

September 1, 2025 Pure Premium Rate Filing

Actuarial Committee Recommendations

Governing Committee Meeting
April 16, 2025

ANTITRUST NOTICE

As members of the Workers' Compensation Insurance Rating Bureau of California (WCIRB) and their agents, you are bound, when involved in meetings, presentations, webinars or other activities of the WCIRB, to limit your actions (as well as discussions and virtual chats, other than social ones) to matters relating to the business of the WCIRB. Matters that do not relate directly to WCIRB business should be avoided. Members and their agents should particularly avoid discussions, chats or conduct that could be construed as intended to affect competition (or access to markets). Thus, as members and their agents, you should not discuss or pursue the business interests of individual insurers or others, including, in particular, the plans of individual members involving, or the possibility or desirability of (a) raising, lowering, or stabilizing prices (premiums or commissions); (b) doing business or refusing to do business with particular, or classes of, insurers, reinsurers, agents, brokers, or insureds, or in particular locales; or (c) potential actions that would affect the availability of products or service either generally or in specific markets or locales.

NOTICE & COPYRIGHT

This presentation was developed by the Workers' Compensation Insurance Rating Bureau of California (WCIRB) for informational purposes only. The WCIRB shall not be liable for any damages of any kind, whether direct, indirect, incidental, punitive or consequential, arising from the use, inability to use, or reliance upon information provided in this presentation.

© 2025 Workers' Compensation Insurance Rating Bureau of California. All rights reserved.

No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including, without limitation, photocopying and recording, or by any information storage or retrieval system without the prior written permission of the Workers' Compensation Insurance Rating Bureau of California (WCIRB), unless such copying is expressly permitted in this copyright notice or by federal copyright law. No copyright is claimed in the text of statutes and regulations quoted within this work.

Each WCIRB member company, including any registered third party entities, (Company) is authorized to reproduce any part of this work solely for the following purposes in connection with the transaction of workers' compensation insurance: (1) as necessary in connection with Company's required filings with the California Department of Insurance; (2) to incorporate portions of this work, as necessary, into Company manuals distributed at no charge only to Company employees; and (3) to the extent reasonably necessary for the training of Company personnel. Each Company and all agents and brokers licensed to transact workers' compensation insurance in the state of California are authorized to physically reproduce any part of this work for issuance to a prospective or current policyholder upon request at no charge solely for the purpose of transacting workers' compensation insurance and for no other purpose. This reproduction right does not include the right to make any part of this work available on any website or any form of social media.

Workers' Compensation Insurance Rating Bureau of California, WCIRB, WCIRB California, WCIRB Connect, WCIRB Inquiry, WCIRB CompEssentials, X-Mod Direct, eSCAD, Comprehensive Risk Summary, X-Mods and More, Annual Business Comparative and the WCIRB California logo (WCIRB Marks) are registered trademarks or service marks of the WCIRB. WCIRB Marks may not be displayed or used in any manner without the WCIRB's prior written permission. Any permitted copying of this work must maintain any and all trademarks and/or service marks on all copies.

To seek permission to use any of the WCIRB Marks or any copyrighted material, please contact the WCIRB at customerservice@wcirb.com.

Table of Contents

- 1. Indicated September 1, 2025 Pure Premium Rate Level
- 2. Actuarial Committee Recommendations
- 3. Summary and Discussion



Indicated September 1, 2025 Pure Premium Rate Level

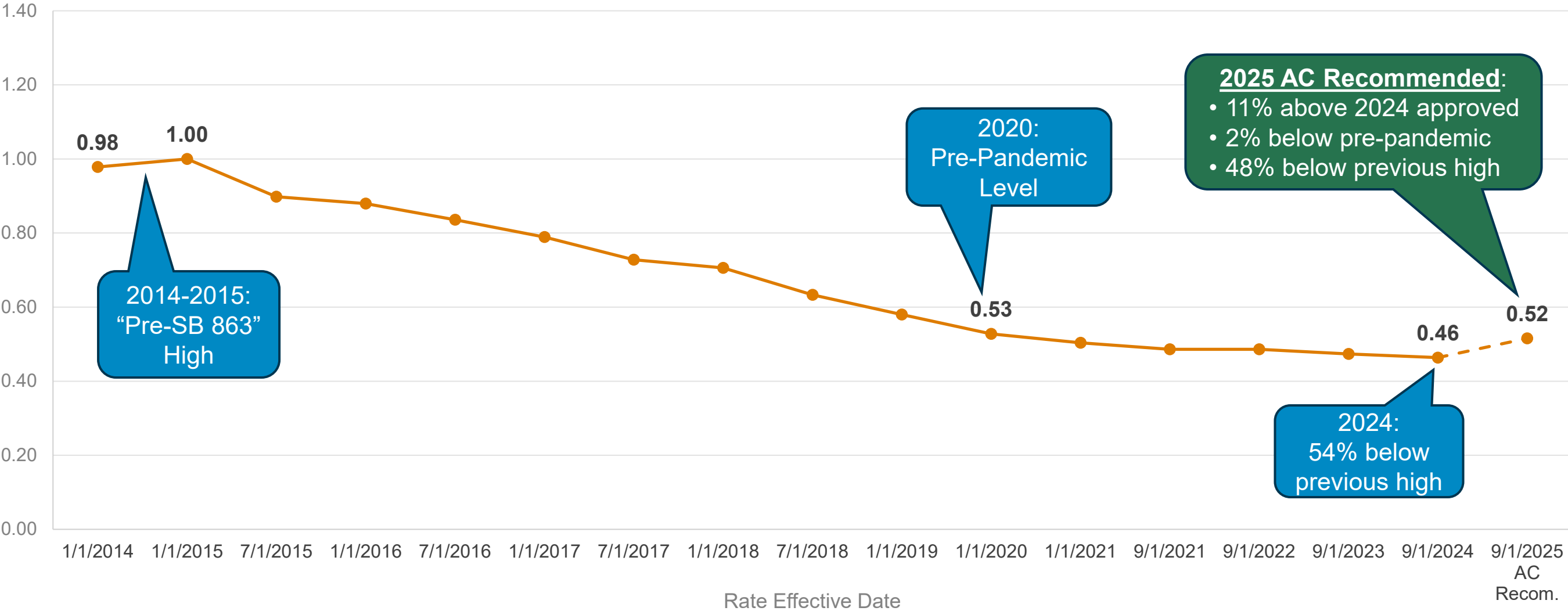
Summary of Pure Premium Rate Indications

- Based on December 31, 2024 insurer experience and Actuarial Committee recommended methodology
 - Average of Latest Year Reform-Adjusted Paid and Hybrid Incurred Development
 - Separate Frequency and Severity trends applied to latest two accident years
- 9/1/2025 Indicated Advisory Pure Premium Rate Change: **+11.2%**
 - 9/1/2024 WCIRB Filed Change: +0.9%
 - 9/1/2024 CDI Approved Change: -2.1%
- Increase primarily driven by emerging claim development and Accident Year 2024 experience

| Key Cost Drivers | Cost Mitigators |
|--------------------------|------------------------|
| Medical Loss Development | Non-CT Claim Frequency |
| CT Claim Frequency | Wage Inflation |
| Average Medical Costs | |
| Average ALAE Costs | |

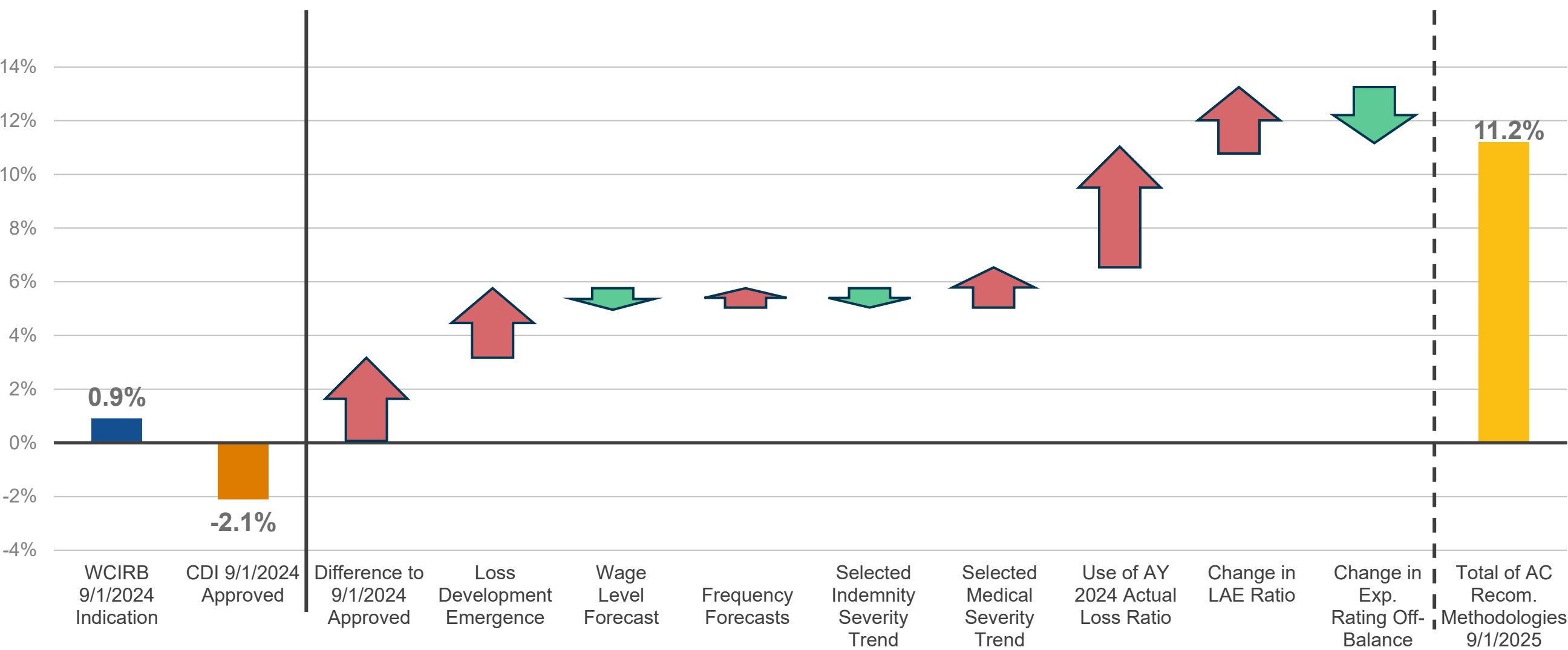
Historical Advisory Pure Premium Rate Level

CDI Approved Rate Level Indexed to 2015



Components of Indicated Advisory Pure Premium Rate Change

9/1/2024 Approved to 9/1/2025 Actuarial Committee Recommended





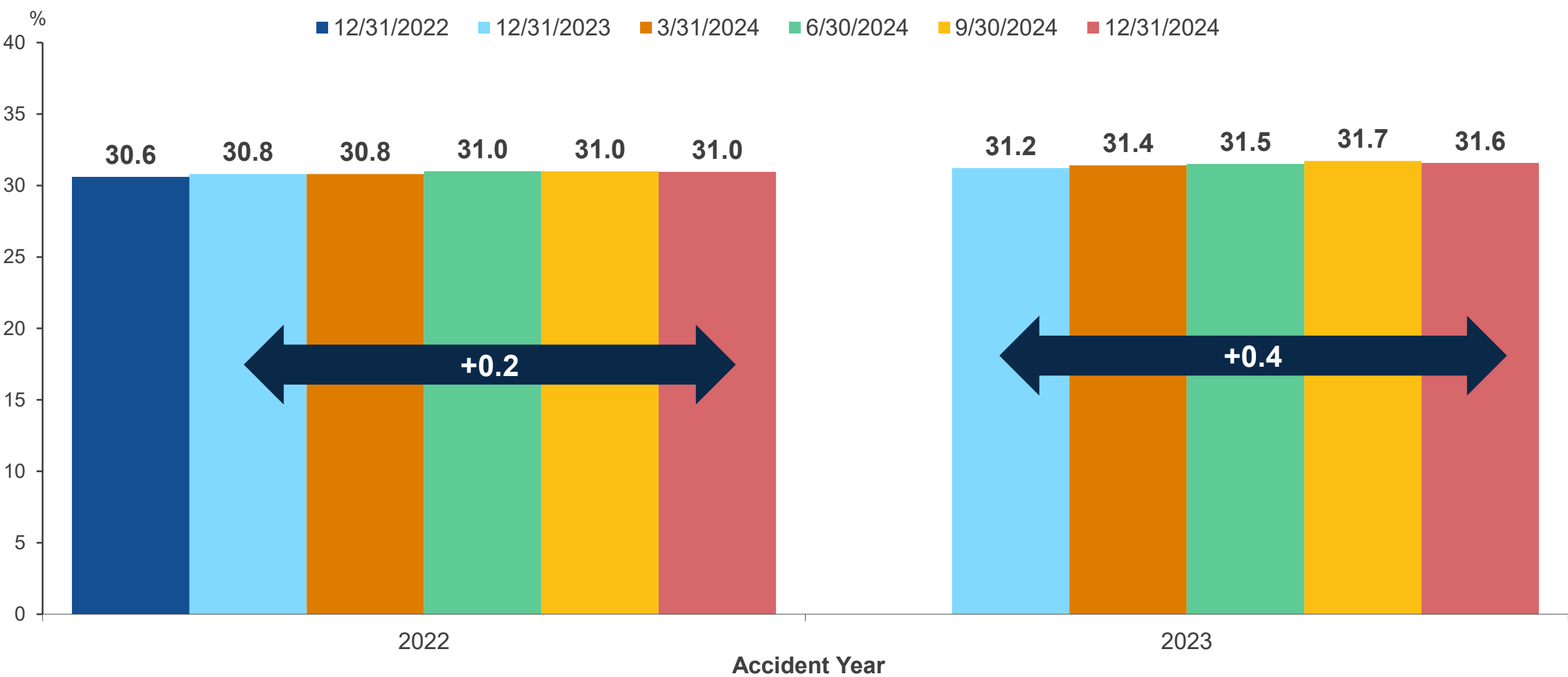
Actuarial Committee Recommendations

Loss Development Methodology

- AC Selected: Average of Latest Year Reform-Adjusted Paid and Hybrid Incurred Methods
 - Consistent with 9/1/2024 Filing
 - Reform-Adjusted Paid Method continues to be a reliable projection
 - Adjusts for reduction in pharmaceutical costs and 2021 medical fee schedule changes
 - Reflects long-term settlement rate impact in tail
 - Hybrid Incurred Method uses incurred development through 120 months and then paid development
 - Incurred is stable at early maturities
 - Longer-term incurred tail continues to be impacted by system reforms
- Actuarial Committee vote on Loss Development Methodology
 - **9** in Favor, **1** Abstention
 - Abstaining Committee member supports Average of Paid and Incurred Methods but prefers the Unadjusted Latest Year Incurred Method rather than Hybrid Incurred Method

Developed Indemnity Loss Ratios

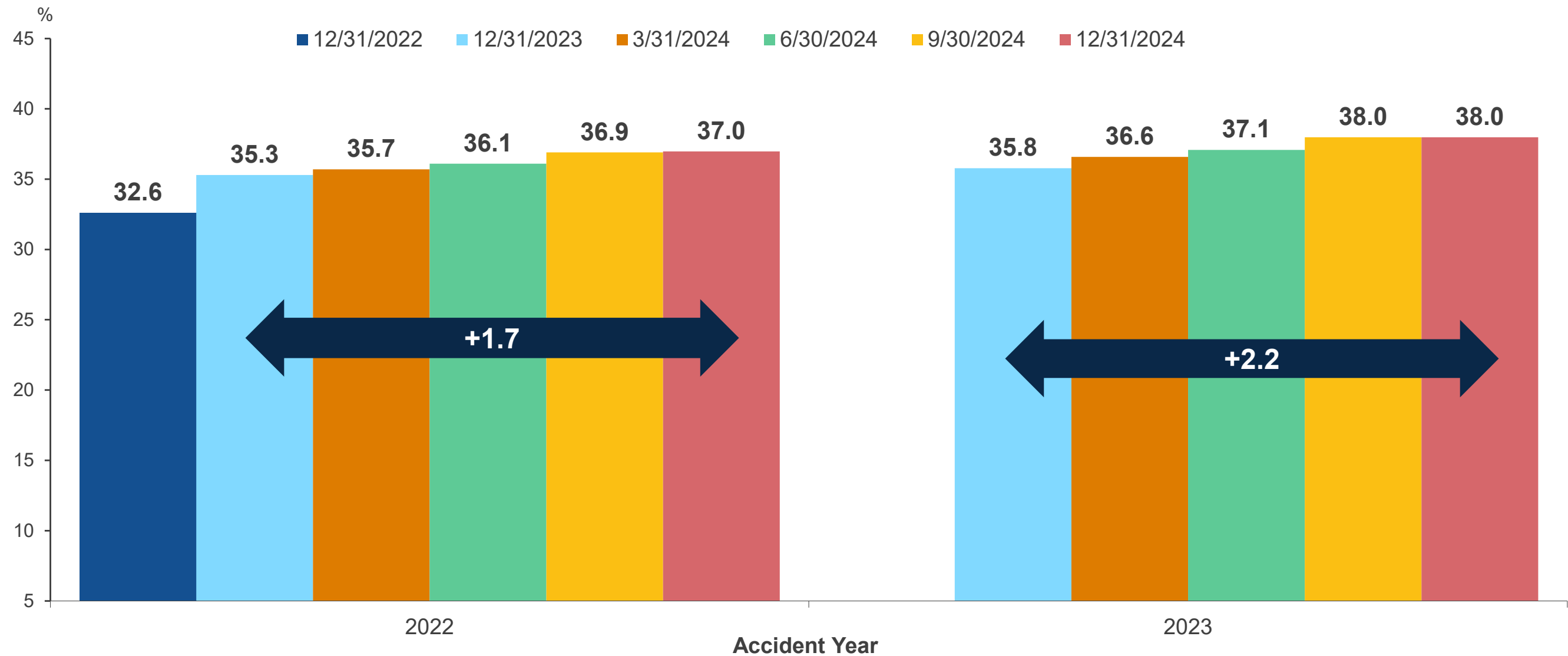
As of December 31, 2024



Note: All loss ratios are adjusted to the loss development methodology reflected in the Actuarial Committee Agenda and may not be comparable to the actual loss ratios projected at that time.
Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims for accident year 2022.

Developed Medical Loss Ratios

As of December 31, 2024

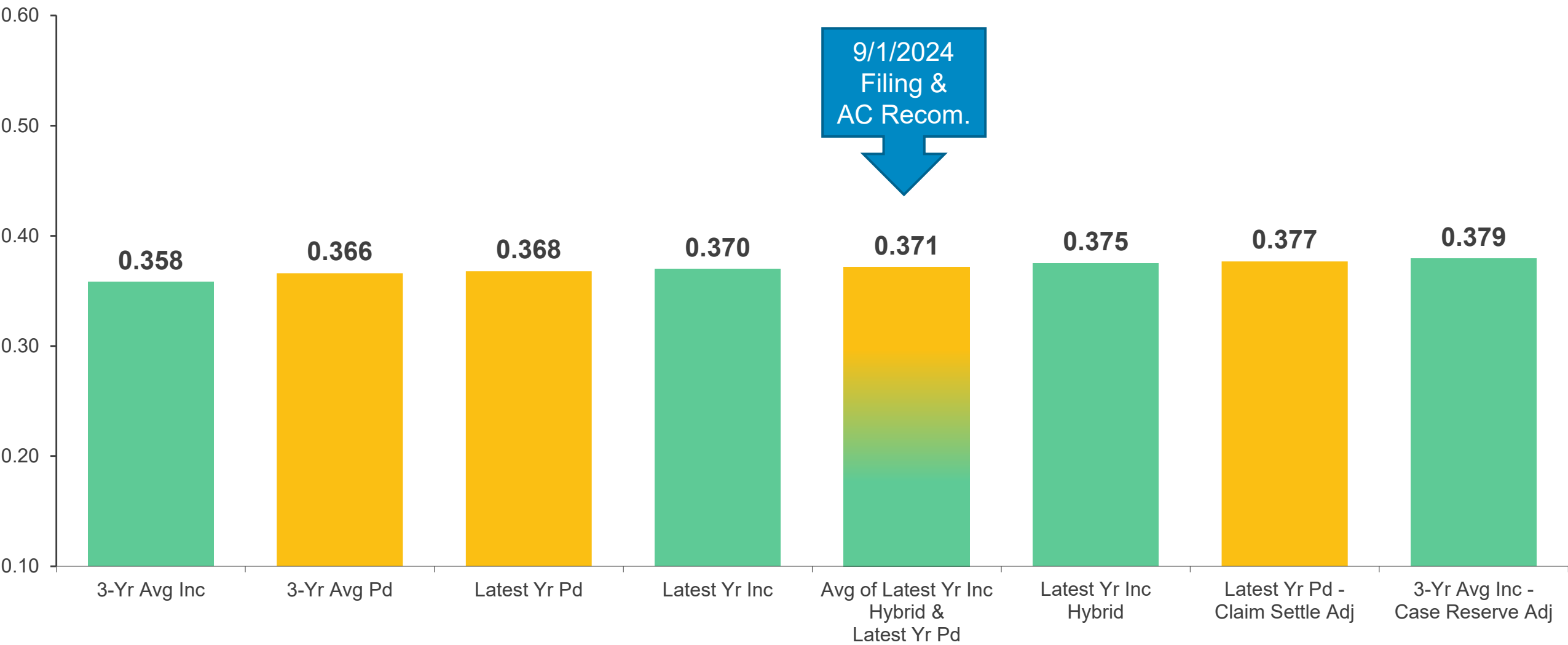


Note: All loss ratios are adjusted to the loss development methodology reflected in the Actuarial Committee Agenda and may not be comparable to the actual loss ratios projected at that time.
Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims for accident year 2022.

Projected Indemnity Loss Ratios

Alternative Development Methods

As of December 31, 2024

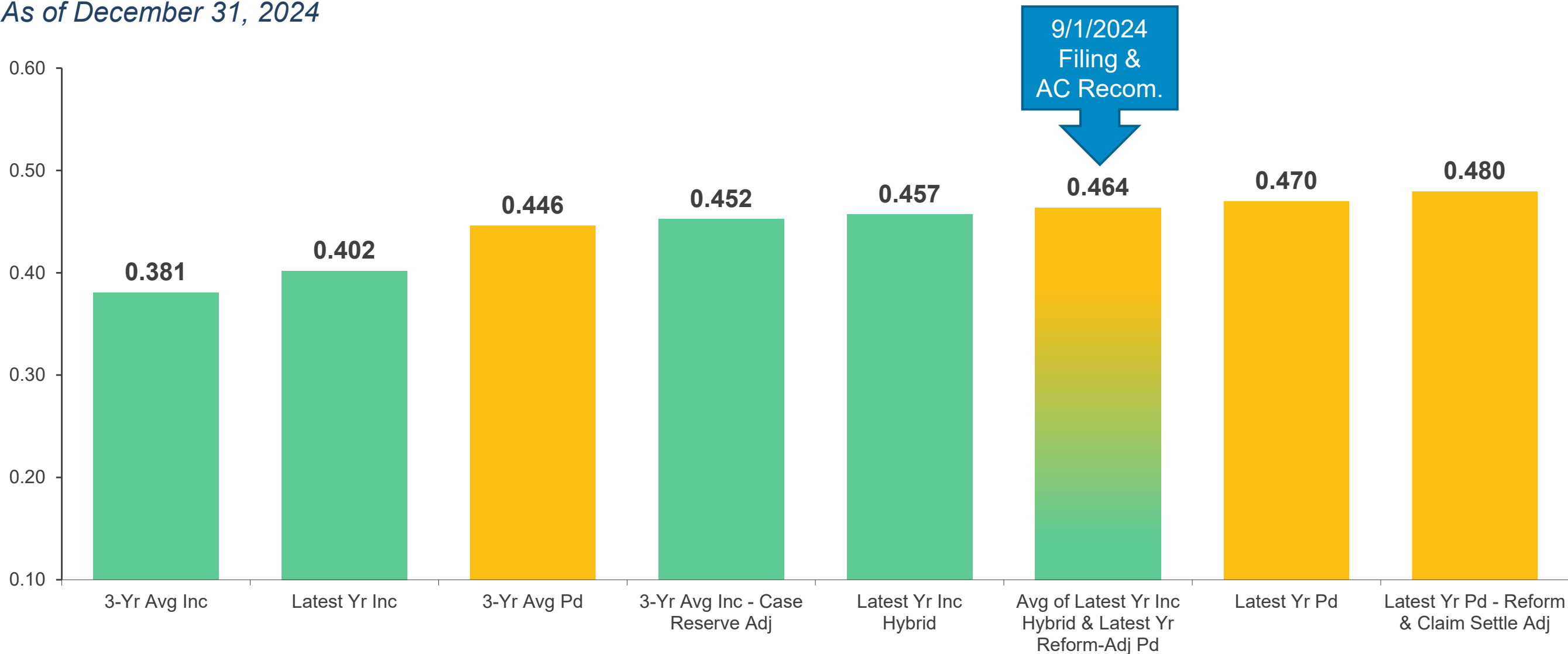


Source: WCIRB aggregate financial data and projections. Each projection uses the trending methodology reflected in the Actuarial Committee Agenda.

Projected Medical On-Level Loss Ratios

Alternative Development Methods

As of December 31, 2024



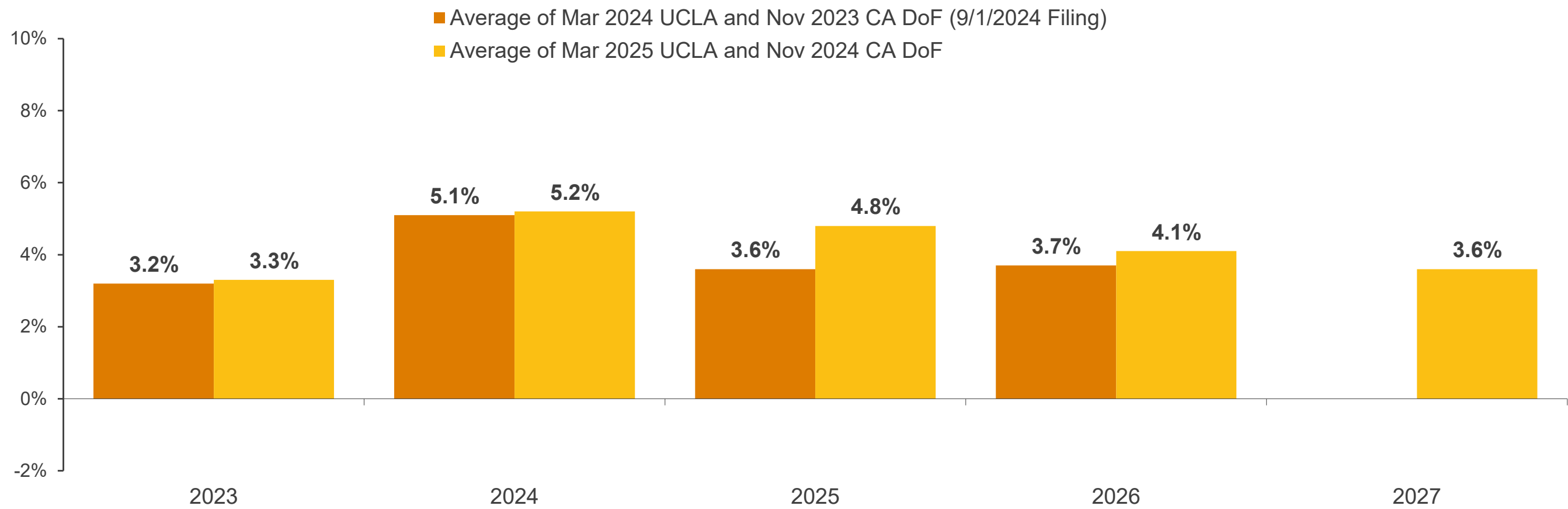
Source: WCIRB aggregate financial data and projections. Each projection uses the trending methodology reflected in the Actuarial Committee Agenda.

Trending Methodology

- AC Selected: Separate frequency and severity trends applied to latest two years
 - Consistent with 9/1/2024 Filing
 - Average wage forecasts from UCLA and CA Department of Finance
 - WCIRB Frequency Model forecasts
 - Average on-level severity trends based on recent rates of growth
- Key Assumptions & Changes
 - Frequency model includes long-term average change in cumulative injury index as forecast
 - Lower indemnity severity trend selection (0.5%)
 - Higher medical severity trend selection (3.5%)
- Actuarial Committee Vote on Trending Methodology
 - **Unanimous** (10 in favor)
 - Committee members cite significant uncertainty around continued CT claim and medical cost increases

Average Wage Level Change Forecast

As of March 2025



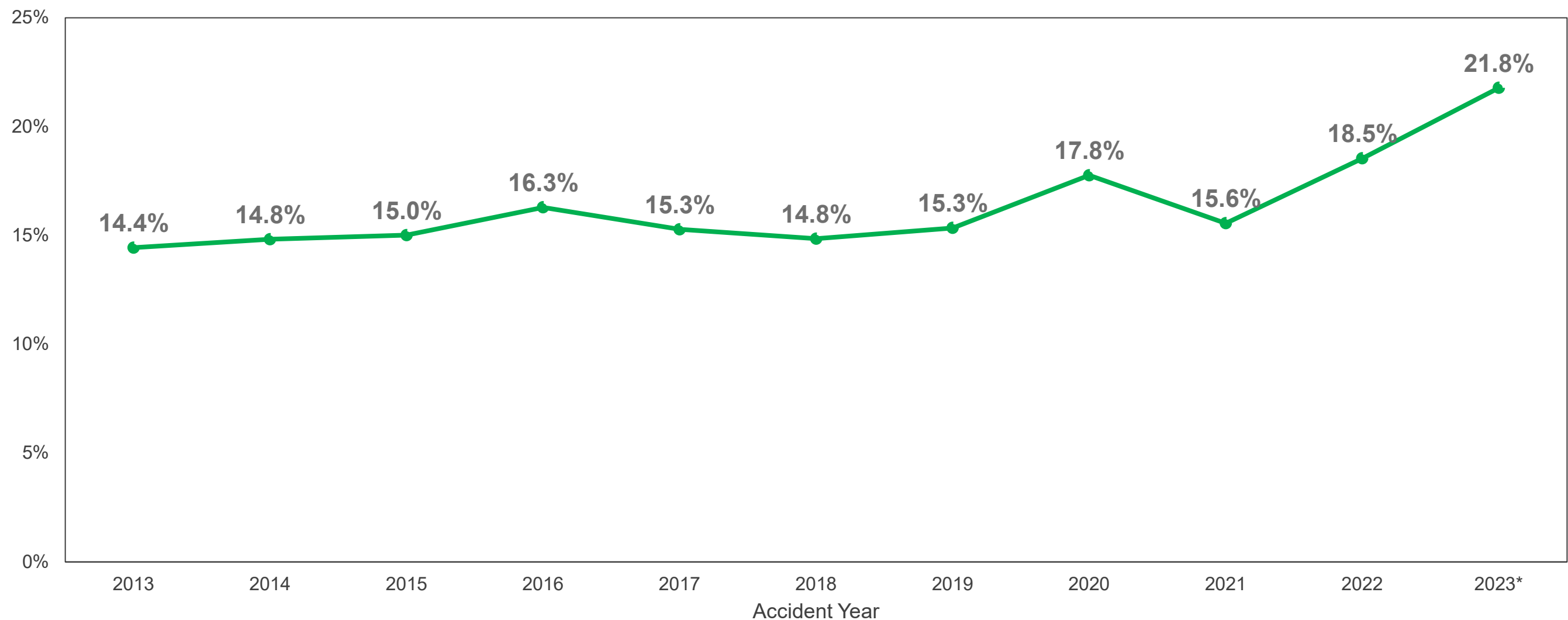
Average Annualized Wage Change Projection from 2023:

9/1/2024 Filing: 4.3%

Updated Forecast: 4.6%

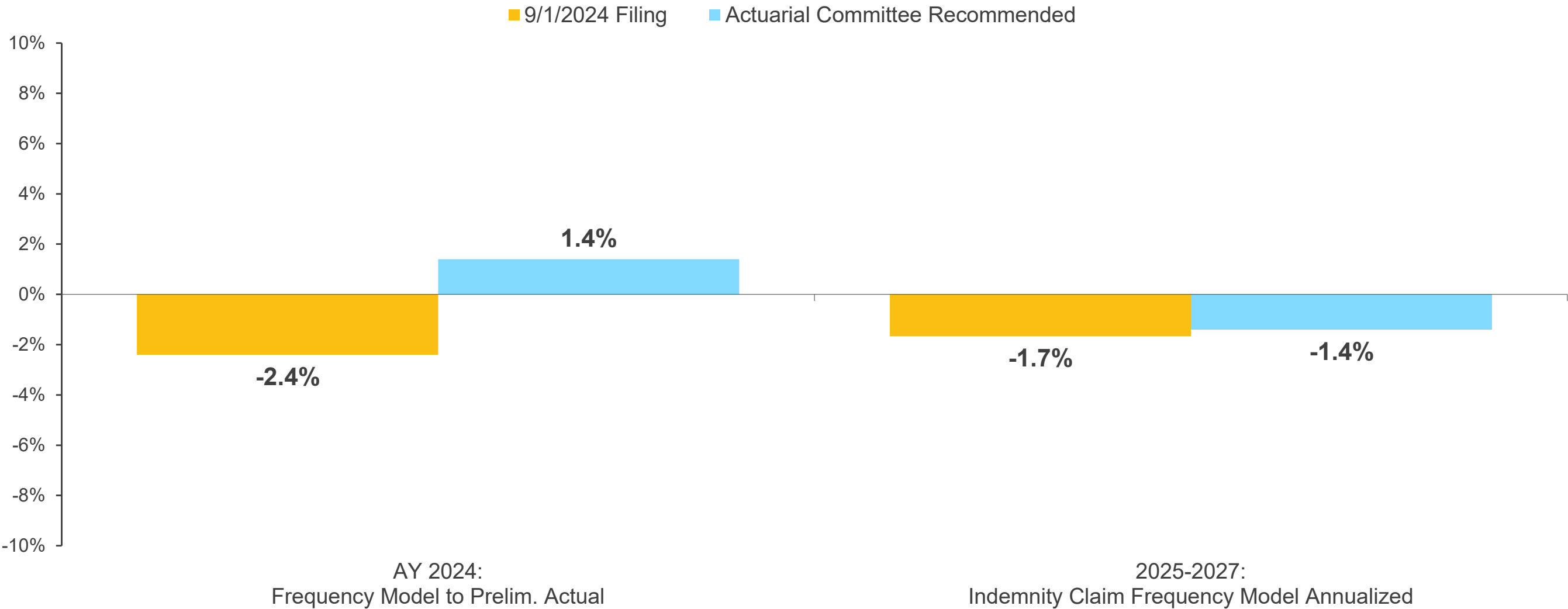
Source: UCLA Anderson School of Business and California Department of Finance Forecasts.

Estimated Cumulative Injury Share of Total Indemnity Claim Count



*Accident year 2023 is based on preliminary partial data
Cumulative injury claims include occupational disease
Source: WCIRB Unit Statistical Data, excluding COVID-19 claims

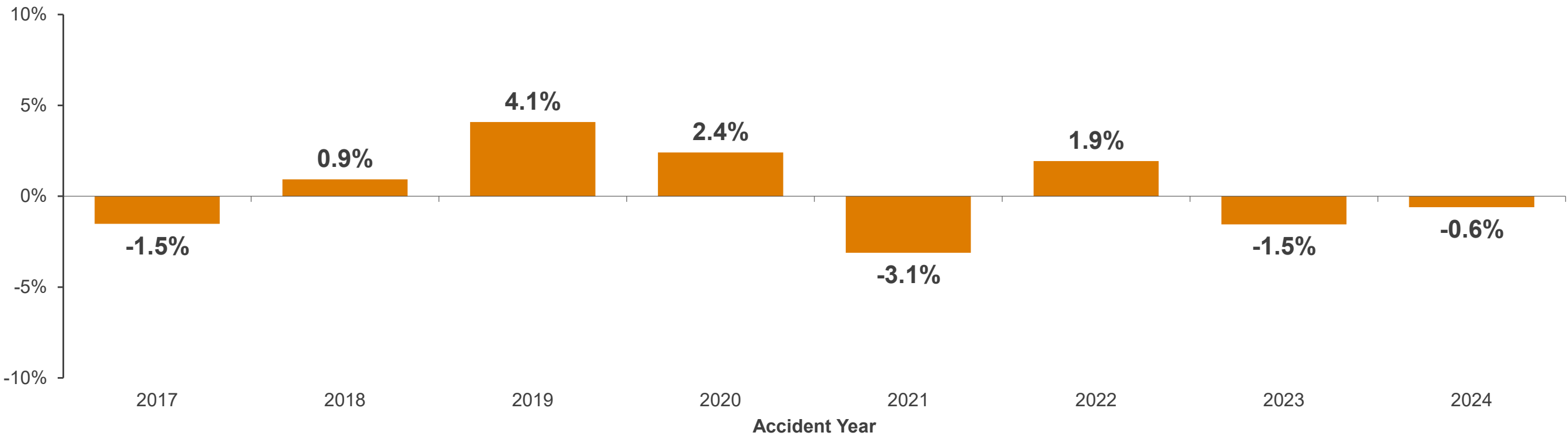
Estimated Indemnity Claim Frequency Changes



Source: WCIRB Unit Statistical Data, Aggregate Financial Data and UCLA Anderson Forecast, excluding COVID-19 claims

Projected Changes in On-Level Indemnity Severity

As of December 31, 2024



Annual Exponential Trend Based on:

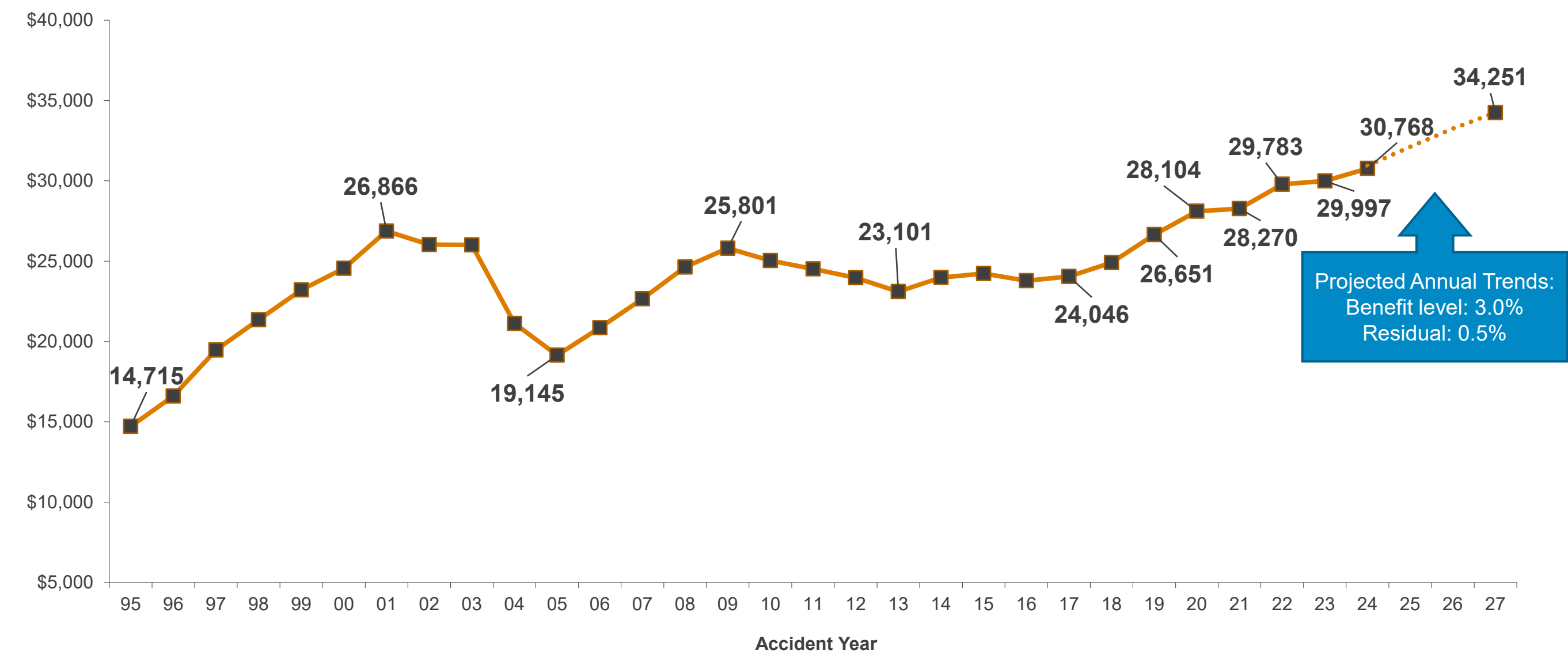
- 1990 to 2024: 0.6%
- 2017 to 2024: 0.5%
- 2021 to 2024: -0.2%

AC Recommended: 0.5%

Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims for all accident years.

Ultimate Indemnity per Indemnity Claim

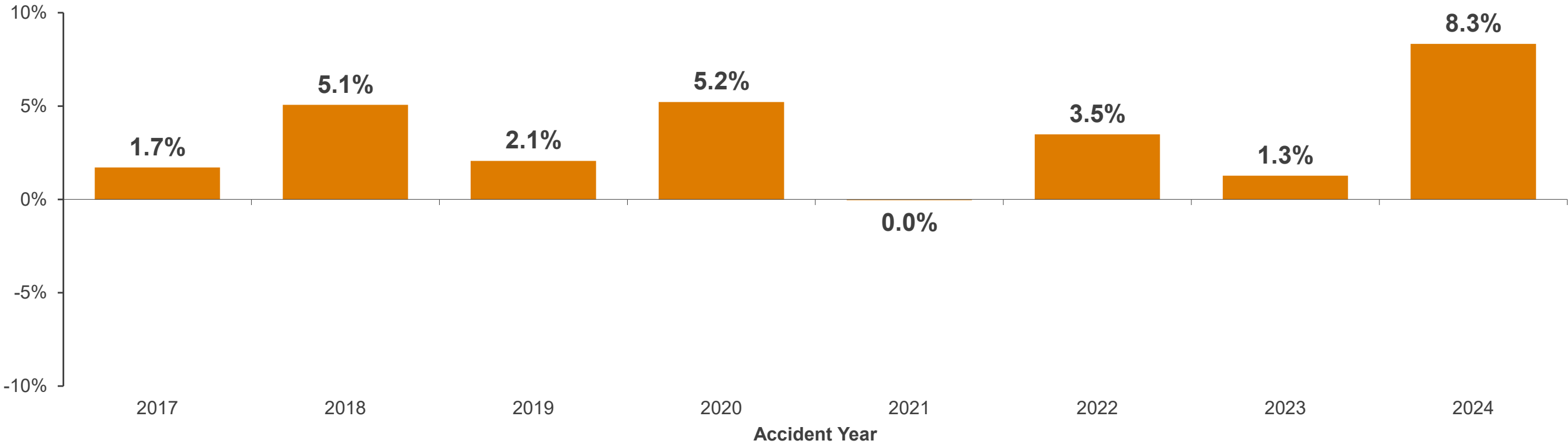
As of December 31, 2024



Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims and projections.

Projected Changes in On-Level Medical Severity

As of December 31, 2024



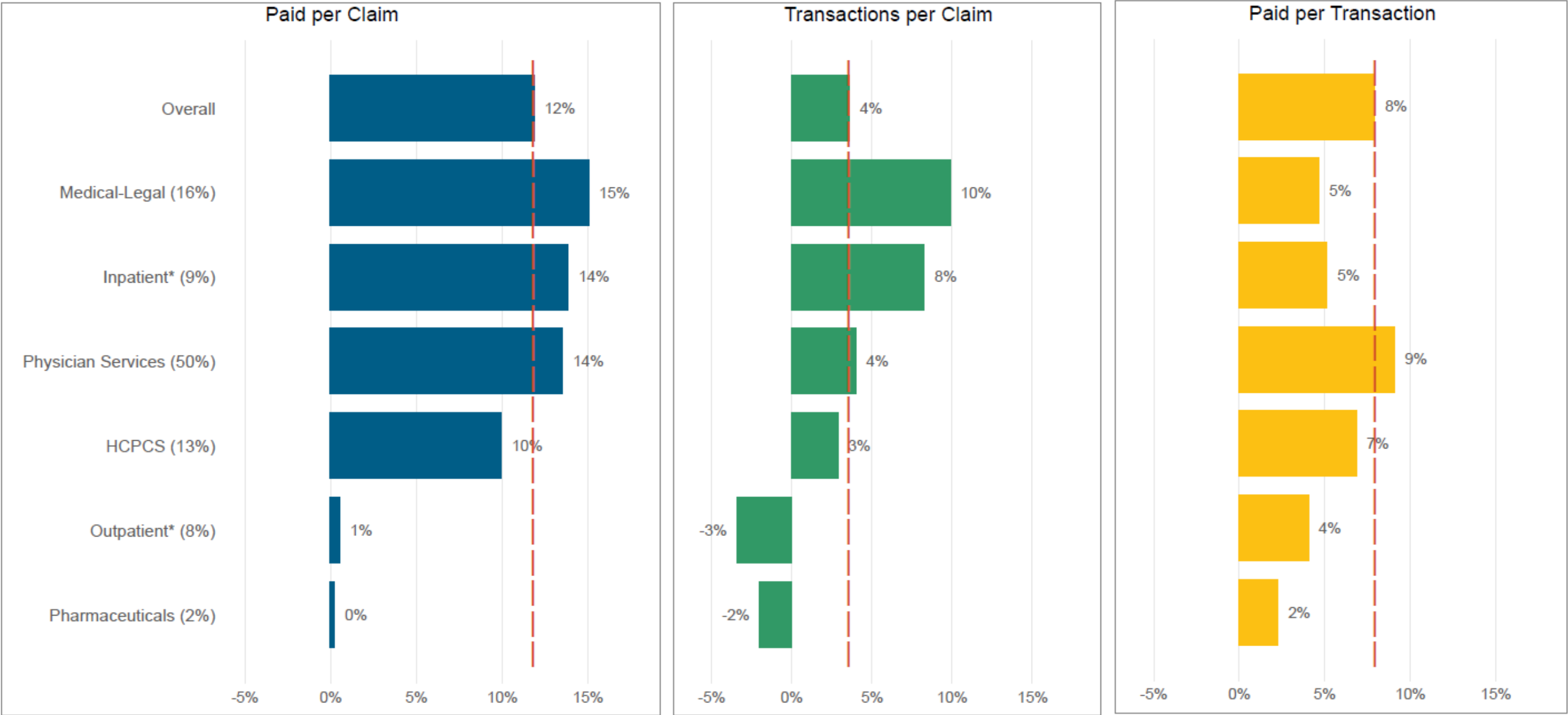
Annual Exponential Trend Based on:

- 1990 to 2024: 4.4%
- 2017 to 2024: 3.1%
- 2021 to 2024: 4.0%

AC Recommended: 3.5%

Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims for all accident years.

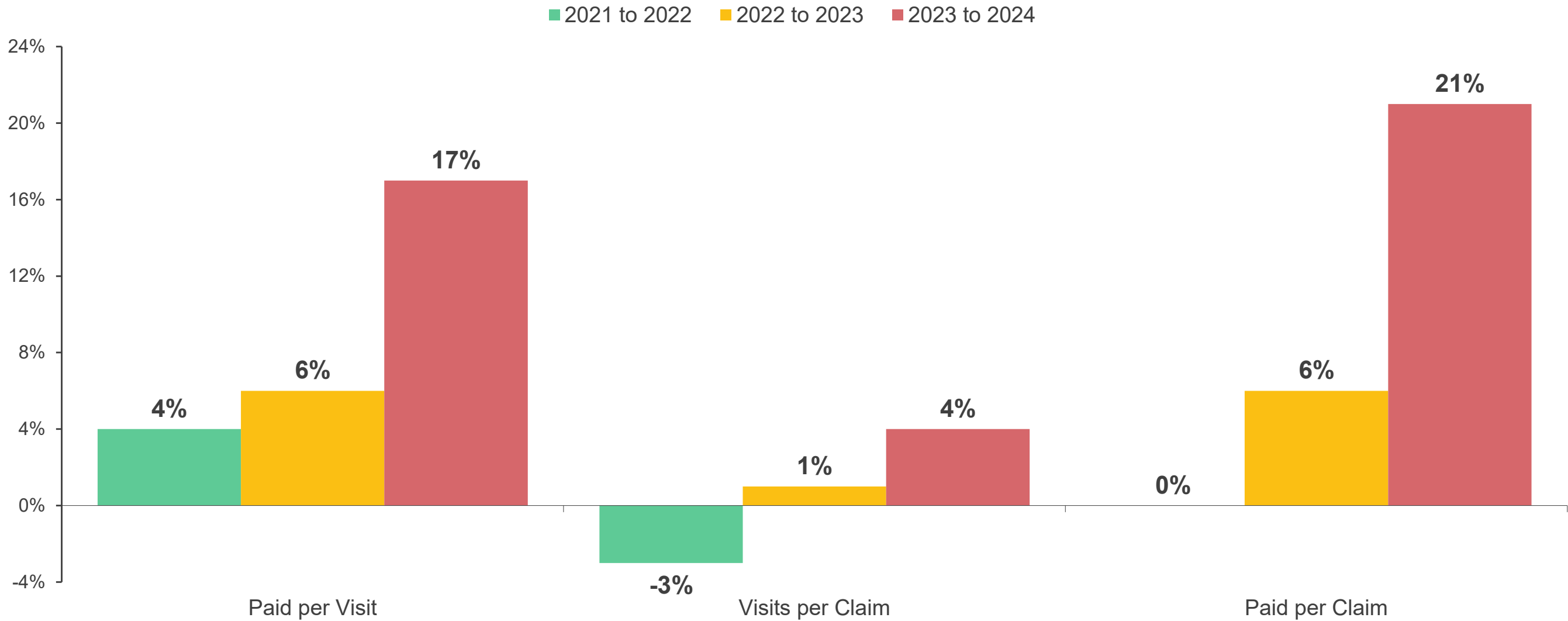
Change in Medical Cost per Claim in 2024 by Service Type



Note: Inpatient is on an episode basis. Outpatient is on a visit basis. Percentage in the parentheses represents the share of total medical payments in 2024
Source: WCIRB medical transaction data

Change in *Physical Medicine and Rehabilitation* Cost per Claim

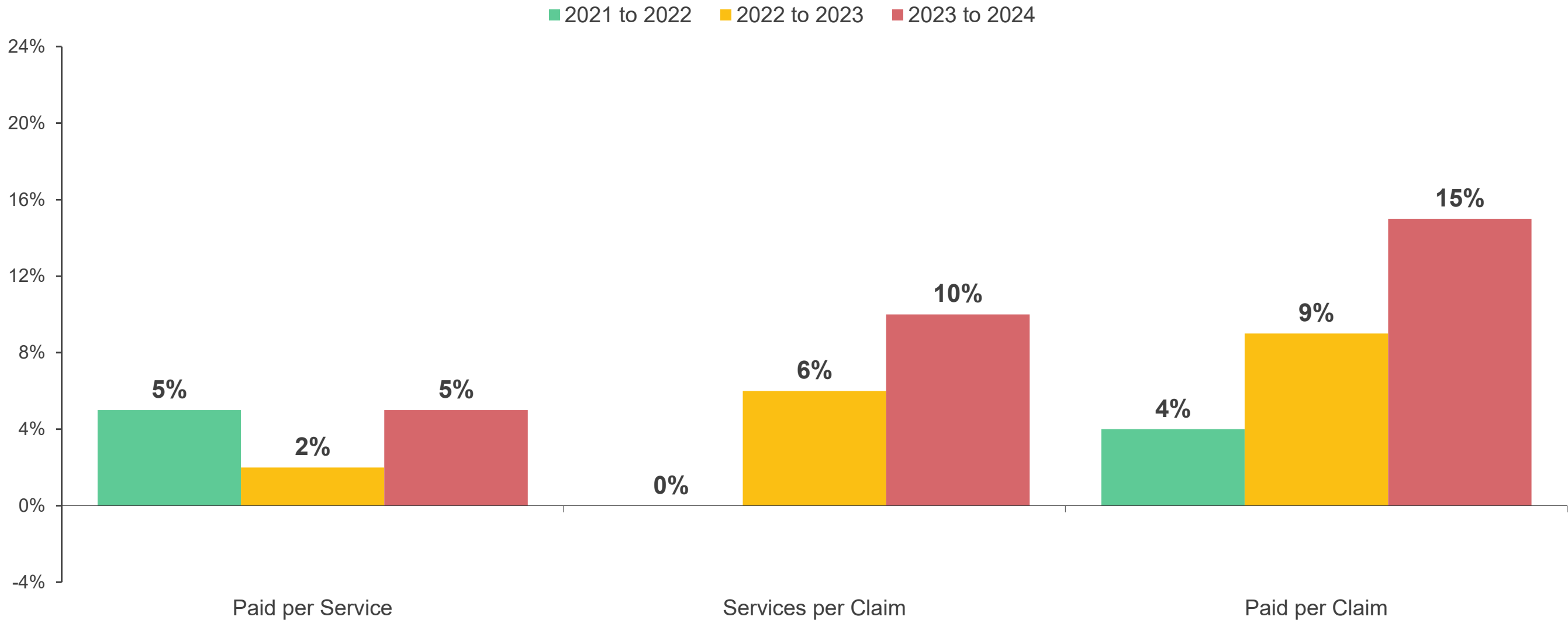
15% of All Medical Service Payments



Source: WCIRB medical transaction data

Change in *Medical-Legal* Cost per Claim

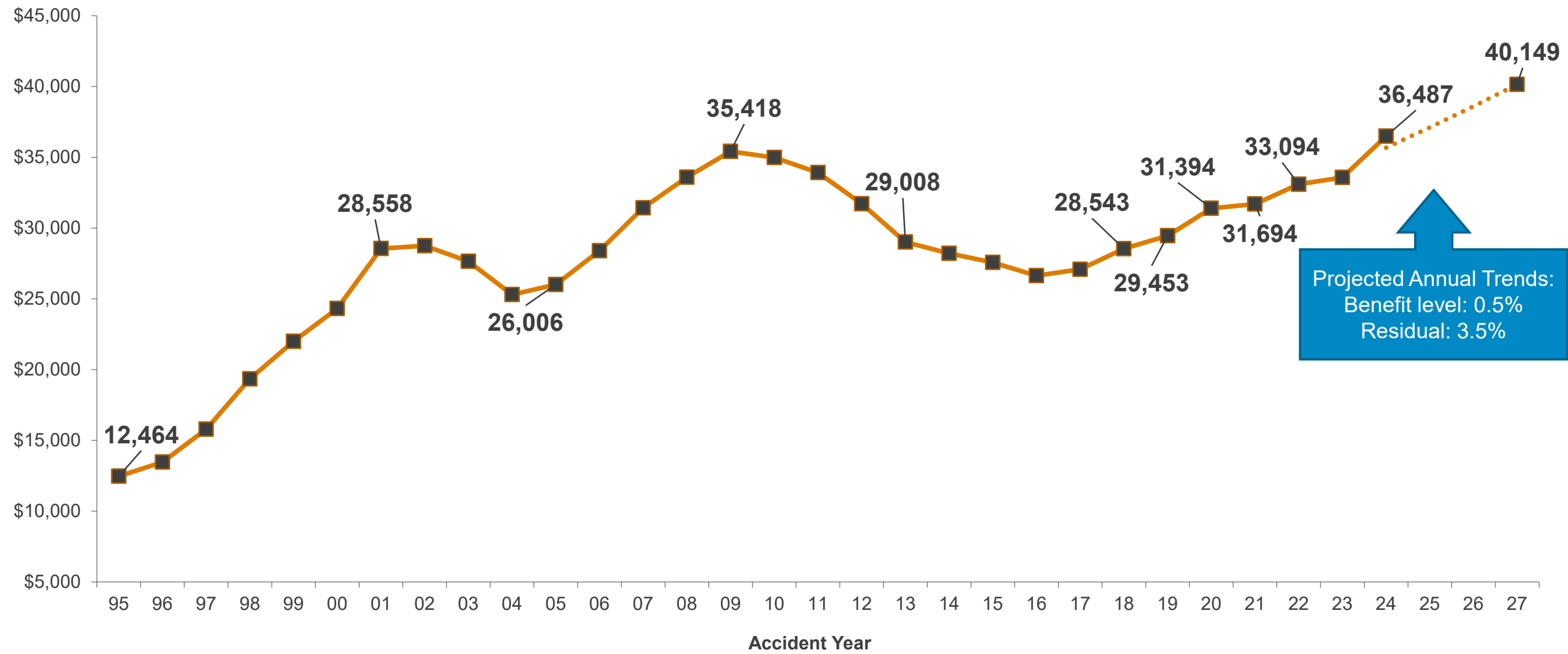
16% of All Medical Service Payments



Source: WCIRB medical transaction data

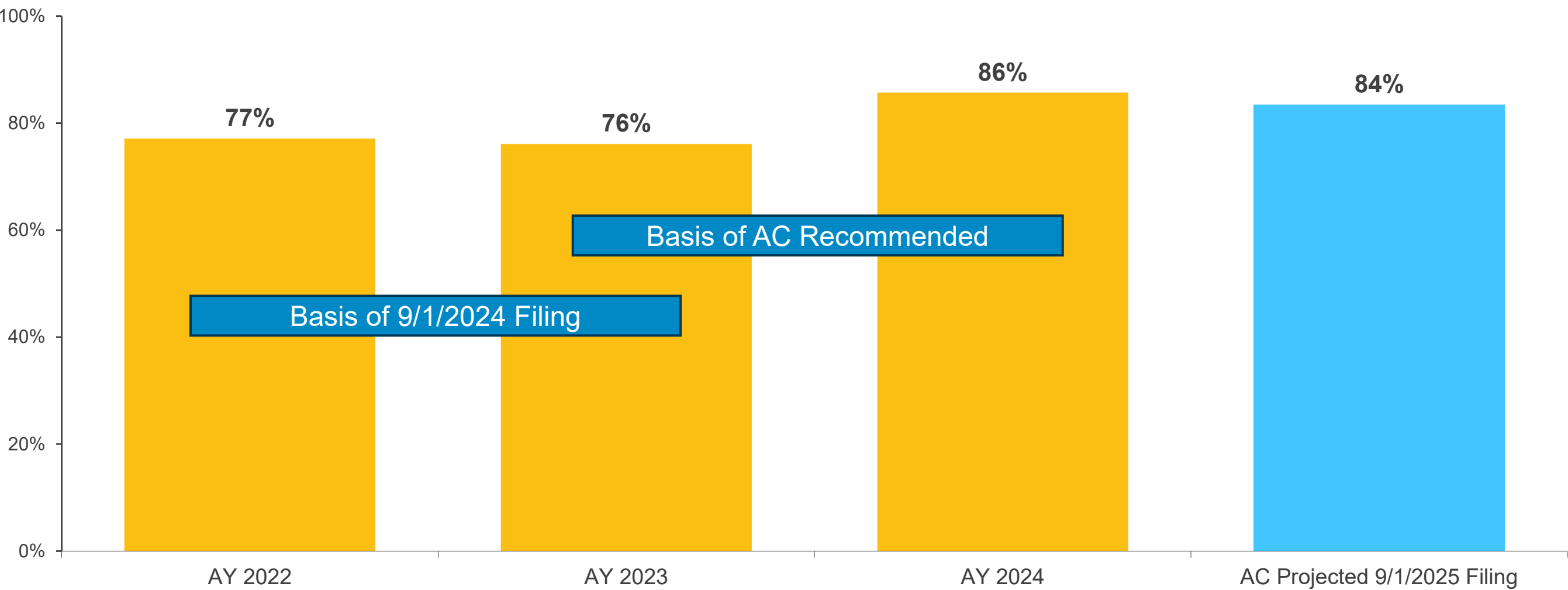
Ultimate Medical per Indemnity Claim

As of December 31, 2024



Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims and projections.

Projected On-level Loss to Pure Premium Ratios



Source: WCIRB aggregate financial data and projections

Loss Adjustment Expense Projection Methodology

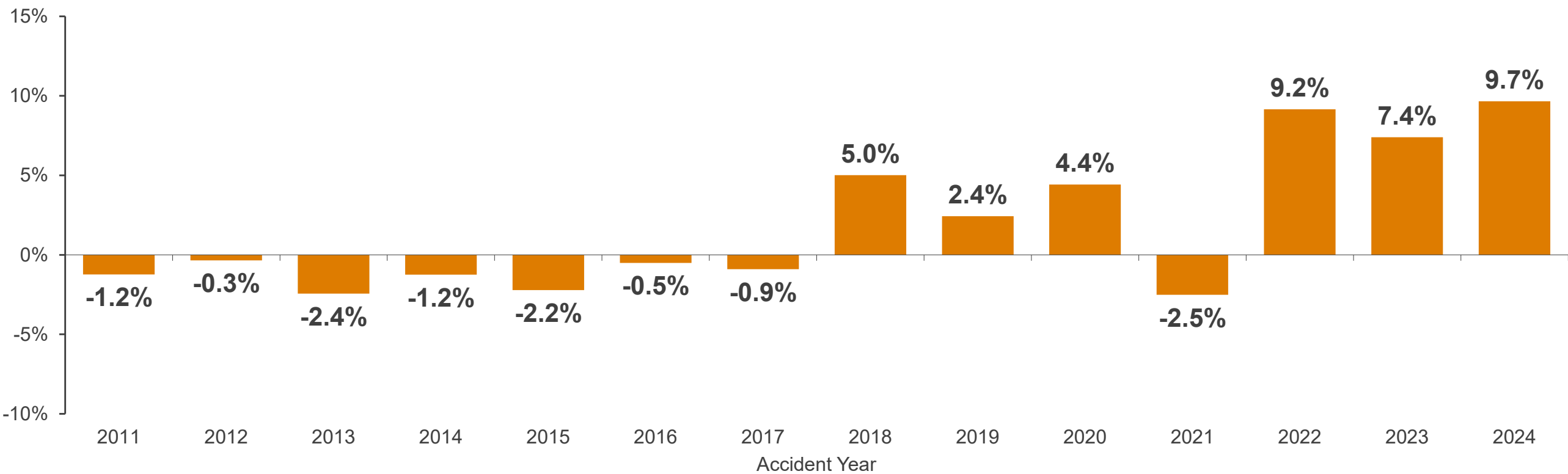
- Projected ULAE to Loss Ratio
 - Methodology and projected ULAE ratio consistent with 9/1/2024 Filing
 - Actuarial Committee Vote: **Unanimous**

- Projected ALAE to Loss Ratio
 - Methodology consistent with 9/1/2024 Filing
 - Higher ALAE severity trend selected (5.0%) given consistent sharp growth in 2022, 2023, and 2024
 - No longer applying SB 1160 adjustment
 - Actuarial Committee Vote: **9** in favor, **1** opposed
 - Opposed Committee member supports 6.5% ALAE severity trend given recent sharp growth

- Projected MCCP to Loss Ratio
 - Methodology consistent with 9/1/2024 Filing
 - Slightly higher MCCP severity trend selected (0.5%) given growth in medical costs
 - Actuarial Committee Vote: **Unanimous**

Projected Changes in Ultimate ALAE Severity

As of December 31, 2024



Annual Exponential Trend Based on:

1990 to 2024: 5.1%

2017 to 2024: 4.5%

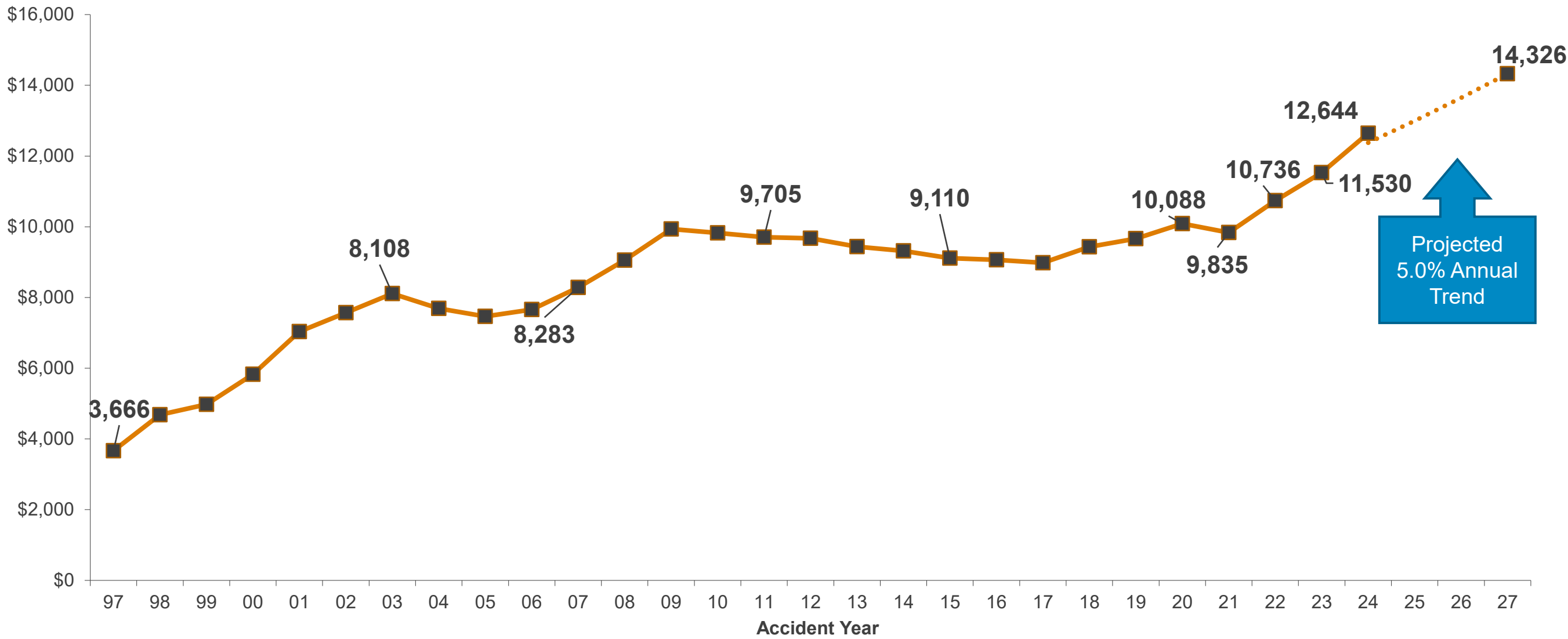
2021 to 2024: 8.6%

AC Recommended: 5.0%

Source: WCIRB aggregate financial data for private insurers, excluding COVID-19 claims and MCCP costs.

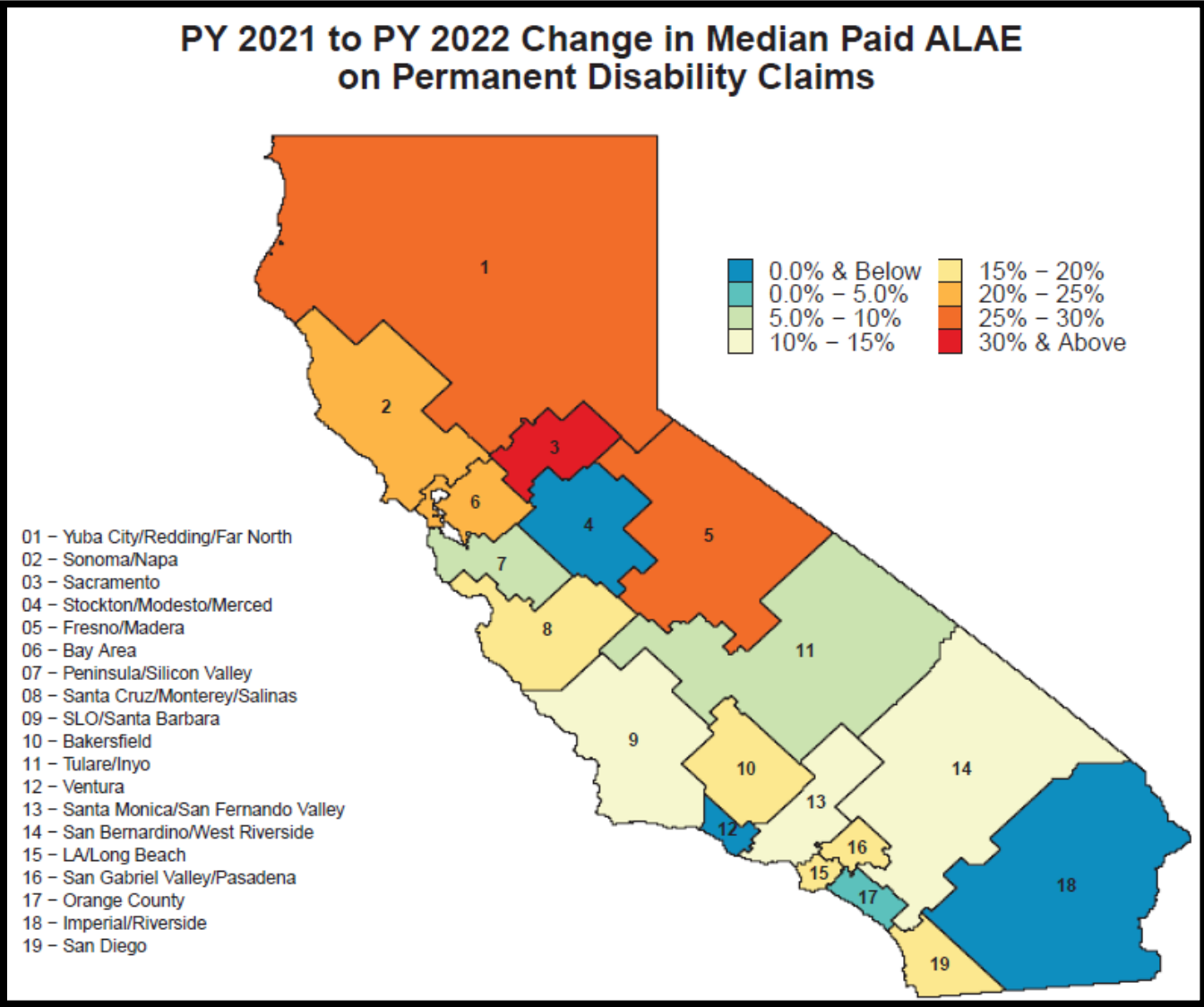
Ultimate ALAE per Indemnity Claim

As of December 31, 2024



Source: WCIRB Aggregate Financial Data for private insurers, excluding COVID-19 claims and MCCP costs and projections.

Recent Increase in ALAE Costs Across the State

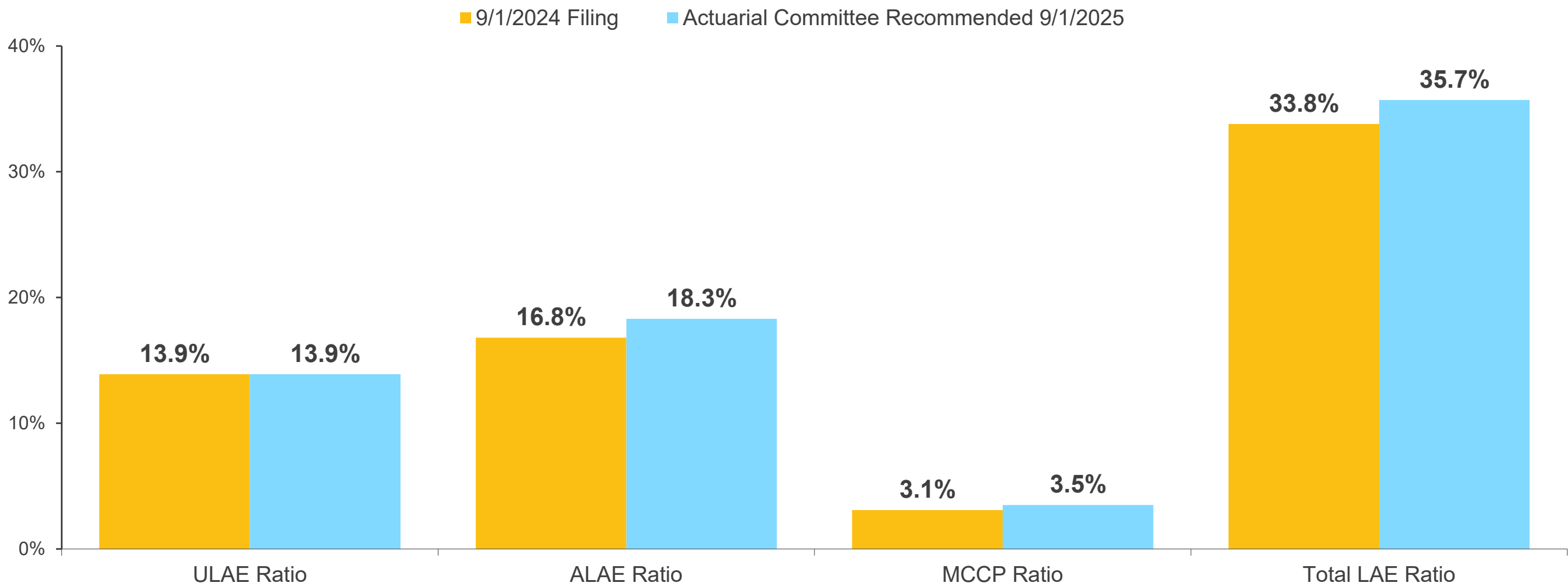


Key Drivers of Recent ALAE Increase:

- More CT claims across the state
- Southern California applicant's attorneys representing cases in other regions
 - 21% shift to LA attorneys for Bay Area employers
 - 12% shift to LA attorneys for San Diego employers
- Facilitated by virtual hearing process

Source: WCIRB 2024 Geo Study Report, released December 3, 2024.
Dataset developed by linking WCIRB's unit statistical report (USR) data with medical transaction and Dun and Bradstreet Hoovers (D&B Hoovers) data.
Comparison based on first report level USR data, for policy year 2022 versus policy year 2021. Excludes COVID-19 claims.

Projected LAE to Loss Ratios

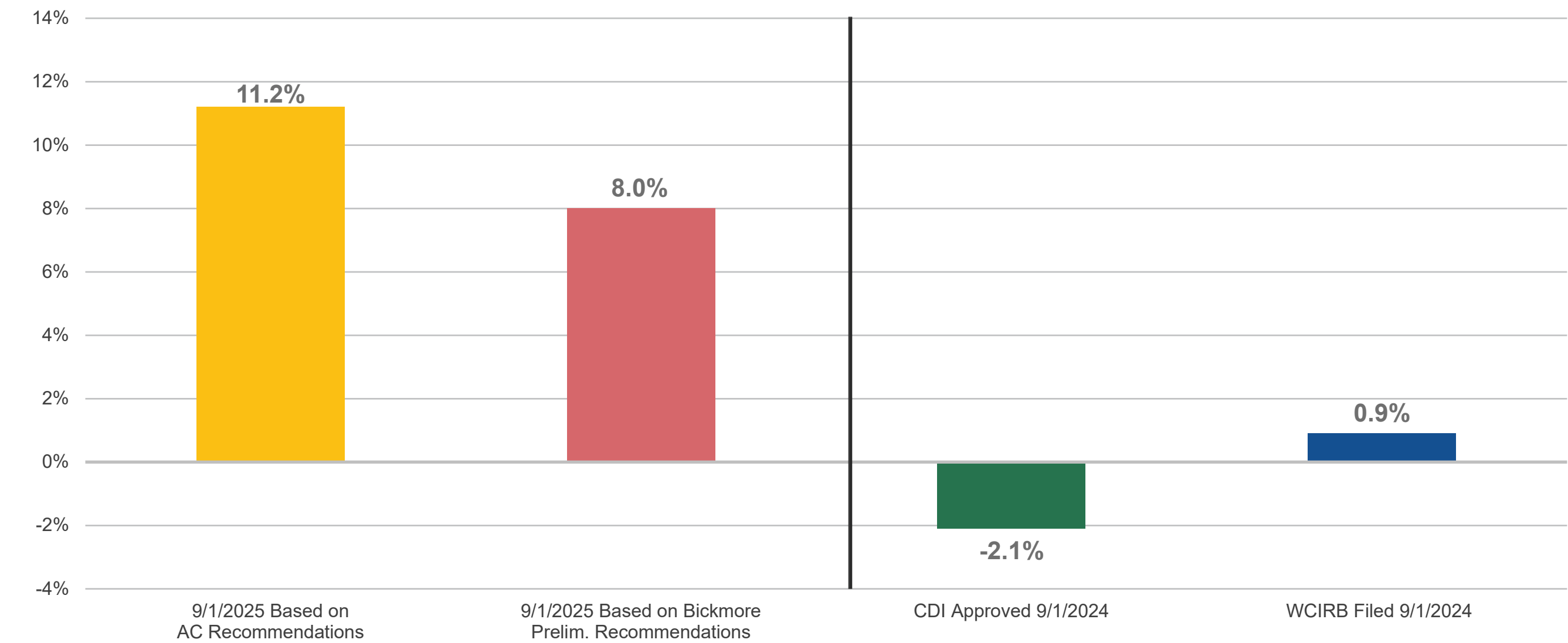


Source: WCIRB Aggregate Financial Data and projections



Summary and Discussion

Indicated Average Advisory Pure Premium Rate Changes





WCIRBCalifornia[™]
Objective. Trusted. Integral.