

## ***Public Self-Insured Claims Experience in California Workers' Compensation FY 1999 - 2010***

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 December 20, 2010 includes initial data on claims reported to OSIP for the 12 months ending June 30, 2010, plus updated data (2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> 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 more than 2 million California workers, though that total was down 2.6 percent from nearly 2.1 million public sector employees noted in the FY 08/09 1st report. As a result, total wages and salaries of the public sector employees included in the FY 09/10 summary also declined, falling to just under \$96.9 billion, or about 1.8% less than the FY 08/09 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 1<sup>st</sup> 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 1<sup>st</sup> 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 for the same 12-month period each year, it is a useful tool for benchmarking public self-insured claims experience, and comparing 1<sup>st</sup> report data from the most recent year to 1<sup>st</sup> 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 1<sup>st</sup> valuation for FY 03/04 through FY 09/10. 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 00/01–FY 05/06 at the 5<sup>th</sup> 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 about 80 percent of California workers' compensation direct written premium, as well as many of the largest public and private self-insured employers in the state.

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### First Report Data: FY 03/04 – FY 09/10 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. That number increased 7.4% to 128,422 claims in FY 2007/2008, but then fell to 126,029 claims in FY 08/09 and to 121,353 claims in FY 09/10.

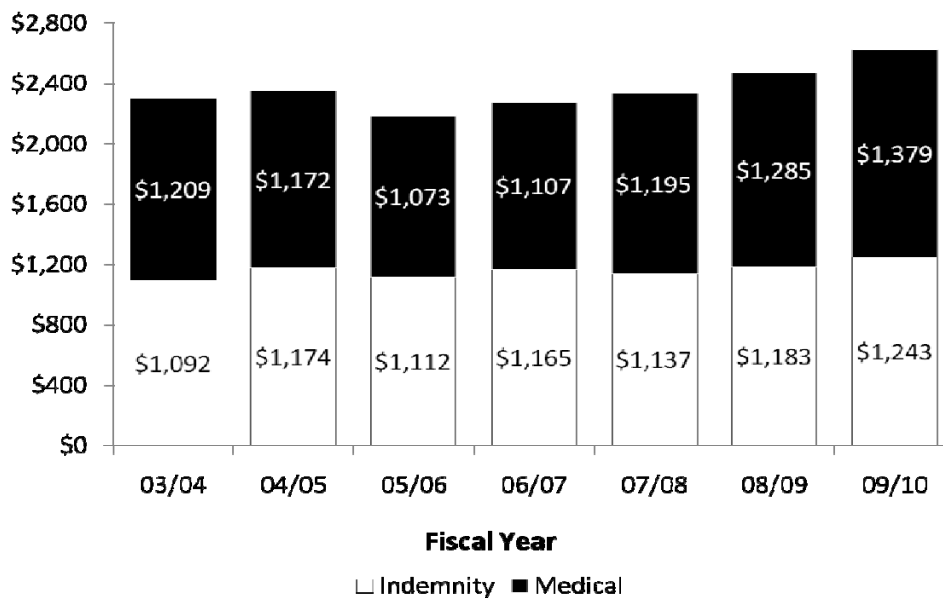
**Paid Losses:** Looking at claim severity (average paid per claim), the 1st report data show that after bottoming out at \$2,185 per claim in FY 05/06, average public self-insured claim payments began trending up, rising 4.0% to \$2,272 in FY 06/07, 2.6% to \$2,332 in FY 07/08, 5.8% to \$2,468 in FY 08/09, and 6.2% to \$2,622 in FY 09/10, resulting in a net increase of 20% since the post-reform low.

**Table 1: CALIFORNIA WC PAID LOSSES: PUBLIC SELF-INSURED CLAIMS**  
FY 03/04 - FY 09/10 Payments @ 1<sup>st</sup> 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	\$2,346
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
2009/2010	121,353	\$150,815,081	\$167,299,744	\$1,243	\$1,379	\$2,622

The breakdown of payments shows that after bottoming out in FY 05-06, average public self-insured indemnity payments at 1st report rose 11.8% from \$1,112 to \$1,243, while average medical payments climbed 28.5% from \$1,073 to \$1,379, so both loss components are now above pre-reform levels.

### Avg. Calif. W.C. Public Self-Insured Paid Losses FY 03/04 – 09/10 @ 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 \$318 million (\$150.8 million indemnity + \$167.3 million medical) in FY 09/10 – up 22.3% in the last 4 years. A look at first report claims volume, however, shows the number of claims for FY 09/10 was up only 2% from the FY 05/06 level, so most of the recent increase in total payments can be ascribed to the 20% growth in the average amount paid per claim (claim severity).

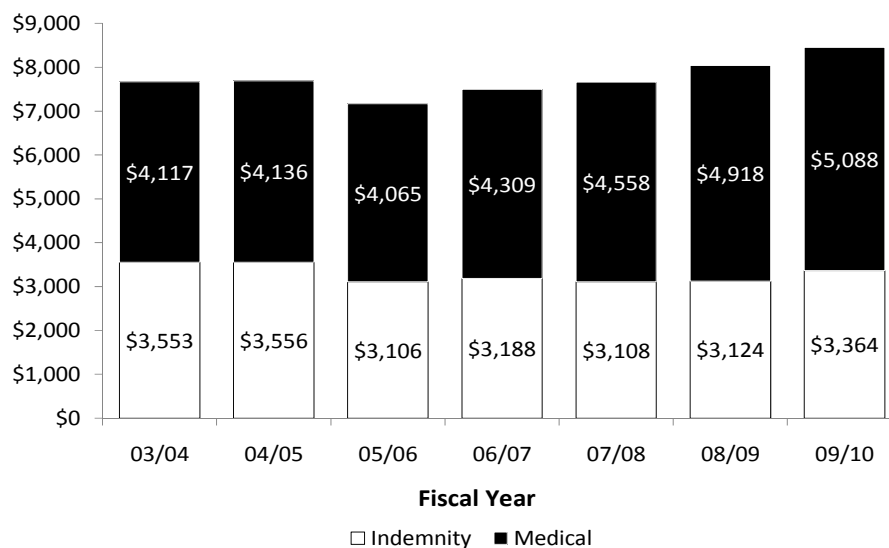
**Incurred Losses:** Incurred results for public self-insured employers tell a similar story. The 1<sup>st</sup> report data show the average incurred per claim fell immediately after the 2002-04 reforms, hitting a low of \$7,171 in FY 05/06, though this initial post-reform decline was primarily driven by reductions in the average incurred indemnity per claim, which fell 12.6% from the FY 03/04 level, while average incurred medical fell less than 2%.

**Table 2: CALIFORNIA WC INCURRED LOSSES: PUBLIC SELF-INSURED CLAIMS**  
FY 03/04 - FY 09/10 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
2009/2010	121,353	\$408,288,963	\$617,497,901	\$3,364	\$5,088	\$8,452

The story has changed since FY 05/06, as average incurred medical per public self-insured claim is up 25% from \$4,065 to \$5,088, while average incurred indemnity, which fluctuated less than \$100 per claim between FY 05/06 and FY 08/09, jumped 7.7% to \$3,364 per claim for FY 09-10. That translates to an overall increase of 8.3% in average incurred indemnity since the post-reform low, so the growth rate for incurred medical over the past 4 years has been three times the growth rate for incurred indemnity.

### Avg. Calif. W.C. Public Self-Insured Incurred Losses FY 03/04 – 09/10 @ Initial Report



**Bottomline:** Public self-insured's total incurred losses at the initial report have fluctuated over the past 7 years, falling from \$1.01 billion for FY 03/04 claims (\$417.8 million indemnity + \$546.6 million medical) to \$852 million (\$369.4 million indemnity + \$483.5 million medical) for FY 05/06 claims; then climbing back to nearly \$1.03 billion (\$408.3 million indemnity + \$617.5 million medical) for FY 09/10 claims – a 4-year increase of more than 20%, led by a 25% jump in average incurred medical per claim..

## Second Report Data: FY 02/03 – FY 08/09 Claims

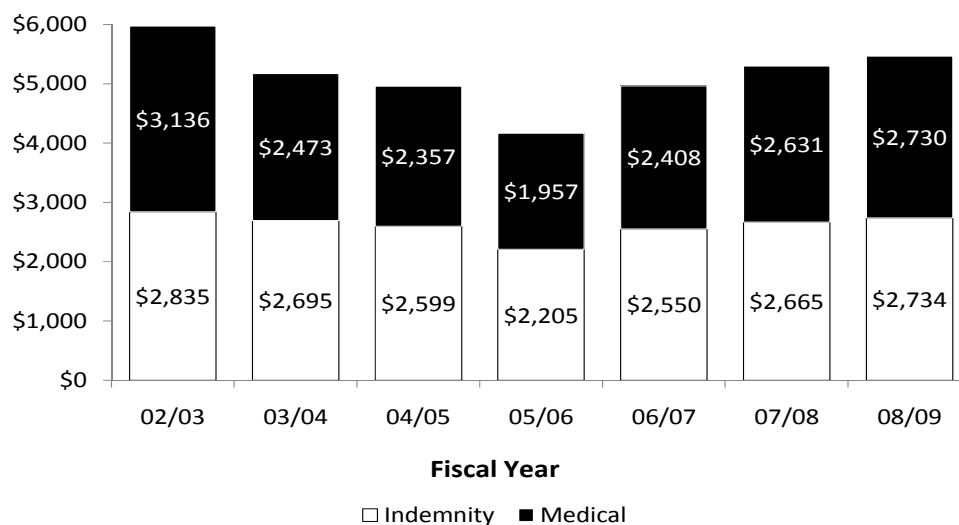
Second reports reflect up to 24 months' worth of claim development on public self-insured claims. OSIP's latest summary includes 2<sup>nd</sup> report data on 129,897 claims from FY 08/09. That tally is 3,868 more claims (+3.1%) than were noted in the initial reports for that year, but 1,375 fewer claims than were recorded in the 2<sup>nd</sup> reports for FY 07/08, and 10,245 fewer claims (-7.3%) than were noted in the 2<sup>nd</sup> 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 08/09 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
2008/2009	129,897	\$355,181,038	\$354,571,721	\$2,734	\$2,730	\$5,464

**Paid Losses:** Table 3 shows 2<sup>nd</sup> report paid loss data for FY 08/09 and each of the 6 prior years. As with the 1<sup>st</sup> reports, the 2<sup>nd</sup> reports show loss payments declined following the 2002-04 reforms, hitting a post-reform low in FY 05/06. Between FY 05/06 and FY 07/08, however, public self-insured's average loss payments at the 2-year valuation jumped 27.2% to \$5,296 per claim. Unlike the 1<sup>st</sup> reports, however, rising claim severity at the 2<sup>nd</sup> reports reflected increased indemnity payments as well as rising medical payments. Since the post-reform low in FY 05/06, the number of claims reported by public self insureds is down, but the total amount paid by these employers is up as the average indemnity paid per claim at the 2-year benchmark has climbed 24% to \$2,734, while average medical payments are up 39.5% to \$2,730.

**Avg. Calif. W.C. Public Self-Insured Paid Losses**  
FY 02/03 – 08/09 @ 2nd Report



**Bottomline:** The latest 2<sup>nd</sup> report data show California public self-insured's total paid losses increased from the post-reform low of \$583.3 million (\$309.0 million indemnity + \$274.3 million medical) in FY 05/06 to \$709.8 million (\$355.2 million indemnity + \$354.6 million medical) in FY 08/09 – up 21.7% over the 3-year span. That \$126.5 million increase in public self-insured's 2<sup>nd</sup> report payments occurred even though the 2<sup>nd</sup> report claim count showed 10,245 fewer claims in FY 08/09 than in FY 05/06, which means 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, with average indemnity payments up 24% in the last 3 years, and average medical payments up 39.5%.

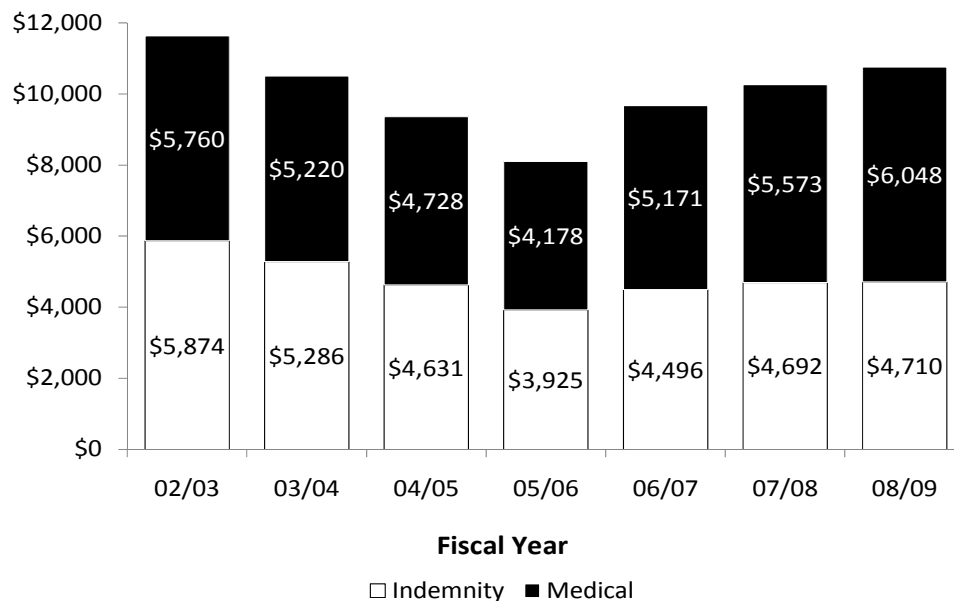
**Incurred Losses:** Table 4 summarizes public self-insured employers' incurred results at 2<sup>nd</sup> report for FY 02/03 through FY 08/09. The 2<sup>nd</sup> report data show the initial reduction in incurred losses following the reforms, as public self-insured's total incurred indemnity fell by almost \$230 million, or nearly 30% from FY 02/03 through FY 05/06, 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 2<sup>nd</sup> report in FY 05/06 than in FY 02/03.

**Table 4: CALIFORNIA WC INCURRED LOSSES: PUBLIC SELF-INSURED CLAIMS**  
**FY 02/03 - FY 08/09 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
2008/2009	129,897	\$611,779,066	\$785,643,446	\$4,710	\$6,048	\$10,758

The average amounts incurred per claim at the 2<sup>nd</sup> 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 2<sup>nd</sup> report results for the last 3 years show steady growth in average incurred losses since the post-reform low of FY 05/06, with average incurred indemnity up 20% to \$4,710 per claim in FY 08/09; and average incurred medical up 45% to \$6,048 per claim.

### **Avg. Calif. W.C. Public Self-Insured Incurred Losses** **FY 02/03 – 08/09 @ 2nd Report**



**Bottomline:** The latest 2<sup>nd</sup> report data show the decline in California public self-insured's incurred losses following the 2003-04 reforms ended in FY 05/06. The 2<sup>nd</sup> report incurred losses for these employers rose 22.8% from \$1.14 billion (\$549.9 million indemnity + \$585.5 million medical) for FY 05/06 claims to nearly \$1.4 billion (\$611.8 million indemnity + \$785.6 million medical) for FY 08/09 claims. Again, that \$260 million increase came despite a reduction of 10,245 claims between FY 05/06 and FY 08/09 because, as shown in the chart above, over that same period average incurred medical increased by \$1,870 per claim and average incurred indemnity increased by \$786 per claim.

### Third Report Data: FY 01/02 – FY 07/08 Claims

Public self-insured employers' 3rd reports provide up to 36 months' worth of claim experience. The latest summary includes 3rd report data on 130,600 claims from FY 07/08. That total is up by 2,198 claims (+1.7%) from public self-insured's initial reports for FY 07/08. Compared to the prior year's 3<sup>rd</sup> report claim count, the FY 07/08 total is down by 1,564 claims (-1.2%). Table 5 shows 3<sup>rd</sup> report paid losses for FY 07/08 and the 6 prior years.

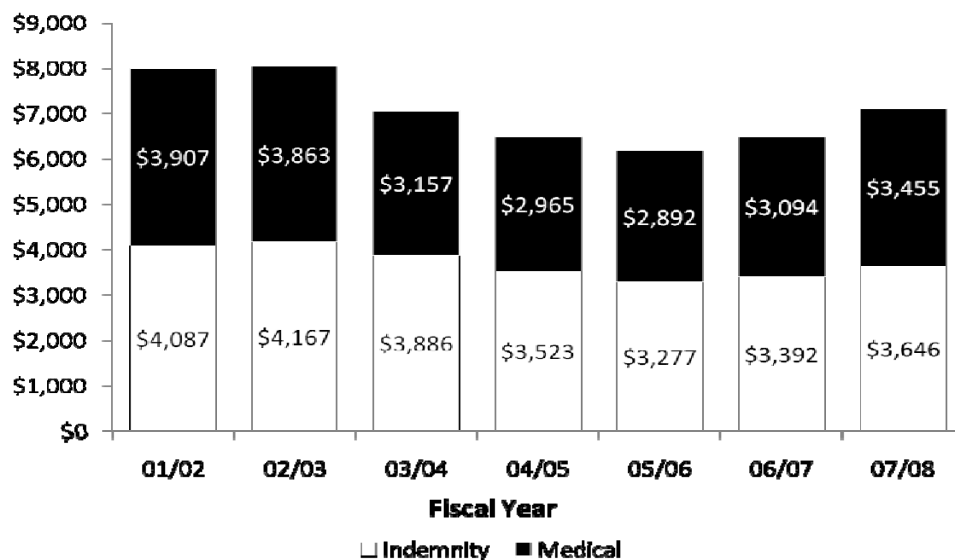
**Table 5: CALIFORNIA WC PAID LOSSES: PUBLIC SELF-INSURED CLAIMS**  
FY 01/02 - FY 07/08 Experience @ the 3-Year Valuation

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
2007/2008	130,600	\$476,199,163	\$451,178,465	\$3,646	\$3,455	\$7,101

**Paid Losses:** The 3<sup>rd</sup> 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 the 2002-04 reforms. Following the reforms, claim costs fell sharply, but as with the 1<sup>st</sup> and 2<sup>nd</sup> reports, the 3<sup>rd</sup> 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). By FY 06/07, public self-insured employers' average paid losses at the 3-year valuation had bottomed out and were on the rise, and by FY 07/08 they were up 15.1% to \$7,101, led by a 19.5% jump in average medical payments, which rose to \$3,455, while average indemnity payments at the 3-year benchmark were up 11.3% to \$3,646 per claim.

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

FY 01/02 – 07/08 @ 3rd Report



**Bottomline:** The 3<sup>rd</sup> report data show FY 05/06 was a pivotal year, as California public self-insured's paid losses measured at the 3<sup>rd</sup> valuation bottomed out at \$811 million (\$431 million indemnity + \$380 million medical), the last gasp of a 3-year decline. Although the number of public self-insured claims noted at the 3-year valuation has been fairly stable, fluctuating by only 1.2% since FY 05/06 and edging down slightly in FY 07/08, since the post-reform low, paid losses recorded at the 3-year mark have climbed 14.3% to more than \$927 million (\$476 million indemnity + \$451 million medical) -- the combined effect of the 11.3% increase in the average amount paid per claim for indemnity and the 19.5% increase in the average amount paid for medical.

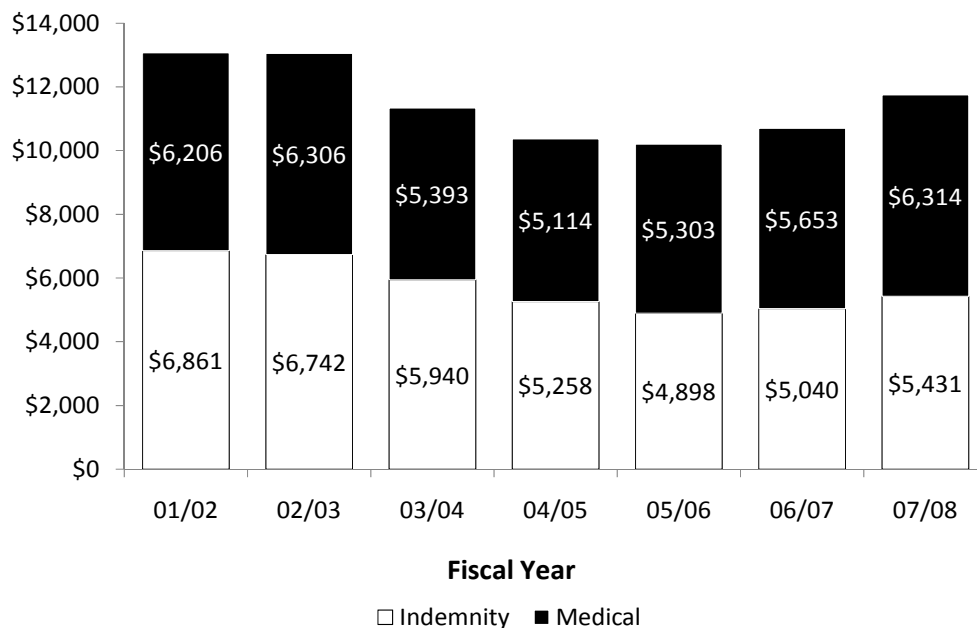
**Incurred Losses:** Table 6 shows public self-insured employers' 3<sup>rd</sup> report incurred results for FY 01/02 through FY 07/08 claims. The pre-reform peak in public self-insured total incurred losses was the \$1.76 billion recorded in the FY 02/03 3<sup>rd</sup> reports, which was followed by 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 measured at the 3<sup>rd</sup> valuation continued to decline through FY 05/06 before hitting a post-reform low, but 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 07/08 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
2007/2008	130,600	\$709,335,911	\$824,662,024	\$5,431	\$6,314	\$11,745

Since FY 04/05, the average incurred medical per public self-insured claim at 3<sup>rd</sup> report has risen by \$1,200 (23.5%), climbing from \$5,114 to \$6,314 in FY 07/08; while average incurred indemnity is up 10.9%, climbing from the low of \$4,898 recorded in the 3<sup>rd</sup> reports for FY 05/06 claims to \$5,431 in the FY 07/08 3<sup>rd</sup> reports.

### **Avg. Calif. W.C. Public Self-Insured Incurred Losses FY 01/02 – 07/08@ 3rd Report**



**Bottomline:** Public self-insured 3<sup>rd</sup> 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. The latest 3<sup>rd</sup> report data show incurred indemnity and medical are now rising, with total incurred losses for public self-insureds climbing to \$1.53 billion in the 3<sup>rd</sup> reports for FY 07/08 claims – up \$210 million compared to 3 years earlier. That increase reflects a slight uptick (+2.5%) in the number of 3<sup>rd</sup> report claims since FY 04/05, but more importantly, a 23.5% jump in average incurred medical over the most recent 3-year period, as well as a 3.3% increase in average incurred indemnity.

## Fourth Report Data: FY 00/01 – FY 06/07 Claims

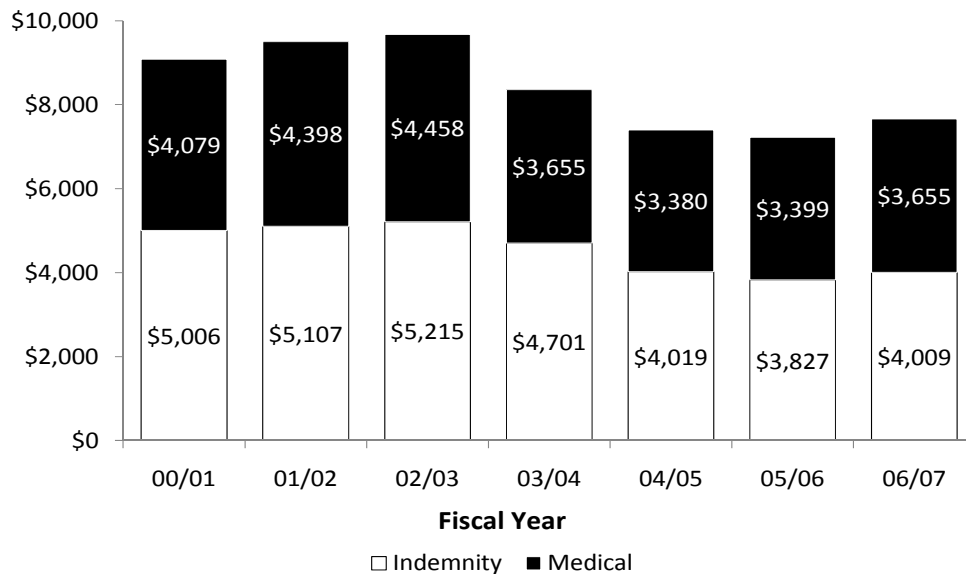
Fourth reports reflect up to 48 months' worth of claim development on public self-insured claims. OSIP's latest summary includes 4th report data on 130,777 claims from FY 06/07. The fourth reports on public self-insured claims for FY 06/07 show 14,549 more claims than were recorded in the 1st reports for that year, (+12.5%), but 1.8% fewer claims than were noted in the 4<sup>th</sup> reports for the prior year (FY 05/06).

**Table 7: CALIFORNIA WC PAID LOSSES: PUBLIC SELF-INSURED CLAIMS  
FY 00/01 - FY 06/07 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
2006/2007	130,777	\$524,266,051	\$477,946,397	\$4,009	\$3,655	\$7,664

**Paid Losses:** Table 7 shows paid losses reported at the 4<sup>th</sup> valuation for FY 06/07 and the 6 prior years. Despite a 1.8% decline in the number of public self-insured claims recorded in the 4<sup>th</sup> reports for FY 06-07 compared to FY 05/06 4<sup>th</sup> reports, total loss payments increased, as the average indemnity payments per claim rose 4.8% to \$4,009 and average medical payments per claim, which had edged up a fraction in FY 05-06, showed a more significant increase on FY 06/07 claims, rising 7.5% to \$3,655.

## Avg. Calif. W.C. Public Self-Insured Paid Losses FY 00/01 – 06/07 @ 4th Report



**Bottomline:** As noted in the 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> valuations, the 4<sup>th</sup> report data indicate that FY 05/06 marked the post-reform low for public self-insured paid losses, with aggregate losses down \$323 million in 3 years (from nearly \$1.29 billion in the 4<sup>th</sup> reports for FY 02/03 claims to \$963 million in the 4<sup>th</sup> reports for FY 05/06 claims). Much of the decline in total payments for FY 05/06 was due to a 4.1% reduction in the number of claims noted in the 4<sup>th</sup> reports for 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 paid losses were about to trend up. The latest 4<sup>th</sup> report results (on FY 06/07 claims) confirm that claim payments had indeed bottomed out in FY05/06. Even though the claim count from the FY 06/07 4<sup>th</sup> report was down 1.8% from a year earlier, total 4<sup>th</sup> report loss payments on FY 06/07 claims were up 4.1% to more than \$1 billion, driven by a 4.8% increase in the average indemnity payment per claim and a 7.5% increase in the average medical payment per claim.

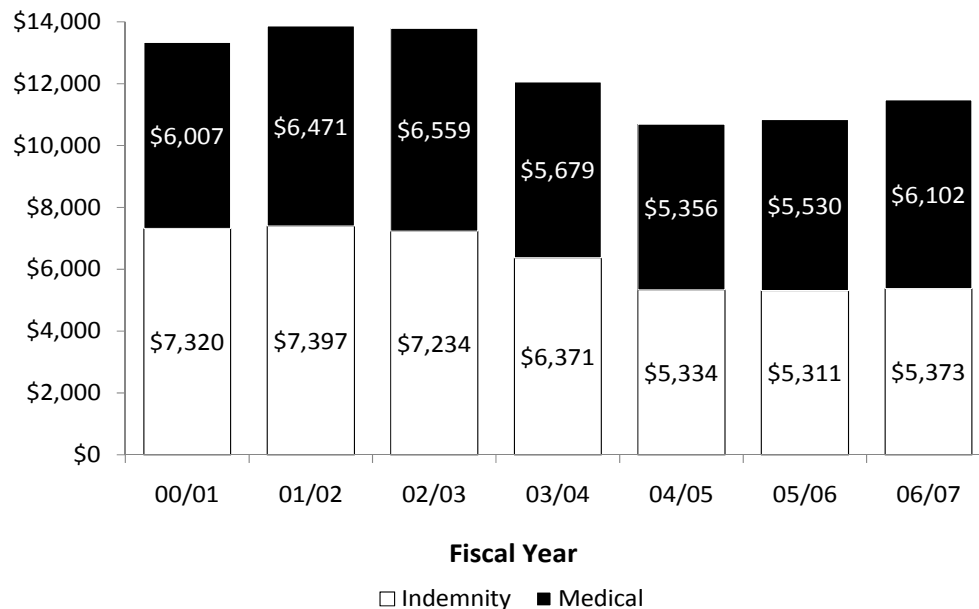
**Incurred Losses:** Table 8 shows public self-insured employers' 4<sup>th</sup> report incurred data for FY 00/01 through FY 06/07. Like the paid data, these results indicate that California public self-insured employers' total incurred losses hit a post-reform low in FY05/06, falling to \$1.44 billion, down \$390 million (21.3 percent) from the peak of \$1.83 billion incurred in the FY 02/03 4<sup>th</sup> reports. The most recent 4<sup>th</sup> report data, however, show total incurred rose 3.9% to \$1.50 billion in FY 06/07, as slight reductions in the number of claims and in incurred indemnity were not enough to offset the \$61 million increase in incurred medical.

**Table 8: CALIFORNIA WC INCURRED LOSSES: PUBLIC SELF-INSURED CLAIMS  
FY 00/01 - FY 06/07 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
2006/2007	130,777	\$702,670,925	\$798,003,231	\$5,373	\$6,102	\$11,475

Some of the decline in total incurred losses noted in the FY 05/06 4<sup>th</sup> 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 04/05 to \$5,311 in FY 05/06, continuing a downtrend that began 4 years earlier. In contrast, average incurred medical per claim rose 3.2% – the first increase in 3 years, tracking with the slight increase noted in the 4<sup>th</sup> report paid medical data. The latest 4<sup>th</sup> report data shows that average incurred indemnity edged up 1.2% in FY 06/07, while average incurred medical rose 10.3%, so the average amount incurred on a public self-insured claim at the 4-year valuation jumped 5.8% to \$11,475.

### **Avg. Calif. W.C. Public Self-Insured Incurred Losses FY 00/01 – 06/07 @ 4th Report**



**Bottomline:** The 4<sup>th</sup> report on FY 06/07 claims shows public self-insured's total incurred losses rose to \$1.5 billion (\$702.7 million indemnity + \$798.0 million medical), up from the post-reform low of \$1.44 billion (\$707.6 million indemnity + \$736.7 million medical) noted in the 4<sup>th</sup> reports on FY 05/06 claims. This was the first increase in 4th report incurred losses since they peaked in FY02/03, and combined with the 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> report findings from the most recent years provides further evidence that the decline in losses on public self-insured claims following the 2004 reforms was short-lived, and that rising medical losses have been the primary cost driver for public self-insured claims since FY 05/06. As with the paid data, the latest incurred data also show an increase in average incurred medical at the 4<sup>th</sup> report level between FY04/05 and FY 06/07, providing further evidence that the post-reform decline in loss costs not only lost steam by FY 05/06, but reversed course and began heading back up.

## Fifth Report Data: FY 99/00 – FY 05/06 Claims

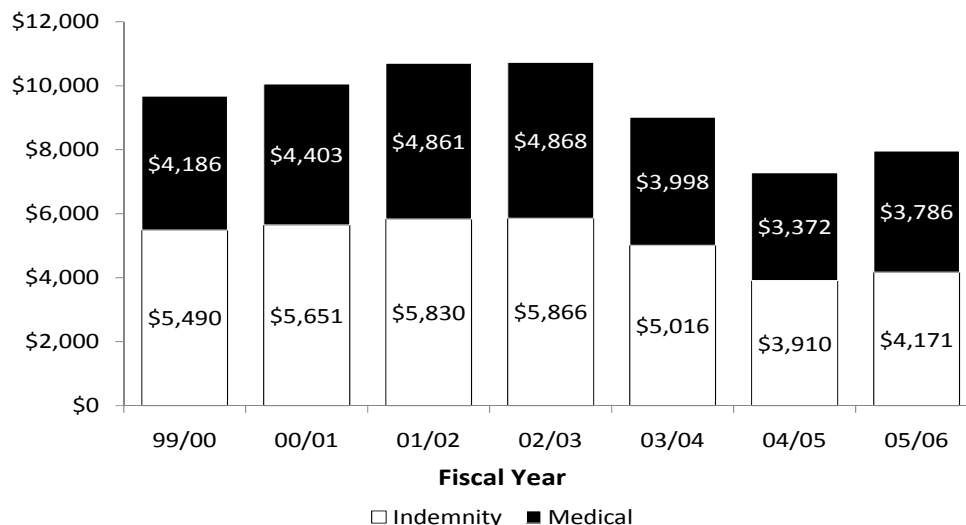
Public self-insured employers' 5th reports offer the most developed data in the latest summary, measuring up to 60 months' worth of claim experience, but this level of development is only available on older claims, so the 5th reports provide the most limited view of post-reform outcomes. The OSIP update includes 5th report data on 133,920 claims from FY 05/06. That total represents 14,991 more claims (+12.6%) claims than were noted in public self-insured's initial reports for FY 05/06; and 701 more claims (0.5%) than were in the FY05/06 4th reports, but 22,836 (-14.6 percent) fewer claims than were in the 5th reports for the prior year (FY 04/05). Table 9 compares the 5th report paid losses for FY 05/06 and the 6 prior years.

**Table 9: CALIFORNIA WC PAID LOSSES: PUBLIC SELF-INSURED CLAIMS**  
**FY 99/00 - FY 05/06 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
2005/2006	133,920	\$559,041,457	\$507,066,212	\$4,714	\$3,786	\$8,500

**Paid Losses:** Table 9 shows that after increasing steadily for 5 years, the number of job injury claims reported at the 5th valuation by California public self insureds fell 14.6% to 133,920 cases in FY 05/06. This coincided with a decline 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 declined following the reforms. With nearly 23,000 fewer claims recorded in the FY 05/06 5th reports compared to the prior year, total loss payments on public self-insured claims dropped sharply, yet claim severity registered the first increase in 3 years, climbing to \$8,500 per claim, as the average amount of indemnity paid per claim rose 20.6%, and the average amount paid for medical rose 10.9%.

### **Avg. Calif. W.C. Public Self-Insured Paid Losses** **FY 99/00 – 05/06 @ 5th Report**



**Bottomline:** The 5th report data confirm that public self-insured paid losses peaked in FY 02/03, 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 5<sup>th</sup> reports for FY 03/04 and 4/05, total loss payments fell by more than \$305 million, as average indemnity payments per claim fell 33% from \$5,866 in FY 02/03 to \$3,910 in FY 04/05, and average medical payments fell nearly 31% from \$4,868 to \$3,372. The most recent 5<sup>th</sup> report data on public self-insured claims show a 14.6% decline in claim volume between the FY 04/05 and the FY 05/06 pushed overall loss payments in this sector down further. That decline, however, was tempered by rising claim severity, as the average paid amount on a FY 05/06 claim at the 5<sup>th</sup> report rose to \$8500 – up 16.7% from the level noted in the 5<sup>th</sup> reports for FY 04/05 claims.

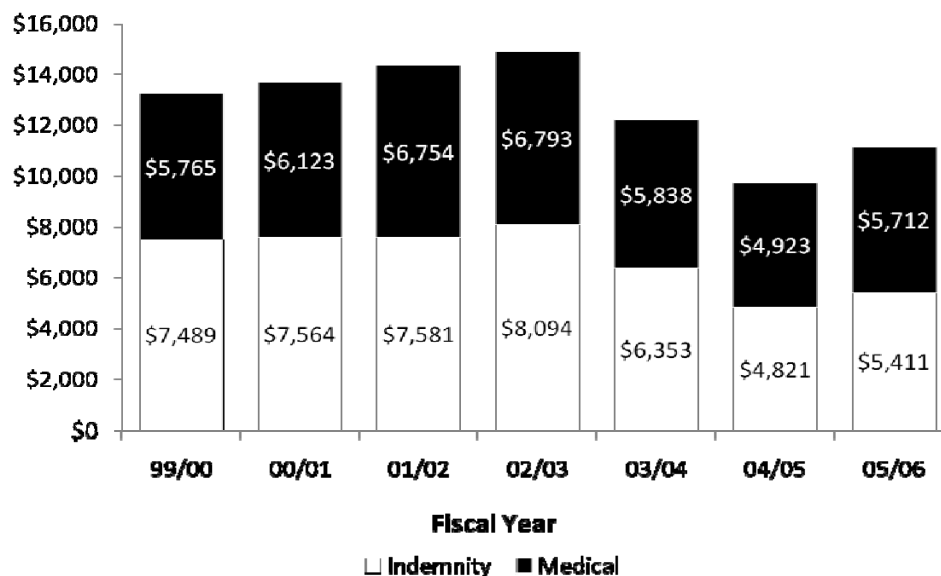
**Incurred Losses:** The 5<sup>th</sup> report incurred results for public self-insured employers tell a similar story (Table 10). Total incurred amounts on these claims, measured at the 5th valuation, climbed steadily from the late 90's until finally peaking at just over \$2 billion in FY 02/03. In the 3 years following that, they fell 25.8%, dropping to \$1.49 billion in the 5<sup>th</sup> reports for FY 05/06 claims.

**Table 10: CALIFORNIA WC INCURRED LOSSES: PUBLIC SELF-INSURED CLAIMS**  
**FY 99/00 - FY 05/06 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
2005/2006	133,920	\$724,732,281	\$764,920,636	\$5,411	\$5,712	\$11,123

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, average incurred losses at the 5<sup>th</sup> report increased sharply for FY 05/06 claims, as average incurred indemnity per claim jumped 12.2% to \$5,411 and average incurred medical climbed 16% to \$5,712. Thus, unlike the prior 2 years, the decline in total incurred losses on public self-insured claims in FY 05/06 was simply a function of declining claim volume rather than declining claim severity.

### **Avg. Calif. W.C. Public Self-Insured Incurred Losses** **FY 99/00 – 05/06 @ 5th Report**



**Bottomline:** Prior to the enactment of legislative reforms, California public self-insured's incurred losses at the 5<sup>th</sup> report level increased from about \$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% in 3 years. That growth reflected both a 14.9% jump in the total number of claims reported by public self insurers, and a 12.3% increase in average incurred losses per claim, which finally peaked at \$14,887 in FY02/03. The 5<sup>th</sup> 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 – the combined effect of the 40% reduction in average incurred indemnity and the 27.5% average reduction in 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 reversed in FY 05/06, however, as claim volume dropped 14.6% from the level noted in the prior year's 5<sup>th</sup> reports, hitting the lowest level in 4 years, while average incurred losses increased 14.2% to \$11,123 – the combined effect of a 16% jump in average incurred medical and a 12.2% rise in incurred indemnity.

## 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 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> report data, which provide as much as 48 month's worth of loss data on claims from the most recent 4 years, all indicate that the post-reform downtrend ended in FY 05/06, and since then, rising claim severity – primarily driven by increased medical losses -- 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>.