

California Workers' Compensation Update

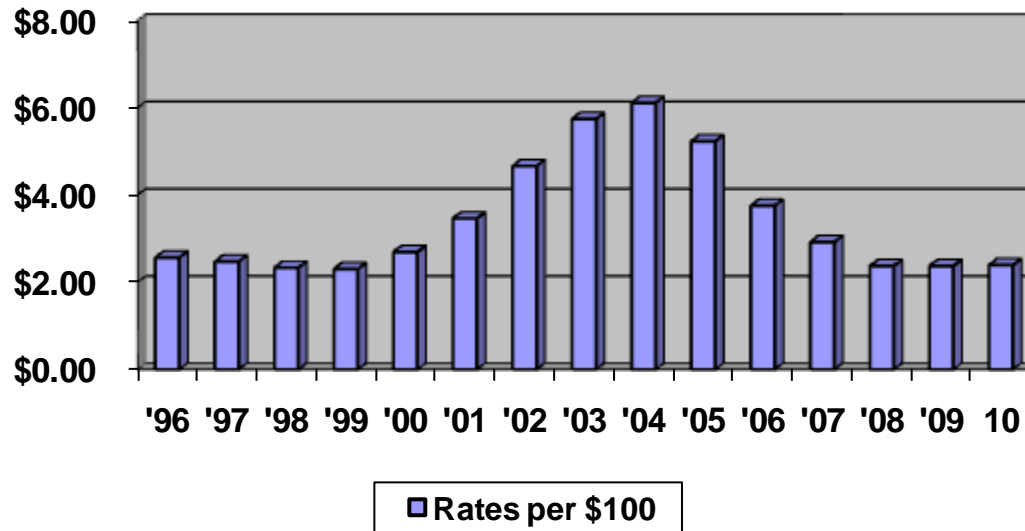
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September, 2011

- Average workers' compensation rates in California today are approximately at the same level that they were in 1998 as carriers continue to compete for market share.
- These low rates, combined with a weak economy, have resulted in significant decrease in gross written premium statewide.
- Medical costs continue to rise, including increased costs of pharmaceuticals, surgical hardware, and physical care.
- California workers' compensation carriers are losing money.
- All signs are pointing towards significant rate increases.

Rates and Premiums

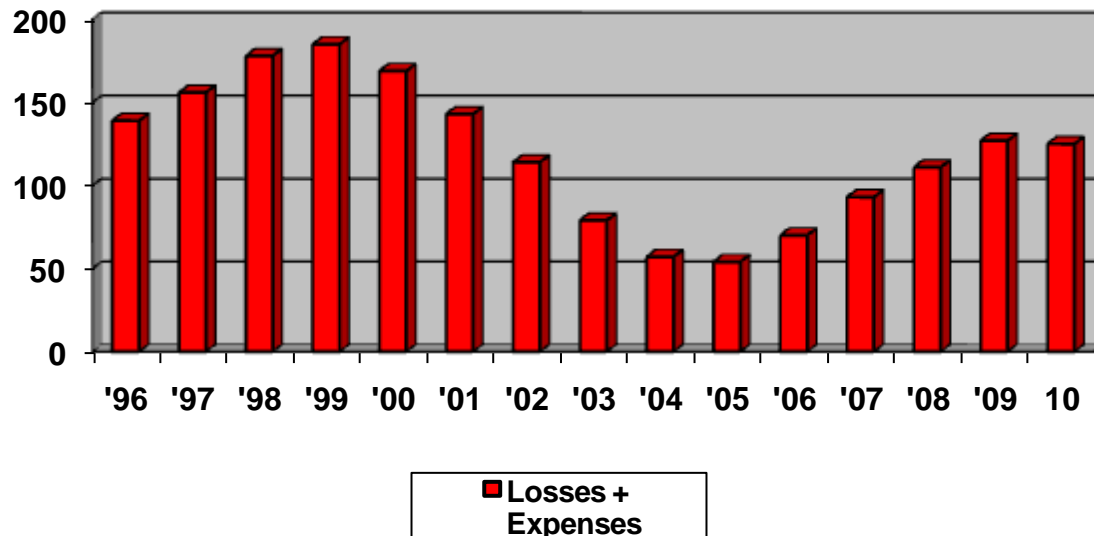
Average Workers' Compensation Rates in California



- The average rate per \$100 of payroll for policies written in 2010 was \$2.39
- \$2.39 rate is comparable to the Workers' Comp average in 1998
- The rate is 64% below the average charged at the end of 2003

Carrier Results

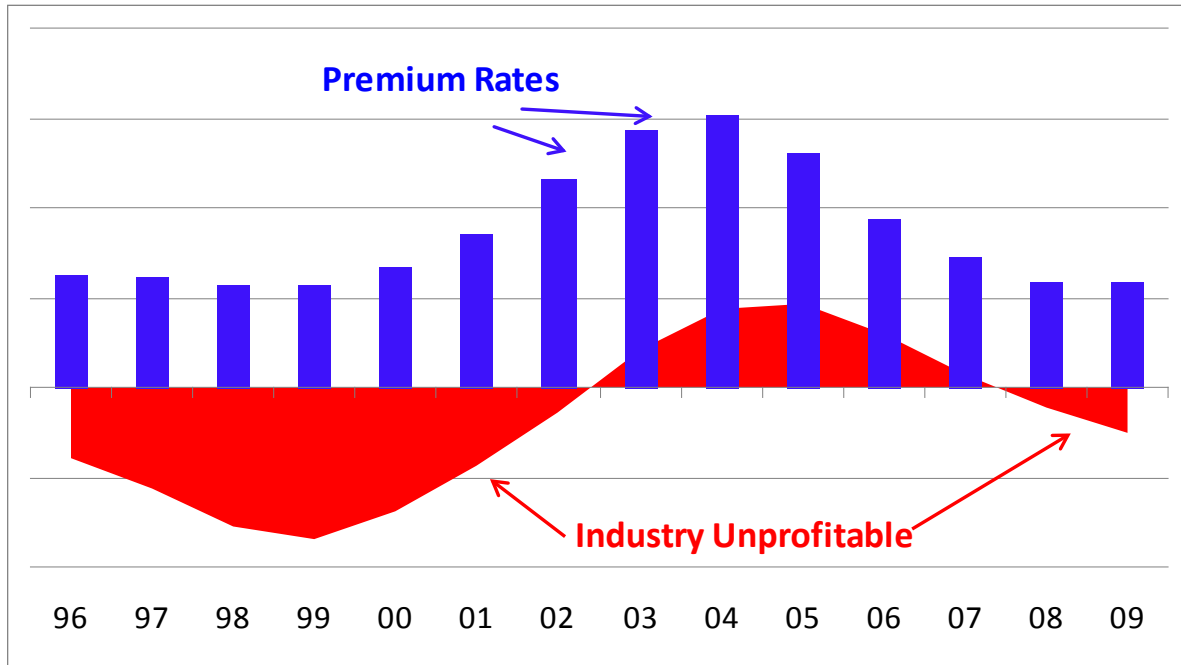
Carrier Combined Loss Ratios in California



- Carrier Combined Loss Ratios for 2010 was 125%
- State Fund 2010 results were 165%
- WCIRB recommended 27.7% increase for Jan. 2011
- Insurance Commissioner refused to approve these increases.

Carrier Results

Workers' Compensation Rates vs. Carrier Results



- Rates appear to be insufficient
- Carriers trending towards increased losses
- Rates must increase in order to stabilize the market

In the mean time...

- Economy in California is still struggling.
- Medical costs continue to rise.
- Almaraz / Guzman and Olgivie cases impacting the cost of Permanent Disability ratings.
- Medicare Set Aside requirements adding significant cost to claim closures.
- New Experience Rating formula results in higher Ex-Mods.
- Carriers worried about threat of inflation and investment results.

Where are we today?

- Carrier results for 2011 continue to deteriorate.
- Individual carriers beginning to take significant rate increases in an attempt to improve their results.
- In August 2010, the WCIRB submitted it's 2012 Pure Premium Rate Filing.
- Rates for 353 classes are proposed to increase by more than 30%.
- The WCIRB is recommending 35.73% increase to class code 8018 effective 1/1/2012.
- Public hearing on rate filing scheduled for September 27th.

What can you do?

- Hiring Practices
- Loss Control
- Claims Management
- Explore Group Programs