

WORKERS' COMPENSATION INSURANCE RATING BUREAU

of California

525 MARKET STREET, SUITE 800 • SAN FRANCISCO, CA 94105-2716

Telephone (415) 777-0777

July 24, 2002

TO THOSE RECEIVING EVALUATIONS
OF LEGISLATIVE BILLS AFFECTING
WORKERS' COMPENSATION BENEFITS:

RE: COST EVALUATION OF ASSEMBLY BILL 749
AS ENACTED

On February 15, 2002, Assembly Bill 749 (AB 749) was signed into law. This bill significantly increases most classes of workers' compensation benefits over the next four years and enacts a number of structural changes to the system, as noted below.

1. The maximum temporary total and permanent total weekly benefit increases from \$490 to \$602 in 2003, \$728 in 2004, \$840 in 2005 and by the change in the State Average Weekly Wage in 2006 and thereafter.
2. The maximum PPD benefits for certain permanent disability rating intervals are increased in 2003, 2004, 2005 and 2006.
3. The scheduled number of weeks for payment of permanent disability benefits is increased in 2004.
4. Benefit minimums are increased in 2003, 2004 and 2006.
5. Aggregate death benefit and life pension benefit maximums are increased in 2006.
6. Weekly life pension and weekly permanent total benefits are subject to annual cost of living adjustments beginning with injuries occurring in 2003.
7. Structural changes were made, including those related to (a) the primary treating physician presumption, (b) outpatient and pharmaceuticals fee schedules, (c) pharmaceuticals procedures, and (d) vocational rehabilitation.

On February 27, 2002, the WCIRB released an evaluation of the benefit changes in AB 749. In the evaluation, the WCIRB indicated that the annual cost of the benefit provisions of AB 749, once fully implemented in 2006, was 22.8%. As noted in the February 27, 2002 evaluation, the WCIRB had not yet evaluated the potential cost impact of the structural changes included in the bill. Working with a special multi-discipline committee appointed by the WCIRB Governing Committee, the WCIRB has now completed its evaluation of the cost impact of AB 749.

Enclosed is the WCIRB's evaluation of the cost impact of the benefit changes and structural changes in AB 749. The legislation, including the estimated impact of benefit changes on claim frequency (utilization) and the estimated effect of measurable structural changes, will increase total benefit costs by 5.9% in 2003¹, an additional 6.5% in 2004, an additional 2.3% in 2005, and an additional 2.1% in 2006. In total, when the bill is fully implemented in 2006 (excluding the impact of the benefit changes on the cost of pre-January 1, 2003 injuries), AB 749 will increase the annual cost of benefits by 17.8% (24.1% due to benefit increases and -5.2% due to structural reforms)². In addition, commencing in 2007, the annual cost of living adjustments to certain benefit minimums and maximums will increase benefit costs by an additional 0.2% annually. The percentage impact of AB 749 is summarized below.

Accident Year	Annual Benefit Increase Effect Excluding Utilization Factor	Annual Benefit Increase Effect Due to Utilization	Annual Benefit Increase Effect Including Utilization	Estimated Annual Impact of Structural Changes	Annual Increase Including Utilization & Structural Changes	Cumulative Increase Including Utilization & Structural Changes
2003	5.7%	1.7%	7.5%	-1.5%	5.9%	5.9%
2004	5.6%	2.3%	8.0%	-1.4%	6.5%	12.8%
2005	2.5%	1.1%	3.6%	-1.3%	2.3%	15.4%
2006	2.3%	0.9%	3.2%	-1.1%	2.1%	17.8%

Based on an updated estimate of 2003 statewide insured and self-insured benefit costs of approximately \$18.1 billion, AB 749 will increase total annual benefit costs by 17.8%, or \$3.2 billion, by 2006 (\$1.1 billion in 2003, an additional \$1.2 billion in 2004, an additional \$0.5 billion in 2005, and an additional \$0.4 billion in 2006)³. Additionally, the temporary disability benefit increases in AB 749 in conjunction with Labor Code Section 4661.5, which provides that temporary disability benefits paid two years after the date of injury are paid at the current schedule of benefits, impact the cost of injuries incurred prior to January 1, 2003. This total statewide cost on pre-January 1, 2003 injuries is approximately \$150 million.

¹ Policies incepting during 2003 will be fully impacted by the 2003 benefit changes and partially impacted by the 2004 benefit changes. The average cost impact of AB 749 on benefits incurred on policies incepting in 2003 is approximately 9.0%. Also, the average cost impact of AB 749 on in-force 2002 policies as of January 1, 2003 is 5.9%. These estimates do not reflect the cost impact of the temporary disability benefit increases on pre-January 1, 2003 injuries.

² Excluding the impact of benefit utilization, the impact of AB 749 is estimated at 11.0% by the time the bill is fully implemented in 2006 (4.1% in 2003, 4.1% in 2004, 1.2% in 2005 and 1.2% in 2006).

³ Excluding the cost of benefit utilization, AB 749 will increase total annual benefit costs \$2.0 billion by 2006 at the 2003 system cost level.

To Those Receiving Evaluations
Of Legislative Bills Affecting
Workers' Compensation Benefits

July 24, 2002

The principal components of AB 749 are listed in Exhibit 1. Exhibit 2 shows the estimated percentage cost impact of the benefit and structural change provisions of AB 749 for which the WCIRB was able to provide cost estimates. The enclosed Appendix describes the methodology and assumptions used to perform this evaluation. In addition, AB 749 contains other provisions which may impact costs but for which there was no sound statistical basis to develop an estimate at this time. Many of these other provisions are also discussed in the enclosed Appendix.

DAVID M. BELLUSCI
Senior Vice President
and Chief Actuary

SUMMARY OF BENEFIT CHANGES CONTAINED IN AB 749

A. Benefit Changes

1. Temporary Total Disability Benefits

		Proposed Effective:				
		<u>Present</u>	<u>1/1/03</u>	<u>1/1/04</u>	<u>1/1/05</u>	<u>1/1/06</u>
(a) Weekly wage to determine temporary total benefits	Max	\$735	\$903	\$1,092	\$1,260	\$1,260 x Change in SAWW
	Min	Lesser of \$189 or 1.5 x Actual Wage	\$189	—	—	\$189 x Change in SAWW
(b) Temporary total weekly benefits ⁴	Max	\$490	\$602	\$728	\$840	\$840 x Change in SAWW
	Min	Lesser of \$126 or Actual Wage	\$126	—	—	\$126 x Change in SAWW

2. Permanent Total Disability Benefits

		Proposed Effective:				
		<u>Present</u>	<u>1/1/03</u>	<u>1/1/04</u>	<u>1/1/05</u>	<u>1/1/06</u>
(a) Weekly wage to determine permanent total benefits	Max	\$735	\$903	\$1,092	\$1,260	\$1,260 x Change in SAWW
	Min	\$168	\$189	—	—	\$189 x Change in SAWW
(b) Permanent total weekly benefits	Max	\$490	\$602	\$728	\$840	\$840 x Change in SAWW ⁵
	Min	\$112	\$126	—	—	\$126 x Change in SAWW

⁴ Labor Code Section 4661.5 provides that temporary disability benefits paid two years after the date of injury are paid at the benefit schedule in effect at that time. Thus, the temporary disability benefit increases in AB 749 will also impact the cost of temporary disability benefits on earlier injuries.

⁵ AB 749 provides that weekly permanent total benefits paid during each calendar year be increased annually by the change in the state average weekly wage. It is assumed these annual increases will commence the year following the year in which permanent total benefit payments commenced.

3. Permanent Partial Disability Benefits

			Proposed Effective:				
			<u>Present</u>	<u>1/1/03</u>	<u>1/1/04</u>	<u>1/1/05</u>	<u>1/1/06</u>
(a) Weekly wage to determine permanent partial benefits							
(i) Permanent disability rating 70% or greater	Max		\$345	—	\$375	\$405	—
	Min		\$105	\$150	\$157.50	—	\$195
(ii) Permanent disability rating greater than or equal to 25% but less than 70%	Max		\$255	\$277.50	\$300	\$330	\$345
	Min		\$105	\$150	\$157.50	—	\$195
(iii) Permanent disability rating greater than or equal to 15% but less than 25%	Max		\$240	\$277.50	\$300	\$330	\$345
	Min		\$105	\$150	\$157.50	—	\$195
(iv) Permanent disability rating less than 15%	Max		\$210	\$277.50	\$300	\$330	\$345
	Min		\$105	\$150	\$157.50	—	\$195
(b) Permanent partial weekly benefits							
(i) Permanent disability rating 70% or greater	Max		\$230	—	\$250	\$270	—
	Min		\$70	\$100	\$105	—	\$130
(ii) Permanent disability rating greater than or equal to 25% but less than 70%	Max		\$170	\$185	\$200	\$220	\$230
	Min		\$70	\$100	\$105	—	\$130
(iii) Permanent disability rating greater than or equal to 15% but less than 25%	Max		\$160	\$185	\$200	\$220	\$230
	Min		\$70	\$100	\$105	—	\$130
(iv) Permanent disability rating less than 15%	Max		\$140	\$185	\$200	\$220	\$230
	Min		\$70	\$100	\$105	—	\$130

3. Permanent Partial Disability Benefits-Continued

(c) Scheduled number of weeks of permanent partial disability payments

<u>Permanent Disability Rating</u>	<u>Number of Weeks Per Percent of Disability</u>	
	<u>Present</u>	<u>1/1/04</u>
Under 10	3.0	4.0
10 – 19.75	4.0	5.0
20 – 24.75	5.0	5.0
25 – 29.75	6.0	6.0
30 – 49.75	7.0	7.0
50 – 69.75	8.0	8.0
70 – 99.75	9.0	9.0

4. Life Pension Benefits

	<u>Present</u>	<u>1/1/06</u>
(i) Weekly wage to determine maximum life pension benefits	\$257.69	\$515.38
(ii) Maximum life pension benefits (at 99.75% rating)	\$153.65	\$307.30 adjusted by the change in SAWW ⁶

⁶ AB 749 provides that beginning with 2003 injuries, the life pension benefit paid during each calendar year be increased annually by the change in the state average weekly wage. It is assumed these annual increases will commence the year following the year in which life pension benefit payments commenced.

5. Death Benefits

		Proposed Effective:				
		<u>Present</u>	<u>1/1/03</u>	<u>1/1/04</u>	<u>1/1/05</u>	<u>1/1/06</u>
(a)	Aggregate maximum Amount					
(i)	Single total dependent	\$125,000	—	—	—	\$250,000
(ii)	No total dependent and one or more partial dependents	\$125,000	—	—	—	\$250,000 ⁷
(iii)	Single total dependent and one or more partial dependents	\$145,000	—	—	—	\$290,000
(iv)	Two total dependents	\$145,000	—	—	—	\$290,000
(v)	Three or more total dependents	\$160,000	—	—	—	\$320,000
(b)	Weekly wage to determine death benefits	Max \$735	\$903	\$1,092	\$1,260	\$1,260 x Change in SAWW
(c)	Weekly death benefits	Max \$490	\$602	\$728	\$840	\$840 x Change in SAWW

⁷ The aggregate amount subject to the maximum upon which the dependents' weekly benefit is based was increased from four to eight times the amount directed to the support of partial dependents.

B. Additional Provisions For Which Cost Estimates Are Provided

1. Limits the rebuttable presumption of correctness of the primary treating physician's report to cases where the employee has predesignated a personal physician or chiropractor.
2. Requires the use of generic drugs if available and if the physician does not specifically request a brand name pharmaceutical.
3. Facilitates the use of pharmacy networks.

C. Additional Provisions For Which Cost Estimates Are Not Provided

1. Directs the Administrative Director (AD) to adopt a pharmaceutical fee schedule by July 1, 2003.
2. Authorizes the AD to develop a fee schedule for outpatient surgery procedures not performed under contract.
3. Allows the employer and represented employee in certain circumstances to settle an employee's right to vocational rehabilitation with a payment of up to \$10,000 for use in self-directed vocational rehabilitation.
4. Creates a General Fund-subsidized return to work program where certain premium reimbursements are paid to employers who return injured workers to the job.
5. Modifies requirements for a medical organization to provide medical services as a Health Care Organization (HCO), modifies the requirements as to the number of plans that must be offered by an HCO, and reduces the maximum length of medical control within an HCO.
6. Establishes time frames in which lien claimants must file liens.
7. Allows for additional medical-legal reports when a previously unrepresented worker who has received a comprehensive medical-legal evaluation later becomes represented.
8. Modifies the audit process for insurers and third-party administrators.
9. Directs the Administrative Director to conduct a study on the medical treatment process and report to the Legislature on or before July 1, 2004.
10. Creates the position of court administrator with respect to the workers' compensation adjudication process.
11. Authorizes the use of employer fraud assessments for investigation and prosecution of an employer's willful failure to obtain workers' compensation coverage.
12. Authorizes the Director of the Department of Industrial Relations to assess larger fines on illegally uninsured employers and directs the WCIRB to compute an average weekly premium "by classification" which will be used to determine the amount of the fine.

13. Eliminates the requirement of annual certification of insurer loss control plans and requires the Department of Industrial Relations to establish a “loss control services coordinator” position to provide information to employers on the availability of loss control services. Provides for the loss control coordinator, as well as an occupational safety and health training program developed by the Commission on Health & Safety & Workers’ Compensation, to be funded through insurer assessments.
14. Modifies certain procedures related to claim penalties.
15. Allows for expansion of collective bargaining or “carve-out” programs to the aerospace and timber industries.
16. Allows certain medical information pertaining to reserves or premium to be released to the employer.
17. Provides for death benefits to be paid until the death of a totally dependent child who is physically or mentally incapacitated.
18. Provides that in the case no person qualifies as a total dependent of the deceased worker, the parent or, if there is no living parent, the beneficiary named in the will is presumed to be wholly dependent.
19. Revises certain arbitration procedures.
20. Allows insurers to increase rates on policies in force January 1, 2003 to reflect the changes in benefit levels mandated by AB 749.
21. Increases the weekly earnings amount used for benefit computations for injured workers less than eighteen years old if probable earnings cannot be reasonably determined.
22. Modifies certain benefit notice requirements.
23. Revises a number of provisions related to the operation and management of the State Compensation Insurance Fund.

EVALUATION OF COST IMPACT OF AB 749

	<u>1/1/03</u>	<u>1/1/04</u>	<u>1/1/05</u>	<u>1/1/06</u>
<u>Effect of Benefit Increases on Injuries Occurring On or After January 1, 2003</u> ⁸				
Increases in temporary total, permanent total, permanent partial disability, life pension, and death weekly benefit maximums and/or minimums; the scheduled number of weeks for permanent partial disability; and aggregate death benefits (including impact of Labor Code Section 4661.5 on post- January 1, 2003 injuries).	+7.5%	+8.0%	+3.6%	+3.2%
<u>Effect of Structural Changes Related to Pharmaceuticals</u>				
Provides for the use of generic pharmaceuticals when available (except if the brand name pharmaceutical is specifically requested by the physician), and provides that medicines and medical supplies provided through contract to an injured worker can be provided through the contract for the life of the claim.	-0.3%	-0.2%	-0.2%	0.0%
<u>Effect of Structural Changes Related to Primary Treating Physician Presumption</u>				
Eliminates the legal presumption given to the primary treating physician except in cases of predesignation.	-1.2%	-1.2%	-1.1%	-1.1%
<u>Total Impact (Excluding Impact of Labor Code Section 4661.5 on pre-January 1, 2003 injuries)</u> ⁹	+5.9%	+6.5%	+2.3%	+2.1%

⁸ Where applicable, reflects a provision for the impact of benefit changes on claim frequency.

⁹ The cost impact of the temporary disability benefit increases in AB 749 in conjunction with Labor Code Section 4661.5 on pre-January 1, 2003 injuries is approximately \$150 million.

APPENDIX

Methodology And Assumptions Used To Evaluate Assembly Bill 749

The general methodology and key assumptions underlying the evaluation of the cost impact of AB 749 are discussed herein. The WCIRB evaluated the cost effect of benefit changes and structural changes contained in this bill whenever a sound statistical basis or credible information to do so existed. Certain other provisions of the legislation that could potentially impact costs, but for which there is no sound statistical basis or information on which to predicate an estimate, are also discussed herein.

I. PROVISIONS OF AB 749 WHICH CAN BE QUANTIFIED

Attachment 1 summarizes the impact of the benefit changes and measurable structural changes included in AB 749. Specifically, Attachment 1 shows the effect of the changes by year of injury and type of claim. The cost of an increase in benefits can vary depending on the types of injuries incurred and wage levels paid in various industries. For example, an increase in the temporary total disability maximum will have more impact in industries paying relatively high wages, such as construction, than it will in industries paying relatively low wages, such as agriculture where more workers earn below the wage level corresponding to the benefit maximum. Conversely, changes in minimum benefits will have a greater impact in industries paying relatively low wages. Attachment 2 summarizes the impact of AB 749 by industry group.

The methodologies used to compute the AB 749 cost effects shown in Attachments 1 and 2 are summarized below.

A. Changes in Temporary, Permanent, Death, and Life Pension Benefits

Beginning January 1, 2003, AB 749 provides for significant changes to most types of indemnity benefits, including the following:

1. Increases in the maximum temporary total disability (TTD) and permanent total disability (PTD) benefits from \$490 to \$602 in 2003, to \$728 in 2004, to \$840 in 2005 and to \$840 adjusted by the annual change in the State Average Weekly Wage in 2006 and thereafter.
2. Increases in the maximum PPD benefits for certain permanent disability rating intervals in 2003, 2004, 2005 and 2006.
3. Increases in the scheduled number of weeks of permanent disability in 2004.
4. Increases in benefit minimums in 2003, 2004, and 2006.
5. Increases in aggregate death benefits and weekly life pension benefits in 2006.
6. Annual cost of living increases in weekly life pension and permanent total benefits on injuries occurring on or after January 1, 2003.

The evaluation of the cost impact on injuries occurring on or after January 1, 2003 is based on information from approximately 170,000 lost-time claims that occurred from 1997 to 1999 on insurance policies incepting in 1997 and 1998. (Certain information on death claims and on vocational rehabilitation was based on earlier claims.) Injured worker wage information on these claims was adjusted to reflect the level of wages anticipated to be in effect at the time the proposed benefits become effective.

The estimate of the impact of the schedule of benefits was computed using the reported individual claim information on temporary disability benefits, weekly wages (as adjusted for inflation), permanent disability ratings, vocational rehabilitation costs, and dependency information on death claims. Using this information, the incurred cost of each of the approximately 170,000 lost-time claims was restated at the proposed benefit levels for injuries occurring in 2003, then injuries occurring in 2004, and continuing through injuries occurring in 2006. The restated cost of these claims was then compared with the estimated cost of these claims under the current (July 1, 1996) schedule of benefits.

Labor Code Section 4661.5 provides for increases in temporary disability benefits paid after two years from the date of injury. This provision has been in place for many years. However, with the significant increases in temporary disability benefits provided for in AB 749, Labor Code Section 4661.5 has a significant impact on costs. Information provided by the California Workers' Compensation Institute shows that, in total, more than 10% of claims with temporary disability payments have temporary disability payments that are made more than two years from the date of injury, and approximately 23% of total weekly temporary disability payments are made more than two years after the date of injury. Specifically, the data suggests that 76.6% of temporary disability payments are made within two years of the date of injury, 9.4% are made between two and three years of the date of injury, and 14.0% are made more than three years from the date of injury. Using this information and the WCIRB's estimate of the average increases in temporary disability benefits by year due to AB 749, the average impact by year of the AB 749 increases in temporary disability benefits in conjunction with Labor Code Section 4661.5 is computed as follows:

Table 1 – Computation of Impact of AB 749 & Labor Code Section 4661.5

Accident Year	(1) Adj. Factor for TD Payments Within 2 Years from DOI	(2) Adj. Factor for TD Payments After Year 2 but before Year 3 from DOI	(3) Adj. Factor for TD Payments After 3 Years from DOI	(4) Effect of Labor Code Section 4661.5 on Total TD Payments as a Result of AB 749	(5) Temporary Disability Benefits as a % of Total Losses	(6) Effect of Labor Code Section 4661.5 on Total Losses as a Result of AB 749 (ex. Utilization Factor) (4) x (5)
2000	1.000	1.000	1.064	0.9%	18.75%	0.2%
2001	1.000	1.070	1.108	2.2%	18.13%	0.4%
2002	1.000	1.075	1.116	2.3%	16.47%	0.4%
2003	1.000	1.064	1.069	1.6%	14.93%	0.2%
2004	1.000	1.028	1.032	0.7%	15.38%	0.1%
2005	1.000	1.011	1.015	0.3%	15.44%	0.0%
2006	1.000	1.011	1.015	0.3%	15.56%	0.0%

As shown, for post-January 1, 2003 injuries, Labor Code Section 4661.5, in conjunction with AB 749 benefit increases, will increase overall benefit costs by 0.2% in 2003 and 0.1% in 2004 (excluding the impact of utilization). (For injuries occurring in 2005 and later, Labor Code Section 4661.5 will not have a significant overall impact.) However, as shown, Labor Code Section 4661.5 in conjunction with AB 749 will also impact the cost of pre-January 1, 2003 injuries. On a statewide basis (including insured and self-insured employers), the dollar impact on pre-January 1, 2003 injuries is estimated at approximately \$150 million.

With significant changes in benefit levels, not only is the cost of average weekly benefits changed, but the frequency and duration of claims are also affected. This evaluation includes a provision to reflect the historical impact of changes in temporary total and permanent partial disability benefits on claim frequency. The provision is based on an econometric model developed by the WCIRB in 1997. This model relates changes in indemnity claim frequency to changes in statutory benefits, as well as a number of other economic and claims-related variables. In essence, the model shows that for every 1% change in indemnity benefit cost due to changes in statutory benefits, there is a 0.26% cost change due to changes in claim frequency. This residual impact of the benefit changes on claim frequency, as reflected in the above estimates, is approximately 6%. No provision for the impact of benefit changes on claim severity is included in the evaluation, as studies designed to develop a methodology to measure this effect are not yet complete.

In total, excluding the impact of temporary disability benefit increases on pre-January 1, 2003 injuries, the estimated percentage impact on loss costs of the benefit changes proposed in AB 749 is 7.5% in 2003, 8.0% in 2004, 3.6% in 2005, and 3.2% in 2006. In addition, the estimated impact of indexing the temporary, permanent total, and death weekly minimums and maximums to the State Average Weekly Wage is an increase of 0.2% annually beyond 2006. The estimated impact of the temporary disability benefit increases in AB 749 in conjunction Labor Code Section 4661.5 on pre-January 1, 2003 injuries is an increase of approximately \$150 million in statewide benefits.

B. Changes in Procedures Related to Pharmaceuticals

AB 749 requires that pharmacies provide a generic drug equivalent whenever such generic equivalents are available, unless the prescribing physician prescribes otherwise. Payments made to pharmacies are estimated at 7% of medical costs, or \$680 million, for accident year 2003. A 2000 report prepared by the Commission on Health & Safety & Workers' Compensation on pharmaceuticals¹⁰ indicates that only 11% of pharmacy prescriptions, or about 14% of pharmacy costs, result from brand-named pharmaceuticals when a generic equivalent is available. In the Commission report, it is estimated that if generic substitution rates decline to the level of other systems where generics are mandated, pharmacy costs would be reduced by 2.5%, or \$17 million. It is assumed that the AB 749 provisions related to generics will reduce costs as indicated in the Commission report. These reductions correspond to a decrease in overall costs of 0.1%.

AB 749 also provides that (a) any "medicines or medical supplies" provided through contract to an injured worker shall be provided in the manner prescribed in the contract for as long as "reasonably required to cure or relieve the injured employee from the effects of the injury", and (b) the Administrative Director shall adopt standards regulating pharmaceutical contracts which tend to reduce costs.

This provision, which permits pharmaceuticals to be provided throughout the life of a claim even after a change of physician, could significantly impact the cost of pharmaceuticals. However, given uncertainties as to (a) the lack of automation of the pharmaceutical transaction process, (b) the pharmaceutical approval process, (c) the treatment of "first fills", and (d) current network penetration levels, it is difficult to precisely estimate the cost impact. The previously referenced Commission report on the cost of pharmaceuticals estimated reductions of 30% to 35% from the California fee schedule if network contract rates can be negotiated at a similar level to that in the State of Washington. An informal survey of several WCIRB member insurers suggests that penetration rates under current pilot pharmacy network programs (some of which are outside of California) vary from about 40% to 80%. Savings in pharmacy payments under these programs compared to the amounts specified in the fee schedule vary from about 10% to 30%.

¹⁰Neuhauser, Frank, Alex Swedlow, Laura Gardner, and Ed Edelstein, "Study of the Cost of Pharmaceuticals in Workers' Compensation," Report to the Commission on Health & Safety & Workers' Compensation, June 2000.

After considering all of the available information, the WCIRB estimates that pharmacy network penetration will increase by 25 percentage points over each of the next three years, and that average cost of pharmaceuticals dispensed through a pharmacy network will be 25% below current costs. (Inasmuch as there is no information available on the current cost of medical supplies or the likely reduction in these costs, no savings are attributed to the AB 749 provisions related to medical supplies.) The cumulative estimated percentage savings in pharmaceutical costs and in overall costs under these assumptions are as follows:

Table 2 – Estimated Impact of Pharmacy Networks

Accident Year	Cumulative Decrease in Pharmaceutical Costs	Cumulative Decrease in Overall Cost
2003	6.25%	0.2%
2004	12.50%	0.4%
2005	18.80%	0.6%

The combined impact on overall costs of the AB 749 provisions related to the use of generics and pharmacy networks is to decrease overall costs by 0.3% (0.1% due to generics and 0.2% due to pharmacy networks) in 2003, an additional 0.2% in 2004, and an additional 0.2% in 2005. In total, by 2005, the estimated statewide impact of the pharmaceutical provisions is a cost saving of almost 0.7%, or \$130 million, at 2003 cost levels.

C. Changes in Primary Treating Physician Presumption

AB 749 repealed the rebuttable presumption given to the primary treating physician, except when the worker has predesignated a personal physician. Since 1996, medical costs on workers' compensation claims have increased at a far more rapid rate than have general medical costs. Much of this differential has been attributed to the presumption given to the primary treating physician by the 1993 reforms as extended to medical treatment by the 1996 Minniear¹¹ decision. However, estimating potential savings from this change involves a number of considerations.

1. Effect on medical costs. AB 749 retains virtually the entire medical delivery system created by the 1993 reforms, with the primary treating physician continuing to act as gatekeeper; only the legal weight of evidence given to the opinion of the primary treating physician was changed by AB 749. As a result, the medical delivery system created is dissimilar to the systems in effect both before and after the 1993 reforms.
2. Quantification of historical impact of presumption. The primary treating physician presumption is often attributed as a leading cause of the sharply increasing average

¹¹ Minniear v. Mount San Antonio Community College District (1996) 61 Cal. Comp. Cases 1055 (Appeals Board en banc opinion)

cost of medical. The projected losses underlying the WCIRB's proposed pure premium rates assume this medical cost trend will continue. To the extent changes related to this presumption ameliorate the medical cost trends, 2003 and later loss levels would be lowered.

3. Extent of pre-designation. Historically, workers have not frequently pre-designated a physician. However, with the presumption being retained only by pre-designated physicians and the provisions in AB 749 allowing for chiropractors to be pre-designated, it is not clear to what extent pre-designation will become more significant.
4. Medical-legal. The changes to the primary treating physician presumption creates an increased opportunity for employers and insurers to challenge the finding of a treating physician. It is likely that medical-legal costs will be affected.
5. Timing of any cost effect. The ultimate effect of the changes in the primary treating physician presumption on medical costs will ultimately depend on (a) the ability and willingness of employers and insurers to contest unnecessary medical procedures, (b) how judges will rule without the presumption being given to the primary treating physician and without generally agreed-upon uniform treatment standards in place, and (c) how those rulings will ultimately affect how physicians treat workplace injuries. As a result, it is unlikely that any significant cost impact will be immediate.

The presumption given to the primary treating physician was a significant factor in the sharply increasing medical trends over the last five years. While the changes in AB 749 related to the primary treating physician presumption are not likely to reduce the cost of medical below its current level, these changes should reduce the future rate of growth in medical costs. Although preliminary research by the University of California Survey Research Center on behalf of the Commission on Health & Safety & Workers' Compensation suggests that a minimum savings in medical costs of 4.5% (or 2.4% in total overall costs) will be achieved, given the issues discussed above, it is difficult to develop a precise estimate of the cost.

Currently, the WCIRB projects an annual 5% on-level or excess medical loss ratio trend. This on-level medical trend represents the growth in the average cost of medical losses in excess of (a) declining claim frequency, (b) changes in fee schedules, (c) general medical inflation (for the non-fee schedule controlled component of medical losses), and (d) wage inflation. Given the current level of estimated medical costs (53.8% of losses), a 10% reduction in the medical loss ratio trend will reduce projected medical costs by 0.4% per year and overall costs by 0.2% per year.

Shown below are ranges of possible savings given reductions in future medical costs from the level that would otherwise be projected based on historical trends assuming 10% to 50% annual reductions in the medical loss ratio trend. (Note that estimates are based on assumed percentage reductions of current estimates of medical trend. Estimated impacts will change to the extent estimates of medical trend change based on the most current information.)

Tables 3A to 3E – Cost Savings Due to Reduced Medical Loss Ratio Trend

Table 3A – 10% Annual Reduction in Medical Trend

Accident Year	Overall Cost % Savings	Cumulative % Savings
2003	0.2%	0.2%
2004	0.2%	0.5%
2005	0.2%	0.7%
2006	0.2%	0.9%

Table 3B - 20% Annual Reduction in Medical Trend

Accident Year	Overall Cost % Savings	Cumulative % Savings
2003	0.5%	0.5%
2004	0.5%	0.9%
2005	0.5%	1.4%
2006	0.5%	1.9%

Table 3C - 30% Annual Reduction in Medical Trend

Accident Year	Overall Cost % Savings	Cumulative % Savings
2003	0.7%	0.7%
2004	0.7%	1.4%
2005	0.7%	2.1%
2006	0.7%	2.8%

Table 3D – 40% Annual Reduction in Medical Trend

Accident Year	Overall Cost % Savings	Cumulative % Savings
2003	0.9%	0.9%
2004	0.9%	1.9%
2005	0.9%	2.8%
2006	0.9%	3.7%

Table 3E - 50% Annual Reduction in Medical Trend

Accident Year	Overall Cost % Savings	Cumulative % Savings
2003	1.2%	1.2%
2004	1.2%	2.3%
2005	1.1%	3.5%
2006	1.1%	4.5%

While the changes in the primary treating physician presumption will reduce the rate of future medical inflation, there is no clear basis to develop a precise estimate. However, given (a) the magnitude of the differential between workers' compensation medical inflation and general medical inflation, (b) the impact of the presumption on historical workers' compensation medical inflation, and (c) the preliminary research of the University of California Survey Research Center, a 50% annual reduction in on-level (or excess) medical trend is a reasonable estimate of the impact of AB 749. (See Table 3E, above.) This produces cumulative savings by 2004 that are consistent with the University of California Survey Research Center's preliminary estimates. The WCIRB will continue to re-assess the estimated effect of this provision in later years as actual 2003 and later medical costs emerge. If this 50% reduction in excess medical inflation is assumed to continue through 2006, total statewide savings at 2003 cost levels is estimated at \$820 million.

II. PROVISIONS OF AB 749 WHICH CANNOT BE QUANTIFIED

It is recognized that there are a number of structural changes that have the potential to significantly affect costs for which an estimate or range of estimates as to the potential cost impact cannot be prospectively determined inasmuch as (a) the potential cost effect is heavily dependent on regulations, funding levels or court decisions that remain to be established, or (b) there is no statistically credible information or sound statistical basis upon which to predicate an estimate. A number of these AB 749 provisions are discussed below.

A. Pharmaceutical Fee Schedule

AB 749 directs the AD to adopt an official fee schedule for pharmaceutical fees by July 1, 2003. The schedule is to establish reasonable maximum fees, include a single dispensing fee, and provide for access to a pharmacy within a reasonable distance from the injured worker's home. The WCIRB estimate that payments to pharmacies comprise 7% of total medical costs or \$680 million for 2003.

The previously-referenced Commission on Health & Safety & Workers' Compensation report on the cost of pharmaceuticals suggests that significant savings could be created by a new pharmacy fee schedule. However, as with the outpatient surgery schedule, it is premature to attribute any cost effect until such time as the values and rules are promulgated. Once a new pharmaceutical fee schedule is promulgated, the WCIRB will evaluate its impact on costs for pure premium ratemaking purposes based on an in-depth analysis of the new values and procedural rules.

B. New Outpatient Fee Schedule

AB 749 authorizes (but does not require) the Administrative Director (AD) of the Division of Workers' Compensation to adopt a fee schedule for outpatient surgery facilities. In a report by the Commission on Health & Safety & Workers' Compensation¹², the

¹² "CHSWC Summary Findings and Recommendations to the Inpatient Surgery Schedule and Outpatient Surgery Study", February, 2002.

Commission approximates the cost of services provided by outpatient surgery facilities at 4.4% of total medical costs (or \$430 million based on the WCIRB's current estimate of 2003 system costs) and suggests that the potential savings from the creation of an outpatient surgery fee schedule could be significant. However, the amount and timing of any cost savings will depend on the following.

1. The specific values adopted by the AD and how those values compare to current procedure costs.
2. The procedural rules adopted to govern the application of the schedule.
3. The effective date of any new schedule.
4. How the adoption of any new schedule will affect the medical treatment procedures utilized.

It is premature to assess any cost impact of this provision until the outpatient fee schedule is promulgated. Once the schedule is promulgated, the WCIRB will evaluate the cost of the new schedule for pure premium ratemaking purposes based on an in-depth analysis of the new values and procedural rules.

C Settlement of Vocational Rehabilitation

AB 749 permits the settlement of an employee's right to prospective vocational rehabilitation services of up to \$10,000 for use in a self-directed plan. The settlement agreement must be approved by the State Vocational Rehabilitation Unit upon finding that the employee has "knowingly and voluntarily agreed to relinquish his or her rehabilitation rights." The unit can only disapprove a settlement if it finds that vocational rehabilitation services are necessary to return the injured worker to "suitable gainful employment."

The WCIRB currently estimates that vocational rehabilitation costs are 7% of total statewide (insured and self-insured) benefits, or \$1.3 billion, at 2003 cost levels. There are several outstanding issues with respect to the implementation of the provisions of AB 749 on vocational rehabilitation settlements. Regulations will need to be developed by the Administrative Director specifying the procedures by which the Vocational Rehabilitation Unit will approve settlements. These regulations should provide guidance as to the information required to document whether or not vocational rehabilitation services are necessary to return the injured worker to suitable gainful employment. Additionally, it is unclear as to (a) whether this provision applies only to workers who have been qualified as medically eligible for vocational rehabilitation and (b) how applicant attorney fees will be approved.

Permitting settlement of the liability for vocational rehabilitation benefits could impact costs; however, uncertainty as to how the standards enunciated in AB 749 will be administered and implemented does not provide a reasonable basis to make an estimate of the savings. Additionally, even when the uncertainty is resolved, there is no sound

basis to prospectively estimate the following.

1. The proportion of vocational rehabilitation claims that will be settled.
2. The average difference between settlement amounts and the cost of vocational rehabilitation that would otherwise be incurred.
3. The costs of documenting the issues necessary to approve settlements.
4. The impact on average claim settlement amounts arising from settlement of a demand for vocational rehabilitation benefits on claims that may not have otherwise involved vocational rehabilitation services.

D. Return to Work Programs

AB 749 provides for the establishment of a program to encourage early return to work after workplace injuries. Specifically, beginning with injuries occurring on or after July 1, 2004 (but only if funds are appropriated by the Legislature), AB 749 allows employers to apply to the AD for reimbursement of (a) a portion of the wages paid to injured workers returning to modified or alternative work, (b) a portion of the cost of workplace modifications made to accommodate a worker's return to modified or alternative work and (c) workers' compensation premium rebates for the second and third year of employment in a modified work program. (Existing provisions in Section 4638 provide for the insurer to refund the workers' compensation premium attributable to the first year of modified work to the employer.)

Expediently returning injured workers to work is generally recognized as one of the most effective ways for injured workers to avoid significant financial losses and for the employer to minimize the cost of an injury. Total vocational rehabilitation costs are estimated to comprise 7% of total costs, or \$1.3 billion, at 2003 system cost levels. The potential effect of this program on costs would depend on the regulations adopted by the AD to implement and administer the program, as well as the level of funding appropriated by the Legislature for the program. (The principal features of this program do not become effective before July 1, 2004.) Ultimately, any savings will depend on the increased number of injured workers returned to modified work and the resultant savings in vocational rehabilitation and other costs as a result of the modified work program. As a result, any potential cost impact of this provision cannot reasonably be estimated, at least until such time as the funding level and implementation regulations are known.

E. New Procedures Related to Health Care Organizations (HCOs)

AB 749 was intended to simplify the process by which employers and insurers contract with Health Care Organizations (HCOs). Specifically, it is no longer required that more than one HCO be offered or that at least one of the HCOs offered be on a fee-for-service basis. Also, simplified certification processes have been established. In addition, AB 749 reduced the maximum length of employer control through an HCO from 365 days to either 90 or 180 days, depending on whether non-occupational medical is offered.

The creation of HCOs was one of the cornerstones of the 1993 workers' compensation reform legislation. However, since that time, there has been relatively little activity in this area. The Division of Workers' Compensation currently estimates that 250,000 workers (or about 1.7% of the statewide workforce) are currently enrolled in HCOs.

The issues to be considered in evaluating the potential cost impact of the AB 749 provisions related to HCOs include the following.

1. The extent to which the use of HCOs by employers will be impacted by either the simplified requirements or the reduction in maximum length of control.
2. The time frame in which this utilization change will occur.
3. The extent to which the percentage of eligible workers subject to workers' compensation medical services through an HCO rather than through a pre-designated physician will change.
4. The extent to which the use of an HCO will reduce the cost of medical services as compared to services not provided through an HCO.

Inasmuch as AB 749 contains provisions that discourage the use of HCOs, as well as other provisions that encourage their use, it is unclear how AB 749 will impact the utilization of HCOs. Also, given the size of many insured employers (more than 99% of employers have fewer than 5 claims a year) and the administrative complexity involved in an HCO, many employers may be of insufficient size to utilize these programs.

Historically, predesignation has not been common. However, inasmuch as AB 749 provides that the primary treating physician presumption is retained only if a physician has been predesignated, the frequency of predesignation could increase.

With respect to potential savings resulting from HCO programs, there are a number of studies that document potential savings resulting from various managed care techniques. However, the WCIRB is not aware of any studies that document the specific savings that result from implementation of HCO programs.

Due to these uncertainties, it is not possible to evaluate the cost impact of the HCO procedural changes. In addition, to the extent the changes will have an impact on costs, it is unlikely that there will be a significant impact in the near term. In reaching this conclusion, it was noted that (a) HCOs have not significantly impacted medical costs since adoption of the 1993 reforms, (b) AB 749 HCO changes are far less broad in scope than the 1993 reforms, (c) AB 749 contains provisions that discourage the use of HCOs, as well as provisions that encourage their use, and (d) even if HCO penetration doubled from its current level due to AB 749 and medical costs provided through an HCO were 10% less than otherwise, overall savings would be less than 0.1%.

F. Impact of Wilkinson Doctrine

The Wilkinson¹³ doctrine provides that when successive industrial injuries to the same part of the body become permanent and stationary at the same time, they can be combined together for one overall permanent disability rating, with the benefits calculated at the rate in effect at the time of the last injury. Due to the non-linearity of the permanent disability schedule, the Wilkinson doctrine, which has been in place for some time, created an incentive to combine multiple permanent disability claims into a single permanent disability rating. With the significantly higher level of permanent disability benefits for claims with relatively low permanent disabilities mandated by AB 749, a greater incentive to re-open and combine earlier injuries with newer injuries in accordance with the Wilkinson doctrine has been created. However, there is no sound statistical basis to estimate either (a) the proportion of previously incurred claims that will later be combined with a post-January 1, 2003 claim in order to obtain the higher AB 749 benefits, or (b) the additional cost of the combined claims. As a result, no estimate of the potential impact of the Wilkinson doctrine has been reflected in this cost evaluation.

¹³ Wilkinson v. Workers Compensation Appeals Board (1977) 19 Cal. 3d 491, 42 Cal. Comp. Cases 406.

Summary of Impact of Assembly Bill No. 749 (Benefit Changes and Quantified Structural Changes)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2003 AND DECEMBER 31, 2003

<u>Type of Injury</u>	Distribution of Incurred <u>Losses</u>	Effect of <u>Benefit Changes</u>
Death	0.0061	3.2 %
Permanent Total	0.0336	58.9
Major 70-99.75	0.0438	9.0 *
<u>Major 25-69.75</u>	<u>0.2492</u>	<u>9.5</u> *
Serious	0.3327	14.3 %
Minor 15-24.75	0.0682	12.0 %*
Minor 0.25-14.75	0.0359	18.0 *
<u>Temporary</u>	<u>0.0252</u>	<u>11.7</u> *
Non-Serious	0.1293	13.6 %
Medical	<u>0.5380</u>	<u>-1.2</u> %*
Total	1.0000	5.9 %

* Includes the impact of Labor Code Section 4661.5, where applicable, and a provision to reflect the impact of benefit changes on indemnity claim frequency.

Impact of Assembly Bill No. 749 (Benefit Changes Only)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2003 AND DECEMBER 31, 2003
Prior to Adjustments for the Impact of Labor Code Section 4661.5 and Benefit Utilization

By Type of Injury

	Benefit Provision Effective <u>7/1/1996</u>	Benefit Provision Effective <u>1/1/2003</u>
<u>Death</u>		
1. Effect of amendment on death	90,855	93,807
		93,807 / 90,855 = 1.032
<u>Permanent Total</u>		
2. Average compensation	351.80	558.98
3. Effect of amendment on permanent total		558.98 / 351.80 = 1.589
<u>Major 70-99.75</u>		
4. Average duration, temporary disability	67.6	67.6
5. Average compensation, temporary disability	366.37	404.46
6. Average duration, permanent disability	425.1	425.1
7. Average compensation, permanent disability	214.62	215.57
8. Average duration, life pension	546.8	546.8
9. Average compensation, life pension	72.05	86.53
10. Average vocational rehabilitation maintenance allowance	5,027	5,081
11. Average vocational rehabilitation costs - other	<u>5,831</u>	<u>5,831</u>
12. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)+(11)	166,257	177,207
13. Effect of amendment on major 70-99.75		177,207 / 166,257 = 1.066
<u>Major 25-69.75</u>		
14. Average duration, temporary disability	45.5	45.5
15. Average compensation, temporary disability	342.46	370.41
16. Average duration, permanent disability	165.0	165.0
17. Average compensation, permanent disability	164.83	178.82
18. Average vocational rehabilitation maintenance allowance	4,776	4,810
19. Average vocational rehabilitation costs - other	<u>5,546</u>	<u>5,546</u>
20. Average total cost: (14)x(15)+(16)x(17)+(18)+(19)	53,101	56,715
21. Effect of amendment on major 25-69.75		56,715 / 53,101 = 1.068
<u>Minor 15-24.75</u>		
22. Average duration, temporary disability	30.8	30.8
23. Average compensation, temporary disability	333.56	359.98
24. Average duration, permanent disability	66.2	66.2
25. Average compensation, permanent disability	155.37	178.13
26. Average vocational rehabilitation maintenance allowance	2,242	2,258
27. Average vocational rehabilitation costs - other	<u>2,807</u>	<u>2,807</u>
28. Average total cost: (22)x(23)+(24)x(25)+(26)+(27)	25,608	27,945
29. Effect of amendment on minor 15-24.75		27,945 / 25,608 = 1.091

Impact of Assembly Bill No. 749 (Benefit Changes Only)
 ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2003 AND DECEMBER 31, 2003
 Prior to Adjustments for the Impact of Labor Code Section 4661.5 and Benefit Utilization
 (Continued)

By Type of Injury

	Benefit Provision Effective <u>7/1/1996</u>	Benefit Provision Effective <u>1/1/2003</u>
<u>Minor 0.25-14.75</u>		
30. Average duration, temporary disability	12.3	12.3
31. Average compensation, temporary disability	324.73	349.31
32. Average duration, permanent disability	23.1	23.1
33. Average compensation, permanent disability	136.56	177.25
34. Average vocational rehabilitation maintenance allowance	532	537
35. Average vocational rehabilitation costs - other	<u>695</u>	<u>695</u>
36. Average total cost, (30)x(31)+(32)x(33)+(34)+(35)	8,376	9,623
37. Effect of amendment on minor 0.25-14.75		
		9,623 / 8,376 = 1.149
<u>Temporary</u>		
38. Average compensation	328.62	354.07
39. Effect of amendment on temporary		
		354.07 / 328.62 = 1.077

Summary of Impact of Assembly Bill No. 749 (Benefit Changes and Quantified Structural Changes)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2004 AND DECEMBER 31, 2004

<u>Type of Injury</u>	Distribution of Incurred <u>Losses</u>	Effect of <u>Benefit Changes</u>
Death	0.0058	2.5 %
Permanent Total	0.0502	5.4
Major 70-99.75	0.0444	8.8 *
<u>Major 25-69.75</u>	<u>0.2544</u>	<u>14.3</u> *
Serious	0.3548	12.2 %
Minor 15-24.75	0.0714	20.2 %*
Minor 0.25-14.75	0.0395	23.1 *
<u>Temporary</u>	<u>0.0264</u>	<u>6.6</u> *
Non-Serious	0.1373	18.4 %
Medical	<u>0.5079</u>	<u>-0.6</u> %*
Total	1.0000	6.5 %

* Includes the impact of Labor Code Section 4661.5, where applicable, and a provision to reflect the impact of benefit changes on indemnity claim frequency.

Impact of Assembly Bill No. 749 (Benefit Changes Only)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2004 AND DECEMBER 31, 2004
Prior to Adjustments for the Impact of Labor Code Section 4661.5 and Benefit Utilization

By Type of Injury

	Benefit Provision Effective <u>1/1/2003</u>	Benefit Provision Effective <u>1/1/2004</u>
<u>Death</u>		
1. Effect of amendment on death	94,648	97,032
		97,032 / 94,648 = 1.025
<u>Permanent Total</u>		
2. Average compensation	572.28	603.16
3. Effect of amendment on permanent total		603.16 / 572.28 = 1.054
<u>Major 70-99.75</u>		
4. Average duration, temporary disability	67.6	67.6
5. Average compensation, temporary disability	413.68	438.35
6. Average duration, permanent disability	425.1	438.2
7. Average compensation, permanent disability	216.52	232.75
8. Average duration, life pension	546.8	533.6
9. Average compensation, life pension	86.70	86.23
10. Average vocational rehabilitation maintenance allowance	5,082	5,082
11. Average vocational rehabilitation costs - other	<u>5,843</u>	<u>5,843</u>
12. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)+(11)	178,340	188,561
13. Effect of amendment on major 70-99.75		188,561 / 178,340 = 1.057
<u>Major 25-69.75</u>		
14. Average duration, temporary disability	45.5	45.5
15. Average compensation, temporary disability	379.92	398.29
16. Average duration, permanent disability	165.0	182.0
17. Average compensation, permanent disability	179.33	192.47
18. Average vocational rehabilitation maintenance allowance	4,822	4,822
19. Average vocational rehabilitation costs - other	<u>5,569</u>	<u>5,569</u>
20. Average total cost: (14)x(15)+(16)x(17)+(18)+(19)	57,267	63,543
21. Effect of amendment on major 25-69.75		63,543 / 57,267 = 1.110
<u>Minor 15-24.75</u>		
22. Average duration, temporary disability	30.8	30.8
23. Average compensation, temporary disability	369.30	386.94
24. Average duration, permanent disability	66.2	83.4
25. Average compensation, permanent disability	178.71	191.60
26. Average vocational rehabilitation maintenance allowance	2,276	2,276
27. Average vocational rehabilitation costs - other	<u>2,824</u>	<u>2,824</u>
28. Average total cost: (22)x(23)+(24)x(25)+(26)+(27)	28,305	32,997
29. Effect of amendment on minor 15-24.75		32,997 / 28,305 = 1.166

Impact of Assembly Bill No. 749 (Benefit Changes Only)
 ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2004 AND DECEMBER 31, 2004
 Prior to Adjustments for the Impact of Labor Code Section 4661.5 and Benefit Utilization
 (Continued)

By Type of Injury

	Benefit Provision Effective <u>1/1/2003</u>	Benefit Provision Effective <u>1/1/2004</u>
<u>Minor 0.25-14.75</u>		
30. Average duration, temporary disability	12.3	12.3
31. Average compensation, temporary disability	358.50	374.75
32. Average duration, permanent disability	23.1	30.5
33. Average compensation, permanent disability	177.88	190.57
34. Average vocational rehabilitation maintenance allowance	542	542
35. Average vocational rehabilitation costs - other	<u>697</u>	<u>697</u>
36. Average total cost, (30)x(31)+(32)x(33)+(34)+(35)	9,758	11,661
37. Effect of amendment on minor 0.25-14.75		
$11,661 / 9,758 = 1.195$		
<u>Temporary</u>		
38. Average compensation	363.32	380.03
39. Effect of amendment on temporary		
$380.03 / 363.32 = 1.046$		

Summary of Impact of Assembly Bill No. 749 (Benefit Changes and Quantified Structural Changes)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2005 AND DECEMBER 31, 2005

<u>Type of Injury</u>	Distribution of Incurred <u>Losses</u>	Effect of <u>Benefit Changes</u>
Death	0.0055	1.7 %
Permanent Total	0.0496	2.5
Major 70-99.75	0.0447	5.4 *
<u>Major 25-69.75</u>	<u>0.2696</u>	<u>6.9</u> *
Serious	0.3694	6.1 %
Minor 15-24.75	0.0796	6.4 %*
Minor 0.25-14.75	0.0453	6.5 *
<u>Temporary</u>	<u>0.0264</u>	<u>3.3</u> *
Non-Serious	0.1513	5.9 %
Medical	<u>0.4793</u>	<u>-1.7</u> %*
Total	1.0000	2.3 %

* Includes the impact of Labor Code Section 4661.5, where applicable, and a provision to reflect the impact of benefit changes on indemnity claim frequency.

Impact of Assembly Bill No. 749 (Benefit Changes Only)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2005 AND DECEMBER 31, 2005
Prior to Adjustments for the Impact of Labor Code Section 4661.5 and Benefit Utilization

By Type of Injury

	Benefit Provision Effective <u>1/1/2004</u>	Benefit Provision Effective <u>1/1/2005</u>
<u>Death</u>		
1. Effect of amendment on death	98,016	99,638
		99,638 / 98,016 = 1.017
<u>Permanent Total</u>		
2. Average compensation	620.51	636.27
3. Effect of amendment on permanent total		636.27 / 620.51 = 1.025
<u>Major 70-99.75</u>		
4. Average duration, temporary disability	67.6	67.6
5. Average compensation, temporary disability	450.66	464.52
6. Average duration, permanent disability	438.2	438.2
7. Average compensation, permanent disability	233.91	249.52
8. Average duration, life pension	533.6	533.6
9. Average compensation, life pension	86.39	86.39
10. Average vocational rehabilitation maintenance allowance	5,103	5,103
11. Average vocational rehabilitation costs - other	<u>5,861</u>	<u>5,861</u>
12. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)+(11)	190,026	197,803
13. Effect of amendment on major 70-99.75		197,803 / 190,026 = 1.041
<u>Major 25-69.75</u>		
14. Average duration, temporary disability	45.5	45.5
15. Average compensation, temporary disability	410.13	420.40
16. Average duration, permanent disability	182.0	182.0
17. Average compensation, permanent disability	193.17	209.94
18. Average vocational rehabilitation maintenance allowance	4,854	4,854
19. Average vocational rehabilitation costs - other	<u>5,586</u>	<u>5,586</u>
20. Average total cost: (14)x(15)+(16)x(17)+(18)+(19)	64,258	67,777
21. Effect of amendment on major 25-69.75		67,777 / 64,258 = 1.055
<u>Minor 15-24.75</u>		
22. Average duration, temporary disability	30.8	30.8
23. Average compensation, temporary disability	398.42	408.40
24. Average duration, permanent disability	83.4	83.4
25. Average compensation, permanent disability	192.40	208.74
26. Average vocational rehabilitation maintenance allowance	2,270	2,270
27. Average vocational rehabilitation costs - other	<u>2,833</u>	<u>2,833</u>
28. Average total cost: (22)x(23)+(24)x(25)+(26)+(27)	33,420	35,091
29. Effect of amendment on minor 15-24.75		35,091 / 33,420 = 1.050

Impact of Assembly Bill No. 749 (Benefit Changes Only)
 ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2005 AND DECEMBER 31, 2005
 Prior to Adjustments for the Impact of Labor Code Section 4661.5 and Benefit Utilization
 (Continued)

By Type of Injury

	Benefit Provision Effective <u>1/1/2004</u>	Benefit Provision Effective <u>1/1/2005</u>
<u>Minor 0.25-14.75</u>		
30. Average duration, temporary disability	12.3	12.3
31. Average compensation, temporary disability	385.94	395.31
32. Average duration, permanent disability	30.5	30.5
33. Average compensation, permanent disability	191.43	207.41
34. Average vocational rehabilitation maintenance allowance	546	546
35. Average vocational rehabilitation costs - other	<u>698</u>	<u>698</u>
36. Average total cost, (30)x(31)+(32)x(33)+(34)+(35)	11,830	12,432
37. Effect of amendment on minor 0.25-14.75		
		$12,432 / 11,830 = 1.051$
<u>Temporary</u>		
38. Average compensation	391.40	400.73
39. Effect of amendment on temporary		
		$400.73 / 391.40 = 1.024$

Summary of Impact of Assembly Bill No. 749 (Benefit Changes and Quantified Structural Changes)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2006 AND DECEMBER 31, 2006

<u>Type of Injury</u>	Distribution of Incurred <u>Losses</u>	Effect of <u>Benefit Changes</u>
Death	0.0054	50.7 %
Permanent Total	0.0496	0.6
Major 70-99.75	0.0454	20.9 *
<u>Major 25-69.75</u>	<u>0.2785</u>	<u>3.8 *</u>
Serious	0.3789	6.1 %
Minor 15-24.75	0.0819	3.5 %*
Minor 0.25-14.75	0.0467	3.6 *
<u>Temporary</u>	<u>0.0266</u>	<u>1.7 *</u>
Non-Serious	0.1552	3.2 %
Medical	<u>0.4659</u>	<u>-1.6 %*</u>
Total	1.0000	2.1 %

* Includes the impact of Labor Code Section 4661.5, where applicable, and a provision to reflect the impact of benefit changes on indemnity claim frequency.

Impact of Assembly Bill No. 749 (Benefit Changes Only)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2006 AND DECEMBER 31, 2006
Prior to Adjustments for the Impact of Labor Code Section 4661.5 and Benefit Utilization

By Type of Injury

	Benefit Provision Effective <u>1/1/2005</u>	Benefit Provision Effective <u>1/1/2006</u>
<u>Death</u>		
1. Effect of amendment on death	100,832	151,911
		151,911 / 100,832 = 1.507
<u>Permanent Total</u>		
2. Average compensation	656.38	660.46
3. Effect of amendment on permanent total		660.46 / 656.38 = 1.006
<u>Major 70-99.75</u>		
4. Average duration, temporary disability	67.6	67.6
5. Average compensation, temporary disability	478.43	482.18
6. Average duration, permanent disability	438.2	438.2
7. Average compensation, permanent disability	250.96	252.35
8. Average duration, life pension	533.6	533.6
9. Average compensation, life pension	86.55	157.84
10. Average vocational rehabilitation maintenance allowance	5,121	5,121
11. Average vocational rehabilitation costs - other	<u>5,868</u>	<u>5,868</u>
12. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)+(11)	199,485	238,388
13. Effect of amendment on major 70-99.75		238,388 / 199,485 = 1.195
<u>Major 25-69.75</u>		
14. Average duration, temporary disability	45.5	45.5
15. Average compensation, temporary disability	433.72	436.38
16. Average duration, permanent disability	182.0	182.0
17. Average compensation, permanent disability	210.92	220.07
18. Average vocational rehabilitation maintenance allowance	4,860	4,860
19. Average vocational rehabilitation costs - other	<u>5,593</u>	<u>5,593</u>
20. Average total cost: (14)x(15)+(16)x(17)+(18)+(19)	68,575	70,361
21. Effect of amendment on major 25-69.75		70,361 / 68,575 = 1.026
<u>Minor 15-24.75</u>		
22. Average duration, temporary disability	30.8	30.8
23. Average compensation, temporary disability	421.29	423.91
24. Average duration, permanent disability	83.4	83.4
25. Average compensation, permanent disability	209.86	218.85
26. Average vocational rehabilitation maintenance allowance	2,286	2,286
27. Average vocational rehabilitation costs - other	<u>2,836</u>	<u>2,836</u>
28. Average total cost: (22)x(23)+(24)x(25)+(26)+(27)	35,600	36,431
29. Effect of amendment on minor 15-24.75		36,431 / 35,600 = 1.023

Impact of Assembly Bill No. 749 (Benefit Changes Only)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2006 AND DECEMBER 31, 2006
Prior to Adjustments for the Impact of Labor Code Section 4661.5 and Benefit Utilization
(Continued)

By Type of Injury

	Benefit Provision Effective <u>1/1/2005</u>	Benefit Provision Effective <u>1/1/2006</u>
<u>Minor 0.25-14.75</u>		
30. Average duration, temporary disability	12.3	12.3
31. Average compensation, temporary disability	407.80	410.34
32. Average duration, permanent disability	30.5	30.5
33. Average compensation, permanent disability	208.62	217.59
34. Average vocational rehabilitation maintenance allowance	550	550
35. Average vocational rehabilitation costs - other	<u>699</u>	<u>699</u>
36. Average total cost, (30)x(31)+(32)x(33)+(34)+(35)	12,628	12,933
37. Effect of amendment on minor 0.25-14.75		
$12,933 / 12,628 = 1.024$		
<u>Temporary</u>		
38. Average compensation	413.48	415.96
39. Effect of amendment on temporary		
$415.96 / 413.48 = 1.006$		

Summary of Impact of Assembly Bill No. 749 (Benefit Changes* and Quantified Structural Changes)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2003 AND DECEMBER 31, 2003
By Industry Group

	1. Constr. or Erection	2. Metal Products	3. Wood Products	4. Plastic & Rubber Prods.
Death	5.1 %	0.4 %	0.0 %	0.3 %
Permanent Total	62.5	54.4	45.8	46.9
Major	11.1	9.5	7.6	7.5
Minor	16.1	14.2	12.4	12.8
Temporary	15.9	10.8	6.5	6.6
Medical	-1.1	-1.1	-1.4	-1.4
Total	8.4 %	5.5 %	3.9 %	4.4 %

	5. Paper Products	6. Textile Products	7. Food Products	8. Electronic Products
Death	7.3 %	0.6 %	5.8 %	2.0 %
Permanent Total	60.2	45.8	56.1	58.2
Major	9.3	7.1	8.4	9.6
Minor	14.2	12.3	13.4	14.5
Temporary	11.1	6.0	9.1	11.7
Medical	-1.2	-1.4	-1.2	-1.1
Total	5.9 %	3.9 %	4.6 %	5.2 %

	9. Manufacturing - Other	10. Agriculture	11. Mercantile	12. Aircraft Operations
Death	0.2 %	0.8 %	1.6 %	5.9 %
Permanent Total	45.8	52.7	55.3	73.2
Major	9.4	7.5	8.1	11.2
Minor	13.6	11.9	12.5	15.9
Temporary	10.6	6.1	8.4	15.7
Medical	-1.2	-1.5	-1.4	-1.1
Total	5.5 %	4.0 %	4.6 %	9.2 %

	13. Prof. & Clerical Servs.	14. Other	Total All Industry Groups
Death	4.6 %	2.9 %	3.2 %
Permanent Total	63.6	55.6	58.9
Major	10.4	9.0	9.4
Minor	15.6	13.7	14.1
Temporary	14.0	11.3	11.7
Medical	-1.0	-1.2	-1.2
Total	6.6 %	5.3 %	5.9 %

Legend
1. Construction or Erection
2. Mfg. - Metal Products
3. Mfg. - Wood Products
4. Mfg. - Plastic & Rubber Products
5. Mfg. - Paper Products
6. Mfg. - Textile, Cloth & Leather Prods.
7. Mfg. - Food Products
8. Mfg. - Electronic & Electrical Prods.
9. Mfg. - Other
10. Agriculture
11. Mercantile
12. Aircraft Operations
13. Professional and Clerical Services
14. Other

* Includes the impact of Labor Code Section 4661.5 and a provision to reflect the impact of benefit changes on indemnity claim frequency.

Summary of Impact of Assembly Bill No. 749 (Benefit Changes* and Quantified Structural Changes)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2004 AND DECEMBER 31, 2004
By Industry Group

	1. Constr. or Erection	2. Metal Products	3. Wood Products	4. Plastic & Rubber Prods.
Death	4.5 %	0.3 %	0.1 %	0.3 %
Permanent Total	7.2	4.3	0.0	0.0
Major	14.4	13.7	13.1	13.0
Minor	21.8	21.3	21.1	21.4
Temporary	10.0	6.2	3.5	3.5
Medical	-0.7	-0.5	-0.5	-0.6
Total	6.8 %	6.9 %	6.1 %	6.3 %

	5. Paper Products	6. Textile Products	7. Food Products	8. Electronic Products
Death	4.6 %	0.4 %	0.2 %	0.2 %
Permanent Total	9.0	0.0	0.7	5.8
Major	13.3	13.1	13.2	13.6
Minor	21.0	21.4	20.8	21.1
Temporary	6.0	3.0	4.4	6.5
Medical	-0.6	-0.4	-0.4	-0.4
Total	6.7 %	7.0 %	6.6 %	7.0 %

	9. Manufacturing - Other	10. Agriculture	11. Mercantile	12. Aircraft Operations
Death	0.2 %	0.4 %	0.5 %	5.6 %
Permanent Total	0.0	3.1	2.5	7.4
Major	13.8	12.5	12.7	13.9
Minor	20.7	20.7	20.5	21.2
Temporary	5.7	2.4	4.0	7.8
Medical	-0.6	-0.7	-0.7	-0.9
Total	6.2 %	5.5 %	6.1 %	6.1 %

	13. Prof. & Clerical Servs.	14. Other	Total All Industry Groups
Death	4.1 %	2.2 %	2.5 %
Permanent Total	8.7	3.4	5.4
Major	14.0	13.3	13.5
Minor	21.7	21.0	21.2
Temporary	8.3	6.4	6.6
Medical	-0.5	-0.6	-0.6
Total	7.0 %	6.4 %	6.5 %

Legend
1. Construction or Erection
2. Mfg. - Metal Products
3. Mfg. - Wood Products
4. Mfg. - Plastic & Rubber Products
5. Mfg. - Paper Products
6. Mfg. - Textile, Cloth & Leather Prods.
7. Mfg. - Food Products
8. Mfg. - Electronic & Electrical Prods.
9. Mfg. - Other
10. Agriculture
11. Mercantile
12. Aircraft Operations
13. Professional and Clerical Services
14. Other

* Includes the impact of Labor Code Section 4661.5 and a provision to reflect the impact of benefit changes on indemnity claim frequency.

Summary of Impact of Assembly Bill No. 749 (Benefit Changes* and Quantified Structural Changes)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2005 AND DECEMBER 31, 2005
By Industry Group

	1. Constr. or Erection	2. Metal Products	3. Wood Products	4. Plastic & Rubber Prods.
Death	2.8 %	0.2 %	0.1 %	0.2 %
Permanent Total	3.2	1.3	-0.1	-0.1
Major	7.8	6.8	5.8	5.9
Minor	7.7	6.5	5.5	5.6
Temporary	5.3	2.9	1.2	1.5
Medical	-1.6	-1.7	-1.8	-1.8
Total	3.0 %	2.4 %	1.6 %	1.8 %

	5. Paper Products	6. Textile Products	7. Food Products	8. Electronic Products
Death	1.8 %	0.2 %	0.3 %	0.1 %
Permanent Total	7.1	-0.1	-0.1	0.1
Major	6.6	5.6	6.0	6.9
Minor	6.4	5.2	5.6	6.9
Temporary	2.6	1.3	1.8	3.4
Medical	-1.7	-1.8	-1.8	-1.6
Total	2.5 %	1.8 %	1.8 %	2.6 %

	9. Manufacturing - Other	10. Agriculture	11. Mercantile	12. Aircraft Operations
Death	0.1 %	0.1 %	0.2 %	3.7 %
Permanent Total	-0.1	1.8	1.9	-0.1
Major	6.6	5.5	6.0	6.5
Minor	6.2	5.2	5.6	6.7
Temporary	2.5	0.9	1.6	3.2
Medical	-1.8	-1.9	-1.8	-1.9
Total	2.0 %	1.3 %	1.9 %	1.7 %

	13. Prof. & Clerical Servs.	14. Other	Total All Industry Groups
Death	3.4 %	1.5 %	1.7 %
Permanent Total	4.7	1.4	2.5
Major	7.4	6.3	6.7
Minor	7.4	6.1	6.4
Temporary	4.7	3.0	3.3
Medical	-1.6	-1.8	-1.7
Total	2.8 %	2.0 %	2.3 %

Legend
1. Construction or Erection
2. Mfg. - Metal Products
3. Mfg. - Wood Products
4. Mfg. - Plastic & Rubber Products
5. Mfg. - Paper Products
6. Mfg. - Textile, Cloth & Leather Prods.
7. Mfg. - Food Products
8. Mfg. - Electronic & Electrical Prods.
9. Mfg. - Other
10. Agriculture
11. Mercantile
12. Aircraft Operations
13. Professional and Clerical Services
14. Other

* Includes the impact of Labor Code Section 4661.5 and a provision to reflect the impact of benefit changes on indemnity claim frequency.

Summary of Impact of Assembly Bill No. 749 (Benefit Changes* and Quantified Structural Changes)
ON ACCIDENTS OCCURRING BETWEEN JANUARY 1, 2006 AND DECEMBER 31, 2006
By Industry Group

	1. Constr. or Erection	2. Metal Products	3. Wood Products	4. Plastic & Rubber Prods.
Death	45.0 %	58.7 %	63.5 %	80.3 %
Permanent Total	0.7	0.4	0.0	0.2
Major	6.9	6.2	5.2	5.8
Minor	3.7	3.4	3.0	3.1
Temporary	2.2	1.5	1.1	1.2
Medical	-1.6	-1.6	-1.7	-1.7
Total	2.4 %	2.0 %	1.3 %	1.7 %

	5. Paper Products	6. Textile Products	7. Food Products	8. Electronic Products
Death	27.8 %	77.7 %	31.9 %	77.9 %
Permanent Total	1.9	0.0	0.1	0.0
Major	5.7	5.1	5.7	6.2
Minor	3.3	2.8	3.2	3.6
Temporary	1.4	1.1	1.4	1.7
Medical	-1.7	-1.7	-1.7	-1.6
Total	1.6 %	1.7 %	1.6 %	2.3 %

	9. Manufacturing - Other	10. Agriculture	11. Mercantile	12. Aircraft Operations
Death	56.7 %	53.8 %	57.7 %	36.5 %
Permanent Total	0.0	0.6	0.6	0.0
Major	5.6	5.8	6.0	5.8
Minor	3.2	3.5	3.4	3.5
Temporary	1.4	1.3	1.4	1.6
Medical	-1.7	-1.7	-1.6	-1.7
Total	1.6 %	2.0 %	2.0 %	1.6 %

	13. Prof. & Clerical Servs.	14. Other	Total All Industry Groups
Death	52.3 %	48.3 %	50.7 %
Permanent Total	1.2	0.4	0.6
Major	6.6	6.0	6.2
Minor	3.8	3.4	3.5
Temporary	2.0	1.7	1.7
Medical	-1.6	-1.6	-1.6
Total	2.2 %	2.0 %	2.1 %

Legend
1. Construction or Erection
2. Mfg. - Metal Products
3. Mfg. - Wood Products
4. Mfg. - Plastic & Rubber Products
5. Mfg. - Paper Products
6. Mfg. - Textile, Cloth & Leather Prods.
7. Mfg. - Food Products
8. Mfg. - Electronic & Electrical Prods.
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* Includes the impact of Labor Code Section 4661.5 and a provision to reflect the impact of benefit changes on indemnity claim frequency.