

WCIRB Actuarial Committee Meeting

Materials Presented at the WCIRB Actuarial Committee Meeting
March 22, 2016

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SB 863 Cost Monitoring – Adjustments to Pure Premium Ratemaking

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WCIRB SB 863 Cost Monitoring – Indemnity Reforms

SB 863 Provisions	WCIRB Original Cost Estimates (\$'s in billions)	Preliminary Monitoring Results Impact on Net SB 863 Savings	Updated Estimates (\$'s in billions)
Changes to Weekly PD Benefits	+\$0.6		+\$0.6
Changes to PD Rating Formula	+\$0.6		+\$0.6
Elimination of PD Add-ons	(\$0.2)	TBD	(\$0.2)
Three-Tiered Weekly PD Benefits	(\$0.1)	TBD	(\$0.1)
<u>Ogilvie</u> Decision	(\$0.2)		(\$0.1)
Indemnity Claim Frequency	Small Increase		---
Indemnity Severities (Incl. Trend)	Increases		---
Total Indemnity Reforms	+\$0.7	---	+\$0.8

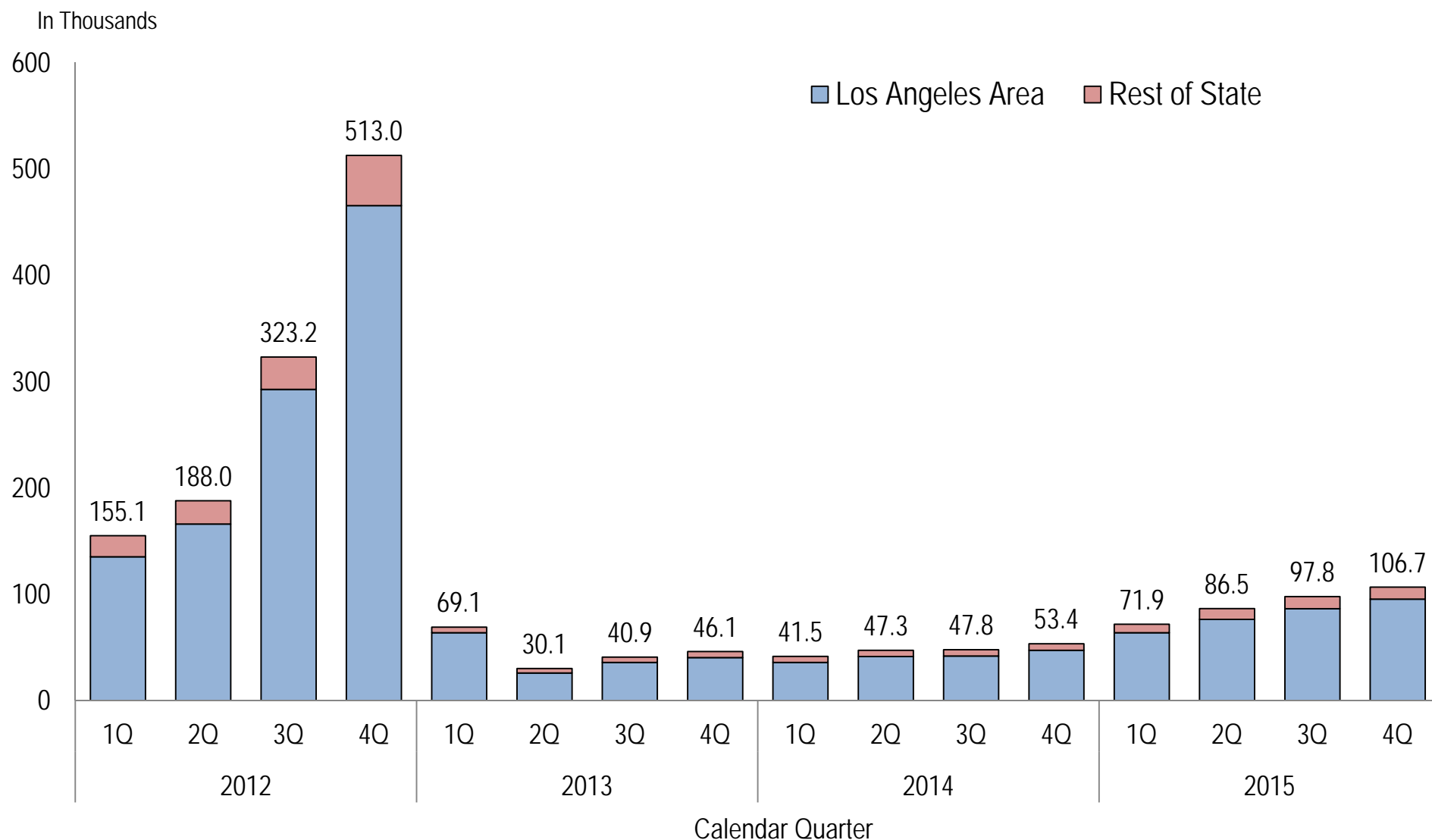
SB 863 Indemnity Reforms

- 1/1/16 Filing Reflected Indemnity Reforms in On-Level Adjustments and Loss Development
 - 2011 & 2012 LDFs adjusted by -0.5%
 - 2013 LDF adjusted by +1.6%
 - 2014 LDF adjusted by +8.2%
- Emerging Indemnity Costs Generally Consistent with Prospective Estimates
- Staff Recommendation: Use Factors Consistent with those Reflected in 1/1/16 Filing

WCIRB SB 863 Cost Monitoring – Medical & LAE Reforms

SB 863 Provisions	WCIRB Original Cost Estimates (\$'s in billions)	Preliminary Monitoring Results Impact on Net SB 863 Savings	Updated Estimates (\$'s in billions)
Liens	(\$0.5)	=	(\$0.5)
Surgical Implant Hardware	(\$0.1)	▲	(\$0.1)
ASC Fees	(\$0.1)	=	(\$0.1)
IMR – Impact on Frictional Costs	(\$0.2)	▼	+\$0.1
IMR – Impact on TD Duration	(\$0.2)	▼	(\$0.2)
MPN Strengthening	(\$0.2)	=	(\$0.2)
RBRVS Fee Schedule	+\$0.3	▲	\$0.0
Medical Severities (Incl. Trend)	Increases	▲	(\$0.5)
ALAE and ULAE Severities	Significant Declines	▼	---
Total Medical & LAE Reforms	(\$0.9)	---	(\$1.5)
Total Estimate – All Items	(\$0.2)	---	(\$0.8)

Quarterly Number of Liens Filed



Source: EAMS Liens Data

Number of Liens Filed

Calendar Year	Number of Liens (in Thousands)	Annual Change	Change from 2011
2011	463.9	---	---
2012	1,179.3	+154%	+154%
2013	186.2	-84%	-60%
2014	190.1	+2%	-59%
2015	362.9	+91%	-22%

Source: EAMS Liens Data

Surgical Implant DRGs Targeted by SB 863

	Dec 31, 2012 and Earlier Services	January 1, 2013 and Later Services
Hospital Episodes*	361	486
Total Paid**	\$34.2M	\$33.1M
Paid Per Episode (Change)	\$94,722	\$68,065 (-\$26,657 or -28%)

* Hospital Admissions including one of the 7 Diagnostic Related Groups (DRGs) targeted by SB 863.

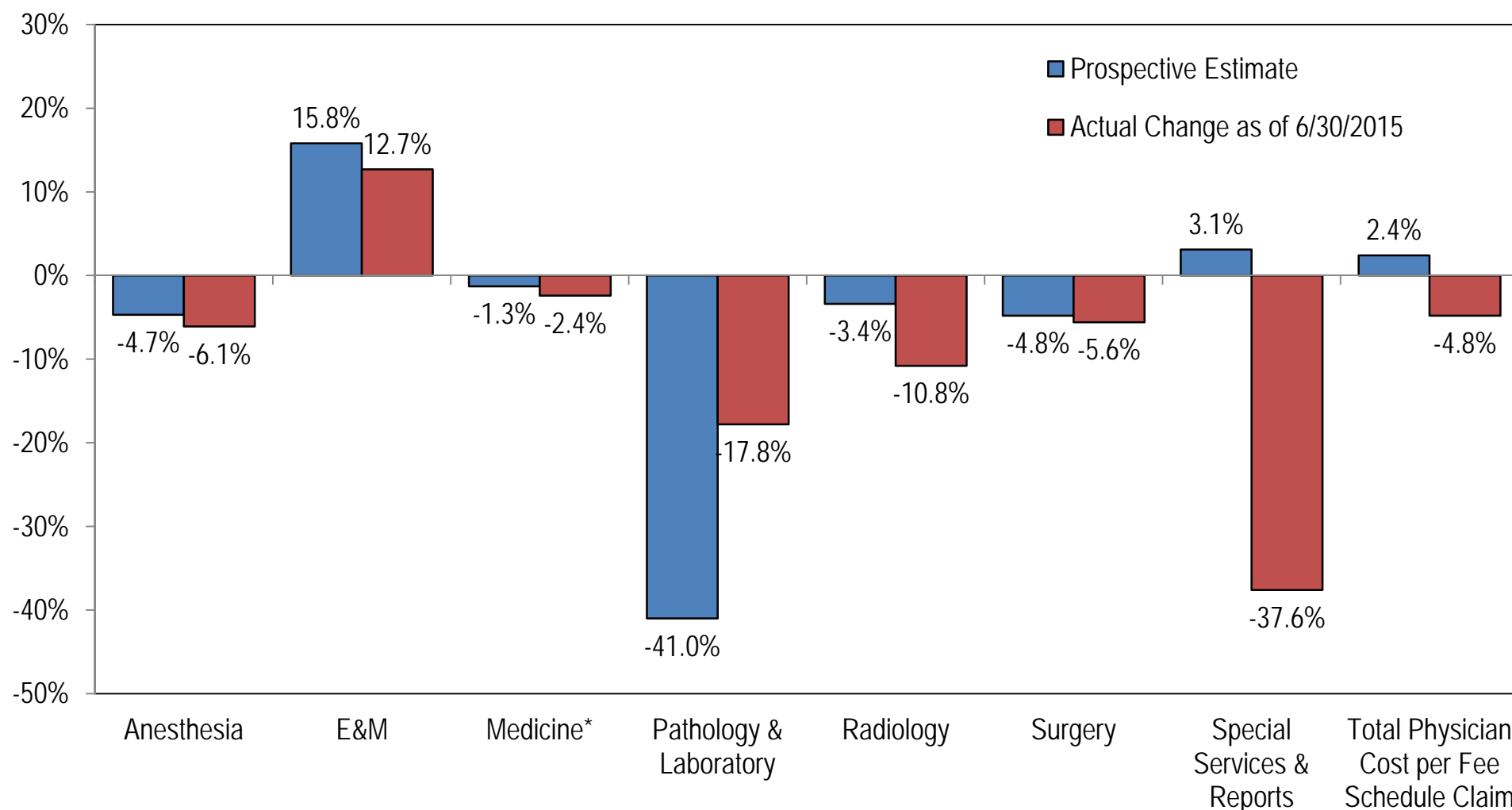
** Paid amounts on Bills for the specific DRG admission, including Hospital Revenue Codes.

Source: WCIRB Medical Data Call

SB 863 Medical Reforms Effective 1/1/2013

- 1/1/16 Filing Reflected SY 2013 Medical Reforms in Loss Development
 - Payments made prior to 1/1/13 adjusted by -4.9%
- Updated Estimates from 2015 SB 863 Cost Monitoring Report
 - Lien savings reduced by \$210M
 - Surgical implant hardware savings increased by \$30M
 - Total impact on medical is -4.4% compared to -4.9%
- Staff Recommendation: Update Medical LDF Adjustment Based on 2015 SB 863 Cost Monitoring Results

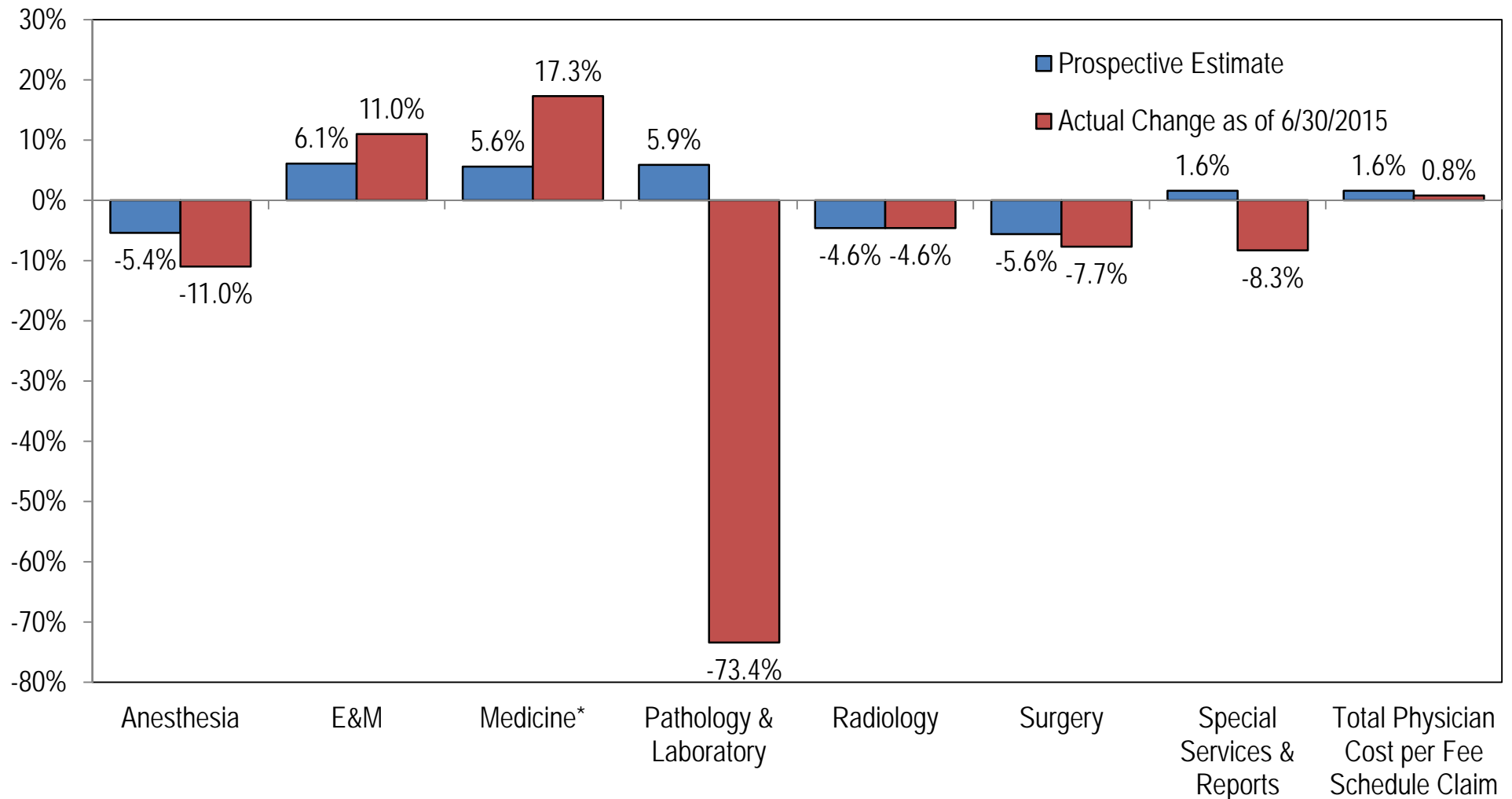
Projected vs. Actual Change in Physician Fees – 2013 to 2014



*Includes Physical Medicine, Chiropractic, and Acupuncture

Source: WCIRB Medical Data Call

Projected vs. Actual Change in Physician Fees – 2014 to 2015



*Includes Physical Medicine, Chiropractic, and Acupuncture

Source: WCIRB Medical Data Call

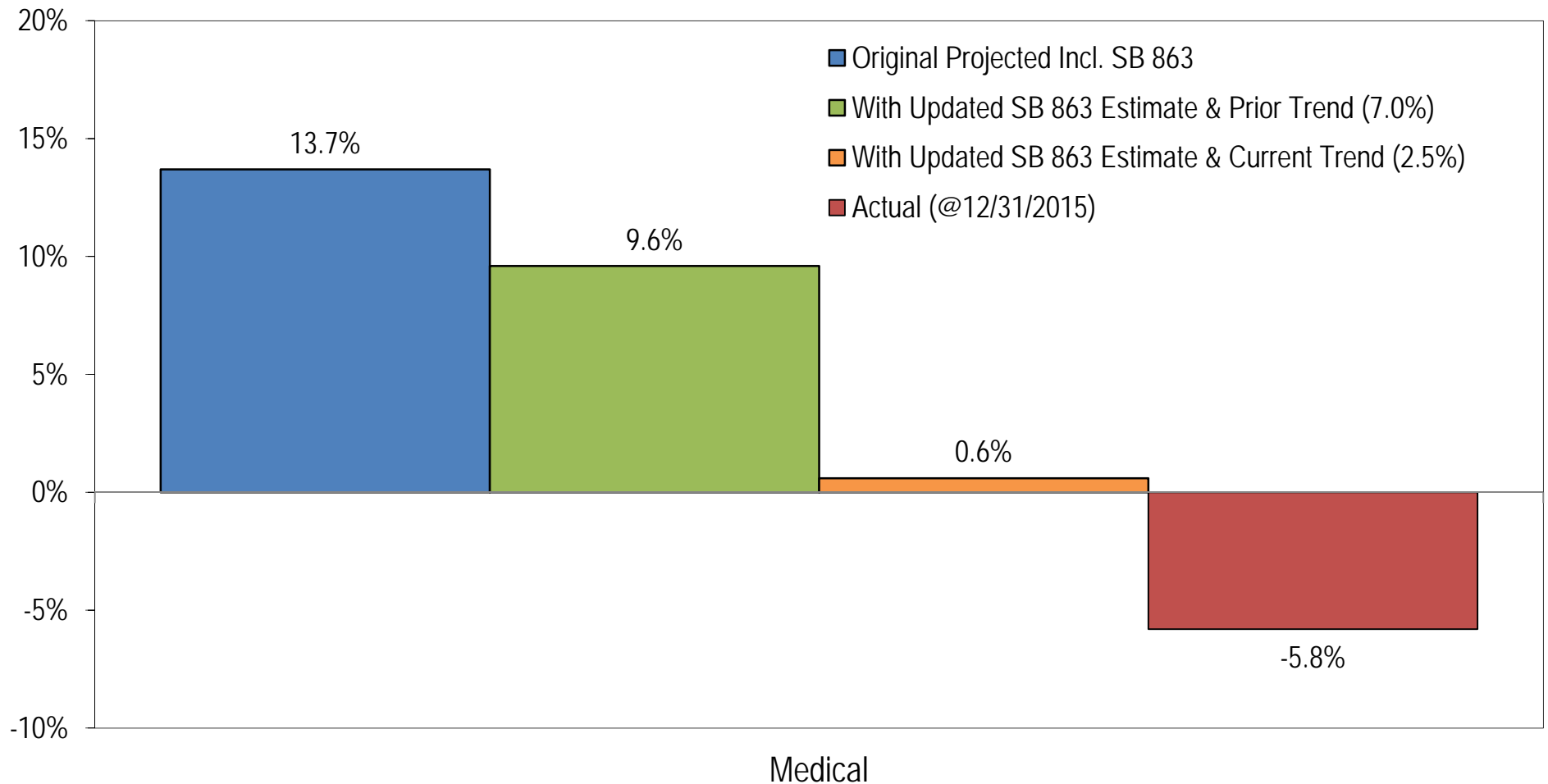
SB 863 Medical Reforms Effective 1/1/2014 (RBRVS)

- 1/1/16 Filing Reflected SYs 2014 & 2015 RBRVS Changes in Medical Loss Development
 - Payments made prior to 1/1/14 adjusted by -1.5%
 - Payments made prior to 1/1/15 adjusted by +0.6%
- SYs 2016 & 2017 Reflected in On-level Adjustments Incl. Proportion of AYs 2014 & 2015 to Develop in 2016 & 2017
- Updated Estimates from 2015 SB 863 Cost Monitoring Report
 - SY 2014 savings increased by \$30M
 - Total SY 2014 impact on medical is -1.8% compared to -1.5%
 - SY 2015 emerging generally consistent with prospective estimates
- Staff Recommendation: Update SY 2014 Medical LDF Adjustment Based on 2015 SB 863 Cost Monitoring Results

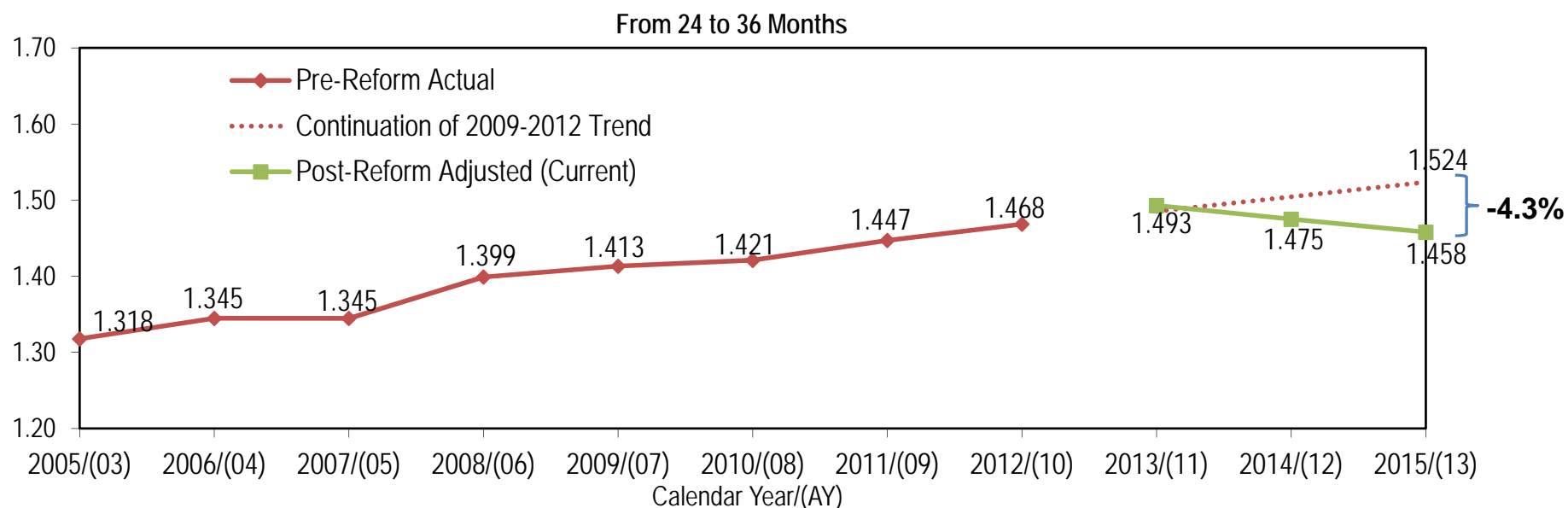
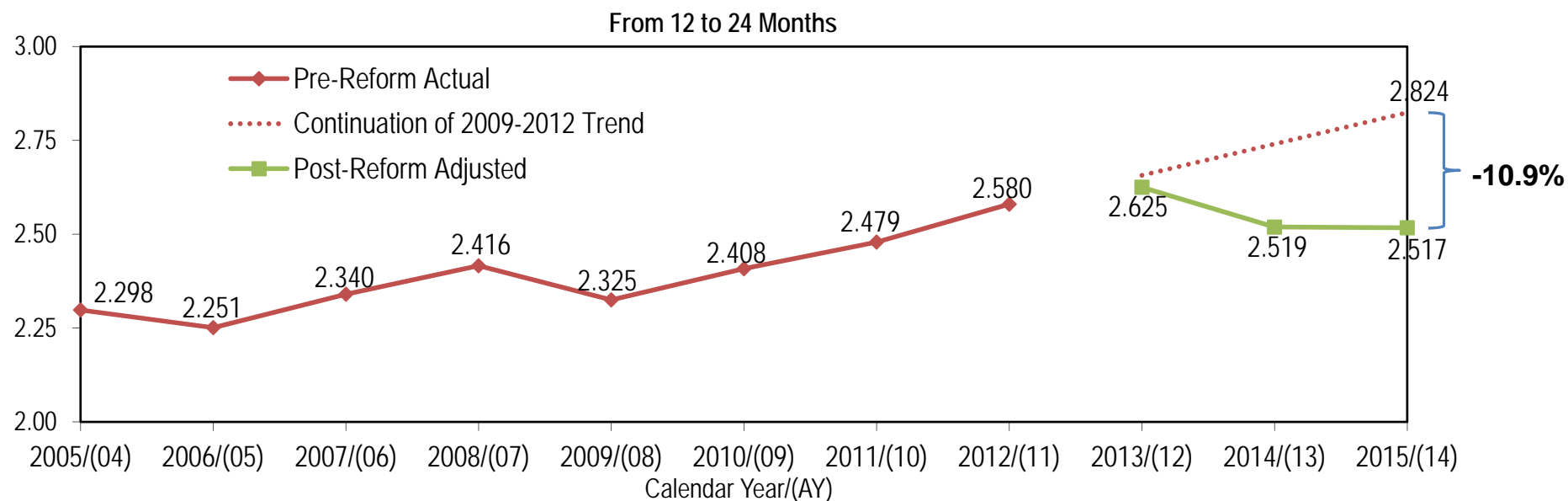
SB 863 Impact on Medical Utilization

- Prior Evaluations of SB 863
 - No adjustment for changes in medical utilization
 - Unclear to what extent IMR, IBR and other SB 863 provisions will affect medical treatment levels
- 2015 SB 863 Cost Monitoring Report
 - Analysis of post-SB 863 medical services show decreases in many categories, particularly Pharmaceuticals
 - Overall medical severities emerging approx. 5% lower than projected after reflecting updated SB 863 cost impacts & trends
 - Staff to analyze potential impact on older accident years

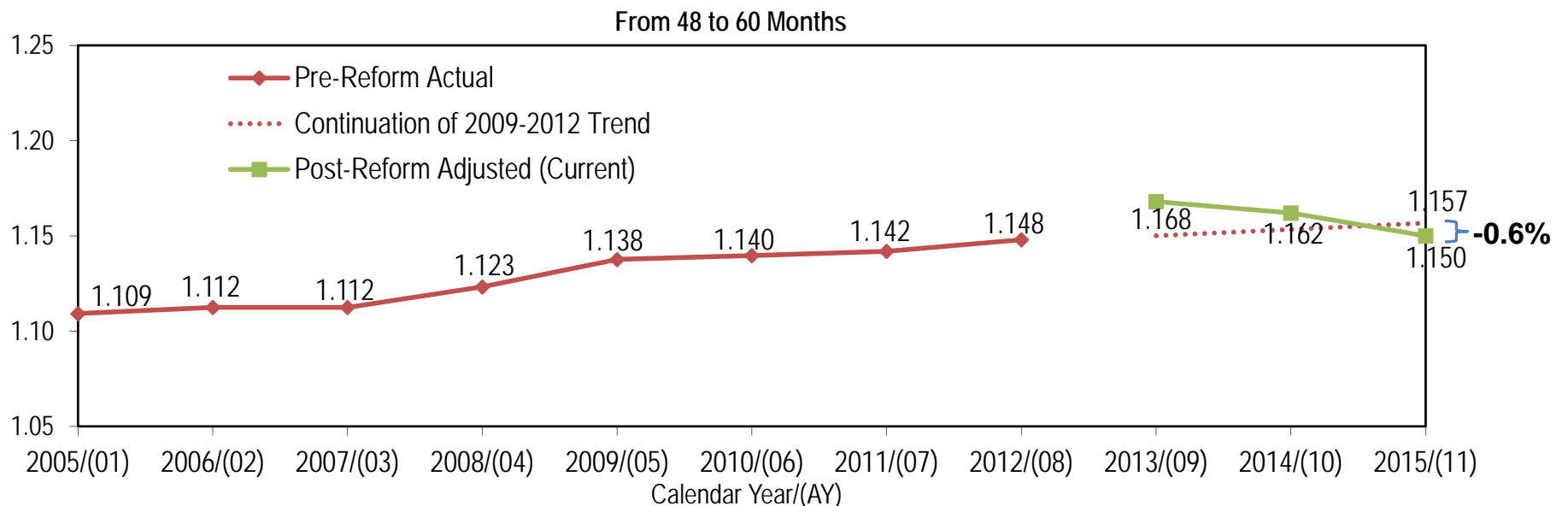
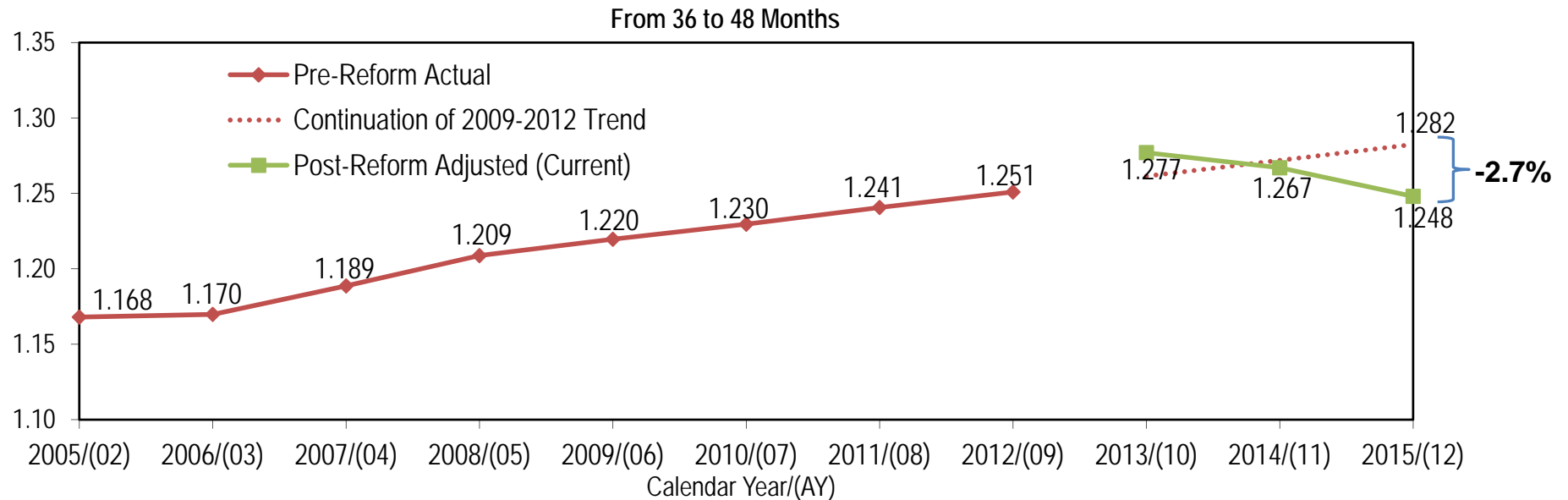
Medical Cumulative 2013 & 2014 Severity Changes



Comparison of Paid Medical Development Factors



Comparison of Paid Medical Development Factors



Estimated Impact of SB 863 Medical Utilization Change by Accident Year

Accident Year	Development Period	Decrease from Pre-SB 863 Trend	Decrease as a % of AY 2014 Decrease	Cumulative Impact of -5% Medical Util. Change	Incremental Impact of -5% Medical Util. Change
2011	48-to-60	-0.6%	6%	0%	0%
2012	36-to-48	-2.7%	24%	-1%	-1%
2013	24-to-36	-4.3%	40%	-2%	-1%
2014	12-to-24	-10.9%	100%	-5%	-3%

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First Quarter 2016 Review of Diagnostics

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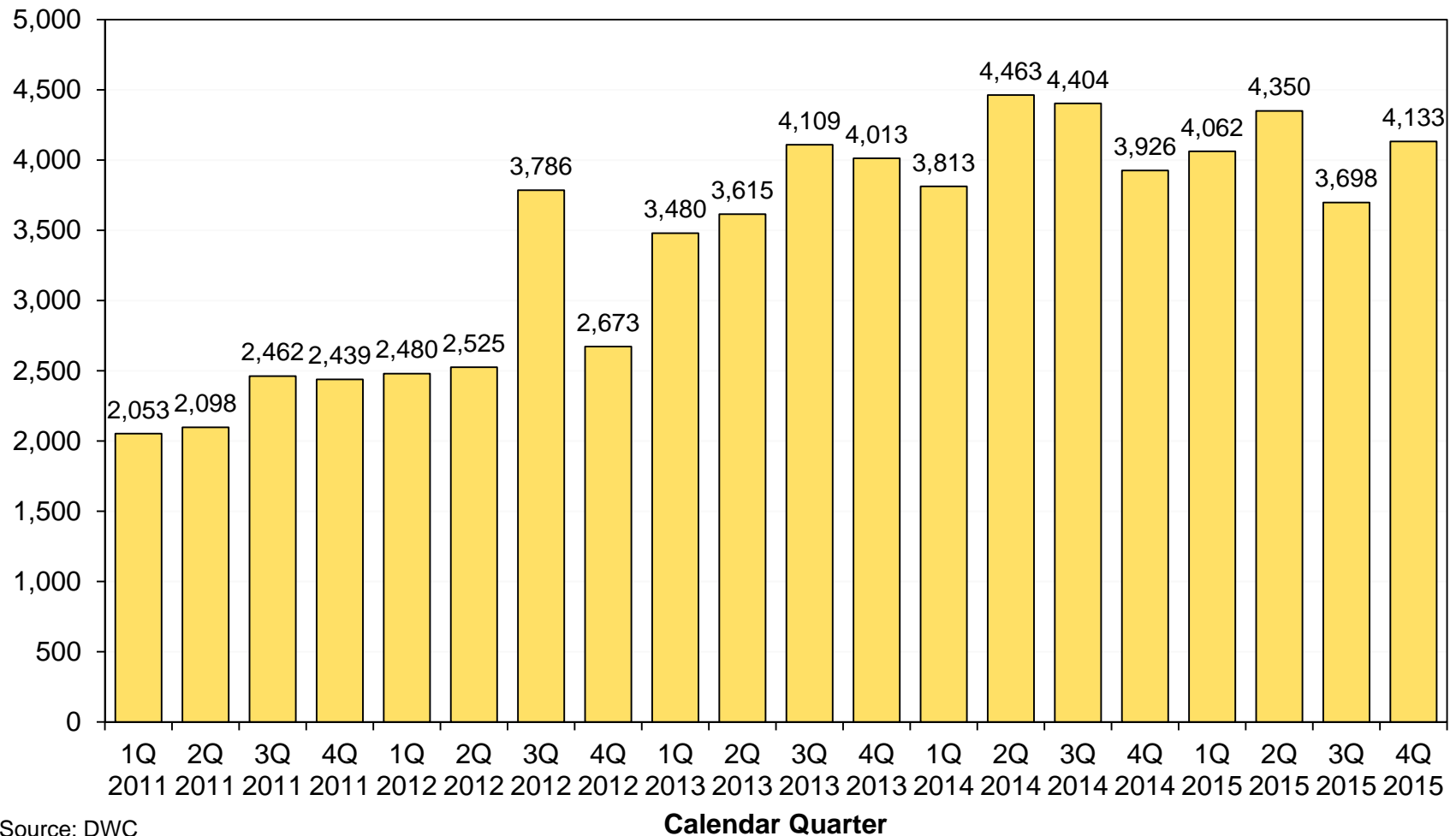
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Expedited Hearings (Exhibit M8.2; pg. A-14)

Statewide Number of DWC Expedited Hearings

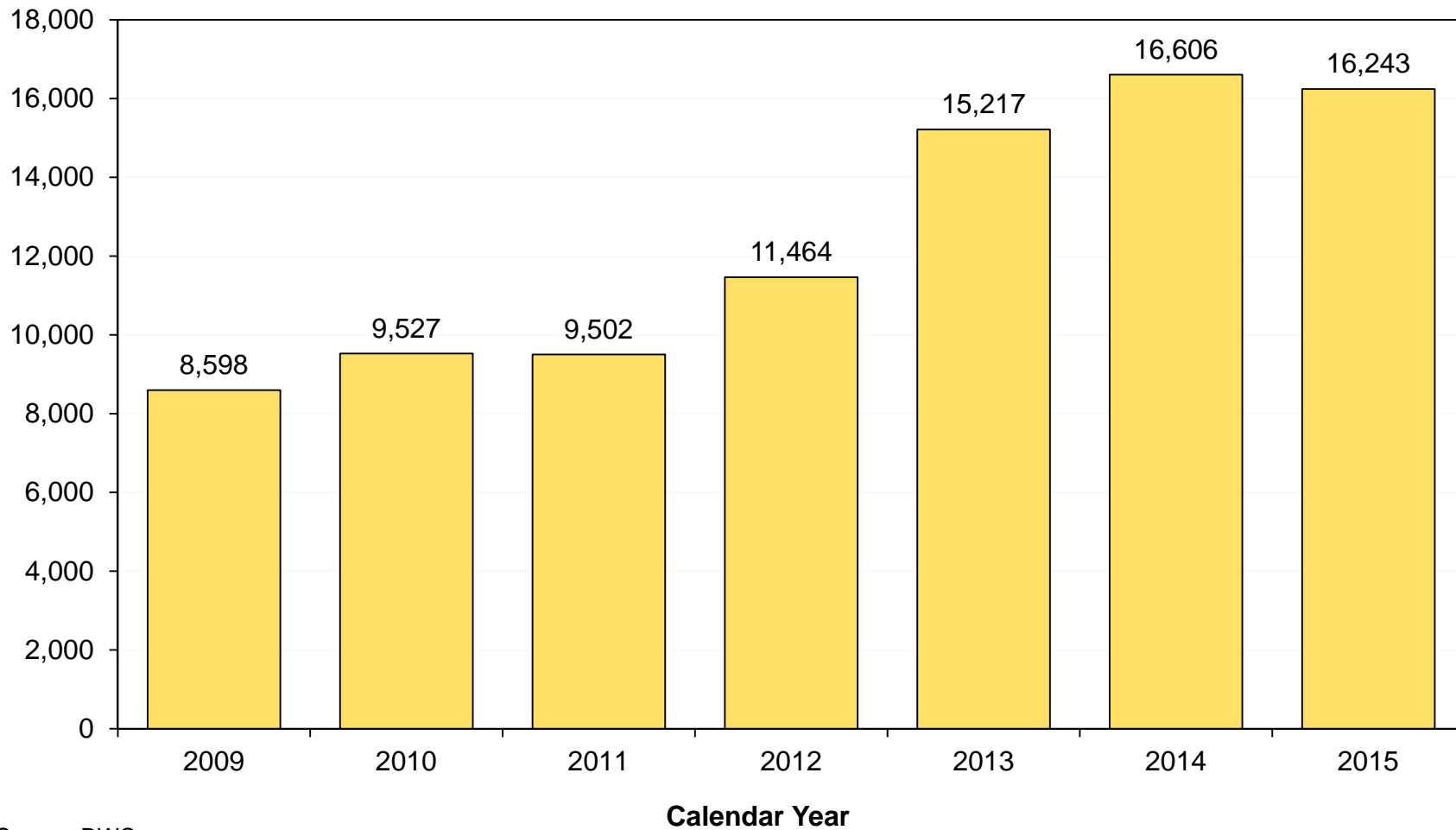


Source: DWC

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Expedited Hearings (Exhibit M8.2; pg. A-14)

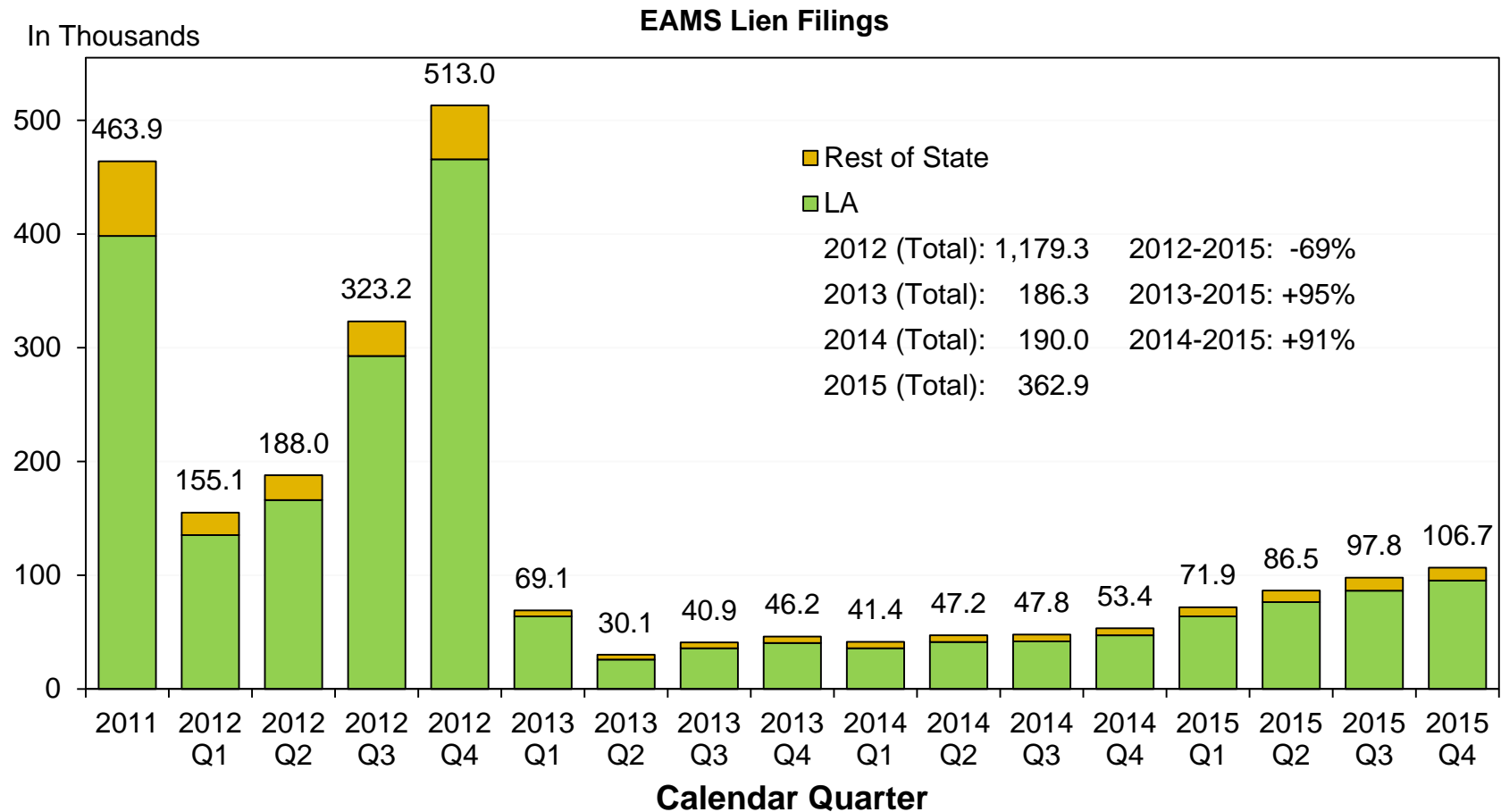
Statewide Number of DWC Expedited Hearings



Source: DWC

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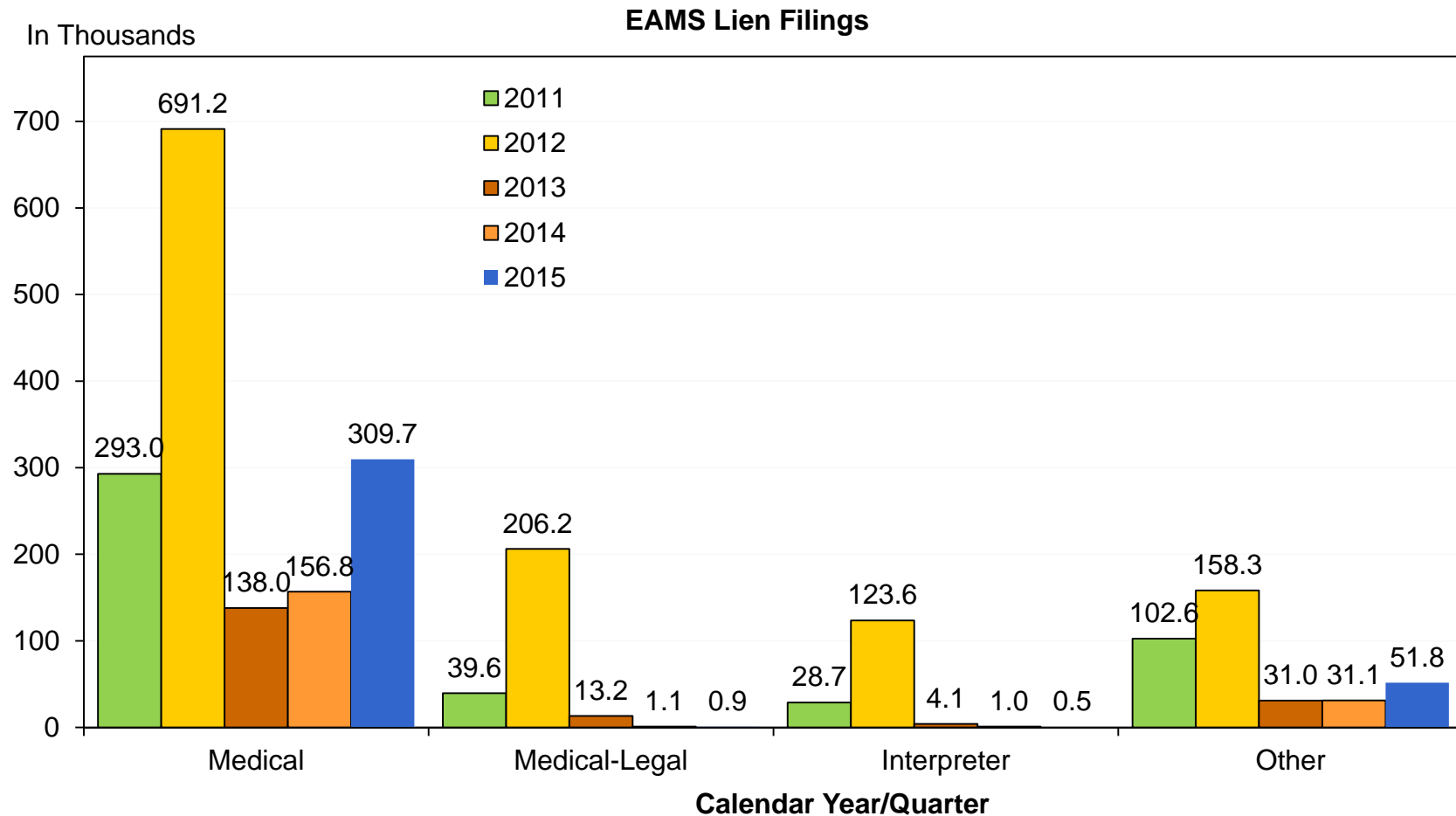
Liens Filed Counts by Region (Exhibit M9.2; pg. A-16)



Source: EAMS Liens Data

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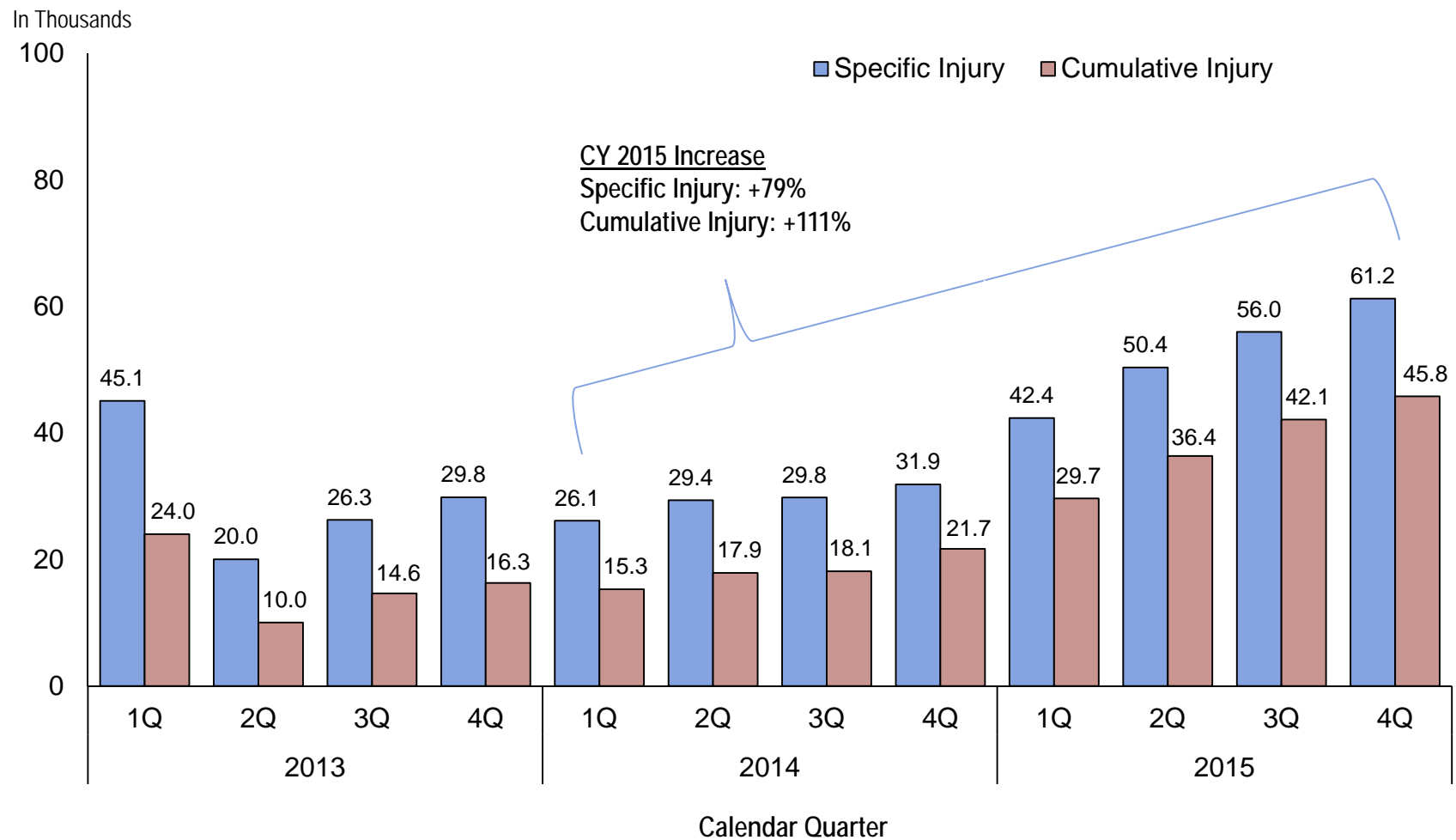
Liens Filed Counts by Type (Exhibit M9.2; pg. A-16)



Source: EAMS Liens Data

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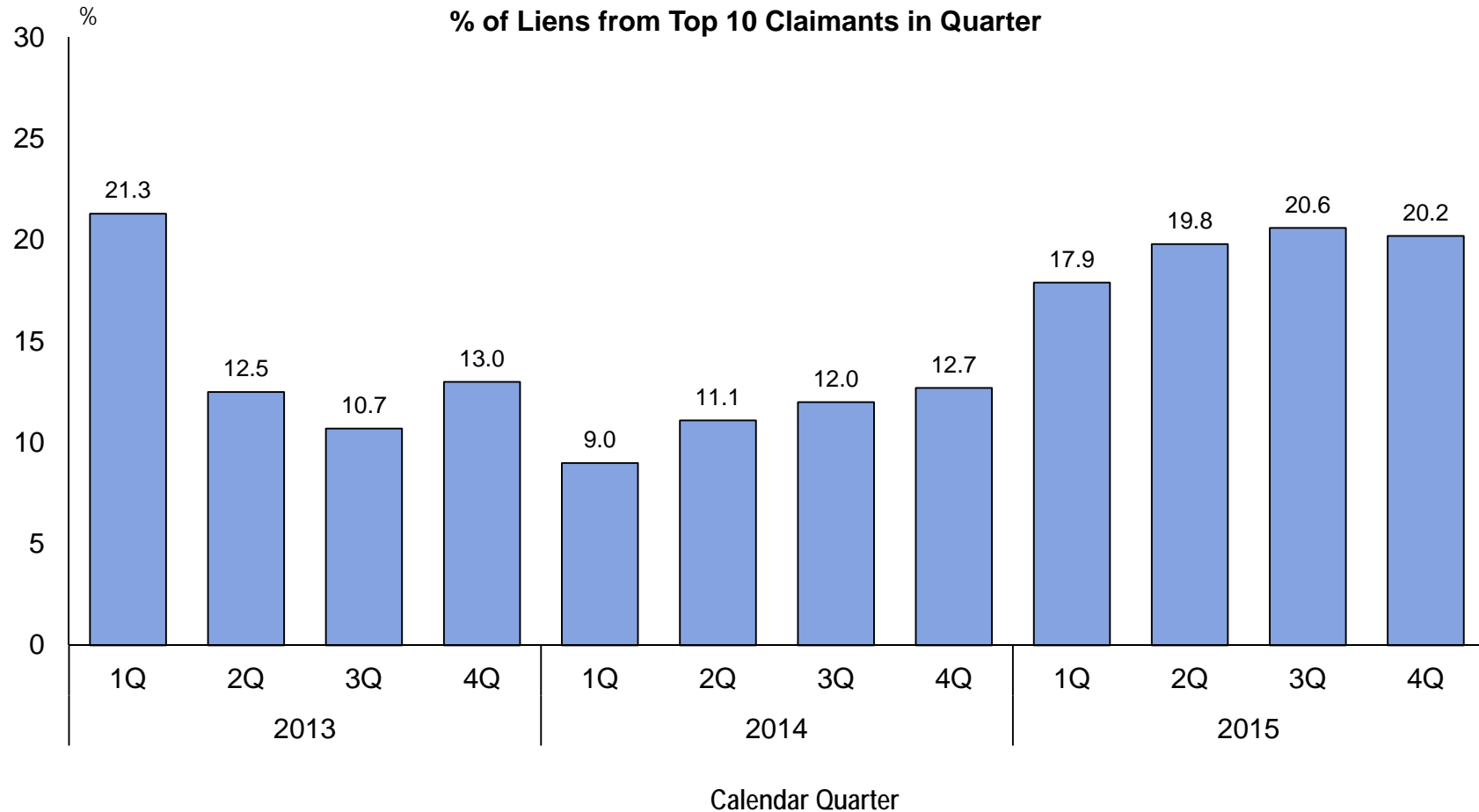
Number of Liens Filed by Injury Type



Source: EAMS Liens Data

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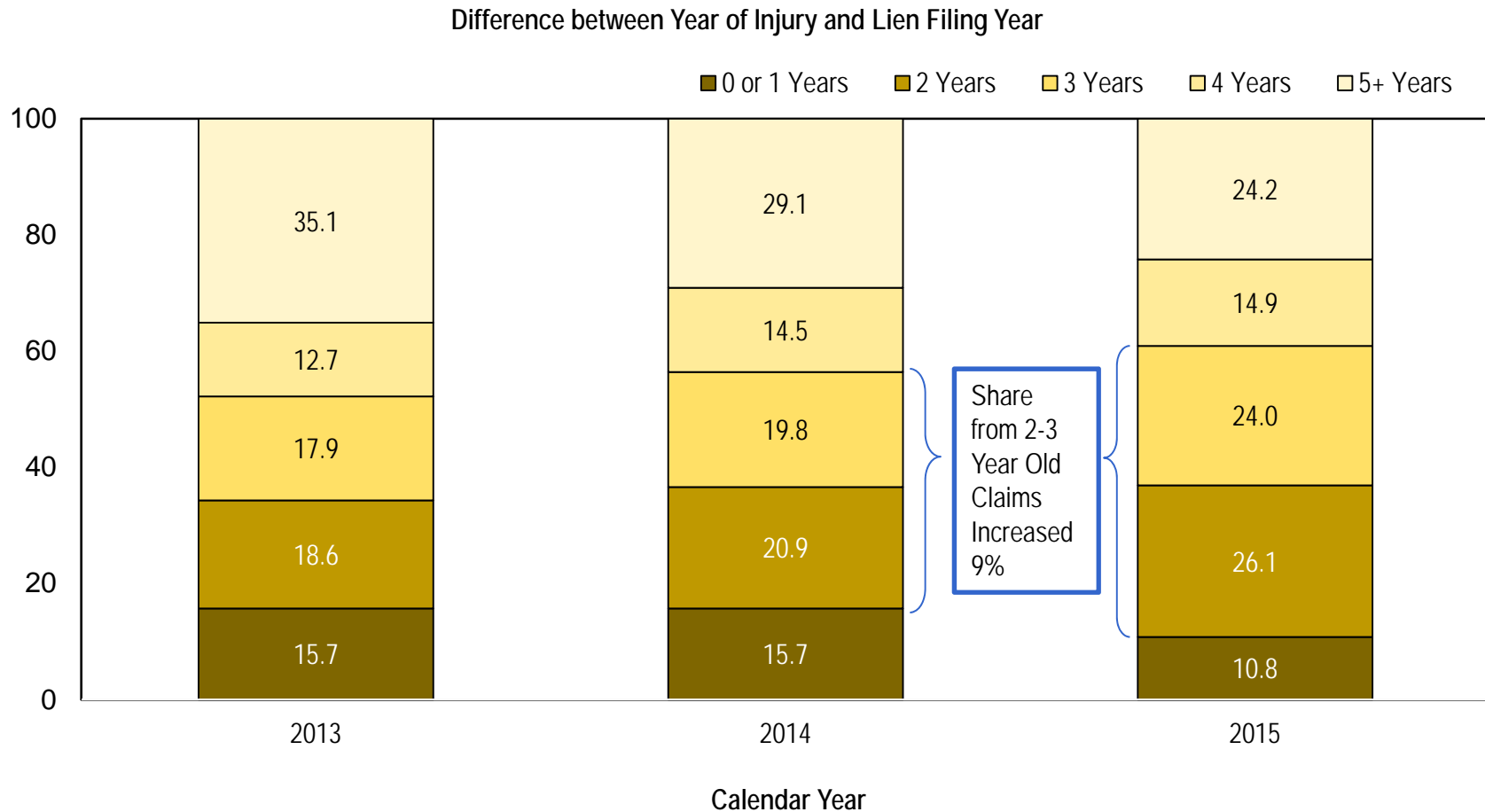
Liens Filed from Largest Lien Claimants



Source: EAMS Liens Data

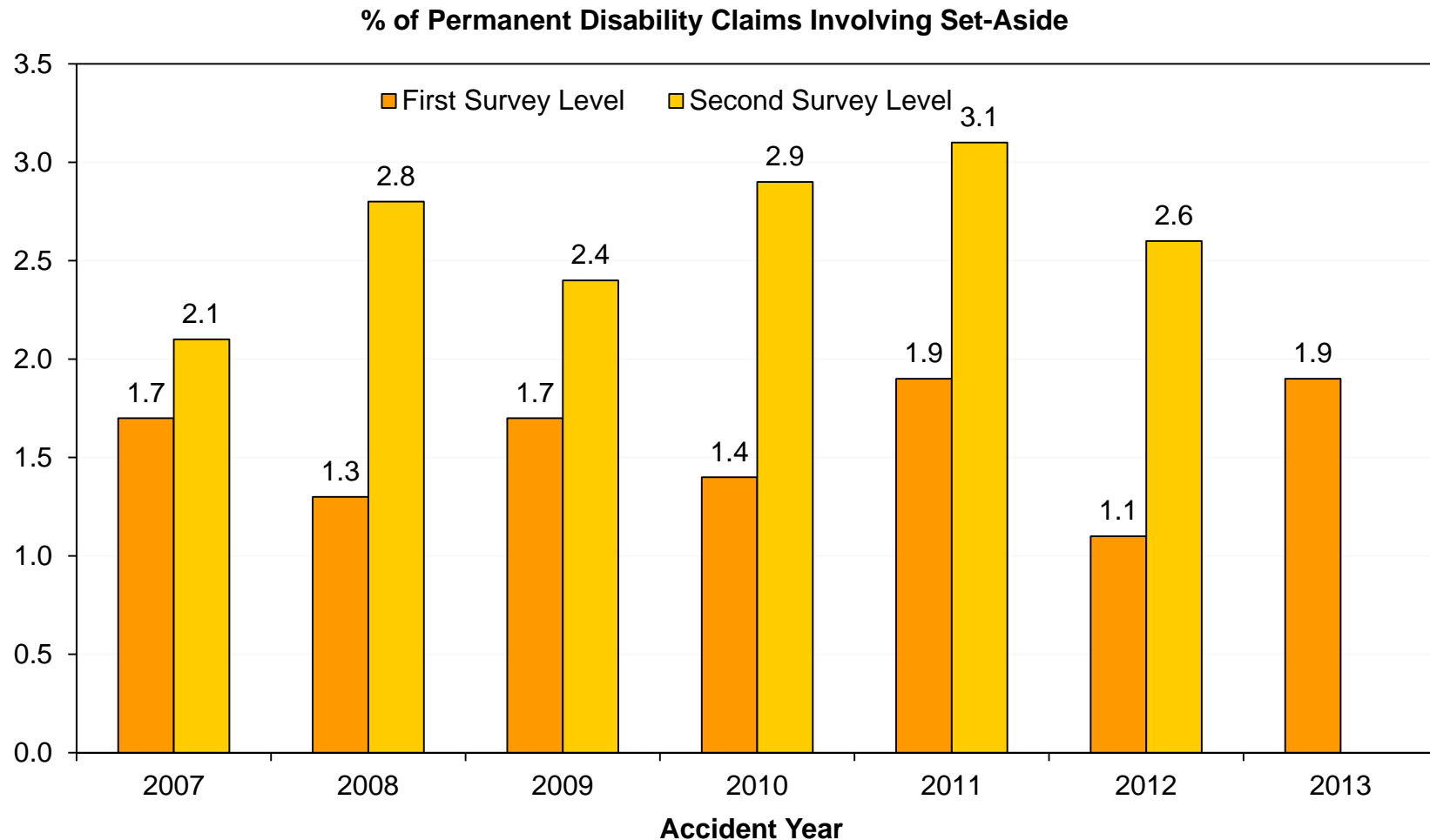
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Distribution of Liens Filed by Date of Injury



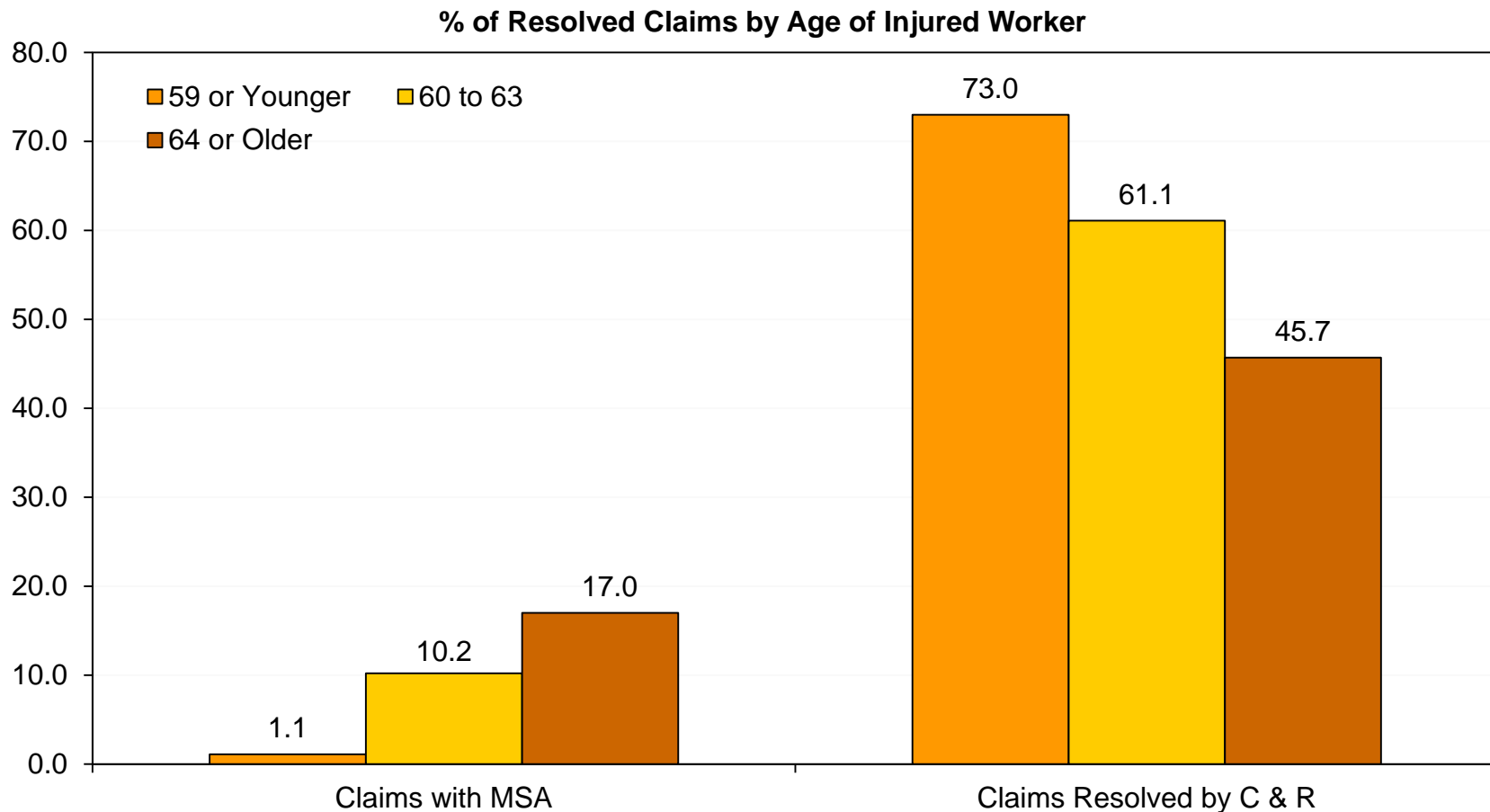
Source: EAMS Liens Data

Frequency of Medicare Set-Asides (Exhibit M10.1; pg. A-17)



Source: WCIRB Permanent Disability Claim Survey. First survey level is for claims at 30 months. Second survey level is for claims at 42 months

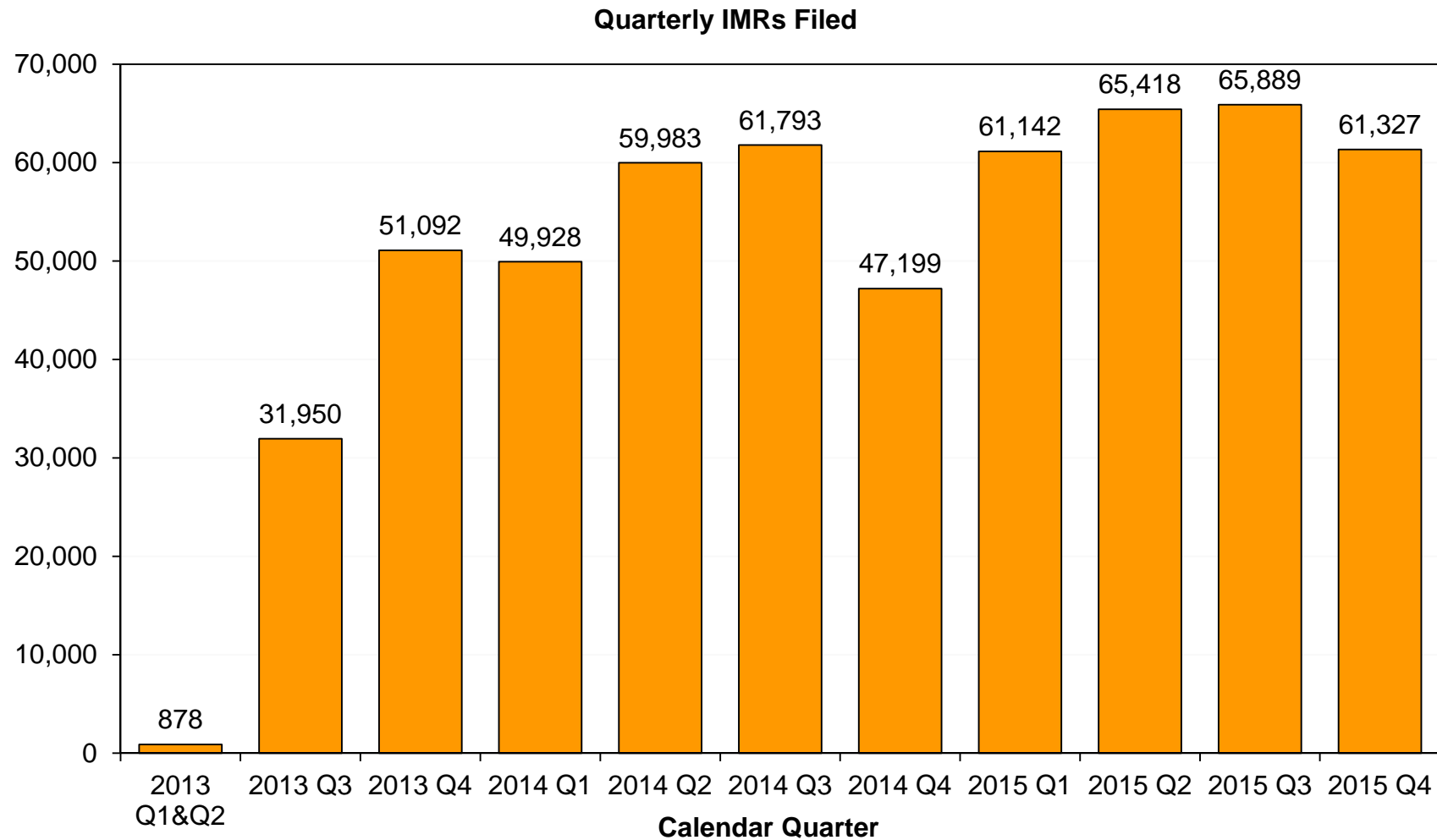
Frequency of Medicare Set-Asides on Resolved Claims



Source: WCIRB Permanent Disability Claim Survey at latest level. First survey level is for claims at 30 months. Second level is for claims at 42 months

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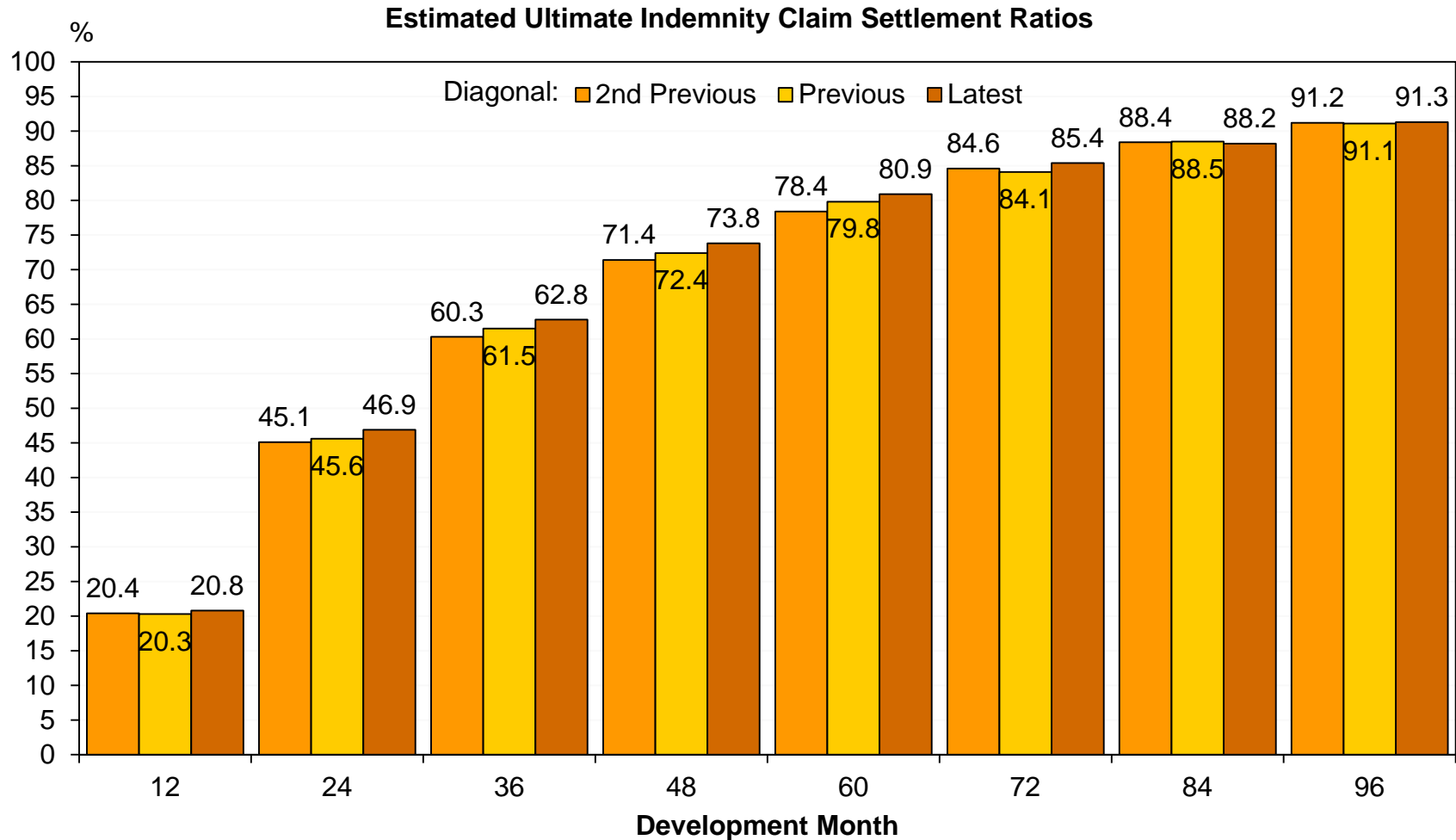
IMR Filed Count (Exhibit M14; pg. A-22)



Source: DWC Collected from IMR Vendor

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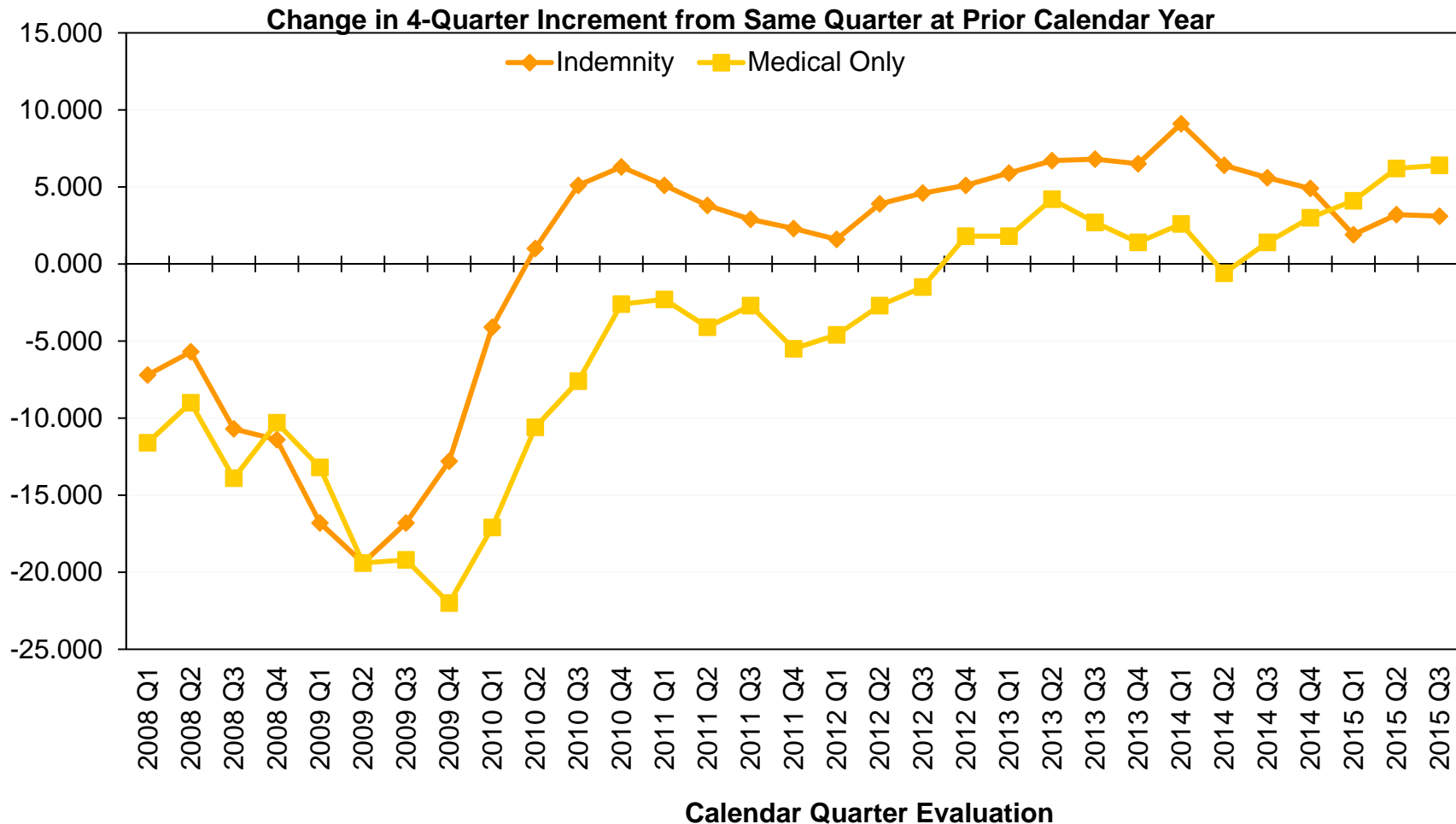
Indemnity Settlement Ratio (Exhibit C2.1; pg. A-25)



Source: WCIRB Quarterly Calls for Experience

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Changes in Incremental Claim Counts (Exhibit C11; pg. A-39)

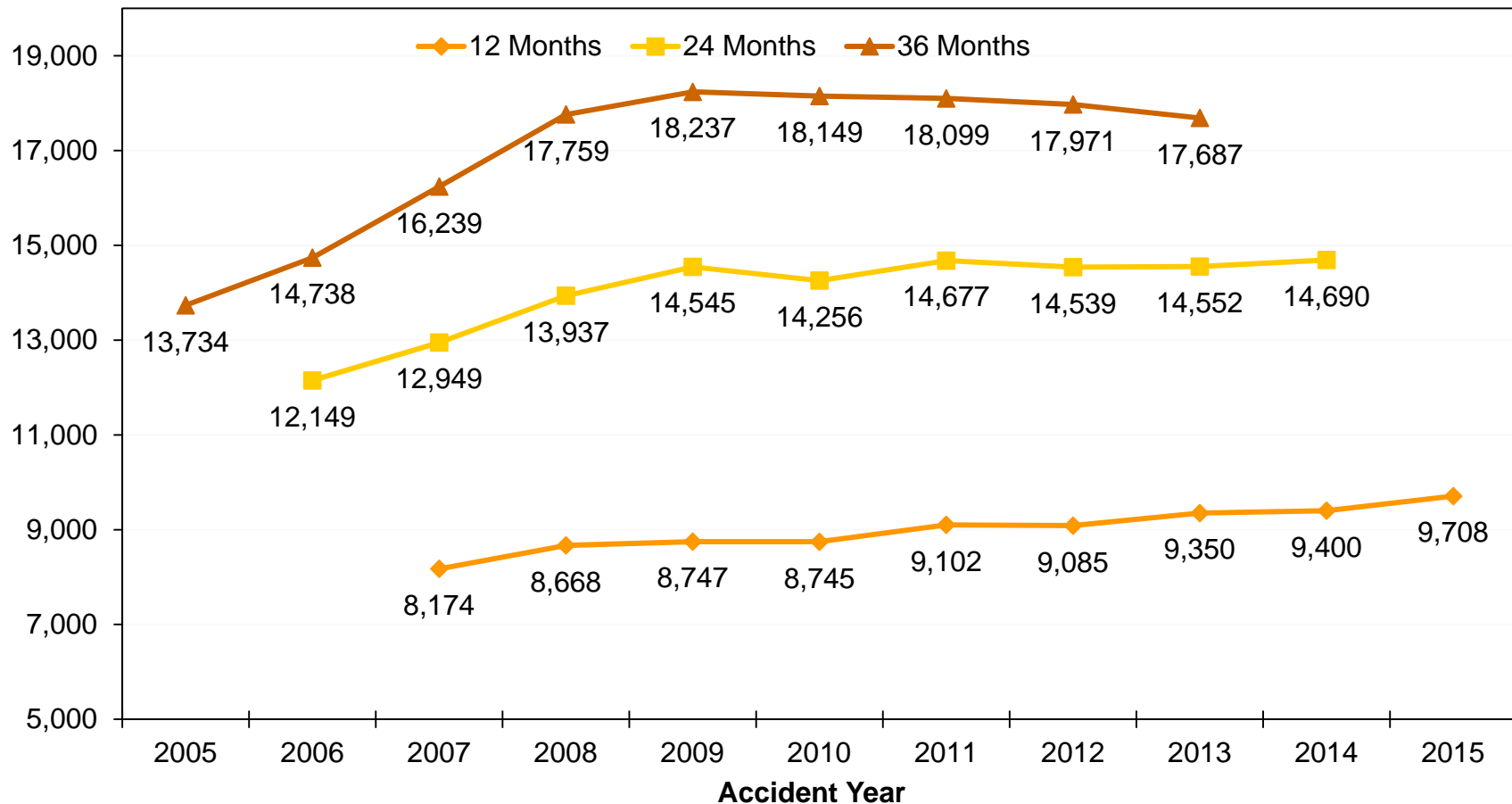


Source: WCIRB Quarterly Calls for Experience

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Incurred Indemnity Severity (Exhibit S2.1; pg. A-65)

Average Incurred Indemnity Loss per Indemnity Claim

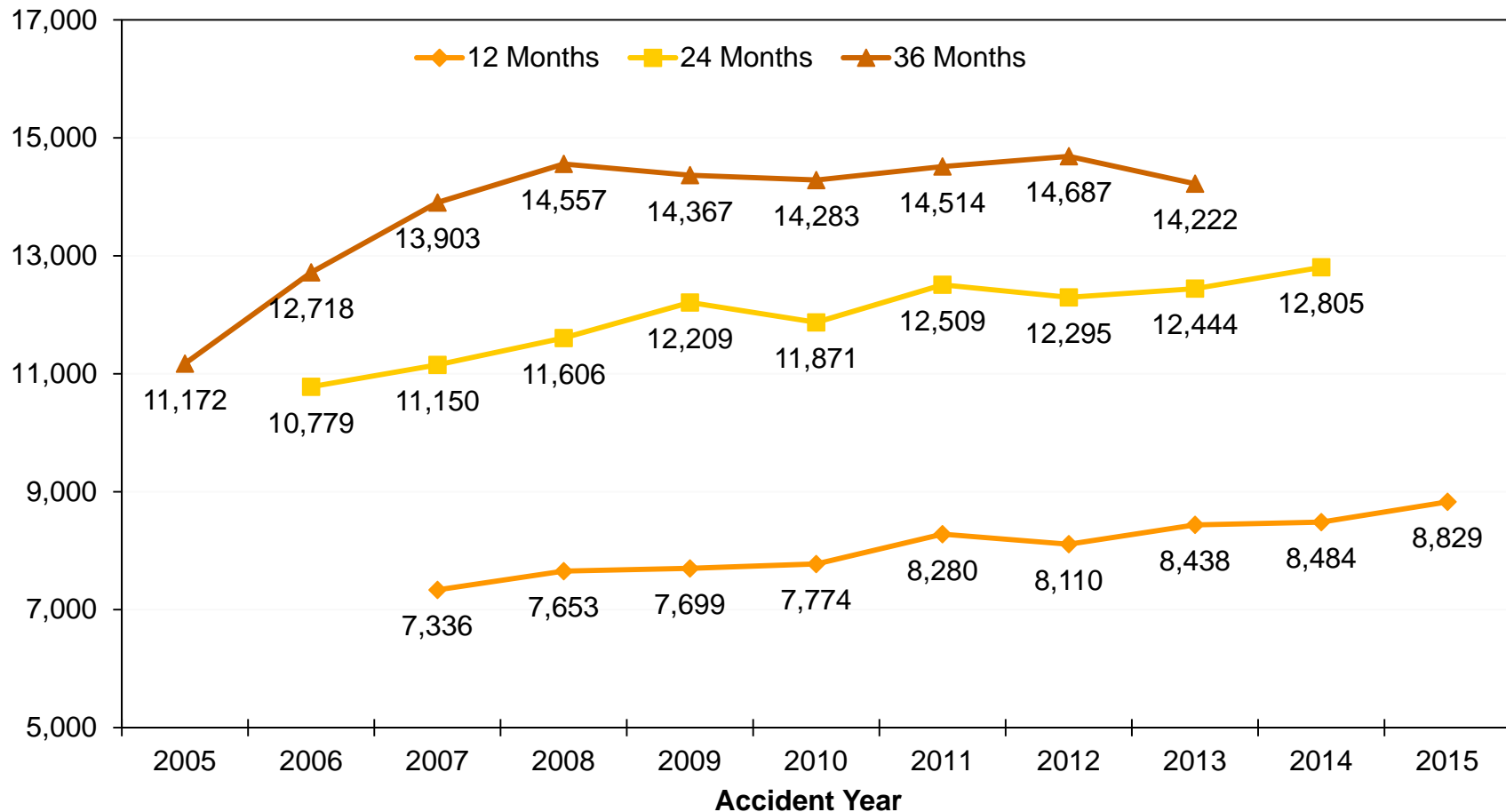


Source: WCIRB Quarterly Calls for Experience

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Average Indemnity Case Outstanding (Exhibit S3.1; pg. A-67)

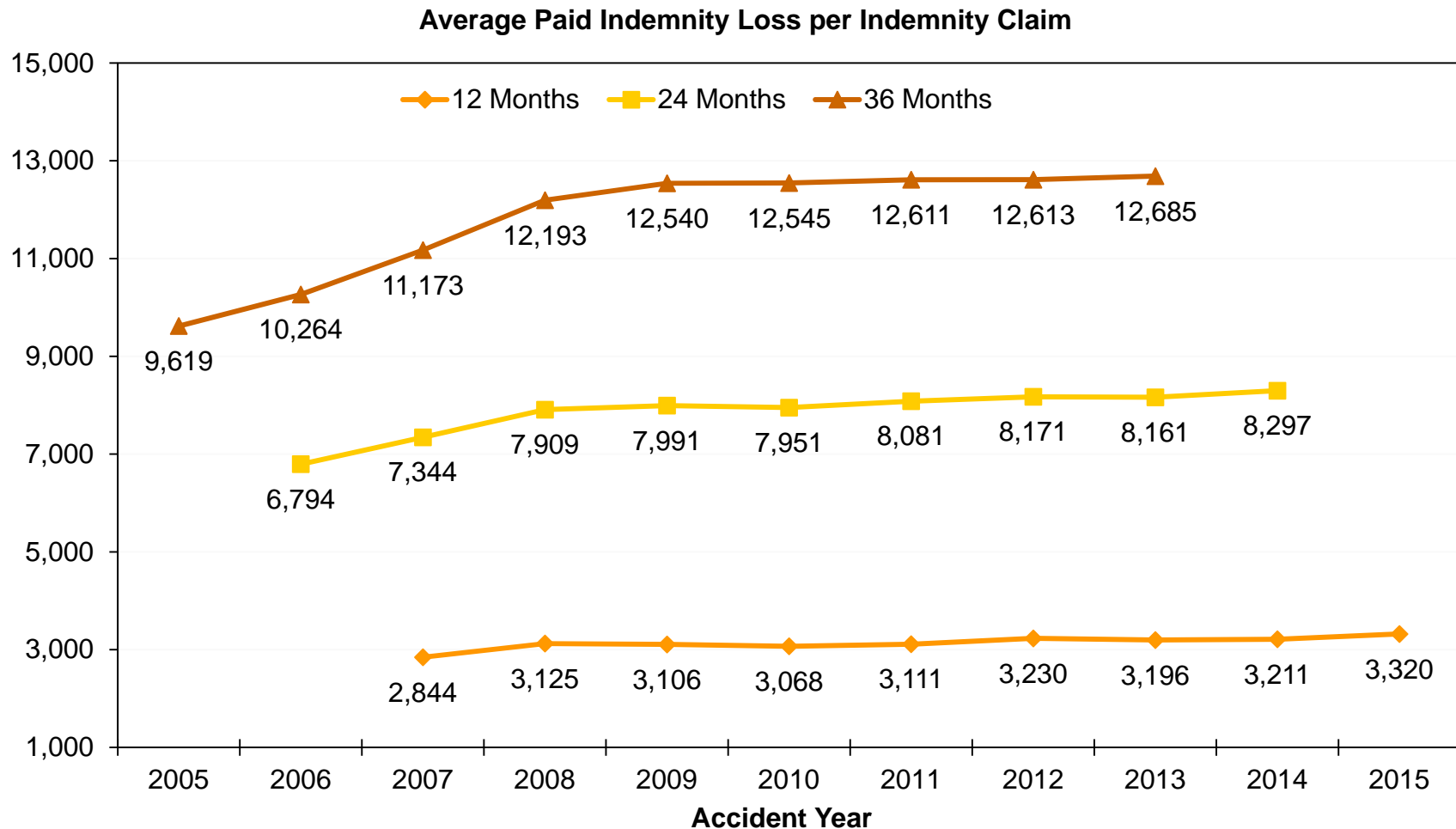
Average Indemnity Case Outstanding per Open Indemnity Claim



Source: WCIRB Quarterly Calls for Experience

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Paid Indemnity Severity (Exhibit S4.1; pg. A-69)

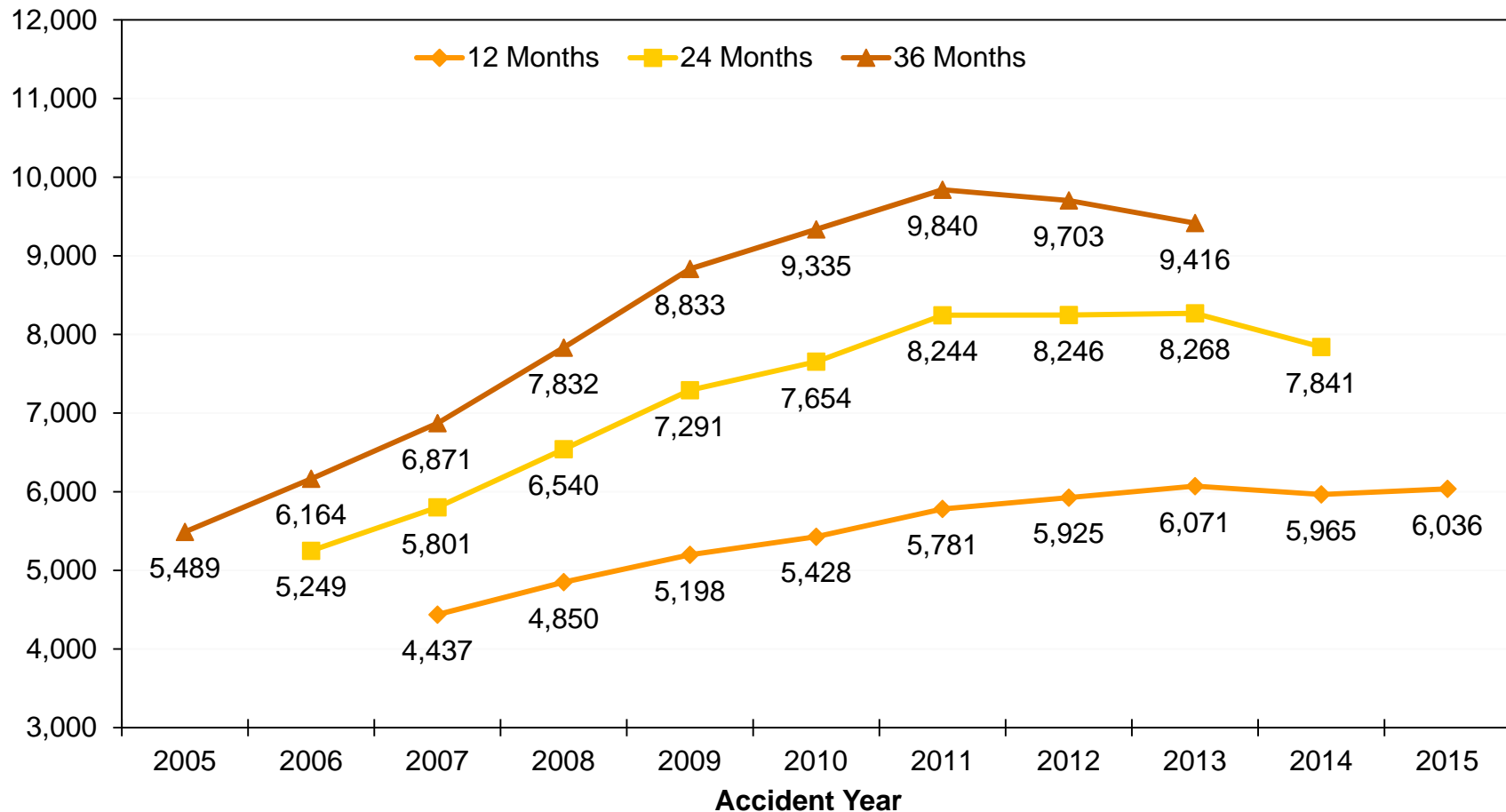


Source: WCIRB Quarterly Calls for Experience

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Incurred Medical Severity (Exhibit S2.2; pg. A-66)

Average Incurred Medical Loss per Claim (Includes M CCP)

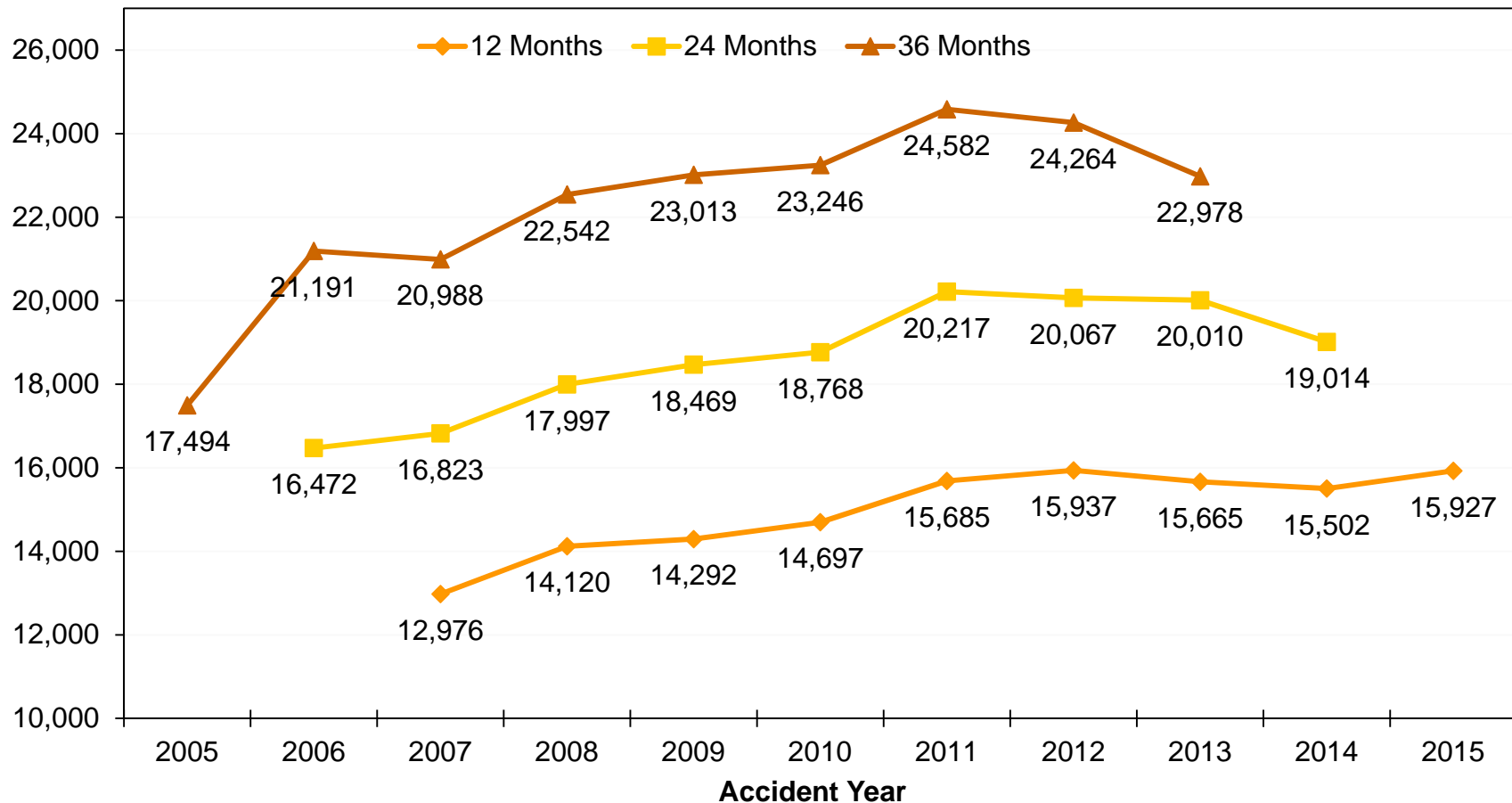


Source: WCIRB Quarterly Calls for Experience

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Average Medical Case Outstanding (Exhibit S3.2; pg. A-68)

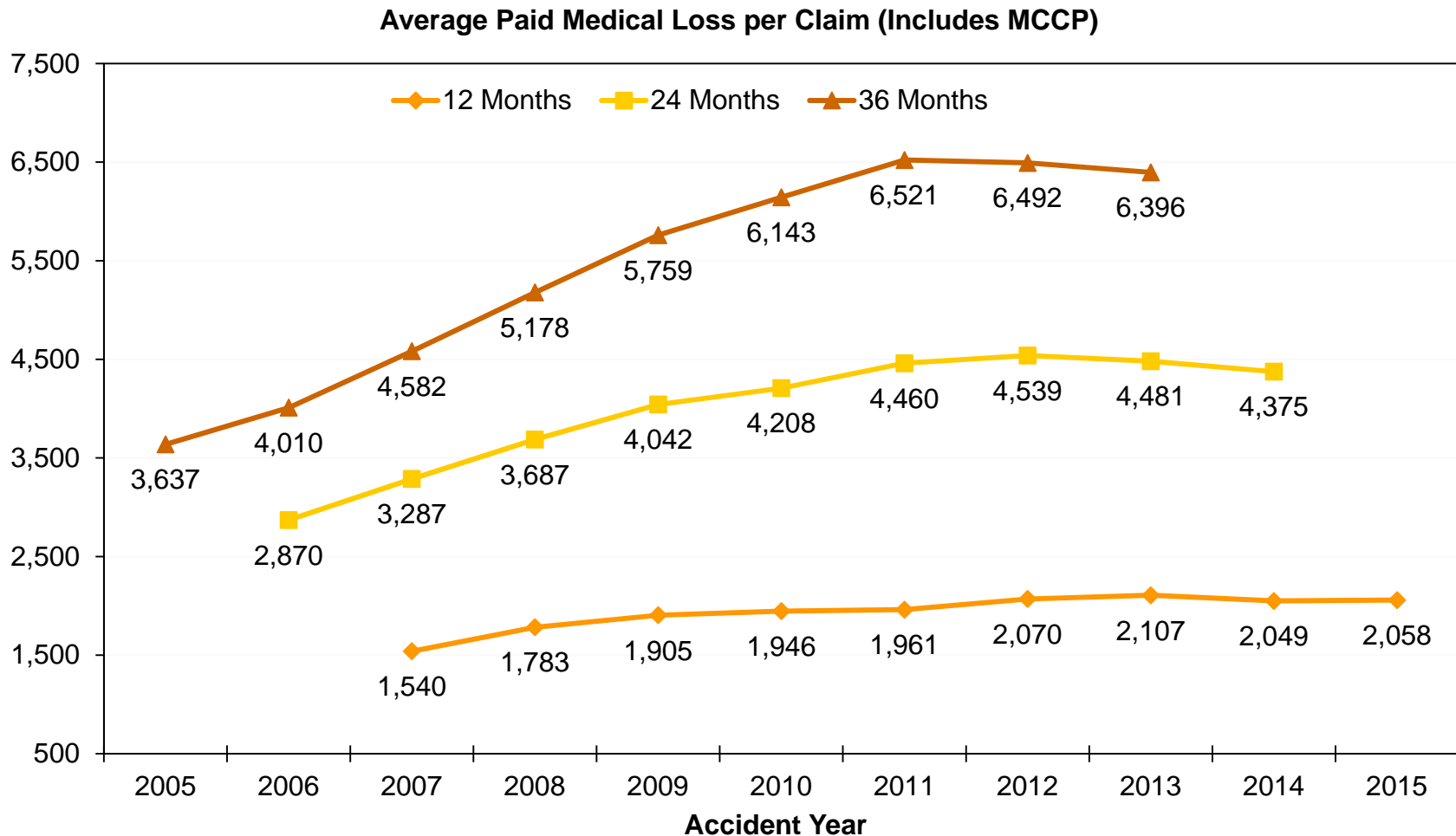
Average Medical Case Outstanding per Open Indemnity Claim



Source: WCIRB Quarterly Calls for Experience

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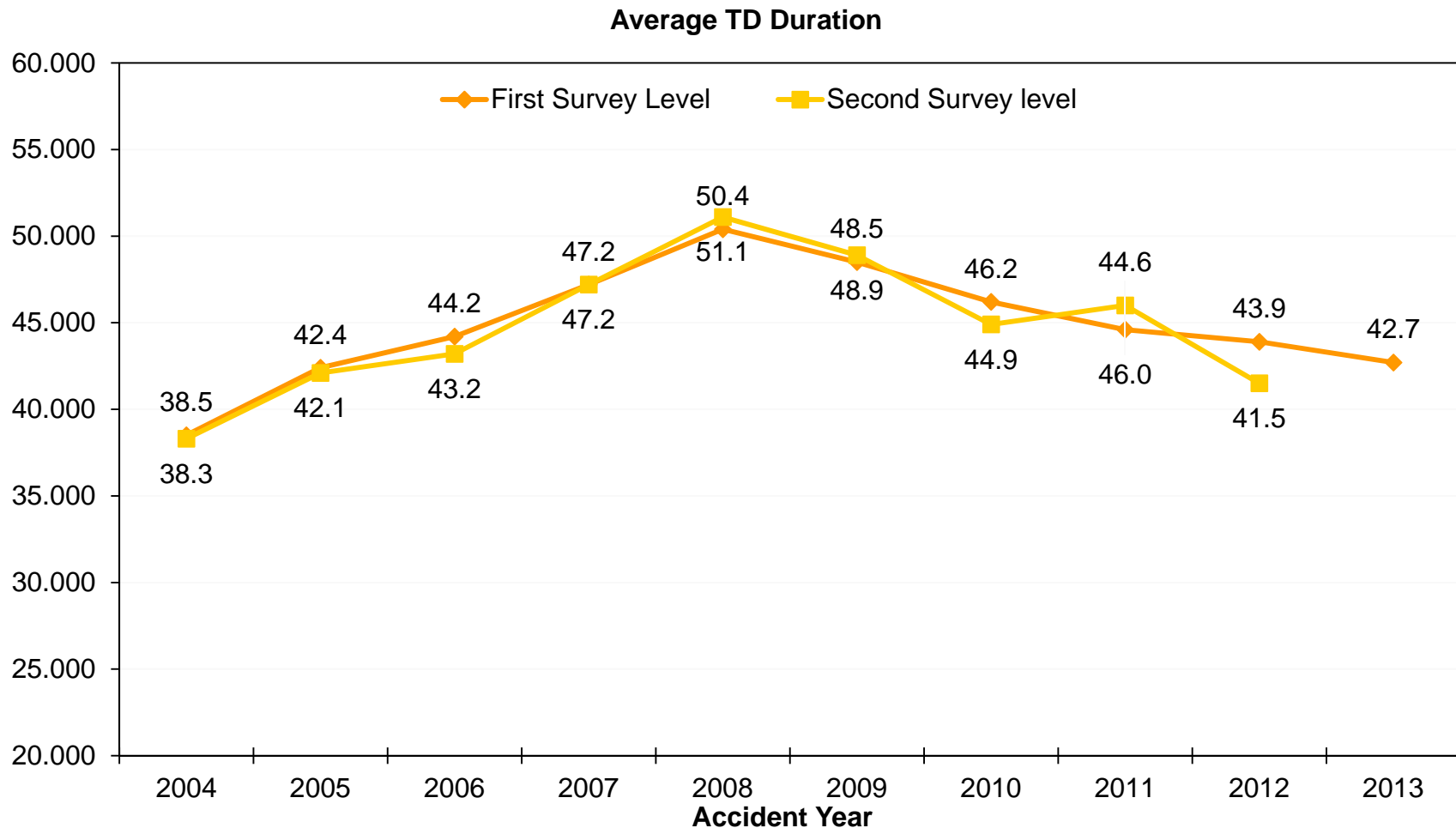
Paid Medical Severity (Exhibit S4.3; pg. A-71)



Source: WCIRB Quarterly Calls for Experience

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Duration of Temporary Disability Benefits (Exhibit S10.2; pg. A-81)

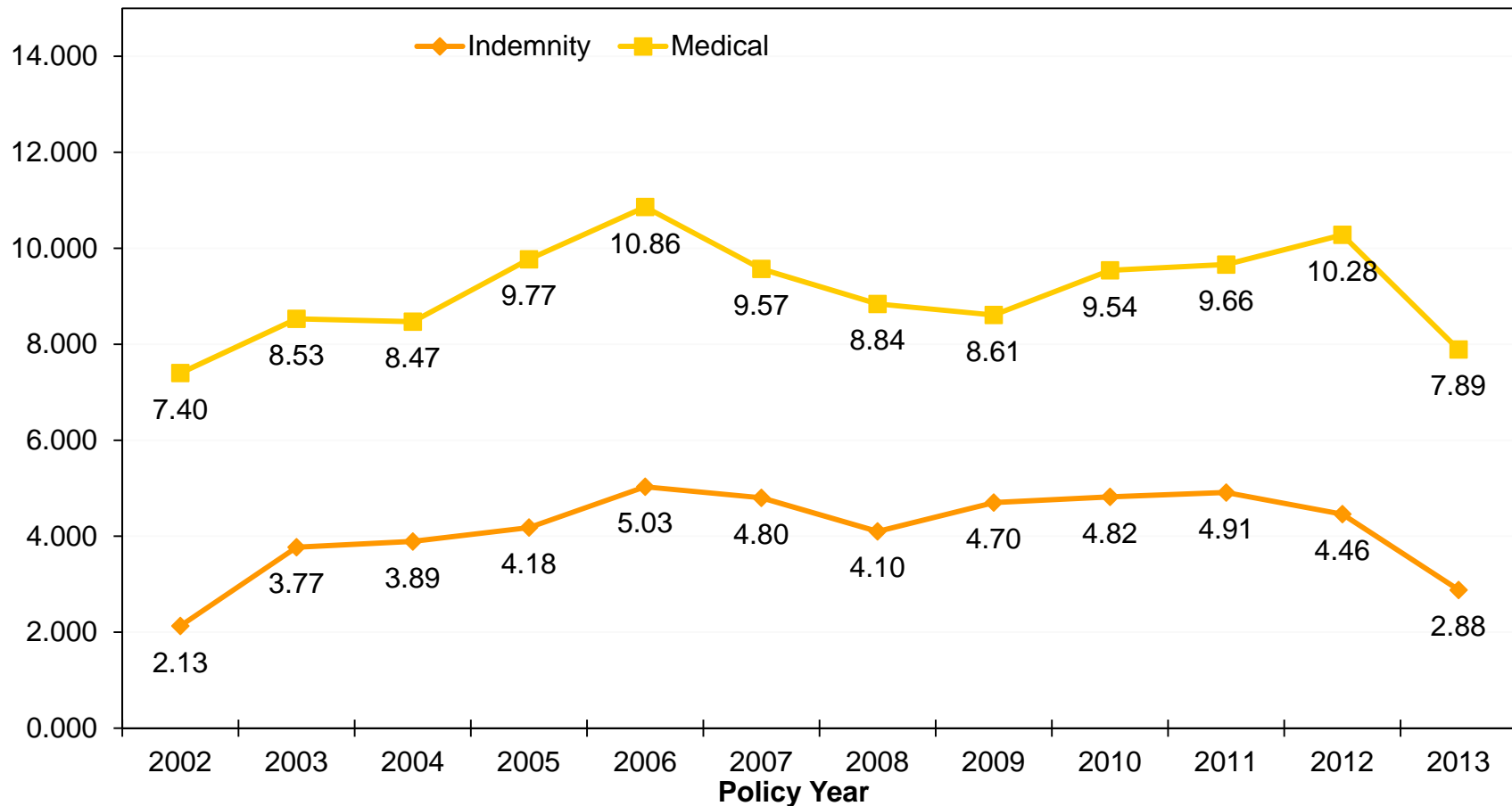


Source: WCIRB Permanent Disability Claim Survey

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Loss Share on Claims in Excess of \$500,000 (Exhibit S16.2; pg. A-86)

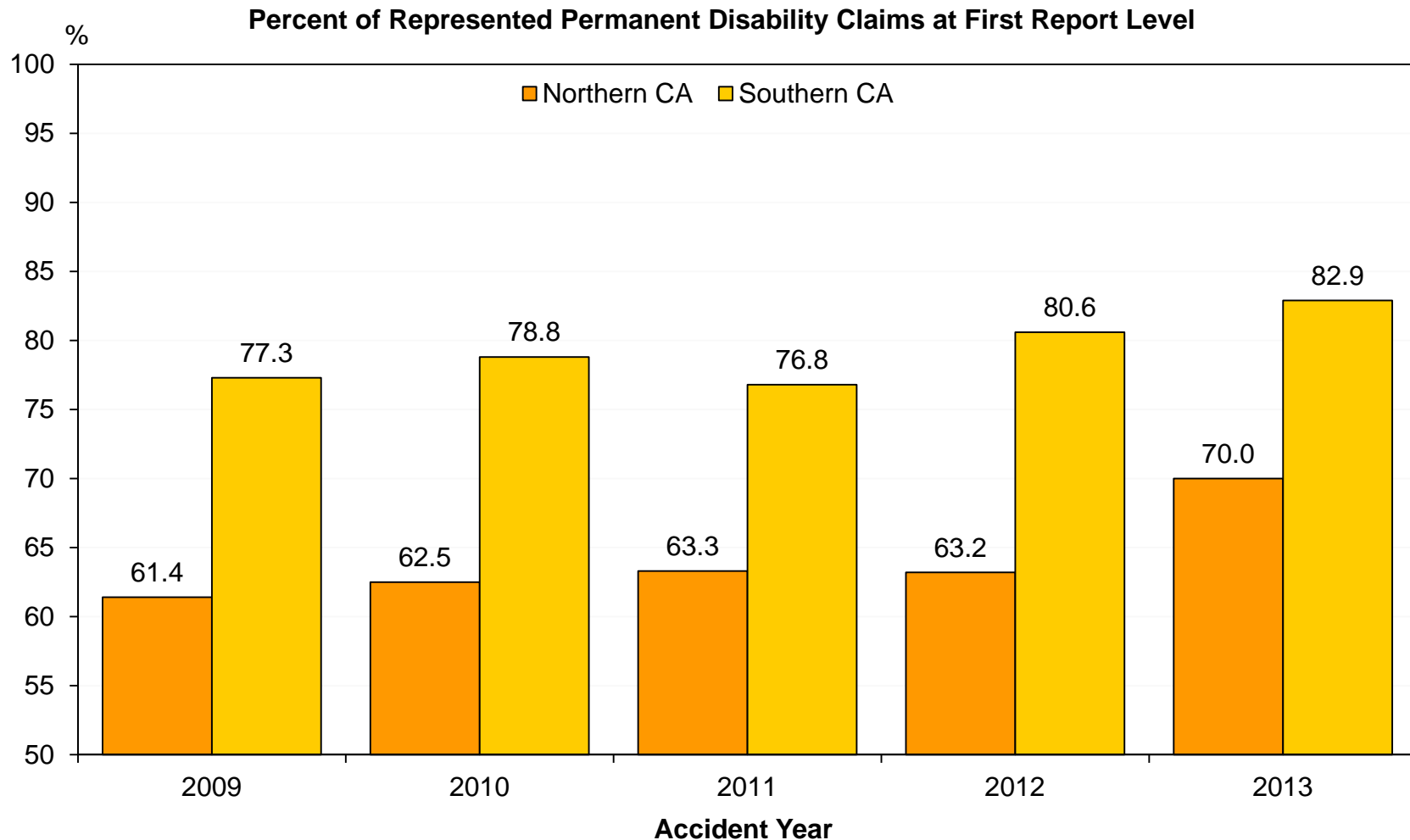
Percent of Indemnity Incurred on Claims in Excess of \$500,000 at First Report Level



Source: WCIRB Unit Statistical Data

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Percent of PD Claims with Representation (Exhibit E7; pg. A-100)

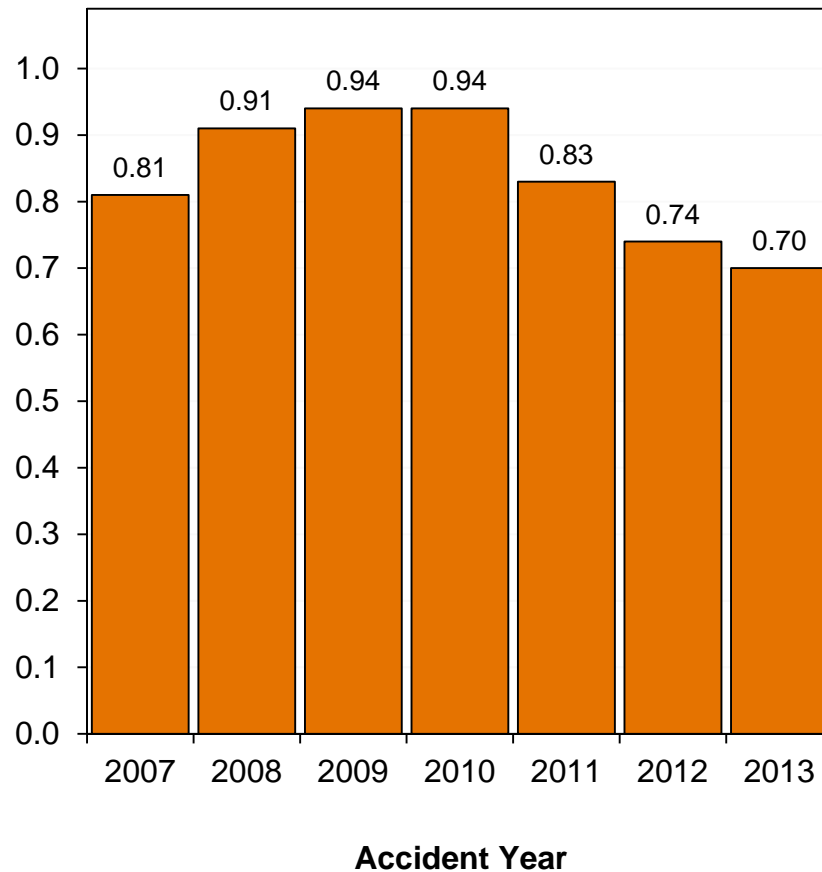


Source: WCIRB Permanent Disability Claim Survey (First Survey Level)

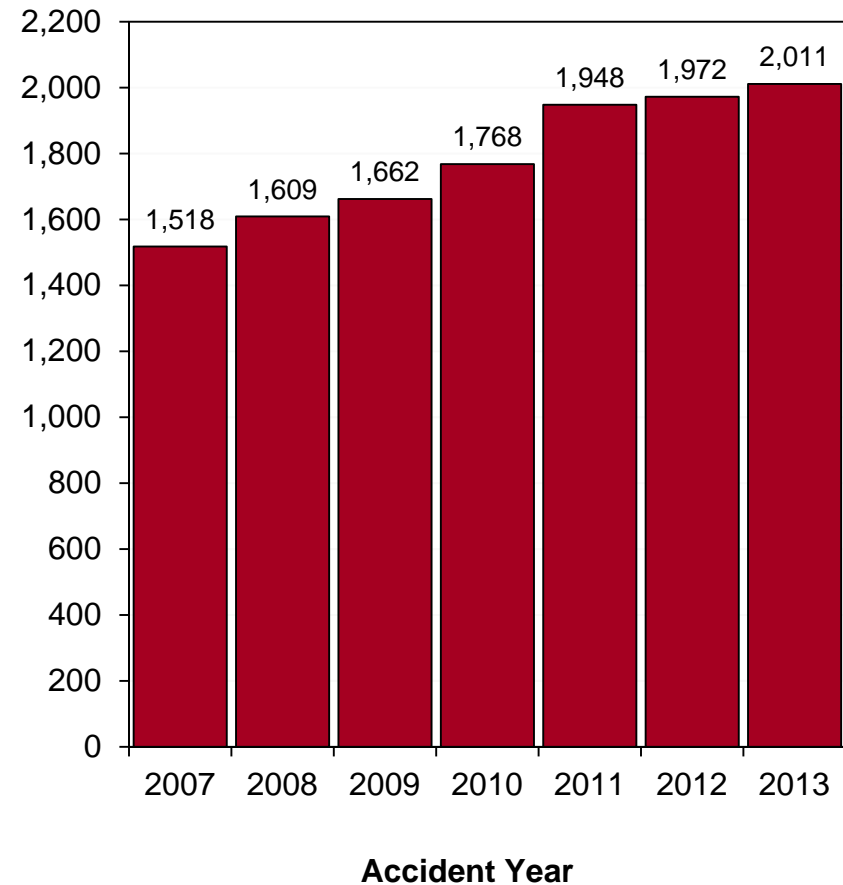
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Medical-Legal Reports (Exhibit E13; pg. A-105)

Medical-Legal Reports per PD Claim



Average Cost per Medical-Legal Report



Source: WCIRB Permanent Disability Claim Survey (First Survey Level)

12/31/2015 Experience – Review of Methodologies

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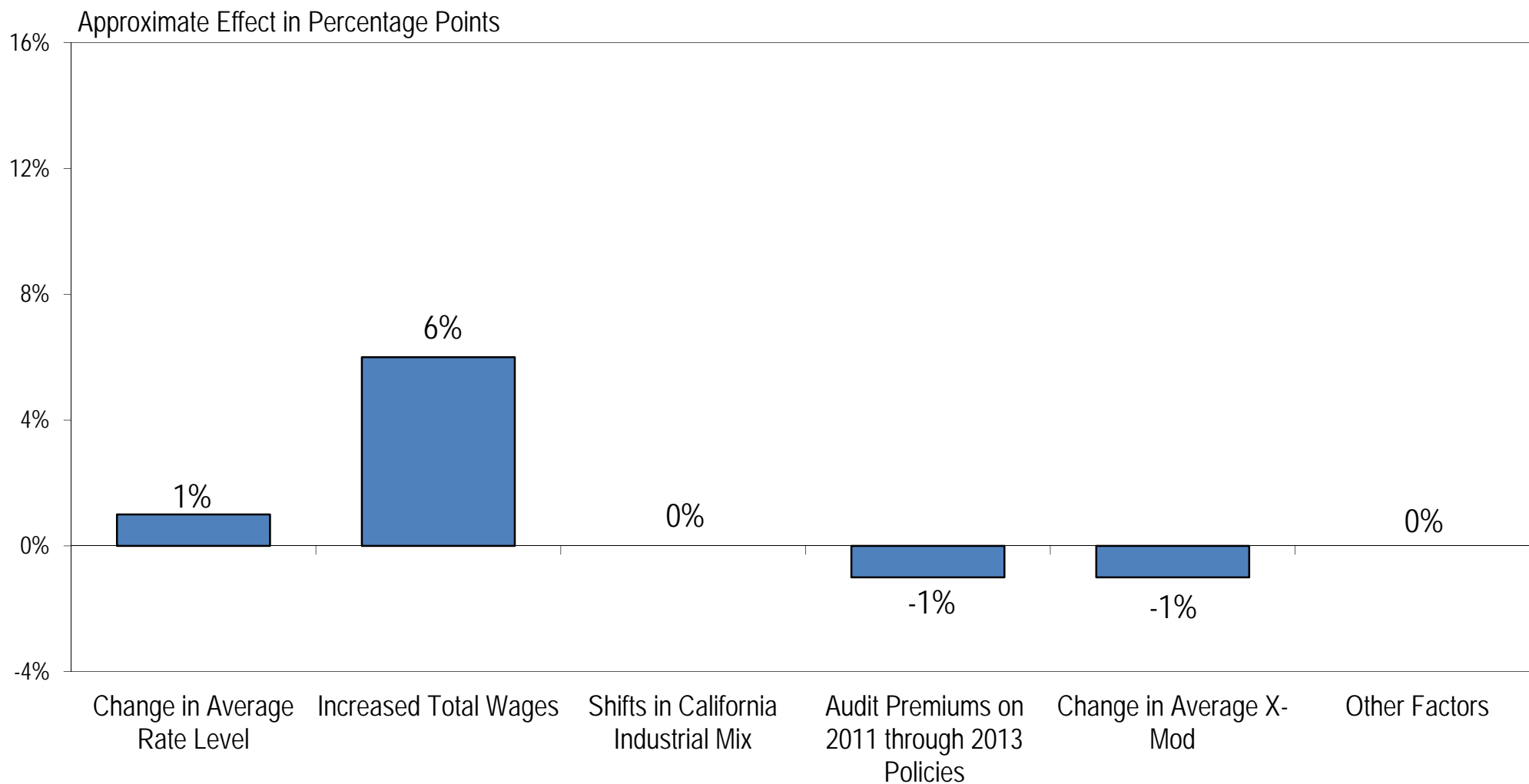
Summary of December 31, 2015 Experience

- Approximately 100% of Market Reflected
- Same Methodologies as in 1/1/16 Filing
 - Adjustments for SB 863 consistent with 1/1/16 Filing
- Projected Policy Year 2016 Loss Ratio: 0.637
- Approx. 3 Point Decrease from 9/30/15 Analysis (0.670) Primarily Driven by Lower Emergence of 2015 Year
- Approx. 5 Point Decrease from 1/1/16 Filing Indication (0.685; Based on 3/31/15 Experience)

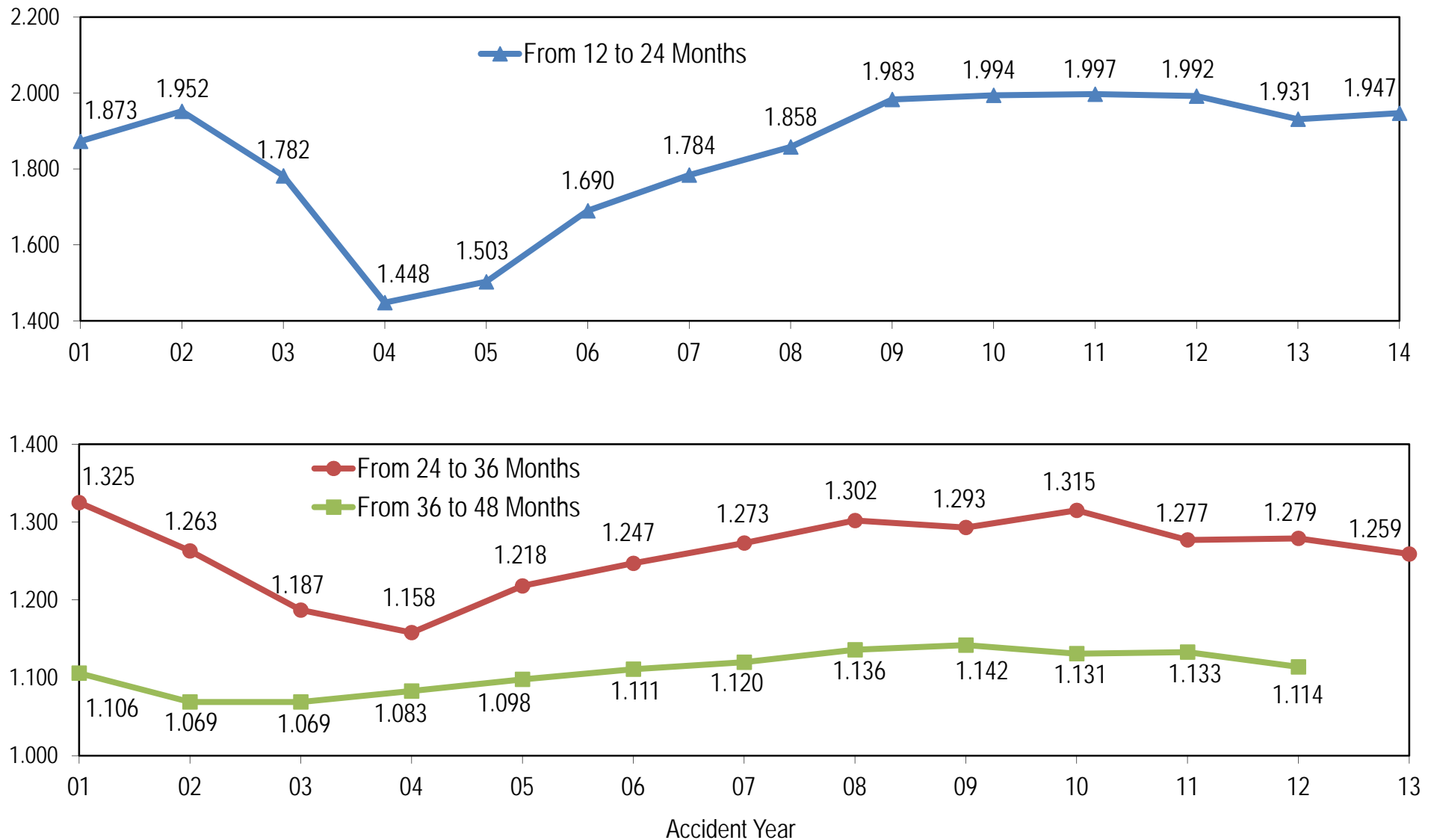
Changes from 1/1/16 Filing Loss Projection

Factor	Approx. Impact in Percentage Points
Lower Loss Development	-2.5
Inclusion of 2015 Accident Year	-2.0
Updated UCLA Forecast	+0.5
Updated Frequency Trends	-0.5
Trend to July 1, 2016 Policy Period	-0.5
Total	-5.0

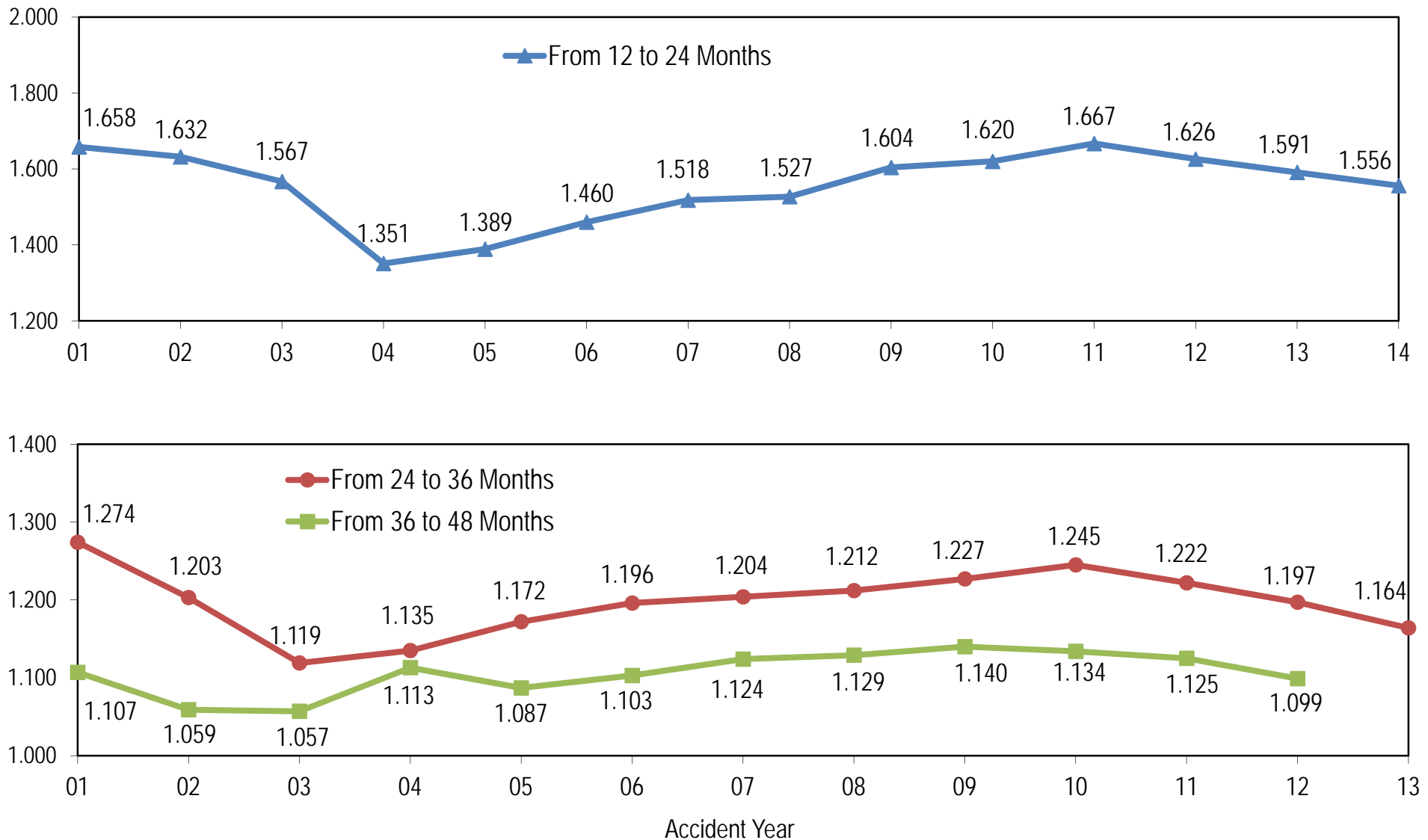
Components of 5% Increase in 2015 Earned Premium



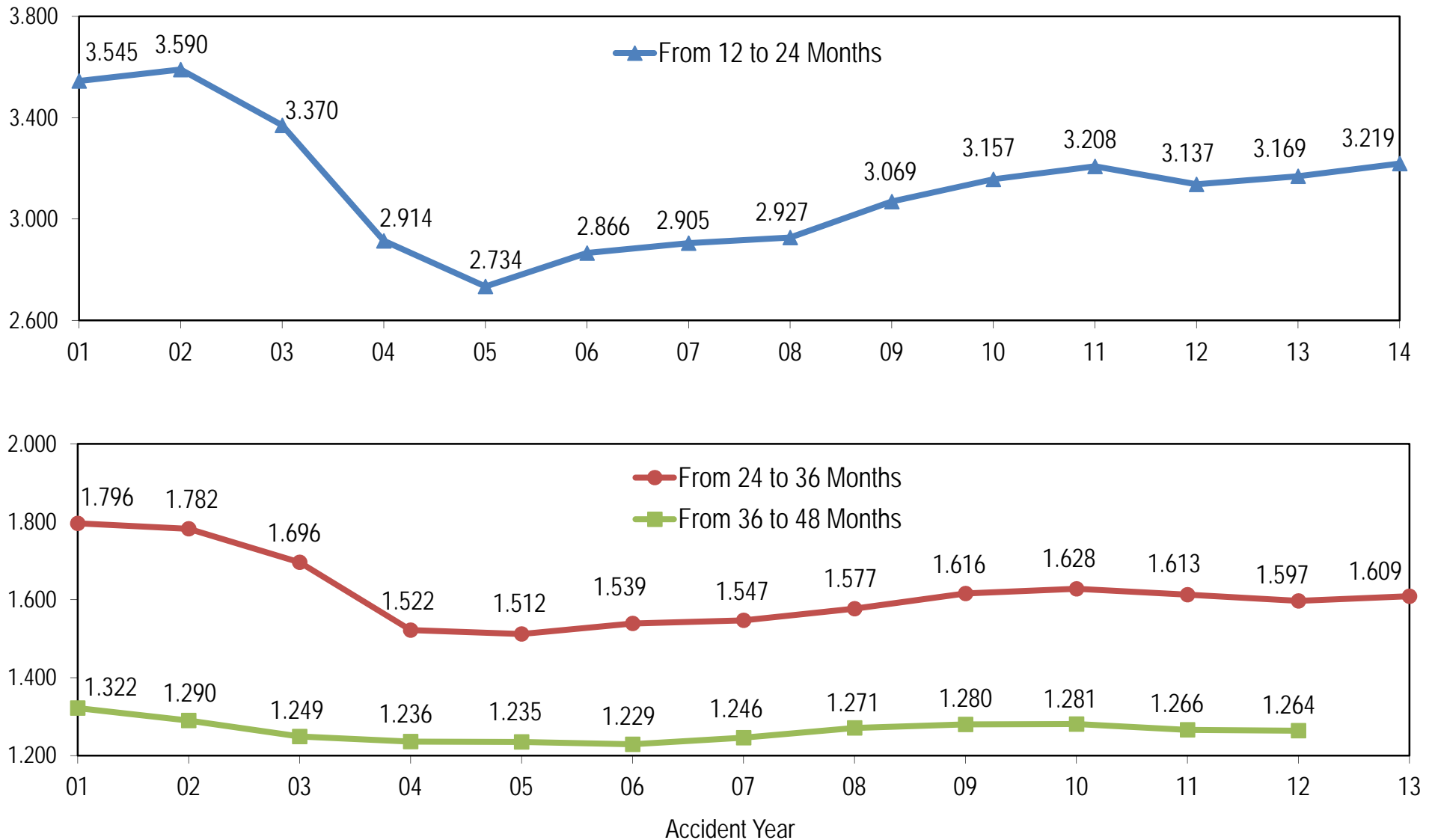
Incurred Indemnity Loss Development Factors (Exhibit 2.1.1)



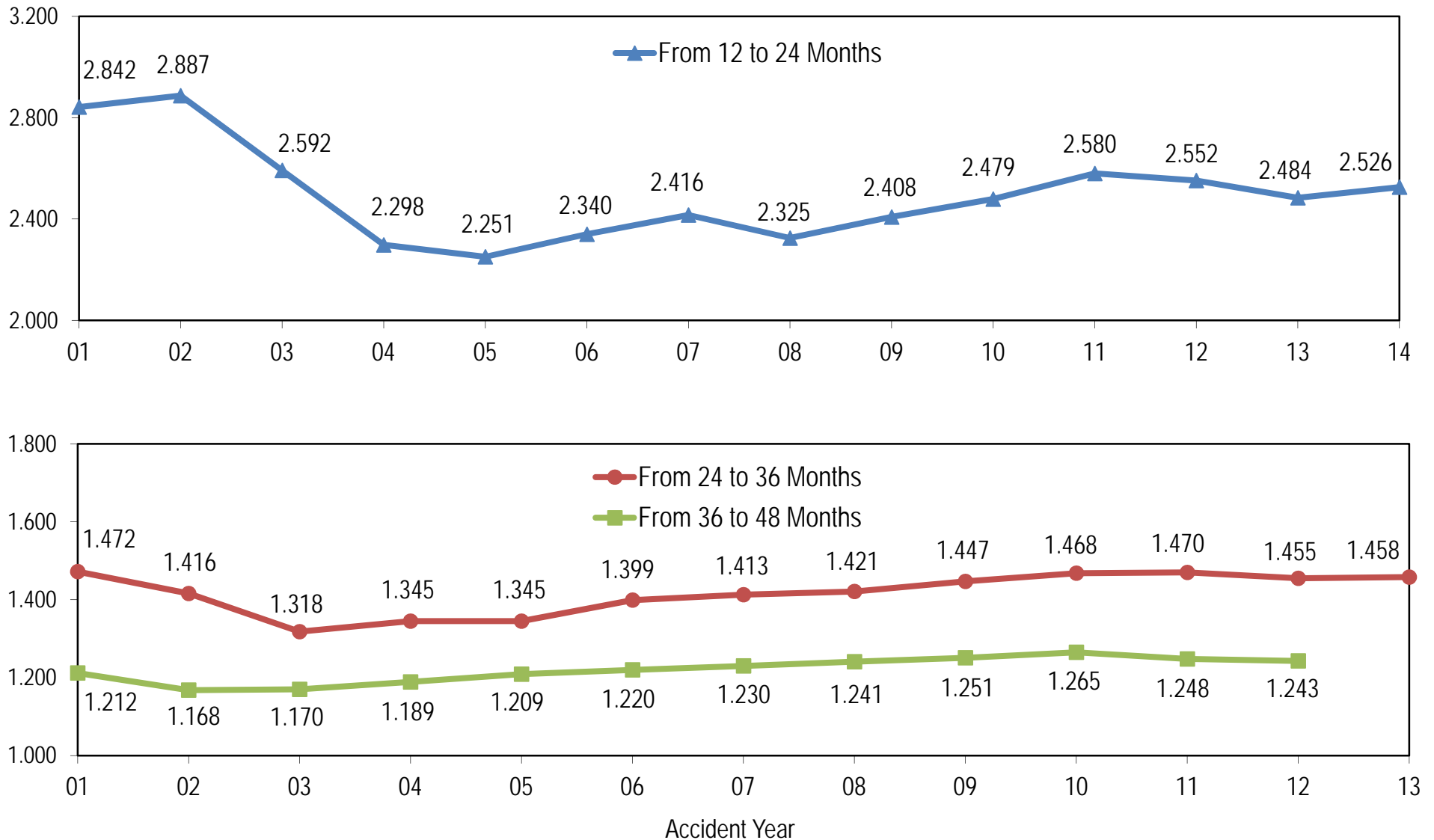
Incurred Medical Loss Development Factors (Exhibit 2.2.1)



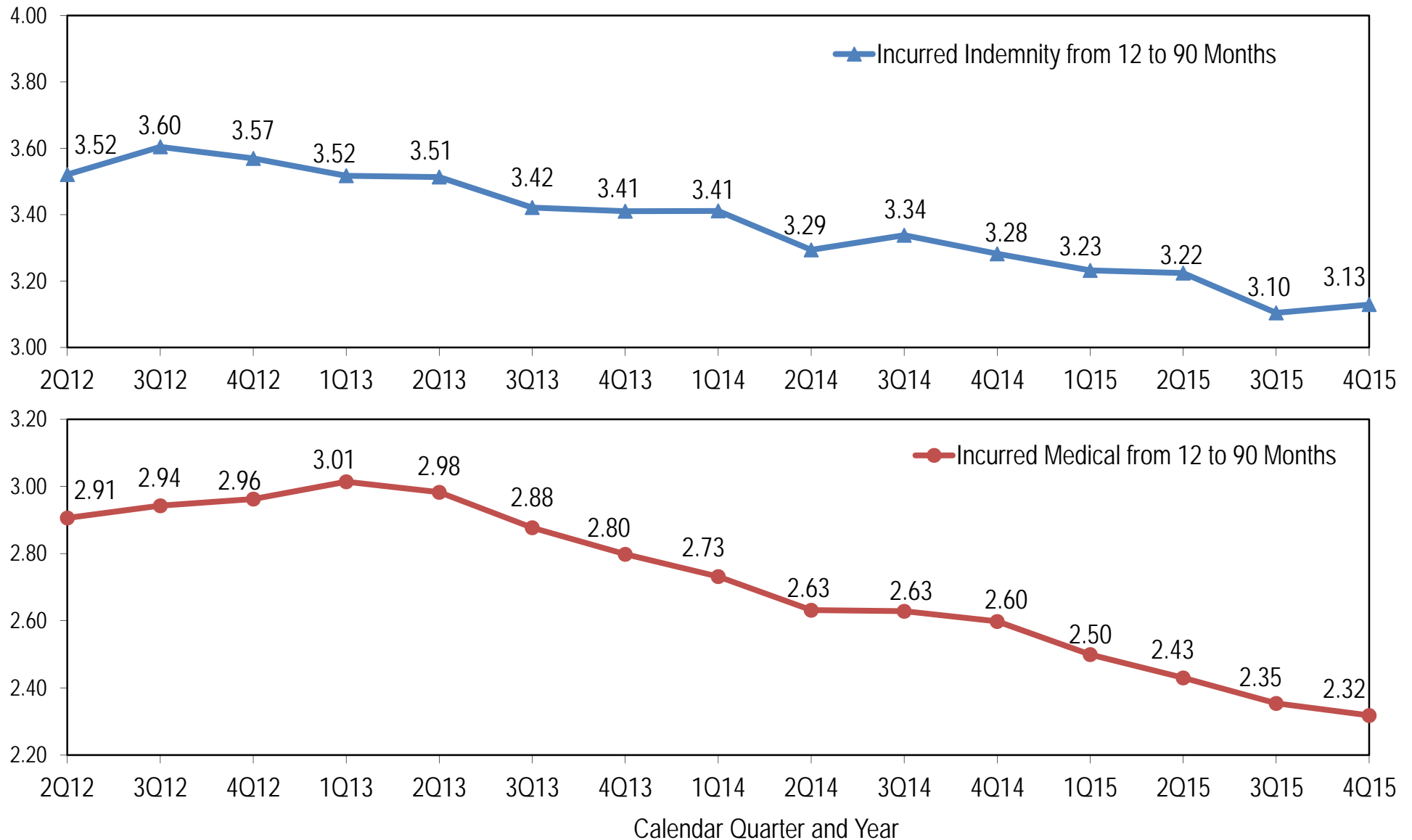
Paid Indemnity Loss Development Factors (Exhibit 2.3.1)



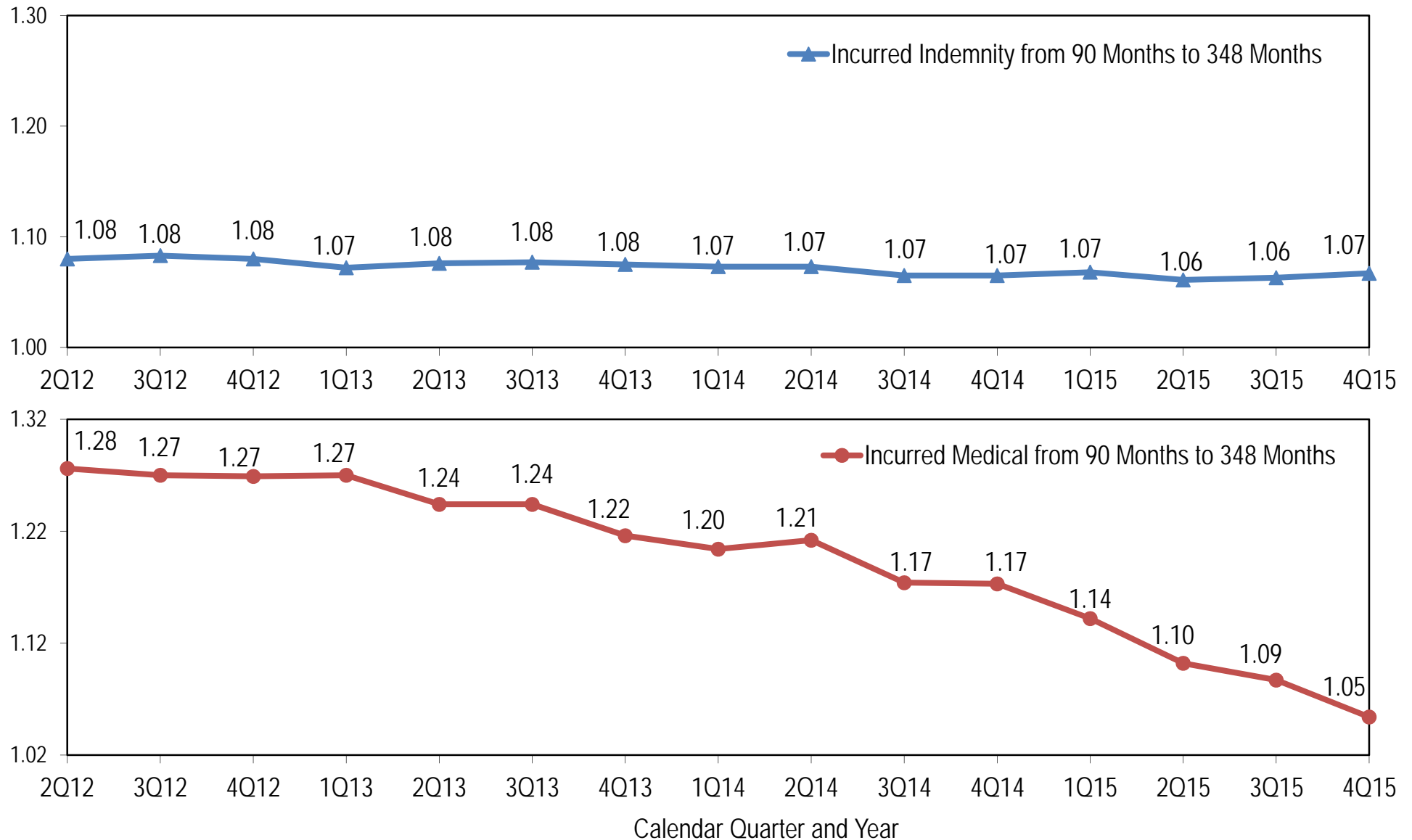
Paid Medical Loss Development Factors (Exhibit 2.4.1)



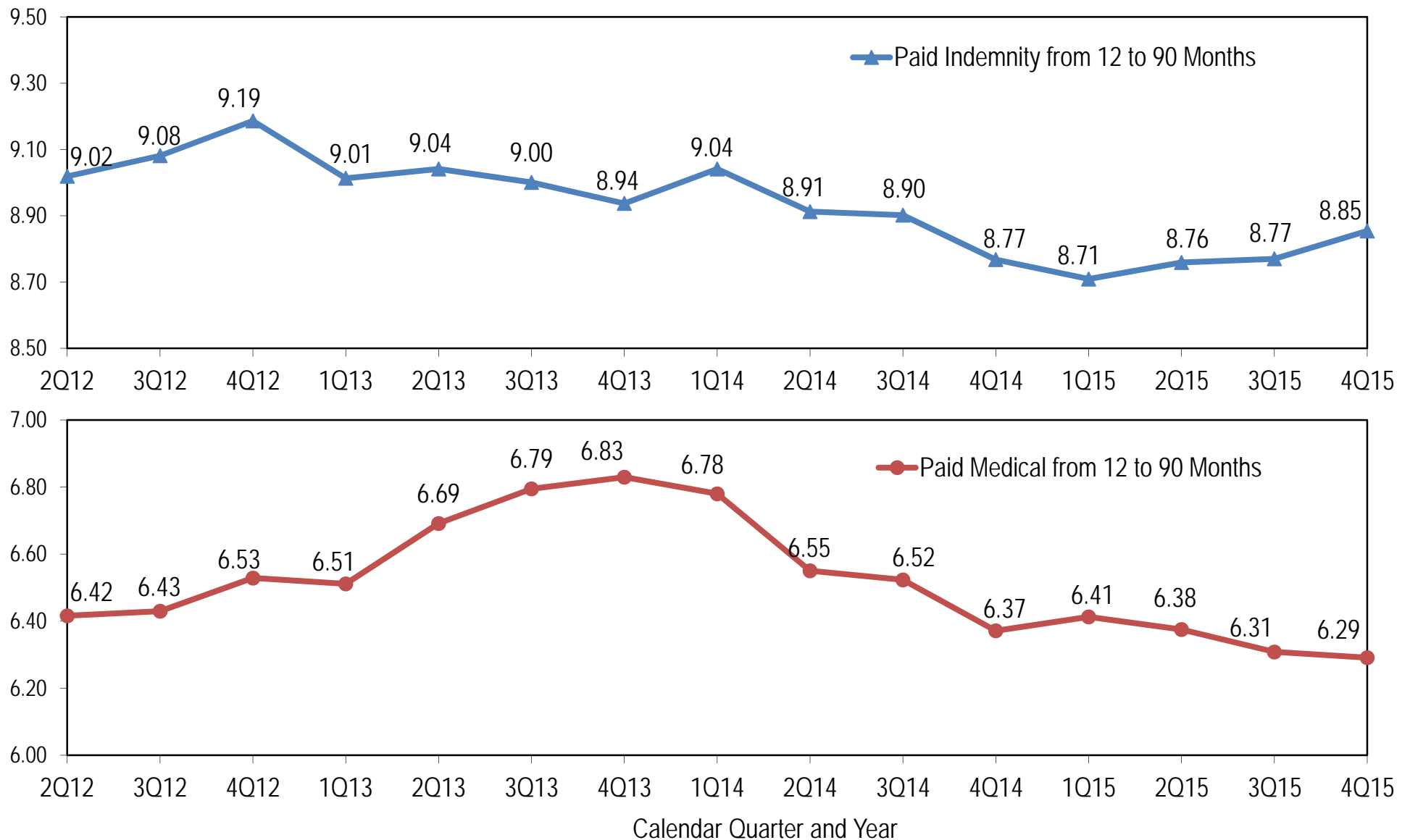
Cumulative Incurred Development by Quarter



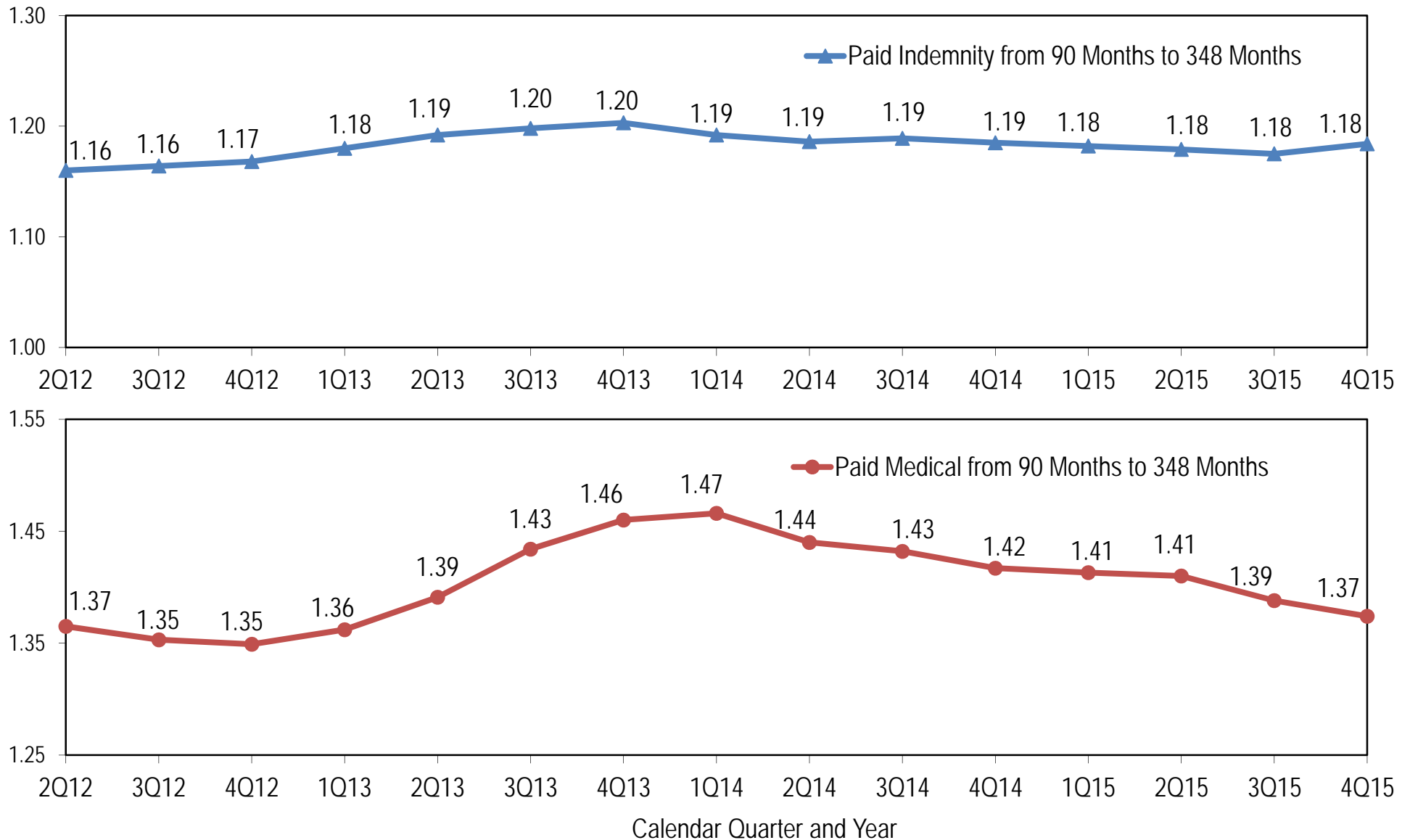
Cumulative Incurred Development by Quarter



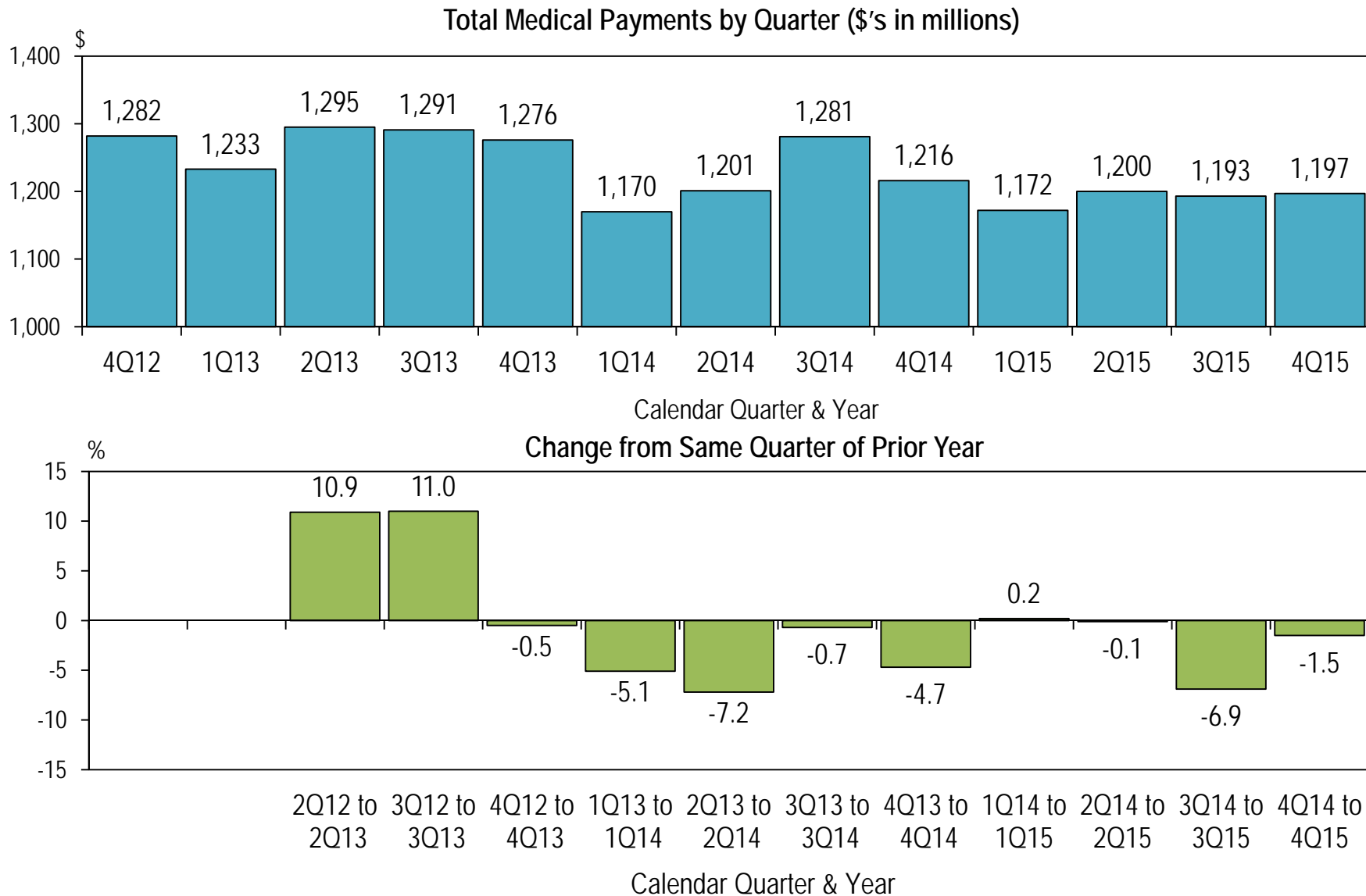
Cumulative Paid Development by Quarter



Cumulative Paid Development by Quarter

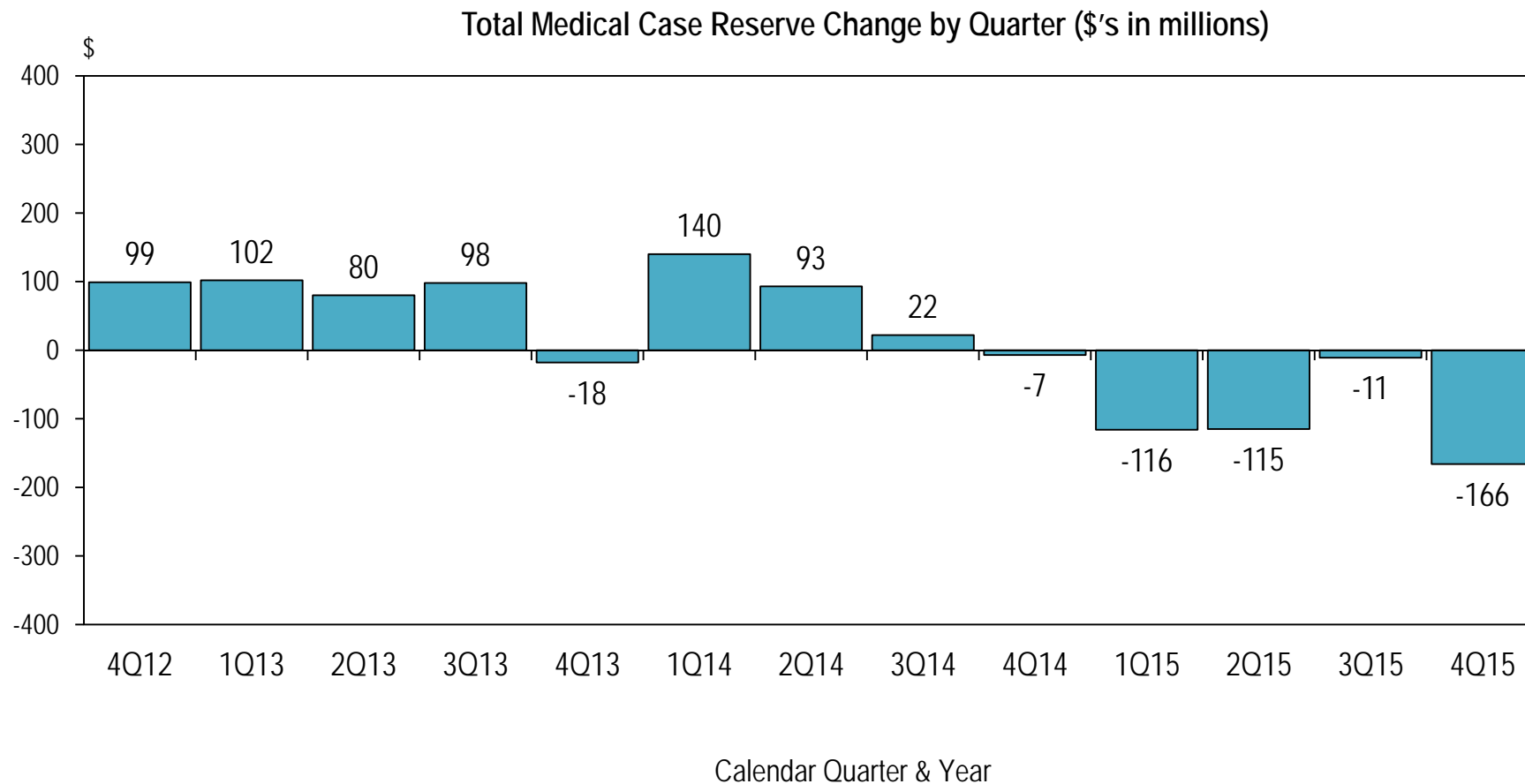


Total Medical Payments by Calendar Quarter



Source: WCIRB Quarterly Calls for Experience

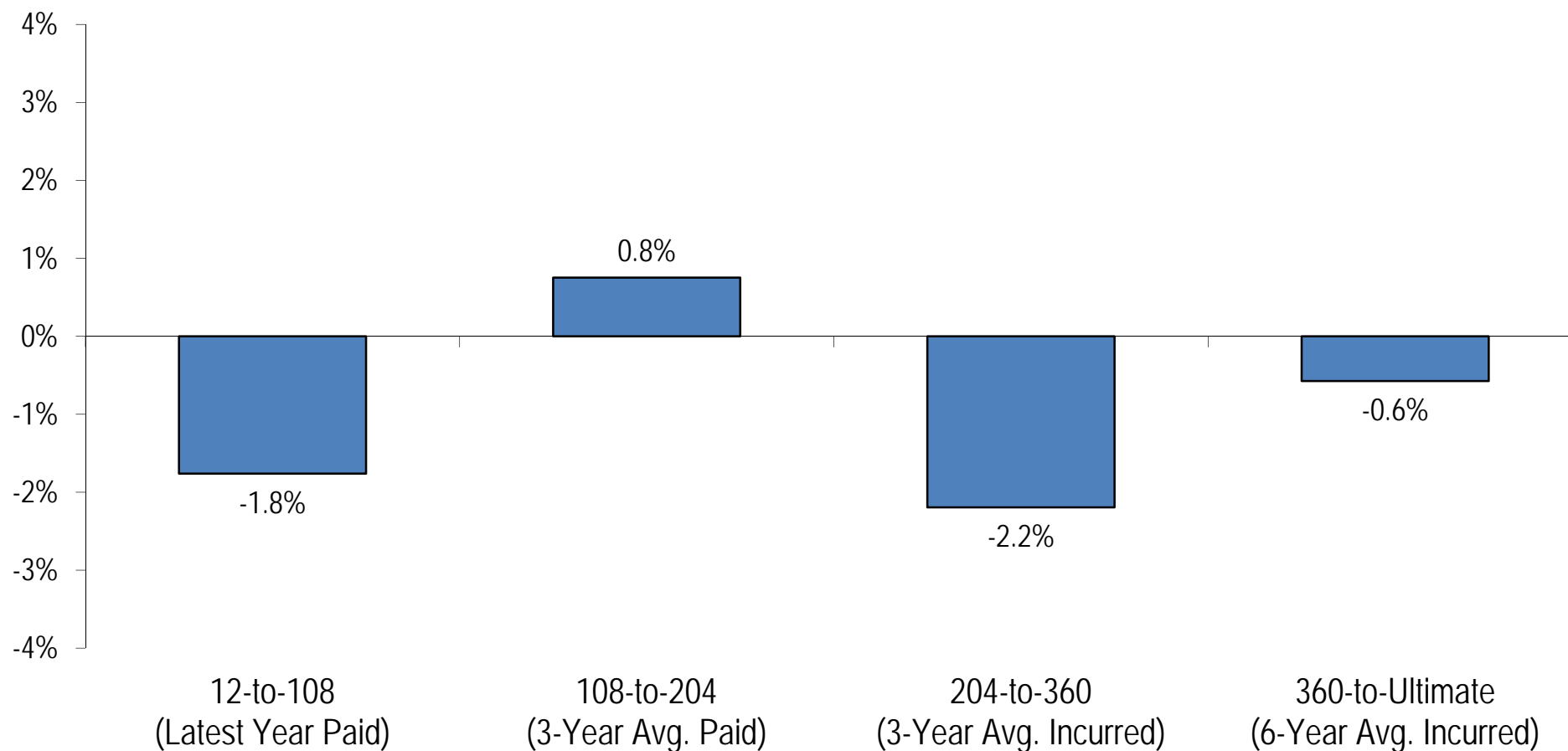
Total Change in Medical Case Reserves by Calendar Quarter



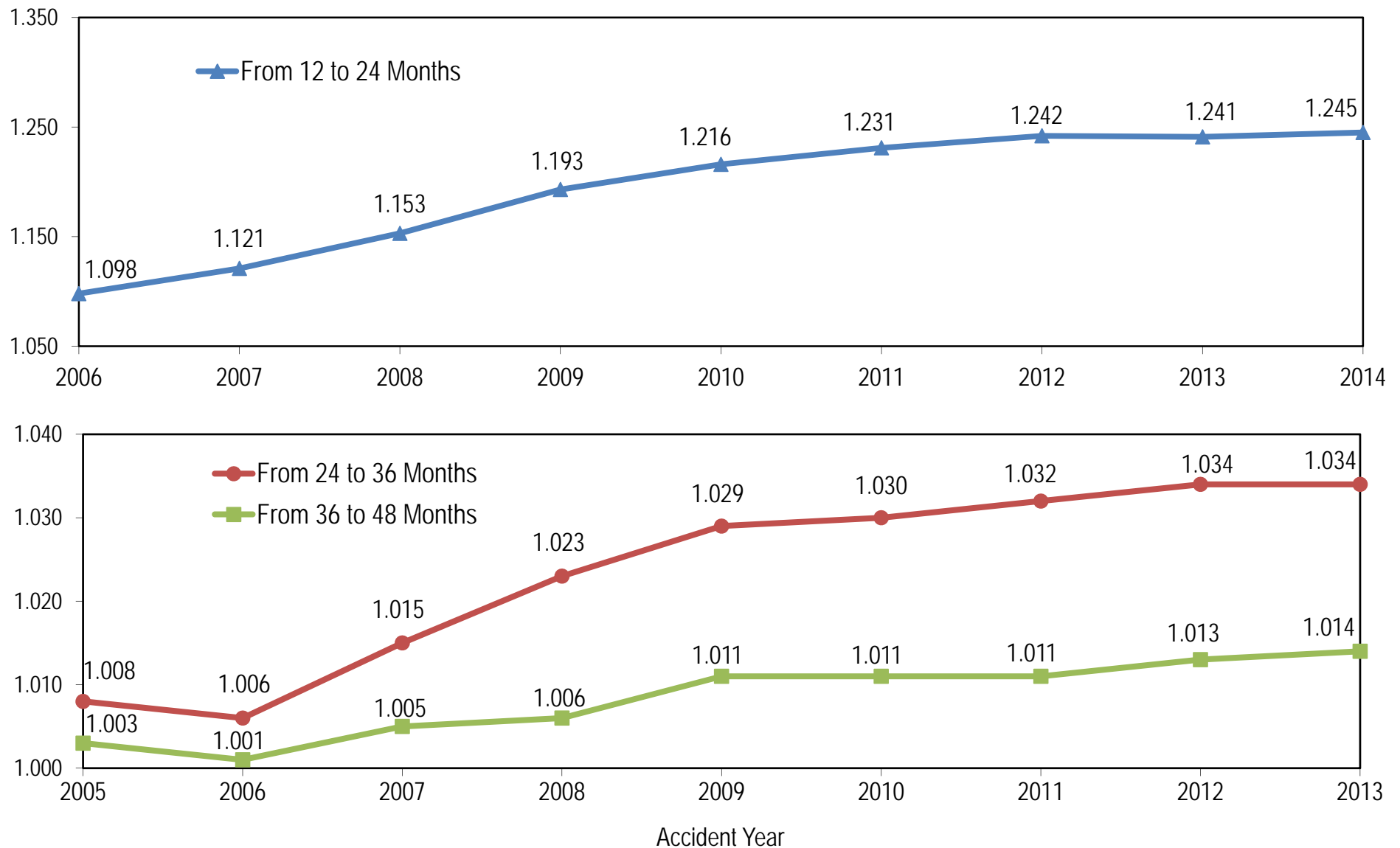
Source: WCIRB Quarterly Calls for Experience

Change in Projected Medical Development Factor December 31, 2014 to December 31, 2015 Experience

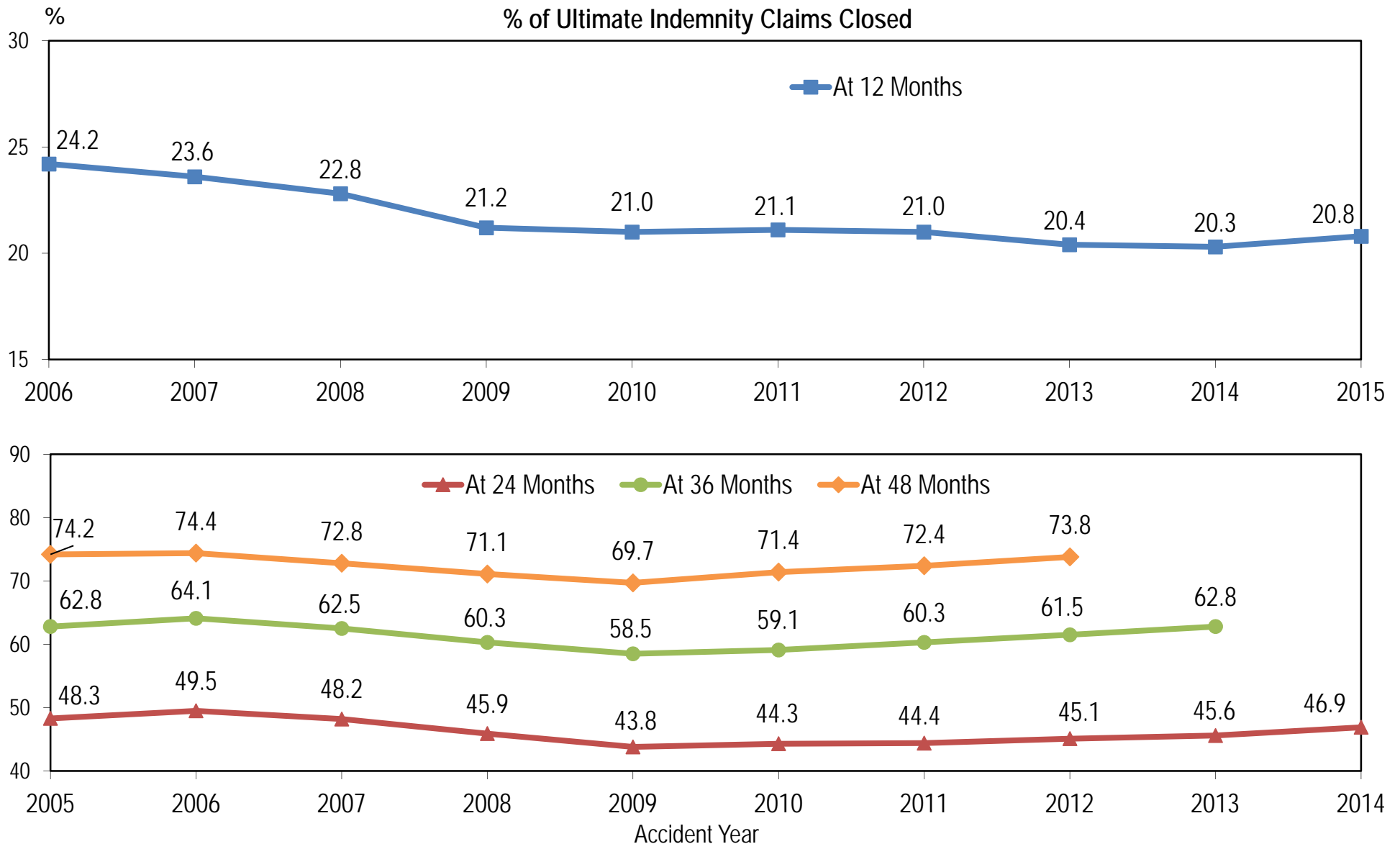
Change in Projected Development Factor for Period



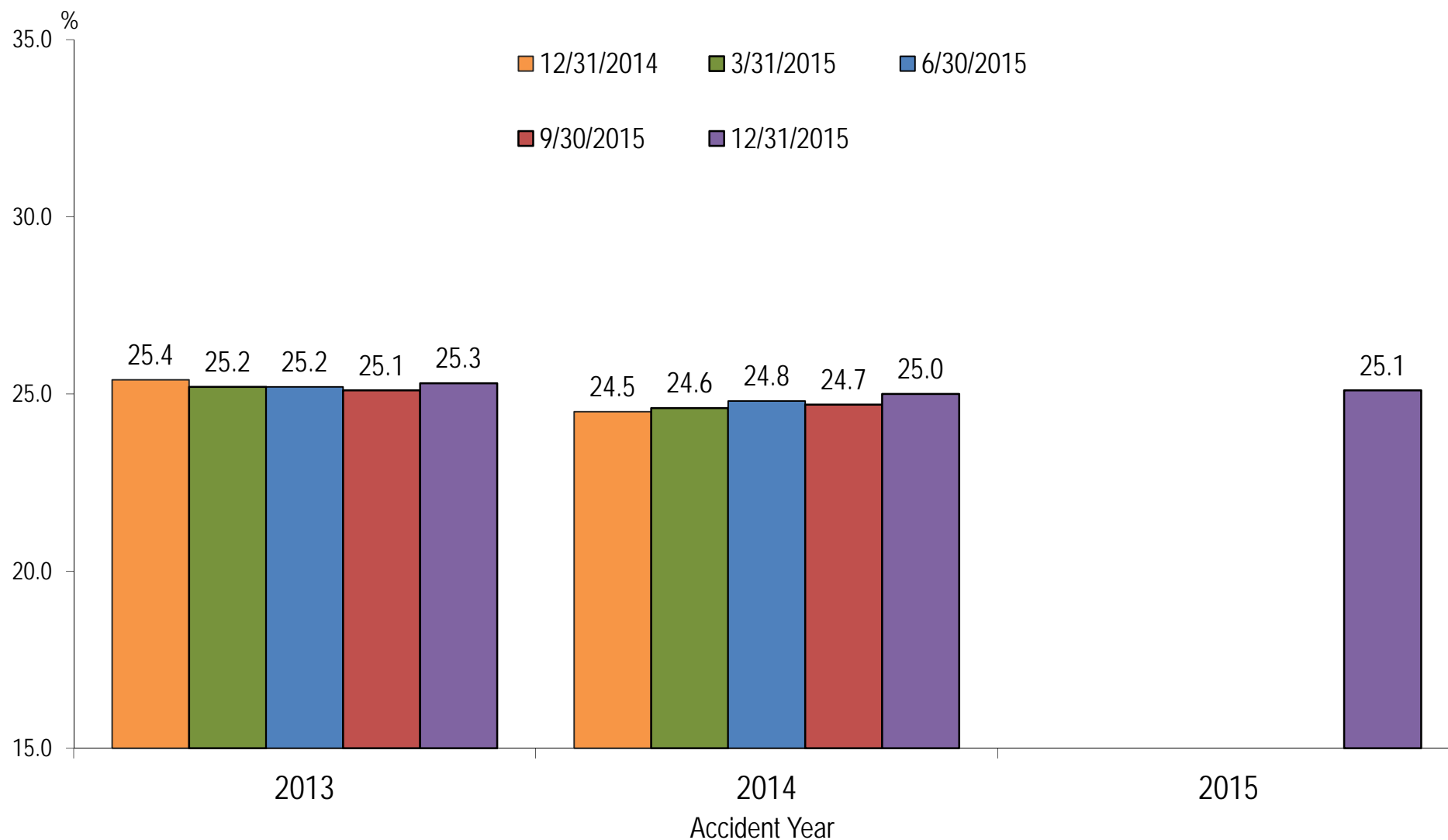
Indemnity Claim Count Development (Exhibit 10.1)



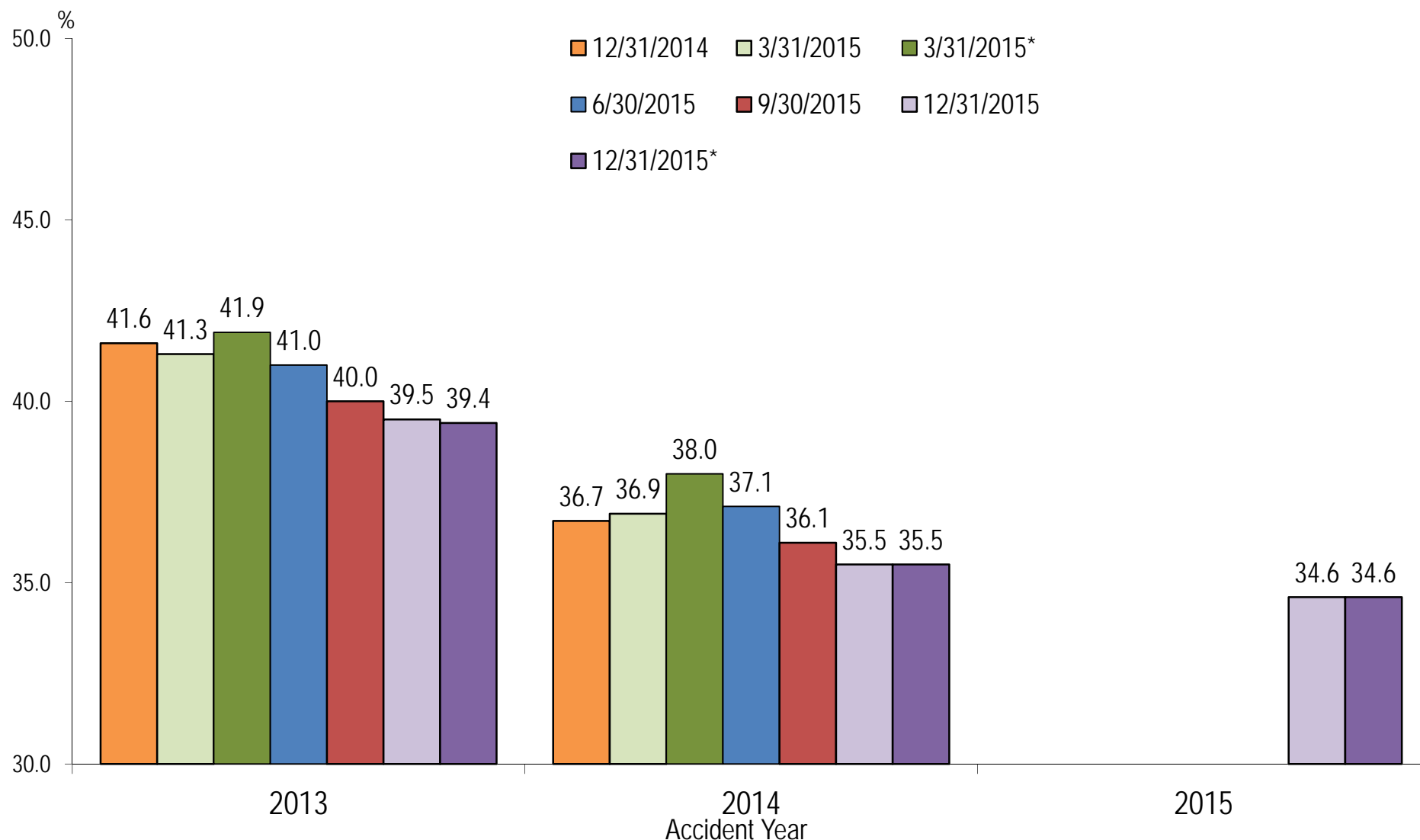
Indemnity Claim Settlement Ratios (Exhibit 11.2)



Projected Ultimate Indemnity Loss Ratios (Exhibit 3.1)

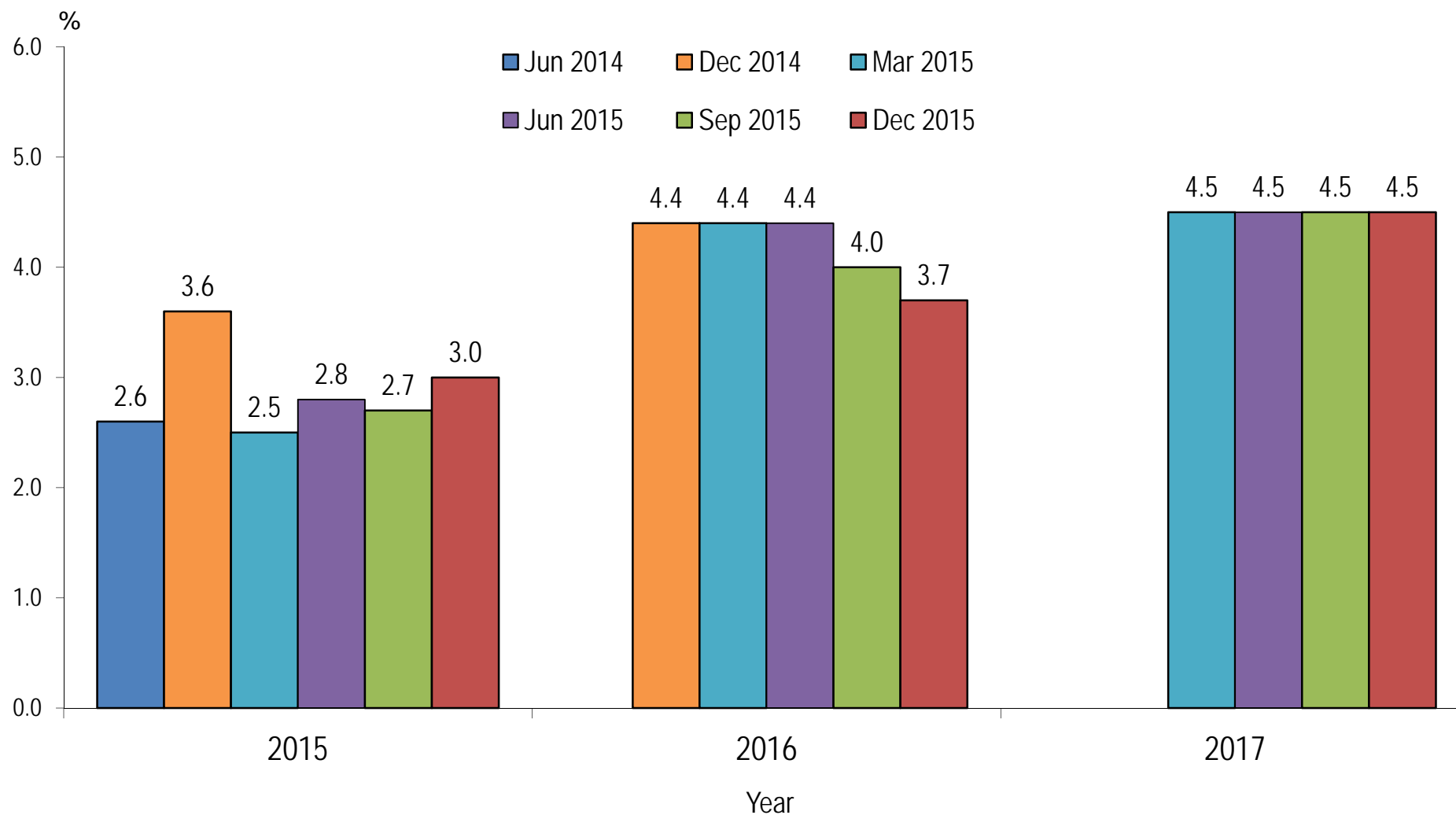


Projected Ultimate Medical Loss Ratios (Exhibit 3.2)

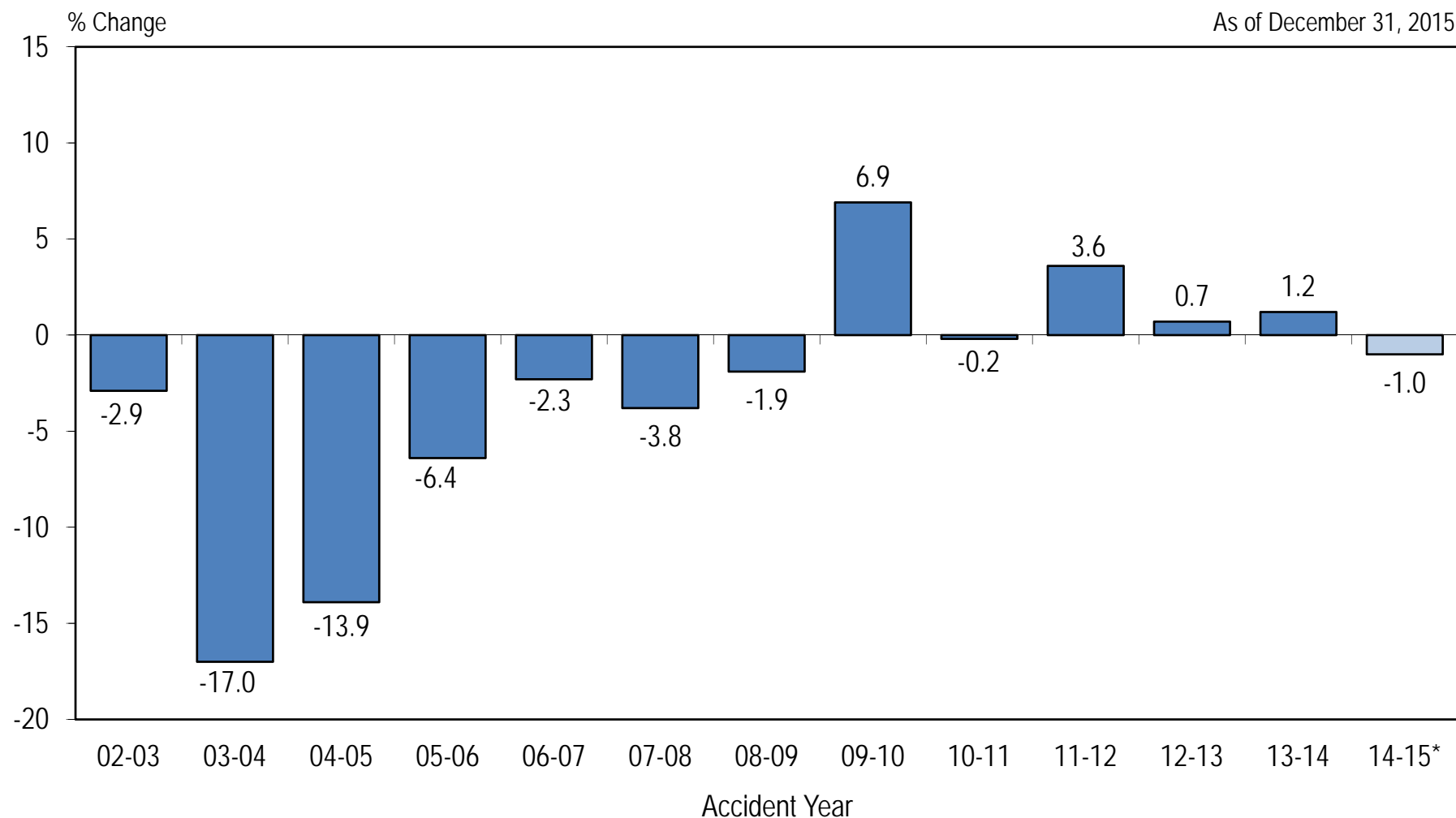


*Adjusted for updated SB 863 adjustments to loss development.

UCLA Forecasts of Wage Level Changes (Exhibit 5.1)

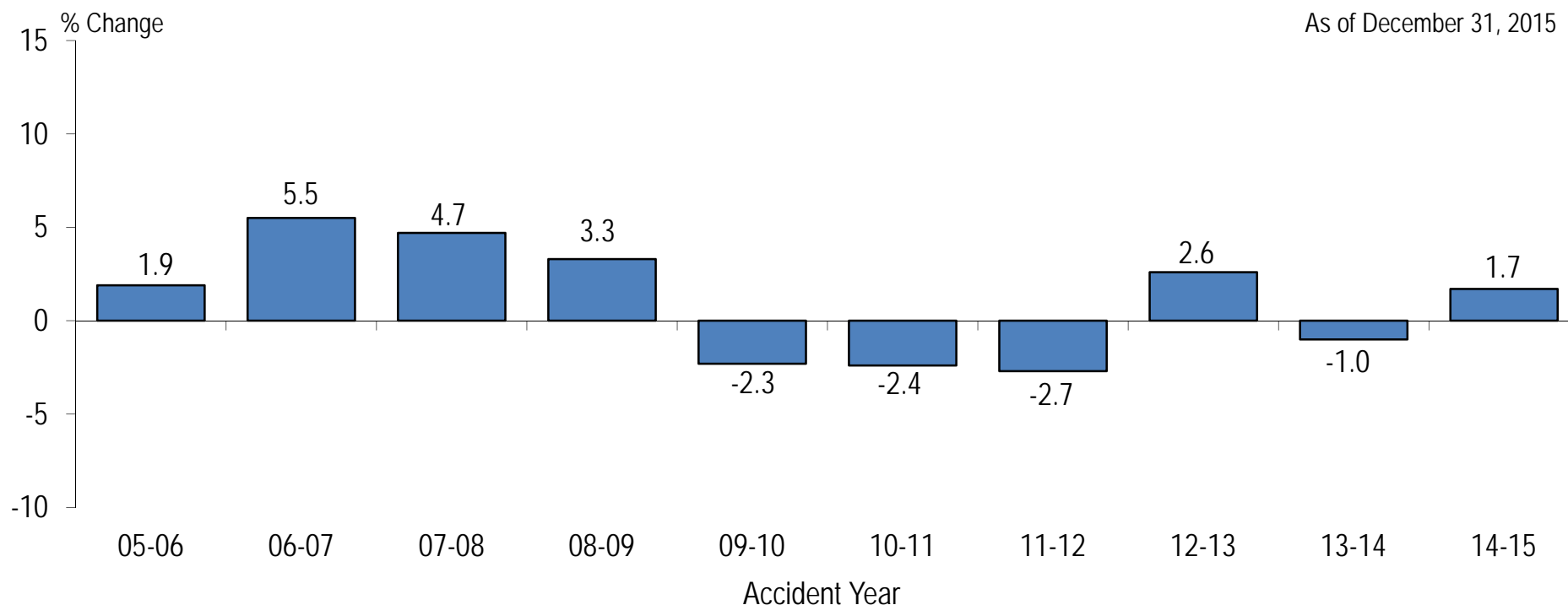


Estimated Change in Indemnity Claim Frequency (Exhibit 12)



*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)



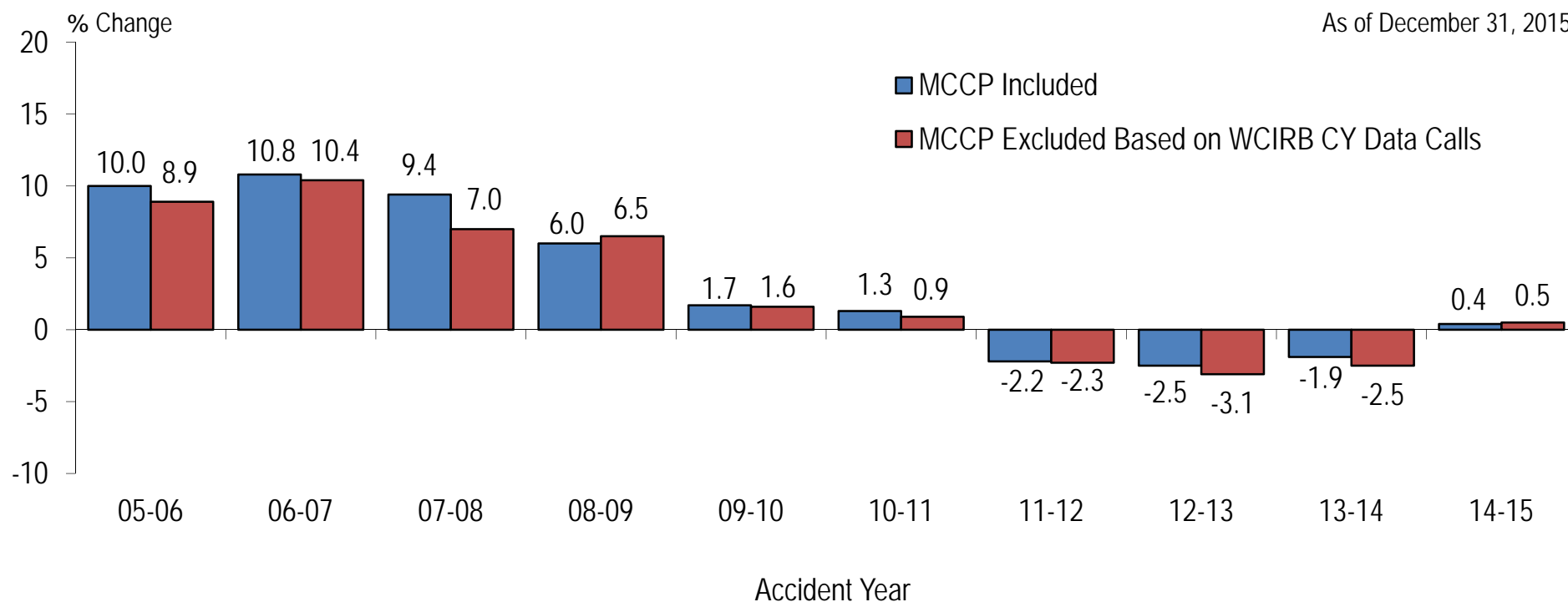
Annual Exponential Trend Based on:

2005 to 2015: +0.7%

2010 to 2015: -0.3%

WCIRB Selected: +0.0%

Change in On-Level Medical Severity (Exhibit 6.4)



Annual Exponential Trend (Excluding MCCP) Based on:

2005 to 2015: +2.3%

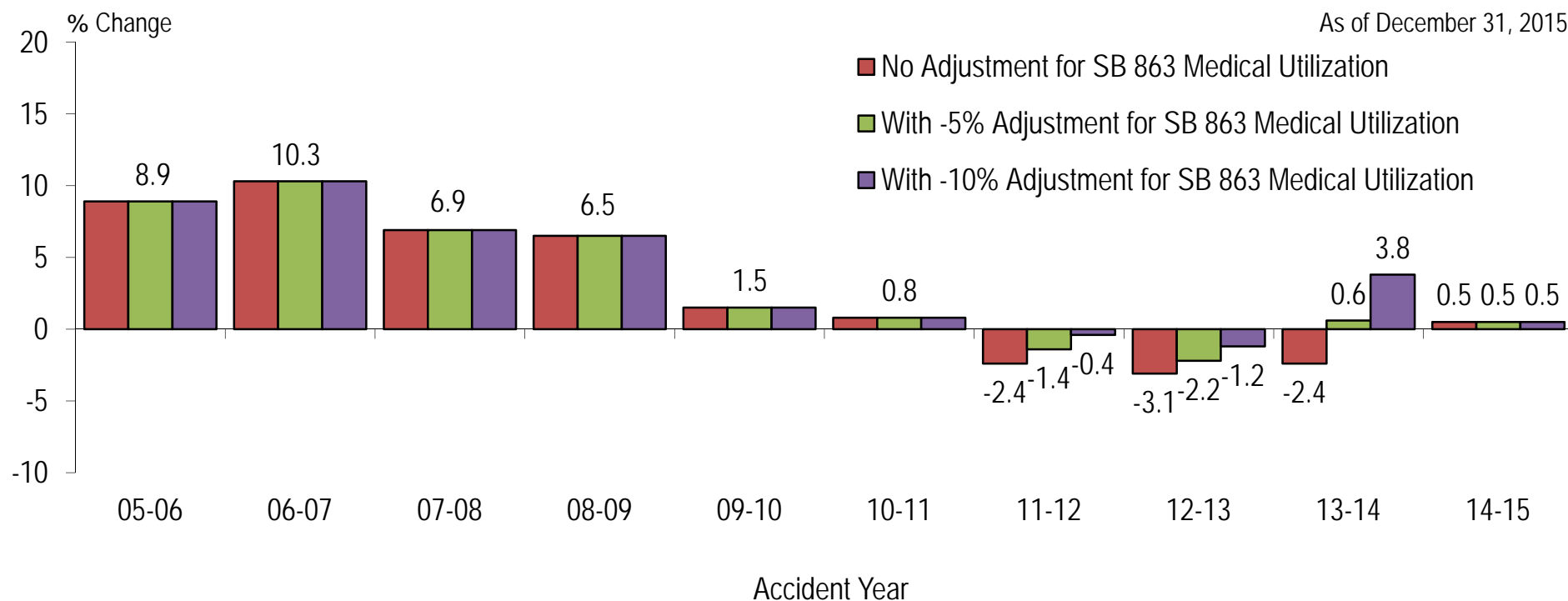
2005 to 2013: +3.7%

2010 to 2015: -1.7%

2008 to 2013: +0.5%

WCIRB Selected: +2.5%

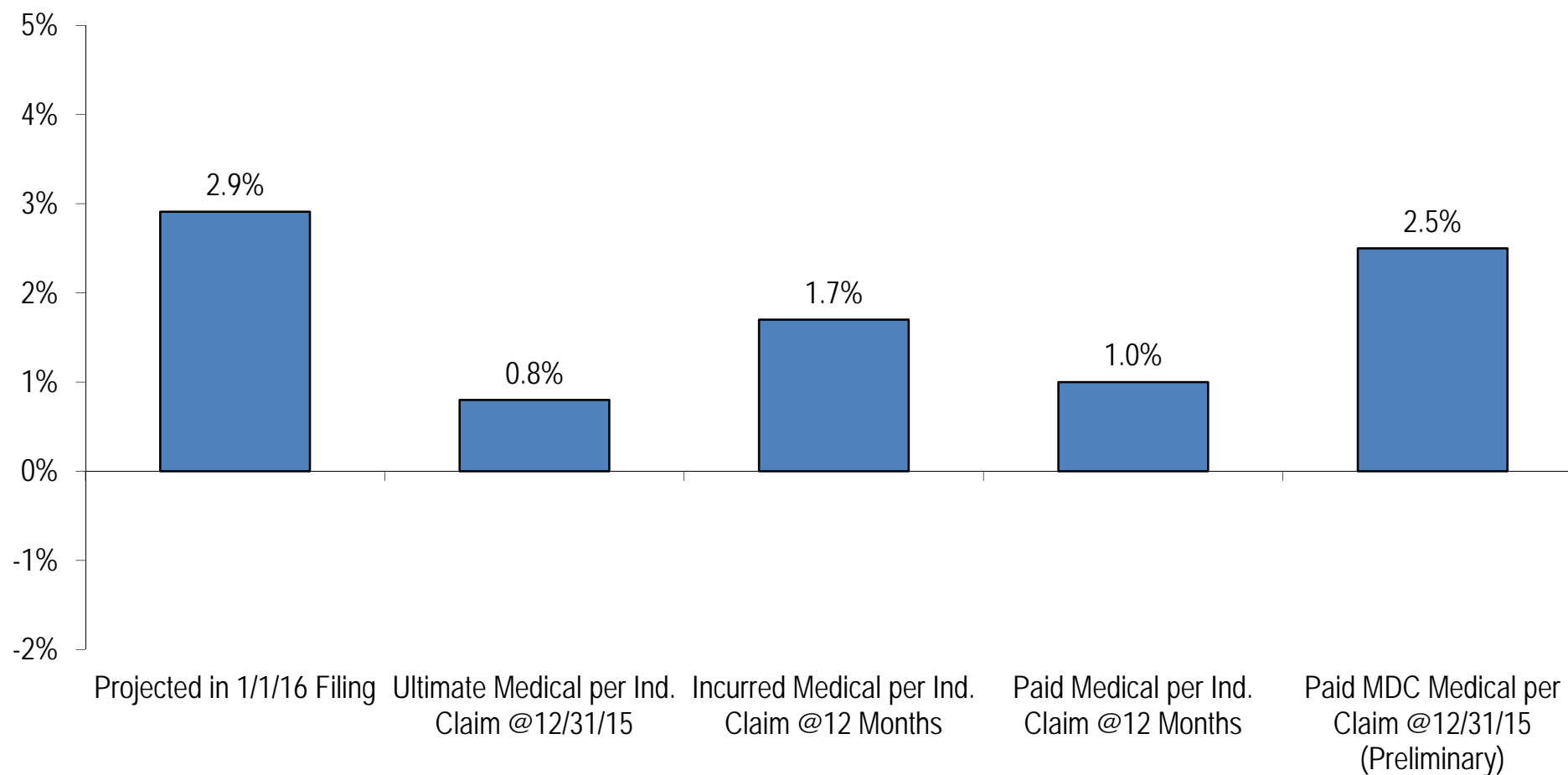
Change in On-Level Medical Severity Excl. MCCP



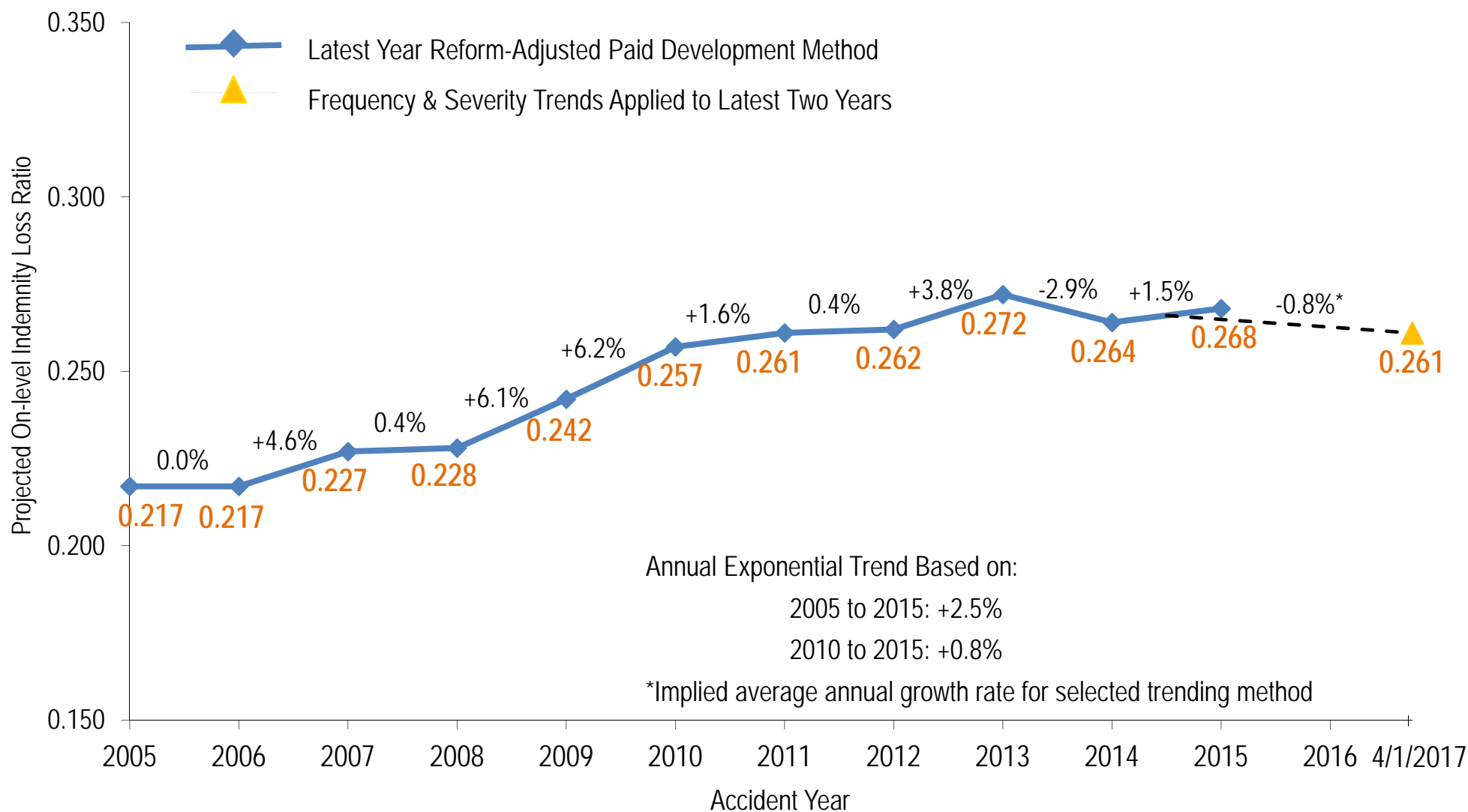
Annual Exponential Trend Based on:

2005 to 2015 (No Util.): +2.2%	2005 to 2015 (-5% Util.): +2.7%	2005 to 2015 (-10% Util.): +3.2%
2010 to 2015 (No Util.): -1.7%	2010 to 2015 (-5% Util.): -0.6%	2010 to 2015 (-10% Util.): +0.7%

Accident Year 2015 Medical Severity Changes



Indemnity Loss Trend & Projections (Exhibit 7.1)



Medical Loss Trend & Projections (Exhibit 7.3)

