California Workers’ Compensation Update

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Current Market Conditions

• Average workers’ compensation rates in California today are approximately at the same level that they were in 1998 as carriers continue to compete for market share.

• These low rates, combined with a weak economy, have resulted in significant decrease in gross written premium statewide.

• Medical costs continue to rise, including increased costs of pharmaceuticals, surgical hardware, and physical care.

• California workers’ compensation carriers are losing money.

• All signs are pointing towards significant rate increases.
Rates and Premiums

- The average rate per $100 of payroll for policies written in 2010 was $2.39.
- $2.39 rate is comparable to the Workers’ Comp average in 1998.
- The rate is 64% below the average charged at the end of 2003.
Carrier Results

- Carrier Combined Loss Ratios for 2010 was 125%
- State Fund 2010 results were 165%
- WCIRB recommended 27.7% increase for Jan. 2011
- Insurance Commissioner refused to approve these increases.
Carrier Results

Workers’ Compensation Rates vs. Carrier Results

- Rates appear to be insufficient
- Carriers trending towards increased losses
- Rates must increase in order to stabilize the market
In the mean time...

- Economy in California is still struggling.
- Medical costs continue to rise.
- Almaraz / Guzman and Olgivie cases impacting the cost of Permanent Disability ratings.
- Medicare Set Aside requirements adding significant cost to claim closures.
- New Experience Rating formula results in higher Ex-Mods.
- Carriers worried about threat of inflation and investment results.
Where are we today?

- Carrier results for 2011 continue to deteriorate.

- Individual carriers beginning to take significant rate increases in an attempt to improve their results.

- In August 2010, the WCIRB submitted its 2012 Pure Premium Rate Filing.

- Rates for 353 classes are proposed to increase by more than 30%.

- The WCIRB is recommending 35.73% increase to class code 8018 effective 1/1/2012.

- Public hearing on rate filing scheduled for September 27th.
What can you do?

- Hiring Practices
- Loss Control
- Claims Management
- Explore Group Programs