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California Passes Senate Bill (SB) 863 Workers' Compensation Reform Targets Benefits for Workers and Business

On September 18, 2012, California Governor Edmund Brown signed into law SB 863, a comprehensive workers' compensation reform package designed to bring balance to the workers' compensation system. The Governor challenged the legislature to pass a reform bill that would decrease loss adjustment costs and eliminate areas of abuse while increasing benefits to injured employees.

Representatives from labor and management negotiated a reform package, which was presented to and passed by the legislature on August 31. Upon signing the bill Governor Brown stated, "These significant reforms save hundreds of millions of dollars for California's employers while preventing an imminent crisis of skyrocketing rates that would have hurt both injured workers and businesses. It's extraordinary to see Republicans and Democrats come together to solve a problem before it becomes a crisis."

Through SB 863, the state intends to regain the benefits employers derived from the reforms enacted in 2003 and 2004, which have significantly eroded. According to a recent Workers' Compensation Insurance Rating Bureau (WCIRB) study, costs are up 41 percent since 2005 (when costs were at their lowest level) and 14 percent above the highest level prior to the reforms. The bill also streamlines processes and clarifies procedures to reduce fraud.

In his September 18 press release, Governor Brown cites the following potential benefits of SB 863:

For workers:

- Increases permanent disability benefits by 30 percent, with faster payment of awards;
- Provides faster, higher-quality medical treatment;
- Improves retraining and increase awards for those with career-ending injuries.

For businesses:

- Reduces the costs of workers' compensation losses by close to \$1 billion;

- Reduces litigation, claims adjustment costs, and other frictional costs;
- Provides a more predictable and more objective benefit delivery system.

WCIRB estimates that benefit increases from SB 863 will be \$31 million in 2013 and \$530 million in 2014 and cost savings will be \$872 million in 2013 and \$292 in 2014.

The WCIRB recently voted to recommend no increase in the advisory pure premium rates for 2013.

Please [click here](#) for a summary of the anticipated changes from SB 863.

Sedgwick is ready for implementation

Following careful review and analysis, Sedgwick's California team is ready to implement the new guidelines and train our colleagues through weekly alerts, designation of subject matter experts, workgroups to assist in developing workflows/system enhancements, and classroom training. We will ensure that our examiners fully implement the necessary strategies and opportunities at the desk level.

Sedgwick will work with its clients with California workers' compensation exposure to ensure they understand and maximize the benefit from this new legislation. In addition, we are planning a full-day forum, where we will address the following issues:

- Content of the bill;
- Impact on costs;
- Changes to self-insurance plans;
- Opportunities and strategies;
- Sedgwick's plan of action.

For more information about SB 863, please contact a member of your client services team.

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