

WCIRB Quarterly Experience Report

As of December 31, 2017

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What's new

- Updated interactive design with new insights for each chart.
- New charts tracking current cost drivers including claim settlement patterns ([Chart 5](#)), cumulative injury claims ([Chart 7](#)), pharmaceutical costs ([Chart 14](#)), and liens ([Chart 15](#)).
- First look at the full year 2017 premium, charged rates, and loss & LAE projections with data projected as of December 31, 2017.
- Additional [Notes section](#) at the end of the report providing additional detail.



Chart 1

- Written premium for 2017 is 2% below that for 2016.
- The decrease in 2017 following 7 consecutive years of increases is primarily driven by decreases in insurer charged rates.

Written Premium | Gross of Deductible Credits

As of December 31, 2017

\$ Billions

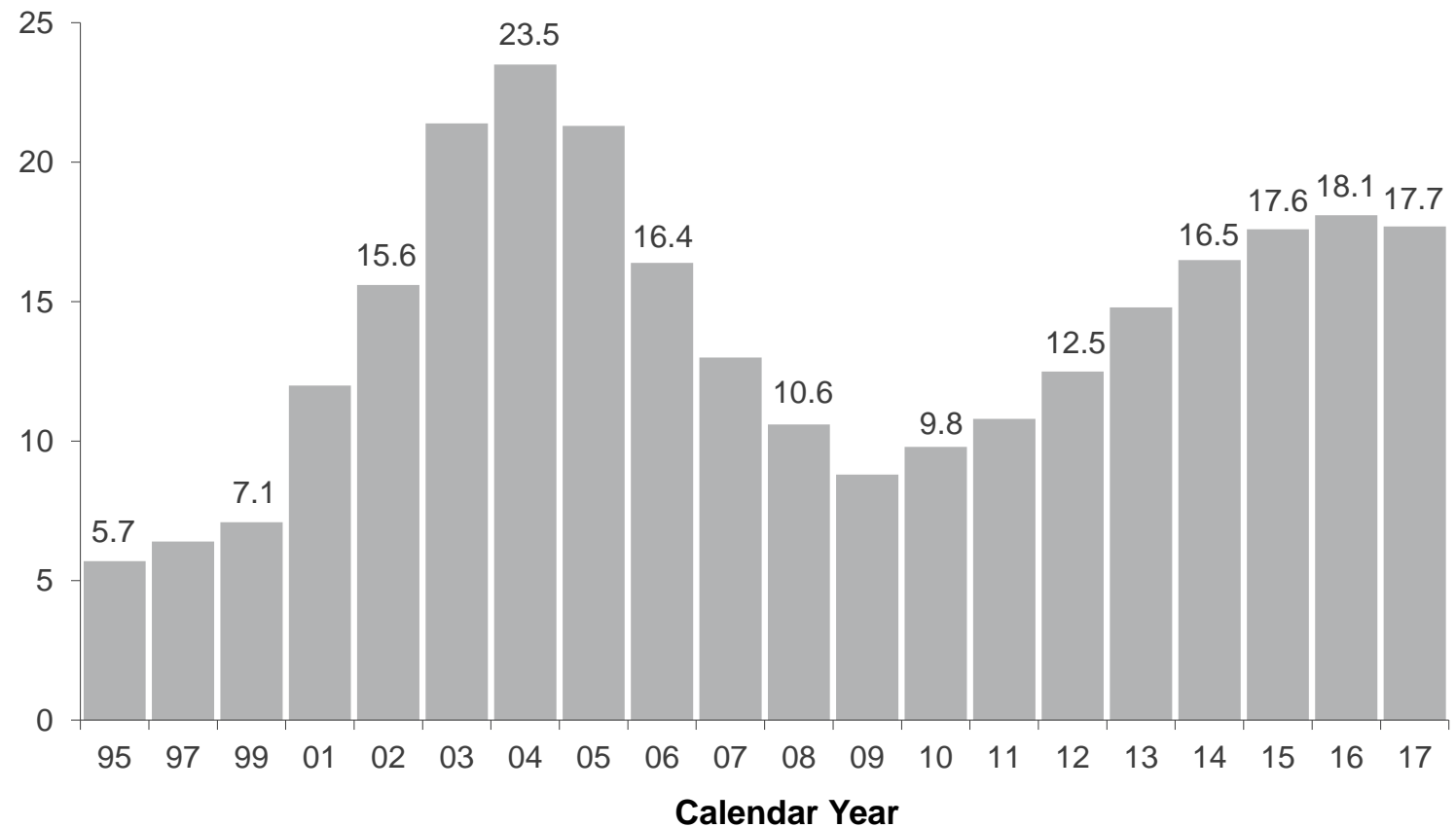




Chart 2

- Average charged rates for 2017 are 10% below those for 2016 and 17% below the peak in 2015.
- The January 1, 2018 approved advisory pure premium rates are on average 30% below those for January 1, 2015.

Industry Average Charged Rate

As of December 31, 2017

Rate Per \$100 Payroll

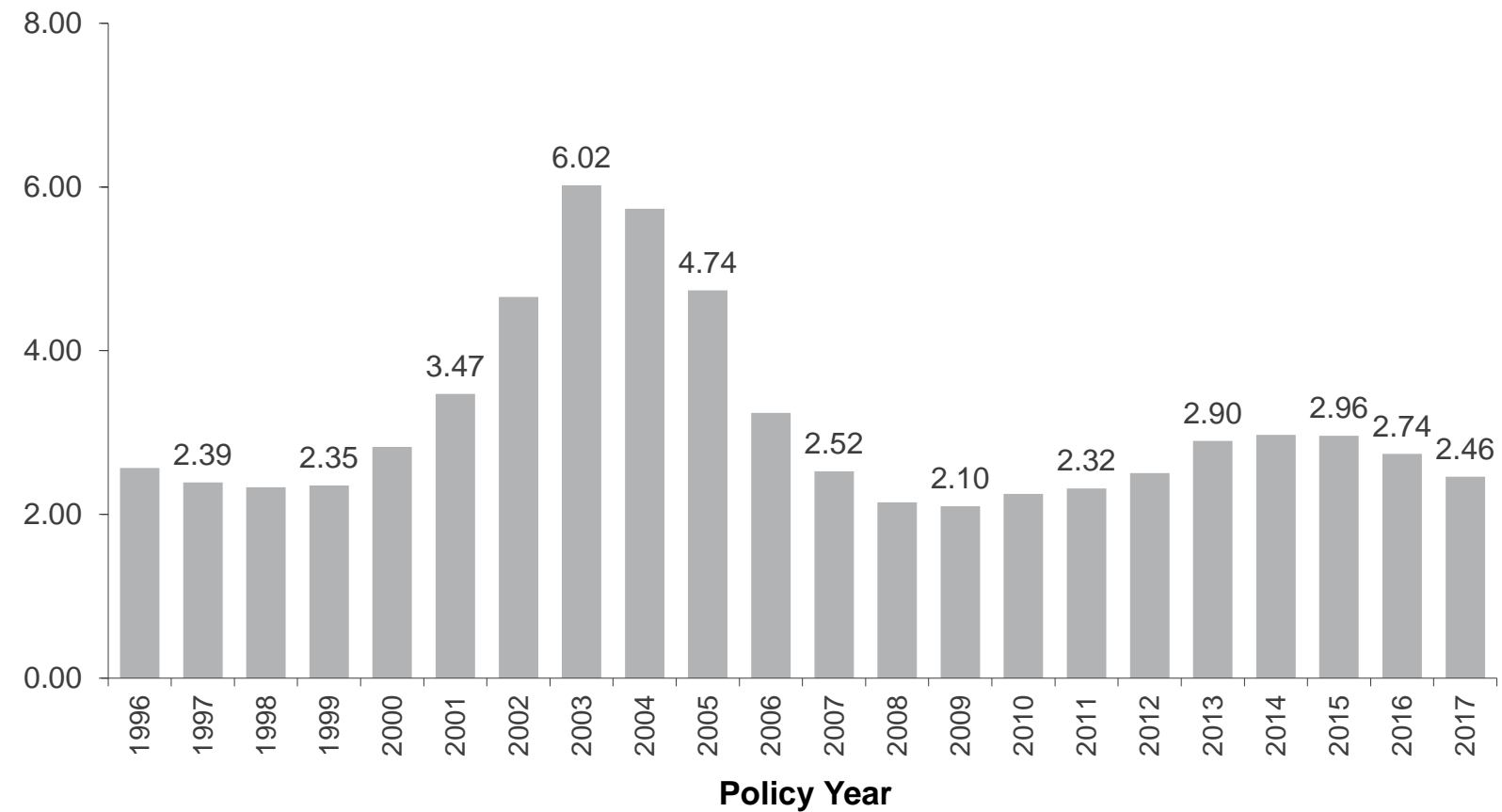




Chart 3

- The projected loss ratio for 2017 is 4 points above that for 2016, driven by lower insurer rates as well as higher medical severities and slightly higher claim frequency projected for 2017.
- Despite the increase in 2017, projections for other years are below those projected in prior quarters as a result of favorable loss development continuing to emerge.

Ultimate Accident Year Loss Ratios

As of December 31, 2017

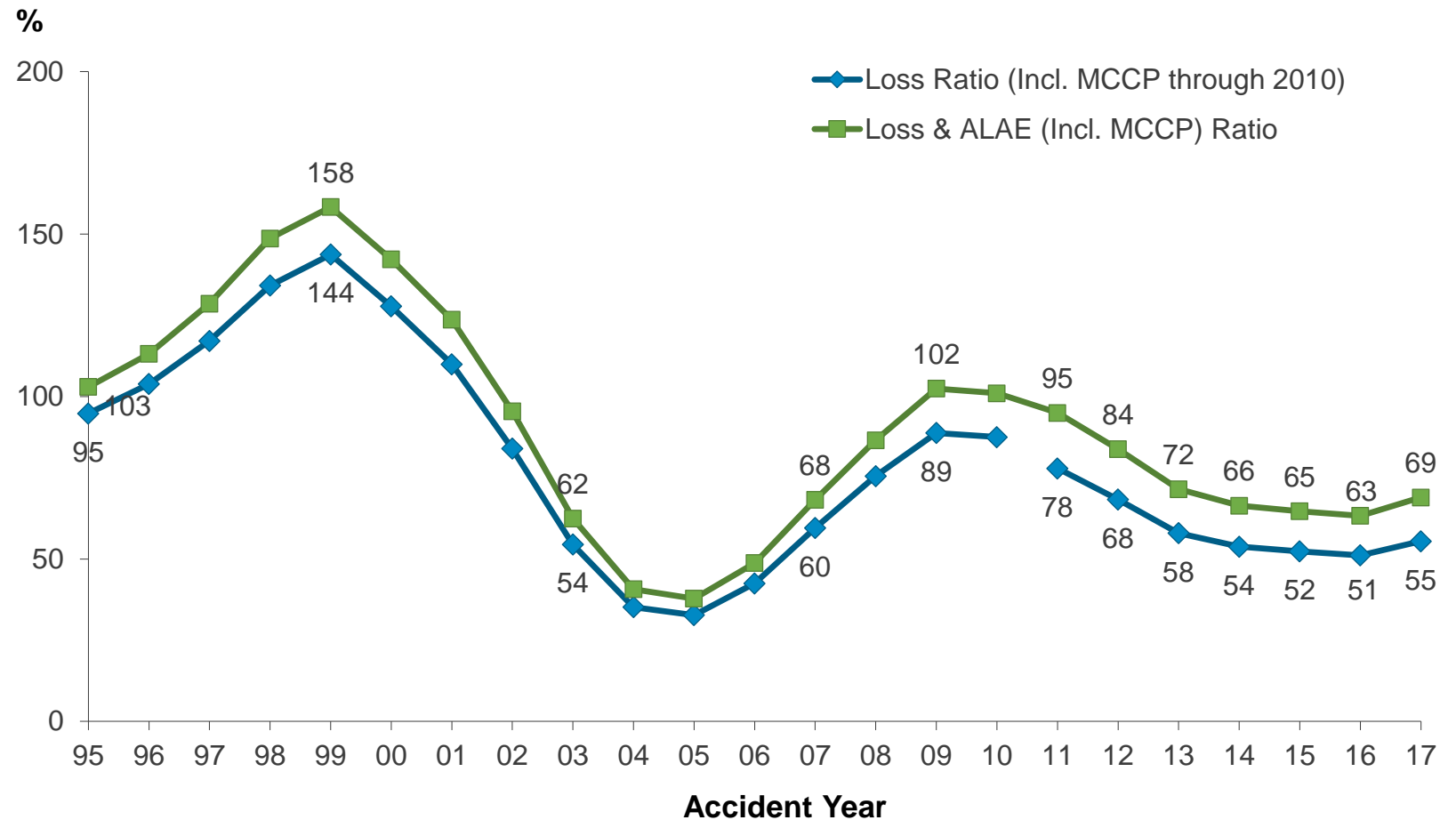




Chart 4

- The projected combined ratio for 2017 is 5 points higher than 2016 as premium levels have lowered while average claim severities increased moderately.
- Despite the recent increase, combined ratios for 2014 to 2017 remain the lowest since the 2004 through 2006 period.

Projected Accident Year Combined Ratios

As of December 31, 2017

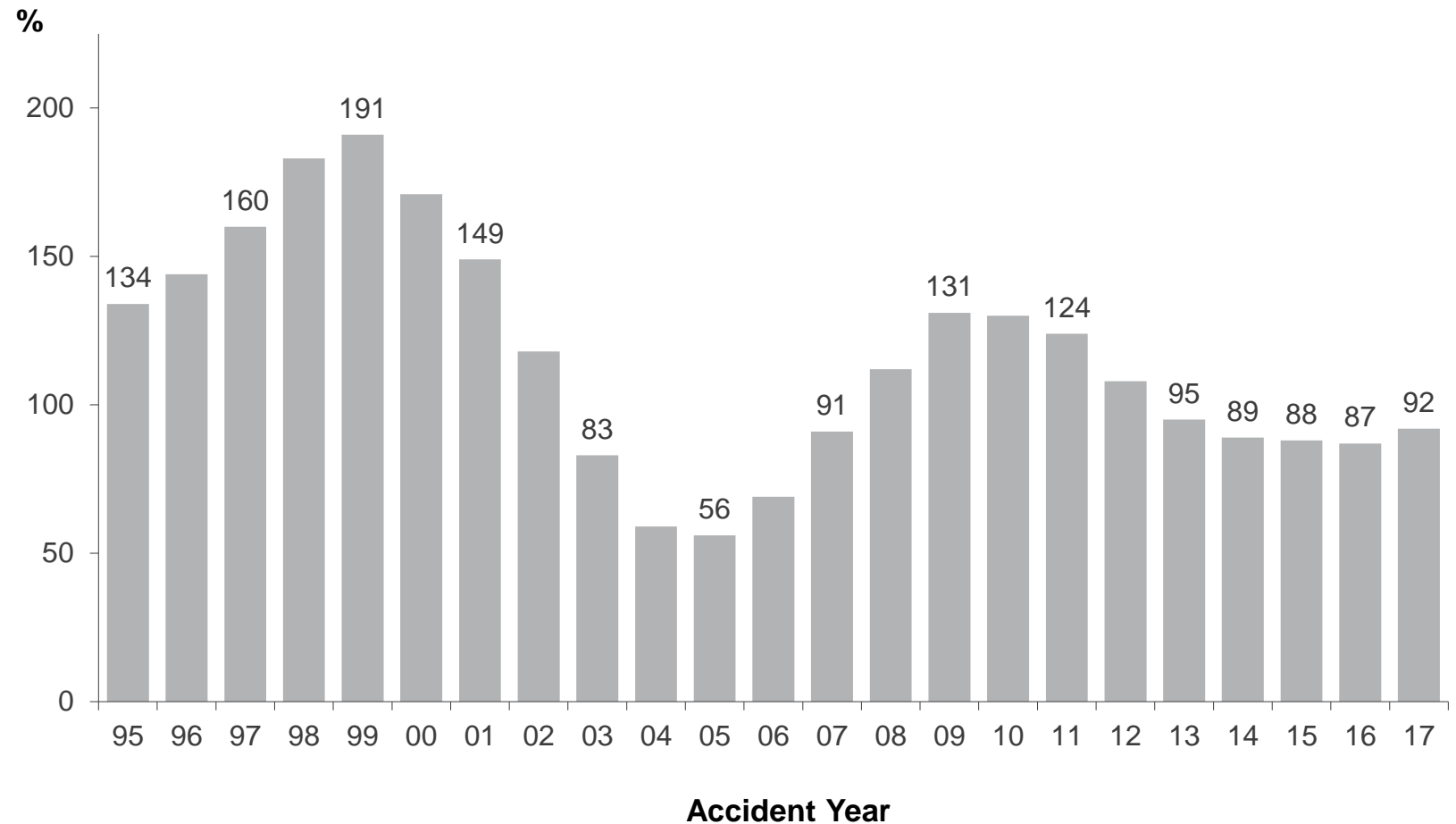




Chart 5

- Indemnity claims continue to settle quicker, steadily improving over the last 5 years.
- The recent increases are largely driven by recent reforms related to independent medical review, liens, and spinal implant surgery.
- The ratio for 2017 represents a 17-year high.

Percent of Open Indemnity Claims Closed in Next Year

As of December 31, 2017

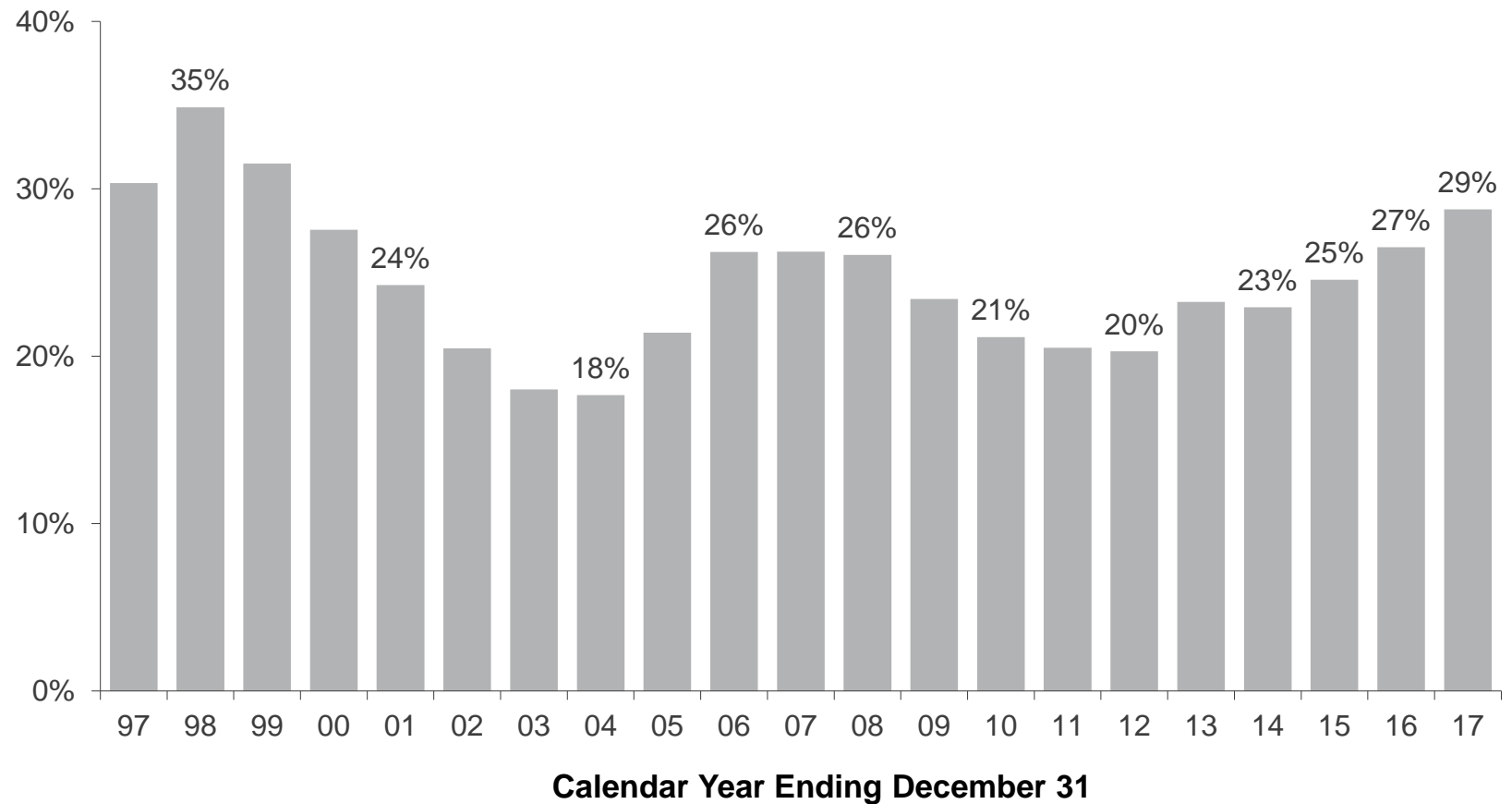




Chart 6

- After several years of flat to increasing claim frequency, frequency decreased by 3% in 2016.
- Claim frequency for 2017 shows a modest increase similar to other recent years.
- Frequency increases since 2011 have largely been attributed to increases in cumulative injury claims and claims from the Los Angeles Basin area.

Change in Indemnity Claim Frequency

As of December 31, 2017





Chart 7

- Cumulative injury claim rates continue to be at high levels in 2016 and have more than doubled since 2005.
- The WCIRB will be studying cumulative injury claim patterns in depth later this year.

Cumulative Injury Claims per 100 Indemnity Claims

As of December 31, 2017

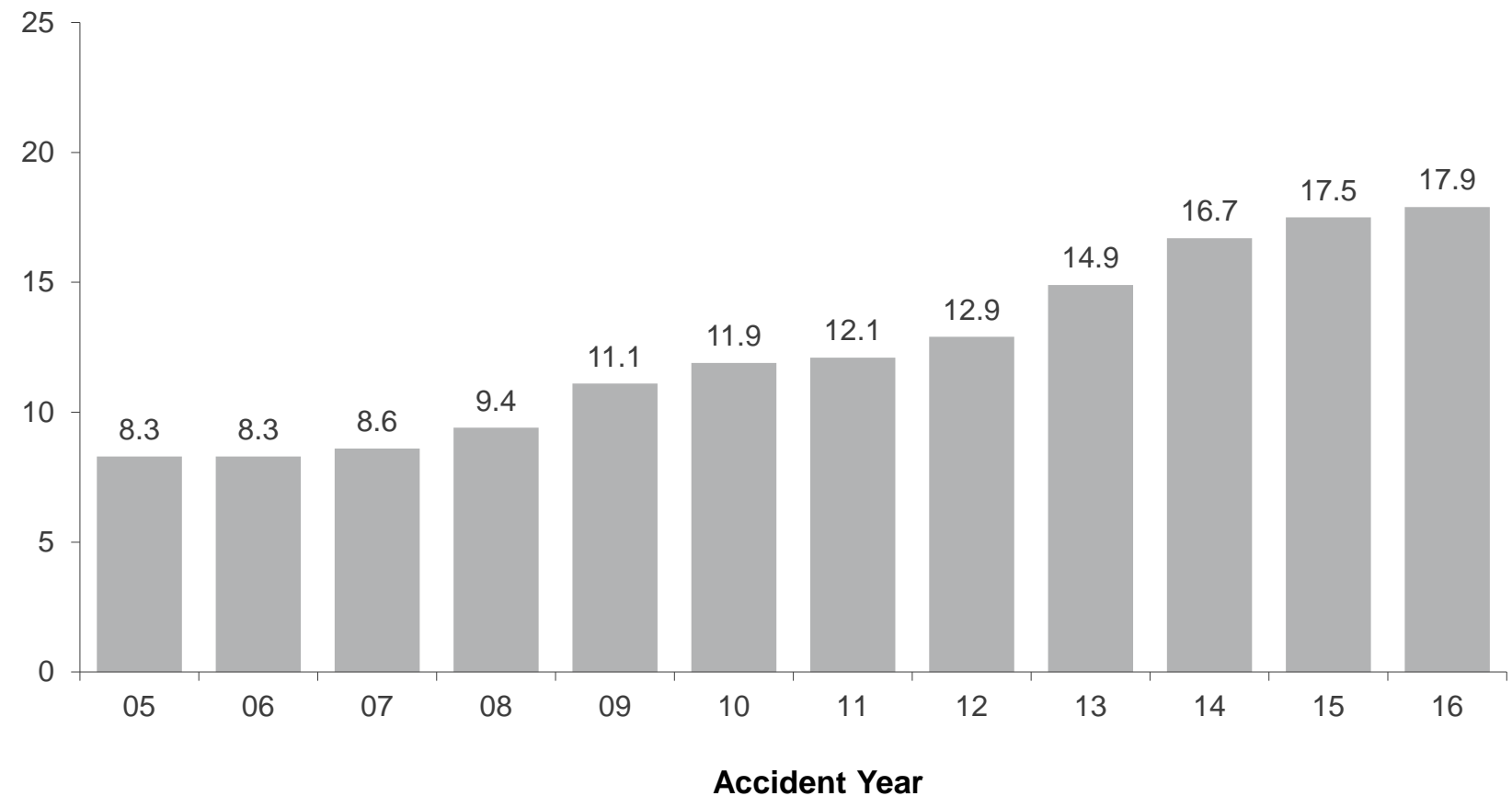




Chart 8

- Projected claim severity for 2017 is 4% higher than that for 2016, following several years of relatively flat severities.
- Severity growth over the last several years has been relatively modest as increases in average indemnity and ALAE costs have been largely offset by declines in average medical costs.

Ultimate Total Loss and ALAE Severities

As of December 31, 2017

\$Dollars

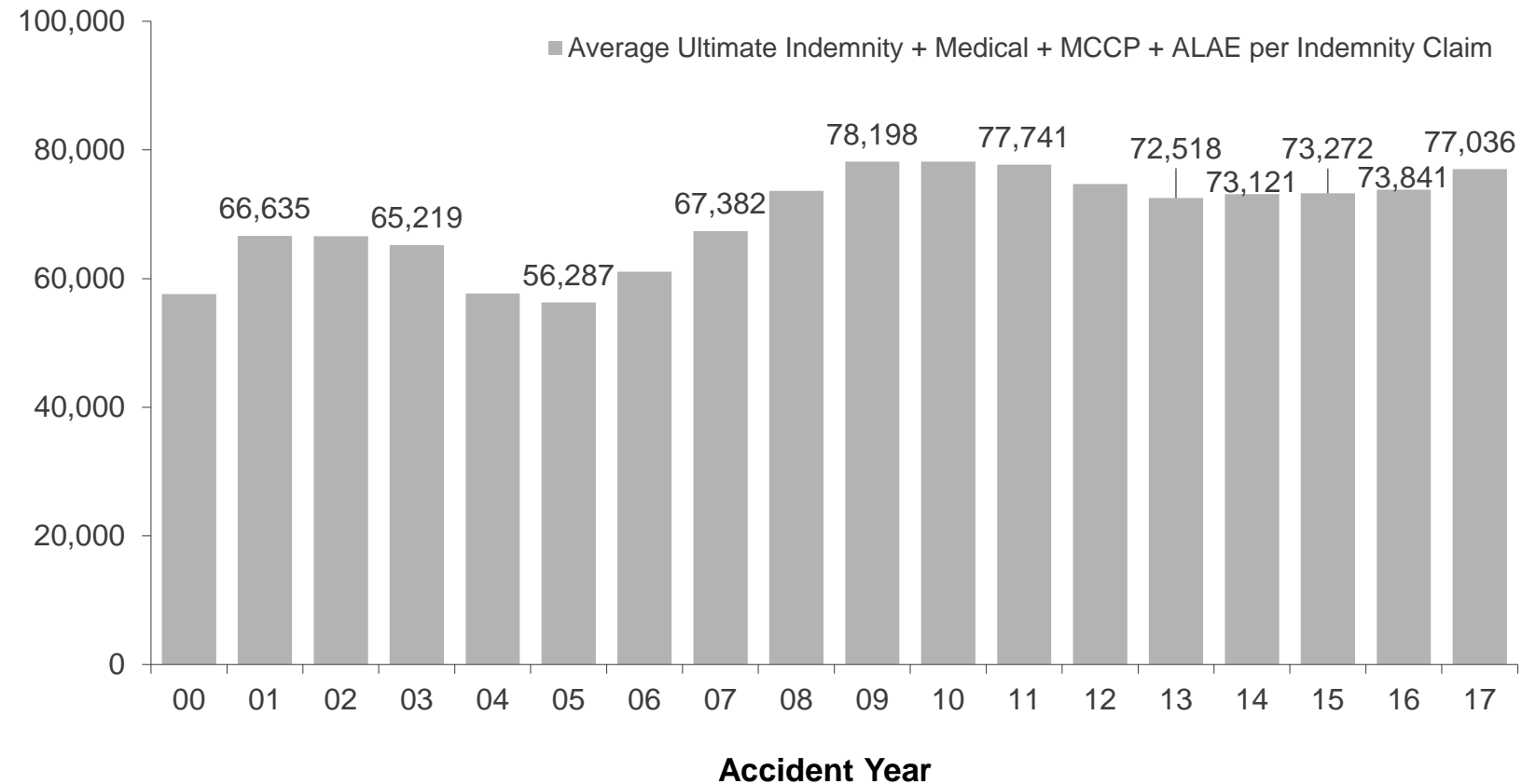




Chart 9

- Indemnity severity increases in 2014 are largely attributable to SB 863 increases to PD benefits.
- Indemnity severity growth since 2014 has been relatively modest and generally consistent with wage inflation.

Ultimate Indemnity Severities

As of December 31, 2017

\$Dollars

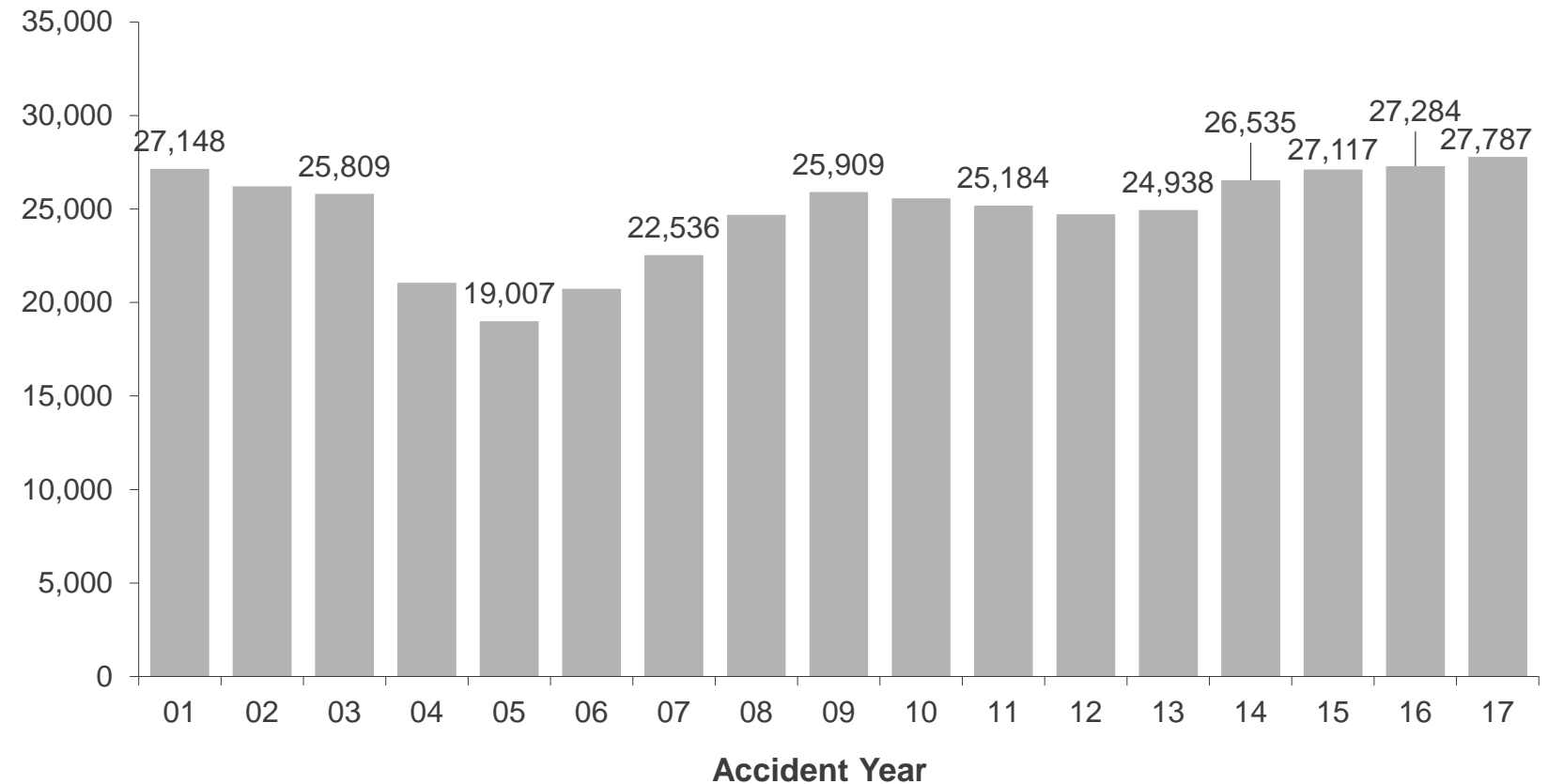




Chart 10

- Decreases in medical severities from 2011 to 2015 were driven by the medical cost savings arising from SB 863.
- It is unclear whether the projected 2017 medical severity increase of 5.5% will moderate as the year matures as it has in recent years or if it represents a return to the more typical rates of post-reform medical inflation.

Ultimate Medical Severities

As of December 31, 2017

\$Dollars

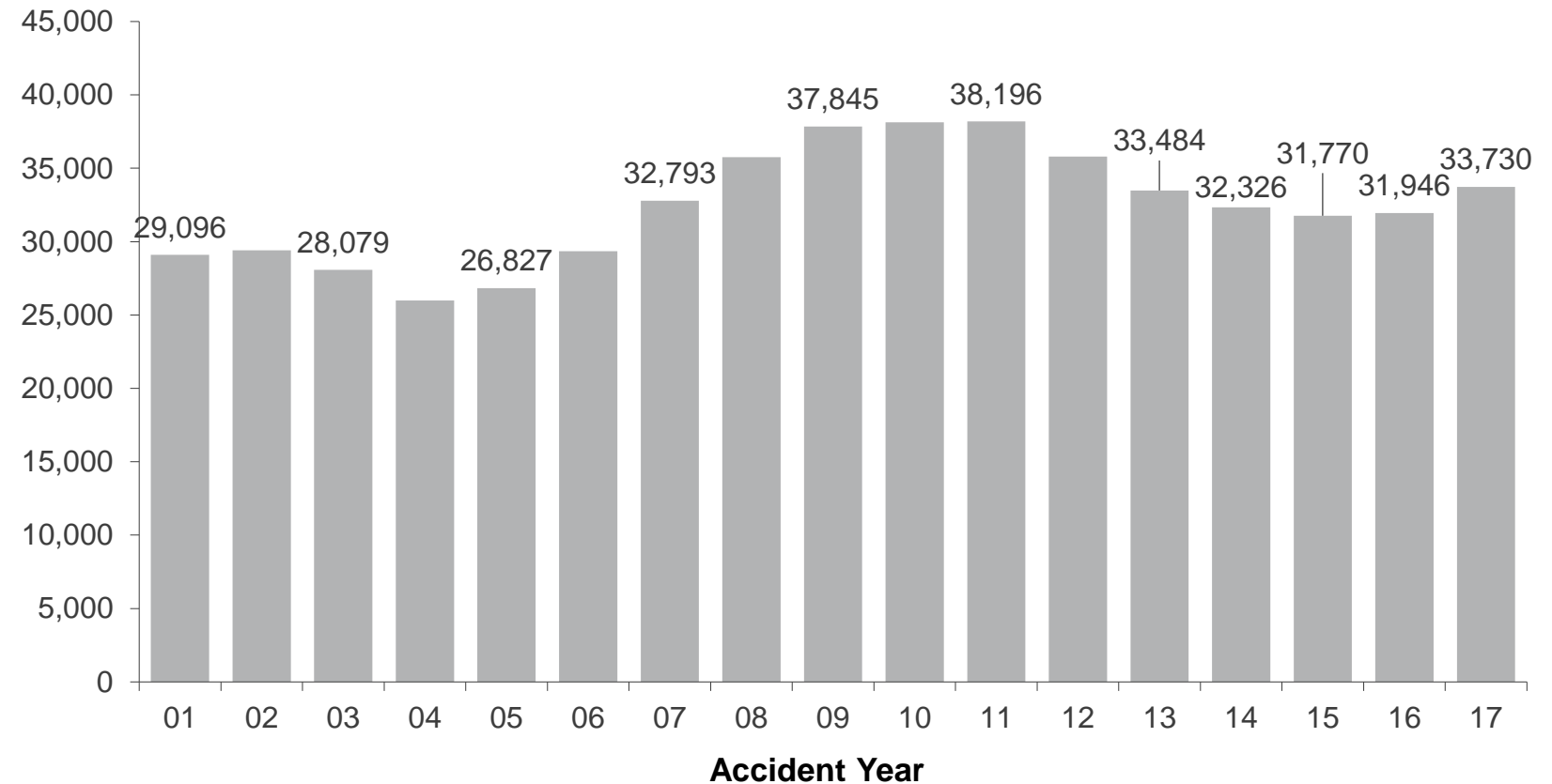




Chart 11

- Projected ALAE severity for 2017 is 8% higher than that for 2016 and 21% higher than that for 2011.
- Average ALAE costs have tended to rise shortly after the implementation of reforms, even during periods for which medical costs have declined.

Ultimate ALAE (Excl. MCCP) Severities

As of December 31, 2017

\$Dollars

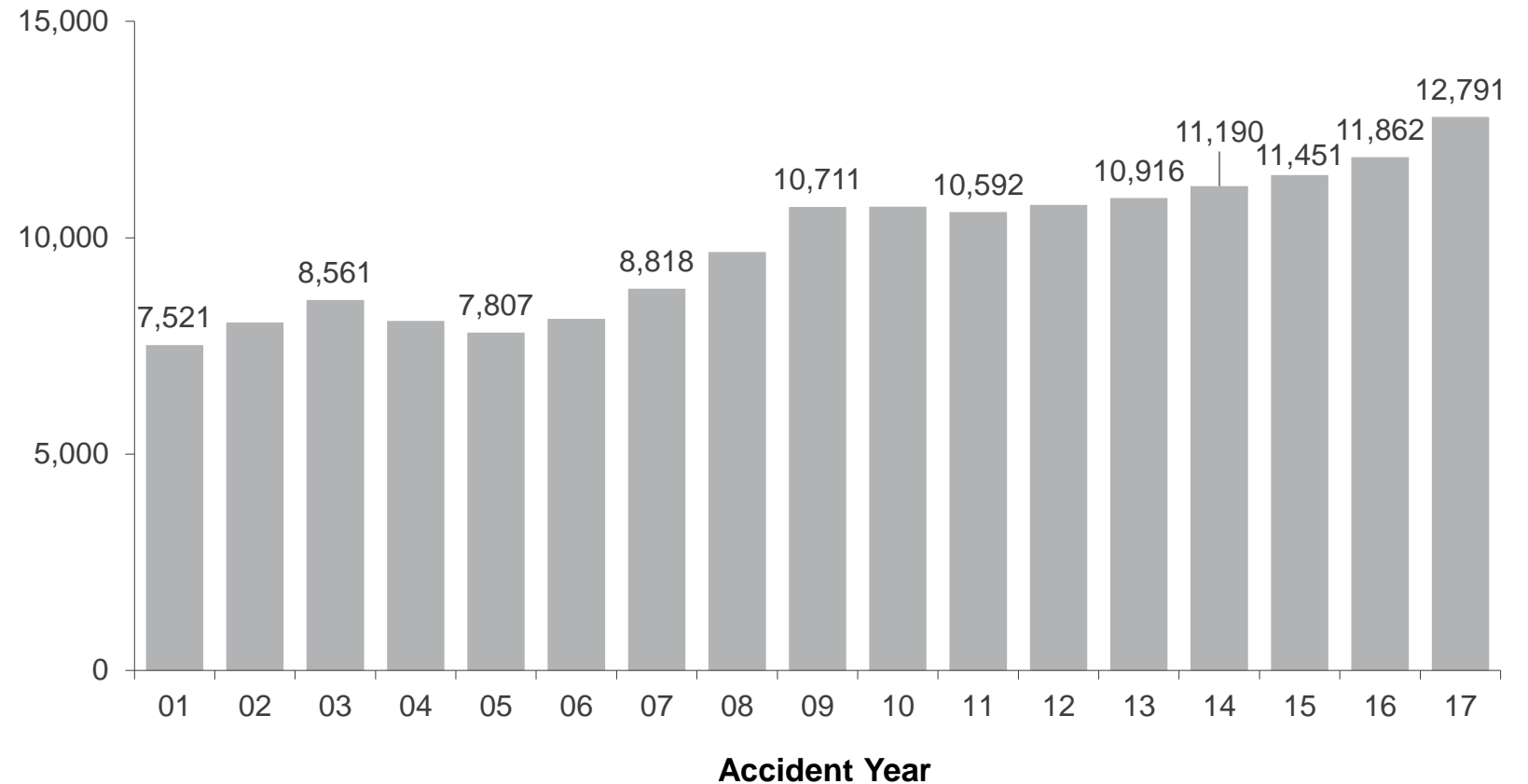




Chart 12

- Projected MCCP severity for 2017 is consistent with that for 2016 but 28% below that for 2011.
- Average MCCP costs have declined in recent years at the same time as average medical costs have moderated.

Ultimate Medical Cost Containment (MCCP) Severities

As of December 31, 2017

\$Dollars

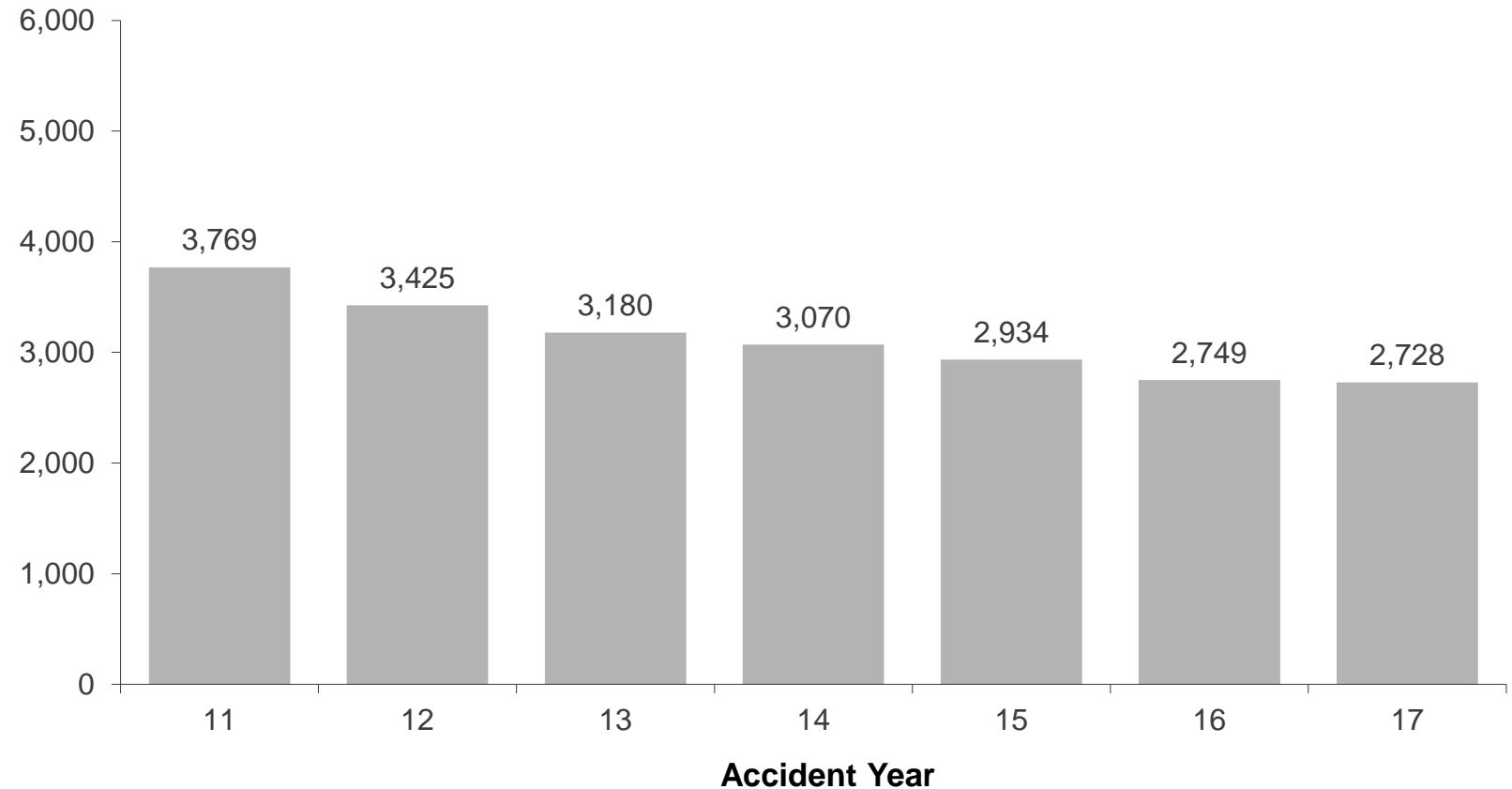




Chart 13

- Medical service costs per claim have decreased 15% from 2012 to 2016, primarily driven by a 20% decrease in the number of transactions per claim.
- Overall medical cost levels have been relatively flat through the first nine months of 2017.

Change in Medical Service Cost Levels

As of September 30, 2017

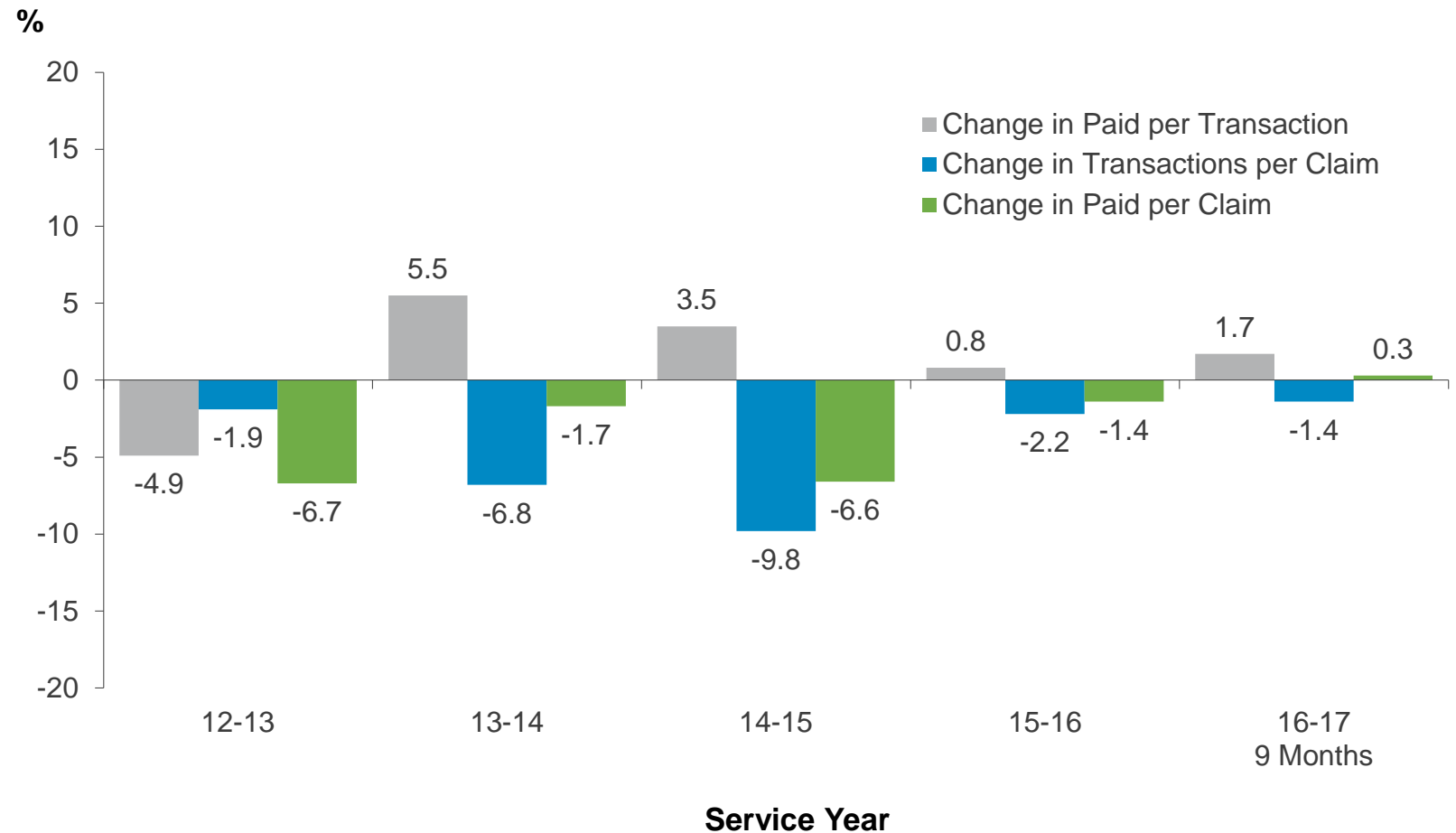




Chart 14

- Pharmaceutical costs per claim have decreased 70% from 2012 to the third quarter of 2017.
- These reductions have been driven by SB 863's IMR & IBR, reduced utilization of opioids, and changes to Medi-Cal reimbursement rates.
- The new drug formulary effective in 2018 is expected to further reduce pharmaceutical costs.

Change in Pharmaceutical Cost Levels

As of September 30, 2017

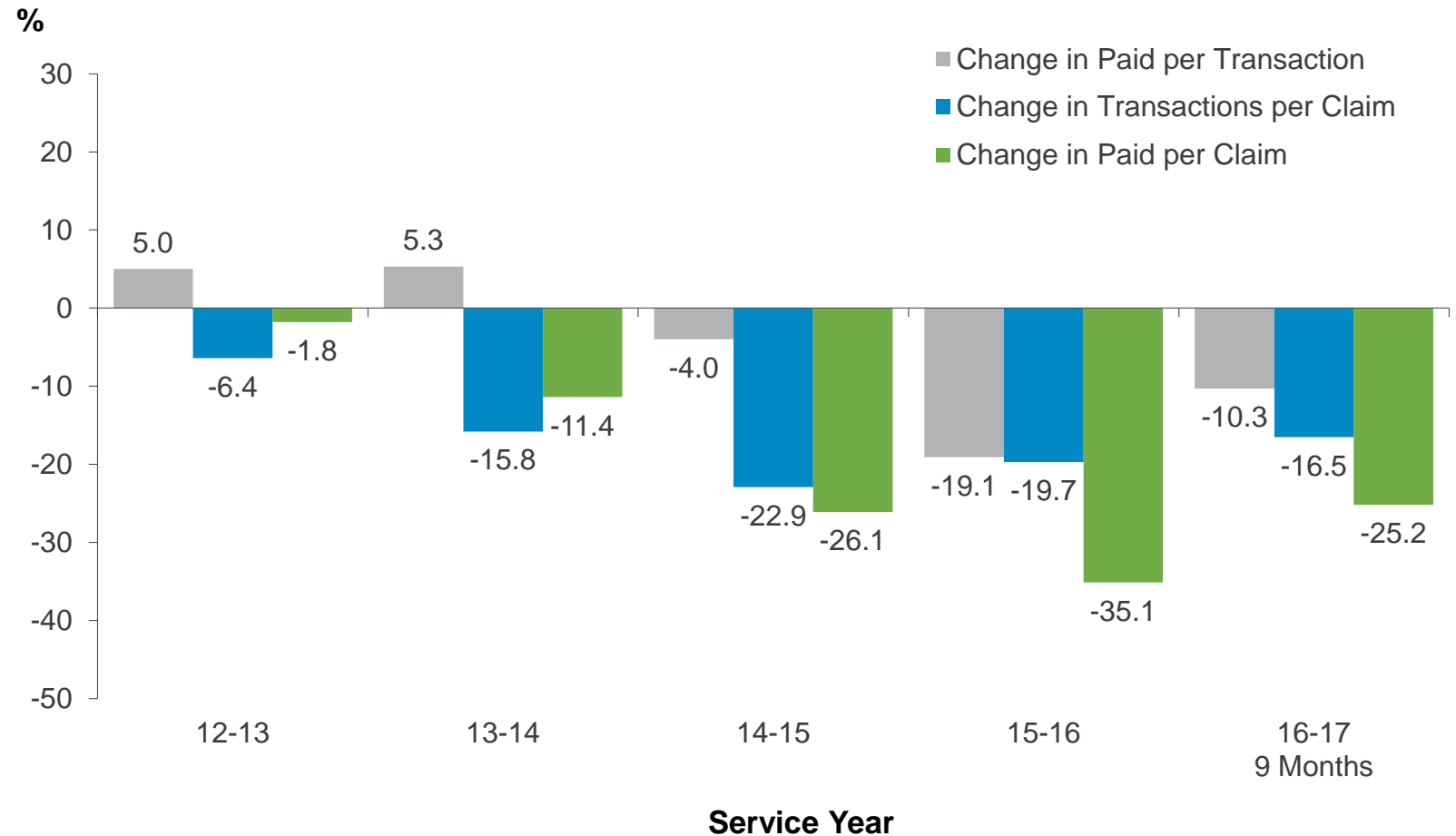




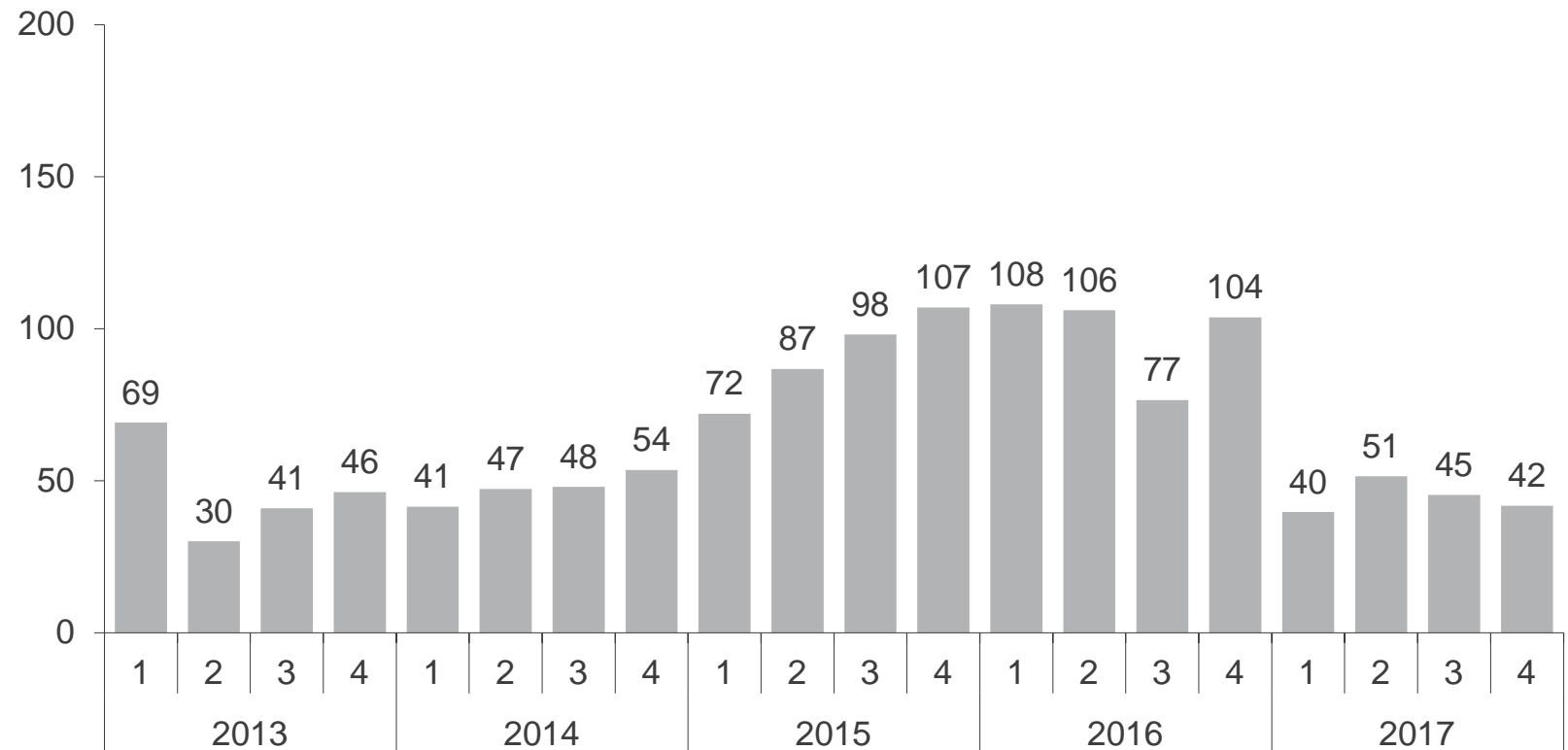
Chart 15

- SB 1160 and AB 1244 enacted changes to the lien filing process effective 1/1/2017.
- Some of the lien activity in the 4th quarter of 2016 through the 1st quarter of 2017 is driven by efforts to file liens prior to the effective date of SB 1160 and AB 1244.
- The number of liens filed in the last three quarters of 2017 are 40% below that for the third quarter of 2016.

Number of Liens Filed

As of December 31, 2017

In Thousands



Filing Year & Quarter



Chart 16

- Ratios of ALAE to loss increased significantly from 2011 to 2015 in part attributable to increased cumulative injury claim filings and the transition to SB 863.
- From 2015 to 2017, these ratios have been consistent.

Ratios of Paid ALAE to Paid Losses

As of December 31, 2017

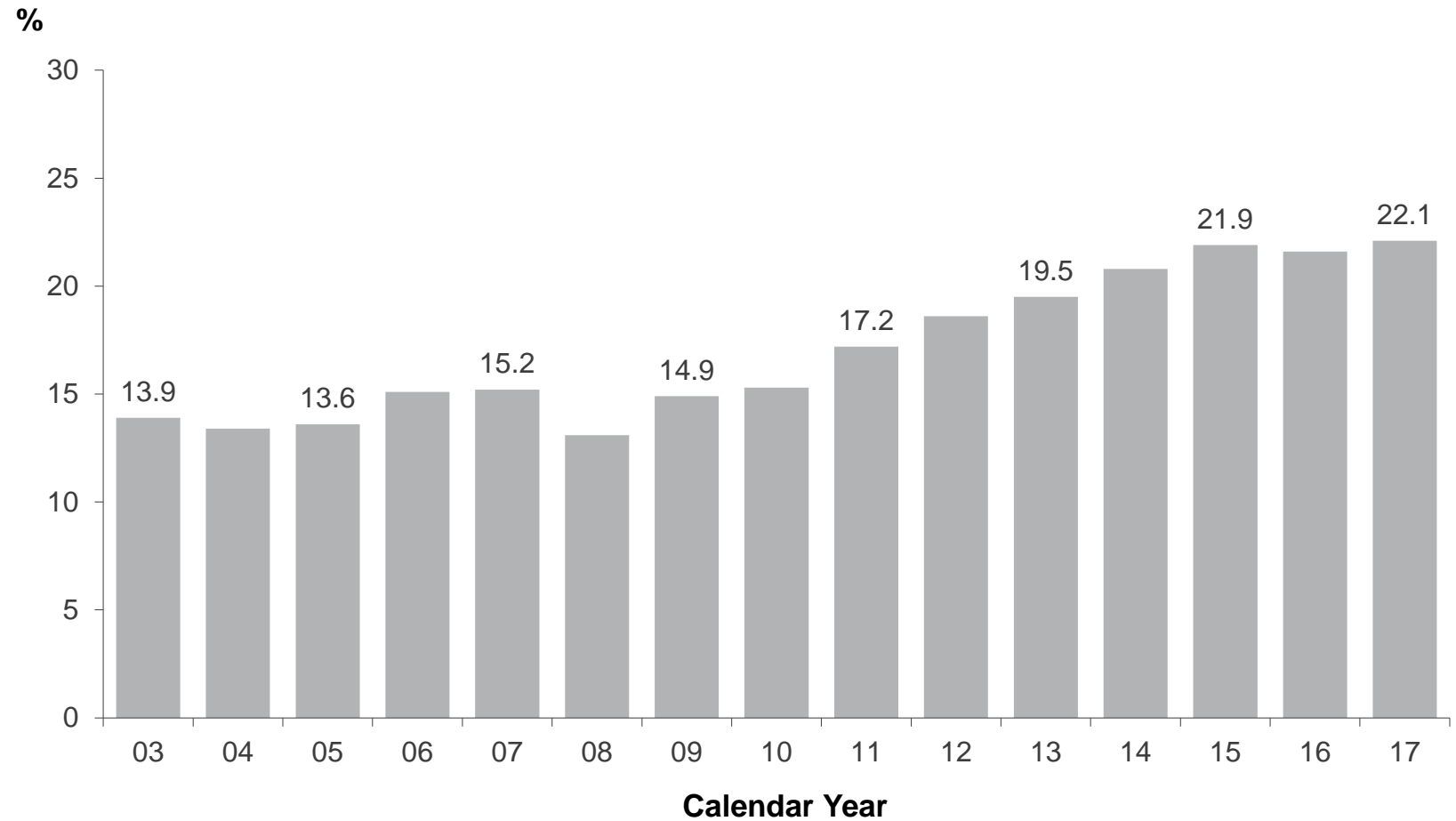




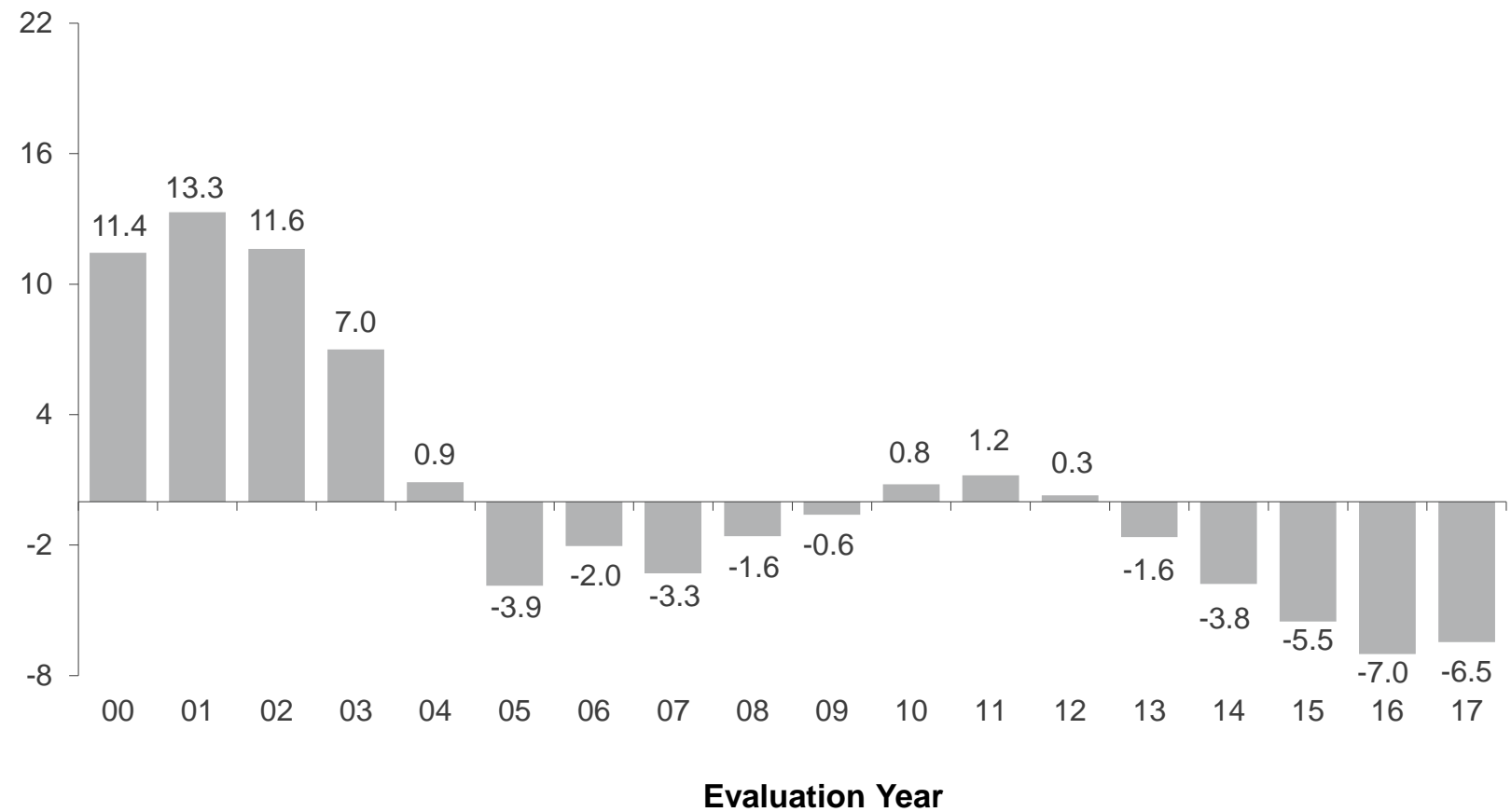
Chart 17

- Projected total statewide ultimate losses for 2013 through 2017 evaluations are significantly below the amounts reported by insurers at each of those year-ends.

Projected Ultimate Losses Less Reported Losses

As of December 31, 2017

\$ Billions





General Notes

- This report reflects a compilation of individual insurer submissions of accident year and calendar year premium and loss data to the WCIRB. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with data submitted by other insurers, the source information underlying each insurer's data submission is not verified by the WCIRB.
- Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments using information reported by insurers through December 31, 2017. Although the actuarial methodologies and assumptions upon which these projections are predicated are periodically reviewed by the WCIRB's Actuarial Committee, the actual costs that will ultimately emerge could differ from the amounts projected. Many of these projections will be updated regularly by the WCIRB as more mature information on these claims is reported in subsequent quarters.
- The amounts and ratios shown represent statewide totals based on the amounts reported by insurers writing workers' compensation insurance in California. The results for any individual insurer can differ significantly from the statewide average. An individual insurer's results are related to its underwriting book of business, claims and reserving practices, as well as the nature of its reinsurance arrangements.
- Beginning with claims incurred on policies incepting on or after July 1, 2010, the cost of medical cost containment programs (MCCP) is reported to the WCIRB as allocated loss adjustment expense (ALAE) rather than as medical loss. As a result, some portion of MCCP costs for accident years 2010 and 2011 has been reported as medical loss and some portion has been reported as ALAE. For consistency, the amounts and ratios shown in these exhibits are adjusted to either include or exclude MCCP costs for all years shown to the extent possible.



More Info

[Chart 1: Written Premium](#)

- Source is WCIRB aggregate financial data calls.
- Written premium is gross of deductible credits.

[Chart 2: Industry Average Charged Rates](#)

- Rates are based on WCIRB unit statistical data through 2015 and estimated based on aggregate financial data calls for 2016 and later.
- Rates are per \$100 of payroll.
- Rates are averages over policies incepting in the year (January 1 to December 31).

[Chart 3: Ultimate Accident Year Loss Ratios](#)

- Ratios are projected based on WCIRB aggregate financial data call data as of December 31, 2017.
- MCCP costs are included in loss ratios for accident years 2010 and prior. MCCP costs are included in loss and ALAE ratios for all years shown.

[Chart 4: Projected Accident Year Combined Ratios](#)

- Ratios are projected based on WCIRB aggregate financial data call data as of December 31, 2017
- Combined ratios include losses, loss adjustment expenses, and other insurer expenses. Insurer expense information for 2017 is preliminary.

[Chart 5: Percent of Open Indemnity Claims Closed in Next Year](#)

- Source is WCIRB aggregate financial data call data as of December 31, 2017.
- Figures represent the number of indemnity claims aged between 12 to 96 months closed during the calendar year as a ratio of the number of claims open at the beginning of the year.

[Chart 6: Change in Indemnity Claim Frequency](#)

- Frequency is based on indemnity claim counts per exposure adjusted for wage level changes based on WCIRB unit statistical data through accident year 2016, and changes in reported indemnity claim counts compared to changes in statewide employment based on WCIRB aggregate financial data call data for accident year 2017.

[Chart 7: Cumulative Injury Claims per 100 Indemnity Claims](#)

- Source is WCIRB unit statistical data based on partial accident years. Claim counts are developed to a 10th unit statistical report level.
- Accident year 2016 data is preliminary.

[Chart 8: Ultimate Loss & ALAE Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2017.
- Includes data for indemnity claims only.



More Info (...continued)

[Chart 9: Ultimate Indemnity Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2017.

[Chart 10: Ultimate Medical Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2017.
- Includes data for indemnity claims only. MCCP costs have been excluded from all years for consistency of comparison.

[Chart 11: Ultimate ALAE \(Excl. MCCP\) Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2017.
- Includes data for indemnity claims only. MCCP costs are excluded from all years for consistency of comparison.

[Chart 12: Ultimate Medical Cost Containment \(MCCP\) Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of December 31, 2017.
- Includes data for indemnity claims only.

[Chart 13: Change in Medical Service Cost Levels](#)

- Source is WCIRB Medical Data Call data as of September 30, 2017.

[Chart 14: Change in Pharmaceutical Cost Levels](#)

- Source is WCIRB Medical Data Call data as of September 30, 2017.

[Chart 15: Number of Liens Filed](#)

- Source is the Division of Workers' Compensation.

[Chart 16: Ratios of Paid ALAE to Paid Losses](#)

- Source is WCIRB aggregate financial data calls.

[Chart 17: Projected Ultimate Losses Less Reported Losses](#)

- Insurer-reported losses include insurers' estimates of incurred but not reported (IBNR) losses that may, in part, reflect allocations of IBNR losses to line of business, state, and accident year, and are on a basis that does not reflect anticipated reinsurance recoveries or employer-paid deductibles. As a result, the amounts shown do not necessarily equate to specific estimates of the adequacy of insurers' reserves for unpaid losses.
- Projected ultimate losses are based on WCIRB aggregate financial data call data as of December 31, 2017.



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