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BULLETIN

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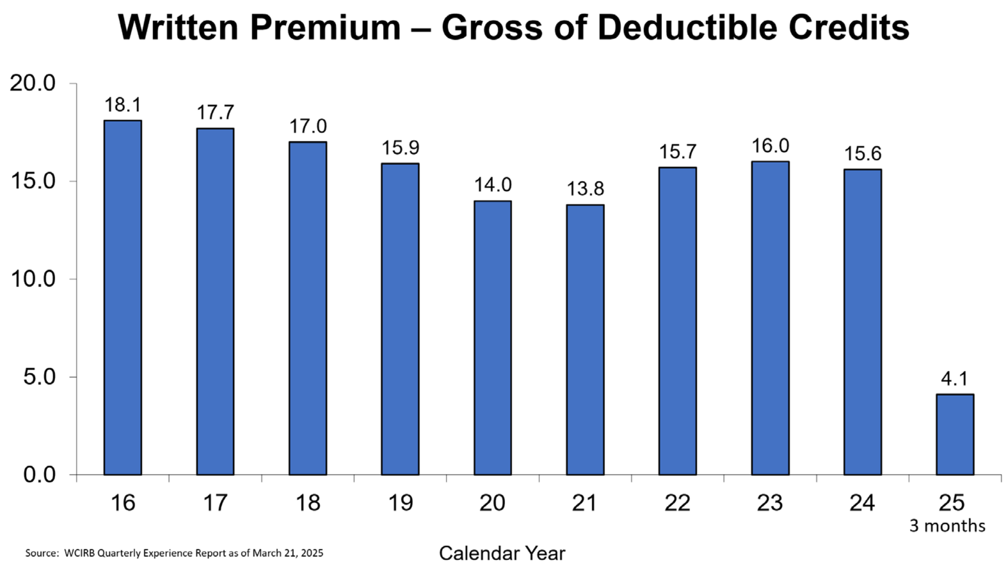
California workers' compensation direct written premium (DWP) gross of deductible credits fell to $4.1 billion in the first three months of this year, 4 percent less than in the first quarter of 2024, while total DWP for all of calendar year (CY) 2024 was $15.6 billion, about $400 million below the CY 2023 total according to the latest Quarterly Experience Report by the Workers' Compensation Insurance Rating Bureau (WCIRB).

WCIRB's latest summary of loss and premium experience reflects data valued through March 2025, based on amounts reported to the Rating Bureau by all insurers writing workers' compensation insurance in California. Over the past decade, total DWP in the system has fluctuated, trending down from a peak of $18.1 billion in CY 2016 to $13.8 billion in CY 2021, then climbing to $15.7 billion in 2022 and $16.0 billion in 2023, spurred by the rapid growth in employment and covered payroll as the state's economy rebounded from the short, pandemic-driven recession. The updated data show that last year aggregate premium fell for the first time since 2021, declining 2.5 percent to $15.6 billion, while the decline in DWP in the first quarter of this year from the same period last year shows the recent downturn continued in the first three months of this year, suggesting that total DWP could be on track for another decline in 2025.



After peaking at $3.19 per $100 of covered payroll in 2014, the average rate charged by California workers' compensation insurers declined steadily before leveling off at a historic low of $1.60 per $100 of payroll in 2023 and 2024. The latest report shows the average charged rate held steady in the first quarter of the year, coming in at $1.61 per $100 of covered payroll, though that could change by the end of the year as Insurance Commissioner Lara recently approved an average 8.7 percent increase in pure premium advisory rates for policies incepting on or after September 1. In approving the rate increase – the first in 10 years – the commissioner cited increases in medical loss development and medical severity, and a jump in claim frequency driven in part by the emergence of cumulative trauma (CT) claims in Northern California, and the resulting growth in allocated loss adjustment expenses (ALAE). **Note:** An upcoming CWCI analysis will examine factors contributing to the recent increases in medical loss development.

Although WCIRB projections show the industrywide ultimate accident year (AY) loss ratio held steady from AY 2021 through AY 2023, the latest report anticipates a 9-point increase in AY 2024, spurred by sharp increases in average medical costs as well as moderate increases in average indemnity, ALAE, and indemnity claim frequency. After falling to a post-SB 863 low of 79 percent in 2015 and 2017, the industrywide combined ratio (loss plus expenses/earned premium) has now been above 100 percent in each of the last 5 years, and the WCIRB projects it will rise to a 20-year high of 127 percent in AY 2024.

Data on claim closure rates show indemnity claims settled more quickly following enactment of SB 863 in 2012 and SB 1160 in 2016, but that trend changed when the pandemic hit in early 2020, at which point claim closure rates fell sharply before leveling out from 2022 to 2024. WCIRB estimates the claim closure rate for 15- to 99-month-old indemnity claims (excluding COVID claims) climbed as high as 35.9 percent in CY 2019 and 2020, but between 2022 and 2025 it ranged between 32.2 percent and 34.1 percent, then fell to a 10-year low of 31.6 percent in the first quarter of this year.

The latest indemnity claim frequency data show that after a relatively sharp decline of 7.9 percent in AY 2020 (the first year of the pandemic) frequency rebounded, jumping 10.1 percent in AY 2021, followed by increases of 1.1 percent in AY 2022; 6.0 percent in AY 2023; and 2.4 percent in AY 2024. To a great extent, those increases reflect the growth of CT claim frequency, which the Rating Bureau noted in its September 1 rate filing, coincided with the shift to virtual WCAB hearings, which was followed by a 21 percent increase in the use of Los Angeles applicant attorneys in Bay Area hearings and a 12 percent increase in the use of Los Angeles applicant attorneys in San Diego hearings. In addition, applicant attorneys reportedly increased the number of out-of-area claims filed at the Los Angeles and Van Nuys Appeals Boards. In the first 3 months of 2025, however, statewide claim frequency declined, falling by 2.8 percent, the first decline since the beginning of the pandemic.

The Rating Bureau projects that the ultimate medical severity for AY 2024 indemnity claims will be $36,493, up nearly 7.7 percent from AY 2023 and up 35.5 percent from the post-SB 863 low of $26,926 in AY 2016. WCIRB reports that most of the increase in medical severity since 2016 was due to inflationary adjustments to the Official Medical Fee Schedule, and that the increase between AY 2023 and AY 2024 was broad-based, reflecting higher allowances and payments across a broad array of medical services.

On the indemnity side, the WCIRB projects that the ultimate indemnity severity for AY 2024 lost-time claims (excluding COVID claims) will be $30,748, up 1.9 percent from AY 2023, and up 29.5 percent from AY 2016. The historical data show only minor fluctuations in indemnity severity in the first few years following the enactment of the 2012 reforms, but steady growth beginning in 2017, largely driven by wage inflation, including higher-than-normal wage growth during the post-pandemic period.

Steep increases in the average amount paid for ALAE also contributed to the recent growth in claim severity, as the projected ultimate ALAE for AY 2024 indemnity claims, excluding medical cost containment expenses and COVID claims, jumped to a record $12,600, up 9.7 percent from AY 2023, marking the fourth year in a row that ALAE severity registered a sharp increase. WCIRB notes that the recent increase in ALAE is likely associated with the slower settlement rate and greater post-pandemic WCAB involvement that has coincided with the big jump in CT claims, most of which are litigated. Since 2016, ALAE severity has climbed 39 percent from $9,063 to $12,600 last year.

Average Medical Cost Containment Program (MCCP) costs per claim were flat between 2016 and 2022, ranging between $2,316 to $2,411, but with the growth in medical costs and ALAE since 2023, ultimate MCCP severity has also jumped, climbing 8.2 percent to $2,508 in 2023 and 5.2 percent to $2,638 last year.

The combined effect of the growth in these various cost components is that the WCIRB now projects that the ultimate total loss and ALAE severity for California workers' compensation indemnity claims in AY 2024 will hit a record $82,479, a year-over-year increase of 5.7 percent, and a 32.9 percent increase from the post-SB 863 low of $62,062 in AY 2016.

WCIRB's Quarterly Experience Report for Q1 2024, including additional charts and data, is posted in the Research and Education section of the Rating Bureau's website, www.wcirb.org.

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