California -- WCIRB Filing for 16% to 20% Increase in Pure Premium Rate: *Top* [08/14/08]

California pure premium rates would go up 16% on Jan. 1 under a recommendation announced Wednesday by the governing board of the Workers' Compensation Insurance Rating Board.

The rate could go up nearly 20% if the state follows through with a proposed increase to permanent disability benefits, the rating bureau said.

Applicants' attorneys and doctors are questioning the need for a double-digit rate increase when carrier profits are at historic highs. The doctors say if medical costs are driving the increase, as the WCIRB says, they are not getting the money. The applicants' attorneys say insurers are operating at a 78% combined ratio - more than enough for the business to be profitable.

If the recommended pure premium rate is approved by the Department of Insurance, it will raise the rate to $1.95 per $100 of payroll – approximately the same average rate as Jan. 1, 2007, when the average pure premium rate was $1.96.

The WCIRB governing committee said Wednesday its new recommendation does not reflect the proposed Division of Workers' Compensation changes to the Permanent Disability Rating Schedule. If the rating schedule changes are adopted as proposed, the Jan. 1, pure premium rate should be increased by another 3.7%, the board said.

The average workers' compensation pure premium rate – the rate needed to cover losses before insurers adjust for expenses and profit - has fallen approximately 60% from a pre-reform average of $4.81 since workers' compensation reform was passed in California, WCIRB Communications Director Jack Hannan said.

He noted in July 2007 there was a 14.2% decrease in pure premium rates.

"This increase wipes out that decrease," he said.

Insurance Commissioner Steve Poizner rejected the bureau's recommendation late last year for a pure premium rate increase of 5%, effective Jan. 1, 2008.

Hannan said the WCIRB didn't make a filing for a rate increase in July, but there was a "recognition" among the board members that an increase of "something around 5%" was needed.

Zenith National Insurance apparently came to the same conclusion, notifying shareholders in its latest quarterly filing that a rate increase of about 5% would likely be necessary in 2009.

Hannan said new medical data from 2006 and 2007 convinced the board that an even bigger increase is necessary. The rating bureau says the rate must jump by 10.8% just to cover rising medical costs.

Hannan said the governing board, in its last two filing recommendations, adjusted pure premium rate recommendations based on an assumption of 1% medical inflation. He said the board believes the inflation trend in medical costs is actually closer to an increase of 5% per year.

Hannan could not say specifically what area of medicine is spurring the rise in costs, but he said the bureau hopes to have a breakdown by the time the Insurance Department holds hearings on the rate recommendation in September.

In addition to medical inflation, an increase of 2.8% is necessary to cover increased loss-adjustment expenses and an additional increase of 1.8% is needed to cover the cost of an "experience rating off-balance correction factor." Hannan said that adjustment is necessary to correct the market imbalance in rating experience caused by discounts given to large employers with higher premium costs. The 2.8% increase for loss-adjustment expenses covers insurers' costs of doing business.

Hannan said loss-adjustment expenses were predicted to decline after the state's 2003 and 2004 reforms, but that hasn't happened. He said state regulations require new costs and more paperwork for medical provider networks and utilization review.

Hannan said the 20% increase is not as bad as it may sound. The 60% decrease in premium rates since reform means “the pie is getting progressively smaller,” he said.

“Even if the Department of Insurance approves the entire recommendation we are still where we were in 2007,” he said.

Hannan said though the workers' compensation insurance market may be profitable, “a profit component doesn't enter into” the board's decision on whether to recommend a pure premium rate increase.

“The premium at the pure premium rate is to cover medical and indemnity losses. The loss ratios we are seeing now reflect the pricing in prior periods compared to losses in prior periods,” Hannan said, adding the data “lagged a little bit” behind the market.

Steve Cattolica, director of government relations for the California Society for Industrial Medicine and Surgery, said he wasn't prepared to comment on medical costs driving the pure premium rate recommendation prior to seeing “what they call medical expenses consist of.” He did say, however, that doctors aren't getting any money from the reported increase in medical expenses.

A spokesman for Gov. Arnold Schwarzenegger, who championed California's 2004 reforms, said the administration had no comment on the pure premium rate recommendation “at this time.”

Department of Insurance spokesman Darrel Ng said the DOI would not discuss specifics of the recommendation because it has to go before the commissioner. He noted costs have dropped dramatically in the workers' compensation insurance market since reform.

“Data show that costs in the system are starting to increase and we are continuing to monitor it. Also…the pure premium rate is just advisory and in a competitive market, they may or may not be followed by companies writing policies,” he said.

Susan Borg, president of the California Applicants' Attorneys Association, said she does not see a need for a premium increase. Borg complained medical costs are rising because insurers send too many treatment requests to utilization review.

"Then they charge the employers more for the extra expense," she said. "It's one big scam, it seems to me. The insurers are making more money than they ever made. Profits are at historic highs. There is no reason to increase costs. Insurers are flying high. It's the injured workers and the employers who are suffering.”

Mark Gerlach, a consultant for CAAA, said insurers enjoyed a 48% loss ratio and a 78% combined loss and expense ratio in early 2007. He noted the WCIRB numbers are based on figures as of March 31 - numbers the WCIRB has not yet posted.

"It's possible with the new data the numbers will change by a point or two, but with a 78% combined ratio it means the insurance industry is experiencing a 22% profit before investment income," Gerlach said. "The insurance commissioner last year said the insurers could have a combined ratio of over 100% and still make money because of the interest income."

Hannan said the WCIRB filing will be delivered Friday to the Department of Insurance. A hearing on the proposed pure premium rate increase is scheduled Sept. 16 in the WCIRB San Francisco offices. Full details will be published on the WCIRB website when the filing is made Friday.

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