

2024

Impact of Economic Changes on California Workers' Compensation

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Executive Summary



Rebound

Employment in most industries fully recovered from the initial pandemic related changes by the end of 2022, but employment in Retail is expected to remain below 2019 levels until 2026 while employment in Hospitality fully recovered in 2023



Projected Lows

Projected changes to frequency and severity due to industry mix of employment are negligible through 2026

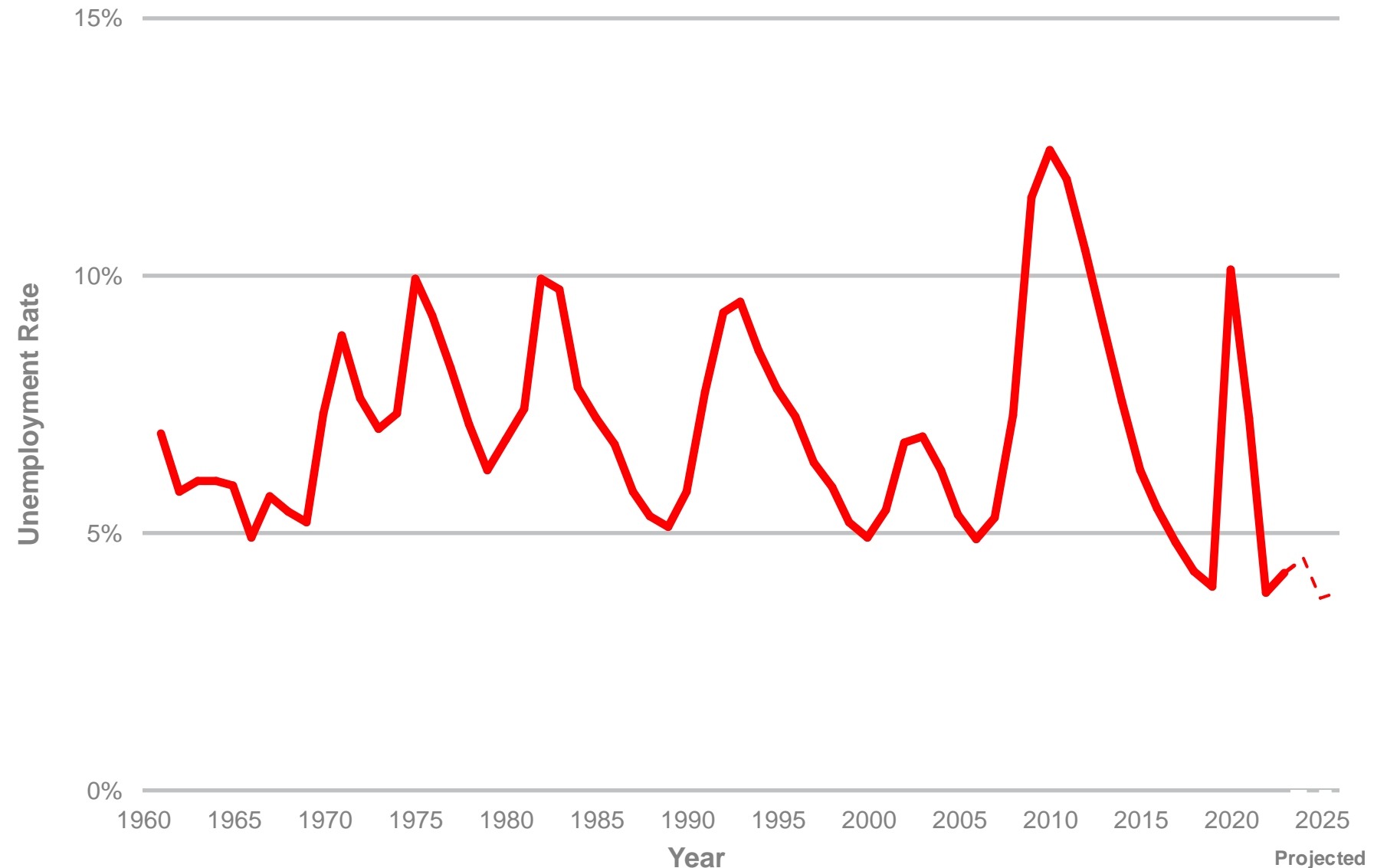
Overall Economic Impact

Annual California Unemployment Rate

Unemployment is forecast to increase slightly in 2024 and then decrease slightly, remaining at historically low levels.

WCIRB research has found that increases in unemployment are correlated with decreases in indemnity claim frequency.

Given the current forecast of changes in the unemployment rate is small, there would also be a small impact on changes in indemnity claim frequency.

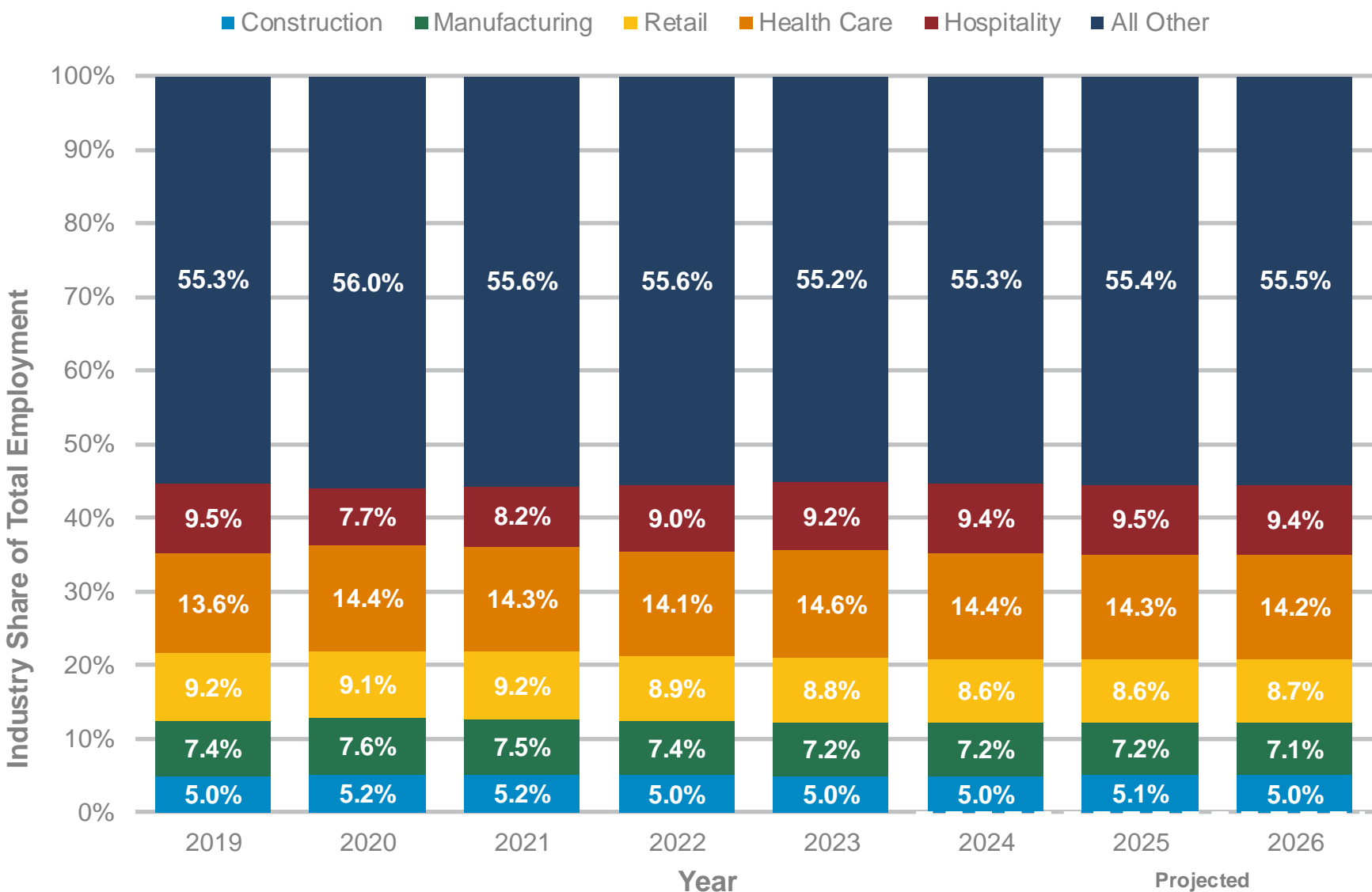


Distribution of Employment by Industry

In 2020, the number of workers employed in the Hospitality industry decreased dramatically, from 9.5% to 7.7% of the statewide workforce. Hospitality employment is forecast to approach the 2019 share by 2024 and then level off.

The share of employment in Health Care has increased since 2019 and is expected to remain above the 2019 level through 2026.

The share of employment in other key industries has remained relatively stable since 2019.

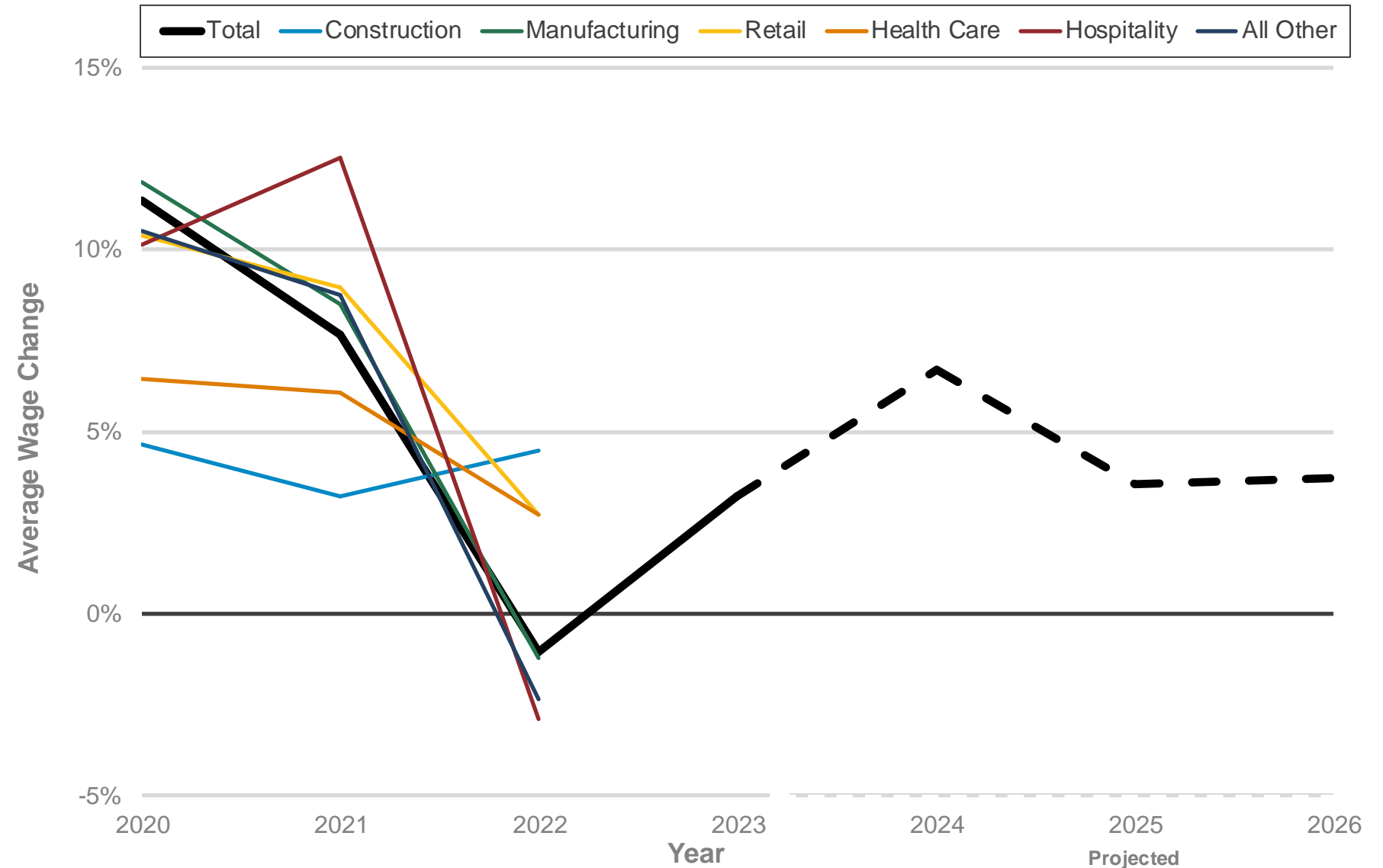


Annual Change in Average Wage by Industry

Wages overall are forecast to increase strongly in 2024 and return to a lower increase in 2025 and 2026.

In recent years, wages have increased at relatively consistent levels for Construction and Health Care while increasing significantly more in other industries. This is partially because lower wage employees were more likely to be laid off during 2020.

In 2022, wages in these industries increased at a lower level and decreased in Hospitality and Manufacturing.

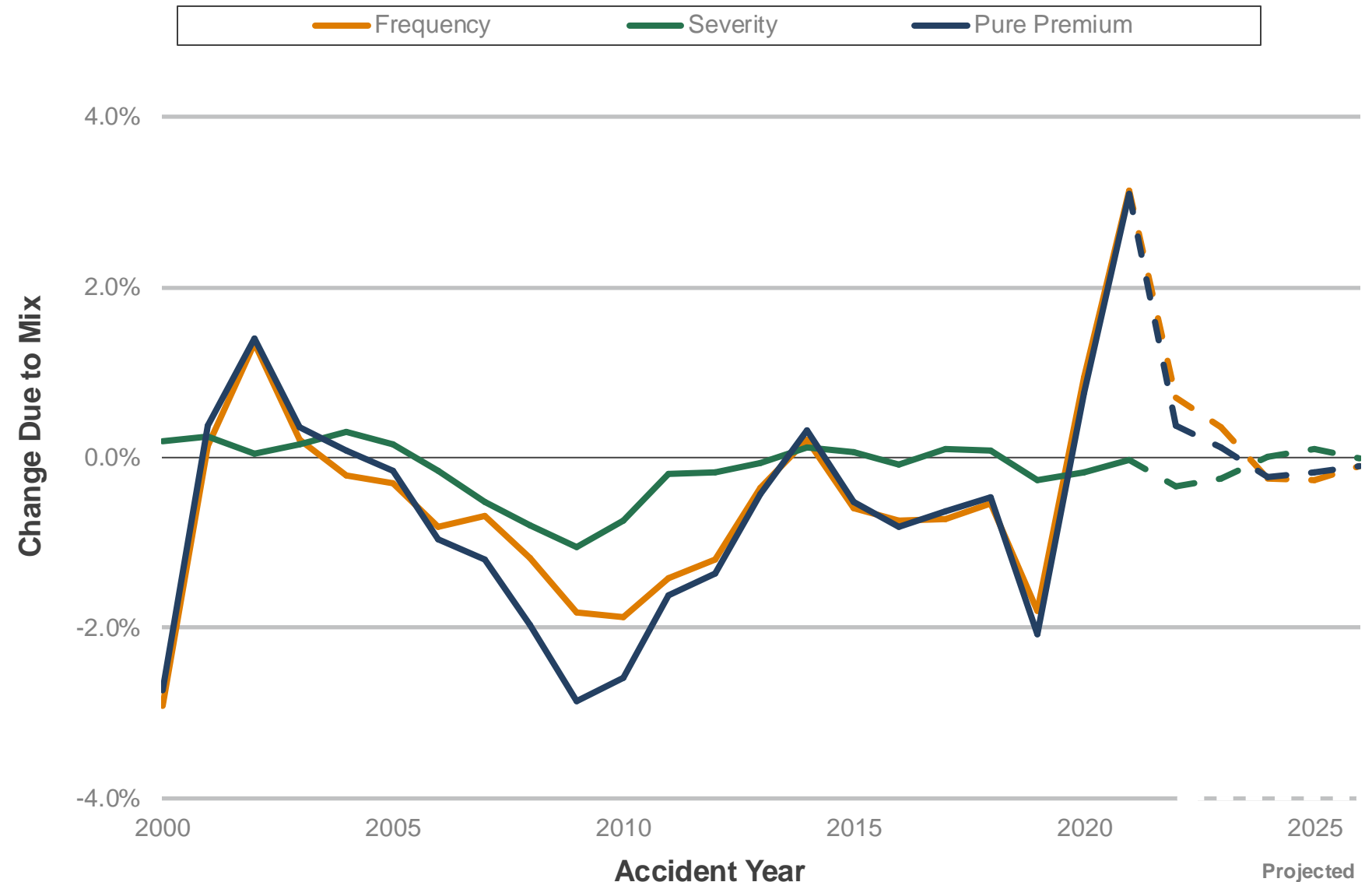


Change in Frequency, Severity and Pure Premium Due to Industrial Mix

In 2021, claim frequency increased substantially due to the mix of employment by industry.

The increase was largely driven by the return of Hospitality employment, as this industry has much higher claim frequency relative to other industries.

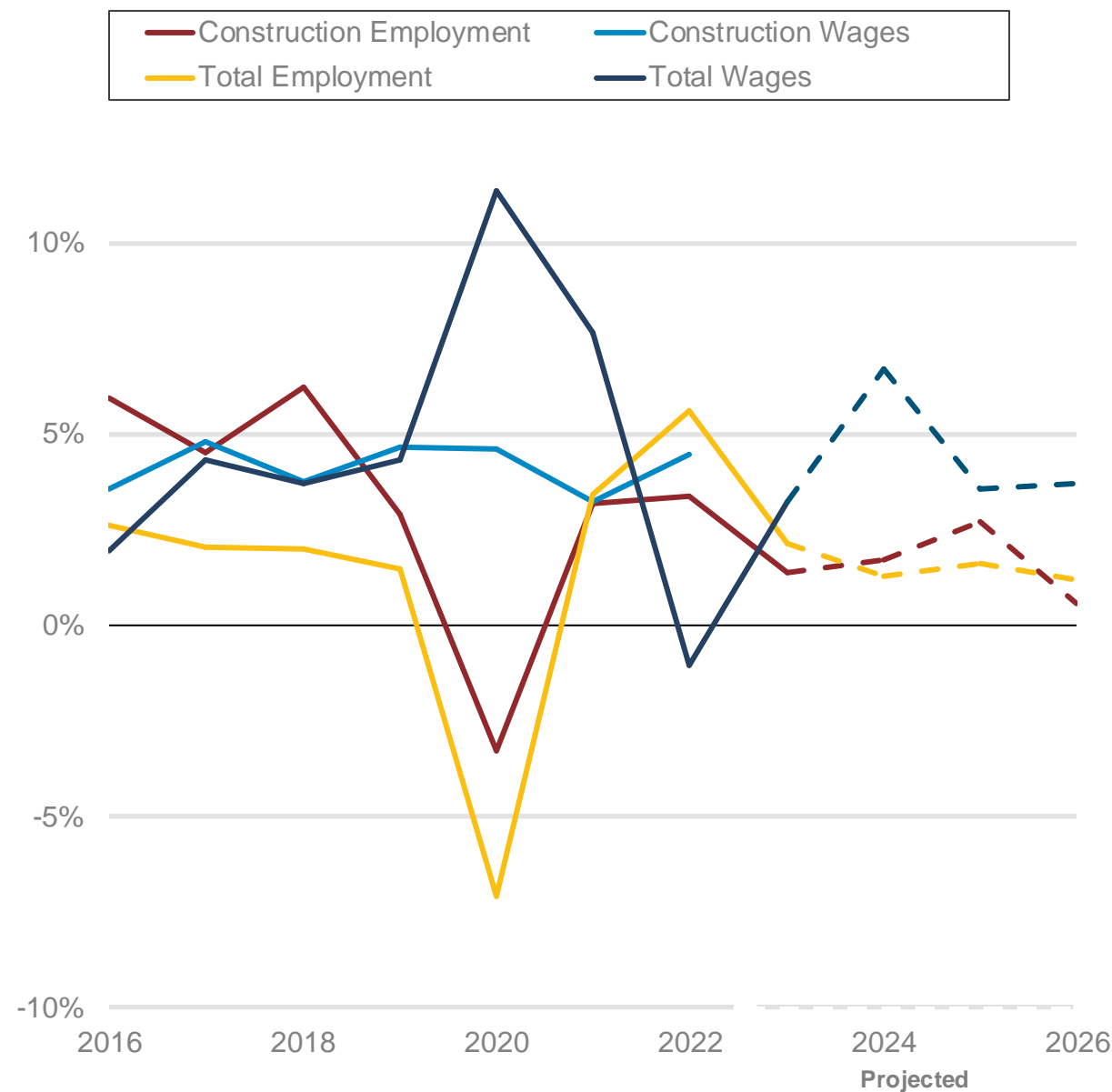
Modest industry mix impacts on frequency and severity are projected to continue and offset each other, yielding negligible pure premium impacts through 2026.



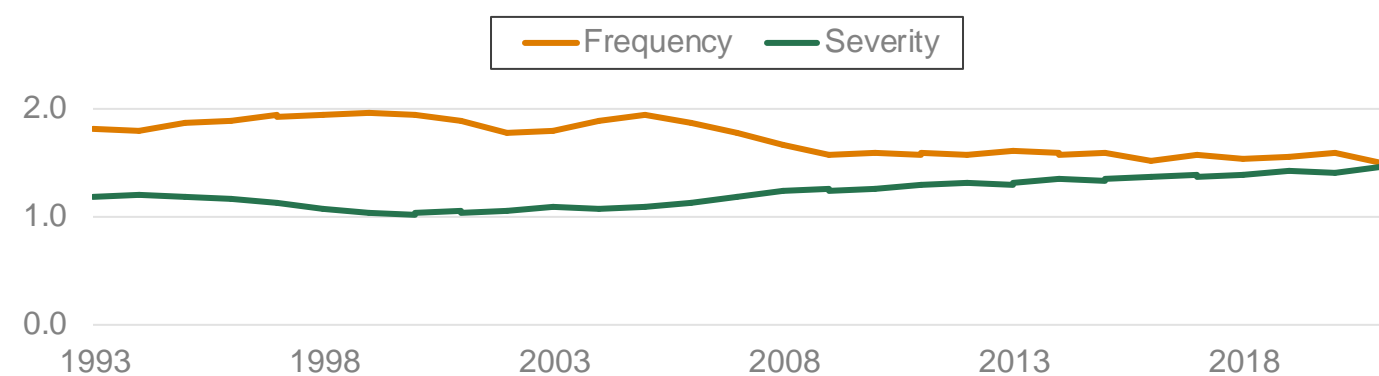
Industry Highlights

Construction Highlights

Change in Employment and Wages



Indemnity Claim Frequency and Severity Relative to Statewide



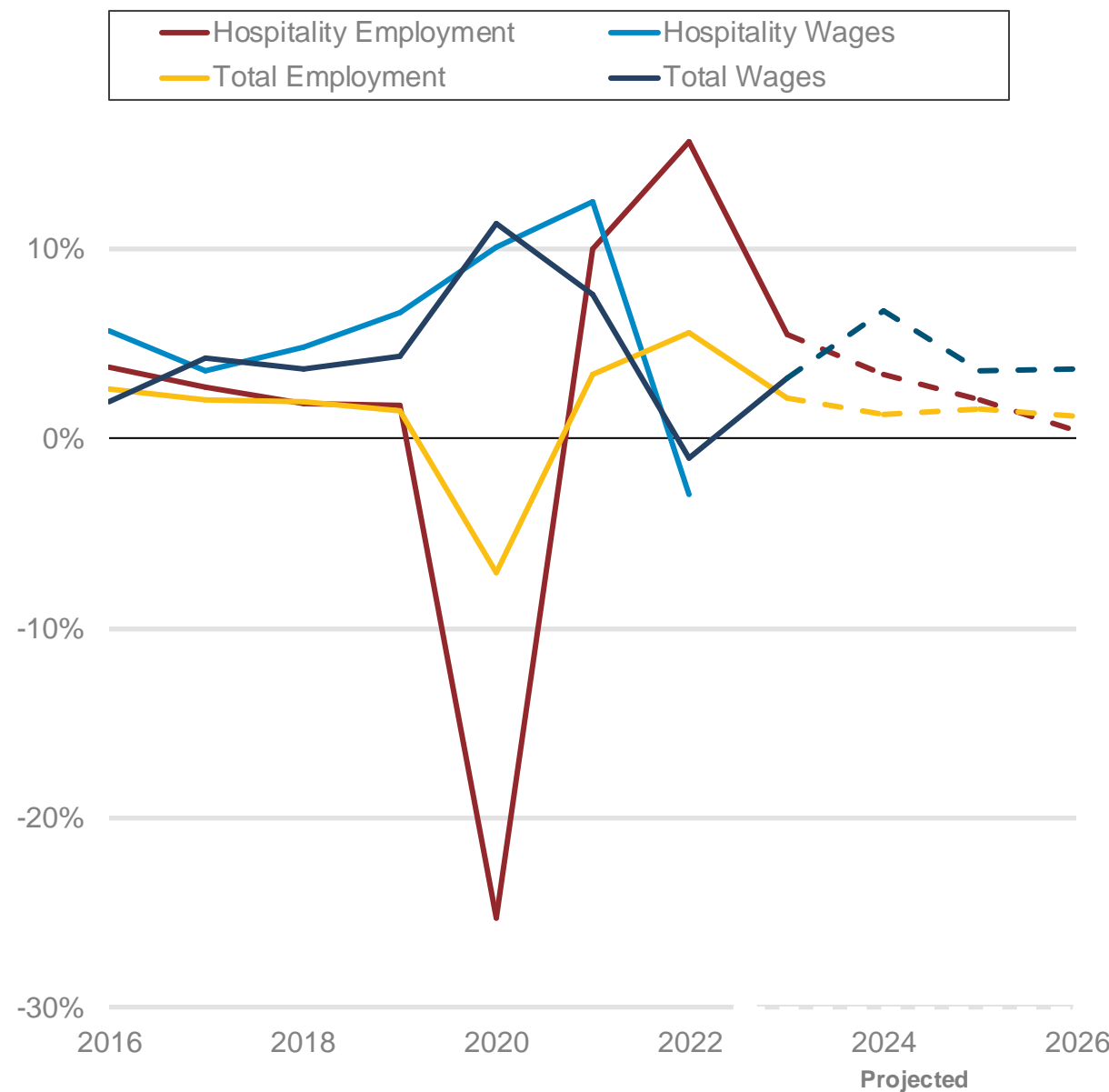
Construction employment is forecast to grow moderately in 2024 and 2025 and slowly in 2026, similar to the overall growth.

Since 2019, average wages have increased less in Construction than statewide.

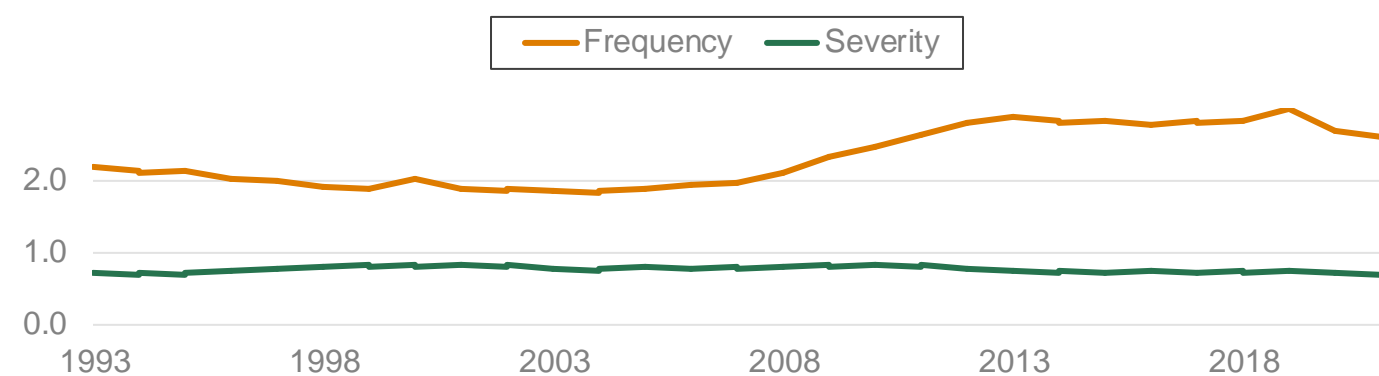
Both frequency and severity of Construction claims have been approximately 50% higher than the statewide average in recent years.

Hospitality Highlights

Change in Employment and Wages



Indemnity Claim Frequency and Severity Relative to Statewide



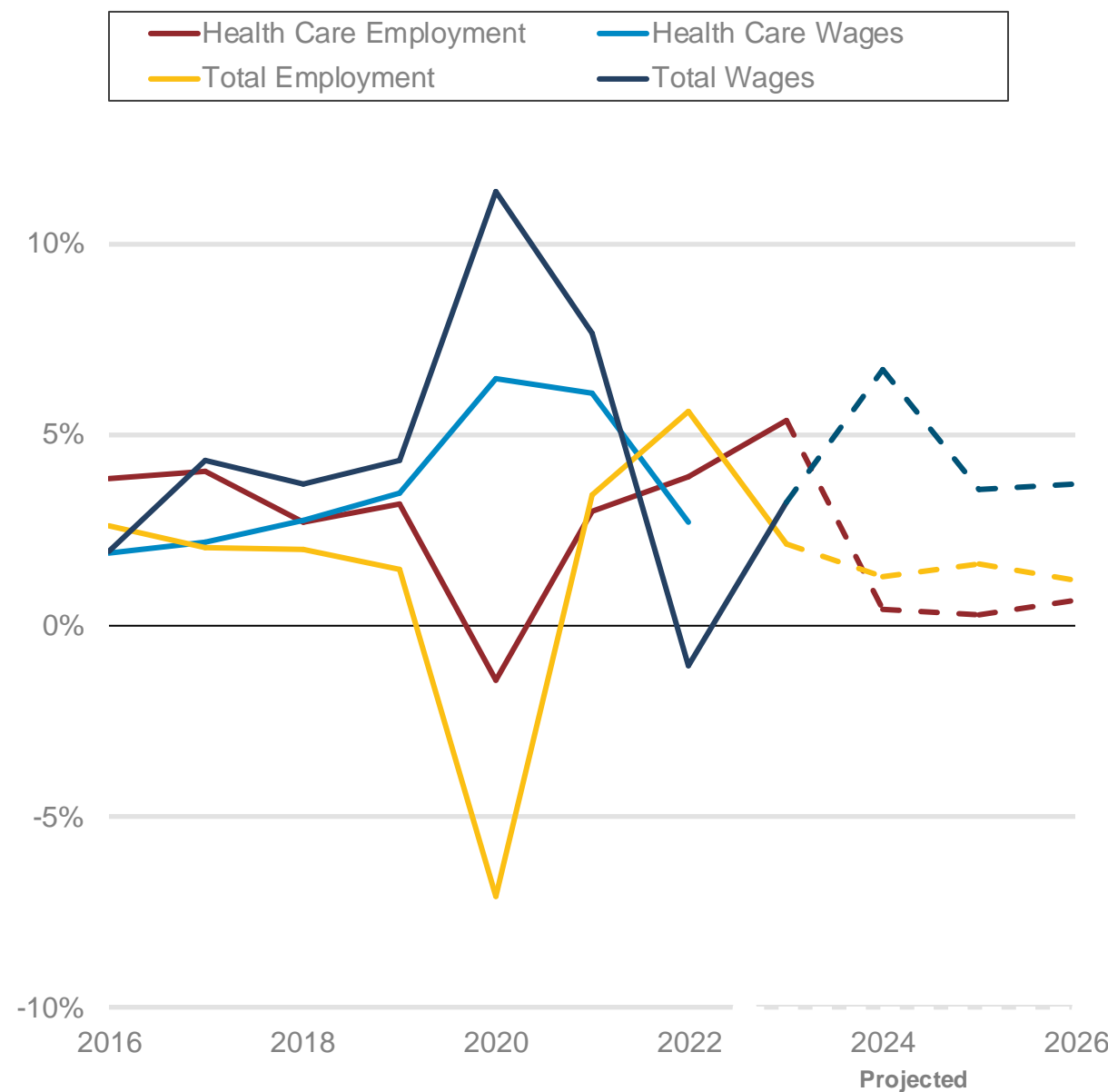
After a large decrease in Hospitality employment in 2020, employment is projected to exceed 2019 levels during 2024.

In 2021, average wages increased more in Hospitality than statewide and then decreased in 2022.

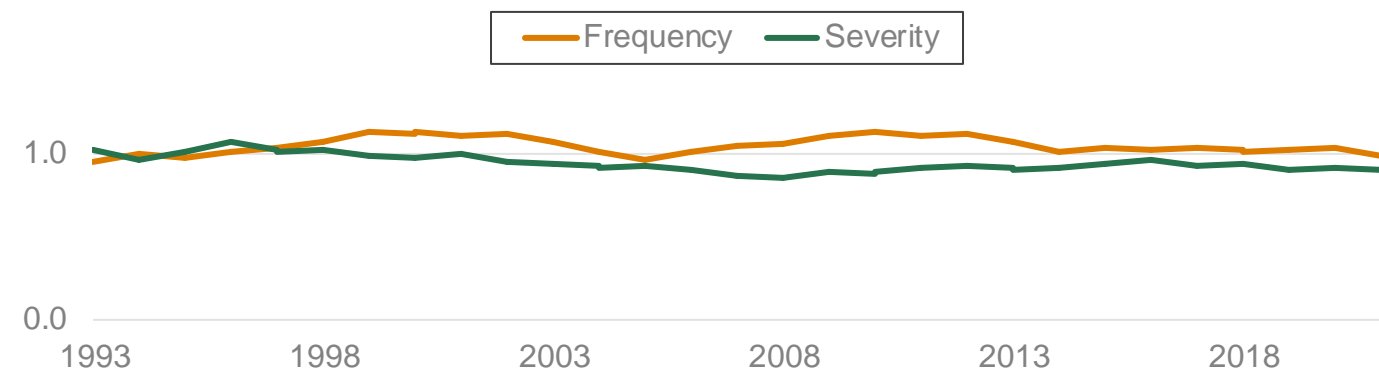
While the frequency of claims for Hospitality is nearly three times the statewide average, the average severity is around one quarter lower.

Health Care Highlights

Change in Employment and Wages



Indemnity Claim Frequency and Severity Relative to Statewide



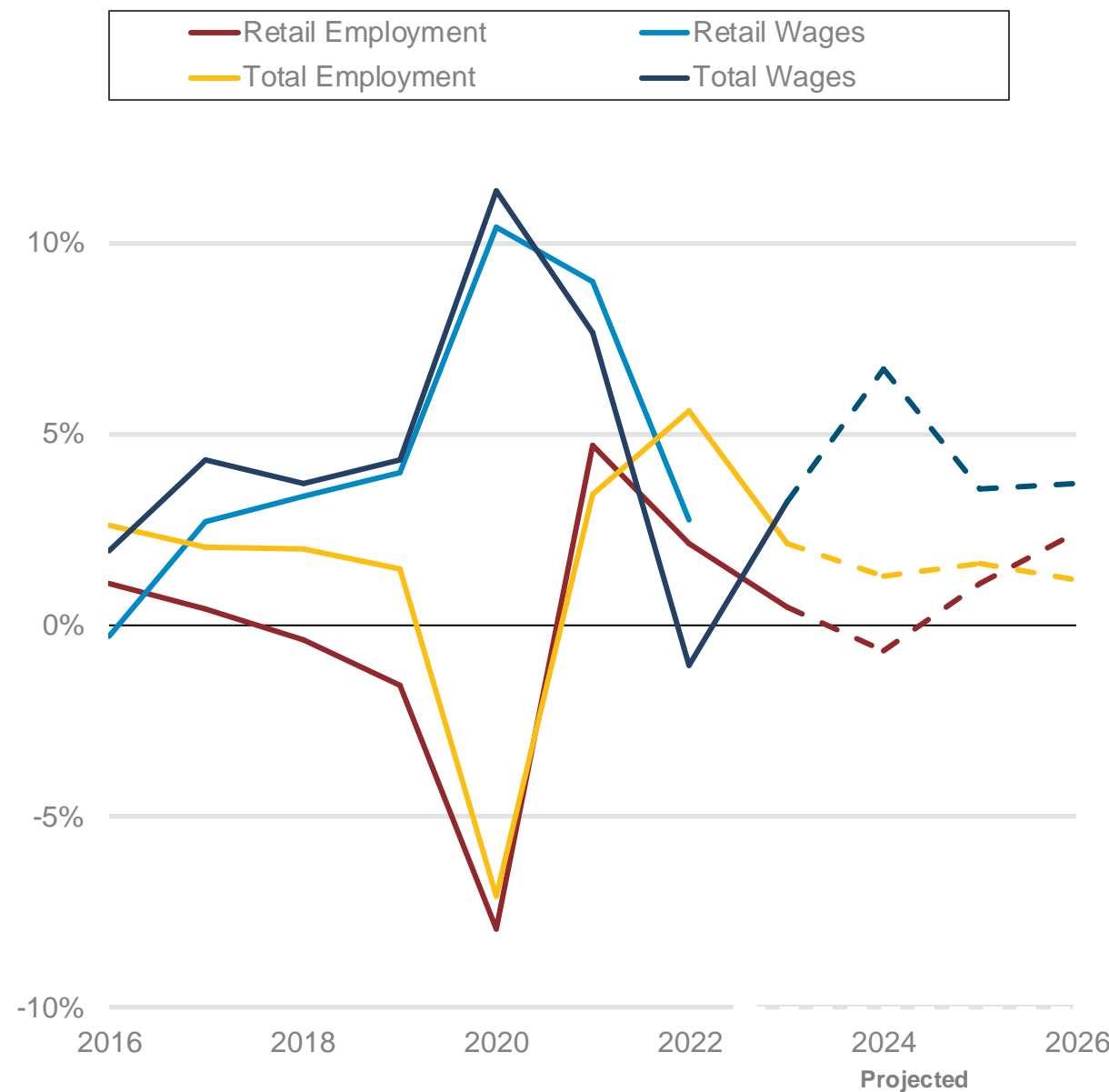
After a small decrease in Health Care employment in 2020, employment rebounded in 2021 and is projected to grow modestly through 2026.

In 2020 and 2021, average wages increased less in Health Care than statewide and increased more than statewide in 2022.

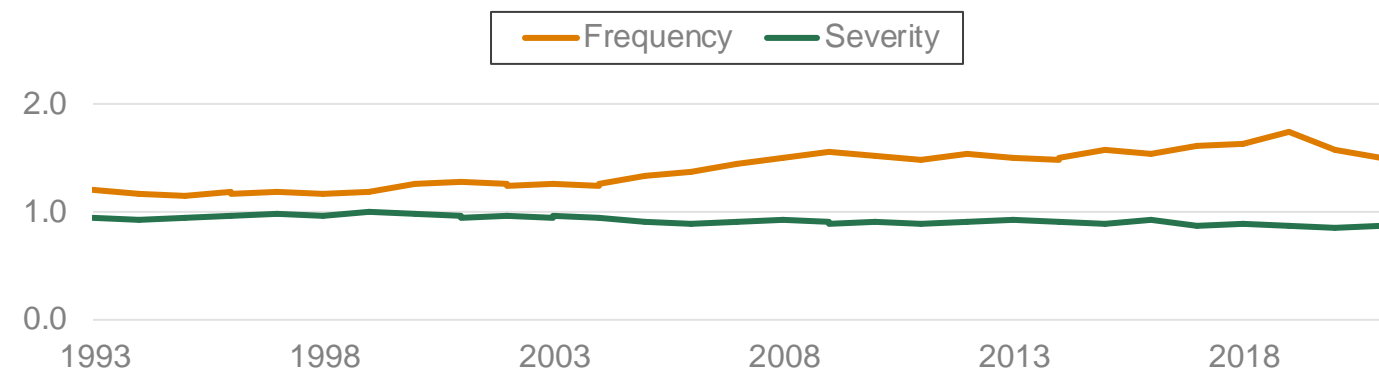
The frequency of claims in Health Care is slightly higher than the statewide average, and the severity is slightly lower. Both have decreased relative to statewide in recent years.

Retail Highlights

Change in Employment and Wages



Indemnity Claim Frequency and Severity Relative to Statewide



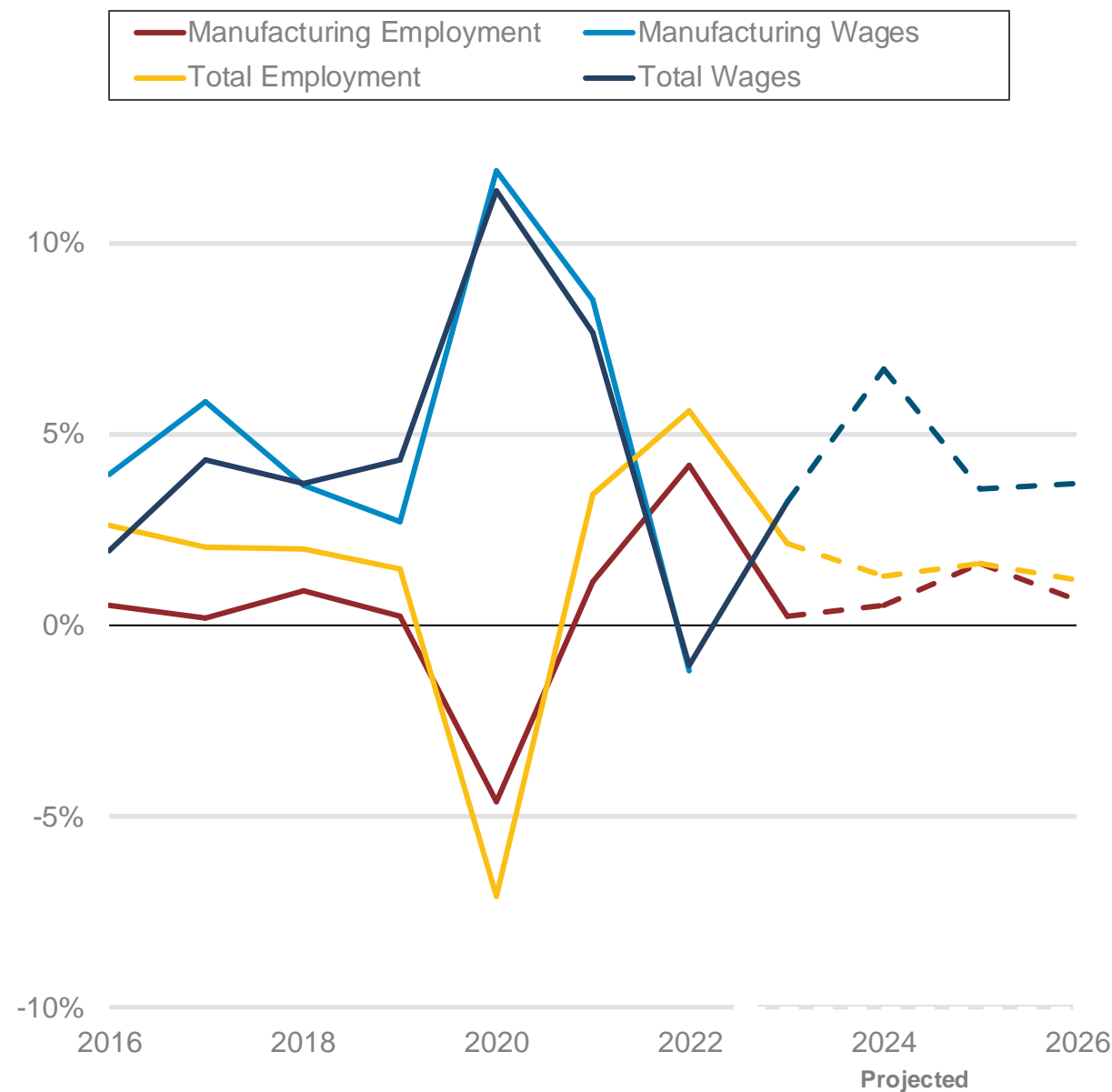
Retail employment decreased more than the statewide average in 2020 and is projected to remain below 2019 levels until 2026.

As lower wage workers were more likely to be laid off in 2020, the combined wage increases in 2020 and 2021 were higher than the statewide average and increased modestly in 2022.

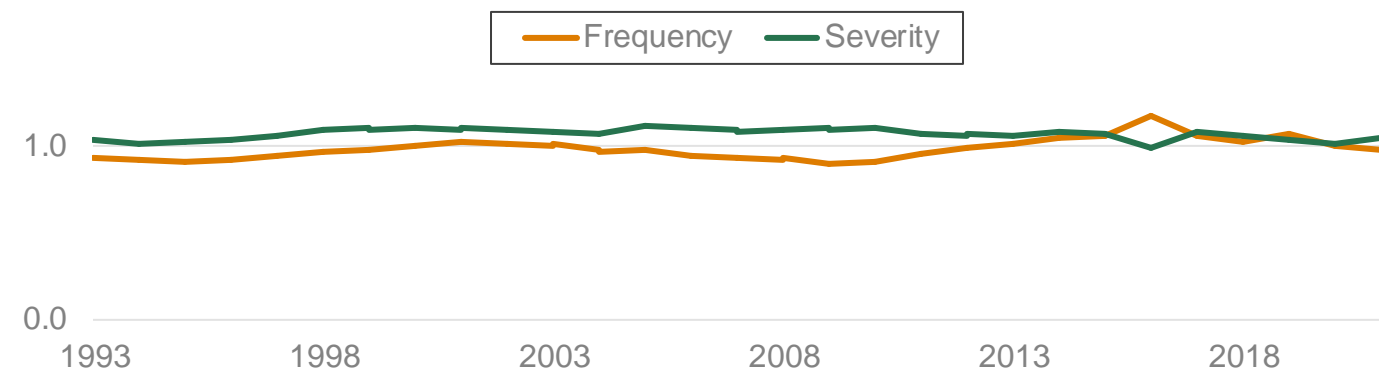
Severity for Retail is slightly lower than the statewide average, and frequency is significantly higher, around 50% higher than the statewide average.

Manufacturing Highlights

Change in Employment and Wages



Indemnity Claim Frequency and Severity Relative to Statewide



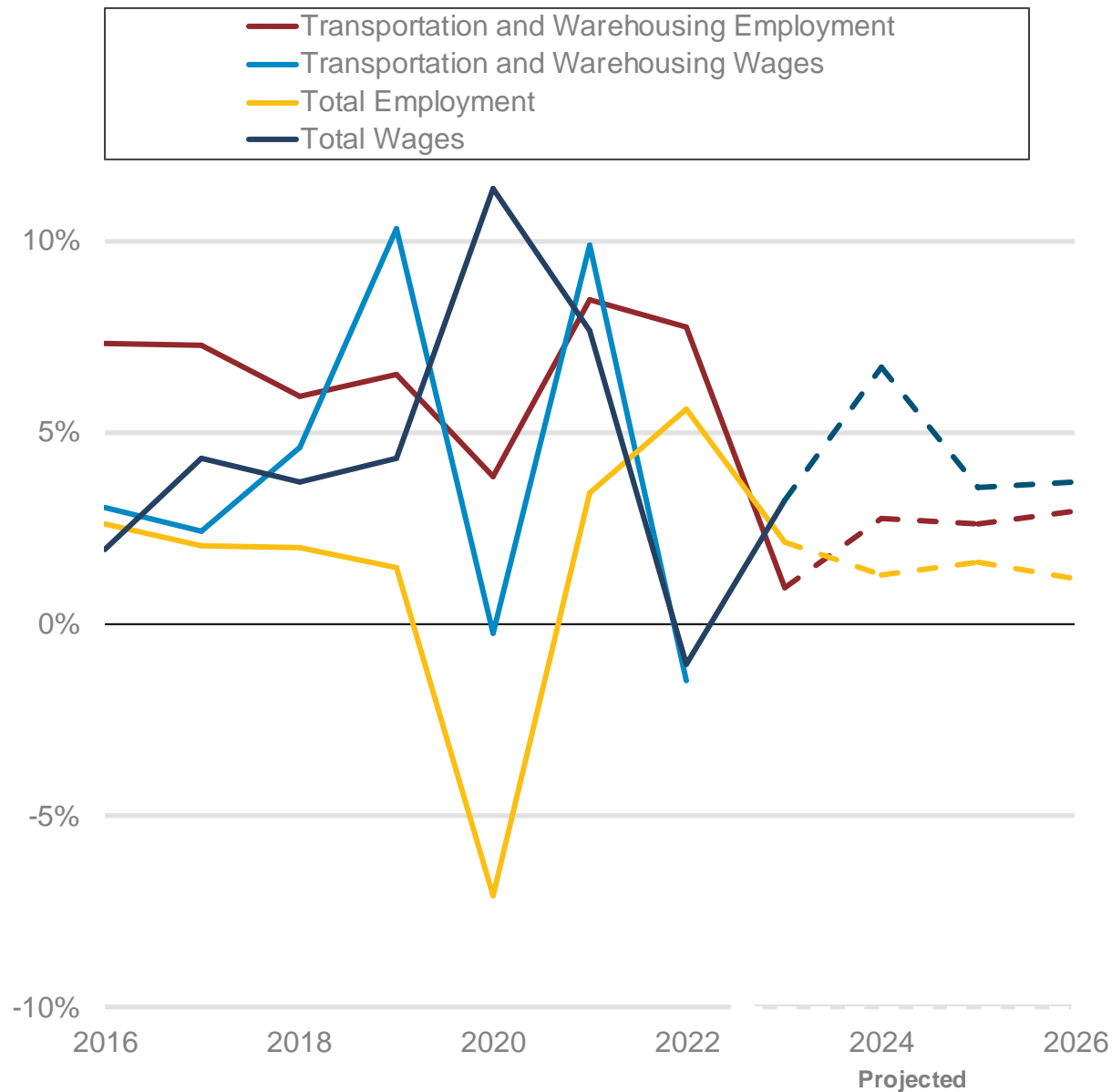
Manufacturing employment decreased modestly in 2020, recovered to 2019 levels in 2022 and is projected to grow modestly through 2026.

In 2020 and 2021, wages in Manufacturing increased slightly more than the statewide average and then decreased in 2022.

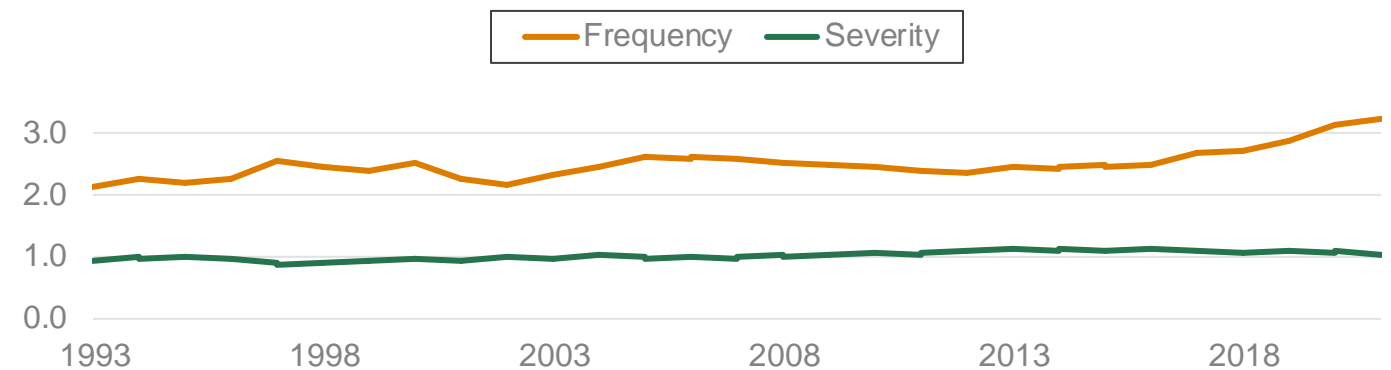
In recent years, both average frequency and severity of Manufacturing claims have been somewhat higher than the statewide average.

Transportation and Warehousing Highlights

Change in Employment and Wages



Indemnity Claim Frequency and Severity Relative to Statewide



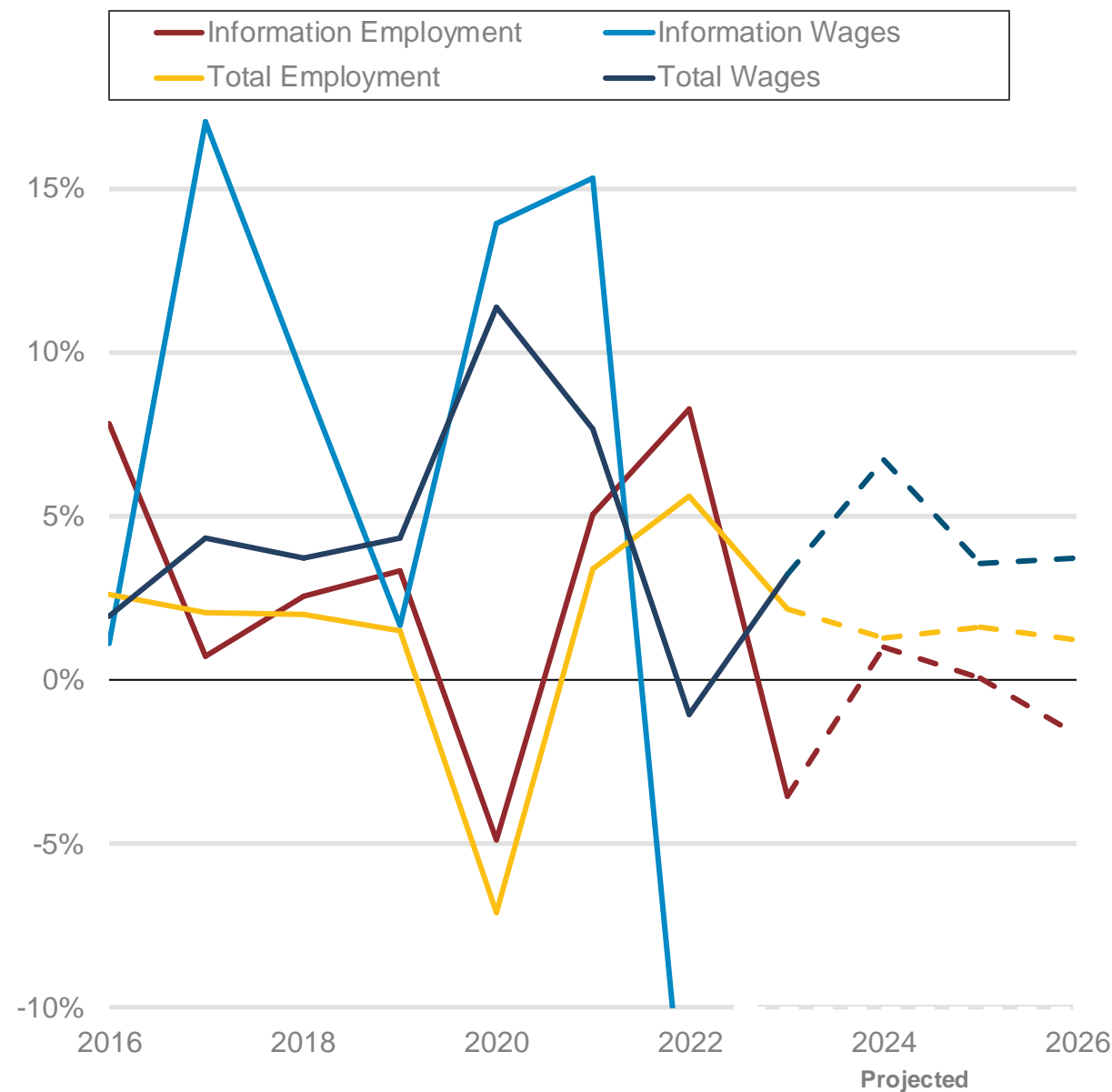
Employment in Transportation and Warehousing grew faster than statewide from 2016 through 2022 and is forecast to continue growing strongly.

Wages in Transportation and Warehousing were flat in 2020, grew strongly in 2021 and decreased in 2022.

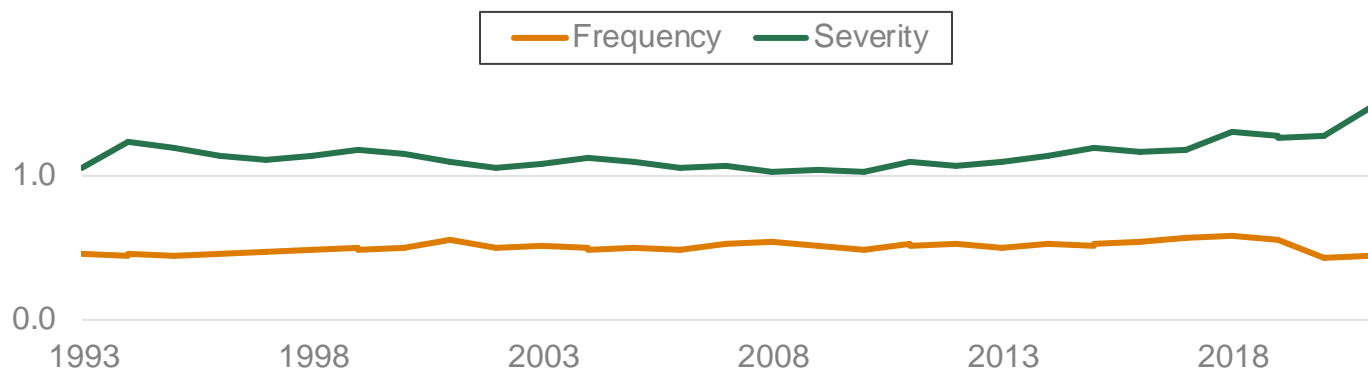
The average severity of Transportation and Warehousing claims has been slightly above the statewide average, while the average frequency has been significantly higher and increasing relative to the statewide average.

Information Highlights

Change in Employment and Wages



Indemnity Claim Frequency and Severity Relative to Statewide



Information employment has been volatile, with stronger than average recoveries in 2021 and 2022, followed by an employment decline in 2023. Forecasts for 2024 – 2026 are close to zero.

Average wages have also been volatile, with above-average growth in 2020 and 2021, followed by a large decrease in 2022.

Claim frequency in Information has consistently been well below average. While claim severity has historically been slightly above the statewide average, it has increased relative to statewide in recent years.



Detail for Technical Appendix

Changes in economic conditions have significant impacts on workers' compensation costs and exposures. The WCIRB relies on economic data from the **Bureau of Labor Statistics (BLS)** and the **UCLA Anderson Forecast** to help understand the underlying economic dynamics in California. These external data sources are combined with Unit Statistical Report (USR) data to help model the impact of economic changes on the California workers' compensation system.

The **WCIRB Indemnity Claim Frequency** model¹ has been used for many years to project indemnity claim frequency for purposes of pure premium ratemaking and was most recently reviewed at the December 9, 2021 meeting of the Actuarial Committee.² This model projects changes in indemnity claim frequency based on changes in economic variables and filing of cumulative injury claims. Increases in aggregate employment and decreases in the unemployment rate are correlated with increases in indemnity claim frequency.

Additional Information:

¹ https://www.casact.org/sites/default/files/database/proceed_proceed99_99046.pdf

² Item AC21-12-07 in https://www.wcirb.com/sites/default/files/documents/20211209_ac_agenda.pdf

More Info

Slide 5: Annual California Unemployment Rate

This exhibit shows the annualized California unemployment rate. Historic values are from the BLS, and forecasts are from the UCLA Anderson Forecast.

Slide 6: Distribution of Employment by Industry

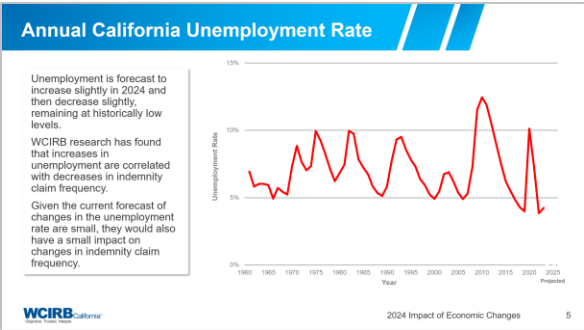
This exhibit shows the shares of statewide employment by industrial sector. Historic values are from the BLS, and forecasts are from the UCLA Anderson Forecast.

Slide 7: Annual Change in Average Wage by Industry

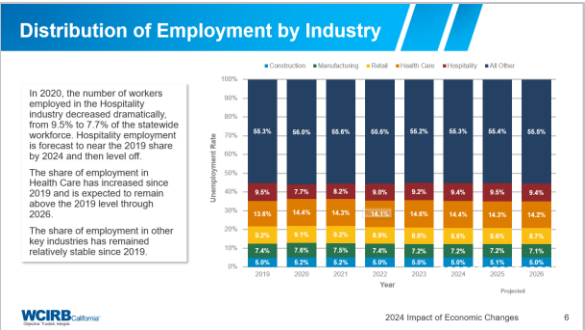
This exhibit shows annual changes in average wage for select industries and overall. Historic wages are from the BLS Quarterly Census of Employment and Wages (QCEW) data series. Forecasts of overall wage changes are from the UCLA Anderson Forecast.

Slide 8: Change in Frequency, Severity and Pure Premium Due to Industrial Mix

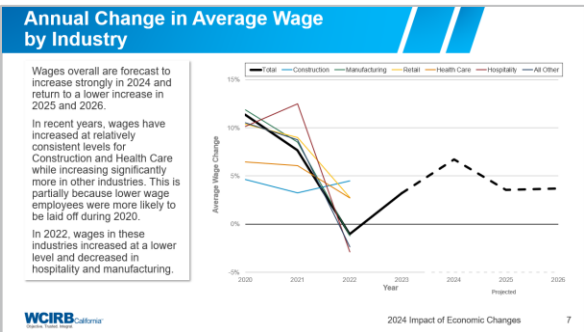
This exhibit shows the measured and expected annual changes in indemnity claim frequency, indemnity claim severity and pure premium due to the mix of employment in each calendar year. Projected changes for frequency and severity are calculated based on 3-year average relativities to statewide and UCLA Anderson Forecast changes in employment for each industry. Relativities are calculated based on USR data for policy years 2019–2021. Changes for pure premium are the combination of changes in frequency and severity. Historic changes in frequency and severity are measured using USR data at a classification level. Other impacts of changes in employment and wages, along with other factors, can impact frequency, severity and pure premium changes. This exhibit measures only changes due to the mix of employment.



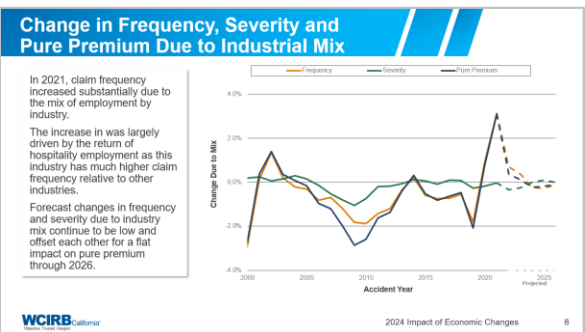
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More Info (continued)

Industry Highlights

These exhibits show indemnity claim frequency and severity relativities to statewide by industry. Severities are limited to \$500,000. Frequency and severity relativities to the statewide average are calculated based on USR data by policy year. Claim counts and losses are developed to fifth report level based on the average of the most recent two report level-to-report level development factors observed in USR data. Indemnity count and indemnity loss development factors are calculated by the WCIRB Indemnity Loss Development Group (ILDG). Medical loss development factors are calculated by the WCIRB Medical Loss Development Group (MLDG). COVID-19 claims are excluded. Data from standard exception classifications is allocated to industries based on WCIRB wage studies.

Historic wages are from the BLS QCEW data series. Historic employment values are from the BLS, and forecasts are from the UCLA Anderson Forecast.

Data Sources (Evaluation Dates)

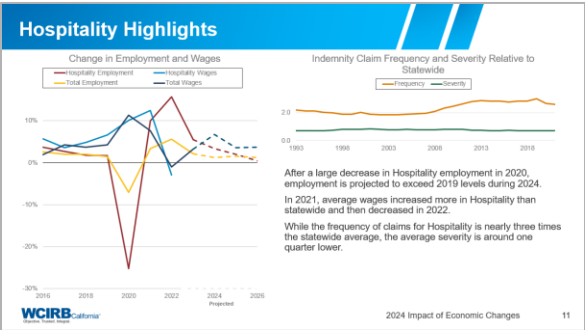
USR Summary Data (Policy Year 2021)

BLS (Year End 2023)

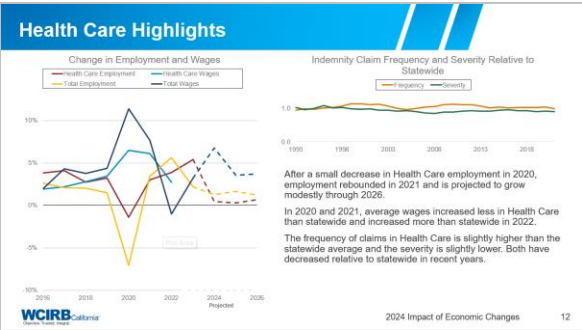
UCLA Anderson Forecast, a unit of UCLA Anderson School of Management (March 2024)



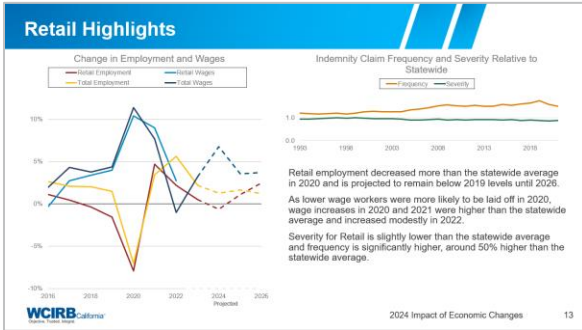
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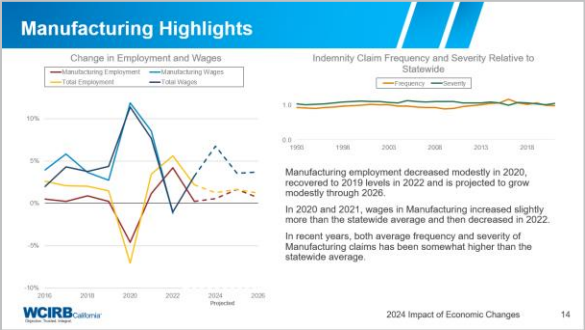
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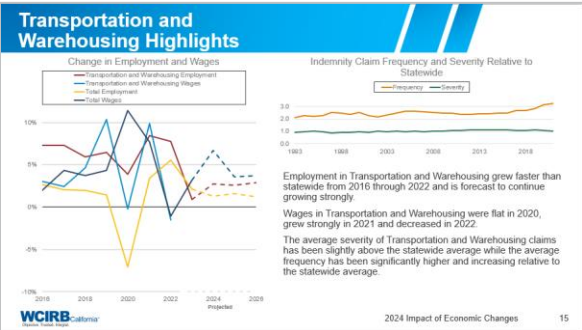
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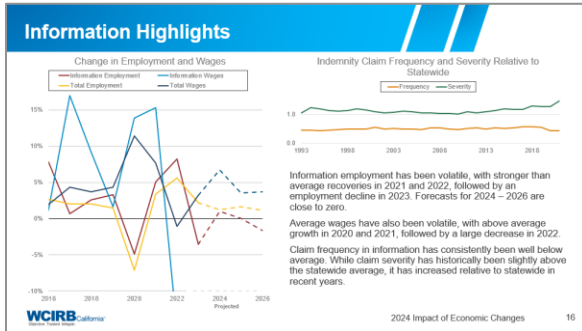
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Definition of Industries

NAICS	NAICS Sector	Report Label
11	Agriculture, Forestry, Fishing and Hunting	All Other
21	Mining, Quarrying, and Oil and Gas Extraction	All Other
22	Utilities	All Other
23	Construction	Construction
31	Manufacturing	Manufacturing
42	Wholesale Trade	All Other
44	Retail Trade	Retail
48	Transportation and Warehousing	All Other
51	Information	All Other
52	Finance and Insurance	All Other
53	Real Estate and Rental and Leasing	All Other
54	Professional, Scientific, and Technical Services	All Other
55	Management of Companies and Enterprises	All Other
56	Administrative and Support and Waste Management and Remediation Services	All Other
61	Educational Services	All Other
62	Health Care and Social Assistance	Health Care
71	Arts, Entertainment, and Recreation	All Other
72	Accommodation and Food Services	Hospitality
81	Other Services (except Public Administration)	All Other
92	Public Administration	All Other

Additional Information:
North American Industry Classification System (NAICS): <https://www.census.gov/naics/>

Conditions and Limitations

Insured Employer Experience Only. Unless otherwise noted, the information in this report is based on the reported experience of insured employers only and may or may not be indicative of the experience of the state as a whole including self-insured employers.

Future Projections Can Differ from Estimates Based on Current Data. WCIRB estimates were based on information available at the time of this study. If subsequent information becomes available that changes the basis of our assumptions, these estimates would of course be affected.

Individual Insurer Results Can Differ. 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.

Unaudited Data from Third Parties. The information presented herein may have relied upon publicly available sources of information. While in such circumstances, we deemed the sources credible for the purposes we used the information, we did not independently validate the underlying information.

Partial or Preliminary Data. Some of the information presented herein may be based on data from only a partial time-period or at an initial preliminary evaluation. Once more complete and mature information becomes available, estimates could differ.

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