

Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
August 3, 2016	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci
1221 Broadway, Suite 900 • Oakland, CA 94612 • 415.777.0777 • Fax 415.778.7007 • www.wcirb.com • wcirb@wcirb.com			

Released: August 23, 2016

Members

Carolyn Bergh*
Laura Carstensen
James Gebhard
Joanne Ottone
Jill Petker
Mark Priven
Kate Smith

Representing

Hartford Insurance Company
Zurich North America
Farmers Insurance Group of Companies
Berkshire Hathaway Homestate Companies
Liberty Mutual Group
Public Members of Governing Committee
State Compensation Insurance Fund

California Department of Insurance

Robert Hallstrom
Ron Dahlquist

WCIRB

Bill Mudge
David Bellusci
Ward Brooks
Tony Milano

* Participated via teleconference

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.

* * * * *

Approval of Minutes

The Minutes of the meeting held on June 17, 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.

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.

© 2016 Workers' Compensation Insurance Rating Bureau of California. All rights reserved.

No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including, without limitation, photocopying and recording, or by any information storage or retrieval system without the prior written permission of the Workers' Compensation Insurance Rating Bureau of California (WCIRB), unless such copying is expressly permitted in this copyright notice or by federal copyright law. No copyright is claimed in the text of statutes and regulations quoted within this work.

Each WCIRB member company, including any registered third party entities, (Company) is authorized to reproduce any part of this work solely for the following purposes in connection with the transaction of workers' compensation insurance: (1) as necessary in connection with Company's required filings with the California Department of Insurance; (2) to incorporate portions of this work, as necessary, into Company manuals distributed at no charge only to Company employees; and (3) to the extent reasonably necessary for the training of Company personnel. Each Company and all agents and brokers licensed to transact workers' compensation insurance in the state of California are authorized to physically reproduce any part of this work for issuance to a prospective or current policyholder upon request at no charge solely for the purpose of transacting workers' compensation insurance and for no other purpose. This reproduction right does not include the right to make any part of this work available on any website or on any form of social media.

Workers' Compensation Insurance Rating Bureau of California, WCIRB, WCIRB California, WCIRB Connect, WCIRB Inquiry, X-Mod Direct, eSCAD and the WCIRB California logo (WCIRB Marks) are registered trademarks or service marks of the WCIRB. WCIRB Marks may not be displayed or used in any manner without the WCIRB's prior written permission. Any permitted copying of this work must maintain any and all trademarks and/or service marks on all copies.

To seek permission to use any of the WCIRB Marks or any copyrighted material, please contact the WCIRB at customerservice@wcirb.com.

Item II

Actuarial Research Working Group Meeting Summary

The summary of the Actuarial Research Working Group meeting held on June 28, 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 AC14-08-06
Reform Adjustments to Loss Development

The Agenda materials included an updated analysis of the continued appropriateness of the adjustments to loss development for Senate Bill No. 863. The Committee reviewed this update during the discussion of loss development methodologies in the context of its review of March 31, 2016 experience. (Please refer to the Minutes for Item AC16-06-01.)

Item AC14-08-07

SB 863 Cost Monitoring – Adjustments to Pure Premium Ratemaking

The Committee reviewed the summary of Senate Bill No. 863 (SB 863) cost monitoring information that has emerged since the July 1, 2016 Pure Premium Rate Filing and the adjustments for the cost impact of SB 863 currently reflected in pure premium ratemaking. The Committee was advised that staff's assessment of the SB 863 provisions affecting indemnity benefits and the majority of those affecting medical benefits had not changed since the July 1, 2016 Pure Premium Rate Filing. The Committee was advised that the next comprehensive review of these provisions will be presented to the Committee at the November 8, 2016 meeting in preparation for the WCIRB's 2016 SB 863 Cost Monitoring Report.

The Committee discussed the higher lien filings in 2015 and the first two quarters of 2016. It was noted that the increased lien filings corresponds to an increase in the concentration of filings from a few lien claimants, but that this did not explain all of the recent increase. It was also noted that, as discussed at prior Committee meetings, the transition from the 18-month to the 3-year statute of limitations on lien filings may also be contributing to the recent increase and that this transition would be completed by the end of the second quarter. As a result, the consensus of the Committee was to not adjust the current on-level adjustments related to the SB 863 lien reforms reflected in the July 1, 2016 Pure Premium Rate Filing for the increased lien filings until the third quarter 2016 liens could be reviewed.

The Committee next discussed the emerging cost impacts related to the new physician fee schedule based on the resource-based relative value scale (RBRVS). It was noted that physician costs for the 2015 service year have emerged significantly lower than projected, primarily as the result of reduced utilization of physician services across most service categories and particularly for pathology and laboratory services. Staff advised the Committee that further review of the WCIRB's Medical Data Call data uncovered additional transactions related to pathology and laboratory services and special services and reports in 2015 that were not reflected in the information included in the Agenda materials (see revised Exhibit 1 attached). The Committee noted that this additional information reduced the magnitude of the decrease for service year 2015 but did not explain all of the decline. Staff also noted that, inasmuch as the decreases in physician services in 2014 and 2015 were primarily a result of reduced utilization and concentrated in a few categories, no changes to the cost estimates for the remaining service years (2016 and 2017) of the four-year phase-in to RBRVS were recommended. After discussion, the Committee agreed with staff's recommendation to reflect the updated RBRVS cost impact for service year 2015 in the adjustments to loss development but to not change the service years 2016 and 2017 factors from the prospective estimates.

The Committee then reviewed the -5% adjustment for the overall decrease in the utilization of medical services resulting from SB 863 reflected in the July 1, 2016 Pure Premium Rate Filing. Staff advised the Committee that based on updated cost information, the indicated decrease was 10% over the 2012 through 2014 period. A Committee member noted that some of the decrease in average medical costs may be related to increased frequency of smaller claims rather than decreases in medical utilization. Staff agreed that this may be a factor but reviews of recent frequency changes by layer of incurred medical—at least at early report levels—did not indicate an increase of smaller claims. Staff also noted that the implied on-level medical severity trend of 2.5% included in the analysis may understate the impact of SB 863 medical reforms inasmuch as that trend includes post-SB 863 accident years and is much lower than pre-SB 863 projected severity trends. After discussion, the consensus of the Committee was that the -10% impact on the utilization of medical services from SB 863 was appropriate and should be reflected in the on-level adjustments. Staff noted that based on the approach used for the July 1, 2016 Pure Premium Rate Filing and reviewed at the March 22, 2016 meeting to spread the overall adjustment by accident year results in adjustments of -2%, -2%, and -6% for accident years 2012, 2013, and 2014, respectively. Staff noted that this approach may overstate the SB 863 impact for 2014 and understate it for 2012 and 2013 and that staff plans to review this approach when preparing for the 2016 SB 863 Cost Monitoring Report.

Average Physician Costs by Fee Schedule Component

Component	Service & Transaction Year = 2013			Service & Transaction Year = 2014			Service & Transaction Year = 2015		
	Transactions per Claim	Paid per Transaction	Paid per Claim	Transactions per Claim	Paid per Transaction	Paid per Claim	Transactions per Claim	Paid per Transaction	Paid per Claim
Anesthesia	0.1	\$345	\$36	0.1	\$342	\$34	0.1	\$322	\$30
Evaluation & Management	5.4	\$88	\$473	4.8	\$110	\$533	4.8	\$115	\$553
Medicine	12.2	\$35	\$421	10.8	\$38	\$411	10.4	\$41	\$427
Pathology & Laboratory	1.7	\$55	\$93	1.9	\$41	\$77	1.4	\$33	\$48
Radiology	1.4	\$126	\$177	1.4	\$114	\$158	1.3	\$104	\$134
Surgery	0.9	\$362	\$317	0.8	\$399	\$299	0.7	\$399	\$266
Special Services & Reports	4.2	\$50	\$211	3.2	\$41	\$132	3.4	\$42	\$145
Total Physician Fee Schedule	25.8	\$67	\$1,728	23.0	\$72	\$1,645	22.2	\$72	\$1,604

Annual Change

Component	Service & Transaction Year = 2013			Service & Transaction Year = 2014			Service & Transaction Year = 2015		
	Transactions per Claim	Paid per Transaction	Paid per Claim	Transactions per Claim	Paid per Transaction	Paid per Claim	Transactions per Claim	Paid per Transaction	Paid per Claim
Anesthesia	---	---	---	-5.2%	-0.9%	-6.1%	-7.9%	-5.7%	-13.2%
Evaluation & Management	---	---	---	-10.0%	25.2%	12.7%	-0.6%	4.4%	3.8%
Medicine	---	---	---	-10.8%	9.4%	-2.4%	-3.8%	7.8%	3.7%
Pathology & Laboratory	---	---	---	10.1%	-25.3%	-17.7%	-22.0%	-20.7%	-38.1%
Radiology	---	---	---	-1.3%	-9.6%	-10.8%	-5.9%	-9.3%	-14.6%
Surgery	---	---	---	-14.4%	10.2%	-5.7%	-11.2%	0.2%	-11.0%
Special Services & Reports	---	---	---	-24.4%	-17.5%	-37.6%	6.8%	2.9%	9.9%
Total Physician Fee Schedule	---	---	---	-11.1%	7.0%	-4.8%	-3.5%	1.1%	-2.5%

Source: WCIRB Medical Data Call

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

The Agenda materials contained an updated analysis of March 31, 2016 experience, which was first reviewed at the June 17, 2016 meeting. The Committee was advised that the principal changes in the analysis included in the Agenda materials from that reviewed at the June 17, 2016 meeting included (a) updated wage projections based on UCLA's June 2016 forecasts and (b) the change to the medical loss development projection to remove medical cost containment program (MCCP) development through 51 months that was adopted by the Committee at the June 17, 2016 meeting.

The Committee reviewed loss development and noted that paid indemnity loss development has increased over the last year while paid medical loss development has continued to decrease moderately. It was also noted that incurred loss development continues to decline significantly, particularly for medical, and is driven by sharp declines in medical case reserves over the last year. The Committee also noted a steady increase in indemnity claim settlement rates over the last few years.

The Committee reviewed the adjustments to loss development for Senate Bill No. 863 (SB 863) (Item AC 14-08-06). It was noted that the adjustments to indemnity loss development for SB 863 were generally performing as well as or better than the unadjusted latest year paid development factor. A Committee member suggested updating the adjustments to paid indemnity loss development by benefit type using more current distributions of indemnity payments by benefit type in future analyses. With respect to medical development, staff advised the Committee that the adjustments to paid medical loss development for the resource-based relative value scale (RBRVS) changes in 2015 pursuant to SB 863 were updated based on the updated evaluation of emerging RBRVS costs for the 2015 service year (see Item AC14-08-07). It was noted that the decreases in paid medical loss development observed in 2014 and 2015 were consistent with the changes in overall physician costs during this period. The Committee also noted that the adjustments to medical loss development for SB 863 continue to have an overall modest impact on the medical loss projection. The consensus of the Committee was that the adjustments to SB 863 for loss development, as presented and recommended by staff, continue to be appropriate.

Staff advised the Committee that the Agenda materials also included an incurred loss development projection partially adjusted for SB 863. It was noted that this projection, which primarily only adjusted the paid portion of incurred development, had an overall modest change from the unadjusted incurred loss development projections. It was noted that the impact of SB 863 on case reserve levels is uncertain and may vary widely by insurer.

The Committee reviewed the loss development projections, including the alternative loss development projections included in the Agenda materials (Item AC16-08-03). It was noted that the projections based on unadjusted incurred development continue to be significantly lower than the corresponding projections based on paid development. Several participants suggested that reduction in incurred loss projection is occurring in other states as well as California and there may be some national trends impacting these levels. It was noted that average case reserve levels shifted significantly over the last year and that the incurred loss development projection that adjusts for changes in average case reserve levels was somewhat closer to the paid loss development projections. However, it was noted that this methodology is very sensitive to the factors and assumptions applied in the computation. It was also noted that it is unclear to what extent the recent decrease in case reserve levels represents a change in incurred loss development patterns and to what extent it is a one-time shift in reaction to reduced payment patterns over the last year resulting from the impact SB 863 and countrywide medical cost trends.

The Committee discussed the recent increases in indemnity claim settlement rates and the alternative loss development projection that adjusts for changes in claim settlement rate. The Committee was advised that while there may be a number of factors driving the acceleration in settlement, Claims

Working Group members had advised that one of the important factors is SB 863 medical dispute resolution mechanisms speeding the medical treatment process. It was noted that the claim settlement rate adjustment improved the loss development projection during the prior period of claim settlement rate decline and had been recommended by the Committee a number of years ago when there was a significant shift in claim settlement rates. It was also noted that the recent claim settlement increase has been focused more on permanent disability claims, which are often paid later, and the projection adjusted for changes in claim settlement rates was somewhat lower than the unadjusted paid projections. However, some Committee members noted that the adjustment is very complex and can be volatile. It was also noted that the adjustment was based on the "Berquist-Sherman" approach originally devised for auto insurance and adapted for workers' compensation, where partial payments and the prolonged claim development pattern differs significantly from auto insurance. The Committee recommended staff further study the applicability of this methodology to workers' compensation in the future.

The Committee discussed the appropriate loss development methodology to be recommended to the Governing Committee to project the policy year 2017 loss ratio and whether a deviation from the methodology included in the Agenda materials based on that used in the last several pure premium rate filings is appropriate. Some Committee members felt that some blending of the incurred and paid methodologies may be appropriate to respond to the trends affecting each. Other Committee members felt that an adjustment for the recent increase in claim settlement rates may be appropriate. After a lengthy discussion, the consensus of the Committee was that it is premature at this time to make an adjustment to the loss development methodology until the impact of the recent changes in incurred development and claim settlement rates on projected future loss development can be analyzed further. As a result, a motion was made and seconded to recommend basing the projected policy year 2017 loss ratio on the loss development methodology reflected in the Agenda materials, with the updated adjustments for the impact of the RBRVS changes for the 2015 service year recommended by staff. The motion passed with six in favor and one opposed. The Actuary representing the Public Members of the Governing Committee who opposed this motion indicated that, at least for medical development, he believed giving some weight to the incurred projection was appropriate and recommended averaging the latest year incurred and the paid methodology reflected in the Agenda materials.

The Committee then discussed the projections of average wage level growth forecast by the UCLA Anderson School of Business. The Committee noted that the average annual rate of growth forecast for 2015 through 2017 is greater than the recent historical rate of growth as well as the projected combined loss trend for that period. It was noted that, in total, UCLA projected wage growth was not significantly different than the growth projected in the January 1, 2016 Pure Premium Rate Filing.

The Committee then discussed the frequency and severity projections reflected in the Agenda materials. It was noted that indemnity claim frequency continues to show modest increases over the last several years. It was also noted that on-level indemnity claim severities declined during the recession period but show modest increases in two of the last three years. The Committee reviewed a summary of historical indemnity severity changes that showed after significant declines during the prior reform transition period, indemnity severities escalated quickly. As a result, staff recommended basing the projected indemnity severity trend on the longer-term period of growth in lieu of the 0% trend reflected in the Agenda materials that was primarily based on the average of the shorter-term and longer-term rates of growth. After discussion, the consensus of the Committee was the staff's recommendation was appropriate.

The Committee next discussed the medical severity trend projection. It was noted that the on-level medical severities after reflecting the updated RBRVS estimates for the 2015 service year as well as the 10% decrease in the utilization of medical services resulting from SB 863 (see Item AC14-08-07) showed medical severities flat to modestly increasing over the recent period. It was noted that the long-term average rate of growth in on-level medical severities after reflecting these updates was 3.5% compared to 2.5% reflected in the Agenda materials. It was also noted that shortly after the prior reform period, medical severities increased significantly. However, the Committee noted that evidence of a return to the

pre-reform medical severity trends has not yet emerged, many measures of medical inflation are down on a national basis, and pending reforms and fee schedules before the Legislature and Division of Workers' Compensation may continue to put downward pressure on medical costs for claims on 2017 policies. After discussion, the consensus of the Committee was that the on-level medical severity trend of 2.5% reflected in the Agenda materials and in recent pure premium rate filings continues to be appropriate.

The Committee reviewed the alternative trend projections included in the Agenda materials (Item AC16-08-03). It was noted that the projections based on a combined loss ratio trend were somewhat higher than those based on separate frequency and severity projections. However, given that the system continues to be in a state of transition for SB 863 and prior retrospective studies of trending methodologies have shown that projecting separate frequency and severity trends has been more accurate during transition periods, the consensus of the Committee was that the trending methodology based on the separate frequency and severity projections continues to be appropriate. A motion was made and seconded to recommend basing the projected policy year 2017 loss ratio on the trending methodology reflected in the Agenda materials, but with the indemnity severity projection based on the longer-term rate of growth. The motion passed with six in favor and one abstention.

Item AC16-06-03 Review of MCCP Projection Methodology

The Agenda materials included an updated analysis of methodology to project medical cost containment program (MCCP) costs. The Committee reviewed this update during the discussion of the MCCP projection in the context of its review of updated loss adjustment expense experience. (Please refer to the Minutes for Item AC16-08-02.)

Item AC16-08-01 Third Quarter Review of Diagnostics

The Agenda materials included the WCIRB's standard set of diagnostics that are reviewed by the Actuarial Committee and the Claims Working Group (CWG) on a semi-annual basis. Among the diagnostics discussed by the Committee were the following:

- a. Permanent disability claims as a share of total claims continued to increase in 2014. It was noted that the proportion of claims involving permanent partial disability claims was the highest it has been in many years. It was also noted that some of the decrease in medical only claims could be caused by the increase in cumulative trauma (CT) claims.
- b. The percentage of permanent disability claims with legal representation increased in both Northern and Southern California for both accident years 2012 and 2013. Staff presented representation rates by WCAB office showing that the increase was widespread throughout Northern California.
- c. The number of expedited hearings increased in the first quarter of 2016, after a small decrease in calendar year 2015. The Committee was advised that a CWG member noted that the 2nd Appellate District's decision in *State Compensation Insurance Fund v. Workers' Compensation Appeals Board and Dorothy Margaris* could reduce the number of expedited hearings by upholding the use of Independent Medical Review (IMR) even when the IMR decision is untimely. However, CWG members noted that it might be some time before the issue of late IMR reports is fully resolved.
- d. Lien filings continued to increase in the first quarter of 2016. Staff had previously noted that part of the increase in lien filings in 2015 and 2016 could be from older claims that were newly affected by the 18-month statute of limitations. It was noted that the third quarter of 2016 will be the first quarter with the 18-month statute fully in effect. The Committee was also advised that over the last year there had been a significant increase in the proportion of liens filed by the largest lien filers. The Committee agreed that staff should continue to actively monitor lien filings.
- e. Indemnity claims closed at a faster rate in the first calendar quarter of 2016 as compared to 2015. Specifically, permanent indemnity claims closed faster than previous years, continuing a multi-year trend. The Committee was advised that a CWG member suggested that this could be caused by an increase in smaller permanent indemnity claims that close faster but that other CWG members indicated that the increase is also attributable to claims moving more quickly due to Senate Bill No. 863 (SB 863) changes related to IMR and liens.
- f. The share of claims settled through compromise and release (C&R) continued a multi-year pattern of increases. The Committee was advised that a CWG member suggested that the increase may be the result of the increase in CT claims, which may be more likely to settle by C&R.

Item AC16-08-02 1/1/2017 Filing – Loss Adjustment Expense Review

The Agenda materials included an analysis of the projected policy year 2017 ratio of loss adjustment expense (LAE) to loss based on calendar year unallocated loss adjustment expense (ULAE) experience through calendar year 2015 and accident year allocated loss adjustment expense (ALAE) and medical cost containment program (MCCP) experience as of March 31, 2016.

The Committee was reminded of the changes to the WCIRB's 2015 Expense Call related to ULAE on large deductible policies and claims handled by third party administrators. It was noted that the calendar year 2015 ULAE amounts reflected in the Agenda materials were adjusted based on the 2015 Expense Call information and the process discussed at prior Committee meetings and described in the Agenda materials. It was noted that calendar year 2015 paid ULAE to paid loss ratios and total LAE to loss ratios adjusted on this basis for national insurers were much closer to those for California-dominant private insurers than in prior years. Staff noted that the methodology used to apportion countrywide ULAE amounts to California (based on paid losses in the Agenda materials) will be reviewed in the future once sufficient ULAE information under the modified Expense Call is available.

The Committee was reminded that the ULAE projection included in the Agenda materials was based on the average of (a) a projection based on the relationship of paid ULAE to open indemnity claims and (b) a projection based on the relationship of paid ULAE to paid losses. Staff noted that inasmuch as only calendar year 2015 ULAE reflects the adjustments for the recent changes to the WCIRB's Expense Call, the ULAE projections included in the Agenda materials were based only on adjusted calendar year 2015 ULAE amounts.

The Committee was reminded that, due to concerns regarding the State Compensation Insurance Fund's (State Fund) LAE experience discussed at prior meetings, in the last several pure premium rate filings, the ULAE projection was based solely on the experience of private insurers. Staff advised the Committee that this approach has used average ULAE costs as well as projected claim counts and on-level loss ratios based solely on private insurer experience. Staff noted that the assumptions of this approach, which include (a) the statewide loss projection methodology is appropriate for private insurer experience and (b) market shares between the State Fund and private insurers are consistent over time, may not always be appropriate. Staff recommended a refinement to the ULAE projection methodology in which average ULAE costs are based solely on private insurer experience but projected loss ratios and claim counts are based on statewide experience. The consensus of the Committee was that the ULAE projection methodology reflected in the Agenda materials with this refinement recommended by staff was appropriate.

The Committee next discussed the projections of ALAE (excluding MCCP). It was noted that average ALAE costs continue to increase significantly. (Staff reminded the Committee that a study of recent changes in ALAE costs will be presented to the Committee later this year.) The Committee was reminded that the ALAE projection included in the Agenda materials was based on the relationship between projected ultimate ALAE and ultimate indemnity claim counts. The Committee was reminded that the projected ALAE severity trend reflected in the Agenda materials (4.5%) was based on the average of the longer-term and shorter-term average rates of growth—the methodology reflected in the last several pure premium rate filings—and gives significant weight to the recent SB 863 transition period. Staff recommended basing the ALAE severity trend on the longer-term average rate of growth (5.0%) given the recent volatility in ALAE severities during the SB 863 transition period. The consensus of the Committee was that this approach was appropriate.

The Committee reviewed the ALAE projection methodology along with a range of alternative ALAE methodologies included in the Agenda materials. Staff noted that the concerns with basing the ALAE projection solely on the experience of private insurers are similar to those for ULAE. As a result, staff recommended a similar refinement to projecting ALAE which bases average ALAE costs solely on the experience of private insurers while projected loss and claim count experience is projected on a statewide basis. The consensus of the Committee was that the ALAE projection methodology reflected in the Agenda materials and including both this refinement and the change to the projected ALAE severity trend recommended by staff was appropriate.

The Committee next reviewed the update to the study of M CCP projection methodologies (Item AC16-06-03) that was initially reviewed at the June 17, 2016 meeting. The Committee was reminded that M CCP development for accident years 2012 and forward can be separated from medical loss or other ALAE development, while M CCP development for accident years 2011 and prior cannot be separated from pure medical loss development. Staff noted that it studied potential refinements to the combined medical/M CCP tail to more appropriately reflect the tail factor for both M CCP and pure medical losses. While staff did find a difference in pure medical and M CCP development from 24 through 48 months, it was unclear to what extent this difference is consistent in older accident years in which M CCP was likely a lower proportion of the total medical/M CCP amounts. As a result, staff did not recommend any adjustments to the M CCP development beyond 51 months at this time, which continues to be based on combined medical/M CCP development.

The Committee reviewed the M CCP severity trend. The Committee was advised that in the projected calendar year paid M CCP per indemnity claims inventory included in the Agenda materials, staff had adjusted the calendar year 2013 through 2015 M CCP severities to remove the cost of independent medical review (IMR) and independent bill review (IBR), which are no longer reported in M CCP beginning January 1, 2016. The Committee noted that after this adjustment overall M CCP severities were relatively flat over this period. It was also noted that projected ultimate M CCP costs per indemnity claim have declined over the last few years, which is similar to the trend for average medical costs. After discussion, the Committee agreed with staff's recommendation to base the projected M CCP severity trend on the approximate average rates of growth in calendar year paid M CCP per open indemnity claim (after excluding estimated IMR and IBR costs) and ultimate M CCP per indemnity claim—which is similar to the approach to project the ALAE (excluding M CCP) severity trend.

The Committee reviewed the projection of M CCP costs. It was noted that the concerns related to the State Fund's LAE experience affect ULAE and ALAE excluding M CCP, but should not affect M CCP costs. As a result, staff recommended basing the M CCP projection on statewide experience. The consensus of the Committee was that the M CCP projection methodology reflected in the Agenda materials based on statewide experience and including the trending methodology recommended by staff was appropriate.

After some discussion, a motion was made and seconded to base the policy year 2017 LAE projection on the methodologies reflected in the Agenda materials as refined based on staff's recommendations previously discussed. The motion passed with six in favor and one abstention.

Item AC16-08-03
1/1/2017 Filing – Review of Alternative Loss Projection Methodologies

The Agenda materials included a number of alternative loss development and trending methodologies that had been reflected in prior WCIRB pure premium rate filings or discussed at prior Actuarial Committee meetings. The Committee reviewed summaries of the alternative loss projection methodologies during the discussion of loss development and trending methodologies in the context of its review of March 31, 2016 experience. (Please refer to the Minutes for Item AC16-06-01.)

Item AC16-08-04 Computation of Industry Average Filed Rates as of 7/1/2016

The Committee reviewed the process used by staff to compute the industry average filed manual and pure premium rates as of July 1, 2016. The Committee was advised that the process used was identical to that used in prior computations reflected in recent WCIRB pure premium rate filings. In this latest computation, prior to downloading the individual rate filings of the largest 120 insurers, the list of the largest 120 insurers was first updated based on the most recent California Department of Insurance (CDI) market share report.¹ Also, the exposure weights used were updated using Unit Statistical Report data from policies incepting between November 2013 and October 2014. The Committee was advised that in the upcoming January 1, 2017 Pure Premium Rate Filing, premiums will be on-leveled to the updated 7/1/2016 industry average filed pure premium rate of \$2.54.

¹ California P&C Market Share Report Line of Business: Workers' Compensation [16] Sorted by Market Share.

The meeting was adjourned at 2:00 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for September 1, 2016 for approval and/or modification.