

WORKERS' COMPENSATION INSURANCE RATING BUREAU

of California

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May 13, 2004

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California Department of Insurance
45 Fremont Street, 24th Floor
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Subject: Proposed July 1, 2004 Pure Premium Rates
CDI File No. RH-04036604

Dear Mr. White:

At the California Department of Insurance hearing held on April 29, 2004, the Workers' Compensation Insurance Rating Bureau of California (WCIRB), a licensed rating organization and the designated statistical agent of the insurance commissioner, advised that it would complete its evaluation of the impact of Senate Bill 899 (SB 899) on the cost of benefits and propose amendments to the pure premium rates and related regulations with respect to new and renewal policies incepting on or after July 1, 2004, by May 13, 2004. The WCIRB has completed its evaluation and, pursuant to Article 2 of Chapter 2, and Articles 2 and 3 of Chapter 3, Part 3, Division 2, of the Insurance Code of the State of California, is submitting the recommendations and proposals contained in Parts A and B of the attached filing for your consideration.

EVALUATION OF SENATE BILL 899

The WCIRB estimates that SB 899 will reduce projected statewide benefit cost by approximately 15%, or \$3.0 billion, and loss adjustment expenses by approximately 9%, or \$0.3 billion.¹ The WCIRB's evaluation of the impact on SB 899 on system costs is

¹ This estimate does not reflect the impact of SB 899 changes on the cost of permanent disability benefits that do not become effective until such time as the Administrative Director of the Division of Workers' Compensation adopts a new permanent disability schedule.

shown in Part A, Section A, Attachment 1. The estimated reduction in projected system costs is predicated, in large part, on the following:

1. Reduction in the duration of temporary disability weekly benefits.
2. Apportionment of permanent disability awards based on causation.
3. Enhanced likelihood that medical treatment will be provided as specified in the medical treatment utilization guidelines authorized in Senate Bill 228.
4. Authorization to direct medical treatment through medical provider networks.
5. Employer liability for immediate medical care.
6. Restrictions on medical legal evaluations.
7. Impact on claim administration expenses.

The impact on the cost of permanent disability benefits of the following changes, enacted as part of SB 899, are not reflected in the proposed pure premium rates, as such changes do not become effective until such time as the Administrative Director of the Division of Workers' Compensation adopts a new permanent disability schedule.

1. Changes in the number of weeks of permanent disability weekly benefits per percent of disability.
2. Adjustment to the amount of the weekly disability benefit based on return-to-work considerations.
3. Applicability of a new permanent disability schedule to rate the percent of disability.

PURE PREMIUM RATES

Pure premium rates reflect the loss cost, including loss adjustment expense, per unit of exposure. The pure premium rates are only advisory, as an insurer is neither required nor obligated to use either the proposed or the approved pure premium rates in establishing the rates it will charge. As shown in the Appendix to Part A, the WCIRB is proposing to amend the pure premium rates applicable to new and renewal policies with anniversary rating dates on or after July 1, 2004. The pure premium rates proposed in the Appendix are approximately 13% to 15% less than the January 1, 2004 pure premium rates proposed by the WCIRB in its November 3, 2003 filing letter and 2.9% less than the January 1, 2004 approved pure premium rates.

The proposed pure premium rates applicable to new and renewal policies with anniversary rating dates on or after July 1, 2004, are based on (a) the WCIRB's estimate of the impact SB 899 on system costs; (b) insurer 2003 and prior accident year loss experience valued as of December 31, 2003; and (c) insurer loss adjustment expenses for 2002 and prior years. These factors are discussed in Part A, Sections A and B.

PLANS AND REGULATIONS SUBJECT TO
INSURANCE COMMISSIONER APPROVAL

In recognition of the proposed revision to the pure premium rate level of -2.9%, the WCIRB is recommending that the *California Workers' Compensation Experience Rating Plan — 1995* experience rating eligibility threshold be amended accordingly. Specifically, it is recommended that the experience rating eligibility threshold be revised from \$30,900 to \$30,004.

We shall endeavor to provide you with any additional information you may require.

Sincerely,

Robert G. Mike
President

Attachment: WCIRB Rate Filing
July 1, 2004

JULY 1, 2004 PURE PREMIUM RATE FILING

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PART A – PURE PREMIUM RATES

The pure premium rates set forth in this Appendix are proposed to be effective on July 1, 2004, with respect to new and renewal policies with anniversary rating dates on or after July 1, 2004. The factors used to develop these proposed pure premium rates, including loss development and trending methodologies, the estimated cost impact of the provisions of SB 899, and estimated loss adjustment expenses are discussed in Sections A and B.

Appendix

CALCULATION OF PROPOSED PURE PREMIUM RATES

The pure premium rates proposed in this Appendix were developed by the WCIRB to be effective July 1, 2004, with respect to new and renewal policies with anniversary rating dates on or after July 1, 2004. Pure premium rates contemplate provision for losses and loss adjustment expenses. The considerations used to project the loss component of pure premium rates, including the WCIRB's evaluation of the impact of Senate Bill No. 899 (SB 899) on benefit costs, are discussed in Part A, Section A.

The pure premium rates proposed herein are based on aggregate loss and premium experience valued as of December 31, 2003, and the WCIRB's evaluation of the cost impact of SB 899. As discussed in Part A, Section A of this filing, the projected loss ratio for policies incepting between July 1, 2004, and December 31, 2004, at the current January 1, 2004, pure premium rate level, is 0.819. As discussed in Part A, Section B, the provision for loss adjustment expenses is estimated at 18.5% of losses. As a result, the projected loss and loss adjustment expense ratio at the January 1, 2004, pure premium rate level is 0.971 (0.819 x 1.185), producing an indicated pure premium rate change of -2.9%. **Thus, the pure premium rates proposed in this Appendix, to be effective for new and renewal policies with anniversary rating dates on or after July 1, 2004, are computed by multiplying the January 1, 2004, pure premium rate for each classification by a factor of 0.971.**

PURE PREMIUM RATE SECTION (PROPOSED)
Effective July 1, 2004 on New and Renewal Policies
with Anniversary Rating Dates on or After July 1, 2004

Legend:

(A) See immediately following page.

Code No.	P.P. Rate	Code No.	P.P. Rate	Code No.	P.P. Rate	Code No.	P.P. Rate	Code No.	P.P. Rate	Code No.	P.P. Rate	Code No.	P.P. Rate
0005	7.50	2117	16.87	3082	13.16	3815	13.97	4512	0.93	5403	27.89	6400	18.67
0016	11.13	2121	5.63	3085	9.51	3821	12.46	4557	4.86	5432	9.55	6504	11.71
0034	12.58	2142	9.11	3099	6.53	3828	9.54	4558	5.29	5436	8.07	6834	9.07
0035	7.34	2150	11.29	3110	15.60	3830	8.47	4611	4.23	5443	10.79	7133	6.96
0036	8.28	2163	13.10	3131	8.01	3831	4.66	4623	8.87	5446	14.38	7198	16.22
0038	15.83	2211	18.54	3146	10.33	3840	13.01	4635	5.52	5447	6.51	7207	16.31
0040	5.04	2222	9.54	3152	4.92	4000	11.26	4665	13.94	5467	21.31	7219	16.22
0041	6.95	2362	10.59	3165	7.89	4034	13.91	4683	8.23	5470	9.95	7232	9.31
0042	9.23	2402	9.22	3169	9.61	4036	5.18	4691	3.83	5473	21.40	7248	5.46
0044	8.01	2413	13.79	3175	13.61	4038	11.26	4692	3.93	5474	18.55	7272	25.30
0045	6.24	2501	6.06	3178	5.98	4041	15.88	4717	12.88	5479	13.13	7332	6.41
0050	10.51	2570	15.22	3179	6.55	4049	10.23	4720	9.95	5482	7.79	7360	16.48
0079	5.53	2571	9.79	3180	9.08	4111	3.92	4740	4.67	5484	19.11	7365	13.51
0106	26.63	2576	13.10	3220	9.16	4112	1.55	4771	5.11	5485	11.12	7382	17.86
0171	14.48	2584	15.93	3241	10.42	4114	16.30	4828	5.75	5506	12.23	7392	15.81
0172	5.98	2585	12.43	3257	7.36	4130	14.52	4829	5.04	5507	6.36	7403	8.04
0251	7.33	2586	7.16	3300	18.34	4150	6.17	4831	7.82	5538	14.58	7405	3.49
0400	10.85	2589	7.16	3339	10.19	4239	8.97	4922	5.44	5542	7.17	7409	13.04
0401	12.61	2623	9.43	3365	17.27	4240	8.73	4983	12.02	5552	41.18	7410	8.26
1122	12.37	2660	8.96	3372	11.13	4243	9.45	5020	8.37	5553	21.49	7421	5.22
1123	25.81	2683	10.48	3383	4.17	4244	9.31	5027	16.31	5606	3.02	7424	4.04
1124	17.54	2688	8.90	3400	11.08	4250	9.60	5028	8.73	5630	27.89	7428	6.80
1320	4.02	2702	28.73	3401	11.27	4251	10.65	5040	17.80	5631	9.55	7429	7.68
1322	17.16	2710	17.42	3501	8.94	4279	12.12	5057	22.52	5632	27.89	7500	9.54
1330	22.36	2727	23.35	3507	10.69	4283	12.34	5059	38.62	5633	9.55	7515	2.60
1438	11.54	2731	15.44	3560	7.32	4286	9.81	5102	16.87	5645	27.89	7520	9.54
1452	6.65	2757	17.07	3566	3.07	4295	7.58	5107	9.86	5650	11.90	7538	17.85
1463	15.99	2759	12.09	3567	3.07	4297	0.90	5108	16.11	5697	9.55	7539	3.88
1624	12.37	2790	5.03	3568	4.45	4299	7.12	5128	2.25	5951	1.85	7580	4.60
1699	8.28	2797	13.70	3569	6.09	4304	8.94	5140	5.76	6003	13.74	7600	7.81
1701	14.08	2806	12.55	3570	6.55	4312	11.11	5146	9.72	6011	7.14	7601	20.60
1710	8.54	2812	10.34	3572	2.17	4351	4.47	5160	3.25	6204	14.58	7605	6.35
1741	6.89	2819	17.70	3573	4.14	4354	3.78	5183	10.91	6206	7.20	7606	4.79
1803	15.43	2840	11.37	3574	8.50	4360	2.84	5184	9.38	6213	6.44	7607	1.45
1925	14.45	2842	13.83	3577	2.94	4361	4.40	5185	13.37	6216	10.24	7610	1.45
2002	13.89	2852	10.98	3578	3.07	4362	2.54	5186	5.05	6218	11.80	7706	11.03
2003	11.11	2881	12.38	3612	7.38	4410	10.82	5187	5.40	6220	5.68	7707	(A)
2014	9.36	2883	15.15	3620	14.39	4414	12.74	5190	9.67	6233	8.93	7720	10.28
2030	16.27	2915	10.31	3632	6.71	4420	20.03	5191	4.10	6235	18.68	7721	7.65
2063	11.78	2923	10.36	3634	8.54	4432	7.94	5192	11.62	6237	7.88	7722	(A)
2081	21.99	3018	7.84	3643	6.28	4470	8.34	5195	6.70	6251	8.94	7855	6.58
2095	15.43	3022	11.24	3647	6.97	4478	8.63	5201	12.91	6254	11.81	8001	7.89
2102	11.65	3030	15.72	3651	5.36	4492	13.58	5205	6.97	6258	8.62	8004	7.55
2106	14.30	3039	21.62	3681	3.07	4494	8.87	5207	5.68	6307	20.01	8006	8.30
2107	10.71	3040	16.67	3719	7.32	4495	11.13	5212	11.79	6308	7.94	8008	4.86
2108	16.21	3060	14.79	3724	10.51	4496	9.51	5213	12.86	6315	15.67	8013	2.38
2109	14.78	3066	9.05	3726	9.69	4497	9.92	5214	8.87	6316	7.73	8015	9.82
2111	10.90	3070	2.64	3805	4.63	4498	9.45	5222	17.58	6325	7.17	8017	5.95
2113	15.23	3076	11.53	3807	10.40	4499	10.14	5225	14.32	6361	9.39	8018	10.36
2116	13.70	3081	13.74	3808	5.55	4511	3.02	5348	9.24	6364	12.81	8019	4.16

Section A

COMPUTATION OF PROJECTED
LOSS TO PURE PREMIUM RATIO
INCLUDING IMPACT OF SENATE BILL NO. 899

The WCIRB's projection of the ratio of losses to premium at the approved January 1, 2004 pure premium rate level for policies incepting between July 1, 2004, and December 31, 2004, is 81.9%. This projection has been derived based on the following:

A. Calendar-Accident Year Experience

The projected loss to pure premium ratio is based on an evaluation of the experience of calendar-accident years 1974 through 2003, valued as of December 31, 2003. (The WCIRB's January 1, 2004, pure premium rate filing was based on calendar-accident year experience through 2002, valued as of March 31, 2003.)

Exhibit 1 is a summary of the calendar year premiums and accident year losses. The experience contained in this exhibit reflects the data reported by insurers representing 98% of the California workers' compensation insurance market in 2002. Exhibit 1 shows the earned premium, the indemnity paid losses and case reserves, and the medical paid losses and case reserves as of December 31, 2003, for accident years 1974 through 2003. The reported earned premiums and paid losses form the basis of the indicated pure premium rate calculation.

B. Loss Development

The indemnity and medical paid and incurred (paid plus case reserves) losses shown in Exhibit 1 for each accident year are valued as of December 31, 2003. For example, the paid indemnity losses of \$425,315,018 shown for accident year 2003 reflect the total indemnity benefits that have been paid on accidents that occurred during 2003, from the beginning of that year through December 31, 2003. The pure premium rates are intended to reflect the estimated final or ultimate cost of losses and loss adjustment expenses on all accidents that will occur during the period the rates will be in effect. Consequently, the losses reported for each historical accident year as of December 31, 2003, are adjusted or developed to reflect the ultimate cost of all accidents that have occurred during that year.

Exhibit 2, Sheets 1 and 2, show the year-to-year growth in reported incurred losses from one December 31 evaluation to the next. Exhibit 2, Sheets 3 and 4, show the year-to-year growth in reported paid losses in successive December 31 evaluations of each accident year. These annual growth, or "age-to-age development", factors are used to estimate the ultimate losses to be paid for each accident year.

The methodologies used in Exhibit 2 to develop each year's reported losses to their ultimate level are identical to those used in the January 1, 2004 pure premium rate filing submitted to the insurance commissioner on July 30, 2003. (In the evaluation of SB 899 discussed in Attachment 1, the WCIRB has estimated the impact of certain provisions

related to the utilization of medical services by adjusting certain loss development projections.) These methodologies are summarized briefly below.

Development from 12 to 168 Months

For a number of years, the WCIRB has relied upon paid age-to-age development factors to develop losses through 168 months. The WCIRB believes paid loss development is a more appropriate basis than incurred loss development to project future development for several reasons. First, in contrast to incurred development, paid development has, until recently, been relatively stable. Second, paid development is not affected by changes in (a) case reserve adequacy, (b) frequency of cumulative injury claims, and (c) benefit levels to the same extent as incurred development. Third, a number of retrospective tests have shown that recent paid age-to-age factors have been better predictors of future development than have incurred factors.

Indemnity paid development through 168 months has, in recent years, been relatively stable. (See Exhibit 2, Sheet 3.) Conversely, medical paid loss development has been growing at a sharply increasing rate. (See Exhibit 2, Sheet 4.) As in the last several filings, the WCIRB is projecting future indemnity development based on the most recent indemnity paid development factor, while medical loss development through 168 months is projected based on the trend in the latest three factors.¹

Development Beyond 168 Months

In the last several pure premium rate filings, the WCIRB projected loss development beyond 168 months based on the most recent paid age-to-age factor. The WCIRB again recommends use of the most recent paid age-to-age development factors to project development beyond 168 months. As in prior filings, development factors beyond 204 months are adjusted to reflect a decline in the proportion of losses attributable to permanent total and asbestosis claims. Also, losses are adjusted from 348 months to an ultimate level based on the average of the latest three incurred development factors.

The age-to-age development factors selected for each valuation period are combined in Exhibit 3 to produce a cumulative development factor for each period. This factor reflects the ultimate amount of losses anticipated for each accident year relative to the reported paid losses as of December 31, 2003. These "cumulative" factors are then applied to the reported (undeveloped) paid indemnity and medical loss ratios as of December 31, 2003 to project an ultimate loss ratio for each accident year. As shown in the last column of Exhibit 3, the WCIRB projects an ultimate loss ratio of 70.3% for accident year 2003 and 93.2% for accident year 2002.²

¹In the ruling on the January 1, 2004 pure premium rate filing, the CDI based medical loss development on a five-year exponential trend in lieu of the three-year trend recommended by the WCIRB. Based on December 31, 2003 experience, this methodology generates an indication that is approximately 1% higher than that reflected in this section.

² These are prior to the estimated impact of AB 227, SB 228, or SB 899 on unpaid medical losses.

C. Cost Level Adjustments to Losses

The adjustments made to losses to reflect the changes in the cost of selected loss components that can be specifically measured are shown in Exhibit 4. Exhibit 4, Sheet 1, displays the average impact on indemnity benefits of legislative and regulatory changes and wage inflation. The benefit level adjustment factors displayed in Exhibit 4, Sheet 1, reflect the impact of changes in statutory benefit levels, fee schedules, as well as legislative reforms. Specifically, column 1 of Exhibit 4, Sheet 1, shows the impact of statutory benefit changes through accident year 2003. The factor shown for accident year 2003 reflects the WCIRB evaluation of Assembly Bill No. 749 (AB 749) as included in the January 1, 2004, pure premium rate filing. However, the additional impact of AB 749, as well as the impact of Assembly Bill No. 227 (AB 227), Senate Bill No. 228 (SB 228), and Senate Bill No. 899 (SB 899) are not reflected in Exhibit 4.

For many years, the Official Medical Fee Schedule (OMFS) has regulated the amount paid to physicians for many workers' compensation medical procedures, and, beginning in 1999, certain inpatient hospital procedures are now subject to the Inpatient Hospital Fee Schedule (IHFS).³ However, some workers' compensation medical costs are not subject to fee schedules. As a result, the portion of each historical accident year's losses not subject to fee schedules is adjusted to reflect the anticipated cost level for the period the proposed pure premium rates will be in effect. The cost adjustments used in this analysis are shown in Exhibit 4, Sheet 2. The historical values are based on the "Other Medical Services" and "Medical Care Services" components of the Consumer Price Index as published by the Bureau of Labor Statistics. Projected values for 2004 to April 1, 2005, the average date of experience on policies incepting between July 1, 2004, and December 31, 2004, are provided by Global Insight, Inc.⁴ (In the evaluation of SB 899 discussed in Attachment 1, the WCIRB has estimated the impact of certain provisions related to the utilization of medical services by adjusting this projection.)

Changes in fee schedules, as well as legislative changes, also impact the cost of medical benefits. Exhibit 4, Sheets 2 and 3, show the adjustments to each year's medical losses that are necessary to bring those losses to the level of the April 1, 1999 OMFS and the June 29, 2001 IHFS. Exhibit 4, Sheet 3, column 5, shows the factor to adjust each year's medical costs to reflect the impact of subsequently enacted legislation. The factors in column 5 reflect the impact on medical costs of (1) statutory reforms and (2) changes in the frequency of indemnity claims as a result of benefit changes. The factors shown in column 5 of Exhibit 4, Sheet 3, reflect the WCIRB's estimated impact of AB 749 on medical costs through accident year 2003. However, the additional impact of AB 749 as well as the impact of AB 227, SB 228 and SB 899 are not reflected in Exhibit 4, Sheet 3. The methodology for reflecting legislative changes is consistent with that in the January 1, 2004 pure premium rate filing.⁵

³ Beginning in 2004, additional medical costs will be subject to fee schedules, pursuant to SB 228.

⁴ This index was previously projected by Global Insight, Inc.'s predecessor firm, DRI/McGraw-Hill.

⁵ In the ruling on the January 1, 2004 pure premium rate filing, the CDI rejected the application of an AB 749 utilization factor with respect to medical losses. Based on December 31, 2003 experience, the CDI methodology generates an indication that is approximately 1% lower than that reflected in this section.

D. Wage and Premium Adjustments

Exhibit 5, Sheet 1, displays the adjustment made to historical premiums to reflect changes in wage level. Pure premium rates are expressed in terms of payroll. Consequently, the reported premium for each year reflects the wages paid during that year. To determine the level of pure premium needed to fund the cost of losses and loss adjustment expenses on policies effective between July 1, 2004, and December 31, 2004, the premium reported for each year is adjusted to reflect the wages anticipated to be paid during the period these policies will be in effect. The historical wage level changes reflected in Exhibit 4, Sheet 1, column 3, shows the estimated annual impact of wage inflation on indemnity benefits. Future wage inflation is projected based on the annual change in average California wages derived from historical values and forecasts published by the UCLA Anderson School of Business.⁶

The amount of premium generated during a particular year reflects the rates in effect during that year. To test the adequacy of the current (i.e., January 1, 2004) pure premium rates, the premium generated for each year is adjusted to reflect the premium that would have been generated had the January 1, 2004, pure premium rates been charged. This adjustment is shown in Exhibit 5, Sheet 2, Column 2.⁷ In addition, the premium reported for each year is adjusted for (1) the surcharge premium generated under the Minimum Rate Law, (2) the average experience modification, and (3) the current experience rating off-balance correction factor.

E. Trending of On-Level Ratios

Exhibit 6, Sheet 1, column 1, displays the indemnity loss ratios developed to an estimated ultimate level as shown in Exhibit 3. These developed loss ratios are adjusted for the impact of changes in benefit levels and wage inflation on indemnity benefits shown in Exhibit 4, Sheet 1, and for the premium level adjustments shown in Exhibit 5, Sheet 2, to produce the on-level indemnity ratios shown in Exhibit 6, Sheet 1, column 4. These on-level, or adjusted, ratios reflect the ratio of estimated ultimate indemnity losses to premium for each year as though (1) the current statutory benefits and projected wages had been in effect for each year, and (2) the premium for each year had been generated at the January 1, 2004 pure premium rate level and at the wage level projected for the 2004 policy year. Exhibit 6, Sheet 2, shows a similar calculation of medical on-level loss ratios. These on-level ratios, which are also displayed graphically in Exhibit 7, Sheets 1 and 2, show a consistent upward trend through 1989, a dramatic acceleration of the trend in 1990 and 1991, and a very sharp decline in 1992 and 1993. Since 1993, on-level indemnity loss ratios have been increasing for some time and then have generally been flat or declining since 1999. On-level medical loss ratios have been growing since 1993, with a sharp acceleration of that growth since 1996.

As in the January 1, 2004, pure premium rate filing, the WCIRB is projecting a July 1, 2004 through December 31, 2004, policy period on-level indemnity loss ratio equal

⁶ This index is based on the ratio of total statewide wages and salary to the civilian workforce.

⁷ The adjustments in this column reflect both (a) the impact of the average differential between insurer rates and the pure premium rates approved for that year, and (b) changes in the approved pure premium rates.

to the average of the latest three historical on-level indemnity loss ratios.⁸ The introduction of the presumption of correctness given to primary treating physician determinations by the 1993 reforms and the extension of the presumption to medical treatment by the 1996 Minniear⁹ decision significantly changed the level of medical services provided in workers' compensation. As a result, growth in on-level medical loss ratios accelerated in the mid-1990s. Consequently, the WCIRB is recommending that the July 1, 2004, through December 31, 2004, policy period on-level medical loss ratio be projected based on the growth in on-level medical loss ratios since 1996.¹⁰ (In the evaluation of SB 899 discussed in Attachment 1, the WCIRB has estimated the impact of certain provisions related to the utilization of medical services by adjusting this projected growth in on-level medical loss ratios.)

F. Computation of Projected Loss to Pure Premium Ratio

In Exhibit 8, the estimated ultimate indemnity and medical ratios of losses to premium at the approved January 1, 2004, pure premium rates are displayed on lines 1 and 2, respectively. This ratio is prior to the post-accident year 2003 impact of AB 749, and is prior to the impact of AB 227, SB 228, and SB 899.

Impact of Assembly Bill No. 749

On February 15, 2002, AB 749 was signed into law. This bill, which became effective January 1, 2003, significantly increases benefits in 2003 through 2006, and enacted a number of structural changes to the California benefit delivery system. Part A, Section A, Appendix C of the WCIRB's January 1, 2004, pure premium rate filing submitted to the insurance commissioner on November 3, 2003, contains the WCIRB's latest evaluation of the cost impact of the provisions of AB 749, including both benefit changes and structural changes for which the WCIRB was able to estimate potential savings. As shown on lines 3 and 4 of Exhibit 8, based on the analysis included in that Appendix, the WCIRB estimates the impact of the post-accident year 2003 provisions of AB 749 on the July 1, 2004, through December 31, 2004, policy period benefit cost is +15.9% on indemnity and -4.5% on medical.

Impact of Assembly Bill No. 227 and Senate Bill No. 228

On September 30, 2003, AB 227 and SB 228 were signed into law. These bills, which became effective on January 1, 2004, enacted a number of structural changes to the California benefit delivery system. Attachment A of the WCIRB's amended January 1, 2004, pure premium rate filing, submitted to the insurance commissioner on November 3, 2003, contains the WCIRB's evaluation of the cost impact of the provisions of AB 227 and SB 228. As shown on lines 5 and 6 of Exhibit 8, based on the analysis included in that attachment, the WCIRB estimates the impact of the provisions of AB 227

⁸ In the ruling on the January 1, 2004, pure premium rate filing, the CDI projected the policy year 2004 indemnity on-level loss ratio based on the latest year ratio. Based on December 31, 2003, experience this methodology generates an indication that is approximately 2% lower than that reflected in this section.

⁹ Minniear v. Mount San Antonio Community College District (1996) 61 Cal. Comp. Cases 1055 (Appeals Board en banc opinion).

¹⁰ Based on double exponential smoothing with a smoothing constant of 0.3.

and SB 228 on the July 1, 2004, through December 31, 2004, policy period benefit costs is –12.6% on indemnity and –14.6% on medical. The indicated indemnity and medical loss to pure premium ratios after application of AB 749, AB 227, and SB 228 are shown in lines 7 and 8 of Exhibit 8, respectively.

Impact of Senate Bill No. 899

On April 19, 2004, SB 899 was signed into law. This bill, which, as an urgency measure, became effective upon its signature, enacted further significant changes to the benefit delivery system in California. Attachment 1 contains the WCIRB's evaluation of the cost impact of the provisions of SB 899. As shown on lines 9 and 10 of Exhibit 8 and in Attachment 1, the WCIRB estimates the impact of the provisions of SB 899 on the July 1, 2004, through December 31, 2004, policy period benefit costs is –11.6% on indemnity and –16.9% on medical. The indicated indemnity and medical loss to pure premium ratios after application of SB 899 are shown in lines 11 and 12 of Exhibit 8, respectively.

Computation of Indicated Pure Premium Rate Level Change

The combined projected ratio of losses to pure premium at the January 1, 2004, pure premium rates after the impact of AB 749, AB 227, SB 228, and SB 899 is shown on line 13 as 0.819. As discussed in Section B, the projected ratio of loss adjustment expense to losses after reflecting the impact of SB 899 is 18.5%. As a result, the projected loss to pure premium ratio as shown on line 15 of Exhibit 8 is 0.971. This produces an indicated 2.9% decrease in the approved January 1, 2004, pure premium rates effective on or after July 1, 2004.

CALIFORNIA WORKERS' COMPENSATION
ACCIDENT YEAR EXPERIENCE AS OF DECEMBER 31, 2003
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

<u>Year</u>	<u>Earned Premium</u>	<u>Paid Indemnity</u>	<u>Indemnity Reserves</u>	<u>Paid Medical</u>	<u>Medical Reserves</u>	<u>IBNR *</u>	<u>Total Incurred *</u>	<u>Loss Ratio *</u>
1974	652,472,146	352,273,626	5,898,356	223,870,754	22,189,142	5,251,836	609,483,714	0.934
1975	782,048,509	385,508,902	5,225,440	251,267,791	15,536,650	5,369,694	662,908,477	0.848
1976	979,349,741	414,964,406	6,515,884	301,977,755	23,619,961	5,310,319	752,388,325	0.768
1977	1,320,106,647	445,033,058	6,103,878	319,878,736	25,192,086	5,341,276	801,549,034	0.607
1978	1,565,812,730	464,934,528	7,933,378	346,574,224	28,996,403	5,451,792	853,890,325	0.545
1979	1,749,128,708	537,098,458	7,237,780	418,620,170	32,579,319	6,374,222	1,001,909,949	0.573
1980	1,909,297,126	567,704,925	7,288,139	452,854,042	29,038,113	1,117,276	1,058,002,495	0.554
1981	1,970,070,962	604,394,491	6,984,683	512,647,501	29,371,938	3,369,464	1,156,768,077	0.587
1982	1,889,557,213	617,130,295	8,652,665	538,401,688	38,275,439	7,690,124	1,210,150,211	0.640
1983	2,177,647,621	873,968,046	10,535,239	637,424,456	35,790,087	34,799,228	1,592,517,056	0.731
1984	2,539,448,883	1,130,874,894	12,088,954	801,881,940	29,771,846	24,313,743	1,998,931,377	0.787
1985	3,017,454,820	1,351,891,442	12,637,903	995,055,184	37,121,969	30,232,306	2,426,938,804	0.804
1986	3,763,471,767	1,493,862,253	14,814,074	1,138,208,355	54,250,563	31,194,604	2,732,329,849	0.726
1987	4,715,113,693	1,650,778,287	20,172,471	1,340,356,045	84,703,855	40,764,778	3,136,775,436	0.665
1988	5,576,586,551	1,854,751,735	27,224,440	1,549,014,563	77,017,559	147,069,919	3,655,078,216	0.655
1989	6,176,784,892	2,104,982,175	39,822,871	1,806,284,585	124,733,580	59,873,342	4,135,696,553	0.670
1990	6,366,919,618	2,507,464,807	43,199,234	2,139,095,904	113,275,320	107,493,071	4,910,528,336	0.771
1991	6,574,361,789	2,740,470,752	67,619,716	2,282,146,344	119,500,082	126,380,029	5,336,116,923	0.812
1992	6,417,736,046	2,197,116,550	70,850,902	1,783,324,450	139,132,802	84,145,394	4,274,570,098	0.666
1993	6,764,211,423	1,884,286,025	81,441,945	1,511,301,450	149,932,896	89,202,918	3,716,165,234	0.549
1994	5,794,105,251	1,732,959,930	116,672,459	1,383,159,019	173,174,235	122,743,522	3,528,709,165	0.609
1995	4,332,799,659	1,850,907,545	161,876,890	1,430,274,343	248,141,527	80,511,732	3,771,712,037	0.871
1996	4,293,044,517	2,061,869,622	242,034,795	1,547,566,948	281,597,606	114,517,005	4,247,585,976	0.989
1997	4,637,244,444	2,340,195,244	318,018,731	1,737,147,285	361,596,094	179,153,453	4,936,110,807	1.064
1998	4,934,162,256	2,604,442,188	477,935,595	2,070,977,998	551,819,160	263,727,941	5,968,902,882	1.210
1999	5,230,993,447	2,600,487,701	618,359,057	2,204,137,322	596,114,671	521,152,676	6,540,251,427	1.250
2000	7,030,693,090	2,629,149,211	914,976,923	2,441,484,610	799,022,375	834,046,223	7,618,679,342	1.084
2001	10,753,550,992	2,583,942,758	1,506,754,372	2,791,862,725	1,218,355,903	1,868,546,568	9,969,462,326	0.927
2002	14,530,091,818	1,501,143,445	1,749,041,487	2,177,760,801	1,472,265,069	3,720,385,265	10,620,596,067	0.731
2003	19,654,976,445	425,315,018	1,253,614,091	751,875,011	1,369,887,459	7,702,597,657	11,503,289,236	0.585

* Shown for informational purposes only.

Source: WCIRB calendar and accident year experience calls.

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INCURRED INDEMNITY LOSS DEVELOPMENT FACTORS
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

Age in Months	Reported as of												Latest Year	Cumulative
	12/92	12/93	12/94	12/95	12/96	12/97	12/98	12/99	12/00	12/01	12/02	12/03		
24/12	1.411	1.372	1.364	1.419	1.526	1.625	1.709	1.861	1.910	1.931	1.874	1.906	1.906	3.490
36/24	1.074	1.067	1.082	1.116	1.154	1.155	1.213	1.230	1.260	1.291	1.277	1.324	1.324	1.831
48/36	1.020	1.005	1.023	1.036	1.058	1.057	1.077	1.092	1.109	1.117	1.117	1.124	1.124	1.383
60/48	1.004	0.998	1.012	1.010	1.023	1.026	1.031	1.048	1.062	1.071	1.067	1.068	1.068	1.230
72/60	1.002	1.000	1.006	1.005	1.011	1.018	1.014	1.031	1.038	1.047	1.042	1.047	1.047	1.152
84/72	0.997	0.996	1.001	1.004	1.005	1.012	1.008	1.016	1.022	1.031	1.031	1.027	1.027	1.100
96/84	1.003	1.000	1.004	1.002	1.005	1.008	1.005	1.009	1.013	1.020	1.017	1.023	1.023	1.071
108/96	1.002	0.999	1.002	1.000	1.008	1.005	1.004	1.006	1.007	1.015	1.013	1.016	1.016	1.047
120/108	1.001	0.999	1.001	0.999	1.001	1.003	1.001	1.002	1.008	1.008	1.006	1.008	1.008	1.031
132/120	1.002	1.000	0.998	1.001	1.001	1.004	1.001	1.002	1.003	1.004	1.005	1.004	1.004	1.023
144/132	1.003	1.001	1.002	1.001	1.002	1.003	0.999	1.001	1.003	1.004	1.003	1.003	1.003	1.019
156/144	1.005	0.998	0.997	1.005	1.001	1.003	1.001	1.001	1.004	1.001	1.003	1.002	1.002	1.016
168/156	1.001	0.999	1.001	1.002	1.000	1.000	1.000	0.999	1.001	1.001	1.002	1.001	1.001	1.014
180/168	1.002	1.000	1.000	1.001	1.001	1.001	1.000	0.999	1.001	1.001	1.000	1.001	1.001	1.013
192/180	1.002	1.003	1.001	1.002	1.002	1.002	1.001	0.999	1.002	1.001	1.000	1.001	1.001	1.012
204/192	1.004	1.006	0.999	1.002	1.001	1.000	1.000	1.000	1.001	1.000	1.001	1.000	1.000	1.011
216/204 (a)	<i>1.000</i>	<i>0.999</i>	<i>0.996</i>	<i>1.001</i>	<i>1.000</i>	1.000	0.999	1.000	1.001	1.000	1.000	1.000	1.000	1.011
228/216 (a)	<i>1.000</i>	<i>0.999</i>	<i>1.001</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	0.999	1.001	1.003	1.000	1.001	1.001	1.001	1.011
240/228 (a)	<i>1.000</i>	<i>1.000</i>	<i>0.999</i>	<i>1.000</i>	<i>1.000</i>	<i>1.001</i>	<i>1.000</i>	1.002	1.001	1.000	1.001	1.001	1.001	1.010
252/240 (a)	<i>1.000</i>	<i>1.000</i>	<i>0.997</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	0.998	1.002	1.002	1.001	1.001	1.009
264/252 (a)	<i>1.000</i>	<i>0.998</i>	<i>0.999</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.001</i>	<i>1.000</i>	<i>1.000</i>	1.002	1.001	1.000	1.000	1.008
276/264 (a)		<i>1.001</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.001</i>	<i>1.000</i>	<i>0.998</i>	<i>1.000</i>	<i>1.000</i>	1.001	1.001	1.001	1.008
288/276 (a)			<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.001</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	1.000	1.000	1.007
300/288 (a)				<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>0.998</i>	<i>1.000</i>	1.000	1.007
312/300 (a)					<i>1.000</i>	<i>1.000</i>	<i>0.996</i>	<i>1.000</i>	<i>0.999</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	1.000	1.007
324/312 (a)						<i>0.995</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	1.000	1.007
336/324 (a)							<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	<i>0.999</i>	<i>1.000</i>	<i>1.000</i>	1.000	1.007
348/336 (a)								<i>1.000</i>	<i>1.000</i>	<i>1.001</i>	<i>1.000</i>	<i>1.000</i>	1.000	1.007
ULT/348 (b)									1.004	1.005	1.007	1.009	1.007	1.007
360/348 (a)										<i>1.000</i>	<i>1.000</i>	<i>1.000</i>	1.000	

(a) Factors in italic format are adjusted for non-repeating permanent total and asbestosis claim patterns occurring in accident years 1979 and prior. These factors have been reflected at 18% of the reported factors.

(b) To adjust for non-repeating asbestosis claim patterns in older accident years, these factors are reflected at 42% of the reported ULT/348 factors. The original factors were 1.010, 1.011, 1.016 and 1.021, respectively.

INCURRED MEDICAL LOSS DEVELOPMENT FACTORS
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

Age in Months	Reported as of												Latest Year	Cumulative
	12/92	12/93	12/94	12/95	12/96	12/97	12/98	12/99	12/00	12/01	12/02	12/03		
24/12	1.347	1.212	1.163	1.171	1.234	1.302	1.339	1.443	1.517	1.598	1.659	1.636	1.636	4.067
36/24	1.037	0.998	1.002	1.016	1.016	1.075	1.084	1.113	1.169	1.219	1.227	1.271	1.271	2.486
48/36	0.993	0.987	0.984	0.987	1.004	1.010	1.018	1.067	1.087	1.112	1.123	1.133	1.133	1.956
60/48	0.994	0.990	0.990	0.993	1.001	1.009	1.010	1.037	1.050	1.070	1.092	1.098	1.098	1.726
72/60	1.000	1.003	1.008	0.996	0.995	1.007	1.009	1.032	1.038	1.053	1.073	1.084	1.084	1.572
84/72	0.999	0.997	1.003	1.000	1.003	1.013	1.005	1.011	1.028	1.047	1.053	1.064	1.064	1.450
96/84	1.003	1.004	1.008	1.003	1.001	1.007	1.008	1.010	1.021	1.033	1.037	1.049	1.049	1.363
108/96	1.005	1.000	1.005	1.000	0.998	1.006	1.007	1.005	1.013	1.028	1.034	1.045	1.045	1.299
120/108	1.005	1.003	1.005	1.004	1.008	1.008	1.002	1.004	1.009	1.017	1.024	1.028	1.028	1.243
132/120	1.009	1.002	1.005	1.007	1.006	1.016	1.002	1.003	1.011	1.010	1.014	1.021	1.021	1.209
144/132	1.007	1.006	1.003	0.998	1.001	1.002	0.996	1.002	1.009	1.008	1.011	1.021	1.021	1.184
156/144	1.015	1.015	1.016	1.001	1.002	1.002	1.000	1.005	1.010	1.009	1.011	1.010	1.010	1.160
168/156	0.996	1.007	1.000	1.002	1.005	1.000	1.002	1.001	1.003	1.006	1.008	1.012	1.012	1.149
180/168	1.009	1.003	1.005	1.003	1.003	1.006	1.004	1.006	1.004	1.008	1.007	1.015	1.015	1.135
192/180	1.007	1.015	1.009	1.008	1.001	1.013	1.006	1.004	1.006	1.007	1.006	1.010	1.010	1.118
204/192	1.012	1.014	1.005	1.007	1.000	1.004	0.990	1.005	1.005	1.003	1.007	1.016	1.016	1.107
216/204	1.013	1.021	1.016	1.005	1.003	1.005	1.007	1.006	1.005	1.005	1.009	1.008	1.008	1.090
228/216	1.014	1.007	1.021	1.006	1.005	1.006	1.004	1.009	1.016	1.007	1.005	1.006	1.006	1.081
240/228	1.009	1.013	1.024	1.001	1.013	1.008	1.003	1.015	1.008	1.012	1.007	1.004	1.004	1.075
252/240	1.011	1.004	1.008	1.000	1.003	1.017	1.002	1.016	1.003	1.009	1.007	1.011	1.011	1.071
264/252	1.018	1.021	1.015	1.013	1.009	1.014	1.009	1.007	1.011	1.003	1.008	1.009	1.009	1.059
276/264		1.014	1.005	1.009	1.002	1.005	1.005	1.008	1.009	1.009	1.019	1.003	1.003	1.050
288/276			1.003	1.006	0.998	1.008	1.004	1.003	1.005	1.014	1.014	1.008	1.008	1.047
300/288				1.010	1.010	1.011	1.012	1.007	1.005	1.014	1.014	1.010	1.010	1.039
312/300					1.008	0.999	1.007	1.002	1.010	1.011	1.012	1.008	1.008	1.029
324/312						1.010	1.001	0.996	1.011	1.004	1.010	0.992	0.992	1.021
336/324							1.004	1.002	1.016	1.004	1.004	1.007	1.007	1.029
348/336								1.009	1.009	1.014	1.011	1.005	1.005	1.022
ULT/348 (a)									1.014	1.012	1.014	1.024	1.017	1.017
360/348										1.017	1.001	1.007	1.007	

(a) To adjust for non-repeating asbestosis claim patterns in older accident years, these factors are reflected at 68% of the reported ULT/348 factors. The original factors were 1.021, 1.018, 1.020 and 1.035, respectively.

PAID INDEMNITY LOSS DEVELOPMENT FACTORS
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

Age in Months	Reported as of												Latest Year	Cumulative
	12/92	12/93	12/94	12/95	12/96	12/97	12/98	12/99	12/00	12/01	12/02	12/03		
24/12	2.999	2.902	2.958	3.086	3.327	3.313	3.472	3.422	3.506	3.511	3.547	3.547	3.547	12.471
36/24	1.731	1.701	1.733	1.708	1.713	1.694	1.691	1.661	1.692	1.724	1.745	1.795	1.795	3.516
48/36	1.322	1.282	1.297	1.281	1.278	1.260	1.246	1.246	1.251	1.268	1.281	1.306	1.306	1.959
60/48	1.143	1.140	1.134	1.130	1.128	1.124	1.120	1.116	1.129	1.130	1.134	1.146	1.146	1.500
72/60	1.073	1.072	1.076	1.068	1.070	1.071	1.067	1.067	1.069	1.075	1.080	1.086	1.086	1.309
84/72	1.043	1.041	1.044	1.043	1.040	1.038	1.039	1.040	1.042	1.049	1.048	1.052	1.052	1.205
96/84	1.024	1.024	1.026	1.026	1.028	1.024	1.024	1.023	1.025	1.032	1.032	1.036	1.036	1.145
108/96	1.014	1.016	1.015	1.015	1.020	1.015	1.015	1.014	1.016	1.021	1.020	1.022	1.022	1.105
120/108	1.011	1.010	1.009	1.010	1.012	1.012	1.010	1.010	1.011	1.012	1.013	1.014	1.014	1.081
132/120	1.009	1.008	1.006	1.008	1.008	1.007	1.008	1.006	1.006	1.008	1.010	1.009	1.009	1.066
144/132	1.009	1.007	1.006	1.006	1.006	1.008	1.006	1.005	1.005	1.006	1.005	1.006	1.006	1.056
156/144	1.009	1.005	1.004	1.010	1.004	1.008	1.004	1.004	1.004	1.004	1.003	1.004	1.004	1.050
168/156	1.005	1.002	1.004	1.006	1.003	1.003	1.003	1.003	1.003	1.003	1.003	1.003	1.003	1.046
180/168	1.007	1.003	1.004	1.004	1.003	1.003	1.002	1.002	1.003	1.002	1.002	1.002	1.002	1.043
192/180	1.005	1.004	1.002	1.003	1.003	1.003	1.002	1.001	1.002	1.002	1.002	1.002	1.002	1.041
204/192	1.006	1.003	1.002	1.004	1.003	1.003	1.002	1.002	1.001	1.001	1.001	1.002	1.002	1.039
216/204 (a)	<i>1.003</i>	<i>1.003</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	1.003	1.004	1.002	1.002	1.001	1.002	1.002	1.002	1.037
228/216 (a)	<i>1.003</i>	<i>1.002</i>	<i>1.004</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	1.001	1.002	1.002	1.002	1.001	1.001	1.001	1.035
240/228 (a)	<i>1.002</i>	<i>1.003</i>	<i>1.001</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.001</i>	1.002	1.002	1.002	1.001	1.001	1.001	1.034
252/240 (a)	<i>1.002</i>	<i>1.002</i>	<i>1.000</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	1.002	1.002	1.002	1.001	1.001	1.033
264/252 (a)	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.001</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.001</i>	<i>1.001</i>	1.002	1.002	1.001	1.001	1.032
276/264 (a)		<i>1.003</i>	<i>1.002</i>	<i>1.001</i>	<i>1.002</i>	<i>1.002</i>	<i>1.001</i>	<i>1.001</i>	<i>1.001</i>	<i>1.001</i>	1.001	1.002	1.002	1.031
288/276 (a)			<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.001</i>	<i>1.001</i>	<i>1.001</i>	<i>1.001</i>	1.002	1.002	1.029
300/288 (a)				<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.001</i>	<i>1.001</i>	1.001	1.027
312/300 (a)					<i>0.998</i>	<i>1.002</i>	<i>1.001</i>	<i>1.001</i>	<i>1.002</i>	<i>1.002</i>	<i>1.001</i>	<i>1.001</i>	1.001	1.026
324/312 (a)						<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.001</i>	<i>1.001</i>	1.001	1.025
336/324 (a)							<i>1.002</i>	<i>1.001</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	<i>1.002</i>	1.002	1.024
348/336 (a)								<i>1.001</i>	<i>1.002</i>	<i>1.001</i>	<i>1.001</i>	<i>1.001</i>	1.001	1.022
348Inc/348Pd									1.010	1.013	1.016	1.014	1.014	(c) 1.021
ULT/348Inc (b)									1.004	1.005	1.007	1.009	1.007	(c)
360/348 (a)										<i>1.001</i>	<i>1.001</i>	<i>1.001</i>	1.001	

- (a) Factors in italic format are adjusted for non-repeating permanent total and asbestosis claim patterns occurring in accident years 1979 and prior. These factors have been reflected at 66% of the reported factors.
- (b) To adjust for non-repeating asbestosis claim patterns in older accident years, these factors are reflected at 42% of the reported ULT/348Inc factors. The original factors were 1.010, 1.011, 1.016 and 1.021, respectively.
- (c) Three-year average ULT/348Inc and 348Inc/348Pd factors are selected.

PAID MEDICAL LOSS DEVELOPMENT FACTORS
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

Age in Months	Reported as of												Latest Yr/ Trended	Cumulative	
	12/92	12/93	12/94	12/95	12/96	12/97	12/98	12/99	12/00	12/01	12/02	12/03			
24/12	2.297	2.060	1.962	2.040	2.131	2.183	2.271	2.342	2.476	2.666	2.843	2.835	2.973	(c)	11.291
36/24	1.256	1.231	1.216	1.207	1.236	1.254	1.265	1.286	1.328	1.378	1.430	1.463	1.513	(c)	3.798
48/36	1.114	1.106	1.104	1.110	1.100	1.107	1.124	1.142	1.159	1.181	1.207	1.221	1.245	(c)	2.510
60/48	1.062	1.057	1.054	1.063	1.064	1.061	1.067	1.081	1.097	1.105	1.119	1.134	1.149	(c)	2.016
72/60	1.038	1.037	1.034	1.037	1.042	1.043	1.042	1.048	1.058	1.071	1.081	1.095	1.106	(c)	1.755
84/72	1.028	1.024	1.026	1.026	1.027	1.028	1.028	1.034	1.038	1.051	1.057	1.065	1.072	(c)	1.587
96/84	1.019	1.017	1.019	1.019	1.019	1.020	1.021	1.020	1.025	1.035	1.042	1.050	1.057	(c)	1.480
108/96	1.015	1.015	1.014	1.014	1.016	1.014	1.013	1.014	1.017	1.025	1.028	1.036	1.040	(c)	1.400
120/108	1.012	1.013	1.010	1.010	1.012	1.011	1.013	1.010	1.012	1.015	1.021	1.028	1.034	(c)	1.346
132/120	1.011	1.009	1.009	1.011	1.011	1.012	1.010	1.008	1.010	1.012	1.016	1.020	1.024	(c)	1.302
144/132	1.016	1.010	1.008	1.008	1.008	1.009	1.009	1.009	1.008	1.009	1.010	1.013	1.015	(c)	1.271
156/144	1.010	1.009	1.009	1.007	1.007	1.010	1.008	1.010	1.007	1.008	1.010	1.009	1.010	(c)	1.252
168/156	1.015	1.014	1.008	1.008	1.007	1.008	1.007	1.006	1.007	1.009	1.007	1.010	1.009	(c)	1.240
180/168	1.011	1.007	1.008	1.007	1.008	1.008	1.005	1.007	1.007	1.008	1.008	1.007	1.007		1.229
192/180	1.011	1.011	1.008	1.008	1.008	1.008	1.006	1.005	1.005	1.006	1.006	1.007	1.007		1.220
204/192	1.014	1.010	1.008	1.007	1.008	1.008	1.007	1.007	1.005	1.005	1.007	1.009	1.009		1.212
216/204	1.013	1.012	1.012	1.008	1.008	1.007	1.008	1.006	1.006	1.005	1.007	1.006	1.006		1.201
228/216	1.016	1.012	1.012	1.012	1.009	1.007	1.008	1.007	1.007	1.004	1.005	1.006	1.006		1.194
240/228	1.013	1.016	1.012	1.012	1.010	1.007	1.008	1.006	1.006	1.006	1.005	1.005	1.005		1.187
252/240	1.013	1.012	1.011	1.011	1.010	1.009	1.007	1.008	1.007	1.007	1.009	1.006	1.006		1.181
264/252	1.012	1.013	1.011	1.010	1.010	1.011	1.009	1.009	1.005	1.007	1.008	1.008	1.008		1.174
276/264		1.011	1.013	1.009	1.010	1.022	1.009	1.008	1.007	1.008	1.007	1.007	1.007		1.165
288/276			1.011	1.014	1.009	1.011	1.007	1.009	1.008	1.007	1.007	1.008	1.008		1.157
300/288				1.020	1.013	1.009	1.012	1.011	1.008	1.008	1.009	1.009	1.009		1.148
312/300					1.013	1.009	1.010	1.009	1.010	1.010	1.008	1.009	1.009		1.138
324/312						1.011	1.010	1.008	1.009	1.008	1.010	1.009	1.009		1.128
336/324							1.011	1.011	1.011	1.010	1.008	1.010	1.010		1.118
348/336								1.009	1.009	1.009	1.009	1.007	1.007		1.107
348Inc/348Pd									1.093	1.090	1.088	1.064	1.081	(b)	1.099
ULT/348Inc (a)									1.014	1.012	1.014	1.024	1.017	(b)	
360/348										1.012	1.012	1.011	1.011		

- (a) To adjust for non-repeating asbestosis claim patterns in older accident years, these factors are reflected at 68% of the reported ULT/348Inc factors. The original factors were 1.021, 1.018, 1.020 and 1.035, respectively.
- (b) Three-year average ULT/348Inc and 348Inc/348Pd factors are selected.
- (c) Based on an exponential trend derived from the latest 3 factors, with the computed trend rate applied to the average of the latest 2 factors.

DEVELOPED LOSS RATIOS USING LATEST YEAR/TRENDED PAID LOSS DEVELOPMENT FACTORS
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

Accident Year	(1) Indemnity				(5) Medical				(9) Total Developed
	(2) Reported Paid Loss Ratio Ex IBNR(a)	(3) Annual Development Factor(b)	(4) Cumulative Development Factor	(4) Developed Loss Ratio (1) x (3)	(5) Reported Paid Loss Ratio Ex IBNR(a)	(6) Annual Development Factor(c)	(7) Cumulative Development Factor	(8) Developed Loss Ratio (5) x (7)	
1974	0.540		1.020	0.551	0.343		1.087	0.373	0.924
1975	0.493	1.001	1.021	0.503	0.321	1.011	1.099	0.353	0.856
1976	0.424	1.001	1.022	0.433	0.308	1.007	1.107	0.341	0.774
1977	0.337	1.002	1.024	0.345	0.242	1.010	1.118	0.271	0.616
1978	0.297	1.001	1.025	0.304	0.221	1.009	1.128	0.249	0.553
1979	0.307	1.001	1.026	0.315	0.239	1.009	1.138	0.272	0.587
1980	0.297	1.001	1.027	0.305	0.237	1.009	1.148	0.272	0.577
1981	0.307	1.002	1.029	0.316	0.260	1.008	1.157	0.301	0.617
1982	0.327	1.002	1.031	0.337	0.285	1.007	1.165	0.332	0.669
1983	0.401	1.001	1.032	0.414	0.293	1.008	1.174	0.344	0.758
1984	0.445	1.001	1.033	0.460	0.316	1.006	1.181	0.373	0.833
1985	0.448	1.001	1.034	0.463	0.330	1.005	1.187	0.392	0.855
1986	0.397	1.001	1.035	0.411	0.302	1.006	1.194	0.361	0.772
1987	0.350	1.002	1.037	0.363	0.284	1.006	1.201	0.341	0.704
1988	0.333	1.002	1.039	0.346	0.278	1.009	1.212	0.337	0.683
1989	0.341	1.002	1.041	0.355	0.292	1.007	1.220	0.356	0.711
1990	0.394	1.002	1.043	0.411	0.336	1.007	1.229	0.413	0.824
1991	0.417	1.003	1.046	0.436	0.347	1.009	1.240	0.430	0.866
1992	0.342	1.004	1.050	0.359	0.278	1.010	1.252	0.348	0.707
1993	0.279	1.006	1.056	0.295	0.223	1.015	1.271	0.283	0.578
1994	0.299	1.009	1.066	0.319	0.239	1.024	1.302	0.311	0.630
1995	0.427	1.014	1.081	0.462	0.330	1.034	1.346	0.444	0.906
1996	0.480	1.022	1.105	0.530	0.360	1.040	1.400	0.504	1.034
1997	0.505	1.036	1.145	0.578	0.375	1.057	1.480	0.555	1.133
1998	0.528	1.052	1.205	0.636	0.420	1.072	1.587	0.667	1.303
1999	0.497	1.086	1.309	0.651	0.421	1.106	1.755	0.739	1.390
2000	0.374	1.146	1.500	0.561	0.347	1.149	2.016	0.700	1.261
2001	0.240	1.306	1.959	0.470	0.260	1.245	2.510	0.653	1.123
2002	0.103	1.795	3.516	0.362	0.150	1.513	3.798	0.570	0.932
2003	0.022	3.547	12.471	0.274	0.038	2.973	11.291	0.429	0.703

- (a) Based on Exhibit 1.
- (b) See Exhibit 2, Sheet 3.
- (c) See Exhibit 2, Sheet 4.

INDEMNITY BENEFIT LEVEL FACTORS
 EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

Accident Year	(1) Annual Benefit Change (a)	(2) Factor to a 1/1/03 Indemnity Benefit Level	(3) Annual Impact on Benefits due to Wage Inflation (b)	(4) Factor to 4/1/2005 Wage Level(c)	(5) Composite Indemnity Adjustment Factor (d)
1974	7.8	2.357	2.4	1.697	4.000
1975	7.4	2.195	2.8	1.651	3.624
1976	0.1	2.193	2.4	1.612	3.535
1977	6.7	2.055	2.5	1.573	3.233
1978	0.0	2.055	2.6	1.533	3.150
1979	0.0	2.055	2.8	1.491	3.064
1980	0.0	2.055	3.5	1.441	2.961
1981	3.1	1.993	3.3	1.395	2.780
1982	0.0	1.993	1.9	1.369	2.728
1983	44.0	1.384	2.0	1.342	1.857
1984	8.2	1.279	2.1	1.314	1.681
1985	0.0	1.279	1.8	1.291	1.651
1986	0.0	1.279	1.5	1.272	1.627
1987	0.0	1.279	1.7	1.251	1.600
1988	0.0	1.279	1.7	1.230	1.573
1989	0.0	1.279	1.4	1.213	1.551
1990	2.6	1.247	1.1	1.200	1.496
1991	5.6	1.181	1.2	1.186	1.401
1992	1.1	1.168	1.1	1.173	1.370
1993	-1.1	1.181	0.2	1.171	1.383
1994	-6.1	1.258	0.4	1.166	1.467
1995	4.5	1.204	1.6	1.148	1.382
1996	3.3	1.166	1.7	1.129	1.316
1997	4.0	1.121	1.4	1.113	1.248
1998	0.8	1.112	2.2	1.089	1.211
1999	0.0	1.112	2.3	1.065	1.184
2000	0.0	1.112	3.4	1.030	1.145
2001	0.0	1.112	0.0	1.030	1.145
2002	0.0	1.112	-0.1	1.031	1.146
2003	11.2	1.000	0.8	1.023	1.023
2004	0.0		1.4	1.009	
4/1/2005			0.9		

- (a) Based on WCIRB evaluations of the average impact of legislative changes on the cost of indemnity benefits, including utilization impacts. These annual changes also include the effect of the 4/1/97 changes in the PD schedule.
- (b) These impacts are based on the weekly wages of injured workers and the legislatively scheduled benefits for that year.
- (c) These factors bring the annual impacts shown in Column (3) to the 4/1/2005 level.
- (d) Column (2) x Column (4).

ANNUAL "OTHER MEDICAL" COST LEVEL CHANGES
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

Year	(1) Annual "Other Medical" Cost Level Change (a)	(2) % of "Other Medical" Cost Non-IHFS	(3) Quantifiable IHFS Cost Level Change (b)	(4) % of "Other Medical" Cost IHFS	(5) Adjusted "Other Medical" Cost Level Change	(6) Factor to a 4/1/2005 "Other Medical" Cost Level
1974	11.9	--	--	--	11.9	9.081
1975	14.3	--	--	--	14.3	7.945
1976	11.0	--	--	--	11.0	7.158
1977	11.7	--	--	--	11.7	6.408
1978	9.6	--	--	--	9.6	5.847
1979	10.9	--	--	--	10.9	5.272
1980	12.5	--	--	--	12.5	4.686
1981	11.8	--	--	--	11.8	4.191
1982	17.1	--	--	--	17.1	3.579
1983	9.9	--	--	--	9.9	3.257
1984	3.7	--	--	--	3.7	3.141
1985	6.5	--	--	--	6.5	2.949
1986	9.1	--	--	--	9.1	2.703
1987	7.4	--	--	--	7.4	2.517
1988	7.7	--	--	--	7.7	2.337
1989	8.6	--	--	--	8.6	2.152
1990	10.4	--	--	--	10.4	1.949
1991	10.6	--	--	--	10.6	1.762
1992	8.1	--	--	--	8.1	1.630
1993	7.3	--	--	--	7.3	1.519
1994	4.3	--	--	--	4.3	1.456
1995	3.0	--	--	--	3.0	1.414
1996	3.0	--	--	--	3.0	1.373
1997	2.2	--	--	--	2.2	1.343
1998	2.2	--	--	--	2.2	1.314
1999	3.3	81.6	-8.3	18.4	1.2	(c) 1.298
2000	4.3	79.5	-4.1	20.5	2.6	(c) 1.265
2001	4.8	79.5	19.8	20.5	7.9	(c) 1.172
2002	5.1	79.5	7.7	20.5	5.6	(c) 1.110
2003	4.5	79.5	0.0	20.5	3.6	(c) 1.071
Projected:						
2004	5.1	79.5	0.0	20.5	4.1	(c) 1.029
4/1/2005	3.7 (Annual = 4.9)	79.5	0.0	20.5	2.9	(c)

(a) Values are based on a component of the Consumer Price Index furnished by Global Insight, Inc. (formerly DRI/McGraw-Hill).

(b) Based on WCIRB evaluations of the cost impact of changes to the Inpatient Hospital Fee Schedule.

(c) Weighted average of columns (1) and (3), with columns (2) and (4) as weights.

COMPOSITE MEDICAL FEE AND OTHER MEDICAL
COST LEVEL FACTORS
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

Accident Year	(1) Proportion Subject to Fee Schedule(a)	(2) Proportion "Other Medical"(a)	(3) Factor to a 4/1/1999 Medical Fee Level(b)	(4) Factor to a 4/1/2005 "Other Medical" Cost Level(c)	(5) Factor to Reflect Legislative Changes(d)	(6) Factor to a 4/1/1999 Medical Fee and 4/1/2005 "Other Medical" Cost Level(e)
1974	0.517	0.483	3.174	9.081	0.933	5.623
1975	0.521	0.479	2.726	7.945	0.925	4.834
1976	0.512	0.488	2.146	7.158	0.925	4.247
1977	0.508	0.492	1.938	6.408	0.917	3.794
1978	0.507	0.493	1.938	5.847	0.917	3.544
1979	0.506	0.494	1.831	5.272	0.917	3.238
1980	0.507	0.493	1.735	4.686	0.917	2.925
1981	0.575	0.425	1.578	4.191	0.914	2.457
1982	0.568	0.432	1.309	3.579	0.914	2.093
1983	0.595	0.405	1.197	3.257	0.874	1.775
1984	0.665	0.335	1.134	3.141	0.867	1.566
1985	0.665	0.335	1.096	2.949	0.867	1.488
1986	0.604	0.396	1.096	2.703	0.867	1.502
1987	0.610	0.390	1.080	2.517	0.867	1.422
1988	0.649	0.351	1.066	2.337	0.867	1.311
1989	0.647	0.353	1.066	2.152	0.867	1.257
1990	0.661	0.339	1.066	1.949	0.870	1.188
1991	0.631	0.369	1.066	1.762	0.879	1.163
1992	0.628	0.372	1.066	1.630	0.881	1.124
1993	0.565	0.435	1.066	1.519	0.887	1.120
1994	0.553	0.447	1.050	1.456	1.000	1.231
1995	0.583	0.417	1.050	1.414	0.995	1.196
1996	0.579	0.421	1.050	1.373	0.991	1.175
1997	0.573	0.427	1.050	1.343	0.989	1.162
1998	0.598	0.402	1.050	1.314	0.989	1.143
1999	0.602	0.398	1.012	1.298	0.989	1.113
2000	0.592	0.408	1.000	1.265	0.989	1.096
2001	0.605	0.395	1.000	1.172	0.989	1.056
2002	0.571	0.429	1.000	1.110	0.989	1.036
2003	0.571	0.429	1.000	1.071	1.000	1.030

- (a) From a Special Carrier Study through 1990. Based on WCIRB's Aggregate Indemnity and Medical Costs Calls for years subsequent to 1990.
- (b) Based on the WCIRB's evaluation of the cost impact of changes in the Official Medical Fee Schedule.
- (c) See Exhibit 4, Sheet 2.
- (d) These factors reflect (i) specific legislative reforms estimated to impact medical benefits and (ii) the estimated impact on indemnity claim frequency of indemnity benefit changes. They include the effect of structural changes related to the primary treating physician presumption and the impact on medical severity due to increased utilization from indemnity benefit changes from AB 749.
- (e) $[(1) \times (3) + (2) \times (4)] \times (5)$.

ANNUAL WAGE LEVEL CHANGES
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

<u>Year</u>	<u>Annual Wage Level Change</u>	<u>Factor to a 4/1/05 Wage Level</u>
1974	7.00	4.515
1975	8.20	4.173
1976	6.90	3.904
1977	7.30	3.638
1978	7.70	3.378
1979	8.10	3.125
1980	10.10	2.838
1981	9.72	2.587
1982	5.61	2.450
1983	5.86	2.314
1984	6.00	2.183
1985	5.37	2.072
1986	4.28	1.987
1987	5.00	1.892
1988	4.91	1.803
1989	4.12	1.732
1990	3.19	1.678
1991	3.46	1.622
1992	3.09	1.573
1993	0.58	1.564
1994	1.18	1.546
1995	4.56	1.479
1996	4.82	1.411
1997	4.05	1.356
1998	5.85	1.281
1999	6.72	1.200
2000	10.60	1.085
2001	0.02	1.085
2002	-0.50	1.090
	Projected:	
2003	2.22	1.066
2004	3.93	1.026
To 4/1/05	2.58	

Source: UCLA Business Forecasting Project for 1974-1976. Employment Cost Index for the western region for 1977-1980 as provided by Global Insight, Inc. (formerly DRI/McGraw-Hill). California average wages for 1981-2005.

PREMIUM ADJUSTMENT FACTORS
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS

Calendar Year	(1) Factor to a 4/1/2005 <u>Wage Level(a)</u>	(2) Factor to a 1/1/2004 Pure Premium <u>Rate Level(b)</u>	(3) Adjustment to Remove Surcharge <u>Premium(c)</u>	(4) Average Experience <u>Modification(d)</u>	(5) Off-Balance Correction in 1/1/2004 Pure <u>Premium Rates</u>	(6) Composite Premium Adjustment <u>Factor(e)</u>
1974	4.515	2.869	0.992	0.963	1.030	12.955
1975	4.173	2.585	0.990	0.966	1.030	10.733
1976	3.904	2.235	0.982	0.971	1.030	8.567
1977	3.638	1.809	0.976	0.970	1.030	6.429
1978	3.378	1.728	0.978	0.966	1.030	5.738
1979	3.125	1.681	0.983	0.977	1.030	5.131
1980	2.838	1.669	0.987	0.982	1.030	4.622
1981	2.587	1.693	0.989	0.968	1.030	4.344
1982	2.450	1.725	0.991	0.957	1.030	4.249
1983	2.314	1.497	0.992	0.967	1.030	3.450
1984	2.183	1.548	0.992	0.980	1.030	3.321
1985	2.072	1.524	0.991	0.984	1.030	3.088
1986	1.987	1.392	0.991	0.983	1.030	2.707
1987	1.892	1.223	0.992	0.983	1.030	2.267
1988	1.803	1.095	0.993	0.963	1.030	1.976
1989	1.732	1.078	0.993	0.945	1.030	1.905
1990	1.678	1.051	0.991	0.942	1.030	1.801
1991	1.622	0.974	0.987	0.939	1.030	1.612
1992	1.573	0.933	0.982	0.940	1.030	1.489
1993	1.564	0.923	0.981	0.949	1.030	1.449
1994	1.546	1.056	0.986	0.948	1.030	1.649
1995	1.479	1.322	0.995	0.958	1.030	1.972
1996	1.411	1.521	1.000	0.935	1.030	2.228
1997	1.356	1.559	1.000	0.949	1.030	2.163
1998	1.281	1.639	1.000	0.959	1.030	2.126
1999	1.200	1.676	1.000	0.954	1.030	2.047
2000	1.085	1.459	1.000	0.970	1.030	1.584
2001	1.085	1.232	1.000	0.969	1.030	1.339
2002	1.090	0.971	1.000	0.991	1.030	1.037
2003	1.066	0.723	1.000	0.991	1.030	0.755

(a) See Exhibit 5, Sheet 1.

(b) Based on rate level changes approved by the Insurance Commissioner. (July 16, 1993 rate decrease was legislatively mandated). This column includes ratio of pure premium to premium at insurer rate level.

(c) Based on unit statistical data.

(d) Based on average promulgated experience modifications. Calendar years 1996 through 2000 include adjustments for the impacts of Assembly Bill No. 1913 and Senate Bill No. 1217.

(e) $(1) \times (2) \times (3) \div [(4) \times (5)]$.

PROJECTED ON-LEVEL ACCIDENT YEAR
INDEMNITY LOSS TO PURE PREMIUM RATIOS
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS
Using Latest Year Loss Development Approach

Accident Year	(1) Developed Loss Ratio(a)	(2) Composite Indemnity Adjustment Factor(b)	(3) Composite Premium Adjustment Factor(c)	(4) On-Level Indemnity to Pure Premium Ratio (1)×(2)÷(3)
1974	0.551	4.000	12.955	0.170
1975	0.503	3.624	10.733	0.170
1976	0.433	3.535	8.567	0.179
1977	0.345	3.233	6.429	0.173
1978	0.304	3.150	5.738	0.167
1979	0.315	3.064	5.131	0.188
1980	0.305	2.961	4.622	0.195
1981	0.316	2.780	4.344	0.202
1982	0.337	2.728	4.249	0.216
1983	0.414	1.857	3.450	0.223
1984	0.460	1.681	3.321	0.233
1985	0.463	1.651	3.088	0.248
1986	0.411	1.627	2.707	0.247
1987	0.363	1.600	2.267	0.256
1988	0.346	1.573	1.976	0.275
1989	0.355	1.551	1.905	0.289
1990	0.411	1.496	1.801	0.341
1991	0.436	1.401	1.612	0.379
1992	0.359	1.370	1.489	0.330
1993	0.295	1.383	1.449	0.282
1994	0.319	1.467	1.649	0.284
1995	0.462	1.382	1.972	0.324
1996	0.530	1.316	2.228	0.313
1997	0.578	1.248	2.163	0.333
1998	0.636	1.211	2.126	0.362
1999	0.651	1.184	2.047	0.377
2000	0.561	1.145	1.584	0.406
2001	0.470	1.145	1.339	0.402
2002	0.362	1.146	1.037	0.400
2003	0.274	1.023	0.755	0.371
				Projected (d)
2004				0.391
4/1/2005				0.391

(a) See Exhibit 3.

(b) See Exhibit 4, Sheet 1.

(c) See Exhibit 5, Sheet 2.

(d) These on-level ratios were projected using 3-year average of the 2001 to 2003 on-level ratios.

PROJECTED ON-LEVEL ACCIDENT YEAR
MEDICAL LOSS TO PURE PREMIUM RATIOS
EXCLUDING IMPACT OF AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS
Using 3-Year Exponential Loss Development Trend

Accident Year	(1) Developed Loss Ratio(a)	(2) Factor to a 4/1/1999 Medical Fee & 4/1/2005 "Other Medical" Cost Level(b)	(3) Composite Premium Adjustment Factor(c)	(4) On-Level Medical to Pure Premium Ratio (1)×(2)÷(3)
1974	0.373	5.623	12.955	0.162
1975	0.353	4.834	10.733	0.159
1976	0.341	4.247	8.567	0.169
1977	0.271	3.794	6.429	0.160
1978	0.249	3.544	5.738	0.154
1979	0.272	3.238	5.131	0.172
1980	0.272	2.925	4.622	0.172
1981	0.301	2.457	4.344	0.170
1982	0.332	2.093	4.249	0.164
1983	0.344	1.775	3.450	0.177
1984	0.373	1.566	3.321	0.176
1985	0.392	1.488	3.088	0.189
1986	0.361	1.502	2.707	0.200
1987	0.341	1.422	2.267	0.214
1988	0.337	1.311	1.976	0.224
1989	0.356	1.257	1.905	0.235
1990	0.413	1.188	1.801	0.272
1991	0.430	1.163	1.612	0.310
1992	0.348	1.124	1.489	0.263
1993	0.283	1.120	1.449	0.219
1994	0.311	1.231	1.649	0.232
1995	0.444	1.196	1.972	0.269
1996	0.504	1.175	2.228	0.266
1997	0.555	1.162	2.163	0.298
1998	0.667	1.143	2.126	0.359
1999	0.739	1.113	2.047	0.402
2000	0.700	1.096	1.584	0.484
2001	0.653	1.056	1.339	0.515
2002	0.570	1.036	1.037	0.569
2003	0.429	1.030	0.755	0.585
				Projected (d)
2004				0.654
4/1/2005				0.691

(a) See Exhibit 3.

(b) See Exhibit 4, Sheet 3.

(c) See Exhibit 5, Sheet 2.

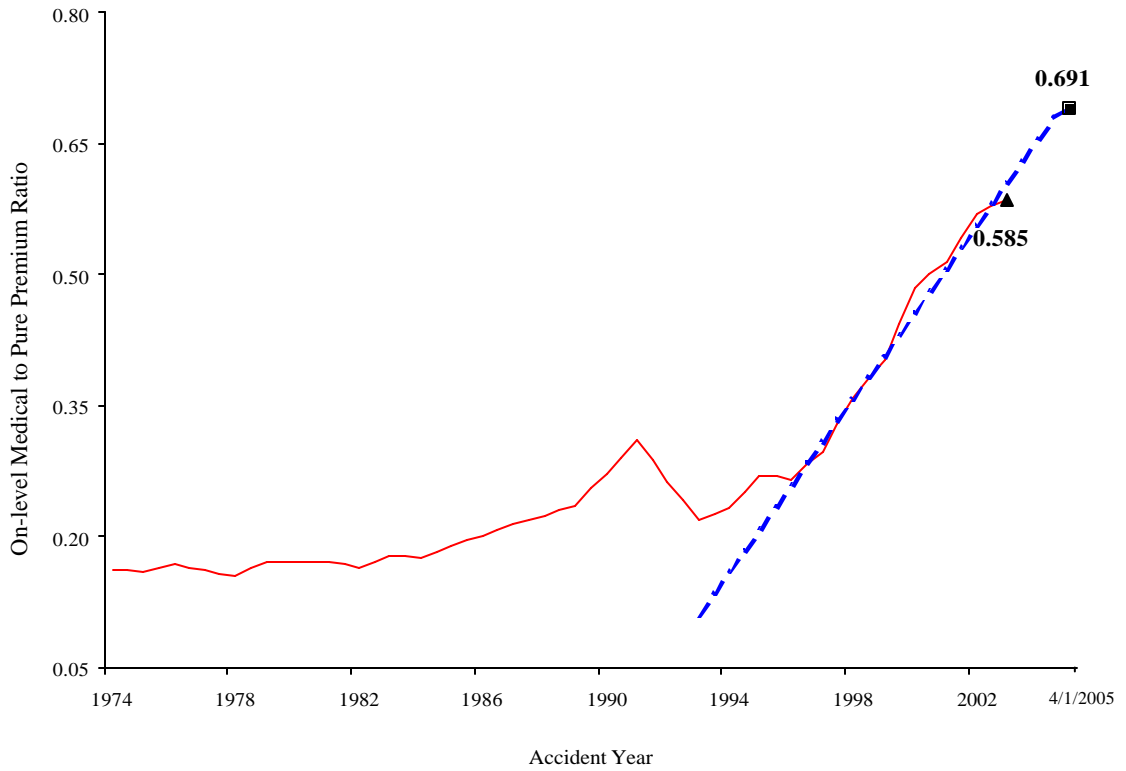
(d) These on-level ratios were projected using double exponential smoothing with alpha = 0.3 on the 1996 through 2003 on-level ratios.

**ON-LEVEL INDEMNITY TO PURE PREMIUM RATIOS
EXCLUDING IMPACT OF
AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS
Using December 31 Valuations**



- ▲ On-level indemnity to pure premium ratios (see Exhibit 6, Sheet 1).
- - Represents the 3-year (2001 -2003) average trend line used to project the 4/1/2005 indemnity to pure premium ratio.

**ON-LEVEL MEDICAL TO PURE PREMIUM RATIOS
EXCLUDING IMPACT OF
AB 749, AB 227, SB 228, AND SB 899 LEGISLATIVE REFORMS
Using December 31 Valuations**



- ▲— On-level medical to pure premium ratios (see Exhibit 6, Sheet 2).
- - - Represents the trend line used to project the 4/1/2005 medical to pure premium ratio.

INDICATED TOTAL LOSS TO PURE PREMIUM RATIO
For 2004 Policies with Effective Dates Between July 1, 2004 and December 31, 2004
(Using December 31 Valuations)

1. Indicated Indemnity to Pure Premium Ratio (See Exhibit 6, Sheet 1)	0.391
2. Indicated Medical to Pure Premium Ratio (See Exhibit 6, Sheet 2)	0.691
3. Average Impact of AB 749 on Indemnity Losses for Policies with Effective Dates between July 1, 2004 and December 31, 2004 (Post-AY 2003. See Section A, Appendix C of the January 1, 2004 Pure Premium Rate Filing)	15.9%
4. Average Impact of AB 749 on Medical Losses for Policies with Effective Dates between July 1, 2004 and December 31, 2004 (Post-AY 2003. See Section A, Appendix C of the January 1, 2004 Pure Premium Rate Filing)	-4.5%
5. Average Impact of AB 227 and SB 228 on Indemnity Losses for Policies with Effective Dates between July 1, 2004 and December 31, 2004 (See Attachment A of the January 1, 2004 Pure Premium Rate Filing as Amended November 3, 2003)	-12.6%
6. Average Impact of AB 227 and SB 228 on Medical Losses for Policies with Effective Dates between July 1, 2004 and December 31, 2004 (See Attachment A of the January 1, 2004 Pure Premium Rate Filing as Amended November 3, 2003)	-14.6%
7. Indicated Indemnity to Pure Premium Ratio Including Impact of AB 749, AB 227 and SB 228 (1) x [1.0 + (3)] x [1.0 + (5)]	0.396
8. Indicated Medical to Pure Premium Ratio Including Impact of AB 749, AB 227 and SB 228 (2) x [1.0 + (4)] x [1.0 + (6)]	0.564
9. Average Impact of SB 899 on Indemnity Losses for Policies with Effective Dates between July 1, 2004 and December 31, 2004 (See Attachment 1, Exhibit 1)	-11.6%
10. Average Impact of SB 899 on Medical Losses for Policies with Effective Dates between July 1, 2004 and December 31, 2004*	-16.9%
11. Indicated Indemnity to Pure Premium Ratio Including Impact of AB 749, AB 227, SB 228 and SB 899 (7) x [1.0 + (9)]	0.350
12. Indicated Medical to Pure Premium Ratio Including Impact of AB 749, AB 227, SB 228, and SB 899 (8) x [1.0 + (10)]	0.469
13. Indicated Total Loss to Pure Premium Ratio Including Impact of AB 749, AB 227, SB 228 and SB 899 (11) + (12)	0.819
14. Projected Loss Adjustment Expense Factor (See Part A, Section B)	1.185
15. Indicated Total Loss and Loss Adjustment Expense Ratio Including Impact of AB 749, AB 227, SB 228 and SB 899 (13) x (14)	0.971
16. Indicated Average Change from January 1, 2004 Approved Pure Premium Rates (15) - 1.0	-2.9%

* Includes estimated impact of the following SB 899 provisions:

- (a) Medical Treatment Provision of -16.0% (See Attachment 1, Exhibit 4, Sheet 6)
- (b) Medical Utilization from Indemnity Benefit Changes (See Attachment 1, Exhibit 1)
- (c) Employer's Liability for Immediate Medical Care (see Attachment 1, Table 1)
- (d) Reduction in Number of Med-legal Reports (see Attachment 1, Table 1)

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COST IMPACT OF SENATE BILL NO. 899
AS ADOPTED BY THE LEGISLATURE ON APRIL 16, 2004

On April 16, 2004, Senate Bill No. 899 (SB 899) was enacted by the Legislature. On April 19, 2004, the Governor signed this bill into law. SB 899 enacted a number of significant changes to the benefit delivery system for workers' compensation in California. Among the areas impacted by the provisions of SB 899 are temporary disability durations, apportionment, the number of weeks of permanent disability benefits provided for each rating point of permanent disability, the two-tiered permanent disability benefit system based on return-to-work considerations, the permanent disability schedule, vocational rehabilitation and return-to-work, the utilization of medical services, an employer's liability for immediate medical care, the medical-legal process, Labor Code Section 5814 penalties, and claims administration costs.

In evaluating the potential cost implications of SB 899, the WCIRB (a) reviewed the provisions which potentially impact the costs reflected in pure premium rates; (b) consulted with professionals with expertise in the areas affected by the legislation;¹ (c) analyzed the interaction among the various provisions of the bill and with the provisions of Assembly Bill No. 749 (AB 749),² Assembly Bill No. 227 (AB 227), and Senate Bill No. 228 (SB 228);³ (d) reviewed relevant research; and (e) performed additional analysis, as appropriate, given available data and time constraints. Based on this analysis, the WCIRB estimates the impact of the currently effective provisions of SB 899 on the projected cost of benefits incurred on policies incepting between July 1, 2004, and December 31, 2004, to be -14.7%, or -\$3.0 billion, based on an estimated statewide cost of benefits of \$20.6 billion on 2005 injuries.⁴ (This estimate of the impact of SB 899 on benefit costs is based on the lower end of the WCIRB's range estimate of the impact of AB 227 and SB 228 on benefit costs.⁵)

While the information summarized below reflects the WCIRB's current estimate of the cost impact of SB 899, the actual cost impact will depend, in part, on future Administrative Director regulations, WCAB interpretations, and changes in medical

¹ In addition to a number of insurer representatives with expertise in claims, legal, actuarial, and medical issues, representatives of the California Department of Insurance (CDI), the Commission on Health & Safety and Workers' Compensation (CHSWC), the California Workers' Compensation Institute (CWCI), the Division of Workers' Compensation (DWC), and the UC Data/Survey Research Center also provided input to the WCIRB.

² AB 749 was enacted in February of 2002 and included significant changes to most classes of indemnity benefits as well as a number of structural changes to the benefit delivery system. See WCIRB Bulletin No. 2002-16, published August 22, 2002, for an evaluation of the cost impact of Assembly Bill No. 749.

³ AB 227 and SB 228 were enacted in September of 2003 and included a number of changes to the benefit delivery system, including medical fee schedule changes, the elimination of vocational rehabilitation, limitations on physical therapy and chiropractic visits, and medical utilization standards. See Attachment A of the WCIRB's amended January 1, 2004, pure premium rate filing submitted to the commissioner on November 3, 2003 for an evaluation of the cost impact of AB 227 and SB 228.

⁴ "WCIRB Estimates of the Total Statewide Cost of Compensation Benefits", WCIRB, March 30, 2004.

⁵ The estimated impact on system costs due to SB 899 based on the higher end of the WCIRB range of estimated cost reductions resulting from AB 227 and SB 228 (see Attachment A of the WCIRB's amended January 1, 2004, pure premium rate filing submitted to the commissioner on November 3, 2003) is approximately 12.2% or \$2.5 billion.

treatment patterns and permanent disability. The WCIRB will periodically reassess the cost impact of this legislation, as well as earlier legislation, as more information subsequently becomes available.

The estimated effect on the pure premium rates applicable to policies incepting on or after July 1, 2004, based on the provisions of SB 899 that are effective as of that time, are summarized in Table 1 below:

Table 1: Impact of SB 899 on the Cost of Benefits Incurred Against July 1, 2004 to December 31, 2004 Policies

	Percent of <u>Indemnity</u>	Percent of <u>Medical</u>	Percent of <u>Total</u>
Two-Year Limit on Temporary Disability	-5.3%	-0.6%	-2.5%
Changes Related to Apportionment	-6.7%	-0.8%	-3.1%
Changes to Medical Utilization ⁶	0.0%	-16.0%	-9.4%
Employers' Liability for Immediate Medical Care	0.0%	+0.7%	+0.4%
Medical-Legal Evaluations	0.0%	-0.3%	-0.2%
Total⁷	-11.6%	-16.9%	-14.7%*

*The total dollar impact of the provisions of SB 899 on accident year 2005 projected losses is estimated to be **-\$3.0 billion**, based on a \$20.6 billion estimate of the total cost of statewide benefits. In addition, projected loss adjustment expenses on 2005 injuries are also estimated to be reduced by an additional **\$0.3 billion** by the provisions of SB 899.

The basis of the WCIRB's evaluation of the impact of the various provisions of SB 899 on the indicated July 1, 2004, pure premium rate level is summarized below.

A. Limitation on Temporary Disability Duration

The amendments to Labor Code Section 4656(c) provide that “Aggregate disability payments for a single injury occurring on or after the effective date of this subdivision, causing temporary disability shall not extend for more than 104 compensable weeks within a period of two years from the date of commencement of temporary disability payment.” Additional amendments to Labor Code Section 4656(c) provide that the

⁶ Based on WCIRB's lower-end estimate of projected costs reductions resulting from AB 227 and SB 228. The projected reduction in costs due to provisions affecting medical utilization, based on the upper-end estimate of AB 227 and SB 228 projected cost reductions, is 11% of medical and 6% of total loss costs.

⁷ Based on WCIRB's lower-end estimate of projected cost reductions resulting from AB 227 and SB 228.

limitation does not apply to certain specific types of claims for which temporary disability payments shall not extend for more than 240 compensable weeks within a period of five years from the date of injury.

The California Workers' Compensation Institute (CWCI) recently completed an analysis of potential limits of temporary disability duration.⁸ The report includes estimates of the impact of temporary disability caps applied after two years (a) from the date of injury; (b) from the commencement of temporary disability; and (c) of total elapsed time of temporary disability benefit periods. Inasmuch as the amendments to Labor Code Section 4656(c) limit temporary disability duration based on the commencement of temporary disability payments, CWCI has provided information concerning the impact of limiting temporary disability duration to two years from the date of first temporary disability payment. The data shows that approximately 16% of temporary disability benefits would be eliminated by the cap if it were applied without exception. Also, CWCI has compiled data from their ICIS transaction-level data system that indicates that approximately 9% of temporary disability benefit payments that are made more than two years from the date of first payment of temporary disability arise from injuries that are excluded from the two-year limitation.

The attached Exhibit 1 reflects the computation of the estimate of the impact of these provisions on costs. This computation has been made under the following assumptions:

1. Temporary disability benefits on 2005 injuries are estimated at 34% of indemnity benefits, or \$2.9 billion, based on an estimated total statewide cost of indemnity benefits of \$8.4 billion.
2. The provision of the bill applies to injuries occurring on or after April 19, 2004.
3. Based on updated CWCI data, approximately 16.1% of all temporary disability benefits are paid more than two years after the first payment date of temporary disability on claims on which the two-year cap will apply.
4. Based on updated CWCI data, approximately 9.4% of all temporary disability payments made more than two years from the date of first payment are related to claims excepted from the temporary disability limitation.
5. The impact of the temporary disability duration limitation on the frequency of claims ("utilization") is consistent with the WCIRB's model used to project the utilization impact of benefit increases, which indicates that for each percentage point change in average indemnity benefits, there is a 0.26% change in indemnity claim frequency.
6. Excluding the effect of the two-year cap on duration, temporary disability patterns on post-April 19, 2004, injuries will be consistent with the patterns of prior temporary disability claims.

⁸ "Long-Term Disability Claims - 3 Methods of Calculation Benefits Payments Made After Two Years," CWCI, March 2004.

As reflected in Exhibit 1 (which also reflects the estimated effect of the changes related to apportionment — see below), and based on the assumptions delineated above, the estimated overall cost impact due to the two-year temporary disability duration limitation is -2.5%. Based on a \$20.6 billion estimate of the total cost of benefits on 2005 injuries, this equates to a reduction in system costs of \$500 million.

B. Apportionment

The amendments to Labor Code Section 4663 provide that apportionment of disability be based on causation, and that all physician reports include a determination of the percentage of the permanent disability that was caused by the direct effect of the injury arising out of employment and the percentage that is caused by other factors, including prior injuries. Amendments to Labor Code Section 4664 provide that (a) the employer is only liable for the percentage of permanent disability directly caused by the injury arising out of employment; (b) if the applicant had received a prior award of permanent disability, it is conclusively presumed that the prior permanent disability existed at the time of the subsequent injury; and (c) the cumulative permanent disability award with respect to any one region of the body, as defined in the Labor Code Section, shall not exceed 100% over the employee's lifetime unless the injury is conclusively presumed to be total.

The WCIRB believes the SB 899 changes related to apportionment can significantly impact the cost of permanent disability. However, there is little information available to quantify the impact of the new provisions related to apportionment. Based, in part, on WCRI research from Wisconsin, the Commission on Health and Safety and Workers' Compensation (CHSWC) estimated that projected permanent disability benefit costs would be reduced by approximately 4% due to the apportionment provisions related to prior injuries.⁹ The SB 899 provisions related to apportionment will also affect the cost of permanent disability on claims with no related prior workers' compensation injuries. For example, the most recently available WCIRB data on the nature of injuries¹⁰ suggests that strains and other miscellaneous cumulative injuries comprise approximately 45% of all permanent disability claim costs, and these types of injury are most likely to be impacted by changes in apportionment. As a result, the WCIRB has judgmentally estimated an average 10% reduction in permanent disability awards resulting from the SB 899 provisions related to apportionment.

Exhibit 1 shows the computation of the estimated impact of these changes related to apportionment (the exhibit also reflects the effect of the temporary disability duration limitation – see above). This has been calculated based on the following assumptions:

1. The changes related to apportionment apply to injuries occurring on or after April 19, 2004. (These changes will also apply to certain earlier injuries.)

⁹ "Response to Request for Information on Cost Benefits of Potential Workers' Compensation Reforms," CHSWC draft to the Governor and Legislature, April 13, 2004.

¹⁰ Based on unit statistical report data for policies issued in 2000, evaluated at eighteen months subsequent to policy inception.

2. Permanent disability benefits on 2005 injuries are estimated at 53% of indemnity benefits, or \$4.5 billion, based on an estimated total statewide cost of indemnity benefits of \$8.4 billion.
3. Permanent disability claim patterns on 2005 injuries will generally be consistent with those in the historical WCIRB database of over 150,000 permanent disability claims with accident dates in 1998 through 2000.
4. Permanent disability awards will be, on average, reduced by 10% due to the SB 899 provisions related to apportionment.
5. The impact of these changes on the frequency of claims (“utilization”) is consistent with the WCIRB’s model used to project the utilization impact of benefit increases, which indicates that for each percentage point change in average indemnity benefits, there is a 0.26% change in indemnity claim frequency.
6. The impact of apportionment on permanent disability awards will not be significantly affected by the new permanent disability rating schedule that the Administrative Director is directed to adopt by January 1, 2005.

As reflected in Exhibit 1 (which also reflects the estimated effect of the changes related to the limitation on temporary disability duration — see above), and based on the assumptions delineated above, the estimated reduction in projected system costs due to the SB 899 provisions related to apportionment is 3.1%. Based on a \$20.6 billion estimate of the total cost of benefits on 2005 injuries, this equates to an estimated reduction of approximately \$600 million.

C. Number of Weeks of Permanent Disability Benefits

The amendments to Labor Code Section 4658(d) provide that for injuries occurring on or after the effective date of the revised permanent disability schedule adopted by the Administrative Director pursuant to Labor Code Section 4660, the scheduled number of weeks of permanent disability for each percentage point of permanent disability is modified as follows:

NUMBER OF WEEKLY PD PAYMENTS PER PERCENT OF DISABILITY

Percent of Permanent Disability	Number of Weeks Per Percent of Disability	
	Current Schedule	Revised Schedule
0.25 – 9.75	4	3
10 – 14.75	5	4
15 – 24.75	5	5
25 – 29.75	6	6
30 – 49.75	7	7
50 – 69.75	8	8
70 – 99.75	9	16

Exhibit 2 shows the computation of the preliminary estimate of the impact of these changes on the scheduled number of weeks of permanent disability. This preliminary estimate has been calculated based on the following assumptions:

1. The change applies to injuries occurring on or after January 1, 2005. (SB 899 provides that, in fact, the changes are not effective until such time as the Administrative Director adopts a new permanent disability schedule.)
2. Permanent disability benefits on 2005 injuries are estimated at 53% of indemnity benefits, or \$4.5 billion, based on an estimated total statewide cost of indemnity benefits of \$8.4 billion.
3. Permanent disability claim patterns on 2005 injuries will generally be consistent with those in the historical WCIRB database of over 150,000 permanent disability claims with accident dates in 1998 through 2000.
4. The impact of the change in the schedule of weeks of permanent disability benefits for each rating point of disability on the frequency of claims (“utilization”) is consistent with the WCIRB’s model used to project the utilization impact of benefit increases, which indicates that for each percentage point change in average indemnity benefits, there is a 0.26% change in indemnity claim frequency.
5. The distribution of permanent disability ratings would be unaffected by the new permanent disability rating schedule that the Administrative Director is directed to adopt by January 1, 2005.

As shown on Exhibit 2, based on the assumptions delineated above, the preliminary estimate of the impact on total system costs due to the changes in the number of weeks of permanent disability for each percentage point of permanent disability is -2.5%, which, based on a \$20.6 billion estimate of the total cost of benefits on 2005 injuries adjusted for other SB 899 changes affecting permanent disability, would reduce costs by \$500 million. However, the WCIRB believes it is premature to finalize the estimate of the impact of the revisions to the specified number of weekly payments of permanent disability inasmuch as (a) the new permanent disability schedule that the Administrative Director is directed to adopt pursuant to Labor Code Section 4660 could significantly affect the cost impact of this change, and (b) the revision to the specified number of weekly payments does not become effective until such time as the new schedule is adopted by the Administrative Director. As a result, the WCIRB is recommending no adjustment to pure premium rates at this time to reflect this provision. The WCIRB anticipates finalizing the estimate of the impact of these provisions once they become effective and the impact of the new permanent disability schedule on system costs can be evaluated.

D. Two-Tiered Permanent Disability Benefits

The amendments to Labor Code Section 4658(d) provide that for injuries occurring on or after the effective date of the revised permanent disability schedule adopted by the Administrative Director pursuant to Labor Code Section 4660, permanent disability awards may be adjusted depending on whether or not the injured worker has been offered regular or modified work. Specifically, the amendments provide that if, within

sixty days of the disability becoming permanent and stationary, the employer does not offer regular, modified, or alternative work that persists for a period of at least one year, each disability payment subsequent to the sixty-day period is increased by 15%. Alternatively, if such work is offered, permanent disability payments subsequent to the sixty-day period are reduced by 15%. The adjustments to benefits do not apply to employers with fewer than fifty employees. Also, if the employee is involuntarily terminated during the period when the reduced permanent disability benefits are being paid, benefits revert to the higher level (15% above the normal benefit) for the remainder of the permanent disability benefit period.

Exhibit 3 shows the preliminary computation of the estimated cost impact of these changes to the average permanent disability benefit. This preliminary estimate has been calculated based on the following assumptions:

1. The change applies to injuries occurring on or after January 1, 2005. (SB 899 provides that, in fact, the changes are not effective until such time as the Administrative Director adopts a new permanent disability schedule.)
2. Permanent disability benefits on 2005 injuries are estimated at 53% of indemnity benefits, or \$4.5 billion, based on an estimated total statewide cost of indemnity benefits of \$8.4 billion.
3. Based on CWCI data from their CMOS system, a claim will become permanent and stationary, on average, approximately six months after the end of temporary disability benefits and the beginning of the period permanent disability benefits will be paid.
4. The 15% increase in weekly benefits will occur sixty days from the point the claim becomes permanent and stationary (under the assumption that the employer has these sixty days to make an offer of alternative work), while 15% decrease in weekly benefits will occur at the time the claim becomes permanent and stationary (under the assumption that if a return-to-work offer is to be made, it generally will have been made by that time).
5. Based on data from the RAND Corporation, approximately 70% of workers with permanent disability ratings of less than 25% and 60% of workers with permanent disability ratings of greater than 25% are estimated to be at work with the at-injury employer in the fourth quarter after the quarter of injury.
6. Based on the CHSWC survey data, approximately 10% to 11% of injured workers reject an offer to return to work. Combining the information from the RAND Corporation and the CHSWC survey data, it is assumed that for claims with permanent disability ratings of less than 25%, approximately 80% of the injured workers return to work or reject a qualified return-to-work offer, while for claims with permanent disability ratings of greater than 25%, approximately 70% of the injured workers return to work or reject a return-to-work offer.
7. Based on a summary of US Census data by employer size and WCIRB estimates of the relationship between insured and self-insured payroll by industrial sector, 33%

of permanent disability claims are estimated to arise from employers with fewer than fifty employees, which are not subject to the 15% benefit adjustments.

8. Based on a UC Data/Survey Research Center analysis of California unemployment data, approximately 4% of the workforce in any year is involuntarily terminated for other than cause. It is assumed that this percentage also applies to injured workers with permanent partial disability claims.
9. Permanent disability claim patterns on 2005 injuries will generally be consistent with those in the historical WCIRB database of over 150,000 permanent disability claims with accident dates in 1998 through 2000.
10. The impact of the change to the two-tiered permanent disability system on claim frequency (“utilization”) is consistent with the WCIRB’s model used to project the utilization impact of benefit increases, which indicates that for each percentage point change in average indemnity benefits, there is a 0.26% change in indemnity claim frequency.
11. The distribution of permanent disability ratings would be unaffected by the new permanent disability rating schedule that the Administrative Director is directed to adopt by January 1, 2005.

As shown in Exhibit 3, based on the assumptions discussed above, the preliminary estimate of the impact on total system costs due to the changes to the two-tiered system of permanent disability benefits is -0.8%, which, based on a \$20.6 billion estimate of the total cost of benefits on 2005 injuries adjusted for other SB 899 changes affecting permanent disability, would reduce costs by approximately \$130 million. However, the WCIRB believes that it is premature to finalize the estimate of the impact of the change to the two-tiered permanent disability system inasmuch as (a) the new provisions related to the two-tiered permanent disability system do not become effective until such time as the new schedule is adopted by the Administrative Director, and (b) the new permanent disability schedule which the Administrative Director is directed to adopt pursuant to Labor Code Section 4660 could significantly affect the cost impact of this change. As a result, the WCIRB is recommending no adjustment to pure premium rates at this time to reflect these provisions. The WCIRB anticipates finalizing the estimated impact of these provisions once the impact of the new permanent disability schedule on system costs can be evaluated.

E. Permanent Disability Schedule

The amendments to Labor Code Section 4660 provide that on or before January 1, 2005, the Administrative Director shall adopt regulations to implement a new permanent disability schedule that will reflect (a) the physical injury or impairment, which is to incorporate the descriptions and measurements of impairments of the American Medical Association (AMA) Guides to the Evaluation of Permanent Impairment (5th Edition); (b) the occupation of the injured worker; (c) the age of the injured worker; and (d) the employee’s diminished future earning capacity based on the most recent RAND study as well as subsequent reports. Amendments to Labor Code Section 4660 also provide that the schedule applies prospectively to permanent disabilities that result from compensable claims received or occurring on or after the

effective date of the adoption of the schedule. Finally, amendments to Labor Code Section 4660 provide that the schedule, as revised, will also apply to claims arising before January 1, 2005, when there has been no comprehensive medical-legal report or no treating physician report indicating the existence of permanent disability, or the employer is not required to provide the Labor Code Section 4061 notice.

SB 899 directs the Administrative Director to adopt a new permanent disability schedule, using specified criteria. As mentioned, prior to the impact of any of the provisions of SB 899, the statewide cost of permanent disability benefits on 2005 injuries is estimated at approximately \$4.5 billion and, clearly, a revised schedule could significantly impact the cost of permanent disability benefits. However, the WCIRB believes that it is premature to evaluate the cost impact of a new permanent disability schedule until such time as the schedule is promulgated inasmuch as (a) the language of SB 899 gives broad discretion to the Administrative Director to develop a new permanent disability rating schedule; (b) it is not clear how the AMA Guides will be integrated with the RAND Corporation wage loss study information; and (c) it is uncertain whether the new permanent disability rating schedule developed by the Administrative Director will be cost-neutral, increase cost, or decrease cost. The WCIRB will, of course, undertake a cost evaluation of the schedule once the schedule is promulgated.

F. Vocational Rehabilitation and Return-to-Work Program

Amendments to Labor Code Section 139.48 provide that, to the extent funds are available, the Administrative Director will establish a return-to-work program by which eligible employers (those with fifty or fewer full-time employees) can be reimbursed up to \$1,250 for each temporarily disabled worker and \$2,500 for each permanently disabled worker to accommodate an injured worker's return to modified or alternative work. The funds are to be provided by Labor Code Section 5814 penalties and transferred from the Workers' Compensation Administration Revolving Fund. This Section becomes operative on July 1, 2004.

Amendments to Labor Code Section 139.5 delete the provisions enacted by Assembly Bill No. 227 (AB 227) related to non-transferable educational vouchers. (However, Labor Code Sections 4658.5 and 4658.6, which also provided for use of vouchers for eligible employees, were not modified.) Additional amendments to Labor Code Section 139.5 provide that vocational rehabilitation benefits continue to apply for injuries occurring on or before January 1, 2004, (the effective date of AB 227 and SB 228).

In the WCIRB's evaluation of AB 227 and SB 228, as reflected in the proposed January 1, 2004, pure premium rates,¹¹ the WCIRB estimated that the net result of (a) eliminating all vocational rehabilitation and (b) providing the additional benefits (educational vouchers) specified in Labor Code Section 4658.5 would be to reduce total statewide benefit costs on 2004 injuries by approximately \$1.2 billion. These provisions were estimated to have no impact on the cost of pre-January 1, 2004,

¹¹ Attachment A of the WCIRB's amended January 1, 2004, pure premium rate filing submitted to the insurance commissioner on November 3, 2003.

injuries. Inasmuch as the SB 899 revisions to vocational rehabilitation and the non-transferable educational voucher program appear consistent with the assumptions underlying the WCIRB's evaluation of AB 227 and SB 228, there is no additional pure premium impact due to SB 899. In addition, as the new return-to-work program remains to be established by the Administrative Director, its impact on costs is uncertain.

G. Medical Utilization Guidelines and Medical Provider Networks

SB 899 enacted a number of changes potentially affecting the utilization of medical services. These include the following:

1. Amendments to Labor Code Section 4600 provide that “notwithstanding any other provision of law, medical treatment that is reasonably required to cure or relieve the injured worker from the effects of his or her injury means treatment that is based upon the guidelines adopted by the Administrative Director pursuant to Section 5307.27, or, prior to the adoption of those guidelines, the updated American College of Occupational and Environmental Medicine’s Occupational Medicine Practice Guidelines.”
2. Amendments to Labor Code Section 4604.5(a) provide that the Official Utilization Schedule adopted by the Administrative Director, which, in accordance with the provisions of SB 228, was presumed to be correct, can only be rebutted by a “preponderance of the scientific medical evidence establishing that a variance from the guidelines is reasonably required to cure or relieve the injured worker from the effects of his or her injury. The presumption created is one affecting the burden of proof.”
3. Amendments to Labor Section 4604.5(c) provide that utilization decisions made in accordance with the American College of Occupational and Environmental Medicine’s Occupational Medicine Practice (ACOEM) Guidelines, which, in accordance with SB 228, were given a rebuttable presumption of correctness, are presumed to be correct concerning the extent and scope of medical treatment regardless of the date of injury, and that the presumption is one affecting the burden of proof.
4. Amendments to Labor Code Section 4604.5(b) provide that the Official Utilization Schedule adopted by the Administrative Director “should reflect practices that are evidence and scientifically based, nationally recognized, and peer-reviewed. The guidelines shall be designed to assist providers by offering an analytical framework for the evaluation and treatment of injured workers, and shall constitute care in accordance with Section 4600 for all injured workers diagnosed with industrial conditions.”
5. Amendments to Labor Code Section 4604.5(d) limit the number of occupational therapy visits per injury to 24 for injuries occurring on or after January 1, 2004. (SB 228 amendments to Labor Code Section 4604.5(d) capped chiropractic visits and physical therapy visits at 24 each per injury for claims occurring on or after January 1, 2004.)

6. Amendments to Labor Code Section 4616 provide that on or after January 1, 2005, an employer or insurer may establish medical provider networks meeting certain conditions. These medical provider networks must be submitted to the Administrative Director for approval. (The Administrative Director is directed to adopt regulations implementing these provisions on or before November 1, 2004.)
7. Amendments to Labor Code Section 4616 also provide that all treatment provided in the network shall be provided in accordance with the Official Utilization Schedule adopted by the Administrative Director or the ACOEM guidelines, as appropriate.
8. Amendments to Labor Code Section 4616.3 provide that injured workers, after their first evaluation, can be treated by a physician of their choice within the network; and if the worker disputes the diagnosis or treatment, they can choose to see up to two additional physicians within the network.
9. Amendments to Labor Code Section 4616.4 provide that the Administrative Director shall contract with individual physicians or an independent medical review organization to perform independent medical reviews, which can be requested by an injured employee who disputes the diagnosis or treatment after the opinion from the third physician from the medical network. The standard to be utilized for the independent medical review is the Official Utilization Schedule to be adopted by the Administrative Director or the ACOEM guidelines, as appropriate. Decisions of the independent medical reviewer are to be immediately adopted by the Administrative Director, who shall issue a written decision to the parties. If the independent medical review finds that the disputed treatment is appropriate and consistent with the Administrative Director's utilization schedule or the ACOEM guidelines, the injured employee may obtain the disputed treatment from a physician inside of or outside of the network.
10. Amendments to Labor Code Section 4062.9 completely repeal the presumption accorded to the primary treating physician's findings.

The SB 899 amendments related to medical utilization and the definition of cure and relieve became effective immediately upon enactment of SB 899, and apply to future medical treatment on earlier claims. The provisions related to medical provider networks become effective January 1, 2005, and it is unclear the extent to which they will be applied to earlier claims. Many of the key legislative reforms included in AB 749, AB 227, and SB 228, as well as SB 899, directly affect the utilization of medical services and the WCIRB believes it is not reasonably possible to assess the impact of each of these reforms individually. As a result, the WCIRB believes that it is appropriate to consider the composite impact of all of the provisions of recent legislation impacting the level of medical services in projecting future medical costs, including the provisions related to medical networks that are effective January 1, 2005.

In recent years, the WCIRB has based medical loss projections by (a) estimating future loss development based on the trend in historical loss development factors; (b) projecting future growth in medical costs not subject to the Official Medical Fee Schedule (OMFS) or the Inpatient Hospital Fee Schedule (IHFS) based on general

medical inflation; and (c) estimating residual growth in medical costs based on the historical rate of growth in California workers' compensation medical costs once adjusted for the inflationary effect reflected in costs not subject to the OMFS or IHFS.¹² Following the partial repeal of the primary treating physician presumption in AB 749, which was enacted in 2002, the WCIRB began judgmentally reducing the indicated residual trend (item (c)) by 50%,¹³ inasmuch as it was believed that a significant portion of that inflation trend was attributable to the impact of the presumption given to the treating physician as expanded to medical treatment by the 1996 Minniear¹⁴ Decision.

In evaluating the cost impact of the utilization guidelines in SB 228¹⁵, the WCIRB noted that the provisions in SB 228 related to medical utilization, including the adoption of evidence-based guidelines as contained in the ACOEM guidelines, have the potential to significantly impact costs. However, due to (1) the uncertainty regarding implementation and administration of the guidelines and other provisions related to medical utilization; (2) the lack of a sound relevant statistical basis upon which to predicate an estimate; and (3) uncertainty as to the extent to which the 21% or \$3.5 billion decrease in projected medical costs already reflected in the WCIRB's proposed 2004 pure premium rates would materialize, the WCIRB was unable to make a precise estimate of the potential cost reductions resulting from these provisions of SB 228. However, the WCIRB did estimate that the additional impact of the utilization standards on paid medical loss development could reduce medical utilization costs by as much as \$700 million.

If none of these adjustments for potential reductions in the level of medical services were being made, the projected ratio of medical losses to pure premium on July 1, 2004, policies would be 70.3% prior to the impact of the measurable reforms in AB 227 and SB 228, and 60.1% after the impact of the measurable reforms in AB 227 and SB 228 (medical fee schedule changes and physical therapy and chiropractic visit limitations). The WCIRB believes the additional impact of AB 749, AB 227, SB 228, and SB 899 on the utilization of medical services is significant. However, there is no credible statistical basis for directly estimating the impact of these legislations on the utilization of medical services — either separately or in combination. Nevertheless, given the magnitude of the legislative changes, the WCIRB believes that it is reasonable to project the medical costs underlying July 1, 2004, policies by assuming no trend in paid loss development factors (i.e., projecting future medical loss development based on the most recent medical paid loss development factor) and reducing the indicated annual inflationary growth in medical cost levels by 75%.

¹² The WCIRB's medical loss projection is discussed in detail in Part A, Section A of the WCIRB's January 1, 2004, pure premium rate filing that was submitted to the insurance commissioner on July 30, 2003.

¹³ See WCIRB Bulletin No. 2002-16, published August 22, 2002, for an evaluation of the cost impact of Assembly Bill No. 749.

¹⁴ Minniear v. Mount San Antonio Community College District (1996) 61 Cal. Comp. Cases 1055 (Workers' Compensation Appeals Board en banc opinion).

¹⁵ Attachment A of the WCIRB's amended January 1, 2004, pure premium rate filing submitted to the insurance commissioner on November 3, 2003.

Projecting the medical losses occurring on July 1, 2004, policies on a basis that assumes no trend in loss development and a 75% reduction in the indicated annual growth in the medical cost level produces a 33% reduction in projected medical costs as a result of all of the reforms enacted over the last two years. Also, as shown in Exhibit 4, these methodology adjustments result in a 16% reduction in medical costs from the estimate of medical costs reflected in the WCIRB's amended January 1, 2004, pure premium rate filing submitted on November 3, 2003, based on the WCIRB's low-end estimate of the impact of AB 227 and SB 228 on projected system costs. (This methodology produces a 10.5% reduction in projected medical losses from that underlying the WCIRB high-end estimate of the reduction in system costs resulting from AB 227 and SB 228.) A 16% reduction in projected medical costs, based on an estimated system cost of \$20.6 billion, would reduce costs by \$2.0 billion. (This is in addition to the approximate \$1.9 billion in projected medical cost reductions reflected in the WCIRB's evaluation of AB 227 and SB 228 included in the amended January 1, 2004, pure premium rate filing.¹⁶)

H. Employer's Liability for Immediate Medical Care

The amendments to Labor Code Section 5402 provide that within one day of receiving an employee claim form, the employer will authorize the provision of all treatment consistent with the Official Utilization Schedule to be developed by the Administrative Director or the ACOEM guidelines, and will continue to provide such treatment until such time as the claim is denied. The employer's liability for medical treatment prior to the time the claim is accepted or denied is limited to \$10,000.

The WCIRB currently collects no information on the percentage of filed claims that are initially denied, or when these claim are typically denied. However, the WCIRB has obtained information from several surveyed insurers, the Division of Workers' Compensation (DWC), CHSWC, and CWCI related to denials and, to some extent, the proportion of denials that are subject to Labor Code Section 5402 (e.g., excluding CIGA claims denied and claims denied for lack of coverage). The WCIRB has computed the estimated impact of these changes in accordance with the following assumptions:

1. The SB 899 provisions in Labor Code Section 5402 are effective on claims reported on or after April 19, 2004 — the effective date of the legislation.
2. Approximately 5% of all claims are denied and are subject to the provisions of Labor Code Section 5402.¹⁷

¹⁶ Based on an assumed 13.7% reduction in medical costs (low-end estimate of cost reductions) as reflected in Attachment A of the WCIRB's amended January 1, 2004, pure premium rate filing submitted to the insurance commissioner on November 3, 2003.

¹⁷ A summary of DWC random claim audits compiled by the University of California Berkeley Survey/Research Center suggests that approximately 6.9% of all claims are denied. For three insurers who provided summary information, the percentage of claims denied in 2003 ranged from 6% to 7%. Inasmuch as it is estimated that approximately 20% to 25% of denied claims are not subject to the immediate care provisions of Labor Code Section 5402, the WCIRB estimated that 5% of all claims are denied and subject to these changes.

3. Approximately 650,000 new claims are reported to the WCIRB by insurers valued eighteen months after policy inception and later.¹⁸
4. Based on information provided by the CWCI, the average medical cost of claims that will be denied, limited to \$10,000 per claim, is approximately \$2,000.¹⁹
5. The total cost of medical benefits on 2005 injuries, insured employer experience only, is approximately \$9.8 billion.²⁰
6. The provisions related to the employer's liability for immediate medical care will not significantly impact the timing at which claims are denied or the average medical care provided in the first sixty or ninety days from employer's knowledge of a claim.
7. The provisions related to an employer's liability for immediate medical care will not significantly impact the volume of filed claims.

Based on these assumptions, the WCIRB estimates that these provisions will increase the cost of medical benefits by approximately \$70 million for insured employers (\$2,000 per claim for 35,000 denied claims), or 0.7% of medical benefits and 0.4% of total losses. (If it is assumed that this cost will be proportionate for self-insured employers, the estimated statewide annual cost increase will be approximately \$90 million.) The WCIRB believes that it is highly likely that these provisions may impact when a claim is denied, the medical services provided before denial, and/or the frequency of claim filings. However, the WCIRB has no statistical information that can be reasonably used to quantify these potential impacts on medical costs.

I. Medical–Legal Evaluations

Amendments to Labor Code Section 4060 provide that after filing of the employee claim form, evaluations to determine compensability must be secured in accordance with Labor Code Section 4062.1 for unrepresented workers and in accordance with Labor Code Section 4062.2 for represented workers. Amendments to Labor Code Section 4061 provide that if the parties do not agree on a permanent disability rating, medical evaluations should be obtained in accordance with Labor Code Section 4062.1 for unrepresented workers and in accordance with Labor Code Section 4062.2 for represented workers.

Amendments to Labor Code Section 4062.1 provide that, with respect to unrepresented workers, if the worker or employer requests a comprehensive medical-legal evaluation, the Administrative Director will provide a panel of three qualified medical evaluators from which the worker would select an evaluator. In addition, these amendments provide that an unrepresented worker who receives an evaluation and later becomes represented is not entitled to another evaluation.

¹⁸ Inasmuch as these claims include all claims in which the insurer believes it has liability for as of eighteen months after policy inception or later, the WCIRB has assumed this total represents accepted claims.

¹⁹ Based on CWCI analysis of ICIS data on the average cost of medical services, limited to \$10,000, provided in the first 60 and 90 days from the employer's knowledge of a claim.

²⁰ "WCIRB Estimates of the Total Statewide Cost of Compensation Benefits", WCIRB, March 30, 2004.

Amendments to Labor Code Section 4062.2 provide that for disputes arising from injuries occurring on or after January 1, 2005, with respect to represented workers, the parties must attempt to agree upon an evaluator. If no agreement is reached, the Administrative Director provides a panel of three qualified medical evaluators from which either (a) the two parties will agree to a single evaluator, or (b) each side will eliminate one of the three evaluators and the remaining evaluator from the panel will be selected to conduct the evaluation. Amendments to Labor Code Section 4062.3 specify the information and process to be used by the qualified medical evaluator.

The WCIRB's estimate has been computed in accordance with the following assumptions:

1. The provisions related to medical-legal become effective on injuries occurring on or after January 1, 2005.
2. The total statewide cost of medical-legal reports on 2005 injuries is estimated at 2% of medical costs, or approximately \$250 million.
3. Based on data from the WCIRB's annual permanent disability claim survey, the average number of medical-legal reports per litigated permanent disability claim that had at least one medical-legal report is 1.8.
4. On permanent disability claims involving separate medical-legal reports requested by at least two parties involving (a) the worker and employer; (b) the primary treating physician and the worker or employer; (c) the panel QME and the worker, employer, or primary treating physician; or (d) AME and other party, one report is assumed to be eliminated by the new provisions.
5. The new provisions related to medical-legal will not affect the average cost of a medical-legal report.

Based on these assumptions, the WCIRB estimates that medical-legal costs will be reduced by approximately 14%, or approximately \$35 million annually, based on an assumed \$20.6 billion statewide cost of benefits on 2005 injuries. This results in an estimated 0.3% reduction in medical costs and 0.2% reduction in total benefit costs.

J. Claims Adjustment Expenses

Section 11730 of the California Insurance Code provides that the advisory pure premium rates include a provision for loss adjustment expenses. Reflecting December 31, 2003, loss experience and prior to the impact of SB 899, loss adjustment expenses are estimated at 17.3% of total benefit costs. There are a number of provisions in SB 899 that could potentially reduce claims administration costs. For example, the amendments to Labor Code Section 5814 provide that the current 10% penalty for late payments that apply to the entire specie of benefit becomes inoperative on June 1, 2004, and, instead, provide for penalties of 25% of the late payment or \$10,000, whichever is less. These amendments also allow for lower penalties (10% of the late payment) if discovered and self-assessed by the employer, and provide that it is conclusively presumed on resolved claims that any accrued claims for penalties have been resolved, unless the issue of the penalty is also submitted or is expressly excluded

in the statement of issues being submitted.²¹ Also, the Labor Code Section 5402 provisions related to an employer's liability for immediate medical care may reduce litigation and claims administration costs.

Other SB 899 provisions have the potential to increase claims administration costs. The new provisions related to medical utilization could increase claims administration costs, both with respect to medical utilization programs and disputes over medical treatment. In addition, provisions that provide for an employer's liability for immediate medical care may increase claims administration costs through an accelerated investigation process. Similarly, changes related to apportionment have the potential to increase litigation, particularly in the relatively early stages of implementation.

Historically, when evaluating the cost impact of legislative changes, the WCIRB has generally assumed that loss adjustment expenses will change proportionately with losses.²² However, the WCIRB's methodology to project loss adjustment expense, in part, reflects projected medical loss development and medical cost trend. Thus, to the extent that the SB 899 provisions related to medical utilization affect medical loss projections, estimates of loss adjustment expenses as a percent of losses are also affected. Specifically, eliminating the indicated trend in paid medical loss development and reducing the indicated annual medical cost inflation trend by 75% in the proposed July 1, 2004, pure premium rate calculation, as discussed above, generates an indicated loss adjustment expense to loss ratio of 18.5% rather than 17.3%. However, in total, given the estimated reductions in losses, this methodology also produces an indicated reduction in loss adjustment expenses of 9%, or \$0.3 billion, due to the provisions of SB 899.

²¹ The *California Workers' Compensation Experience Rating Plan — 1995* provides that the amount of Labor Code Section 5814 penalties be included as unallocated loss adjustment expenses.

²² In evaluating AB 227 and SB 228, assuming a constant level of loss adjustment expenses resulted in an indicated reduction in loss adjustment expenses of approximately 13%, or \$0.6 billion, based on the estimated reductions in losses resulting from that legislation.

Summary of Estimated Cost Impact of Senate Bill No. 899
Pertaining to Changes Involving Limitations on Temporary Disability Duration and Apportionment Effective April 19, 2004
 ON POLICIES WITH INCEPTION DATES BETWEEN JULY 1, 2004 AND DECEMBER 31, 2004

<u>Type of Injury</u>	Distribution of Incurred <u>Losses</u>	Effect of Benefit Changes Prior to <u>Utilization Adjustments</u>	Effect of Benefit Changes Subsequent to <u>Utilization Adjustments</u>
Death	0.0037	0.0 %	0.0 %
Permanent Total	0.0315	0.0	0.0
Major 70-99.75	0.0423	-8.0	-10.6
<u>Major 25-69.75</u>	<u>0.2292</u>	<u>-11.3</u>	<u>-13.8</u>
Serious	0.3067	-9.5 %	-11.8 %
Minor 15-24.75	0.0427	-11.9	-14.4 %
Minor 0.25-14.75	0.0256	-11.7	-14.2
<u>Temporary</u>	<u>0.0315</u>	<u>-0.7</u>	<u>-3.5</u>
Non-Serious	0.0998	-8.3 %	-10.9 %
Indemnity (Serious & Non-Serious)	0.4065	-9.2	-11.6 %
<u>Medical</u>	<u>0.5935</u>	<u>0.0 %</u>	<u>-1.4 %</u>
Total	1.0000	-3.8 %	-5.5 %

Estimated Cost Impact of Senate Bill No. 899
Pertaining to Changes Involving Limitations on Temporary Disability Duration and Apportionment Eff. April 19, 2004
 ON POLICIES WITH INCEPTION DATES BETWEEN JULY 1, 2004 AND DECEMBER 31, 2004
 Prior to the Adjustment to Reflect the Impact of Benefit Changes on Indemnity Claim Frequency

By Type of Injury

	(1)	(2)
	Benefit Provision	Benefit Provision
	Effective	Effective
	<u>1/1/2004</u>	<u>4/19/2004</u>
<u>Death</u>		
1. Effect of amendment on death	99,844	99,844
	99,844 / 99,844 = 1.000	
<u>Permanent Total</u>		
2. Average compensation	528.98	528.98
3. Effect of amendment on permanent total		
	528.98 / 528.98 = 1.000	
<u>Major 70-99.75</u>		
4. Average duration, temporary disability*	67.6	57.7
5. Average compensation, temporary disability**	399.64	396.86
6. Average duration, permanent disability***	438.2	394.4
7. Average compensation, permanent disability	229.11	229.11
8. Average duration, life pension	533.7	533.7
9. Average compensation, life pension	85.93	85.93
10. Average Cost of Non-transferrable Education Vouchers	<u>2,700</u>	<u>2,700</u>
11. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)	175,972	161,821
12. Effect of amendment on major 70-99.75		
	161,821 / 175,972 = 0.920	
<u>Major 25-69.75</u>		
13. Average duration, temporary disability*	45.5	38.9
14. Average compensation, temporary disability**	378.68	376.05
15. Average duration, permanent disability***	181.4	163.3
16. Average compensation, permanent disability	191.56	191.56
17. Average Cost of Non-transferrable Education Vouchers	<u>1,623</u>	<u>1,623</u>
18. Average total cost: (13)x(14)+(15)x(16)+(17)	53,602	47,533
19. Effect of amendment on major 25-69.75		
	47,533 / 53,602 = 0.887	

* The effect of a limit on the duration of temporary disability payments is reflected by reducing average temporary disability duration by an estimated 15%.

** An assumed +7% impact on average temporary disability weekly benefits was included in column (1) (due to Labor Code Section 4661.5). It is assumed that the amendment to Labor Code Section 4656(c) essentially eliminated that impact of Labor Code Section 4661.5; therefore, no adjustment for Labor Code Section 4665.1 is reflected in column (2).

*** The effect of apportionment (amendment to Labor Code Section 4663) is reflected by reducing average permanent disability costs by an estimated 10% (this is achieved through reducing the average permanent disability duration by 10%).

Estimated Cost Impact of Senate Bill No. 899
Pertaining to Changes Involving Limitations on Temporary Disability Duration and Apportionment Eff. April 19, 2004
 ON POLICIES WITH INCEPTION DATES BETWEEN JULY 1, 2004 AND DECEMBER 31, 2004
 Prior to the Adjustment to Reflect the Impact of Benefit Changes on Indemnity Claim Frequency
 (Continued)

By Type of Injury

	(1)	(2)
	Benefit Provision	Benefit Provision
	Effective	Effective
	<u>1/1/2004</u>	<u>4/19/2004</u>
<u>Minor 15-24.75</u>		
20. Average duration, temporary disability*	30.8	26.3
21. Average compensation, temporary disability**	371.69	369.11
22. Average duration, permanent disability***	82.8	74.5
23. Average compensation, permanent disability	190.26	190.26
24. Average Cost of Non-transferrable Education Vouchers	<u>780</u>	<u>780</u>
25. Average total cost: (20)x(21)+(22)x(23)+(24)	27,982	24,662
26. Effect of amendment on minor 15-24.75		
		$24,662 / 27,982 = 0.881$
<u>Minor 0.25-14.75</u>		
27. Average duration, temporary disability*	12.3	10.5
28. Average compensation, temporary disability**	361.10	358.59
29. Average duration, permanent disability***	29.6	26.7
30. Average compensation, permanent disability	189.01	189.01
31. Average Cost of Non-transferrable Education Vouchers	<u>400</u>	<u>400</u>
32. Average total cost, (27)x(28)+(29)x(30)+(31)	10,436	9,212
33. Effect of amendment on minor 0.25-14.75		
		$9,212 / 10,436 = 0.883$
<u>Temporary</u>		
34. Average compensation**	366.91	364.36
35. Effect of amendment on temporary		
		$364.36 / 366.91 = 0.993$

* The effect of a limit on the duration of temporary disability payments is reflected by reducing average temporary disability duration by an estimated 15%.

** An assumed +7% impact on average temporary disability weekly benefits was included in column (1) (due to Labor Code Section 4661.5). It is assumed that the amendment to Labor Code Section 4656(c) essentially eliminated that impact of Labor Code Section 4661.5; therefore, no adjustment for Labor Code Section 4665.1 is reflected in column (2).

*** The effect of apportionment (amendment to Labor Code Section 4663) is reflected by reducing average permanent disability costs by an estimated 10% (this is achieved through reducing the average permanent disability duration by 10%).

Summary of Estimated Cost Impact of Senate Bill No. 899
Pertaining to Changes Involving Number of Weeks of Permanent Disability Assumed to be Effective January 1, 2005
 ON POLICIES WITH INCEPTION DATES BETWEEN JULY 1, 2004 AND DECEMBER 31, 2004

<u>Type of Injury</u>	Distribution of Incurred <u>Losses</u>	Effect of Benefit Changes Prior to <u>Utilization Adjustments</u>	Effect of Benefit Changes Subsequent to <u>Utilization Adjustments</u>
Death	0.0038	0.0 %	0.0 %
Permanent Total	0.0319	0.0	0.0
Major 70-99.75	0.0396	1.4	0.2
<u>Major 25-69.75</u>	<u>0.2117</u>	<u>-4.7</u>	<u>-5.9</u>
Serious	0.2870	-3.3 %	-4.3 %
Minor 15-24.75	0.0390	-10.1	-11.2 %
Minor 0.25-14.75	0.0233	-13.7	-14.8
<u>Temporary</u>	<u>0.0311</u>	<u>0.0</u>	<u>-1.2</u>
Non-Serious	0.0934	-7.6 %	-8.8 %
Indemnity (Serious & Non-Serious)	0.3804	-4.3	-5.4 %
<u>Medical</u>	<u>0.6196</u>	<u>0.0 %</u>	<u>-0.7 %</u>
Total	1.0000	-1.7 %	-2.5 %

Estimated Cost Impact of Senate Bill No. 899**Pertaining to Changes Involving Number of Weeks of Permanent Disability Assumed to be Effective January 1, 2005**

ON POLICIES WITH INCEPTION DATES BETWEEN JULY 1, 2004 AND DECEMBER 31, 2004

Prior to the Adjustment to Reflect the Impact of Benefit Changes on Indemnity Claim Frequency

By Type of Injury

	Benefit Provision Effective 1/1/2005 <u>Before Change</u>	Benefit Provision Effective 1/1/2005 <u>After Change</u>
<u>Death</u>		
1. Effect of amendment on death 101,489 / 101,489 = 1.000	101,489	101,489
<u>Permanent Total</u>		
2. Average compensation	536.07	536.07
3. Effect of amendment on permanent total 536.07 / 536.07 = 1.000		
<u>Major 70-99.75</u>		
4. Average duration, temporary disability	57.7	57.7
5. Average compensation, temporary disability	403.82	403.82
6. Average duration, permanent disability	394.4	425.5
7. Average compensation, permanent disability	243.25	243.25
8. Average duration, life pension	533.7	499.1
9. Average compensation, life pension	85.93	81.55
10. Average Cost of Non-transferrable Education Vouchers	2,700	2,700
11. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)	167,799	170,205
12. Effect of amendment on major 70-99.75 170,205 / 167,799 = 1.014		
<u>Major 25-69.75</u>		
13. Average duration, temporary disability	38.9	38.9
14. Average compensation, temporary disability	381.33	381.33
15. Average duration, permanent disability	163.3	151.8
16. Average compensation, permanent disability	207.44	207.44
17. Average Cost of Non-transferrable Education Vouchers	1,623	1,623
18. Average total cost: (13)x(14)+(15)x(16)+(17)	50,332	47,946
19. Effect of amendment on major 25-69.75 47,946 / 50,332 = 0.953		
<u>Minor 15-24.75</u>		
20. Average duration, temporary disability	26.3	26.3
21. Average compensation, temporary disability	375.20	375.20
22. Average duration, permanent disability	74.5	61.8
23. Average compensation, permanent disability	205.65	205.65
24. Average Cost of Non-transferrable Education Vouchers	780	780
25. Average total cost: (20)x(21)+(22)x(23)+(24)	25,969	23,357
26. Effect of amendment on minor 15-24.75 23,357 / 25,969 = 0.899		

Estimated Cost Impact of Senate Bill No. 899
Pertaining to Changes Involving Number of Weeks of Permanent Disability Assumed to be Effective January 1, 2005
 ON POLICIES WITH INCEPTION DATES BETWEEN JULY 1, 2004 AND DECEMBER 31, 2004
 Prior to the Adjustment to Reflect the Impact of Benefit Changes on Indemnity Claim Frequency
 (Continued)

By Type of Injury

	Benefit Provision Effective 1/1/2005 <u>Before Change</u>	Benefit Provision Effective 1/1/2005 <u>After Change</u>
<u>Minor 0.25-14.75</u>		
27. Average duration, temporary disability	10.5	10.5
28. Average compensation, temporary disability	364.38	364.38
29. Average duration, permanent disability	26.7	20.2
30. Average compensation, permanent disability	203.99	203.99
31. Average Cost of Non-transferrable Education Vouchers	<u>400</u>	<u>400</u>
32. Average total cost, (27)x(28)+(29)x(30)+(31)	9,673	8,347
33. Effect of amendment on minor 0.25-14.75		
		8,347 / 9,673 = 0.863
<u>Temporary</u>		
34. Average compensation	369.80	369.80
35. Effect of amendment on temporary		
		369.80 / 369.80 = 1.000

Summary of Estimated Cost Impact of Senate Bill No. 899
Pertaining to Changes Involving Two-Tiered Permanent Disability Benefits Assumed to be Effective January 1, 2005
 ON POLICIES WITH INCEPTION DATES BETWEEN JULY 1, 2004 AND DECEMBER 31, 2004

<u>Type of Injury</u>	<u>Distribution of Incurred Losses</u>	<u>Effect of Benefit Changes Prior to Utilization Adjustments</u>	<u>Effect of Benefit Changes Subsequent to Utilization Adjustments</u>
Death	0.0038	0.0 %	0.0 %
Permanent Total	0.0319	0.0	0.0
Major 70-99.75	0.0396	-1.2	-1.7
<u>Major 25-69.75</u>	<u>0.2117</u>	<u>-1.9</u>	<u>-2.4</u>
Serious	0.2870	-1.6 %	-2.0 %
Minor 15-24.75	0.0390	-2.0	-2.5 %
Minor 0.25-14.75	0.0233	0.0	-0.5
<u>Temporary</u>	<u>0.0311</u>	<u>0.0</u>	<u>-0.5</u>
Non-Serious	0.0934	-0.8 %	-1.3 %
Indemnity (Serious & Non-Serious)	0.3804	-1.4	-1.8 %
<u>Medical</u>	<u>0.6196</u>	<u>0.0 %</u>	<u>-0.2 %</u>
Total	1.0000	-0.5 %	-0.8 %

Estimated Cost Impact of Senate Bill No. 899

Pertaining to Changes Involving Two-Tiered Permanent Disability Benefits Assumed to be Effective January 1, 2005
ON POLICIES WITH INCEPTION DATES BETWEEN JULY 1, 2004 AND DECEMBER 31, 2004
Prior to the Adjustment to Reflect the Impact of Benefit Changes on Indemnity Claim Frequency

By Type of Injury

	Benefit Provision Effective 1/1/2005 <u>Before Change</u>	Benefit Provision Effective 1/1/2005 <u>After Change</u>
<u>Death</u>		
1. Effect of amendment on death 101,489 / 101,489 = 1.000	101,489	101,489
<u>Permanent Total</u>		
2. Average compensation	536.07	536.07
3. Effect of amendment on permanent total 536.07 / 536.07 = 1.000		
<u>Major 70-99.75</u>		
4. Average duration, temporary disability	57.7	57.7
5. Average compensation, temporary disability	403.82	403.82
6. Average duration, permanent disability	425.5	425.5
7. Average compensation, permanent disability*	243.25	238.48
8. Average duration, life pension	499.1	499.1
9. Average compensation, life pension	81.55	81.55
10. Average Cost of Non-transferrable Education Vouchers	<u>2,700</u>	<u>2,700</u>
11. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)	170,205	168,175
12. Effect of amendment on major 70-99.75 168,175 / 170,205 = 0.988		
<u>Major 25-69.75</u>		
13. Average duration, temporary disability	38.9	38.9
14. Average compensation, temporary disability	381.33	381.33
15. Average duration, permanent disability	151.8	151.8
16. Average compensation, permanent disability*	207.44	201.33
17. Average Cost of Non-transferrable Education Vouchers	<u>1,623</u>	<u>1,623</u>
18. Average total cost: (13)x(14)+(15)x(16)+(17)	47,946	47,019
19. Effect of amendment on major 25-69.75 47,019 / 47,946 = 0.981		

* The amendment to Labor Code Section 4658(d) to add a two-tiered benefit provision for permanent disability payments has been reflected in the average rate of permanent disability. In deriving this adjustment, it is estimated that (1) two-thirds of injured workers work for employers with more than fifty employees; (2) 70% of injured workers with a major claim and 80% of injured workers with a minor claim return to work for the same employer; (3) permanent and stationary occurs, on average, six months after the start of permanent disability payments; and (4) workers are laid off at a rate of 4% per annum. It is assumed that workers who return to work will do so after becoming permanent and stationary, after which the 15% decrease in weekly benefits begins. Also, it is assumed that for workers who do not return to work, the 15% increase in weekly benefits begins 60 days after becoming permanent and stationary.

Estimated Cost Impact of Senate Bill No. 899
Pertaining to Changes Involving Two-Tiered Permanent Disability Benefits Assumed to be Effective January 1, 2005
 ON POLICIES WITH INCEPTION DATES BETWEEN JULY 1, 2004 AND DECEMBER 31, 2004
 Prior to the Adjustment to Reflect the Impact of Benefit Changes on Indemnity Claim Frequency
 (Continued)

By Type of Injury

	Benefit Provision Effective 1/1/2005 <u>Before Change</u>	Benefit Provision Effective 1/1/2005 <u>After Change</u>
<u>Minor 15-24.75</u>		
20. Average duration, temporary disability	26.3	26.3
21. Average compensation, temporary disability	375.20	375.20
22. Average duration, permanent disability	61.8	61.8
23. Average compensation, permanent disability*	205.65	198.20
24. Average Cost of Non-transferrable Education Vouchers	780	780
25. Average total cost: (20)x(21)+(22)x(23)+(24)	23,357	22,896
26. Effect of amendment on minor 15-24.75		
		$22,896 / 23,357 = 0.980$
<u>Minor 0.25-14.75</u>		
27. Average duration, temporary disability	10.5	10.5
28. Average compensation, temporary disability	364.38	364.38
29. Average duration, permanent disability	20.2	20.2
30. Average compensation, permanent disability*	203.99	203.99
31. Average Cost of Non-transferrable Education Vouchers	400	400
32. Average total cost, (27)x(28)+(29)x(30)+(31)	8,347	8,347
33. Effect of amendment on minor 0.25-14.75		
		$8,347 / 8,347 = 1.000$
<u>Temporary</u>		
34. Average compensation	369.80	369.80
35. Effect of amendment on temporary		
		$369.80 / 369.80 = 1.000$

* The amendment to Labor Code Section 4658(d) to add a two-tiered benefit provision for permanent disability payments has been reflected in the average rate of permanent disability. In deriving this adjustment, it is estimated that (1) two-thirds of injured workers work for employers with more than fifty employees; (2) 70% of injured workers with a major claim and 80% of injured workers with a minor claim return to work for the same employer; (3) permanent and stationary occurs, on average, six months after the start of permanent disability payments; and (4) workers are laid off at a rate of 4% per annum. It is assumed that workers who return to work will do so after becoming permanent and stationary, after which the 15% decrease in weekly benefits begins. Also, it is assumed that for workers who do not return to work, the 15% increase in weekly benefits begins 60 days after becoming permanent and stationary.

ESTIMATED IMPACT DUE TO MEDICAL TREATMENT PROVISION OF SB 899
PAID MEDICAL LOSS DEVELOPMENT FACTORS

Age in Months	Reported as of												Latest Year	Cumulative
	12/92	12/93	12/94	12/95	12/96	12/97	12/98	12/99	12/00	12/01	12/02	12/03		
24/12	2.297	2.060	1.962	2.040	2.131	2.183	2.271	2.342	2.476	2.666	2.843	2.835	2.835	9.684
36/24	1.256	1.231	1.216	1.207	1.236	1.254	1.265	1.286	1.328	1.378	1.430	1.463	1.463	3.416
48/36	1.114	1.106	1.104	1.110	1.100	1.107	1.124	1.142	1.159	1.181	1.207	1.221	1.221	2.335
60/48	1.062	1.057	1.054	1.063	1.064	1.061	1.067	1.081	1.097	1.105	1.119	1.134	1.134	1.912
72/60	1.038	1.037	1.034	1.037	1.042	1.043	1.042	1.048	1.058	1.071	1.081	1.095	1.095	1.686
84/72	1.028	1.024	1.026	1.026	1.027	1.028	1.028	1.034	1.038	1.051	1.057	1.065	1.065	1.540
96/84	1.019	1.017	1.019	1.019	1.019	1.020	1.021	1.020	1.025	1.035	1.042	1.050	1.050	1.446
108/96	1.015	1.015	1.014	1.014	1.016	1.014	1.013	1.014	1.017	1.025	1.028	1.036	1.036	1.377
120/108	1.012	1.013	1.010	1.010	1.012	1.011	1.013	1.010	1.012	1.015	1.021	1.028	1.028	1.329
132/120	1.011	1.009	1.009	1.011	1.011	1.012	1.010	1.008	1.010	1.012	1.016	1.020	1.020	1.293
144/132	1.016	1.010	1.008	1.008	1.008	1.009	1.009	1.009	1.008	1.009	1.010	1.013	1.013	1.268
156/144	1.010	1.009	1.009	1.007	1.007	1.010	1.008	1.010	1.007	1.008	1.010	1.009	1.009	1.252
168/156	1.015	1.014	1.008	1.008	1.007	1.008	1.007	1.006	1.007	1.009	1.007	1.010	1.010	1.241
180/168	1.011	1.007	1.008	1.007	1.008	1.008	1.005	1.007	1.007	1.008	1.008	1.007	1.007	1.229
192/180	1.011	1.011	1.008	1.008	1.008	1.008	1.006	1.005	1.005	1.006	1.006	1.007	1.007	1.220
204/192	1.014	1.010	1.008	1.007	1.008	1.008	1.007	1.007	1.005	1.005	1.007	1.009	1.009	1.212
216/204	1.013	1.012	1.012	1.008	1.008	1.007	1.008	1.006	1.006	1.005	1.007	1.006	1.006	1.201
228/216	1.016	1.012	1.012	1.012	1.009	1.007	1.008	1.007	1.007	1.004	1.005	1.006	1.006	1.194
240/228	1.013	1.016	1.012	1.012	1.010	1.007	1.008	1.006	1.006	1.006	1.005	1.005	1.005	1.187
252/240	1.013	1.012	1.011	1.011	1.010	1.009	1.007	1.008	1.007	1.007	1.009	1.006	1.006	1.181
264/252	1.012	1.013	1.011	1.010	1.010	1.011	1.009	1.009	1.005	1.007	1.008	1.008	1.008	1.174
276/264		1.011	1.013	1.009	1.010	1.022	1.009	1.008	1.007	1.008	1.007	1.007	1.007	1.165
288/276			1.011	1.014	1.009	1.011	1.007	1.009	1.008	1.007	1.007	1.008	1.008	1.157
300/288				1.020	1.013	1.009	1.012	1.011	1.008	1.008	1.009	1.009	1.009	1.148
312/300					1.013	1.009	1.010	1.009	1.010	1.010	1.008	1.009	1.009	1.138
324/312						1.011	1.010	1.008	1.009	1.008	1.010	1.009	1.009	1.128
336/324							1.011	1.011	1.011	1.010	1.008	1.010	1.010	1.118
348/336								1.009	1.009	1.009	1.009	1.007	1.007	1.107
348Inc/348Pd									1.093	1.090	1.088	1.064	1.081	(b) 1.099
ULT/348Inc (a)									1.014	1.012	1.014	1.024	1.017	(b)
360/348										1.012	1.012	1.011	1.011	

(a) To adjust for non-repeating asbestosis claim patterns in older accident years, these factors are reflected at 68% of the reported ULT/348Inc factors. The original factors were 1.021, 1.018, 1.020 and 1.035, respectively.

(b) Three-year average ULT/348Inc and 348Inc/348Pd factors are selected.

ESTIMATED IMPACT DUE TO MEDICAL TREATMENT PROVISION OF SB 899
DEVELOPED LOSS RATIOS USING LATEST YEAR PAID LOSS DEVELOPMENT FACTORS

Accident Year	(1)	(2)	(3)	(4)
	Medical			
	Reported			
	Paid	Annual	Cumulative	
Loss Ratio	Development	Development	Developed	
<u>Ex IBNR(a)</u>	<u>Factor(b)</u>	<u>Factor</u>	<u>Loss Ratio</u>	<u>(1) x (3)</u>
1974	0.343		1.087	0.373
1975	0.321	1.011	1.099	0.353
1976	0.308	1.007	1.107	0.341
1977	0.242	1.010	1.118	0.271
1978	0.221	1.009	1.128	0.249
1979	0.239	1.009	1.138	0.272
1980	0.237	1.009	1.148	0.272
1981	0.260	1.008	1.157	0.301
1982	0.285	1.007	1.165	0.332
1983	0.293	1.008	1.174	0.344
1984	0.316	1.006	1.181	0.373
1985	0.330	1.005	1.187	0.392
1986	0.302	1.006	1.194	0.361
1987	0.284	1.006	1.201	0.341
1988	0.278	1.009	1.212	0.337
1989	0.292	1.007	1.220	0.356
1990	0.336	1.007	1.229	0.413
1991	0.347	1.010	1.241	0.431
1992	0.278	1.009	1.252	0.348
1993	0.223	1.013	1.268	0.283
1994	0.239	1.020	1.293	0.309
1995	0.330	1.028	1.329	0.439
1996	0.360	1.036	1.377	0.496
1997	0.375	1.050	1.446	0.542
1998	0.420	1.065	1.540	0.647
1999	0.421	1.095	1.686	0.710
2000	0.347	1.134	1.912	0.663
2001	0.260	1.221	2.335	0.607
2002	0.150	1.463	3.416	0.512
2003	0.038	2.835	9.684	0.368

(a) Based on Part A, Section A, Exhibit 1.
(b) See Exhibit 4, Sheet 1.

ESTIMATED IMPACT DUE TO MEDICAL TREATMENT PROVISION OF SB 899
ANNUAL "OTHER MEDICAL" COST LEVEL CHANGES

Year	(1) Annual "Other Medical" Cost Level Change (a)	(2) % of "Other Medical" Cost Non-IHFS	(3) Quantifiable IHFS Cost Level Change (b)	(4) % of "Other Medical" Cost IHFS	(5) Adjusted "Other Medical" Cost Level Change	(6) Factor to a 4/1/2005 "Other Medical" Cost Level
1974	11.9	--	--	--	11.9	8.601
1975	14.3	--	--	--	14.3	7.525
1976	11.0	--	--	--	11.0	6.779
1977	11.7	--	--	--	11.7	6.069
1978	9.6	--	--	--	9.6	5.537
1979	10.9	--	--	--	10.9	4.993
1980	12.5	--	--	--	12.5	4.438
1981	11.8	--	--	--	11.8	3.970
1982	17.1	--	--	--	17.1	3.390
1983	9.9	--	--	--	9.9	3.085
1984	3.7	--	--	--	3.7	2.975
1985	6.5	--	--	--	6.5	2.793
1986	9.1	--	--	--	9.1	2.560
1987	7.4	--	--	--	7.4	2.384
1988	7.7	--	--	--	7.7	2.214
1989	8.6	--	--	--	8.6	2.039
1990	10.4	--	--	--	10.4	1.847
1991	10.6	--	--	--	10.6	1.670
1992	8.1	--	--	--	8.1	1.545
1993	7.3	--	--	--	7.3	1.440
1994	4.3	--	--	--	4.3	1.381
1995	3.0	--	--	--	3.0	1.341
1996	3.0	--	--	--	3.0	1.302
1997	2.2	--	--	--	2.2	1.274
1998	2.2	--	--	--	2.2	1.247
1999	3.3	81.6	-8.3	18.4	1.2	(c) 1.232
2000	4.3	79.5	-4.1	20.5	2.6	(c) 1.201
2001	4.8	79.5	19.8	20.5	7.9	(c) 1.113
2002	5.1	79.5	7.7	20.5	5.6	(c) 1.054
2003	4.5	79.5	0.0	20.5	3.6	(c) 1.017
Projected:						
2004 (d)	1.3 (Annual = 5.1)	79.5	0.0	20.5	1.0	(c) 1.007
4/1/2005 (d)	0.9 (Annual = 4.9)	79.5	0.0	20.5	0.7	(c)

- (a) Values are based on a component of the Consumer Price Index furnished by Global Insight, Inc. (formerly DRI/McGraw-Hill).
- (b) Based on WCIRB evaluations of the cost impact of changes to the Inpatient Hospital Fee Schedule.
- (c) Weighted average of columns (1) and (3), with columns (2) and (4) as weights.
- (d) A 75% reduction in the annual change has been reflected.

ESTIMATED IMPACT DUE TO MEDICAL TREATMENT PROVISION OF SB 899
COMPOSITE MEDICAL FEE AND OTHER MEDICAL
COST LEVEL FACTORS

Accident Year	(1) Proportion Subject to Fee Schedule(a)	(2) Proportion "Other Medical"(a)	(3) Factor to a 4/1/1999 Medical Fee Level(b)	(4) Factor to a 4/1/2005 "Other Medical" Cost Level(c)	(5) Factor to Reflect Legislative Changes(d)	(6) Factor to a 4/1/1999 Medical Fee and 4/1/2005 "Other Medical" Cost Level(e)
1974	0.517	0.483	3.174	8.601	0.952	5.517
1975	0.521	0.479	2.726	7.525	0.944	4.743
1976	0.512	0.488	2.146	6.779	0.944	4.160
1977	0.508	0.492	1.938	6.069	0.936	3.716
1978	0.507	0.493	1.938	5.537	0.936	3.475
1979	0.506	0.494	1.831	4.993	0.936	3.176
1980	0.507	0.493	1.735	4.438	0.936	2.871
1981	0.575	0.425	1.578	3.970	0.933	2.421
1982	0.568	0.432	1.309	3.390	0.933	2.060
1983	0.595	0.405	1.197	3.085	0.892	1.750
1984	0.665	0.335	1.134	2.975	0.884	1.548
1985	0.665	0.335	1.096	2.793	0.884	1.471
1986	0.604	0.396	1.096	2.560	0.884	1.481
1987	0.610	0.390	1.080	2.384	0.884	1.404
1988	0.649	0.351	1.066	2.214	0.884	1.299
1989	0.647	0.353	1.066	2.039	0.884	1.246
1990	0.661	0.339	1.066	1.847	0.888	1.182
1991	0.631	0.369	1.066	1.670	0.897	1.156
1992	0.628	0.372	1.066	1.545	0.899	1.119
1993	0.565	0.435	1.066	1.440	0.905	1.112
1994	0.553	0.447	1.050	1.381	1.020	1.222
1995	0.583	0.417	1.050	1.341	1.015	1.189
1996	0.579	0.421	1.050	1.302	1.011	1.169
1997	0.573	0.427	1.050	1.274	1.009	1.156
1998	0.598	0.402	1.050	1.247	1.009	1.139
1999	0.602	0.398	1.012	1.232	1.009	1.109
2000	0.592	0.408	1.000	1.201	1.009	1.092
2001	0.605	0.395	1.000	1.113	1.009	1.054
2002	0.571	0.429	1.000	1.054	1.009	1.032
2003	0.571	0.429	1.000	1.017	1.000	1.007

- (a) From a Special Carrier Study through 1990. Based on WCIRB's Aggregate Indemnity and Medical Costs Calls for years subsequent to 1990.
- (b) Based on the WCIRB's evaluation of the cost impact of changes in the Official Medical Fee Schedule.
- (c) See Exhibit 4, Sheet 3.
- (d) These factors reflect (i) specific legislative reforms estimated to impact medical benefits and (ii) the estimated impact on indemnity claim frequency of indemnity benefit changes. They do not include the effect of structural changes related to the primary treating physician presumption, but include the impact on medical severity due to increased utilization from indemnity benefit changes from AB 749.
- (e) $[(1) \times (3) + (2) \times (4)] \times (5)$.

ESTIMATED IMPACT DUE TO MEDICAL TREATMENT PROVISION OF SB 899
PROJECTED ON-LEVEL ACCIDENT YEAR
MEDICAL LOSS TO PURE PREMIUM RATIOS
Using Latest Year Loss Development and 75% Reduction on Medical Cost Trend

Accident Year	(1) Developed Loss Ratio(a)	(2) Factor to a 4/1/1999 Medical Fee & 4/1/2005 "Other Medical" Cost Level(b)	(3) Composite Premium Adjustment Factor(c)	(4) On-Level Medical to Pure Premium Ratio (1)×(2)÷(3)	
1974	0.373	5.517	12.955	0.159	
1975	0.353	4.743	10.733	0.156	
1976	0.341	4.160	8.567	0.166	
1977	0.271	3.716	6.429	0.157	
1978	0.249	3.475	5.738	0.151	
1979	0.272	3.176	5.131	0.168	
1980	0.272	2.871	4.622	0.169	
1981	0.301	2.421	4.344	0.168	
1982	0.332	2.060	4.249	0.161	
1983	0.344	1.750	3.450	0.174	
1984	0.373	1.548	3.321	0.174	
1985	0.392	1.471	3.088	0.187	
1986	0.361	1.481	2.707	0.198	
1987	0.341	1.404	2.267	0.211	
1988	0.337	1.299	1.976	0.222	
1989	0.356	1.246	1.905	0.233	
1990	0.413	1.182	1.801	0.271	
1991	0.431	1.156	1.612	0.309	
1992	0.348	1.119	1.489	0.262	
1993	0.283	1.112	1.449	0.217	
1994	0.309	1.222	1.649	0.229	
1995	0.439	1.189	1.972	0.265	
1996	0.496	1.169	2.228	0.260	
1997	0.542	1.156	2.163	0.290	
1998	0.647	1.139	2.126	0.347	
1999	0.710	1.109	2.047	0.385	
2000	0.663	1.092	1.584	0.457	
2001	0.607	1.054	1.339	0.478	
2002	0.512	1.032	1.037	0.510	
2003	0.368	1.007	0.755	0.491	75% Reduction
				Projected (d)	On Trend
2004				0.567	0.538
4/1/2005				0.596	0.545

(a) See Exhibit 4, Sheet 2.

(b) See Exhibit 4, Sheet 4.

(c) See Part A, Section A, Exhibit 5, Sheet 2.

(d) These on-level ratios were projected using double exponential smoothing with alpha = 0.3 on the 1996 through 2003 on-level ratios.

ESTIMATED IMPACT DUE TO MEDICAL TREATMENT PROVISION OF SB 899
For 2004 Policies with Effective Dates Between July 1, 2004 and December 31, 2004
(Using December 31 Valuations)

	<u>100% Reduction on LDF Trend and 75% Reduction on Medical Cost Trend</u>	<u>WCIRB 1/1/2004 Filing Method*</u>	<u>% Impact Due to Medical Treatment Provision of SB 899</u>
1. Indicated Medical to Pure Premium Ratio (See Exhibit 4, Sheet 5)	0.545	0.691	-21.1%
2. Average Impact of AB 749 on Medical Losses for Policies with Effective Dates between July 1, 2004 and December 31, 2004 (Post-AY 2003)	1.8%	-4.5%	6.6%
3. Average Impact of AB 227 and SB 228 on Medical Losses for Policies with Effective Dates between July 1, 2004 and December 31, 2004	-14.6%	-14.6%	0.0%
4. Indicated Medical to Pure Premium Ratio Including Impacts of AB 749, AB 227 and SB 228 (1) x [1.0 + (2)] x [1.0 + (3)]	0.474	0.564	-16.0%

* See Part A, Section A, Exhibit 8

Section B

COMPUTATION OF PROJECTED
LOSS ADJUSTMENT EXPENSE RATIO

Section 11730 of the California Insurance Code provides that the advisory pure premium rates include provision for loss adjustment expenses. The WCIRB has projected the ratio of loss adjustment expense to losses on a basis consistent with the methodologies used in a number of prior WCIRB pure premium rate filings and California Department of Insurance pure premium rate decisions. As discussed in this Section, the WCIRB projects that loss adjustment expenses on policies incepting between July 1, 2004, and December 31, 2004, after consideration of the impact of SB 899 on medical loss development and trend, will be 18.5% of losses.

Loss adjustment expenses are incurred by insurers in investigating, administering, and settling workers' compensation claims. These expenses include the costs associated with handling claims that can be directly allocated to a particular claim (allocated loss adjustment expenses, or ALAE), as well as costs associated with handling claims that cannot be directly allocated to a particular claim (unallocated loss adjustment expenses, or ULAE).

As shown in the table below, beginning with the 1985 calendar year, incurred loss adjustment expenses, as a percentage of losses, increased virtually every year through 1994. Beginning with calendar year 1995, the ratios to losses have generally decreased.

HISTORICAL LOSS ADJUSTMENT EXPENSES AS A PERCENTAGE OF LOSSES

<u>Calendar Year</u>	<u>ALAE as % of Loss</u>	<u>ULAE as % of Loss</u>	<u>Total LAE as % of Loss</u>	<u>Year-to-Year Change</u>
1985	N/A	N/A	12.6%	N/A
1986	N/A	N/A	12.7%	0.8%
1987	N/A	N/A	14.0%	10.2%
1988	N/A	N/A	15.2%	8.6%
1989	N/A	N/A	15.5%	2.0%
1990	N/A	N/A	15.7%	1.3%
1991	N/A	N/A	15.8%	0.6%
1992	10.6%	9.3%	19.9%	25.9%
1993	10.8%	12.7%	23.5%	18.1%
1994	14.2%	16.7%	30.9%	31.5%
1995	8.7%	18.2%	26.9%	-12.9%
1996	9.5%	13.9%	23.4%	-13.0%
1997	8.9%	13.2%	22.1%	-5.6%
1998	8.4%	14.3%	22.7%	2.7%
1999	9.9%	9.1%	19.0%	-16.3%
2000	7.3%	9.0%	16.3%	-14.2%
2001	4.1%	8.3%	12.4%	-23.9%
2002	5.8%	6.6%	12.4%	0.0%

Each of the two major components of loss adjustment expense is analyzed separately and discussed below.

Unallocated Loss Adjustment Expense (ULAE)

For a number of years, the WCIRB has been projecting the ratio of ULAE to loss based on the average of the ratio of the latest two historical calendar years. The calendar year 2002 ratio of ULAE to loss is 6.6%. This ratio is the lowest reported since the WCIRB began collecting ULAE information separately from ALAE in 1992. Potential explanations for this declining ratio are (a) sharp increases in claim severity that are greater than the rate at which the cost of adjusting claims is increasing, (b) increases in calendar year losses resulting from reserve adjustments on older accident years, (c) reductions in ULAE reserves, (d) reduced claim counts per premium dollar as a result of declining frequency, and (e) potential shifts of some expenses from ULAE to ALAE to conform with the revised *California Workers' Compensation Experience Rating Plan — 1995* (USRP) definitions of ALAE and ULAE.¹ The WCIRB has projected the ULAE provision in the pure premium rates based on the latest two calendar year ratios — the same procedure used in the last several pure premium rate filings. Specifically, the WCIRB is recommending a ULAE provision for policies written between July 1, 2004, and December 31, 2004, of 7.5% of losses (the average of the 2001 and 2002 calendar year ratios of ULAE to loss).

Allocated Loss Adjustment Expense (ALAE)

The WCIRB's projection of the cost of ALAE on policies written between July 1, 2004, and December 31, 2004, is based on accident year ALAE experience rather than on calendar year data. (Calendar year ALAE ratios can be significantly distorted by changes in reserve levels.) Using the same methodology as used for a number of years, the WCIRB recommends basing the provision for ALAE on the average of two projection methodologies that reflect paid ALAE data by accident year. Each of these methods is explained briefly below:

1. Paid ALAE Development Method. Exhibit 1, Sheets 1 and 2, detail the analysis of the historical development of paid ALAE by accident year. Analogous to the loss analysis in Part A, Section A, the historical paid ALAE development patterns are obtained from the aggregations of paid ALAE data by accident year. The WCIRB has estimated the development at each valuation period based on the latest age-to-age factors. The long-term "tail" factor was derived by fitting an inverse power distribution to development factors. (As with loss development factors, ALAE paid development factors were adjusted to remove the impact of asbestosis claims.) Based on the selected factors, paid ALAE amounts by accident year (shown as a percentage of premium) are then developed to an ultimate basis and shown as ratios to ultimate on-level losses. As in the January 1, 2004, pure premium rate filing, the projected ratio of ALAE to loss for policies incepting between July 1, 2004, and December 31, 2004, is

¹ The 1998 revision to the USRP definition of ALAE specifies that all defense attorney expenses, including those incurred by in-house staff, are to be reported as ALAE.

derived based on the average of ratios for accident years 2000, 2001, and 2002. The projected ratio of ALAE to loss on policies written between July 1, 2004, and December 31, 2004, using this method is 9.2%.

2. Paid ALAE as a Percent of Paid Indemnity Loss Method. Exhibit 2, Sheets 1 and 2, display the analysis of the development of the ratios of paid ALAE to paid indemnity losses by accident year. This method assumes a correlation between historical indemnity loss and ALAE payment patterns. Using development methodologies and extrapolations similar to those used in the paid ALAE development method, paid ALAE to paid indemnity loss ratios are developed to an ultimate level based on the latest age-to-age factors. Indemnity losses are then trended to an on-level basis using the statewide on-level indemnity factors shown in Section A, Exhibit 4, Sheet 1. The ratio of ultimate ALAE to ultimate on-level indemnity losses is computed for each historical accident year in column 6 of Exhibit 2, Sheet 2. As shown, there is a consistent upward trend in these ratios. Finally, the ratio of ultimate ALAE to losses for policies incepting between July 1, 2004, and December 31, 2004, is projected based on an exponential trend applied to the post-1992 ratios. As shown in Exhibit 2, Sheet 2, the projected ratio of loss adjustment expenses to losses using this method is 12.8%.

The WCIRB recommends the provision for ALAE as a percentage of loss for policies incepting between July 1, 2004, and December 31, 2004, be based on the average of the projections discussed above (9.2% and 12.8%), or 11.0%.

In total, when combined with the estimated ULAE provision of 7.5% of losses, the WCIRB estimates that loss adjustment expenses for policies incepting between July 1, 2004, and December 31, 2004, will be 18.5% of losses.

PAID ALLOCATED LOSS ADJUSTMENT EXPENSE DEVELOPMENT

Accident Year	AGE-TO-AGE DEVELOPMENT (in months)*:																															
	15-27	27-39	39-51	51-63	63-75	75-87	87-99	99-111	111-123	123-135	135-147	147-159	159-171	171-183	183-195	195-207	207-219	219-231	231-243	243-255	255-267	267-279	279-291	291-303	303-315	315-327	327-339	339-351				
1974																			1.013	1.010	1.007	1.019	1.011	1.003	1.014	1.013	1.013	1.018	1.019			
1975																			1.017	1.011	1.008	1.013	1.005	1.008	1.009	1.014	1.009	1.007	1.008			
1976																			1.025	1.010	1.035	1.007	1.006	1.011	1.010	1.010	1.009	1.010				
1977																			1.026	1.010	1.005	1.008	1.011	1.012	1.012	1.012	1.008	1.004				
1978																			1.018	1.013	1.008	1.011	1.008	1.009	1.014	1.006						
1979																			1.015	1.013	1.008	1.011	1.008	1.010	1.008	1.009						
1980																			1.019	1.014	1.013	1.011	1.014	1.011	1.012	1.011	1.012					
1981																			1.017	1.015	1.013	1.012	1.009	1.011	1.019	1.012	1.010	1.009				
1982																			1.018	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.010				
1983																			1.018	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1984																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1985																			1.018	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1986																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1987																			1.018	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1988																			1.018	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1989																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1990																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1991																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1992																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1993																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1994																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1995																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1996																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1997																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1998																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
1999																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
2000																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
2001																			1.017	1.016	1.013	1.009	1.011	1.013	1.009	1.016	1.010	1.006				
3-Year Arithmetic Average	2.613	1.519	1.230	1.130	1.088	1.057	1.037	1.023	1.014	1.013	1.007	1.009	1.007	1.010	1.008	1.007	1.008	1.009	1.011	1.010	1.010	1.010	1.010	1.012	1.008	1.007	1.010	1.013	1.019			
Average Excluding High & Low	2.508	1.521	1.237	1.129	1.081	1.050	1.033	1.023	1.016	1.014	1.011	1.012	1.010	1.011	1.010	1.010	1.010	1.011	1.016	1.010	1.010	1.010	1.010	1.010	1.011	1.009	1.010	1.013	1.019			
Latest Year	2.681	1.580	1.258	1.139	1.097	1.068	1.045	1.026	1.017	1.022	1.007	1.006	1.006	1.014	1.007	1.007	1.005	1.005	1.007	1.007	1.010	1.009	1.012	1.009	1.006	1.004	1.010	1.008	1.019			

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* To adjust for non-repeating asbestosis claim pattern in older accident years, the 195-207 month and prior factors for pre-1980 accident years are reflected at 66% of the reported factors.

ULTIMATE ALAE AS A PERCENT OF ULTIMATE LOSSES
Using Historical Development of Paid ALAE

Latest Year Development Factors

Accident Year	Paid ALAE as % of Premium at 3/31/2003	Age-to-Age Development Factors	Cumulative Development Factors	Ultimate ALAE as % of Premium	Ultimate On-Level Indemnity as % of Premium	Ultimate On-Level Medical as % of Premium	Ultimate ALAE as % of Ultimate On-Level Loss
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1985	3.91	1.007	1.083	4.23	68.86	57.13	3.4
1986	3.78	1.008	1.091	4.13	60.10	53.06	3.6
1987	3.48	1.007	1.099	3.82	52.37	47.38	3.8
1988	3.52	1.007	1.107	3.90	49.00	43.27	4.2
1989	4.64	1.014	1.122	5.21	49.53	44.01	5.6
1990	5.98	1.006	1.129	6.75	55.47	48.45	6.5
1991	7.31	1.006	1.136	8.30	54.97	49.33	8.0
1992	5.60	1.007	1.144	6.40	44.22	38.57	7.7
1993	3.75	1.022	1.169	4.38	36.66	31.15	6.5
1994	4.05	1.017	1.189	4.81	42.05	37.43	6.1
1995	6.00	1.026	1.220	7.32	57.39	51.67	6.7
1996	7.08	1.045	1.274	9.02	62.61	57.48	7.5
1997	7.93	1.068	1.361	10.79	64.89	62.08	8.5
1998	8.08	1.097	1.493	12.06	69.31	73.13	8.5
1999	7.40	1.139	1.701	12.58	69.39	78.20	8.5
2000	5.65	1.258	2.139	12.09	57.82	71.76	9.3
2001	2.99	1.580	3.380	10.11	48.47	63.47	9.0
2002	0.92	2.681	9.063	8.34	37.33	52.37	9.3

(8) Projected ALAE as a Percent of Ultimate On-Level Losses at 4/1/2005 (Average of Latest 3 Years): 9.2

Notes:

(1) Based on accident year paid ALAE and calendar year earned premium information reported by insurers.

(2), (3) See Exhibit 1, Sheet 1. Tail factors are based on powertail fit to the "average excluding high & low" factors.

(4) = (1) x (3).

(5) Based on Section A, Exhibit 6, Sheet 1, but excluding impact of AB 749.

(6) Based on Section A, Attachment 1, Exhibit 4, Sheet 5, but excluding impact of AB 749.

(7) = (4) / [(5) + (6)], converted to a percentage basis.

PAID ALLOCATED LOSS ADJUSTMENT EXPENSES AS A PERCENT OF PAID INDEMNITY

Accident Year	AGE-TO-AGE DEVELOPMENT (in months):																													
	15-27	27-39	39-51	51-63	63-75	75-87	87-99	99-111	111-123	123-135	135-147	147-159	159-171	171-183	183-195	195-207	207-219	219-231	231-243	243-255	255-267	267-279	279-291	291-303	303-315	315-327	327-339	339-351		
1974																			1.010	1.007	1.008	1.018	1.008	1.001	1.012	1.011	1.012	1.012	1.017	1.018
1975																			1.014	1.009	1.008	1.011	1.003	1.006	1.007	1.012	1.008	1.006	1.006	1.006
1976																		1.020	1.008	1.031	1.010	1.005	1.004	1.010	1.008	1.008	1.008	1.008	1.008	1.008
1977																	1.022	1.007	1.009	1.029	1.007	1.010	1.013	1.011	1.011	1.007	1.008	1.008	1.003	1.003
1978																	1.011	1.007	1.003	1.006	1.021	1.006	1.007	1.006	1.008	1.013	1.005	1.005	1.005	1.005
1979																	1.010	1.009	1.006	1.009	1.011	1.012	1.007	1.009	1.008	1.008	1.008	1.008	1.008	1.008
1980																	1.012	1.011	1.007	1.015	1.008	1.012	1.010	1.011	1.010	1.011	1.011	1.011	1.011	1.011
1981																	1.008	1.011	1.009	1.008	1.006	1.008	1.015	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1982																	1.010	1.009	1.011	1.003	1.006	1.010	1.011	1.007	1.014	1.009	1.008	1.008	1.008	1.008
1983																	1.008	1.011	1.009	1.008	1.006	1.008	1.015	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1984																	1.010	1.009	1.011	1.008	1.006	1.008	1.005	1.009	1.004	1.004	1.004	1.004	1.004	1.004
1985																	1.012	1.011	1.009	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1986																	1.008	1.011	1.009	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1987																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1988																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1989																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1990																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1991																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1992																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1993																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1994																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1995																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1996																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1997																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1998																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
1999																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
2000																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
2001																	1.010	1.009	1.011	1.008	1.006	1.008	1.012	1.010	1.015	1.008	1.008	1.007	1.007	1.007
3-Year Arithmetic Average	0.958	0.980	1.007	1.013	1.020	1.014	1.010	1.005	1.003	1.005	1.002	1.005	1.004	1.008	1.006	1.006	1.006	1.006	1.008	1.010	1.009	1.009	1.011	1.007	1.006	1.009	1.012	1.012	1.018	
Average Excluding High & Low	0.958	0.982	1.012	1.016	1.017	1.012	1.010	1.007	1.006	1.007	1.005	1.007	1.007	1.008	1.008	1.008	1.008	1.009	1.014	1.009	1.008	1.008	1.009	1.009	1.009	1.009	1.008	1.008	1.018	
Latest Year	0.992	1.014	1.024	1.022	1.026	1.024	1.015	1.007	1.006	1.013	1.002	1.001	1.003	1.011	1.005	1.006	1.006	1.003	1.004	1.006	1.008	1.007	1.011	1.008	1.005	1.003	1.008	1.006	1.018	

3-Year Arithmetic Average

Average Excluding High & Low

Latest Year

Note: Due to relatively sparse data and differing mixes of insurers represented in each factor, each factor shown is the ratio of the paid ALAE development factor in Exhibit 1, Sheet 1 to the paid indemnity development factor in Part A, Section A, Exhibit 2, Sheet 3 of the WCIRB's January 1, 2004 pure premium rate filing submitted on July 30, 2003.

ULTIMATE ALAE AS A PERCENT OF ULTIMATE LOSSES
Using Paid ALAE as a Percent of Paid Indemnity

Latest Year Development Factors

Accident Year	Paid ALAE as a Percent of Paid Indemnity at 3/31/2003 (1)	Age-to-Age Development Factors (2)	Cumulative Development Factors (3)	Ultimate ALAE as a Percent of Ultimate Indemnity (4)	Indemnity On-Level Factors (5)	Ultimate ALAE as a Percent of Ultimate On-Level Indemnity (6)
1974	4.2	1.012	1.012	4.3	3.601	1.2
1975	4.7	1.005	1.017	4.8	3.262	1.5
1976	6.1	1.005	1.022	6.2	3.182	2.0
1977	6.1	1.005	1.027	6.3	2.910	2.2
1978	6.3	1.005	1.032	6.5	2.836	2.3
1979	5.9	1.005	1.037	6.1	2.758	2.2
1980	4.8	1.005	1.042	5.0	2.666	1.9
1981	5.1	1.005	1.047	5.3	2.503	2.1
1982	5.7	1.005	1.052	6.0	2.456	2.4
1983	5.6	1.006	1.058	5.9	1.672	3.5
1984	6.3	1.006	1.064	6.7	1.514	4.4
1985	7.1	1.006	1.070	7.6	1.487	5.1
1986	7.8	1.006	1.076	8.4	1.465	5.7
1987	9.0	1.006	1.082	9.7	1.441	6.8
1988	9.5	1.005	1.087	10.3	1.417	7.3
1989	13.4	1.011	1.099	14.7	1.397	10.5
1990	14.8	1.003	1.102	16.3	1.348	12.1
1991	16.8	1.001	1.103	18.5	1.261	14.7
1992	15.7	1.002	1.105	17.3	1.233	14.1
1993	12.9	1.013	1.119	14.4	1.245	11.6
1994	12.7	1.006	1.126	14.3	1.320	10.8
1995	13.3	1.007	1.134	15.1	1.243	12.1
1996	14.2	1.015	1.151	16.3	1.183	13.8
1997	14.9	1.024	1.179	17.6	1.122	15.7
1998	15.5	1.026	1.210	18.8	1.089	17.2
1999	15.2	1.022	1.237	18.8	1.065	17.7
2000	16.4	1.024	1.267	20.8	1.030	20.2
2001	17.7	1.014	1.285	22.7	1.030	22.1
2002	19.3	0.992	1.275	24.6	1.031	23.8

(7) Projected 4/1/2005 ALAE as Percent of Ultimate On-Level Indemnity (fitted post-1992 exponential)	30.6
(8) 4/1/2005 Indicated Indemnity to Pure Premium Ratio:	0.391
(9) 4/1/2005 Indicated Medical to Pure Premium Ratio:	0.545
(10) Projected 4/1/2005 ALAE as Percent of Total Losses:	12.8

Notes:

- (1) Based on accident year paid ALAE information reported by insurers.
(2), (3) See Exhibit 2, Sheet 1. Tail factors are based on powertail fit to the "average excluding high & low" factors.
(4) = (1) x (3).
(5) Based on Section A, Exhibit 4, Sheet 1, but excluding impact of AB 749.
(6) = (4) / (5).
(7) is the fitted 4/1/2005 ALAE ratio based on an exponential trend of the 1993 to 2002 years.
(8) From Section A, Exhibit 6, Sheet 1.
(9) From Section A, Attachment 1, Exhibit 4, Sheet 5.
(10) = (7) x (8) / [(8) + (9)].

PART B –PLANS SUBJECT TO INSURANCE COMMISSIONER APPROVAL

The WCIRB is recommending that the *California Workers' Compensation Experience Rating Plan — 1995* (Title 10, California Code of Regulations, Section 2353.1), to be effective July 1, 2004, with respect to new and renewal policies with anniversary rating dates on or after July 1, 2004, be amended to revise the experience rating eligibility threshold to be consistent with the pure premium rate decrease proposed in this filing.

Section A

RECOMMENDED CHANGES TO THE CALIFORNIA
WORKERS' COMPENSATION EXPERIENCE RATING PLAN — 1995
EFFECTIVE JULY 1, 2004

It is recommended that the following amendments to the *California Workers' Compensation Experience Rating Plan — 1995* be approved effective July 1, 2004, with respect to new and renewal policies with anniversary rating dates on or after July 1, 2004.

Amend Section III, "Eligibility and Experience Period," Rule 1, "Eligibility Requirements for California Workers' Compensation Insurance," to adjust the eligibility requirement from \$30,900 to \$30,004 to reflect the changes in pure premium rates proposed in this filing.

PROPOSED

1. **Eligibility Requirements for California Workers' Compensation Insurance.** A risk shall qualify for experience rating of its California workers' compensation insurance premium under this Plan if not less than ~~\$30,900~~\$30,004 is produced by applying pure premium rates to the total remuneration that would be used in the experience rating calculation for the risk. Only completed policy periods shall be used in determining eligibility. Any risk eligible for experience rating shall be experience rated.