

WCIRB Bulletin

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Summary of December 31, 2010 Insurer Experience

The Workers' Compensation Insurance Rating Bureau of California has compiled a summary of insurer reports of loss and premium experience valued as of December 31, 2010. Attached is a copy of the summary.

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WCIRB Summary of December 31, 2010 Insurer Experience

Released: April 20, 2011

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WCIRB Summary of December 31, 2010 Insurer Experience

The WCIRB has completed its review of December 31, 2010 experience submitted by insurers. This summary is based on data reported to the WCIRB by insurers who wrote approximately 99% 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 December 31, 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 are compared, in Exhibit 9, 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 Francisco¹ and Almaraz v. Environmental Recovery Services/Guzman v. Milpitas Unified School District² 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 December 31, 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 is significantly greater than that reflected in the data emerging through December 31, 2010, projected loss amounts may be understated.

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

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

7. Measures of indemnity claim frequency changes can differ depending on the basis of exposure to which changes in claim counts are compared. In prior quarterly analyses through the report on June 30, 2010 experience, indemnity frequency changes shown in Exhibit 7 were generally based on a comparison of the reported aggregate number of indemnity claims to premium adjusted for wage level and rate level changes to a common "on-level" basis. Beginning with the report of September 30, 2010 experience, for all but the accident year 2010 estimate, the frequency changes shown are based on the reported unit statistical report (USR) number of indemnity claims developed to fifth USR level compared to USR payroll adjusted to a common wage level. The WCIRB has based the frequency changes in this report on this measure inasmuch as the measure reflects payroll amounts that have been audited and does not require adjustment to a common pure premium rate level.

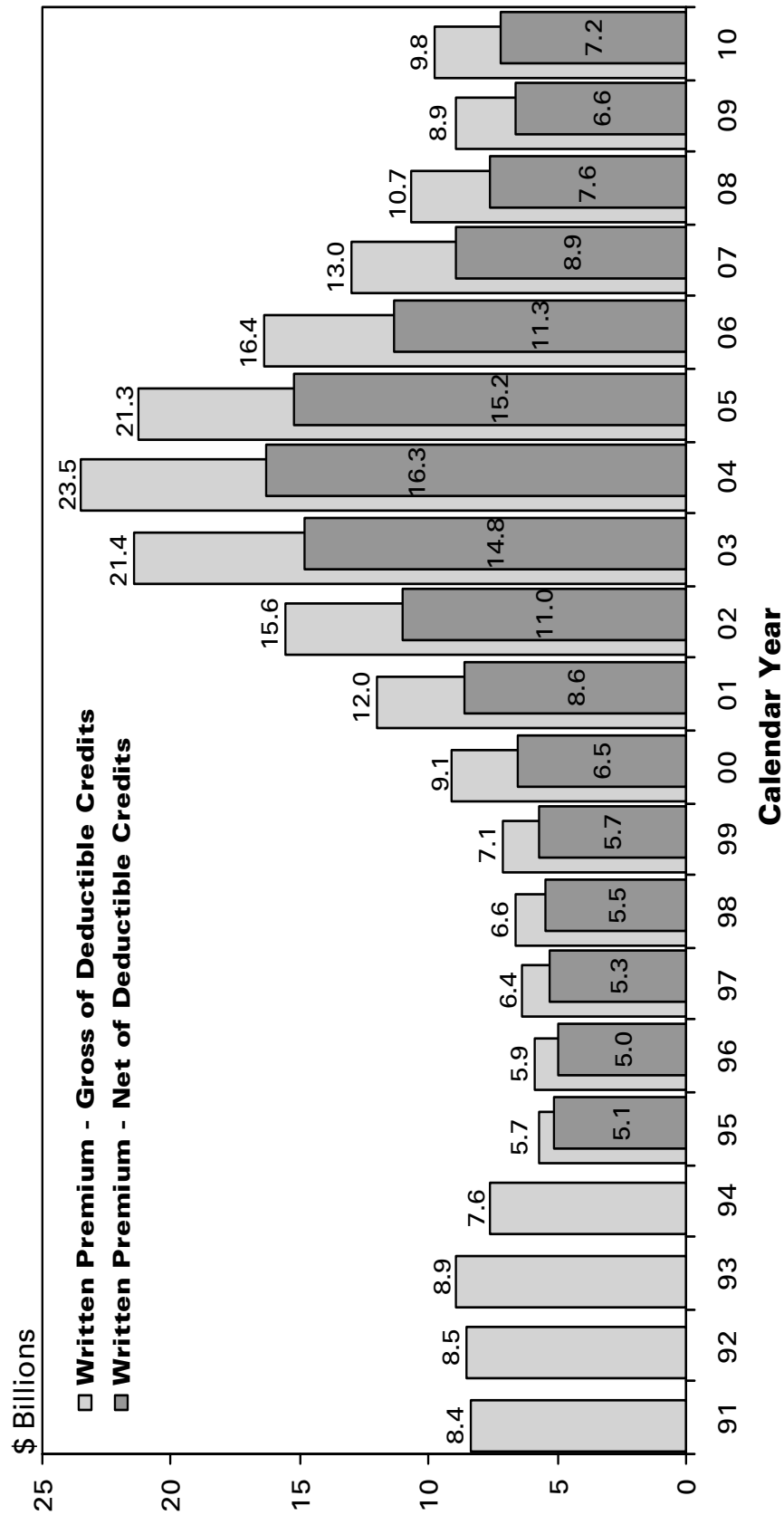
Exhibits 1 through 9.2, which summarize the WCIRB's review of reported December 31, 2011 insurer experience, reflect the following information:

- California written premium (gross of deductible credits) for 2010 is approximately \$9.8 billion (Exhibit 1). This is approximately 10% above the written premium reported for 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 2010 is \$2.39 (Exhibit 2). This is essentially the same average rate charged for 2009, but is still approximately 63% less than the average rate charged in the second six months of 2003.
- The WCIRB projects total ultimate accident year losses for 2010 of \$7.8 billion. This is comparable to the 2009 level and approximately 37% below the pre-reform high in 2002 (Exhibit 3).
- The WCIRB projects an ultimate accident year loss ratio of 81% for accident year 2010. While approximately four percentage points lower than 2009, this represents the second consecutive year with an accident year loss ratio in excess of 80% (Exhibit 4).
- The ultimate accident year 2010 combined loss and expense ratio is preliminarily estimated at 125%.³ While five percentage points lower than the 2009 accident year combined ratio of 130%, the combined ratios for each of the last two years are the highest since 2001 (Exhibit 5).
- The 2010 calendar year loss ratio is 73%. This ratio is consistent with the calendar year 2009 ratio (Exhibit 6.1). The calendar year combined ratio for 2010 is 116%, which is fifteen percentage points higher than the 2009 calendar year combined ratio (Exhibit 6.2).
- The WCIRB estimates that indemnity claim frequency for 2010 is 4.5% higher than that for 2009. This is the first increase in indemnity claim frequency in a decade and only the second increase in the last twenty years. Notwithstanding this increase, the indemnity claim frequency for accident year 2010 is estimated at less than one-third of its all-time high in 1991 (Exhibit 7).

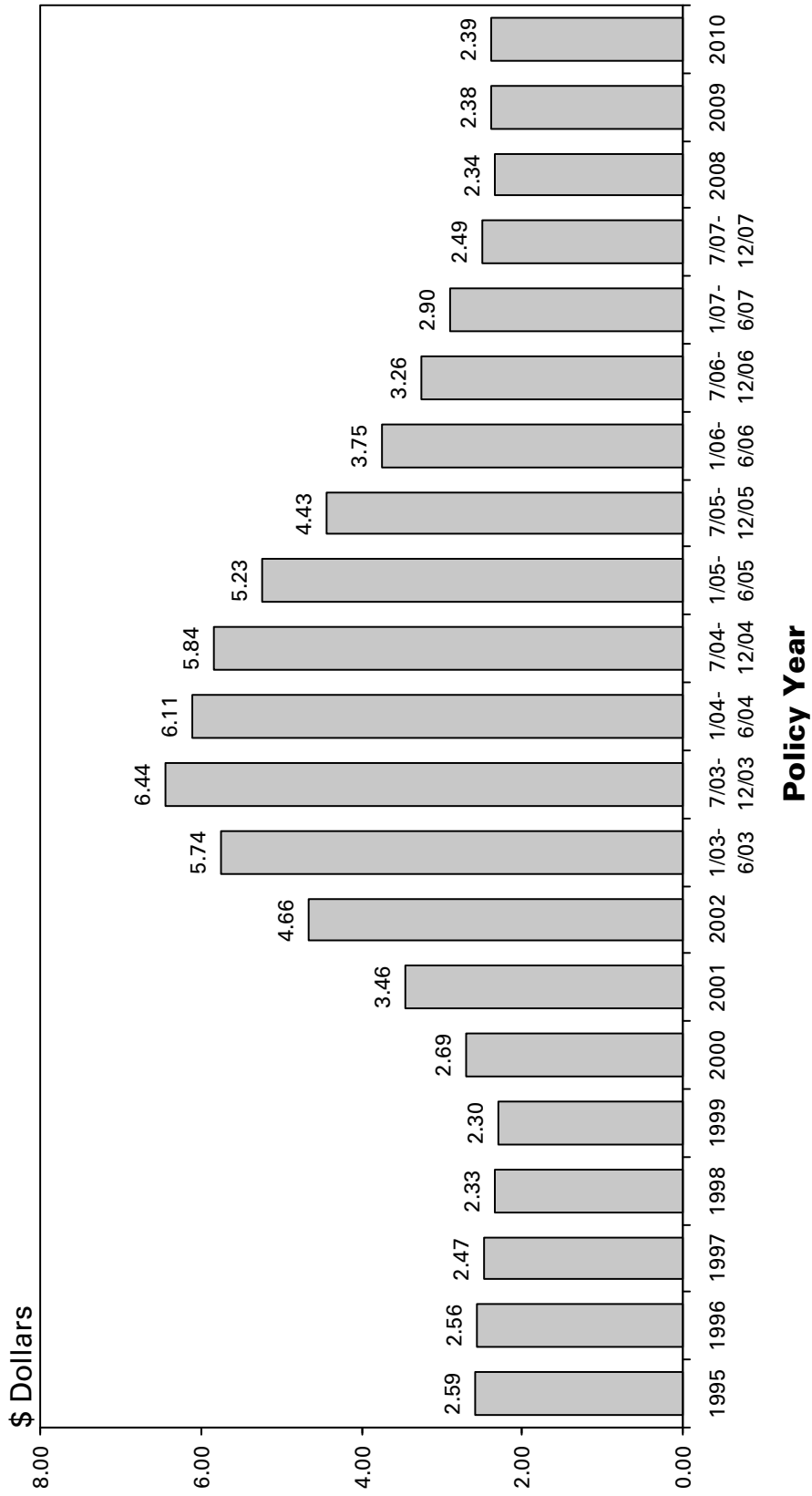
³ The 2010 expense information is based on preliminary estimates and does not reflect actual data.

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- The WCIRB estimates that the average cost (or “severity”) of a 2010 indemnity claim will be approximately \$62,000. This represents a 1.5% decrease over 2009, the first severity decline since 2005. Notwithstanding this decrease, the 2010 average severity reflects an increase of almost 60% since the full implementation of the reforms in 2005 (Exhibit 8.1). While the 2010 indemnity average severity shows a decline over 2009, the 2010 average medical severity is essentially unchanged. (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, 2010 are approximately \$3.2 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).

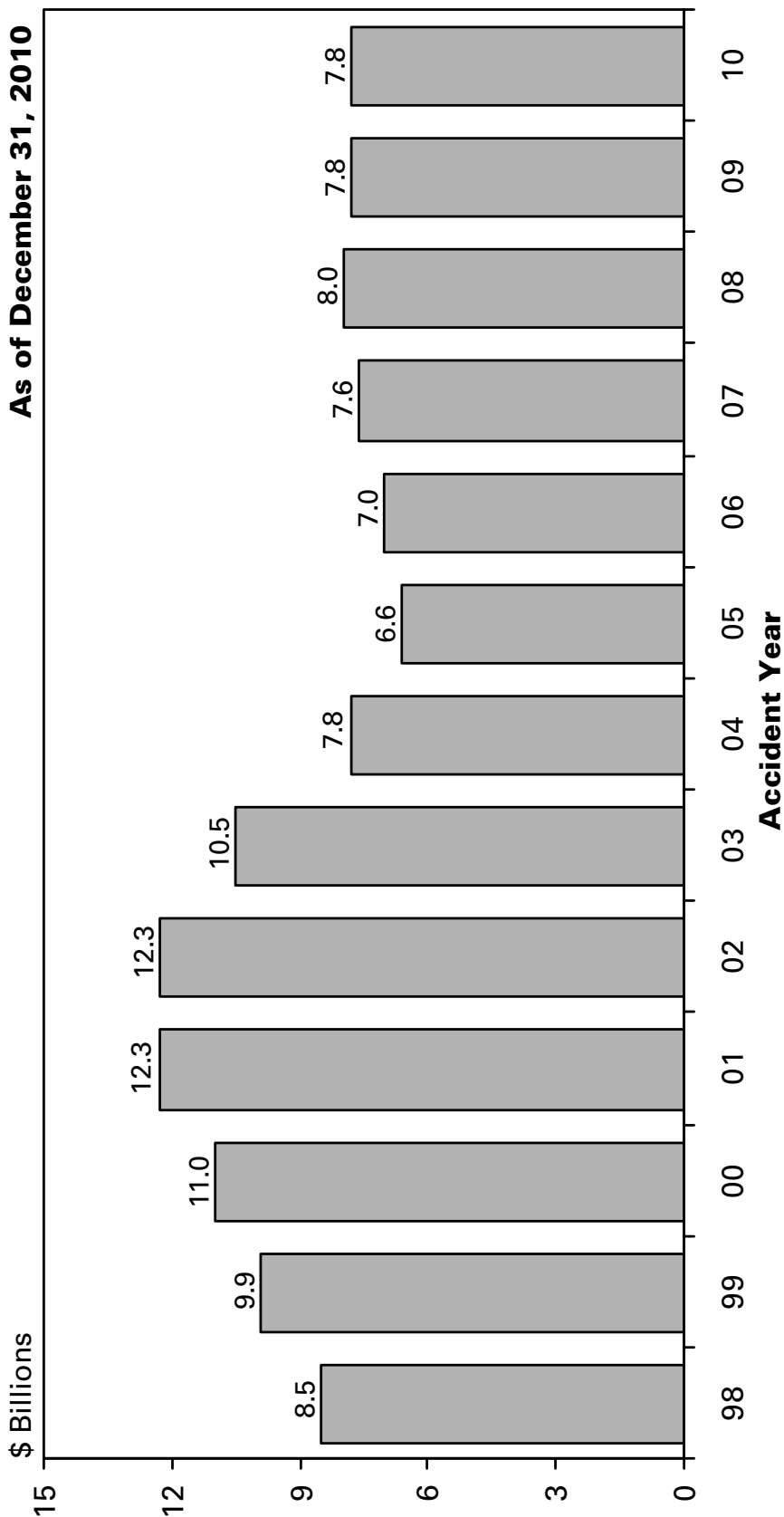
California Workers' Compensation Written Premium



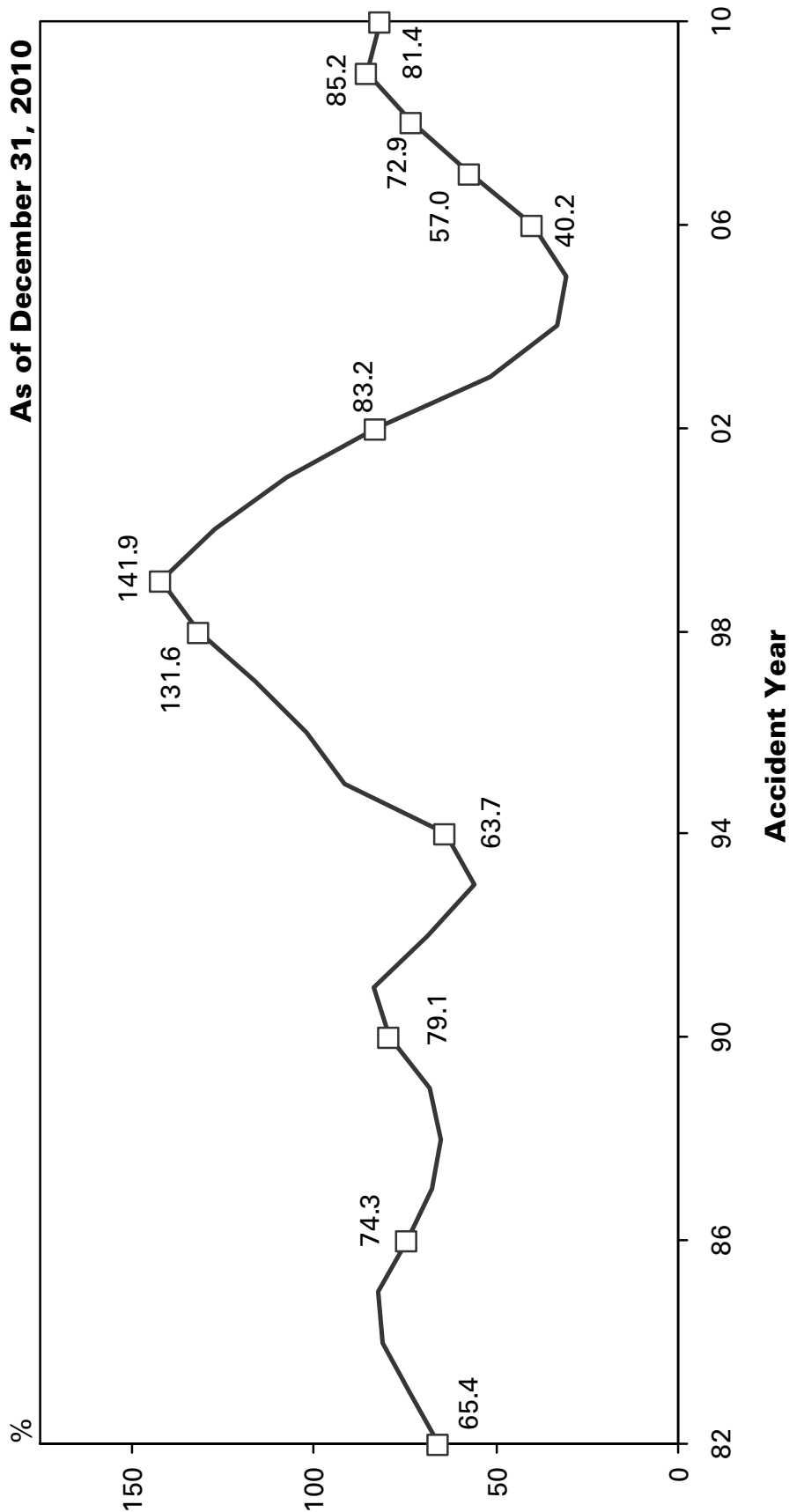
California Workers' Compensation Average Insurer Rate per \$100 of Payroll



California Workers' Compensation Estimated Ultimate Losses by Accident Year

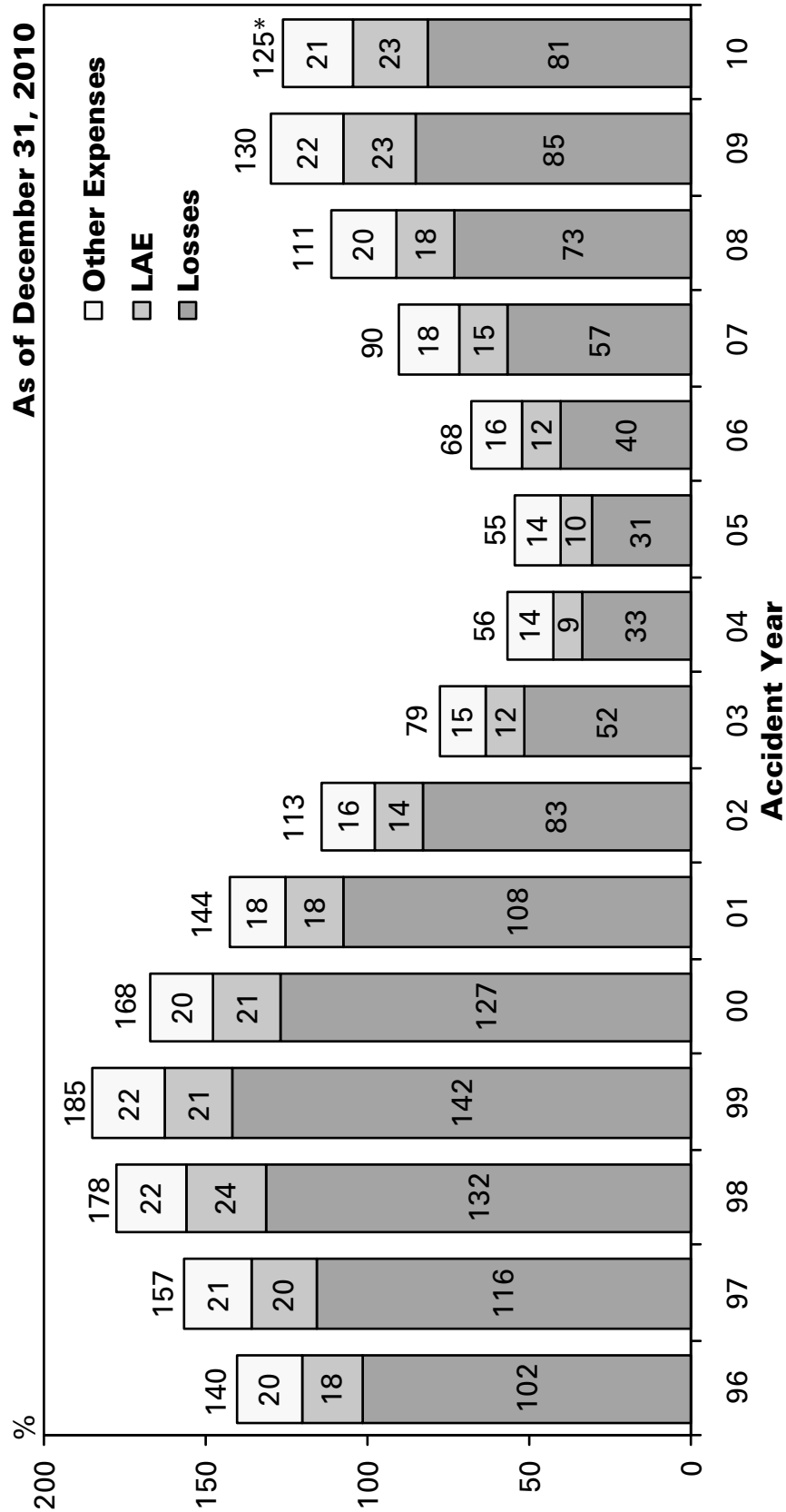


California Workers' Compensation Ultimate Accident Year Loss Ratios



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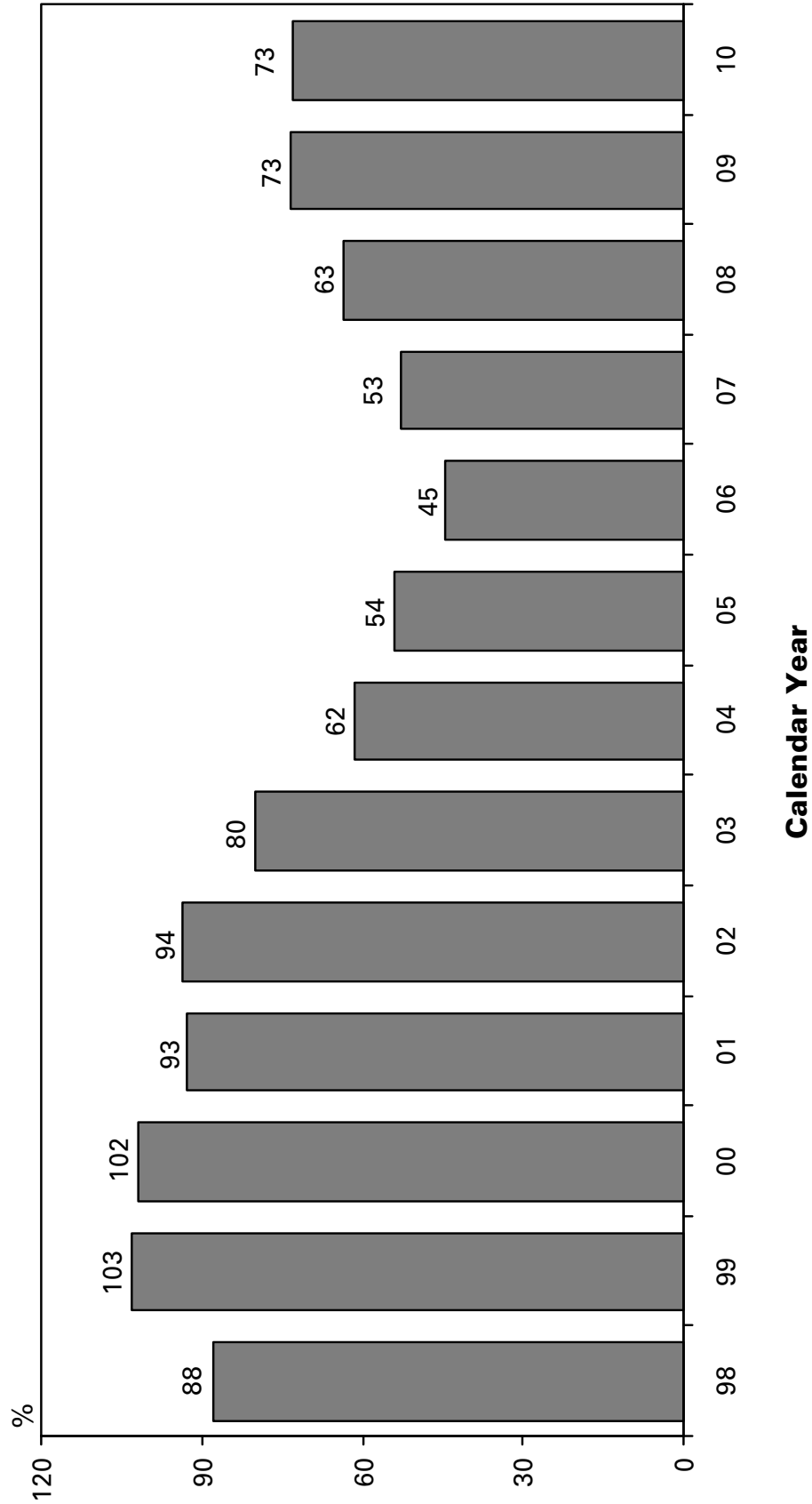
California Workers' Compensation Accident Year Combined Loss and Expense Ratios



* 2010 expense information is based on preliminary estimates and does not reflect actual data.

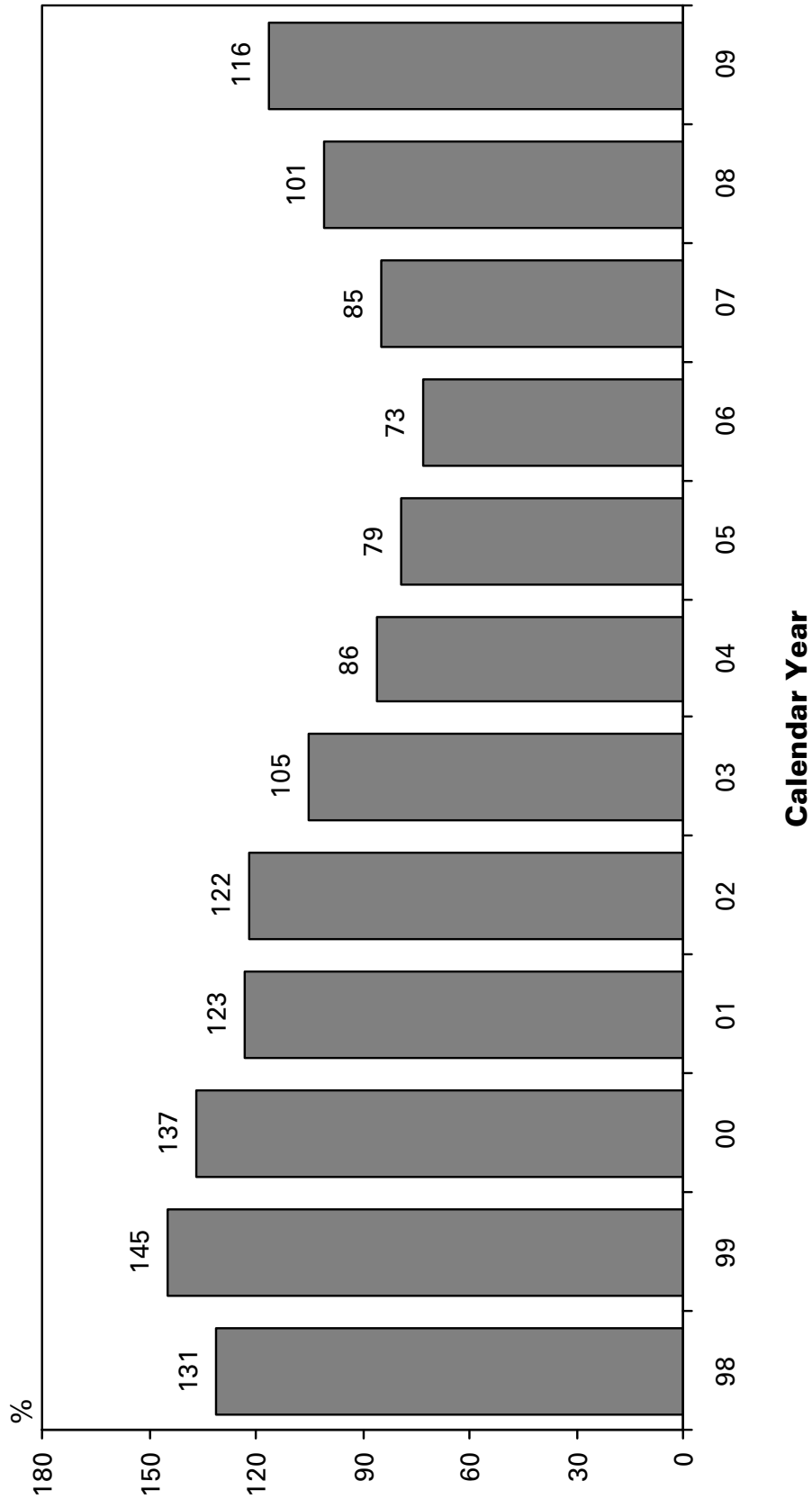


California Workers' Compensation Calendar Period Loss Ratios



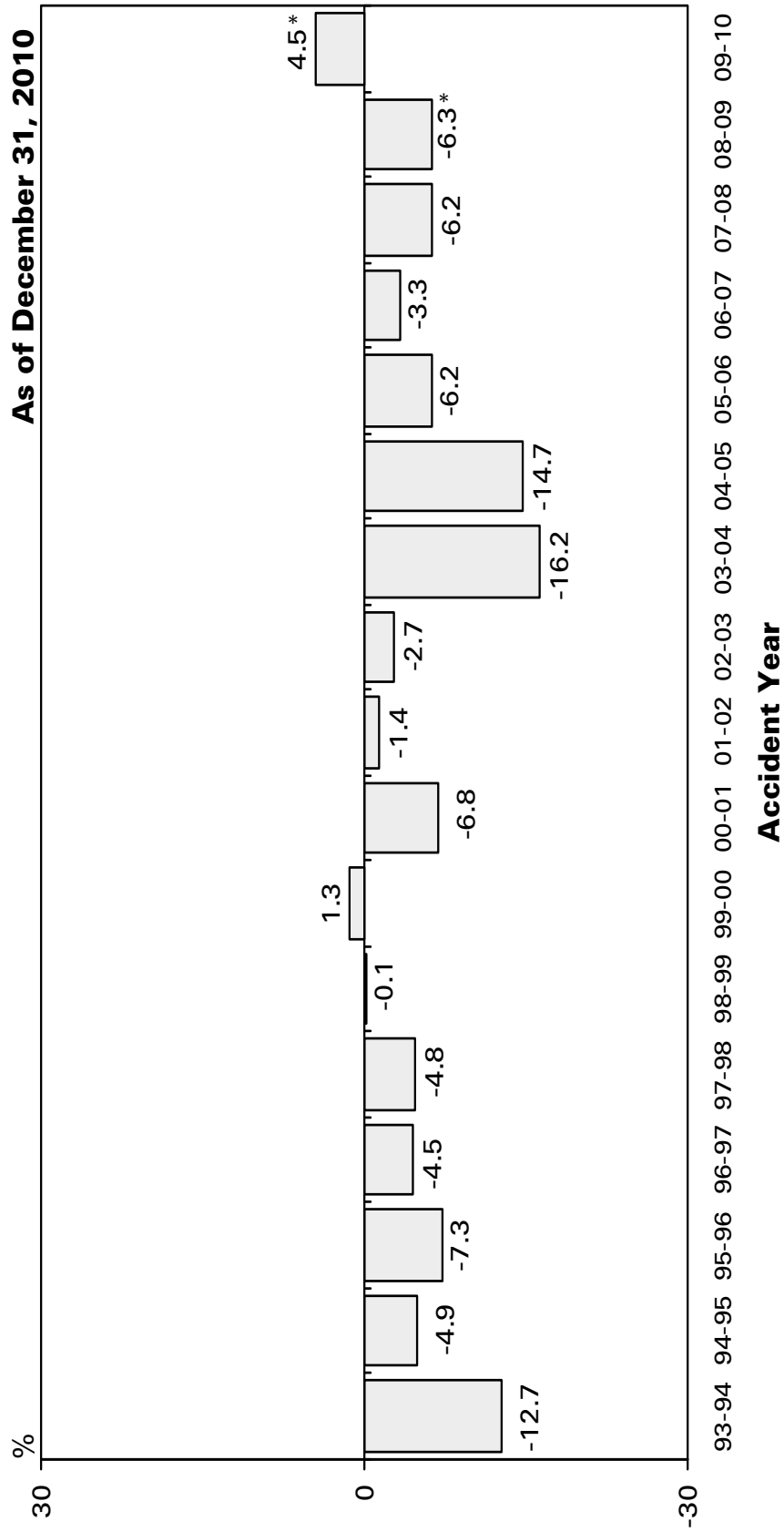
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California Workers' Compensation Calendar Year Combined Loss and Expense Ratios



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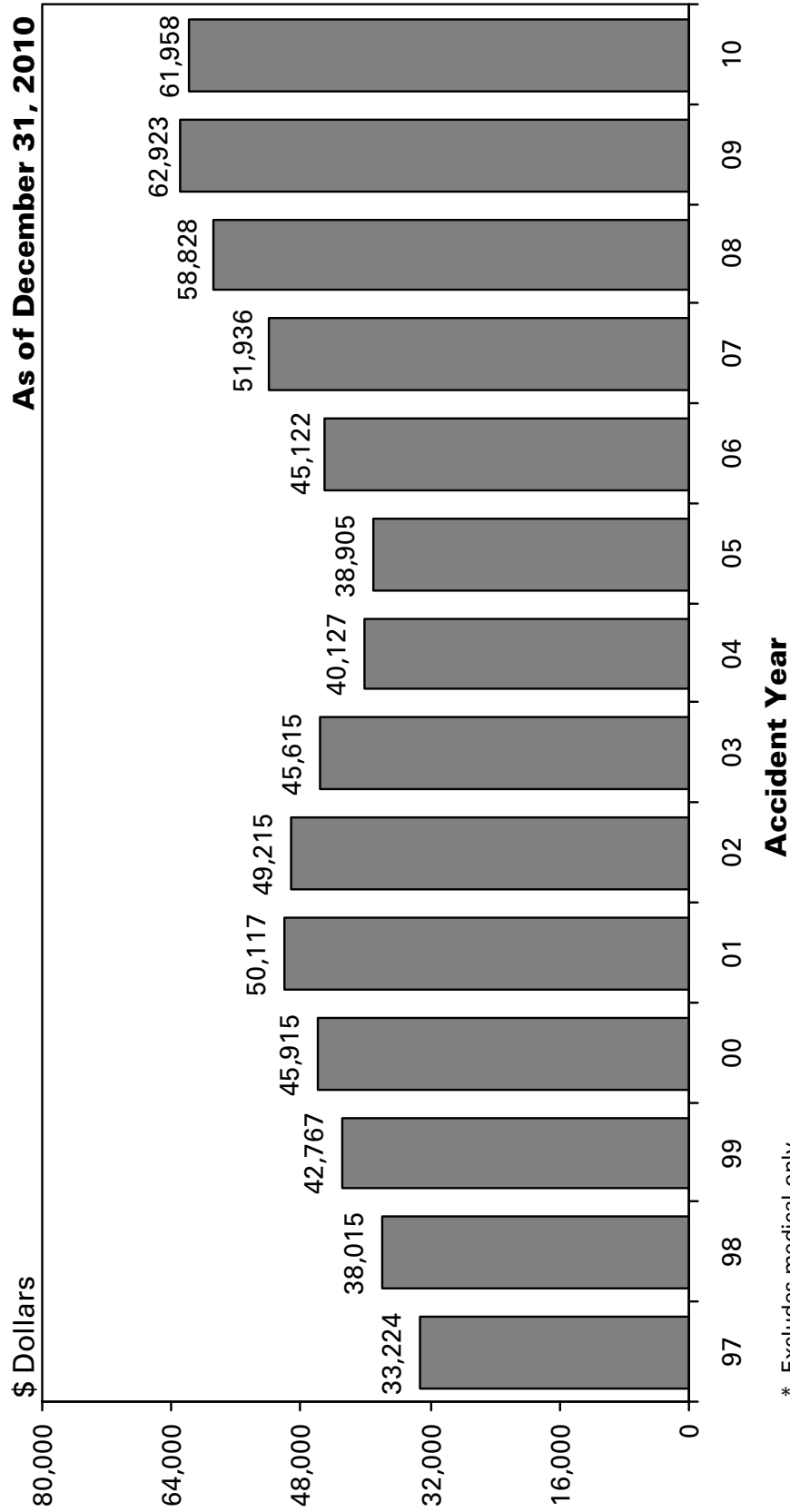
California Workers' Compensation Estimated Percentage Change in Indemnity Claim Frequency by Accident Year



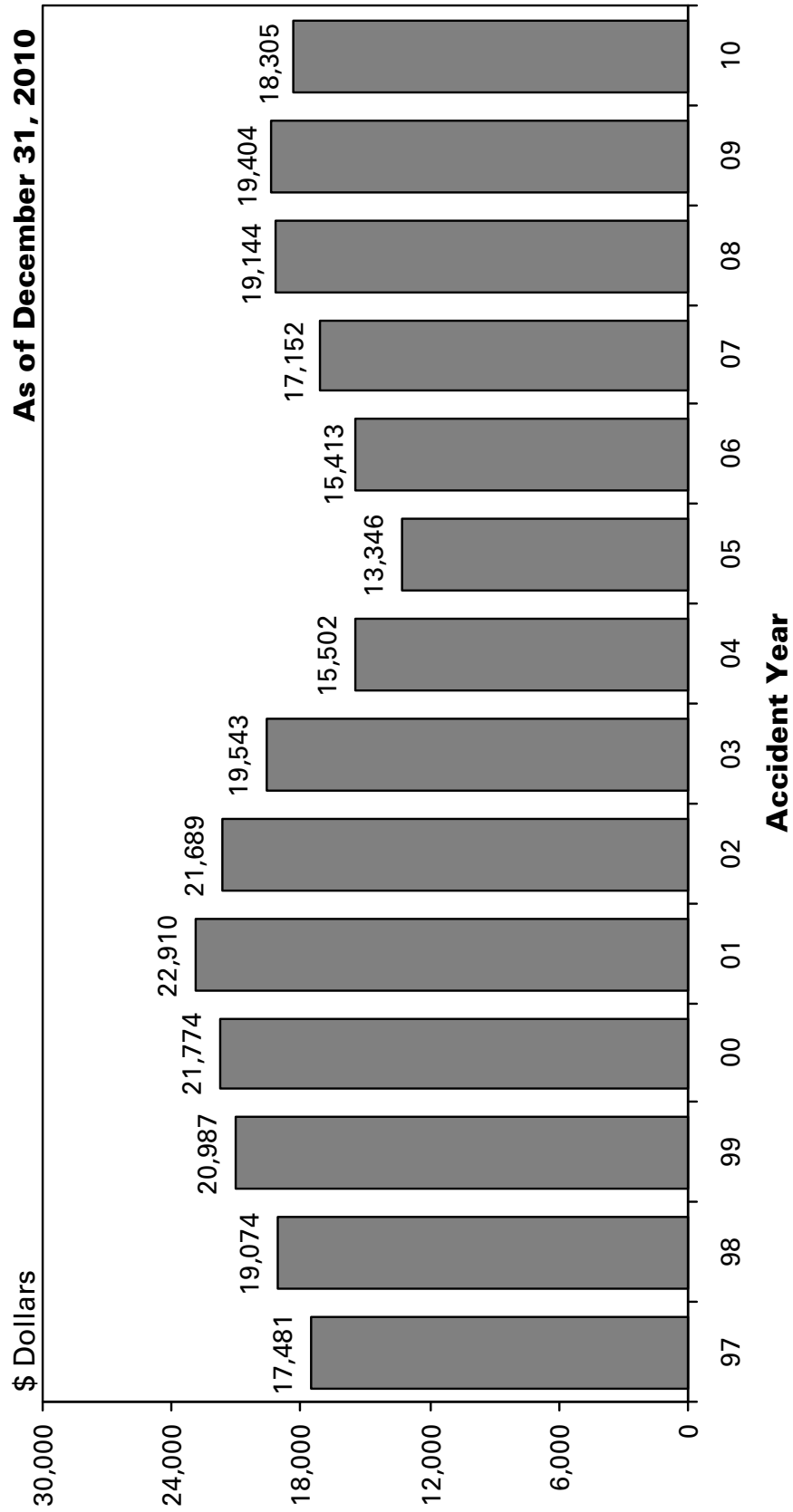
*The 08-09 estimate is based on preliminary unit statistical data. The 09-10 estimate is based on comparison of estimated ultimate indemnity claim counts based on WCIRB accident year experience as of December 31, 2010, relative to the estimated change in statewide employment.



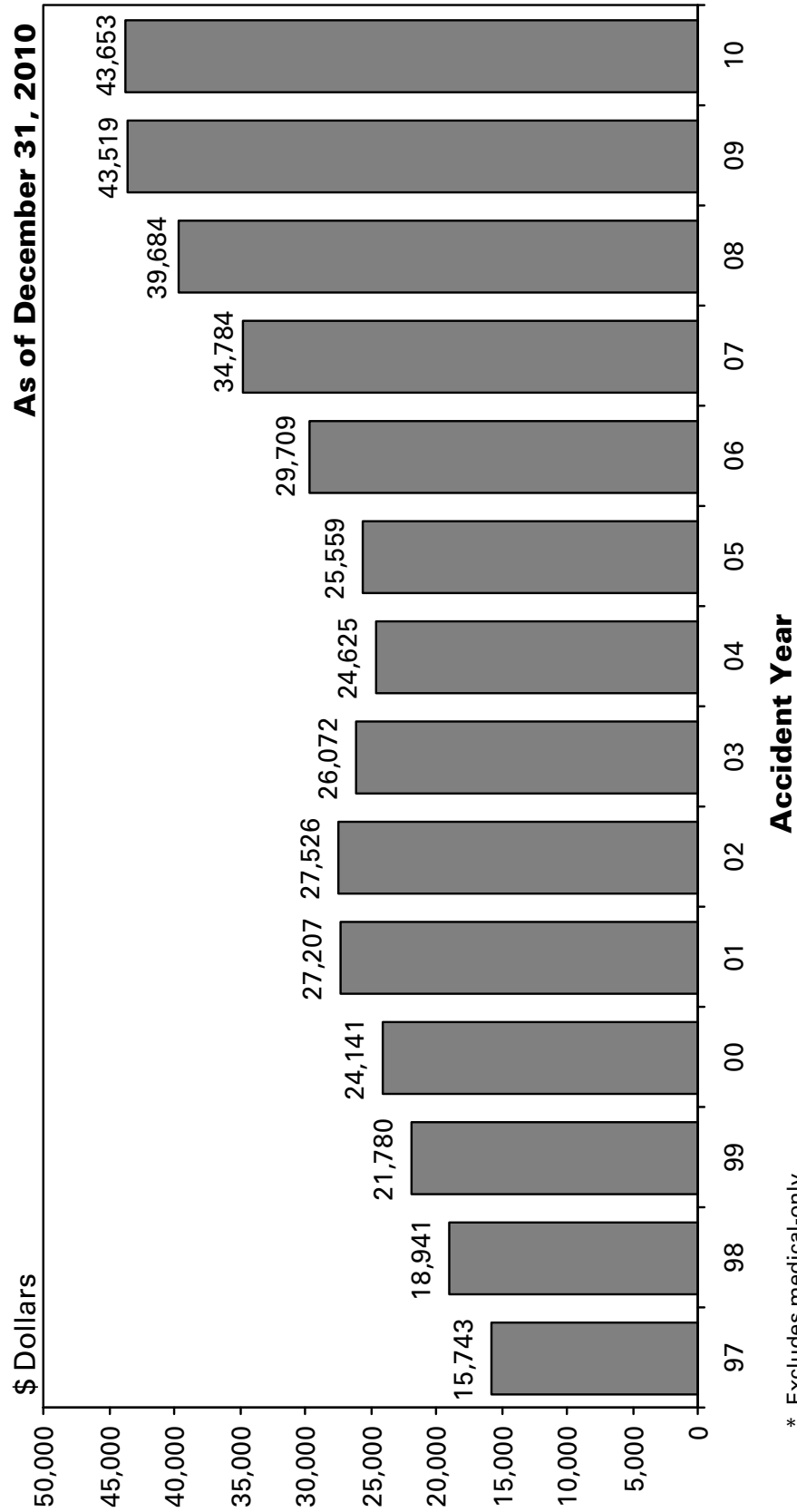
California Workers' Compensation Estimated Ultimate Total Loss* per Indemnity Claim



California Workers' Compensation Estimated Ultimate Indemnity per Indemnity Claim



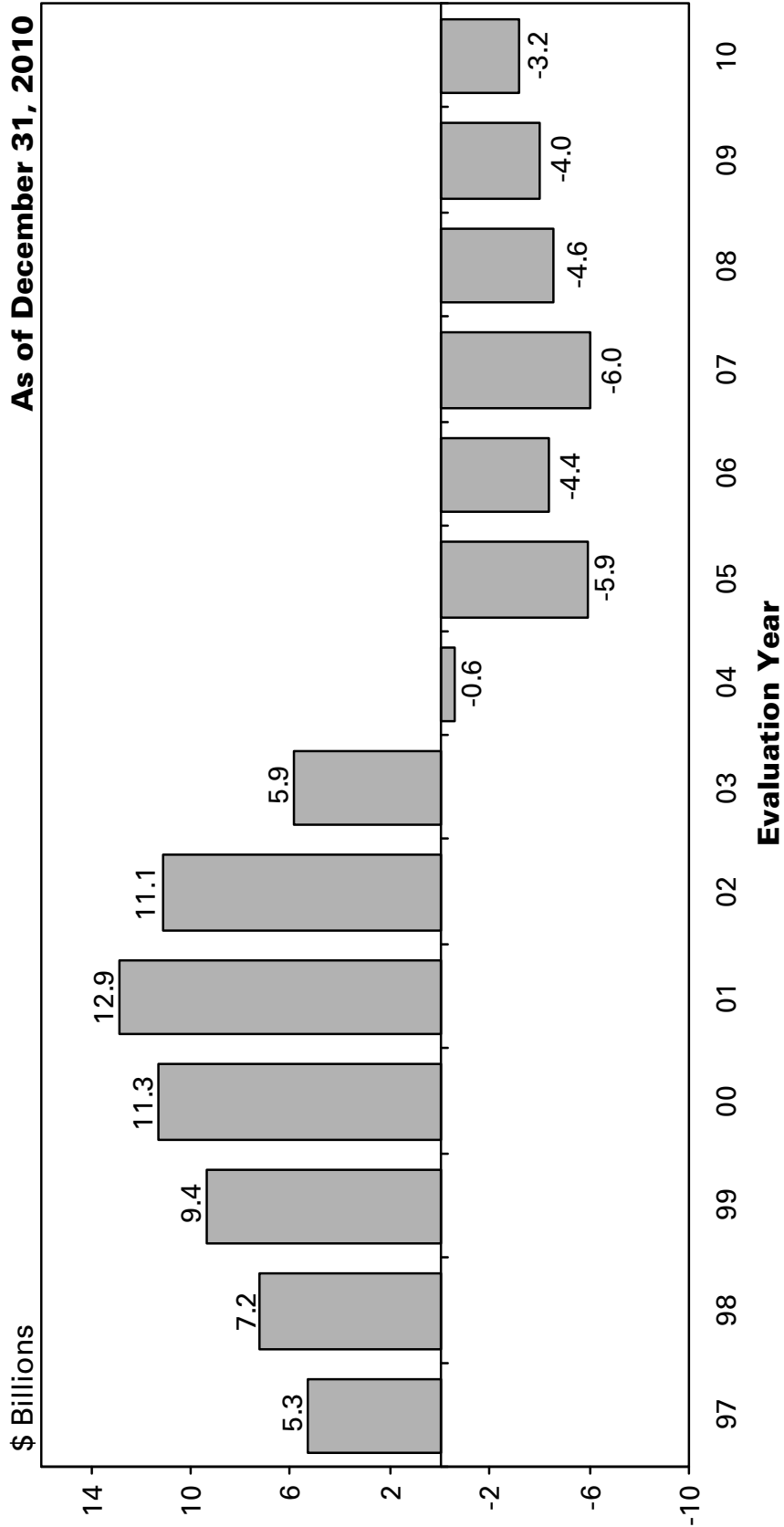
California Workers' Compensation Estimated Ultimate Medical* per Indemnity Claim



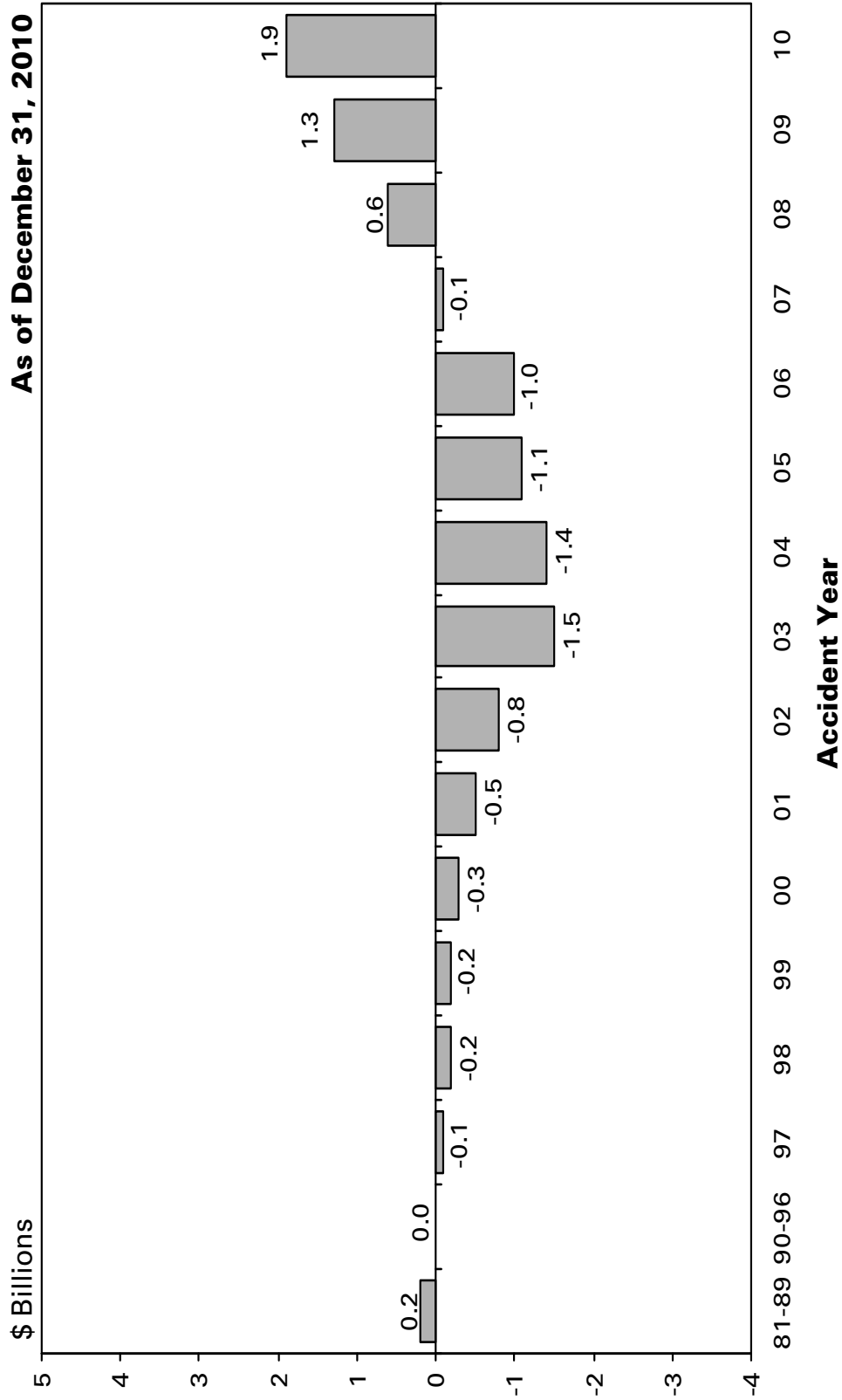
* Excludes medical-only.



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, 2010



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