



# A Look AHEAD

A Beecher Carlson Publication

Keeping You at the Forefront of What's Happening in the Risk Management Industry

## California Workers' Compensation Where We've Been, Where We Are, Where We're Going By: Noreen Graham and Aaron Newhoff

For decades, California Workers' Compensation insurance has presented huge challenges for employers. Employers have navigated the rough terrain of the state and the obstacles have continued to resurface throughout the years. We have outlined a few observations on the difficult times employers have endured over the past dozen years and what we believe is yet to come.

### *Early 2000s – Turning a Corner*

After historic highs in 1999 and 2000, the early part of the decade saw Workers' Compensation costs finally declining. The Workers' Compensation combined ratio for private carriers for 1999 was 145 percent in California (115 percent nationwide.) State regulators and law makers were confronting a system that was viewed as rampant with fraud and cost inflation due to medical mills and dubious stress claims.

California specifically enacted significant reforms in 2003 and 2004 (AB 227, SB 228, SB 899) to combat fraudulent claims and reduce costs for legitimate claims, and, as a result, these efforts proved to have a substantial impact on costs.

### *2006 - Success*

By 2006, the combined ratio for carriers in California had dropped to 73 percent (93 percent nationwide.) By the time the law changes were enacted and making an impact, rates had dropped dramatically in California (rates dropped more than 50 percent from 2003 to 2007.)

The most vivid improvement was seen in claim frequency. Between 2000 and 2009, indemnity claim frequency in California dropped 45 percent (32 percent nationwide.)

In addition, severity also improved for several years with ultimate loss per indemnity claim dropping by 20 percent from 2002 to 2005. Although countrywide severity was still on the upswing, it was at a much slower rate than in prior years. Medical severity on indemnity claims that had typically been trending double or triple the Medical CPI rate (generally around 3 to 4.5 percent) were now trending closer to 5 or 6 percent per year.

However, this happy state of affairs was not the end of the story and claims began to spike in the upcoming years.

### *2010 and Beyond*

Indemnity claim severity was on the rise after 2006, and by 2010 the average cost of these claims was close to \$64,000.

The increase was almost 40 percent higher than the low of less than \$46,000 in 2005, representing a severity trend of almost 7 percent per year (5 percent across the country.)

Severity increases were moderated by continuing declines in frequency (a 15 percent decline from 2005 to 2009) for several years; however that trend appeared to be flattening and reversing. Indemnity claim frequency in California and across the country was up 9 percent from 2009 to 2010.

Medical costs appear to be returning to the trends seen in pre-reform years. The trends are evident in all matters of medical expenses, such as treatment, cost containments, etc., but are particularly notable in the case of pharmaceuticals where costs per claim have risen over 50 percent since 2005.

Court decisions have also played a role in some of the recent cost trends. The recent WCAB en banc decisions in the Ogilvie, Almaraz and Guzman cases appear to have reversed some of the benefits of prior reforms. The full impact of these decisions has yet to be felt and is expected into future years.

### *Time to Panic?*

While the current trends are somewhat alarming, it is imperative to keep in mind that trends are only averages. Some employers will fall victim to these trends, while others will beat them.

For example, many employers have seen significant improvement in medical management costs due to fee restructuring. The California Workers' Compensation industry has seen the costs almost triple over the past 10 years, while many employers have experienced reductions.

There is cause for concern, but vigilant employers should not panic. There are opportunities to ease the pain and diminish the negative effects of the overall trends.

\*Statistics cited are based on publicly available research from the National Council of Compensation Insurance, the Workers' Compensation Insurance Rating Bureau of California and the California Workers' Compensation Institute.

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