Notice

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Overview

- Premiums and Market Shares
- Rates
- Claim Frequency
- Claim Severity
- Losses and Loss Development
- Expenses
- Industry Results
- SB 863

Reported Written Premium

- Written Premium - Gross of Deductible Credits
- Written Premium - Net of Deductible Credits

Calendar Year

Full Year Forecast

Written Premium - Gross of Deductible Credits
Written Premium - Net of Deductible Credits

$ Billions

Reported Written Premium
Reported California Written Premium as Percentage of Countrywide Premium (Net of Deductibles)

Components of 16% Increase in 2012 Reported Written Premium

Countrywide figures are from NCCI May 8, 2014 State of the Line Presentation (2013 estimate is preliminary).
Components of 19% Increase in 2013 Written Premium

Approximate Effect in Percentage Points

- Change in Average Rate Level: 14%
- Increased Total Wages: 4%
- Shifts in California Industrial Mix: 0%
- Audit Premiums on 2010 through 2012 Policies: 2%
- Other Factors: -1%

Market Concentration Ratios (Based on Reported Written Premium Prior to Deductible Credits)

Top 5 Insurers
- Calendar Year 95: 21%
- Calendar Year 97: 19%
- Calendar Year 99: 48%
- Calendar Year 01: 47%
- Calendar Year 03: 63%
- Calendar Year 05: 60%
- Calendar Year 06: 59%
- Calendar Year 07: 56%
- Calendar Year 08: 56%
- Calendar Year 09: 55%
- Calendar Year 10: 49%
- Calendar Year 11: 47%
- Calendar Year 12: 43%
- Calendar Year 13: 40%

Top 6th to 10th Insurers
- Calendar Year 95: 41%
- Calendar Year 97: 47%
- Calendar Year 99: 60%
- Calendar Year 01: 63%
- Calendar Year 03: 59%
- Calendar Year 05: 56%
- Calendar Year 06: 56%
- Calendar Year 07: 55%
- Calendar Year 08: 49%
- Calendar Year 09: 47%
- Calendar Year 10: 43%
- Calendar Year 11: 40%
- Calendar Year 12: 40%
- Calendar Year 13: 40%

Top 11th to 20th Insurers
- Calendar Year 95: 95%
- Calendar Year 97: 97%
- Calendar Year 99: 99%
- Calendar Year 01: 01%
- Calendar Year 03: 03%
- Calendar Year 05: 05%
- Calendar Year 06: 06%
- Calendar Year 07: 07%
- Calendar Year 08: 08%
- Calendar Year 09: 09%
- Calendar Year 10: 10%
- Calendar Year 11: 11%
- Calendar Year 12: 12%
- Calendar Year 13: 13%

Calendar Year
Market Share by Type of Insurer
(Based on Reported Written Premium Prior to Deductible Credits)

Note: "California Insurers" are defined as private insurers who write at least 80% of their workers’ compensation business in California.
Estimated Average Charged Insurer Rate Per $100 of Payroll

Calendar Year


Rate Effective Period

1/1/00 1/1/01 1/1/02 1/1/03 1/1/04 1/1/05 1/1/06 1/1/07 1/1/08 1/1/09 1/1/10 1/1/11 1/1/12 1/1/13 1/1/14 1/1/15

* The information is based on the state of Oregon biennial rate comparison and is based on the state of Oregon classification mix and, as a result, the California average rates shown on this exhibit differ from other measures of the average California rate.
Estimated Changes in Average Rates Over Last 12 Months
(Based on 1/1/14 Filing Exposure Weights)

<table>
<thead>
<tr>
<th>Industry Average Filed PP Rate 1/1/13</th>
<th>Avg. Filed PP Rates Up 4.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Average Filed PP Rate 1/1/14</td>
<td></td>
</tr>
<tr>
<td>Industry Average Filed PP Rate 3/1/14</td>
<td></td>
</tr>
<tr>
<td>Avg. Filed Manual Rates 1/1/13</td>
<td></td>
</tr>
<tr>
<td>Avg. Filed Manual Rates 3/1/14</td>
<td>Avg. Filed Manual Rates Up 7.1%</td>
</tr>
<tr>
<td>Industry Average Manual Rate 1/1/14</td>
<td></td>
</tr>
<tr>
<td>Industry Average Manual Rate 3/1/14</td>
<td></td>
</tr>
<tr>
<td>Avg. Charged Rates Qtr 1 2013</td>
<td>Avg. Charged Rates Up 3.9%</td>
</tr>
<tr>
<td>Industry Average Charged Rate Qtr 1 2013</td>
<td></td>
</tr>
</tbody>
</table>

Overview

- Premiums and Market Shares
- Rates
- **Claim Frequency**
- Claim Severity
- Losses and Loss Development
- Expenses
- Industry Results
- SB 863 Cost Evaluation
As of March 31, 2014

[1] The 2011-2012 estimate is based on partial year unit statistical data. The 2012-2013 and 2013-2014 estimates are based on comparison of claim counts based on WCIRB accident year experience as of March 31, 2014 relative to the estimated change in statewide employment.
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Change in Estimated Indemnity Claim Frequency – California vs. NCCI States

NCCI estimates are based on the May 8, 2014 State of the Line Presentation (NCCI 2013 estimate is preliminary and the 2010 and 2011 estimates have been adjusted to remove the impact of audit premium and other factors).

Estimated Indemnity Claims Per 100,000 Workers (Based on 2013 NCCI Annual Statistical Bulletin for 2009 Policy Year)

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Estimated Permanent Partial Claims Per 100,000 Workers (Based on 2013 NCCI Annual Statistical Bulletin for 2009 Policy Year)

Permanent Partial Disability Claims Per 100,000 Workers – States Using AMA Guides 5th Edition
Based on 2013 NCCI Annual Statistical Bulletin
Estimated Frequency Changes by Geographic Region
USR 1st Report Level

- Bay Area
- Los Angeles
- Other Regions

Accident Year

Preliminary

Estimated California Cumulative Injury Claim Percentage

Estimated Fifth Report Cumulative Injury Claims as a % of Indemnity Claims

Partial Accident Year

Preliminary


Accident Year

Preliminary

2005 2006 2007 2008 2009 2010 2011 2012

Preliminary

%
WCIRB Annual Workers' Compensation Conference

Change in Indemnity Claim Frequency by Incurred Loss Size
USR 1st Report Level

<table>
<thead>
<tr>
<th>Policy Year</th>
<th>Claims Less than $2,500</th>
<th>Claims Between $2,500 and $50,000</th>
<th>Claims Greater than $50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>-10.6</td>
<td>-6.7</td>
<td>5.5</td>
</tr>
<tr>
<td>2007</td>
<td>-10.4</td>
<td>-4.8</td>
<td>9.6</td>
</tr>
<tr>
<td>2008</td>
<td>-13.3</td>
<td>-5.7</td>
<td>5.9</td>
</tr>
<tr>
<td>2009</td>
<td>-4.5</td>
<td>4.4</td>
<td>4.6</td>
</tr>
<tr>
<td>2010</td>
<td>0.1</td>
<td>5.7</td>
<td>-1.1</td>
</tr>
<tr>
<td>2011</td>
<td>0.3</td>
<td>4.3</td>
<td>-15</td>
</tr>
</tbody>
</table>

WCIRB Annual Workers' Compensation Conference

Change in Indemnity Claim Frequency
2010 Compared to 2012/2013

<table>
<thead>
<tr>
<th>Comparison to Countrywide</th>
<th>2010 Frequency Change</th>
<th>2012 Frequency Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Consistent with National Trends</td>
<td>Increase in Cumulative Injuries (not Filed During Recession)</td>
<td>California Differs from National Trends</td>
</tr>
<tr>
<td>Increase in Newly-Hired Workers During Recovery</td>
<td>Broad-Based (e.g., Manufacturing, Entertainment, Other Industries)</td>
<td></td>
</tr>
<tr>
<td>Isolated to Los Angeles Area Regions</td>
<td>Larger Permanent Disability Claims, Many Involving Multiple Body Parts</td>
<td></td>
</tr>
<tr>
<td>Reversal of Dampening Impact During Recovery</td>
<td>Smaller Indemnity Claims that May Otherwise Have Been Medical-Only</td>
<td></td>
</tr>
<tr>
<td>Loss of Construction Employment Significantly Dampening Frequency</td>
<td>Broad-Based Across all California</td>
<td></td>
</tr>
</tbody>
</table>
Overview

- Premiums and Market Shares
- Rates
- Claim Frequency
- **Claim Severity**
- Losses and Loss Development
- Expenses
- Industry Results
- SB Cost 863 Evaluation

Estimated California Ultimate Indemnity Loss Per Indemnity Claim

As of March 31, 2014

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>9.5</td>
</tr>
<tr>
<td>2001</td>
<td>-3.0</td>
</tr>
<tr>
<td>2002</td>
<td>-4.9</td>
</tr>
<tr>
<td>2003</td>
<td>-18.7</td>
</tr>
<tr>
<td>2004</td>
<td>10.8</td>
</tr>
<tr>
<td>2005</td>
<td>8.7</td>
</tr>
<tr>
<td>2006</td>
<td>11.6</td>
</tr>
<tr>
<td>2007</td>
<td>3.8</td>
</tr>
<tr>
<td>2008</td>
<td>-0.2</td>
</tr>
<tr>
<td>2009</td>
<td>-0.3</td>
</tr>
<tr>
<td>2010</td>
<td>0.6</td>
</tr>
<tr>
<td>2011</td>
<td>2.2</td>
</tr>
<tr>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
</tr>
</tbody>
</table>
Estimated Change in Indemnity Claim Severity
California vs. NCCI States

% Change

As of March 31, 2014

NCCI estimates are based on the May 8, 2014 State of the Line Presentation (2013 estimate is preliminary)

Estimated Ultimate California Medical Loss Per Indemnity Claim*
(Including MCCP)

$0

$15,000

$30,000

$45,000

$60,000


% Change

As of March 31, 2014

*Excludes medical-only

Accident Year

00-01 01-02 02-03 03-04 04-05 05-06 06-07 07-08 08-09 09-10 10-11 11-12 12-13

0 5 10 15 20 25 30
Estimated Change in Medical Claim Severity
California vs. NCCI States

<table>
<thead>
<tr>
<th>Year</th>
<th>% Change</th>
<th>California</th>
<th>NCCI States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>20.1</td>
<td>17.6</td>
<td>2.4</td>
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<tr>
<td>2002</td>
<td>13.5</td>
<td>8.8</td>
<td>3.4</td>
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<tr>
<td>2003</td>
<td>11.0</td>
<td>7.7</td>
<td>4.3</td>
</tr>
<tr>
<td>2004</td>
<td>11.0</td>
<td>5.4</td>
<td>3.9</td>
</tr>
<tr>
<td>2005</td>
<td>12.6</td>
<td>7.8</td>
<td>5.6</td>
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<td>2006</td>
<td>12.6</td>
<td>8.6</td>
<td>5.8</td>
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<tr>
<td>2007</td>
<td>11.3</td>
<td>6.1</td>
<td>6.8</td>
</tr>
<tr>
<td>2008</td>
<td>10.3</td>
<td>6.9</td>
<td>6.9</td>
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<td>2009</td>
<td>9.0</td>
<td>3.7</td>
<td>3.7</td>
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<tr>
<td>2010</td>
<td>8.0</td>
<td>3.3</td>
<td>2.6</td>
</tr>
<tr>
<td>2011</td>
<td>8.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>2012</td>
<td>8.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>2013</td>
<td>8.0</td>
<td>1.2</td>
<td>2.6</td>
</tr>
<tr>
<td>2014</td>
<td>8.0</td>
<td>2.6</td>
<td>3.0</td>
</tr>
</tbody>
</table>

NCCI estimates are based on the May 8, 2014 State of the Line Presentation (2013 estimate is preliminary).

Estimated Medical Cost Levels Indexed to 2001

- California Insured Workers’ Compensation Medical on Indemnity Claims @12/31/13 (Including MCCP)
- California Private Self-Insured Workers’ Compensation Average Total Medical Paid Per Claim
- California Group Health Premiums
- NCCI States Workers’ Compensation Medical on Indemnity Claims

Estimated Trend – Medical Paid Per Indemnity Claim @ 9 Mos. from Injury Date Based on CWCI Reported Transaction Data

* Includes cost of durable medical equipment
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Estimated Change in Claim Cost on Indemnity Claims*
(Including MCCP)

% Change in Indemnity Claim Frequency
As of March 31, 2014

% Change in Total Cost of Indemnity Claims

% Change in Total Loss Level

*Excludes medical-only

Comparison of Estimated Medical Payment Patterns

% of Projected Ultimate Medical Losses Paid

* NCCI countrywide pattern is from NCCI 2013 Annual Statistical Bulletin (2-year average) and excludes California and several other states.
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Paid Medical Development from 36 to 96 Months
California vs. Countrywide

* NCCI countrywide pattern is from NCCI Annual Statistical Bulletins (latest year) and excludes California and several other states.

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Comparison of Estimated Indemnity Payment Patterns

* NCCI countrywide pattern is from NCCI 2013 Annual Statistical Bulletin (2-year average) and excludes California and several other states.
Overview

- Premiums and Market Shares
- Rates
- Claim Frequency
- Claim Severity
- Losses and Loss Development
- Expenses
  - Industry Results
  - SB 863 Cost Evaluation

Reported Calendar Year Ratios of LAE to Loss - Private Insurers

<table>
<thead>
<tr>
<th>Year</th>
<th>ALAE</th>
<th>ULAE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>9.6</td>
<td>12.7</td>
</tr>
<tr>
<td>2008</td>
<td>8.2</td>
<td>13.0</td>
</tr>
<tr>
<td>2009</td>
<td>9.0</td>
<td>13.8</td>
</tr>
<tr>
<td>2010</td>
<td>8.2</td>
<td>14.6</td>
</tr>
<tr>
<td>2011</td>
<td>7.3</td>
<td>15.6</td>
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<tr>
<td>2012</td>
<td>6.8</td>
<td>16.8</td>
</tr>
<tr>
<td>2013 Preliminary</td>
<td>7.0</td>
<td>16.4</td>
</tr>
</tbody>
</table>
Calendar Year Reported Loss Adjustment Expense Including MCCP Costs to Loss Ratios California vs. Countrywide

*Countrywide estimate from the NCCI May 8, 2014 State of the Line Presentation was computed based on Annual Statement data. The 2013 estimate is preliminary.

Estimated Ultimate ALAE per Indemnity Claim (Excluding MCCP) for Private Insurers

As of March 31, 2014

% Change

01-02 02-03 03-04 04-05 05-06 06-07 07-08 08-09 09-10 10-11 11-12 12-13
-10 0 10 20

0 10 20

7.4 6.4 5.3 8.9 12.5 3.0 2.3 7.3


0 5,000 10,000 15,000


2014 WCIRB California
Reported Incurred ULAE per Weighted Open Indemnity Claim – 
Private Insurers

As of March 31, 2014

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Preliminary</td>
<td>1,199</td>
<td>1,055</td>
<td>1,228</td>
<td>1,218</td>
<td>942</td>
<td>801</td>
<td>1,116</td>
<td>1,053</td>
<td>1,000</td>
<td>1,075</td>
<td>1,066</td>
<td>1,087</td>
<td>1,199</td>
</tr>
</tbody>
</table>

Rate of Representation by Region

Percentage of Represented Permanent Disability Claims by Region

Source: WCIRB Permanent Disability Claim Survey - Second Survey Level

*Accident Year 2010 at Second Survey Level is preliminary
Reported Ratios of Other Expenses to Premium

Calendar Year

% 0 5 10 15 20 25


Overview

- Premiums and Market Shares
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- Expenses

Industry Results
- SB 863 Cost Evaluation
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Reported California Calendar Year 2013 Insurer Benefit Payment and Expenses ($'s in billions)

- Paid Indemnity Benefits: $3.3 (21.4%)
- Paid Medical Benefits: $5.1 (32.9%)
- Changes in Loss Reserves: $1.9 (12.5%)
- Loss Adjustment Expenses: $2.5 (16.3%)
- Commissions & Other Acquisition Expenses: $1.6 (10.1%)
- General Expenses & Premium Taxes: $1.1 (6.8%)

Comparison of Estimated Change in California Claim Cost to Changes in Insurer Charged Rate Level

<table>
<thead>
<tr>
<th>Year</th>
<th>% Change in Average Insurer Rate Level Reflected in Calendar Year Earned Premium</th>
<th>% Change in Total Indemnity Claim Loss Level by Accident Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>99-00</td>
<td>13.7</td>
<td>11.4</td>
</tr>
<tr>
<td>00-01</td>
<td>16.8</td>
<td>6.9</td>
</tr>
<tr>
<td>01-02</td>
<td>26.5</td>
<td>-1.3</td>
</tr>
<tr>
<td>02-03</td>
<td>24.8</td>
<td>-6.0</td>
</tr>
<tr>
<td>03-04</td>
<td>33.4</td>
<td>-15.4</td>
</tr>
<tr>
<td>04-05</td>
<td>8.3</td>
<td>-25.6</td>
</tr>
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<td>05-06</td>
<td>9.8</td>
<td>4.8</td>
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<td>06-07</td>
<td>22.8</td>
<td>8.7</td>
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<tr>
<td>07-08</td>
<td>24.0</td>
<td>7.6</td>
</tr>
<tr>
<td>08-09</td>
<td>24.3</td>
<td>4.0</td>
</tr>
<tr>
<td>09-10</td>
<td>19.9</td>
<td>9.9</td>
</tr>
<tr>
<td>10-11</td>
<td>-2.9</td>
<td>0.9</td>
</tr>
<tr>
<td>11-12</td>
<td>3.4</td>
<td>1.2</td>
</tr>
<tr>
<td>12-13</td>
<td>15.3</td>
<td>5.2</td>
</tr>
</tbody>
</table>

As of March 31, 2014
WCIRB Annual Workers' Compensation Conference

Accident Year California Projected Combined Loss and Expense Ratios

As of March 31, 2013

- Other Exps.
- LAE
- Losses

133% Point Improvement over 6 Years
87% Point Deterioration over 5 Years

* The cost of medical cost containment programs is reflected in LAE for accident years 2011 and subsequent. It is reflected in losses for all other accident years.

Accident Year Projected Combined Ratios California vs. Countrywide Private Insurers

As of March 31, 2014

Countrywide estimate from NCCI May 8, 2014. State of the Line Presentation was computed based on Annual Statement data. The 2013 estimate is preliminary.
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Calendar Year Insurer Reported Combined Loss and Expense Ratios

Calendar Year (%)

0 30 60 90 120 150 180


California (Private Insurers)
Countrywide (Private Insurers)*

*Countrywide estimate from NCCI May 8, 2014. State of the Line Presentation is computed based on Annual Statement data. The 2013 estimate is preliminary.

Average Return on Net Worth – as Reported by the NAIC

Source: NAIC Report on Profitability in 2013

<table>
<thead>
<tr>
<th>Source</th>
<th>10 Years</th>
<th>15 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fortune Magazine – All Industry</td>
<td>13.6%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Total Countrywide Workers’ Compensation</td>
<td>7.1%</td>
<td>6.2%</td>
</tr>
<tr>
<td>California Workers’ Compensation</td>
<td>8.6%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>
Overview

- Premiums and Market Shares
- Rates
- Claim Frequency
- Claim Severity
- Losses and Loss Development
- Expenses
- Industry Results
- SB 863 Cost Evaluation

SB 863 Summary

- Signed by the Governor on September 18, 2012
- Includes Benefit Changes Effective 1/1/2013 and 1/1/2014
- Series of Structural Reforms to Benefit Delivery System Intended to Reduce Frictional Costs
- Need to Actively Monitor Reform Impacts Based on Emerging Data
### WCIRB Prospective Cost Evaluation of SB 863

**Summary of WCIRB Prospective 2012 Estimates ($ Billions)**

<table>
<thead>
<tr>
<th>SB 863 Provisions</th>
<th>Impact on Statewide Claim Costs</th>
<th>% Impact on Claim Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 &amp; 2014 PD Benefit Level Changes</td>
<td>+$1.2</td>
<td>+6.4%</td>
</tr>
<tr>
<td>Elimination of PD Add-ons</td>
<td>($0.2)</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Three-Tiered Weekly PD Benefits</td>
<td>($0.1)</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Liens</td>
<td>($0.5)</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Surgical Implant Hardware</td>
<td>($0.1)</td>
<td>-0.6%</td>
</tr>
<tr>
<td>ASC Fees</td>
<td>($0.1)</td>
<td>-0.4%</td>
</tr>
<tr>
<td>IMR (Impact on Frictional Costs &amp; TD Duration)</td>
<td>($0.4)</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Ogilvie Decision</td>
<td>($0.2)</td>
<td>-1.1%</td>
</tr>
<tr>
<td>MPN Strengthening</td>
<td>($0.2)</td>
<td>-1.0%</td>
</tr>
<tr>
<td><strong>Total Estimated Impact of SB 863 (pre RBRVS)</strong></td>
<td>($0.5)</td>
<td>-2.7%</td>
</tr>
<tr>
<td>RBRVS Fee Schedule</td>
<td>+$0.3</td>
<td>+1.8%</td>
</tr>
<tr>
<td><strong>Total Estimated Impact of SB 863 (post RBRVS)</strong></td>
<td>($0.2)</td>
<td>-0.9%</td>
</tr>
</tbody>
</table>

---

### California Workers’ Compensation Claims and Wage Level Index

**Projected**

- Average Wage Level Index (Based on UCLA Data)
- Estimated Indemnity Claim Cost Level Index Pre-SB 863
- Projected on Current WCIRB Cost Estimate of SB 863

- Policy Year 2014
- Accident Year 2005 to 2014

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Total Impact of SB 863 Lien Provisions Estimated to Decrease Costs by 2.5% ($480M)

Assumed 260,000 Liens (41%) Eliminated by Filing Fee and Statute of Limitations

Relatively Smaller Liens Impacted

Significant Savings in Administrative Costs

Liens Filed Counts by Region

Source: EAMS Liens Data

Los Angeles Area
Rest of State
Spinal Surgical Implant – WCIRB Estimated Cost Impact

- Elimination of Separate Reimbursements for Implantable Hardware Estimated to Decrease Costs by 0.6% ($110M)
- Estimate Based on CWCI Study of Multiple Reimbursements
  - Duplicate payments added $20,000 to each procedure
- Post-Reform Emerging Costs – Calculated Billed and Paid Amounts for the 7 DRGs Pre- and Post-1/1/13

<table>
<thead>
<tr>
<th></th>
<th># Episodes</th>
<th>% DRGS 454 &amp; 455</th>
<th>Total $ Paid</th>
<th>Avg. $ Paid Per Episode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-1/1/13</td>
<td>214</td>
<td>84%</td>
<td>$5,870,125</td>
<td>$27,430</td>
</tr>
<tr>
<td>Post-1/1/13</td>
<td>52</td>
<td>85%</td>
<td>$628,504</td>
<td>$12,087</td>
</tr>
<tr>
<td>Change</td>
<td></td>
<td></td>
<td></td>
<td>-56%</td>
</tr>
</tbody>
</table>

Ambulatory Surgical Center – WCIRB Estimate

- Changes to ASC Fees Estimated to Decrease Costs by 0.4% ($80M)
- Some ASC Fees Reimbursed Under Contract Levels Below Current Fee Schedule
- Assumed Reduction in ASC Facility Fees of 25%
  - Approximate average of savings if all fees are impacted (33%) and if no contract fees are impacted (20%)
- Post-Reform Emerging Costs – Examined ASC Episodes of Care for the 30 Most Highly Reimbursed Procedure Codes (67% of All ASC Costs)

<table>
<thead>
<tr>
<th>ASC Surgeries Top 30 Paid Codes</th>
<th>% of all ASC $ in Top 30 Codes</th>
<th># of Episodes</th>
<th>$ Paid</th>
<th>$ Paid per Episode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services Pre-1/1/13</td>
<td>65%</td>
<td>11,435</td>
<td>$37,628,741</td>
<td>$3,291</td>
</tr>
<tr>
<td>Services Post-1/1/13</td>
<td>68%</td>
<td>5,497</td>
<td>$13,430,373</td>
<td>$2,443</td>
</tr>
<tr>
<td>Change</td>
<td></td>
<td></td>
<td></td>
<td>-26%</td>
</tr>
</tbody>
</table>
Independent Medical Review – WCIRB Prospective Estimate

- Total Quantifiable Impact of SB 863 IMR Provisions Estimated to Decrease Costs by 2.1% ($390M)
- IMR Frictional Cost Saving Assumptions
  - 30,000 medical liens for UR disputes replaced by IMR reports
  - 21,000 QMEs for medical treatment replaced by IMR reports
  - 9,000 expedited hearings eliminated
- Reduction in Delays for Medical Treatment Assumed to Reduce TD Duration by 4%
- Reduced Litigation Related to Medical Treatment Assumed to Reduce ALAE Costs by 2.4%
- No Estimate for IMR Impact on Medical Treatment Levels Provided

Number of IMR Requests by Month

Source: DWC
### WCIRB Cost Evaluation of SB 863
#### Summary of Estimates ($'s in billions)

<table>
<thead>
<tr>
<th>SB 863 Provisions</th>
<th>WCIRB Prospective Cost Estimates (Impact on Statewide Claim Costs)</th>
<th>Preliminary Monitoring Results (Impact on Savings Estimates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 &amp; 2014 PD Benefit Level Changes</td>
<td>+$1.2</td>
<td>TBD</td>
</tr>
<tr>
<td>Elimination of PD Add-ons</td>
<td>($0.2)</td>
<td>TBD</td>
</tr>
<tr>
<td>Three-Tiered Weekly PD Benefits</td>
<td>($0.1)</td>
<td>TBD</td>
</tr>
<tr>
<td>Liens</td>
<td>($0.5)</td>
<td></td>
</tr>
<tr>
<td>Surgical Implant Hardware</td>
<td>($0.1)</td>
<td></td>
</tr>
<tr>
<td>ASC Fees</td>
<td>($0.1)</td>
<td></td>
</tr>
<tr>
<td>IMR (Impact on Frictional Costs &amp; TD Duration)</td>
<td>($0.4)</td>
<td></td>
</tr>
<tr>
<td>Ogilvie Decision</td>
<td>($0.2)</td>
<td>TBD</td>
</tr>
<tr>
<td>MPN Strengthening</td>
<td>($0.2)</td>
<td>TBD</td>
</tr>
<tr>
<td>IMR (Impact on Medical Treatment)</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>IBR</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>RBRVS Fee Schedule</td>
<td>+$0.3</td>
<td>TBD</td>
</tr>
</tbody>
</table>

### Summary of Key Findings

- **Premiums and Market Shares**
  - Continued double digit growth in premium

- **Rates**
  - Rates sharply increasing through 2013
  - Some signs of moderation in 2014
  - California among the highest charged rates in the country

- **Claim Frequency**
  - Indemnity claim frequency continues to increase
  - Recent frequency change differs from countrywide average change
  - Focused in Los Angeles region

- **Claim Severity**
  - Claim severity trends moderating
  - Pharmaceutical costs continuing to increase
Summary of Key Findings

- Losses and Loss Development
  - Medical losses continue to develop very slowly
- Industry Results
  - Continued improvement in combined ratios
  - Combined ratios remain above countrywide average
- SB 863 Cost Evaluation
  - Liens, ASC charges and spinal surgery costs emerging at or better than expectations
  - Medical severities emerging favorably
  - Concerns over claim frequency, IMR and frictional cost reductions