

2018 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 200 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-2018. 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 also provide a summary of insurer combined loss and expense ratios and returns on equity over time. When appropriate, throughout the report, we've shown comparisons of 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 62.

The detailed data underlying these charts (in Excel format) is also available on the WCIRB's website or by [CLICKING HERE](#).

Table of Contents

Employer Costs \\ 01

Chart 1:	Reported Written Premium	7
Chart 2:	Drivers of Written Premium Changes	8
Chart 3:	California Written Premium Share	9
Chart 4:	Average Charged Rate per \$100 of Payroll	10
Chart 5:	Changes in Average Rates Since 2015	11
Chart 6:	Rate Comparison by State Based on Oregon Studies	12
Chart 7:	Distribution of Costs by Industrial Sector	13

Cost Distributions \\ 02

Chart 8:	Distribution of Insured System Costs	15
Chart 9:	Distribution of Paid Indemnity Benefits	16
Chart 10:	Distribution of Paid Medical Benefits	17
Chart 11:	Distribution of 2017 Paid Medical by Category	18
Chart 12:	Distribution of 2017 Paid Frictional Costs	19

Claim Frequency \\ 03

Chart 13:	Long-term Reduction in Claim Frequency	21
Chart 14:	Indemnity Claims per 1,000 Employees	22
Chart 15:	Change in Average Indemnity Claim Frequency	23
Chart 16:	Regional Differences in Indemnity Claim Frequency	24
Chart 17:	Percent of Indemnity Claims Involving Cumulative Trauma	25
Chart 18:	Regional Differences in Proportion of Cumulative Trauma Claims	26
Chart 19:	Indemnity Claims per 1,000 Employees by State	27
Chart 20:	Permanent Disability Claims per 100,000 Employees	28

Claim Severity \\ 04

Chart 21:	Average Indemnity Cost per Indemnity Claim	30
Chart 22:	Change in Indemnity Cost per Indemnity Claim	31
Chart 23:	Indemnity Cost per Indemnity Claim by State	32
Chart 24:	Average Medical Cost per Indemnity Claim	33
Chart 25:	Medical Cost Level Indexed to 2001	34
Chart 26:	Change in Average Medical Costs per Indemnity Claim	35
Chart 27:	Medical Cost per Indemnity Claim by State	36
Chart 28:	Change in Medical Service Cost Levels	37

Claim Severity \\ 04 (...continued)

Chart 29:	Change in Pharmaceutical Cost Levels	38
Chart 30:	Opioid Costs per 100 Claims	39

Claim Duration \\ 05

Chart 31:	Percent of Ultimate Medical Cost Paid at 3 Years	41
Chart 32:	Percent of Indemnity Claims Unreported at 12 Months	42
Chart 33:	Percent of Indemnity Claims Open at 24 Months	43
Chart 34:	Percent of Open Indemnity Claims Closed During Next Year	44

Frictional Costs \\ 06

Chart 35:	Average Allocated Loss Adjustment Expenses per Indemnity Claim	46
Chart 36:	Ratios of Unallocated Loss Adjustment Expenses to Losses	47
Chart 37:	Ratios of Allocated Loss Adjustment Expenses to Losses	48
Chart 38:	Cost to Deliver \$1 of Benefits	49
Chart 39:	Percent of Represented Permanent Disability Claims	50
Chart 40:	Number of Liens Filed	51

Recent Reforms \\ 07

Chart 41:	WCIRB Cost Evaluation of SB 863	53
Chart 42:	Share of Total Medical Payments by Indicted/Suspended Providers	54
Chart 43:	Recent Lien Filings by Month	55
Chart 44:	Share of Paid Pharmaceuticals Subject to Prospective Utilization Review	56

Industry Results \\ 08

Chart 45:	Projected Combined Loss and Expense Ratios	58
Chart 46:	Private Insurer Reported Combined Ratios	59
Chart 47:	Average Return on Net Worth	60
Report Summary:	2018 State of the System	61

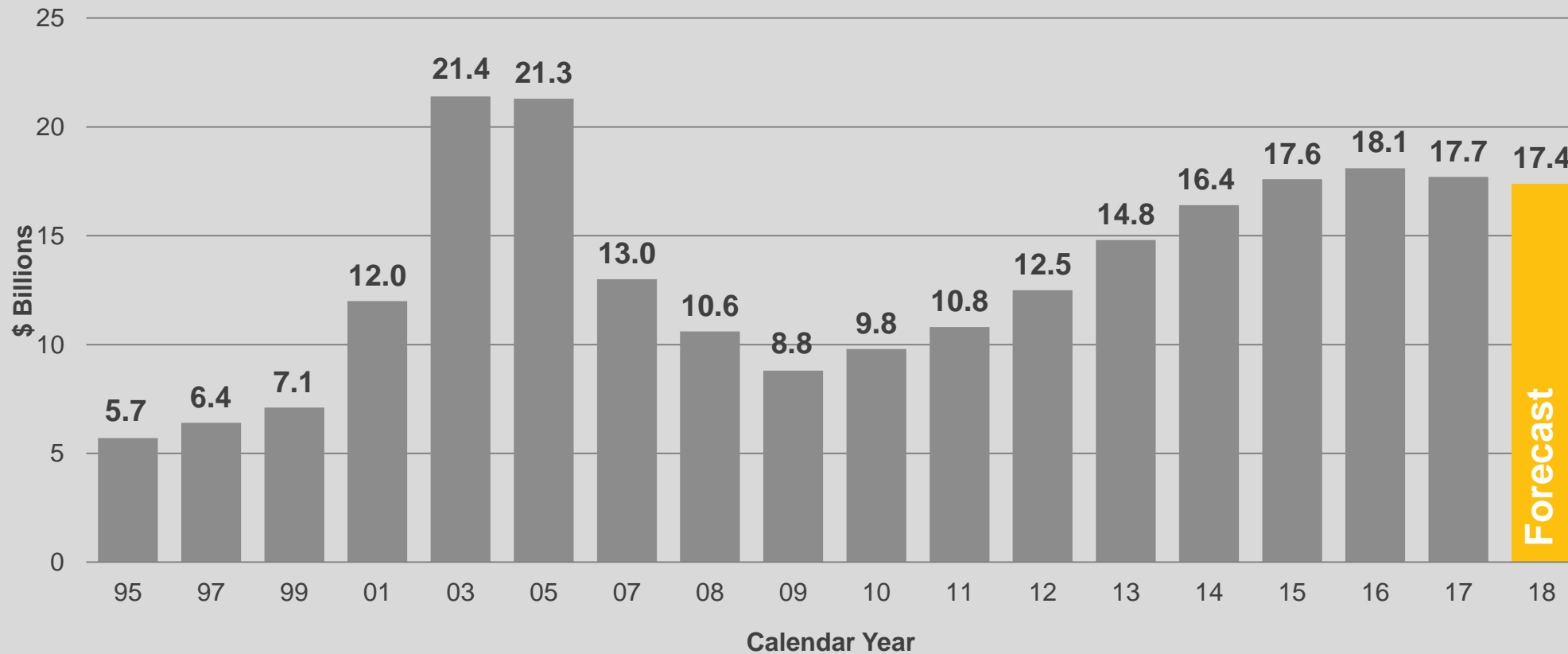
More Info \\ Appendix

Sources and More...	63
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Employer Costs

01

Chart 1: Reported Written Premium



Insights and Recent Trends

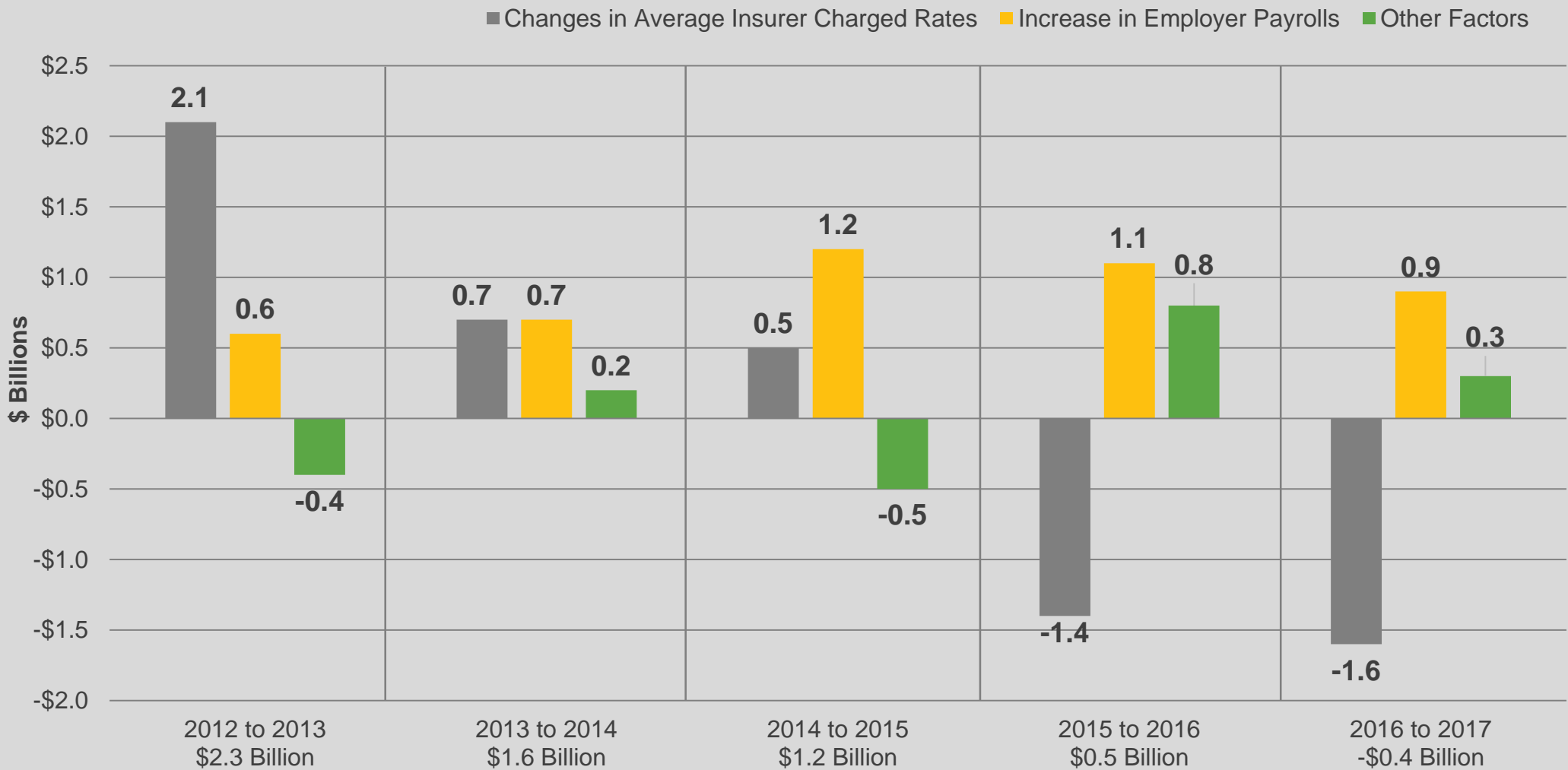
- With increasing rates and a growing economy, premiums more than doubled from 2009 to 2016
- Premiums dropped in 2017 due to declining insurer rates more than offsetting payroll growth
- With insurer rates continuing to drop, premium in 2018 is forecast to further decline



More Info



Chart 2: Drivers of Written Premium Changes



Insights and Recent Trends

- While increases in insurer rates were driving premium growth through 2015, recent rate decreases have significantly reduced premium growth
- Increases in the workforce and in average wage levels were the primary drivers of premium growth in 2015 and 2016 and offset some of the impact of reduced insurer rates in 2017
- Reduced rates are expected to more than offset payroll growth in 2018 likely further dampening premiums



More Info



Chart 3: California Written Premium Share

01
Employer Costs

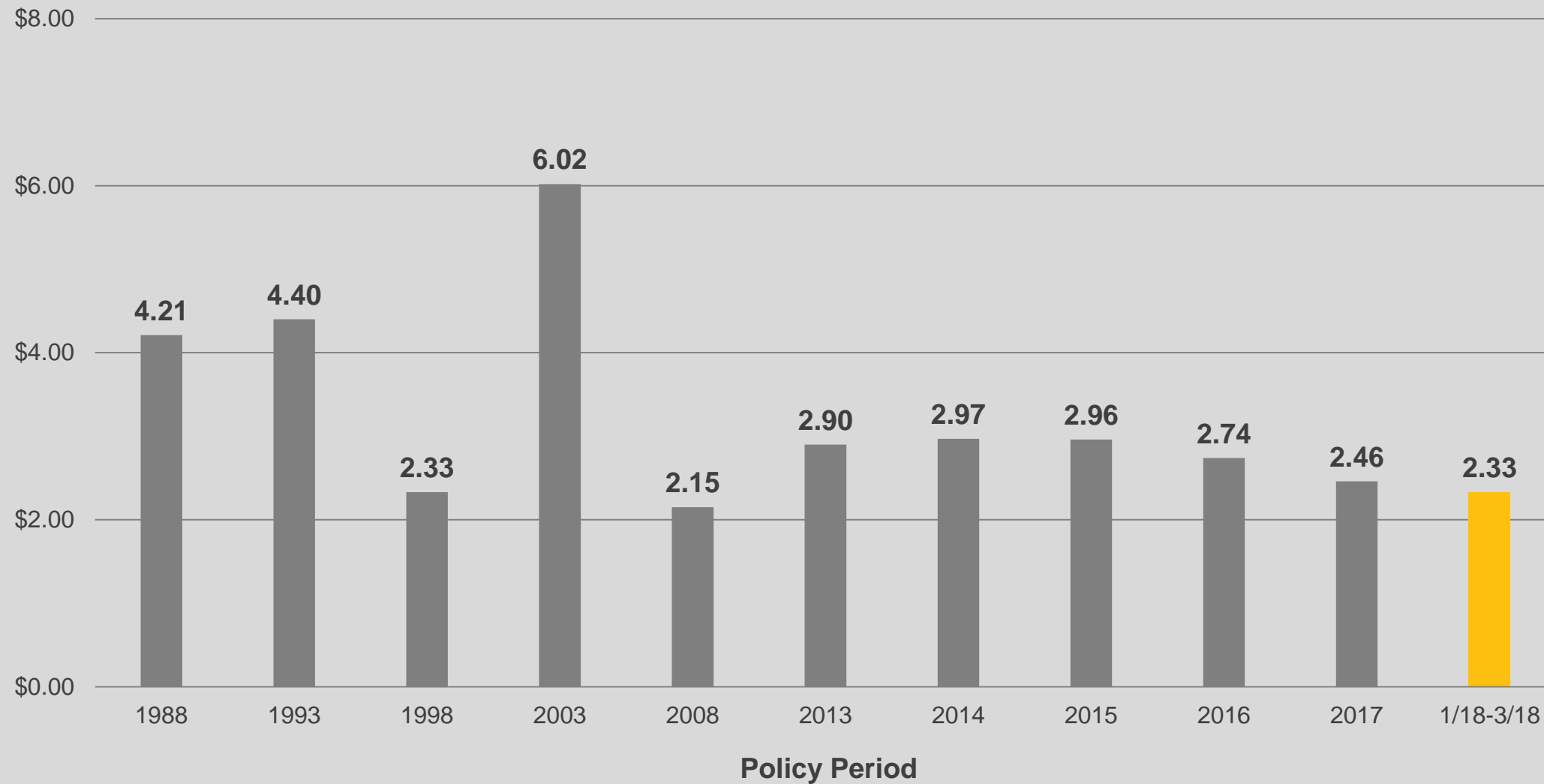


Insights and Recent Trends



- California, with only 11% of the countrywide workforce, generates one-fifth of all workers' compensation premiums in the country
- With recent rate declines California's share of countrywide premium has been declining
- California's disproportionately high share of countrywide premium is largely driven by high premium rates and higher than typical wage levels

Chart 4: Average Charged Rate per \$100 of Payroll



Insights and Recent Trends

- Due largely to significant SB 863 savings, average insurer rates have decreased 22% since 2014
- The Insurance Commissioner has approved seven reductions in advisory pure premium rates since 2015, totaling 37% from the January 1, 2015 level
- Current charged rates are at the lowest level in a decade and are lower than rates charged in the 1970s and 1980s, as long-term declining claim frequency and increasing wage levels have offset rising medical costs

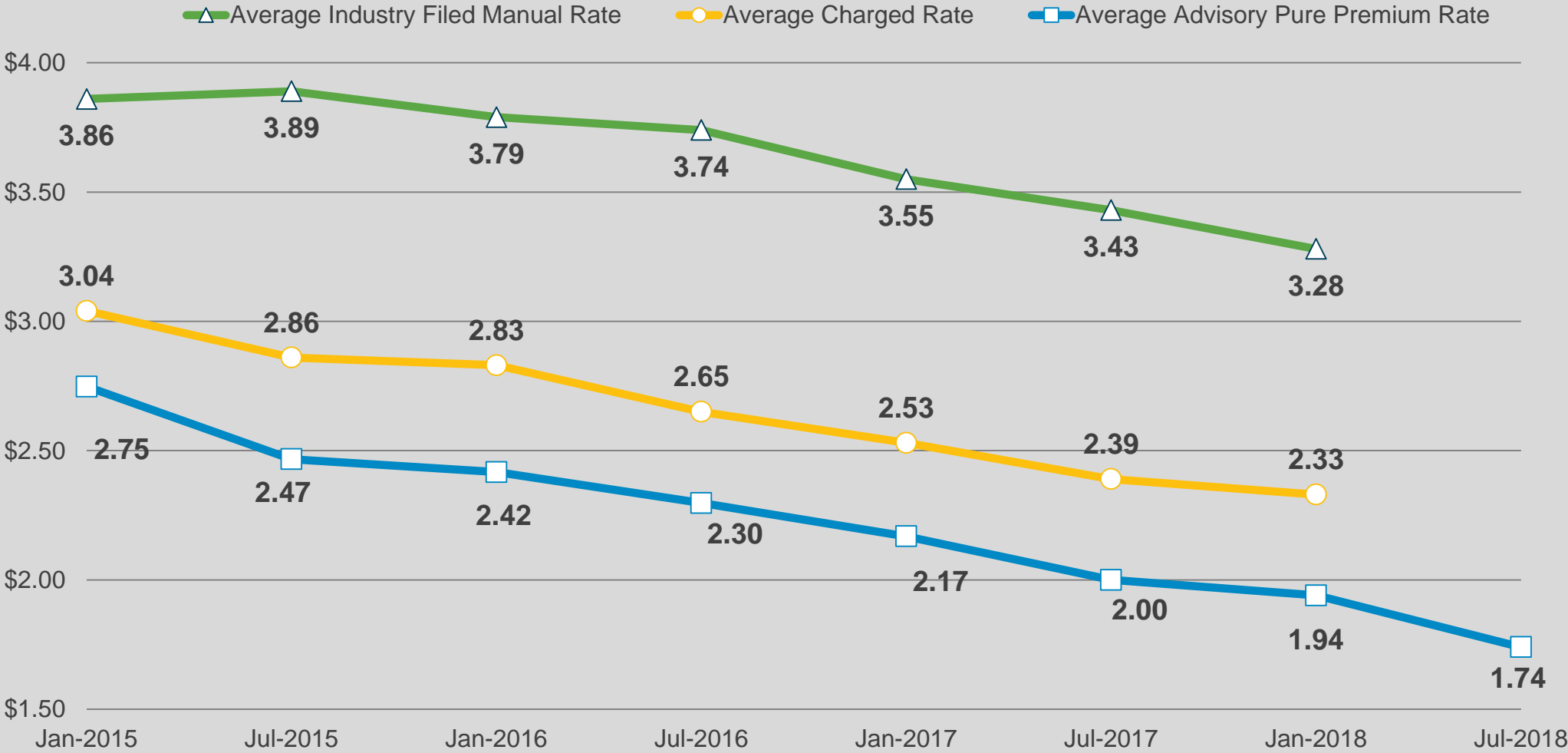


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01
Employer Costs

Chart 5: Changes in Average Rates Since 2015



Insights and Recent Trends

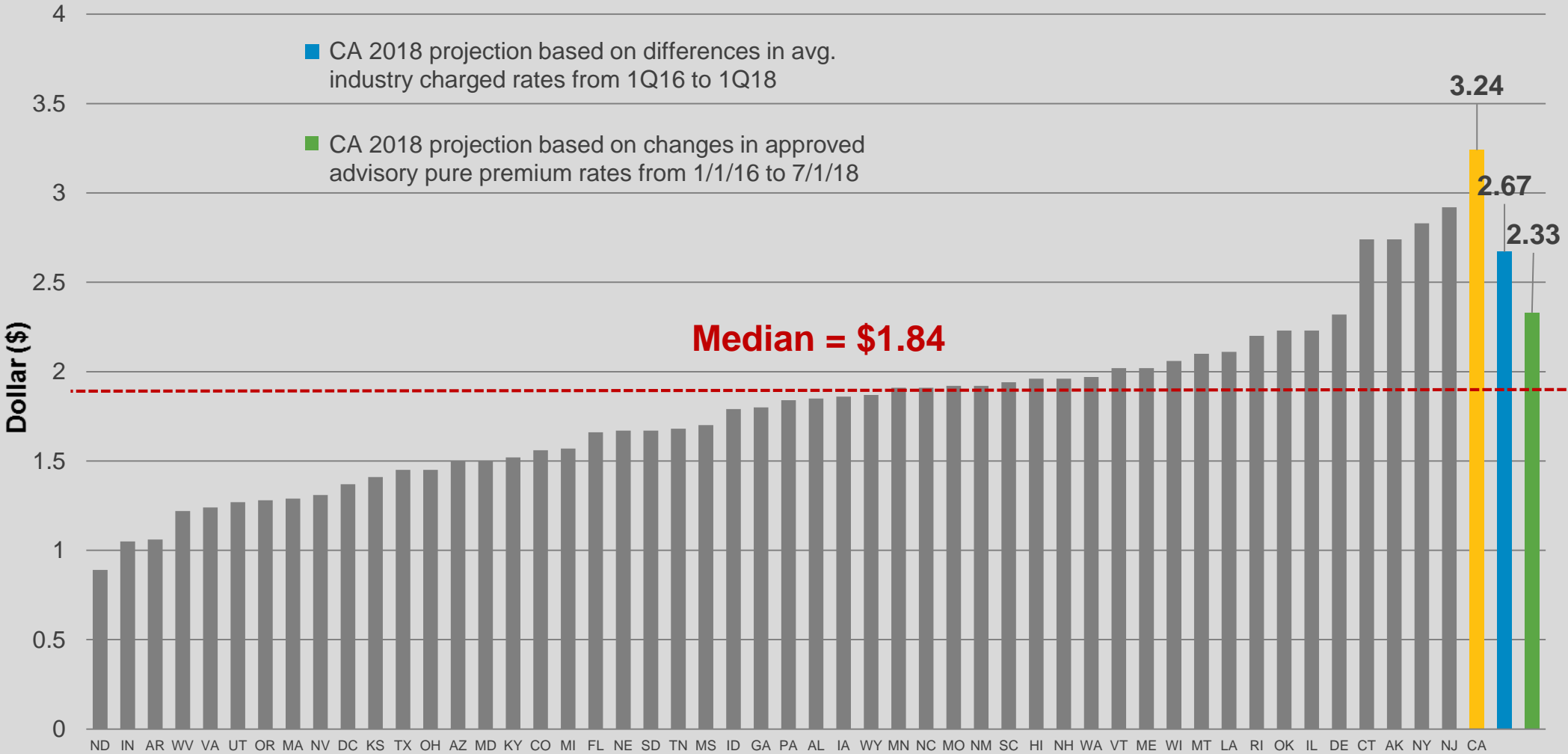
- Average charged rates have declined following the Insurance Commissioner’s approved decreases in advisory pure premium rates
- The Commissioner approved an additional 10% decrease in advisory rates effective July 1, 2018, suggesting that charged rates may continue to decline
- Average manual rates are significantly above the rates charged to employers, indicating that insurers are, on average, applying significant pricing discounts to their filed rates



More Info ➔

01
Employer Costs

Chart 6: Rate Comparison by State Based on Oregon Studies



Insights and Recent Trends

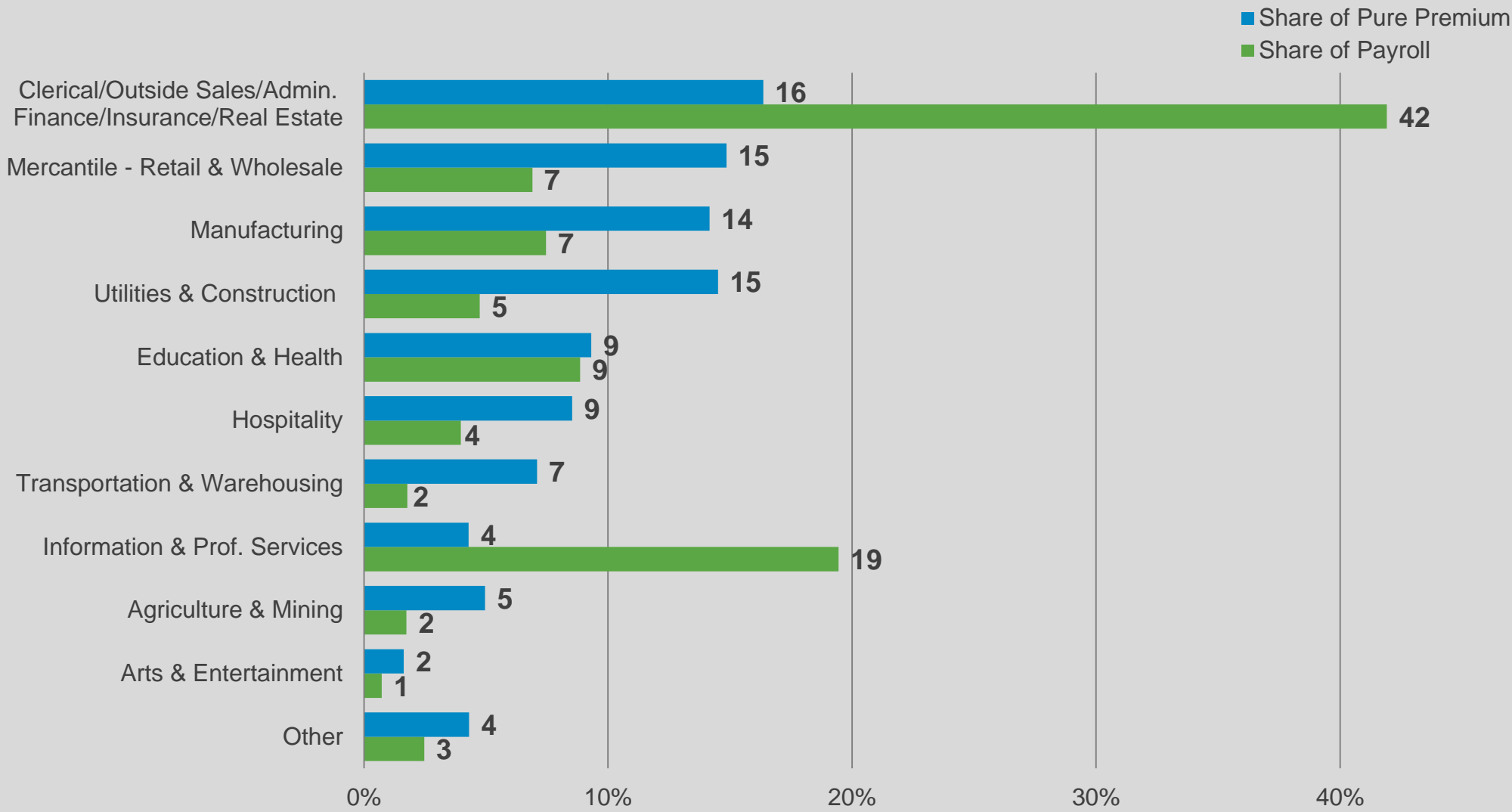
- In this comparison based on 2016 rates, California is the highest in the country
- Even after adjusting for rate declines occurring since 2016, California continues to have among the highest rates
- California’s rates are largely driven by:
 - High frequency of permanent disability claims ([Chart 20](#))
 - A more prolonged pattern of medical treatments ([Chart 31](#))
 - Much higher than average costs of handling claims and delivering benefits ([Chart 38](#))



More Info →

01
Employer Costs

Chart 7: 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
- While “white collar” type sectors comprise 60% of statewide payroll, these sectors produce only 20% of statewide pure premium
- The Utilities and Construction sectors comprise only 5% of statewide payroll but 15% of statewide pure premium, as rates for these sectors are relatively high

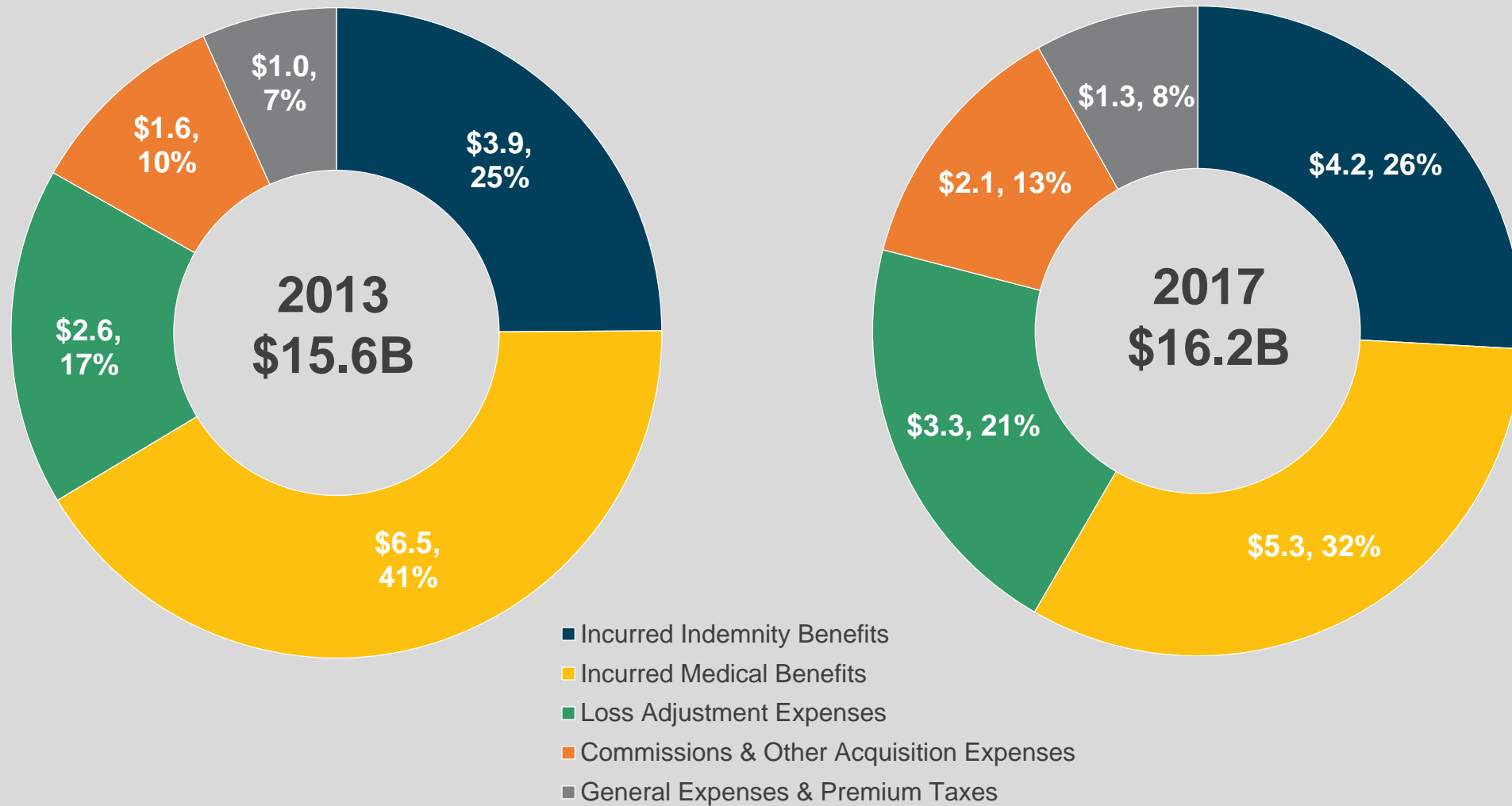


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Cost Distributions

02

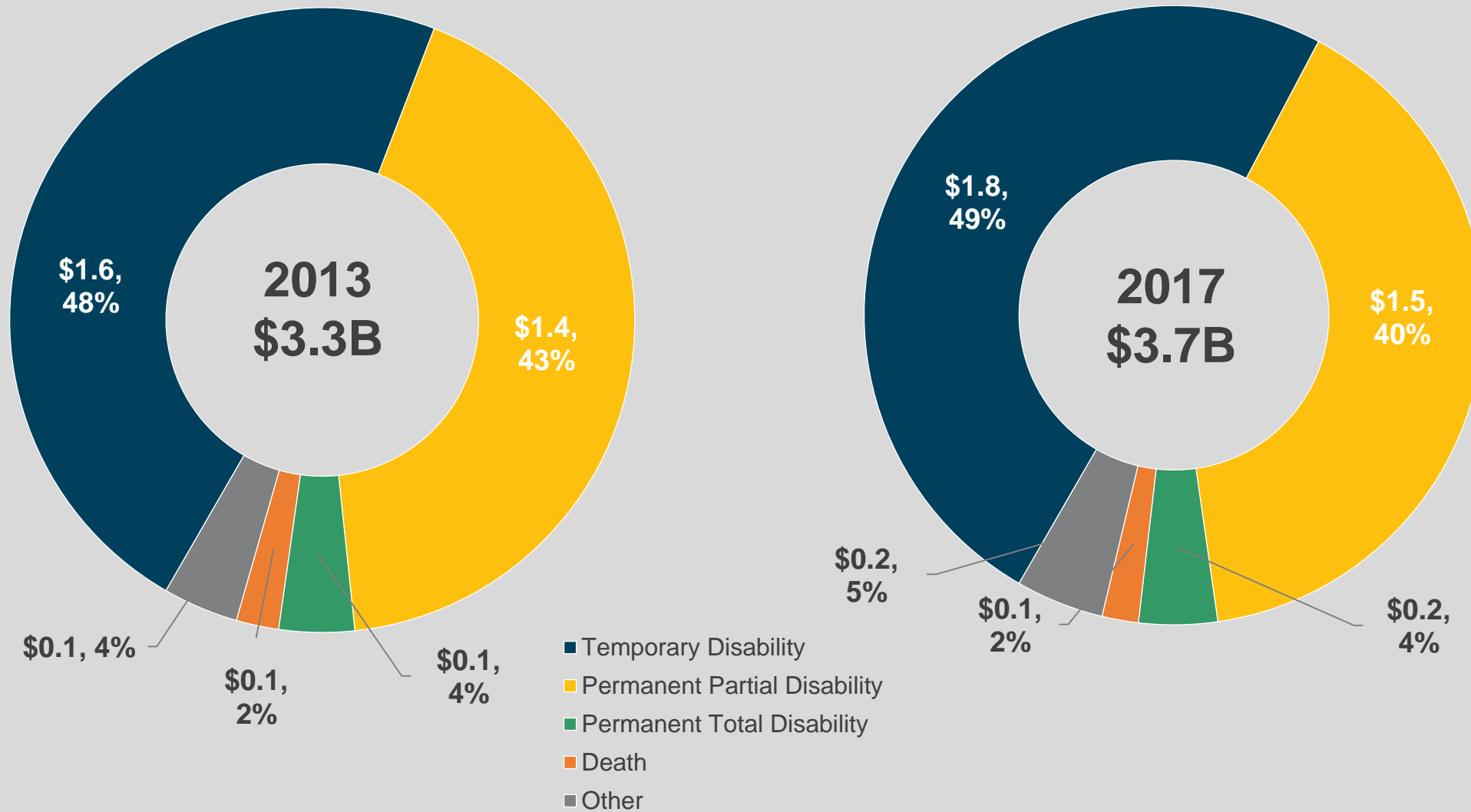
Chart 8: Distribution of Insured System Costs



Insights and Recent Trends

- With recent reforms including SB 863 and SB 1160, medical benefits' share of total benefits has declined by 9 points since 2013
- Although SB 863 increased permanent disability benefits, indemnity benefits for 2017 are relatively consistent with 2013
- Total expenses in the system have increased by \$1.5 billion since 2013 and comprise 42% of all costs in 2017

Chart 9: Distribution of Paid Indemnity Benefits



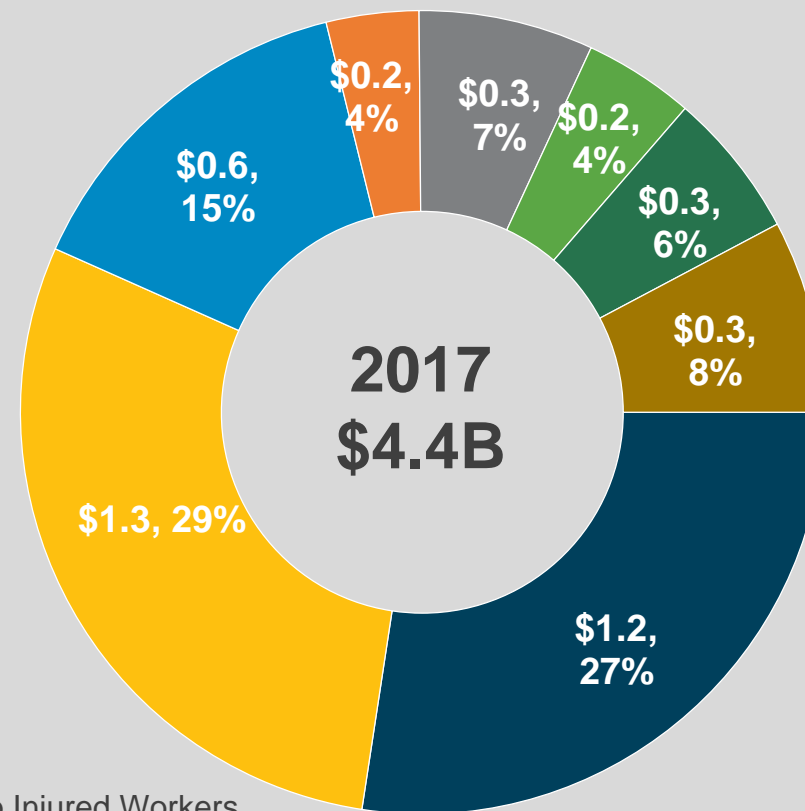
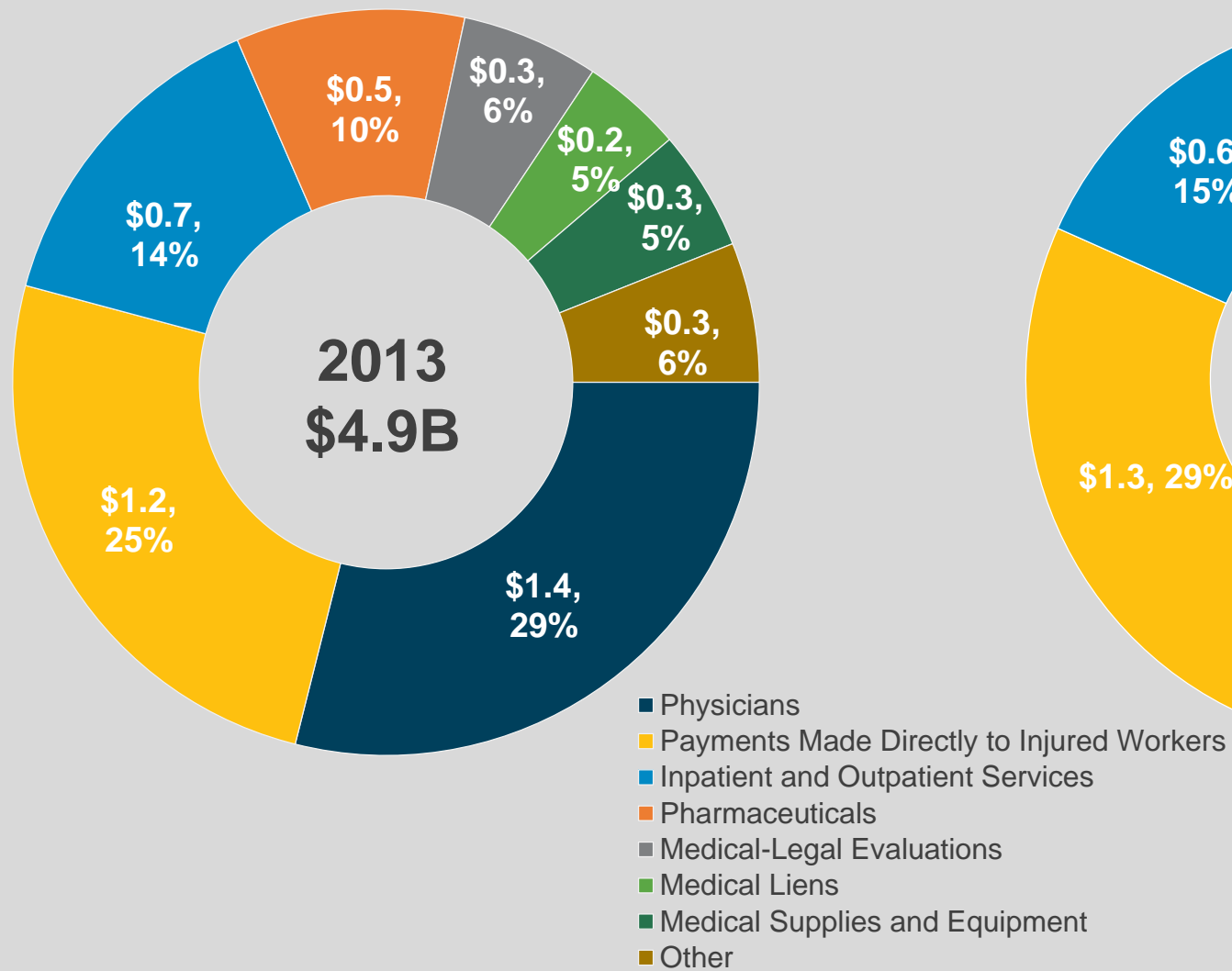
Insights and Recent Trends

- 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 2017



More Info →

Chart 10: Distribution of Paid Medical Benefits



- Physicians
- Payments Made Directly to Injured Workers
- Inpatient and Outpatient Services
- Pharmaceuticals
- Medical-Legal Evaluations
- Medical Liens
- Medical Supplies and Equipment
- Other



Insights and Recent Trends

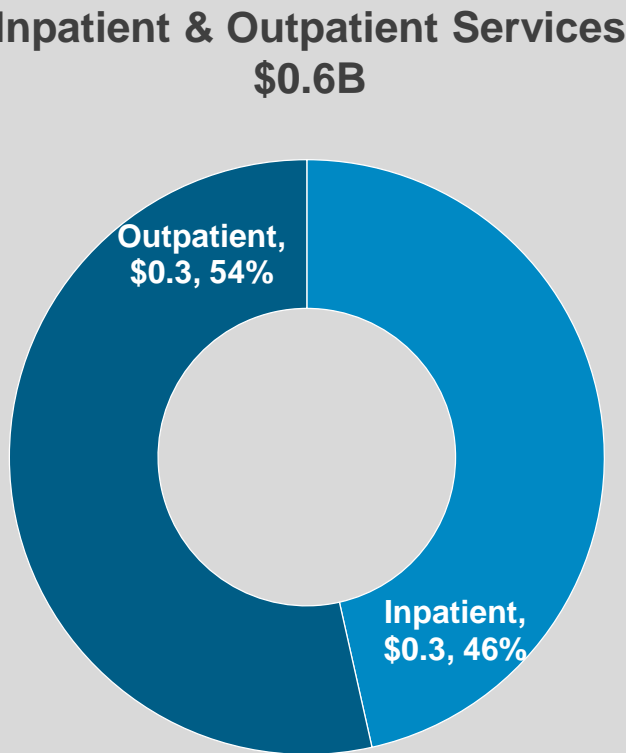
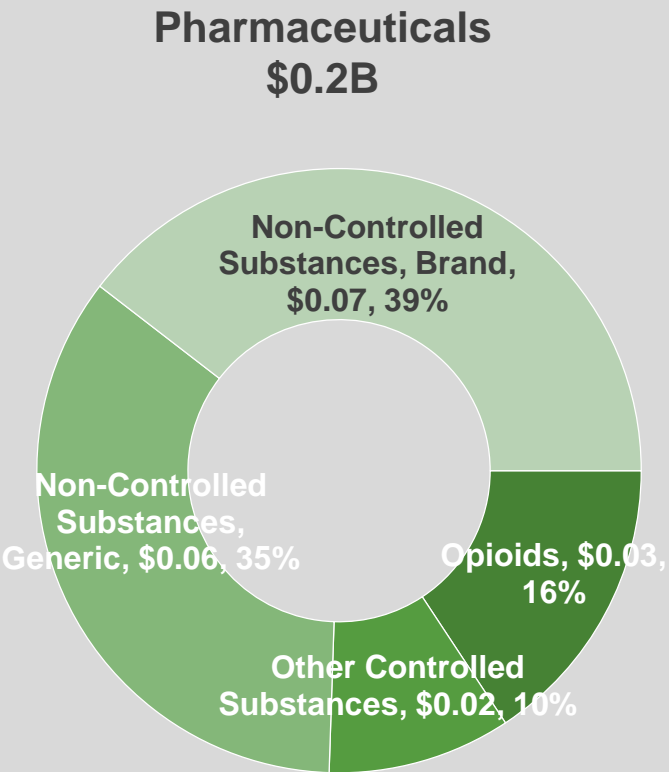
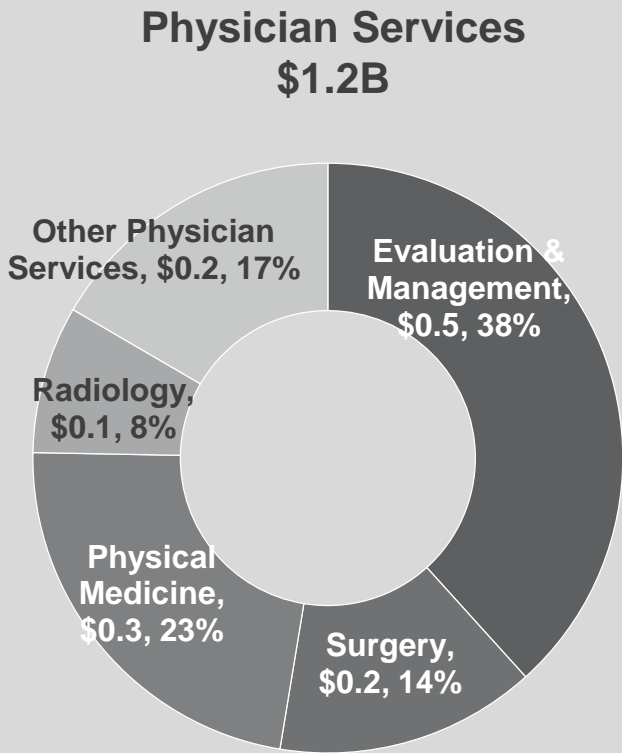
- Payments for physician services and pharmaceuticals have decreased significantly since 2013
- Payments made directly to injured workers, which are primarily for future medical services, have increased due in part to accelerations in claim settlement rates ([Chart 34](#))
- The cost of medical-legal evaluations, after increasing through 2016, declined in 2017 due largely to a reduction in the number of the more complex medical-legal reports



More Info



Chart 11: Distribution of 2017 Paid Medical by Category

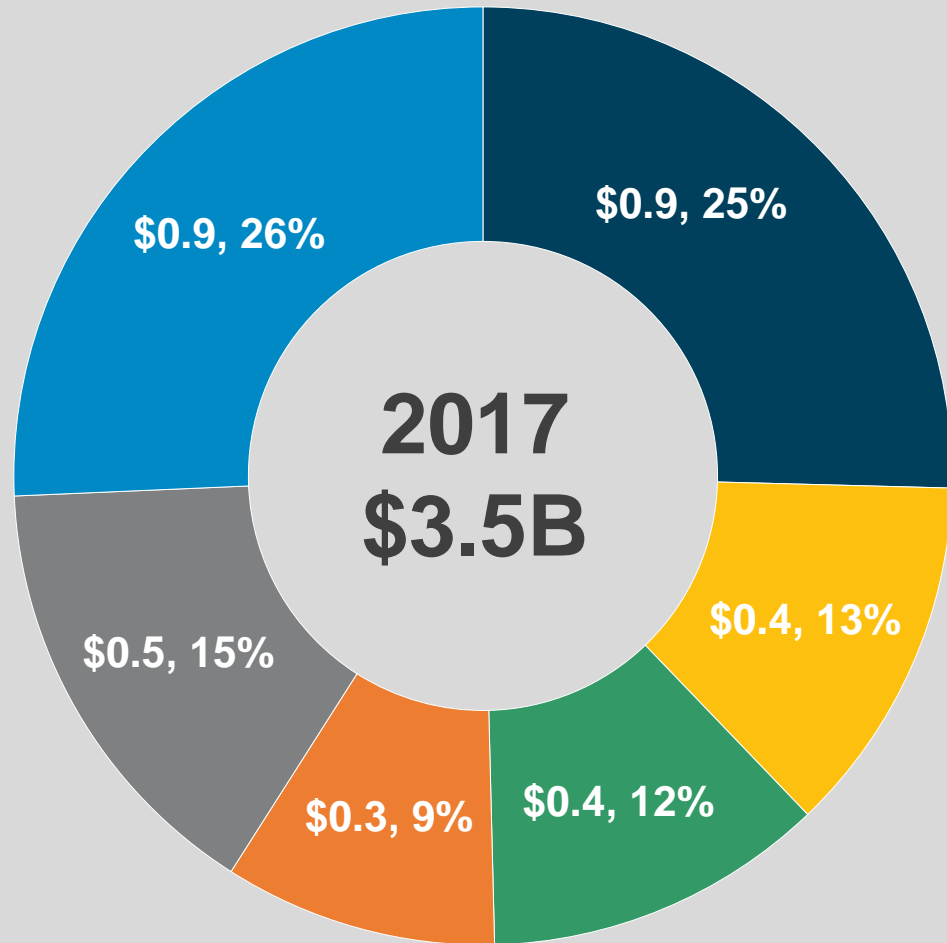


Insights and Recent Trends

- Payments for evaluation and management and physical medicine services continue to grow and represent over 60% of all physician services payments in 2017
- Payments for outpatient services grew slightly in 2017
- About three-quarters of pharmaceutical payments were for non-controlled substances
- Opioid payments continue to shrink and comprise 16% of all pharmaceutical costs in 2017



Chart 12: Distribution of 2017 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 \$3.5 billion of frictional costs paid in 2017 exceeds the cost of paid indemnity benefits (after excluding applicant's attorney fees which are typically reported in indemnity benefits)



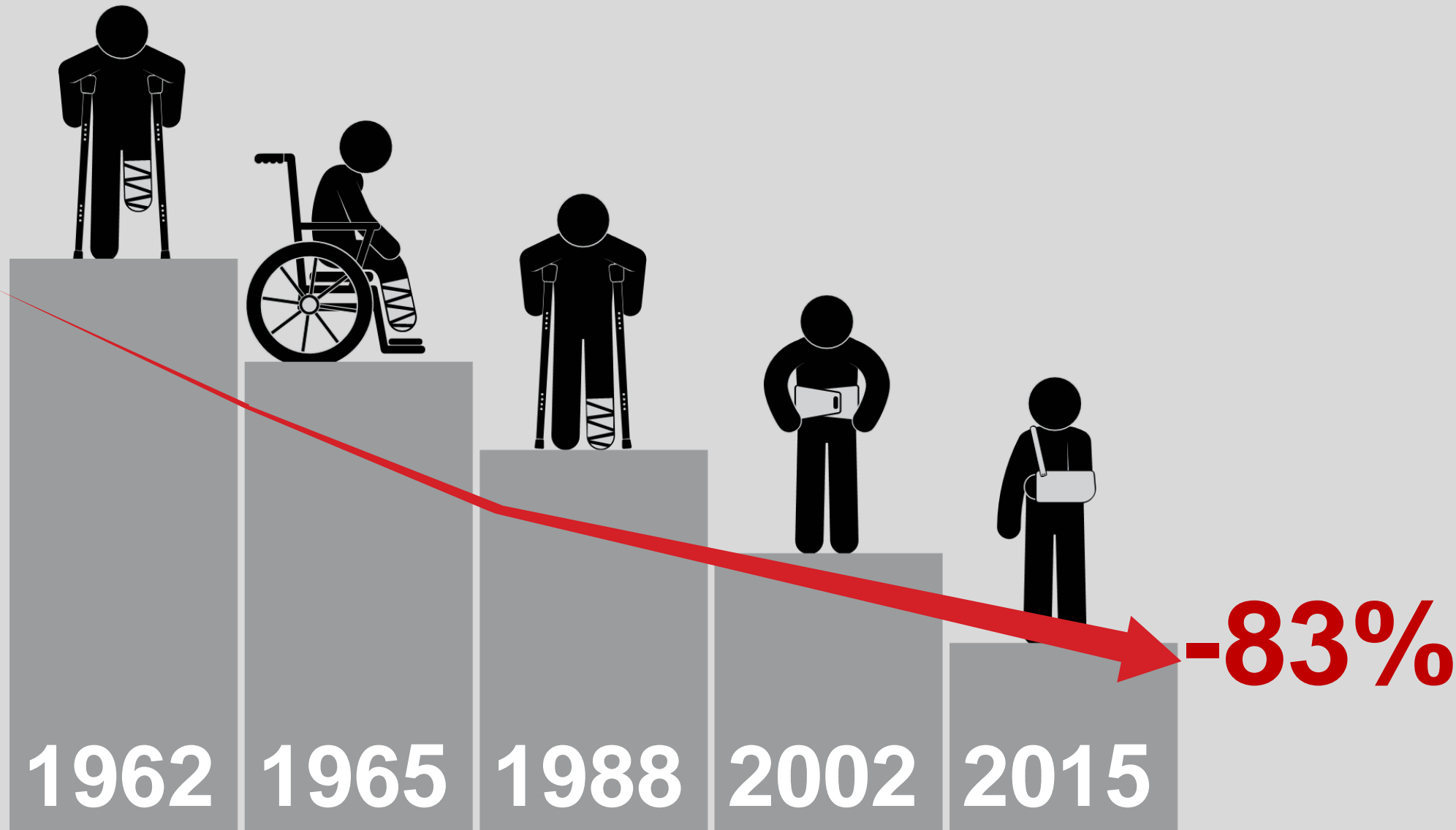
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Claim Frequency

03

Chart 13: Long-term Reduction in Claim Frequency



Insights and Recent Trends

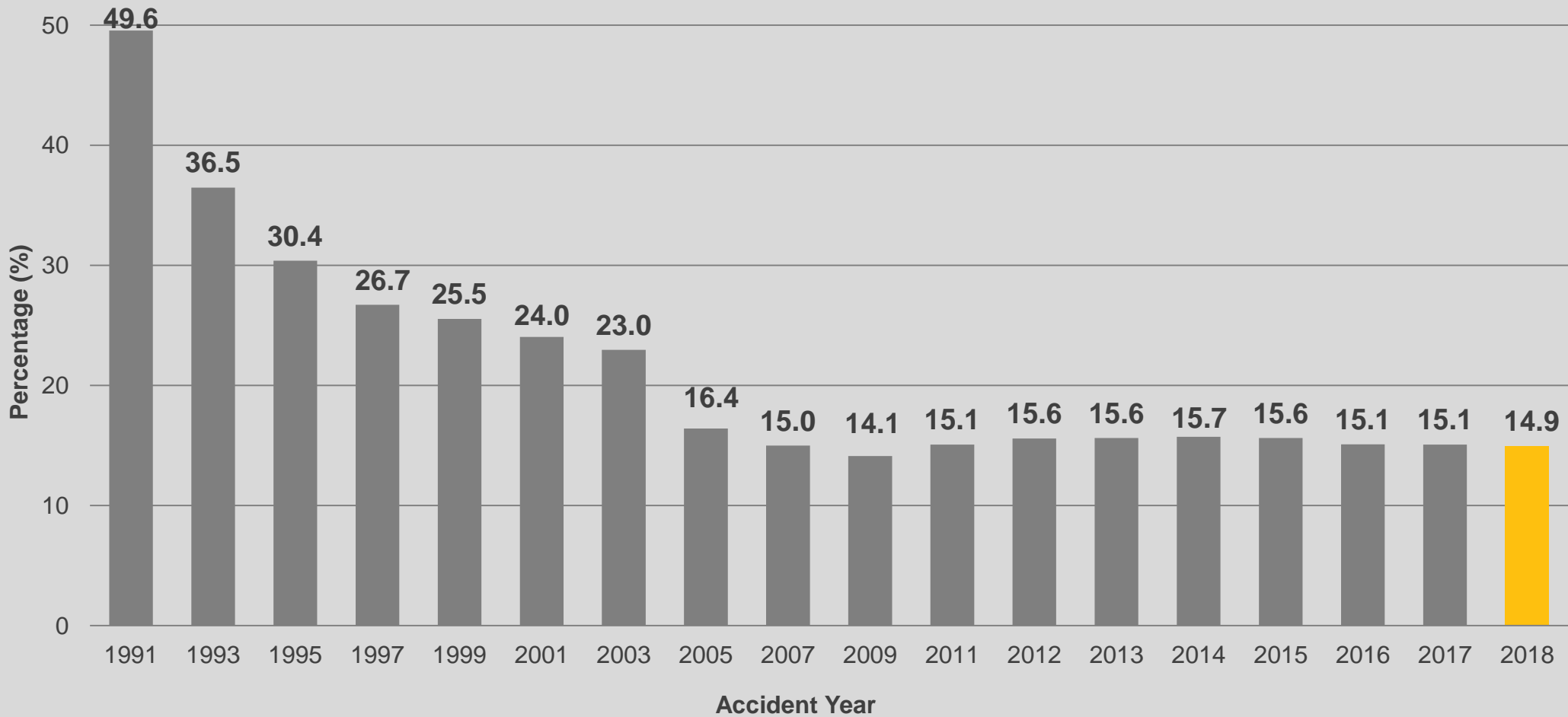
- Claim frequency has declined by more than 80% over the last 50 years due to:
 - Shifts in economic activity from a more manufacturing-based economy to a more service-based economy
 - Increased mechanization within industries
 - Greater attention to workplace safety
- Long-term declines in claim frequency have generally offset long-term medical inflation, moderating the need for premium rate increases



More Info



Chart 14: Indemnity Claims per 1,000 Employees



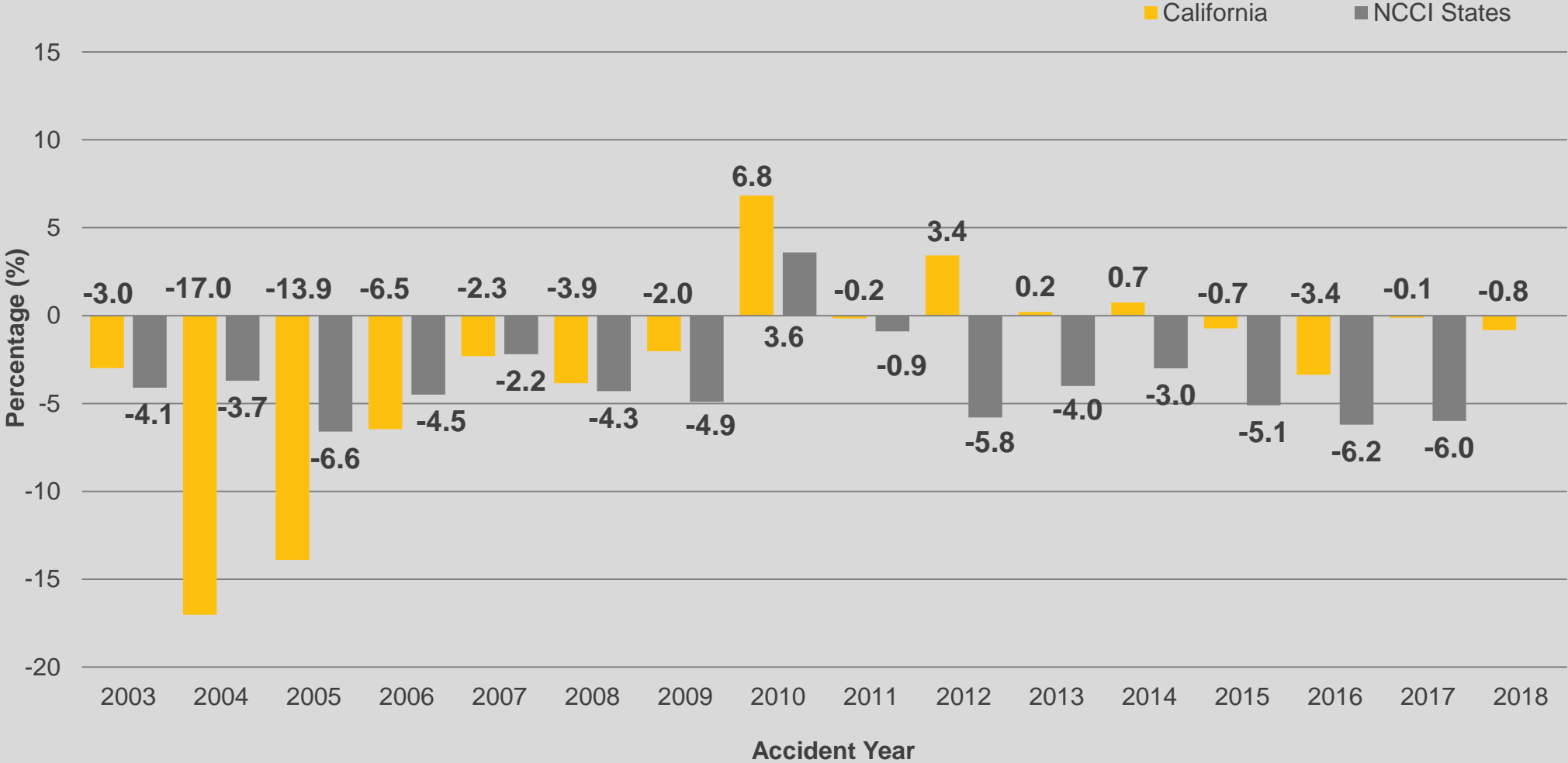
Insights and Recent Trends

- Indemnity claim frequency declined steadily from 1991 through 2009
- Over the last several years indemnity claim frequency has been relatively flat
- Although 2017 indemnity claim frequency is 7% above 2009, it is 70% below 1991 frequency



More Info →

Chart 15: Change in Indemnity Claim Frequency



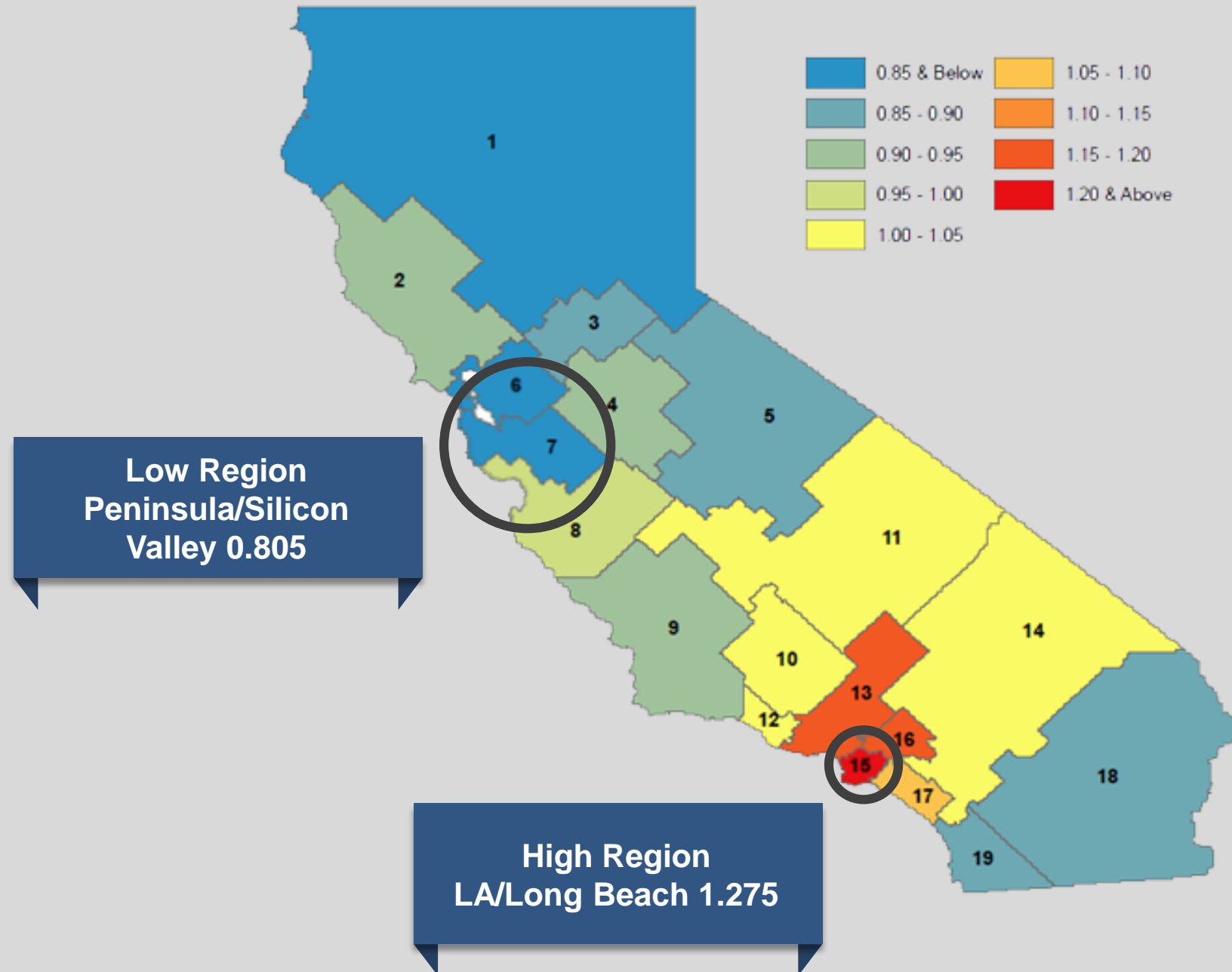
Insights and Recent Trends

- Until recently, California frequency changes had been comparable to those in NCCI states
- Since 2011, countrywide frequency declined by 27% compared to being relatively flat for that period in California
- The recent divergence from countrywide frequency patterns are driven by:
 - Frequency growth in the Los Angeles Basin ([Chart 16](#))
 - Growth in frequency of cumulative injury claims ([Chart 17](#))



03
Claim Frequency

Chart 16: Regional Differences in Indemnity Claim Frequency



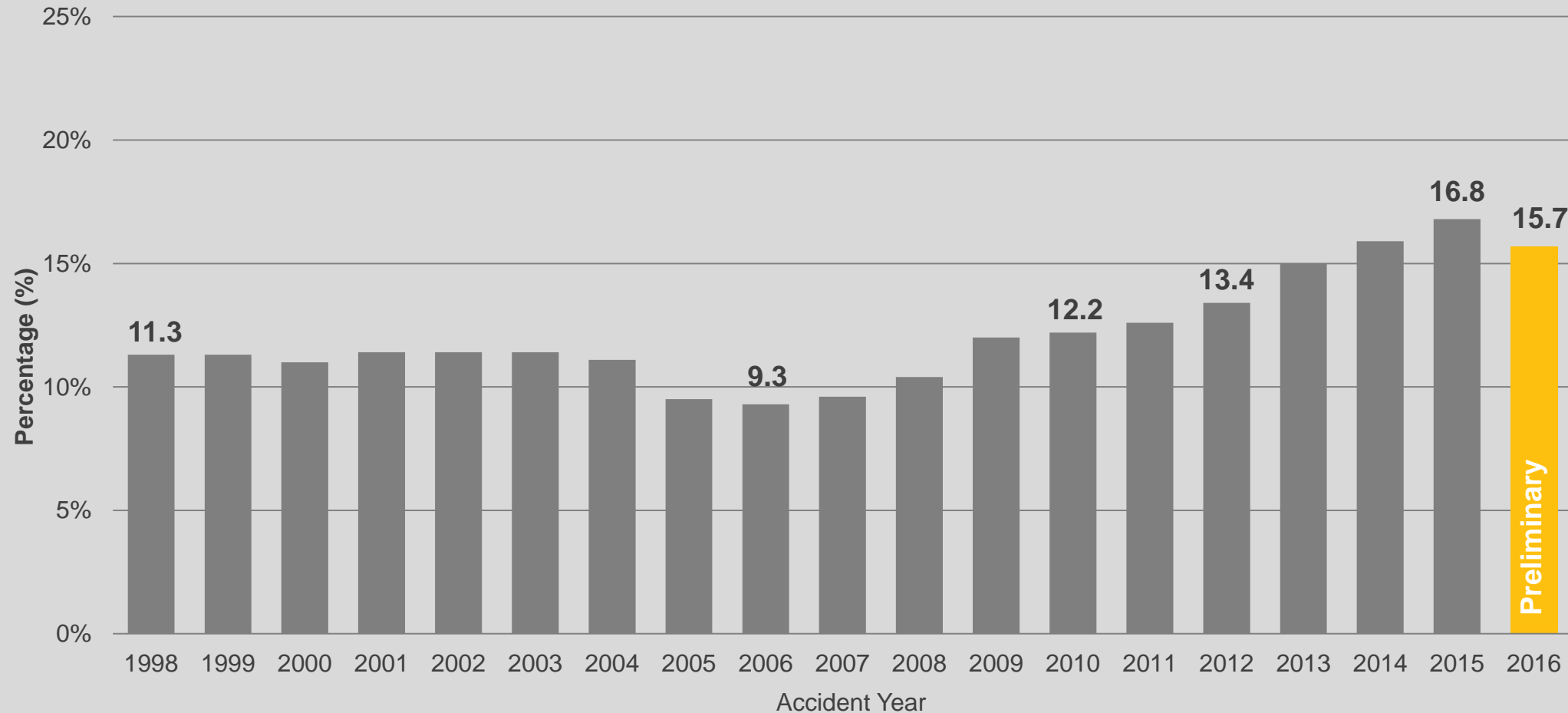
Insights and Recent Trends

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



More Info →

Chart 17: Percent of Indemnity Claims Involving Cumulative Trauma



Insights and Recent Trends

- In 2015, 17% of indemnity claims involve cumulative trauma compared to 9% in 2006
- An early estimate for 2016 shows the rate declining for the first time since 2006
- Cumulative trauma claims:
 - Are filed much later than other claims
 - 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

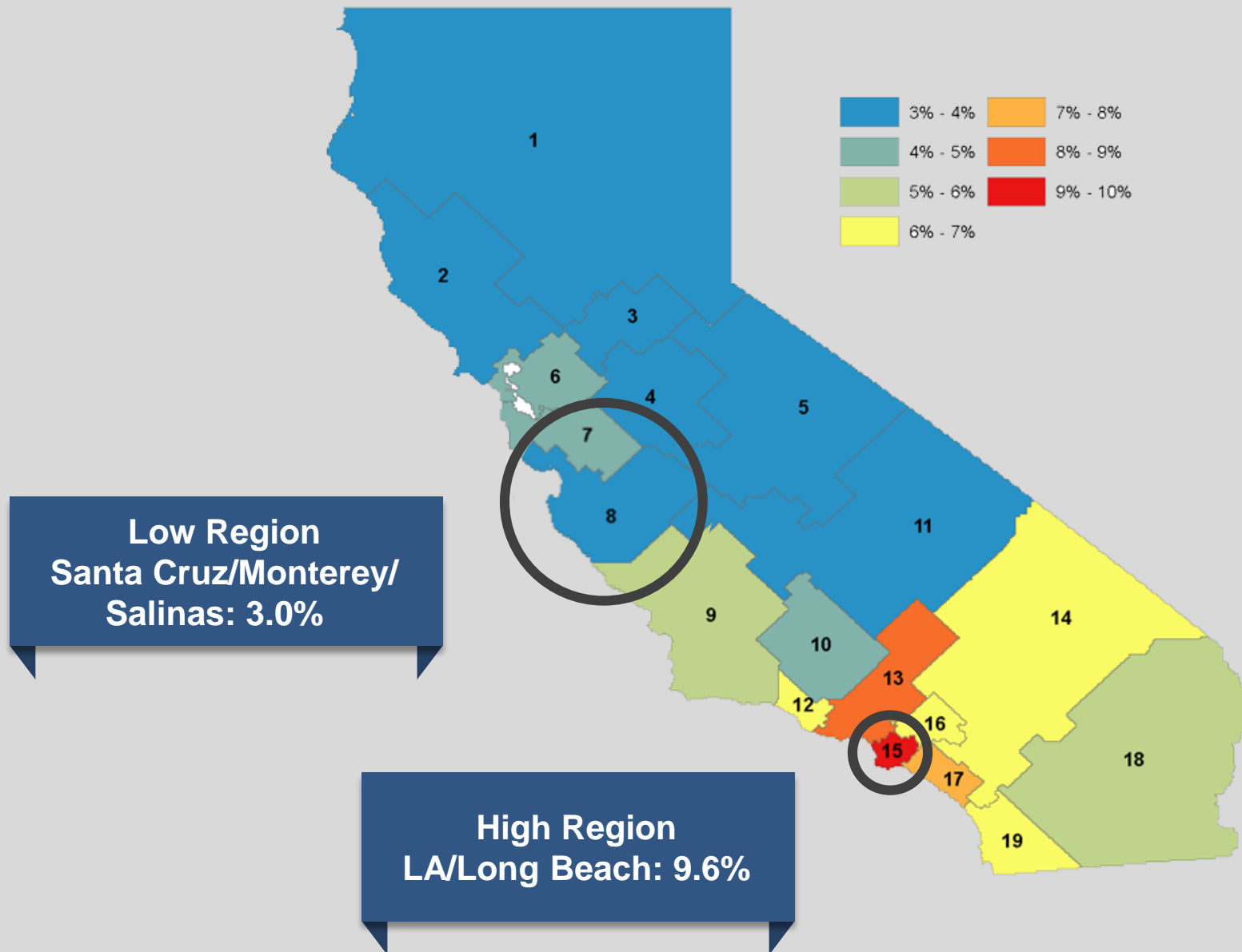


More Info



03
Claim Frequency

Chart 18: Regional Differences in Proportion of Cumulative Trauma Claims



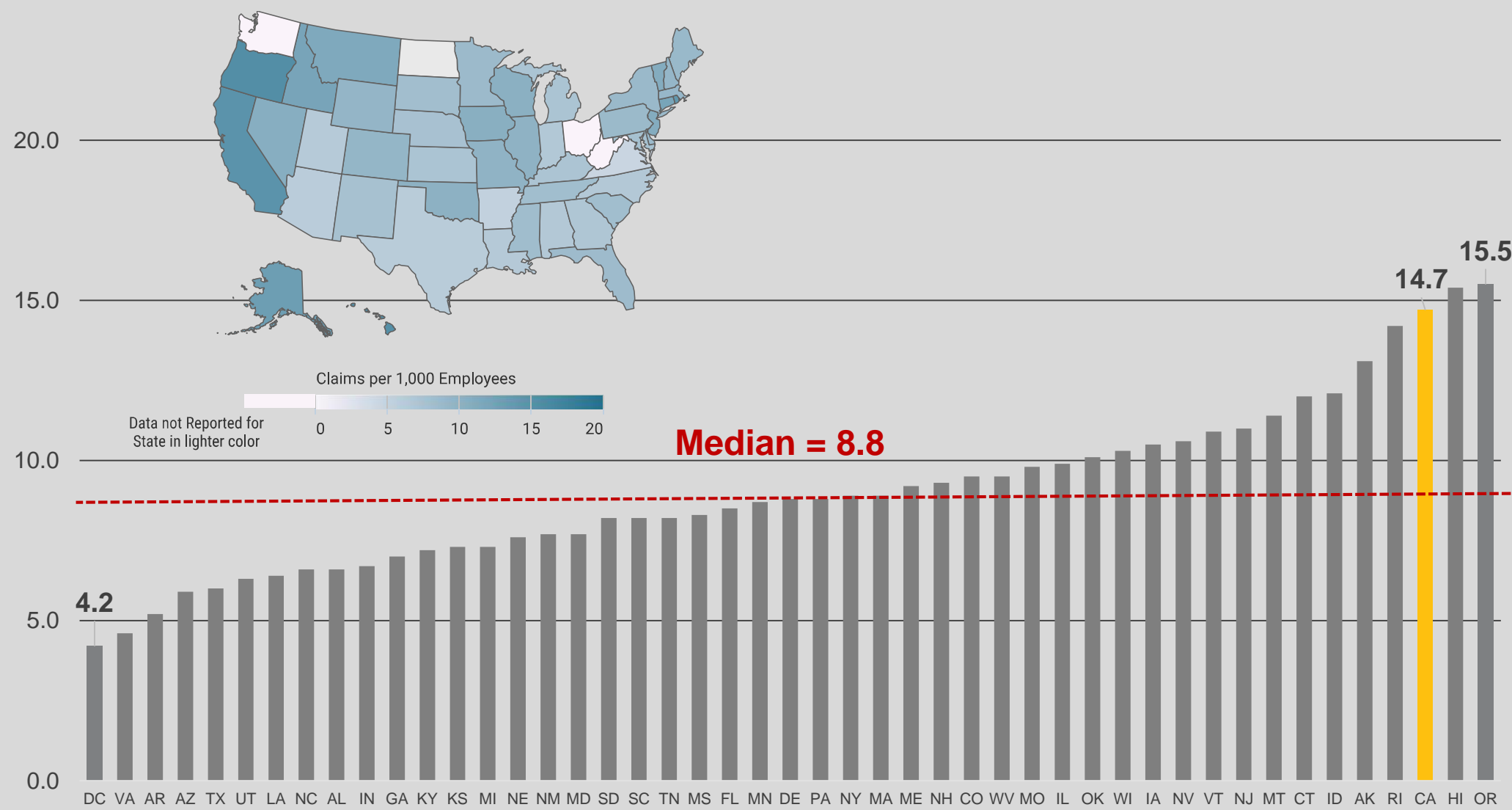
Insights and Recent Trends

- Cumulative trauma claims are filed much more frequently in the Los Angeles/Long Beach area than in other regions of California
- Cumulative trauma claims are filed less frequently in the more rural areas of California



More Info →

Chart 19: Indemnity Claims per 1,000 Employees by State



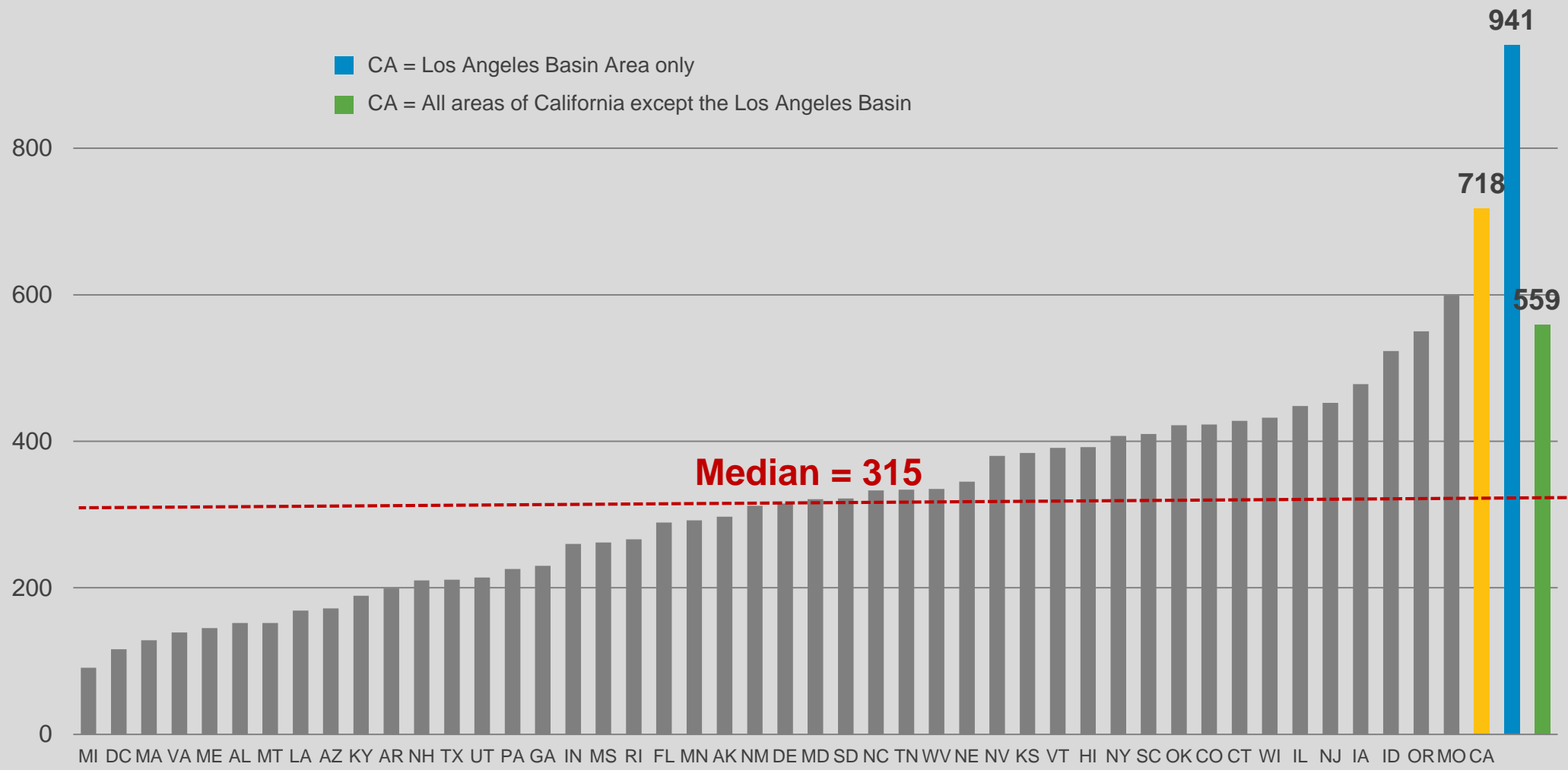
Insights and Recent Trends

- California has the 3rd highest indemnity claim frequency in the country and is over 65% higher than the countrywide median
- The differences between California and other states have grown recently as California frequency has remained flat while frequency in other states has declined



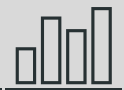
More Info →

Chart 20: 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
- 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 and is almost three times the national median

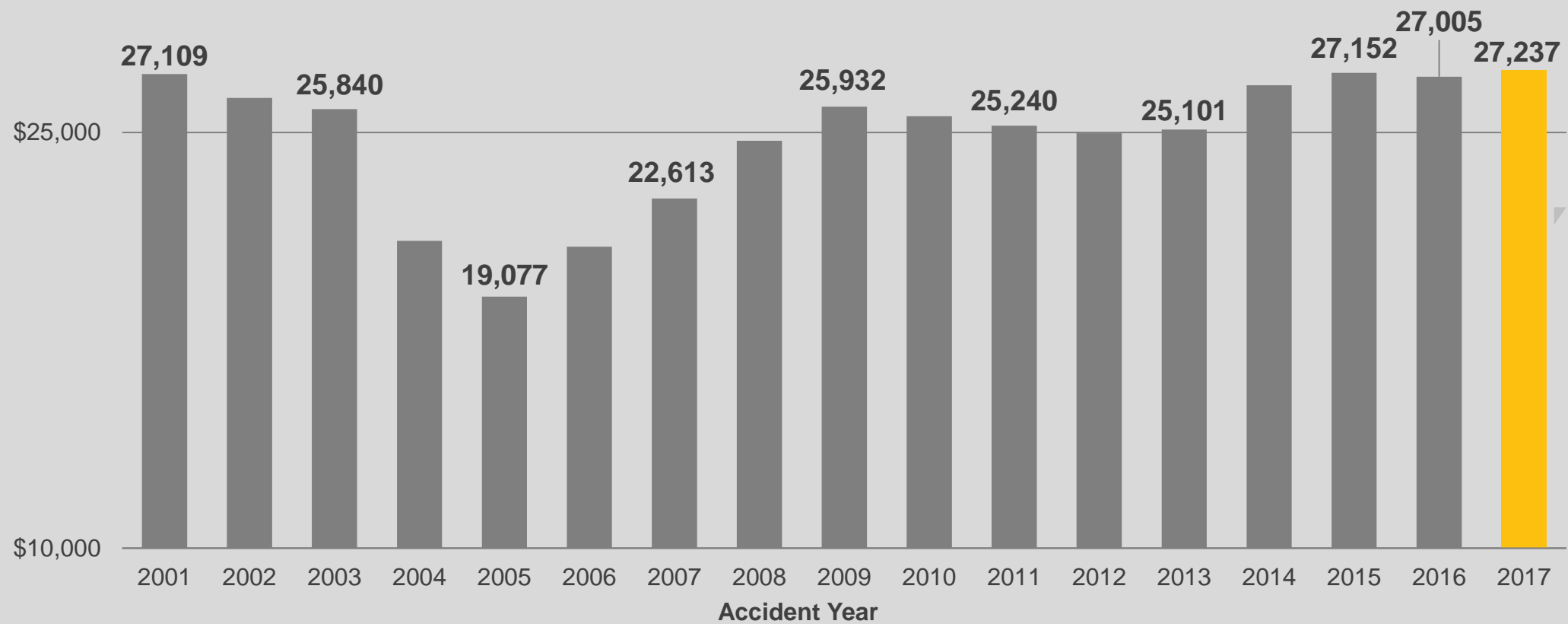


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Claim Severity

04

Chart 21: Average Indemnity Cost per Indemnity Claim



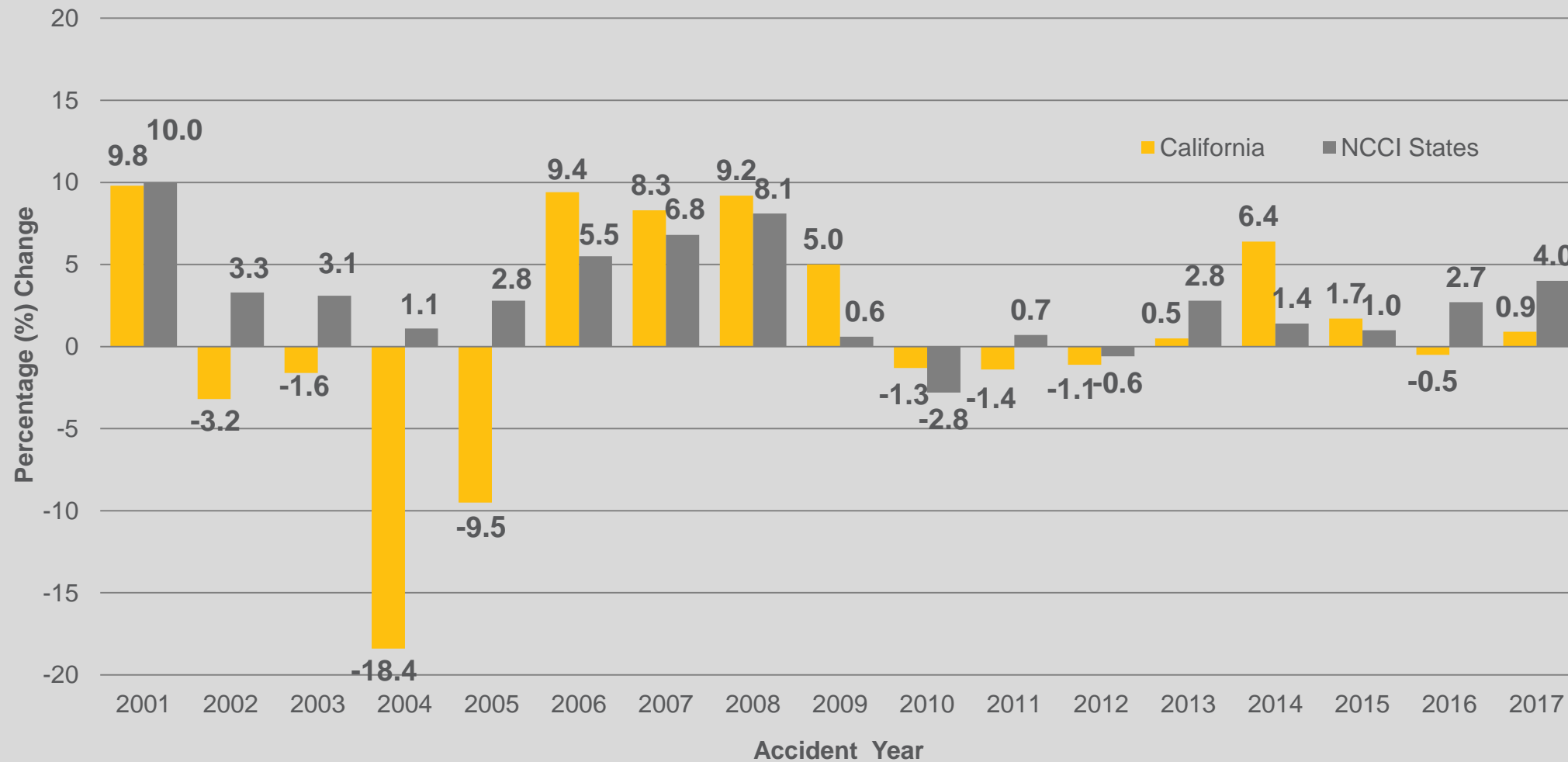
Insights and Recent Trends

- Average indemnity cost per claim increased by 9% from 2012 to 2015 largely as a result of increases to permanent disability benefits provided by SB 863 ([Chart 41](#))
- Indemnity costs since 2015 have been flat as increased claim settlement rates have reduced claim duration, offsetting increases in average wage levels
- Long-term growth in average indemnity cost has not been as sharp as growth in average medical costs ([Chart 24](#)) or loss adjustment expenses ([Chart 35](#))



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Chart 22: Change in Average Indemnity Cost per Indemnity Claim



Insights and Recent Trends

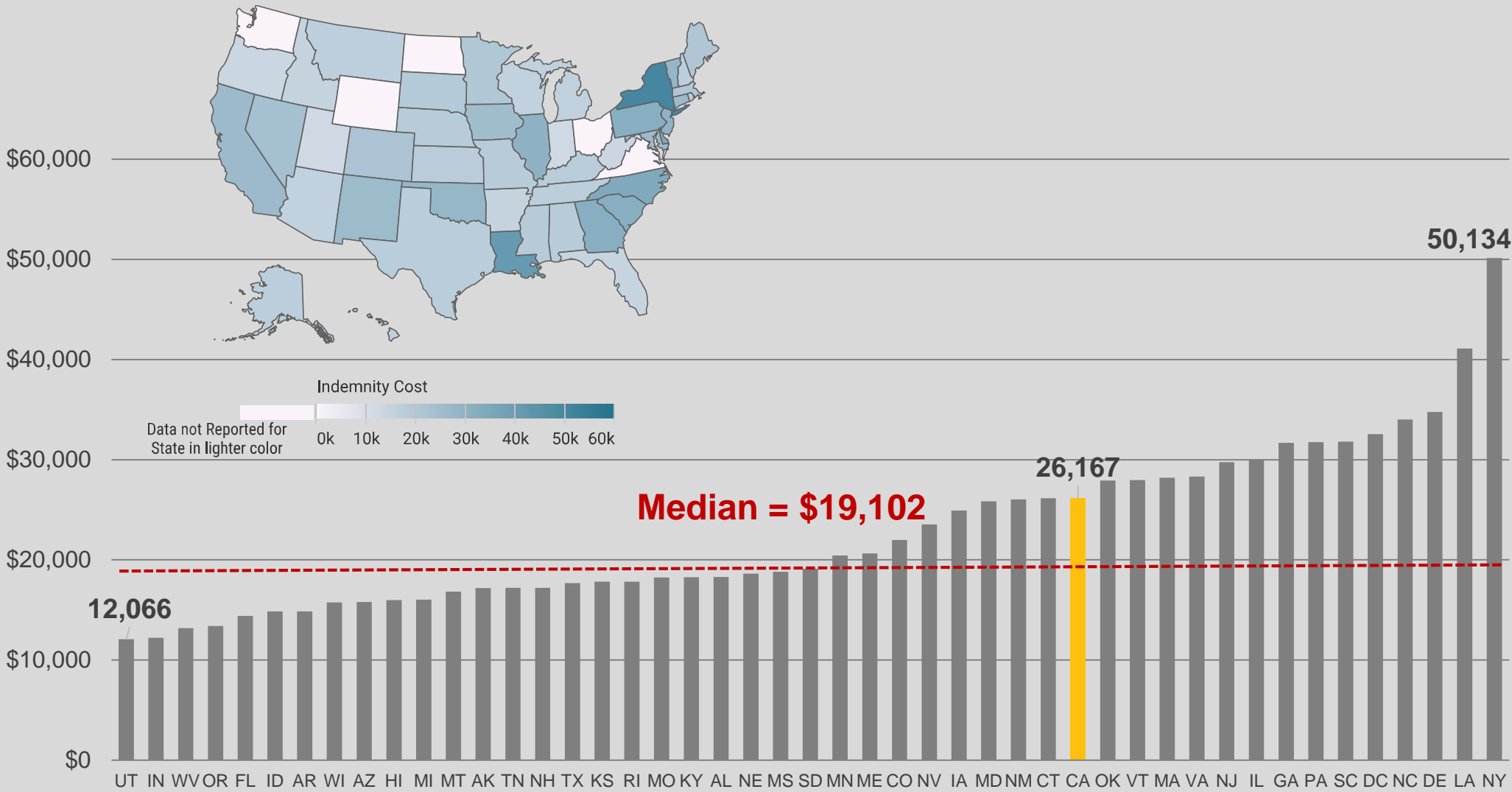
- Changes in average indemnity costs in California have generally been more similar to countrywide patterns than other cost components
- Changes in California average indemnity costs in 2016 and 2017 were well below the countrywide average changes
- Changes in average indemnity cost per claim for 2014 in California differed from other states primarily due to SB 863 increases in California permanent disability benefits ([Chart 41](#))



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Chart 23: Indemnity Cost per Indemnity Claim by State



Insights and Recent Trends

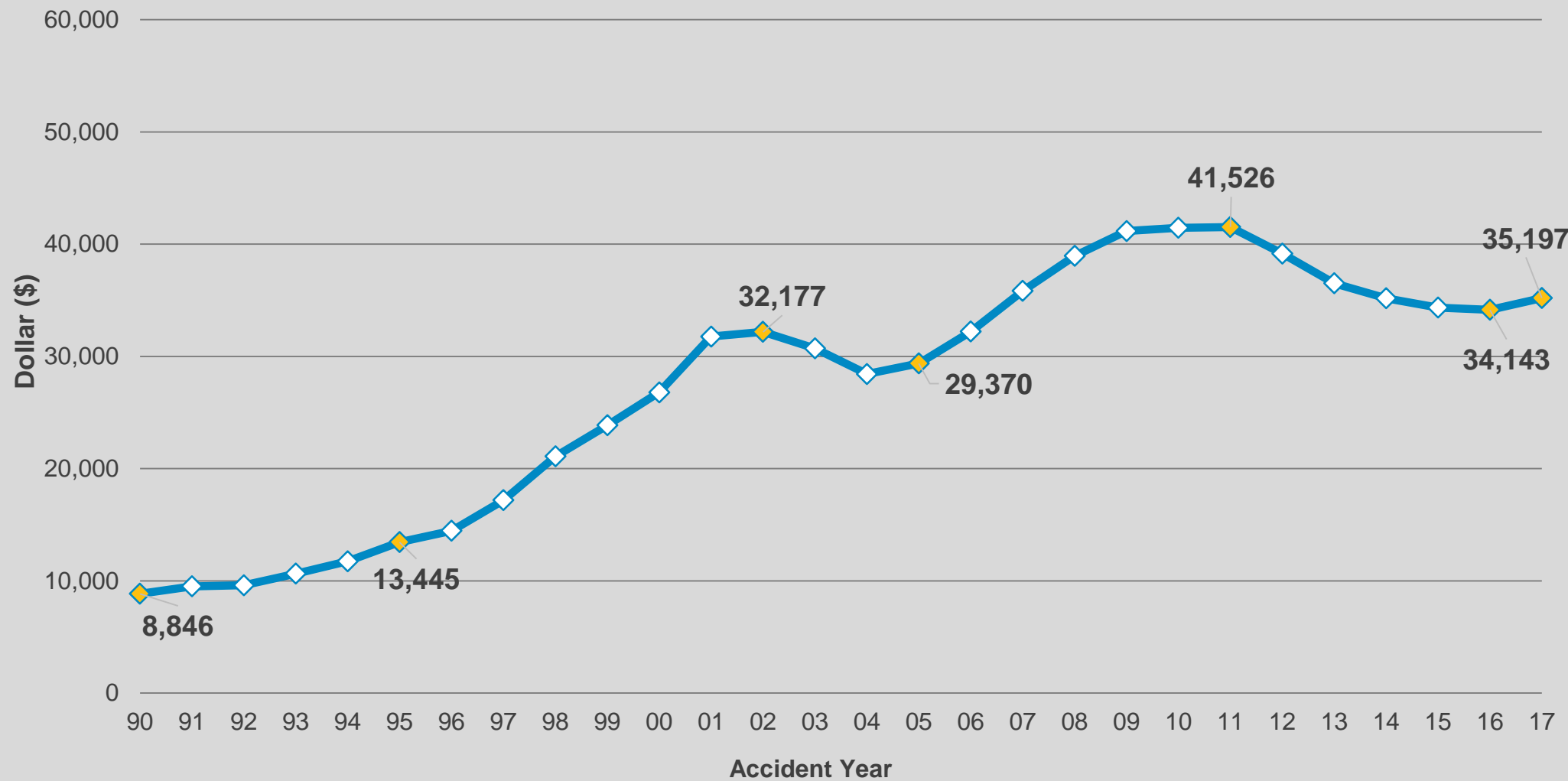
- Average indemnity costs in California are much more consistent with other states compared to other system components, but still 37% above the countrywide median
- Higher-than-average indemnity costs in California are largely driven by the high proportion of indemnity claims involving permanent disability ([Chart 20](#)) and high wage levels



More Info →

04
Claim Severity

Chart 24: Average Medical Cost per Indemnity Claim



Insights and Recent Trends

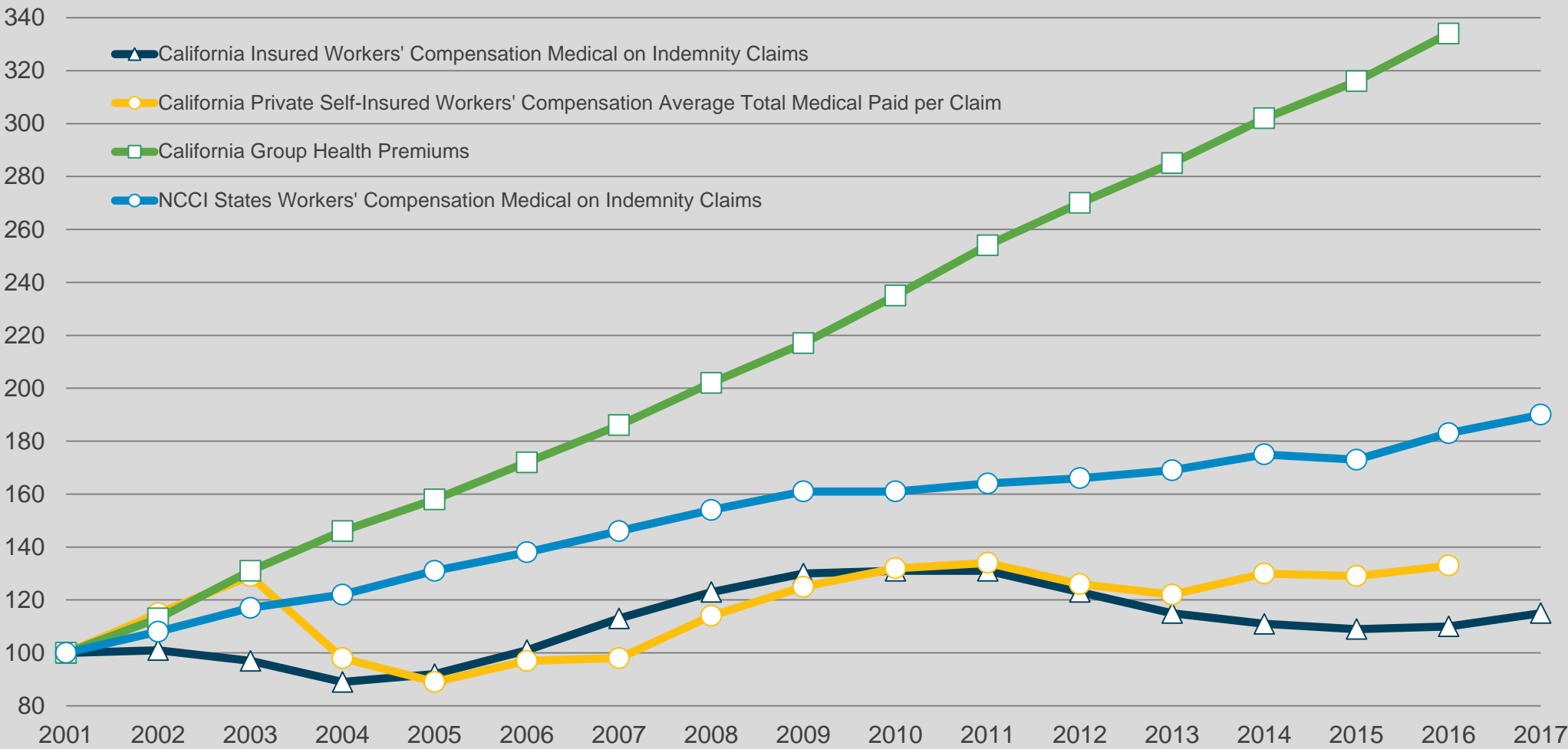
- Despite several reforms temporarily curtailing medical inflation, average medical costs have increased at a rate of 5% per year since 1990
- From 2011 to 2016, average medical costs decreased by 18%, primarily driven by SB 863 provisions including those related to independent medical review and medical fee schedules ([Chart 41](#))
- Reforms to lien filings ([Chart 43](#)) provided by SB 863, SB 1160 and AB 1244 as well as efforts to reduce medical provider fraud have also contributed to recent overall lower medical severities



More Info



Chart 25: Medical Cost Level Indexed to 2001



Insights and Recent Trends

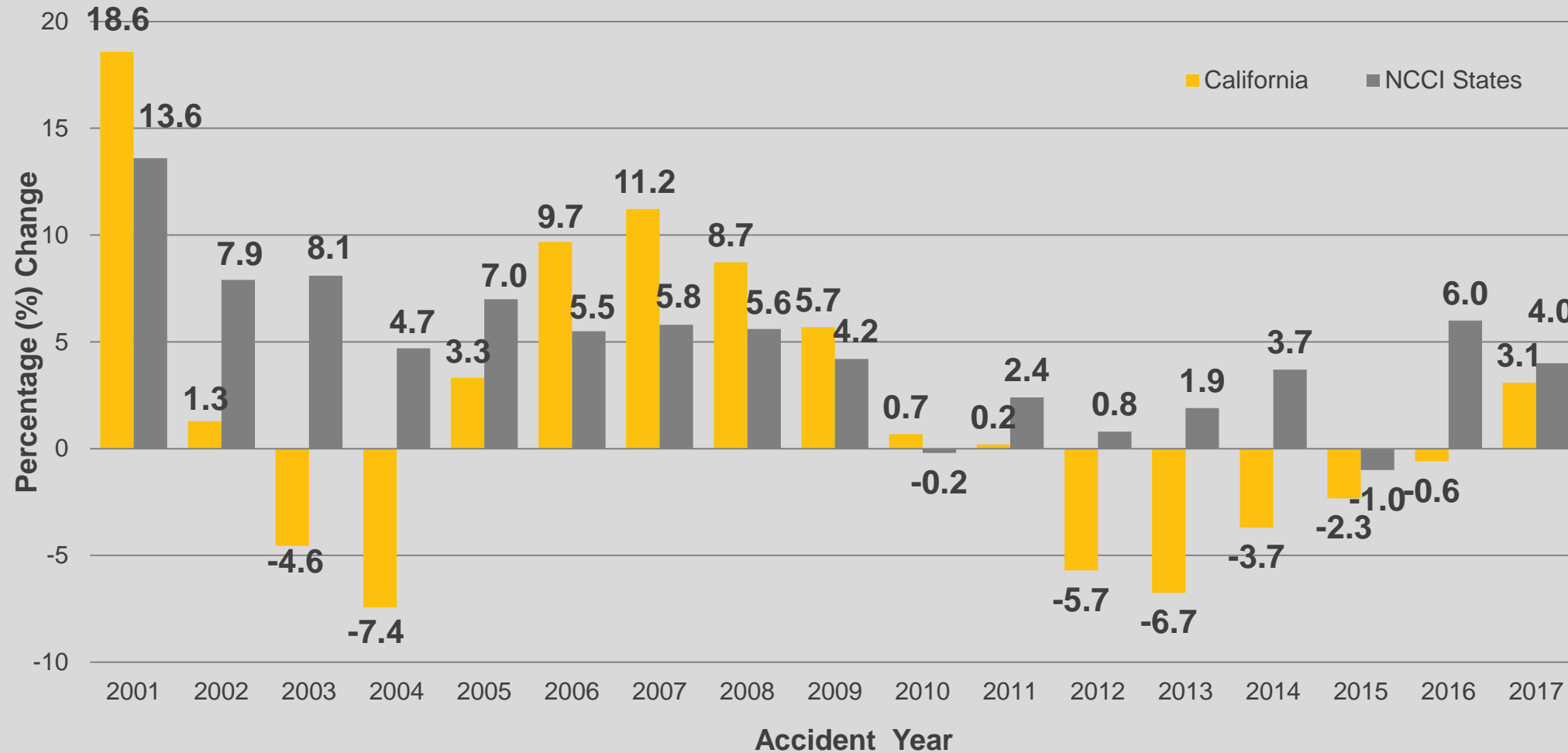
- The rate of growth in California workers' compensation medical costs, based both on insured and self-insured loss experience, is well below that of other states and group health premiums
- The reforms of 2002-2004 as well as SB 863 (2012) have significantly reduced medical inflation over the last 25 years as compared to other systems



More Info



Chart 26: Change in Average Medical Cost per Indemnity Claim



Insights and Recent Trends

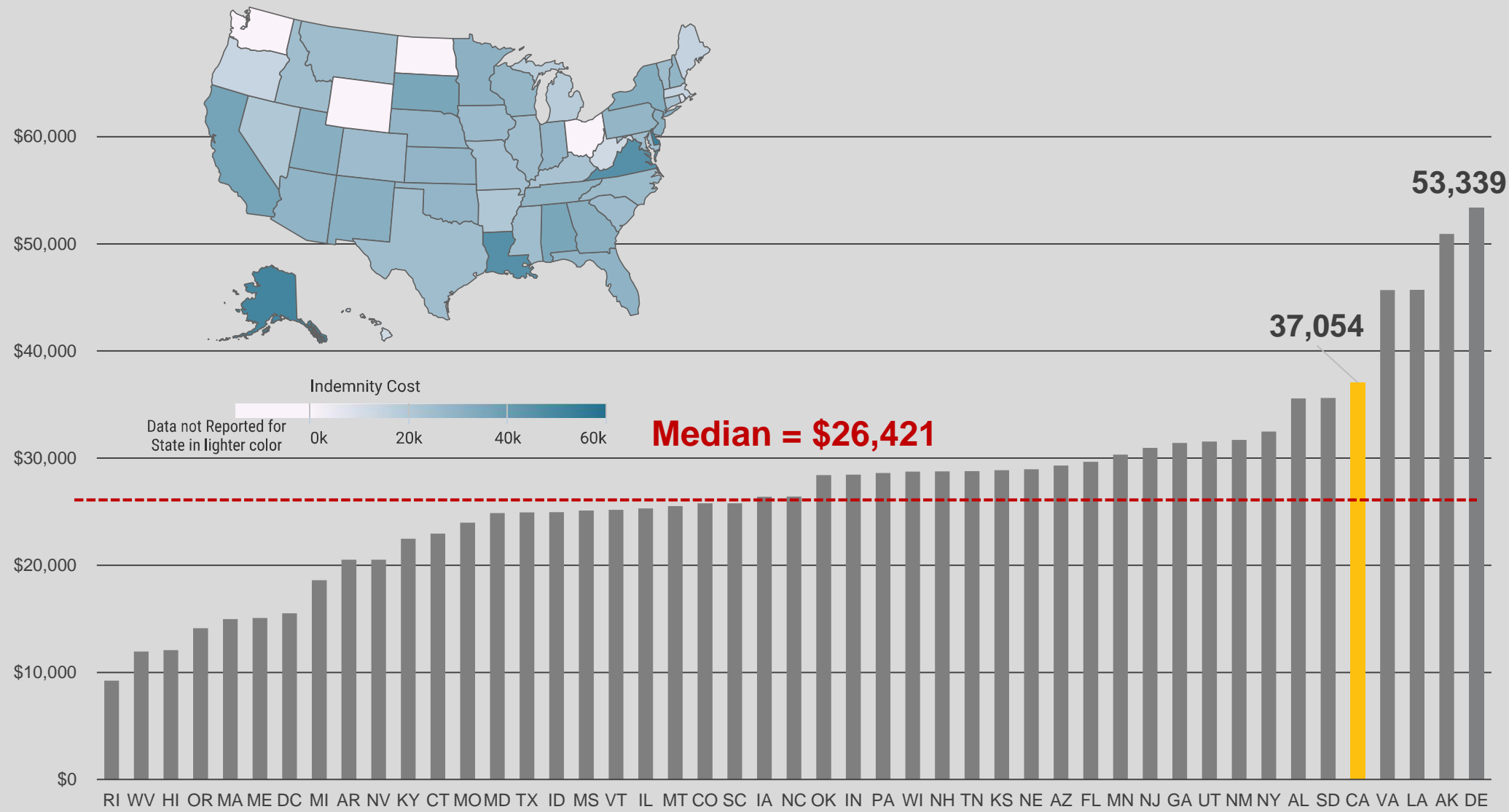
- The 2017 estimated change in average medical cost per claim in California is fairly consistent with that for the NCCI states
- Changes in average medical cost per claim for 2012 through 2016 were significantly lower in California largely as a result of:
 - The medical reforms in SB 863 ([Chart 41](#))
 - Lower pharmaceutical cost levels ([Chart 29](#))
 - Reforms to lien filings from SB 863 and SB 1160/ AB 1244 ([Chart 43](#))



More Info



Chart 27: Medical Cost per Indemnity Claim by State



Insights and Recent Trends

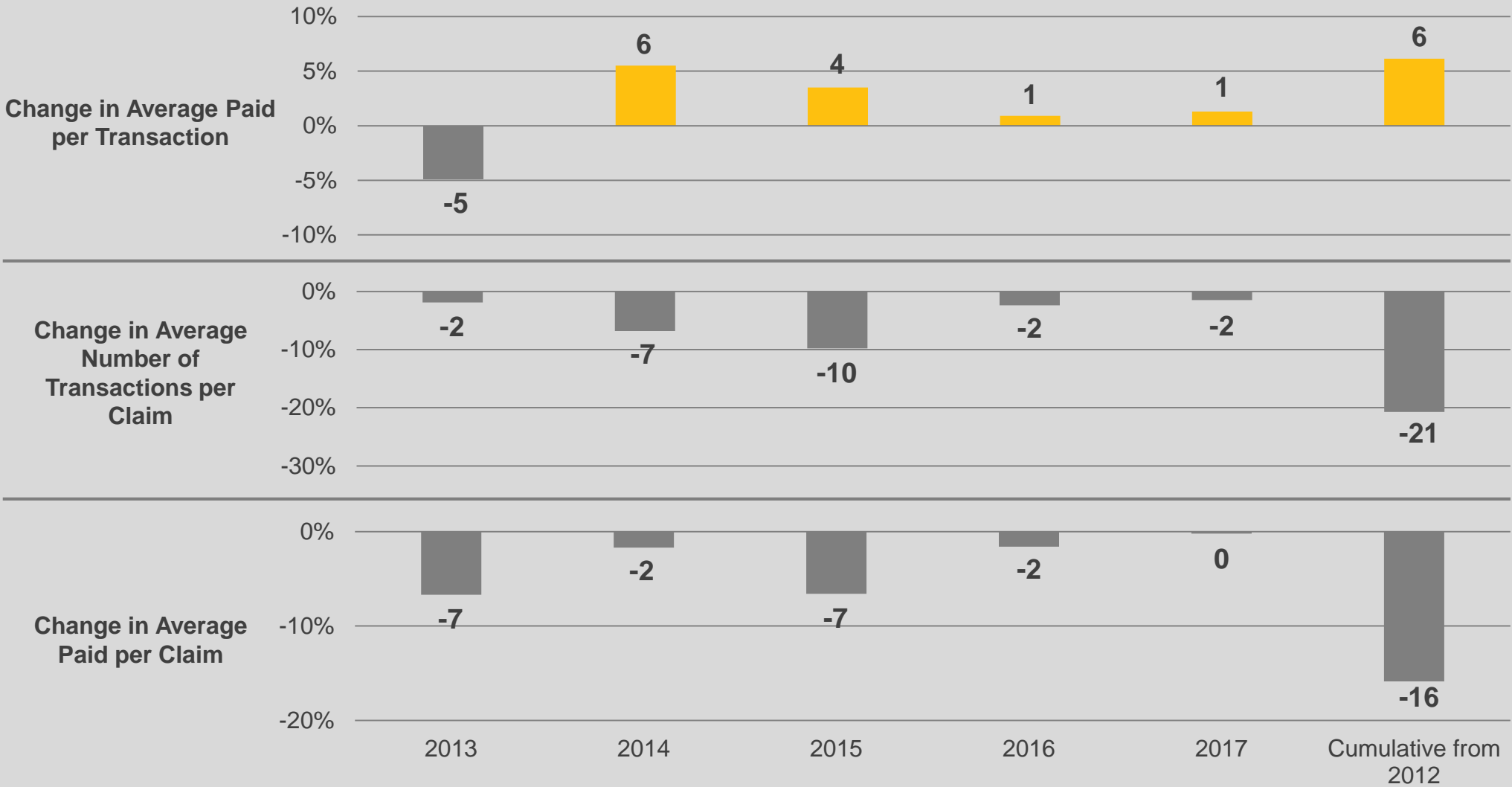
- Despite recent decreases in California medical costs, they are still the 5th highest in the country and 40% above the countrywide median
- The significantly higher medical costs in California are largely driven by the long duration of medical payments in California [\(Chart 31\)](#)



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Chart 28: Change in Medical Service Cost Levels



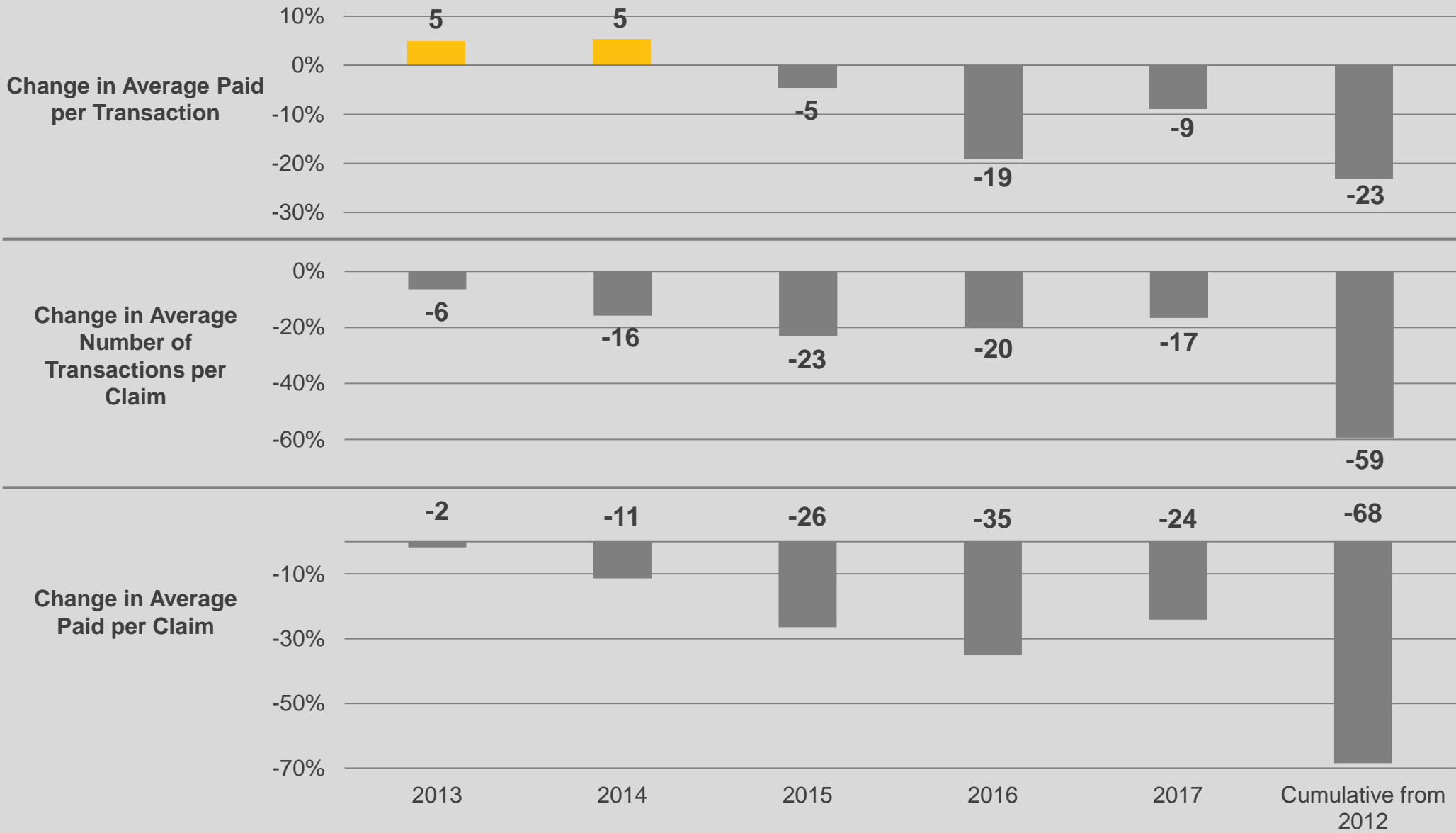
Insights and Recent Trends

- Average medical paid per transaction continues to increase at a modest rate
- The number of medical service transactions per claim decreased by 21% since 2012, which is largely attributable to SB 863 ([Chart 41](#))
- Combined, total medical costs paid per claim have decreased by 16% since 2012



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Chart 29: Change in Pharmaceutical Cost Levels



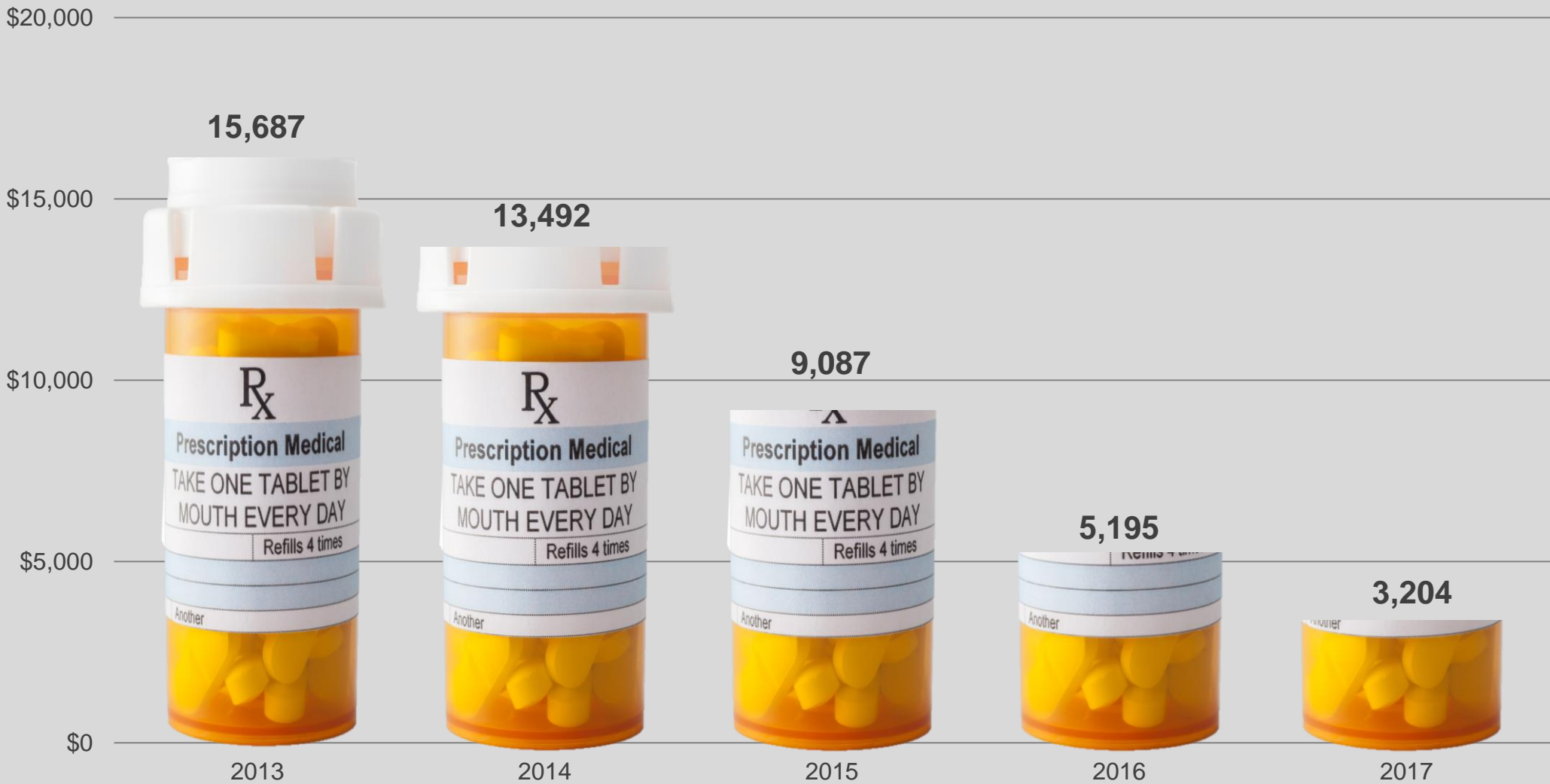
Insights and Recent Trends

- 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 almost 60% decrease in pharmaceutical transactions per claim since 2012 include:
 - Independent medical review
 - Reduced spinal surgeries
 - National trends toward reduced opioid use ([Chart 30](#))
- The new Drug Formulary effective in 2018 is expected to further reduce pharmaceutical costs ([Chart 44](#))



More Info →

Chart 30: Opioid Costs per 100 Claims



Insights and Recent Trends

- The use of opioids in California has declined by 80% since 2013
- Factors driving this decline include independent medical review, use of the CURES system in California, and reaction to the national opioid epidemic



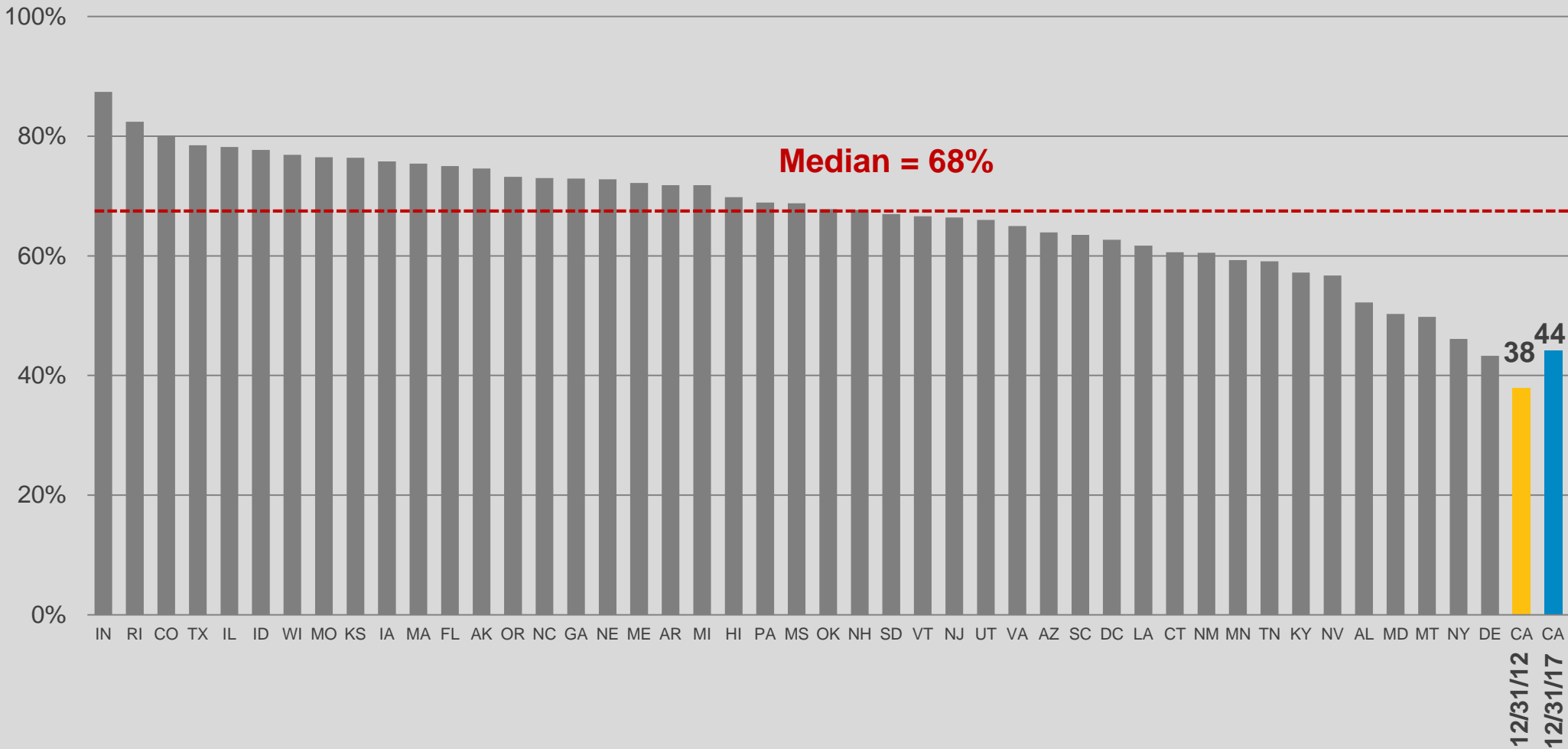
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Claim Duration

05

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



Insights and Recent Trends

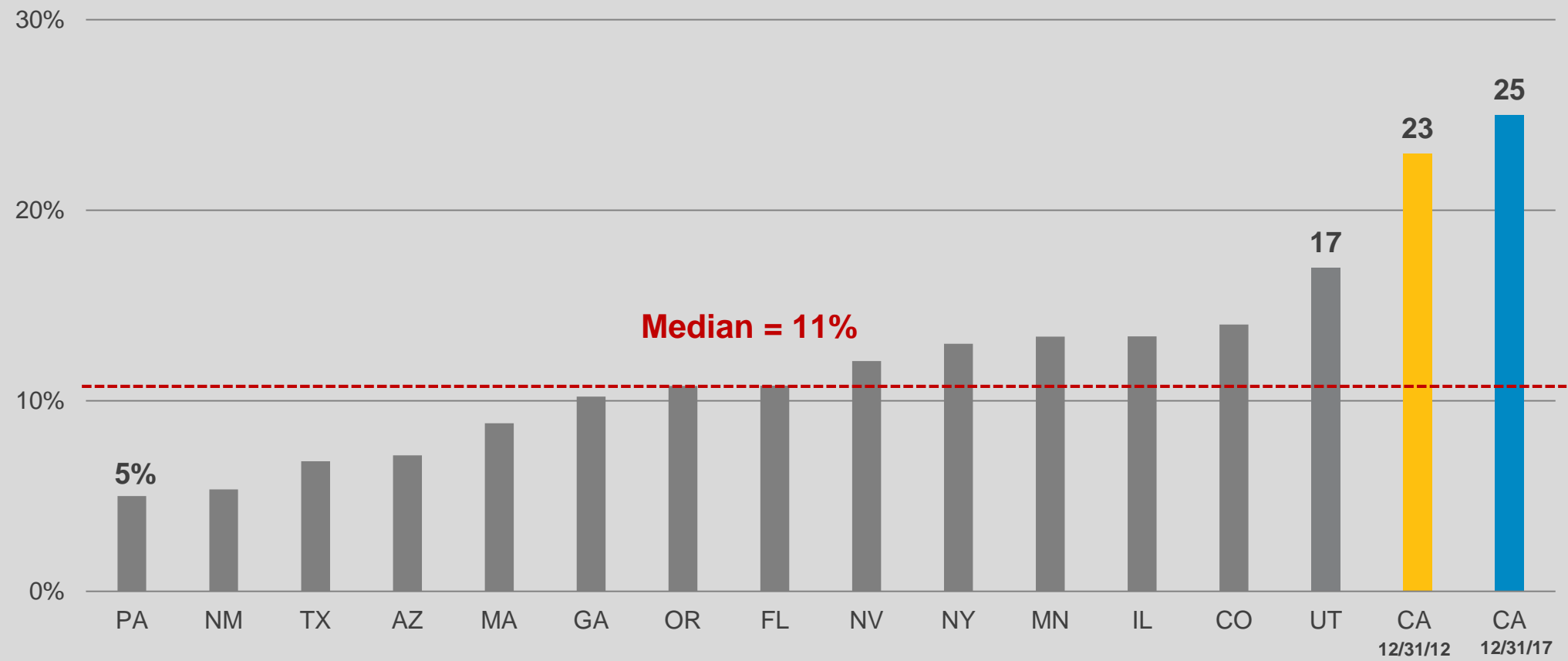
- The percentage of ultimate medical paid after three years increased from 38% in 2012 to 44% in 2017, driven largely by the SB 863 reforms
- California still has a very long duration of medical payments, driven by:
 - The time it takes to report claims [\(Chart 32\)](#)
 - The length of time claims stay open [\(Chart 33\)](#)
 - A high proportion of permanent disability [\(Chart 20\)](#) and cumulative trauma [\(Chart 17\)](#) claims
 - High rates of litigation [\(Chart 39\)](#)



More Info



Chart 32: Percent of Indemnity Claims Unreported at 12 Months



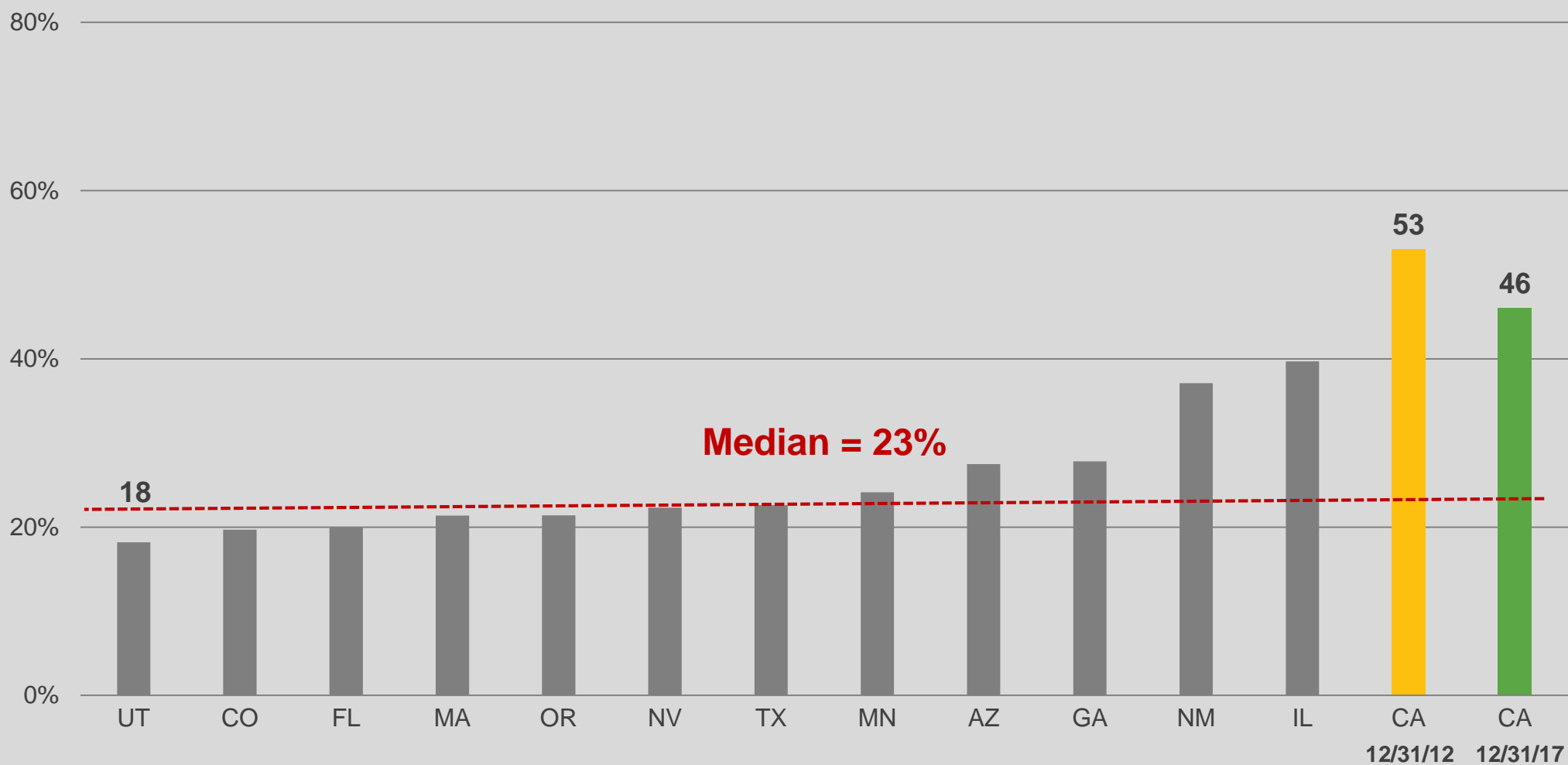
Insights and Recent Trends

- 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
- Over the last five years the proportion of indemnity claims reported after 12 months has increased
- A large proportion of the late-reported claims in California involve cumulative trauma injuries, ([Chart 17](#)) many of which are filed following the employee's termination



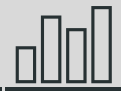
More Info →

Chart 33: Percent of Indemnity Claims Open at 24 Months



Insights and Recent Trends

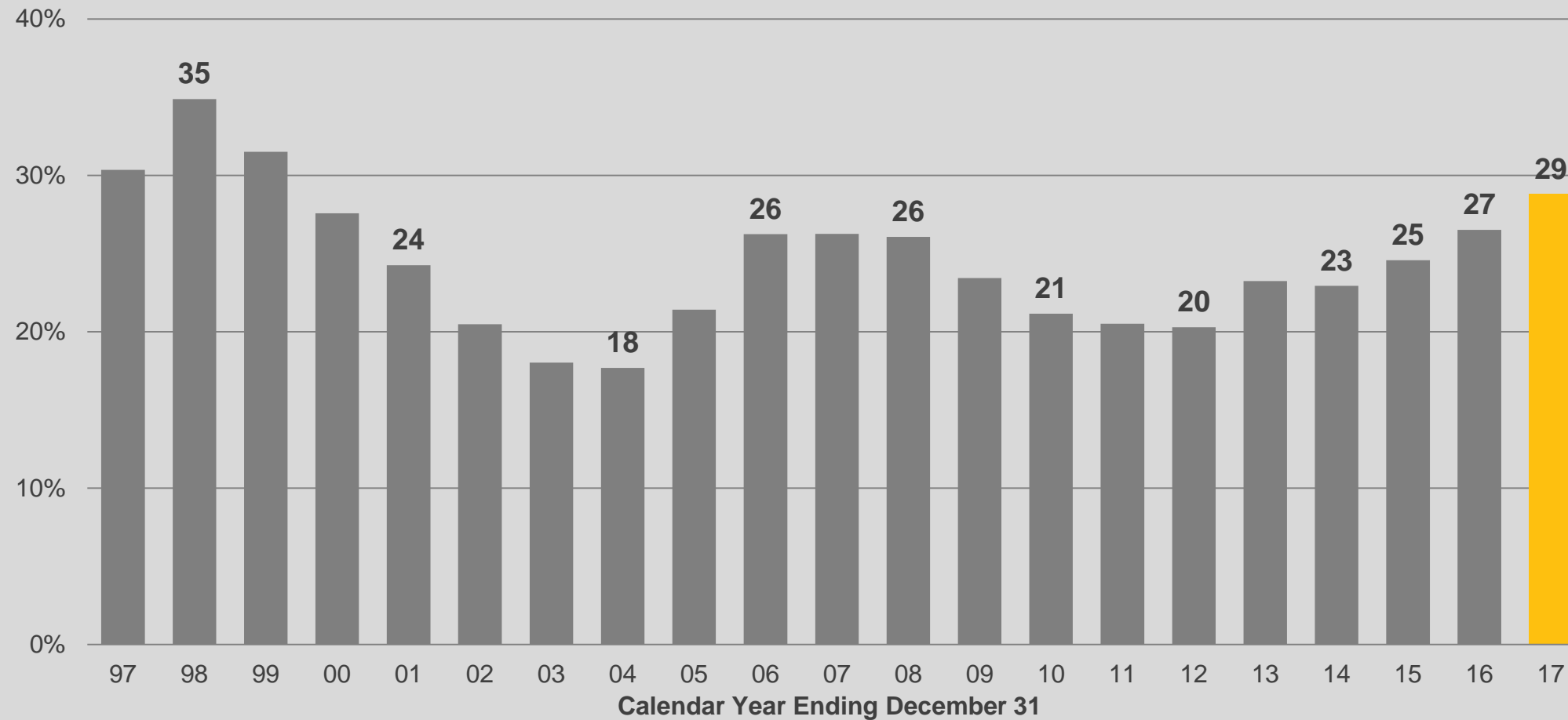
- California has the highest proportion of indemnity claims open at 24 months which is more than twice the median state
- Claim closure rates have increased significantly in California over the last five years but these rates are still higher than other states
- The slower rate of claim closure in California is attributable to:
 - The high volume of medical liens filed ([Chart 40](#))
 - Higher rates of permanent disability ([Chart 20](#)) and cumulative trauma claim frequency ([Chart 17](#))
 - A high complexity of handling and settling claims



05

Claim Duration

Chart 34: Percent of Open Indemnity Claims Closed During Next Year



Insights and Recent Trends

- Since 2012, indemnity claims have been closing more quickly
- The 29% of open indemnity claims closing in 2017 is the highest rate of claim closing since 1999
- The increased rates of claims closing over the last few years is in part attributable to SB 863 provisions related to liens ([Chart 41](#)), independent medical review, independent bill review, and a reduced number of spinal surgeries



More Info



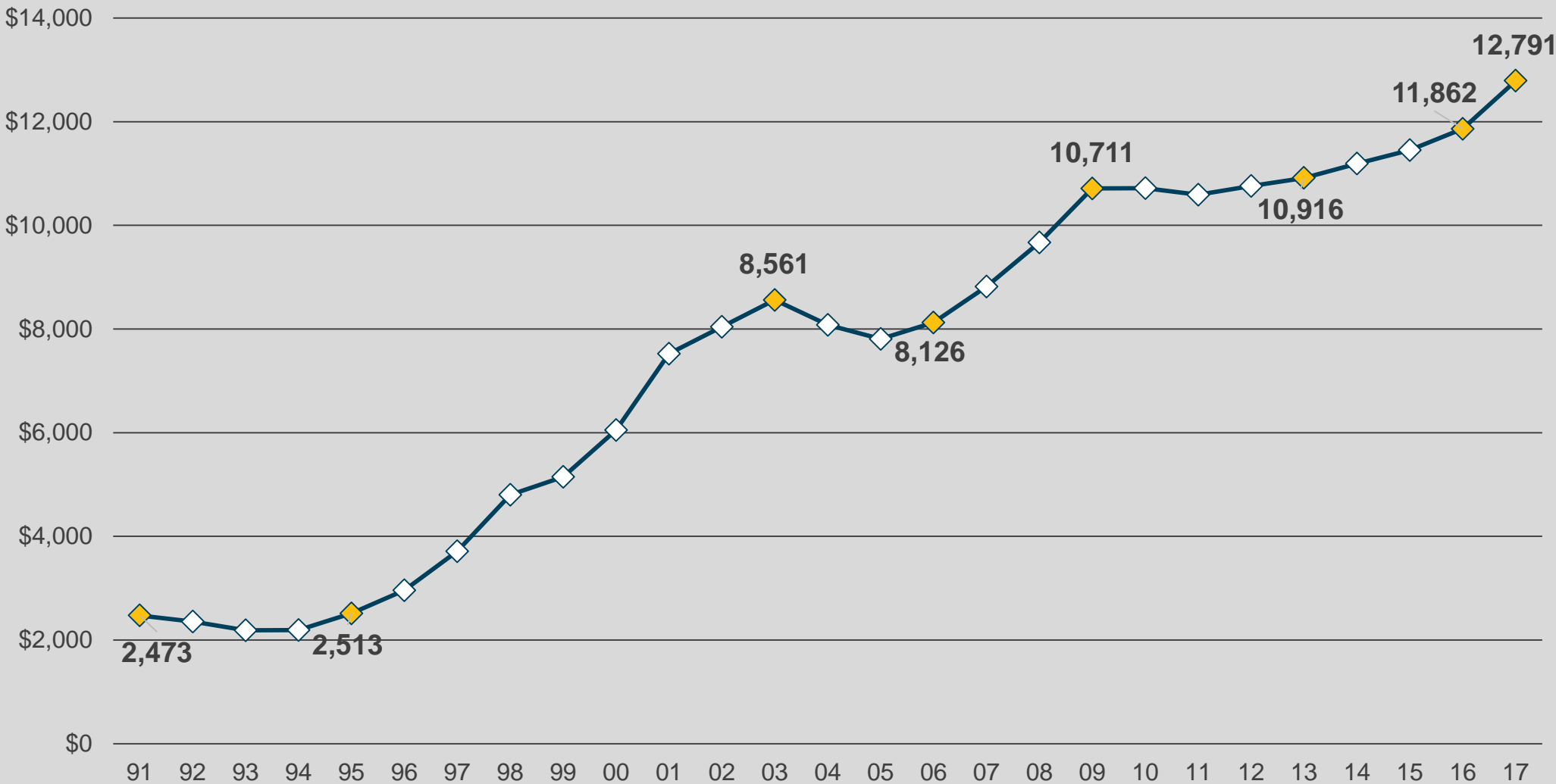


Frictional Costs

06

06
Frictional Costs

Chart 35: Average Allocated Loss Adjustment Expenses per Indemnity Claim



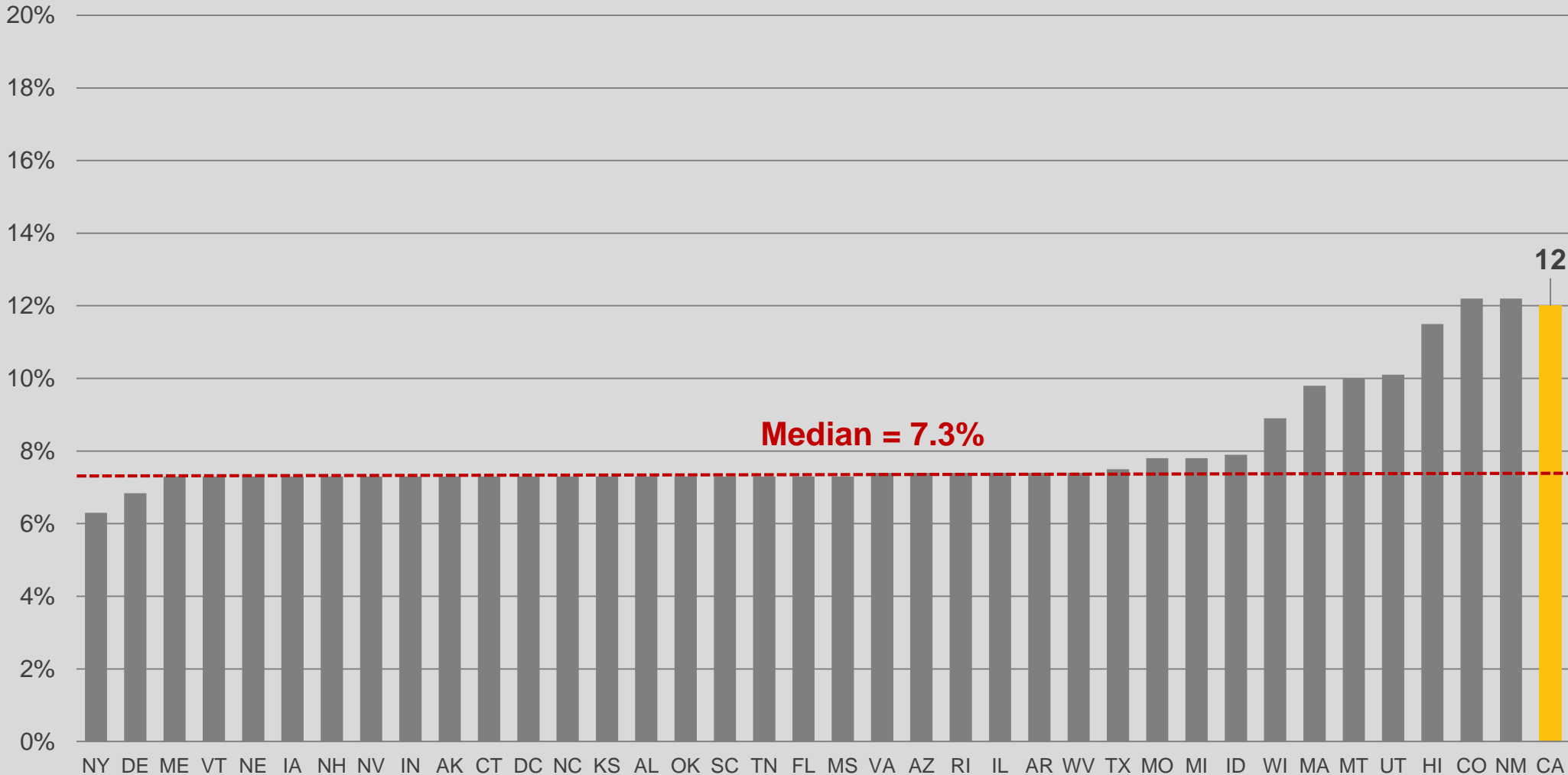
Insights and Recent Trends

- Instead of declining following SB 863 as was expected ([Chart 41](#)), average ALAE cost per claim increased by 17% since 2013 and in 2017 is five times the 1991 level
- Drivers of recent increases in ALAE costs:
 - Increased frequency of cumulative trauma claims ([Chart 17](#))
 - Acceleration in the rate of claim settlement ([Chart 34](#))
 - Disputes arising from the transition into recent reforms as the new reforms are challenged and interpreted through the legal system



More Info →

Chart 36: Ratios of Unallocated Loss Adjustment Expenses to Losses



Insights and Recent Trends

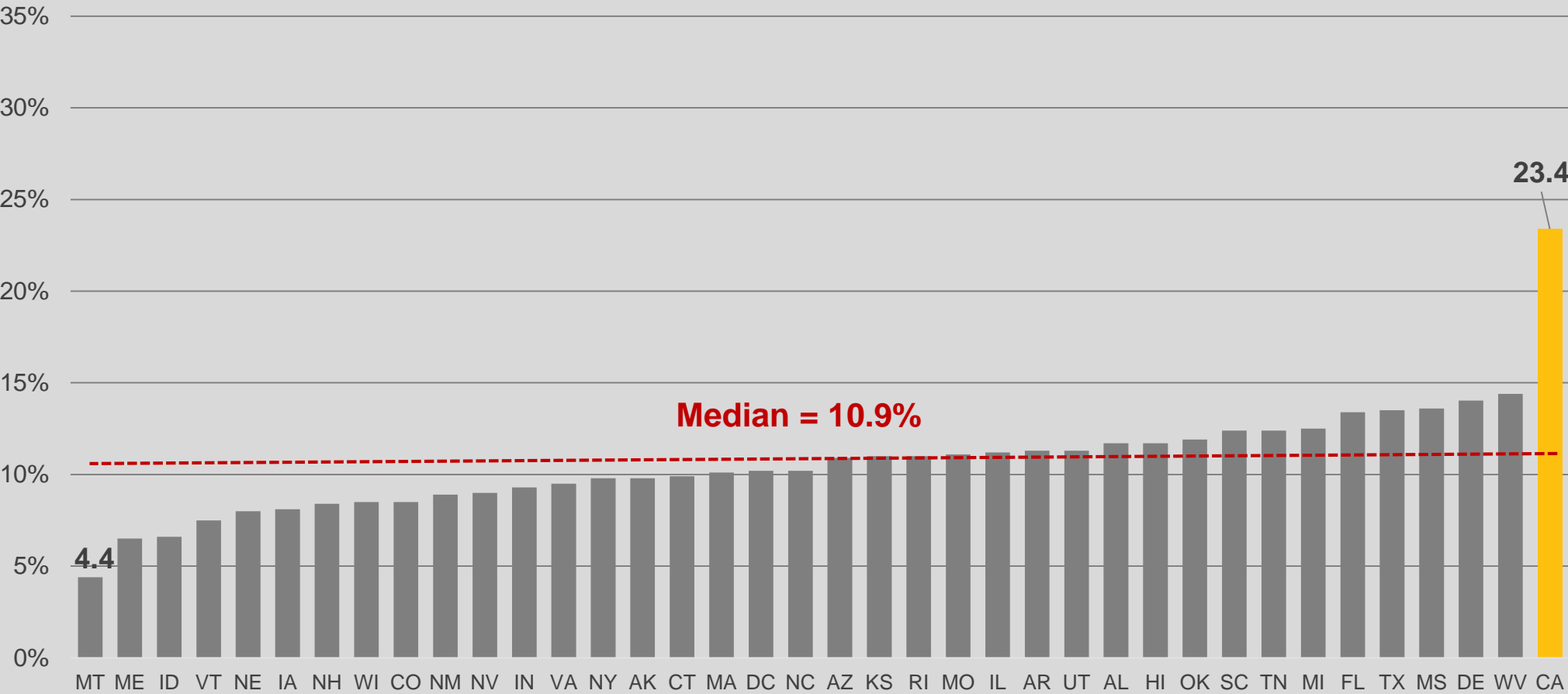
- California has among the highest ratios of ULAE to loss in the country with a ratio 64% higher than the median state
- California claims are typically more complex to handle as they are open longer and more often involve complex issues such as permanent disability and cumulative trauma



More Info



Chart 37: Ratios of Allocated Loss Adjustment Expenses to Losses



Insights and Recent Trends

- California ratios of ALAE to losses are almost 10 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 20](#)) and cumulative trauma claims ([Chart 17](#))
 - High rates of representation and litigation on claims ([Chart 39](#))
 - High volume of liens ([Chart 40](#))



Chart 38: Cost to Deliver \$1 of Benefits

06
Frictional Costs

Medicare		\$0.02
Private Group Health Insurance		\$0.18
Workers' Compensation Median State		\$0.23
California Workers' Compensation		\$0.53



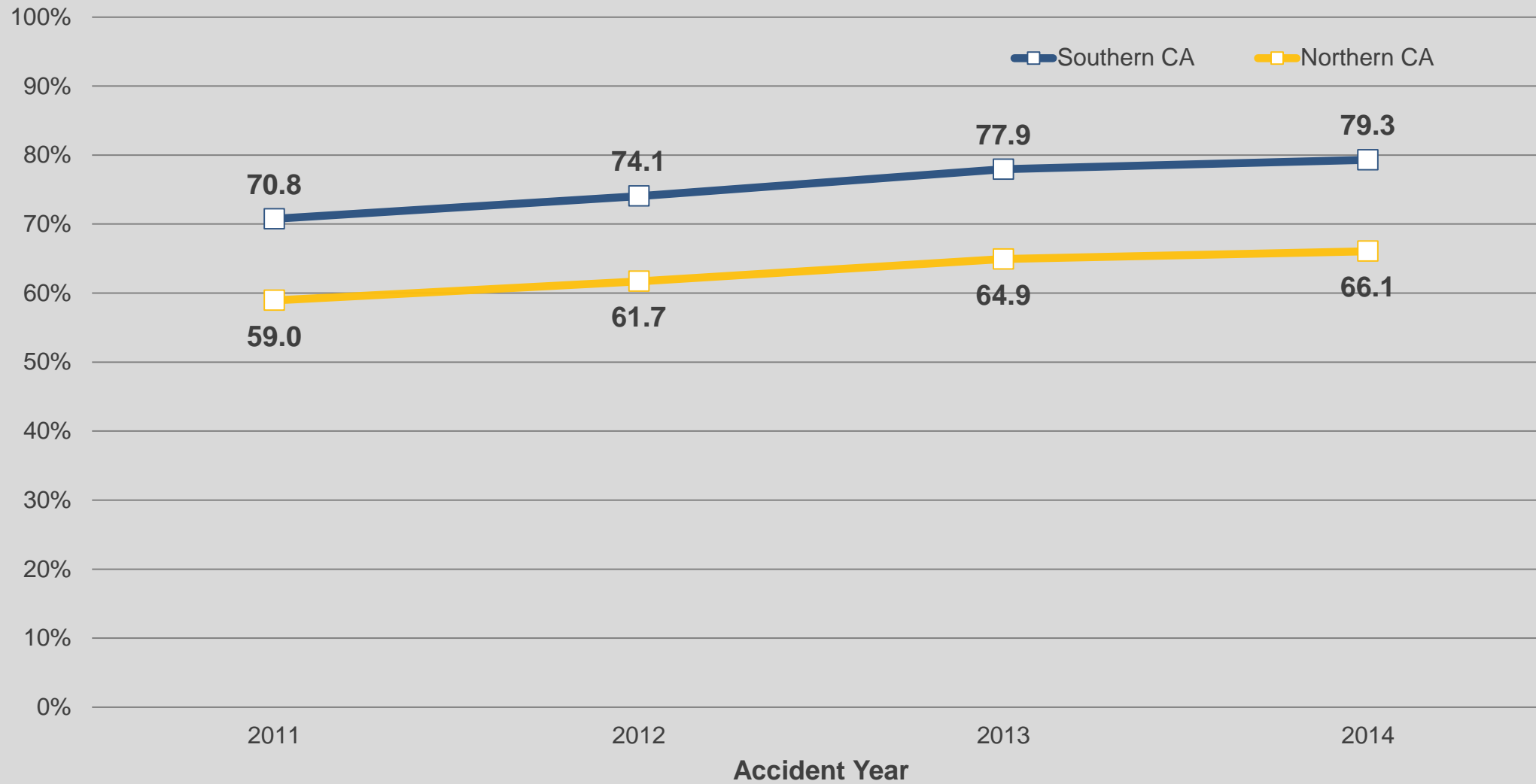
Insights and Recent Trends

- 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 →

Chart 39: Percent of Represented Permanent Disability Claims



Insights and Recent Trends

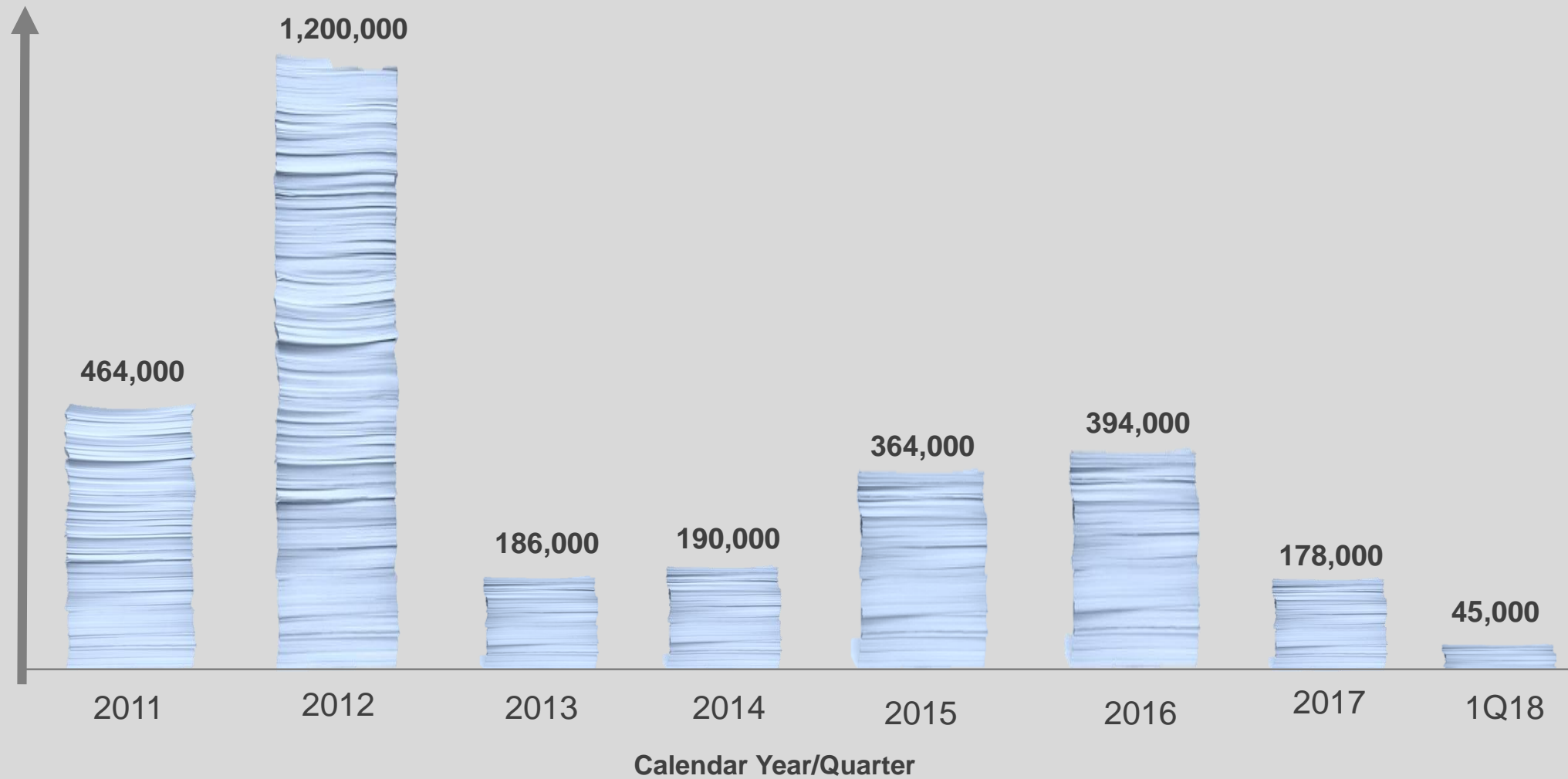
- Rates of legal representation in Southern California are significantly higher than in Northern California
- Rates of legal representation have been increasing steadily since 2009 in both Northern California and Southern California
- Legal representation rates in California are higher than for most other states



More Info



Chart 40: Number of Liens Filed



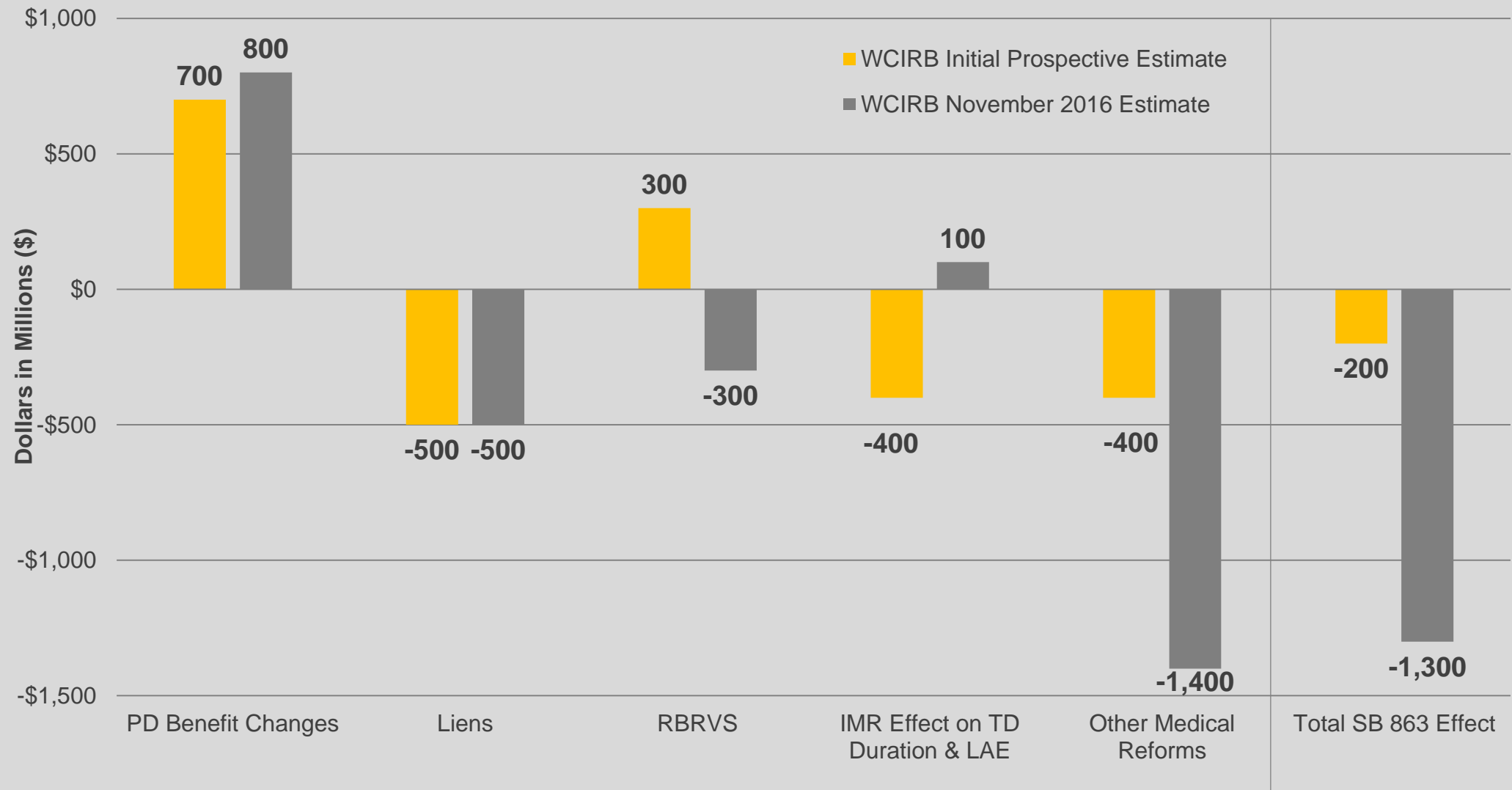
Insights and Recent Trends

- Liens typically involve significant loss adjustment expense costs that often exceed the amount settled for the lien
- After a significant drop in 2013 and 2014 following SB 863, lien filings approximately doubled from 2014 to 2016
- SB 1160 and AB 1244, enacted in 2016, included additional lien reforms that have reduced lien filings significantly ([Chart 43](#))

Recent Reforms

07

Chart 41: WCIRB Cost Evaluation of SB 863



Insights and Recent Trends

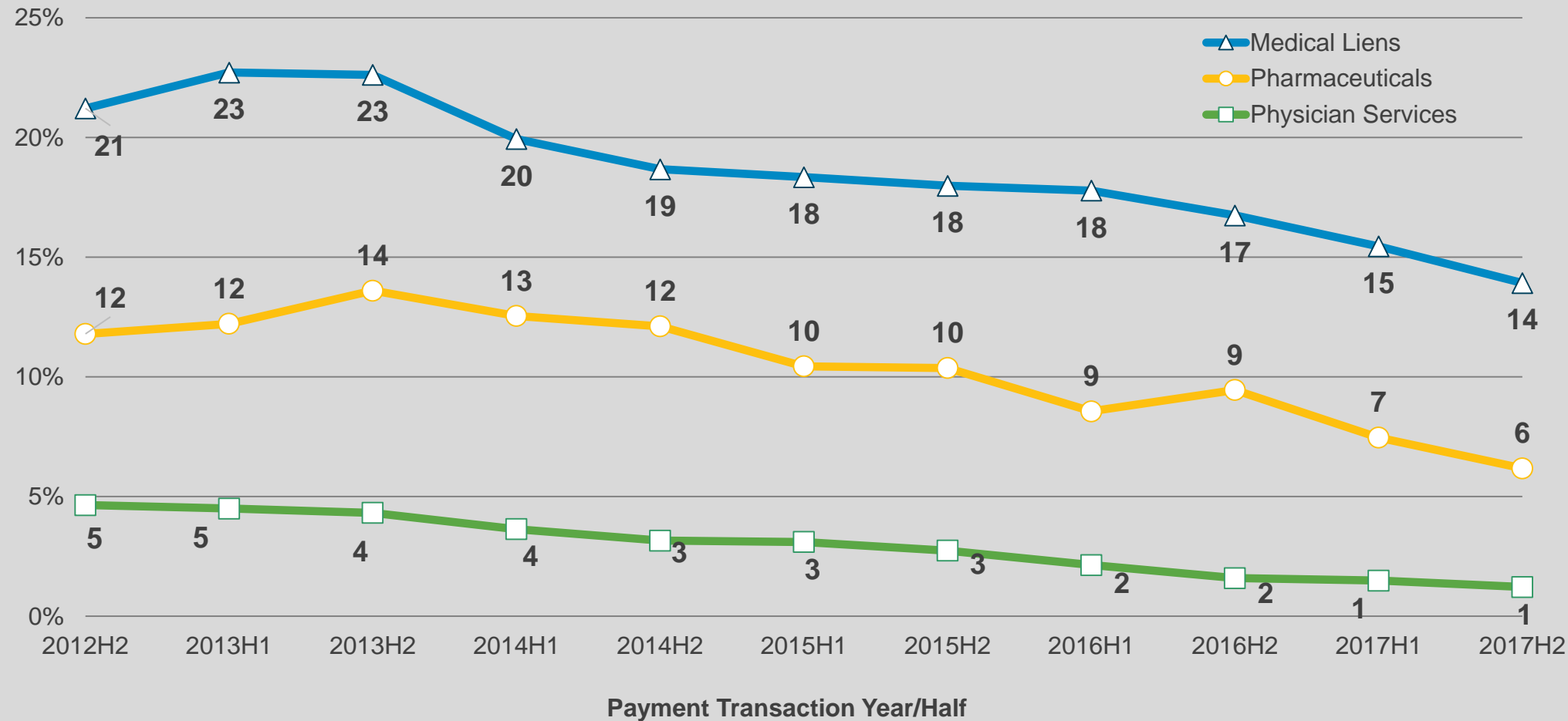
- SB 863 increases to permanent disability benefits and savings from the lien reforms emerged as initially projected
- Instead of increasing costs, the new physician fee schedule based on Medicare (RBRVS) has decreased costs
- Frictional cost savings resulting from the new IMR process have not materialized, as significantly more IMRs than projected are being filed and other dispute mechanisms are still being used
- IMR, in addition to independent bill review and other SB 863 medical reforms, have resulted in more than \$1 billion in additional annual savings



More Info



Chart 42: Share of Total Medical Payments by Indicted/Suspended Providers



Insights and Recent Trends

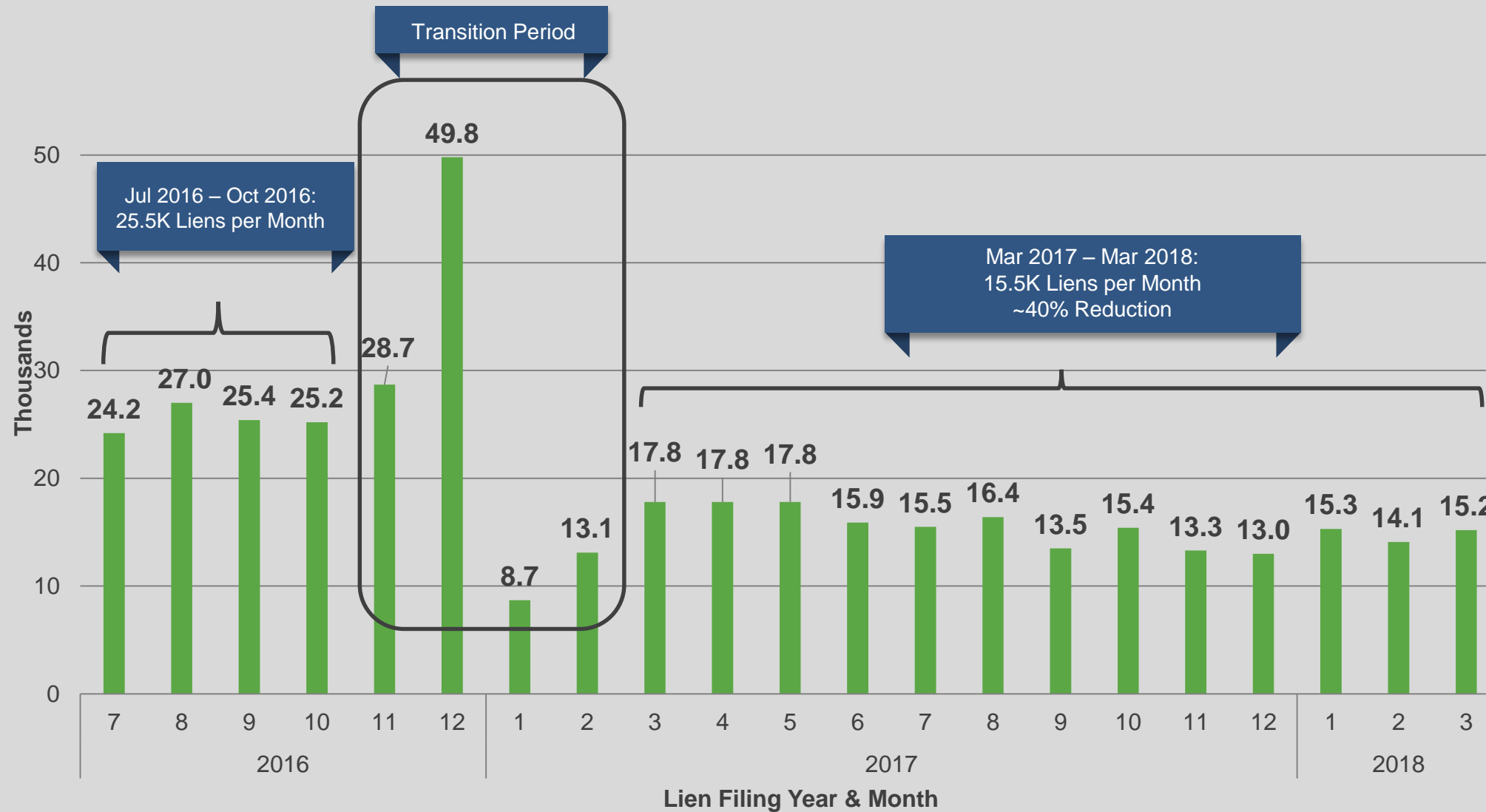
- Over the last several years many providers have been indicted for fraud and/or have been suspended by the Division of Workers' Compensation from practicing in the workers' compensation system
- 23% of lien costs and 14% of all pharmaceutical costs paid in the second half of 2013 were paid to providers subsequently indicted for fraud or suspended from practicing
- Payments to these providers have decreased over time but still represent a significant proportion of lien payments



[More Info](#)



Chart 43: Recent Lien Filings by Month



Insights and Recent Trends

- SB 1160 and AB 1244 were implemented in 2017 and included several reforms to lien filings including:
 - Restrictions on the ability to reassign liens to third parties
 - Requirement that every lien must be filed with a declaration under penalty of perjury
 - Stay on liens filed by providers indicted for fraud
- Since the implementation of SB 1160 and AB 1244, lien filings per month are down 40%
- Lien filing counts in recent months have been relatively stable



More Info



Chart 44: Share of Paid Pharmaceuticals Subject to Prospective Utilization Review

Drug Formulary Group	Within 7 Days of Date of Injury		After 7 Days of Date of Injury		Total	
	Subject to UR (%)	No Longer Subject to UR (%)	Subject to UR (%)	No Longer Subject to UR (%)	Subject to UR (%)	No Longer Subject to UR (%)
Exempt	0.0	2.9	8.6	11.5	8.6	14.3
Non-Exempt	0.5	0.5	37.9	0.4	38.4	0.9
Unlisted	1.5	0.0	36.3	0.0	37.7	0.0
Total	2.0	3.4	82.8	11.8	84.8	15.2



Insights and Recent Trends

- The new drug formulary effective 1/1/2018 pursuant to AB 1124 exempts certain pharmaceuticals from prospective utilization review (UR)
- Drugs are no longer subject to prospective UR based on the timing from the date of injury and a number of other factors
- The WCIRB estimates that approximately 15% of drug costs and 30% of prescriptions will be exempt from prospective UR
- The WCIRB estimates eventual savings from the formulary of 0.5% of total costs or approx. \$100 million annually



More Info

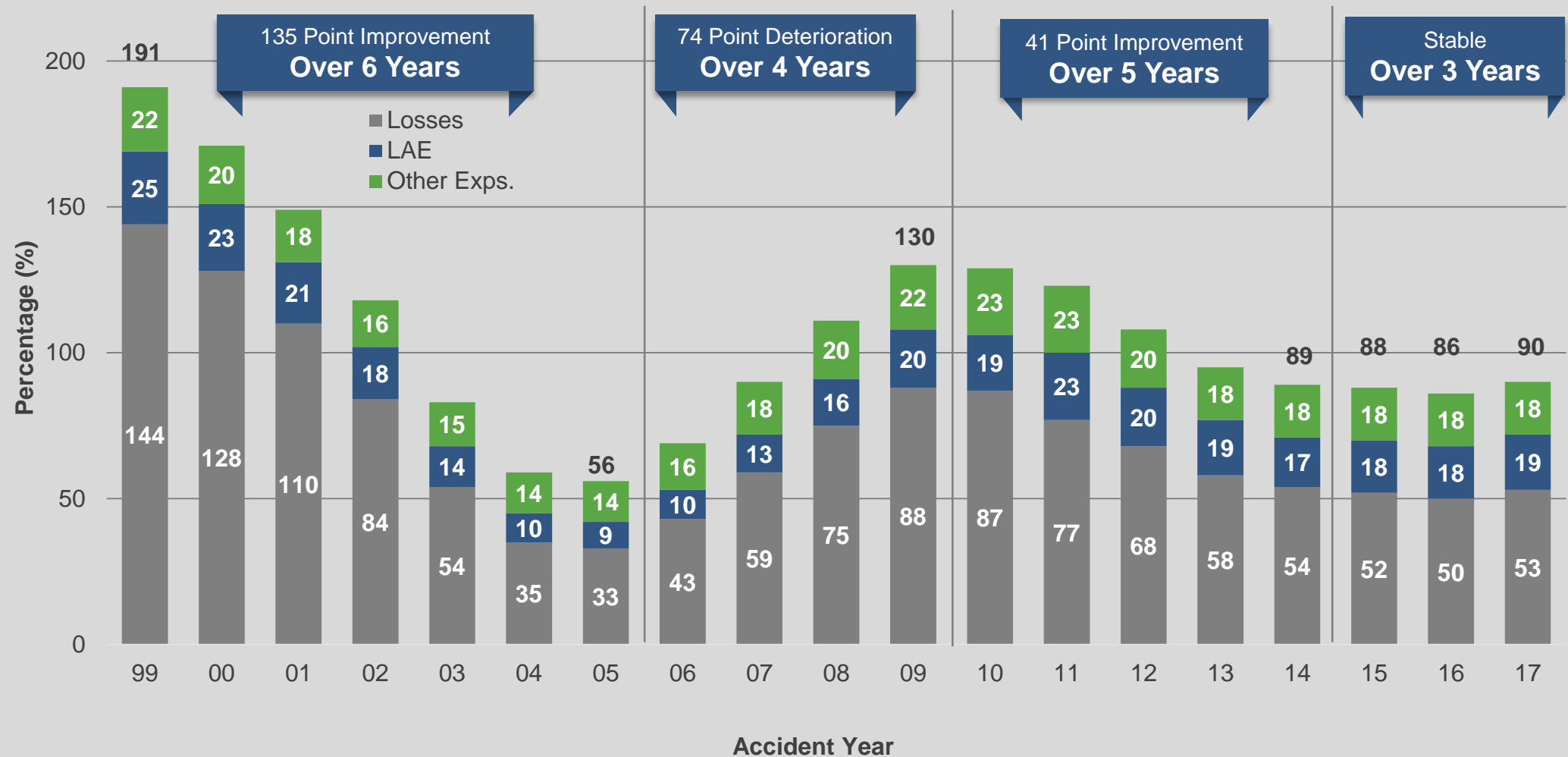


Industry Results

08



Chart 45: Projected Combined Loss and Expense Ratios



Insights and Recent Trends

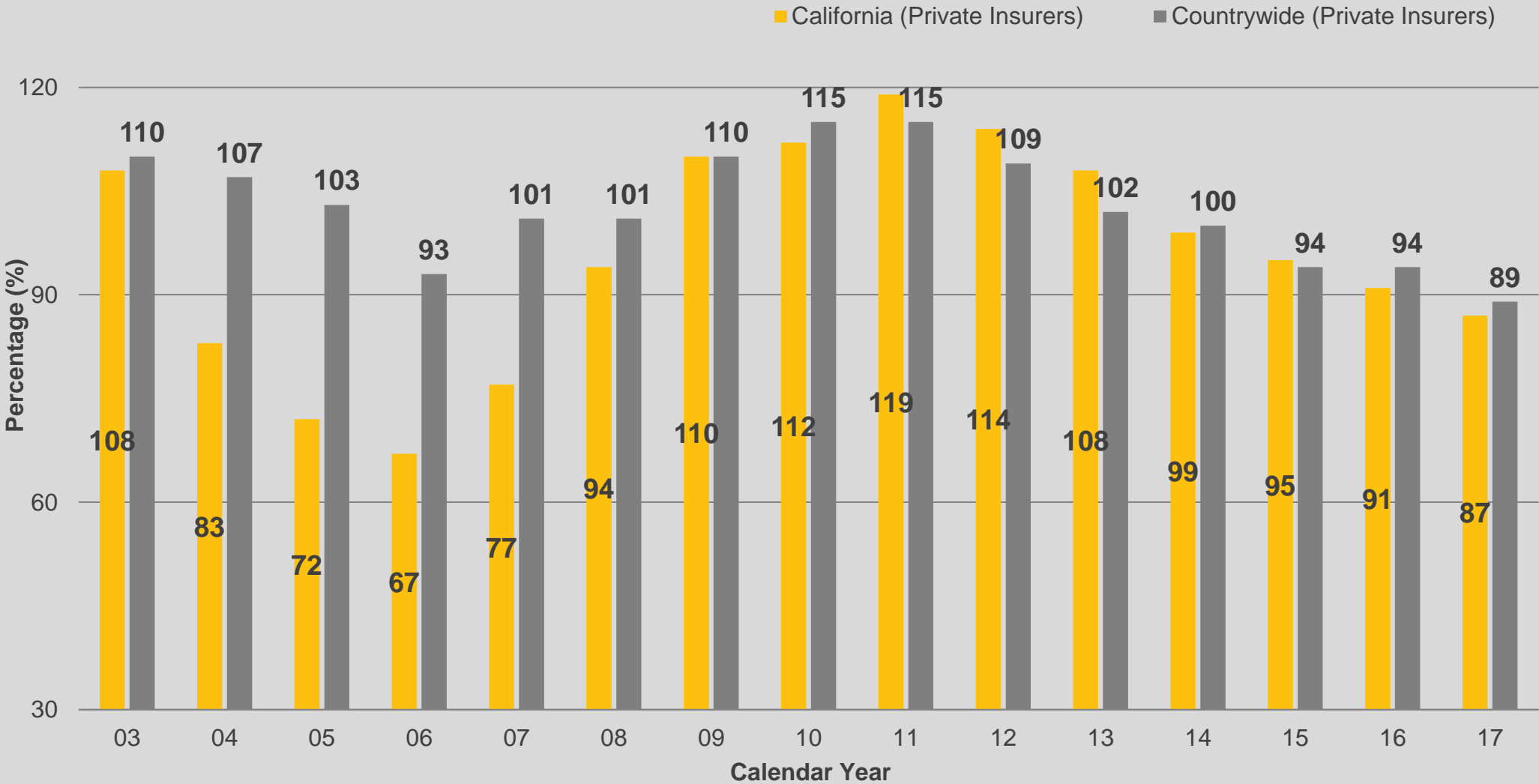
- Combined ratios in California have historically been very cyclical and volatile:
 - 135% improvement from 1999 to 2005
 - 74% deterioration from 2005 to 2009
 - 41% improvement from 2009 through 2014
- Recent industry ratios have been unprecedentedly stable, with 2017 being the fourth consecutive year of a combined ratio of 90% or less



More Info



Chart 46: Private Insurer Reported Combined Ratios



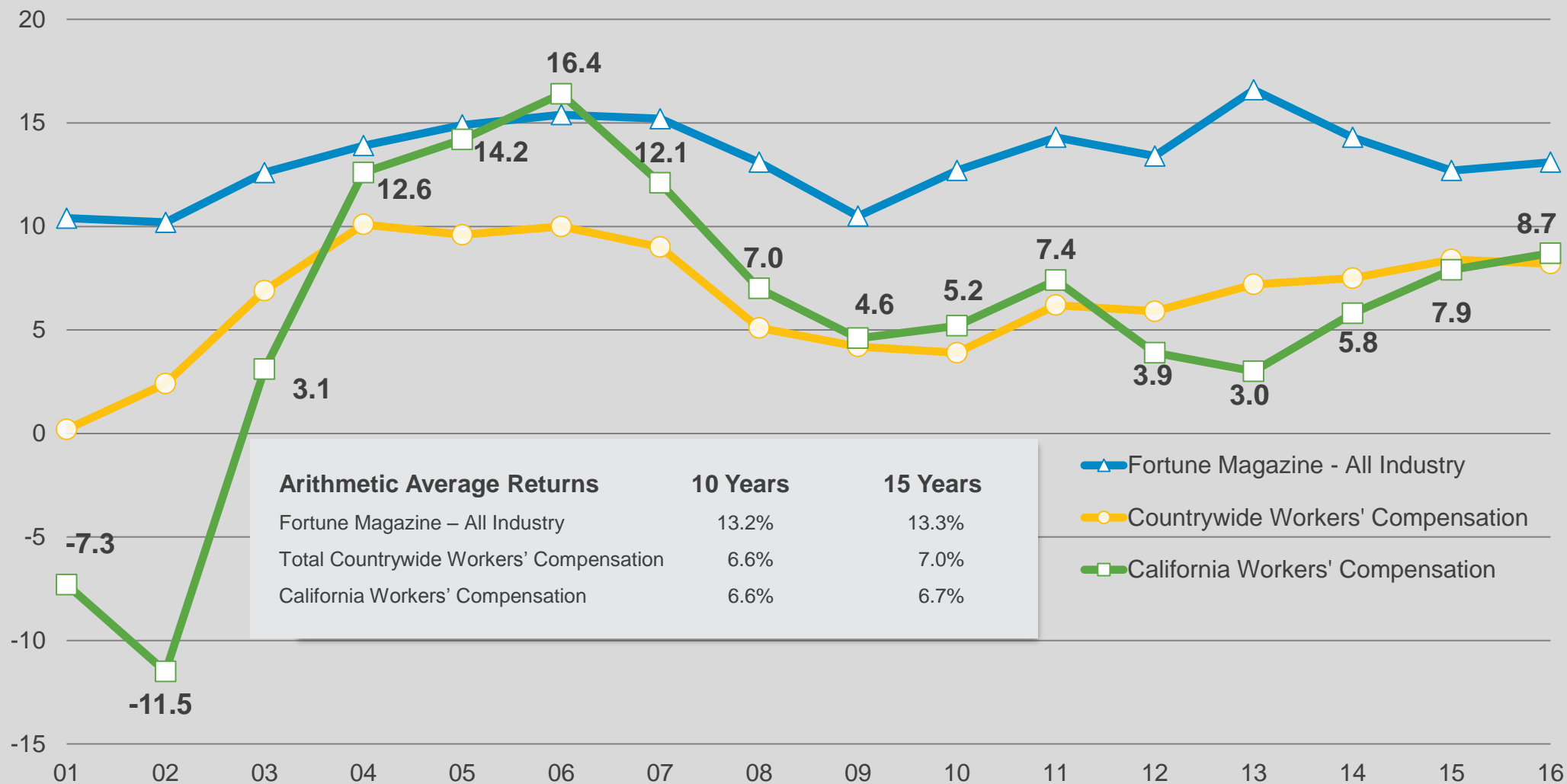
Insights and Recent Trends

- California private insurer combined loss and expense ratios have decreased steadily since 2011
- In 2016 and 2017, California private insurer combined ratios were below the countrywide ratios



More Info →

Chart 47: 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 →

Report Summary: 2018 State of the System

▪ Premium Levels Declining

- 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

- Frequency beginning to decrease even in Los Angeles Basin
- Severity growth continues to be moderate
- Sharp reduction in pharmaceutical costs
- Claims are closing faster
- Loss adjustment expenses continuing to grow
- Regional differences still significant

▪ Cumulative Trauma Claims Significantly Impact System

▪ Industry Results Continue to be Favorable

▪ Recent Legislation Driving Pure Premium Rate Decreases

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 several key contributors
- Contributors include: changes in insurer rates, economic expansion as reflected in increasing employer payrolls, and other contributing factors (e.g., change in the average experience modification, more or less premium captured in audits of older policies, and transitions in and out of self-insurance)
- Values sum to the total change in premium (in billions of dollars) for that year

Source Data

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



Chart 3: California Written Premium Share

- California written premium for 2017 as a percentage of total countrywide premium for the same period
- Number of workers in California as a percentage of the total countrywide workforce

Source Data

- WCIRB aggregate financial data calls, NCCI, and Bureau of Labor Statistics data
- Premiums are based on direct written premiums net of deductible credits



Chart 4: 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, which are approved by the California Insurance Commissioner, 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 insurance policy periods

Source Data

- WCIRB aggregate financial data calls and unit statistical data
- Rates for 2018 are based on the first quarter only



More Info



Chart 5: 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 provisions for insurer 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



Chart 6: Rate Comparison by State Based on Oregon Studies

- California average charged insurer rates per \$100 payroll compared to the countrywide median 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
- Data is categorized by rate effective period

Source Data

- Oregon Workers' Compensation Premium Rate Ranking Summary
- 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 7: 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 2015
- Industries are based on WCIRB classifications mapped to the North American Industry Classification System (NAICS)



Chart 8: Distribution of Insured System Costs

- Distribution of total California workers' compensation insured system costs incurred in 2013 and 2017 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 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



More Info



Chart 9: Distribution of Paid Indemnity Benefits

- Distribution of indemnity benefits paid in 2013 and 2017 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



Chart 10: Distribution of Paid Medical Benefits

- Distribution of medical benefits paid in 2013 and 2017 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)



Chart 11: Distribution of 2017 Paid Medical By Category

- Distribution of physician services, inpatient and outpatient services, and pharmaceutical payments made in 2017 by detailed type of service

Source Data

- WCIRB medical transaction data



Chart 12: Distribution of 2017 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 2017
- ALAE are the costs associated with defending workers’ compensation claims when there are disputes and managing the cost of medical treatment (i.e., medical cost containment)
- ULAE are the costs associated with insurer claims staff in administering workers’ compensation claims

Source Data

- WCIRB aggregate financial data calls



More Info



Chart 13: Long-term Reduction in Claim Frequency

- Shows the long-term trend in the frequency of workers' compensation injuries
- Changes in claim frequency can be driven by changes in the mix of industries in California, the mechanization within industries, workplace safety practices, indemnity benefit levels, and the overall state of the California economy

Source Data

- WCIRB unit statistical data
- Based on reported claim counts compared to reported payroll adjusted for wage inflation indexed to 1962



Chart 14: 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 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. 2018 is preliminary based on 3 months.



Chart 15: Change in Indemnity Claim Frequency

- California claim frequency changes 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
- California claim frequency changes for 2004 and 2005 are highly impacted by the reforms enacted during this period

Source Data

- WCIRB unit statistical data. 2017 and 2018 are based on changes in indemnity claim counts from WCIRB aggregate financial data compared to changes in statewide employment. 2018 is based on 3 months. NCCI estimates from the 2018 State of the Line Guide.



Chart 16: 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 remove these differences across regions to show the figures on a comparable basis

Source Data

- WCIRB unit statistical data for policy year 2015 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 [2017 WCIRB Geo Study](#)



More Info



Chart 17: 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 injuries) result from a single accident or specific incident causing injury
- Cumulative 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



Chart 18: Regional Differences in Proportion of Cumulative Trauma Claims

- Heat map of California regions showing their proportion of cumulative trauma claims as a share of total claims
- The data is adjusted to remove differences in the mix of industries and average wage levels by region to show the figures on a comparable basis

Source Data

- WCIRB unit statistical data for policy year 2015 at 1st report level
- Region information obtained by linking WCIRB 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 [2017 WCIRB Geo Study](#)



Chart 19: Indemnity Claims per 1,000 Employees by State

- Comparison of California indemnity claim frequency per 1,000 insured employees to that of other states

Source Data

- 2017 NCCI Annual Statistical Bulletin for policy year 2013 at 1st report level



Chart 20: 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

- 2017 NCCI Annual Statistical Bulletin for policy year 2013 at 1st report level and WCIRB unit statistical data



More Info



Chart 21: 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 permanent disability benefits)

Source Data

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



Chart 22: Change in Average Indemnity Cost per Indemnity Claim

- Changes in average indemnity costs for California by accident year compared to those for the composite of NCCI states

Source Data

- California estimates are based on WCIRB aggregate financial data calls
- NCCI estimates are based on the 2018 State of the Line Guide (2017 estimate is preliminary)



Chart 23: Indemnity Cost per Indemnity Claim by State

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

Source Data

- 2017 NCCI Annual Statistical Bulletin based on policy year 2013 at 1st report level developed to a final or ultimate cost basis



Chart 24: 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, 2018
- 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



More Info



Chart 25: Medical Cost Level Indexed to 2001

- The average medical cost indexed to 2001 for several workers' compensation systems and for California group health premium levels
- Compares medical inflation levels over the last 15+ years in different systems
- Data is categorized by year of injury for the California insured and NCCI state data and by calendar year for California Private Self-Insured and California Group Health Premium data

Source Data

- WCIRB aggregate financial data calls excluding the cost of medical-only claims and including the cost of medical cost containment programs and developed to a final or ultimate cost basis by the WCIRB
- NCCI state estimates are based on the 2018 State of the Line Guide (2017 estimate is preliminary)
- Self-insured cost estimates are from annual summaries published by the California Department of Industrial Relations
- Summary group health cost information is from the California Employer Health Benefits Survey published by the California Healthcare Foundation



Chart 26: Change in Average Medical Cost per Indemnity Claim

- Changes in average medical cost per indemnity claim for California by accident year compared to those for the composite of NCCI states

Source Data

- California estimates are based on WCIRB aggregate financial data calls and include the cost of medical cost containment programs
- Estimates for NCCI States are based on the 2018 State of the Line Guide (2017 estimate is preliminary)



Chart 27: Medical Cost per Indemnity Claim by State

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

Source Data

- 2017 NCCI Annual Statistical Bulletin based on policy year 2013 at 1st report level developed to a final or ultimate cost basis



Chart 28: Change in Medical Service Cost Levels

- Annual 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
- Data is categorized by the year in which the medical service was provided

Source Data

- WCIRB medical transaction data



Chart 29: Change in Pharmaceutical Cost Levels

- Annual 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
- Data is categorized by the year in which the medical service was performed

Source Data

- WCIRB medical transaction data



More Info

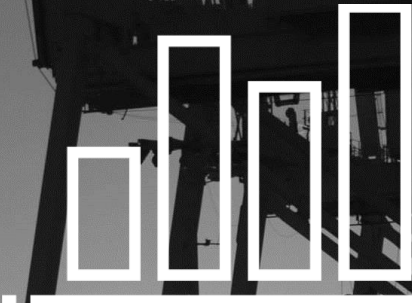


Chart 30: Opioid Costs per 100 Claims

- 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 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 which pay medical costs faster while low numbers represent states which pay medical costs slower
- Two California estimates are shown, one projected as of December 31, 2012 and one projected as of December 31, 2017

Source Data

- 2017 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 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
- Two California estimates are shown, one based on data as of December 31, 2012 and one based on data as of December 31, 2017

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 & Inspection Bureau of Massachusetts, and the Pennsylvania Compensation Rating Bureau



Chart 33: Percent of Indemnity Claims Open at 24 Months

- Comparison of the California percentage of the reported number of indemnity claims that are still open at 24 months (or 2 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
- Two California estimates are shown, one based on data as of December 31, 2012 and one based on data as of December 31, 2017

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 & Inspection Bureau of Massachusetts, and the Pennsylvania Compensation Rating Bureau



More Info



Chart 34: 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 35: Average Allocated Loss Adjustment Expenses per Indemnity Claim

- Average cost of loss adjustment expenses that can be allocated to a particular claim (“allocated loss adjustment expenses” or “ALAE”)
- 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 and independent medical bill reviews, 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
- Average ALAE costs differ regionally in California and are over 20% higher in the Los Angeles Basin area than in the rest of the state

Source Data

- WCIRB aggregate financial data as of March 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
- For more information on recent ALAE cost trends, see the WCIRB’s [Emerging Trends in California Workers’ Compensation ALAE Costs](#)

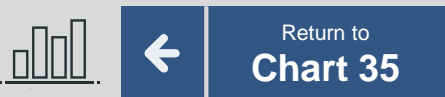


Chart 36: Ratios of Unallocated Loss Adjustment Expenses to Losses

- 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

- 2017 NCCI Annual Statistical Bulletin and the WCIRB’s July 1, 2018 Pure Premium Rate Filing



Chart 37: 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

- 2017 NCCI Annual Statistical Bulletin and the WCIRB’s July 1, 2018 Pure Premium Rate Filing



More Info



Chart 38: 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 2017 NCCI Annual Statistical Bulletin
- Medicare figures are from the Centers for Medicare and Medicaid Services 2016 Medicare Trustees Report
- Private group health insurance figures are estimated from a number of published studies on group health administrative costs



Chart 39: Percent of Represented Permanent Disability Claims

- Percentage of claims involving permanent disability that involve representation by an applicant's attorney for the injured worker by accident year
- 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 40: Number of Liens Filed

- Number of liens filed by year of lien filing
- The majority of liens are filed by medical providers for costs of treatment over the amount reimbursed or for medical treatment

Source Data

- California Division of Workers' Compensation Electronic Adjudication Management System



Chart 41: WCIRB Cost Evaluation of SB 863

- WCIRB estimates of the cost impact of the major provisions of SB 863 in millions of dollars
- Compares the WCIRB's initial prospective estimates made in October of 2012 to its November 2016 retrospective estimates

Source Data

- [Senate Bill No. 863 WCIRB Cost Monitoring Report – 2016 Retrospective Evaluation](#)
- The WCIRB continues to monitor the impact of SB 863 and other recent reforms through its [Actuarial Committee](#)
- Dollar estimates are based on the total workers' compensation system including the self-insured market



More Info



**Chart 42: Share of Total Medical Payments by Indicted/
Suspended Providers**

- Shows the proportion of total payments made for medical liens, pharmaceuticals, and physician services that have been paid to medical providers that were later indicted for fraud and/or have been suspended by the Division of Workers' Compensation

Source Data

- WCIRB medical transaction data
- Data includes payments made to approximately 230 providers or associated facilities that have been indicted for fraud or suspended based on information published by the Division of Workers' Compensation as of March 2018.



Chart 43: Recent Lien Filings by Month

- Shows the total number of liens filed in the system by calendar year and month based on the date the lien was filed
- SB 863 included a statute of limitations on lien filings which resulted in temporary increases to lien filings during January 2015 through June 2016 for which two statutes applied (Chart 40)
- Lien filings were atypically high in November and December of 2016 as a result of the transition to SB 1160 and AB 1244; many of these liens would otherwise have been filed in January or February of 2017
- The requirement of a declaration to be filed with every lien also applied to outstanding liens as of July 2017 and the Division of Workers' Compensation dismissed approximately 292,000 liens without declarations filed

Source Data

- California Division of Workers' Compensation Electronic Adjudication Management System



**Chart 44: Share of Paid Pharmaceuticals Subject to Prospective
Utilization Review**

- Shows the proportion of payments for drugs under the new drug formulary that are listed as exempt, non-exempt, or not listed in the formulary
- Exempt drugs are generally no longer subject to prospective utilization review except in some cases where they are dispensed out of a physician's office after seven days from the date of injury
- Non-exempt drugs are generally still subject to prospective utilization review except in some cases where they are prescribed within seven days of the date of injury or for post-surgery care
- The drug formulary groups shown are based on the Medical Treatment Utilization Schedule drug list published on December 7, 2017 to be effective on January 1, 2018

Source Data

- WCIRB medical transaction data for drug prescriptions filled between July 1, 2016 and June 30, 2017



More Info

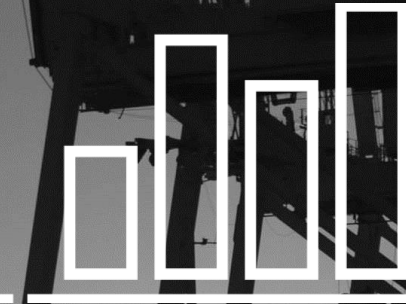


Chart 45: Projected Combined Loss and Expense Ratios

- 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
- Loss and loss adjustment expense amounts shown are based WCIRB projections using the actuarial methodologies reflected in the WCIRB's July 1, 2018 Pure Premium Rate Filing



Chart 46: 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
- 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
- These ratios differ from those shown on Chart 45 in that they 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 2018 State of the Line Guide computed based on Annual Statement data (the 2017 estimate is preliminary)
- Excludes the impact of the State Compensation Insurance Fund and other state funds



Chart 47: 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 2016
- 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



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