



A REPORT TO THE INDUSTRY

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

**Fiscal Year 1997/1998
Through
Fiscal Year 2010/2011**

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California Workers' Compensation Institute

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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 24 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 and 2010.

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In January 2012, the California Office of Self-Insurance Plans (OSIP) released 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 of California 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 provides a tally of the total number of 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 claims experience of public self-insured employers is a crucial public policy concern as it is a reflection of the health and safety of nearly 2 million California workers. Furthermore, the benefit and administrative costs of these programs are paid out of the covered entities' operating budgets, so public self-insured claims experience has a direct effect on public services, not only due to the staffing shortages that occur when covered employees are off work, but perhaps more importantly, because it can require a reallocation of limited budgetary dollars – either adding to or taking away from – the amount of public dollars available for other programs or benefits.

This report uses data from the most recent OSIP summary, as well as 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 findings help identify recent trends in statewide public self-insured experience and provide a better understanding of how workers' compensation is affecting local governments and other public entities in California.

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California Workers' Compensation Institute

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BACKGROUND

In California, all public self-insured employers other than the state are required to file annual reports 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 earlier years.

The summary dated January 30, 2012 includes initial data on claims reported to OSIP for the 12 months ending June 30, 2011, plus updated data (2nd, 3rd, 4th, and 5th valuations) on claims reported for each of the 4 prior years. The public self-insured entities included in the OSIP summary for FY 2011 provided workers' compensation coverage to 1.92 million California workers, which was down nearly 5.9% from just over 2.04 million public sector employees noted in the FY 2009/2010 1st report. As a result, total wages and salaries of the public sector employees included in the FY 2010/2011 summary also declined, falling to \$95.6 billion, or about 1.3% less than the \$96.9 billion noted in the FY 2009/2010 1st reports.

OSIP prepares its summaries annually, and each summary notes 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 can vary from year to year due to a number of factors, including economic shifts and reporting variations, and these 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 began the analysis of public self-insured claims experience by calculating the number of claims per 100

employees, producing claim frequency rates for each of the 10 most recent years. Chart 1 shows the changes in California public self-insured claim frequency over the past decade, comparing the overall claim frequency rate, as well as the frequency rates broken out for medical-only claims and for indemnity claims from FY 2001/2002 through FY 2010/2011.

To track changes in the volume and cost of public self-insured claims, CWCI also reviewed the summaries from the past decade and calculated the average paid and the average incurred amounts per claim reported for each year at the 1st, 2nd, 3rd, 4th and 5th valuations. The results noted at each valuation point were then compared across the most recent 10-years for which data were available. 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.

The 1st valuation provides data on new claims reported within the just-ended fiscal year, so it is the most current, yet least developed data. Although the 1st report offers relatively "green" data, it also offers the initial snapshot of the volume of claims and losses for a fiscal year. Because the snapshot is taken 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 the 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 public self-insureds reported at the 1st valuation for FY 2001/2002 through FY 2010/2011. The subsequent tables show 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 FY 1997/1998 through FY 2006/2007 at the 5th valuation, reflecting the amounts reported for these claims after 48 to 60 months of development.



A REPORT TO THE INDUSTRY

RESULTS

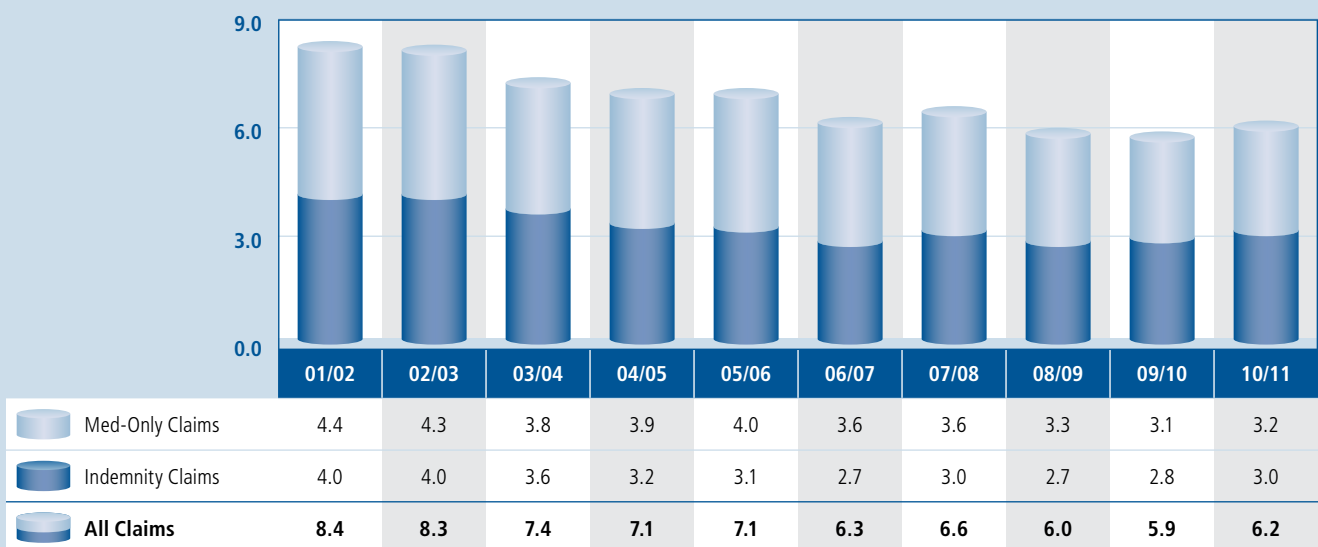
California Workers' Compensation Public Self-Insured Claim Frequency

The OSIP Annual Summary of statewide totals for public self-insured employers provides tallies of both reported medical-only claims and indemnity claims, and shows the number of employees covered by public self-insured employers during the year. To control for the effect that 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) for each of the 10 years covered by the study, then compared the results over the 10-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.

For the most part, the overall trend in public self-insured claim frequency over the past decade has been down, with double-digit drops recorded in FY 2003/2004 (10.8%), FY 2006/2007 (11.3%), and FY 2008/2009 (10.0%), and only 2 years in which the aggregate frequency rate increased (the 4.8% jump noted in FY 2007/2008 and the 5.1% jump in FY 2010/2011). The breakdown of results by claim type, however, shows there were 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 2009/2010, 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 2010/2011 the changes in California public self-insureds' medical-only and indemnity claim frequency rates were remarkably similar, with the medical-only claim rate falling 27.3% over the decade, while the indemnity claim rate fell 25.0%, for a net reduction of 26.2% in the overall claim frequency rate between FY 2001/2002 and FY 2010/2011.

Chart 1: California Public Self-Insured Claim Frequency

Number of Claims per 100 Employees – Initial Reports, FY 01/02 – 2010/2011 Claims



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

While the number of workers' compensation claims reported by public self-insurers' initial reports was on the rise until FY 2002/2003, as the 2002-2004 reforms were enacted, the claim count began to decline, dropping 13.9% from 135,010 claims in FY 2002/2003 to 116,228 in FY 2006/2007. This was not due to 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 2007/2008, before falling to 126,029 claims in FY 2008/2009, and 121,353 claims in FY 2009/2010, when public self-insured claim frequency rate hit a 10-year low of 5.9 claims per 100 employees. For FY 2010/2011, the number of reported

claims continued to decline, dipping 1.9% to 119,007, another new low for the decade. That decline, however failed to keep pace with the 5.9% reduction in the public self-insured workforce, so public self-insured claim frequency rose for just the second time in the last decade.

Paid Losses: Looking at the average amount paid per claim, the 1st report data show that after a somewhat erratic increase from \$2,134 in FY 2001/2002 to \$2,346 in FY 2004/2005, average public self-insured claim payments at 1st report fell 6.9% to \$2,185 per claim in FY 2005/2006, then began trending up. As noted in Table 1, average paid losses at 1st report rose 4.0% to \$2,272 in FY 2006/2007, 2.6% to \$2,332 in FY 2007/2008, 5.8% to \$2,468 in FY 2008/2009, 6.2% to \$2,622 in FY 2009/2010, and 9.8% to \$2,880 in FY 2010/2011, which translates to a net increase of nearly 32% since the post-reform low.

Table 1: California WC Paid Losses: Public Self-Insured Claims**Fiscal Year 2001/2002 - Fiscal Year 2010/2011 Experience @ Initial Report**

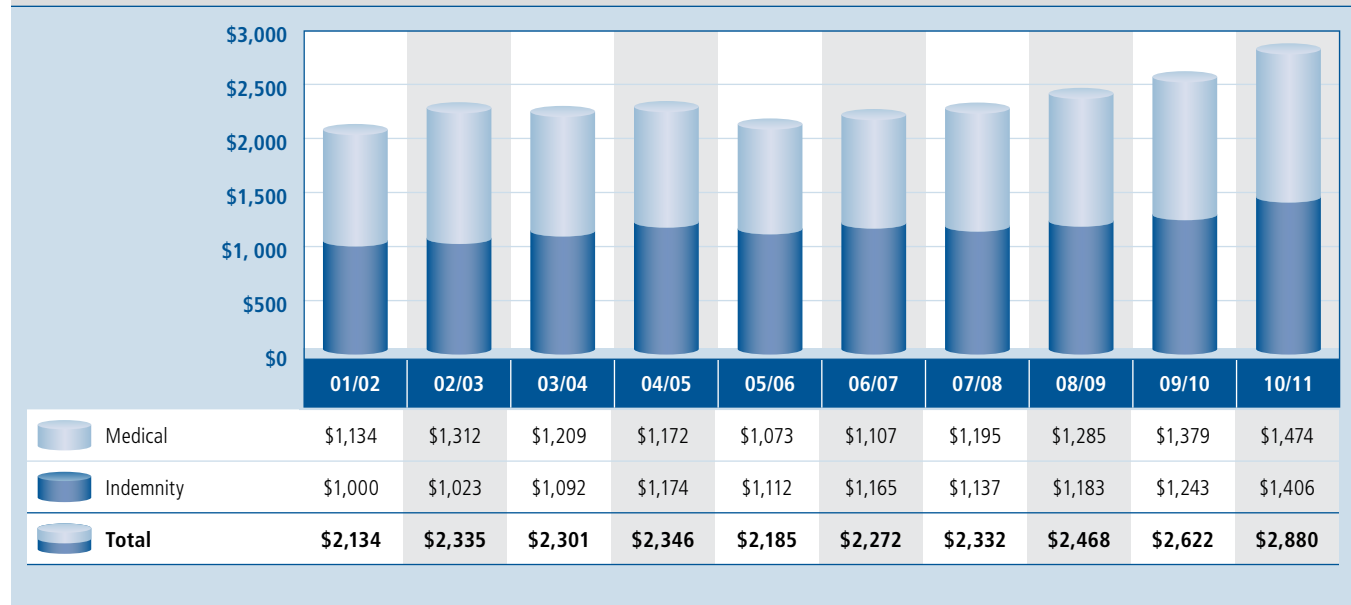
Fiscal Year	# Of Claims	TOTAL PAID			AVERAGE PAID/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
2001/2002	126,060	\$126,066,458	\$142,924,481	\$268,990,939	\$1,000	\$1,134	\$2,134
2002/2003	135,010	\$138,094,871	\$177,187,503	\$315,282,374	\$1,023	\$1,312	\$2,335
2003/2004	132,777	\$144,953,276	\$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

The breakdown by type of payment shows that after hitting a post-reform low in FY 2005/2006, the average public self-insured indemnity payment at 1st report has risen 26.4%, climbing to \$1,406 by FY 2010/2011,

while average medical payments are up 37.4% from \$1,073 to \$1,474, so both loss components are not only trending up, but are now well above pre-reform levels.

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

Fiscal Year 2001/2002 - Fiscal Year 2010/2011 Experience @ Initial Report



Bottomline: California public self-insured's paid losses reported at the initial valuation increased from just under \$269 million (\$126.1 million indemnity + \$142.9 million medical) in FY 2001/2002 to nearly \$343 million (\$167.4 million indemnity + \$175.4 million medical) in FY 2010/2011 – with most of that increase due to the nearly 32% jump in total

paid losses since FY 2005/2006. A look at 1st report claims volume for those 2 years, however, shows very little change, with only 78 more claims in FY 2010/2011 than in FY 2005/2006, so virtually all of the increase in total payments between those years can be ascribed to the 31.8% growth in the average amount paid per claim.



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 2005/2006, primarily driven by a sharp drop in the average incurred indemnity per claim, which fell 12.7% from the FY 2004/2005 level, while average incurred medical fell less than 2%.

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

Fiscal Year 2001/2002 - Fiscal Year 2010/2011 Experience @ Initial Report

Fiscal Year	# Of Claims	TOTAL INCURRED			AVERAGE INCURRED/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
2001/2002	126,060	\$412,236,087	\$451,876,927	\$864,113,014	\$3,270	\$3,585	\$6,855
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

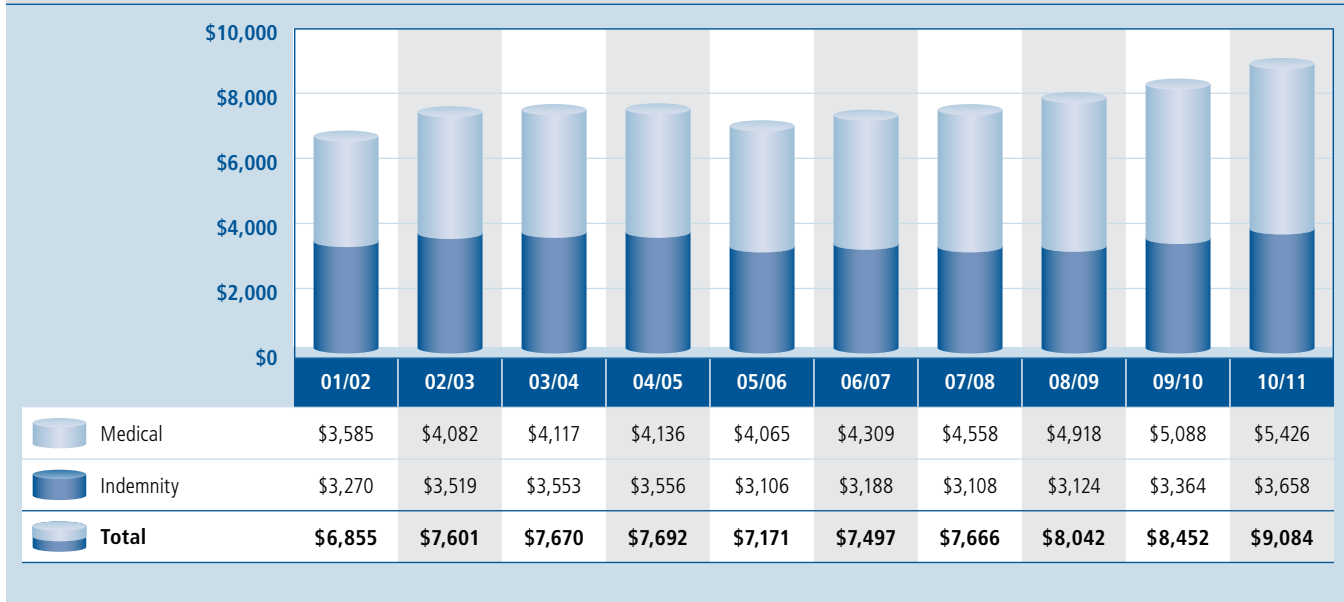


The trend changed after FY 2005/2006, as average incurred medical per public self-insured claim has risen 33% from \$4,065 to \$5,426, while average incurred indemnity, which fluctuated less than \$100 per claim

between FY 2005/2006 and FY 2008/2009, jumped to \$3,658 per claim for FY 10-11, up 17% since FY 08-09, for an overall increase of nearly 18% since the post-reform low.

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

Fiscal Year 2001/2002 – Fiscal Year 2010/2011 Experience @ Initial Report



Bottomline: Public self-insured's total incurred losses at the initial report have fluctuated over the past decade, hitting a pre-reform peak of nearly \$1.03 billion for FY 2002/2003 claims (\$475.1 million indemnity + \$551.1 medical) before falling 17% to just under \$853 million (\$369.4 million indemnity + \$483.5 million medical) for

FY 2005/2006 claims. Public self-insured's total incurred then rose steadily to more than \$1.08 billion (\$435.3 million indemnity + \$645.7 million medical) for FY 2010/2011 claims – a 5-year increase of nearly 27%, led by the 33% jump in average incurred medical per claim.

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

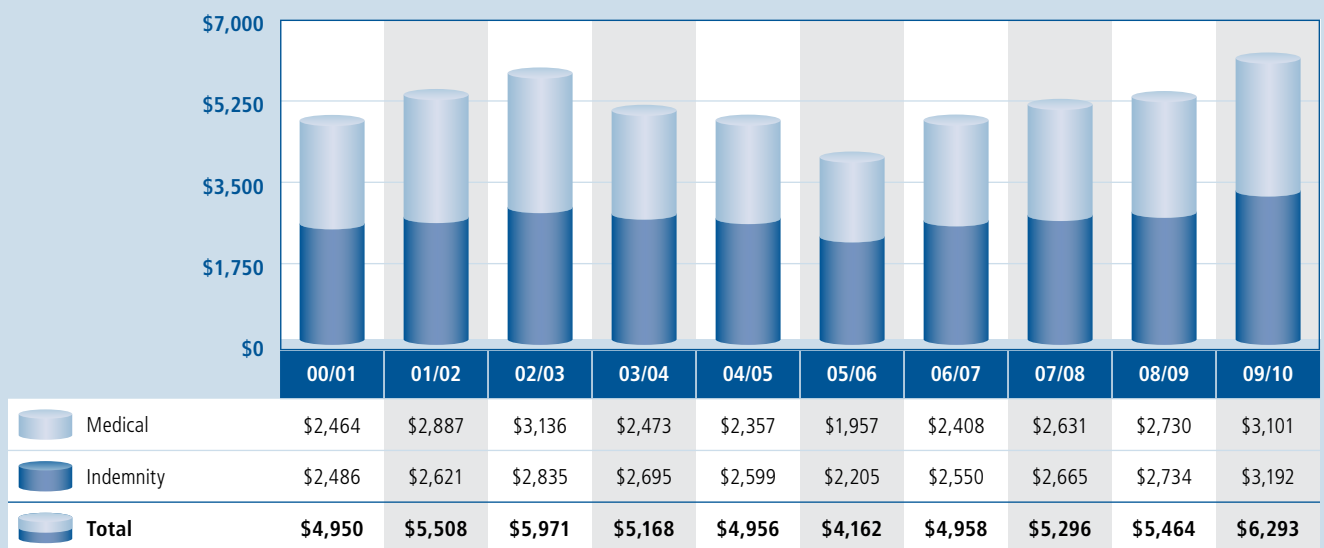
Second reports reflect up to 24 months' worth of claim development on public self-insured claims. OSIP's most recent update includes 2nd report data on 121,896 claims from FY 2009/2010. That claim count is 543 more claims (+0.4%) than were noted in the initial reports for that year, but 18,246 (13%) fewer claims than were recorded in the 2nd reports for FY 2005/2006, the year in which paid losses bottomed out.

Paid Losses: Table 3 shows California public self-insured 2nd report paid loss data for each of the 10 years ending with FY 2009/2010. After increasing steadily in the early part of the decade, along with claim

volume, both aggregate and average loss payments on public self-insured claims declined following the 2002-04 reforms, hitting a post-reform low in FY 2005/2006. Then, between FY 2005/2006 and FY 2009/2010, public self-insured's average loss payments at the 2-year valuation jumped 51.2% to \$6,293 per claim. As with the 1st reports, the recent growth in average paid losses at the 2nd reports was driven by increases in both indemnity and medical payments. In the 4 years since the post-reform low of FY 2005/2006, the number of claims reported by public self insureds has declined, but the total amount paid by these employers has increased as the average indemnity paid per claim at the 2-year benchmark has climbed nearly 45% to \$3,192, while average medical payments have risen 58% to \$3,101.

Table 3: California WC Paid Losses: Public Self-Insured Claims**Fiscal Year 2000/2001 - Fiscal Year 2009/2010 Experience @ the 2-Year Valuation**

Fiscal Year	# Of Claims	TOTAL PAID			AVERAGE PAID/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
2000/2001	123,096	\$306,037,548	\$303,295,639	\$609,333,187	\$2,486	\$2,464	\$4,950
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

Chart 4: Average California W.C. Public Self Insured Paid Losses
Fiscal Year 2000/2001 - Fiscal Year 2009/2010 Experience @ the 2-Year Valuation


Bottomline: The 10-year look back at 2nd report data shows that after climbing to a record \$792.5 million in FY 2002/2003, California public self-insured's total paid losses fell 26% to a post-reform low of \$583.3 million (\$309.0 million indemnity + \$274.3 million medical) in FY 2005/2006. Since then, however, aggregate paid losses have trended up, climbing to \$767.1 million (\$389.1 million indemnity + \$378.0 million medical) in FY 2009/2010 – up nearly 32% over 4 years.

That \$183.8 million increase in public self-insured's 2nd report payments occurred even though the 2nd report claim count declined by 18,246 cases between FY 2005/2006 and FY 2009/2010, showing that the reduction in the number of public self-insured claims has been more than offset by sharp increases in the average amounts paid per claim, as average indemnity payments at the 2nd report have jumped 45% in the last 4 years, while average medical payments are up 58%.



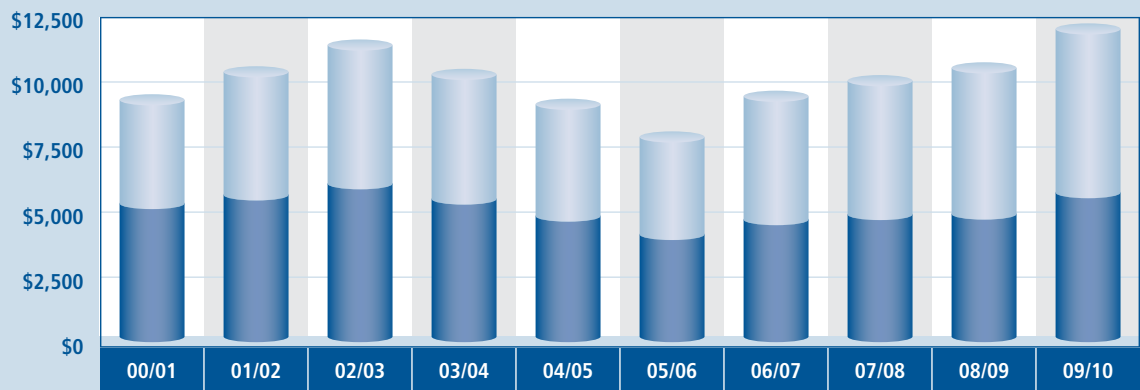
Incurred Losses: Table 4 summarizes public self-insured employers' incurred results at 2nd report for FY 2000/2001 through FY 2009/2010. The 2nd report data show the growth in public self-insured incurred losses at the start of the decade, as well as the sharp decline after the reforms took effect, with total incurred indemnity falling nearly \$230 million, or about 30% from FY 2002/2003 through FY 2005/2006, while the total incurred medical on these claims declined by \$179 million, or more than 23%, even though there were 7,427 more claims at 2nd report in FY 2005/2006 than in FY 2002/2003.

Average amounts incurred per claim at the 2nd report also declined steadily from FY 2002/2003 to the post-reform low in FY 2005/2006, 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 that for the last 4 years there has been steady growth in average incurred losses, as average incurred indemnity since FY 2005/2006 has risen nearly 41% to \$5,532 per claim in FY 2009/2010; and average incurred medical has risen 60.8% to \$6,721 per claim.

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

Fiscal Year 2000/2001 - Fiscal Year 2009/2010 Experience @ the 2-Year Valuation

Fiscal Year	# Of Claims	TOTAL INCURRED			AVERAGE INCURRED/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
2000/2001	123,096	\$629,571,268	\$543,543,638	\$1,173,114,906	\$5,114	\$4,416	\$9,530
2001/2002	127,361	\$693,568,497	\$657,203,809	\$1,350,772,306	\$5,445	\$5,160	\$10,605
2002/2003	132,715	\$779,583,340	\$764,415,115	\$1,543,998,455	\$5,874	\$5,760	\$11,634
2003/2004	134,273	\$709,762,534	\$700,848,140	\$1,410,610,674	\$5,286	\$5,220	\$10,506
2004/2005	126,667	\$586,559,940	\$598,930,477	\$1,185,490,417	\$4,631	\$4,728	\$9,359
2005/2006	140,142	\$549,922,770	\$585,488,677	\$1,135,411,447	\$3,925	\$4,178	\$8,103
2006/2007	129,369	\$581,668,870	\$668,979,677	\$1,250,648,547	\$4,496	\$5,171	\$9,667
2007/2008	131,272	\$615,980,443	\$731,603,405	\$1,347,583,848	\$4,692	\$5,573	\$10,265
2008/2009	129,897	\$611,779,066	\$785,643,446	\$1,397,422,512	\$4,710	\$6,048	\$10,758
2009/2010	121,896	\$674,312,865	\$819,263,795	\$1,493,576,660	\$5,532	\$6,721	\$12,253

Chart 5: Average California W.C. Public Self Insured Paid Losses
Fiscal Year 2000/2001 - Fiscal Year 2009/2010 Experience @ the 2-Year Valuation


Bottomline: The 2nd report data show the dramatic fluctuations in California public self-insured's incurred losses over the past decade, with aggregate incurred losses peaking at more than \$1.54 billion in FY 2002/2003, then falling by \$400 million to a post-reform low of less than \$1.14 billion 3 years later. Total 2nd report incurred losses on public self-insured claims have since rebounded, climbing

almost 32% to \$1.49 billion (\$674.3 million indemnity + \$819.3 million medical) for FY 2009/2010 claims, even though the number of reported claims has declined, as the average amount incurred per claim has been on the rise, with average incurred medical climbing nearly 61% to \$6,721 per claim and average incurred indemnity increasing nearly 41% to \$5,532 per claim.

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

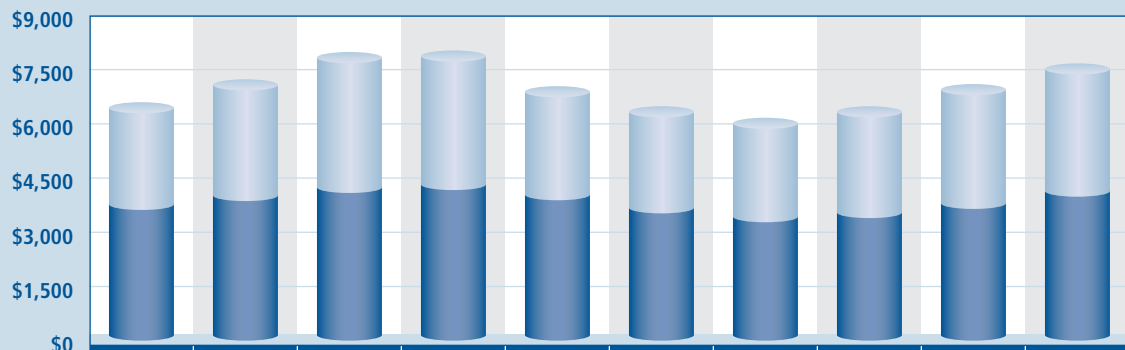
Public self-insured employers' 3rd reports provide up to 36 months' worth of claim experience. The latest summary includes 3rd report data on 125,187 claims from FY 2008/2009. That total is 842 (0.7%) fewer claims than were noted in the public self-insured's initial reports for FY 2008/2009, but compared to the prior year's 3rd report claim count, the FY 2008/2009 total is down by 5,413 claims (-4.1%). Table 5 shows 3rd report paid losses for FY 2008/2009 and each of the 9 previous years.

Paid Losses: The 3rd report data reveal that California public self-insured workers' compensation loss payments recorded at the 3-year valuation rose from just under \$800 billion on FY 1999/2000 claims to a record \$1.08 billion for FY 2002/2003 claims – one of the factors that led to the 2002-04 reforms. As noted

in Table 5, that \$208 million increase reflected both increased claim volume, which was 11.3% higher in FY 2002/2003 than it had been in FY 1999/2000, and increased claim payments, as average paid losses per claim jumped nearly 22% over that same period. Following the reforms, claim costs fell sharply, but as with the 1st and 2nd reports, the 3rd report data show the post-reform decline did not last, as public self-insured loss payments bottomed out in FY 2005/2006 when average paid losses at the 3rd valuation dropped to \$6,169 (\$3,277 indemnity + \$2,892 medical). By FY 2006/2007, public self-insured employers' average paid losses at the 3-year valuation were back on the rise. The latest data show that for FY 2008/2009 claims 3rd report paid losses averaged \$7,673, up 18.3% from the post reform low, led by a 27.5% jump in average medical payments, which rose to \$3,688, while average indemnity payments at the 3-year benchmark were up 21.6% to \$3,985 per claim.

Table 5: California WC Paid Losses: Public Self-Insured Claims**Fiscal Year 1999/2000 - Fiscal Year 2008/2009 Experience @ the 3-Year Valuation**

Fiscal Year	# Of Claims	TOTAL PAID			AVERAGE PAID/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
1999/2000	121,192	\$438,374,903	\$361,423,640	\$799,798,543	\$3,617	\$2,982	\$6,599
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

Chart 6: Average California W.C. Public Self Insured Paid Losses
Fiscal Year 1999/2000 - Fiscal Year 2008/2009 Experience @ the 3-Year Valuation


	Medical	\$2,982	\$3,369	\$3,901	\$3,863	\$3,157	\$2,965	\$2,892	\$3,094	\$3,455	\$3,688
	Indemnity	\$3,617	\$3,863	\$4,087	\$4,167	\$3,886	\$3,523	\$3,277	\$3,392	\$3,646	\$3,985
	Total	\$6,599	\$7,232	\$7,988	\$8,030	\$7,043	\$6,488	\$6,169	\$6,486	\$7,101	\$7,673

Bottomline: Fiscal Year 2005/2006 was the turning point for California public self-insured's paid losses reported at the 3rd valuation, as total claim payments fell to a post-reform low of \$811 million (\$431 million indemnity + \$380 million medical), signaling the end of a 3-year decline. The latest 3rd report data show there were only 125,187 public self-insured claims reported for FY 2008/2009, 4.8 percent fewer than were noted in

the FY 2005/2006 valuation. Despite that decline in the number of claims, total paid losses at the 3-year benchmark have climbed by more than \$149 million (+18.4%) to about \$961 million (\$499 million indemnity + \$462 million medical) – the combined effect of the 21.6% increase in the average amount paid per claim for indemnity and the 27.5% increase in the average amount paid for medical at the 3rd report level.



Incurred Losses: Table 6 shows public self-insured employers' 3rd report incurred results for FY 1999/2000 through FY 2008/2009 claims. As with the paid data, the incurred results show the pre-reform peak in aggregate public self-insured losses noted in the 3rd reports was in FY 2002/2003, when incurred losses topped out at \$1.76 billion, followed by a steep 2-year decline that saw total incurred losses drop by \$440 million to \$1.32 billion by FY 2004/2005. The results varied by type of benefit, however, as both average and total incurred indemnity measured at the 3rd valuation

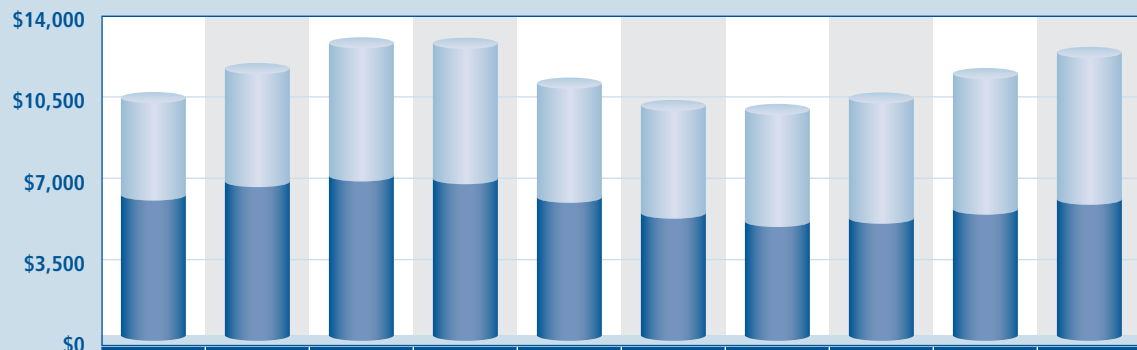
continued to decline through FY 2005/2006 before hitting a post-reform low, while average incurred and total incurred medical hit bottom a year earlier, in FY 2004/2005.

Since FY 2004/2005, the average incurred medical per public self-insured claim at 3rd report has increased by \$1,686 (+33%), climbing from \$5,114 to \$6,800 in FY 2008/2009; while average incurred indemnity has risen \$958 (+19.6%) from the low of \$4,898 recorded in the FY 2005/2006 3rd reports to \$5,856 in 3rd reports for FY 2008/2009 claims.

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

Fiscal Year 1999/2000 - Fiscal Year 2008/2009 Experience @ the 3-Year Valuation

Fiscal Year	# Of Claims	TOTAL INCURRED			AVERAGE INCURRED/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
1999/2000	121,192	\$731,756,676	\$566,395,487	\$1,298,152,163	\$6,038	\$4,674	\$10,712
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

Chart 7: Average California W.C. Public Self Insured Paid Losses
Fiscal Year 1999/2000 - Fiscal Year 2008/2009 Experience @ the 3-Year Valuation


	Medical	\$4,674	\$5,344	\$6,206	\$6,306	\$5,393	\$5,114	\$5,303	\$5,653	\$6,314	\$6,800
	Indemnity	\$6,038	\$6,616	\$6,861	\$6,742	\$5,940	\$5,258	\$4,898	\$5,040	\$5,431	\$5,856
	Total	\$10,712	\$11,960	\$13,067	\$13,048	\$11,333	\$10,372	\$10,201	\$10,693	\$11,745	\$12,656

Bottomline: Public self-insured 3rd report incurred losses climbed steadily from the late 90s until they finally peaked at \$1.76 billion in FY 2002/2003, a surge that helped spur the 2002–2004 reforms. Subsequent declines in incurred indemnity and medical losses began in FY 2003/2004, continuing on the medical side through FY 2004/2005 and on the indemnity side through FY 2005/2006. The latest 3rd report data show incurred indemnity and medical continue

to rise, with total incurred losses for public self-insureds climbing to \$1.58 billion in the 3rd reports for FY 2008/2009 claims – a total that is up nearly \$262 million (+19.8%) from 4 years earlier. That increase came despite a slight drop (-1.8%) in the number of 3rd report claims compared to the FY 2004/2005 tally, and was primarily fueled by a 33% jump in average incurred medical, though average incurred indemnity was up as well, climbing 11.4% from the FY 2004/2005 level.

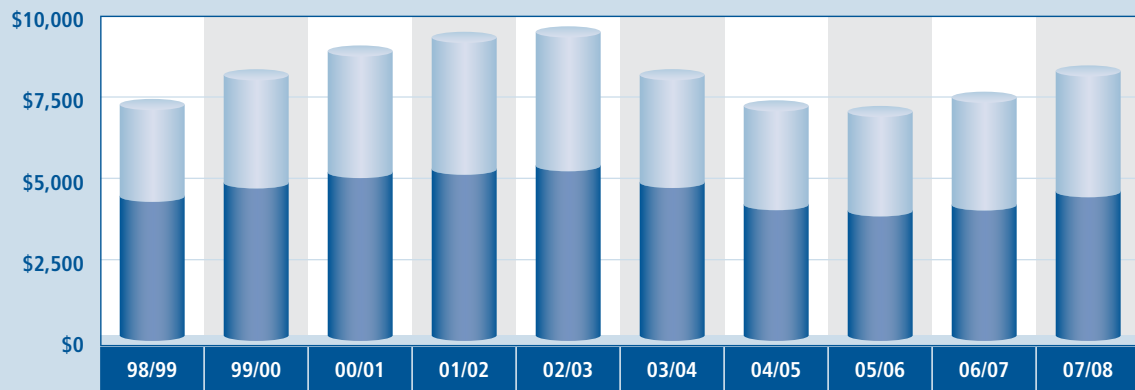
**FOURTH REPORT DATA:****FY 1998/1999 – FY 2007/2008 Claims**

Fourth reports reflect up to 48 months' worth of claim development on public self-insured claims. OSIP's latest summary includes 4th report data on 129,993 claims from FY 2007/2008. The 4th report on public self-insured claims for FY 2007/2008 shows 1,591 more claims than were recorded in the 1st report for that year, (+1.2%), but 784 fewer claims (-0.6%) than were noted in the 4th reports for the prior year (FY 2006/2007).

Paid Losses: Table 7 shows paid losses reported at the 4th valuation for FY 1998/1999 through 2007/2008. Despite the marginal decline in the number of public self-insured claims recorded in the 4th reports for the most recent year (FY 2007/2008) compared to the 4th reports from the prior year, total loss payments increased, as the average indemnity payments per claim rose 10.2% to \$4,416, while average medical payments per claim, which had increased 7.5% the prior year, continued to increase at an even faster pace, rising 11% to \$4,056.

Table 7: California WC Paid Losses: Public Self-Insured Claims**Fiscal Year 1998/1999 - Fiscal Year 2007/2008 Experience @ the 4-Year Valuation**

Fiscal Year	# Of Claims	TOTAL PAID			AVERAGE PAID/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
1998/1999	117,944	\$504,137,150	\$373,620,138	\$877,757,288	\$4,274	\$3,168	\$7,442
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

Chart 8: Average California W.C. Public Self Insured Paid Losses
Fiscal Year 1998/1999 - Fiscal Year 2007/2008 Experience @ the 4-Year Valuation


Medical	\$3,168	\$3,667	\$4,079	\$4,398	\$4,458	\$3,655	\$3,380	\$3,399	\$3,655	\$4,056
Indemnity	\$4,274	\$4,687	\$5,006	\$5,107	\$5,215	\$4,701	\$4,019	\$3,827	\$4,009	\$4,416
Total	\$7,442	\$8,354	\$9,085	\$9,505	\$9,673	\$8,356	\$7,399	\$7,226	\$7,664	\$8,472

Bottomline: The 4th report data indicate that aggregate paid losses on public self-insured claims rose steadily from the late 90s through FY 2002/2003, then declined by \$323 million over 3 years as the 2002-2004 reforms were enacted, hitting a post reform low in FY 2005/2006 (falling from nearly \$1.29 billion in the 4th reports for FY 2002/2003 claims to less than \$963 million in the 4th reports for FY 2005/2006 claims). Much of the decline in total payments for FY 2005/2006 was due to a 4.1% reduction in the number of claims noted in the 4th reports for that year, as the steep post-reform decline in the average amount paid per claim was tapering off at that point, with the

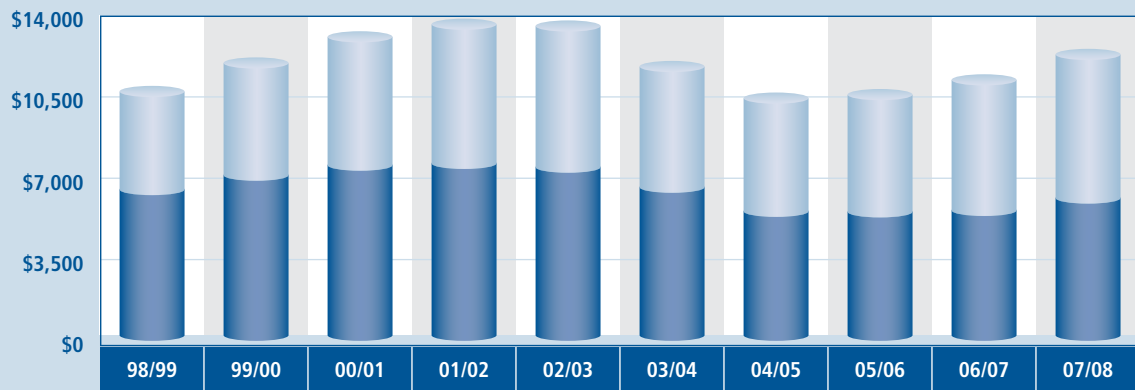
average medical paid per claim registering the first increase in 3 years, the first hint that the trend was changing and that paid losses were starting to move up. Despite the slight decline in the number of public self-insured claims noted in the FY 2007/2008 4th report compared to the prior year, total paid losses continued to climb, with overall payments on FY 2007/2008 claims up more than \$99 million (+9.9%) from a year earlier, climbing to more than \$1.1 billion, spurred by the 10.2% increase in the average indemnity payment per claim and the 11% increase in the average medical payment per claim.

Incurred Losses: The 4th report incurred data for FY 1998/1999 through FY 2007/2008 public self-insured claims are noted in Table 8. As with the paid data, these results indicate that after climbing steadily for several years, California public self-insured employers' total incurred losses peaked in FY 2002/2003 at more than \$1.83 billion, but then dropped sharply, falling by \$390 million (21.3%) to \$1.44 billion after state lawmakers enacted the 2002-04 reforms. After hitting that post-reform low in FY2005/2006, however, total incurred at the 4th report level jumped by \$190 million (+13.2%) to \$1.63 billion in the most recent year for which data are available (FY 2007/2008), as the continued reduction in the number of reported claims was not enough to offset the increases in average incurred indemnity and average incurred medical per claim.

A closer look at the post-reform data shows that some of the decline in total incurred losses noted in the FY 2005/2006 4th reports was due to the reduction in the number of claims, though some was due to a marginal decline in average incurred indemnity, which fell from \$5,334 in FY 2004/2005 to \$5,311 in FY 2005/2006, continuing a downtrend that began 4 years earlier. In contrast, average incurred medical per claim at the 4th valuation rose 3.2% to \$5,530 in FY 05/06 – the first increase in 3 years. The 4th report data from the 2 latest years show that the growth in average incurred indemnity has been accelerating recently, rising 1.2% in FY 2006/2007 and 9.9% in FY 2007/2008, while average incurred medical jumped 10.3% in FY 2006/2007 and 9.2% in FY 2007/2008. As a result, the overall average incurred on a public self-insured claim at the 4-year valuation rose to \$12,570 in FY 2007/2008, which is up 17.6% from the post-reform low.

Table 8: California WC Incurred Losses: Public Self-Insured Claims
Fiscal Year 1998/1999 - Fiscal Year 2007/2008 Experience @ the 4-Year Valuation

Fiscal Year	# Of Claims	TOTAL INCURRED			AVERAGE INCURRED/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
1998/1999	117,944	\$739,568,226	\$554,942,031	\$1,294,510,257	\$6,271	\$4,705	\$10,976
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

Chart 9: Average California W.C. Public Self Insured Paid Losses
Fiscal Year 1998/1999 - Fiscal Year 2007/2008 Experience @ the 4-Year Valuation


Bottomline: The latest 4th report data (FY 2007/2008 claims) shows public self-insureds' total incurred losses of \$1.63 billion (\$767.6 million indemnity + \$866.4 million medical), which is up from the post-reform low of \$1.44 billion (\$707.6 million indemnity + \$736.7 million medical) noted in the 4th reports on FY 2005/2006 claims. This was the 2nd consecutive increase in aggregate 4th report incurred losses since the post-reform low in FY 2004/2005, and combined with the 1st, 2nd, and 3rd report findings from the most recent years

offers further evidence that the post-reform decline in losses on public self-insured claims was short-lived, and that rising medical losses have been the primary cost driver for public self-insured claims since FY 2005/2006, although incurred indemnity is now rising as well. As with the paid data, the latest incurred results confirm that even though public self-insured claim volume has not moved up, average incurred medical and indemnity expenses at the 4th report level are climbing rapidly, so total incurred is fast approaching the pre-reform levels.

**FIFTH REPORT DATA:****FY 1997/1998 – FY 2006/2007 Claims**

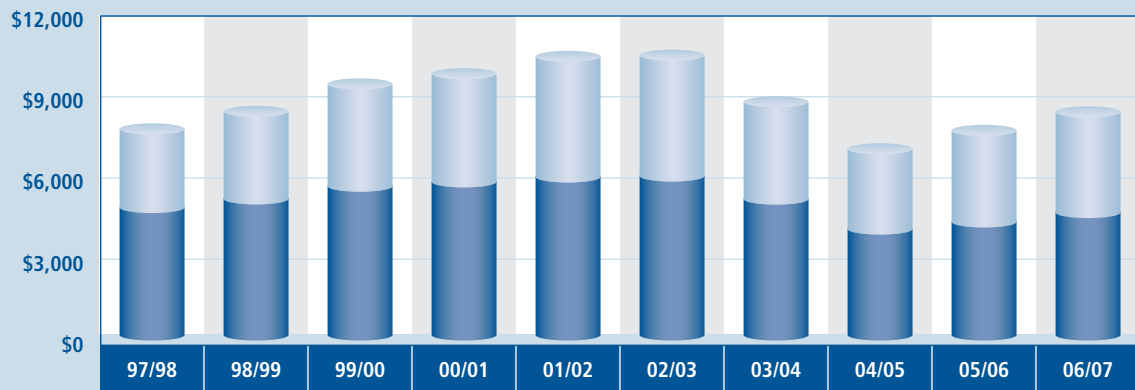
Public self-insured employers' 5th reports offer the most developed data in the latest summary, measuring up to 60 months' worth of claim experience, but this level of development is only available on older claims, so the 5th reports provide the most limited view of post-reform outcomes. The most recent OSIP update includes 5th report data on 129,917 claims from FY 2006/2007. That total is 13,689 more claims (+11.8%) claims than were recorded in the initial reports for FY 2006/2007; but 4,003 fewer claims (-3%) than were noted in the 5th reports for the prior year (FY 2005/2006). Table 9 compares the 5th report paid losses on claims for the most recent 10 years for which data is available.

Paid Losses: After increasing steadily for 8 years, the number of job injury claims reported by California public self insureds at the 5th valuation fell 14.6% to

133,920 cases in FY 2005/2006, then fell another 3% in FY 2006/2007. The decline in the volume of cases in FY 2005/2006 coincided with a decline in the number of workers covered by public self-insured employers, which may have been due in part to a weakening economy as well as to public self-insured employers switching to the insured market as premium rates dropped following the reforms. By FY 2006/2007, however, the number of covered workers noted in the public self-insured report was back up while the number of reported claims continued to fall. Nevertheless, even with 26,839 fewer claims recorded in the FY 2006/2007 5th reports (a 17% drop compared to 2 years earlier), total loss payments on public self-insured claims fell only 1.7% between FY 2004/2005 and FY 2006/2007, as the average paid loss per claim registered two consecutive increases, climbing 18.7% over the 2-year span to an average of \$8,642 per claim, as average indemnity paid per claim jumped 15.6% and average medical paid rose 22.3% .

Table 9: California WC Paid Losses: Public Self-Insured Claims**Fiscal Year 1997/1998 - Fiscal Year 2006/2007 Experience @ the 5-Year Valuation**

Fiscal Year	# Of Claims	TOTAL PAID			AVERAGE PAID/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
1997/1998	116,661	\$549,048,988	\$386,145,047	\$935,194,035	\$4,706	\$3,310	\$8,016
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

Chart 10: Average California W.C. Public Self Insured Paid Losses
Fiscal Year 1997/1998 - Fiscal Year 2006/2007 Experience @ the 5-Year Valuation


	Medical	\$3,310	\$3,639	\$4,186	\$4,403	\$4,861	\$4,868	\$3,998	\$3,372	\$3,786	\$4,123
	Indemnity	\$4,706	\$5,024	\$5,490	\$5,651	\$5,830	\$5,866	\$5,016	\$3,910	\$4,174	\$4,519
	Total	\$8,016	\$8,663	\$9,676	\$10,054	\$10,691	\$10,734	\$9,014	\$7,282	\$7,960	\$8,642

Bottomline: The 5th report data from the most recent decade confirm that public self-insured paid losses peaked in FY 2002/2003, followed by a 2-year decline in loss payments that coincided with the implementation of the 2002-04 reforms. Despite an increase in the number of public self-insured claims noted in the 5th reports for FY 2003/2004 and 2004/2005, total loss payments fell by more than \$305 million, as average indemnity payments per claim fell 33% from \$5,866 in FY 2002/2003 to \$3,910 in FY 2004/2005, and average medical payments fell nearly 31% from \$4,868 to \$3,372.

The latest 5th report data (FY 2006/2007) show 26,839 fewer claims (-17.1%) compared to 2 years earlier (FY 2004/2005), but even with that big drop in claim volume, overall loss payments in this sector were down less than \$19 million, or 1.7%, as the average amount paid on a FY 2006/2007 claim at the 5th report rose to \$8,642 – up 18.7% from the level noted in the 5th reports for FY 2004/2005 claims, the combined effect of a 15.6% increase in average indemnity paid per claim, and a 22.3% increase in average medical paid.

Incurred Losses: The 5th report incurred data for public self-insured employers display a similar pattern (Table 10). Total incurred amounts on these claims, measured at the 5th valuation, increased steadily from the late 90's until finally peaking at just over \$2 billion in FY 2002/2003. In the 3 post-reform years that followed that peak, the total amount incurred at the 5th report fell 25.8%, dropping to \$1.49 billion for FY 2005/2006 claims.

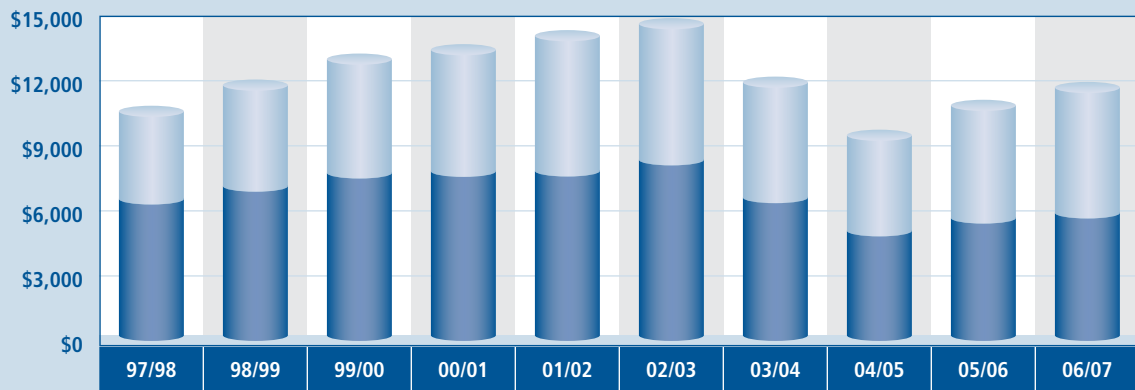
During the initial post-reform period, the decline in public self-insured incurred losses was paced by a huge reduction in average incurred indemnity per claim, which fell more than 40% from \$8,094 in FY 2002/2003 to \$4,821 in FY 2004/2005, while average

incurred medical fell 27.5% from \$6,793 to \$4,923. As with the paid data, average incurred losses at the 5th report increased sharply for FY 2005/2006 and FY 2006/2007 claims, with the latest reading showing average incurred indemnity per claim up 17.1% over 2 years to \$5,646 while average incurred medical was up 28% to \$6,301. These increases in the average amount incurred per claim more than offset the huge decline in claim volume noted in the 2 most recent years, so total 5th report incurred losses on public self-insured claims for FY 2006/2007 climbed to \$1.55 billion, which was up \$62.5 million (4.2%) from the post-reform low recorded in the prior year, and \$24.7 million (+1.6%) more than in FY 2004/2005.

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

Fiscal Year 1997/1998 - Fiscal Year 2006/2007 Experience @ the 5-Year Valuation

Fiscal Year	# Of Claims	TOTAL INCURRED			AVERAGE INCURRED/CLAIM		
		Indemnity	Medical	Total	Indemnity	Medical	Total
1997/1998	116,661	\$733,757,683	\$531,785,998	\$1,265,543,681	\$6,290	\$4,558	\$10,848
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

Chart 11: Average California W.C. Public Self Insured Paid Losses
Fiscal Year 1997/1998 - Fiscal Year 2006/2007 Experience @ the 5-Year Valuation


Bottomline: Prior to the enactment of legislative reforms, California public self-insured's incurred losses at the 5th report level soared from about \$1.27 billion (\$733.8 million indemnity + \$531.8 million medical) in FY 1997/1998 to nearly \$2.01 billion (\$1.09 billion indemnity + \$915.7 million medical) in FY 2002/2003 – 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 2002/2003.

The 5th report data also reveal the sharp reduction

in public self-insured's incurred losses in the first 2 years following the reforms, as 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 2005/2006, however, as claim volume has declined 17.1%, falling to the lowest level in 5 years, while average incurred losses jumped to a 3-year high of \$11,947, led by average incurred medical, which has risen 28% from the FY 2004/2005 low, while average incurred indemnity has increased 17.1% over the same span.

DISCUSSION

The latest summary of fiscal year claims experience of California's public self-insured employers confirms that both total paid and incurred losses on job injury claims filed against these employers peaked in FY 2002/2003, then declined sharply, albeit briefly, following the enactment of the 2002-2004 reforms. The 1st, 2nd, 3rd, 4th and 5th reports, which provide as much as 60 months' worth of loss data, all indicate that the post-reform downtrend was over by FY 2005/2006, and since then, increases in average losses per claim – led by increased medical – have produced steady growth in public self-insured's overall paid and incurred losses in the California workers' compensation system.

As already noted, this analysis contains data limitations. The report is based on public self-insured data compiled by the state Office of Self-Insurance Plans, so unlike other CWCI studies that utilize data from the Institute's own Industry Claims Information System database, neither the author nor the peer reviewers were able to perform audits or quality checks on the OSIP data, and we cannot assert that all public self-insured entities that reported data to OSIP were consistent in their submissions. Despite such limitations, the OSIP summaries still offer the most broad-based historical data on California

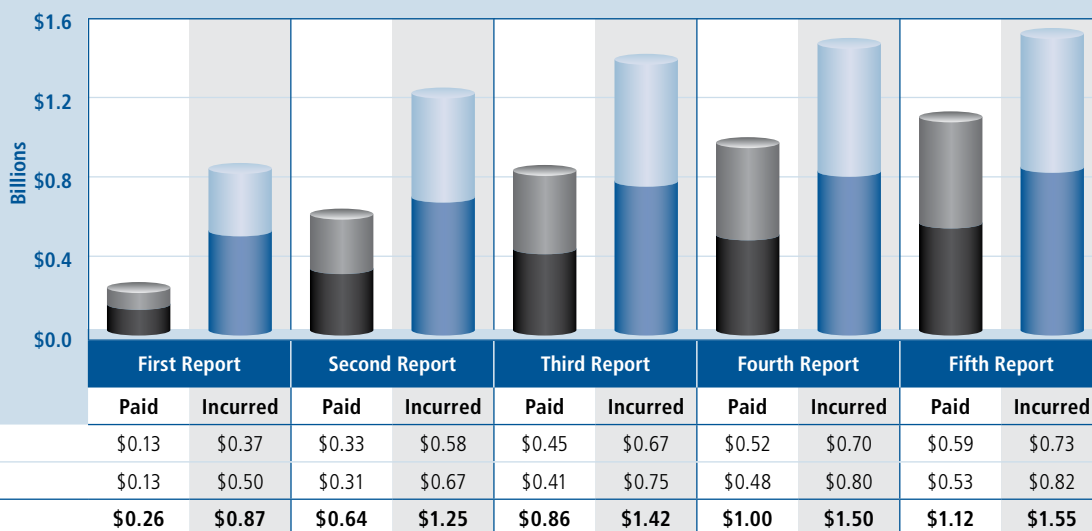
self-insured claims experience. As such, they are widely used and cited by legislative and regulatory agencies, as well as other research organizations, as the best source and leading industry standard for tracking the workers' compensation results of both public and private sector self-insured employers.

Because workers' compensation is a long-tailed line of insurance in which losses (especially on complex claims) often accrue over many years, and because it now takes longer to close claims than it has in the past, public self-insured employers face significant, continuing costs from their existing caseloads, in addition to the cost of new claims that are filed. This is evident in the most developed data from the current OSIP summary – the FY 2006/2007 data, which measures claims experience through the 5th report, providing up to 60 months' worth of paid and incurred data on claims from that year. The chart below tracks the growth in the total paid and incurred losses on the FY 2006/2007 public self-insured claims at the 1st through the 5th report levels.

As noted in the chart, public self-insured loss payments on FY 2006/2007 claims at the 1st report totaled \$260 million, while the total incurred amount was \$870 million. Four years later, the paid amount, noted in the

Chart 12: Total Paid and Incurred Amounts

California Public Self-Insured FY 2006/2007 Claims at 1st – 5th Reports (in \$ Billions)



5th reports for FY 2006/2007 claims, had more than quadrupled to \$1.12 billion, while total incurred had climbed to \$1.55 billion.

Chart 12 also reveals that significant losses often continue to accrue on public self-insured claims for many years. For example, looking at the growth in losses for the FY 2006/2007 claims between the 4th and 5th reports shows that in the last year alone, the total amount paid on these claims increased by \$120 million, while the total incurred amount increased by \$50 million.

The recent growth in workers' compensation losses documented by the OSIP data, and the long-tailed nature of many of these claims, is adding significant strain to the budgets of public self-insured entities that are already facing considerable fiscal challenges, and the problem could be exacerbated if claim frequency continues up, as was noted in the first reports for FY 2010/2011. The pressure this is creating for California cities, counties, and other public self-insured employers was underscored last month when Los Angeles County Chief Executive Officer William Fujioka reported to the Board of Supervisors that the county paid \$374 million, or more than \$1 million a day, for its workers' compensation program in FY 2010/2011. That total was up 5% from the prior year and represented $\frac{3}{4}$ of the county's risk management budget, which covers not only workers' compensation, but other legal claims and commercial insurance.

In explaining the increase, Fujioka noted that the county had 11,234 new claims last year, 5.7% more than in FY 2009/2010, which was the biggest jump in 7 years, even though there were fewer employees. As a result, claim frequency among Los Angeles County employees jumped 10.7% to 11.7 claims per 100 workers. At the same time, both the number of permanent disability

claims and aggregate medical losses increased.

The distribution of the claims among the various Los Angeles County departments also affected costs in a way that would likely be mirrored in the experience of many other public self-insured entities. Fujioka reported that the Sheriff's Department ranked 1st in claim volume with 30% of the claims, while the Fire Department, Department of Health Services, and Department of Public Social Services each had about 12% of the claims. Public safety officer claims include some of the most expensive cases for California public self-insureds, as Labor Code §4850 provides police, fire, probation officers and other public safety personnel with full salary replacement for up to a year while recovering from a job injury. Fujioka noted that last year, §4850 benefits alone cost the county \$60 million, up \$2 million from the prior year, and up \$10 million from FY 2008/2009. Furthermore, more than 24% of Los Angeles County's workers' compensation payments last year were related to incidents that happened more than 11 years ago—a strong indication of just how difficult it can be to close public self-insured claims, and the huge expense associated with many of these long-tailed cases.

Barring a significant drop in claim frequency, improvement in the claim closure rate, and/or a turnaround in average claim costs, which have now been trending up for about 5 years, the latest OSIP data suggest that California public self-insureds will need to prepare themselves for continued growth in their worker's compensation losses.

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 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.