

California Workers' Compensation Institute

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CWCI California Workers' Compensation Trend Analysis

September 2011

Private Self-Insured Claims Experience in California Workers' Compensation Paid and Incurred Losses at the 1st Through the 5th Valuations for CY 1997- 2010 Claims

By Bob Young

The California Office of Self-Insurance Plans (OSIP) has issued its latest summary of private self-insured claims data compiled from the calendar year loss reports (12-month periods ending December 31 of each year) submitted annually by the state's private self-insured employers. The summary provides a tally of the total number of claims (medical-only and indemnity) reported to OSIP through the end of the year, as well as the total amounts paid and incurred for indemnity and medical benefits on those claims.

BACKGROUND

The state of California requires all private self-insured employers to file a report by March 1 of each year, noting the total paid claim costs and the estimated future and total incurred costs for all workers' compensation claims that they have reported for each of the past five calendar years (January 1 through December 31), as well as for any claims that remain open from earlier years.

The summary issued August 25, 2011 includes initial data on claims reported to OSIP for the 12 months ending December 31, 2010, plus updated data (2nd, 3rd, 4th, and 5th valuations) on claims reported for 2006 through 2009, as well as the latest totals for pre-2006 claims that remained open. The OSIP summary noted that in 2010 California's private self-insured employers provided workers' compensation coverage to nearly 2.15 million workers, which was only a marginal decline from the 2.17 million employees reported in the 2009 summary. As a result, the wages and salaries of the private sector employees in the 2010 summary also showed little change, totaling just under \$79.7 billion compared to \$79.3 billion in the initial report for 2009.

OSIP prepares its summaries annually, and each summary notes the number of medical-only and indemnity claims reported to OSIP by private self-insured employers, along with the total number of employees covered by those employers during the year. Due to shifts into and out of the self-insured market, changes in the economy, and reporting variations, the number of employees covered in these reports fluctuates year to year, which directly affects the claim counts, wages and paid workers' compensation benefits. To account for the fluctuating claim counts, the author began the analysis by calculating the number of claims per 100 employees, producing a claim frequency rate for each of the 10 most recent years. Chart 1 tracks the changes in California private self-insured claim frequency over the past decade, comparing the overall claim frequency rate, as well the frequency rates for medical-only claims and for indemnity claims, for calendar years 2001 through 2010.

To track changes in the cost of private self-insured claims, the author reviewed the summaries from the last decade and calculated the average paid and incurred amounts per claim reported for each year at the different valuation points. The results at each of the valuation points were then compared across the most recent 10-year span for which data were available.

Private self-insured employers are required to report to OSIP by March 1, but each new summary may include updated claim counts and loss totals for prior calendar years that reflect additional or revised data received after that date, or any other corrections or revisions noted since the last report. The 1st valuation represents data on new claims reported within the just-ended calendar year, so it provides the most current, yet the least developed data. Although the 1st report supplies relatively “green” data, it does offer the initial snapshot of the volume of claims and losses for a given calendar year. Because the data is compiled at the same point in time and for the same 12-month period each year, it is a useful tool for benchmarking public self-insured claims experience, and comparing 1st report data from the most recent year to 1st report results from prior years allows a glimpse at emerging trends.

Tables 1 and 2 show the paid and incurred amounts that California private self-insured employers reported at the 1st valuation for each calendar year from 2001 through 2010. The subsequent tables show progressively more developed results for the most recent 10 years available; with the most fully developed data (Tables 9-10) comparing snapshots of paid and incurred losses for claims reported in calendar years 1997 through 2006 at the fifth valuation, reflecting the amounts that were reported for these claims 48 to 60 months after they were initially reported.

ABOUT CWCI

The California Workers’ Compensation Institute, incorporated in 1964, is a private, nonprofit organization of insurers and self-insured employers conducting and communicating research and analyses to improve the California workers’ compensation system. Institute members include insurers that collectively write about 80 percent of California workers’ compensation direct written premium, as well as many of the largest public and private self-insured employers in the state.

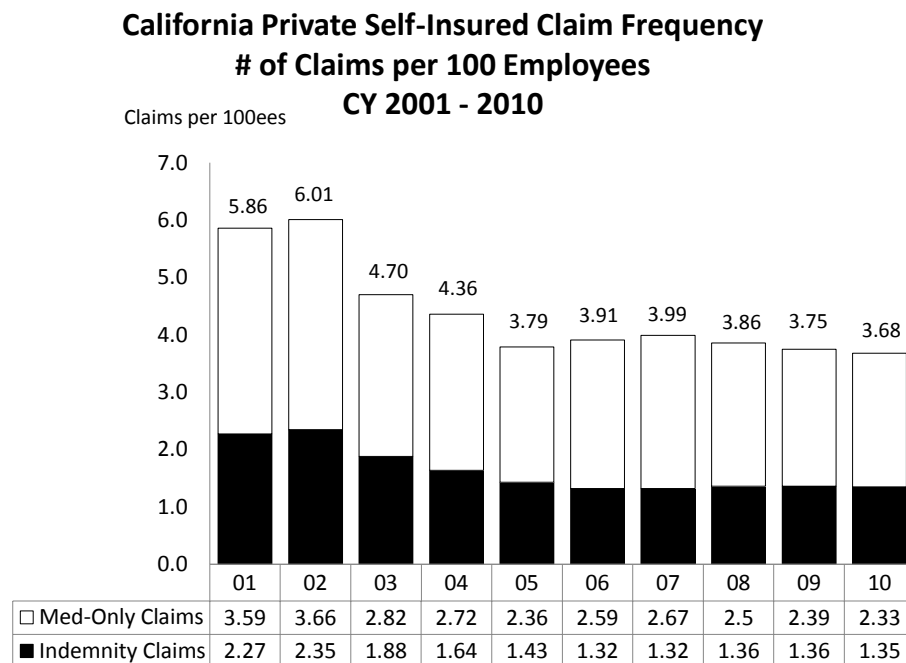
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RESULTS

California Workers' Compensation Private Self-Insured Claim Frequency

OSIP's annual summaries of statewide totals for private self-insured employers give tallies of both the number of reported medical-only claims and indemnity claims, and the number of employees covered by the private self-insured employers during the year. However, changes in the employment rate, shifts into and out of the self-insured market, and reporting variations, all fuel year-to-year fluctuations in the number of private self-insured employees noted within these summaries, which in turn has an effect on the claim counts, wages and paid benefits. To control for the effect that the fluctuations in the covered work force have on claim volume, the author calculated the number of private self-insured claims per 100 employees for each year of the study, then compared these frequency rates across the 10-year span. Chart 1 shows the changes in California private self-insured claim frequency over the past decade, noting the overall claim frequency rate, and the breakdown of the medical-only and indemnity claim frequency rates.



Source: OSIP 2001 –2009 Summaries of Private Self-Insured Claims Experience

The results show that most of the decline in private self-insured claim frequency occurred between 2002 and 2005, as aggregate claim frequency among private self-insured employers fell nearly 59% over that 4-year span, a decline that coincided with enactment of the 2002-04 reforms. Since 2006, however, private self-insured claim frequency was shown little change, ranging between 3.68 and 3.99 claims per 100 employees, with nearly all of that fluctuation due to changes in medical-only claim frequency, as the incidence of indemnity claims has leveled off and remained remarkably steady over the past five years.

First Report Data: Calendar Year 2001 – 2010 Claims

Over the past decade, the number of covered employees noted in OSIP’s private self-insured summaries has ranged from a low of just under 2 million workers in 2002 to more than 2.8 million workers in 2005, with the latest tally showing just under 2.15 million workers. These year-to-year variations in the private self-insured covered work force reflect both shifts in the California economy as well as movement in and out of the insured market. Despite the fluctuations in the size of the work force, the number of occupational injury claims noted in the private self-insured employers’ initial reports has shown a steady decline, falling 34.2% from 120,138 claims in 2001 to 79,075 claims in 2010.

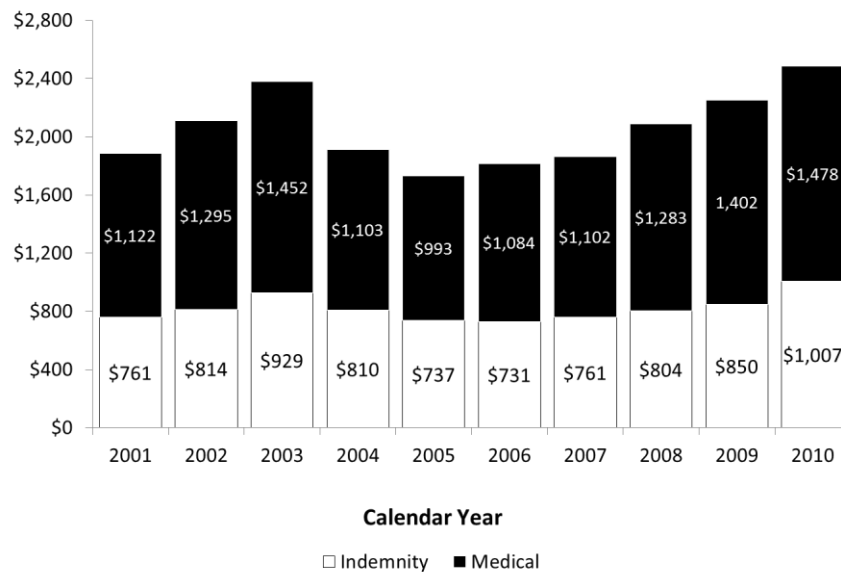
Paid Losses: Since 2005, the decline in the number of private self-insured claims has been offset somewhat by increases in claim severity (average paid per claim). After peaking at \$2,381 in 2003, average private self-insured claim payments at first report declined sharply in the aftermath of SB 899, falling to a post-reform low of \$1,730 per claim in 2005, but since then the average has been trending up, climbing 4.9% to \$1,815 in 2006, 2.6% to \$1,863 in 2007, 12% to \$2,087 in 2008, 7.9% to \$2,252 in 2009 and 10.3% to \$2,485 in 2010. The average total paid per claim of \$2,485 for 2010 is a 10-year high and 43.6% above the post-reform low of \$1,730 noted in 2005.

**Table 1: CALIFORNIA WC PAID LOSSES: PRIVATE SELF-INSURED CLAIMS
2001 - 2010 Experience @ 1st Report**

CALENDAR YR	# OF CLAIMS	TOTAL PAID		AVERAGE PAID/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2001	120,138	\$ 91,417,169	\$134,781,172	\$ 761	\$1,122	\$1,883
2002	118,730	\$ 96,685,552	\$153,696,114	\$ 814	\$1,295	\$2,109
2003	116,238	\$107,951,384	\$168,731,048	\$ 929	\$1,452	\$2,381
2004	113,085	\$ 91,589,701	\$124,694,242	\$ 810	\$1,103	\$1,913
2005	106,569	\$ 78,582,897	\$105,831,445	\$ 737	\$ 993	\$1,730
2006	104,965	\$ 76,731,712	\$113,739,933	\$ 731	\$1,084	\$1,815
2007	91,679	\$ 69,802,410	\$100,999,424	\$ 761	\$1,102	\$1,863
2008	91,715	\$ 73,745,587	\$117,651,184	\$ 804	\$1,283	\$2,087
2009	81,473	\$ 69,263,138	\$114,247,807	\$ 850	\$1,402	\$2,252
2010	79,075	\$ 79,599,890	\$116,845,417	\$ 1,007	\$1,478	\$2,485

The breakdown of private self-insured claim payments shows that average public self-insured indemnity payments at first report peaked at \$929 in 2003, then slid 21.3% over the next 3 years, hitting a post-reform low of \$731 in 2006 before trending up 37.8% to the recent high of \$1,007 in 2010. On the other hand, after peaking at \$1,452 in 2003, private self-insured's average first report medical payments fell 31.6% to \$993 in 2005, but then increased steadily over the last 5 years, climbing 48.8% to \$1,478 in 2010; which puts the average amounts paid at first report for both loss components back above pre-reform levels.

Avg. Calif. W.C. Private Self-Insured Paid Losses CY 2001 – 2010 Claims@ Initial Report



Bottomline: California private self-insured employers' total paid losses reported at the initial valuation rose from \$226.2 million (\$91.4 million indemnity + \$134.8 million medical) in 2001 to \$276.7 million (\$108.0 million indemnity + \$168.7 million medical) in 2003 – a 2-year increase of 22.3%, driven by increases in claim severity (average payment per claim). In the wake of the 2002-2004 reforms, claim severity declined from 2003 to 2005, which coupled with ongoing reductions in claim volume, helped push private self-insured's aggregate first report payments to a post-reform low of \$170.8 million in 2007. Since 2007, however, steady increases in claim severity – a 34.1% increase in average medical payments per claim combined with a 32.3% increase in average indemnity payments per claim – have pushed total private self-insured paid losses at first report back up to \$196.4 million. That is an increase of \$25.6 million in loss costs (+12.6%) compared to 3 years earlier, even though private self-insured first report claim volume over that same period has fallen 13.7%, with 12,604 fewer claims.

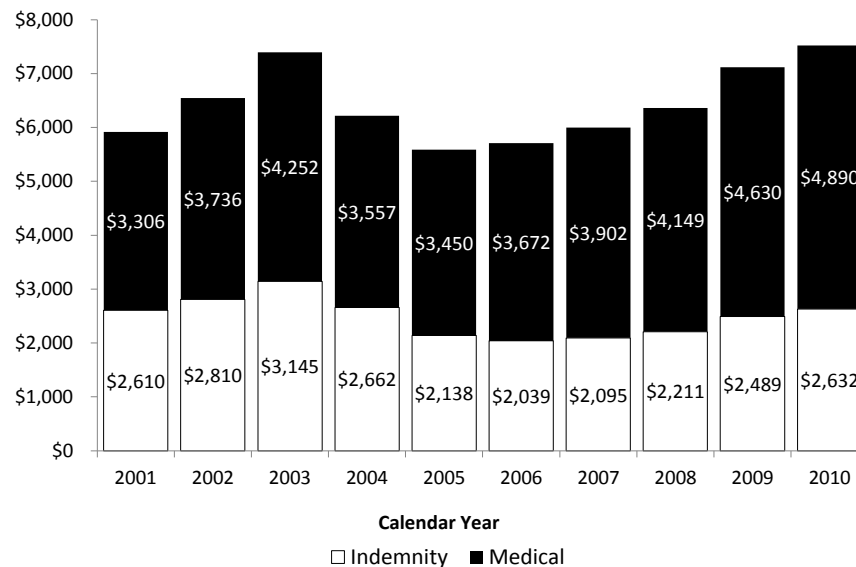
Incurred Losses: First report incurred results for private self-insured employers show a similar trend, as the average incurred per claim rose in the early part of the decade, peaking at \$7,397 in 2003, declined briefly after the 2002-04 reforms, falling to a low of \$5,588 in 2005, then began to increase steadily, climbing to a 10-year high of \$7,522 in 2010 – which is up 34.6% from the post-reform low.

**Table 2: CALIFORNIA WC INCURRED LOSSES: PRIVATE SELF-INSURED CLAIMS
2001 - 2010 Experience @ Initial Report**

CALENDAR YR	# OF CLAIMS	TOTAL INCURRED		AVERAGE INCURRED/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2001	120,138	\$313,551,009	\$397,211,383	\$2,610	\$3,306	\$5,916
2002	118,730	\$333,591,744	\$443,603,034	\$2,810	\$3,736	\$6,546
2003	116,238	\$365,592,701	\$494,245,106	\$3,145	\$4,252	\$7,397
2004	113,085	\$301,049,088	\$402,284,162	\$2,662	\$3,557	\$6,219
2005	106,569	\$227,822,248	\$367,693,817	\$2,138	\$3,450	\$5,588
2006	104,965	\$214,034,711	\$385,456,925	\$2,039	\$3,672	\$5,711
2007	91,679	\$192,084,307	\$357,702,785	\$2,095	\$3,902	\$5,997
2008	91,715	\$202,737,576	\$380,568,149	\$2,211	\$4,149	\$6,360
2009	81,473	\$202,767,667	\$377,228,641	\$2,489	\$4,630	\$7,119
2010	79,075	\$208,104,424	\$386,704,567	\$2,632	\$4,890	\$7,522

The biggest contributor to the decline in private self-insured's incurred losses immediately following the reforms was the reduction in incurred indemnity, as average incurred indemnity fell 32% from 2003 to 2005, and didn't increase significantly until 2008. Average incurred indemnity has now increased for 4 years in a row, however, climbing to \$2,632 for 2010 claims, 29.1% above the post-reform low, and nearly back to the level noted in 2004, the year SB 899 was enacted. In contrast, average incurred medical at first report fell 18.9% from 2003 to 2005, then began trending up again in 2006, increasing to a record \$4,890 in 2010, which is up 41.7% from the post-reform low.

**Avg. Calif. W.C. Private Self-Insured Incurred Losses
CY 2001 – 2010 Claims@ Initial Report**



Bottomline: Private self-insured's total incurred losses at the initial report have fluctuated over the past decade, increasing from about \$711 million for 2001 claims to a peak of \$860 million for 2003 claims, then falling back to \$703 million in 2004 as the reforms took effect. Spurred by declining claim volume, private self-insureds' total incurred losses continued to decline, eventually hitting a post-reform low of just under \$550 million in 2007. Since then the number of claims reported by private self-insured employers has continued to decline, falling 13.8 % from 2007 to 2010, but that decline has been largely offset by increases in the average amounts incurred per claim, which by 2010 had jumped 34.6% from the 2005 low. Thus, despite the declining number of claims over the last 5 years, total incurred amounts for California's private self-insured employers have remained between \$550 and \$600 million per year.

Second Report Data: Calendar Year 2000 – 2009 Claims

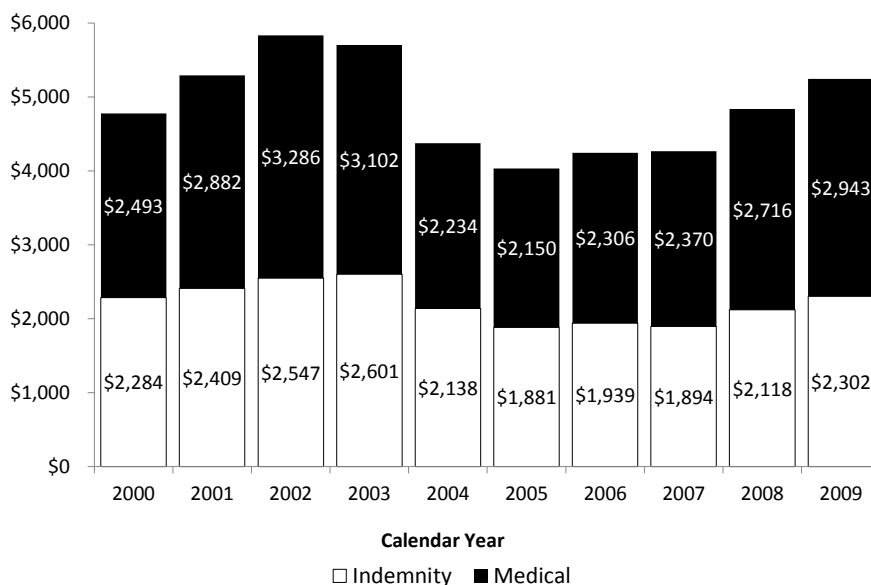
The second report data reflects up to 24 months' of claim development on private self-insured claims. OSIP's latest summary includes 2nd report data on 82,424 claims from 2009, which is 951 (1.2%) more claims than were noted in the initial reports for that year, but 9,513 fewer claims than were recorded in the 2nd reports from the prior year (2008), and 16,250 fewer claims than were noted in the 2nd reports for 2006 – the year in which total paid losses bottomed out.

Table 3: CALIFORNIA WC PAID LOSSES: PRIVATE SELF-INSURED CLAIMS
2000 - 2009 Experience @ the 2-Year Valuation

CALENDAR YR	# OF CLAIMS	TOTAL PAID		AVERAGE PAID/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2000	125,542	\$286,732,436	\$312,944,029	\$2,284	\$2,493	\$4,777
2001	121,886	\$293,678,044	\$351,219,289	\$2,409	\$2,882	\$5,291
2002	121,654	\$309,859,911	\$399,757,860	\$2,547	\$3,286	\$5,833
2003	120,491	\$313,361,774	\$373,788,510	\$2,601	\$3,102	\$5,703
2004	113,097	\$241,764,134	\$252,694,826	\$2,138	\$2,234	\$4,372
2005	108,160	\$203,474,740	\$232,490,054	\$1,881	\$2,150	\$4,031
2006	98,674	\$191,327,451	\$227,578,693	\$1,939	\$2,306	\$4,245
2007	105,543	\$199,882,762	\$250,174,330	\$1,894	\$2,370	\$4,264
2008	91,937	\$194,679,863	\$249,695,443	\$2,118	\$2,716	\$4,834
2009	82,424	\$189,713,253	\$242,610,448	\$2,302	\$2,943	\$5,245

Paid Losses: Table 3 shows 2nd report paid loss data for calendar year 2000 through 2009 private self-insured claims. As with the 1st reports, the 2nd reports show loss payments, which had been increasing in the early part of the decade, declined following the 2002-04 reforms, hitting a post-reform low in 2005. Since 2005, however, private self-insured's average loss payments at the 2-year valuation have risen 30.1%, climbing to \$5,245 for 2009 claims. Once again, the recent increases in claim severity at the 2nd reports reflect significant growth in both indemnity and medical payments. Between the post-reform low in 2005 and the most recent reading in 2009, the average indemnity paid per claim at the 2-year benchmark has climbed 22.4% to \$2,302, while average medical payments have jumped 36.9% to \$2,943.

Avg. Calif. W.C. Public Self-Insured Paid Losses
CY 2000 – 2009 Claims @ 2nd Report



Bottomline: The latest 2nd report data show California private self-insured's total paid losses fell to a post reform low in 2006 claims, but even though there were 16,250 fewer 2nd report claims in 2009 (-16.5%) , total loss payments have remained within a fairly narrow range, fluctuating between about \$419 million and \$450 million, with the 2009 figure coming in at \$432 million. Thus, while the reduction in the number of private self-insured claims has had a moderating effect on self-insured losses, the total amount paid by private self-insured employers has not seen a major decline because the average amount paid per claim has continued to grow, with average indemnity payments up 22.4% in the last 4 years, and average medical payments up 36.9%.

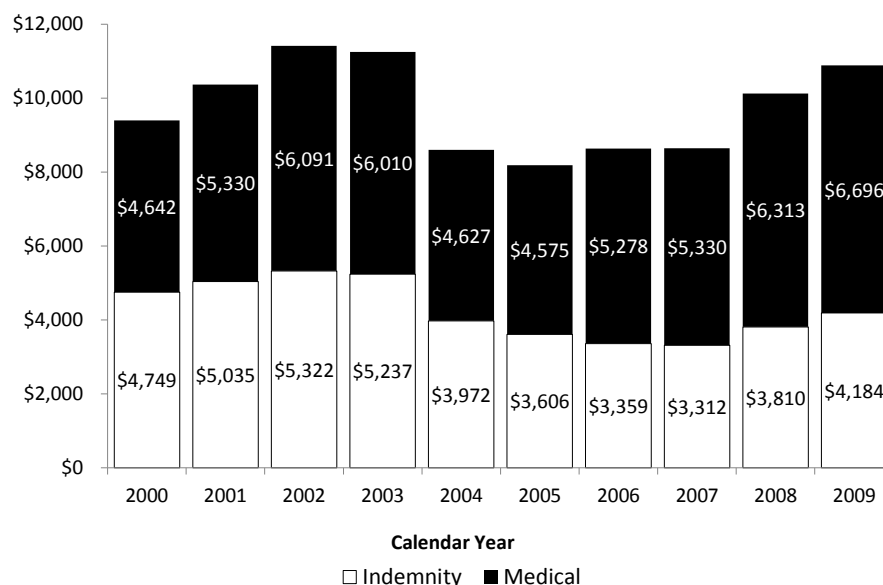
Incurred Losses: Table 4 summarizes the incurred results for 2000 through 2009 private self-insured claims at the 2nd report level. The data show the initial reduction in incurred losses following the reforms, as private self-insured's total incurred recorded at the second report fell by \$536 million, or nearly 39% from the peak in 2002 to the post-reform low in 2005. That decline reflected huge reductions in both total incurred indemnity, which fell by more than \$291 million, or 45%, and in total incurred medical, which fell \$246 million, or 33%. Notably, some of the decline in total incurred losses was due to a reduction in the number of 2nd report claims, which fell 11% from 121,654 claims in 2002 to 108,160 claims in 2005.

**Table 4: CALIFORNIA WC INCURRED LOSSES: PRIVATE SELF-INSURED CLAIMS
2000-2009 Experience @ the 2-Year Valuation**

CALENDAR YR	# OF CLAIMS	TOTAL INCURRED		AVERAGE INCURRED/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2000	125,542	\$596,239,342	\$582,729,946	\$4,749	\$4,642	\$ 9,291
2001	121,886	\$613,658,883	\$649,640,794	\$5,035	\$5,330	\$10,365
2002	121,654	\$647,419,426	\$740,988,644	\$5,322	\$6,091	\$11,413
2003	120,491	\$630,965,701	\$724,094,625	\$5,237	\$6,010	\$11,247
2004	113,097	\$449,262,913	\$523,335,774	\$3,972	\$4,627	\$8,599
2005	108,160	\$355,797,778	\$494,778,056	\$3,606	\$4,575	\$8,181
2006	98,674	\$331,459,476	\$520,753,467	\$3,359	\$5,278	\$8,637
2007	105,543	\$349,532,240	\$562,498,019	\$3,312	\$5,330	\$8,642
2008	91,937	\$350,278,250	\$580,365,668	\$3,810	\$6,313	\$10,123
2009	82,424	\$344,883,065	\$551,886,099	\$4,184	\$6,696	\$10,880

Average incurred amounts per claim at the 2nd report also declined steadily between 2002 and the post-reform low in 2005, as average incurred indemnity fell 32% from \$5,322 to \$3,606, and average incurred medical fell nearly 25% from \$6,091 to \$4,575. As with the paid losses, however, since 2005, private self-insured's 2nd report average incurred losses have increased steadily, spurred by growth in average incurred medical, which rose to \$6,696 per claim in 2009, up 46.6% from the post-reform low; while average incurred indemnity at the 2nd valuation did not bottom out until 2007, though over the past two years it too has jumped sharply, climbing 26.3% from the post-reform low to \$4,184 per claim in 2009.

**Avg. Calif. W.C. Private Self-Insured Incurred Losses
CY 2000 – 2009 Claims@ 2nd Report**



Bottomline: The 2nd report data show California private self-insured's incurred losses peaked in 2002, then fell sharply as the 2002-04 reforms were implemented. The downtrend ended in 2005, however, and private self-insured employers' incurred losses have been trending up over the past four years.

Even though the calendar year 2009 second report claim count was down nearly 24% (25,736 fewer claims) from the total noted in 2005, private self-insured employers' total incurred losses increased by \$46.2 million (+5.4%) to nearly \$897 million, as the average incurred medical loss per claim at the second report rose 46.4% compared to 4 years earlier, while average incurred indemnity rose 9.8%.

Third Report Data: Calendar Year 1999 – 2008 Claims

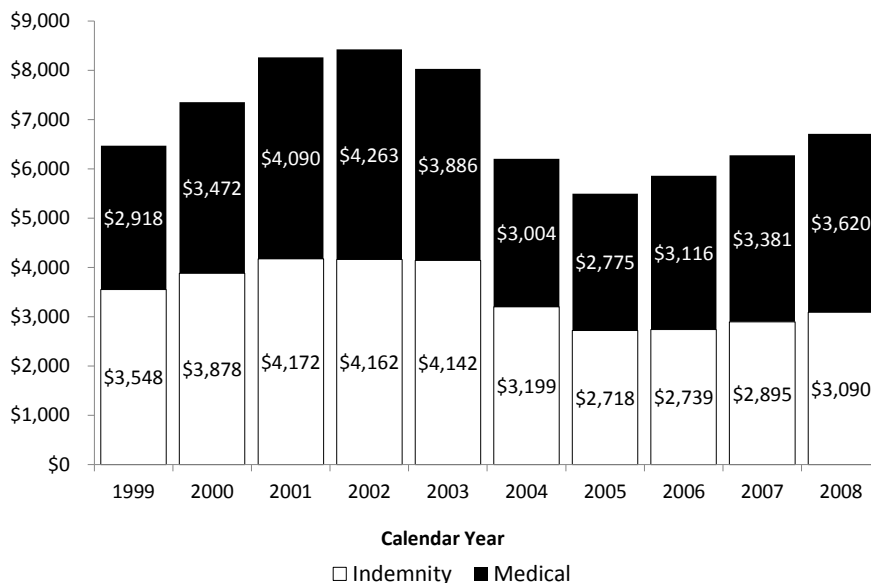
Private self-insured employers' 3rd reports detail up to 36 months' worth of post-injury claim experience. The latest summary includes 3rd report data on 91,393 claims from 2008. That total is 322 fewer claims (-0.35%) than were recorded in private self-insured's initial reports for 2008. Compared to the prior year's 3rd report claim count, the 2008 total is down by 8,708 claims (-8.7%). Table 5 shows California private self-insured employers' 3rd report paid losses for calendar year 2008 and the 9 prior years.

Table 5: CALIFORNIA WC PAID LOSSES: PRIVATE SELF-INSURED CLAIMS
CY 1999 - 2008 Experience @ the 3-Year Valuation

CALENDAR YR	# OF CLAIMS	TOTAL PAID		AVERAGE PAID/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
1999	124,772	\$442,723,590	\$364,110,077	\$3,548	\$2,918	\$6,466
2000	125,279	\$485,852,090	\$434,972,867	\$3,878	\$3,472	\$7,350
2001	119,188	\$497,303,676	\$487,438,853	\$4,172	\$4,090	\$8,262
2002	123,006	\$511,982,610	\$524,345,225	\$4,162	\$4,263	\$8,425
2003	118,053	\$489,034,059	\$458,745,979	\$4,142	\$3,886	\$8,028
2004	112,131	\$358,655,755	\$336,892,821	\$3,199	\$3,004	\$6,203
2005	102,926	\$279,702,054	\$285,657,530	\$2,718	\$2,775	\$5,493
2006	106,465	\$291,584,834	\$331,728,923	\$2,739	\$3,116	\$5,855
2007	100,101	\$289,781,112	\$338,415,329	\$2,895	\$3,381	\$6,276
2008	91,393	\$282,364,709	\$330,843,336	\$3,090	\$3,620	\$6,710

Paid Losses: The 3rd report data show that private self insured employers' workers' compensation claim payments rose rapidly between 1999 and 2002, topping \$1 billion in 2002, which helped fuel demands for the 2002-04 reforms. Following the reforms, claim costs fell precipitously, but as with the 1st and 2nd reports, the 3rd report data show the post-reform decline did not last, as private self-insured loss payments bottomed out at \$565 million by 2005, at which point average paid losses at the 3rd valuation totaled \$5,493 (\$2,718 indemnity + \$2,775 medical). By 2006, average paid losses on private self-insured claims at the 3-year valuation were again on the rise, and by 2008 they were well above the post-reform low, up 22% to \$6,710, led by a 30.5% jump in average medical payments, which had climbed to \$3,620, while average indemnity payments at the 3-year benchmark had risen 13.7% to \$3,090 per claim.

Avg. Calif. W.C. Private Self-Insured Paid Losses
CY 1999 – 2008 Claims@ 3rd Report



Bottomline: The 3rd report data show that 2005 marked the end of a 3-year decline in paid losses for California private self-insured employers, as their aggregate loss payments measured at the 3rd valuation bottomed out at just over \$565 million (\$279.7 million indemnity + \$285.7 million medical). Some of the decline in total paid losses between 2002 and 2005 can be ascribed to a 16% reduction in the number of claims reported by private self-insured employers during that period, however claim volume at the 3rd report was also down 11.2% between 2005 and 2008, while total loss payments at the 3-year mark climbed 8.5% to more than \$613.2 million (\$282.4 million indemnity + \$330.8 million medical) – driven by a 12% increase in the average amount paid per claim for indemnity and a 30.5% increase in the average amount paid for medical.

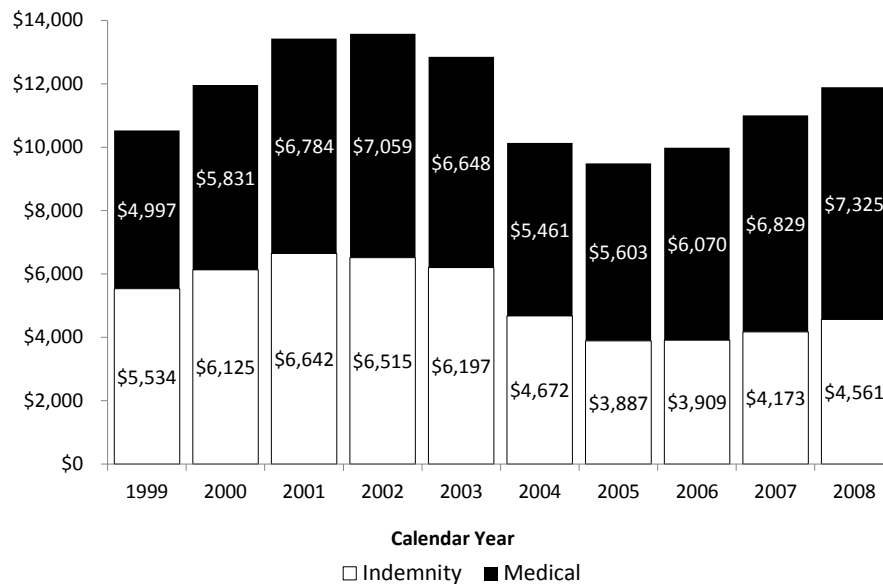
Incurred Losses: Table 6 shows private self-insured employers' 3rd report incurred results for 1999 through 2008 claims. The pre-reform peak in private self-insured total incurred losses was nearly \$1.67 billion noted in the 3rd reports for 2002 claims, followed by a sharp 3-year decline which saw total incurred losses drop nearly 42% to \$976.7 million in the 3rd reports for 2005 claims.

**Table 6: CALIFORNIA WC INCURRED LOSSES: PRIVATE SELF-INSURED CLAIMS
CY 1999 - 2008 Experience @ the 3-Year Valuation**

CALENDAR YR	# OF CLAIMS	TOTAL INCURRED		AVERAGE INCURRED/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
1999	124,772	\$690,512,471	\$623,502,367	\$5,534	\$4,997	\$10,531
2000	125,279	\$767,349,438	\$730,444,575	\$6,125	\$5,831	\$11,956
2001	119,188	\$791,699,221	\$808,553,755	\$6,642	\$6,784	\$13,426
2002	123,006	\$801,353,087	\$868,335,497	\$6,515	\$7,059	\$13,574
2003	118,053	\$731,565,073	\$784,803,426	\$6,197	\$6,648	\$12,845
2004	112,131	\$523,899,237	\$612,358,041	\$4,672	\$5,461	\$10,133
2005	102,926	\$400,074,801	\$576,658,741	\$3,887	\$5,603	\$9,490
2006	106,465	\$416,164,044	\$646,291,697	\$3,909	\$6,070	\$9,979
2007	100,101	\$417,704,927	\$683,561,733	\$4,173	\$6,829	\$11,002
2008	91,393	\$416,834,125	\$669,496,980	\$4,561	\$7,325	\$11,886

Clearly, some of that post-reform decline was fueled by the 16% reduction in the number of claims reported by private self-insured employers between 2002 and 2005, though over the same span, the average amount incurred per claim declined as well, with average incurred indemnity falling more than 40 percent, from \$6,515 to \$3,887; while average incurred medical fell nearly 21 percent from \$7,059 to \$5,603. Notably, average incurred medical at the 3rd valuation bottomed out with the 2004 claims -- a year earlier than incurred indemnity -- though since hitting those post-reform lows, average incurred medical and indemnity losses have been trending up, so even though claim volume hit a 10-year low in 2008, total incurred losses were nearly \$1.09 billion in the 3rd reports for 2008 claims, or almost \$110 million (11.2%) more than the post-reform low of \$977 million recorded in the 3rd reports for 2005 claims.

**Avg. Calif. W.C. Private Self-Insured Incurred Losses
CY 1999 – 2008 Claims@ 3rd Report**



Bottomline: Private self-insured 3rd report incurred losses peaked at \$1.67 billion in 2002, which helped spur the 2002–2004 reforms. Subsequent declines in 3rd report total incurred indemnity and medical losses began in 2003, and continued through 2005, before they reversed course and started heading back up in 2006. The latest 3rd report data show total incurred indemnity for 2008 claims was \$416.8 million, nearly matching the \$417.7 million noted in the 2007 3rd reports, even though there were 8,708 fewer claims (-8.7%) in 2008, while total incurred medical in the 3rd reports edged down about 2% from \$683.6 million in 2007 to \$669.5 million in 2008.

Notably, despite the 11.2% decline in the number of 3rd report claims reported by private self-insured employers between 2005 (when incurred losses hit a post-reform low) and 2008, total incurred medical at the 3-year benchmark has increased 16.1% and total incurred indemnity has risen 4.2%, both due to increased severity, as the average amount of indemnity incurred per claim climbed 17.3% and the average incurred medical loss per claim jumped 30.7%.

Fourth Report Data: Calendar Year 1998 – 2007 Claims

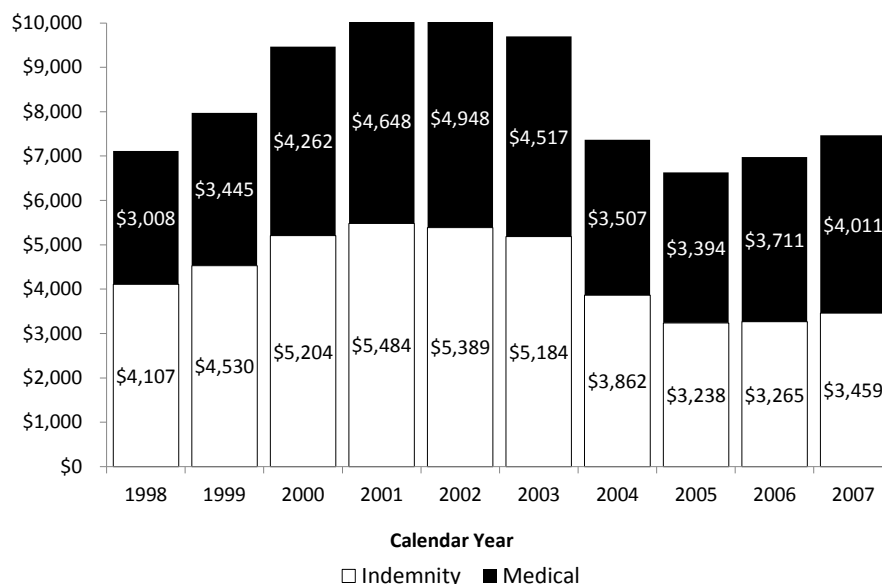
Fourth reports reflect up to 48 months' worth of development on private self-insured claims. OSIP's latest summary includes 4th report data on 99,252 claims from calendar year 2007. The fourth reports on private self-insured claims for 2007 show 7,573 more claims than were recorded in the 1st reports for that year, (+8.3%), but 6,832 (-6.9%) fewer claims than were noted in the 4th reports for the prior year (calendar year 2006).

Table 7: CALIFORNIA WC PAID LOSSES: PRIVATE SELF-INSURED CLAIMS
CY 1998 - 2007 Claims @ the 4-Year Valuation

CALENDAR YR	# OF CLAIMS	TOTAL PAID		AVERAGE PAID/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
1998	132,731	\$545,063,491	\$399,258,290	\$4,107	\$3,008	\$7,115
1999	124,226	\$562,692,711	\$427,934,559	\$4,530	\$3,445	\$7,975
2000	123,173	\$640,946,980	\$524,927,294	\$5,204	\$4,262	\$9,466
2001	122,765	\$673,285,140	\$570,612,508	\$5,484	\$4,648	\$10,132
2002	121,955	\$657,235,181	\$603,408,378	\$5,389	\$4,948	\$10,337
2003	117,025	\$606,613,333	\$528,615,483	\$5,184	\$4,517	\$9,701
2004	109,702	\$423,706,304	\$384,683,278	\$3,862	\$3,507	\$7,369
2005	107,243	\$347,199,308	\$363,930,127	\$3,238	\$3,394	\$6,632
2006	106,084	\$346,370,454	\$393,675,472	\$3,265	\$3,711	\$6,976
2007	99,252	\$343,358,341	\$398,072,568	\$3,459	\$4,011	\$7,470

Paid Losses: Table 7 shows California private self-insured employers' paid losses reported at the 4th valuation for claims from calendar years 1998 through 2007. As with the 3rd report results, the 4th reports show total paid losses rose to a pre-reform peak in 2002, declined through 2005, then began to increase again. Despite a 7.5% decline in the number of private self-insured claims recorded in the 4th reports between 2005 (when post-reform losses bottomed out) and 2007, total loss payments at the 4th valuation have increased during that period, as average indemnity payments per claim have risen 6.8% to \$3,459 and average medical payments per claim have risen 18.2% to \$4,011.

Avg. Calif. W.C. Private Self-Insured Paid Losses
CY 1998 – 2007 Claims@ 4th Report



Bottomline: As noted in the 1st, 2nd, and 3rd valuations, the 4th report data indicate that the total paid losses on private self-insured claims increased steadily until 2002, the first year that state lawmakers enacted reforms calling for structural changes to the system. Private self-insured paid losses then plummeted, falling from \$1.26 billion in the 4th reports for 2002 claims to \$711 million in the 4th reports for 2005 claims. Some of that decline in total payments was due to a 12% reduction in the number of claims noted in the 4th reports for calendar years 2002 and 2005, though most of the decline was due to the 40% reduction average indemnity payments and the 31% reduction in average medical payments. That post-reform drop in overall losses ended in 2006, however, as private self-insured employers' aggregate 4th report paid losses on 2007 claims rose to \$741.4 million, \$30.3 million (4.3%) more than the 4th report total for 2005 claims. This increase was driven by rising claim severity, as the 4th report claim count has continued to decline, falling 7.5% from 2005 to 2007, while the average indemnity payment per claim has risen 6.8% and the average medical payment per claim had climbed 18.2%.

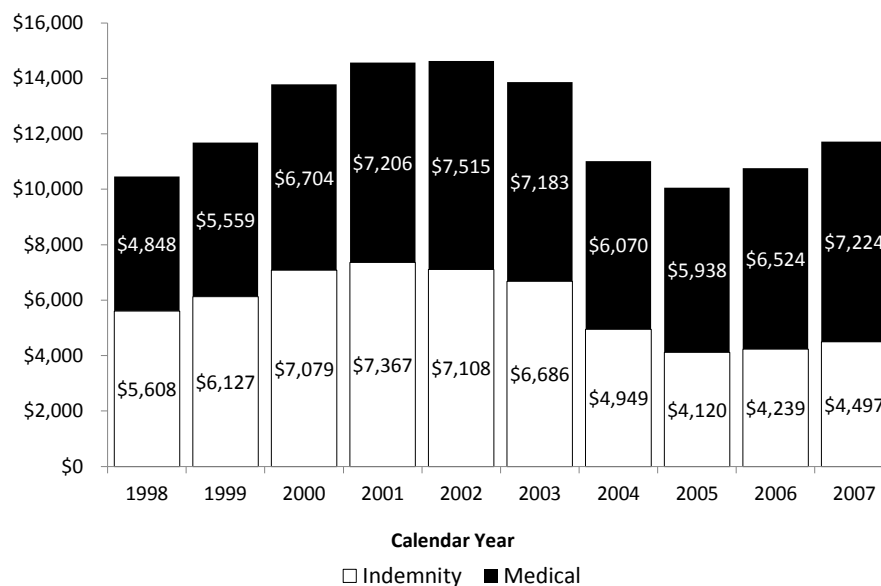
Incurred Losses: Table 8 shows private self-insured employers' 4th report incurred data for calendar year 1998 through 2007. The incurred data indicate that California private self-insured employers' aggregate losses hit a pre-reform high in 2001, which was the same year incurred indemnity hit its high point, though incurred medical did not peak until the following year, topping out at more than \$916 million. Total incurred losses then fell to a post-reform low in 2005 before rebounding 7.4% to \$1.16 billion in the most recent 4th report (calendar year 2007 claims).

Table 8: CALIFORNIA WC INCURRED LOSSES: PRIVATE SELF-INSURED CLAIMS
CY 1998 - 2007 Claims @ the 4-Year Valuation

CALENDAR YR	# OF CLAIMS	TOTAL INCURRED		AVERAGE INCURRED/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
1998	132,731	\$744,307,359	\$643,539,164	\$5,608	\$4,848	\$10,456
1999	124,226	\$761,074,607	\$690,588,112	\$6,127	\$5,559	\$11,686
2000	123,173	\$871,893,968	\$825,718,220	\$7,079	\$6,704	\$13,783
2001	122,765	\$904,434,198	\$884,630,399	\$7,367	\$7,206	\$14,573
2002	121,955	\$866,812,882	\$916,447,994	\$7,108	\$7,515	\$14,623
2003	117,025	\$782,397,109	\$840,541,228	\$6,686	\$7,183	\$13,869
2004	109,702	\$542,914,675	\$665,904,598	\$4,949	\$6,070	\$11,019
2005	107,243	\$441,888,991	\$636,858,603	\$4,120	\$5,938	\$10,058
2006	106,084	\$449,690,514	\$692,103,372	\$4,239	\$6,524	\$10,763
2007	99,252	\$446,327,512	\$717,018,169	\$4,497	\$7,224	\$11,721

Once again, the increase in private self-insureds' 4th report total incurred losses since 2005 occurred despite a reduction in the number of claims reported at this valuation point, and was driven by a 16.5% increase in the average amount incurred per claim. Between 2005 and 2007, the average amount of incurred indemnity on California private self-insured claims at the 4th report jumped 9.2% from \$4,120 to \$4,497, while the average amount of incurred medical rose 21.7% from \$5,938 to \$7,224.

Avg. Calif. W.C. Private Self-Insured Incurred Losses
CY 1998 – 2007 Claims@ 4th Report



Bottomline: The 4th report on calendar year 2007 claims shows private self-insured's total incurred losses rose to \$1.16 billion (\$446 million indemnity + \$717 million medical), an increase of 7.4% from the post-reform low of just under \$1.08 billion (\$441.9 million indemnity + \$636.9 million medical) noted in the 4th reports on 2005 claims. The 4th report total for calendar year 2007 claims, combined with the 1st, 2nd, and 3rd report findings from the most recent years, again confirms that the decline in losses on private self-insured claims following the 2002-2004 reforms was short-lived, and that rising medical losses have been the primary cost driver since 2005.

Fifth Report Data: Calendar Year 1997 – 2006 Claims

Private self-insured employers' 5th reports offer the most developed data in OSIP's latest summary, measuring up to 60 months' worth of claim experience, though this level of development is only available on older claims, so the 5th reports provide a limited view of post-reform outcomes. The latest OSIP summary shows 5th report data on 105,195 claims from 2006, which represents 230 more claims (+0.2%) than were noted in private self-insured's initial reports for that year; but 889 fewer claims (-0.8%) than were in the 2006 4th reports, and 1,838 fewer claims (-1.7%) than were in the 5th reports for 2005. Table 9 compares the 5th report paid losses for 2006 claims to those from each of the 9 prior years.

Table 9: CALIFORNIA WC PAID LOSSES: PRIVATE SELF-INSURED CLAIMS
CY 1997 - 2006 Claims @ the 5-Year Valuation

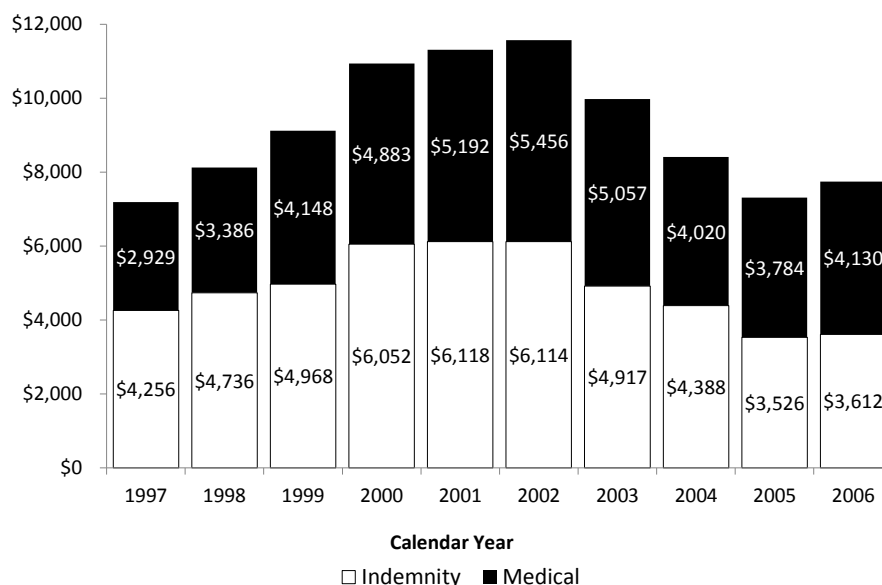
CALENDAR YR	# OF CLAIMS	TOTAL PAID		AVERAGE PAID/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
1997	144,584	\$615,398,306	\$423,450,431	\$4,256	\$2,929	\$ 7,185
1998	131,384	\$622,278,611	\$444,909,083	\$4,736	\$3,386	\$ 8,122
1999	128,666	\$639,271,415	\$533,722,856	\$4,968	\$4,148	\$ 9,116
2000	120,129*	\$726,980,219	\$586,590,960	\$6,052	\$4,883	\$10,935
2001	120,229	\$735,659,681	\$624,209,418	\$6,118	\$5,192	\$11,310
2002	119,810	\$732,475,253	\$653,730,667	\$6,114	\$5,456	\$11,570
2003	114,511	\$677,602,887	\$579,028,203	\$5,917	\$5,057	\$10,974
2004	108,913	\$477,920,701	\$437,807,223	\$4,388	\$4,020	\$ 8,408
2005	107,033	\$377,449,111	\$405,048,181	\$3,526	\$3,784	\$ 7,310
2006	105,195	\$379,917,613	\$434,502,771	\$3,612	\$4,130	\$ 7,742

*The 2007 OSIP report contains an obvious error, noting 220,129 5th report claims for CY2000. CWCI checked with OSIP, but they did not give a revised figure. The tally of CY2000 claims at the 4th report was 123,173, and the 3rd report tally was 125,279, so for this table, it was assumed that the 2000 5th report total was 120,129 rather than the 220,129 noted in the OSIP summary.

Paid Losses: Table 9 shows the number of occupational injury claims reported at the 5th valuation by private self-insured employers steadily dwindled over the 10 years ending in 2006, falling 27.2% from 144,584 claims in 1997 to 105,195 claims in 2006. This coincided with the decline in claim volume in the insured market, and to some extent, may reflect movement by self-insureds into the insured market as premium rates declined after the reforms (the tally of employees in the private self-insured summary peaked at 2.8 million in 2005, but has been below that in each subsequent report).

Even with 1,838 fewer claims recorded in the 2006 5th reports compared to 2005, total loss payments on private self-insured claims rose by \$31.9 million to more than \$814 million, (+4.1%), as claim severity showed the first increase since 2002, climbing 5.9% to \$7,742 per claim, with average indemnity payments per claim up 2.4%, and the average amount paid for medical up 9.1%.

Avg. Calif. W.C. Private Self-Insured Paid Losses
CY 1997 – 2006 Claims@ 5th Report



Bottomline: The 5th report data show that both aggregate and average paid losses on California private self-insured claims rose steadily during the late 90's through calendar year 2002, then declined sharply as the 2002-04 reforms were enacted and implemented. By 2005, total loss payments noted at the fifth report were nearly \$604 million less than what they had been at the peak in 2002, as claim volume continued to dwindle and average indemnity payments per claim fell 42.3% from \$6,114 in 2002 to \$3,526 in 2005, while average medical payments fell 30.6% from \$5,456 to \$3,784. The most recent 5th report data on private self-insured claims show a 1.7% decline in claim volume between 2005 and 2006, which helped moderate the growth in total loss payments, though aggregate losses still rose 4.1% due to rising claim severity, as the average amount paid on a 2006 claim at the 5th report climbed to \$7,742 – up 5.9% from the level noted in the 5th reports for 2005 claims.

Incurred Losses: The 5th report incurred results for private self-insured employers display a similar pattern to the pattern shown by the 4th report data. Despite declining claim volume, total incurred amounts on private self-insured claims measured at the 5th valuation rose steadily from the late 90's until finally peaking at more than \$1.8 billion for calendar year 2002 claims. Following that, total incurred losses at the 5th report level declined steadily over the next three years, with aggregate losses on 2005 claims totaling just over \$1.1 billion, down nearly \$709 million (38.8%) from the 2002 peak, though the latest figure shows that total incurred losses rose 5.1% to \$1.17 billion in the 5th reports for calendar year 2006 claims.

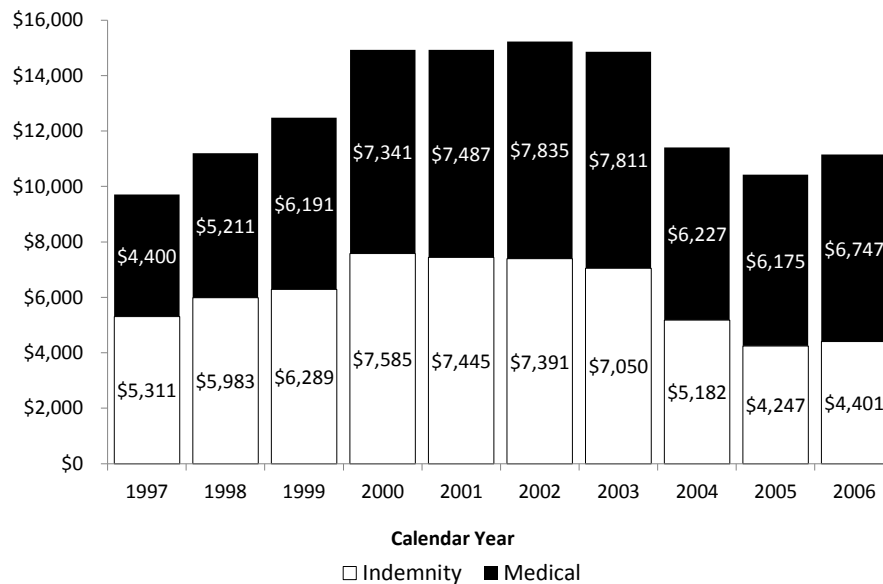
**Table 10: CALIFORNIA WC INCURRED LOSSES: PRIVATE SELF-INSURED CLAIMS
CY 1997 – 2006 Claims @ the 5-Year Valuation**

CALENDAR YR	# OF CLAIMS	TOTAL INCURRED		AVERAGE INCURRED/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
1997	144,584	\$767,857,764	\$636,189,728	\$5,311	\$4,400	\$ 9,711
1998	131,384	\$786,083,258	\$684,649,711	\$5,983	\$5,211	\$11,194
1999	128,666	\$809,177,395	\$796,519,049	\$6,289	\$6,191	\$12,480
2000*	120,129	\$911,230,418	\$881,893,780	\$7,585	\$7,341	\$14,926
2001	120,229	\$895,071,849	\$900,154,311	\$7,445	\$7,487	\$14,932
2002	119,810	\$885,510,144	\$938,736,859	\$7,391	\$7,835	\$15,226
2003	114,511	\$807,265,619	\$894,429,793	\$7,050	\$7,811	\$14,861
2004	108,913	\$564,419,860	\$678,198,694	\$5,182	\$6,227	\$11,409
2005	107,033	\$454,571,239	\$660,916,585	\$4,247	\$6,175	\$10,422
2006	105,195	\$462,926,560	\$709,781,154	\$4,401	\$6,747	\$11,148

*The 2007 OSIP report contains an obvious error, noting 220,129 5th report claims for CY2000. CWCI checked with OSIP, but they did not give a revised figure. The tally of CY2000 claims at the 4th report was 123,173, and the 3rd report tally was 125,279, so for this table, it was assumed that the 2000 5th report total was 120,129 rather than the 220,129 noted in the OSIP summary.

The initial post-reform decline in private self-insured incurred losses was spurred by a reduction in average incurred indemnity per claim, which at the 5th report level fell 4.6% between 2001 and 2003, while average incurred medical remained near its peak of more than \$7,800 though 2003. Subsequent to that, both average incurred indemnity and average incurred medical declined sharply in 2004 and 2005, pushing total incurred down to \$10,422 in the 5th reports for 2005 claims – a 3-year decline of nearly 32%. The 5th reports for the 2006 claims, however, show the overall average incurred per claim was moving back up, climbing to \$11,148 – an increase of 6.9%, as average incurred indemnity rose 3.6% and average incurred medical rose 9.3%.

Avg. Calif. W.C. Private Self-Insured Incurred Losses
CY 1997 – 2006 Claims@ 5th Report



Bottomline: Prior to the enactment of legislative reforms, California private self-insured employer's incurred losses at the 5th report level increased from about \$1.4 billion (\$768.9 million indemnity + \$636.2 million medical) for 1997 claims to more than \$1.8 billion (\$885.5 million indemnity + \$938.7 million medical) for 2002 claims – up \$419.2 million, or nearly 30% in 5 years. That growth came despite a 17% decline in the number claims reported by private self insurers (nearly 25,000 fewer claims), as the average incurred loss per claim increased 56.8% over that span, finally peaking at \$15,226 in the 5th reports for 2002 claims. The 5th report data also document the sharp reduction in private self-insured's incurred losses following the 2002 peak, as the number of reported claims continued to dwindle while average incurred losses fell nearly 32% to \$10,422 in the 5th reports for 2005 claims – the combined effect of a 42.5% reduction in average incurred indemnity and a 21.2% reduction in average incurred medical. Those trends reversed in the calendar year 2006 fifth reports, as average incurred losses increased 6.9% to \$11,148 – the combined effect of a 9.3% jump in average incurred medical and a 3.6% jump in incurred indemnity.

CONCLUSION

The data from the 2001 – 2010 OSIP summaries of calendar year claims experience of California's private self-insured employers indicate that both the total paid and total incurred losses on occupational injury claims filed against these employers rose steadily from the late 1990's until the enactment of the 2002-2004 workers' compensation reforms, after which they registered a sharp, though short-lived decline. The 1st through 5th valuations of private self-insured claims from the past decade all indicate that claim severity (average loss per claim) reached a post-reform low with the calendar year 2005 claims, but claim severity has risen steadily since then, primarily driven by increased medical losses – so despite the ongoing reductions in the number of reported claims and a leveling off of claim frequency, overall paid and incurred losses for California's private self-insured employers continue to increase.

The OSIP has posted its annual summaries for both private and public self-insured employers from recent years on its website at <http://www.dir.ca.gov/SIP/StatewideTotals.html>.