

WCIRB Actuarial Committee Meeting

**Materials Presented at the WCIRB Actuarial Committee Meeting
December 6, 2016**

Notice

The information provided in this presentation was developed by the Workers' Compensation Insurance Rating Bureau of California (WCIRB) solely for the purpose of discussion during this presentation. The WCIRB shall not be liable for any damages, of any kind, whether direct, indirect, incidental, punitive or consequential, arising from the use, inability to use, or reliance upon information provided in this presentation.

© 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 by federal copyright law. No copyright is claimed in the text of statutes and regulations quoted within this work.

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.

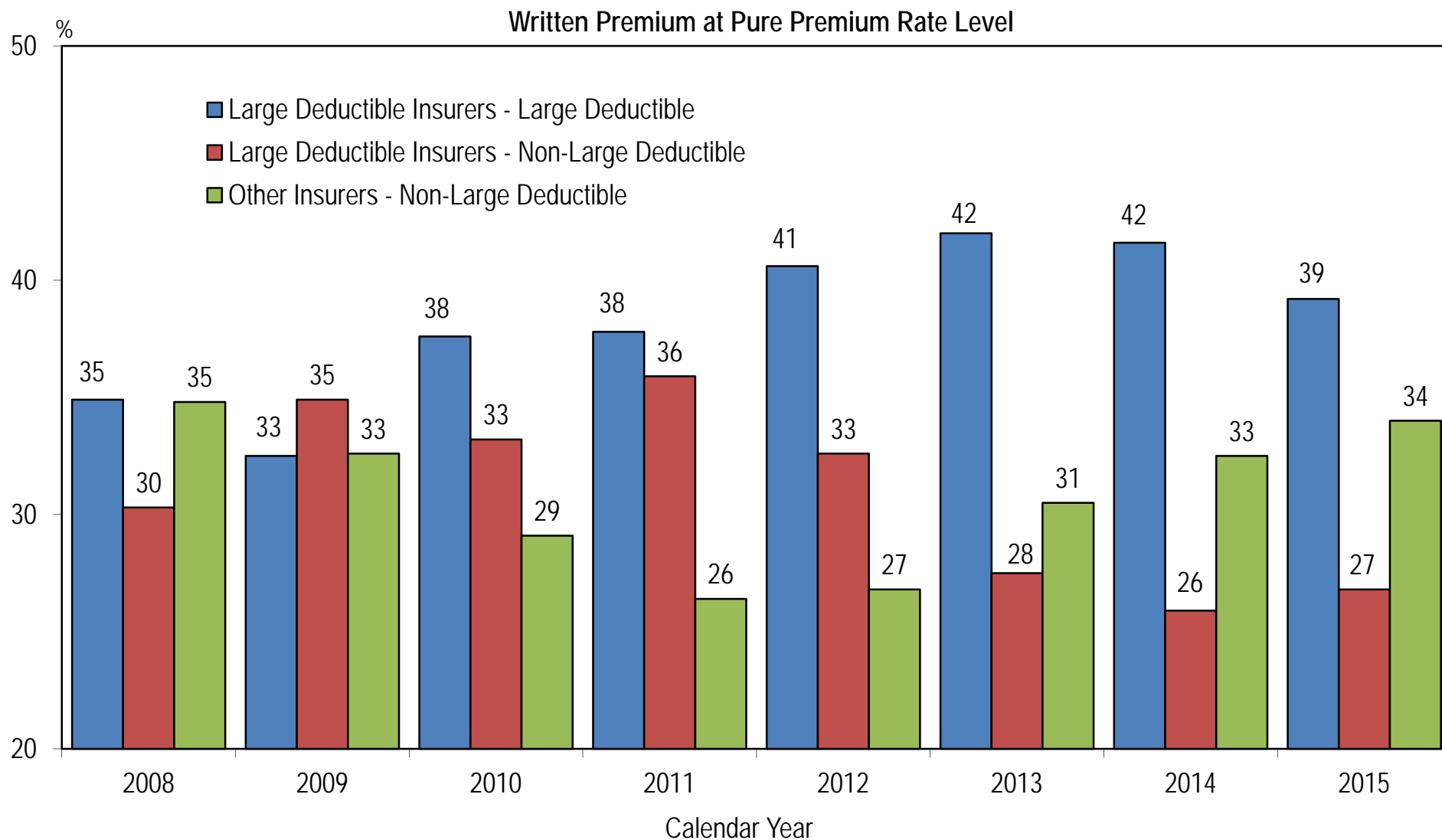
Experience of Large Deductible Policies

WCIRB Actuarial Committee Meeting
December 6, 2016

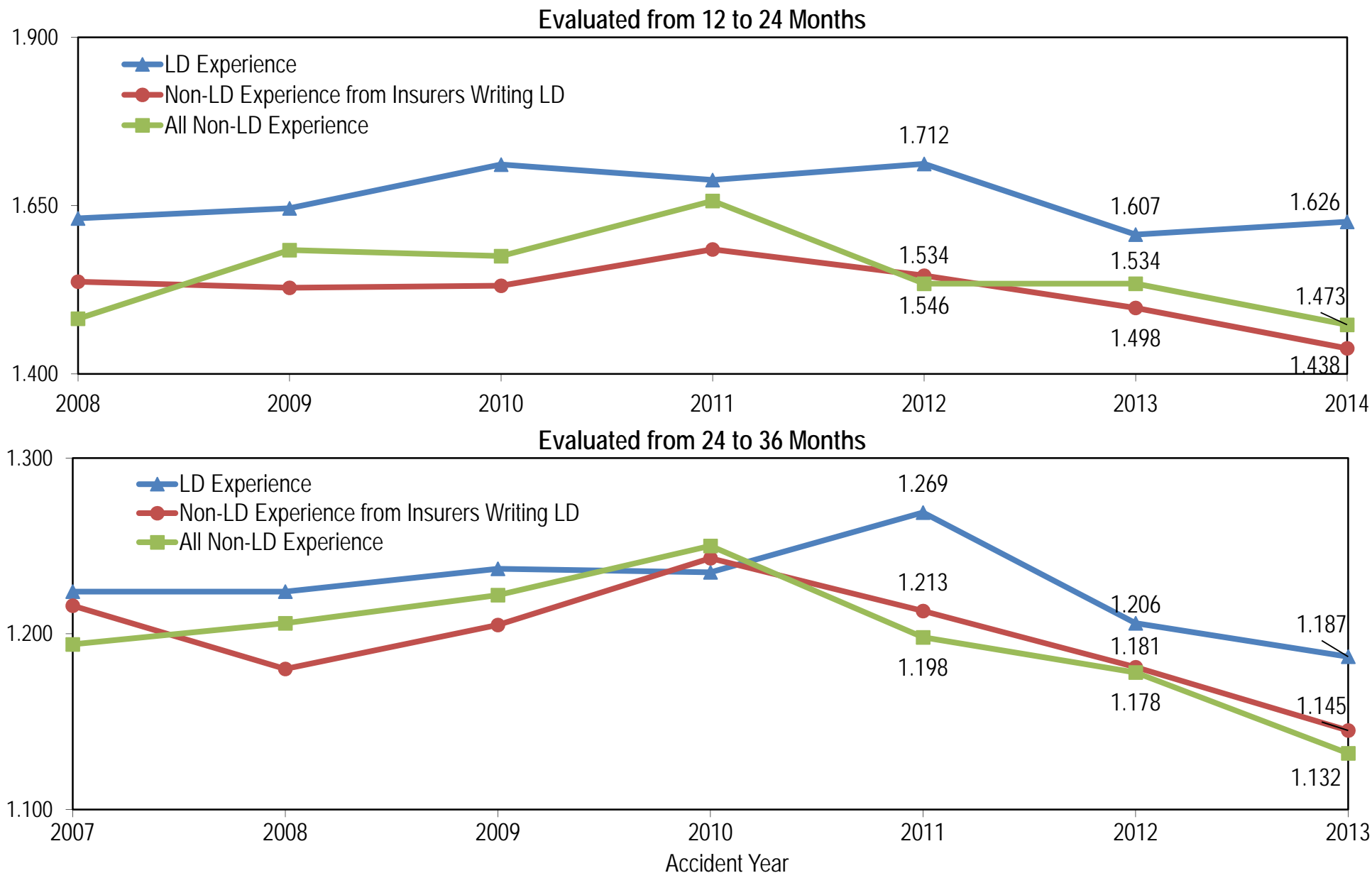
Experience of Large Deductible Policies

- Annually the Actuarial Committee Reviews the Experience of Large Deductible Policies (December 31 Experience)
- Findings in Prior Actuarial Committee Evaluations
 - Large deductible market proportion relatively stable
 - Paid development patterns are generally similar to non-large deductible policies
 - Impact of excluding large deductible experience from the rate level computation is relatively modest
 - No adjustment to rate level computation needed

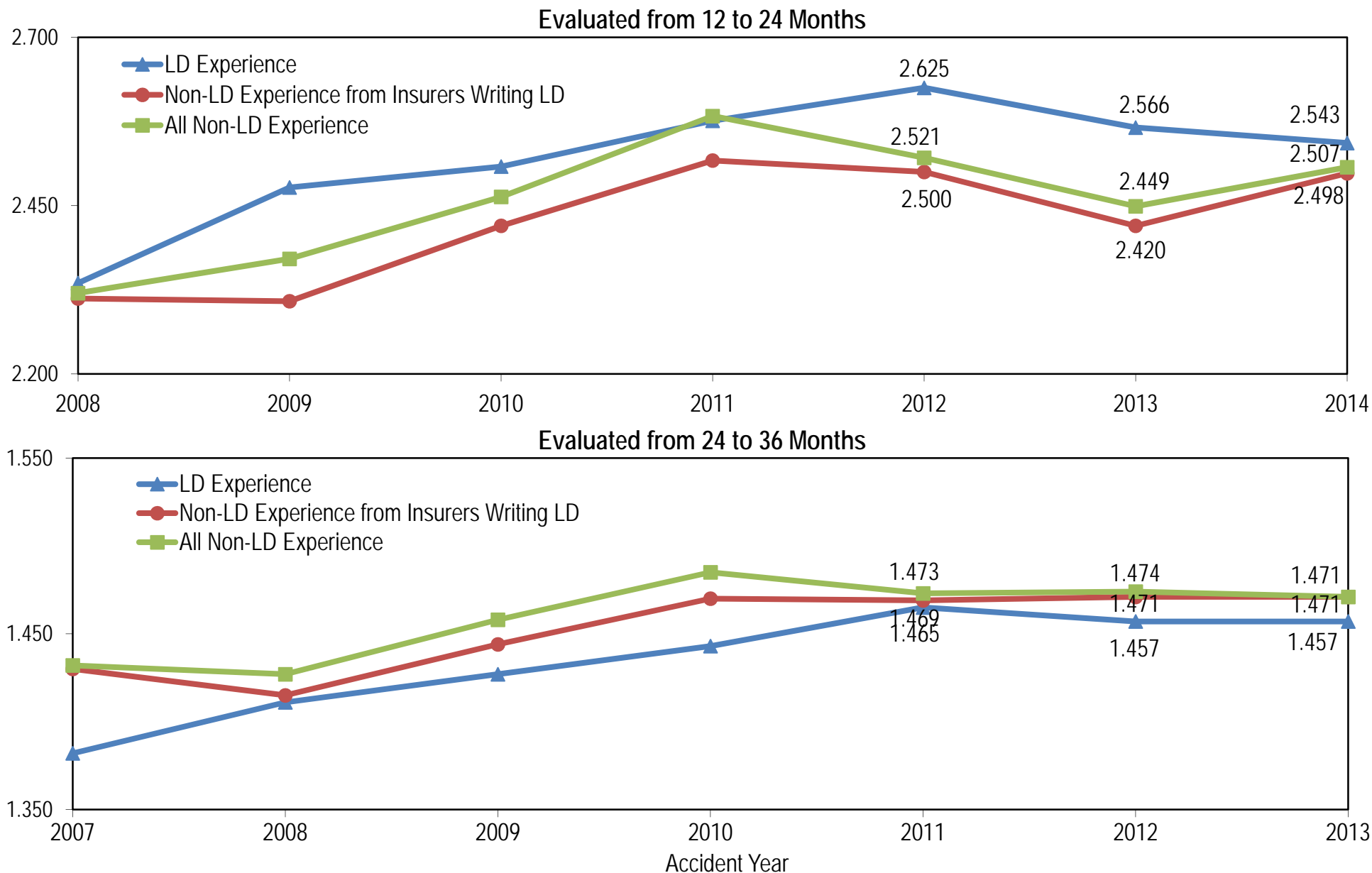
Distribution of Calendar Year Premiums (Exhibit 1.1)



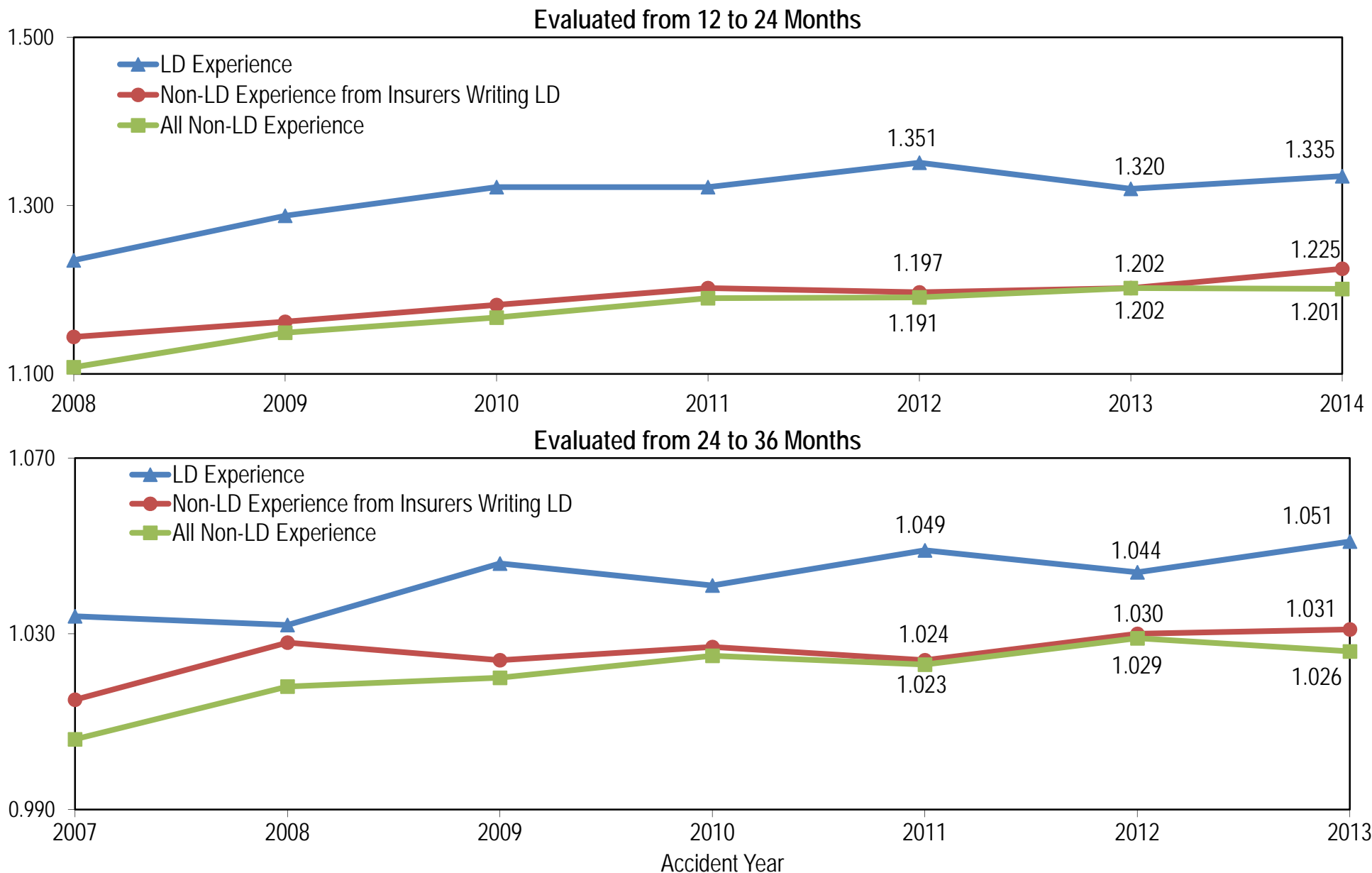
Incurred Medical Development (Exhibit 3.2)



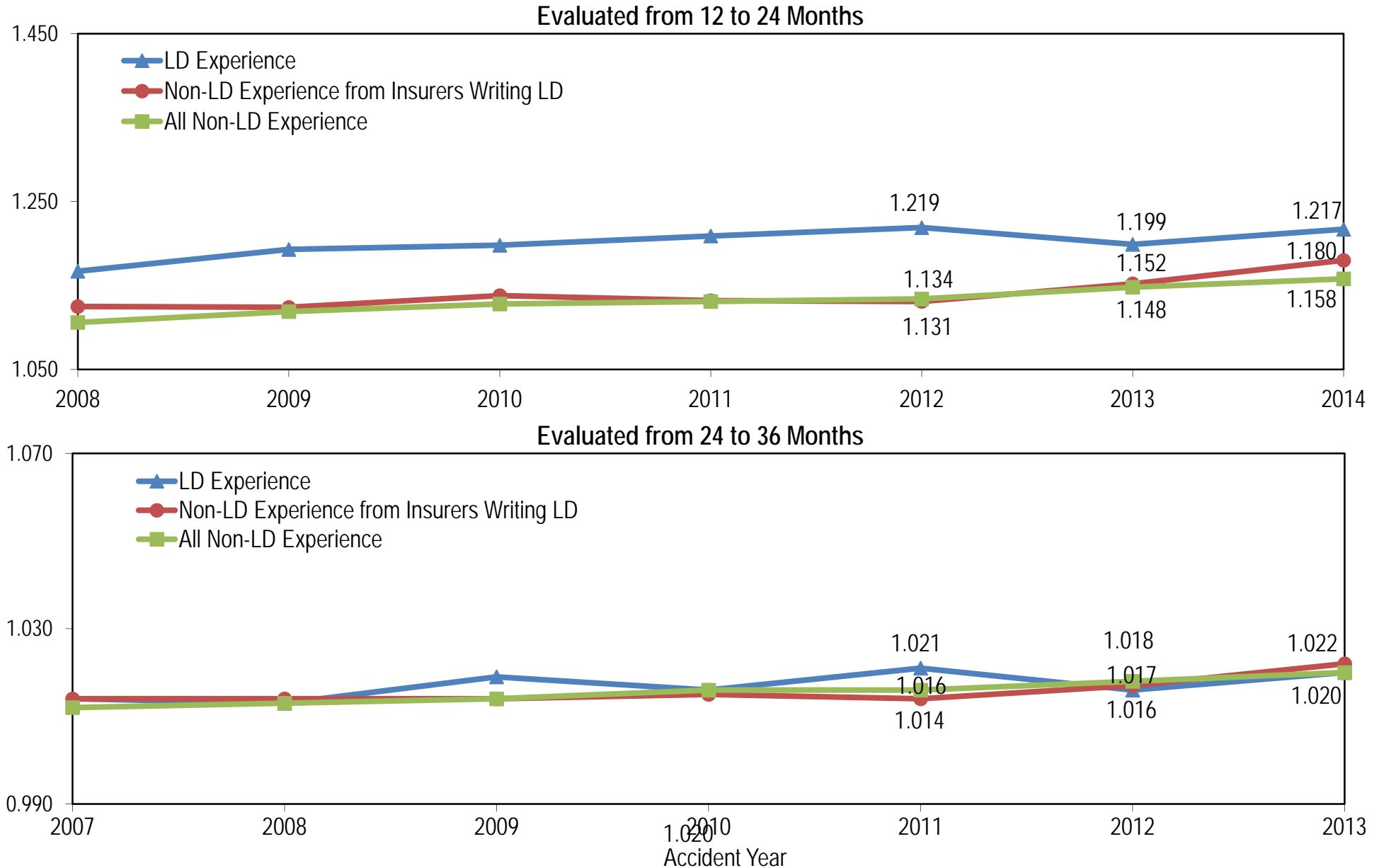
Paid Medical Development (Exhibit 3.4)



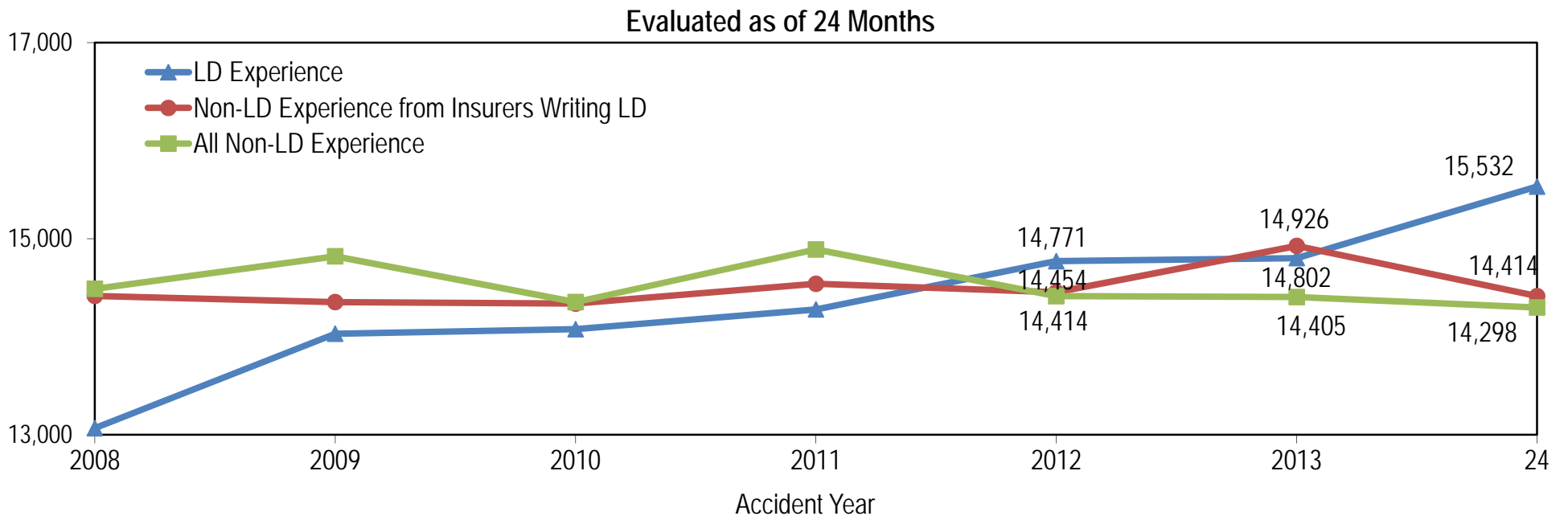
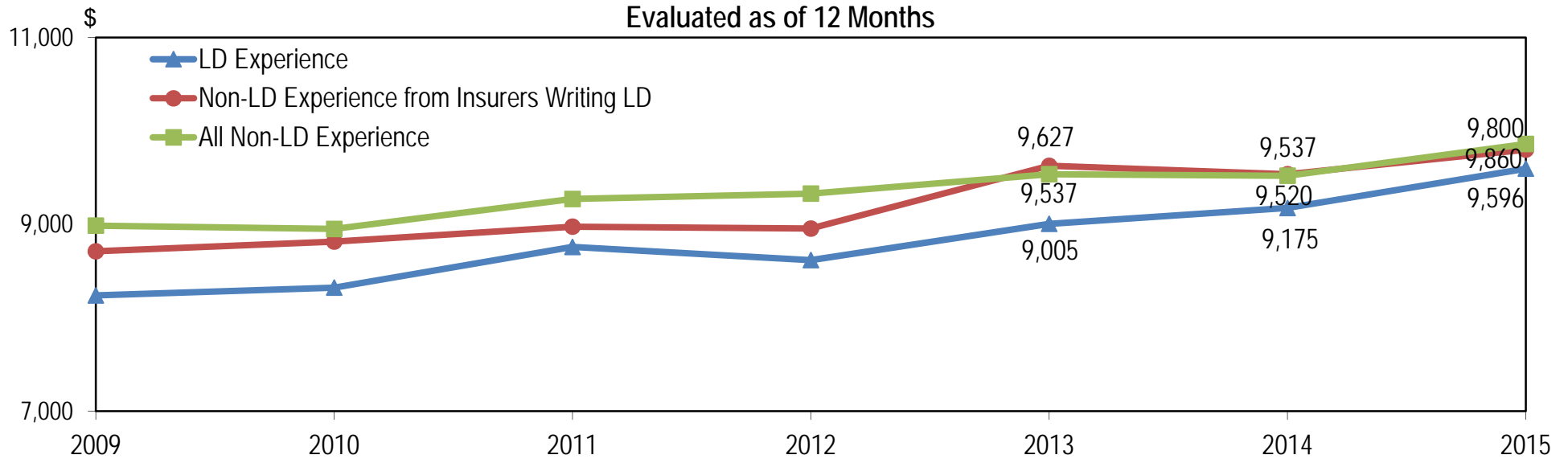
Reported Indemnity Claim Count Development (Exhibit 6.1)



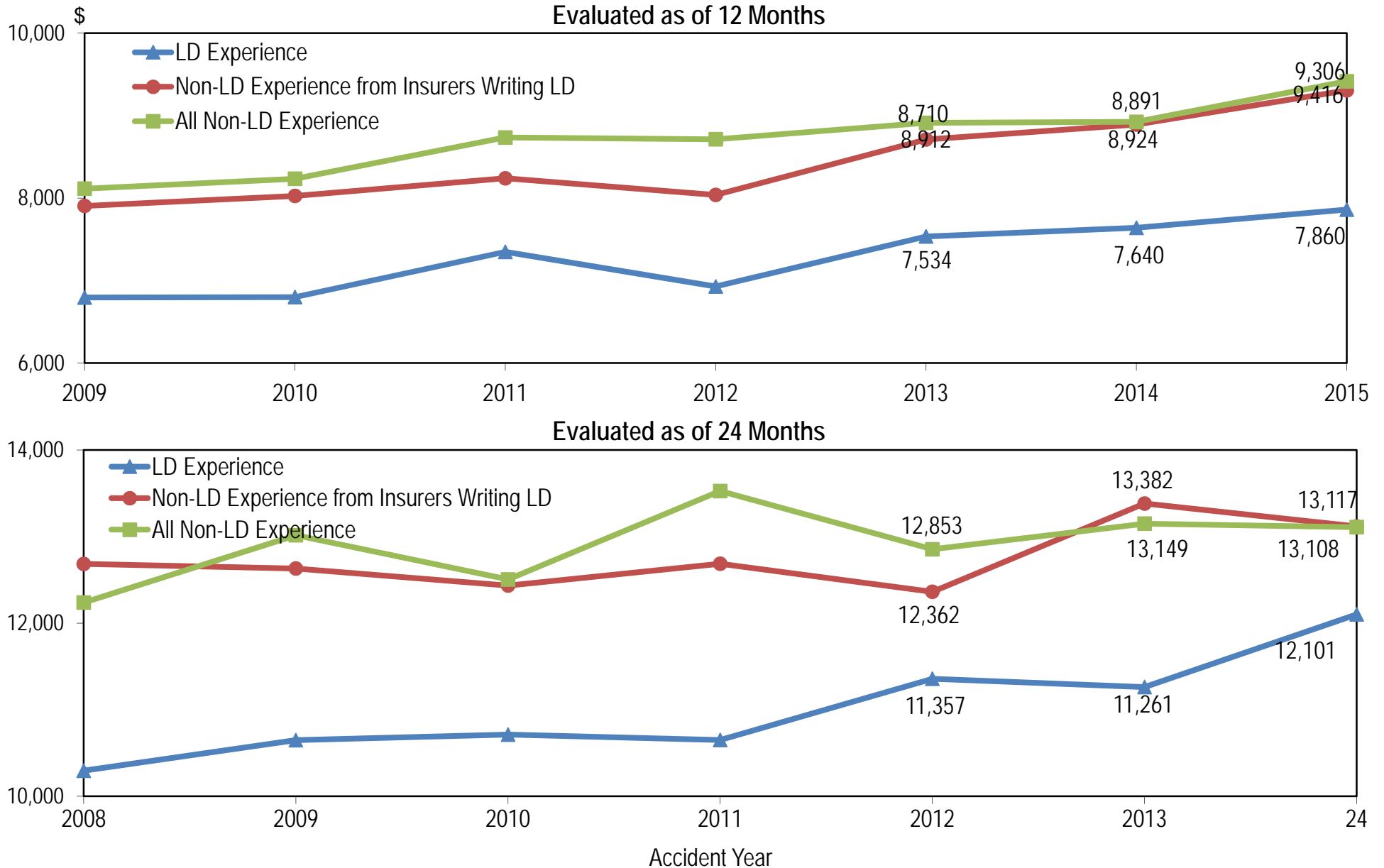
Reported Total Claim Count Development (Exhibit 6.2)



Average Incurred Indemnity Per Reported Claim (Exhibit 4.1)

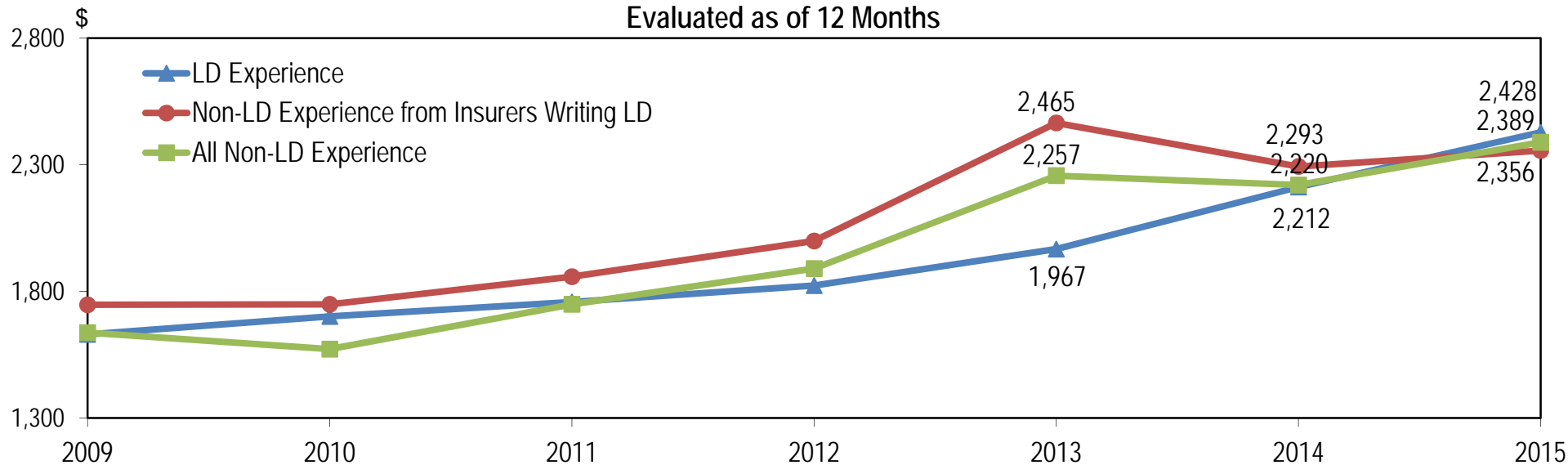


Average Outstanding Indemnity Per Open Claim (Exhibit 4.4)

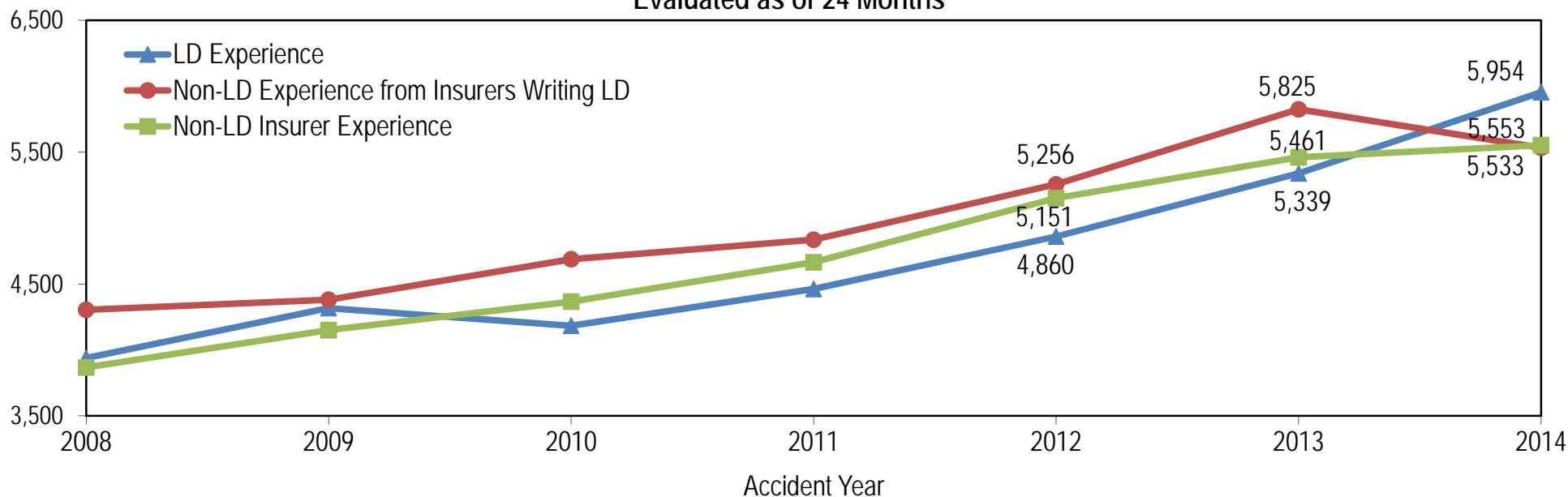


Average Paid Indemnity Per Closed Claim (Exhibit 4.2)

Evaluated as of 12 Months



Evaluated as of 24 Months



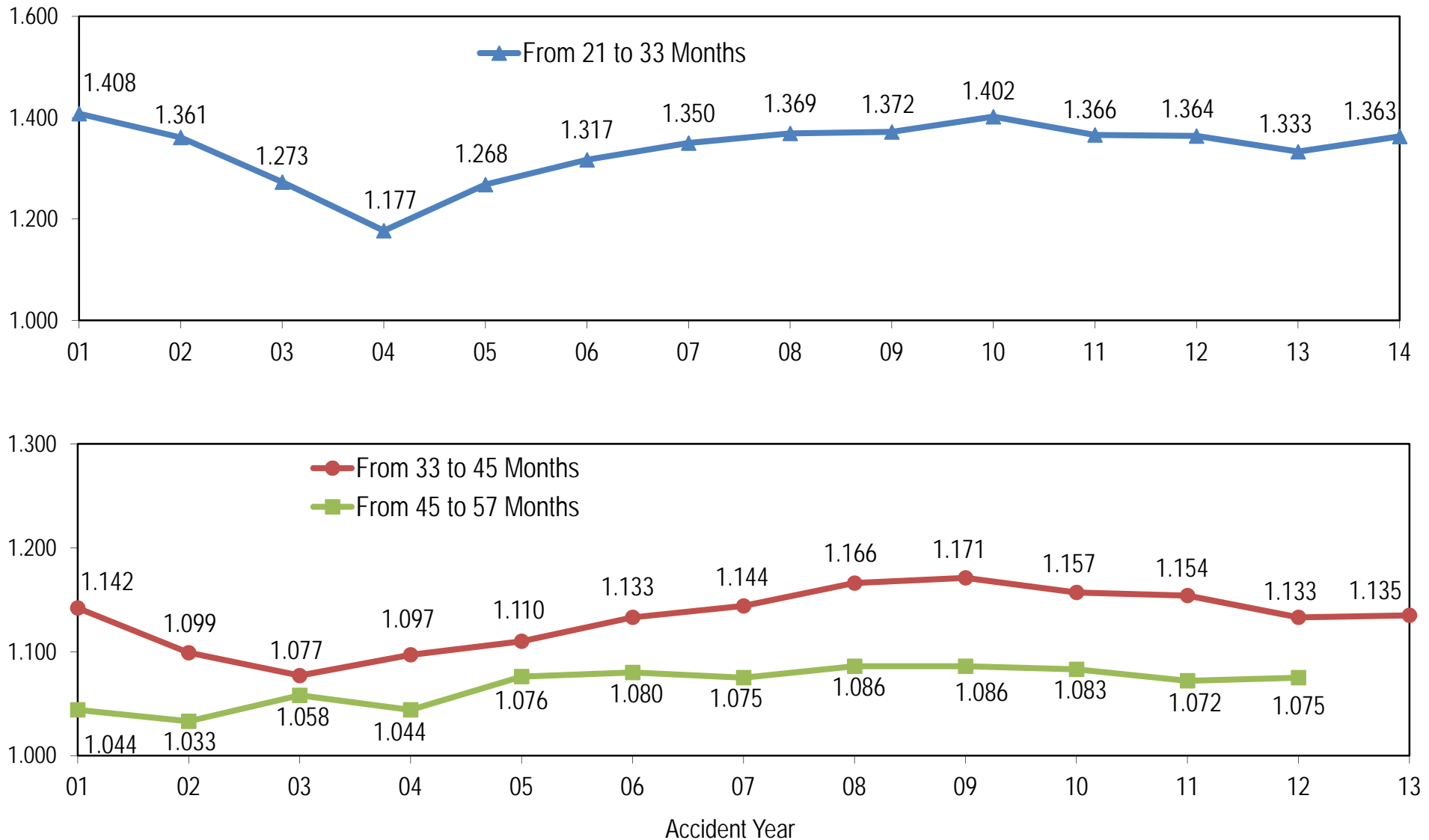
9/30/2016 Experience – Review of Methodologies

WCIRB Actuarial Committee Meeting
December 6, 2016

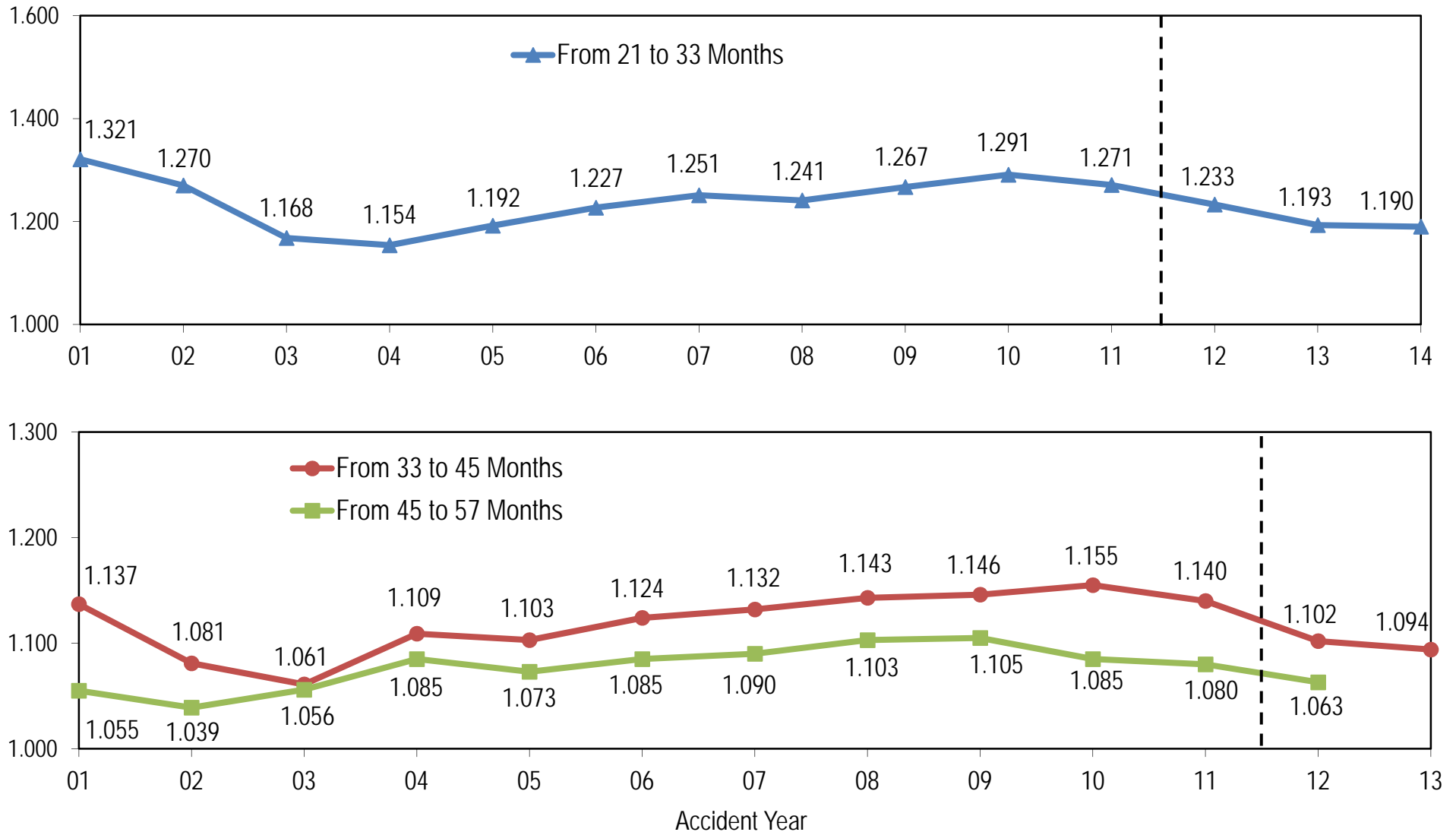
Summary of September 30, 2016 Experience

- Approximately 99% of market reflected
- Same methodologies as in 1/1/17 Filing
 - Adjustments for SB 863 consistent with 1/1/17 Filing
- Projected policy year 2017 loss ratio: 0.625
- 1.7 point decrease from Amended 1/1/17 Filing (0.642) primarily driven by lower loss development

Incurred Indemnity Loss Development Factors (Exhibit 2.1.1)

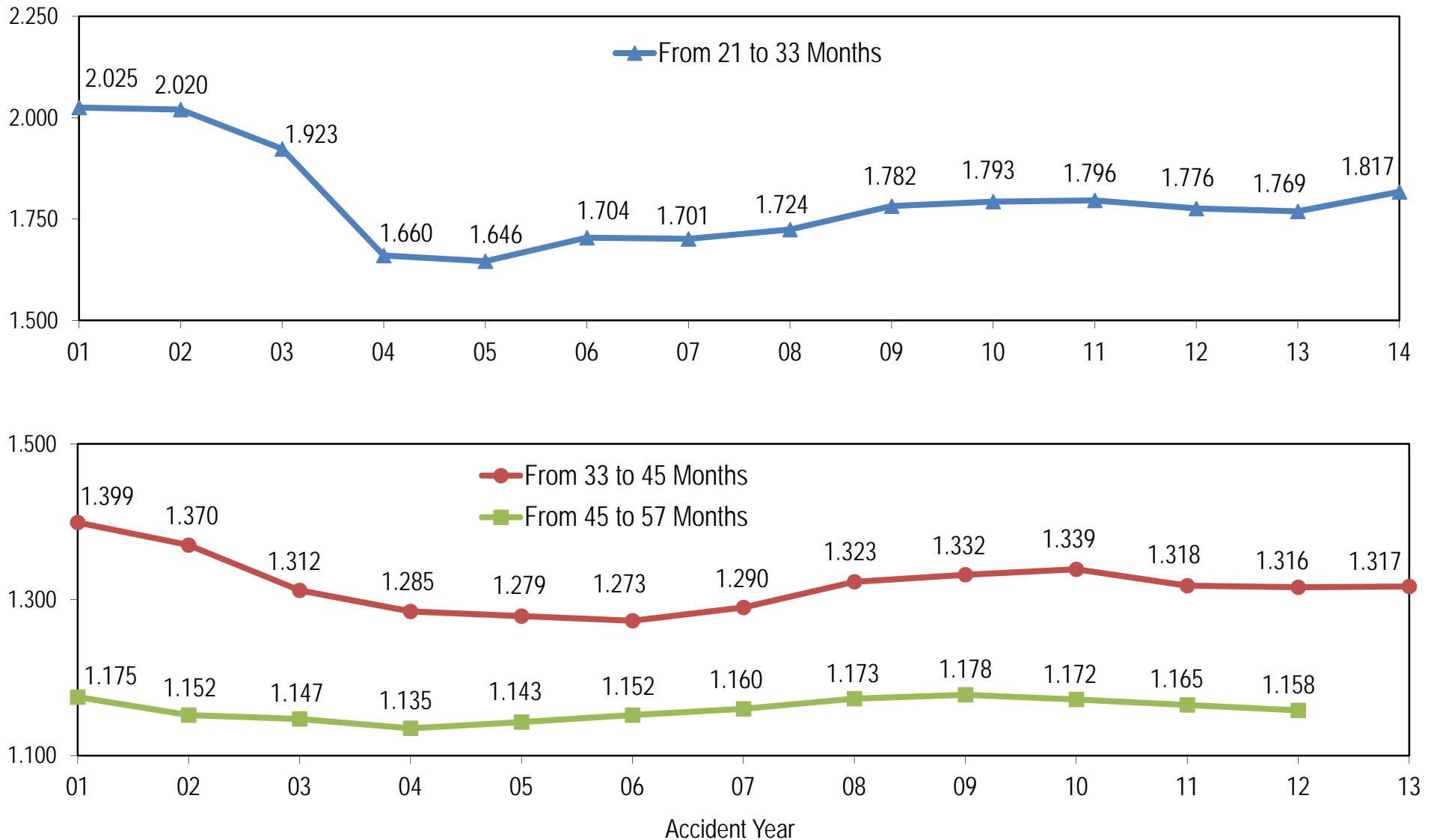


Incurred Medical Loss Development Factors (Exhibit 2.2.1)

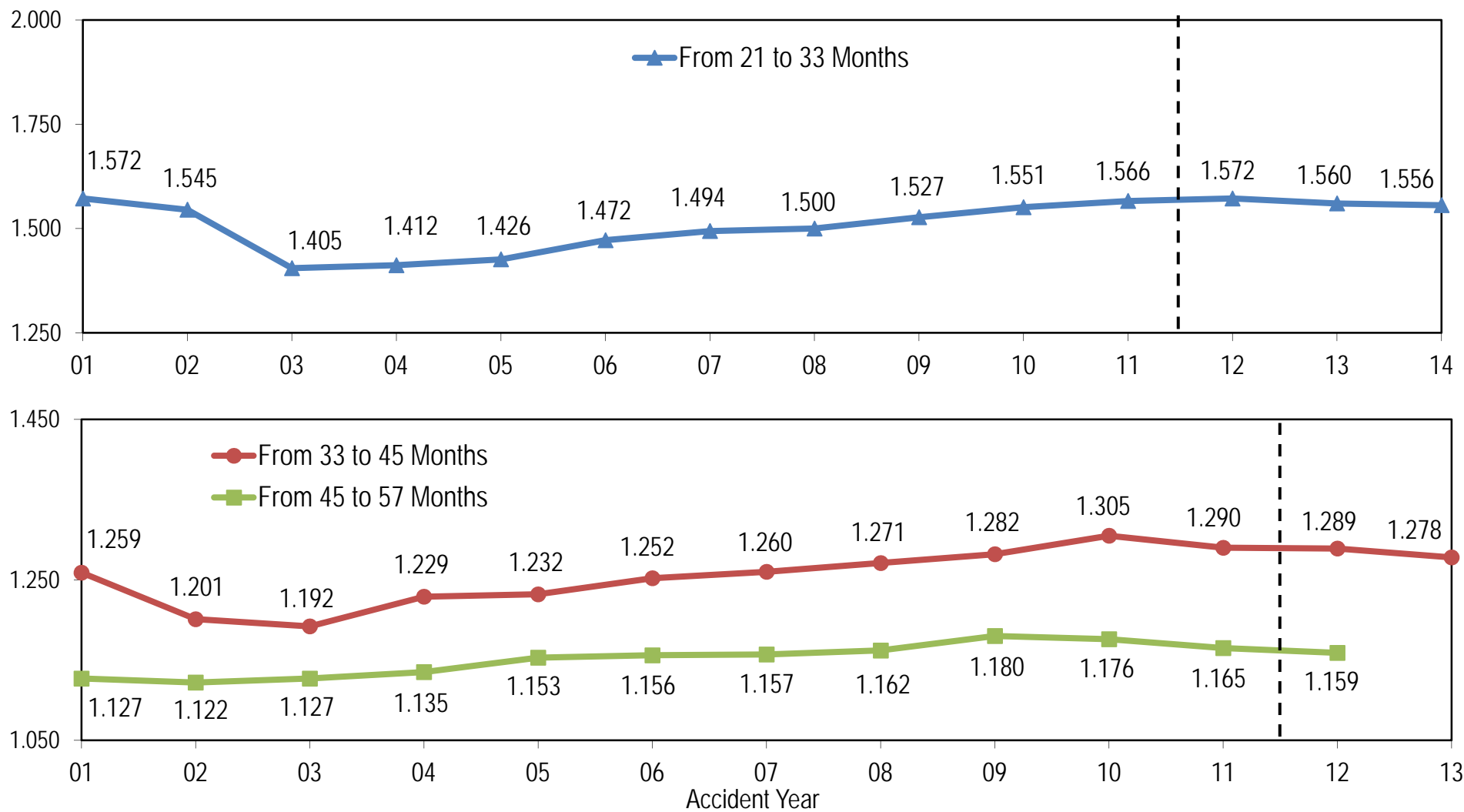


Note: MCCP development is included in incurred medical loss development for 2011 and prior.

Paid Indemnity Loss Development Factors (Exhibit 2.3.1)

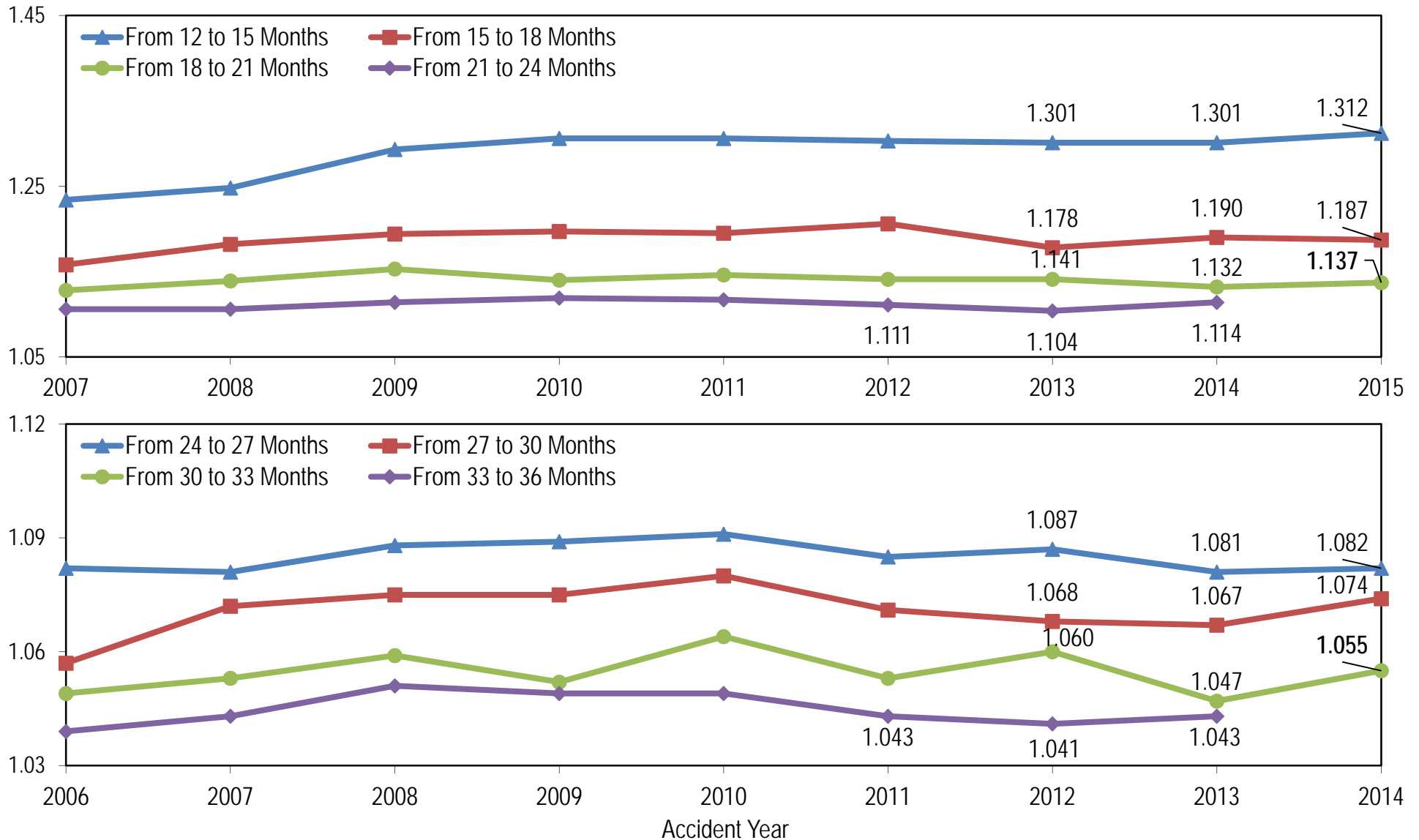


Paid Medical Loss Development Factors (Exhibit 2.4.1)

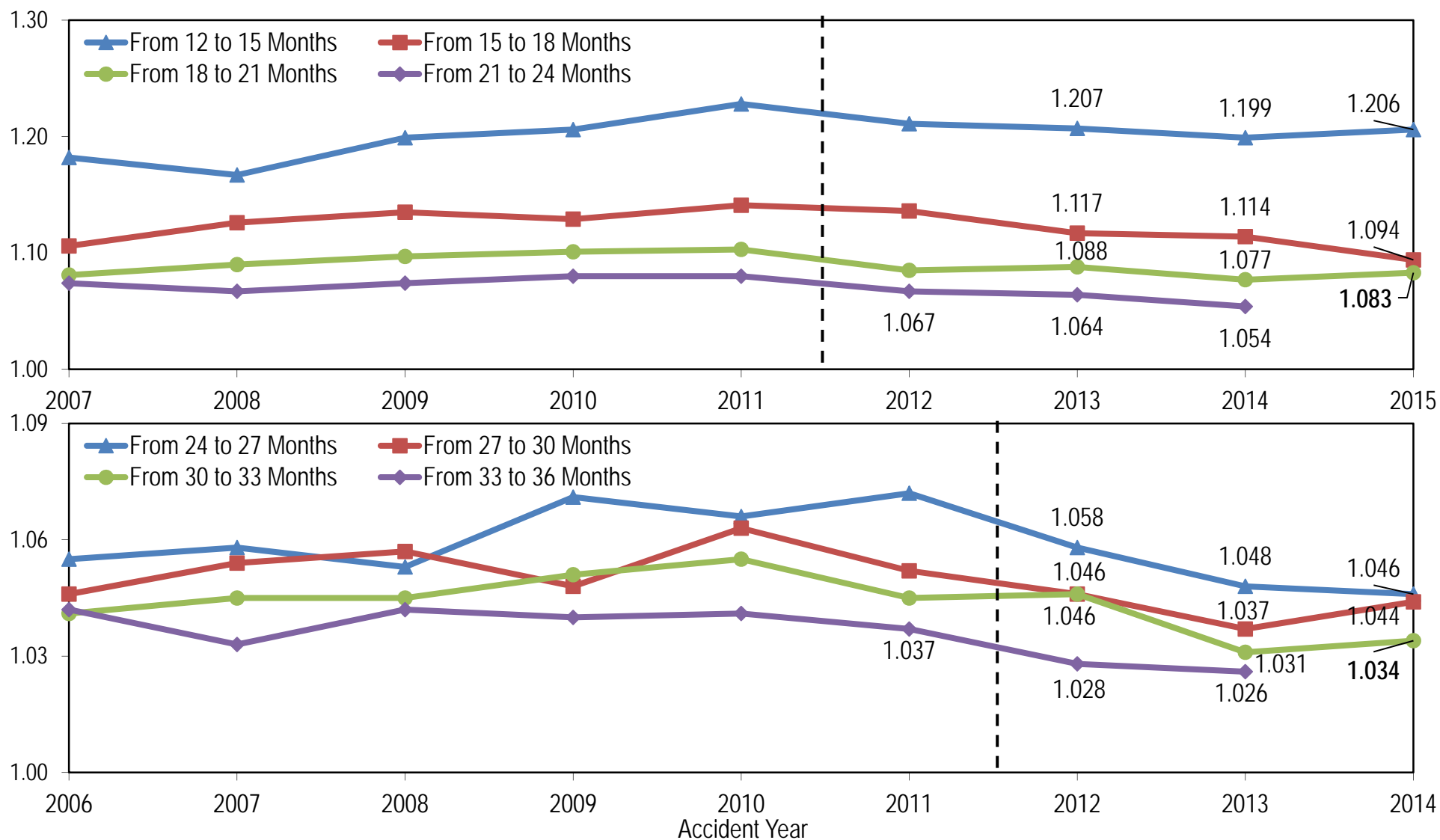


Note: MCCP development is included in paid medical loss development for 2011 and prior.

Quarterly Incurred Indemnity Development (Exhibit 9.1)

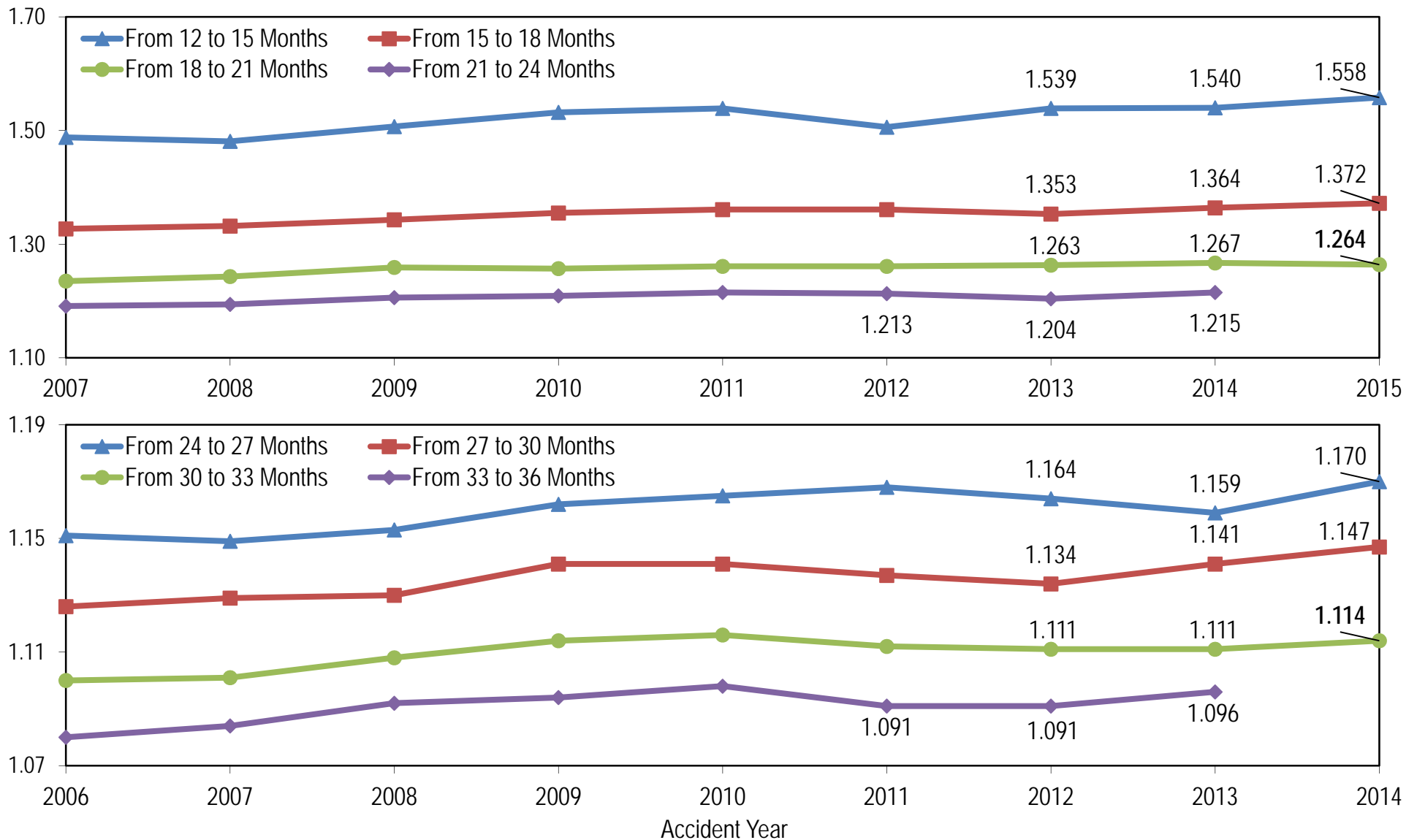


Quarterly Incurred Medical Development (Exhibit 9.2)

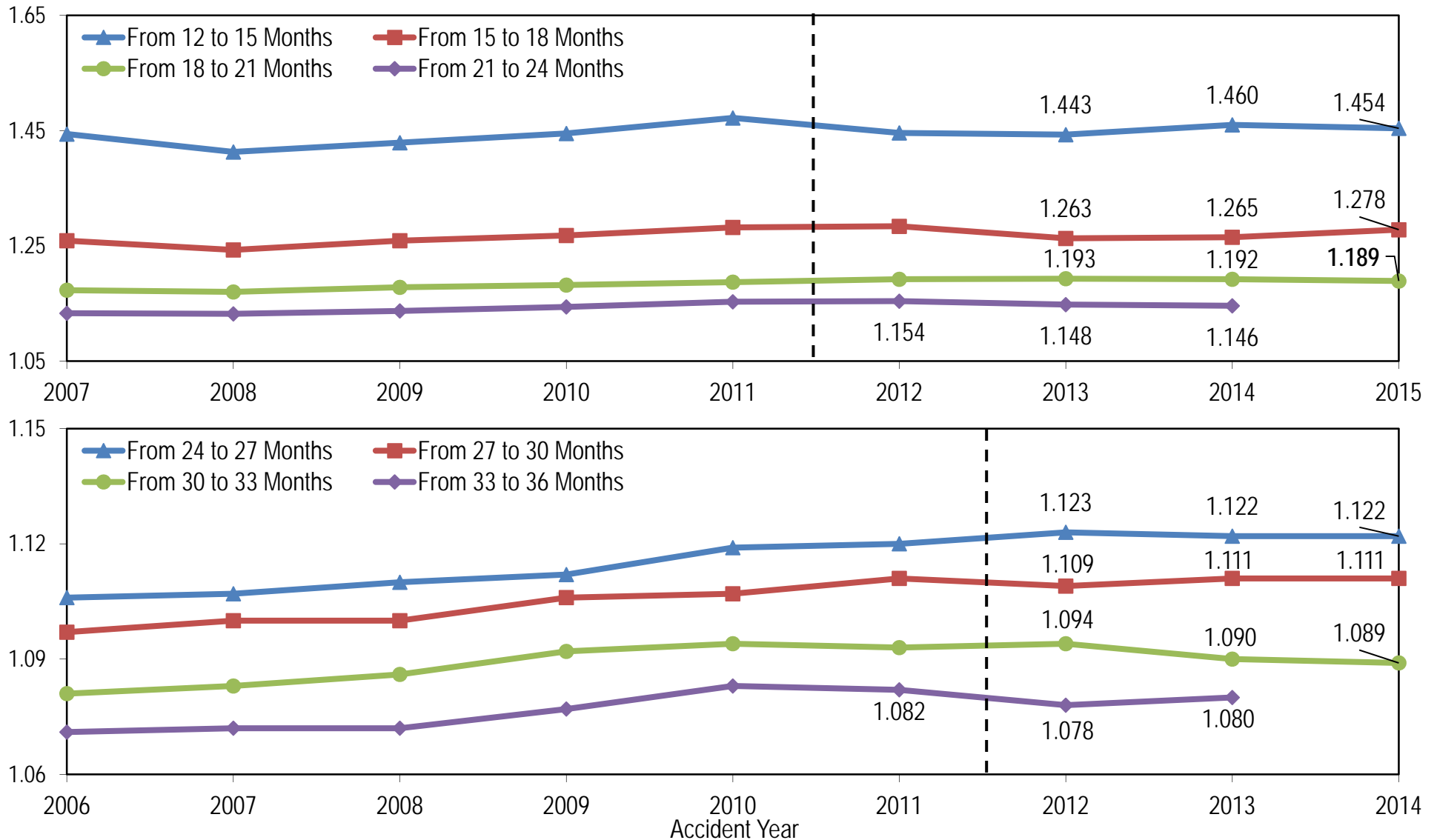


Note: MCCP development is included in incurred medical loss development for 2011 and prior.

Quarterly Paid Indemnity Development (Exhibit 9.3)

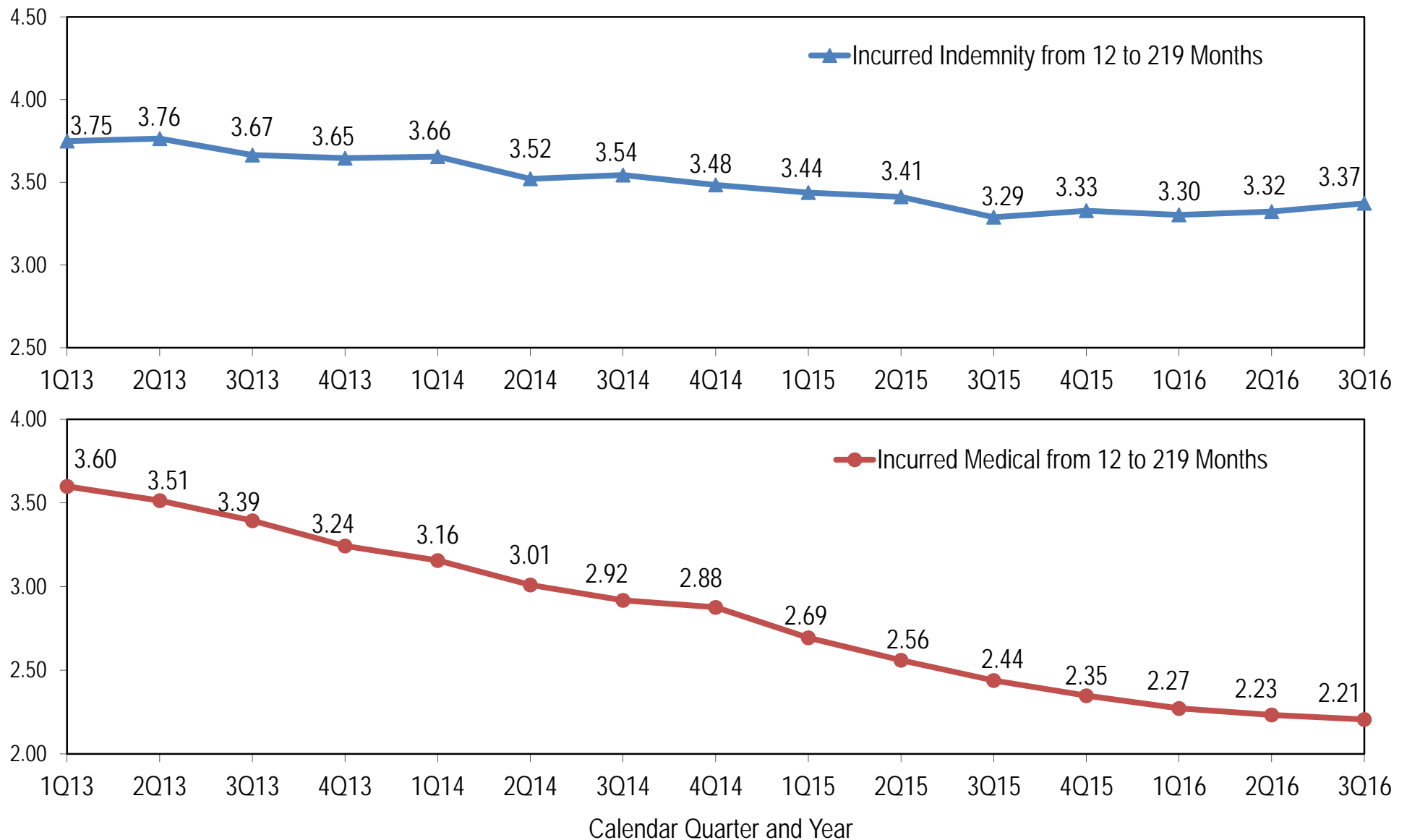


Quarterly Paid Medical Development (Exhibit 9.4)

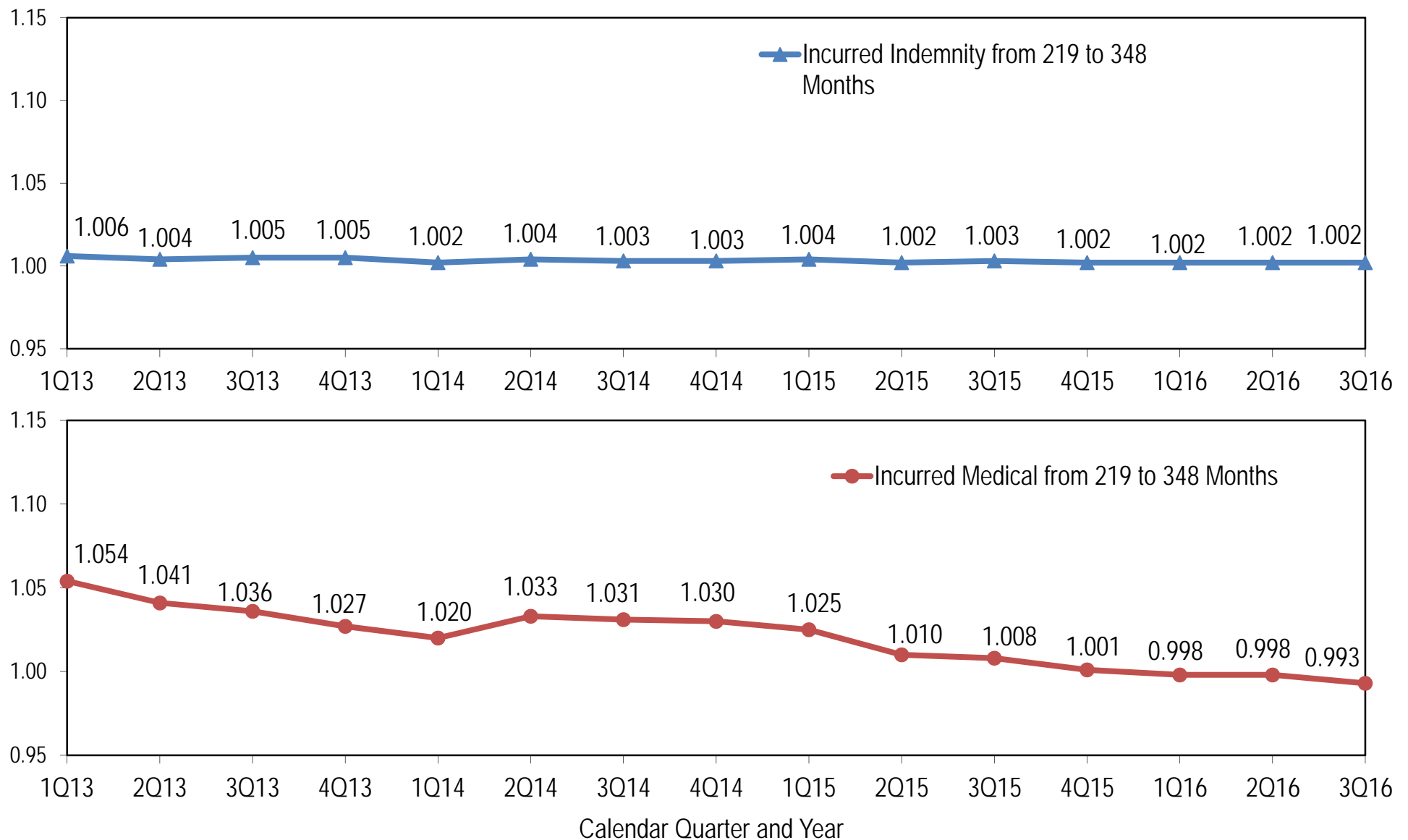


Note: MCCP development is included in paid medical loss development for 2011 and prior.

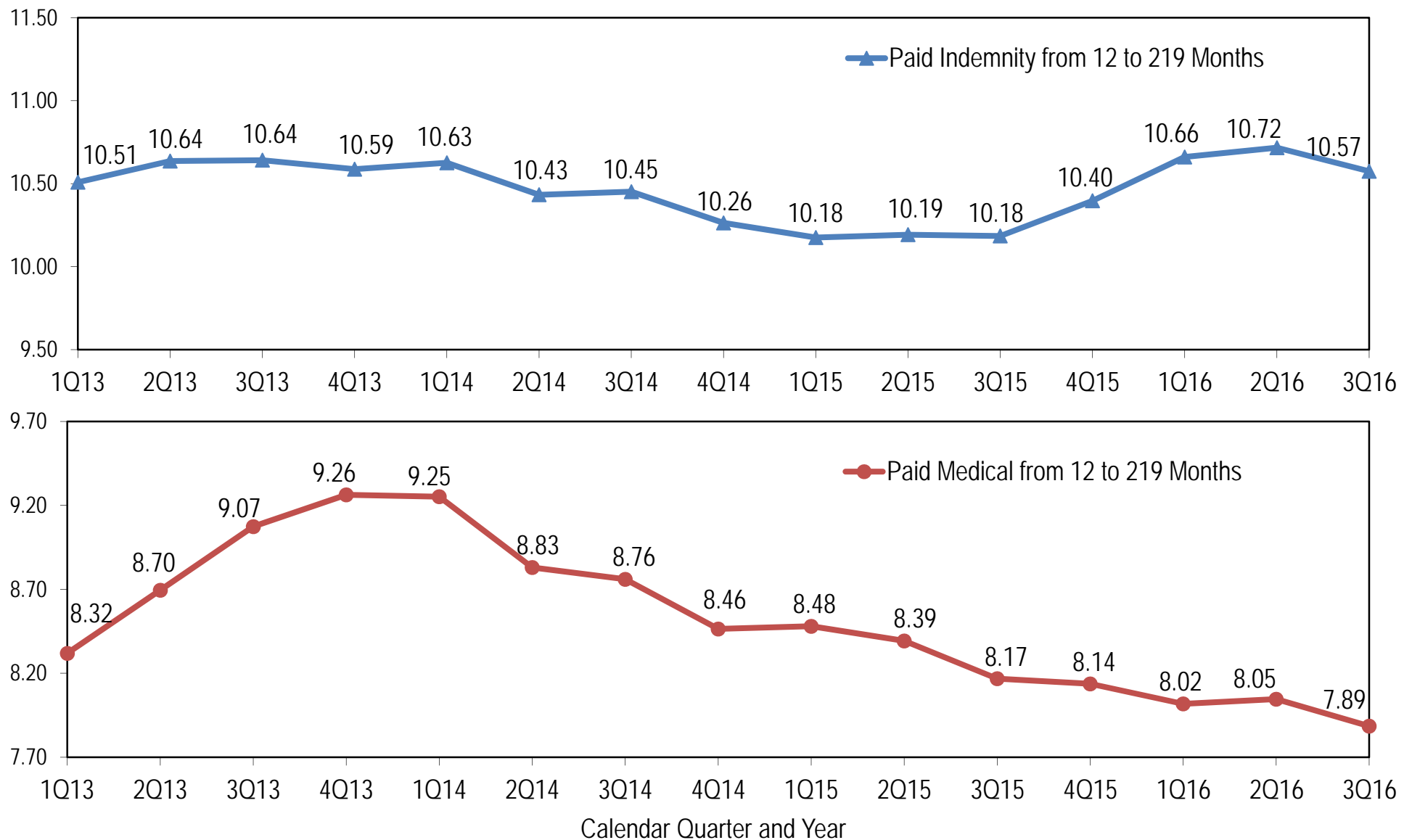
Cumulative Incurred Development by Quarter



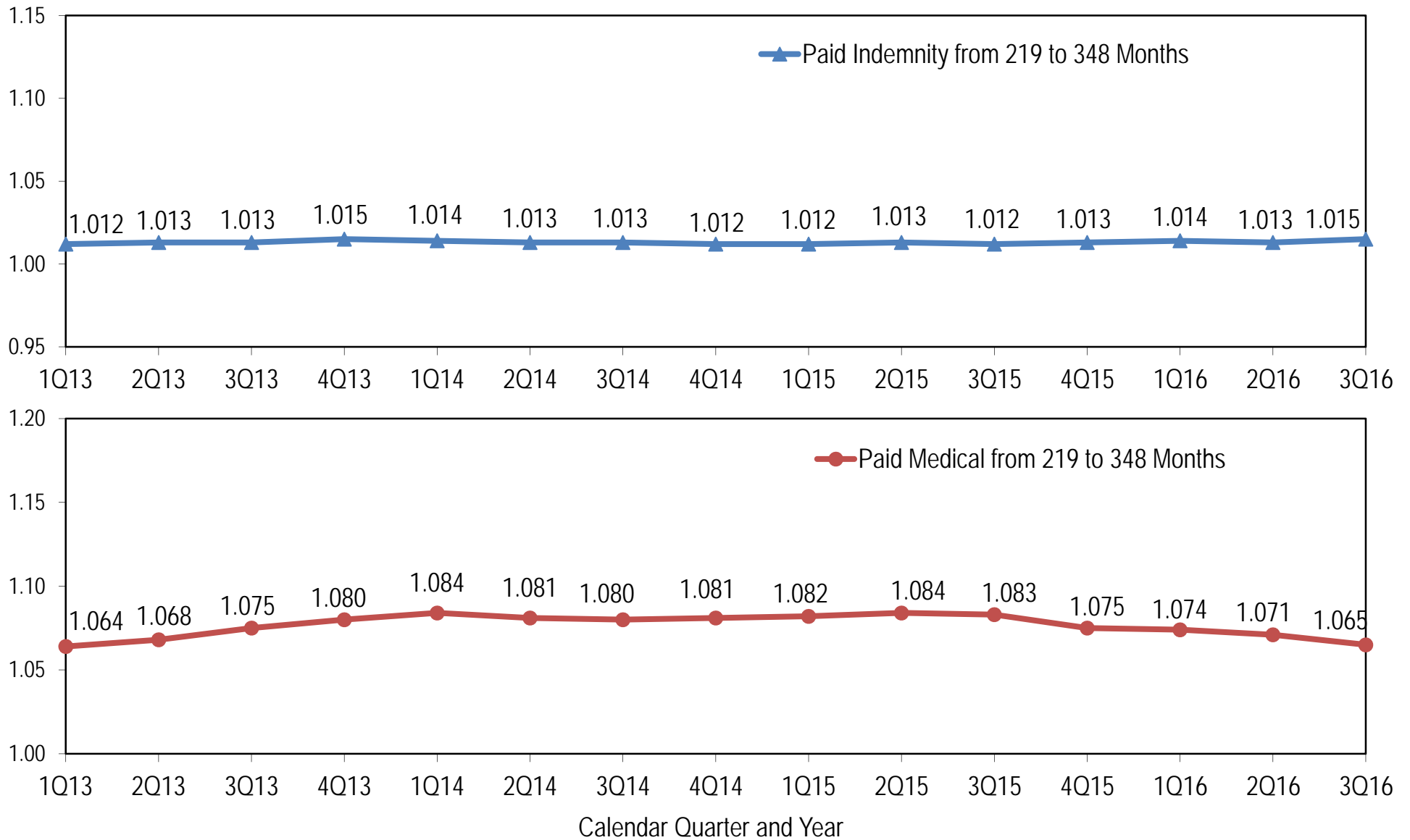
Cumulative Incurred Development by Quarter



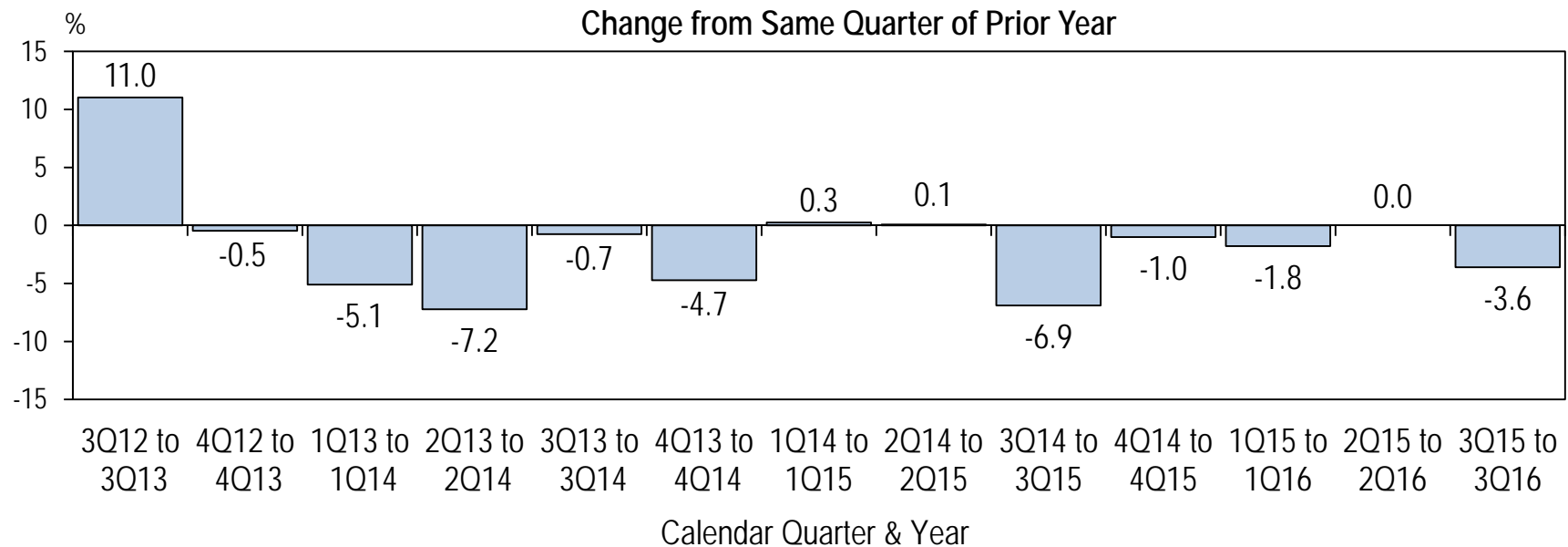
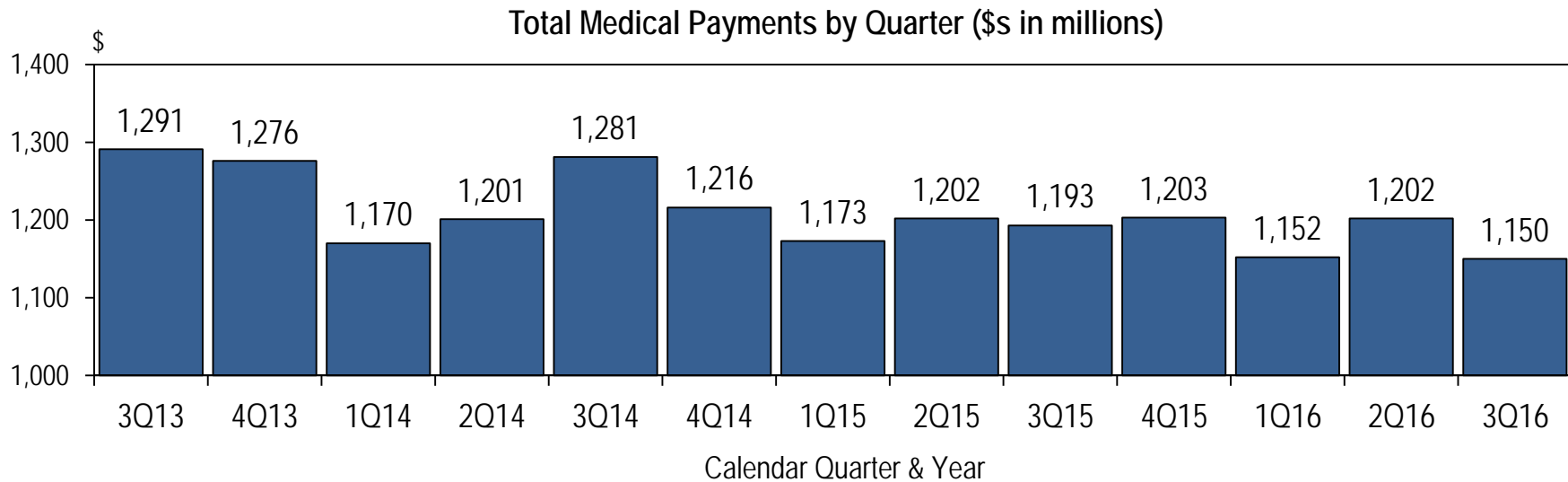
Cumulative Paid Development by Quarter



Cumulative Paid Development by Quarter

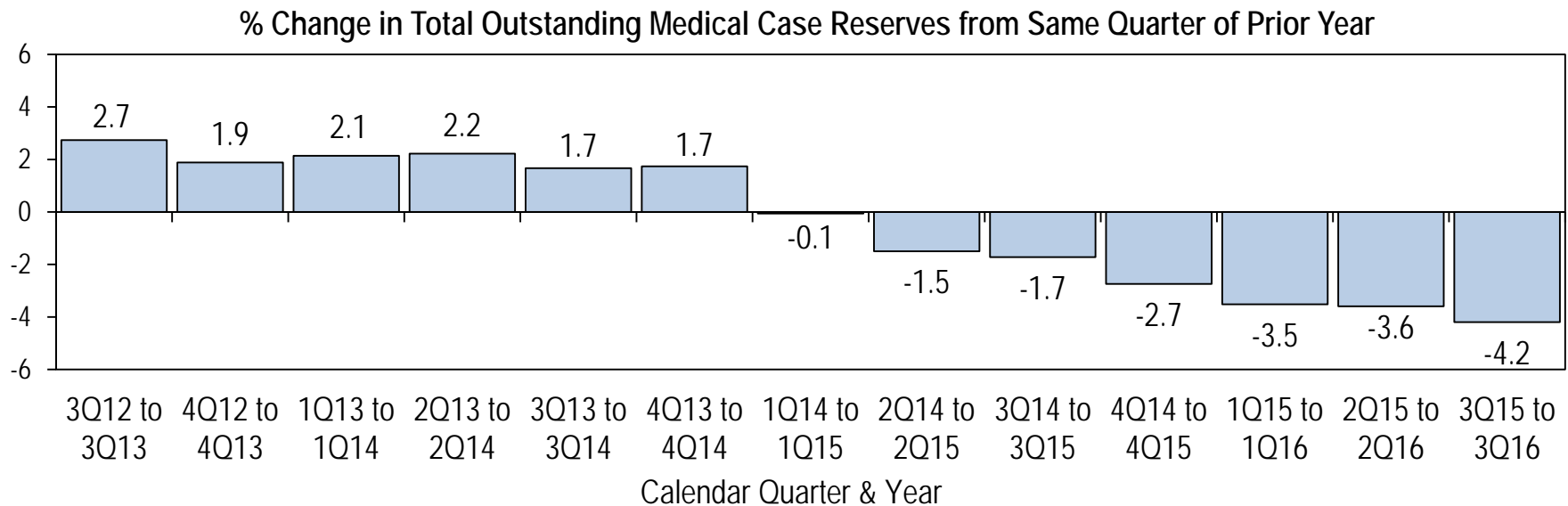
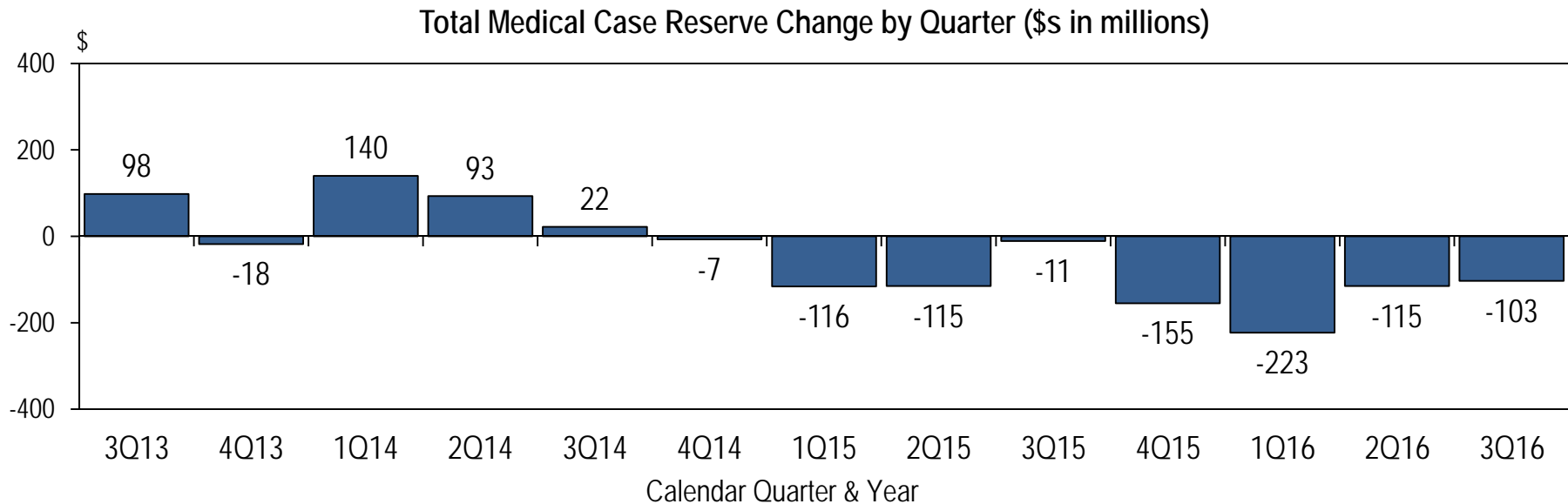


Total Medical Payments by Calendar Quarter



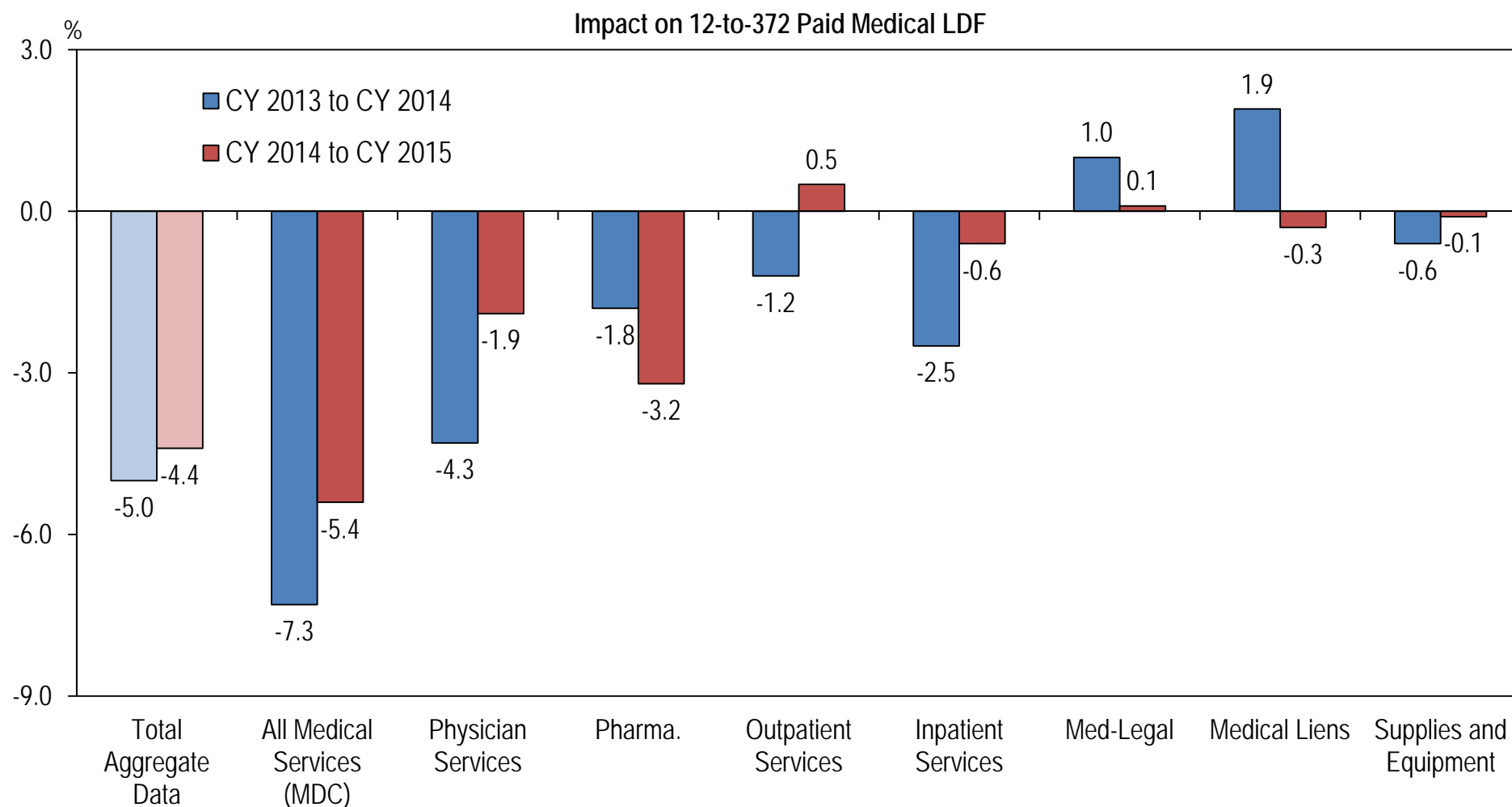
Source: WCIRB Quarterly Calls for Experience

Total Change in Medical Case Reserves by Calendar Quarter



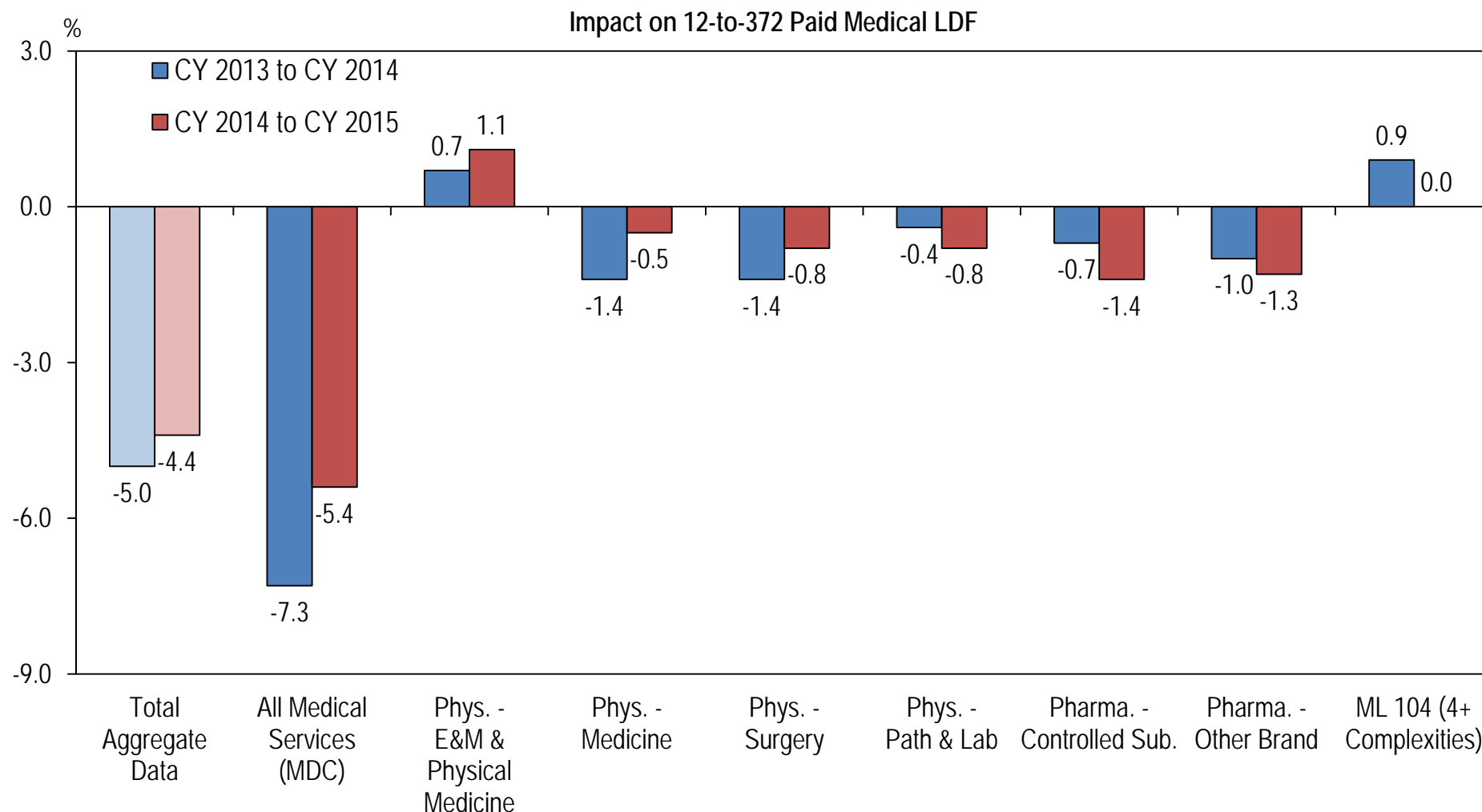
Source: WCIRB Quarterly Calls for Experience

Change in Paid Medical Development by Medical Service Category



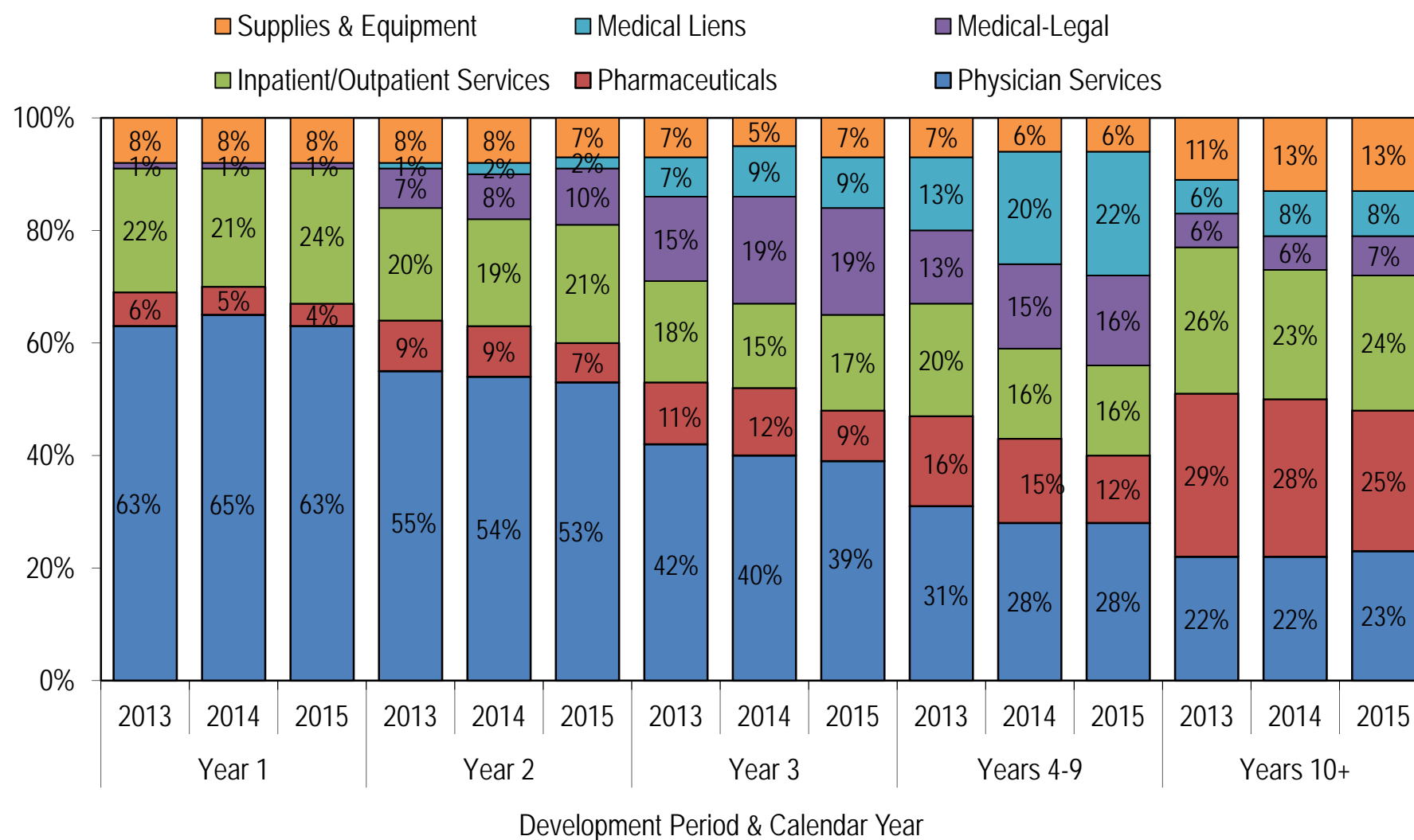
Source: WCIRB Medical Data Call

Change in Paid Medical Development by Medical Procedure Type



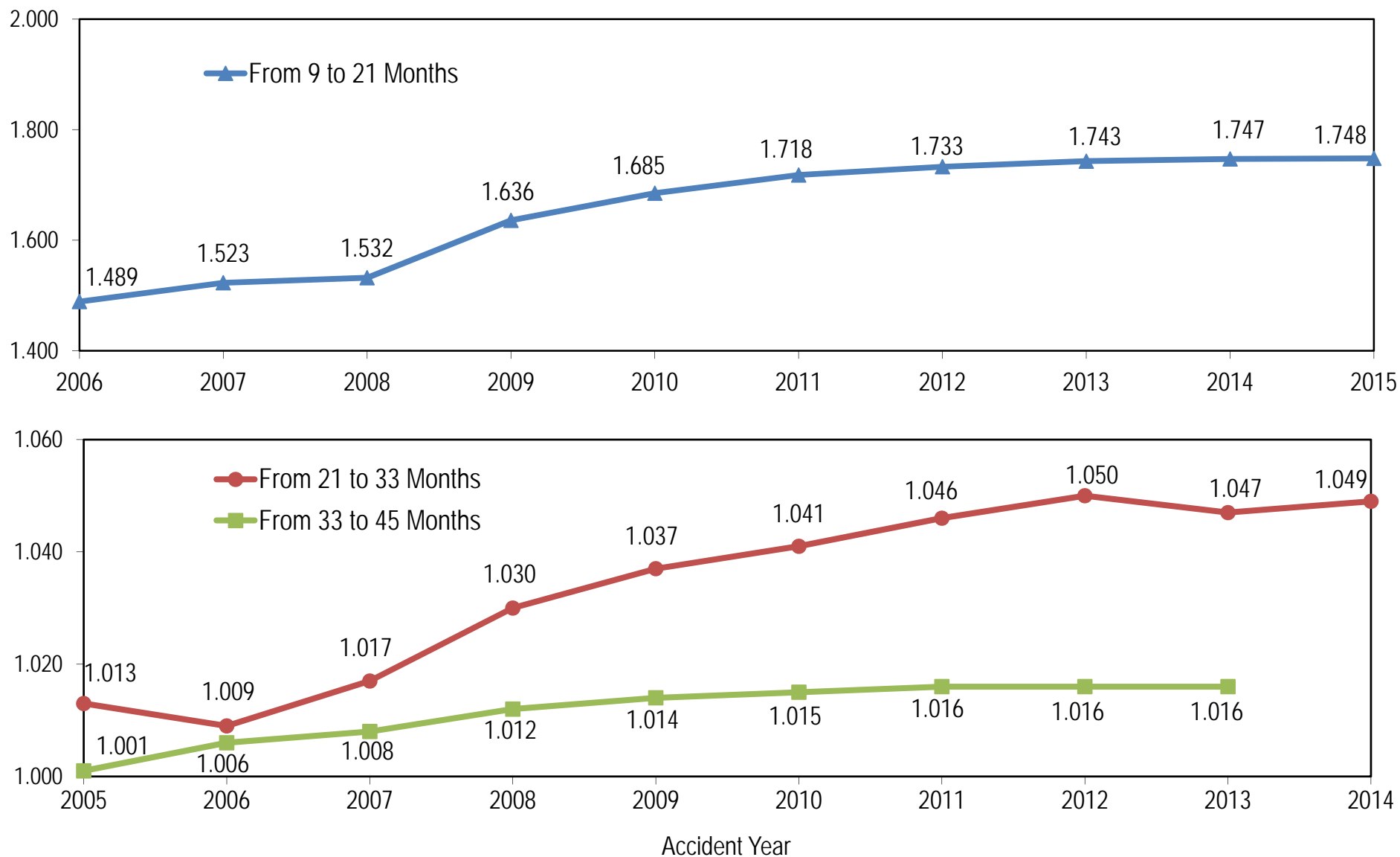
Source: WCIRB Medical Data Call

Distribution of Medical Service Payments by Development Period

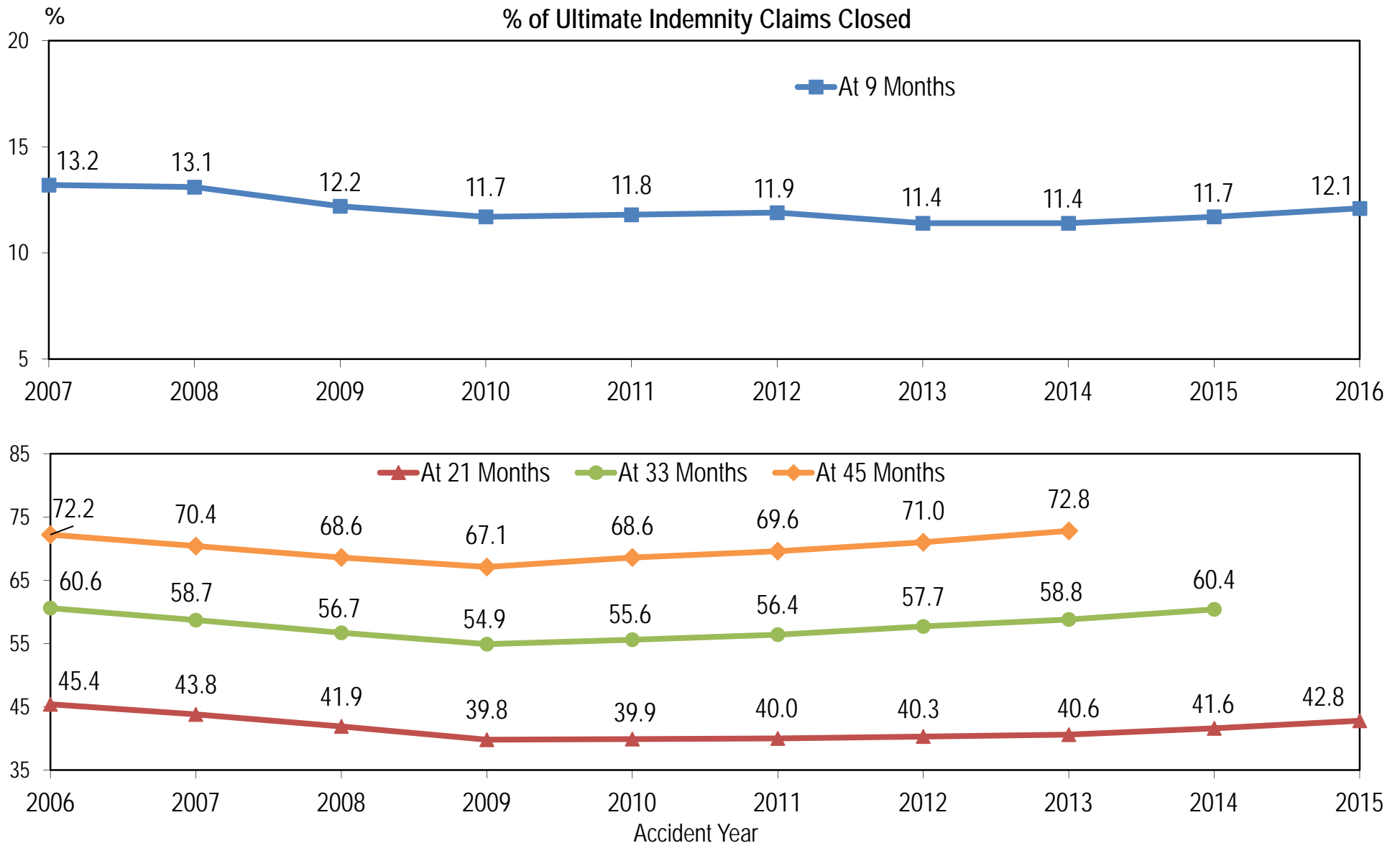


Source: WCIRB Medical Data Call

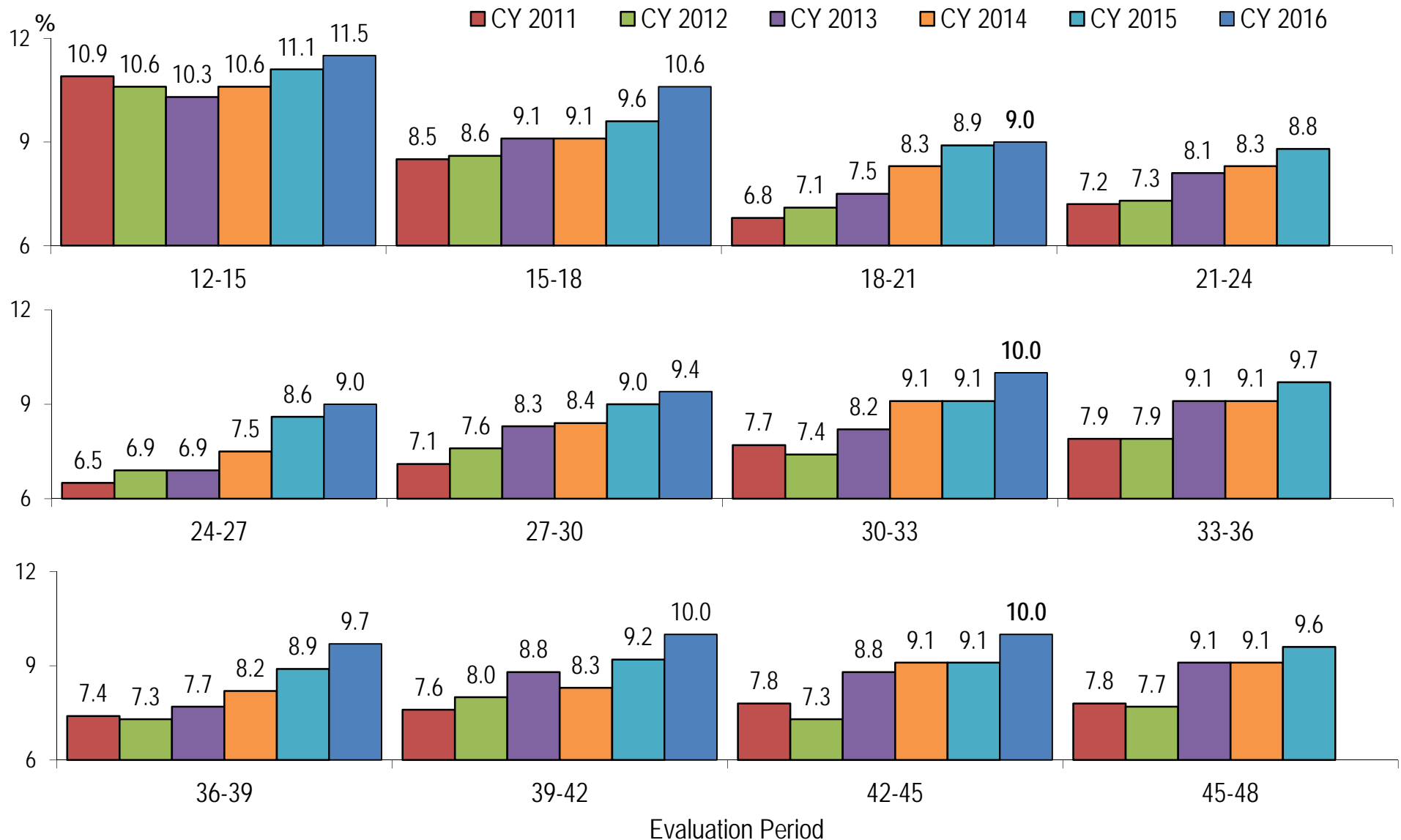
Indemnity Claim Count Development (Exhibit 10.1)



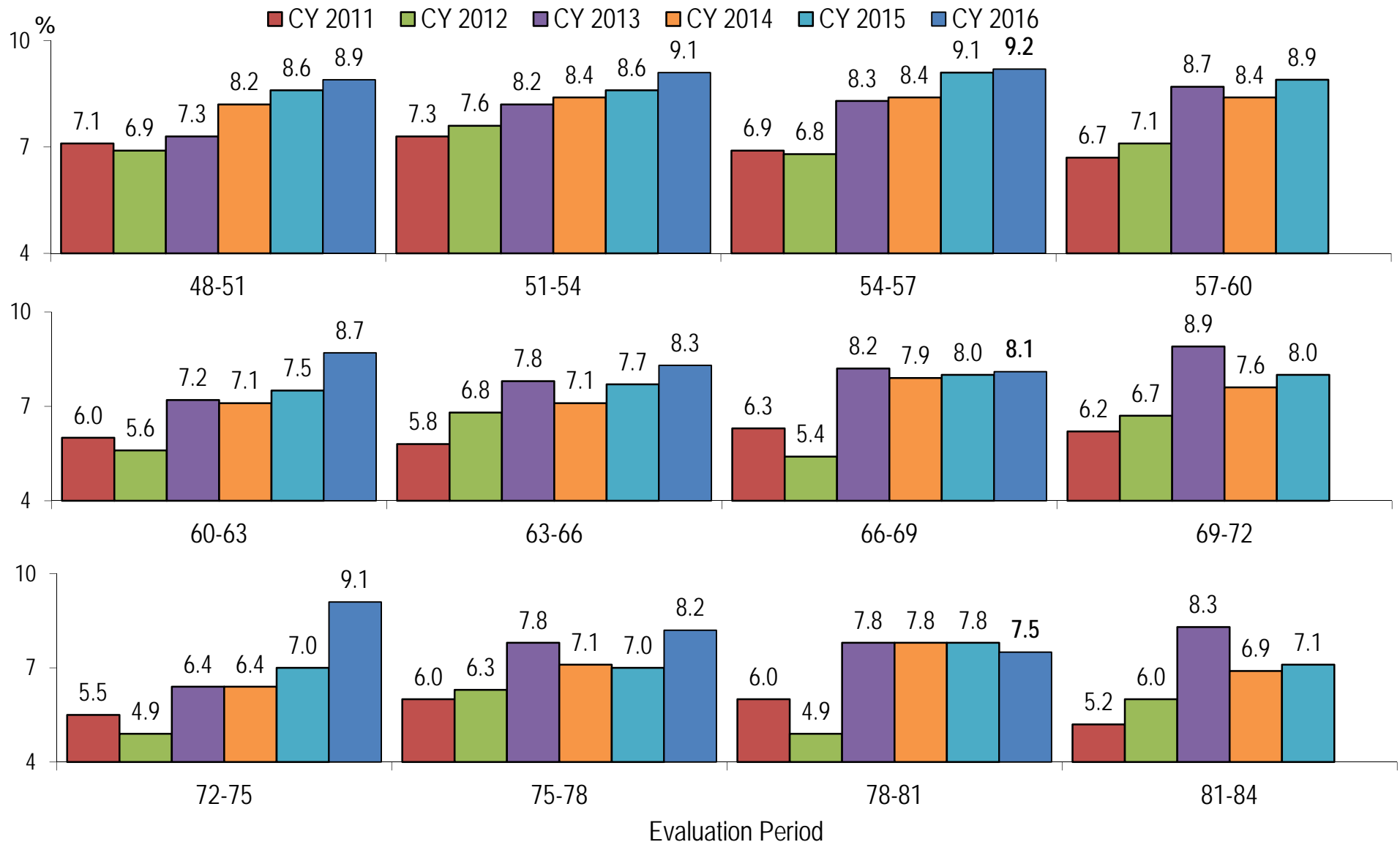
Indemnity Claim Settlement Ratios (Exhibit 11.2)



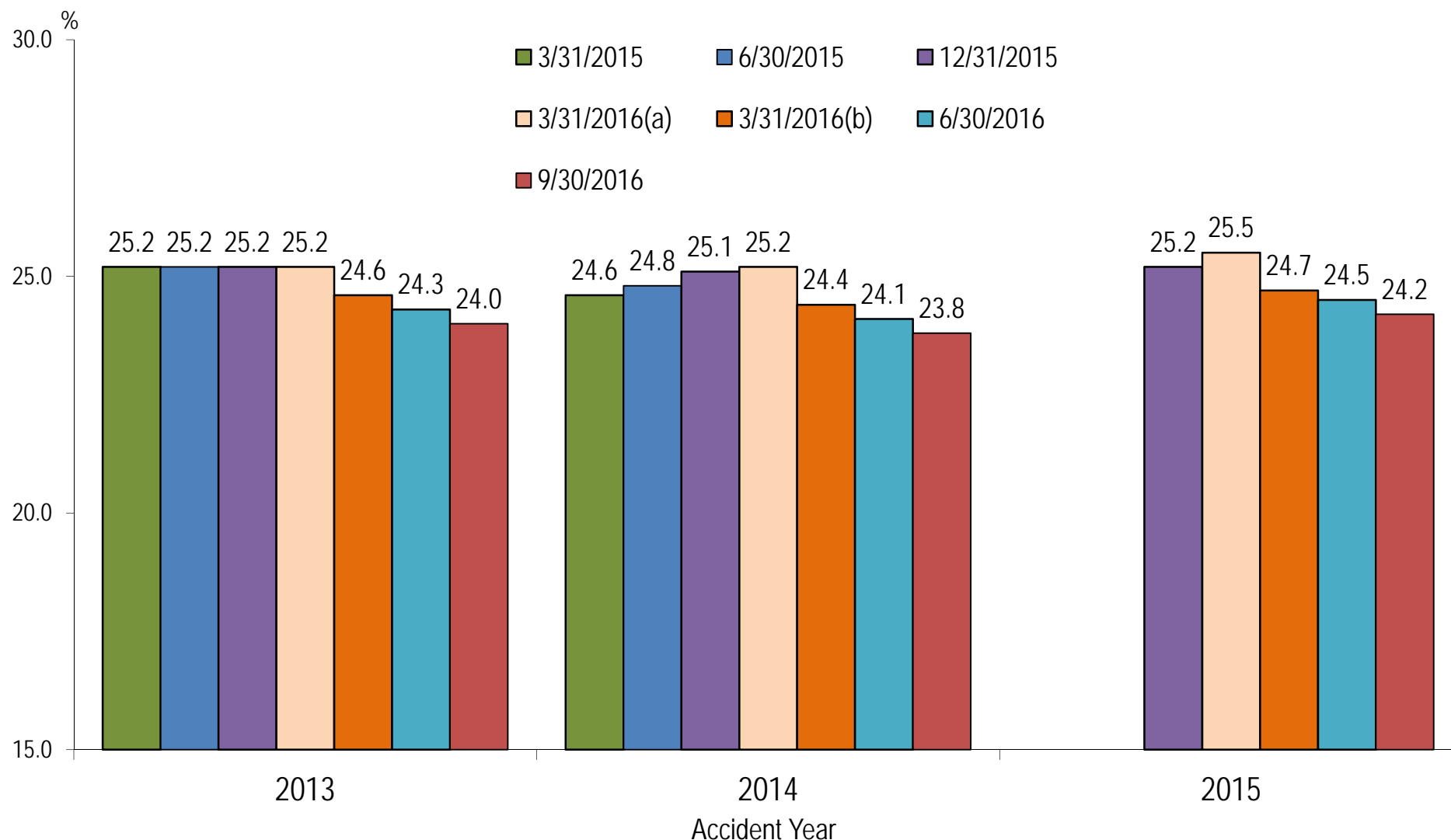
Ratio of Incremental Closed Indemnity Claims to Estimated Open Indemnity Claims



Ratio of Incremental Closed Indemnity Claims to Estimated Open Indemnity Claims (Continued)



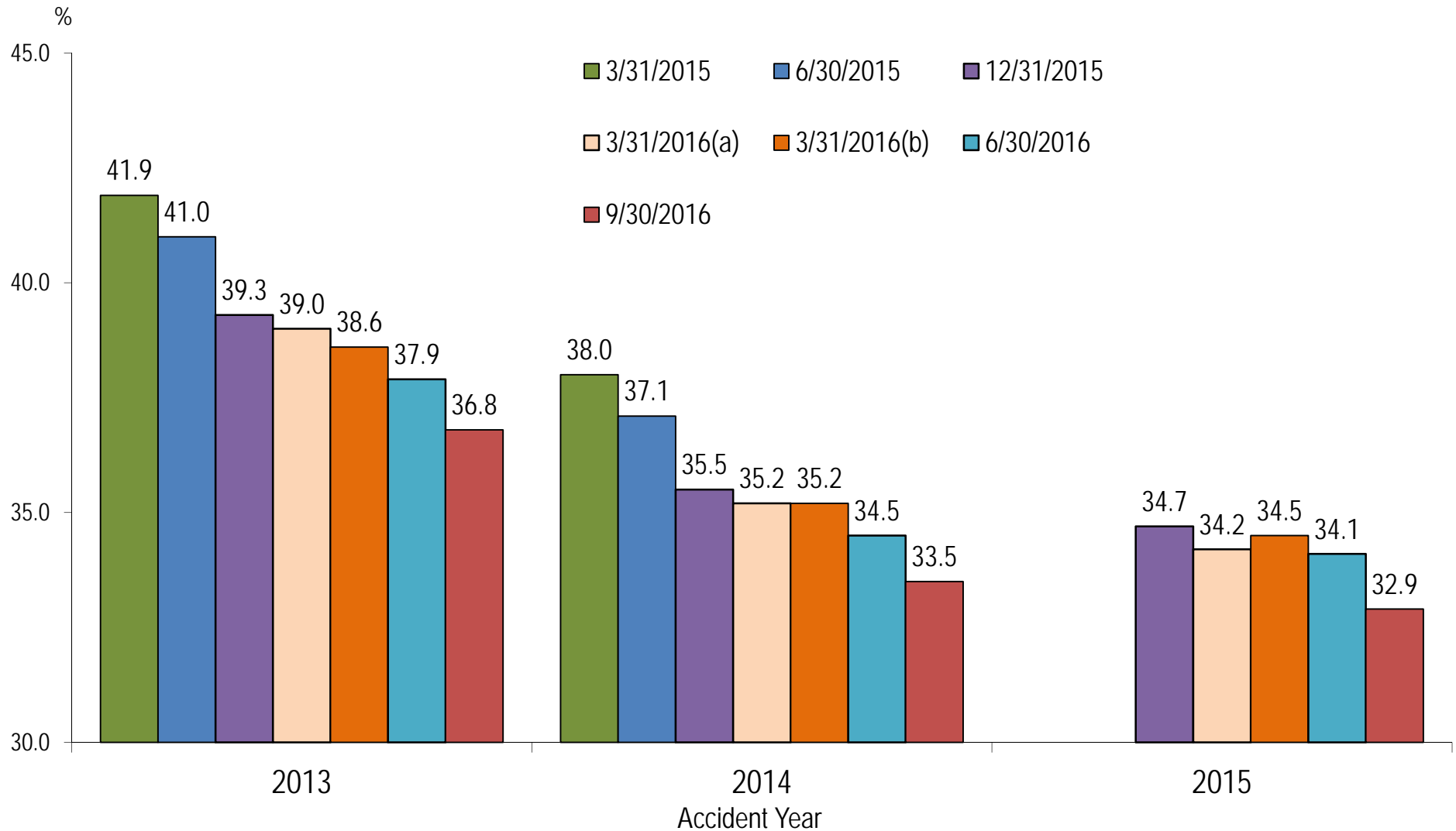
Projected Ultimate Indemnity Loss Ratios (Exhibit 3.1)



(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)

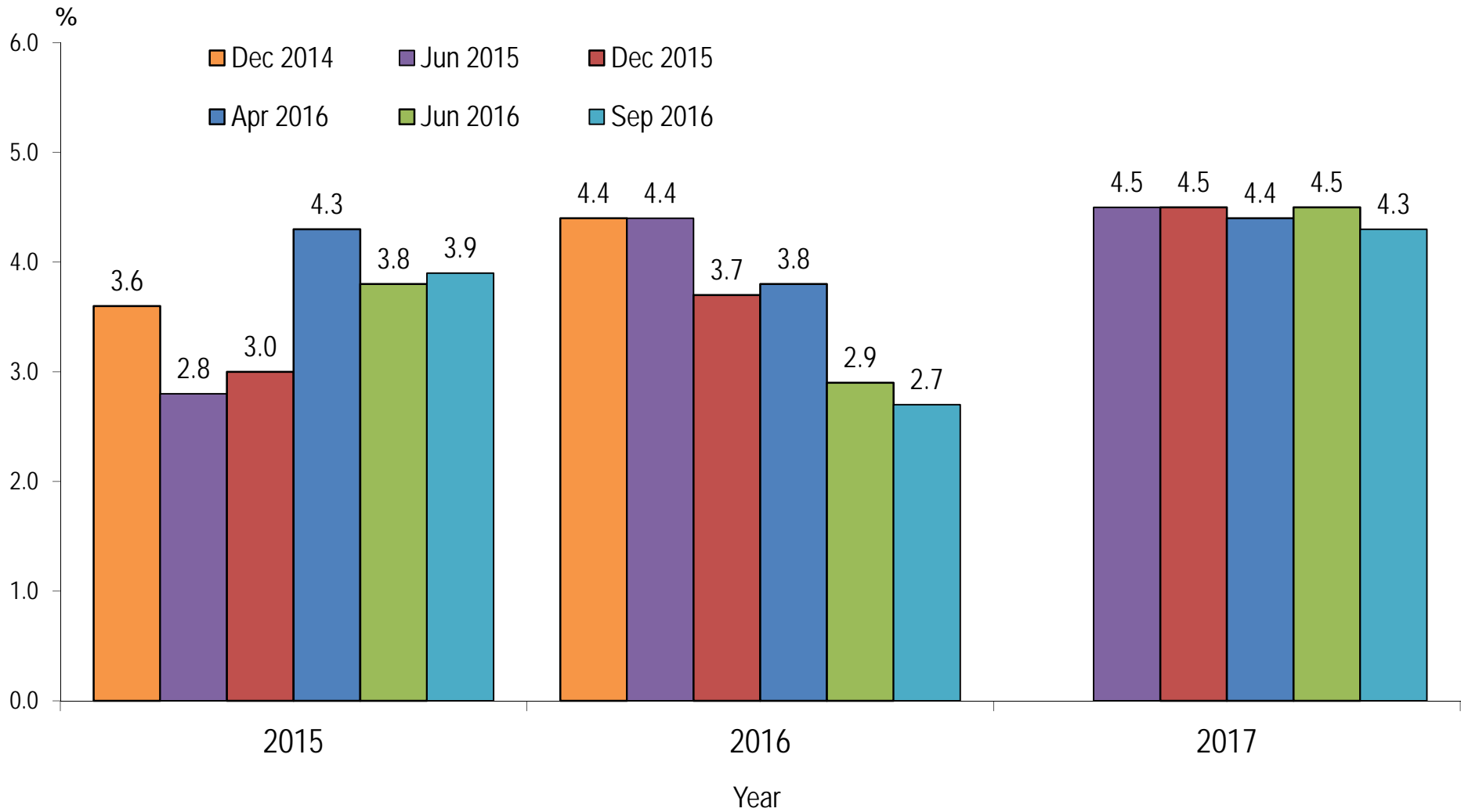
Projected Ultimate Medical Loss Ratios (Exhibit 3.2)



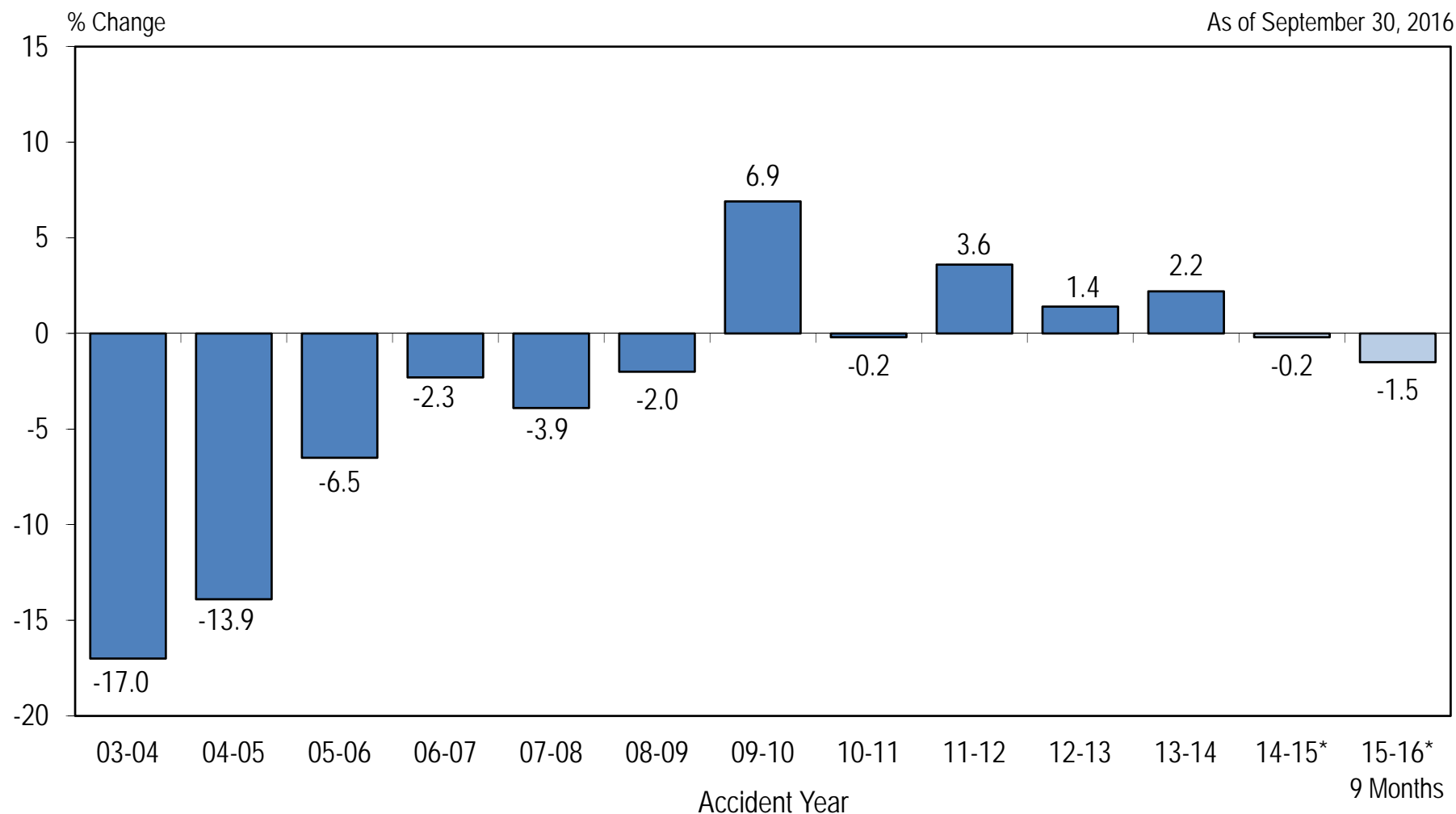
(a) Latest year reform-adjusted paid method prior to SB 863 and MCCP development updates (6/17/16 Agenda)

(b) Latest year reform and claim settlement rate-adjusted paid method after SB 863 and MCCP development updates (1/1/17 Filing)

UCLA Forecasts of Wage Level Changes (Exhibit 5.1)

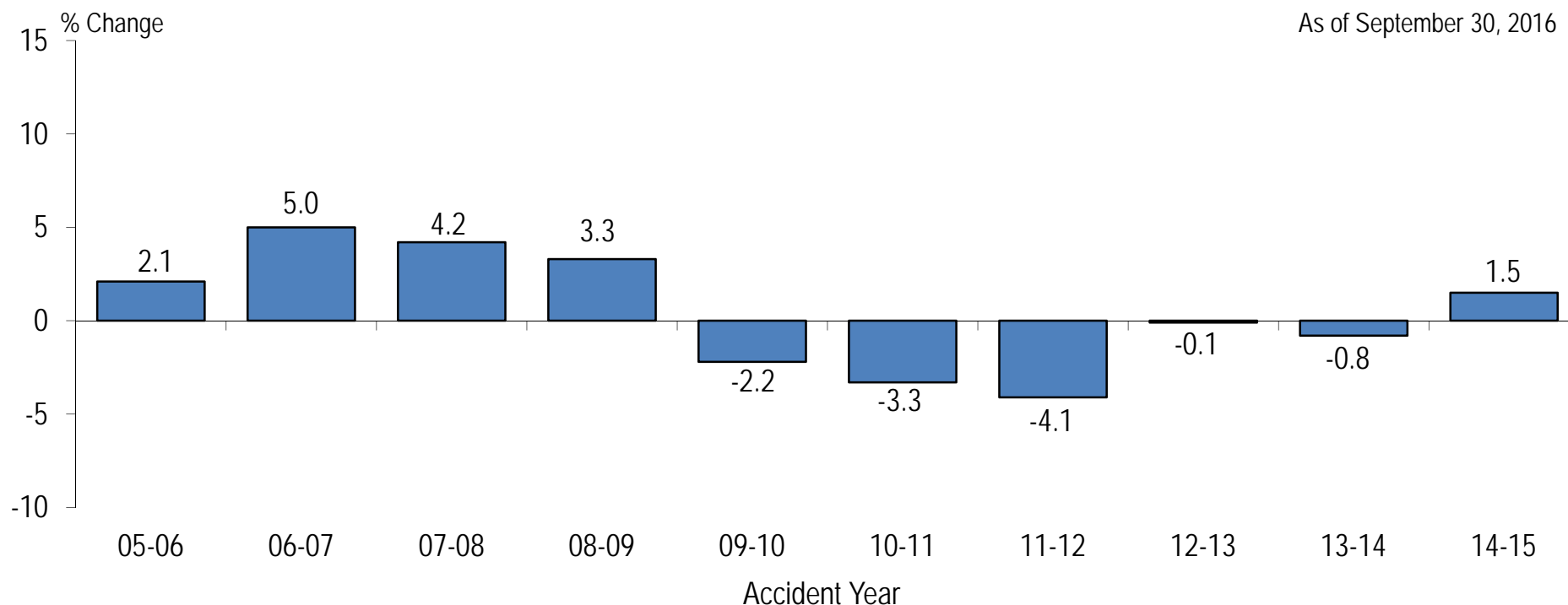


Estimated Change in Indemnity Claim Frequency (Exhibit 12)



* 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)



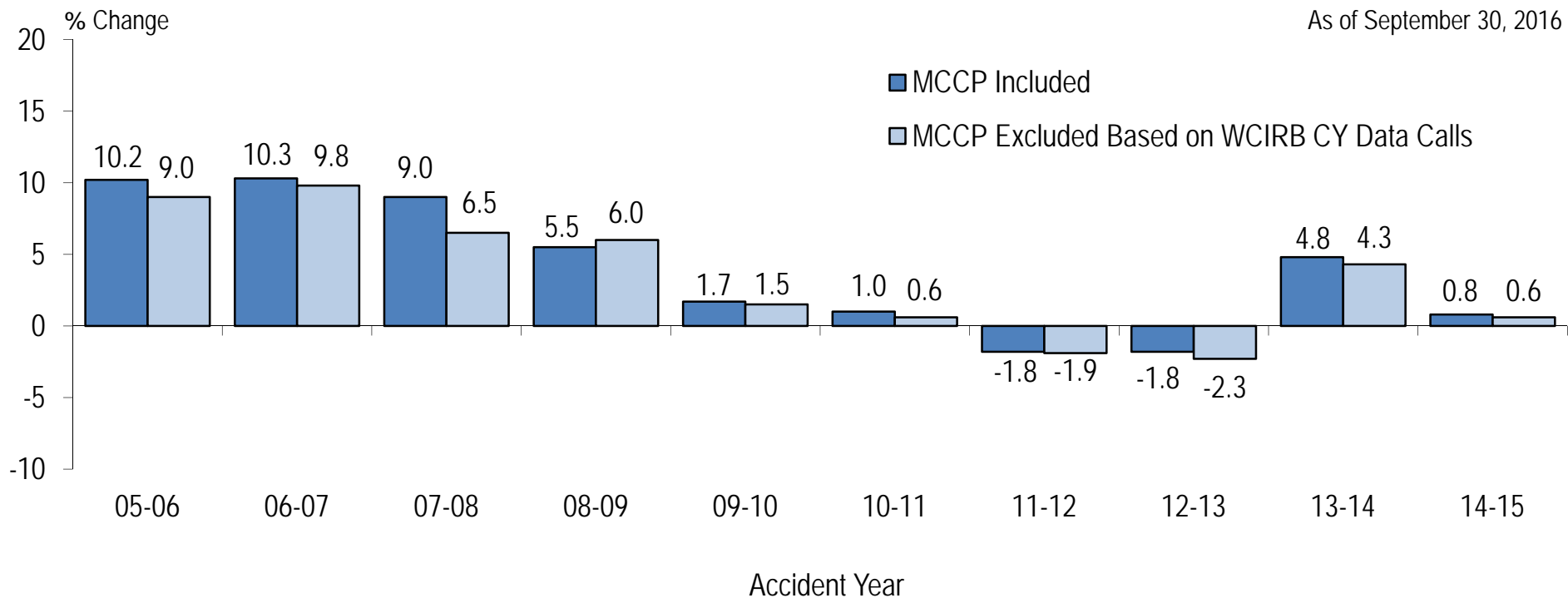
Annual Exponential Trend Based on:

2005 to 2015: +0.1%

2010 to 2015: -1.4%

Agenda Selected: **+0.1%**

Change in On-Level Medical Severity (Exhibit 6.4)



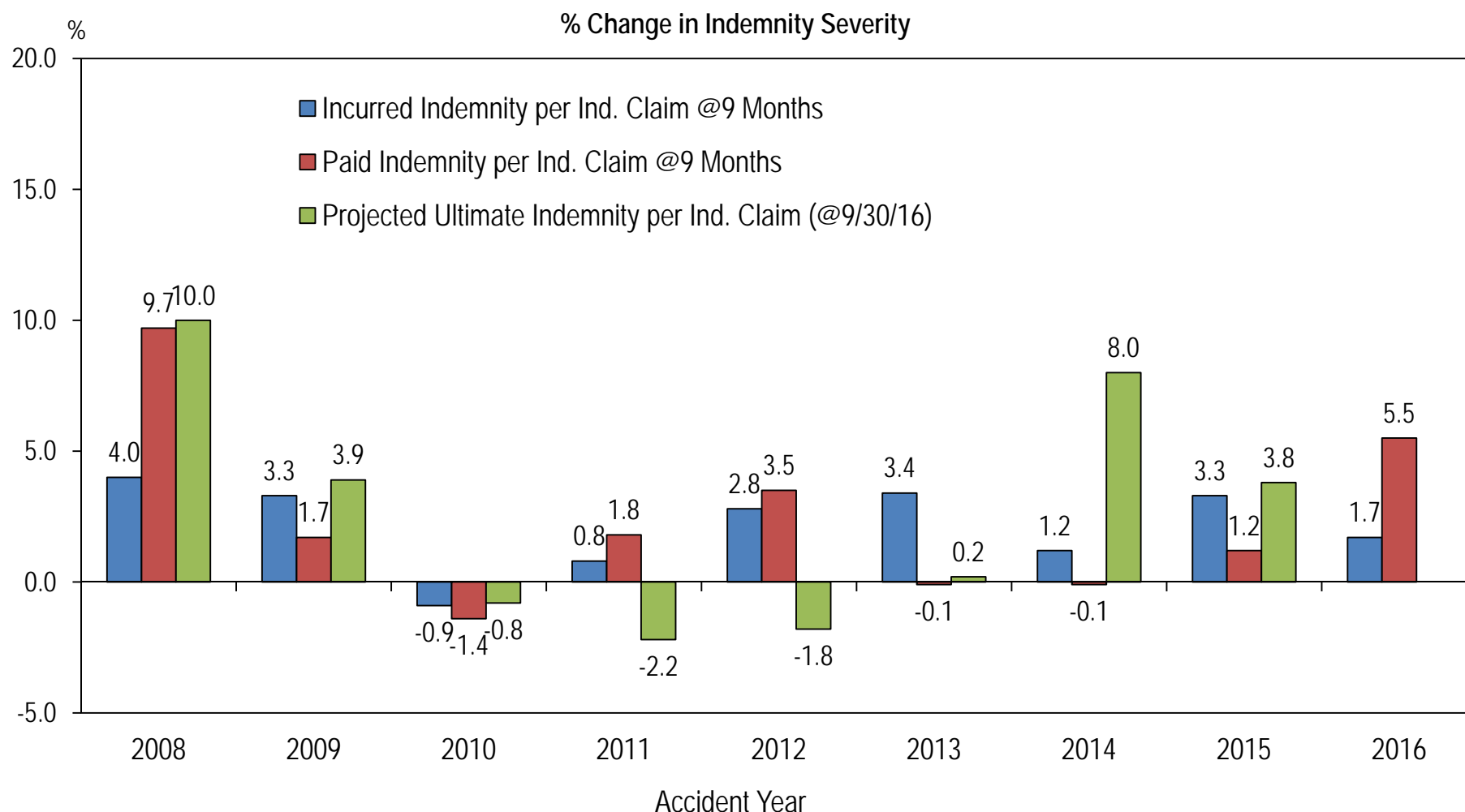
Annual Exponential Trend (Excluding MCCP) Based on:

2005 to 2015: +2.8%

2010 to 2015: +0.1%

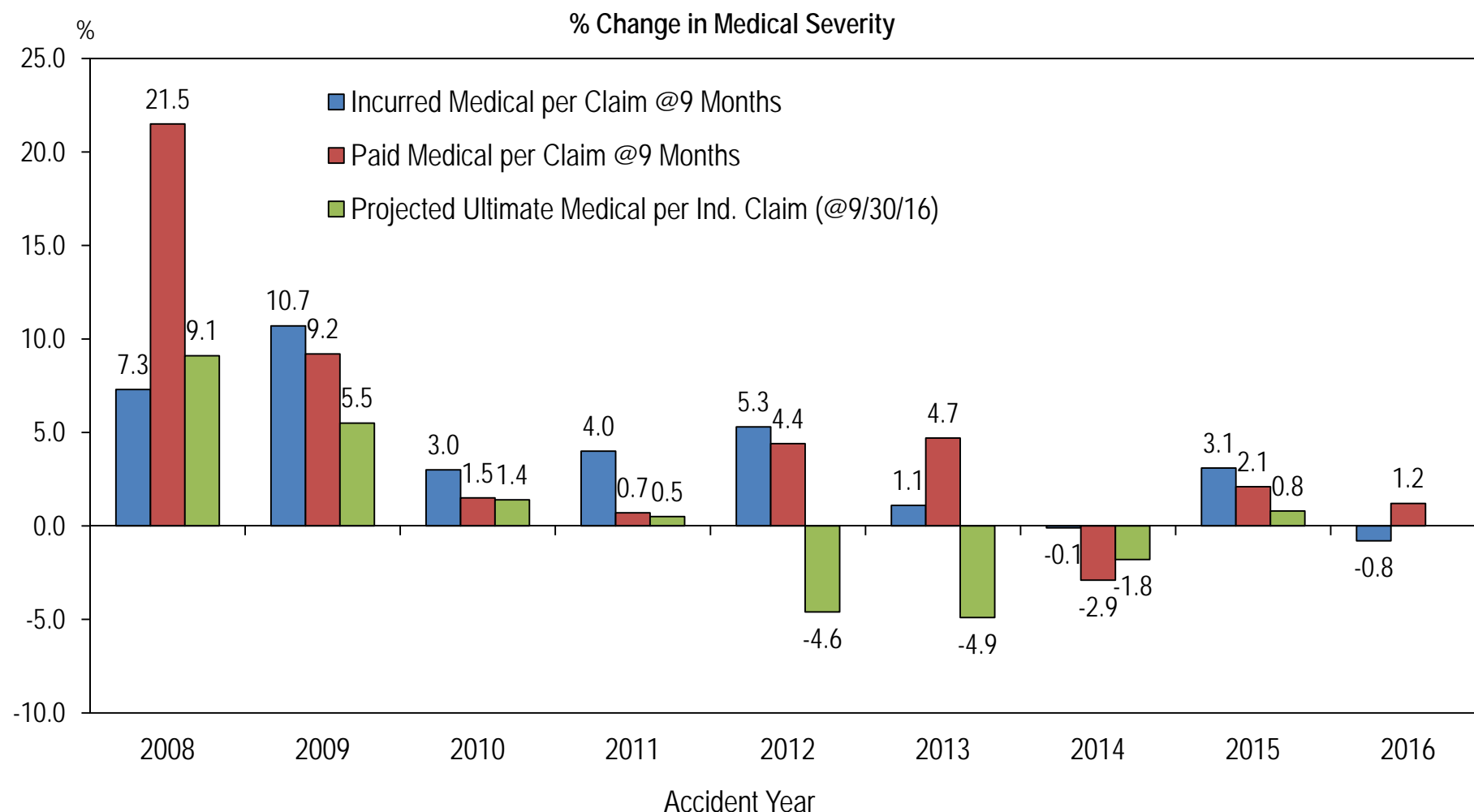
Agenda Selected: **+2.5%**

Indemnity Severity Changes at 9 Months Compared to Ultimate



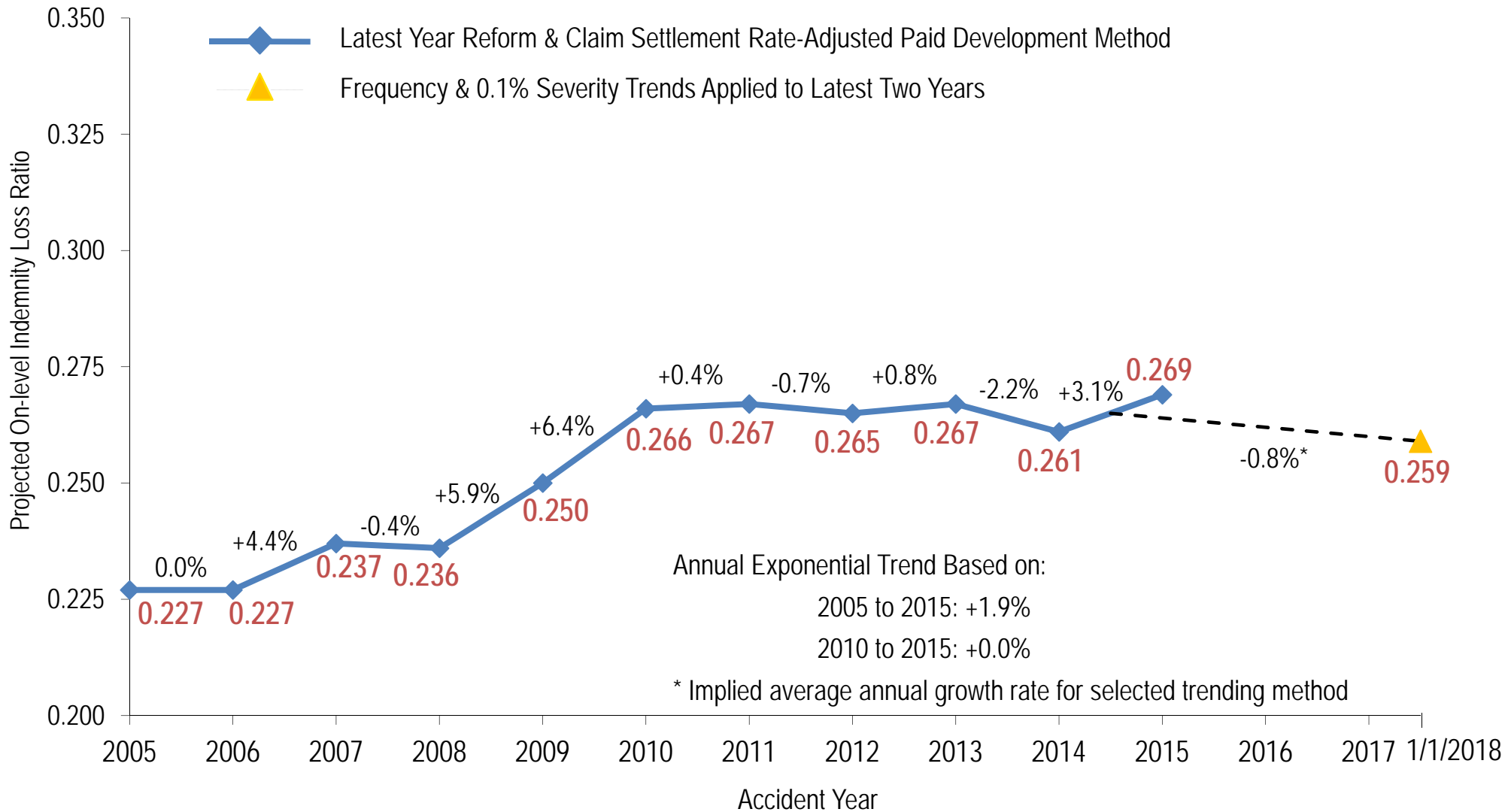
Source: WCIRB Quarterly Calls for Experience

Medical Severity Changes at 9 Months Compared to Ultimate

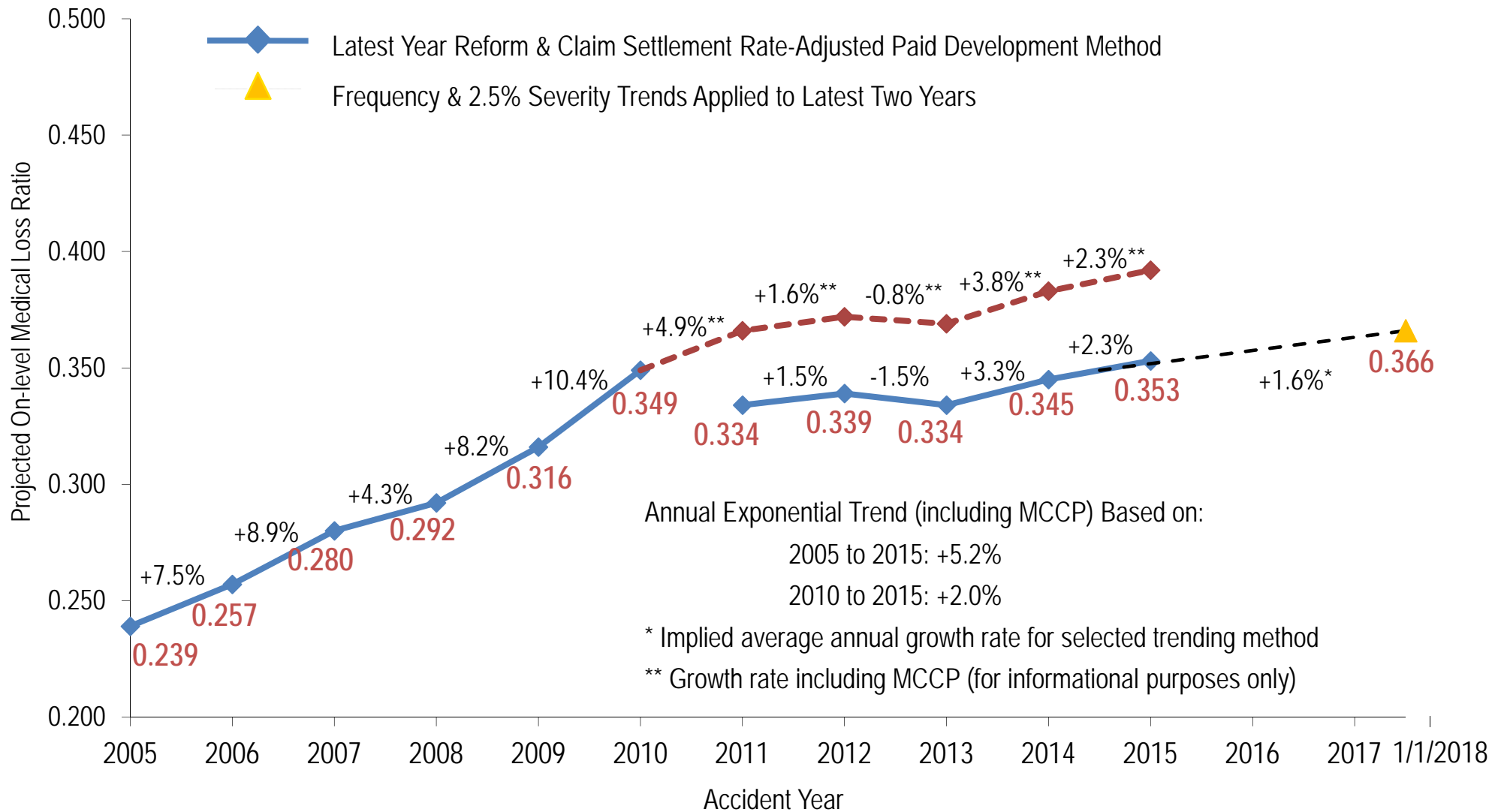


Source: WCIRB Quarterly Calls for Experience. MCCP included in all 9 month severities. MCCP excluded from ultimate severities for 2012 & forward.

Indemnity Loss Trend & Projections (Exhibit 7.1)



Medical Loss Trend & Projections



Adjustment for Wage Level Differences in Classification Ratemaking

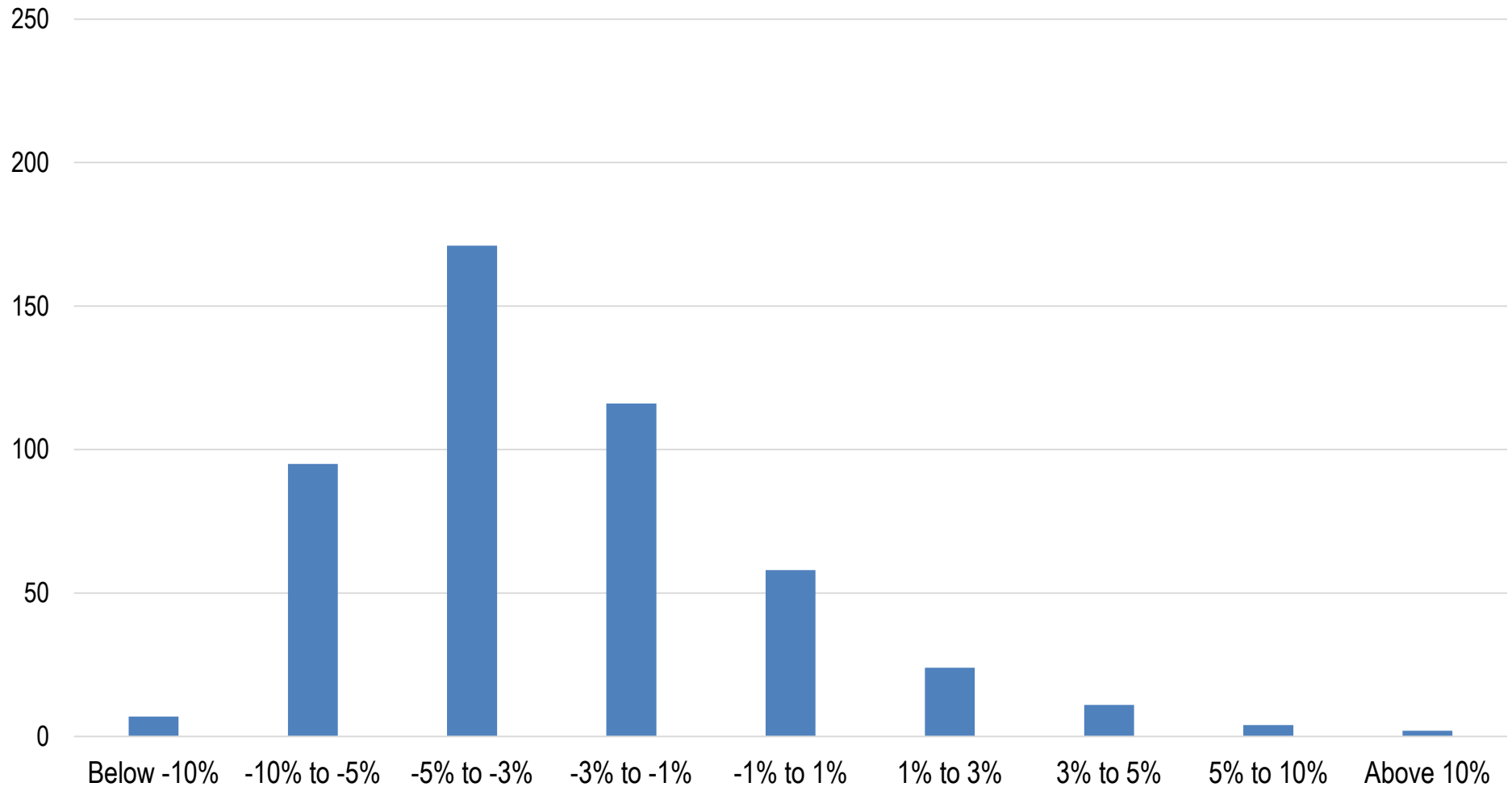
WCIRB Actuarial Committee Meeting
December 6, 2016

Background

- Class Relativities process reflects several adjustments to losses
 - Development, benefit level changes, etc.
- No adjustment reflected to payroll for wage level changes
- Wage level changes can differ significantly by class

Classification Wage Level Growth Differentials

Distribution of Classifications by Relative Wage Level Growth 2009-2018



Classification Wage Level Growth Differentials

Classification	Projected Wage Level Growth 2012 to 2016
0005, <i>Nurseries</i>	8.7%
2585, <i>Laundries</i>	12.2%
8839, <i>Dentists</i>	6.5%
9079, <i>Restaurants</i>	19.0%

Adjustment for Wage Level Differences – Initial Approach

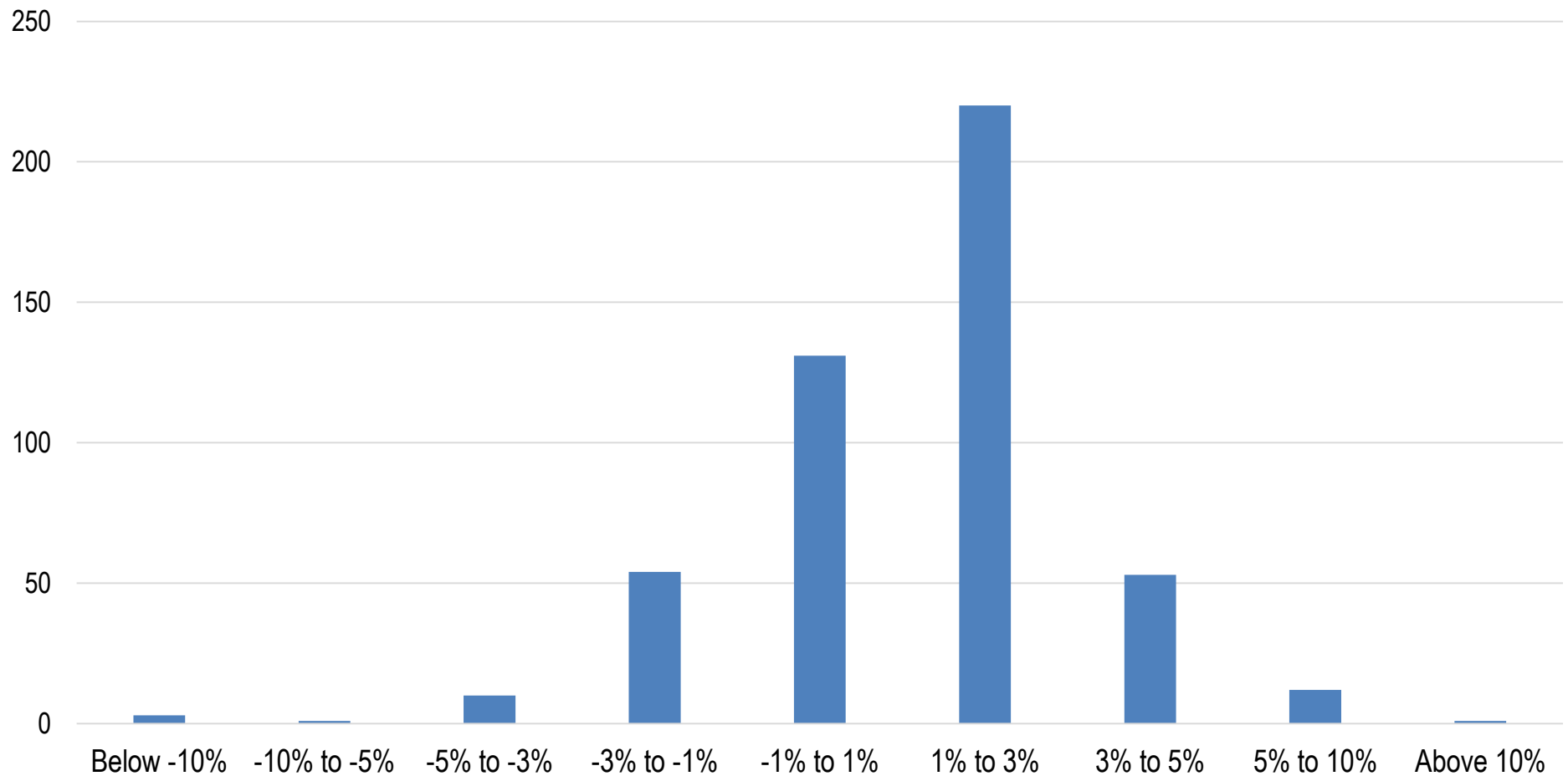
- Adjust each class's exposure for wage level changes through the projected year (i.e., PY 2016)
 - Includes wage inflation and minimum wage changes
- Indemnity benefits also on-leveled for wage level changes
 - Uses injured worker wages instead of all worker wages
 - Impact mitigated by indemnity benefit min and max
 - Applied by NAICS sector in test run (will be by class for filing)
- For partially credible classes, complement of credibility (expected loss to payroll ratio) also adjusted in similar way
- All payroll now at PY 2016 level
 - Total payroll inflated by overall wage level projection
 - May require further adjustments to balance to expected rate level

Adjustment for Wage Level Differences – Relative Approach

- Wage level adjustments applied to classes on a relative basis
 - Class wage factor = Class wage change / Overall wage change
 - No change in total payroll level
- Does not require further adjustments to complement of credibility or other rebalancing
- Indemnity benefit level adjustments also applied on relative basis
- Staff recommends this approach since it requires fewer adjustments but still reflects wage level differentials by class

Impact of Payroll Adjustment on Relativity Changes

**Distribution of Classifications by Change in Relativity
Payroll-Adjusted (Relative Approach) vs. 1/1/17 Filing**



Impact of Payroll Adjustment (Relative Approach)

Classification	Projected Wage Level Growth 2012 to 2016	2017 Filing Relativity	Payroll-Adjusted Relativity	Impact on 2017 Relativity Change
0005, <i>Nurseries</i>	8.7%	278.3%	280.6%	+1.2%
2585, <i>Laundries</i>	12.2%	531.6%	515.5%	-3.1%
8839, <i>Dentists</i>	6.5%	40.5%	42.4%	+4.8%
9079, <i>Restaurants</i>	19.0%	214.8%	197.7%	-8.0%

Other Considerations – “Adjustment to Earlier Years” Factors

- Current factors adjust 3rd through 5th years' loss to payroll ratios to average level of most recent 2 years
 - Implicitly reflects some wage inflation
- More refined wage level factors result in this adjustment only reflecting residual loss trends
- Staff recommends additional refinement to also adjust most recent 2 years to same level
- Staff explored applying projected loss trends but did not have much impact since loss trends currently not projected by class
 - Possible future refinement

Next Steps

- Staff recommends payroll adjustment using “relative approach” for 1/1/18 Filing
 - Includes similar adjustment to indemnity benefit on-level factors
 - Includes refinement to “Adjustment to Earlier Years” factors to apply to 2 most recent years
- Wage level factors to be finalized early next year
 - Indemnity benefit factors to be applied by class and for injured worker wages after application of benefit min and max
- Impact of adjustment will be reviewed with Actuarial and C&R Committees in June 2017 for inclusion in 2018 Regulatory Filing