



The State of California Workers' Compensation

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Telescopic and Microscopic view of WC results



Discussion Points

- Industry Financial Results
 - Countrywide vs CA
 - P&C and WC
- California Workers Compensation
 - Cost Drivers: Frequency x Severity
 - Distribution of benefits
- Macroeconomic indicators
- Emerging trends

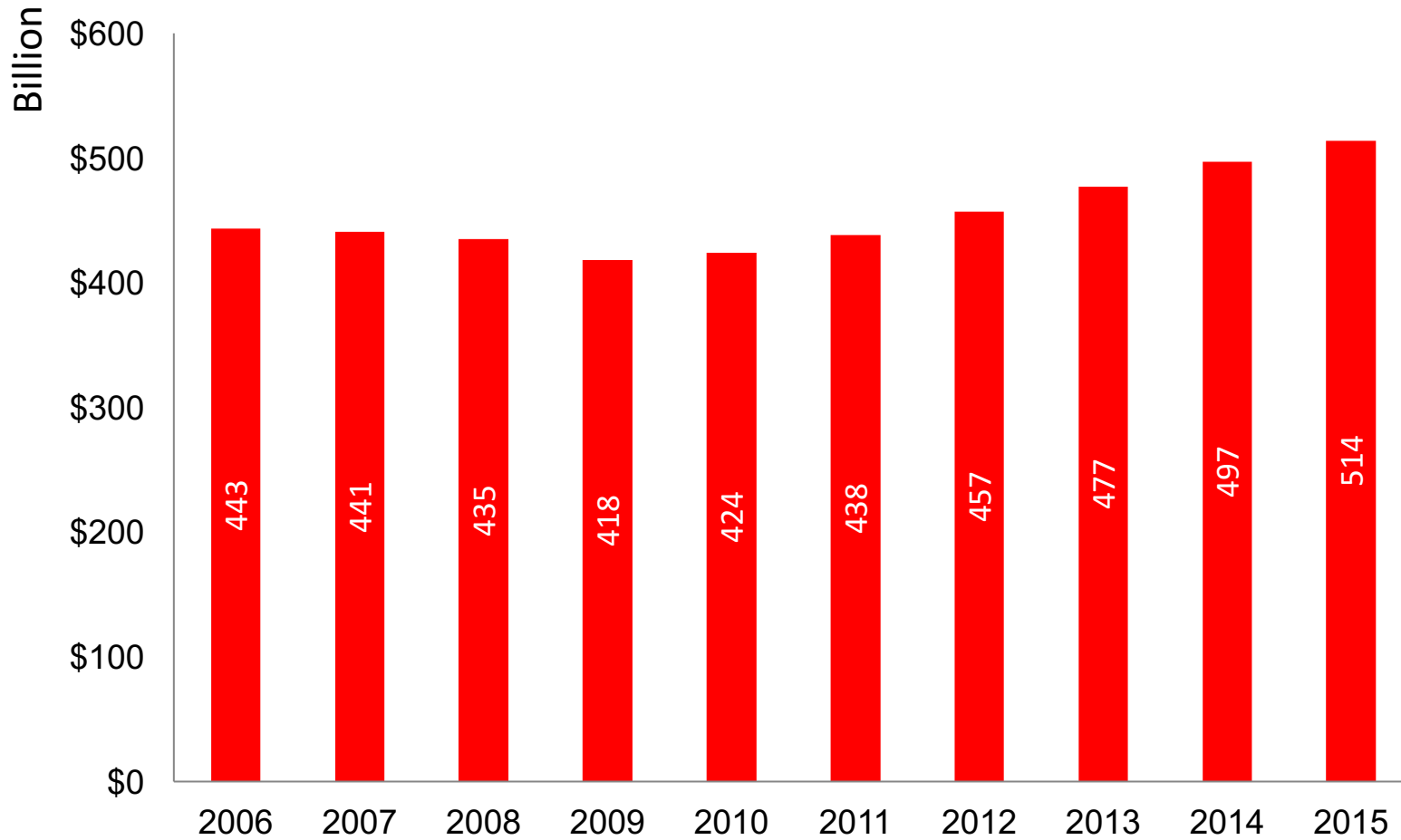
Sources: AM Best, NCCI, WCIRB, CWRI, III, Professional judgment

Countrywide Results

All Coverages

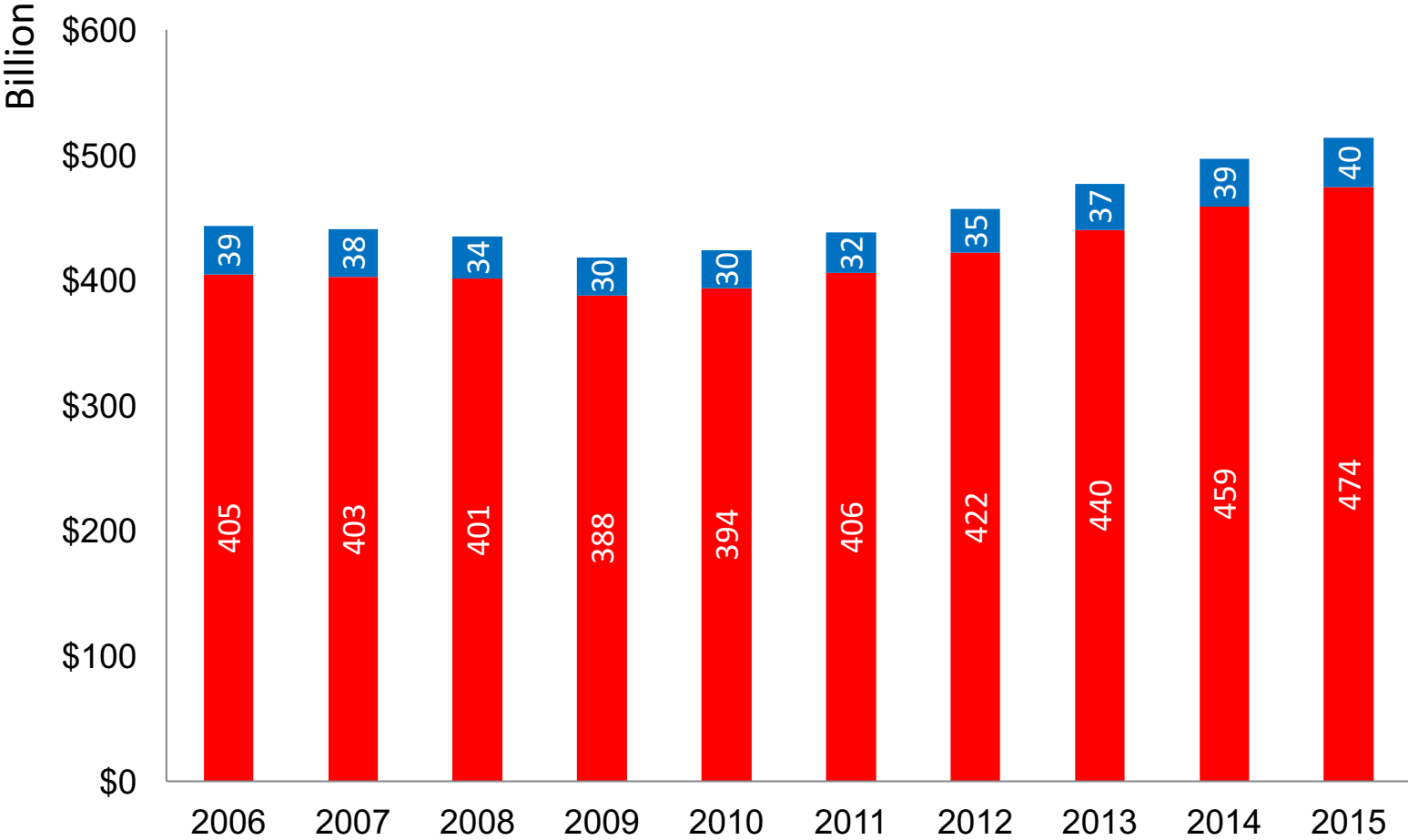
Net Written Premium – Countrywide Private Carriers

2015 ~ \$514B

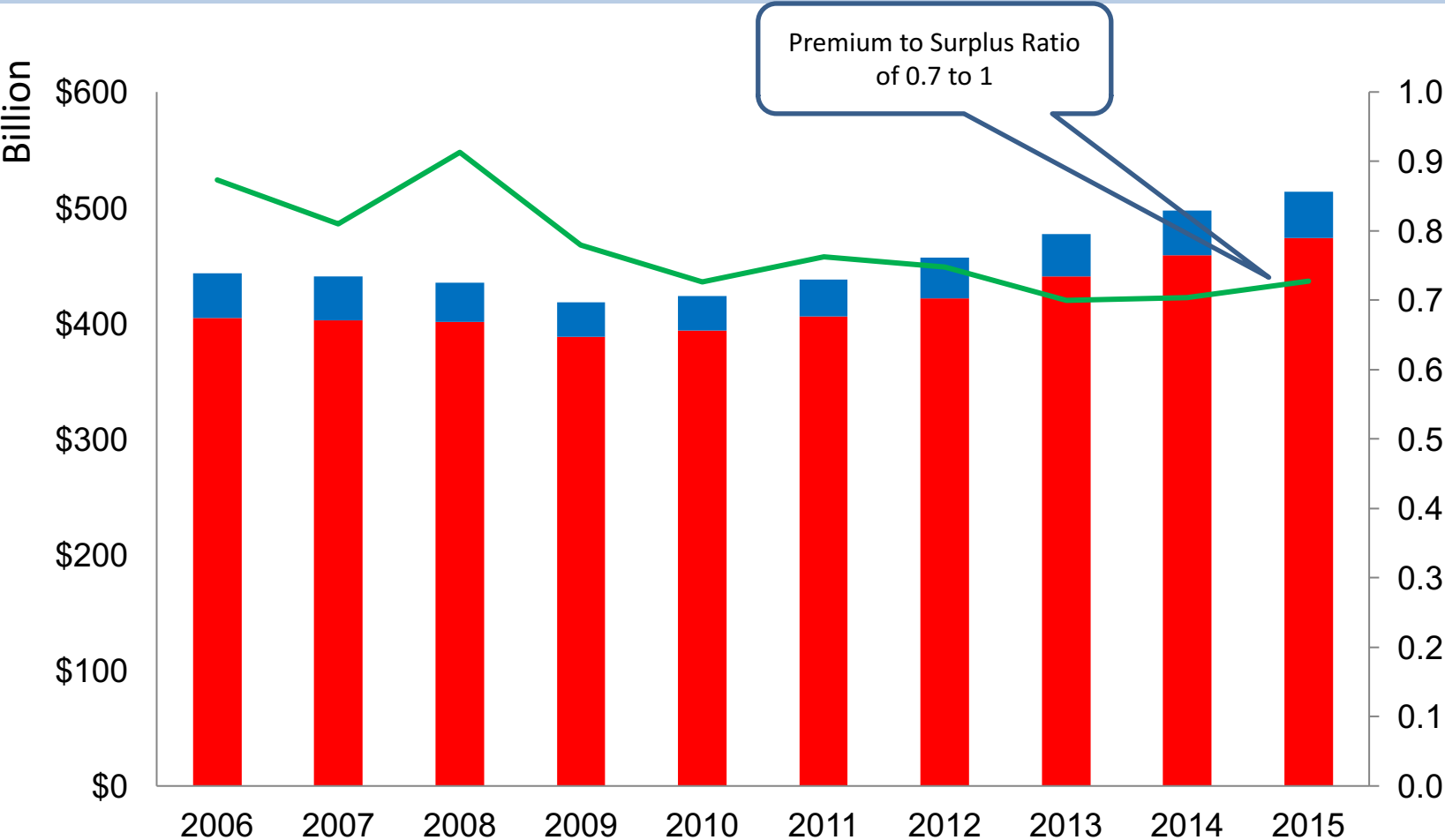


Net Written Premium – Countrywide Private Carriers

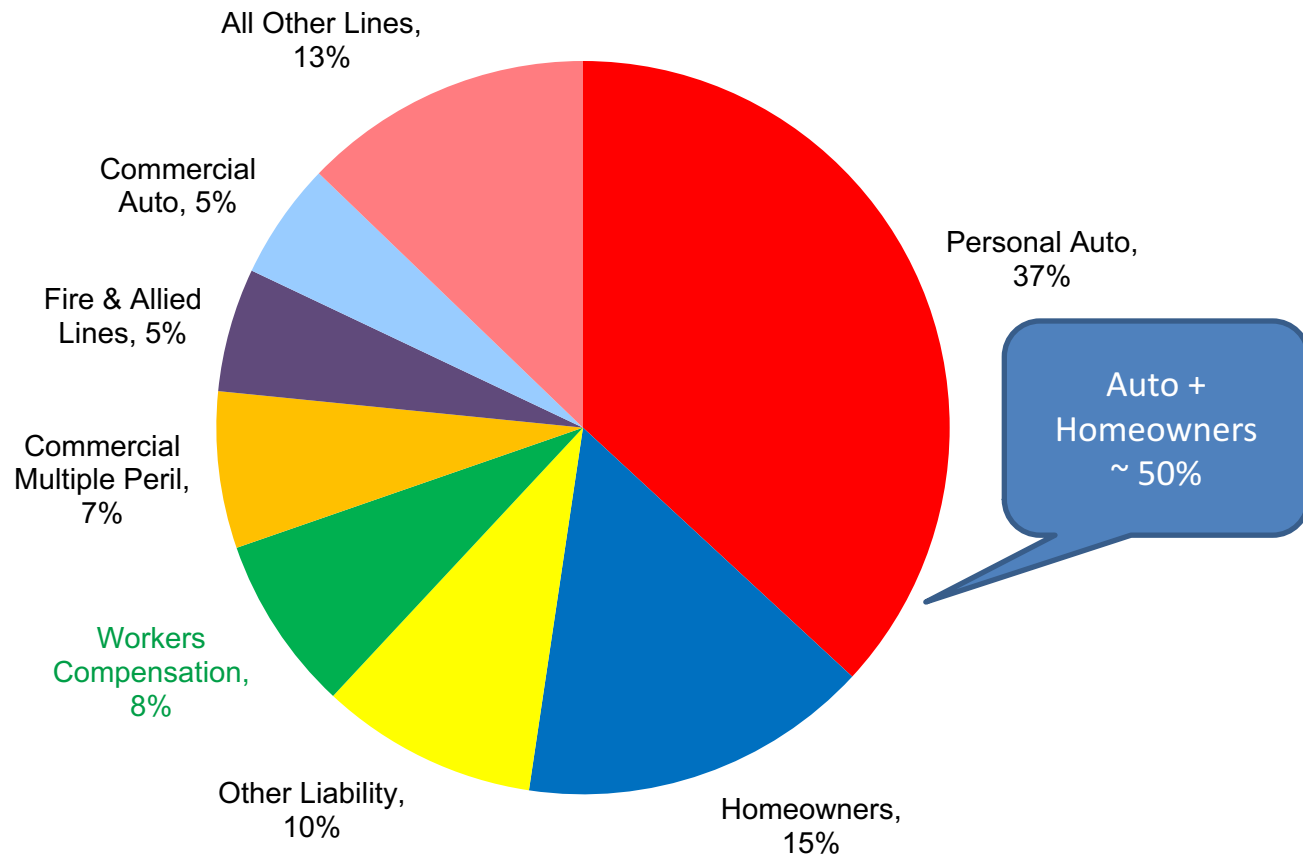
2015 WC ~ 8% of Total ~ \$40 Billion, CA ~ 25% of Countrywide WC



Net Written Premium – Countrywide Private Carriers

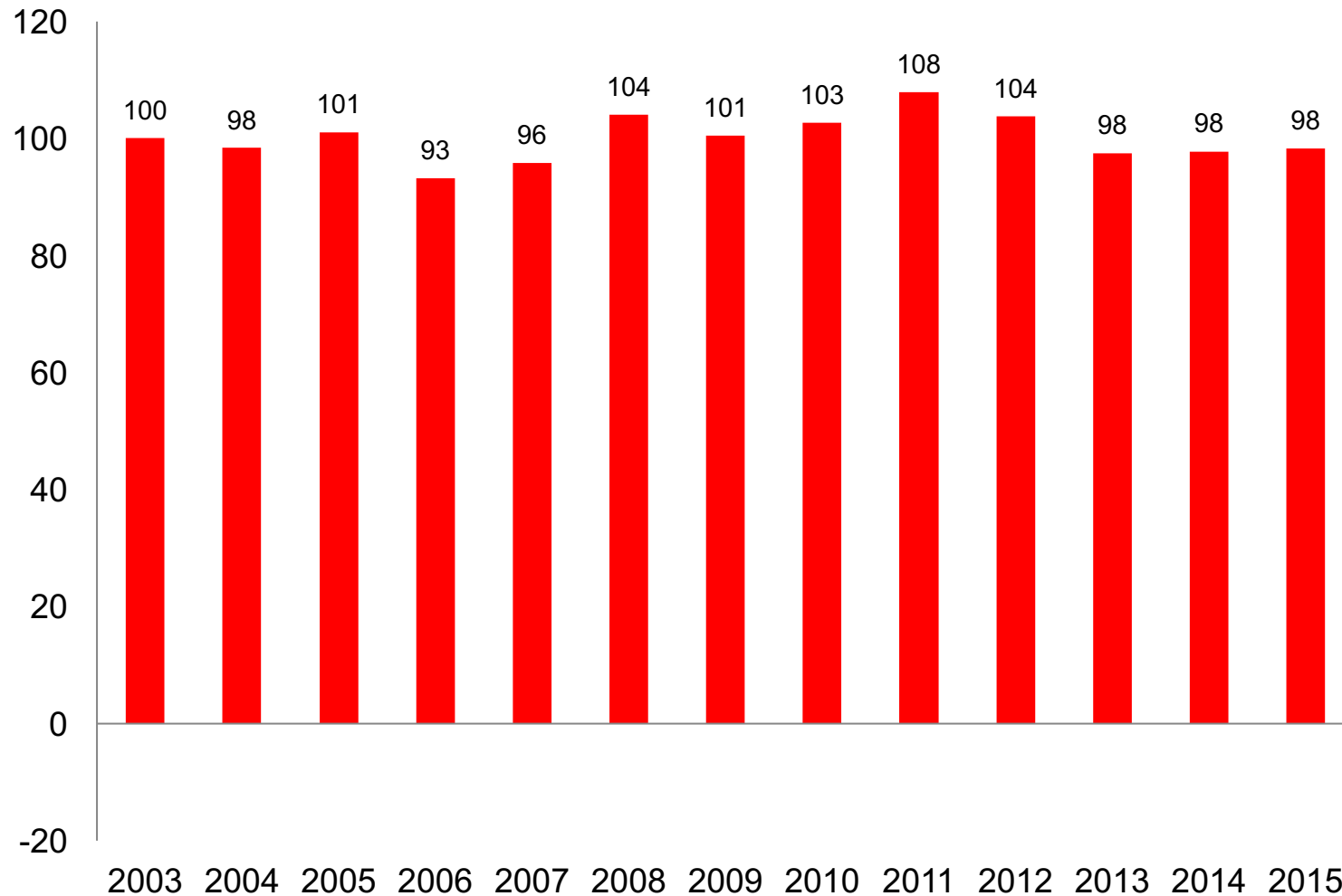


2015 Net Written Premium – Countrywide Private Carriers

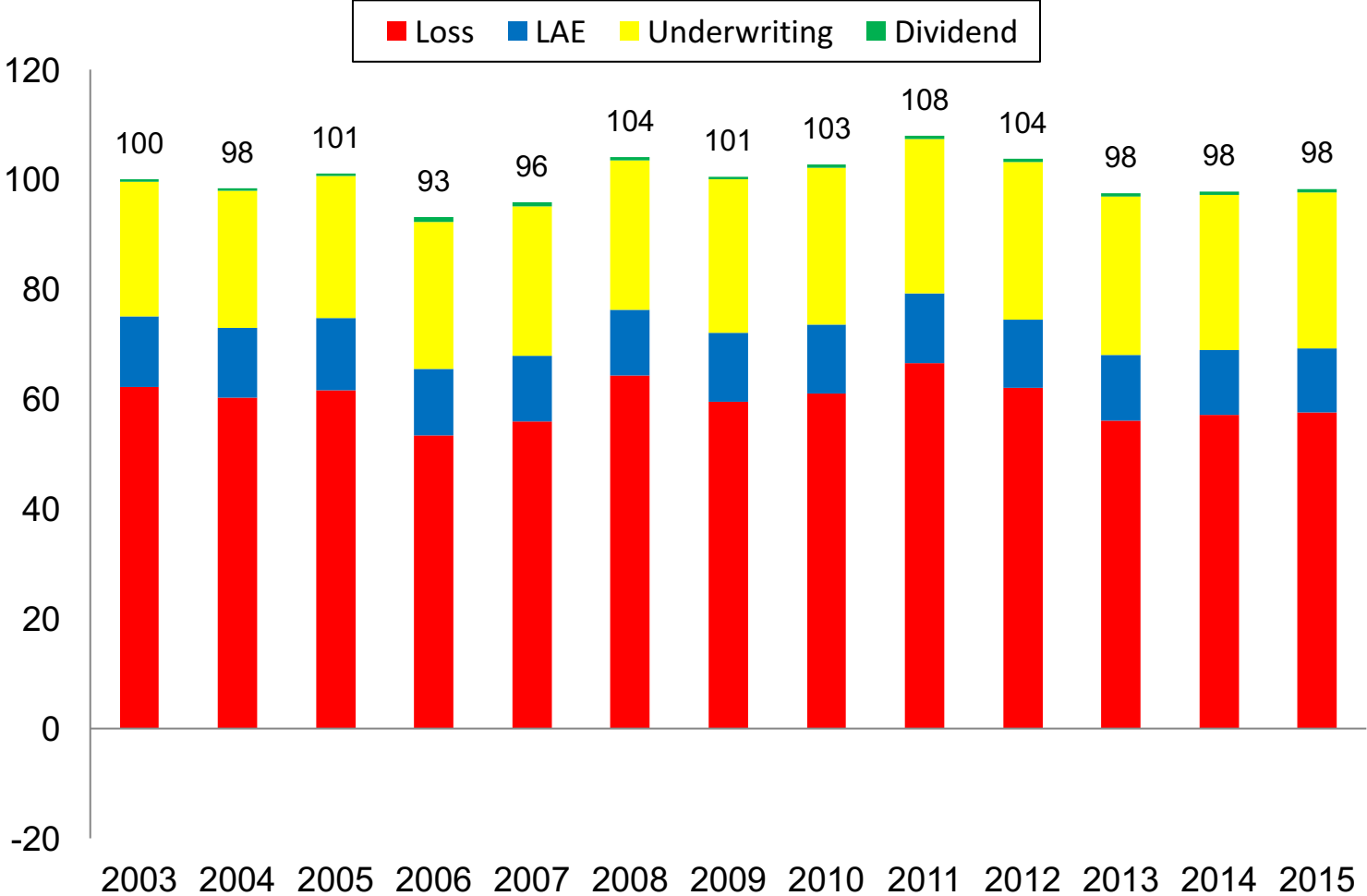


Countrywide P&C Combined Ratio

Combined Ratio = Loss Ratio + Expense Ratio

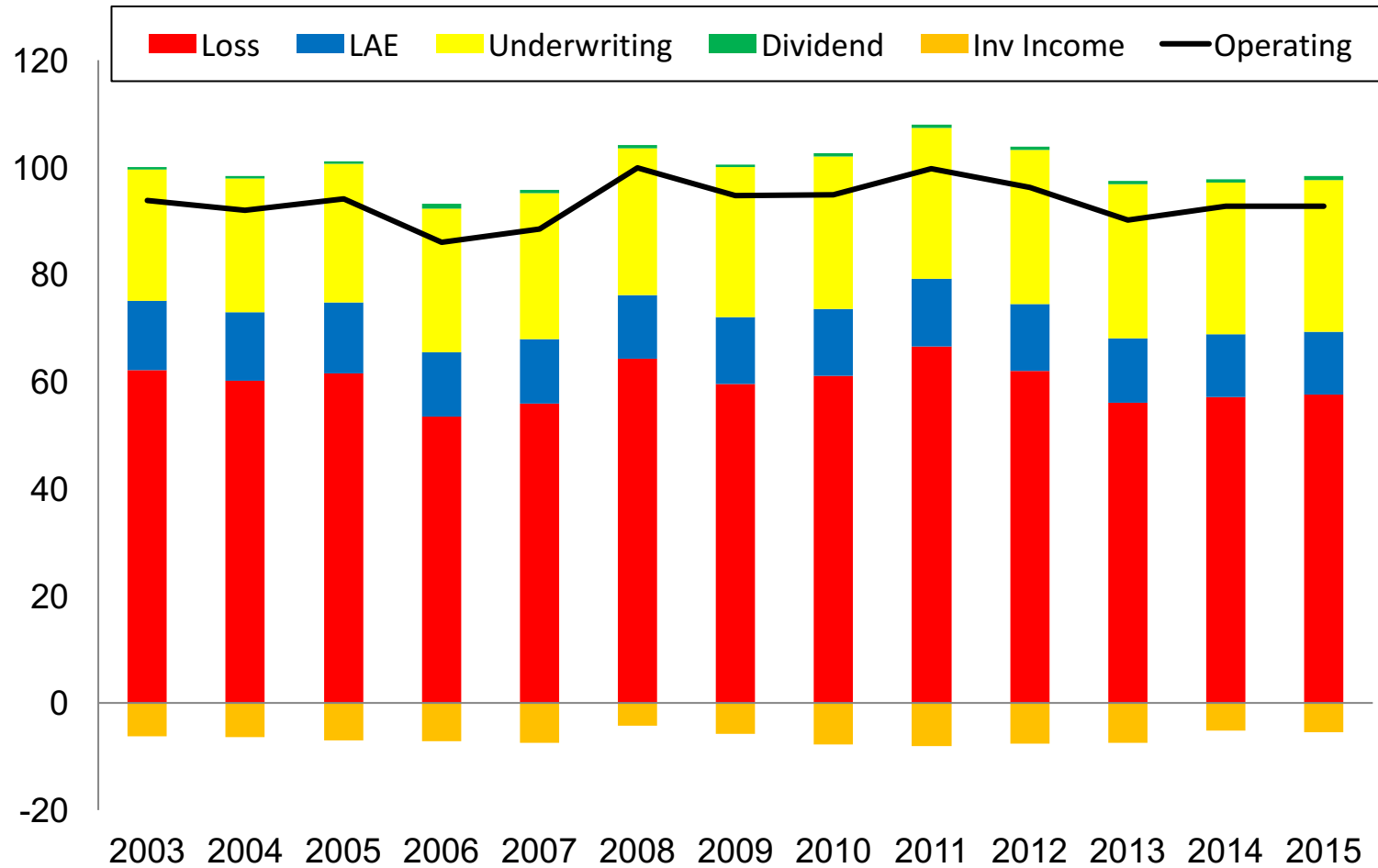


Countrywide P&C Combined Ratio

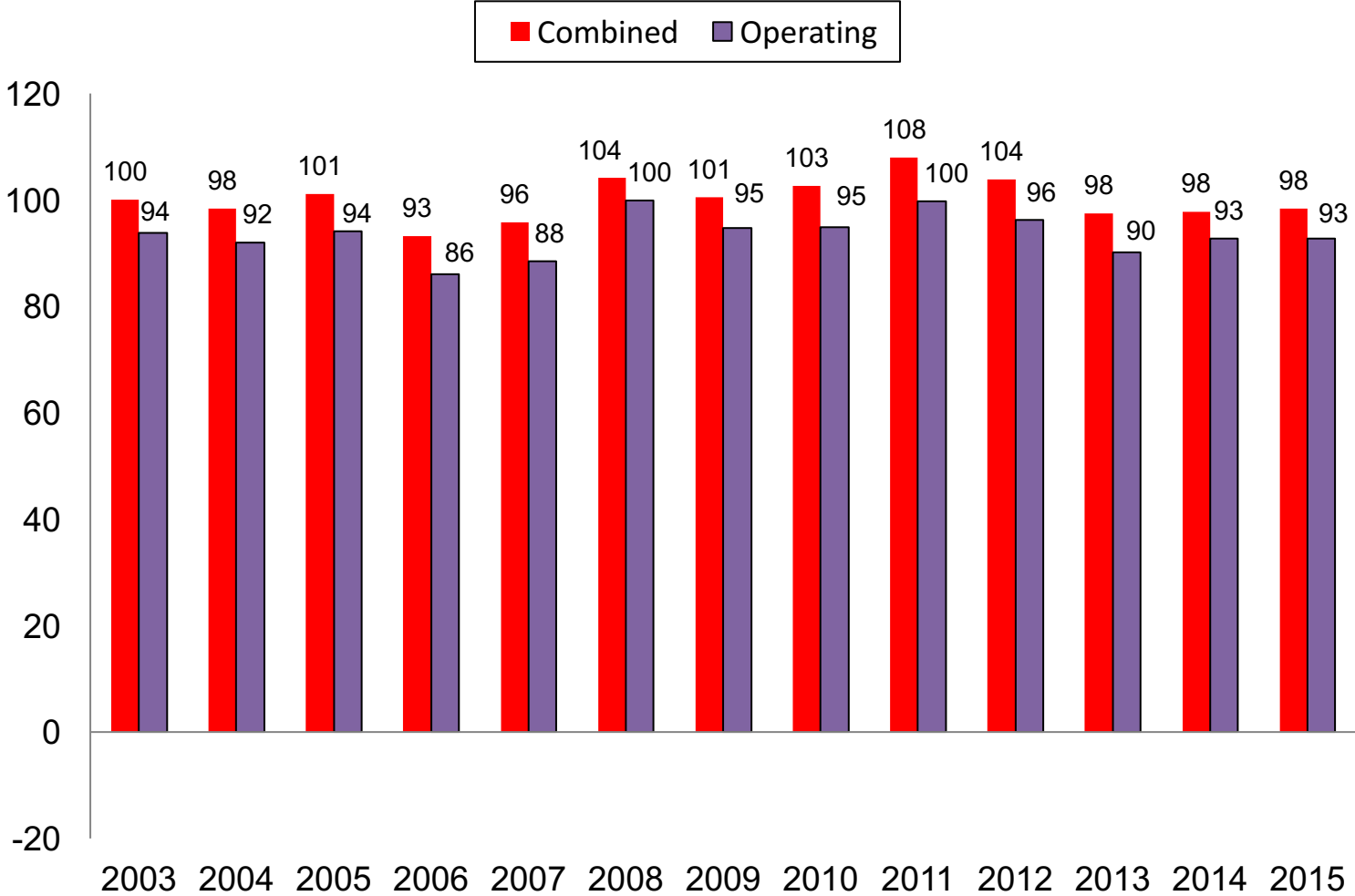


Countrywide P&C Operating Ratio

Operating Ratio = Loss Ratio + Expense Ratio – Inv Income Ratio



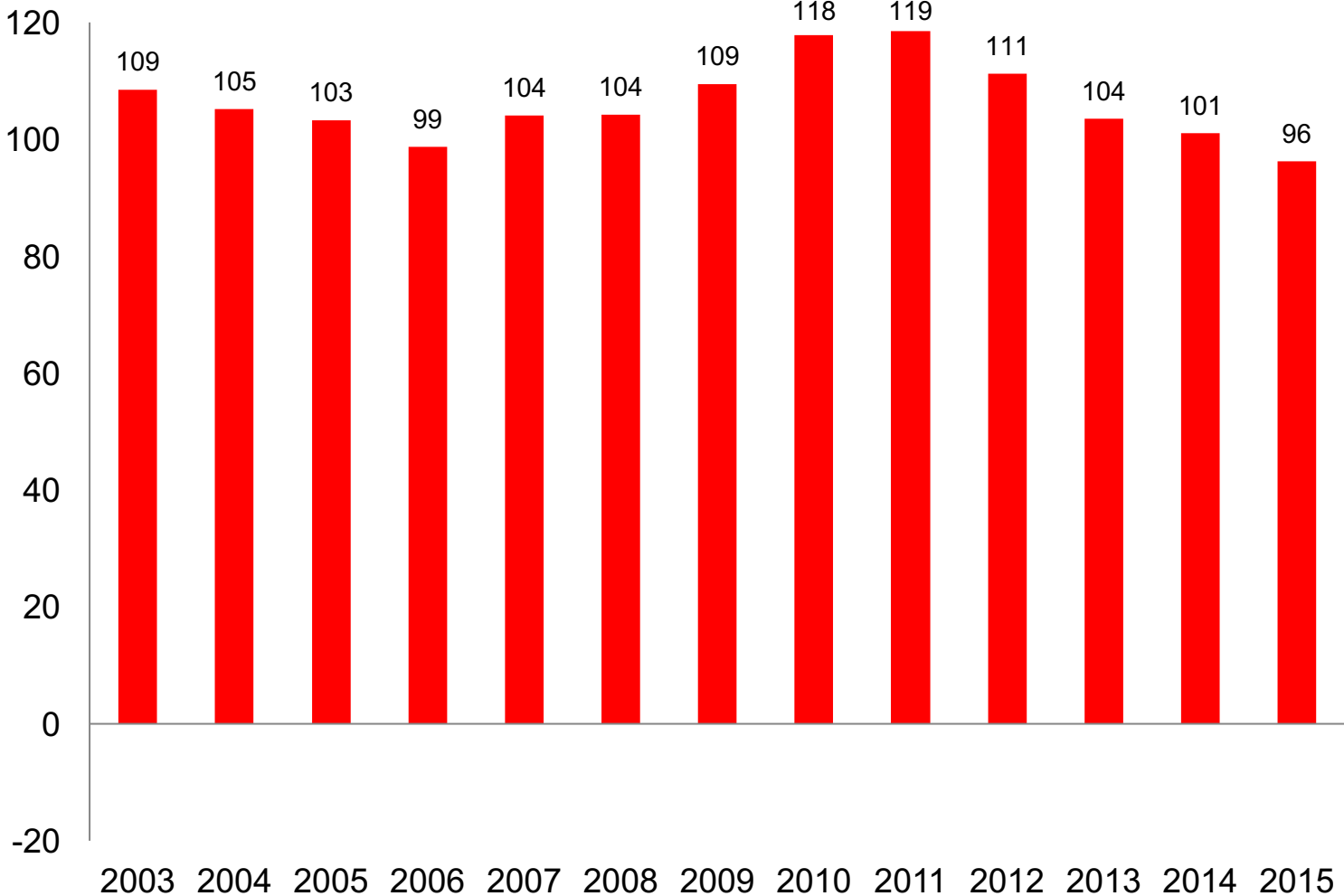
Countrywide P&C: *Combined Ratio vs. Operating Ratio*



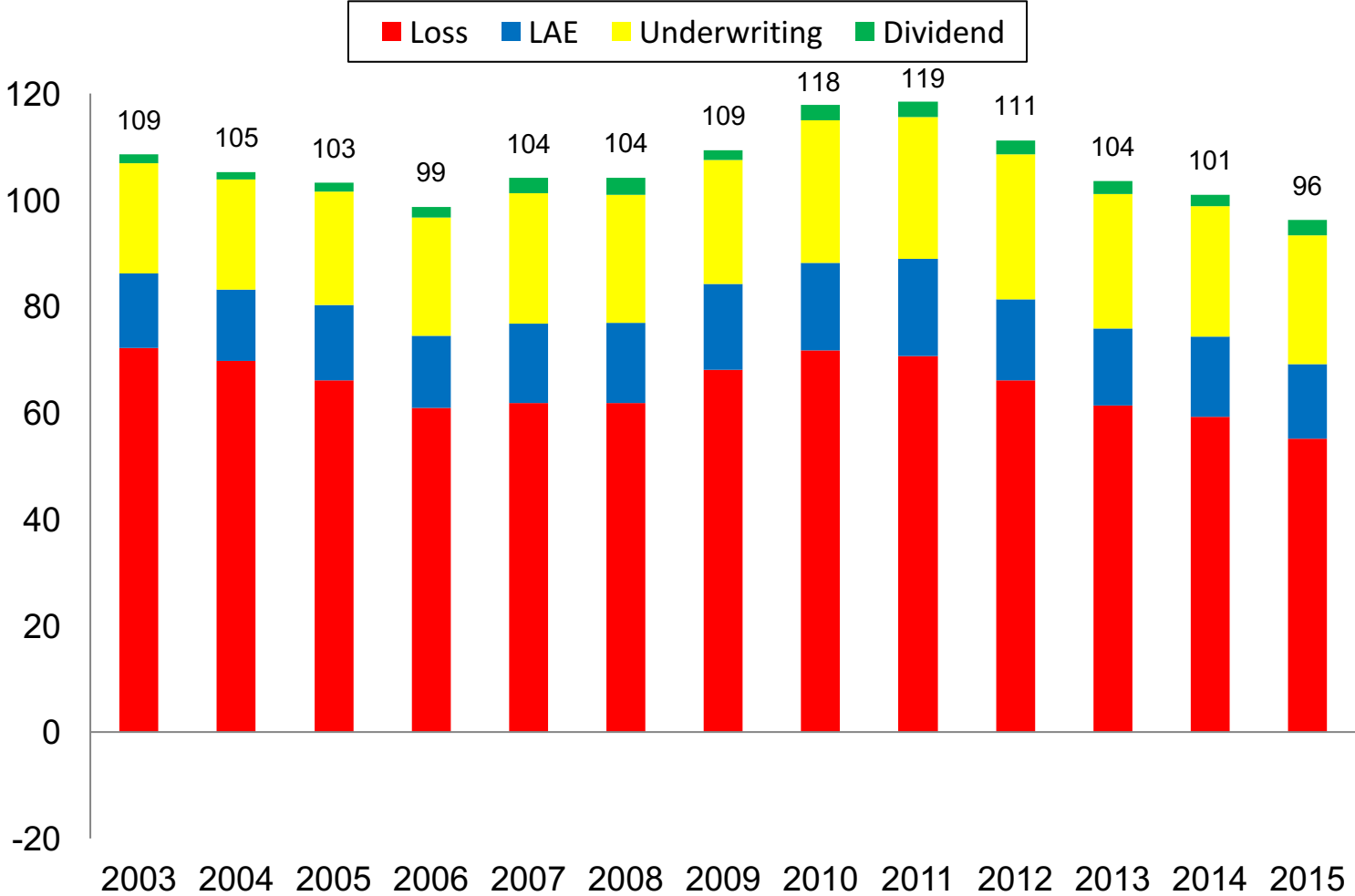
Countrywide Results

Workers Compensation

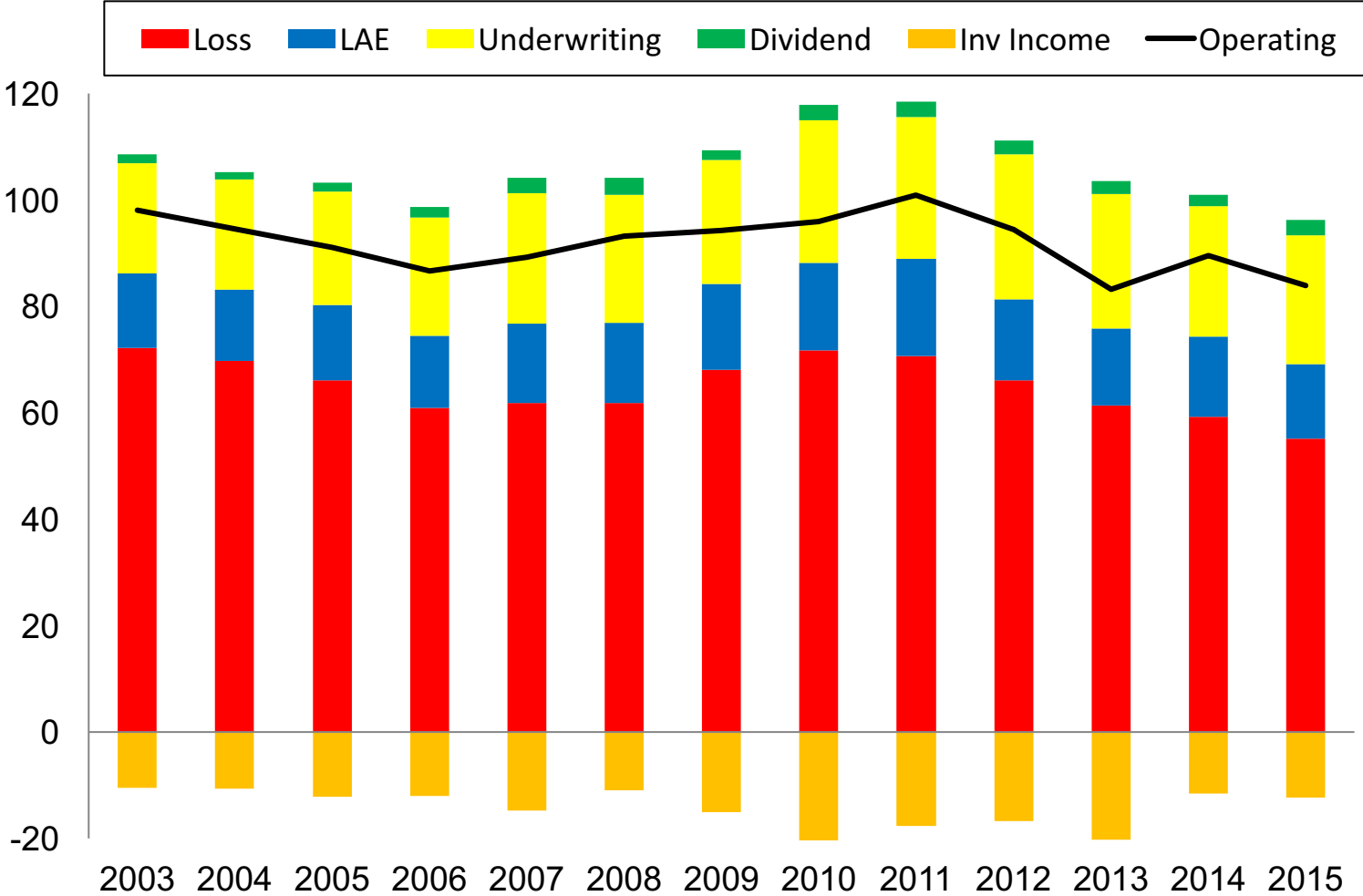
Countrywide Workers Compensation Combined Ratio



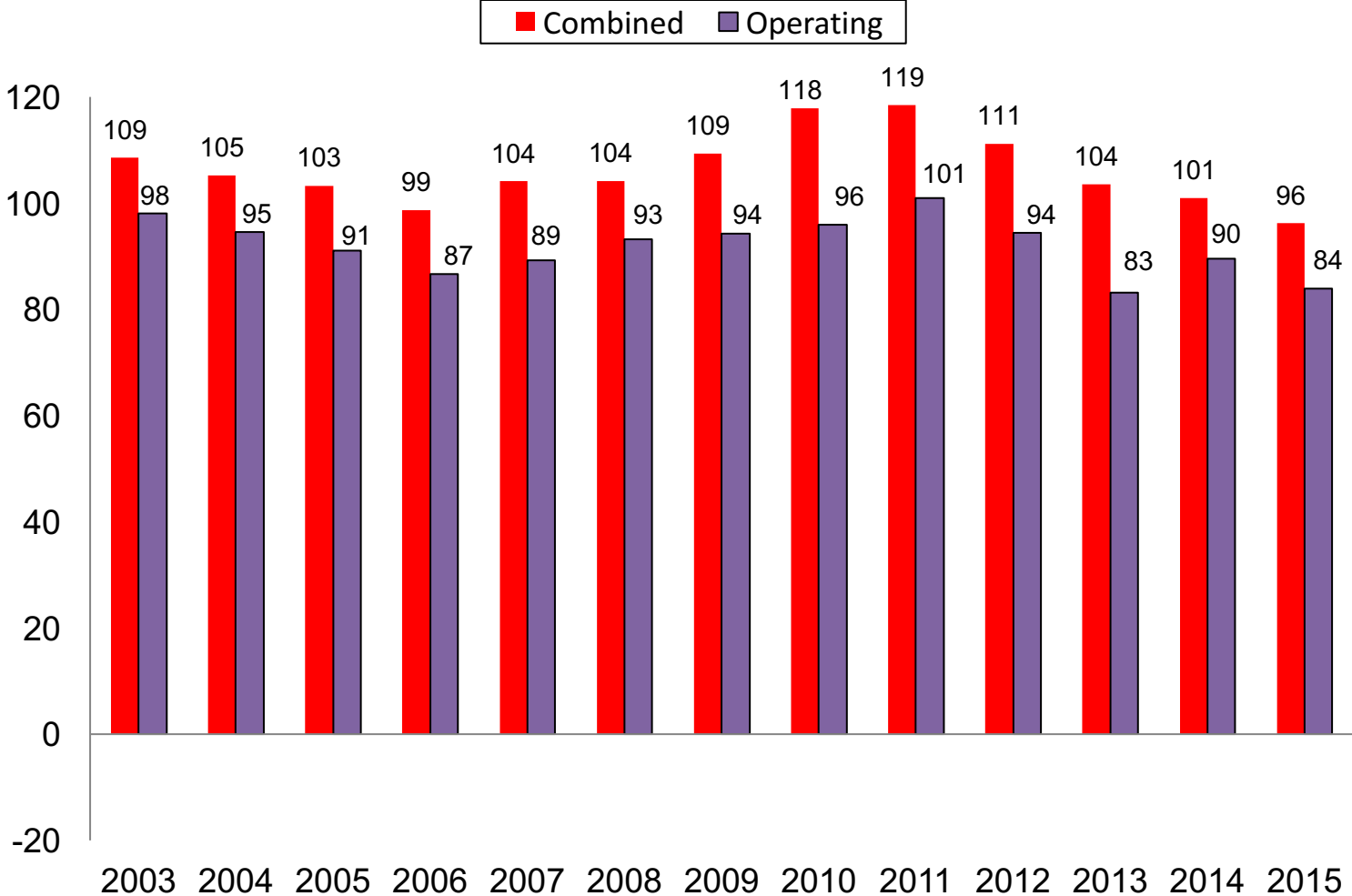
Countrywide Workers Compensation Combined Ratio



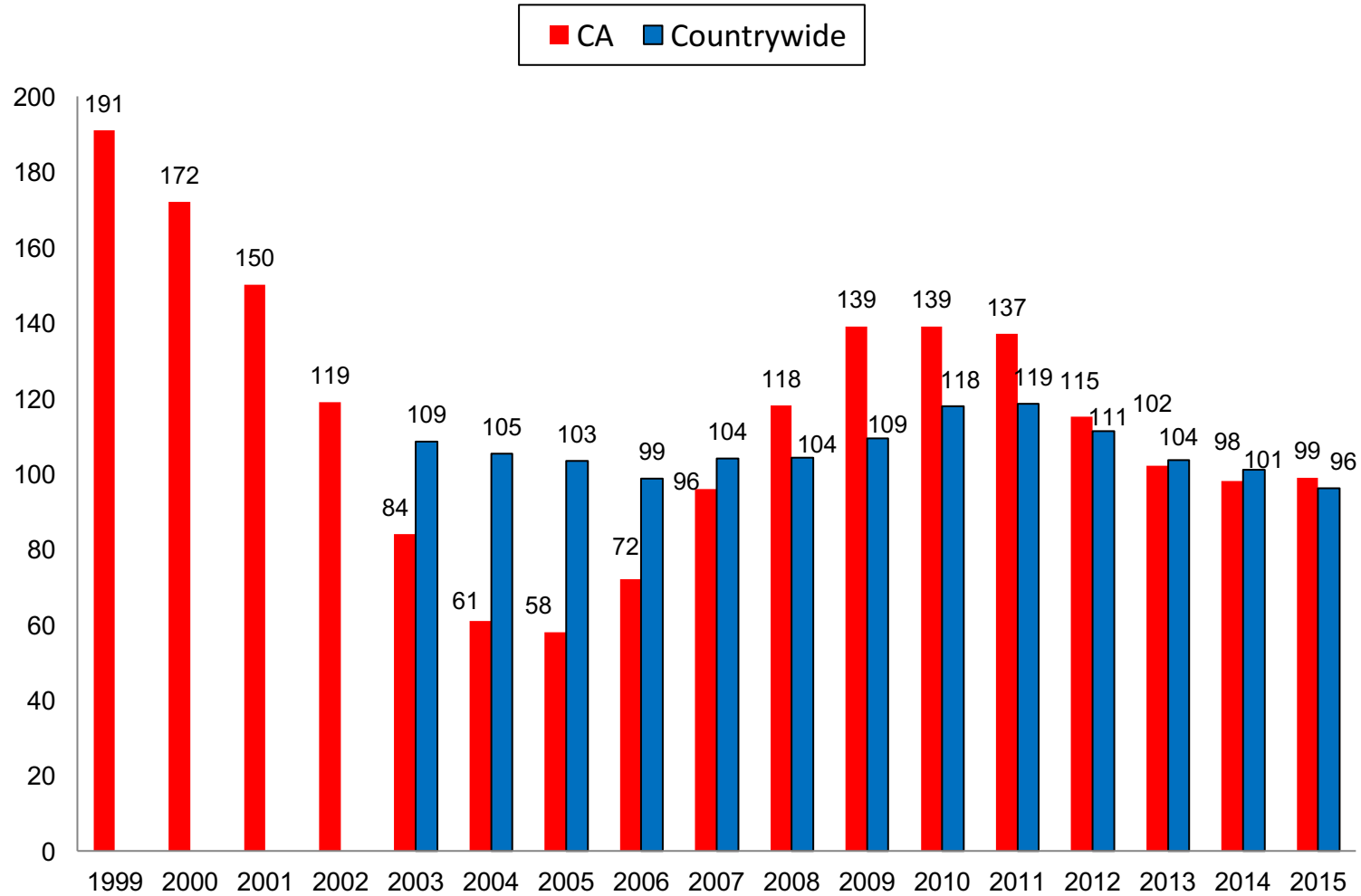
Countrywide Workers Compensation Operating Ratio



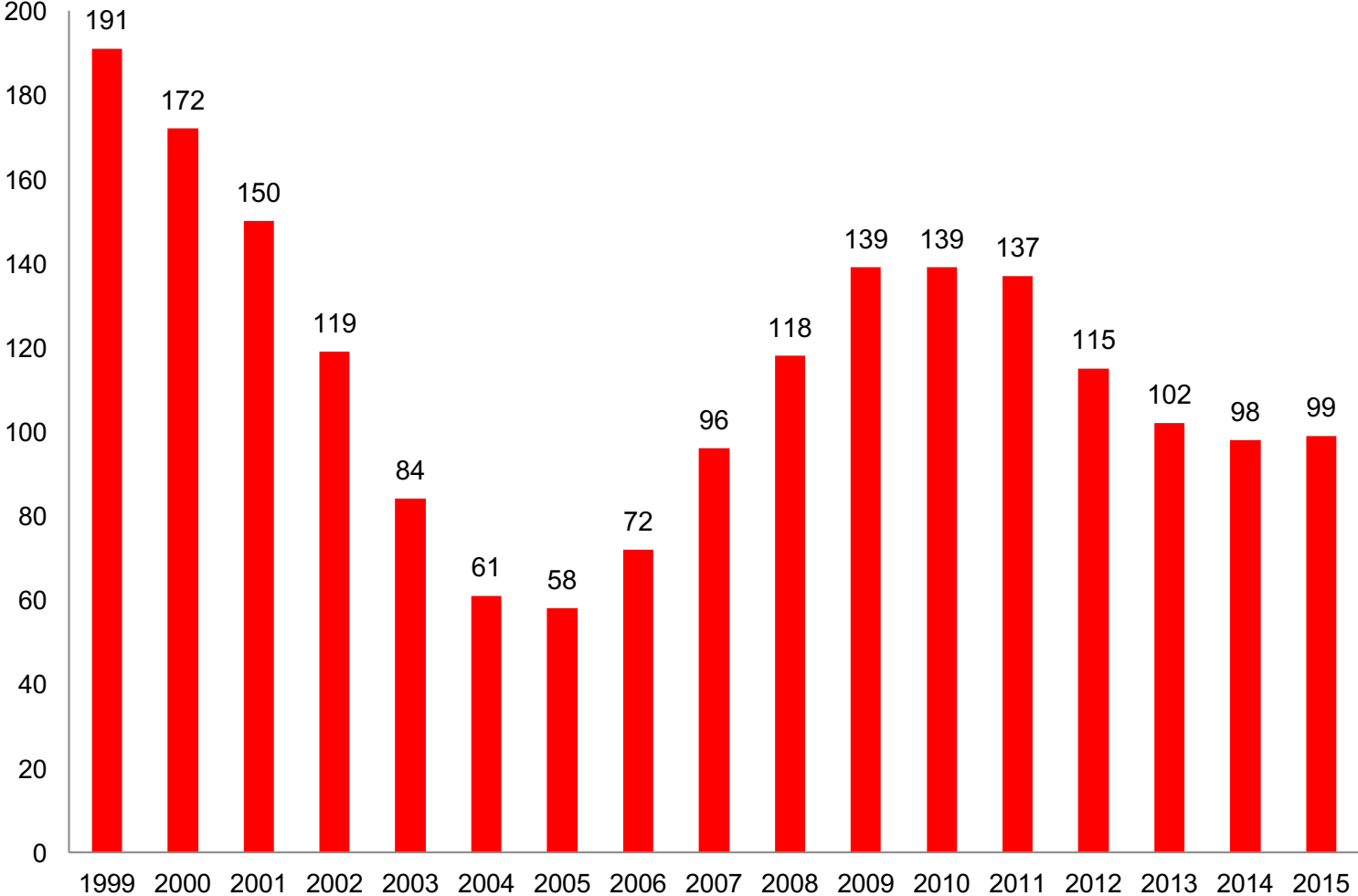
Countrywide WC Combined Ratio vs. Operating Ratio



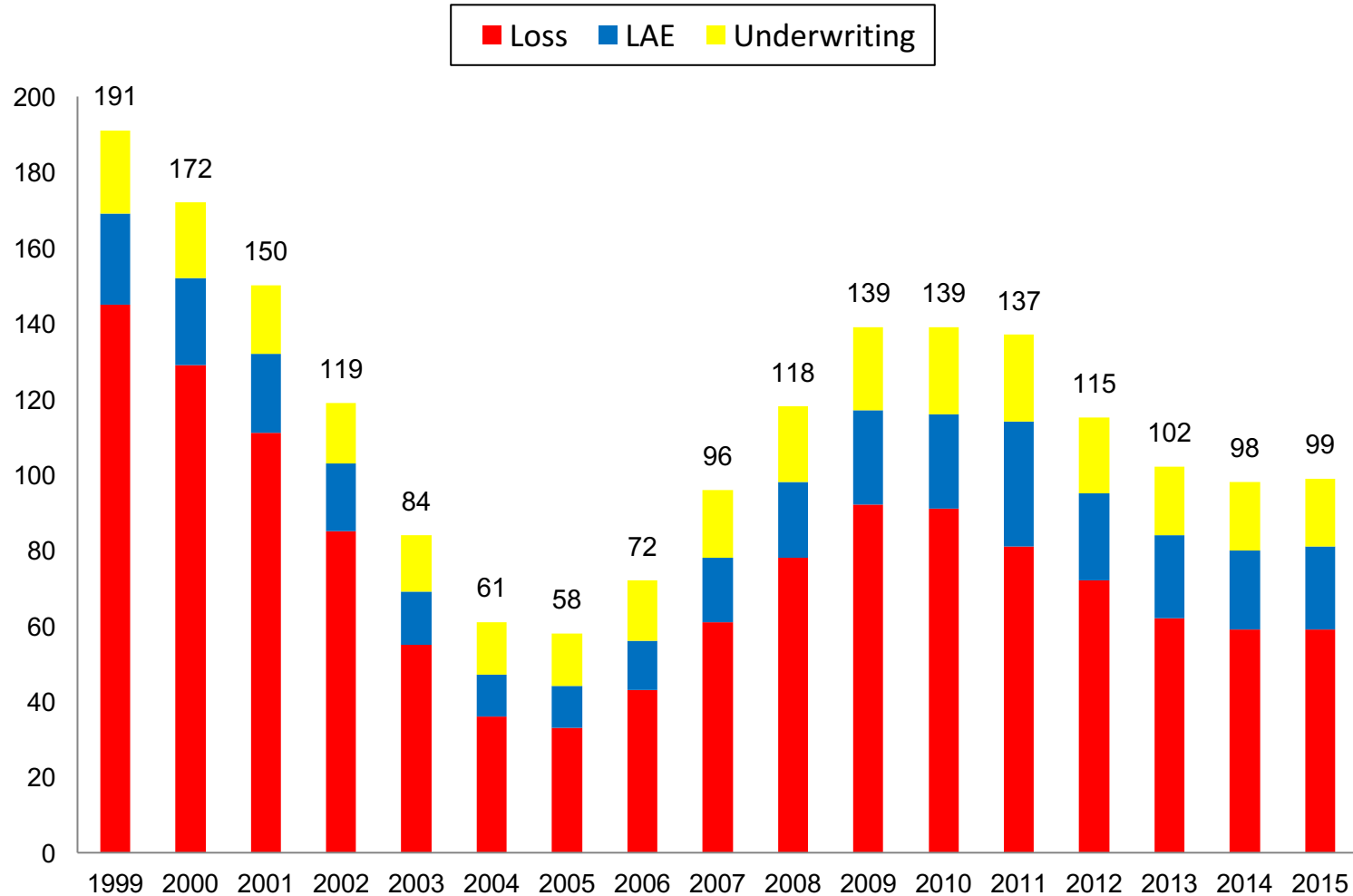
California vs. Countrywide Workers Compensation Combined Ratios



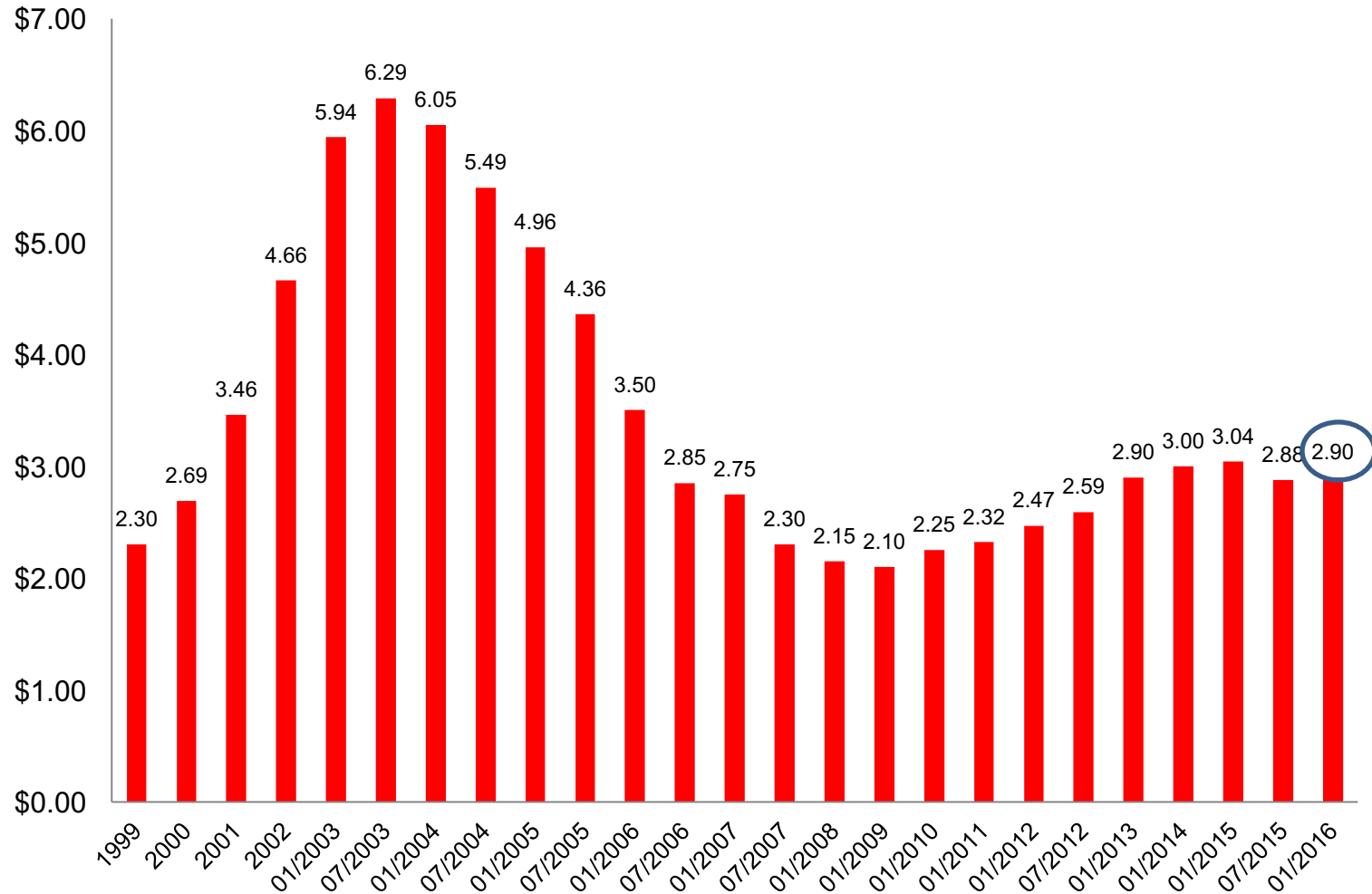
California Workers Compensation Combined Ratios



California Workers Compensation Combined Ratios

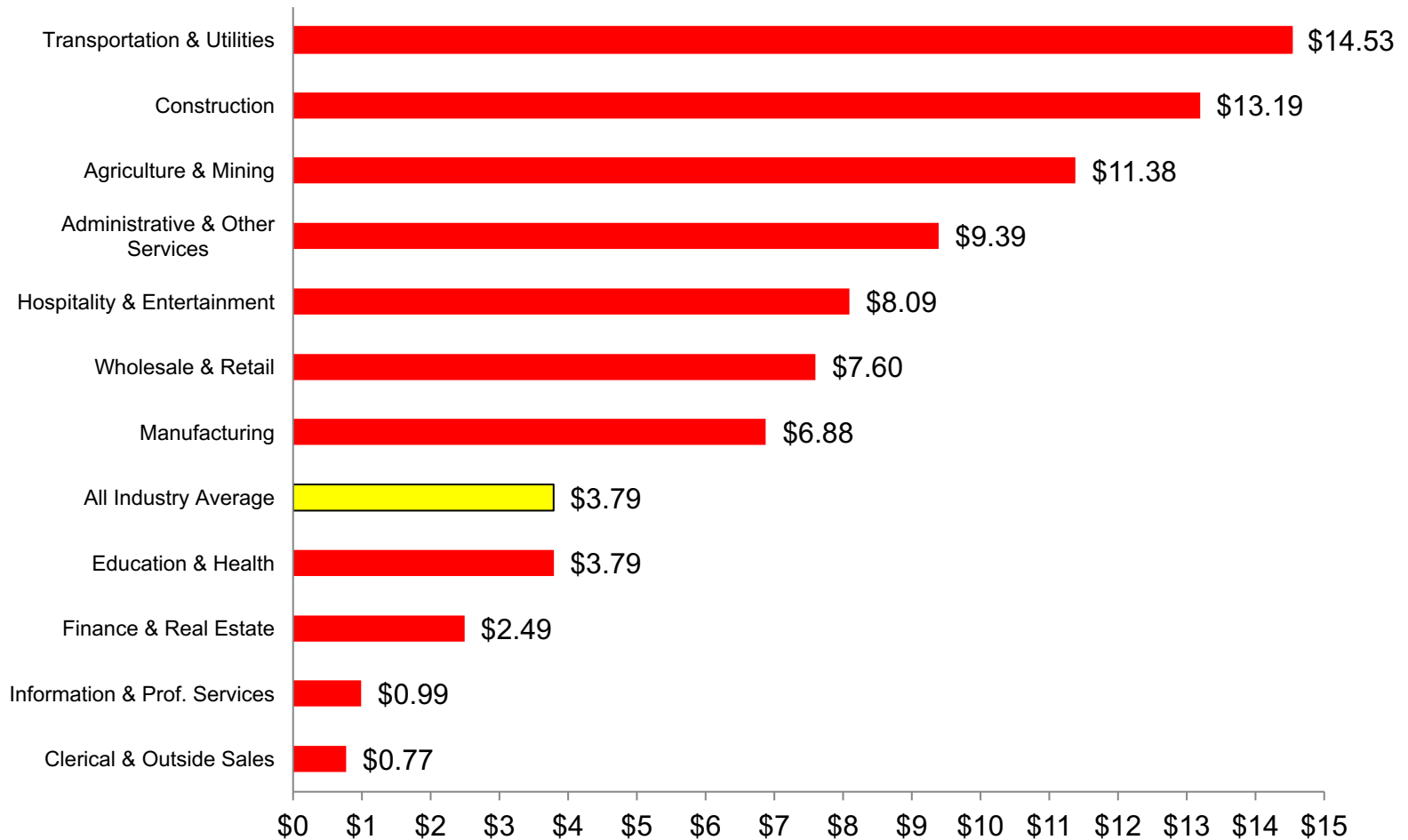


Average Workers Compensation Rate per \$100 of Payroll



Average Workers Compensation Rate per \$100 of Payroll

Rates for individual industries varies

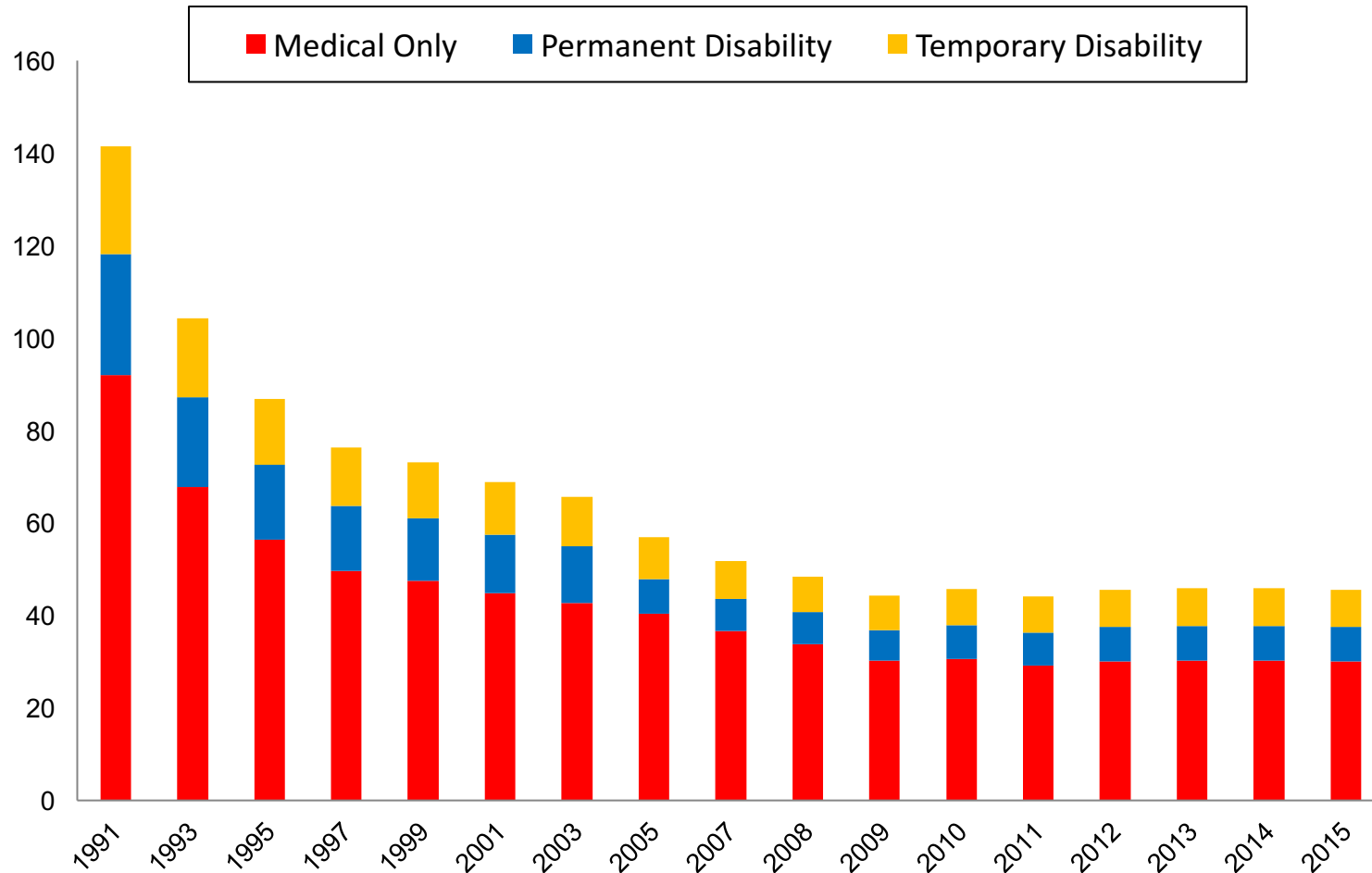


Cost Drivers

Frequency x Severity

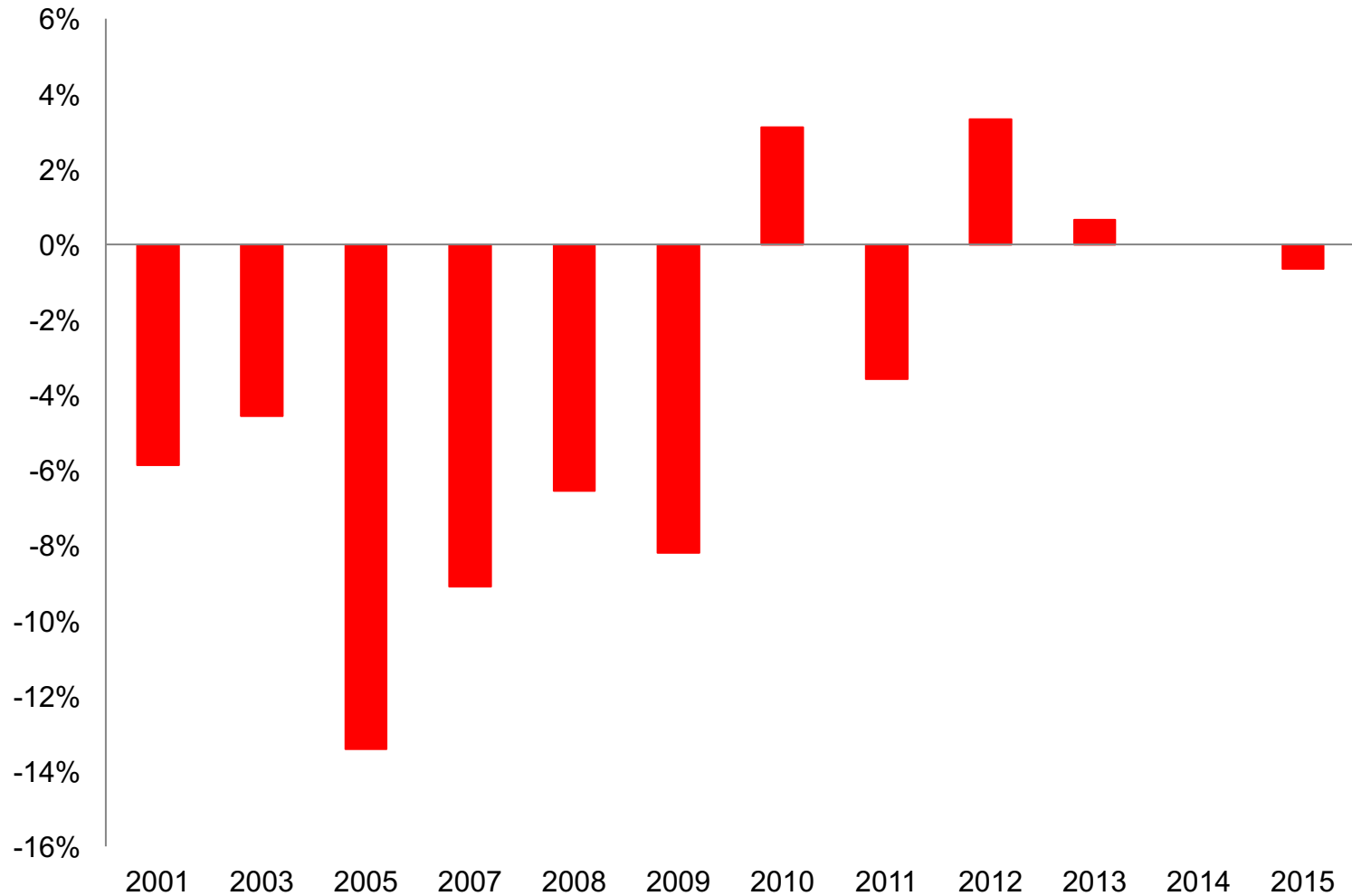
California Workers Compensation Claims per 1,000 Employees

2015 = MO 66% of Total Claims, PD 16%, TD 18%



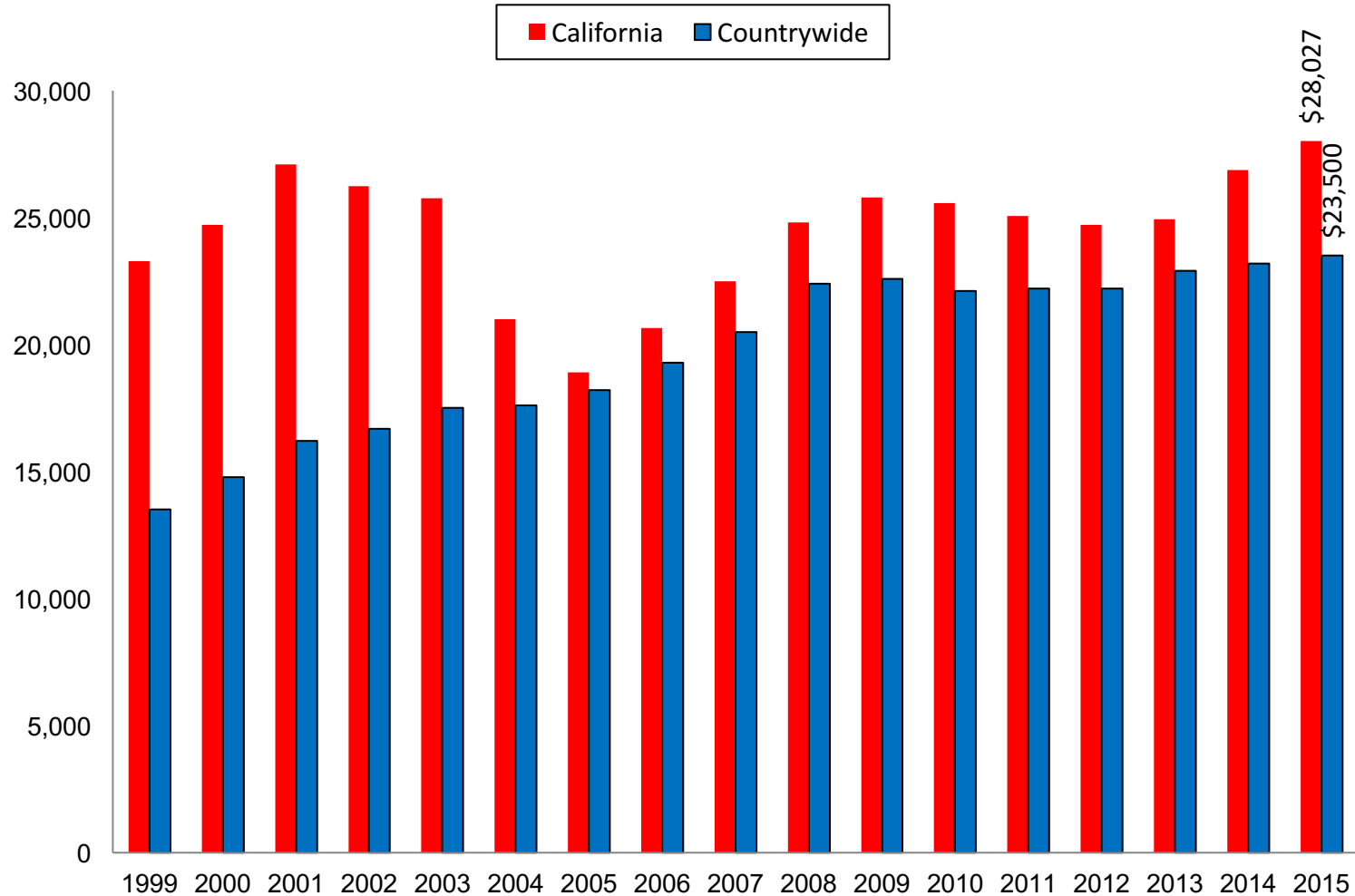
California Workers Compensation Claim Changes per 1,000 Employees

CA Frequency flattening While CW decreases



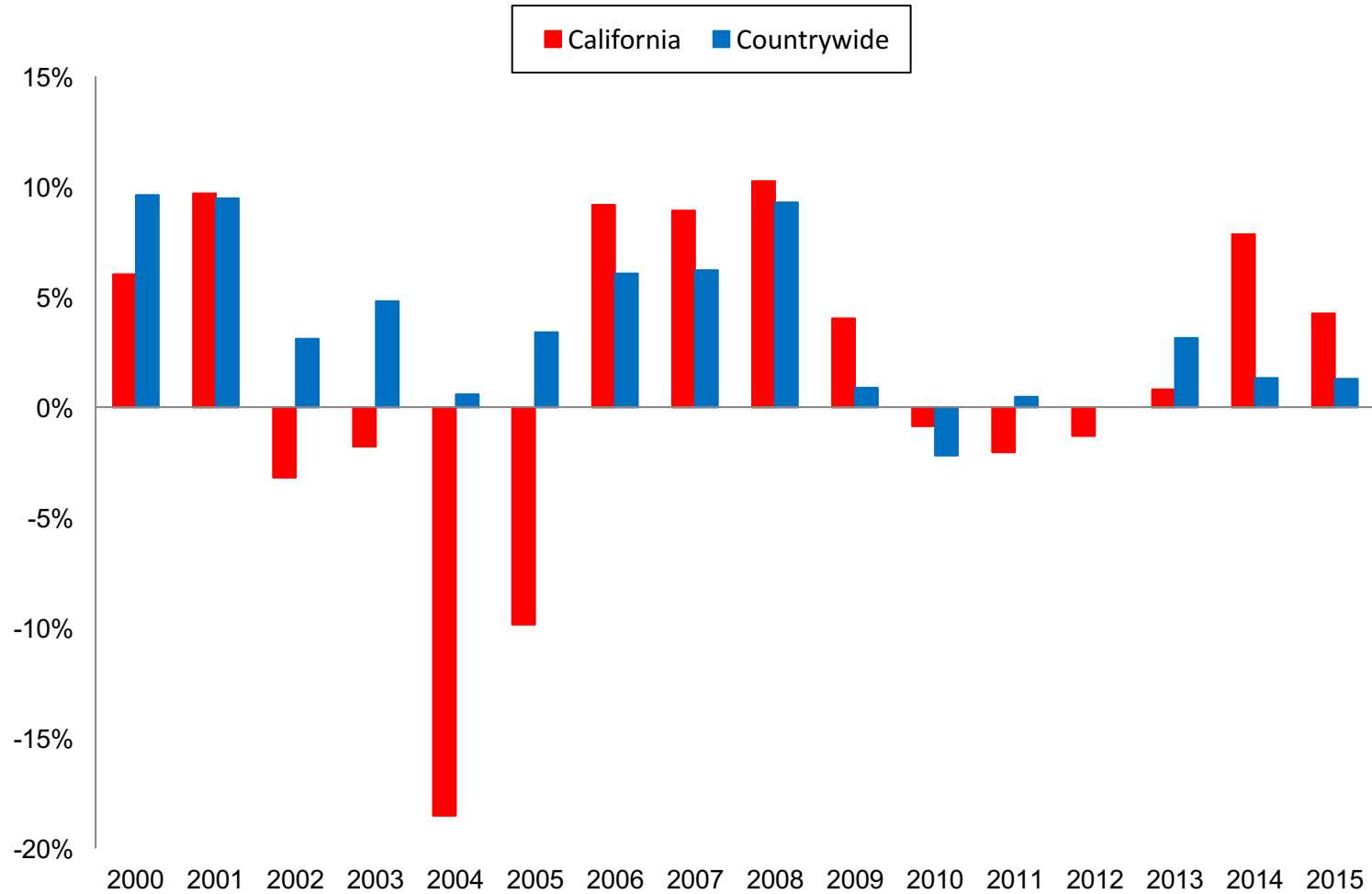
Average Cost of Indemnity Claim

CA Higher Than CW



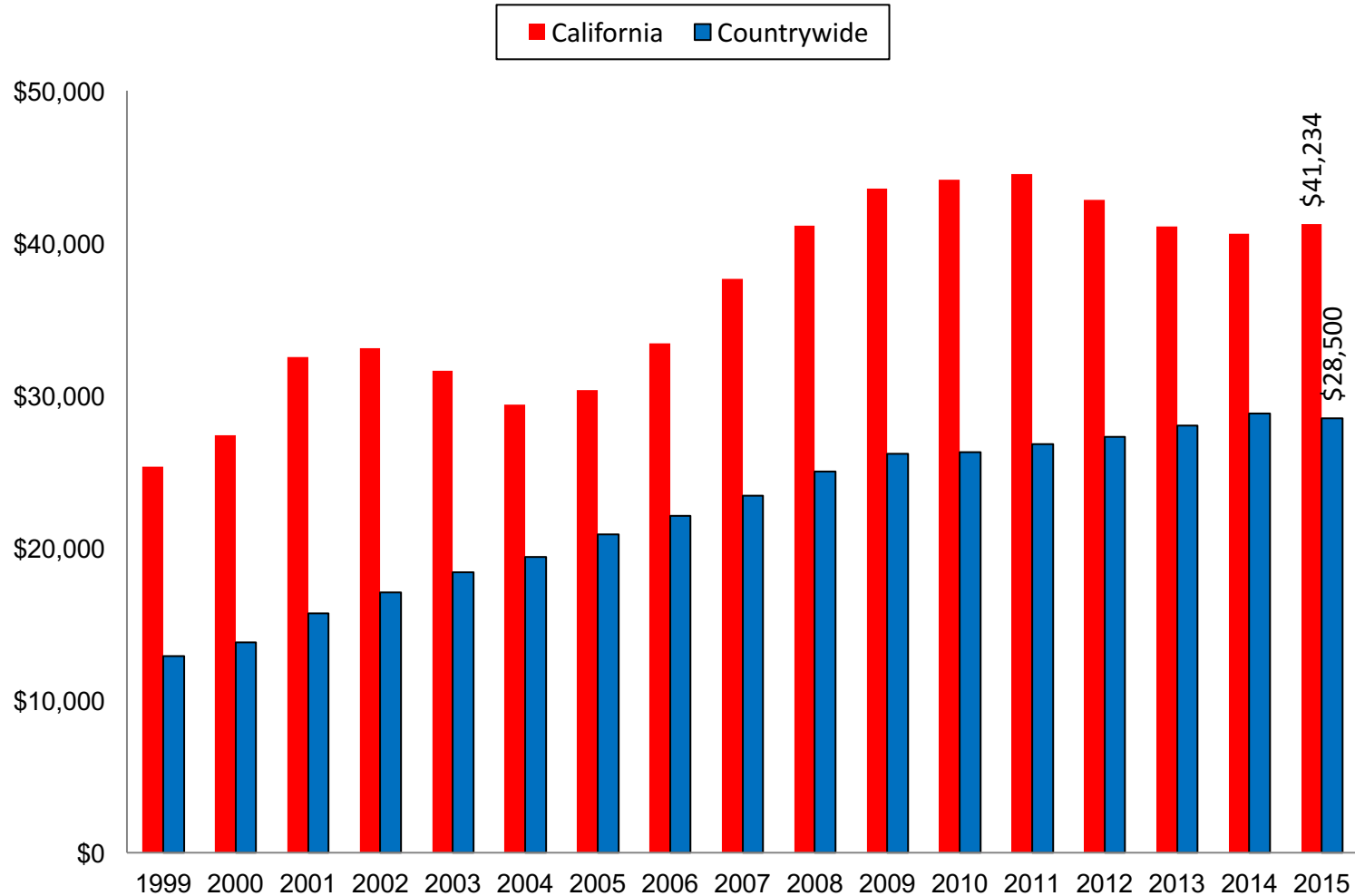
Change in Indemnity Costs

CA more volatile than CW; Increasing in recent years



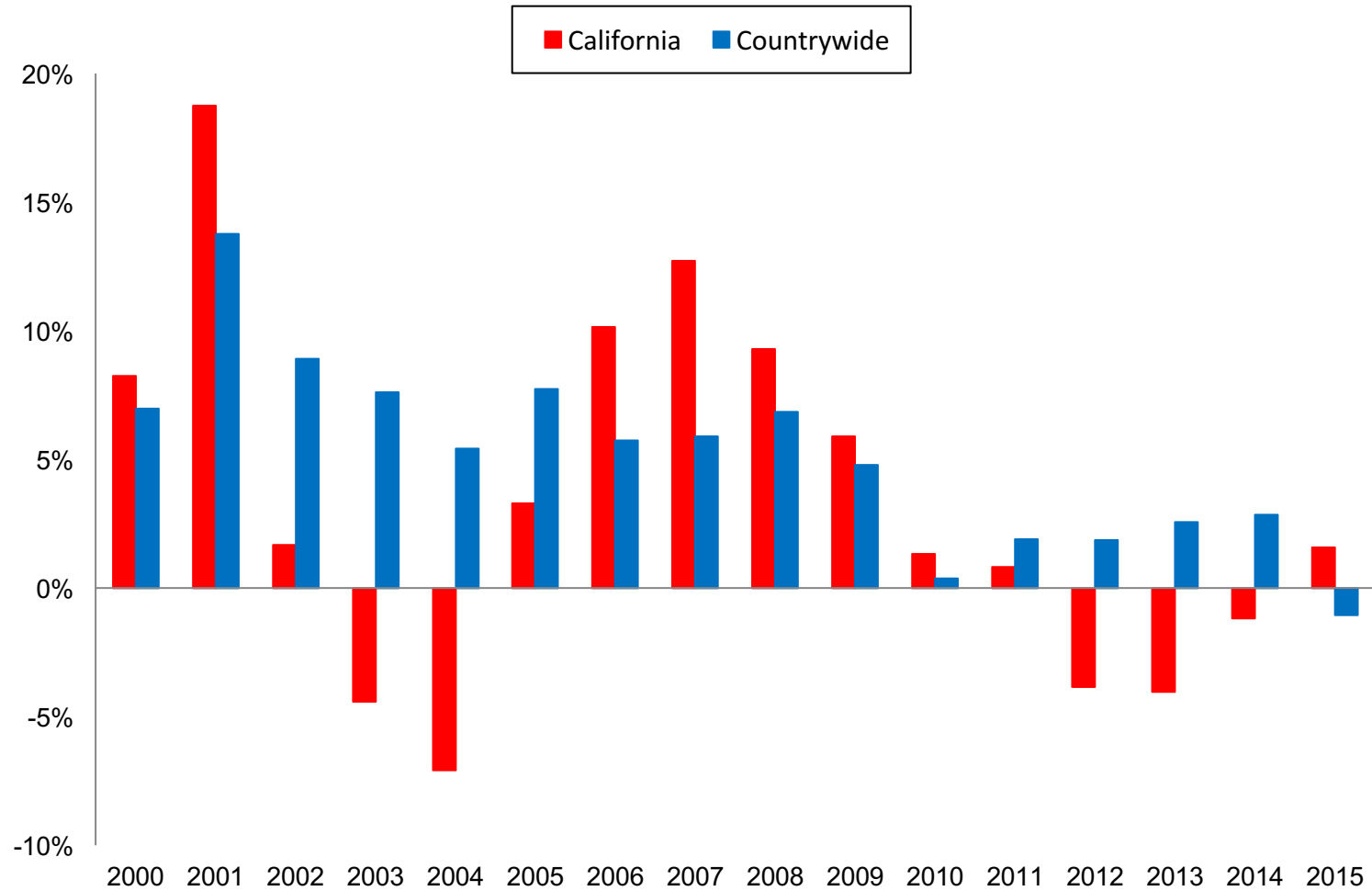
Average Cost per Medical Claim

CA Much Higher Than CW

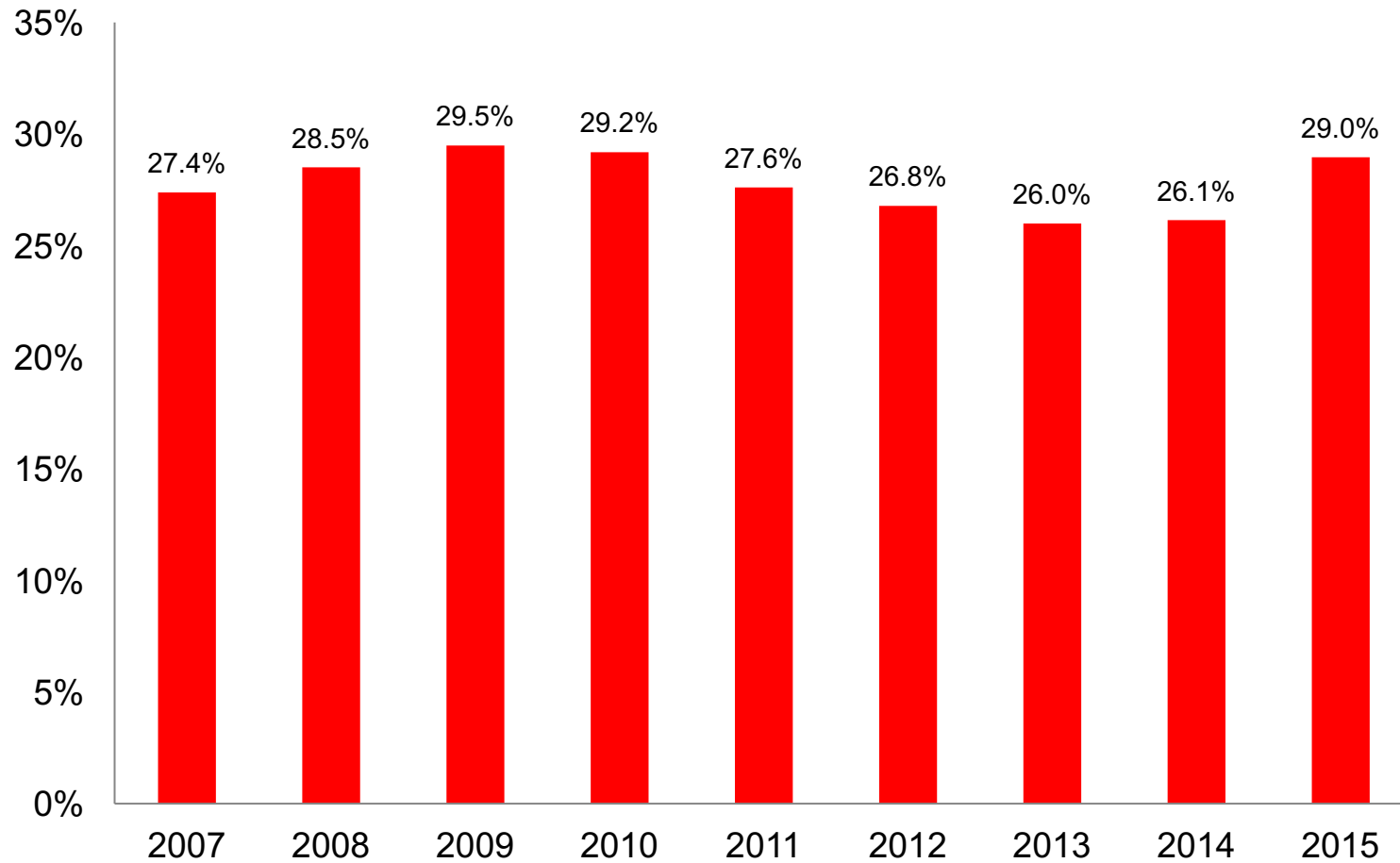


Change in Medical Costs

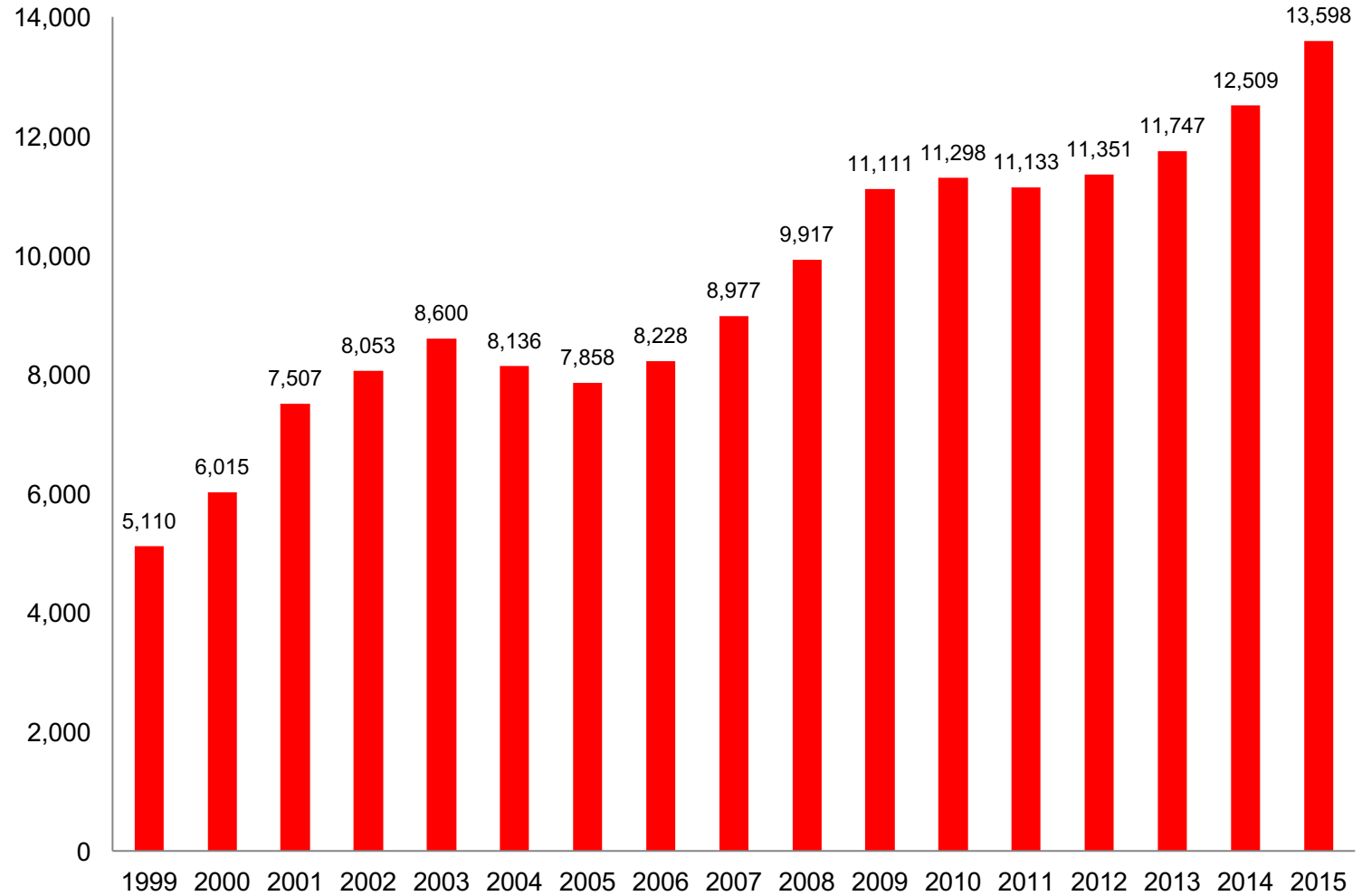
CA more volatile than CW; Slight CA increase in latest year



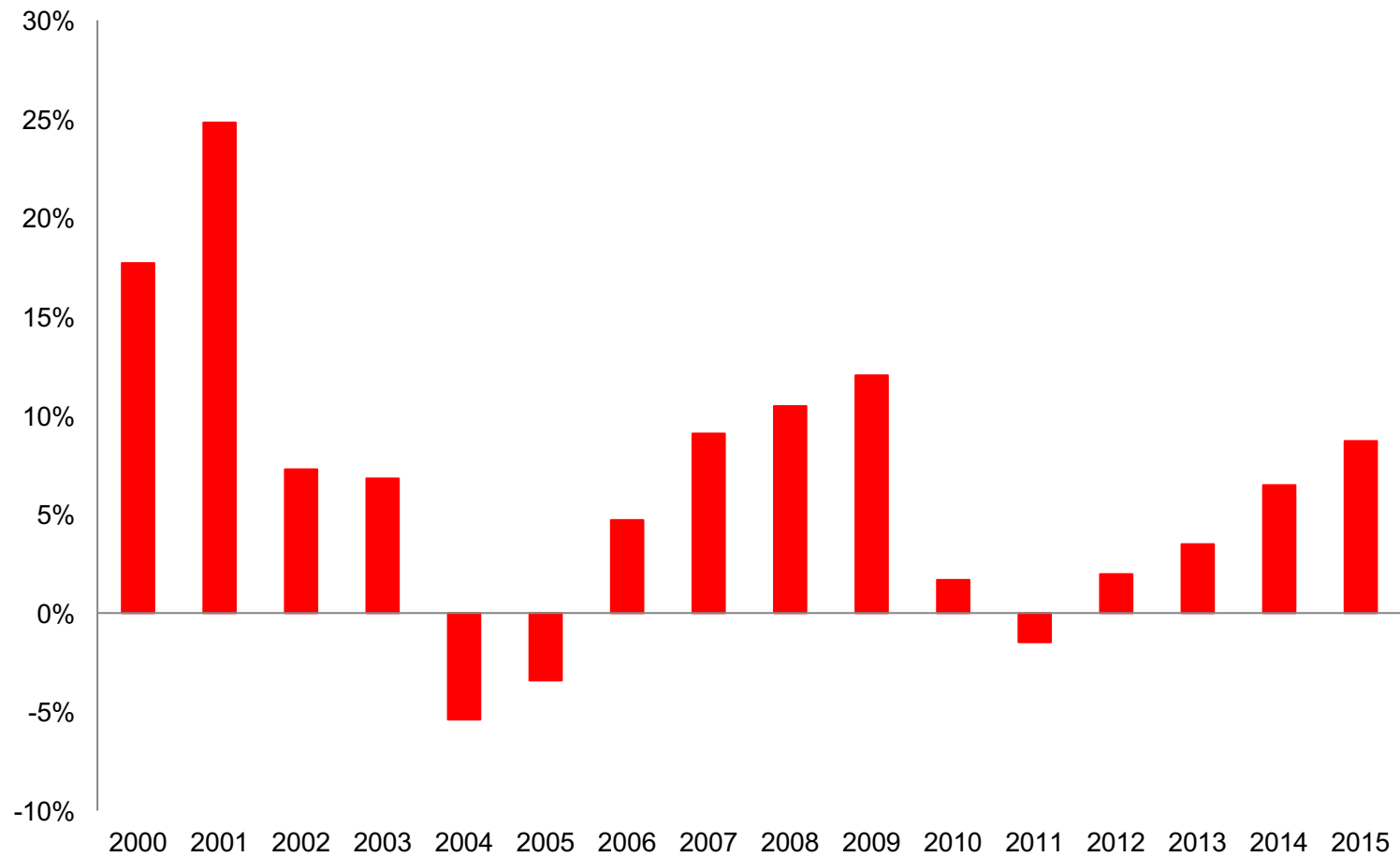
Loss Adjustment Expenses as a % of Losses



Estimated Ultimate ALAE per Indemnity Claim



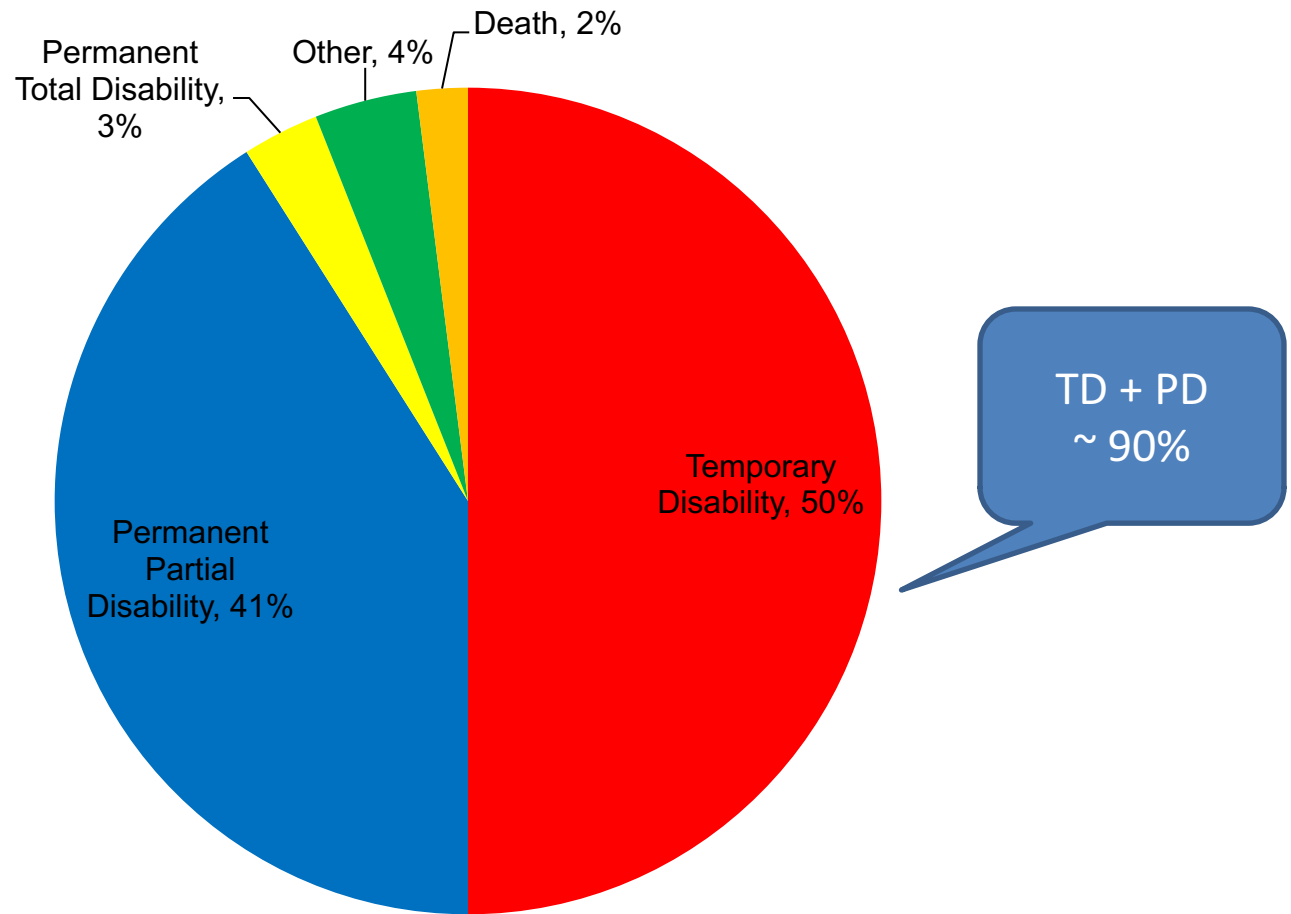
Change in ALAE Cost



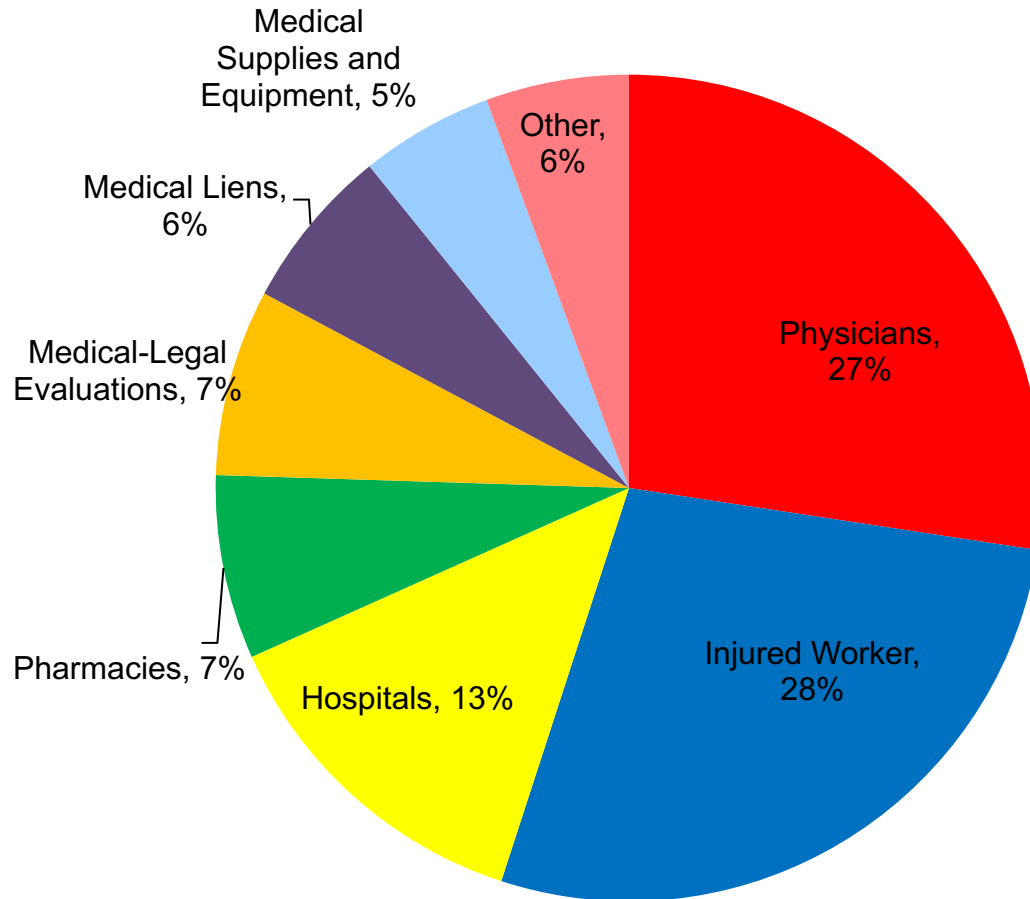
Modeling Your WC Costs

Distribution of Benefits

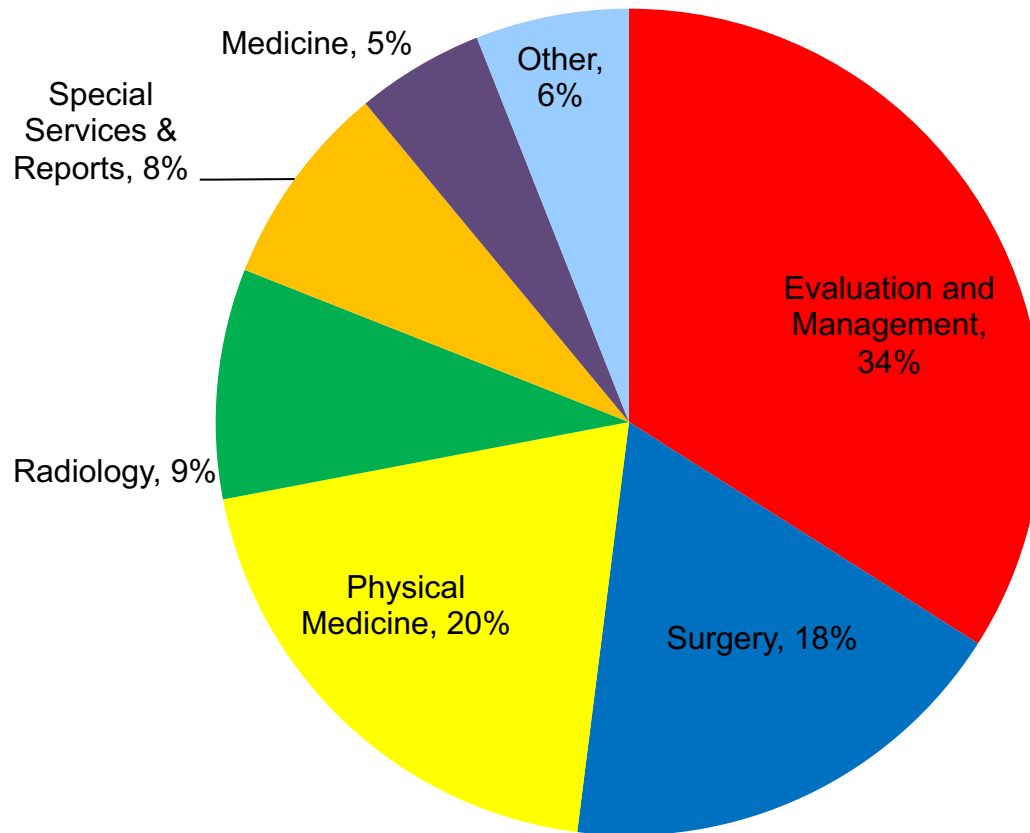
2015 Distribution of Paid Indemnity Benefits



2015 Distribution of Paid Medical Costs

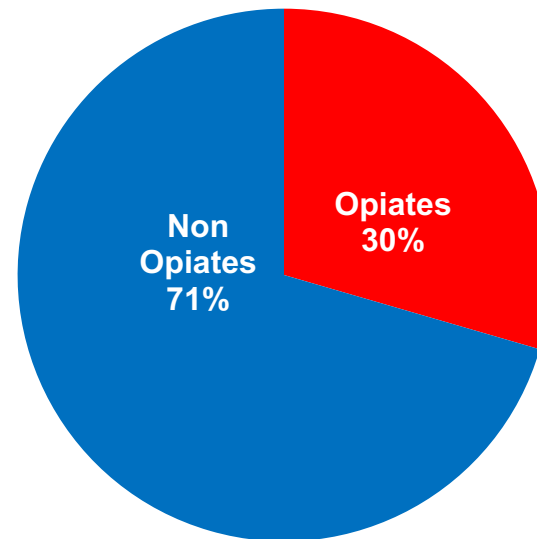
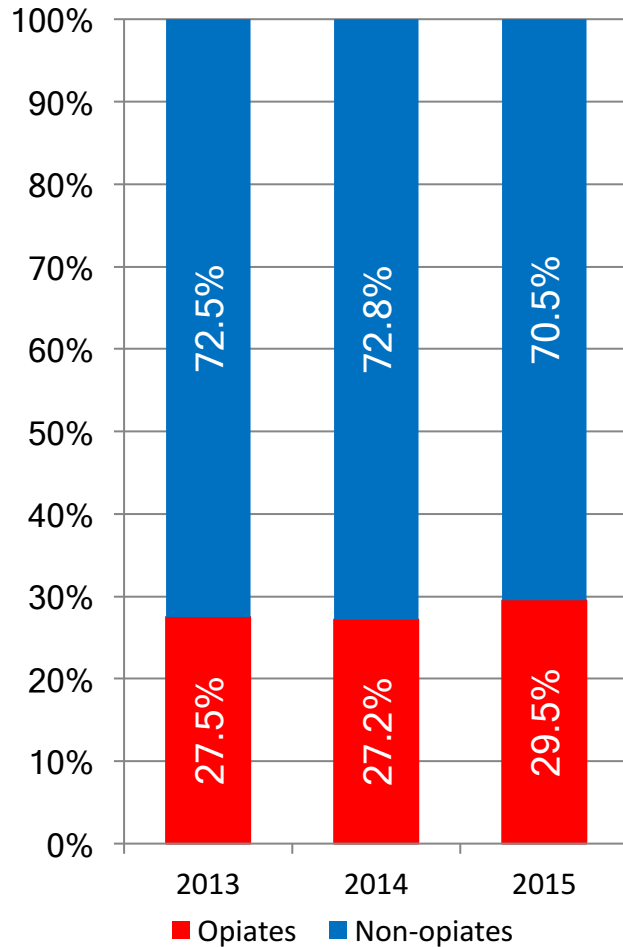


2015 Distribution of Physician Costs

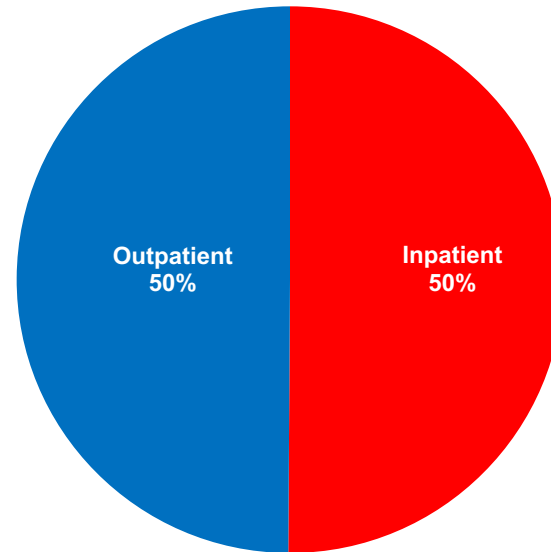
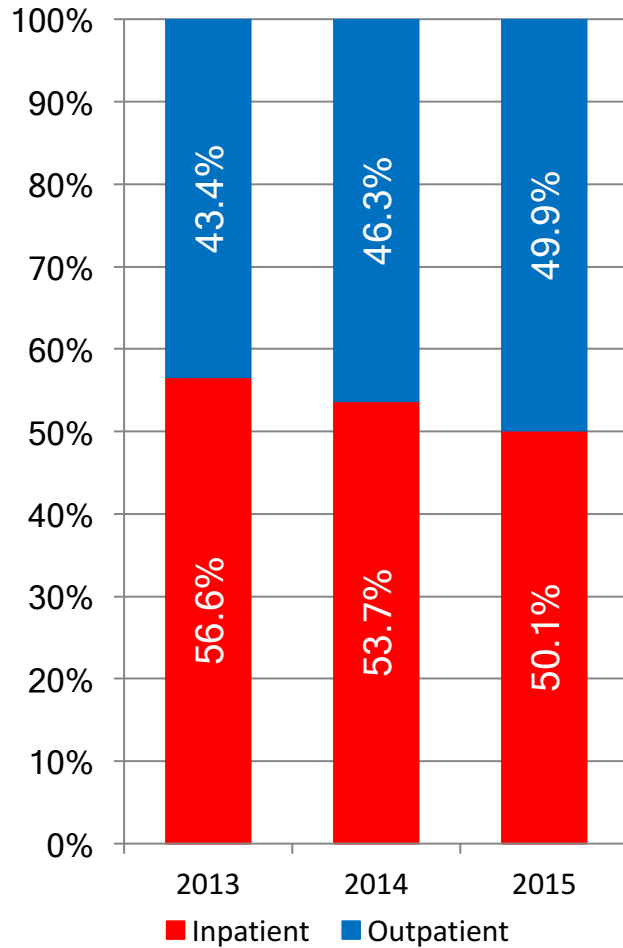


2015 Distribution of Pharmacy Costs

Opiates Doubled in last 7 years

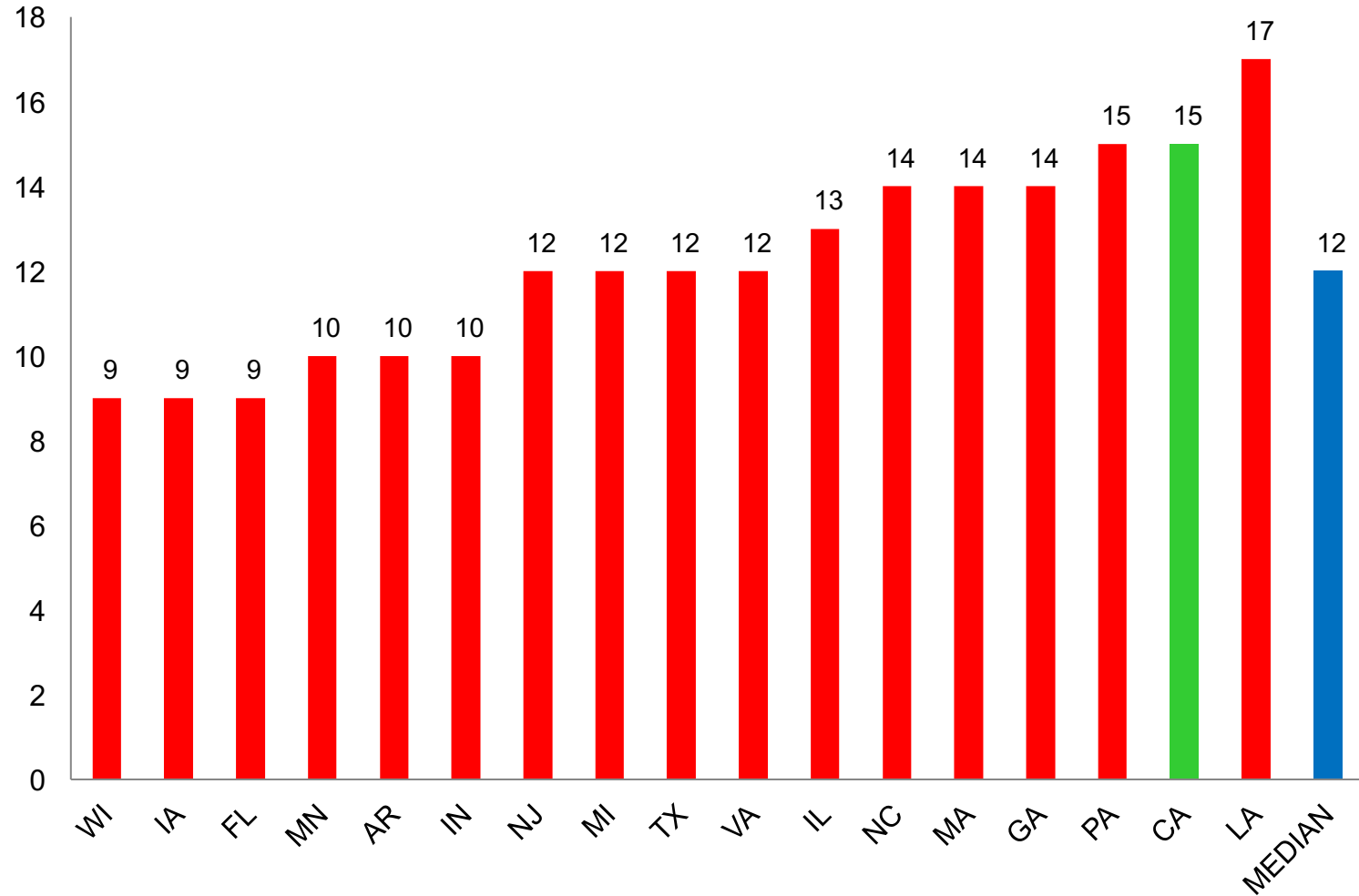


2015 Distribution of Hospital Costs



Weeks of Temporary Disability for claims with more than 7 lost-time days

CA higher than most other states

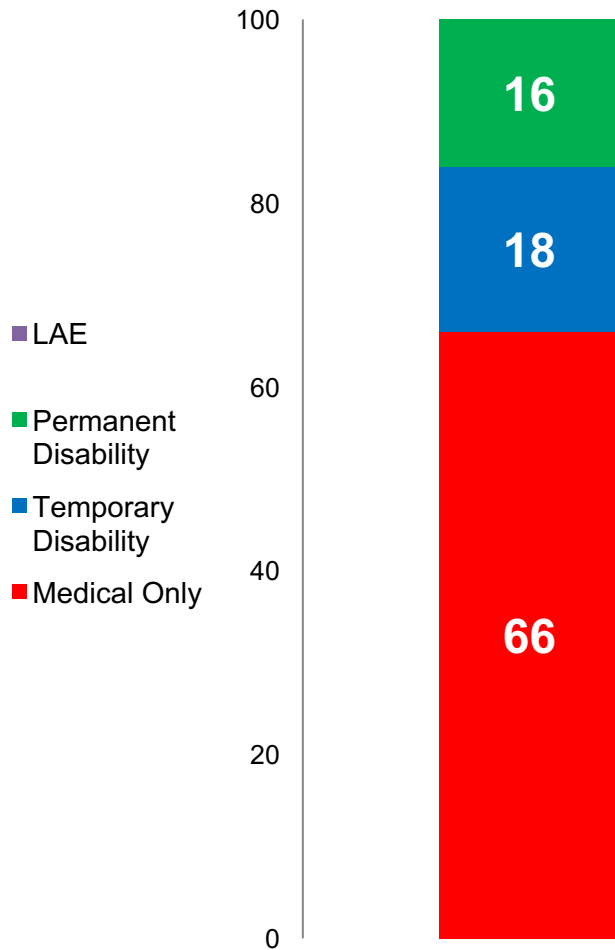


Assumptions, for Illustrative Purposes

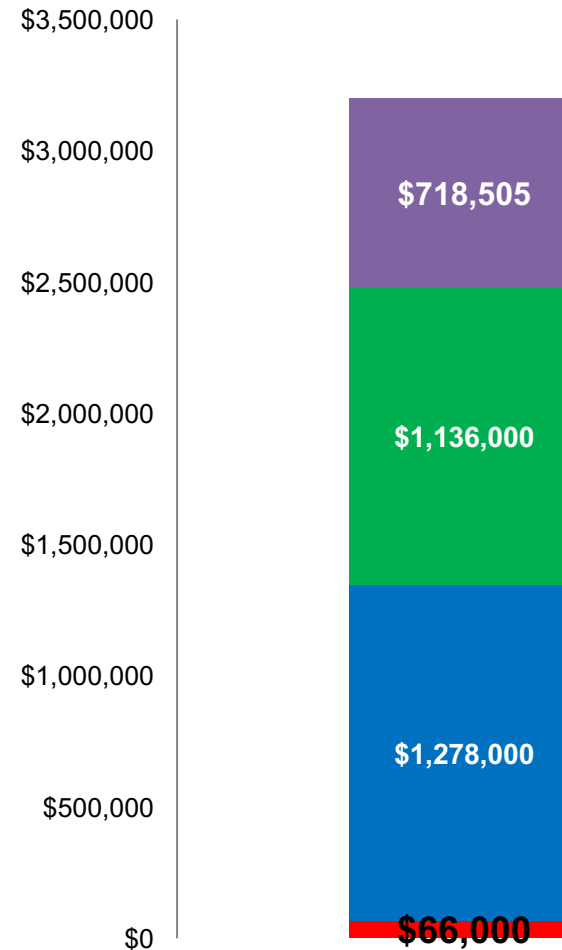
- 2,200 Employees
- \$50,000 average salary
- $\$50,000 \times 2,200 = \110 million payroll
- \$2.90 insurance rate per \$100 payroll
- ~\$3.2 million expected costs ($\$110$ million payroll / $\$100 * \2.90)

Distribute costs by type of benefit

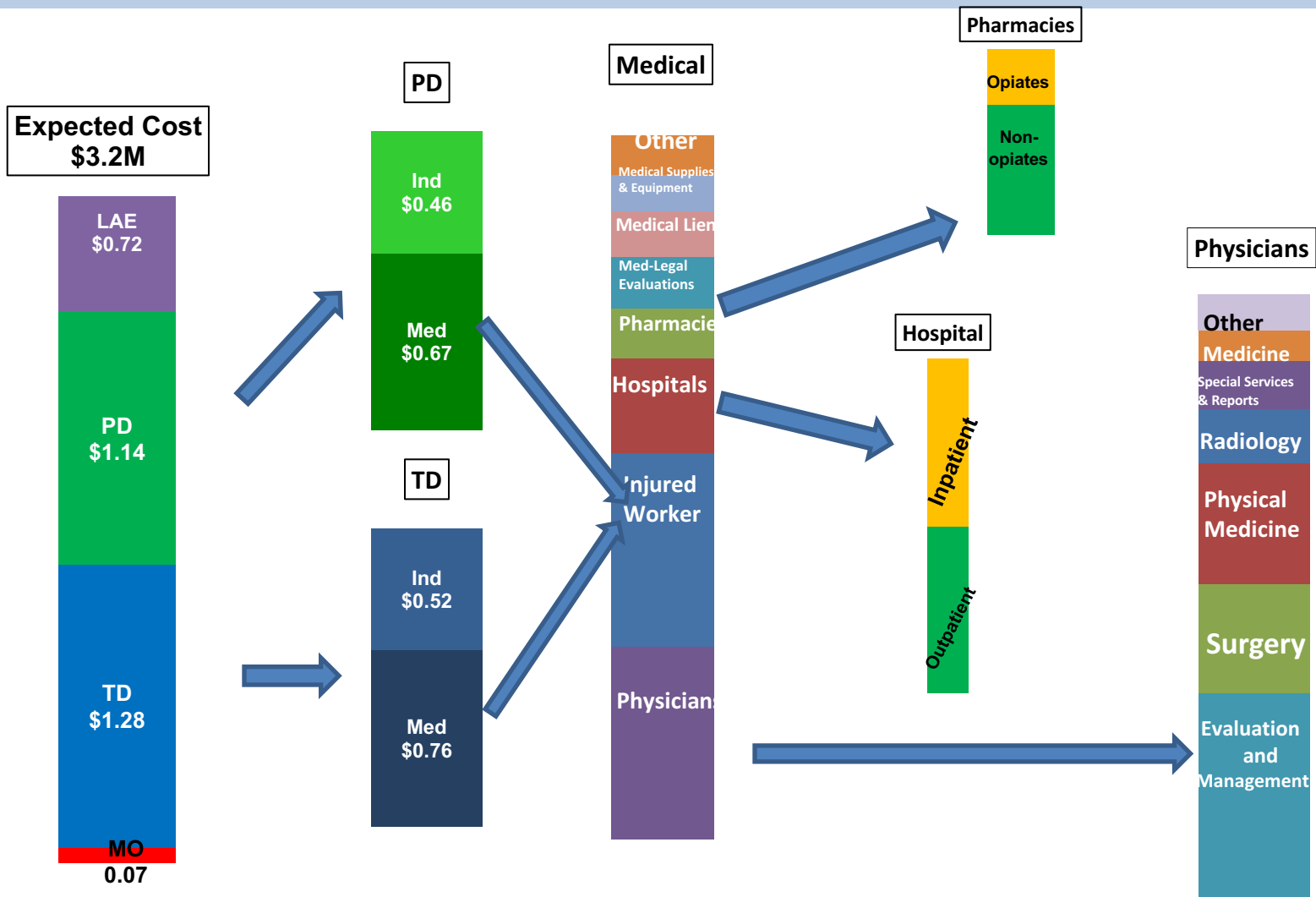
Expected Counts = 100



Expected Cost ~ \$3,200,000



Allocate Costs by Type of Benefit to Services



Allocate Costs by Services – using statewide percentages

You can create your own template!

	Permanent Disability		Temporary Disability		Total
	Amount	%	Amount	%	
Indemnity	\$464,000	14%	\$522,000	16%	\$986,000
Medical	\$672,000	21%	\$756,000	24%	\$1,428,000
- Physicians					
• Eval & Management	62,604	2.0%	70,429	2.2%	
• Surgery	33,143	1.0%	37,286	1.2%	
• Physical Medicine	36,826	1.2%	41,429	1.3%	
• Radiology	16,572	0.5%	18,643	0.6%	
• Spec Serv & Reports	14,730	0.5%	16,572	0.5%	
• Medicine	9,206	0.3%	10,357	0.3%	
• Other	11,048	0.3%	12,429	0.4%	
- Injured Worker	185,472	5.8%	208,656	6.5%	
- Hospitals					
• Inpatient	44,777	1.4%	50,375	1.6%	
• Outpatient	44,599	1.4%	50,173	1.6%	
- Pharmacies					
• Opiates	14,273	0.4%	16,057	0.5%	
• Non-opiates	34,111	1.1%	38,375	1.2%	
- Med-Legal Evaluations	49,056	1.5%	55,188	1.7%	
- Medical Liens	43,008	1.3%	48,384	1.5%	
- Med Supplies/Equip	34,944	1.1%	39,312	1.2%	
- Other	37,632	1.2%	42,336	1.3%	
Medical Only (2%)					\$66,000
LAE (22%)					\$718,505
Total					\$3,198,505

Macroeconomic Indicators

Impact on WC Costs

Macroeconomic Indicators

- Employment rate
- Wage growth
- Medical inflation
- Interest rate

Emerging Trends

How will they impact WC?

Emerging Industry Practices

- On-demand employment (e.g. Uber, Lyft)
- Robotics
- Unmanned Vehicles (e.g. Driverless cars, drones)
- “Obamacare”

Summary

Summary

- Insurance industry financially stable and profitable
 - well capitalized
 - ROE lower than other industries
 - Written Premium - increasing
- California Workers Compensation
 - Combined Ratios –cyclical, but trending down
 - Cost Drivers
 - Frequency – California flattening (whereas countrywide decreasing)
 - Severity – increasing
 - Cost Distributions
 - PD/TD drives the costs
 - TD has long duration relative to other states

Summary, continued

- Opportunity to contain costs
 - Return to Work programs
 - C&Rs
 - Litigated claims – early intervention?
 - Etc.
- SB 863
 - Still in flux
 - Some improvement, some deterioration (ALAE)
- Dynamic System !!

Thank You!

Questions?

