

California Workers' Compensation Institute

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CWCI California Workers' Compensation Trend Analysis

February 2010

Public Self-Insured Claims Experience in California Workers' Compensation FY 1999 - 2009

The California Office of Self-Insurance Plans (OSIP) has 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. The summary provides a tally of the total number of claims (medical-only and indemnity) reported to OSIP through the end of the fiscal year, as well as the total amounts paid and incurred for indemnity and medical benefits on those claims.

BACKGROUND

The summary issued January 21, 2010 includes initial data on claims reported to OSIP for the 12 months ending June 30, 2009, plus updated data (2nd, 3rd, 4th, and 5th valuations) on claims reported for each of the four prior years. Employers covered in the report include cities and counties; local fire, school, transit, utility and special districts; as well as joint powers authorities. Last year, these public self-insured entities provided workers' compensation coverage to nearly 2.1 million California workers (8 percent more than were noted in the FY 07/08 1st report) with FY 08/09 wages and salaries totaling \$98.6 billion (10.3 percent more than the FY 07/08 1st report total).

OSIP prepares its summaries annually, so to track changes in the volume and cost of public self-insured claims, CWCI reviewed the summaries from the last several years and calculated the average paid and incurred amounts per claim reported for each year at the different valuation points. The Institute then compared the results for each valuation across the six most recent years. Though public self-insured employers are required to report by October 1, 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 least developed, yet most current data. Although the 1st report offers relatively "green" data, it provides an initial snapshot of the volume of claims and losses for a fiscal year. Because the snapshot is taken at the same point in time for the same 12-month period each year, it is a useful tool for benchmarking public self-insured claims experience, and comparing 1st report data from the most recent to 1st report results from prior years allows a glimpse at emerging trends.

RESULTS

Tables 1 and 2 show the paid and incurred amounts that California public self-insureds reported at the 1st valuation for FY 03/04 through FY 08/09. The subsequent tables show more developed results for the most recent 6 years available; with the most fully developed data (Tables 9-10) comparing snapshots of paid and incurred losses for FY 99/00–FY 04/05 at the 5th valuation, reflecting the amounts reported for these claims 4 to 5 years after they were initially reported.

ABOUT CWCI

The California Workers' Compensation Institute, incorporated in 1964, is a private, nonprofit organization of insurers and self-insured employers conducting and communicating research and analyses to improve the California workers' compensation system. Institute members include insurers that collectively write more than 87 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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First Report Data: FY 03/04 – FY 08/09 Claims

In the first three years following the 2004 reforms, the number of job injury claims noted in public self-insured employers' initial reports declined 12.5% from 132,777 in FY 2003/2004 to 116,228 in FY 2006/2007, but that number increased 7.4% to 128,422 claims in FY 2007/2008 before dipping slightly to 126,029 claims last year.

Paid Losses: Looking at claim severity (average paid per claim), the 1st report data show that after bottoming out at \$2,185 per claim in FY 05/06, average public self-insured claim payments rose 4.0 percent to \$2,272 in FY 06/07, 2.6% to \$2,332 in FY 07/08, and 5.8 percent to \$2,468 in FY 08/09, a net increase of nearly 13 percent from the post-reform low.

Table 1: CALIFORNIA WC PAID LOSSES: PUBLIC SELF-INSURED CLAIMS
FY 03/04 - FY 08/09 Payments @ 1st Report

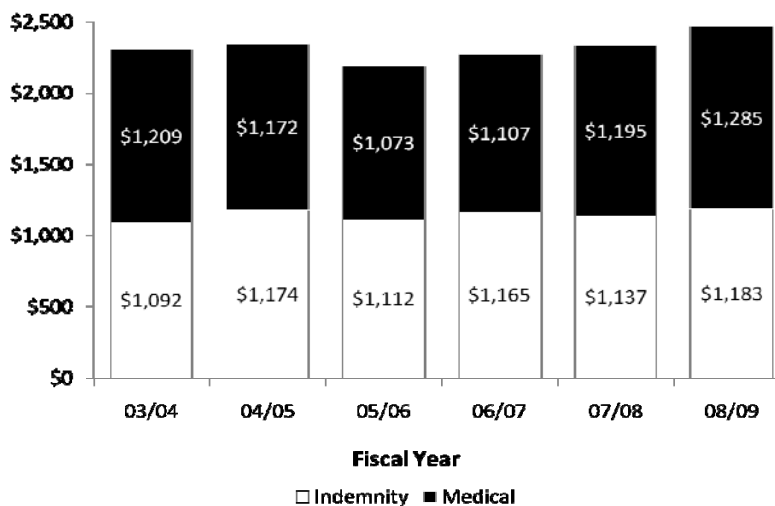
FISCAL YR	# OF CLAIMS	TOTAL PAID		AVERAGE PAID/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2003/2004	132,777	\$144,953,276	\$160,560,238	\$1,092	\$1,209	\$2,301
2004/2005	126,016	\$147,886,718	\$147,650,432	\$1,174	\$1,172	\$2,345
2005/2006	118,929	\$132,277,829	\$127,635,852	\$1,112	\$1,073	\$2,185
2006/2007	116,228	\$135,352,876	\$128,618,664	\$1,165	\$1,107	\$2,272
2007/2008*	128,422	\$145,965,626	\$153,476,151	\$1,137	\$1,195	\$2,332
2008/2009	126,029	\$149,097,281	\$161,917,089	\$1,183	\$1,285	\$2,468

* FY '07/'08 summary amended 9/23/09

The breakdown of benefit payments shows that since FY 05-06, average public self-insured indemnity payments at 1st report have increased 6.4 percent from \$1,112 to \$1,183, while average medical payments are up 19.8 percent from \$1,073 to \$1,285, which is back above pre-reform level.

Avg. Calif. W.C. Public Self-Insured Paid Losses

FY 03/04 – 08/09 @ Initial Report



Bottomline: California public self-insured's paid losses reported at the initial valuation increased from just under \$260 million (\$132.3 million indemnity + \$127.6 million medical) in FY 05/06 to \$311 million (\$149.1 million indemnity + \$161.9 million medical) in FY 08/09 – up 19.6 percent in the last 3 years. That increase was due to a combination of higher average payments per claim and an increase in the number of claims reported at the first valuation.

Incurred Losses: Incurred results for public self-insured employers tell a similar story. The 1st report data show the average incurred per claim fell immediately after the 2004 reforms, hitting a low of \$7,171 in FY 05/06, though this initial post-reform decline was primarily driven by reductions in the average incurred indemnity per claim, which fell 12.6 percent from the FY 03/04 level, while incurred medical showed little change.

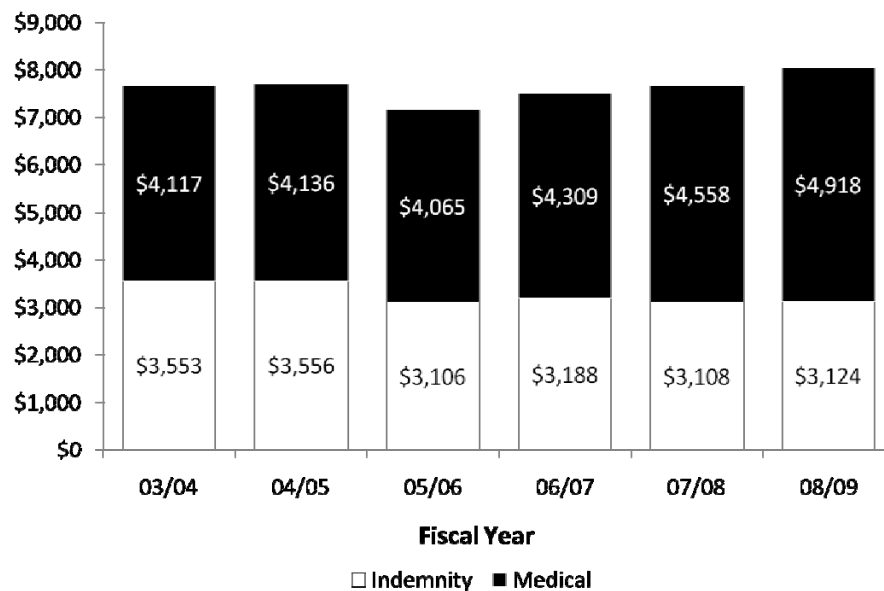
Table 2: CALIFORNIA WC INCURRED LOSSES: PUBLIC SELF-INSURED CLAIMS
FY 03/04 - FY 08/09 Payments @ Initial Report

FISCAL YR	# OF CLAIMS	TOTAL INCURRED		AVERAGE INCURRED/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2003/2004	132,777	\$471,802,675	\$546,621,203	\$3,553	\$4,117	\$7,670
2004/2005	126,016	\$448,092,998	\$521,198,702	\$3,556	\$4,136	\$7,692
2005/2006	118,929	\$369,376,044	\$483,501,336	\$3,106	\$4,065	\$7,171
2006/2007	116,228	\$370,531,149	\$500,857,250	\$3,188	\$4,309	\$7,497
2007/2008*	128,402	\$399,128,515	\$585,229,840	\$3,108	\$4,558	\$7,666
2008/2009	126,029	\$393,710,970	\$619,755,852	\$3,124	\$4,918	\$8,042

*FY '07/'08 summary amended 9/23/09

The story has been quite different since FY 05/06, with the average incurred medical per public self-insured claim up 21 percent, from \$4,065 to \$4,918, while average incurred indemnity has barely budged, fluctuating less than \$100 per claim over the last four years, and coming in at \$3,124 per claim for FY 08-09, up less than 0.6 percent from the \$3,106 level reported for FY 05-06.

Avg. Calif. W.C. Public Self-Insured Incurred Losses
FY 03/04 – 08/09 @ Initial Report



Bottomline: California public self-insured's incurred losses reported at the initial valuation increased from \$852 million (\$369.4 million indemnity + \$483.5 million medical) in FY 05/06 to \$1.01 billion (\$393.7 million indemnity + \$619.8 million medical) in FY 08/09 – up 18.9 percent in 3 years. That increase was due to a combination of higher average incurred per claim, and an increase in the number of claims reported at the first valuation.

Second Report Data: FY 02/03 – FY 07/08 Claims

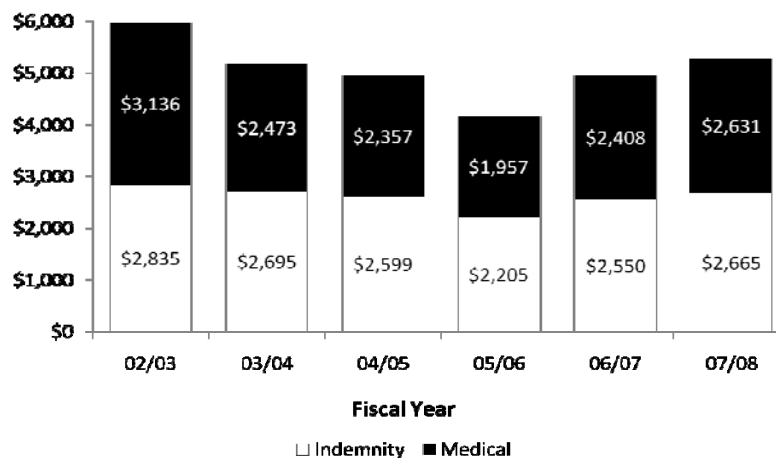
Second reports reflect up to 24 months' worth of claim development on public self-insured claims. OSIP's latest summary includes 2nd report data on 131,272 claims from FY 07/08. That tally is 2,870 more claims (+2.2 percent) than were noted in the initial reports for that year, and 1,903 more claims (+1.5 percent) than were recorded in the 2nd reports for FY 06/07, but it is 8,870 fewer claims (-6.3 percent) than were noted in the 2nd reports for FY 05/06 – the year in which paid losses bottomed out.

Table 3: CALIFORNIA WC PAID LOSSES: PUBLIC SELF-INSURED CLAIMS
FY 02/03 - FY 07/08 Experience @ the 2-Year Valuation

FISCAL YR	# OF CLAIMS	TOTAL PAID		AVERAGE PAID/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2002/2003	132,715	\$376,303,962	\$416,203,789	\$2,835	\$3,136	\$5,971
2003/2004	134,273	\$361,820,722	\$332,000,073	\$2,695	\$2,473	\$5,168
2004/2005	126,667	\$329,189,182	\$298,560,958	\$2,599	\$2,357	\$4,956
2005/2006	140,142	\$309,031,706	\$274,283,570	\$2,205	\$1,957	\$4,162
2006/2007	129,369	\$329,847,092	\$311,502,737	\$2,550	\$2,408	\$4,958
2007/2008	131,272	\$349,885,936	\$345,344,296	\$2,665	\$2,631	\$5,296

Paid Losses: Table 3 shows 2nd report paid loss data for FY 07/08 and each of the five prior years. As with the 1st reports, the 2nd reports show loss payments hit a post-reform low in FY 05/06, the second year after the reforms were enacted. Between FY 05/06 and FY 07/08, however, public self-insured's average loss payments at the 2-year valuation jumped 27.2 percent to \$5,296 per claim. Unlike the 1st reports, however, rising claim severity at the 2nd reports reflected increased indemnity payments as well as rising medical payments. Since the post-reform low, the average indemnity paid at the 2-year benchmark has climbed 20.9 percent to \$2,665, while average medical payments are up 34.4 percent to \$2,631.

Avg. Calif. W.C. Public Self-Insured Paid Losses
FY 02/03 – 07/08 @ 2nd Report



Bottomline: The latest 2nd report data show California public self-insured's total paid losses increased from \$583.3 million (\$309.0 million indemnity + \$274.3 million medical) in FY 05/06 to \$695.2 million (\$349.9 million indemnity + \$345.3 million medical) in FY 07/08 – up 19.2 percent over the 2-year span. That \$111.9 million increase in public self-insured's 2nd report payments occurred even though 8,870 fewer claims were reported, as the reduction in the number of public self-insured claims since FY05/06 has been more than offset by sharp increases in the average amounts paid per claim, with average indemnity payments up 20.9 percent in the last 2 years, and average medical payments up 34.4 percent.

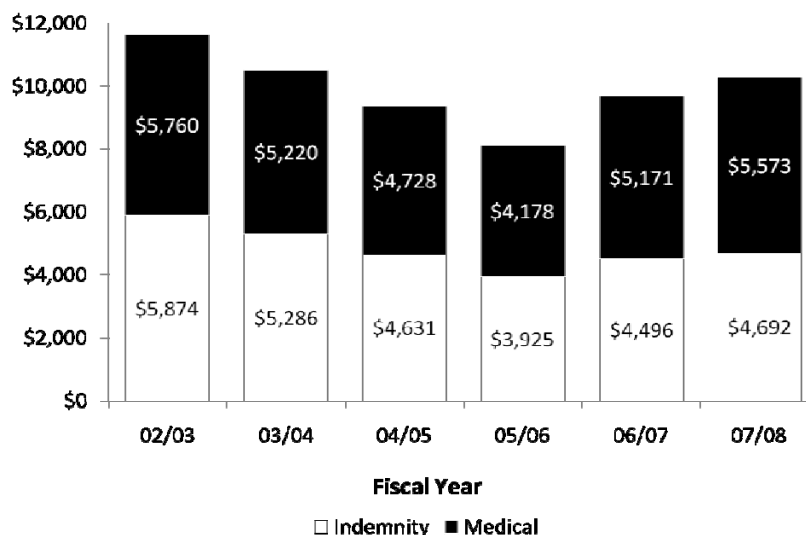
Incurred Losses: Table 4 summarizes public self-insured employers' incurred results at 2nd report for FY 02/03 through FY 07/08. The 2nd report data show the initial reduction in incurred losses following the reforms, as public self-insured's total incurred indemnity fell by nearly \$230 million, or nearly 30 percent, from FY 02/03 through the second post-reform year of FY 05/06, while the total incurred medical on these claims declined by \$179 million, or more than 23 percent, even though there were 7,427 more claims in FY 05/06 than in FY 02/03.

Table 4: CALIFORNIA WC INCURRED LOSSES: PUBLIC SELF-INSURED CLAIMS
FY 02/03 - FY 07/08 Experience @ the 2-Year Valuation

FISCAL YR	# OF CLAIMS	TOTAL INCURRED		AVERAGE INCURRED/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2002/2003	132,715	\$779,583,340	\$764,415,115	\$5,874	\$5,760	\$11,634
2003/2004	134,273	\$709,762,534	\$700,848,140	\$5,286	\$5,220	\$10,506
2004/2005	126,667	\$586,559,940	\$598,930,477	\$4,631	\$4,728	\$ 9,359
2005/2006	140,142	\$549,922,770	\$585,488,677	\$3,925	\$4,178	\$ 8,103
2006/2007	129,369	\$581,668,870	\$668,979,677	\$4,496	\$5,171	\$ 9,667
2007/2008	131,272	\$615,980,443	\$731,603,405	\$4,692	\$5,573	\$10,265

The average amounts 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 percent from \$5,874 to \$3,925, and average incurred medical fell more than 27 percent from \$5,760 to \$4,178. As with the paid loss data, however, the public self-insured's 2nd report results for the last two years show sharp increases in average incurred losses since FY 05/06, with average incurred indemnity up 19.5 percent to \$4,692 per claim in FY 07/08; and average incurred medical up more than 33 percent to \$5,573 per claim.

Avg. Calif. W.C. Public Self-Insured Incurred Losses
FY 02/03 – 07/08 @ 2nd Report



Bottomline: The latest 2nd report data show California public self-insured's incurred losses rose 18.4 percent from \$1.14 billion (\$549.9 million indemnity + \$585.5 million medical) in FY 05/06 to nearly \$1.35 billion (\$616.0 million indemnity + \$731.6 million medical) in FY 08/09. Again, that \$210 million increase in incurred losses came despite a reduction of 8,870 claims reported by public self-insured employers between FY 05/06 and FY 07/08 because, as noted in the chart above, over that same period average incurred medical increased by \$1,395 per claim and average incurred indemnity increased by \$767 per claim.

Third Report Data: FY 01/02 – FY 06/07 Claims

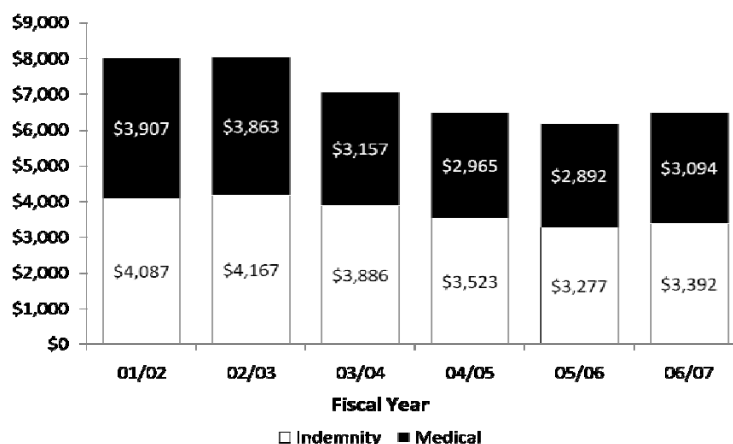
Public self-insured employers' 3rd reports provide up to 36 months' worth of claim experience. The latest summary includes 3rd report data on 132,164 claims from FY 06/07. That total is up by 15,936 claims (+12.1 percent) from public self-insured's initial reports for FY 06/07, though only 2,795 (+2.1 percent) higher than 2nd report tally. Compared to the prior year's 3rd report claim count, the FY 06/07 total is up by 645 claims (0.5 percent). Table 5 shows 3rd report paid losses for FY 06/07 and the five prior years.

Table 5: CALIFORNIA WC PAID LOSSES: PUBLIC SELF-INSURED CLAIMS
FY 01/02 - FY 06/07 Experience @ the 3-Year Valuation

FISCAL YR	# OF CLAIMS	TOTAL PAID		AVERAGE PAID/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2001/2002	125,150	\$511,429,819	\$488,147,959	\$4,087	\$3,901	\$7,988
2002/2003	134,899	\$562,149,606	\$521,167,572	\$4,167	\$3,863	\$8,030
2003/2004	134,652	\$523,255,568	\$425,111,174	\$3,886	\$3,157	\$7,043
2004/2005	127,497	\$449,187,252	\$378,074,371	\$3,523	\$2,965	\$6,488
2005/2006	131,519	\$430,953,128	\$380,355,388	\$3,277	\$2,892	\$6,169
2006/2007	132,164	\$448,304,197	\$408,948,722	\$3,392	\$3,094	\$6,486

Paid Losses: The 3rd report data show that public self insured workers' compensation claim payments at the 3-year valuation totaled nearly \$1 billion for FY 01/02 claims and more than \$1.08 billion for FY 02/03 claims – one of the factors that prompted reform efforts in 2002, 2003 and 2004. Following passage of the reforms, claim costs dropped 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 hit a post-reform low in FY 05/06, with average paid losses at the 3rd valuation totaling \$6,169 (\$3,277 indemnity + \$2,892 medical).

Avg. Calif. W.C. Public Self-Insured Paid Losses
FY 01/02 – 06/07 @ 3rd Report



By FY 06/07, public self-insured employers' average paid losses at the 3-year valuation had turned the corner and were on the rise, climbing 5.1 percent to \$6,486, led by a 7 percent jump in average medical payments, which rose to \$3,094, while average indemnity payments at the 3-year benchmark increased 3.5 percent to \$3,392 per claim.

Bottomline: The 3rd report data show FY 06/07 was a pivotal year, as California public self-insured's paid losses broke a 3-year downtrend, climbing 5.7 percent from the post-reform low of \$811 million (\$431 million indemnity + \$380 million medical) in FY 05/06 to \$857 million (\$448 million indemnity + \$409 million medical). That jump was fueled by a slight increase in the number of 3rd report claims posted by public self insureds (+645 claims) combined with a 3.5 percent jump in the average amount paid per claim for indemnity and a 7.0 percent hike in the average amount paid for medical.

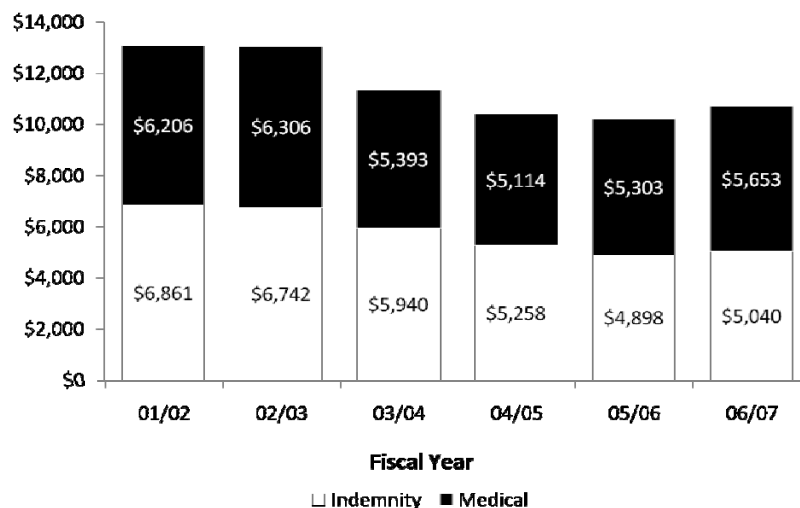
Incurred Losses: Public self-insured employers' 3rd report incurred results for FY 01/02 through FY 06/07 are noted in Table 6. The pre-reform peak in public self-insured total incurred losses was the \$1.76 billion recorded in the FY 02/03 3rd reports, which was followed by a dramatic 2-year decline which saw total incurred fall by \$440 million to \$1.32 billion by FY 04/05. Notably, both average and total incurred indemnity continued to decline through FY 05/06 before finally hitting bottom, while average and total incurred medical reversed trend and started up a year earlier, in FY 04/05.

Table 6: CALIFORNIA WC INCURRED LOSSES: PUBLIC SELF-INSURED CLAIMS
FY 01/02 - FY 06/07 Experience @ the 3-Year Valuation

FISCAL YR	# OF CLAIMS	TOTAL INCURRED		AVERAGE INCURRED/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2001/2002	125,150	\$858,651,895	\$776,653,058	\$6,861	\$6,206	\$13,067
2002/2003	134,899	\$909,489,942	\$850,705,311	\$6,742	\$6,306	\$13,048
2003/2004	134,652	\$799,774,135	\$726,241,402	\$5,940	\$5,393	\$11,333
2004/2005	127,497	\$670,433,307	\$652,068,084	\$5,258	\$5,114	\$10,372
2005/2006	131,519	\$644,121,636	\$697,416,537	\$4,898	\$5,303	\$10,201
2006/2007	132,164	\$666,159,908	\$747,133,182	\$5,040	\$5,653	\$10,693

Since FY 04/05, the average incurred medical per public self-insured claim at 3rd report has risen 10.5 percent, climbing from \$5,114 to \$5,303 in FY 05/06, then continuing up to \$5,653 in FY 06/07; while average incurred indemnity continued to decline through FY 05/06, eventually bottoming out at \$4,898, then edging up 2.9 percent to \$5,040 in the FY 06/07 3rd reports.

Avg. Calif. W.C. Public Self-Insured Incurred Losses
FY 01/02 – 06/07 @ 3rd Report



Bottomline: Public self-insured 3rd report incurred losses peaked at \$1.76 billion in FY 02/03, which helped spur the 2002–2004 reforms. Subsequent declines in incurred indemnity and medical losses began in FY 02/03, continuing on the indemnity side through FY 05/06, and on the medical side through FY 04/05. Third report data from the most recent 2 years show incurred indemnity and medical are now rising, with total incurred losses for public self-insureds climbing to \$1.41 billion at the FY 06/07 3rd reports – up \$90 million from just 2 years earlier. That increase has been driven by a slight uptick in the number of 3rd report claims and by a 10.5 percent jump in average incurred medical over the most recent 2-year period, which has more than offset a 4.1 percent decline in average incurred indemnity.

Fourth Report Data: FY 00/01 – FY 05/06 Claims

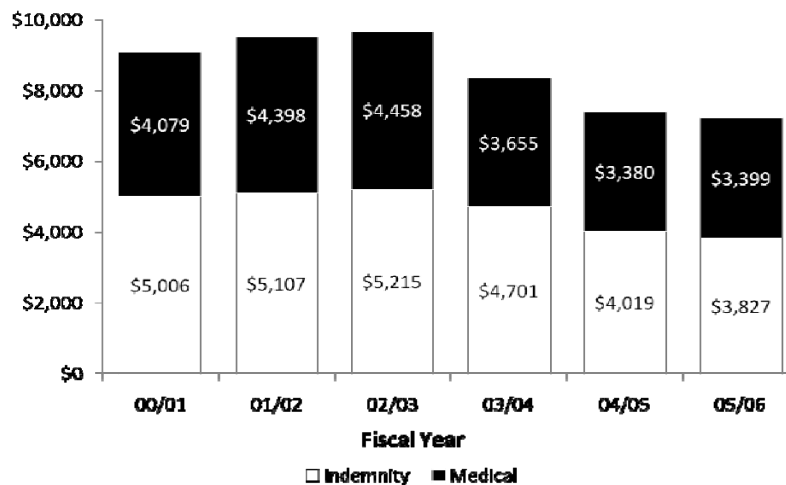
Fourth reports reflect up to 48 months' worth of claim development on public self-insured claims. OSIP's latest summary includes 4th report data on 133,219 claims from FY 05/06. That total is 14,290 (+12 percent) more claims than were noted in the 1st reports for that year, and 1,700 (+1.3 percent) more than were recorded in the FY 05/06 3rd reports, but it is 5,656 fewer claims (-4.1 percent) than were noted in the 4th reports from the prior year (FY 04/05) which was when 4th report claim volume peaked.

Table 7: CALIFORNIA WC PAID LOSSES: PUBLIC SELF-INSURED CLAIMS
FY 00/01 - FY 05/06 Experience @ the 4-Year Valuation

FISCAL YR	# OF CLAIMS	TOTAL PAID		AVERAGE PAID/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2000/2001	120,426	\$602,904,328	\$491,169,461	\$5,006	\$4,079	\$9,085
2001/2002	126,028	\$643,680,140	\$554,239,739	\$5,107	\$4,398	\$9,505
2002/2003	132,908	\$693,145,672	\$592,554,902	\$5,215	\$4,458	\$9,673
2003/2004	135,123	\$635,175,785	\$493,949,881	\$4,701	\$3,655	\$8,356
2004/2005	138,875	\$558,104,487	\$469,454,906	\$4,019	\$3,380	\$7,399
2005/2006	133,219	\$509,847,733	\$452,856,743	\$3,827	\$3,399	\$7,226

Paid Losses: Table 7 shows paid losses reported at the 4th valuation for FY 05/06 and the 5 prior years. The 4th report data show the volume of claims, average indemnity payments per claim and total payments all declined in FY 05/06, though average medical payments, which had fallen nearly 25 percent over the prior 2 years – which included the initial stages of SB 899 implementation -- showed signs of a turnaround, edging up a fraction to \$3,399 in FY05/06.

Avg. Calif. W.C. Public Self-Insured Paid Losses
FY 00/01 – 05/06 @ 4th Report



Bottomline: As noted in the 1st, 2nd, and 3rd report data, the 4th report data indicate that FY 05/06 marked the post-reform low for public self-insured paid losses, which had declined \$323 million in 3 years, from about \$1.28 billion in the FY 02/03 4th reports to \$963 million in the 05/06 4th reports. Much of the decline in total payments for FY 05/06 was due to a 4.1 percent reduction in the number of claims noted in the 4th reports that year, as the steep decline in the average amount paid per claim was tapering off, with the average medical paid per claim registering the first increase in 3 years, the first hint that the tide might be turning and that claim costs were about to trend up.

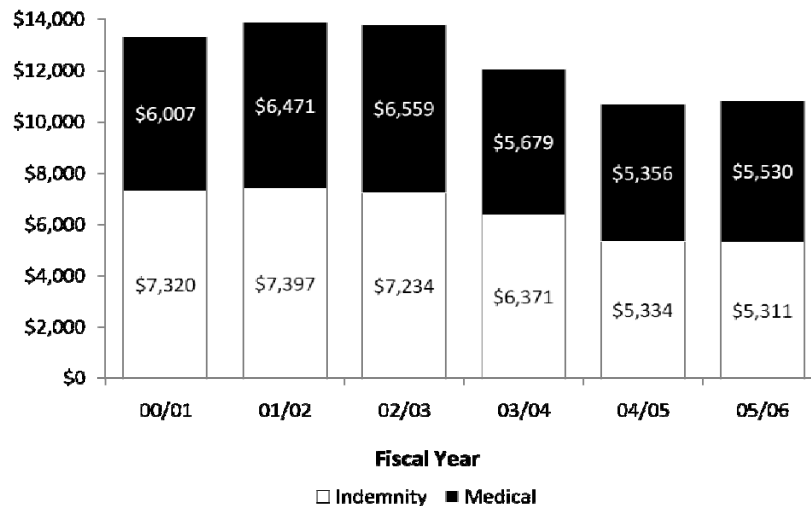
Incurred Losses: Table 8 shows public self-insured employers' 4th report incurred data for FY 00/01 through FY 05/06. Like the paid data, these results indicate that California public self-insured employers' total incurred losses hit a post-reform low in FY05/06, falling to \$1.44 billion, down \$390 million (21.3 percent) from the peak of \$1.83 billion incurred in the FY 02/03 4th reports.

**Table 8: CALIFORNIA WC INCURRED LOSSES: PUBLIC SELF-INSURED CLAIMS
FY 00/01 - FY 05/06 Experience @ the 4-Year Valuation**

FISCAL YR	# OF CLAIMS	TOTAL INCURRED		AVERAGE INCURRED/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
2000/2001	120,426	\$881,511,529	\$723,441,118	\$7,320	\$6,007	\$13,327
2001/2002	126,028	\$932,223,952	\$815,567,805	\$7,397	\$6,471	\$13,868
2002/2003	132,908	\$961,397,168	\$871,754,328	\$7,234	\$6,559	\$13,793
2003/2004	135,123	\$860,906,168	\$767,304,963	\$6,371	\$5,679	\$12,050
2004/2005	138,875	\$740,731,289	\$743,828,251	\$5,334	\$5,356	\$10,690
2005/2006	133,219	\$707,592,375	\$736,690,287	\$5,311	\$5,530	\$ 10,841

Some of the decline in total incurred losses noted in the FY 05/06 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 FY04/05 to \$5,311 in FY 05/06, continuing the downtrend that began 4 years earlier. In contrast, average incurred medical per claim rose 3.2 percent – the first increase in 3 years, tracking with the slight increase noted in the 4th report paid medical data.

**Avg. Calif. W.C. Public Self-Insured Incurred Losses
FY 00/01 – 05/06 @ 4th Report**



Bottomline: The 4th report data for FY 06/07 show California public self-insured's incurred losses fell to a post-reform low of \$1.44 billion (\$707.6 million indemnity + \$736.7 million medical). Since total incurred losses peaked in FY02/03, 4th report incurred indemnity has declined 26.4 percent (from \$961.4 million in FY 02/03 to \$707.6 million in FY05/06), while 4th report incurred medical has dropped 25.5 percent (from \$871.8 million in FY 02/03 to \$736.7 million in FY 05/06). However, the FY 05/06 public self-insured claim tally at 4th report was up slightly (311 claims) from the FY02/3 4th report level, so the decline over that 3-year span was due to the 26.6 percent drop in average incurred indemnity and the 15.7 percent drop in average incurred medical, rather than declining claim volume. As with the paid data, the latest figures show average incurred medical rose between FY04/05 and FY 05/06, again signaling that the post-reform decline in loss costs had not only lost steam by FY 05/06, but had reversed course and was heading back up – a finding confirmed by the 1st, 2nd and 3rd report data from more recent years.

Fifth Report Data: FY 99/00 – FY 04/05 Claims

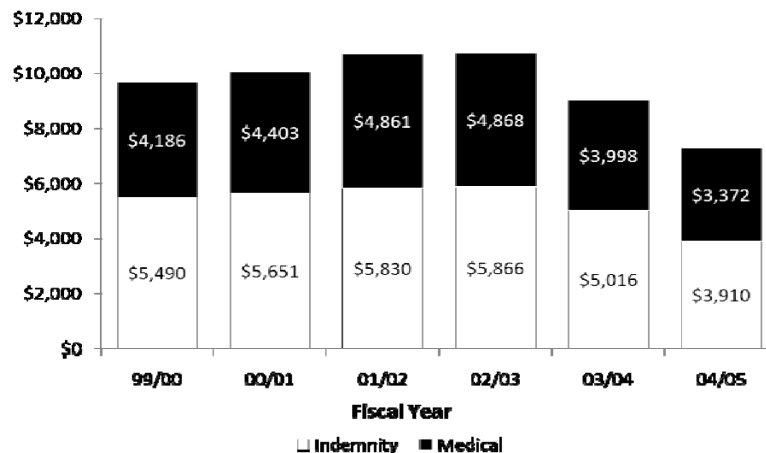
Public self-insured employers' 5th reports offer the most developed data in the latest summary, measuring up to 60 months' worth of claim experience, but this level of development is only available on older claims, so the 5th reports provide a limited view of post-reform outcomes. The OSIP update includes 5th report data on 156,756 claims from FY 04/05. That tally represents an increase of 30,740 claims (+24.4 percent) from public self-insured's initial reports for FY 04/05; 17,871 more claims than were noted in the FY04/05 4th reports, and 7,578 (+5.1 percent) more claims than were included in the 5th reports from the prior year. Table 9 compares the 5th report paid losses for FY 04/05 and the five prior years.

Table 9: CALIFORNIA WC PAID LOSSES: PUBLIC SELF-INSURED CLAIMS
FY 99/00 - FY 04/05 Experience @ the 5-Year Valuation

FISCAL YR	# OF CLAIMS	TOTAL PAID		AVERAGE PAID/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
1999/2000	117,361	\$644,327,483	\$491,301,824	\$5,490	\$4,186	\$9,676
2000/2001	119,648	\$676,086,031	\$526,840,611	\$5,651	\$4,403	\$10,054
2001/2002	124,980	\$728,625,096	\$607,480,507	\$5,830	\$4,861	\$10,691
2002/2003	134,803	\$790,689,867	\$656,209,000	\$5,866	\$4,868	\$10,734
2003/2004	149,178	\$748,245,457	\$596,454,157	\$5,016	\$3,998	\$9,014
2004/2005	156,756	\$612,918,586	\$528,613,436	\$3,910	\$3,372	\$7,282

Paid Losses: The 5th report data show a steady increase in the number of claims reported by public self-insureds across the entire 6-year period, though both the total amount paid and the average amount paid per claim peaked in FY 2002/2003, then fell sharply over the next two years, a decline that coincided with implementation of the 2002-2004 reforms. Despite ongoing increases in the number of claims recorded in the 5th reports, public self-insurers' paid losses fell by \$310 million (21 percent) from nearly \$1.45 billion in FY 2002/2003 to \$1.14 billion in FY 2004/2005, driven by reductions in claim severity (average paid per claim), which declined 32 percent from \$10,734 to \$7,282 during this initial post-reform period.

Avg. Calif. W.C. Public Self-Insured Paid Losses
FY 99/00 – 04/05 @ 5th Report



Bottomline: The 5th report data confirm the pre-reform peak in public self-insured paid losses in FY 02/03 and the decline in loss payments that began after the 2004 reforms took effect. Even as the number of 5th report claims continued to climb in FY03/04 and FY 04/05, total 5th report loss payments fell by more than \$305 million, as total paid indemnity fell nearly \$178 million and total paid medical fell nearly \$128 million. Average indemnity payments per claim fell from \$5,866 in FY 02/03 to \$3,910 in FY 04/05 (33 percent), while average medical payments fell from \$4,868 to \$3,372, or nearly 31 percent. As noted in the 1st, 2nd, 3rd and 4th reports, FY 05/06 marked the post-reform low for public self-insured paid losses.

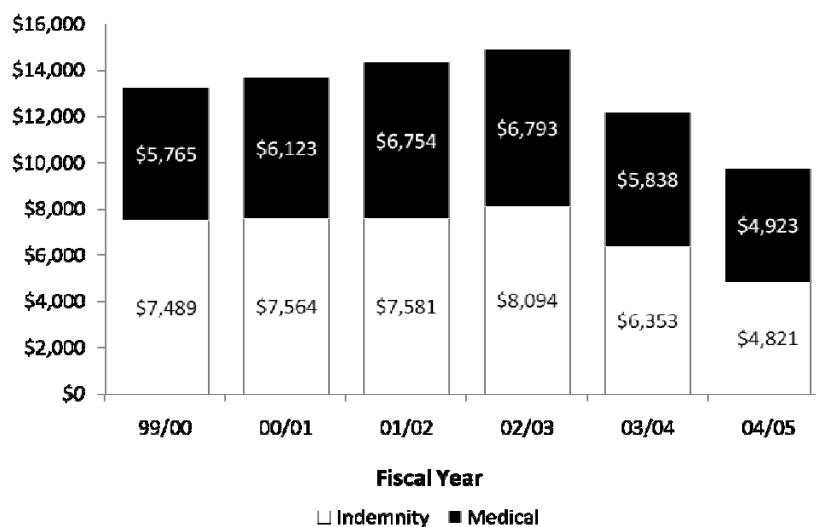
Incurred Losses: The 5th report incurred results for public self-insured employers tell a similar story (Table 10). Total incurred amounts on these claims, measured at the fifth valuation, climbed steadily from the late 90's until finally peaking at just over \$2 billion in FY 2002/2003. They then fell nearly 31 percent to \$1.53 billion in the first 2 years under the reforms.

**Table 10: CALIFORNIA WC INCURRED LOSSES: PUBLIC SELF-INSURED CLAIMS
FY 99/00 - FY 04/05 Experience @ the 5-Year Valuation**

FISCAL YR	# OF CLAIMS	TOTAL INCURRED		AVERAGE INCURRED/CLAIM		
		INDEMNITY	MEDICAL	INDEMNITY	MEDICAL	TOTAL
1999/2000	117,361	\$878,889,681	\$676,581,645	\$7,489	\$5,765	\$13,254
2000/2001	119,648	\$905,002,050	\$732,625,590	\$7,564	\$6,123	\$13,687
2001/2002	124,980	\$947,433,971	\$844,088,281	\$7,581	\$6,754	\$14,335
2002/2003	134,803	\$1,091,057,336	\$915,689,796	\$8,094	\$6,793	\$14,887
2003/2004	149,178	\$947,656,682	\$870,956,815	\$6,353	\$5,838	\$12,191
2004/2005	156,756	\$755,680,272	\$771,781,362	\$4,821	\$4,923	\$ 9,744

The decline in public self-insured incurred losses during this initial post-reform period was paced by a huge reduction in average incurred indemnity per claim, which fell more than 40 percent from \$8,094 in FY 02/03 to \$4,821 in FY 04/05, while average incurred medical fell 27.5 percent from \$6,793 to \$4,923.

**Avg. Calif. W.C. Public Self-Insured Incurred Losses
FY 99/00 – 04/05 @ 5th Report**



Bottomline: Prior to the enactment of legislative reforms, California public self-insured's incurred losses at the 5th report level increased by from nearly \$1.56 billion (\$878.9 million indemnity + \$676.6 million medical) in FY 99/00 to nearly \$2.01 billion (\$1.09 billion indemnity + \$915.7 million medical) in FY 02/03 – up \$450 million, or 28.9 percent in 3 years. That growth reflected both a 14.9 percent jump in the total number of claims reported by public self insurers, and a 12.3 percent increase in average incurred losses per claim, which finally peaked at \$14,887 in FY02/03. The incurred data at 5th report also underscore the sharp reduction in losses in the first 2 years following the reforms, as public self-insured average incurred losses fell nearly 35 percent to \$9,744 – the combined effect of the 40 percent reduction in average incurred indemnity and the 27.5 average reduction in incurred medical, which more than offset the 16.3 percent growth in the number of reported claims by public self-insureds over that 2-year span.

CONCLUSION

The latest summary of fiscal year claims experience of California's public self-insured employers show that both total paid and incurred losses on job injury claims filed against these employers peaked in FY 02/03, then declined sharply, albeit briefly, following the enactment of the 2002-2004 reforms. The 1st, 2nd, and 3rd report data, which provide as much as 36 month's worth of loss data on claims from the most recent three years, all indicate that the post-reform downtrend ended in FY 05/06, and for the past three years, rising claim severity (most notably, rising medical losses per claim), have led to steady growth in public self-insured's overall paid and incurred losses in the California workers' compensation system.

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>.