

# Actuarial Committee

## Meeting Minutes

Date	Time	Location	Staff Contact
December 6, 2016	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci
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Released: December 20, 2016

### Members

Carolyn Bergh  
Laura Carstensen  
James Gebhard  
Joanne Ottone  
Jill Petker  
Mark Priven  
Kate Smith  
Chris Westermeyer  
Doug Zearfoss

### 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  
Travelers  
Employers Compensation Insurance Company

### California Department of Insurance

Ron Dahlquist  
Robert Hallstrom

### WCIRB

Bill Mudge  
David Bellusci  
Ward Brooks  
Greg Johnson  
Tony Milano

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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 November 8, 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.

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## Item II Actuarial Research Working Group Meeting Summary

The summary of the Actuarial Research Working Group meeting held on October 19, 2016, which was included in the Agenda materials, was accepted by the Committee.

## Item AC02-03-03 Experience of Large Deductible Policies

The Agenda materials included a summary of the experience of large deductible workers' compensation policies in California through December 31, 2015. Staff presented a summary of the analysis and noted that (a) the proportion of statewide business written on a large deductible basis has been consistent in recent years, (b) while differences exist in average reserve levels, indemnity claim reporting patterns and incurred development patterns, the paid development patterns for large deductible business are similar to those of non-large deductible business, and (c) the difference in the indicated pure premium rate level after excluding large deductible experience through December 31, 2015 was modest.

After some discussion, the Committee agreed that there was no need to implement any special ratemaking procedures for large deductible experience at this time and the information should continue to be reviewed on an annual basis.

## Item AC16-12-01 9/30/2016 Experience – Review of Methodologies

The Agenda materials included an analysis of statewide accident year experience evaluated as of September 30, 2016. Staff presented a summary of the analysis and noted that the moderate decrease in the projected loss ratio from the analysis of June 30, 2016 experience reviewed at the September 1, 2016 meeting and reflected in the Amended January 1, 2017 Pure Premium Rate Filing was primarily driven by continued reductions in loss development, particularly for medical losses. Staff noted that the analysis included in the Agenda materials reflected the adjustments for Senate Bill No. 863 (SB 863) that were reflected in the January 1, 2017 Pure Premium Rate Filing and that the updated impact of SB 863 on loss development and trending methodologies based on the WCIRB's 2016 SB 863 Cost Monitoring Report would be reviewed at the next meeting.

The Committee noted that medical loss development continued to decrease through the third quarter of 2016. It was noted that paid medical loss development reflected in the projection at earlier maturities and incurred medical loss development reflected in the projection at later maturities both contributed to the decrease. A Committee member noted that some of the recent declines in incurred loss development at later maturities may be related to recent changes in claim settlement rates and staff agreed to include this consideration in its study of claim settlement rate adjustments to loss development scheduled for early next year.

The Committee reviewed an initial staff analysis of paid medical loss development from the WCIRB's Medical Data Call which showed that declines in paid medical development in 2014 were driven primarily by reductions in physician services and inpatient services payments while declines in 2015 were driven primarily by reductions in pharmaceutical services payments. The analysis also showed that the distribution of medical services by category differs significantly at different maturity levels. The Committee noted that this information was valuable and should continue to be reviewed.

The Committee reviewed quarterly incremental changes in claim settlement rates and noted that although claim settlement rates continue to occur at historically higher rates, the recent increases experienced over the last few years show signs of moderation in the third quarter of 2016.

The Committee next discussed the on-level and trending projections. Staff noted that the estimated accident year 2016 change in indemnity claim frequency through nine months shows a small decline as compared to the small increase shown at six months. Staff cautioned that prior research has shown that partial year frequency measures can be volatile and, as a result, those partial year frequencies are not reflected in WCIRB pure premium rate projections. The Committee also reviewed several measures of nine-month severity growth which showed that severity change estimates based on nine months experience can be a moderately accurate predictor of the severity growth based on developed accident year severities, particularly in years not significantly impacted by reforms or other system changes that were later enacted. The Committee noted that the nine-month severities for accident year 2016 generally showed very moderate increases not inconsistent with the severity trends reflected in recent WCIRB pure premium rate filings. It was also noted that a number of years have passed since the enactment of SB 863 and recent on-level loss ratios have begun to stabilize. As a result, staff recommended studying the use of separate frequency and severity trends compared to a combined loss ratio trend next year in preparation for the January 1, 2018 Pure Premium Rate Filing.

## Item AC16-12-02 California Workers' Compensation Wage Report

The Committee was informed that staff had completed development of updated wage information for a California Workers' Compensation Wage Report, which will provide information comparable to that in the prior Average Wage Data Product as well as new information and data resources. As past Average Wage Data Products, the new Wage Report will provide information and tools to link external data sources with California workers' compensation data. The Committee was informed that new information developed as part of research reviewed earlier this year by the Actuarial Research Working Group would be made available in the Report.

Staff provided the Committee with a brief overview of the information available in the prior Average Wage Data Product that would be updated in the California Workers' Compensation Wage Report. The Committee was informed that the Report was expected to be released in January of 2017.

Staff discussed the categorization of workers' wages by occupation, industry and WCIRB classification. Staff opined that better information on the relationships among these dimensions would permit staff and stakeholders to more accurately integrate data from outside the workers' compensation system, which was generally available by industry or occupation, with WCIRB data by classification. Staff noted that geographical information was a key dimension available in external sources and had been used in the WCIRB's studies of geographical differences and estimated impacts by classification of minimum wage law changes.

Staff gave an overview of the linking of external sources with WCIRB information used to develop the relationships among occupation, industry and classification and provided a demonstration of the principal artifact—the classification-industry-occupation “payroll cube”—that related payrolls among these dimensions. Staff noted that the payroll cube, in Excel Pivot Table format, would be available on the WCIRB's website with the publication of the Report. Staff noted that additional cubes had been developed, such as the number of employers or employer locations, and were under consideration for future publication.

Staff reviewed additional information that had been mapped to a classification level as part of the linking of WCIRB data to external sources. Staff noted that much of this additional information would be provided in the Report along with technical documentation.

The Committee was informed that staff had completed analysis of the impact of minimum wage law changes and had reviewed the methodology with the Actuarial Research Working Group. Staff noted the goal of the analysis had been to measure the impact of changes in minimum wage laws above and beyond changes attributable to regular wage inflation. Staff informed the Committee that wage inflation had been modeled by occupation using an integrated moving average model and that historical and projected wage inflation by occupation had been translated to classification using the payroll cube. Staff noted that other models had been evaluated, including cluster models. Staff informed the Committee that injured workers' wage inflation had been modeled similarly by classification. Staff discussed the differences between insured worker and injured worker wage series and provided an example of how these had been used.

Staff noted that there was considerable variability in minimum wage ordinances throughout the state and that for increased accuracy the modeling of minimum wage impacts had been done by region.

Staff discussed differences between payroll information available from external sources and payrolls used for workers' compensation premium determination. Staff noted that common exclusions included salaries

of executive offices, overtime and tips. Staff noted that some excluded payrolls, such as overtime, would be affected by payroll exclusions while others, such as tips, would not. Staff discussed ongoing efforts to develop additional information that might be of use to stakeholders and be made available in the upcoming or future Reports.

The Committee discussed staff's findings and after discussion accepted staff's work.

### Item AC16-12-03 Adjustment for Wage Level Differences in Classification Ratemaking

The Committee was reminded that the classification relativities process currently reflects several adjustments to losses to adjust them to a comparable level but has historically not reflected any adjustment to payroll for changes in wage levels over time. Staff noted that recent WCIRB research has shown that changes in wage levels can differ significantly by classification and relativities may be distorted if no adjustment is made.

Staff presented an approach for adjusting exposure for wage level changes by classification based on staff's recent wage level study (see Item AC16-12-02). Staff noted that changes in wage levels that impact indemnity benefits would also be adjusted in a similar fashion. Staff recommended applying these adjustments on a relative basis (i.e., resulting in no change in the total exposure across all classes) inasmuch as it does not require further adjustments to rebalance the aggregates for other computations while still reflecting the relative differences in wage level changes by classification. It was noted that the preliminary impact of these adjustments were relatively modest for the vast majority of classifications. The consensus of the Committee was that these adjustments were appropriate and should increase the accuracy of the projections.

The Committee also discussed the "adjustment to earlier years" factors which currently adjust the level of losses for the third, fourth and fifth years used in class relativities to the level of the average of the most recent two years. Staff recommended also applying this adjustment to the most recent two years so that all years are reflected at the same level. The consensus of the Committee was that this refinement was appropriate.

After discussion, the consensus of the Committee was that the adjustments to the classification ratemaking methodology as recommended by staff should be implemented in the 2018 classification relativities for the January 1, 2018 Regulatory Filing. The Committee was advised that the impact of these adjustments will be reviewed the Actuarial Committee and Classification and Rating Committee next year prior to the submission of the January 1, 2018 Regulatory Filing.



## Item AC16-12-04 Potential 2017 Actuarial Research and Study Projects

The Committee reviewed the list of potential actuarial and research studies included in the Agenda materials that are under consideration for 2017. It was noted that many of the listed studies were either requested by the California Department of Insurance (CDI), developed in response to issues raised in recent CDI Decisions, required by legislation, or related to monitoring of recent legislative or regulatory changes.

The Committee was reminded that, at prior meetings, evaluating the potential impact of the Affordable Care Act (ACA) on workers' compensation costs in California had been discussed and several areas potentially affected were identified. While it had in the past been agreed that it was premature to evaluate these impacts, the Committee agreed that an evaluation of the impact of the ACA was now appropriate.

The Committee was reminded that it has been a number of years since the WCIRB updated its projections around statewide earthquake exposure and there have been significant enhancements in catastrophe modeling over the last several years. As a result, staff suggested that the WCIRB should consider updating its analysis of the statewide earthquake exposure in California in 2017. It was noted that while the CDI had rejected the use of a catastrophe provision in advisory pure premium rates some years ago, prior WCIRB reports provided information to stakeholders as to the potential statewide costs related to a large earthquake during normal working hours affecting populated areas of the state. Several Committee members noted that while individual insurers have their own modeling processes around earthquake exposures, a publicly available analysis of the potential statewide earthquake exposure in California would provide some value.

A Committee member noted that with all the activity of the Department of Industrial Relations, the CDI and others around fraud prevention, the WCIRB should consider whether additional study related to the impact of fraud is appropriate. Staff noted that an update to the summary of medical costs paid to providers who have been indicted for fraud that was discussed at the September 6, 2016 Committee meeting with respect to the cost impact of Senate Bill No. 1160 and Assembly Bill No. 1244 is being prepared. Staff also agreed to discuss whether additional analysis of the fraud issue should be undertaken with the Claims Working Group and Medical Analytics Working Group.

After some discussion, the consensus of the Committee was that the schedule of projects outlined in the Agenda materials to be undertaken in 2017 was appropriate.

Item AC16-12-05  
2017 Schedule of Meetings

The following Actuarial Committee meeting schedule has been established for 2017:

Tuesday, March 21, 2017

Monday, April 3, 2017

Friday, June 16, 2017

Wednesday, August 2, 2017

Thursday, September 5, 2017

Wednesday, December 6, 2017

The meeting was adjourned at 12:00 PM.

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Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for March 21, 2017 for approval and/or modification.