

WCIRB Quarterly Experience Report

As of June 30, 2019

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Chart 1

- Written premium for 2018 is 4% below that for 2017 and 6% below that for 2016.
- The decreases since 2016 are primarily driven by decreases in insurer charged rates more than offsetting increases in employer payroll.
- Written premium for the first 6 months of 2019 is 7% below the same period for 2018, suggesting that the 2019 premium decrease will also be significant.

Written Premium | Gross of Deductible Credits

As of June 30, 2019

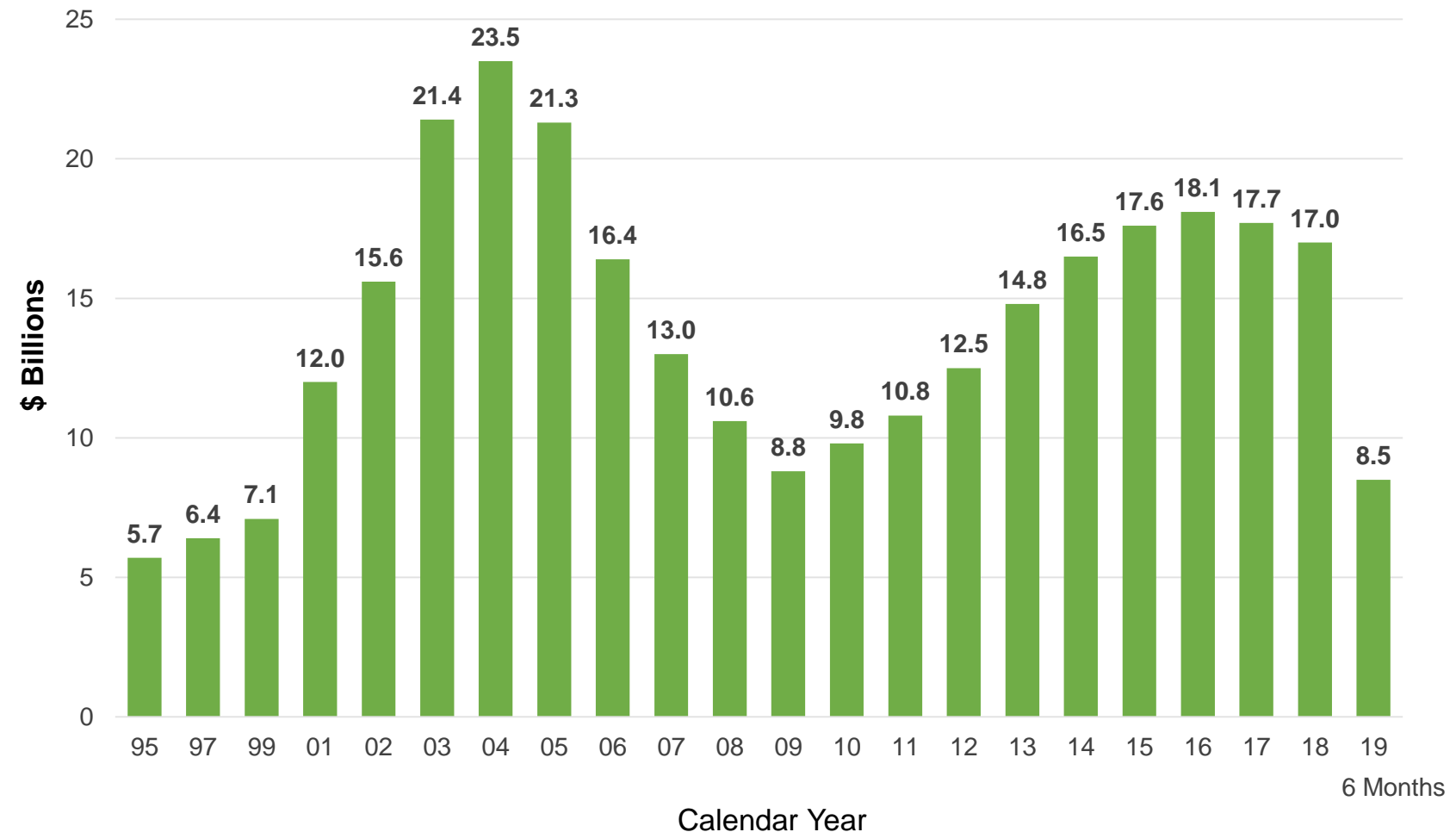




Chart 2

- The average charged rate for the first 6 months of 2019 is 10% below that for 2018 and 32% below the peak in 2014. Current rates are the lowest they have been in California since the mid-1970s.
- The January 1, 2019 approved advisory pure premium rates are on average 42% below those for January 1, 2015.
- The WCIRB recently proposed a further 5% decrease in advisory pure premium rates for January 1, 2020.

Industry Average Charged Rates

As of June 30, 2019

Rate per \$100 Payroll

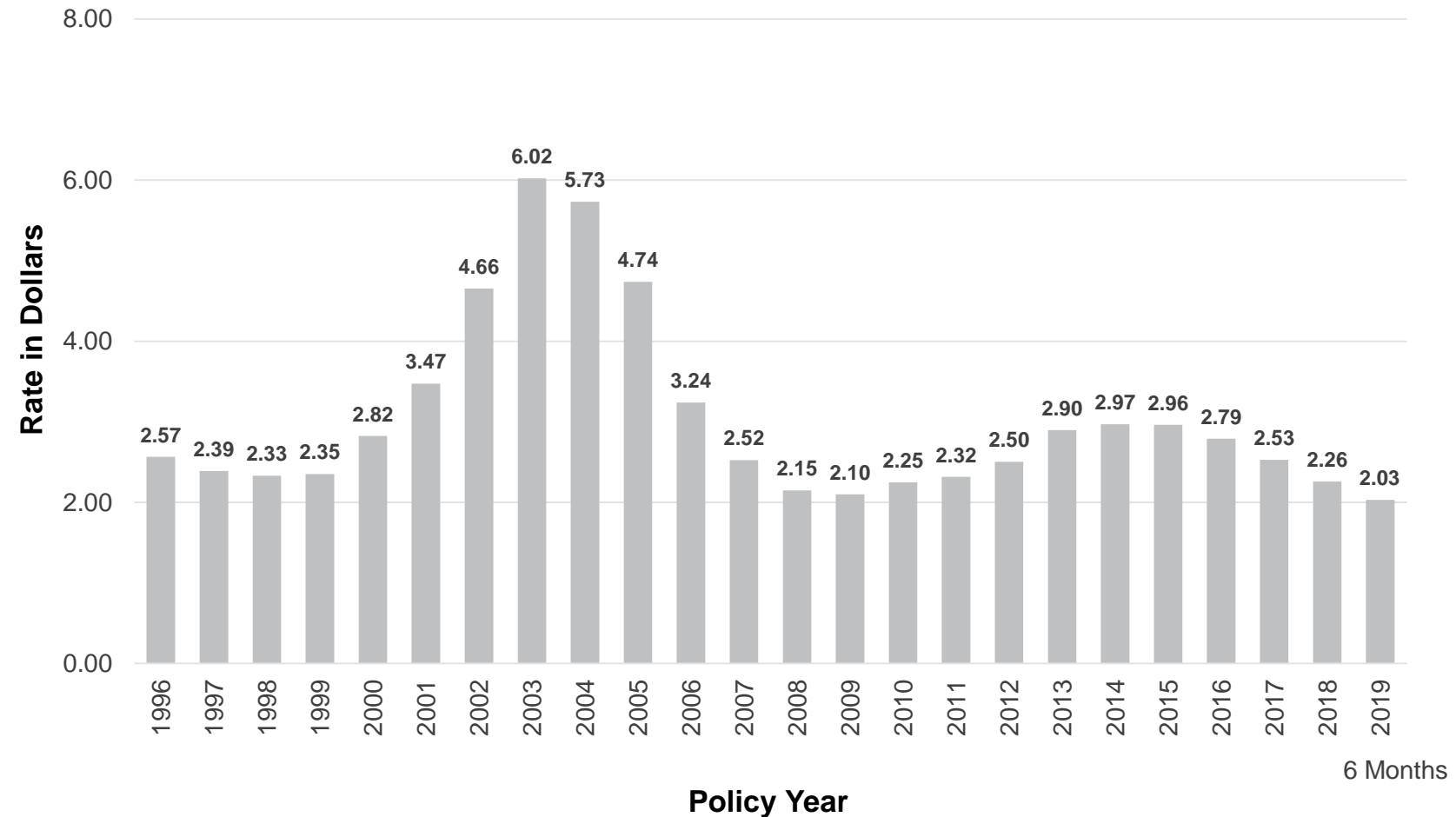




Chart 3

- The projected loss ratio for 2018 is 4 points above that for 2017, driven by higher severities for 2018 and lower premium rates.
- These ultimate projections as of June 30, 2019 are generally consistent with those as of December 31, 2018 and March 31, 2019 as recent trends in downward loss development are moderating.

Ultimate Accident Year Loss Ratios

As of June 30, 2019

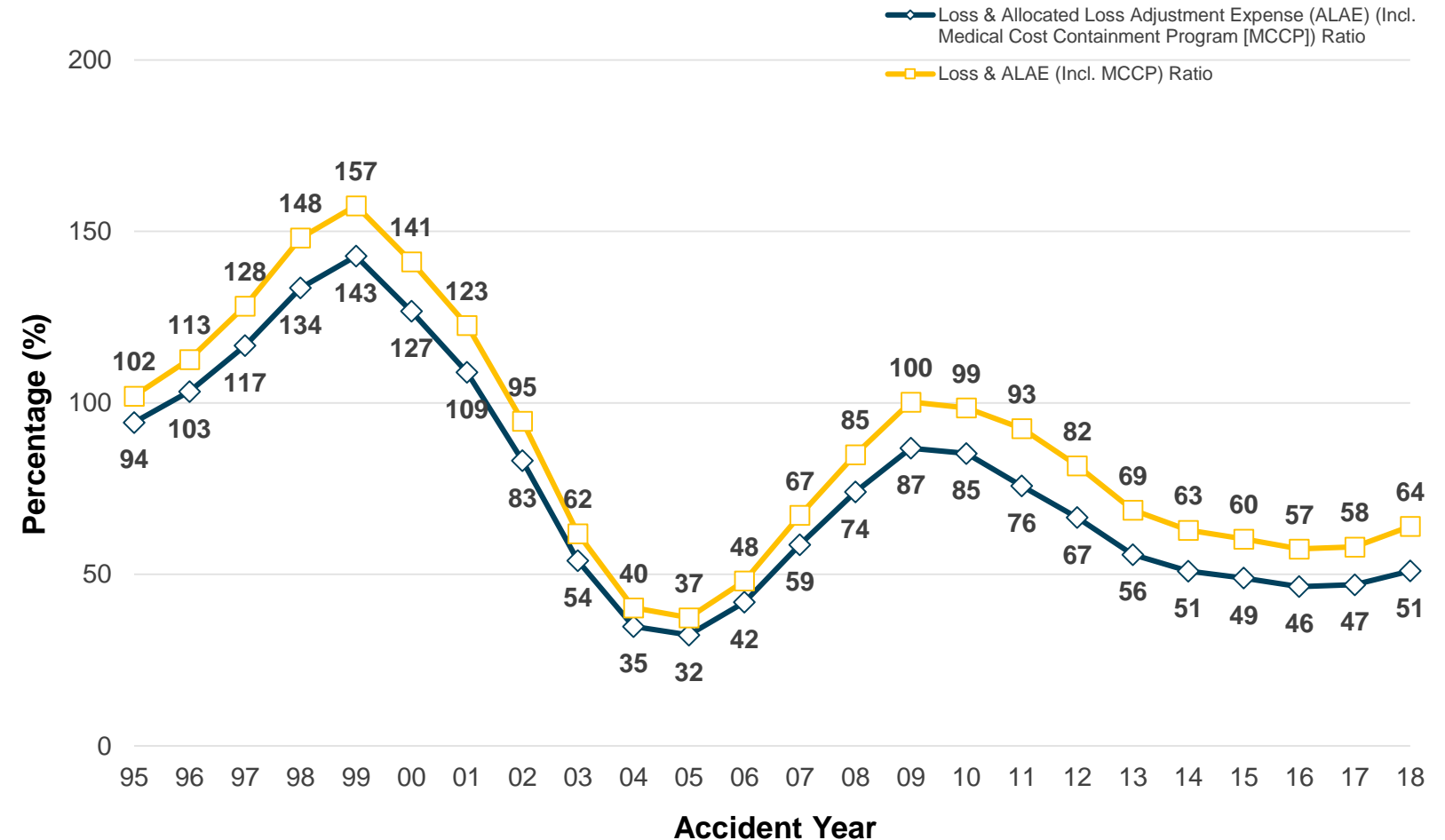




Chart 4

- The projected combined ratio for 2018 is 6 points higher than 2017 as premium levels have lowered while average claim severities increased moderately.
- Despite the recent increase, combined ratios for the last six years remain below 100% and are the lowest since the 2004 through 2007 period.
- With continued downward movement in premium rates, the combined ratio in 2019 is expected to be above that of 2018.

Projected Accident Year Combined Ratios

As of June 30, 2019

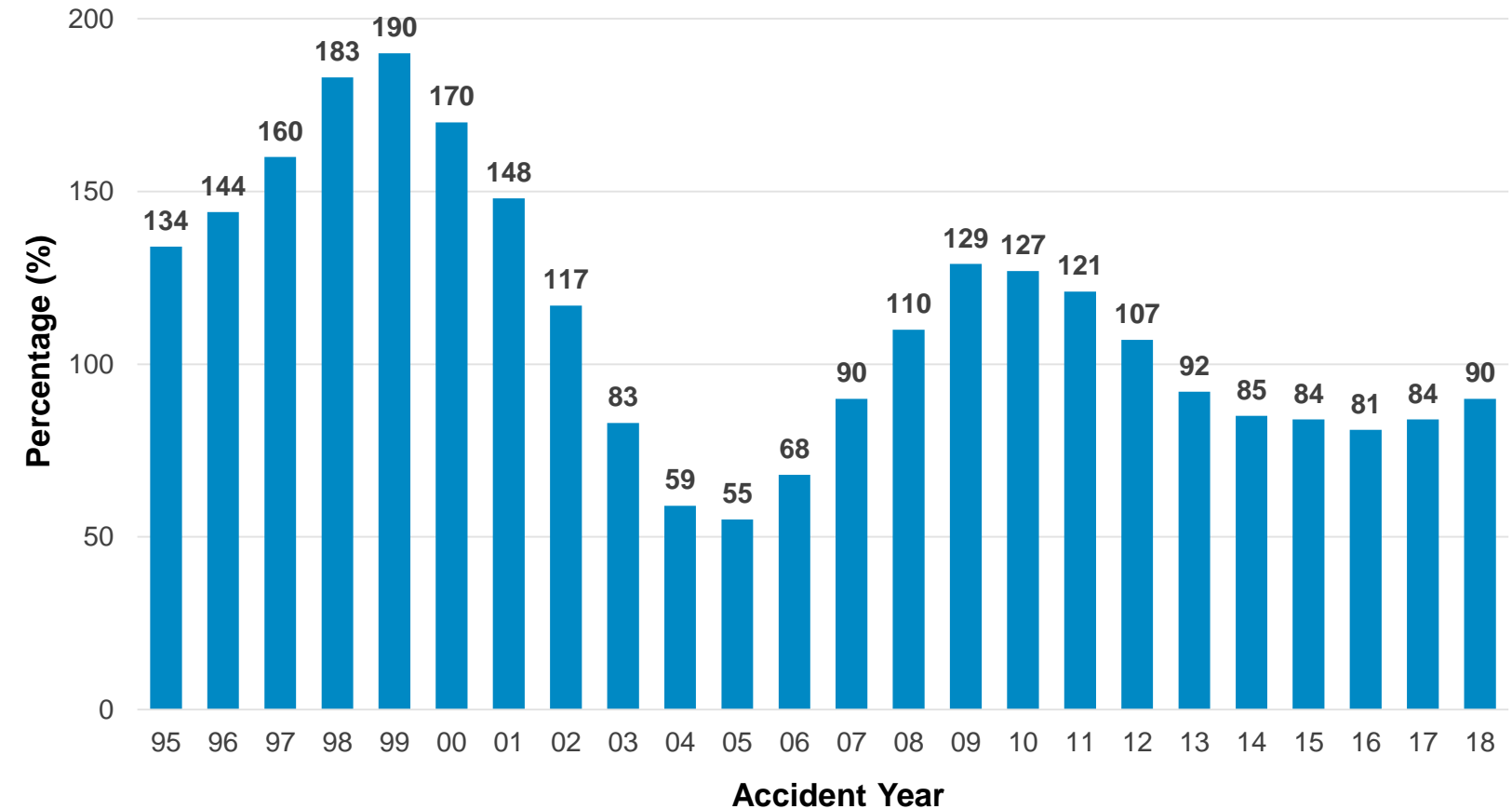




Chart 5

- Indemnity claims continue to settle quicker, improving significantly over the last six years, largely driven by Senate Bill No. 863 (SB 863) and Senate Bill No. 1160 (SB 1160) reforms.
- The ratio for 2019 represents a 20-year high.

Percent of Open Indemnity Claims Closed in Next Year

As of June 30, 2019

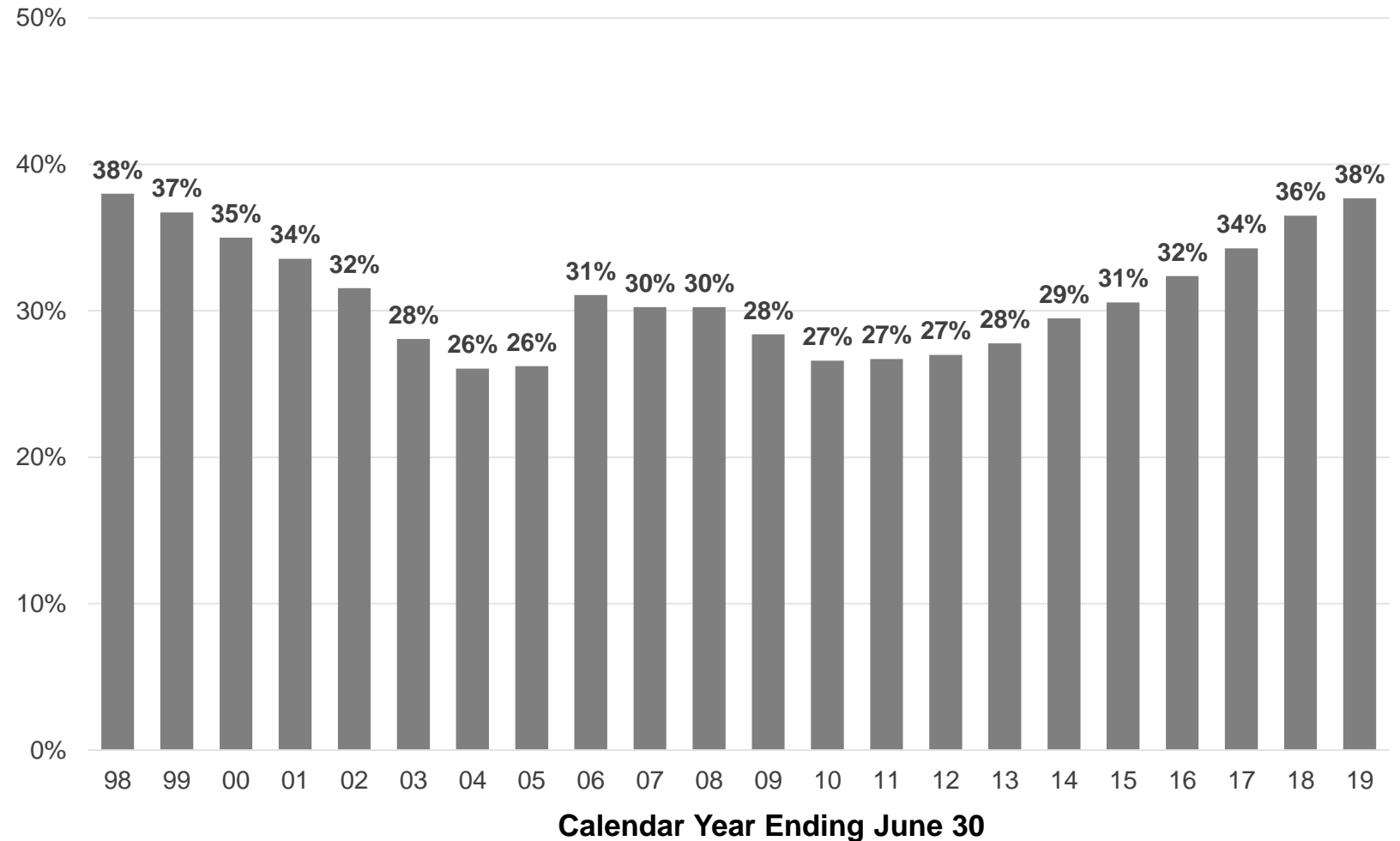




Chart 6

- Claim frequency increased by 11% from 2009 to 2014, but decreased by 6% from 2014 through the first 6 months of 2019.
- The recent declining frequency is more consistent with patterns in other states, though more modest compared to decreases in other states as well as the long-term pre-Great Recession trend in California.

Change in Indemnity Claim Frequency

As of June 30, 2019

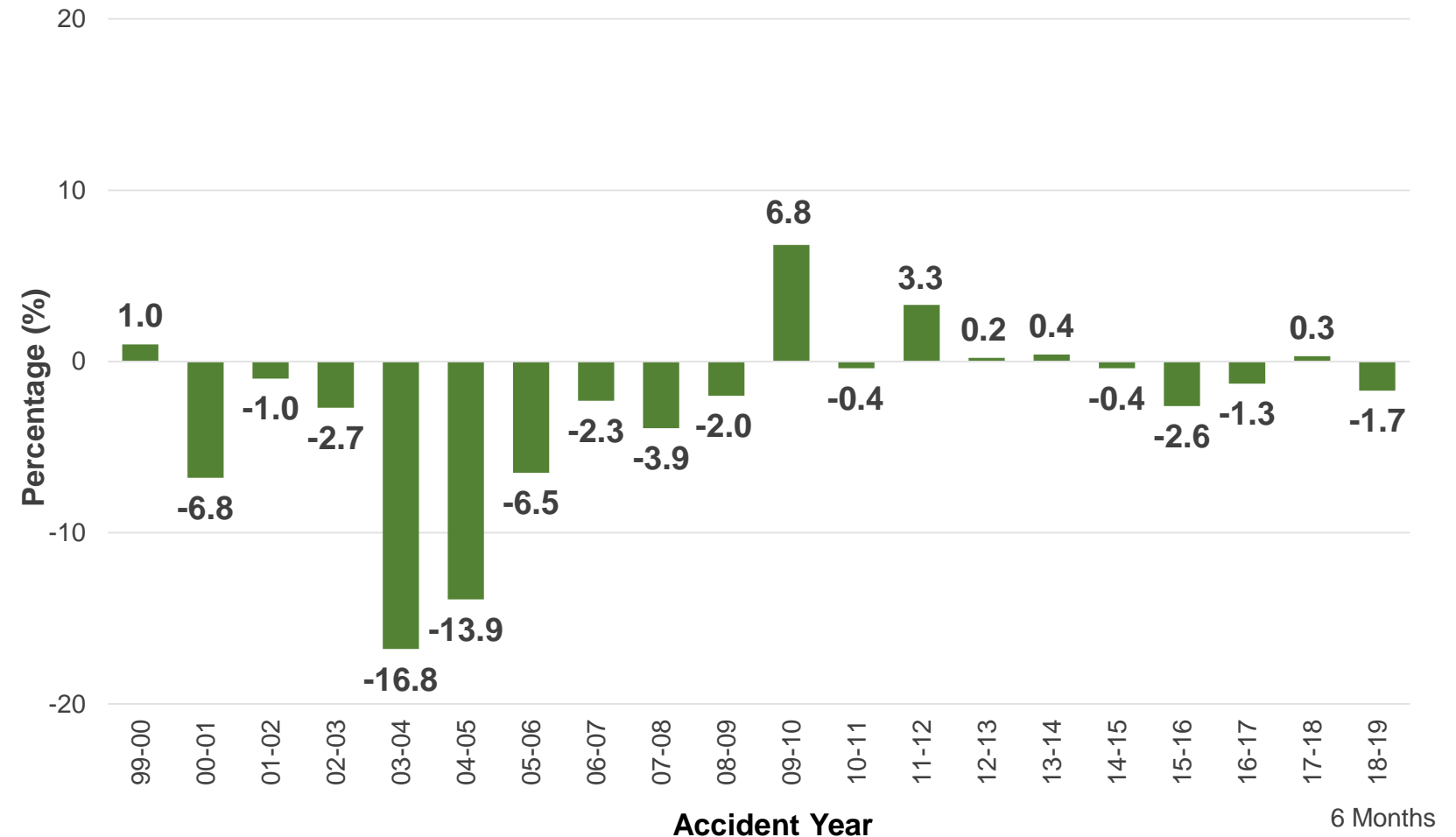




Chart 7

- Cumulative trauma (CT) claim rates continue to increase in 2017 and the ratio of CT claims to all indemnity claims has increased by over 80% since 2005.
- The sharp increase in CT claims since 2012 is in the Los Angeles and San Diego areas, as CT claims in other regions of California have generally decreased.
- See the WCIRB's recent report on *The World of Cumulative Trauma Claims* for more information.

Cumulative Trauma Claims per 100 Indemnity Claims

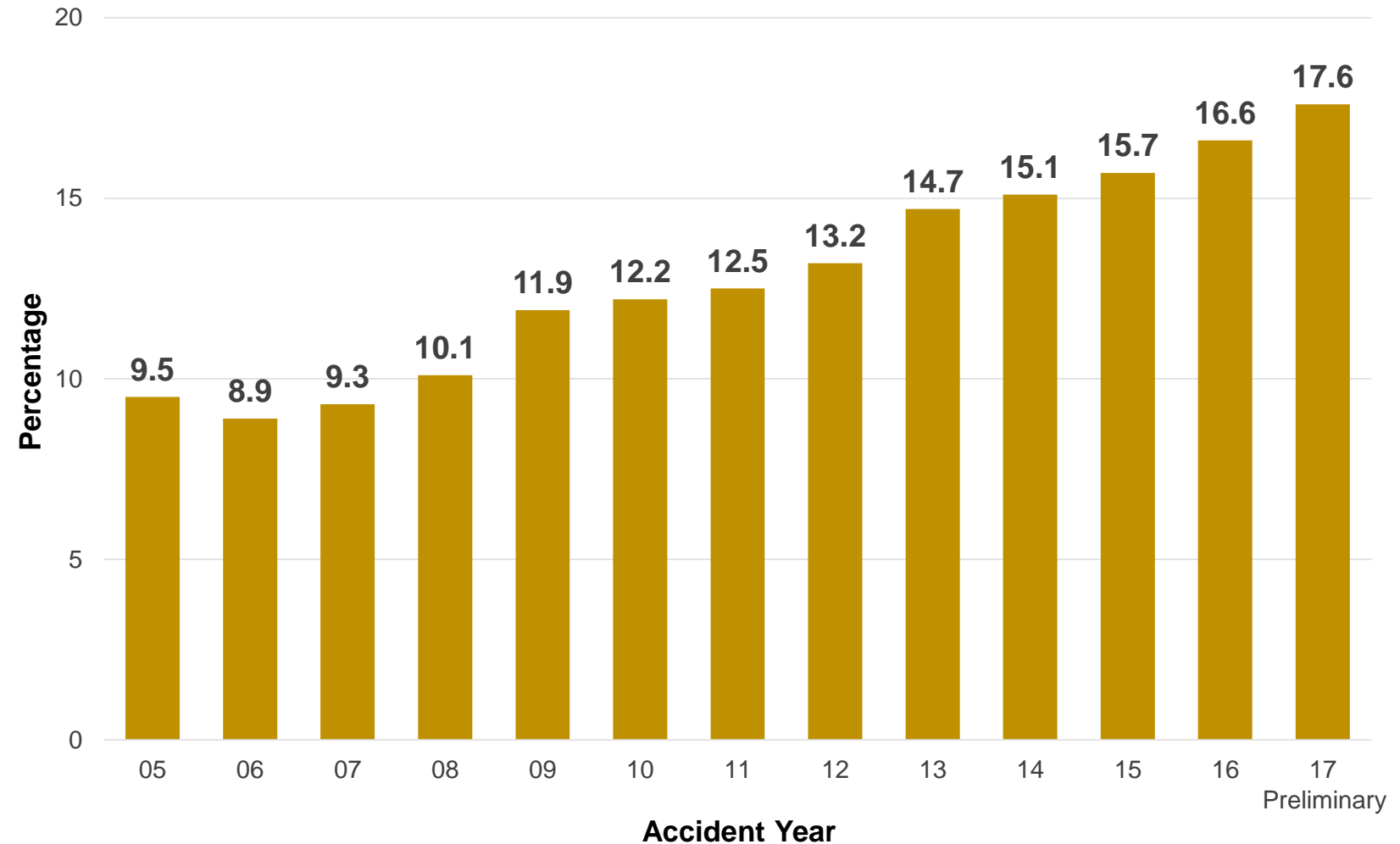




Chart 8

- Projected claim severity for 2018 is 5% higher than that for 2017, following several years of modest declines in claim severities.
- 2018 is projected from claims valued at 18 months. While the growth may moderate as the year matures, the growth rate as of June 30, 2019 is generally consistent with that of recent prior quarterly evaluations.

Ultimate Total Loss and ALAE Severities

As of June 30, 2019

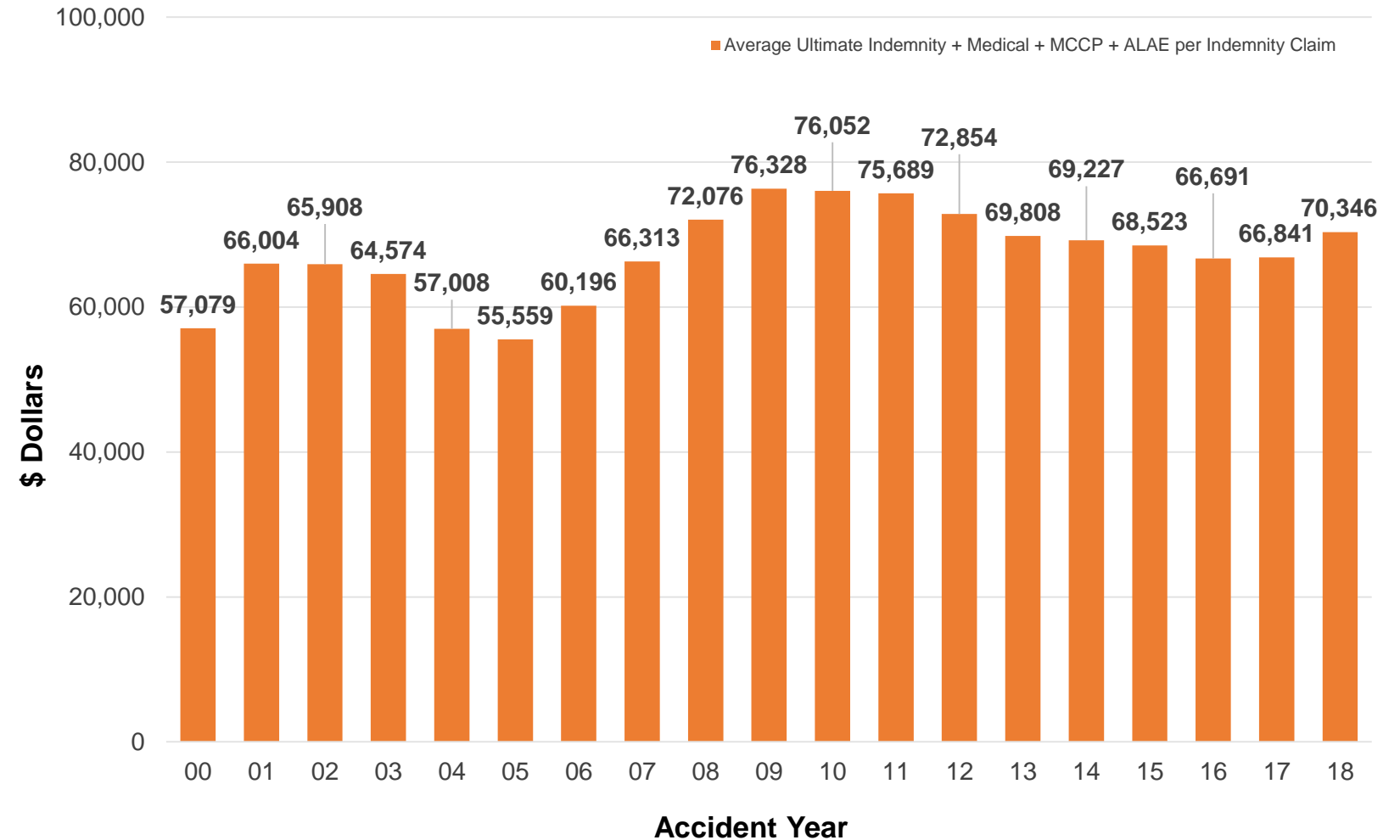




Chart 9

- Indemnity severities over the last several years have been very flat until 2018, which increased by 5% over 2017 to the highest level since 2002.
- It is unclear whether the indicated increase for 2018 will hold or moderate as the year matures.

Ultimate Indemnity Severities

As of June 30, 2019

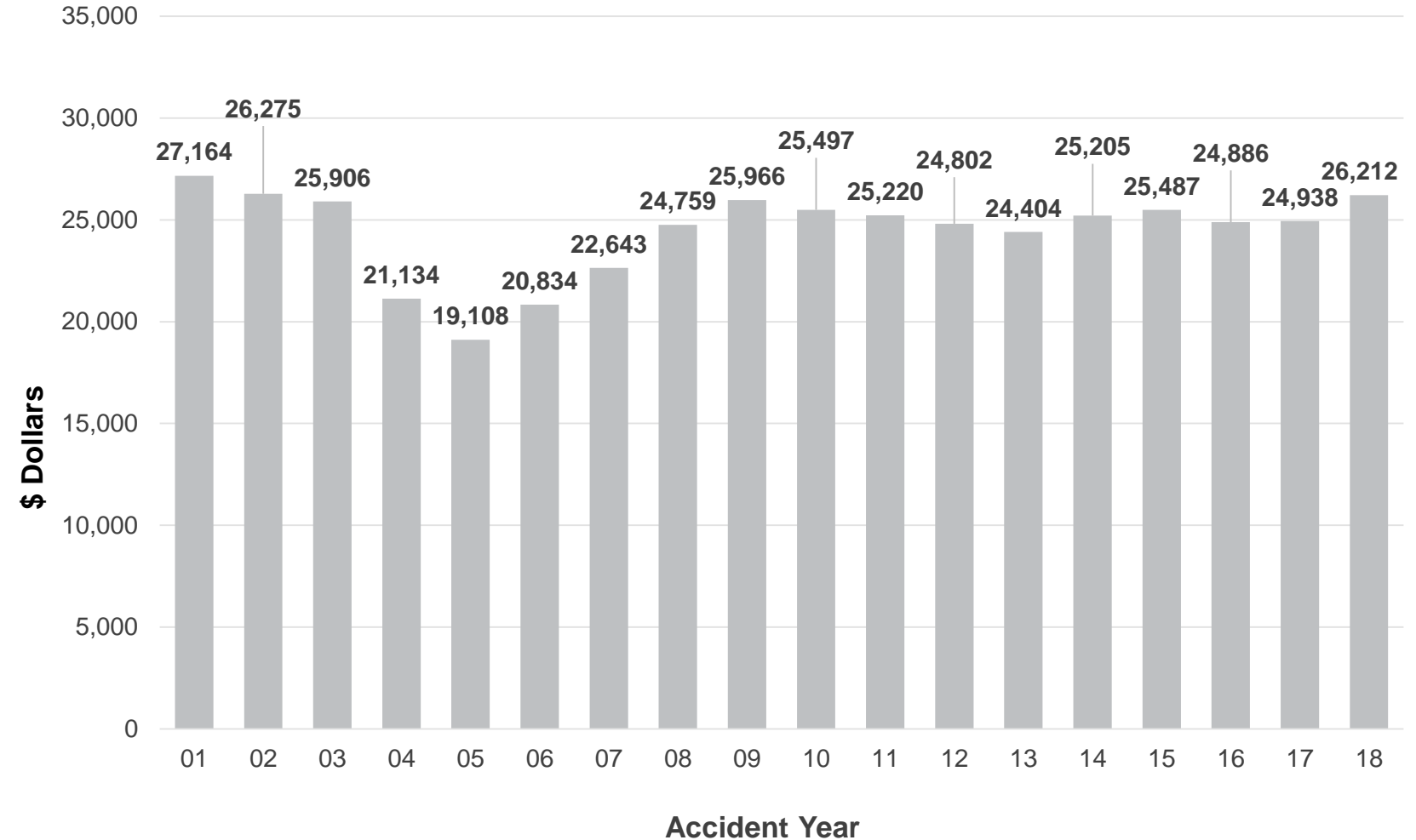




Chart 10

- Decreases in medical severities from 2011 to 2016 were driven largely by savings arising from SB 863, pharmaceutical cost reductions and anti-fraud efforts.
- The projected 3% increase for 2018 suggests the impact of recent reforms may be moderating.

Ultimate Medical Severities

As of June 30, 2019

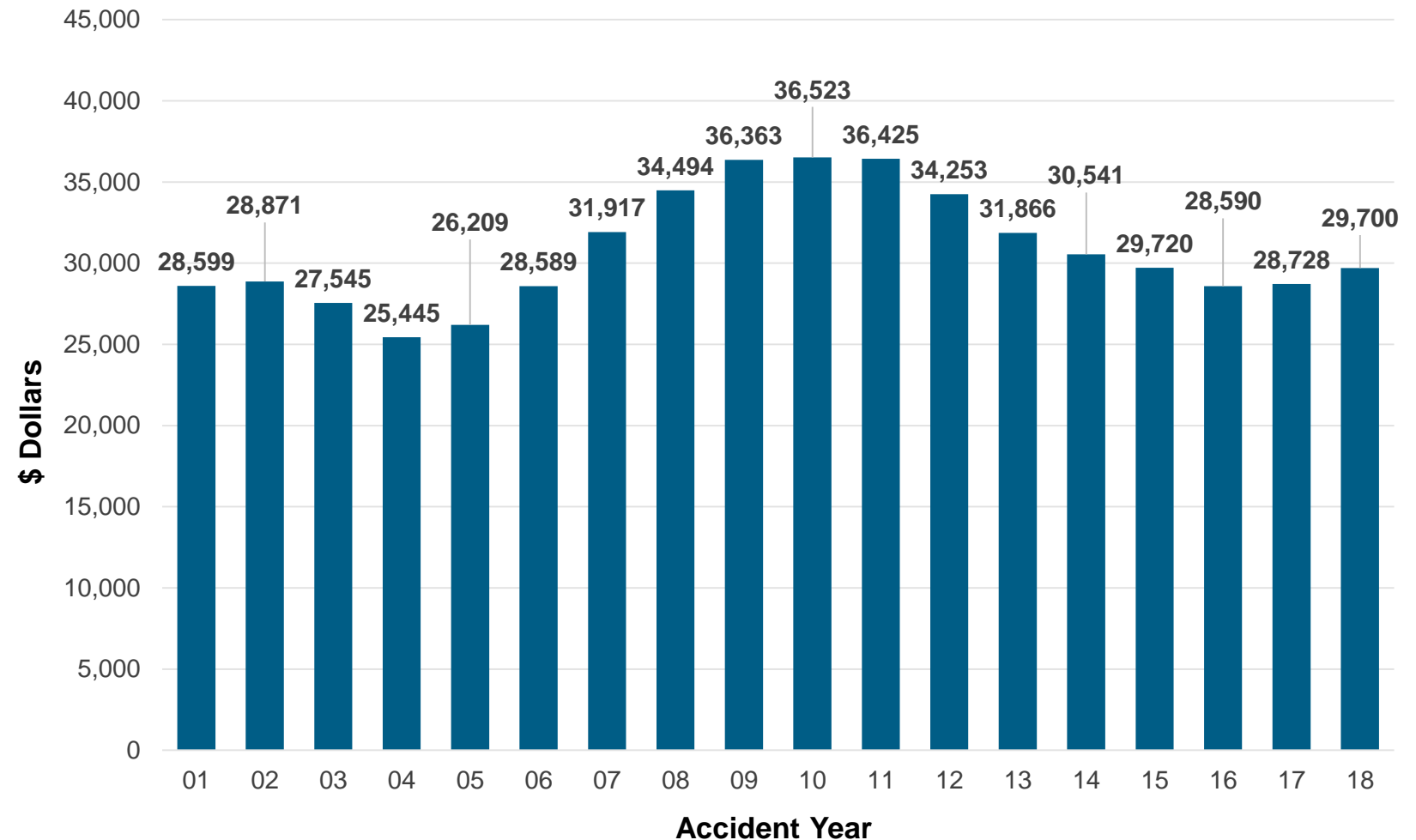




Chart 11

- ALAE severities have been flat from 2009 through 2017 despite reductions in average loss severities driven by recent reforms.
- The 10% increase indicated for 2018 is based on 15 months and will likely moderate as the accident year matures.

Ultimate ALAE (Excluding MCCP) Severities

As of March 31, 2019





Chart 12

- Projected MCCP cost severity for 2018 is 8% higher than that for 2017.
- The 2018 increase is counter to expectations of reduced utilization review due to SB 1160 and the drug formulary.
- Despite the increase for the most recent year, average MCCP costs have generally declined in the last several years as average medical costs have moderated and claim settlement rates have accelerated.

Ultimate MCCP Severities

As of March 31, 2019

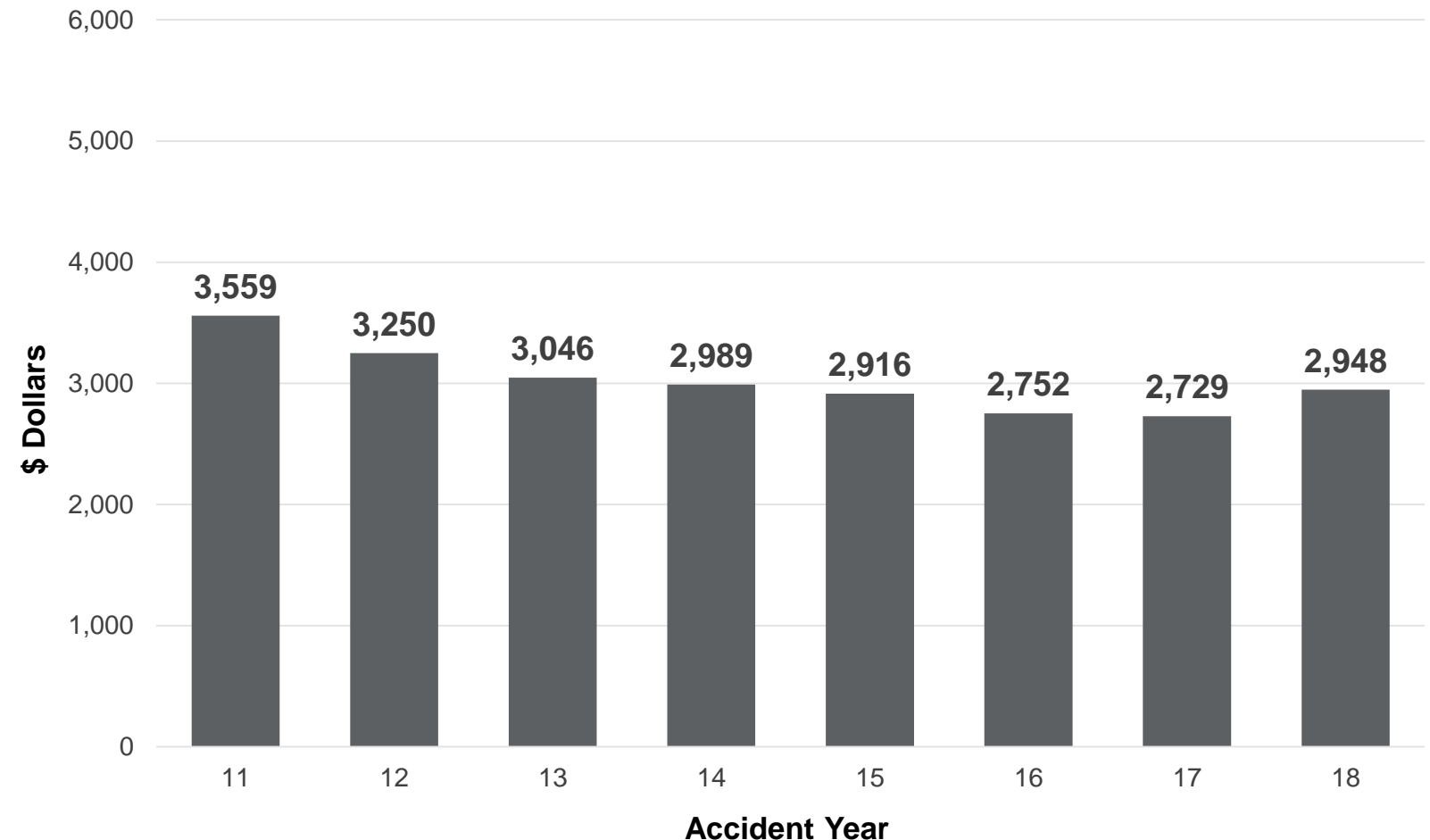




Chart 13

- Medical service costs per claim decreased 17% from 2012 to 2015, primarily driven by a 23% decrease in the number of transactions per claim.
- Overall medical cost levels have been relatively flat since 2015.

Change in Medical Service Cost Levels

As of April 7, 2019

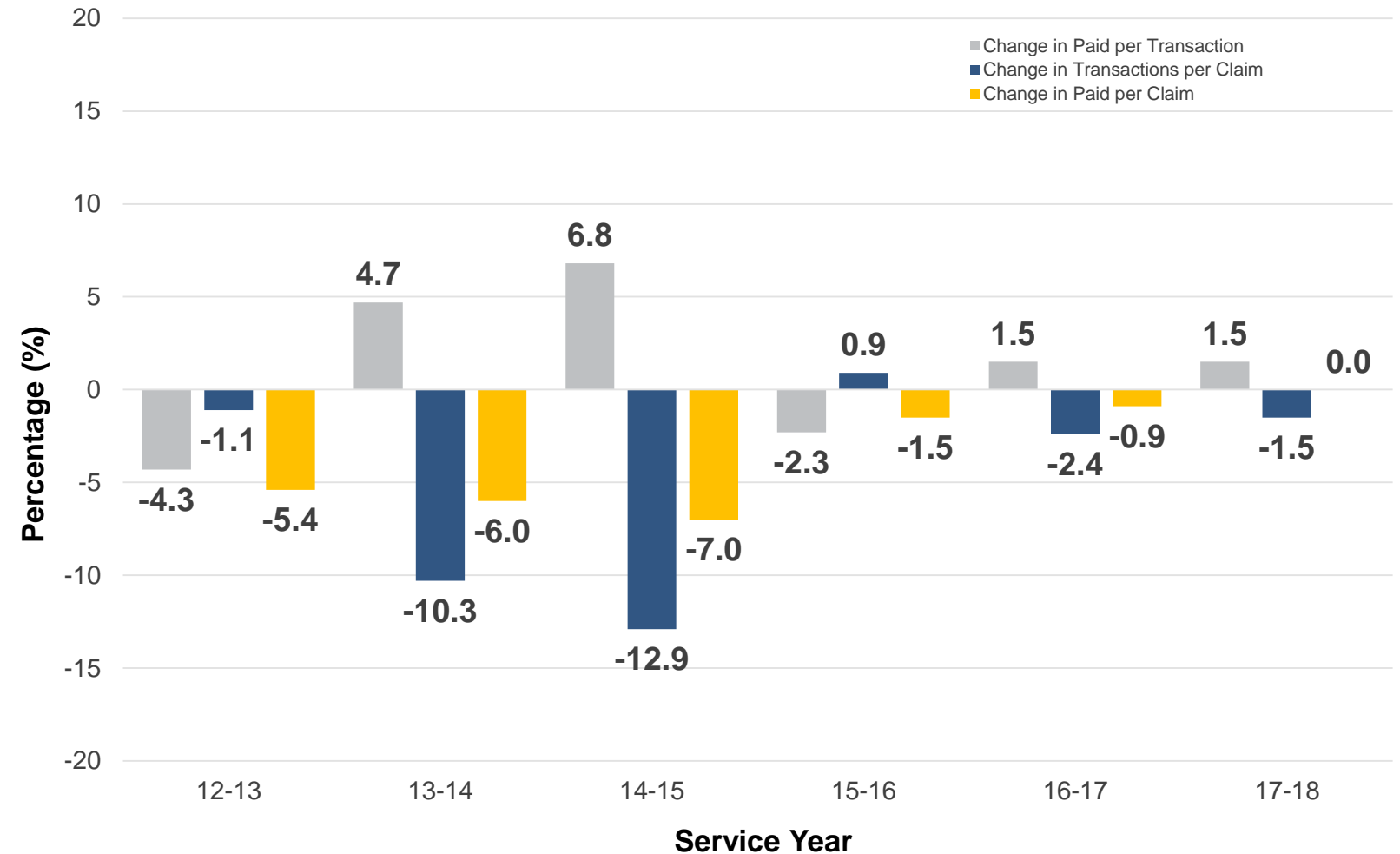




Chart 14

- Pharmaceutical costs per claim decreased 80% from 2012 to 2018.
- These reductions have been driven by SB 863's independent medical review and independent bill review, reduced utilization of opioids, changes to Medi-Cal reimbursement rates and the new drug formulary.
- Pharmaceutical costs continued to decrease significantly in 2018, the first period in which the new drug formulary was in effect.

Change in Pharmaceutical Cost Levels

As of April 7, 2019

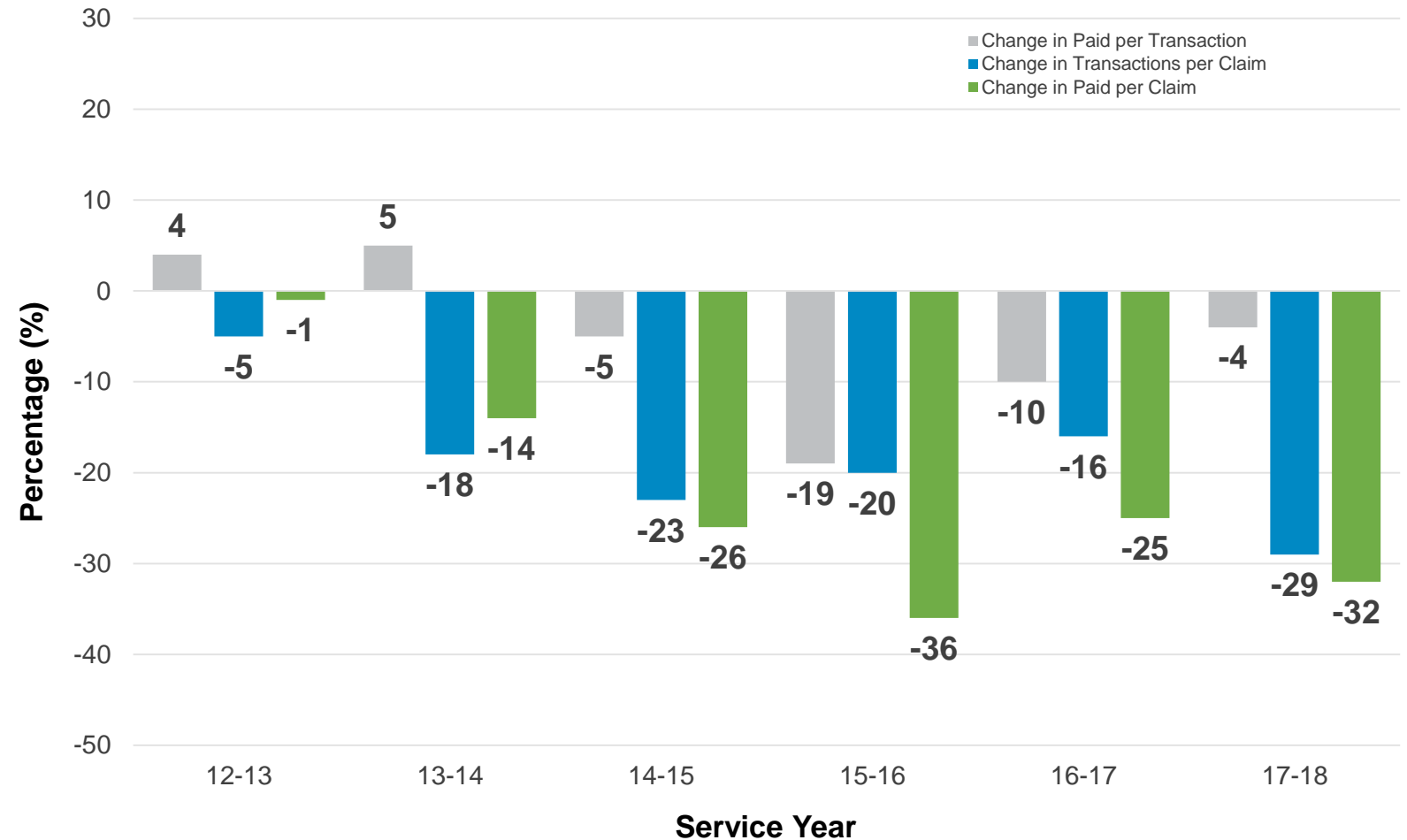




Chart 15

- SB 1160 and Assembly Bill No. 1244 (AB 1244) made changes to the lien filing process starting in 2017.
- The number of liens filed in the first two quarters of 2019 are more than 60% below pre-SB 1160 and AB 1244 levels.

Number of Liens Filed

As of June 30, 2019





Chart 16

- Ratios of ALAE to loss increased significantly from 2011 to 2015 in part due to increased cumulative trauma claim filings and the transition to SB 863.
- From 2015 to 2018, these ratios have been generally consistent as savings from recent reforms have not resulted in lower ALAE costs.

Ratios of Paid ALAE to Paid Losses

As of June 30, 2019

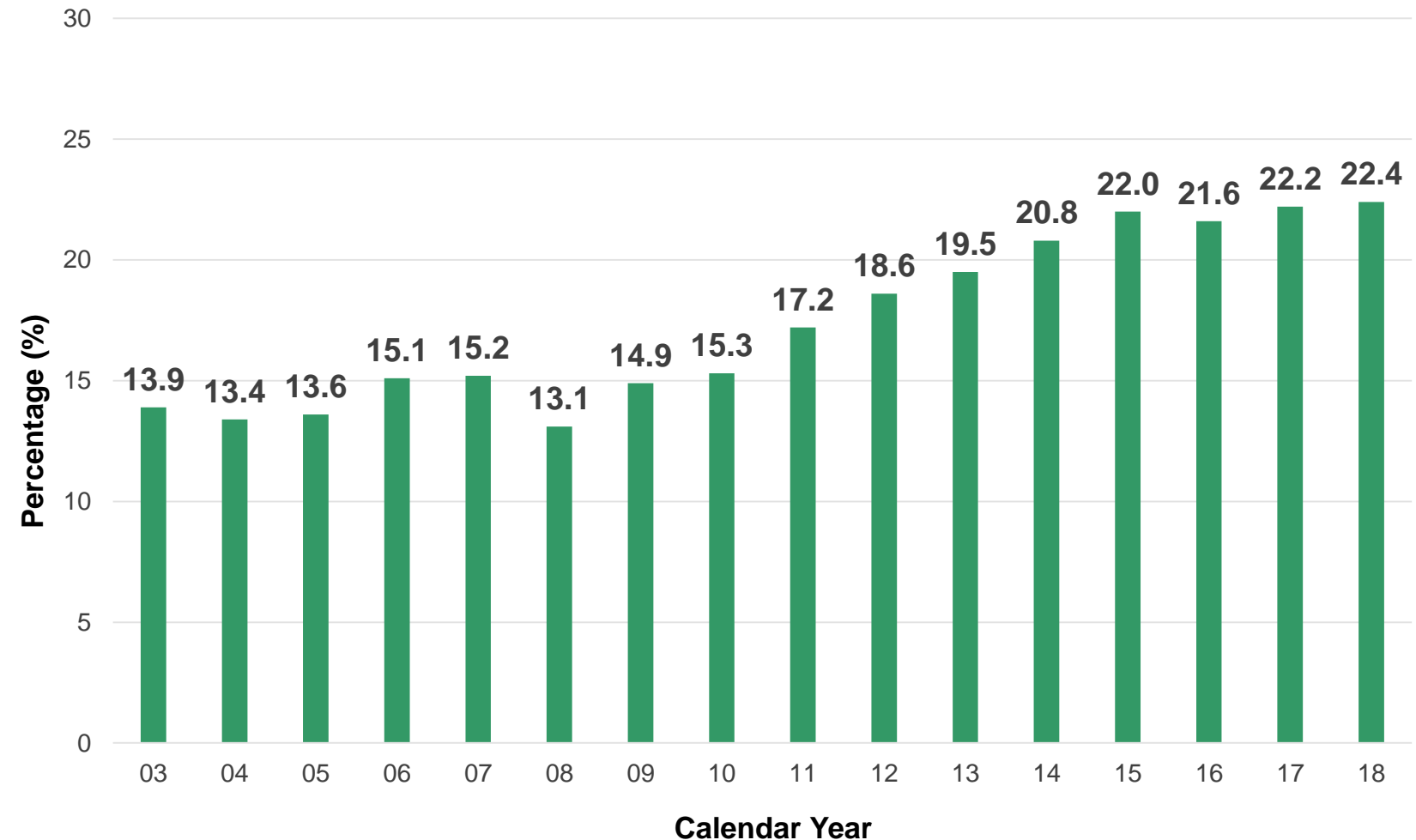


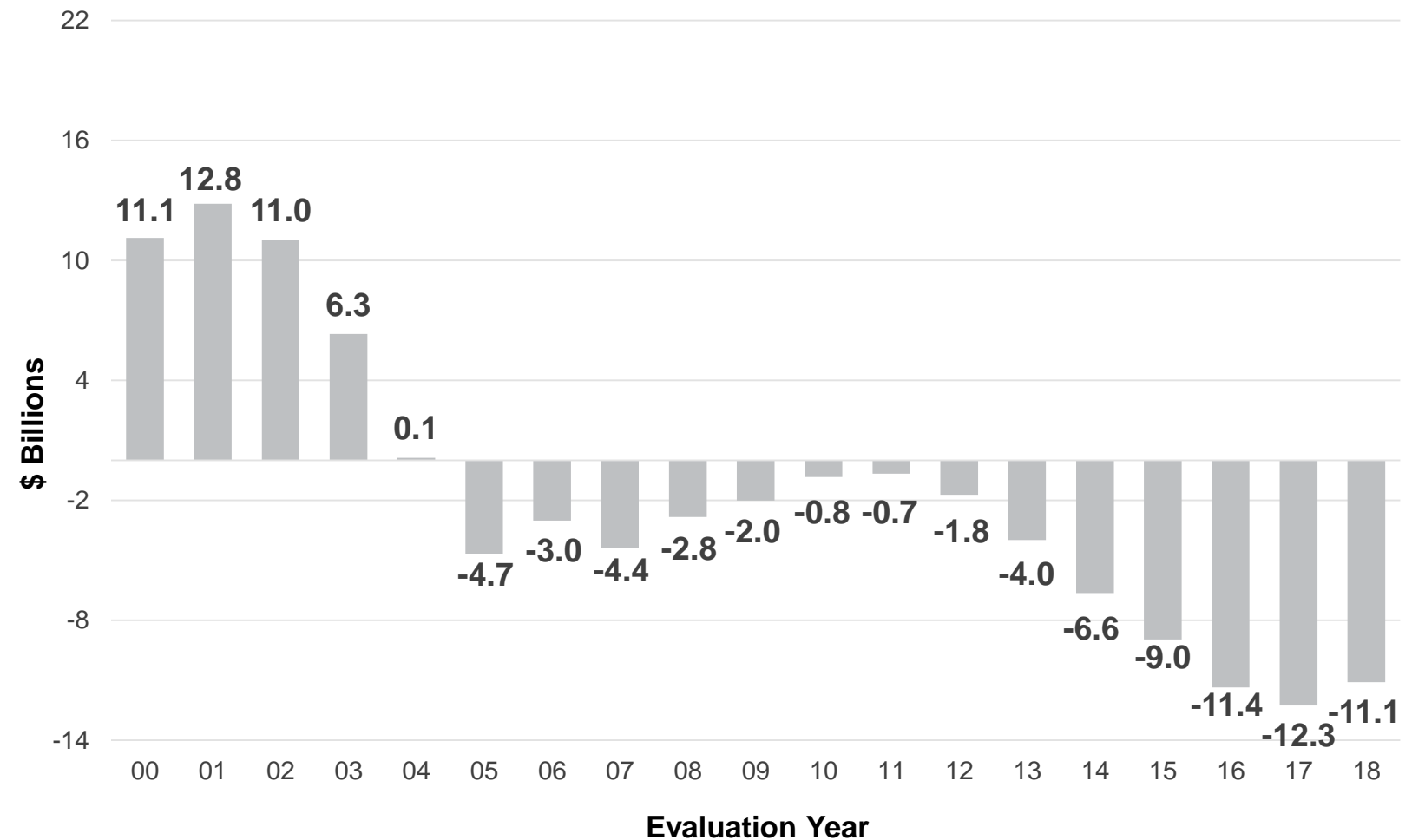


Chart 17

- Projected total statewide ultimate losses for 2005 through 2018 evaluations are below the amounts reported by insurers.
- The difference decreased as of year-end 2018 as there were significant reductions in industrywide loss reserves in 2018.

Projected Ultimate Losses Less Reported Losses

As of June 30, 2019





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 June 30, 2019. 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: 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 2016 and estimated based on aggregate financial data calls for 2017 and later.
- Rates are per \$100 of payroll.
- Rates are averages over policies incepting in the year (December 1 to December 31).

Chart 3: Ultimate Accident Year Loss Ratios

- Ratios are projected based on WCIRB aggregate financial data call data as of June 30, 2019.
- 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 June 30, 2019.
- Combined ratios include losses, loss adjustment expenses and other insurer expenses.

Chart 5: Percent of Open Indemnity Claims Closed in Next Year

- Source: WCIRB aggregate financial data call data as of June 30, 2019.
- Figures represent the number of indemnity claims aged between 18 and 102 months that closed during the year as a ratio of the number of estimated ultimate claims open or not yet reported as of June 30 of the prior 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 2017 and changes in reported indemnity claim counts compared to changes in statewide employment based on WCIRB aggregate financial data call data for accident year 2018 and the first six months of 2019.

Chart 7: Cumulative Trauma Claims per 100 Indemnity Claims

- Source: WCIRB unit statistical data based on partial accident years. Claim counts are developed to an estimated ultimate level.
- Accident year 2017 data is preliminary.

Chart 8: Ultimate Total Loss and ALAE Severities

- Severities are projected based on WCIRB aggregate financial data call data as of June 30, 2019.
- Chart 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 June 30, 2019.

[Chart 10: Ultimate Medical Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of June 30, 2019.
- Chart includes data for indemnity claims only. MCCP costs have been excluded from all years for consistency of comparison.

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

- Severities are projected based on WCIRB aggregate financial data call data as of March 31, 2019.
- Chart includes data for indemnity claims only. MCCP costs are excluded from all years for consistency of comparison.

[Chart 12: Ultimate MCCP Severities](#)

- Severities are projected based on WCIRB aggregate financial data call data as of March 31, 2019.
- Chart includes data for indemnity claims only.

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

- Source: WCIRB medical transaction data as of April 7, 2019.

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

- Source: WCIRB medical transaction data as of April 7, 2019.

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

- Source: Division of Workers' Compensation.

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

- Source: WCIRB aggregate financial data calls.
- MCCP costs paid on policies incepting prior to July 1, 2010 are considered loss and costs paid on policies incepting after July 1, 2010 are considered ALAE.

[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 June 30, 2019.



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