

# July 1, 2017 Pure Premium Rate Filing WCIRB Executive Summary

California Department of Insurance Public Hearing  
May 3, 2017

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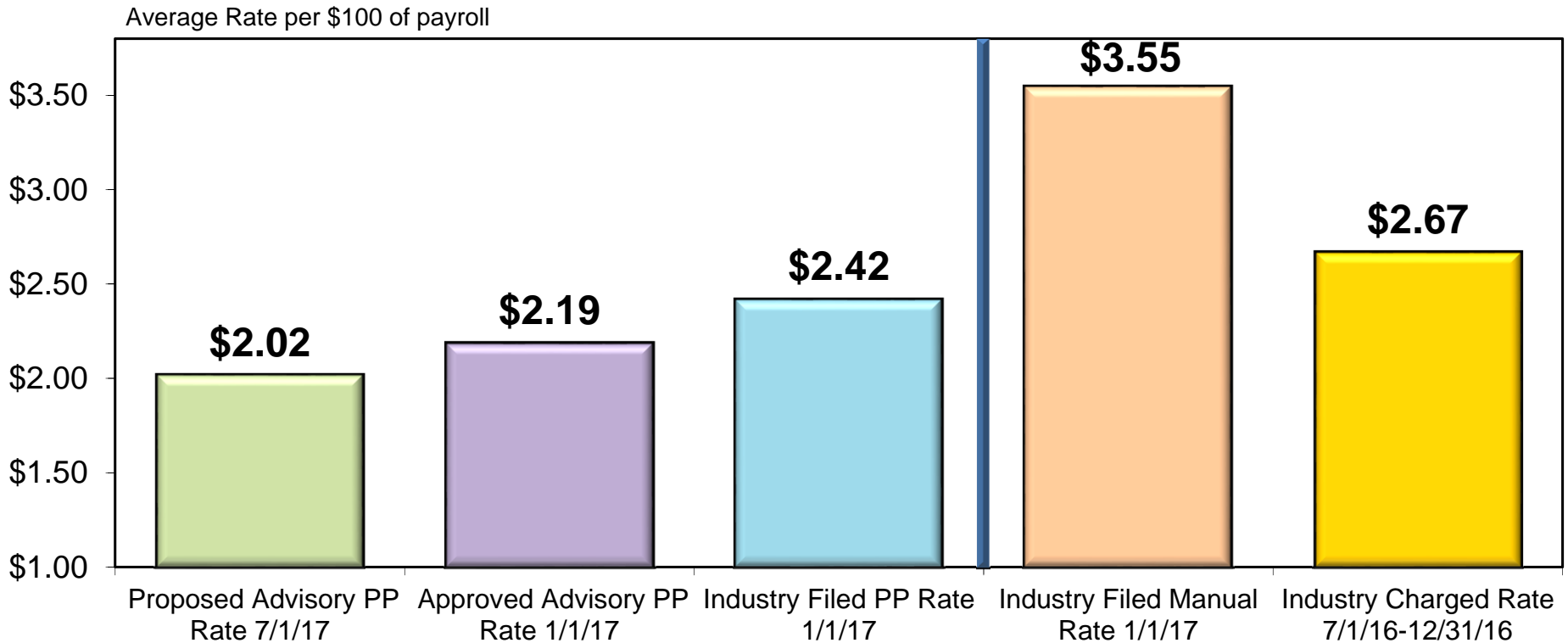
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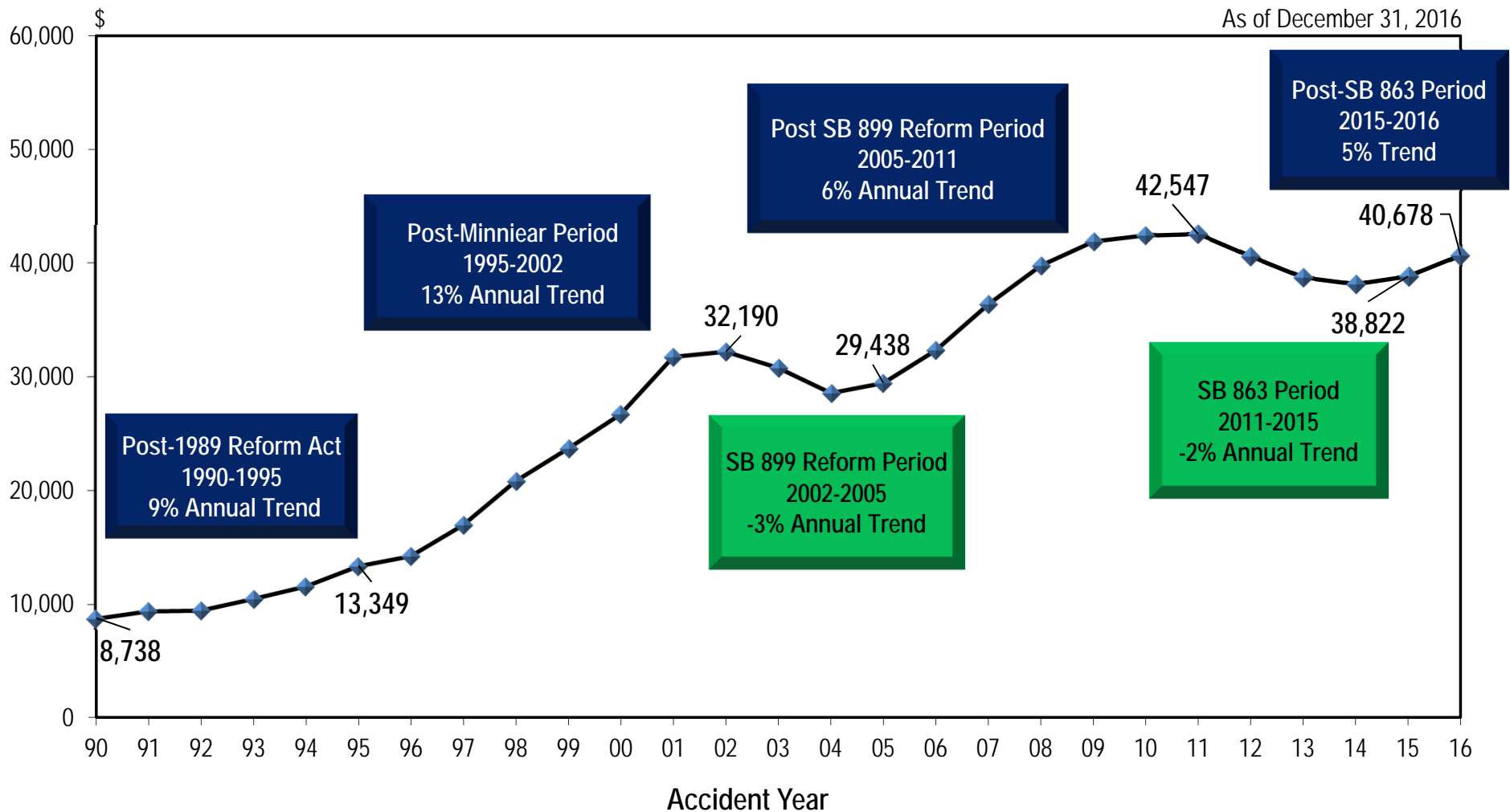
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# Advisory Pure Premium Rates & Industry Rates



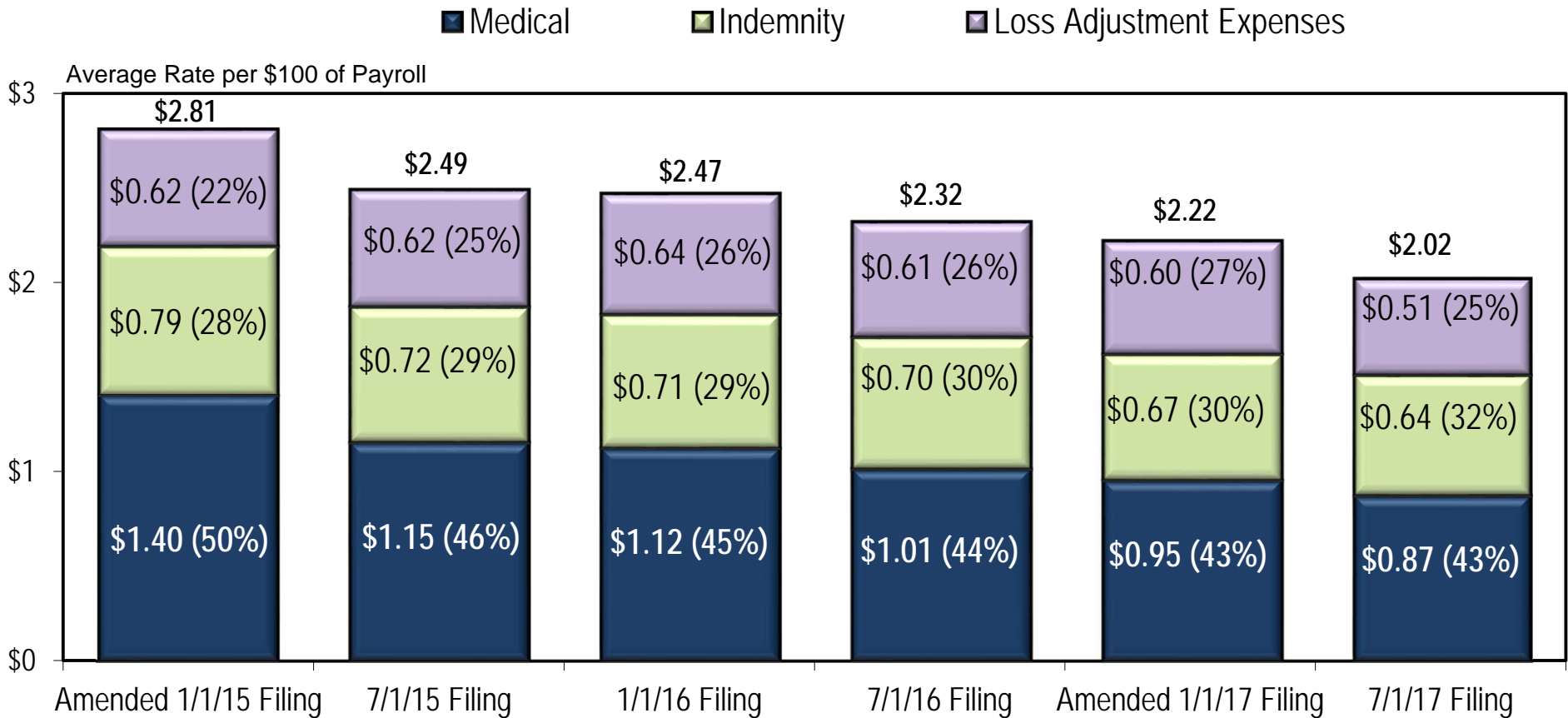
Sources: Unit statistical payroll by classification and insurer for November 2013 through October 2014 policies, WCIRB calls for aggregate financial information and insurer rate filings with the CDI.

# Estimated Ultimate Medical Per Indemnity Claim



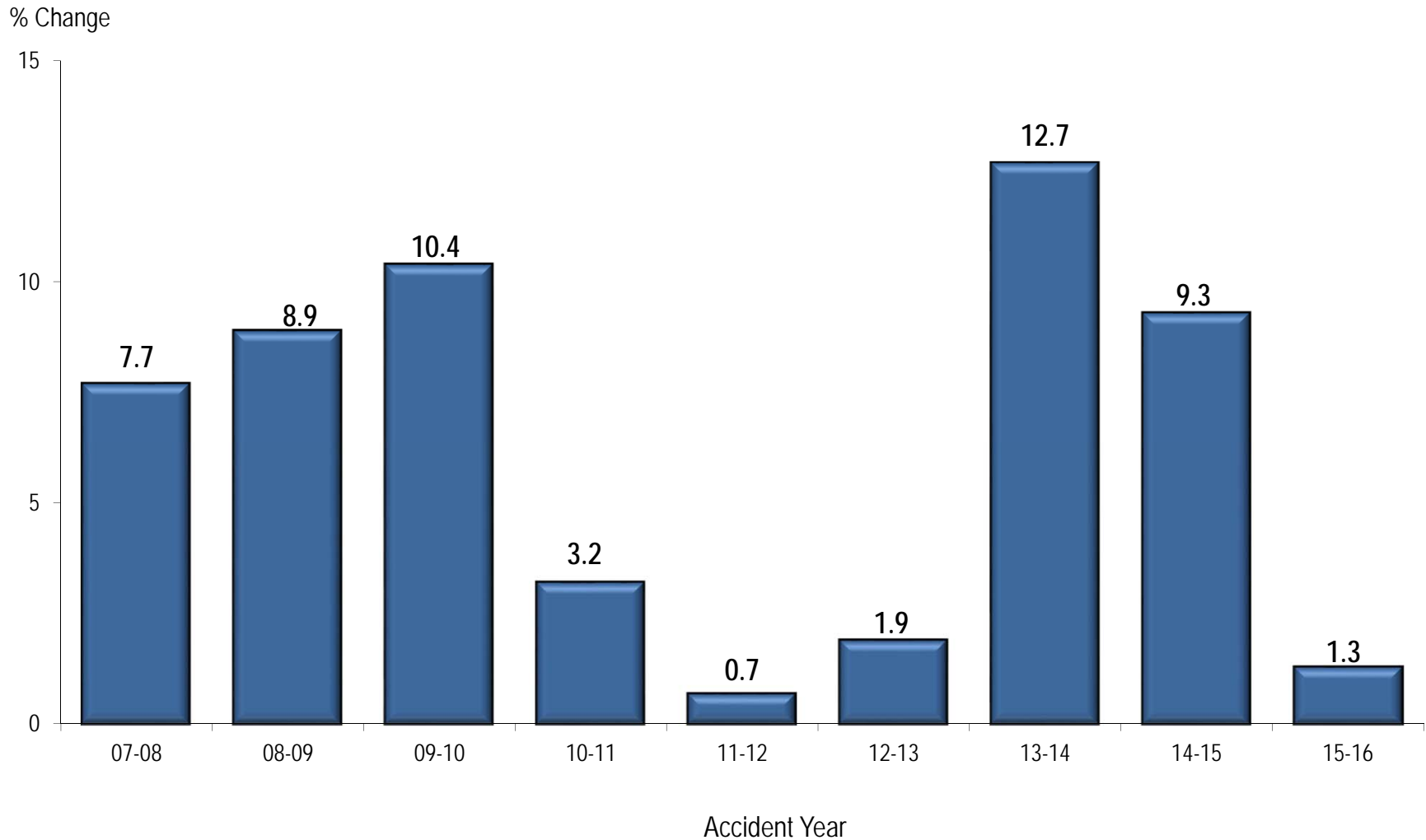
Source: WCIRB calls for aggregate financial information. For consistency of comparison over time medical losses include the cost of medical cost containment programs.

# Pure Premium Rate by Loss and LAE Component



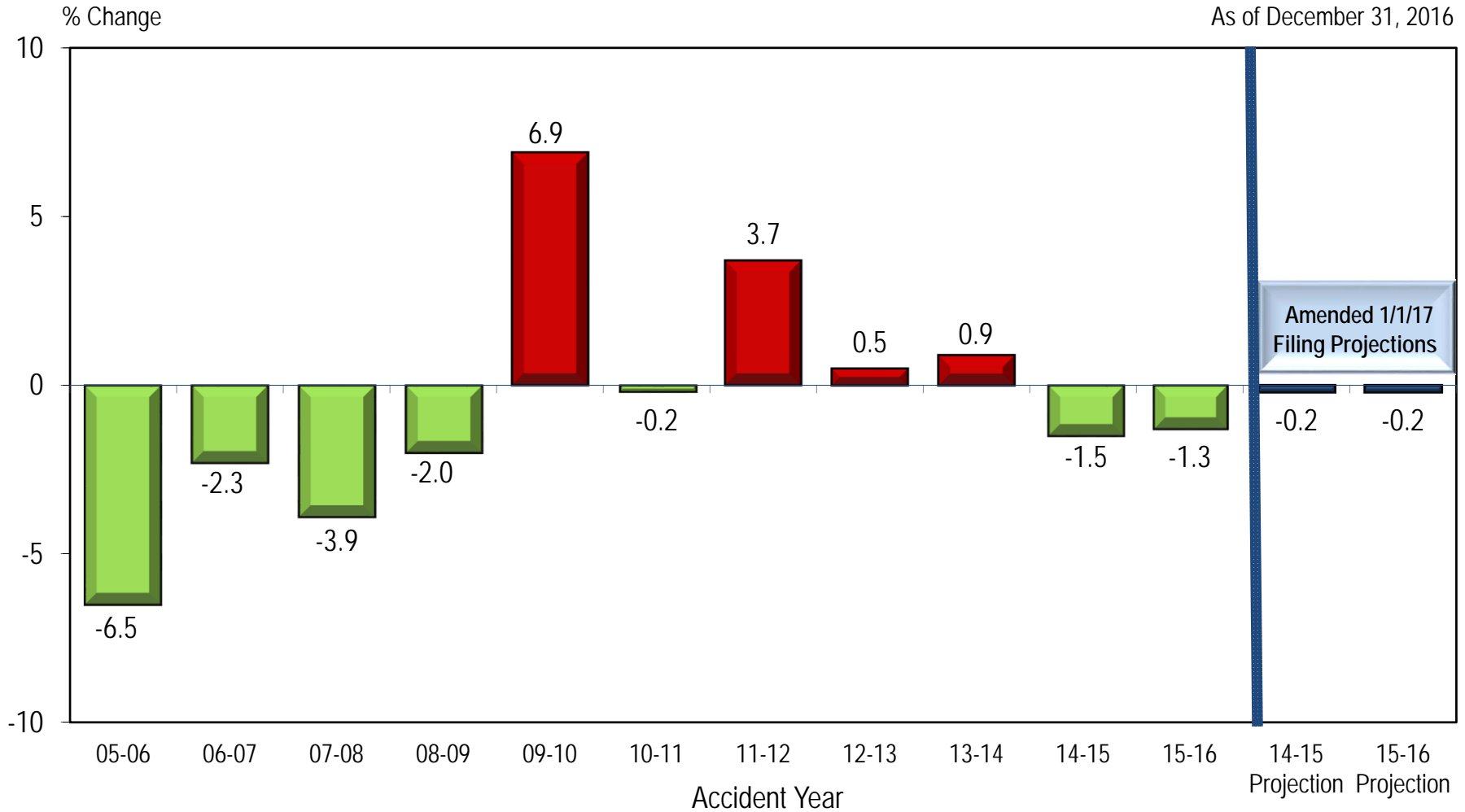
Source: WCIRB pure premium rate filings.

# Change in Paid ALAE Per Indemnity Claim at 12 Months



Source: Private insurer experience reported in WCIRB calls for financial information.

# Change in Statewide Indemnity Claim Frequency



Sources: WCIRB calls for aggregate financial information and unit statistical data. The 2016 estimate is based on changes in reported aggregate indemnity claim counts compared to changes in statewide employment.

# 7/1/17 Filing – Key Considerations

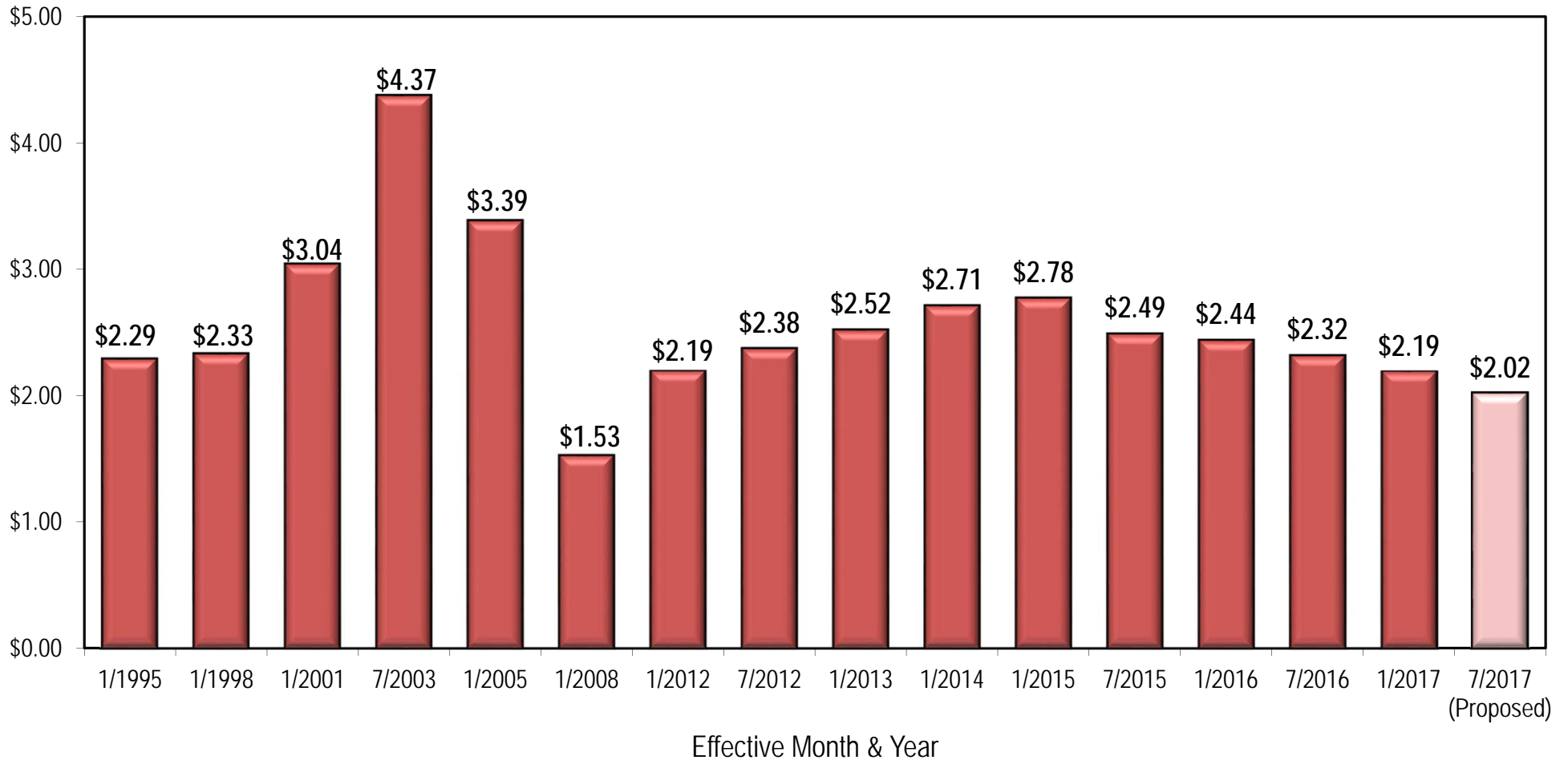
Positive Trends
Medical Losses Developing Downward
Claim Settlement Accelerating
Claim Frequency Decreasing
Wage Inflation Increasing
Improving ALAE Trends

Areas to Monitor
Increasing Lien Filings
Escalating Cum. Injury Claims
Reduced Medical Case Reserves
Rate of Future Medical Inflation

- 7/1/17 Indicated Average Pure Premium Rate: **\$2.02**
- 7.8% Below Average Approved 1/1/17 Pure Premium Rate

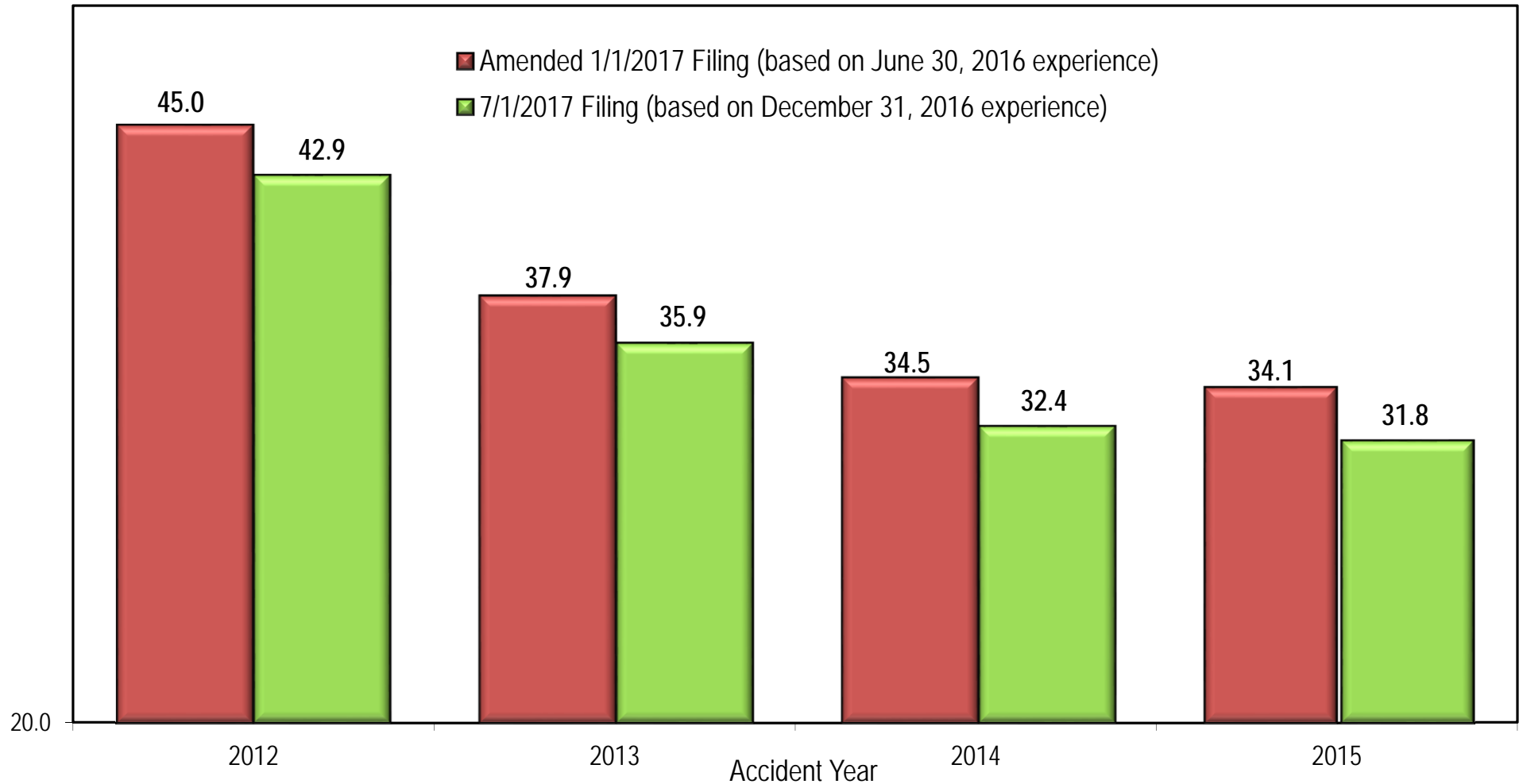


# History of Approved Advisory Pure Premium Rates



Source: CDI advisory pure premium rate decisions. All rates are based on exposure weights based on November 2013 through October 2014 policies.

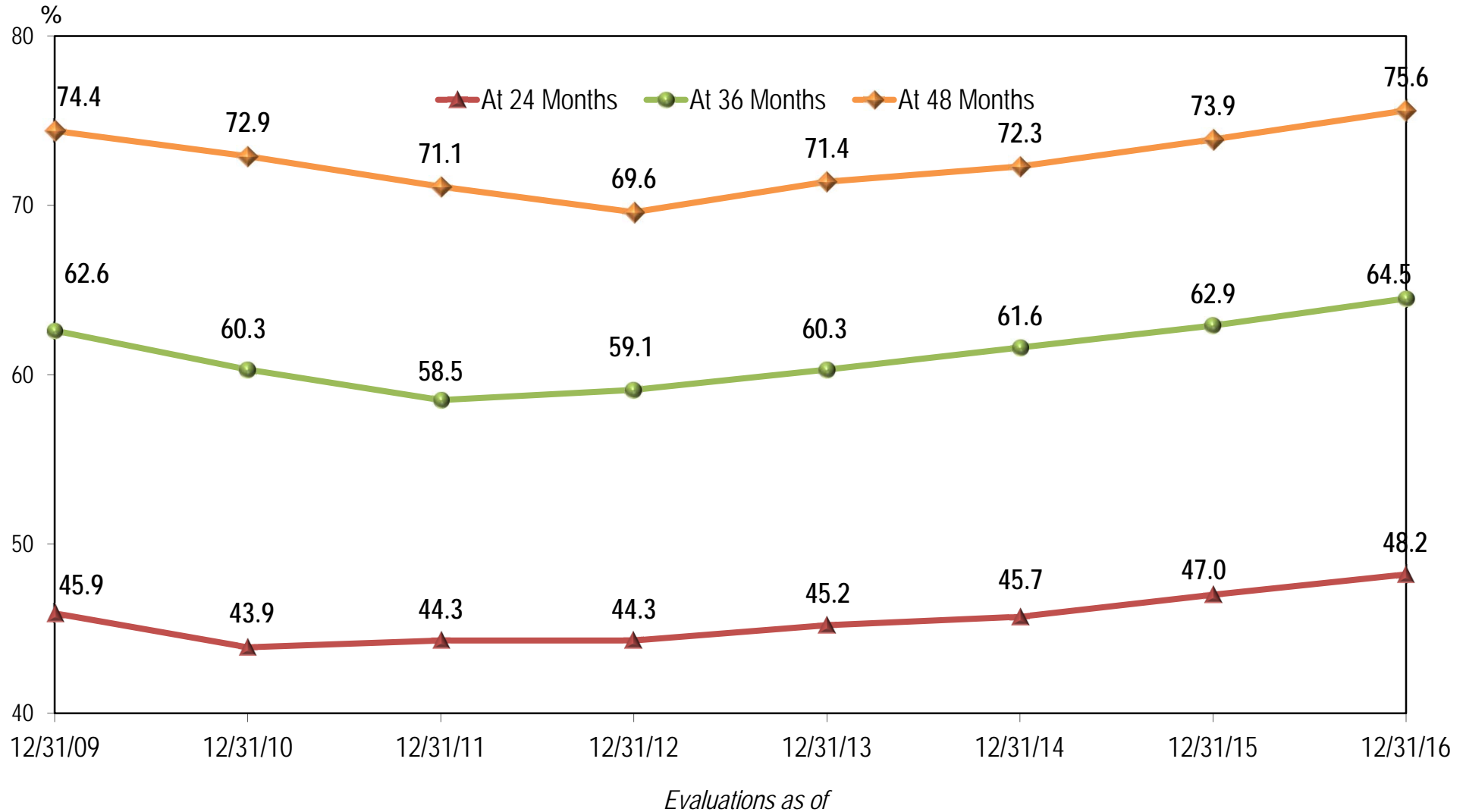
# Medical Losses Developing Downward Projected Ultimate Medical Loss Ratio



Source: WCIRB calls for aggregate financial information. Based on latest year reform-adjusted paid claim settlement rate-adjusted paid methodology. To insure consistent comparisons, ratios shown reflect the SB 863 adjustments to loss development reflected in the amended 1/1/17 filing.

# Claim Settlement Accelerating

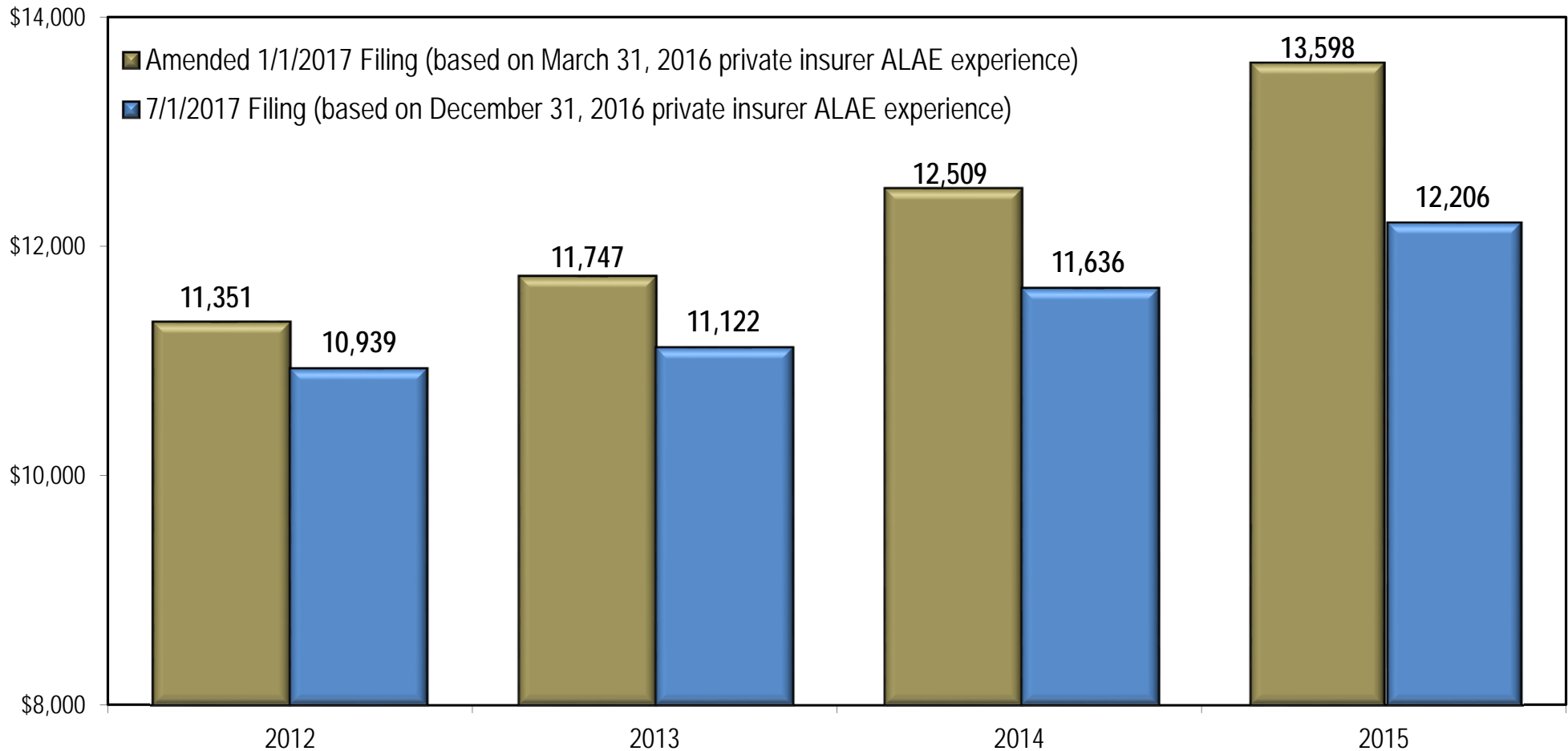
## Percent of Accident Year Indemnity Claims Closed



Source: WCIRB calls for aggregate financial information. The percentages shown represent the percentage of estimated ultimate accident year indemnity claims closed for the specified maturity level at the specified December 31 evaluation.

# Improving ALAE Trends

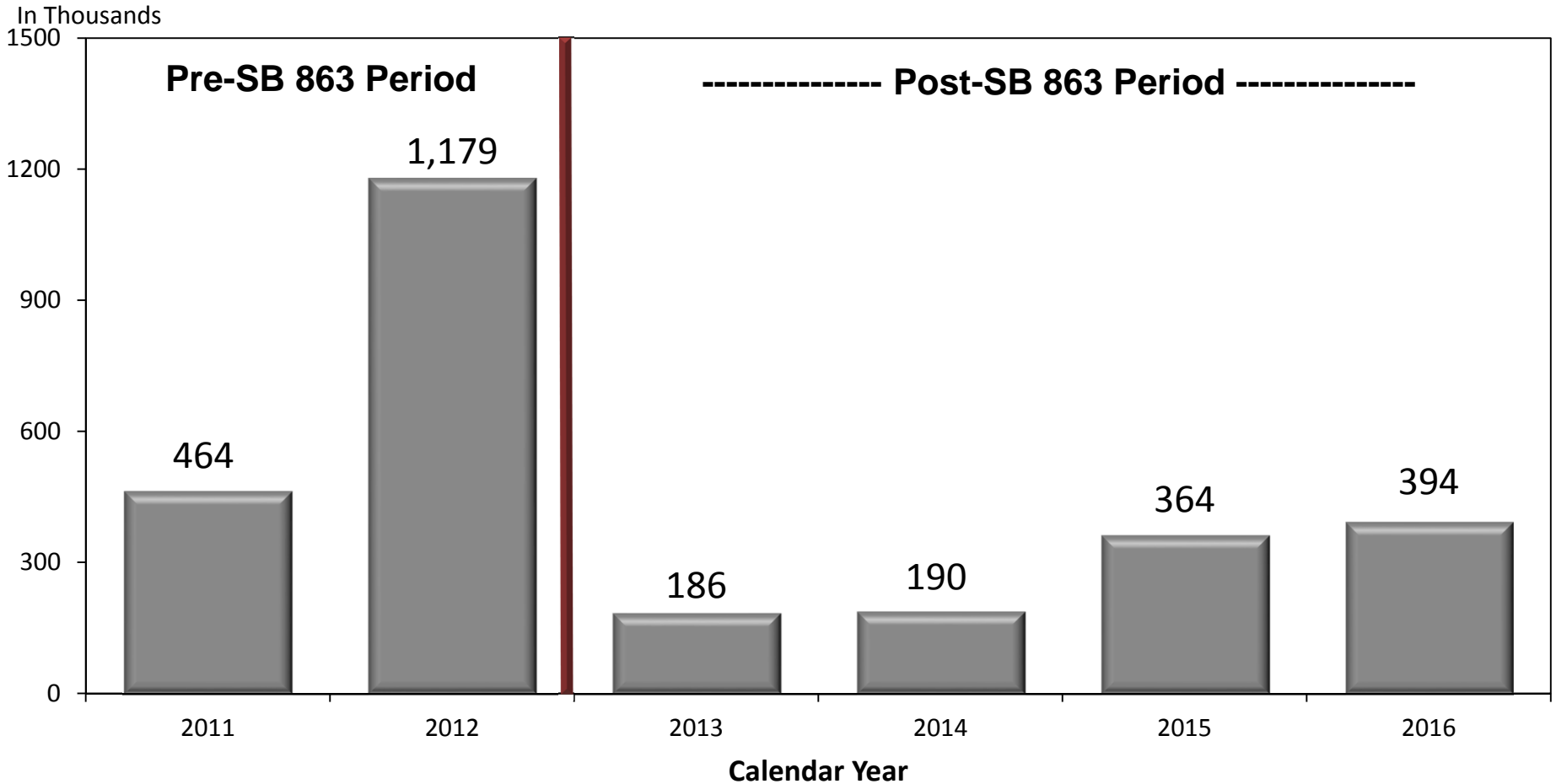
## Projected Ultimate ALAE Per Indemnity Claim



Source: WCIRB projections based on private insurer ALAE experience from WCIRB calls for financial information.

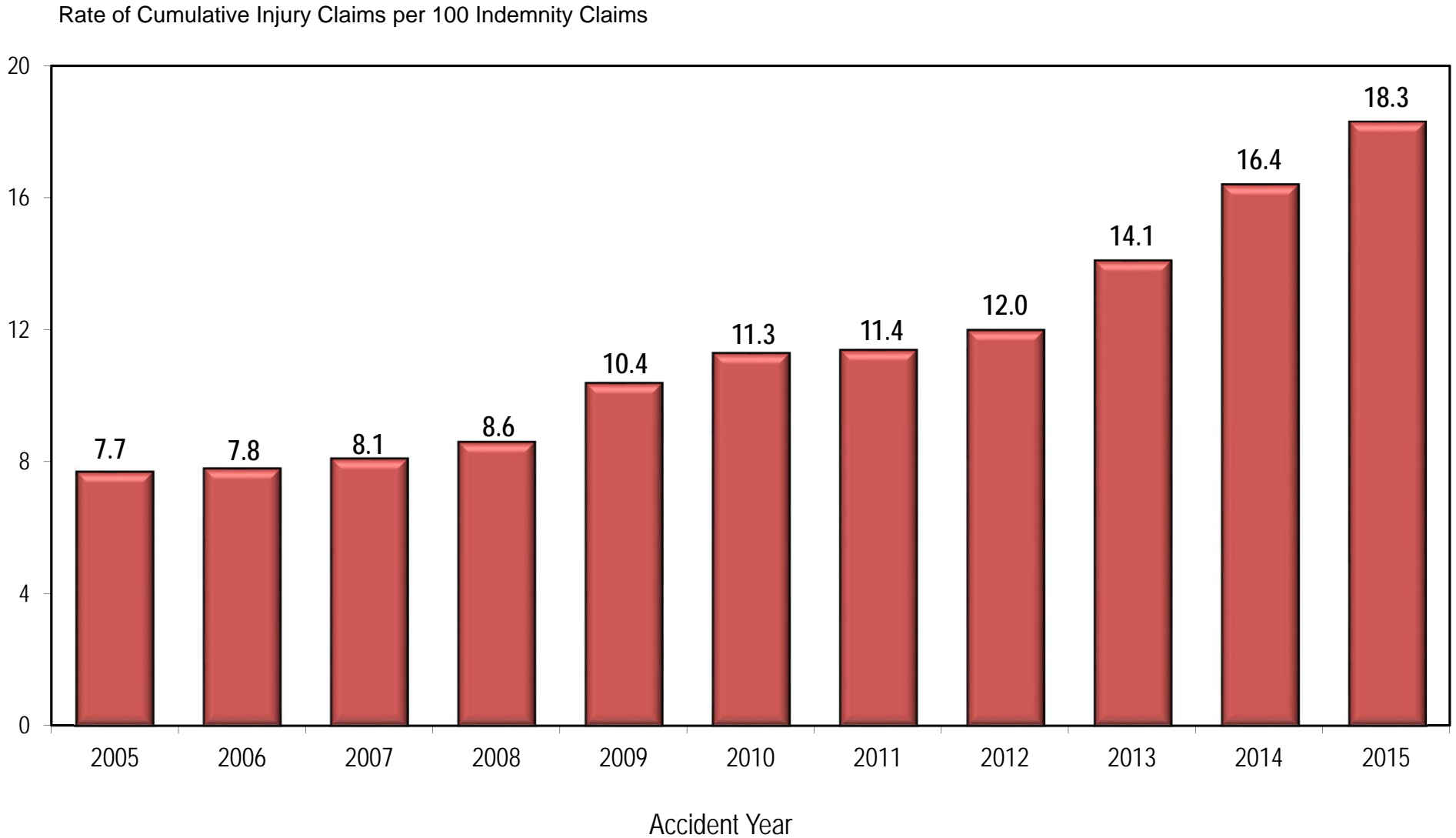
# Increasing Lien Filings

## Liens Filed by Calendar Year



Source: Division of Workers' Compensation EAMS Liens Data.

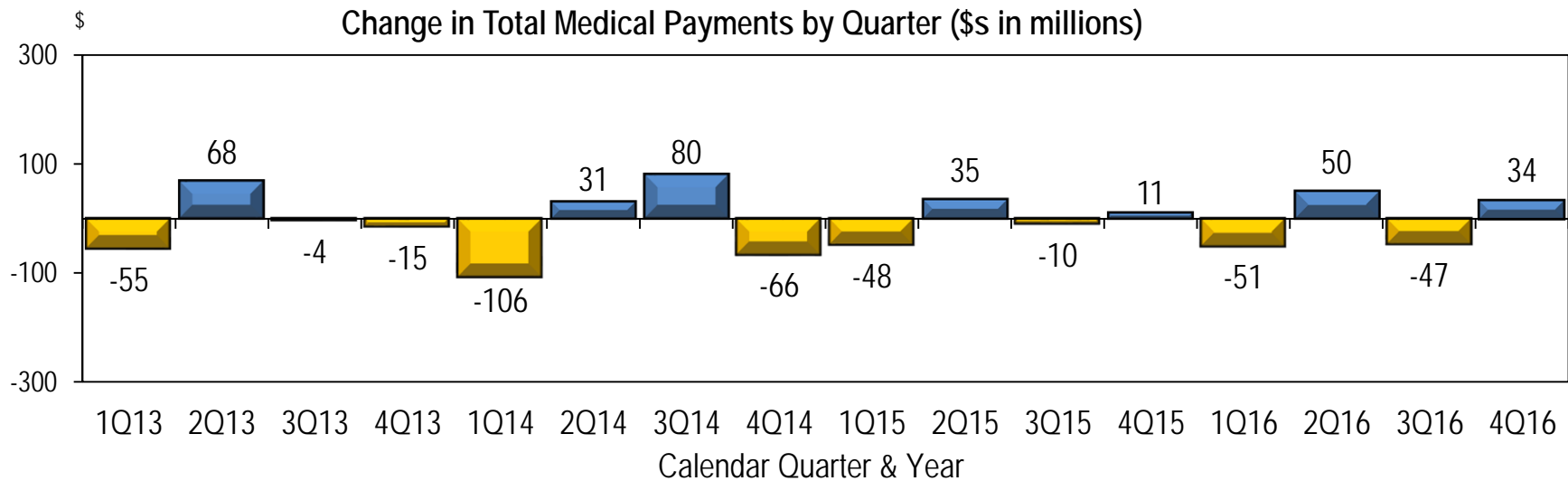
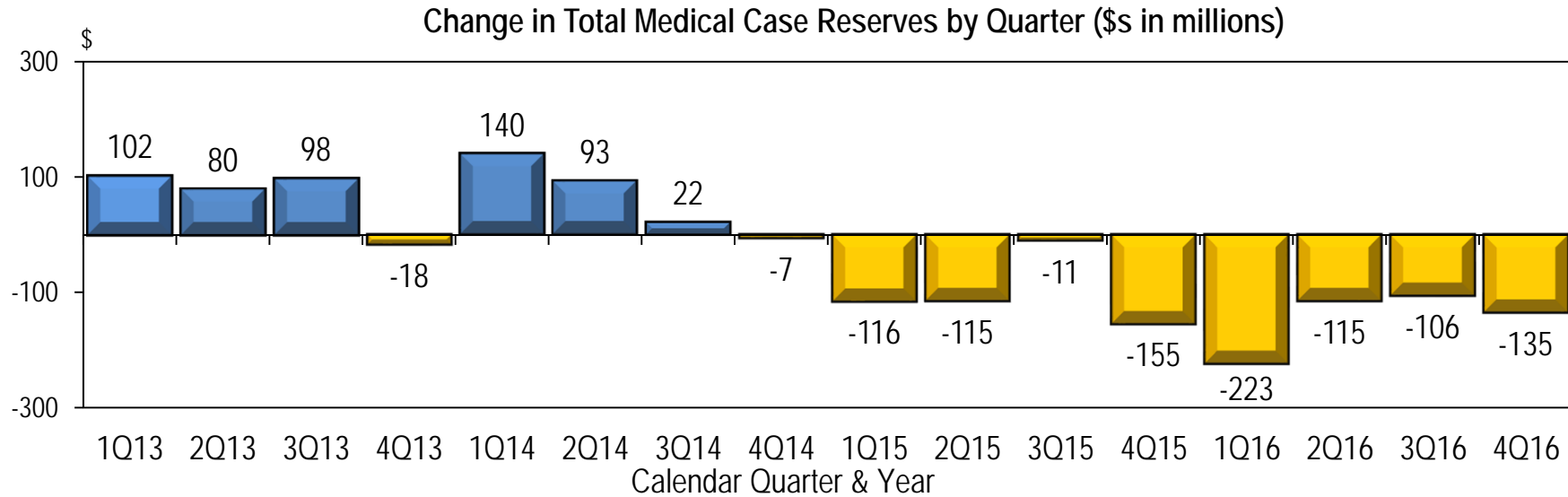
# Escalating Cumulative Injury Claims



Source: WCIRB unit statistical data. Claim count totals are developed to fifth report level.

# Reduced Medical Case Reserves

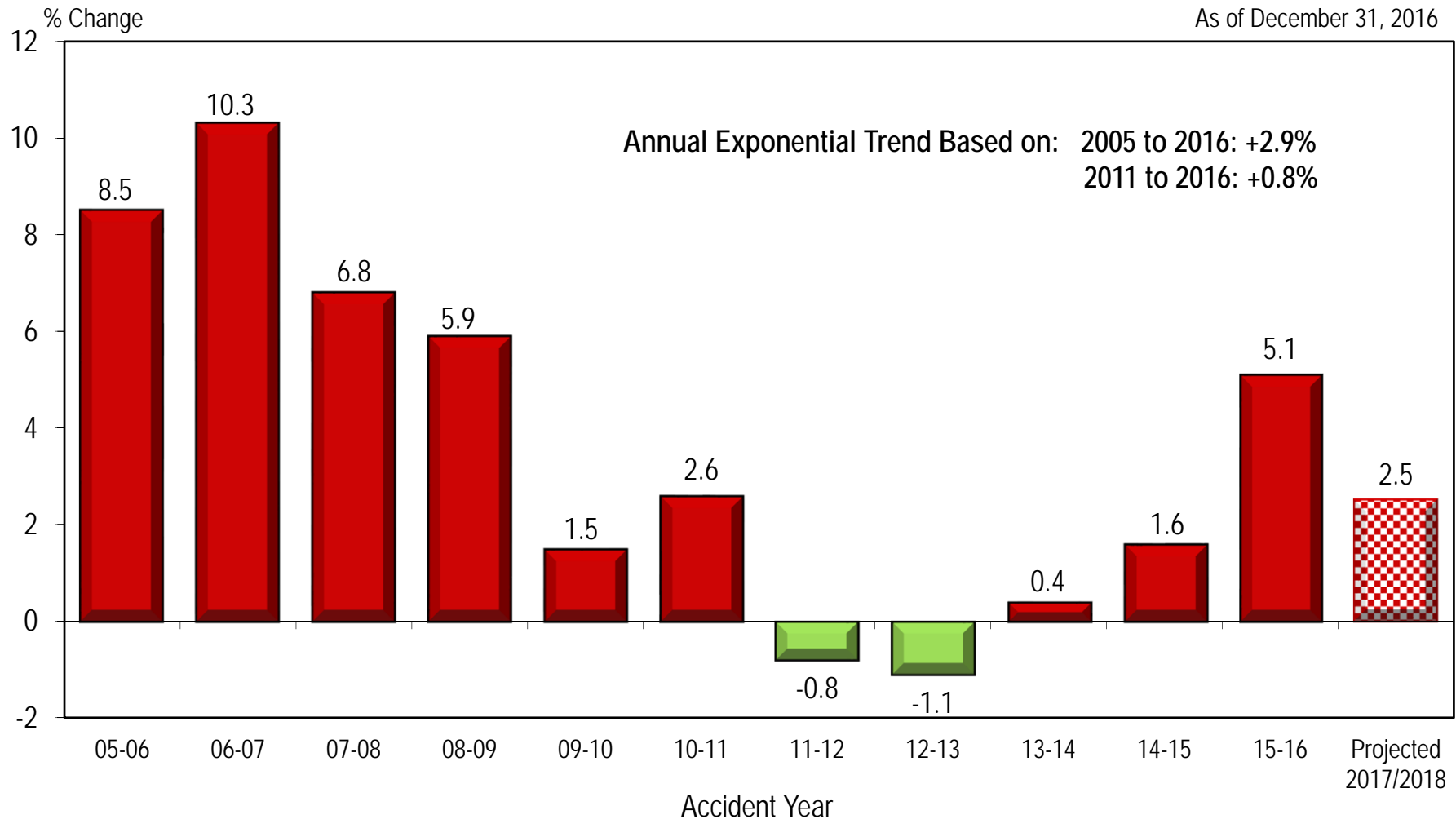
## Change in Medical Case Reserves by Calendar Quarter



Source: WCIRB calls for aggregate financial information.

# Rate of Future Medical Inflation

## Estimated Annual Change in Medical On-Level Severity



Source: WCIRB calls for aggregate financial information. WCIRB projections of ultimate medical losses based on accident year loss and claim patterns and reflect adjustments to a current "on-level" basis. Medical losses exclude MCCP costs.

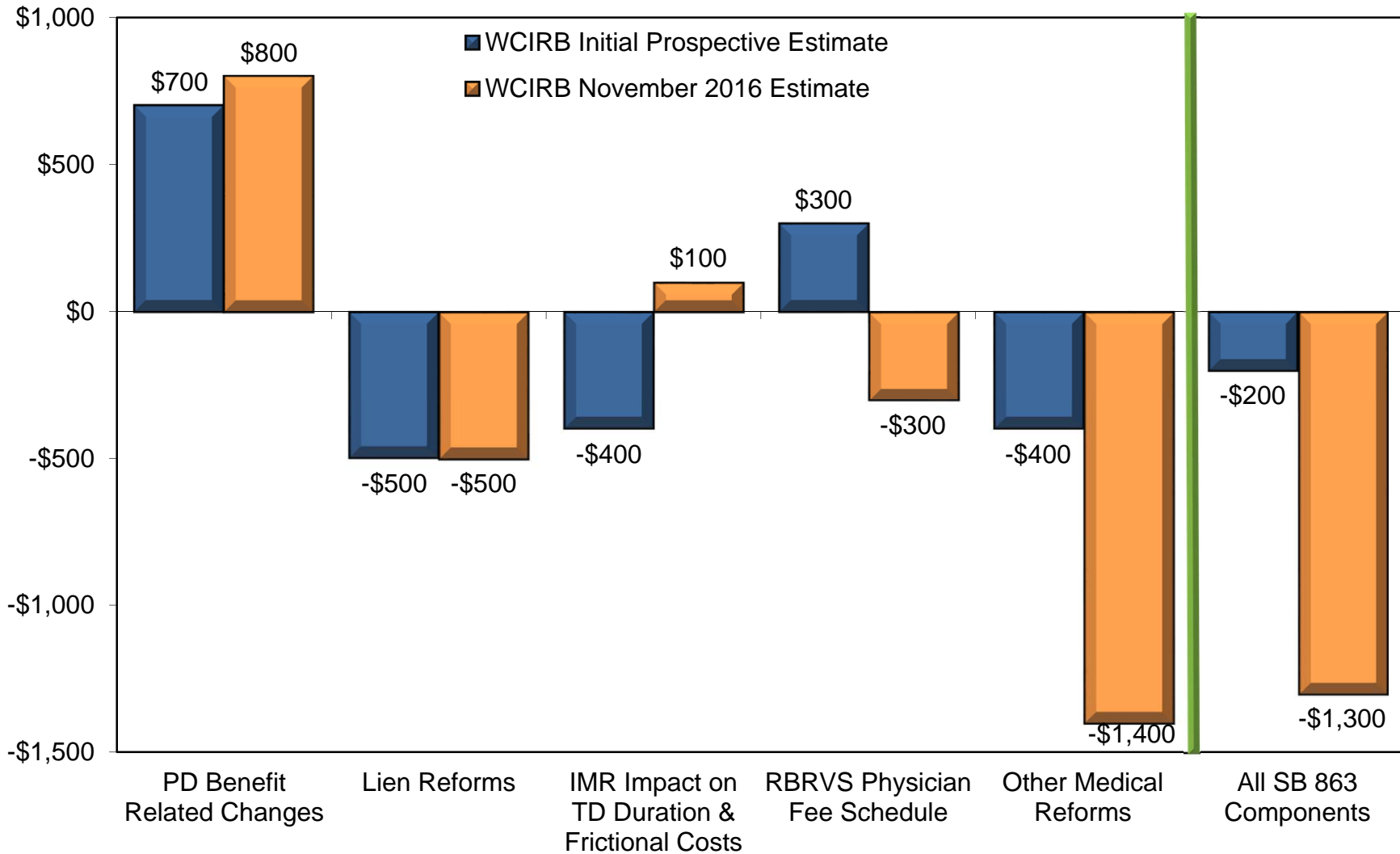


# Recent Legislative and Regulatory Changes

- SB 863
- SB 1160 & AB 1244
- AB 1124
- Medi-Cal Pharmaceutical Fee Schedule (Federal Upper Limits)

# Recent Legislative and Regulatory Changes

## SB 863 Updated Total System Cost Impact Estimates

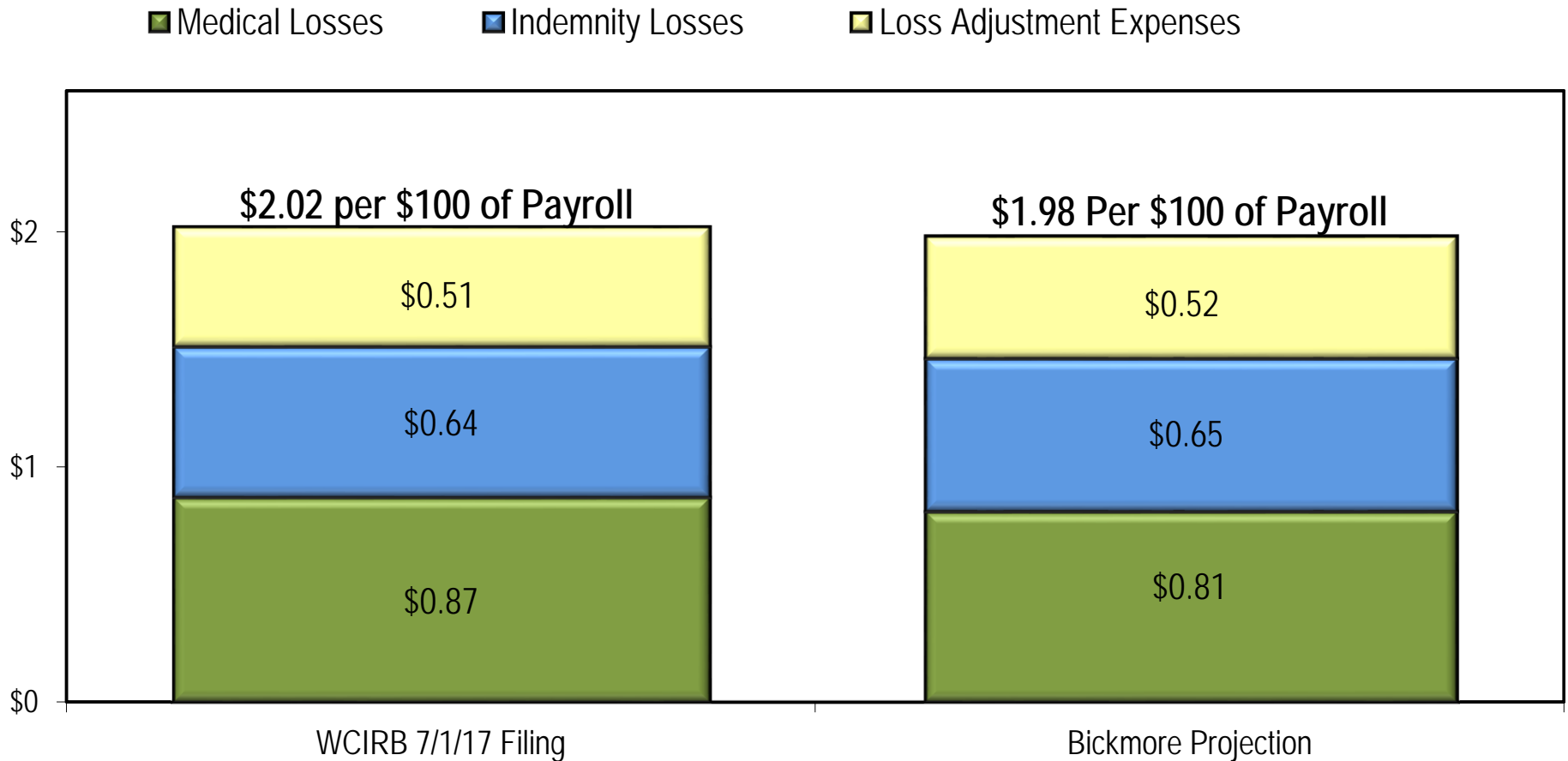


Source: WCIRB 2016 SB 863 Cost Monitoring Report. Dollar estimates are based on total system costs including self-insured market.

# Recent Legislative and Regulatory Changes

- **SB 1160 & AB 1244**
  - WCIRB projected \$135 mm. in total system savings (0.6%) in Amended 1/1/17 Filing
  - Same provision (0.6% savings) reflected in 7/1/17 Filing
- **AB 1124**
  - Drug Formulary being developed by DIR
  - DIR Economic Impact Report suggests \$23 mm. in annual total system savings
  - WCIRB to value prospective effect of final Formulary once adopted
- **Medi-Cal Pharmaceutical Fee Schedule**
  - Restrictions on pharmaceutical pricing tied to Medicare Federal Upper Limits effective in second quarter of 2016
  - Preliminary WCIRB data shows 13% drop in pharmaceutical costs in second half of 2016
  - Actual experience through 12/31/16 is reflected in 7/1/17 filing
  - WCIRB to study longer-term future impact

# Components of Indicated 7/1/17 Pure Premium Rate – WCIRB Filing and Bickmore Analysis



Source: WCIRB 1/1/17 Pure Premium Rate Filing and Bickmore April 26, 2017 report to the CDI.

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