

WCIRB Report on December 31, 2015 Insurer Experience

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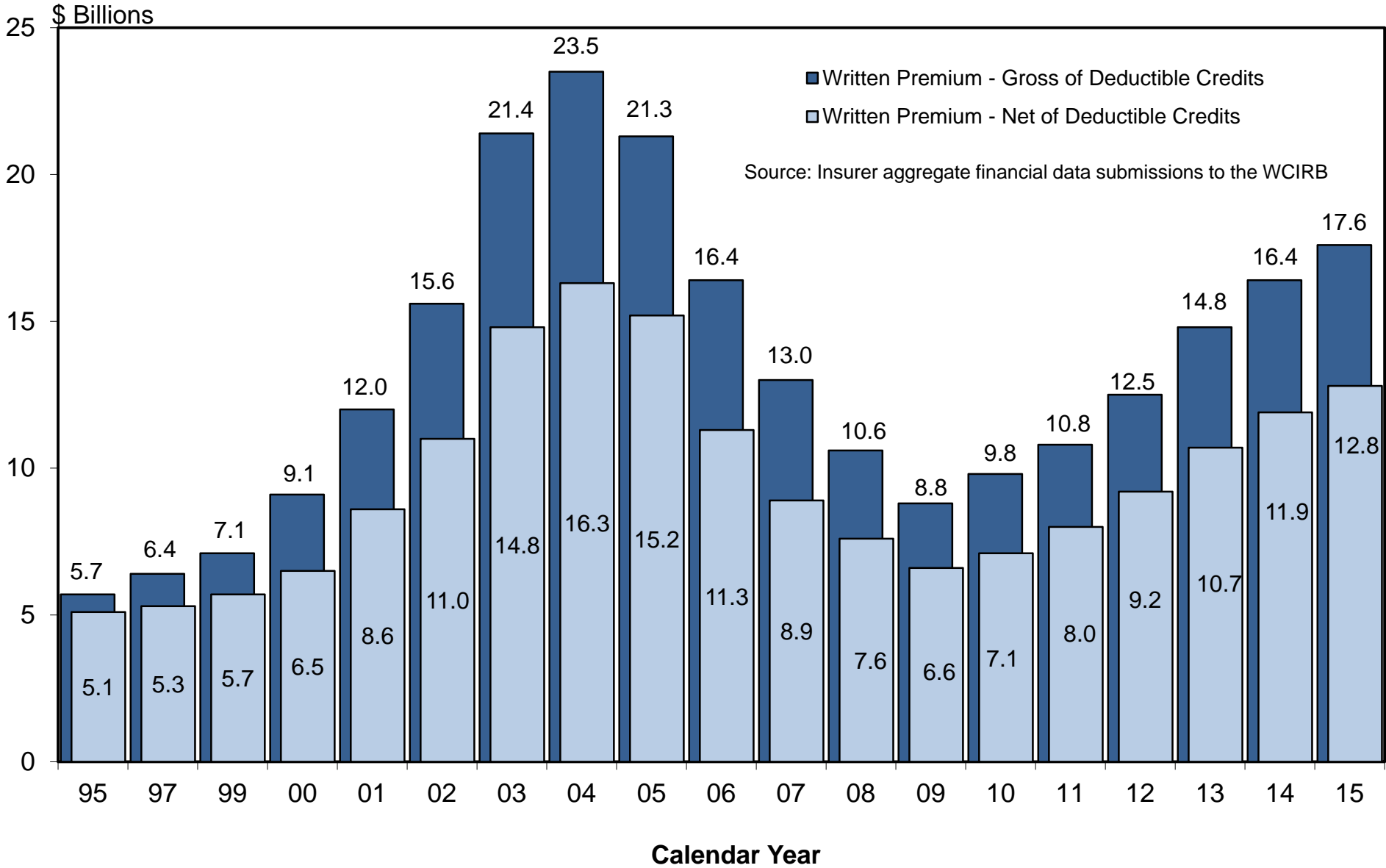
The WCIRB has completed its review and analysis of December 31, 2015 experience submitted by insurers. This report is based on data reported to the WCIRB by insurers who wrote almost 100% of the statewide market. In reviewing this information, the following should be noted:

1. 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.
2. 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, 2015. Although the actuarial methodologies and assumptions upon which these projections are predicated are periodically analyzed and tested 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.
3. 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.
4. Insurer-reported losses, which are compared in Exhibit 9 to the WCIRB's projections of ultimate 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 in Exhibit 9 do not necessarily equate to specific estimates of the adequacy of insurers' reserves for unpaid losses.
5. Senate Bill No. 863 (SB 863), which was enacted in 2012, increased benefits and provided for a number of structural changes to the California workers' compensation benefit delivery system starting in 2013. Some provisions of SB 863 impact costs on older claims. WCIRB projections of ultimate losses and ultimate loss severities have been adjusted to reflect the impact of SB 863 based on methodologies developed by the WCIRB's Actuarial Committee.
6. 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. In order to provide consistent comparisons across years, to the extent appropriate, the amounts and ratios shown represent the combined cost of losses and ALAE. In several other exhibits, in order to facilitate consistent comparison from year to year of medical losses and ALAE, accident year 2010 MCCP costs reported as ALAE have been shifted to medical loss and the estimated amount of accident year 2011 MCCP costs reported as medical loss have been shifted to ALAE.

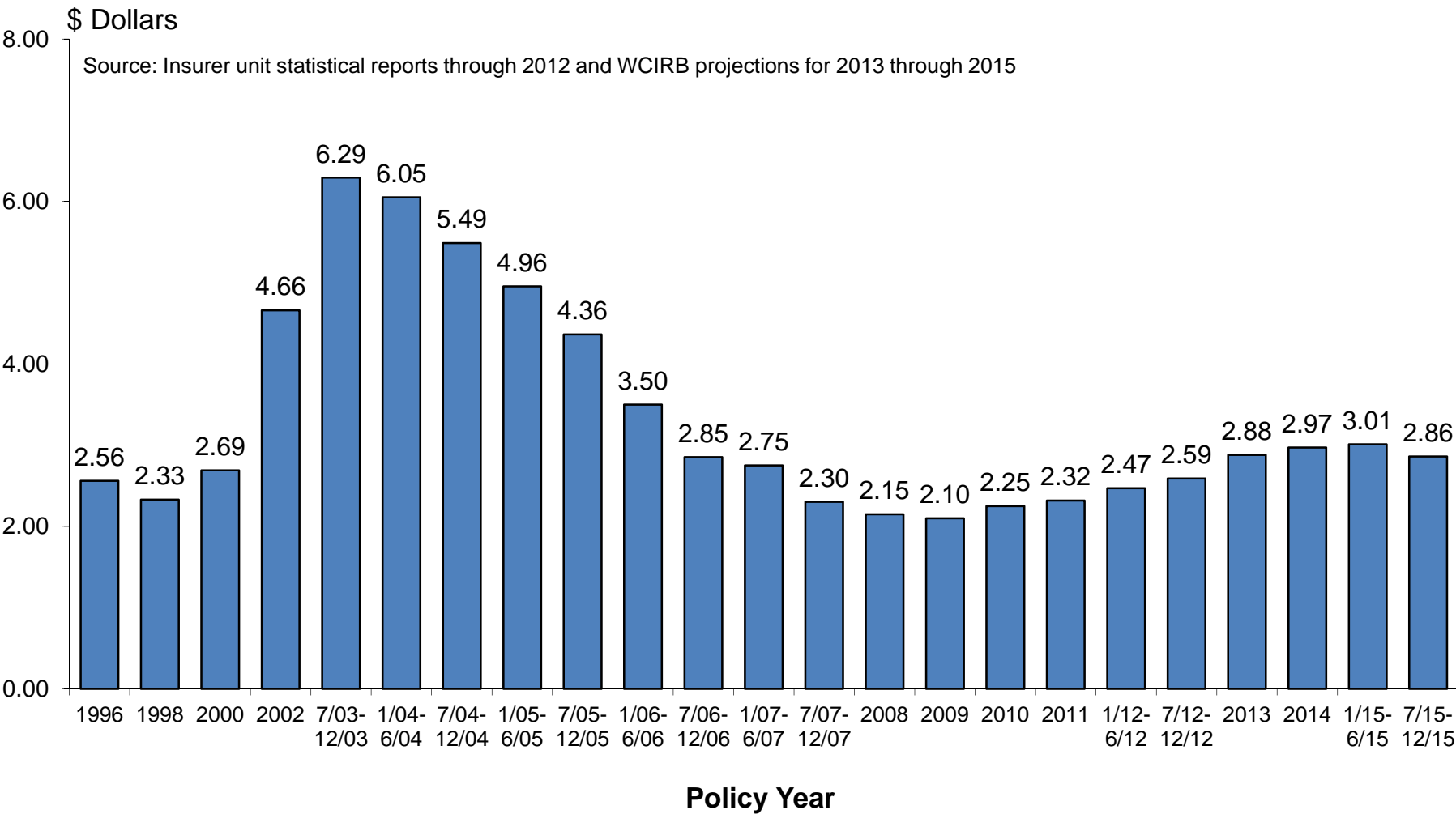
Exhibits 1 through 9, which summarize the WCIRB's review of reported December 31, 2015 insurer experience, reflect the following information:

- California written premium (gross of deductible credits) for 2015 is approximately \$17.6 billion, which is approximately 7% above the written premium reported for 2014 (Exhibit 1).
- The projected industry average charged rate (rates charged by insurers that reflect all rating plan adjustments except deductible credits, retrospective rating plan adjustments, terrorism charges, and policyholder dividends) per \$100 of payroll for policies incepting between July 1, 2015 and December 31, 2015 is \$2.86 (Exhibit 2). This is approximately 5% below the average rate charged for the first six months of 2015 and the first decrease in the average charged rate since 2009.
- The WCIRB projects total ultimate losses and ALAE for accident year 2015 to be \$13.1 billion (Exhibit 3), which is 5% above the projection for accident year 2014 and 34% above the projection for accident year 2009.
- The WCIRB projects an ultimate accident year loss and ALAE ratio of 76.8% for accident year 2015 (Exhibit 4). This projection is consistent with the projection for accident year 2014 and is lower than the projections for recent prior accident years, which is primarily the result of increased premium levels, a slight decline in indemnity claim frequency, and modest claim severity growth.
- The WCIRB projects an ultimate accident year combined loss and expense ratio of 102% for 2015 (Exhibit 5). Of this ratio, 60% is attributable to the indemnity and medical loss ratio and 42% is attributable to the loss adjustment and other expense ratio. As with the projected 2015 loss and ALAE ratios shown in Exhibit 4, this projection is consistent with the ratio for 2014 and below that of the prior several accident years.
- The preliminary calendar year combined loss and expense ratio for 2015 reported by insurers is 99%, which is below the combined ratios for the last several years and is the first year since 2007 with a combined ratio below 100% (Exhibit 6). The lower combined ratio reported for 2015 is primarily a result of increased premium levels and significant reductions in insurer case reserves in 2015.
- The WCIRB projects indemnity claim frequency for accident year 2015 to be 1% below the frequency for 2014 but approximately 12% above the frequency for 2009 (Exhibit 7). The frequency increases generally experienced over the last five years are largely attributed to increases in cumulative injury claims, late reported indemnity claims, claims involving injuries to multiple body parts, and claims from the Los Angeles area.
- The WCIRB projects the average cost (or "severity") of a 2015 indemnity claim to be approximately \$85,000, which is approximately 3% higher than the projected severity for 2014 and approximately 6% higher than that for 2013 (Exhibit 8.1). The projected average indemnity cost of a 2015 indemnity claim is 4% higher than that for 2014 and 15% higher than that for 2012, primarily a result of SB 863 increases to permanent disability benefits effective in 2013 and 2014 (Exhibit 8.2). The projected average medical cost of a 2015 indemnity claim is consistent with that for 2014 but is approximately 8% below the projected average medical cost for 2011 (Exhibit 8.3), largely a result of medical cost savings arising from SB 863. However, the projected average ALAE cost of a 2015 indemnity claim, excluding MCCP costs, is approximately 11% above that of 2014 and approximately 24% higher than the average ALAE severity for 2012 (Exhibit 8.4), despite forecast reductions in ALAE costs expected to arise from SB 863.
- The WCIRB currently projects the total statewide ultimate losses on all injuries that occurred on or before December 31, 2015 to be approximately \$2.5 billion more than the amounts reported by insurers (Exhibit 9).

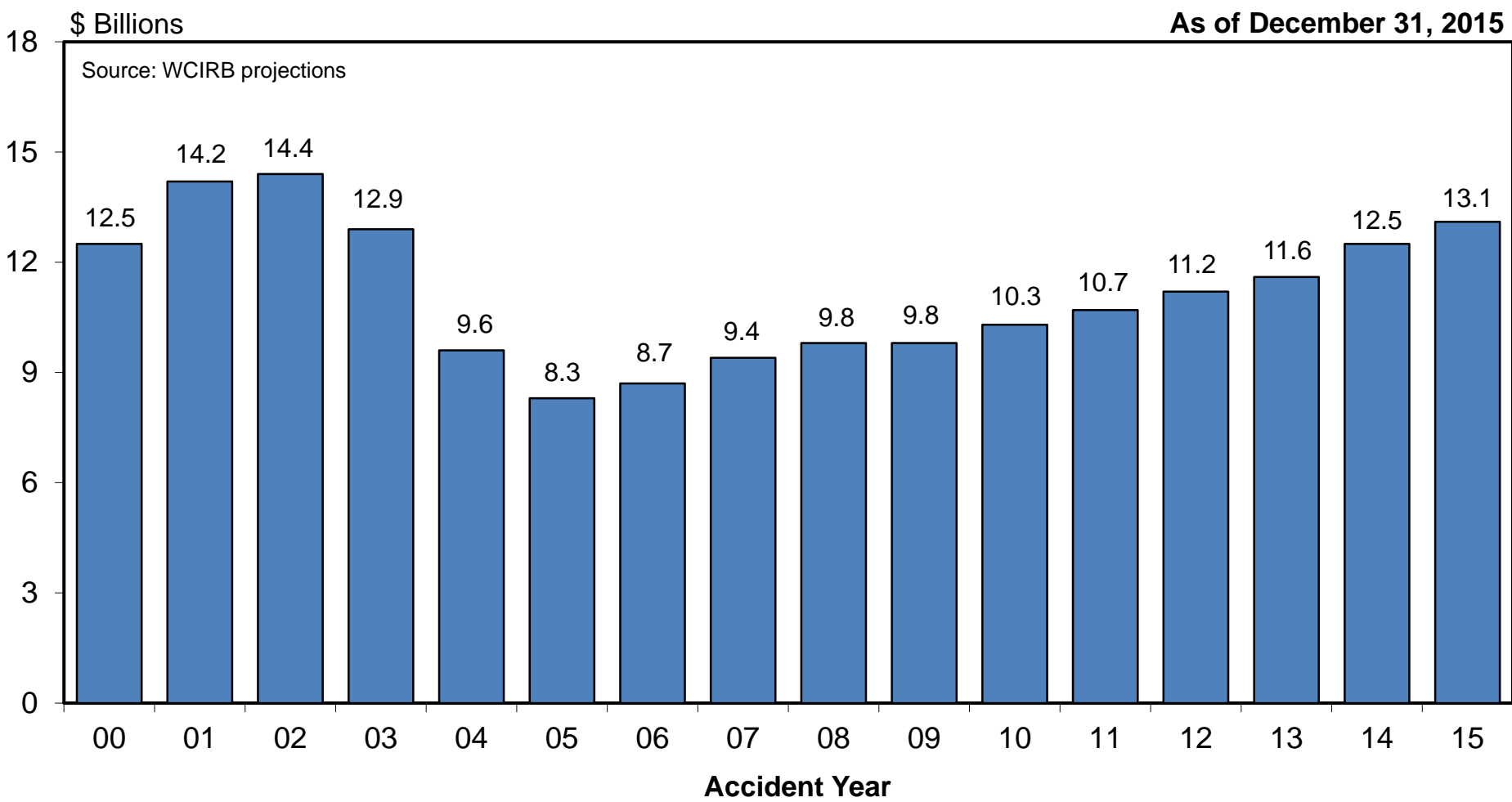
California Workers' Compensation Written Premium



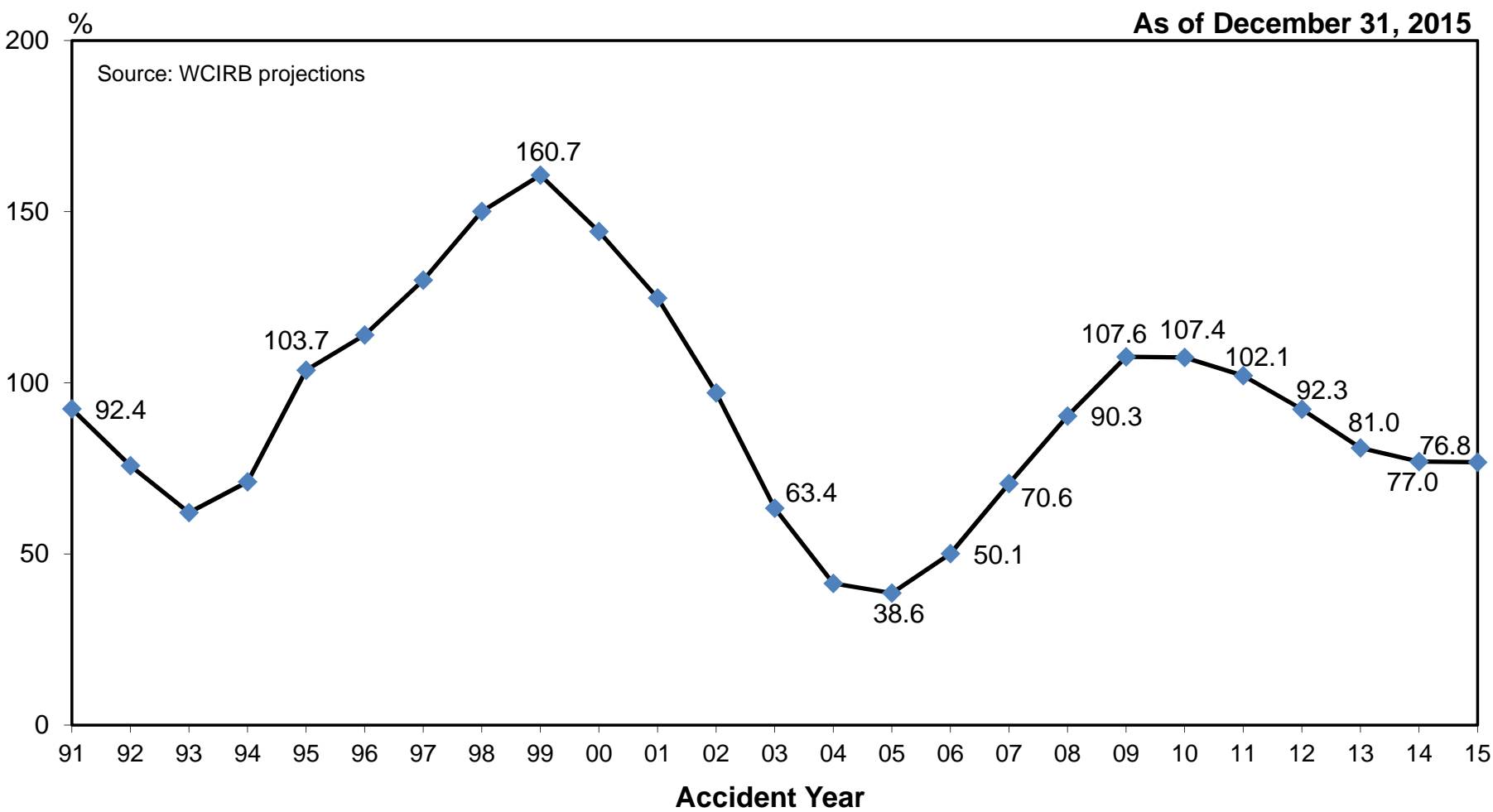
California Workers' Compensation Industry Average Charged Rate per \$100 of Payroll



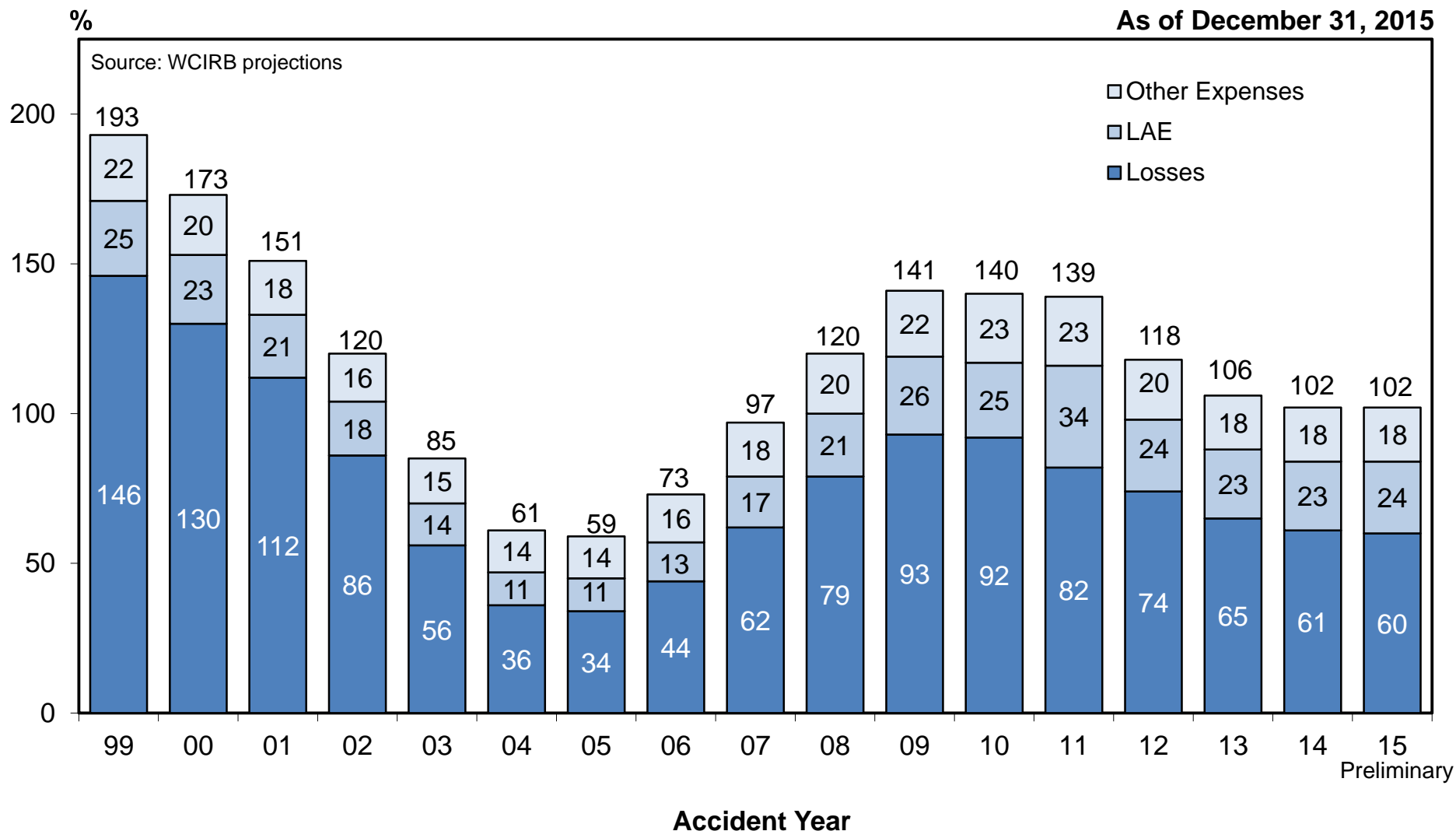
California Workers' Compensation Projected Ultimate Losses and ALAE by Accident Year



California Workers' Compensation Projected Ultimate Accident Year Loss and ALAE Ratios

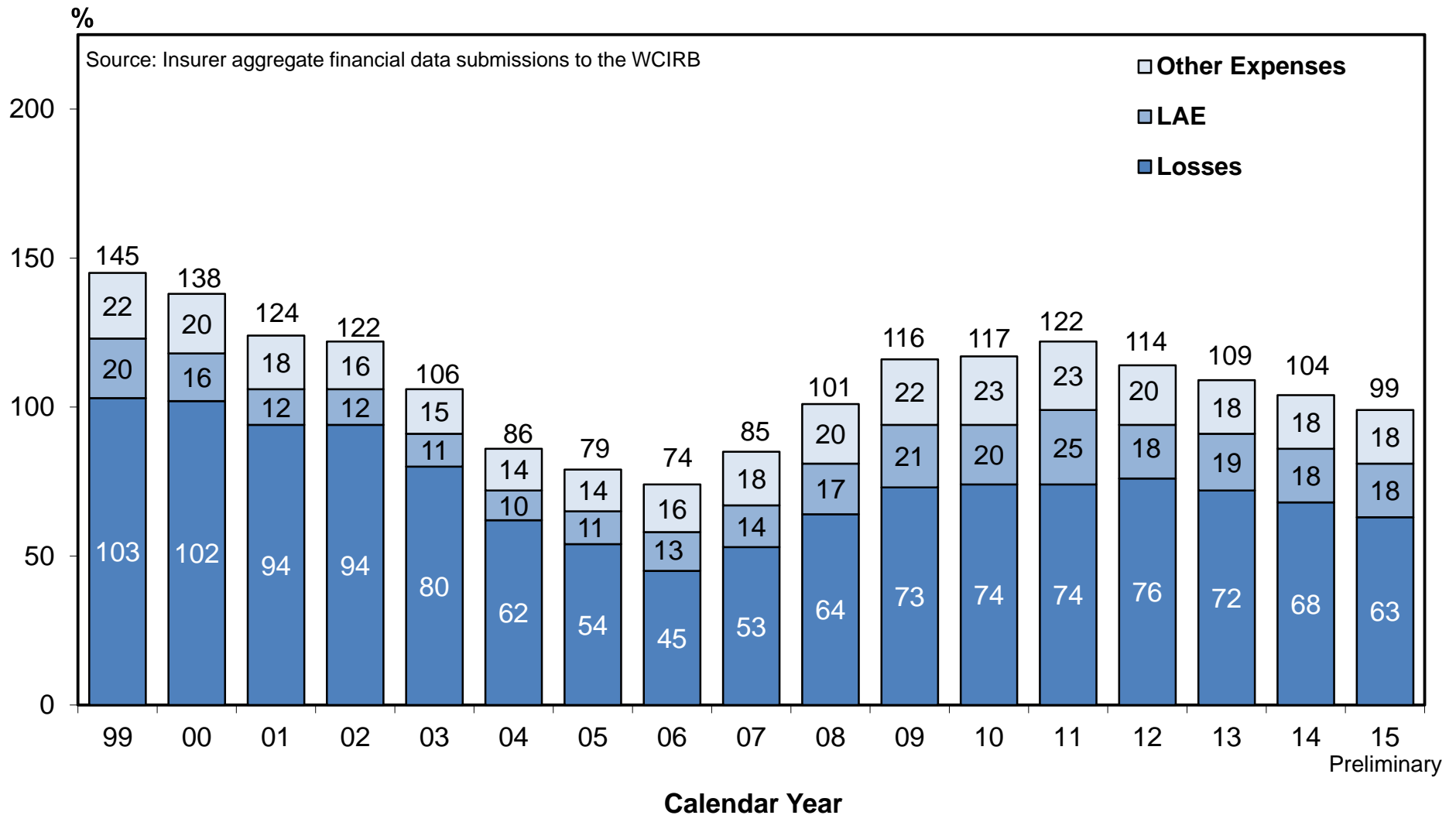


California Workers' Compensation Projected Accident Year Combined Loss and Expense Ratios *

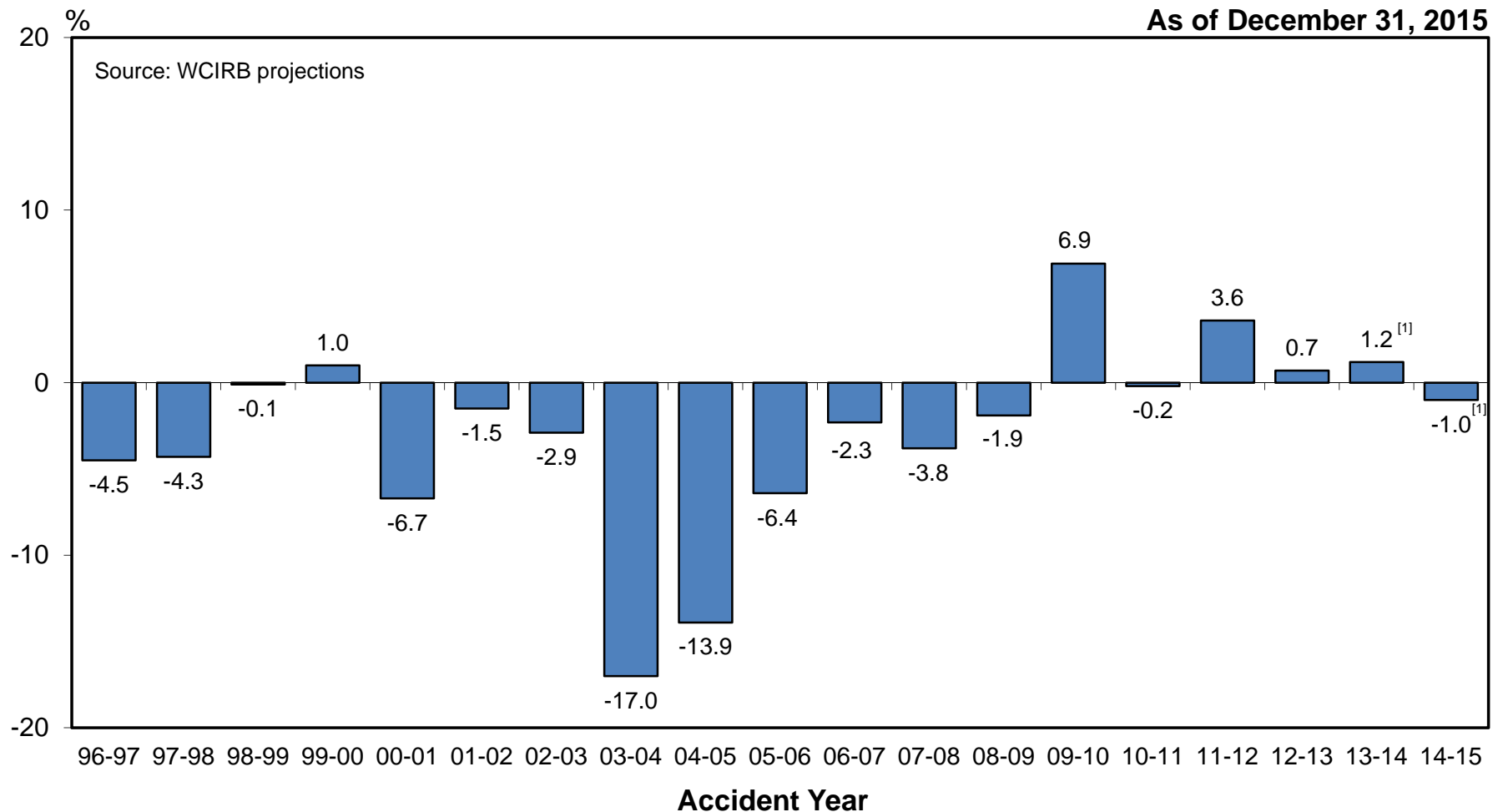


* The cost of medical cost containment programs is reflected in LAE for accident years 2011 and subsequent. It is reflected in losses for all other accident years.

California Workers' Compensation Calendar Year Combined Loss and Expense Ratios

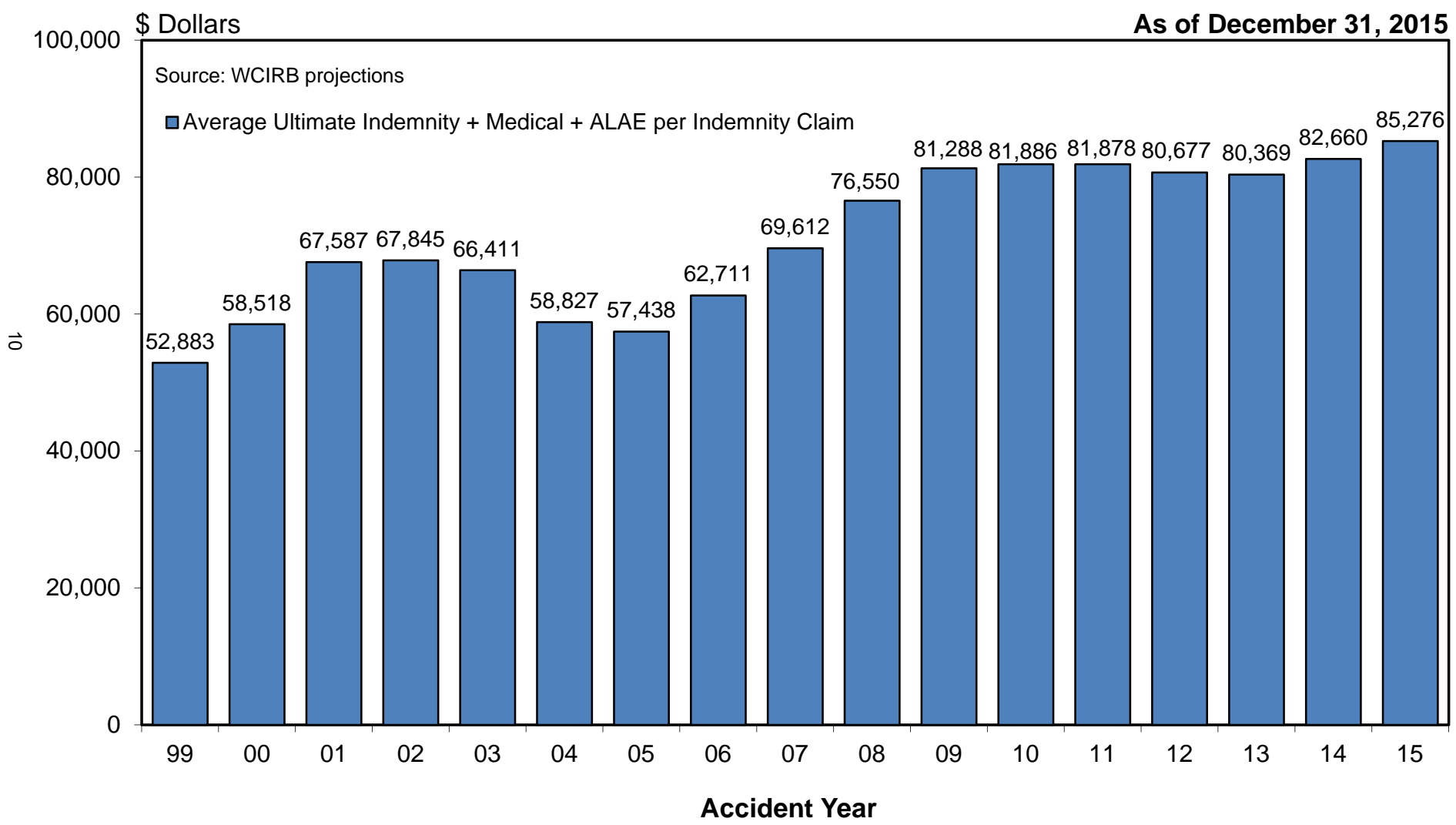


California Workers' Compensation Projected Percentage Change in Indemnity Claim Frequency by Accident Year



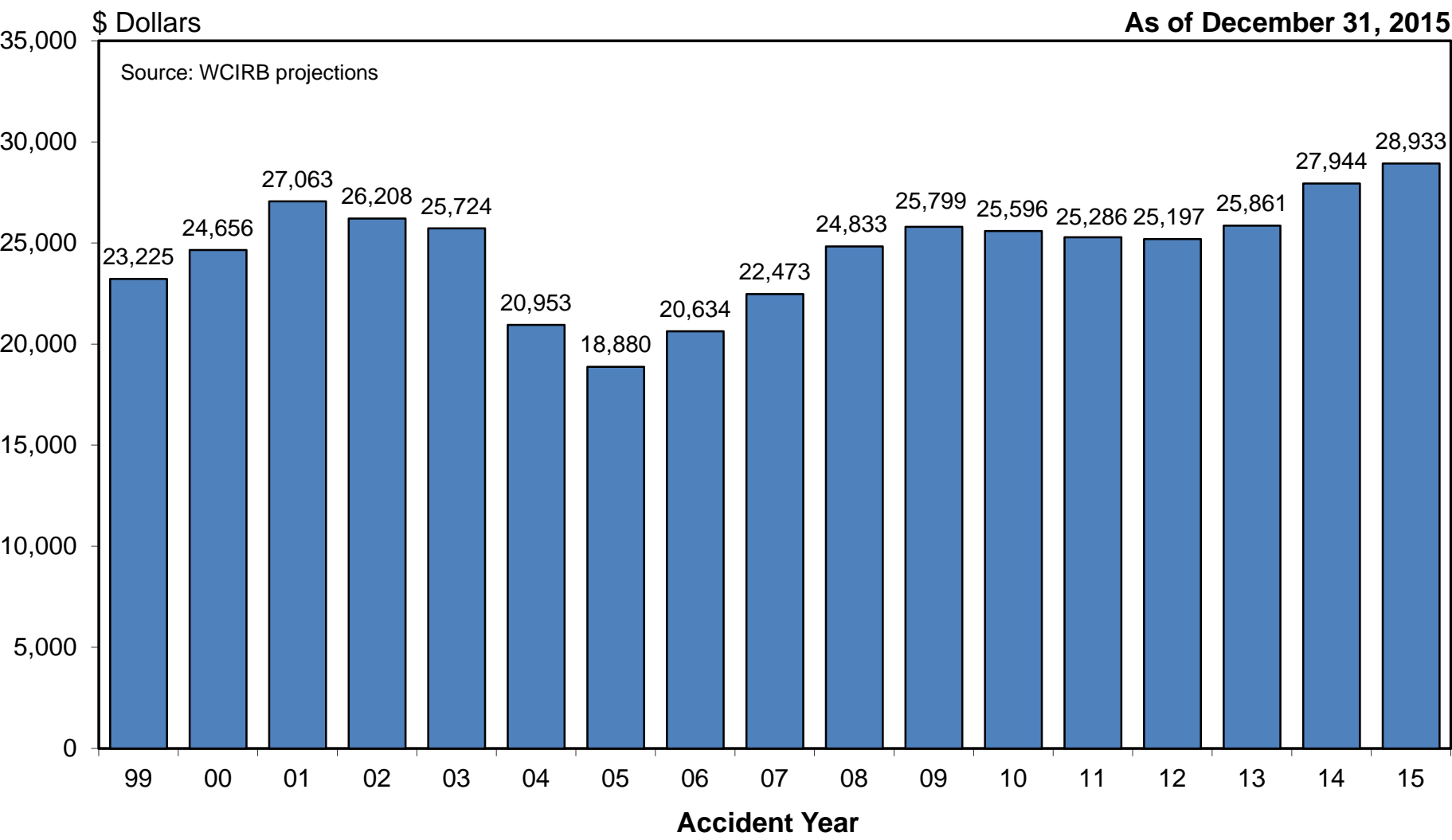
⁽¹⁾ The 2013-2014 estimate is based on partial year unit statistical data. The 2014-2015 estimate is based on a comparison of claim counts from WCIRB accident year experience as of December 31, 2015 relative to the estimated change in statewide employment. Prior years are based on unit statistical data.

California Workers' Compensation Projected Ultimate Total Loss* and ALAE per Indemnity Claim

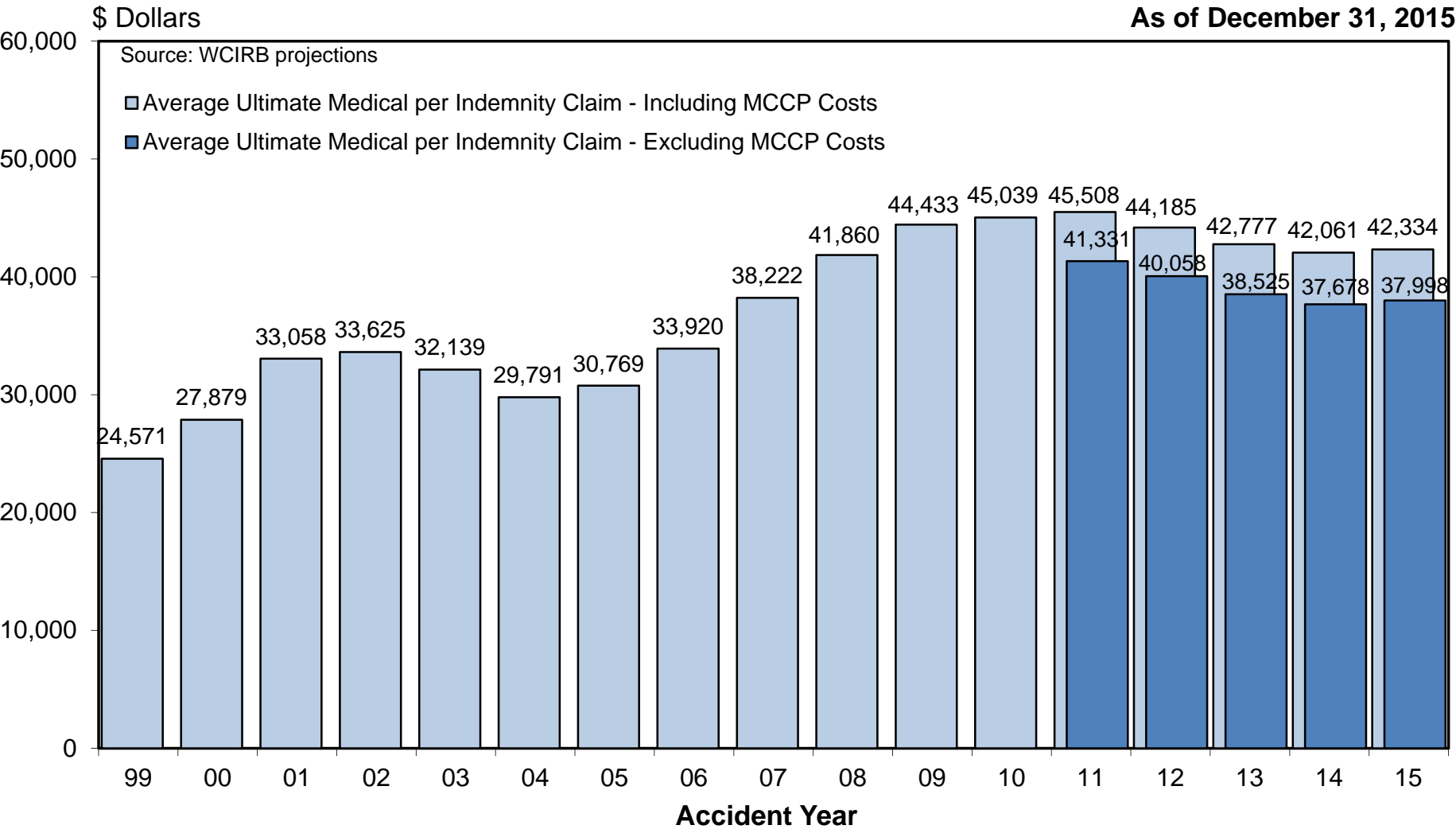


* Excludes medical-only.

California Workers' Compensation Projected Ultimate Indemnity per Indemnity Claim

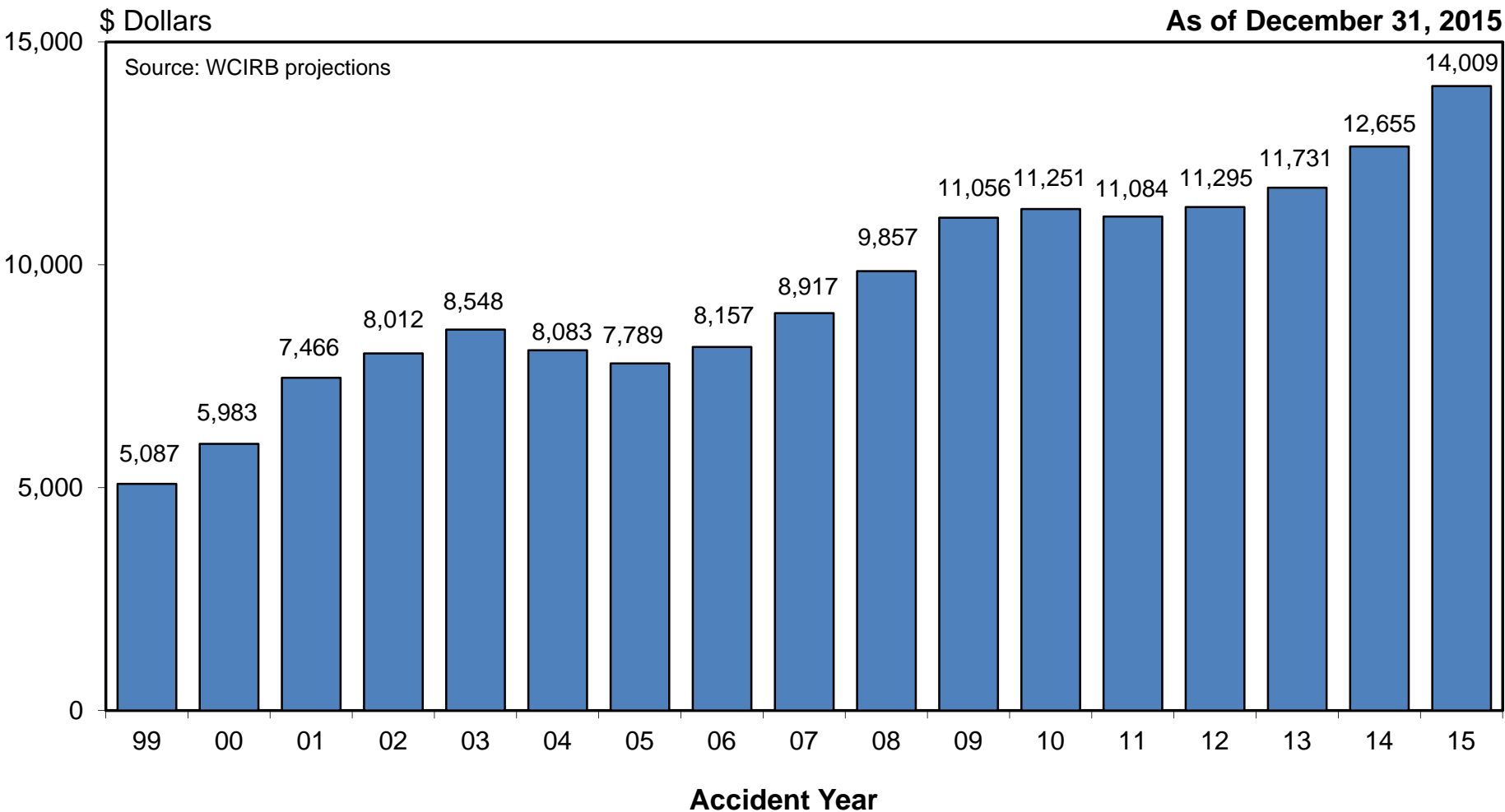


California Workers' Compensation Projected Ultimate Medical* per Indemnity Claim



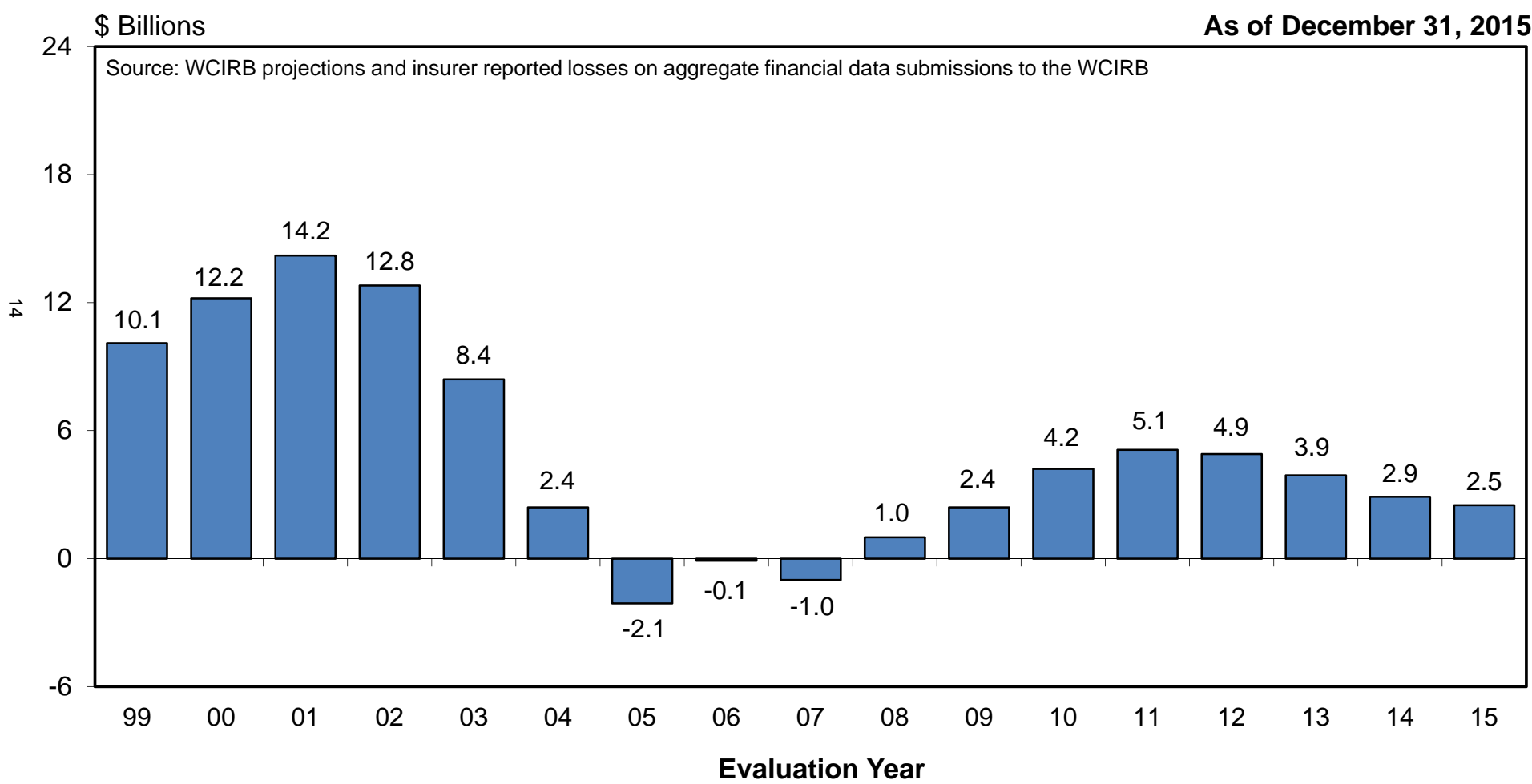
* Excludes medical-only.

California Workers' Compensation Projected Ultimate ALAE per Indemnity Claim* (Excluding MCCP Costs)



* Based on data submitted by private insurers only.

California Workers' Compensation Projected Ultimate Losses Less Reported Losses at Successive December 31 Evaluations



Note: The cost of medical cost containment programs is excluded from losses for accident years 2011 and subsequent and included in losses for all other accident years.

WCIRBCalifornia®

Objective. Trusted. Integral.

1221 Broadway, Suite 900
Oakland, CA 94612

Voice 415.777.0777

Fax 415.778.7007

www.wcirb.com

wcirb@wcirb.com