

WCIRB Report on December 31, 2013 Insurer Experience

Released: April 4, 2014

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WCIRB Report on December 31, 2013 Insurer Experience

The WCIRB has completed its review and analysis of December 31, 2013 experience submitted by insurers. This report 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 report reflects a compilation of individual insurer submissions of accident year and calendar year premium and loss data to the WCIRB. 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, 2013. 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 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 projections of ultimate losses, include insurers' estimates of incurred but not reported (IBNR) losses that may, in part, reflect allocations of IBNR losses to 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 Exhibit 9 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), which were enacted in 2003 and 2004, affect the cost of claims incurred prior to the effective date of the legislation. WCIRB 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. Senate Bill No. 863 (SB 863), which was signed into law by the Governor on September 18, 2012, increases benefits and provides for a number of structural changes to the California workers' compensation benefit delivery system starting in 2013. Some provisions of SB 863 impact costs on older claims. WCIRB projections of ultimate losses and ultimate loss severities have been adjusted to reflect the impact of SB 863 on unpaid losses of pre-2013 injuries based on methodologies developed by the WCIRB's Actuarial Committee.
7. Beginning with claims incurred on policies incepting on or after July 1, 2010, the cost of medical cost containment programs (MCCP) is reported to the WCIRB as allocated loss adjustment expense (ALAE) rather than as medical loss. As a result, some portion of MCCP costs for accident years 2010 and 2011 has been reported as medical loss and some portion has been reported as ALAE. In order to provide consistent comparisons across years, to the extent appropriate, the amounts and ratios shown represent the combined cost of losses and ALAE. In several other exhibits, in order to facilitate consistent comparison from year-to-year of medical losses and ALAE, accident year 2010 MCCP

costs reported as ALAE have been shifted to medical loss and the estimated amount of accident year 2011 MCCP costs reported as medical loss have been shifted to ALAE.

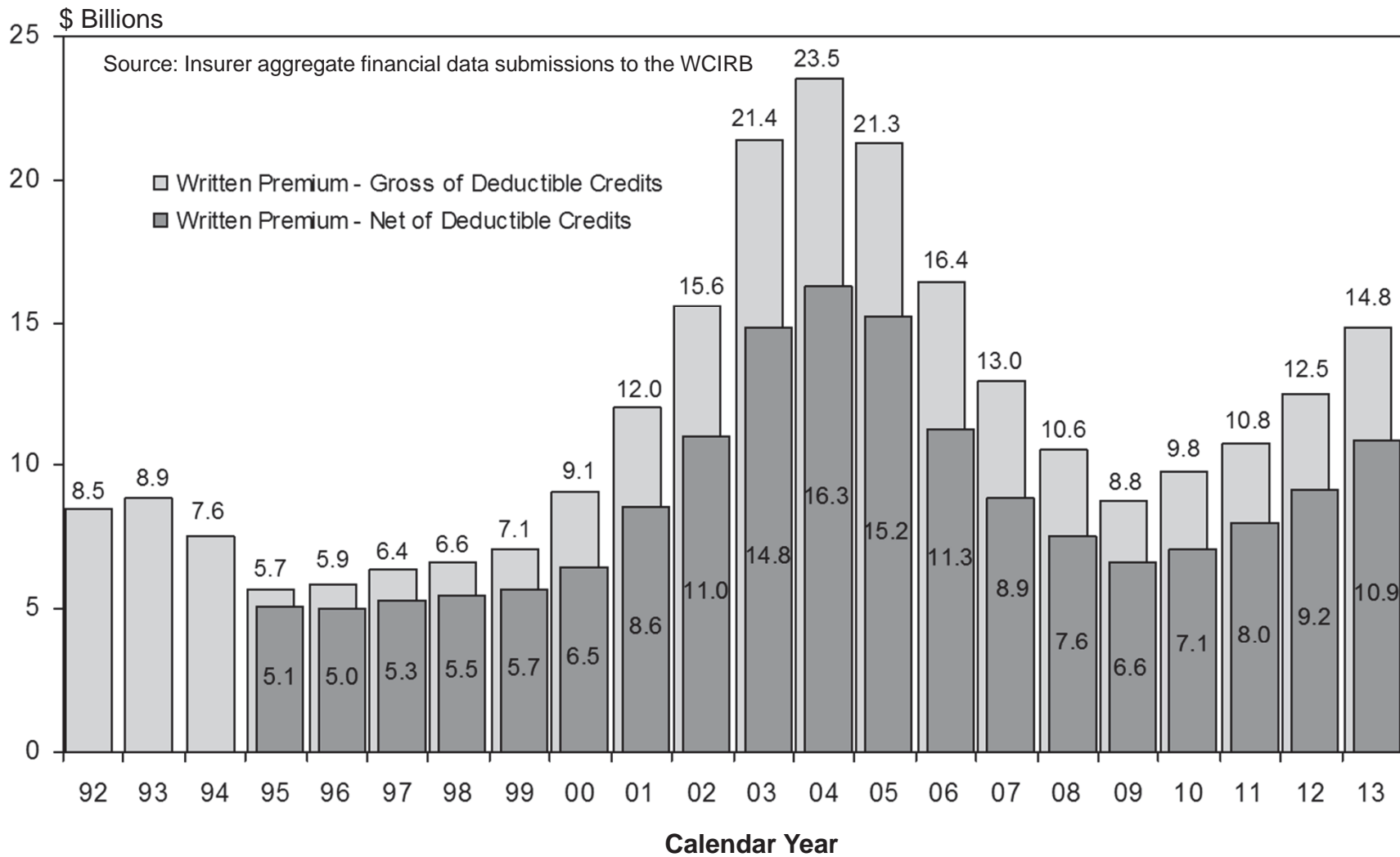
Exhibits 1 through 9, which summarize the WCIRB's review of reported December 31, 2013 insurer experience, reflect the following information:

- California written premium (gross of deductible credits) for calendar year 2013 is approximately \$14.8 billion (Exhibit 1). This is approximately 18% above the written premium reported for 2012 and 68% above the written premium reported for 2009. The written premium for 2013 is the highest premium total since 2006.
- The projected industry average charged rate (rates charged by insurers that reflect all rating plan adjustments except deductible credits, retrospective rating plan adjustments, terrorism charges, and policyholder dividends) per \$100 of payroll for 2013 policies is \$2.85 (Exhibit 2). This is approximately 10% above the average rate charged for the second half of 2012 and 36% above the average rate charged for 2009. However, the average rate charged for 2013 remains approximately 55% less than the average rate charged for the second six months of 2003.
- The WCIRB projects total ultimate losses and ALAE for accident year 2013 to be \$12.5 billion (Exhibit 3). While approximately 7% above the projection for accident year 2012 and 29% above the projection for accident year 2009, it remains below the highs experienced prior to the 2002 through 2004 reforms.
- The WCIRB projects an ultimate accident year loss and ALAE ratio of 86.5% for accident year 2013 (Exhibit 4). This projection is below that of the prior four accident years as a result of increasing premium levels in 2013.
- The WCIRB projects an ultimate accident year combined loss and expense ratio of 123% for 2012 and preliminarily projects a combined ratio of 113% for accident year 2013 (Exhibit 5). These projections are below that of the last several accident years primarily as a result of increasing premium levels in 2012 and 2013.
- The preliminary calendar year combined loss and expense ratio for 2013 reported by insurers is 109%, which is somewhat below the combined ratios for the last few years but represents the sixth straight calendar year with a combined ratio of over 100% (Exhibit 6).
- The WCIRB projects indemnity claim frequency for accident year 2013 to be 4.7% above the frequency for 2012 and 6.6% above the frequency for 2011 (Exhibit 7). A preliminary analysis of the 2012 frequency increase by the WCIRB largely attributed it to increases in cumulative injury claims, permanent disability claims, claims involving injuries to multiple body parts, and claims from the Los Angeles/L.A. Basin regions. While projected indemnity claim frequency has remained at its higher level following the sharp 2010 increase rather than returning to the historical long-term decline, the 2013 frequency remains approximately 30% below the indemnity claim frequency experienced prior to the 2002 through 2004 reforms.
- The WCIRB projects the average cost (or "severity") of a 2013 indemnity claim to be approximately \$87,000, which is slightly above the projected severities for accident years 2011 and 2012 (Exhibit 8.1). The projected 2013 average loss and ALAE severity reflects an increase of approximately \$32,000 (or more than 58%) since the full implementation in 2005 of the reforms of 2002 through 2004. The projected average indemnity cost of a 2013 indemnity claim is fairly consistent with projected severities for the last several years (Exhibit 8.2), while the projected average medical cost (including MCCP costs) of a 2013 indemnity claim is slightly higher than, but generally comparable to, that of the prior year two years (Exhibit 8.3). Despite the enactment

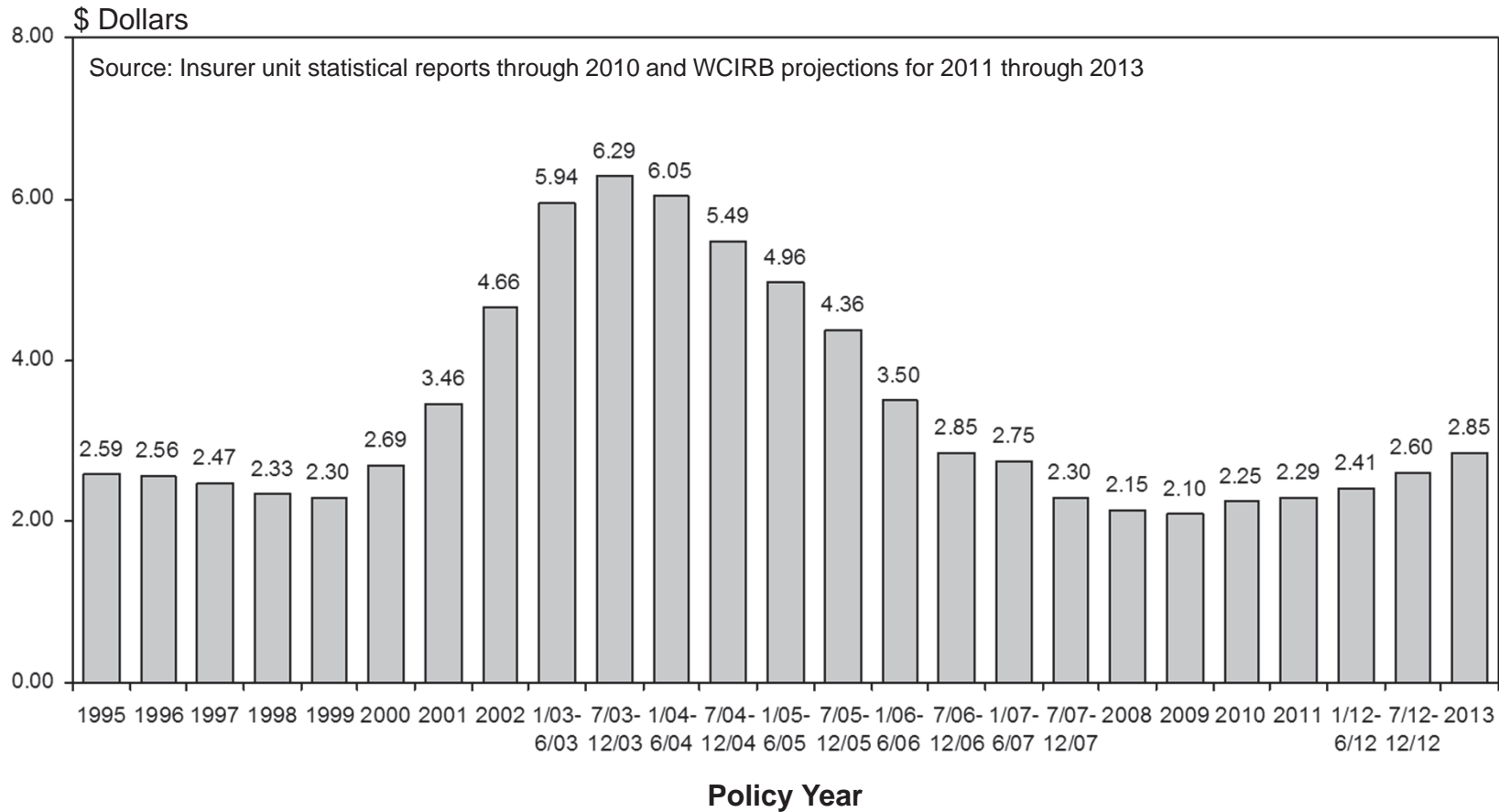
of SB 863, which was forecast to decrease ALAE costs, the projected average ALAE cost of a 2013 indemnity claim, excluding MCCP costs, is approximately 3% above that of the prior year and approximately 88% higher than the average ALAE severity for 2005 (Exhibit 8.4).

- The WCIRB currently projects the total statewide ultimate losses on all injuries that occurred on or before December 31, 2013 to be approximately \$5.1 billion more than the amounts reported by insurers and is comparable to the differences for the prior two years (Exhibit 9).

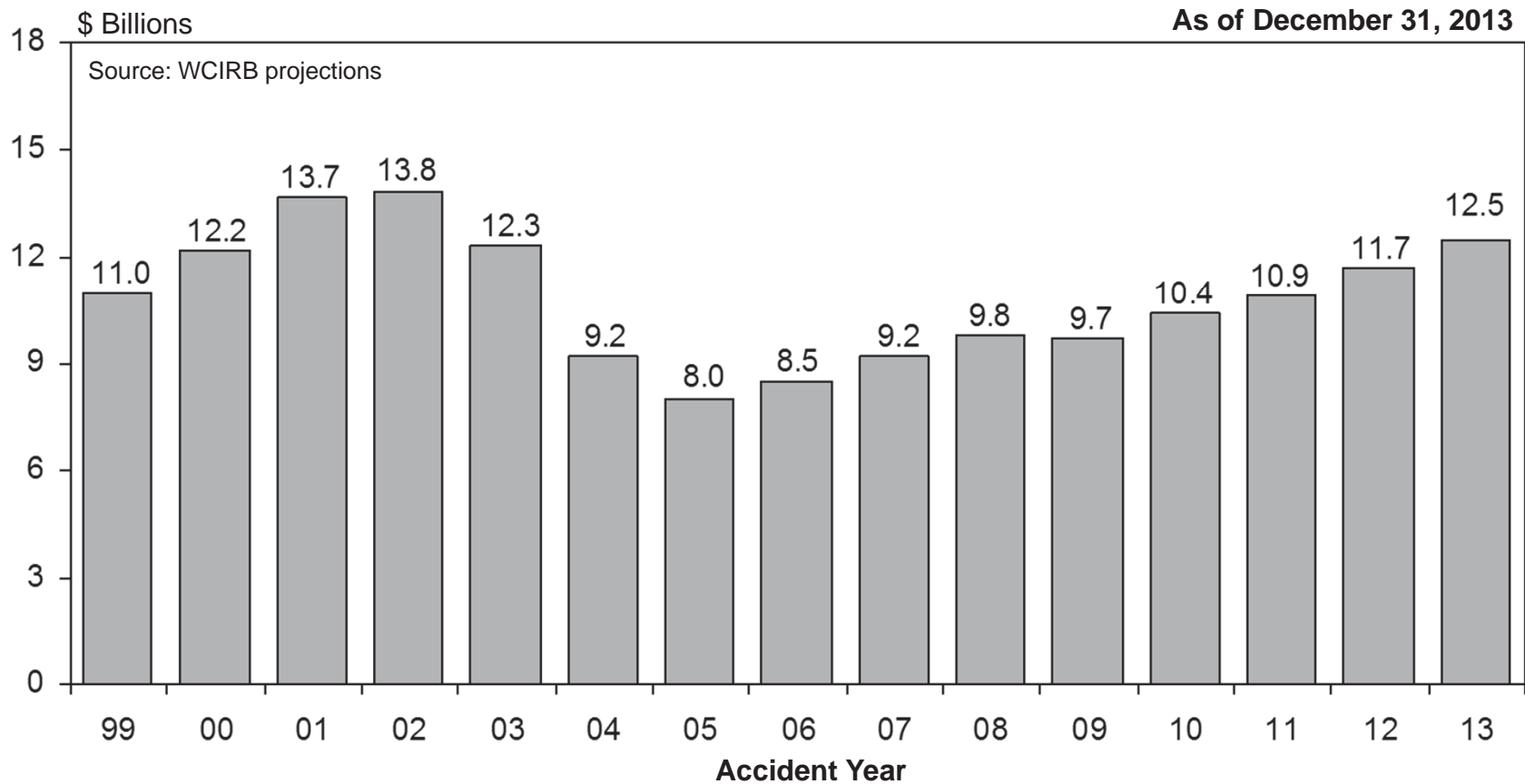
California Workers' Compensation Written Premium



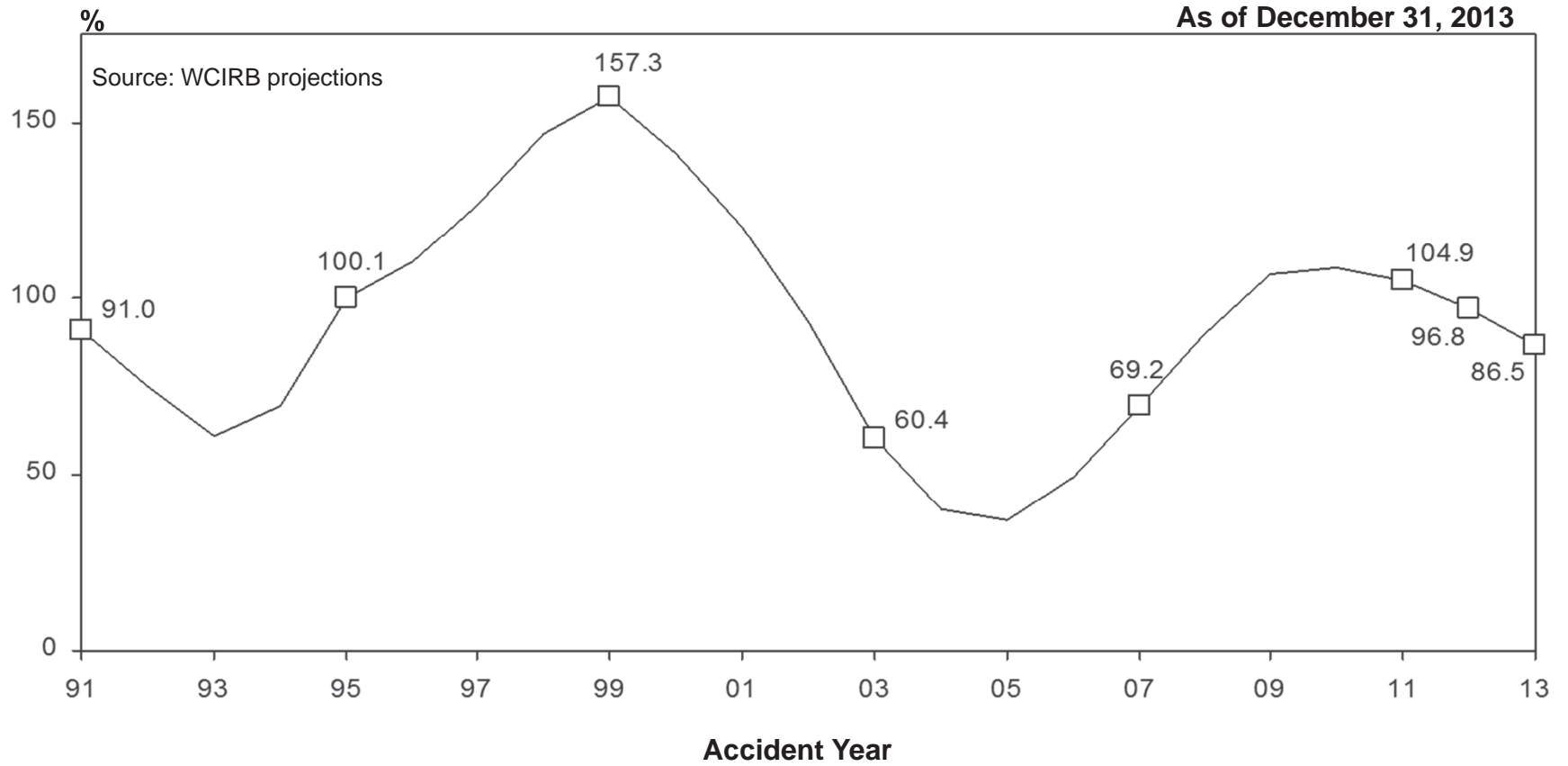
California Workers' Compensation Industry Average Charged Rate per \$100 of Payroll



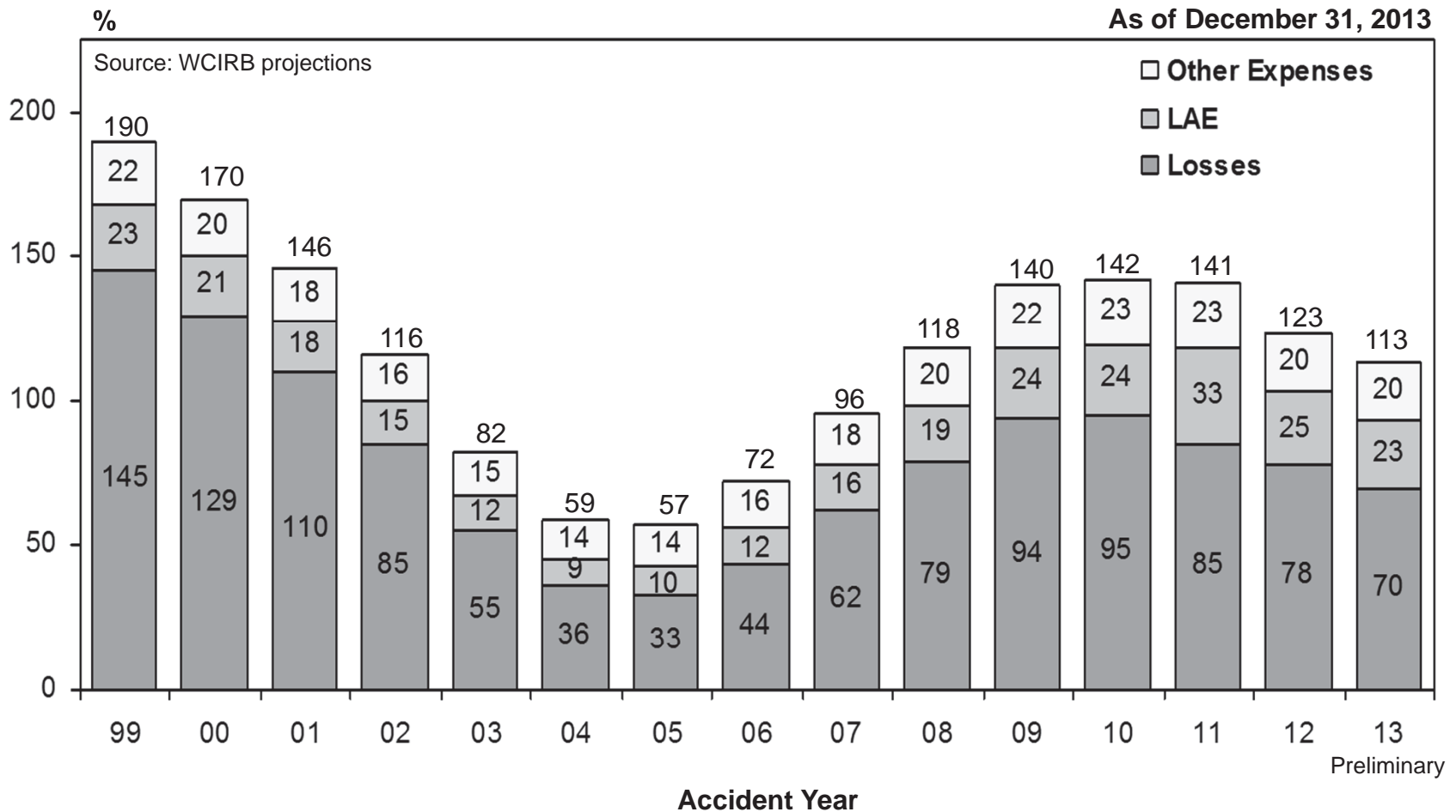
California Workers' Compensation Projected Ultimate Losses and ALAE by Accident Year



California Workers' Compensation Projected Ultimate Accident Year Loss and ALAE Ratios

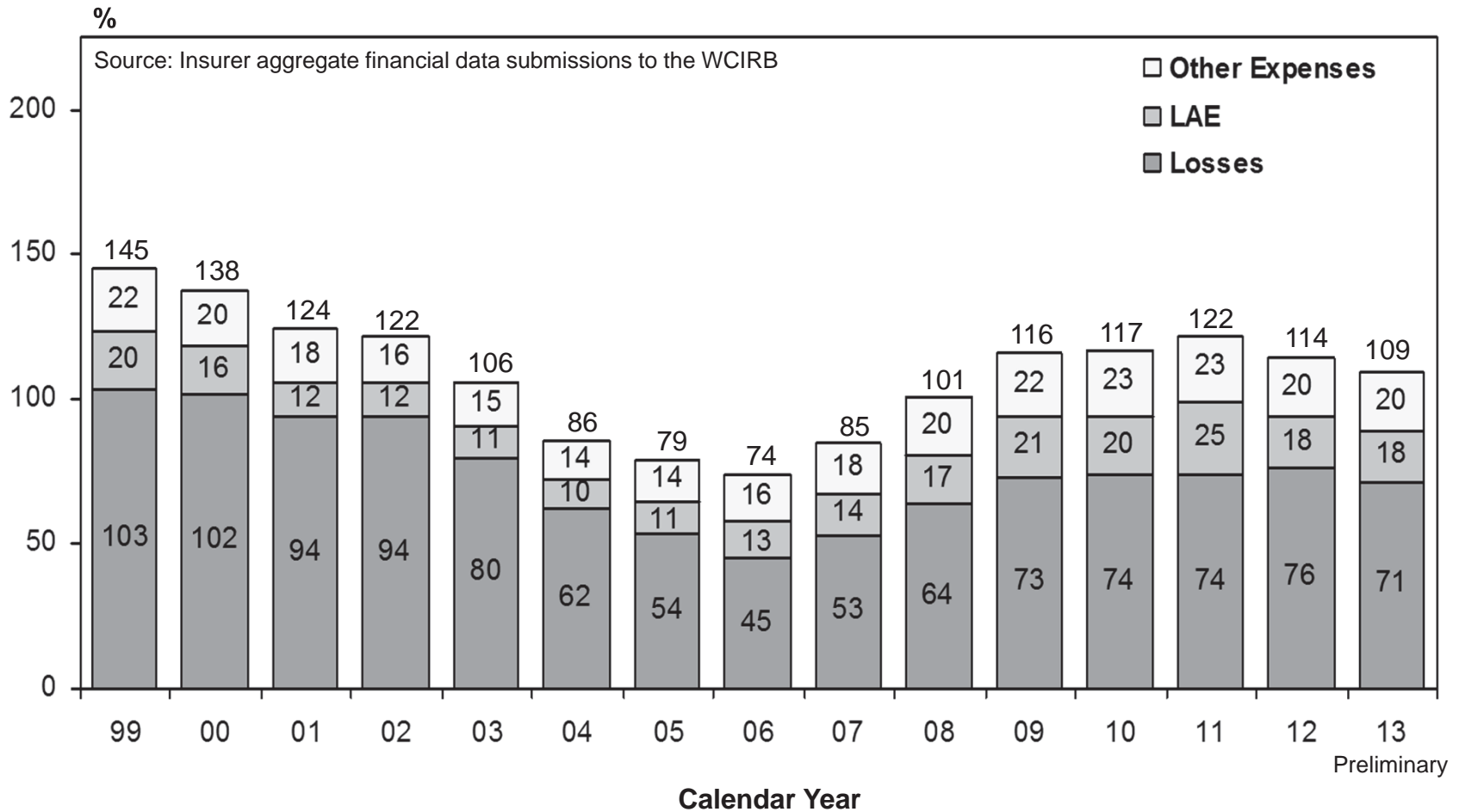


California Workers' Compensation Projected Accident Year Combined Loss and Expense Ratios *

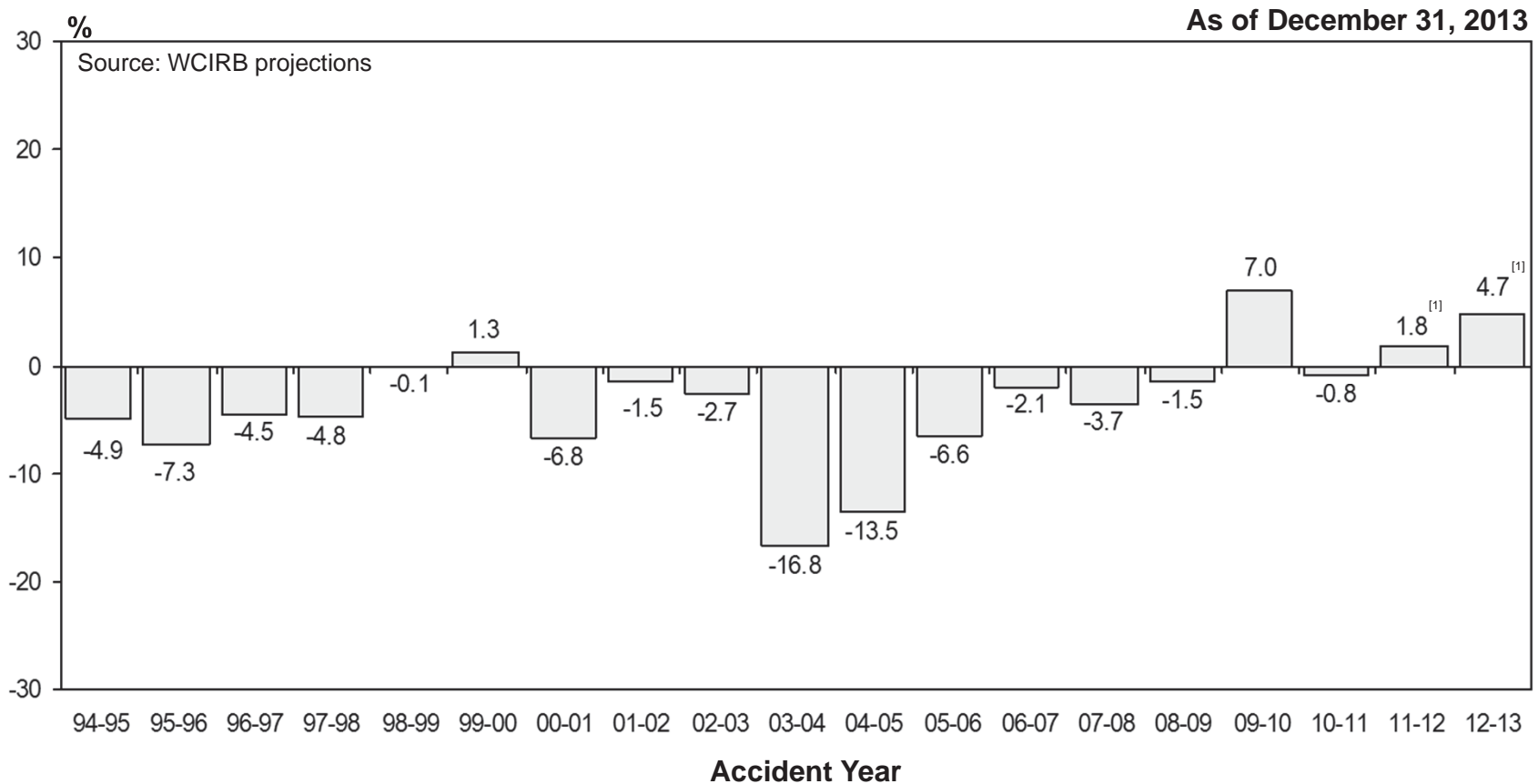


* The cost of medical cost containment programs is reflected in LAE for accident years 2011 and subsequent. It is reflected in losses for all other accident years.

California Workers' Compensation Calendar Year Combined Loss and Expense Ratios

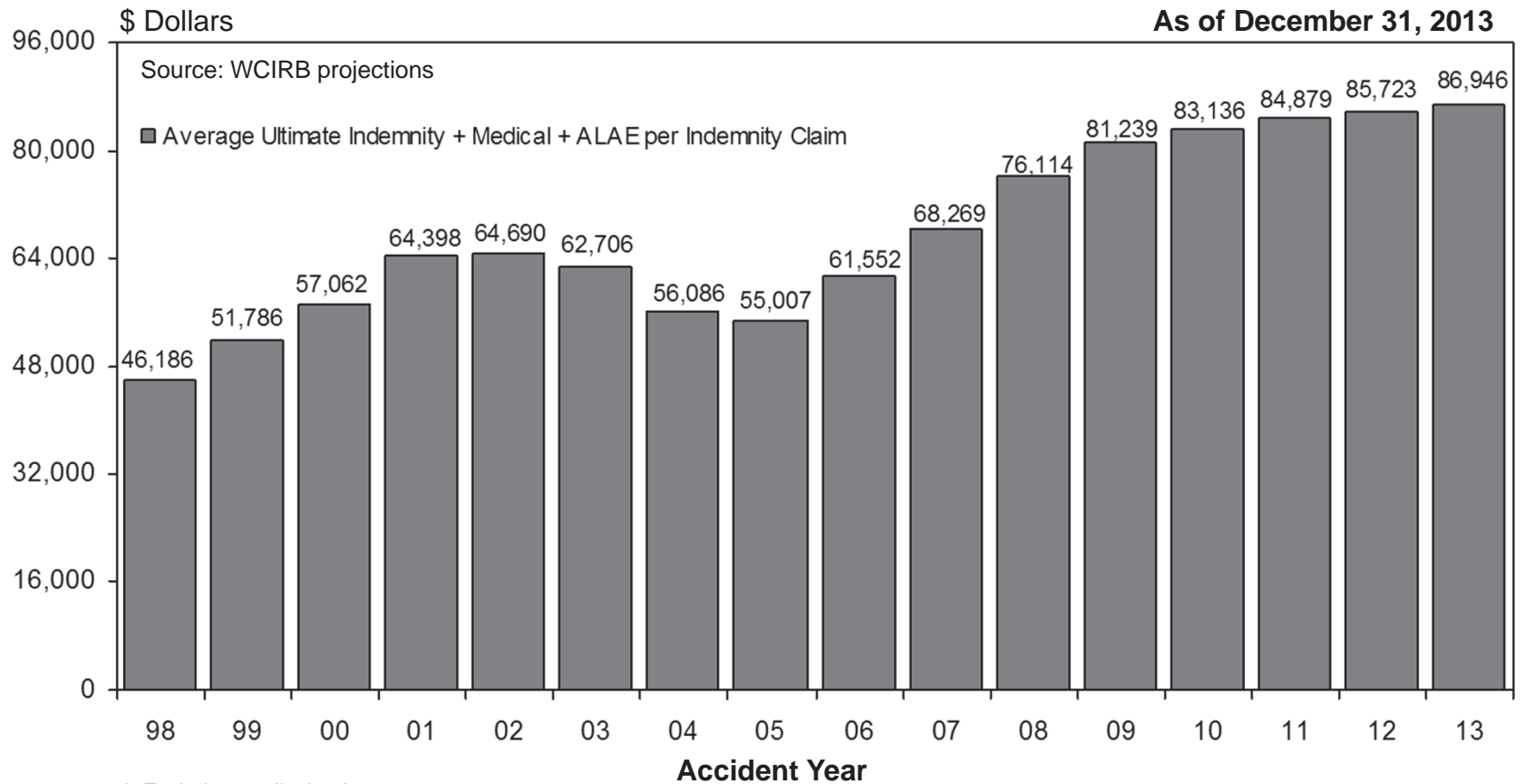


California Workers' Compensation Projected Percentage Change in Indemnity Claim Frequency by Accident Year



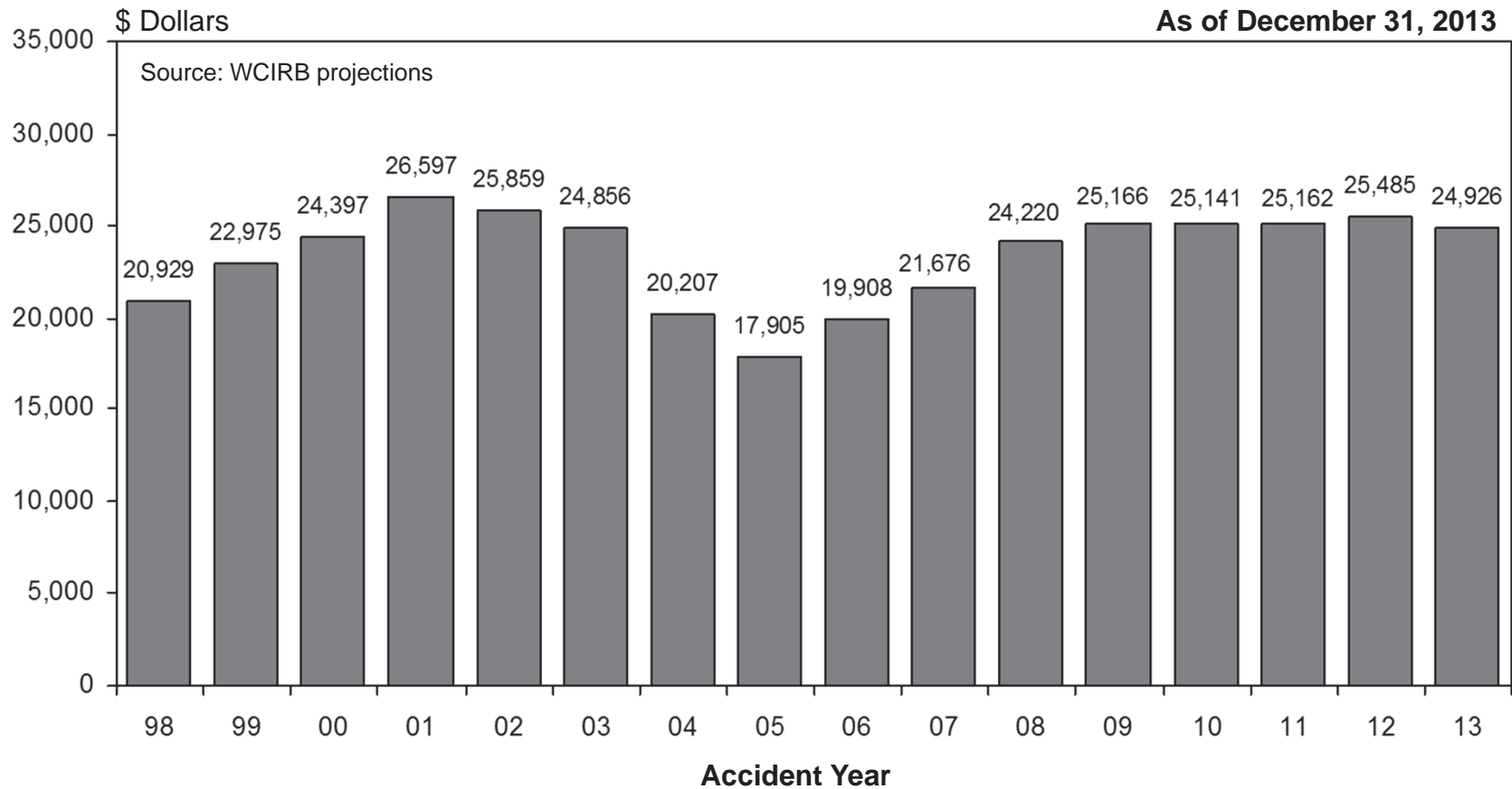
⁽¹⁾ The 2011-2012 estimate is based on partial year unit statistical data. The 2012-2013 estimate is based on a comparison of claim counts from WCIRB accident year experience as of December 31, 2013 relative to the estimated change in statewide employment.

California Workers' Compensation Projected Ultimate Total Loss* and ALAE per Indemnity Claim

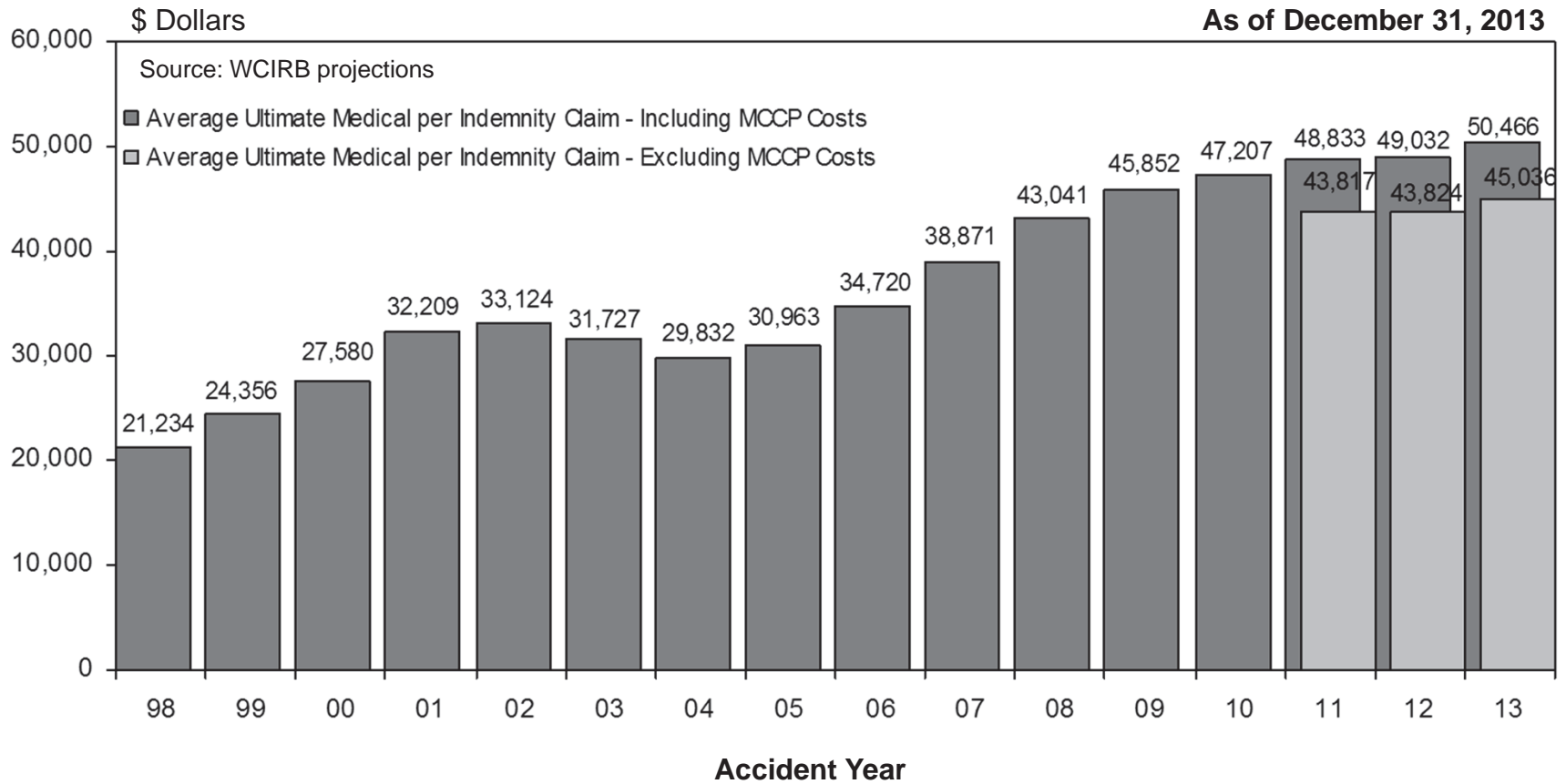


* Excludes medical-only.

California Workers' Compensation Projected Ultimate Indemnity per Indemnity Claim

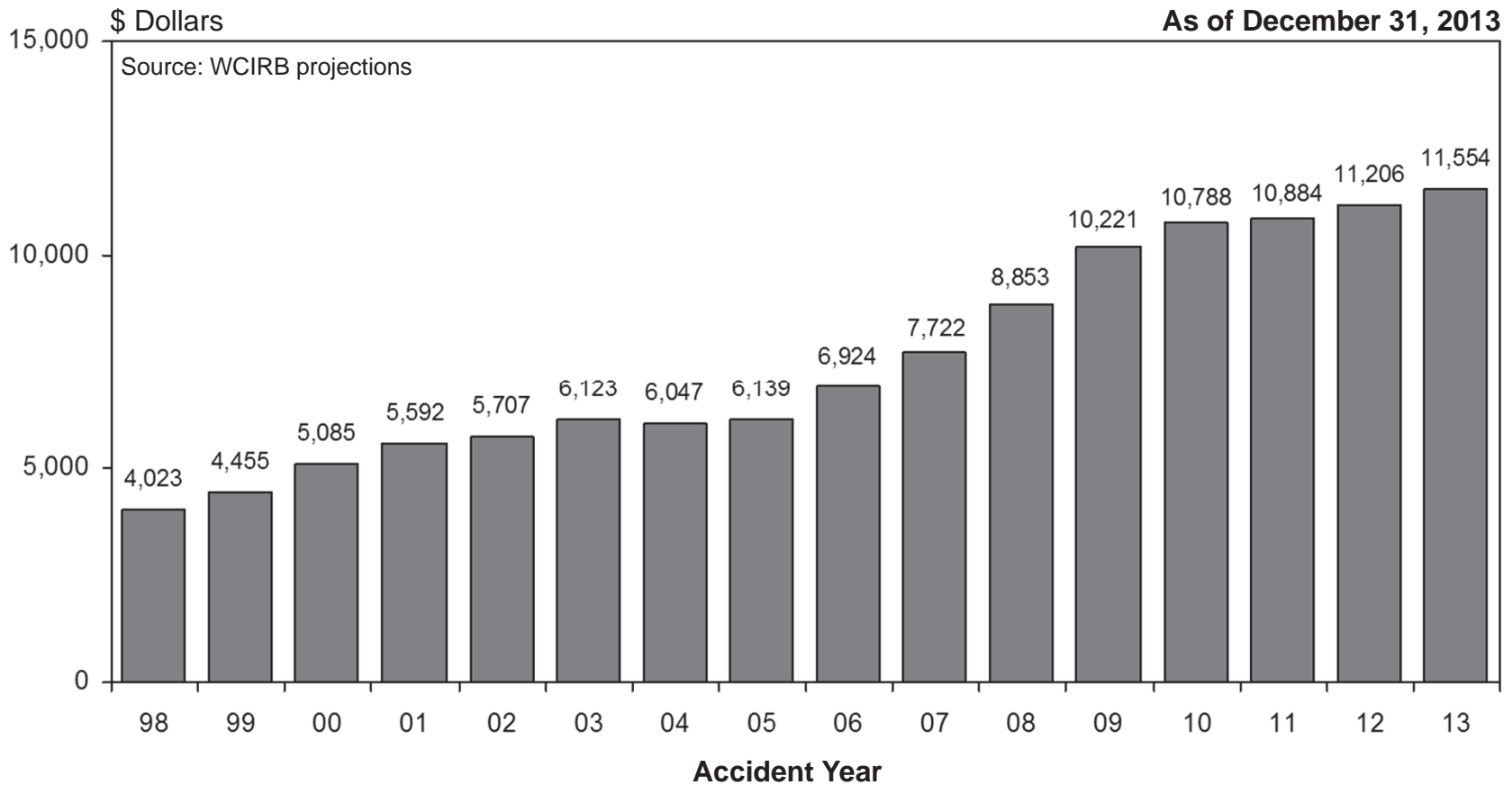


California Workers' Compensation Projected Ultimate Medical* per Indemnity Claim

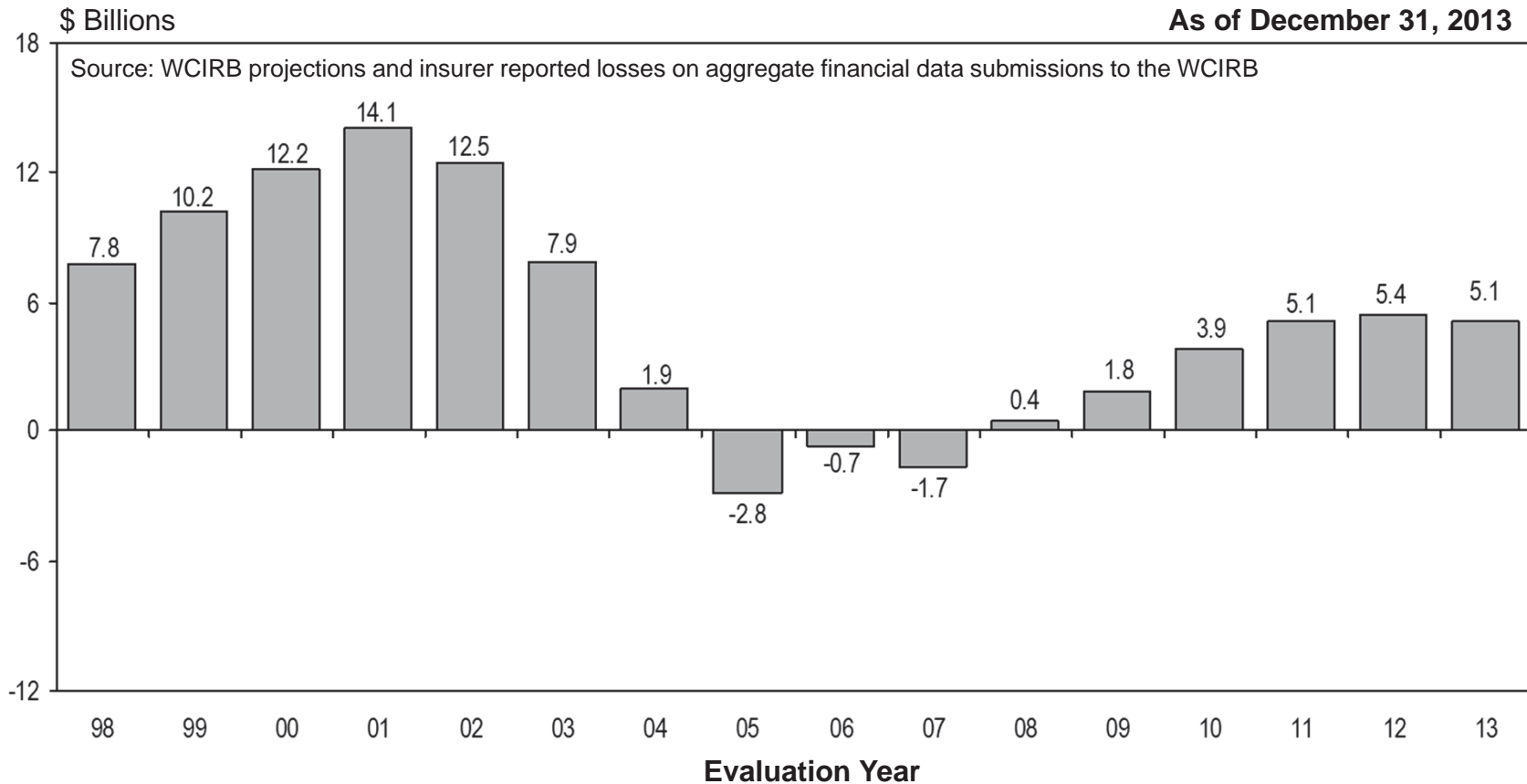


* Excludes medical-only.

California Workers' Compensation Projected Ultimate ALAE per Indemnity Claim (Excluding MCCP Costs)



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



Note: The cost of medical cost containment programs is excluded from losses for accident years 2011 and subsequent and included in losses for all other accident years.

WCIRBCalifornia®

Objective. Trusted. Integral.

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