



Los Angeles Risk and Insurance Management Society

July 2015

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LA RIMS
PO Box 10065
Burbank, CA 91510
818.843.2245
www.larims.org

President's Message

From Vincent Monastersky



Summer is officially here. This is a time where we all become risk managers dealing with such realities as the recent heat wave, our drought and continuous energy conservation. Los Angeles RIMS hopes to supplement any existing vacation plans with our variety of fun events. Most notably our [Mixer](#) is back this year on August 12th. With the help of our sponsors, we look forward to be holding this event at the Jonathan Club in Santa Monica.

The past three months for the Chapter and the Society were full of activity. On April 9th, our first ever Rising Risk Professionals event drew a large turnout of enthusiastic young risk professionals. This resulted in a unique and fresh networking opportunity for all those who attended.

At the end of April, the Annual Conference brought some inclement weather at first but it ended up being an exciting and productive event. On May 20th, the Chapter brought our Monthly Education Event back to Pasadena with an opportune talk on Global Health Security Risks by Dr. Myles Druckman, M.D. And last but not least, our Annual Golf Tournament, which has turned out to be a consistent success. Congratulations to all the winners of our various prizes and a huge thank you to all our sponsors, volunteers, players, Brookside Golf Club and our Golf Chair, Chad Smith. Please enjoy the [photos](#).

As stated earlier, LA RIMS plans to continue this momentum into the summer. On July 15th, we will have our second Risk Manager [Roundtable](#) of the year, hosted by Parsons. Then in August, we will unwind by the beach with some appetizers, cocktails and dancing at our Summer [Mixer](#) at the Jonathan Club in Santa Monica. We are hoping you all can attend as this will be an exciting time to network amongst us professionals. We received enormous support from our sponsors and thank you all for making this event possible. Then in September, we plan to hold our next [Monthly Education Event](#) at the DoubleTree by Hilton in the Downtown LA area. This stays true to our goal of expanding our reach throughout the Los Angeles region. Please stay tuned for the venue location and topic.

As you can see, LA RIMS strives to bring its members exciting and educational events throughout the year. We hope to meet the needs of all of our members and will continue to listen and support those needs within the insurance and risk management community.

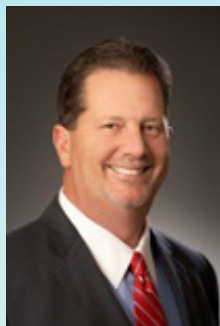
Thank you for your support.

Vincent Monastersky, CIC, CRM, ARM
LA RIMS Chapter President

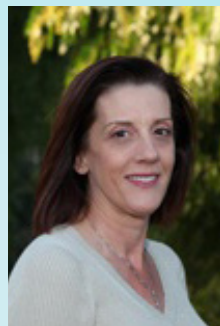
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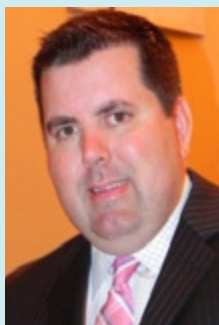
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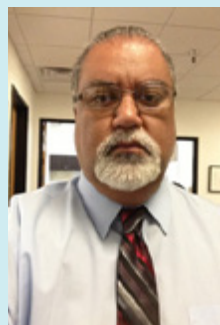
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Chapter Delegate
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Cheesecake Factory, Inc



Rising Risk Professionals
Gerrie Santos
Parsons Corp.



Director at Large
Jonathan Bredehoff
Westfield, LLC

Upcoming Events!

Mark your calendars!

July 15, 2015

*Risk Manager Round Table
Parsons Corp. - Pasadena, CA*

August 12, 2015

*RIMS Mixer
Jonathan Beach Club - Santa Monica, CA*

September 16, 2015

*Luncheon Meeting
DoubleTree by Hilton - Downtown Los Angeles*

October 21, 2015

*Education Day
Brookside Golf Club - Pasadena, CA*

November 18, 2015

Risk Manager Round Table

December 3, 2015

*Installation of Officers & Holiday Party
Woodland Hills Country Club - Woodland Hills, CA*

Welcome

New RIMS Members



Max de Brouwer - Grifols Shared Services North America Inc.

Adam Boujid - Activision Blizzard

Phil Bahng - Infineon Technologies Company

Kristine Hogans - Infineon Technologies Company

Haleh Khodayari - Advanced Consulting, Inc.

Andrea Garber - Comcast Corporation

Patrick Novack - Avery Dennison Corporation

Richard Steets - Westfield, LLC

Yesenia Lopez - DIRECTV, Inc.

Michael Lyman - DIRECTV, Inc.



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Golf Tournament

Best Hole Winner

AIG



Golf Tournament



Golf Tournament

First Place Winners



Congratulations

Golf Tournament



Golf Tournament

Tournament Sponsor



Hole Sponsors

ACE

AIG

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AON

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Corvel

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Liberty Mutual/Helmsman Management Systems

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K2 Investigations

Old Republic Risk Management

Orchid Medical

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Management**

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FM Global

**Frasco Investigative
Services**

Terranea Resort

The Hartford

The Walt Disney Company

JUNE 2015

CALIFORNIA WORKERS' COMPENSATION SB 863: HOW IS IT MEASURING UP?

AUTHOR

Esther Becker, ACAS, MAAA
Principal

Jillian Hagan, FCAS, MAAA
Senior Consultant

In September 2012 California Governor Jerry Brown signed Senate Bill 863 (SB 863) into law. The primary goals of the bill were to increase benefits to injured workers over a 2 year period beginning January 1, 2013 and to produce system-wide savings by reducing medical and frictional costs by correcting inefficiencies and restructuring elements of the system.

Almost two and a half years following the effective date of SB 863 in California, how are the provisions of the bill playing out? In this piece, we review the initial expectations and the industry's view on how actual results are measuring up against those expectations. Additionally, we review notable trends in California Workers' Compensation as a whole.

SB 863 INITIAL EXPECTATIONS & CURRENT UPDATE

The California Workers' Compensation Insurance Rating Bureau (WCIRB) provided prospective estimates of the impact of this legislation, estimating a **5.8% reduction** in total loss and loss adjustment expenses (LAE) for the 2013 accident/calendar year compared to pre-reform costs. For the 2014 accident/calendar year, which includes an increase in the maximum weekly permanent disability (PD) benefit effective January 1, 2014, the WCIRB estimated a **2.7% reduction** in total loss and LAE compared to pre-reform costs. These estimates contemplated workers' compensation cost components that were quantifiable at the time.

WCIRB prospectively estimated change in total loss and LAE



The WCIRB has monitored the impacts of SB 863 since it was signed into law. Recently, the WCIRB's July 1, 2015 rate filing was approved in May 2015 and resulted in an advisory pure premium rate (total loss and LAE per \$100 of payroll) **10% lower** than the rate for policies effective January 1, 2015. This rate filing reflected some notable trends in California workers' compensation costs, some of which may be related to provisions of SB 863. Below is a summary of the main drivers of favorable development and areas of concern identified in the WCIRB's most recent rate filing, with focus on those items related to SB 863.

The recently approved California rate filing reflected some notable trends in California workers' compensation costs.

MAIN DRIVERS OF FAVORABLE DEVELOPMENT

Improvements in Medical Loss Development	Significant improvements in medical loss development have resulted in a decrease in the WCIRB's projected ultimate medical loss ratios of about 4-7% for 2011-2013 compared to estimates from the amended January 1, 2015 rate filing.
Favorable Development for Indemnity and Medical on Indemnity Severities	<p>Average severities for indemnity and medical on indemnity claims appear to be emerging lower than the WCIRB's earlier estimates.</p> <ul style="list-style-type: none"> The estimated cumulative change in average indemnity severity for 2013 & 2014 is a 7% increase, compared to an initial projection of a 12% increase. The estimated cumulative change in average medical on indemnity severity for 2013 & 2014 is an 8% decrease, compared to an initial projection of a 10% increase, which the WCIRB believes is likely driven by provisions of SB 863 that are aimed at reducing medical costs
Accident Year 2014 Favorable Development	Following 3 years of relatively consistent on-level loss ratios, the 2014 projected ultimate combined indemnity and medical loss ratio is showing signs of favorable development (67% for 2014 compared to 71% for 2011-2013) . It should be noted that these indications are relatively immature at this point, as the WCIRB rate filing is based on data evaluated 12/31/2014 and accident year 2014 is only aged 12 months.



AREAS OF CONCERN

Increasing Indemnity Claim Frequency

While generally decreasing in most other states, **California indemnity claim frequency continues to increase**. The WCIRB notes that the continuing increase is concentrated in the **Los Angeles region** and is largely driven by **cumulative injury claims**, particularly those involving **multiple body parts**, while other regions of California have shown modest declines. The WCIRB's **estimated changes in indemnity claim frequency for accident years 2011, 2012, and 2013 are 3.1%, 0.7%, and 1.2%, respectively**.

Increasing Loss Adjustment Expenses

Average allocated loss adjustment expense (ALAE) and unallocated loss adjustment expense (ULAE) costs continue to show significant increases since the enactment of SB 863, versus initial expectations that loss adjustment expenses would decrease.

PAID ALAE PER INDEMNITY CLAIM AT 12 MONTHS – PRIVATE INSURERS



Source: WCIRB July 1, 2015 Pure Premium Rate Filing, April 2015

- The estimated **average change in ALAE per indemnity claim for 2013 & 2014 is a 19% increase**, compared to an initial projection of a 10% decrease.
- The estimated **average change in ULAE per indemnity claim for 2013 is a 4% increase**, compared to an initial projection of a 12% decrease.



Potential Understatement of ULAE Projection

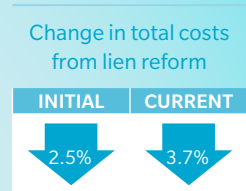
The WCIRB has identified a number of concerns regarding the ULAE projection including **limited data** and understatement of true claims adjusting costs in California due to **treatment of large deductible ULAE/TPA costs and allocations of countrywide ULAE amounts to California** (paid ULAE ratios of national insurers are about 40% of ULAE ratios of predominant CA insurers). Accordingly, the estimated 4% increase in average ULAE costs noted above could potentially be higher.

SB 863 IMPACT—SIGNIFICANT DEVIATIONS FROM EXPECTATIONS

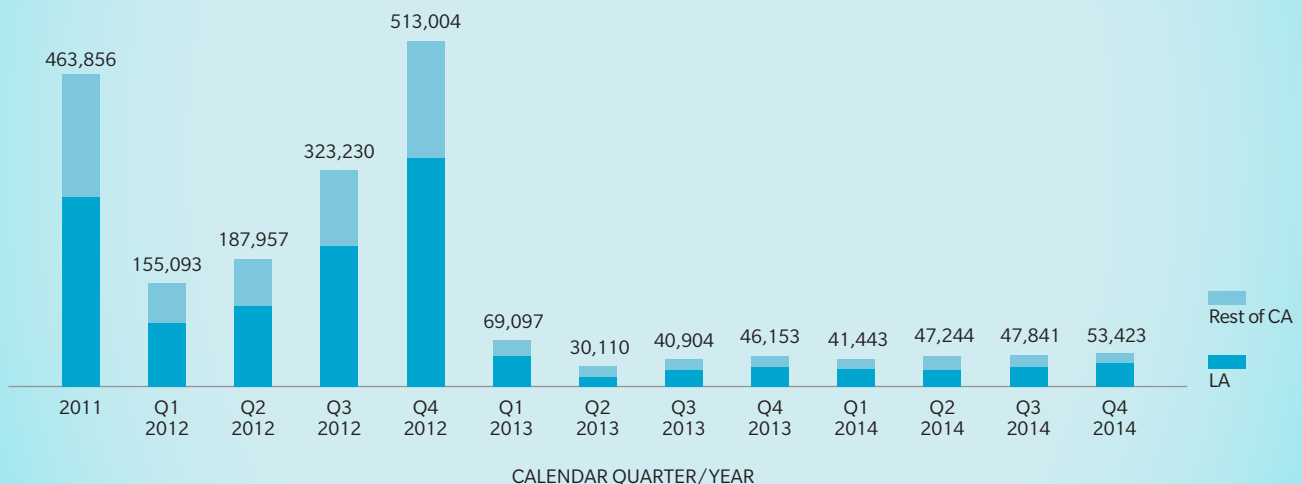
Additionally, while not identified as primary drivers for improvement or areas of concern in the WCIRB's most recent rate filing, the following significant deviations in lien and Independent Medical Review (IMR) frequency from initial expectations should be noted, as described in the Senate Bill No. 863 WCIRB Cost Monitoring Report – 2014 Retrospective Evaluation, November 2014.

GREATER REDUCTIONS IN NUMBER OF LIENS THAN PROJECTED

Calendar year 2013 shows a **60% reduction in the number of lien filings compared to 2011**, with similar indications for calendar year 2014, compared to the initial projection of a 41% reduction in liens. Accordingly, the WCIRB **revised its initial projection** of 2.5% reduction in total costs from lien reform **to a 3.7% reduction in costs**.



LIENS FILED COUNTS BY REGION



Source: Senate Bill No. 863 WCIRB Cost Monitoring Report – 2014 Retrospective Evaluation, November 2014

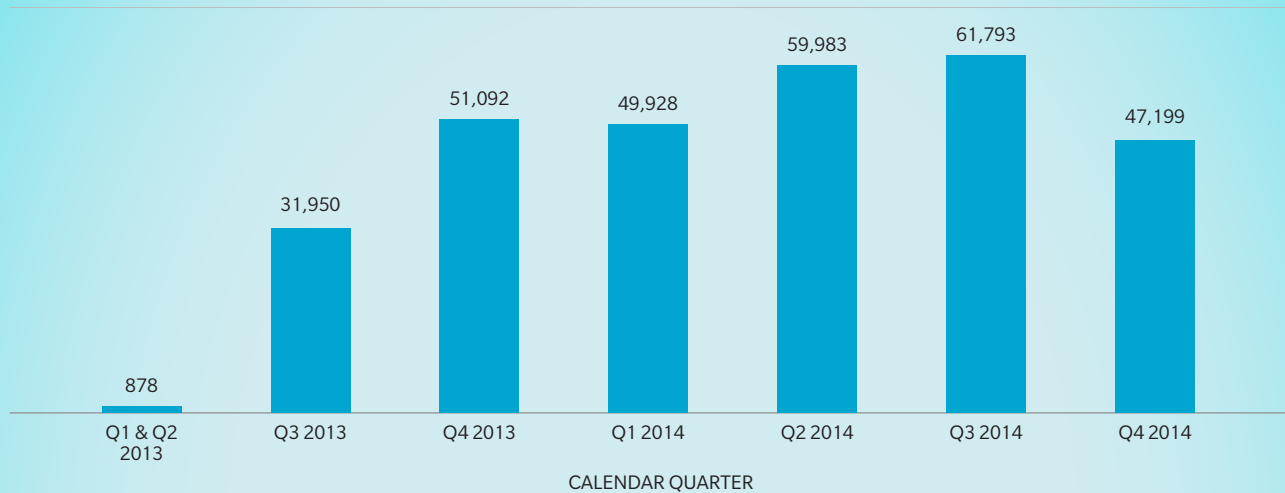
FREQUENCY OF IMR REQUESTS HIGHER THAN PROJECTED

The accident year 2013 and 2014 **number of IMR requests is about 2 times the initial projections**. Given that significant reductions in frictional costs expected from the new IMR process have not materialized, the WCIRB **revised its initial projection** of a 2.1% reduction in total costs from the new IMR process **to a 1.1% reduction in costs**.

Change in total costs
from new IMR process

INITIAL	CURRENT
2.1%	1.1%

IMR FILED COUNTS



Source: WCIRB March 18, 2015 Actuarial Committee Meeting Agenda

CONCLUSION

The most recent WCIRB rate filing is reflective of some favorable indications for medical costs and average indemnity claim values, as well as less favorable indications for loss adjustment expenses. That said, it is important to note that the full impact of SB 863 will not be known for a number of years as WC claims have a long average duration and adequate data is not yet available to analyze the impact of a number of other cost components that will likely be impacted by SB 863. Oliver Wyman will continue to monitor the impact of SB 863 both among its own client base and by keeping abreast of trends as reported by industry sources such as the WCIRB and CWCI.

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Esther Becker, ACAS, MAAA
Principal
esther.becker@oliverwyman.com
415.743.7940

Jillian Hagan, FCAS, MAAA
Senior Consultant
jillian.hagan@oliverwyman.com
415.743.7944

www.oliverwyman.com/actuaries

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