

2020 State of the System

The Workers' Compensation Insurance Rating Bureau of California
Report on California's Workers' Compensation System

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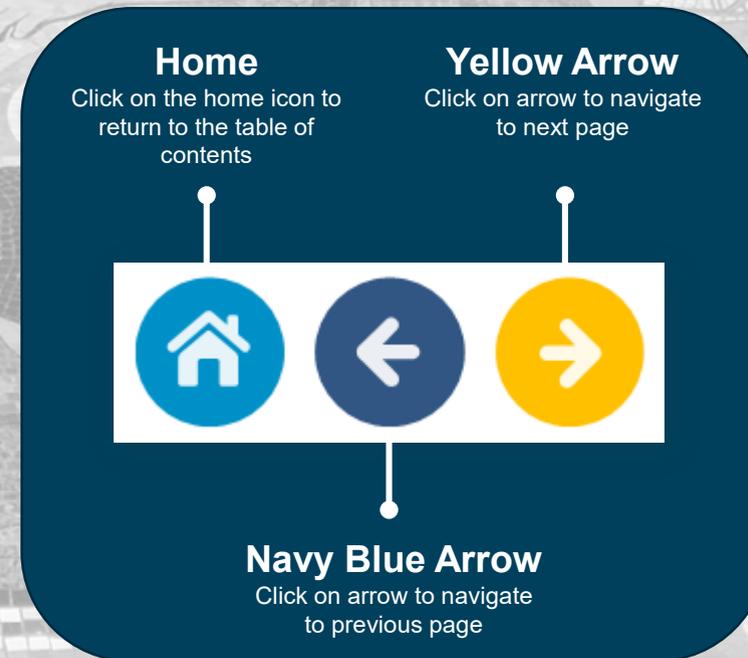
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Workers' Compensation Insurance
Rating Bureau of California
1221 Broadway, Suite 900
Oakland, CA 94612
888.CA.WCIRB (888.229.2472)

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Open the interactive workbook in Adobe Reader.

Navigate through the document using the buttons at the top of the screen.



Please note: Interactivity is not available on smartphones or on tablet devices. You must use Adobe Reader for the full functionality to work.

Introduction

The California workers' compensation insurance system is more than 100 years old. The system involves more than 200 insurance companies providing coverage to nearly 700,000 businesses and delivering medical and wage replacement benefits to almost 800,000 injured workers annually. The Workers' Compensation Insurance Rating Bureau of California (WCIRB), which was established in 1915, is a licensed rating organization for workers' compensation and is the California Insurance Commissioner's designated statistical agent. As such, the WCIRB monitors the health of the workers' compensation insurance system and makes its data and analyses available to system stakeholders and public policymakers.

This report summarizes the state of the California workers' compensation insurance system as of the first quarter of 2020. While the information in this report largely predates the COVID-19 pandemic, included is a section on COVID-19 impacts. In the report, we highlight the cost of workers' compensation based on premiums paid by California insured employers and how those costs are distributed. We also summarize various key system cost drivers, such as the frequency and average cost of claims. Finally, we provide a summary of insurer combined loss and expense ratios and returns on equity over time. When appropriate, we've shown comparisons of various components of the California system to those of other states. More detailed information on the sources and basis of each of the charts shown in this report can be found in the More Info section of this report beginning on [Page 70](#).

The detailed data underlying these charts (in Excel format) is also available on the WCIRB's website or by [CLICKING HERE](#).

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Report Summary: 2020 State of the System

Insurer premium levels dropped through 2019 as insurer rates continued to decline. A sharp drop in 2020 premiums is expected with the COVID-19 pandemic-related job losses ([Chart 1](#)).

The insurance market remains stable and non-concentrated ([Chart 50](#)). Rates continue to decrease and are now at a 50-year low ([Chart 4](#)). The impact of COVID-19 on the insurance market is not yet clear.

Pre-pandemic cost trends were generally stable with modest **frequency** and **severity** growth, continued high levels of **frictional costs** and significant regional differentials. 2020 claim frequency could be impacted by the economic downturn and surges of COVID-19 and post-termination claims ([Chart 11](#)).

Industry combined ratios are rising but still favorable ([Chart 52](#)). Industry results for 2020 are uncertain with sharply declining premiums, reduced claim activity and potential influxes of COVID-19 and post-termination claims.

Employer Costs

01

01
Employer Costs

Chart 1: Reported Written Premium



Insights & Recent Trends

- Premium decreases in 2017, 2018 and 2019 were driven by declining insurer rates more than offsetting employer payroll growth.
- With the rapid economic downturn brought on by the COVID-19 pandemic combined with continued insurer rate decreases, premium is forecast to drop by over 20% in 2020.
- 2020 premiums are forecast at an eight-year low, more than 30% below their 2016 peak.

01
Employer Costs

Chart 2: Drivers of Written Premium Changes



Insights & Recent Trends

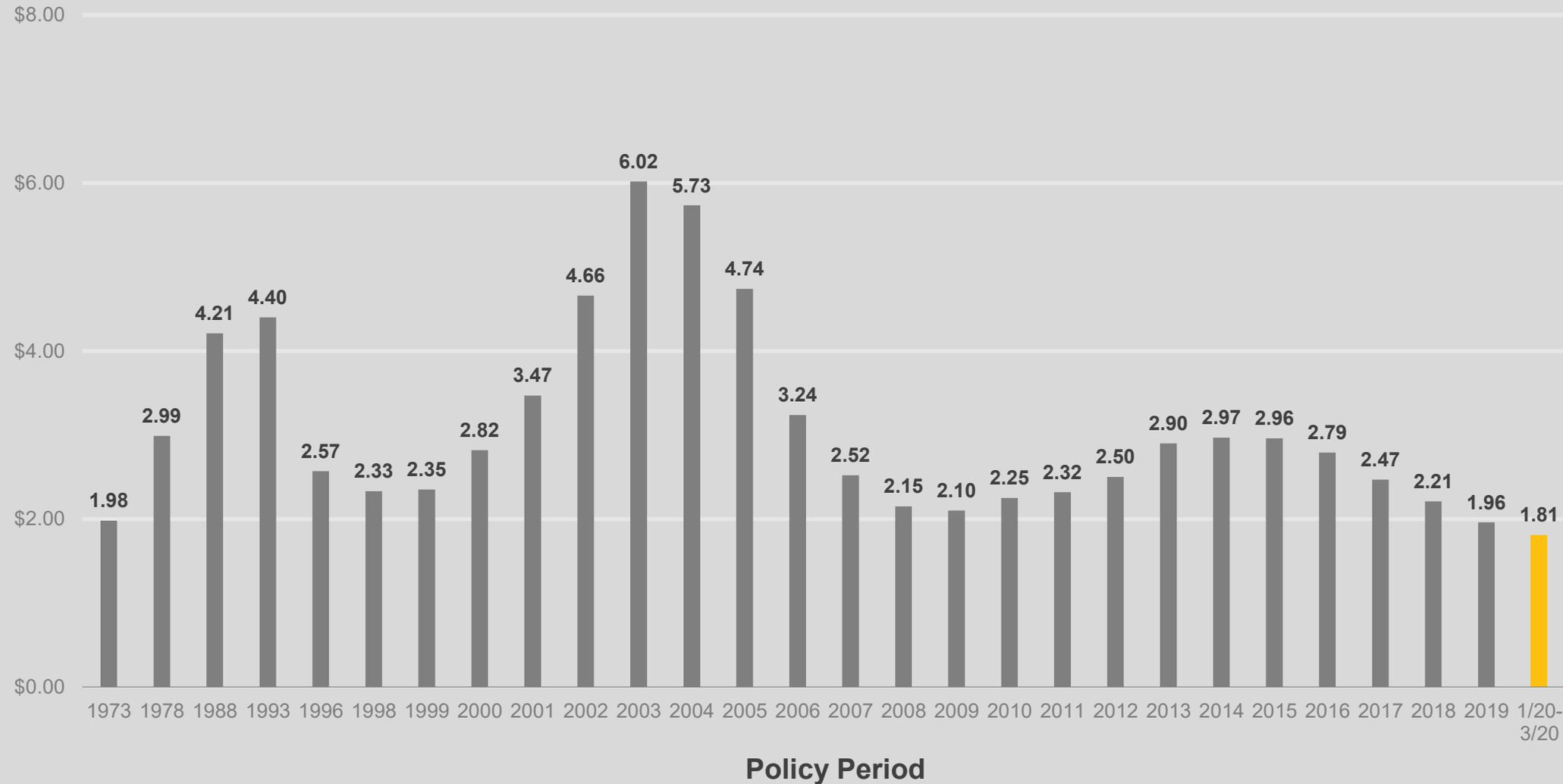
- While increases in insurer rates drove premium growth through 2015, recent rate decreases have significantly reduced premium growth.
- Continued increases in the workforce and in average wage levels were more than offset by insurer rate decreases, resulting in premium declines in 2016 through 2019.
- The sharp decrease in employment projected for 2020 combined with continued decreases in insurer rates will contribute to a large decrease in premium for 2020.

[More Info](#) →



01
Employer Costs

Chart 3: Average Charged Rate per \$100 of Payroll

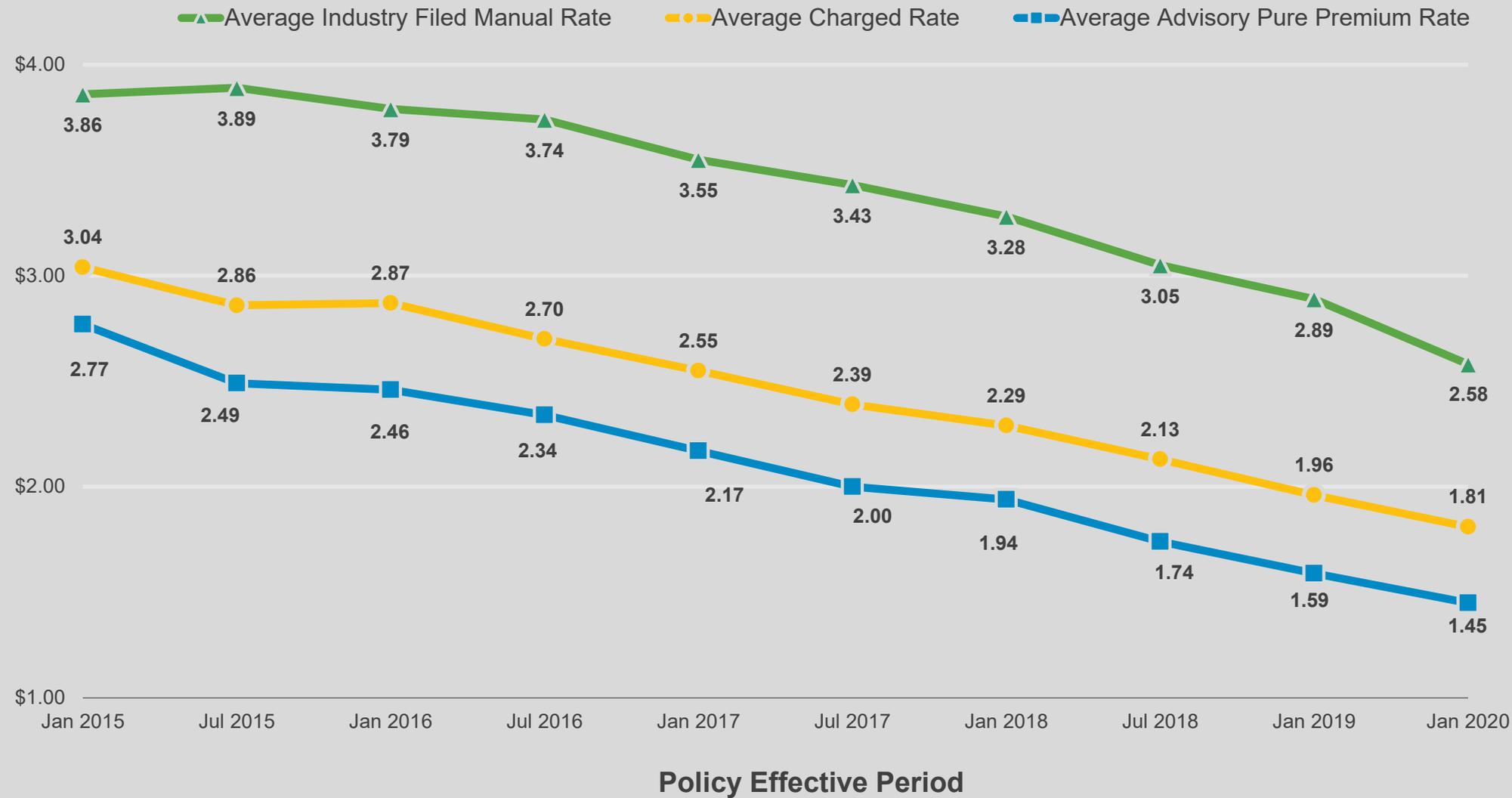


Insights & Recent Trends

- Average insurer rates are down almost 40% since 2015.
- Current charged rates are at the lowest level in approximately 50 years, as over the long term declining claim frequency and increasing wage levels have offset rising medical costs and increases in indemnity benefits.

01
Employer Costs

Chart 4: Changes in Average Rates Since 2015



Insights & Recent Trends

- The Insurance Commissioner approved nine consecutive advisory pure premium rate decreases since 2015 totaling almost 50%.
- Declines in average charged rates followed the Insurance Commissioner’s approved decreases in advisory pure premium rates.
- Average insurer manual rates are significantly above the rates charged to employers, indicating that insurers are, on average, applying significant pricing discounts to their filed rates.

[More Info](#) →

01
Employer Costs

Chart 5: January 2020 Rate Components



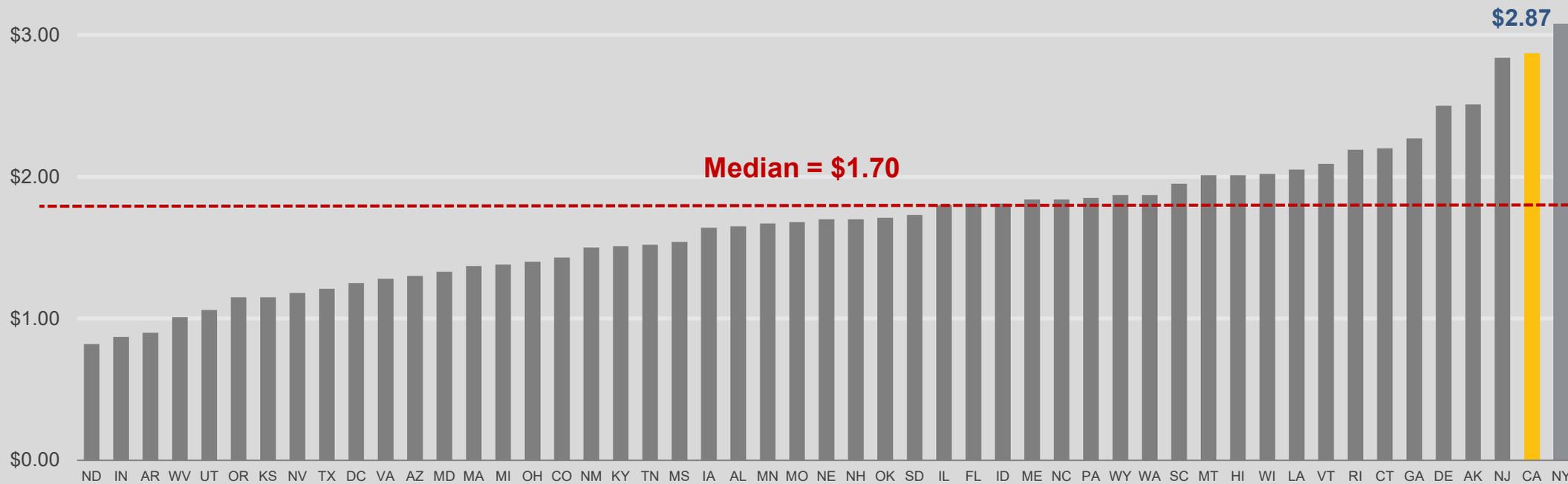
Insights & Recent Trends

- Advisory pure premium rates, after loading for other expenses to approximate a 100% combined ratio, are not significantly different than the average rates ultimately charged to employers.
- Average industry pricing discounts from filed rates, including the net impact of schedule rating, are about 30%.

01
Employer Costs

Chart 6: Rate Comparison by State Based on Oregon Studies

Insights & Recent Trends

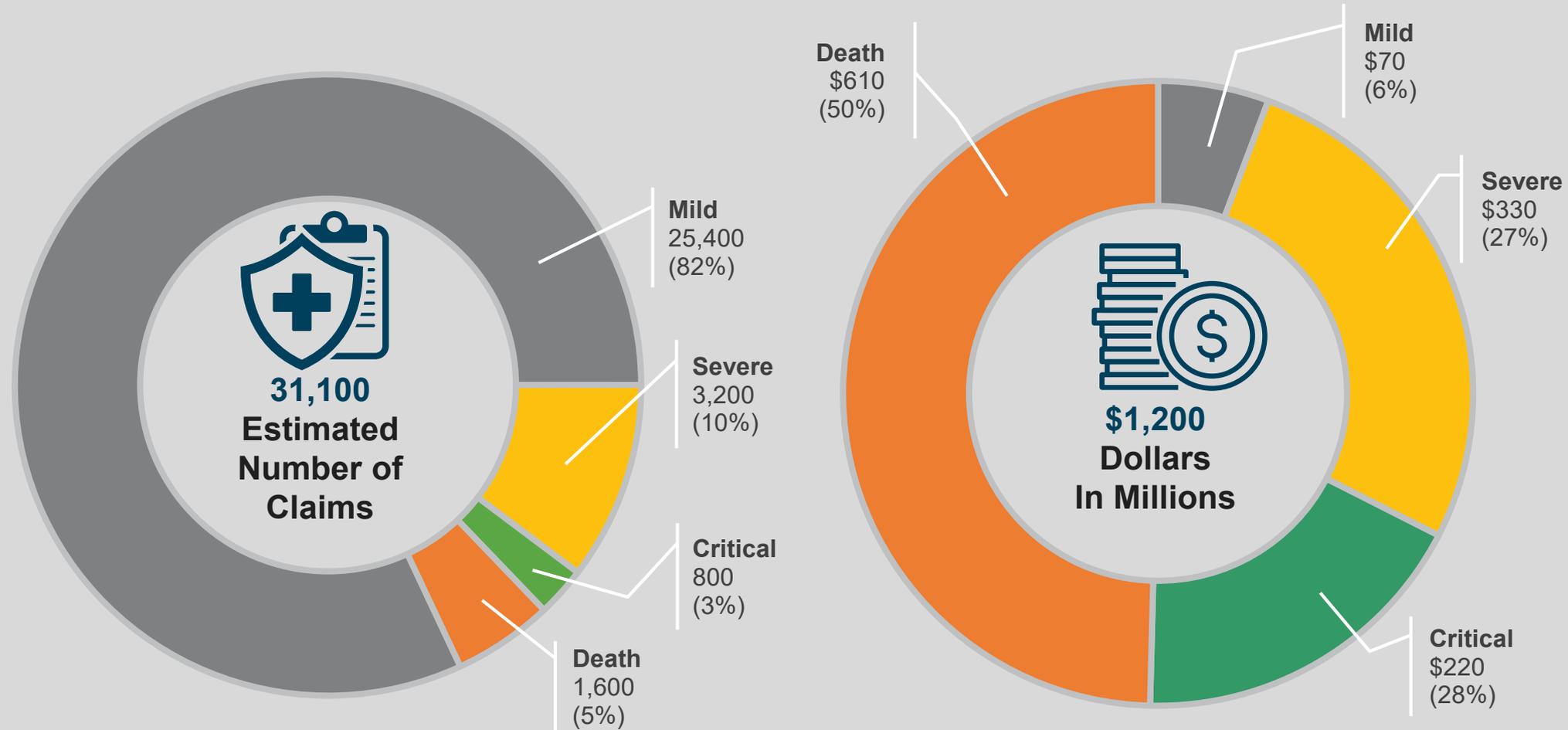


- California had the highest rates in the country until 2018, when rate declines moved it from the top spot.
- California rates still remain high and are well above the median.
- California's higher than average rates are largely driven by:
 - High frequency of permanent disability claims ([Chart 24](#))
 - A more prolonged pattern of medical treatments ([Chart 36](#))
 - Much higher than average costs of handling claims and delivering benefits ([Chart 46](#))

COVID-19

02

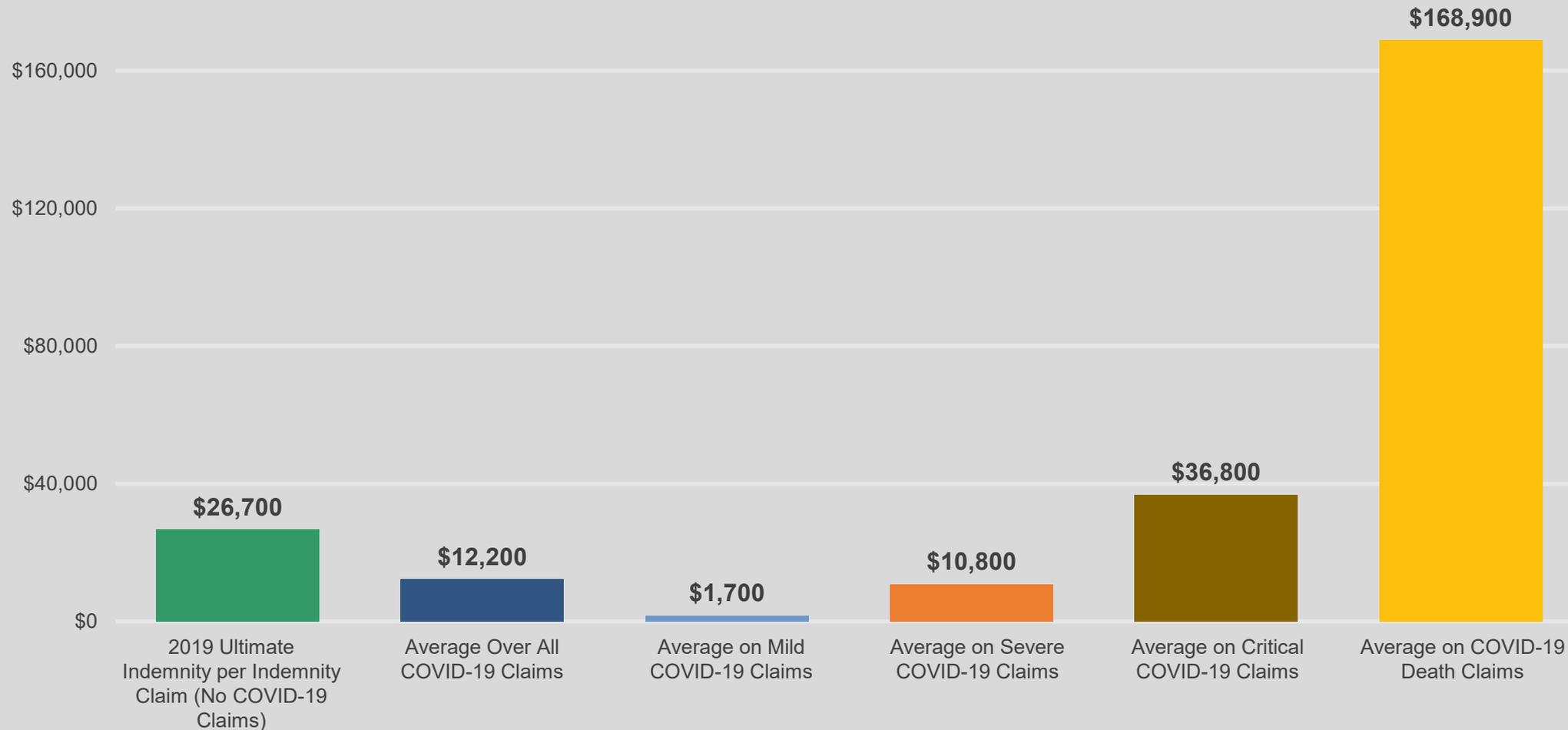
Chart 7: Cost Evaluation of Governor Newsom’s Executive Order: WCIRB Mid-Range Estimates by Type of COVID-19 Claim



Insights & Recent Trends

- In the WCIRB’s evaluation of the Governor’s Executive Order, the low-range estimate was \$0.6 billion, the mid-range estimate \$1.2 billion and the high-range estimate \$2.0 billion.
- These estimates are lower than those in an earlier WCIRB estimate of a potential presumption of COVID-19 compensability due primarily to the limited time the Executive Order applies and the availability of information on California death and hospitalization rates by age that reflect the impact of the stay-at-home orders.

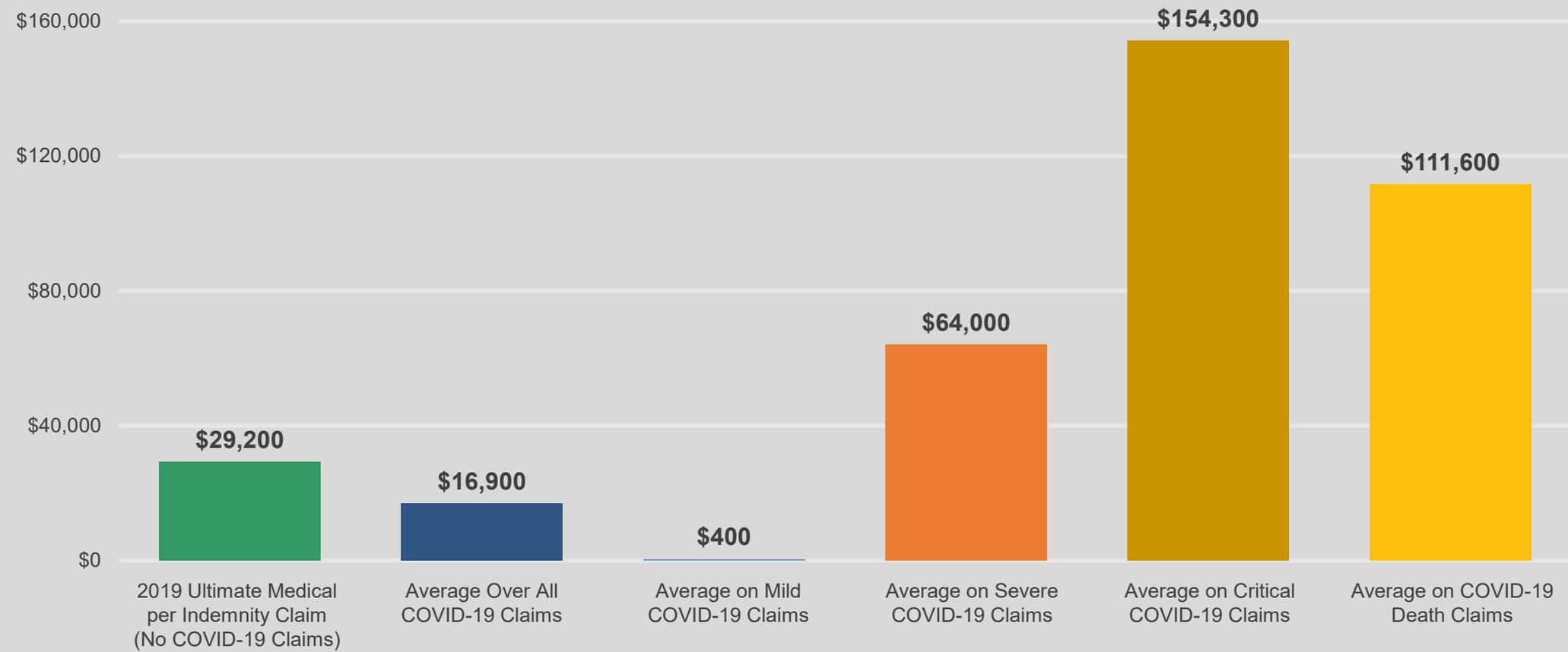
Chart 8: Cost Evaluation of Governor Newsom’s Executive Order COVID-19 Claim Severity Estimates – Indemnity



Insights & Recent Trends

- Since the majority of COVID-19 claims are estimated to be mild with no hospitalization, the average indemnity cost over all COVID-19 claims is estimated to be less than the average indemnity on non-COVID-19 claims.
- Little is known yet on the likelihood of permanent disability benefits on COVID-19 claims. If permanent disability is more common than projected, indemnity costs on severe and critical COVID-19 claims could be higher.

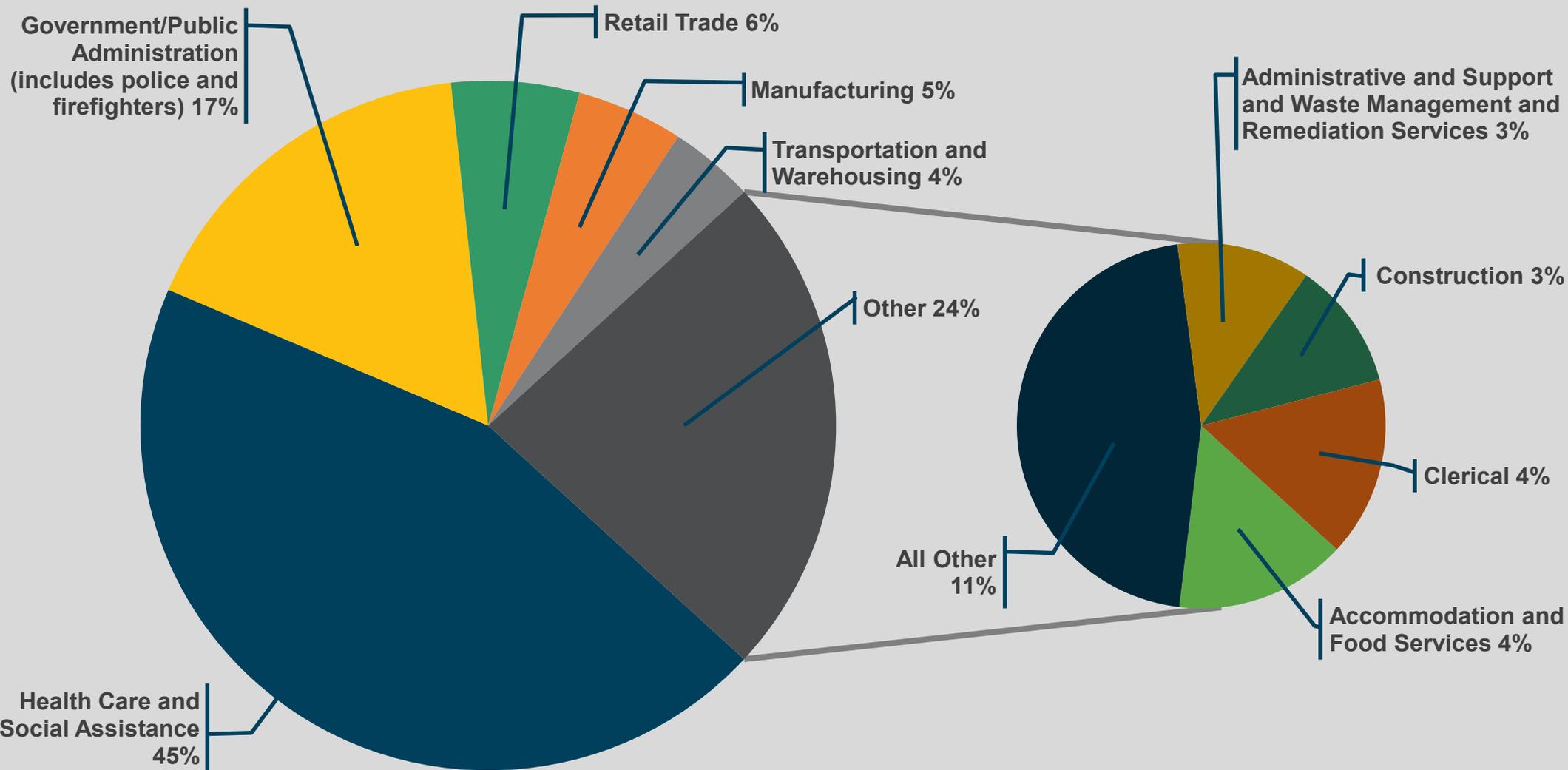
Chart 9: Cost Evaluation of Governor Newsom’s Executive Order COVID-19 Claim Severity Estimates – Medical



Insights & Recent Trends

- Since the majority of COVID-19 claims are estimated to be mild with no hospitalization, the average medical cost projected over all COVID-19 claims is well below the average medical per indemnity claim on non-COVID-19 claims.
- Long-term medical issues affecting COVID-19 patients are not well known. If additional long-term medical care issues arise from COVID-19 claims, the medical costs on severe and critical COVID-19 claims could be higher.

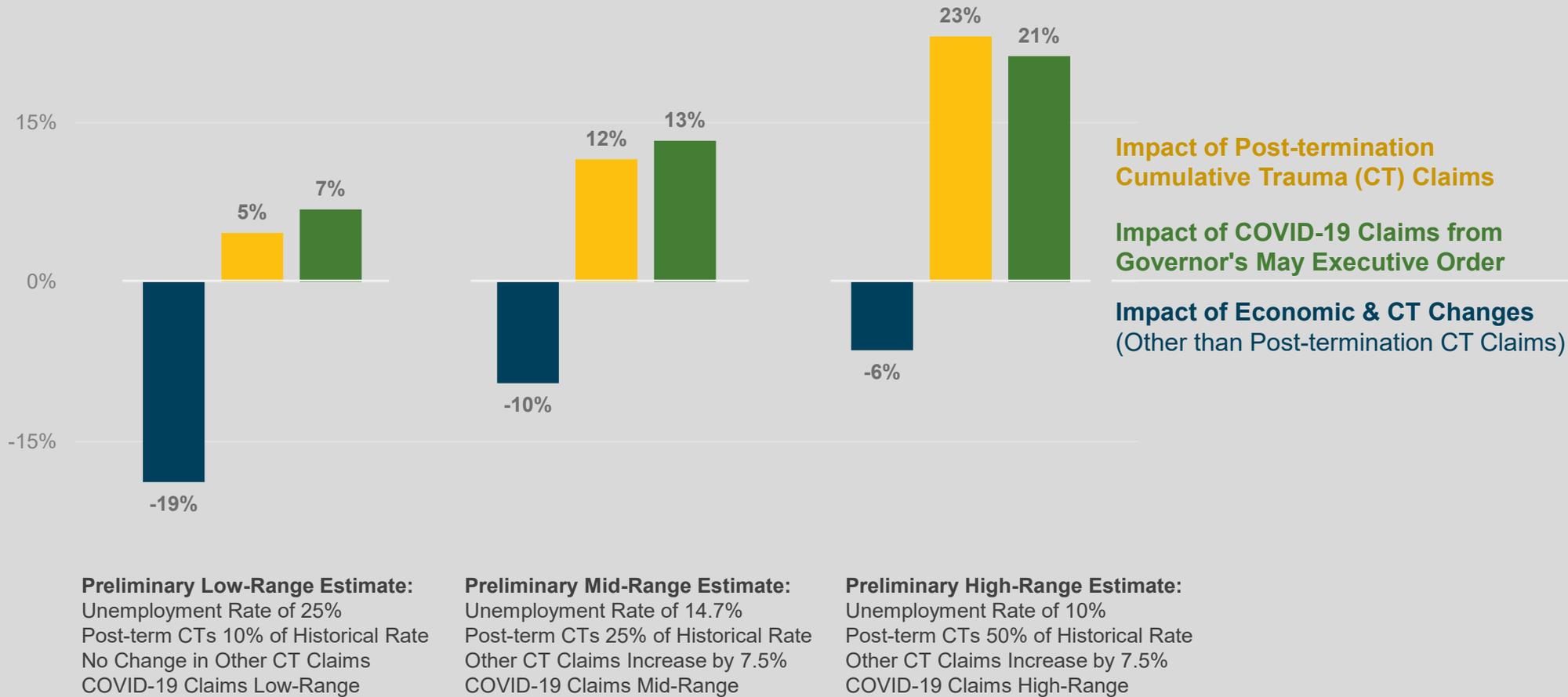
Chart 10: Reported COVID-19 Claims by Industry as of July 7, 2020



Insights & Recent Trends

- As expected, the vast majority of COVID-19 claims reported to the Division of Workers' Compensation are in the health care and government/public administration sectors.
- It is likely as California's economy begins to re-open that the industry mix of COVID-19 claims will be more dispersed.

Chart 11: 2020 Indemnity Frequency Change – Preliminary Projections



Insights & Recent Trends

- Prior to COVID-19, indemnity claim frequency was projected to decline by 2% in 2020.
- The WCIRB's frequency model has shown that prior recessions have led to frequency decreases.
- There is potential for a surge in post-termination claims in 2020 given recent trends in California and the massive level of recent layoffs.
- 2020 frequency may also be significantly impacted by more telecommuting during the stay-at-home period.

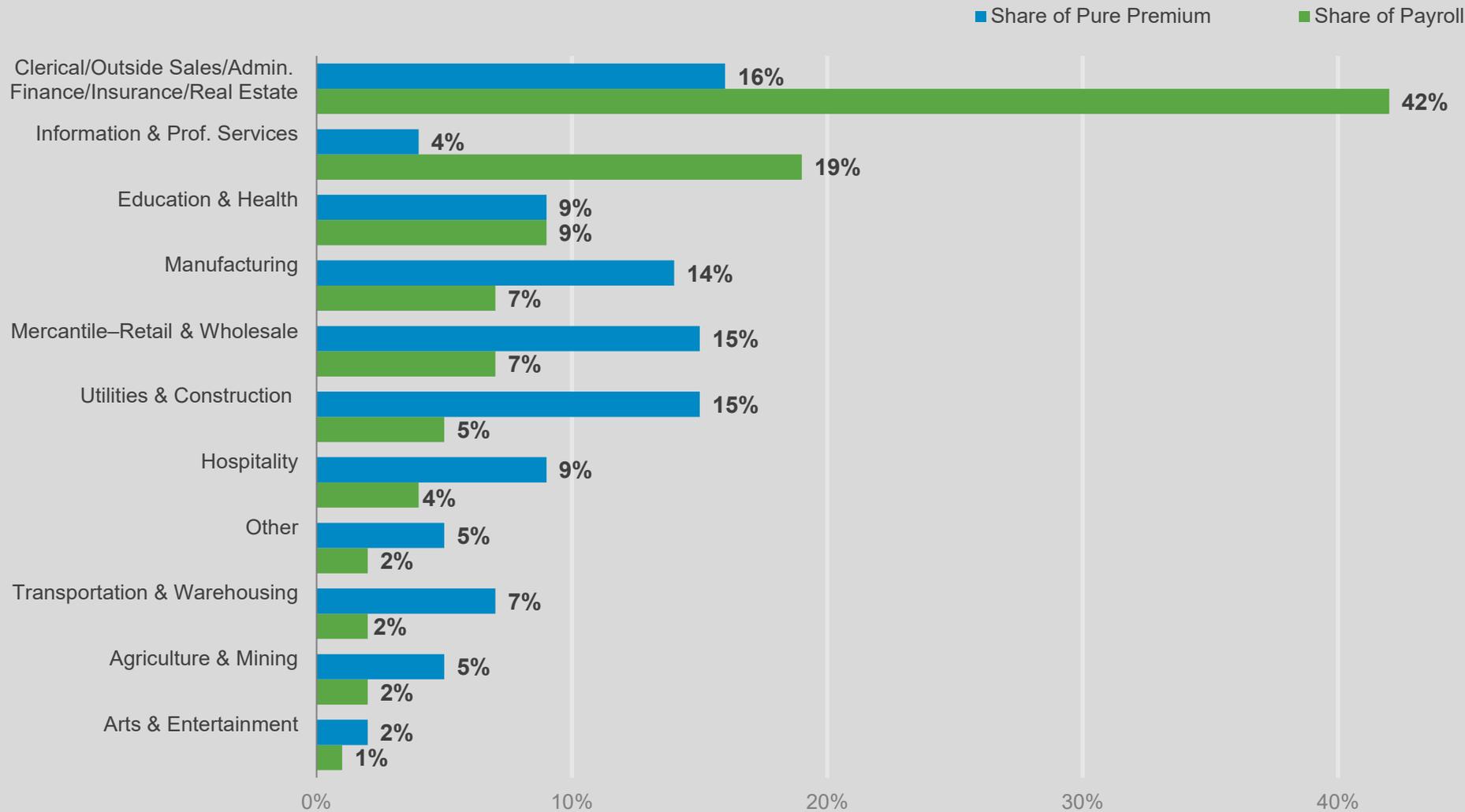


Cost Distributions

03

03
Cost Distributions

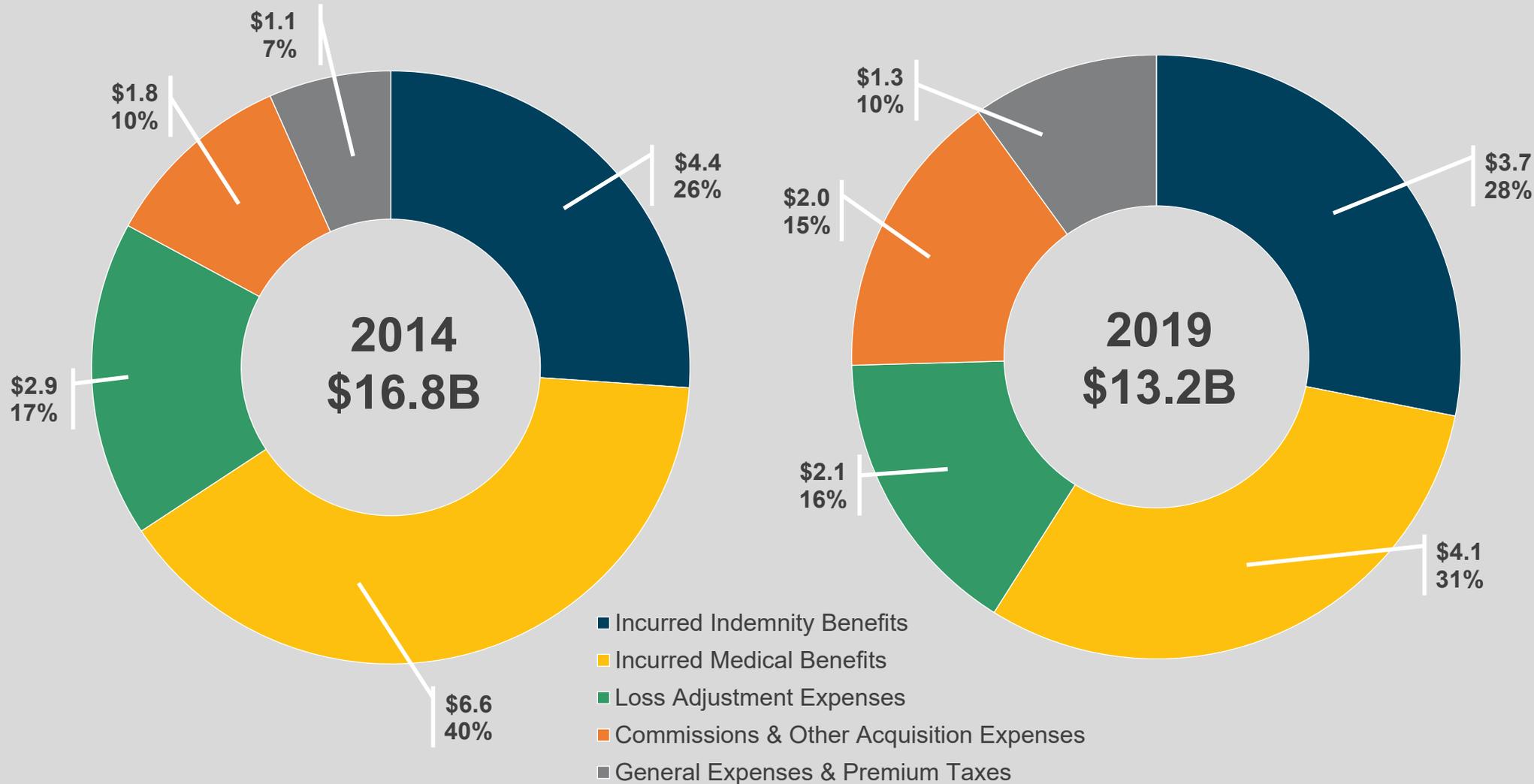
Chart 12: Distribution of Costs by Industrial Sector



Insights & Recent Trends

- With California’s diverse economy, no industrial sector grouping generates more than 16% of statewide advisory pure premium.
- The “white collar” type sectors comprise a majority of statewide payroll but a small share of pure premium.
- The Utilities and Construction sectors comprise only 5% of statewide payroll but triple the share of pure premium, as rates for these sectors are higher.

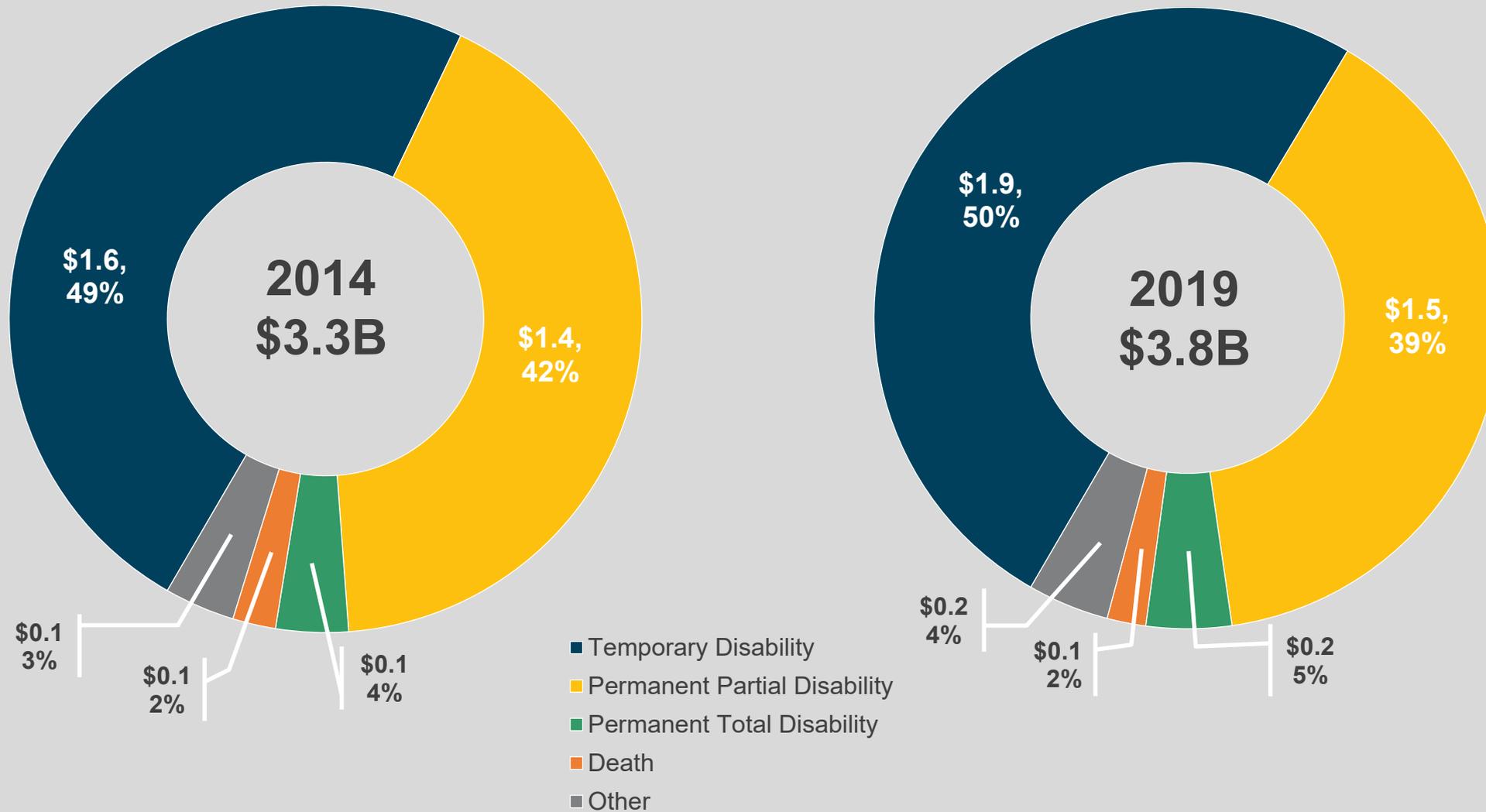
Chart 13: Distribution of Insured System Costs



Insights & Recent Trends

- Medical benefits' share of total costs declined by \$2.5 billion or 9 percentage points over the last five years.
- Indemnity benefits' share of total costs remained relatively consistent over the last five years.
- The \$3.6 billion decrease in losses and expenses in the insured system was largely driven by the reforms of Senate Bill (SB) No. 863 and subsequent legislation.

Chart 14: Distribution of Paid Indemnity Benefits

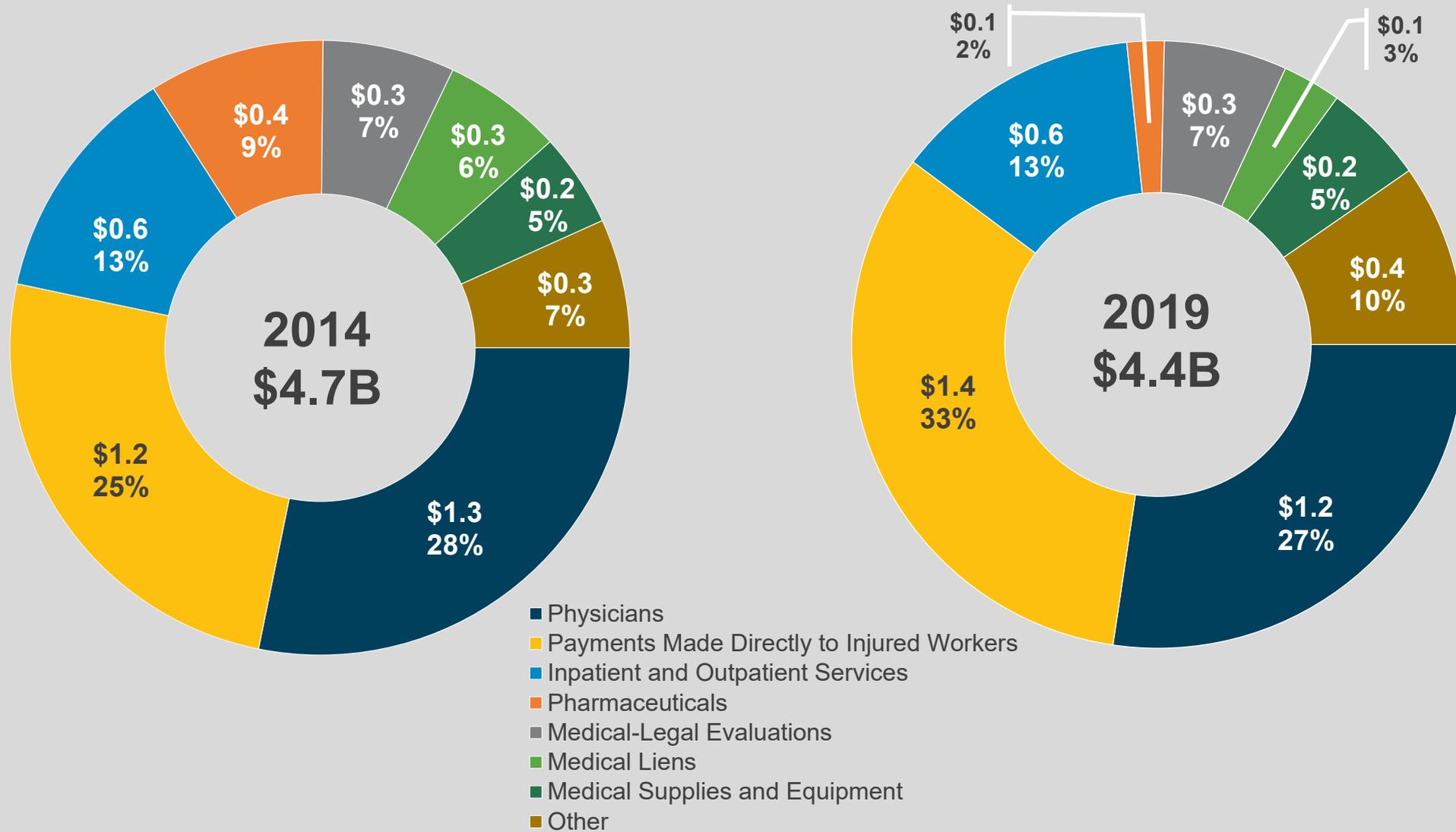


Insights & Recent Trends

- Temporary disability and permanent partial disability benefits comprise approximately 90% of indemnity benefits.
- The share of indemnity benefits for permanent partial disability decreased modestly over the last five years as, unlike most other types of indemnity benefits, there are no annual cost of living adjustments.

03
Cost Distributions

Chart 15: Distribution of Paid Medical Benefits

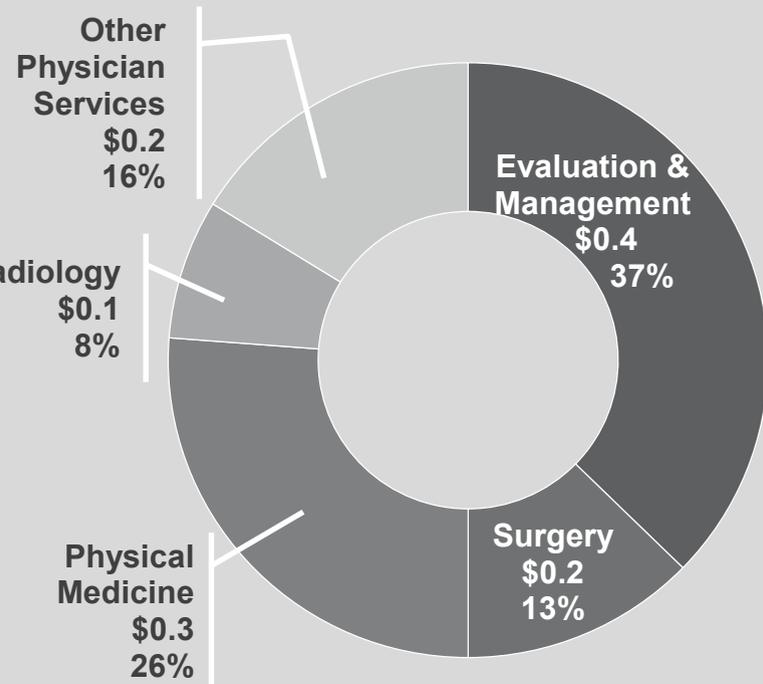


Insights & Recent Trends

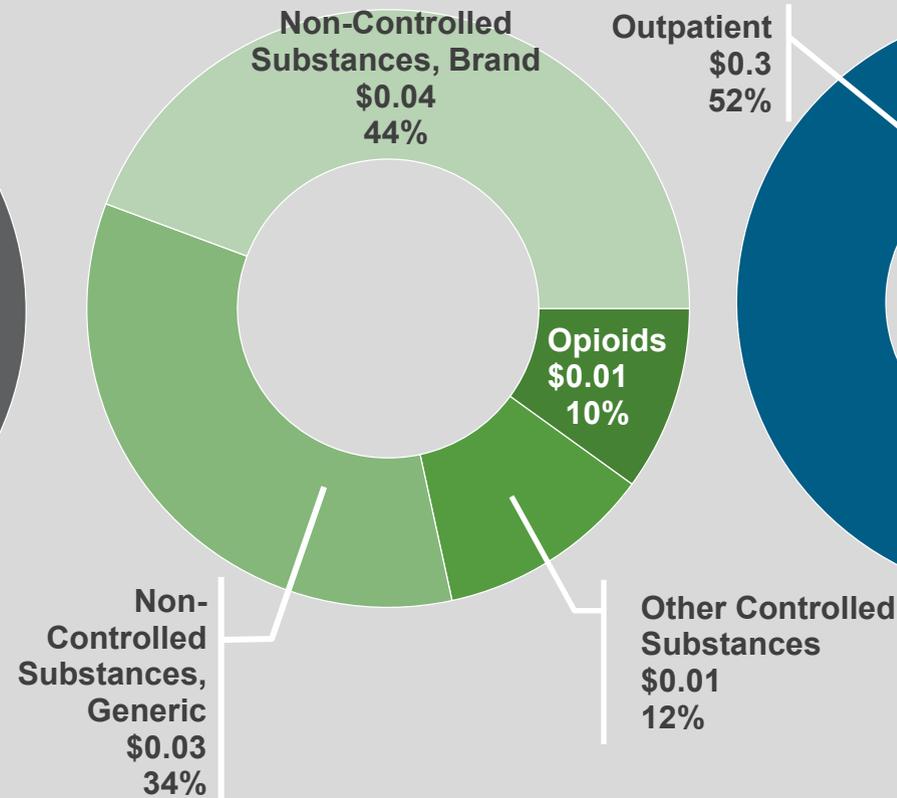
- The share of medical payments for pharmaceuticals and medical liens decreased significantly over the last five years.
- Payments made directly to injured workers, which are primarily for future medical services, increased due in part to accelerations in claim settlement rates. [\(Chart 40\)](#)
- The shares of medical costs in other categories remained relatively consistent over the last five years.

Chart 16: Distribution of 2019 Paid Medical by Category

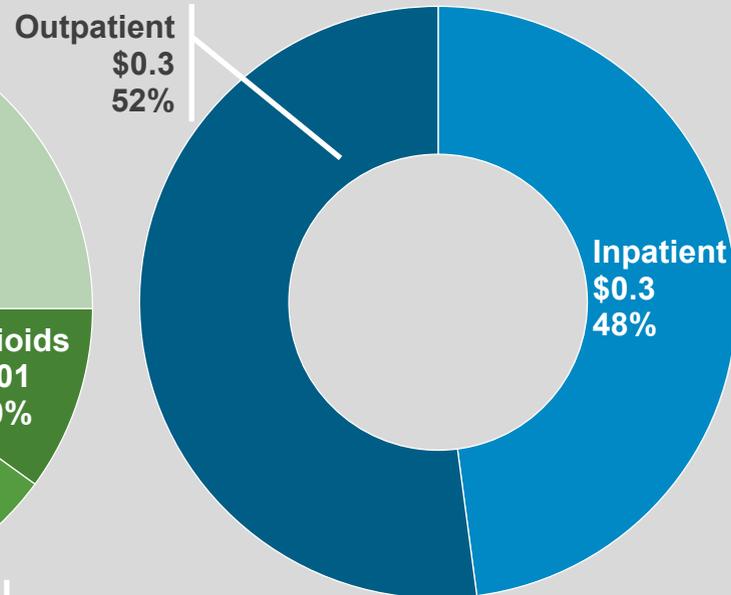
Physician Services
\$1.2B



Pharmaceuticals
\$0.1B



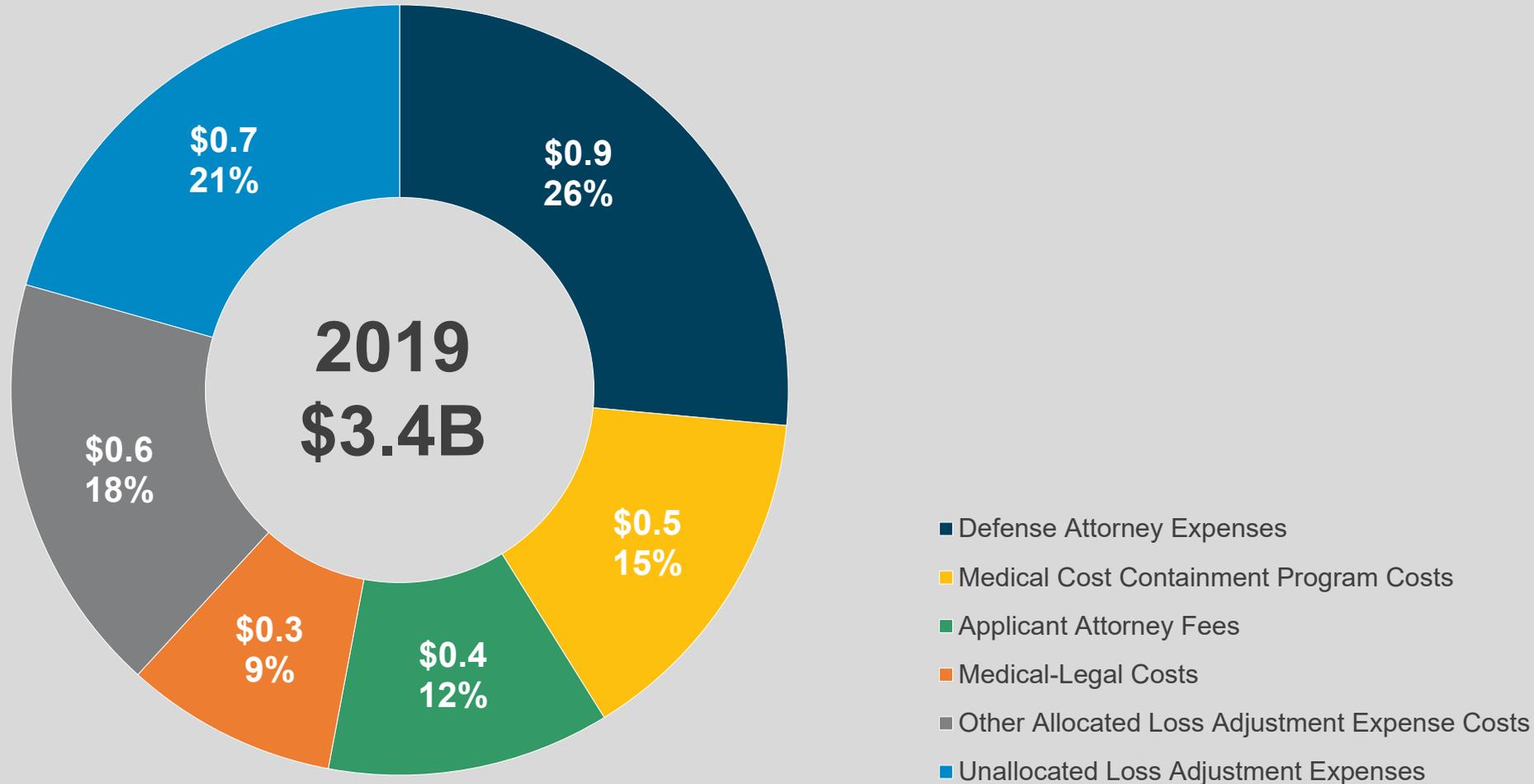
Inpatient & Outpatient Services
\$0.6B



Insights & Recent Trends

- Payments for evaluation and management and physical medicine services represented over 60% of all physician services payments in 2019.
- More than three-quarters of pharmaceutical payments were for non-controlled substances in 2019.
- Opioid payments continue to shrink and comprised only 10% of all pharmaceutical costs in 2019.

Chart 17: Distribution of 2019 Paid Frictional Costs



Insights & Recent Trends

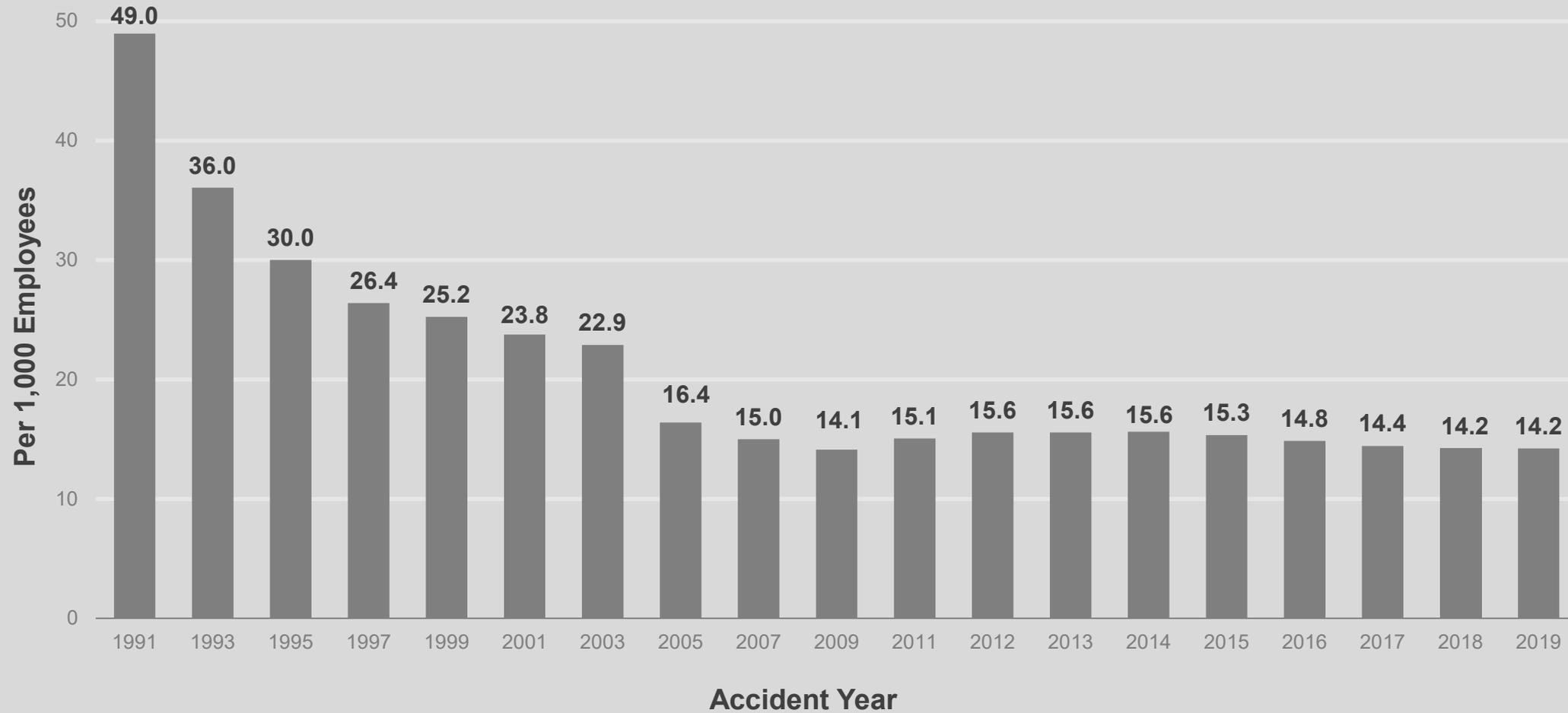
- The majority of frictional costs paid are for the handling of claims and the resolving of claim disputes.
- The \$3.4 billion of frictional costs paid in 2019 is comparable to the cost of paid indemnity benefits (after excluding applicant’s attorney fees, which are typically reported in indemnity benefits).

Claim Frequency

04

04
Claim Frequency

Chart 18: Indemnity Claims per 1,000 Employees

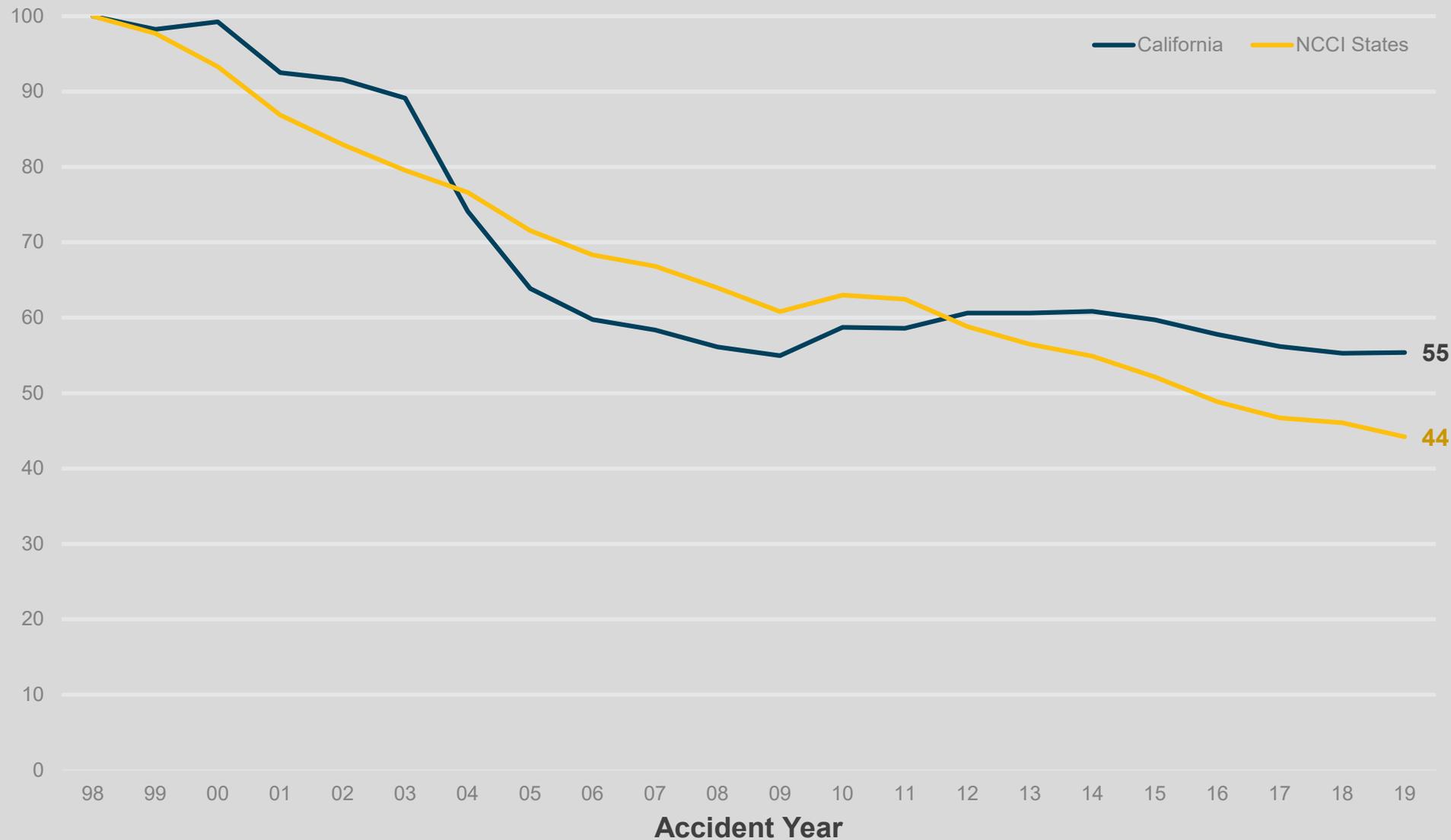


Insights & Recent Trends

- Claim frequency declined for decades in California due to factors such as a shift toward a more service-based economy, increased mechanization and improved safety efforts.
- Over the last several years, indemnity claim frequency has been relatively flat due in part to increases in CT claims and claims filed after the termination of the employee.
- Indemnity claim frequency in 2020 is significantly impacted by the COVID-19 pandemic and resulting stay-at-home orders and economic downturn. ([Chart 11](#))

04
Claim Frequency

Chart 19: Indemnity Claim Frequency Indexed to 1998

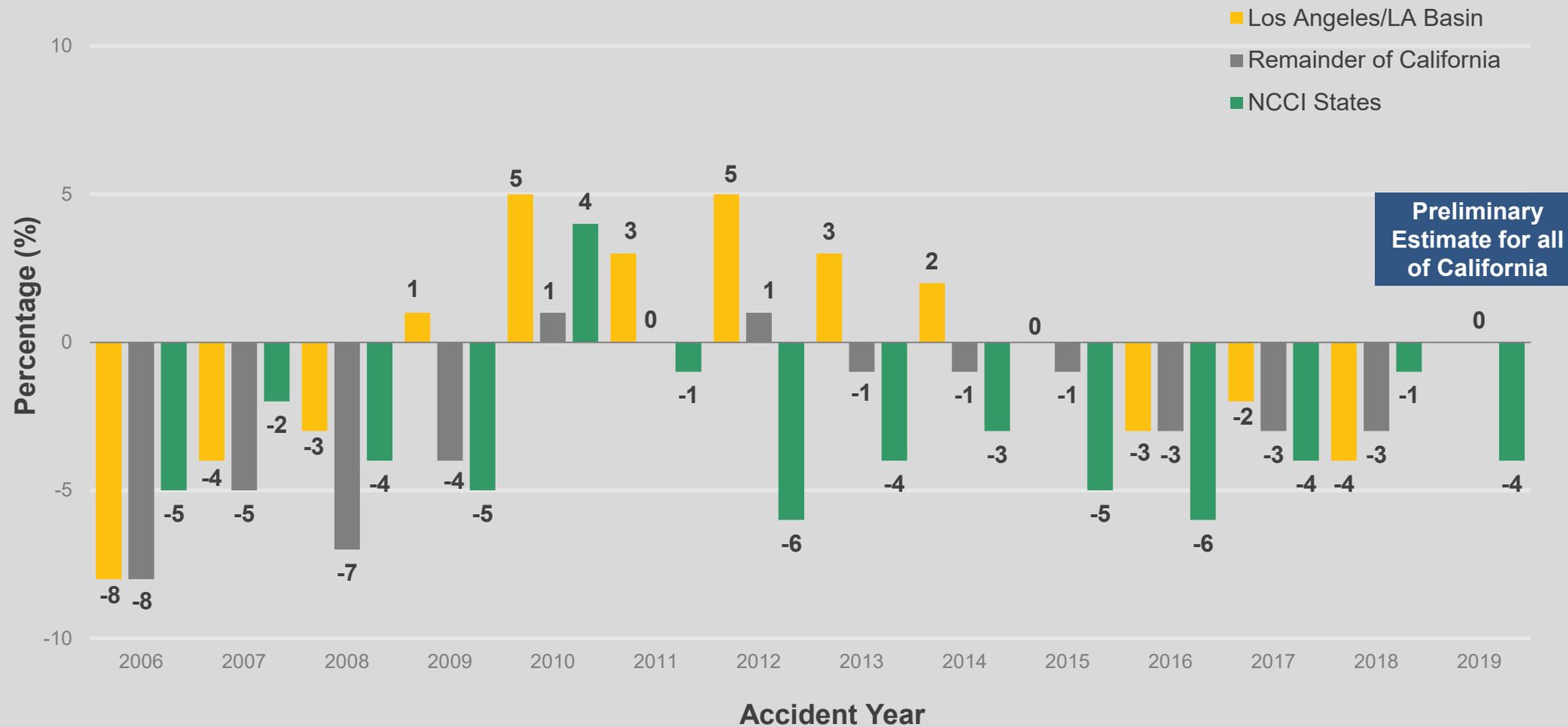


Insights & Recent Trends

- Following the SB 899 reforms in 2004, California frequency plummeted below the National Council on Compensation Insurance (NCCI) states' indexed level.
- Both California and NCCI states showed a bump in frequency following the Great Recession.
- California and NCCI states' frequency recently diverged, as California frequency stayed flat while NCCI states returned to the historical rate of decline.

04
Claim Frequency

Chart 20: Change in Indemnity Claim Frequency

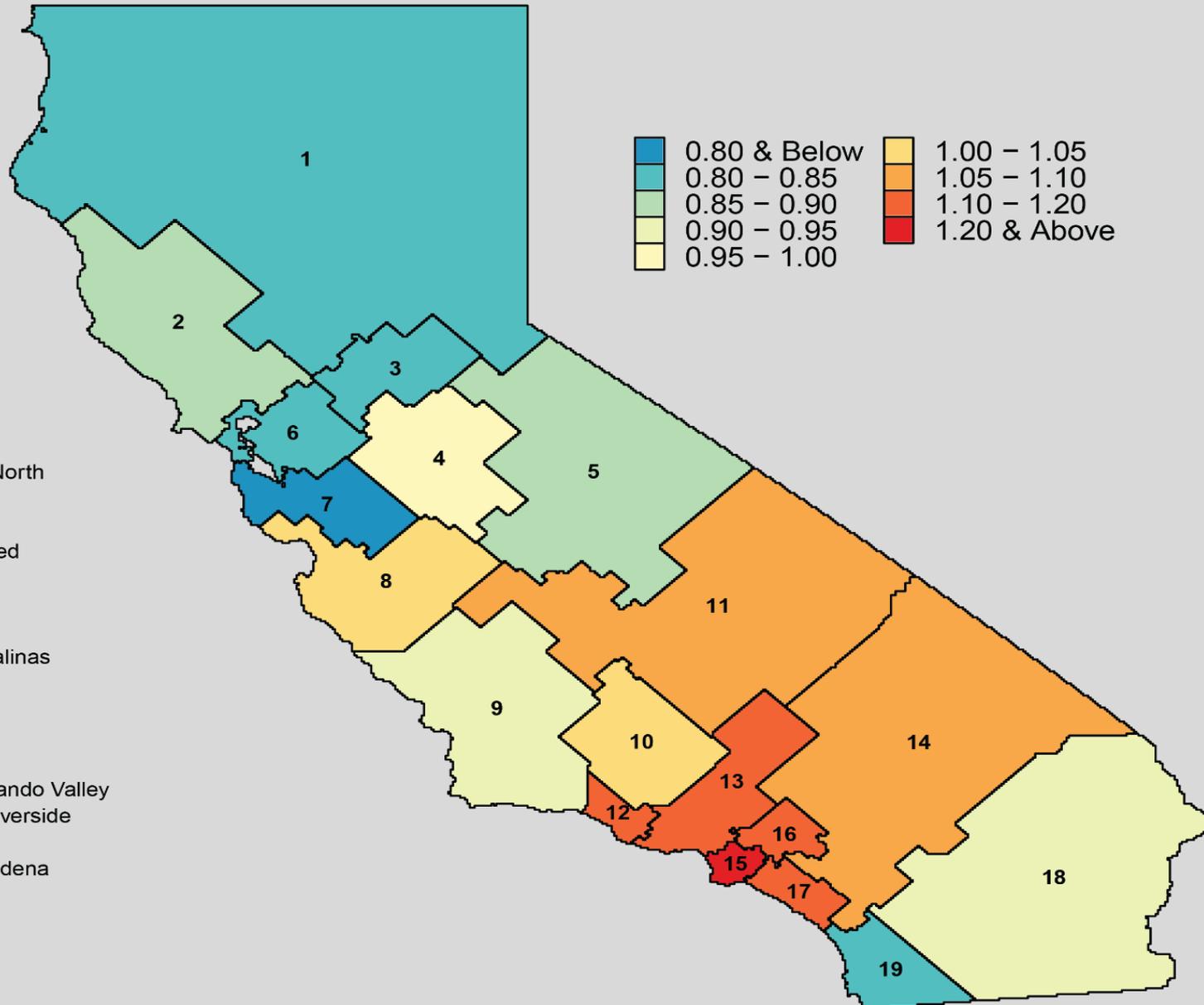


Insights & Recent Trends

- California's flat-to-increasing frequency in 2011 through 2014 was driven by increases in the Los Angeles Basin.
- In the last several years, frequency declines in the Los Angeles Basin were comparable to the remainder of California.

04
Claim Frequency

Chart 21: Regional Differences in Indemnity Claim Frequency



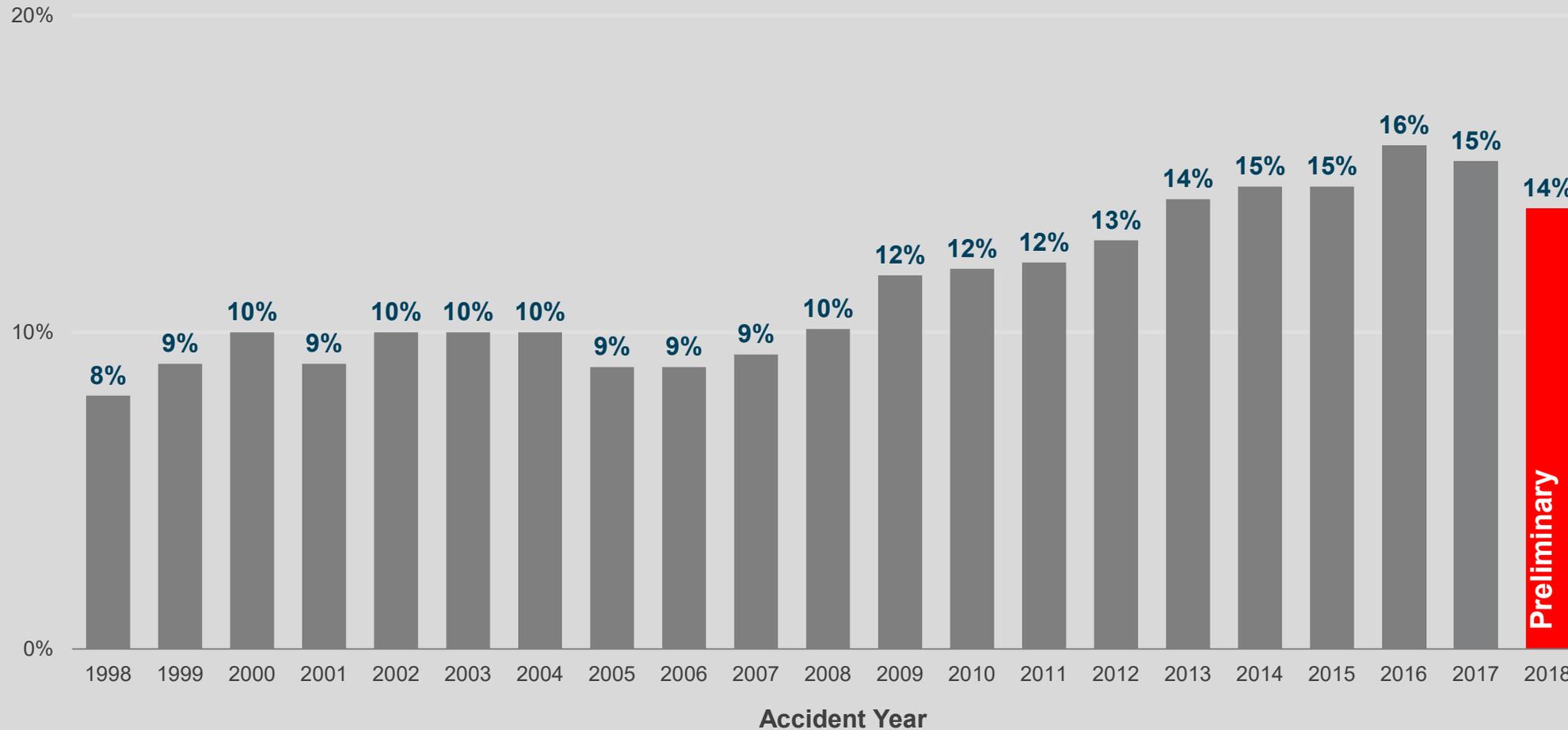
- 01 - Yuba City/Redding/Far North
- 02 - Sonoma/Napa
- 03 - Sacramento
- 04 - Stockton/Modesto/Merced
- 05 - Fresno/Madera
- 06 - Bay Area
- 07 - Peninsula/Silicon Valley
- 08 - Santa Cruz/Monterey/Salinas
- 09 - SLO/Santa Barbara
- 10 - Bakersfield
- 11 - Tulare/Inyo
- 12 - Ventura
- 13 - Santa Monica/San Fernando Valley
- 14 - San Bernardino/West Riverside
- 15 - LA/Long Beach
- 16 - San Gabriel Valley/Pasadena
- 17 - Orange County
- 18 - Imperial/Riverside
- 19 - San Diego

Insights & Recent Trends

- There are significant differences in frequency rates across California, even after adjusting for regional differences in industrial mix and wage levels.
- Relative frequency in the Los Angeles/Long Beach area is 85% higher than in the Peninsula/Silicon Valley area.

04
Claim Frequency

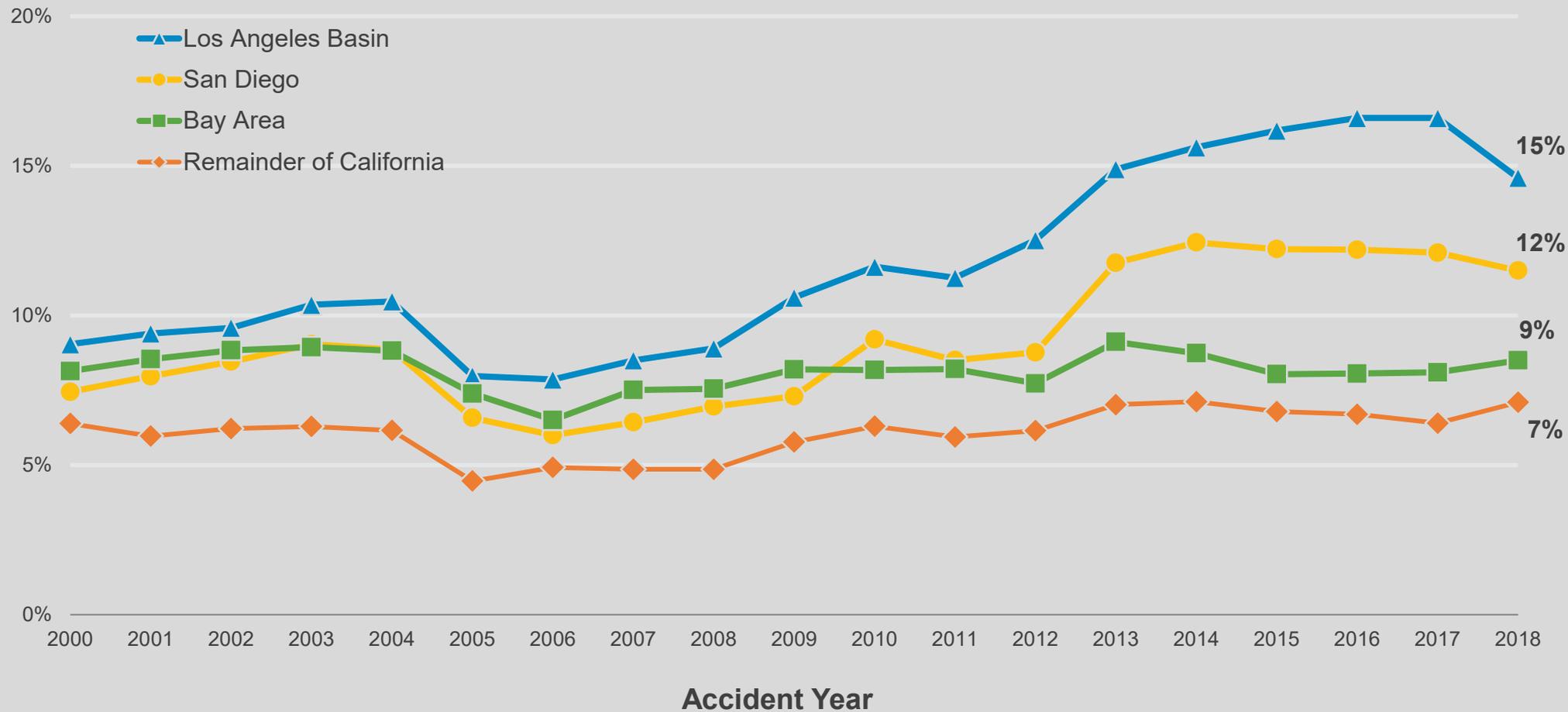
Chart 22: Percent of Indemnity Claims Involving Cumulative Trauma



Insights & Recent Trends

- CT claim rates increased steadily from 2006 to 2016.
- In particular, CT claim rates increased significantly following the Great Recession of 2008-2009.
- Although CT claim rates declined in 2017 and 2018, these rates may increase again as a result of the COVID-19 economic slowdown.
- The vast majority of CT claims are in the LA Basin and San Diego, and approximately 40% are filed following the termination of the employee.

Chart 23: Percent of Cumulative Trauma Claims by Region

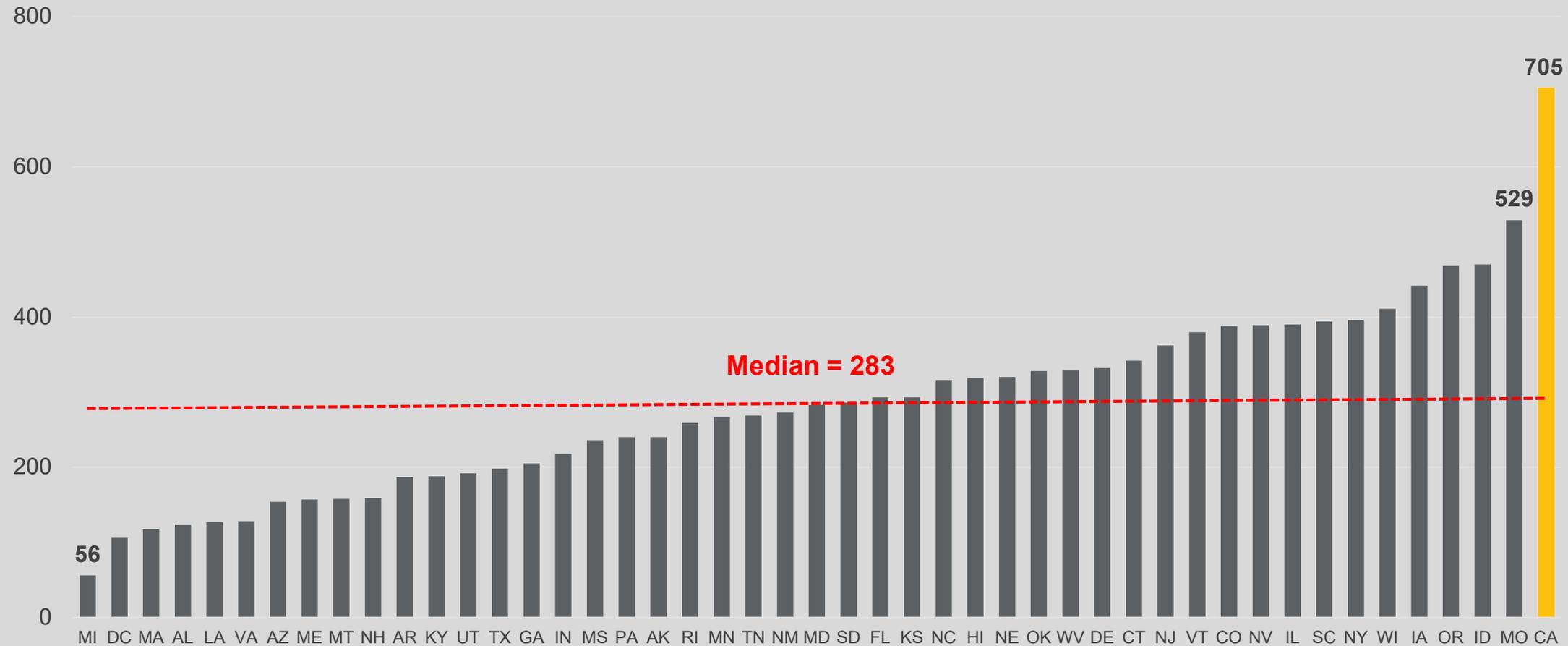


Insights & Recent Trends

- The vast majority of recent increases through 2017 in CT claims came from the Los Angeles Basin and San Diego areas.
- CT claim percentages in the LA Basin and San Diego declined in 2018, while percentages increased in other regions of California.

04
Claim Frequency

Chart 24: Permanent Disability Claims per 100,000 Employees



Insights & Recent Trends

- California has by far the highest permanent partial disability claim frequency in the country, approximately 250% of the national median.
- California high frequency is not driven by industrial mix or the number of severe injuries, which are comparable to those from other lower-frequency states.
- Permanent disability claim frequency is significantly higher in the Los Angeles Basin area.

[More Info](#) →

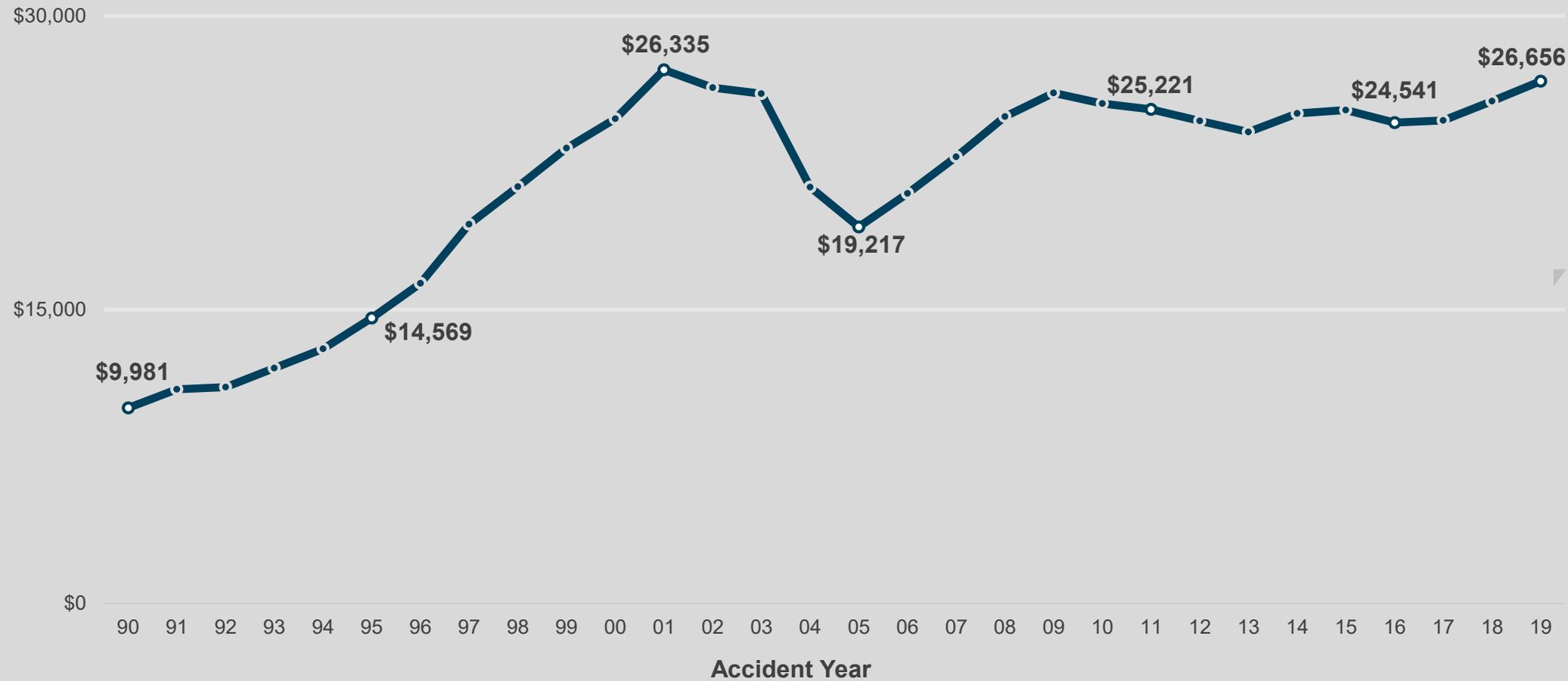


Claim Severity

05

05
Claim Severity

Chart 25: Average Indemnity Cost per Indemnity Claim



Insights & Recent Trends

- From 2012 through 2017, average indemnity costs were generally flat as increased claim settlement rates reduced claim duration, offsetting increases in average wage levels and indemnity benefit levels.
- In 2018 and 2019, average indemnity costs increased as the recent acceleration in claim settlement rates was plateauing.

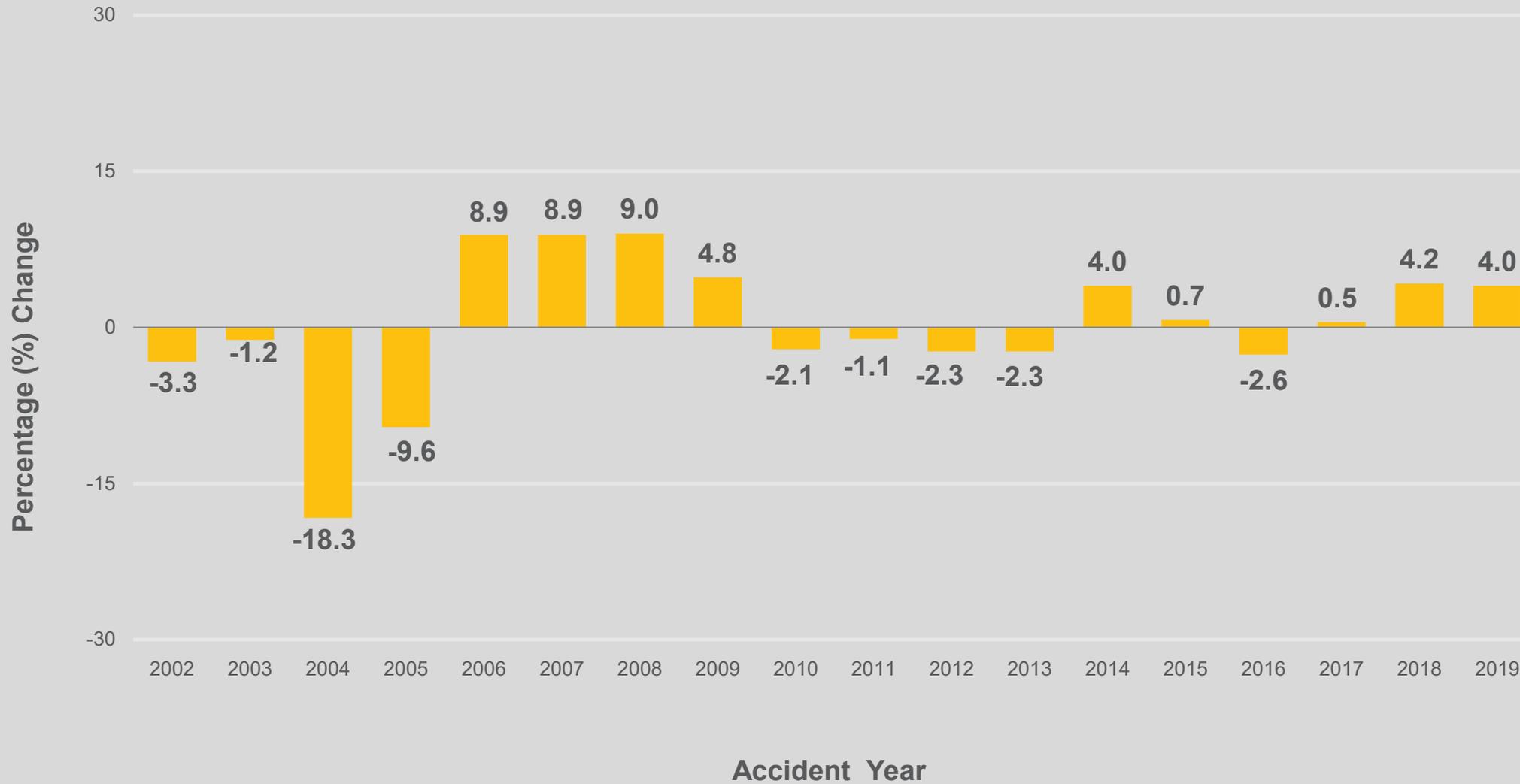
[\(Chart 40\)](#)

More Info →



05
Claim Severity

Chart 26: Change in Average Indemnity Cost per Indemnity Claim



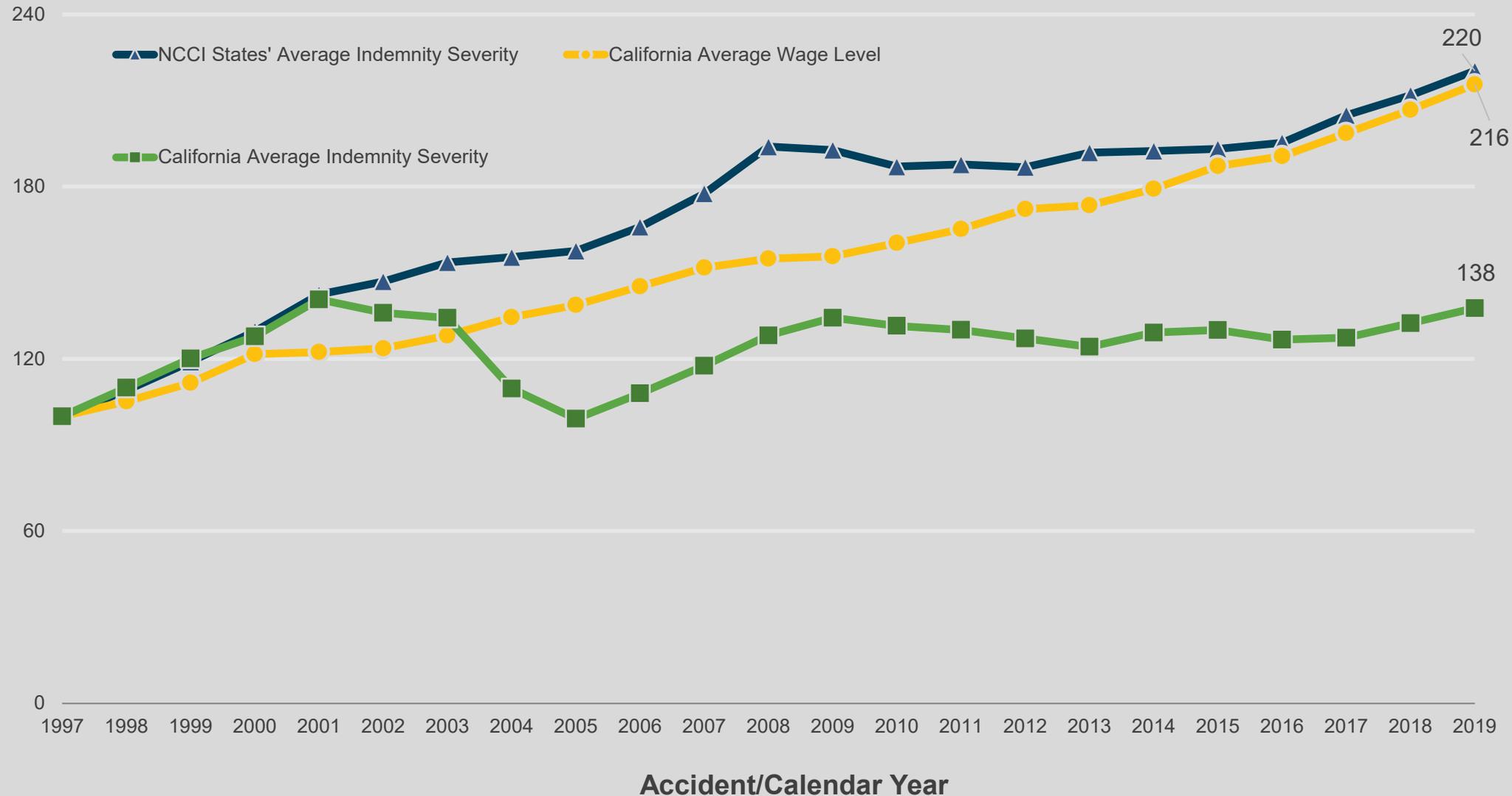
Insights & Recent Trends

- Following the Great Recession in 2009 and other than the SB 863 increase in permanent disability benefits in 2014, California average indemnity severities were generally flat to declining up until 2018.
- The recent period of flat indemnity severities were driven by SB 863 speeding up medical treatment and reducing temporary disability duration as well as acceleration in the settlement of permanent disability claims.
- The 4% increase for both 2018 and 2019 suggests moderation of the impact of the recent reforms and claim settlement rate increases.

More Info →

05
Claim Severity

Chart 27: Indemnity Cost Level Indexed to 1997

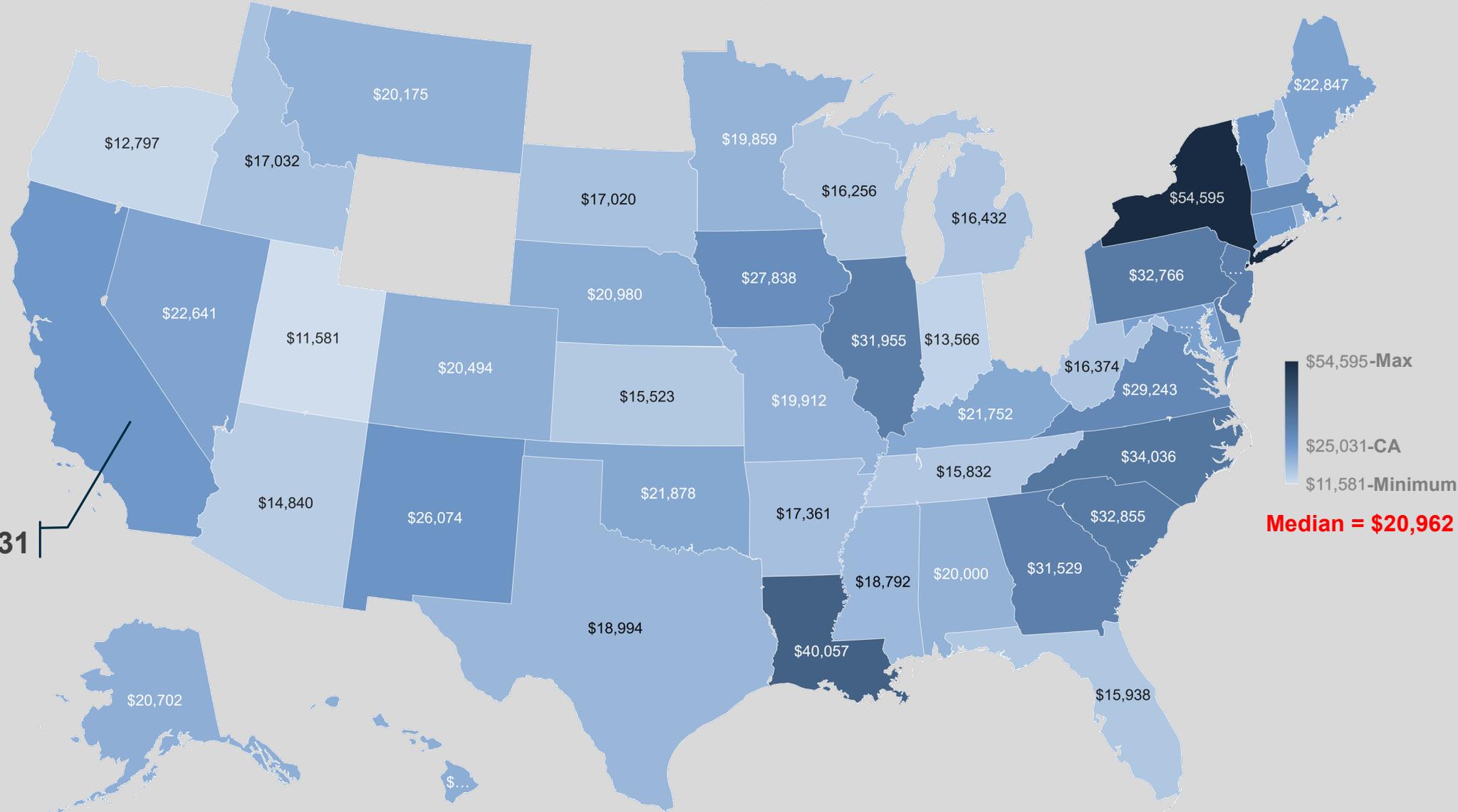


Insights & Recent Trends

- California average indemnity costs diverged from NCCI states in the early 2000s following the SB 899 reforms.
- Following the Great Recession and SB 863, California indemnity severities have been generally flat while those for NCCI states have grown.
- California average wages have increased steadily since 2010, and the distance between the growth in wages and growth in average indemnity benefits per indemnity claim has widened.

05
Claim Severity

Chart 28: Indemnity Cost per Indemnity Claim by State



💡 Insights & Recent Trends

- Average indemnity costs in California are more consistent with other states compared to some other system components, but are still almost 20% above the countrywide median.
- Higher-than-average indemnity costs in California are largely driven by the high proportion of indemnity claims involving permanent disability (Chart 24) and high wage levels.

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More Info →

05
Claim Severity

Chart 29: Average Medical Cost per Indemnity Claim

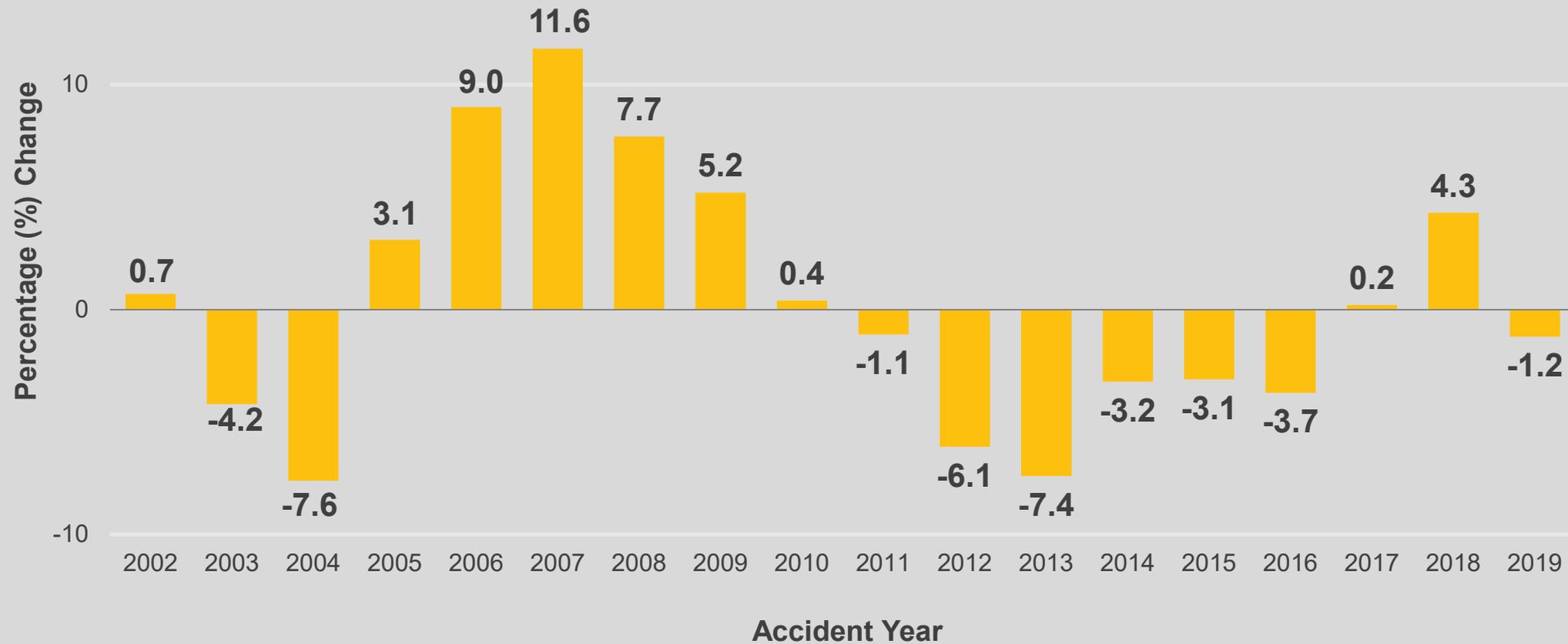


Insights & Recent Trends

- Historically, other than during reform periods, average medical cost inflation in California has been significant at 9% per year.
- From 2011 to 2016, average medical costs sharply declined, primarily driven by SB 863, SB 1160 and Assembly Bill (AB) 1244 reforms as well as efforts to reduce medical provider fraud and reduced pharmaceutical costs.
- Medical severities since 2016 have been fairly flat compared to other post-reform periods.
- Absent SB 863, average medical costs would be double in 2019 if they continued to grow at the pre-SB 863 rate of 6% per year.

[More Info](#) →

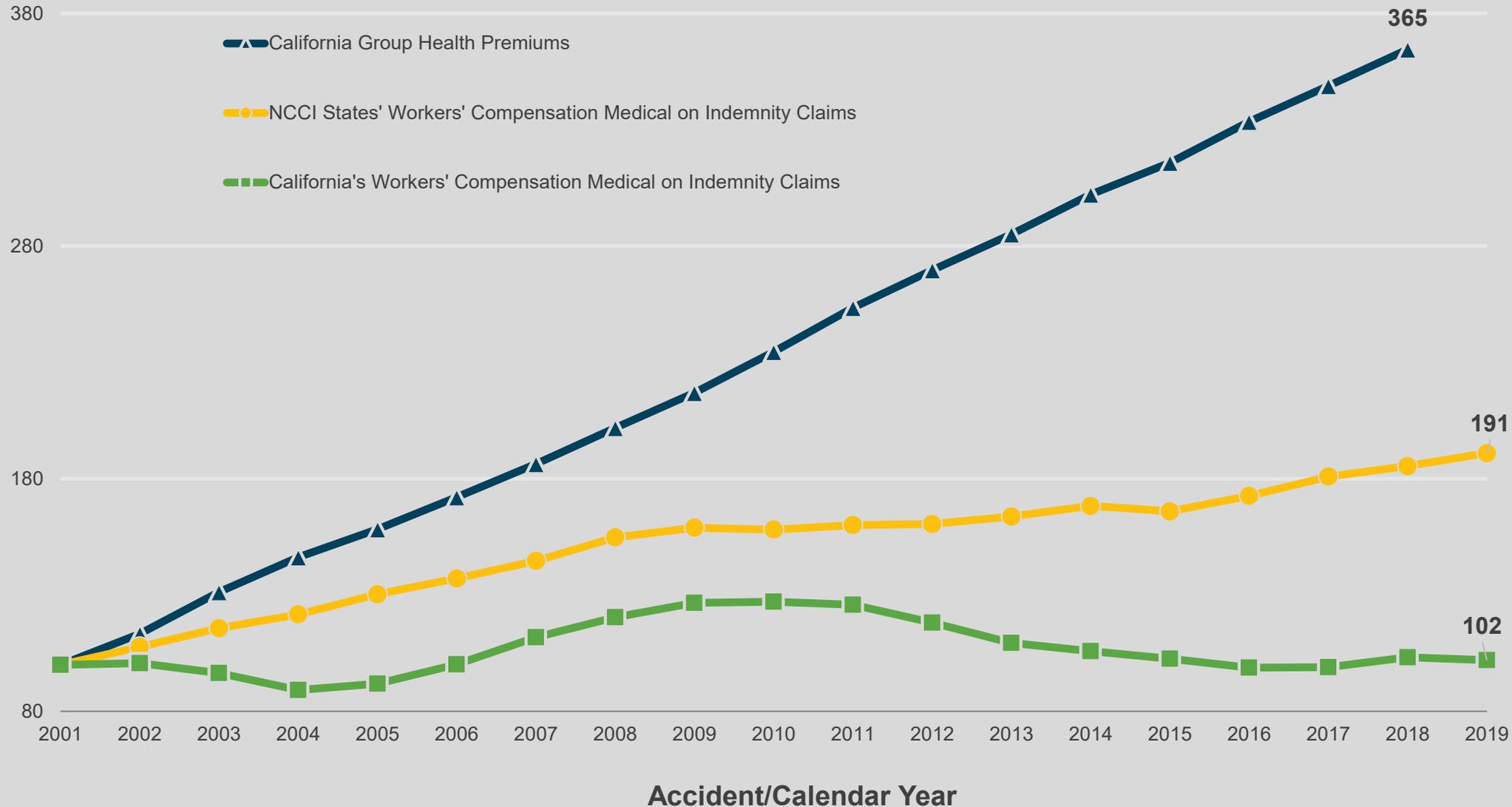
Chart 30: Change in Average Medical Cost per Indemnity Claim



Insights & Recent Trends

- Following eight years of flat-to-declining average medical costs, medical severity increased in 2018, in part driven by a relatively higher volume of large claims and annual inflation adjustments to medical fee schedules.
- Average medical costs decreased modestly in 2019, in part driven by decreases in the utilization of medical services and flattening claim settlement rates.

Chart 31: Medical Cost Level Indexed to 2001

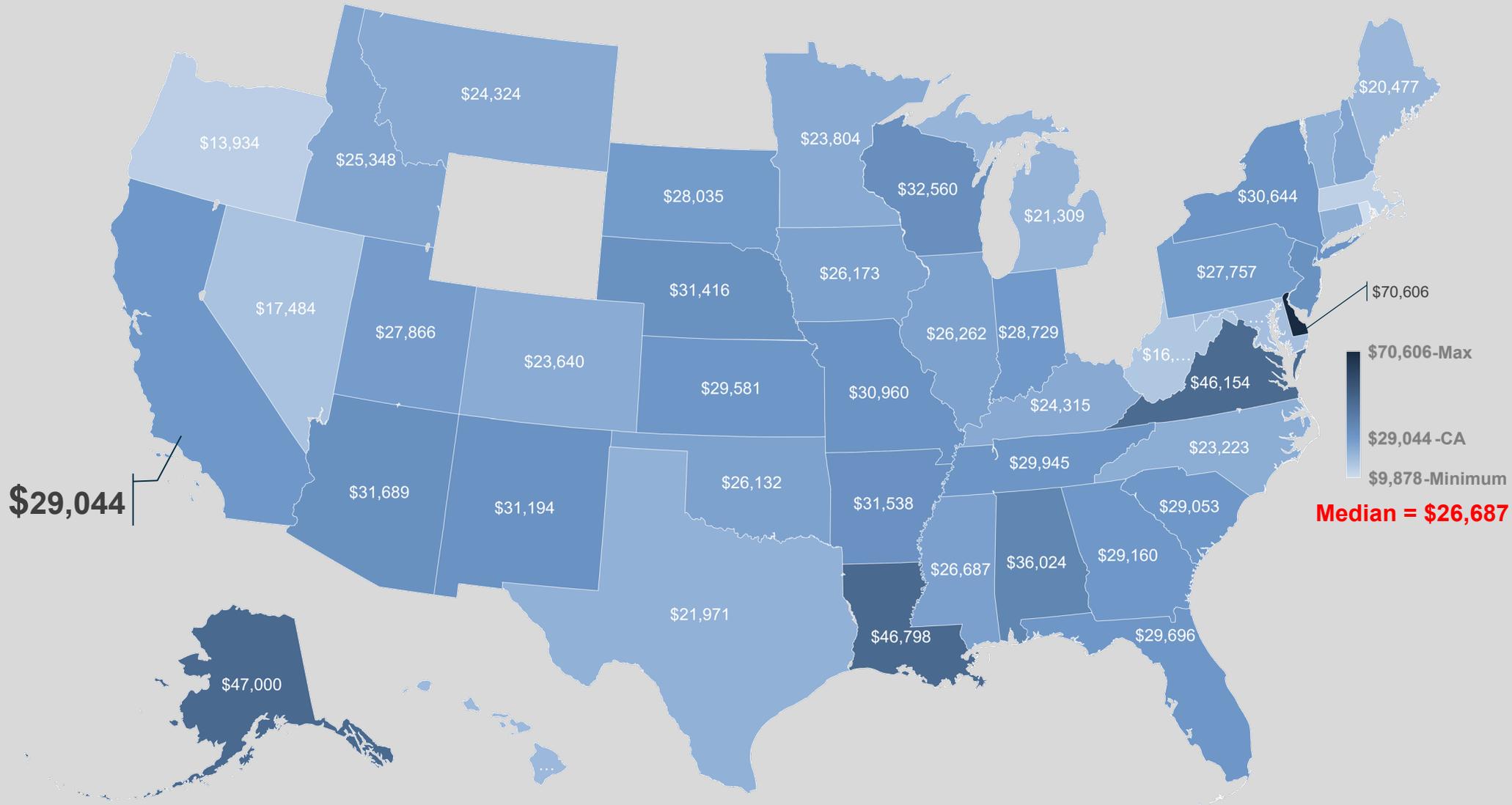


Insights & Recent Trends

- The rate of growth in California workers' compensation medical costs is far below that of other states and group health premiums.
- The average medical per indemnity claim in 2019 was only slightly above what it was in 2001.
- The reforms of 2002-2004 as well as SB 863 (2012) have widened the gap between California medical cost inflation and that for NCCI states since 2001.

05
Claim Severity

Chart 32: Medical Cost per Indemnity Claim by State



Insights & Recent Trends

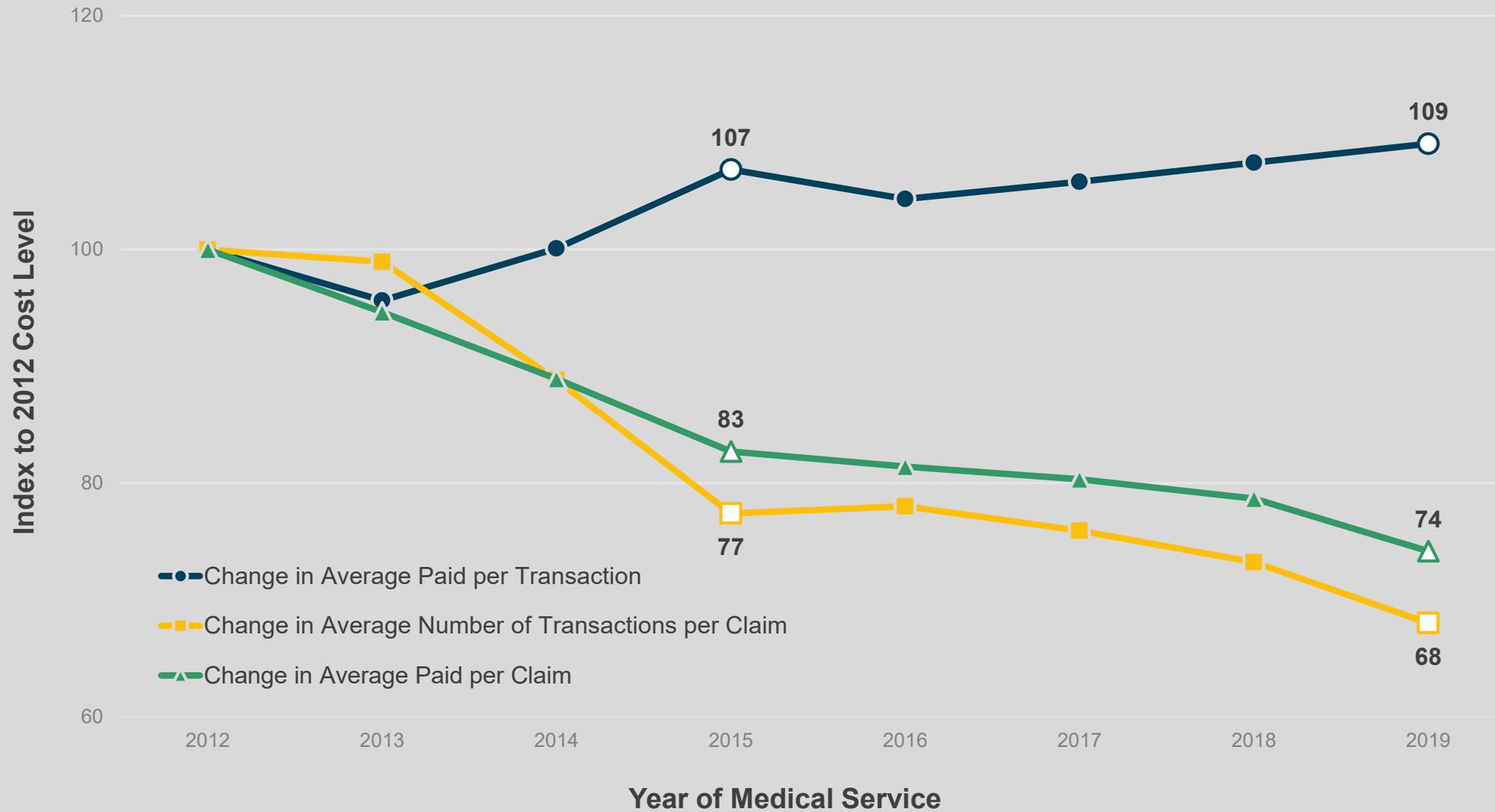
- California was previously among the top states for average medical costs per claim.
- With recent medical cost reductions in California and continued medical inflation in other states, California average medical per indemnity claim is now only 9% above the median state.

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More Info →

05
Claim Severity

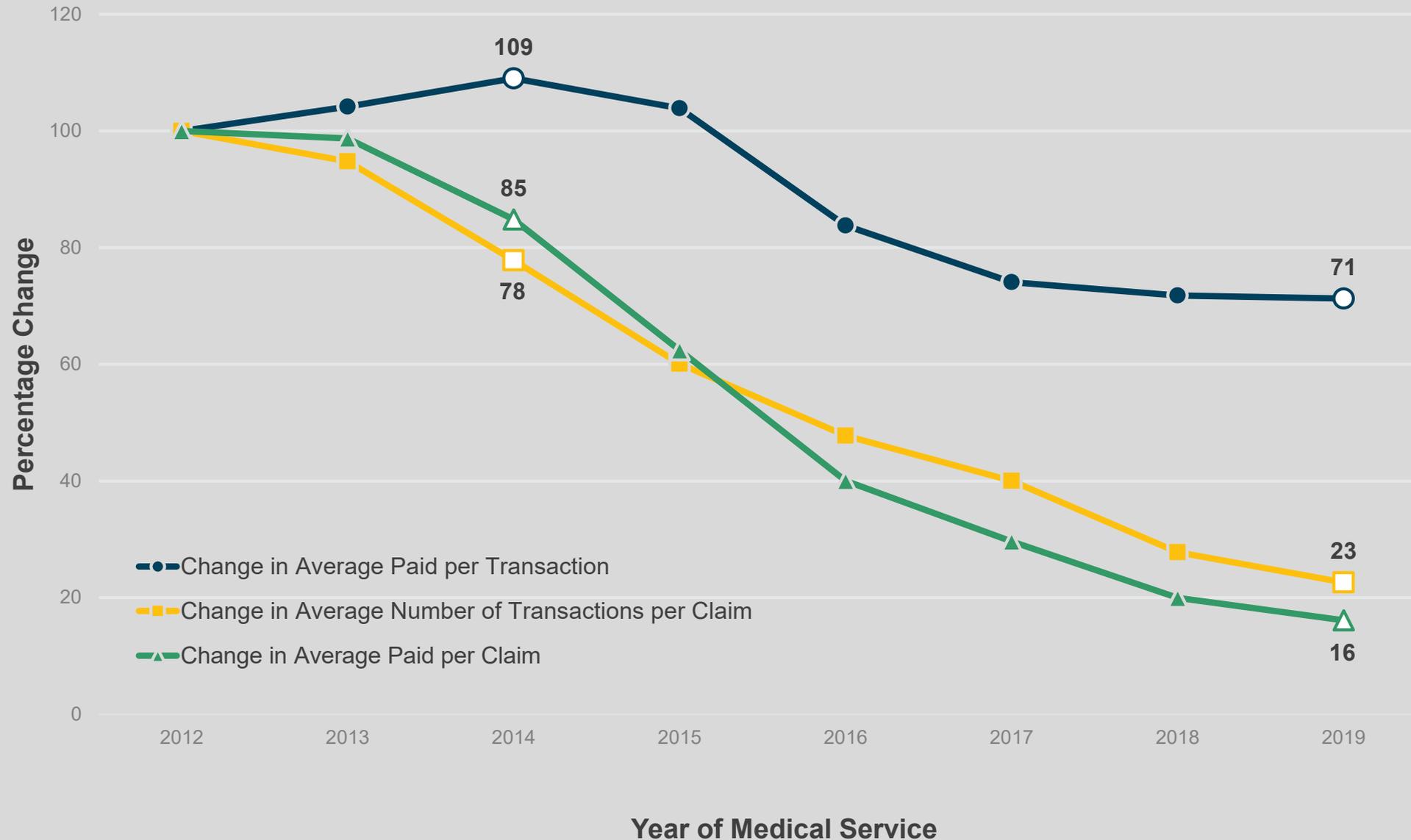
Chart 33: Medical Service Cost Level Indexed to 2012



Insights & Recent Trends

- Changes in average medical paid per transaction have been relatively modest.
- The number of medical service transactions per claim decreased by 32% since 2012, which is largely attributable to SB 863 and declining pharmaceutical use and cost. [\(Chart 34\)](#)
- Combined, total medical costs paid per claim have decreased by 26% since 2012.

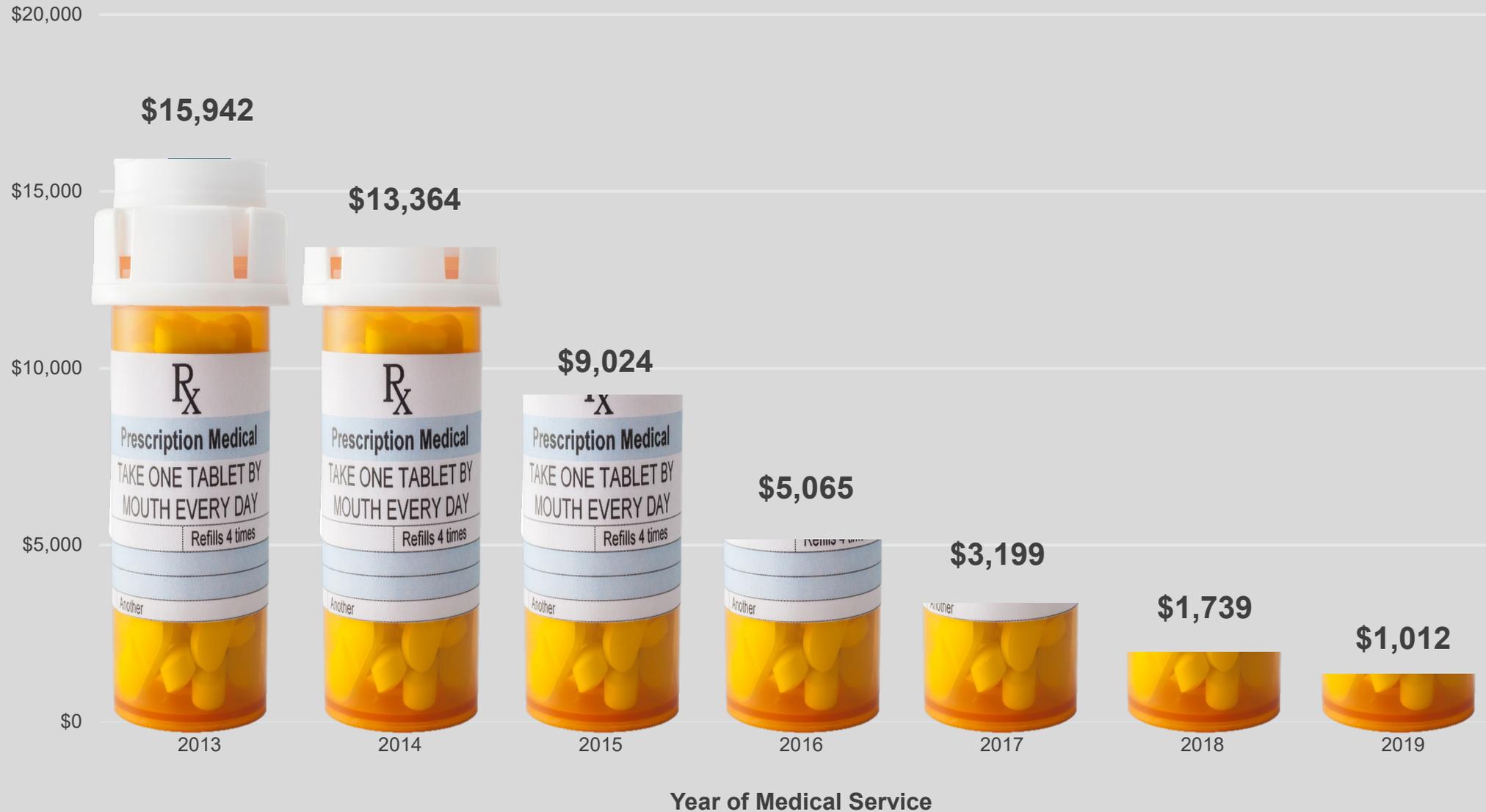
Chart 34: Pharmaceutical Cost Level Indexed to 2012



Insights & Recent Trends

- Average pharmaceutical cost paid per transaction decreased by 29% from 2015 to 2017, due largely to changes in federal government drug pricing.
- Key factors driving the over 75% decrease in pharmaceutical transactions per claim since 2012 include:
 - Independent medical review (IMR)
 - Reduced spinal surgeries
 - National trends toward reduced opioid use ([Chart 35](#))
 - The new drug formulary
- In total, pharmaceutical costs per claim in 2019 were less than one-sixth of the 2012 level.

Chart 35: Opioid Costs per 100 Claims



Insights & Recent Trends

- The use of opioids in California workers' compensation declined by 94% since 2013.
- Factors that drove this decline include IMR, use of the Controlled Substance Utilization Review and Evaluation System (CURES) in California, reaction to the national opioid epidemic and the new drug formulary.
- Prior WCIRB research has shown that heavy use of opioids drove not only higher medical costs but also higher indemnity costs and claim duration.

Claim Duration

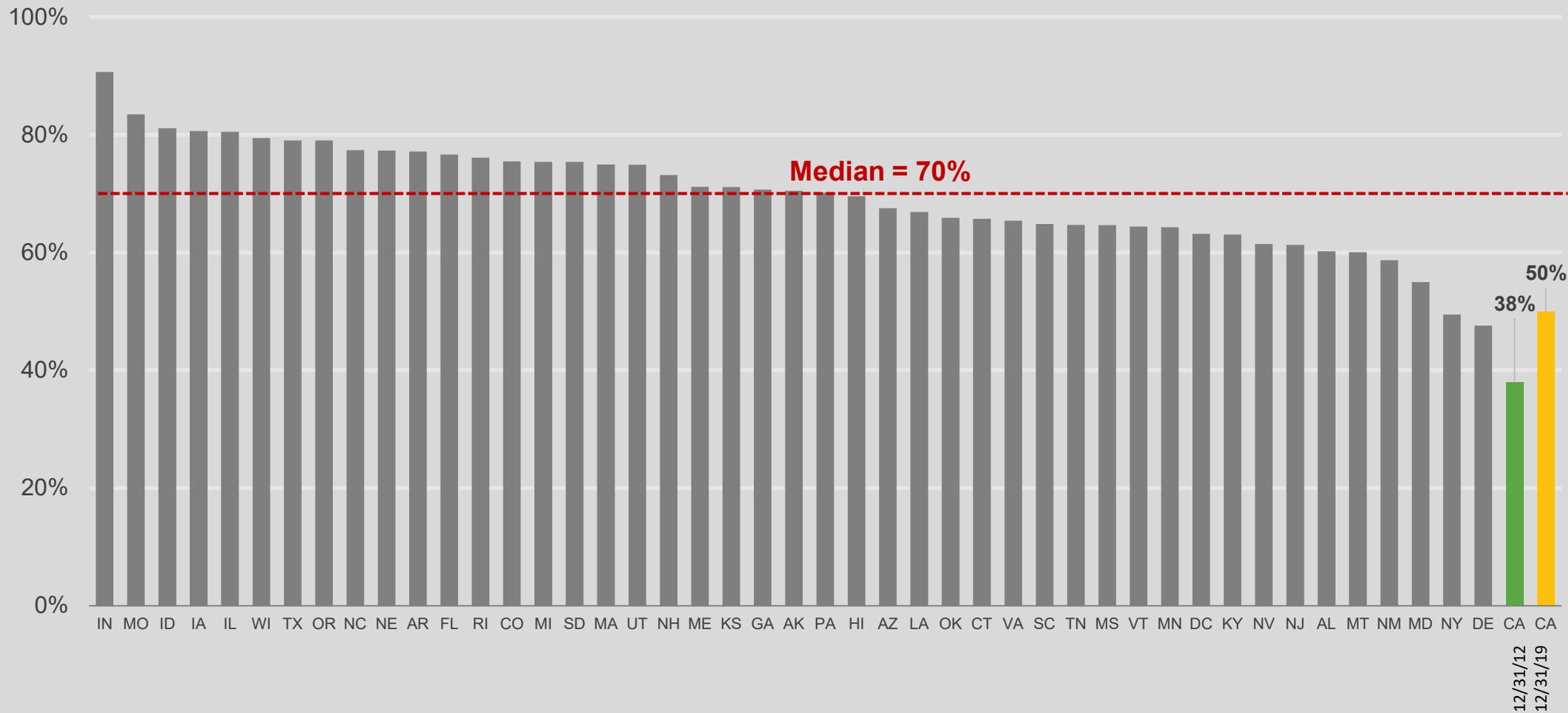
06

06
Claim Duration

Chart 36: Percent of Ultimate Medical Cost Paid at 3 Years

Insights & Recent Trends

- The percentage of ultimate medical paid after three years increased from 38% in 2012 to 50% in 2019, driven largely by the SB 863 reforms.
- California still has relatively long duration of medical payments, driven by:
 - The time it takes to report claims ([Chart 38](#))
 - The length of time claims stay open ([Chart 39](#))
 - A high proportion of permanent disability ([Chart 24](#)) and CT ([Chart 22](#)) claims
 - High frictional costs ([Chart 46](#))

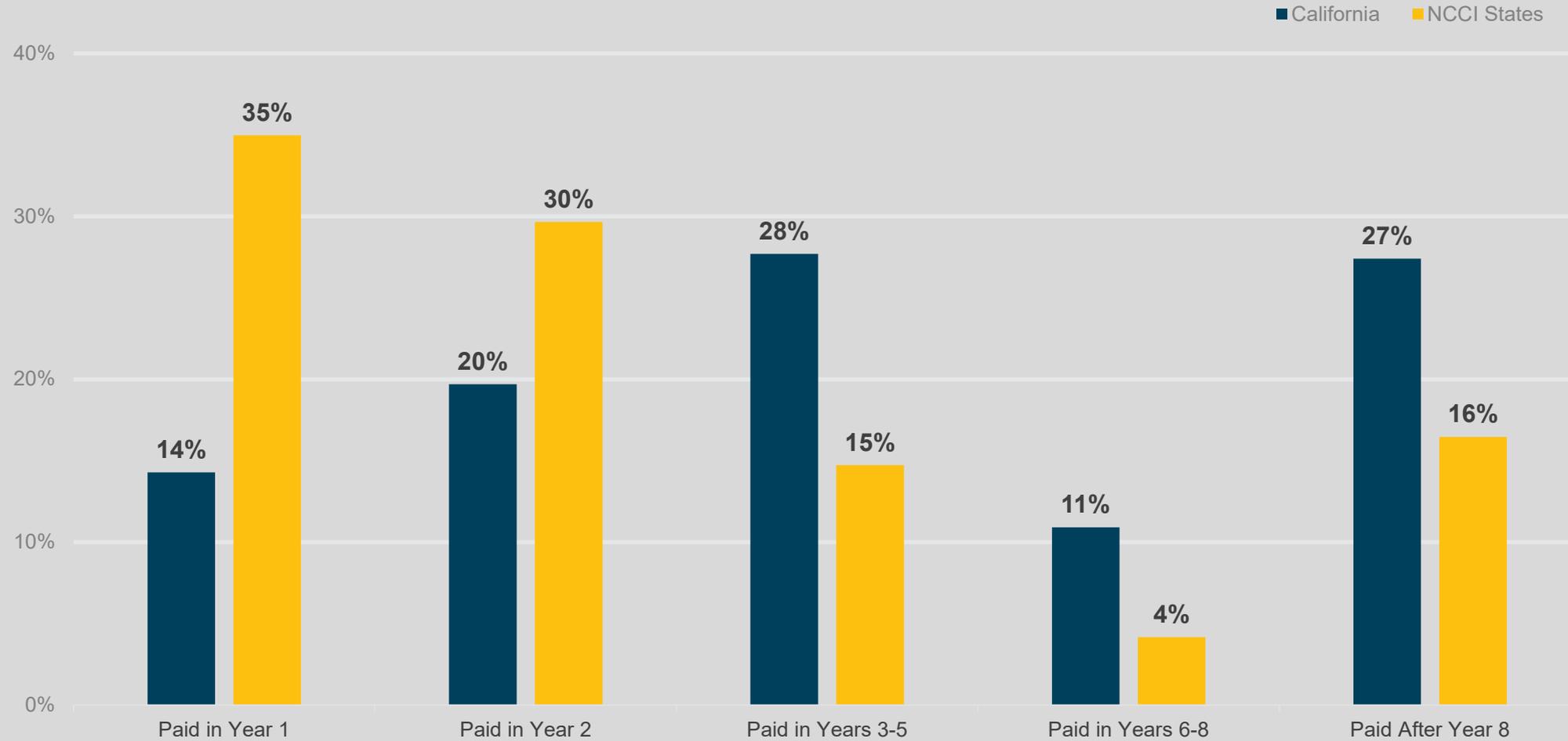


More Info →



06
Claim Duration

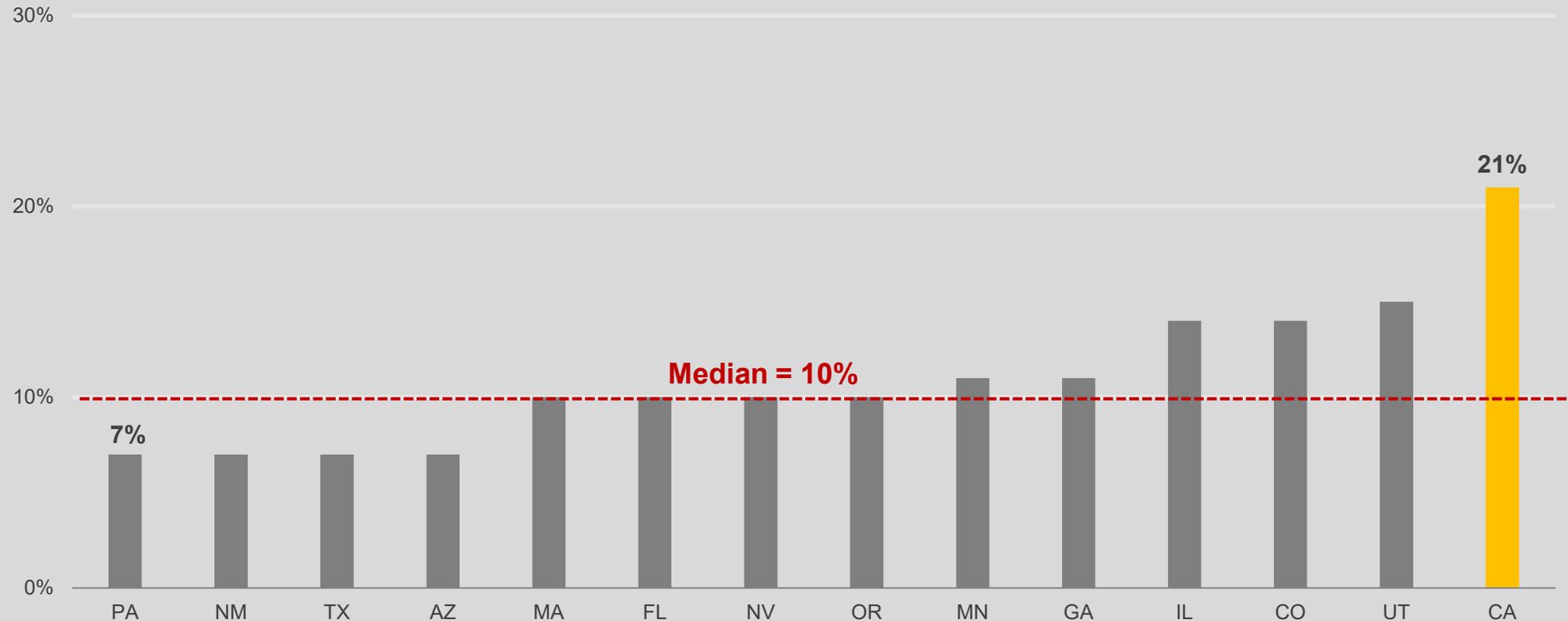
Chart 37: Percent of Medical Losses Paid by Year



Insights & Recent Trends

- Over one-half of all medical losses are paid in the first two years from the year of injury in NCCI states, compared to about one-third in California.
- 38% of medical losses in California are paid after 5 years, compared to 20% for NCCI states.

Chart 38: Percent of Indemnity Claims Unreported at 12 Months



Insights & Recent Trends

- California has a very slow pattern of indemnity claim reporting at 12 months, with the proportion of claims unreported more than twice the comparison state median.
- A large proportion of the late-reported claims in California involve CT injuries ([Chart 22](#)), many of which are filed following the employee's termination.

06
Claim Duration

Chart 39: Percent of Indemnity Claims Open at 60 Months

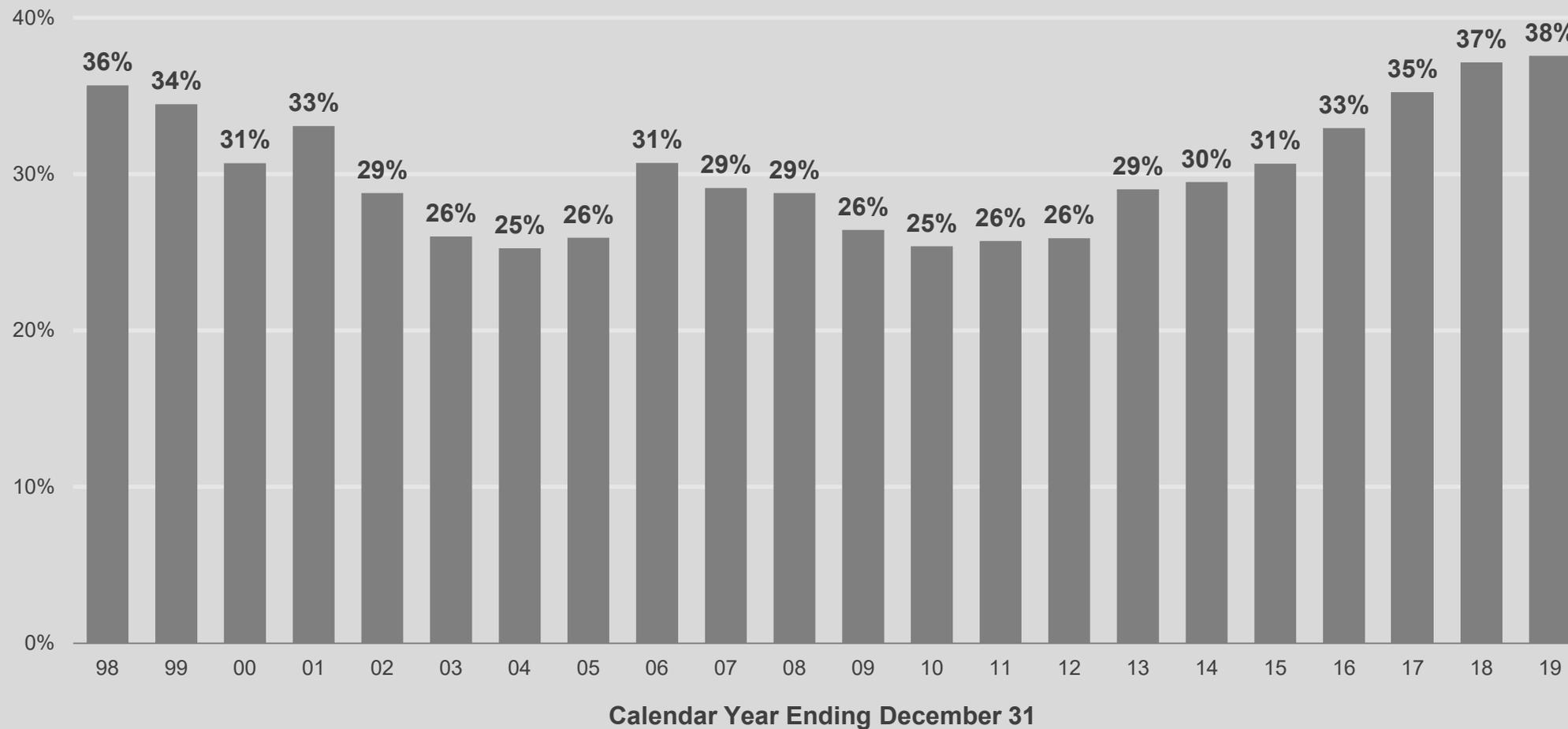


Insights & Recent Trends

- The proportion of California indemnity claims open at 60 months is almost three times the median state, despite a recent acceleration in claim closure rates. ([Chart 40](#))
- CT claims ([Chart 22](#)) settle and close significantly slower than other types of claims.
- The slower rate of claim closure in California is also owing to:
 - The high volume of medical liens filed ([Chart 48](#))
 - Higher rates of permanent disability claim frequency ([Chart 24](#))
 - A high complexity of handling and settling claims

06
Claim Duration

Chart 40: Percent of Open Indemnity Claims Closed During Next Year

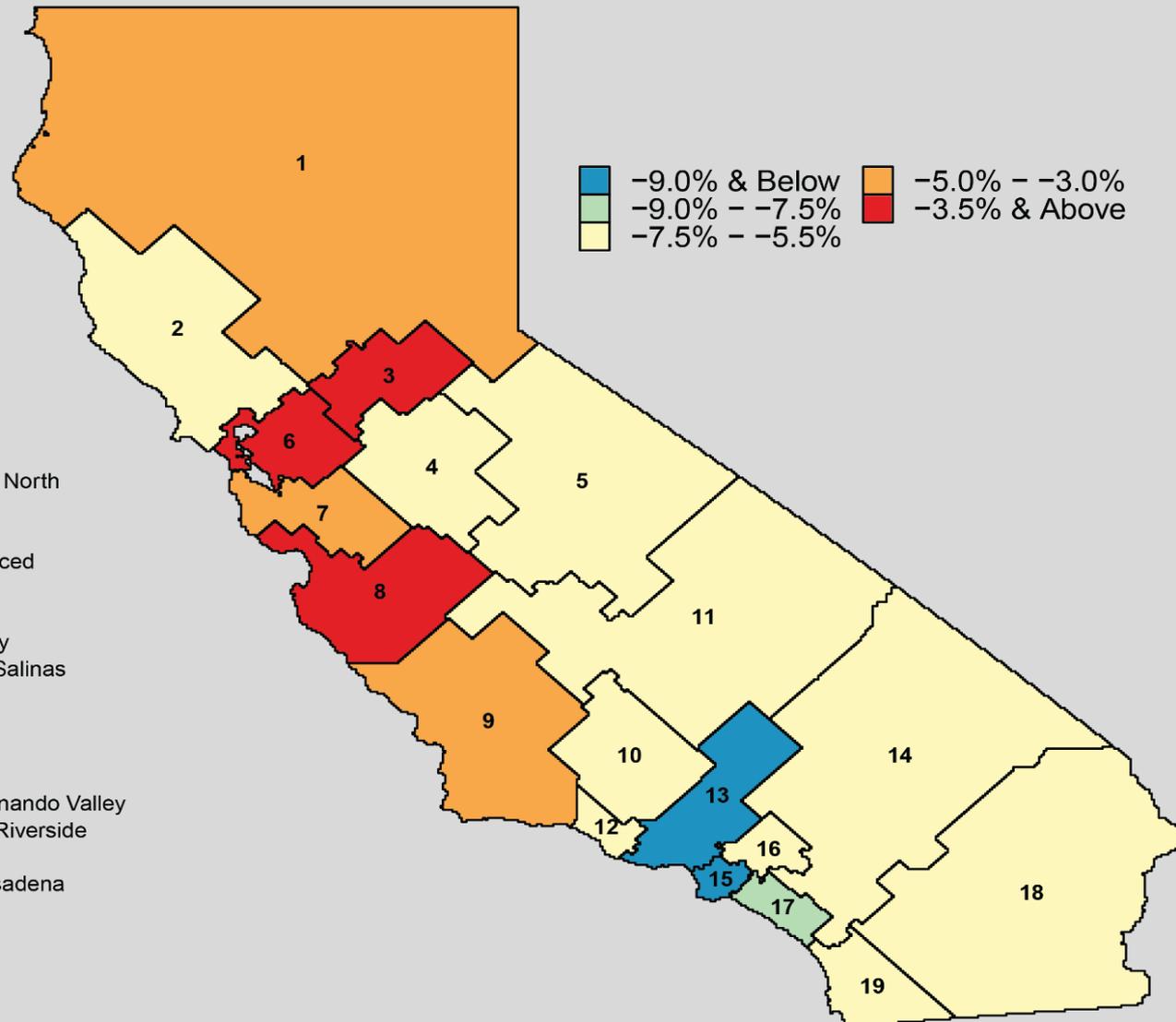


Insights & Recent Trends

- Since 2012, indemnity claims closed more quickly, in part attributable to SB 863 provisions related to liens, IMR, independent bill review, reduced opioid use and a reduced number of spinal surgeries.
- The 38% of open indemnity claims closing in 2019 was the highest rate of claim closing since the mid 1990s.
- Indemnity claim closing rates began to plateau in 2019, suggesting that the factors driving recent increases may be moderating.

06
Claim Duration

Chart 41: 2013–2017 Percent Change in Open Share of Indemnity Claims



- 01 – Yuba City/Redding/Far North
- 02 – Sonoma/Napa
- 03 – Sacramento
- 04 – Stockton/Modesto/Merced
- 05 – Fresno/Madera
- 06 – Bay Area
- 07 – Peninsula/Silicon Valley
- 08 – Santa Cruz/Monterey/Salinas
- 09 – SLO/Santa Barbara
- 10 – Bakersfield
- 11 – Tulare/Inyo
- 12 – Ventura
- 13 – Santa Monica/San Fernando Valley
- 14 – San Bernardino/West Riverside
- 15 – LA/Long Beach
- 16 – San Gabriel Valley/Pasadena
- 17 – Orange County
- 18 – Imperial/Riverside
- 19 – San Diego

Insights & Recent Trends

- Since 2013, indemnity claims have closed more quickly.
- The decreases are largest in regions with the highest open shares of indemnity claims (LA/Long Beach and Santa Monica/San Fernando Valley).

Frictional Costs

07

07
Frictional Costs

Chart 42: Average Allocated Loss Adjustment Expenses per Indemnity Claim



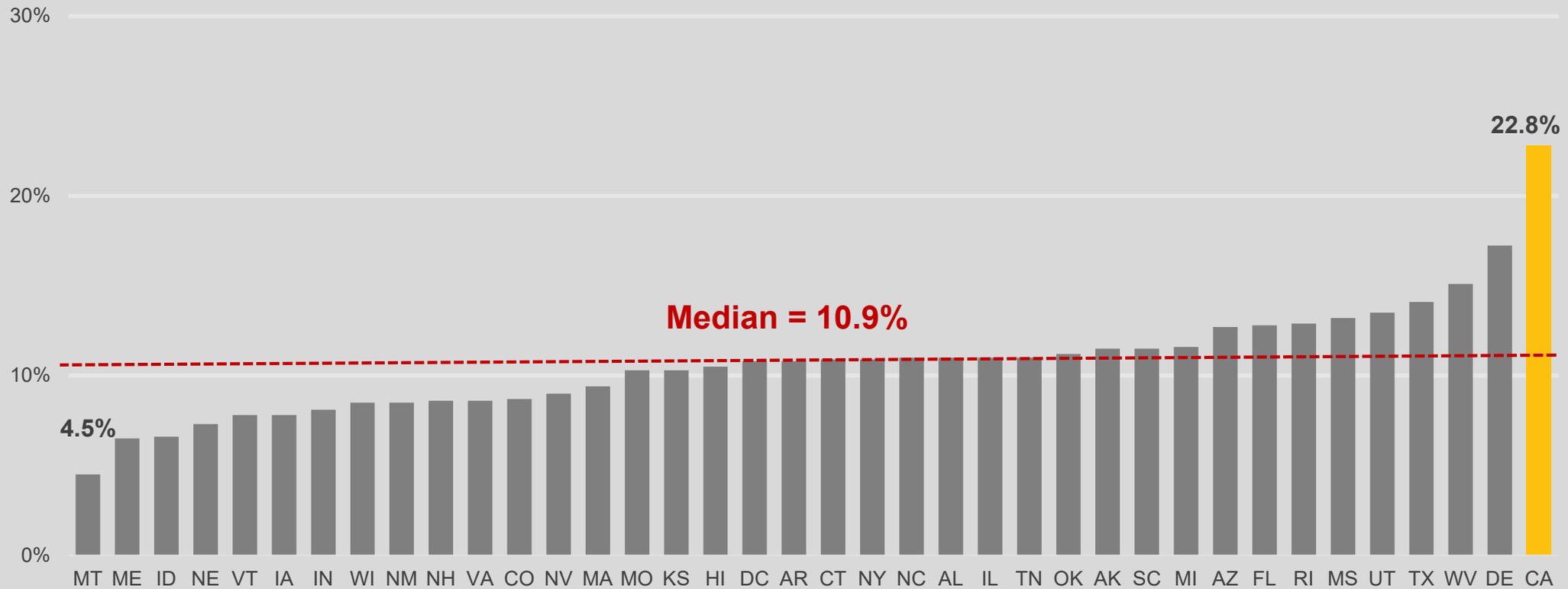
Insights & Recent Trends

- Despite recent decreases in average medical costs, [\(Chart 29\)](#) allocated loss adjustment expenses (ALAE) have been relatively flat since 2009.

More Info →



Chart 43: Ratios of Allocated Loss Adjustment Expenses to Losses

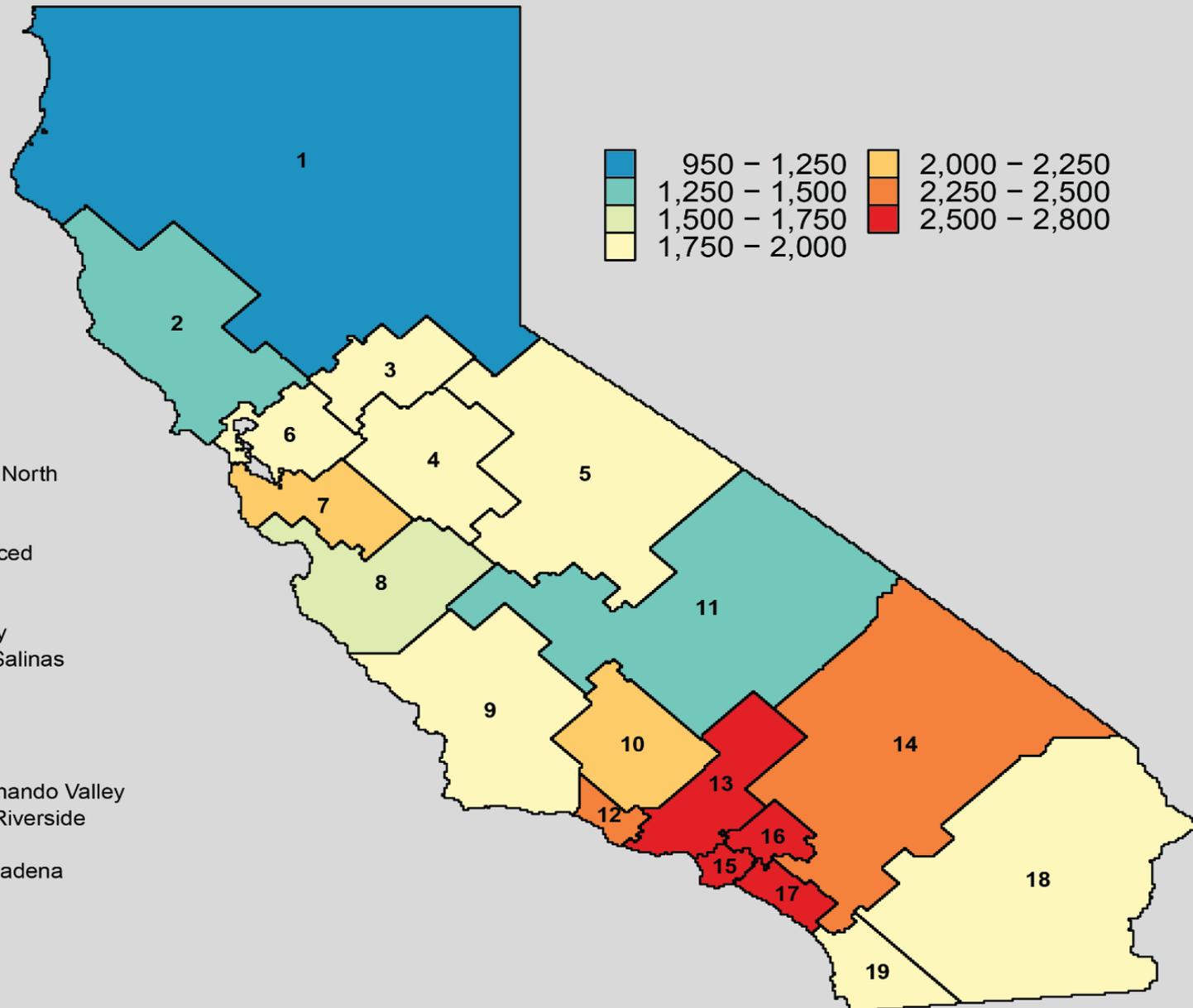


Insights & Recent Trends

- California ratios of ALAE to losses are 5 points higher than the second highest state and over twice the countrywide median.
- Drivers of high California expenses:
 - High proportion of permanent disability claims ([Chart 24](#)) and CT claims ([Chart 22](#))
 - High rates of representation and litigation on claims
 - Longer duration of claims ([Chart 39](#))
 - High volume of liens ([Chart 48](#))

07
Frictional Costs

Chart 44: Median Paid ALAE on Permanent Disability Claims

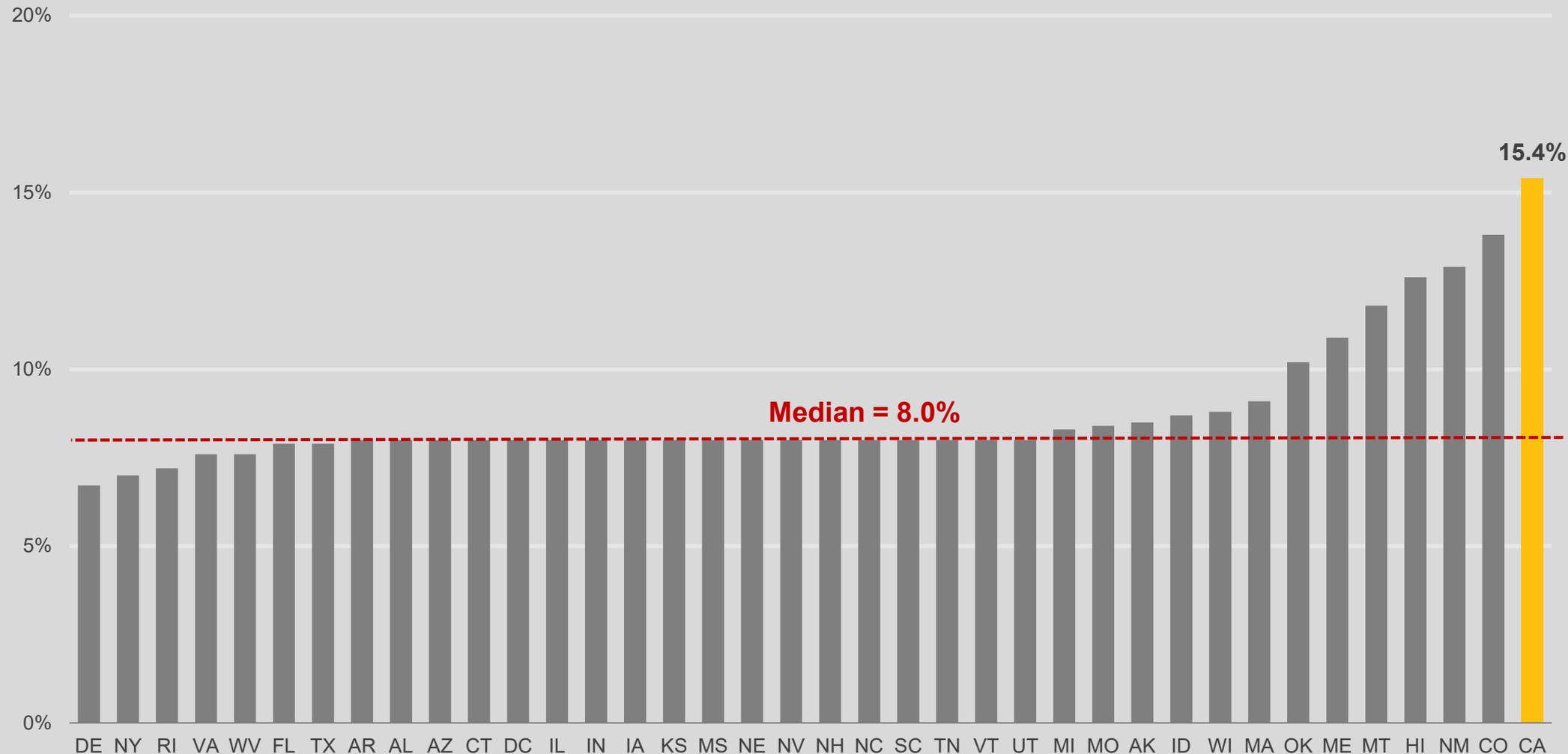


- 01 – Yuba City/Redding/Far North
- 02 – Sonoma/Napa
- 03 – Sacramento
- 04 – Stockton/Modesto/Merced
- 05 – Fresno/Madera
- 06 – Bay Area
- 07 – Peninsula/Silicon Valley
- 08 – Santa Cruz/Monterey/Salinas
- 09 – SLO/Santa Barbara
- 10 – Bakersfield
- 11 – Tulare/Inyo
- 12 – Ventura
- 13 – Santa Monica/San Fernando Valley
- 14 – San Bernardino/West Riverside
- 15 – LA/Long Beach
- 16 – San Gabriel Valley/Pasadena
- 17 – Orange County
- 18 – Imperial/Riverside
- 19 – San Diego

Insights & Recent Trends

- Paid ALAE is significantly higher in the Los Angeles Basin regions.
- The lowest paid ALAE tends to be in the more rural areas of California.

Chart 45: Ratios of Unallocated Loss Adjustment Expenses to Losses



Insights & Recent Trends

- California has the highest ratio of unallocated loss adjustment expenses (ULAE) to loss in the country, with a ratio almost twice the median state.
- California claims are typically more complex to handle, as they are open longer and, more often, involve complex issues such as permanent disability and CT.
- California also has higher wages and cost-of-living expenses than most other states.

Chart 46: Cost to Deliver \$1 of Benefits

Medicare		\$0.02
Private Group Health Insurance		\$0.18
Workers' Compensation Median State		\$0.24
California Workers' Compensation		\$0.52

Insights & Recent Trends

- California claims administrative costs are multiples higher than other medical benefit systems such as Medicare and the average for private group health insurance.
- California claims administrative costs are more than double the cost to provide \$1 of benefits compared to the median state workers' compensation system.

Chart 47: Average Medical Cost Containment Program Cost per Indemnity Claim



Insights & Recent Trends

- As medical costs declined, [\(Chart 29\)](#) average medical cost containment program (MCCP) costs also generally decreased since 2011.
- Beginning in 2018, SB 1160 restricted the use of utilization review within the first 30 days of an injury, which was expected to reduce MCCP costs.
- Although MCCP costs increased in 2018 rather than declining as projected, in 2019 average MCCP costs declined and are comparable to 2017.

Chart 48: Lien Filings by Quarter

Insights & Recent Trends

- SB 1160 and AB 1244 were implemented in 2017 and included several reforms to lien filing provisions.
- Since the implementation of SB 1160 and AB 1244, lien filings per quarter are down 70%.
- Although lien filings in California are at a historical low, they are virtually nonexistent in other workers' compensation systems.

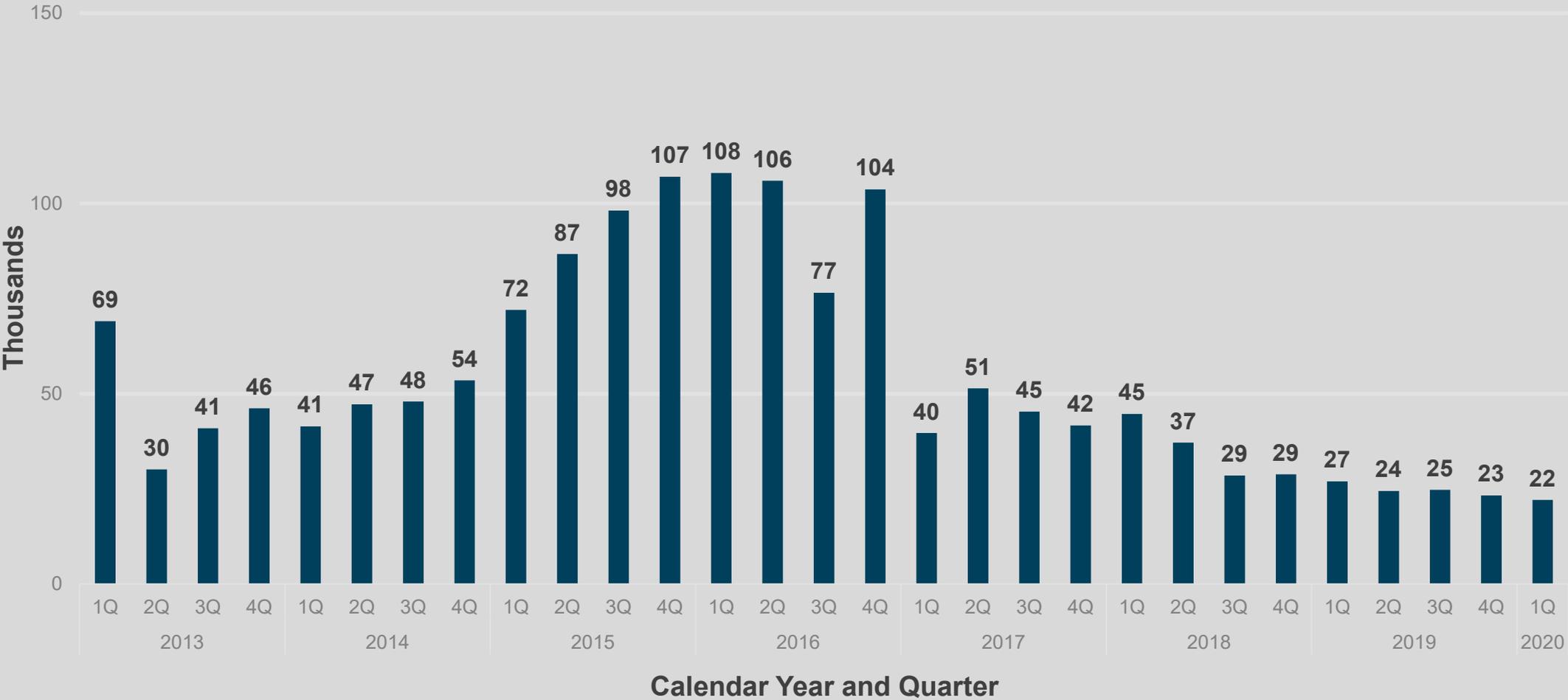
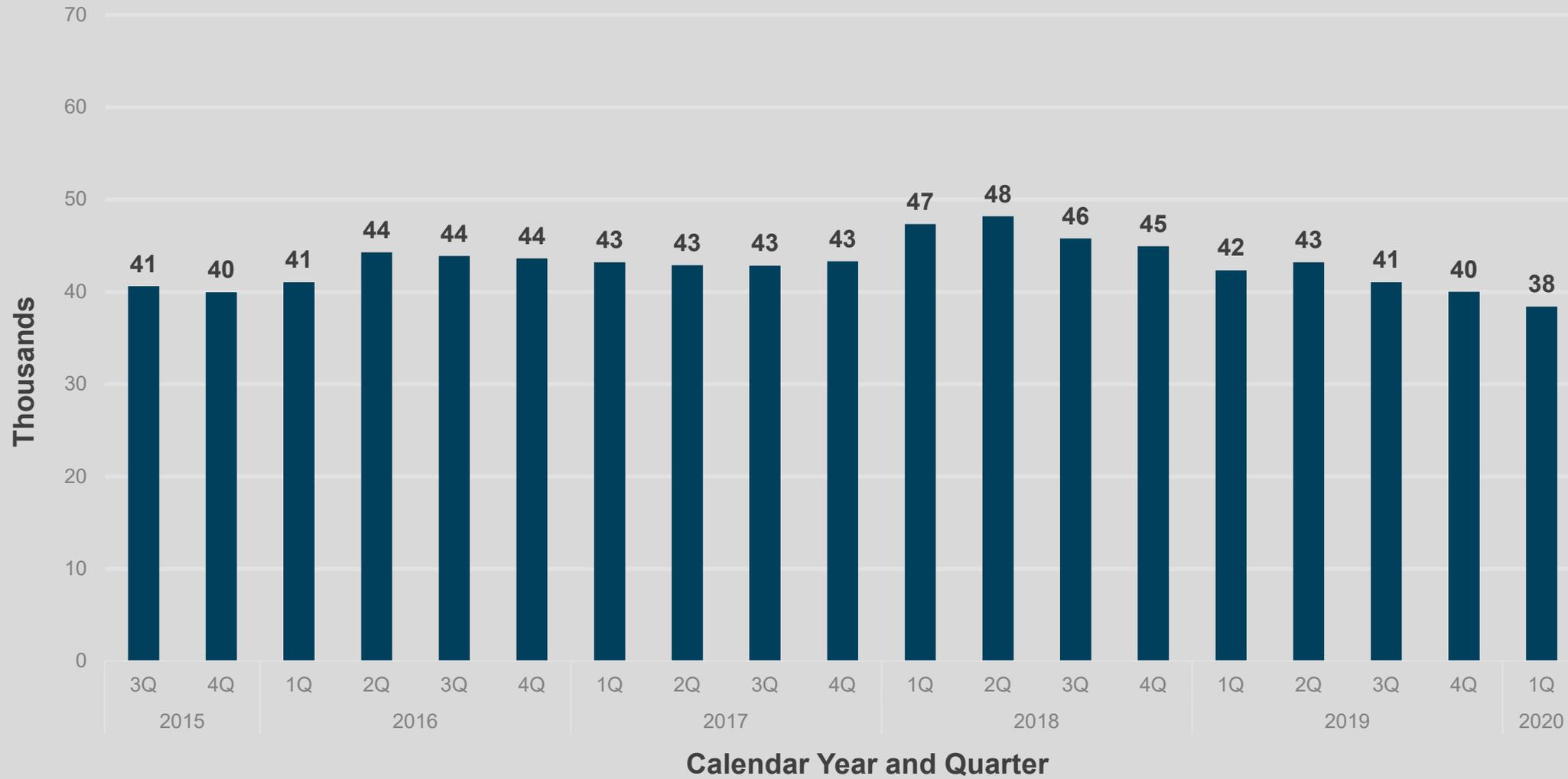


Chart 49: Number of Independent Medical Reviews Filed



Insights & Recent Trends

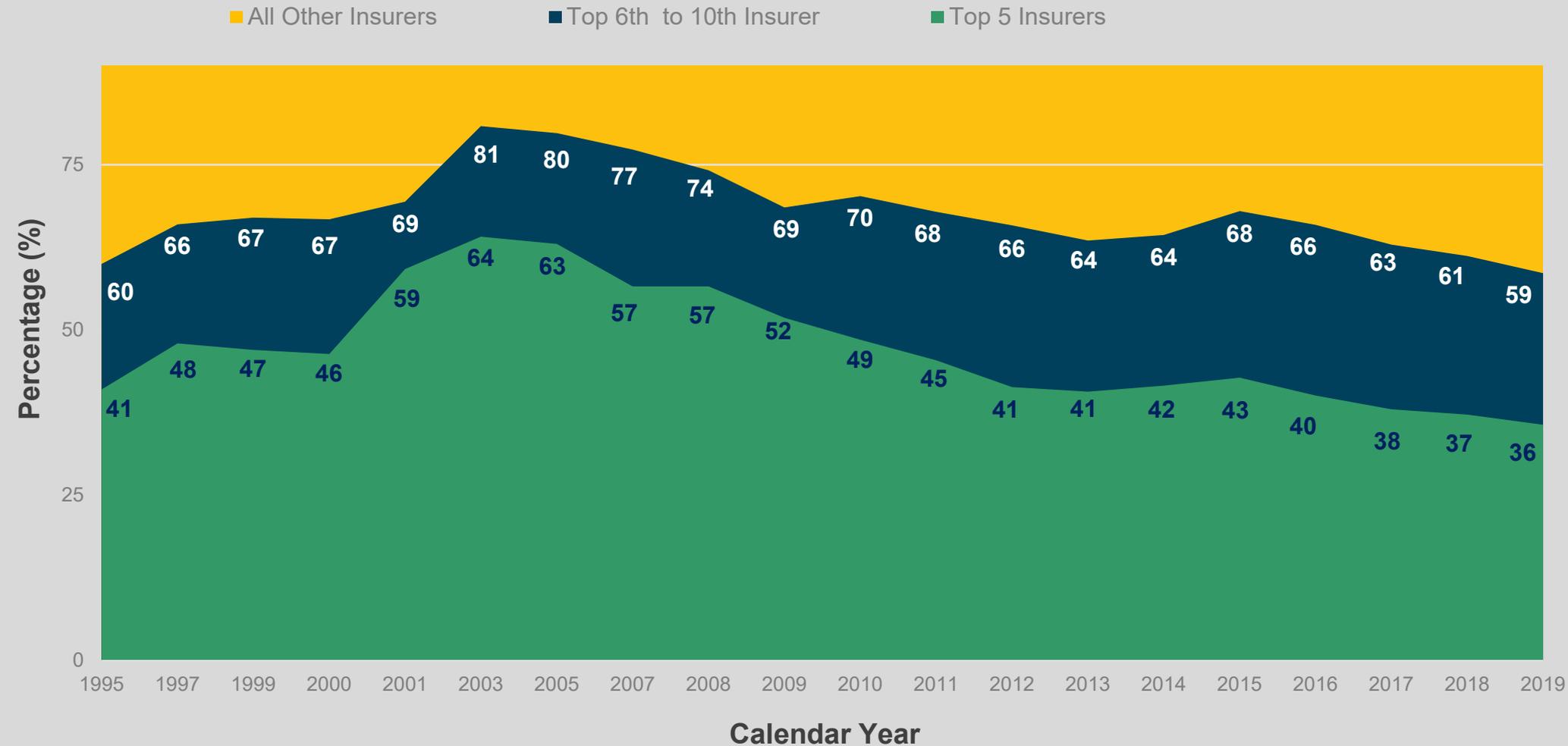
- Since reaching an all-time high in the second quarter of 2018, the number of eligible IMRs filed by quarter has decreased steadily.
- Approximately 90% of IMR decisions uphold the original utilization review decision.

Industry Results

08



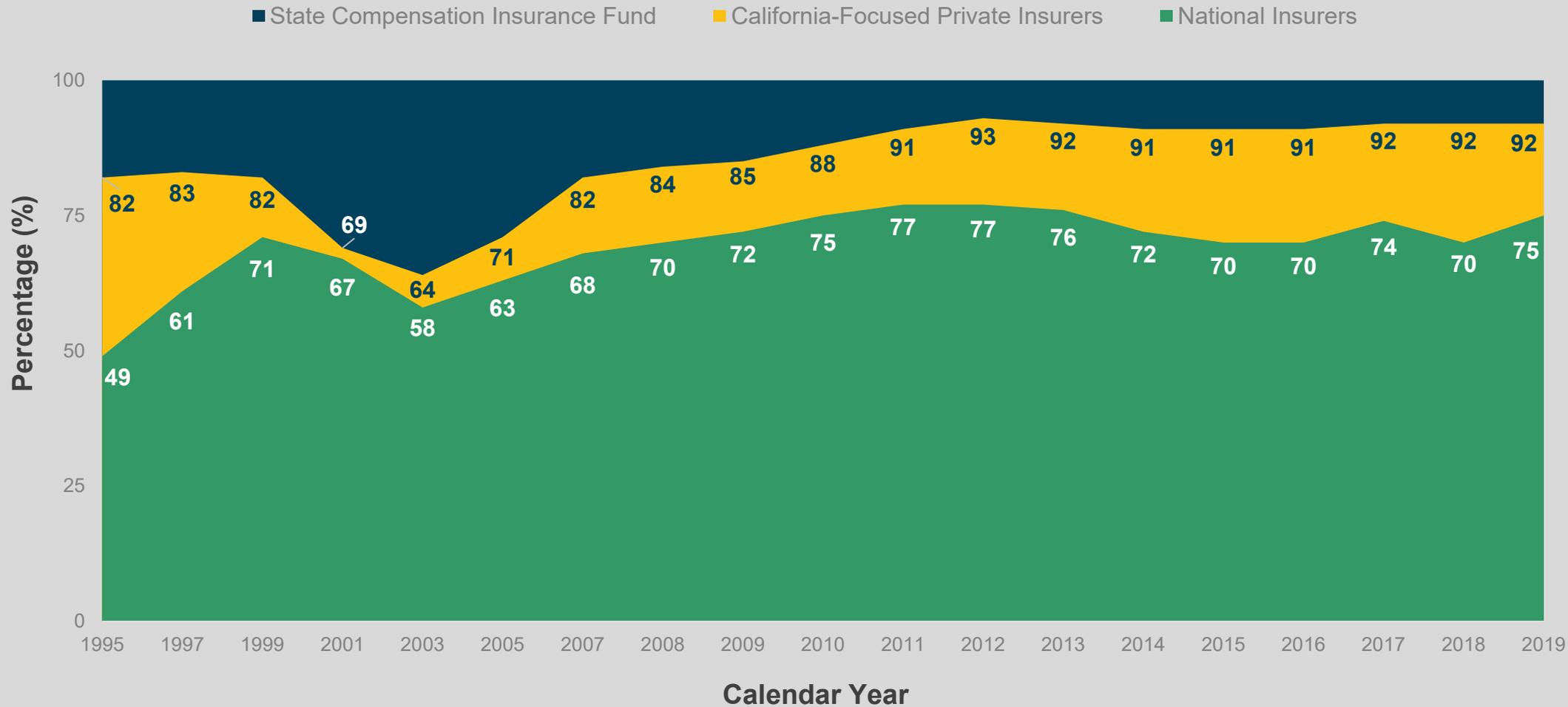
Chart 50: Market Concentration Ratios



Insights & Recent Trends

- The concentration of the California workers' compensation market peaked in the early 2000s, as the largest 10 insurers controlled over 80% of the market.
- Market concentration ratios in 2019 were the lowest in decades, as the largest 10 insurers controlled less than 60% of the market.

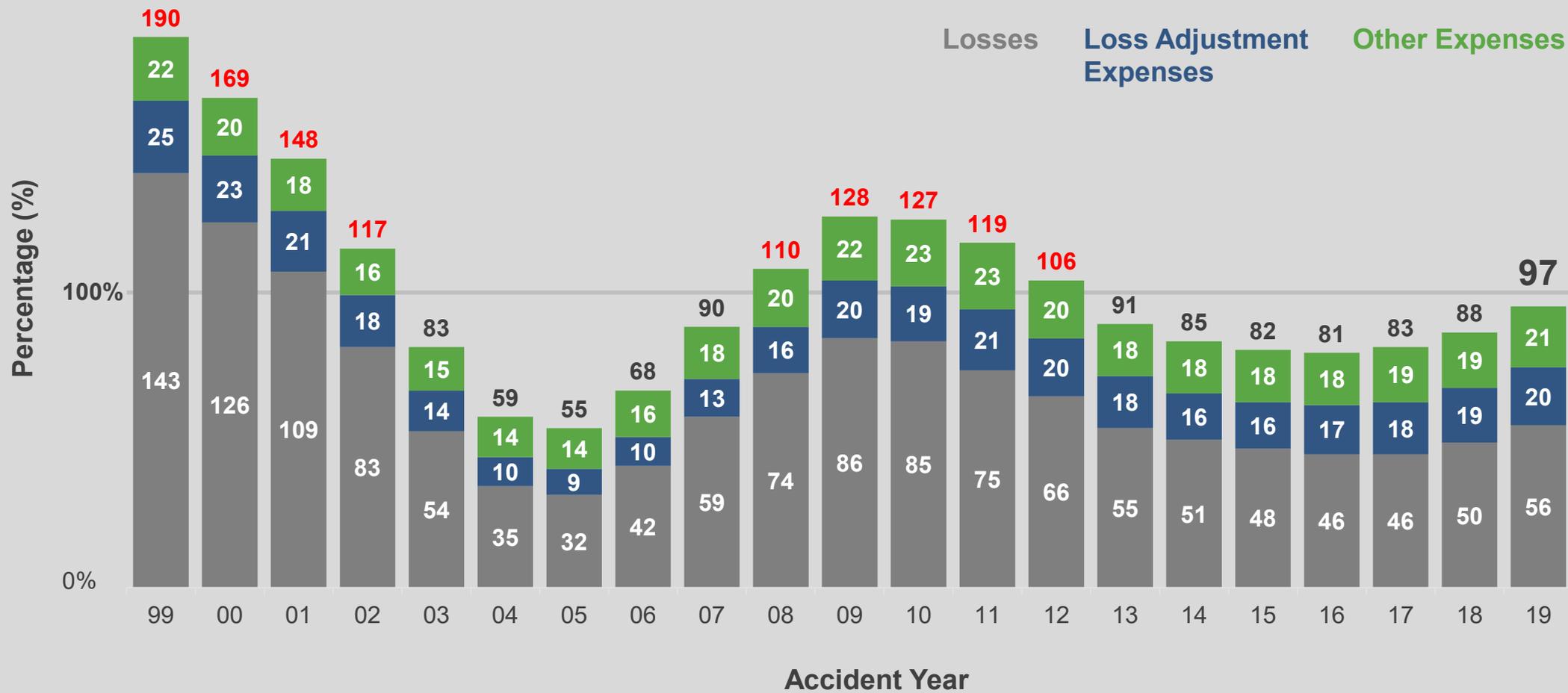
Chart 51: Market Share by Type of Insurer



Insights & Recent Trends

- The State Compensation Insurance Fund's share of the market was at a historical low in 2019.
- The share of private insurers that focus most of their workers' compensation business in California has been relatively consistent since 2013.

Chart 52: Projected Combined Loss and Expense Ratios

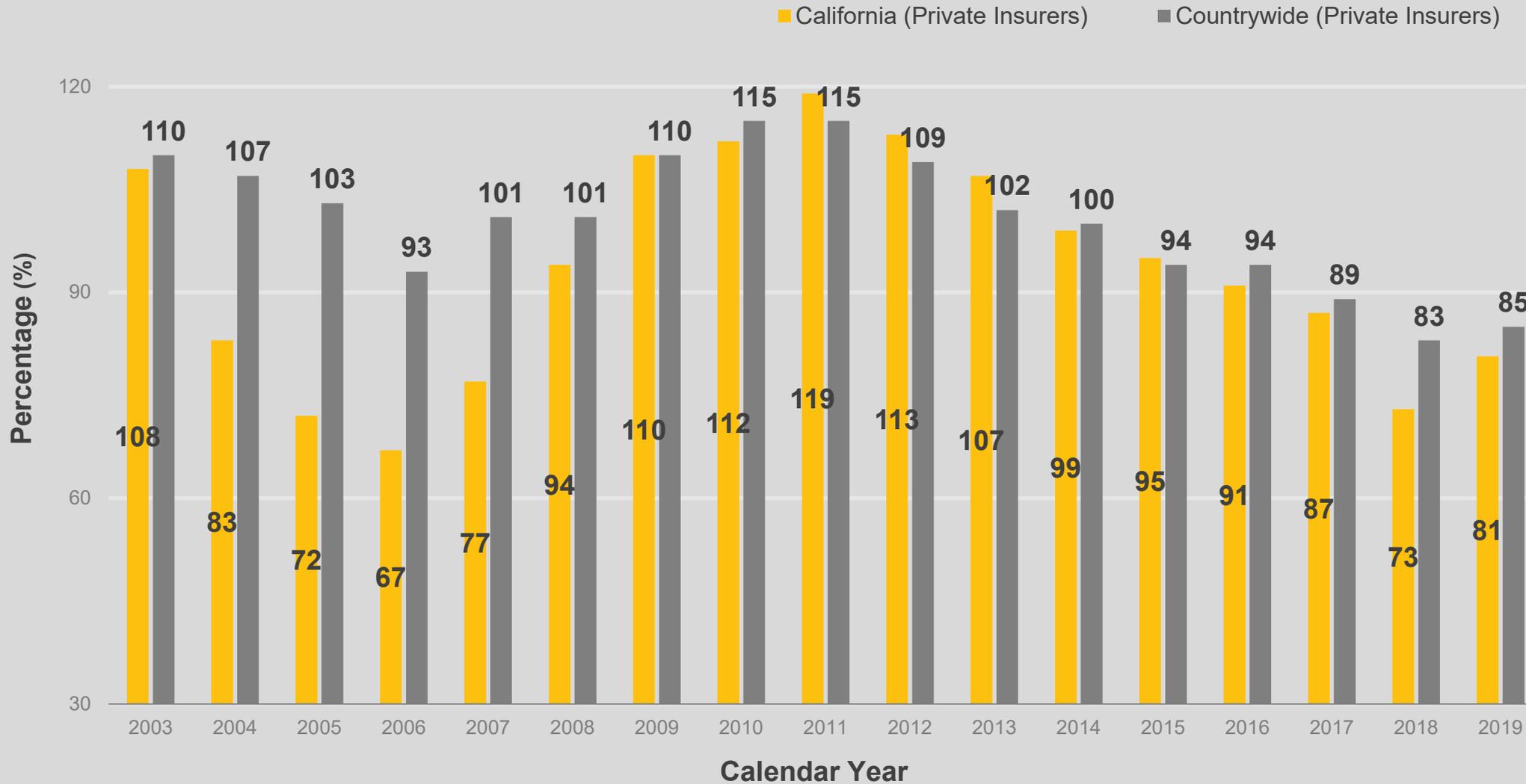


Insights & Recent Trends

- Combined ratios in California have historically been volatile:
 - 135% improvement from 1999 to 2005
 - 73% deterioration from 2005 to 2009
 - 43% improvement from 2009 through 2014
- Recent industry ratios have been fairly stable, with 2019 being the seventh consecutive year of a combined ratio below 100%.
- Combined ratios since 2016 have been increasing primarily due to lower premium levels ([Chart 1](#)) driven by lower insurer rates ([Chart 3](#)) and higher expense ratios.

More Info

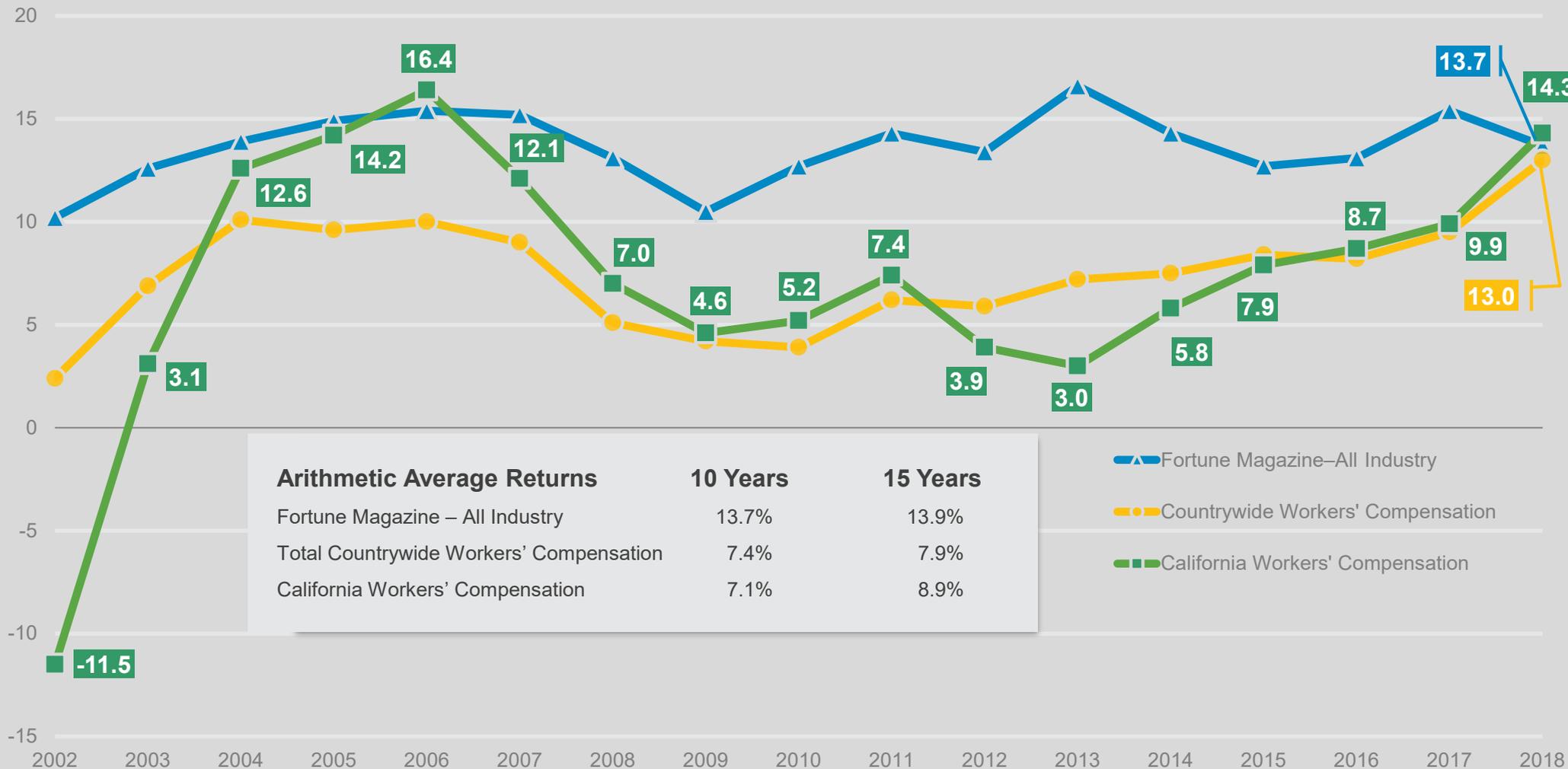
Chart 53: Private Insurer Reported Combined Ratios



Insights & Recent Trends

- Compared to countrywide ratios, California private insurer reported combined ratios have been more volatile.
- Since 2016, California private insurer combined ratios are below the countrywide ratios.
- Calendar year 2018 and 2019 combined ratios were well below the accident year estimates for those years due to downward reserve adjustments on older accident years.

Chart 54: Average Return on Net Worth



Arithmetic Average Returns	10 Years	15 Years
Fortune Magazine – All Industry	13.7%	13.9%
Total Countrywide Workers' Compensation	7.4%	7.9%
California Workers' Compensation	7.1%	8.9%

Insights & Recent Trends

- California workers' compensation returns have been more volatile than the rest of the country.
- Over the long term, average California workers' compensation returns have been generally comparable to the countrywide average for workers' compensation but well below the Fortune magazine all-industry average.

Report Summary: 2020 State of the System

Report Summary

Premium Levels Declining

- Continued rate decreases more than offset economic growth though 2019
- Dramatic decline expected in 2020 due to economic impact of pandemic

Insurance Market Healthy with Pandemic Impacts Uncertain

- Non-concentrated stable market
- Rates continuing to decrease and are at a 50-year low
- Uncertainty of pandemic impact on premiums and claim costs

Cost Drivers

- Frequency through 2019 remaining flat
- 2020 frequency impacted by economic downturn and surges of COVID-19 and post-termination claims
- Severity trends remain modest
- Claim closing rate acceleration beginning to plateau
- Loss adjustment expenses remain highest in nation
- Los Angeles Basin still significantly more costly than other regions

Industry Results

- Combined ratios still favorable but rising
- 2020 results uncertain with declining premium, reduced claim activity and potential influx of COVID-19 and post-termination claims

More Info

Appendix

More Info

Chart 1: Reported Written Premium

- Total premium from workers' compensation policies in California
- Does not reflect premium credits for policies that include deductibles (i.e., data is on a "first-dollar" basis)

Source Data

- WCIRB aggregate financial data calls
- 2020 premium estimate is primarily based on first quarter 2020 premium reported to the WCIRB and projected changes in statewide employment and wage levels for the remainder of 2020



Chart 2: Drivers of Written Premium Changes

- Annual California premium growth attributed to changes in insurer rates and economic expansion as reflected in changes in employer payrolls
- Changes in premium are impacted by several other factors such as the change in the average experience modification, more or less premium captured in audits of older policies and transitions in and out of self-insurance

Source Data

- WCIRB aggregate financial data calls and published California annual wage information
- Premiums are based on written premium gross of any deductible credits



Chart 3: Average Charged Rate per \$100 of Payroll

- Average rates per \$100 of payroll charged by insurers in California
- Shows the average cost of workers' compensation insurance paid by California employers
- Differs from advisory pure premium rates approved by the California Insurance Commissioner, which are advisory and only reflect the estimated cost of losses and loss adjustment expenses
- Since 1995, insurers file their own premium rates with the Insurance Commissioner that may in part be based on the Commissioner's approved advisory pure premium rates
- Data is categorized by the year the policies inception

Source Data

- WCIRB unit statistical data and aggregate financial data calls
- The average rate for 2020 is based on the first quarter only and does not include the impact of maximum payroll limitations applied to five classifications beginning in 2020



More Info

Chart 4: Changes in Average Rates Since 2015

- Rates shown are per \$100 of payroll and are the gross of deductible credits
- Advisory pure premium rates are based on those approved by the Insurance Commissioner, are advisory and only include the cost of losses and loss adjustment expenses
- Industry filed manual rates include provisions for losses and loss adjustment expenses as well as provisions for insurer general expenses, acquisition expenses, taxes and fees, and any profit provisions
- Average charged rates are based on the premiums actually charged to employers and include the impact of schedule credits and other premium adjustment plans

Source Data

- WCIRB unit statistical data and aggregate financial data calls and insurer rate filings with the California Department of Insurance
- The average rates for 2020 do not include the impact of maximum payroll limitations applied to five classifications beginning in 2020



Return to
Chart 4

Chart 5: January 2020 Rate Components

- Rates shown are per \$100 of payroll and are the gross of deductible credits
- Advisory pure premium rates are based on those approved by the Insurance Commissioner, are advisory and only include the cost of losses and loss adjustment expenses
- Industry filed manual rates include provision for the losses and loss adjustment expenses as well as provisions for insurer general expenses, acquisition expenses, taxes and fees, and any profit provisions
- Average charged rates are based on the premiums actually charged to employers and include the impact of schedule credits and other premium adjustment plans

Source Data

- WCIRB aggregate financial data calls and insurer rate filings with the California Department of Insurance
- The average approved advisory pure premium rate is adjusted to a “full” rate basis using an expense ratio of 21% of premium, which approximates a 100% combined ratio
- The average rates for 2020 do not include the impact of maximum payroll limitations applied to five classifications beginning in 2020



Return to
Chart 5



More Info

Chart 6: Rate Comparison by State Based on Oregon Studies

- California average charged insurer rates per \$100 payroll compared to other states' average charged insurer rates
- Based on the state of Oregon biennial study of workers' compensation rates with each state's average rates adjusted to the Oregon industrial mix
- Shows how California workers' compensation rates compare to those charged in other states

Source Data

- Oregon Workers' Compensation Premium Rate Ranking Calendar Year 2018
- Data is based on the Oregon classification mix and as a result, the California average rates shown differ from other measures of the California average charged insurer rate



Return to
Chart 6

**Chart 7: Cost Evaluation of Governor Newsom's Executive Order:
WCIRB Mid-Range Estimates by Type of COVID-19 Claim**

- Mild COVID-19 claims include mild illnesses that do not require hospitalization
- Severe COVID-19 claims include hospitalization but not a stay in an Intensive Care Unit (ICU)
- Critical COVID-19 claims include a stay in an ICU including the use of ventilator support

Source Data

- See [Evaluation of Cost Impact of Governor Newsom's Executive Order on Rebuttable Presumption for California COVID-19 Workers' Compensation Claims](#) for source data and methodology



Return to
Chart 7

**Chart 8: Cost Evaluation of Governor Newsom's Executive Order:
COVID-19 Claim Severity Estimates – Indemnity**

- Mild COVID-19 claims include mild illnesses that do not require hospitalization
- Severe COVID-19 claims include hospitalization but not a stay in an Intensive Care Unit (ICU)
- Critical COVID-19 claims include a stay in an ICU including the use of ventilator support
- Indemnity benefits include temporary disability benefits, permanent disability benefits (Severe and Critical claims only) and death benefits (Death claims only)

Source Data

- See [Evaluation of Cost Impact of Governor Newsom's Executive Order on Rebuttable Presumption for California COVID-19 Workers' Compensation Claims](#) for source data and methodology
- 2019 projected ultimate indemnity per indemnity claim based on WCIRB aggregate financial data calls as of March 31, 2020



Return to
Chart 8



More Info

Chart 9: Cost Evaluation of Governor Newsom’s Executive Order: COVID-19 Claim Severity Estimates – Medical

- Mild COVID-19 claims include mild illnesses that do not require hospitalization
- Severe COVID-19 claims include hospitalization but not a stay in an Intensive Care Unit (ICU)
- Critical COVID-19 claims include a stay in an ICU including the use of ventilator support
- Medical benefits include initial diagnosis and treatment costs, hospitalization costs and long-term medical care costs (Severe and Critical claims only)

Source Data

- See [Evaluation of Cost Impact of Governor Newsom’s Executive Order on Rebuttable Presumption for California COVID-19 Workers’ Compensation Claims](#) for source data and methodology
- 2019 projected ultimate medical per indemnity claim based on WCIRB aggregate financial data calls as of March 31, 2020



Chart 10: Reported COVID-19 Claims by Industry as of July 7, 2020

- Includes all COVID-19 claims reported to the Division of Workers’ Compensation including those from insured and self-insured employers

Source Data

- California Division of Workers’ Compensation data as of July 7, 2020



Chart 11: Indemnity Frequency Change Preliminary 2020 Projections

- Low-range estimates are based on the unemployment rate estimated at the peak of the crisis, post-termination cumulative trauma (CT) claims per unemployed worker at 10% of the historical average, no change in non-post-termination CT claims, and COVID-19 claims based on the WCIRB’s low-range estimate of COVID-19 claims from the evaluation of the Governor’s May 6, 2020 Executive Order
- Mid-range estimates are based on the average unemployment rate estimated for 2020, post-termination CT claims per unemployed worker at 25% of the historical average, increases in non-post-termination CT claims comparable to the Great Recession, and COVID-19 claims based on the WCIRB’s mid-range estimate of COVID-19 claims from the evaluation of the Governor’s May 6, 2020 Executive Order
- High-range estimates are based on the low-end estimate of the average unemployment rate for 2020, post-termination CT claims per unemployed worker at 50% of the historical average, increases in non-post-termination CT claims comparable to the Great Recession, and COVID-19 claims based on the WCIRB’s high-range estimate of COVID-19 claims from the evaluation of the Governor’s May 6, 2020 Executive Order
- These estimates do not include the impact of increased telecommuting during the stay-at-home period, which is likely to reduce claim frequency

Source Data

- WCIRB econometric indemnity claim frequency model and unit statistical data and economic data from published sources
- See [Impact of Economic Downturn on California Workers’ Compensation Claim Frequency](#) for more information



More Info

Chart 12: Distribution of Costs by Industrial Sector

- Total proportion of premium (based on the Insurance Commissioner's approved advisory pure premium rates) and payroll attributed to each industrial sector
- Shows the concentration of insured employer payrolls by industry
- Shows the relationship between payroll and advisory pure premium by industry

Source Data

- WCIRB unit statistical data for policy year 2017
- The data is prior to the COVID-19 pandemic, which significantly impacts the distribution of costs by industry in 2020
- Industries are based on WCIRB classifications mapped to the North American Industry Classification System (NAICS) sectors



Chart 13: Distribution of Insured System Costs

- Distribution of total California workers' compensation insured system costs incurred in 2014 and 2019 by cost component
- Shows the major cost categories funded by the workers' compensation insurance premiums paid by California employers
- Data shown in billions of dollars as well as the percentage of the total system costs for that year

Source Data

- WCIRB aggregate financial data calls
- Changes in total insurer reserves by calendar year have been apportioned to indemnity and medical benefits based on the distribution of indemnity and medical payments during the calendar year



Chart 14: Distribution of Paid Indemnity Benefits

- Distribution of indemnity benefits paid in 2014 and 2019 by type of benefit
- Indemnity benefits are provided to injured workers or, in the case of fatal injuries, to their dependents to partially compensate for lost wages, with additional benefits provided if a worker suffers a permanent disability
- Indemnity benefits by type generally depend on the extent of the injury to the injured worker, the injured worker's pre-injury weekly wage and statutorily defined benefit levels

Source Data

- WCIRB aggregate financial data calls



Chart 15: Distribution of Paid Medical Benefits

- Distribution of medical benefits paid in 2014 and 2019 by type of medical service
- Includes information on a variety of medical treatments that are provided to injured workers, including physician visits, prescription medications, medical-legal evaluations and surgeries

Source Data

- WCIRB aggregate financial data calls and medical transaction data
- Figures exclude medical cost containment program payments (which are included as a portion of loss adjustment expenses; see Chart 17)



More Info

Chart 16: Distribution of 2019 Paid Medical by Category

- Distribution of physician services, inpatient and outpatient services and pharmaceutical payments made in 2019 by detailed type of service

Source Data

- WCIRB medical transaction data



Chart 17: Distribution of 2019 Paid Frictional Costs

- Distribution of the major categories of frictional costs including allocated loss adjustment expenses (ALAE), unallocated loss adjustment expenses (ULAE), applicant attorney fees, medical cost containment program costs and medical-legal costs paid in 2019
- ALAE are the costs associated with defending workers' compensation claims when there are disputes (defense attorney expenses and other ALAE costs) and managing the cost of medical treatment (medical cost containment)
- ULAE are the costs associated with insurer claims staff in administering workers' compensation claims
- Applicant attorney fees are shown as frictional costs but are reported in indemnity benefits as they are typically based on a portion of the permanent disability award provided to the claimant
- Medical-legal costs are shown as frictional costs but are reported in medical benefits

Source Data

- WCIRB aggregate financial data calls



Chart 18: Indemnity Claims per 1,000 Employees

- Estimated number of workers' compensation indemnity claims filed in California per 1,000 insured employees
- Shows trends in the frequency of workers' compensation injuries
- Changes in claim frequency can be driven by changes in the mix of industries in California, the mechanization within industries, workplace safety practices, indemnity benefit levels and the overall state of the California economy
- Data is categorized by the year the injury occurred (accident year)

Source Data

- WCIRB unit statistical data (through 2018) and aggregate financial data calls (2019)



Chart 19: Indemnity Claim Frequency Indexed to 1998

- California claim frequency indexed to the 1998 level compared to a composite of frequency estimates based on states reporting data to the National Council on Compensation Insurance (NCCI), an organization that provides a similar function to the WCIRB for many other states

Source Data

- WCIRB unit statistical data and NCCI 2020 State of the Line Guide



More Info

Chart 20: Change in Indemnity Claim Frequency

- California claim frequency changes regionally compared to those for the NCCI states' average
- Shows how claim frequency trends differ regionally within California and which regions are more comparable to countrywide averages

Source Data

- WCIRB unit statistical data and NCCI 2020 State of the Line Guide (2019 is preliminary)
- California regions are based on the address reported on the workers' compensation policy
- The California figure shown for 2019 is preliminary and based on the entire state



Chart 21: Regional Differences in Indemnity Claim Frequency

- Heat map of California regions showing indemnity claim frequency levels relative to the statewide average frequency
- Shows which regions in California have higher or lower claim frequency rates when compared to the state as a whole
- The mix of industries and average wage levels can significantly impact claim frequency rates, so the data is adjusted to remove these differences across regions to show the figures on a comparable basis

Source Data

- WCIRB unit statistical data for policy year 2017 at 1st report level
- Region information obtained by linking WCIRB policy and unit statistical data with Dun and Bradstreet (D&B Hoovers) location information as well as WCIRB medical transaction data
- For more information on the study of regional cost differences within California, see the [2019 WCIRB Geo Study](#)



Chart 22: Percent of Indemnity Claims Involving Cumulative Trauma

- Proportion of total indemnity claims that involve a cumulative trauma injury
- Most workers' compensation claims (i.e., non-cumulative trauma injuries) result from a single accident or specific incident causing injury
- Cumulative trauma injuries result from a prolonged period of exposure (many years in some cases) causing cumulative trauma over time

Source Data

- WCIRB unit statistical data developed to an estimated ultimate level (2018 is preliminary)
- Cumulative trauma also includes occupational disease claims
- For more information on recent cumulative trauma claim trends, see the WCIRB's report on [The World of Cumulative Trauma Claims](#)



Chart 23: Percent Cumulative Trauma Claims by Region

- Proportion of total indemnity claims within regions of California that involve a cumulative trauma injury
- The data is shown for early reported cumulative trauma claims; since cumulative trauma claims are often late reported, the regional differences may be even greater when including late-reported claims

Source Data

- WCIRB unit statistical data at 1st unit statistical report level (2018 is preliminary)
- Regions are based on the address reported on the California workers' compensation policy
- Cumulative trauma also includes occupational disease claims
- For more information on recent cumulative trauma claim trends, see the WCIRB's report on [The World of Cumulative Trauma Claims](#)



More Info

Chart 24: Permanent Disability Claims per 100,000 Employees

- Comparison of California permanent partial disability claim frequency per 100,000 insured employees to that of other states
- Approximately one-half of all indemnity claims in California involve some form of permanent disability
- Claims involving permanent disability generate the vast majority of costs in the workers' compensation system
- Permanent partial disability in California is determined based on the American Medical Association (AMA) Guides 5th Edition
- Other states that utilize the AMA Guides 5th Edition do not have a significantly higher rate of permanent disability claims

Source Data

- 2019 NCCI Annual Statistical Bulletin for policy year 2015 and WCIRB unit statistical data



Chart 25: Average Indemnity Cost per Indemnity Claim

- Average cost of indemnity benefits per indemnity claim
- Changes in indemnity cost per claim can be driven by changes in statutory benefit levels, changes in average weekly wage levels on which a large proportion of indemnity benefits are predicated, changes in the duration of claims and changes in the mix of the types of indemnity benefits (such as temporary disability or permanent disability benefits)

Source Data

- WCIRB aggregate financial data calls as of March 31, 2020
- Values are developed to a final or ultimate cost basis by the WCIRB



Chart 26: Change in Average Indemnity Cost per Indemnity Claim

- Annual percent changes in average indemnity costs for California

Source Data

- WCIRB aggregate financial data calls as of March 31, 2020



Chart 27: Indemnity Cost Level Indexed to 1997

- California average indemnity costs indexed to the 1997 level compared to the composite estimate for NCCI states
- California average indemnity costs are also compared to the growth in average annual wages earned by California employees

Source Data

- WCIRB aggregate financial data calls as of March 31, 2020, NCCI 2020 State of the Line Guide (2019 is preliminary) and U.S. Bureau of Labor Statistics



Chart 28: Indemnity Cost per Indemnity Claim by State

- Comparison of California average indemnity cost per indemnity claim to that of other states

Source Data

- 2019 NCCI Annual Statistical Bulletin based on policy year 2015 at 1st report level developed to a final or ultimate cost basis



More Info

Chart 29: Average Medical Cost per Indemnity Claim

- Average cost of medical benefits per indemnity claim by accident year
- Changes in medical costs per claim can be driven by changes in reimbursement rates from California medical fee schedules, legislative reforms impacting the medical benefit delivery system, changes in the utilization of medical services and overall medical cost inflation

Source Data

- WCIRB aggregate financial data calls as of March 31, 2020
- Data excludes the cost of medical-only claims and, for consistency of comparison, excludes the cost of medical cost containment programs for accident years 2011 and prior
- Values are developed to a final or ultimate cost basis by the WCIRB



Chart 30: Change in Average Medical Cost per Indemnity Claim

- Annual percent changes in average medical cost per indemnity claim for California

Source Data

- WCIRB aggregate financial data calls as of March 31, 2020
- Values for 2012 and forward exclude the cost of medical cost containment programs while values for 2011 and prior include these costs



Chart 31: Medical Cost Level Indexed to 2001

- The average medical cost indexed to the 2001 level for workers' compensation systems and for California group health premium levels
- Data is categorized by year of injury for the California and NCCI state data and by calendar year for California Private Self-Insured and California Group Health Premium data

Source Data

- WCIRB aggregate financial data calls as of March 31, 2020 excluding the cost of medical-only claims, developed to a final or ultimate cost basis by the WCIRB
- NCCI state estimates are based on the 2020 State of the Line Guide (2019 estimate is preliminary)
- Summary group health cost information is from the California Employer Health Benefits Survey published by the California Healthcare Foundation



Chart 32: Medical Cost per Indemnity Claim by State

- Comparison of California average medical cost per indemnity claim to that of other states

Source Data

- 2019 NCCI Annual Statistical Bulletin based on policy year 2015 at 1st report level developed to a final or ultimate cost basis



More Info

Chart 33: Medical Service Cost Level Indexed to 2012

- Changes in the average paid per medical service transaction, the average number of medical service transactions per claim and the average total paid for medical services per claim indexed to the 2012 level
- Data is categorized by the year in which the medical service was provided

Source Data

- WCIRB medical transaction data



Chart 34: Pharmaceutical Cost Level Indexed to 2012

- Changes in the average paid per pharmaceutical transaction, the average number of pharmaceutical transactions per claim and the average total paid for pharmaceuticals per claim indexed to the 2012 level
- Data is categorized by the year in which the medical service was performed

Source Data

- WCIRB medical transaction data



Chart 35: Opioid Costs per 100 Claims

- Total dollars paid for opioid prescriptions per 100 claims with medical services in a particular service year
- Opioids are among the most powerful drugs prescribed for pain relief
- According to the Food and Drug Administration, although opioids can help manage pain when used properly, when abused they can cause serious harm including addiction, overdose and death

Source Data

- WCIRB medical transaction data
- For more information on the study of opioids, see the [Early Indicators of High-Risk Opioid Use and Potential Alternative Treatments](#)



Chart 36: Percent of Ultimate Medical Cost Paid at 3 Years

- Comparison of the estimated percentage of ultimate medical costs paid after three years to that of other states
- High numbers represent states that pay medical costs faster while low numbers represent states that pay medical costs slower
- Two California estimates are shown, one projected as of December 31, 2012 and one projected as of December 31, 2019

Source Data

- 2019 NCCI Annual Statistical Bulletin based on the average of the two most recent development years and WCIRB aggregate financial data calls



More Info

Chart 37: Percent of Medical Losses Paid by Year

- Comparison of the estimated percentage of ultimate medical costs paid in each year to that for the composite of NCCI states
- Workers' compensation claims can remain open and receive medical treatment for several years after the injury occurs
- Pharmaceuticals and medical liens are more often paid several years after the year the injury occurs while physician services are more often paid earlier

Source Data

- 2019 NCCI Annual Statistical Bulletin based on the average of the two most recent development years and WCIRB aggregate financial data calls



Chart 38: Percent of Indemnity Claims Unreported at 12 Months

- Comparison of the California percentage of the estimated total number of indemnity claims that have not yet been reported by the end of the first 12 months of the year of injury to that of other states
- Workers' compensation indemnity claims can sometimes be reported much later after the time of the injury, for a variety of reasons

Source Data

- California figures are from WCIRB aggregate financial data
- Individual state summaries were provided by NCCI, the Minnesota Workers' Compensation Insurers Association, the Workers' Compensation Rating and Inspection Bureau of Massachusetts and the Pennsylvania Compensation Rating Bureau



Chart 39: Percent of Indemnity Claims Open at 60 Months

- Comparison of the California percentage of the reported number of indemnity claims that are still open at 60 months (or 5 years) from the beginning of the year of injury to that of other states
- Workers' compensation claims remain open while statutory indemnity benefits are paid and medical treatment is provided to injured workers
- Other factors that may keep claims open include the existence of unsettled medical liens or unresolved disputes regarding medical treatment or the extent of permanent disability

Source Data

- California figures are from WCIRB aggregate financial data calls
- Individual state summaries were provided by NCCI, the Minnesota Workers' Compensation Insurers Association, the Workers' Compensation Rating and Inspection Bureau of Massachusetts and the Pennsylvania Compensation Rating Bureau



Chart 40: Percent of Open Indemnity Claims Closed During Next Year

- Ratio of the number of indemnity claims closed during a calendar year to the number of claims open at the beginning of the year
- Higher closing rates indicate claims have been moving quicker through the system, reducing future costs

Source Data

- WCIRB aggregate financial data calls



Chart 41: 2013-2017 Percent Change in Open Share of Indemnity Claims

- Heat map showing each region's change in the share of open indemnity claims in 2017 compared to 2013

Source Data

- WCIRB unit statistical data for policy years 2013 and 2017 at 1st report level
- Region information obtained by linking WCIRB policy and unit statistical data with Dun and Bradstreet (D&B Hoovers) location information as well as WCIRB medical transaction data
- For more information on the study of regional cost differences within California, see the [2019 WCIRB Geo Study](#)



Chart 42: Average Allocated Loss Adjustment Expenses per Indemnity Claim

- Average cost of loss adjustment expenses that can be allocated to a particular claim ("allocated loss adjustment expenses" or "ALAE")
- ALAE costs include the cost of attorney and other legal expenses in defending claims, the cost of medical cost containment programs, the cost of independent medical review and independent medical bill review and other court-related expenses
- Legal expenses arise on claims during disputes over medical treatment or the extent of permanent disability, in the course of handling liens filed on claims, and during the process of settling claims

Source Data

- WCIRB aggregate financial data as of December 31, 2019 for private insurers writing workers' compensation business in California
- Values are developed to a final or ultimate cost basis by the WCIRB
- Figures exclude the cost of medical cost containment programs for consistency of comparison



Chart 43: Ratios of Allocated Loss Adjustment Expenses to Losses

- Comparison of the ratio of allocated loss adjustment expenses (ALAE) to losses for California to that of other states
- ALAE includes the cost of attorney and other legal expenses in defending claims, the cost of medical cost containment programs and other court related expenses

Source Data

- 2019 NCCI Annual Statistical Bulletin



Chart 44: Median Paid ALAE on Permanent Disability Claims

- Heat map of median paid allocated loss adjustment expenses on permanent disability claims for California regions

Source Data

- WCIRB unit statistical data for policy year 2017 at 1st report level
- Region information obtained by linking WCIRB policy and unit statistical data with Dun and Bradstreet (D&B Hoovers) location information as well as WCIRB medical transaction data
- For more information on the study of regional cost differences within California, see the [2019 WCIRB Geo Study](#)



More Info



More Info

Chart 45: Ratios of Unallocated Loss Adjustment Expenses to Losses

- Comparison of the ratio of unallocated loss adjustment expenses (ULAE) to losses for California to that of other states
- ULAE includes the cost of insurer claim staff to administer claims and other claims related expenses that cannot be allocated to a particular claim
- ULAE is significantly correlated with the length of time claims remain open

Source Data

- 2019 NCCI Annual Statistical Bulletin



Chart 46: Cost to Deliver \$1 of Benefits

- Compares the California cost to deliver \$1 of benefits measured as loss adjustment expense costs and other related claims administrative costs to claims administrative costs in other systems that provide medical benefits
- California claims administrative costs include allocated loss adjustment expenses, unallocated loss adjustment expenses, medical-legal costs, applicant attorney fees and the cost of medical cost containment programs

Source Data

- Workers' compensation figures are from WCIRB aggregate financial data calls and the 2019 NCCI Annual Statistical Bulletin
- Medicare figures are from the Centers for Medicare and Medicaid Services 2018 Medicare Trustees Report
- Private group health insurance figures are estimated from a number of published studies on group health administrative costs



Chart 47: Average Medical Cost Containment Program Cost per Indemnity Claim

- Average cost of medical cost containment program (MCCP) costs per indemnity claim
- MCCP costs include the cost of utilization review, bill review and medical provider network fees
- Although used to help manage the cost of medical treatment, MCCP costs are considered allocated loss adjustment expenses by the WCIRB since they are not a direct benefit

Source Data

- WCIRB aggregate financial data as of December 31, 2019
- Values are developed to a final or ultimate cost basis by the WCIRB



Chart 48: Lien Filings by Quarter

- Shows the total number of liens filed in the system by calendar year and quarter based on the date the lien was filed
- SB 863 included a statute of limitations on lien filings that resulted in temporary increases to lien filings from the first quarter of 2015 through the second quarter of 2016 for which two statutes applied
- SB 1160 and AB 1244 provided additional reforms to lien filings including restrictions on the ability to reassign liens to third parties, a requirement that every lien be filed with a declaration under penalty of perjury and a stay on liens filed by providers indicted for fraud
- Lien filings were atypically high in the fourth quarter of 2016 as a result of the transition to SB 1160 and AB 1244; many of these liens would otherwise have been filed in the first quarter of 2017

Source Data

- California Division of Workers' Compensation Electronic Adjudication Management System



More Info

Chart 49: Number of Independent Medical Reviews Filed

- Shows the number of independent medical reviews (IMR) filed in each calendar quarter
- The IMR process was implemented in 2013 as a part of SB 863, intended as a mechanism to resolve medical treatment disputes that are denied through the utilization review process
- IMR was initially estimated to replace other medical treatment dispute mechanisms such as expedited hearings and medical-legal reports, but these mechanisms continue to be utilized
- IMR in addition to independent bill review and other SB 863 provisions have significantly reduced the average medical cost on claims
- IMR is typically requested by the claimant or applicant's attorney, but the cost of the IMR is paid by the insurer or self-insured employer

Source Data

- California Division of Workers' Compensation (values are in thousands)



Chart 50: Market Concentration Ratios

- Shows the proportion of California premium written by the largest 5 insurers in the state, the 6th through 10th largest insurers and the remaining insurers collectively
- A high concentrated market where the largest insurers write the vast majority of the premium is generally less competitive than a low concentrated market

Source Data

- WCIRB aggregate financial data calls
- Insurers are grouped at the National Association of Insurance Commissioners (NAIC) group level



Chart 51: Market Share by Type of Insurer

- Shows the proportion of California premium written by the State Compensation Insurance Fund, private insurers that write 80% or more of their workers' compensation business in California (i.e., "California-focused private insurers") and private insurers that write a large proportion of their workers' compensation business in other states (i.e., "National Insurers")
- A market where insurers focused in California write a large share of the workers' compensation business is one sign of a healthy market

Source Data

- WCIRB aggregate financial data calls
- California-Focused Private Insurers are private insurers that write 80% or more of their workers' compensation business in California



Chart 52: Projected Combined Loss and Expense Ratios

- Ratios of WCIRB projected losses and expenses to insurer premium by accident year
- Combined ratios are a commonly used measure to evaluate the profitability of insurers from an underwriting perspective
- Due to investment income earned on collected premiums as claims are paid out over many years, insurers can generate a profit with a combined ratio above 100%, assuming a favorable investment climate
- Industry combined ratios significantly over 110% could, over a sustained period, threaten the competitive viability of the insurance market

Source Data

- WCIRB projections based on aggregate financial data calls as of March 31, 2020



More Info

Chart 53: Private Insurer Reported Combined Ratios

- Comparison of the ratio of losses and expenses to insurer premium for private insurers writing workers' compensation business in California to the countrywide average for private insurers by calendar year
- These ratios differ from those shown on Chart 52 in that they are for private insurers only and are based on reported losses during the calendar year on all open claims regardless of when the claim occurred

Source Data

- California ratios are based on WCIRB aggregate financial data calls
- Countrywide estimate is based on the NCCI 2020 State of the Line Guide computed based on Annual Statement data (the 2019 estimate is preliminary)
- Excludes the impact of the State Compensation Insurance Fund and other state funds



Chart 54: Average Return on Net Worth

- Summary of total return on net worth for California workers' compensation compared to countrywide workers' compensation and the Fortune magazine all-industry average
- Reflects the impact of investment income, federal income taxes and insurer profits, as reported by the National Association of Insurance Commissioners (NAIC), that are not included in insurer combined ratios

Source Data

- NAIC Report on Profitability in 2018
- The NAIC estimates the total return to the industry after reflecting premiums, losses and expenses, as well as allocations of an insurer's total investment income, federal income taxes and policyholder surplus to California workers' compensation



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1221 Broadway, Suite 900
Oakland, CA 94612
888.CA.WCIRB (888.229.2472)