

# WCIRB Actuarial Committee Meeting

**Materials Presented at the WCIRB Actuarial Committee Meeting  
September 1, 2016**

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# 6/30/2016 Experience – Review of Methodologies

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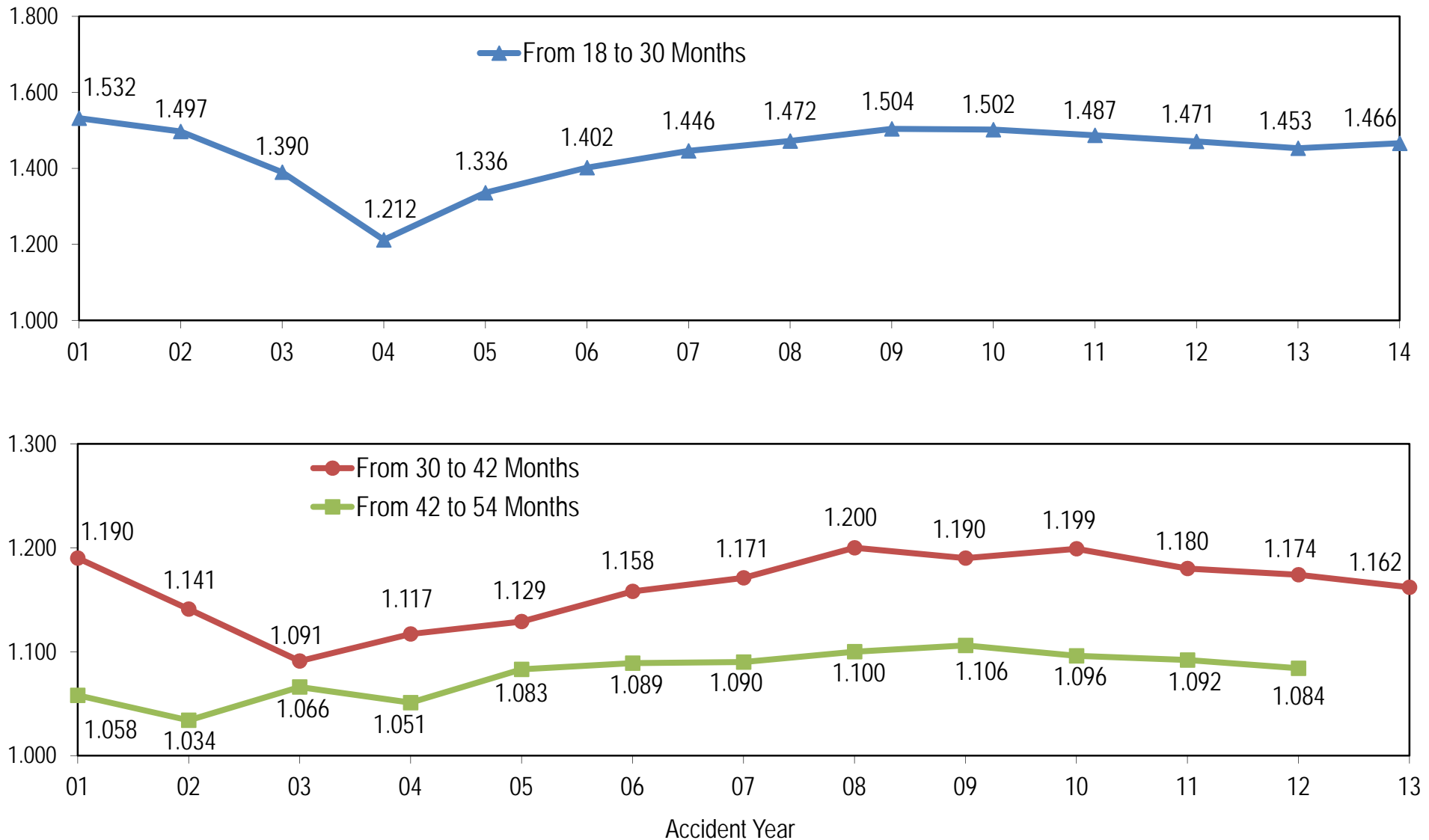
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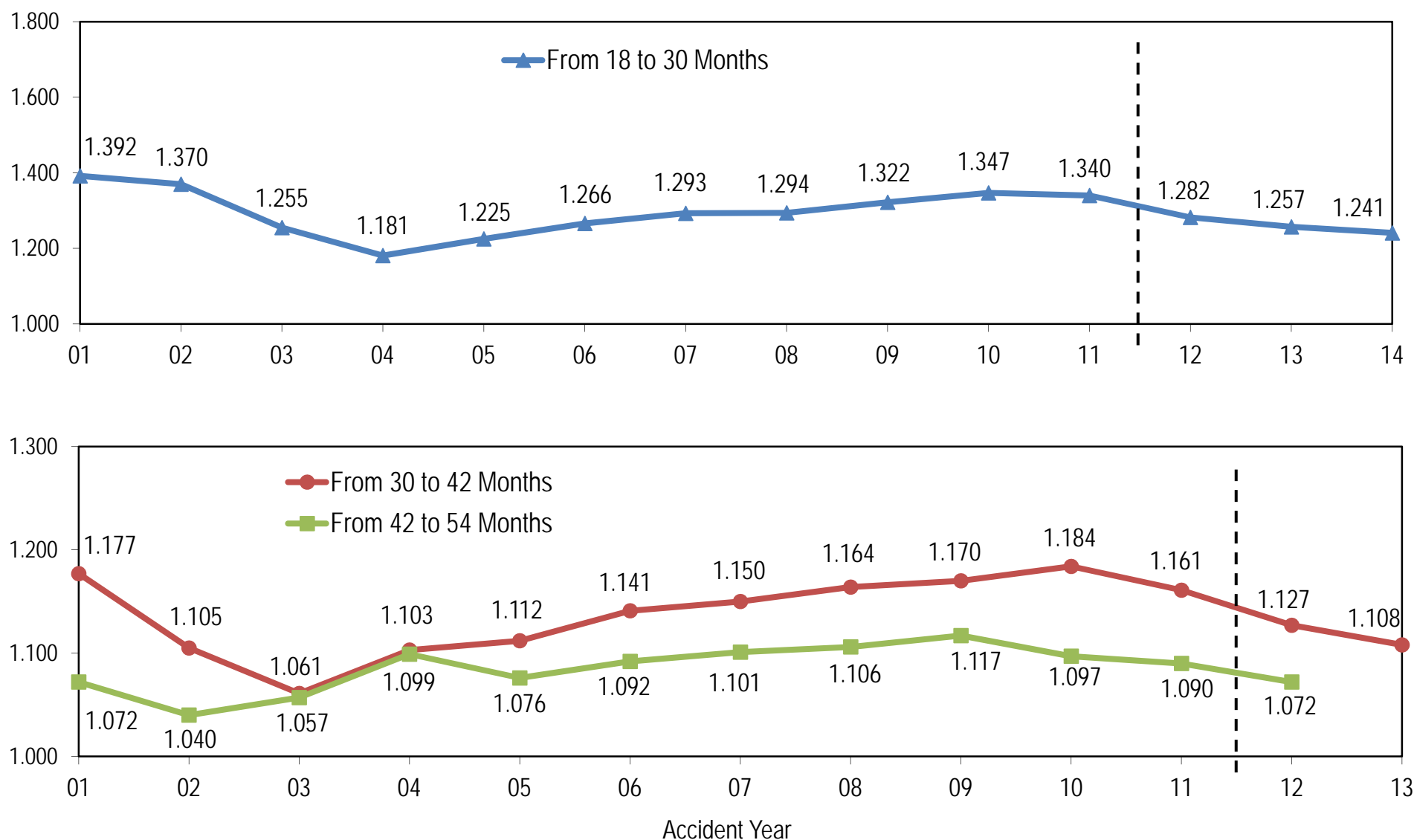
## Summary of June 30, 2016 Experience

- Almost 100% of Market Reflected
- Same Methodologies as in 1/1/17 Filing
  - Includes claim settlement rate adjustment to loss development adopted by Governing Committee
- Projected Policy Year 2017 Loss Ratio: 0.642
- 1 Point Decrease from 1/1/17 Filing (0.652) Driven by Lower Loss Development Including SB 863 Adjustments

# Incurred Indemnity Loss Development Factors (Exhibit 2.1.1)

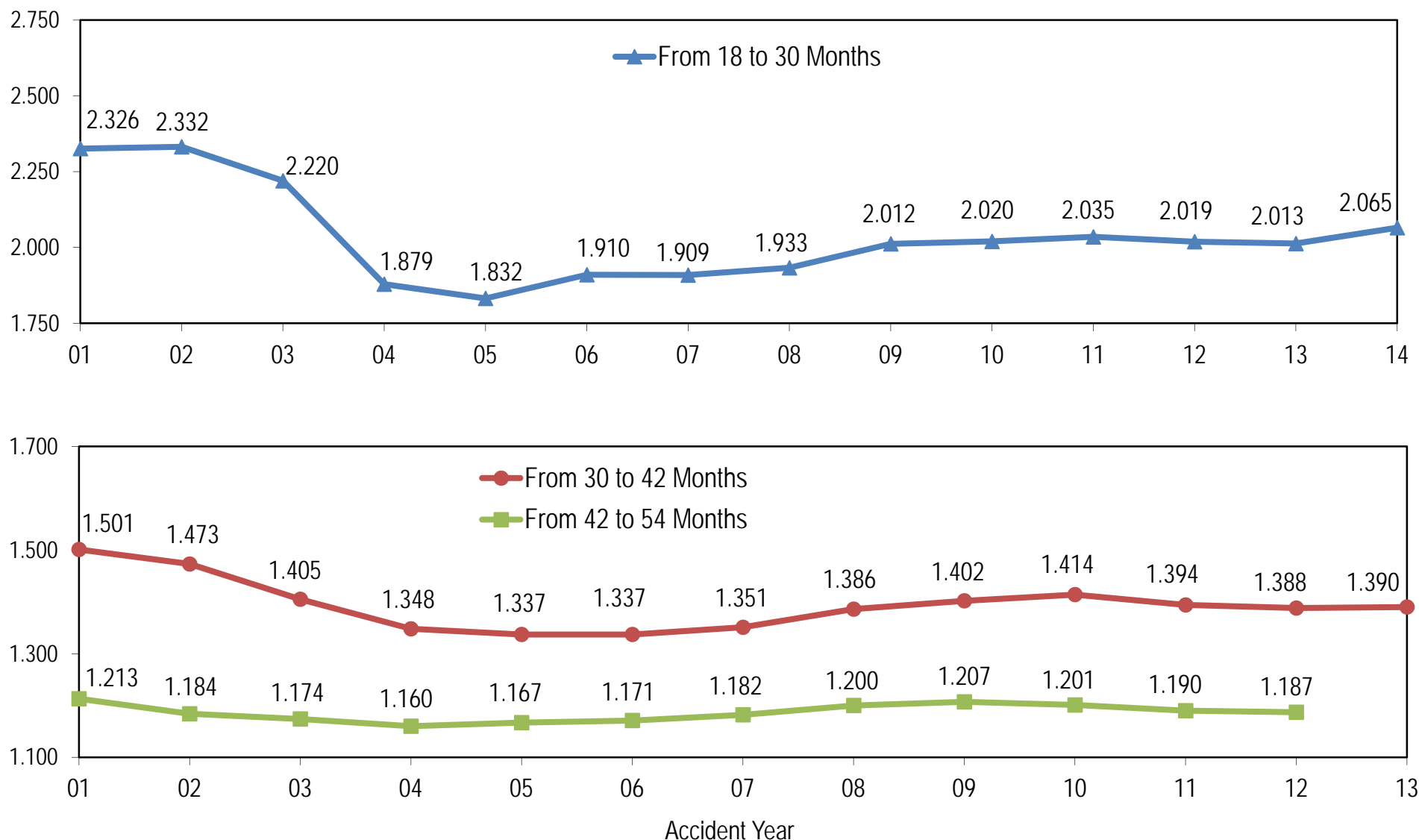


# Incurred Medical Loss Development Factors (Exhibit 2.2.1)



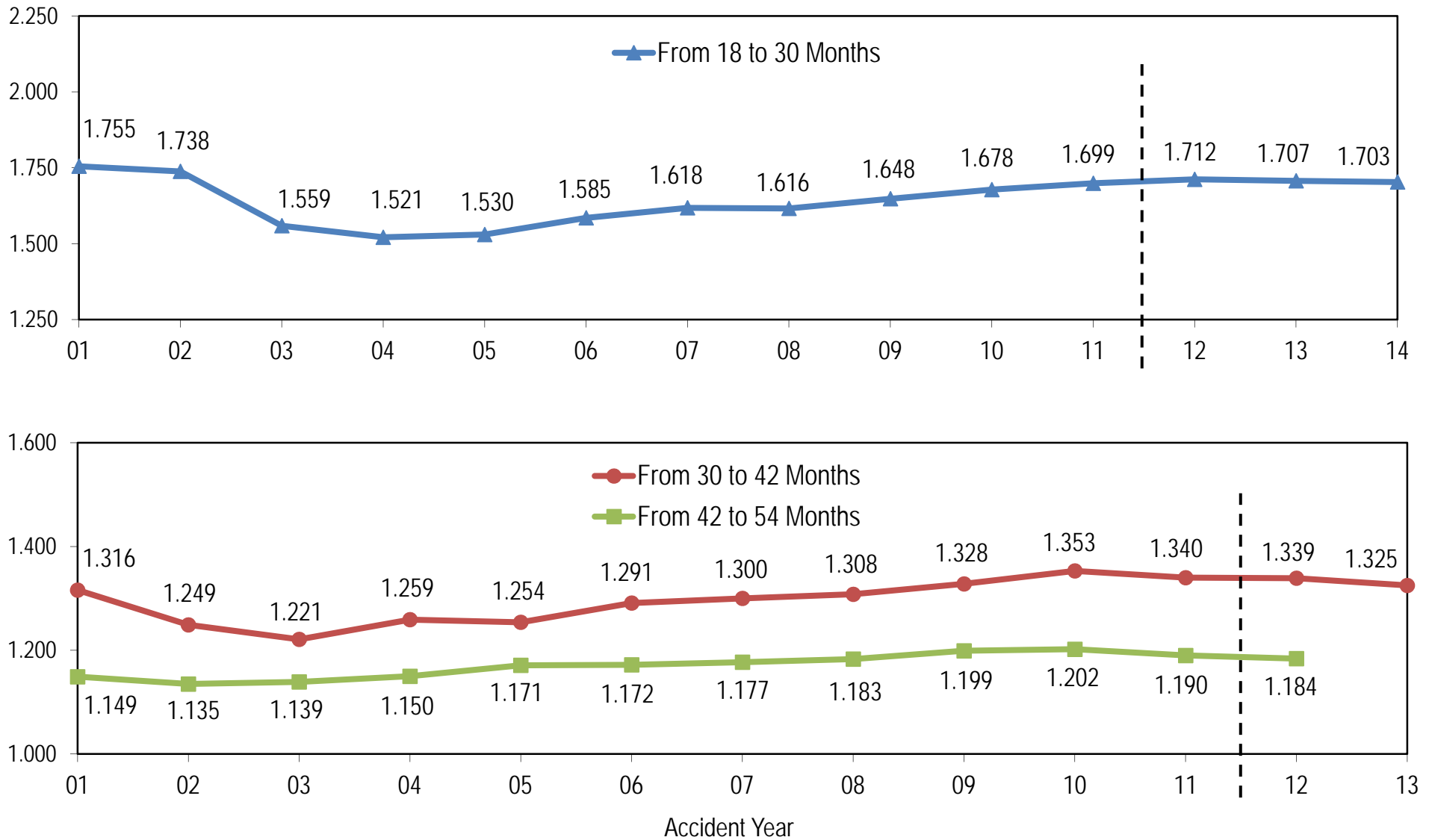
Note: MCCP development is included in incurred medical loss development for 2011 and prior.

# Paid Indemnity Loss Development Factors (Exhibit 2.3.1)



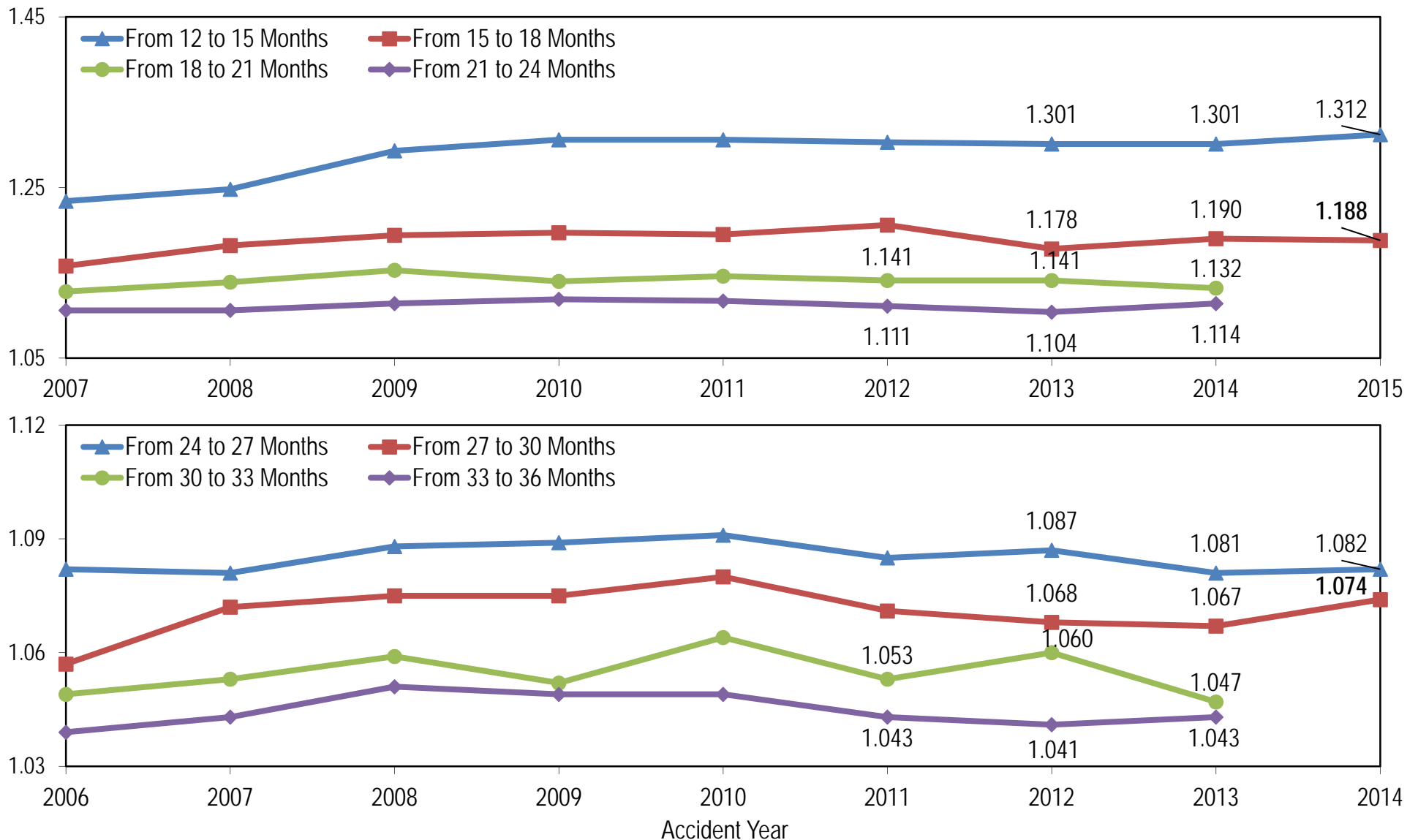


# Paid Medical Loss Development Factors (Exhibit 2.4.1)

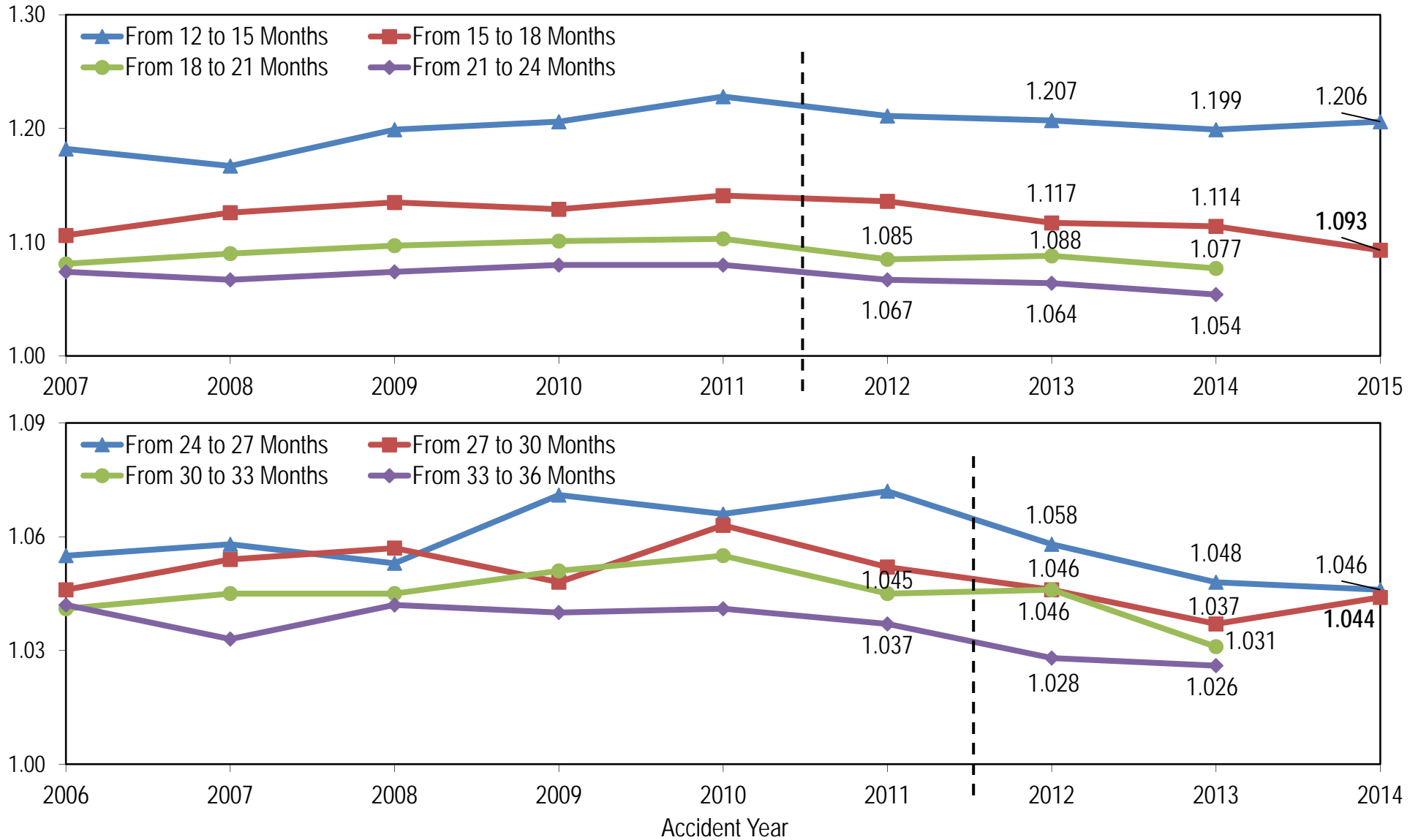


Note: MCCP development is included in paid medical loss development for 2011 and prior.

# Quarterly Incurred Indemnity Development (Exhibit 9.1)

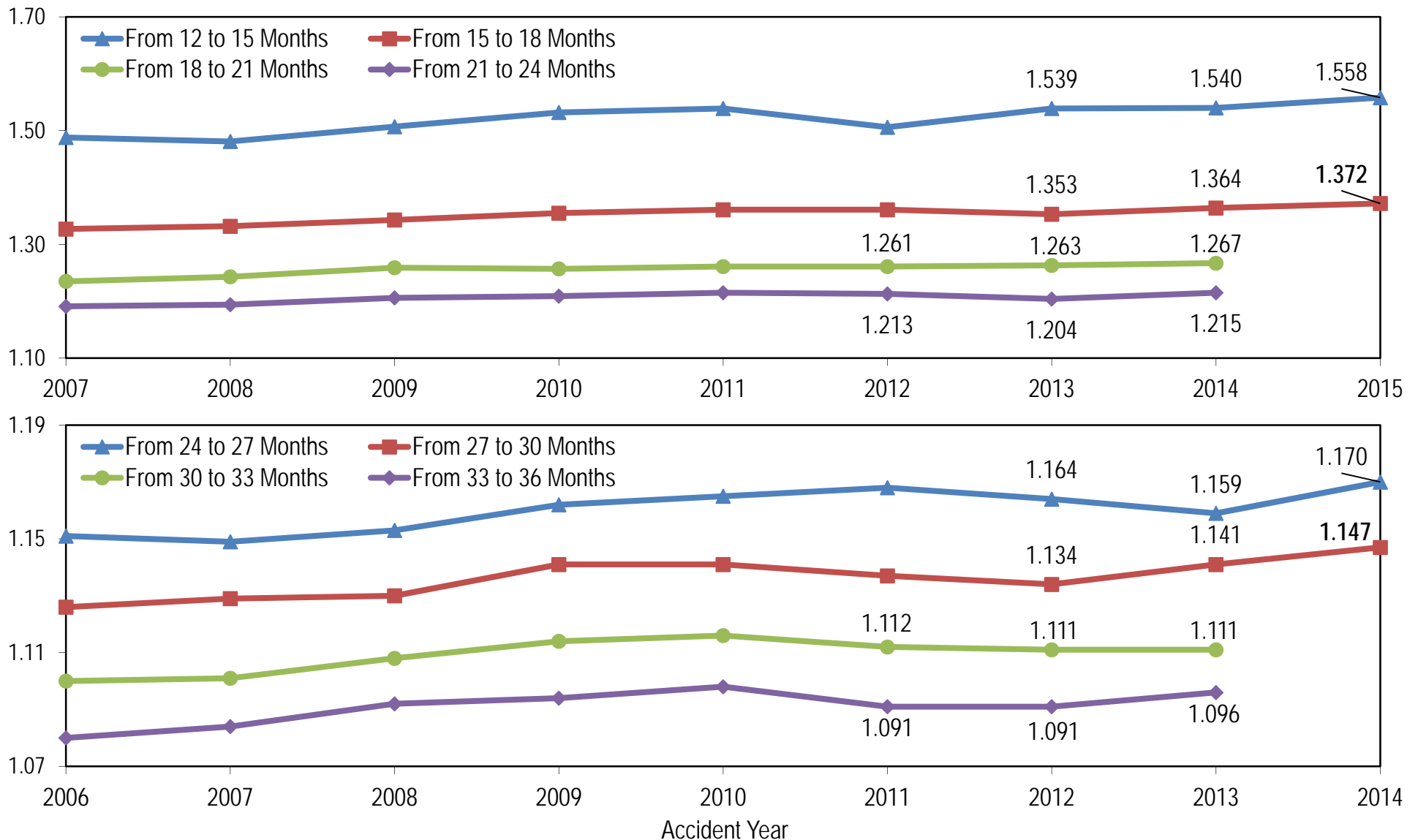


# Quarterly Incurred Medical Development (Exhibit 9.2)

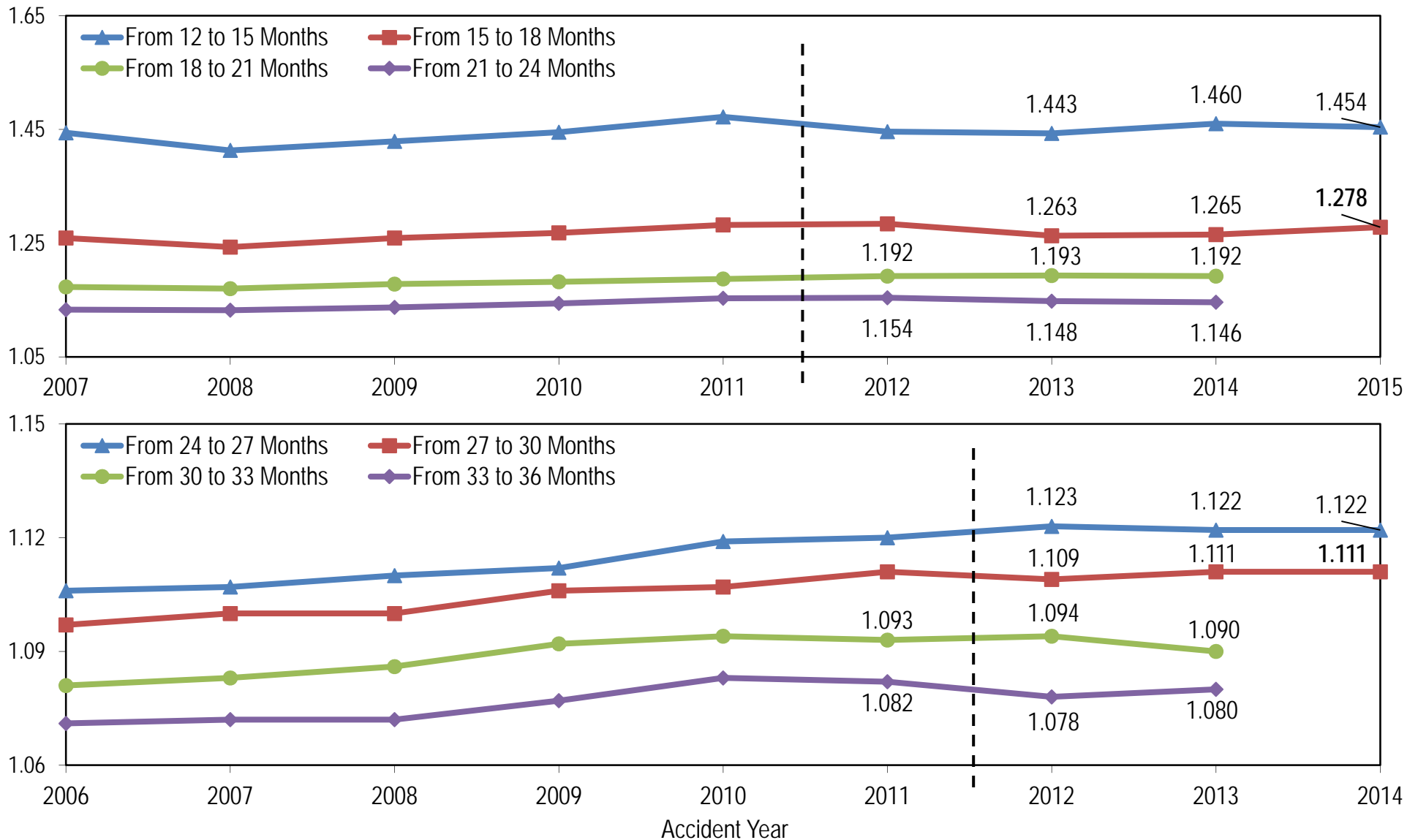


Note: MCCP development is included in incurred medical loss development for 2011 and prior.

# Quarterly Paid Indemnity Development (Exhibit 9.3)

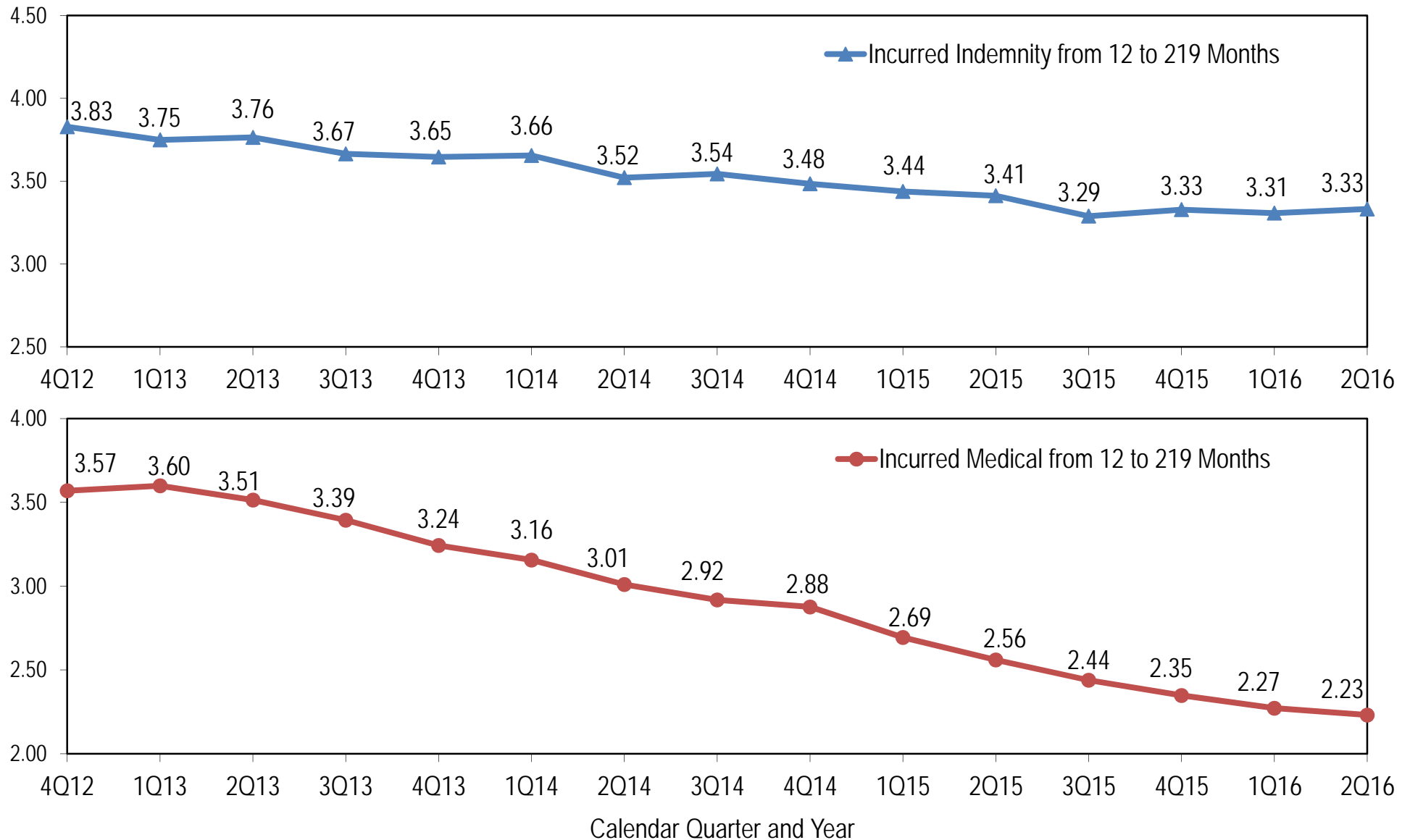


# Quarterly Paid Medical Development (Exhibit 9.4)

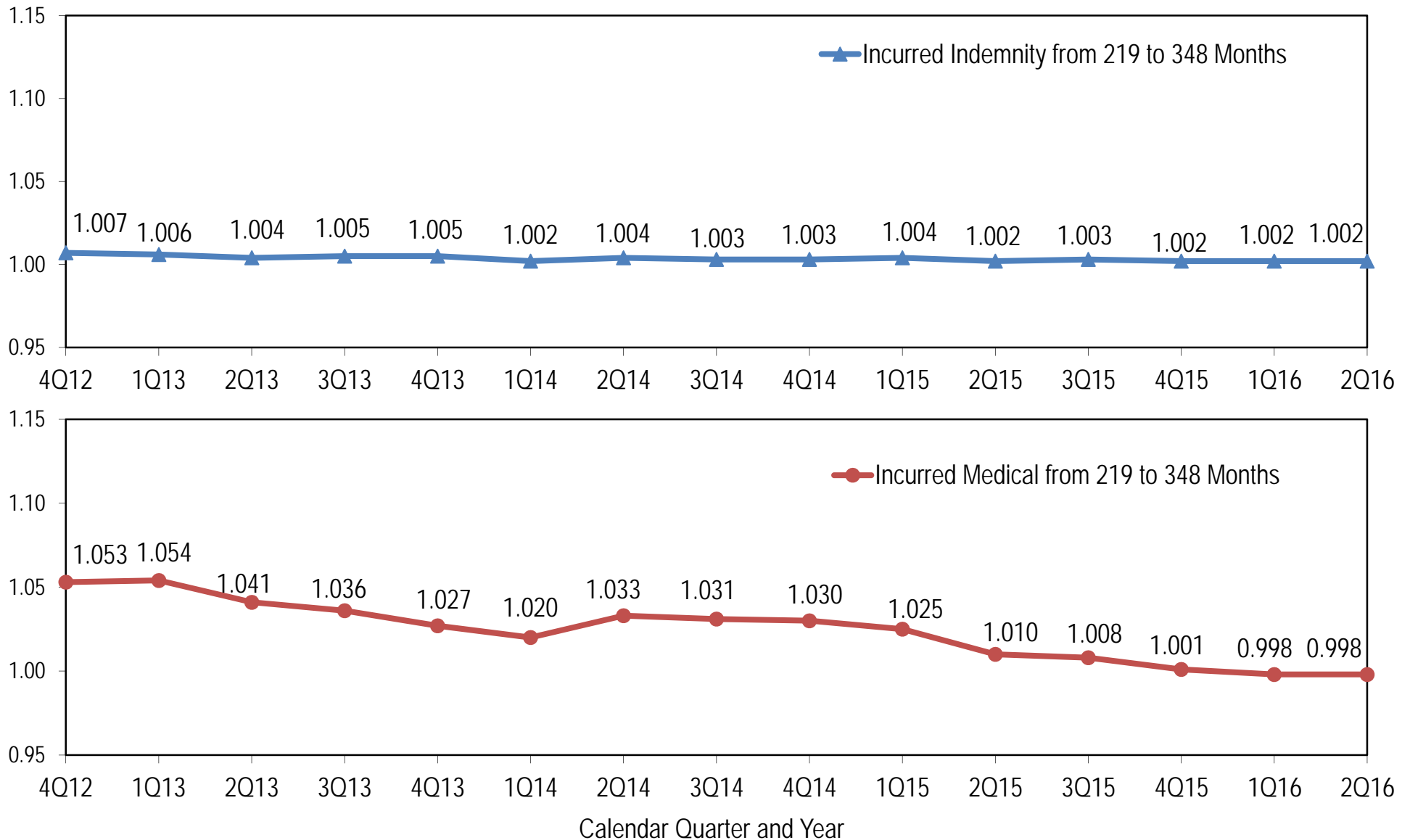


Note: MCCP development is included in paid medical loss development for 2011 and prior.

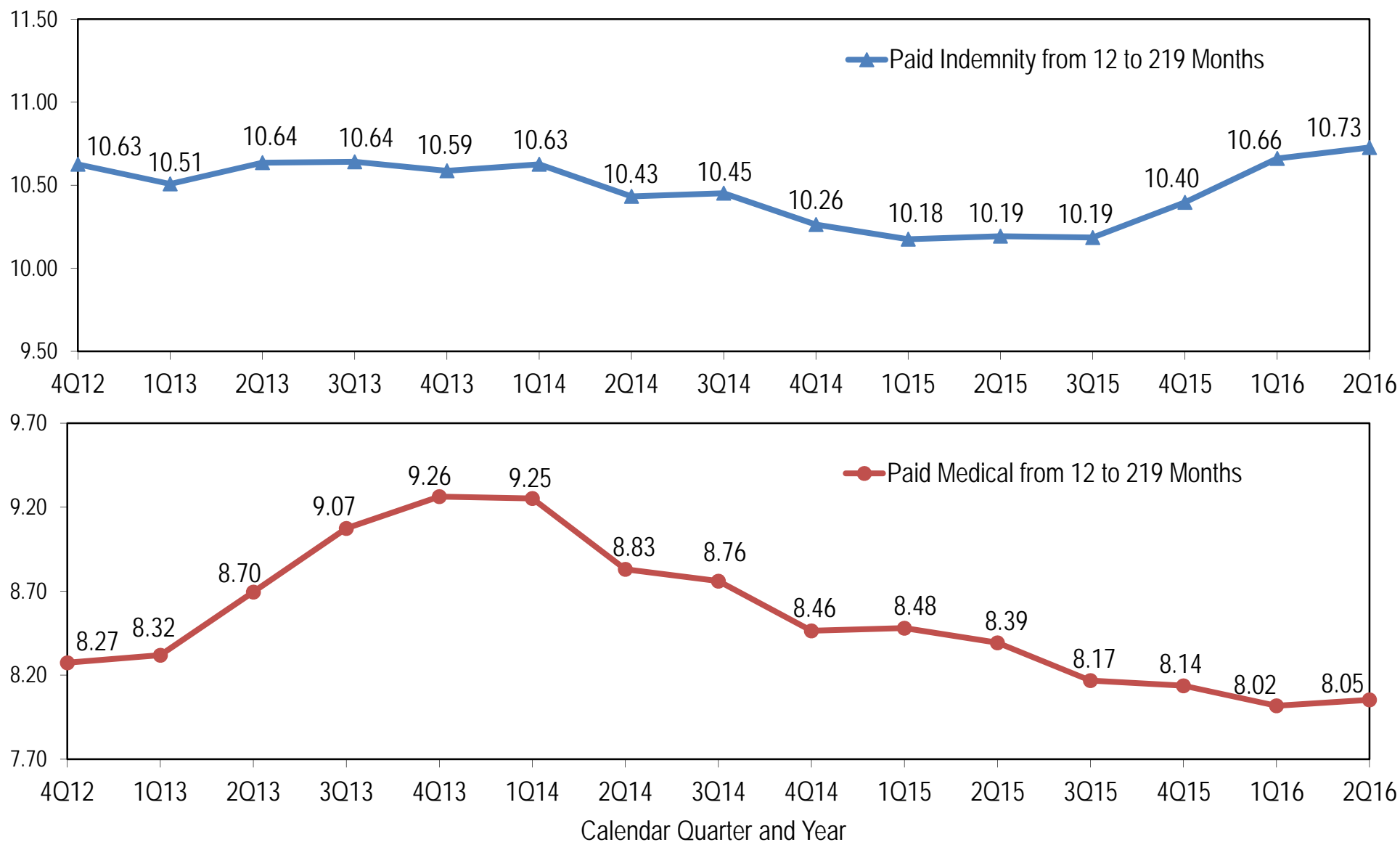
## Cumulative Incurred Development by Quarter



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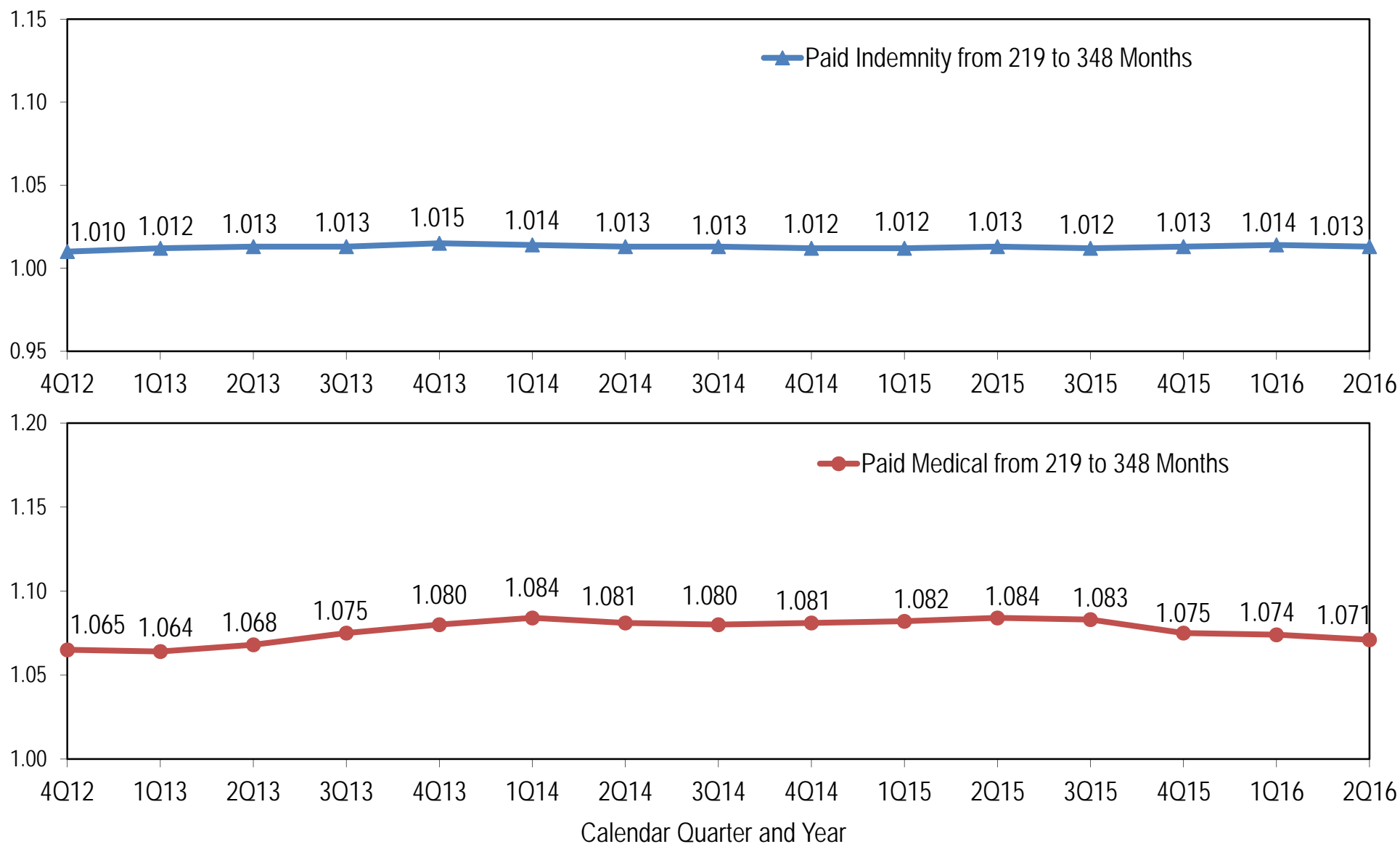


# Cumulative Paid Development by Quarter

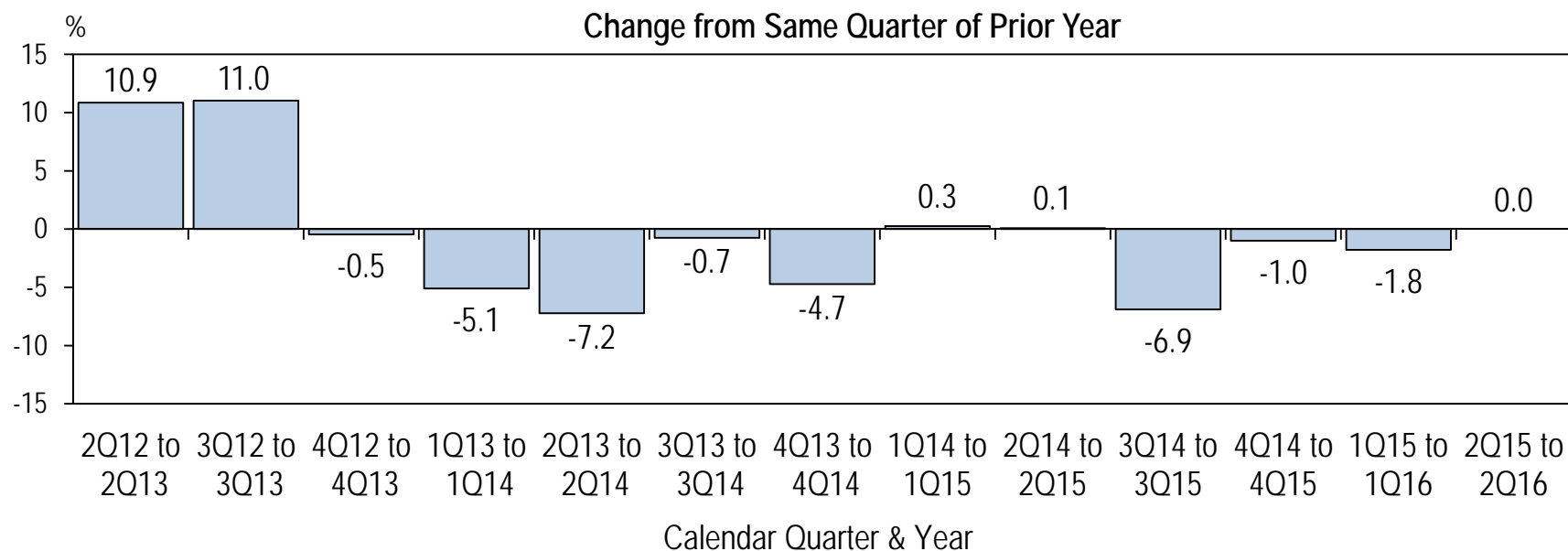
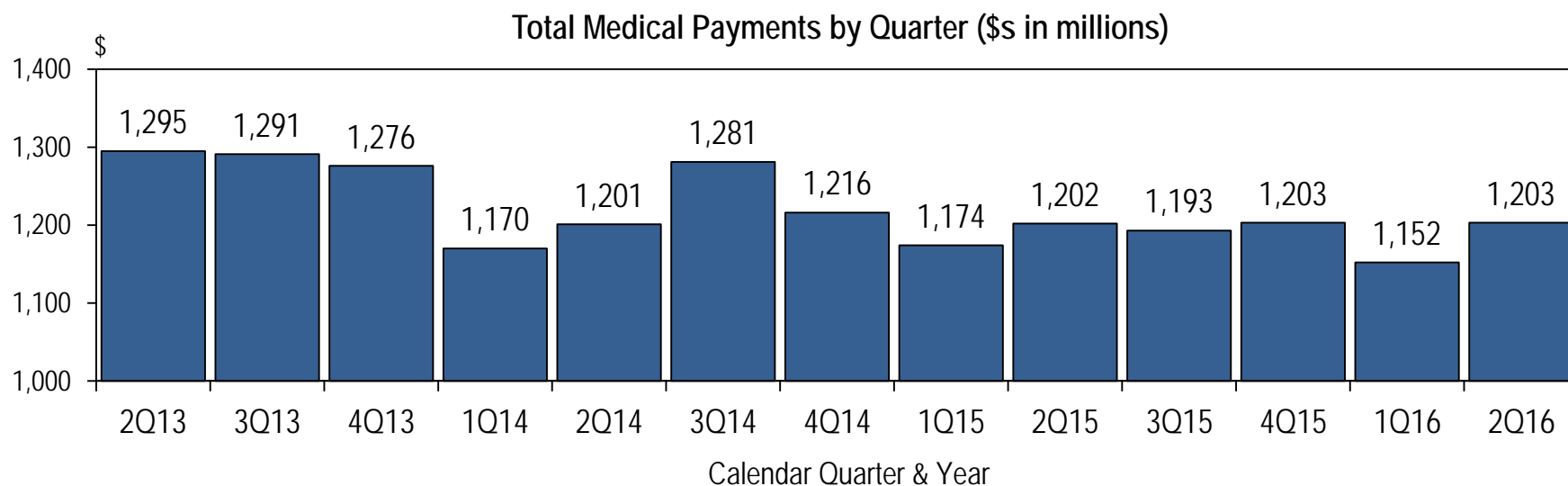




# Cumulative Paid Development by Quarter

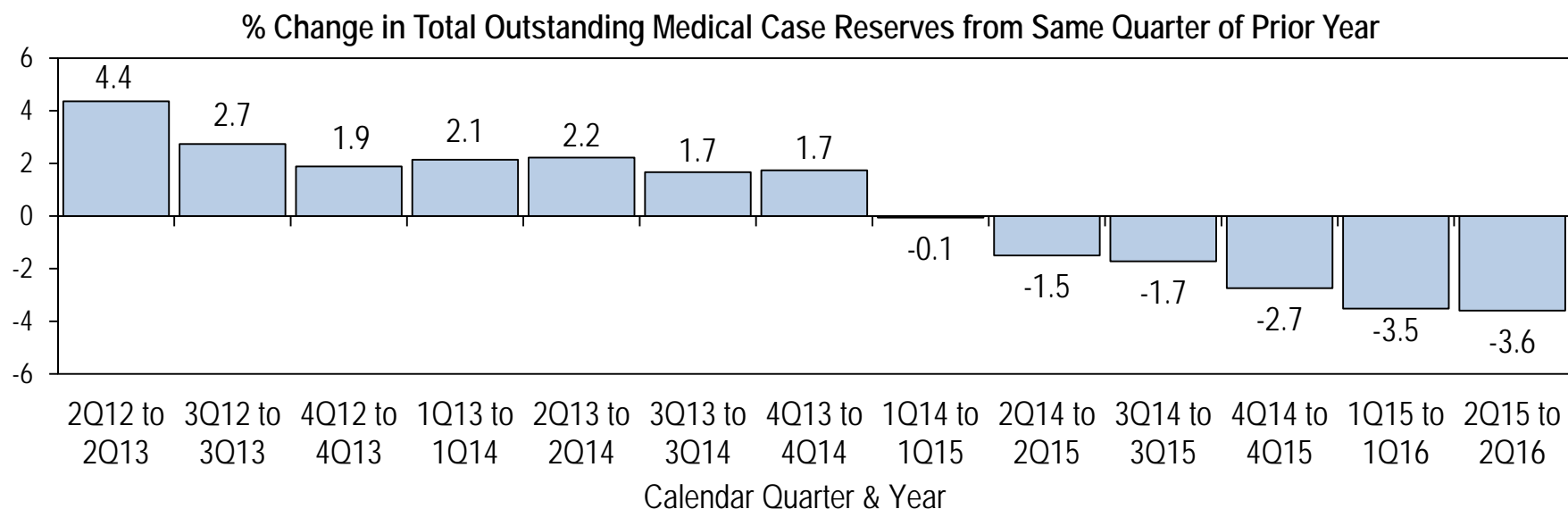
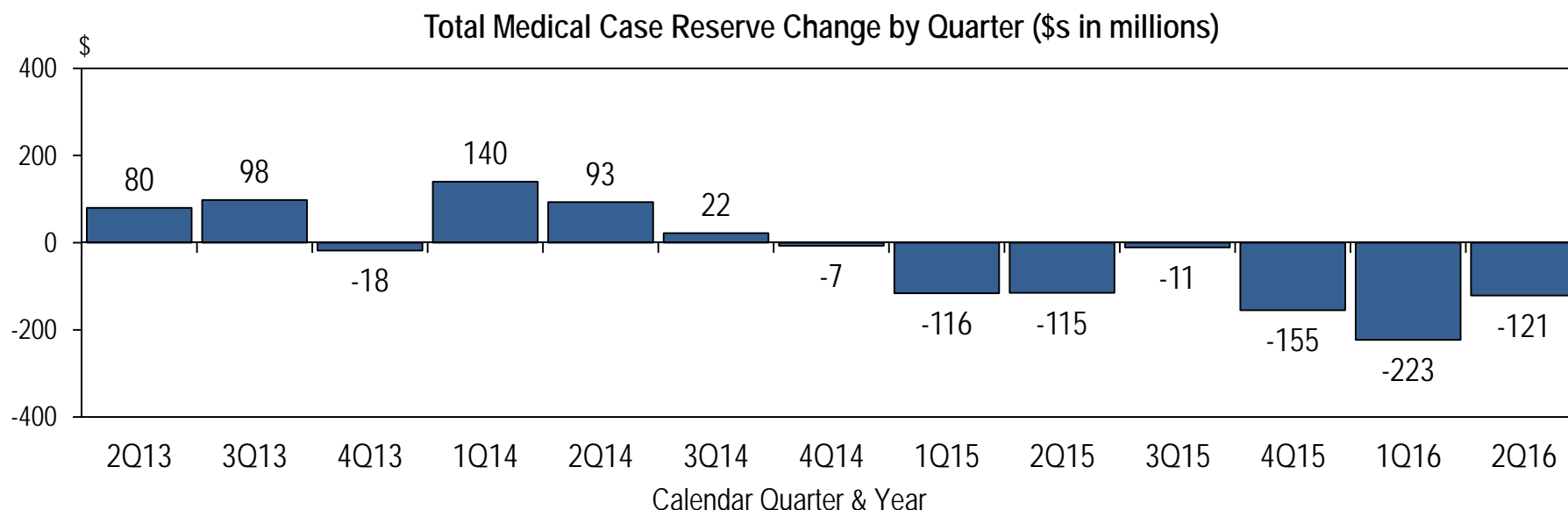


# Total Medical Payments by Calendar Quarter



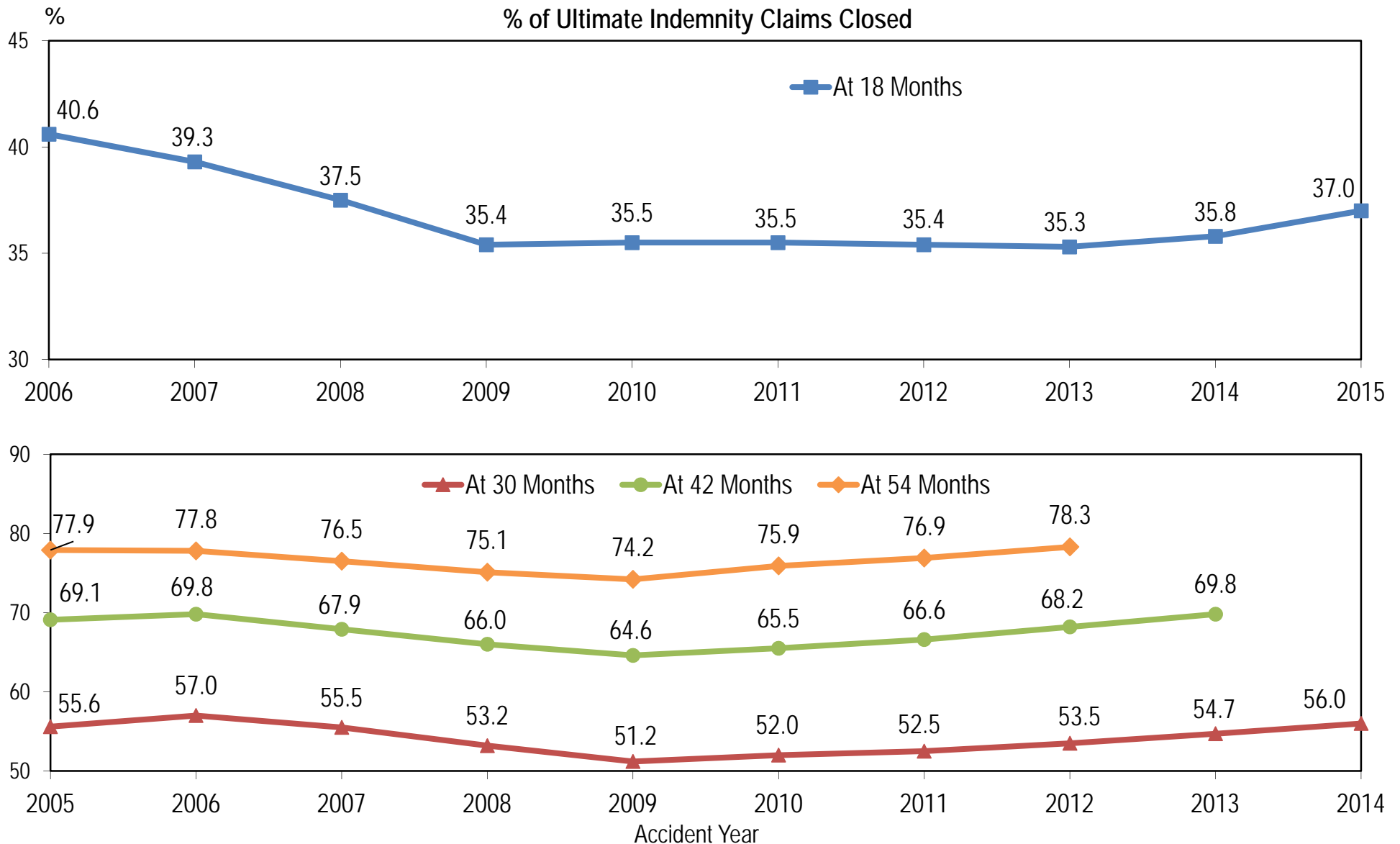
Source: WCIRB Quarterly Calls for Experience

# Total Change in Medical Case Reserves by Calendar Quarter



Source: WCIRB Quarterly Calls for Experience

# Indemnity Claim Settlement Ratios (Exhibit 11.2)



## Adjustment for Changes in Claim Settlement Rates – Closed Claims

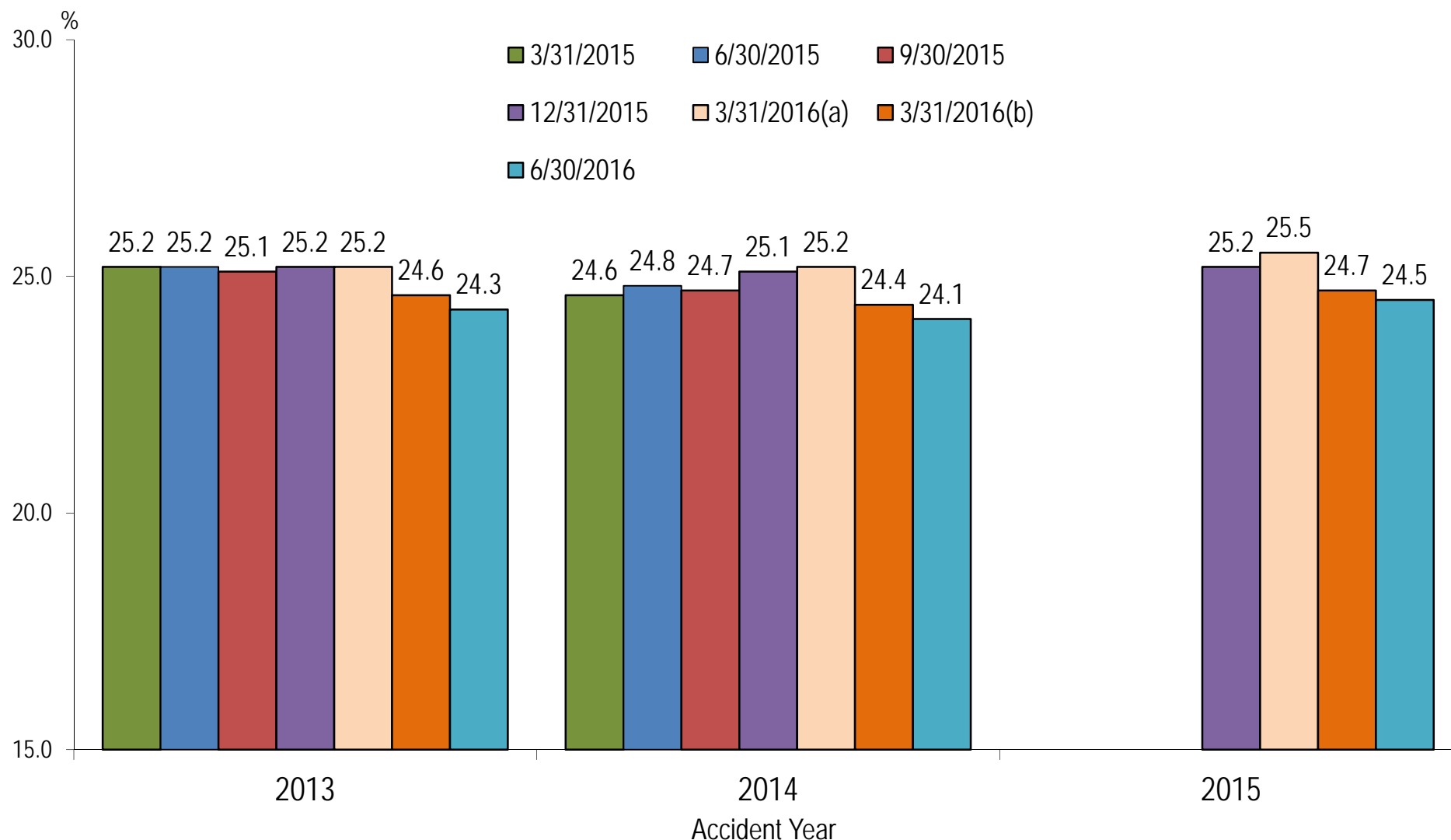
Based on “Berquist-Sherman” Approach

1. Restate Closed Claim Counts at Current Settlement Rate
2. Adjust Average Paid per Closed Claim to Current Settlement Rate
  - Log-linear interpolation between maturities
  - Assumes higher paid per closed at later maturities
3. Adjusted Paid on Closed Claims = [1] x [2]

## Adjustment for Changes in Claim Settlement Rates – Open Claims

4. Adjust Average Paid for Open Claims “in Transition”
  - i.e., moving from open to closed under restated settlement rate
  - = average paid per open claim (for settlement rate increase)
5. Adjusted Paid on Open Claims = [Paid on Open Claims] + ([Closed Claim Counts] – [1]) x [4]
  - Assumes claims being closed quicker will now have the lower closed severity (subtracting the open severity)
6. Adjusted Total Paid = [3] + [5]
7. Recalculate DFs Based on [6]
  - Compare to unadjusted from same insurers
  - Apply % adjustment to paid LDF triangle

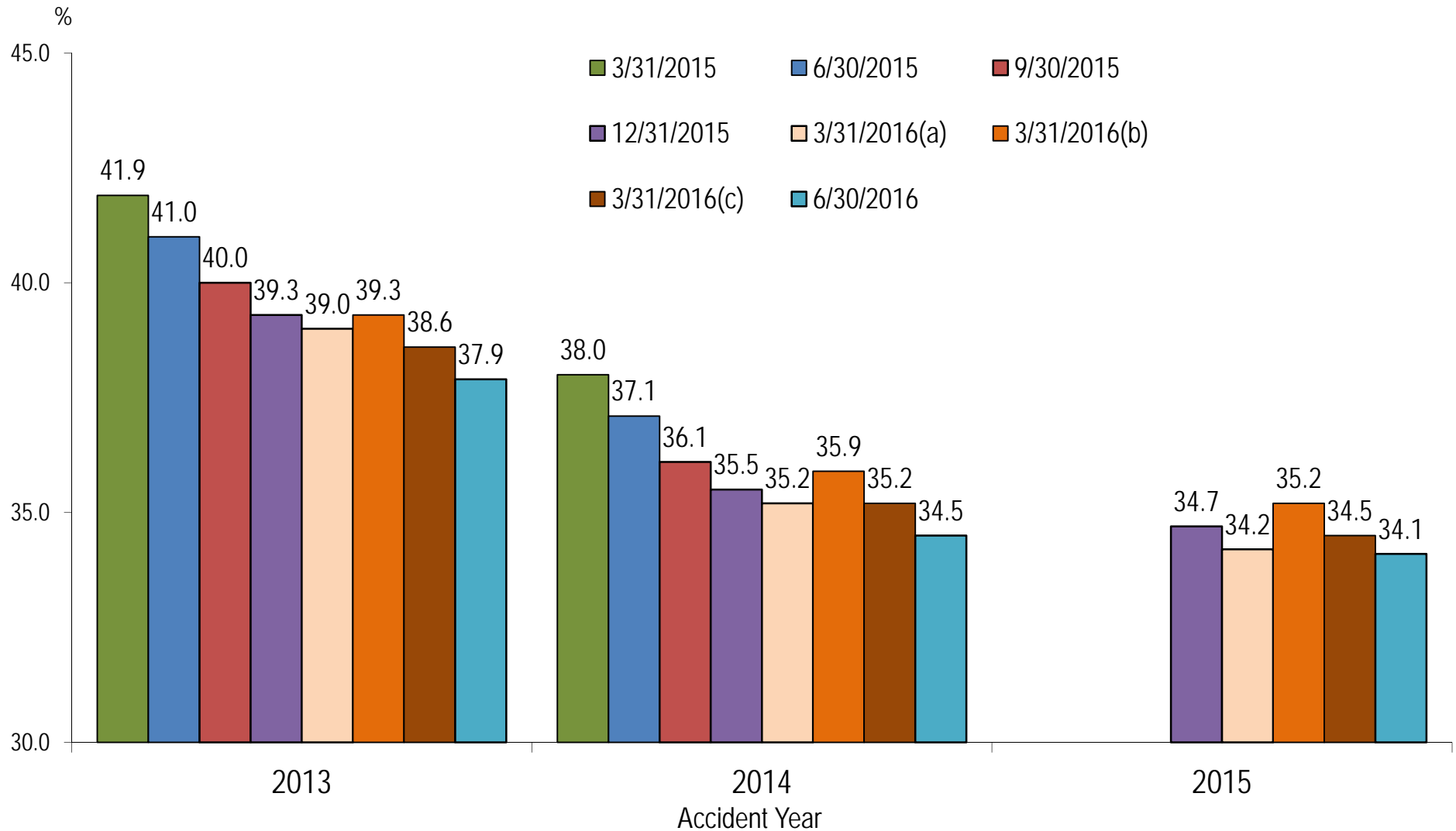
# Projected Ultimate Indemnity Loss Ratios (Exhibit 3.1)



(a) Latest year reform-adjusted paid method (8/3/16 Agenda)

(b) Latest year reform and claim settlement rate-adjusted paid method (1/1/17 Filing)

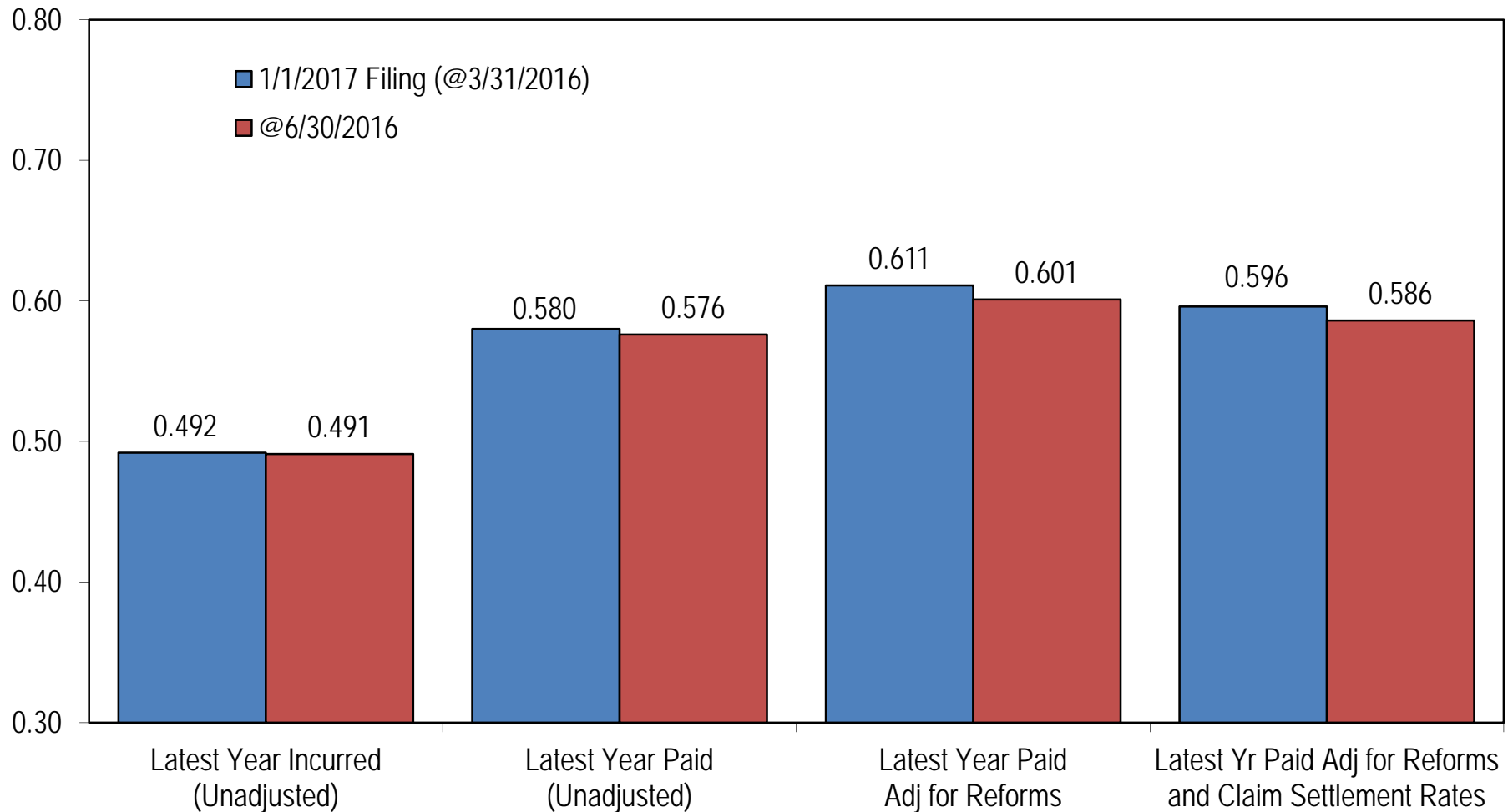
# Projected Ultimate Medical Loss Ratios (Exhibit 3.2)



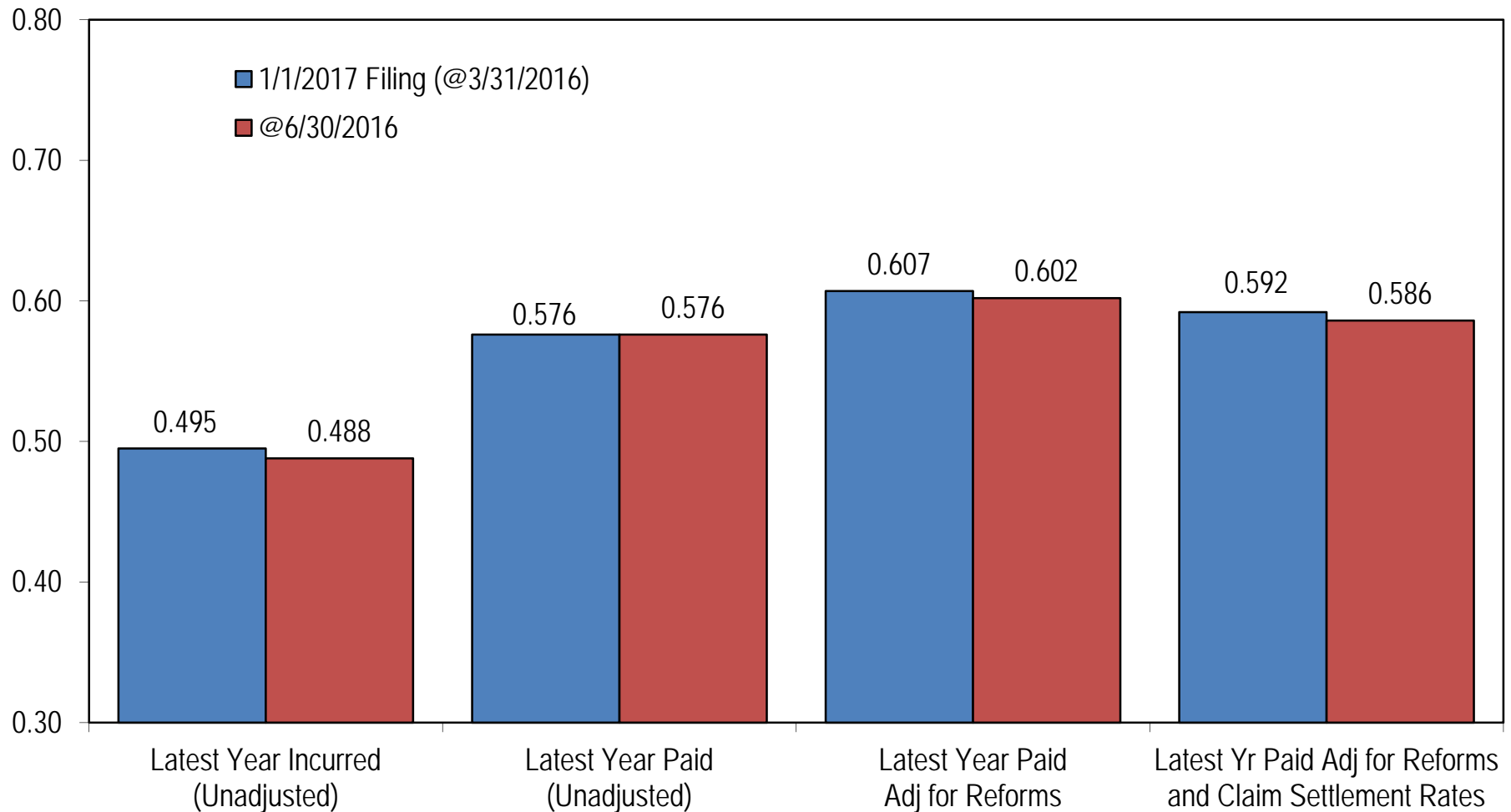
- (a) Latest year reform-adjusted paid method prior to SB 863 and MCCP development updates (6/17/16 Agenda)
- (b) Latest year reform-adjusted paid method after SB 863 and MCCP development updates (8/3/16 Agenda)
- (c) Latest year reform and claim settlement rate-adjusted paid method (1/1/17 Filing)



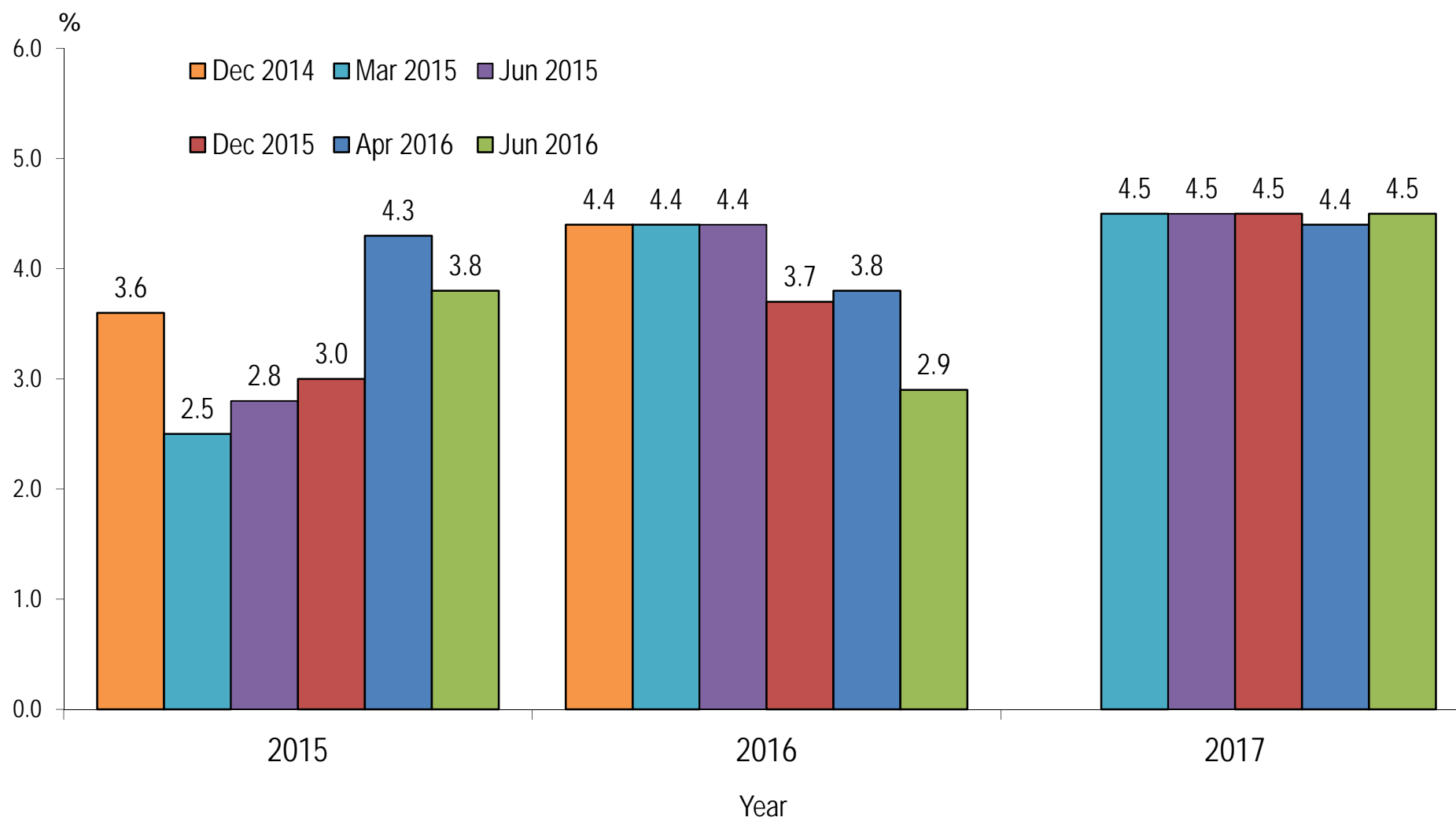
## Accident Year 2014 Projected Ultimate Total Loss Ratios



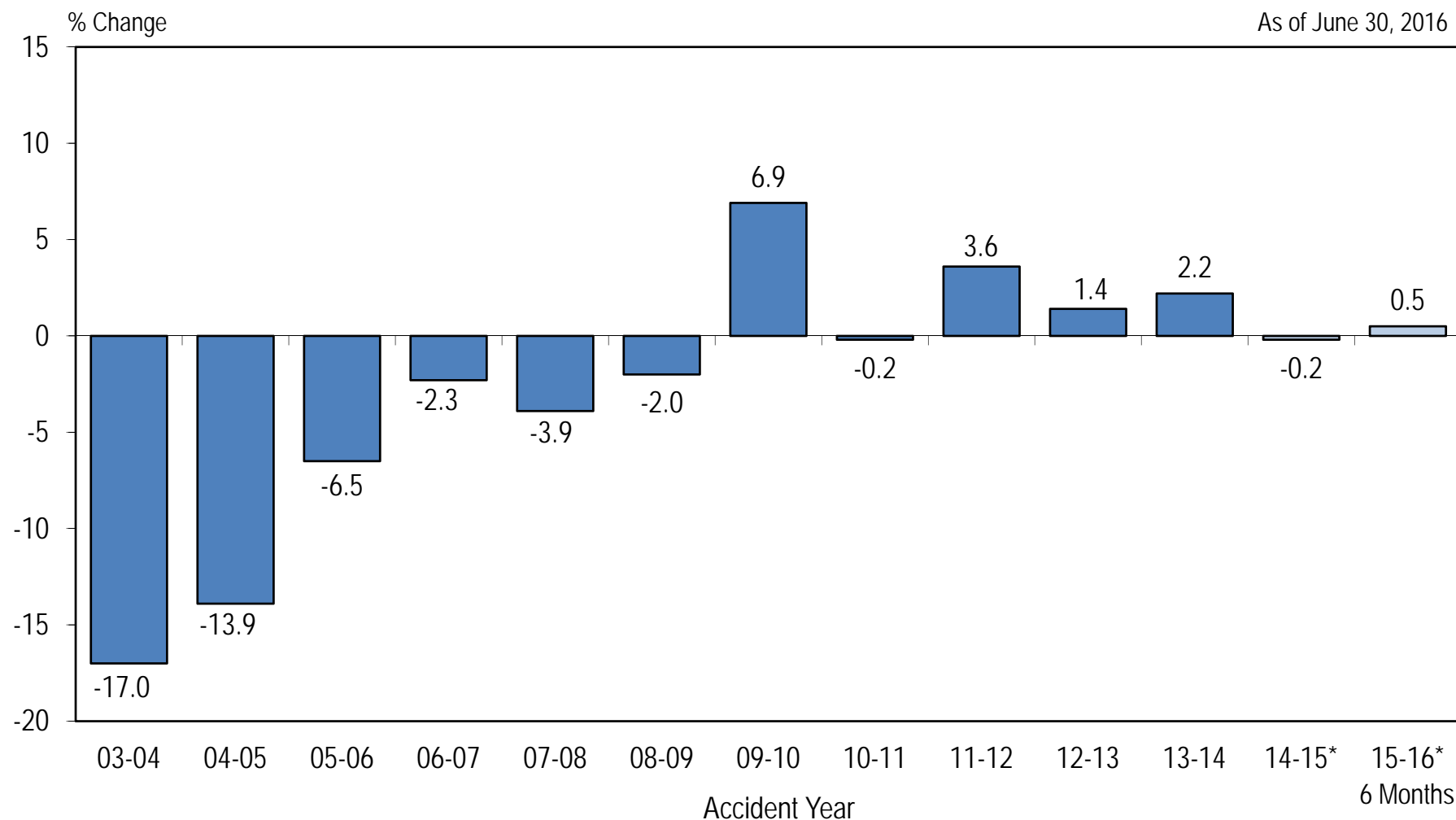
## Accident Year 2015 Projected Ultimate Total Loss Ratios



## UCLA Forecasts of Wage Level Changes (Exhibit 5.1)

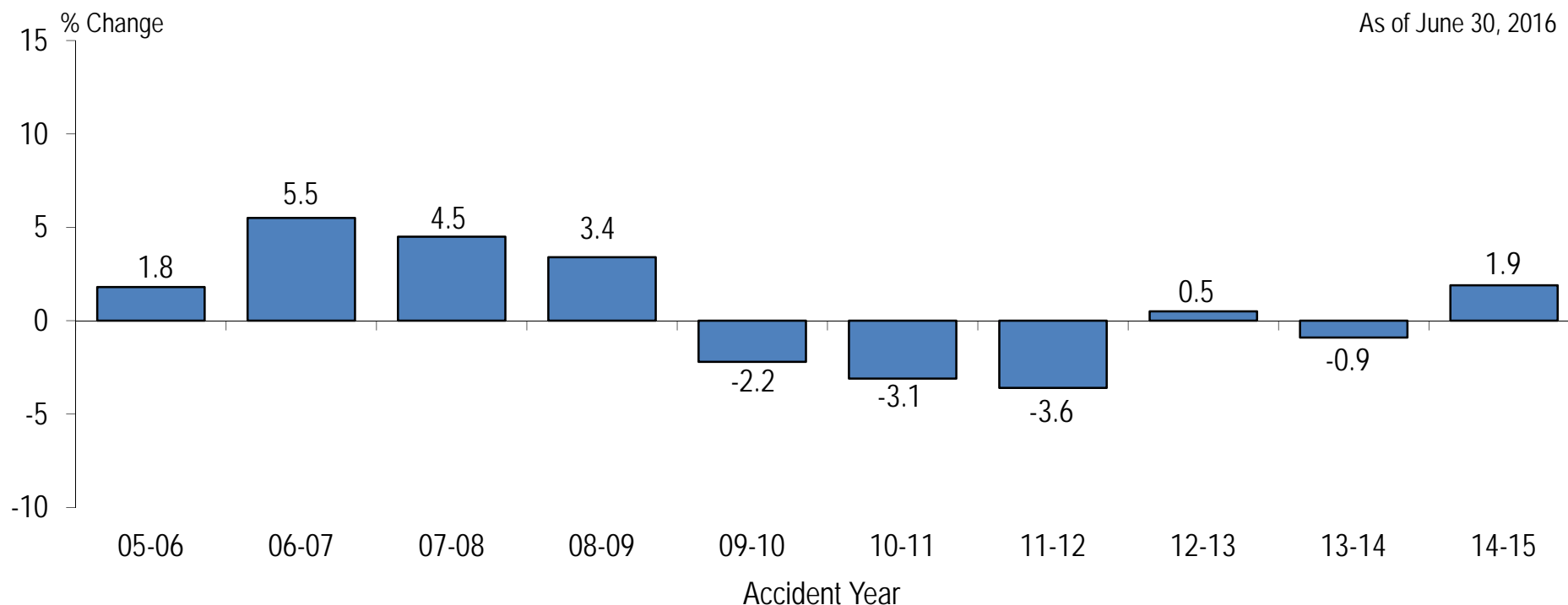


## Estimated Change in Indemnity Claim Frequency (Exhibit 12)



\* 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)



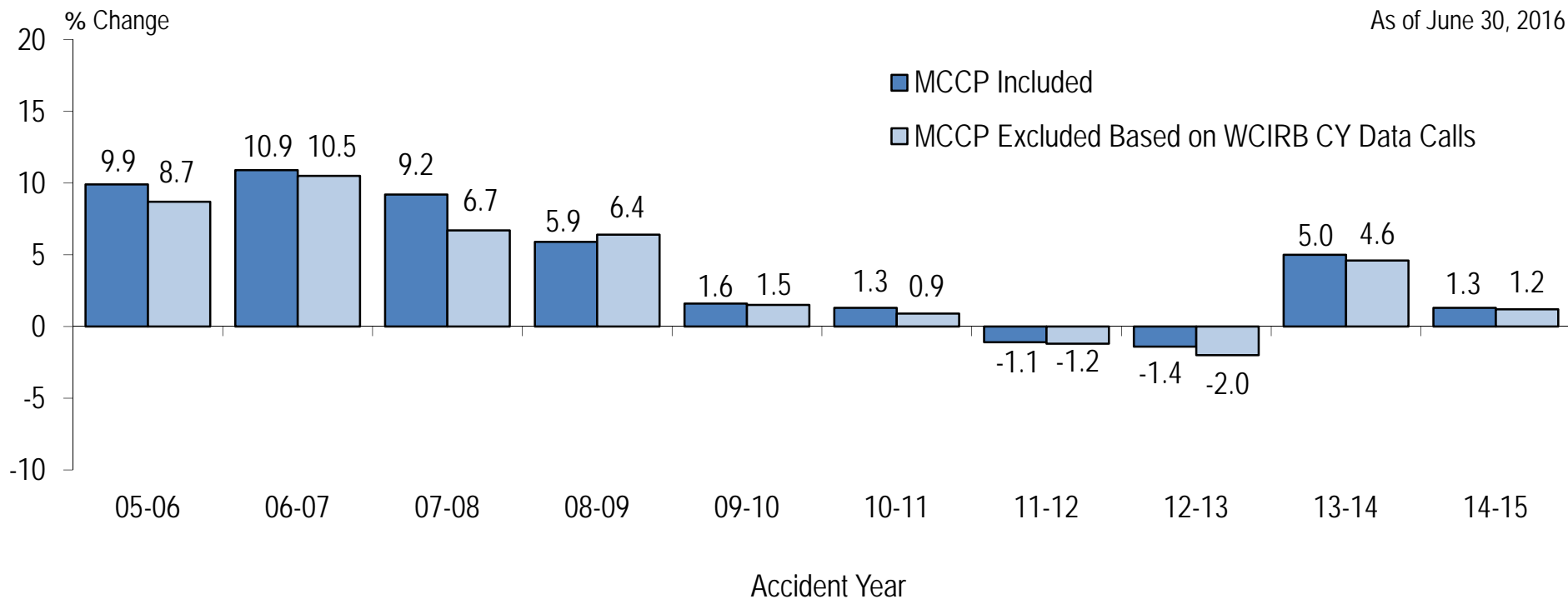
Annual Exponential Trend Based on:

2005 to 2015: +0.3%

2010 to 2015: -1.1%

Agenda Selected: **+0.3%**

# Change in On-Level Medical Severity (Exhibit 6.4)



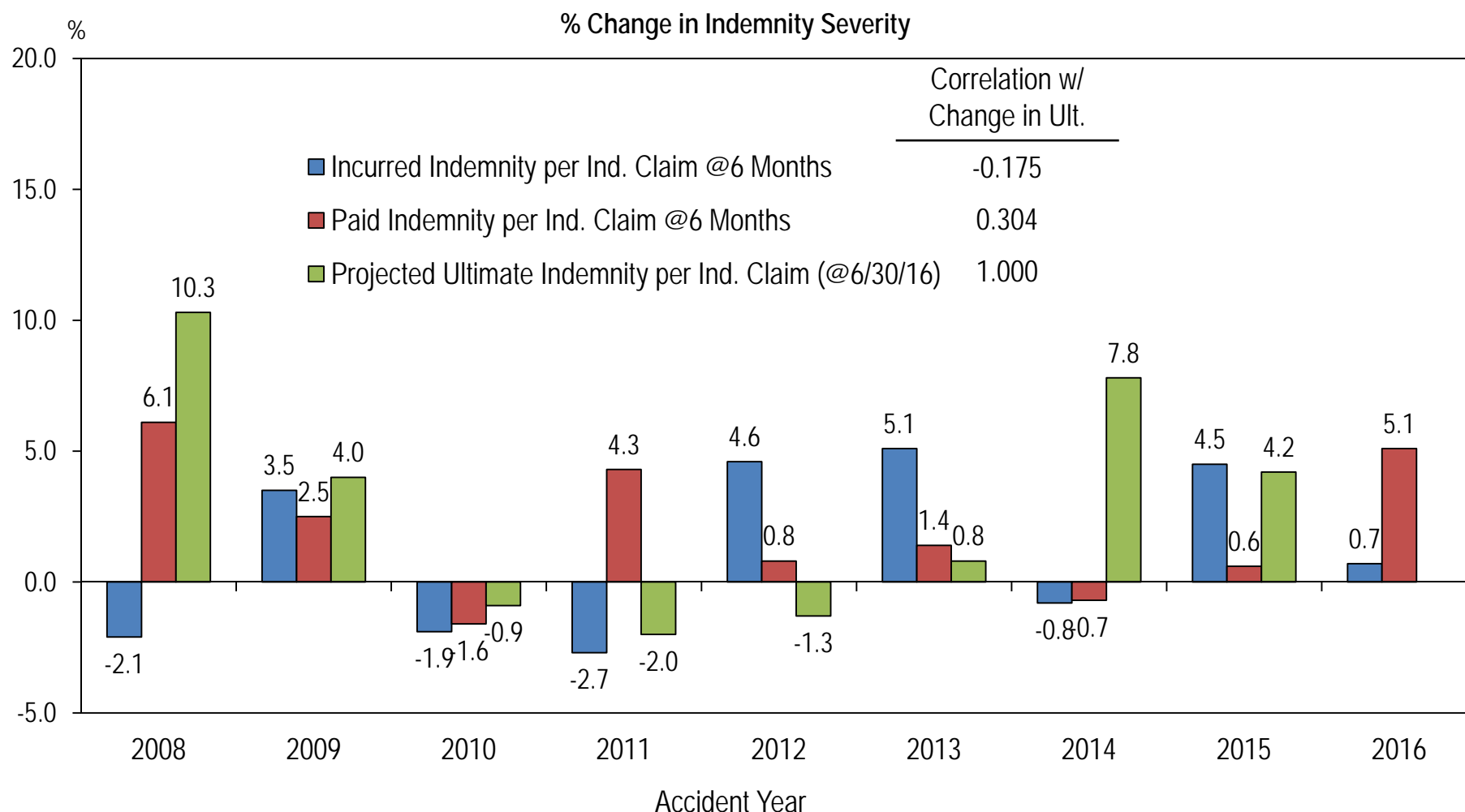
Annual Exponential Trend (Excluding MCCP) Based on:

2005 to 2015: +3.1%

2010 to 2015: +0.5%

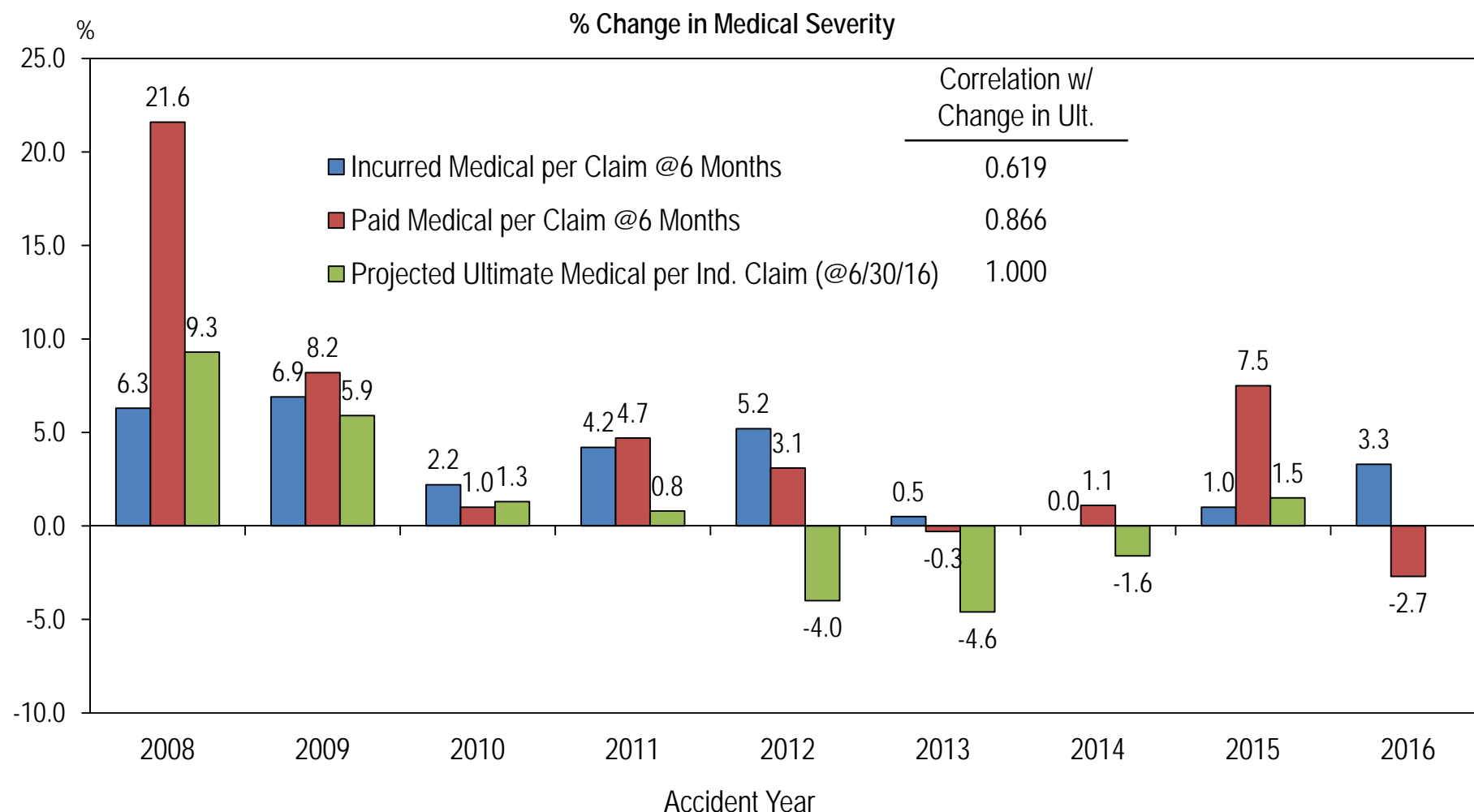
Agenda Selected: **+2.5%**

# Indemnity Severity Changes at 6 Months Compared to Ultimate



Source: WCIRB Quarterly Calls for Experience

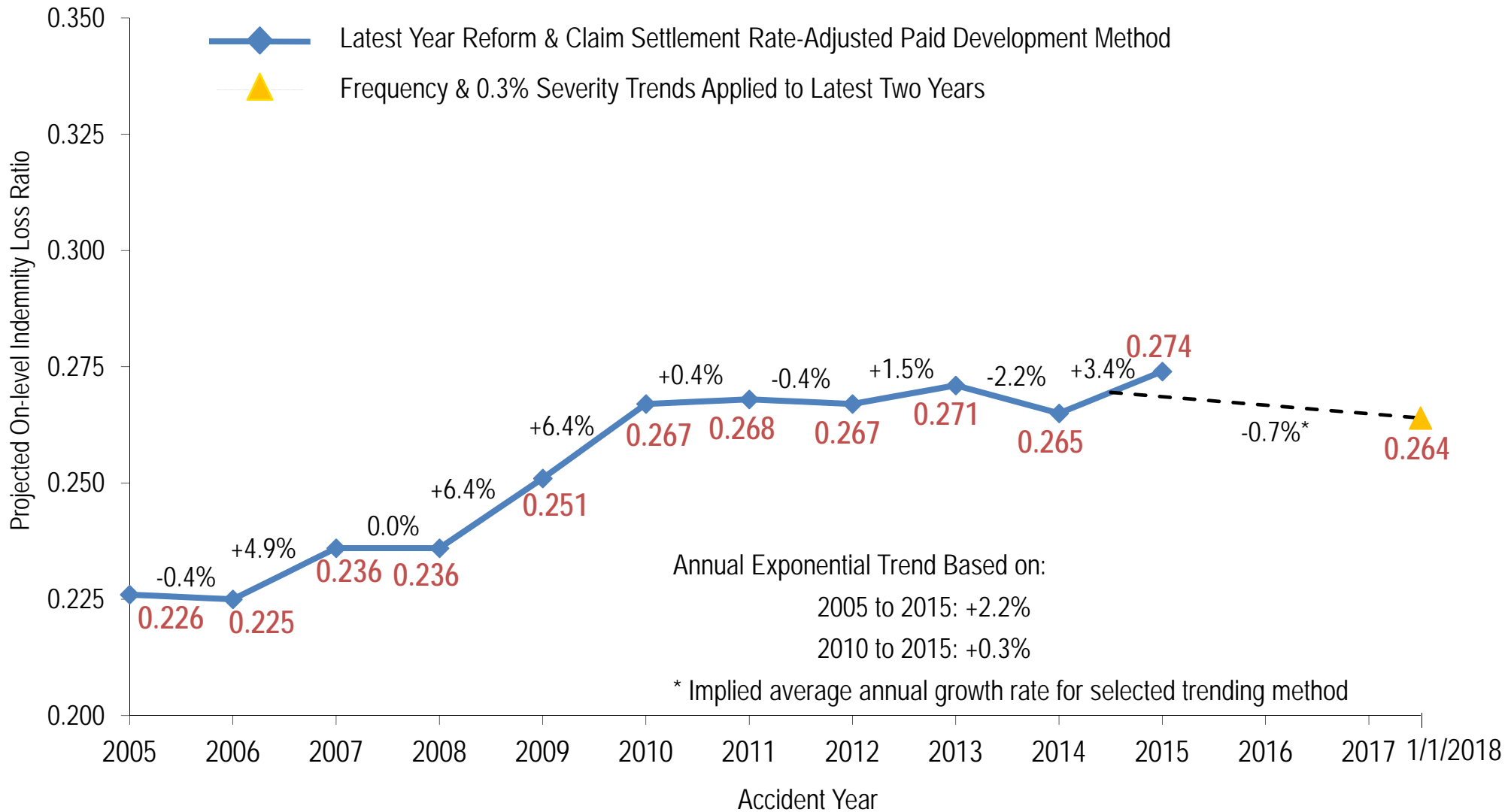
# Medical Severity Changes at 6 Months Compared to Ultimate



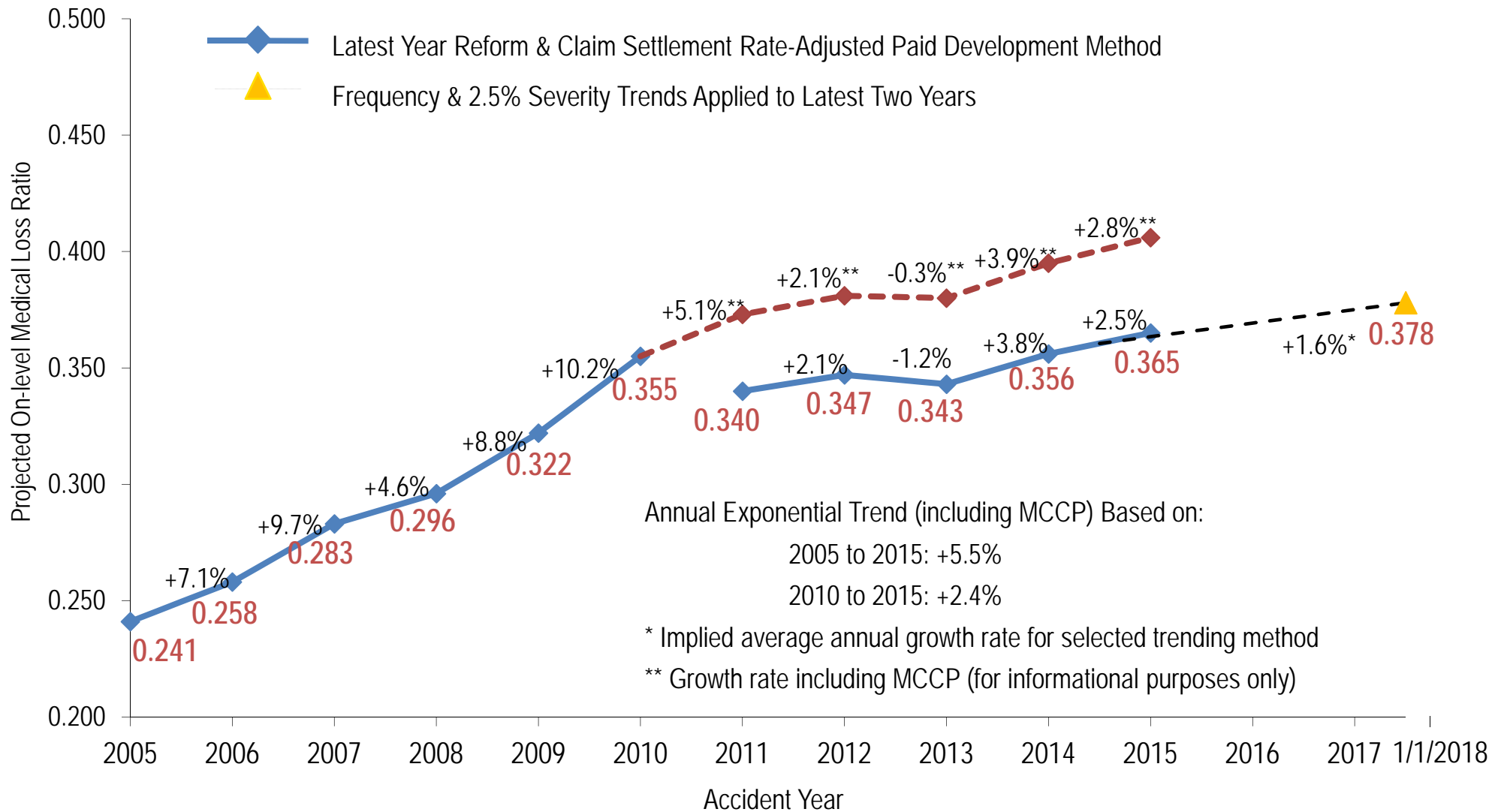
Source: WCIRB Quarterly Calls for Experience. MCCP included in all 6 month severities. MCCP excluded from ultimate severities for 2012 & forward.



# Indemnity Loss Trend & Projections (Exhibit 7.1)



# Medical Loss Trend & Projections



# 2016 Legislation Senate Bill No. 1160

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## SB 1160 – Key Provisions – Utilization Review (UR)

- For 1/1/18 and Later Injuries Accepted as Compensable, Medical Treatment within 30 Days of Date of Injury Authorized without Prospective UR
  - Does not apply if physician not within MPN or HCO or not pre-designated by employee or “selected” by the employer
  - Does not apply to all treatments (e.g., non-emergency inpatient or outpatient surgery, home health, most imaging or radiology services, psychological treatment, \$250+ durable medical equipment)
  - Must be integrated with new drug formulary to be adopted by 7/1/17
- Requires Accreditation of Insurer UR Processes by Independent Organization by 7/1/18
- Requires AD to Develop System for Electronic Submission of Information on Each UR Decision to the DWC by 7/1/18

## Computation of Estimated Impact of SB 1160 UR Provisions

### Impact on UR Costs

(1) MCCP as % of Total Loss & LAE (1/1/17 Filing)	4%
(2) UR as a % of Total MCCP Costs (CWCI)	55%
(3) UR as a % of Total Loss & LAE (1) x (2)	2%
(4) % of UR in First 30 Days from Date of Injury (CWCI)	5%
(5) % of First 30 Days Treatment Exempted in SB 1160	10%
(6) Estimated % Reduction in Total Loss & LAE (3) x (4) x [1 – (5)]	0.1%

- Applies to Injuries Occurring on or after 1/1/18

# Computation of Estimated Impact of SB 1160 UR Provisions

## Impact on Medical Costs

(1) Medical Loss as % of Total Loss & LAE (1/1/17 Filing)	43%
(2) % of Ultimate Medical Losses in First 30 Days	9%
(3) % of Total Medical Services Subject to UR (CWCI)	15%
(4) % of Medical Services Modified or Denied at UR (CWCI)	28%
(5) % of First 30 Days Treatment Exempted in SB 1160	10%
(6) Estimated % Increase in Total Loss & LAE	0.1%
$(1) \times (2) \times (3) \times (4) \times [1 - (5)]$	

- Maximus Estimates that Less than 0.2% of the IMRs they have Completed are for Treatment Denied at UR within 30 Days
- Applies to Injuries Occurring on or after 1/1/18
- Claims Working Group Expressed Concerns as to Potential Indirect Impact on Medical Costs

## SB 1160 – Key Provisions – Liens

- Liens Filed by Provider Stayed upon Filing of Criminal Fraud Charges
  - Stay in effect until the disposition of the criminal proceedings
  - AD to promulgate rules for implementation
- Liens Filed after 1/1/17 Require Declaration under Penalty of Perjury that Dispute is not Subject to IMR or IBR and Meets other Requirement (e.g., provider in an MPN or was acting as AME or QME, emergency treatment)
- All Liens Filed after 1/1/17 Shall not be Assigned to a Third Party
  - Exception if provider ceased doing business and has assigned all rights to the assignee

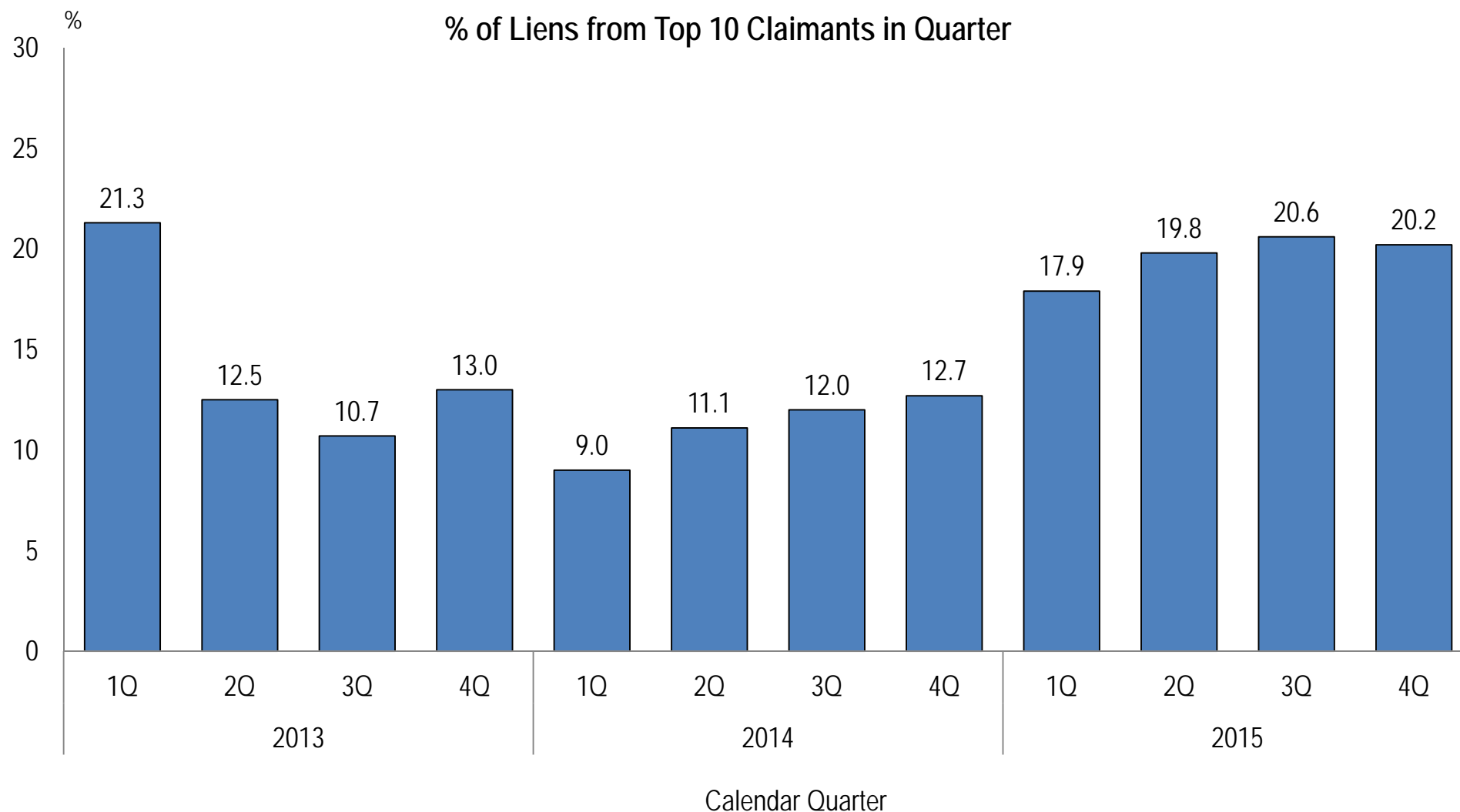
# Estimated Impact of SB 1160

## Impact of Lien Provisions

- Medical Cost of Liens as % of Total Medical Losses (WCIRB Report on 2015 Insurer Losses and Expenses): 6.1%
- Medical Cost of Liens as % Total Loss & LAE (1/1/17 Filing): 2.6%
- Approx. Total Lien Cost (incl. LAE) as % Total Loss & LAE: 6%
- Latest Estimate of SB 863 Lien Savings (2015 SB 863 Cost Monitoring Report): 2.5% or \$480 mm. Annually (Equates to 40% Reduction in Lien Filings)
- Sharp Increase in Lien Filings in 2015 & 2016 Eroding Savings
  - Medical liens at pre-SB 863 level
  - Some of increase due to change in statute of limitations on filings
  - Sharp increase in lien filings from top 10 lien claimants



## Liens Filed from Largest Lien Claimants



Source: EAMS Liens Data

# Estimated Impact of SB 1160

## Impact of Lien Provisions

- Impact of Stay on Liens Filed by Parties Subject to Filing of Criminal Charges on Future Lien Filings Uncertain
- Potential Impact of Restriction on Lien Assignments and Required Declaration Under Penalty of Perjury
  - Apparent growth in third party lien filings
  - SB 863 restrictions in this area apparently not effective
  - DWC estimates that 18% to 25% of liens assigned