18-month statute of limitations. It was noted that the third quarter of 2016 will be the first quarter with the 18-month statute fully in effect.
- e. Indemnity claims closed at a faster rate in the first calendar quarter of 2016 as compared to 2015. Specifically, permanent indemnity claims closed faster than previous years, continuing a multi-year trend. A Working Group member noted that this could be caused by an increase in smaller permanent indemnity claims that close faster. Other members also indicated that

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the increase is also attributable to claims moving more quickly due to Senate Bill No. 863 (SB 863) changes related to IMR and liens.

- f. The share of claims settled through compromise and release (C&R) continued a multi-year pattern of increases in calendar year 2014. A Working Group member suggested that the increase may be the result of the increase in CT claims, which may be more likely to settle by C&R.

### 2. ALAE Survey

Staff noted that, as discussed at prior Working Group meetings, allocated loss adjustment expense (ALAE) costs have increased significantly over the last several years. As part of a study of recent ALAE cost drivers, staff issued an ALAE claim survey to insurers in July. A copy of the survey was included in the meeting materials. Staff summarized the components of the survey, which reflected feedback provided by several Working Group members. Staff advised the Working Group that the study of ALAE costs including results summarized from the ALAE survey will be presented to the Working Group and Actuarial Committee in November.

### 3. Permanent Disability Claims Survey Potential Changes

Staff reminded the Working Group that the WCIRB survey of permanent disability (PD) claims issued to insurers each year includes detailed information on medical-legal reports on PD claims. Staff advised the Working Group that the WCIRB's Medical Data Call, which began in the second half of 2012, also collects detailed transaction information on medical-legal bills and should be a better source of medical-legal information. As a result, the Working Group agreed with staff's recommendation of discontinuing the questions related to medical-legal reports on the PD Survey beginning with the 2016 PD Survey.

### 4. Update on Medical Cost Trends by Component

Staff presented cumulative results from WCIRB's medical transaction data from CY 2013 through CY 2015. These data show a 9% reduction in paid per claim during this period primarily driven by an 11% drop in overall medical utilization which offset a 6% increase in unit payments per transaction. Staff noted that physician payments under the Official Medical Fee Schedule (OMFS) are the largest component of medical costs and payment patterns reflected expectations with the transformation of the schedule to the Resource Based Relative Value Schedule (RBRVS) beginning in January 2014. The share of payments to primary care providers increased by 6% while payments to specialists correspondingly decreased. For pharmacy, the second largest component of medical payments, staff noted that costs declined from a 14% share in CY 2013 to 11% in CY 2015. This development was driven by reductions in payment shares for opiates and for brand drugs.

Staff also presented an incremental analysis of these payment patterns by half year intervals starting in the first half of 2013. These data show medical utilization declines in OMFS and pharmacy services starting in the first half of 2014 and continuing through the second half of 2015. For OMFS, the Working Group members suggested that this utilization drop may reflect the elimination by RBRVS of payments for some physician reports in 2014. For pharmacy services, Working Group members noted the impact of IMR, which expanded in 2014 and has been extensively used for pharmacy treatment reviews. This incremental analysis also analyzed overall patterns of unit payments which increased by 6% during this three-year period. Given that the largest increases occurred in the first quarters of 2014 and 2015, staff suggested that these

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changes may reflect the annual RBRVS upward adjustments in payments for primary care services.

### 5. Study of Drug Dispensing Trends

Staff presented results from a preliminary study of dispensing patterns for \$500 million in drug payments collected from the second half of 2012 through the second half of 2015 in the WCIRB's medical transaction database. The Working Group was advised that this study was designed to help explain the reduction in drug costs per claim over this period. The results suggest that a drop in physician dispensing may have contributed to the overall decline in drug costs per claim. Staff noted that while in the second half of 2012 dispensing pharmacies and physicians received approximately equal shares of drug payments, by the second half of 2015, the share to physicians dropped by 20%. This change reflected lower utilization, as unit payments for both dispensing sites were similar over the three-year period. For opiate analgesics, the physician share declined from 45% in the second half of 2012 to 22% in the second half of 2015. In discussing this trend, Working Group members noted the role of Medical Provider Networks (MPN) in contractually prohibiting physician dispensing as well as the indirect impact of IMR in exposing dispensing physicians to peer review scrutiny.

The study also examined compound bills. For both pharmacies and physicians, these substances generated \$671 in payments per bill over the three-year period. These amounts were split evenly between bulk chemicals used as compound bases and powdered versions of more common drugs mixed into the compound bases. The data shows that the share of drug costs for compounds has declined by approximately 6% from the second half of 2012 through the second half of 2015 primarily due to a drop in physician dispensing. On a regional basis, staff noted that the six county Los Angeles Basin is the epicenter for this practice, receiving 82% of all compound bill payments over the three-year period, compared to 64% of all statewide medical payments.

### 6. Legislative, Regulatory and Judicial Update

The Working Group reviewed the updates to legislative, regulatory and judicial actions included in the meeting materials.

The Working Group discussed potential legislation to preauthorize medical care within the first thirty days if treatment is provided within the MPN. Potential exceptions to the preauthorization would be for medical care falling outside of the Medical Treatment Utilization Schedule, surgery, psychological treatment, durable medical equipment over \$250, diagnostic testing and nerve conduction studies. Current data shows that less than one percent of overall treatment is provided in the first thirty days, but a Working Group member expressed concern that the change could cause an increase in the amount of treatment being provided during that time period. A Working Group member also expressed concern that this change could increase frictional costs because insurers will need to determine if the treatment was done in the first 30 days and, if it does meet one of the exceptions, will need to determine if authorization was properly obtained.

### Item III-A – AC16-09-01 6/30/2016 Experience – Review of Methodologies

At the August 3, 2016 meeting, the Committee reviewed statewide experience through March 31, 2016 and recommended a series of loss development and trending methodologies for the purposes of the WCIRB's January 1, 2017 Pure Premium Rate Filing. At the August 10, 2016 meeting, the Governing Committee authorized the WCIRB to submit the filing using a loss projection based primarily on the methodologies recommended by the Actuarial Committee, but also including an adjustment for changes in claim settlement rates in the loss development projection based on the latest year claim settlement rate adjustment methodology discussed at the August 3, 2016 meeting. On August 19, 2016, the WCIRB submitted its filing to the California Department of Insurance. In the filing, the WCIRB advised that it "will be reviewing experience through June 30, 2016 when it is received. If the experience through June 30, 2016 produces indications that are significantly different from those based on experience through March 31, 2016, the WCIRB may amend the pure premium rate recommendations contained in this filing."

Staff has prepared a preliminary analysis of statewide experience through June 30, 2016, which is included in Exhibits 1 through 8. This information reflects insurers writing almost 100% of the market based on 2015 premium levels. The methodologies used are consistent with those reflected in the January 1, 2017 Pure Premium Rate Filing. Wage and loss levels were projected to January 1, 2018—the approximate midpoint of experience on policies incepting in 2017, and premiums were adjusted to the industry average filed pure premium rate level as of July 1, 2016.

As shown on Exhibit 8, the projected policy year 2017 loss to the industry average filed pure premium ratio based on June 30, 2016 experience and the January 1, 2017 Pure Premium Rate Filing loss projection methodologies is 0.642. (The comparable ratio projected based on March 31, 2016 experience as reflected in the January 1, 2017 Pure Premium Rate Filing is 0.652.)

Additional supplemental information is included in Exhibits 9 through 12.

**California Workers' Compensation  
Accident Year Experience as of June 30, 2016**

| <u>Year</u> | <u>Earned<br/>Premium</u> | <u>Paid<br/>Indemnity</u> | <u>Indemnity<br/>Reserves</u> | <u>Paid<br/>Medical**</u> | <u>Medical<br/>Reserves</u> | <u>IBNR*</u>  | <u>Total<br/>Incurred**</u> | <u>Loss<br/>Ratio*</u> |
|-------------|---------------------------|---------------------------|-------------------------------|---------------------------|-----------------------------|---------------|-----------------------------|------------------------|
| 1985        | 2,872,481,605             | 1,277,289,574             | 4,910,468                     | 981,623,097               | 25,548,906                  | 19,707,156    | 2,309,079,201               | 0.804                  |
| 1986        | 3,506,609,097             | 1,380,662,065             | 6,768,705                     | 1,126,973,282             | 41,403,903                  | 61,516,308    | 2,617,324,263               | 0.746                  |
| 1987        | 4,374,085,383             | 1,503,059,903             | 7,336,354                     | 1,321,901,629             | 50,249,954                  | 35,663,198    | 2,918,211,038               | 0.667                  |
| 1988        | 5,173,049,472             | 1,699,773,886             | 8,114,286                     | 1,525,279,704             | 53,000,739                  | 50,040,137    | 3,336,208,752               | 0.645                  |
| 1989        | 5,676,279,371             | 1,935,908,267             | 10,688,564                    | 1,778,976,975             | 70,384,826                  | 52,681,503    | 3,848,640,135               | 0.678                  |
| 1990        | 5,705,878,797             | 2,256,136,140             | 9,734,971                     | 2,026,998,368             | 67,949,988                  | 69,348,241    | 4,430,167,708               | 0.776                  |
| 1991        | 5,872,566,346             | 2,473,415,618             | 19,825,908                    | 2,178,006,450             | 80,937,547                  | 75,222,794    | 4,827,408,317               | 0.822                  |
| 1992        | 5,692,939,950             | 1,972,824,579             | 16,961,137                    | 1,736,389,913             | 79,040,794                  | 74,487,446    | 3,879,703,869               | 0.681                  |
| 1993        | 5,942,544,967             | 1,689,736,727             | 17,545,340                    | 1,484,884,840             | 105,775,559                 | 65,035,570    | 3,362,978,036               | 0.566                  |
| 1994        | 5,034,831,820             | 1,620,078,546             | 25,958,067                    | 1,438,613,762             | 125,577,787                 | 63,022,810    | 3,273,250,972               | 0.650                  |
| 1995        | 3,790,122,732             | 1,752,704,766             | 37,089,277                    | 1,573,700,024             | 149,637,300                 | 79,809,787    | 3,592,941,154               | 0.948                  |
| 1996        | 3,748,266,525             | 1,938,127,472             | 43,382,286                    | 1,672,721,520             | 147,320,312                 | 91,631,769    | 3,893,183,359               | 1.039                  |
| 1997        | 3,928,295,572             | 2,299,244,537             | 56,345,419                    | 1,967,962,675             | 181,573,144                 | 143,166,787   | 4,648,292,562               | 1.183                  |
| 1998        | 4,333,560,338             | 2,746,149,842             | 68,316,128                    | 2,567,521,205             | 290,786,123                 | 232,373,288   | 5,905,146,586               | 1.363                  |
| 1999        | 4,551,546,853             | 3,026,066,403             | 73,371,330                    | 2,941,215,467             | 284,951,338                 | 322,075,228   | 6,647,679,766               | 1.461                  |
| 2000        | 5,923,031,823             | 3,384,692,648             | 97,732,051                    | 3,462,322,606             | 342,034,007                 | 470,068,902   | 7,756,850,214               | 1.310                  |
| 2001        | 10,111,219,078            | 4,749,921,788             | 157,322,344                   | 5,164,855,445             | 564,708,921                 | 721,880,366   | 11,358,688,864              | 1.123                  |
| 2002        | 13,429,699,563            | 4,683,116,098             | 143,678,230                   | 5,292,362,863             | 508,286,671                 | 1,027,251,564 | 11,654,695,426              | 0.868                  |
| 2003        | 19,473,079,692            | 4,425,491,752             | 217,149,427                   | 4,839,923,739             | 536,436,387                 | 1,410,379,847 | 11,429,381,152              | 0.587                  |
| 2004        | 23,096,787,993            | 3,107,562,286             | 191,051,273                   | 3,861,530,321             | 485,025,625                 | 1,469,477,858 | 9,114,647,363               | 0.395                  |
| 2005        | 21,398,213,516            | 2,429,006,144             | 165,768,385                   | 3,447,539,557             | 460,922,512                 | 1,231,216,412 | 7,734,453,010               | 0.361                  |
| 2006        | 17,259,448,798            | 2,497,944,923             | 190,681,269                   | 3,533,127,341             | 486,853,144                 | 916,674,632   | 7,625,281,309               | 0.442                  |
| 2007        | 13,300,617,619            | 2,600,505,486             | 228,156,498                   | 3,750,270,051             | 562,574,196                 | 974,013,476   | 8,115,519,707               | 0.610                  |
| 2008        | 10,838,120,368            | 2,635,989,233             | 249,905,135                   | 3,731,872,092             | 578,650,401                 | 793,315,214   | 7,989,732,075               | 0.737                  |
| 2009        | 9,017,071,904             | 2,472,926,146             | 271,316,681                   | 3,510,171,880             | 601,477,452                 | 771,359,687   | 7,627,251,846               | 0.846                  |
| 2010        | 9,529,218,292             | 2,443,421,873             | 289,911,346                   | 3,504,602,261             | 616,039,855                 | 960,548,535   | 7,814,523,870               | 0.820                  |
| 2011        | 10,291,854,857            | 2,305,869,332             | 362,173,004                   | 3,046,461,846             | 734,027,682                 | 1,475,961,291 | 7,924,493,155               | 0.770                  |
| 2012        | 11,908,576,708            | 2,190,916,936             | 454,845,612                   | 2,766,649,635             | 810,781,711                 | 1,913,733,687 | 8,136,927,581               | 0.683                  |
| 2013        | 14,331,411,625            | 1,966,230,256             | 583,373,637                   | 2,354,750,579             | 973,113,593                 | 3,008,403,017 | 8,885,871,082               | 0.620                  |
| 2014        | 16,082,002,182            | 1,514,457,472             | 798,962,405                   | 1,809,694,162             | 1,166,131,171               | 4,457,893,264 | 9,747,138,474               | 0.606                  |
| 2015        | 17,077,707,943            | 794,426,988               | 906,392,610                   | 1,113,907,600             | 1,374,386,009               | 6,045,431,336 | 10,234,544,543              | 0.599                  |
| 2016*       | 9,007,712,946             | 84,702,313                | 282,557,798                   | 156,599,996               | 591,579,796                 | 3,530,885,711 | 4,646,325,614               | 0.516                  |

\* Shown for informational purposes only

\*\* Paid medical for accident years 2011 and subsequent exclude the paid cost of medical cost containment programs (MCCP).  
Paid medical for accident years 2010 and prior include paid MCCP costs.

### Incurred Indemnity Loss Development Factors

| Accident Year | Age-to-Age (in months) |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
|---------------|------------------------|-------|-------|-------|-------|-------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
|               | 30/18                  | 42/30 | 54/42 | 66/54 | 78/66 | 90/78 | 102/90 | 114/102 | 126/114 | 138/126 | 150/138 | 162/150 | 174/162 | 186/174 | 198/186 |
| 1991          |                        |       |       |       |       |       |        |         |         |         |         |         |         |         | 1.003   |
| 1992          |                        |       |       |       |       |       |        |         |         |         |         |         |         | 1.002   | 1.001   |
| 1993          |                        |       |       |       |       |       |        |         |         |         |         |         | 1.002   | 1.000   | 1.001   |
| 1994          |                        |       |       |       |       |       |        |         |         |         |         | 1.001   | 1.001   | 1.001   | 0.999   |
| 1995          |                        |       |       |       |       |       |        |         |         |         | 1.004   | 1.000   | 1.003   | 1.002   | 1.000   |
| 1996          |                        |       |       |       |       |       |        |         |         | 1.003   | 1.002   | 1.001   | 1.000   | 1.000   | 1.002   |
| 1997          |                        |       |       |       |       |       |        |         | 1.005   | 1.005   | 1.002   | 1.002   | 1.002   | 1.002   | 1.000   |
| 1998          |                        |       |       |       |       |       |        | 1.007   | 1.005   | 1.004   | 1.001   | 1.005   | 1.004   | 1.000   | 1.002   |
| 1999          |                        |       |       |       |       |       | 1.008  | 1.003   | 1.007   | 1.002   | 1.004   | 1.003   | 1.004   | 1.001   | 1.001   |
| 2000          |                        |       |       |       |       | 1.013 | 1.008  | 1.006   | 1.005   | 1.005   | 1.005   | 1.002   | 1.004   | 1.002   | 1.001   |
| 2001          |                        |       |       |       | 1.022 | 1.014 | 1.013  | 1.006   | 1.008   | 1.008   | 1.005   | 1.004   | 1.002   | 1.001   |         |
| 2002          |                        |       |       | 1.035 | 1.022 | 1.017 | 1.010  | 1.010   | 1.008   | 1.007   | 1.002   | 1.004   | 1.002   |         |         |
| 2003          |                        |       | 1.066 | 1.037 | 1.028 | 1.016 | 1.020  | 1.017   | 1.010   | 1.008   | 1.005   | 1.003   |         |         |         |
| 2004          |                        | 1.117 | 1.051 | 1.044 | 1.032 | 1.029 | 1.021  | 1.015   | 1.014   | 1.005   | 1.005   |         |         |         |         |
| 2005          | 1.336                  | 1.129 | 1.083 | 1.059 | 1.047 | 1.035 | 1.020  | 1.013   | 1.009   | 1.004   |         |         |         |         |         |
| 2006          | 1.402                  | 1.158 | 1.089 | 1.067 | 1.044 | 1.029 | 1.020  | 1.008   | 1.007   |         |         |         |         |         |         |
| 2007          | 1.446                  | 1.171 | 1.090 | 1.060 | 1.040 | 1.028 | 1.017  | 1.012   |         |         |         |         |         |         |         |
| 2008          | 1.472                  | 1.200 | 1.100 | 1.057 | 1.034 | 1.022 | 1.017  |         |         |         |         |         |         |         |         |
| 2009          | 1.504                  | 1.190 | 1.106 | 1.059 | 1.035 | 1.021 |        |         |         |         |         |         |         |         |         |
| 2010          | 1.502                  | 1.199 | 1.096 | 1.055 | 1.030 |       |        |         |         |         |         |         |         |         |         |
| 2011          | 1.487                  | 1.180 | 1.092 | 1.047 |       |       |        |         |         |         |         |         |         |         |         |
| 2012          | 1.471                  | 1.174 | 1.084 |       |       |       |        |         |         |         |         |         |         |         |         |
| 2013          | 1.453                  | 1.162 |       |       |       |       |        |         |         |         |         |         |         |         |         |
| 2014          | 1.466                  |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| 2015          |                        |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| Selected (a)  | 1.466                  | 1.162 | 1.084 | 1.047 | 1.030 | 1.021 | 1.017  | 1.012   | 1.010   | 1.006   | 1.004   | 1.004   | 1.003   | 1.001   | 1.001   |
| Cumulative    | 2.175                  | 1.484 | 1.277 | 1.178 | 1.125 | 1.092 | 1.070  | 1.052   | 1.039   | 1.029   | 1.023   | 1.019   | 1.015   | 1.013   | 1.011   |

(a) Selections are latest year for the 18-to-30 month through 102-to-114 month factors and three-year average for the subsequent age-to-age factors.



**Incurred Indemnity Loss Development Factors (Continued)**

| Accident Year | Age-to-Age (in months) |         |         |         |         |         |         |         |         |         |         |         |         |         |         |                |
|---------------|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------------|
|               | 210/198                | 222/210 | 234/222 | 246/234 | 258/246 | 270/258 | 282/270 | 294/282 | 306/294 | 318/306 | 330/318 | 342/330 | 354/342 | 366/354 | 378/366 | ULT/378Inc (b) |
| 1981          |                        |         |         |         |         |         |         |         |         | 1.000   | 1.001   | 1.001   | 1.000   |         |         |                |
| 1982          |                        |         |         |         |         |         |         |         | 1.004   | 0.998   | 1.001   | 1.000   | 1.002   |         |         |                |
| 1983          |                        |         |         |         |         |         |         | 1.000   | 1.000   | 0.999   | 1.001   | 1.001   | 1.001   | 1.000   | 1.001   |                |
| 1984          |                        |         |         |         |         |         | 1.000   | 1.000   | 1.000   | 1.001   | 1.001   | 1.000   | 1.001   | 1.001   | 1.000   |                |
| 1985          |                        |         |         |         |         | 1.001   | 1.000   | 1.000   | 1.001   | 1.000   | 1.001   | 1.001   | 1.001   | 1.000   | 1.000   |                |
| 1986          |                        |         |         |         | 0.999   | 1.001   | 1.000   | 1.001   | 1.000   | 1.002   | 1.002   | 1.000   | 0.999   | 1.000   |         |                |
| 1987          |                        |         |         | 1.000   | 0.999   | 1.000   | 1.001   | 1.000   | 1.002   | 1.001   | 1.000   | 1.001   | 1.001   |         |         |                |
| 1988          |                        |         | 1.001   | 1.000   | 1.000   | 1.000   | 1.002   | 1.002   | 1.000   | 1.000   | 1.000   | 1.000   |         |         |         |                |
| 1989          |                        | 1.001   | 1.000   | 1.001   | 1.000   | 1.001   | 1.000   | 1.000   | 1.000   | 1.000   | 1.001   |         |         |         |         |                |
| 1990          | 1.001                  | 1.000   | 1.001   | 1.000   | 1.000   | 1.001   | 1.000   | 1.001   | 1.000   | 1.000   |         |         |         |         |         |                |
| 1991          | 1.000                  | 1.001   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.001   | 1.000   |         |         |         |         |         |         |                |
| 1992          | 0.999                  | 1.000   | 1.001   | 1.001   | 1.001   | 1.001   | 1.000   | 1.000   |         |         |         |         |         |         |         |                |
| 1993          | 0.999                  | 1.000   | 1.001   | 1.001   | 1.002   | 1.000   | 1.000   |         |         |         |         |         |         |         |         |                |
| 1994          | 1.001                  | 1.002   | 1.002   | 1.001   | 1.000   | 1.001   |         |         |         |         |         |         |         |         |         |                |
| 1995          | 1.002                  | 1.002   | 0.999   | 1.000   | 1.000   |         |         |         |         |         |         |         |         |         |         |                |
| 1996          | 1.001                  | 1.002   | 1.000   | 1.001   |         |         |         |         |         |         |         |         |         |         |         |                |
| 1997          | 1.001                  | 1.000   | 1.000   |         |         |         |         |         |         |         |         |         |         |         |         |                |
| 1998          | 1.001                  | 1.001   |         |         |         |         |         |         |         |         |         |         |         |         |         |                |
| 1999          | 1.001                  |         |         |         |         |         |         |         |         |         |         |         |         |         |         |                |
| Selected (a)  | 1.001                  | 1.001   | 1.000   | 1.001   | 1.001   | 1.001   | 1.000   | 1.001   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   |                |
| Cumulative    | 1.010                  | 1.009   | 1.008   | 1.008   | 1.008   | 1.007   | 1.006   | 1.006   | 1.006   | 1.006   | 1.006   | 1.005   | 1.005   | 1.005   | 1.004   | 1.004          |

(b) The ULT/378Inc tail factor was calculated based on an inverse power curve fit to a six-year average of the 114-to-126 through 342-to-354 factors and extrapolated to 80 development years.

**Incurred Medical Loss Development Factors**

| Accident Year | Age-to-Age (in months) (b) |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
|---------------|----------------------------|-------|-------|-------|-------|-------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
|               | 30/18                      | 42/30 | 54/42 | 66/54 | 78/66 | 90/78 | 102/90 | 114/102 | 126/114 | 138/126 | 150/138 | 162/150 | 174/162 | 186/174 | 198/186 |
| 1991          |                            |       |       |       |       |       |        |         |         |         |         |         |         |         | 1.010   |
| 1992          |                            |       |       |       |       |       |        |         |         |         |         |         |         | 1.005   | 1.011   |
| 1993          |                            |       |       |       |       |       |        |         |         |         |         |         | 1.008   | 1.016   | 1.011   |
| 1994          |                            |       |       |       |       |       |        |         |         |         |         | 1.014   | 1.006   | 1.009   | 1.018   |
| 1995          |                            |       |       |       |       |       |        |         |         |         | 1.017   | 1.025   | 1.022   | 1.012   | 1.005   |
| 1996          |                            |       |       |       |       |       |        |         |         | 1.022   | 1.015   | 1.020   | 1.015   | 1.017   | 1.008   |
| 1997          |                            |       |       |       |       |       |        |         | 1.020   | 1.024   | 1.018   | 1.019   | 1.010   | 1.008   | 1.006   |
| 1998          |                            |       |       |       |       |       |        | 1.023   | 1.032   | 1.019   | 1.020   | 1.010   | 1.010   | 1.012   | 1.008   |
| 1999          |                            |       |       |       |       |       | 1.029  | 1.035   | 1.025   | 1.018   | 1.016   | 1.011   | 1.011   | 1.010   | 1.002   |
| 2000          |                            |       |       |       |       | 1.031 | 1.039  | 1.022   | 1.022   | 1.019   | 1.018   | 1.014   | 1.010   | 1.003   | 0.996   |
| 2001          |                            |       |       |       | 1.038 | 1.041 | 1.041  | 1.028   | 1.032   | 1.019   | 1.015   | 1.019   | 1.002   | 0.998   |         |
| 2002          |                            |       |       | 1.043 | 1.052 | 1.037 | 1.034  | 1.026   | 1.026   | 1.018   | 1.010   | 1.006   | 0.997   |         |         |
| 2003          |                            |       | 1.057 | 1.061 | 1.050 | 1.043 | 1.038  | 1.033   | 1.024   | 1.016   | 1.006   | 1.000   |         |         |         |
| 2004          |                            | 1.103 | 1.099 | 1.071 | 1.060 | 1.052 | 1.036  | 1.029   | 1.024   | 1.006   | 1.003   |         |         |         |         |
| 2005          | 1.225                      | 1.112 | 1.076 | 1.083 | 1.065 | 1.053 | 1.038  | 1.026   | 1.014   | 1.007   |         |         |         |         |         |
| 2006          | 1.266                      | 1.141 | 1.092 | 1.073 | 1.055 | 1.050 | 1.030  | 1.014   | 1.004   |         |         |         |         |         |         |
| 2007          | 1.293                      | 1.150 | 1.101 | 1.074 | 1.063 | 1.036 | 1.025  | 1.012   |         |         |         |         |         |         |         |
| 2008          | 1.294                      | 1.164 | 1.106 | 1.077 | 1.051 | 1.031 | 1.017  |         |         |         |         |         |         |         |         |
| 2009          | 1.322                      | 1.170 | 1.117 | 1.072 | 1.042 | 1.023 |        |         |         |         |         |         |         |         |         |
| 2010          | 1.347                      | 1.184 | 1.097 | 1.058 | 1.034 |       |        |         |         |         |         |         |         |         |         |
| 2011          | 1.340                      | 1.161 | 1.090 | 1.050 |       |       |        |         |         |         |         |         |         |         |         |
| 2012          | 1.282                      | 1.127 | 1.072 |       |       |       |        |         |         |         |         |         |         |         |         |
| 2013          | 1.257                      | 1.108 |       |       |       |       |        |         |         |         |         |         |         |         |         |
| 2014          | 1.241                      |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| Selected (a)  | 1.241                      | 1.108 | 1.072 | 1.050 | 1.034 | 1.023 | 1.017  | 1.012   | 1.014   | 1.010   | 1.006   | 1.008   | 1.003   | 1.004   | 1.002   |
| Cumulative    | 1.860                      | 1.499 | 1.353 | 1.262 | 1.202 | 1.162 | 1.136  | 1.117   | 1.104   | 1.089   | 1.078   | 1.072   | 1.063   | 1.060   | 1.056   |

(a) Selections are latest year for the 18-to-30 month through 102-to-114 month factors and three-year average for the subsequent age-to-age factors.

(b) Incurred medical loss development factors include the paid cost of medical cost containment programs for accident years 2011 and prior.

**Incurred Medical Loss Development Factors (Continued)**

| Accident Year | Age-to-Age (in months) |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                        |
|---------------|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------------|
|               | <u>210/198</u>         | <u>222/210</u> | <u>234/222</u> | <u>246/234</u> | <u>258/246</u> | <u>270/258</u> | <u>282/270</u> | <u>294/282</u> | <u>306/294</u> | <u>318/306</u> | <u>330/318</u> | <u>342/330</u> | <u>354/342</u> | <u>366/354</u> | <u>378/366</u> | <u>ULT/378</u> Inc (c) |
| 1981          |                        |                |                |                |                |                |                |                |                | 1.000          | 1.001          | 1.003          | 1.002          |                |                |                        |
| 1982          |                        |                |                |                |                |                |                |                | 1.006          | 1.007          | 1.009          | 1.002          | 1.009          |                |                |                        |
| 1983          |                        |                |                |                |                |                |                | 1.007          | 1.003          | 1.005          | 1.003          | 1.004          | 1.004          | 1.002          | 1.004          |                        |
| 1984          |                        |                |                |                |                |                | 1.002          | 1.004          | 1.001          | 1.001          | 1.004          | 1.001          | 1.002          | 1.003          | 0.997          |                        |
| 1985          |                        |                |                |                |                | 1.003          | 0.998          | 1.004          | 1.002          | 1.003          | 1.005          | 1.003          | 1.004          | 0.999          | 1.000          |                        |
| 1986          |                        |                |                |                | 1.001          | 1.006          | 1.003          | 1.006          | 1.007          | 1.005          | 1.004          | 1.004          | 1.001          | 1.000          |                |                        |
| 1987          |                        |                |                | 1.002          | 1.002          | 1.004          | 1.010          | 1.001          | 1.004          | 1.003          | 1.004          | 1.001          | 1.001          |                |                |                        |
| 1988          |                        |                | 1.005          | 1.003          | 1.004          | 1.005          | 1.003          | 1.005          | 1.003          | 1.003          | 1.003          | 1.001          |                |                |                |                        |
| 1989          |                        | 1.006          | 1.008          | 1.006          | 1.006          | 1.006          | 1.006          | 1.005          | 1.000          | 1.002          | 0.998          |                |                |                |                |                        |
| 1990          | 1.002                  | 1.005          | 1.005          | 1.007          | 1.005          | 1.003          | 1.003          | 0.999          | 1.000          | 1.001          |                |                |                |                |                |                        |
| 1991          | 1.005                  | 1.007          | 1.005          | 1.004          | 1.002          | 1.004          | 1.001          | 1.002          | 1.001          |                |                |                |                |                |                |                        |
| 1992          | 1.007                  | 1.007          | 0.997          | 1.007          | 1.004          | 1.004          | 1.002          | 0.999          |                |                |                |                |                |                |                |                        |
| 1993          | 1.009                  | 1.004          | 1.013          | 1.011          | 1.002          | 1.000          | 0.998          |                |                |                |                |                |                |                |                |                        |
| 1994          | 1.010                  | 1.012          | 1.005          | 1.006          | 1.001          | 1.003          |                |                |                |                |                |                |                |                |                |                        |
| 1995          | 1.012                  | 1.002          | 1.007          | 1.002          | 0.999          |                |                |                |                |                |                |                |                |                |                |                        |
| 1996          | 1.006                  | 1.008          | 1.001          | 0.998          |                |                |                |                |                |                |                |                |                |                |                |                        |
| 1997          | 1.003                  | 0.998          | 0.994          |                |                |                |                |                |                |                |                |                |                |                |                |                        |
| 1998          | 1.008                  | 1.000          |                |                |                |                |                |                |                |                |                |                |                |                |                |                        |
| 1999          | 1.000                  |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                        |
| Selected (a)  | 1.004                  | 1.002          | 1.001          | 1.002          | 1.001          | 1.002          | 1.000          | 1.000          | 1.000          | 1.002          | 1.002          | 1.002          | 1.002          | 1.001          | 1.000          |                        |
| Cumulative    | 1.054                  | 1.050          | 1.048          | 1.047          | 1.045          | 1.044          | 1.042          | 1.041          | 1.041          | 1.041          | 1.039          | 1.037          | 1.035          | 1.033          | 1.032          | 1.032                  |

(c) The ULT/378Inc tail factor was calculated based on an inverse power curve fit to a six-year average of the 114-to-126 through 342-to-354 factors and extrapolated to 80 development years.

**Paid Indemnity Loss Development Factors**

| Accident Year                                   | Age-to-Age (in months) |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
|---|------------------------|-------|-------|-------|-------|-------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
|   | 30/18                  | 42/30 | 54/42 | 66/54 | 78/66 | 90/78 | 102/90 | 114/102 | 126/114 | 138/126 | 150/138 | 162/150 | 174/162 | 186/174 | 198/186 |
| 1991  |                        |       |       |       |       |       |        |         |         |         |         |         |         |         | 1.004   |
| 1992  |                        |       |       |       |       |       |        |         |         |         |         |         |         | 1.004   | 1.003   |
| 1993  |                        |       |       |       |       |       |        |         |         |         |         |         | 1.004   | 1.004   | 1.003   |
| 1994  |                        |       |       |       |       |       |        |         |         |         |         | 1.008   | 1.006   | 1.004   | 1.003   |
| 1995  |                        |       |       |       |       |       |        |         |         |         | 1.009   | 1.008   | 1.007   | 1.005   | 1.003   |
| 1996  |                        |       |       |       |       |       |        |         |         | 1.012   | 1.011   | 1.008   | 1.007   | 1.004   | 1.005   |
| 1997  |                        |       |       |       |       |       |        |         | 1.016   | 1.014   | 1.010   | 1.007   | 1.007   | 1.006   | 1.005   |
| 1998  |                        |       |       |       |       |       |        | 1.023   | 1.018   | 1.014   | 1.009   | 1.009   | 1.008   | 1.007   | 1.005   |
| 1999  |                        |       |       |       |       |       | 1.030  | 1.020   | 1.017   | 1.012   | 1.010   | 1.008   | 1.008   | 1.006   | 1.005   |
| 2000  |                        |       |       |       |       | 1.043 | 1.027  | 1.021   | 1.014   | 1.011   | 1.010   | 1.008   | 1.008   | 1.006   | 1.004   |
| 2001  |                        |       |       |       | 1.062 | 1.041 | 1.028  | 1.020   | 1.016   | 1.013   | 1.012   | 1.009   | 1.008   | 1.006   |         |
| 2002  |                        |       |       | 1.096 | 1.058 | 1.039 | 1.025  | 1.018   | 1.017   | 1.014   | 1.009   | 1.009   | 1.006   |         |         |
| 2003  |                        |       | 1.174 | 1.091 | 1.056 | 1.035 | 1.028  | 1.025   | 1.022   | 1.018   | 1.014   | 1.009   |         |         |         |
| 2004  |                        | 1.348 | 1.160 | 1.090 | 1.060 | 1.044 | 1.040  | 1.032   | 1.023   | 1.017   | 1.013   |         |         |         |         |
| 2005  | 1.832                  | 1.337 | 1.167 | 1.095 | 1.068 | 1.054 | 1.047  | 1.033   | 1.023   | 1.018   |         |         |         |         |         |
| 2006  | 1.910                  | 1.337 | 1.171 | 1.110 | 1.077 | 1.059 | 1.042  | 1.027   | 1.024   |         |         |         |         |         |         |
| 2007  | 1.909                  | 1.351 | 1.182 | 1.114 | 1.076 | 1.056 | 1.038  | 1.031   |         |         |         |         |         |         |         |
| 2008  | 1.933                  | 1.386 | 1.200 | 1.118 | 1.072 | 1.049 | 1.035  |         |         |         |         |         |         |         |         |
| 2009  | 2.012                  | 1.402 | 1.207 | 1.118 | 1.075 | 1.050 |        |         |         |         |         |         |         |         |         |
| 2010  | 2.020                  | 1.414 | 1.201 | 1.114 | 1.073 |       |        |         |         |         |         |         |         |         |         |
| 2011  | 2.035                  | 1.394 | 1.190 | 1.114 |       |       |        |         |         |         |         |         |         |         |         |
| 2012  | 2.019                  | 1.388 | 1.187 |       |       |       |        |         |         |         |         |         |         |         |         |
| 2013  | 2.013                  | 1.390 |       |       |       |       |        |         |         |         |         |         |         |         |         |
| 2014  | 2.065                  |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| Selected (a)                                    | 2.065                  | 1.390 | 1.187 | 1.114 | 1.073 | 1.050 | 1.035  | 1.031   | 1.023   | 1.018   | 1.012   | 1.009   | 1.007   | 1.006   | 1.005   |
| Cumulative Unadjusted for<br>Impact of SB 863   | 5.128                  | 2.483 | 1.786 | 1.505 | 1.351 | 1.259 | 1.199  | 1.159   | 1.124   | 1.098   | 1.079   | 1.066   | 1.057   | 1.049   | 1.043   |
| Cumulative Adjusted for<br>Impact of SB 863 (b) | 5.417                  | 2.623 | 1.801 | 1.498 | 1.344 | ---   | ---    | ---     | ---     | ---     | ---     | ---     | ---     | ---     | ---     |

(a) Selections are latest year for the 18-to-30 month through 102-to-114 month factors and three-year average for the subsequent age-to-age factors.

(b) The 30-to-ultimate factor for accident year 2014, the 42-to-ultimate factor for accident year 2013, the 54-to-ultimate factor for accident year 2012, and the 66-to-ultimate factor for accident year 2011 have been adjusted by 5.6%, 0.8%, -0.5%, and -0.5% respectively, for the impacts of SB 863 on on indemnity loss development. (See *Impact of Senate Bill No. 863 on Loss Development Patterns*, WCIRB, August 13, 2013.)

Paid Indemnity Loss Development Factors (Continued)

| Accident Year | Age-to-Age (in months) |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                         |                       |
|---------------|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------------|-----------------------|
|               | <u>210/198</u>         | <u>222/210</u> | <u>234/222</u> | <u>246/234</u> | <u>258/246</u> | <u>270/258</u> | <u>282/270</u> | <u>294/282</u> | <u>306/294</u> | <u>318/306</u> | <u>330/318</u> | <u>342/330</u> | <u>354/342</u> | <u>366/354</u> | <u>378/366</u> | <u>378Inc/378Pd (c)</u> | <u>ULT/378Inc (d)</u> |
| 1981          |                        |                |                |                |                |                |                |                |                | 1.002          | 1.001          | 1.002          | 1.001          |                |                | 1.008                   |                       |
| 1982          |                        |                |                |                |                |                |                |                | 1.003          | 1.001          | 1.001          | 1.002          | 1.001          |                |                | 1.005                   |                       |
| 1983          |                        |                |                |                |                |                |                | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.006                   |                       |
| 1984          |                        |                |                |                |                |                | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.000          | 1.006                   |                       |
| 1985          |                        |                |                |                |                | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.002          | 1.001          | 1.001          | 1.001          | 1.003                   |                       |
| 1986          |                        |                |                |                | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.002          | 1.001          | 1.001          | 1.001          | 1.001          |                | 1.004                   |                       |
| 1987          |                        |                |                | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.002          | 1.001          | 1.001          | 1.001          | 1.001          |                |                |                         |                       |
| 1988          |                        |                | 1.002          | 1.001          | 1.001          | 1.001          | 1.002          | 1.002          | 1.001          | 1.001          | 1.001          | 1.001          |                |                |                |                         |                       |
| 1989          |                        | 1.002          | 1.002          | 1.001          | 1.001          | 1.001          | 1.002          | 1.001          | 1.001          | 1.001          | 1.001          |                |                |                |                |                         |                       |
| 1990          | 1.002                  | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          |                |                |                |                |                         |                       |
| 1991          | 1.002                  | 1.002          | 1.001          | 1.002          | 1.001          | 1.002          | 1.001          | 1.001          | 1.001          |                |                |                |                |                |                |                         |                       |
| 1992          | 1.002                  | 1.002          | 1.001          | 1.002          | 1.002          | 1.001          | 1.001          | 1.001          |                |                |                |                |                |                |                |                         |                       |
| 1993          | 1.002                  | 1.003          | 1.003          | 1.002          | 1.003          | 1.002          | 1.001          |                |                |                |                |                |                |                |                |                         |                       |
| 1994          | 1.004                  | 1.004          | 1.003          | 1.003          | 1.003          | 1.002          |                |                |                |                |                |                |                |                |                |                         |                       |
| 1995          | 1.005                  | 1.004          | 1.004          | 1.002          | 1.002          |                |                |                |                |                |                |                |                |                |                |                         |                       |
| 1996          | 1.004                  | 1.004          | 1.004          | 1.004          |                |                |                |                |                |                |                |                |                |                |                |                         |                       |
| 1997          | 1.004                  | 1.004          | 1.003          |                |                |                |                |                |                |                |                |                |                |                |                |                         |                       |
| 1998          | 1.006                  | 1.005          |                |                |                |                |                |                |                |                |                |                |                |                |                |                         |                       |
| 1999          | 1.005                  |                |                |                |                |                |                |                |                |                |                |                |                |                |                |                         |                       |
| Selected (a)  | 1.005                  | 1.004          | 1.004          | 1.003          | 1.003          | 1.002          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.001          | 1.004                   |                       |
| Cumulative    | 1.038                  | 1.033          | 1.028          | 1.025          | 1.022          | 1.019          | 1.017          | 1.016          | 1.015          | 1.014          | 1.013          | 1.012          | 1.011          | 1.010          | 1.009          |                         | 1.004                 |

(c) Three-year averages of the 378Inc/378Pd factors are selected.

(d) The ULT/378Inc tail factor was calculated based on an inverse power curve fit to a six-year average of the 114-to-126 through 342-to-354 factors and extrapolated to 80 development years.

**Paid Medical Loss Development Factors**

| Unadjusted (a) | Age-to-Age (in months) |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
|----------------|------------------------|-------|-------|-------|-------|-------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| Accident Year  | 30/18                  | 42/30 | 54/42 | 66/54 | 78/66 | 90/78 | 102/90 | 114/102 | 126/114 | 138/126 | 150/138 | 162/150 | 174/162 | 186/174 | 198/186 |
| 1991           |                        |       |       |       |       |       |        |         |         |         |         |         |         |         | 1.009   |
| 1992           |                        |       |       |       |       |       |        |         |         |         |         |         |         | 1.010   | 1.017   |
| 1993           |                        |       |       |       |       |       |        |         |         |         |         |         | 1.013   | 1.013   | 1.012   |
| 1994           |                        |       |       |       |       |       |        |         |         |         |         | 1.019   | 1.016   | 1.013   | 1.013   |
| 1995           |                        |       |       |       |       |       |        |         |         |         | 1.020   | 1.022   | 1.019   | 1.018   | 1.015   |
| 1996           |                        |       |       |       |       |       |        |         |         | 1.026   | 1.024   | 1.022   | 1.020   | 1.015   | 1.014   |
| 1997           |                        |       |       |       |       |       |        |         | 1.031   | 1.026   | 1.024   | 1.021   | 1.017   | 1.016   | 1.012   |
| 1998           |                        |       |       |       |       |       |        | 1.036   | 1.034   | 1.031   | 1.024   | 1.020   | 1.018   | 1.017   | 1.016   |
| 1999           |                        |       |       |       |       |       | 1.039  | 1.031   | 1.033   | 1.028   | 1.027   | 1.018   | 1.016   | 1.017   | 1.017   |
| 2000           |                        |       |       |       |       | 1.048 | 1.040  | 1.034   | 1.028   | 1.024   | 1.022   | 1.019   | 1.021   | 1.015   | 1.012   |
| 2001           |                        |       |       |       | 1.066 | 1.050 | 1.042  | 1.036   | 1.032   | 1.025   | 1.022   | 1.025   | 1.018   | 1.015   |         |
| 2002           |                        |       |       | 1.087 | 1.064 | 1.049 | 1.040  | 1.031   | 1.026   | 1.024   | 1.020   | 1.020   | 1.014   |         |         |
| 2003           |                        |       | 1.139 | 1.092 | 1.065 | 1.053 | 1.043  | 1.031   | 1.029   | 1.031   | 1.023   | 1.017   |         |         |         |
| 2004           |                        | 1.259 | 1.150 | 1.108 | 1.079 | 1.064 | 1.044  | 1.038   | 1.037   | 1.029   | 1.020   |         |         |         |         |
| 2005           | 1.530                  | 1.254 | 1.171 | 1.112 | 1.084 | 1.058 | 1.053  | 1.046   | 1.036   | 1.026   |         |         |         |         |         |
| 2006           | 1.585                  | 1.291 | 1.172 | 1.116 | 1.078 | 1.061 | 1.053  | 1.038   | 1.030   |         |         |         |         |         |         |
| 2007           | 1.618                  | 1.300 | 1.177 | 1.112 | 1.085 | 1.069 | 1.047  | 1.037   |         |         |         |         |         |         |         |
| 2008           | 1.616                  | 1.308 | 1.183 | 1.124 | 1.088 | 1.060 | 1.045  |         |         |         |         |         |         |         |         |
| 2009           | 1.648                  | 1.328 | 1.199 | 1.135 | 1.083 | 1.055 |        |         |         |         |         |         |         |         |         |
| 2010           | 1.678                  | 1.353 | 1.202 | 1.119 | 1.079 |       |        |         |         |         |         |         |         |         |         |
| 2011           | 1.699                  | 1.340 | 1.190 | 1.122 |       |       |        |         |         |         |         |         |         |         |         |
| 2012           | 1.712                  | 1.339 | 1.184 |       |       |       |        |         |         |         |         |         |         |         |         |
| 2013           | 1.707                  | 1.325 |       |       |       |       |        |         |         |         |         |         |         |         |         |
| 2014           | 1.703                  |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| Adjusted (b)   | Age-to-Age (in months) |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| Accident Year  | 30/18                  | 42/30 | 54/42 | 66/54 | 78/66 | 90/78 | 102/90 | 114/102 | 126/114 | 138/126 | 150/138 | 162/150 | 174/162 | 186/174 | 198/186 |
| 1998           |                        |       |       |       |       |       |        |         |         |         |         |         |         |         | 1.017   |
| 1999           |                        |       |       |       |       |       |        |         |         |         |         |         |         | 1.018   | 1.018   |
| 2000           |                        |       |       |       |       |       |        |         |         |         |         |         | 1.022   | 1.016   | 1.012   |
| 2001           |                        |       |       |       |       |       |        |         |         |         |         | 1.026   | 1.019   | 1.016   |         |
| 2002           |                        |       |       |       |       |       |        |         |         |         | 1.021   | 1.021   | 1.015   |         |         |
| 2003           |                        |       |       |       |       |       |        |         |         | 1.033   | 1.025   | 1.018   |         |         |         |
| 2004           |                        |       |       |       |       |       |        |         | 1.039   | 1.031   | 1.022   |         |         |         |         |
| 2005           |                        |       |       |       |       |       |        | 1.048   | 1.038   | 1.027   |         |         |         |         |         |
| 2006           |                        |       |       |       |       |       | 1.055  | 1.040   | 1.032   |         |         |         |         |         |         |
| 2007           |                        |       |       |       |       | 1.073 | 1.050  | 1.039   |         |         |         |         |         |         |         |
| 2008           |                        |       |       |       | 1.093 | 1.063 | 1.047  |         |         |         |         |         |         |         |         |
| 2009           |                        |       |       | 1.142 | 1.088 | 1.059 |        |         |         |         |         |         |         |         |         |
| 2010           |                        |       | 1.212 | 1.125 | 1.083 |       |        |         |         |         |         |         |         |         |         |
| 2011           |                        | 1.355 | 1.199 | 1.127 |       |       |        |         |         |         |         |         |         |         |         |
| 2012           | 1.735                  | 1.350 | 1.189 |       |       |       |        |         |         |         |         |         |         |         |         |
| 2013           | 1.717                  | 1.328 |       |       |       |       |        |         |         |         |         |         |         |         |         |
| 2014           | 1.704                  |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| Selected (c)   | 1.704                  | 1.328 | 1.189 | 1.127 | 1.083 | 1.059 | 1.047  | 1.039   | 1.036   | 1.030   | 1.023   | 1.022   | 1.019   | 1.017   | 1.016   |
| Cumulative     | 5.310                  | 3.116 | 2.346 | 1.973 | 1.751 | 1.617 | 1.527  | 1.458   | 1.403   | 1.354   | 1.314   | 1.285   | 1.258   | 1.235   | 1.215   |

- (a) Paid medical loss development factors include the paid cost of medical cost containment programs for accident years 2011 and prior.
- (b) These factors are adjusted for the following impacts: (i) reduction of historical outstanding medical losses paid prior to January 1, 2013 by the estimated 4.4% cost savings due to applicable SB 863 provisions; (ii) adjustment to historical outstanding medical losses paid prior to January 1, 2014 by an estimated 1.8% decrease in costs, losses paid prior to January 1, 2015 by an estimated 0.9% decrease in costs, and losses paid prior to January 1, 2016 by an estimated 0.8% increase in costs due to RBRVS.
- (c) Selections are latest year for the 18-to-30 month through 102-to-114 month factors and three-year average for the subsequent age-to-age factors.

Paid Medical Loss Development Factors (Continued)

| Unadjusted (a) | Age-to-Age (in months) |         |         |         |         |         |         |         |         |         |         |         |         |         |         |                  |                |
|----------------|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|----------------|
| Accident Year  | 210/198                | 222/210 | 234/222 | 246/234 | 258/246 | 270/258 | 282/270 | 294/282 | 306/294 | 318/306 | 330/318 | 342/330 | 354/342 | 366/354 | 378/366 | 378Inc/378Pd (d) | ULT/378Inc (e) |
| 1981           |                        |         |         |         |         |         |         |         |         | 1.005   | 1.006   | 1.004   | 1.004   |         |         | 1.059            |                |
| 1982           |                        |         |         |         |         |         |         |         | 1.007   | 1.007   | 1.007   | 1.008   | 1.006   |         |         | 1.036            |                |
| 1983           |                        |         |         |         |         |         |         | 1.004   | 1.004   | 1.004   | 1.005   | 1.004   | 1.004   | 1.003   | 1.004   | 1.036            |                |
| 1984           |                        |         |         |         |         |         | 1.003   | 1.003   | 1.003   | 1.003   | 1.004   | 1.003   | 1.003   | 1.003   | 1.003   | 1.039            |                |
| 1985           |                        |         |         |         |         | 1.005   | 1.006   | 1.004   | 1.004   | 1.003   | 1.004   | 1.004   | 1.003   | 1.002   | 1.002   | 1.023            |                |
| 1986           |                        |         |         |         | 1.004   | 1.004   | 1.005   | 1.005   | 1.005   | 1.005   | 1.005   | 1.005   | 1.006   | 1.004   |         | 1.025            |                |
| 1987           |                        |         |         | 1.005   | 1.007   | 1.005   | 1.005   | 1.005   | 1.005   | 1.004   | 1.006   | 1.004   | 1.003   |         |         |                  |                |
| 1988           |                        |         | 1.005   | 1.007   | 1.005   | 1.005   | 1.005   | 1.005   | 1.005   | 1.004   | 1.003   | 1.003   |         |         |         |                  |                |
| 1989           |                        | 1.005   | 1.007   | 1.005   | 1.005   | 1.006   | 1.008   | 1.006   | 1.005   | 1.006   | 1.003   |         |         |         |         |                  |                |
| 1990           | 1.005                  | 1.005   | 1.005   | 1.005   | 1.005   | 1.005   | 1.005   | 1.005   | 1.004   | 1.003   |         |         |         |         |         |                  |                |
| 1991           | 1.008                  | 1.007   | 1.006   | 1.005   | 1.006   | 1.005   | 1.006   | 1.005   | 1.003   |         |         |         |         |         |         |                  |                |
| 1992           | 1.009                  | 1.008   | 1.002   | 1.006   | 1.007   | 1.006   | 1.006   | 1.005   |         |         |         |         |         |         |         |                  |                |
| 1993           | 1.011                  | 1.012   | 1.010   | 1.010   | 1.012   | 1.010   | 1.008   |         |         |         |         |         |         |         |         |                  |                |
| 1994           | 1.013                  | 1.010   | 1.010   | 1.011   | 1.011   | 1.007   |         |         |         |         |         |         |         |         |         |                  |                |
| 1995           | 1.014                  | 1.014   | 1.015   | 1.012   | 1.010   |         |         |         |         |         |         |         |         |         |         |                  |                |
| 1996           | 1.014                  | 1.013   | 1.013   | 1.010   |         |         |         |         |         |         |         |         |         |         |         |                  |                |
| 1997           | 1.014                  | 1.014   | 1.008   |         |         |         |         |         |         |         |         |         |         |         |         |                  |                |
| 1998           | 1.016                  | 1.012   |         |         |         |         |         |         |         |         |         |         |         |         |         |                  |                |
| 1999           | 1.014                  |         |         |         |         |         |         |         |         |         |         |         |         |         |         |                  |                |
| Adjusted (b)   | Age-to-Age (in months) |         |         |         |         |         |         |         |         |         |         |         |         |         |         |                  |                |
| Accident Year  | 210/198                | 222/210 | 234/222 | 246/234 | 258/246 | 270/258 | 282/270 | 294/282 | 306/294 | 318/306 | 330/318 | 342/330 | 354/342 | 366/354 | 378/366 | 378Inc/378Pd (d) | ULT/378Inc (e) |
| 1981           |                        |         |         |         |         |         |         |         |         |         |         |         |         |         |         | 1.059            |                |
| 1982           |                        |         |         |         |         |         |         |         |         |         |         |         |         |         |         | 1.036            |                |
| 1983           |                        |         |         |         |         |         |         |         |         |         |         |         |         |         |         | 1.036            |                |
| 1984           |                        |         |         |         |         |         |         |         |         |         |         |         |         |         |         | 1.039            |                |
| 1985           |                        |         |         |         |         |         |         |         |         |         |         |         |         |         |         | 1.023            |                |
| 1986           |                        |         |         |         |         |         |         |         |         |         |         |         |         |         |         | 1.025            |                |
| 1987           |                        |         |         |         |         |         |         |         |         |         | 1.006   | 1.005   | 1.003   |         |         |                  |                |
| 1988           |                        |         |         |         |         |         |         |         |         | 1.005   | 1.004   | 1.003   |         |         |         |                  |                |
| 1989           |                        |         |         |         |         |         |         |         | 1.005   | 1.006   | 1.003   |         |         |         |         |                  |                |
| 1990           |                        |         |         |         |         |         |         | 1.005   | 1.004   | 1.003   |         |         |         |         |         |                  |                |
| 1991           |                        |         |         |         |         |         | 1.006   | 1.005   |         |         |         |         |         |         |         |                  |                |
| 1992           |                        |         |         |         |         | 1.007   | 1.006   | 1.005   |         |         |         |         |         |         |         |                  |                |
| 1993           |                        |         |         |         | 1.012   | 1.011   | 1.008   |         |         |         |         |         |         |         |         |                  |                |
| 1994           |                        |         |         | 1.011   | 1.011   | 1.007   |         |         |         |         |         |         |         |         |         |                  |                |
| 1995           |                        |         | 1.016   | 1.013   | 1.011   |         |         |         |         |         |         |         |         |         |         |                  |                |
| 1996           |                        | 1.014   | 1.014   | 1.010   |         |         |         |         |         |         |         |         |         |         |         |                  |                |
| 1997           | 1.015                  | 1.015   | 1.009   |         |         |         |         |         |         |         |         |         |         |         |         |                  |                |
| 1998           | 1.017                  | 1.013   |         |         |         |         |         |         |         |         |         |         |         |         |         |                  |                |
| 1999           | 1.014                  |         |         |         |         |         |         |         |         |         |         |         |         |         |         |                  |                |
| Selected (c)   | 1.015                  | 1.014   | 1.013   | 1.011   | 1.011   | 1.008   | 1.007   | 1.005   | 1.004   | 1.005   | 1.004   | 1.004   | 1.004   | 1.003   | 1.003   | 1.036            |                |
| Cumulative     | 1.196                  | 1.178   | 1.162   | 1.147   | 1.134   | 1.121   | 1.112   | 1.105   | 1.099   | 1.095   | 1.090   | 1.085   | 1.080   | 1.076   | 1.073   |                  | 1.032          |

(d) Six-year averages of the 378Inc/378Pd factors are selected.

(e) The ULT/378Inc tail factor was calculated based on an inverse power curve fit to a six-year average of the 114-to-126 through 342-to-354 factors and extrapolated to 80 development years.

Selected Indemnity Development Factors - Paid to Age 222, Incurred from Age 222 to Ultimate

| Accident Year                                | Age-to-Age (in months) |          |          |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
|--|------------------------|----------|----------|----------|----------|-------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|
|  | 30/18                  | 42/30    | 54/42    | 66/54    | 78/66    | 90/78 | 102/90 | 114/102 | 126/114 | 138/126 | 150/138 | 162/150 | 174/162 | 186/174 | 198/186 | 210/198 | 222/210 | 222Inc/222Pd (c) |
| 1991   |                        |          |          |          |          |       |        |         |         |         |         |         |         |         | 1.004   | 1.002   | 1.002   | 1.015            |
| 1992   |                        |          |          |          |          |       |        |         |         |         |         |         |         | 1.004   | 1.003   | 1.002   | 1.002   | 1.016            |
| 1993   |                        |          |          |          |          |       |        |         |         |         |         |         | 1.004   | 1.004   | 1.003   | 1.002   | 1.003   | 1.017            |
| 1994   |                        |          |          |          |          |       |        |         |         |         |         | 1.008   | 1.006   | 1.004   | 1.003   | 1.004   | 1.004   | 1.022            |
| 1995   |                        |          |          |          |          |       |        |         |         |         | 1.009   | 1.008   | 1.007   | 1.005   | 1.003   | 1.005   | 1.004   | 1.032            |
| 1996   |                        |          |          |          |          |       |        |         |         | 1.012   | 1.011   | 1.008   | 1.007   | 1.004   | 1.005   | 1.004   | 1.004   | 1.030            |
| 1997   |                        |          |          |          |          |       |        |         | 1.016   | 1.014   | 1.010   | 1.007   | 1.007   | 1.006   | 1.005   | 1.004   | 1.004   | 1.027            |
| 1998   |                        |          |          |          |          |       |        | 1.023   | 1.018   | 1.014   | 1.009   | 1.009   | 1.008   | 1.007   | 1.005   | 1.006   | 1.005   | 1.025            |
| 1999   |                        |          |          |          |          |       | 1.030  | 1.020   | 1.017   | 1.012   | 1.010   | 1.008   | 1.008   | 1.006   | 1.005   | 1.005   |         |                  |
| 2000   |                        |          |          |          |          | 1.043 | 1.027  | 1.021   | 1.014   | 1.011   | 1.010   | 1.008   | 1.008   | 1.006   | 1.004   |         |         |                  |
| 2001   |                        |          |          |          | 1.062    | 1.041 | 1.028  | 1.020   | 1.016   | 1.013   | 1.012   | 1.009   | 1.008   | 1.006   |         |         |         |                  |
| 2002   |                        |          |          | 1.096    | 1.058    | 1.039 | 1.025  | 1.018   | 1.017   | 1.014   | 1.009   | 1.009   | 1.006   |         |         |         |         |                  |
| 2003   |                        |          | 1.174    | 1.091    | 1.056    | 1.035 | 1.028  | 1.025   | 1.022   | 1.018   | 1.014   | 1.009   |         |         |         |         |         |                  |
| 2004   |                        | 1.348    | 1.160    | 1.090    | 1.060    | 1.044 | 1.040  | 1.032   | 1.023   | 1.017   | 1.013   |         |         |         |         |         |         |                  |
| 2005   | 1.832                  | 1.337    | 1.167    | 1.095    | 1.068    | 1.054 | 1.047  | 1.033   | 1.023   | 1.018   |         |         |         |         |         |         |         |                  |
| 2006   | 1.910                  | 1.337    | 1.171    | 1.110    | 1.077    | 1.059 | 1.042  | 1.027   | 1.024   |         |         |         |         |         |         |         |         |                  |
| 2007   | 1.909                  | 1.351    | 1.182    | 1.114    | 1.076    | 1.056 | 1.038  | 1.031   |         |         |         |         |         |         |         |         |         |                  |
| 2008   | 1.933                  | 1.386    | 1.200    | 1.118    | 1.072    | 1.049 | 1.035  |         |         |         |         |         |         |         |         |         |         |                  |
| 2009   | 2.012                  | 1.402    | 1.207    | 1.118    | 1.075    | 1.050 |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2010   | 2.020                  | 1.414    | 1.201    | 1.114    | 1.073    |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2011   | 2.035                  | 1.394    | 1.190    | 1.114    |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2012   | 2.019                  | 1.388    | 1.187    |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2013   | 2.013                  | 1.390    |          |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2014   | 2.065                  |          |          |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| Selected (a)                                 | 2.056(d)               | 1.382(d) | 1.177(d) | 1.104(d) | 1.065(d) | 1.050 | 1.035  | 1.031   | 1.023   | 1.018   | 1.012   | 1.009   | 1.007   | 1.006   | 1.005   | 1.005   | 1.004   | 1.027            |
| Cumulative Unadjusted for Impact of SB 863   | 4.988                  | 2.426    | 1.756    | 1.492    | 1.351    | 1.268 | 1.208  | 1.167   | 1.132   | 1.106   | 1.087   | 1.074   | 1.064   | 1.056   | 1.050   | 1.045   | 1.040   |                  |
| Cumulative Adjusted for Impact of SB 863 (b) | 5.269                  | 2.563    | 1.770    | 1.484    | 1.344    | ---   | ---    | ---     | ---     | ---     | ---     | ---     | ---     | ---     | ---     |         |         |                  |

- (a) Selections are latest year for the 18-to-30 month through 102-to-114 month factors and three-year average for the subsequent age-to-age factors. Paid development factors are selected to age 222, where an incurred-to-paid ratio is chosen, and subsequently, incurred loss development factors are selected until ultimate.
- (b) The 30-to-ultimate factor for accident year 2014, the 42-to-ultimate factor for accident year 2013, the 54-to-ultimate factor for accident year 2012, and the 66-to-ultimate factor for accident year 2011 have been adjusted by 5.6%, 0.8%, -0.5%, and -0.5% respectively, for the impacts of SB 863 on indemnity loss development.
- (c) A three-year average of the 222Inc/222Pd factor is selected.
- (d) Based on calculations shown on Exhibits 2.5.3 to 2.5.8. Each of these selections is calculated as the latest year paid indemnity age-to-age factor multiplied by an adjustment for changes in claim settlement rates.



**Selected Indemnity Development Factors - Paid to Age 222, Incurred from Age 222 to Ultimate (Continued)**

| Accident Year | <u>234/222</u> | <u>246/234</u> | <u>258/246</u> | <u>270/258</u> | <u>282/270</u> | <u>294/282</u> | <u>306/294</u> | <u>318/306</u> | <u>330/318</u> | <u>342/330</u> | <u>354/342</u> | <u>366/354</u> | <u>378/366</u> | <u>ULT/378Inc (d)</u> |
|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------------|
| 1981          |                |                |                |                |                |                |                | 1.000          | 1.001          | 1.001          | 1.000          |                |                |                       |
| 1982          |                |                |                |                |                |                | 1.004          | 0.998          | 1.001          | 1.000          | 1.002          |                |                |                       |
| 1983          |                |                |                |                |                | 1.000          | 1.000          | 0.999          | 1.001          | 1.001          | 1.001          | 1.000          | 1.001          |                       |
| 1984          |                |                |                |                | 1.000          | 1.000          | 1.000          | 1.001          | 1.001          | 1.000          | 1.001          | 1.001          | 1.000          |                       |
| 1985          |                |                |                | 1.001          | 1.000          | 1.000          | 1.001          | 1.000          | 1.001          | 1.001          | 1.001          | 1.000          | 1.000          |                       |
| 1986          |                |                | 0.999          | 1.001          | 1.000          | 1.001          | 1.000          | 1.002          | 1.002          | 1.000          | 0.999          | 1.000          |                |                       |
| 1987          |                | 1.000          | 0.999          | 1.000          | 1.001          | 1.000          | 1.002          | 1.001          | 1.000          | 1.001          | 1.001          |                |                |                       |
| 1988          | 1.001          | 1.000          | 1.000          | 1.000          | 1.002          | 1.002          | 1.000          | 1.000          | 1.000          | 1.000          |                |                |                |                       |
| 1989          | 1.000          | 1.001          | 1.000          | 1.001          | 1.000          | 1.000          | 1.000          | 1.000          | 1.001          |                |                |                |                |                       |
| 1990          | 1.001          | 1.000          | 1.000          | 1.001          | 1.000          | 1.001          | 1.000          | 1.000          |                |                |                |                |                |                       |
| 1991          | 1.000          | 1.000          | 1.000          | 1.000          | 1.000          | 1.001          | 1.000          |                |                |                |                |                |                |                       |
| 1992          | 1.001          | 1.001          | 1.001          | 1.001          | 1.000          | 1.000          |                |                |                |                |                |                |                |                       |
| 1993          | 1.001          | 1.001          | 1.002          | 1.000          | 1.000          |                |                |                |                |                |                |                |                |                       |
| 1994          | 1.002          | 1.001          | 1.000          | 1.001          |                |                |                |                |                |                |                |                |                |                       |
| 1995          | 0.999          | 1.000          | 1.000          |                |                |                |                |                |                |                |                |                |                |                       |
| 1996          | 1.000          | 1.001          |                |                |                |                |                |                |                |                |                |                |                |                       |
| 1997          | 1.000          |                |                |                |                |                |                |                |                |                |                |                |                |                       |
| Selected (a)  | 1.000          | 1.001          | 1.001          | 1.001          | 1.000          | 1.001          | 1.000          | 1.000          | 1.000          | 1.000          | 1.000          | 1.000          | 1.000          |                       |
| Cumulative    | 1.008          | 1.008          | 1.008          | 1.007          | 1.006          | 1.006          | 1.006          | 1.006          | 1.006          | 1.005          | 1.005          | 1.005          | 1.004          | 1.004                 |

(d) The ULT/378Inc tail factor was calculated based on an inverse power curve fit to a six-year average of the 114-to-126 through 342-to-354 factors and extrapolated to 80 development years.

**Paid Indemnity Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

A. Total Reported Indemnity Claim Counts

| Accident<br>Year | Evaluated as of (in months) |         |         |         |         |         |
|------------------|-----------------------------|---------|---------|---------|---------|---------|
|                  | 18                          | 30      | 42      | 54      | 66      | 78      |
| 2007             |                             |         |         |         |         | 121,700 |
| 2008             |                             |         |         |         | 120,391 | 120,692 |
| 2009             |                             |         |         | 114,221 | 114,697 | 114,961 |
| 2010             |                             |         | 117,297 | 118,233 | 118,815 | 119,120 |
| 2011             |                             | 116,343 | 118,566 | 119,722 | 120,324 |         |
| 2012             | 115,049                     | 123,448 | 125,972 | 127,232 |         |         |
| 2013             | 123,196                     | 131,555 | 134,193 |         |         |         |
| 2014             | 128,143                     | 137,205 |         |         |         |         |
| 2015             | 133,637                     |         |         |         |         |         |

B. Development of Total Reported Indemnity Claim Counts

| Accident<br>Year | Age-to-Age Development (in months): |       |       |       |       |             |
|------------------|-------------------------------------|-------|-------|-------|-------|-------------|
|                  | 18-30                               | 30-42 | 42-54 | 54-66 | 66-78 | 78-Ultimate |
| 2007             |                                     |       |       |       | 1.002 |             |
| 2008             |                                     |       |       | 1.004 | 1.003 |             |
| 2009             |                                     |       | 1.008 | 1.004 | 1.002 |             |
| 2010             |                                     | 1.018 | 1.008 | 1.005 | 1.003 |             |
| 2011             | 1.068                               | 1.019 | 1.010 | 1.005 |       |             |
| 2012             | 1.073                               | 1.020 | 1.010 |       |       |             |
| 2013             | 1.068                               | 1.020 |       |       |       |             |
| 2014             | 1.071                               |       |       |       |       |             |
| Latest Year      | 1.071                               | 1.020 | 1.010 | 1.005 | 1.003 |             |
| Cumulative       | 1.118                               | 1.044 | 1.024 | 1.014 | 1.009 | 1.006       |

| Acc. Year         | 2015    | 2014    | 2013    | 2012    | 2011    | 2010    |
|-------------------|---------|---------|---------|---------|---------|---------|
| Ult. Claim Counts | 149,446 | 143,302 | 137,401 | 128,983 | 121,370 | 119,848 |

C. Closed Indemnity Claim Counts

| Accident<br>Year | Evaluated as of (in months) |        |        |         |         |         |
|------------------|-----------------------------|--------|--------|---------|---------|---------|
|                  | 18                          | 30     | 42     | 54      | 66      | 78      |
| 2006             |                             |        |        |         |         | 94,600  |
| 2007             |                             |        |        |         | 100,192 | 105,394 |
| 2008             |                             |        |        | 91,157  | 98,966  | 105,052 |
| 2009             |                             |        | 74,702 | 85,800  | 94,054  | 99,725  |
| 2010             |                             | 62,318 | 78,527 | 91,002  | 99,133  | 105,183 |
| 2011             | 43,042                      | 63,724 | 80,863 | 93,383  | 101,939 |         |
| 2012             | 45,715                      | 68,969 | 87,917 | 101,057 |         |         |
| 2013             | 48,437                      | 75,131 | 95,858 |         |         |         |
| 2014             | 51,330                      | 80,275 |        |         |         |         |
| 2015             | 55,342                      |        |        |         |         |         |

Source: Accident year experience of insurers with available claim count data

**Paid Indemnity Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

D. Ultimate Indemnity Claim Settlement Ratio (a)

| Accident | Evaluated as of (in months) |       |       |       |       |       |
|----------|-----------------------------|-------|-------|-------|-------|-------|
| Year     | 18                          | 30    | 42    | 54    | 66    | 78    |
| 2007     |                             |       |       |       |       | 86.3% |
| 2008     |                             |       |       |       | 81.5% | 86.6% |
| 2009     |                             |       |       | 74.2% | 81.3% | 86.2% |
| 2010     |                             |       | 65.5% | 75.9% | 82.7% | 87.8% |
| 2011     |                             | 52.5% | 66.6% | 76.9% | 84.0% |       |
| 2012     | 35.4%                       | 53.5% | 68.2% | 78.3% |       |       |
| 2013     | 35.3%                       | 54.7% | 69.8% |       |       |       |
| 2014     | 35.8%                       | 56.0% |       |       |       |       |
| 2015     | 37.0%                       |       |       |       |       |       |

E. Adjusted Closed Indemnity Claim Counts at Equal Percentiles of Ultimate Claim Counts (b)

| Accident | Evaluated as of (in months) |        |        |         |         |         |
|----------|-----------------------------|--------|--------|---------|---------|---------|
| Year     | 18                          | 30     | 42     | 54      | 66      | 78      |
| 2007     |                             |        |        |         |         | 107,210 |
| 2008     |                             |        |        |         | 101,944 | 106,524 |
| 2009     |                             |        |        | 90,621  | 97,146  | 101,511 |
| 2010     |                             |        | 83,612 | 93,899  | 100,661 | 105,183 |
| 2011     |                             | 67,989 | 84,674 | 95,092  | 101,939 |         |
| 2012     | 47,764                      | 72,254 | 89,985 | 101,057 |         |         |
| 2013     | 50,882                      | 76,969 | 95,858 |         |         |         |
| 2014     | 53,067                      | 80,275 |        |         |         |         |
| 2015     | 55,342                      |        |        |         |         |         |

F. Average Paid Indemnity per Closed Claim

| Accident | Evaluated as of (in months) |       |        |        |        |        |
|----------|-----------------------------|-------|--------|--------|--------|--------|
| Year     | 18                          | 30    | 42     | 54     | 66     | 78     |
| 2007     |                             |       |        |        |        | 14,359 |
| 2008     |                             |       |        |        | 14,441 | 16,337 |
| 2009     |                             |       |        | 12,858 | 15,373 | 17,268 |
| 2010     |                             |       | 10,103 | 13,344 | 15,776 | 17,664 |
| 2011     |                             | 6,647 | 10,543 | 13,625 | 16,053 |        |
| 2012     | 3,175                       | 7,063 | 11,018 | 13,980 |        |        |
| 2013     | 3,565                       | 7,484 | 11,381 |        |        |        |
| 2014     | 3,650                       | 7,913 |        |        |        |        |
| 2015     | 4,032                       |       |        |        |        |        |

- (a) Ratio of closed indemnity claim counts (Item C) to the estimated ultimate indemnity claim counts (Item B) for that accident year.
- (b) The claim counts for the latest evaluation of each accident year are equal to the reported number of closed indemnity claims. All prior evaluations shown are the product of the latest ultimate indemnity claim settlement ratio (Item D) and the ultimate indemnity claim counts (Item B) for that accident year.

Source: Accident year experience of insurers with available claim count data

**Paid Indemnity Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

G. Adjusted Average Paid Indemnity per Closed Claim (c)

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 14,940    |
| 2008             |                             |           |           |           | 15,340    | 16,806    |
| 2009             |                             |           |           | 14,272    | 16,379    | 17,887    |
| 2010             |                             |           | 11,316    | 14,164    | 16,233    | 17,664    |
| 2011             |                             | 7,456     | 11,400    | 14,079    | 16,053    |           |
| 2012             | 3,407                       | 7,629     | 11,439    | 13,980    |           |           |
| 2013             | 3,815                       | 7,768     | 11,381    |           |           |           |
| 2014             | 3,823                       | 7,913     |           |           |           |           |
| 2015             | 4,032                       |           |           |           |           |           |

H. Adjusted Paid Indemnity on Closed Claims (in \$000) (d)

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 1,601,673 |
| 2008             |                             |           |           |           | 1,563,794 | 1,790,295 |
| 2009             |                             |           |           | 1,293,387 | 1,591,201 | 1,815,738 |
| 2010             |                             |           | 946,175   | 1,330,030 | 1,633,990 | 1,857,959 |
| 2011             |                             | 506,939   | 965,246   | 1,338,820 | 1,636,459 |           |
| 2012             | 162,732                     | 551,253   | 1,029,371 | 1,412,799 |           |           |
| 2013             | 194,124                     | 597,875   | 1,090,979 |           |           |           |
| 2014             | 202,895                     | 635,195   |           |           |           |           |
| 2015             | 223,138                     |           |           |           |           |           |

I. Paid Indemnity on Open Claims (in \$000)

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 646,816   |
| 2008             |                             |           |           |           | 790,692   | 663,881   |
| 2009             |                             |           |           | 855,605   | 743,420   | 632,479   |
| 2010             |                             |           | 895,122   | 812,344   | 692,449   | 562,728   |
| 2011             |                             | 803,298   | 851,076   | 754,940   | 619,445   |           |
| 2012             | 502,401                     | 817,048   | 840,448   | 732,938   |           |           |
| 2013             | 519,935                     | 831,308   | 843,548   |           |           |           |
| 2014             | 541,185                     | 868,687   |           |           |           |           |
| 2015             | 571,207                     |           |           |           |           |           |

- (c) Adjusted based on ultimate indemnity claim settlement ratios (Item D) and assuming a log-linear relationship between maturities.
- (d) Each amount is the product of the adjusted closed indemnity claim counts (Item E) and the adjusted average paid indemnity per closed claim (Item G), and divided by \$1,000.

Source: Accident year experience of insurers with available claim count data

**Paid Indemnity Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

J. Average Paid Indemnity per Open Claim for Indemnity Claims in Transition (e)

| Accident | Evaluated as of (in months) |        |        |        |        |        |
|----------|-----------------------------|--------|--------|--------|--------|--------|
| Year     | 18                          | 30     | 42     | 54     | 66     | 78     |
| 2007     |                             |        |        |        |        | 39,667 |
| 2008     |                             |        |        |        | 36,905 | 42,448 |
| 2009     |                             |        |        | 30,105 | 36,013 | 41,512 |
| 2010     |                             |        | 23,088 | 29,832 | 35,182 | 41,579 |
| 2011     |                             | 15,266 | 22,573 | 28,662 | 35,032 |        |
| 2012     | 7,246                       | 14,997 | 22,085 | 28,395 |        |        |
| 2013     | 6,955                       | 14,733 | 20,627 |        |        |        |
| 2014     | 7,045                       | 11,742 |        |        |        |        |
| 2015     | 5,477                       |        |        |        |        |        |

K. Changes in Paid Indemnity on Open Claims Resulting from the Impact of Changes in Claim Settlement Rates (in \$000) (f)

| Accident | Evaluated as of (in months) |         |          |          |          |         |
|----------|-----------------------------|---------|----------|----------|----------|---------|
| Year     | 18                          | 30      | 42       | 54       | 66       | 78      |
| 2007     |                             |         |          |          |          | -72,033 |
| 2008     |                             |         |          |          | -109,903 | -62,486 |
| 2009     |                             |         |          | -145,135 | -111,355 | -74,124 |
| 2010     |                             |         | -117,405 | -86,435  | -53,743  |         |
| 2011     |                             | -65,113 | -86,027  | -48,984  |          |         |
| 2012     | -14,850                     | -49,267 | -45,683  |          |          |         |
| 2013     | -17,001                     | -27,085 |          |          |          |         |
| 2014     | -12,237                     |         |          |          |          |         |

L. Adjusted Paid Indemnity on Open Claims (in \$000) (g)

| Accident | Evaluated as of (in months) |         |         |         |         |         |
|----------|-----------------------------|---------|---------|---------|---------|---------|
| Year     | 18                          | 30      | 42      | 54      | 66      | 78      |
| 2007     |                             |         |         |         |         | 574,783 |
| 2008     |                             |         |         |         | 680,789 | 601,394 |
| 2009     |                             |         |         | 710,470 | 632,065 | 558,355 |
| 2010     |                             |         | 777,717 | 725,909 | 638,706 | 562,728 |
| 2011     |                             | 738,186 | 765,049 | 705,956 | 619,445 |         |
| 2012     | 487,550                     | 767,781 | 794,765 | 732,938 |         |         |
| 2013     | 502,933                     | 804,224 | 843,548 |         |         |         |
| 2014     | 528,948                     | 868,687 |         |         |         |         |
| 2015     | 571,207                     |         |         |         |         |         |

- (e) Each amount is equal to the product of [the average monthly indemnity payment per open indemnity claim] and [the number of months for the current evaluation]. For evaluations indicating claim settlement rate decreases, the average monthly indemnity payment per open indemnity claim at the prior evaluation is used. For evaluations indicating claim settlement rate increases, the average monthly indemnity payment per open indemnity claim at the same evaluation is used.
- (f) Each amount is equal to [the difference between unadjusted and adjusted closed indemnity claim counts (Items C and E)] multiplied by the corresponding [average paid indemnity per open claim for indemnity claims in transition (Item J)].
- (g) Each amount is the sum of [paid indemnity on open claims (Item I)] and the corresponding [incremental changes in paid indemnity on open claims resulting from the impact of changes in claim settlement rates (Item K)].

Source: Accident year experience of insurers with available claim count data

**Paid Indemnity Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

M. Adjusted Total Paid Indemnity (in \$000) (h)

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 2,176,456 |
| 2008             |                             |           |           |           | 2,244,583 | 2,391,690 |
| 2009             |                             |           |           | 2,003,858 | 2,223,267 | 2,374,093 |
| 2010             |                             |           | 1,723,893 | 2,055,939 | 2,272,697 | 2,420,687 |
| 2011             |                             | 1,245,124 | 1,730,295 | 2,044,775 | 2,255,904 |           |
| 2012             | 650,283                     | 1,319,034 | 1,824,136 | 2,145,737 |           |           |
| 2013             | 697,057                     | 1,402,098 | 1,934,526 |           |           |           |
| 2014             | 731,843                     | 1,503,882 |           |           |           |           |
| 2015             | 794,345                     |           |           |           |           |           |

N. Paid Indemnity Loss Development Factors Based on Adjusted Total Paid Indemnity

| Accident<br>Year | Evaluated as of (in months) |              |              |              |              |
|------------------|-----------------------------|--------------|--------------|--------------|--------------|
|                  | <u>18-30</u>                | <u>30-42</u> | <u>42-54</u> | <u>54-66</u> | <u>66-78</u> |
| 2007             |                             |              |              |              |              |
| 2008             |                             |              |              |              | 1.066        |
| 2009             |                             |              |              | 1.109        | 1.068        |
| 2010             |                             |              | 1.193        | 1.105        | 1.065        |
| 2011             |                             | 1.390        | 1.182        | 1.103        |              |
| 2012             | 2.028                       | 1.383        | 1.176        |              |              |
| 2013             | 2.011                       | 1.380        |              |              |              |
| 2014             | 2.055                       |              |              |              |              |
| Latest Year      | 2.055                       | 1.380        | 1.176        | 1.103        | 1.065        |
| 3-Year Average   | 2.032                       | 1.384        | 1.184        | 1.106        | 1.066        |

O. Paid Indemnity Loss Development Factors (i)

| Accident<br>Year | Evaluated as of (in months) |              |              |              |              |
|------------------|-----------------------------|--------------|--------------|--------------|--------------|
|                  | <u>18-30</u>                | <u>30-42</u> | <u>42-54</u> | <u>54-66</u> | <u>66-78</u> |
| 2008             |                             |              |              |              | 1.072        |
| 2009             |                             |              |              | 1.118        | 1.075        |
| 2010             |                             |              | 1.200        | 1.113        | 1.073        |
| 2011             |                             | 1.389        | 1.190        | 1.113        |              |
| 2012             | 2.014                       | 1.387        | 1.186        |              |              |
| 2013             | 2.012                       | 1.388        |              |              |              |
| 2014             | 2.064                       |              |              |              |              |

(h) Each amount is the sum of the adjusted paid indemnity on closed claims (Item H) and the adjusted paid indemnity on open claims (Item L).

(i) Development factors are based on paid indemnity losses from the same insurer mix as that used in the adjustment for changes in claim settlement rates and applied in the calculation of the development factors in Item N.

Source: Accident year experience of insurers with available claim count data

**Paid Indemnity Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

P. Impact of Adjustment for Changes in Claim Settlement Rates (j)

| Accident<br>Year | Evaluated as of (in months) |              |              |              |              |
|------------------|-----------------------------|--------------|--------------|--------------|--------------|
|                  | <u>18-30</u>                | <u>30-42</u> | <u>42-54</u> | <u>54-66</u> | <u>66-78</u> |
| 2008             |                             |              |              |              | -0.62%       |
| 2009             |                             |              |              | -0.73%       | -0.71%       |
| 2010             |                             |              | -0.64%       | -0.71%       | -0.72%       |
| 2011             |                             | 0.08%        | -0.69%       | -0.85%       |              |
| 2012             | 0.71%                       | -0.31%       | -0.82%       |              |              |
| 2013             | -0.03%                      | -0.61%       |              |              |              |
| 2014             | -0.45%                      |              |              |              |              |

Q. Paid Indemnity Loss Development Factors Adjusted for Changes in Indemnity  
Claim Settlement Rates (k)

| Accident<br>Year | Evaluated as of (in months) |              |              |              |              |
|------------------|-----------------------------|--------------|--------------|--------------|--------------|
|                  | <u>18-30</u>                | <u>30-42</u> | <u>42-54</u> | <u>54-66</u> | <u>66-78</u> |
| 2008             |                             |              |              |              | 1.065        |
| 2009             |                             |              |              | 1.110        | 1.067        |
| 2010             |                             |              | 1.193        | 1.106        | 1.065        |
| 2011             |                             | 1.395        | 1.182        | 1.104        |              |
| 2012             | 2.033                       | 1.384        | 1.177        |              |              |
| 2013             | 2.012                       | 1.382        |              |              |              |
| 2014             | 2.056                       |              |              |              |              |
| Latest Year      | 2.056                       | 1.382        | 1.177        | 1.104        | 1.065        |
| 3-Year Average   | 2.034                       | 1.387        | 1.184        | 1.107        | 1.066        |

(j) Each factor represents the change in age-to-age development factors from Item O to those in Item N.

(k) Each factor is the product of [1.0 + the impact of adjustment for changes in claim settlement rates (Item P)] and [the paid indemnity age-to-age development factor from Exhibit 2.5.1].

Source: Accident year experience of insurers with available claim count data

Selected Medical Development Factors - Paid to Age 222, Incurred from Age 222 to Ultimate

| Unadjusted (a) |          | Age-to-Age (in months) |          |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
|----------------|----------|------------------------|----------|----------|----------|-------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|
| Accident Year  | 30/18    | 42/30                  | 54/42    | 66/54    | 78/66    | 90/78 | 102/90 | 114/102 | 126/114 | 138/126 | 150/138 | 162/150 | 174/162 | 186/174 | 198/186 | 210/198 | 222/210 | 222Inc/222Pd (d) |
| 1991           |          |                        |          |          |          |       |        |         |         |         |         |         |         |         | 1.009   | 1.008   | 1.007   | 1.056            |
| 1992           |          |                        |          |          |          |       |        |         |         |         |         |         |         | 1.010   | 1.017   | 1.009   | 1.008   | 1.066            |
| 1993           |          |                        |          |          |          |       |        |         |         |         |         |         | 1.013   | 1.013   | 1.012   | 1.011   | 1.012   | 1.098            |
| 1994           |          |                        |          |          |          |       |        |         |         |         |         | 1.019   | 1.016   | 1.013   | 1.013   | 1.013   | 1.010   | 1.114            |
| 1995           |          |                        |          |          |          |       |        |         |         |         | 1.020   | 1.022   | 1.019   | 1.018   | 1.015   | 1.014   | 1.014   | 1.128            |
| 1996           |          |                        |          |          |          |       |        |         |         | 1.026   | 1.024   | 1.022   | 1.020   | 1.015   | 1.014   | 1.014   | 1.013   | 1.115            |
| 1997           |          |                        |          |          |          |       |        |         | 1.031   | 1.026   | 1.024   | 1.021   | 1.017   | 1.016   | 1.012   | 1.014   | 1.014   | 1.108            |
| 1998           |          |                        |          |          |          |       |        | 1.036   | 1.034   | 1.031   | 1.024   | 1.020   | 1.018   | 1.017   | 1.016   | 1.016   | 1.012   | 1.112            |
| 1999           |          |                        |          |          |          |       | 1.039  | 1.031   | 1.033   | 1.028   | 1.027   | 1.018   | 1.016   | 1.017   | 1.017   | 1.014   |         |                  |
| 2000           |          |                        |          |          |          | 1.048 | 1.040  | 1.034   | 1.028   | 1.024   | 1.022   | 1.019   | 1.021   | 1.015   | 1.012   |         |         |                  |
| 2001           |          |                        |          |          | 1.066    | 1.050 | 1.042  | 1.036   | 1.032   | 1.025   | 1.022   | 1.025   | 1.018   | 1.015   |         |         |         |                  |
| 2002           |          |                        |          | 1.087    | 1.064    | 1.049 | 1.040  | 1.031   | 1.026   | 1.024   | 1.020   | 1.020   | 1.014   |         |         |         |         |                  |
| 2003           |          |                        | 1.139    | 1.092    | 1.065    | 1.053 | 1.043  | 1.031   | 1.029   | 1.031   | 1.023   | 1.017   |         |         |         |         |         |                  |
| 2004           |          | 1.259                  | 1.150    | 1.108    | 1.079    | 1.064 | 1.044  | 1.038   | 1.037   | 1.029   | 1.020   |         |         |         |         |         |         |                  |
| 2005           | 1.530    | 1.254                  | 1.171    | 1.112    | 1.084    | 1.058 | 1.053  | 1.046   | 1.036   | 1.026   |         |         |         |         |         |         |         |                  |
| 2006           | 1.585    | 1.291                  | 1.172    | 1.116    | 1.078    | 1.061 | 1.053  | 1.038   | 1.030   |         |         |         |         |         |         |         |         |                  |
| 2007           | 1.618    | 1.300                  | 1.177    | 1.112    | 1.085    | 1.069 | 1.047  | 1.037   |         |         |         |         |         |         |         |         |         |                  |
| 2008           | 1.616    | 1.308                  | 1.183    | 1.124    | 1.088    | 1.060 | 1.045  |         |         |         |         |         |         |         |         |         |         |                  |
| 2009           | 1.648    | 1.328                  | 1.199    | 1.135    | 1.083    | 1.055 |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2010           | 1.678    | 1.353                  | 1.202    | 1.119    | 1.079    |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2011           | 1.699    | 1.340                  | 1.190    | 1.122    |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2012           | 1.712    | 1.339                  | 1.184    |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2013           | 1.707    | 1.325                  |          |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2014           | 1.703    |                        |          |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| Adjusted (b)   |          | Age-to-Age (in months) |          |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| Accident Year  | 30/18    | 42/30                  | 54/42    | 66/54    | 78/66    | 90/78 | 102/90 | 114/102 | 126/114 | 138/126 | 150/138 | 162/150 | 174/162 | 186/174 | 198/186 | 210/198 | 222/210 | 222Inc/222Pd (d) |
| 1996           |          |                        |          |          |          |       |        |         |         |         |         |         |         |         |         |         | 1.014   | 1.115            |
| 1997           |          |                        |          |          |          |       |        |         |         |         |         |         |         |         |         |         | 1.015   | 1.108            |
| 1998           |          |                        |          |          |          |       |        |         |         |         |         |         |         |         | 1.017   | 1.017   | 1.013   | 1.112            |
| 1999           |          |                        |          |          |          |       |        |         |         |         |         |         |         | 1.018   | 1.018   | 1.014   |         |                  |
| 2000           |          |                        |          |          |          |       |        |         |         |         |         |         | 1.022   | 1.016   | 1.012   |         |         |                  |
| 2001           |          |                        |          |          |          |       |        |         |         |         |         | 1.026   | 1.019   | 1.016   |         |         |         |                  |
| 2002           |          |                        |          |          |          |       |        |         |         |         | 1.021   | 1.021   | 1.015   |         |         |         |         |                  |
| 2003           |          |                        |          |          |          |       |        |         |         | 1.033   | 1.025   | 1.018   |         |         |         |         |         |                  |
| 2004           |          |                        |          |          |          |       |        |         | 1.039   | 1.031   | 1.022   |         |         |         |         |         |         |                  |
| 2005           |          |                        |          |          |          |       |        | 1.048   | 1.038   | 1.027   |         |         |         |         |         |         |         |                  |
| 2006           |          |                        |          |          |          |       | 1.055  | 1.040   | 1.032   |         |         |         |         |         |         |         |         |                  |
| 2007           |          |                        |          |          |          | 1.073 | 1.050  | 1.039   |         |         |         |         |         |         |         |         |         |                  |
| 2008           |          |                        |          |          | 1.093    | 1.063 | 1.047  |         |         |         |         |         |         |         |         |         |         |                  |
| 2009           |          |                        |          | 1.142    | 1.088    | 1.059 |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2010           |          |                        | 1.212    | 1.125    | 1.083    |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2011           |          | 1.355                  | 1.199    | 1.127    |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2012           | 1.735    | 1.350                  | 1.189    |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2013           | 1.717    | 1.328                  |          |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| 2014           | 1.704    |                        |          |          |          |       |        |         |         |         |         |         |         |         |         |         |         |                  |
| Selected (c)   | 1.702(e) | 1.323(e)               | 1.182(e) | 1.120(e) | 1.077(e) | 1.059 | 1.047  | 1.039   | 1.036   | 1.030   | 1.023   | 1.022   | 1.019   | 1.017   | 1.016   | 1.015   | 1.014   | 1.112            |
| Cumulative     | 5.205    | 3.058                  | 2.311    | 1.954    | 1.745    | 1.621 | 1.531  | 1.462   | 1.407   | 1.358   | 1.318   | 1.288   | 1.261   | 1.238   | 1.218   | 1.199   | 1.181   |                  |

- (a) Paid medical loss development factors include the paid cost of medical cost containment programs for accident years 2011 and prior.
- (b) These factors are adjusted for the following impacts: (i) reduction of historical outstanding medical losses paid prior to January 1, 2013 by the estimated 4.4% cost savings due to applicable SB 863 provisions; (ii) adjustment to historical outstanding medical losses paid prior to January 1, 2014 by an estimated 1.8% decrease in costs, losses paid prior to January 1, 2015 by an estimated 0.9% decrease in costs, and losses paid prior to January 1, 2016 by an estimated 0.8% increase in costs due to RBRVS.
- (c) Selections are latest year for the 18-to-30 month through 102-to-114 month factors and three-year average for the subsequent age-to-age factors. Paid development factors are selected to age 222, where an incurred-to-paid ratio is chosen, and subsequently, incurred loss development factors are selected until ultimate.
- (d) A three-year average of the 222Inc/222Pd factor is selected.
- (e) Based on calculations shown on Exhibits 2.6.3 to 2.6.8. Each of these selections is calculated as the latest year paid medical age-to-age factor multiplied by an adjustment for changes in claim settlement rates.



Selected Medical Development Factors - Paid to Age 222, Incurred from Age 222 to Ultimate (Continued)

| Accident Year | Age-to-Age (in months) |         |         |         |         |         |         |         |         |         |         |         |         | ULT/378Inc (e) |
|---------------|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------------|
|               | 234/222                | 246/234 | 258/246 | 270/258 | 282/270 | 294/282 | 306/294 | 318/306 | 330/318 | 342/330 | 354/342 | 366/354 | 378/366 |                |
| 1983          |                        |         |         |         |         |         |         |         |         |         |         |         | 1.004   |                |
| 1984          |                        |         |         |         |         |         |         |         |         |         |         | 1.003   | 0.997   |                |
| 1985          |                        |         |         |         |         |         |         |         |         |         | 1.004   | 0.999   | 1.000   |                |
| 1986          |                        |         |         |         |         |         |         |         |         | 1.004   | 1.001   | 1.000   |         |                |
| 1987          |                        |         |         |         |         |         |         |         | 1.004   | 1.001   | 1.001   |         |         |                |
| 1988          |                        |         |         |         |         |         |         | 1.003   | 1.003   | 1.001   |         |         |         |                |
| 1989          |                        |         |         |         |         |         | 1.000   | 1.002   | 0.998   |         |         |         |         |                |
| 1990          |                        |         |         |         |         | 0.999   | 1.000   | 1.001   |         |         |         |         |         |                |
| 1991          |                        |         |         |         | 1.001   | 1.002   | 1.001   |         |         |         |         |         |         |                |
| 1992          |                        |         |         | 1.004   | 1.002   | 0.999   |         |         |         |         |         |         |         |                |
| 1993          |                        |         | 1.002   | 1.000   | 0.998   |         |         |         |         |         |         |         |         |                |
| 1994          |                        | 1.006   | 1.001   | 1.003   |         |         |         |         |         |         |         |         |         |                |
| 1995          | 1.007                  | 1.002   | 0.999   |         |         |         |         |         |         |         |         |         |         |                |
| 1996          | 1.001                  | 0.998   |         |         |         |         |         |         |         |         |         |         |         |                |
| 1997          | 0.994                  |         |         |         |         |         |         |         |         |         |         |         |         |                |
| Selected (c)  | 1.001                  | 1.002   | 1.001   | 1.002   | 1.000   | 1.000   | 1.000   | 1.002   | 1.002   | 1.002   | 1.002   | 1.001   | 1.000   |                |
| Cumulative    | 1.048                  | 1.047   | 1.045   | 1.044   | 1.042   | 1.041   | 1.041   | 1.041   | 1.039   | 1.037   | 1.035   | 1.033   | 1.032   | 1.032          |

(e) The ULT/378Inc tail factor was calculated based on an inverse power curve fit to a six-year average of the 114-to-126 through 342-to-354 factors and extrapolated to 80 development years.

**Paid Medical Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

A. Total Reported Indemnity Claim Counts

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 118,406   |
| 2008             |                             |           |           |           | 117,331   | 117,623   |
| 2009             |                             |           |           | 111,325   | 111,791   | 112,057   |
| 2010             |                             |           | 114,173   | 115,105   | 115,692   | 115,997   |
| 2011             |                             | 114,776   | 116,991   | 118,132   | 118,726   |           |
| 2012             | 113,520                     | 121,841   | 124,364   | 125,624   |           |           |
| 2013             | 123,196                     | 131,555   | 134,193   |           |           |           |
| 2014             | 128,143                     | 137,205   |           |           |           |           |
| 2015             | 133,637                     |           |           |           |           |           |

B. Development of Total Reported Indemnity Claim Counts

| Accident<br>Year | Age-to-Age Development (in months): |              |              |              |              |                    |
|------------------|-------------------------------------|--------------|--------------|--------------|--------------|--------------------|
|                  | <u>18-30</u>                        | <u>30-42</u> | <u>42-54</u> | <u>54-66</u> | <u>66-78</u> | <u>78-Ultimate</u> |
| 2008             |                                     |              |              |              | 1.002        |                    |
| 2009             |                                     |              |              | 1.004        | 1.002        |                    |
| 2010             |                                     |              | 1.008        | 1.005        | 1.003        |                    |
| 2011             |                                     | 1.019        | 1.010        | 1.005        |              |                    |
| 2012             | 1.073                               | 1.021        | 1.010        |              |              |                    |
| 2013             | 1.068                               | 1.020        |              |              |              |                    |
| 2014             | 1.071                               |              |              |              |              |                    |
| Latest Year      | 1.071                               | 1.020        | 1.010        | 1.005        | 1.003        |                    |
| Cumulative       | 1.119                               | 1.045        | 1.024        | 1.014        | 1.009        | 1.006              |

| Acc. Year         | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Ult. Claim Counts | 149,497     | 143,351     | 137,448     | 127,381     | 119,784     | 116,723     |

C. Closed Indemnity Claim Counts

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 102,436   |
| 2008             |                             |           |           |           | 96,321    | 102,306   |
| 2009             |                             |           |           | 83,525    | 91,581    | 97,132    |
| 2010             |                             |           | 76,392    | 88,553    | 96,443    | 102,373   |
| 2011             |                             | 62,999    | 79,858    | 92,171    | 100,608   |           |
| 2012             | 45,292                      | 68,218    | 86,884    | 99,820    |           |           |
| 2013             | 48,437                      | 75,131    | 95,858    |           |           |           |
| 2014             | 51,330                      | 80,275    |           |           |           |           |
| 2015             | 55,342                      |           |           |           |           |           |

Source: Accident year experience of insurers with available claim count and paid loss data

**Paid Medical Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

D. Ultimate Indemnity Claim Settlement Ratio (a)

| Accident | Evaluated as of (in months) |       |       |       |       |       |
|----------|-----------------------------|-------|-------|-------|-------|-------|
| Year     | 18                          | 30    | 42    | 54    | 66    | 78    |
| 2007     |                             |       |       |       |       | 86.2% |
| 2008     |                             |       |       |       | 81.4% | 86.5% |
| 2009     |                             |       |       | 74.1% | 81.2% | 86.1% |
| 2010     |                             |       | 65.4% | 75.9% | 82.6% | 87.7% |
| 2011     |                             | 52.6% | 66.7% | 76.9% | 84.0% |       |
| 2012     | 35.6%                       | 53.6% | 68.2% | 78.4% |       |       |
| 2013     | 35.2%                       | 54.7% | 69.7% |       |       |       |
| 2014     | 35.8%                       | 56.0% |       |       |       |       |
| 2015     | 37.0%                       |       |       |       |       |       |

E. Adjusted Closed Indemnity Claim Counts at Equal Percentiles of Ultimate Claim Counts (b)

| Accident | Evaluated as of (in months) |        |        |        |         |         |
|----------|-----------------------------|--------|--------|--------|---------|---------|
| Year     | 18                          | 30     | 42     | 54     | 66      | 78      |
| 2007     |                             |        |        |        |         | 104,242 |
| 2008     |                             |        |        |        | 99,359  | 103,754 |
| 2009     |                             |        |        | 88,361 | 94,707  | 98,896  |
| 2010     |                             |        | 81,404 | 91,468 | 98,037  | 102,373 |
| 2011     |                             | 67,078 | 83,539 | 93,867 | 100,608 |         |
| 2012     | 47,155                      | 71,332 | 88,837 | 99,820 |         |         |
| 2013     | 50,882                      | 76,969 | 95,858 |        |         |         |
| 2014     | 53,067                      | 80,275 |        |        |         |         |
| 2015     | 55,342                      |        |        |        |         |         |

F. Average Paid Medical per Closed Indemnity Claim

| Accident | Evaluated as of (in months) |       |        |        |        |        |
|----------|-----------------------------|-------|--------|--------|--------|--------|
| Year     | 18                          | 30    | 42     | 54     | 66     | 78     |
| 2007     |                             |       |        |        |        | 16,716 |
| 2008     |                             |       |        |        | 16,908 | 19,703 |
| 2009     |                             |       |        | 15,134 | 18,652 | 21,464 |
| 2010     |                             |       | 12,038 | 16,088 | 19,420 | 22,174 |
| 2011     |                             | 7,425 | 11,707 | 15,608 | 18,917 |        |
| 2012     | 3,649                       | 7,712 | 12,040 | 15,513 |        |        |
| 2013     | 3,819                       | 7,761 | 11,878 |        |        |        |
| 2014     | 3,854                       | 7,875 |        |        |        |        |
| 2015     | 4,151                       |       |        |        |        |        |

- (a) Ratio of closed indemnity claim counts (Item C) to the estimated ultimate indemnity claim counts (Item B) for that accident year.
- (b) The claim counts for the latest evaluation of each accident year are equal to the reported number of closed indemnity claims. All prior evaluations shown are the product of the latest ultimate indemnity claim settlement ratio (Item D) and the ultimate indemnity claim counts (Item B) for that accident year.

Source: Accident year experience of insurers with available claim count and paid loss data

**Paid Medical Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

G. Adjusted Average Paid Medical per Closed Indemnity Claim (c)

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 17,692    |
| 2008             |                             |           |           |           | 18,274    | 20,390    |
| 2009             |                             |           |           | 17,158    | 20,188    | 22,351    |
| 2010             |                             |           | 13,566    | 17,247    | 20,125    | 22,174    |
| 2011             |                             | 8,290     | 12,758    | 16,223    | 18,917    |           |
| 2012             | 3,878                       | 8,307     | 12,510    | 15,513    |           |           |
| 2013             | 4,076                       | 8,060     | 11,878    |           |           |           |
| 2014             | 4,023                       | 7,875     |           |           |           |           |
| 2015             | 4,151                       |           |           |           |           |           |

H. Adjusted Paid Medical (in \$000) on Closed Indemnity Claims (d)

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 1,844,211 |
| 2008             |                             |           |           |           | 1,815,720 | 2,115,552 |
| 2009             |                             |           |           | 1,516,103 | 1,911,899 | 2,210,373 |
| 2010             |                             |           | 1,104,364 | 1,577,521 | 1,972,988 | 2,270,027 |
| 2011             |                             | 556,091   | 1,065,807 | 1,522,829 | 1,903,218 |           |
| 2012             | 182,880                     | 592,566   | 1,111,333 | 1,548,545 |           |           |
| 2013             | 207,372                     | 620,377   | 1,138,592 |           |           |           |
| 2014             | 213,469                     | 632,157   |           |           |           |           |
| 2015             | 229,743                     |           |           |           |           |           |

I. Paid Medical on Open Indemnity Claims (in \$000)

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 997,978   |
| 2008             |                             |           |           |           | 1,107,631 | 979,012   |
| 2009             |                             |           |           | 1,160,097 | 1,068,583 | 940,262   |
| 2010             |                             |           | 1,158,017 | 1,113,643 | 990,371   | 837,029   |
| 2011             |                             | 983,447   | 1,077,753 | 999,944   | 854,108   |           |
| 2012             | 638,683                     | 963,861   | 1,009,114 | 915,322   |           |           |
| 2013             | 650,648                     | 956,359   | 957,832   |           |           |           |
| 2014             | 646,120                     | 932,430   |           |           |           |           |
| 2015             | 661,208                     |           |           |           |           |           |

- (c) Adjusted based on ultimate indemnity claim settlement ratios (Item D) and assuming a log-linear relationship between maturities.
- (d) Each amount is equal to the product of [adjusted closed indemnity claim counts (Item E)] and [adjusted average paid medical per closed indemnity claim (Item G)], and divided by \$1,000.

Source: Accident year experience of insurers with available claim count and paid loss data

**Paid Medical Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

J. Average Paid Medical per Open Indemnity Claim for Indemnity Claims in Transition (e)

| Accident<br>Year | Evaluated as of (in months) |        |        |        |        |        |
|------------------|-----------------------------|--------|--------|--------|--------|--------|
|                  | 18                          | 30     | 42     | 54     | 66     | 78     |
| 2007             |                             |        |        |        |        | 62,491 |
| 2008             |                             |        |        |        | 52,719 | 63,917 |
| 2009             |                             |        |        | 41,730 | 52,874 | 62,999 |
| 2010             |                             |        | 30,651 | 41,942 | 51,451 | 60,805 |
| 2011             |                             | 18,994 | 29,024 | 38,517 | 47,077 |        |
| 2012             | 9,361                       | 17,975 | 26,924 | 34,617 |        |        |
| 2013             | 8,703                       | 16,950 | 23,729 |        |        |        |
| 2014             | 8,412                       | 14,019 |        |        |        |        |
| 2015             | 7,376                       |        |        |        |        |        |

K. Changes in Paid Medical on Open Indemnity Claims Resulting from the Impact of Changes in Indemnity Claim Settlement Rates (in \$000) (f)

| Accident<br>Year | Evaluated as of (in months) |         |          |          |          |          |
|------------------|-----------------------------|---------|----------|----------|----------|----------|
|                  | 18                          | 30      | 42       | 54       | 66       | 78       |
| 2007             |                             |         |          |          |          | -112,856 |
| 2008             |                             |         |          |          | -160,170 | -92,529  |
| 2009             |                             |         |          | -201,820 | -165,286 | -111,115 |
| 2010             |                             |         | -153,621 | -122,268 | -82,012  |          |
| 2011             |                             | -77,468 | -106,831 | -65,322  |          |          |
| 2012             | -17,437                     | -55,968 | -52,579  |          |          |          |
| 2013             | -21,276                     | -31,159 |          |          |          |          |
| 2014             | -14,609                     |         |          |          |          |          |

L. Adjusted Paid Medical on Open Indemnity Claims (in \$000) (g)

| Accident<br>Year | Evaluated as of (in months) |         |           |         |         |         |
|------------------|-----------------------------|---------|-----------|---------|---------|---------|
|                  | 18                          | 30      | 42        | 54      | 66      | 78      |
| 2007             |                             |         |           |         |         | 885,122 |
| 2008             |                             |         |           |         | 947,461 | 886,483 |
| 2009             |                             |         |           | 958,276 | 903,297 | 829,147 |
| 2010             |                             |         | 1,004,396 | 991,375 | 908,359 | 837,029 |
| 2011             |                             | 905,979 | 970,922   | 934,623 | 854,108 |         |
| 2012             | 621,246                     | 907,893 | 956,535   | 915,322 |         |         |
| 2013             | 629,373                     | 925,200 | 957,832   |         |         |         |
| 2014             | 631,511                     | 932,430 |           |         |         |         |
| 2015             | 661,208                     |         |           |         |         |         |

- (e) Each amount is equal to the product of [the average monthly medical payment per open indemnity claim] and [the number of months for the current evaluation]. For evaluations indicating claim settlement rate decreases, the average monthly medical payment per open indemnity claim at the prior evaluation is used. For evaluations indicating claim settlement rate increases, the average monthly medical payment per open indemnity claim at the same evaluation is used.
- (f) Each amount is equal to [the difference between unadjusted and adjusted closed indemnity claim counts (Items C and E)] multiplied by [the corresponding average paid medical per open indemnity claim for indemnity claims in transition (Item J)].
- (g) Each amount is the sum of [paid medical on open indemnity claims (Item I)] and the corresponding [incremental changes in paid medical on open indemnity claims resulting from the impact of changes in indemnity claim settlement rates (Item K)].

Source: Accident year experience of insurers with available claim count and paid loss data

**Paid Medical Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

M. Paid Medical on Medical-Only Claims (in \$000)

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 233,352   |
| 2008             |                             |           |           |           | 236,698   | 238,316   |
| 2009             |                             |           |           | 216,835   | 220,653   | 223,064   |
| 2010             |                             |           | 212,621   | 216,808   | 219,713   | 222,476   |
| 2011             |                             | 198,604   | 205,433   | 209,805   | 213,571   |           |
| 2012             | 188,620                     | 206,096   | 213,478   | 218,630   |           |           |
| 2013             | 191,297                     | 211,202   | 220,108   |           |           |           |
| 2014             | 213,368                     | 233,282   |           |           |           |           |
| 2015             | 222,920                     |           |           |           |           |           |

N. Adjusted Total Paid Medical (in \$000) (h)

| Accident<br>Year | Evaluated as of (in months) |           |           |           |           |           |
|------------------|-----------------------------|-----------|-----------|-----------|-----------|-----------|
|                  | <u>18</u>                   | <u>30</u> | <u>42</u> | <u>54</u> | <u>66</u> | <u>78</u> |
| 2007             |                             |           |           |           |           | 2,962,684 |
| 2008             |                             |           |           |           | 2,999,879 | 3,240,351 |
| 2009             |                             |           |           | 2,691,215 | 3,035,850 | 3,262,584 |
| 2010             |                             |           | 2,353,738 | 2,822,699 | 3,141,864 | 3,372,721 |
| 2011             |                             | 1,823,046 | 2,441,893 | 2,893,524 | 3,215,503 |           |
| 2012             | 992,747                     | 1,706,554 | 2,281,346 | 2,682,497 |           |           |
| 2013             | 1,028,042                   | 1,756,780 | 2,316,533 |           |           |           |
| 2014             | 1,058,348                   | 1,797,868 |           |           |           |           |
| 2015             | 1,113,871                   |           |           |           |           |           |

O. Paid Medical Loss Development Factors Based on Adjusted Total Paid Medical

| Accident<br>Year | Evaluated as of (in months) |              |              |              |              |
|------------------|-----------------------------|--------------|--------------|--------------|--------------|
|                  | <u>18-30</u>                | <u>30-42</u> | <u>42-54</u> | <u>54-66</u> | <u>66-78</u> |
| 2008             |                             |              |              |              | 1.080        |
| 2009             |                             |              |              | 1.128        | 1.075        |
| 2010             |                             |              | 1.199        | 1.113        | 1.073        |
| 2011             |                             | 1.339        | 1.185        | 1.111        |              |
| 2012             | 1.719                       | 1.337        | 1.176        |              |              |
| 2013             | 1.709                       | 1.319        |              |              |              |
| 2014             | 1.699                       |              |              |              |              |
| Latest Year      | 1.699                       | 1.319        | 1.176        | 1.111        | 1.073        |

(h) Each amount is the sum of [adjusted paid medical on closed indemnity claims (Item H)], [adjusted paid medical on open indemnity claims (Item L)] and [paid medical on medical-only claims (Item M)]. The effect of the paid cost of medical cost containment programs are only present for accident years 2011 and prior.

Source: Accident year experience of insurers with available claim count and paid loss data

**Paid Medical Loss Development Factors  
With Separate Adjustments on Open and Closed Claims  
for Changes in Claim Settlement Rates**

P. Paid Medical Loss Development Factors (i)

| Accident<br>Year | Evaluated as of (in months) |              |              |              |              |
|------------------|-----------------------------|--------------|--------------|--------------|--------------|
|                  | <u>18-30</u>                | <u>30-42</u> | <u>42-54</u> | <u>54-66</u> | <u>66-78</u> |
| 2008             |                             |              |              |              | 1.088        |
| 2009             |                             |              |              | 1.135        | 1.084        |
| 2010             |                             |              | 1.202        | 1.119        | 1.080        |
| 2011             |                             | 1.334        | 1.189        | 1.119        |              |
| 2012             | 1.709                       | 1.338        | 1.182        |              |              |
| 2013             | 1.705                       | 1.323        |              |              |              |
| 2014             | 1.700                       |              |              |              |              |

Q. Impact of Adjustment for Changes in Indemnity Claim Settlement Rates (j)

| Accident<br>Year | Evaluated as of (in months) |              |              |              |              |
|------------------|-----------------------------|--------------|--------------|--------------|--------------|
|                  | <u>18-30</u>                | <u>30-42</u> | <u>42-54</u> | <u>54-66</u> | <u>66-78</u> |
| 2008             |                             |              |              |              | -0.68%       |
| 2009             |                             |              |              | -0.61%       | -0.83%       |
| 2010             |                             |              | -0.24%       | -0.51%       | -0.58%       |
| 2011             |                             | 0.40%        | -0.33%       | -0.65%       |              |
| 2012             | 0.60%                       | -0.06%       | -0.56%       |              |              |
| 2013             | 0.24%                       | -0.35%       |              |              |              |
| 2014             | -0.10%                      |              |              |              |              |

R. Paid Medical Loss Development Factors Adjusted for Changes in Indemnity  
Claim Settlement Rates (k)

| Accident<br>Year | Evaluated as of (in months) |              |              |              |              |
|------------------|-----------------------------|--------------|--------------|--------------|--------------|
|                  | <u>18-30</u>                | <u>30-42</u> | <u>42-54</u> | <u>54-66</u> | <u>66-78</u> |
| 2008             |                             |              |              |              | 1.086        |
| 2009             |                             |              |              | 1.135        | 1.079        |
| 2010             |                             |              | 1.209        | 1.119        | 1.077        |
| 2011             |                             | 1.360        | 1.195        | 1.120        |              |
| 2012             | 1.745                       | 1.349        | 1.182        |              |              |
| 2013             | 1.721                       | 1.323        |              |              |              |
| 2014             | 1.702                       |              |              |              |              |
| Latest Year      | 1.702                       | 1.323        | 1.182        | 1.120        | 1.077        |
| 3-Year Average   | 1.723                       | 1.344        | 1.195        | 1.125        | 1.080        |

- (i) Development factors are based on paid medical losses from the same insurer mix as that used in the adjustment for changes in claim settlement rates and applied in the calculation of the development factors in Item O.
- (j) Each factor represents the change in age-to-age development factors from Item P to those in Item O.
- (k) Each factor is the product of [1.0 + the impact of adjustment for changes in claim settlement rates (Item Q)] and [the adjusted paid medical age-to-age development factor from Exhibit 2.6.1].

Source: Accident year experience of insurers with available claim count and paid loss data

**Developed Indemnity Loss Ratios Using Selected Loss Development Factors  
Adjusted for Changes in Claim Settlement Rates  
Based on Experience as of June 30, 2016**

| Accident<br>Year | (1)<br>Paid or<br>Incurred Loss<br>Ratio (a) | Development Factors   |  |  | (5)<br>Projected<br>Ultimate<br>Loss Ratio<br><br>(5) = (1) x (4) |
|------------------|--|-----------------------|--|--|---|
|                  |  | (2)<br><br>Annual (b) | Cumulative                                       |  |   |
|                  |  |                       | (3)<br>Unadjusted<br>for Impact of<br>SB 863 (b) | (4)<br>Adjusted<br>for Impact of<br>SB 863 (b) |   |
| 1985             | 0.446  | 1.000                 | 1.004  | 1.004  | 0.448   |
| 1986             | 0.396  | 1.000                 | 1.004  | 1.004  | 0.397   |
| 1987             | 0.345  | 1.000                 | 1.005  | 1.005  | 0.347   |
| 1988             | 0.330  | 1.000                 | 1.005  | 1.005  | 0.332   |
| 1989             | 0.343  | 1.000                 | 1.005  | 1.005  | 0.345   |
| 1990             | 0.397  | 1.000                 | 1.006  | 1.006  | 0.399   |
| 1991             | 0.425  | 1.000                 | 1.006  | 1.006  | 0.427   |
| 1992             | 0.350  | 1.000                 | 1.006  | 1.006  | 0.352   |
| 1993             | 0.287  | 1.001                 | 1.006  | 1.006  | 0.289   |
| 1994             | 0.327  | 1.000                 | 1.006  | 1.006  | 0.329   |
| 1995             | 0.472  | 1.001                 | 1.007  | 1.007  | 0.476   |
| 1996             | 0.529  | 1.001                 | 1.008  | 1.008  | 0.533   |
| 1997             | 0.600  | 1.001                 | 1.008  | 1.008  | 0.605   |
| 1998             | 0.649  | 1.000                 | 1.008  | 1.008  | 0.655   |
| 1999             | 0.665  | 1.004                 | 1.040  | 1.040  | 0.691   |
| 2000             | 0.571  | 1.005                 | 1.045  | 1.045  | 0.597   |
| 2001             | 0.470  | 1.005                 | 1.050  | 1.050  | 0.493   |
| 2002             | 0.349  | 1.006                 | 1.056  | 1.056  | 0.368   |
| 2003             | 0.227  | 1.007                 | 1.064  | 1.064  | 0.242   |
| 2004             | 0.135  | 1.009                 | 1.074  | 1.074  | 0.144   |
| 2005             | 0.114  | 1.012                 | 1.087  | 1.087  | 0.123   |
| 2006             | 0.145  | 1.018                 | 1.106  | 1.106  | 0.160   |
| 2007             | 0.196  | 1.023                 | 1.132  | 1.132  | 0.221   |
| 2008             | 0.243  | 1.031                 | 1.167  | 1.167  | 0.284   |
| 2009             | 0.274  | 1.035                 | 1.208  | 1.208  | 0.331   |
| 2010             | 0.256  | 1.050                 | 1.268  | 1.268  | 0.325   |
| 2011             | 0.224  | 1.065                 | 1.351  | 1.344  | 0.301   |
| 2012             | 0.184  | 1.104                 | 1.492  | 1.484  | 0.273   |
| 2013             | 0.137  | 1.177                 | 1.756  | 1.770  | 0.243   |
| 2014             | 0.094  | 1.382                 | 2.426  | 2.563  | 0.241   |
| 2015             | 0.047  | 2.056                 | 4.988  | 5.269  | 0.245   |

- (a) Based on Exhibit 1. To reflect the selected loss development methodology, reported loss ratios displayed prior to 1999 are on an incurred basis. Subsequent reported loss ratios are on a paid basis.
- (b) See Exhibit 2.5.



**Developed Medical Loss Ratios Using Selected Loss Development Factors  
Adjusted for Changes in Claim Settlement Rates with Adjustment for SB 863  
Based on Experience as of June 30, 2016**

|          | (1)                        | (2)                   | (3)                 | (4)        | (5)                   | (6)               |
|----------|----------------------------|-----------------------|---------------------|------------|-----------------------|-------------------|
|          | <b>Adjusted for SB 863</b> |                       |                     |            |                       |                   |
| Accident | Unadjusted                 | Adjusted              | Development Factors |            | Adjusted              | Projected         |
| Year     | Paid or Incurred           | Paid or Incurred      | Annual (c)          | Cumulative | Developed             | Ultimate          |
|          | <u>Loss Ratio (a)</u>      | <u>Loss Ratio (b)</u> |                     |            | <u>Loss Ratio (d)</u> | <u>Loss Ratio</u> |
|          |                            |                       |                     |            | (2) x (4)             | (1) + ((5) - (2)) |
| 1985     | 0.351                      | 0.351                 | 1.000               | 1.032      | 0.362                 | 0.362             |
| 1986     | 0.333                      | 0.333                 | 1.000               | 1.032      | 0.344                 | 0.344             |
| 1987     | 0.314                      | 0.314                 | 1.001               | 1.033      | 0.324                 | 0.324             |
| 1988     | 0.305                      | 0.305                 | 1.002               | 1.035      | 0.316                 | 0.316             |
| 1989     | 0.326                      | 0.326                 | 1.002               | 1.037      | 0.338                 | 0.338             |
| 1990     | 0.367                      | 0.367                 | 1.002               | 1.039      | 0.381                 | 0.381             |
| 1991     | 0.385                      | 0.385                 | 1.002               | 1.041      | 0.400                 | 0.400             |
| 1992     | 0.319                      | 0.319                 | 1.000               | 1.041      | 0.332                 | 0.332             |
| 1993     | 0.268                      | 0.268                 | 1.000               | 1.041      | 0.279                 | 0.279             |
| 1994     | 0.311                      | 0.311                 | 1.000               | 1.042      | 0.324                 | 0.324             |
| 1995     | 0.455                      | 0.455                 | 1.002               | 1.044      | 0.475                 | 0.475             |
| 1996     | 0.486                      | 0.486                 | 1.001               | 1.045      | 0.507                 | 0.507             |
| 1997     | 0.547                      | 0.547                 | 1.002               | 1.047      | 0.573                 | 0.573             |
| 1998     | 0.660                      | 0.660                 | 1.001               | 1.048      | 0.691                 | 0.691             |
| 1999     | 0.646                      | 0.608                 | 1.014               | 1.181      | 0.718                 | 0.756             |
| 2000     | 0.585                      | 0.550                 | 1.015               | 1.199      | 0.659                 | 0.694             |
| 2001     | 0.511                      | 0.481                 | 1.016               | 1.218      | 0.586                 | 0.616             |
| 2002     | 0.394                      | 0.371                 | 1.017               | 1.238      | 0.459                 | 0.482             |
| 2003     | 0.249                      | 0.234                 | 1.019               | 1.261      | 0.295                 | 0.310             |
| 2004     | 0.167                      | 0.158                 | 1.022               | 1.288      | 0.203                 | 0.213             |
| 2005     | 0.161                      | 0.152                 | 1.023               | 1.318      | 0.201                 | 0.209             |
| 2006     | 0.205                      | 0.194                 | 1.030               | 1.358      | 0.263                 | 0.274             |
| 2007     | 0.282                      | 0.267                 | 1.036               | 1.407      | 0.376                 | 0.391             |
| 2008     | 0.344                      | 0.327                 | 1.039               | 1.462      | 0.478                 | 0.495             |
| 2009     | 0.389                      | 0.371                 | 1.047               | 1.531      | 0.568                 | 0.586             |
| 2010     | 0.368                      | 0.353                 | 1.059               | 1.621      | 0.572                 | 0.587             |
| 2011     | 0.296                      | 0.287                 | 1.077               | 1.745      | 0.501                 | 0.510             |
| 2012     | 0.232                      | 0.228                 | 1.120               | 1.954      | 0.446                 | 0.450             |
| 2013     | 0.164                      | 0.164                 | 1.182               | 2.311      | 0.379                 | 0.379             |
| 2014     | 0.113                      | 0.113                 | 1.323               | 3.058      | 0.345                 | 0.345             |
| 2015     | 0.065                      | 0.066                 | 1.702               | 5.205      | 0.341                 | 0.341             |

- (a) Based on Exhibit 1. Paid MCCP costs are excluded from accident years 2011 and subsequent. To reflect the selected loss development methodology, reported loss ratios displayed prior to 1999 are on an incurred basis. Subsequent reported loss ratios are on a paid basis.
- (b) Based on experience evaluated as of June 30, 2016. Reflects an adjustment for SB 863 of -4.4% applied to payments made before January 1, 2013, and adjustments for RBRVS of -1.8% applied to payments made before January 1, 2014, -0.9% applied to payments made before January 1, 2015, and 0.8% applied to payments made before January 1, 2016. No adjustments are applied to the incurred loss ratios.
- (c) Based on Exhibit 2.6. Reflects an adjustment for SB 863 of -4.4% applied to payments made before January 1, 2013, and adjustments for RBRVS of -1.8% applied to payments made before January 1, 2014, -0.9% applied to payments made before January 1, 2015, and 0.8% applied to payments made before January 1, 2016.
- (d) The developed medical loss ratios shown were derived based on an adjustment for SB 863 and RBRVS. They are only for purposes of projecting future medical loss ratios and do not reflect true estimates of ultimate loss ratios for those accident years.

| Indemnity Benefit Level Factors |  |                                     |   |   |   |
|---------------------------------|--|-------------------------------------|---|---|---|
| Accident<br>Year                | (1)<br>Annual Benefit<br>Change Prior to<br>Frequency<br>Adjustments (a) | (2)<br>Frequency<br>Adjustments (a) | (3)<br>Annual Impact<br>on Indemnity Benefits<br>Due to Wage<br>Inflation (b) | (4)<br>Annual<br>Cost<br>Impact on<br>Indemnity (c) | (5)<br>Composite<br>Indemnity<br>Adjustment<br>Factor (d) |
| 1985                            | 0.0  | 0.0                                 | 2.0   | 2.0   | 1.443   |
| 1986                            | 0.0  | 0.0                                 | 1.6   | 1.6   | 1.420   |
| 1987                            | 0.0  | 0.0                                 | 1.9   | 1.9   | 1.394   |
| 1988                            | 0.0  | 0.0                                 | 1.5   | 1.5   | 1.373   |
| 1989                            | 0.0  | 0.0                                 | 1.5   | 1.5   | 1.353   |
| 1990                            | 2.3  | 19.9                                | 1.7   | 24.7  | 1.085   |
| 1991                            | 4.9  | 14.8                                | 0.8   | 21.4  | 0.894   |
| 1992                            | 1.8  | -8.3                                | 1.6   | -5.2  | 0.942   |
| 1993                            | 0.2  | -18.1                               | 0.4   | -17.6   | 1.143   |
| 1994                            | -5.1   | 0.2                                 | 0.6   | -4.3  | 1.195   |
| 1995                            | 6.3  | 0.6                                 | 1.0   | 8.0   | 1.107   |
| 1996                            | 5.3  | 0.4                                 | 1.2   | 7.0   | 1.034   |
| 1997                            | 9.7  | 0.2                                 | 1.6   | 11.7  | 0.926   |
| 1998                            | 6.5  | 0.0                                 | 1.8   | 8.4   | 0.854   |
| 1999                            | 5.7  | 0.0                                 | 2.1   | 7.9   | 0.792   |
| 2000                            | 3.9  | 0.0                                 | 3.1   | 7.1   | 0.739   |
| 2001                            | -0.3   | 0.0                                 | 0.2   | -0.1  | 0.740   |
| 2002                            | -0.7   | 0.0                                 | 0.2   | -0.5  | 0.759 (e)   |
| 2003                            | 7.3  | 0.0                                 | 1.1   | 8.5   | 0.759 (e)   |
| 2004                            | -6.0   | -13.7                               | 1.6   | -17.6   | 1.046 (e)   |
| 2005                            | -31.6  | -15.3                               | 1.1   | -41.5   | 1.419   |
| 2006                            | 5.6  | -5.7                                | 1.6   | 1.2   | 1.403   |
| 2007                            | 1.6  | 0.0                                 | 1.6   | 3.2   | 1.359   |
| 2008                            | 4.8  | 0.6                                 | 0.7   | 6.2   | 1.280   |
| 2009                            | 0.4  | 1.4                                 | 0.2   | 2.0   | 1.255   |
| 2010                            | 0.4  | 0.0                                 | 1.0   | 1.4   | 1.238   |
| 2011                            | 0.0  | 0.0                                 | 1.6   | 1.6   | 1.224 (f)   |
| 2012                            | 0.3  | 0.0                                 | 2.1   | 2.4   | 1.195 (f)   |
| 2013                            | -0.6   | -0.3                                | 0.4   | -0.5  | 1.196   |
| 2014                            | 7.0  | 1.5                                 | 1.7   | 10.4  | 1.083   |
| 2015                            | 0.3  | 0.0                                 | 2.0   | 2.3   | 1.058   |
| 2016                            | 0.3  | 0.0                                 | 1.5   | 1.8   |   |
| 2017                            | 0.5  | 0.0                                 | 2.3   | 2.8   |   |
| 1/1/2018                        | 0.2 (Annual 0.4)   | 0.0                                 | 1.0 (Annual 2.0)  | 1.2   |   |

- (a) Based on WCIRB evaluations of the average impact of legislative changes on the cost of indemnity benefits. These annual changes in benefits reflect the WCIRB's retrospective estimates of the cost impact of recent legislation, including SB 863 as reflected in emerging post-reform costs. The annual cost impacts have been segregated between claim severity and claim frequency impacts.
- (b) These impacts are based on the weekly wages of injured workers and the legislatively scheduled benefits for that year.
- (c)  $\{ [\text{Column (1)} / 100 + 1.0] \times [\text{Column (2)} / 100 + 1.0] \times [\text{Column (3)} / 100 + 1.0] - 1.0 \} \times 100$ .
- (d) These factors represent the combined impact of the annual benefit changes on claim severity shown in Column (1), claim frequencies shown in Column (2) and wage inflation impact on benefits shown in Column (3), adjusted to the 1/1/2018 level.
- (e) On-level factors for accident years 2002, 2003 and 2004 adjust the portion of permanent disability claims that are estimated to not be subject to the January 1, 2005 PDRS (95% for accident year 2002, 75% for accident year 2003 and 40% for accident year 2004) to the January 1, 2005 PDRS level, and adjust for the corresponding utilization impacts on all 2002, 2003 and 2004 indemnity claims.
- (f) On-level factors for accident years 2011 and 2012 adjust the portion of indemnity losses not impacted by the adjustments to outstanding indemnity claims for the impact of SB 863 (see Exhibit 2.5).

**Annual Medical Cost Level Change - Non-Legislative**

| Accident<br>Year | (1)<br>Proportion of<br>Medical<br>Subject to<br>Fee Schedule (a) | (2)<br>Proportion of<br>Medical Not<br>Subject to<br>Fee Schedule (a) | (3)<br>Impact of<br>Fee Schedule<br>Change on<br>Total Medical (b) | (4)<br>Change in<br>Medical<br>CPI (c) | (5)<br>Impact of<br>CPI Change<br>on Total<br>Medical (d) | (6)<br>Annual<br>Non-Legislative<br>Cost Impact on<br>Total Medical (e) |
|------------------|---|---|--|--|---|---|
| 1985             | 0.665   | 0.335   | 2.3%   | 6.5%                                   | 2.2%  | 4.5%  |
| 1986             | 0.604   | 0.396   | 0.0%   | 9.1%                                   | 3.0%  | 3.0%  |
| 1987             | 0.610   | 0.390   | 0.9%   | 7.4%                                   | 2.9%  | 3.8%  |
| 1988             | 0.649   | 0.351   | 0.8%   | 7.7%                                   | 3.0%  | 3.8%  |
| 1989             | 0.647   | 0.353   | 0.0%   | 8.6%                                   | 3.0%  | 3.0%  |
| 1990             | 0.661   | 0.339   | 0.0%   | 10.4%                                  | 3.7%  | 3.7%  |
| 1991             | 0.631   | 0.369   | 0.0%   | 10.6%                                  | 3.6%  | 3.6%  |
| 1992             | 0.628   | 0.372   | 0.0%   | 8.1%                                   | 3.0%  | 3.0%  |
| 1993             | 0.565   | 0.435   | 0.0%   | 7.3%                                   | 2.7%  | 2.7%  |
| 1994             | 0.691   | 0.309   | -3.6%  | 4.3%                                   | 1.3% (i)  | -2.3%   |
| 1995             | 0.681   | 0.319   | 0.0%   | 3.0%                                   | 0.9%  | 0.9%  |
| 1996             | 0.663   | 0.337   | 0.0%   | 3.0%                                   | 1.0%  | 1.0%  |
| 1997             | 0.643   | 0.357   | 0.0%   | 2.2%                                   | 0.7%  | 0.7%  |
| 1998             | 0.658   | 0.342   | 0.0%   | 2.2%                                   | 0.8%  | 0.8%  |
| 1999             | 0.728   | 0.272   | 1.6%   | 3.3%                                   | 0.9% (ii)   | 2.5%  |
| 2000             | 0.715   | 0.285   | 0.5%   | 4.3%                                   | 1.2%  | 1.7%  |
| 2001             | 0.722   | 0.278   | 1.5%   | 4.8%                                   | 1.4%  | 2.9%  |
| 2002             | 0.635   | 0.365   | 0.6%   | 5.1%                                   | 1.4%  | 2.0%  |
| 2003             | 0.786   | 0.214   | 0.0%   | 4.8%                                   | 1.4% (iii)  | 1.4%  |
| 2004             | 0.952   | 0.048   | 0.0%   | 5.0%                                   | 0.0% (iv),(v)   | 0.0%  |
| 2005             | 0.936   | 0.064   | 0.0%   | 4.8%                                   | 0.0% (v)  | 0.0%  |
| 2006             | 0.926   | 0.074   | 0.0%   | 4.1%                                   | 0.3%  | 0.3%  |
| 2007             | 0.923   | 0.077   | 1.4%   | 5.3%                                   | 0.4%  | 1.8%  |
| 2008             | 0.896   | 0.104   | -0.1%  | 4.2%                                   | 0.3%  | 0.2%  |
| 2009             | 0.894   | 0.106   | 0.0%   | 3.6%                                   | 0.4%  | 0.4%  |
| 2010             | 0.895   | 0.105   | 0.0%   | 2.8%                                   | 0.3%  | 0.3%  |
| 2011             | 0.969   | 0.031   | 0.0%   | 3.2%                                   | 0.3%  | 0.3%  |
| 2012             | 0.969   | 0.031   | 0.0%   | 2.7%                                   | 0.1%  | 0.1%  |
| 2013             | 0.938   | 0.062   | 0.0%   | 2.6%                                   | 0.1%  | 0.1%  |
| 2014             | 0.928   | 0.072   | 0.6%   | 4.2%                                   | 0.3%  | 0.9%  |
| 2015             | 0.934   | 0.066   | 0.1%   | 3.1%                                   | 0.2%  | 0.3%  |
| 2016             | 0.934   | 0.066   | 0.2%   | 4.3%                                   | 0.3%  | 0.5%  |
| 2017             | 0.934   | 0.066   | 0.1%   | 2.1%                                   | 0.1%  | 0.2%  |
| 1/1/2018         | 0.934   | 0.066   | 0.0% (Annual 0.0%)   | 1.0% (Annual 2.1%)                     | 0.1%  | 0.1%  |

- (a) From a Special Carrier Study through 1990. Based on WCIRB's Aggregate Indemnity and Medical Costs Calls for years 1991 through 2012. Based on WCIRB medical transaction data from 2013 onwards. Accident years 2011 and subsequent do not include MCCP costs.
- (b) Based on the WCIRB's evaluation of the cost impact of changes in the medical fee schedules. Includes the 1/1/2014 changes to the physician fee schedule to a resource-based relative value scale (RBRVS) except for the proportion reflected in loss development (See Exhibit 2.4).
- (c) Based on a component of the Consumer Price Index. Projections furnished by the California Department of Finance.
- (d) Adjusted CPI on workers' compensation medical costs that are not subject to fee schedules. The current year impact is the weighted average of 0% and Column (4), with Columns (1) and (2) from prior years as weights. (i) 1993's non-fee proportion is reduced by 13.8% due to the new medical-legal fee schedule enacted in 1994. (ii) 1998's non-fee proportion is reduced by 7.7% due to the Inpatient Hospital Fee Schedule (IHFS) effective 4/1/1999. (iii) 2002's non-fee proportion is reduced by 7.6% due to the new pharmaceutical fee schedule effective 1/1/2003. (iv) 2003's non-fee proportion is reduced by 17.2% due to the outpatient fee schedule effective 1/1/2004. (v) Given the anticipated impact of legislative reform, a 0% inflation rate has been assumed for 2004 and 2005.
- (e) Column (6) = Column (3) + Column (5).

**Annual Medical Cost Level Change - Legislative**

| Accident<br>Year | (1)<br>Annual Legislative<br>Cost Impact on<br>Medical Severity(a) | (2)<br>Annual Legislative Cost Impact<br>on Medical Due to<br>Frequency Changes(b) | (3)<br>Annual Total<br>Legislative Cost<br>Impact on Medical(c) |
|------------------|--|--|---|
| 1985             | 0.0%   | 0.0%   | 0.0%  |
| 1986             | 0.0%   | 0.0%   | 0.0%  |
| 1987             | 0.0%   | 0.0%   | 0.0%  |
| 1988             | 0.0%   | 0.0%   | 0.0%  |
| 1989             | 0.0%   | 0.0%   | 0.0%  |
| 1990             | -0.7%  | 19.9%  | 19.1%   |
| 1991             | -1.6%  | 14.7%  | 12.9%   |
| 1992             | 0.5%   | -8.4%  | -7.9%   |
| 1993             | -0.7%  | -18.1%   | -18.7%  |
| 1994             | -2.6%  | 0.3%   | -2.3%   |
| 1995             | 0.0%   | 0.5%   | 0.5%  |
| 1996             | 0.0%   | 0.4%   | 0.4%  |
| 1997             | 0.0%   | 0.2%   | 0.2%  |
| 1998             | 12.6%  | 0.0%   | 12.6%   |
| 1999             | 12.6%  | 0.0%   | 12.6%   |
| 2000             | 7.0%   | 0.0%   | 7.0%  |
| 2001             | 6.6%   | 0.0%   | 6.6%  |
| 2002             | -5.6%  | 0.0%   | -5.6%   |
| 2003             | -6.0%  | 0.0%   | -6.0%   |
| 2004             | -24.4%   | -12.5%   | -33.9%  |
| 2005             | 0.0%   | -13.9%   | -13.9%  |
| 2006             | 0.1%   | -5.2%  | -5.1%   |
| 2007             | 0.1%   | 0.0%   | 0.1%  |
| 2008             | 0.2%   | 0.3%   | 0.5%  |
| 2009             | 0.0%   | 1.0%   | 1.0%  |
| 2010             | 0.0%   | 0.0%   | 0.0%  |
| 2011             | 0.0%   | 0.0%   | 0.0%  |
| 2012             | -2.0%  | 0.0%   | -2.0%   |
| 2013             | -2.0%  | -0.2%  | -2.2%   |
| 2014             | -6.0%  | 1.3%   | -4.8%   |
| 2015             | 0.0%   | 0.0%   | 0.0%  |
| 2016             | 0.0%   | 0.0%   | 0.0%  |
| 2017             | 0.0%   | 0.0%   | 0.0%  |
| 1/1/2018         | 0.0%   | 0.0%   | 0.0%  |

(a) These annual cost impacts reflect the WCIRB's retrospective estimates of the cost impact of legislation based on WCIRB cost monitoring results. These factors do not include the estimated - 4.4% impact of 1/1/2013 medical provisions in SB 863, which was reflected in loss development projections.

(b) This reflects the annual percentage impact on medical costs due to changes in the frequency of indemnity claims as a result of benefit changes.

(c)  $[\text{Column (1)} + 1.0] \times [\text{Column (2)} + 1.0] - 1.0$

**Total Medical Cost Level Factors**

| Accident<br>Year | (1)<br>Annual<br>Non-Legislative<br>Cost Impact on<br>Medical (a) | (2)<br>Annual<br>Legislative<br>Cost Impact on<br>Medical(b) | (3)<br>Total<br>Annual Cost<br>Impact on<br>Medical(c) | (4)<br>Composite<br>Medical<br>On-level<br>Factor(d) |
|------------------|---|--|--|--|
| 1985             | 4.5%  | 0.0%   | 4.5%   | 0.983  |
| 1986             | 3.0%  | 0.0%   | 3.0%   | 0.955  |
| 1987             | 3.8%  | 0.0%   | 3.8%   | 0.920  |
| 1988             | 3.8%  | 0.0%   | 3.8%   | 0.886  |
| 1989             | 3.0%  | 0.0%   | 3.0%   | 0.860  |
| 1990             | 3.7%  | 19.1%  | 23.5%  | 0.697  |
| 1991             | 3.6%  | 12.9%  | 16.9%  | 0.596  |
| 1992             | 3.0%  | -7.9%  | -5.2%  | 0.628  |
| 1993             | 2.7%  | -18.7%   | -16.5%   | 0.752  |
| 1994             | -2.3%   | -2.3%  | -4.6%  | 0.788  |
| 1995             | 0.9%  | 0.5%   | 1.4%   | 0.777  |
| 1996             | 1.0%  | 0.4%   | 1.4%   | 0.767  |
| 1997             | 0.7%  | 0.2%   | 0.9%   | 0.760  |
| 1998             | 0.8%  | 12.6%  | 13.5%  | 0.669  |
| 1999             | 2.5%  | 12.6%  | 15.4%  | 0.580  |
| 2000             | 1.7%  | 7.0%   | 8.8%   | 0.533  |
| 2001             | 2.9%  | 6.6%   | 9.7%   | 0.486  |
| 2002             | 2.0%  | -5.6%  | -3.7%  | 0.505  |
| 2003             | 1.4%  | -6.0%  | -4.7%  | 0.529  |
| 2004             | 0.0%  | -33.9%   | -33.9%   | 0.800  |
| 2005             | 0.0%  | -13.9%   | -13.9%   | 0.930  |
| 2006             | 0.3%  | -5.1%  | -4.8%  | 0.977  |
| 2007             | 1.8%  | 0.1%   | 1.9%   | 0.958  |
| 2008             | 0.2%  | 0.5%   | 0.7%   | 0.952  |
| 2009             | 0.4%  | 1.0%   | 1.4%   | 0.939  |
| 2010             | 0.3%  | 0.0%   | 0.3%   | 0.936  |
| 2011             | 0.3%  | 0.0%   | 0.3%   | 0.933  |
| 2012             | 0.1%  | -2.0%  | -1.9%  | 0.951  |
| 2013             | 0.1%  | -2.2%  | -2.1%  | 0.971  |
| 2014             | 0.9%  | -4.8%  | -3.9%  | 1.017 (e)  |
| 2015             | 0.3%  | 0.0%   | 0.3%   | 1.015 (e)  |
| 2016             | 0.5%  | 0.0%   | 0.5%   |  |
| 2017             | 0.2%  | 0.0%   | 0.2%   |  |
| 1/1/2018         | 0.1%  | 0.0%   | 0.1%   |  |

(a) See Exhibit 4.2, Column (6).

(b) See Exhibit 4.3, Column (3).

(c)  $\text{Column (3)} = [1.0 + \text{Column (1)}] \times [1.0 + \text{Column (2)}] - 1.0$ .

(d) These factors adjust the annual impact shown in Column (3) to the 1/1/2018 level.

(e) The on-level factors for accident years 2014 and 2015 include the estimated impact of the January 1, 2014 physician fee schedule for the service year 2017.

**Annual Wage Level Changes**

| <u>Year</u> | <u>Annual Wage<br/>Level Change</u> | <u>Factor to a<br/>1/1/2018 Wage Level</u> |
|-------------|-------------------------------------|--|
| 1985        | 5.7                                 | 3.127                                      |
| 1986        | 4.7                                 | 2.987                                      |
| 1987        | 5.6                                 | 2.829                                      |
| 1988        | 4.4                                 | 2.709                                      |
| 1989        | 4.3                                 | 2.598                                      |
| 1990        | 5.0                                 | 2.474                                      |
| 1991        | 2.3                                 | 2.418                                      |
| 1992        | 4.7                                 | 2.310                                      |
| 1993        | 1.2                                 | 2.282                                      |
| 1994        | 1.8                                 | 2.242                                      |
| 1995        | 2.9                                 | 2.179                                      |
| 1996        | 3.4                                 | 2.107                                      |
| 1997        | 4.7                                 | 2.013                                      |
| 1998        | 5.2                                 | 1.913                                      |
| 1999        | 6.2                                 | 1.801                                      |
| 2000        | 9.0                                 | 1.653                                      |
| 2001        | 0.6                                 | 1.643                                      |
| 2002        | 0.5                                 | 1.635                                      |
| 2003        | 3.3                                 | 1.582                                      |
| 2004        | 4.7                                 | 1.511                                      |
| 2005        | 3.1                                 | 1.466                                      |
| 2006        | 4.6                                 | 1.402                                      |
| 2007        | 4.5                                 | 1.341                                      |
| 2008        | 2.1                                 | 1.314                                      |
| 2009        | 0.5                                 | 1.307                                      |
| 2010        | 3.0                                 | 1.269                                      |
| 2011        | 3.1                                 | 1.231                                      |
| 2012        | 4.1                                 | 1.182                                      |
| 2013        | 0.7                                 | 1.174                                      |
| 2014        | 3.2                                 | 1.138                                      |
| 2015        | 3.8                                 | 1.096                                      |
| Projected:  |                                     |  |
| 2016        | 2.9                                 |  |
| 2017        | 4.5                                 |  |
| 1/1/2018    | 1.9                                 | (Annual = 3.9)                             |

Source: California average annual wage level changes for 1985 to 2018 derived from information published by the UCLA Anderson School of Business as of June 2016.

Premium Adjustment Factors

|               | (1)                                 | (2a)   | (2b)  | (2c)   | (3)  | (4)                                 | (5)   | (6)  | (7)                                     |
|---------------|-------------------------------------|--|---|--|--|-------------------------------------|---|--|---|
| Calendar Year | Factor to a 1/1/2018 Wage Level (a) | Ratio of Industry Average Charged Rates to Advisory Pure Premium Rates (b) | Factor to Industry Average Filed Pure Premium Rate Level as of July 1, 2016 (c) | Factor to Adjust Insurer Premium to an Industry Average Filed Pure Premium Rate Level as of July 1, 2016 (d) | Adjustment to Remove Surcharge Premium (e) | Average Experience Modification (f) | Off-Balance Correction in Advisory January 1, 2016 Pure Premium Rates | Factor to Adjust for Impact of Premium Resulting from Audits (g) | Composite Premium Adjustment Factor (h) |
| 1985          | 3.127                               | ---  | ---   | 1.047  | 0.991                                      | 0.984                               | 1.028   | ---  | 3.208                                   |
| 1986          | 2.987                               | ---  | ---   | 0.957  | 0.991                                      | 0.983                               | 1.028   | ---  | 2.802                                   |
| 1987          | 2.829                               | ---  | ---   | 0.841  | 0.992                                      | 0.983                               | 1.028   | ---  | 2.335                                   |
| 1988          | 2.709                               | ---  | ---   | 0.752  | 0.993                                      | 0.963                               | 1.028   | ---  | 2.044                                   |
| 1989          | 2.598                               | ---  | ---   | 0.740  | 0.993                                      | 0.945                               | 1.028   | ---  | 1.966                                   |
| 1990          | 2.474                               | ---  | ---   | 0.722  | 0.991                                      | 0.942                               | 1.028   | ---  | 1.828                                   |
| 1991          | 2.418                               | ---  | ---   | 0.668  | 0.987                                      | 0.939                               | 1.028   | ---  | 1.653                                   |
| 1992          | 2.310                               | ---  | ---   | 0.642  | 0.982                                      | 0.940                               | 1.028   | ---  | 1.506                                   |
| 1993          | 2.282                               | ---  | ---   | 0.633  | 0.981                                      | 0.949                               | 1.028   | ---  | 1.453                                   |
| 1994          | 2.242                               | ---  | ---   | 0.725  | 0.986                                      | 0.948                               | 1.028   | ---  | 1.646                                   |
| 1995          | 2.179                               | ---  | ---   | 0.982  | 0.995                                      | 0.958                               | 1.028   | ---  | 2.161                                   |
| 1996          | 2.107                               | 1.023  | 1.043   | 1.020  | 1.000                                      | 0.935                               | 1.028   | ---  | 2.235                                   |
| 1997          | 2.013                               | 0.989  | 1.041   | 1.053  | 1.000                                      | 0.949                               | 1.028   | ---  | 2.172                                   |
| 1998          | 1.913                               | 0.965  | 1.084   | 1.123  | 1.000                                      | 0.959                               | 1.028   | ---  | 2.180                                   |
| 1999          | 1.801                               | 0.972  | 1.096   | 1.128  | 1.000                                      | 0.954                               | 1.028   | ---  | 2.071                                   |
| 2000          | 1.653                               | 1.005  | 0.993   | 0.988  | 1.000                                      | 0.970                               | 1.028   | ---  | 1.638                                   |
| 2001          | 1.643                               | 1.030  | 0.875   | 0.850  | 1.000                                      | 0.969                               | 1.028   | ---  | 1.401                                   |
| 2002          | 1.635                               | 1.157  | 0.783   | 0.677  | 1.000                                      | 0.991                               | 1.028   | ---  | 1.086                                   |
| 2003          | 1.582                               | 1.266  | 0.641   | 0.506  | 1.000                                      | 1.005                               | 1.028   | ---  | 0.776                                   |
| 2004          | 1.511                               | 1.397  | 0.652   | 0.467  | 1.000                                      | 0.981                               | 1.028   | ---  | 0.700                                   |
| 2005          | 1.466                               | 1.470  | 0.784   | 0.533  | 1.000                                      | 0.982                               | 1.028   | ---  | 0.775                                   |
| 2006          | 1.402                               | 1.447  | 1.011   | 0.699  | 1.000                                      | 0.956                               | 1.028   | ---  | 0.996                                   |
| 2007          | 1.341                               | 1.493  | 1.377   | 0.922  | 1.000                                      | 0.931                               | 1.028   | 0.985  | 1.273                                   |
| 2008          | 1.314                               | 1.426  | 1.639   | 1.149  | 1.000                                      | 0.946                               | 1.028   | 0.991  | 1.539                                   |
| 2009          | 1.307                               | 1.366  | 1.615   | 1.182  | 1.000                                      | 0.937                               | 1.028   | 1.034  | 1.659                                   |
| 2010          | 1.269                               | 1.383  | 1.583   | 1.145  | 1.000                                      | 0.941                               | 1.028   | 1.005  | 1.509                                   |
| 2011          | 1.231                               | 1.402  | 1.582   | 1.128  | 1.000                                      | 0.982                               | 1.028   | ---  | 1.376                                   |
| 2012          | 1.182                               | 1.225  | 1.304   | 1.064  | 1.000                                      | 1.000                               | 1.028   | ---  | 1.224                                   |
| 2013          | 1.174                               | 1.139  | 1.050   | 0.922  | 1.000                                      | 0.983                               | 1.028   | ---  | 1.071                                   |
| 2014          | 1.138                               | 1.127  | 0.967   | 0.858  | 1.000                                      | 0.962                               | 1.028   | ---  | 0.987                                   |
| 2015          | 1.096                               | 1.109  | 0.940   | 0.848  | 1.000                                      | 0.953                               | 1.028   | ---  | 0.948                                   |

- (a) See Exhibit 5.1.
- (b) Based on WCIRB calendar year experience calls. The industry average charged rates reflect most rating plan adjustments but do not reflect the application of deductible credits or retrospective rating plan adjustments.
- (c) Reflects (1) advisory pure premium rate level changes to bring premium to the advisory July 1, 2016 pure premium rate level and (2) an additional adjustment factor, which is the ratio of the average advisory July 1, 2016 pure premium rate (\$2.32) to the industry average filed pure premium rate as of July 1, 2016 (\$2.54).
- (d)  $(2b) \div (2a)$ . This column adjusts premiums at the industry average charged rate level to the industry average filed pure premium rate level as of July 1, 2016.
- (e) Based on unit statistical data.
- (f) Based on average promulgated experience modifications. Calendar years 1996 through 2000 include adjustments for the impacts of AB 1913 and SB 1217 (1998).
- (g) Based on a comparison of premium reported on a calendar year basis to premium reported on an estimated ultimate policy year basis over the course of two accident years. The factor is applied only for calendar years 2007 to 2010, during which reported premiums were impacted by recessionary economic forces.
- (h)  $(1) \times (2c) \times (3) \times (6) \div [(4) \times (5)]$  for calendar years 2007 to 2010.  $(1) \times (2c) \times (3) \div [(4) \times (5)]$  for all other calendar years.

2015 Accident Year Indemnity Claim Frequency Model  
As of PY 2013 1st Set & June 2016 UCLA

| AY    | Annual %       | Annual Log Differences            |            |          |               |              |                   |          |
|-------|----------------|-----------------------------------|------------|----------|---------------|--------------|-------------------|----------|
|       | Changes Intra- | Intra-Class Indemnity Frequency   |            |          | AY+1          | Cumulative   | Economic          | CalOSHA  |
|       | Class Ind Freq | per \$M Exposure at PY 2015 Level |            |          | Indemnity     |              | Variables         | Dummy    |
|       |                | Total                             | Cumulative | Non-cum. | Benefit Level | Injury Index | (1st Prin. Comp.) | Variable |
| 1979  | 0.5%           | 0.005                             | -0.053     | 0.007    | 0.000         | -0.060       | 0.134             | 0.000    |
| 1980  | -6.5%          | -0.068                            | -0.132     | -0.066   | 0.033         | -0.066       | -0.079            | 0.000    |
| 1981  | -3.5%          | -0.036                            | -0.028     | -0.036   | 0.000         | 0.008        | -0.078            | 0.000    |
| 1982  | -1.6%          | -0.016                            | 0.153      | -0.022   | 0.352         | 0.175        | -0.292            | 0.000    |
| 1983  | 6.2%           | 0.060                             | 0.214      | 0.054    | 0.081         | 0.160        | 0.029             | 0.000    |
| 1984  | 9.5%           | 0.091                             | 0.235      | 0.084    | 0.000         | 0.151        | 0.221             | 0.000    |
| 1985  | 2.0%           | 0.020                             | 0.138      | 0.014    | 0.000         | 0.124        | 0.080             | 0.000    |
| 1986  | -2.4%          | -0.024                            | 0.039      | -0.028   | 0.000         | 0.067        | 0.077             | 0.000    |
| 1987  | 1.5%           | 0.015                             | 0.053      | 0.013    | 0.000         | 0.041        | 0.150             | 0.000    |
| 1988  | 0.7%           | 0.007                             | 0.104      | 0.000    | 0.000         | 0.104        | 0.088             | 0.000    |
| 1989  | 2.5%           | 0.024                             | 0.212      | 0.009    | 0.046         | 0.203        | 0.045             | 0.000    |
| 1990  | 9.0%           | 0.087                             | 0.337      | 0.061    | 0.071         | 0.276        | -0.120            | 0.000    |
| 1991  | 0.3%           | 0.003                             | 0.166      | -0.018   | 0.023         | 0.184        | -0.291            | 0.000    |
| 1992  | -11.1%         | -0.118                            | -0.272     | -0.098   | 0.013         | -0.174       | -0.185            | 0.068    |
| 1993  | -14.9%         | -0.162                            | -0.240     | -0.153   | -0.057        | -0.088       | -0.022            | 0.464    |
| 1994  | -12.8%         | -0.136                            | -0.462     | -0.107   | 0.061         | -0.355       | 0.106             | 0.173    |
| 1995  | -4.6%          | -0.048                            | -0.016     | -0.050   | 0.053         | 0.034        | 0.092             | 0.295    |
| 1996  | -6.8%          | -0.070                            | -0.136     | -0.065   | 0.096         | -0.071       | 0.074             | 0.000    |
| 1997  | -3.3%          | -0.033                            | -0.023     | -0.034   | 0.066         | 0.011        | 0.137             | 0.000    |
| 1998  | -3.8%          | -0.038                            | -0.040     | -0.038   | 0.058         | -0.002       | 0.078             | 0.000    |
| 1999  | 1.5%           | 0.014                             | 0.100      | 0.008    | 0.040         | 0.092        | 0.127             | 0.000    |
| 2000  | 4.0%           | 0.039                             | 0.071      | 0.037    | -0.003        | 0.034        | 0.066             | 0.000    |
| 2001  | -6.9%          | -0.072                            | -0.017     | -0.076   | -0.007        | 0.059        | -0.100            | 0.000    |
| 2002  | -2.8%          | -0.029                            | 0.001      | -0.031   | 0.060         | 0.033        | -0.197            | 0.000    |
| 2003  | -3.2%          | -0.032                            | -0.009     | -0.035   | -0.065        | 0.026        | -0.022            | 0.000    |
| 2004  | -16.8%         | -0.185                            | -0.212     | -0.182   | -0.398        | -0.030       | 0.098             | 0.000    |
| 2005  | -13.6%         | -0.147                            | -0.299     | -0.134   | 0.051         | -0.165       | 0.143             | 0.000    |
| 2006  | -5.7%          | -0.059                            | -0.050     | -0.059   | 0.016         | 0.009        | 0.090             | 0.000    |
| 2007  | -1.6%          | -0.017                            | 0.021      | -0.019   | 0.049         | 0.040        | -0.095            | 0.000    |
| 2008  | -2.7%          | -0.027                            | 0.038      | -0.033   | 0.006         | 0.071        | -0.320            | 0.000    |
| 2009  | -0.2%          | -0.002                            | 0.168      | -0.018   | 0.066         | 0.186        | -0.414            | 0.000    |
| 2010  | 8.9%           | 0.085                             | 0.132      | 0.080    | 0.012         | 0.052        | -0.077            | 0.000    |
| 2011  | 1.3%           | 0.013                             | 0.035      | 0.010    | 0.003         | 0.025        | 0.048             | 0.000    |
| 2012  | 4.9%           | 0.047                             | 0.114      | 0.040    | -0.008        | 0.074        | 0.122             | 0.000    |
| 2013  | 1.8%           | 0.018                             | 0.192      | -0.006   | 0.071         | 0.198        | 0.154             | 0.000    |
| 2014* | 2.0%           | 0.020                             | 0.164      | -0.005   | 0.003         | 0.170        | 0.170             | 0.000    |
| 2015  | -0.1%          | -0.001                            | 0.001      | -0.001   | 0.003         | 0.000        | 0.179             | 0.000    |
| 2016  | -0.2%          | -0.002                            | -0.002     | -0.002   | 0.003         | 0.000        | 0.176             | 0.000    |
| 2017  | -1.3%          | -0.013                            | -0.013     | -0.013   | 0.003         | 0.000        | 0.066             | 0.000    |
| 2018  | -2.2%          | -0.023                            | -0.023     | -0.023   | 0.003         | 0.000        | -0.030            | 0.000    |

Y = Hazardousness-Adjusted Noncumulative Indemnity Claim Frequency

|                     |        |       |       |        |
|---------------------|--------|-------|-------|--------|
| Constant            | -0.020 |       |       |        |
| Std Err of Y Est    | 0.042  |       |       |        |
| R Squared           | 0.577  |       |       |        |
| No. of Observations | 36     |       |       |        |
| Degrees of Freedom  | 31     |       |       |        |
| X Coefficient(s)    |        | 0.176 | 0.276 | 0.101  |
| Std Err of Coef.    |        | 0.076 | 0.063 | 0.047  |
|                     |        |       |       | -0.140 |
|                     |        |       |       | 0.080  |

Notes:

Indemnity Benefit Level variable is leading. The benefit level change for AY 2004 is related to the AY 2003 change in non-cumulative frequency.

The Indemnity Benefit Level change for Ogilvie & Almaraz / Guzman in 2009-2010 is not leading.

The Indemnity Benefit Level variable excludes indemnity benefit utilization, and changes in the death and permanent total benefits.

The Indemnity Benefit Level variable has been revised due to on-leveling reassessments. See Actuarial Committee item AC09-03-03.

For 1993 on, cumulative claims include both cumulative trauma and occupational disease claims. See March 19, 2014 Actuarial Committee Agenda Item III.

Economic variables are historical through 2015; June 2016 UCLA Anderson Forecasts for 2016 on.

Regression is over AY 1979 through AY 2014. AY 2015 through AY 2018 are projections.

The constant term, -0.020, consists of measured offsets that recognize annual changes in real benefit levels relative to nominal benefit levels and long-term economic growth. Without these offsets, the indemnity benefit level and economic variables would project frequency to increase without bound.

\*AY 2014 change is based on a comparison of 2014 accidents on 2013 policies to 2013 accidents on 2012 policies.



**Projection of Indemnity Severity Trends by Accident Year  
Based on Experience as of June 30, 2016**

| Accident<br>Year  | (1)<br>Estimated<br>Ultimate<br>Severity | (2)<br>Annual<br>% Change | (3)<br>Indemnity<br>Adjustment<br>Factor(a) | (4)<br>Ultimate<br>On-level<br>Severity<br>(1) x (3) | (5)<br>Annual<br>% Change |
|---|--|---------------------------|---|--|---------------------------|
| 1990  | 9,981                                    | ---                       | 1.744                                       | 17,402   | ---                       |
| 1991  | 10,923                                   | 9.4%                      | 1.649                                       | 18,011   | 3.5%                      |
| 1992  | 11,010                                   | 0.8%                      | 1.594                                       | 17,553   | -2.5%                     |
| 1993  | 11,992                                   | 8.9%                      | 1.585                                       | 19,004   | 8.3%                      |
| 1994  | 12,955                                   | 8.0%                      | 1.660                                       | 21,505   | 13.2%                     |
| 1995  | 14,537                                   | 12.2%                     | 1.546                                       | 22,476   | 4.5%                      |
| 1996  | 16,275                                   | 12.0%                     | 1.451                                       | 23,614   | 5.1%                      |
| 1997  | 19,377                                   | 19.1%                     | 1.302                                       | 25,225   | 6.8%                      |
| 1998  | 21,152                                   | 9.2%                      | 1.201                                       | 25,397   | 0.7%                      |
| 1999  | 23,282                                   | 10.1%                     | 1.113                                       | 25,904   | 2.0%                      |
| 2000  | 24,704                                   | 6.1%                      | 1.039                                       | 25,658   | -0.9%                     |
| 2001  | 27,094                                   | 9.7%                      | 1.040                                       | 28,169   | 9.8%                      |
| 2002  | 26,232                                   | -3.2%                     | 1.067                                       | 28,001   | -0.6%                     |
| 2003  | 25,761                                   | -1.8%                     | 1.066                                       | 27,475   | -1.9%                     |
| 2004  | 20,992                                   | -18.5%                    | 1.268                                       | 26,626   | -3.1%                     |
| 2005  | 18,921                                   | -9.9%                     | 1.458                                       | 27,592   | 3.6%                      |
| 2006  | 20,657                                   | 9.2%                      | 1.359                                       | 28,078   | 1.8%                      |
| 2007  | 22,500                                   | 8.9%                      | 1.317                                       | 29,627   | 5.5%                      |
| 2008  | 24,807                                   | 10.3%                     | 1.248                                       | 30,952   | 4.5%                      |
| 2009  | 25,808                                   | 4.0%                      | 1.240                                       | 32,008   | 3.4%                      |
| 2010  | 25,582                                   | -0.9%                     | 1.223                                       | 31,289   | -2.2%                     |
| 2011  | 25,059                                   | -2.0%                     | 1.210                                       | 30,318   | -3.1%                     |
| 2012  | 24,731                                   | -1.3%                     | 1.181                                       | 29,219   | -3.6%                     |
| 2013  | 24,932                                   | 0.8%                      | 1.178                                       | 29,371   | 0.5%                      |
| 2014  | 26,886                                   | 7.8%                      | 1.083                                       | 29,109   | -0.9%                     |
| 2015  | 28,027                                   | 4.2%                      | 1.058                                       | 29,663   | 1.9%                      |
| (6) Estimated Annual Exponential Trend Based on 2005 to 2015: |  |                           |   |  | 0.3%                      |
| (7) Estimated Annual Exponential Trend Based on 2010 to 2015: |  |                           |   |  | -1.1%                     |
| Selected Indemnity Severity Trend:                            |  |                           |   |  | 0.3%                      |

(a) These adjustment factors are based on Exhibit 4.1, excluding the impact of frequency.

Source: WCIRB experience calls

**Projection of Medical Severity Trends by Accident Year  
Based on Experience as of June 30, 2016**

| Accident<br>Year | (1)<br>Estimated<br>Ultimate<br>Severity(a) | (2)<br>Annual<br>% Change | (3)<br>Medical<br>Adjustment<br>Factor(b) | (4)<br>Ultimate<br>On-level<br>Severity<br>(1) x (3) | (5)<br>Annual<br>% Change |
|------------------|---|---------------------------|---|--|---------------------------|
| 1990             | 8,894                                       | ---                       | 1.029                                     | 9,152  | ---                       |
| 1991             | 9,575                                       | 7.7%                      | 1.010                                     | 9,670  | 5.7%                      |
| 1992             | 9,632                                       | 0.6%                      | 0.976                                     | 9,404  | -2.8%                     |
| 1993             | 10,715                                      | 11.2%                     | 0.960                                     | 10,281   | 9.3%                      |
| 1994             | 11,869                                      | 10.8%                     | 1.009                                     | 11,978   | 16.5%                     |
| 1995             | 13,561                                      | 14.3%                     | 1.001                                     | 13,579   | 13.4%                     |
| 1996             | 14,510                                      | 7.0%                      | 0.991                                     | 14,380   | 5.9%                      |
| 1997             | 17,340                                      | 19.5%                     | 0.984                                     | 17,070   | 18.7%                     |
| 1998             | 21,212                                      | 22.3%                     | 0.868                                     | 18,422   | 7.9%                      |
| 1999             | 24,233                                      | 14.2%                     | 0.753                                     | 18,247   | -0.9%                     |
| 2000             | 27,401                                      | 13.1%                     | 0.692                                     | 18,973   | 4.0%                      |
| 2001             | 32,540                                      | 18.8%                     | 0.632                                     | 20,570   | 8.4%                      |
| 2002             | 33,085                                      | 1.7%                      | 0.657                                     | 21,735   | 5.7%                      |
| 2003             | 31,623                                      | -4.4%                     | 0.690                                     | 21,834   | 0.5%                      |
| 2004             | 29,386                                      | -7.1%                     | 0.915                                     | 26,887   | 23.1%                     |
| 2005             | 30,347                                      | 3.3%                      | 0.917                                     | 27,825   | 3.5%                      |
| 2006             | 33,422                                      | 10.1%                     | 0.915                                     | 30,575   | 9.9%                      |
| 2007             | 37,669                                      | 12.7%                     | 0.900                                     | 33,917   | 10.9%                     |
| 2008             | 41,169                                      | 9.3%                      | 0.900                                     | 37,035   | 9.2%                      |
| 2009             | 43,598                                      | 5.9%                      | 0.900                                     | 39,238   | 5.9%                      |
| 2010             | 44,175                                      | 1.3%                      | 0.902                                     | 39,863   | 1.6%                      |
| 2011             | 40,526 (c)                                  | ---                       | 0.906                                     | 36,736 (c)   | ---                       |
| 2012             | 38,901                                      | -4.0%                     | 0.932                                     | 36,274   | -1.3%                     |
| 2013             | 37,095                                      | -4.6%                     | 0.958                                     | 35,529   | -2.1%                     |
| 2014             | 36,489                                      | -1.6%                     | 1.018                                     | 37,145   | 4.5%                      |
| 2015             | 37,053                                      | 1.5%                      | 1.016                                     | 37,635   | 1.3%                      |

Selected Medical Severity Trend: 2.5%

(a) Estimated ultimate severities for all accident years are derived by dividing ultimate medical losses on indemnity claims by ultimate indemnity claim counts. The estimated ultimate medical severities were derived from the projected ultimate loss ratios shown in Exhibit 3.2, column (6).

(b) These adjustment factors are based on Exhibit 4.4, excluding the impact of frequency, and including the impact of SB 863 provisions applicable to outstanding medical losses.

(c) Severities for accident years 2011 and subsequent do not reflect the cost of medical cost containment programs (MCCP). Severities for accident years 2010 and prior do reflect MCCP costs.

**Projection of Medical Severity Trends by Accident Year  
Adjusted to Remove the Cost of Medical Cost Containment Programs (MCCP)  
Based on Experience as of June 30, 2016**

| (1)<br>Accident<br>Year | MCCP Included                                |                         |   | MCCP Removed Based on<br>WCIRB Aggregate<br>Calendar Year Data Calls (b) |  |                         |   |                         |
|-------------------------|--|-------------------------|---|--|--|-------------------------|---|-------------------------|
|                         | (2)<br>Estimated<br>Ultimate<br>Severity (a) | (3)<br>Annual<br>Change | (4)<br>Ultimate<br>On-Level<br>Severity (c) | (5)<br>Annual<br>Change  | (6)<br>Estimated<br>Ultimate<br>Severity (a) | (7)<br>Annual<br>Change | (8)<br>Ultimate<br>On-Level<br>Severity (c) | (9)<br>Annual<br>Change |
|                         | Severity (a)                                 | % Change                | Severity (c)                                | % Change   | Severity (a)                                 | % Change                | Severity (c)                                | % Change                |
| 2005                    | 30,348                                       | ---                     | 27,826                                      | ---  | 28,685                                       | ---                     | 26,301                                      | ---                     |
| 2006                    | 33,423                                       | 10.1%                   | 30,576                                      | 9.9%   | 31,259                                       | 9.0%                    | 28,596                                      | 8.7%                    |
| 2007                    | 37,670                                       | 12.7%                   | 33,918                                      | 10.9%  | 35,081                                       | 12.2%                   | 31,587                                      | 10.5%                   |
| 2008                    | 41,169                                       | 9.3%                    | 37,035                                      | 9.2%   | 37,479                                       | 6.8%                    | 33,716                                      | 6.7%                    |
| 2009                    | 43,598                                       | 5.9%                    | 39,238                                      | 5.9%   | 39,864                                       | 6.4%                    | 35,877                                      | 6.4%                    |
| 2010                    | 44,175                                       | 1.3%                    | 39,863                                      | 1.6%   | 40,351                                       | 1.2%                    | 36,413                                      | 1.5%                    |
| 2011                    | 44,530                                       | 0.8%                    | 40,365                                      | 1.3%   | 40,525                                       | 0.4%                    | 36,735                                      | 0.9%                    |
| 2012                    | 42,812                                       | -3.9%                   | 39,921                                      | -1.1%  | 38,905                                       | -4.0%                   | 36,278                                      | -1.2%                   |
| 2013                    | 41,081                                       | -4.0%                   | 39,347                                      | -1.4%  | 37,125                                       | -4.6%                   | 35,558                                      | -2.0%                   |
| 2014                    | 40,599                                       | -1.2%                   | 41,329                                      | 5.0%   | 36,523                                       | -1.6%                   | 37,179                                      | 4.6%                    |
| 2015                    | 41,234                                       | 1.6%                    | 41,882                                      | 1.3%   | 37,053                                       | 1.5%                    | 37,635                                      | 1.2%                    |

Estimated Annual Exponential  
Trend Based on 2005 to 2015:  
Trend Based on 2010 to 2015:

3.6%  
0.9%

Selected Medical Severity Trend:

2.5%

- (a) Estimated ultimate severities for all accident years were derived by dividing ultimate medical losses on indemnity claims by ultimate indemnity claim counts.
- (b) Adjustments to accident years 2005 through 2010 based on WCIRB's Annual Calls for Direct California Workers' Compensation Aggregate Indemnity and Medical Costs.
- (c) Ultimate severities are on-leveled based on adjustment factors shown on Exhibit 4.4, excluding the impact of frequency.

Source: WCIRB experience calls

**Projected On-Level Accident Year  
Indemnity Loss to Industry Average Filed Pure Premium Ratios  
Based on Experience as of June 30, 2016**

| Accident<br>Year | (1)<br>Developed Indemnity<br>Loss Ratio(a) | (2)<br>Composite Indemnity<br>Adjustment Factor(b) | (3)<br>Composite Premium<br>Adjustment Factor(c) | (4)<br>On-Level Indemnity to<br>Industry Average Filed<br>Pure Premium Ratio<br>(1)×(2)÷(3) |
|------------------|---|--|--|---|
| 1985             | 0.448                                       | 1.443  | 3.208  | 0.202   |
| 1986             | 0.397                                       | 1.420  | 2.802  | 0.201   |
| 1987             | 0.347                                       | 1.394  | 2.335  | 0.207   |
| 1988             | 0.332                                       | 1.373  | 2.044  | 0.223   |
| 1989             | 0.345                                       | 1.353  | 1.966  | 0.237   |
| 1990             | 0.399                                       | 1.085  | 1.828  | 0.237   |
| 1991             | 0.427                                       | 0.894  | 1.653  | 0.231   |
| 1992             | 0.352                                       | 0.942  | 1.506  | 0.220   |
| 1993             | 0.289                                       | 1.143  | 1.453  | 0.227   |
| 1994             | 0.329                                       | 1.195  | 1.646  | 0.239   |
| 1995             | 0.476                                       | 1.107  | 2.161  | 0.244   |
| 1996             | 0.533                                       | 1.034  | 2.235  | 0.247   |
| 1997             | 0.605                                       | 0.926  | 2.172  | 0.258   |
| 1998             | 0.655                                       | 0.854  | 2.180  | 0.257   |
| 1999             | 0.691                                       | 0.792  | 2.071  | 0.264   |
| 2000             | 0.597                                       | 0.739  | 1.638  | 0.270   |
| 2001             | 0.493                                       | 0.740  | 1.401  | 0.260   |
| 2002             | 0.368                                       | 0.759  | 1.086  | 0.258   |
| 2003             | 0.242                                       | 0.759  | 0.776  | 0.237   |
| 2004             | 0.144                                       | 1.046  | 0.700  | 0.216   |
| 2005             | 0.123                                       | 1.419  | 0.775  | 0.226   |
| 2006             | 0.160                                       | 1.403  | 0.996  | 0.225   |
| 2007             | 0.221                                       | 1.359  | 1.273  | 0.236   |
| 2008             | 0.284                                       | 1.280  | 1.539  | 0.236   |
| 2009             | 0.331                                       | 1.255  | 1.659  | 0.251   |
| 2010             | 0.325                                       | 1.238  | 1.509  | 0.267   |
| 2011             | 0.301                                       | 1.224  | 1.376  | 0.268   |
| 2012             | 0.273                                       | 1.195  | 1.224  | 0.267   |
| 2013             | 0.243                                       | 1.196  | 1.071  | 0.271   |
| 2014             | 0.241                                       | 1.083  | 0.987  | 0.265   |
| 2015             | 0.245                                       | 1.058  | 0.948  | 0.274   |
|                  |   |  |  | Projections (d)   |
| 2016             |   |  |  | 0.270   |
| 2017             |   |  |  | 0.267   |
| 1/1/2018         |   |  |  | 0.264   |

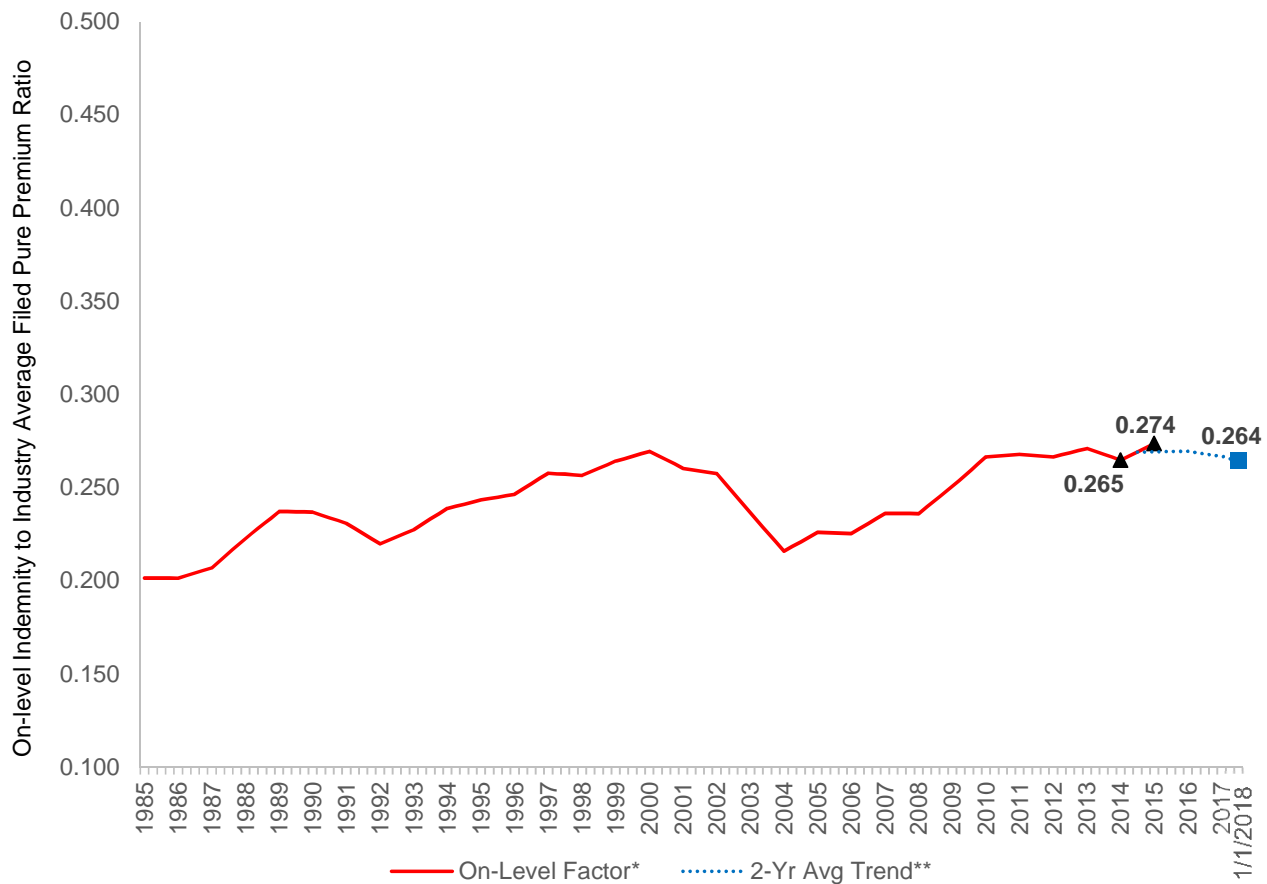
(a) See Exhibit 3.1.

(b) See Exhibit 4.1.

(c) See Exhibit 5.2.

(d) These on-level ratios were projected based on an estimated annual indemnity severity trend from Exhibit 6.2, the actual frequency trend for accident year 2015 from Exhibit 12, and projected frequency trends for accident years 2016, 2017, and 2018 from Exhibit 6.1; these trends were then separately applied to the 2014 and 2015 on-level ratios.

**On-Level Indemnity Loss to Industry Average Filed Pure Premium Ratios  
Based on Experience as of June 30, 2016**



\* On-level indemnity to industry average filed pure premium ratios (see Exhibit 7.1)

\*\* The 1/1/2018 indemnity to industry average filed pure premium ratio was calculated based on separate frequency and severity trends applied to the 2014 and 2015 years.

**Projected On-Level Accident Year  
Medical Loss to Industry Average Filed Pure Premium Ratios  
Based on Experience as of June 30, 2016**

| Accident<br>Year | (1)<br>Developed Medical<br>Loss Ratio(a) | (2)<br>Composite Medical<br>On-Level Factor(b) | (3)<br>Composite Premium<br>Adjustment Factor(c) | (4)<br>On-Level Medical to<br>Industry Average Filed<br>Pure Premium Ratio(e)<br>(1)×(2)÷(3) |
|------------------|---|--|--|--|
| 1985             | 0.362                                     | 0.983  | 3.208  | 0.111  |
| 1986             | 0.344                                     | 0.955  | 2.802  | 0.117  |
| 1987             | 0.324                                     | 0.920  | 2.335  | 0.128  |
| 1988             | 0.316                                     | 0.886  | 2.044  | 0.137  |
| 1989             | 0.338                                     | 0.860  | 1.966  | 0.148  |
| 1990             | 0.381                                     | 0.697  | 1.828  | 0.145  |
| 1991             | 0.400                                     | 0.596  | 1.653  | 0.144  |
| 1992             | 0.332                                     | 0.628  | 1.506  | 0.139  |
| 1993             | 0.279                                     | 0.752  | 1.453  | 0.144  |
| 1994             | 0.324                                     | 0.788  | 1.646  | 0.155  |
| 1995             | 0.475                                     | 0.777  | 2.161  | 0.171  |
| 1996             | 0.507                                     | 0.767  | 2.235  | 0.174  |
| 1997             | 0.573                                     | 0.760  | 2.172  | 0.200  |
| 1998             | 0.691                                     | 0.669  | 2.180  | 0.212  |
| 1999             | 0.718                                     | 0.580  | 2.071  | 0.201  |
| 2000             | 0.659                                     | 0.533  | 1.638  | 0.215  |
| 2001             | 0.586                                     | 0.486  | 1.401  | 0.203  |
| 2002             | 0.459                                     | 0.505  | 1.086  | 0.213  |
| 2003             | 0.295                                     | 0.529  | 0.776  | 0.202  |
| 2004             | 0.203                                     | 0.800  | 0.700  | 0.233  |
| 2005             | 0.201                                     | 0.930  | 0.775  | 0.241  |
| 2006             | 0.263                                     | 0.977  | 0.996  | 0.258  |
| 2007             | 0.376                                     | 0.958  | 1.273  | 0.283  |
| 2008             | 0.478                                     | 0.952  | 1.539  | 0.296  |
| 2009             | 0.568                                     | 0.939  | 1.659  | 0.322  |
| 2010             | 0.572                                     | 0.936  | 1.509  | 0.355  |
| 2011             | 0.501                                     | 0.933  | 1.376  | 0.340  |
| 2012             | 0.446                                     | 0.951  | 1.224  | 0.347  |
| 2013             | 0.379                                     | 0.971  | 1.071  | 0.343  |
| 2014             | 0.345                                     | 1.017  | 0.987  | 0.356  |
| 2015             | 0.341                                     | 1.015  | 0.948  | 0.365  |
|                  |   |  |  | Projections (d)  |
| 2016             |   |  |  | 0.373  |
| 2017             |   |  |  | 0.377  |
| 1/1/2018         |   |  |  | 0.378  |

(a) See Exhibit 3.2.

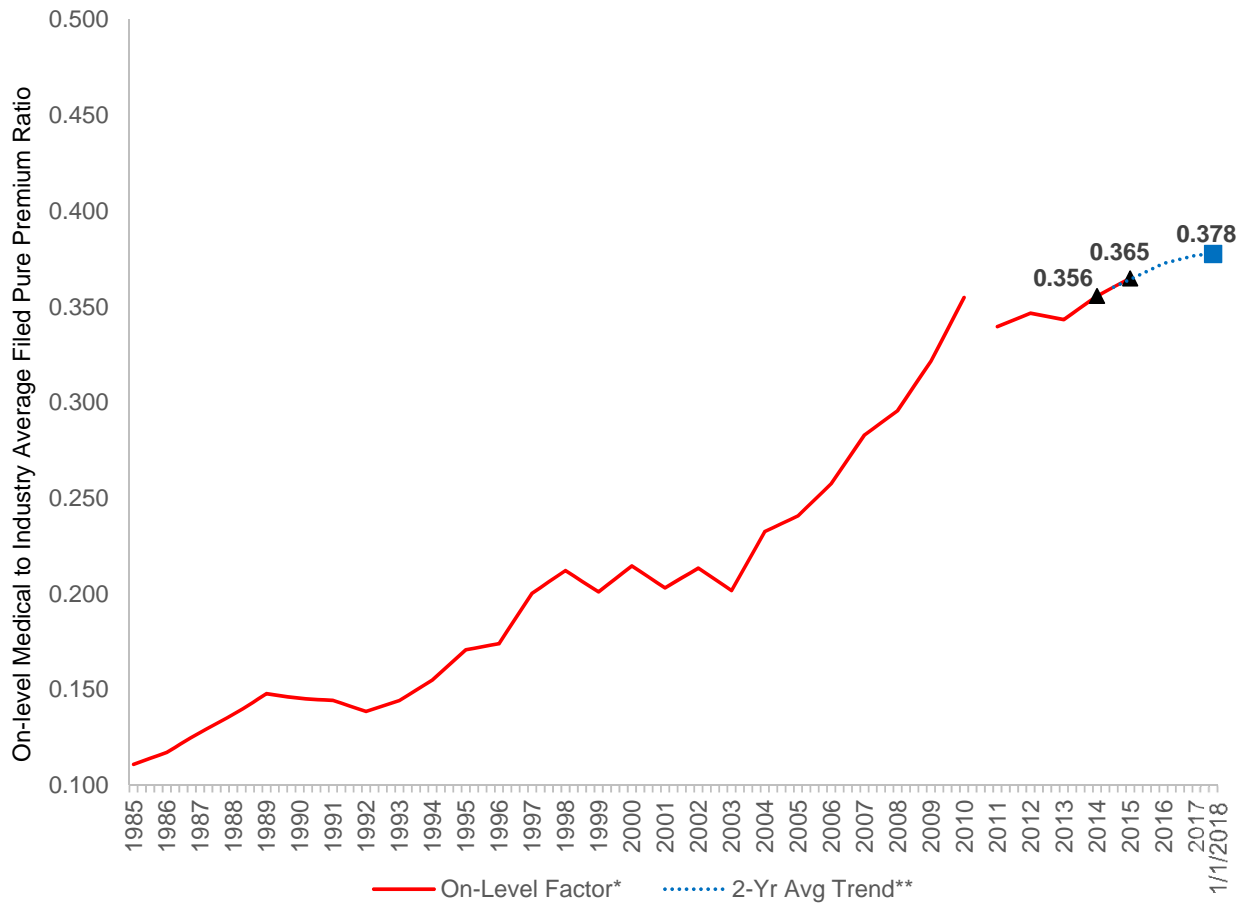
(b) See Exhibit 4.4.

(c) See Exhibit 5.2.

(d) These on-level ratios were projected based on an estimated annual medical severity trend from Exhibit 6.4, the actual frequency trend for accident year 2015 from Exhibit 12, and projected frequency trends for accident years 2016, 2017, and 2018 from Exhibit 6.1; these trends were then separately applied to the 2014 and 2015 on-level ratios.

(e) Accident years 2011 and subsequent do not reflect the paid cost of medical cost containment programs (MCCP). Accident years 2010 and prior do reflect paid MCCP costs.

**On-Level Medical Loss to Industry Average Filed Pure Premium Ratios  
Based on Experience as of June 30, 2016**



\* On-level medical to industry average filed pure premium ratios (see Exhibit 7.3)

\*\* The 1/1/2018 medical to industry average filed pure premium ratio was calculated based on separate frequency and severity trends applied to the 2014 and 2015 years.

**Indicated Loss to Industry Average Filed Pure Premium Ratios  
For Policies with Effective Dates between January 1, 2017 and December 31, 2017  
Based on Experience as of June 30, 2016**

|  | <u>Indemnity</u> | <u>Medical</u> | <u>Total</u> |
|--|------------------|----------------|--------------|
| 1. Projected Loss to Industry Average Filed Pure Premium Ratio<br>(See Exhibits 7.1 and 7.3) | 0.264            | 0.378          | 0.642        |



Quarterly Incurred Indemnity Loss Development Factors  
Through June 30, 2016

| Age in<br>Months | Accident Year |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
|------------------|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                  | 1998          | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  |
| 6/3              |               |       |       |       |       |       |       |       | 2.417 | 2.724 | 2.785 | 3.031 | 3.116 | 3.052 | 3.238 | 3.344 | 3.303 | 3.209 | 3.209 |
| 9/6              |               |       |       |       |       |       |       |       | 1.656 | 1.776 | 1.820 | 1.848 | 1.904 | 2.001 | 1.966 | 1.940 | 1.960 | 1.948 |       |
| 12/9             |               |       |       |       |       |       |       |       | 1.448 | 1.511 | 1.510 | 1.530 | 1.564 | 1.632 | 1.587 | 1.585 | 1.570 | 1.577 |       |
| 15/12            | 1.229         | 1.260 | 1.268 | 1.250 | 1.257 | 1.238 | 1.180 | 1.149 | 1.189 | 1.234 | 1.248 | 1.293 | 1.306 | 1.306 | 1.303 | 1.301 | 1.301 | 1.312 |       |
| 18/15            | 1.172         | 1.202 | 1.188 | 1.184 | 1.206 | 1.167 | 1.101 | 1.103 | 1.140 | 1.158 | 1.182 | 1.194 | 1.197 | 1.195 | 1.206 | 1.178 | 1.190 | 1.188 |       |
| 21/18            | 1.145         | 1.140 | 1.150 | 1.148 | 1.153 | 1.127 | 1.066 | 1.096 | 1.117 | 1.128 | 1.139 | 1.153 | 1.140 | 1.146 | 1.141 | 1.141 | 1.132 |       |       |
| 24/21            | 1.126         | 1.112 | 1.121 | 1.111 | 1.117 | 1.094 | 1.045 | 1.082 | 1.098 | 1.106 | 1.106 | 1.114 | 1.119 | 1.117 | 1.111 | 1.104 | 1.114 |       |       |
| 27/24            | 1.074         | 1.096 | 1.093 | 1.100 | 1.094 | 1.073 | 1.045 | 1.070 | 1.082 | 1.081 | 1.088 | 1.089 | 1.091 | 1.085 | 1.087 | 1.081 | 1.082 |       |       |
| 30/27            | 1.078         | 1.069 | 1.074 | 1.082 | 1.064 | 1.051 | 1.040 | 1.054 | 1.057 | 1.072 | 1.075 | 1.075 | 1.080 | 1.071 | 1.068 | 1.067 | 1.074 |       |       |
| 33/30            | 1.045         | 1.058 | 1.048 | 1.062 | 1.047 | 1.032 | 1.036 | 1.042 | 1.049 | 1.053 | 1.059 | 1.052 | 1.064 | 1.053 | 1.060 | 1.047 |       |       |       |
| 36/33            | 1.043         | 1.046 | 1.039 | 1.046 | 1.035 | 1.020 | 1.029 | 1.033 | 1.039 | 1.043 | 1.051 | 1.049 | 1.049 | 1.043 | 1.041 | 1.043 |       |       |       |
| 39/36            | 1.038         | 1.041 | 1.035 | 1.038 | 1.028 | 1.017 | 1.027 | 1.029 | 1.031 | 1.033 | 1.040 | 1.039 | 1.039 | 1.041 | 1.035 | 1.032 |       |       |       |
| 42/39            | 1.027         | 1.028 | 1.034 | 1.030 | 1.023 | 1.018 | 1.020 | 1.020 | 1.031 | 1.033 | 1.036 | 1.038 | 1.035 | 1.032 | 1.028 | 1.032 |       |       |       |
| 45/42            | 1.024         | 1.026 | 1.026 | 1.020 | 1.009 | 1.019 | 1.018 | 1.024 | 1.026 | 1.028 | 1.030 | 1.035 | 1.027 | 1.033 | 1.022 |       |       |       |       |
| 48/45            | 1.025         | 1.020 | 1.022 | 1.013 | 1.008 | 1.013 | 1.013 | 1.021 | 1.019 | 1.021 | 1.024 | 1.024 | 1.026 | 1.023 | 1.023 |       |       |       |       |
| 51/48            | 1.022         | 1.017 | 1.018 | 1.015 | 1.010 | 1.016 | 1.010 | 1.018 | 1.021 | 1.018 | 1.022 | 1.023 | 1.021 | 1.018 | 1.017 |       |       |       |       |
| 54/51            | 1.019         | 1.018 | 1.013 | 1.009 | 1.007 | 1.017 | 1.009 | 1.017 | 1.021 | 1.020 | 1.021 | 1.020 | 1.020 | 1.016 | 1.019 |       |       |       |       |
| 57/54            | 1.014         | 1.017 | 1.012 | 1.006 | 1.008 | 1.011 | 1.011 | 1.018 | 1.017 | 1.014 | 1.018 | 1.017 | 1.015 | 1.014 |       |       |       |       |       |
| 60/57            | 1.013         | 1.014 | 1.007 | 1.005 | 1.008 | 1.009 | 1.011 | 1.013 | 1.019 | 1.016 | 1.013 | 1.015 | 1.012 | 1.013 |       |       |       |       |       |
| 63/60            | 1.012         | 1.012 | 1.007 | 1.007 | 1.008 | 1.008 | 1.010 | 1.014 | 1.013 | 1.015 | 1.011 | 1.014 | 1.014 | 1.009 |       |       |       |       |       |
| 66/63            | 1.014         | 1.009 | 1.005 | 1.006 | 1.011 | 1.008 | 1.010 | 1.013 | 1.016 | 1.014 | 1.015 | 1.013 | 1.013 | 1.009 |       |       |       |       |       |
| 69/66            | 1.010         | 1.007 | 1.003 | 1.005 | 1.008 | 1.007 | 1.011 | 1.012 | 1.011 | 1.010 | 1.009 | 1.012 | 1.007 |       |       |       |       |       |       |
| 72/69            | 1.009         | 1.006 | 1.005 | 1.005 | 1.005 | 1.009 | 1.009 | 1.013 | 1.011 | 1.009 | 1.009 | 1.009 | 1.010 |       |       |       |       |       |       |
| 75/72            | 1.006         | 1.004 | 1.004 | 1.005 | 1.003 | 1.005 | 1.007 | 1.010 | 1.011 | 1.010 | 1.010 | 1.008 | 1.007 |       |       |       |       |       |       |
| 78/75            | 1.007         | 1.004 | 1.003 | 1.007 | 1.005 | 1.006 | 1.006 | 1.012 | 1.009 | 1.010 | 1.006 | 1.006 | 1.006 |       |       |       |       |       |       |
| 81/78            | 1.005         | 1.002 | 1.003 | 1.004 | 1.004 | 1.005 | 1.006 | 1.010 | 1.009 | 1.007 | 1.007 | 1.006 |       |       |       |       |       |       |       |
| 84/81            | 1.003         | 1.003 | 1.005 | 1.003 | 1.006 | 1.006 | 1.007 | 1.008 | 1.005 | 1.009 | 1.006 | 1.004 |       |       |       |       |       |       |       |
| 87/84            | 1.003         | 1.003 | 1.002 | 1.003 | 1.004 | 1.002 | 1.007 | 1.010 | 1.007 | 1.004 | 1.005 | 1.006 |       |       |       |       |       |       |       |
| 90/87            | 1.001         | 1.003 | 1.003 | 1.003 | 1.003 | 1.004 | 1.008 | 1.008 | 1.008 | 1.008 | 1.004 | 1.005 |       |       |       |       |       |       |       |
| 93/90            | 1.001         | 1.002 | 1.004 | 1.003 | 1.002 | 1.005 | 1.006 | 1.008 | 1.006 | 1.007 | 1.006 |       |       |       |       |       |       |       |       |
| 96/93            | 1.002         | 1.003 | 1.001 | 1.004 | 1.002 | 1.006 | 1.006 | 1.003 | 1.002 | 1.003 | 1.004 |       |       |       |       |       |       |       |       |

Source: WCIRB accident year experience calls

Quarterly Incurred Medical Loss Development Factors \*  
Through June 30, 2016

| Age in<br>Months | Accident Year |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
|------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                  | 1998          | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         | 2009         | 2010         | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         |
| <b>6/3</b>       |               |              |              |              |              |              |              |              | <b>2.584</b> | <b>2.662</b> | <b>2.782</b> | <b>2.892</b> | <b>2.992</b> | <b>2.757</b> | <b>2.853</b> | <b>2.843</b> | <b>2.921</b> | <b>2.863</b> | <b>3.015</b> |
| 9/6              |               |              |              |              |              |              |              |              | 1.650        | 1.744        | 1.717        | 1.807        | 1.800        | 1.827        | 1.833        | 1.819        | 1.840        | 1.884        |              |
| 12/9             |               |              |              |              |              |              |              |              | 1.453        | 1.443        | 1.466        | 1.454        | 1.488        | 1.521        | 1.484        | 1.500        | 1.482        | 1.451        |              |
| 15/12            | 1.144         | 1.168        | 1.201        | 1.207        | 1.203        | 1.197        | 1.132        | 1.145        | 1.138        | 1.182        | 1.167        | 1.199        | 1.206        | 1.228        | 1.211        | 1.207        | 1.199        | 1.206        |              |
| <b>18/15</b>     | <b>1.093</b>  | <b>1.116</b> | <b>1.123</b> | <b>1.144</b> | <b>1.151</b> | <b>1.126</b> | <b>1.086</b> | <b>1.087</b> | <b>1.103</b> | <b>1.106</b> | <b>1.126</b> | <b>1.135</b> | <b>1.129</b> | <b>1.141</b> | <b>1.136</b> | <b>1.117</b> | <b>1.114</b> | <b>1.093</b> |              |
| 21/18            | 1.078         | 1.086        | 1.101        | 1.122        | 1.116        | 1.093        | 1.055        | 1.061        | 1.073        | 1.081        | 1.090        | 1.097        | 1.101        | 1.103        | 1.085        | 1.088        | 1.077        |              |              |
| 24/21            | 1.074         | 1.072        | 1.080        | 1.083        | 1.082        | 1.060        | 1.040        | 1.052        | 1.070        | 1.074        | 1.067        | 1.074        | 1.080        | 1.080        | 1.067        | 1.064        | 1.054        |              |              |
| 27/24            | 1.044         | 1.061        | 1.070        | 1.080        | 1.075        | 1.042        | 1.034        | 1.048        | 1.055        | 1.058        | 1.053        | 1.071        | 1.066        | 1.072        | 1.058        | 1.048        | 1.046        |              |              |
| <b>30/27</b>     | <b>1.044</b>  | <b>1.052</b> | <b>1.058</b> | <b>1.070</b> | <b>1.051</b> | <b>1.038</b> | <b>1.039</b> | <b>1.049</b> | <b>1.046</b> | <b>1.054</b> | <b>1.057</b> | <b>1.048</b> | <b>1.063</b> | <b>1.052</b> | <b>1.046</b> | <b>1.037</b> | <b>1.044</b> |              |              |
| 33/30            | 1.035         | 1.047        | 1.051        | 1.059        | 1.035        | 1.018        | 1.032        | 1.030        | 1.041        | 1.045        | 1.045        | 1.051        | 1.055        | 1.045        | 1.046        | 1.031        |              |              |              |
| 36/33            | 1.037         | 1.042        | 1.035        | 1.040        | 1.029        | 1.016        | 1.024        | 1.034        | 1.042        | 1.033        | 1.042        | 1.040        | 1.041        | 1.037        | 1.028        | 1.026        |              |              |              |
| 39/36            | 1.029         | 1.032        | 1.034        | 1.037        | 1.018        | 1.012        | 1.028        | 1.025        | 1.027        | 1.029        | 1.033        | 1.031        | 1.040        | 1.039        | 1.027        | 1.021        |              |              |              |
| <b>42/39</b>     | <b>1.025</b>  | <b>1.031</b> | <b>1.036</b> | <b>1.026</b> | <b>1.019</b> | <b>1.013</b> | <b>1.017</b> | <b>1.020</b> | <b>1.025</b> | <b>1.035</b> | <b>1.036</b> | <b>1.037</b> | <b>1.037</b> | <b>1.031</b> | <b>1.022</b> | <b>1.026</b> |              |              |              |
| 45/42            | 1.025         | 1.033        | 1.032        | 1.023        | 1.012        | 1.019        | 1.033        | 1.021        | 1.025        | 1.029        | 1.026        | 1.030        | 1.028        | 1.027        | 1.021        |              |              |              |              |
| 48/45            | 1.028         | 1.023        | 1.026        | 1.017        | 1.008        | 1.013        | 1.025        | 1.018        | 1.022        | 1.025        | 1.029        | 1.034        | 1.022        | 1.023        | 1.019        |              |              |              |              |
| 51/48            | 1.019         | 1.020        | 1.024        | 1.014        | 1.009        | 1.013        | 1.018        | 1.015        | 1.020        | 1.021        | 1.021        | 1.026        | 1.024        | 1.019        | 1.014        |              |              |              |              |
| <b>54/51</b>     | <b>1.025</b>  | <b>1.027</b> | <b>1.017</b> | <b>1.016</b> | <b>1.010</b> | <b>1.012</b> | <b>1.021</b> | <b>1.019</b> | <b>1.022</b> | <b>1.022</b> | <b>1.027</b> | <b>1.023</b> | <b>1.019</b> | <b>1.018</b> | <b>1.015</b> |              |              |              |              |
| 57/54            | 1.027         | 1.024        | 1.014        | 1.007        | 1.011        | 1.017        | 1.020        | 1.018        | 1.019        | 1.019        | 1.023        | 1.020        | 1.017        | 1.018        |              |              |              |              |              |
| 60/57            | 1.021         | 1.021        | 1.015        | 1.009        | 1.008        | 1.014        | 1.020        | 1.019        | 1.018        | 1.017        | 1.019        | 1.016        | 1.015        | 1.013        |              |              |              |              |              |
| 63/60            | 1.014         | 1.020        | 1.013        | 1.012        | 1.008        | 1.016        | 1.015        | 1.021        | 1.015        | 1.018        | 1.016        | 1.020        | 1.015        | 1.010        |              |              |              |              |              |
| <b>66/63</b>     | <b>1.023</b>  | <b>1.016</b> | <b>1.010</b> | <b>1.012</b> | <b>1.015</b> | <b>1.013</b> | <b>1.015</b> | <b>1.022</b> | <b>1.019</b> | <b>1.018</b> | <b>1.017</b> | <b>1.015</b> | <b>1.010</b> | <b>1.009</b> |              |              |              |              |              |
| 69/66            | 1.025         | 1.013        | 1.006        | 1.008        | 1.016        | 1.018        | 1.015        | 1.023        | 1.017        | 1.017        | 1.015        | 1.014        | 1.010        |              |              |              |              |              |              |
| 72/69            | 1.020         | 1.009        | 1.007        | 1.009        | 1.015        | 1.010        | 1.014        | 1.015        | 1.013        | 1.014        | 1.012        | 1.011        | 1.009        |              |              |              |              |              |              |
| 75/72            | 1.015         | 1.008        | 1.006        | 1.008        | 1.010        | 1.009        | 1.012        | 1.012        | 1.011        | 1.018        | 1.013        | 1.008        | 1.006        |              |              |              |              |              |              |
| <b>78/75</b>     | <b>1.012</b>  | <b>1.012</b> | <b>1.008</b> | <b>1.012</b> | <b>1.010</b> | <b>1.011</b> | <b>1.018</b> | <b>1.013</b> | <b>1.012</b> | <b>1.012</b> | <b>1.010</b> | <b>1.008</b> | <b>1.008</b> |              |              |              |              |              |              |
| 81/78            | 1.006         | 1.006        | 1.006        | 1.009        | 1.010        | 1.014        | 1.018        | 1.017        | 1.016        | 1.009        | 1.009        | 1.005        |              |              |              |              |              |              |              |
| 84/81            | 1.008         | 1.006        | 1.009        | 1.014        | 1.009        | 1.007        | 1.012        | 1.011        | 1.008        | 1.010        | 1.008        | 1.007        |              |              |              |              |              |              |              |
| 87/84            | 1.005         | 1.008        | 1.008        | 1.010        | 1.009        | 1.010        | 1.012        | 1.014        | 1.012        | 1.008        | 1.007        | 1.004        |              |              |              |              |              |              |              |
| <b>90/87</b>     | <b>1.002</b>  | <b>1.005</b> | <b>1.008</b> | <b>1.008</b> | <b>1.009</b> | <b>1.012</b> | <b>1.009</b> | <b>1.009</b> | <b>1.013</b> | <b>1.008</b> | <b>1.006</b> | <b>1.006</b> |              |              |              |              |              |              |              |
| 93/90            | 1.006         | 1.007        | 1.015        | 1.009        | 1.011        | 1.010        | 1.011        | 1.012        | 1.009        | 1.009        | 1.007        |              |              |              |              |              |              |              |              |
| 96/93            | 1.007         | 1.007        | 1.010        | 1.012        | 1.008        | 1.010        | 1.011        | 1.009        | 1.005        | 1.006        | 1.005        |              |              |              |              |              |              |              |              |

Source: WCIRB accident year experience calls

\* Incurred medical loss development factors include the paid cost of medical cost containment programs for accident years 2011 and prior.

Quarterly Paid Indemnity Loss Development Factors  
Through June 30, 2016

| Age in<br>Months | Accident Year |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
|------------------|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                  | 1998          | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  |
| 6/3              |               |       |       |       |       |       |       |       | 4.376 | 4.495 | 4.553 | 4.807 | 4.911 | 4.722 | 4.854 | 5.099 | 5.076 | 5.056 | 5.084 |
| 9/6              |               |       |       |       |       |       |       |       | 2.259 | 2.375 | 2.377 | 2.398 | 2.452 | 2.432 | 2.484 | 2.462 | 2.462 | 2.484 |       |
| 12/9             |               |       |       |       |       |       |       |       | 1.812 | 1.834 | 1.810 | 1.825 | 1.861 | 1.869 | 1.877 | 1.866 | 1.879 | 1.910 |       |
| 15/12            | 1.499         | 1.536 | 1.538 | 1.552 | 1.550 | 1.516 | 1.491 | 1.456 | 1.482 | 1.488 | 1.481 | 1.507 | 1.532 | 1.539 | 1.506 | 1.539 | 1.540 | 1.558 |       |
| 18/15            | 1.380         | 1.399 | 1.395 | 1.401 | 1.403 | 1.379 | 1.331 | 1.306 | 1.306 | 1.327 | 1.332 | 1.343 | 1.355 | 1.361 | 1.361 | 1.353 | 1.364 | 1.372 |       |
| 21/18            | 1.323         | 1.298 | 1.303 | 1.303 | 1.311 | 1.297 | 1.241 | 1.217 | 1.233 | 1.235 | 1.243 | 1.259 | 1.257 | 1.261 | 1.261 | 1.263 | 1.267 |       |       |
| 24/21            | 1.259         | 1.257 | 1.256 | 1.258 | 1.260 | 1.244 | 1.183 | 1.181 | 1.195 | 1.191 | 1.194 | 1.206 | 1.209 | 1.215 | 1.213 | 1.204 | 1.215 |       |       |
| 27/24            | 1.186         | 1.199 | 1.203 | 1.200 | 1.205 | 1.186 | 1.140 | 1.142 | 1.151 | 1.149 | 1.153 | 1.162 | 1.165 | 1.168 | 1.164 | 1.159 | 1.170 |       |       |
| 30/27            | 1.157         | 1.161 | 1.165 | 1.175 | 1.172 | 1.161 | 1.122 | 1.117 | 1.126 | 1.129 | 1.130 | 1.141 | 1.141 | 1.137 | 1.134 | 1.141 | 1.147 |       |       |
| 33/30            | 1.118         | 1.125 | 1.130 | 1.142 | 1.136 | 1.123 | 1.097 | 1.096 | 1.100 | 1.101 | 1.108 | 1.114 | 1.116 | 1.112 | 1.111 | 1.111 |       |       |       |
| 36/33            | 1.102         | 1.103 | 1.103 | 1.115 | 1.111 | 1.097 | 1.085 | 1.081 | 1.080 | 1.084 | 1.092 | 1.094 | 1.098 | 1.091 | 1.091 | 1.096 |       |       |       |
| 39/36            | 1.074         | 1.081 | 1.081 | 1.092 | 1.087 | 1.072 | 1.070 | 1.066 | 1.064 | 1.067 | 1.074 | 1.078 | 1.077 | 1.073 | 1.075 | 1.075 |       |       |       |
| 42/39            | 1.067         | 1.071 | 1.077 | 1.080 | 1.073 | 1.063 | 1.059 | 1.058 | 1.058 | 1.062 | 1.067 | 1.067 | 1.071 | 1.070 | 1.065 | 1.064 |       |       |       |
| 45/42            | 1.057         | 1.054 | 1.063 | 1.064 | 1.056 | 1.049 | 1.047 | 1.049 | 1.047 | 1.051 | 1.058 | 1.059 | 1.057 | 1.055 | 1.054 |       |       |       |       |
| 48/45            | 1.049         | 1.050 | 1.055 | 1.053 | 1.046 | 1.044 | 1.041 | 1.044 | 1.043 | 1.047 | 1.049 | 1.051 | 1.050 | 1.048 | 1.048 |       |       |       |       |
| 51/48            | 1.039         | 1.038 | 1.043 | 1.044 | 1.036 | 1.035 | 1.033 | 1.036 | 1.036 | 1.037 | 1.042 | 1.042 | 1.043 | 1.039 | 1.038 |       |       |       |       |
| 54/51            | 1.035         | 1.038 | 1.036 | 1.037 | 1.034 | 1.035 | 1.030 | 1.028 | 1.035 | 1.036 | 1.038 | 1.041 | 1.038 | 1.036 | 1.036 |       |       |       |       |
| 57/54            | 1.029         | 1.033 | 1.037 | 1.030 | 1.028 | 1.026 | 1.025 | 1.028 | 1.030 | 1.032 | 1.033 | 1.033 | 1.032 | 1.033 |       |       |       |       |       |
| 60/57            | 1.025         | 1.030 | 1.027 | 1.026 | 1.024 | 1.024 | 1.024 | 1.024 | 1.028 | 1.029 | 1.029 | 1.032 | 1.027 | 1.030 |       |       |       |       |       |
| 63/60            | 1.023         | 1.026 | 1.024 | 1.021 | 1.022 | 1.019 | 1.019 | 1.021 | 1.023 | 1.025 | 1.025 | 1.024 | 1.026 | 1.025 |       |       |       |       |       |
| 66/63            | 1.023         | 1.023 | 1.023 | 1.021 | 1.019 | 1.019 | 1.019 | 1.020 | 1.025 | 1.025 | 1.025 | 1.025 | 1.023 | 1.022 |       |       |       |       |       |
| 69/66            | 1.019         | 1.021 | 1.020 | 1.017 | 1.016 | 1.017 | 1.016 | 1.021 | 1.020 | 1.020 | 1.020 | 1.022 | 1.020 |       |       |       |       |       |       |
| 72/69            | 1.018         | 1.016 | 1.018 | 1.016 | 1.016 | 1.015 | 1.017 | 1.015 | 1.020 | 1.019 | 1.019 | 1.019 | 1.018 |       |       |       |       |       |       |
| 75/72            | 1.015         | 1.016 | 1.015 | 1.014 | 1.012 | 1.012 | 1.013 | 1.015 | 1.019 | 1.018 | 1.016 | 1.016 | 1.017 |       |       |       |       |       |       |
| 78/75            | 1.014         | 1.014 | 1.012 | 1.013 | 1.012 | 1.011 | 1.012 | 1.015 | 1.017 | 1.016 | 1.015 | 1.016 | 1.016 |       |       |       |       |       |       |
| 81/78            | 1.013         | 1.013 | 1.011 | 1.012 | 1.011 | 1.010 | 1.012 | 1.015 | 1.015 | 1.016 | 1.015 | 1.015 |       |       |       |       |       |       |       |
| 84/81            | 1.011         | 1.011 | 1.013 | 1.010 | 1.010 | 1.009 | 1.011 | 1.013 | 1.015 | 1.014 | 1.013 | 1.012 |       |       |       |       |       |       |       |
| 87/84            | 1.012         | 1.010 | 1.008 | 1.010 | 1.009 | 1.008 | 1.009 | 1.012 | 1.014 | 1.013 | 1.010 | 1.012 |       |       |       |       |       |       |       |
| 90/87            | 1.008         | 1.009 | 1.010 | 1.009 | 1.008 | 1.008 | 1.011 | 1.012 | 1.013 | 1.012 | 1.011 | 1.010 |       |       |       |       |       |       |       |
| 93/90            | 1.009         | 1.009 | 1.008 | 1.008 | 1.007 | 1.008 | 1.012 | 1.011 | 1.011 | 1.012 | 1.010 |       |       |       |       |       |       |       |       |
| 96/93            | 1.008         | 1.009 | 1.006 | 1.007 | 1.007 | 1.007 | 1.008 | 1.011 | 1.011 | 1.008 | 1.009 |       |       |       |       |       |       |       |       |

Source: WCIRB accident year experience calls

Quarterly Paid Medical Loss Development Factors \*  
Through June 30, 2016

| Age in<br>Months | Accident Year |              |              |              |              |              |              |              |              |              |              |              |              |              |  |              |              |              |              |              |
|------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--|--------------|--------------|--------------|--------------|--------------|
|                  | 1998          | 1999         | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         | 2009         | 2010         | 2011         |  | 2012         | 2013         | 2014         | 2015         | 2016         |
| <b>6/3</b>       |               |              |              |              |              |              |              |              | <b>5.308</b> | <b>5.615</b> | <b>6.579</b> | <b>6.101</b> | <b>6.048</b> | <b>5.854</b> |  | <b>5.989</b> | <b>6.284</b> | <b>5.604</b> | <b>5.720</b> | <b>5.897</b> |
| 9/6              |               |              |              |              |              |              |              |              | 2.348        | 2.381        | 2.348        | 2.375        | 2.361        | 2.327        |  | 2.398        | 2.498        | 2.428        | 2.287        |              |
| 12/9             |               |              |              |              |              |              |              |              | 1.716        | 1.765        | 1.731        | 1.723        | 1.756        | 1.746        |  | 1.763        | 1.736        | 1.750        | 1.707        |              |
| 15/12            | 1.453         | 1.490        | 1.514        | 1.547        | 1.554        | 1.510        | 1.437        | 1.423        | 1.429        | 1.444        | 1.413        | 1.429        | 1.445        | 1.472        |  | 1.446        | 1.443        | 1.460        | 1.454        |              |
| <b>18/15</b>     | <b>1.241</b>  | <b>1.267</b> | <b>1.286</b> | <b>1.310</b> | <b>1.330</b> | <b>1.295</b> | <b>1.243</b> | <b>1.230</b> | <b>1.227</b> | <b>1.259</b> | <b>1.243</b> | <b>1.259</b> | <b>1.268</b> | <b>1.282</b> |  | <b>1.284</b> | <b>1.263</b> | <b>1.265</b> | <b>1.278</b> |              |
| 21/18            | 1.164         | 1.168        | 1.192        | 1.219        | 1.211        | 1.179        | 1.153        | 1.151        | 1.163        | 1.173        | 1.170        | 1.178        | 1.182        | 1.187        |  | 1.192        | 1.193        | 1.192        |              |              |
| 24/21            | 1.132         | 1.124        | 1.149        | 1.159        | 1.154        | 1.125        | 1.115        | 1.118        | 1.127        | 1.133        | 1.132        | 1.137        | 1.144        | 1.153        |  | 1.154        | 1.148        | 1.146        |              |              |
| 27/24            | 1.096         | 1.108        | 1.121        | 1.128        | 1.123        | 1.093        | 1.090        | 1.093        | 1.106        | 1.107        | 1.110        | 1.112        | 1.119        | 1.120        |  | 1.123        | 1.122        | 1.122        |              |              |
| <b>30/27</b>     | <b>1.077</b>  | <b>1.088</b> | <b>1.101</b> | <b>1.108</b> | <b>1.103</b> | <b>1.077</b> | <b>1.084</b> | <b>1.087</b> | <b>1.097</b> | <b>1.100</b> | <b>1.100</b> | <b>1.106</b> | <b>1.107</b> | <b>1.111</b> |  | <b>1.109</b> | <b>1.111</b> | <b>1.111</b> |              |              |
| 33/30            | 1.065         | 1.072        | 1.086        | 1.089        | 1.077        | 1.063        | 1.071        | 1.065        | 1.081        | 1.083        | 1.086        | 1.092        | 1.094        | 1.093        |  | 1.094        | 1.090        |              |              |              |
| 36/33            | 1.055         | 1.066        | 1.069        | 1.076        | 1.061        | 1.055        | 1.062        | 1.062        | 1.071        | 1.072        | 1.072        | 1.077        | 1.083        | 1.082        |  | 1.078        | 1.080        |              |              |              |
| 39/36            | 1.051         | 1.059        | 1.060        | 1.061        | 1.049        | 1.044        | 1.053        | 1.056        | 1.057        | 1.059        | 1.061        | 1.066        | 1.071        | 1.066        |  | 1.069        | 1.065        |              |              |              |
| <b>42/39</b>     | <b>1.044</b>  | <b>1.049</b> | <b>1.055</b> | <b>1.054</b> | <b>1.041</b> | <b>1.044</b> | <b>1.049</b> | <b>1.054</b> | <b>1.055</b> | <b>1.058</b> | <b>1.059</b> | <b>1.061</b> | <b>1.068</b> | <b>1.063</b> |  | <b>1.062</b> | <b>1.058</b> |              |              |              |
| 45/42            | 1.039         | 1.045        | 1.047        | 1.044        | 1.036        | 1.037        | 1.040        | 1.047        | 1.048        | 1.049        | 1.054        | 1.053        | 1.056        | 1.056        |  | 1.053        |              |              |              |              |
| 48/45            | 1.035         | 1.039        | 1.044        | 1.037        | 1.032        | 1.035        | 1.037        | 1.043        | 1.043        | 1.046        | 1.047        | 1.050        | 1.051        | 1.046        |  | 1.045        |              |              |              |              |
| 51/48            | 1.030         | 1.035        | 1.037        | 1.034        | 1.031        | 1.030        | 1.033        | 1.037        | 1.036        | 1.036        | 1.039        | 1.041        | 1.043        | 1.040        |  | 1.039        |              |              |              |              |
| <b>54/51</b>     | <b>1.031</b>  | <b>1.036</b> | <b>1.032</b> | <b>1.027</b> | <b>1.030</b> | <b>1.029</b> | <b>1.034</b> | <b>1.034</b> | <b>1.035</b> | <b>1.035</b> | <b>1.036</b> | <b>1.042</b> | <b>1.038</b> | <b>1.035</b> |  | <b>1.035</b> |              |              |              |              |
| 57/54            | 1.026         | 1.030        | 1.027        | 1.024        | 1.024        | 1.024        | 1.029        | 1.031        | 1.034        | 1.031        | 1.033        | 1.038        | 1.034        | 1.034        |  |              |              |              |              |              |
| 60/57            | 1.026         | 1.028        | 1.026        | 1.021        | 1.023        | 1.026        | 1.028        | 1.029        | 1.028        | 1.032        | 1.032        | 1.035        | 1.030        | 1.030        |  |              |              |              |              |              |
| 63/60            | 1.023         | 1.025        | 1.022        | 1.019        | 1.019        | 1.020        | 1.024        | 1.024        | 1.024        | 1.024        | 1.027        | 1.027        | 1.026        | 1.026        |  |              |              |              |              |              |
| <b>66/63</b>     | <b>1.026</b>  | <b>1.021</b> | <b>1.020</b> | <b>1.020</b> | <b>1.018</b> | <b>1.021</b> | <b>1.023</b> | <b>1.024</b> | <b>1.026</b> | <b>1.026</b> | <b>1.029</b> | <b>1.029</b> | <b>1.024</b> | <b>1.027</b> |  |              |              |              |              |              |
| 69/66            | 1.021         | 1.022        | 1.019        | 1.018        | 1.016        | 1.019        | 1.021        | 1.023        | 1.023        | 1.021        | 1.024        | 1.024        | 1.022        |              |  |              |              |              |              |              |
| 72/69            | 1.022         | 1.018        | 1.016        | 1.017        | 1.018        | 1.016        | 1.021        | 1.021        | 1.022        | 1.022        | 1.023        | 1.021        | 1.020        |              |  |              |              |              |              |              |
| 75/72            | 1.017         | 1.016        | 1.014        | 1.015        | 1.015        | 1.014        | 1.018        | 1.020        | 1.019        | 1.019        | 1.018        | 1.018        | 1.018        |              |  |              |              |              |              |              |
| <b>78/75</b>     | <b>1.018</b>  | <b>1.015</b> | <b>1.014</b> | <b>1.015</b> | <b>1.016</b> | <b>1.015</b> | <b>1.016</b> | <b>1.018</b> | <b>1.017</b> | <b>1.022</b> | <b>1.019</b> | <b>1.018</b> | <b>1.017</b> |              |  |              |              |              |              |              |
| 81/78            | 1.015         | 1.014        | 1.013        | 1.014        | 1.013        | 1.014        | 1.018        | 1.018        | 1.015        | 1.019        | 1.018        | 1.015        |              |              |  |              |              |              |              |              |
| 84/81            | 1.013         | 1.012        | 1.013        | 1.012        | 1.012        | 1.013        | 1.016        | 1.016        | 1.015        | 1.018        | 1.015        | 1.015        |              |              |  |              |              |              |              |              |
| 87/84            | 1.013         | 1.011        | 1.010        | 1.012        | 1.012        | 1.012        | 1.014        | 1.013        | 1.015        | 1.017        | 1.013        | 1.013        |              |              |  |              |              |              |              |              |
| <b>90/87</b>     | <b>1.013</b>  | <b>1.012</b> | <b>1.011</b> | <b>1.013</b> | <b>1.012</b> | <b>1.013</b> | <b>1.015</b> | <b>1.013</b> | <b>1.015</b> | <b>1.013</b> | <b>1.013</b> | <b>1.012</b> |              |              |  |              |              |              |              |              |
| 93/90            | 1.011         | 1.010        | 1.011        | 1.012        | 1.011        | 1.013        | 1.013        | 1.012        | 1.014        | 1.014        | 1.013        |              |              |              |  |              |              |              |              |              |
| 96/93            | 1.010         | 1.010        | 1.008        | 1.010        | 1.010        | 1.009        | 1.013        | 1.015        | 1.016        | 1.011        | 1.011        |              |              |              |  |              |              |              |              |              |

Source: WCIRB accident year experience calls

\* Paid medical loss development factors include the paid cost of medical cost containment programs for accident years 2011 and prior.

Reported Indemnity Claim Count Development

| Accident<br>Year  | Development |       |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
|---|-------------|-------|-------|-------|-------|-------|-------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
|   | 6-18        | 18-30 | 30-42 | 42-54 | 54-66 | 66-78 | 78-90 | 90-102 | 102-114 | 114-126 | 126-138 | 138-150 | 150-162 | 162-174 | 174-186 | 186-198 |
| 1992  |             |       |       |       |       |       |       |        |         |         |         |         |         |         | 1.000   | 1.001   |
| 1993  |             |       |       |       |       |       |       |        |         |         |         |         |         |         | 1.000   | 1.000   |
| 1994  |             |       |       |       |       |       |       |        |         |         |         |         | 1.001   | 1.000   | 1.000   | 1.000   |
| 1995  |             |       |       |       |       |       |       |        |         |         |         | 1.001   | 1.000   | 1.000   | 1.001   | 1.000   |
| 1996  |             |       |       |       |       |       |       |        |         |         | 1.001   | 1.001   | 1.001   | 1.000   | 1.000   | 1.000   |
| 1997  |             |       |       |       |       |       |       |        |         | 1.001   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   |
| 1998  |             |       |       |       |       |       |       |        | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   |
| 1999  |             |       |       |       |       |       |       | 1.001  | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   |
| 2000  |             |       |       |       |       |       | 1.000 | 1.000  | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   |
| 2001  |             |       |       |       |       | 1.001 | 0.999 | 0.999  | 0.999   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   |
| 2002  |             |       |       |       | 1.001 | 1.000 | 1.000 | 0.999  | 0.999   | 0.999   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   |
| 2003  |             |       |       | 1.001 | 0.999 | 0.998 | 0.999 | 0.999  | 0.999   | 0.999   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   |
| 2004  |             |       | 1.002 | 0.999 | 0.999 | 1.000 | 0.999 | 0.999  | 0.999   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   |
| 2005  |             | 1.017 | 1.002 | 1.000 | 1.002 | 1.000 | 1.000 | 1.000  | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   | 1.000   |
| 2006  | 2.382       | 1.012 | 1.006 | 1.003 | 1.001 | 1.000 | 1.001 | 1.000  | 1.000   | 1.001   | 1.001   | 1.001   | 1.001   | 1.001   | 1.001   | 1.001   |
| 2007  | 2.566       | 1.024 | 1.009 | 1.004 | 1.003 | 1.002 | 1.000 | 1.000  | 1.000   | 1.001   | 1.001   | 1.001   | 1.001   | 1.001   | 1.001   | 1.001   |
| 2008  | 2.495       | 1.041 | 1.013 | 1.008 | 1.004 | 1.003 | 1.001 | 1.001  | 1.001   | 1.001   | 1.001   | 1.001   | 1.001   | 1.001   | 1.001   | 1.001   |
| 2009  | 2.695       | 1.051 | 1.018 | 1.008 | 1.004 | 1.002 | 1.002 | 1.002  | 1.002   | 1.002   | 1.002   | 1.002   | 1.002   | 1.002   | 1.002   | 1.002   |
| 2010  | 2.830       | 1.058 | 1.018 | 1.008 | 1.005 | 1.003 | 1.003 | 1.003  | 1.003   | 1.003   | 1.003   | 1.003   | 1.003   | 1.003   | 1.003   | 1.003   |
| 2011  | 2.907       | 1.068 | 1.019 | 1.010 | 1.005 | 1.005 | 1.005 | 1.005  | 1.005   | 1.005   | 1.005   | 1.005   | 1.005   | 1.005   | 1.005   | 1.005   |
| 2012  | 2.932       | 1.073 | 1.020 | 1.010 | 1.010 | 1.010 | 1.010 | 1.010  | 1.010   | 1.010   | 1.010   | 1.010   | 1.010   | 1.010   | 1.010   | 1.010   |
| 2013  | 2.961       | 1.068 | 1.020 | 1.020 | 1.020 | 1.020 | 1.020 | 1.020  | 1.020   | 1.020   | 1.020   | 1.020   | 1.020   | 1.020   | 1.020   | 1.020   |
| 2014  | 2.953       | 1.071 | 1.071 | 1.071 | 1.071 | 1.071 | 1.071 | 1.071  | 1.071   | 1.071   | 1.071   | 1.071   | 1.071   | 1.071   | 1.071   | 1.071   |
| 2015  | 2.969       | 1.071 | 1.071 | 1.071 | 1.071 | 1.071 | 1.071 | 1.071  | 1.071   | 1.071   | 1.071   | 1.071   | 1.071   | 1.071   | 1.071   | 1.071   |
| Latest Year   |             |       |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| Age-to-Age  |             |       |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| 2.969 1.071 1.020 1.010 1.005 1.003 1.002 1.001 1.001 1.001 1.000 1.000 1.000 1.000 1.000 1.000 1.000 |             |       |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| Age-to-Ultimate   |             |       |       |       |       |       |       |        |         |         |         |         |         |         |         |         |
| 3.320 1.118 1.044 1.024 1.014 1.009 1.006 1.004 1.003 1.002 1.002 1.002 1.002 1.002 1.002 1.002 1.002 |             |       |       |       |       |       |       |        |         |         |         |         |         |         |         |         |

Notes All figures in each accident year contain information from the same combination of insurers, all of whom submitted complete data for all evaluations for that accident year. Therefore, each accident year may contain a different mix of insurers (ranging from 75% to 100% of the total California workers' compensation insured market measured using 2015 earned premium levels).

Quarterly Reported Indemnity Claim Count Development Factors

| Accident<br>Year | Development |            |             |              |              |              |              |              |              |              |              |              |              |              |              |
|------------------|-------------|------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                  | <u>3-6</u>  | <u>6-9</u> | <u>9-12</u> | <u>12-15</u> | <u>15-18</u> | <u>18-21</u> | <u>21-24</u> | <u>24-27</u> | <u>27-30</u> | <u>30-33</u> | <u>33-36</u> | <u>36-39</u> | <u>39-42</u> | <u>42-45</u> | <u>45-48</u> |
| 2007             | 2.562       | 1.703      | 1.361       | 1.087        | 1.018        | 1.009        | 1.005        | 1.005        | 1.004        | 1.003        | 1.003        | 1.002        | 1.002        | 1.002        | 1.001        |
| 2008             | 2.540       | 1.652      | 1.340       | 1.095        | 1.025        | 1.015        | 1.010        | 1.009        | 1.007        | 1.004        | 1.003        | 1.003        | 1.002        | 1.003        | 1.002        |
| 2009             | 2.693       | 1.683      | 1.388       | 1.113        | 1.037        | 1.021        | 1.012        | 1.010        | 1.007        | 1.007        | 1.005        | 1.004        | 1.003        | 1.003        | 1.002        |
| 2010             | 2.713       | 1.716      | 1.408       | 1.128        | 1.039        | 1.022        | 1.016        | 1.011        | 1.008        | 1.006        | 1.005        | 1.003        | 1.004        | 1.003        | 1.001        |
| 2011             | 2.703       | 1.738      | 1.421       | 1.129        | 1.042        | 1.027        | 1.019        | 1.010        | 1.011        | 1.006        | 1.005        | 1.004        | 1.004        | 1.003        | 1.002        |
| 2012             | 2.757       | 1.742      | 1.420       | 1.126        | 1.053        | 1.029        | 1.020        | 1.013        | 1.010        | 1.007        | 1.004        | 1.005        | 1.004        | 1.003        | 1.003        |
| 2013             | 2.847       | 1.747      | 1.426       | 1.139        | 1.044        | 1.027        | 1.016        | 1.012        | 1.011        | 1.007        | 1.005        | 1.004        | 1.004        |              |              |
| 2014             | 2.776       | 1.734      | 1.429       | 1.137        | 1.048        | 1.027        | 1.019        | 1.013        | 1.011        |              |              |              |              |              |              |
| 2015             | 2.843       | 1.743      | 1.422       | 1.142        | 1.049        |              |              |              |              |              |              |              |              |              |              |
| 2016             | 2.769       |            |             |              |              |              |              |              |              |              |              |              |              |              |              |

Reported Indemnity Claim Settlement Ratios

| Accident<br>Year | Evaluated as of (in months): |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
|------------------|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                  | 6                            | 18    | 30    | 42    | 54    | 66    | 78    | 90    | 102   | 114   | 126   | 138   | 150   | 162   | 174   | 186   | 198   |
| 1991             |                              |       |       |       |       |       |       |       |       |       |       |       |       |       |       | 99.1% | 99.2% |
| 1992             |                              |       |       |       |       |       |       |       |       |       |       |       |       |       | 98.9% | 99.1% | 99.2% |
| 1993             |                              |       |       |       |       |       |       |       |       |       |       |       |       | 98.6% | 98.7% | 98.9% | 99.0% |
| 1994             |                              |       |       |       |       |       |       |       |       |       |       |       | 98.0% | 98.2% | 98.5% | 98.7% | 98.8% |
| 1995             |                              |       |       |       |       |       |       |       |       |       |       | 97.3% | 97.6% | 97.9% | 98.2% | 98.4% | 98.6% |
| 1996             |                              |       |       |       |       |       |       |       |       |       | 96.6% | 97.0% | 97.4% | 97.8% | 98.1% | 98.3% | 98.5% |
| 1997             |                              |       |       |       |       |       |       |       |       | 95.7% | 96.3% | 96.9% | 97.3% | 97.7% | 97.9% | 98.1% | 98.3% |
| 1998             |                              |       |       |       |       |       |       |       | 93.7% | 94.9% | 95.7% | 96.5% | 96.9% | 97.3% | 97.6% | 97.9% | 98.1% |
| 1999             |                              |       |       |       |       |       |       | 91.5% | 93.3% | 94.6% | 95.5% | 96.2% | 96.7% | 97.1% | 97.4% | 97.8% | 98.0% |
| 2000             |                              |       |       |       |       |       | 88.0% | 90.7% | 92.6% | 94.0% | 95.0% | 95.8% | 96.3% | 96.8% | 97.3% | 97.6% | 97.9% |
| 2001             |                              |       |       |       |       | 81.4% | 86.0% | 89.2% | 91.4% | 92.9% | 94.0% | 94.9% | 95.7% | 96.3% | 96.8% | 97.2% |       |
| 2002             |                              |       |       |       | 74.6% | 81.9% | 86.5% | 89.5% | 91.5% | 93.0% | 94.3% | 95.3% | 96.1% | 96.7% | 97.2% |       |       |
| 2003             |                              |       |       | 64.2% | 75.1% | 82.0% | 86.6% | 89.3% | 91.4% | 93.1% | 94.5% | 95.5% | 96.1% | 96.7% |       |       |       |
| 2004             |                              |       | 53.0% | 66.7% | 76.8% | 82.8% | 86.4% | 89.1% | 91.3% | 93.2% | 94.7% | 95.6% | 96.3% |       |       |       |       |
| 2005             |                              | 40.7% | 55.9% | 69.4% | 78.2% | 83.3% | 86.9% | 89.6% | 91.8% | 93.7% | 95.0% | 95.9% |       |       |       |       |       |
| 2006             | 13.7%                        | 41.6% | 57.8% | 70.3% | 78.2% | 83.5% | 87.1% | 90.0% | 92.3% | 93.9% | 95.1% |       |       |       |       |       |       |
| 2007             | 14.2%                        | 41.2% | 56.7% | 68.8% | 77.1% | 82.5% | 86.6% | 90.1% | 92.3% | 94.1% |       |       |       |       |       |       |       |
| 2008             | 14.4%                        | 40.3% | 54.9% | 67.3% | 76.0% | 82.2% | 87.0% | 90.3% | 92.8% |       |       |       |       |       |       |       |       |
| 2009             | 13.9%                        | 38.7% | 53.2% | 65.9% | 75.1% | 82.0% | 86.7% | 90.4% |       |       |       |       |       |       |       |       |       |
| 2010             | 14.7%                        | 39.1% | 54.1% | 66.9% | 77.0% | 83.4% | 88.3% |       |       |       |       |       |       |       |       |       |       |
| 2011             | 16.5%                        | 39.5% | 54.8% | 68.2% | 78.0% | 84.7% |       |       |       |       |       |       |       |       |       |       |       |
| 2012             | 16.1%                        | 39.7% | 55.9% | 69.8% | 79.4% |       |       |       |       |       |       |       |       |       |       |       |       |
| 2013             | 16.3%                        | 39.3% | 57.1% | 71.4% |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 2014             | 15.2%                        | 40.1% | 58.5% |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 2015             | 15.3%                        | 41.4% |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 2016             | 16.5%                        |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |

Notes All figures in each accident year contain information from the same combination of insurers, all of whom submitted complete data for all evaluations for that accident year. Therefore, each accident year may contain a different mix of insurers (ranging from 75% to 100% of the total California workers' compensation insured market measured using 2015 earned premium levels).

Estimated Ultimate Indemnity Claim Settlement Ratios

| Accident Year | Evaluated as of (in months): |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
|---------------|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|               | 6                            | 18    | 30    | 42    | 54    | 66    | 78    | 90    | 102   | 114   | 126   | 138   | 150   | 162   | 174   | 186   | 198   |
| 1991          |                              |       |       |       |       |       |       |       |       |       |       |       |       |       |       | 99.0% | 99.0% |
| 1992          |                              |       |       |       |       |       |       |       |       |       |       |       |       |       | 98.8% | 98.9% | 99.0% |
| 1993          |                              |       |       |       |       |       |       |       |       |       |       |       |       | 98.3% | 98.5% | 98.7% | 98.8% |
| 1994          |                              |       |       |       |       |       |       |       |       |       |       |       | 97.6% | 97.9% | 98.2% | 98.5% | 98.6% |
| 1995          |                              |       |       |       |       |       |       |       |       |       |       | 96.8% | 97.2% | 97.5% | 97.9% | 98.2% | 98.4% |
| 1996          |                              |       |       |       |       |       |       |       |       |       | 96.1% | 96.7% | 97.1% | 97.6% | 97.9% | 98.1% | 98.3% |
| 1997          |                              |       |       |       |       |       |       |       |       | 95.3% | 96.0% | 96.6% | 97.1% | 97.4% | 97.7% | 97.9% | 98.2% |
| 1998          |                              |       |       |       |       |       |       |       | 93.4% | 94.6% | 95.5% | 96.2% | 96.7% | 97.1% | 97.4% | 97.7% | 98.0% |
| 1999          |                              |       |       |       |       |       |       | 91.2% | 93.0% | 94.4% | 95.3% | 96.0% | 96.5% | 96.9% | 97.3% | 97.6% | 97.8% |
| 2000          |                              |       |       |       |       |       | 87.8% | 90.5% | 92.4% | 93.8% | 94.8% | 95.5% | 96.1% | 96.6% | 97.1% | 97.5% | 97.8% |
| 2001          |                              |       |       |       |       | 81.4% | 86.0% | 89.1% | 91.2% | 92.7% | 93.8% | 94.7% | 95.5% | 96.1% | 96.6% | 97.0% |       |
| 2002          |                              |       |       |       | 74.6% | 82.0% | 86.5% | 89.6% | 91.5% | 93.0% | 94.1% | 95.2% | 96.0% | 96.5% | 97.0% |       |       |
| 2003          |                              |       |       | 64.4% | 75.5% | 82.4% | 86.8% | 89.4% | 91.4% | 93.0% | 94.3% | 95.3% | 96.0% | 96.6% |       |       |       |
| 2004          |                              |       | 53.0% | 66.9% | 77.1% | 83.0% | 86.6% | 89.2% | 91.3% | 93.1% | 94.6% | 95.5% | 96.2% |       |       |       |       |
| 2005          |                              | 39.7% | 55.6% | 69.1% | 77.9% | 83.0% | 86.8% | 89.5% | 91.7% | 93.5% | 94.8% | 95.7% |       |       |       |       |       |
| 2006          | 5.6%                         | 40.6% | 57.0% | 69.8% | 77.8% | 83.2% | 86.8% | 89.7% | 92.1% | 93.7% | 95.0% |       |       |       |       |       |       |
| 2007          | 5.3%                         | 39.3% | 55.5% | 67.9% | 76.5% | 82.0% | 86.3% | 89.8% | 92.0% | 93.8% |       |       |       |       |       |       |       |
| 2008          | 5.4%                         | 37.5% | 53.2% | 66.0% | 75.1% | 81.5% | 86.6% | 89.9% | 92.5% |       |       |       |       |       |       |       |       |
| 2009          | 4.7%                         | 35.4% | 51.2% | 64.6% | 74.2% | 81.3% | 86.2% | 90.0% |       |       |       |       |       |       |       |       |       |
| 2010          | 4.7%                         | 35.5% | 52.0% | 65.5% | 75.9% | 82.7% | 87.8% |       |       |       |       |       |       |       |       |       |       |
| 2011          | 5.1%                         | 35.5% | 52.5% | 66.6% | 76.9% | 84.0% |       |       |       |       |       |       |       |       |       |       |       |
| 2012          | 4.9%                         | 35.4% | 53.5% | 68.2% | 78.3% |       |       |       |       |       |       |       |       |       |       |       |       |
| 2013          | 4.9%                         | 35.3% | 54.7% | 69.8% |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 2014          | 4.6%                         | 35.8% | 56.0% |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 2015          | 4.6%                         | 37.0% |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 2016          | 5.0%                         |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |

Notes All figures in each accident year contain information from the same combination of insurers, all of whom submitted complete data for all evaluations for that accident year. Therefore, each accident year may contain a different mix of insurers (ranging from 75% to 100% of the total California workers' compensation insured market measured using 2015 earned premium levels).

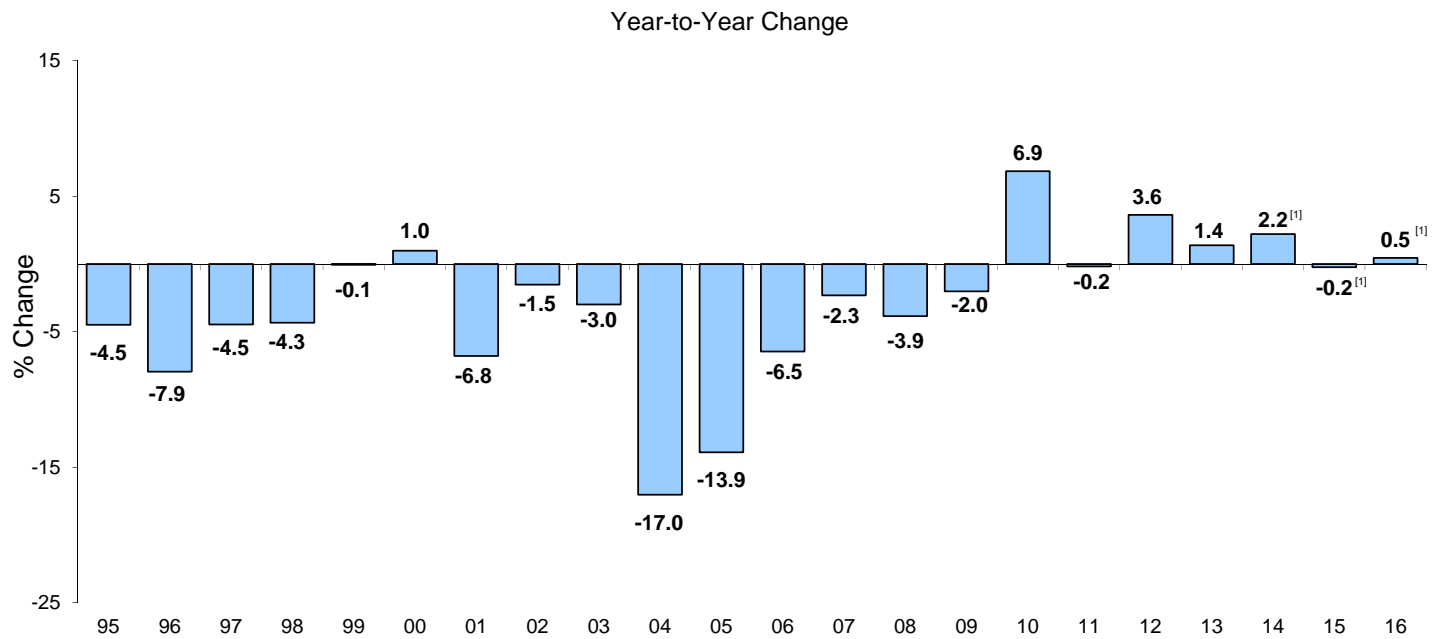


**Quarterly Ultimate Settlement Ratios**

| Accident    | Evaluated as of (in months): |          |          |           |           |           |           |           |           |           |           |           |           |           |           |           |
|-------------|------------------------------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <u>Year</u> | <u>3</u>                     | <u>6</u> | <u>9</u> | <u>12</u> | <u>15</u> | <u>18</u> | <u>21</u> | <u>24</u> | <u>27</u> | <u>30</u> | <u>33</u> | <u>36</u> | <u>39</u> | <u>42</u> | <u>45</u> | <u>48</u> |
| 2007        | 0.8%                         | 5.3%     | 13.3%    | 23.6%     | 32.9%     | 39.3%     | 43.9%     | 48.1%     | 51.7%     | 55.5%     | 58.7%     | 62.5%     | 65.3%     | 67.9%     | 70.4%     | 72.8%     |
| 2008        | 0.8%                         | 5.4%     | 13.2%    | 22.9%     | 31.4%     | 37.6%     | 42.0%     | 45.9%     | 49.6%     | 53.3%     | 56.8%     | 60.3%     | 63.2%     | 66.0%     | 68.6%     | 71.0%     |
| 2009        | 0.7%                         | 4.7%     | 12.2%    | 21.2%     | 29.4%     | 35.4%     | 39.8%     | 43.8%     | 47.5%     | 51.2%     | 55.0%     | 58.5%     | 61.5%     | 64.6%     | 67.2%     | 69.7%     |
| 2010        | 0.7%                         | 4.7%     | 11.7%    | 20.9%     | 29.5%     | 35.5%     | 39.9%     | 44.2%     | 48.1%     | 52.0%     | 55.6%     | 59.1%     | 62.2%     | 65.5%     | 68.6%     | 71.4%     |
| 2011        | 0.8%                         | 5.1%     | 11.8%    | 21.0%     | 29.4%     | 35.5%     | 40.0%     | 44.4%     | 48.3%     | 52.5%     | 56.4%     | 60.4%     | 63.6%     | 66.7%     | 69.7%     | 72.4%     |
| 2012        | 0.8%                         | 4.9%     | 11.9%    | 20.9%     | 29.0%     | 35.5%     | 40.3%     | 45.1%     | 49.3%     | 53.5%     | 57.7%     | 61.6%     | 65.0%     | 68.2%     | 71.1%     | 73.9%     |
| 2013        | 0.9%                         | 4.9%     | 11.4%    | 20.4%     | 28.8%     | 35.3%     | 40.6%     | 45.5%     | 50.2%     | 54.7%     | 58.9%     | 62.8%     | 66.4%     | 69.8%     |           |           |
| 2014        | 0.7%                         | 4.6%     | 11.3%    | 20.2%     | 29.0%     | 35.8%     | 41.6%     | 46.7%     | 51.5%     | 56.1%     |           |           |           |           |           |           |
| 2015        | 0.8%                         | 4.6%     | 11.7%    | 20.6%     | 29.7%     | 37.1%     |           |           |           |           |           |           |           |           |           |           |
| 2016        | 0.8%                         | 5.0%     |          |           |           |           |           |           |           |           |           |           |           |           |           |           |

| Accident | Quarterly Incremental Change |      |       |       |       |       |       |       |       |       |       |       |       |       |       |
|----------|------------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Year     | 3-6                          | 6-9  | 9-12  | 12-15 | 15-18 | 18-21 | 21-24 | 24-27 | 27-30 | 30-33 | 33-36 | 36-39 | 39-42 | 42-45 | 45-48 |
| 2007     | 4.5%                         | 8.0% | 10.3% | 9.3%  | 6.5%  | 4.5%  | 4.3%  | 3.6%  | 3.8%  | 3.2%  | 3.8%  | 2.8%  | 2.6%  | 2.5%  | 2.4%  |
| 2008     | 4.6%                         | 7.8% | 9.7%  | 8.5%  | 6.2%  | 4.4%  | 3.9%  | 3.6%  | 3.7%  | 3.5%  | 3.5%  | 2.9%  | 2.8%  | 2.6%  | 2.4%  |
| 2009     | 4.0%                         | 7.5% | 9.0%  | 8.2%  | 6.0%  | 4.4%  | 4.0%  | 3.6%  | 3.7%  | 3.8%  | 3.6%  | 3.0%  | 3.1%  | 2.6%  | 2.5%  |
| 2010     | 4.0%                         | 7.0% | 9.2%  | 8.6%  | 6.0%  | 4.4%  | 4.3%  | 3.8%  | 3.9%  | 3.6%  | 3.5%  | 3.1%  | 3.3%  | 3.0%  | 2.8%  |
| 2011     | 4.3%                         | 6.8% | 9.2%  | 8.3%  | 6.1%  | 4.6%  | 4.4%  | 3.9%  | 4.3%  | 3.9%  | 4.0%  | 3.3%  | 3.0%  | 3.0%  | 2.8%  |
| 2012     | 4.1%                         | 7.0% | 9.0%  | 8.1%  | 6.5%  | 4.8%  | 4.8%  | 4.1%  | 4.2%  | 4.2%  | 3.8%  | 3.4%  | 3.2%  | 2.9%  | 2.8%  |
| 2013     | 4.0%                         | 6.5% | 9.0%  | 8.4%  | 6.5%  | 5.4%  | 4.9%  | 4.7%  | 4.5%  | 4.1%  | 4.0%  | 3.6%  | 3.4%  |       |       |
| 2014     | 3.9%                         | 6.7% | 8.9%  | 8.8%  | 6.8%  | 5.7%  | 5.1%  | 4.8%  | 4.6%  |       |       |       |       |       |       |
| 2015     | 3.8%                         | 7.1% | 8.9%  | 9.1%  | 7.4%  |       |       |       |       |       |       |       |       |       |       |
| 2016     | 4.2%                         |      |       |       |       |       |       |       |       |       |       |       |       |       |       |

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



<sup>[1]</sup> The 2013-2014 estimate is based on partial year unit statistical data. The 2014-2015 and 2015-2016 estimates are based on comparison of claim counts based on WCIRB accident year experience as of June 30, 2016 relative to the estimated change in statewide employment. Prior years are based on unit statistical data.

### Item III-B – AC16-09-02 Potential Impact of 2016 Legislation

Legislation potentially impacting workers' compensation cost levels is currently under consideration in the California Legislature. Specifically, Senate Bill No. 1160 (SB 1160), as amended in the Assembly on August 18, 2016, among other provisions, contains a number of provisions related to utilization review and liens. Attached is a copy of SB 1160.

If SB 1160 is enacted by the close of the legislative session on August 31, 2016, the Committee will review the potential cost impact of the legislation.

AMENDED IN ASSEMBLY AUGUST 18, 2016

AMENDED IN ASSEMBLY JUNE 20, 2016

AMENDED IN SENATE APRIL 6, 2016

AMENDED IN SENATE MARCH 28, 2016

**SENATE BILL**

**No. 1160**

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**Introduced by Senator Mendoza**  
*(Principal coauthor: Senator Pan)*

February 18, 2016

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An act to amend Sections ~~138.6, 4604.5, and 4610~~ of 138.4, 138.6, 4610.5, 4610.6, 4903.05, 4903.8, 5307.27, 5710, 5811, and 6409 of, to amend, repeal, and add Section 4610 of, and to add Section 4615 to, the Labor Code, relating to workers' compensation.

LEGISLATIVE COUNSEL'S DIGEST

SB 1160, as amended, Mendoza. ~~Workers' compensation: utilization review: compensation.~~

Existing law establishes a workers' compensation system, administered by the Administrative Director of the Division of Workers' Compensation, to compensate an employee for injuries sustained in the course of his or her employment.

*Existing law requires the administrative director to develop and make available informational material written in plain language that describes the overall workers' compensation claims process, as specified.*

*This bill would require the administrative director to adopt regulations to provide employees with notice regarding access to medical treatment following the denial of a claim under the workers' compensation system.*

Existing law requires the Administrative Director of the Division of Workers' Compensation of the Department of Industrial Relations to develop a workers' compensation information system in consultation with the Insurance Commissioner and the Workers' Compensation Insurance Rating Bureau, with certain data to be collected electronically and to be compatible with the Electronic Data Interchange System of the International Association of Industrial Accident Boards and Commissions. Existing law requires the administrative director to assess an administrative penalty of not more than \$5,000 in a single year against a claims administrator for a violation of those data reporting requirements.

This bill would increase that penalty assessment to not more than \$10,000. The bill would require the administrative director to post on the Division of Workers' Compensation Internet Web site a list of claims administrators who are in violation of the data reporting requirements. ~~The bill would require penalty assessments, commencing January 1, 2019, of not less than \$15,000 and not more than \$45,000 for those violators if certain criteria are met.~~

~~Existing law requires an employer to provide all medical services reasonably required to cure or relieve the injured worker from the effects of the injury. Under existing law, an employee may be treated by a physician of his or her own choice at a facility of his or her choice. Existing law requires the administrative director to adopt guidelines that govern the extent and scope of that medical treatment. Under existing law, an employee is entitled to no more than 24 chiropractic, 24 occupational therapy, and 24 physical therapy visits per industrial injury. Existing law makes these restrictions on visits inapplicable to postsurgical physical medicine and postsurgical rehabilitation services.~~

~~This bill would instead make those restrictions on the numbers of visits inapplicable to physical medicine and rehabilitation services. The bill would require the administrative director to adopt regulations for these purposes, as specified.~~

Existing law requires every employer to establish a utilization review process, and defines "utilization review" as utilization review or utilization management functions that prospectively, retrospectively, or concurrently review and approve, modify, delay, or deny, based in whole or in part on medical necessity to cure and relieve, treatment recommendations by physicians, prior to, retrospectively, or concurrent with providing medical treatment services. Existing law also provides

for an independent medical review process to resolve disputes over utilization review decisions, as defined.

*This bill would revise and recast provisions relating to utilization review, as specified, with regard to injuries occurring on or after January 1, 2018. Among other things, the bill would set forth the medical treatment services that would be subject to prospective utilization review under these provisions, as provided. The bill would authorize retrospective utilization review for treatment provided under these provisions under limited circumstances, as specified. The bill would establish procedures for prospective and retrospective utilization reviews and set forth provisions for removal of a physician or provider under designated circumstances. On and after January 1, 2018, the bill would establish new procedures for reviewing determinations regarding the medical necessity of medication prescribed pursuant to the drug formulary adopted by the administrative director, as provided. The bill would make conforming changes to related provisions to implement these changes.*

~~This~~

*The bill would, commencing July 1, 2018, require each utilization review process to be accredited by an independent, nonprofit organization to certify that the utilization review process meets specified criteria, including, but not limited to, timeliness in issuing a utilization review decision, the scope of medical material used in issuing a utilization review decision, and requiring a policy preventing financial incentives to doctors and other providers based on the utilization review decision. The bill would require the administrative director to adopt rules to implement the selection of an independent, nonprofit organization for ~~those certification purposes~~ accreditation purposes, and as specified. The bill would authorize the administrative director to adopt rules to require additional specific criteria for measuring the quality of a utilization review process for purposes of ~~certification~~ accreditation and provide for certain exemptions. The bill would require the administrative director to develop a system for electronic reporting of documents related to utilization review performed by each employer, to be administered by the division.*

*Existing law requires every lien claimant to file its lien with the appeals board in writing upon a form approved by the appeals board. Existing law requires a lien to be accompanied by a full statement or itemized voucher supporting the lien and justifying the right to reimbursement, as specified.*

*This bill would require certain lien claimants that file a lien under these provisions to do so by filing a declaration, under penalty of perjury, that includes specified information. The bill would require current lien claimants to also file the declaration by a specified date. The bill would make a failure to file a declaration under these provisions grounds for dismissal of a lien. Because the bill would expand the crime of perjury, the bill would impose a state-mandated local program.*

*The bill would also automatically stay any physician or provider lien upon the filing of criminal charges against that person or entity for specified offenses involving medical fraud, as provided. The bill would authorize the administrative director to adopt regulations to implement that provision.*

*Existing law prohibits the assignment of a lien under these provisions, except under limited circumstances, as specified.*

*This bill would, for liens filed after January 1, 2017, invalidate any assignment of a lien made in violation of these provisions, by operation of law.*

*Existing law requires the administrative director, in consultation with the Commission on Health and Safety and Workers' Compensation, to adopt, after public hearings, a medical treatment utilization schedule, to incorporate evidence-based, peer-reviewed, nationally recognized standards of care recommended by the commission, as specified.*

*This bill would authorize the administrative director to make updates to the utilization schedule by order, which would not be subject to the Administrative Procedure Act, as specified. The bill would require any order adopted pursuant to these provisions to be published on the Internet Web site of the division.*

*Existing law requires a deponent to receive certain expenses and reimbursements if an employer or insurance carrier requests a deposition to be taken of an injured employee, or any person claiming benefits as a dependent of an injured employee. Existing law authorizes the deponent to a reasonable allowance for attorney's fees, if represented by an attorney licensed in this state.*

*This bill would authorize the administrative director to determine the range of reasonable fees to be paid to a deponent.*

*Existing law provides that it is the responsibility of any party producing a witness requiring an interpreter to arrange for the presence of a qualified interpreter. Existing law sets forth the qualifications of a qualified interpreter for these purposes, and provides for the settings under which a qualified interpreter may render services.*

*This bill would require the administrative director to promulgate regulations establishing criteria to verify the identity and credentials of individuals that provide interpreter services under these provisions.*

*Existing law requires physicians, as defined, who attend to injured or ill employees to file reports with specific information prescribed by law.*

*This bill would revise those reporting requirements, as prescribed.*

*Existing constitutional provisions require that a statute that limits the right of access to the meetings of public bodies or the writings of public officials and agencies be adopted with findings demonstrating the interest protected by the limitation and the need for protecting that interest.*

*This bill would make legislative findings to that effect.*

*The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.*

*This bill would provide that no reimbursement is required by this act for a specified reason.*

Vote: majority. Appropriation: no. Fiscal committee: yes.

State-mandated local program: ~~no~~-yes.

*The people of the State of California do enact as follows:*

1     SECTION 1. Section 138.4 of the Labor Code is amended to  
2     read:

3     138.4. (a) For the purpose of this section, “claims  
4     administrator” means a self-administered workers’ compensation  
5     insurer; or a self-administered self-insured employer; or a  
6     self-administered legally uninsured employer; or a  
7     self-administered joint powers authority; or a third-party claims  
8     administrator for an insurer, a self-insured employer, a legally  
9     uninsured employer, or a joint powers authority.

10    (b) With respect to injuries resulting in lost time beyond the  
11    employee’s work shift at the time of injury or medical treatment  
12    beyond first aid:

13    (1) If the claims administrator obtains knowledge that the  
14    employer has not provided a claim form or a notice of potential  
15    eligibility for benefits to the employee, it shall provide the form



1 and notice to the employee within three working days of its  
2 knowledge that the form or notice was not provided.

3 (2) If the claims administrator cannot determine if the employer  
4 has provided a claim form and notice of potential eligibility for  
5 benefits to the employee, the claims administrator shall provide  
6 the form and notice to the employee within 30 days of the  
7 administrator's date of knowledge of the claim.

8 (c) The administrative director, in consultation with the  
9 Commission on Health and Safety and Workers' Compensation,  
10 shall prescribe reasonable rules and regulations, including notice  
11 of the right to consult with an attorney, where appropriate, for  
12 serving on the employee (or employee's dependents, in the case  
13 of death), the following:

14 (1) Notices dealing with the payment, nonpayment, or delay in  
15 payment of temporary disability, permanent disability,  
16 supplemental job displacement, and death benefits.

17 (2) Notices of any change in the amount or type of benefits  
18 being provided, the termination of benefits, the rejection of any  
19 liability for compensation, and an accounting of benefits paid.

20 (3) Notices of rights to select the primary treating physician,  
21 written continuity of care policies, requests for a comprehensive  
22 medical evaluation, and offers of regular, modified, or alternative  
23 work.

24 (d) The administrative director, in consultation with the  
25 Commission on Health and Safety and Workers' Compensation,  
26 shall develop, make fully accessible on the department's Internet  
27 Web site, and make available at district offices informational  
28 material written in plain language that describes the overall  
29 workers' compensation claims process, including the rights and  
30 obligations of employees and employers at every stage of a claim  
31 when a notice is required.

32 (e) Each notice prescribed by the administrative director shall  
33 be written in plain language, shall reference the informational  
34 material described in subdivision (d) to enable employees to  
35 understand the context of the notices, and shall clearly state the  
36 Internet Web site address and contact information that an employee  
37 may use to access the informational material.

38 (f) *On or before January 1, 2018, the administrative director*  
39 *shall adopt regulations to provide employees with notice that they*

1 *may access medical treatment outside of the workers' compensation*  
2 *system following the denial of their claim.*

3 **SECTION 1.**

4 *SEC. 2.* Section 138.6 of the Labor Code is amended to read:

5 138.6. (a) The administrative director, in consultation with  
6 the Insurance Commissioner and the Workers' Compensation  
7 Insurance Rating Bureau, shall develop a cost-efficient workers'  
8 compensation information system, which shall be administered by  
9 the division. The administrative director shall adopt regulations  
10 specifying the data elements to be collected by electronic data  
11 interchange.

12 (b) The information system shall do the following:

13 (1) Assist the department to manage the workers' compensation  
14 system in an effective and efficient manner.

15 (2) Facilitate the evaluation of the efficiency and effectiveness  
16 of the delivery system.

17 (3) Assist in measuring how adequately the system indemnifies  
18 injured workers and their dependents.

19 (4) Provide statistical data for research into specific aspects of  
20 the workers' compensation program.

21 (c) The data collected electronically shall be compatible with  
22 the Electronic Data Interchange System of the International  
23 Association of Industrial Accident Boards and Commissions. The  
24 administrative director may adopt regulations authorizing the use  
25 of other nationally recognized data transmission formats in addition  
26 to those set forth in the Electronic Data Interchange System for  
27 the transmission of data required pursuant to this section. The  
28 administrative director shall accept data transmissions in any  
29 authorized format. If the administrative director determines that  
30 any authorized data transmission format is not in general use by  
31 claims administrators, conflicts with the requirements of state or  
32 federal law, or is obsolete, the administrative director may adopt  
33 regulations eliminating that data transmission format from those  
34 authorized pursuant to this subdivision.

35 (d) (1) The administrative director shall assess an administrative  
36 penalty against a claims administrator for a violation of data  
37 reporting requirements adopted pursuant to this section. The  
38 administrative director shall promulgate a schedule of penalties  
39 providing for an assessment of no more than ten thousand dollars

1 (\$10,000) against a claims administrator in any single year,  
2 calculated as follows:

3 (A) No more than one hundred dollars (\$100) multiplied by the  
4 number of violations in that year that resulted in a required data  
5 report not being submitted or not being accepted.

6 (B) No more than fifty dollars (\$50) multiplied by the number  
7 of violations in that year that resulted in a required report being  
8 late or accepted with an error.

9 (C) Multiple errors in a single report shall be counted as a single  
10 violation.

11 (D) No penalty shall be assessed pursuant to Section 129.5 for  
12 any violation of data reporting requirements for which a penalty  
13 has been or may be assessed pursuant to this section.

14 (2) The schedule promulgated by the administrative director  
15 pursuant to paragraph (1) shall establish threshold rates of  
16 violations that shall be excluded from the calculation of the  
17 assessment, as follows:

18 (A) The threshold rate for reports that are not submitted or are  
19 submitted but not accepted shall not be less than 3 percent of the  
20 number of reports that are required to be filed by or on behalf of  
21 the claims administrator.

22 (B) The threshold rate for reports that are accepted with an error  
23 shall not be less than 3 percent of the number of reports that are  
24 accepted with an error.

25 (C) The administrative director shall set higher threshold rates  
26 as appropriate in recognition of the fact that the data necessary for  
27 timely and accurate reporting may not be always available to a  
28 claims administrator or the claims administrator's agents.

29 (D) The administrative director may establish higher thresholds  
30 for particular data elements that commonly are not reasonably  
31 available.

32 (3) The administrative director may estimate the number of  
33 required data reports that are not submitted by comparing a  
34 statistically valid sample of data available to the administrative  
35 director from other sources with the data reported pursuant to this  
36 section.

37 (4) All penalties assessed pursuant to this section shall be  
38 deposited in the Workers' Compensation Administration Revolving  
39 Fund.

(5) The administrative director shall publish an annual report disclosing the compliance rates of claims administrators and post the report and a list of claims administrators who are in violation of the data reporting requirements on the Internet Web site of the Division of Workers' Compensation.

~~(e) Commencing January 1, 2019, the administrative director shall assess an additional administrative penalty against a claims administrator for a violation of data reporting requirements adopted pursuant to this section of not less than fifteen thousand dollars (\$15,000) and not more than forty-five thousand dollars (\$45,000) in any single year if both of the following are applicable:~~

~~(1) In the immediate previous year, the claims adjuster was assessed a penalty of eight thousand dollars (\$8,000) or more.~~

~~(2) In the current year, the claims adjuster will be assessed a penalty of eight thousand dollars (\$8,000) or more.~~

SEC. 2. Section 4604.5 of the Labor Code is amended to read:

~~4604.5. (a) The recommended guidelines set forth in the medical treatment utilization schedule adopted by the administrative director pursuant to Section 5307.27 shall be presumptively correct on the issue of extent and scope of medical treatment. The presumption is rebuttable and may be controverted by a preponderance of the scientific medical evidence establishing that a variance from the guidelines reasonably is required to cure or relieve the injured worker from the effects of his or her injury. The presumption created is one affecting the burden of proof.~~

~~(b) The recommended guidelines set forth in the schedule adopted pursuant to subdivision (a) shall reflect practices that are evidence and scientifically based, nationally recognized, and peer reviewed. The guidelines shall be designed to assist providers by offering an analytical framework for the evaluation and treatment of injured workers, and shall constitute care in accordance with Section 4600 for all injured workers diagnosed with industrial conditions.~~

~~(c) (1) Notwithstanding the medical treatment utilization schedule, for injuries occurring on and after January 1, 2004, an employee shall be entitled to no more than 24 chiropractic, 24 occupational therapy, and 24 physical therapy visits per industrial injury.~~

~~(2) (A) Paragraph (1) shall not apply when an employer authorizes, in writing, additional visits to a health care practitioner~~

1 for physical medicine services. Payment or authorization for  
2 treatment beyond the limits set forth in paragraph (1) shall not be  
3 deemed a waiver of the limits set forth by paragraph (1) with  
4 respect to future requests for authorization.

5 (B) The Legislature finds and declares that the amendments  
6 made to subparagraph (A) by the act adding this subparagraph are  
7 declaratory of existing law.

8 (3) Paragraph (1) shall not apply to visits for physical medicine  
9 and rehabilitation services provided in compliance with a  
10 rehabilitation treatment utilization schedule established by the  
11 administrative director pursuant to Section 5307.27. The  
12 administrative director shall adopt regulations to effectuate this  
13 paragraph on or before January 1, 2018.

14 (d) For all injuries not covered by the official utilization schedule  
15 adopted pursuant to Section 5307.27, authorized treatment shall  
16 be in accordance with other evidence-based medical treatment  
17 guidelines that are recognized generally by the national medical  
18 community and scientifically based.

19 SEC. 3. Section 4610 of the Labor Code is amended to read:

20 4610. (a) For purposes of this section, “utilization review”  
21 means utilization review or utilization management functions that  
22 prospectively, retrospectively, or concurrently review and approve,  
23 modify, delay, or deny, based in whole or in part on medical  
24 necessity to cure and relieve, treatment recommendations by  
25 physicians, as defined in Section 3209.3, prior to, retrospectively,  
26 or concurrent with the provision of medical treatment services  
27 pursuant to Section 4600.

28 (b) Every employer shall establish a utilization review process  
29 in compliance with this section, either directly or through its insurer  
30 or an entity with which an employer or insurer contracts for these  
31 services.

32 (c) Each utilization review process shall be governed by written  
33 policies and procedures. These policies and procedures shall ensure  
34 that decisions based on the medical necessity to cure and relieve  
35 or proposed medical treatment services are consistent with the  
36 schedule for medical treatment utilization adopted pursuant to  
37 Section 5307.27. These policies and procedures, and a description  
38 of the utilization process, shall be filed with the administrative  
39 director and shall be disclosed by the employer to employees,  
40 physicians, and the public upon request.

~~(d) If an employer, insurer, or other entity subject to this section requests medical information from a physician in order to determine whether to approve, modify, delay, or deny requests for authorization, the employer shall request only the information reasonably necessary to make the determination. The employer, insurer, or other entity shall employ or designate a medical director who holds an unrestricted license to practice medicine in this state issued pursuant to Section 2050 or 2450 of the Business and Professions Code. The medical director shall ensure that the process by which the employer or other entity reviews and approves, modifies, delays, or denies requests by physicians prior to, retrospectively, or concurrent with the provision of medical treatment services, complies with the requirements of this section. Nothing in this section shall be construed as restricting the existing authority of the Medical Board of California.~~

~~(e) A person other than a licensed physician who is competent to evaluate the specific clinical issues involved in the medical treatment services, and where these services are within the scope of the physician's practice, requested by the physician shall not modify, delay, or deny requests for authorization of medical treatment for reasons of medical necessity to cure and relieve.~~

~~(f) The criteria or guidelines used in the utilization review process to determine whether to approve, modify, delay, or deny medical treatment services shall be all of the following:~~

~~(1) Developed with involvement from actively practicing physicians.~~

~~(2) Consistent with the schedule for medical treatment utilization adopted pursuant to Section 5307.27.~~

~~(3) Evaluated at least annually, and updated if necessary.~~

~~(4) Disclosed to the physician and the employee, if used as the basis of a decision to modify, delay, or deny services in a specified case under review.~~

~~(5) Available to the public upon request. An employer shall only be required to disclose the criteria or guidelines for the specific procedures or conditions requested. An employer may charge members of the public reasonable copying and postage expenses related to disclosing criteria or guidelines pursuant to this paragraph. Criteria or guidelines may also be made available through electronic means. No charge shall be required for an~~

1 employee whose physician's request for medical treatment services  
2 is under review.

3 (g) In determining whether to approve, modify, delay, or deny  
4 requests by physicians prior to, retrospectively, or concurrent with  
5 the provisions of medical treatment services to employees all of  
6 the following requirements shall be met:

7 (1) Prospective or concurrent decisions shall be made in a timely  
8 fashion that is appropriate for the nature of the employee's  
9 condition, not to exceed five working days from the receipt of the  
10 information reasonably necessary to make the determination, but  
11 in no event more than 14 days from the date of the medical  
12 treatment recommendation by the physician. In cases where the  
13 review is retrospective, a decision resulting in denial of all or part  
14 of the medical treatment service shall be communicated to the  
15 individual who received services, or to the individual's designee,  
16 within 30 days of receipt of information that is reasonably  
17 necessary to make this determination. If payment for a medical  
18 treatment service is made within the time prescribed by Section  
19 4603.2, a retrospective decision to approve the service need not  
20 otherwise be communicated.

21 (2) When the employee's condition is such that the employee  
22 faces an imminent and serious threat to his or her health, including,  
23 but not limited to, the potential loss of life, limb, or other major  
24 bodily function, or the normal timeframe for the decisionmaking  
25 process, as described in paragraph (1), would be detrimental to the  
26 employee's life or health or could jeopardize the employee's ability  
27 to regain maximum function, decisions to approve, modify, delay,  
28 or deny requests by physicians prior to, or concurrent with, the  
29 provision of medical treatment services to employees shall be made  
30 in a timely fashion that is appropriate for the nature of the  
31 employee's condition, but not to exceed 72 hours after the receipt  
32 of the information reasonably necessary to make the determination.

33 (3) (A) Decisions to approve, modify, delay, or deny requests  
34 by physicians for authorization prior to, or concurrent with, the  
35 provision of medical treatment services to employees shall be  
36 communicated to the requesting physician within 24 hours of the  
37 decision. Decisions resulting in modification, delay, or denial of  
38 all or part of the requested health care service shall be  
39 communicated to physicians initially by telephone or facsimile,  
40 and to the physician and employee in writing within 24 hours for

1 concurrent review, or within two business days of the decision for  
2 prospective review, as prescribed by the administrative director.  
3 If the request is not approved in full, disputes shall be resolved in  
4 accordance with Section 4610.5, if applicable, or otherwise in  
5 accordance with Section 4062.

6 (B) In the case of concurrent review, medical care shall not be  
7 discontinued until the employee's physician has been notified of  
8 the decision and a care plan has been agreed upon by the physician  
9 that is appropriate for the medical needs of the employee. Medical  
10 care provided during a concurrent review shall be care that is  
11 medically necessary to cure and relieve, and an insurer or  
12 self-insured employer shall only be liable for those services  
13 determined medically necessary to cure and relieve. If the insurer  
14 or self-insured employer disputes whether or not one or more  
15 services offered concurrently with a utilization review were  
16 medically necessary to cure and relieve, the dispute shall be  
17 resolved pursuant to Section 4610.5, if applicable, or otherwise  
18 pursuant to Section 4062. Any compromise between the parties  
19 that an insurer or self-insured employer believes may result in  
20 payment for services that were not medically necessary to cure  
21 and relieve shall be reported by the insurer or the self-insured  
22 employer to the licensing board of the provider or providers who  
23 received the payments, in a manner set forth by the respective  
24 board and in such a way as to minimize reporting costs both to the  
25 board and to the insurer or self-insured employer, for evaluation  
26 as to possible violations of the statutes governing appropriate  
27 professional practices. No fees shall be levied upon insurers or  
28 self-insured employers making reports required by this section.

29 (4) Communications regarding decisions to approve requests  
30 by physicians shall specify the specific medical treatment service  
31 approved. Responses regarding decisions to modify, delay, or deny  
32 medical treatment services requested by physicians shall include  
33 a clear and concise explanation of the reasons for the employer's  
34 decision, a description of the criteria or guidelines used, and the  
35 clinical reasons for the decisions regarding medical necessity. If  
36 a utilization review decision to deny or delay a medical service is  
37 due to incomplete or insufficient information, the decision shall  
38 specify the reason for the decision and specify the information that  
39 is needed.



~~(5) If the employer, insurer, or other entity cannot make a decision within the timeframes specified in paragraph (1) or (2) because the employer or other entity is not in receipt of all of the information reasonably necessary and requested, because the employer requires consultation by an expert reviewer, or because the employer has asked that an additional examination or test be performed upon the employee that is reasonable and consistent with good medical practice, the employer shall immediately notify the physician and the employee, in writing, that the employer cannot make a decision within the required timeframe, and specify the information requested but not received, the expert reviewer to be consulted, or the additional examinations or tests required. The employer shall also notify the physician and employee of the anticipated date on which a decision may be rendered. Upon receipt of all information reasonably necessary and requested by the employer, the employer shall approve, modify, or deny the request for authorization within the timeframes specified in paragraph (1) or (2).~~

~~(6) A utilization review decision to modify, delay, or deny a treatment recommendation shall remain effective for 12 months from the date of the decision without further action by the employer with regard to any further recommendation by the same physician for the same treatment unless the further recommendation is supported by a documented change in the facts material to the basis of the utilization review decision.~~

~~(7) Utilization review of a treatment recommendation shall not be required while the employer is disputing liability for injury or treatment of the condition for which treatment is recommended pursuant to Section 4062.~~

~~(8) If utilization review is deferred pursuant to paragraph (7), and it is finally determined that the employer is liable for treatment of the condition for which treatment is recommended, the time for the employer to conduct retrospective utilization review in accordance with paragraph (1) shall begin on the date the determination of the employer's liability becomes final, and the time for the employer to conduct prospective utilization review shall commence from the date of the employer's receipt of a treatment recommendation after the determination of the employer's liability.~~

1 ~~(h) Every employer, insurer, or other entity subject to this section~~  
2 ~~shall maintain telephone access for physicians to request~~  
3 ~~authorization for health care services.~~

4 ~~(i) If the administrative director determines that the employer,~~  
5 ~~insurer, or other entity subject to this section has failed to meet~~  
6 ~~any of the timeframes in this section, or has failed to meet any~~  
7 ~~other requirement of this section, the administrative director may~~  
8 ~~assess, by order, administrative penalties for each failure. A~~  
9 ~~proceeding for the issuance of an order assessing administrative~~  
10 ~~penalties shall be subject to appropriate notice to, and an~~  
11 ~~opportunity for a hearing with regard to, the person affected. The~~  
12 ~~administrative penalties shall not be deemed to be an exclusive~~  
13 ~~remedy for the administrative director. These penalties shall be~~  
14 ~~deposited in the Workers' Compensation Administration Revolving~~  
15 ~~Fund.~~

16 ~~(j) A utilization review process shall be accredited on or before~~  
17 ~~July 1, 2018, and every three years thereafter, or more frequently~~  
18 ~~if deemed necessary by the administrative director, by an~~  
19 ~~independent, nonprofit organization to certify that the utilization~~  
20 ~~review process meets specified criteria, including, but not limited~~  
21 ~~to, timeliness in issuing a utilization review decision, the scope of~~  
22 ~~medical material used in issuing a utilization review decision, and~~  
23 ~~requiring a policy preventing financial incentives to doctors and~~  
24 ~~other providers based on the utilization review decision. The~~  
25 ~~administrative director shall adopt rules to implement the selection~~  
26 ~~of an independent, nonprofit organization for those certification~~  
27 ~~purposes. The administrative director may adopt rules to require~~  
28 ~~additional specific criteria for measuring the quality of a utilization~~  
29 ~~review process for purposes of certification.~~

30 *SEC. 3. Section 4610 of the Labor Code is amended to read:*

31 4610. (a) For purposes of this section, "utilization review"  
32 means utilization review or utilization management functions that  
33 prospectively, retrospectively, or concurrently review and approve,  
34 modify, ~~delay~~, or deny, based in whole or in part on medical  
35 necessity to cure and relieve, treatment recommendations by  
36 physicians, as defined in Section 3209.3, prior to, retrospectively,  
37 or concurrent with the provision of medical treatment services  
38 pursuant to Section 4600.

39 (b) Every employer shall establish a utilization review process  
40 in compliance with this section, either directly or through its insurer

1 or an entity with which an employer or insurer contracts for these  
2 services.

3 (c) Each utilization review process shall be governed by written  
4 policies and procedures. These policies and procedures shall ensure  
5 that decisions based on the medical necessity to cure and relieve  
6 of proposed medical treatment services are consistent with the  
7 schedule for medical treatment utilization adopted pursuant to  
8 Section 5307.27. These policies and procedures, and a description  
9 of the utilization process, shall be filed with the administrative  
10 director and shall be disclosed by the employer to employees,  
11 physicians, and the public upon request.

12 (d) If an employer, insurer, or other entity subject to this section  
13 requests medical information from a physician in order to  
14 determine whether to approve, modify, ~~delay~~, or deny requests for  
15 authorization, the employer shall request only the information  
16 reasonably necessary to make the determination. The employer,  
17 insurer, or other entity shall employ or designate a medical director  
18 who holds an unrestricted license to practice medicine in this state  
19 issued pursuant to Section 2050 or ~~Section~~ 2450 of the Business  
20 and Professions Code. The medical director shall ensure that the  
21 process by which the employer or other entity reviews and  
22 approves, modifies, ~~delays~~, or denies requests by physicians prior  
23 to, retrospectively, or concurrent with the provision of medical  
24 treatment services, complies with the requirements of this section.  
25 Nothing in this section shall be construed as restricting the existing  
26 authority of the Medical Board of California.

27 (e) No person other than a licensed physician who is competent  
28 to evaluate the specific clinical issues involved in the medical  
29 treatment services, and where these services are within the scope  
30 of the physician's practice, requested by the physician may ~~modify,~~  
31 ~~delay,~~ *modify* or deny requests for authorization of medical  
32 treatment for reasons of medical necessity to cure and relieve.

33 (f) The criteria or guidelines used in the utilization review  
34 process to determine whether to approve, modify, ~~delay~~, or deny  
35 medical treatment services shall be all of the following:

36 (1) Developed with involvement from actively practicing  
37 physicians.

38 (2) Consistent with the schedule for medical treatment utilization  
39 adopted pursuant to Section 5307.27.

40 (3) Evaluated at least annually, and updated if necessary.

1 (4) Disclosed to the physician and the employee, if used as the  
2 basis of a decision to ~~modify, delay,~~ *modify* or deny services in a  
3 specified case under review.

4 (5) Available to the public upon request. An employer shall  
5 only be required to disclose the criteria or guidelines for the  
6 specific procedures or conditions requested. An employer may  
7 charge members of the public reasonable copying and postage  
8 expenses related to disclosing criteria or guidelines pursuant to  
9 this paragraph. Criteria or guidelines may also be made available  
10 through electronic means. No charge shall be required for an  
11 employee whose physician's request for medical treatment services  
12 is under review.

13 (g) In determining whether to approve, ~~modify, delay,~~ *modify*,  
14 or deny requests by physicians prior to, retrospectively, or  
15 concurrent with the provisions of medical treatment services to  
16 employees all of the following requirements shall be met:

17 (1) Prospective or concurrent decisions shall be made in a timely  
18 fashion that is appropriate for the nature of the employee's  
19 condition, not to exceed five working days from the receipt of the  
20 information reasonably necessary to make the determination, but  
21 in no event more than 14 days from the date of the medical  
22 treatment recommendation by the physician. In cases where the  
23 review is retrospective, a decision resulting in denial of all or part  
24 of the medical treatment service shall be communicated to the  
25 individual who received services, or to the individual's designee,  
26 within 30 days of receipt of information that is reasonably  
27 necessary to make this determination. If payment for a medical  
28 treatment service is made within the time prescribed by Section  
29 4603.2, a retrospective decision to approve the service need not  
30 otherwise be communicated.

31 (2) When the employee's condition is such that the employee  
32 faces an imminent and serious threat to his or her health, including,  
33 but not limited to, the potential loss of life, limb, or other major  
34 bodily function, or the normal timeframe for the decisionmaking  
35 process, as described in paragraph (1), would be detrimental to the  
36 employee's life or health or could jeopardize the employee's ability  
37 to regain maximum function, decisions to approve, ~~modify, delay,~~  
38 or deny requests by physicians prior to, or concurrent with, the  
39 provision of medical treatment services to employees shall be made  
40 in a timely fashion that is appropriate for the nature of the

1 employee's condition, but not to exceed 72 hours after the receipt  
2 of the information reasonably necessary to make the determination.

3 (3) (A) Decisions to approve, modify, ~~delay~~, or deny requests  
4 by physicians for authorization prior to, or concurrent with, the  
5 provision of medical treatment services to employees shall be  
6 communicated to the requesting physician within 24 hours of the  
7 decision. Decisions resulting in ~~modification, delay, modification~~  
8 or denial of all or part of the requested health care service shall be  
9 communicated to physicians initially by telephone or facsimile,  
10 and to the physician and employee in writing within 24 hours for  
11 concurrent review, or within two business days of the decision for  
12 prospective review, as prescribed by the administrative director.  
13 If the request is not approved in full, disputes shall be resolved in  
14 accordance with Section 4610.5, if applicable, or otherwise in  
15 accordance with Section 4062.

16 (B) In the case of concurrent review, medical care shall not be  
17 discontinued until the employee's physician has been notified of  
18 the decision and a care plan has been agreed upon by the physician  
19 that is appropriate for the medical needs of the employee. Medical  
20 care provided during a concurrent review shall be care that is  
21 medically necessary to cure and relieve, and an insurer or  
22 self-insured employer shall only be liable for those services  
23 determined medically necessary to cure and relieve. If the insurer  
24 or self-insured employer disputes whether or not one or more  
25 services offered concurrently with a utilization review were  
26 medically necessary to cure and relieve, the dispute shall be  
27 resolved pursuant to Section 4610.5, if applicable, or otherwise  
28 pursuant to Section 4062. Any compromise between the parties  
29 that an insurer or self-insured employer believes may result in  
30 payment for services that were not medically necessary to cure  
31 and relieve shall be reported by the insurer or the self-insured  
32 employer to the licensing board of the provider or providers who  
33 received the payments, in a manner set forth by the respective  
34 board and in such a way as to minimize reporting costs both to the  
35 board and to the insurer or self-insured employer, for evaluation  
36 as to possible violations of the statutes governing appropriate  
37 professional practices. No fees shall be levied upon insurers or  
38 self-insured employers making reports required by this section.

39 (4) Communications regarding decisions to approve requests  
40 by physicians shall specify the specific medical treatment service

1 approved. Responses regarding decisions to ~~modify, delay, modify~~  
2 or deny medical treatment services requested by physicians shall  
3 include a clear and concise explanation of the reasons for the  
4 employer's decision, a description of the criteria or guidelines  
5 used, and the clinical reasons for the decisions regarding medical  
6 necessity. If a utilization review decision to ~~deny or delay~~ a medical  
7 service is due to incomplete or insufficient information, the  
8 decision shall specify the reason for the decision and specify the  
9 information that is needed.

10 (5) If the employer, insurer, or other entity cannot make a  
11 decision within the timeframes specified in paragraph (1) or (2)  
12 because the employer or other entity is not in receipt of all of the  
13 information reasonably necessary and requested, because the  
14 employer requires consultation by an expert reviewer, or because  
15 the employer has asked that an additional examination or test be  
16 performed upon the employee that is reasonable and consistent  
17 with good medical practice, the employer shall immediately notify  
18 the physician and the employee, in writing, that the employer  
19 cannot make a decision within the required timeframe, and specify  
20 the information requested but not received, the expert reviewer to  
21 be consulted, or the additional examinations or tests required. The  
22 employer shall also notify the physician and employee of the  
23 anticipated date on which a decision may be rendered. Upon receipt  
24 of all information reasonably necessary and requested by the  
25 employer, the employer shall approve, modify, or deny the request  
26 for authorization within the timeframes specified in paragraph (1)  
27 or (2).

28 (6) A utilization review decision to ~~modify, delay, modify~~ or  
29 deny a treatment recommendation shall remain effective for 12  
30 months from the date of the decision without further action by the  
31 employer with regard to any further recommendation by the same  
32 physician for the same treatment unless the further recommendation  
33 is supported by a documented change in the facts material to the  
34 basis of the utilization review decision.

35 (7) Utilization review of a treatment recommendation shall not  
36 be required while the employer is disputing liability for injury or  
37 treatment of the condition for which treatment is recommended  
38 pursuant to Section 4062.

39 (8) If utilization review is deferred pursuant to paragraph (7),  
40 and it is finally determined that the employer is liable for treatment

1 of the condition for which treatment is recommended, the time for  
2 the employer to conduct retrospective utilization review in  
3 accordance with paragraph (1) shall begin on the date the  
4 determination of the employer's liability becomes final, and the  
5 time for the employer to conduct prospective utilization review  
6 shall commence from the date of the employer's receipt of a  
7 treatment recommendation after the determination of the  
8 employer's liability.

9 (h) Every employer, insurer, or other entity subject to this section  
10 shall maintain telephone access for physicians to request  
11 authorization for health care services.

12 (i) If the administrative director determines that the employer,  
13 insurer, or other entity subject to this section has failed to meet  
14 any of the timeframes in this section, or has failed to meet any  
15 other requirement of this section, the administrative director may  
16 assess, by order, administrative penalties for each failure. A  
17 proceeding for the issuance of an order assessing administrative  
18 penalties shall be subject to appropriate notice to, and an  
19 opportunity for a hearing with regard to, the person affected. The  
20 administrative penalties shall not be deemed to be an exclusive  
21 remedy for the administrative director. These penalties shall be  
22 deposited in the Workers' Compensation Administration Revolving  
23 Fund.

24 (j) *This section shall remain in effect only until January 1, 2018,*  
25 *and as of that date is repealed, unless a later enacted statute, that*  
26 *is enacted before January 1, 2018, deletes or extends that date.*

27 SEC. 4. Section 4610 is added to the Labor Code, to read:

28 4610. (a) *For purposes of this section, "utilization review"*  
29 *means utilization review or utilization management functions that*  
30 *prospectively, retrospectively, or concurrently review and approve,*  
31 *modify, or deny, based in whole or in part on medical necessity to*  
32 *cure and relieve, treatment recommendations by physicians, as*  
33 *defined in Section 3209.3, prior to, retrospectively, or concurrent*  
34 *with the provision of medical treatment services pursuant to Section*  
35 *4600.*

36 (b) *For all dates of injury occurring on or after January 1, 2018,*  
37 *emergency treatment services and medical treatment rendered for*  
38 *a body part or condition accepted as compensable by the employer,*  
39 *by a member of the medical provider network or health care*  
40 *organization, or by a physician predesignated pursuant to*

1 subdivision (d) of Section 4600, within the 30 days following the  
2 initial date of injury, shall be authorized without prospective  
3 utilization review, except as provided in subdivision (c). In the  
4 event that the employee is not subject to treatment with a medical  
5 provider network, health care organization, or predesignated  
6 physician pursuant to subdivision (d) of Section 4600, the employee  
7 shall be eligible for treatment under this section within 30 days  
8 following the initial date of injury if the treatment is rendered by  
9 a physician or facility selected by the employer. For treatment  
10 rendered by a medical provider network physician, health care  
11 organization physician, a physician predesignated pursuant to  
12 subdivision (d) of Section 4600, or an employer-selected physician,  
13 the report required under Section 6409 and a complete request  
14 for authorization shall be submitted by the physician within five  
15 days following the employee's initial visit and evaluation.

16 (c) Unless authorized by the employer or rendered as emergency  
17 medical treatment, the following medical treatment services, as  
18 defined in rules adopted by the administrative director, that are  
19 rendered through a member of the medical provider network or  
20 health care organization, a predesignated physician, an  
21 employer-selected physician, or an employer-selected facility,  
22 within the 30 days following the initial date of injury, shall be  
23 subject to prospective utilization review under this section:

24 (1) Services provided for a condition or occupational injury or  
25 illness that is not addressed or allowed for in the medical treatment  
26 utilization schedule guidelines adopted pursuant to Section  
27 5307.27.

28 (2) Pharmaceuticals, to the extent they are neither expressly  
29 exempted from prospective review nor authorized by the drug  
30 formulary adopted pursuant to Section 5307.27.

31 (3) Non-emergency inpatient and outpatient surgery, including  
32 all presurgical and postsurgical services.

33 (4) Psychological treatment services.

34 (5) Home health care services.

35 (6) Imaging and radiology services, excluding X-rays.

36 (7) All durable medical equipment, whose combined total value  
37 exceeds two hundred fifty dollars (\$250), as determined by the  
38 official medical fee schedule.

39 (8) Electrodiagnostic medicine, including, but not limited to,  
40 electromyography and nerve conduction studies.



1     (9) Any other service designated and defined through rules  
2     adopted by the administrative director.

3     (d) Any request for payment for treatment provided under  
4     subdivision (b) shall comply with Section 4603.2 and be submitted  
5     to the employer, or its insurer or claims administrator, within 30  
6     days of the date the service was provided.

7     (e) If a physician fails to submit the report required under  
8     Section 6409 and a complete request for authorization, as  
9     described in subdivision (b), an employer may remove the  
10    physician's ability under this subdivision to provide further medical  
11    treatment to the employee that is exempt from prospective  
12    utilization review.

13    (f) An employer may perform retrospective utilization review  
14    for any treatment provided pursuant to subdivision (b) solely for  
15    the purpose of determining if the physician is prescribing treatment  
16    consistent with the schedule for medical treatment utilization,  
17    including, but not limited to, the drug formulary adopted pursuant  
18    to Section 5307.27.

19    (1) If it is found after retrospective utilization reviews that there  
20    is a pattern and practice of the physician or provider failing to  
21    render treatment consistent with the schedule for medical treatment  
22    utilization, including the drug formulary, the employer may remove  
23    the ability of the predesignated physician, employer-selected  
24    physician, or the member of the medical provider network or health  
25    care organization under this subdivision to provide further medical  
26    treatment to any employee that is exempt from prospective  
27    utilization review. The employer shall notify the physician or  
28    provider of the results of the retrospective utilization review and  
29    the requirement for prospective utilization review for all subsequent  
30    medical treatment.

31    (2) The results of retrospective utilization review may constitute  
32    a showing of good cause for an employer's petition requesting a  
33    change of physician or provider pursuant to Section 4603 and may  
34    serve as grounds for termination of the physician or provider from  
35    the medical provider network or health care organization.

36    (g) Every employer shall establish a utilization review process  
37    in compliance with this section, either directly or through its  
38    insurer or an entity with which an employer or insurer contracts  
39    for these services.

1     (1) Each utilization review process that modifies or denies  
2     requests for authorization of medical treatment shall be governed  
3     by written policies and procedures. These policies and procedures  
4     shall ensure that decisions based on the medical necessity to cure  
5     and relieve of proposed medical treatment services are consistent  
6     with the schedule for medical treatment utilization, including the  
7     drug formulary, adopted pursuant to Section 5307.27.

8     (2) The employer, insurer, or other entity shall employ or  
9     designate a medical director who holds an unrestricted license to  
10    practice medicine in this state issued pursuant to Section 2050 or  
11    Section 2450 of the Business and Professions Code. The medical  
12    director shall ensure that the process by which the employer or  
13    other entity reviews and approves, modifies, or denies requests by  
14    physicians prior to, retrospectively, or concurrent with the  
15    provision of medical treatment services complies with the  
16    requirements of this section. Nothing in this section shall be  
17    construed as restricting the existing authority of the Medical Board  
18    of California.

19    (3) (A) No person other than a licensed physician who is  
20    competent to evaluate the specific clinical issues involved in the  
21    medical treatment services, and where these services are within  
22    the scope of the physician's practice, requested by the physician  
23    may modify or deny requests for authorization of medical treatment  
24    for reasons of medical necessity to cure and relieve or due to  
25    incomplete or insufficient information under subdivisions (i) and  
26    (j).

27    (B) (i) The employer, or any entity conducting utilization review  
28    on behalf of the employer, shall neither offer nor provide any  
29    financial incentive or consideration to a physician based on the  
30    number of modifications, delays, or denials made by the physician  
31    under this section.

32    (ii) An insurer or third-party administrator shall not refer  
33    utilization review services conducted on behalf of an employer  
34    under this section to an entity in which the insurer or third-party  
35    administrator has a financial interest as defined under Section  
36    139.32. This prohibition does not apply if the insurer or third-party  
37    administrator provides the employer and the administrative  
38    director with prior written disclosure of both of the following:

39    (I) The entity conducting the utilization review services.

1     ~~(II) The insurer or third-party administrator's financial interest~~  
2     ~~in the entity.~~

3     ~~(C) The administrative director has authority pursuant to this~~  
4     ~~section to review any compensation agreement, payment schedule,~~  
5     ~~or contract between the employer, or any entity conducting~~  
6     ~~utilization review on behalf of the employer, and the utilization~~  
7     ~~review physician. Any information disclosed to the administrative~~  
8     ~~director pursuant to this paragraph shall be considered~~  
9     ~~confidential information and not subject to disclosure pursuant to~~  
10    ~~the California Public Records Act (Chapter 3.5 (commencing with~~  
11    ~~Section 6250) of Division 7 of Title 1 of the Government Code).~~  
12    ~~Disclosure of the information to the administrative director~~  
13    ~~pursuant to this subdivision shall not waive the provisions of the~~  
14    ~~Evidence Code relating to privilege.~~

15    ~~(4) A utilization review process that modifies or denies requests~~  
16    ~~for authorization of medical treatment shall be accredited on or~~  
17    ~~before July 1, 2018, and shall retain active accreditation while~~  
18    ~~providing utilization review services, by an independent, nonprofit~~  
19    ~~organization to certify that the utilization review process meets~~  
20    ~~specified criteria, including, but not limited to, timeliness in issuing~~  
21    ~~a utilization review decision, the scope of medical material used~~  
22    ~~in issuing a utilization review decision, peer-to-peer consultation,~~  
23    ~~internal appeal procedure, and requiring a policy preventing~~  
24    ~~financial incentives to doctors and other providers based on the~~  
25    ~~utilization review decision. The administrative director shall adopt~~  
26    ~~rules to implement the selection of an independent, nonprofit~~  
27    ~~organization for those accreditation purposes. Until those rules~~  
28    ~~are adopted, the administrative director shall designate URAC as~~  
29    ~~the accrediting organization. The administrative director may~~  
30    ~~adopt rules to do any of the following:~~

31    ~~(A) Require additional specific criteria for measuring the quality~~  
32    ~~of a utilization review process for purposes of accreditation.~~

33    ~~(B) Exempt nonprofit, public sector internal utilization review~~  
34    ~~programs from the accreditation requirement pursuant to this~~  
35    ~~section, if the administrative director has adopted minimum~~  
36    ~~standards applicable to nonprofit, public sector internal utilization~~  
37    ~~review programs that meet or exceed the accreditation standards~~  
38    ~~developed pursuant to this section.~~

39    ~~(5) On or before July 1, 2018, each employer, either directly~~  
40    ~~or through its insurer or an entity with which an employer or~~

insurer contracts for utilization review services, shall submit a description of the utilization review process that modifies or denies requests for authorization of medical treatment and the written policies and procedures to the administrative director for approval. Approved utilization review process descriptions and the accompanying written policies and procedures shall be disclosed by the employer to employees and physicians and made available to the public by posting on the employer's, claims administrator's, or utilization review organization's Internet Web site.

(h) The criteria or guidelines used in the utilization review process to determine whether to approve, modify, or deny medical treatment services shall be all of the following:

(1) Developed with involvement from actively practicing physicians.

(2) Consistent with the schedule for medical treatment utilization, including the drug formulary, adopted pursuant to Section 5307.27.

(3) Evaluated at least annually, and updated if necessary.

(4) Disclosed to the physician and the employee, if used as the basis of a decision to modify or deny services in a specified case under review.

(5) Available to the public upon request. An employer shall only be required to disclose the criteria or guidelines for the specific procedures or conditions requested. An employer may charge members of the public reasonable copying and postage expenses related to disclosing criteria or guidelines pursuant to this paragraph. Criteria or guidelines may also be made available through electronic means. No charge shall be required for an employee whose physician's request for medical treatment services is under review.

(i) In determining whether to approve, modify, or deny requests by physicians prior to, retrospectively, or concurrent with the provisions of medical treatment services to employees, all of the following requirements shall be met:

(1) Except for treatment requests made pursuant to the formulary, prospective or concurrent decisions shall be made in a timely fashion that is appropriate for the nature of the employee's condition, not to exceed five working days from the receipt of a request for authorization for medical treatment and supporting information reasonably necessary to make the determination, but

1 in no event more than 14 days from the date of the medical  
2 treatment recommendation by the physician. Prospective decisions  
3 regarding requests for treatment covered by the formulary shall  
4 be made no more than five days from the date of the medical  
5 treatment request. The request for authorization and supporting  
6 documentation may be submitted electronically under rules adopted  
7 by the administrative director.

8 (2) In cases where the review is retrospective, a decision  
9 resulting in denial of all or part of the medical treatment service  
10 shall be communicated to the individual who received services, or  
11 to the individual's designee, within 30 days of receipt of  
12 information that is reasonably necessary to make this  
13 determination. If payment for a medical treatment service is made  
14 within the time prescribed by Section 4603.2, a retrospective  
15 decision to approve the service need not otherwise be  
16 communicated.

17 (3) When the employee's condition is such that the employee  
18 faces an imminent and serious threat to his or her health, including,  
19 but not limited to, the potential loss of life, limb, or other major  
20 bodily function, or the normal timeframe for the decisionmaking  
21 process, as described in paragraph (1), would be detrimental to  
22 the employee's life or health or could jeopardize the employee's  
23 ability to regain maximum function, decisions to approve, modify,  
24 or deny requests by physicians prior to, or concurrent with, the  
25 provision of medical treatment services to employees shall be made  
26 in a timely fashion that is appropriate for the nature of the  
27 employee's condition, but not to exceed 72 hours after the receipt  
28 of the information reasonably necessary to make the determination.

29 (4) (A) Final decisions to approve, modify, or deny requests  
30 by physicians for authorization prior to, or concurrent with, the  
31 provision of medical treatment services to employees shall be  
32 communicated to the requesting physician within 24 hours of the  
33 decision by telephone, facsimile, or, if agreed to by the parties,  
34 secure email.

35 (B) Decisions resulting in modification or denial of all or part  
36 of the requested health care service shall be communicated in  
37 writing to the employee, and to the physician if the initial  
38 communication under subparagraph (A) was by telephone, within  
39 24 hours for concurrent review, or within two business days of the  
40 decision for prospective review, as prescribed by the administrative

1 *director. If the request is modified or denied, disputes shall be*  
2 *resolved in accordance with Section 4610.5, if applicable, or*  
3 *otherwise in accordance with Section 4062.*

4 *(C) In the case of concurrent review, medical care shall not be*  
5 *discontinued until the employee's physician has been notified of*  
6 *the decision and a care plan has been agreed upon by the physician*  
7 *that is appropriate for the medical needs of the employee. Medical*  
8 *care provided during a concurrent review shall be care that is*  
9 *medically necessary to cure and relieve, and an insurer or*  
10 *self-insured employer shall only be liable for those services*  
11 *determined medically necessary to cure and relieve. If the insurer*  
12 *or self-insured employer disputes whether or not one or more*  
13 *services offered concurrently with a utilization review were*  
14 *medically necessary to cure and relieve, the dispute shall be*  
15 *resolved pursuant to Section 4610.5, if applicable, or otherwise*  
16 *pursuant to Section 4062. Any compromise between the parties*  
17 *that an insurer or self-insured employer believes may result in*  
18 *payment for services that were not medically necessary to cure*  
19 *and relieve shall be reported by the insurer or the self-insured*  
20 *employer to the licensing board of the provider or providers who*  
21 *received the payments, in a manner set forth by the respective*  
22 *board and in such a way as to minimize reporting costs both to*  
23 *the board and to the insurer or self-insured employer, for*  
24 *evaluation as to possible violations of the statutes governing*  
25 *appropriate professional practices. No fees shall be levied upon*  
26 *insurers or self-insured employers making reports required by this*  
27 *section.*

28 *(5) Communications regarding decisions to approve requests*  
29 *by physicians shall specify the specific medical treatment service*  
30 *approved. Responses regarding decisions to modify or deny*  
31 *medical treatment services requested by physicians shall include*  
32 *a clear and concise explanation of the reasons for the employer's*  
33 *decision, a description of the criteria or guidelines used, and the*  
34 *clinical reasons for the decisions regarding medical necessity. If*  
35 *a utilization review decision to deny a medical service is due to*  
36 *incomplete or insufficient information, the decision shall specify*  
37 *all of the following:*

38 *(A) The reason for the decision.*

39 *(B) A specific description of the information that is needed.*

1     (C) The date(s) and time(s) of attempts made to contact the  
2     physician to obtain the necessary information.

3     (D) A description of the manner in which the request was  
4     communicated.

5     (j) (1) If an employer, insurer, or other entity subject to this  
6     section requests medical information from a physician in order to  
7     determine whether to approve, modify, or deny requests for  
8     authorization, the employer shall request only the information  
9     reasonably necessary to make the determination.

10    (2) If the employer, insurer, or other entity cannot make a  
11    decision within the timeframes specified in paragraph (1), (2), or  
12    (3) of subdivision (i) because the employer or other entity is not  
13    in receipt of, or in possession of, all of the information reasonably  
14    necessary to make a determination, the employer shall immediately  
15    notify the physician and the employee, in writing, that the employer  
16    cannot make a decision within the required timeframe, and specify  
17    the information that must be provided by the physician for a  
18    determination to be made. Upon receipt of all information  
19    reasonably necessary and requested by the employer, the employer  
20    shall approve, modify, or deny the request for authorization within  
21    the timeframes specified in paragraph (1), (2), or (3) of subdivision  
22    (i).

23    (k) A utilization review decision to modify, delay, or deny a  
24    treatment recommendation shall remain effective for 12 months  
25    from the date of the decision without further action by the employer  
26    with regard to any further recommendation by the same physician,  
27    or another physician within the requesting physician's practice  
28    group, for the same treatment unless the further recommendation  
29    is supported by a documented change in the facts material to the  
30    basis of the utilization review decision.

31    (l) Utilization review of a treatment recommendation shall not  
32    be required while the employer is disputing liability for injury or  
33    treatment of the condition for which treatment is recommended  
34    pursuant to Section 4062.

35    (m) If utilization review is deferred pursuant to subdivision (l),  
36    and it is finally determined that the employer is liable for treatment  
37    of the condition for which treatment is recommended, the time for  
38    the employer to conduct retrospective utilization review in  
39    accordance with paragraph (2) of subdivision (i) shall begin on  
40    the date the determination of the employer's liability becomes

1 *final, and the time for the employer to conduct prospective*  
2 *utilization review shall commence from the date of the employer's*  
3 *receipt of a treatment recommendation after the determination of*  
4 *the employer's liability.*

5 *(n) Every employer, insurer, or other entity subject to this*  
6 *section shall maintain telephone access during California business*  
7 *hours for physicians to request authorization for health care*  
8 *services and to conduct peer-to-peer discussions regarding issues,*  
9 *including the appropriateness of a requested treatment,*  
10 *modification of a treatment request, or obtaining additional*  
11 *information needed to make a medical necessity decision.*

12 *(o) The administrative director shall develop a system for the*  
13 *mandatory electronic reporting of documents related to every*  
14 *utilization review performed by each employer, which shall be*  
15 *administered by the Division of Workers' Compensation. The*  
16 *administrative director shall adopt regulations specifying the*  
17 *documents to be submitted by the employer and the authorized*  
18 *transmission format and timeframe for their submission. For*  
19 *purposes of this subdivision, "employer" means the employer, the*  
20 *insurer of an insured employer, a claims administrator, or a*  
21 *utilization review organization, or other entity acting on behalf of*  
22 *any of them.*

23 *(p) If the administrative director determines that the employer,*  
24 *insurer, or other entity subject to this section has failed to meet*  
25 *any of the timeframes in this section, or has failed to meet any*  
26 *other requirement of this section, the administrative director may*  
27 *assess, by order, administrative penalties for each failure. A*  
28 *proceeding for the issuance of an order assessing administrative*  
29 *penalties shall be subject to appropriate notice to, and an*  
30 *opportunity for a hearing with regard to, the person affected. The*  
31 *administrative penalties shall not be deemed to be an exclusive*  
32 *remedy for the administrative director. These penalties shall be*  
33 *deposited in the Workers' Compensation Administration Revolving*  
34 *Fund.*

35 *(q) This section shall become operative on January 1, 2018.*

36 *SEC. 5. Section 4610.5 of the Labor Code is amended to read:*

37 *4610.5. (a) This section applies to the following disputes:*

38 *(1) Any dispute over a utilization review decision regarding*  
39 *treatment for an injury occurring on or after January 1, 2013.*



(2) Any dispute over a utilization review decision if the decision is communicated to the requesting physician on or after July 1, 2013, regardless of the date of injury.

(3) *Any dispute occurring on or after January 1, 2018, over medication prescribed pursuant to the drug formulary adopted pursuant to Section 5307.27.*

(b) A dispute described in subdivision (a) shall be resolved only in accordance with this section.

(c) For purposes of this section and Section 4610.6, the following definitions apply:

(1) “Disputed medical treatment” means medical treatment that has been ~~modified, delayed, modified~~ or denied by a utilization review ~~decision. decision on the basis of medical necessity.~~

(2) “Medically necessary” and “medical necessity” mean medical treatment that is reasonably required to cure or relieve the injured employee of the effects of his or her injury and based on the following standards, which shall be applied ~~in the order listed, allowing reliance on a lower ranked standard only if every higher ranked standard is inapplicable to the employee’s medical condition.~~ *as set forth in the medical treatment utilization schedule, including the drug formulary, adopted by the administrative director pursuant to Section 5307.27:*

(A) ~~The guidelines~~ *guidelines, including the drug formulary,* adopted by the administrative director pursuant to Section 5307.27.

(B) Peer-reviewed scientific and medical evidence regarding the effectiveness of the disputed service.

(C) Nationally recognized professional standards.

(D) Expert opinion.

(E) Generally accepted standards of medical practice.

(F) Treatments that are likely to provide a benefit to a patient for conditions for which other treatments are not clinically efficacious.

(3) “Utilization review decision” means a decision pursuant to Section 4610 to ~~modify, delay, modify~~ or deny, based in whole or in part on medical necessity to cure or relieve, a treatment recommendation or recommendations by a physician prior to, retrospectively, or concurrent with, the provision of medical treatment services pursuant to Section 4600 or subdivision (c) of Section 5402. *“Utilization review decision” may also mean a determination, occurring on or after January 1, 2018, by a*

1 *physician regarding the medical necessity of medication prescribed*  
2 *pursuant to the drug formulary adopted pursuant to Section*  
3 *5307.27.*

4 (4) Unless otherwise indicated by context, “employer” means  
5 the employer, the insurer of an insured employer, a claims  
6 administrator, or a utilization review organization, or other entity  
7 acting on behalf of any of them.

8 (d) If a utilization review decision ~~denies, modifies, or delays~~  
9 *denies or modifies* a treatment ~~recommendation~~, *recommendation*  
10 *based on medical necessity*, the employee may request an  
11 independent medical review as provided by this section.

12 (e) A utilization review decision may be reviewed or appealed  
13 only by independent medical review pursuant to this section.  
14 Neither the employee nor the employer shall have any liability for  
15 medical treatment furnished without the authorization of the  
16 employer if the treatment is ~~delayed, modified, modified~~ or denied  
17 by a utilization review ~~decision~~ *decision*, unless the utilization  
18 review decision is overturned by independent medical review in  
19 accordance with this section.

20 (f) As part of its notification to the employee regarding an initial  
21 utilization review decision *based on medical necessity* that ~~denies,~~  
22 ~~modifies, or delays~~ *denies or modifies* a treatment recommendation,  
23 the employer shall provide the employee with a ~~form not to exceed~~  
24 ~~two pages; one-page form~~ prescribed by the administrative director,  
25 and an addressed envelope, which the employee may return to the  
26 administrative director or the administrative director’s designee  
27 to initiate an independent medical review. *The employee may also*  
28 *request independent medical review electronically under rules*  
29 *adopted by the administrative director.* The employer shall include  
30 on the form any information required by the administrative director  
31 to facilitate the completion of the independent medical review.  
32 The form shall also include all of the following:

33 (1) Notice that the utilization review decision is final unless the  
34 employee requests independent medical review.

35 (2) A statement indicating the employee’s consent to obtain any  
36 necessary medical records from the employer or insurer and from  
37 any medical provider the employee may have consulted on the  
38 matter, to be signed by the employee.

1 (3) Notice of the employee's right to provide information or  
2 documentation, either directly or through the employee's physician,  
3 regarding the following:

4 (A) The treating physician's recommendation indicating that  
5 the disputed medical treatment is medically necessary for the  
6 employee's medical condition.

7 (B) Medical information or justification that a disputed medical  
8 treatment, on an urgent care or emergency basis, was medically  
9 necessary for the employee's medical condition.

10 (C) Reasonable information supporting the employee's position  
11 that the disputed medical treatment is or was medically necessary  
12 for the employee's medical condition, including all information  
13 provided to the employee by the employer or by the treating  
14 physician, still in the employee's possession, concerning the  
15 employer's or the physician's decision regarding the disputed  
16 medical treatment, as well as any additional material that the  
17 employee believes is relevant.

18 (g) The independent medical review process may be terminated  
19 at any time upon the employer's written authorization of the  
20 disputed medical treatment. *Notice of the authorization, any*  
21 *settlement or award that may resolve the medical treatment dispute,*  
22 *or the requesting physician withdrawing the request for treatment,*  
23 *shall be communicated to the independent medical review*  
24 *organization by the employer within five days.*

25 (h) (1) The employee may submit a request for independent  
26 medical review to the ~~division no later than 30 days after the~~  
27 ~~service of the utilization review decision to the employee.~~ *division.*  
28 *The request may be made electronically under rules adopted by*  
29 *the administrative director. The request shall be made no later*  
30 *than as follows:*

31 (A) *For formulary disputes, 10 days after the service of the*  
32 *utilization review decision to the employee.*

33 (B) *For all other medical treatment disputes, 30 days after the*  
34 *service of the utilization review decision to the employee.*

35 (2) If at the time of a utilization review decision the employer  
36 is also disputing liability for the treatment for any reason besides  
37 medical necessity, the time for the employee to submit a request  
38 for independent medical review to the administrative director or  
39 administrative director's designee is extended to 30 days after

1 service of a notice to the employee showing that the other dispute  
2 of liability has been resolved.

3 (3) If the employer fails to comply with subdivision (f) at the  
4 time of notification of its utilization review decision, the time  
5 limitations for the employee to submit a request for independent  
6 medical review shall not begin to run until the employer provides  
7 the required notice to the employee.

8 (4) A provider of emergency medical treatment when the  
9 employee faced an imminent and serious threat to his or her health,  
10 including, but not limited to, the potential loss of life, limb, or  
11 other major bodily function, may submit a request for independent  
12 medical review on its own behalf. A request submitted by a  
13 provider pursuant to this paragraph shall be submitted to the  
14 administrative director or administrative director's designee within  
15 the time limitations applicable for an employee to submit a request  
16 for independent medical review.

17 (i) An employer shall not engage in any conduct that has the  
18 effect of delaying the independent review process. Engaging in  
19 that conduct or failure of the employer to promptly comply with  
20 this section is a violation of this section and, in addition to any  
21 other fines, penalties, and other remedies available to the  
22 administrative director, the employer shall be subject to an  
23 administrative penalty in an amount determined pursuant to  
24 regulations to be adopted by the administrative director, not to  
25 exceed five thousand dollars (\$5,000) for each day that proper  
26 notification to the employee is delayed. The administrative  
27 penalties shall be paid to the Workers' Compensation  
28 Administration Revolving Fund.

29 (j) For purposes of this section, an employee may designate a  
30 parent, guardian, conservator, relative, or other designee of the  
31 employee as an agent to act on his or her behalf. A designation of  
32 an agent executed prior to the utilization review decision shall not  
33 be valid. The requesting physician may join with or otherwise  
34 assist the employee in seeking an independent medical review,  
35 and may advocate on behalf of the employee.

36 (k) The administrative director or his or her designee shall  
37 expeditiously review requests and immediately notify the employee  
38 and the employer in writing as to whether the request for an  
39 independent medical review has been approved, in whole or in  
40 part, and, if not approved, the reasons therefor. If there appears to

1 be any medical necessity issue, the dispute shall be resolved  
2 pursuant to an independent medical review, except that, unless the  
3 employer agrees that the case is eligible for independent medical  
4 review, a request for independent medical review shall be deferred  
5 if at the time of a utilization review decision the employer is also  
6 disputing liability for the treatment for any reason besides medical  
7 necessity.

8 (l) Upon notice from the administrative director that an  
9 independent review organization has been assigned, the employer  
10 shall *electronically* provide to the independent medical review  
11 organization *under rules adopted by the administrative director a*  
12 *copy and list of* all of the following documents within 10 days of  
13 notice of assignment:

14 (1) A copy of all of the employee's medical records in the  
15 possession of the employer or under the control of the employer  
16 relevant to each of the following:

17 (A) The employee's current medical condition.

18 (B) The medical treatment being provided by the employer.

19 (C) ~~The disputed medical treatment requested by the employee.~~  
20 *request for authorization and utilization review decision.*

21 (2) A copy of all information provided to the employee by the  
22 employer concerning employer and provider decisions regarding  
23 the disputed treatment.

24 (3) A copy of any materials the employee or the employee's  
25 provider submitted to the employer in support of the employee's  
26 request for the disputed treatment.

27 (4) A copy of any other relevant documents or information used  
28 by the employer or its utilization review organization in  
29 determining whether the disputed treatment should have been  
30 provided, and any statements by the employer or its utilization  
31 review organization explaining the reasons for the decision to  
32 ~~deny, modify, or delay~~ *deny or modify* the recommended treatment  
33 on the basis of medical necessity. The employer shall concurrently  
34 provide a copy of the documents required by this paragraph to the  
35 employee and the requesting physician, except that documents  
36 previously provided to the employee or physician need not be  
37 provided again if a list of those documents is provided.

38 (m) Any newly developed or discovered relevant medical  
39 records in the possession of the employer after the initial documents  
40 are provided to the independent medical review organization shall

1 be forwarded immediately to the independent medical review  
2 organization. The employer shall concurrently provide a copy of  
3 medical records required by this subdivision to the employee or  
4 the employee's treating physician, unless the offer of medical  
5 records is declined or otherwise prohibited by law. The  
6 confidentiality of medical records shall be maintained pursuant to  
7 applicable state and federal laws.

8 (n) If there is an imminent and serious threat to the health of  
9 the employee, as specified in subdivision (c) of Section 1374.33  
10 of the Health and Safety Code, all necessary information and  
11 documents required by subdivision (l) shall be delivered to the  
12 independent medical review organization within 24 hours of  
13 approval of the request for review.

14 (o) The employer shall promptly issue a notification to the  
15 employee, after submitting all of the required material to the  
16 independent medical review organization, that lists documents  
17 submitted and includes copies of material not previously provided  
18 to the employee or the employee's designee.

19 (p) *The claims administrator who issued the utilization review*  
20 *decision in dispute shall notify the independent medical review*  
21 *organization if there is a change in the claims administrator*  
22 *responsible for the claim. Notice shall be given to the independent*  
23 *medical review organization within five working days of the change*  
24 *in administrator taking effect.*

25 SEC. 6. Section 4610.6 of the Labor Code is amended to read:

26 4610.6. (a) Upon receipt of a case pursuant to Section 4610.5,  
27 an independent medical review organization shall conduct the  
28 review in accordance with this article and any regulations or orders  
29 of the administrative director. The organization's review shall be  
30 limited to an examination of the medical necessity of the disputed  
31 medical treatment.

32 (b) Upon receipt of information and documents related to a case,  
33 the medical reviewer or reviewers selected to conduct the review  
34 by the independent medical review organization shall promptly  
35 review all pertinent medical records of the employee, provider  
36 reports, and any other information submitted to the organization  
37 or requested from any of the parties to the dispute by the reviewers.  
38 If the reviewers request information from any of the parties, a copy  
39 of the request and the response shall be provided to all of the

1 parties. The reviewer or reviewers shall also review relevant  
2 information related to the criteria set forth in subdivision (c).

3 (c) Following its review, the reviewer or reviewers shall  
4 determine whether the disputed health care service was medically  
5 necessary based on the specific medical needs of the employee  
6 and the standards of medical necessity as defined in subdivision  
7 (c) of Section 4610.5.

8 (d) (1) The organization shall complete its review and make  
9 its determination in writing, and in layperson's terms to the  
10 maximum extent practicable, ~~within 30 days of the receipt of the~~  
11 ~~request for review and supporting documentation, or within less~~  
12 ~~time as prescribed by the administrative director. If and the~~  
13 ~~determination shall be issued, as follows:~~

14 (A) *For a dispute over medication prescribed pursuant to the*  
15 *drug formulary submitted under subdivision (h) of Section 4610.5,*  
16 *within five working days from the date of receipt of the request for*  
17 *review and supporting documentation, or within less time as*  
18 *prescribed by the administrative director.*

19 (B) *For all other medical treatment disputes submitted for*  
20 *review under subdivision (h) of Section 4610.5, within 30 days of*  
21 *receipt of the request for review and supporting documentation,*  
22 *or within less time as prescribed by the administrative director.*

23 (C) *If the disputed medical treatment has not been provided and*  
24 *the employee's provider or the administrative director certifies in*  
25 *writing that an imminent and serious threat to the health of the*  
26 *employee may exist, including, but not limited to, serious pain,*  
27 *the potential loss of life, limb, or major bodily function, or the*  
28 *immediate and serious deterioration of the health of the employee,*  
29 *the analyses and determinations of the reviewers shall be expedited*  
30 *and rendered within three days of the receipt of the information.*

31 **Subject**

32 (2) *Subject* to the approval of the administrative director, the  
33 deadlines for analyses and determinations involving both regular  
34 and expedited reviews may be extended for up to three days in  
35 extraordinary circumstances or for good cause.

36 (e) The medical professionals' analyses and determinations shall  
37 state whether the disputed health care service is medically  
38 necessary. Each analysis shall cite the employee's medical  
39 condition, the relevant documents in the record, and the relevant  
40 findings associated with the provisions of subdivision (c) to support

1 the determination. If more than one medical professional reviews  
2 the case, the recommendation of the majority shall prevail. If the  
3 medical professionals reviewing the case are evenly split as to  
4 whether the disputed health care service should be provided, the  
5 decision shall be in favor of providing the service.

6 (f) The independent medical review organization shall provide  
7 the administrative director, the employer, the employee, and the  
8 employee's provider with the analyses and determinations of the  
9 medical professionals reviewing the case, and a description of the  
10 qualifications of the medical professionals. The independent  
11 medical review organization shall keep the names of the reviewers  
12 confidential in all communications with entities or individuals  
13 outside the independent medical review organization. If more than  
14 one medical professional reviewed the case and the result was  
15 differing determinations, the independent medical review  
16 organization shall provide each of the separate reviewer's analyses  
17 and determinations.

18 (g) The determination of the independent medical review  
19 organization shall be deemed to be the determination of the  
20 administrative director and shall be binding on all parties.

21 (h) A determination of the administrative director pursuant to  
22 this section may be reviewed only by a verified appeal from the  
23 medical review determination of the administrative director, filed  
24 with the appeals board for hearing pursuant to Chapter 3  
25 (commencing with Section 5500) of Part 4 and served on all  
26 interested parties within 30 days of the date of mailing of the  
27 determination to the aggrieved employee or the aggrieved  
28 employer. The determination of the administrative director shall  
29 be presumed to be correct and shall be set aside only upon proof  
30 by clear and convincing evidence of one or more of the following  
31 grounds for appeal:

32 (1) The administrative director acted without or in excess of the  
33 administrative director's powers.

34 (2) The determination of the administrative director was  
35 procured by fraud.

36 (3) The independent medical reviewer was subject to a material  
37 conflict of interest that is in violation of Section 139.5.

38 (4) The determination was the result of bias on the basis of race,  
39 national origin, ethnic group identification, religion, age, sex,  
40 sexual orientation, color, or disability.



1 (5) The determination was the result of a plainly erroneous  
2 express or implied finding of fact, provided that the mistake of  
3 fact is a matter of ordinary knowledge based on the information  
4 submitted for review pursuant to Section 4610.5 and not a matter  
5 that is subject to expert opinion.

6 (i) If the determination of the administrative director is reversed,  
7 the dispute shall be remanded to the administrative director to  
8 submit the dispute to independent medical review by a different  
9 independent review organization. In the event that a different  
10 independent medical review organization is not available after  
11 remand, the administrative director shall submit the dispute to the  
12 original medical review organization for review by a different  
13 reviewer in the organization. In no event shall a workers'  
14 compensation administrative law judge, the appeals board, or any  
15 higher court make a determination of medical necessity contrary  
16 to the determination of the independent medical review  
17 organization.

18 (j) Upon receiving the determination of the administrative  
19 director that a disputed health care service is medically necessary,  
20 the employer shall promptly implement the decision as provided  
21 by this section unless the employer has also disputed liability for  
22 any reason besides medical necessity. In the case of reimbursement  
23 for services already rendered, the employer shall reimburse the  
24 provider or employee, whichever applies, within 20 days, subject  
25 to resolution of any remaining issue of the amount of payment  
26 pursuant to Sections 4603.2 to 4603.6, inclusive. In the case of  
27 services not yet rendered, the employer shall authorize the services  
28 within five working days of receipt of the written determination  
29 from the independent medical review organization, or sooner if  
30 appropriate for the nature of the employee's medical condition,  
31 and shall inform the employee and provider of the authorization.

32 (k) Failure to pay for services already provided or to authorize  
33 services not yet rendered within the time prescribed by subdivision  
34 (l) is a violation of this section and, in addition to any other fines,  
35 penalties, and other remedies available to the administrative  
36 director, the employer shall be subject to an administrative penalty  
37 in an amount determined pursuant to regulations to be adopted by  
38 the administrative director, not to exceed five thousand dollars  
39 (\$5,000) for each day the decision is not implemented. The

1 administrative penalties shall be paid to the Workers'  
2 Compensation Administration Revolving Fund.

3 (l) The costs of independent medical review and the  
4 administration of the independent medical review system shall be  
5 borne by employers through a fee system established by the  
6 administrative director. After considering any relevant information  
7 on program costs, the administrative director shall establish a  
8 reasonable, per-case reimbursement schedule to pay the costs of  
9 independent medical review organization reviews and the cost of  
10 administering the independent medical review system, which may  
11 vary depending on the type of medical condition under review and  
12 on other relevant factors.

13 (m) The administrative director may publish the results of  
14 independent medical review determinations after removing  
15 individually identifiable information.

16 (n) If any provision of this section, or the application thereof to  
17 any person or circumstances, is held invalid, the remainder of the  
18 section, and the application of its provisions to other persons or  
19 circumstances, shall not be affected thereby.

20 *SEC. 7. Section 4615 is added to the Labor Code, to read:*

21 *4615. Any lien filed by or on behalf of a physician or provider*  
22 *of medical treatment services under Section 4600 or medical-legal*  
23 *services under Section 4060, and any accrual of interest related*  
24 *to the lien, shall be automatically stayed upon the filing of criminal*  
25 *charges against that physician or provider for an offense involving*  
26 *fraud against the workers' compensation system, medical billing*  
27 *fraud, insurance fraud, or fraud against the Medicare or Medi-Cal*  
28 *programs. The stay shall be in effect from the time of the filing of*  
29 *the charges until the disposition of the criminal proceedings. The*  
30 *administrative director may promulgate rules for the*  
31 *implementation of this section.*

32 *SEC. 8. Section 4903.05 of the Labor Code is amended to read:*

33 *4903.05. (a) Every lien claimant shall file its lien with the*  
34 *appeals board in writing upon a form approved by the appeals*  
35 *board. The lien shall be accompanied by a full statement or*  
36 *itemized voucher supporting the lien and justifying the right to*  
37 *reimbursement and proof of service upon the injured worker or,*  
38 *if deceased, upon the worker's dependents, the employer, the*  
39 *insurer, and the respective attorneys or other agents of record.*

1 Medical records shall be filed only if they are relevant to the issues  
2 being raised by the lien.

3 (b) Any lien claim for expenses under subdivision (b) of Section  
4 4903 or for claims of costs shall be filed with the appeals board  
5 electronically using the form approved by the appeals board. The  
6 lien shall be accompanied by a proof of service and any other  
7 documents that may be required by the appeals board. The service  
8 requirements for Section 4603.2 are not modified by this section.

9 (c) *(1) For liens filed on or after January 1, 2017, any lien*  
10 *claim for expenses under subdivision (b) of Section 4903 that is*  
11 *subject to a filing fee under this section shall be accompanied at*  
12 *the time of filing by a declaration stating, under penalty of perjury,*  
13 *that the dispute is not subject to an independent bill review under*  
14 *Section 4603.6 and that the lien claimant satisfies one of the*  
15 *following:*

16 (A) *Is the employee's treating physician providing care through*  
17 *a medical provider network.*

18 (B) *Is the agreed medical evaluator or qualified medical*  
19 *evaluator.*

20 (C) *Has provided treatment authorized by the employer or*  
21 *claims administrator under Section 4610.*

22 (D) *Has made a diligent search and determined that the*  
23 *employer does not have a medical provider network in place.*

24 (E) *Has documentation that medical treatment has been*  
25 *neglected or unreasonably refused to the employee.*

26 (F) *Can show that the expense was incurred for an emergency*  
27 *medical condition, as defined by subdivision (b) of Section 1317.1*  
28 *of the Health and Safety Code.*

29 (2) *For all liens filed prior to January 1, 2017, lien claimants*  
30 *shall have until July 1, 2017, to file the declaration provided under*  
31 *paragraph (1).*

32 (3) *The failure to file a signed declaration under this subdivision*  
33 *shall result in the dismissal of the lien with prejudice by operation*  
34 *of law. Filing of a false declaration shall be grounds for dismissal*  
35 *with prejudice after notice.*

36 ~~(e)~~

37 (d) All liens filed on or after January 1, 2013, for expenses under  
38 subdivision (b) of Section 4903 or for claims of costs shall be  
39 subject to a filing fee as provided by this subdivision.

1 (1) The lien claimant shall pay a filing fee of one hundred fifty  
2 dollars (\$150) to the Division of Workers' Compensation prior to  
3 filing a lien and shall include proof that the filing fee has been  
4 paid. The fee shall be collected through an electronic payment  
5 system that accepts major credit cards and any additional forms  
6 of electronic payment selected by the administrative director. If  
7 the administrative director contracts with a service provider for  
8 the processing of electronic payments, any processing fee shall be  
9 absorbed by the division and not added to the fee charged to the  
10 lien filer.

11 (2) On or after January 1, 2013, a lien submitted for filing that  
12 does not comply with paragraph (1) shall be invalid, even if lodged  
13 with the appeals board, and shall not operate to preserve or extend  
14 any time limit for filing of the lien.

15 (3) The claims of two or more providers of goods or services  
16 shall not be merged into a single lien.

17 (4) The filing fee shall be collected by the administrative  
18 director. All fees shall be deposited in the Workers' Compensation  
19 Administration Revolving Fund and applied for the purposes of  
20 that fund.

21 (5) The administrative director shall adopt reasonable rules and  
22 regulations governing the procedure for the collection of the filing  
23 fee, including emergency regulations as necessary to implement  
24 this section.

25 (6) Any lien filed for goods or services that are not the proper  
26 subject of a lien may be dismissed upon request of a party by  
27 verified petition or on the appeals board's own motion. If the lien  
28 is dismissed, the lien claimant will not be entitled to reimbursement  
29 of the filing fee.

30 (7) No filing fee shall be required for a lien filed by a health  
31 care service plan licensed pursuant to Section 1349 of the Health  
32 and Safety Code, a group disability insurer under a policy issued  
33 in this state pursuant to the provisions of Section 10270.5 of the  
34 Insurance Code, a self-insured employee welfare benefit plan, as  
35 defined in Section 10121 of the Insurance Code, that is issued in  
36 this state, a Taft-Hartley health and welfare fund, or a publicly  
37 funded program providing medical benefits on a nonindustrial  
38 basis.

39 *SEC. 9. Section 4903.8 of the Labor Code is amended to read:*

1 4903.8. (a) (1) Any order or award for payment of a lien filed  
2 pursuant to subdivision (b) of Section 4903 shall be made for  
3 payment only to the person who was entitled to payment for the  
4 expenses as provided in subdivision (b) of Section 4903 at the time  
5 the expenses were incurred, ~~and not to an assignee incurred, who~~  
6 *is the lien owner, and not to an assignee* unless the person has  
7 ceased doing business in the capacity held at the time the expenses  
8 were incurred and has assigned all right, title, and interest in the  
9 remaining accounts receivable to the assignee.

10 (2) *All liens filed pursuant to subdivision (b) of Section 4903*  
11 *shall be filed in the name of the lien owner only, and no payment*  
12 *shall be made to any lien claimant without evidence that he or she*  
13 *is the owner of that lien.*

14 ~~(2)~~

15 (3) Paragraph (1) does not apply to an assignment that was  
16 completed prior to January 1, 2013, or that was required by a  
17 contract that became enforceable and irrevocable prior to January  
18 1, 2013. This paragraph is declarative of existing law.

19 (4) *For liens filed after January 1, 2017, the lien shall not be*  
20 *assigned unless the person has ceased doing business in the*  
21 *capacity held at the time the expenses were incurred and has*  
22 *assigned all right, title, and interest in the remaining accounts*  
23 *receivable to the assignee. The assignment of a lien, in violation*  
24 *of this paragraph is invalid by operation of law.*

25 (b) If there has been an assignment of a lien, either as an  
26 assignment of all right, title, and interest in the accounts receivable  
27 or as an assignment for collection, a true and correct copy of the  
28 assignment shall be filed and served.

29 (1) If the lien is filed on or after January 1, 2013, and the  
30 assignment occurs before the filing of the lien, the copy of the  
31 assignment shall be served at the time the lien is filed.

32 (2) If the lien is filed on or after January 1, 2013, and the  
33 assignment occurs after the filing of the lien, the copy of the  
34 assignment shall be served within 20 days of the date of the  
35 assignment.

36 (3) If the lien is filed before January 1, 2013, the copy of the  
37 assignment shall be served by January 1, 2014, or with the filing  
38 of a declaration of readiness or at the time of a lien hearing,  
39 whichever is earliest.

1 (c) If there has been more than one assignment of the same  
2 receivable or bill, the appeals board may set the matter for hearing  
3 on whether the multiple assignments constitute bad-faith actions  
4 or tactics that are frivolous, harassing, or intended to cause  
5 unnecessary delay or expense. If so found by the appeals board,  
6 appropriate sanctions, including costs and attorney's fees, may be  
7 awarded against the assignor, assignee, and their respective  
8 attorneys.

9 (d) At the time of filing of a lien on or after January 1, 2013, or  
10 in the case of a lien filed before January 1, 2013, at the earliest of  
11 the filing of a declaration of readiness, a lien hearing, or January  
12 1, 2014, supporting documentation shall be filed including one or  
13 more declarations under penalty of perjury by a natural person or  
14 persons competent to testify to the facts stated, declaring both of  
15 the following:

16 (1) The services or products described in the bill for services  
17 or products were actually provided to the injured employee.

18 (2) The billing statement attached to the lien truly and accurately  
19 describes the services or products that were provided to the injured  
20 employee.

21 (e) A lien submitted for filing on or after January 1, 2013, for  
22 expenses provided in subdivision (b) of Section 4903, that does  
23 not comply with the requirements of this section shall be deemed  
24 to be invalid, whether or not accepted for filing by the appeals  
25 board, and shall not operate to preserve or extend any time limit  
26 for filing of the lien.

27 (f) This section shall take effect without regulatory action. The  
28 appeals board and the administrative director may promulgate  
29 regulations and forms for the implementation of this section.

30 *SEC. 10. Section 5307.27 of the Labor Code is amended to*  
31 *read:*

32 5307.27. (a) The administrative director, in consultation with  
33 the Commission on Health and Safety and Workers' Compensation,  
34 shall adopt, after public hearings, a medical treatment utilization  
35 schedule, that shall incorporate the evidence-based, peer-reviewed,  
36 nationally recognized standards of care recommended by the  
37 commission pursuant to Section 77.5, and that shall address, at a  
38 minimum, the frequency, duration, intensity, and appropriateness  
39 of all treatment procedures and modalities commonly performed  
40 in workers' compensation cases. *Evidence-based updates to the*

1 utilization schedule shall be made through an order exempt from  
2 Sections 5307.3 and 5307.4, and the rulemaking provisions of the  
3 Administrative Procedure Act (Chapter 3.5 (commencing with  
4 Section 11340) of Part 1 of Division 3 of Title 2 of the Government  
5 Code), but the administrative director shall allow at least a 30-day  
6 period for public comment and a public hearing. The administrative  
7 director shall provide responses to submitted comments prior to  
8 the effective date of the updates. All orders issued pursuant to this  
9 subdivision shall be published on the Internet Web site of the  
10 Division of Workers' Compensation.

11 (b) On or before July 1, 2017, the medical treatment utilization  
12 schedule adopted by the administrative director shall include a  
13 drug formulary using evidence-based medicine. Nothing in this  
14 section shall prohibit the authorization of medications that are not  
15 in the formulary when the variance is demonstrated, consistent  
16 with subdivision (a) of Section 4604.5.

17 (c) The drug formulary shall include a phased implementation  
18 for workers injured prior to July 1, 2017, in order to ensure injured  
19 workers safely transition to medications pursuant to the formulary.

20 (d) This section shall apply to all prescribers and dispensers of  
21 medications serving injured workers under the workers'  
22 compensation system.

23 SEC. 11. Section 5710 of the Labor Code is amended to read:

24 5710. (a) The appeals board, a workers' compensation judge,  
25 or any party to the action or proceeding, may, in any investigation  
26 or hearing before the appeals board, cause the deposition of  
27 witnesses residing within or without the state to be taken in the  
28 manner prescribed by law for like depositions in civil actions in  
29 the superior courts of this state under Title 4 (commencing with  
30 Section 2016.010) of Part 4 of the Code of Civil Procedure. To  
31 that end the attendance of witnesses and the production of records  
32 may be required. Depositions may be taken outside the state before  
33 any officer authorized to administer oaths. The appeals board or  
34 a workers' compensation judge in any proceeding before the  
35 appeals board may cause evidence to be taken in other jurisdictions  
36 before the agency authorized to hear workers' compensation  
37 matters in those other jurisdictions.

38 (b) If the employer or insurance carrier requests a deposition to  
39 be taken of an injured employee, or any person claiming benefits

1 as a dependent of an injured employee, the deponent is entitled to  
2 receive in addition to all other benefits:

3 (1) All reasonable expenses of transportation, meals, and lodging  
4 incident to the deposition.

5 (2) Reimbursement for any loss of wages incurred during  
6 attendance at the deposition.

7 (3) One copy of the transcript of the deposition, without cost.

8 (4) A reasonable allowance for attorney's fees for the deponent,  
9 if represented by an attorney licensed by the State Bar of this state.  
10 The fee shall be discretionary with, and, if allowed, shall be set  
11 by, the appeals board, but shall be paid by the employer or his or  
12 her insurer. *The administrative director shall determine the range*  
13 *of reasonable fees to be paid.*

14 (5) If interpretation services are required because the injured  
15 employee or deponent does not proficiently speak or understand  
16 the English language, upon a request from either, the employer  
17 shall pay for the services of a language interpreter certified or  
18 deemed certified pursuant to Article 8 (commencing with Section  
19 11435.05) of Chapter 4.5 of Part 1 of Division 3 of Title 2 of, or  
20 Section 68566 of, the Government Code. The fee to be paid by the  
21 employer shall be in accordance with the fee schedule adopted by  
22 the administrative director and shall include any other  
23 deposition-related events as permitted by the administrative  
24 director.

25 *SEC. 12. Section 5811 of the Labor Code is amended to read:*

26 5811. (a) No fees shall be charged by the clerk of any court  
27 for the performance of any official service required by this division,  
28 except for the docketing of awards as judgments and for certified  
29 copies of transcripts thereof. In all proceedings under this division  
30 before the appeals board, costs as between the parties may be  
31 allowed by the appeals board.

32 (b) (1) It shall be the responsibility of any party producing a  
33 witness requiring an interpreter to arrange for the presence of a  
34 qualified interpreter.

35 (2) A qualified interpreter is a language interpreter who is  
36 certified, or deemed certified, pursuant to Article 8 (commencing  
37 with Section 11435.05) of Chapter 4.5 of Part 1 of Division 3 of  
38 Title 2 of, or Section 68566 of, the Government Code. The duty  
39 of an interpreter is to accurately and impartially translate oral  
40 communications and transliterate written materials, and not to act



1 as an agent or advocate. An interpreter shall not disclose to any  
2 person who is not an immediate participant in the communications  
3 the content of the conversations or documents that the interpreter  
4 has interpreted or transliterated unless the disclosure is compelled  
5 by court order. An attempt by any party or attorney to obtain  
6 disclosure is a bad faith tactic that is subject to Section 5813.

7 Interpreter fees that are reasonably, actually, and necessarily  
8 incurred shall be paid by the employer under this section, provided  
9 they are in accordance with the fee schedule adopted by the  
10 administrative director.

11 A qualified interpreter may render services during the following:

12 (A) A deposition.

13 (B) An appeals board hearing.

14 (C) A medical treatment appointment or medical-legal  
15 examination.

16 (D) During those settings which the administrative director  
17 determines are reasonably necessary to ascertain the validity or  
18 extent of injury to an employee who does not proficiently speak  
19 or understand the English language.

20 *(c) The administrative director shall promulgate regulations*  
21 *establishing criteria to verify the identity and credentials of*  
22 *individuals who provide interpreter services in all necessary*  
23 *settings and proceedings within the workers' compensation system.*  
24 *Those regulations shall be adopted no later than January 1, 2018.*

25 *SEC. 13. Section 6409 of the Labor Code is amended to read:*

26 6409. (a) Every physician as defined in Section 3209.3 who  
27 attends any injured employee shall file a complete report of ~~every~~  
28 ~~that~~ occupational injury or occupational illness ~~to the employee~~  
29 ~~in a manner prescribed by the administrative director of the~~  
30 ~~Division of Workers' Compensation. The report shall include a~~  
31 ~~diagnosis, the injured employee's description of how the injury or~~  
32 ~~illness occurred, any treatment rendered at the time of the~~  
33 ~~examination, any work restrictions resulting from the injury or~~  
34 ~~illness, a treatment plan, and other content as prescribed by the~~  
35 ~~administrative director. The form shall be filed electronically with~~  
36 ~~the Division of Workers' Compensation and the employer, or if~~  
37 ~~insured, with the employer's insurer, on forms prescribed for that~~  
38 ~~purpose by the Department of Industrial Relations. A portion of~~  
39 ~~the form shall be completed by the injured employee, if he or she~~  
40 ~~is able to do so, describing how the injury or illness occurred. The~~

1 ~~form shall be filed~~ within five days of the initial examination.  
2 ~~Inability or failure of an injured employee to complete his or her~~  
3 ~~portion of the form shall not affect the employee's rights under~~  
4 ~~this code, and shall not excuse any delay in filing the form. The~~  
5 ~~employer or insurer, as the case may be, shall file the physician's~~  
6 ~~report with the department within five days of receipt. Each report~~  
7 ~~of occupational injury or occupational illness shall indicate the~~  
8 ~~social security number of the injured employee. If the treatment~~  
9 ~~is for pesticide poisoning or a condition suspected to be pesticide~~  
10 ~~poisoning, the physician shall also file a complete report, which~~  
11 ~~need not include the affidavit required pursuant to this section,~~  
12 ~~with the department, and also, within 24 hours of the initial~~  
13 ~~examination shall examination, file a complete report with the~~  
14 ~~local health officer by facsimile transmission or other means. If~~  
15 ~~the treatment is for pesticide poisoning or a condition suspected~~  
16 ~~to be pesticide poisoning, the physician shall not be compensated~~  
17 ~~for the initial diagnosis and treatment unless the report is filed with~~  
18 ~~the Division of Workers' Compensation, the employer, or if insured,~~  
19 ~~with the employer's insurer, and includes or is accompanied by a~~  
20 ~~signed affidavit which certifies that a copy of the report was filed~~  
21 ~~with the local health officer pursuant to this section.~~

22 (b) As used in this section, "occupational illness" means any  
23 abnormal condition or disorder caused by exposure to  
24 environmental factors associated with employment, including acute  
25 and chronic illnesses or diseases which may be caused by  
26 inhalation, absorption, ingestion, or direct contact.

27 *SEC. 14. The Legislature finds and declares that Section 4 of*  
28 *this act, which adds Section 4610 to the Labor Code, imposes a*  
29 *limitation on the public's right of access to the meetings of public*  
30 *bodies or the writings of public officials and agencies within the*  
31 *meaning of Section 3 of Article I of the California Constitution.*  
32 *Pursuant to that constitutional provision, the Legislature makes*  
33 *the following findings to demonstrate the interest protected by this*  
34 *limitation and the need for protecting that interest:*

35 *The limitations on the people's rights of access set forth in this*  
36 *act are necessary to protect the privacy and integrity of information*  
37 *submitted to the Administrative Director of the Division of*  
38 *Workers' Compensation pursuant to subparagraph (C) of*  
39 *paragraph (3) of subdivision (g) of Section 4610 of the Labor*  
40 *Code.*

1     *SEC. 15. The amendment of subdivision (a) of Section 4903.8*  
2     *of the Labor Code made by this act does not constitute a change*  
3     *in, but is declaratory of, existing law.*

4     *SEC. 16. No reimbursement is required by this act pursuant*  
5     *to Section 6 of Article XIII B of the California Constitution because*  
6     *the only costs that may be incurred by a local agency or school*  
7     *district will be incurred because this act creates a new crime or*  
8     *infraction, eliminates a crime or infraction, or changes the penalty*  
9     *for a crime or infraction, within the meaning of Section 17556 of*  
10    *the Government Code, or changes the definition of a crime within*  
11    *the meaning of Section 6 of Article XIII B of the California*  
12    *Constitution.*

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