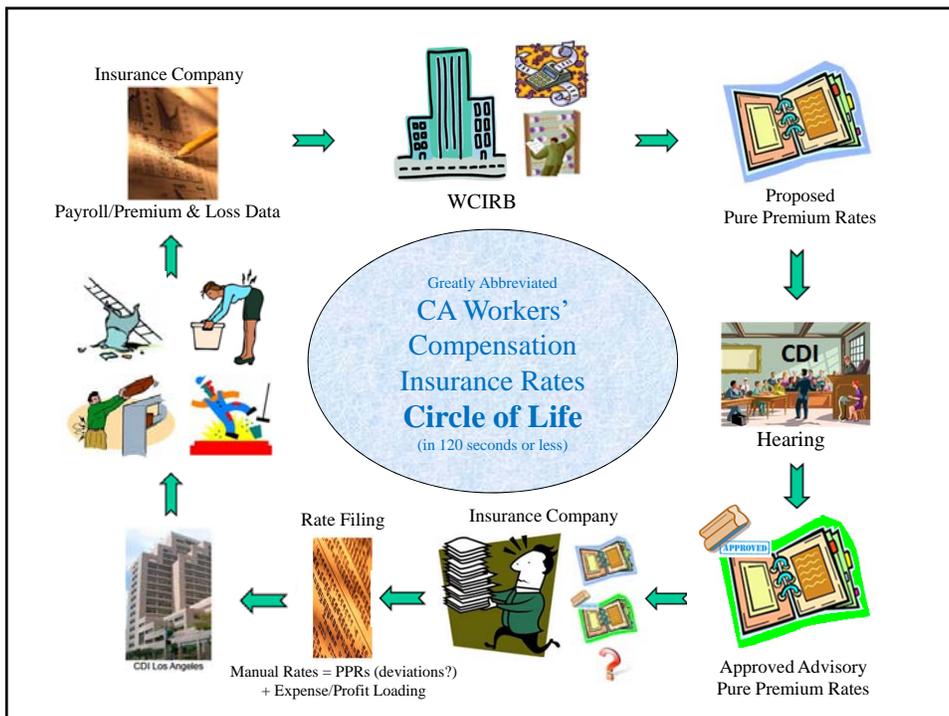


California Workers' Compensation

DWC 22nd Annual Educational Conference
Los Angeles February 9 & 10, Oakland February 19 & 20, 2015



**Insurance Commissioner – CA Department of Insurance
Rate Regulation Branch – Rate Filing Bureau**

- In California, workers' compensation is "*file-and-use*".
- Cos. must file all rates and supplementary rate information. » CIC §11735(a)
- "Supplementary Rate Information" (SRI) – any manual or plan of rates, rating schedule, classification system, minimum premium, policy fee, rating rule, rating plan, and any other similar information needed to determine the applicable premium for an insured. » CIC §11730(j)

**Insurance Commissioner – CA Department of Insurance
Rate Regulation Branch – Rate Filing Bureau**

- All rates and SRI must be filed not later than 30 days prior to the proposed effective date. » CIC §11735(a)
- If filing is complete/compliant on the 30th day after filing receipt, the company can use or apply the filed rates and SRI.
- In 2012, CDI received 578 WC filings from 222 different WC companies.
- In 2013, CDI received 466 WC filings from 207 different WC companies.
- In 2014, CDI received 450 WC filings from 208 different WC companies.

Insurance Commissioner Advisory PPR Decision in 2014

(File Number REG-2014-00015, November 13, 2014)

- No mid-year pure premium rate filing in 2014.
- Nov 2014 Insurance Commissioner's Decision and Order (REG-2014-00015):
 - Approved Advisory Claims Cost Benchmark => \$2.74 (eff. Jan 1, 2015);
 - 2.2% higher than average AACCB in eff. Jan 1, 2014 => \$2.68;
 - 6.6% higher than the average pure premium rate insurers were estimated to already have on file as of July 1, 2014 => \$2.57.

A Rate is a Rate is a Rate



Pure Premium Rates
reflect claims/losses and
loss adjustment expense

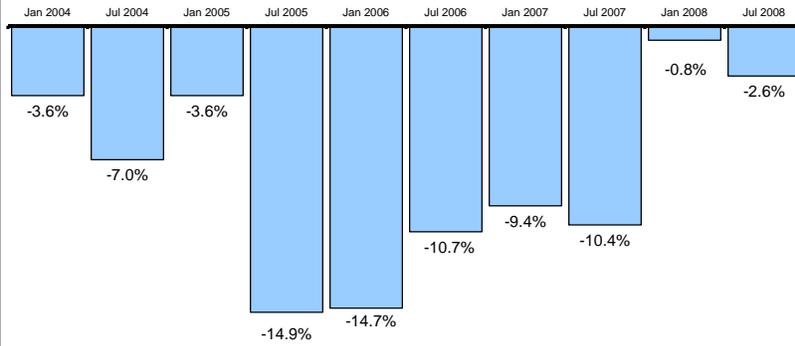


Manual Rates
reflect insurer's adoption of a set of
pure premium rates and any filed
classification deviations/modifications
+ insurer's expense/profit loading



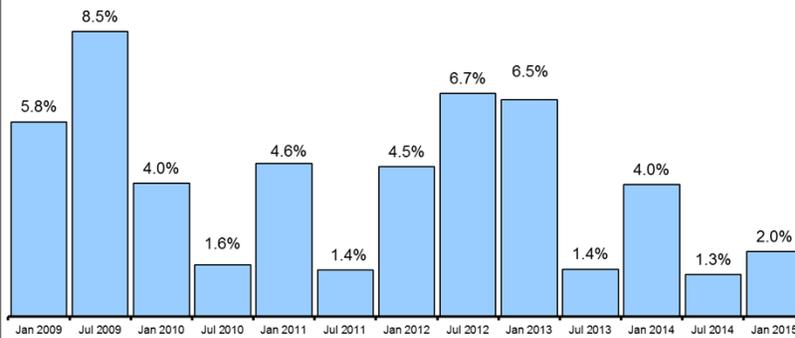
Charged Rates
manual rates reflecting individual
account characteristics including x-
mod, schedule rating, territory, &
other insurer filed plans/factors

**Average Workers' Compensation Manual Rate Changes
Filed by Insurers - Post 2003-04 Reforms (AB 749, AB
227/SB 228, SB 899) through July 2008**



Source: California Department of Insurance

**Average Workers' Compensation Manual Rate Changes
Filed by Insurers - January 2009 to Present**



Source: California Department of Insurance

Insurance Company Pure Premium Rate (Benchmark) Adoptions Filed for January 1, 2015...or Thereafter

The top 120 insurers ≈ 98% of the market in 2013...

PURE PREMIUM RATES (BENCHMARK)	EFFECTIVE DATE							
	Jan 1, 2015	Jan 2015 Other	Feb 1, 2015	Feb 2015 Other	Mar 1, 2015	Apr 1, 2015	Jun 1, 2015	
Approved JAN 2015	10	3	16	2	16	2	2	51
Amended Proposed JAN 2015	10		1		4			15
Proposed JAN 2015								0
Approved JAN 2014	4							4
TOTAL:	24	3	17	2	20	2	2	70
Companies not making a "year-end" rate filing as of 12/31/2014: 50								

- With only 70 companies filing, ≈ 28%-29% of market did not file.
- 7 cos. ≈ 7% of market filed new rates effective Sep – Dec 2014.
- 10 cos. adopted approved rates eff. 1/1/2015, only 1 filed no uniform class deviation.
- 51 cos. adopted approved rates, only 4 filed no uniform class deviation.

Aggregate Filed Manual Rate Changes for the CA Workers' Compensation Industry

(Cumulative Post 2003-04 Reforms: 1/1/2004 through 1/1/2015)

- **State Compensation Insurance Fund
Cumulative Filed Manual Rate Change** -41.4%

- **CA Workers' Comp. Industry
Cumulative Filed Manual Rate Reductions** -26.9%

Newly Authorized Workers' Comp Insurers since AB 227, SB 228, SB 899

(Determined by Initial Rate Filing or Certificate of Authority Application, as of 1/5/2015)

YEAR	# OF COMPANIES ADMITTED
2004	6
2005	7
2006	6
2007	5
2008	7
2009	7
2010	10
2011	10
2012	12
2013	11
2014	2
TOTAL	83

**Newly Authorized Workers' Compensation Insurers since
AB 227, SB 228, SB 899**

(Determined by Initial Rate Filing or Certificate of Authority Application, as of 1/5/2015)

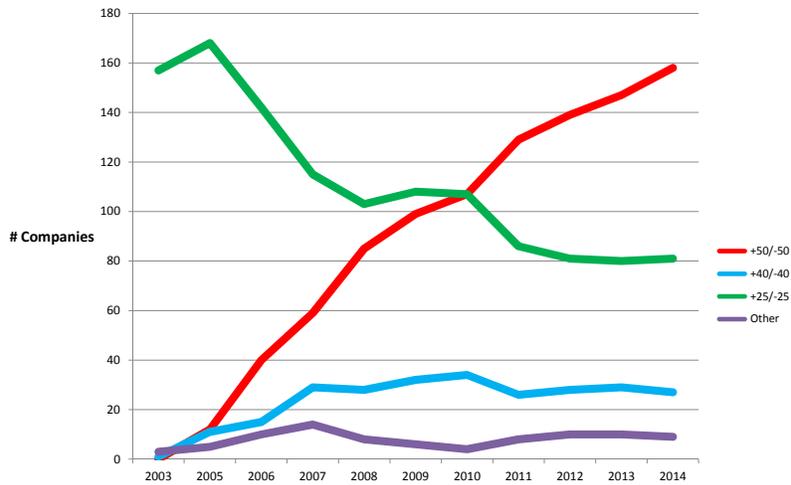
COMPANY / GROUP NAME	DATE OF ADMISSION
• 82. Cherokee Insurance Company	2/11/14
• 83. Tri-State Insurance Company of MN	5/15/14

Pending Applications for New Workers' Compensation Insurers since passage of AB 227, SB 228, SB 899

(Determined by Initial Rate Filing or Certificate of Authority Application, as of 1/5/2015)

COMPANY / GROUP NAME	DATE OF APPLICATION
• None	N/A

CA WC Schedule Rating - Max Filed Debit/Credit



Source: California Department of Insurance

CDI WC Enforcement Actions

How does CDI combat workers compensation fraud...

- Over \$95 million in grants given to DAs throughout the state since 2011
- CDI has made more than 500 arrests for WC fraud over the last three years

<http://www.insurance.ca.gov/0400-news/0100-press-releases/2014/>

February 21, 2014

[500 million dollar medical and workers' comp fraud conspiracy uncovered](#)

May 6, 2014

[Workers' compensation fraud and habitual lying result in eight year sentence](#)

May 15, 2014

[Business owner fails to report payroll and is arrested on premium insurance fraud](#)

August 12, 2014

[Beauty contestant busted through social media for workers' comp fraud](#)

December 10, 2014

[Former Bridezilla arrested for felony insurance fraud](#)



CDI Workers' Compensation Market Conduct Issues

The typical compliance problems found in WC market conduct exams include:

Claims

- Errors or miscalculations in the benefits owed leading to underpayments
- Failure to include self-imposed penalties and interest when due
- Not performing complete investigation (or not documenting all investigatory steps taken)
- Delays in acknowledging and responding to communications
- Delays in issuing payments

CDI Workers' Compensation Market Conduct Issues

Rating and Underwriting

- Failure to file all components of rates, rating plans and supplemental rate information being used
- Use of rating/pricing tiers – including failure to have objective and mutually exclusive placement rules, failure to consistently apply placement rules, failure to collect all underwriting info needed to apply rules, and failure to include such rules in a rate filing
- Inadequate documentation of application of schedule rating
- Failure to make required filings with WCIRB – such as forms and safety group information

Do Your Homework on the Internet: www.insurance.ca.gov

- Compare Filed Manual Base Rates:
 - “Consumers”
 - “Types of Insurance”
 - “Workers’ Compensation”
 - “Workers’ Compensation Rate Comparison”
 - “Base Rate Listed by Classification”
- Additional Information on Workers’ Compensation:
 - “Consumers”
 - “Types of Insurance”
 - “Workers’ Compensation”
 - “Workers’ Compensation Information Guide”
 - “Licensed Workers’ Compensation Insurance Companies”
 - “Insurance Company Profiles”
 - “Workers’ Compensation Employer Formal Appeal and Review Process”

**Do Your Homework on the Internet:
www.insurance.ca.gov**

- Additional Information on Insurance Companies, Agents, and Brokers:
 - “Consumers”
 - “Company and Agent/Broker Information”
 - “Check Agent/Broker License Status”
 - “Insurance Company Information”
 - “Companies By Line of Insurance”
 - “Company Complaint Study”
 - “Enforcement Actions”
 - “Market Conduct Exam Reports”
 - “Company Market Share Reports”
 - “Property & Casualty Rate Filings”
- Many companies have their own websites and can provide on-line quotes.

SAFETY – Workers’ Compensation Safety Groups

CIC §11656.6 permits an organization or association of employers to be insured as a group if certain conditions are met.

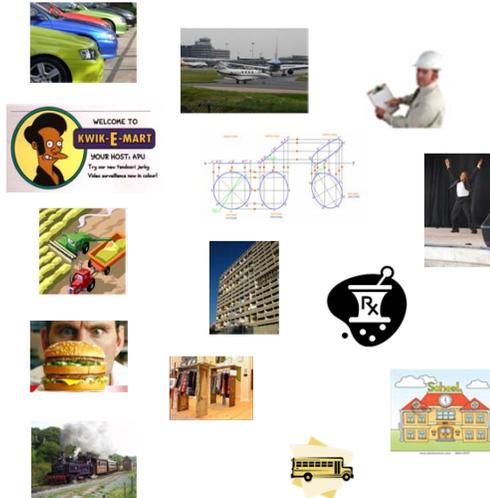
- CIC §11656.6(a)(5) – A statement in writing undertaking to establish and maintain a safety committee which, by education and otherwise, will seek to reduce the incidence and severity of accidents.



SAFETY – Workers' Compensation Safety Groups

Examples of filed Safety Groups for organizations/associations:

- Automotive
- Aviation
- Contractors
- Convenience Stores
- Engineering
- Entertainment
- Farming
- Habitational
- Pharmacies
- Restaurants/Fast Food
- Retail – Clothing, Shoes
- Schools
- Transportation – Bus, Rail



SAFETY – Schedule Rating Plans

Most insurers utilize safety analysis in their filed schedule rating plan (individual risk premium modification plan), offering discounts/credits or surcharges/debits based on the insured's characteristics. Examples include:

- **Employees – Selection, Training, Supervision**
 - Pre-employment medical screenings
 - Employee physicals
 - Wellness program
 - Employee Assistance Program

- **Management**
 - Safety Program
 - Policy of a drug-free workplace
 - Management commitment to employee safety
 - Management commitment to loss control
 - Transitional duty job lists
 - Employer contact with injured workers



SAFETY – Schedule Rating Plans

- Premises – Conditions, Care, Use
 - Maintenance of equipment, machinery, and plant
 - Hazard identification and appropriate controls
 - Ergonomic identification and appropriate controls
 - Material handling procedures
 - Housekeeping of Premises



- Safety Devices
 - Machine guarding, training programs, specific exposure programs



- Medical Facilities
 - On-site medical facilities or health/safety center



- Safety Organization/Culture
 - Compliance with Federal/State OSHA standards
 - Designated medical provider network
 - Employer sponsored health plan
 - Willingness to comply with loss control recommendations, meetings, safety directors
 - Return to work program; effectiveness of that program



SAFETY – Dividend Plans

A method for the insurer and insured to share in the profitability of the account.

Typically, eligibility requirements must be met in order for the policyholder to qualify to participate in a dividend plan.

Under a sliding scale dividend plan, the policyholder's dividend is based on a sliding scale of the policyholder's earned premium and loss ratio.

Dividend plans are not as widely used as in the past, but a few companies have started using previously filed but dormant plans, or have filed new plans.

AS IT RELATES TO SAFETY...

- Provides a financial incentive for the employer to promote safety.

