California Workers' Compensation Institute

Research Update

California Workers' Compensation Claims Monitoring: Medical & Indemnity Development, AY 2013 – AY 2022

by Bob Young

Background

Nearly a decade ago, shortly after the enactment of SB 863,[1] CWCI began to monitor post-reform claim development trends based on paid loss data from the Institute's Industry Research Information System (IRIS) database,[2] with initial results published in a pair of reports in August 2015[3] and April 2016.[4] The first report tracked average medical and indemnity payments at various levels of development using data from insured claims from accident year (AY) 2002 through the third quarter of AY 2014, with payments valued through December 2014, while the second report updated that initial analysis with data from AY 2005 through December 2014 claims, valued through June 2015.

As an outgrowth of those reports, in 2017 CWCI developed a series of interactive applications starting with the Claims Monitoring Application, a proprietary online tool that is updated twice a year to allow Institute members to access current data on average paid indemnity and medical losses at nine levels of development for indemnity claims or for all claims. The application also allows Institute members to segment and compare the paid loss data by industry sector and region, based on the injured employee's home ZIP code. This report uses data from the latest version of the Claims Monitoring Application,[5] which contains data on AY 2009 through AY 2022 claims, with payments valued as of December 31, 2022. The report updates the earlier analyses by documenting the medical and indemnity loss development results for the first 10 years after SB 863 took effect (AY 2013 - AY 2022). Although medical-only claims represented 64 percent of all California workers' compensation claims during that 10-year span, they accounted for only 6 percent of the paid losses, so the report focuses on the results for indemnity claims, which accounted for 94 percent of the payments.

[1] SB 863, the comprehensive California workers' compensation reform legislation negotiated by labor, employers and representatives of the Brown Administration was signed by Governor Brown on September 18, 2012.
[2] IRIS is CWCI's proprietary database that contains detailed data on employee and employer characteristics, medical service data, benefits and administrative cost details on 8.0 million California workers' comp claims.
[3] Ireland, J. California Workers' Compensation Medical and Indemnity Benefit Trends, AY 2002-2014, *CWCI Research Update*, Aug. 2015.
[4] Young, B., Ireland, J. California Workers' Compensation Claim Monitoring, Medical and Indemnity Benefit Development, AY 2005-2014. *CWCI Research Update*, April 2016.
[5] IRIS database, Version 2022Q4.

Data and Methods

The report highlights results for the following metrics from the Claims Monitoring Application:

- Average total paid losses (medical + indemnity) for AY 2013 – AY 2022 indemnity claims at 6, 12, 24, 36, 48, 60, and 72 months of development.
- The breakdown of average paid losses between the medical components and indemnity components for AY 2013 through AY 2022 claims at each development period.
- Average 24-month paid losses for AY 2013 – AY 2020 indemnity claims from five key industry sectors (health care; food services; agriculture; clerical; and construction) compared to the average for all industries.
- Average 24-month paid medical and average 24-month paid indemnity for the AY 2013 – AY 2020 indemnity claims from the same five industry sectors compared to the average for all industry sectors.
- Average 24-month total paid losses for AY 2022 indemnity claims from injured workers living in seven distinct regions of the state, as well as those living out of state, compared to the statewide average.

Claims used in the report were compiled separately for each development period to provide consistency in the types of claims examined across accident years. Claims were excluded from the data set if they had total medical payments of less than $35; if they had negative total indemnity payments during the development period; or if the number of months from the injury date to the end of 2022 was less than the number of months in the development period. In addition, dollar values were truncated at $1 million to reduce the effect of outliers.

Claims that had indemnity benefit payments during a development period were defined as indemnity claims. Thus, if the first indemnity payment on a claim was made 18 months after the injury date, it was included as an indemnity claim in the 24-month data and the later development periods for that accident year, but it was not in the 6- or 12-month indemnity claim data.

Reimbursements for treatment, drugs, durable medical equipment (DME), medical-legal services, and medical cost containment (e.g., medical case management) were included in the medical payment data, but reimbursements for medical cost containment expenses that are classified as loss adjustment expenses by the Uniform Statistical Reporting Plan[6] (e.g., network management fees) were not. As noted, this report focuses on AY 2013 – AY 2022 indemnity claim experience. However, the CWCI Claims Monitoring Application also includes data on all claims (indemnity and medical-only claim experience combined) so CWCI members who wish to view results for all claims may do so by accessing the application from the Research section of our website.

[6] Uniform Statistical Reporting Plan — 1995 (wcirb.com)

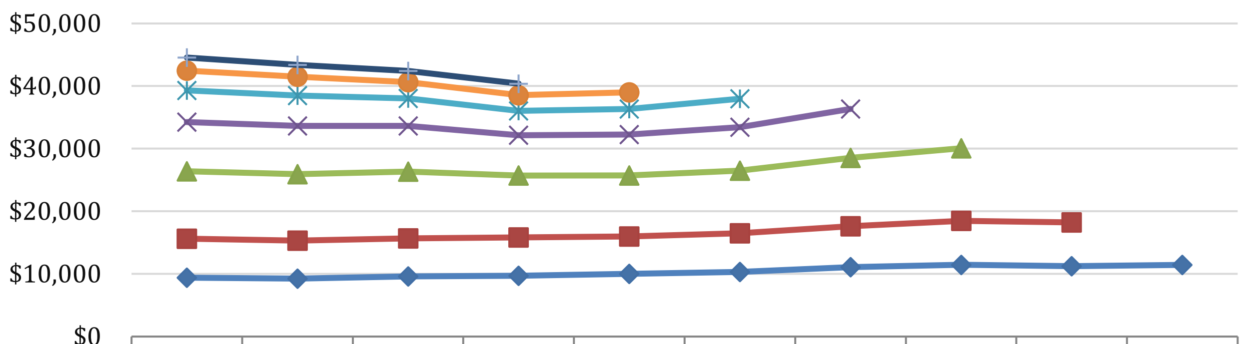
Results

Average Paid Loss Trends, Total Losses by Development Period, AY 2013 – AY 2022

Exhibit 1 shows the average paid loss trends for AY 2013 - AY 2022 indemnity claims at 7 levels of development. Average loss trends at 6 months (AY 2013 – AY 2022); 12 months (AY 2013 – AY 2021); and 24 months (AY 2013 – AY 2020) track loss development at earlier stages of the claims and are the only valuations with data on claims for injuries that occurred during the pandemic (AY 2020 – AY 2022), including COVID claims, which first appeared in AY 2020.

Looking back over the past decade shows average paid losses at 6 and 12 months of development declined after SB 863 took effect, but bottomed out in AY 2014, so by AY 2015, loss payments within the first year started to trend up and continued to rise through the first year of the pandemic (AY 2020). Average losses on AY 2020 claims at 6 months rose 3.5 percent from the AY 2019 level while average losses at 12 months increased 4.8 percent. As the pandemic progressed into the second and third years, average losses within the first year were relatively stable, as payments at the 6-month valuation declined 2.0 percent for AY 2021 claims, then increased 1.9 percent for AY 2022 claims, while payments at 12 months fell 1.4 percent between AY 2020 and AY 2021.

Exhibit 1: Average Medical+Indemnity Paid Losses at 6, 12, 24, 36, 48, 60 & 72 Months AY 2013 - AY 2022 Indemnity Claims



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
6mon	$9,428	$9,256	$9,601	$9,735	$10,000	$10,328	$11,079	$11,467	$11,238	$11,457
12mon	$15,651	$15,325	$15,690	$15,849	$16,001	$16,491	$17,623	$18,477	$18,225	
24mon	$26,423	$25,917	$26,360	$25,712	$25,755	$26,503	$28,540	$30,072		
36mon	$34,242	$33,653	$33,637	$32,149	$32,246	$33,455	$36,354			
48mon	$39,318	$38,513	$38,014	$36,048	$36,335	$37,966				
60mon	$42,467	$41,483	$40,662	$38,561	$39,007					
72mon	$44,561	$43,386	$42,416	$40,394						

The 24-month loss data shows a similar trend, falling slightly in AY 2014, after SB 863 took effect, though the subsequent uptrend was interrupted by a 2.5 percent decline in AY 2016 that drove the 2-year average to a post-reform low of $25,712 before it started to move up again, increasing by 17.0 percent to $30,072 over the next 4 years. Most of that 4-year increase occurred in AY 2019 when average 24-month paid losses rose 7.7 percent, and in AY 2020, when they increased another 5.4 percent. Unlike prior years, the 24-month experience for AY 2018, AY 2019, and AY 2020 claims coincided with the early stages of the pandemic which was declared in March 2020. Loss payment trends at 36 months (AY 2013 - AY 2019); 48 months (AY 2013 – AY 2018); 60 months (AY 2013 – AY 2017); and 72 months (AY 2013 – AY 2016) reflect the development of more mature claims that were most heavily impacted by the 2012 reforms. Average losses paid at those valuation points trended down for the AY 2013 – AY 2016 indemnity claims, but beginning with AY 2017 claims, average paid losses at the later development periods started to increase.

The most developed data in this data set is the 72-month data, which reflects the average amounts paid on indemnity claims 6 years after the injury date. Comparing the 72-month payments to the payments at the earlier valuation points shows how much loss costs increase as claims age. The most recent year for which 72-month data is available is AY 2016, which was the post-SB 863 low for claims at 36-, 48-, and 60-months post injury, and may well be the low point for the claims valued at 72 months. Nevertheless, reading down the AY 2016 column shows that the $40,394 in average paid losses on these claims at 72 months was still more than 4 times the $9,735 average paid at 6 months. This also comports with other research that shows California workers' compensation claims develop slower and stay open longer than claims in other states.[7]

Average Paid Medical, AY 2013 – AY 2022 Indemnity Claims by Development Period

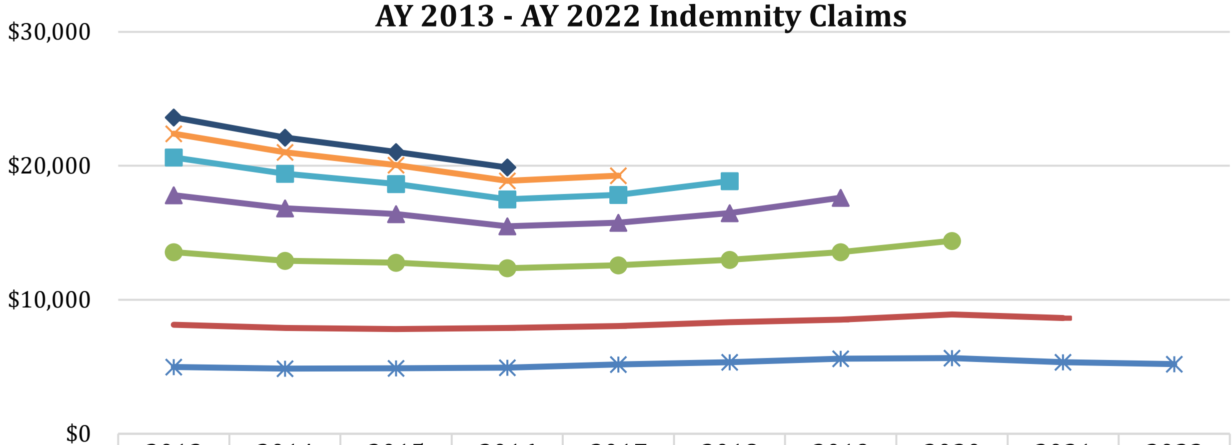
The Claims Monitoring Application segments the total average loss payments to show the average paid medical and the average paid indemnity for each accident year at each valuation point, which can be used to review and compare medical and indemnity loss trends for claims from various accident years across specific periods. The medical loss components tend to be expended at different points within the life of an indemnity claim (e.g., medical cost containment expenses are highest in the early stages, while med-legal expenses are higher after the first 2 years) so the Claims Monitoring Application notes medical costs at 9 valuation points ranging from 3 to 72 months post injury, though in the interest of brevity, this study limits the analysis of first-year experience to the 6- and 12-month data and excludes the 3- and 9-month data.

Over the past decade, multiple legislative and regulatory changes have impacted the amounts paid for the various medical loss components and the distribution of payments across the medical categories. These include changes to the Official Medical Fee Schedule, implementation of mandatory Utilization Review and Independent Medical Review, the adoption of the Medical Treatment Utilization Schedule Prescription Drug Formulary (effective January 1, 2018), and implementation of the revised Medical-Legal Fee Schedule, which took effect April 1, 2021.

[7] https://www.wcirb.com/sites/default/files/documents/wcirb_2023_state_of_the_system.pdf

Exhibit 2 shows the average medical paid per indemnity claim at the 7 valuation points for AY 2013 – AY 2022. As noted, the medical loss data represents the combined payments for treatment (including pharmaceuticals and DME), med-legal services, and medical cost containment expenses not classified as loss adjustment expenses by the Uniform Statistical Reporting Plan.

Exhibit 2: Average Medical Per Indemnity Claim at 6, 12, 24, 36, 48, 60 & 72 Months AY 2013 - AY 2022 Indemnity Claims



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
6mon	$4,983	$4,865	$4,887	$4,948	$5,165	$5,352	$5,606	$5,651	$5,335	$5,209
12mon	$8,145	$7,898	$7,816	$7,910	$8,051	$8,331	$8,525	$8,908	$8,646	
24mon	$13,572	$12,924	$12,780	$12,358	$12,581	$12,979	$13,560	$14,405		
36mon	$17,809	$16,833	$16,393	$15,488	$15,746	$16,466	$17,610			
48mon	$20,624	$19,422	$18,648	$17,505	$17,828	$18,869				
60mon	$22,400	$21,009	$20,046	$18,882	$19,277					
72mon	$23,620	$22,108	$21,035	$19,878						

The trendlines in the chart and the corresponding dollar amounts shown in the table reveal the growth trends for paid medical losses for claims from each of the 10 accident years at comparable points of development. As was the case with the combined medical/indemnity loss trend, average paid medical losses within the first year declined briefly after SB 863 was enacted, with average medical at 6 months bottoming out in AY 2014, and average medical at 12 months hitting a post-reform low in AY 2015. Average paid medical at both these short-term benchmarks then trended up steadily through AY 2020, when average payments at 6 months fell 5.6 percent and average payments at 12 months fell 2.9 percent. The 6-month medical payment data for AY 2022 claims indicate that the decline continued as the pandemic progressed, with medical losses at the half-year benchmark falling another 2.4 percent to a 5-year low of $5,209.

The average 24-month medical loss trend differed slightly from the 24-month total loss trend as the post-SB 863 decline continued uninterrupted through AY 2016 before edging up by 1.8 percent in AY 2017, the first in a string of increases that saw the 24-month average medical losses climb by a cumulative 16.6 percent over four years, hitting $14,405 in AY 2020. As with the overall loss trend at 24 months, the biggest increases in 24-month average medical payments were in AY 2019 (+4.5 percent) and in AY 2020, with the 24-month data on claims from both those years including payments for medical services delivered after the pandemic was declared. The 12- and 24-month data for AY 2022 claims and the 24-month data for AY 2021 claims are not yet available, so it remains to be seen whether the declines in average medical losses noted in the 6- and 12-month valuations for AY 2021 and the 6-month valuation for AY 2022 will continue to hold up as the more developed data for claims from the two most recent years become available.

The post-reform (AY 2013 – AY 2016) declines in average paid medical at the 36-, 48-, 60-, and 72-month benchmarks ranged between 13.0 percent and 15.8 percent and were more pronounced than the 6.1 percent to 9.4 percent declines in the total loss trends at those longer-term valuation points, pointing to the post-reform downtrend in paid medical as the primary factor driving overall losses down over that 4-year span. Like the overall loss trends, the average paid medical trends at 36, 48 and 60 months of development also bottomed out in AY 2016 and began to steadily increase from that post-reform low in subsequent years, with average paid medical at 60 months increasing 2.1 percent by AY 2017; average paid medical at 48 months increasing 7.8 percent by AY 2018; and average paid medical at 36 months increasing 13.7 percent by AY 2019.

Average Paid Indemnity, AY 2013 - AY 2022 Indemnity Claims by Development Period

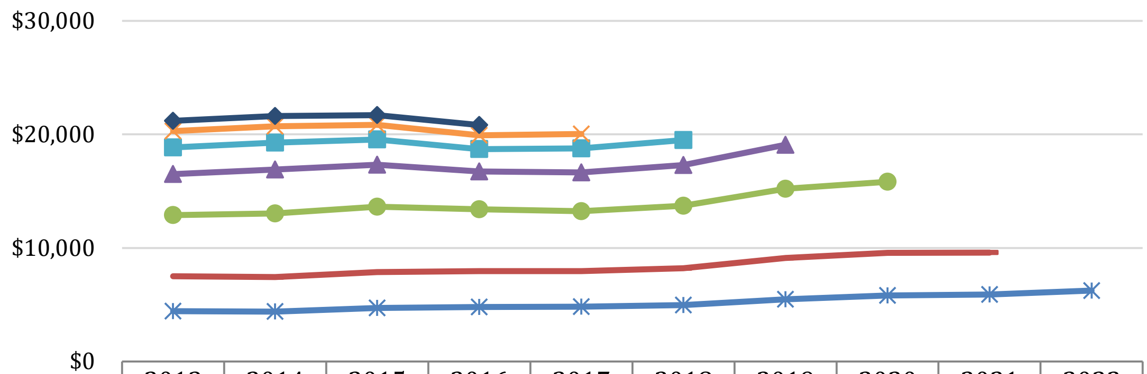
Indemnity benefits consist of payments for temporary disability (TD), permanent disability (PD), the supplemental job displacement benefit (SJDB), life pensions, and death benefits. TD benefits are tax-free payments provided to injured workers who are off work due to their industrial injury. TD payments begin after a 3-day waiting period. The waiting period is paid if the worker is off for more than 14 days or hospitalized. State law sets the TD payments at two-thirds of the worker's at-injury wages, subject to minimums and maximums that are adjusted annually based on increases in the state average weekly wage. Between AY 2013 and AY 2022, the annual adjustments resulted in a net increase of 44.3 percent in the maximum weekly TD rate (from $1,066.72 for AY 2013 claims to $1,539.71 for AY 2022 claims), which helped fuel the increase in average indemnity payments over that 10-year span.

For most injuries, TD can continue for up to 104 weeks while the injured worker is recovering, so TD is the most common type of indemnity payment and accounts for most of the indemnity paid in the early stages of a claim. It may take longer for a worker to become eligible for the other types of indemnity benefits, some of which may not be determined or paid until after the worker's medical condition is found to be permanent and stationary and their doctor determines the existence and extent of any permanent disability.[8] As a result, average indemnity payments in the

[8] LC § 4650(b)(2) requires claims administrators to advance PD immediately following the last date TD is paid if there is a reasonable expectation PD will be due. The exception is when the injured worker returns to work at the time of injury employer, or another employer, at 85 percent of the pre-injury wage.

first two years are primarily TD payments, while other indemnity benefits have a greater impact on the average indemnity paid at the later valuations. Exhibit 3 shows the average indemnity paid per claim at the seven levels of development for AY 2013 through AY 2022 claims.

Exhibit 3: Average Indemnity Per Indemnity Claim at 6, 12, 24, 36, 48, 60 & 72 Months AY 2013 - AY 2022 Indemnity Claims



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
6mon	$4,445	$4,392	$4,715	$4,789	$4,836	$4,976	$5,474	$5,819	$5,904	$6,249
12mon	$7,511	$7,438	$7,878	$7,957	$7,953	$8,222	$9,116	$9,579	$9,589	
24mon	$12,892	$13,027	$13,629	$13,398	$13,231	$13,709	$15,200	$15,827		
36mon	$16,503	$16,893	$17,324	$16,744	$16,639	$17,315	$19,087			
48mon	$18,856	$19,265	$19,551	$18,702	$18,772	$19,493				
60mon	$20,283	$20,705	$20,842	$19,921	$20,028					
72mon	$21,196	$21,625	$21,696	$20,825						

CWCI's April 2016 claim monitoring study noted that average first-year indemnity payments increased in AY 2012 and AY 2013, immediately after SB 863 took effect. At that point, the impact of the PD benefit increases and changes in the weekly PD rates included in SB 863 had yet to be reflected in the longer term results as the legislation called for these changes to begin with AY 2013 claims, with some continuing to be phased in for injuries on or after January 1, 2014. The latest figures update the 6-month average indemnity payments through AY 2022 and the 12-month payment data through AY 2021. Though there were some fluctuations, average indemnity payments at the 6-month valuation climbed 40.6 percent between AY 2013 and AY 2022, while first-year payments increased 27.7 percent between AY 2013 and AY 2021. Average indemnity payments at 24 months showed a similar trend, registering some fluctuations through AY 2017, then climbing in each of the subsequent three years, for a net increase of 22.8 percent between AY 2013 and AY 2020. Unlike the 6-, 12- and 24-month data, the 36-month data do not extend beyond AY 2019 claims, so there are no COVID claims in the 36-, 48-, 60- and 72-month data.

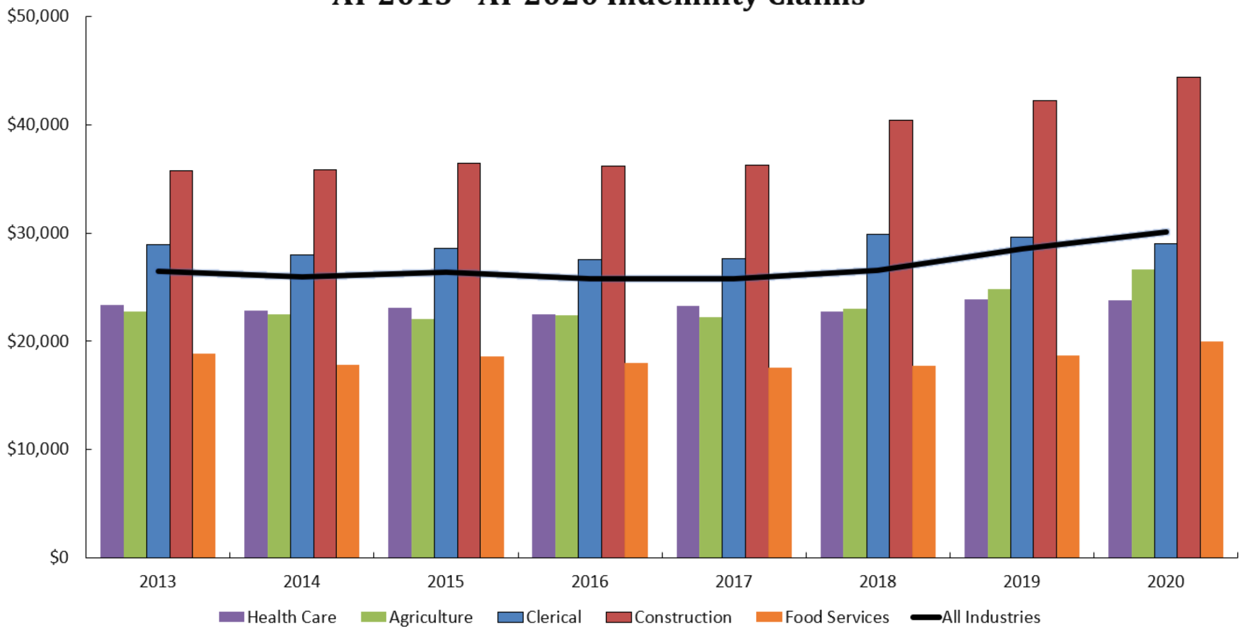
However, in the first few years after SB 863 took effect, the 36-month trendline for indemnity payments was similar to the trend lines at the shorter development periods, fluctuating within a narrow range until gradually climbing to a peak of $19,087 in AY 2019. Average indemnity payment trendlines at the longer term valuations, which are more heavily influenced by PD payments, and which only extend to AY 2018 for the 48-month data, to AY 2017 for the 60-month data, and to AY 2016 for the 72-month data, were flatter, with a net increase of 3.4 percent in the 48-month payments between AY 2013 and AY 2018; a net decrease of 1.3 percent in the 60-month payments between AY 2013 and AY 2017; and a net decrease of 1.8 percent in the 72-month indemnity payments between AY 2013 and AY 2016.

Average Total Loss Trends by Industry, AY 2013 - AY 2020 Claims at 24 Months

Average loss payments can vary significantly for claims from different industry sectors, as indemnity payments are affected by injured workers' wages (e.g., temporary disability is based on the workers' at-injury wages subject to the minimums and maximums set by the state), while medical payments vary based on the nature and extent of the injuries and illnesses, the length of treatment, and the medical care required to cure and relieve the effects of the injuries, which depend to a great extent on the risks associated with a given type of work.

To quantify the differences in average loss costs among major industry groups, the author isolated the average total losses (medical + indemnity) at 24 months for indemnity claims from five major industry sectors: (health care; agriculture; clerical; construction; and food service) and compared those results to the average for all industries. The results are shown in Exhibit 4.

Exhibit 4 Average Paid Losses at 24 Months by Industry
AY 2013 - AY 2020 Indemnity Claims



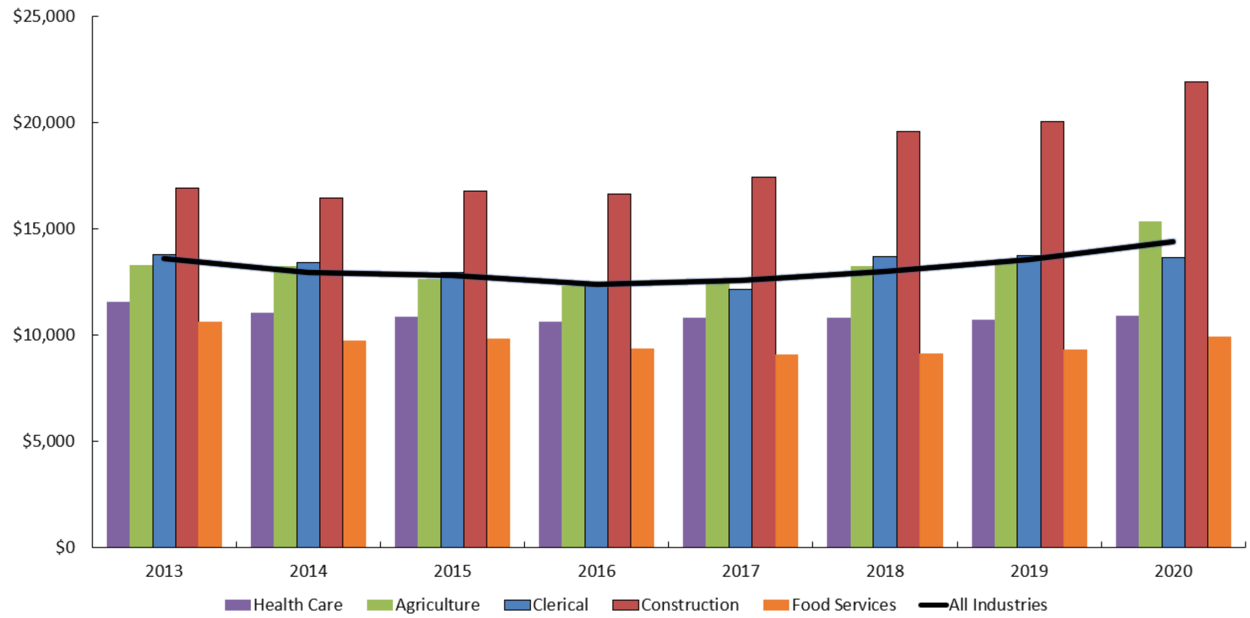
Average total loss payments for construction sector indemnity claims are among the highest in the state. The latest data show that AY 2020 construction claims at 24 months averaged $44,379, or nearly 1-1/2 times the all-industry average of $30,072. The average total loss on 2020 construction industry indemnity claims at 24 months was also 53.0 percent more than the $29,009 average for clerical claims, which was second among the five sectors in all eight accident years.

Many injured workers in food service, agriculture, and health care are low-wage employees, including seasonal, part-time, and minimum wage workers, so from AY 2013 - AY 2020, average total losses for indemnity claims in these sectors were below the all-industry average. For example, 24-month total paid losses on AY 2020 indemnity claims from the food service sector averaged $19,992, or 33.5 percent below the all-industry average; while payments on health care indemnity claims averaged $23,800, or 20.9 percent below the all-industry average; and payments on agriculture indemnity claims averaged $26,676, or 11.3 percent below the all-industry average.

The pandemic, which began in March 2020, affected the 24-month results for claims from the three most recent accident years, with the greatest impact on AY 2020 indemnity claims, though it also affected the 2-year losses on AY 2018 and AY 2019 claims. Exhibit 4 shows that the average 24-month paid losses for all industries were flat from AY 2013 - AY 2017, but then began to trend up, increasing 2.9 percent in AY 2018, 7.7 percent in AY 2019, and 5.4 percent in AY 2020, for a net increase of 16.8 percent over that 4-year span. Among the five industry sectors in the study, construction saw the biggest increase in average 24-month indemnity claim loss payments from AY 2017 - AY 2020 (+22.5 percent); followed by agriculture (+19.8 percent) and food service (+13.9 percent). Meanwhile, average 24-month loss payments for clerical claims rose 5.0 percent from AY 2017 - AY 2020, while health care claims increased 2.3 percent.

Exhibit 5 shows average medical losses paid at 24 months for all AY 2013 – AY 2020 indemnity claims and compares the results for the same five industry sectors used in Exhibit 4.

Exhibit 5: Average Medical Benefits Paid at 24 Months by Industry
AY 2013 - AY 2020 Indemnity Claims



As was the case with the average total losses, the average medical losses among indemnity claims in these five industry sectors were highest for construction claims across the entire 8-year period. The most recent 24-month valuation shows medical payments on AY 2020 construction sector indemnity claims averaged $21,910, 52.1 percent more than the $14,405 average for all indemnity claims statewide. Conversely, average medical payments at 24 months were consistently lowest among food service and health care workers, with medical payments for AY 2020 food service claims at 2 years post injury averaging $9,944 (31.0 percent below the average for all industries) while the average for health care workers was $10,918 (24.2 percent below the all-industry average). Notably, 24-month average paid medical losses for both agricultural and clerical workers have consistently been much more in line with the statewide average, and in AY 2020 they came in at $15,331 and $13,660 respectively.

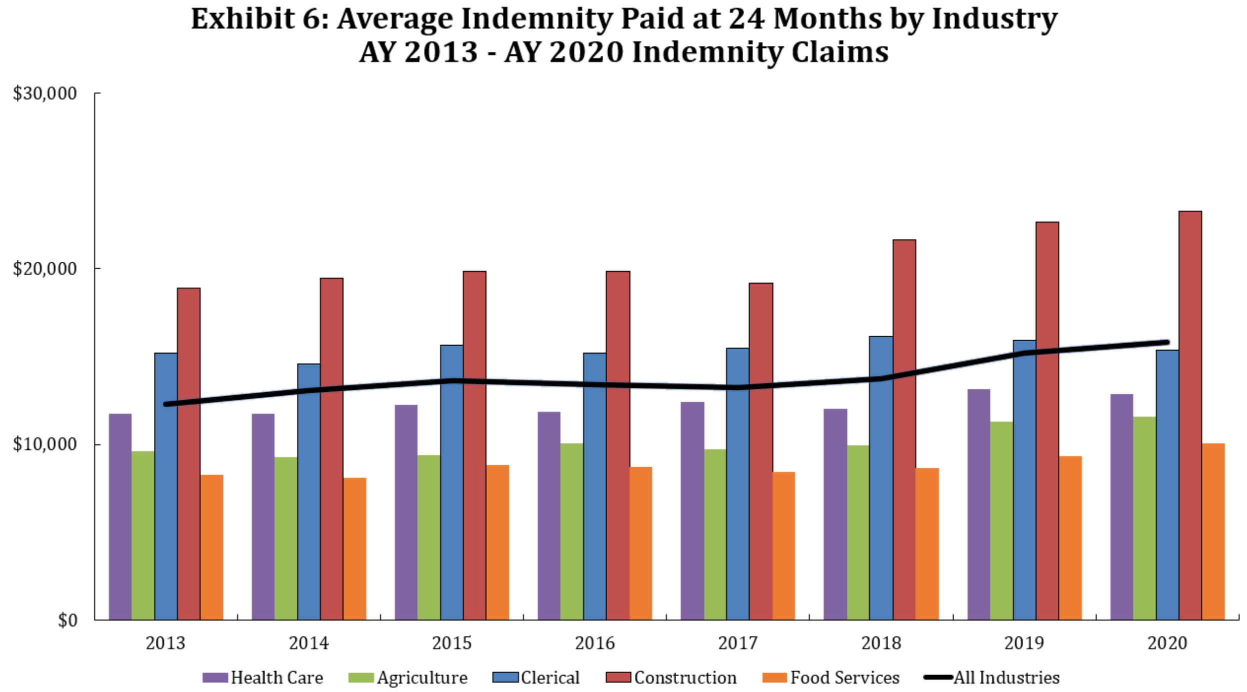
Comparing the change in average 24-month medical payments for AY 2017 indemnity claims (the last year in which the pandemic had no effect on 2-year claims experience) to the average for AY 2020 indemnity claims shows that across all industries, the average amount paid per claim in the first two years climbed by 14.5 percent. That increase was the net effect of a 3-year uptrend that included a 3.2 percent increase for AY 2018 claims, a 4.5 percent increase for AY 2019 claims, and a 6.2 percent increase for AY 2020 claims. There was, however, significant variation in the growth of paid medical losses among the industry sectors.

The construction sector recorded the biggest jump in 2-year medical losses as the pandemic unfolded, as total medical payments per claim at 24 months jumped 25.7 percent between AY 2017 and AY 2020. The agriculture sector also saw a significant increase, as average 2-year medical losses in this sector jumped by 22.2 percent, though much of that increase was due to a surge in 24-month medical payments on AY 2020 indemnity claims, which increased by $1,743 from the AY 2019 level – up 12.8 percent in a single year. Meanwhile, the clerical sector (+12.4 percent) and the food service sector (+9.2 percent) also registered increases between AY 2017 and AY 2020, though both lagged the statewide increase, while the 24-month medical payments on indemnity claims from the health care sector showed almost no change, increasing by only 0.8 percent from AY 2017 to AY 2020.

Average Indemnity Loss Trends by Industry, AY 2013 - AY 2020 Claims at 24 Months

Since TD benefits comprise most of the indemnity paid within the first 24 months of an injury, and TD payments are based on the worker's at-injury wages, subject to the minimums and maximums set by the state, the breakdown of average indemnity payments by industry sector is greatly affected by the average weekly wages within each sector.

Exhibit 6 shows the 24-month average indemnity payment trendline for all AY 2013 – AY 2020 indemnity claims and compares the results for the five industry sectors highlighted in the study.



Because TD is based on the injured worker's wages and food service workers tend to have lower earnings and return to work relatively quickly,[9] from AY 2013 - AY 2020, workers in this sector had the lowest average indemnity payments at the 2-year benchmark, with the most recent 24-month results showing they averaged $10,048 on AY 2020 indemnity claims – 36.5 percent less than the all-industry average of $15,827. Similarly, agricultural workers averaged $11,571 in paid indemnity on their AY 2020 claims at 24 months, which was 26.9 percent below the all-industry average. At the other end of the spectrum, construction workers had the highest average indemnity payments, with the 24-month data showing they averaged $23,243 in total indemnity payments on their AY 2020 claims, or 46.9 percent more than the average for all sectors.

Average Total Loss Trends by Region, AY 2020 Claims at 24 Months

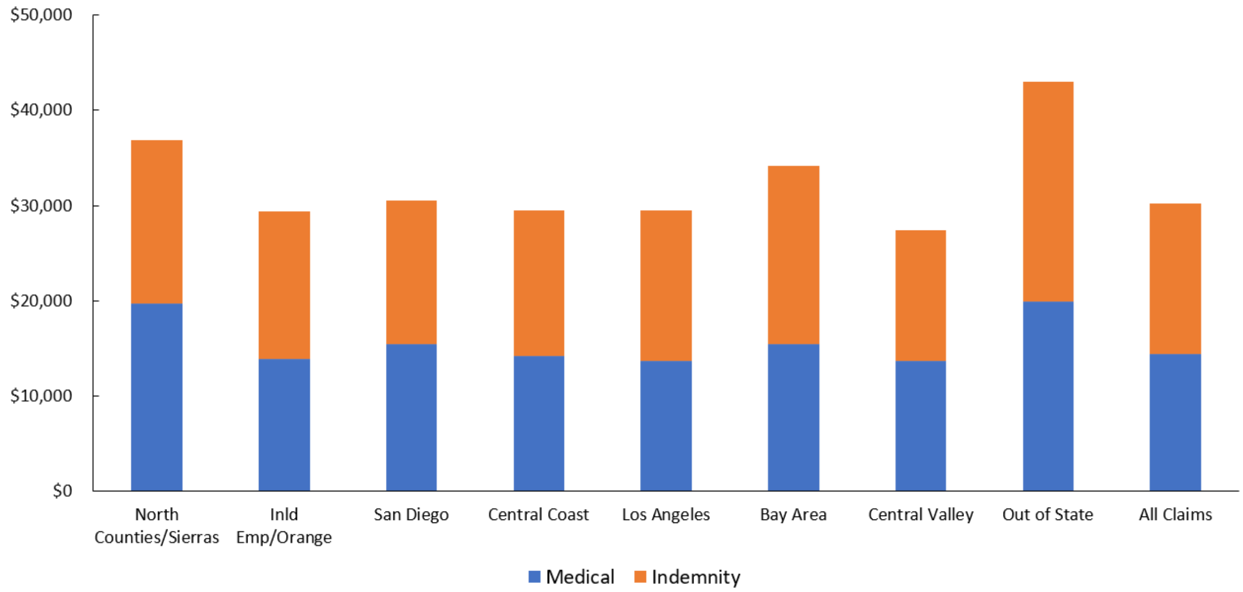
Statewide, from AY 2013 through AY 2020, total paid losses per indemnity claim at 24 months post injury ranged from a post-SB 863 low of $25,712 for AY 2016 claims to a high of $30,072 for AY 2020 claims, which are the latest claims for which 24-month data are available. This translates to about a 3.3 percent annual increase. The total loss payments per claim within each region reflect a number of variables, including the types of jobs found within the region, the severity of the most common injuries, the types and duration of treatment needed to cure and relieve the injured worker from the effects of the injuries, the distance that injured workers travel

[9] According to CWCI's IRIS database, in AY 2020 food service workers with indemnity claims averaged 102 paid TD days at 24 months post-injury vs. 118 days for all workers with lost-time claims. Health care and agriculture workers averaged 96 days, clerical workers averaged 119 days, while construction workers averaged 139 days.

to receive treatment, and the average time off work. As a result, there is significant variation in average losses per indemnity claim across different regions.

Exhibit 7 shows the average total losses paid at 24 months for AY 2020 indemnity claims broken out for seven distinct regions of the state, and for out-of-state claims, based on the injured worker's home ZIP code.

Exhibit 7: Average Total Losses Paid at 24 Months by Region
AY 2020 Indemnity Claims



Average paid losses at 24 months were highest for injured workers living out of state, who consistently accounted for about 5 percent of all indemnity claims between AY 2013 and AY 2020. Among the indemnity claims from each of those 8 accident years both the average medical and the average indemnity payments of injured workers who live out of state exceeded those of workers who live in California, with the total payments on AY 2020 claims at the two-year benchmark averaging $42,980 – 42.9 percent above the statewide average. On the medical side, part of this would reflect the use of non-network medical providers and the added travel expenses for workers who come back to California for medical services. On the indemnity side, the challenge of finding out-of-state medical providers who understand and are willing to comply with California workers' compensation reporting and payment rules might also lead to treatment delays and longer TD periods, increasing the 24-month indemnity payments for workers living out of state.

Workers living in the rural North Counties/Sierra region of the state also had relatively high 24-month paid losses per indemnity claim, primarily due to high medical payments on their claims, which in AY 2020 averaged $19,707, just 0.8 percent below the average for out-of-state claims and 36.8 percent above the statewide average. The average 24-month medical losses on the indemnity claims from this sparsely populated region, which accounted for about 4 percent of the indemnity claims in the state during the study period, ranked second behind the out-of-state claims from AY 2014 through AY 2020, likely due to the severity of the injuries associated with major industries in the region (e.g., lumber, fishing and mining), and the high treatment and travel costs associated with those injuries. In addition, the average medical loss for claims from the North Counties/Sierra registered a notable spike in AY 2020, jumping 32.8 percent between AY 2019 and AY 2020, the initial year of the pandemic.

Workers in the Bay Area, who accounted for one out of every six indemnity claims in AY 2020, are the highest paid in the state, with three counties in this region having the highest average weekly wages in the country.[10] This is reflected in the indemnity payments on lost-time claims from the Bay Area, which for AY 2020 claims averaged $18,659 at 24 months, 29.5 percent higher than the $14,405 statewide average and second only to the out-of-state claims. At the same time, 24-month medical payments on AY 2020 claims from Bay Area residents were also relatively high, averaging $15,466, or 7.4 percent above the statewide average, and were exceeded only by the out-of-state claims and those from the North Counties/Sierra. As a result of these relatively high indemnity and medical payments, the average two-year total loss payments on the AY 2020 Bay Area lost-time claims were the third highest in the state.

Average 24-month loss payments on AY 2020 indemnity claims from Los Angeles County were $29,470, about 2.0 percent below the statewide average as average medical losses were nearly 5percent below the average for the state while the average indemnity payments nearly matched the statewide figure. The 2-year paid losses on 2020 indemnity claims from San Diego, the Inland Empire/Orange County, and the Central Coast were also close to the statewide average, as all were within 3.0 percent of the statewide figure. On the other hand, average 24-month loss payments on claims from the largely agricultural Central Valley, which accounted for more than one out of every five indemnity claims in the state, averaged just $27,292 at the 2-year benchmark, 9.2 percent below the average for the entire state, as medical payments per claim were 5.3 percent less than the statewide average, and average indemnity payments, most of which would be TD payments which are based on the injured workers' wages, were 13.2 percent less.

Summary

This report provides an updated look at California workers' compensation medical and indemnity loss trends using AY 2013 to AY 2022 data valued as of December 31, 2022 to measure changes in the average medical and indemnity paid losses since the SB 863 reforms took effect through the first 2 years of the pandemic. In addition to looking at the total paid loss trends by accident year at 7 levels of development, the report breaks out the medical and indemnity paid loss trends and

[10] As of Q4 2022, Santa Clara ($3,329), San Francisco ($2,962), and San Mateo ($2,939) counties had the highest average weekly wages in the U.S. https://www.bls.gov/regions/west/news-release/countyemploymentandwages_california.htm

examines regional variations by comparing 24-month average total losses for AY 2020 claims from workers residing in 7 regions of the state and out of state. Among the key findings:

- First-year total paid losses on indemnity claims declined briefly after SB 863 took effect a decade ago, but average paid losses at 6 and 12 months bottomed out in AY 2014 and started to slowly trend up by AY 2015, continuing to increase through the first year of the pandemic (AY 2020). For the first time in seven years the 6- and 12-month average paid loss trends declined slightly in AY 2021 – the second year of the pandemic – while the 6-month data for AY 2022 claims showed a marginal increase, so since the pandemic began average total losses in the initial months after injury have remained within a narrow range.
- The post-reform decline in average 24-month medical losses continued through AY 2016 but between AY 2017 and AY 2020 average paid medical losses at 24 months trended up, climbing 16.6 percent over four years, which helped fuel an increase in the overall 24-month loss trend. The 24-month average medical payments rose sharply in AY 2019 (+4.5 percent) and in AY 2020 (+6.2 percent). Notably, the 24-month data on claims from both those years included payments for medical services delivered during the pandemic.
- More developed data on older claims show average total losses at 36, 48, 60 and 72 months trended down through AY 2016, but beginning with AY 2017 claims, average paid losses at the later development periods started to increase.
- Despite some fluctuations average indemnity payments at 6 months increased 40.6 percent between AY 2013 and AY 2022, while average indemnity paid at 12 months rose 27.7 percent between AY 2013 and AY 2021. Average indemnity payments at 24 months also fluctuated through AY 2017, but increased for AY 2018, AY 2019, and AY 2020 claims, producing a net increase of 22.8 percent between AY 2013 and AY 2020.
- Unlike the 6-, 12- and 24-month data, there are no COVID claims in the 36-, 48-, 60- and 72-month results as data at those levels of development are not available beyond AY 2019, and the pandemic began in AY 2020. However, in the first few years after SB 863 took effect, the 36-month trendline for indemnity payments tracked with those at the shorter development periods, first fluctuating in a narrow range then gradually trending up to a peak in AY 2019. Average indemnity payments at the longer-term valuations, which are more affected by PD, were flatter with a net increase of 3.4 percent in the 48-month payments between AY 2013 and AY 2018; a net decrease of 1.3 percent in the 60-month payments between AY 2013 and AY 2017; and a net decrease of 1.8 percent in the 72-month payments between AY 2013 and AY 2016.
- A review of 24-month average losses on indemnity claims by industry found that among five key sectors, total losses on construction claims were consistently 1-1/2 times the average for all sectors. The 24-month total losses on AY 2020 construction claims

averaged $44,379 versus the all-industry average of $30,072, and the $29,009 average for clerical claims, which ranked second among the 5 sectors in all 8 accident years. The 24-month average paid medical on AY 2020 construction claims was 52 percent more than the all-industry average, and the average paid indemnity was 46.9 percent more.

- Regional data show California claims from injured workers who live out of state were consistently the most expensive, with both the highest average medical and indemnity losses. In AY 2020 total paid losses on indemnity claims by out-of-state residents averaged $42,980 – 42.9 percent above the statewide average. Much of this is likely associated with the use of non-network medical providers, the added travel expenses for workers who come back to California for medical services, and the delays and extended TD periods that occur while locating and arranging treatment for out-of-state workers.
- Among injured workers living in California, average 24-month losses were highest in the North Counties/Sierra, a region that includes more remote areas with fewer primary and specialist physicians and ancillary services, and hazardous industries where workers often suffer extremely severe injuries that require extensive medical care and medical travel to areas where that care is available. In AY 2020, 24-month medical losses on indemnity claims from the North Counties/Sierra averaged $19,707, nearly matching the average for out-of-state claims and 36.8 percent above the statewide average.
- The 9-county San Francisco Bay Area also had above-average loss costs, primarily due to the higher TD payments on lost-time claims, as wages in the Bay Area are the highest in the state, though average medical losses also tend to be higher than in most other regions. The two-year paid losses on 2020 indemnity claims from Bay Area residents were the third highest in the state, as the average paid indemnity on these claims was 29.5 percent above the statewide average, and the average paid medical loss was 7.4 percent higher.
- The sprawling Central Valley, dominated by agriculture, had the lowest average loss costs in California, with average total losses at 24 months on AY 2020 indemnity claims averaging 9.2 percent below the statewide average – the result of lower medical losses, which averaged 5.3 percent below the average for all indemnity claims in the state, and lower indemnity payments, which averaged 13.2 below the statewide figure.

These results highlight recent data from CWCI's Claims Monitoring Application, an interactive tool that allows CWCI members to access detailed, industrywide loss data. The current version of the application includes data on AY 2009 - AY 2022 claims, valued as of December 31, 2022. The Institute will post the next update with claims and payment data through June 2023 later this year. In the meantime, CWCI members may access the application and familiarize themselves with the types of data that are available and the options for creating customized views and analyses by logging on to www.cwci.org and clicking the Interactive Research button from the dropdown menu under the Research tab at the top of the home page.

About the Author

Bob Young is the Communications Director at the California Workers' Compensation Institute.

Acknowledgements

The author would like to thank CWCI Senior Research Associate Robby Bullis, CWCI Senior Research Associate Steve Hayes, CWCI Senior Vice-President of Research and Operations Rena David, CWCI General Counsel Sara Widener-Brightwell, and CWCI President Alex Swedlow for their input and technical contributions in the drafting and preparation of this report.

California Workers' Compensation Institute

The California Workers' Compensation Institute, incorporated in 1964, is a private, nonprofit organization of insurers and self-insured employers conducting and communicating research and analyses to improve the California workers' compensation system. Institute members include insurers that collectively write more than 70 percent of California workers' compensation direct written premium, as well as many of the largest public and private self-insured employers in the state. Additional information about CWCI research and activities is available on the Institute's web site (www.cwci.org). The CWCI is not affiliated with the State of California.

CWCI Research Updates are published by the California Workers' Compensation Institute.

1999 Harrison St., Suite 2100, Oakland, CA 94612 510-251-9470 www.cwci.org