

Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
March 22, 2016	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci
1221 Broadway, Suite 900 • Oakland, CA 94612 • 415.777.0777 • Fax 415.778.7007 • www.wcirb.com • wcirb@wcirb.com			

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Members

Rose Barrett
Carolyn Bergh
Laura Carstensen
Jim Gebhard
Joanne Ottone
Jill Petker
Mark Priven
Kate Smith

Representing

American International Group
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

California Department of Insurance

Ron Dahlquist
Robert Hallstrom
Giovanni Muzzarelli

WCIRB Participants

Bill Mudge
David Bellusci
Ward Brooks
Greg Johnson
Tony Milano

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 December 7, 2015, 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-A Medical Analytics Working Group Meeting Summary

The summary of the Medical Analytics Working Group meeting held on February 9, 2016, which was included in the Agenda materials, was accepted by the Committee.

Item II-B Actuarial Research Working Group Meeting Summary

The summary of the Actuarial Research Working Group meeting held on March 2, 2016 was included in the Agenda materials. Staff summarized some the topics discussed at the meeting related to potential impacts of minimum wage changes by industry and potential experience rating alternatives to address small medical-only or “first aid” claims. After discussion, the meeting summary was accepted by the Committee.

Item AC14-08-07

SB 863 Cost Monitoring – Adjustments to Pure Premium Ratemaking

The Committee reviewed the summary of Senate Bill No. 863 (SB 863) cost monitoring information that was included in the Agenda materials and the current adjustments for the cost impact of SB 863 currently reflected in pure premium ratemaking. The Committee was advised that, as discussed at the November 4, 2015 meeting related to the WCIRB's 2015 SB 863 Cost Monitoring report, the majority of SB 863 provisions affecting indemnity benefits are emerging generally consistent with prospective estimates, while some of the provisions affecting medical benefits are producing more or less savings than projected. In particular, the Committee was advised that the increase in lien filings in 2015 have reduced projected savings reflected in the January 1, 2016 Pure Premium Rate Filing, while a reduction in average costs for spinal implants has slightly increased projected savings, affecting medical services provided in 2013 and later. The Committee was further advised that greater than projected declines in the cost of special services and reports in 2014 has resulted in increased savings attributable to the new physician fee schedule. The Committee was reminded that for these provisions impacting medical benefits on a date-of-service basis, the WCIRB's approach has been to reflect them in adjustments to paid medical loss development. After discussion, the Committee agreed with staff's recommendation to reflect the updated SB 863 cost impacts to medical benefits in the adjustments to loss development. The Committee was advised that the net impact of these updates was small.

The Committee was reminded that in the 2015 SB 863 Cost Monitoring Report, it was noted that medical severities—after adjusting for other quantifiable impacts of SB 863 and projected trends—have emerged approximately 5% lower than projected. It was also noted that, as discussed at prior meetings, some of this decline is likely impacting older accident years. Staff presented the approach included in the Agenda materials to distribute the -5% change in medical utilization by accident year based on comparing post-SB 863 paid medical loss development to the approximate continuation of the pre-SB 863 trend in age-to-age development. It was noted that paid medical development for accident years 2012 through 2014 is significantly lower than projected based on the pre-SB 863 trend, while the difference in accident years 2011 and prior—while generally decreasing on an overall basis—was much more modest. As a result, the Committee agreed with staff's recommendation to judgmentally distribute the -5% change in the utilization of medical services for SB 863 across accident years 2012 through 2014 based on the approach described in the Agenda materials (-1% to 2012, -1% to 2013, -3% to 2014). The Committee was advised that, inasmuch as these adjustments only impact the on-leveling of accident years 2013 and prior, they will not significantly impact the July 1, 2016 rate level projection, which will be based primarily on accident years 2014 and 2015.

Staff noted that, based on current projections of ultimate medical losses, the estimated residual impact of SB 863 on medical severities is closer to -6% as compared to -5% reflected in the 2015 SB 863 Cost Monitoring Report. Further, it was noted that the current projected on-level medical severity trend underlying the computation of the residual SB 863 impact is much lower than the severity trends projected in pure premium rate filings made prior to the enactment of SB 863. To the extent that these lower projected trends may have also been influenced by the reforms, the current -5% impact may be a lower bound on the magnitude of the change. Staff agreed to continue to monitor post-SB 863 medical severities and review this information with the Committee in preparation for the January 1, 2017 Pure Premium Rate Filing.

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

The Agenda materials included the WCIRB's standard set of diagnostics that are reviewed by the Actuarial Committee and the Claims Working Group (CWG) on a semi-annual basis. Among the diagnostics discussed by the Committee were the following:

1. The percentage of permanent disability claims with legal representation increased significantly in both Northern and Southern California for both accident years 2012 and 2013. A Committee member requested to see the representation rates shown at a more refined geographic level. Staff agreed to review this for the next meeting.
2. A Committee member commented on the increase in Division of Workers' Compensation (DWC) compromise and release decisions in 2013 and asked if the trend would continue into 2014. Staff noted that the 2014 data would be presented at the next Committee meeting.
3. The average duration of temporary disability benefits on permanent disability claims continued to decrease in 2013. A Committee member noted that the duration of temporary disability benefits on claims without permanent disability is significantly longer than on claims with permanent disability. Staff agreed to discuss the issue with the CWG and report back to the Committee.
4. Indemnity and medical severities for accident year 2015 as of twelve months are above comparable 2014 figures. The Committee discussed if the increase could signal a return to the long term pattern of increasing medical claim severity.
5. The total number of liens filed in 2015 was almost twice the number filed in 2014. At prior meetings, the Committee had noted that part of the increase in 2015 may be due to the 18-month statute of limitations for lien filings that began to affect older claims in January of 2015. The percent of liens filed on claims with accident dates two to three years before the lien filing date increased sharply from 2014 to 2015. However, there were also significant increases in lien filings on older claims, indicating that part, but likely not all, of the increase was caused by the change in statute of limitations. Staff agreed to discuss the issue with the CWG and report back to the Committee.
6. The WCIRB Permanent Disability Claim Survey data shows that the percent of claims with a Medicare Set-aside increases significantly with claimant age, while the percent of claims resolved by compromise and release decreases with age. Staff noted that feedback from the CWG on this pattern would be shared with the Committee at the next meeting.
7. A member noted that while the proportion of permanent disability claims remaining open is declining, the percentage of temporary-only claims remaining opening is increasing. Staff agreed to discuss this issue with the CWG and review the underlying data to assess whether this pattern is due to shifting insurer mix and report back to the Committee at the next meeting.

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

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of December 31, 2015, which was included in the Agenda materials. It was noted that the decrease in the projected loss ratio from that reflected in the January 1, 2016 Pure Premium Rate Filing based on March 31, 2015 experience was primarily attributable to lower medical loss development and accident year 2015 emerging at a level lower than projected.

The Committee noted that indemnity loss development has been relatively stable over the last several quarters while medical loss development has continued to decrease on both an incurred and paid basis. It was noted that incurred medical loss development has decreased significantly over the last few quarters, while the declines in paid medical loss development have been more modest, indicating that a large decrease in medical case reserves occurred in 2015. Staff advised the Committee that the decreases in medical case reserves were widespread across insurers and, based on information provided in response to staff queries, were partially attributable to (a) efforts to settle older claims, (b) reserve takedowns on a few larger claims, and (c) closing of older claims that had no medical activity for the last several years. The Committee was reminded that the medical development projection included in the Agenda materials transitions from a paid development basis to incurred development at 216 months and that approximately half of the decrease in projected medical development experienced since the January 1, 2016 Pure Premium Rate Filing is attributable to the incurred portion of the medical development factor.

Staff noted that the estimated indemnity claim frequency change for 2015 based on aggregate claim counts reported as of 12 months and statewide employment showed a modest decrease, which was somewhat lower than the approximately flat change projected by the WCIRB's indemnity claim frequency model.

The Committee noted that, although the on-level indemnity severity for 2015 shows a modest increase, on average on-level indemnity severities continue to be relatively flat and the approximate average of the longer-term and shorter-term rates of growth remains at 0%, which is consistent with the January 1, 2016 Pure Premium Rate Filing. For medical, it was noted that on-level severity increased modestly in 2015, which was lower than projected in the January 1, 2016 Pure Premium Rate Filing. Staff advised the Committee that, even after adjusting for an approximate -5% decrease in the utilization of medical services from Senate Bill No. 863 (see Item AC14-08-07), based on the approach of averaging the longer-term and shorter-term change in on-level medical severities (the methodology used in the January 1, 2016 Pure Premium Rate Filing), the indicated on-level medical severity trend was significantly lower than the 2.5% reflected in the January 1, 2016 Pure Premium Rate Filing and in the Agenda materials. A Committee member suggested that reflecting a lower medical severity trend based on this information may be appropriate. However, several other Committee members noted that a large portion of the recent flat medical severities may still be attributable to the transition to SB 863 and temporary and, as a result, should not be relied upon so heavily. It was also noted that, in the years following prior periods of reform with flat-to-decreasing medical severity growth, medical severities escalated rapidly. After discussion, most Committee members agreed that the 2.5% medical severity trend reflected in the Agenda materials was generally reasonable, although a final decision on a medical severity trend projection based on December 31, 2015 experience was deferred until the next meeting.

After some discussion, the consensus of the Committee was that the projection methodologies included in the analysis of December 31, 2015 experience presented at the meeting were generally reasonable. Staff noted that an updated analysis of December 31, 2015 experience, as well as December 31, 2015 loss adjustment expense experience, will be presented to the Committee at the April 5, 2016 meeting in the context of recommending projection methodologies for the Governing Committee's consideration of a potential July 1, 2016 pure premium rate filing.

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

This item was deferred to the April 5, 2016 meeting.

Item AC16-03-04 Special Call for Terrorism Premium Information

The Committee was advised that as an outgrowth of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) of 2015, the National Association of Insurance Commissioners (NAIC) has requested insurer-specific workers' compensation data related to terrorism from 11 states, including California. As a result, the WCIRB, in consultation with the California Department of Insurance, has developed a Special Call for terrorism information for policy years 2012 and 2013 that was issued to Members on March 4, 2016.

The Committee reviewed the Special Call included in the Agenda materials and was advised that the information collected through this Special Call will be combined with data the WCIRB collects through insurer unit statistical submissions to provide the information being requested by the NAIC. The Committee was advised that the Special Call information is required to be provided to the WCIRB by mid-April and the WCIRB anticipates providing the required information to the NAIC by the end of May.

The meeting was adjourned at 12:10 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.