

BOARD of DIRECTORS MEETING (OPEN)

AGENDA ITEM 19b

ATTACHMENT 19b-I

WORKERS' COMPENSATION APPEALS BOARD (WCIRB)  
ROLE in the CALIFORNIA WORKERS' COMPENSATION MARKET

PRESENTED BY: Robert Mike

March 19, 2010

Workers' Compensation Insurance Rating Bureau of California

## Workers' Compensation Insurance Rating Bureau Introduction and Primary Functions

State Compensation Insurance Fund Board Meeting  
San Francisco, CA  
March 19, 2010

Robert Mike, President  
Warren Clark, VP Operations

WCIRB<sup>California</sup>

### Agenda

- About the WCIRB
- Ratemaking Activities
- Classification System
- Test Audit Program
- Other Services and Activities

WCIRB<sup>California</sup>

## About the WCIRB Operating Structure

- Non-Profit
- Association of Workers' Compensation Insurers
- Licensed Rating Organization
- Designated Statistical Agent

WCIRB<sup>California</sup>

## About the WCIRB Committee Structure

- WCIRB Standing Committees
  - Governing Committee
  - Actuarial Committee
  - Classification and Rating Committee
  - CDI Participates on All Committees

WCIRB<sup>California</sup>



## About the WCIRB Core Functions

- Produce Accurate Pure Premium Rates
- Review Policies For Compliance with CDI Regulations
- Review USRs For Accuracy and Completeness
- Produce Experience Ratings and Inspection Reports
- Provide Timely Access To Data and Information
- Produce Advisory Plans and Endorsement Forms

WCIRB<sup>California</sup>

## Agenda

- About the WCIRB
- Ratemaking Activities
- Classification System
- Test Audit Program
- Other Services and Activities

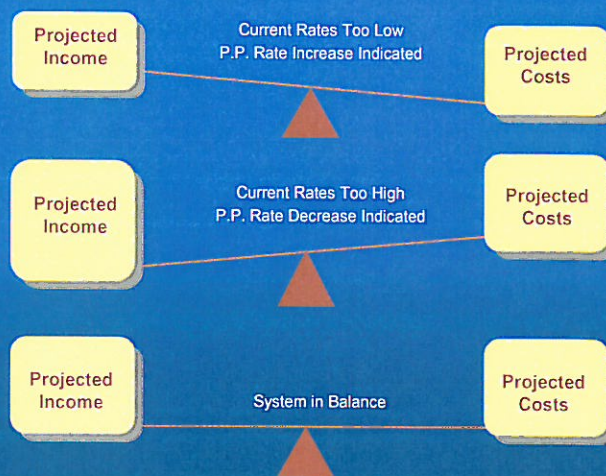
WCIRB<sup>California</sup>

## Ratemaking Activities Overall Pure Premium Rate Change

- Uses Aggregate Financial Data Reported to the WCIRB
- Key Component- Forecast of Future Statewide Benefits
  - How many claims (frequency)
    - Past frequency rates
    - State of economy and levels of benefits
  - Average cost of claims (severity)
    - Historical inflation
    - Loss development
    - Legislative and regulatory changes
- Overall Rate Indication
  - Reviewed quarterly, filed annually or bi-annually with Insurance Commissioner

WCIRB<sup>California</sup>

## Ratemaking Activities Overall Pure Premium Rate Change



WCIRB<sup>California</sup>



## **Ratemaking Activities**

### **Classification Pure Premium Rates**

- Based on Historical Unit Statistical Data by Class
- Extensive Data Verification Process
- Based on Relative Claim Costs by Class
- Relativity Changes Limited to 25%

WCIRB<sup>California</sup>

## **Ratemaking Activities**

### **Experience Rating Plan**

- Developed by WCIRB Approved by Commissioner
- Objectives and Function
  - Promote safety
  - Redistribute system costs equitably
  - Refinement of standard classification system
  - Not intended as recoupment or reward
- Based on WCIRB Unit Statistical Records
  - Detailed system of data verification
  - Ownership verification
- Compares Employers Actual Loss History to Average Expected for Class

WCIRB<sup>California</sup>

## Ratemaking Activities Experience Rating Plan

Actual Losses Vs. Expected Losses  
Actual Losses < Expected Losses : X-Mod <100%



WCIRB<sup>California</sup>

## Ratemaking Activities Experience Rating Plan

Actual Losses Vs. Expected Losses  
Actual Losses > Expected Losses : X-Mod >100%



WCIRB<sup>California</sup>



## Agenda

- About the WCIRB
- Ratemaking Activities
- Classification System
- Test Audit Program
- Other Services and Activities

WCIRB<sup>California</sup>

## Standard Classification System

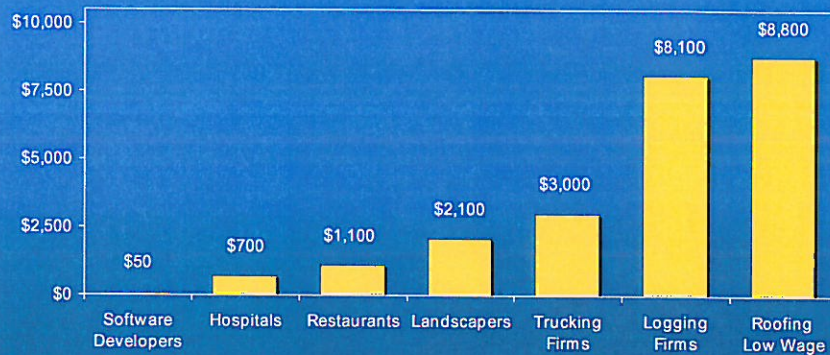
- Standard Classification System
  - Apportion cost of workers' compensation insurance
  - Development
    - Industry request or WCIRB initiated
    - Industry must be identifiable,
    - Operations must be homogenous
    - Industry must be sufficiently large to generate credible pure premium rates
- Non-Standard Classifications
  - May be developed by insurer for premium purposes
  - CDI must approve use of non-standard classifications
  - Data must be reported in accordance with Standard Classification System

WCIRB<sup>California</sup>



## Standard Classification System

Average Benefit Cost for an Employee Earning \$50,000 Annually



WCIRB<sup>California</sup>

## Agenda

- About the WCIRB
- Ratemaking Activities
- Classification System
- Test Audit Program
- Other Services and Activities

WCIRB<sup>California</sup>

## California Test Audit Program

- California Test Audit Program Components
  - Test accuracy and reliability of insurer's audits and payroll reporting
  - Test accuracy of claim's classification reporting
- Purpose
  - Establish minimum auditing standards
  - Monitor insurer performance towards achievement of established standards
  - Improve audit proficiency through the evaluation of insurer auditing practices and dissemination of information relevant to auditing procedures

WCIRB<sup>California</sup>

## California Test Audit Program

- Payroll Difference
  - Absolute aggregate value of differences exceeds:
    - \$600.00 in pure premium or
    - 2% of policy pure premium
    - whichever is greater
  - No "offsetting" differences
- Experience Modification Difference
- Must file a corrected unit statistical report

WCIRB<sup>California</sup>



## California Test Audit Program

### ■ Payroll Audits

- Insurer Test Audit performance based on latest four quarters
- Minimum Standard: equal or less than a 20% difference ratio
- Maximum Standard: equal or less than a 10% difference ratio

WCIRB<sub>California</sub>®

## California Test Audit Program

### ■ Claims Classification Audits

- Verify the classification for claims valued at \$2,001 or more
- Review no more than 10 claims per policy
- Insurer performance based upon latest six quarters subject to a minimum of 40 claims
- Minimum Standard- equal or less than a 10% difference ratio
- Maximum Standard- equal or less than a 5% difference ratio

WCIRB<sub>California</sub>®

## Agenda

- About the WCIRB
- Ratemaking Activities
- Classification System
- Test Audit Program
- Other Services and Activities

WCIRB<sup>California</sup>

## Other Services and Activities

- Interaction With Other Organizations
  - CA Department of Insurance (Solvency Monitoring)
  - CA Legislature (Evaluate Legislative Proposals)
  - Committee on Health Safety and Workers' Compensation (CHSWC) – Assist in Research Projects
  - Employment Development Department (Coverage Verification)
  - Cal/OSHA (Targeted Inspection and Consultation Program)
  - Division of Workers' Compensation (Fraud Detection)

WCIRB<sup>California</sup>



## Other Services and Activities

- Information Provided to Insurers and Others
  - WCIRB Online Services for Insurers
    - Experience Modifications
    - Inspection Reports
    - WCIRB Data Warehouse (classification experience and aggregate financial data)
  - WCIRB Public Website
    - Workers' compensation regulations
    - Educational modules for policyholders (rates, classification system and experience rating)

WCIRB<sup>California</sup>