

2019 State of the System

The Workers' Compensation Insurance Rating Bureau of California
Report on California's Workers' Compensation System

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Introduction

The California workers' compensation insurance system is more than 100 years old. The system involves more than 500 insurance companies providing coverage to nearly 700,000 businesses and delivering medical and wage replacement benefits to almost 800,000 injured workers annually. The Workers' Compensation Insurance Rating Bureau of California (WCIRB), which was established in 1915, is a licensed rating organization for workers' compensation and is the California Insurance Commissioner's designated statistical agent. As such, the WCIRB monitors the health of the workers' compensation insurance system and makes its data and analyses available to system stakeholders and public policymakers.

This report summarizes the state of the California workers' compensation insurance system as of mid-2019. In the report, we highlight the cost of workers' compensation based on premiums paid by California insured employers and how those costs are distributed. We also summarize various key system cost drivers, such as the frequency and average cost of claims. Finally, we provide a summary of insurer combined loss and expense ratios and returns on equity over time. Throughout the report, and where appropriate, we compare various components of the California system to those of other states. More detailed information on the sources and basis of each of the charts shown in this report can be found in the "More Info" section of this report beginning on Page 69. **The detailed data underlying these charts (in Excel format) is also available on the WCIRB's website or by [CLICKING HERE](#).**

Report Summary: 2019 State of the System

▪ Premium Levels Declining

- Continued rate decreases more than offsetting economic growth

▪ Insurance Market Healthy

- Non-concentrated market
- Rates continuing to decrease but remain among highest in the nation

▪ Cost Drivers

- Cumulative trauma claim frequency increasing in Los Angeles Basin and San Diego
- Severity declines moderating and severities beginning to turn upward
- Claim closing rates continuing to increase
- Loss adjustment expenses remain highest in nation
- Los Angeles Basin still significantly more costly than other regions

▪ Stable Combined Ratios and Favorable Industry Results

▪ Recent Legislation Continues to Drive Rate Decreases

- Reforms since 2012 saving \$3 billion annually
- Significant savings to liens, spinal surgeries and pharmaceutical costs

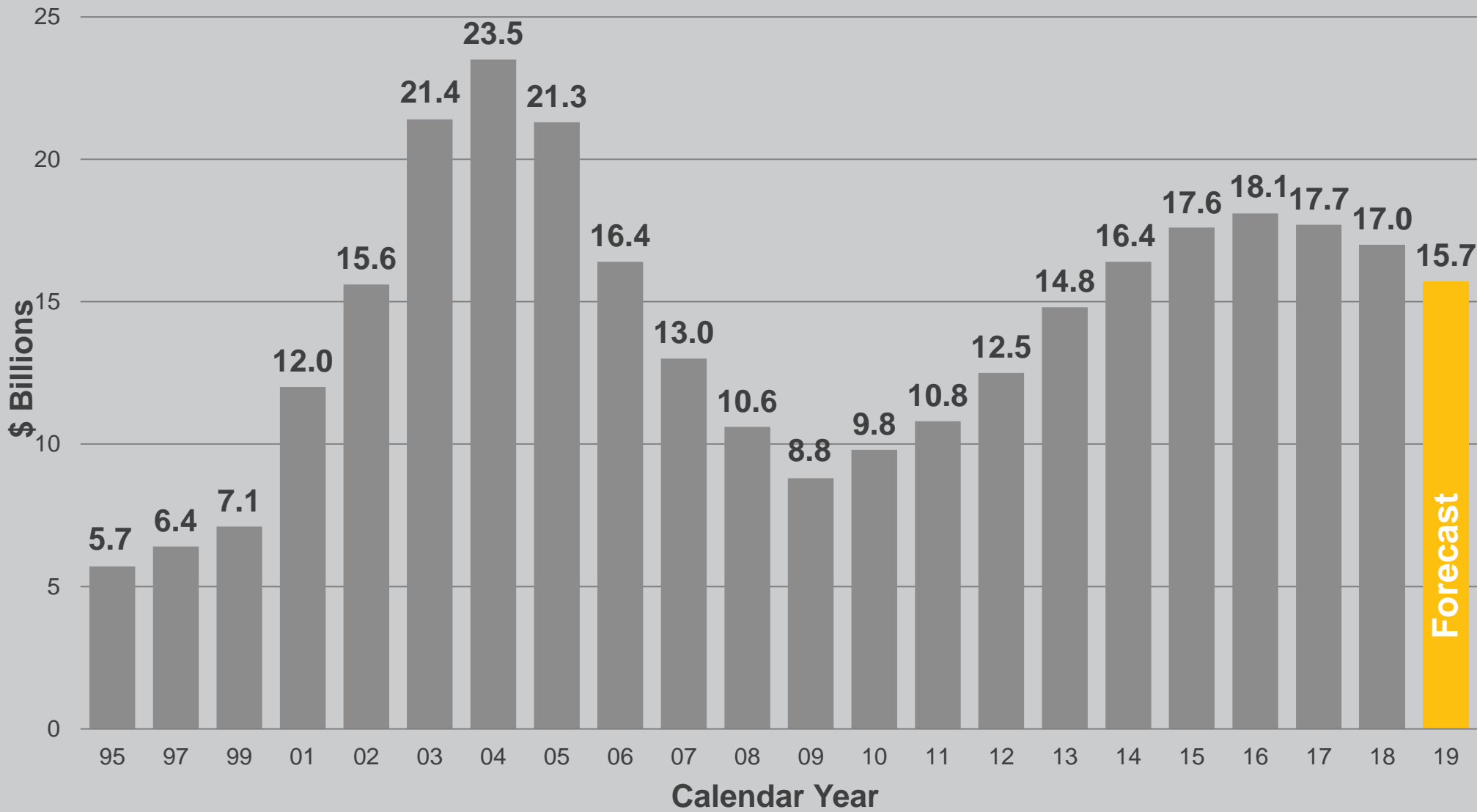
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Employer Costs

01

Chart 1: Reported Written Premium



Insights and Recent Trends

- Premiums dropped in 2017 and 2018 after 7 years of increases due to declining insurer rates more than offsetting payroll growth
- With insurer rates continuing to decrease ([Chart 3](#)), premium in 2019 is forecast to be 8% lower than 2018

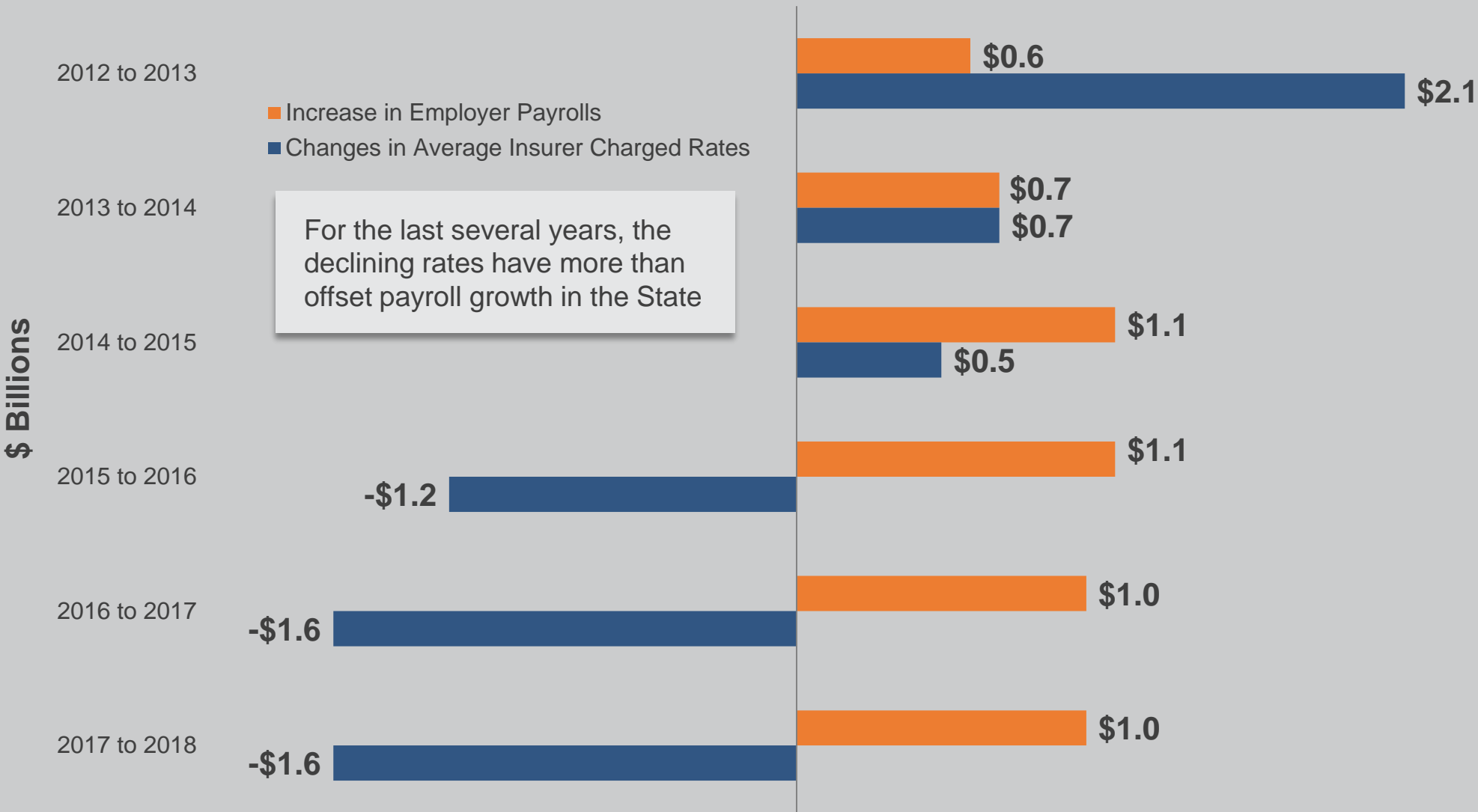


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01
Employer Costs

Chart 2: Drivers of Written Premium Changes



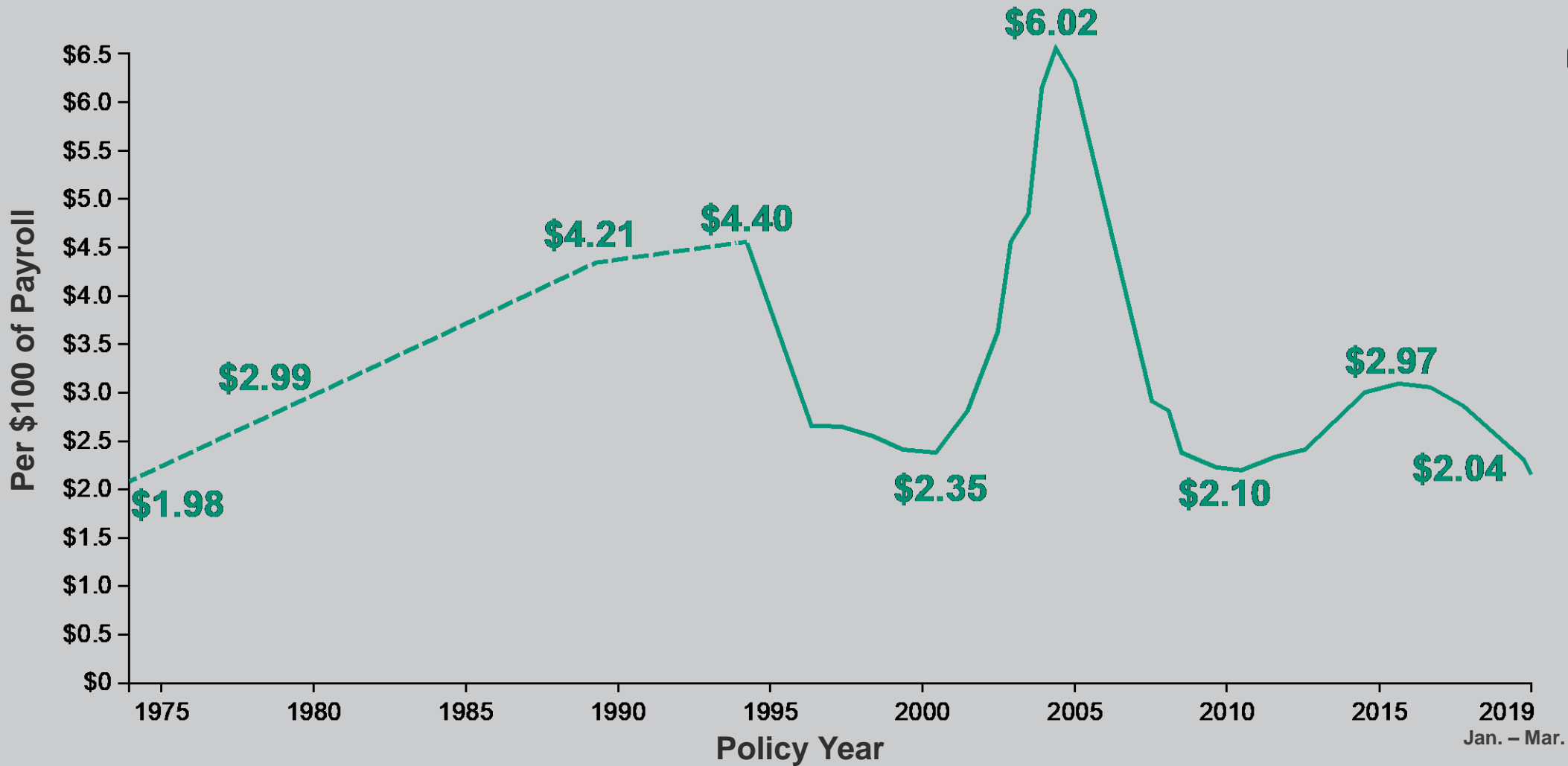
Insights and Recent Trends

- While increases in insurer rates along with payroll growth were driving premium growth through 2015, recent rate decreases have significantly reduced premium
- Continued increases in the workforce and in average wage levels have been more than offset by insurer rate decreases, resulting in premium declines in 2017 and 2018



More Info →

Chart 3: Average Charged Rate per \$100 of Payroll



Insights and Recent Trends

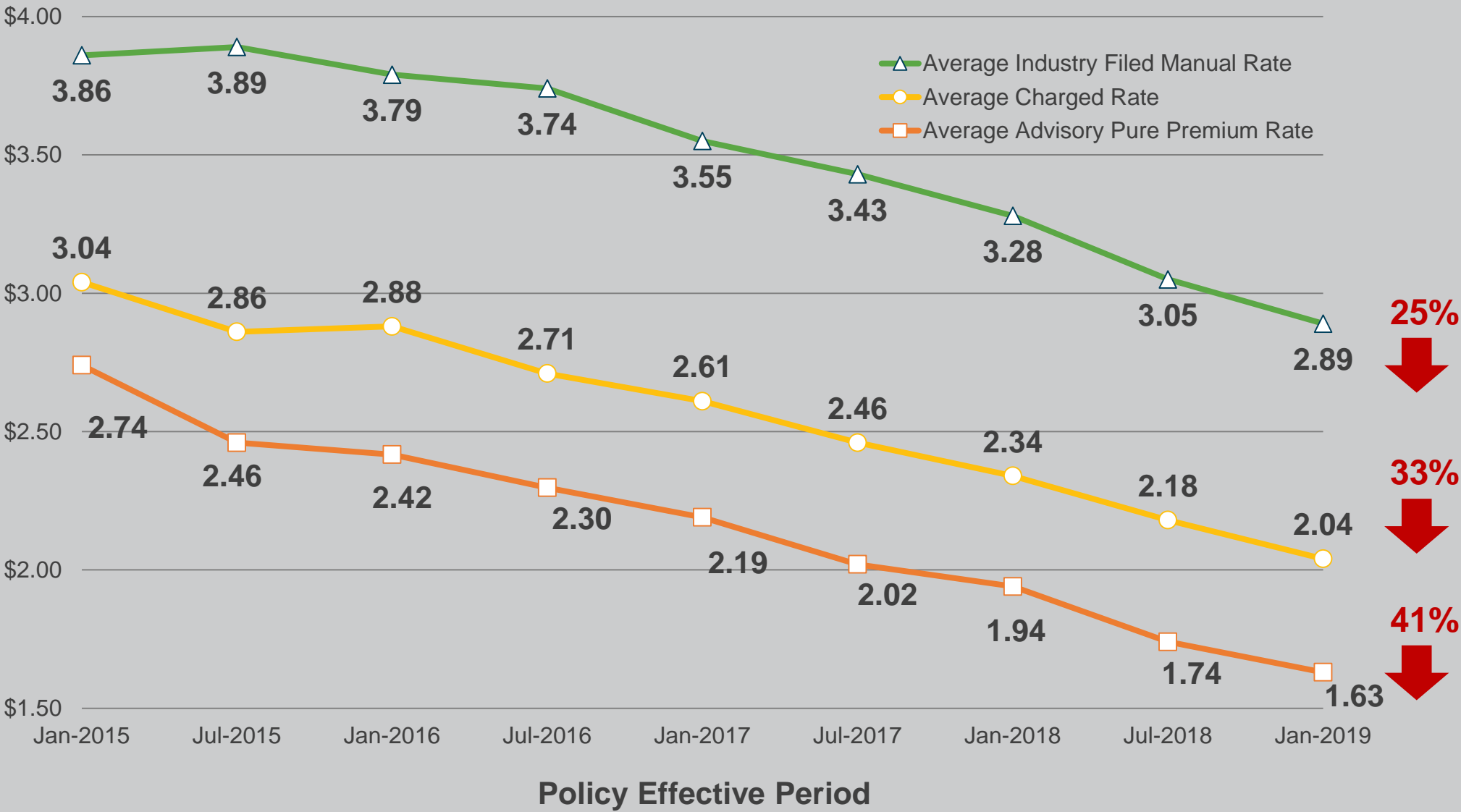
- Average insurer rates are down a third since 2015 and two-thirds since 2003
- Current charged rates are at the lowest level in a decade and are lower than rates charged since the mid-1970s, as long-term declining claim frequency and increasing wage levels have offset long-term increases in medical costs
- Average charged rates are likely to continue to decline in the near-term as average advisory pure premium rates have continued to decrease and changes in charged rates often lag changes in advisory pure premium rates ([Chart 4](#))



More Info



Chart 4: Changes in Average Rates Since 2015



Insights and Recent Trends

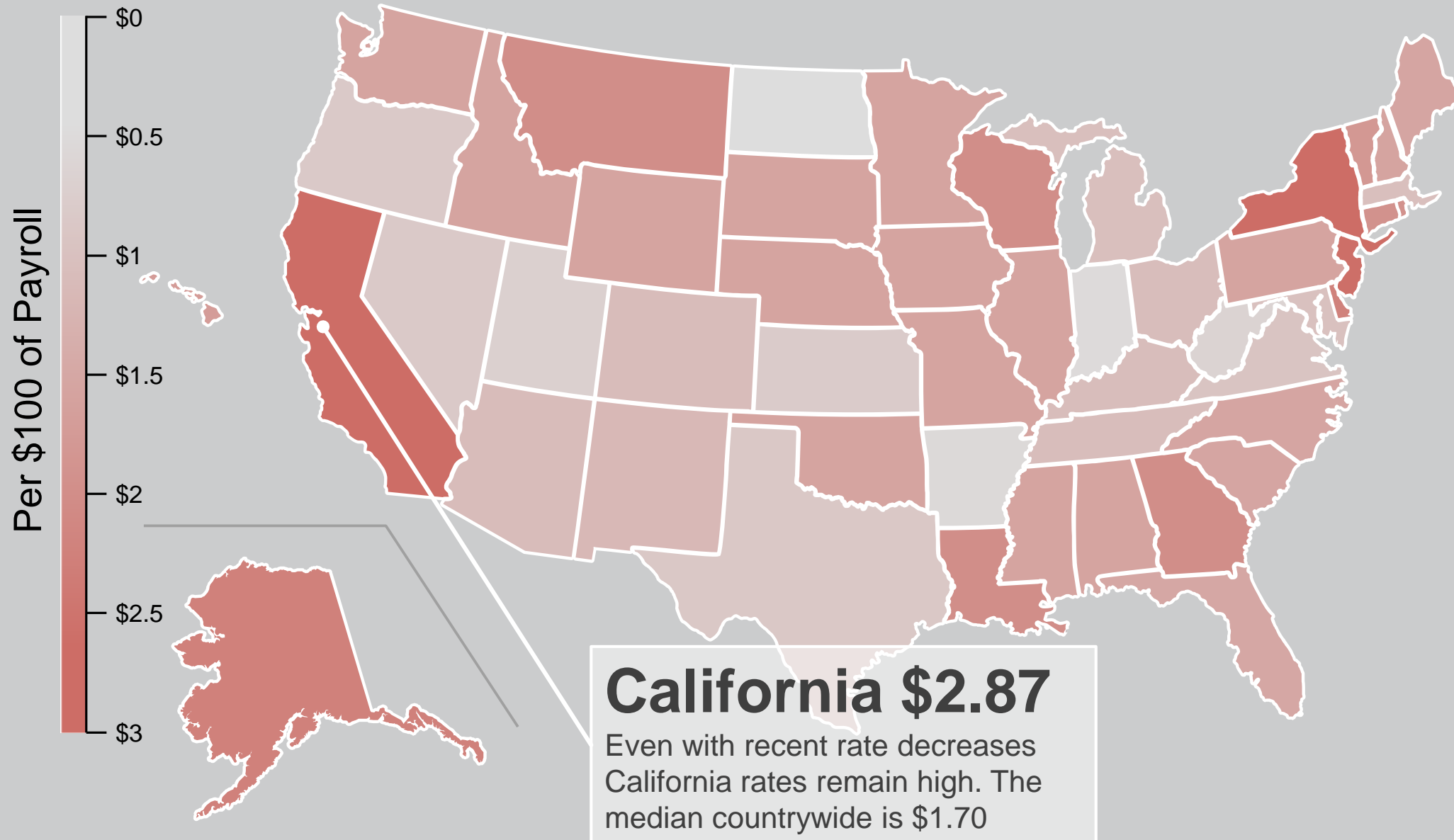
- The Insurance Commissioner has approved 8 consecutive advisory pure premium rate decreases since 2015 totaling 41%
- Declines in average charged rates have followed the Insurance Commissioner’s approved decreases in advisory pure premium rates
- Average manual rates are significantly above the rates charged to employers indicating that insurers are, on average, applying significant pricing discounts to their filed rates



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Chart 5: Rate Comparison by State Based on Oregon Studies



Insights and Recent Trends

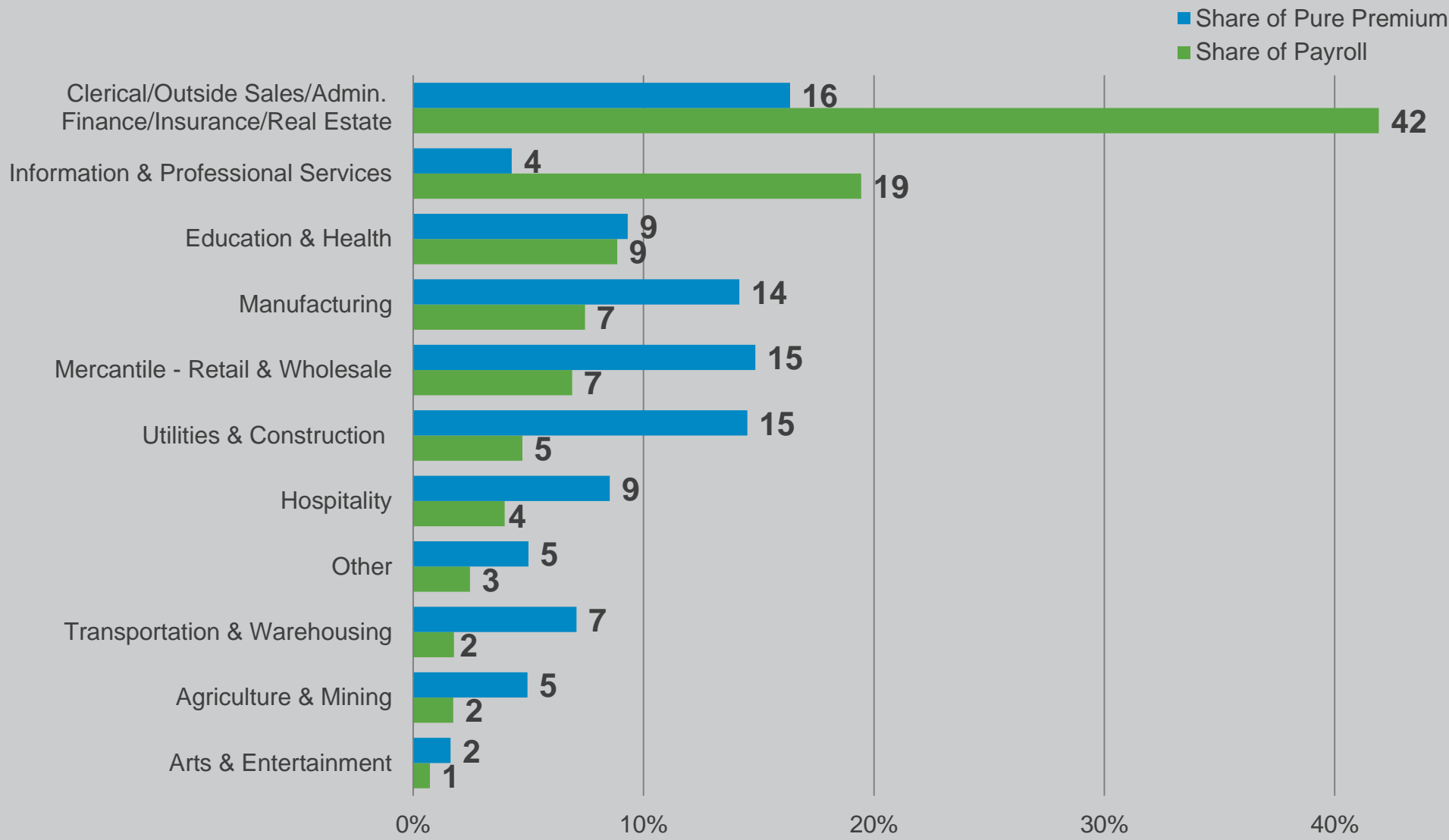
- After being the state with the highest rates in the country for a number of years, recent rate declines have moved California from the top spot in 2018
- California rates still remain high and are well above the national median shown in the Oregon study
- California's rates are largely driven by:
 - High frequency of permanent disability claims ([Chart 18](#))
 - A more prolonged pattern of medical treatments ([Chart 32](#))
 - Much higher-than-average costs of handling claims and delivering benefits ([Chart 42](#))



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Chart 6: Distribution of Costs by Industrial Sector



Insights and Recent Trends

- With California’s diverse economy, no industrial sector grouping generates more than 16% of statewide advisory pure premium
- The distribution of payroll and pure premium by industry has not shifted significantly over the last few years
- The “white collar” type sectors comprise the majority of statewide payroll but a small share of pure premium
- The Utilities and Construction sectors comprise only 5% of statewide payroll but triple the share of pure premium, as rates for these sectors are higher



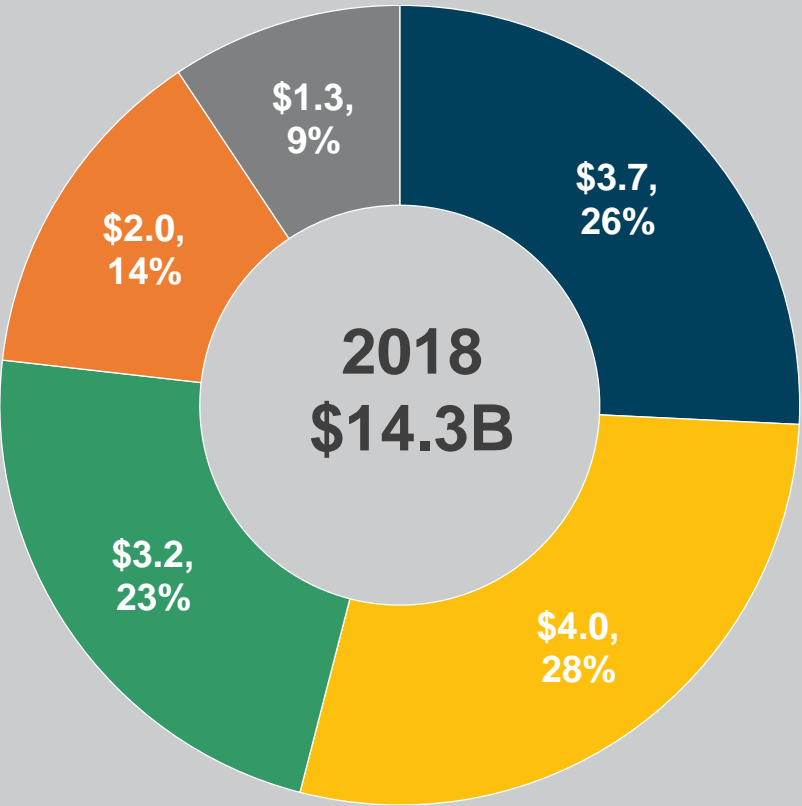
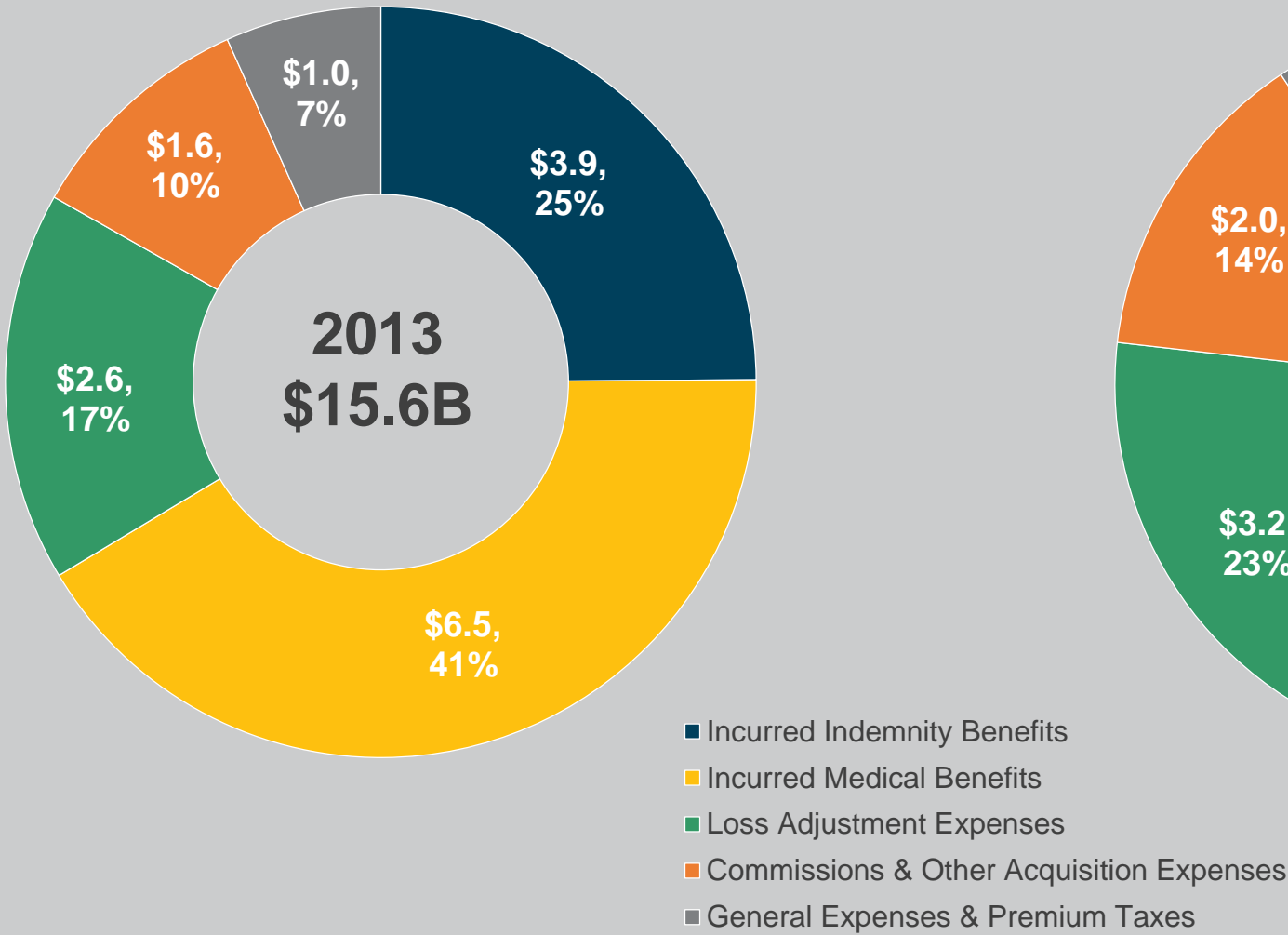
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Cost Distributions

02

Chart 7: Distribution of Insured System Costs



Insights and Recent Trends

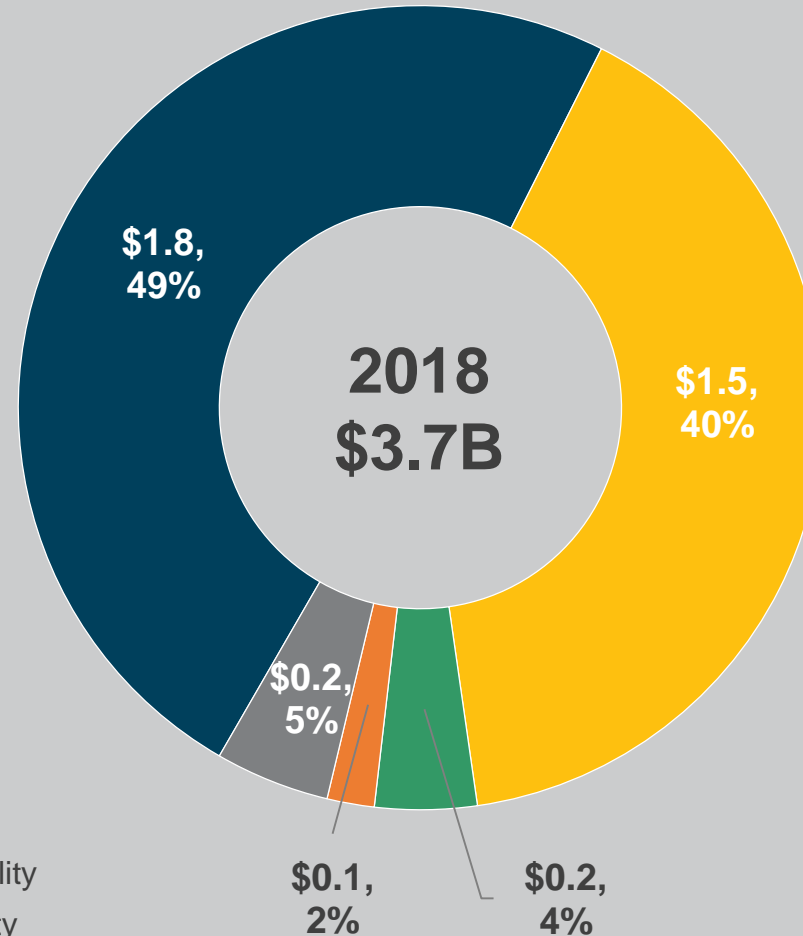
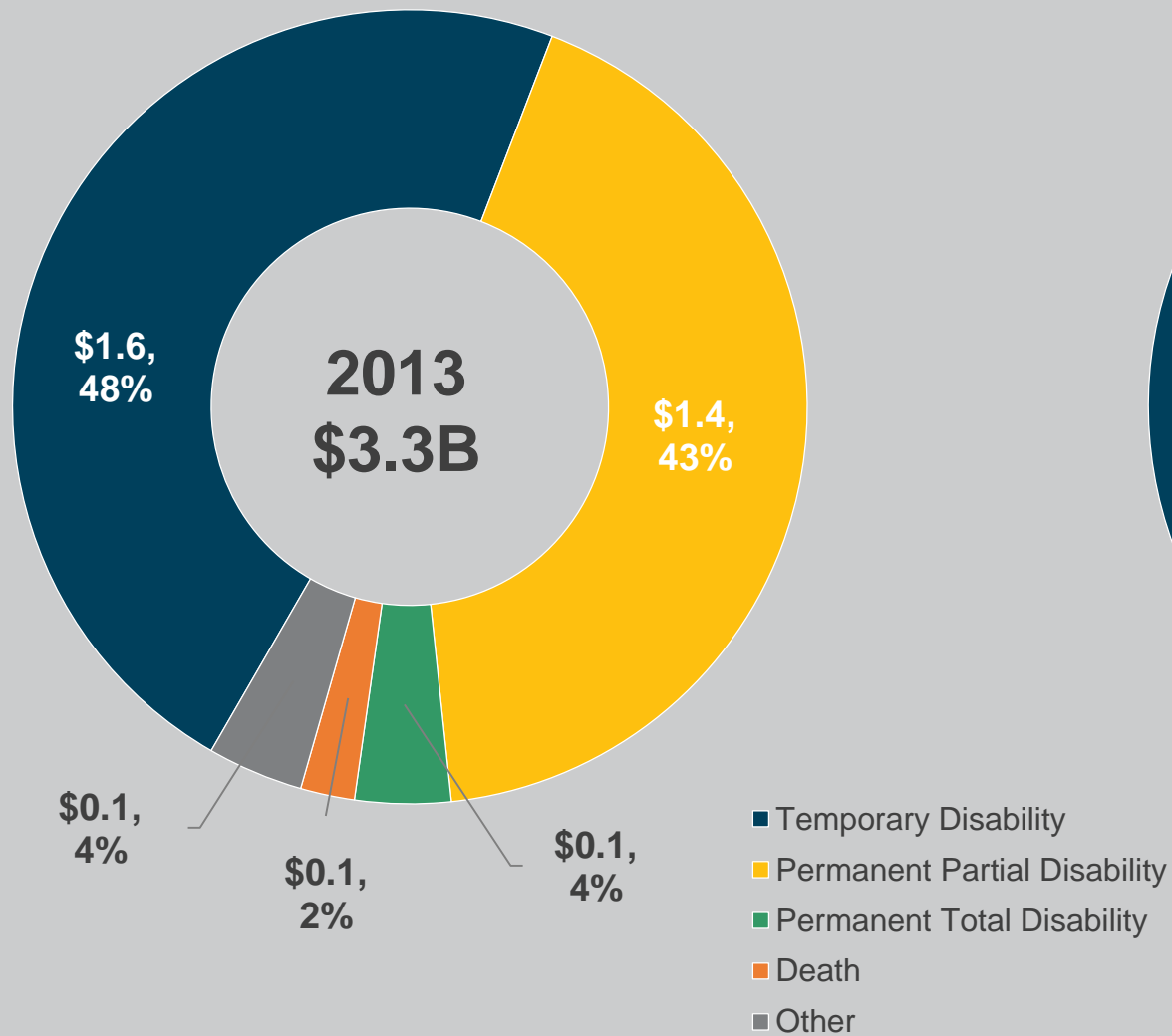
- With recent reforms including SB 863 and SB 1160, medical benefits’ share of total costs declined by 13 points since 2013
- Although SB 863 increased permanent disability benefits, indemnity benefits’ share of total costs remained relatively consistent since 2013
- Total loss adjustment expenses increased by \$0.6 billion since 2013 and comprise almost one-quarter of all costs in 2018



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Chart 8: Distribution of Paid Indemnity Benefits



Insights and Recent Trends

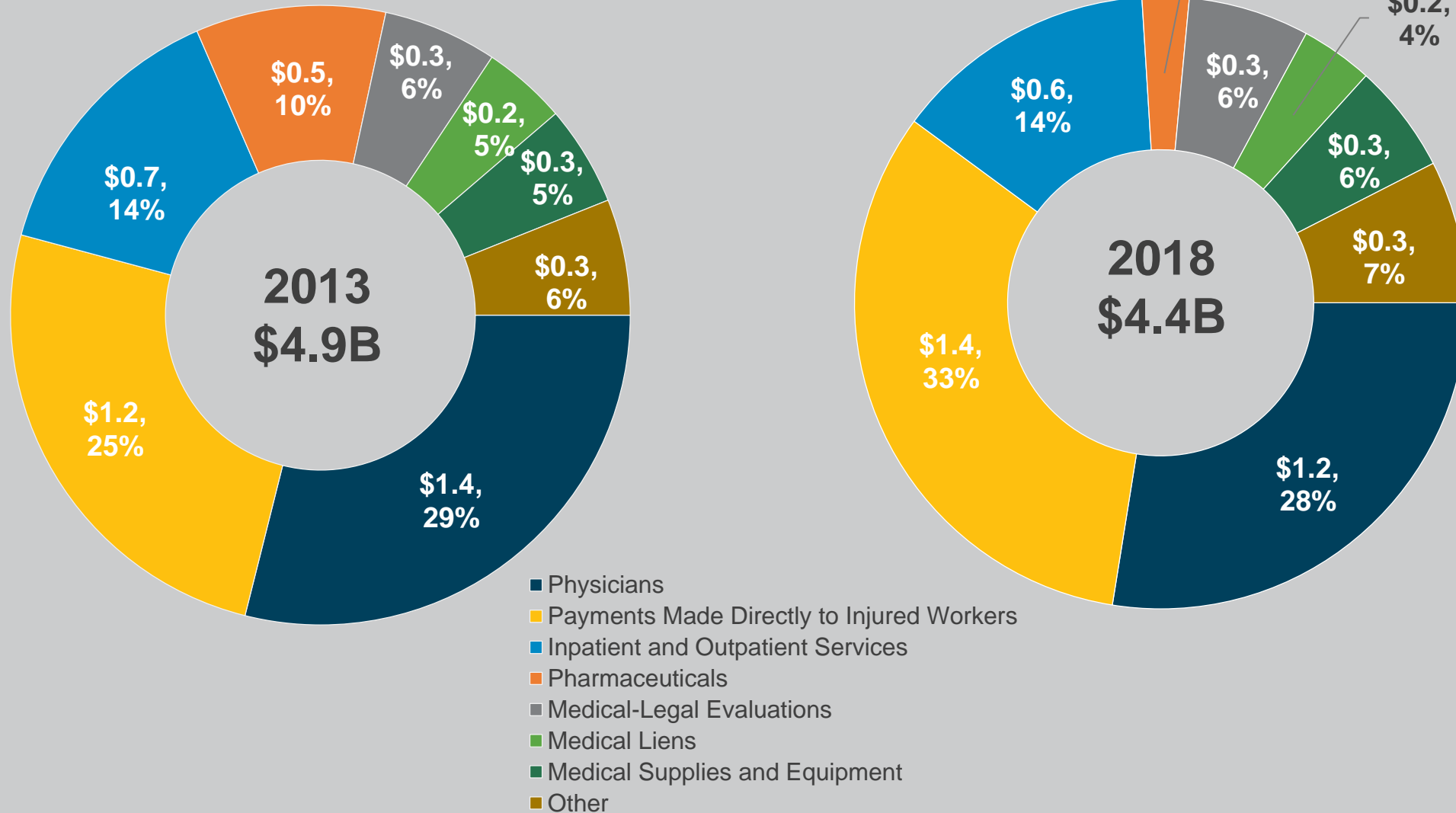
- Temporary disability and permanent partial disability benefits comprise 90% of indemnity benefits
- The share of indemnity benefits for permanent partial disability decreased modestly from 2013 to 2018



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Chart 9: Distribution of Paid Medical Benefits



Insights and Recent Trends

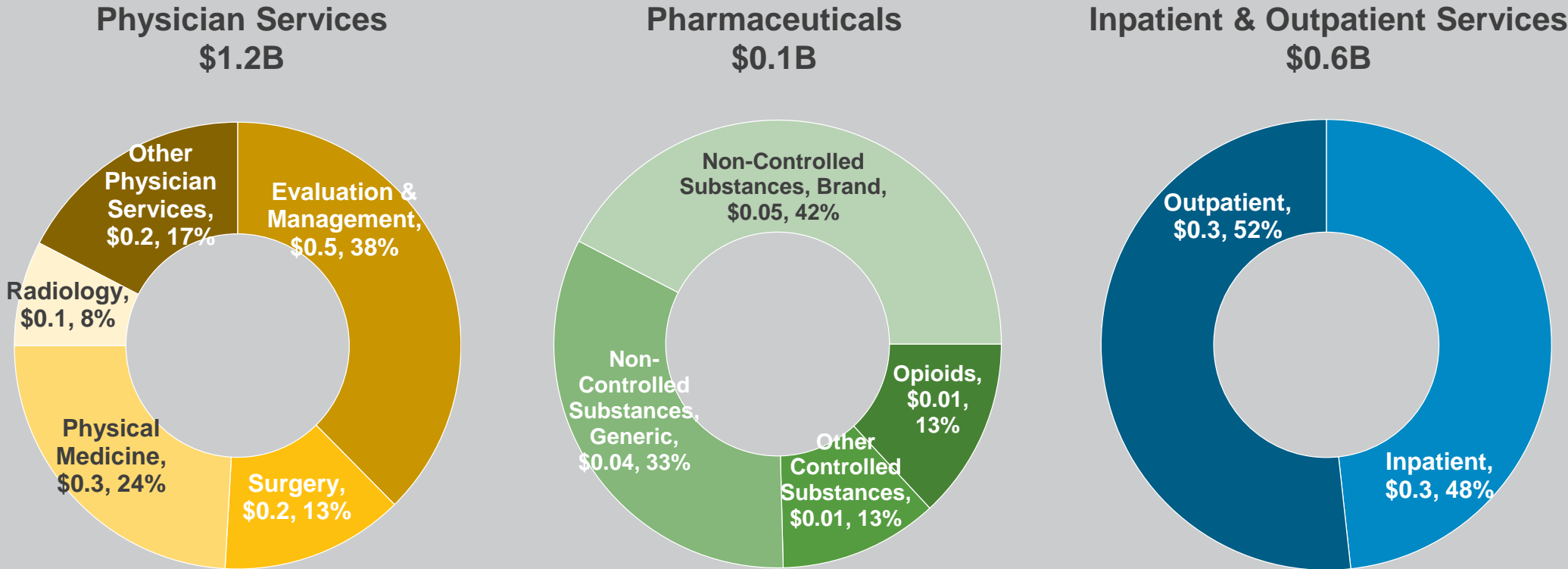
- Payments for pharmaceuticals decreased 75% since 2013
- Payments made directly to injured workers, which are primarily for future medical services, increased due in part to acceleration in claim settlement rates ([Chart 35](#))
- The shares of medical costs in other categories remained relatively consistent between 2013 and 2018



More Info



Chart 10: Distribution of 2018 Paid Medical by Category



Insights and Recent Trends

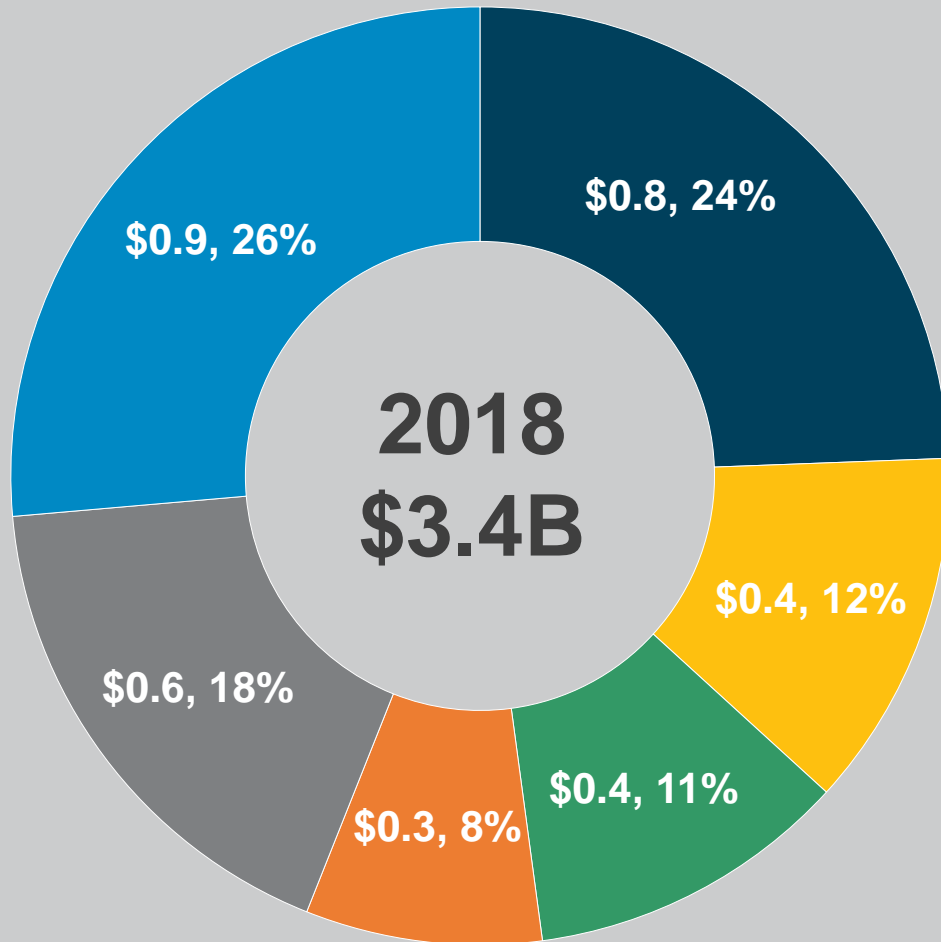
- Payments for evaluation and management and physical medicine services represent over 60% of all physician services payments in 2018
- Three-quarters of pharmaceutical payments were for non-controlled substances
- Opioid payments continue to shrink and comprise 13% of all pharmaceutical costs in 2018
[\(Chart 29\)](#)



More Info



Chart 11: Distribution of 2018 Paid Frictional Costs



- Defense Attorney Expenses
- Medical Cost Containment Program Costs
- Applicant Attorney Fees
- Medical-legal Costs
- Other Allocated Loss Adjustment Expense Costs
- Unallocated Loss Adjustment Expenses



Insights and Recent Trends

- The majority of frictional costs paid are for the handling of claims and the resolving of disputes on claims
- The \$3.4 billion of frictional costs paid in 2018 exceeds the cost of paid indemnity benefits (after excluding applicant's attorney fees, which are typically reported in indemnity benefits)



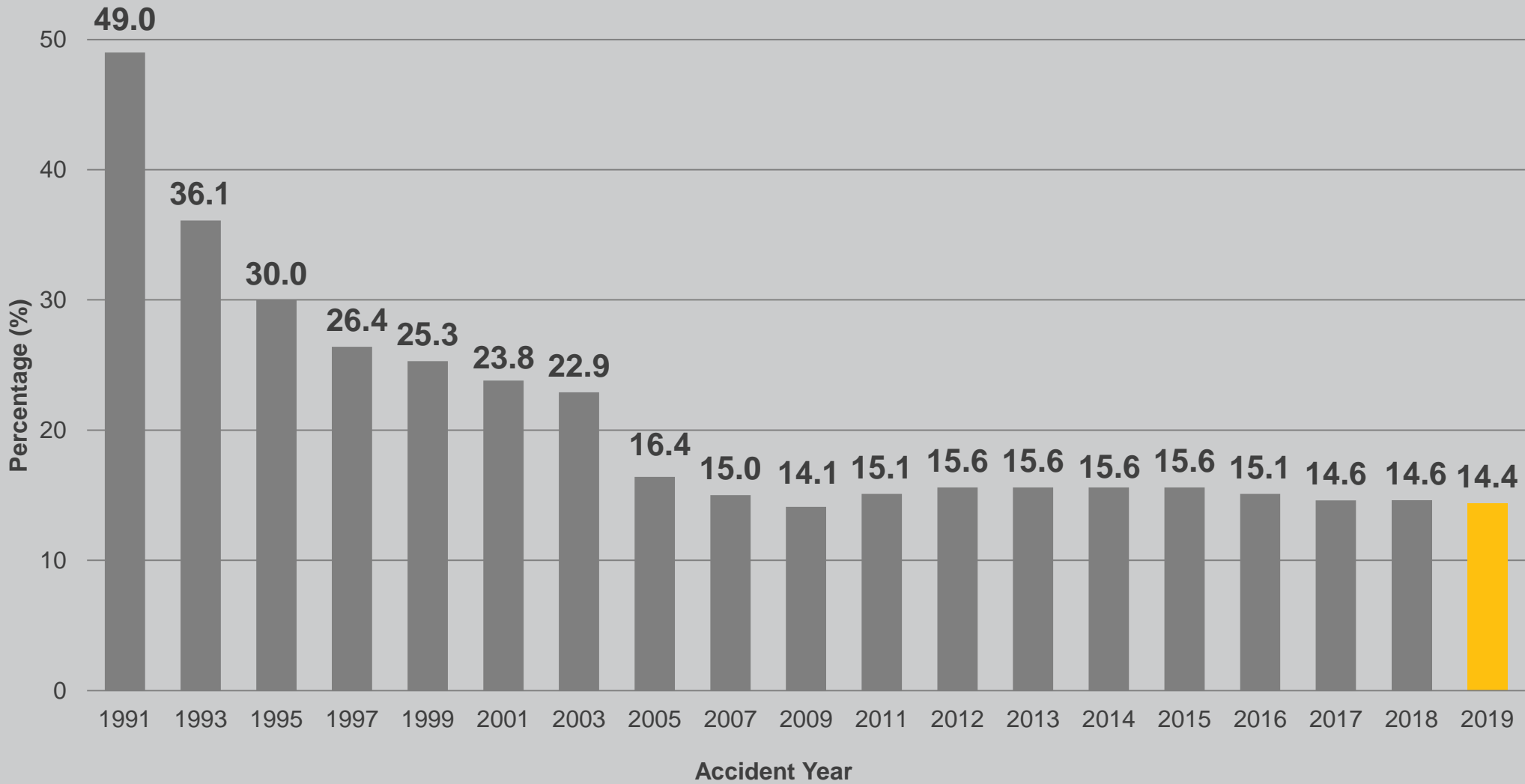
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Claim Frequency

03

Chart 12: Indemnity Claims per 1,000 Employees



Insights and Recent Trends

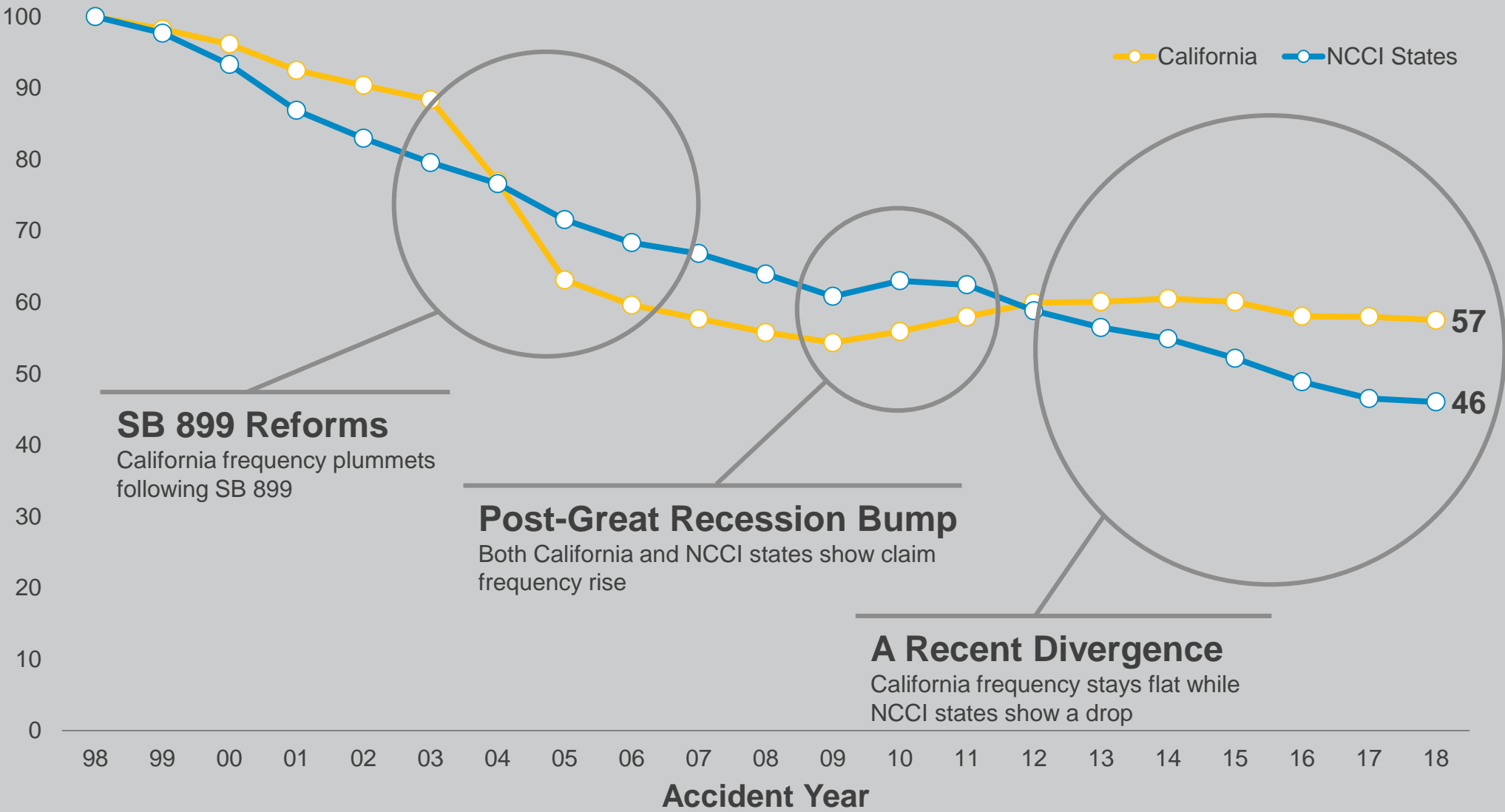
- Indemnity claim frequency experienced decades-long declines through 2009 due to:
 - California’s transition to a more service-based economy
 - Increased mechanization within industries
 - Greater attention to workplace safety
 - The impact of the 2002 through 2004 reforms on frequency
- Over the last several years, indemnity claim frequency has been relatively flat due to:
 - Moderation of some of the long-term transitional effects
 - Impact of the Great Recession
 - Increased cumulative trauma claim frequency in Southern California ([Chart 17](#))



More Info



Chart 13: Indemnity Claim Frequency Indexed to 1998



Insights and Recent Trends

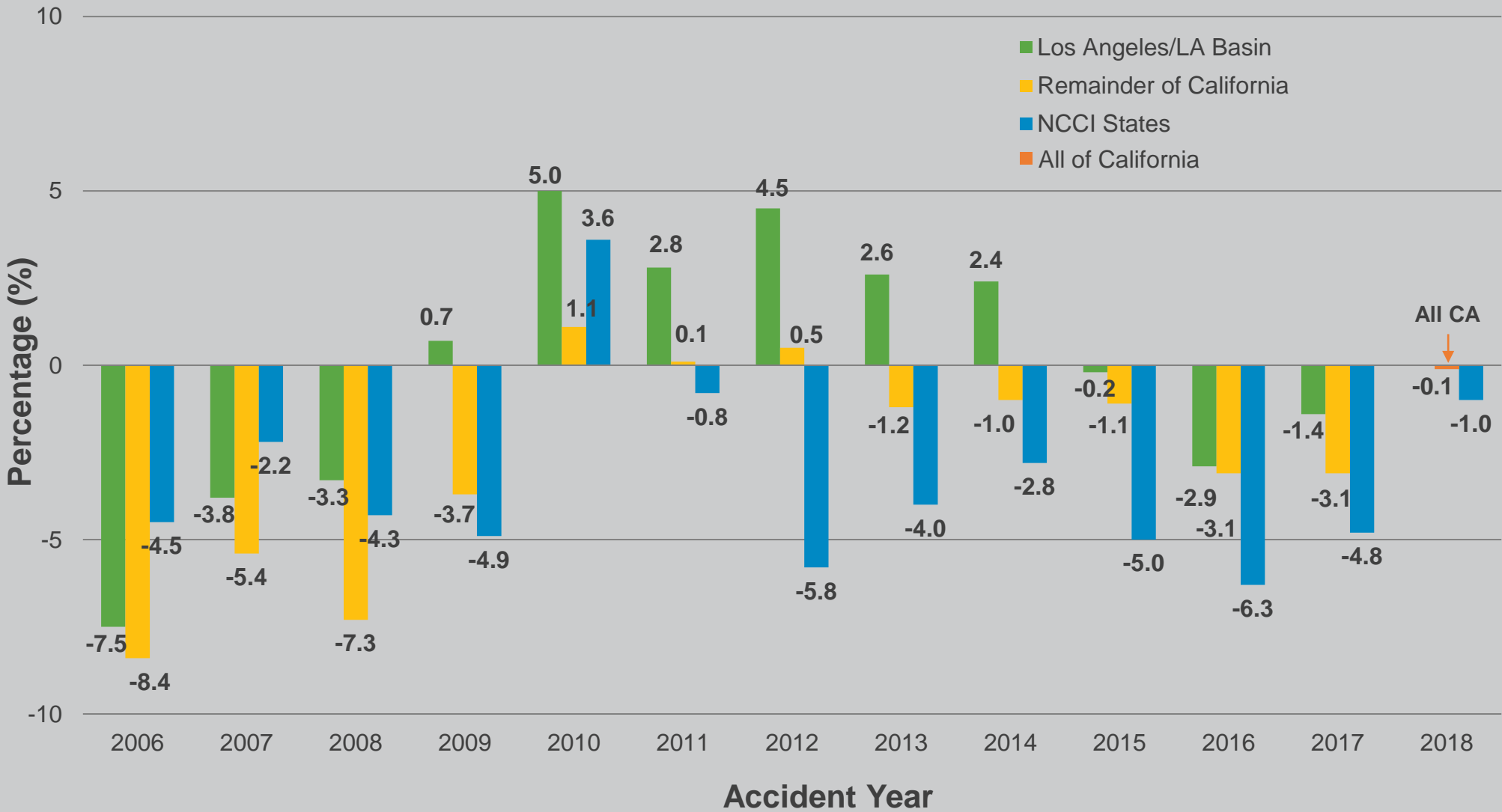
- Following the SB 899 reforms in 2004, California frequency plummeted, declining at a much greater rate than in NCCI states
- Both California and NCCI states showed a bump in frequency following the Great Recession
- California and NCCI states' frequency has recently diverged, as California has stayed relatively flat while NCCI states have returned to the historical rate of decline



More Info



Chart 14: Change in Indemnity Claim Frequency



Insights and Recent Trends

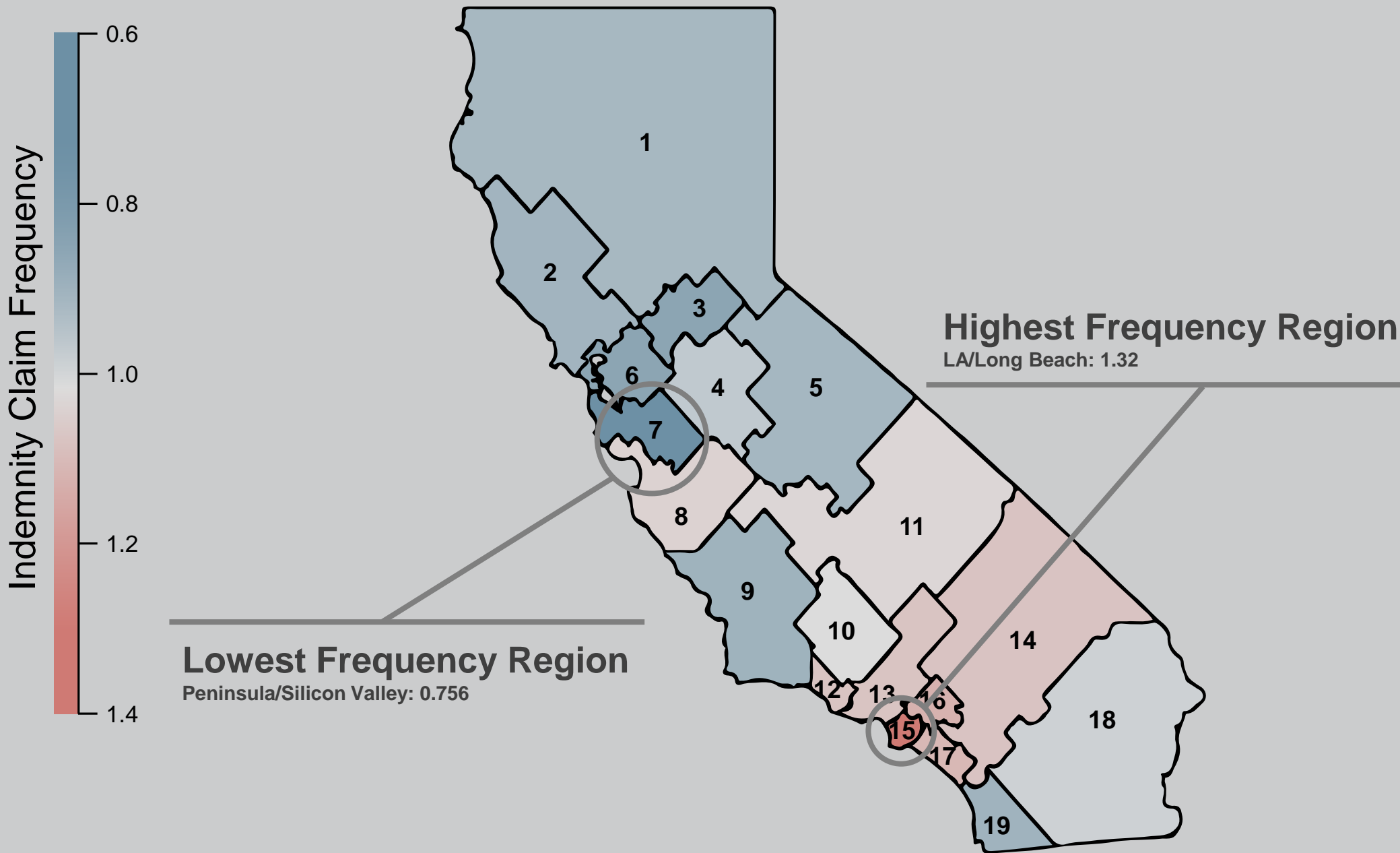
- Until recent years, California frequency changes had been generally comparable to those in NCCI states
- California’s flat-to-increasing frequency in 2011 through 2014 has been driven by increases in the Los Angeles Basin
- When excluding the Los Angeles Basin, California claim frequency shows decreases similar to NCCI states, though not as deep



More Info



Chart 15: Regional Differences in Indemnity Claim Frequency



Insights and Recent Trends

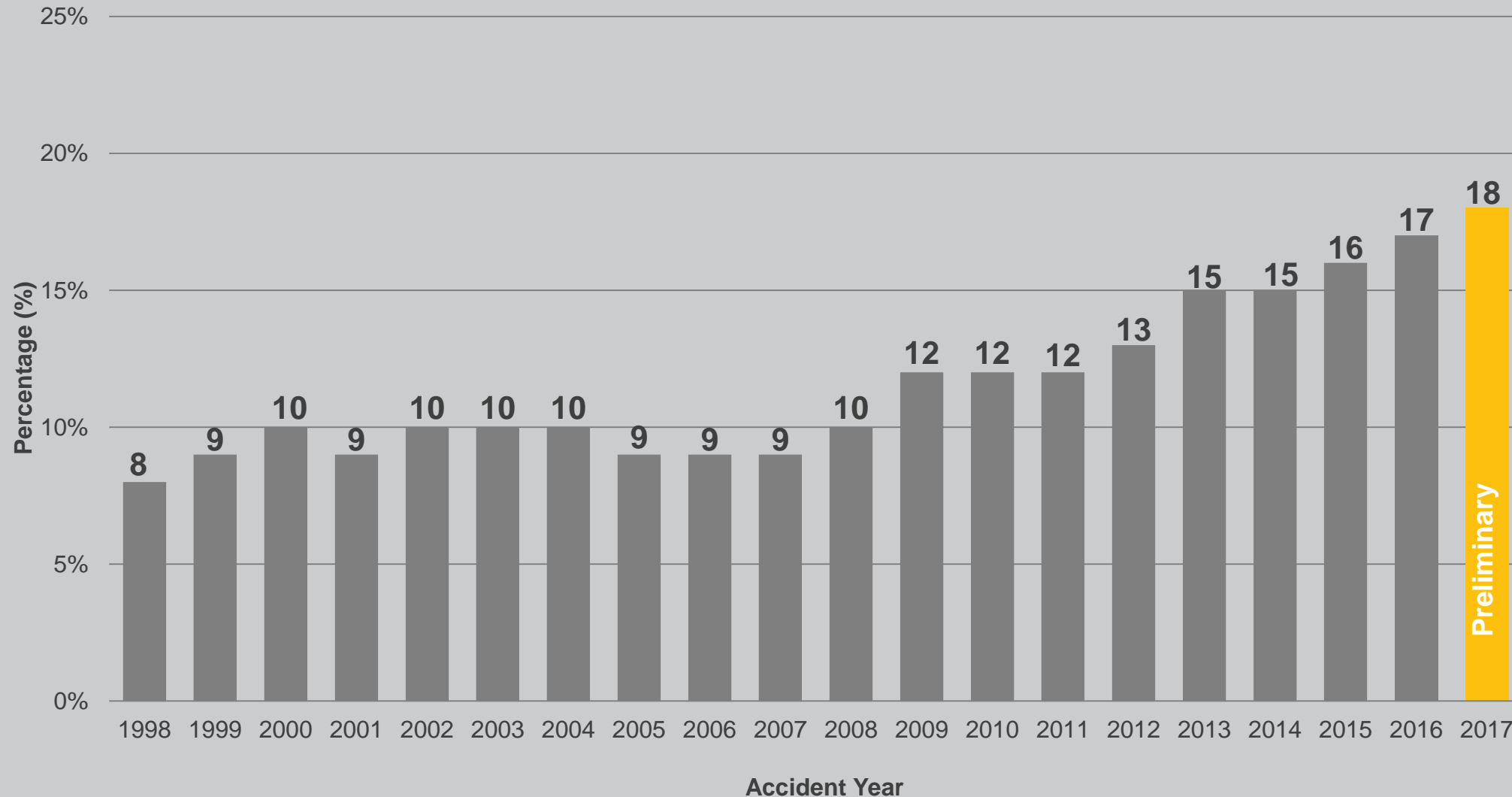
- There are significant differences in frequency rates across California, even after adjusting for regional differences in industrial mix and wage levels
- Relative frequency in the Los Angeles/Long Beach area is 75% higher than the Peninsula/Silicon Valley area



More Info



Chart 16: Percent of Indemnity Claims Involving Cumulative Trauma



Insights and Recent Trends

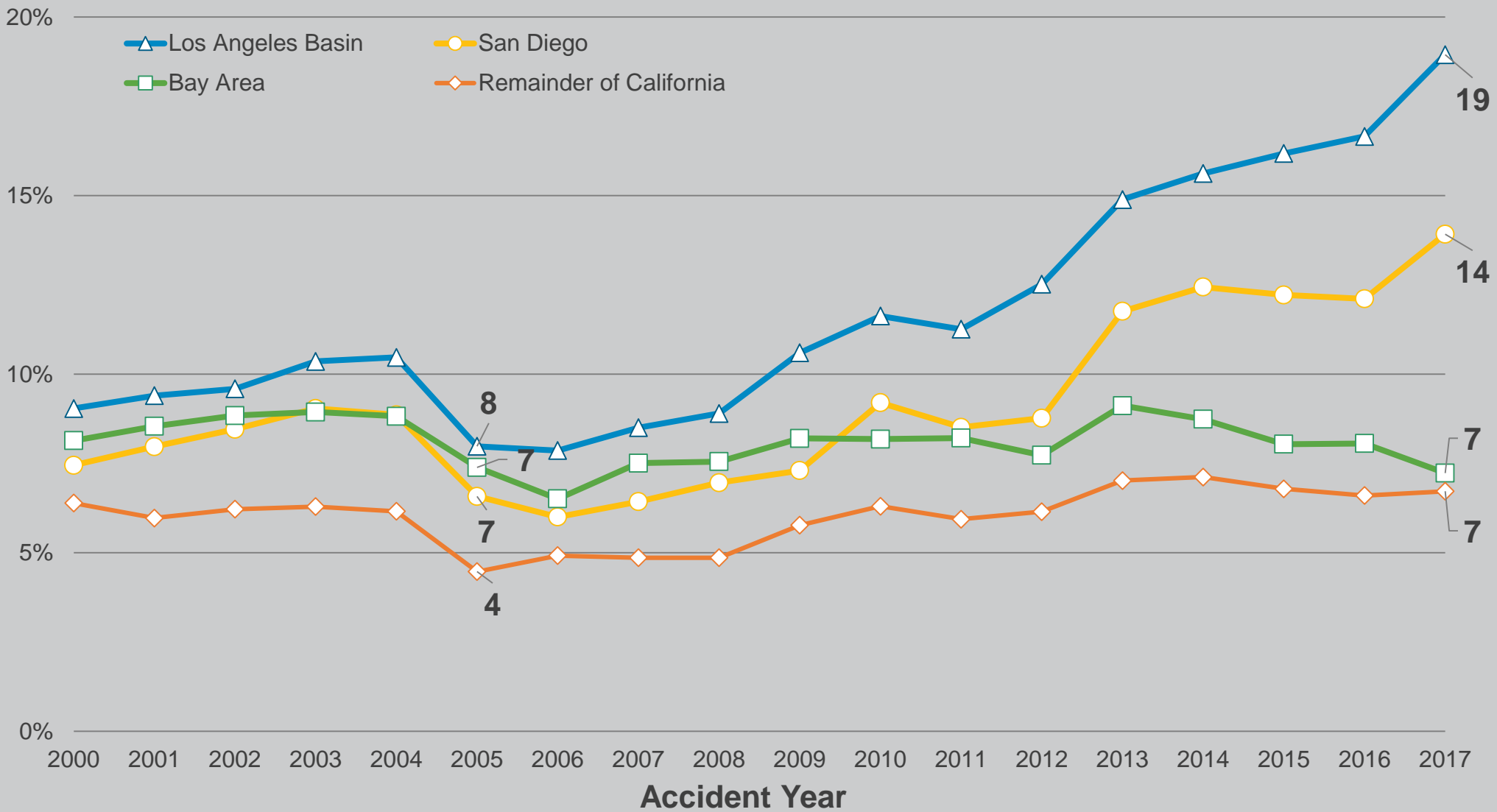
- Cumulative trauma (CT) rates doubled from 2006 to 2017
- CT claims are often filed much later than other claims, and an even greater proportion of CT claims have been filed later in recent years
- Additional CT claim statistics:
 - Almost 80% are in LA or San Diego
 - 90% involve representation of the injured worker
 - 40% are filed following the termination of the employee
 - Almost 75% are initially denied, at least in part



More Info



Chart 17: Percent of Cumulative Trauma Claims by Region



Insights and Recent Trends

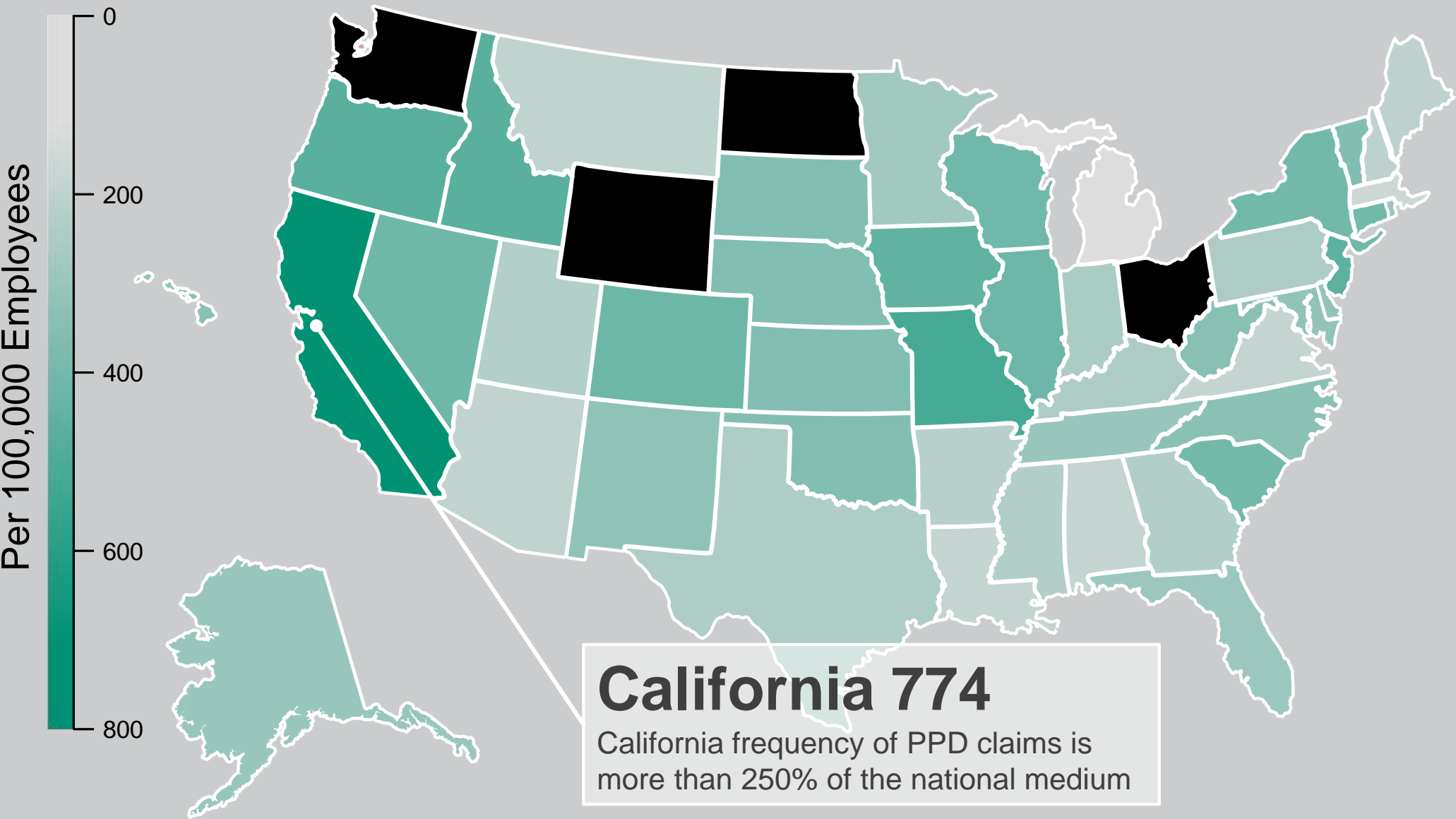
- All of the recent increases in CT claims have come from the Los Angeles Basin and San Diego areas
- The most significant CT claim frequency increases in these regions are from workers with weekly wages below \$500



More Info



Chart 18: Permanent Disability Claims per 100,000 Employees



Insights and Recent Trends

- California has by far the highest permanent partial disability claim frequency in the country, more than 250% of the national median
- California high frequency is not driven by industrial mix or the number of severe injuries, which are comparable to those from other lower-frequency states
- Permanent disability claim frequency is significantly higher in the Los Angeles Basin area



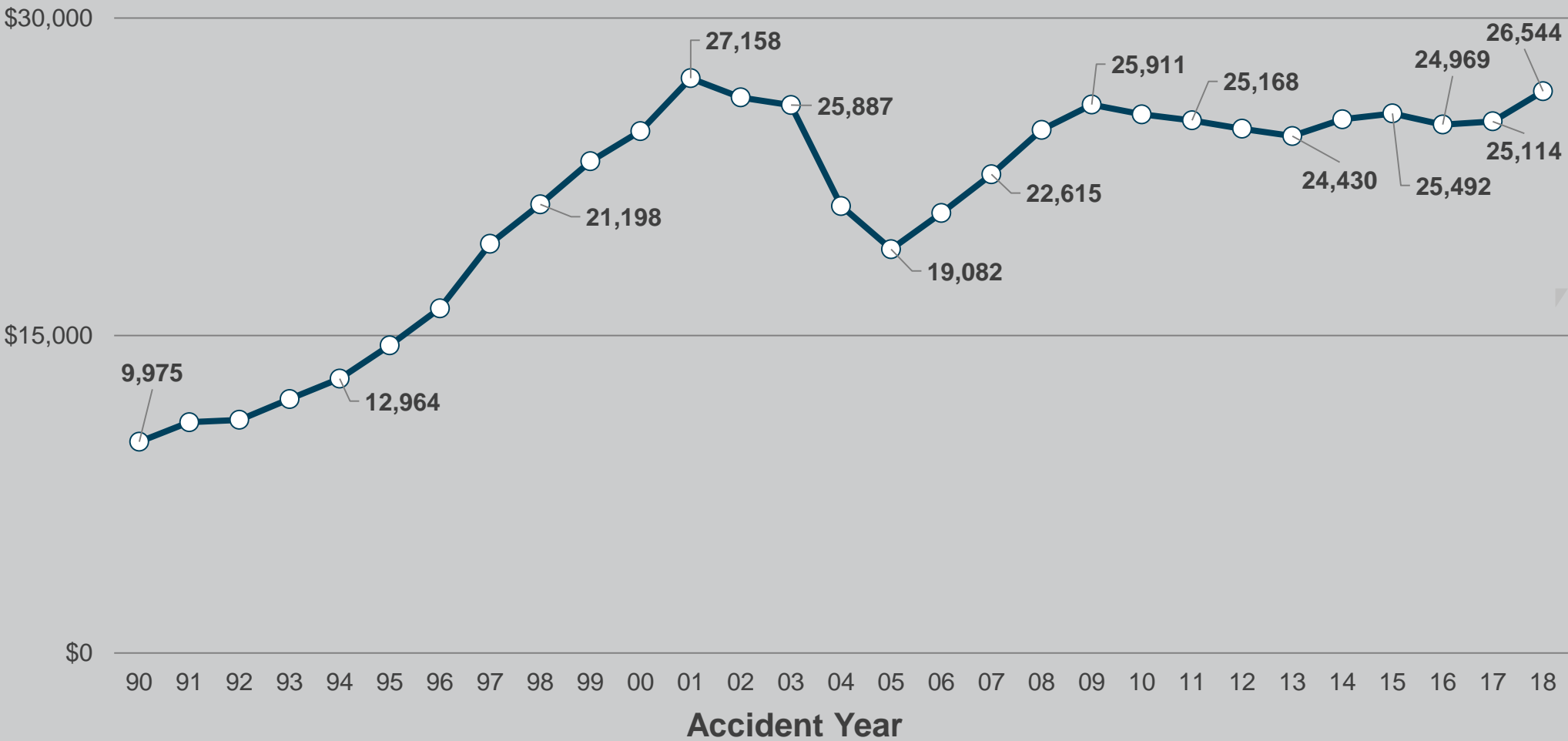
More Info



Claim Severity

04

Chart 19: Average Indemnity Cost per Indemnity Claim



Insights and Recent Trends

- From 2009 through 2012, indemnity costs declined in California and in other states, which was in part due to the Great Recession
- Since 2012, indemnity costs have been generally flat as increased claim settlement rates have reduced claim duration, offsetting increases in average wage levels
- Long-term growth in average indemnity costs has not been as sharp as growth in average medical costs ([Chart 23](#)) or allocated loss adjustment expenses ([Chart 39](#))



More Info



Chart 20: Change in Average Indemnity Cost per Indemnity Claim



Insights and Recent Trends

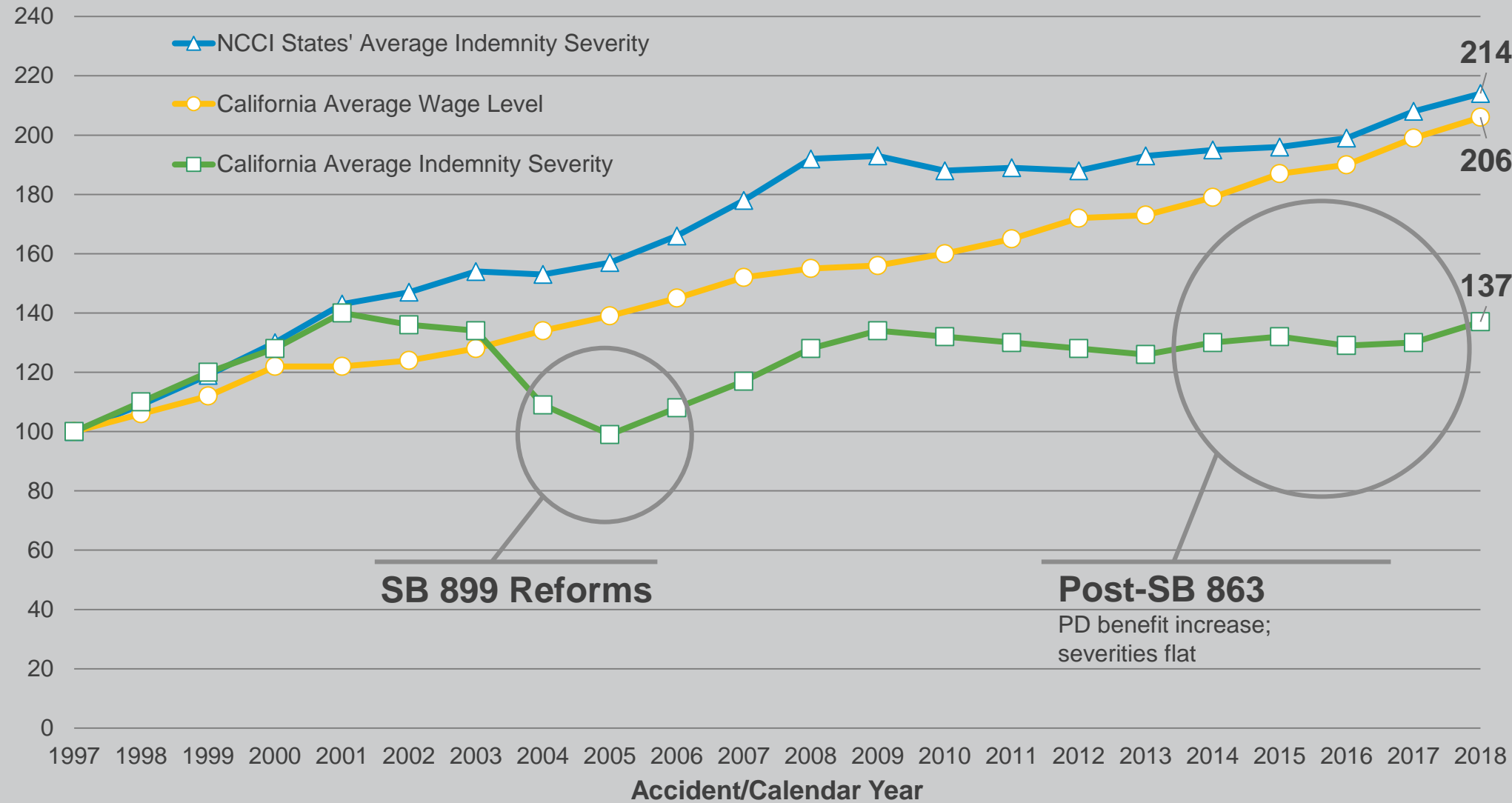
- Following the Great Recession in 2009 and other than the SB 863 increase in permanent disability benefits in 2014, California average indemnity severities have been flat up until 2018
- The recent flat indemnity severities have been driven by SB 863 and other reforms reducing temporary disability duration and acceleration in the settlement of permanent disability claims
- The 6% increase shown for 2018 is preliminary but may be indicative of shifting severity patterns



[More Info](#)



Chart 21: Indemnity Cost Level Indexed to 1997



Insights and Recent Trends

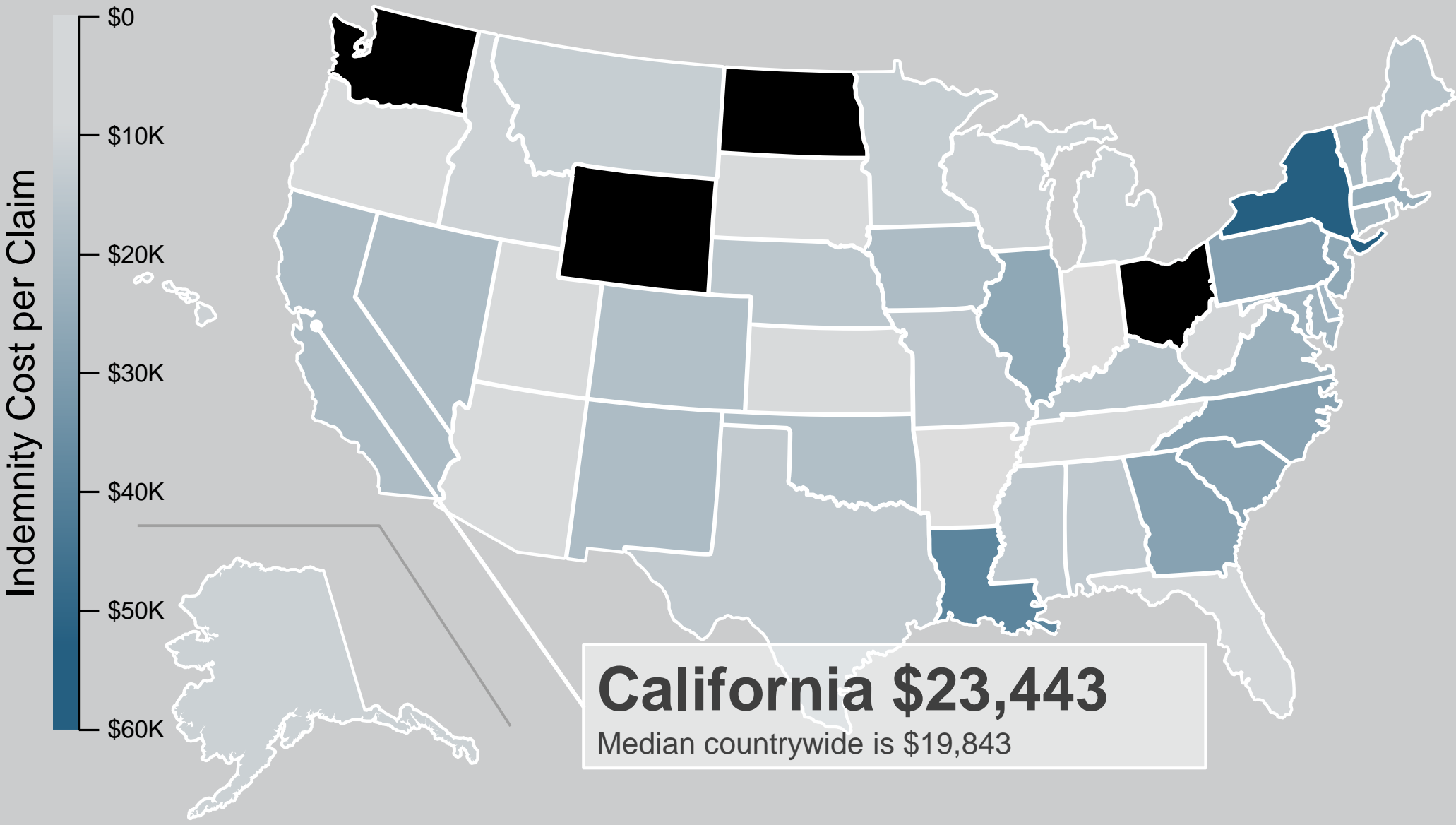
- California average indemnity costs diverged from NCCI states following the SB 899 reforms
- Following the Great Recession and SB 863, California indemnity severities have been flat while those for NCCI states have grown
- California average wages have increased steadily since 2010, while until 2018 California indemnity severities were relatively flat



[More Info](#)



Chart 22: Indemnity Cost per Indemnity Claim by State



Insights and Recent Trends

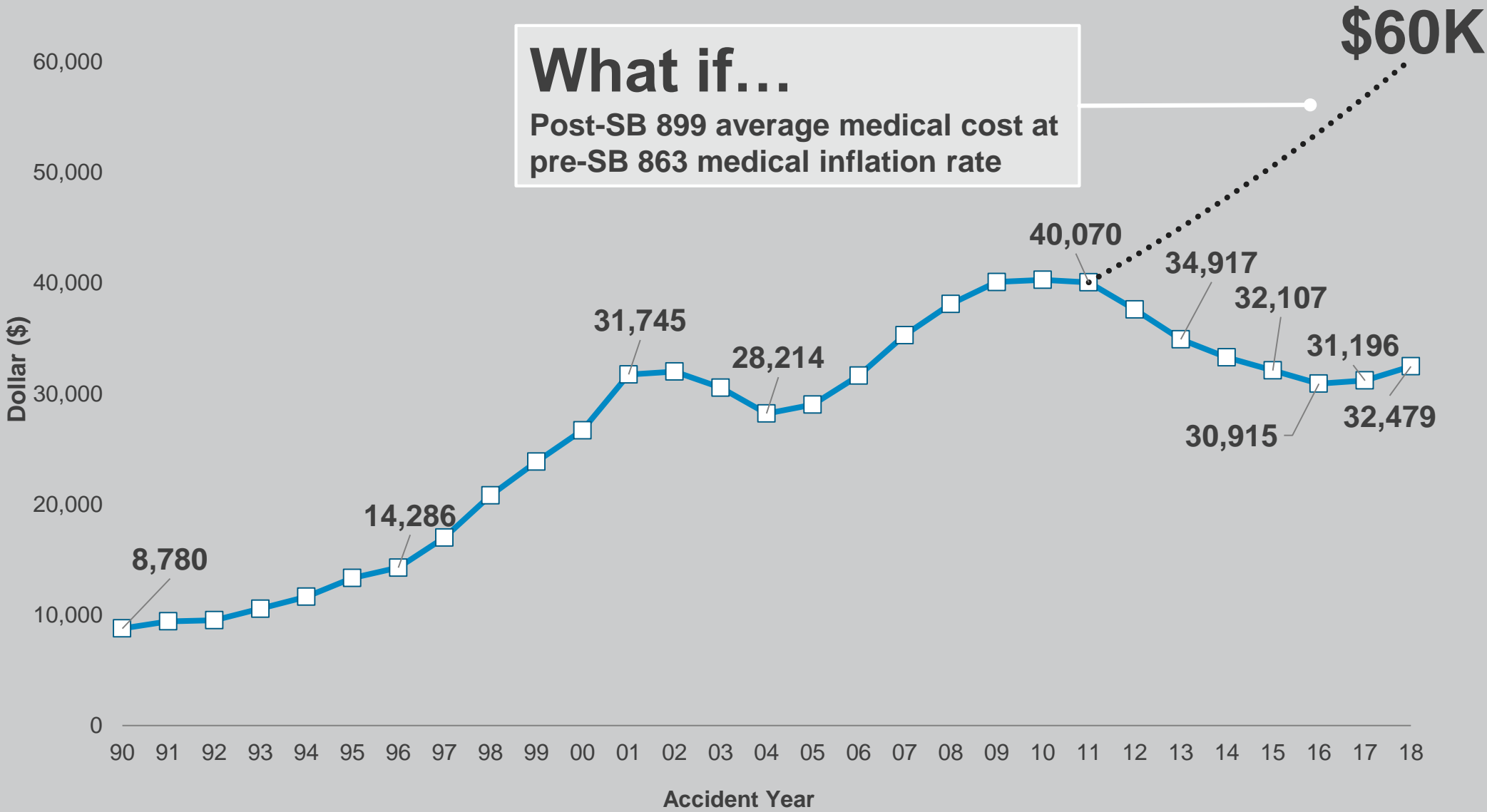
- Average indemnity costs in California are much more consistent with other states compared to other system components, but still 18% above the countrywide median
- Higher-than-average indemnity costs in California are largely driven by the high proportion of indemnity claims involving permanent disability ([Chart 18](#)) and high wage levels



More Info



Chart 23: Average Medical Cost per Indemnity Claim



Insights and Recent Trends

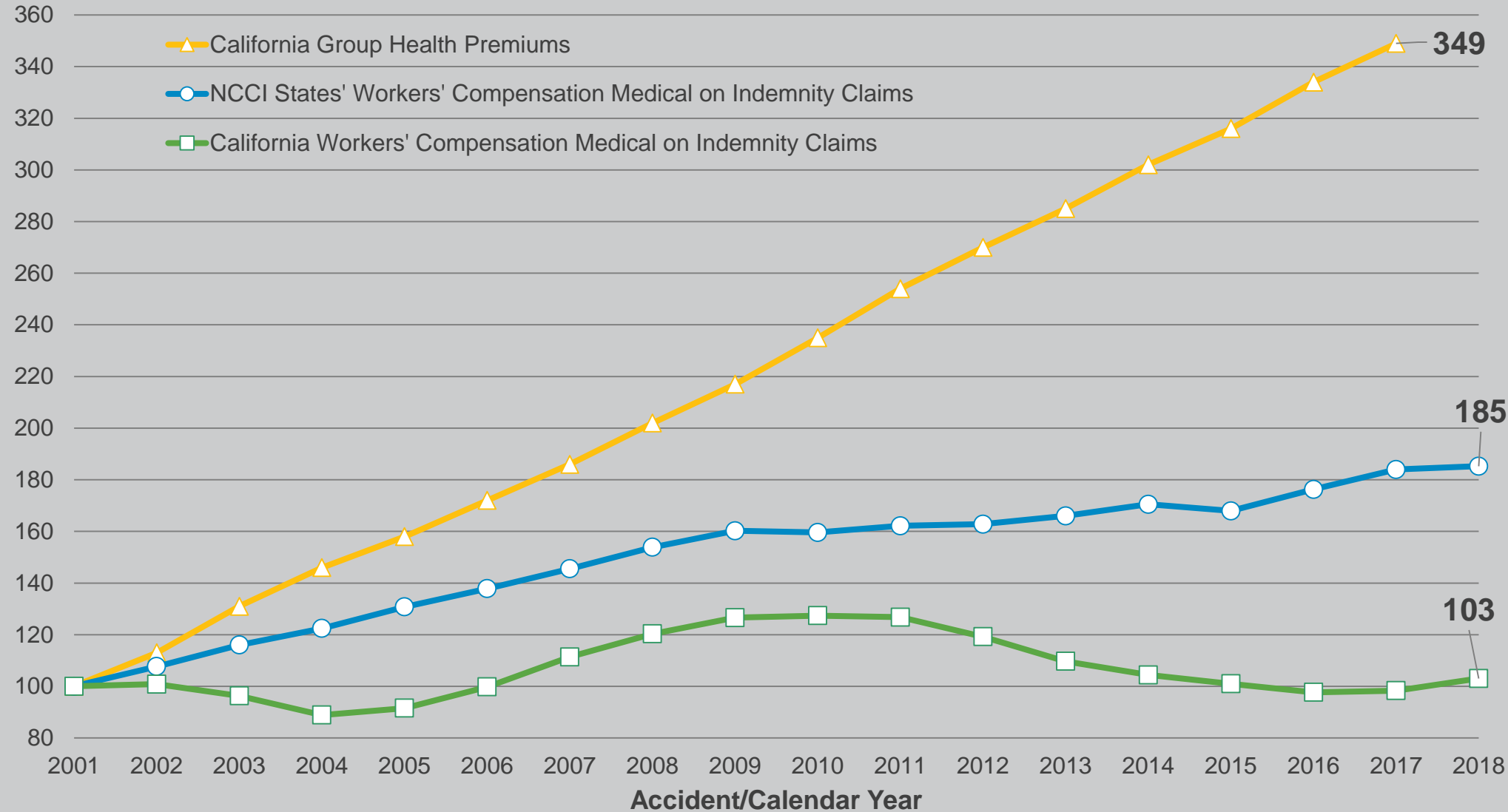
- Historically, other than during reform periods, average medical cost inflation in California has been significant at 9% per year
- From 2011 to 2016, average medical costs decreased by 5% per year, primarily driven by reforms from SB 863, SB 1160 and AB 1244 as well as efforts to reduce medical provider fraud
- 2017 and 2018 medical severities have emerged relatively flat compared to other post-reform periods
- Absent SB 863, average medical costs would be double in 2018 if they continued to grow at the post-SB 899 rate



More Info



Chart 24: Medical Cost Level Indexed to 2001



Insights and Recent Trends

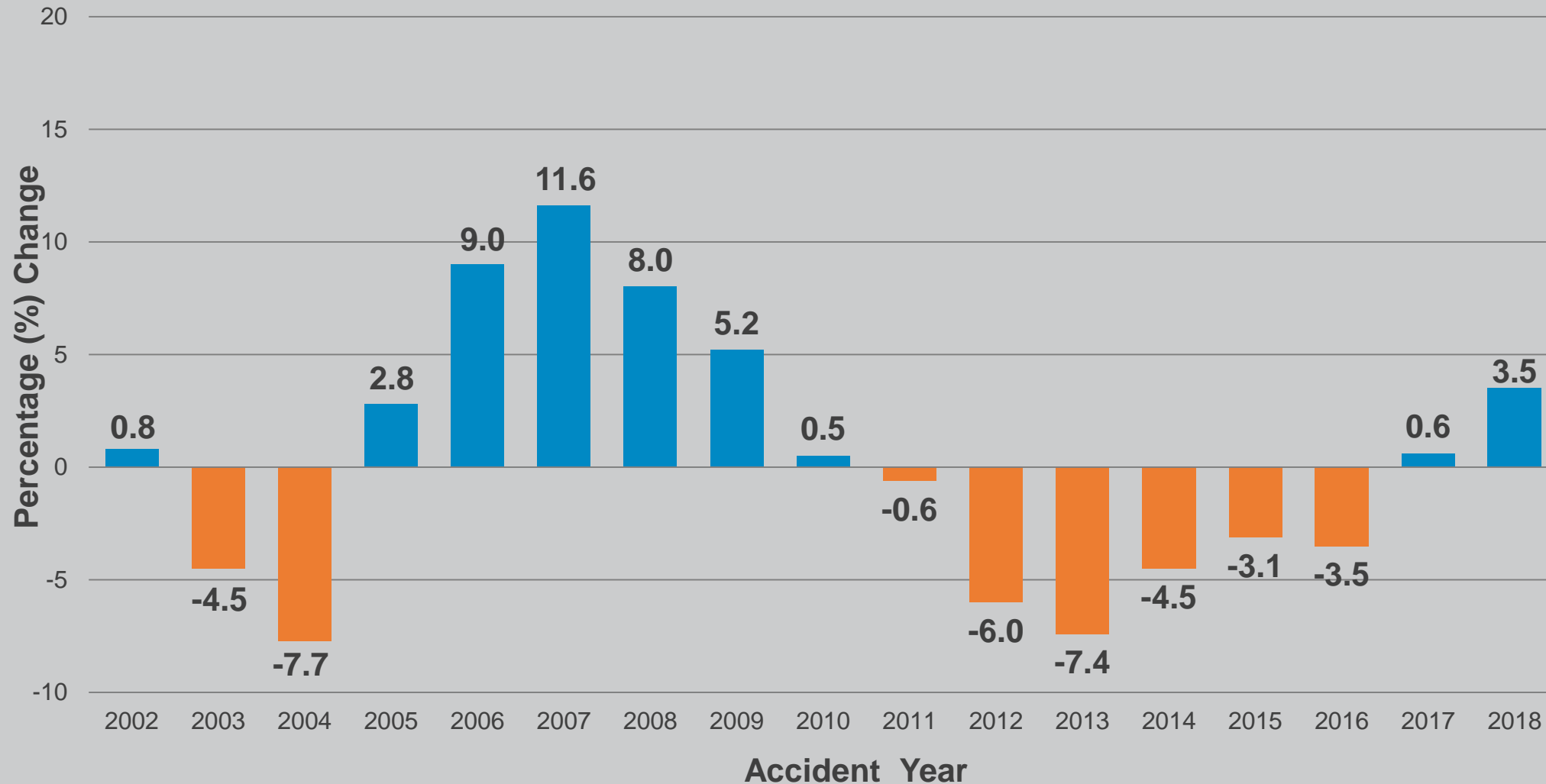
- The rate of growth in California workers' compensation medical costs is well below that of other states and group health premiums
- The reforms of 2002 to 2004 as well as SB 863 (2012) have widened the gap between California medical cost inflation and that for NCCI states since 2001
- The preliminary 2018 change for California is more similar to NCCI states



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Chart 25: Change in Average Medical Cost per Indemnity Claim



Insights and Recent Trends

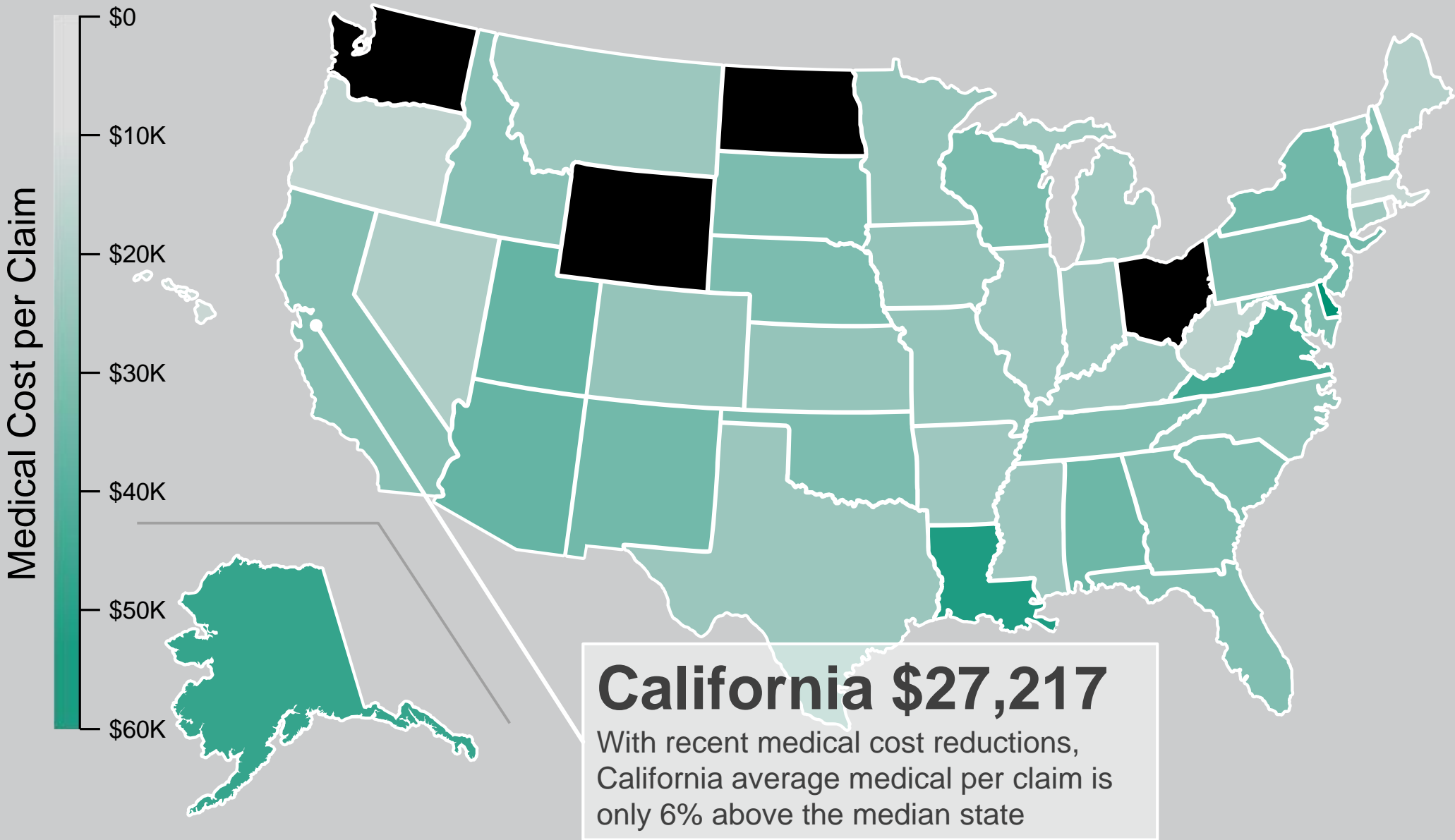
- Average medical costs increased in the last 2 years following 7 years of decline
- Changes in average medical cost per claim for 2012 through 2016 were significantly lower in California, largely as a result of:
 - The medical reforms in SB 863 ([Chart 43](#))
 - Lower pharmaceutical cost levels ([Chart 28](#))
 - Reforms to lien filings from SB 863, SB 1160 and AB 1244 ([Chart 46](#))
 - Significant anti-fraud efforts



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Chart 26: Medical Cost per Indemnity Claim by State



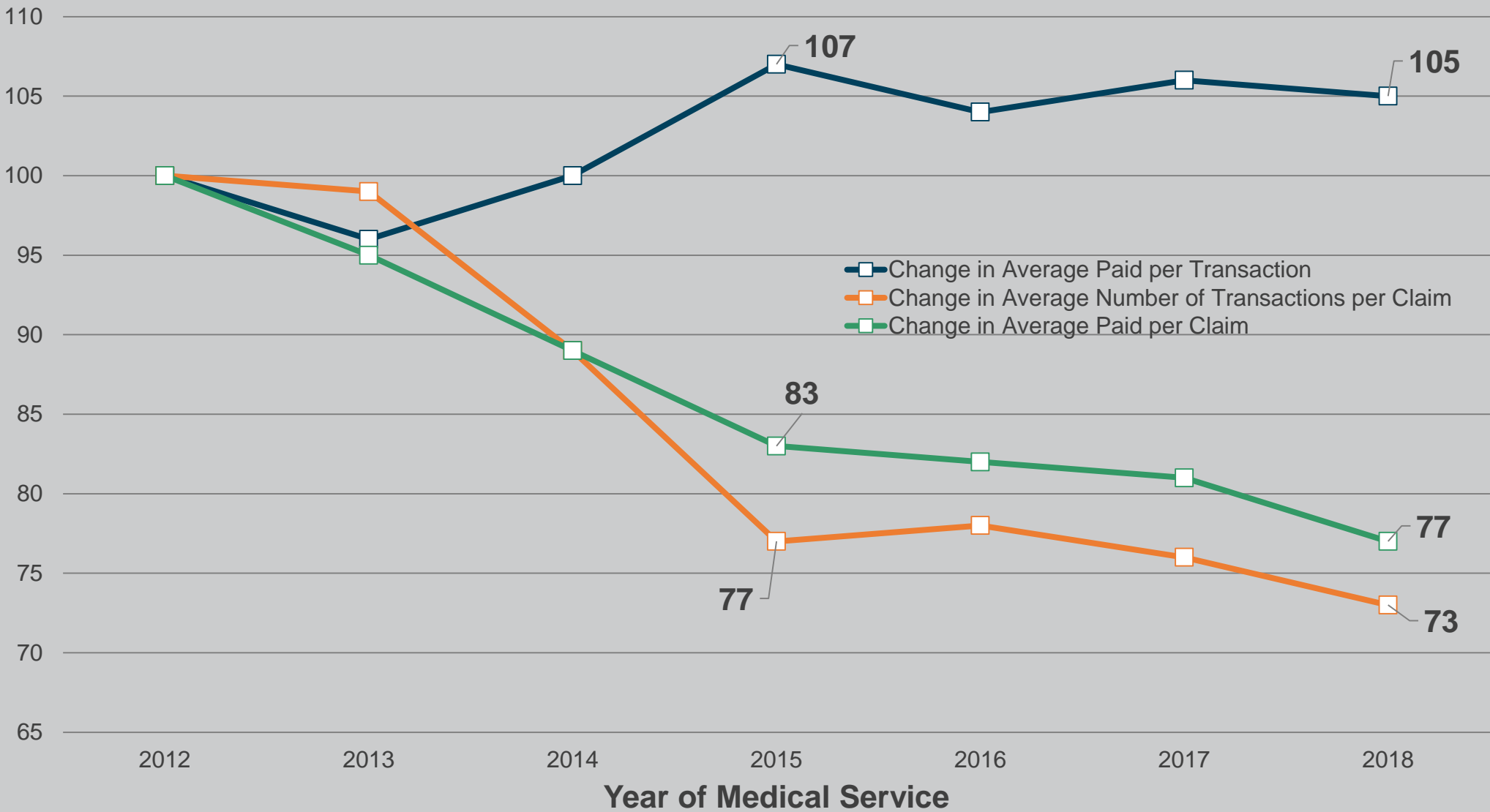
Insights and Recent Trends

- California had previously been among the top 5 states for average medical costs per claim
- With recent medical cost reductions in California and continued medical inflation in other states, California average medical per indemnity claim is now only 6% above the median state



More Info →

Chart 27: Medical Service Cost Level Indexed to 2012



Insights and Recent Trends

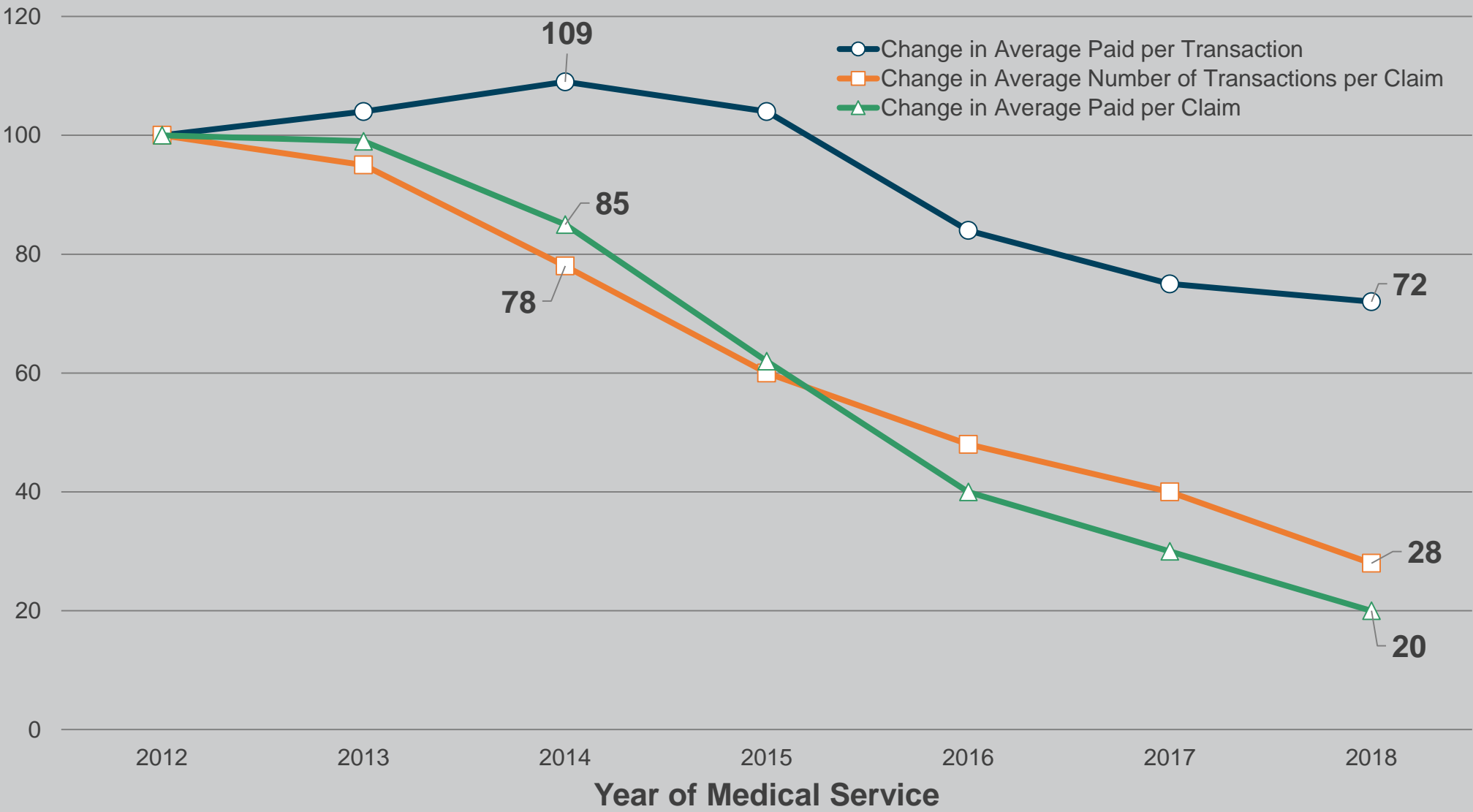
- Changes in average medical paid per transaction have been relatively modest
- The number of medical service transactions per claim decreased by 27% since 2012, which is largely attributable to SB 863 ([Chart 43](#)) and declining pharmaceutical costs ([Chart 28](#))
- Combined, total medical costs paid per claim have decreased by 23% since 2012



More Info



Chart 28: Pharmaceutical Cost Level Indexed to 2012



Insights and Recent Trends

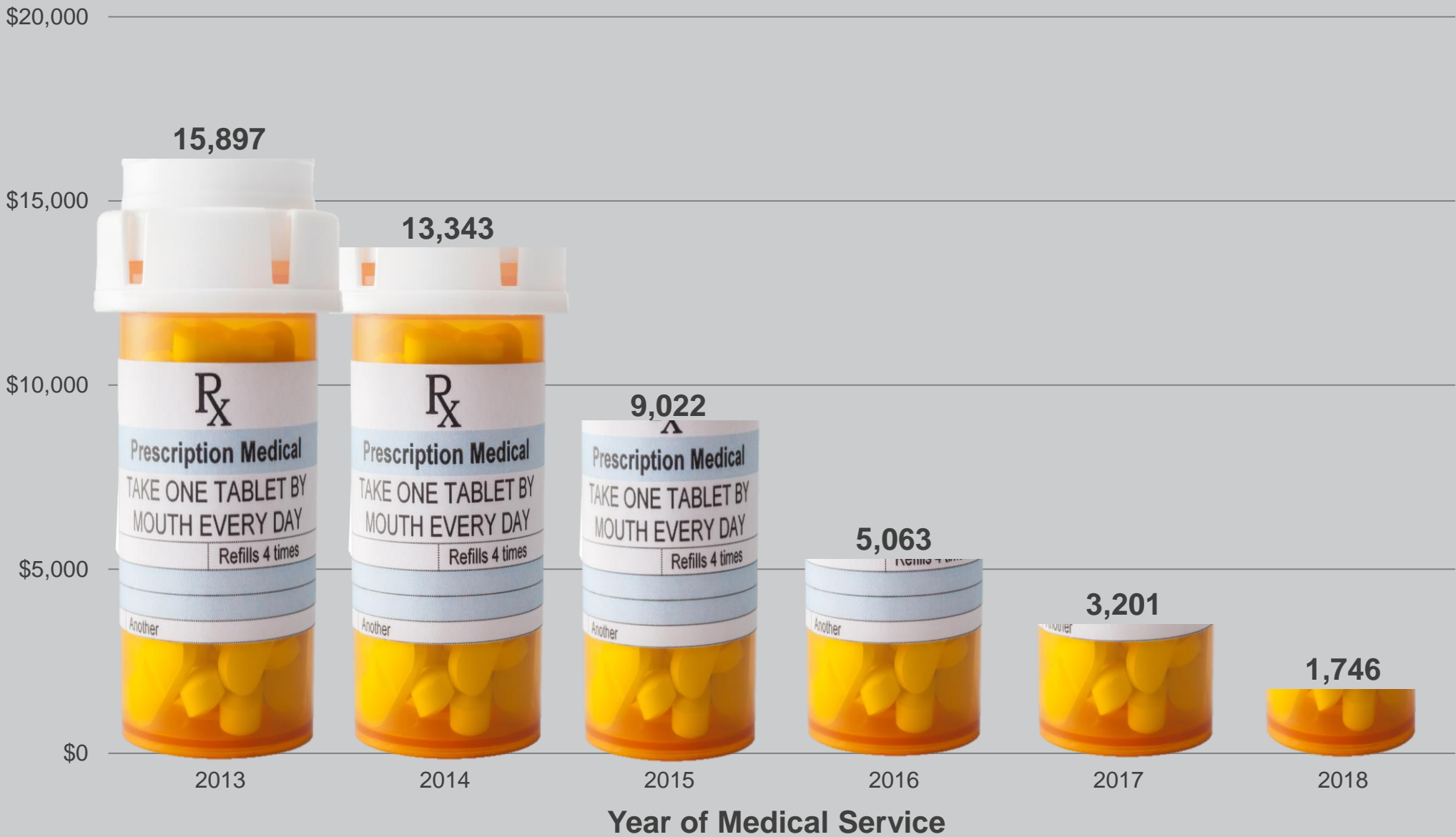
- Average pharmaceutical cost paid per transaction decreased by 26% from 2015 to 2017, due largely to changes in federal government pricing of drugs
- Key factors driving the over 70% decrease in pharmaceutical transactions per claim since 2012 include:
 - Independent medical review (IMR)
 - Reduced spinal surgeries
 - Anti-fraud efforts
 - National trends toward reduced opioid use ([Chart 29](#))
 - The new drug formulary
- In total, pharmaceutical costs per claim in 2018 are only one-fifth of the 2012 level



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Chart 29: Opioid Costs per 100 Claims



Insights and Recent Trends

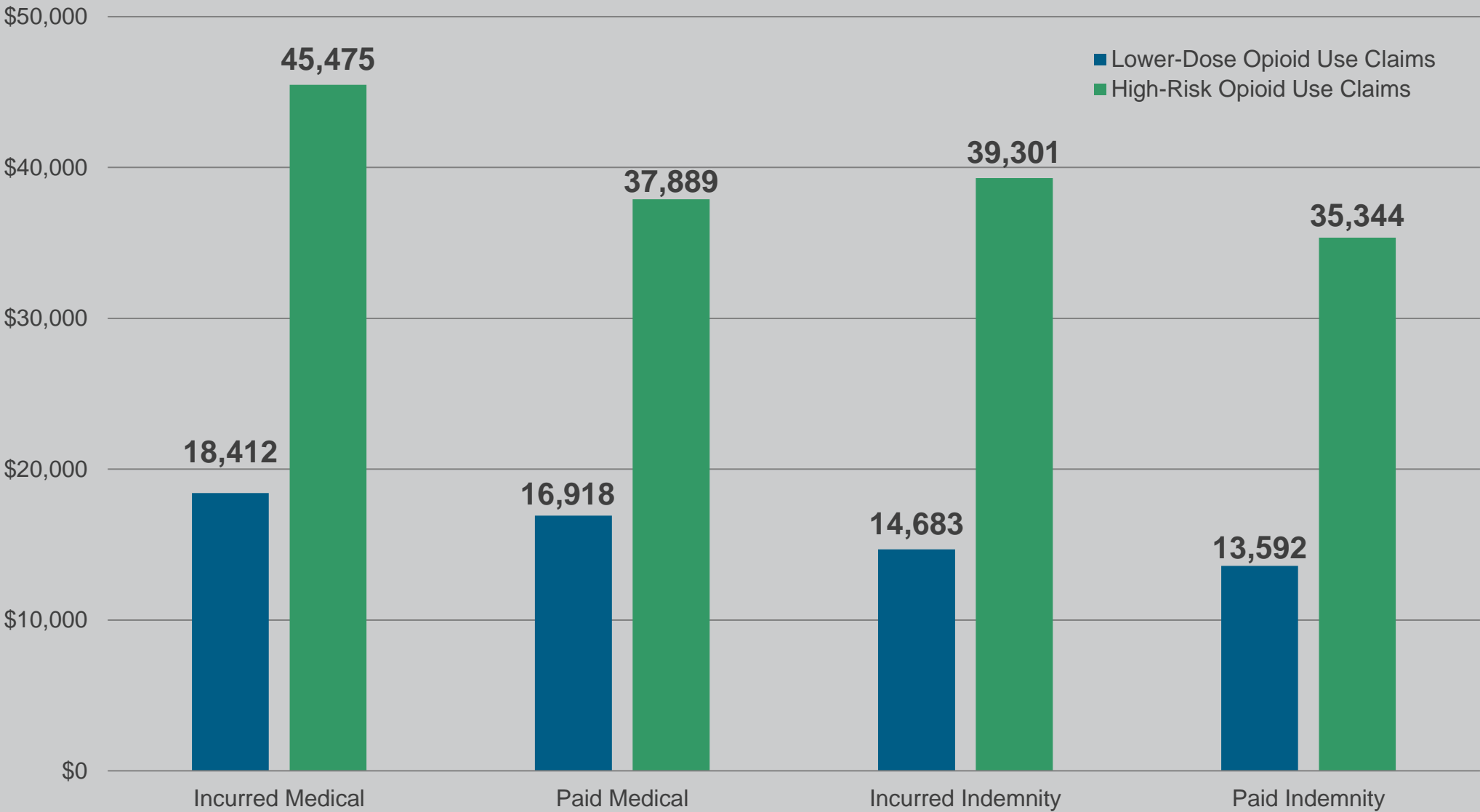
- The cost of opioids per claim in California has declined by 90% since 2013
- Factors driving this decline include IMR, use of the CURES system in California, anti-fraud efforts and reaction to the national opioid epidemic



More Info



Chart 30: Median Cost of Opioid Use Claims at 4 Years



Insights and Recent Trends

- Claims that involve high-risk opioid use on average incur more than twice the indemnity and medical benefits as similar claims that involve lower-dose opioid use
- For more information on high-risk opioid use, including a link to a recent WCIRB report on opioid use, click the More Info button below



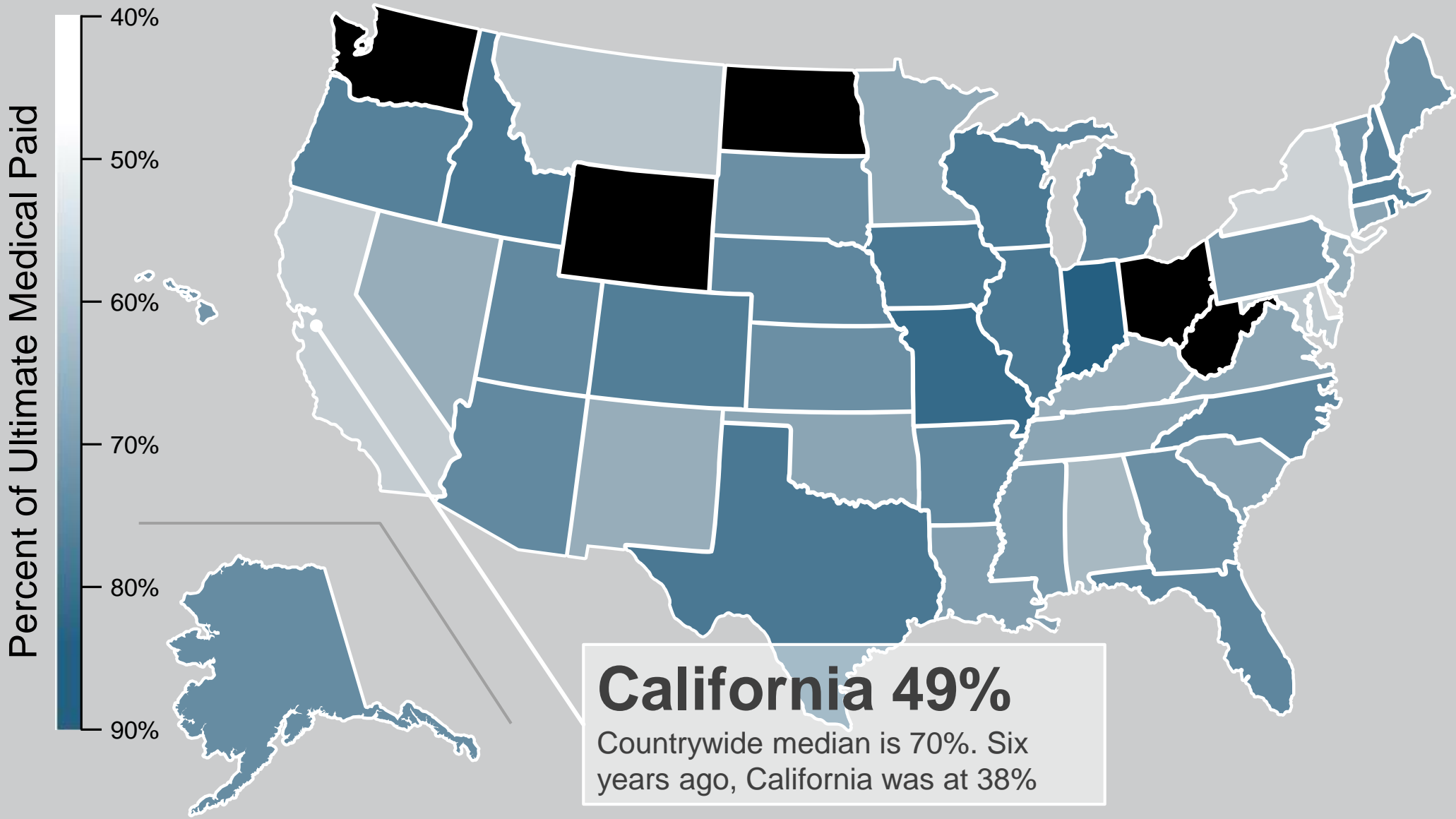
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Claim Duration

05

Chart 31: Percent of Ultimate Medical Cost Paid at 3 Years



Insights and Recent Trends

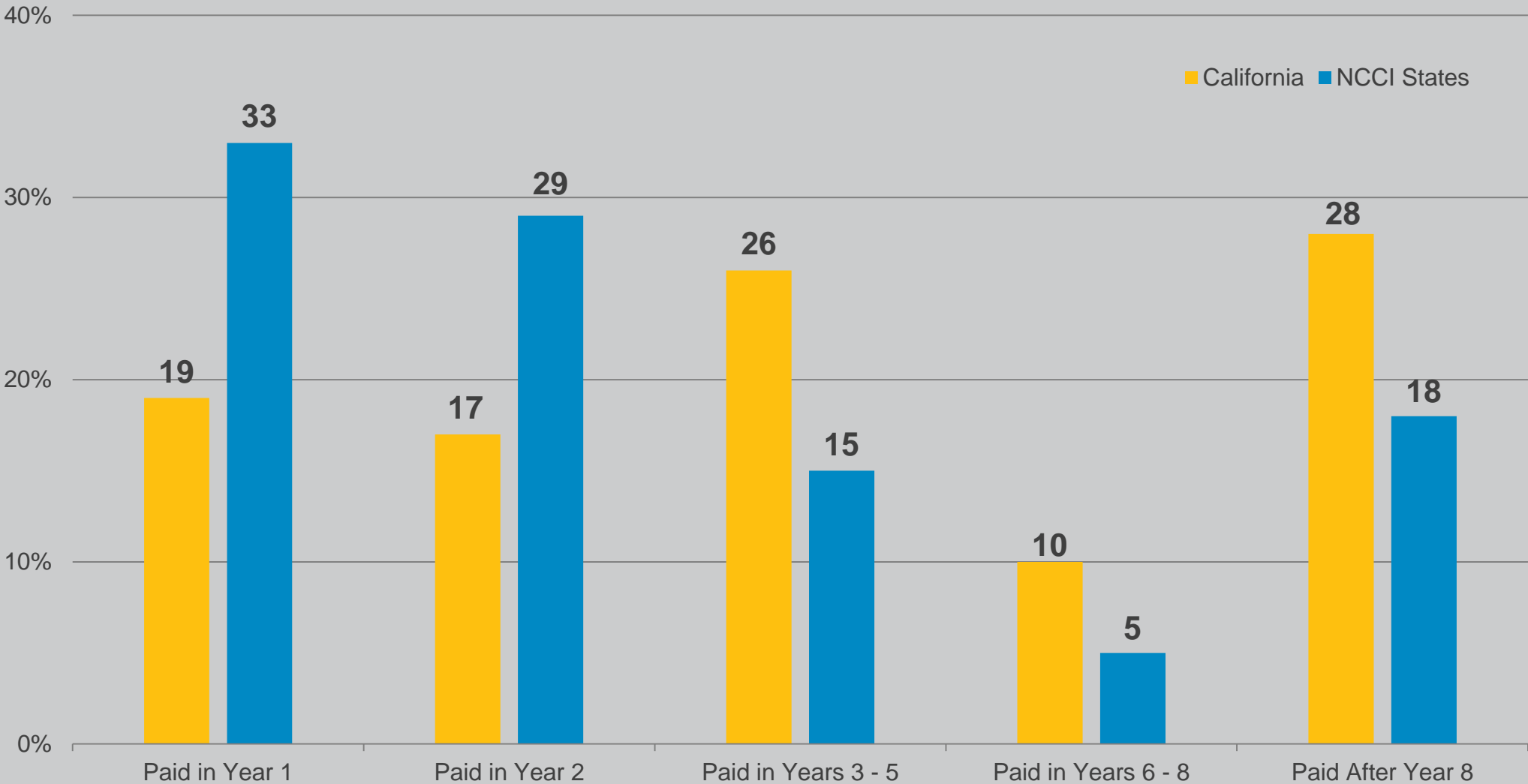
- The percentage of ultimate medical cost paid after three years increased from 38% in 2012 to 49% in 2018, driven largely by the SB 863 reforms
- California still has a very long duration of medical payments, driven by:
 - The time it takes to report claims ([Chart 33](#))
 - The length of time claims stay open ([Chart 34](#))
 - A high proportion of permanent disability ([Chart 18](#)) and cumulative trauma ([Chart 16](#)) claims
 - High rates of litigation ([Chart 41](#))
 - High volume of liens ([Chart 46](#))



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Chart 32: Percent of Medical Losses Paid by Year



Insights and Recent Trends

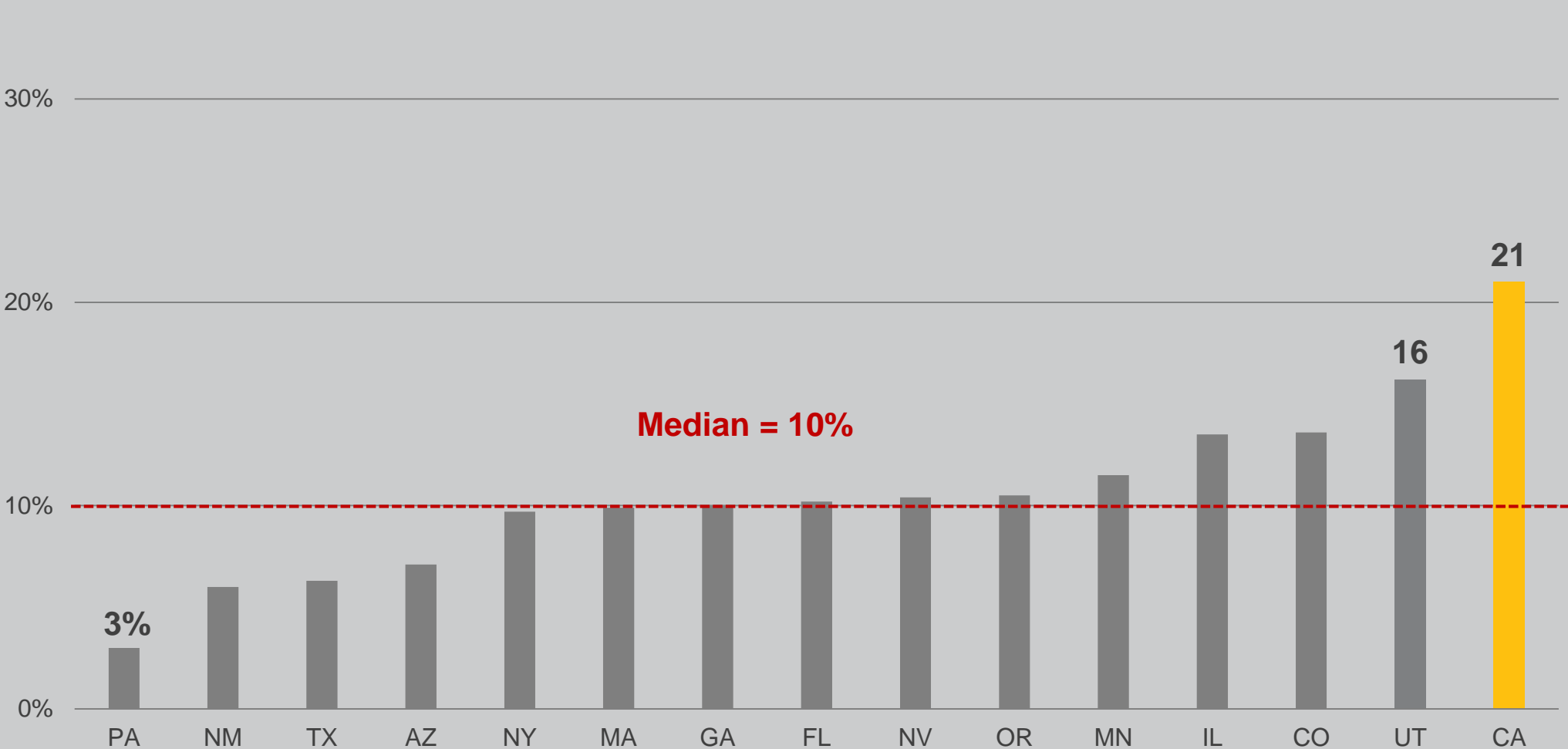
- Over half of medical losses are paid in the first two years from the year of injury in NCCI states, compared to about one-third in California
- 38% of medical losses in California are paid after 5 years compared to 23% for NCCI states



More Info



Chart 33: Percent of Indemnity Claims Unreported at 12 Months

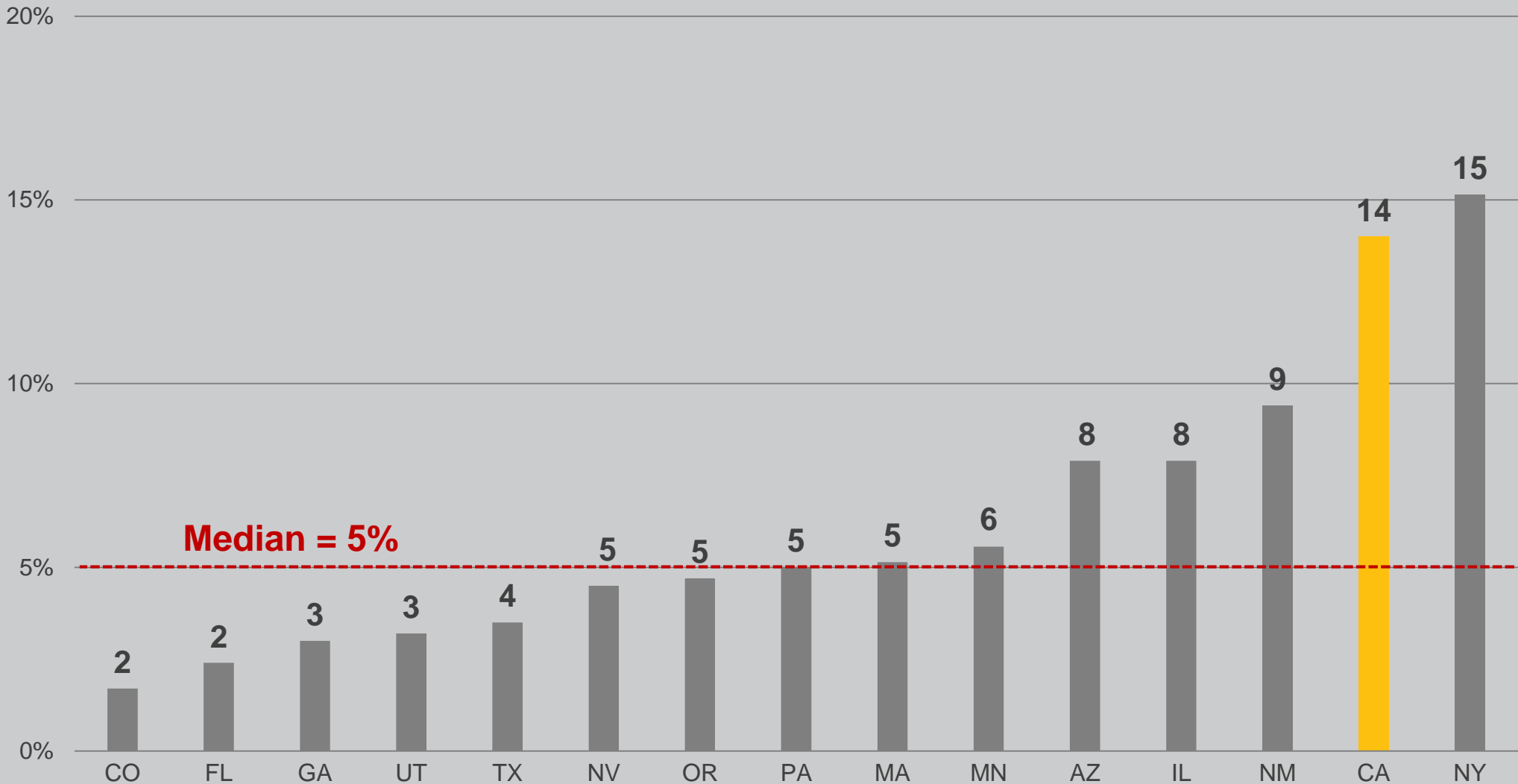


Insights and Recent Trends

- California has a very slow pattern of indemnity claim reporting at 12 months, with the proportion of claims unreported more than twice the comparison state median
- A large proportion of the late-reported claims in California involve cumulative trauma injuries ([Chart 16](#)), many of which are filed following the employee’s termination



Chart 34: Percent of Indemnity Claims Open at 60 Months

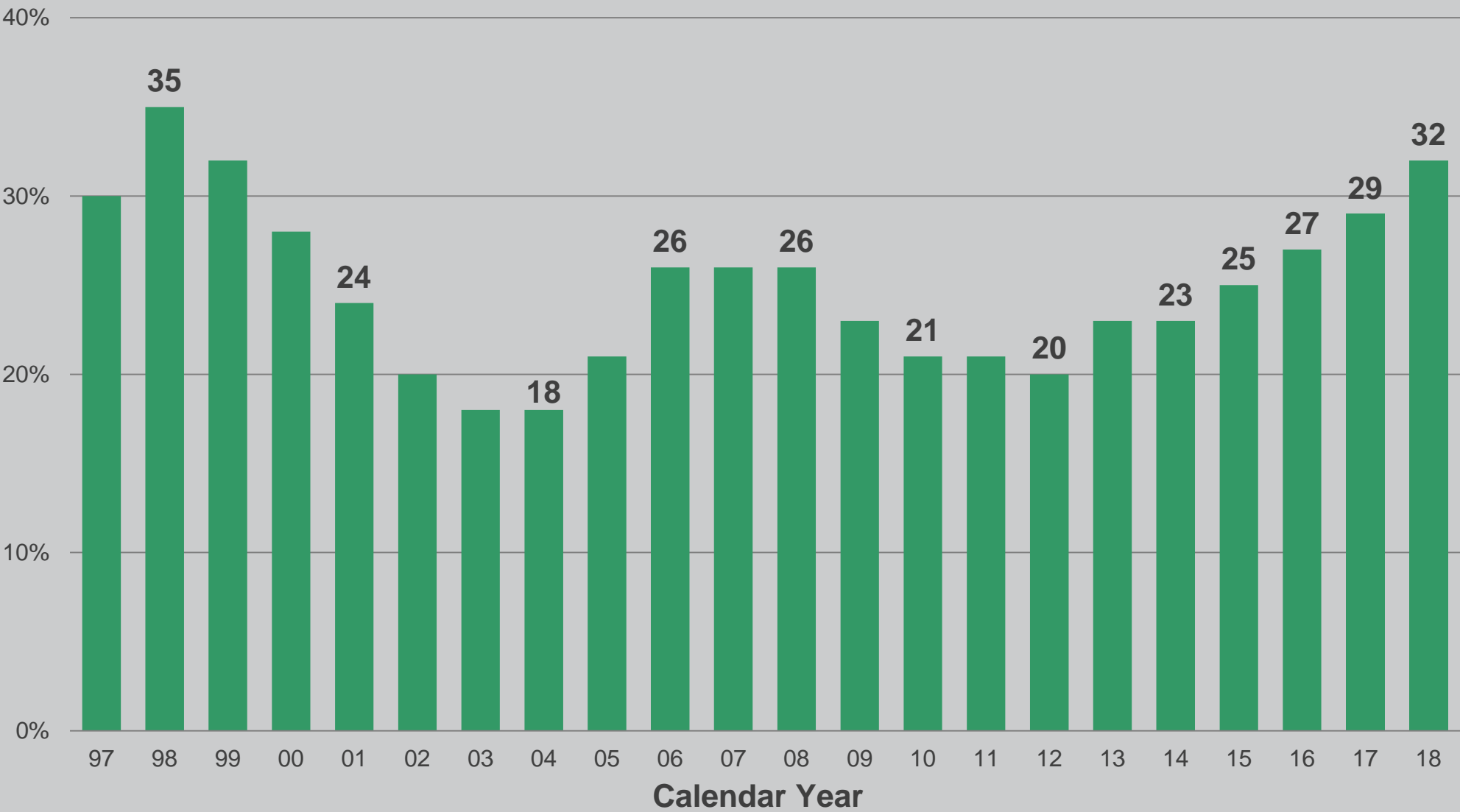


Insights and Recent Trends

- The proportion of California indemnity claims open at 60 months is almost three times the median state, despite a recent acceleration in claim closure rates ([Chart 35](#))
- Cumulative trauma claims ([Chart 16](#)) settle and close significantly slower than other types of claims
- The slower rate of claim closure in California is also attributable to:
 - The high volume of medical liens filed ([Chart 46](#))
 - Higher rates of permanent disability claim frequency ([Chart 18](#)) and cumulative trauma claims ([Chart 16](#))
 - A high complexity of handling and settling claims



Chart 35: Percent of Open Indemnity Claims Closed During Next Year

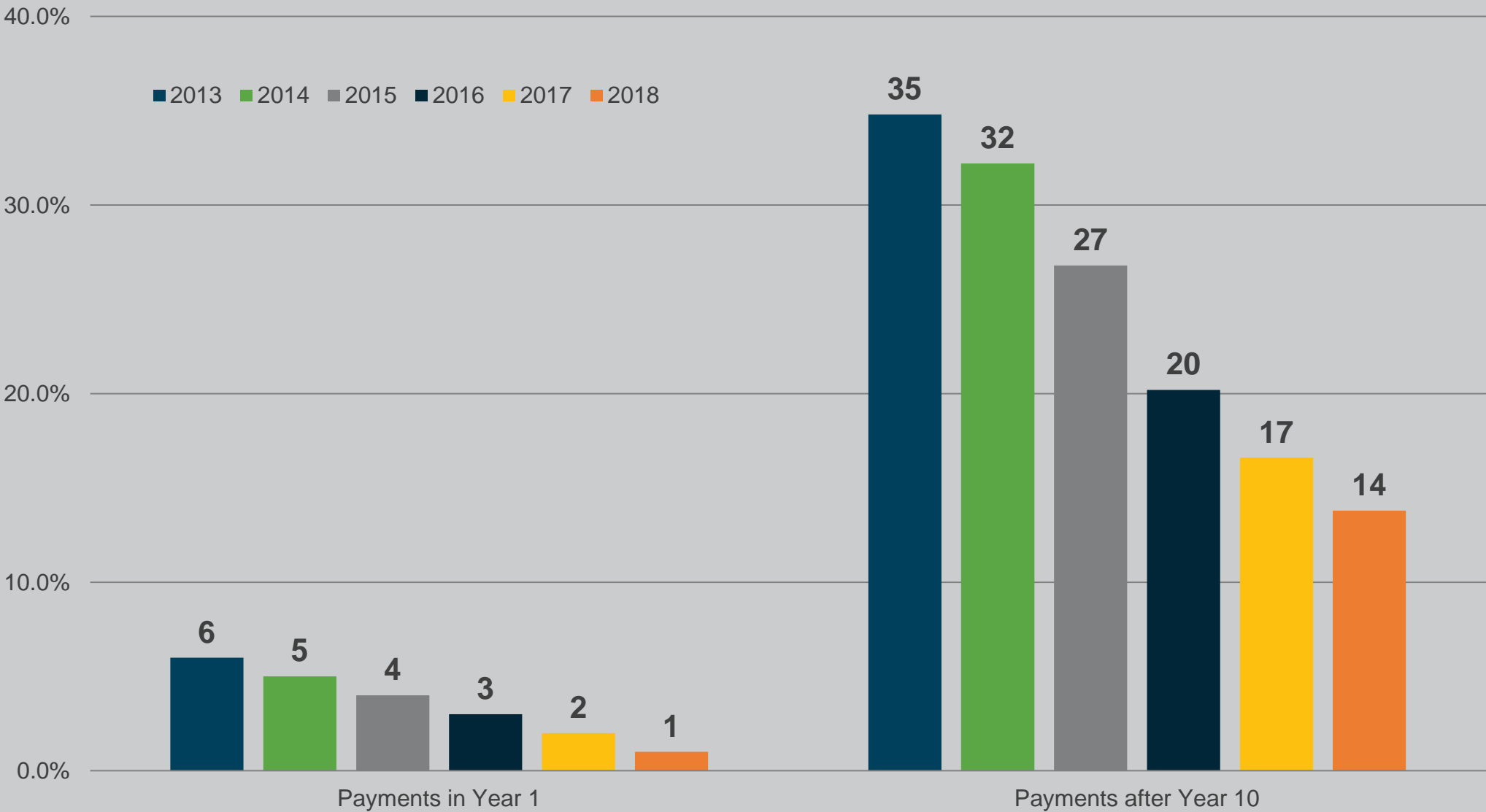


Insights and Recent Trends

- Since 2012, indemnity claims have been closing more quickly
- The 32% of open indemnity claims closing in 2018 is the highest rate of claims closing since the late 1990s
- The increased rate of claims closing over the last few years is in part attributable to SB 863 provisions related to liens, IMR, independent bill review, a reduced number of spinal surgeries and reduced opioid use



Chart 36: Pharmaceutical Share of Medical Loss by Maturity Level



Insights and Recent Trends

- A much larger share of medical costs paid on claims 10 years after the year of injury are for pharmaceuticals compared to paid in the first year
- While pharmaceutical cost levels are down sharply at all maturity levels, the significant decrease in pharmaceutical costs has had a much larger impact on the later payments on older claims

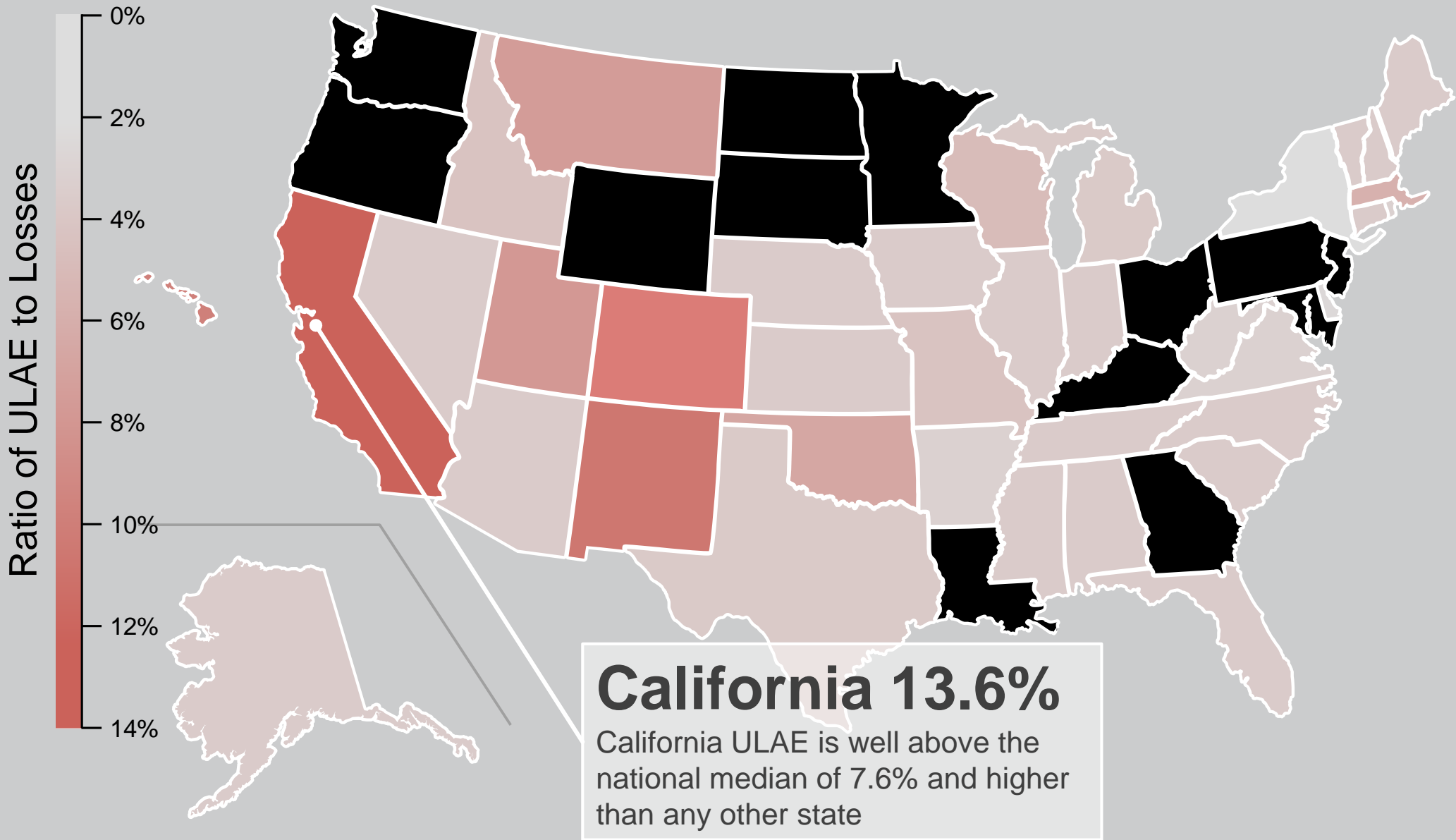


More Info →

Frictional Costs

06

Chart 37: Ratios of Unallocated Loss Adjustment Expenses to Losses



Insights and Recent Trends

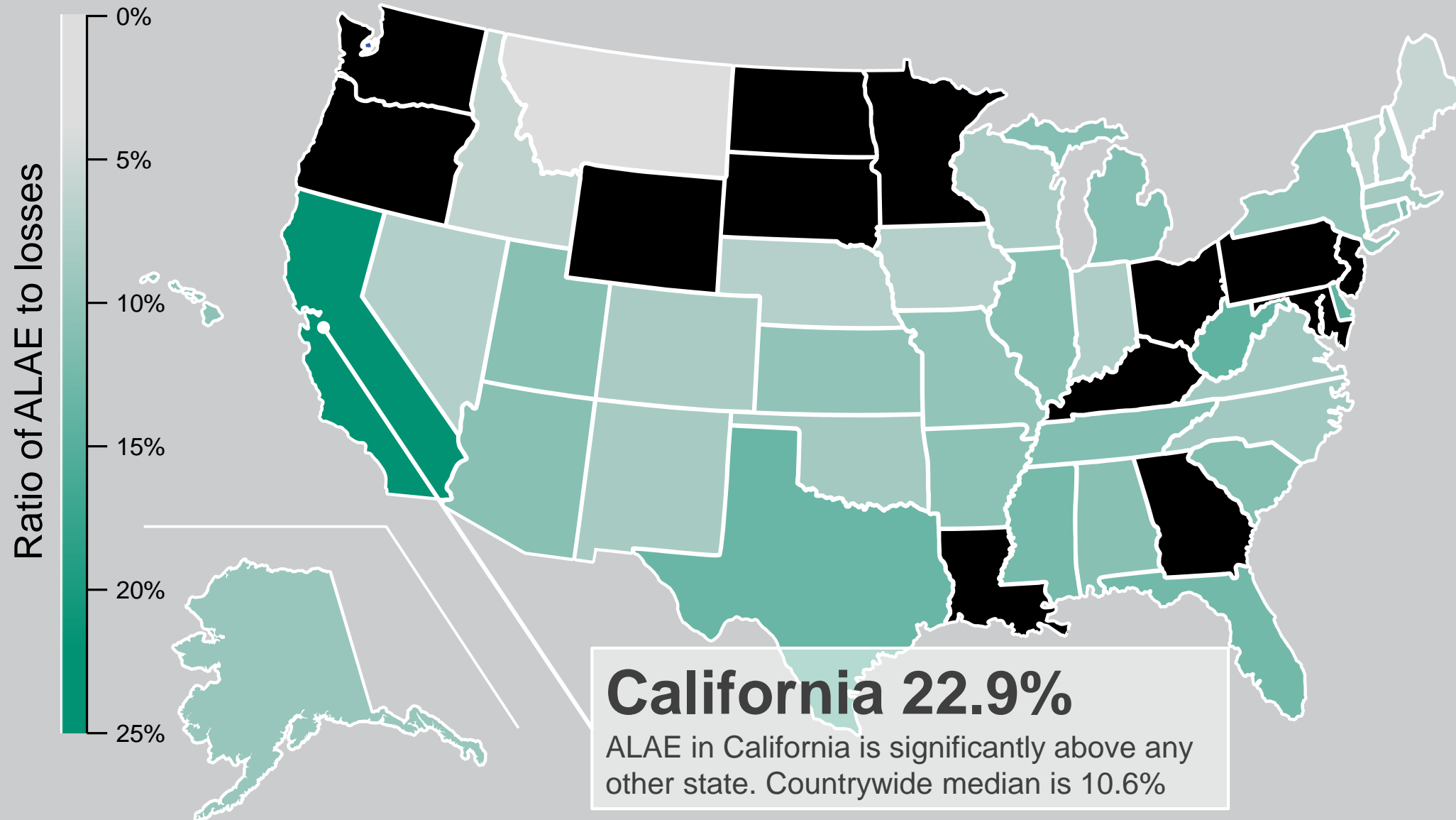
- California has the highest ratio of ULAE to loss in the country with a ratio almost 80% higher than the median state
- California claims are typically more complex to handle, as they are open longer and more often involve complex issues such as permanent disability and cumulative trauma



More Info



Chart 38: Ratios of Allocated Loss Adjustment Expenses to Losses



Insights and Recent Trends

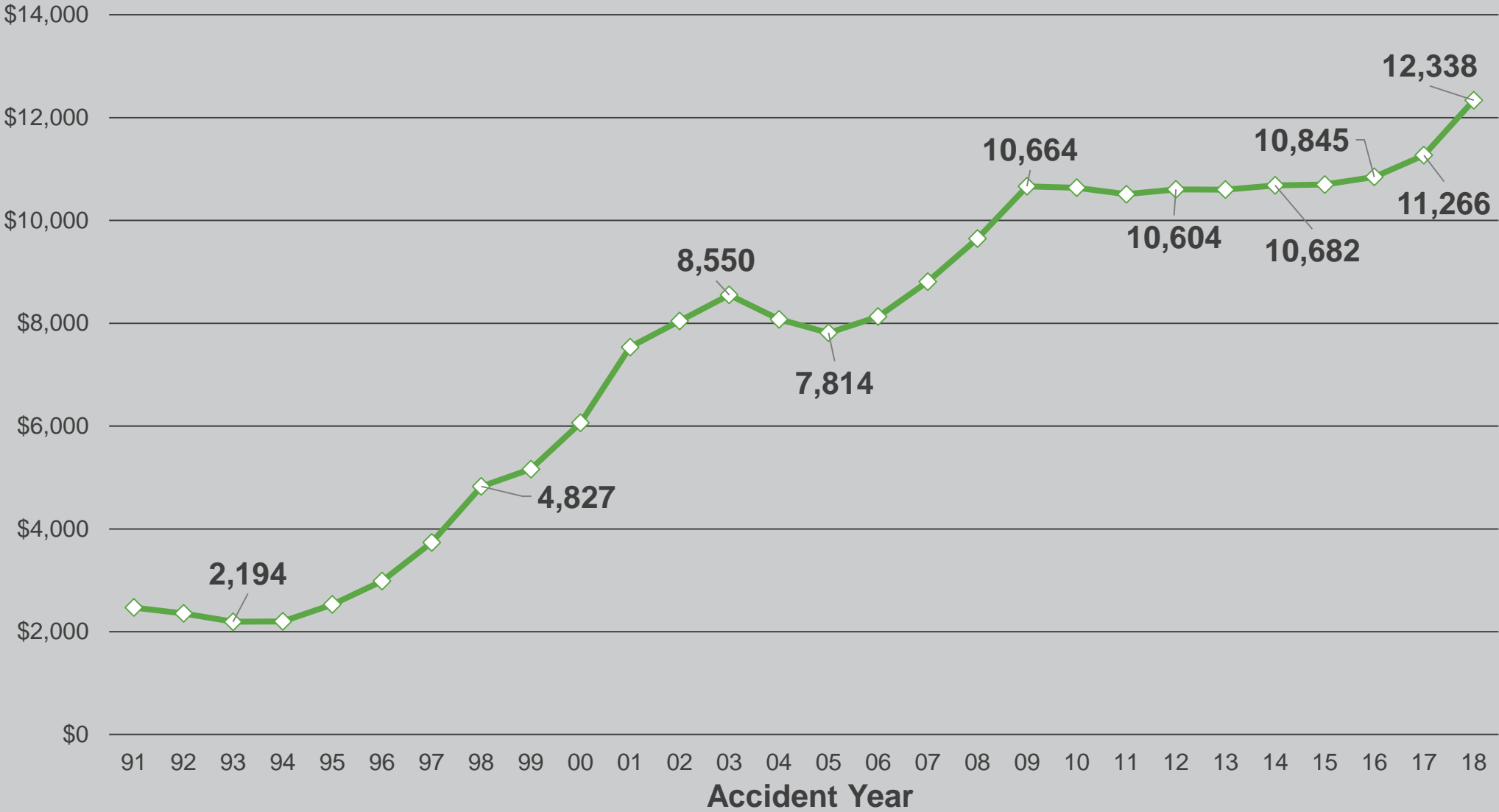
- California's ratio of ALAE to losses is 8 points higher than the second highest state and over twice the countrywide median
- Drivers of high California expenses:
 - High proportion of permanent disability claims ([Chart 18](#)) and cumulative trauma claims ([Chart 16](#))
 - High rates of representation and litigation on claims ([Chart 41](#))
 - Longer duration of claims ([Chart 34](#))
 - High volume of liens ([Chart 46](#))



More Info



Chart 39: Average Allocated Loss Adjustment Expenses per Indemnity Claim



Insights and Recent Trends

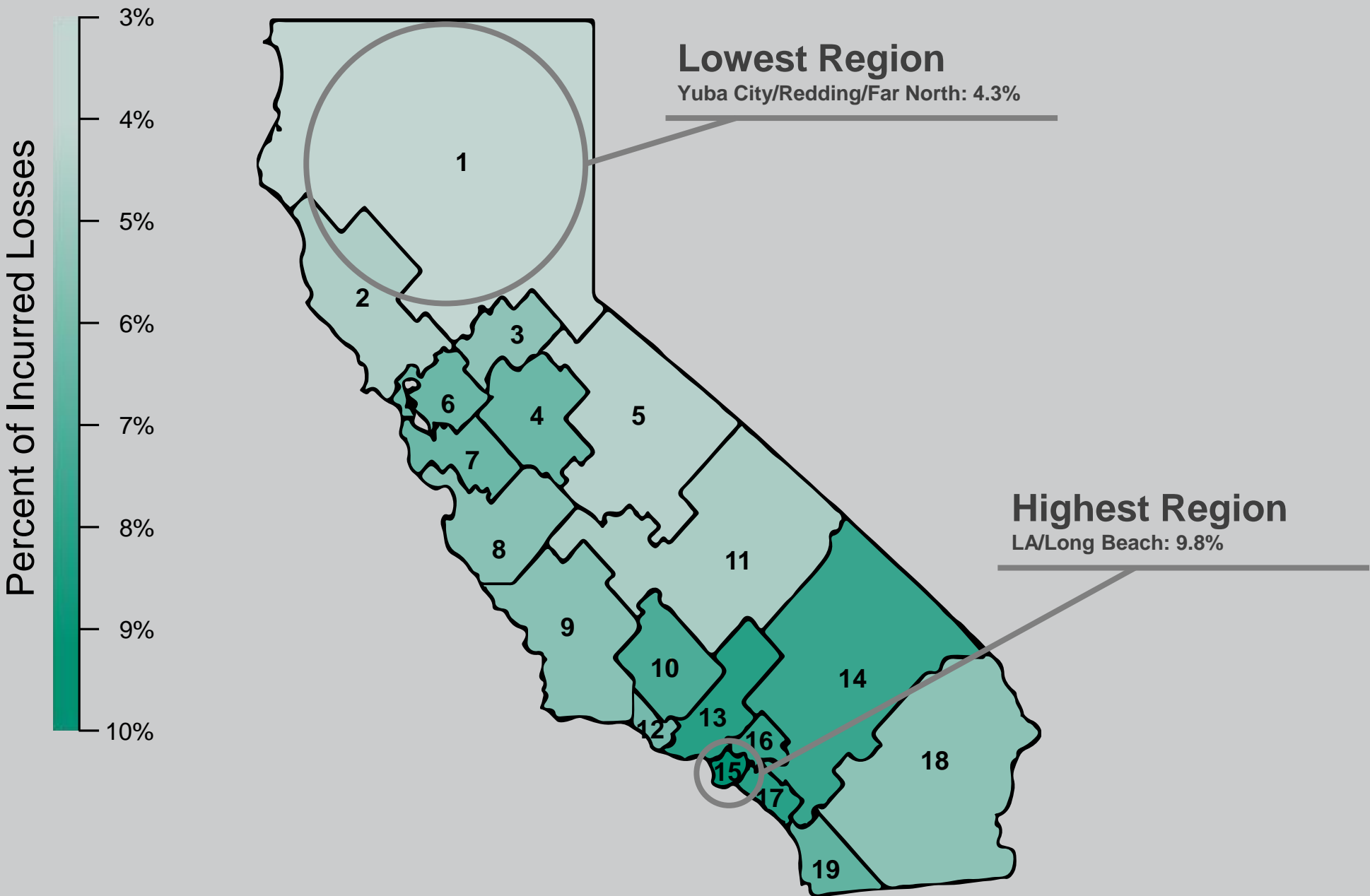
- Despite lower medical costs, ALAE has been flat to increasing since 2013
- Drivers of recent flat-to-increasing ALAE costs include:
 - Increased frequency of cumulative trauma claims, which have significantly higher ALAE costs ([Chart 16](#))
 - Acceleration in the rate of claim settlement leading to more ALAE costs paid to settle claims earlier ([Chart 35](#))
 - Large number of IMR requests ([Chart 44](#))
- The sharp increase shown for 2018 is preliminary and may moderate as the year matures



More Info



Chart 40: Paid ALAE as a Ratio to Incurred Losses



Insights and Recent Trends

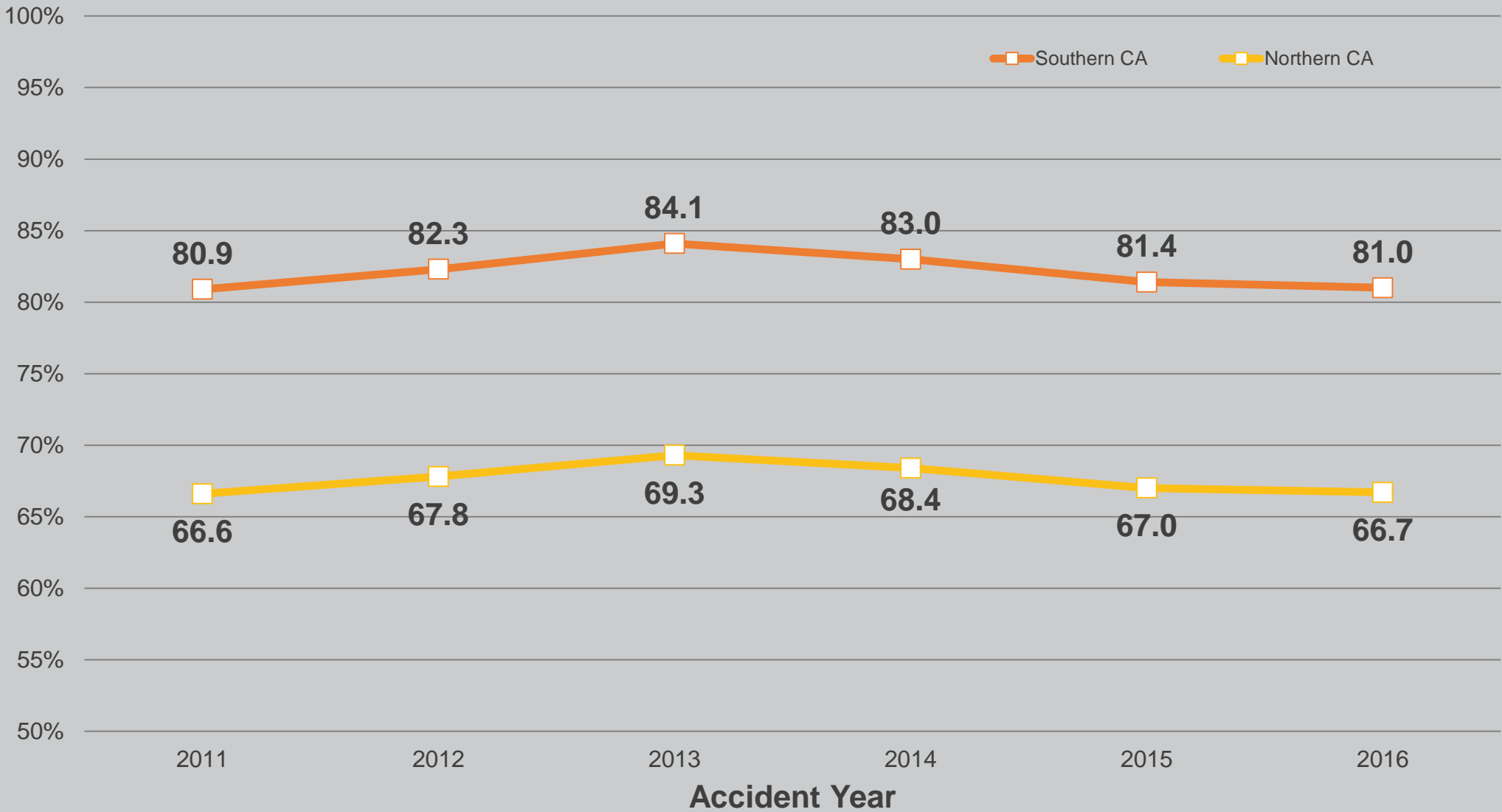
- ALAE as a ratio to incurred losses is twice in the LA/Long Beach area compared to the Yuba City/Redding/Far North region of California
- ALAE to incurred loss ratios in the more urban areas of California are typically higher than in the more rural regions of the state



More Info



Chart 41: Percent of Represented Permanent Disability Claims



Insights and Recent Trends

- Rates of legal representation in Southern California are 20% higher than in Northern California
- Rates of legal representation have leveled off recently, but remain higher than for most other states
- The high legal representation rates in California are a significant driver of the longer duration of claims ([Chart 34](#)) and higher allocated loss adjustment expenses ([Chart 38](#))



More Info



Chart 42: Cost to Deliver \$1 of Benefits

06
Frictional Costs

Medicare



\$0.02

Private Group Health Insurance



\$0.18

Workers' Compensation
Median State



\$0.24

California Workers' Compensation



\$0.54



Insights and Recent Trends

- California claims administrative costs are multiples higher than other medical benefit systems such as Medicare and the average for private group health insurance
- California claims administrative costs are more than double the cost to provide \$1 of benefits compared to the median state workers' compensation system



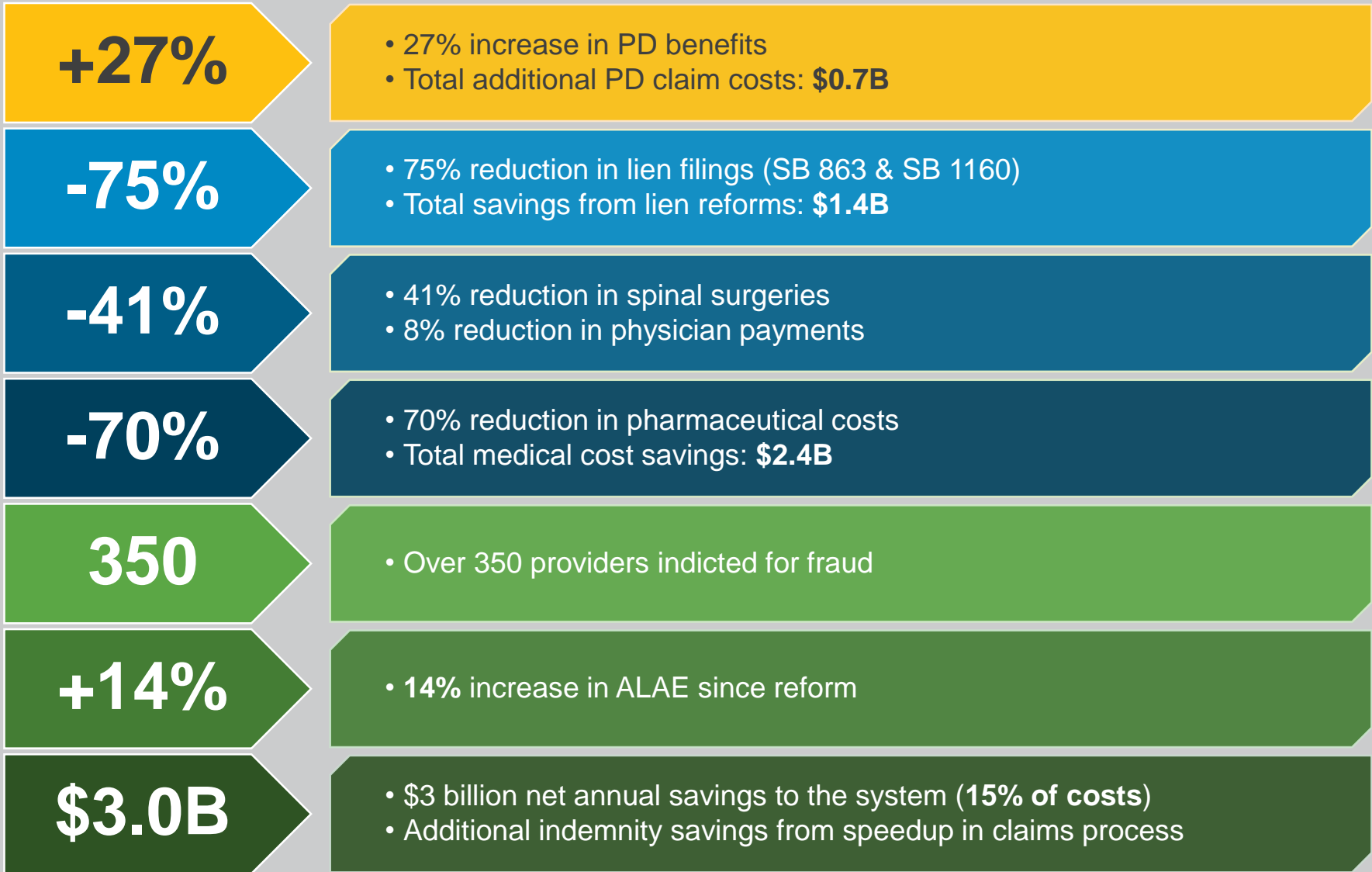
More Info



Recent Reforms

07

Chart 43: WCIRB Cost Evaluation of Reforms Since 2012



Insights and Recent Trends

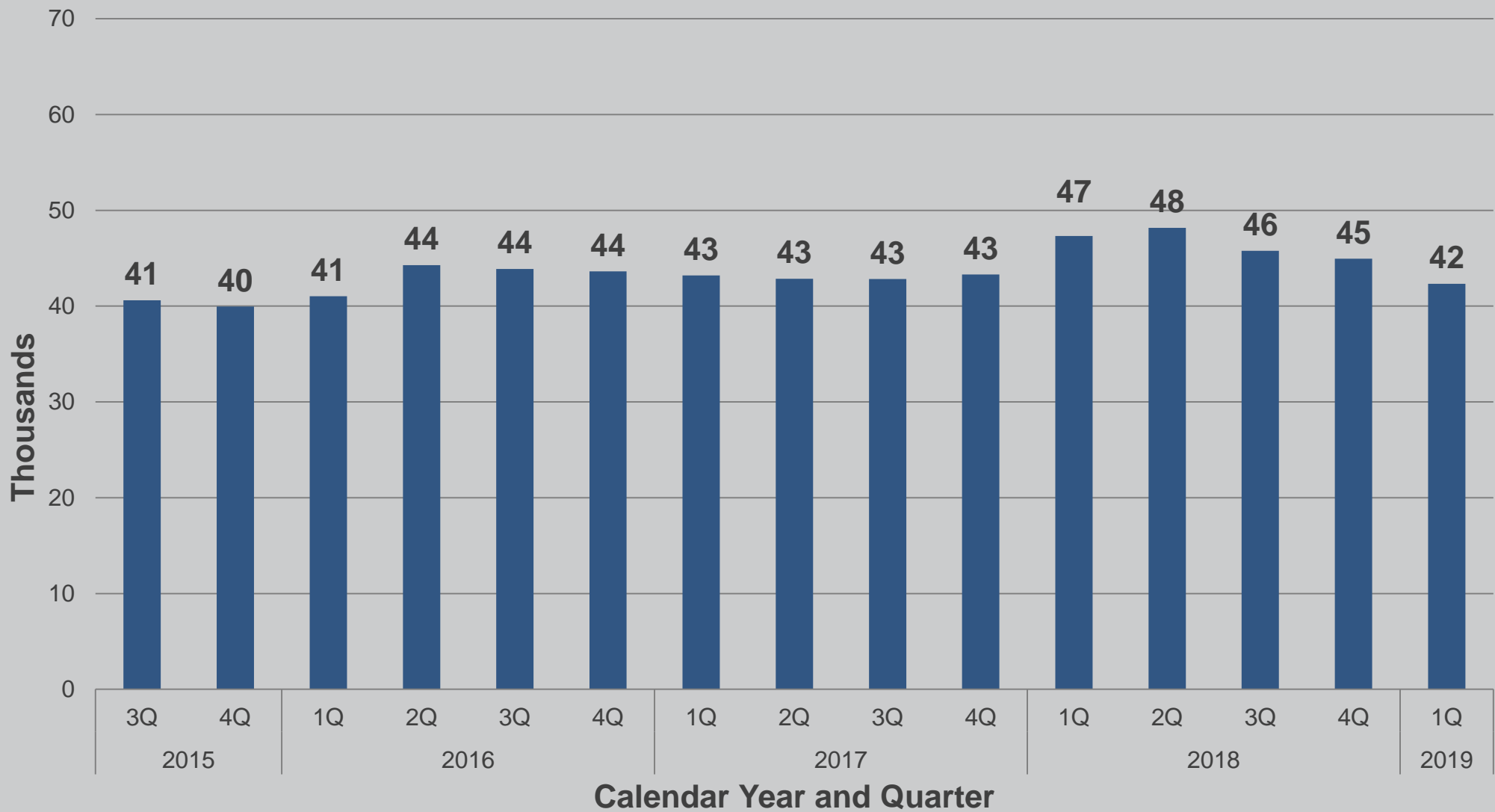
- SB 863 increases to permanent disability benefits have emerged as projected
- SB 1160 and AB 1244 reforms related to liens have resulted in an additional 60% reduction in lien filings on top of the SB 863 reductions to lien filings
- IMR, independent bill review, reductions to spinal surgery reimbursements, changes to the physician fee schedule, efforts to fight medical provider fraud and other SB 863 and later reforms have dramatically reduced medical costs
- High utilization of the IMR process and continued usage of other dispute mechanisms have resulted in no significant frictional cost savings
- In total, reforms since 2012 have saved \$3 billion annually



More Info



Chart 44: Number of Independent Medical Reviews Filed



Insights and Recent Trends

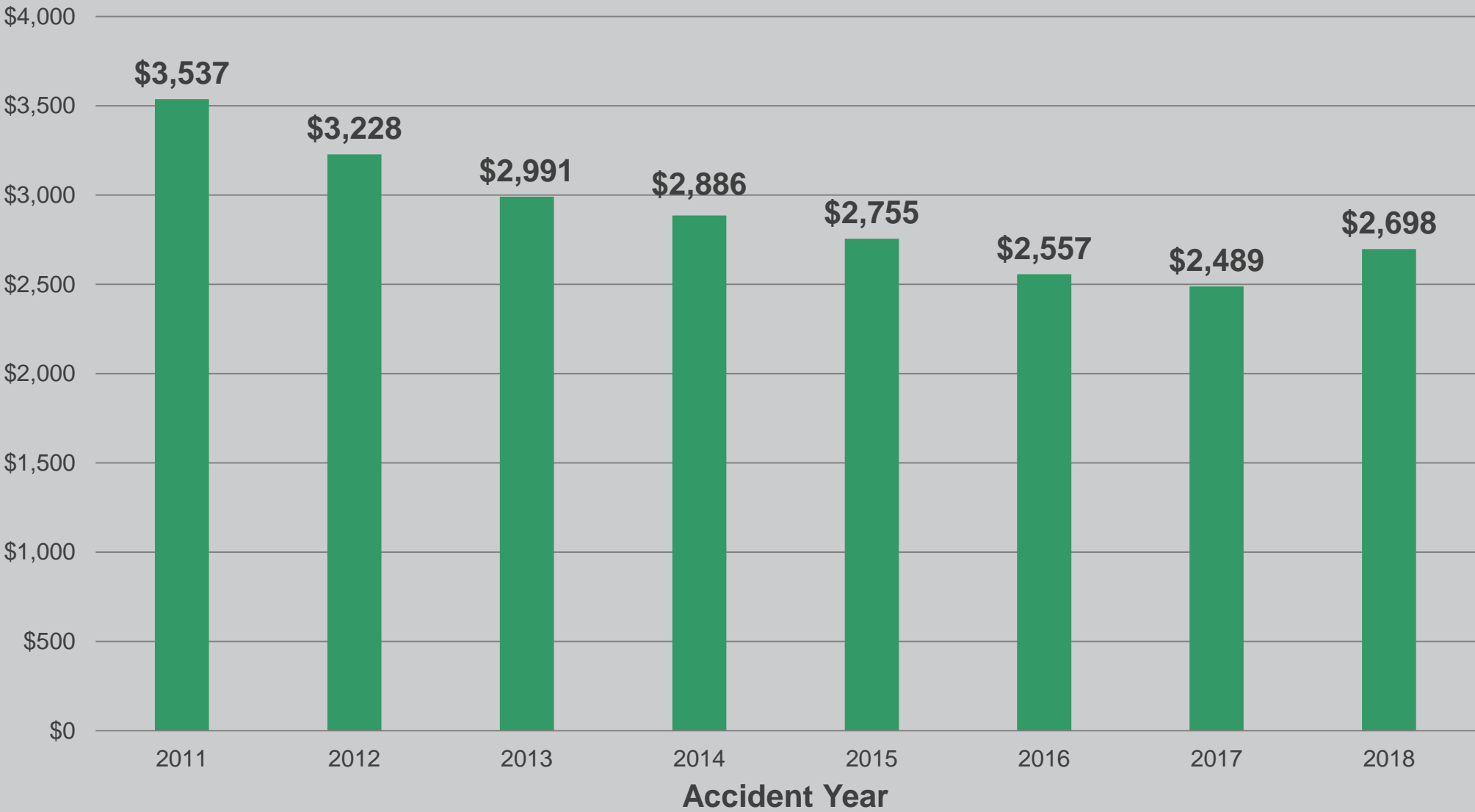
- The number of eligible IMRs filed in 2018 was an all-time high at over 180,000, which is 5% above the 2017 level
- The first quarter of 2019 shows the number of eligible IMR filings closer to the 2016 and 2017 levels
- About 90% of IMR decisions uphold the original utilization review decision
- The number of IMRs filed has remained high despite lower medical costs ([Chart 23](#)) and accelerated claim settlement rates ([Chart 35](#))



More Info



Chart 45: Average Medical Cost Containment Program Cost per Indemnity Claim



Insights and Recent Trends

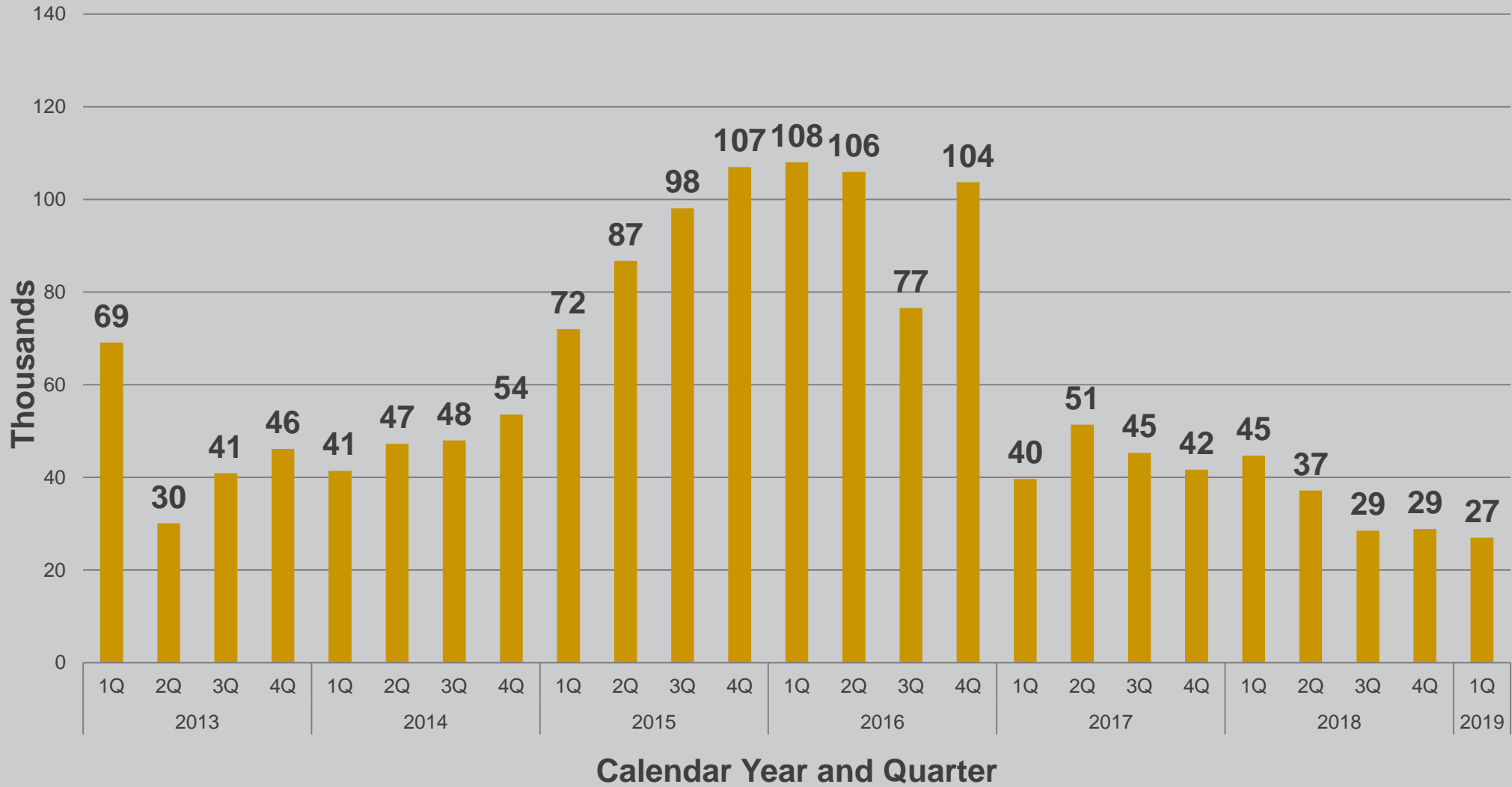
- As medical costs declined ([Chart 23](#)) average medical cost containment program (MCCP) costs also decreased from 2011 to 2017
- Beginning in 2018, SB 1160 restricted the use of utilization review within the first 30 days of an injury, which was expected to reduce MCCP costs
- The new drug formulary was also estimated to reduce MCCP costs modestly
- Early estimates of 2018 show MCCP costs increasing by 8% rather than declining as projected



More Info



Chart 46: Lien Filings by Quarter



Insights and Recent Trends

- SB 1160 and AB 1244 were implemented in 2017 and included several reforms to the lien filing process
- Since the implementation of SB 1160 and AB 1244, lien filings per quarter have been down 60%
- Although lien filings in California are at a historically low rate of 29,000 per quarter, they are virtually nonexistent in other workers' compensation systems



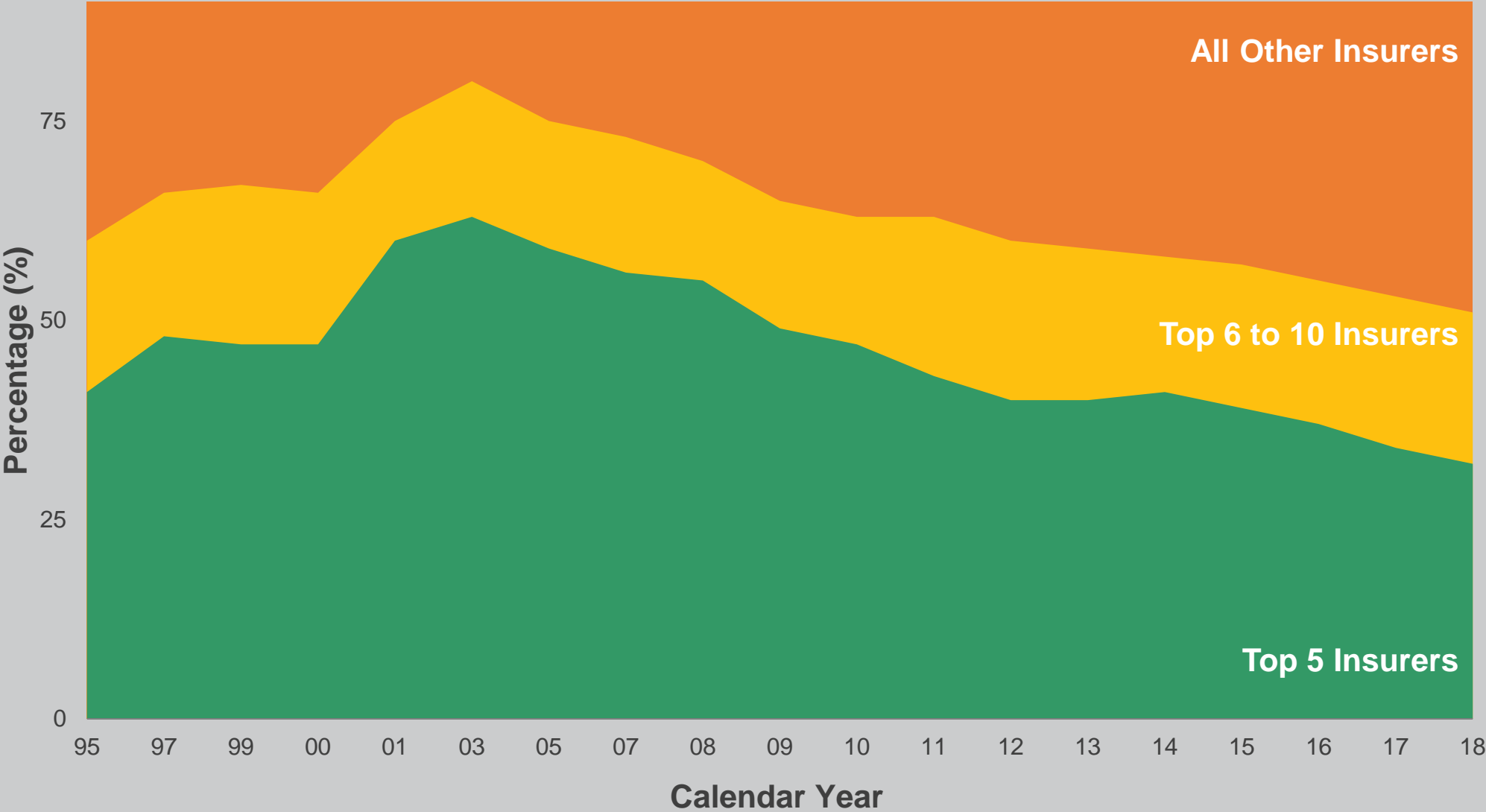
More Info



Industry Results

08

Chart 47: Market Concentration Ratios



Insights and Recent Trends

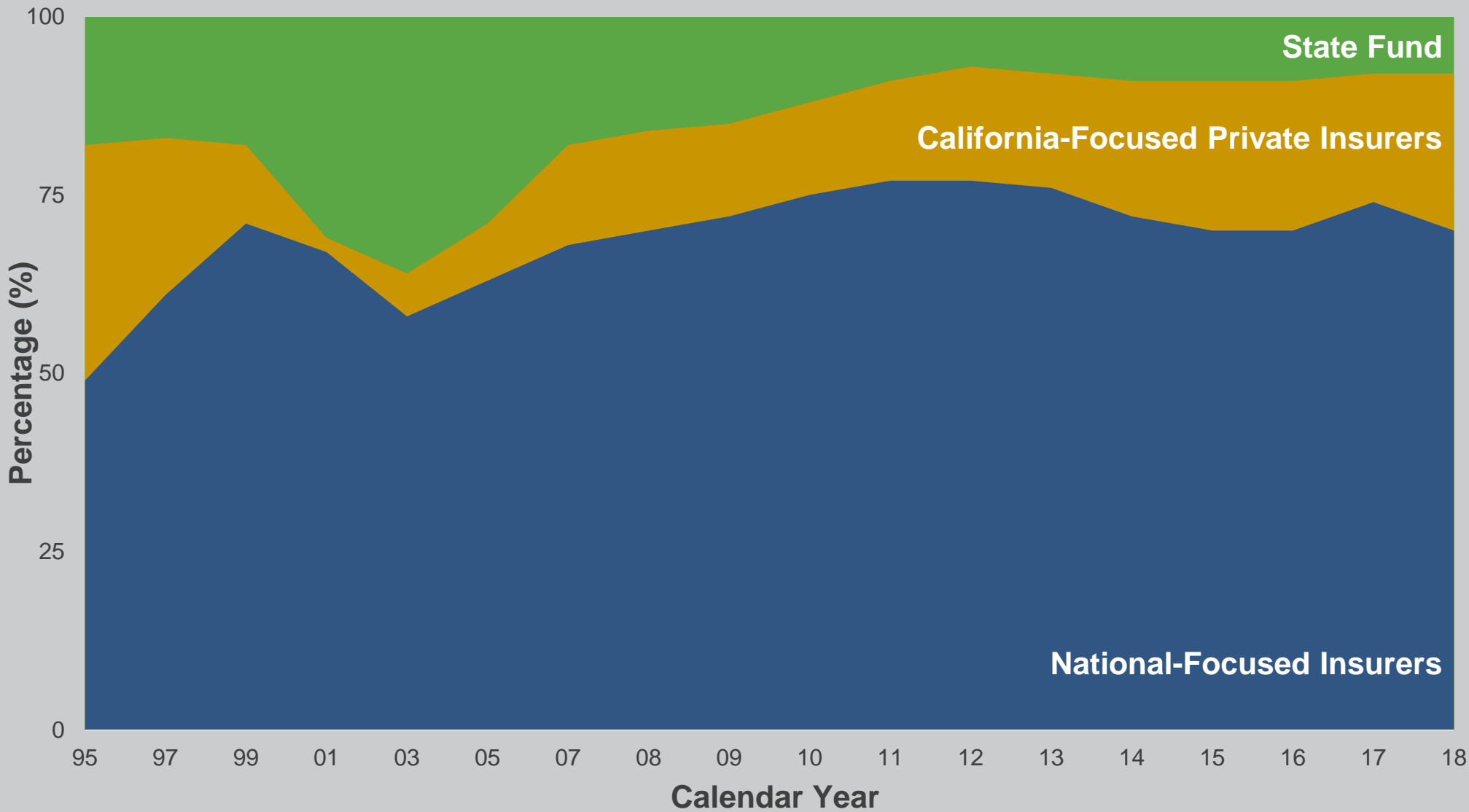
- The concentration of the California workers' compensation market peaked in the early 2000s, as the top 10 insurers by California premium volume controlled 80% of the market
- Market concentration ratios in 2018 are the lowest in decades, as the top 10 insurers by California premium volume control only half of the market



More Info



Chart 48: Market Share by Type of Insurer

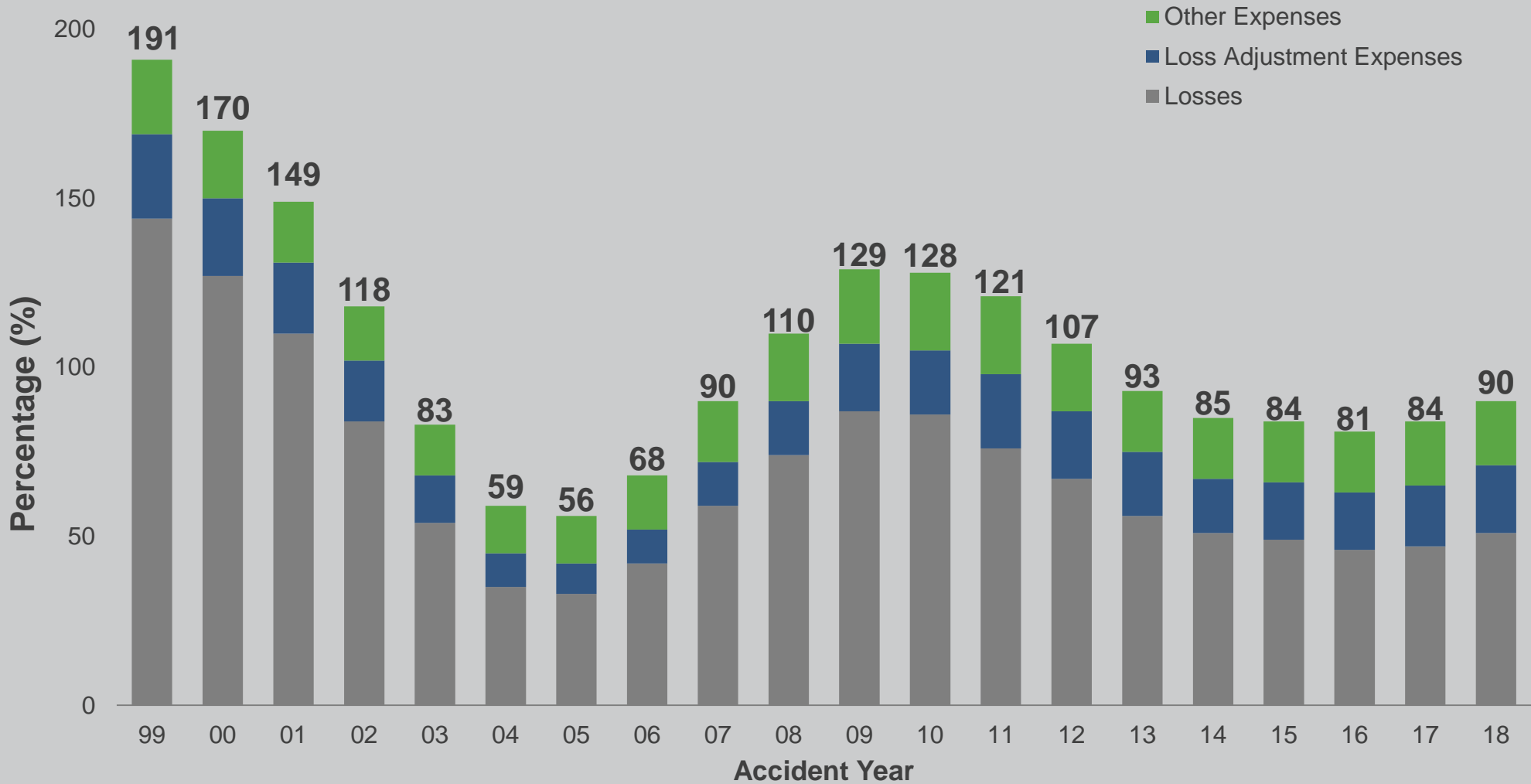


Insights and Recent Trends

- State Compensation Insurance Fund’s share of the market was at a historical low in 2018
- The share of private insurers that focus most of their workers’ compensation business in California has steadily grown since 2003



Chart 49: Projected Combined Loss and Expense Ratios



Insights and Recent Trends

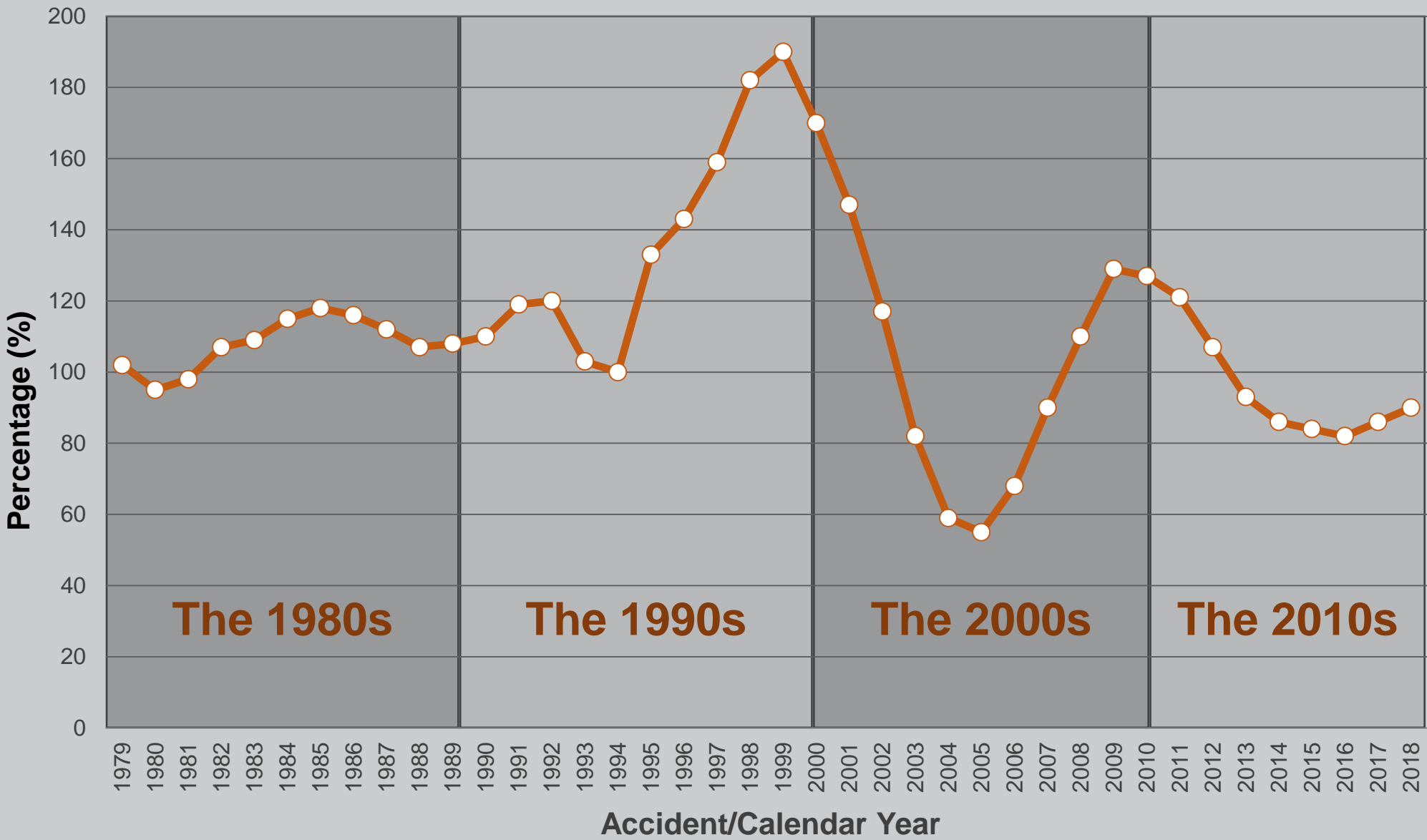
- Combined ratios in California have historically been volatile:
 - 135% improvement from 1999 to 2005
 - 73% deterioration from 2005 to 2009
 - 44% improvement from 2009 through 2014
- Recent industry ratios have been unprecedentedly stable with 2018 being the fifth consecutive year of a combined ratio of 90% or less
- Combined ratios grew modestly in 2017 and 2018, mostly driven by lower premium levels ([Chart 1](#))



More Info



Chart 50: Long-Term Industry Combined Ratios



Insights and Recent Trends

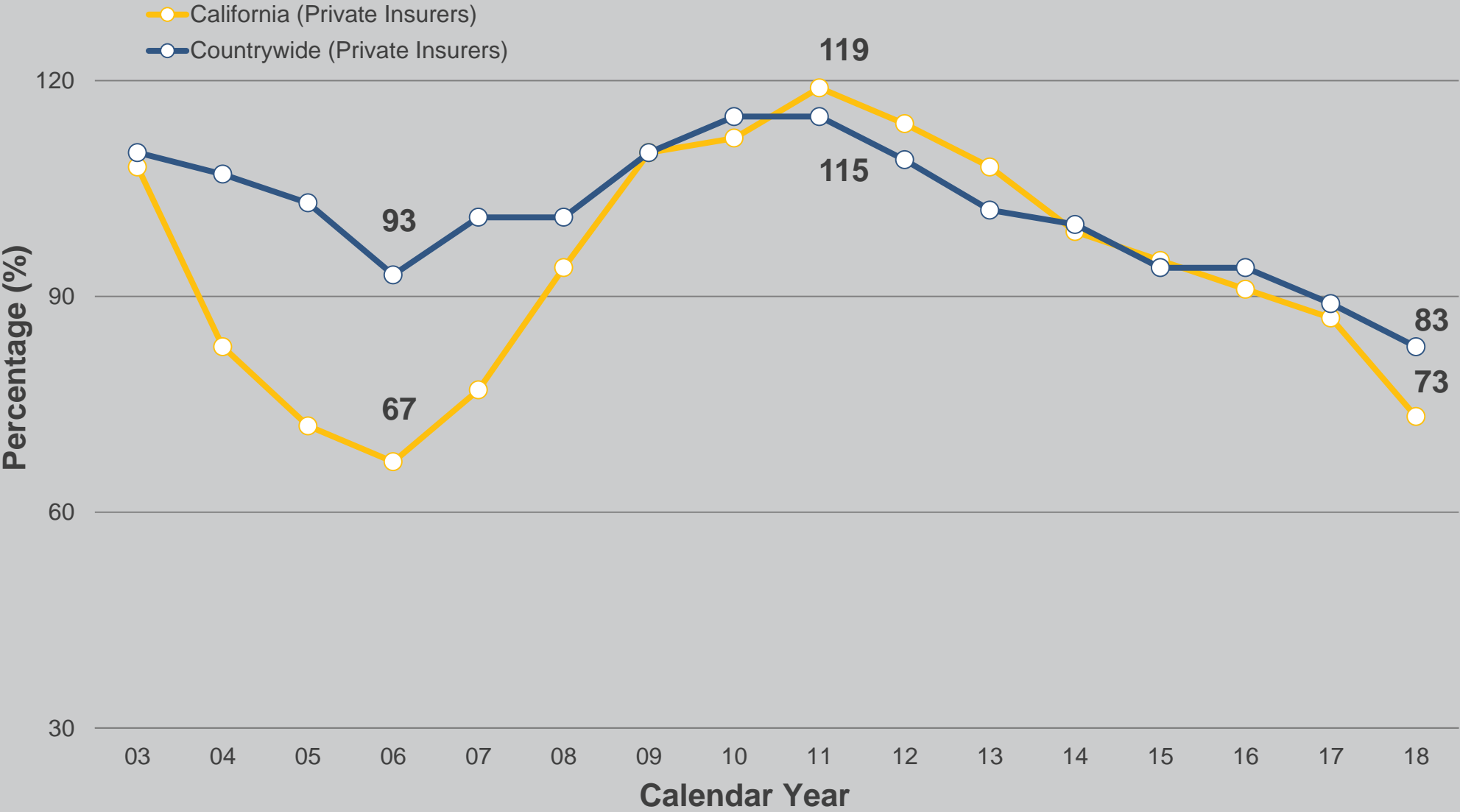
- Over the last 40 years, California combined ratios have been cyclical and volatile, with many years above 100%
- The crisis of the late 1990s and early 2000s led to historically high combined ratios and many insurer insolvencies
- The comprehensive reforms that followed in the mid-2000s led to unprecedentedly low combined ratios
- The impact of the most recent reforms on California combined ratios appears to be leveling off



More Info



Chart 51: Private Insurer Reported Combined Ratios



Insights and Recent Trends

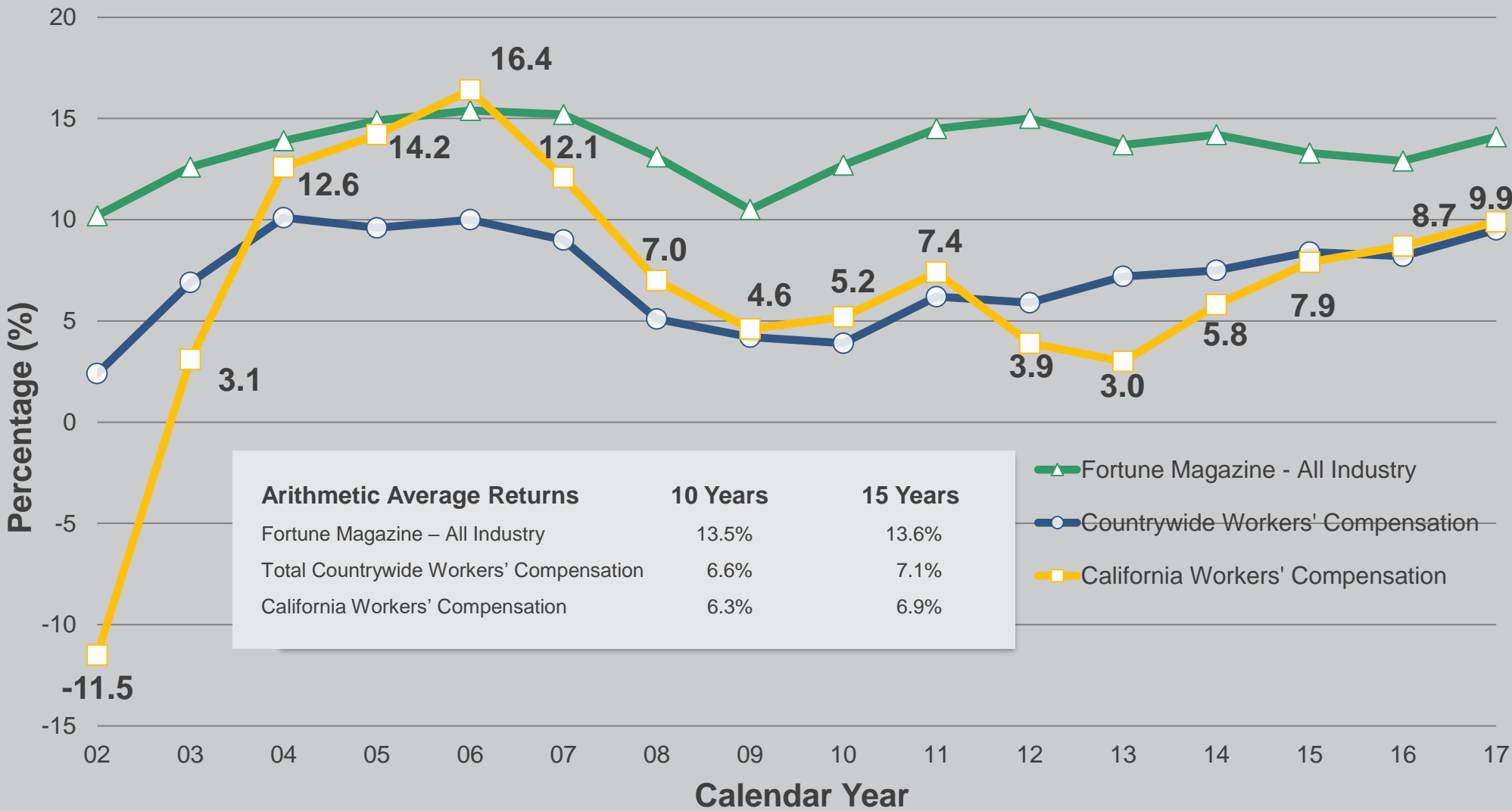
- Compared to countrywide ratios, California private insurer combined ratios have been more volatile
- Since 2016, California private insurer combined ratios are below the countrywide ratios
- The low calendar year 2018 combined loss ratio is largely attributable to reserve reductions on earlier accident years



More Info



Chart 52: Average Return on Net Worth



Insights and Recent Trends

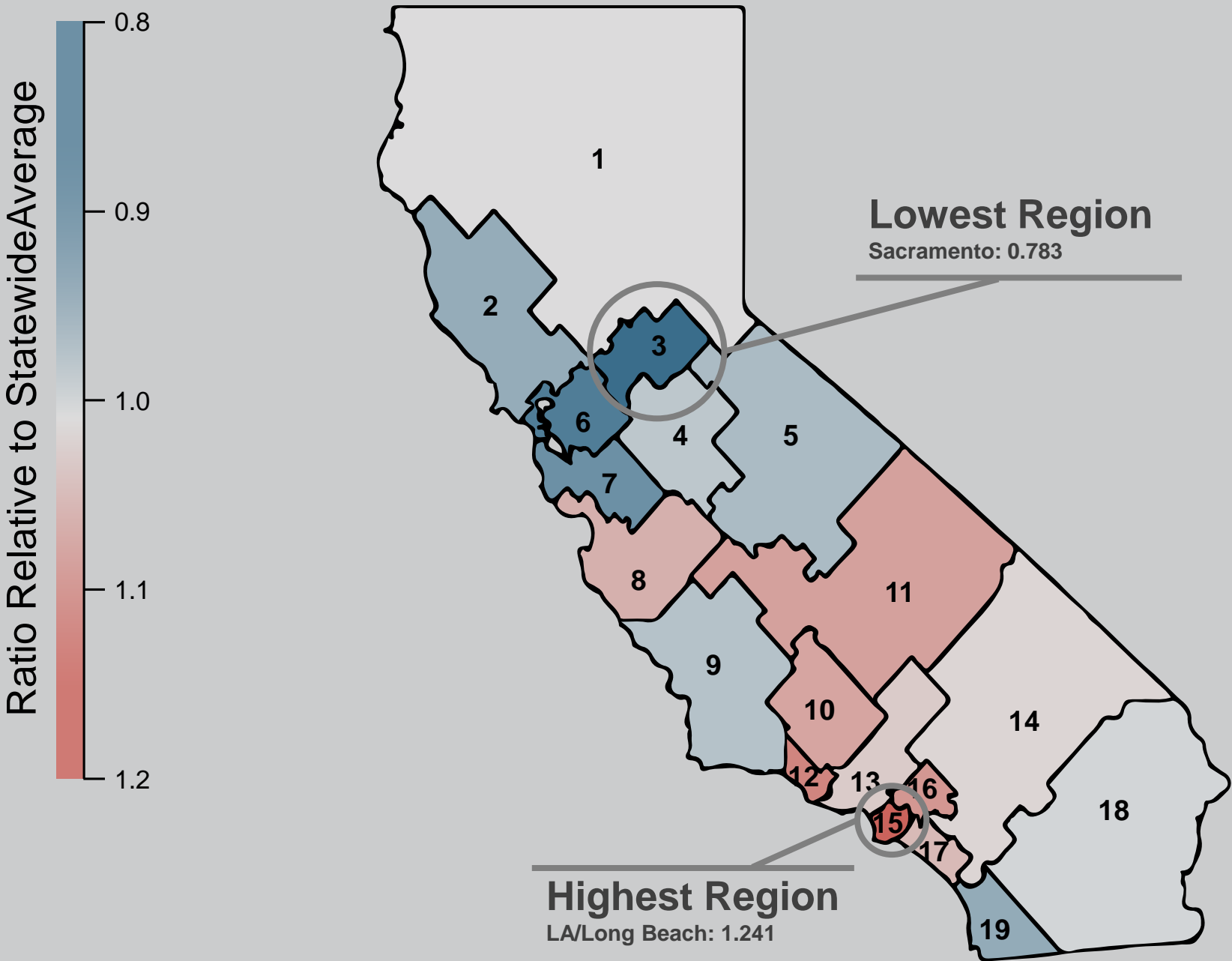
- California workers' compensation returns have been more volatile than the rest of the country
- Over the long term, average California workers' compensation returns have been comparable to the countrywide average for workers' compensation but well below the Fortune Magazine all-industry average



More Info



Chart 53: Loss Ratios Relative to Statewide Average



Insights and Recent Trends

- As with many other cost components, incurred loss ratio in Southern California is typically higher than the ratio in Northern California
- Relative loss ratios for the LA/Long Beach region are over 50% higher than ratios for the Sacramento region



More Info



Report Summary: 2019 State of the System

▪ Premium Levels Declining

- Continued rate decreases more than offsetting economic growth

▪ Insurance Market Healthy

- Non-concentrated market
- Rates continuing to decrease but remain among highest in the nation

▪ Cost Drivers

- Cumulative trauma claim frequency increasing in Los Angeles Basin and San Diego
- Severity declines moderating and severities beginning to turn upward
- Claim closing rates continuing to increase
- Loss adjustment expenses remain highest in nation
- Los Angeles Basin still significantly more costly than other regions

▪ Stable Combined Ratios and Favorable Industry Results

▪ Recent Legislation Continues to Drive Rate Decreases

- Reforms since 2012 saving \$3 billion annually
- Significant savings to liens, spinal surgeries and pharmaceutical costs

More Info

Appendix

Chart 1: Reported Written Premium

- Total premium from workers' compensation policies in California
- Does not reflect premium credits for policies that include deductibles (i.e., data is on a "first dollar" basis)

Source Data

- WCIRB aggregate financial data calls



Chart 2: Drivers of Written Premium Changes

- Annual California premium growth attributed to changes in insurer rates and economic expansion as reflected in increasing employer payrolls
- Changes in premium are impacted by several other factors such as the change in the average experience modification, more or less premium captured in audits of older policies and transitions in and out of self-insurance

Source Data

- WCIRB aggregate financial data calls and published California annual wage information
- Premiums are based on written premium gross of any deductible credits



Chart 3: Average Charged Rate per \$100 of Payroll

- Average rates per \$100 of payroll charged by insurers in California
- Shows the average cost of workers' compensation insurance paid by California employers
- Differs from advisory pure premium rates approved by the California Insurance Commissioner, which are advisory and only reflect the estimated cost of losses and loss adjustment expenses
- Since 1995, insurers file their own premium rates with the Insurance Commissioner that may, in part, be based on the Commissioner's approved advisory pure premium rates
- Data is categorized by the year the policies inceptioned

Source Data

- WCIRB aggregate financial data calls and unit statistical data
- Rates for 2019 are based on the first quarter only



Chart 4: Changes in Average Rates Since 2015

- Rates shown are per \$100 of payroll and are gross of deductible credits
- Advisory pure premium rates are based on those approved by the Insurance Commissioner, are advisory and only include the cost of losses and loss adjustment expenses
- Industry-filed manual rates include insurer filed pure premium rates as well as insurer-filed provisions for general expenses, acquisition expenses, taxes and fees and any profit provisions
- Average charged rates are based on the premiums actually charged to employers and include the impact of schedule credits and other premium adjustment plans

Source Data

- WCIRB unit statistical data and aggregate financial data calls and insurer rate filings with the California Department of Insurance



More Info



Chart 5: Rate Comparison by State Based on Oregon Studies

- California average charged insurer rates per \$100 payroll compared to other states' average charged insurer rates
- Based on the state of Oregon biennial study of workers' compensation rates with each state's average rates adjusted to the Oregon industrial mix
- Shows how California workers' compensation rates compare to those charged in other states

Source Data

- Oregon Workers' Compensation Premium Rate Ranking Calendar Year 2018
- Data is based on the Oregon classification mix and, as a result, the California average rates shown differ from other measures of the California average charged insurer rate



Chart 6: Distribution of Costs by Industrial Sector

- Total proportion of premium (based on the Insurance Commissioner's approved advisory pure premium rates) and payroll attributed to each industrial sector
- Shows the concentration of insured employer payrolls by industry
- Shows the relationship between payroll and advisory pure premium by industry

Source Data

- WCIRB unit statistical data for policy year 2016
- Industries are based on WCIRB classifications mapped to the North American Industry Classification System (NAICS) sectors



Chart 7: Distribution of Insured System Costs

- Distribution of total California workers' compensation insured system costs incurred in 2013 and 2018 by cost component
- Shows the major cost categories funded by the workers' compensation insurance premiums paid by California employers
- Data shown in billions of dollars as well as the percentage of the total insured system costs for that year

Source Data

- WCIRB aggregate financial data calls
- Changes in total insurer reserves by calendar year have been apportioned to indemnity and medical benefits based on the distribution of indemnity and medical payments during the calendar year



Chart 8: Distribution of Paid Indemnity Benefits

- Distribution of indemnity benefits paid in 2013 and 2018 by type of benefit
- Indemnity benefits are provided to injured workers or, in the case of fatal injuries, to their dependents to partially compensate for lost wages, with additional benefits provided if a worker suffers a permanent disability
- Indemnity benefits by type generally depend on the extent of the injury to the injured worker, the injured worker's pre-injury weekly wage and statutorily defined benefit levels

Source Data

- WCIRB aggregate financial data calls



More Info



Chart 9: Distribution of Paid Medical Benefits

- Distribution of medical benefits paid in 2013 and 2018 by type of medical service
- Includes information on a variety of medical treatments that are provided to injured workers, including physician visits, prescription medications, medical-legal evaluations and surgeries

Source Data

- WCIRB aggregate financial data calls and medical transaction data
- Figures exclude medical cost containment program payments (which are included as a portion of loss adjustment expenses; see Chart 11)



Chart 10: Distribution of 2018 Paid Medical by Category

- Distribution of physician services, inpatient and outpatient services and pharmaceutical payments made in 2018 by detailed type of service

Source Data

- WCIRB medical transaction data



Chart 11: Distribution of 2018 Paid Frictional Costs

- Distribution of the major categories of frictional costs including allocated loss adjustment expenses, or ALAE, unallocated loss adjustment expenses, or ULAE, applicant attorney fees, medical cost containment program costs and medical-legal costs paid in 2018
- ALAE are the costs associated with defending workers' compensation claims when there are disputes (defense attorney expenses and other ALAE costs) and managing the cost of medical treatment (medical cost containment)
- ULAE are the costs associated with insurer claims staff in administering workers' compensation claims
- Applicant attorney fees are shown as frictional costs but are reported in indemnity benefits as they are typically based on a portion of the permanent disability award provided to the injured worker
- Medical-legal costs are shown as frictional costs but are reported in medical benefits

Source Data

- WCIRB aggregate financial data calls



Chart 12: Indemnity Claims per 1,000 Employees

- Estimated number of workers' compensation indemnity claims filed in California per 1,000 insured employees
- Shows trends in the frequency of workers' compensation injuries
- Changes in claim frequency can be driven by changes in the mix of industries in California, the level of mechanization within industries, workplace safety practices, indemnity benefit levels and the overall state of the California economy
- Data is categorized by the year the injury occurred (accident year)

Source Data

- WCIRB unit statistical data (through 2017) and aggregate financial data calls (2018 and 2019). 2019 is preliminary based on 3 months



More Info



Chart 13: Indemnity Claim Frequency Indexed to 1998

- California claim frequency indexed to the 1998 level compared to a composite of frequency estimates based on states reporting data to the National Council on Compensation Insurance (NCCI)—an organization that provides a similar function to the WCIRB for many other states

Source Data

- WCIRB unit statistical data and *NCCI 2019 State of the Line Guide*



Chart 14: Change in Indemnity Claim Frequency

- California claim frequency changes regionally compared to those for the NCCI states' average
- Shows how claim frequency trends differ regionally within California and which regions are more comparable to countrywide averages

Source Data

- WCIRB unit statistical data and NCCI 2019 State of the Line Guide (2018 is preliminary)
- California regions are based on the address reported on the workers' compensation policy
- The California figure shown for 2018 is preliminary and based on the entire state



Chart 15: Regional Differences in Indemnity Claim Frequency

- Heat map of California regions showing indemnity claim frequency levels relative to the statewide average frequency
- Shows which regions in California have higher or lower claim frequency rates when compared to the state as a whole
- The mix of industries and average wage levels can significantly impact claim frequency rates, so the data is adjusted to control for these differences across regions to show the figures on a comparable basis

Source Data

- WCIRB unit statistical data for policy year 2016 at 1st report level
- Region information obtained by linking WCIRB policy and unit statistical data with Hoover's/Dun and Bradstreet location information as well as WCIRB medical transaction data
- For more information on the study of regional cost differences within California, see the [2018 WCIRB Geo Study](#)



Chart 16: Percent of Indemnity Claims Involving Cumulative Trauma

- Proportion of total indemnity claims that involve a cumulative trauma injury
- Most workers' compensation claims (i.e., non-cumulative trauma injuries) result from a single accident or specific incident causing injury
- Cumulative trauma injuries result from a prolonged period of exposure (many years in some cases) causing cumulative trauma over time

Source Data

- WCIRB unit statistical data developed to an estimated ultimate level
- Cumulative trauma also includes occupational disease claims
- For more information on recent cumulative trauma claim trends, see the WCIRB's report on [The World of Cumulative Trauma Claims](#)



More Info



Chart 17: Percent Cumulative Trauma Claims by Region

- Proportion of total indemnity claims within regions of California that involve a cumulative trauma injury
- The data is shown for early reported cumulative trauma claims; since cumulative trauma claims are often late reported, the regional differences may be even greater when including late-reported claims

Source Data

- WCIRB unit statistical data at 1st unit statistical report level
- Regions are based on the address reported on the California workers' compensation policy
- Cumulative trauma also includes occupational disease claims
- For more information on recent cumulative trauma claim trends, see the WCIRB's report on [The World of Cumulative Trauma Claims](#)



Chart 18: Permanent Disability Claims per 100,000 Employees

- Comparison of California permanent partial disability claim frequency per 100,000 insured employees to that of other states
- Approximately one-half of all indemnity claims in California involve some form of permanent disability
- Claims involving permanent disability generate the vast majority of costs in the workers' compensation system
- Permanent partial disability in California is determined based on *the American Medical Association (AMA) Guides 5th Edition*
- Other states that utilize the *AMA Guides 5th Edition* do not have a significantly higher rate of permanent disability claims

Source Data

- 2018 NCCI Annual Statistical Bulletin for policy year 2014 and WCIRB unit statistical data

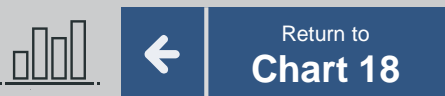


Chart 19: Average Indemnity Cost per Indemnity Claim

- Average cost of indemnity benefits per indemnity claim
- Changes in indemnity cost per claim can be driven by changes in statutory benefit levels, changes in average weekly wage levels on which a large proportion of indemnity benefits are predicated, changes in the duration of claims and changes in the mix of the types of indemnity benefits (such as temporary disability or permanent disability benefits)

Source Data

- WCIRB aggregate financial data calls as of March 31, 2019
- Values are developed to a final or ultimate cost basis by the WCIRB



Chart 20: Change in Average Indemnity Cost per Indemnity Claim

- Annual percent changes in average indemnity costs for California

Source Data

- WCIRB aggregate financial data calls as of March 31, 2019
- Values are developed to a final or ultimate cost basis by the WCIRB

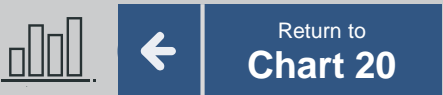
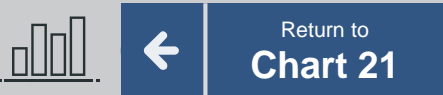


Chart 21: Indemnity Cost Level Indexed to 1997

- California average indemnity costs indexed to the 1997 level compared to the composite estimate for NCCI states
- California average indemnity costs are also compared to the growth in average annual wages earned by California employees

Source Data

- WCIRB aggregate financial data calls as of March 31, 2019, NCCI 2019 State of the Line Guide (2018 is preliminary), and U.S. Bureau of Labor Statistics



More Info



Chart 22: Indemnity Cost per Indemnity Claim by State

- Comparison of California average indemnity cost per indemnity claim to that of other states

Source Data

- 2018 NCCI Annual Statistical Bulletin based on policy year 2014 at 1st report level developed to a final or ultimate cost basis, California data updated with policy year 2015



Chart 23: Average Medical Cost per Indemnity Claim

- Average cost of medical benefits per indemnity claim by accident year
- Changes in medical costs per claim can be driven by changes in reimbursement rates from California medical fee schedules, legislative reforms impacting the medical benefit delivery system, changes in the utilization of medical services and overall medical cost inflation

Source Data

- WCIRB aggregate financial data calls as of March 31, 2019
- Data excludes the cost of medical-only claims and, for consistency of comparison, includes the cost of medical cost containment programs
- Values are developed to a final or ultimate cost basis by the WCIRB



Chart 24: Medical Cost Level Indexed to 2001

- The average medical cost indexed to the 2001 level for workers' compensation systems and for California group health premium levels
- Data is categorized by year of injury for the California and NCCI state data and by calendar year for California Group Health Premium data

Source Data

- WCIRB aggregate financial data calls as of March 31, 2019, excluding the cost of medical-only claims and including the cost of medical cost containment programs (for consistency of comparison), developed to a final or ultimate cost basis by the WCIRB
- NCCI state estimates are based on the 2019 State of the Line Guide (2018 estimate is preliminary)
- Summary group health cost information is from the California Employer Health Benefits Survey published by the California Healthcare Foundation



Chart 25: Change in Average Medical Cost per Indemnity Claim

- Annual percent changes in average medical cost per indemnity claim for California

Source Data

- WCIRB aggregate financial data calls as of March 31, 2019
- Values for 2012 and forward exclude the cost of medical cost containment programs while values for 2011 and prior include these costs



More Info



Chart 26: Medical Cost per Indemnity Claim by State

- Comparison of California average medical cost per indemnity claim to that of other states

Source Data

- 2018 NCCI Annual Statistical Bulletin based on policy year 2014 at 1st report level developed to a final or ultimate cost basis, California data updated with policy year 2015



Chart 27: Medical Service Cost Level Indexed to 2012

- Changes in the average paid per medical service transaction, the average number of medical service transactions per claim and the average total paid for medical services per claim indexed to the 2012 level
- Data is categorized by the year in which the medical service was provided

Source Data

- WCIRB medical transaction data



Chart 28: Pharmaceutical Cost Level Indexed to 2012

- Changes in the average paid per pharmaceutical transaction, the average number of pharmaceutical transactions per claim and the average total paid for pharmaceuticals per claim indexed to the 2012 level
- Data is categorized by the year in which the medical service was performed

Source Data

- WCIRB medical transaction data



Chart 29: Opioid Costs per 100 Claims

- Total dollars paid for opioid prescriptions per 100 claims with medical services in a particular service year
- Opioids are among the most powerful drugs prescribed for pain relief
- According to the Food and Drug Administration, although opioids can help manage pain when used properly, when abused they can cause serious harm, including addiction, overdose and death

Source Data

- WCIRB medical transaction data



Chart 30: Median Cost of Opioid Use Claims at 4 Years

- Compares the median paid and incurred indemnity and medical benefits per claim for claims involving high-risk opioid use with those involving lower-dose opioid use
- A claim involving high-risk opioid use is defined as using 50 Morphine Milligram Equivalents or more per day for at least 30 consecutive days
- Claims have been controlled for the type of pain based on the medical diagnosis and any surgeries performed

Source Data

- WCIRB medical transaction data
- For more information on the study of opioids, see the [Early Indicators of High-Risk Opioid Use and Potential Alternative Treatments](#) report



More Info



Chart 31: Percent of Ultimate Medical Cost Paid at 3 Years

- Comparison of the estimated percentage of ultimate medical costs paid after three years to that of other states
- High numbers represent states that pay medical costs faster while low numbers represent states that pay medical costs slower
- Two California estimates are shown, one projected as of December 31, 2012 and one projected as of December 31, 2018

Source Data

- 2018 NCCI Annual Statistical Bulletin based on the average of the two most recent development years and WCIRB aggregate financial data calls



Chart 32: Percent of Medical Losses Paid by Year

- Comparison of the estimated percentage of ultimate medical costs paid in each year to that for the composite of NCCI states
- Workers' compensation claims can remain open and receive medical treatment for several years after the injury occurs
- Pharmaceuticals and medical liens are more often paid several years after the year the injury occurs while physician services are more often paid earlier

Source Data

- 2018 NCCI Annual Statistical Bulletin based on the average of the two most recent development years and WCIRB aggregate financial data calls



Chart 33: Percent of Indemnity Claims Unreported at 12 Months

- Comparison of the California percentage of the estimated total number of indemnity claims that have not yet been reported by the end of the first 12 months of the year of injury to that of other states
- Workers' compensation indemnity claims can sometimes be reported much later after the time of the injury, for a variety of reasons

Source Data

- California figures are from WCIRB aggregate financial data
- Individual state summaries were provided by NCCI, the Minnesota Workers' Compensation Insurers Association, the Workers' Compensation Rating and Inspection Bureau of Massachusetts and the Pennsylvania Compensation Rating Bureau



Chart 34: Percent of Indemnity Claims Open at 60 Months

- Comparison of the California percentage of the reported number of indemnity claims that are still open at 60 months (or 5 years) from the beginning of the year of injury to that of other states
- Workers' compensation claims remain open while statutory indemnity benefits are paid and medical treatment is provided to injured workers
- Other factors that may keep claims open include the existence of unsettled medical liens or unresolved disputes regarding medical treatment or the extent of permanent disability

Source Data

- California figures are from WCIRB aggregate financial data calls
- Individual state summaries were provided by NCCI, the Minnesota Workers' Compensation Insurers Association, the Workers' Compensation Rating and Inspection Bureau of Massachusetts, the New York Compensation Insurance Rating Board and the Pennsylvania Compensation Rating Bureau



More Info



Chart 35: Percent of Open Indemnity Claims Closed During Next Year

- Ratio of the number of indemnity claims closed during a calendar year to the number of claims open at the beginning of the year
- Higher closing rates indicate claims have been moving quicker through the system, reducing the need for future costs

Source Data

- WCIRB aggregate financial data calls



Chart 36: Pharmaceutical Share of Medical Loss by Maturity Level

- Shows the percentage of the total payments made in the year the injury occurs that were for pharmaceuticals compared to the percentage of total payments made 11 years or later after the injury occurs that were for pharmaceuticals
- Different types of medical treatments occur in the life of a workers' compensation claim, some happening very early after the injury occurs and some happening much later if the claim remains open

Source Data

- WCIRB medical transaction data



Chart 37: Ratios of Unallocated Loss Adjustment Expenses to Losses

- Comparison of the ratio of unallocated loss adjustment expenses to losses for California to that of other states
- Unallocated loss adjustment expenses (or ULAE) include the cost of insurer claim staff to administer the claims and other claims related expenses that cannot be allocated to a particular claim
- ULAE is significantly correlated with the length of time claims remain open

Source Data

- 2018 NCCI Annual Statistical Bulletin and the WCIRB's January 1, 2019 Pure Premium Rate Filing

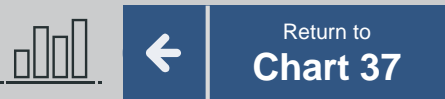
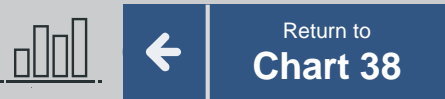


Chart 38: Ratios of Allocated Loss Adjustment Expenses to Losses

- Comparison of the ratio of allocated loss adjustment expenses to losses for California to that of other states
- Allocated loss adjustment expenses (or ALAE) include the cost of attorney and other legal expenses in defending claims, the cost of medical cost containment programs and other court-related expenses

Source Data

- 2018 NCCI Annual Statistical Bulletin and the WCIRB's January 1, 2019 Pure Premium Rate Filing



More Info



Chart 39: Average Allocated Loss Adjustment Expenses per Indemnity Claim

- Average cost of loss adjustment expenses that can be allocated to a particular claim
- ALAE costs include the cost of attorney and other legal expenses in defending claims, the cost of medical cost containment programs, the cost of independent medical review and independent medical bill review, and other court-related expenses
- Legal expenses arise on claims during disputes over medical treatment or the extent of permanent disability, in the course of handling liens filed on claims and during the process of settling claims

Source Data

- WCIRB aggregate financial data as of December 31, 2018 for private insurers writing workers' compensation business in California
- Values are developed to a final or ultimate cost basis by the WCIRB
- Figures exclude the cost of medical cost containment programs for consistency of comparison



Chart 40: Paid ALAE as a Ratio to Incurred Losses

- Heat map of California regions showing the ratio of paid allocated loss adjustment expenses to incurred losses
- Shows which regions in California have a higher proportion of expenses to deliver the same level of incurred benefits

Source Data

- WCIRB unit statistical data for policy year 2016 at 1st report level for permanent disability claims
- Region information obtained by linking WCIRB policy and unit statistical data with Hoover's/Dun and Bradstreet location information as well as WCIRB medical transaction data
- For more information on the study of regional cost differences within California, see the [2018 WCIRB Geo Study](#)



Chart 41: Percent of Represented Permanent Disability Claims

- Percentage of claims involving permanent disability that involve representation by an applicant's attorney for the injured worker
- A represented claim will typically involve more legal expenses than a non-represented claim

Source Data

- WCIRB Permanent Disability Claim Survey
- Regional information is based on the Workers' Compensation Appeals Board office to which the claim is assigned



Chart 42: Cost to Deliver \$1 of Benefits

- Compares the California cost to deliver \$1 of benefits measured as loss adjustment expense costs and other related claims administrative costs to claims administrative costs in other systems that provide medical benefits
- California claims administrative costs include allocated loss adjustment expenses, unallocated loss adjustment expenses, medical-legal costs, applicant attorney fees and the cost of medical cost containment programs

Source Data

- Workers' compensation figures are from WCIRB aggregate financial data calls and the 2018 NCCI Annual Statistical Bulletin
- Medicare figures are from the Centers for Medicare and Medicaid Services 2018 Medicare Trustees Report
- Private group health insurance figures are estimated from a number of published studies on group health administrative costs



More Info



Chart 43: WCIRB Cost Evaluation of Reforms Since 2012

- WCIRB estimates of the cost impact of the major provisions of SB 863 (2012), SB 1160 and AB 1244 (2016), and the new drug formulary implemented in 2018 pursuant to AB 1124 (2015)
- Percentages shown are cumulative estimates through the end of 2018
- Dollar values shown are annual costs or savings for the entire workers' compensation system
- The \$3 billion in annual savings cumulates to a total savings of over \$15 billion through the end of 2018

Source Data

- [Senate Bill No. 863 WCIRB Cost Monitoring Report – 2016 Retrospective Evaluation](#) and [WCIRB Actuarial Committee annual legislative cost monitoring reviews](#)



Chart 44: Number of Independent Medical Reviews Filed

- Shows the number of independent medical reviews (IMRs) filed in each calendar quarter
- The IMR process was implemented in 2013 as a part of SB 863, intended as a mechanism to resolve medical treatment disputes that are denied through the utilization review process
- IMR was initially estimated to replace other medical treatment dispute mechanisms such as expedited hearings and medical-legal reports, but these mechanisms continue to be utilized
- IMR in addition to independent bill review and other SB 863 provisions have significantly reduced the average medical cost on claims
- IMR is typically requested by the injured worker or applicant's attorney, but the cost of the IMR is paid by the insurer or self-insured employer

Source Data

- California Division of Workers' Compensation (values are in thousands)



Chart 45: Average Medical Cost Containment Program Cost per Indemnity Claim

- Average cost of medical cost containment program (MCCP) costs per indemnity claim
- MCCP costs include the cost of utilization review, bill review and medical provider network fees
- Although used to help manage the cost of medical treatment, MCCP costs are considered allocated loss adjustment expenses (ALAE) by the WCIRB since they are not a direct benefit

Source Data

- WCIRB aggregate financial data as of December 31, 2018
- Values are developed to a final or ultimate cost basis by the WCIRB



Chart 46: Lien Filings by Quarter

- Shows the total number of liens filed in the system by calendar year and quarter based on the date the lien was filed
- SB 863 included a statute of limitations on lien filings that resulted in temporary increases to lien filings from the first quarter of 2015 through the second quarter of 2016 for which two statutes applied
- SB 1160 and AB 1244 provided additional reforms to lien filings including restrictions on the ability to reassign liens to third parties, a requirement that every lien be filed with a declaration under penalty of perjury and a stay on liens filed by providers indicted for fraud
- Lien filings were atypically high in the fourth quarter of 2016 as a result of the transition to SB 1160 and AB 1244; many of these liens would otherwise have been filed in the first quarter of 2017

Source Data

- California Division of Workers' Compensation Electronic Adjudication Management System



More Info



Chart 47: Market Concentration Ratios

- Shows the proportion of California premium written by the largest 5 insurers in the state, the 6th through 10th largest insurers, and the remaining insurers collectively
- A highly concentrated market where the largest insurers write the vast majority of the premium is generally less competitive than a low concentrated market

Source Data

- WCIRB aggregate financial data calls



Chart 48: Market Share by Type of Insurer

- Shows the proportion of California premium written by State Compensation Insurance Fund, private insurers that write 80% or more of their workers' compensation business in California (i.e., "California-focused private insurers") and private insurers that write a large proportion of their workers' compensation business in other states (i.e., "National Insurers")
- A market where insurers focused in California write a large share of the workers' compensation business is one sign of a healthy market

Source Data

- WCIRB aggregate financial data calls
- California-Focused Private Insurers are private insurers that write 80% or more of their workers' compensation business in California



Chart 49: Projected Combined Loss and Expense Ratios

- Ratios of WCIRB projected losses and expenses to insurer premium by accident year
- Combined ratios are a commonly used measure to evaluate the profitability of insurers from an underwriting perspective
- Due to investment income earned on collected premiums as claims are paid out over many years, insurers can generate a profit with a combined ratio above 100%, assuming a favorable investment climate
- Industry combined ratios significantly over 110% could, over a sustained period, threaten the competitive viability of the insurance market

Source Data

- WCIRB projections based on aggregate financial data calls as of March 31, 2019



Chart 50: Long-Term Industry Combined Ratios

- Ratios of losses and expenses to insurer premium by calendar/accident year over a 40-year period
- Industry combined ratios are typically cyclical over the long term, with competition and changes in underlying costs driving periods of increasing and decreasing ratios

Source Data

- WCIRB aggregate financial data and projections



More Info



Chart 51: Private Insurer Reported Combined Ratios

- Comparison of the ratio of losses and expenses to insurer premium for private insurers writing workers' compensation business in California to the countrywide average for private insurers by calendar year
- These ratios differ from those shown on Chart 49 in that they are for private insurers only and are based on reported losses during the calendar year on all open claims regardless of when the claim occurred

Source Data

- California ratios are based on WCIRB aggregate financial data calls
- Countrywide estimate is based on the *NCCI 2019 State of the Line Guide* computed based on Annual Statement data (the 2018 estimate is preliminary)
- Excludes the impact of State Compensation Insurance Fund and other state funds



Chart 52: Average Return on Net Worth

- Summary of total return on net worth for California workers' compensation compared to countrywide workers' compensation and the Fortune magazine all-industry average
- Reflects the impact of investment income, federal income taxes and insurer profits, as reported by the National Association of Insurance Commissioners (NAIC), that are not included in insurer combined ratios

Source Data

- NAIC Report on Profitability in 2017
- The NAIC estimates the total return to the industry after reflecting premiums, losses and expenses, as well as allocations of an insurer's total investment income, federal income taxes and policyholder surplus to California workers' compensation

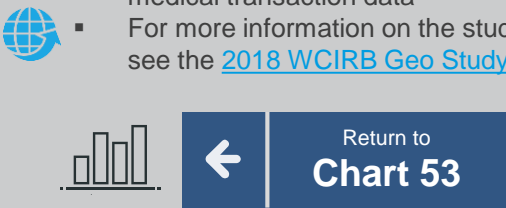


Chart 53: Loss Ratios Relative to Statewide Average

- Heat map showing incurred losses as a ratio to advisory pure premium after the application of experience modifications for California regions relative to the statewide average ratio
- Shows which regions in California have higher or lower loss ratios when compared to the state as a whole
- The mix of industries and average wage levels can significantly impact total loss ratios, so the data is adjusted to remove these differences across regions to show the figures on a comparable basis

Source Data

- WCIRB unit statistical data for policy year 2016 at 1st report level
- Region information obtained by linking WCIRB policy and unit statistical data with Hoover's/Dun and Bradstreet location information as well as WCIRB medical transaction data
- For more information on the study of regional cost differences within California, see the [2018 WCIRB Geo Study](#)



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