

WCIRB Actuarial Committee Meeting

Materials Presented at the WCIRB Actuarial Committee Meeting
April 5, 2016

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Workers' Compensation Insurance Rating Bureau of California®

First Quarter 2016 Diagnostics

WCIRB Actuarial Committee
April 5, 2016

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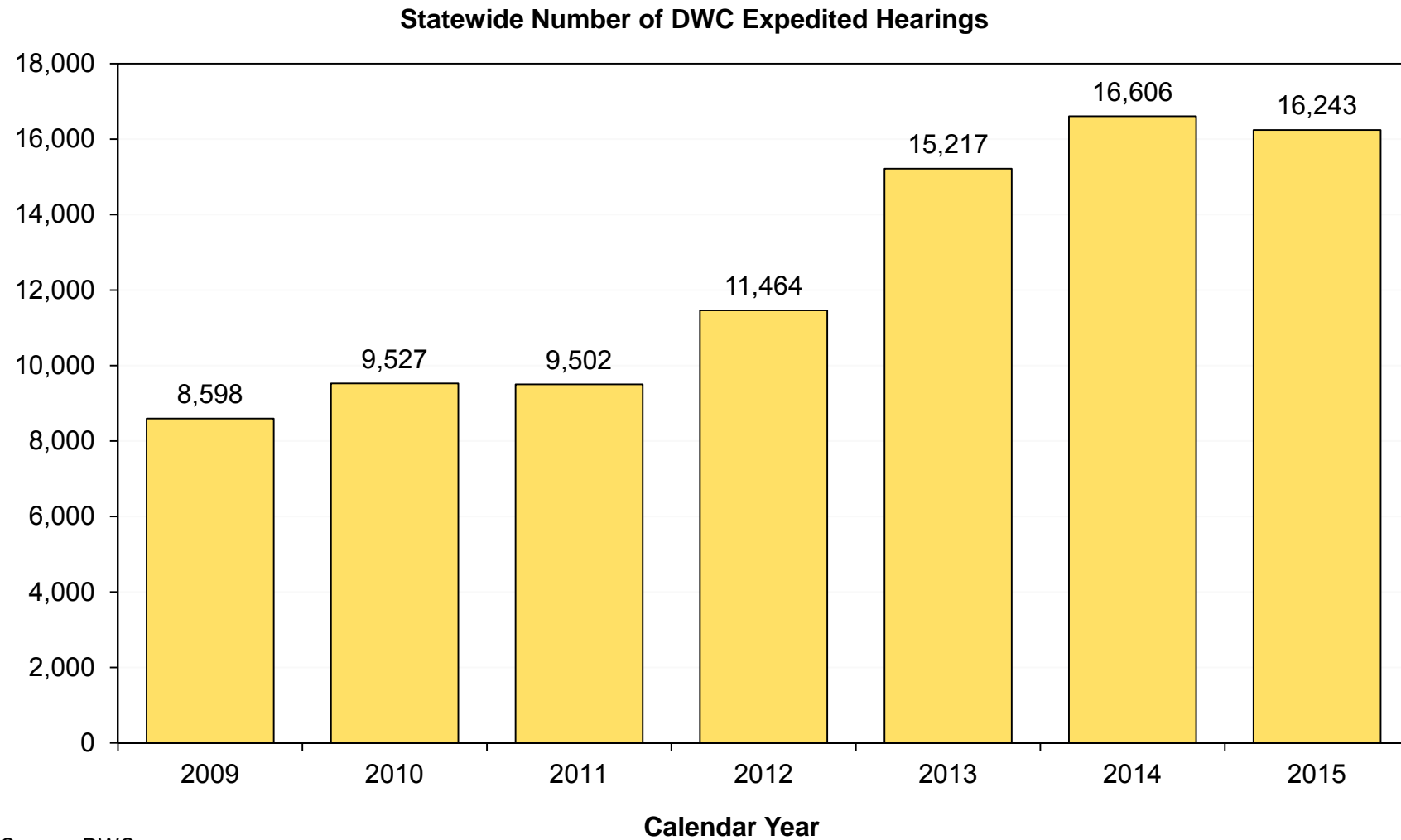
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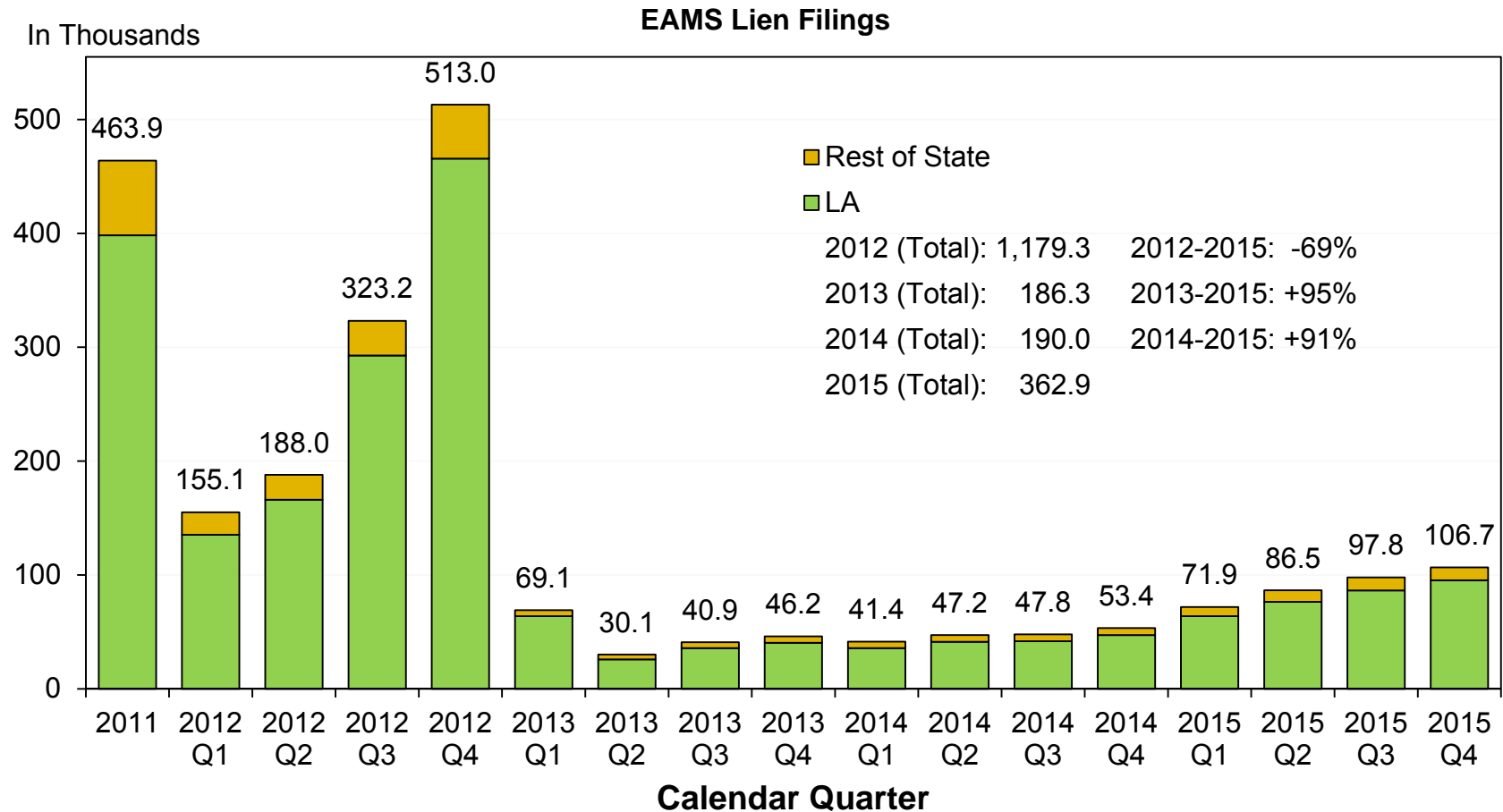
Expedited Hearings



Source: DWC

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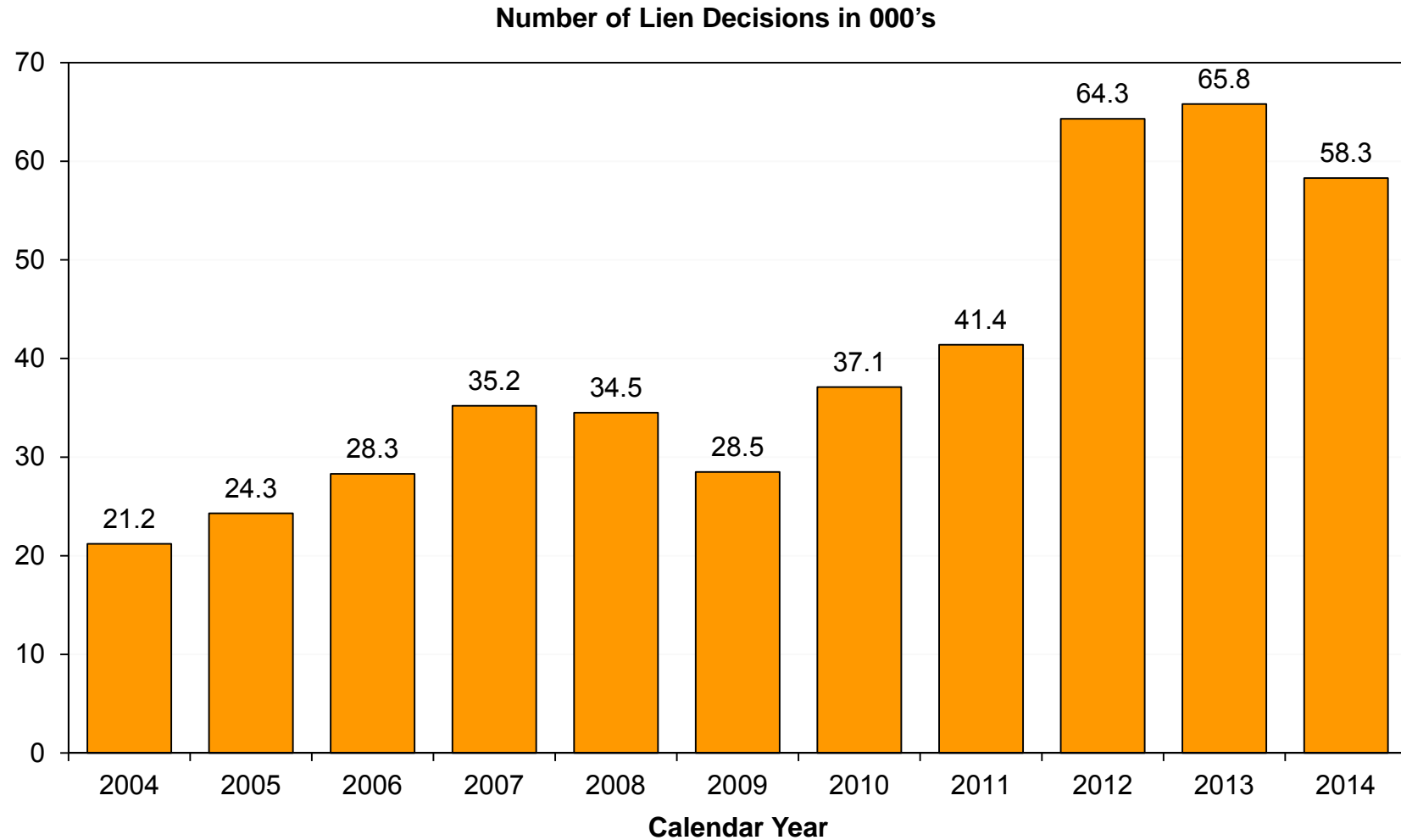
Liens Filed Counts by Region



Source: EAMS Liens Data

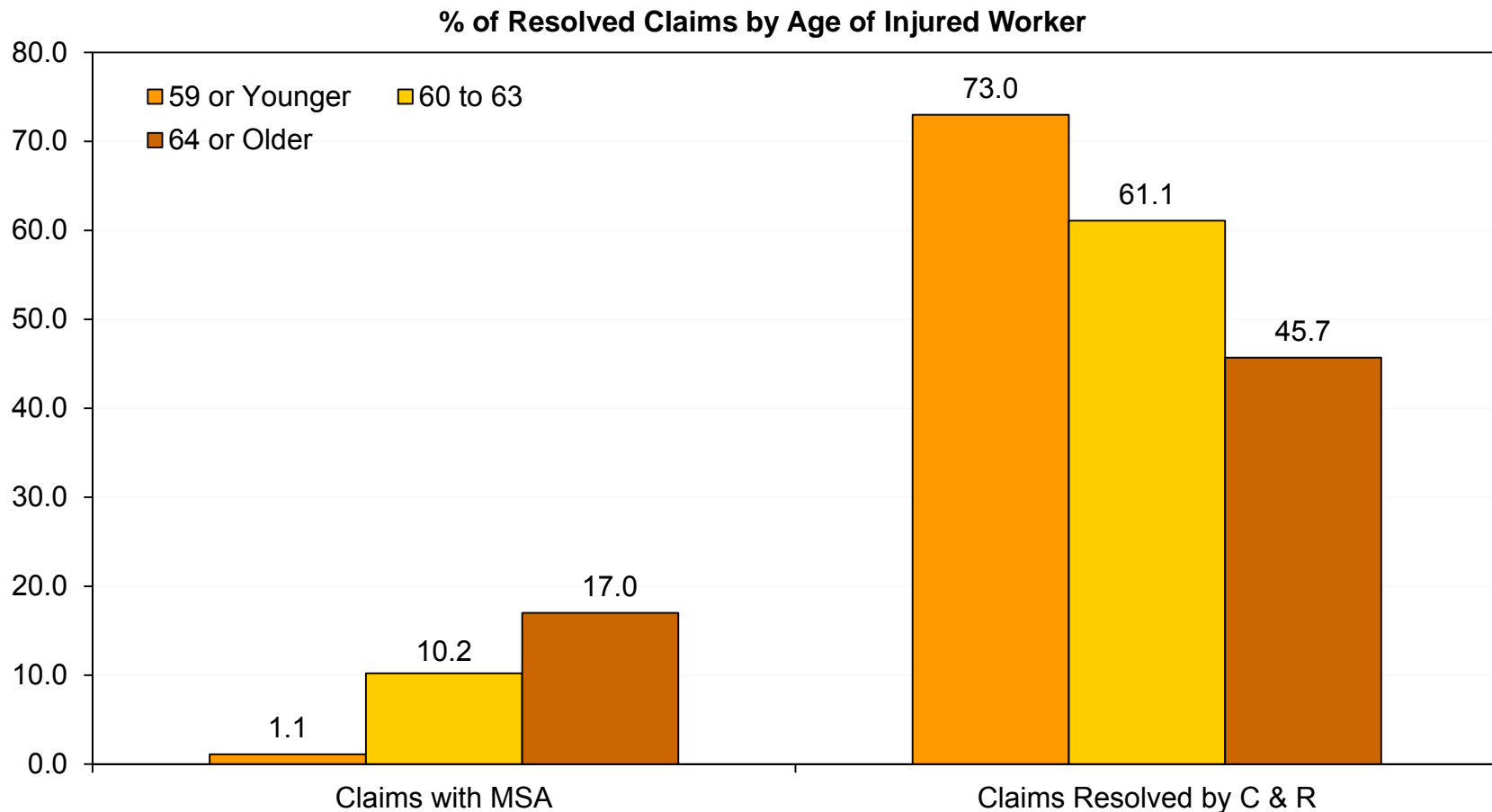
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Lien Decisions



Source: DWC via CHSWC 2015 Annual Report.

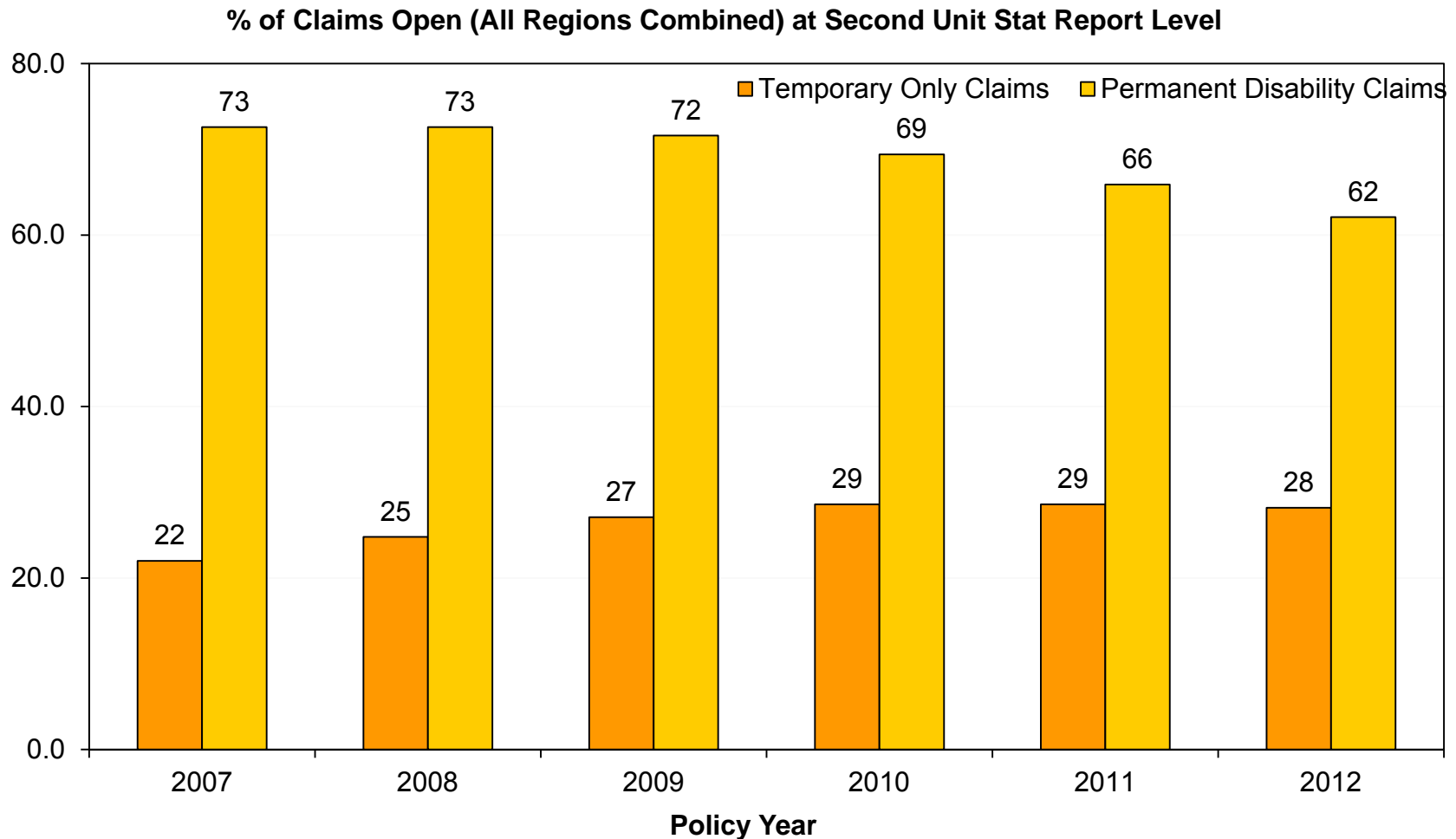
Frequency of Medicare Set-Asides on Resolved Claims



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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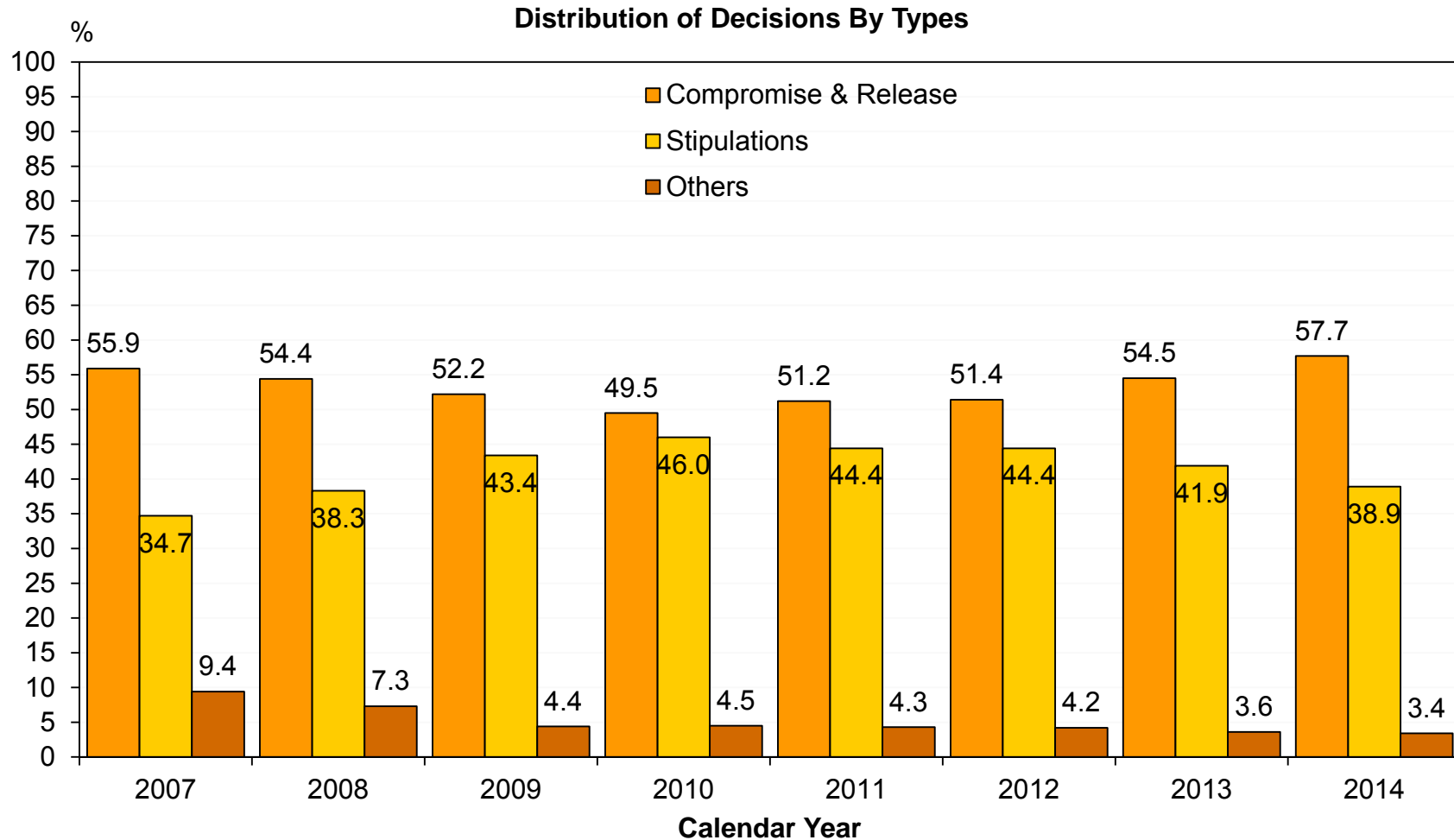
Open Claim Percentages By Type of Claim – Updated



Source: WCIRB unit statistical data.

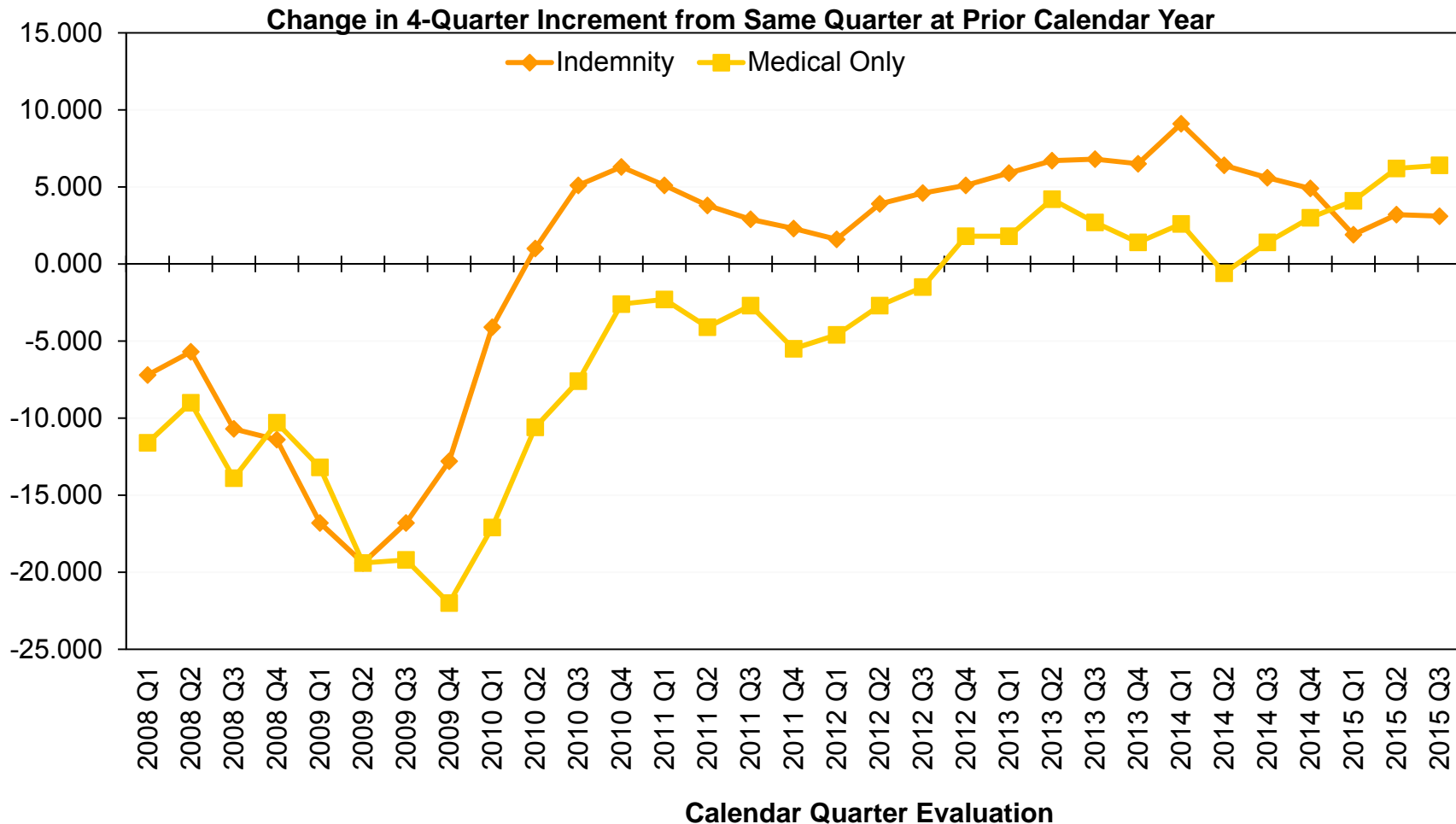
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DWC Decisions By Type Of Decision



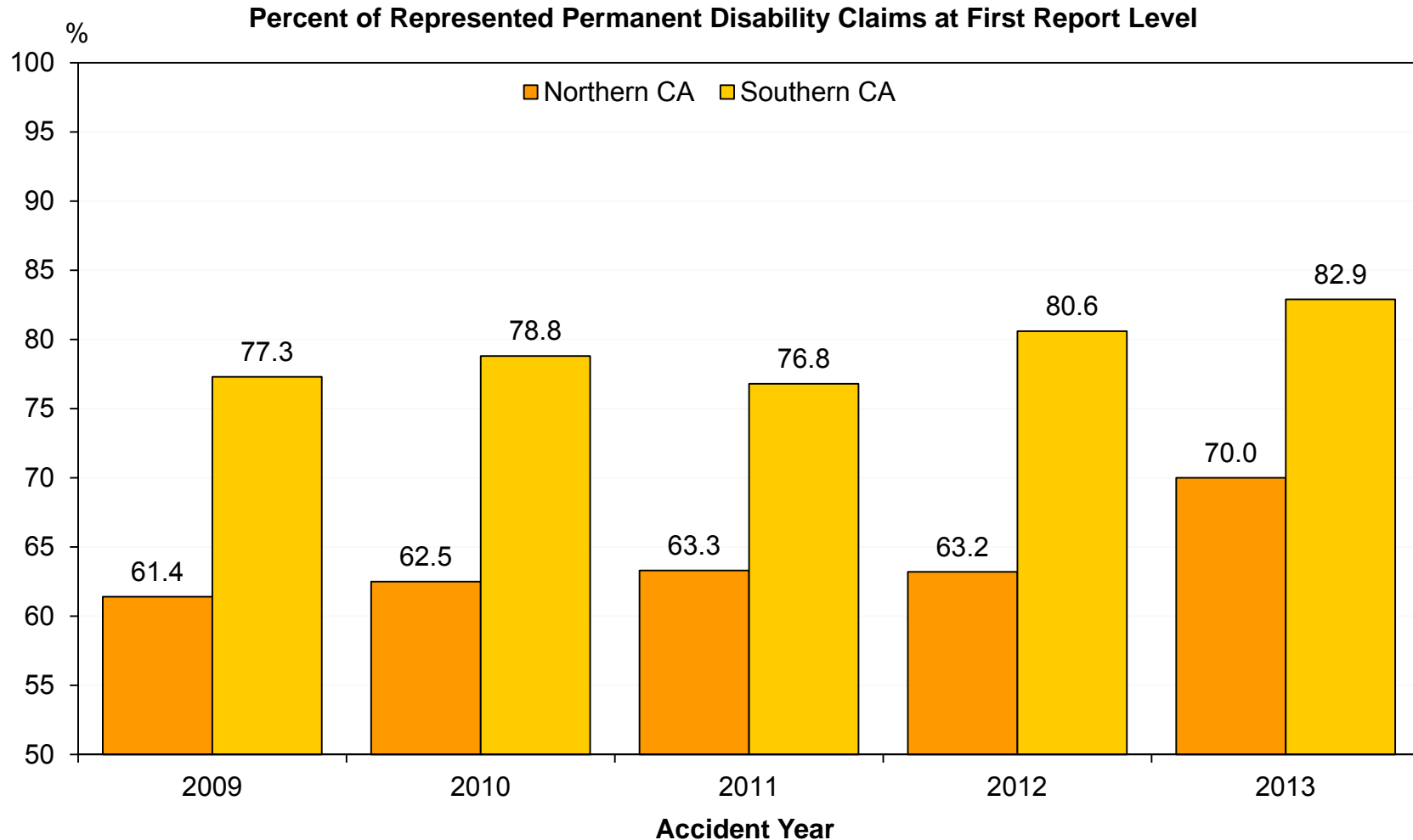
Source: DWC via CHSWC 2015 Annual Report.

Changes in Incremental Claim Counts



Source: WCIRB Quarterly Calls for Experience

Percent of PD Claims with Representation



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

12/31/2015 Experience – Review of Methodologies

WCIRB Actuarial Committee Meeting
April 5, 2016

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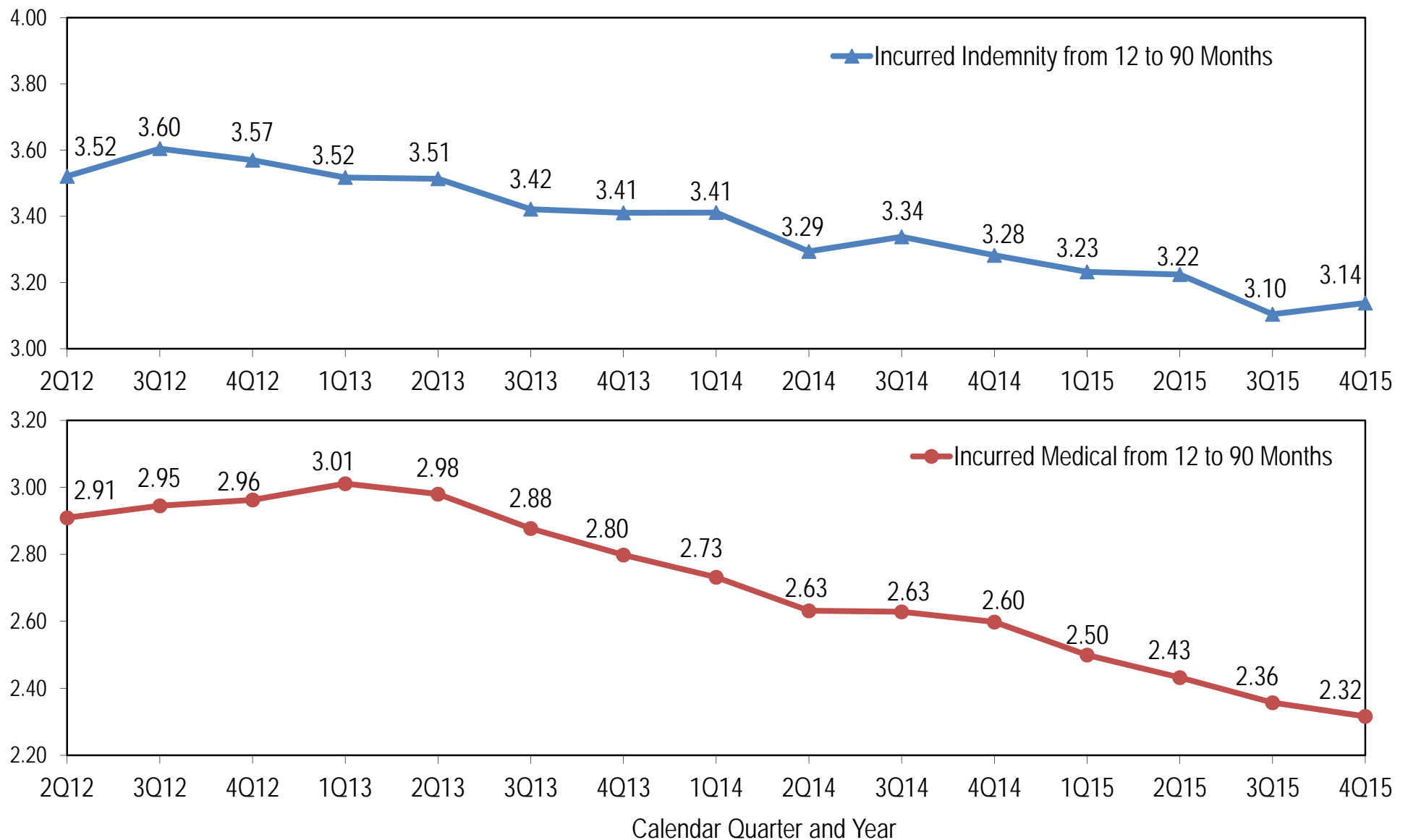
Updated Summary of December 31, 2015 Experience

- Almost 100% of Market Reflected
 - Minor updates to data from 3/22/16 Agenda
- Essentially Same Methodologies as in 1/1/16 Filing
 - Updated adjustments for SB 863 per 3/22/16 meeting
- Benchmarked to 1/1/2016 Industry Average Filed PP Rate
- Projected July 1, 2016 Policy Period Loss Ratio: 0.659
 - Unchanged from 3/22/16 Agenda projection (0.637) when benchmarked to 7/1/15 industry average filed PP rate

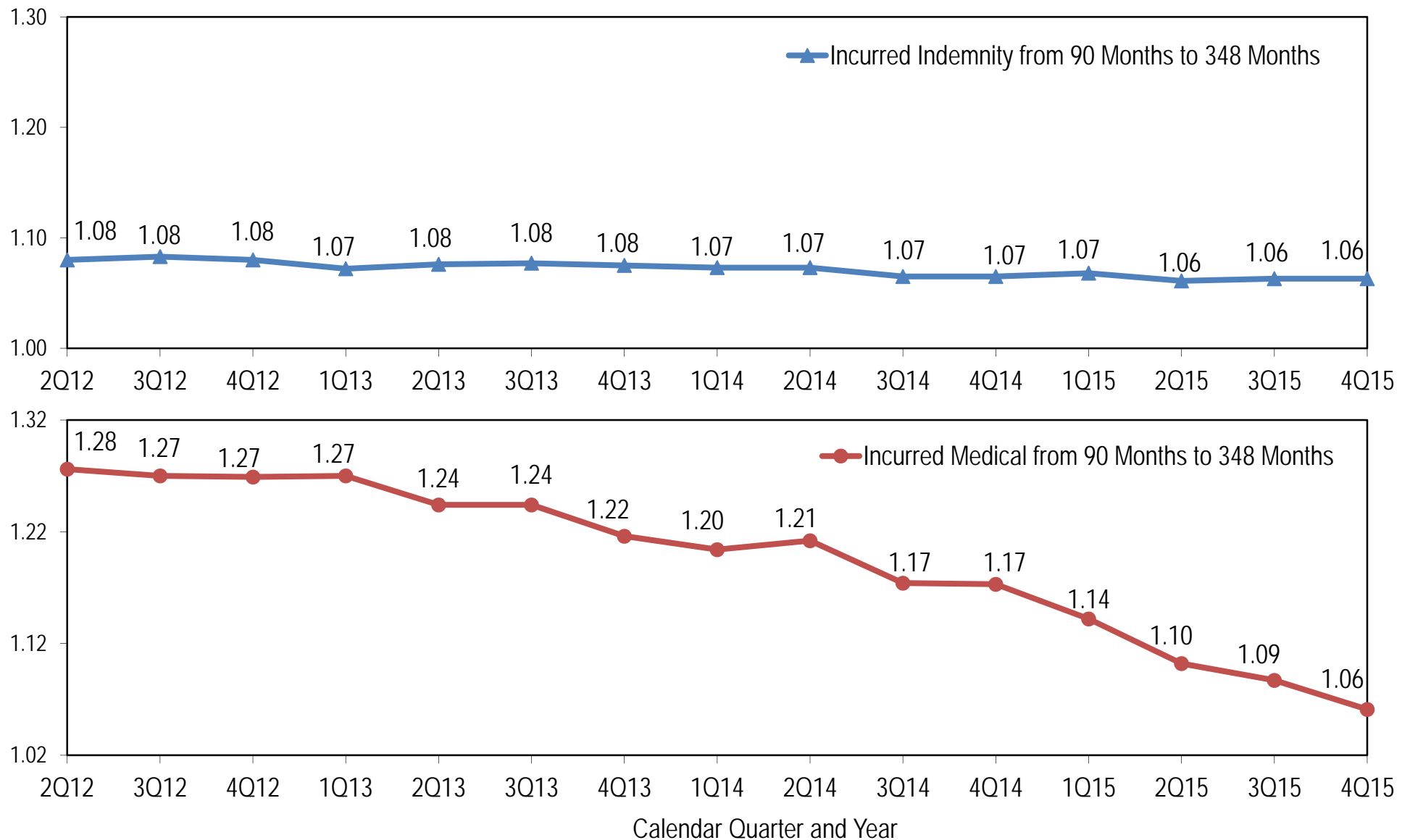
Changes from 1/1/16 Filing Loss Projection

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 Loss Changes	-5.0
Benchmark to 1/1/16 Industry Average Filed PP Rate	+2.5

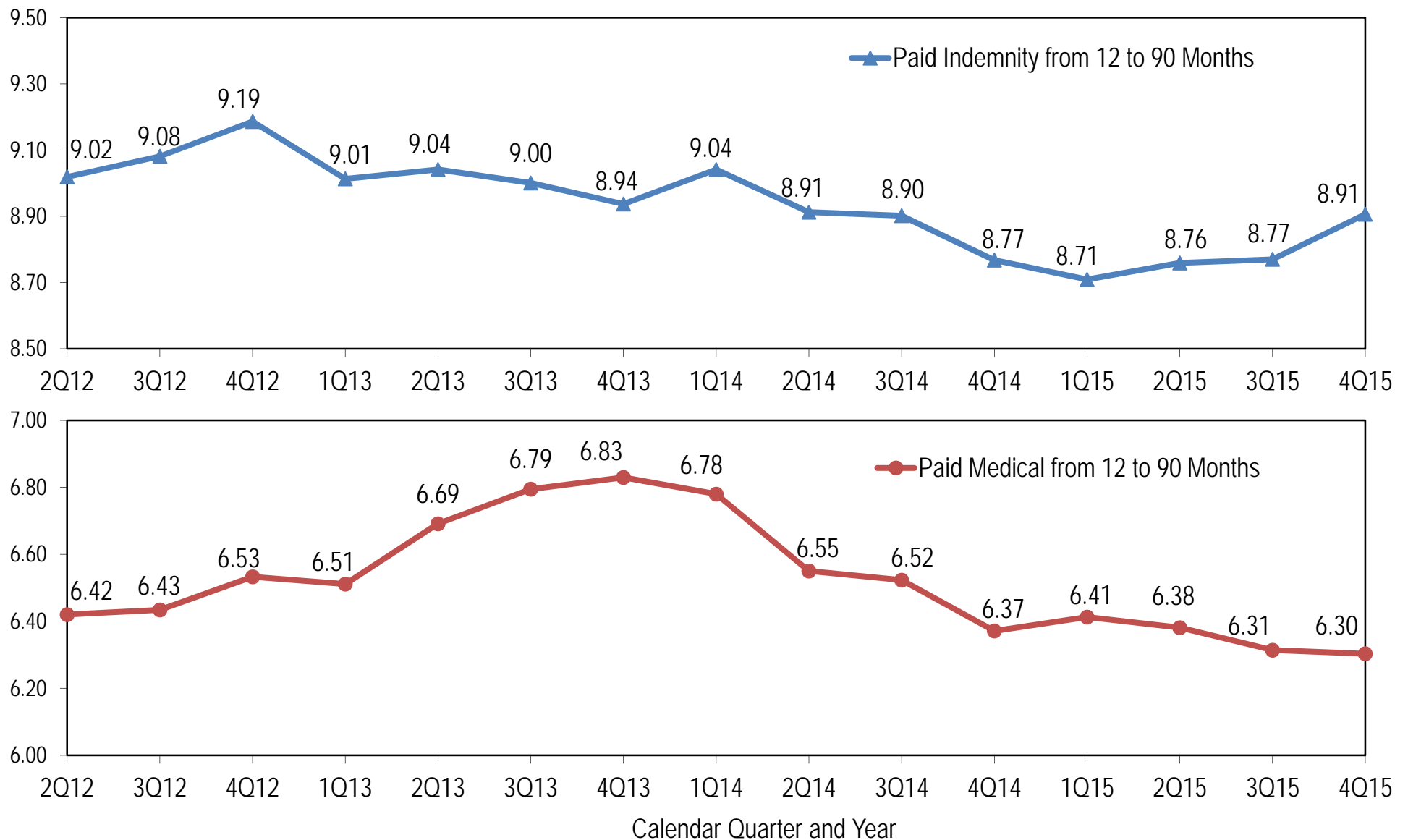
Cumulative Incurred Development by Quarter



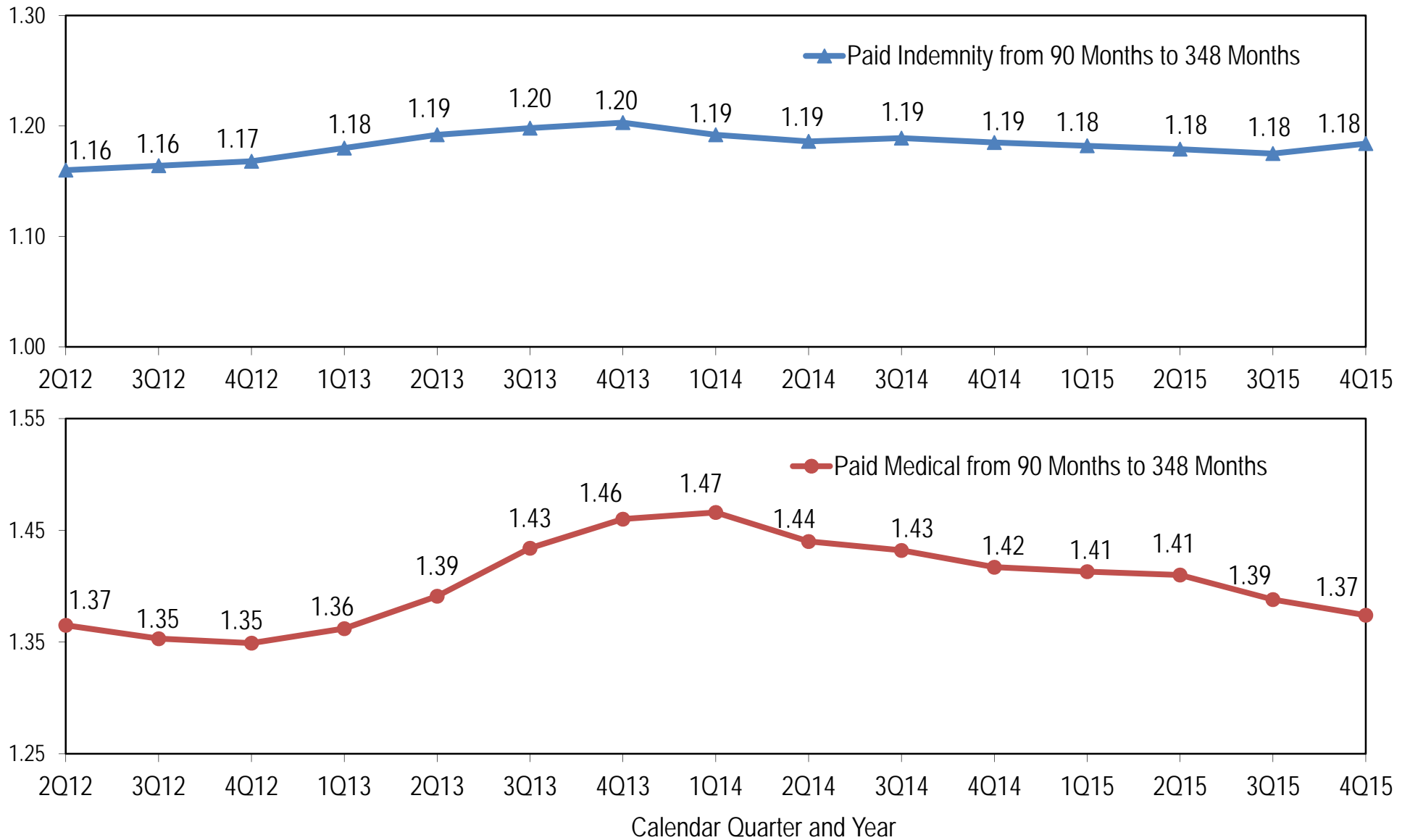
Cumulative Incurred Development by Quarter



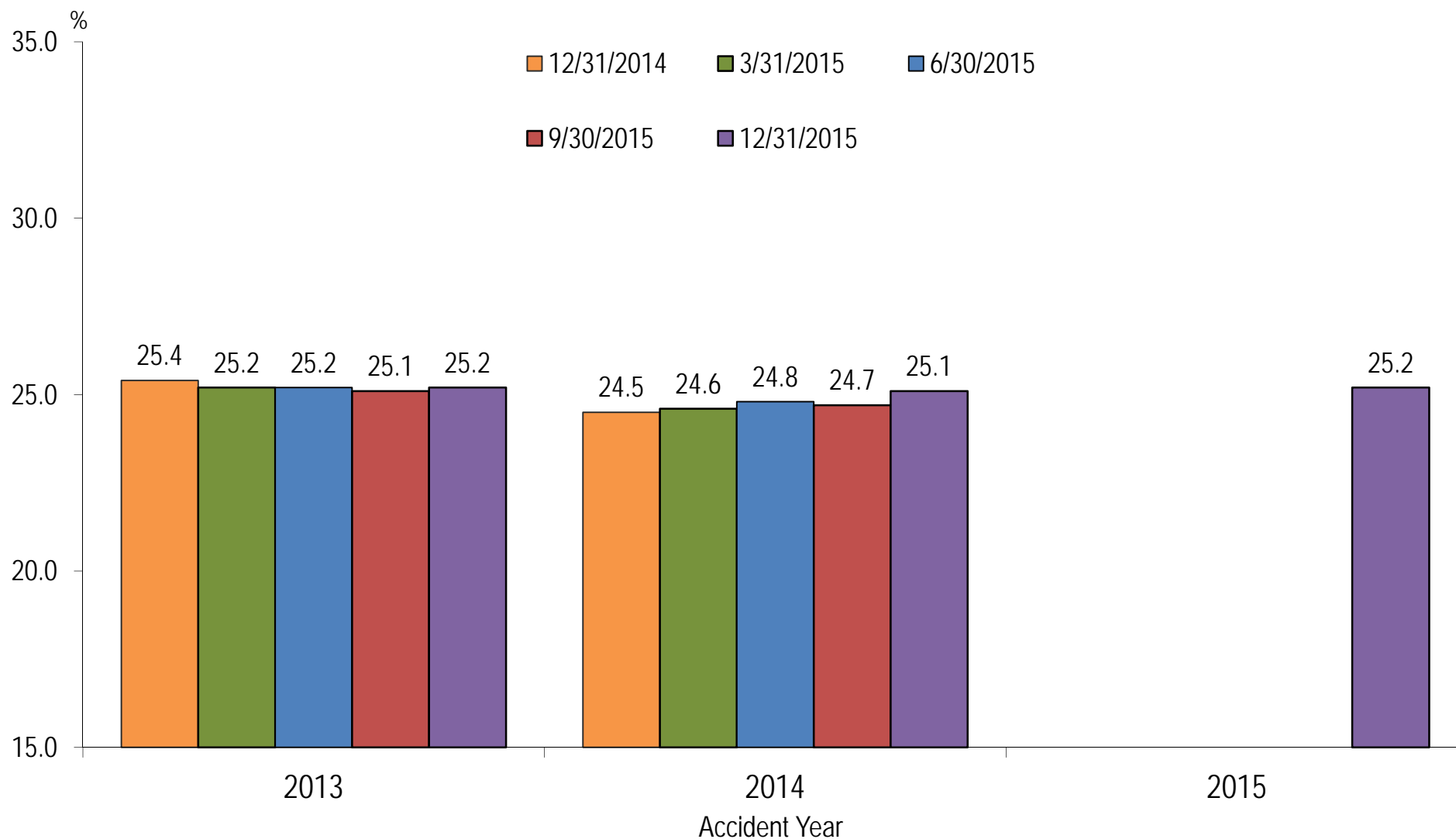
Cumulative Paid Development by Quarter



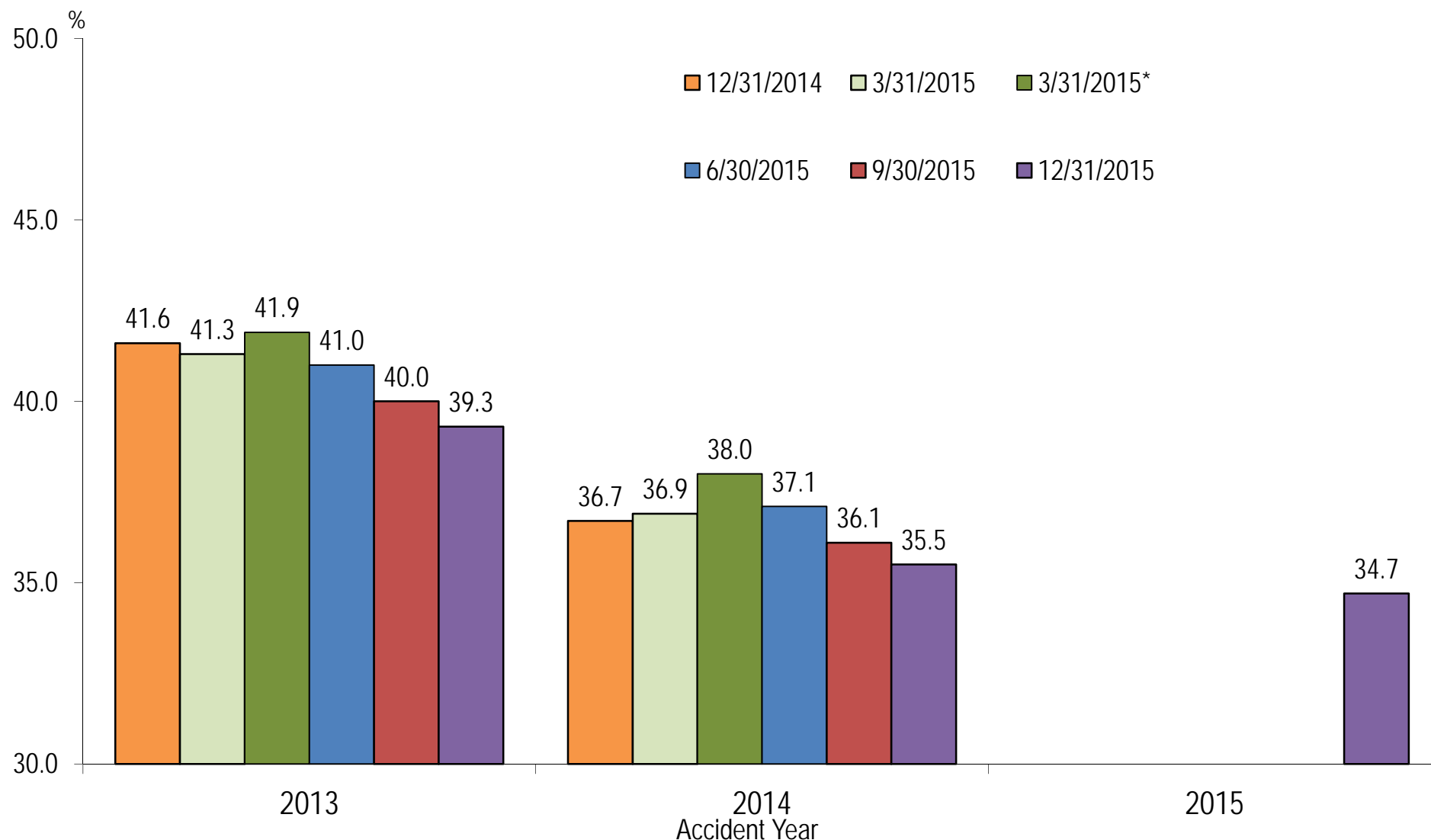
Cumulative Paid Development by Quarter



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.

Alternative Loss Development Methodologies (Item AC16-04-02)

Incurred Methods

- Unadjusted Incurred Projections
 - Best with stable case reserve adequacy and incurred patterns
 - Can be distorted by changing reserve adequacy
 - Performed poorly during transition periods
 - Greater variability across insurers than paid method
 - Difficult to impute reform adjustments
 - Treatment of MCCP in medical reserves unknown
 - Recent incurred development has been decreasing
- Case Reserve Adequacy-Adjusted Incurred
 - Best with clear evidence of changing case reserve adequacy
 - Very sensitive to severity adjustments to case reserves
 - Unclear how to impute reform impacts
 - Current projection well above unadjusted incurred projection

Alternative Loss Development Methodologies

Paid Methods

- Unadjusted Paid Projections
 - Best with stable payment patterns
 - Can be distorted by changing settlement rates or reforms
 - Generally outperformed unadjusted incurred during transition periods
 - Less variability in paid patterns across insurers than in incurred patterns
 - Recent indemnity development has been fairly stable
 - Medical development declining over last several quarters after years of steady increases
- Reform-Adjusted Paid
 - Best with clear evidence of reform impact on payment patterns
 - SB 863 adjustments have been performing well and are reviewed and updated regularly
 - Current projection higher than the latest year unadjusted projection

Alternative Loss Development Methodologies

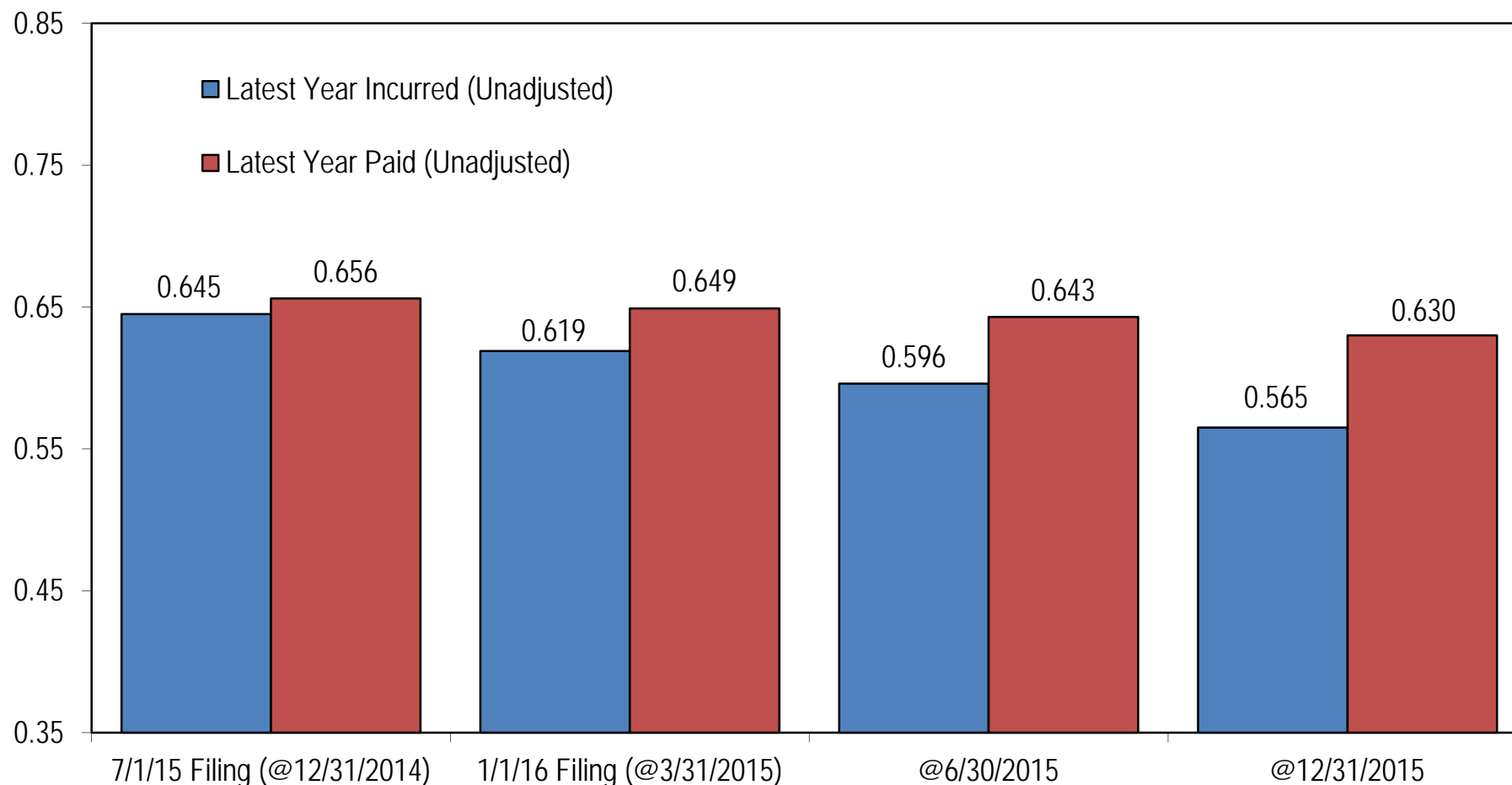
Paid Methods (Continued)

- Claim Settlement Rate-Adjusted Paid
 - Best with clear evidence of changes in claim settlement rate affecting loss development
 - Improved projection during period of settlement rate decline
 - Adjustment can be volatile
 - Treatment of paid on open amounts uncertain
 - Claim settlement rates have increased in recent quarters but do not appear to be significantly distorting loss development

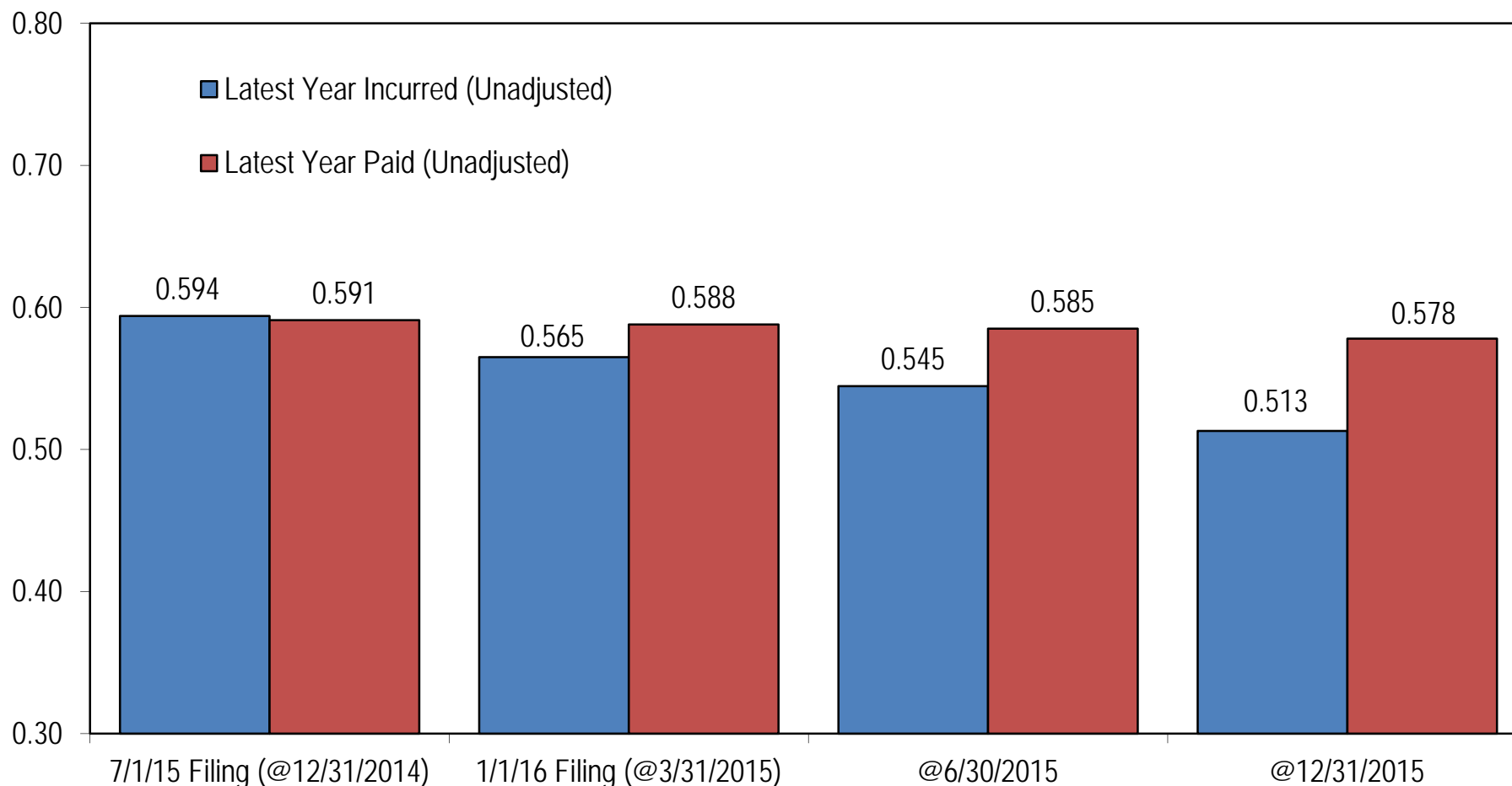
Basis of Prior Paid Loss Development Recommendation

- Paid Methods Generally More Accurate and Stable than Incurred in Retrospective Tests
- Incurred Patterns Vary More Across Insurers than Paid Patterns
- Recent Sharp Decrease in Incurred Projections & Divergence from Paid Projections
 - Significant drops in average case reserve levels
 - Unclear if due to case reserve adequacy shift, shift in claims adjustors' expectation of SB 863, or other factors
 - Case reserve adequacy adjustment significantly increases incurred projection to levels close to paid projections
- Unclear as to How to Adjust Incurred Projection for SB 863
 - Impact of fee schedule changes and other reforms on open claims distort immediate post-reform development factors
 - Future payout pattern can be significantly shifted by reforms
 - WCIRB reform-adjusted paid development factors proven effective

Accident Year 2013 Projected Total Ultimate Loss Ratios – Latest Year Incurred vs. Latest Year Paid Methodology



Accident Year 2014 Projected Total Ultimate Loss Ratios – Latest Year Incurred vs. Latest Year Paid Methodology



Indemnity On-Level Loss Ratios for Policies Incepting 7/1/2016 to 12/31/2016 under Alternative Loss Development Methods*

Paid Latest Year Hybrid* Adjusted for Reforms	0.271
Incurred 3-Year Average Unadjusted	0.239
Incurred Latest Year Unadjusted	0.230
Incurred 3-Year Average Adjusted for Case Reserves	0.262
Incurred Latest Year Adjusted for Case Reserves	0.254
Paid 3-Year Average Unadjusted	0.254
Paid Latest Year Unadjusted	0.251
Paid Latest Year Adjusted for Reforms with Paid Tail	0.268
Paid 3-Year Average Adjusted for Reforms & Claim Settlement Rate	0.265
Paid Latest Year Adjusted for Reforms & Claim Settlement Rate	0.262

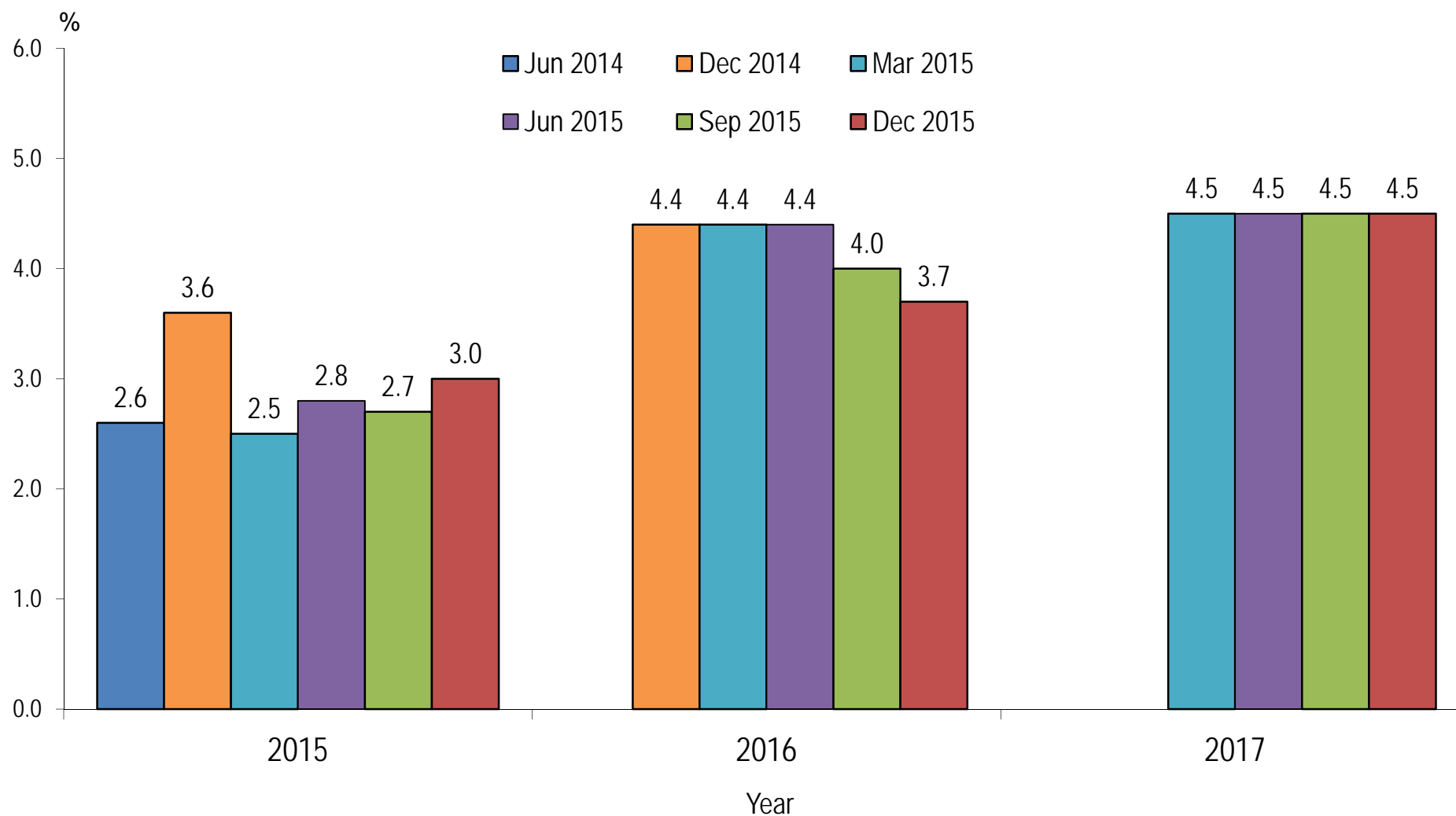
*All methodologies reflect three-year average factors after 108 months. All paid methodologies reflect three-year average incurred factors after 216 months unless otherwise stated.

Medical On-Level Loss Ratios for Policies Incepting 7/1/2016 to 12/31/2016 under Alternative Loss Development Methods*

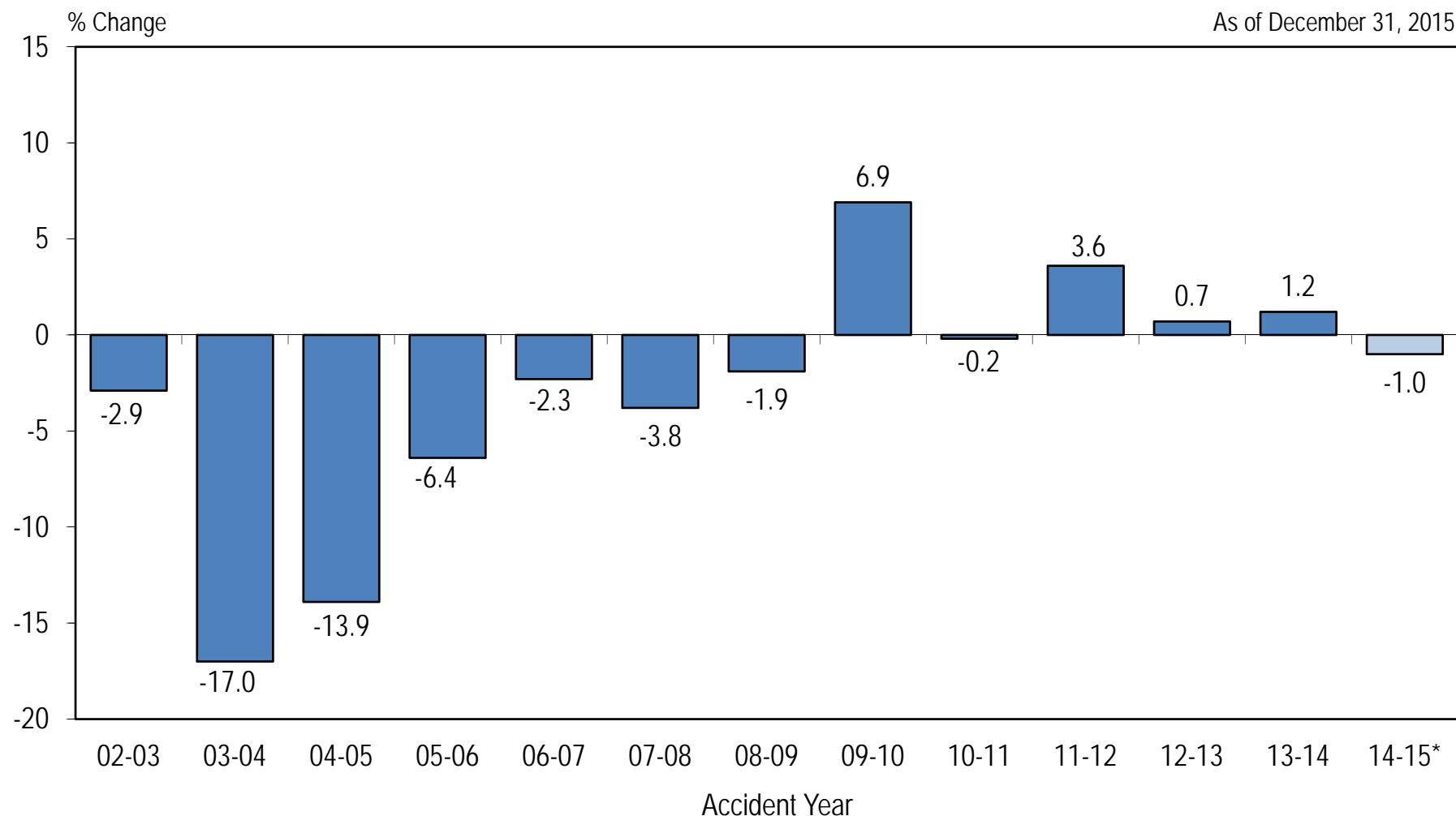
Paid Latest Year Hybrid* Adjusted for Reforms	0.388
Incurred 3-Year Average Unadjusted	0.368
Incurred Latest Year Unadjusted	0.335
Incurred 3-Year Average Adjusted for Case Reserves	0.401
Incurred Latest Year Adjusted for Case Reserves	0.380
Paid 3-Year Average Unadjusted	0.389
Paid Latest Year Unadjusted	0.378
Paid Latest Year Adjusted for Reforms with Paid Tail	0.384
Paid 3-Year Average Adjusted for Reforms & Claim Settlement Rate	0.401
Paid Latest Year Adjusted for Reforms & Claim Settlement Rate	0.380
<i>Average of Latest Year Reform-Adjusted Paid and Latest Year Incurred</i>	<i>0.361</i>

*All methodologies reflect three-year average factors after 108 months. All paid methodologies reflect three-year average incurred factors after 216 months unless otherwise stated.

UCLA Forecasts of Wage Level Changes (Exhibit 5.1)

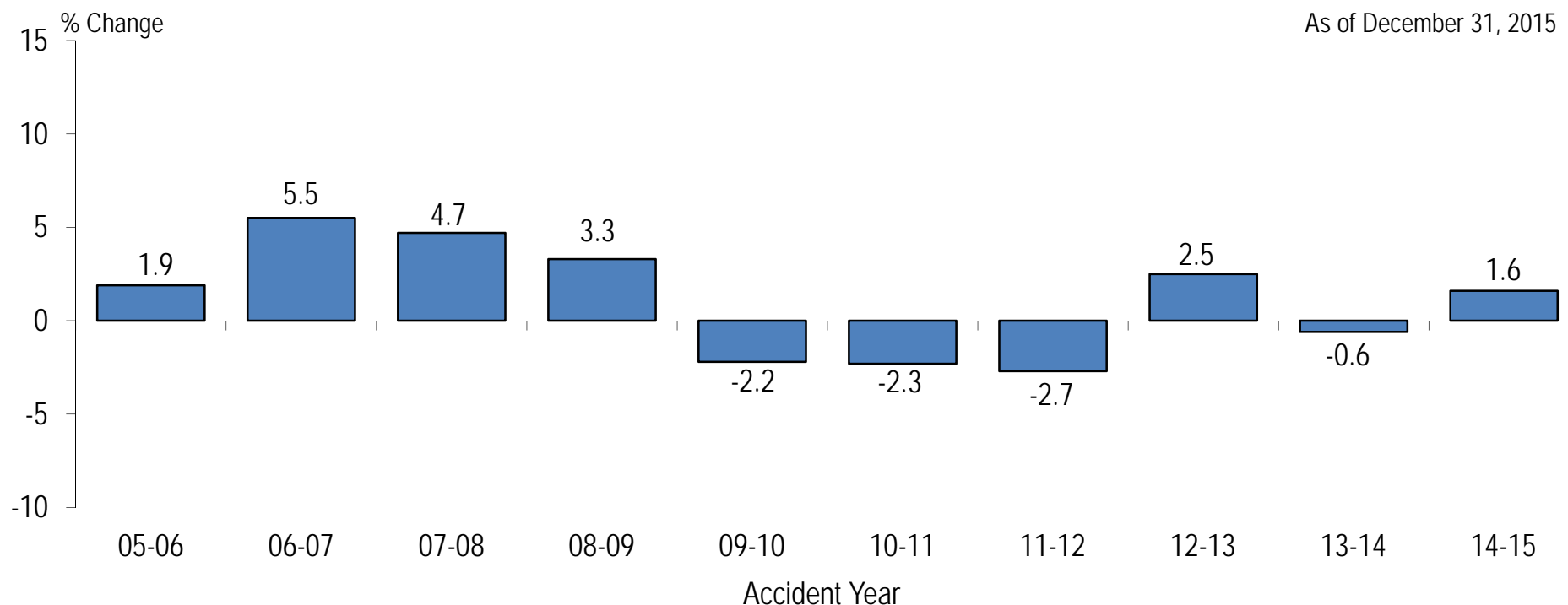


Estimated Change in Indemnity Claim Frequency (Exhibit 12)



*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)



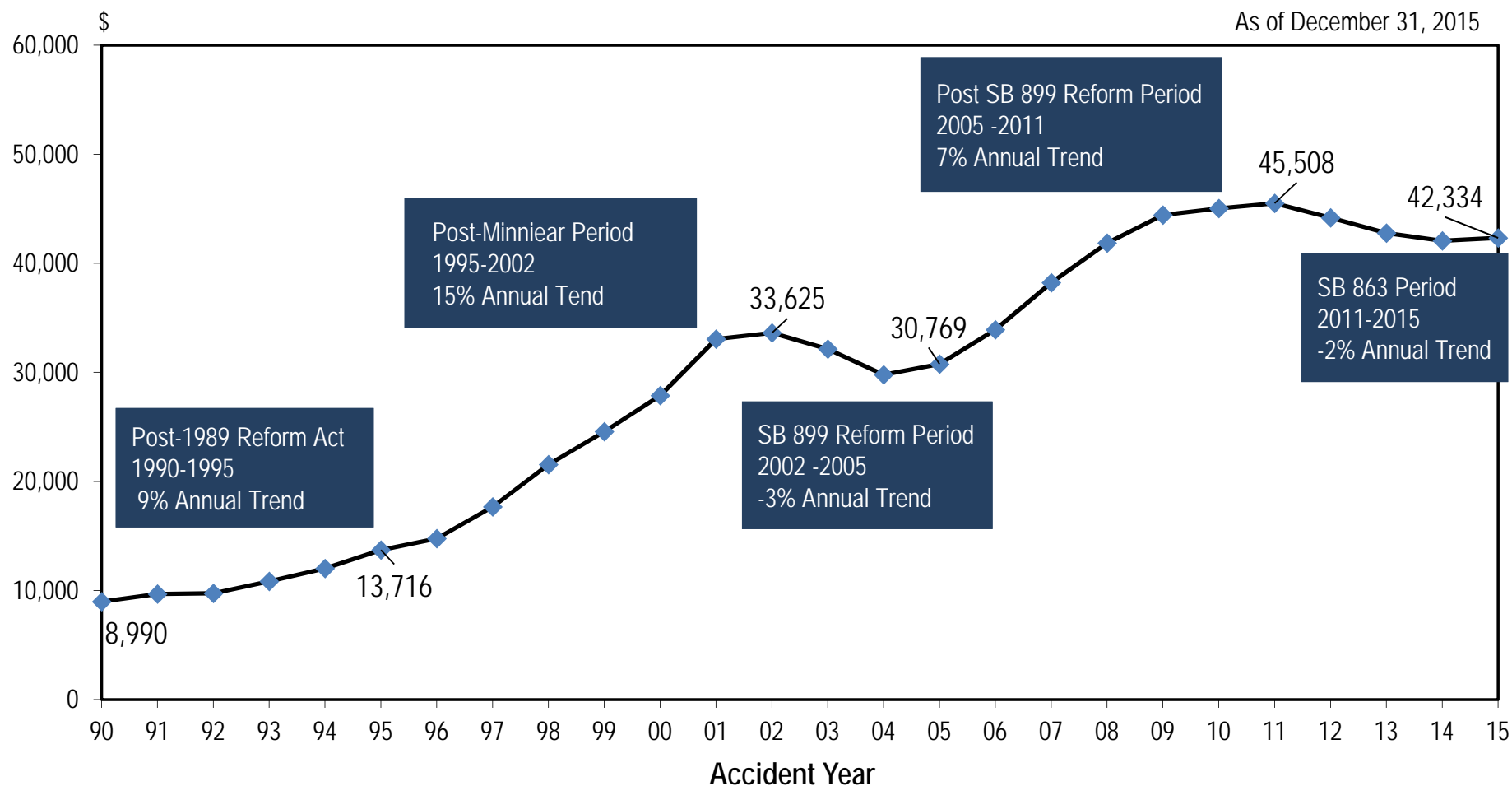
Annual Exponential Trend Based on:

2005 to 2015: +0.8%

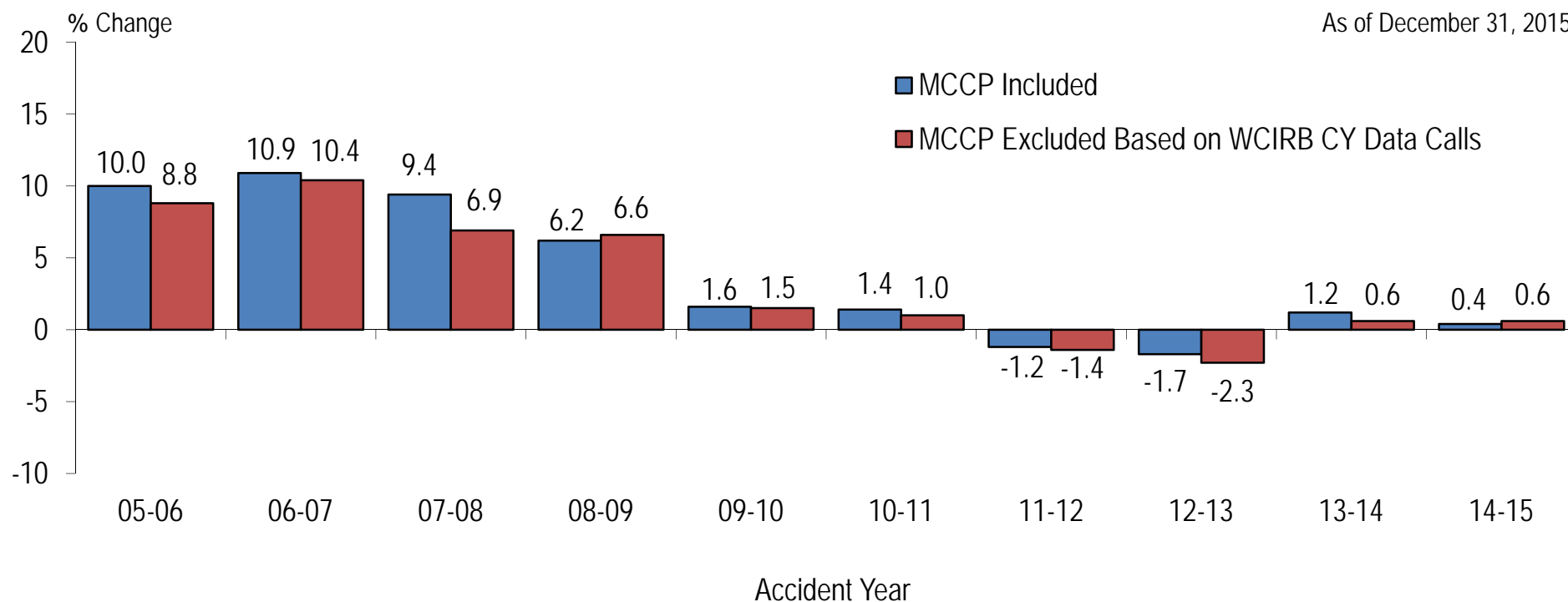
2010 to 2015: -0.2%

WCIRB Selected: +0.0%

Estimated Ultimate Medical (Incl. MCCP) Per Indemnity Claim (Exhibits 6.3 & 6.4)



Change in On-Level Medical Severity (Exhibit 6.4)



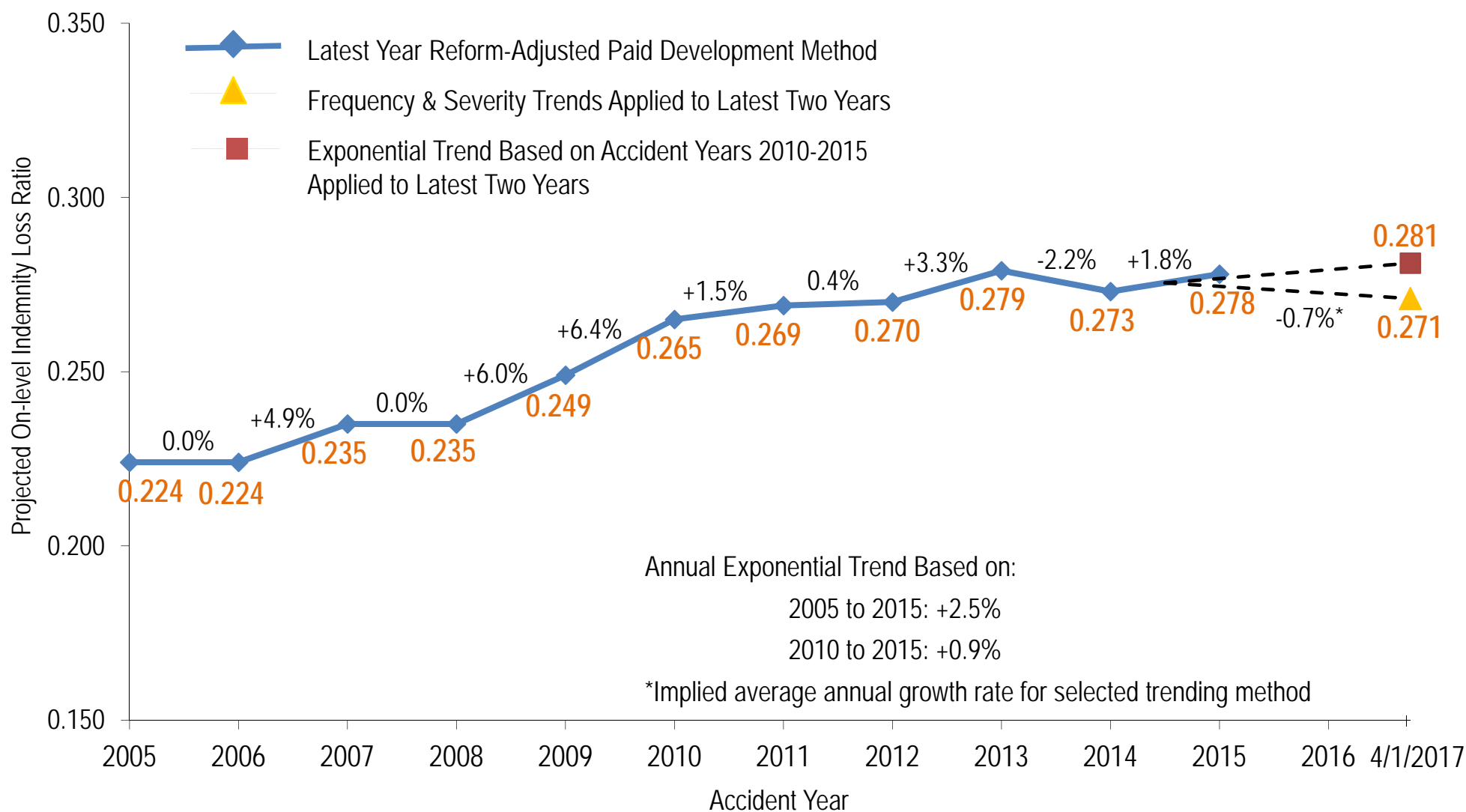
Annual Exponential Trend (Excluding MCCP) Based on:

2005 to 2015: +2.8%

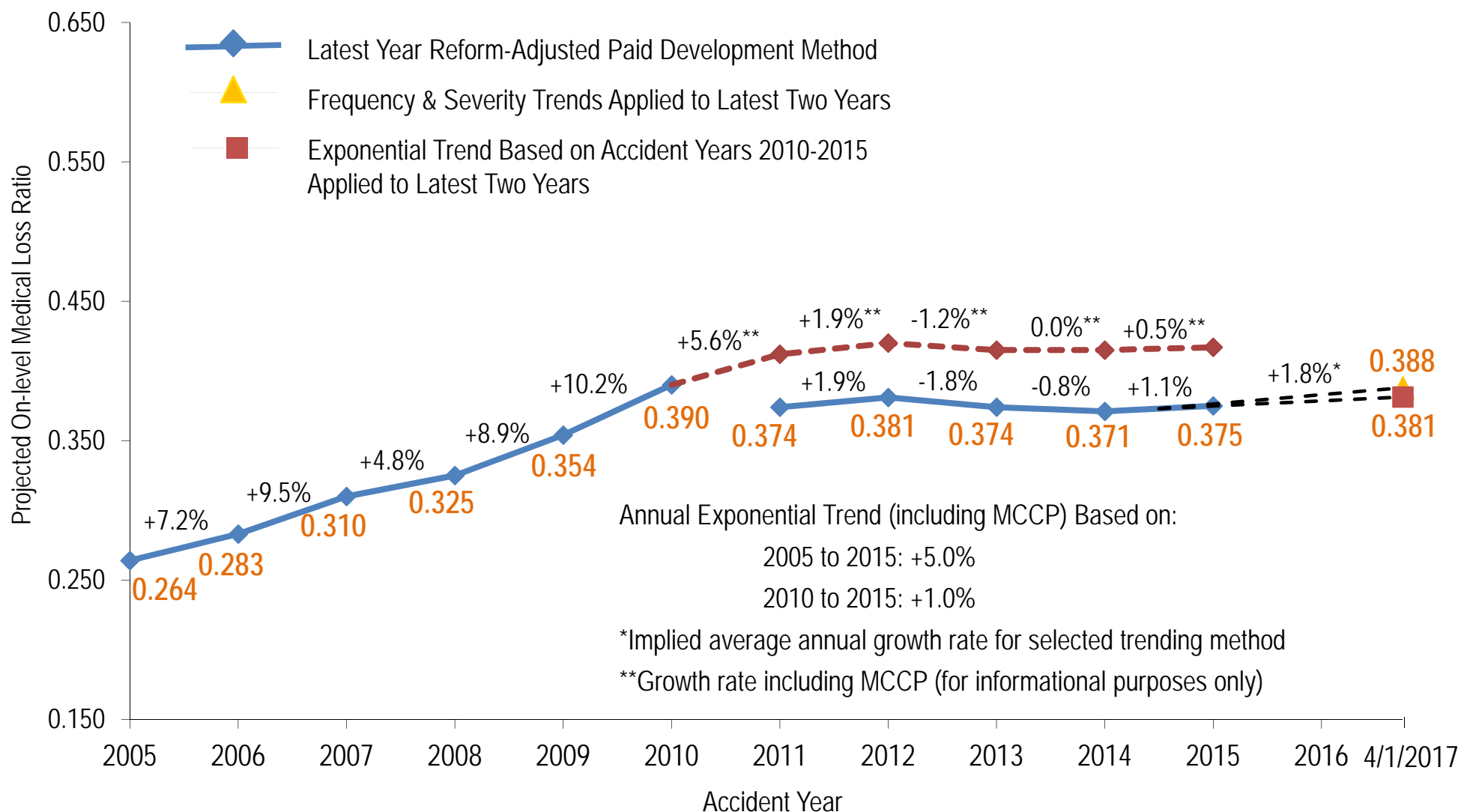
2010 to 2015: -0.6%

WCIRB Selected (Based on Longer-term Average): **+2.5%**

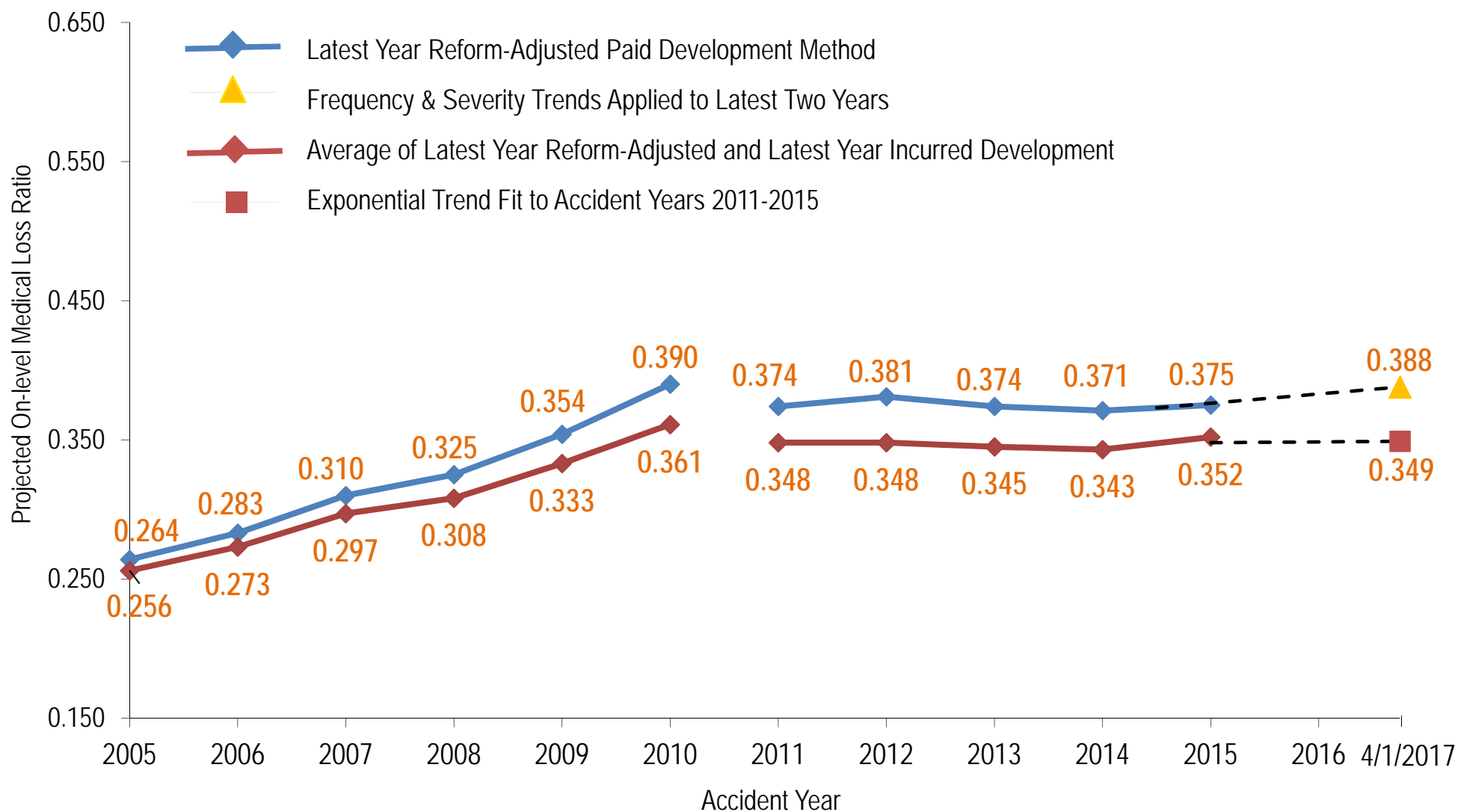
Indemnity Loss Trend & Projections (Exhibit 7.1)



Medical Loss Trend & Projections (Exhibit 7.3)



Medical Loss Trend & Projections



Alternative Trending Methodologies (Item AC16-04-02)

- Separate Frequency & Severity Trends Projections
 - Best during periods when loss ratios are volatile
 - Frequency and severity are affected by differing underlying forces
 - Allows for separate assumptions and judgment about future trends
 - Assumes frequency & severity not highly correlated
 - Performed well during 2002-2004 reform and SB 863 transition periods but not recession period
 - Recent frequency increases have moderated and are more consistent with model forecasts
 - On-level indemnity severity generally flat over last several years
 - On-level medical severity recently flat but significant inflation has historically followed periods of reform

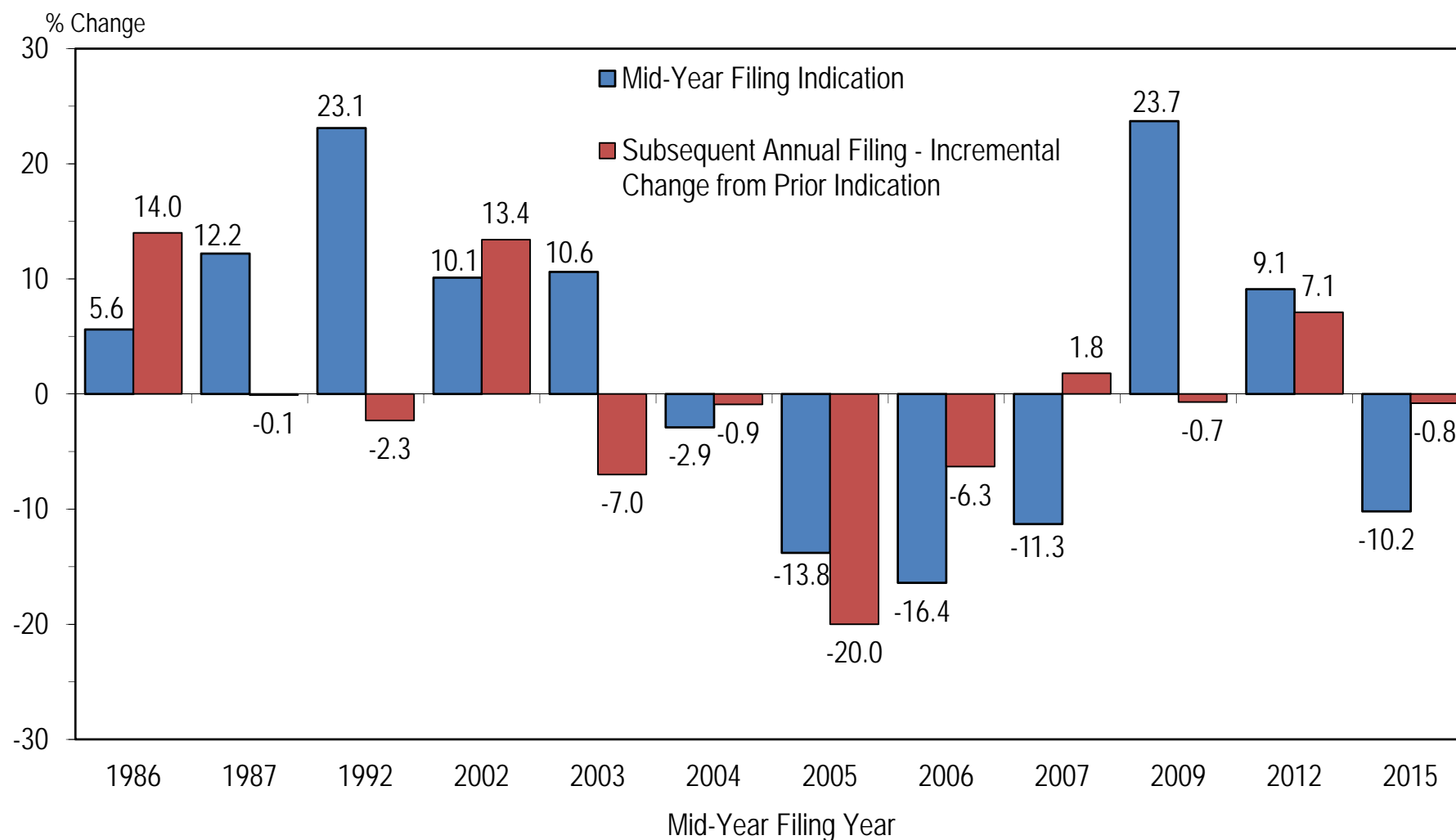
Alternative Trending Methodologies (Continued)

- Loss Ratio Trend Projections
 - Best during periods with stable loss ratio trends
 - Historical loss ratios fit reasonably well to exponential curve
 - Rely on accurate on-leveling adjustments
 - Performed well during recent recession period
 - Did not perform well during 2002 to 2004 reform and SB 863 transition periods when trends moderate
 - Recent trends have moderated with SB 863 reforms
 - Current projections generally consistent with separate frequency & severity projections

Projected On-Level Loss Ratios for Policies Incepting 7/1/2016 to 12/31/2016 under Alternative Trending Methods

Separate Frequency & Severity Projections (0% Indemnity & 2.5% Medical) Applied to Latest Two Years	0.659
Separate Freq. & Severity (0% Ind. & 2.5% Med.) Applied to Latest Year	0.662
Separate Freq. & Severity (0% Ind. & 1% Med.) Applied to Latest Two Years	0.646
Post-2005 Avg. On-Level Loss Ratio Exp. Trend (2.5% Ind. & 5.0% Med.) Applied to Latest Two Years	0.707
5-Year Avg. On-Level Loss Ratio Exp. Trend (0.9% Ind. & 1.0% Med.) Applied to Latest Two Years	0.662
On-Level Loss Ratio Exponential Trend Fit to 2010-2015 (5-Year Trend)	0.664
On-Level Loss Ratio Exponential Trend Fit to 2011-2015 (4-Year Trend)	0.653
<i>On-Level Loss Ratio Exponential Trend Fit to 2011-2015 w/ Alt. Medical Development</i>	<i>0.630</i>

Change in Indication – Mid-Year Filings to Subsequent Annual Filing



Loss Development at Earlier and Later Maturities

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Loss Development at Earlier Maturities – Background

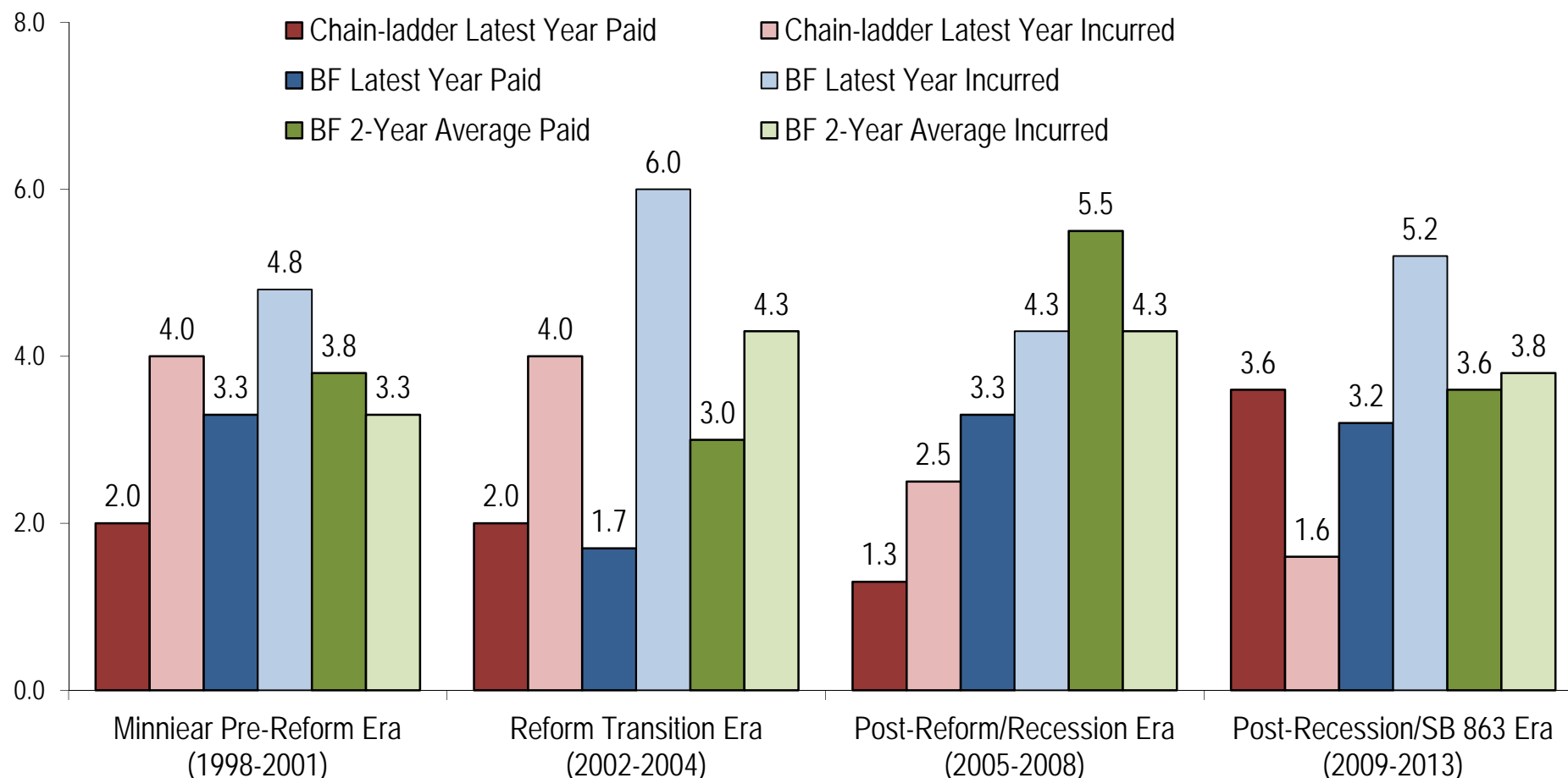
- WCIRB Approach Based on Chain-Ladder Development
- Age-to-Age Factors at Earlier Maturities are Highly Leveraged
- Alternative Loss Ratio-Based Methods Studied in 2014
 - Traditional expected loss ratio
 - Bornhuetter-Ferguson (BF)
 - Other methods (Cape Cod, Benktander)
- BF Performed Well in Initial Retrospective Tests and Suggested for Further Study

Bornhuetter-Ferguson (BF) Method Overview

- Development from 12 Months to “Target Age” (24, 36, or 48 Months)
- Expected Loss Ratio (ELR) Based on Trending from Prior Years at Target Age
 - Other ELR approaches studied in 2014 but did not add value
- Trend Based on Actual Frequency Change and 5-Year Average On-level Severity Change
- On-level & Trend Factors Based on Filing in which AY Used in Projection
 - 2014 study used “hindsight actual” factors
- Developed Loss Ratio Compared to Actual Paid or Incurred Loss Ratio at Target Age

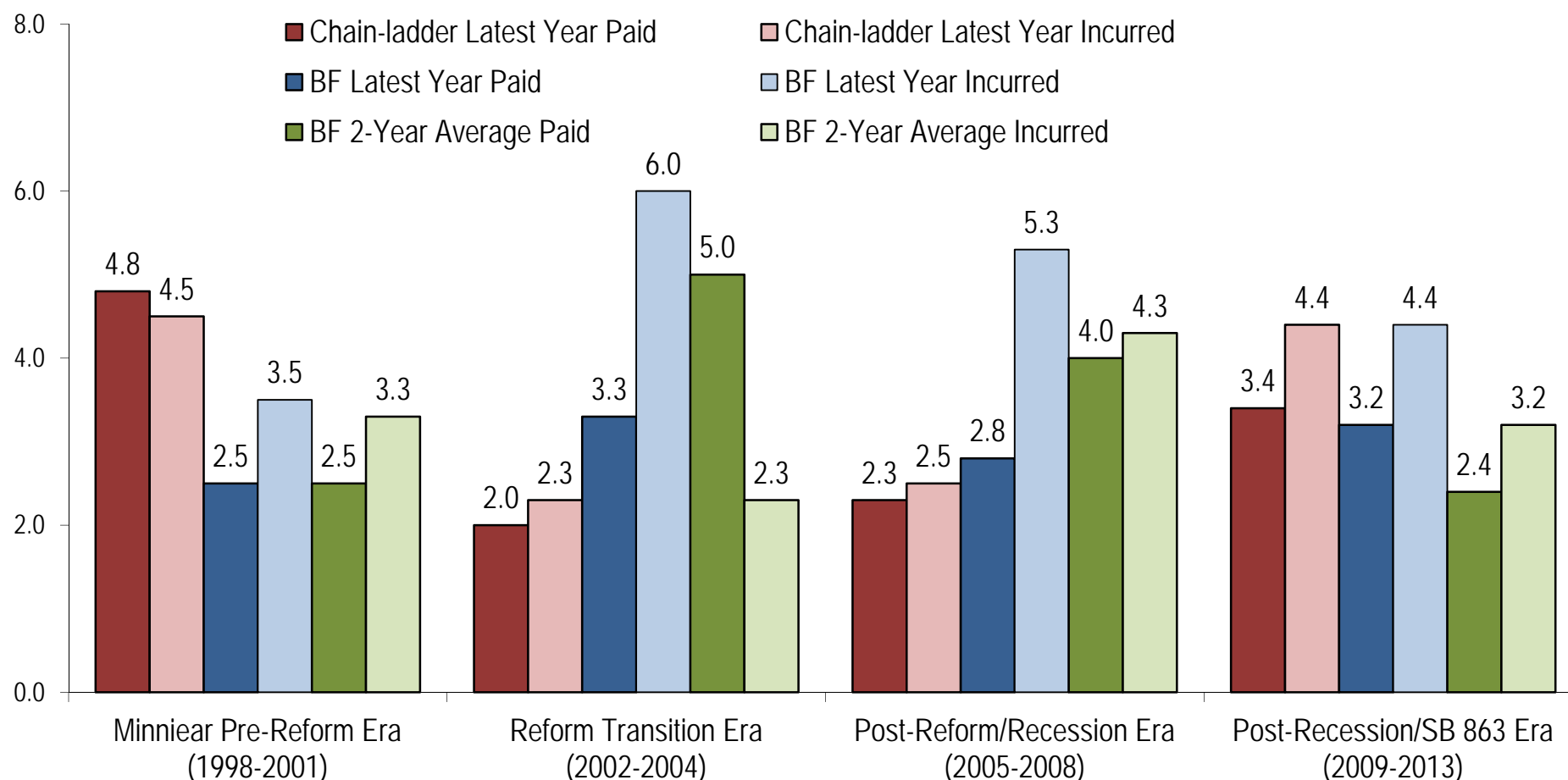
Retrospective Tests Results – Indemnity 12 to 24 Months (Exhibit 5.1)

Average Rank of Absolute Difference from Actual 24 Month Loss Ratio



Retrospective Tests Results – Medical 12 to 24 Months (Exhibit 5.1)

Average Rank of Absolute Difference from Actual 24 Month Loss Ratio



Retrospective Tests Summary

Method	Average Error	Median Error	Average Rank	Median Rank
Chain-ladder Latest Year Paid	7.7%	5.8%	2.9	2.0
Chain-ladder Latest Year Incurred	8.5%	6.6%	3.3	3.0
BF Latest Year Paid	9.8%	6.1%	3.3	3.0
BF Latest Year Incurred	11.3%	8.5%	4.1	4.0
BF 2-Year Avg. Paid	10.7%	7.5%	3.6	3.5
BF 2-Year Avg. Incurred	10.4%	7.1%	3.8	4.0

Loss Development at Earlier Maturities – Conclusions & Recommendations

- BF Method Not More Accurate than CL in Most Cases
- BF Method Adds Significant Complexity to Methodology
- Recent Paid Age-to-Age Factors Generally Consistent with Projections
- Staff Recommends Not Adopting BF at this Time but Continue to Review with Other Alternative Methods

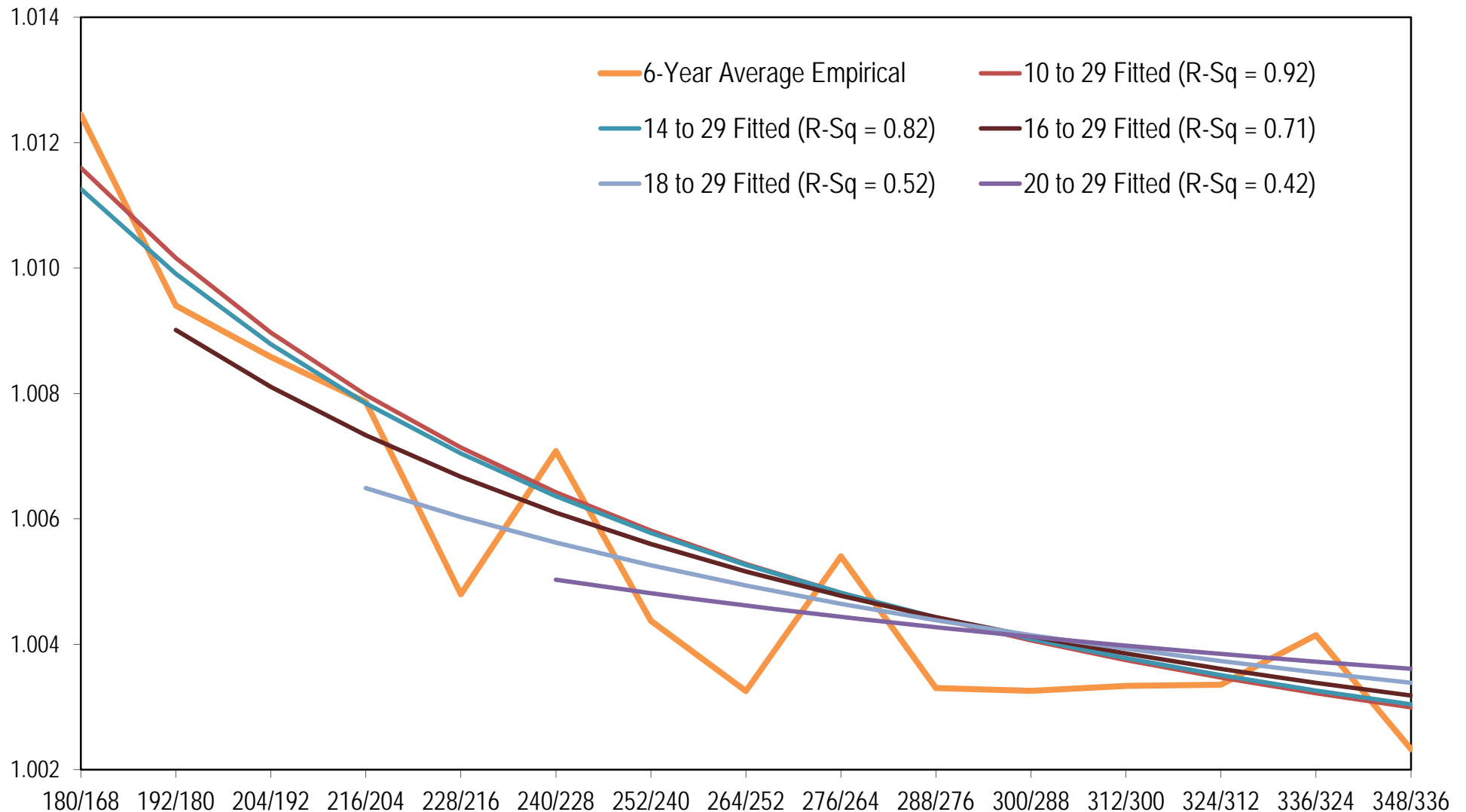
Loss Development at Later Maturities – Background

- WCIRB Tail Approach Based on Calendar Year Development
 - Tail factor = $\frac{\text{Incremental Incurred for Years Older than X}}{\text{Cumulative Incurred for Year X}} + 1.0$
- Additional Tail Adjustments
 - Indemnity factors reduced to 20% for asbestosis claims
 - Medical factors adjusted for CY inflation
- “And Older” Data Sparse and Difficult to Analyze
 - Many insurers with older claim data no longer reporting to WCIRB
 - Unknown which AYs data comes from
- ALAE Tail Studied in 2015
 - Inverse power curve fit very well to later age-to-age factors
 - Committee recommended reviewing inverse power tail for losses

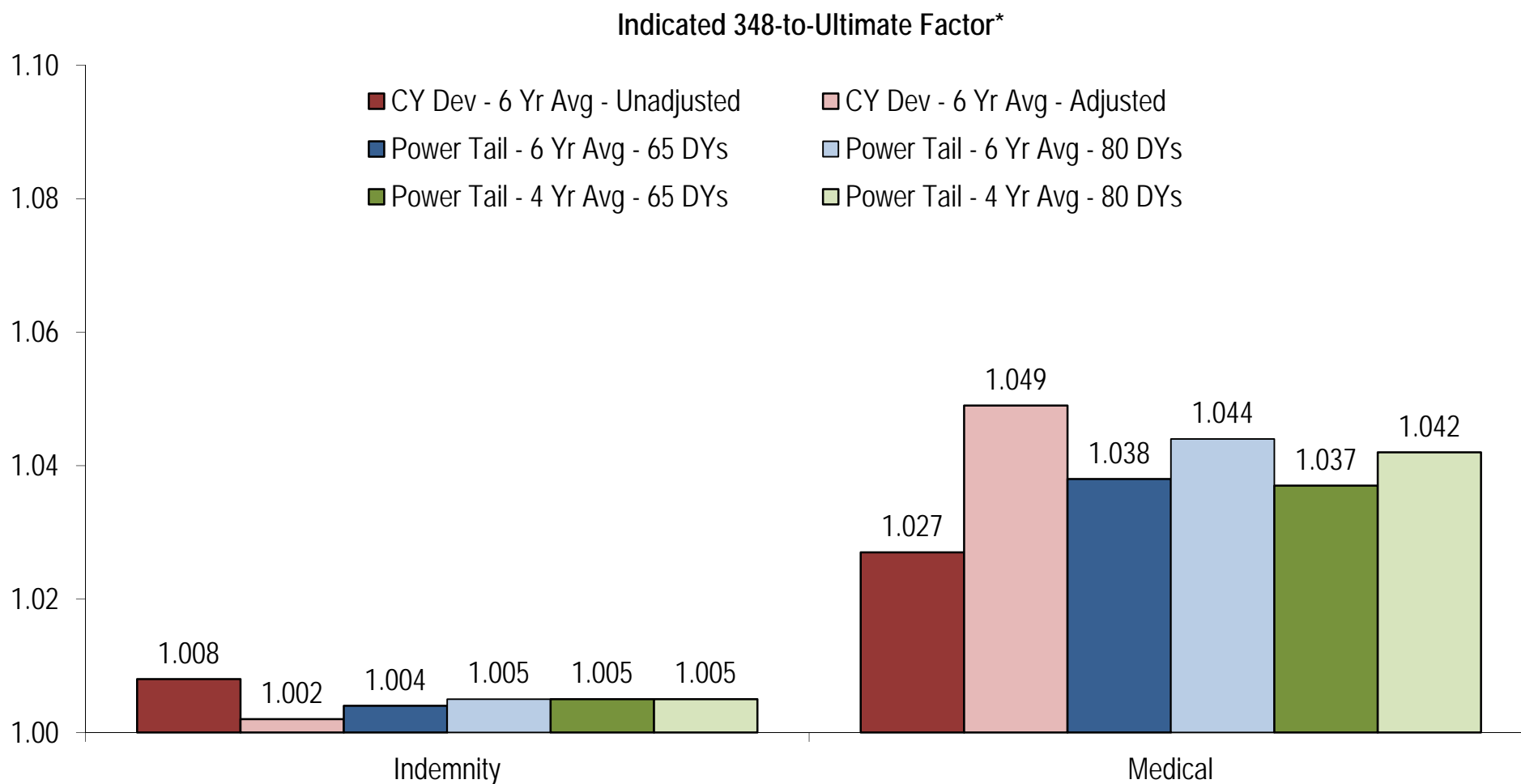
Inverse Power Tail Fit Approach

- Inverse Power Factor: $f(t) = 1.0 + a * t^b$
 - Other fits studied for ALAE (Bondy, etc.) but did not work as well
 - Tail factor = $f(t) * f(t+1) * f(t+2) * \dots$
- Key Assumptions
 - # of CYs to use in empirical factors (3 through 6)
 - Period to fit (10th through 29th year)
 - Extrapolation point (40 through 100 years)
- Factors Less than 1.000 Ignored in Fit (< 3% of Observations)
- Focus on Incurred Since Paid Development in Older Years
Potentially Distorted (2014 Study)

Medical Incurred Development – Empirical vs. Fitted (@12/31/2014)



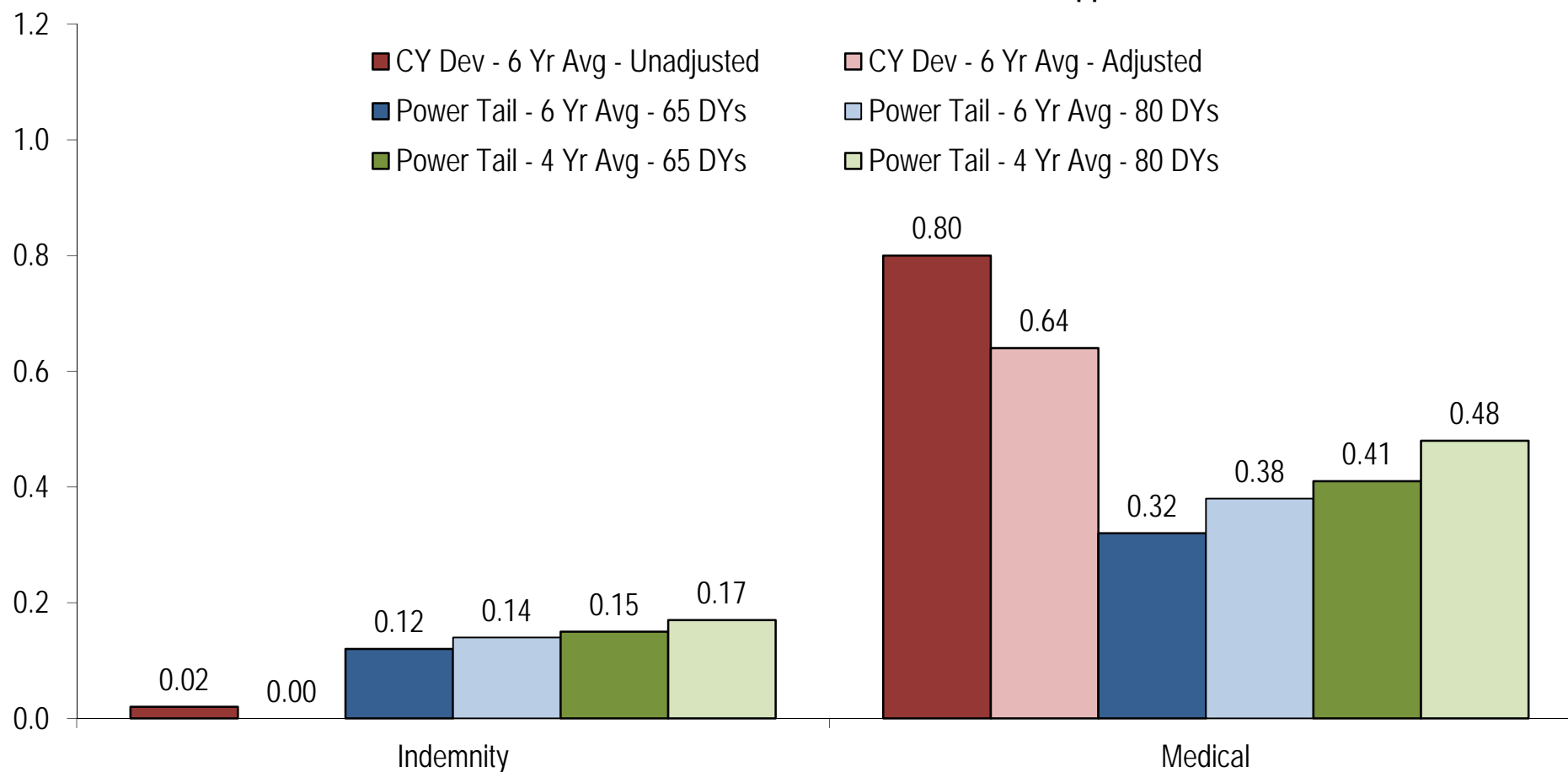
Alternative Tail Development Factors (@12/31/2014)



*All power tail fits are based on fitting to the 10th to 29th year.

Stability of Tail Development Factors

5-Year Standard Deviation * 100 of Tail Factor Approach*



*All power tail fits are based on fitting to the 10th to 29th year.

Loss Development at Later Maturities – Conclusions & Recommendations

- Inverse Power Curve Fit Very Well to Incurred Age-to-Age Factors
- IPC Factors Consistent with CY Development Approach
- IPC Factors Significantly More Stable than CY Dev for Medical
- IPC Does Not Require Additional Adjustments
 - For indemnity – no factors prior to 1979 included in fit
 - For medical – factors based on cumulative data so inflation not as impactful
- IPC Does Require Assumptions for Fit
 - 6-year average empirical factors most stable
 - Fit to 10 to 29 produces highest R-square & fits well to later maturities
 - 80 year extrapolation consistent with claim survey data

12/31/15 Loss Adjustment Expense Experience Review

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Projections of ULAE to Loss

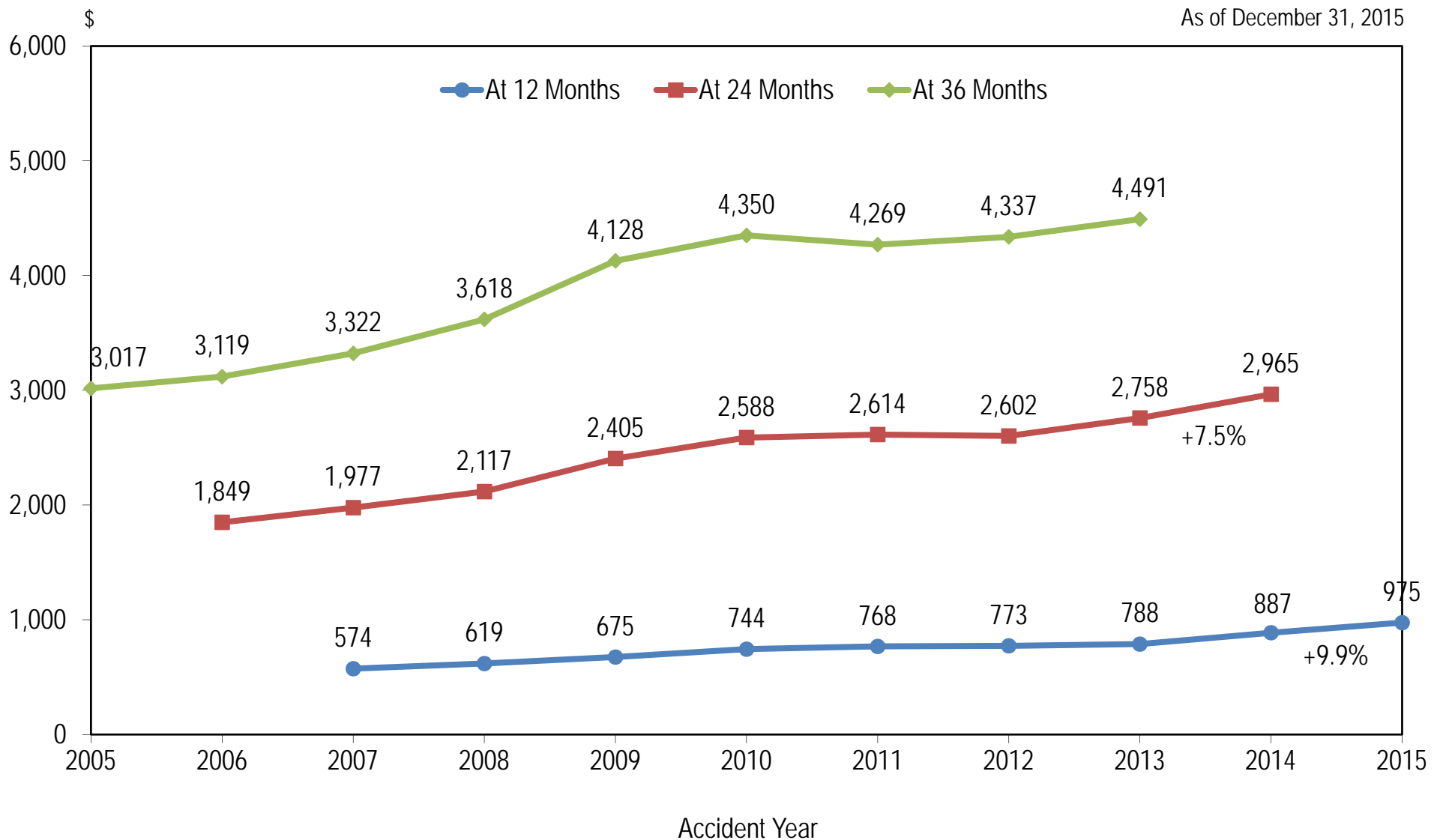
Policy Year 2016 Projection (January 1, 2016 Pure Premium Rate Filing)

ULAE Projection Method	Statewide ULAE Ratio	Private Insurer ULAE Ratio
Open Indemnity Claim-Based Projection	11.7%	8.9%
Paid Loss-Based Projection	9.2%	7.0%
Average of Indemnity Claim-Based and Paid Loss-Based Projections	10.5%	8.0%

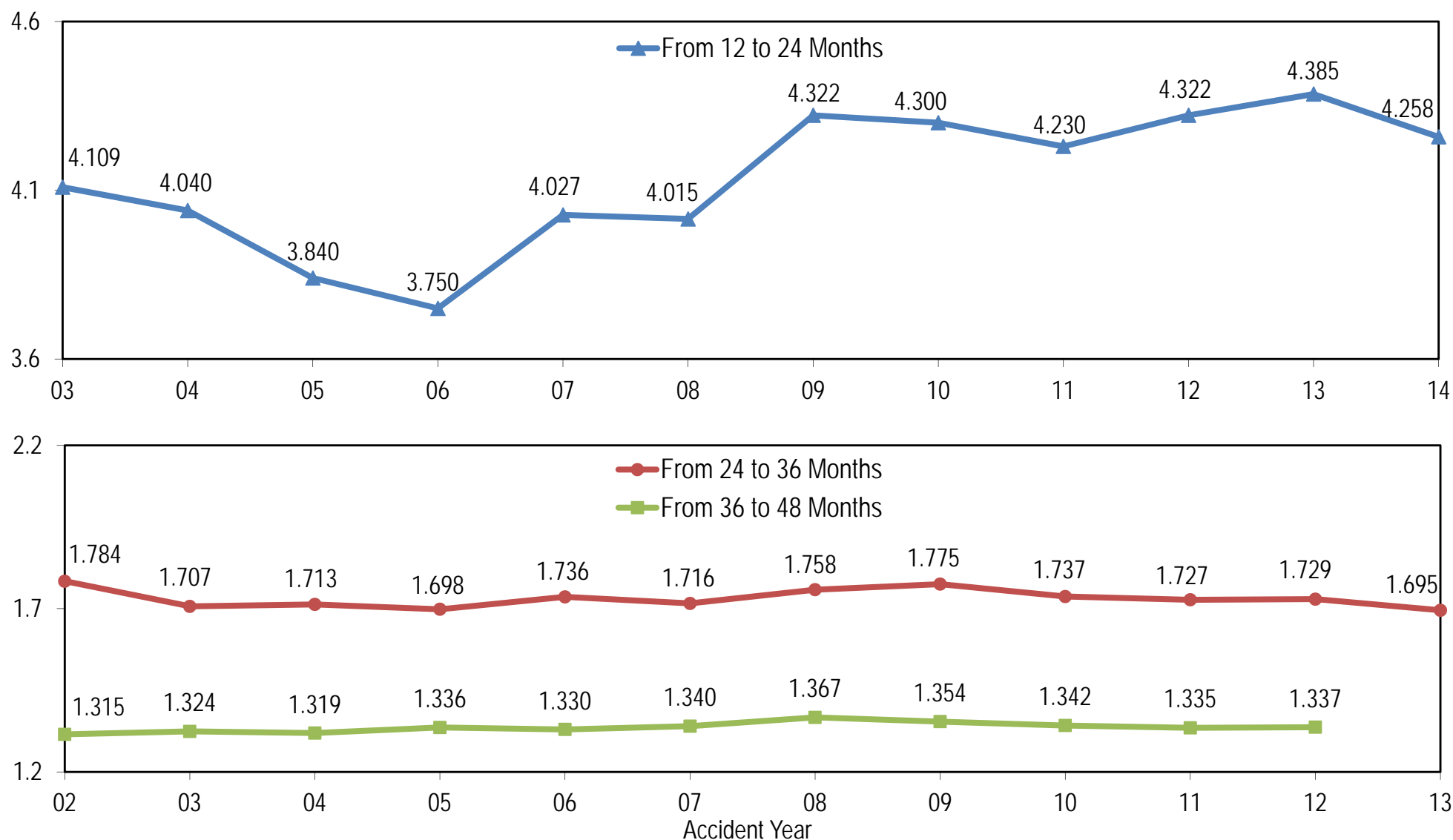
Projection for Policies Incepting July 1, 2016 through December 31, 2016

ULAE Projection Method	Statewide ULAE Ratio	Private Insurer ULAE Ratio
Open Indemnity Claim-Based Projection	12.3%	9.3%
Paid Loss-Based Projection	9.8%	7.3%
Average of Indemnity Claim-Based and Paid Loss-Based Projections	11.1%	8.3%

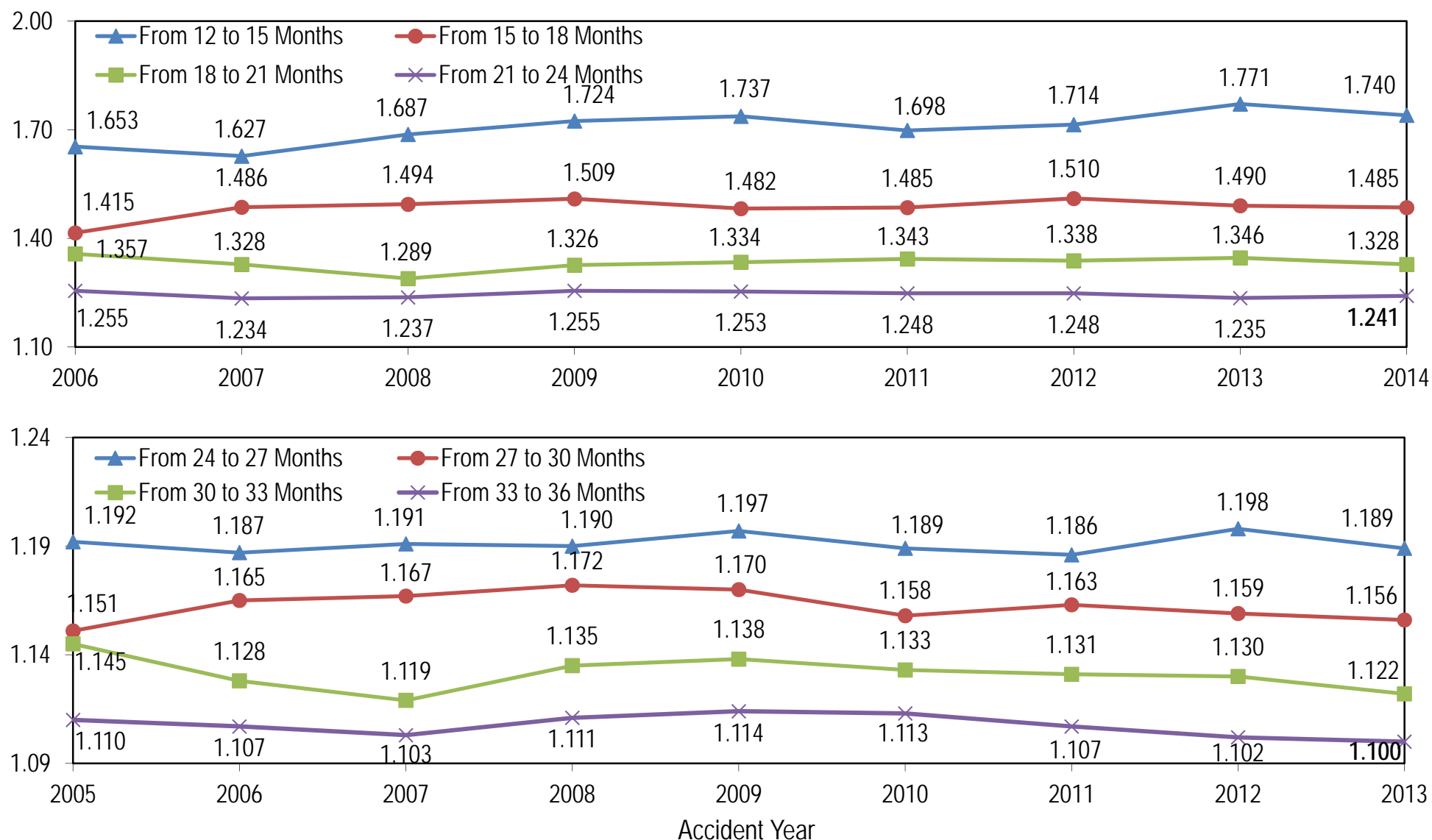
Paid ALAE per Reported Indemnity Claim – Private Insurers Excluding MCCP (Exhibit 1)



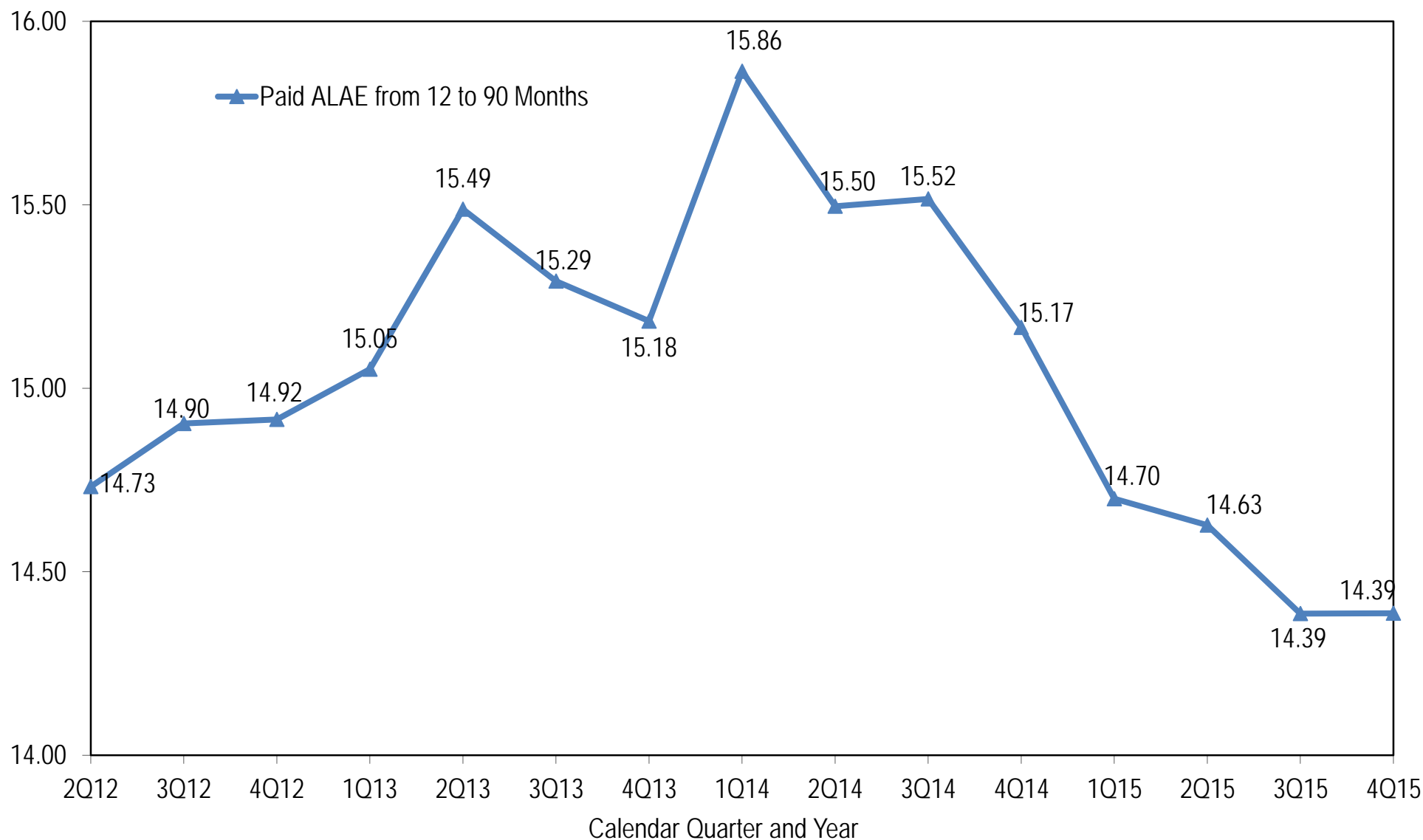
Paid ALAE Development Factors – Private Insurers Excluding MCCP (Exhibit 5.1)



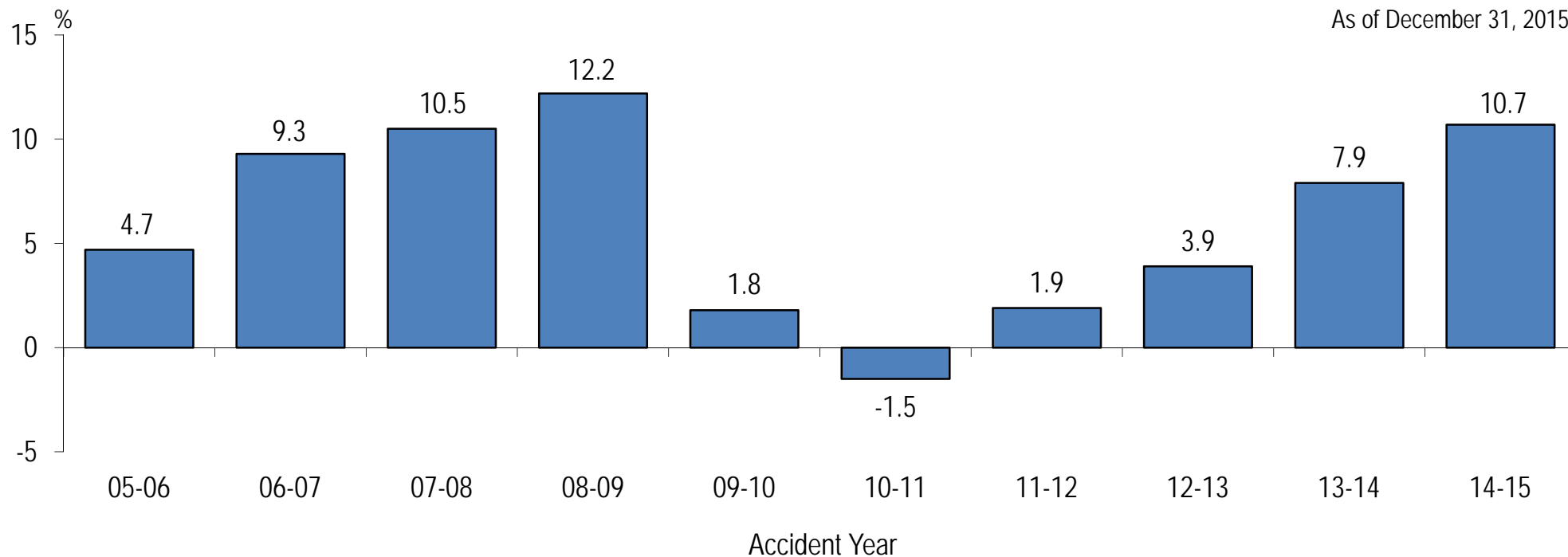
ALAE Quarterly Paid Development Factors – Private Insurers (Exhibit 5.2)



Cumulative Quarterly Paid ALAE Development



Change in Estimated Ultimate ALAE per Indemnity Claim – Private Insurers Excluding MCCP (Exhibit 2.2)

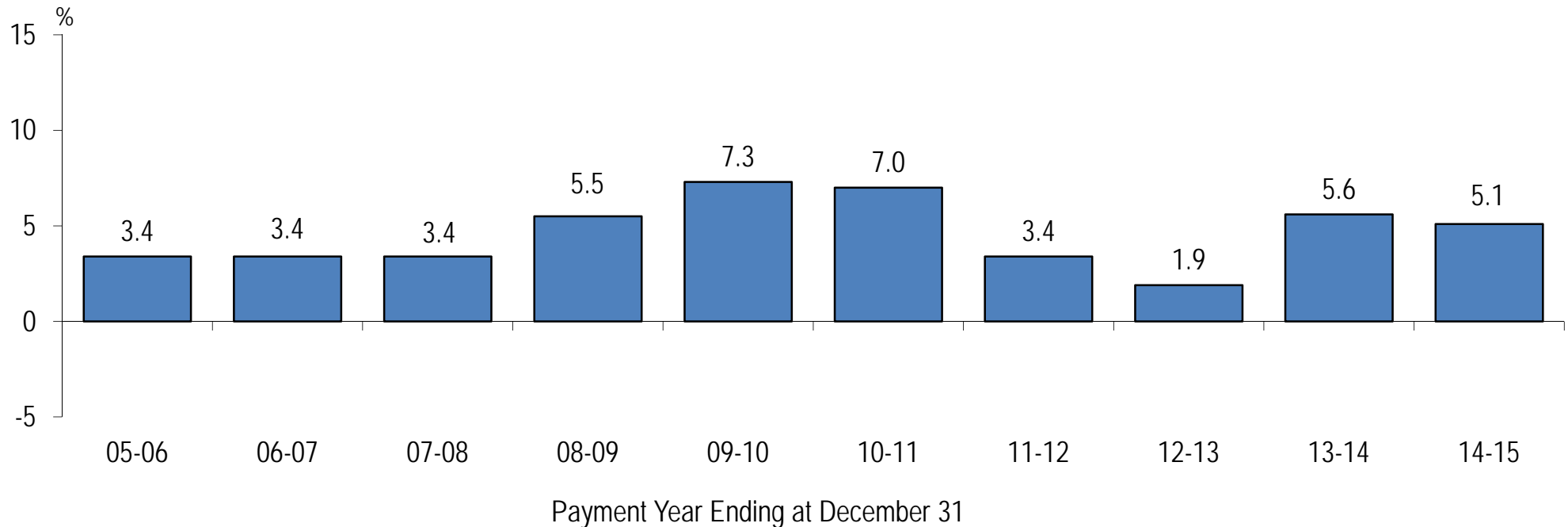


Annual Exponential Trend Based on:

2005 to 2015: +5.4%

2010 to 2015: +4.5%

Change in Incremental Paid ALAE per Open Indemnity Claim – Private Insurers Excluding MCCP (Exhibit 3)



Annual Exponential Trend Based on:

2005 to 2015: +4.8%

2010 to 2015: +4.2%

WCIRB Selected ALAE Severity Trend: **+4.5%**

Projections of ALAE to Loss – Excluding MCCP

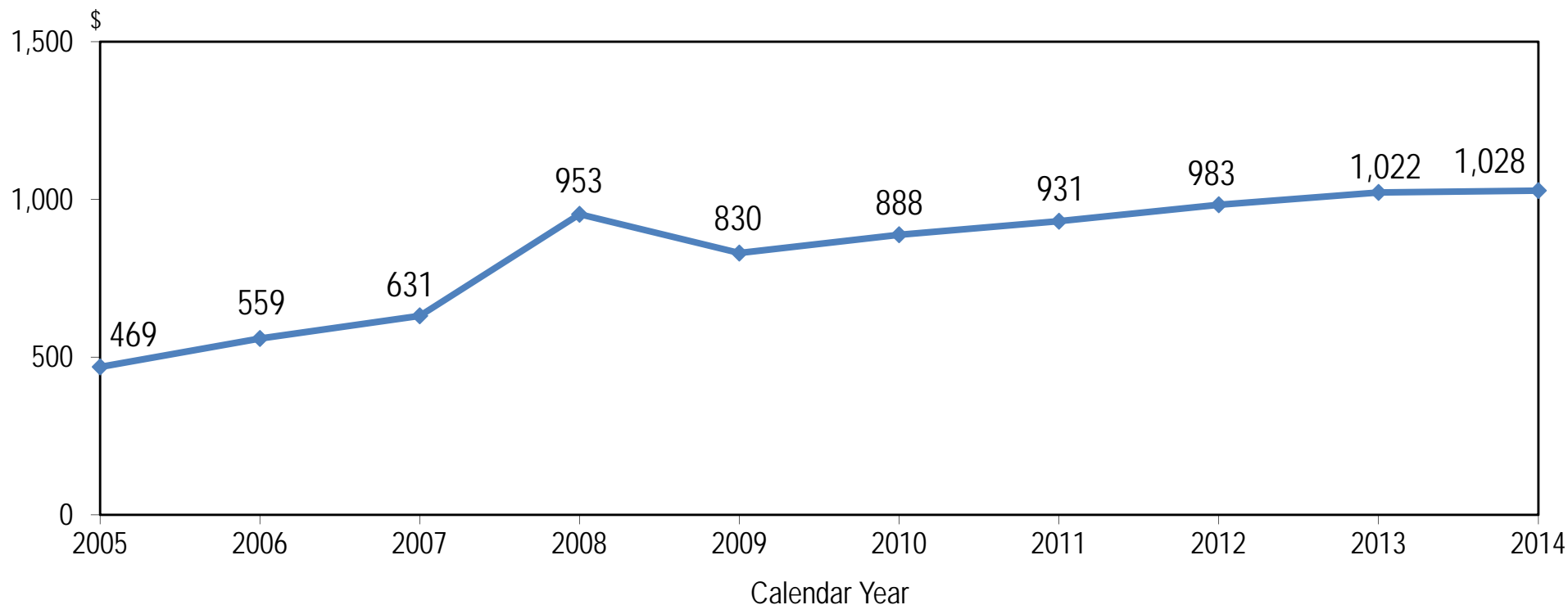
Policy Year 2016 Projection (January 1, 2016 Pure Premium Rate Filing)

ALAE Projection Method	Statewide ALAE Ratio	Private Insurer ALAE Ratio
Trended Ultimate ALAE Per Indemnity Claim	17.6%	19.4%

Projection for Policies Incepting July 1, 2016 through December 31, 2016

ALAE Projection Method	Statewide ALAE Ratio	Private Insurer ALAE Ratio
Trended Ultimate ALAE Per Indemnity Claim Based on Frequency Model Forecasts and 4.5% ALAE Severity Trend Applied to Latest Two Years (Agenda)	19.1%	20.5%
<i>Trended Ultimate ALAE Per Indemnity Claim w/ 0% Frequency Trend & 7% ALAE Severity Trend Applied to Latest Two Years</i>	---	22.1%

Paid MCCP per Open Indemnity Claim – Private Insurers (Exhibit 6)



Annual Exponential Trend Based on 2009 to 2014: +4.5%

WCIRB Selected MCCP Severity Trend: +4.5%

Projections of MCCP and Combined LAE to Loss

Policy Year 2016 Projection (January 1, 2016 Pure Premium Rate Filing)

Projection Method	Statewide Ratio	Private Insurer Ratio
Trended Ultimate MCCP Per Indemnity Claim	7.1%	7.5%
Total ALAE & MCCP Ratio	24.7%	26.9%
Total LAE	35.2%	34.9%

Projection for Policies Incepting July 1, 2016 through December 31, 2016

Projection Method	Statewide Ratio	Private Insurer Ratio
Trended Ultimate MCCP Per Indemnity Claim Based on Frequency Model Forecasts & 4.5% MCCP Severity Trend Applied to Latest Two Years (Agenda)	6.8%	7.2%
<i>Trended Ultimate MCCP Per Indemnity Claim w/ 0% Frequency Trend & 2.3% MCCP Severity Trend Applied to Latest Two Years</i>	---	7.0%
Total ALAE & MCCP Ratio (Agenda)	25.9%	27.7%
Total LAE (Agenda)	37.0%	36.0%

Industry Average Filed Rates as of 1/1/16

WCIRB Actuarial Committee Meeting
April 5, 2016

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Calculation of Industry Average Filed Rate – 1/1/16 Standard and Alternative Methods

- Annual Filing Method (Used for July 1 Insurer Rates for Annual Filings)
 - Input actual insurer filed rates by classification from the largest 120 insurers
 - Use exposure weights by classification and insurer from USR data to calculate weighted average rates
- Mid-Year Filing Method (Used for January 1 Insurer Rates for Potential Mid-Year Filings)
 - Roll industry average filed rates forward from latest Annual Filing Method to reflect insurer filing activity since the last evaluation date

Industry Average Filed Rates Per \$100 of Payroll Based on Exposure Weights from 1/1/16 Filing

