Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
April 5, 2016	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci

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Members	**Representing**
Rose Barrett*	American International Group
Carolyn Bergh	Hartford Insurance Company
Laura Carstensen	Zurich North America
Jim 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
Robert Hallstrom
Giovanni Muzzarelli

WCIRB Participants
Bill Mudge
David Bellusci
Ward Brooks
Larry Law
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.

Item AC16-03-01
First Quarter 2016 Review of Diagnostics

The Committee was reminded that during the review of diagnostics at the March 22, 2016 meeting, there were several diagnostics for which additional information was requested. The following information was provided to the Committee:

1. The number of Division of Workers' Compensation (DWC) expedited hearings decreased slightly in 2015, but remained much higher than pre-2013 levels. The Committee was advised that the Claims Working Group noted that when an Independent Medical Review decision is not received within 30 days of Maximus receiving the supporting documents, the applicant may be able to pursue an expedited hearing. The Working Group also noted that until there is more judicial clarification of this issue, the count of expedited hearings on medical treatment issues is likely to remain high. The Committee was also advised that at the suggestion of the Working Group, staff is working with the DWC to assess whether information can be obtained segregating the expedited hearing counts on medical treatment issues from those on other issues.
2. The total number of liens filed in 2015 was almost twice the number filed in 2014. The Committee was advised that several Claims Working Group members suggested that they were surprised at the sharp increases in lien volumes in 2015 and suggested that the DWC be contacted to confirm that there were no data issues or definitional differences in how liens were being recorded. The Committee was further advised that staff has reviewed the data provided and did not see any evidence of duplication and is working with the DWC to assure that there are no significant data anomalies. It was also noted that at the suggestion of the Claims Working Group, staff is considering re-issuing the lien survey in 2016 to obtain lien settlement and demand information.
3. At the March 22, 2016 meeting, a member noted that increases in lien decisions and compromise and release (C&R) decisions in 2013 might in part have driven the increase in medical development during that period. Staff presented updated information from the DWC on lien and C&R decisions in 2014. Staff noted that the counts of these decisions did not drop significantly in 2014 despite significant reductions in medical loss development.
4. The Committee reviewed a summary of open claim percentages by type of claim at second unit statistical report level. Staff advised the Committee that the information was updated from that presented at the March 22, 2016 meeting to eliminate the impact of several data anomalies in the reported injury type data that was in the process of being corrected. The updated summary showed that while the proportion of permanent disability claims open was declining, the proportion of temporary claims remaining open had increased following the changes to the temporary disability duration cap in 2008 and since then had remained relatively stable. The Committee was also advised that to a significant extent the reduction in the percentage of permanent disability claims remaining open was explained by shifting insurer mix.
5. As discussed at the March 22, 2016 meeting, the WCIRB Permanent Disability Claim Survey showed that the percentage of claims with a Medicare Set-aside (MSA) increased with claimant age, while the percentage of claims resolved by C&R decisions decreased with age. Staff advised the Committee that the Claims Working Group suggested that the cost of MSAs increase sharply for older workers and that the lower percentage of C&R settlements for older workers was not surprising inasmuch as many older injured workers are less likely to settle their future medical.
6. At the March 22, 2016 meeting, the Committee noted that the percentage of permanent disability claims with legal representation increased significantly in Northern California in 2013 and requested to review representation rates at a more refined geographic level. Staff advised the Committee that, while in some regions the survey data was somewhat sparse, all sub-regions in Northern and Central California including the Bay Area, the far northern region, and the central part of the State experienced increases in the percentage of claims represented in 2013.

Item AC16-03-02
12/31/2015 Experience – Review of Methodologies

The Agenda materials contained an updated analysis of December 31, 2015 experience, which was first reviewed at the March 22, 2016 meeting. The Committee was advised that the loss projections were overall virtually unchanged from those reviewed at the March 22, 2016 meeting, with the exception of benchmarking the projected loss indication to the January 1, 2016 industry average filed pure premium rate rather than the July 1, 2015 industry average filed pure premium rate.

The Committee reviewed the loss development projections including the alternative loss development projections included in the Agenda materials (Item AC16-04-02). It was noted that the projections based on unadjusted incurred loss development were significantly lower than the projections based on paid loss development or incurred development adjusted to a common case reserve adequacy level, which were much more comparable. A Committee member noted that not all changes in average case reserves may be a result of case reserve adequacy shifts, suggesting an adjustment for changing case reserve adequacy may overstate the impact. Another member noted that unadjusted incurred methods are likely distorted for reform changes. A Committee member suggested that, while this is likely true for incurred indemnity losses in which the mix of permanent disability benefits and temporary disability benefits differs in the pre- and post-SB 863 incurred development patterns, for medical, incurred development still provides some value and should be given some weight.

Staff advised the Committee of the rationale supporting prior Committee recommendations to base the loss development projection primarily on paid development patterns, and most Committee members concurred that this rationale continues to be appropriate. After discussion, a motion was made and seconded to base the indemnity loss development projection on the reform-adjusted paid development method as presented in the Agenda materials to compute the indicated July 1, 2016 average advisory pure premium rate. The motion passed unanimously. A second motion was made and seconded to base the medical loss development projection on the reform-adjusted paid development method as presented in the Agenda materials to compute the indicated July 1, 2016 average advisory pure premium rate. The motion passed with eight in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed the motion recommended a medical loss development methodology that assigned 50% weight to the reform-adjusted paid methodology and 50% weight to the unadjusted latest year incurred methodology.)

The Committee next discussed the frequency and severity projections included in the Agenda materials. It was noted that the frequency projections were unchanged from those reviewed at the March 22, 2016 meeting. A Committee member noted that the projected on-level indemnity severity trend of 0% reflected in the Agenda materials may be understated considering positive on-level indemnity severity growth in two of the last three years. Other Committee members believed this trend continued to be appropriate in light of the approximate 2% annual indemnity trend related to the impact of wage inflation and statutory cost of living increases in benefits reflected in the current on-leveling process.

A Committee member noted that the approximate average of the long-term and short-term average on-level medical severity trends is lower than the 2.5% projection reflected in the Agenda materials. Staff advised the Committee that shortly after other periods of reform moderating medical severity trends in the early 1990s and mid-2000s, medical severities grew rapidly and, as a result, relying so heavily on the short-term on-level medical severity growth during the SB 863 transition period may not be appropriate. Several Committee members agreed with this approach, expressing concern with projecting recent medical severity changes that may be temporary and related to the transition to SB 863 into the future. A member also noted that inflation adjustments in fee schedules currently tied to Medicare or Medical are not currently contemplated in the medical on-level adjustments beyond the RBRVS changes through service year 2017, and therefore are in effect also contemplated in the on-level medical severity trend.

The Committee discussed the alternative trending projections included in the Agenda materials (AC16-04-02). It was noted that projections based on short-term loss ratio trends are generally consistent with those based on the separate frequency and severity trend projections reflected in the Agenda materials. While one Committee member recommended using a short-term loss ratio trend, most Committee members agreed that the separate frequency and severity trend projection continues to be appropriate. After a lengthy discussion, a motion was made and seconded to use the trending projection methodologies reflected in the Agenda materials to compute the indicated July 1, 2016 average advisory pure premium rate. The motion passed with eight in favor and two opposed. (One member opposed to the motion recommended a higher indemnity severity trend. The Actuary representing the Public Members of the Governing Committee who was also opposed to the motion recommended a methodology based on a short-term loss ratio trend and, if a separate frequency and severity approach is to be used, recommended a lower medical severity growth projection.)

Staff agreed to advise the Governing Committee at its April 6, 2016 meeting as to the diversity of opinion on the recommended loss projection methodologies.

Item AC16-03-03
Loss Development at Earlier and Later Maturities

The Committee was reminded that in 2014, it reviewed a study of loss development methodologies that included an analysis of a number of alternative loss development methodologies including the Bornheutter-Ferguson (BF) expected loss ratio (ELR)-based approach to developing losses at earlier maturities. At that time it was noted that the BF approach performed well in initial retrospective tests and was suggested for further study.

Staff presented an updated analysis of the BF approach that was included in the Agenda materials. Staff noted that this analysis primarily differed from that presented in the 2014 study in that the updated analysis reflected on-leveling and trending adjustments to project the ELR based on the information available at the time that accident year was reported as of 12 months rather than based on hindsight actual information. Staff noted that this change had a significant impact in reducing the retrospective accuracy of the BF approach. It was noted that, for indemnity, the traditional chain-ladder (CL) approach consistently outperformed the BF method across claims environments. For medical, it was noted that although the BF method was more accurate than the CL method in some instances, it did not result in a significant increase in accuracy and the CL method was somewhat more accurate overall. After discussion, the consensus of the Committee was that the BF method should not be adopted at this time but should continue to be reviewed with other loss development alternatives.

The Committee was then reminded that at the March 18, 2015 meeting, it reviewed a study of allocated loss adjustment expense (ALAE) development that included an analysis of the ALAE tail development methodology. At that meeting, the Committee adopted a methodology for developing the ALAE tail based on fitting an inverse power curve (IPC) to the paid ALAE development factors and suggested staff analyze the feasibility of using a similar approach for losses.

Staff reminded the Committee of the current calendar year (CY) approach to computing the loss development tail and the adjustments currently applied to these factors, and summarized the analysis of the IPC approach that was included in the Agenda materials. It was noted that the incurred age-to-age factors for later maturities continue to be very volatile even when averaging six years of factors, suggesting a curve fitting approach may improve stability. It was also noted that the IPC fit very well to both the incurred indemnity and incurred medical loss development factors when fitting from the 10th through 29th development years. It was also noted that the tail development factors produced by the IPC approach were generally consistent with those produced by the current CY approach on an adjusted basis. In particular for medical, the Committee noted that the IPC approach significantly improved the stability of the tail development factor.

The Committee discussed the parameter assumptions of the IPC approach. Staff noted that a fit to a six-year average of factors from the 10th through 29th development years produced some of the best overall fits. Staff also noted that claims with positive incurred development after 77 years have been observed in survey data, suggesting an extrapolation point of 80 years may be appropriate. A Committee member expressed concern with the assumption that significant incurred loss development would occur at 80 years or later. Staff advised the Committee that due to the convergence of the IPC, extrapolation points around the 80 year point have an overall modest effect on the tail development factor. After discussion, the consensus of the Committee was that (a) the IPC approach significantly improves the stability of the medical loss development tail while not significantly impacting the magnitude of the indemnity tail, (b) the IPC approach utilizes more complete data based on cumulative development from more recent years as opposed to the current CY approach of using incremental development from much later periods, and (c) the IPC approach does not require additional “black box” adjustments currently applied by the WCIRB in the current CY approach. As a result, the Committee agreed that the IPC approach based on staff’s recommendation should be adopted for developing ultimate indemnity and medical losses when preparing for the January 1, 2017 Pure Premium Rate Filing.

Item AC16-04-01
12/31/2015 Loss Adjustment Expense Experience Review

The Committee was advised that unallocated loss adjustment expense (ULAE) experience for calendar year 2015 is not yet available. However, the Agenda materials included an updated ULAE projection that reflected ULAE experience through calendar year 2014 as well as updated frequency and loss projections. It was noted that the increase in the projected ratio of ULAE to losses for the July 1, 2016 through December 31, 2016 policy period from that reflected in the January 1, 2016 Pure Premium Rate Filing was primarily due to the decrease in the loss projection.

The Committee was reminded that, while the calendar year 2014 ULAE experience reflected a partial correction for the distortion in reported ULAE amounts that was related to the treatment of ULAE on large deductible policies and claims handled by third party administrators, a more complete correction of the data should be available with the reporting of calendar year 2015 ULAE later this year. A meeting participant noted that once the calendar year 2015 ULAE information is available for the annual filing, the ULAE provision is likely to increase.

The Committee reviewed the analysis of allocated loss adjustment expense (ALAE) experience through December 31, 2015. It was noted that the accident year 2015 ALAE through 12 months was emerging at a level significantly greater than that for accident year 2014. However, staff noted that for a number of periods there were indications that ALAE development was beginning to moderate. The Committee was also advised that using the WCIRB standard approach of blending short-term and long-term trends in estimated ultimate accident year ALAE severities and incremental paid ALAE per open indemnity claims produces an indicated ALAE severity trend of 4.5%, which is consistent with the projected ALAE severity trend reflected in the January 1, 2016 Pure Premium Rate Filing. The Actuary representing the Public Members of the WCIRB Governing Committee indicated that he believed a higher ALAE severity trend based on more recent data was appropriate and, at the same time, recommended using a flat frequency trend rather than the slightly decreasing frequency trend produced by the WCIRB's econometric frequency model.

The Committee next reviewed the analysis of medical cost containment program (MCCP) experience through December 31, 2015. It was noted that the MCCP projection was based on a similar approach to that of other ALAE with the exception that MCCP is developed based on paid medical loss development factors instead paid ALAE development factors excluding MCCP. Staff advised the Committee that it had analyzed quarterly paid MCCP development and that this approach continues to be appropriate. The Actuary representing the Public Members of the WCIRB Governing Committee indicated that he believed a lower MCCP severity trend based on recent changes in ultimate MCCP per indemnity claim was appropriate. Staff advised the Committee that it plans to review the MCCP projection methodology with the Committee in more detail for the annual filing.

After a lengthy discussion, a motion was made and seconded to use the LAE projection methodologies reflected in the Agenda materials for purposes of computing an indicated July 1, 2016 average advisory pure premium rate. The motion passed with eight in favor and one opposed. The Actuary representing the Public Members of the Governing Committee who opposed this motion indicated his preference for using higher loss frequency and ALAE severity trends and a lower MCCP severity trend in the projection. Staff agreed to advise the Governing Committee at its April 6, 2016 meeting as to the diversity of opinion on the recommended loss adjustment expense projection methodologies.

Item AC16-04-02
12/31/2015 Experience – Alternative Loss Projections

The Agenda materials included a number of alternative loss development and trending methodologies that had been reflected in prior WCIRB pure premium rate filings or discussed at prior Actuarial Committee meetings.

The Committee reviewed summaries of the alternative loss projection methodologies during the discussion of loss development and trending methodologies in the context of its review of December 31, 2015 experience. (Please refer to the Minutes for Item AC16-03-02.)

Item AC16-04-03
Computation of Industry Average Filed Rates as of 1/1/2016

The Committee was reminded of the WCIRB's standard process to compute January 1 industry average filed manual and pure premium rates based on rolling forward the calculated average insurer filed rates from the previous evaluation date by reflecting individual insurer rate filing activities since that time. The Committee noted that the resulting January 1, 2016 industry average filed rates ($2.57 per $100 of payroll for pure premium rates and $3.79 per $100 of payroll for manual rates) were slightly below the July 1, 2015 industry average filed rates ($2.66 per $100 for pure premium rates and $3.89 per $100 of payroll for manual rates).

The meeting was adjourned at 12:05 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for June 17, 2016 for approval and/or modification.