California Workers' Compensation Institute

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BULLETIN

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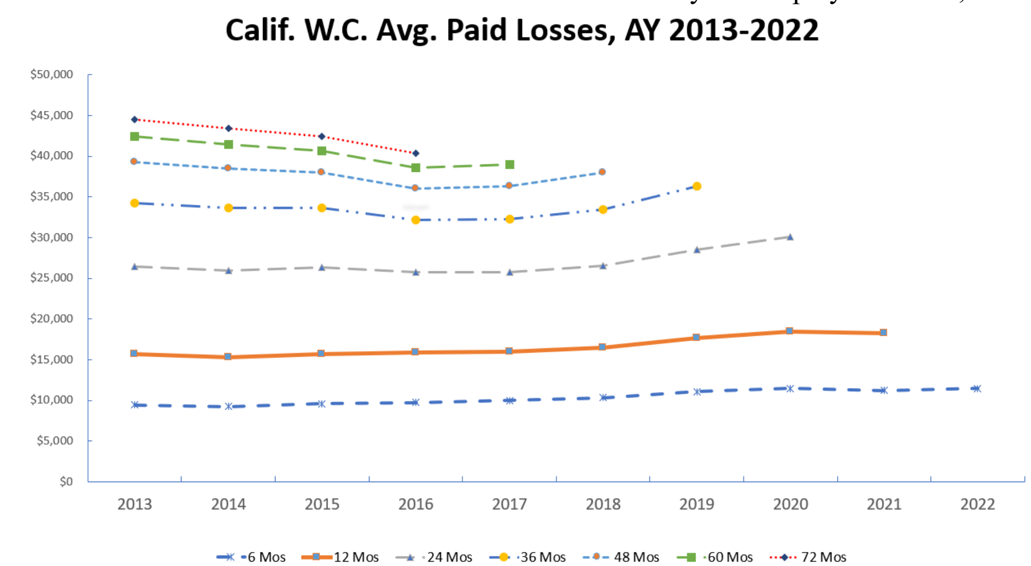
A new CWCI 10-year analysis of paid losses on California workers' compensation indemnity claims finds that loss costs briefly fell after the 2012 workers' compensation reform bill (SB 863) took effect a decade ago, but then slowly increased until the pandemic hit, so average amounts paid on claims at all valuation points up through 60 months post injury are now above their post-reform lows, though the most developed data on older claims (72-month data on AY 2016 claims) still show declines in loss payments in the wake of the 2012 reforms.

Using data from CWCI's Claims Monitoring Application on nearly 570,000 lost-time claims for work injuries that occurred during the 10-year span ending in December 2022, the study tracked the average paid losses per claim at 6, 12, 24, 36, 48, 60 and 72 months post injury, with results broken out by accident year. In addition to measuring total average losses, the study breaks out the average amounts paid for medical and indemnity payments at each level of development and compares average loss payments for claims from five key industry sectors and from seven distinct regions of the state as well as out-of-state claims. Among the findings:

- First-year total paid losses on indemnity claims declined briefly after SB 863 took effect a decade ago, but average paid losses at 6 and 12 months bottomed out in AY 2014 and started to slowly trend up by AY 2015, continuing to increase through the first year of the pandemic (AY 2020). For the first time in seven years the 6- and 12-month average paid loss trends declined slightly in AY 2021 – the second year of the pandemic – while the 6-month data for AY 2022 showed a marginal increase, so since the pandemic began average total losses in the initial months after injury have barely budged.



- The post-reform decline in average 24-month medical losses continued through AY 2016 but between AY 2017 and AY 2020 average paid medical losses at 24 months trended up, climbing 16.6 percent over four years, which helped fuel an increase in the overall 24-month loss trend. The 24-month average medical payments rose sharply in AY 2019 (+4.5 percent) and in AY 2020 (+6.2 percent). Notably, the 24-month data on claims from both those years included payments for medical services delivered during the pandemic.
- More developed data on older claims show average total losses at 36, 48, 60 and 72 months trended down through AY 2016, but beginning with AY 2017 claims, average paid losses at the later development periods started to increase.
- Despite some fluctuations average indemnity payments at 6 months increased 40.6 percent between AY 2013 and AY 2022, while average indemnity paid at 12 months rose 27.7 percent between AY 2013 and AY 2021. Average indemnity payments at 24 months also fluctuated through AY 2017, but increased for AY 2018, AY 2019, and AY 2020 claims, producing a net increase of 22.7 percent between AY 2013 and AY 2020.

- Unlike the 6-, 12- and 24-month data, there are no COVID claims in the 36-, 48-, 60- and 72-month results as data at those levels of development are not available beyond AY 2019, and the pandemic began in AY 2020. However, in the first few years after SB 863 took effect, the 36-month trendline for indemnity payments tracked with those at the shorter development periods, first fluctuating in a narrow range then gradually trending up to a peak in AY 2019. Average indemnity payments at the longer-term valuations, which are more affected by PD, were flatter with a net increase of 3.4 percent in the 48-month payments between AY 2013 and AY 2018; a net decrease of 1.3 percent in the 60-month payments between AY 2013 and AY 2017; and a net decrease of 1.8 percent in the 72-month payments between AY 2013 and AY 2016.
- A review of 24-month average losses on indemnity claims by industry found that among five key sectors, total losses on construction claims were consistently 1-1/2 times the cost of claims from other sectors. The 24-month total losses on AY 2020 construction claims averaged $44,379 versus the all-industry average of $30,079, and the $29,009 average for clerical claims, which ranked second among the five sectors in all eight accident years. The 24-month average paid medical on AY 2020 construction claims was 52 percent more than the all-industry average, and the average paid indemnity was 46.9 percent more.
- Regional data show California claims from injured workers who live out of state were consistently the most expensive, with both the highest average medical and indemnity losses. In AY 2020 total paid losses on indemnity claims by out-of-state residents averaged $42,980 – 42.9 percent above the statewide average. Much of this is likely associated with the use of non-network medical providers, the added travel expenses for workers who come back to California for medical services, and the delays and extended TD periods that occur while locating and arranging treatment for out-of-state workers.
- Among injured workers living in California, average 24-month losses were highest in the North Counties/Sierra, a region that includes more remote areas with fewer primary and specialist physicians and ancillary services, as well as hazardous industries where workers often suffer extremely severe injuries that require extensive medical care and medical travel to areas where that care is available. In AY 2020, 24-month medical losses on indemnity claims from the North Counties/Sierra averaged $19,707, nearly matching the average for out-of-state claims and 36.7 percent above the statewide average.
- The nine-county San Francisco Bay Area also had above-average loss costs, primarily due to the higher TD payments on lost-time claims, as wages in the Bay Area are the highest in the state, though average medical losses also tended to be higher than in most other regions. The two-year paid losses on 2020 indemnity claims from Bay Area residents were the third highest in the state, as the average paid indemnity on these claims was 17.9 percent above the statewide average, and the average paid medical loss was 7.3 percent higher.
- The Central Valley, dominated by agriculture, had the lowest average loss costs in California, with total losses at 24 months on AY 2020 indemnity claims averaging 9.3 percent below the statewide average as medical losses averaged 5.4 percent below the statewide average and indemnity payments, which at the 2-year benchmark consisted primarily of TD, averaged 15.3 percent below the statewide figure.

CWCI has published its study in a Research Update report, "California Workers' Compensation Claims Monitoring: Medical & Indemnity Development, AY 2013 – AY 2022." The public can access the report at www.cwci.org/research.html. CWCI members and subscribers may also log in to www.cwci.org/log_in.html to obtain a summary Bulletin and Institute members can access the interactive Claims Monitoring Application in the Research section of the Institute's website.

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