Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
September 1, 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
Robert Hallstrom
Pat Hein
Giovanni Muzzarelli

WCIRB
Bill Mudge
David Bellusci
Ward Brooks
Greg Johnson
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.

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Approval of Minutes
The Minutes of the meeting held on August 3, 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.

Item II - Claims Working Group Meeting Summary

The summary of the Claims Working Group meeting held on July 29, 2016, which was included in the Agenda materials, was accepted by the Committee.

Item AC16-09-01
6/30/2016 Experience – Review of Methodologies

The Committee was advised that at its August 10, 2016 meeting, the Governing Committee authorized the WCIRB to submit the January 1, 2017 Pure Premium Rate Filing based on March 31, 2016 experience and using a loss projection based primarily on the methodologies recommended by the Actuarial Committee at the August 3, 2016 meeting, but also including an adjustment for changes in claim settlement rates in the loss development projection. In the filing submitted on August 19, 2016, the WCIRB advised that the filed advisory pure premium rates were subject to amendment pending the review of experience valued as of June 30, 2016. The Agenda materials included a summary of accident year experience through June 30, 2016 that included almost 100% of the market and the methodologies reflected in the January 1, 2017 Pure Premium Rate Filing. The Committee was advised that the approximate one percentage point decrease in the projected policy year 2017 loss ratio was primarily due to modest declines in the loss development projection.

The Committee discussed loss development and noted that both paid and incurred loss development continued to decline in the second quarter of 2016 but at a lower rate than in recent prior quarters, suggesting recent trends in loss development may be moderating. It was also noted that some paid loss development factors on more recent accident years increased, though at a slightly lower rate than what was projected by the adjustments to loss development for Senate Bill No. 863. It was also noted that indemnity claim settlement rates continued to increase in the second quarter.

The Committee discussed the adjustment to loss development for changes in claim settlement rates that was reflected in the January 1, 2017 Pure Premium Rate Filing. Staff noted that, as recommended by the Committee, it plans to study this methodology in detail next year. It was also noted that the modest declines in the loss development projection were consistent in both the claim settlement rate-adjusted method and the method without the adjustment that was recommended by the Committee at the August 3, 2016 meeting.

The Committee next discussed the indemnity claim frequency and claim severity projections. It was noted that modest growth in indemnity claim count development resulted in a small increase in the accident year 2015 indemnity claim frequency change. It was also noted that the indicated accident year 2016 indemnity claim frequency increase based on six months experience was significantly less than the increase based on three months experience. It was noted that the indicated average indemnity severity trend based on the longer-term rate of growth was slightly lower than that reflected in the January 1, 2017 Pure Premium Rate Filing and even more lower than that reviewed at the August 3, 2016 meeting, which was based on an indemnity loss development projection that did not include an adjustment for changing claim settlement rates. The Committee suggested the frequency and severity trend assumptions should be reviewed in depth in subsequent Committee meetings considering the interrelationship between these components as well as recent loss ratio trends.

The Committee discussed the recommended methodologies to base any amendment to the projected policy year 2017 loss ratio. Several Committee members noted that until the claim settlement adjustment methodology could be further studied, they did not feel comfortable recommending the adjustment in the loss development projection. After discussion, the consensus of the Committee was to recommend methodologies consistent with what was recommended by the Committee at the August 3, 2016 meeting for use in computing the policy year 2017 pure premium rate indication based on June 30, 2016 experience.

Item AC16-09-02
Potential Impact of 2016 Legislation

The Committee was reminded that in the WCIRB's January 1, 2017 Pure Premium Rate Filing submitted on August 19, 2016 the WCIRB advised that if legislative or regulatory changes are adopted prior to the public hearing on the filing, the WCIRB will evaluate the changes and, if appropriate, amend the proposed advisory pure premium rates. The Committee was advised that Senate Bill No. 1160 (SB 1160) and Assembly Bill No. 1244 (AB 1244) were passed by the Legislature on August 31, 2016 and included a number of provisions related to utilization review (UR) and liens.

Staff summarized the provisions of SB 1160 related to UR which, on compensable injuries occurring on or after January 1, 2018, exempts medical treatment requested within the first 30 days from the date of injury from prospective UR with a number of exceptions. The Committee was advised that staff's preliminary evaluation of the impact of the SB 1160 provisions related to UR on policy year 2017 costs based on WCIRB Medical Data Call data and loss projections and California Workers' Compensation Institute information suggested that the modest decrease in UR costs (0.1% of total costs) projected as a result of SB 1160 will approximately offset the increase in medical treatment costs (0.1% of total costs). Representatives of the Department of Industrial Relations (DIR) in attendance discussed their evaluation of the SB 1160 UR provisions which differed somewhat from staff's preliminary estimate. The Committee suggested WCIRB staff meet with the DIR staff to discuss the assumptions underlying each estimate and report back to the Committee.

The Committee next discussed the provisions of SB 1160 and AB 1244 related to liens. Staff noted that the provisions include (a) a stay on liens filed by providers indicted or convicted of fraud until the disposition of the criminal proceedings, (b) a requirement that a declaration under penalty of perjury must be included with liens filed on or after January 1, 2017 stating that the lien is not subject to independent medical review or independent bill review (IBR) and that the provider meets one of several requirements, and (c) a requirement that liens filed on or after January 1, 2017 cannot be assigned to a third party unless the provider has ceased doing business. Staff noted that calendar year 2015 information and WCIRB lien surveys suggests liens are approximately 6% of total system costs and lien filings in 2015 and 2016 have increased sharply, with a significant increase in the proportion of total liens filed by the lien claimants with the most lien filings.

With respect to the stay on liens from providers indicted or convicted of fraud charges, representatives from the DIR noted that they have identified a significant proportion of current lien filings from providers under fraud investigations. It was noted that while these provisions may result in significant reductions in the cost related to outstanding liens, the extent to which the provisions will impact liens filed on claims from 2017 policies is uncertain. It was also noted that the extent to which liens from these providers will be ultimately dismissed is uncertain. Several Committee members requested WCIRB staff to work with the DIR to obtain an estimate of the proportion of existing lien filings made by lien claimants either indicted or convicted for fraud.

With respect to the declaration required to be filed with liens filed on or after January 1, 2017 and on outstanding liens by July 1, 2017, representatives from the DIR noted that the lien would be automatically dismissed if the declaration is not filed with the lien. It was noted that these provisions may reduce liens that are filed for the balance between a billed amount and a fee schedule amount, which should be subject to IBR. However, it was also noted that the proportion of these types of liens in current lien filings is uncertain and that they may have a smaller cost on average.

With respect to the restrictions on lien assignments, it was noted that DIR information suggested 18% to 25% of liens are currently filed by assignees. However, the Committee noted that these provisions would not restrict lien consolidators from operating as collection agencies to recover the lien amount on behalf of providers as long as the declaration was filed by and the payment was made to the provider.

After a lengthy discussion, the consensus of the Committee was that estimating the cost impact of the provisions of SB 1160 related to liens was premature at this time. As a result, the Committee suggested staff meet with the DIR to collect additional information related to these provisions and that the Committee be reconvened. An Actuarial Committee meeting was scheduled for Tuesday September 6, 2016 to continue the discussion of SB 1160 and its impact on the costs underlying policy year 2017 pure premium rates.

The meeting was adjourned at 12:00 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for November 8, 2016 for approval and/or modification.