



A REPORT TO THE INDUSTRY

**Public Self-Insured
Claims Experience in
California Workers'
Compensation**

**Fiscal Year 1998/1999
Through Fiscal Year
2011/2012**

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A REPORT TO THE INDUSTRY

Earlier this month, the California Office of Self-Insurance Plans (OSIP) issued its latest summary of public self-insured claims data compiled from fiscal year loss reports (12-month periods ending June 30 of each year) submitted by public self-insured employers other than the state itself. Employers covered in the summary include taxpayer-supported entities such as cities and counties; local fire, school, transit, utility and special districts; as well as joint powers authorities. The OSIP summary shows the tally of all claims (medical-only and indemnity) reported to the agency through the end of the fiscal year, as well as the total amounts paid and incurred for indemnity and medical benefits on those claims.

The benefit and administrative costs of public self-insured workers' compensation programs are paid out of the covered entities' operating budgets. Therefore, the claims experience of public self-insured employers is a crucial public policy concern as it has a direct impact on public services, not only because of the staffing shortages that occur when covered employees are off work, but perhaps more importantly, because it can result in a reallocation of limited budgetary dollars – either adding to or taking away from – the amount of public money available for other programs or benefits.

This report uses data from the March 2013 OSIP summary, and from prior summaries, to track changes in California public self-insureds' aggregate losses, average amounts paid and incurred per claim, and claim volume over the past 10 years, with results measured at the 1st through 5th report levels. The results help gauge recent trends in California public self-insured experience and provide a better understanding of how workers' compensation is affecting local governments and public agencies throughout the state, as well as the nearly 1.9 million employees covered under those programs.

California Workers' Compensation Institute
March 2013



BACKGROUND

California law requires that all public self-insured employers other than the state file an annual report with the Office of Self-Insurance Plans by October 1 of each year, updating their claims experience through the end of the fiscal year (July 1 through June 30). Other than tracking claims experience on a fiscal year rather than a calendar year basis, the reports use the same format as private self-insured reports, recording the total paid claim costs, and the estimated future and total incurred costs for all workers' compensation claims that these employers have reported for each of the past five fiscal years, as well as for any claims that remain open from prior years.

The summary dated March 5, 2013 includes initial data on claims reported to OSIP for the 12 months ending June 30, 2012, plus updated data (2nd, 3rd, 4th, and 5th valuations) on claims reported for each of the four prior years. The public self-insured employers included in the summary for FY 11/12 provided workers' compensation coverage to nearly 1.90 million California workers, a total that was down about 1.2% from the 1.92 million public sector employees noted in the FY 10/11 1st report. Total wages and salaries of the public sector employees included in the FY 11/12 summary edged up marginally to \$96.0 billion, up less than 0.4% from the \$95.6 billion noted in the FY 10/11 first reports.

The OSIP summaries are issued annually and note the number of medical-only and indemnity claims reported by public self-insured employers, as well as the number of employees covered by those employers during the fiscal year. The number of employees covered in these reports varies from year to year due to a number of factors, including economic shifts and reporting variations, and the changes in the self-insured workforce directly affect the reported claim counts, wages, and the amount of paid benefits. To control for changes in the claim counts, the Institute calculated the number of claims per 100 employees, producing a claim frequency rate for each of the 10 most recent years. Chart 1 shows the changes in California public self-insured claim

frequency over the past decade, noting overall claim frequency rate, as well as the frequency rates broken out for medical-only claims and for indemnity claims from FY 02/03 through FY 11/12.

To identify trends in the volume and cost of public self-insured claims, CWCI also reviewed the results from the past decade and calculated the average paid and the average incurred amounts per claim reported for each year at the first, second, third, fourth and fifth valuations. The results noted at each valuation were then compared across the 10-year span. Though public self-insured employers are required to report by October 1 of each year, additional or revised data received after that date are included in amended and subsequent reports, so the claim counts and loss totals for each fiscal year are updated with each new summary, and in all cases the most recent data available was used.

The first valuation represents the initial look at the claims experience for a given year. Though it yields data for the most recent period, reflecting results for new claims reported within the just-ended fiscal year, it is by definition, the least developed data, or "greenest" data compiled by OSIP. Nevertheless, because this initial snapshot of claim volume and losses is taken at the same point and for the same 12-month period of each year, it is a useful benchmarking tool, and comparing first report data from the most recent year to first report results from prior years provides a means of identifying emerging trends.

The paid and incurred amounts that California public self-insureds reported in their first reports for each of the past 10 years (FY 02/03 through FY 11/12) are shown in Tables 1 and 2. More developed results for the most recent 10 years available are noted in the subsequent tables, with the most fully developed data (Tables 9-10) comparing snapshots of paid and incurred losses for FY 98/99–FY 07/08 at the 5th valuation, reflecting the amounts reported for these claims after 48 to 60 months of development.

RESULTS

California Workers' Compensation Public Self-Insured Claim Frequency at First Report

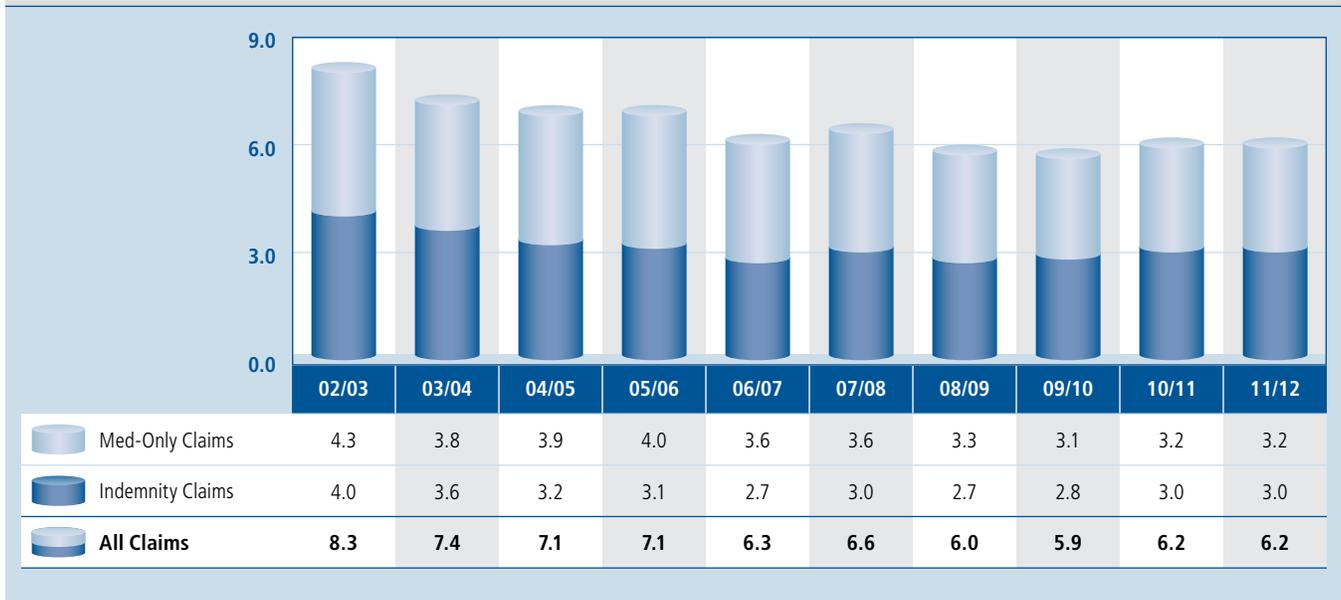
OSIP reviews the annual reports submitted by public self-insured employers and tallies the number of medical-only and indemnity claims reported during each fiscal year. The annual summary also shows the number of employees covered by these public self-insured entities during the year. To control for the effect of the year-to-year fluctuations in the number of public self-insured employees recorded in these summaries has on the volume of claims, the Institute calculated a claim frequency rate (the number of public self-insured claims per 100 employees at first report) for each of the ten years covered by the study, then compared the results over the ten-year span. Chart 1 shows the changes in California public self-insured claim frequency over the past decade, including the overall claim frequency rate and the breakdown of medical-only and indemnity claim frequency rates for each year.

The overall trend in public self-insured claim frequency over the past decade has been down, with double-digit drops recorded in FY 03/04 (10.8%), FY 06/07 (11.3%), and FY 08/09 (10.0%), and only two years in which the aggregate frequency rate increased (the 4.8% jump noted in FY 07/08 and the 5.1% jump in FY 10/11). Since FY 06/07, however, public self-insured claim frequency has leveled out, with the latest data showing no change between FY 10/11 and FY 11/12.

The breakdown of results by claim type reveals several years in which public self-insureds' medical-only claim frequency and indemnity claim frequency rates did not move in the same direction, most recently in FY 09/10, when the incidence of medical-only claims fell 6%, while indemnity claim frequency edged up 3.7%. Despite such divergences in the year-to-year results, for the entire 10-year period ending in FY 10/11 the changes in California public self-insureds' medical-only and indemnity claim frequency rates were remarkably similar, with the medical-only claim rate falling 25.6% over the decade, while the indemnity claim rate fell 25.0%, for a net reduction of 25.3% in the overall claim frequency rate between FY 01/02 and FY 10/11.

Chart 1: California Public Self-Insured Claim Frequency

Number of Claims per 100 Employees – Initial Reports, FY 2002/2003 – 2011/2012 Claims



**FIRST REPORT DATA:****FY 2002/2003 – FY 2011/2012 Claims**

In the years leading up to the enactment of workers' compensation reforms of 2002 through 2004, there was a sharp increase in the number of workers' compensation claims reported in public self-insurers' initial reports. As those reforms were implemented, however, the claim count began to decline, dropping 13.9% from 135,010 claims in FY 02/03 to 116,228 in FY 06/07. This decline in claim volume was not associated with changes in the covered workforce, because as noted earlier in Chart 1, public self-insured claim frequency showed an even sharper drop, falling more than 24% over this same period, from 8.3 to 6.3 claims per 100 employees. The number of claims reported then increased 10.5% to 128,402 claims in FY 07/08, before falling to 126,029 claims in FY 08/09, and 121,353 claims in FY 09/10, when public self-insured claim frequency rate hit a 10-year low of 5.9 claims per 100 employees. For FY 10/11, the number of reported claims continued to decline, falling to 118,612 claims last year, which was a new low for the decade, but that was less than the decline in the public self-

insured workforce over the past two years, so public self-insured claim frequency rose to 6.2 claims per 100 covered workers in FY 09/10, and remained at that level last year.

First Report Paid Losses: Table 1 shows first report claim severity (average paid per claim) results for the past decade. After holding relatively stable between FY 02/03 and FY 04/05, average public self-insured claim payments at 1st report fell 6.9% to \$2,185 per claim in FY 05/06, then began trending up, rising to a 10-year high of \$2,880 in FY 10/11, which was up nearly 32% from the post-reform low. Average payments at first report held near that level in FY 11/12, as a slight decrease in medical severity was largely offset by a slight increase in average paid indemnity.

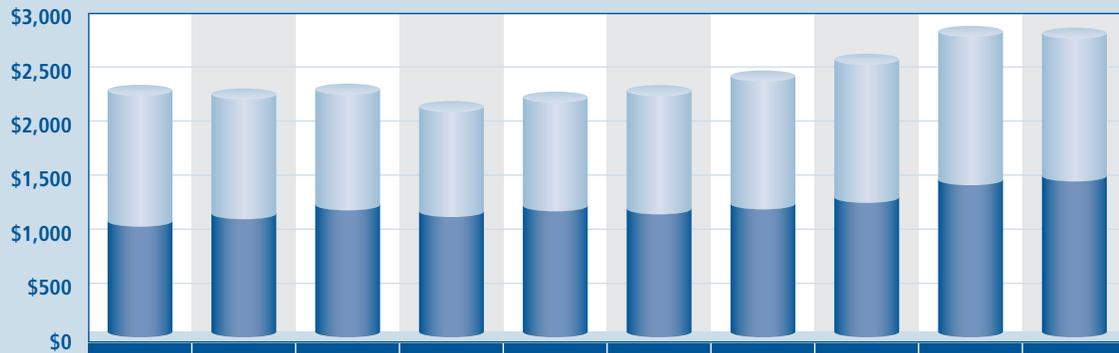
Chart 1 shows the breakdown by type of payment. After hitting a post-reform low in FY 05/06, the average public self-insured indemnity payment at 1st report has risen 29.6%, climbing to \$1,441 by FY 11/12, while over the same 6-year span, average medical payments rose 32.5% from \$1,073 to \$1,422, so both loss components are well above pre-reform levels.

Table 1: California WC Paid Losses: Public Self-Insured Claims**Fiscal Year 2002/2003 – Fiscal Year 2011/2012 Experience @ Initial Report**

Fiscal Year	# Of Claims	TOTAL PAID			AVERAGE PAID/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
2002/2003	135,010	\$138,094,871	\$177,287,503	\$315,282,374	\$1,023	\$1,312	\$2,335
2003/2004	132,777	\$144,953,276	\$160,560,238	\$305,513,514	\$1,092	\$1,209	\$2,301
2004/2005	126,016	\$147,886,718	\$147,650,432	\$295,537,150	\$1,174	\$1,172	\$2,346
2005/2006	118,929	\$132,277,829	\$127,635,852	\$259,913,681	\$1,112	\$1,073	\$2,185
2006/2007	116,228	\$135,352,876	\$128,618,664	\$263,971,540	\$1,165	\$1,107	\$2,272
2007/2008	128,402	\$145,965,626	\$153,476,151	\$299,441,777	\$1,137	\$1,195	\$2,332
2008/2009	126,029	\$149,097,281	\$161,917,089	\$311,014,370	\$1,183	\$1,285	\$2,468
2009/2010	121,353	\$150,815,081	\$167,299,744	\$318,114,825	\$1,243	\$1,379	\$2,622
2010/2011	119,007	\$167,375,696	\$175,412,666	\$342,788,362	\$1,406	\$1,474	\$2,880
2011/2012	118,612	\$170,861,488	\$168,634,892	\$339,496,380	\$1,441	\$1,422	\$2,863

Chart 2: Average California W.C. Public Self Insured Paid Losses

Fiscal Year 2002/2003 – Fiscal Year 2011/2012 Experience @ Initial Report



	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12
Medical	\$1,312	\$1,209	\$1,172	\$1,073	\$1,107	\$1,195	\$1,285	\$1,379	\$1,474	\$1,422
Indemnity	\$1,023	\$1,092	\$1,174	\$1,112	\$1,165	\$1,137	\$1,183	\$1,243	\$1,406	\$1,441
Total	\$2,335	\$2,301	\$2,346	\$2,185	\$2,272	\$2,332	\$2,468	\$2,622	\$2,880	\$2,863

Bottomline: The 10-year look back shows California public self-insured’s paid losses reported at the initial valuation increased from \$315.3 million (\$138.1 million indemnity + \$177.2 million medical) in FY 02/03 to nearly \$339.5 million (\$170.9 million indemnity + \$168.6 million medical) in FY 11/12 – with even bigger increases noted from the post-reform low of FY 05/06. First report claims volume for

FY 11/12 was well below the FY 02/03 level, however, and virtually unchanged from the FY 05/06 claim count, which indicates that most of the increase in total payments between those years is associated with rising claim severity, as the average amount paid per claim was up 22.6% from FY 02/03, and up 31% from FY 05/06.



First Report Incurred Losses: The incurred loss trends for public self-insured employers are similar to those for paid losses. The initial report data show the average incurred per claim rose in the early part of the decade, but then dropped briefly after the 2002-04 reforms, falling 6.8% to \$7,171 in FY 05/06, primarily driven by a sharp drop in the average incurred indemnity per claim, which fell 12.7% from the FY 04/05 level, while average incurred medical fell less than 2%.

Since FY 05/06, average incurred medical per public self-insured claim has risen 36% from \$4,065 to \$5,539. In contrast, average incurred indemnity fluctuated less than \$100 per claim between FY 05/06 and FY 08/09, but has since jumped nearly 19%, rising to \$3,713 per claim for FY 11/12.

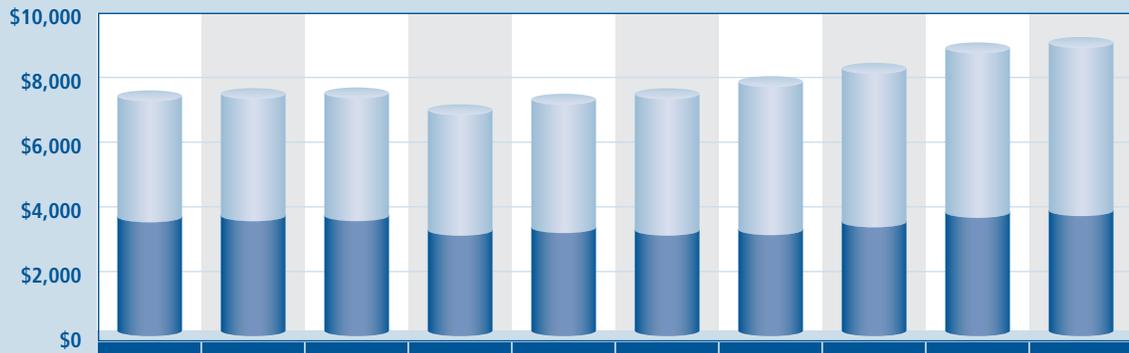
Table 2: California WC Incurred Losses: Public Self-Insured Claims

Fiscal Year 2002/2003 – Fiscal Year 2011/2012 Payments @ Initial Report

Fiscal Year	# Of Claims	TOTAL INCURRED			AVERAGE INCURRED/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
2002/2003	135,010	\$475,140,957	\$551,112,445	\$1,026,253,402	\$3,519	\$4,082	\$7,601
2003/2004	132,777	\$471,802,675	\$546,621,203	\$1,018,423,878	\$3,553	\$4,117	\$7,670
2004/2005	126,016	\$448,092,998	\$521,198,702	\$969,291,700	\$3,556	\$4,136	\$7,692
2005/2006	118,929	\$369,376,044	\$483,501,336	\$852,877,380	\$3,106	\$4,065	\$7,171
2006/2007	116,228	\$370,531,149	\$500,857,250	\$871,388,399	\$3,188	\$4,309	\$7,497
2007/2008	128,402	\$399,128,515	\$585,229,840	\$984,358,355	\$3,108	\$4,558	\$7,666
2008/2009	126,029	\$393,710,970	\$619,755,852	\$1,013,466,822	\$3,124	\$4,918	\$8,042
2009/2010	121,353	\$408,288,963	\$617,497,901	\$1,025,786,864	\$3,364	\$5,088	\$8,452
2010/2011	119,007	\$435,300,447	\$645,727,417	\$1,081,027,864	\$3,658	\$5,426	\$9,084
2011/2012	118,612	\$440,376,090	\$656,976,269	\$1,097,352,359	\$3,713	\$5,539	\$9,252

Chart 3: Average California W.C. Public Self Insured Incurred Losses

Fiscal Year 2002/2003 – Fiscal Year 2011/2012 Experience @ Initial Report



	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12
Medical	\$4,082	\$4,117	\$4,136	\$4,065	\$4,309	\$4,558	\$4,918	\$5,088	\$5,426	\$5,539
Indemnity	\$3,519	\$3,553	\$3,556	\$3,106	\$3,188	\$3,108	\$3,124	\$3,364	\$3,658	\$3,713
Total	\$7,601	\$7,670	\$7,692	\$7,171	\$7,497	\$7,666	\$8,042	\$8,452	\$9,084	\$9,252

Bottomline: Public self-insured’s total incurred losses at the initial report have fluctuated over the past decade, hitting a pre-reform peak of \$1.03 billion in FY 02/03 claims (\$475.1 million indemnity + \$551.1 medical) before falling 17% to \$852 million (\$369.4 million indemnity + \$483.5 million

medical) for FY 05/06 claims; then steadily climbing back to nearly \$1.1 billion (\$440.4 million indemnity + \$657 million medical) for FY 11/12 claims – a 6-year increase of 28.6%, led by the 36% jump in average incurred medical per claim.

**SECOND REPORT DATA:****FY 2001/2002 – FY 2010/2011 Claims**

Second reports reflect up to 24 months' worth of claim development on public self-insured claims. OSIP's most recent update includes 2nd report data on 120,080 claims from FY 10/11. That claim count is 1,073 more claims (+0.9%) than were noted in the initial reports for that year, but 20,062 (14.3%) fewer claims than were recorded in the 2nd reports for FY 05/06, the year in which paid losses bottomed out.

Second Report Paid Losses: California public self-insured 2nd report paid loss data for each of the 10 years ending with FY 10/11 are shown in Table 3. After climbing steadily along with claim volume in the early part of the decade, both aggregate and average loss pay-

ments on public self-insured claims fell sharply after the 2002-04 reforms, hitting a post-reform low in FY 05/06. Then, between FY 05/06 and FY 07/08, public self-insured's average loss payments at the 2-year valuation jumped 27.2% to \$5,296 per claim. Unlike the 1st reports, however, rising claim severity at the 2nd reports was associated with increases in both indemnity and medical payments. In the five years since the post-reform low, the number of claims reported by public self-insured employers at 2nd report has declined, with the tally for FY 10/11 more than 14% below the 05/06 total. Despite this decline, aggregate payments on public self-insured claims at the 2nd report level have increased as the average indemnity paid per claim at the 2-year benchmark has increased 53% to \$3,379, while average medical payments have risen 66% to \$3,249.

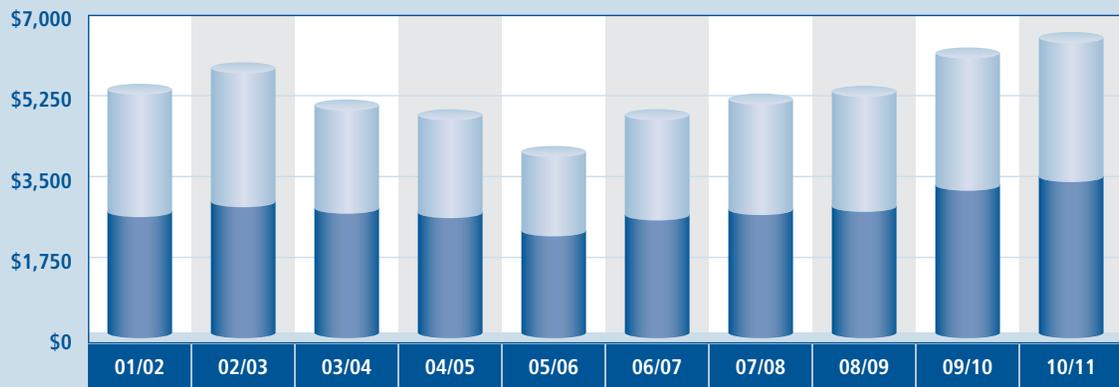
Table 3: California WC Paid Losses: Public Self-Insured Claims

Fiscal Year 2001/2002 – Fiscal Year 2010/2011 Experience @ the 2-Year Valuation

Fiscal Year	# Of Claims	TOTAL PAID			AVERAGE PAID/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
2001/2002	127,361	\$333,819,170	\$367,683,621	\$701,502,791	\$2,621	\$2,887	\$5,508
2002/2003	132,715	\$376,303,962	\$416,203,789	\$792,507,751	\$2,835	\$3,136	\$5,971
2003/2004	134,273	\$361,820,722	\$332,000,073	\$693,820,795	\$2,695	\$2,473	\$5,168
2004/2005	126,667	\$329,189,182	\$298,560,958	\$627,750,140	\$2,599	\$2,357	\$4,956
2005/2006	140,142	\$309,031,706	\$274,283,570	\$583,315,276	\$2,205	\$1,957	\$4,162
2006/2007	129,369	\$329,847,092	\$311,502,737	\$641,349,829	\$2,550	\$2,408	\$4,958
2007/2008	131,272	\$349,885,936	\$345,344,296	\$695,230,232	\$2,665	\$2,631	\$5,296
2008/2009	129,897	\$355,181,038	\$354,571,721	\$709,752,759	\$2,734	\$2,730	\$5,464
2009/2010	121,896	\$389,149,130	\$378,006,998	\$767,156,128	\$3,192	\$3,101	\$6,293
2010/2011	120,080	\$405,764,691	\$390,138,325	\$795,903,016	\$3,379	\$3,249	\$6,628

Chart 4: Average California W.C. Public Self Insured Paid Losses

Fiscal Year 2001/2002 – Fiscal Year 2010/2011 Experience @ the 2-Year Valuation



	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11
Medical	\$2,887	\$3,136	\$2,473	\$2,357	\$1,957	\$2,408	\$2,631	\$2,730	\$3,101	\$3,249
Indemnity	\$2,621	\$2,835	\$2,695	\$2,599	\$2,205	\$2,550	\$2,665	\$2,734	\$3,192	\$3,379
Total	\$5,508	\$5,971	\$5,168	\$4,956	\$4,162	\$4,958	\$5,296	\$5,464	\$6,293	\$6,628

Bottomline: The 2nd report data from the past decade show that public self-insured’s total paid losses hit a pre-reform record of \$792.5 million in FY 02/03, but then fell 26% to a post-reform low of \$583.3 million (\$309.0 million indemnity + \$274.3 million medical) in FY 05/06. Since then, total loss payments at the 2nd report level for California public self-insureds have increased steadily, hitting a 10-year high of \$795.9 million (\$405.8 million indemnity + \$390.1 million medical) in FY 10/11 –

or more than 36% over 5 years. The \$212.6 million increase in public self-insured’s 2nd report payments occurred even though the 2nd report claim count declined by more than 20,000 claims between FY 05/06 and FY 10/11, as the reduction in public self-insured claim volume failed to offset the dramatic rise in claim severity, with average indemnity payments at the 2nd report increasing 53% from the FY 05/06 level, while average medical payments rose 66%.

Second Report Incurred Losses: Public self-insured employers' incurred losses at 2nd report for FY 01/02 through FY 10/11 are displayed in Table 4. As with the paid data, the incurred results show the growth in public self-insured incurred losses through FY 02/03, as well as the sharp decline after the reforms took effect, as total incurred indemnity at the 2nd report level fell nearly \$230 million, or roughly 30% from FY 02/03 through FY 05/06, while total incurred declined by \$179 million, or more than 23%, despite an increase of more than 7,400 claims.

The average amount incurred per claim at the 2nd report also declined steadily from FY 02/03 to the post-reform low in FY 05/06, as average incurred indemnity fell 34% from \$5,874 to \$3,925, and average incurred medical fell more than 27% from \$5,760 to \$4,178. As with the paid loss data, however, the public self-insured's 2nd report results show steady growth in average incurred losses over the past five years, as average incurred indemnity since FY 05/06 has jumped 49% to \$5,847 per claim in FY 10/11; and average incurred medical has climbed nearly 76% to \$7,346 per claim.

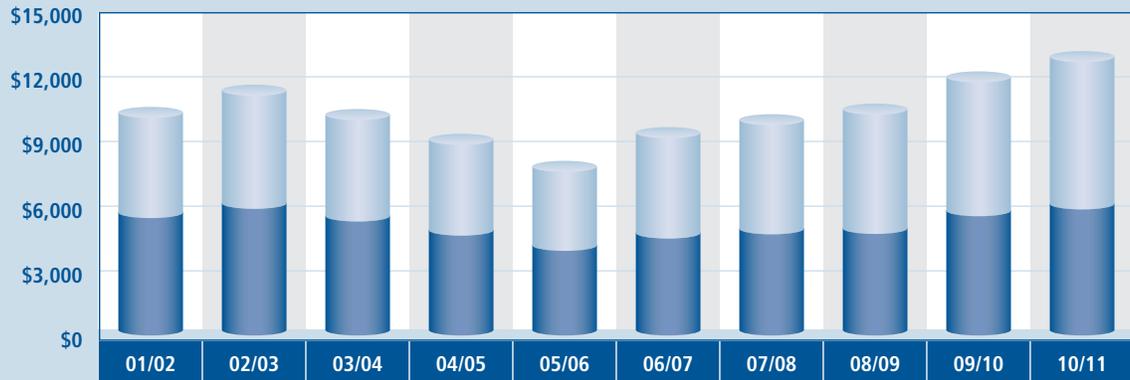
Table 4: California WC Incurred Losses: Public Self-Insured Claims

Fiscal Year 2001/2002 – Fiscal Year 2010/2011 Experience @ the 2-Year Valuation

Fiscal Year	# Of Claims	TOTAL INCURRED			AVERAGE INCURRED/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
2001/2002	127,361	\$693,568,497	\$693,568,497	\$657,203,809	\$5,445	\$5,160	\$10,605
2002/2003	132,715	\$779,583,340	\$779,583,340	\$764,415,115	\$5,874	\$5,760	\$11,634
2003/2004	134,273	\$709,762,534	\$709,762,534	\$700,848,140	\$5,286	\$5,220	\$10,506
2004/2005	126,667	\$586,559,940	\$586,559,940	\$598,930,477	\$4,631	\$4,728	\$ 9,359
2005/2006	140,142	\$549,922,770	\$549,922,770	\$585,488,677	\$3,925	\$4,178	\$ 8,103
2006/2007	129,369	\$581,668,870	\$581,668,870	\$668,979,677	\$4,496	\$5,171	\$ 9,667
2007/2008	131,272	\$615,980,443	\$615,980,443	\$731,603,405	\$4,692	\$5,573	\$10,265
2008/2009	129,897	\$611,779,066	\$611,779,066	\$785,643,446	\$4,710	\$6,048	\$10,758
2009/2010	121,896	\$674,312,865	\$674,312,865	\$819,263,795	\$5,532	\$6,721	\$12,253
2010/2011	120,080	\$702,084,911	\$702,084,911	\$882,105,484	\$5,847	\$7,346	\$13,193

Chart 5: Average California W.C. Public Self Insured Incurred Losses

Fiscal Year 2001/2002 – Fiscal Year 2010/2011 Experience @ the 2-Year Valuation



	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11
Medical	\$5,160	\$5,760	\$5,220	\$4,728	\$4,178	\$5,171	\$5,573	\$6,048	\$6,721	\$7,346
Indemnity	\$5,445	\$5,874	\$5,286	\$4,631	\$3,925	\$4,496	\$4,692	\$4,710	\$5,532	\$5,847
Total	\$10,605	\$11,634	\$10,506	\$9,359	\$8,103	\$9,667	\$10,265	\$10,758	\$12,253	\$13,193

Bottomline: The 2nd report data illustrate the huge fluctuations in California public self-insured employers’ incurred losses over the past 10 years,, with aggregate losses peaking at more than \$1.54 billion in FY 02/03, then falling by \$400 million to a post-reform low of less than \$1.14 billion three years later. Total incurred losses at the 2nd report then began to trend up, increasing almost 40% to \$1.58

billion (\$702.1 million indemnity + \$882.1 million medical) for FY 10/11 claims, even as the number of reported claims has dwindled, because the average amount incurred per claim has jumped sharply, with average incurred medical up about 76% to \$7,346 per claim and average incurred indemnity up almost 49% to \$5,847 per claim.

**THIRD REPORT DATA:****FY 2000/2001 – FY 2009/2010 Claims**

The public self-insured employers' 3rd reports provide up to 36 months' worth of claim experience. The most recent summary includes 3rd report data on 122,001 claims from FY 09/10, 648 (0.5%) more than in the self-insured's initial reports for FY 09/10, but compared to the prior year's 3rd report claim count, the FY 09/10 tally is down by 3,186 claims (-2.5%). The 3rd report paid loss data for the past 10 years is noted in Table 5.

Third Report Paid Losses: Total public self-insured loss payments reported at the 3-year valuation increased from nearly \$885 million on FY 00/01 claims to a record \$1.08 billion for FY 02/03 claims – which helped provide the impetus for the legislative reforms of 2002-04. Table 5 shows that the \$199 million jump in public self-insured paid losses between FY 00/01 and FY 02/03

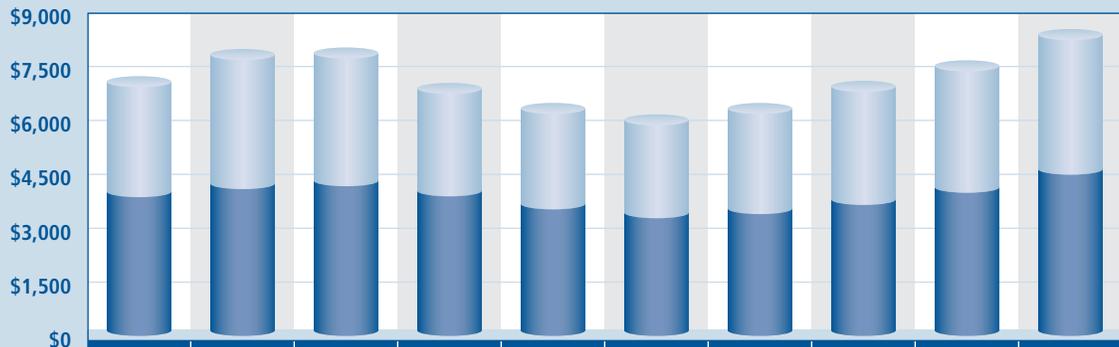
was linked to increased claim volume, which was 10.3% higher in FY 02/03 than it had been in FY 00/01, as well as increases in average paid losses, which rose 11% over that 2-year span. Loss costs dropped sharply as the reforms were implemented, but the 3rd report results track with the 1st and 2nd report data, showing that the post-reform decline in public self-insured loss payments was short-lived, with total loss payments hitting a post-reform low in FY 05/06, when average claim payments at the 3rd report level fell to \$6,169 (\$3,277 indemnity + \$2,892 medical) before starting back up again in FY 06/07. The most recent results show that for FY 09/10 claims 3rd report average paid losses rose to \$8,543, up 38.5% from the post-reform low, led by a 40.2% jump in average medical payments, which increased to \$4,055, though average indemnity payments at the 3-year valuation nearly matched that increase, climbing 37% to \$4,488 per claim.

Table 5: California WC Paid Losses: Public Self-Insured Claims**Fiscal Year 2000/2001 – Fiscal Year 2009/2010 Experience @ the 3-Year Valuation**

Fiscal Year	# Of Claims	TOTAL PAID			AVERAGE PAID/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
2000/2001	122,312	\$472,469,010	\$412,079,296	\$884,548,306	\$3,863	\$3,369	\$7,232
2001/2002	125,150	\$511,429,819	\$488,147,959	\$999,577,778	\$4,087	\$3,901	\$7,988
2002/2003	134,899	\$562,149,606	\$521,167,572	\$1,083,317,178	\$4,167	\$3,863	\$8,030
2003/2004	134,652	\$523,255,568	\$425,111,174	\$948,366,742	\$3,886	\$3,157	\$7,043
2004/2005	127,497	\$449,187,252	\$378,074,371	\$827,261,623	\$3,523	\$2,965	\$6,488
2005/2006	131,519	\$430,953,128	\$380,355,388	\$811,308,516	\$3,277	\$2,892	\$6,169
2006/2007	132,164	\$448,304,197	\$408,948,722	\$857,252,919	\$3,392	\$3,094	\$6,486
2007/2008	130,600	\$476,199,163	\$451,178,465	\$927,377,628	\$3,646	\$3,455	\$7,101
2008/2009	125,187	\$498,930,930	\$461,682,622	\$960,613,552	\$3,985	\$3,688	\$7,673
2009/2010	122,001	\$547,536,506	\$494,680,024	1,042,216,530	\$4,488	\$4,055	\$8,543

Chart 6: Average California W.C. Public Self Insured Paid Losses

Fiscal Year 2000/2001 – Fiscal Year 2009/2010 Experience @ the 3-Year Valuation



	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
Medical	\$3,369	\$3,901	\$3,863	\$3,157	\$2,965	\$2,892	\$3,094	\$3,455	\$3,688	\$4,055
Indemnity	\$3,863	\$4,087	\$4,167	\$3,886	\$3,523	\$3,277	\$3,392	\$3,646	\$3,985	\$4,488
Total	\$7,232	\$7,988	\$8,030	\$7,043	\$6,488	\$6,169	\$6,486	\$7,101	\$7,673	\$8,543

Bottomline: A review of the 3rd report results shows that FY 05/06 was the turning point for California public self-insured’s paid losses, as that was the point at which claim payments hit a post-reform low of \$811 million (\$431 million indemnity + \$380 million medical), marking the end of the 3-year decline. The most recent 3rd report data show only 122,001 public self-insured claims reported for

FY 09/10, 9,518 fewer claims than were recorded in the FY 05/06 3rd reports, yet total paid losses at the 3-year valuation are up by nearly \$231 million (+28.4%) to more than \$1.04 billion (\$547.5 million indemnity + \$494.7 million medical), as the average amount paid per claim for indemnity rose 37% and the average amount paid for medical at the 3rd report level increased 36.8%.



Third Report Incurred Losses: California public self-insured employers' 3rd report incurred results for FY 00/01 through FY 09/10 claims are displayed in Table 6. The incurred loss trends at the 3rd report level track with the paid results, as total incurred losses topped out at \$1.76 billion in FY 02/03, then declined by \$440 million over two years to \$1.32 billion in FY 04/05. The 3rd report results varied by type of benefit, however, with both average and total incurred indemnity continuing to fall through FY 05/06 before hitting a post-reform low, while average incurred and total incurred medical losses bottomed out a year earlier, in FY 04/05.

After hitting a post reform low of \$5,114 in FY 05/06, the average incurred medical loss per public self-insured claim at the 3rd report level began to trend up, increasing 49% over the next five years to a record \$7,642 in FY 09/10. Meanwhile, average incurred indemnity has been on the rise as well, climbing 34% from its post-reform low of \$4,898 in the FY 05/06 3rd reports to \$6,570 in the 3rd reports for FY 08/09 claims.

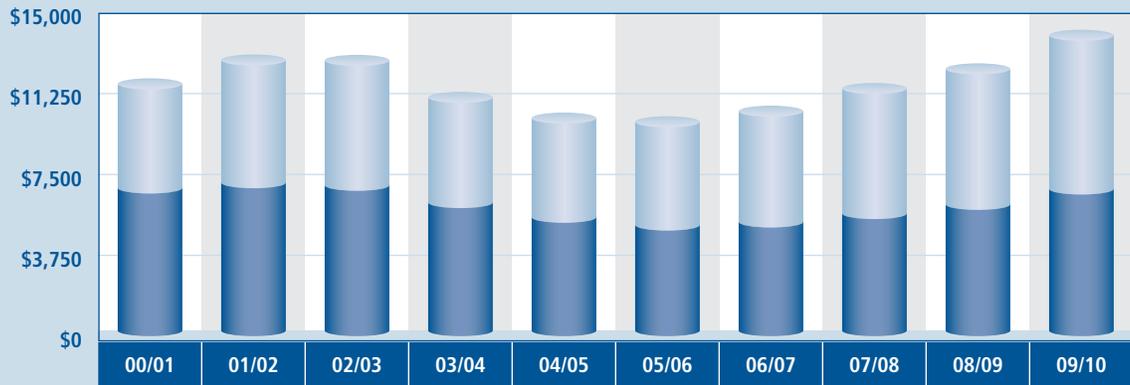
Table 6: California WC Incurred Losses: Public Self-Insured Claims

Fiscal Year 2000/2001 – Fiscal Year 2009/2010 Experience @ the 3-Year Valuation

Fiscal Year	# Of Claims	TOTAL INCURRED			AVERAGE INCURRED/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
2000/2001	122,312	\$809,227,001	\$653,629,749	\$1,462,856,750	\$6,616	\$5,344	\$11,960
2001/2002	125,150	\$858,651,895	\$776,653,058	\$1,635,304,953	\$6,861	\$6,206	\$13,067
2002/2003	134,899	\$909,489,942	\$850,705,311	\$1,760,195,253	\$6,742	\$6,306	\$13,048
2003/2004	134,652	\$799,774,135	\$726,241,402	\$1,526,015,537	\$5,940	\$5,393	\$11,333
2004/2005	127,497	\$670,433,307	\$652,068,084	\$1,322,501,391	\$5,258	\$5,114	\$10,372
2005/2006	131,519	\$644,121,636	\$697,416,537	\$1,341,538,173	\$4,898	\$5,303	\$10,201
2006/2007	132,164	\$666,159,908	\$747,133,182	\$1,413,293,090	\$5,040	\$5,653	\$ 10,693
2007/2008	130,600	\$709,335,911	\$824,662,024	\$1,533,997,935	\$5,431	\$6,314	\$11,745
2008/2009	125,187	\$733,068,753	\$851,226,644	\$1,584,295,397	\$5,856	\$6,800	\$12,656
2009/2010	122,001	\$801,546,928	\$932,378,944	\$1,733,925,872	\$6,570	\$7,642	\$14,212

Chart 7: Average California W.C. Public Self Insured Incurred Losses

Fiscal Year 2000/2001 – Fiscal Year 2009/2010 Experience @ the 3-Year Valuation



	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
Medical	\$5,344	\$6,206	\$6,306	\$5,393	\$5,114	\$5,303	\$5,653	\$6,314	\$6,800	\$7,642
Indemnity	\$6,616	\$6,861	\$6,742	\$5,940	\$5,258	\$4,898	\$5,040	\$5,431	\$5,856	\$6,570
Total	\$11,960	\$13,067	\$13,048	\$11,333	\$10,372	\$10,201	\$10,693	\$11,745	\$12,656	\$14,212

Bottomline: The 3rd report incurred loss results show public self-insured incurred losses hit a pre-reform peak of \$1.76 billion in FY 02/03, then began to decline following the 2002–2004 reforms. The post-reform decline in incurred indemnity continued through FY 05/06, while the post-reform decline in incurred medical ended a year earlier. The most recent 3rd report data (for FY 09/10 claims) show incurred indemnity and medical have continue to trend up, with total incurred losses for public self-insureds increasing to \$1.73 billion in the 3rd

reports for FY 09/10 claims – up more than \$411 million (+31%) over the past five years, even though the 3rd report claim count showed nearly 5,500 fewer claims in FY 09/10 than in FY 04/05. Once again, the 3rd report data show that rising claim severity continues to drive up total incurred losses for public self-insured employers, as average incurred medical has climbed 49% since hitting its post-reform low, while average incurred indemnity has risen 34%, pushing the average incurred loss at the 3rd report to a record \$14,212 for FY 09/10 claims.

**FOURTH REPORT DATA:****FY 1999/2000 – FY 2008/2009 Claims**

The 2013 OSIP summary provides 4th report data (up to 48 months' worth of claim development) on 125,197 public self-insured claims from FY 08/09. The 4th report claim count for FY 08/09 has 832 fewer claims than were recorded in the 1st report for that year, (-0.7%), but 4,796 fewer claims (-3.7%) than were noted in the 4th reports for the prior year (FY 07/08).

Fourth Report Paid Losses: California public self-insureds' 4th report paid loss results for the most recent 10 years are summarized in Table 7. The latest data show that even with the 3.7% year-to-year decline in 4th report public self-insured claims claim volume noted in FY 08/09, total loss payments jumped by more than \$40 million to \$1.14 billion, as the average amount of indemnity paid per claim increased 9.1% to \$4,819, while the average medical payments per claim rose 6% to \$4,301. That pushed the average paid losses at the 4th report level to \$9,120 for FY 08/09 claims, up more than 26% from the post-reform low noted 3 years earlier.

Table 7: California WC Paid Losses: Public Self-Insured Claims**Fiscal Year 1999/2000 – Fiscal Year 2008/2009 Experience @ the 4-Year Valuation**

Fiscal Year	# Of Claims	TOTAL PAID			AVERAGE PAID/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
1999/2000	118,365	\$554,789,964	\$434,087,256	\$988,877,220	\$4,687	\$3,667	\$8,354
2000/2001	120,426	\$602,904,328	\$491,169,461	\$1,094,073,789	\$5,006	\$4,079	\$9,085
2001/2002	126,028	\$643,680,140	\$554,239,739	\$1,197,919,879	\$5,107	\$4,398	\$9,505
2002/2003	132,908	\$693,145,672	\$592,554,902	\$1,285,700,574	\$5,215	\$4,458	\$9,673
2003/2004	135,123	\$635,175,785	\$493,949,881	\$1,129,125,666	\$4,701	\$3,655	\$8,356
2004/2005	138,875	\$558,104,487	\$469,454,906	\$1,027,559,393	\$4,019	\$3,380	\$7,399
2005/2006	133,219	\$509,847,733	\$452,856,743	\$962,704,476	\$3,827	\$3,399	\$7,226
2006/2007	130,777	\$524,266,051	\$477,946,397	\$1,002,212,448	\$4,009	\$3,655	\$7,664
2007/2008	129,993	\$574,105,382	\$527,216,920	\$1,101,322,302	\$4,416	\$4,056	\$8,472
2008/2009	125,197	\$603,319,090	\$538,528,738	\$1,141,847,828	\$4,819	\$4,301	\$9,120

Chart 8: Average California W.C. Public Self Insured Paid Losses

Fiscal Year 1999/2000 – Fiscal Year 2008/2009 Experience @ the 4-Year Valuation



Medical	\$3,667	\$4,079	\$4,398	\$4,458	\$3,655	\$3,380	\$3,399	\$3,655	\$4,056	\$4,301
Indemnity	\$4,687	\$5,006	\$5,107	\$5,215	\$4,701	\$4,019	\$3,827	\$4,009	\$4,416	\$4,819
Total	\$8,354	\$9,085	\$9,505	\$9,673	\$8,356	\$7,399	\$7,226	\$7,664	\$8,472	\$9,120

Bottomline: The 4th report data show total paid losses on public self-insured claims rose to a pre-reform peak of \$1.29 billion in FY 02/03, then fell by \$323 million in the wake of the 2002-2004 reforms, bottoming out at \$963 million in FY 05/06, with much of the decline in FY 05/06 due to a 4.1% reduction in 4th report claim volume for that year. The sharp reduction in claim severity was losing steam at this point, as average medical payments per claim rose for the first time in 3 years, signaling the end of the post-reform downtrend.

The number of public self-insured claims noted at the 4th report level is down by more than 8,000 cases (6%) since aggregate losses bottomed out in FY 05/06, yet in the three years since then, public self-insured 4th report paid losses have continued to trend up, with total payments on FY 08/09 claims up more than \$179 million (+18.6%) to \$1.14 billion, fueled by a 25.9% increase in the average amount of indemnity paid per claim and a 26.5% increase in average medical payments per claim.



Fourth Report Incurred Losses: Table 8 shows the 4th report incurred data for FY 99/00 through FY 08/09 public self-insured claims. These results show the same pattern as the paid data, as public self-insured employers' incurred losses hit a pre-reform high of \$1.83 billion in FY 02/03, then fell by \$390 million (21.3%) to \$1.44 billion after the 2002-04 reforms were implemented. Since bottoming out in FY05/06, public self-insured total incurred losses at the 4th report level have been on the rise, increasing to nearly \$1.71 billion for FY 08/09, which is up nearly \$265 million (18.3%) from the post-reform low, as the ongoing reductions in claim volume have not been enough to offset the sharp increases in average incurred indemnity and average incurred medical per claim.

While some of the post-reform decline in public self-insured total incurred losses noted in the FY 05/06

4th reports can be ascribed to declining claim volume, some is associated with the marginal decline in average incurred indemnity, which fell from \$5,334 in FY 04/05 to \$5,311 in FY 05/06, continuing a downward trend that began 4 years earlier. In contrast, the average incurred medical loss at the 4th report level rose 3.2% to \$5,530 in FY 05/06 – the first increase in 3 years. The 4th report data from the three most recent years show the growth in average incurred indemnity has continued, increasing 1.2% in FY 06/07, 9.9% in FY 07/08, and 8.5% in FY 08/09. At the same time, average incurred medical at the 4th report level rose 10.3% in FY 06/07, 9.2% in FY 07/08, and 8.6% in FY 08/09. Those increases pushed the overall average incurred loss on a public self-insured claim at the 4-year valuation up to \$13,649 in FY 08/09 -- 27.7% above the post-reform low.

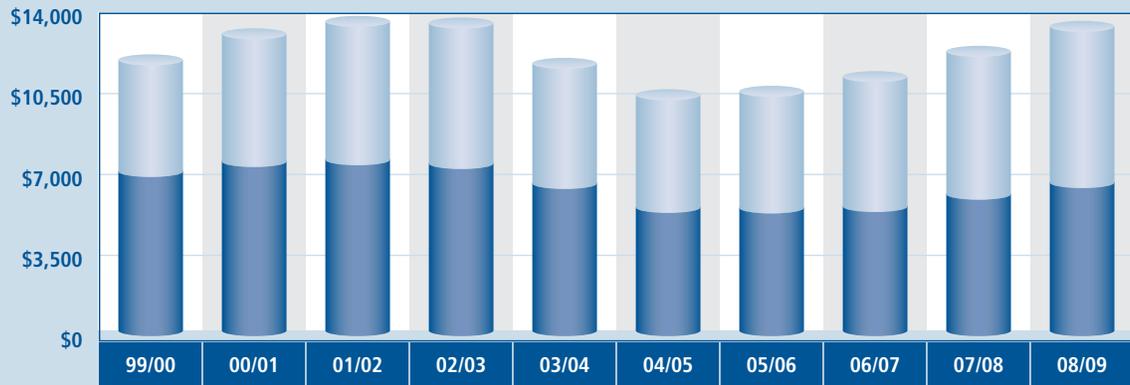
Table 8: California WC Incurred Losses: Public Self-Insured Claims

Fiscal Year 1999/2000 – Fiscal Year 2008/2009 Experience @ the 4-Year Valuation

Fiscal Year	# Of Claims	TOTAL INCURRED			AVERAGE INCURRED/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
1999/2000	118,365	\$815,397,939	\$628,798,593	\$1,444,196,532	\$6,889	\$5,312	\$12,201
2000/2001	120,426	\$881,511,529	\$723,441,118	\$1,604,952,647	\$7,320	\$6,007	\$13,327
2001/2002	126,028	\$932,223,952	\$815,567,805	\$1,747,791,757	\$7,397	\$6,471	\$13,868
2002/2003	132,908	\$961,397,168	\$871,754,328	\$1,833,151,496	\$7,234	\$6,559	\$13,793
2003/2004	135,123	\$860,906,168	\$767,304,963	\$1,628,211,131	\$6,371	\$5,679	\$12,050
2004/2005	138,875	\$740,731,289	\$743,828,251	\$1,484,559,540	\$5,334	\$5,356	\$10,690
2005/2006	133,219	\$707,592,375	\$736,690,287	\$1,444,282,662	\$5,311	\$5,530	\$10,841
2006/2007	130,777	\$702,670,925	\$798,003,231	\$1,500,674,156	\$5,373	\$6,102	\$11,475
2007/2008	129,993	\$767,575,265	\$866,430,938	\$1,634,006,203	\$5,905	\$6,665	\$12,570
2008/2009	125,197	\$802,423,873	\$906,373,441	\$1,708,797,314	\$6,409	\$7,240	\$13,649

Chart 9: Average California W.C. Public Self Insured Incurred Losses

Fiscal Year 1999/2000 – Fiscal Year 2008/2009 Experience @ the 4-Year Valuation



Medical	\$5,312	\$6,007	\$6,471	\$6,559	\$5,679	\$5,356	\$5,530	\$6,102	\$6,665	\$7,240
Indemnity	\$6,889	\$7,320	\$7,397	\$7,234	\$6,371	\$5,334	\$5,311	\$5,373	\$5,905	\$6,409
Total	\$12,201	\$13,327	\$13,868	\$13,793	\$12,050	\$10,690	\$10,841	\$11,475	\$12,570	\$13,649

Bottomline: The 4th report results for FY 08/09 public self-insured claims show nearly \$1.71 billion in total incurred losses (\$802.4 million indemnity + \$906.4 million medical), \$265 million (18.3%) more than the post-reform low of \$1.44 billion (\$707.6 million indemnity + \$736.7 million medical) recorded in the 4th reports on FY 05/06 claims.

This was the third consecutive increase in 4th report incurred losses, with results for the most recent year showing an 8.5% jump in average incurred indemnity and an 8.6% jump in average incurred medical, so despite the dwindling number of claims, total incurred losses for public self-insured employers are climbing rapidly toward the pre-reform levels.

**FIFTH REPORT DATA:****FY 1998/1999 – FY 2007/2008 Claims**

The 5th report data is the most developed data included in the OSIP summary, providing up to 60 months' worth of claim experience, though this level of development can only be reported on older claims. The 2013 OSIP summary provides 5th report data on 130,147 public self-insured claims from FY 07/08 -- 1,745 more claims (+1.4 %) claims than were recorded in the initial reports for that year; but only 230 more claims (+0.2%) than were tallied in the 5th reports for the prior year (FY 06/07). The 5th report paid loss experience for claims from the most recent 10 years is summarized in Table 9.

Fifth Report Paid Losses: The number of California public self-insured claims reported at the 5th valuation increased steadily from the late 90s through FY 04/05, when it peaked at 156,756 cases before declining 14.6% to 133,920 cases in FY 05/06, and another 3%

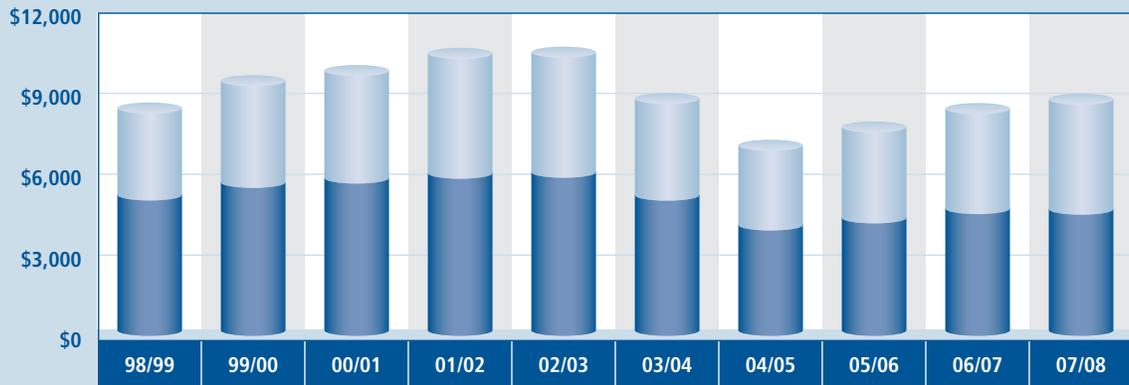
to 129,917 claims in FY 06/07 before stabilizing at just over 130,000 claims in FY07/8. Market factors may have affected claim volume following the 2004 reforms, as the steep decline in claim volume in FY 05/06 coincided with a reduction in the number of workers covered by public self-insured employers, which may have been due in part to public self-insured employers switching to the insured market as premium rates dropped following the enactment of SB 899. In FY 06/07 and FY 07/08, however, the number of covered workers noted in the public self-insured report was back up while claim volume remained at around 130,000 cases. Despite the 17% drop in reported claims at the 5th report level between FY 04/05 and FY 07/08, total loss payments on public self-insured claims rose 8%, as average claim payments jumped 30% to \$9,472, the result of a 27.3% increase in the average amount of indemnity paid per claim and a 33.3% increase in the average amount of medical paid per claim.

Table 9: California WC Paid Losses: Public Self-Insured Claims**Fiscal Year 1998/1999 – Fiscal Year 2007/2008 Experience @ the 5-Year Valuation**

Fiscal Year	# Of Claims	TOTAL PAID			AVERAGE PAID/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
1998/1999	117,263	\$589,137,952	\$426,745,881	\$1,015,883,833	\$5,024	\$3,639	\$8,663
1999/2000	117,361	\$644,327,483	\$491,301,824	\$1,135,629,307	\$5,490	\$4,186	\$9,676
2000/2001	119,648	\$676,086,031	\$526,840,611	\$1,202,926,642	\$5,651	\$4,403	\$10,054
2001/2002	124,980	\$728,625,096	\$607,480,507	\$1,336,105,603	\$5,830	\$4,861	\$10,691
2002/2003	134,803	\$790,689,867	\$656,209,000	\$1,446,898,867	\$5,866	\$4,868	\$10,734
2003/2004	149,178	\$748,245,457	\$596,454,157	\$1,344,699,614	\$5,016	\$3,998	\$9,014
2004/2005	156,756	\$612,918,586	\$528,613,436	\$1,141,532,022	\$3,910	\$3,372	\$7,282
2005/2006	133,920	\$559,041,457	\$507,066,212	\$1,066,107,669	\$4,174	\$3,786	\$7,960
2006/2007	129,917	\$587,047,768	\$535,621,801	\$1,122,669,569	\$4,519	\$4,123	\$8,642
2007/2008	130,147	\$647,618,525	\$585,101,734	\$1,232,720,259	\$4,976	\$4,496	\$9,472

Chart 10: Average California W.C. Public Self Insured Paid Losses

Fiscal Year 1998/1999 – Fiscal Year 2007/2008 Experience @ the 5-Year Valuation



	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Medical	\$3,639	\$4,186	\$4,403	\$4,861	\$4,868	\$3,998	\$3,372	\$3,786	\$4,123	\$4,496
Indemnity	\$5,024	\$5,490	\$5,651	\$5,830	\$5,866	\$5,016	\$3,910	\$4,174	\$4,519	\$4,976
Total	\$8,663	\$9,676	\$10,054	\$10,691	\$10,734	\$9,014	\$7,282	\$7,960	\$8,642	\$9,472

Bottomline: As with the earlier valuations, the 5th report paid data from the last 10 years show the pre-reform peak in public self-insured losses in FY 02/03 and the post-reform decline that saw paid losses decline to \$1.07 billion by FY 05/06, nearly \$381 million, or 26% , less than the total from three years earlier. More recent 5th report results show lower claim volume of around 130,000 claims in both of the last two years (FY 06/07 and FY 07/08), which

is down 17% from the high of 156,756 reported cases in FY 04/05. Even with that big decline in the claim count since FY 04/05, overall loss payments for public self-insured employers increased more than \$91 million, or 8%, by FY 07/08, as the average amount paid on a claim at the 5th report rose 30% to \$9,472, the combined effect of the 27.3% increase in average indemnity paid per claim, and a 33.3% increase in average medical paid.



Fifth Report Incurred Losses: Table 10 shows that the trends for public self-insured incurred losses at the 5th report are similar to the paid loss trends (Table 10). Total incurred amounts on these claims, measured at the 5th valuation, increased steadily from the late 90's until they hit a pre-reform high of more than \$2 billion in FY 02/03. They then trended down for 3 years following the reforms, as the total amount incurred at the 5th report fell 25.8%, dropping to \$1.49 billion for FY 05/06 claims, before rebounding over the two most recent years, climbing to more than \$1.7 billion in FY 07/08.

The breakdown of loss costs shows that during the initial post-reform period, the decline in public self-insured incurred losses was paced by a huge reduction

in average incurred indemnity per claim, which fell more than 40% from \$8,094 in FY 02/03 to \$4,821 in FY 04/05, while average incurred medical fell 27.5% from \$6,793 to \$4,923. As with the paid data, the most recent readings show average incurred losses at the 5th report level are up sharply from the post-reform lows, as average incurred indemnity per claim has risen 29.2% over 3 years to \$6,233, while average incurred medical has jumped more than 39% to \$6,301. These increases in the average amount incurred per claim have more than offset the reductions in claim volume since FY 04/05, so total 5th report incurred losses on public self-insured claims for FY 07/08 rose to \$1.7 billion, which was up \$212.5 million (14.3%) from the post-reform low of FY 05/06, and nearly \$175 million (+11.4%) more than in FY 04/05.

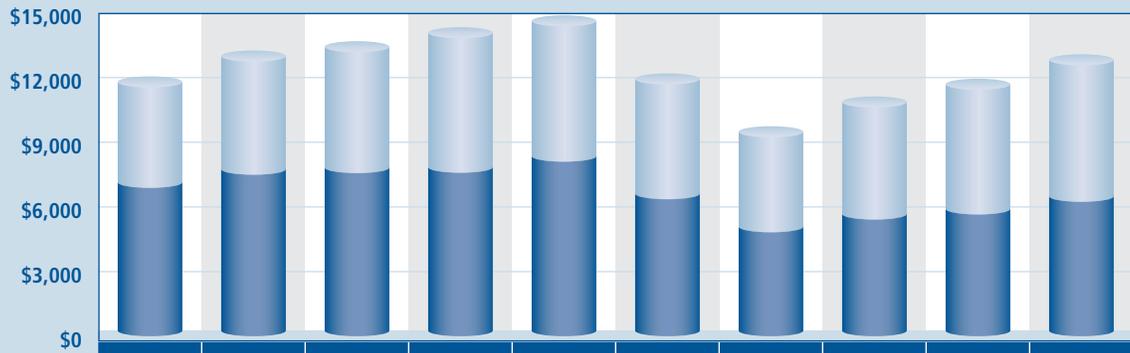
Table 10: California WC Incurred Losses: Public Self-Insured Claims

Fiscal Year 1998/1999 – Fiscal Year 2007/2008 Experience @ the 5-Year Valuation

Fiscal Year	# Of Claims	TOTAL INCURRED			AVERAGE INCURRED/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
1998/1999	117,263	\$806,783,767	\$606,925,620	\$1,413,709,387	\$6,880	\$5,176	\$12,056
1999/2000	117,361	\$878,889,681	\$676,581,645	\$1,555,471,326	\$7,489	\$5,765	\$13,254
2000/2001	119,648	\$905,002,050	\$732,625,590	\$1,637,627,640	\$7,564	\$6,123	\$13,687
2001/2002	124,980	\$947,433,971	\$844,088,281	\$1,791,522,252	\$7,581	\$6,754	\$14,335
2002/2003	134,803	\$1,091,057,336	\$915,689,796	\$2,006,747,132	\$8,094	\$6,793	\$14,887
2003/2004	149,178	\$947,656,682	\$870,956,815	\$1,818,613,497	\$6,353	\$5,838	\$12,191
2004/2005	156,756	\$755,680,272	\$771,781,362	\$1,527,461,634	\$4,821	\$4,923	\$9,744
2005/2006	133,920	\$724,732,281	\$764,920,636	\$1,489,652,917	\$5,411	\$5,712	\$11,123
2006/2007	129,917	\$733,529,568	\$818,660,367	\$1,552,189,935	\$5,646	\$6,301	\$11,947
2007/2008	130,147	\$811,219,635	\$891,002,590	\$1,702,222,225	\$6,233	\$6,846	\$13,079

Chart 11: Average California W.C. Public Self Insured Incurred Losses

Fiscal Year 1998/1999 – Fiscal Year 2007/2008 Experience @ the 5-Year Valuation



	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08
Medical	\$5,176	\$5,765	\$6,123	\$6,754	\$6,793	\$5,838	\$4,923	\$5,712	\$6,301	\$6,846
Indemnity	\$6,880	\$7,489	\$7,564	\$7,581	\$8,094	\$6,353	\$4,821	\$5,411	\$5,646	\$6,233
Total	\$12,056	\$13,254	\$13,687	\$14,335	\$14,887	\$12,191	\$9,744	\$11,123	\$11,947	\$13,079

Bottomline: California public self-insured’s incurred losses at the 5th report level were rising rapidly from the late 90s until the enactment of the legislative reforms that began in 2002, climbing from about \$1.27 billion (\$733.8 million indemnity + \$531.8 million medical) in FY 97/98 to nearly \$2.01 billion (\$1.09 billion indemnity + \$915.7 million medical) in FY 02/03 – up \$740 million, or 58.3% in 5 years. That growth reflected the combined effect of a 15.6% jump in the total number of claims reported by public self- insurers, and a 37.2% increase in average incurred losses per claim, which finally peaked at \$14,887 in FY 02/03.

The 5th report results also detail the sharp reduction in public self-insured’s incurred losses in the first 2

years following the reforms, when average incurred losses fell nearly 35% to \$9,744 – due to both a 40% reduction in average incurred indemnity and a 27.5% reduction in average incurred medical, which more than offset the 16.3% growth in the number of reported claims by public self-insureds over that 2-year span. Those trends have reversed since FY 05/06, however, as claim volume is down 17% from the level noted in the FY 05/06 5th reports, while average incurred losses in the 5th reports for FY 07/08 claims hit a 6-year high of \$13,079, led by an increase in average incurred medical, which is up about 39% from the FY 04/05 low, while average incurred indemnity has increased more than 29% over the same period.

CONCLUSION

This analysis of public self-insured loss experience contains data limitations, as it is based on public self-insured data summarized by the state Office of Self-Insurance Plans, so the author was unable to perform audits or quality checks on the OSIP data, and cannot determine if all public self-insured entities that provided data to OSIP were consistent in their submissions. Despite such limitations, the OSIP summaries still provide the most broad-based historical data on California self-insured claims experience and are the best source material for evaluating workers' compensation trends for both public and private sector self-insured employers, which is why they have been used not only by CWCI, but the Commission on Health, Safety and Workers' Compensation, the National Academy of Social Insurance, and other research organizations studying the California experience.

The 10-year review of California's public self-insured employers' claims experience shows that both total paid and incurred losses hit a pre-reform high in FY 02/03, then dropped sharply immediately following enactment of the 2002-2004 reforms – the same pattern that has been noted on insured claims. The results measured at all five valuation points show that the post-reform decline in losses ended in FY 05/06, and despite reduc-

tions in claim volume since then, rising claim severity has resulted in steady growth in public self-insureds' overall paid and incurred losses in the California workers' compensation system.

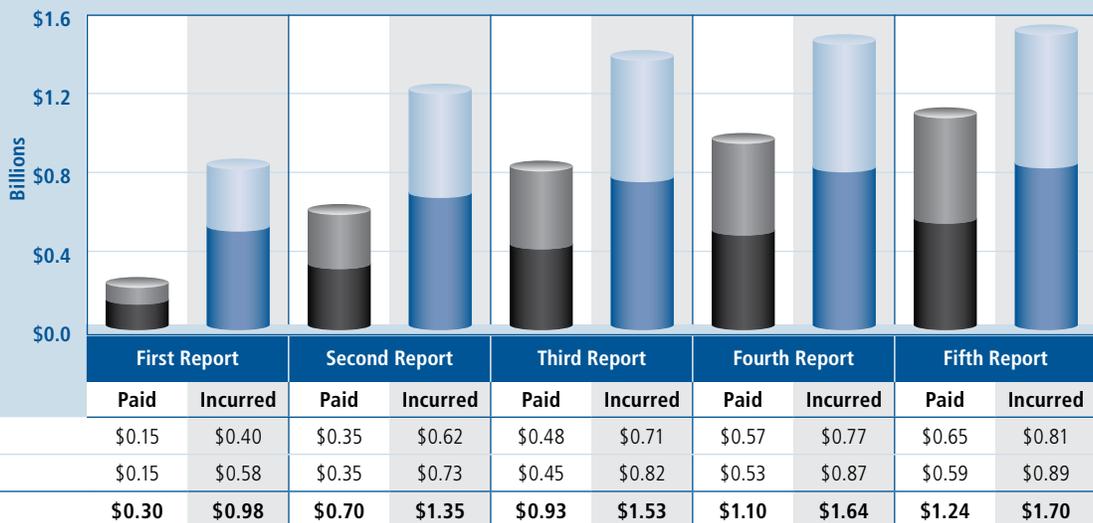
Workers' compensation losses often continue to accrue over many years, so public self-insured employers face significant, continuing costs from their existing caseloads in addition to the cost of new claims that are filed. This can be seen in the most developed data from the latest OSIP summary – the FY 07/08 data, which details claims experience through the 5th report, providing up to 60 months' worth of paid and incurred data on claims from that year. Chart 12 tracks the growth in the total paid and incurred losses on the FY 07/08 public self-insured claims at the 1st through the 5th report levels.

Chart 12 shows that at the 1st report level, total paid losses on public self-insured claims from FY 07/08 amounted to about \$300 million, while the total incurred amount was more than \$980 million. The fifth report results for the FY 07/08 claims, recorded four years later, show the paid amount had more than quadrupled to nearly \$1.24 billion, while the total incurred had increased to more than \$1.7 billion.

This type of growth in public self-insured losses, combined with the long-tail nature of many of these claims,

Chart 12: Total Paid and Incurred Amounts

California Public Self-Insured FY 2007/2008 Claims at 1st – 5th Reports (in \$ Billions)





has strained the budgets of many public self-insured entities at a time when they are already facing considerable fiscal constraints. The problem could be compounded if claim frequency rises; there is an increase in the proportion of lost-time claims – especially permanent disability claims; or there is a significant jump in claims by public safety personnel, who under Labor Code §4850 receive full salary replacement for up to a year while recovering from a job injury (a provision that in FY 10/11 cost Los Angeles County alone \$60 million). Even though public self-insured claim frequency has remained relatively stable in recent years, total workers' compensation losses have continued to increase

as claims severity has risen. State lawmakers recently enacted SB 863, the 2012 workers' compensation reform that called for benefit increases along with other measures intended to streamline the system, reduce friction, and offset the additional costs. Many of the details of these reforms are being hammered out in regulations, so it remains to be seen whether the intended balance will be reached. Yet it is clear that without a reduction in average claim costs, which have now been trending up for about 6 years, workers' compensation will continue to put pressure on the operating budgets of many of California's public self-insured entities.

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>.



About The Author

Bob Young is the Director of Communications at the California Workers' Compensation Institute. A graduate of University of California Berkeley, where he studied journalism and political science, he served as a financial consultant and managing editor of the nation's largest weekly financial newsletter for nine years prior to joining CWCI in October 1988. Over the past 25 years he has contributed to every public policy research report published by CWCI, as his responsibilities include writing, editing, production and distribution of Institute studies, as well as CWCI Bulletins, news releases, marketing pieces, ancillary materials and member/subscriber communications. He also was the lead author of CWCI's earlier analyses of self-insured claims experience published in 2009, 2010, 2011 and 2012.

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.

California Workers' Compensation Institute

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