WCIRB Actuarial Committee Meeting

Materials Presented at the WCIRB Actuarial Committee Meeting
June 17, 2016

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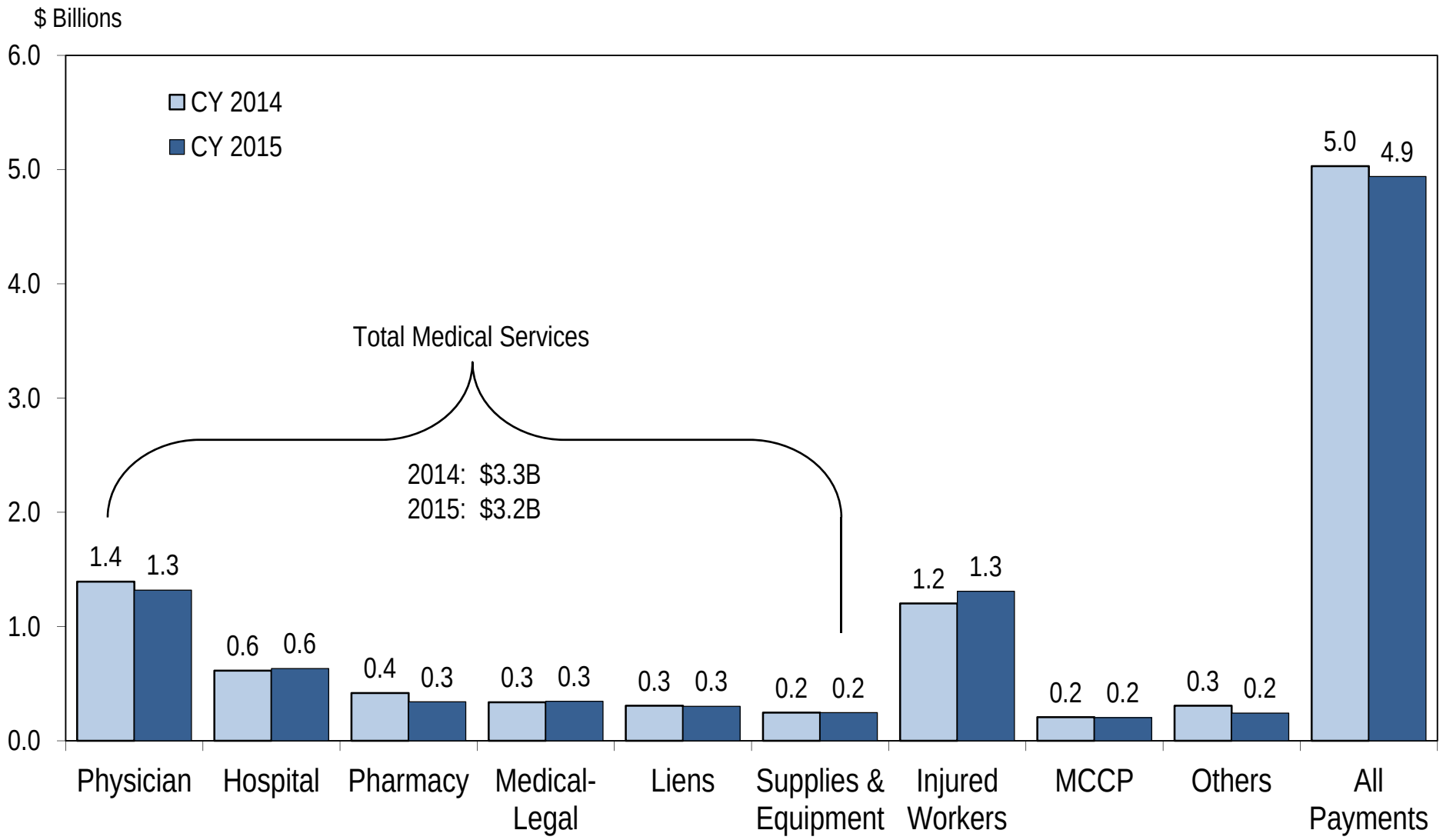
Workers' Compensation Insurance Rating Bureau of California®

Annual Report on Paid Costs

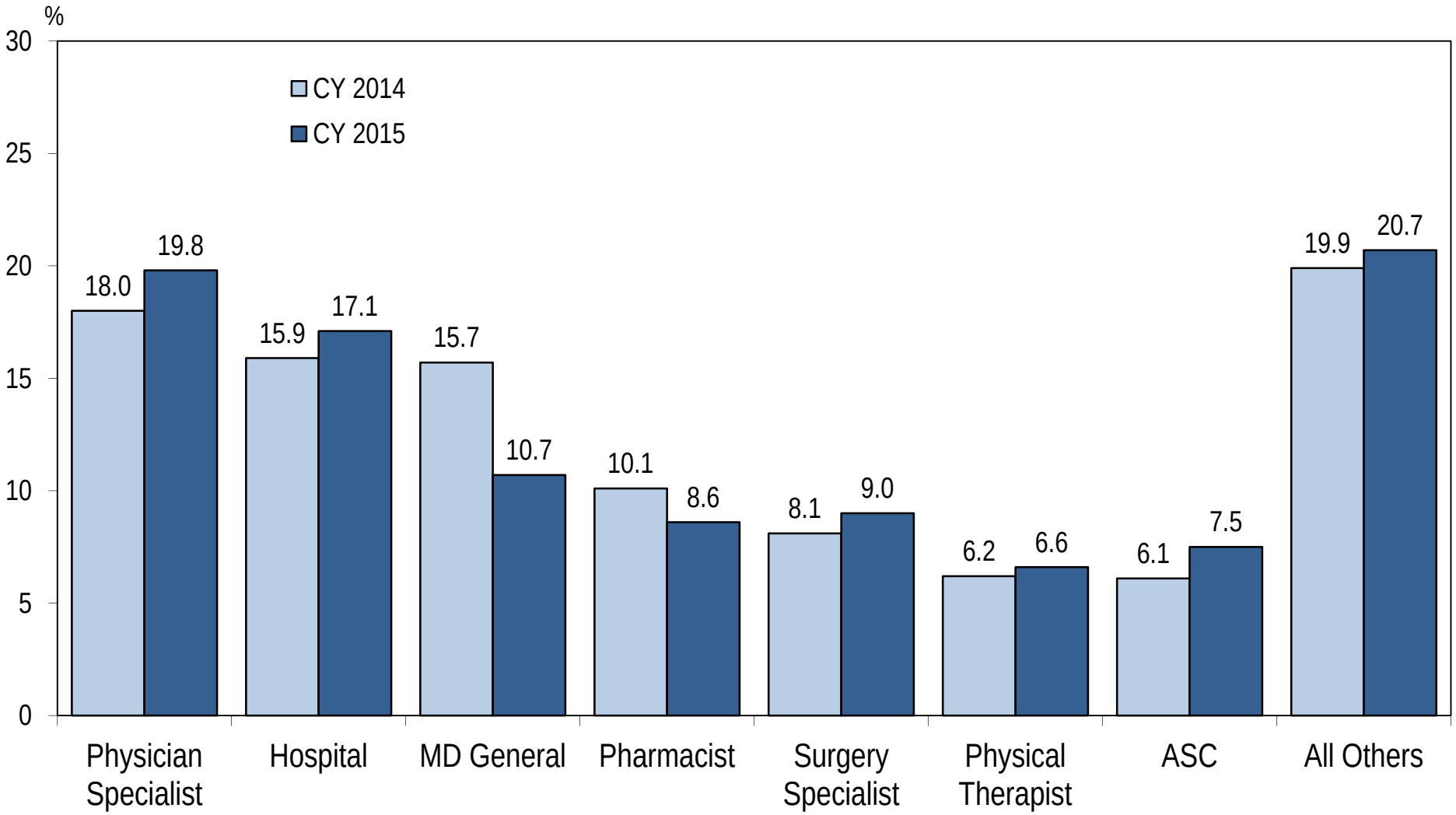
WCIRB Actuarial Committee Meeting
June 17, 2016

Calendar Year Paid Medical Costs



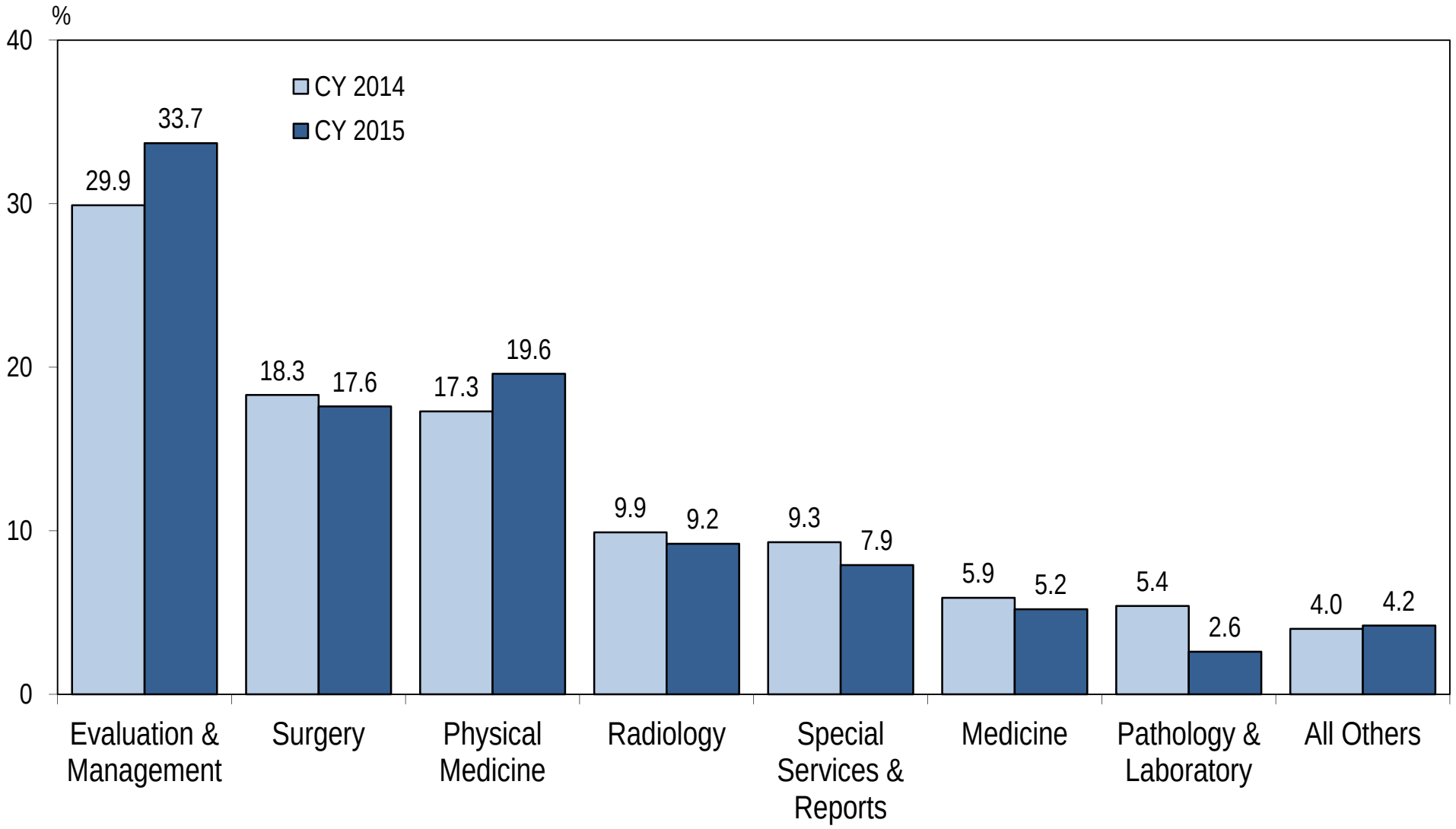
Source: WCIRB aggregate financial data calls and medical data call.

Distribution of Medical Services by Type of Provider



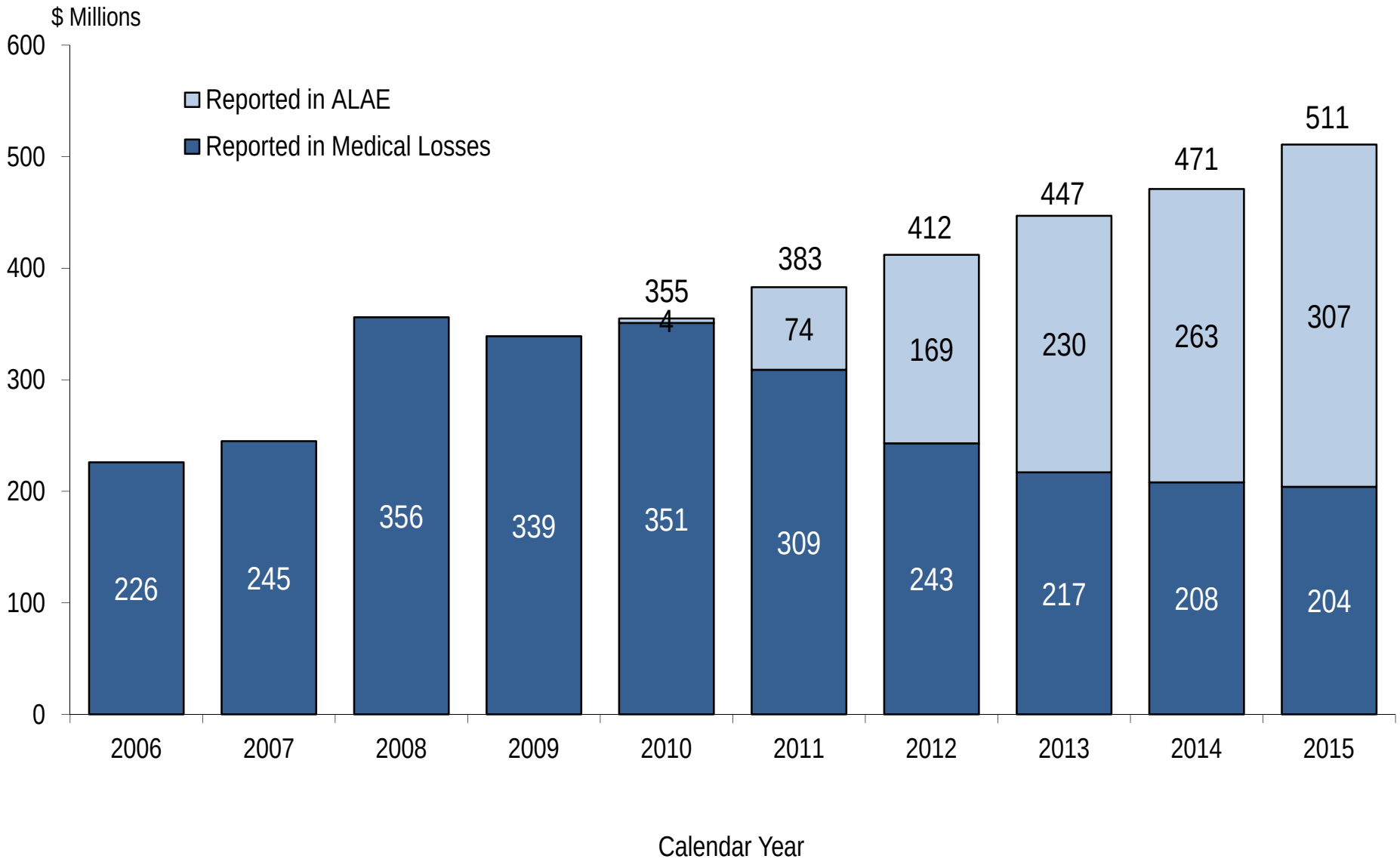
Source: WCIRB medical data call.

Distribution of Physician Services by Type of Procedure



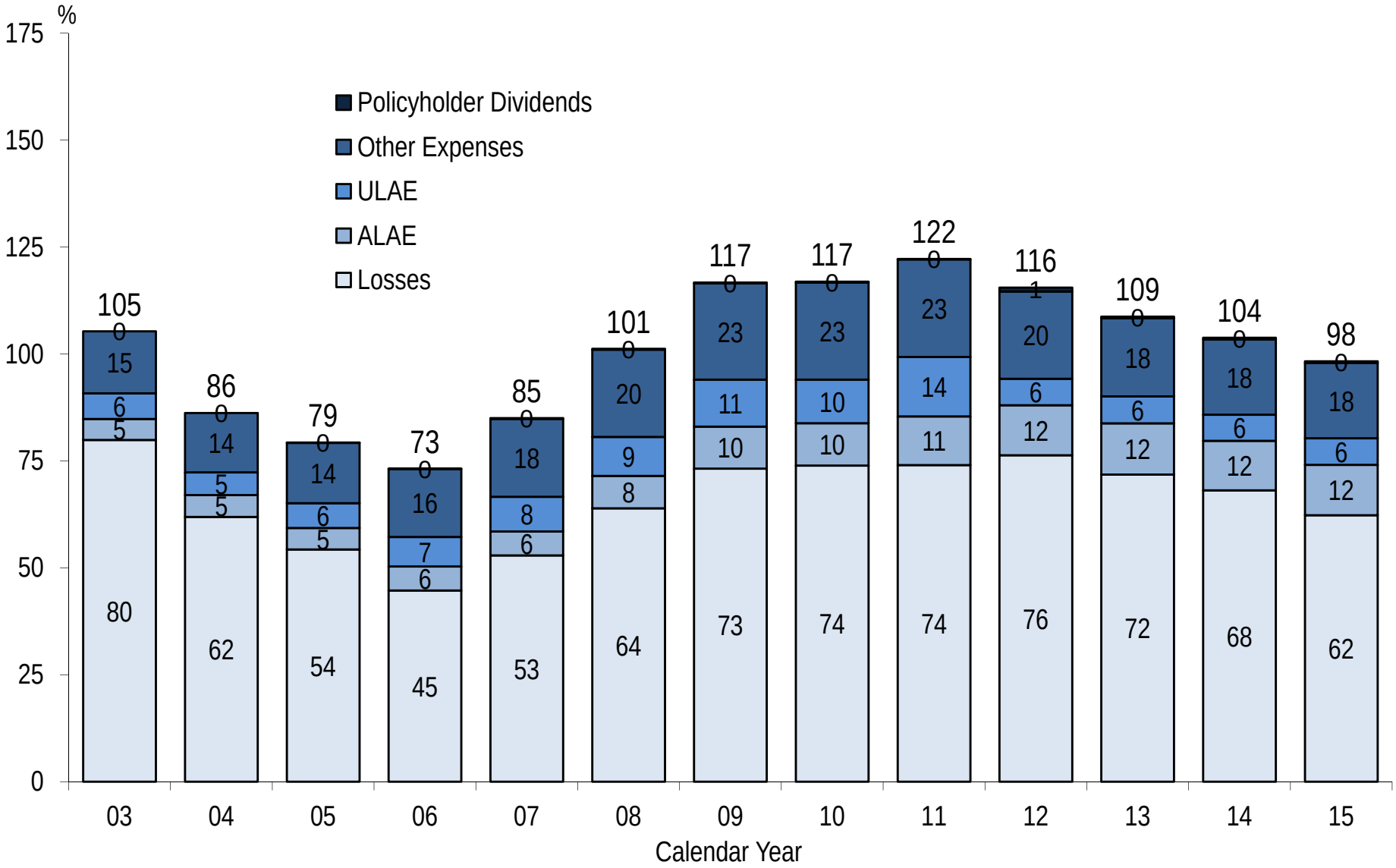
Source: WCIRB medical data call.

Paid Medical Cost Containment Program Costs



Source: WCIRB aggregate financial data calls.

Insurer Underwriting Experience



Source: WCIRB aggregate financial data calls.

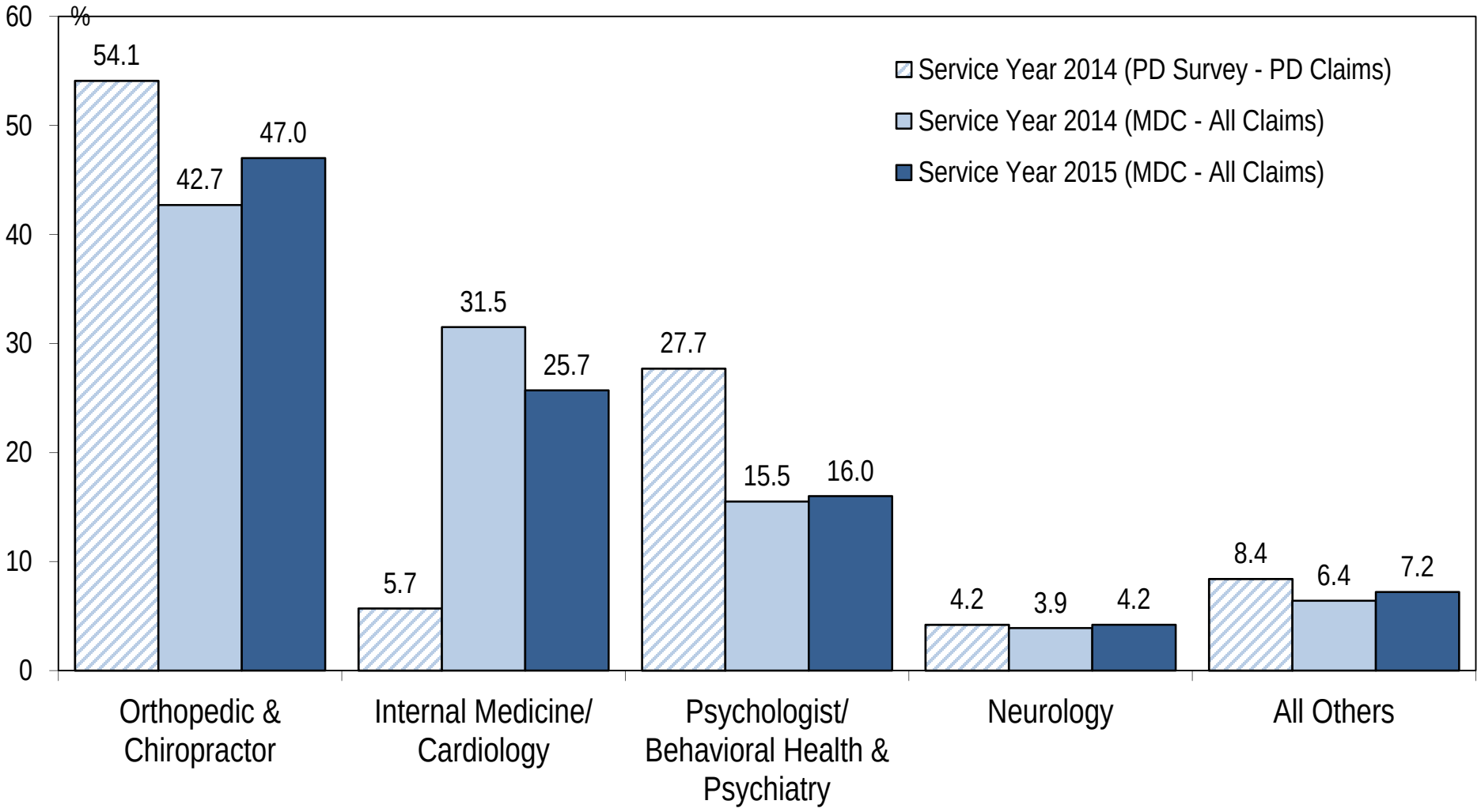
Medical-Legal Information – Current Process

- Historically, Medical-Legal Information Summarized from Permanent Disability Claim Survey
- Only Includes Data from PD Claims
- Only Reflects Less Mature Medical-Legal Reports
- Data is Difficult to Validate

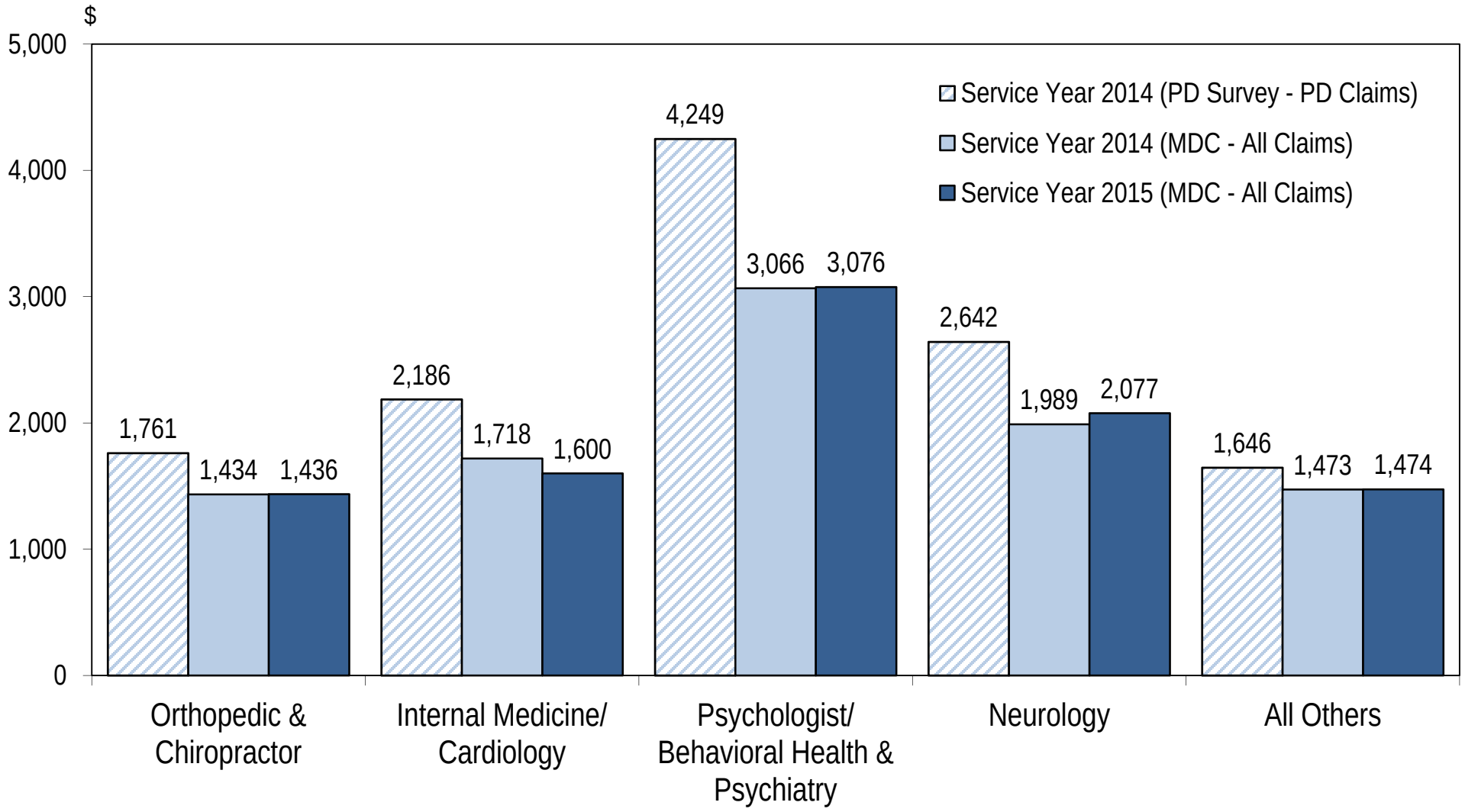
Medical-Legal Information – MDC Enhancement

- Medical Data Call Data Available for CYs 2013-2015
  - Based on individual medical transactions including medical-legal reports
  - Includes transactions from claims of all injury types
  - Includes all transactions for a calendar year including reports on more mature claims
  - Includes significant additional coding detail with more consistent reporting requirements
- Staff Recommends Replacing PD Survey Medical-Legal Data with MDC in Report
- Can Potentially Discontinue Medical-Legal Portion of PD Survey

Distribution of Paid Medical-Legal Costs by Physician Specialty



Average Cost per Medical-Legal Report by Physician Specialty



Calendar Year 2015 Paid ULAE to Paid Loss Ratios

	Reported (Unadjusted) CA ULAE Ratio	"Adjusted" CW ULAE Ratio Apportioned to CA based on Paid Losses
Insurer #1 – National Insurer, Responded to Call with Corrections for TPAs or Large Deductible	5.6%	9.8%
Insurer #2 – "California" Insurer, No Corrections for TPAs or Large Deductible	14.6%	14.5%
Insurer #3 – National Insurer, No Corrections for TPAs or Large Deductible	10.1%	9.2%
Insurer #4 – National Insurer, No Corrections for TPAs or Large Deductible	12.4%	13.4%

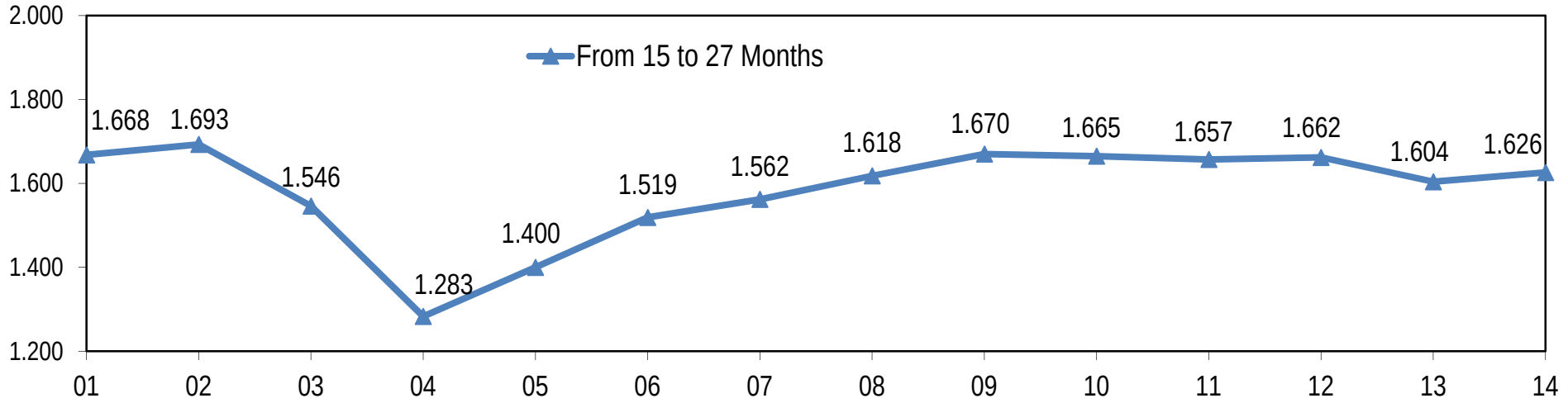
3/31/2016 Experience – Review of Methodologies

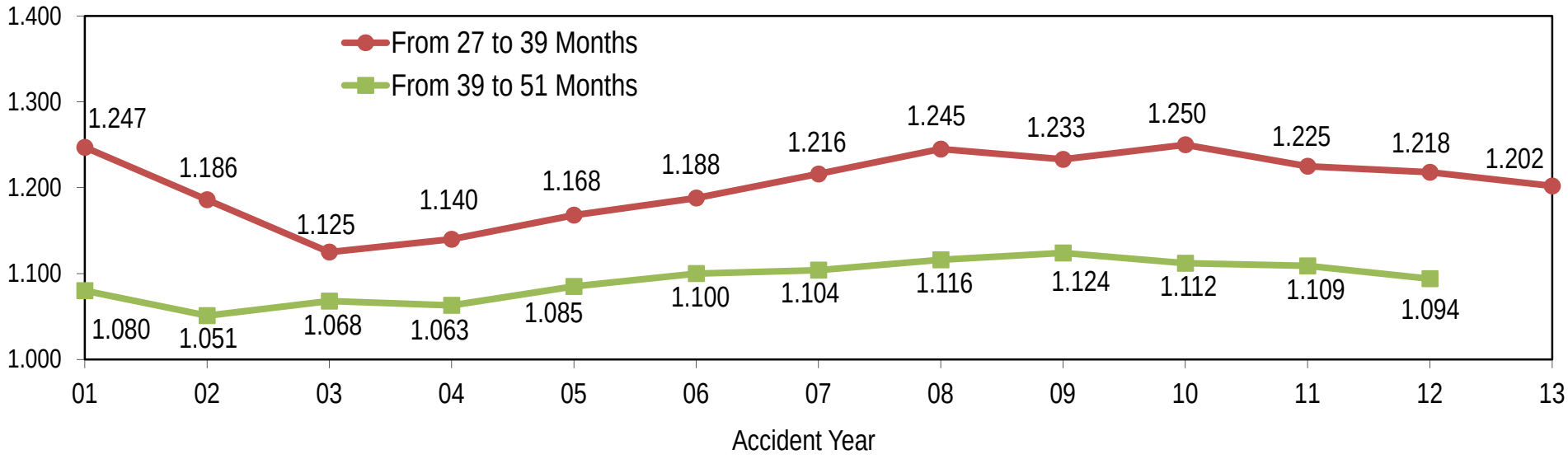
WCIRB Actuarial Committee Meeting
June 17, 2016

Summary of March 31, 2016 Experience

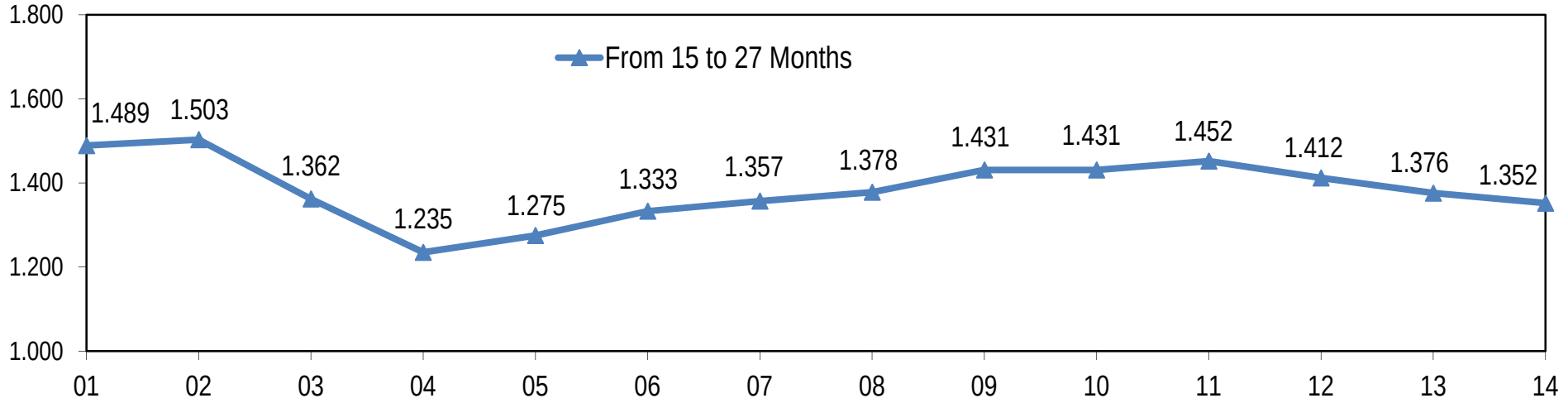
- Almost 100% of Market Reflected
- Methodologies Consistent with 7/1/16 Filing with Exception of:
  - Change to loss development tail (adopted at 4/5/16 meeting)
  - Service year 2016 RBRVS adjustment (+0.8%) applied to paid medical development
- Projected Policy Year 2017 Loss Ratio: 0.638
- Approx. 2 Point Decrease from 7/1/16 Filing (0.659)
  - Approx. -0.5 points from lower medical loss development (offset by higher indemnity loss development)
  - Approx. -1.5 points from trending to policy year 2017
  - Approx. 0.0 points from new loss development tail methodology

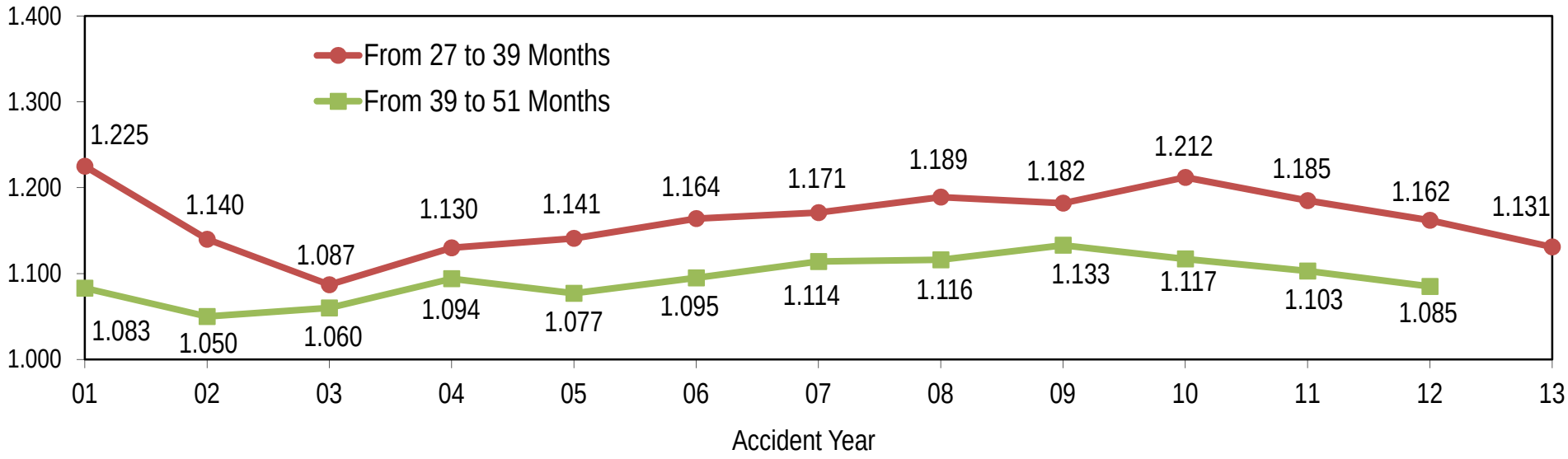
Incurred Indemnity Loss Development Factors
(Exhibit 2.1.1)



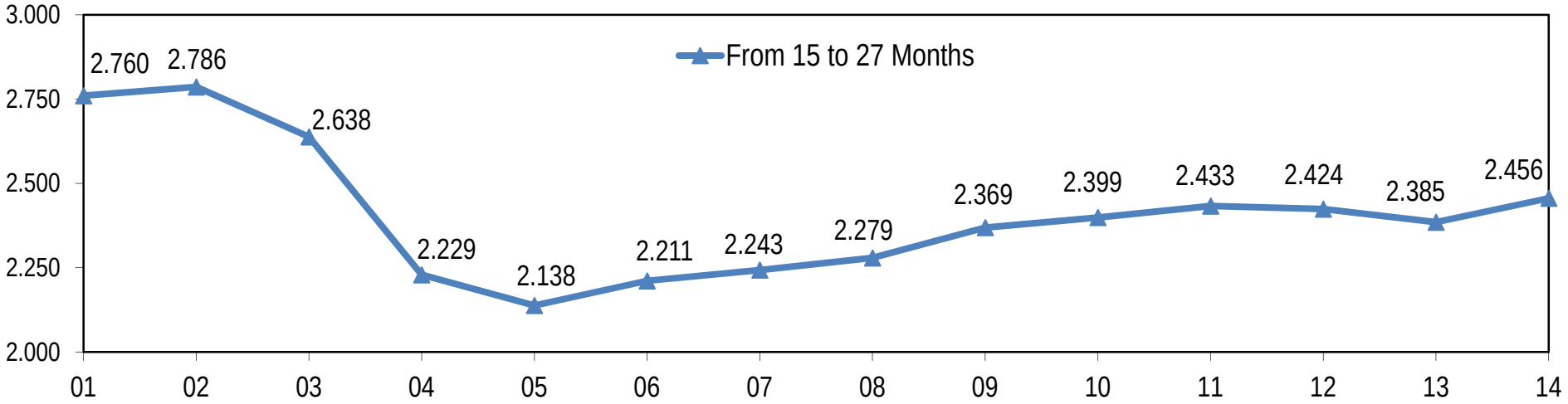


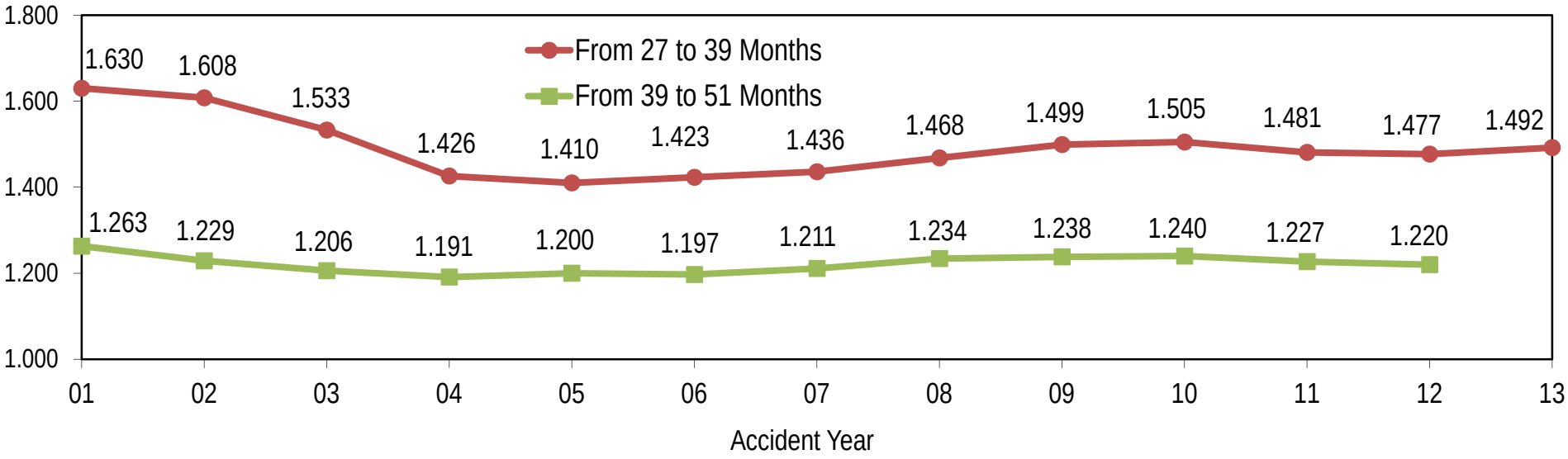
Incurred Medical Loss Development Factors
(Exhibit 2.2.1)



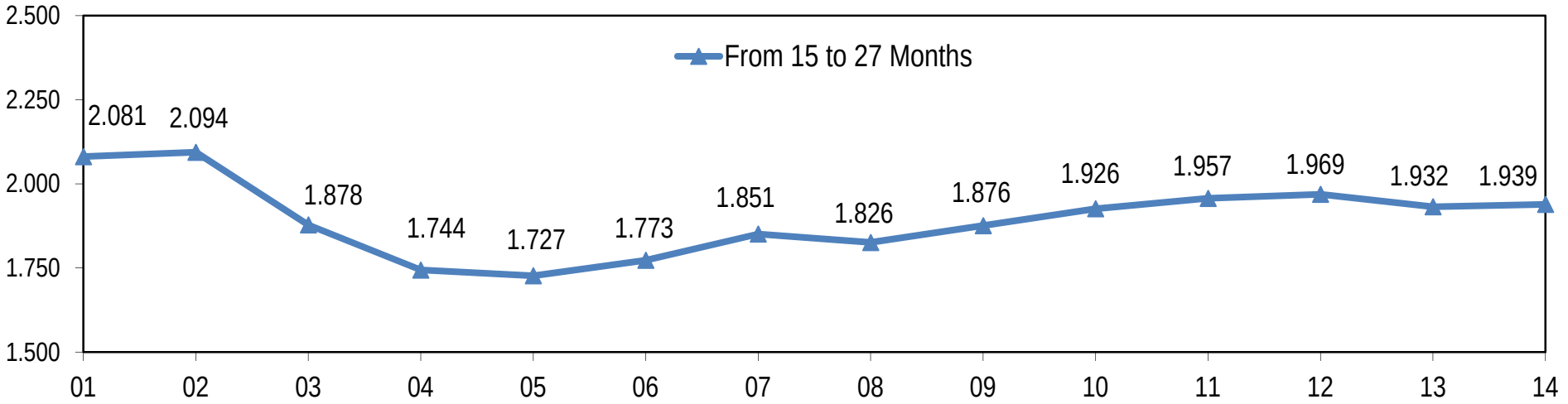


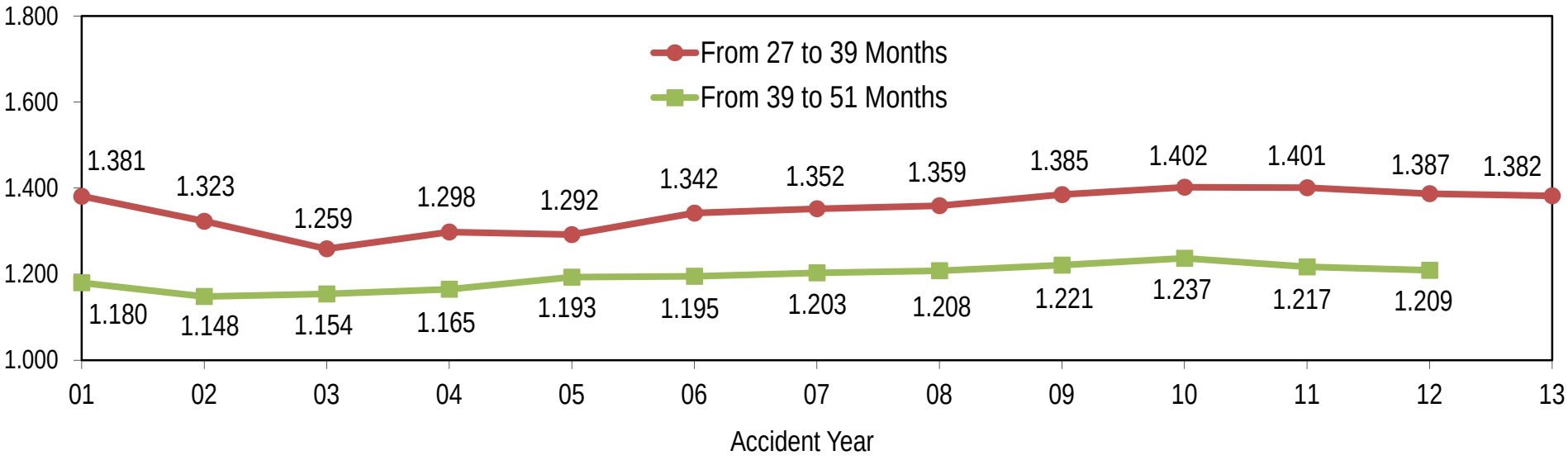
Paid Indemnity Loss Development Factors
(Exhibit 2.3.1)



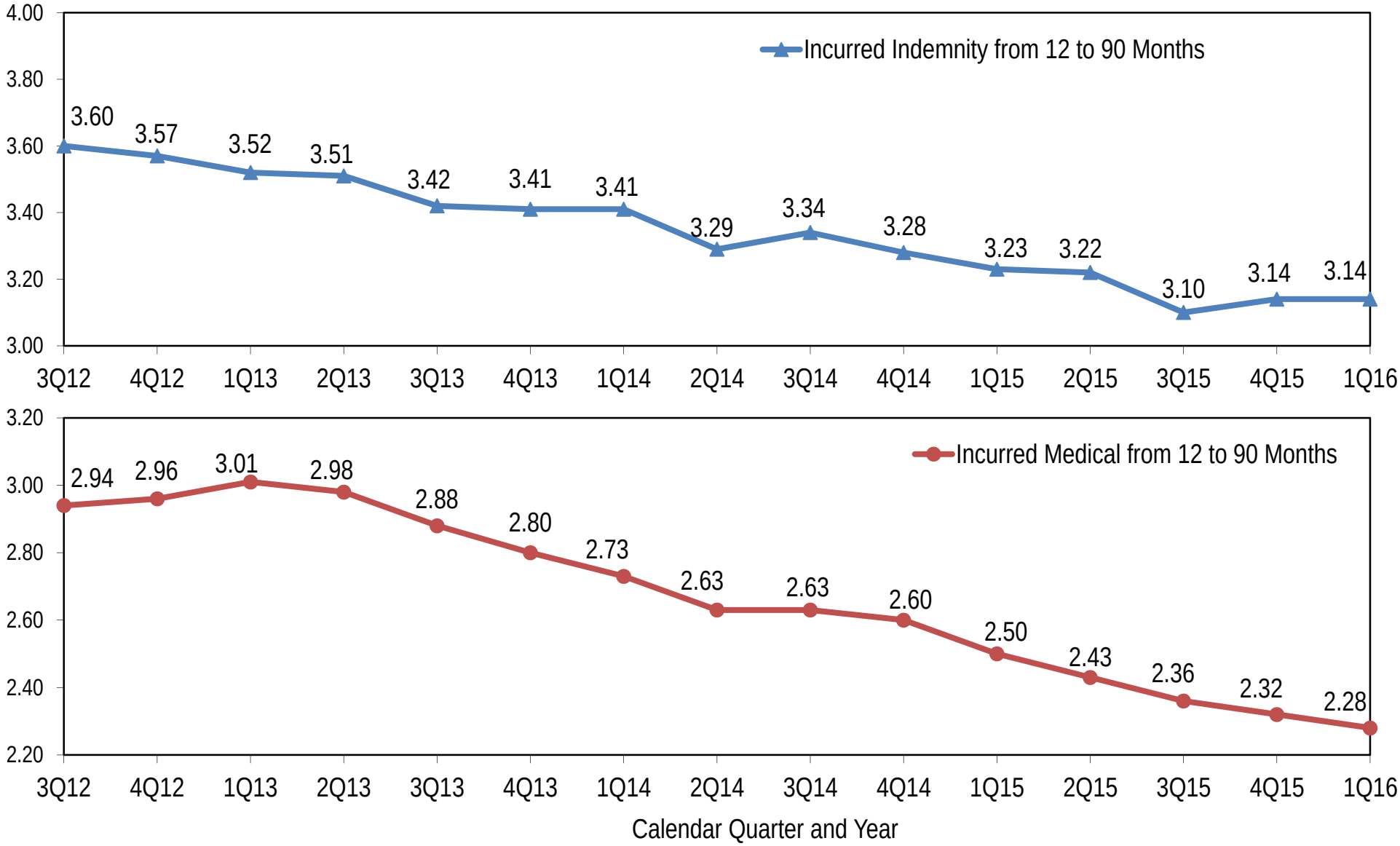


Paid Medical Loss Development Factors
(Exhibit 2.4.1)

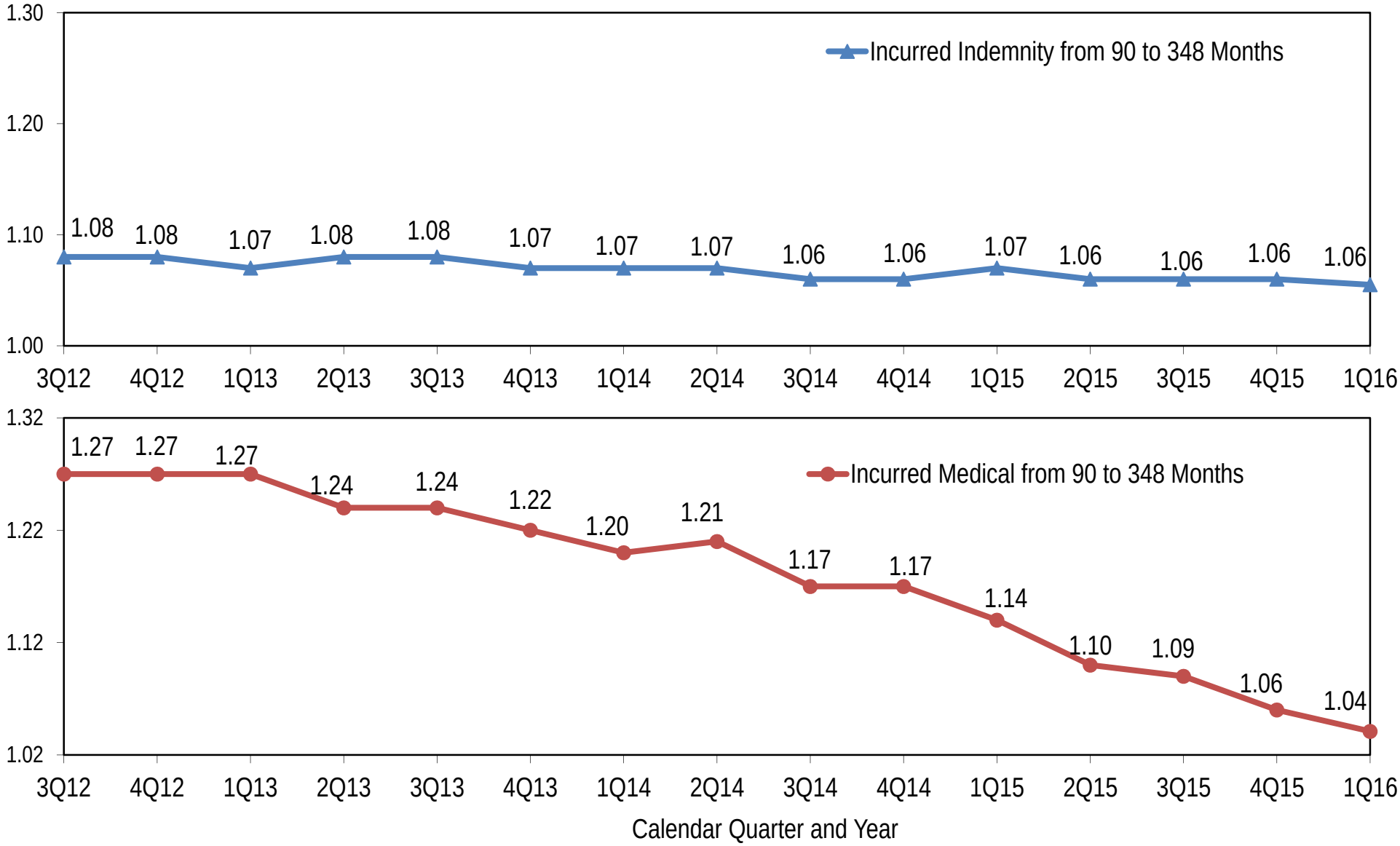




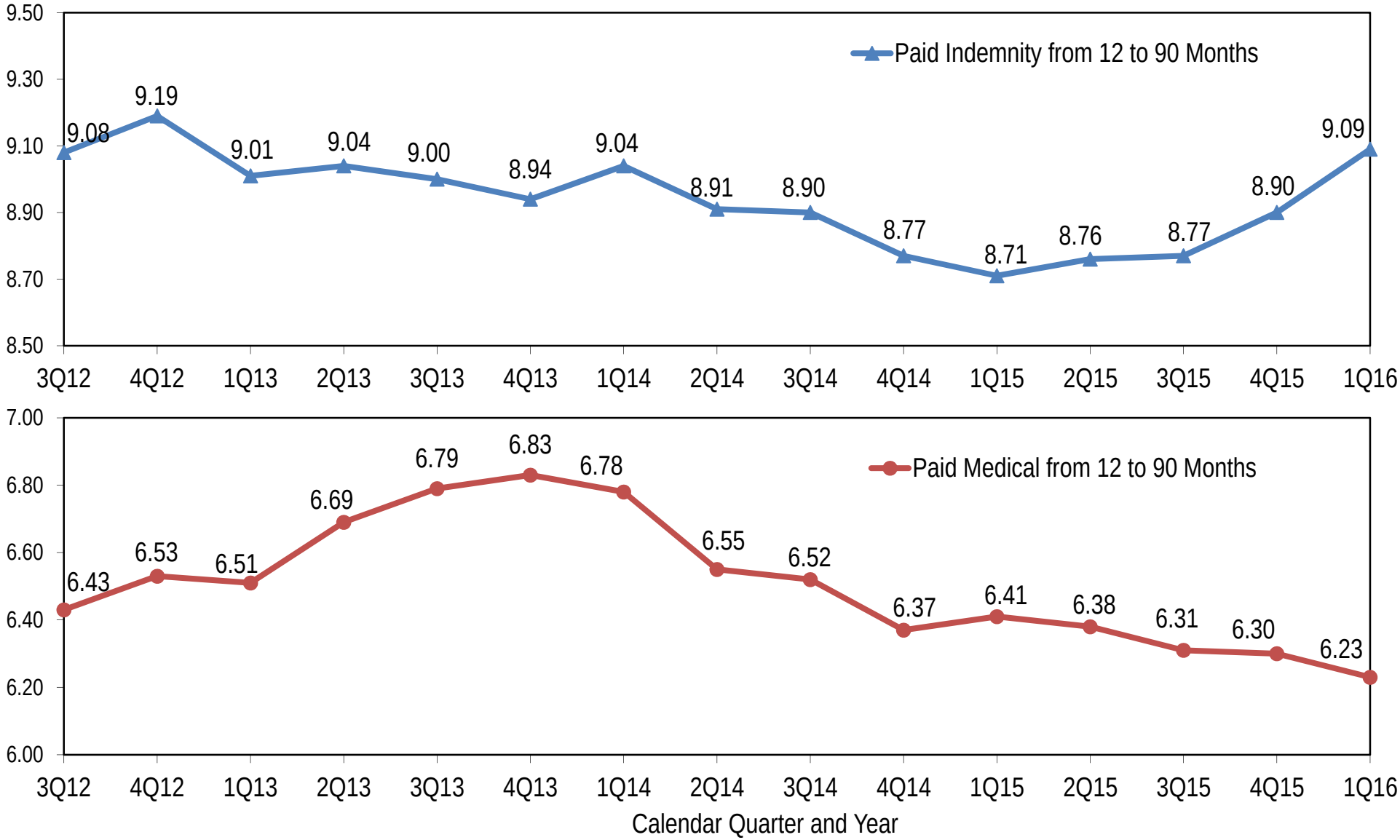
Cumulative Incurred Development by Quarter



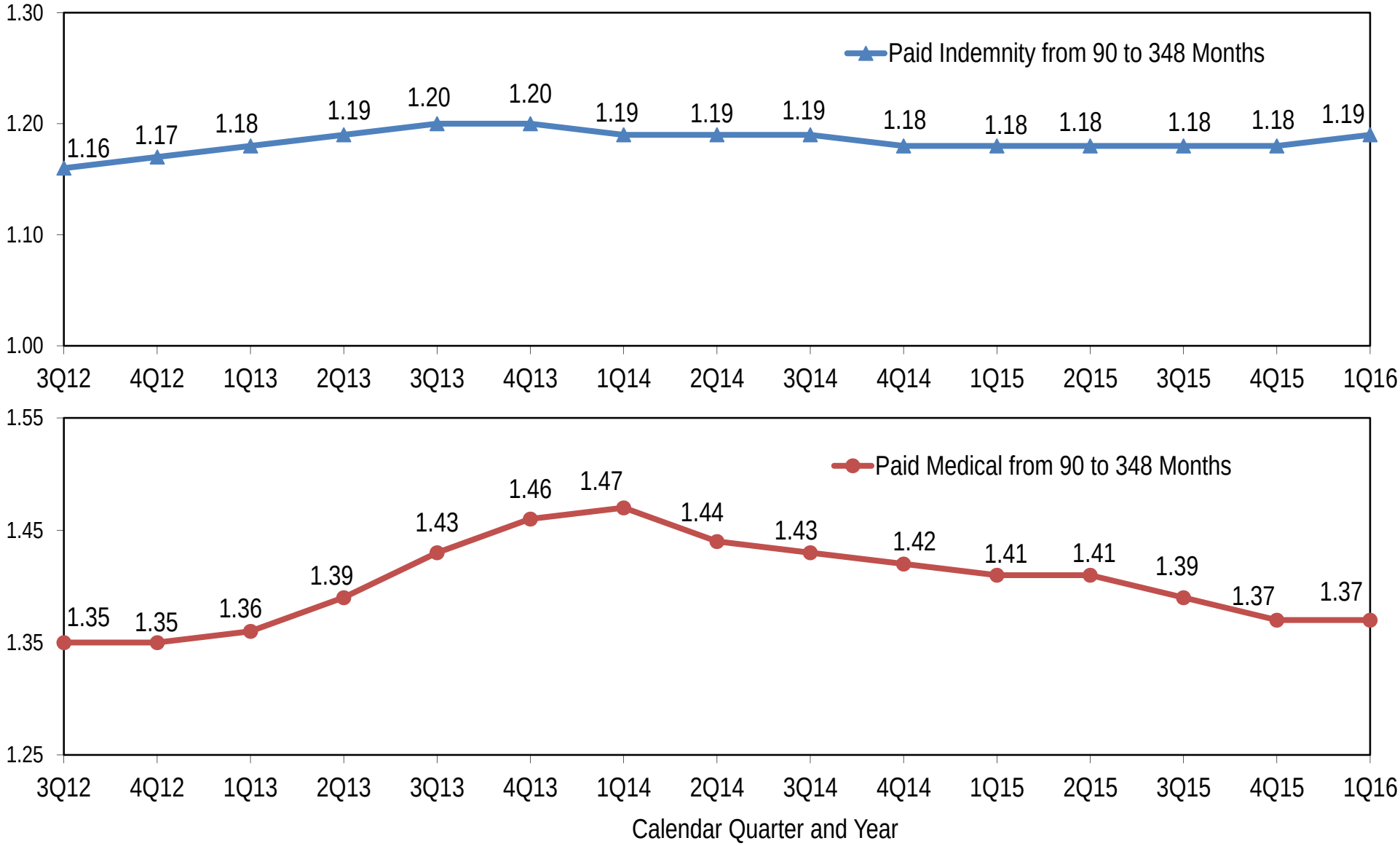
Cumulative Incurred Development by Quarter



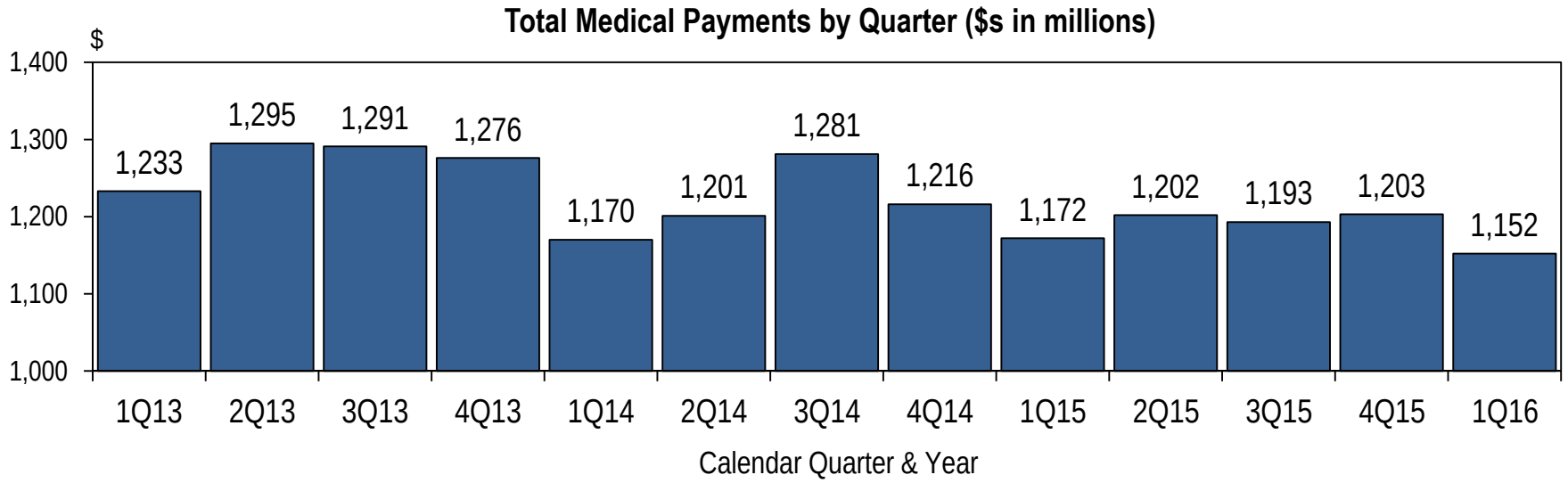
Cumulative Paid Development by Quarter

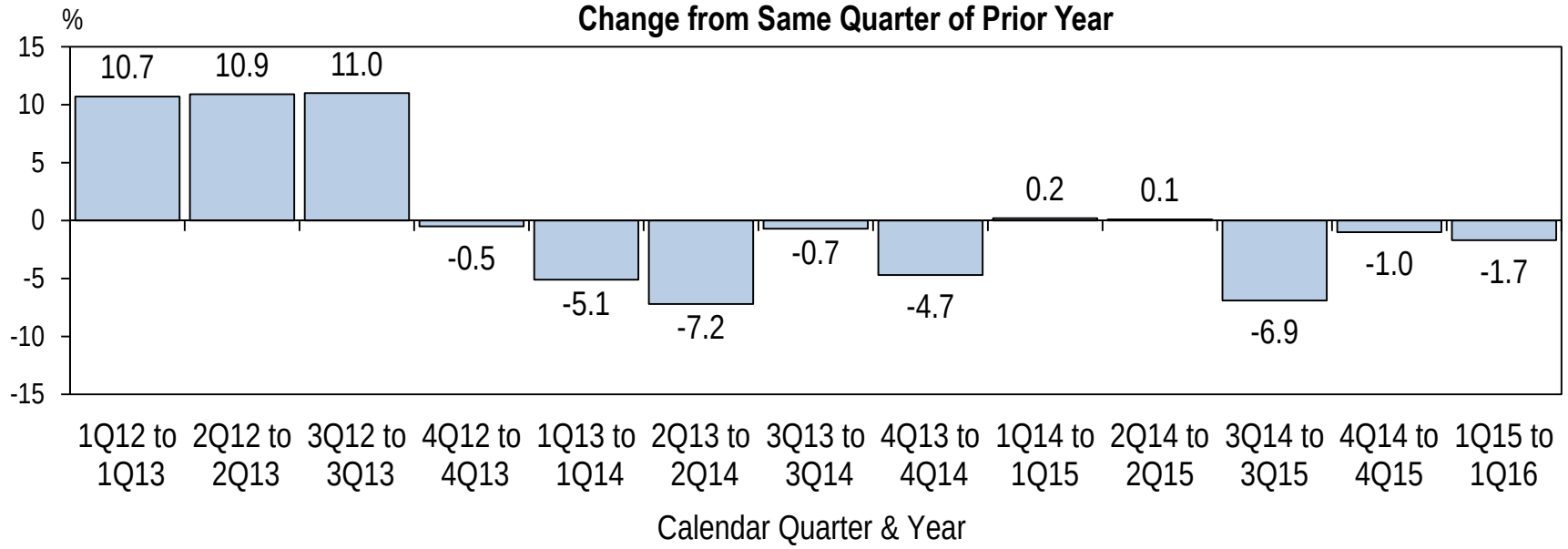


Cumulative Paid Development by Quarter



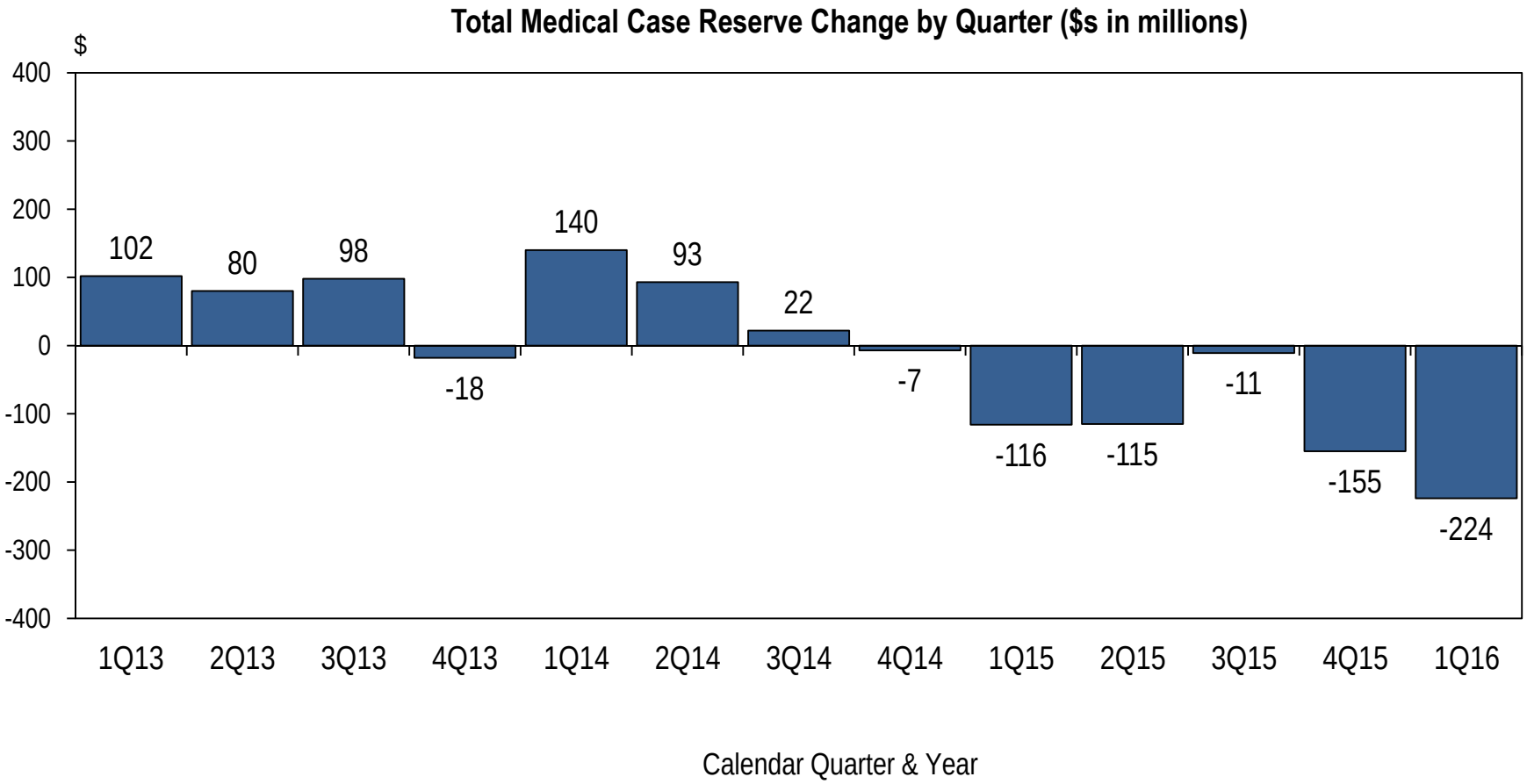
Total Medical Payments by Calendar Quarter





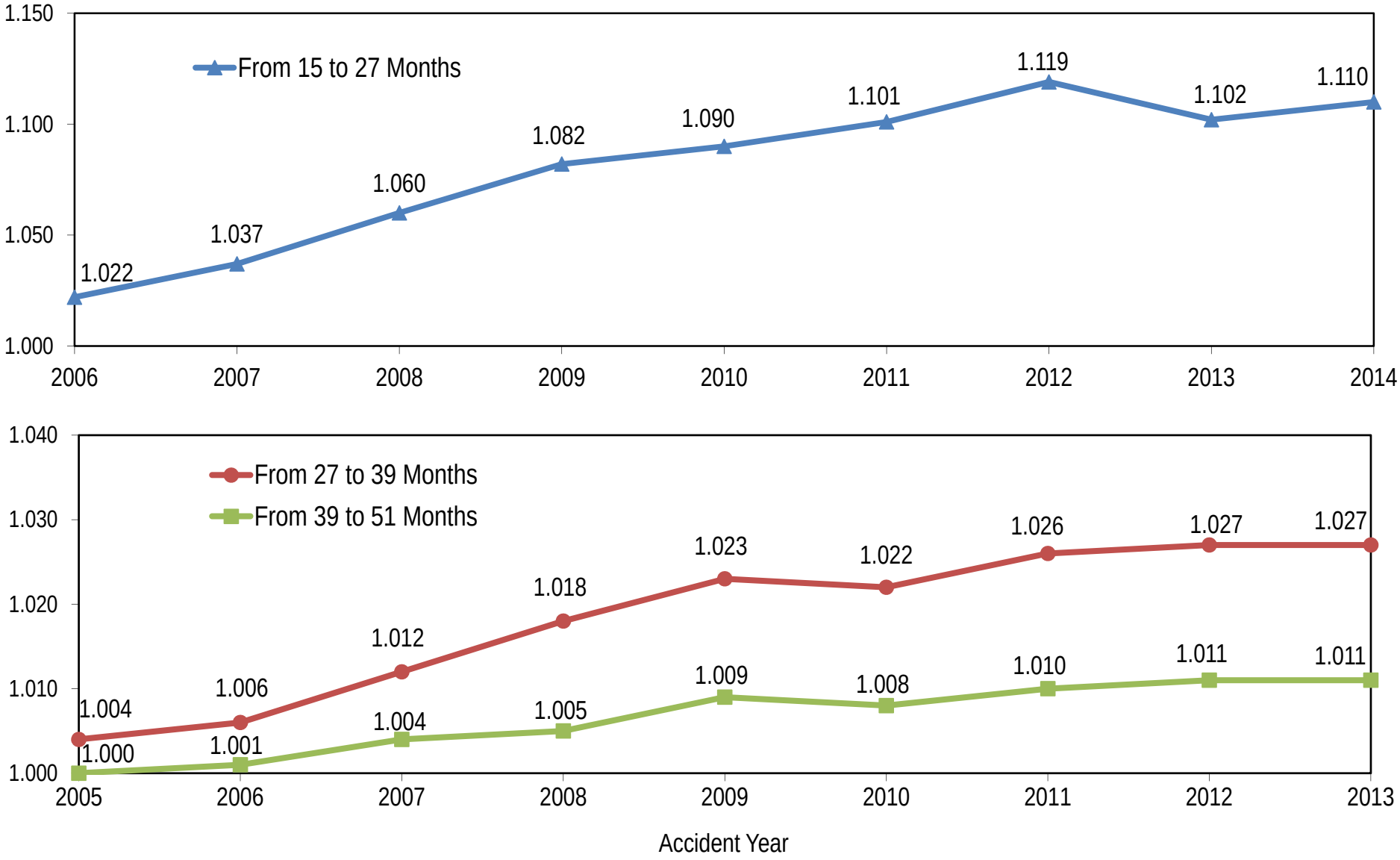
Source: WCIRB Quarterly Calls for Experience

Total Change in Medical Case Reserves by Calendar Quarter

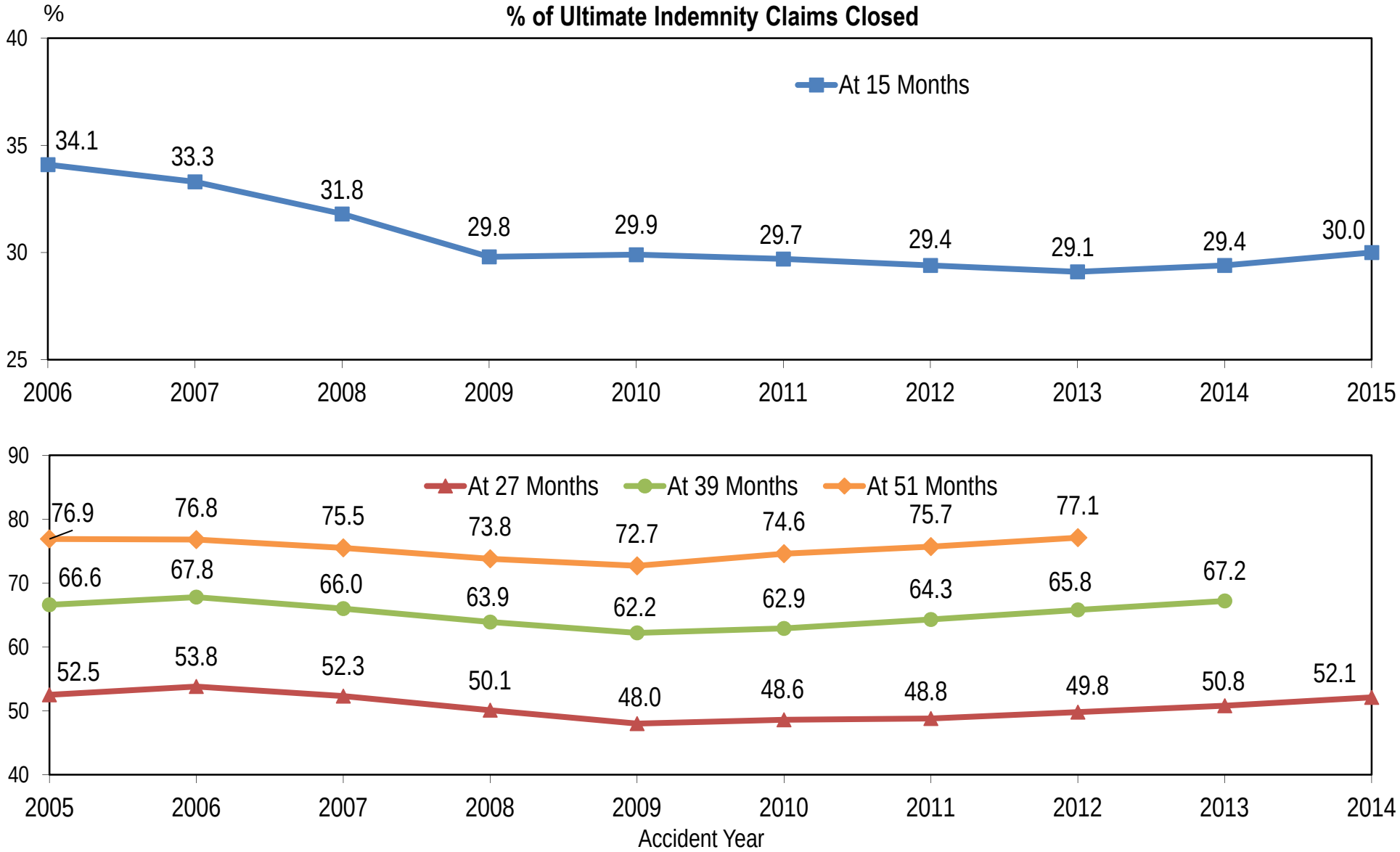


Source: WCIRB Quarterly Calls for Experience

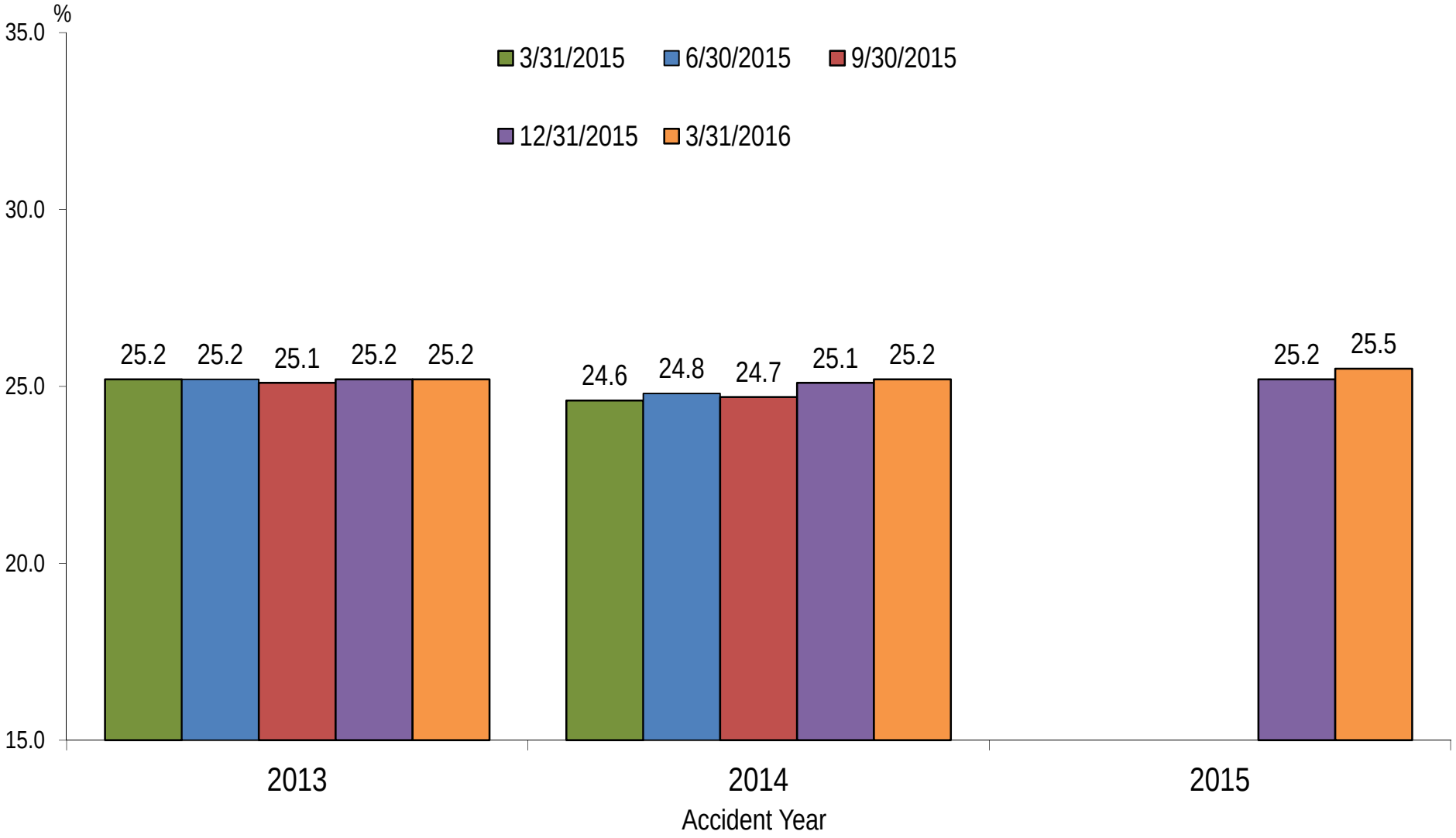
Indemnity Claim Count Development
(Exhibit 10.1)



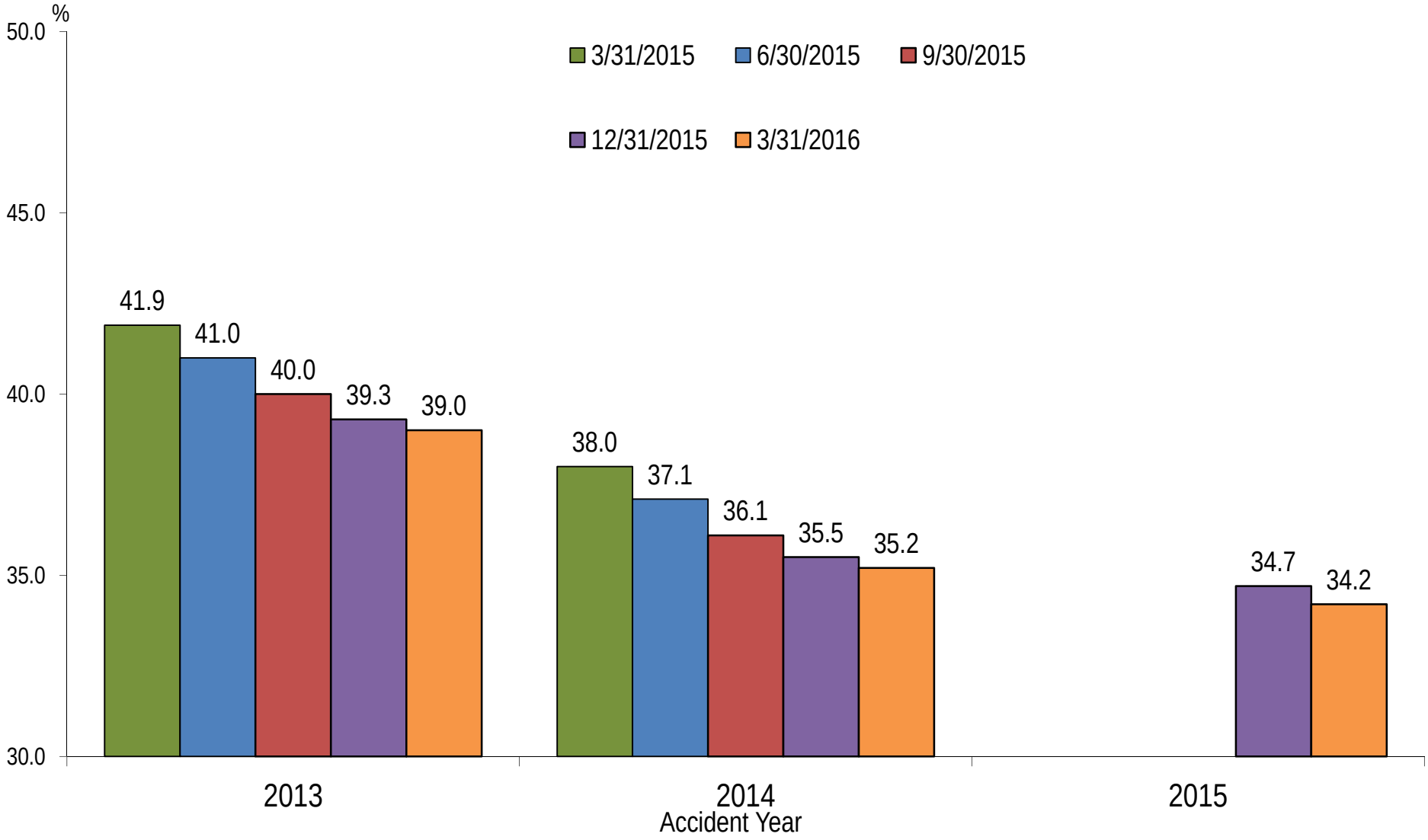
Indemnity Claim Settlement Ratios
(Exhibit 11.2)



Projected Ultimate Indemnity Loss Ratios
(Exhibit 3.1)

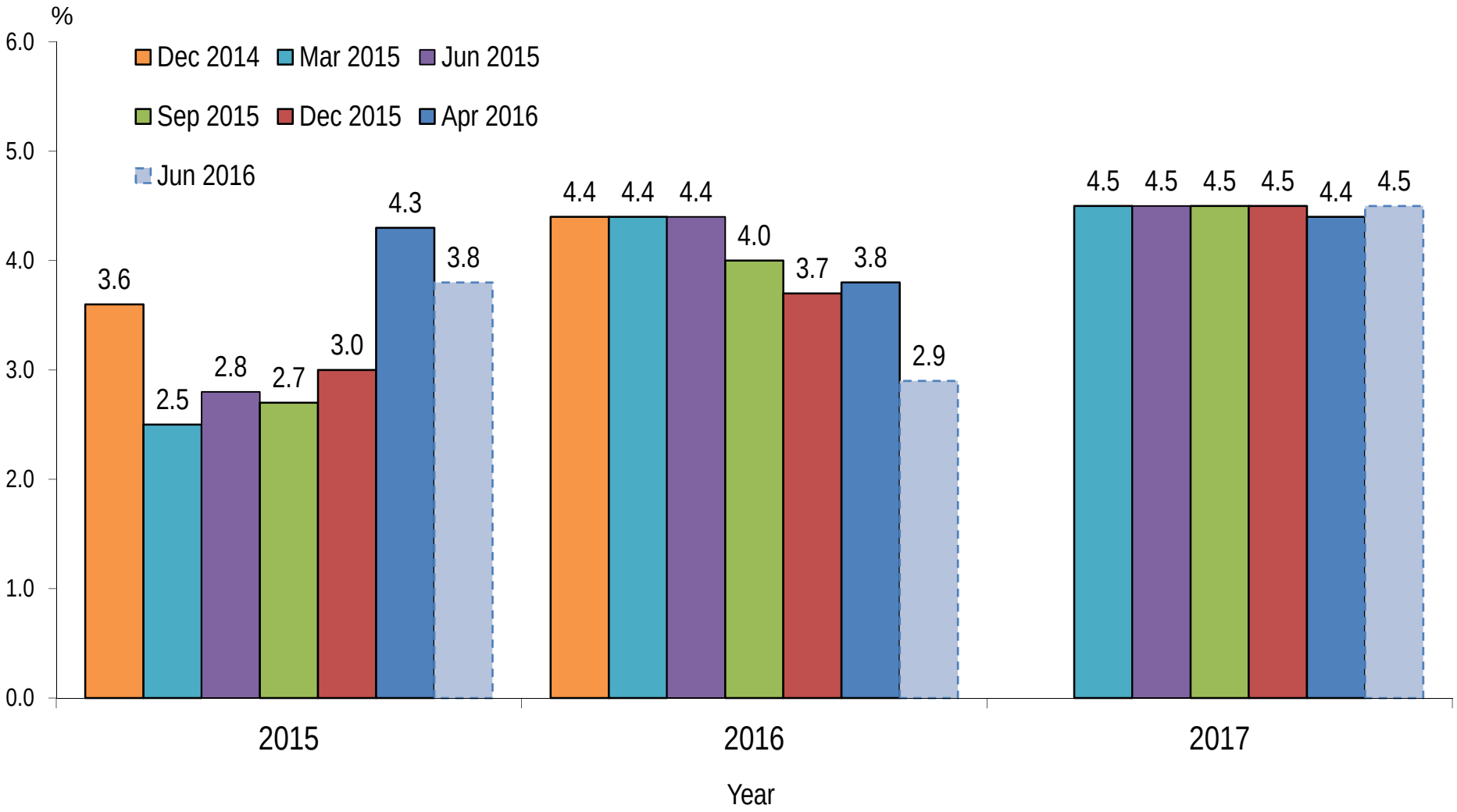


Projected Ultimate Medical Loss Ratios
(Exhibit 3.2)

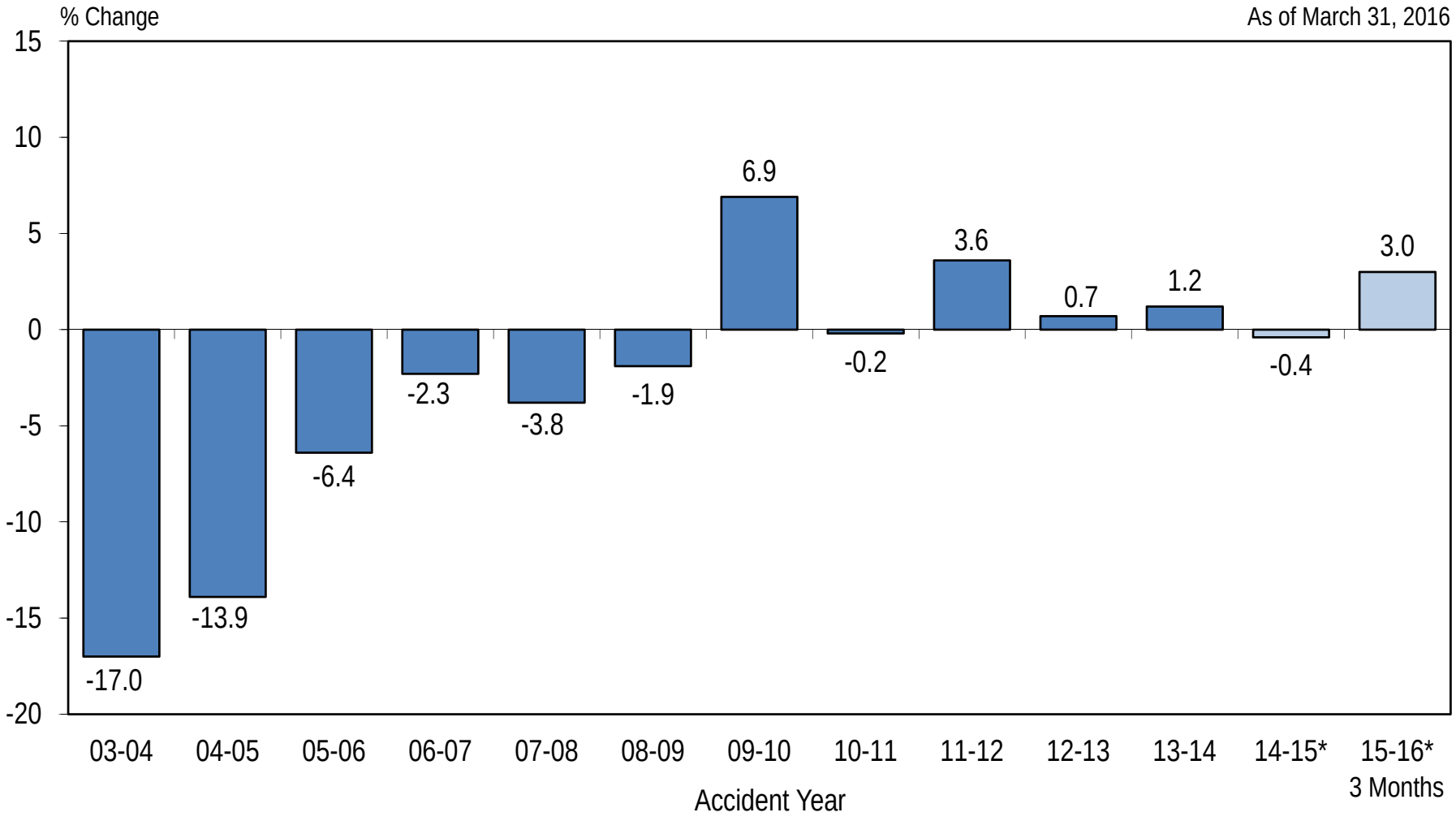


*Adjusted for updated SB 863 adjustments to loss development.

UCLA Forecasts of Wage Level Changes (Exhibit 5.1)

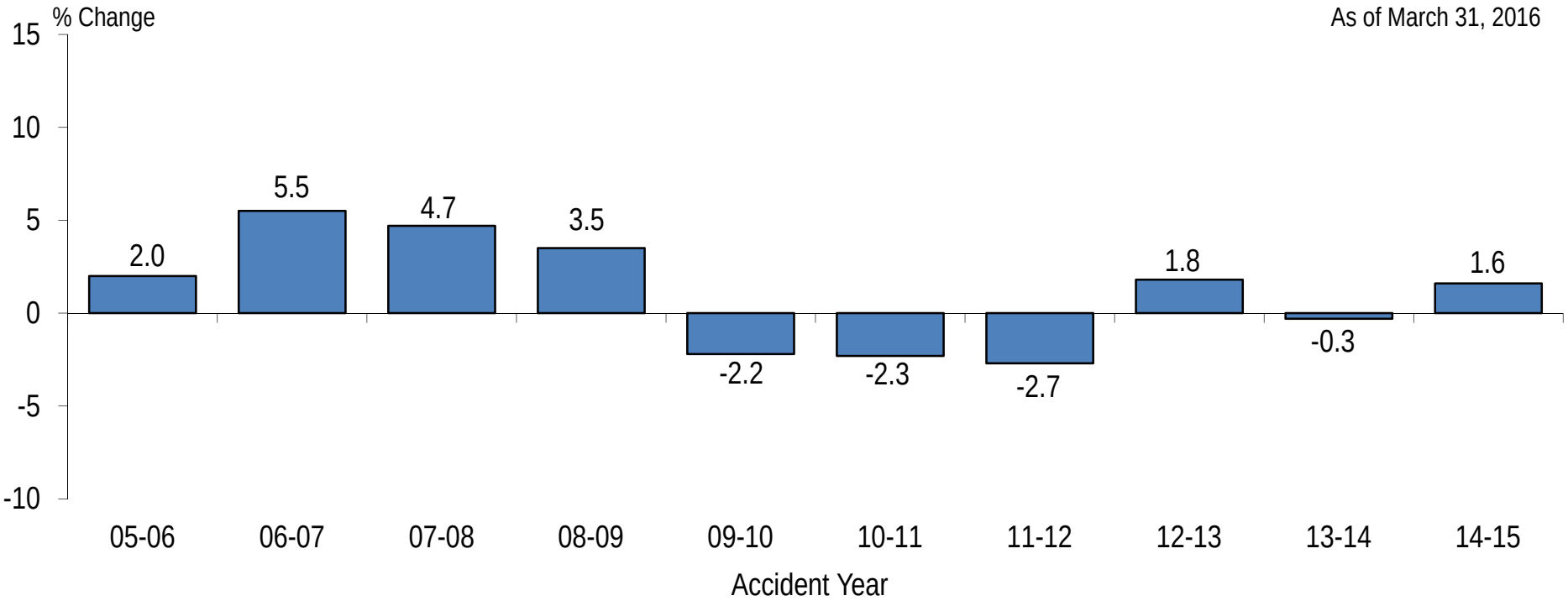


Estimated Change in Indemnity Claim Frequency (Exhibit 12)



*Based on changes in reported aggregate indemnity claim counts compared to changes in statewide employment. All other estimates based on unit statistical indemnity claims compared to reported insured payroll.

Change in On-Level Indemnity Severity (Exhibit 6.2)



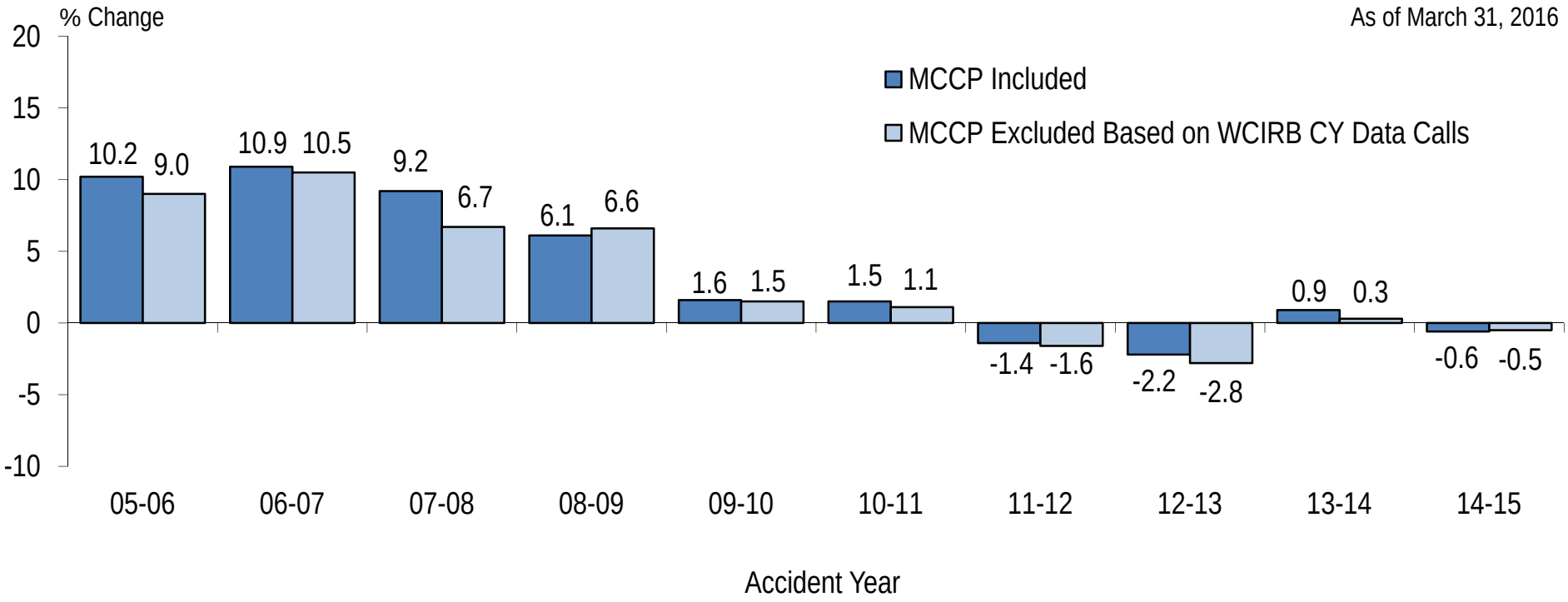
Annual Exponential Trend Based on:

2005 to 2015: +0.7%

2010 to 2015: -0.3%

WCIRB Selected: +0.0%

Change in On-Level Medical Severity (Exhibit 6.4)



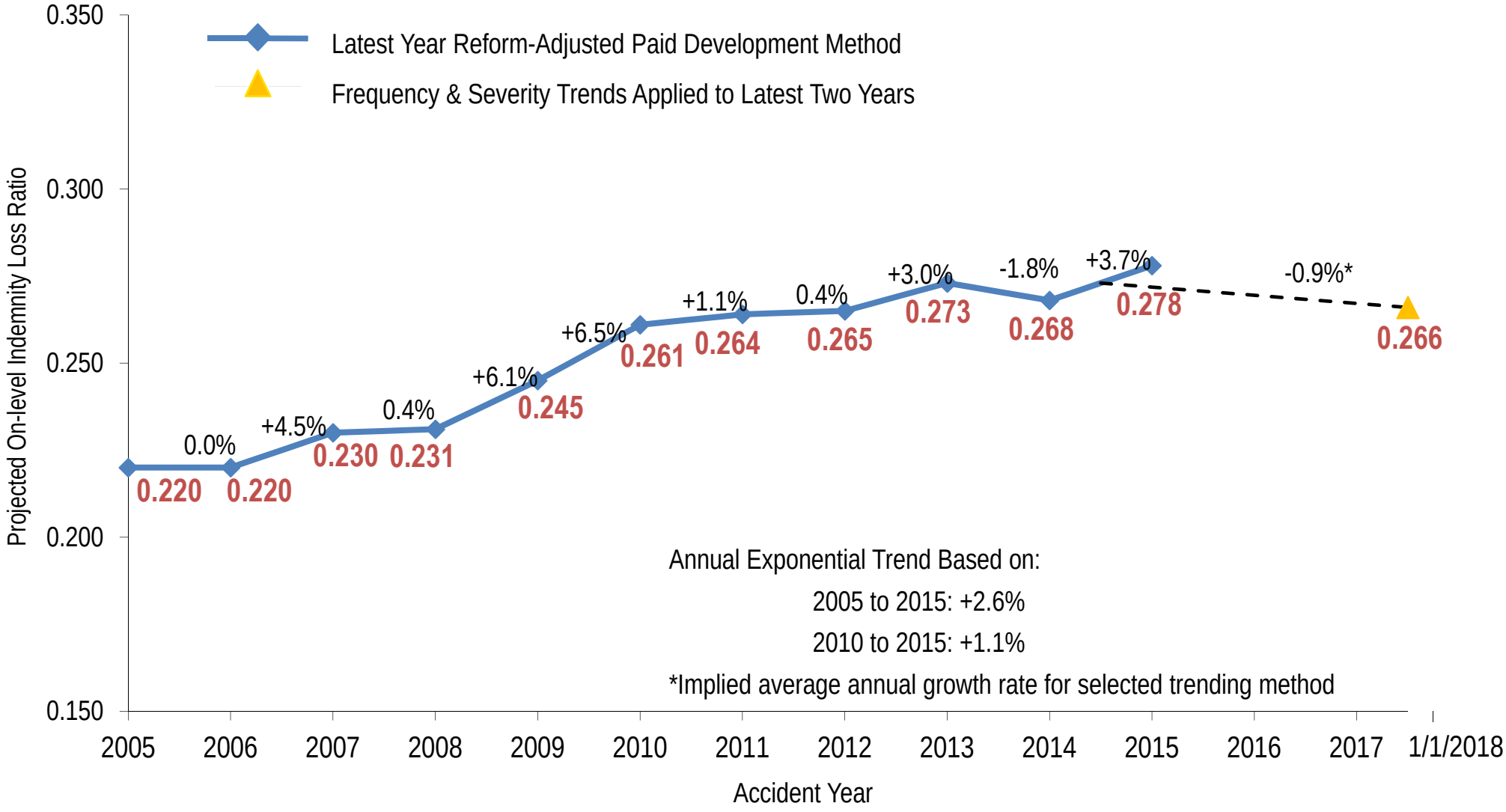
Annual Exponential Trend (Excluding MCCP) Based on:

2005 to 2015: +2.6%

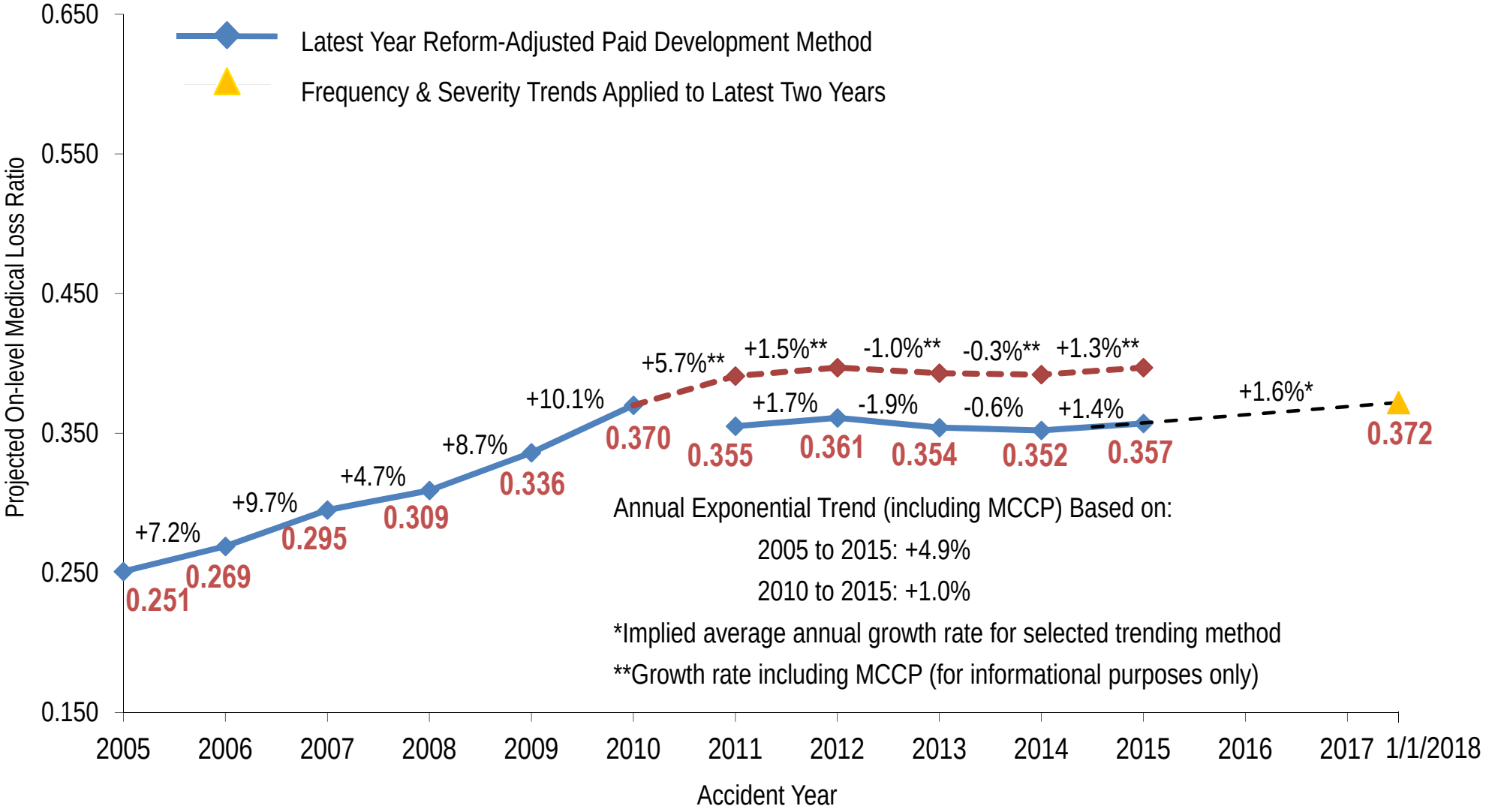
2010 to 2015: -0.9%

WCIRB Selected: +2.5%

Indemnity Loss Trend & Projections
(Exhibit 7.1)



Medical Loss Trend & Projections
(Exhibit 7.3)



Implementation of Changes to the Experience Modification Formula – Variable Split Plan

WCIRB Actuarial Committee Meeting
June 17, 2016

2017 Change to Variable Split Experience Rating Background

- Proposed by the WCIRB in 2015 following several years of research & outreach
  - Significantly improved overall accuracy of plan
  - Reduced plan volatility
  - Can lead to future simplification
- Adopted by Insurance Commissioner effective January 1, 2017
- Actual rating values for 2017 to be proposed by the WCIRB as part of 2017 Regulatory Filing
- Assuming Commissioner adoption of rating values, new formula will be used in 2017 X-Mod computations beginning in September

2017 Change to Variable Split Experience Rating Values to be Included in 2017 Regulatory Filing

- Primary thresholds ("split points") by employer size
- D-Ratios for each primary threshold and each classification
- Expected loss rates by classification
- Eligibility threshold
- Credibility primary (Cp) and credibility excess (Ce) values

2017 Change to Variable Split X-Mod Formula Update of Actuarial Analysis

- As part of the development of the alternative First Aid experience rating plans earlier this year, staff developed the variable split plan for policy years 2012 and 2013 in addition to the previously completed policy years 2010 and 2011
- The variable split plan continued to perform well
  - Indications generally consistent with prior years

2017 Change to Variable Split X-Mod Formula Primary Thresholds

- Approximately 90 Primary Threshold split points
- Values range from $4,500 to $75,000
- Ranges based on employer's total expected losses in the experience period
- Final values will be proposed to Insurance Commissioner in June

Expected Losses			Primary Threshold	Expected Losses			Primary Threshold
Below	-	8,910	4,500	205,877	-	224,328	30,000
8,911	-	10,140	5,000	224,329	-	244,230	31,000
10,141	-	11,432	5,500	244,231	-	265,699	32,000
11,433	-	12,789	6,000	265,700	-	288,864	33,000
12,790	-	14,212	6,500	288,865	-	313,868	34,000
14,213	-	15,704	7,000	313,869	-	340,863	35,000
15,705	-	17,266	7,500	340,864	-	370,020	36,000
17,267	-	18,900	8,000	370,021	-	401,524	37,000
18,901	-	20,610	8,500	401,525	-	435,578	38,000
20,611	-	22,396	9,000	435,579	-	472,407	39,000
22,397	-	24,263	9,500	472,408	-	512,257	40,000
24,264	-	26,211	10,000	512,258	-	555,398	41,000
26,212	-	28,245	10,500	555,399	-	602,132	42,000
28,246	-	30,366	11,000	602,133	-	652,788	43,000
30,367	-	32,579	11,500	652,789	-	707,732	44,000
32,580	-	34,885	12,000	707,733	-	767,370	45,000
34,886	-	37,288	12,500	767,371	-	832,151	46,000
37,289	-	39,791	13,000	832,152	-	902,575	47,000
39,792	-	42,398	13,500	902,576	-	979,198	48,000
42,399	-	45,112	14,000	979,199	-	1,062,638	49,000
45,113	-	47,937	14,500	1,062,639	-	1,153,588	50,000
47,938	-	50,876	15,000	1,153,589	-	1,252,820	51,000
50,877	-	53,935	15,500	1,252,821	-	1,361,200	52,000
53,936	-	57,116	16,000	1,361,201	-	1,479,700	53,000
57,117	-	60,425	16,500	1,479,701	-	1,609,413	54,000
60,426	-	63,865	17,000	1,609,414	-	1,751,570	55,000
63,866	-	67,442	17,500	1,751,571	-	1,907,561	56,000
67,443	-	71,159	18,000	1,907,562	-	2,078,960	57,000
71,160	-	75,023	18,500	2,078,961	-	2,267,550	58,000
75,024	-	79,039	19,000	2,267,551	-	2,475,358	59,000

Final values will be proposed to Insurance Commissioner in June.

2017 Change to Variable Split X-Mod Formula D-Ratios

- D-Ratios separate the expected loss rates into primary and excess shares for the appropriate primary threshold.
- Each split point will have a unique corresponding table of D-Ratio values (approximately 90 tables). Only one table of D-Ratios, appropriate to the employer's size, is used for each employer.

Code No.	Expected Loss Rate*	D-Ratio	Code No.	Expected Loss Rate*	D-Ratio	Code No.	Expected Loss Rate*	D-Ratio
0005	2.48	0.22	2108	3.45	0.21	3022	3.39	0.19
0016	3.64	0.21	2109	2.77	0.24	3030	3.93	0.19
0034	3.31	0.22	2111	2.44	0.23	3039	3.59	0.19
0035	2.59	0.21	2113	5.98	0.19	3040	3.98	0.20
0036	4.08	0.20	2116	2.09	0.23	3060	3.69	0.19
0038	6.36	0.16	2117	4.23	0.22	3066	2.22	0.21
0040	2.20	0.22	2121	1.98	0.21	3070	0.21	0.23
0041	2.86	0.22	2123	2.61	0.25	3076	3.32	0.18
0042	3.49	0.20	2142	1.38	0.22	3081	4.78	0.21
0044	2.78	0.20	2150	3.52	0.24	3082	4.89	0.15
0045	2.23	0.20	2163	2.83	0.21	3085	4.09	0.20
0050	3.33	0.19	2211	7.44	0.20	3099	1.99	0.20
0079	2.14	0.20	2222	2.77	0.19	3110	3.22	0.19
0096	2.72	0.23	2362	6.04	0.20	3131	2.60	0.21
0106	6.50	0.16	2402	3.66	0.21	3146	1.78	0.21
0171	3.44	0.19	2413	2.41	0.20	3152	1.33	0.22
0172	2.56	0.23	2501	2.80	0.22	3165	1.99	0.21
0251	2.30	0.21	2570	5.39	0.18	3169	2.54	0.21
0400	1.78	0.27	2571	4.53	0.20	3175	2.34	0.19
0401	5.44	0.16	2576	3.29	0.19	3178	1.27	0.21
1122	3.79	0.17	2584	3.95	0.21	3179	1.61	0.24
1123	11.22	0.16	2585	4.59	0.21	3180	3.45	0.19
1124	4.22	0.18	2589	2.48	0.21	3220	1.71	0.19
1320	0.68	0.16	2660	2.34	0.18	3241	1.94	0.23
1322	1.53	0.15	2683	2.61	0.22	3257	2.81	0.24
1330	3.75	0.22	2688	2.81	0.22	3339	2.99	0.21
1438	2.86	0.22	2702	9.18	0.13	3365	2.46	0.19
1452	1.38	0.18	2710	3.07	0.22	3372	2.92	0.21
1463	1.93	0.17	2727	6.71	0.14	3383	1.69	0.19
1624	4.90	0.16	2731	2.47	0.21	3400	2.96	0.20

Final values will be proposed to the Insurance Commissioner in June

2017 Change to Variable Split X-Mod Formula Other Rating Values

- Expected loss rates are being computed based on standard WCIRB Methodology – reviewed by Actuarial Committee at 6/17/16 meeting
- Eligibility is now based on approved expected loss rates
  - 2016 eligibility threshold was $10,300
  - Proposed 2017 eligibility threshold will be updated for wage inflation and growth in average expected loss rates using standard methods
- Proposed 2017 primary credibility for all risks = 1.00 and proposed 2017 excess credibility for all risks = 0.00

2017 Change to Variable Split X-Mod Formula Experience Rating Off-Balance

- Staff calculated the average modifications and empirical off-balance of the variable split and current $7,000 fixed split plans for policy years 2010 through 2013
- On an employer-weighted basis, the average modifications were:
  - Variable Split: 0.966
  - Fixed Split: 0.968
- On an expected loss-weighted basis, the average modifications were:
  - Variable Split: 0.979
  - Fixed Spit: 0.977
- The variable split plan's off-balance was slightly smaller than the fixed split plan's off-balance for all four years

2017 Change to Variable Split X-Mod Formula Experience Rating Off-Balance

- The average of the variable split off-balance over the four periods was 89.1% that of the fixed split off-balance
- In calculating the indicated change in off-balance for the 2017 expected loss rates, staff will make a one-time adjustment to the off-balance of (0.891 – 1.000), or -0.109
  - For example, if the off-balance was 1.030, a change in off-balance of -0.109 x 0.030, or ~ -0.003, will be applied to adjust the off-balance factor to 1.027

Draft

Projection of Actual to Expected Losses
For Policy Year 2017 Experience Rated Risks

	2014	2015	Preliminary 2016
1. Average Modification for Rated Risks	0.946	0.948	0.945
2. Average Credibility for Rated Risks	0.537	0.547	0.533
3. Average Actual to Expected Ratio for Rated Risks (unadjusted) [(1) - 1.0 + (2)] / (2)	0.900	0.904	0.896
Factors Applied to Expected Loss Rates in 2014 Through 2016			
4. Off-Balance Factor in Expected Loss Rates	1.024	1.030	1.028
5. Adjustment to Reflect January 1, 2017 Change in Primary and Excess Loss Split Point	1.002	1.002	1.002
6. Adjustment to Reflect Insurance Code Section 11751.9 Rerates in Expected Loss Rates	0.992	0.992	0.992
7. Total of All Factors Applied to Expected Loss Rates (4) x (5) x (6)	1.018	1.024	1.022
8. Hindsight Correction to Average Expected Losses	1.047	1.050	1.073
9. Average Actual to Expected Ratio for Rated Risks (adjusted) (3) x (7) x (8)	0.960	0.972	0.983
10. Projected Policy Year 2017 Ratio of Actual to Expected Losses for Rated Risks			0.972
11. Projected Policy Year 2017 Average Credibility for Rated Risks			0.547

Draft

Experience Rating Off-Balance Correction Factor Calculation
For Policy Year 2017

1. Projected Ratio of Actual to Expected Losses for Rated Risks	0.972
2. Projected Average Credibility for Rated Risks	0.547
3. Ratio of Experience-Rated Premium to Total Premium	0.872
4. Indicated Off-Balance in 2017 Pure Premium Rates {1.0 -[(1) x (2) x (3)]} / {[[1.0 - (2)] x (3)] + [1.0 - (3)]}	1.026
5. Selected Off-Balance in 2016 Pure Premium Rates	1.028
6. Indicated Change in Off-Balance (4)/(5)-1.0	-0.2%

Draft

Factors to Adjust 2017 Indicated Limited Loss to Payroll Ratios to Expected Loss Rate Level
All NAICS Sectors Combined

		Indemnity	Medical
1.	Total payroll 2012 and 2013 (in 00s)	$10,785,708,268	
2.	Total payroll 2012 and 2013 x indicated limited loss to payroll ratios	$6,080,316,176	$7,361,858,598
3.	Average indicated limited loss to payroll ratios: (2) ÷ (1)	0.564	0.683
4.	Expected loss to payroll ratios for experience rating period		

	Policy Year	1st Report Ratio of Losses to Payroll	Development	Expected Ratio of Losses to Payroll
Indemnity	2013	0.291	1.679	0.489
	2014	0.285	1.462	0.417
	2015	0.288	1.000	0.288
Medical	2013	0.443	1.387	0.614
	2014	0.421	1.239	0.522
	2015	0.421	1.000	0.421
			Average:	

		0.398	0.519
5.	Factors to adjust indicated limited loss to payroll ratios to level of experience rating data: (4) ÷ (3)	0.706	0.760
6.	Selected experience rating off-balance	1.026	1.026
7.	Factor to reflect loss limitation	0.923	0.879
8.	Adjustment for impact of Insurance Code Section 11751.9	0.992	0.992
9.	Factors to adjust indicated limited loss to payroll ratios to expected loss rate level: (5) x (6) x (7) x (8)	0.663	0.680

Draft

Number of Classes with ELR Capped by 15% Swing Limitation

	Number of ELRs Limited at -15%	Number of ELRs Limited at +15%	%age of Total Expected Losses Redistributed
1/1/2014	12	17	0.5%
1/1/2015	15	41	0.4%
1/1/2016	27	56	0.1%
1/1/2017	45	35	0.3%

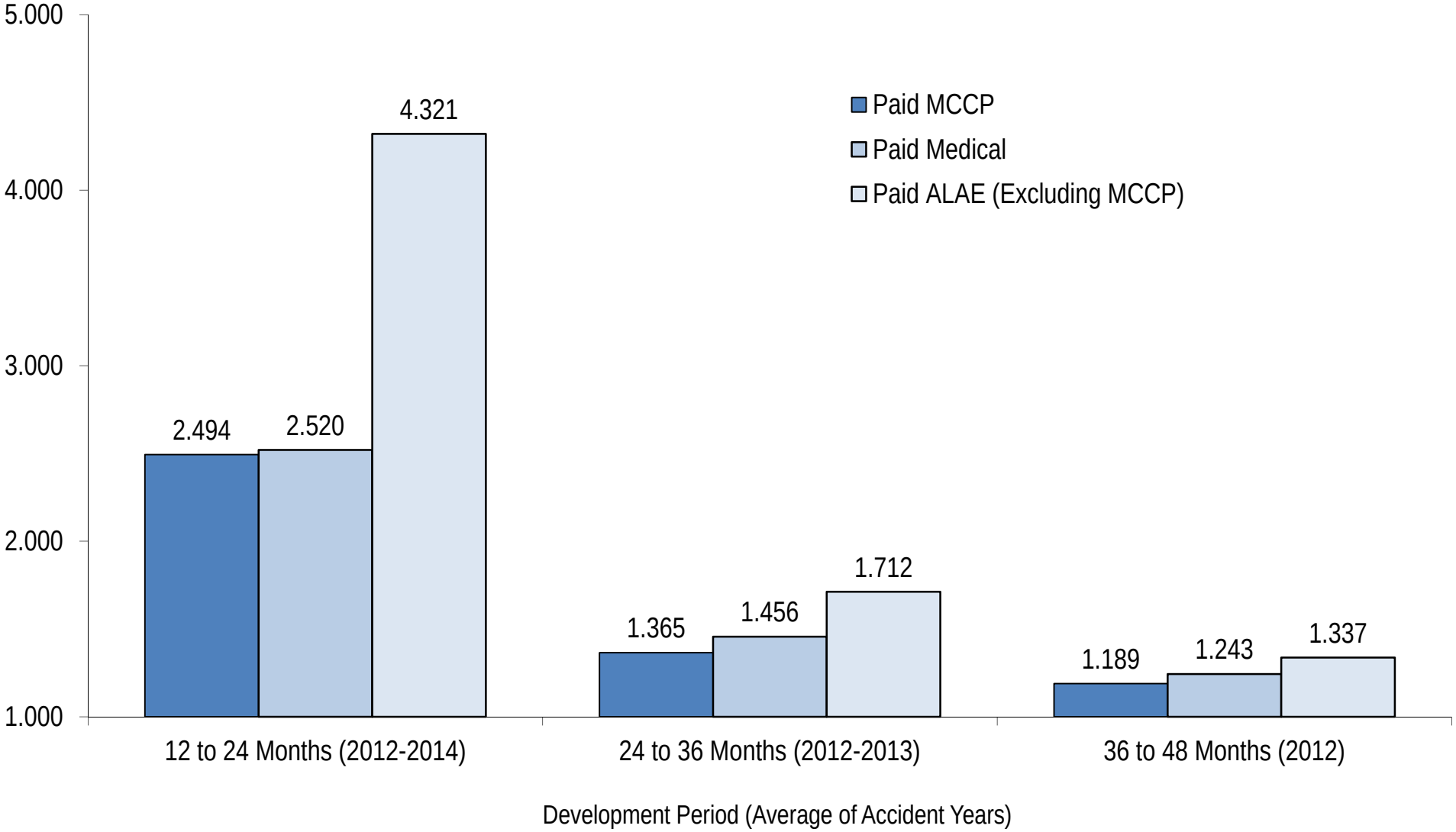
Review of MCCP Projection Methodology

WCIRB Actuarial Committee Meeting
June 17, 2016

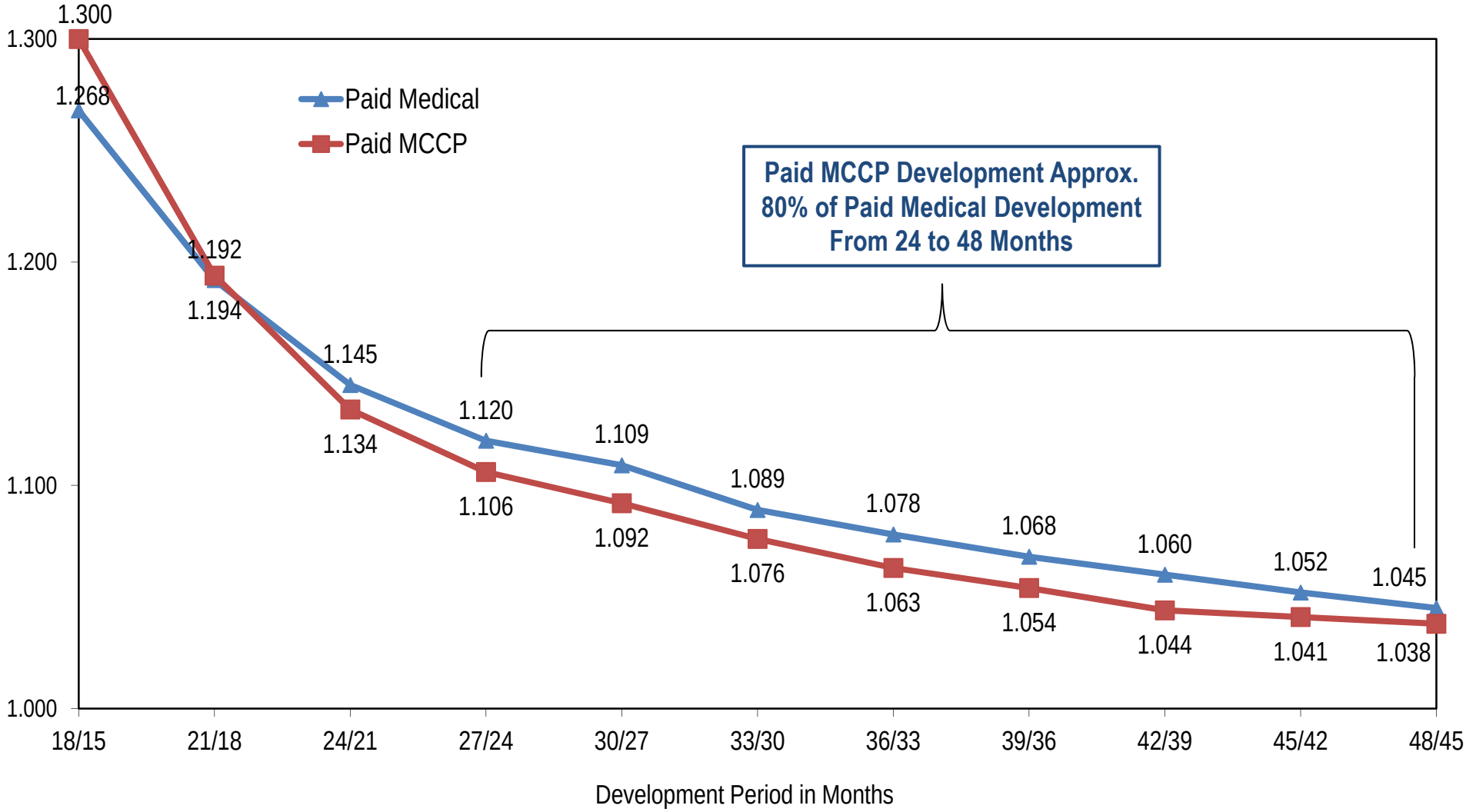
MCCP Projection – Background

- MCCP Included in ALAE Starting with 7/1/10 Policies
  - Reported separately on data calls for AYs 2010 and forward
- Projected as Separate Component of ALAE Since 1/1/14 Filing
- Projection Methodology Similar to that for ALAE
  - Development based on paid medical DFs rather than paid ALAE
  - Severity trend based on CY paid MCCP per open indemnity claim
- Several Years of Separate MCCP Data Now Available
  - Complete MCCP data available for 2012 and forward
  - 2010 and prior unable to completely separate MCCP from medical

Paid MCCP Development Compared to Paid Medical & ALAE



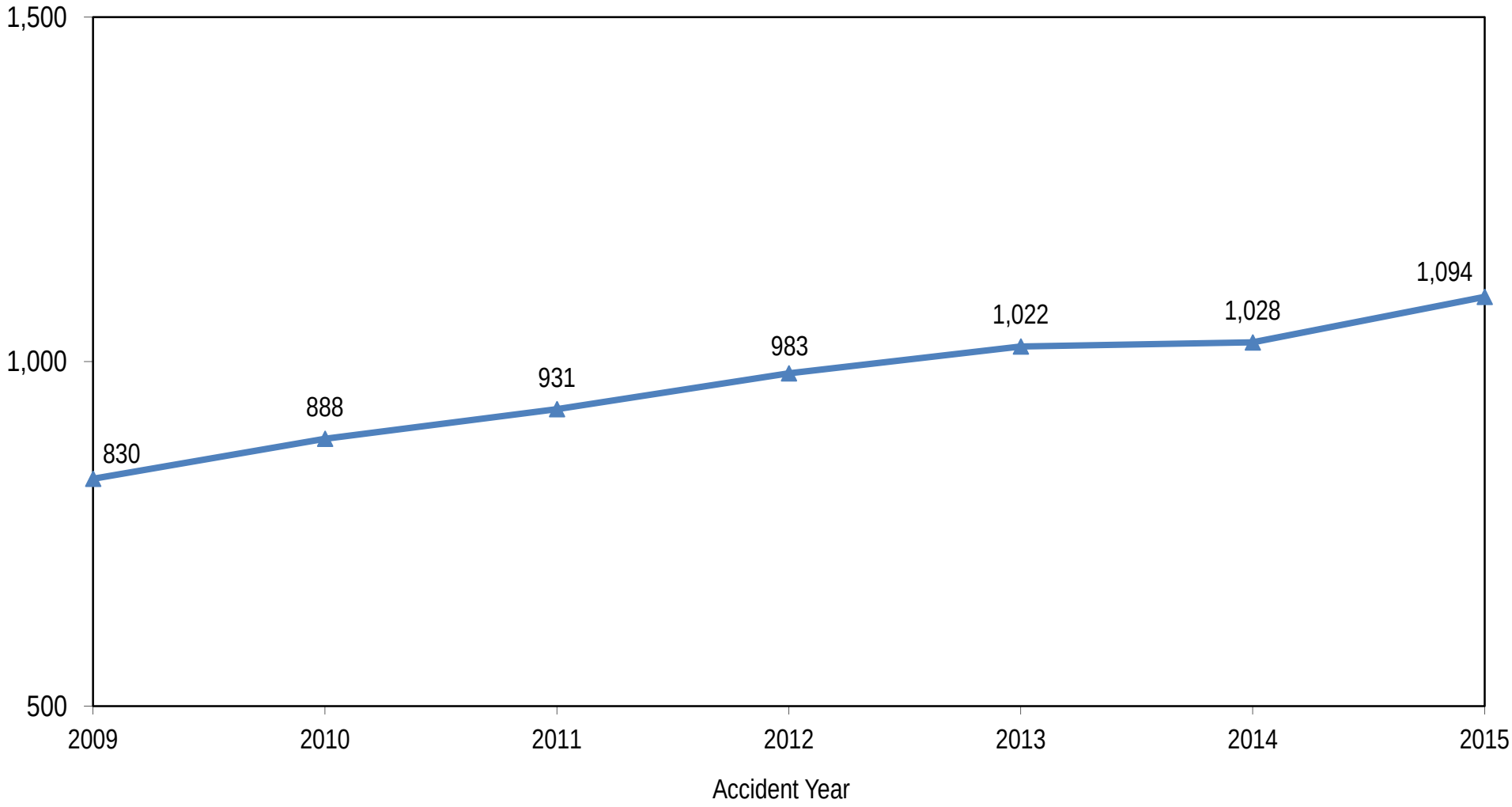
Calendar Year 2015 Development – Paid MCCP & Medical



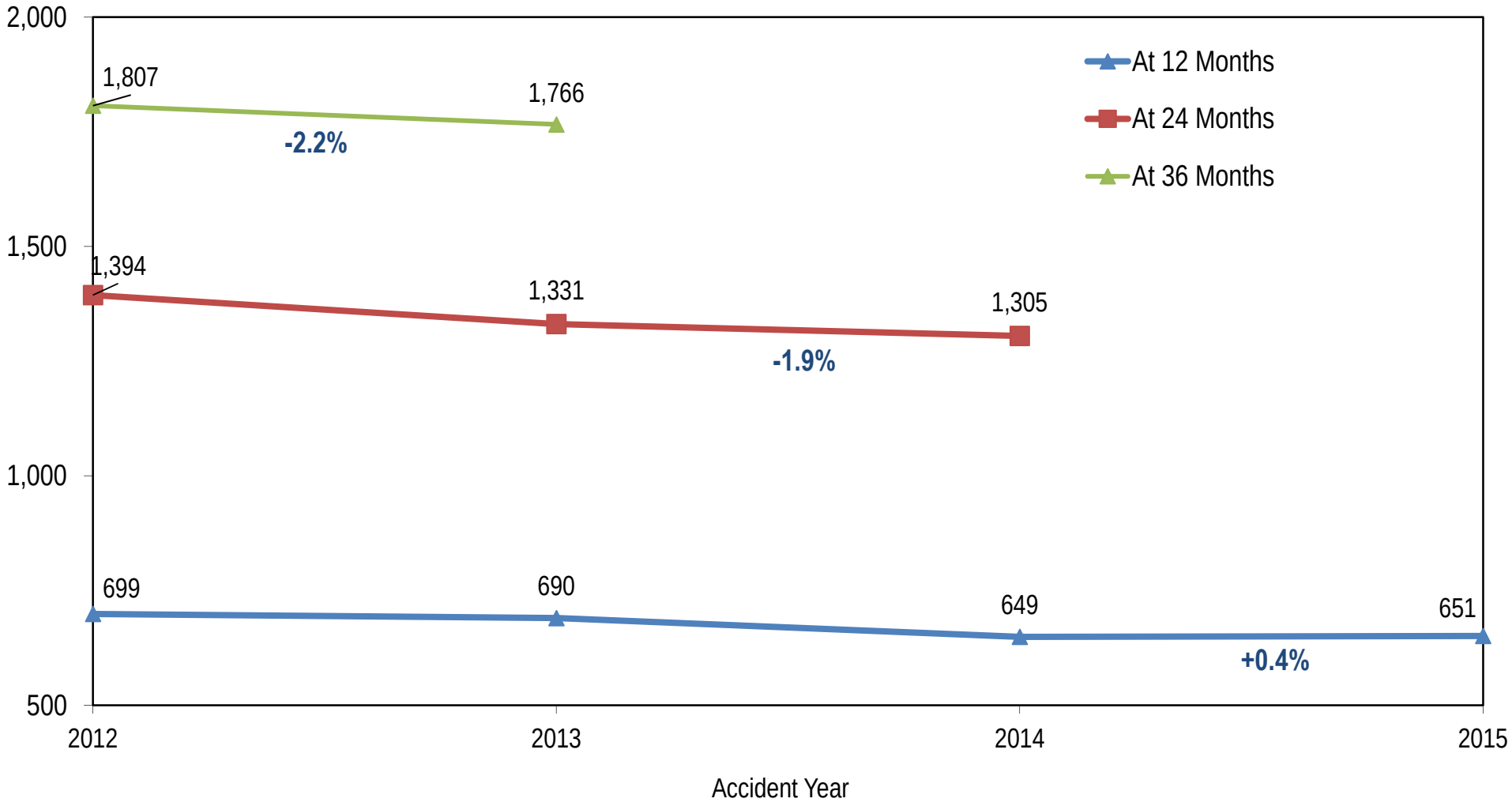
MCCP Development – Staff Recommendation

- Use Actual Paid MCCP Development when Available (through 51 Months as of 3/31/16)
- Tail Development
  - Unable to separate MCCP from medical in paid tail
  - MCCP approx. 80% of medical development through 48 months
  - Current medical tail likely somewhat understated for current years that exclude MCCP from medical
- Review Tail Development as well as Impact of Changes in IMR/IBR Reporting Requirement Changes as More Data becomes Available

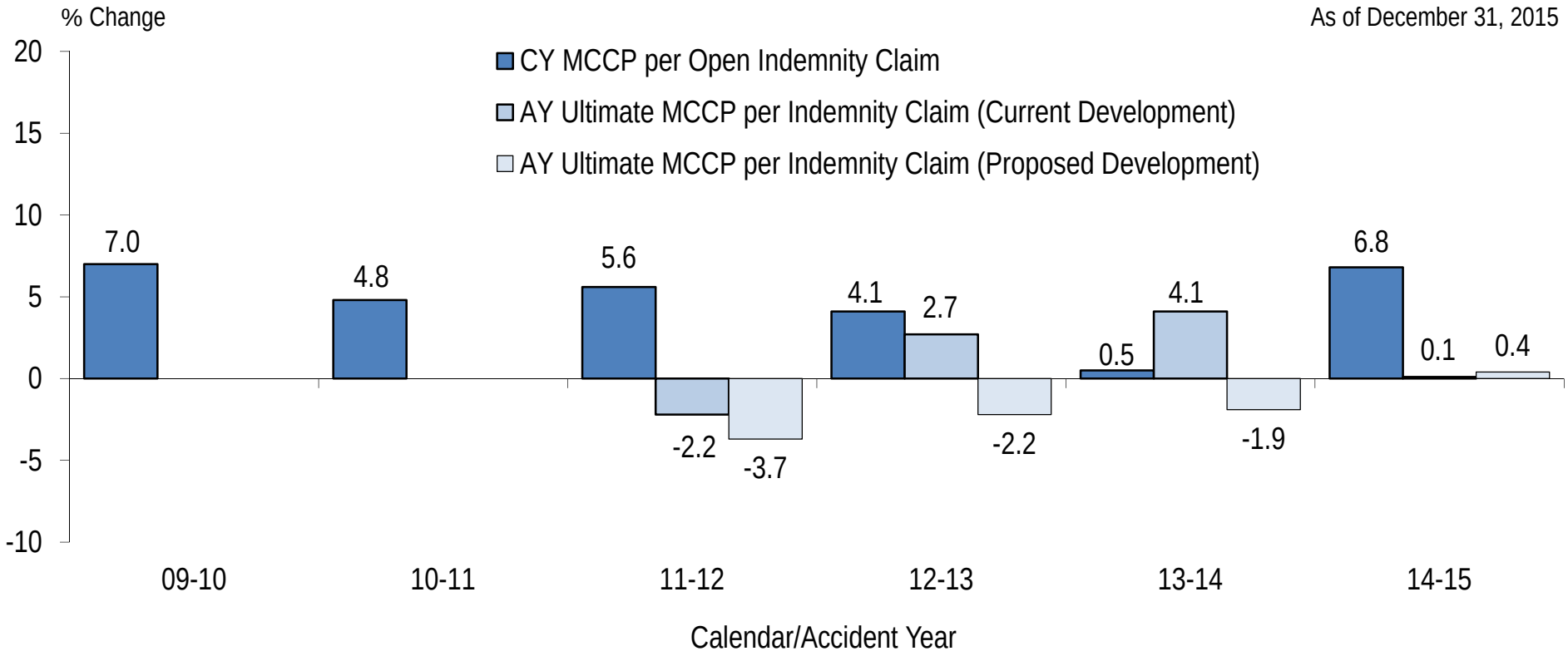
Calendar Year Paid MCCP per Open Indemnity Claim – Private Insurers



Accident Year Paid MCCP per Indemnity Claim – Private Insurers



Change in MCCP per Indemnity Claim – Private Insurers



Annual Exponential Trends:

CY MCCP per Open Indemnity Claim (2009-2015) = 4.4%

AY Ultimate MCCP per Indemnity Claim (Proposed Development) (2011-2015) = -1.9%

MCCP Trend – Staff Recommendation

- Continue to Use Same Frequency Trends as for ALAE Excluding MCCP
- Projected Severity Trend Based on Average of:
  - CY paid MCCP per open indemnity claim
  - AY ultimate MCCP per indemnity claim
- Approach is Similar to that Used for ALAE Excluding MCCP

Patterns of Drug Dispensing in California Workers' Compensation

WCIRB Actuarial Committee Meeting
June 17, 2016

Patterns of Drug Dispensing in California Workers' Compensation

APPROACH

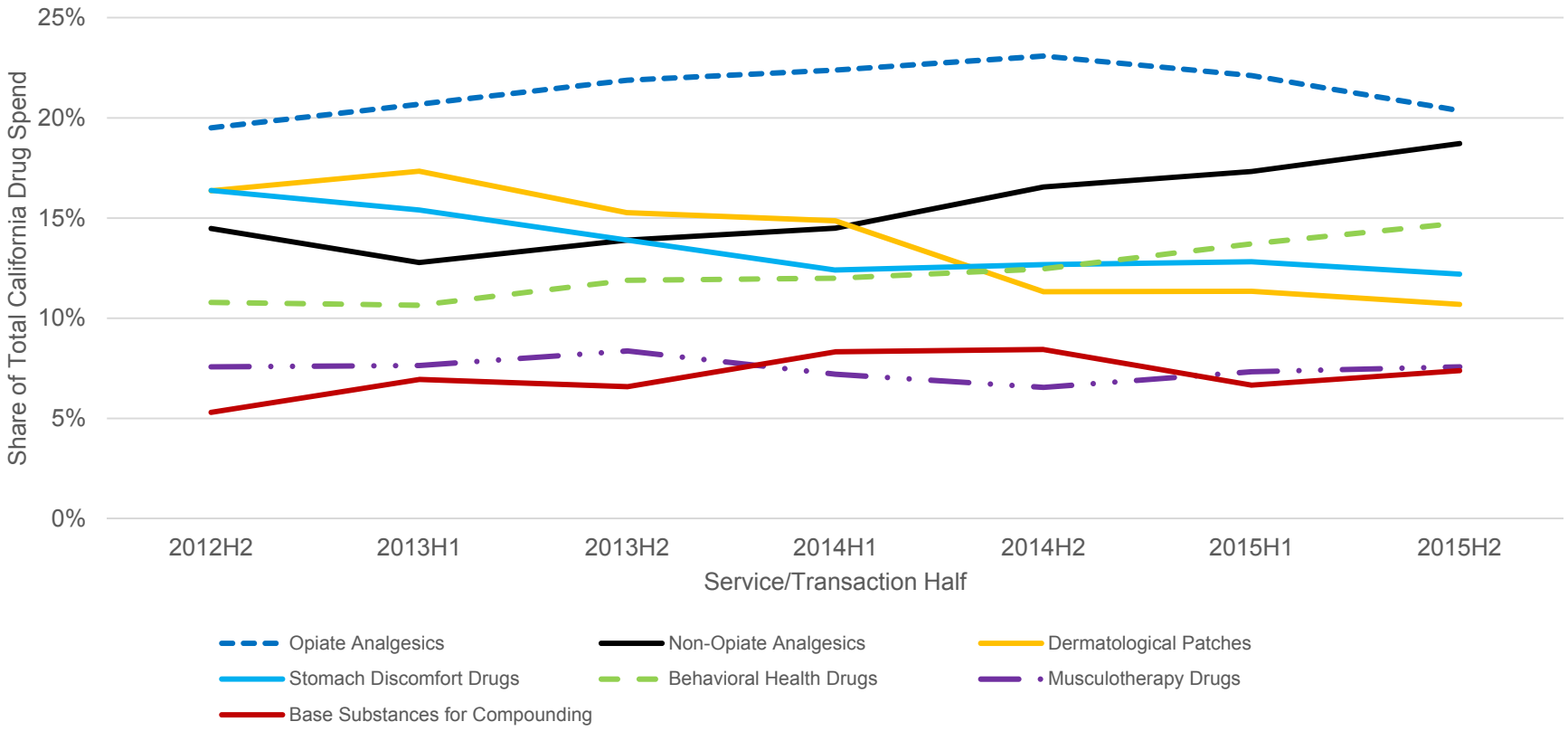
- Studied $499 million in payments from 5 million transactions for drugs dispensed between Q3 2012 and Q4 2015.
- Provider Identification Numbers (PINs) collected for approximately 4,500 retail pharmacies and 2,600 provider office drug dispensers.
- Data included details of strength, dosage and form for each pill as well as roll ups of the details to broader drug classifications.
- Compounding was identified via billings with the necessary base ingredients combined with various forms of standard drugs.
- Excluded drug payments from non-California entities, as well as those to hospitals, HMOs and any provider with missing or unclassifiable PINs.
- Some Pharmacy Benefit Manager (PBM) data without detailed provider and pharmacy PINS were not included.

RESEARCH QUESTIONS:

1. What are the major types of drugs dispensed?
2. Do these major drugs differ by dispensing site?
3. What are the patterns of compounding drug dispensing?
4. How does drug dispensing differ by California region?
5. Do dispensing sites differ for brand versus generic drugs?
6. Do sites receive different levels of payments for comparable drugs?

1. What are the major types of drugs dispensed?

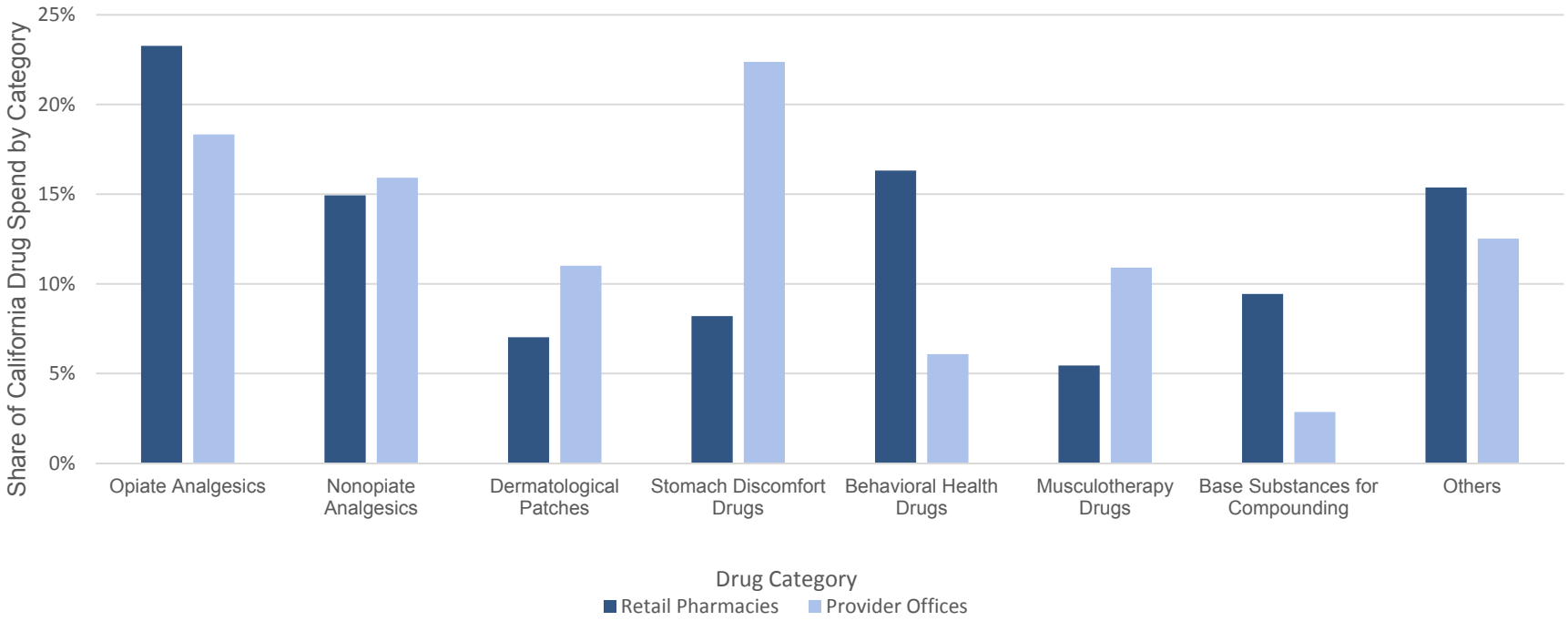
Chart 1: Share of Total Drug Paid By Half Year Increments* for Major Workers' Compensation Drug Categories (All CA Dispensing Sites)



***Data only includes services and payments in the same half year period**

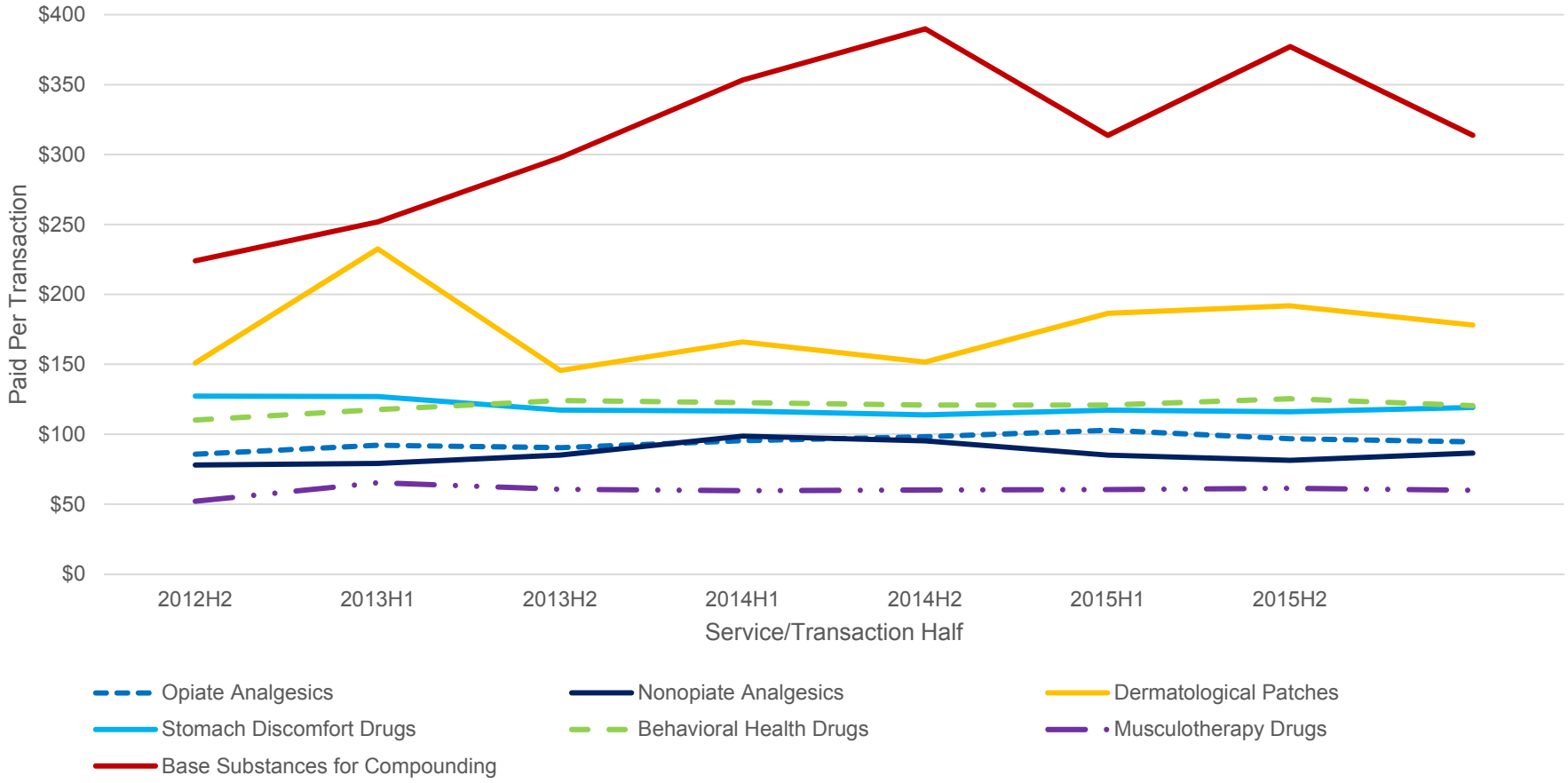
2. Do major drug types differ by dispensing site?

Chart 2: Share of Total CA Drug Payments by Major Drug Category – Entire Study Period



2. Do major drug types differ by dispensing site?

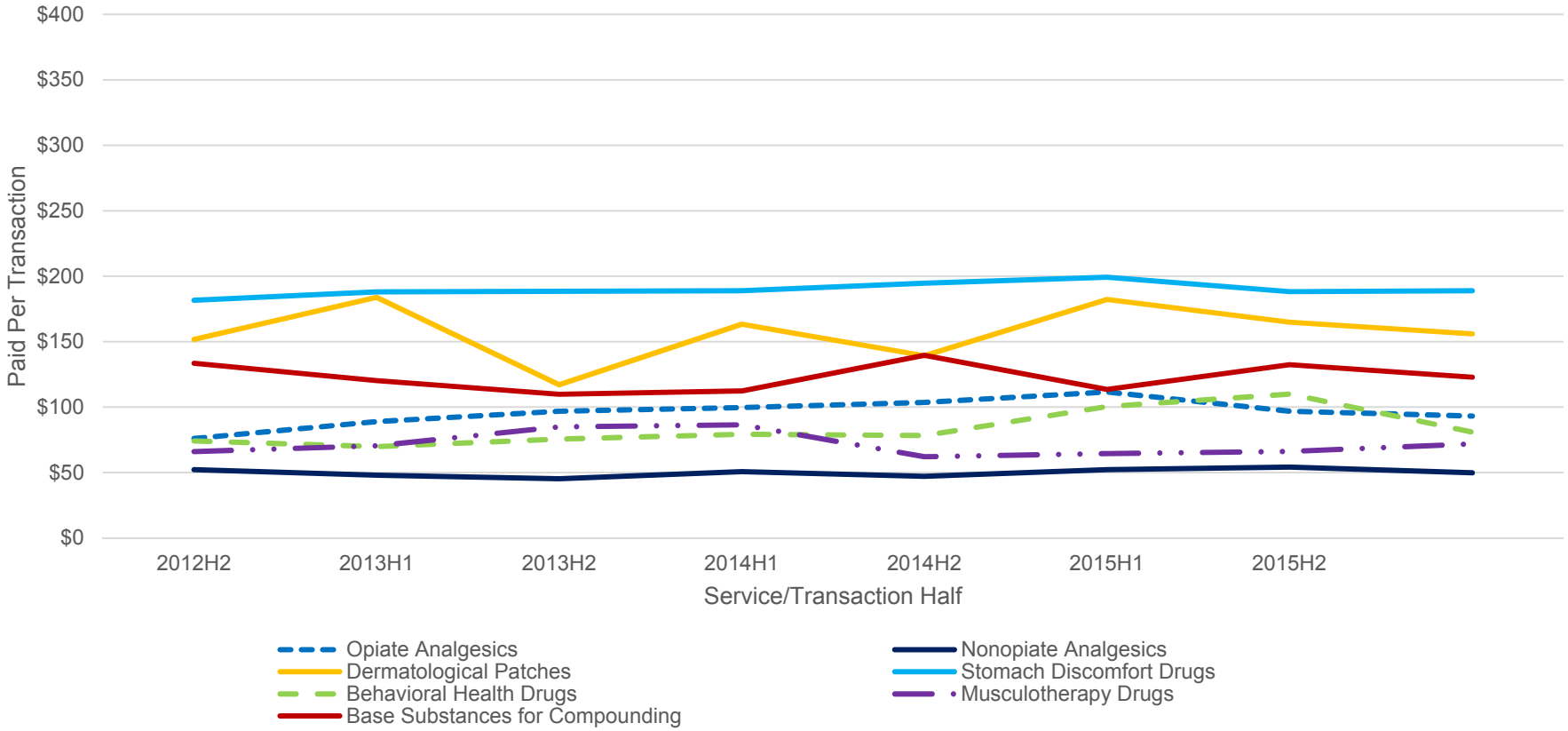
Chart 3: Paid Per Transaction by Half Year Increments* for Major Workers' Compensation Drug Categories: **Retail Pharmacies**



***Data only includes services and payments in the same half year period**

2. Do major drug types differ by dispensing site?

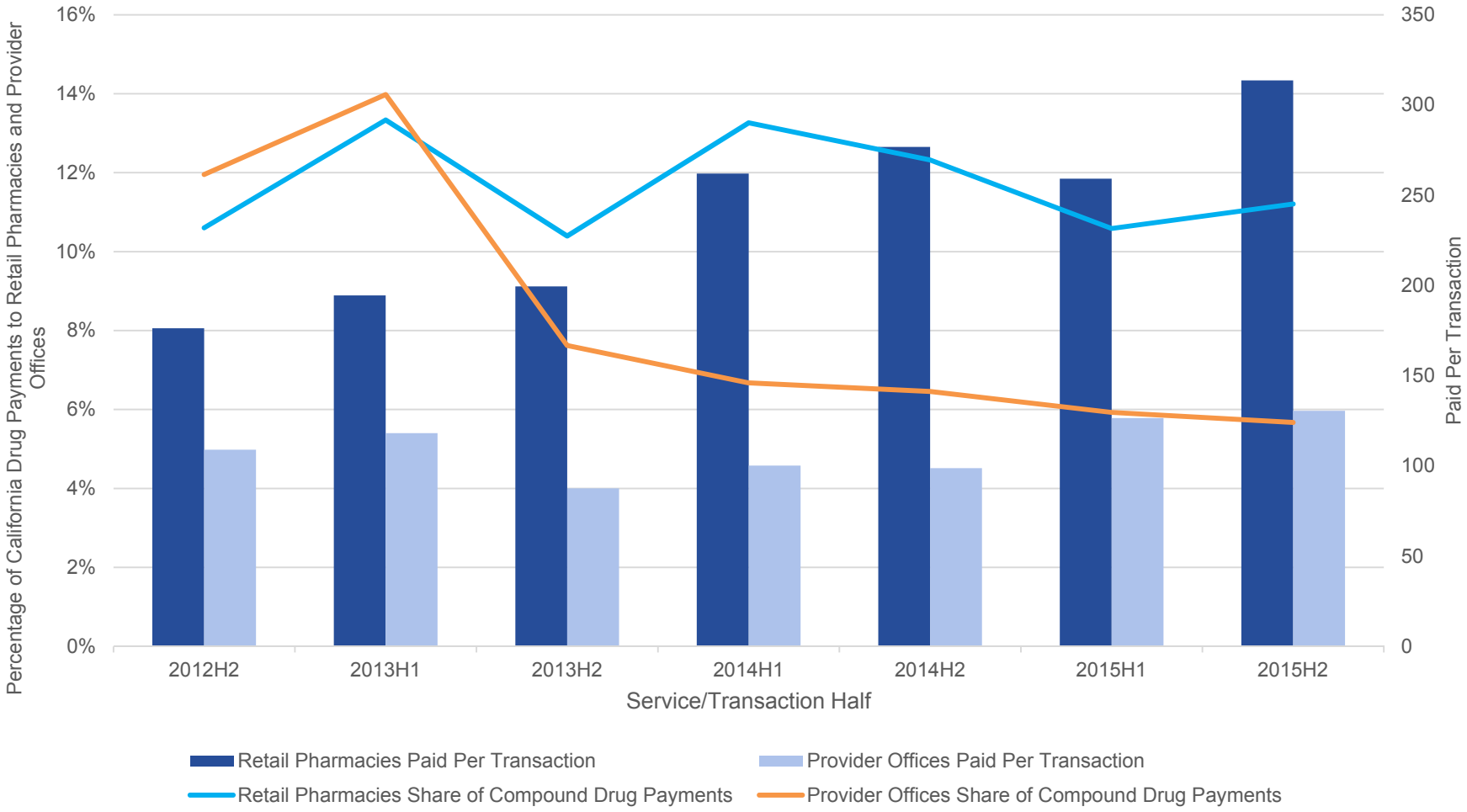
Chart 4: Paid Per Transaction by Half Year Increments* for Major Workers' Compensation Drug Categories: **Provider Offices**



***Data only includes services and payments in the same half year period**

3. What are the patterns of compound drug dispensing?

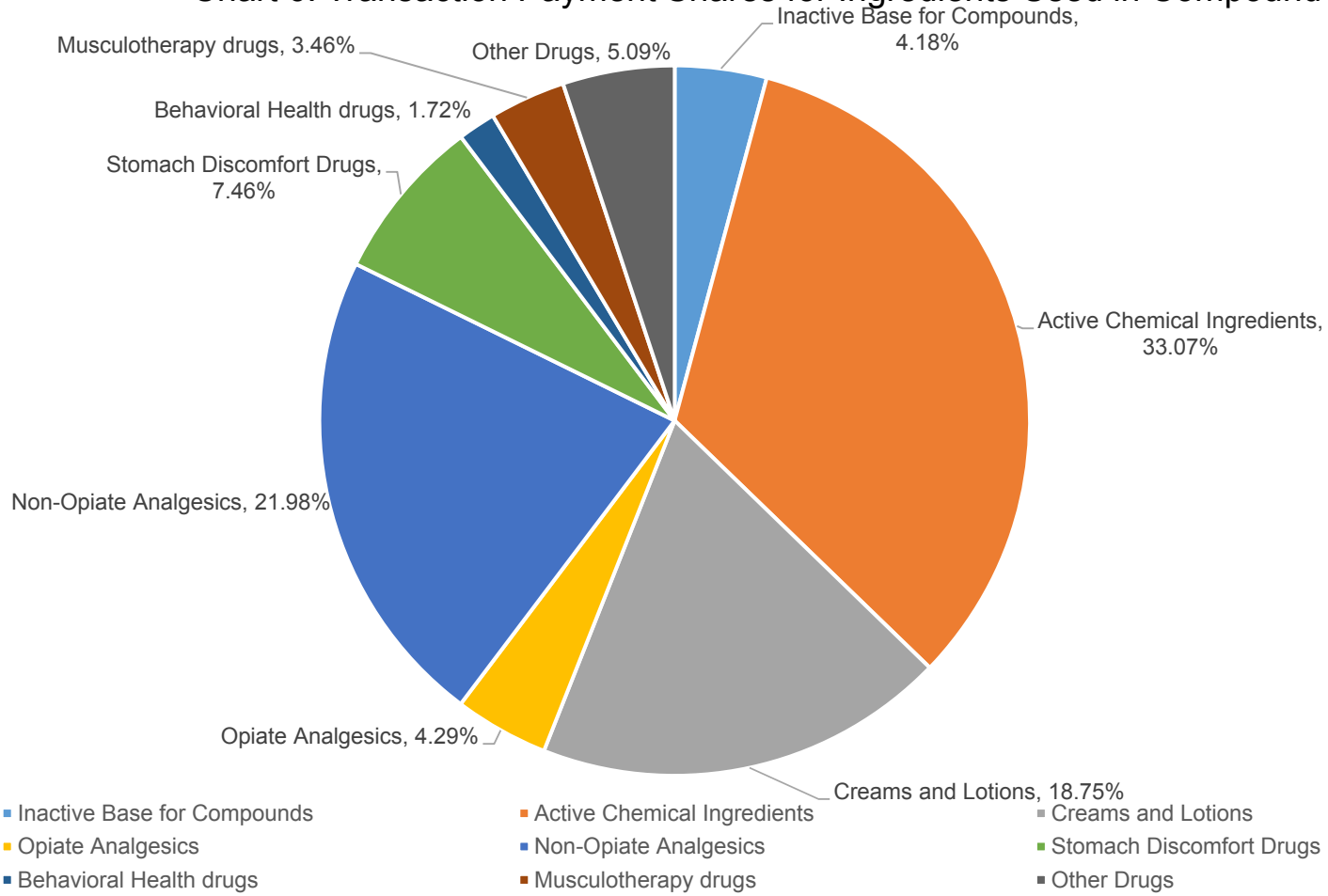
Chart 5: Compound Drug Payment Shares and Cost per Transaction by Dispensing Site By Half Year Period*



***Data only includes services and payments in the same half year period**

3. What are the patterns of compound drug dispensing?

Chart 6: Transaction Payment Shares for Ingredients Used in Compound Substances



4. How does drug dispensing differ by California region?

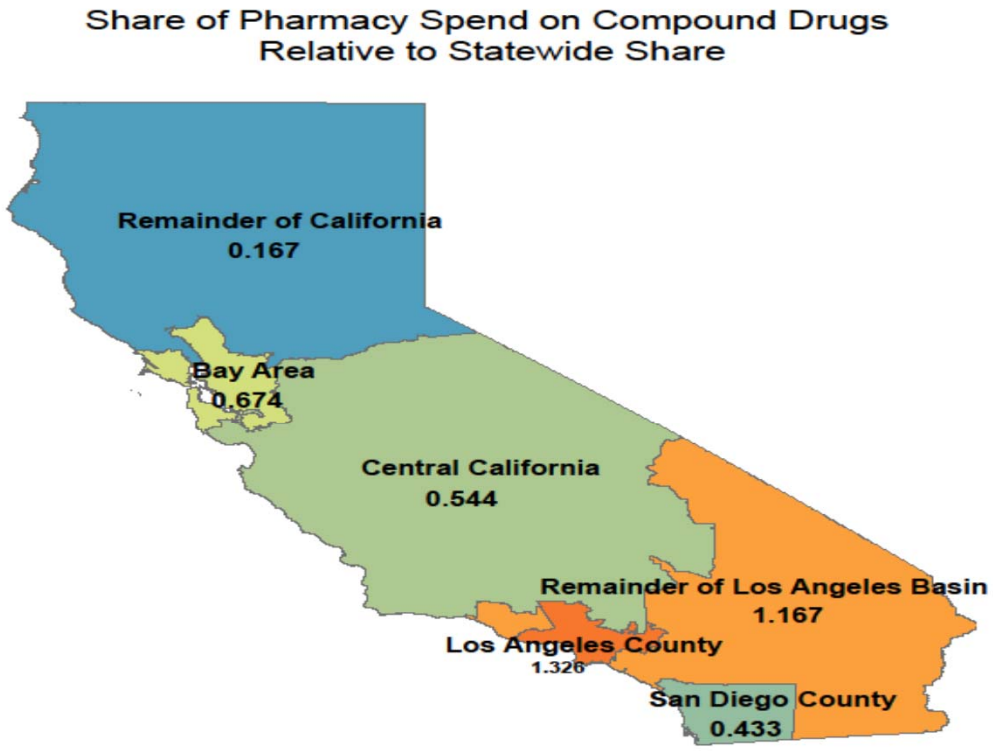
TABLE 7: PAYMENTS* FOR DISPENSED COMPOUNDS BY REGION - JULY 2012 THROUGH DECEMBER 2015

COMPOUND DISPENSING SITE		LA COUNTY	OTHER LA BASIN	SAN DIEGO	CENTRAL CALIFORNIA	BAY AREA	ALL OTHER REGIONS	STATEWIDE
RETAIL PHARMACIES	DRUG PAID	$47.0MM	$15.0MM	$0.2MM	$2.6MM	$0.6MM	$0.4MM	$65.8MM
	PD/BILL	$1,152	$1,361	$259	$673	$215	$607	$1,099
PROVIDER OFFICES	DRUG PAID	$26.5MM	$8.9MM	$2.5MM	$4.8MM	$9.3MM	$1.0MM	$53.0MM
	PD/BILL	$385	$547	$507	$522	$604	$388	$452
BOTH DISPENSING SITES	DRUG PAID	$73.4MM	$24.0MM	$2.8MM	$7.4MM	$9.8MM	$1.4MM	$118.8MM
	PD/BILL	$670	$875	$471	$567	$547	$429	$671
Compounding paid as % of statewide compounding paid		62%	20%	2%	6%	8%	1%	100%
All medical paid as % of statewide medical paid		47%	17%	5%	12%	12%	7%	100%

*THESE DATA INCLUDE PAYMENTS FOR BASE COMPUNDING SUBSTANCES AS WELL AS FOR OTHER STANDARD DRUGS MIXED INTO THE COMPOUNDED BASE.

4. How does drug dispensing differ by California region?

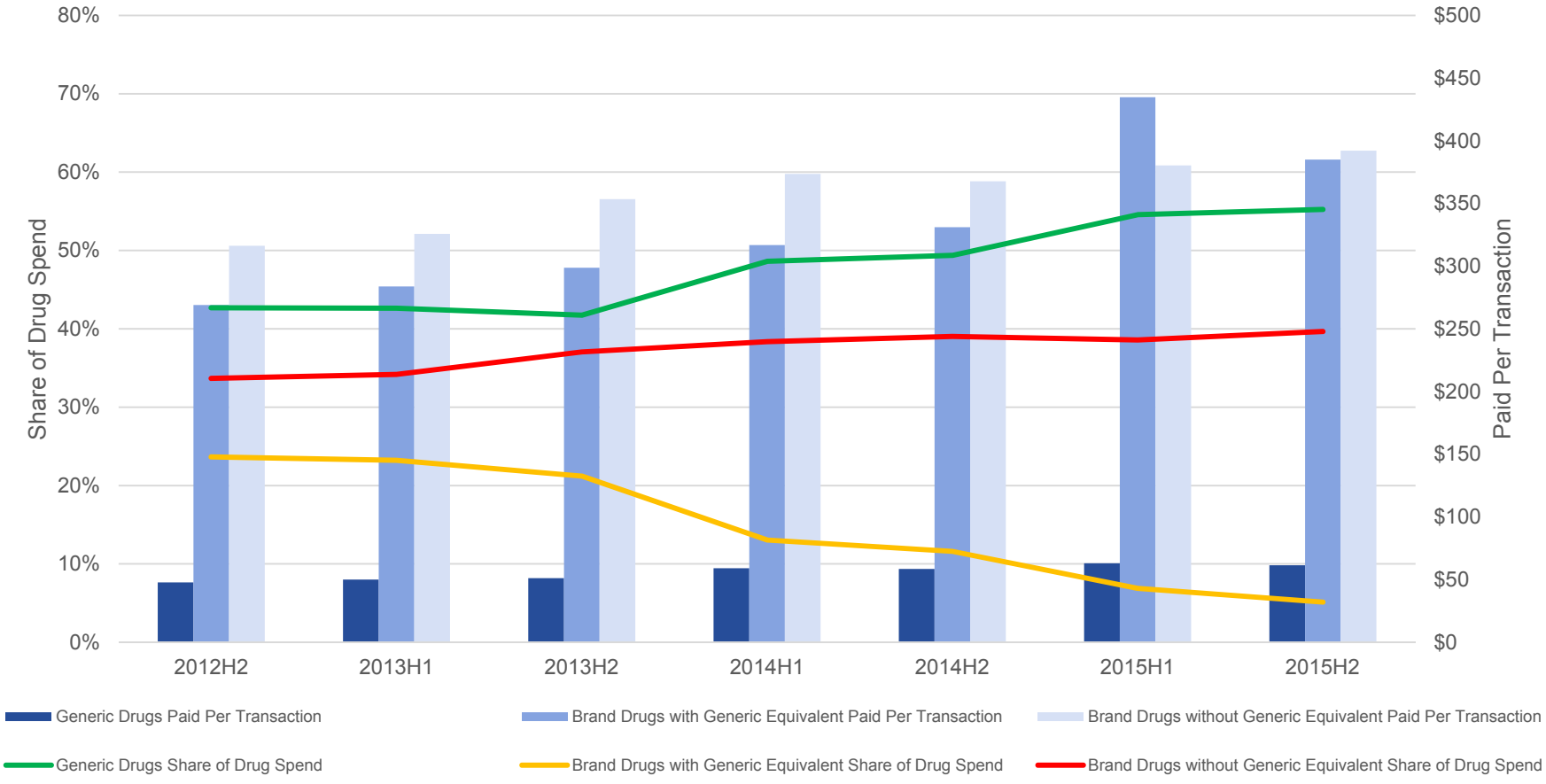
CHART 8: COMPOUNDING BY REGION



Note: Statewide Share of Medical Spent on Compound Drugs is 1.57% for Study

5. Do Dispensing Sites Differ for Brand versus Generic Drugs?

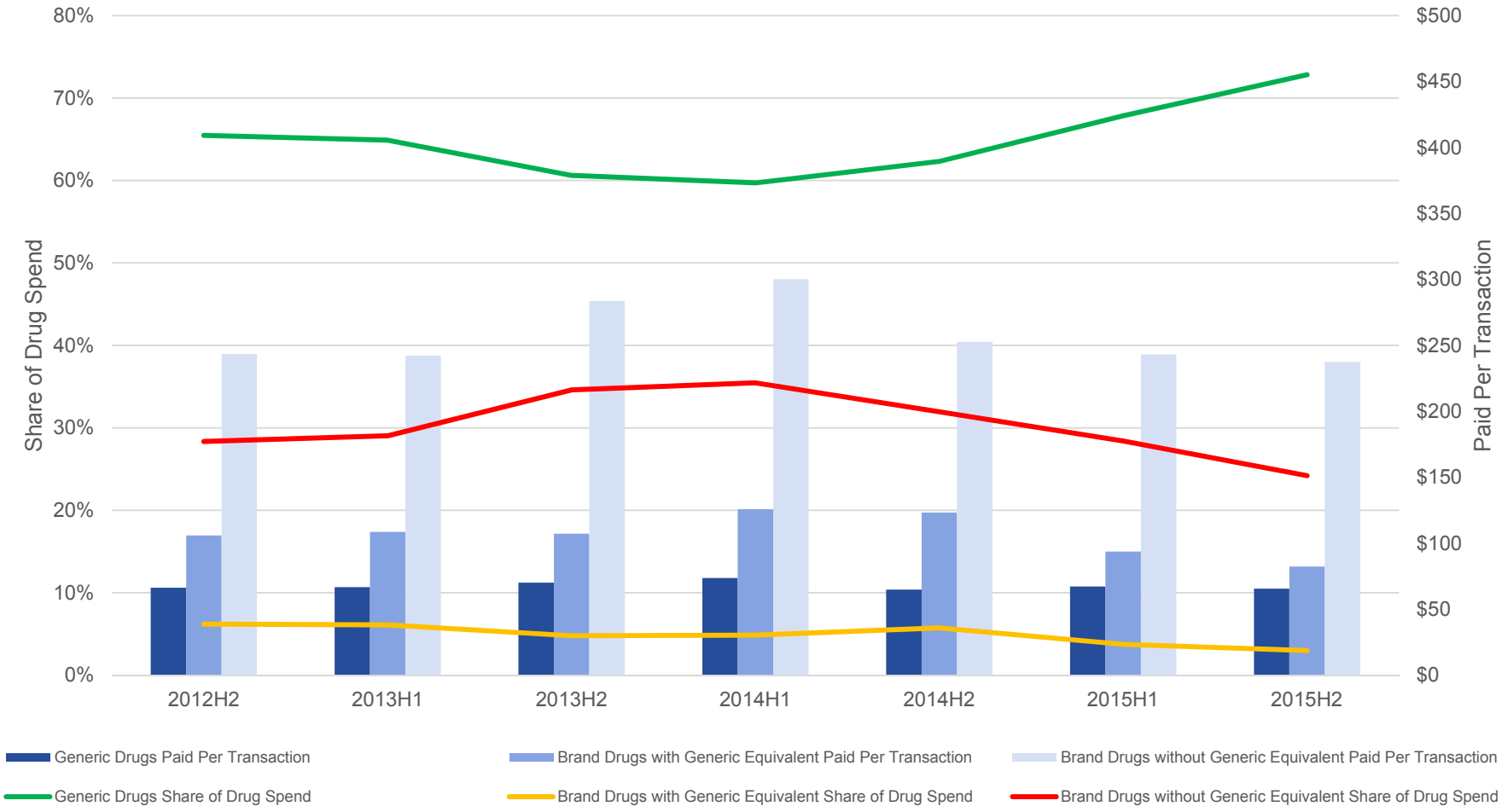
Chart 9: Retail Pharmacy Generic vs. Brand Drug Dispensing by Half Year Period*



***Data only includes services and payments in the same half year period**

5. Do Dispensing Sites Differ for Brand versus Generic Drugs?

Chart 10: Provider Office Generic vs. Brand Dispensing by Half Year Period*



***Data only includes services and payments in the same half year period**

6. Do sites receive different levels of payments for comparable drugs?

TABLE 11: PAID PER TRANSACTION BY GENERAL THERAPEUTIC IDENTIFIERS (GPIs)

Paid GPI Rank	Examples	Retail Pharmacies Pd/Transaction	Provider Offices Pd/Transaction	Drug Type
1	PRILOSEC	$150	$184	Stomach Discomfort Drugs
2	VICODIN	$47	$55	Opiate Analgesics
3	TRAMADOL	$47	$162	Opiate Analgesics
4	OXYCONTIN	$324	$402	Opiate Analgesics
5	FLEXERIL	$132	$130	Musculotherapy Drugs
6	NAPROSYN	$48	$67	Non-Opioid Analgesics
7	LYRICA	$298	$287	Behavioral Health Drugs
8	CYMBALTA	$247	$222	Behavioral Health Drugs
9	CELEBREX	$236	$199	Non-Opioid Analgesics
10	FENTANYL	$490	$505	Opiate Analgesics
11	PROTONIX	$149	$205	Stomach Discomfort Drugs
12	NEURONTIN	$46	$62	Behavioral Health Drugs
13	PERCOCET	$132	$161	Opioid Analgesics
14	ZOFRAN	$265	$471	Stomach Discomfort Drugs
15	ABILIFY	$763	$725	Behavioral Health Drugs

6. Do sites receive different levels of payments for comparable drugs?

Table 12: Payments Per Transaction for Specific Therapeutically Equivalent Frequently Prescribed Drugs

A. OPIATE ANALEGICS –TRAMADOL (GPI 65100095)

DRUG NAME	Dosage Form	Total Share of GPI for Drug	RETAIL PHARMACIES Share	RETAIL PHARMACIES Paid/Transaction	PROVIDER OFFICES Share	PROVIDER OFFICES Paid/Transaction
ULTRAM 150 MG	Extended Release Caps.	81%	11%	$324	89%	$343
ULTRAM 50 MG	Extended Release Tablets	14%	59%	$17	41%	$16
OTHERS	Various Forms	5%	90%	$181	10%	$209

B. STOMACH DISCOMFORT DRUGS- OMEPRAZOLE (GPI 49270060)

DRUG NAME	Dosage Form	Total Share of GPI for Drug	RETAIL PHARMACIES Share	RETAIL PHARMACIES Paid/Transaction	PROVIDER OFFICES Share	PROVIDER OFFICES Paid/Transaction
PriLOSEC 20 MG	Delayed Release Caps.	97%	31%	$154	69%	$185
PriLOSEC 40 MG	Delayed Release Caps.	2.6%	84%	$68	16%	$40
OTHERS	Various Forms	0.4%	25%	$65	75%	$200

SUMMARY OF KEY FINDINGS:

- The overall decline in drug costs per claim are reflected in reductions for provider office dispensing as well as drops in the dispensing of opiates, stomach discomfort drugs and compounds.
- Opiates remain the most frequent type of dispensed type of drug, although their share has declined while the combined shares of non-opiate analgesics and behavioral health drugs have correspondingly increased.
- Although the prevalence of compounds is declining, payments per bill of $671 for compounds are approximately 400% higher than bills for non-compounded drugs.
- The Los Angeles Basin generates 82% of compound drug payments compared to 64% of all medical payments statewide.
- Regardless of dispensing site, brand drugs without generic equivalents accounted for nearly 30% of all drug payments at a cost per transaction approximately 500% higher than generics.
- For most drugs, there were minimal differences between payments to provider offices and retail pharmacies, except for specific opiates and stomach discomfort drugs.
- When comparing therapeutic equivalents, the higher payments per transaction to provider offices are primarily driven by provider selection of the highest priced drug in an equivalent class.

Update on Medical Cost Trends

WCIRB Actuarial Committee Meeting
June 17 , 2016

Update on Medical Cost Trends

Key Findings of December 10, 2015 study:

- Payments per claim for all medical services increased 1% in the first half of 2015 compared to the second half of 2014.
- The greatest payment per claim increases were for outpatient and inpatient facility services.
- Payments per claim for services covered by the physician fee schedule remained flat in the first half of 2015.
- Payments per claim for pharmaceuticals declined by 6%.

Did these trends persist through the entire year of 2015?

Update on Medical Cost Trends

Paid per Claim by Type of Service

Change by 6-Month Service Period Compared to Prior Service Period

Service Period	Physician Fee Schedule (46% of Paid Medical)	Pharmacy (15% of Paid Medical)	Inpatient Facilities (12% of Paid Medical)	Outpatient Facilities (7% of Paid Medical)	HCPCS (8% of Paid Medical)	Medical-Legal (11% of Paid Medical)	Total Medical Paid All Services
1st Half 2013	-1%	-2%	-5%	-14%	-3%	+2%	-1%
2nd Half 2013	-4%	+4%	+2%	-9%	-5%	+2%	-4%
1st Half 2014	-2%	-3%	+3%	+7%	-14%	+9%	-1%
2nd Half 2014	-6%	-14%	+7%	-8%	-4%	-6%	-7%
1st Half 2015	0%	-6%	+2%	+11%	+7%	+2%	+1%
2nd Half 2015	-5%	-11%	-5%	-9%	-8%	-3%	-5%
Cumulative Change 2nd Half 2012 through 2nd Half 2015	*-17%*	*-28%*	*+4%*	*-22%*	*-24%*	*+6%*	*-16%*

Payments per claim dropped 5% in the 2nd Half of 2015 compared to the 1st Half of 2015 suggesting that the momentum from the SB 863 medical reforms has been sustained.

Update on Medical Cost Trends

Physician Fee Schedule Services

Change by 6-Month Service Period Compared to Prior Service Period

Service Period	Paid Per Transaction (Ratio to 2nd Half 2012)	Paid Transactions Per Claim (Ratio to 2nd Half 2012)	Paid Per Claim (Ratio to 2nd Half 2012)
1st Half 2013	-3%	+3%	-1%
2nd Half 2013	-2%	-2%	-4%
1st Half 2014	+10%	-11%	-2%
2nd Half 2014	-5%	-2%	-6%
1st Half 2015	+10%	-9%	0%
2nd Half 2015	+2%	-7%	-5%
Cumulative Change: 2nd Half 2012 through 2nd Half 2015	*+12%*	*-26%*	*-17%*

Post-RBRVS increases in payments per transaction were offset by declines in utilization as measured by transactions per claim.

Update on Medical Cost Trends

Pharmaceuticals

Change by 6-Month Service Period Compared to Prior Service Period

Service Period	Paid Per Transaction (Ratio to 2nd Half 2012)	Paid Transactions Per Claim (Ratio to 2nd Half 2012)	Paid Per Claim (Ratio to 2nd Half 2012)
1st Half 2013	+5%	-6%	-2%
2nd Half 2013	+1%	+4%	+4%
1st Half 2014	+5%	-8%	-3%
2nd Half 2014	-2%	-12%	-14%
1st Half 2015	-1%	-5%	-6%
2nd Half 2015	-4%	-8%	-11%
Cumulative Change: 2nd Half 2012 through 2nd Half 2015	*+3%*	*-30%*	*-28%*

Reductions in payments per claim for drugs were primarily driven by decreases in utilization.

Update on Medical Cost Trends

Inpatient Hospital Services

Change by 6-Month Service Period Compared to Prior Service Period

Service Period	Paid Per Transaction (Ratio to 2nd Half 2012)	Paid Transactions Per Claim (Ratio to 2nd Half 2012)	Paid Per Claim (Ratio to 2nd Half 2012)
1st Half 2013	-4%	-1%	-5%
2nd Half 2013	-2%	+3%	+2%
1st Half 2014	-9%	+13%	+3%
2nd Half 2014	+5%	+2%	+7%
1st Half 2015	0%	+2%	+2%
2nd Half 2015	-10%	+5%	-5%
Cumulative Change: 2nd Half 2012 through 2nd Half 2015	*-18%*	*+26%*	*+4%*

Given that the number of inpatient admissions has dropped by 19% during this 42-month period, the increase in paid transactions reflects more intensive billing on each hospital bill.

Update on Medical Cost Trends

Outpatient Services

Change by 6-Month Service Period Compared to Prior Service Period

Service Period	Paid Per Transaction (Ratio to 2nd Half 2012)	Paid Transactions Per Claim (Ratio to 2nd Half 2012)	Paid Per Claim (Ratio to 2nd Half 2012)
1st Half 2013	-14%	0%	-14%
2nd Half 2013	-8%	-1%	-9%
1st Half 2014	+6%	+1%	+7%
2nd Half 2014	-4%	-4%	-8%
1st Half 2015	+17%	-5%	+11%
2nd Half 2015	+5%	-13%	-9%
Cumulative Change: 2nd Half 2012 through 2nd Half 2015	*-1%*	*-21%*	*-22%*

Medicare's upward adjustments in ASC rates drive increases for these payments the first half of each year.

Update on Medical Cost Trends

HCPCS Schedule (including DME, supplies and prosthetics)

Change by 6-Month Service Period Compared to Prior Service Period

Service Period	Paid Per Transaction (Ratio to 2nd Half 2012)	Paid Transactions Per Claim (Ratio to 2nd Half 2012)	Paid Per Claim (Ratio to 2nd Half 2012)
1st Half 2013	-3%	0%	-3%
2nd Half 2013	+2%	-6%	-5%
1st Half 2014	-31%	+24%	-14%
2nd Half 2014	+2%	-6%	-4%
1st Half 2015	+9%	-1%	+7%
2nd Half 2015	-5%	-3%	-8%
Cumulative Change: 2nd Half 2012 through 2nd Half 2015	*-28%*	*+5%*	*-24%*

Paid per claim increases for these services in the 1st Half of 2015 were not sustained in the 2nd Half of 2015.

Update on Medical Cost Trends

Medical Legal Schedule Services

Change by 6-Month Service Period Compared to Prior Service Period

Service Period	Paid Per Transaction (Ratio to 2nd Half 2012)	Paid Transactions Per Claim (Ratio to 2nd Half 2012)	Paid Per Claim (Ratio to 2nd Half 2012)
1st Half 2013	+5%	-3%	+2%
2nd Half 2013	+3%	-1%	+2%
1st Half 2014	+8%	+1%	+9%
2nd Half 2014	-2%	-4%	-6%
1st Half 2015	-1%	+3%	+2%
2nd Half 2015	+2%	-6%	-3%
Cumulative Change: 2nd Half 2012 through 2nd Half 2015	***+16%***	***-9%***	***+6%***

Payments per claim for medical legal reports have gradually increased since 2012.

Update on Medical Cost Trends

All Services

Change by 6-Month Service Period Compared to Prior Service Period

Service Period	Paid Per Transaction (Ratio to 2nd Half 2012)	Paid Transactions Per Claim (Ratio to 2nd Half 2012)	Paid Per Claim (Ratio to 2nd Half 2012)
1st Half 2013	-3%	+3%	-1%
2nd Half 2013	0%	-3%	-4%
1st Half 2014	+7%	-7%	-1%
2nd Half 2014	-3%	-4%	-7%
1st Half 2015	+9%	-7%	+1%
2nd Half 2015	+1%	-6%	-5%
Cumulative Change: 2nd Half 2012 through 2nd Half 2015	*+11%*	*-24%*	*-16%*

Paid per claim increases in the 1st Half of 2015 were not sustained in the 2nd Half of 2015.