

Systemic problems: the perspective of a leading California-based Workers' Comp carrier

The overall picture for future rates and premiums for California Workers Comp is not pretty. For the past five years, we have enjoyed a welcome respite in spiraling costs, but for 2011 and beyond, we are likely to be looking at rate increases of 10% to 20%. Briefly itemized below are systemic drivers of future increases.

- ◆ *Significant medical cost inflation:* California is experiencing double the national rate in increase in healthcare costs. According to the WCIRB, California medical costs have risen 60% over the last five years.
- ◆ *Rising litigation:* Allegations of multiple body parts damage and psychological stress disorders, according to industry studies, partially account for why litigated claims cost almost twice as much as non-litigated claims for the same injuries.
- ◆ *Court decisions:* Olgivie, Almaraz Guzman are effectively re-opening closed claims of the last 3-4 years, raising the costs of those claims, and increasing their legal costs. Worst-case estimates now show this as potentially adding \$1.8 Billion to already closed claims by driving costs up by 30%.
- ◆ *A sluggish economy:* California's economic climate has lowered the total premium in the system as claims costs have ramped up. The recession has shrunk the market by roughly 10%.
- ◆ *Explosion of narcotic and opioid prescriptions.* These prescriptions are written by doctors for pain management. One study suggests that 1% of physicians write 30% of such prescriptions, indicating opportunistic abuse by some physicians. It should be noted, however, that physicians specializing in pain management will write a high proportion of legitimate prescriptions.
- ◆ *New and expanding Medicare demands on case settlements.* As the work force ages and Medicare-eligible workers increasingly receive health care, a cash-starved Medicare system is looking for money by attempting recovery from the Workers' Comp system.
- ◆ *Aging workforce:* The economy has forced older workers to continue working rather than retire, and older workers are more prone to injury.

- ◆ *Obese younger generation.* Workers who have grown up on Big Macs and fries, are more obese than previous generations and, consequently, less healthy, more prone to on-the-job injury, and more likely to require longer time to heal. One statistical organization has concluded that obesity adds, on average, \$14,000 in the first year.
- ◆ *Increasing complexity and attendant costs in benefit delivery.* A recent example is the emphasis on new posters and notice requirements for MPNs in California. Even the carriers cannot agree on how to comply with the new requirements. Much time, energy, and expense have gone into communications to employers about how to comply with the laws—even though they can't agree on what compliance means! Bottom line: the more complex the system, the more expensive it becomes.