Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
June 17, 2016	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci

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Members	Representing
Carolyn Bergh	Hartford Insurance Company
Laura Carstensen	Zurich North America
James Gebhard	Farmers Insurance Group of Companies
Joanne Ottone	Berkshire Hathaway Homestate Companies
Jill Petker	Liberty Mutual Group
Mark Priven	Public Members of Governing Committee
Kate Smith	State Compensation Insurance Fund
Bryan Ware	Employers Insurance Group

California Department of Insurance
Ron Dahlquist
Giovanni Muzzarelli

WCIRB
Bill Mudge
David Bellusci
Ward Brooks
Greg Johnson
Larry Law
Tony Milano

The meeting of the Actuarial Committee was called to order at 9:30 AM, with Mr. David Bellusci, Executive Vice President and Chief Actuary, presiding.

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Approval of Minutes
The Minutes of the meeting held on March 22, 2016, were distributed to the Committee members in advance of the meeting for review. As there were no corrections to the Minutes, a motion was made, seconded and unanimously approved to adopt the Minutes as written.

Correction to Minutes
The Minutes of the Actuarial meeting held on April 5, 2016 were distributed to the Committee members in advance of the meeting for review. A correction was noted with respect to Item AC16-03-02, in which the motion to recommend trending methodologies for the July 1, 2016 Pure Premium Rate Filing had passed with seven in favor and two opposed, rather than eight in favor and two opposed as stated in the Minutes. As there were no other corrections, the Minutes were unanimously approved as corrected.

Notice

The information in these Minutes was developed by the Workers' Compensation Insurance Rating Bureau of California (WCIRB) for the purpose of assisting the WCIRB Actuarial Committee. The WCIRB cannot make any guarantees if this information is used for any other purpose and the WCIRB shall not be liable for any damages, of any kind, whether direct, indirect, incidental, punitive or consequential, arising from the use of or reliance upon this information for any other purpose.

Item II-A
Reporting of Small Medical-Only Claims Working Group Meeting Summary

The summary of the Working Group on the Reporting of Small Medical-Only Claims meeting held on March 14, 2016 was included in the Agenda materials. Staff summarized the major topics discussed at the meeting. After discussion, the meeting summary was accepted by the Committee.

Item II-B
Claims Working Group Meeting Summary

The summary of the Claims Working Group meeting held on March 23, 2016, which was included in the Agenda materials, was accepted by the Committee.

Item II-C
Medical Analytics Working Group Meeting Summary

The summary of the Medical Analytics Working Group meeting held on May 25, 2016 was included in the Agenda materials. A Committee member noted a correction to page 2 of the summary in which item (2)(d) was included in error and should be omitted from the summary. Staff noted the correction and with that correction the meeting summary was accepted by the Committee.

Item AC99-05-02
Annual Report on Paid Costs

The Committee was reminded that Section 11759.1 of the California Insurance Code requires the WCIRB to summarize various insurer, premium, loss, and expense information for each calendar year and submit a report to the Governor and the Legislature by June of the following year. Staff presented a preliminary summary of the WCIRB's report for calendar year 2015. It was noted that changes in paid medical costs by type were consistent with information that has been reviewed and discussed at prior Committee meetings, particularly with respect to costs related to Senate Bill No. 863. It was also noted that increases in paid medical cost containment program (MCCP) costs experienced in 2015 are likely in part attributable to fees paid for independent medical review and independent bill review, which will no longer be reported in MCCP costs beginning in 2016.

The Committee was reminded that the distribution and average cost of calendar year medical-legal reports has historically been based on information obtained from the WCIRB's Permanent Disability Claim Survey (PD Survey). Staff reminded the Committee that this data is based only on PD claims, includes reports only from more recent accident years, and is often based on claims-adjuster assessments of the type of report. Staff suggested that the WCIRB's Medical Data Call (MDC) data—which the WCIRB began collecting at the end of 2012—also includes medical-legal report transactions and is likely a more accurate source of this information since it is based on medical bill transactions on all injury types, includes claims from multiple accident years, is based on actual paid bills rather than claims adjuster review of surveyed claims, and includes much greater detail on the types of reports.

Staff presented preliminary information that compared the distribution and average cost of medical-legal reports in MDC data for calendar years 2014 and 2015 to what was reported on the PD Survey. It was noted that the differences between the two sources may be attributable to the MDC data reflecting reports on all injury types from several different accident years and a finer breakdown of medical-legal reports by category. After discussion, the consensus of the Committee was that replacing the medical-legal section of the report with MDC data would enhance the accuracy of the report and allow for more information to be included. Staff noted that it will finalize and release the report on this basis as soon as practical.

Staff then presented a preliminary summary of unallocated loss adjustment expense (ULAE) information derived from the new questions added to the WCIRB's Expense Call that were adopted by the Committee as a result of staff's study of ULAE information in 2015.[1] It was noted that when an insurer reports nonzero data on the Expense Call questions regarding ULAE costs related to large deductible policies or third party administrators (TPAs), the adjustment process adopted by the Committee in 2015 that involves reflecting these costs in the insurer's reported countrywide ULAE and then apportioning the adjusted countrywide ULAE to California based on paid losses continues to be the best available approach. Also, it was noted that based on staff's preliminary analysis, these adjustments have generally resulted in ULAE ratios much more similar to insurers who do not report any issues with these types of costs. However, staff noted that insurers who do not report any issues regarding large deductible policies or TPAs in reported ULAE may be using a more accurate method than paid losses to apportion countrywide ULAE to California. Staff suggested that in these cases using the California ULAE reported by these insurers rather than having staff apportion the countrywide ULAE based on paid losses may be more appropriate. After discussion, the Committee agreed with staff's recommended approach in the short term but suggested it should be reviewed in conjunction with the method to apportion countrywide ULAE to California in the future.

[1] See Item AC15-03-07 of the June 12, 2015 and August 6, 2015 meetings.

Item AC16-03-04
Special Call for Terrorism Premium Information

The Committee was apprised of information the WCIRB has recently submitted related to the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) of 2015. The Committee was advised that on May 2, 2016, in consultation with the Federal Insurance Office (FIO) and as authorized by the California Department of Insurance (CDI), the WCIRB provided the FIO, on a confidential basis, aggregated information regarding the WCIRB's estimate of the total California statewide insured employer workers' compensation reported payroll and direct earned premium for calendar year 2015 for the North American Industry Classification System (NAICS) sectors and California geographical regions specified in the 2016 FIO Data Collection request. The Committee was further advised that on May 25, 2016, the WCIRB provided the National Association of Insurance Commissioners (NAIC) on a confidential basis with the required policy count, payroll and terrorism premium information by payroll size interval by insurer both for policies with a specific charge for terrorism as well as those without a specific charge as directed by the NAIC and CDI. This information was based on the WCIRB's Special Call for Terrorism Information that was issued in March and discussed at the March 22, 2016 Committee meeting.

Item AC16-06-01
3/31/2016 Experience – Review of Methodologies

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of March 31, 2016 that was included in the Agenda materials. The Committee was advised that the adjustments to paid medical loss development for the January 1, 2014 physician fee schedule pursuant to Senate Bill No. 863 (SB 863) now include the service year 2016 adjustments (representing the third year of the four-year phase-in of the new schedule). Staff noted that the reform adjustments to loss development will be reviewed with the Committee at the next meeting.

It was noted that the modest (2 percentage point) decrease in the projected loss ratio since the July 1, 2016 Pure Premium Rate Filing was primarily attributable to continued modest decreases in medical loss development and an extended trending period in that the projected loss trend was somewhat lower than the projected wage trend from the July 1, 2016 policy period to the 2017 policy year. It was also noted that the changes to the loss development tail methodology adopted by the Committee at the April 5, 2016 meeting had only a minimal impact on the projection.

Staff noted that paid medical loss development continued to decline modestly in the first quarter of 2016, while paid indemnity loss development has increased modestly. It was also noted that incurred medical development again decreased significantly in the first quarter of 2016, mostly attributable to a significant decrease in medical case reserve levels.

It was noted that the 2017 and 2018 increases in average wages forecast by the UCLA Anderson School of Business exceed the combined frequency and claim severity trends projected by the WCIRB and, as a result, the overall trend through policy year 2017 is having a dampening effect on the projected loss ratio. The Committee was advised that the updated UCLA forecasts through June 2016 that were released subsequent to the release of the Agenda materials showed some moderation in projected wage level growth from those reflected in the Agenda materials.

The Committee next discussed the projected frequency and severity trends. It was noted that the preliminary 2016 frequency change based on reported indemnity claim counts through 3 months and changes in statewide employment levels showed a continuation of the moderate increase observed over the last several years. In addition, it was noted that the 2015 frequency change increased modestly from that reflected in the July 1, 2016 Pure Premium Rate filing based on updated claim count and employment information.

The Committee was reminded that, as in the July 1, 2016 Pure Premium Rate Filing, the selected indemnity severity projection was based on the approximate average of the short-term and longer-term average rates of growth, while the medical severity projection was based on the longer-term average rate of growth. For indemnity severity, it was noted that the shorter-term rate of growth includes the recent recession period in addition to the SB 863 transition period and that on-level indemnity severity shows increases of over 1.5% in two of the last three years, compared to the 0% trend reflected in the Agenda materials. For medical severity, it was noted that the 2.5% severity trend reflected in the Agenda materials combines the significant increases experienced shortly after the 2002 through 2004 reforms with the generally flat medical severity experienced over the last several years. The Committee discussed the appropriateness of reflecting the longer-term or shorter-term severity changes in the projection. A Committee member suggested reviewing diagnostic information available immediately after the prior (2002 through 2004) reforms and comparing that to current post-SB 863 information. Staff agreed to review this information with the Committee at the next meeting.

It was noted that the indicated loss trends based on separate frequency and severity projections were somewhat lower than those based on the long-term combined historical loss trend, but were generally consistent with those based on the shorter-term combined loss trend. The Committee was reminded that a number of alternative loss development and trending methodologies will be reviewed with updated March 31, 2016 experience at the next meeting.

Item AC16-06-02
1/1/2017 Regulatory Filing – Experience Rating Plan Values

The Committee was reminded that last year, the California Department of Insurance adopted a change to the experience rating primary/excess loss split point effective January 1, 2017 from a single split point of $7,000 to a split point that varies by the size of the employer. Staff presented a summary of the changes and noted that the indicated average experience modification under the new variable split point plan differed slightly from that under the fixed $7,000 split point plan. As a result, staff noted a one-time modest adjustment to the off-balance correction factor for the transition to the new plan is indicated.

Staff presented a draft analysis of the indicated policy year 2017 experience rating off-balance correction factor which included the adjustment for the 2017 experience rating plan change to the split formula. Staff noted that the indicated off-balance factor using the same methodology as in the January 1, 2016 Regulatory Filing was 1.026, which was 0.2% below the off-balance factor reflected in 2016 advisory pure premium rates.

Staff also presented a draft analysis of the factors used to generate the proposed policy year 2017 expected loss rates, which used the same methodology as in the January 1, 2016 Regulatory Filing. It was noted that changes in the factors to generate the policy year 2016 expected loss rates were consistent with what has been observed in the last several years.

After discussion, the consensus of the Committee was that the proposed 2017 Experience Rating Plan values should reflect the methodologies summarized at the meeting.

Item AC16-06-03
Review of MCCP Projection Methodology

The Committee was reminded that the current approach to project medical cost containment program (MCCP) costs is generally based on that used for other allocated loss adjustment expense (ALAE) costs. Staff noted, however, that the methodologies differ somewhat in that (a) projected MCCP development uses paid medical loss development factors rather than paid ALAE development factors and (b) the projected MCCP severity trend is based on average growth in calendar year MCCP per open indemnity claim rather than projected ultimate accident year severities.

Staff presented an analysis of paid MCCP development which showed that MCCP continues to develop much closer to medical loss than to other ALAE, though paid MCCP does develop less than paid medical at later maturities. Staff advised the Committee that several quarters of separate MCCP paid development are now available and suggested projected MCCP development should be based on paid MCCP development for periods in which it can be completely separated from paid medical development. The consensus of the Committee was that this approach was appropriate. (It was also noted that for the periods in which paid MCCP development will be used to project future MCCP development, it should no longer be reflected in paid medical development.)

The Committee next discussed the MCCP development tail. It was noted that MCCP development separate from medical development is not available for older accident years for which the two components are reported on a combined basis. However, staff noted that for periods both are available paid MCCP development is approximately 80% of paid medical development from 24 to 48 months, suggesting some adjustment to the combined medical/MCCP tail may be appropriate when applying it to MCCP. A Committee member noted that the inclusion of MCCP in the combined medical/MCCP tail may also slightly understate the pure medical tail, and an adjustment to the MCCP tail would suggest an offsetting adjustment to the medical tail would be indicated. Staff agreed to review this issue and report back to the Committee at the next meeting.

The Committee next discussed the MCCP trending methodology. Staff noted that projected ultimate accident year MCCP severities are currently available for 2011 through 2015, and suggested projecting future MCCP severity changes on the average of (a) the average change in ultimate MCCP per indemnity claim and (b) the average change in calendar year MCCP paid per open indemnity claim, which is similar to the approach used for other ALAE. A Committee member noted that recent trends in calendar year paid MCCP per open indemnity claim are significantly greater than the accident year trends, which may be attributable to fees for independent medical review (IMR) and independent bill review (IBR) on older accident years being included in the calendar year payments. Staff agreed to review adjusting the calendar year paid MCCP to remove IMR and IBR payments inasmuch as these payments are no longer to be reported in MCCP beginning in 2016. Another Committee member suggested reviewing MCCP severities compared to all claims rather than indemnity claims, since MCCP is not reported separately to the WCIRB for indemnity and medical-only claims. Staff agreed to provide this information at the next meeting for the Committee's review.

Item AC16-06-04
Study of Pharmaceutical Dispensing

Staff presented preliminary results from WCIRB's study of $500 million in drug payments from July, 2012 through December, 2015. This study encompassed 4,500 California retail pharmacies and 2,600 provider office dispensers. The results showed a 20% decline in the share of dispensed drugs paid to provider offices, which may have been a contributing factor to the overall reduction in pharmacy costs per claim during this period.

The Committee was reminded that a prior WCIRB report showed a three-year drop in drug costs per claim through the first half of calendar year 2015. This decline was attributed primarily to lower utilization, (defined as fewer drug transactions per claim) since unit payments per drug transaction remained stable during this period. Staff's updated analysis, which covers drug payments through the second half of CY 2015, suggests that changes in dispensing patterns may be a significant factor in the overall drug cost reduction trend. For drugs dispensed at provider offices, payments per transaction remained consistent while providers' share of total drug payments declined during the 42 month study period.

Staff noted that the decline in provider office dispensing occurred across all major drug types, and was especially apparent for opiate analgesics, the most prominent type of workers' compensation drug. For base substances used for compound drugs, the share dispensed by provider offices was cut in half, although the paid unit costs for these substances were unchanged for provider offices, while rising by 66% for retail pharmacies.

It was also noted that brand drugs were paid at a 400% higher level per transaction across both dispensing sites. For both brand and generic drugs, payments per transaction to provider offices remained flat during the study period. For both generics and brand drugs, payments per transaction to retail pharmacies increased by 25% over the 42-month period.

For some of the most frequently prescribed opiates and stomach discomfort drugs, provider offices received higher payments than pharmacies for equivalent drugs. It was suggested that this finding may reflect how provider offices have maintained a consistent rate of payments per transaction for these drugs, despite a decline in overall payment shares. This trend is magnified by provider office dispensing of some of the most expensive drugs in specific pharmaceutical categories, rather than prescribing therapeutically equivalent drugs available at retail pharmacies at lower costs.

The six county Los Angeles basin was the epicenter of compound drug dispensing for both retail pharmacies and provider offices. This region generated 82% of all compound payments compared to 64% of all workers' compensation medical payments statewide.

The Committee was advised that staff plans to finalize and publish the report in July.

Item AC16-06-05
Update on Medical Severity Trends by Component

Staff presented an update of WCIRB's of medical severity trend tracking. This analysis included calendar year 2015 medical payments by component and updated a December, 2015 report which included payments through the first half of calendar year 2015. The Committee was reminded that the prior report showed an overall increase in payments per claim of 1% in the first half of 2015 compared to the second half of 2014, primarily driven by higher inpatient and outpatient facility payments. The Committee was advised that this update was intended to review whether the trends evident through the first half of calendar year 2015 continued for the rest of that year.

The Committee was advised that the updated full year calendar year 2015 medical trend report did not support evidence of a reversal of calendar year 2013 and 2014 savings trends. In fact, medical costs per claim dropped by 5% second half of 2015, offsetting the increase in the prior half year period. On a cumulative basis, medical costs per claim have declined by 16% from the second half of 2012 through the second half of 2015.

It was noted that, on a component basis, a reduction in costs per claim for inpatient and outpatient facility services in the second half of calendar year 2015 offset the increases recorded for these services in the prior half year period. The two components that accounted for the majority of medical payments (physician fee schedule and pharmacy) continued to record sustained cost per claim savings through the end of calendar year 2015. As in the prior two calendar years, a decline in utilization (measured by number of transactions per claim) was the primary driver these savings. This utilization decline more than offset cumulative increases in payments per transaction for both physician fee schedule and pharmacy services over the 42 month period between July 2012 and December 2015.

The Committee was advised that staff plans to finalize this information and publish a report summarizing the findings in July.

The meeting was adjourned at 12:35 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for August 3, 2016 for approval and/or modification.