

# **WCIRB Summary of June 30, 2010 Insurer Experience**

**Released: October 15, 2010**

© 2010 Workers' Compensation Insurance Rating Bureau of California. All rights reserved.

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

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

Workers' Compensation Insurance Rating Bureau of California, WCIRB, WCIRB California, WCIRB Online, X-Mod Direct and the WCIRB California logo (WCIRB Marks) are registered trademarks or service marks of the WCIRB. WCIRB Marks may not be displayed or used in any manner without the WCIRB's prior written permission. Any permitted copying of this work must maintain any and all trademarks and/or service marks on all copies.

To seek permission to use any of the WCIRB Marks or any copyrighted material, please contact the Workers' Compensation Insurance Rating Bureau of California, 525 Market Street, Suite 800, San Francisco, California 94105-2767.

---

### **WCIRB Summary of June 30, 2010 Insurer Experience**

The WCIRB has completed its review of June 30, 2010 experience submitted by insurers. This summary is based on data reported to the WCIRB by insurers who wrote almost 100% of the statewide market. In reviewing this information, the following should be noted:

1. This summary reflects a compilation of individual insurer reports of accident year and calendar year premium and loss experience. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with data submitted by other insurers, the source information underlying each insurer's data submission is not verified by the WCIRB.
2. Some of the figures and ratios shown are based on WCIRB actuarial projections of future claim payments using information reported by insurers through June 30, 2010. Although the actuarial methodologies and assumptions upon which these projections are predicated are periodically analyzed and tested by the WCIRB's Actuarial Committee, the actual costs that will ultimately emerge could differ from the amounts projected. Many of these projections will be updated regularly by the WCIRB as more mature information on these claims is reported in subsequent quarters.
3. The amounts and ratios shown represent statewide totals based on the amounts reported by all insurers writing workers' compensation insurance in California. The results for any individual insurer can differ significantly from the statewide average. An individual insurer's results are related to its underwriting book of business, claims and reserving practices, as well as the nature of its reinsurance arrangements.
4. Insurer-reported losses, which in Exhibit 9 are compared to the WCIRB's estimates of ultimate losses, include estimates of insurers' incurred but not reported (IBNR) losses by line of business, state and accident year, and are on a basis that does not reflect anticipated reinsurance recoveries or employer-paid deductibles. As a result, the amounts shown in Exhibits 9.1 and 9.2 do not necessarily equate to specific estimates of the adequacy of insurers' reserves for unpaid losses.
5. Some of the provisions of Assembly Bill No. 227 (AB 227), Senate Bill No. 228 (SB 228) and Senate Bill No. 899 (SB 899) affect the cost of claims incurred prior to the effective date of the legislation. Projections of ultimate losses and ultimate loss severities have been adjusted to reflect the impact of AB 227, SB 228 and SB 899 on unpaid losses based on methodologies developed by the WCIRB's Actuarial Committee.
6. On February 3, 2009, the WCAB issued two en banc decisions, Ogilvie v. City and County of San Francisco<sup>1</sup> and Almaraz v. Environmental Recovery Services/Guzman v. Milpitas Unified School District<sup>2</sup> that have the potential to significantly increase costs – including those on existing claims. The cost impact of these decisions has, to a large extent, been reflected in the experience that has emerged through June 30, 2010 which underlies the WCIRB's projections included in this analysis. The cost projections shown in this report contain no additional adjustment for the impact of the WCAB decisions. If the ultimate impact of the WCAB decisions

---

<sup>1</sup> Ogilvie v. City and County of San Francisco (2009) 74 Cal. Comp. Cases 248 (WCAB en banc).

<sup>2</sup> Almaraz v. Environmental Recovery Services (2009) 74 Cal. Comp. Cases 201 (WCAB en banc) (consolidated with Guzman v. Milpitas Unified School District).

is significantly greater than that reflected in the data emerging through June 30, 2010, projected loss amounts may be understated.

Exhibits 1 through 9.2, which summarize the WCIRB's review of reported June 30, 2010 insurer experience, reflect the following information:

- California written premium (gross of deductible credits) for the first six months of 2010 is approximately \$5.2 billion (Exhibit 1). This is approximately 16% above the written premium reported for the first six months of 2009.
- The average statewide insurer rate (final insurer rates reflecting all rating plan adjustments except deductible credits, retrospective rating plan adjustments, and policyholder dividends) per \$100 of payroll for policies written in the first six months of 2010 is \$2.44 (Exhibit 2). This is approximately 3% above the average rate charged for the 2009, but still approximately 62% less than the average rate charged in the second six months of 2003.
- The WCIRB projects total ultimate accident year losses for 2009 of \$7.4 billion. This is 5% below the 2008 level and approximately 40% below the pre-reform high in 2002 (Exhibit 3).
- The WCIRB projects an ultimate accident year loss ratio of 81% for accident year 2009. This is approximately nine percentage points higher than the estimated ultimate accident year 2008 loss ratio and the highest loss ratio since accident year 2002 (Exhibit 4).
- The ultimate accident year 2009 combined loss and expense ratio is estimated at 125%. This combined ratio is sixteen percentage points higher than the accident year 2008 combined ratio and seventy-one points higher than the accident year 2005 ratio (Exhibit 5). The 2009 accident year combined ratio is the highest since 2001.
- The 2010 calendar year loss ratio at six months is 71%. This ratio is approximately the same as the calendar year ratio for 2009 at six months (Exhibit 6.1). The calendar year combined ratio for 2009 is 116%, which is fifteen percentage points higher than the 2008 calendar year combined ratio (Exhibit 6.2).
- The WCIRB estimates that indemnity claim frequency<sup>3</sup> for the first six months of 2010 is generally comparable to that for the first six months of 2009. The indemnity claim frequency for accident year 2010 is estimated at approximately one-third of its all-time high in 1991 (Exhibit 7).<sup>4</sup>
- The WCIRB estimates that the average cost (or "severity") of a 2009 indemnity claim will be approximately \$59,000. This represents an increase of 3% over 2008 following three

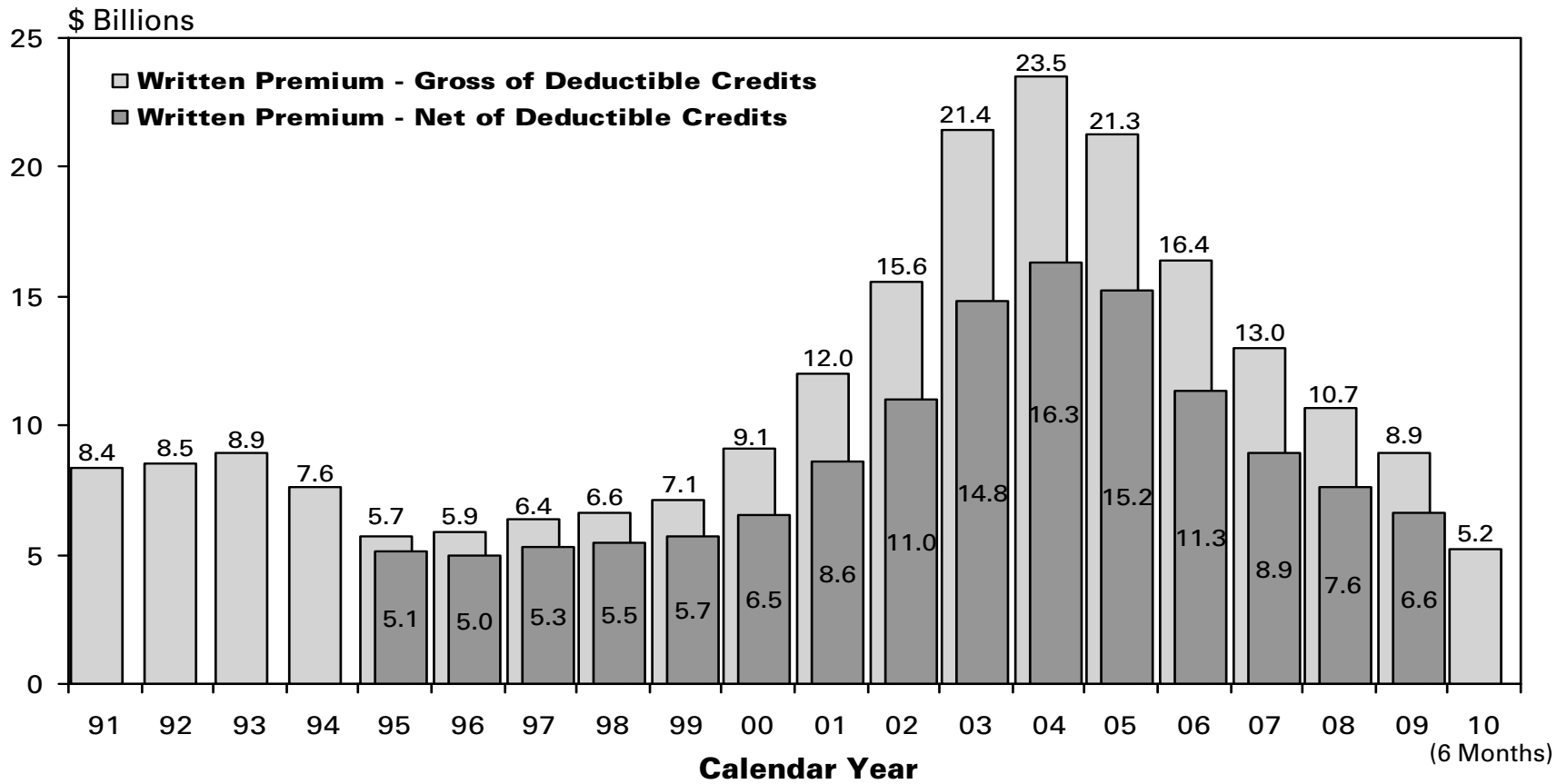
<sup>3</sup> The indemnity claim frequency changes shown in Exhibit 7 generally reflect a comparison of changes in indemnity claim counts to changes in estimated exposure as measured by "on-level" premium. As discussed in the WCIRB's January 1, 2011 pure premium rate filing, due to recession-related factors such as shifting industrial mix and high levels of return premium in 2009 related to older policy years, the estimated 2009 exposure change — and thus the estimated 2009 frequency change based on "on-level" premium — can vary significantly from that based on other exposure methods. The 2009 frequency change estimate of -5.3% reflected in the policy year 2011 projection in the WCIRB's amended January 1, 2011 pure premium rate filing was based on a comparison of a partial year of reported unit statistical indemnity claims to reported audited payroll adjusted for changes in industrial mix. (Unit statistical-based estimates of frequency change are used in the WCIRB's standard econometric claim frequency model.)

<sup>4</sup> The indicated annual changes in frequency from 1999 to 2001 appear to be statistical anomalies and not accurate reflections of the annual changes.

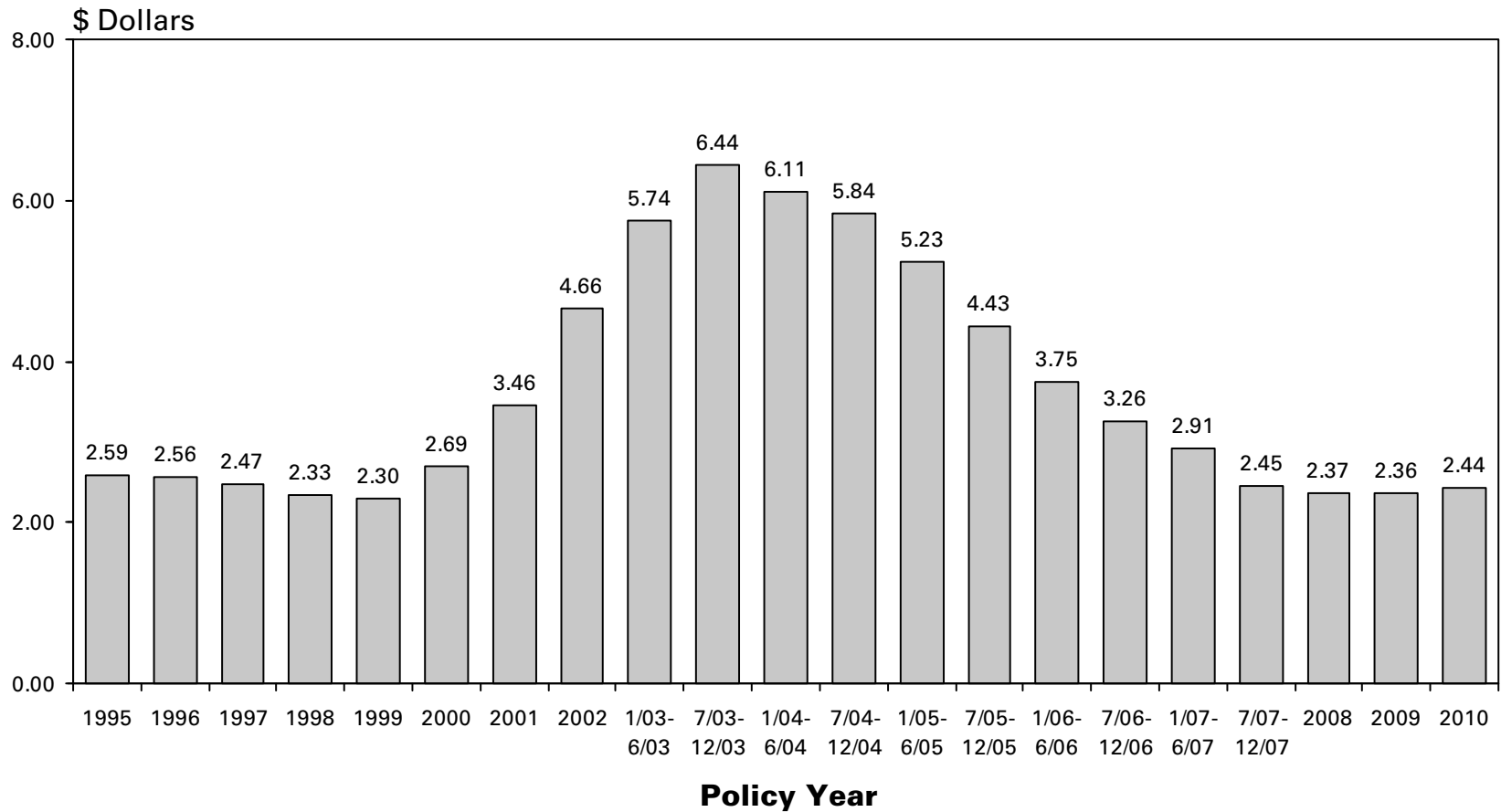
years of severity increasing at an average annual rate of approximately 14% per year (Exhibit 8.1). Both indemnity and medical average costs per claim show increases in 2009 that are significantly less than those of the prior three years. (Exhibits 8.2 and 8.3).

- The WCIRB currently estimates that total statewide ultimate losses on all injuries that occurred on or before December 31, 2009 are approximately \$4.9 billion less than the amounts reported by insurers (Exhibit 9.1). In particular, the WCIRB's current estimates of ultimate losses on accident years 2002 through 2006 are significantly less than those reported by insurers (Exhibit 9.2).

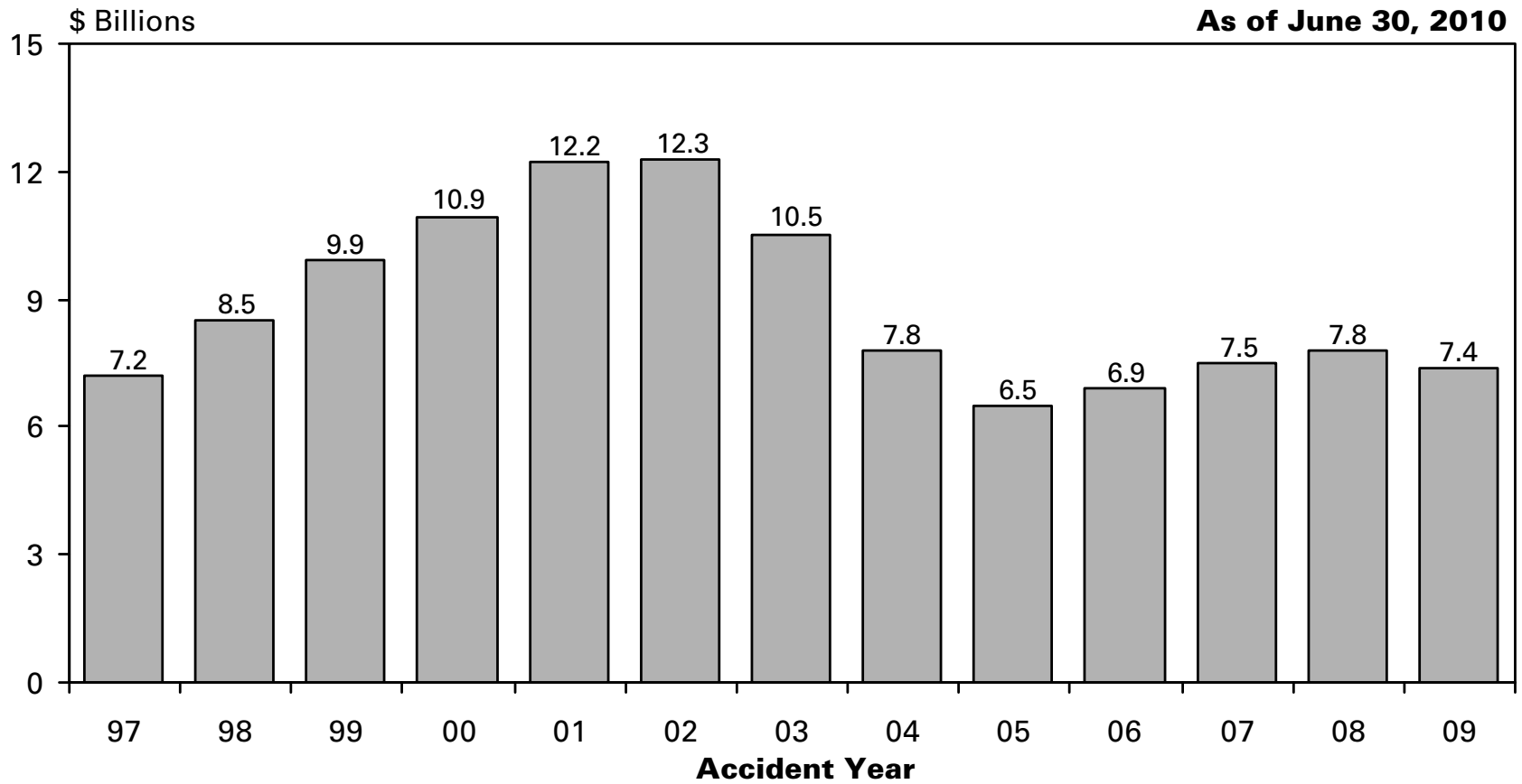
# California Workers' Compensation Written Premium



# California Workers' Compensation Average Insurer Rate per \$100 of Payroll

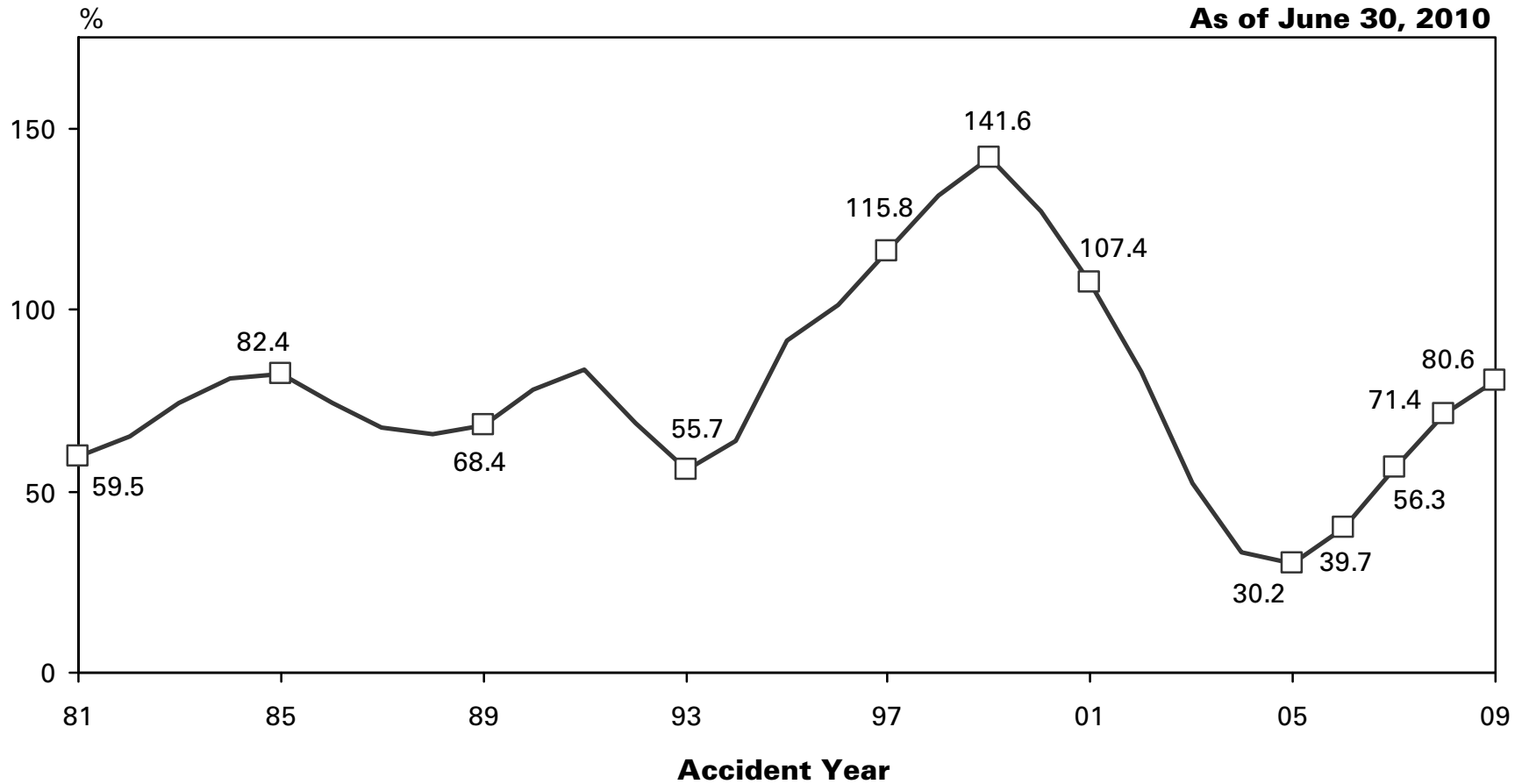


# California Workers' Compensation Estimated Ultimate Losses by Accident Year

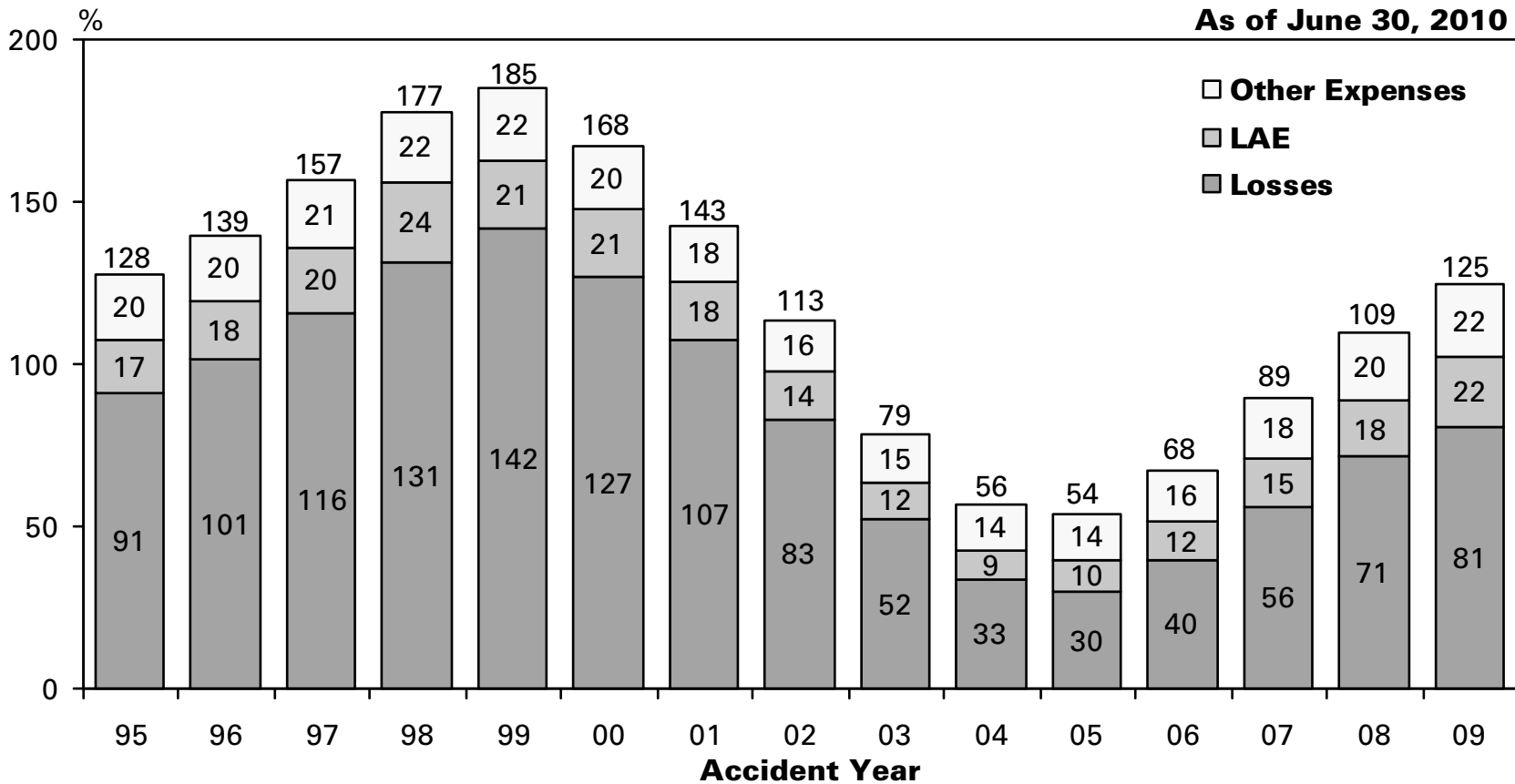


# California Workers' Compensation Ultimate Accident Year Loss Ratios

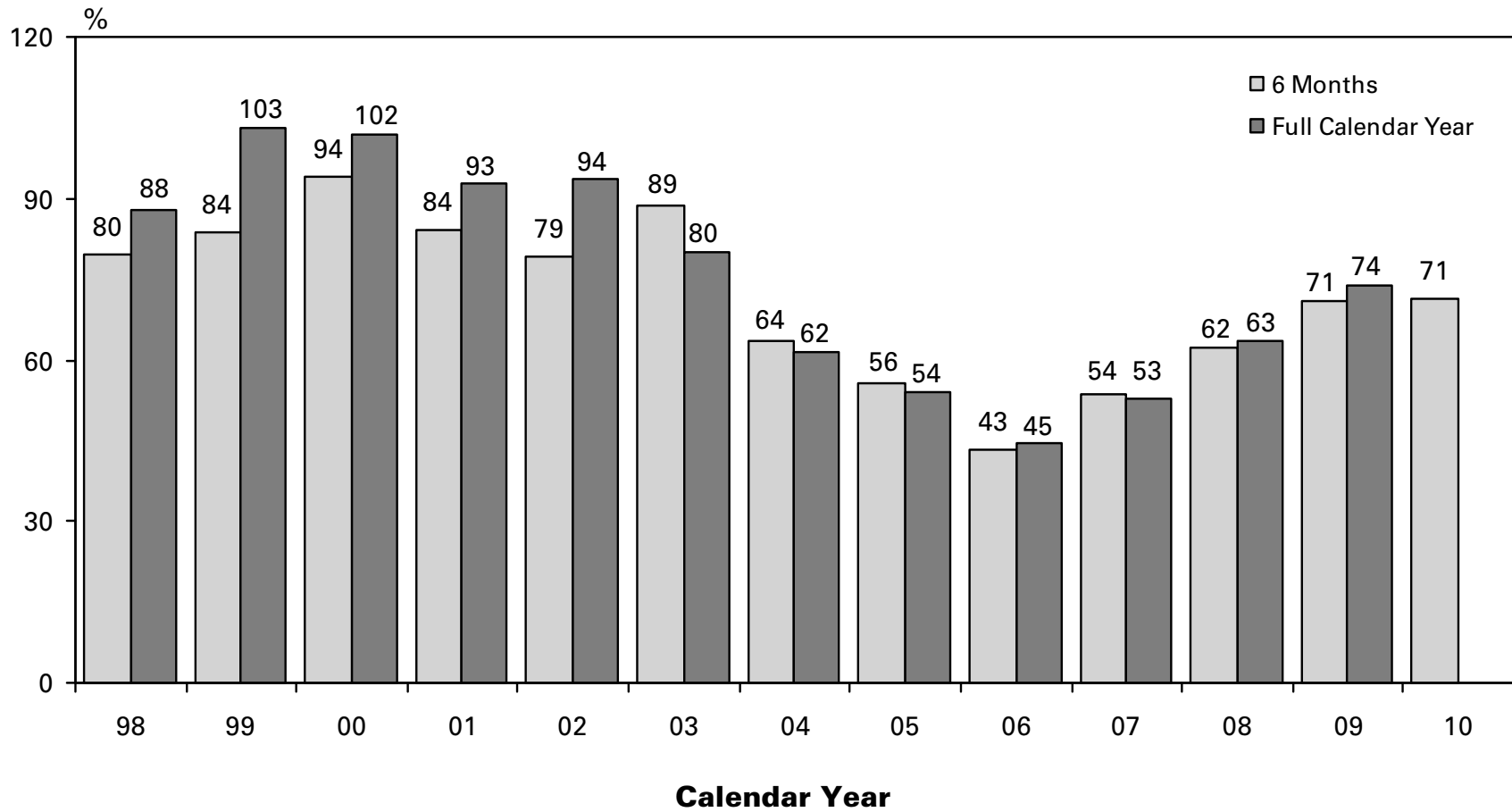
As of June 30, 2010



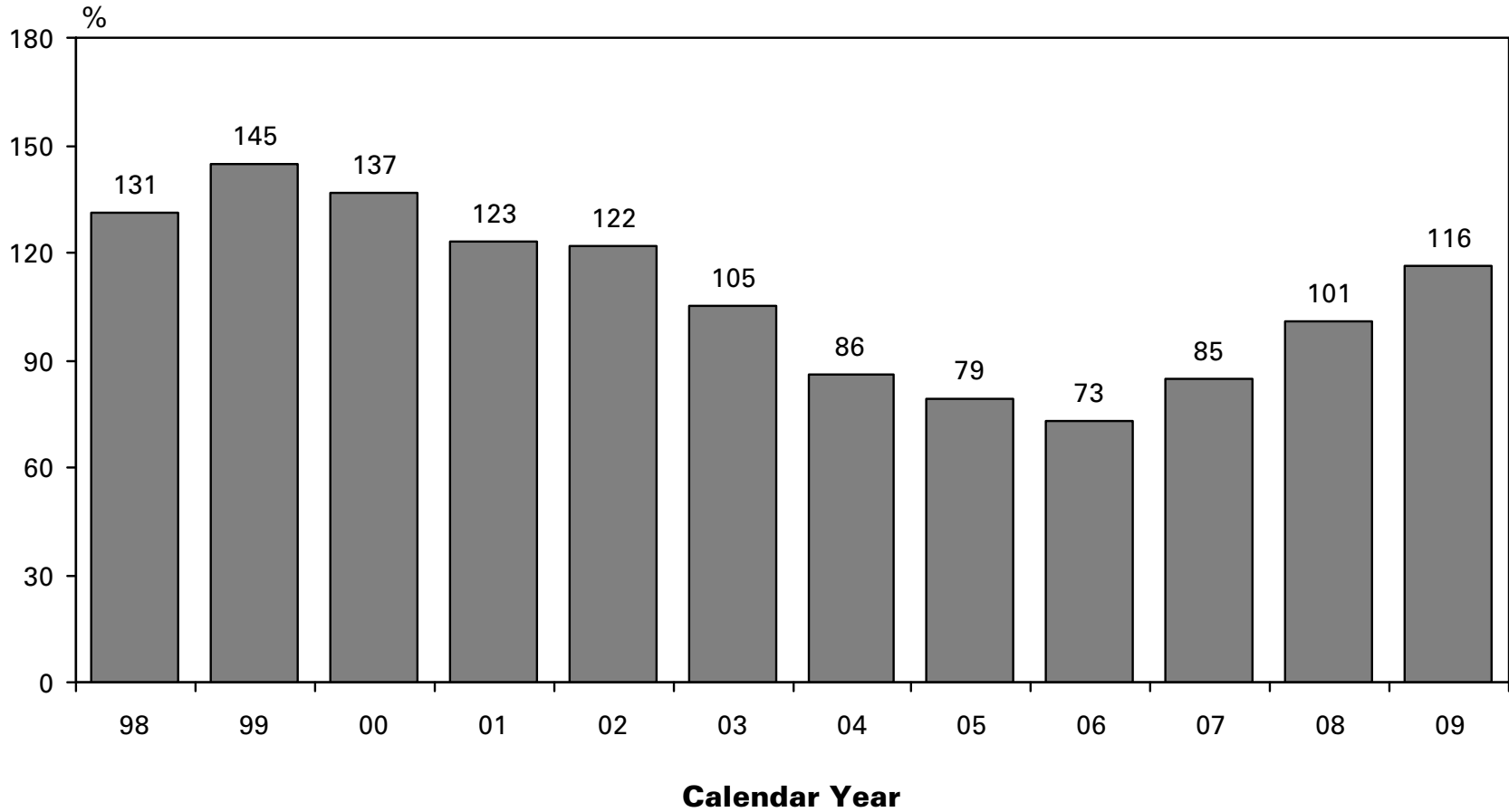
# California Workers' Compensation Accident Year Combined Loss and Expense Ratios



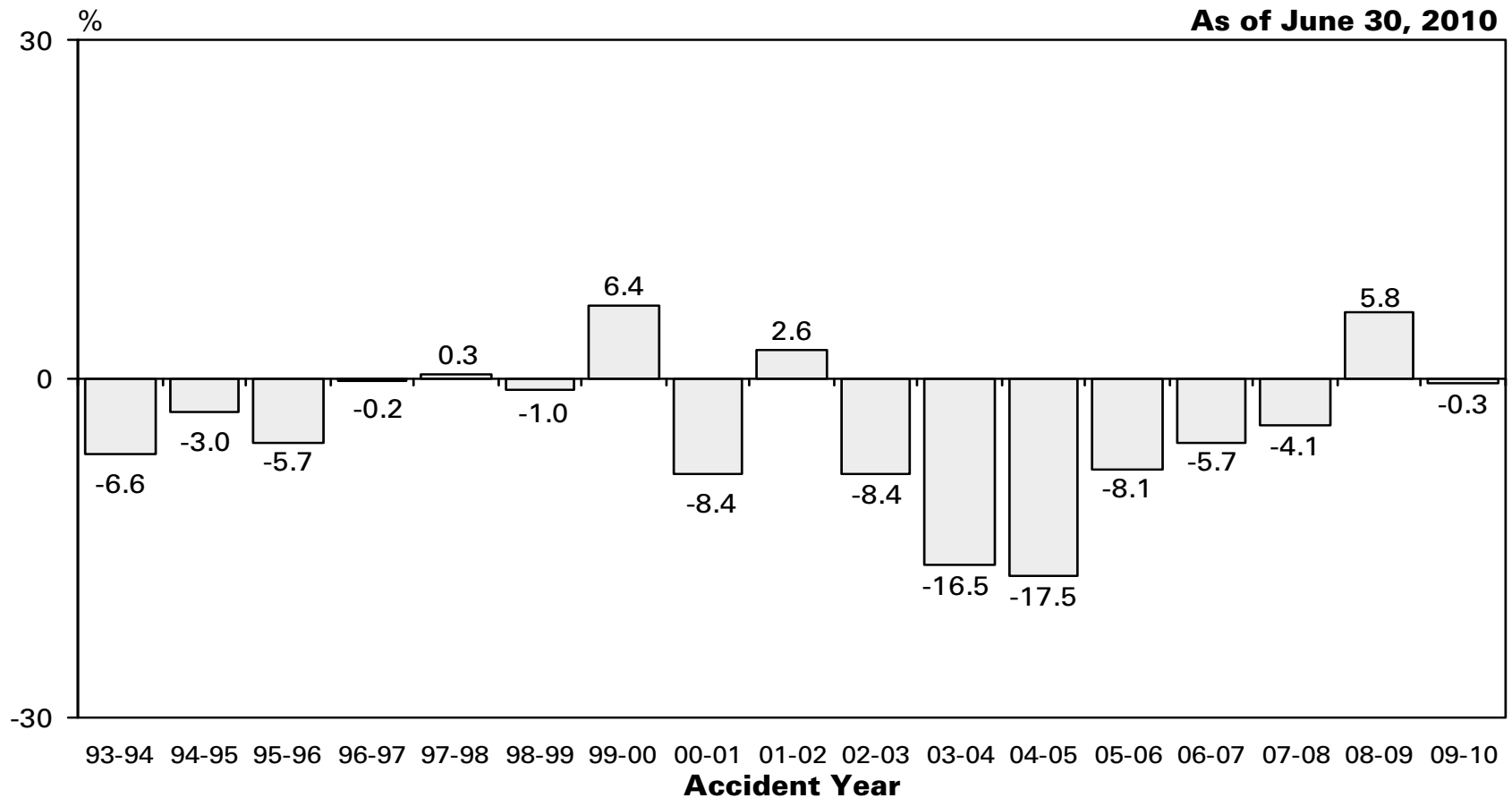
# California Workers' Compensation Calendar Period Loss Ratios



# California Workers' Compensation Calendar Year Combined Loss and Expense Ratios

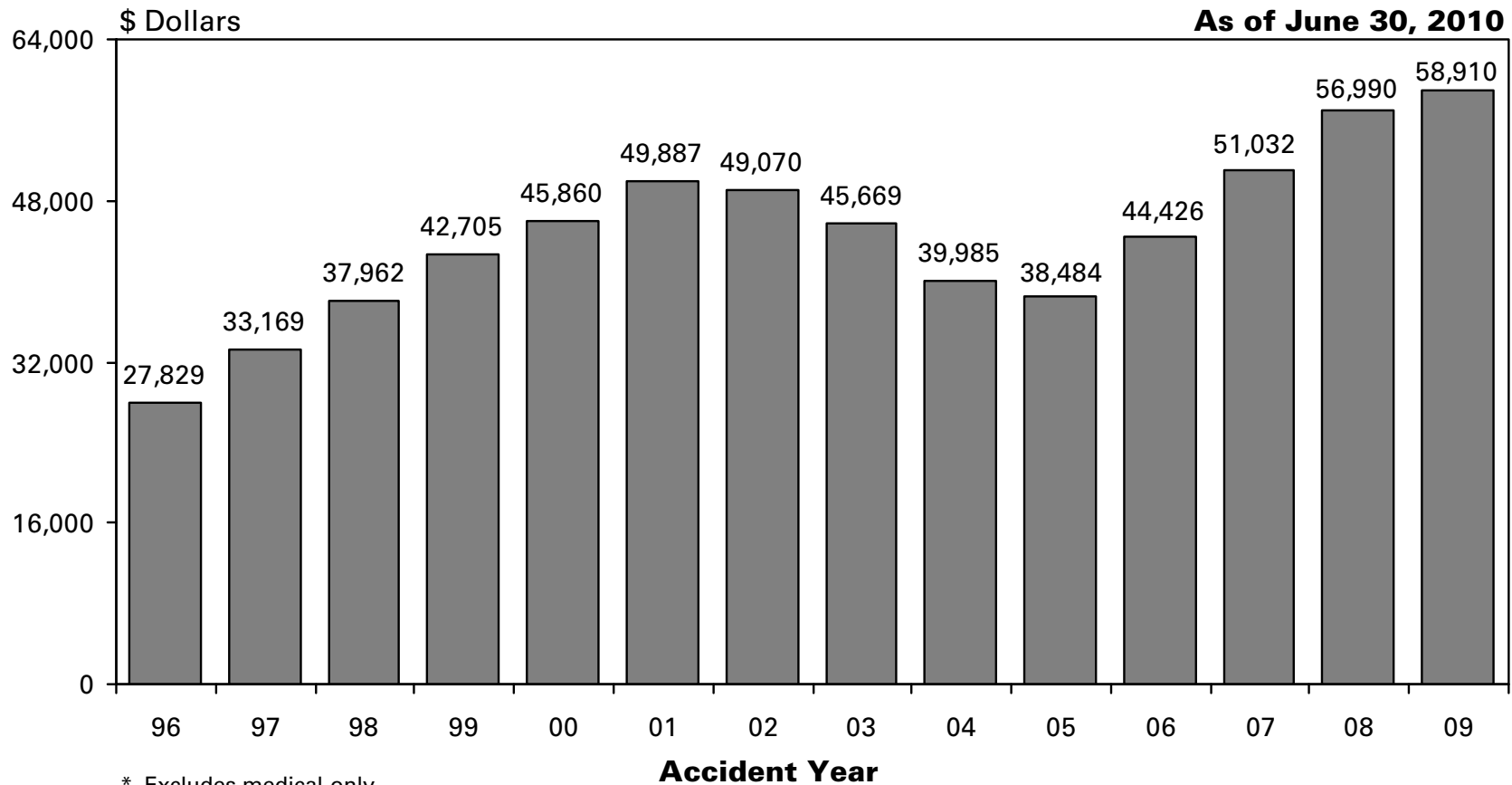


# California Workers' Compensation Estimated Percentage Change in Indemnity Claim Frequency by Accident Year

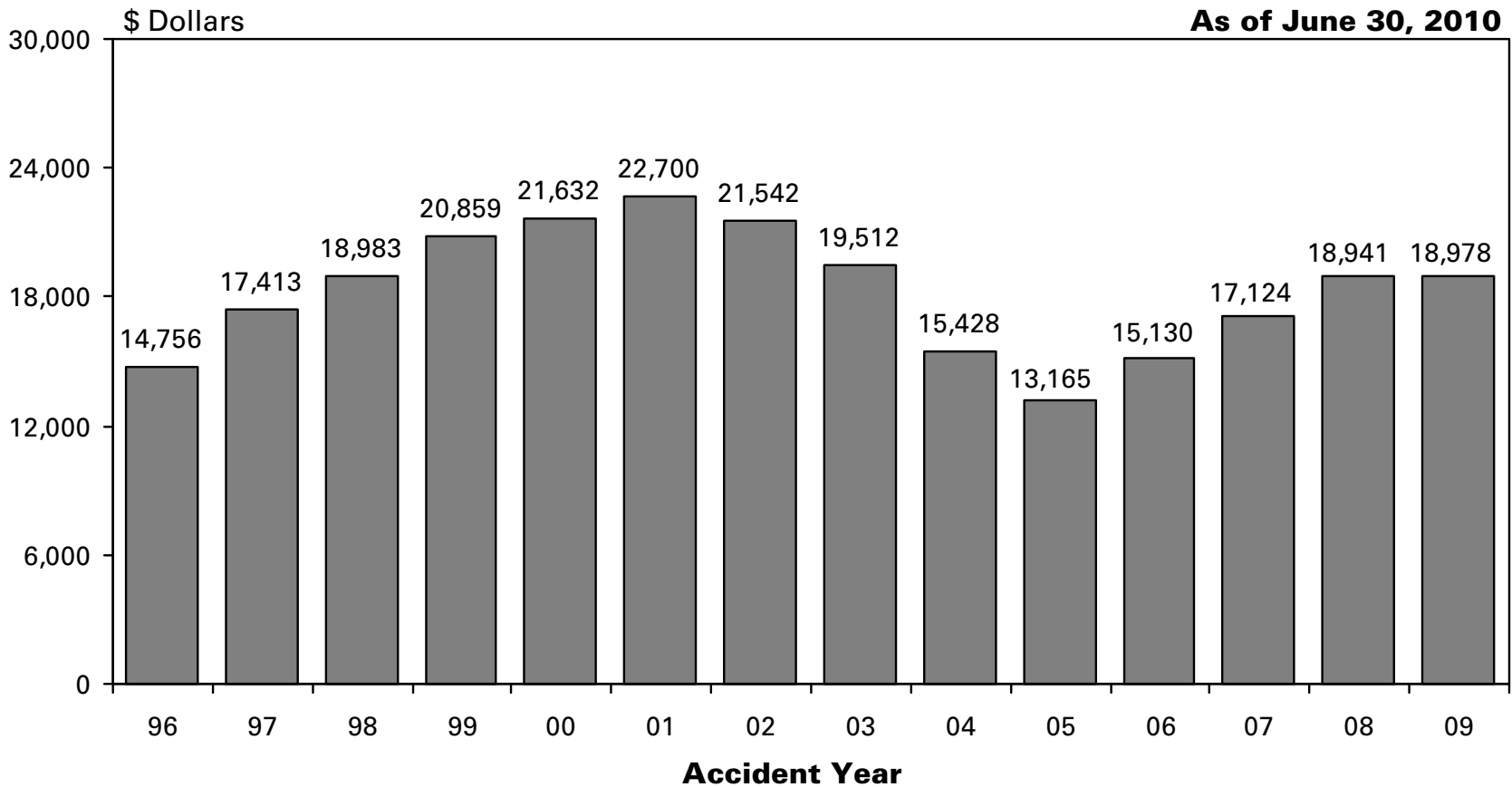


Note: Estimates of frequency change from 2008 to 2009 vary widely due to the differing effects of the recession on various measures of exposure. (See footnote 3 on page 2.)

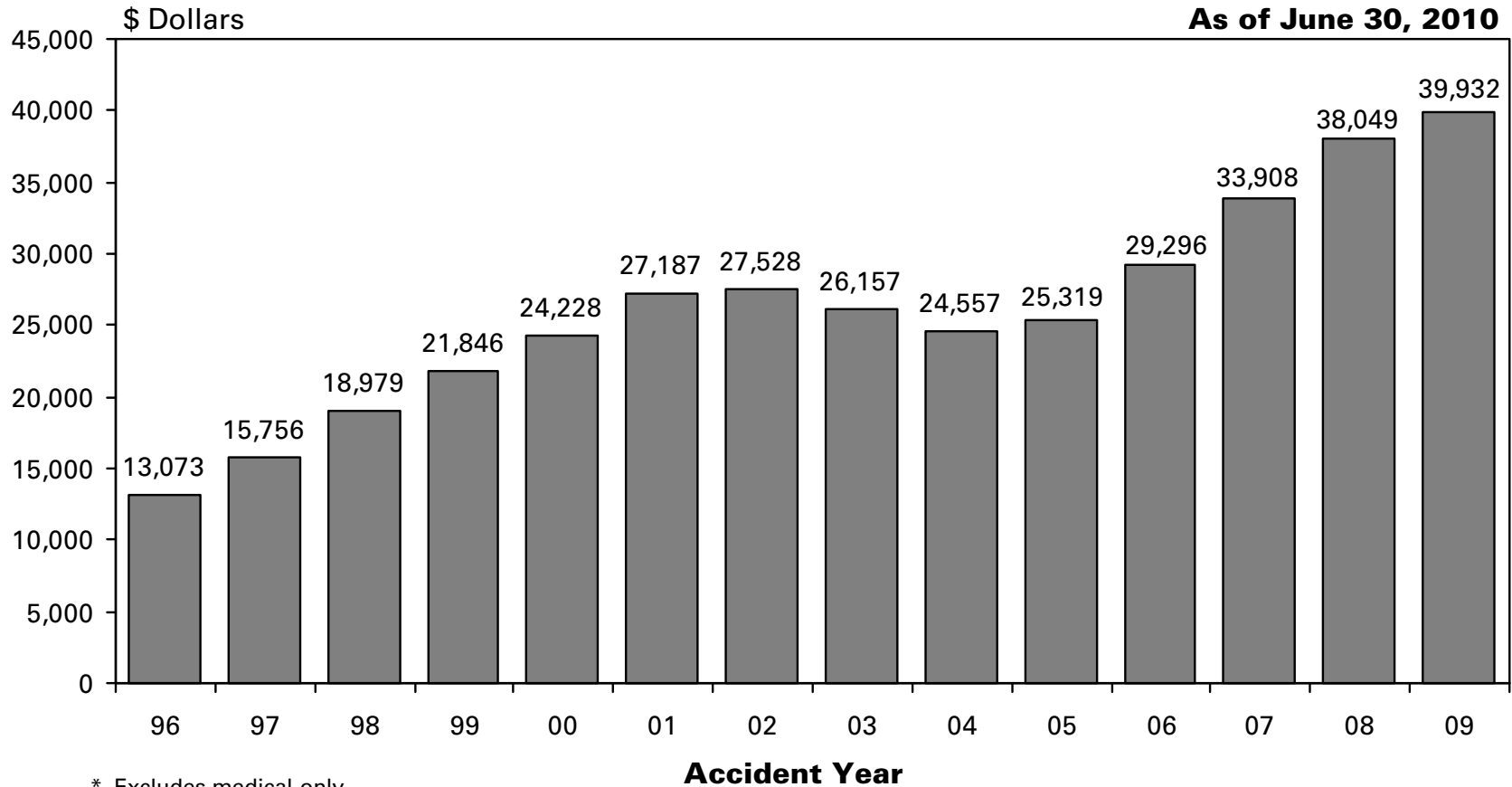
# California Workers' Compensation Estimated Ultimate Total Loss\* per Indemnity Claim



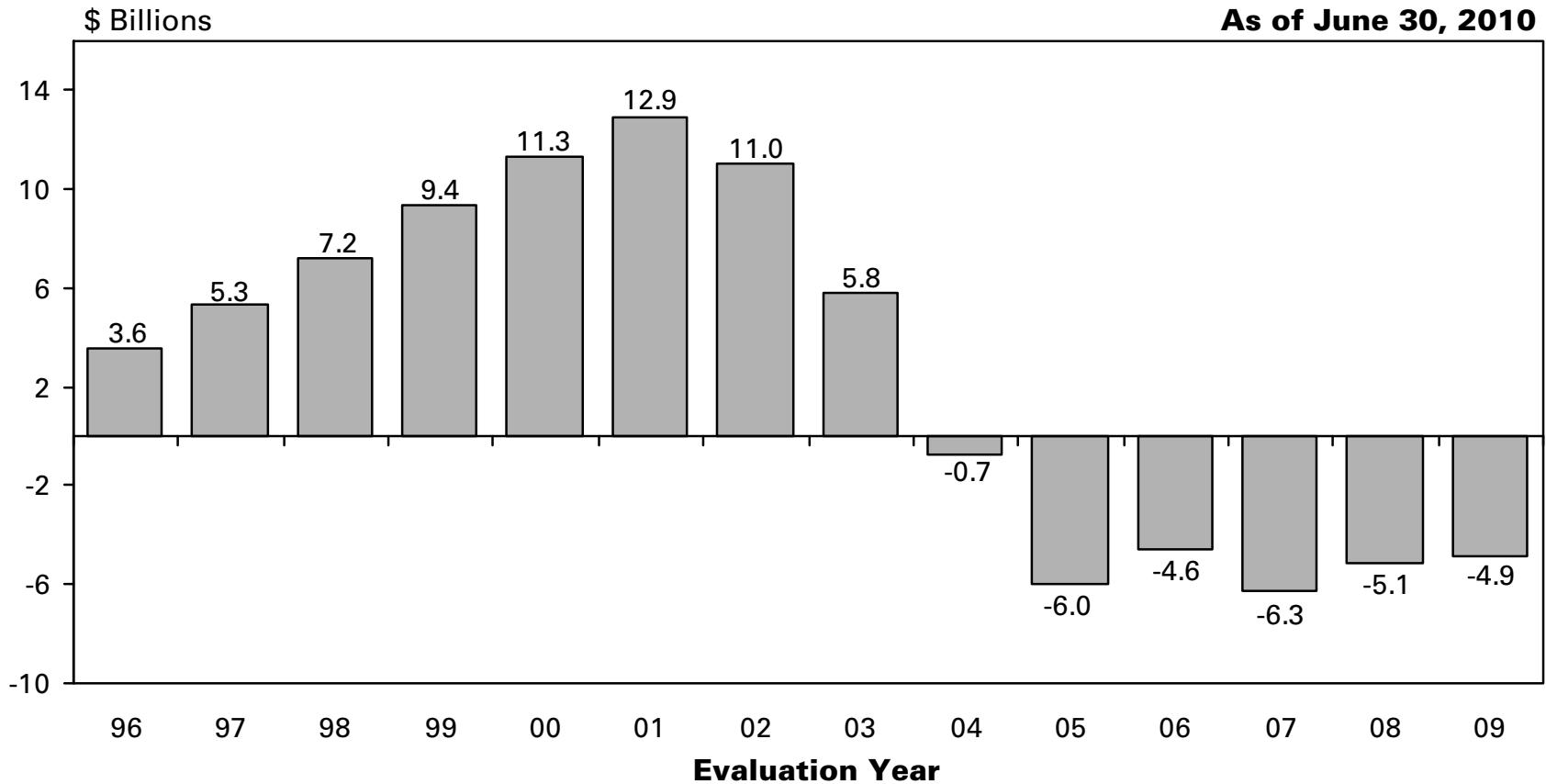
# California Workers' Compensation Estimated Ultimate Indemnity per Indemnity Claim



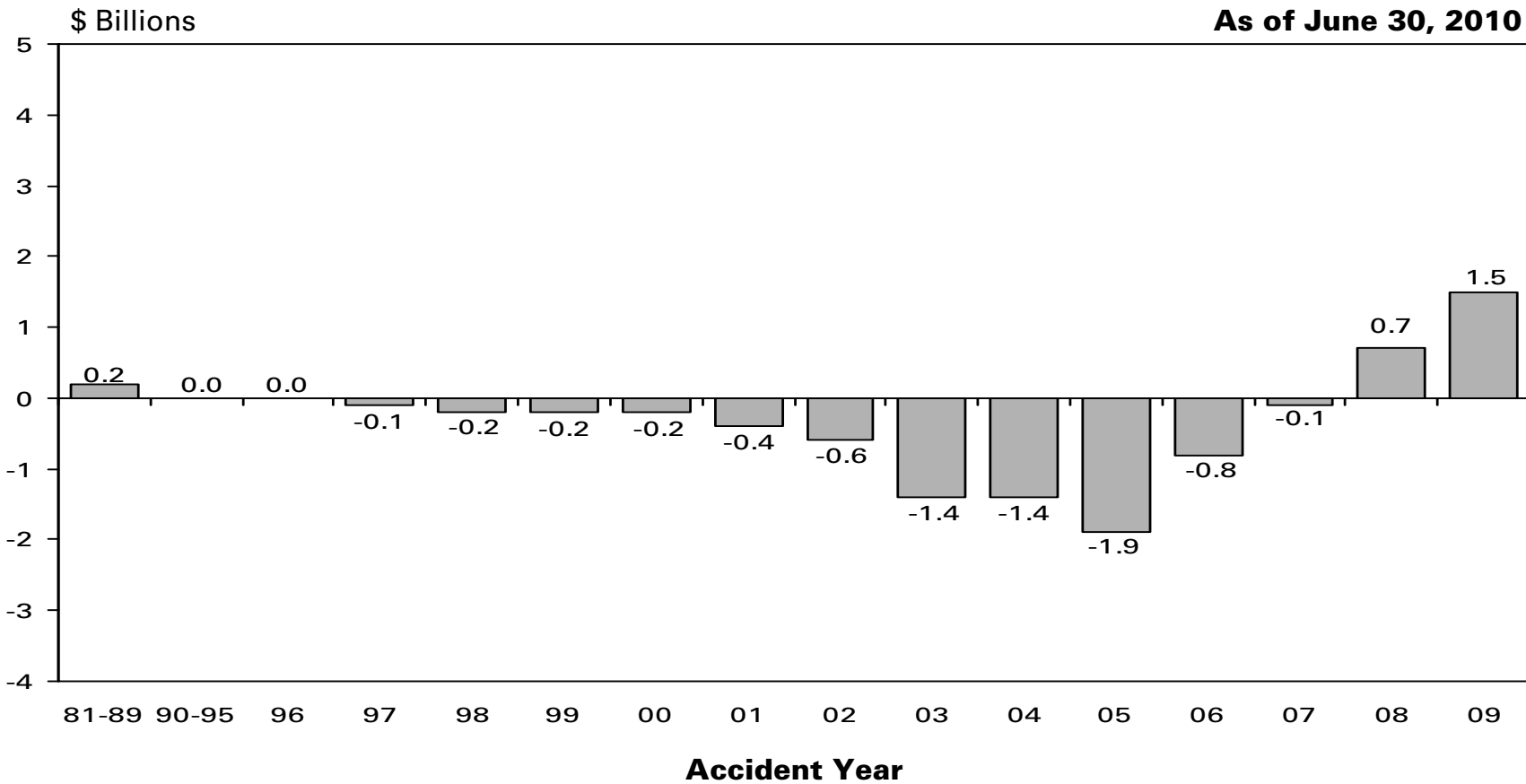
# California Workers' Compensation Estimated Ultimate Medical\* per Indemnity Claim



# California Workers' Compensation Estimated Ultimate Losses Less Reported Losses at Successive December 31 Evaluations



# California Workers' Compensation Estimated Ultimate Losses Less Reported Losses at December 31, 2009





**WCIRB**California®

525 Market Street, Suite 800  
San Francisco, CA 94105-2767

Voice 415.777.0777  
Fax 415.778.7007

[www.wcirbonline.org](http://www.wcirbonline.org)  
[wcirb@wcirbonline.org](mailto:wcirb@wcirbonline.org)