

WCIRB Actuarial Committee Meeting

**Materials Presented at the WCIRB Actuarial Committee Meeting
(April 3, 2017)**

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First Quarter 2017 Review of Diagnostics

WCIRB Actuarial Committee Meeting
April 3, 2017

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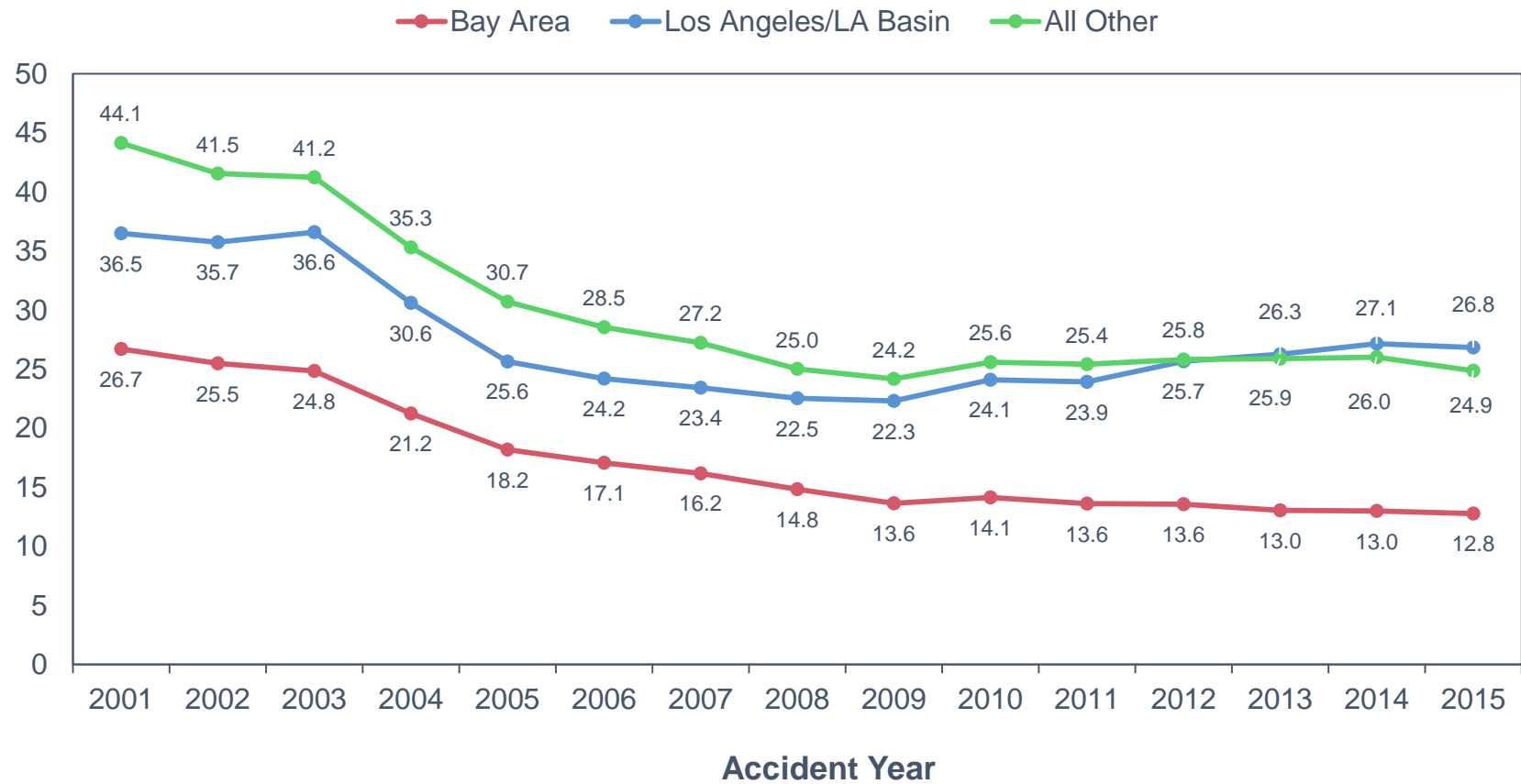
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Indemnity Claim Frequency (Exhibit C21)

Indemnity Claim Frequency per \$100M of Exposure at First Report Level



Source: WCIRB unit statistical data

Cumulative Injury Claim Count Ratios (Exhibit C17)

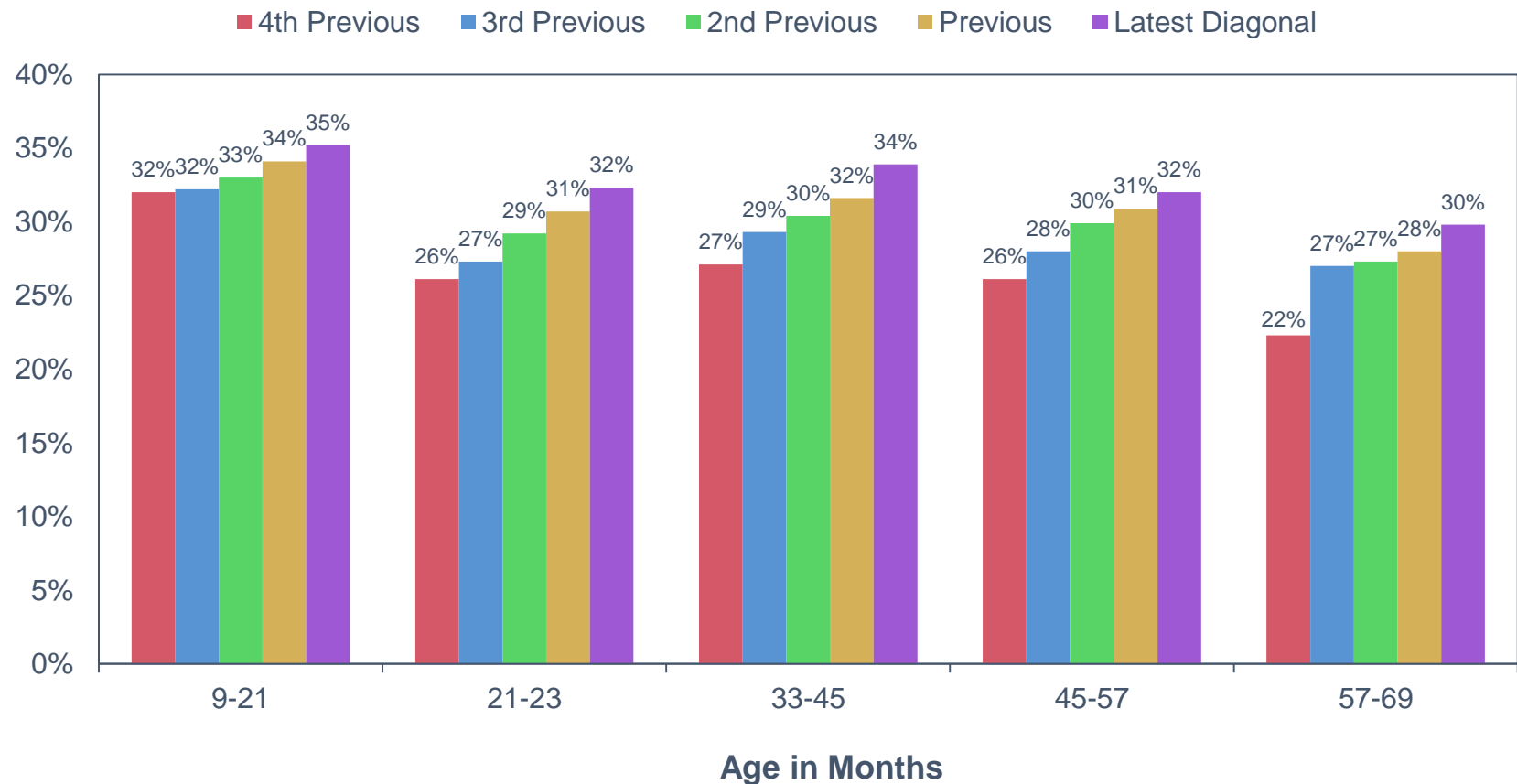
Ratio of Cumulative Injury Claims per 100 Indemnity Claims at First Unit Statistical Report Level



Source: WCIRB unit statistical data

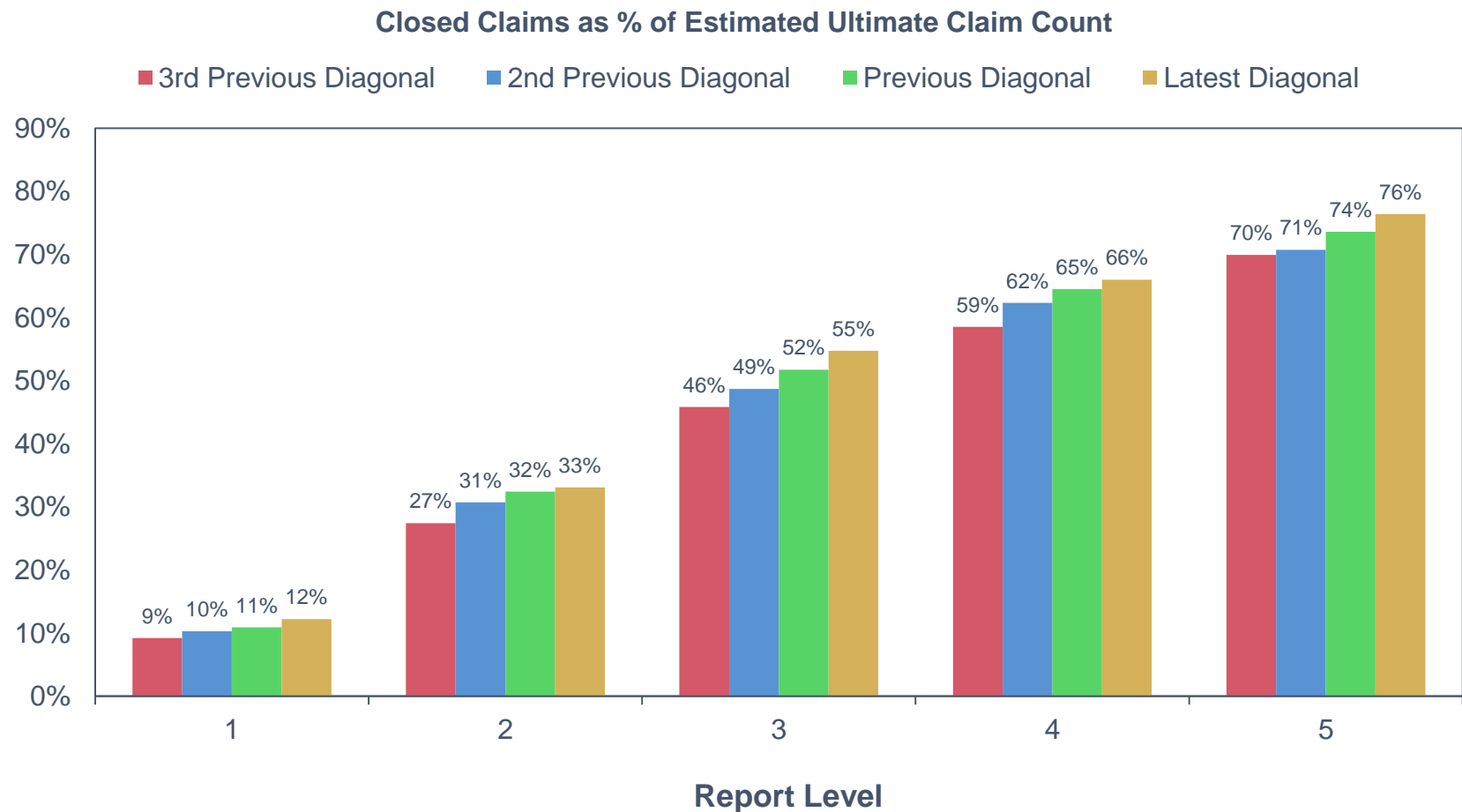
Percent of Open Indemnity Claims Closing (Exhibit C3.1)

Ratio of Incremental Closed Indemnity Claims to Prior Open Indemnity Claims



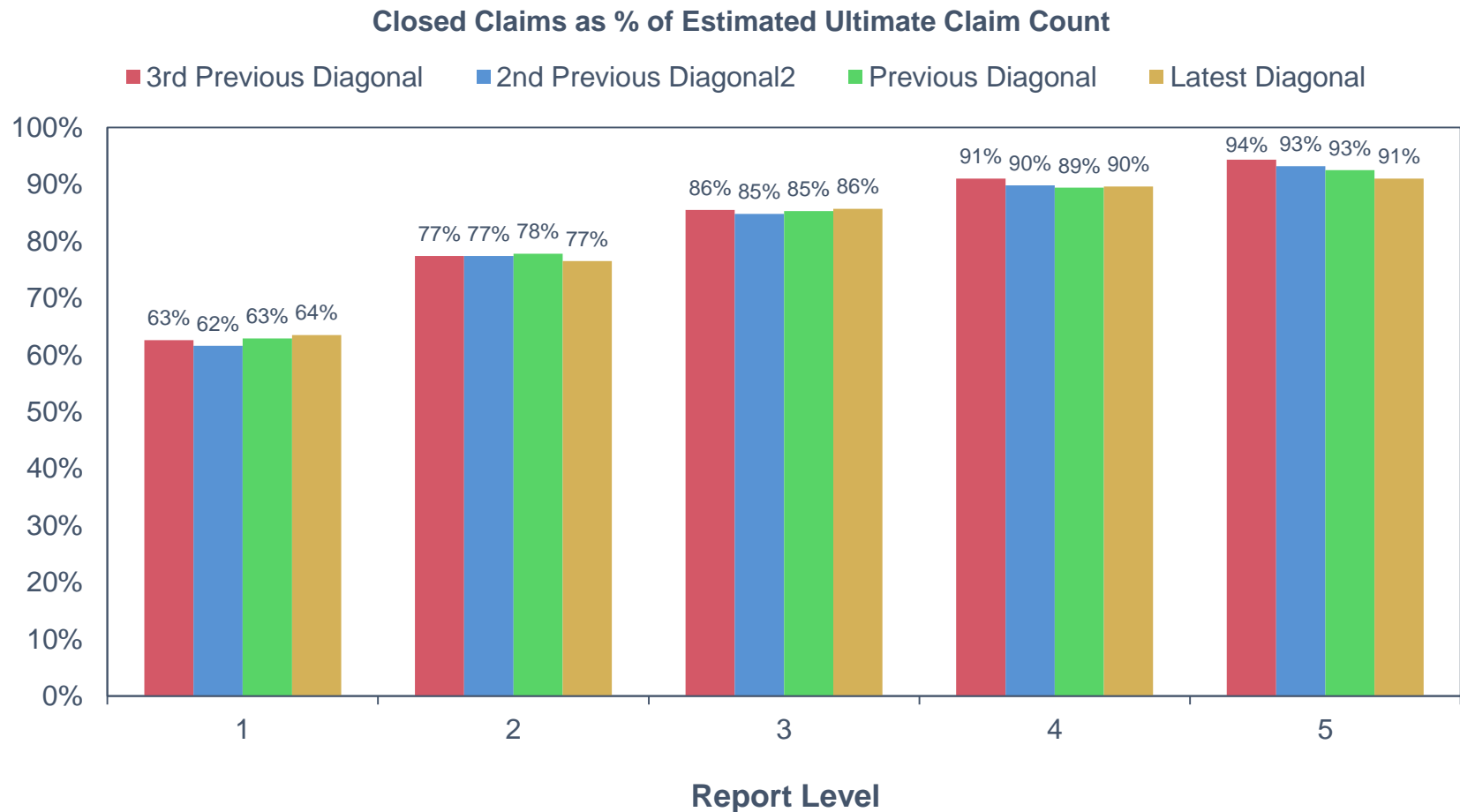
Source: WCIRB quarterly calls for experience

Percent Closed—Permanent Indemnity (Exhibit C2.2)



Source: WCIRB unit statistical data

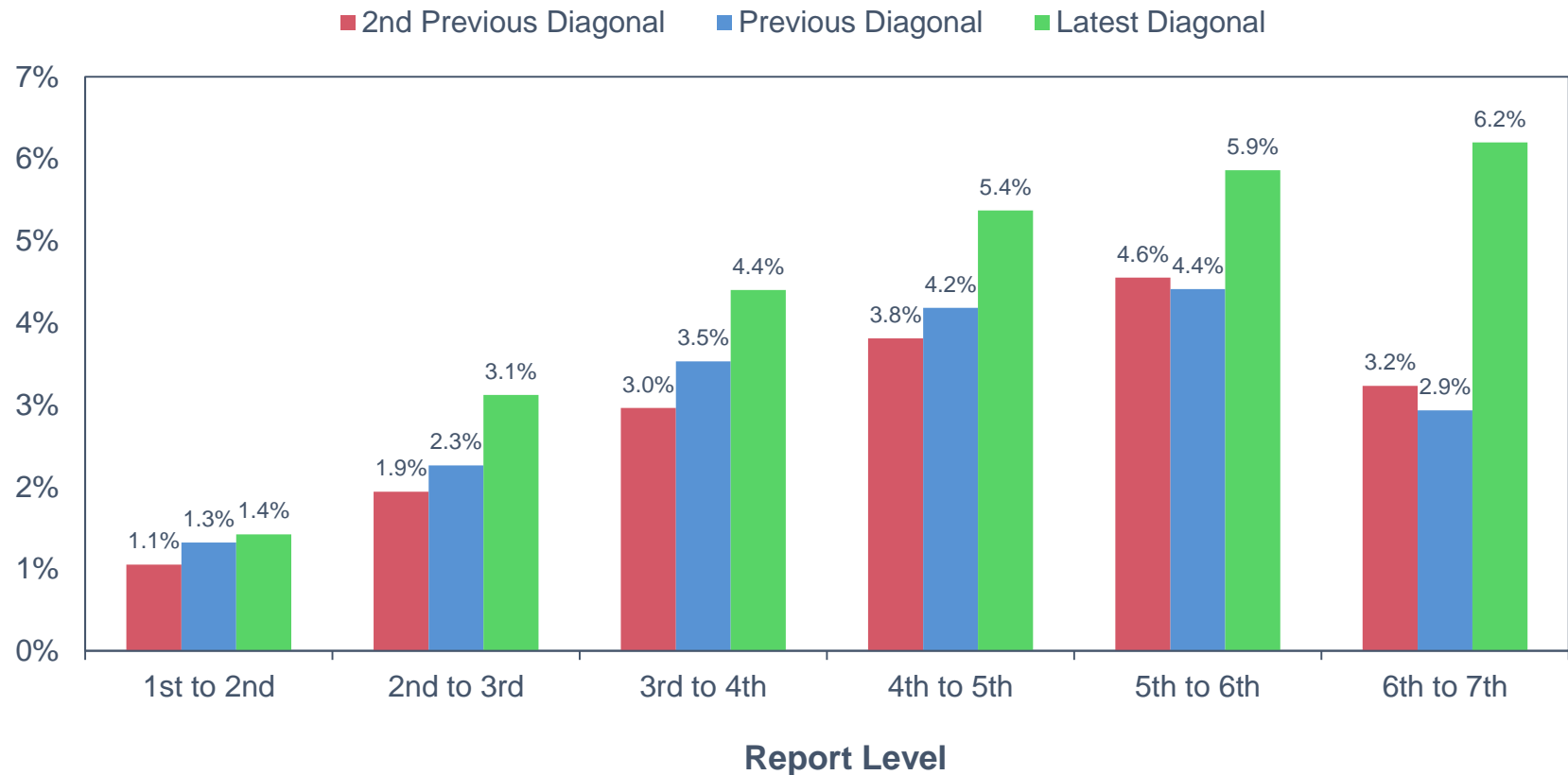
Percent Closed—Temporary Indemnity (Exhibit C2.2)



Source: WCIRB unit statistical data

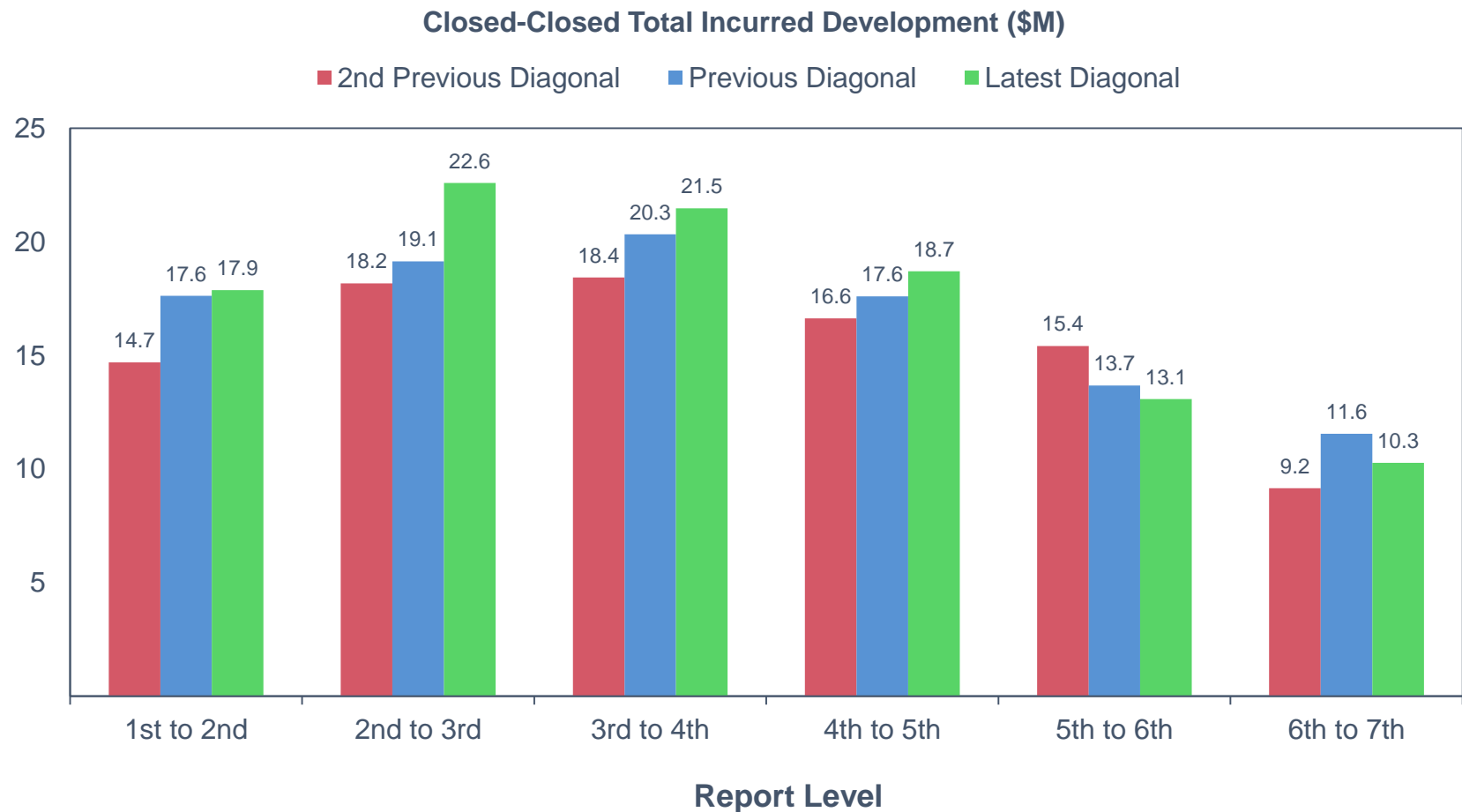
Closed-Closed Percent of Total Incurred (Exhibit C5)

Closed-Closed Total Incurred Development as a Percentage of Total Incurred
Development on All Claims



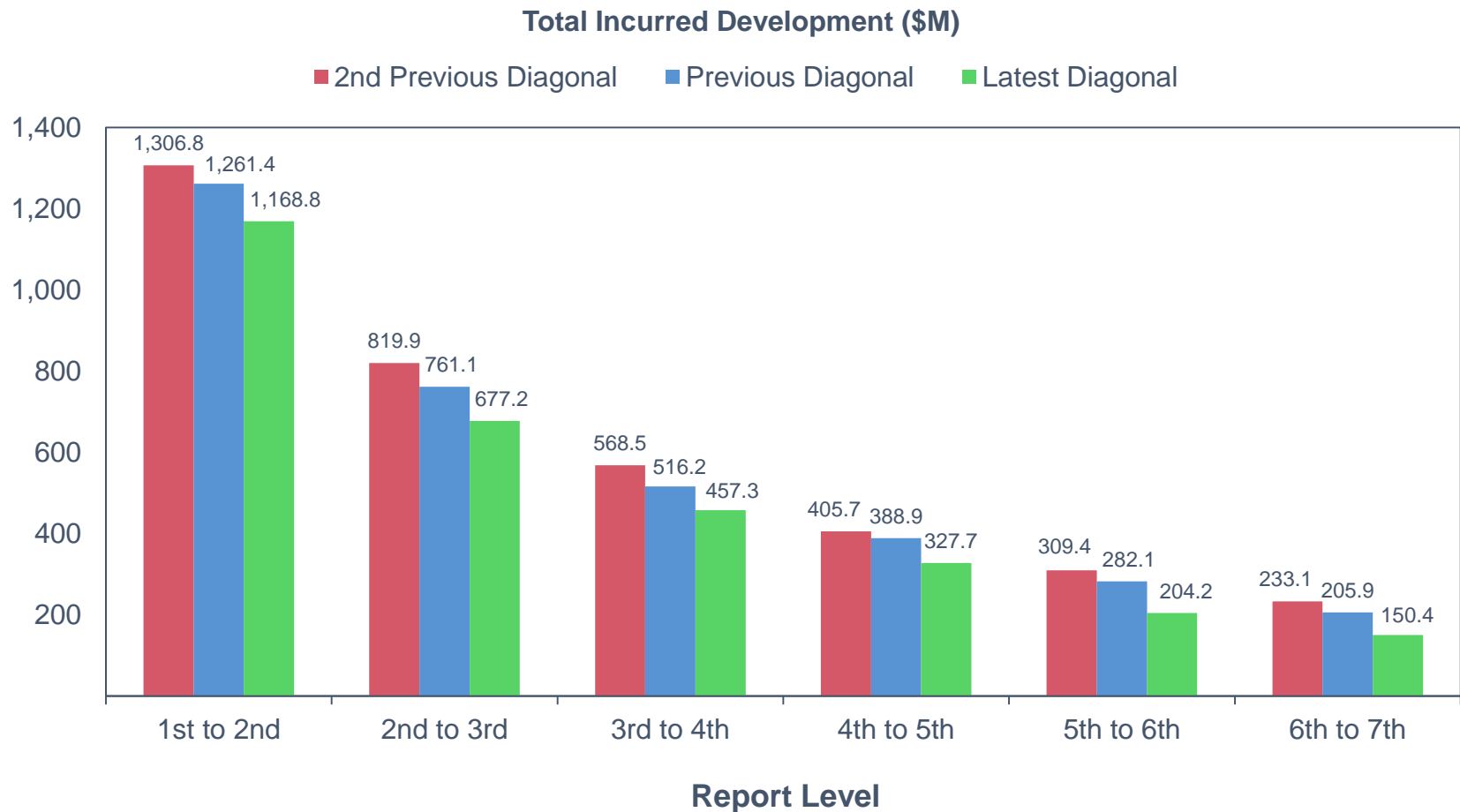
Source: WCIRB unit statistical data

Closed-Closed Development (Exhibit C5)



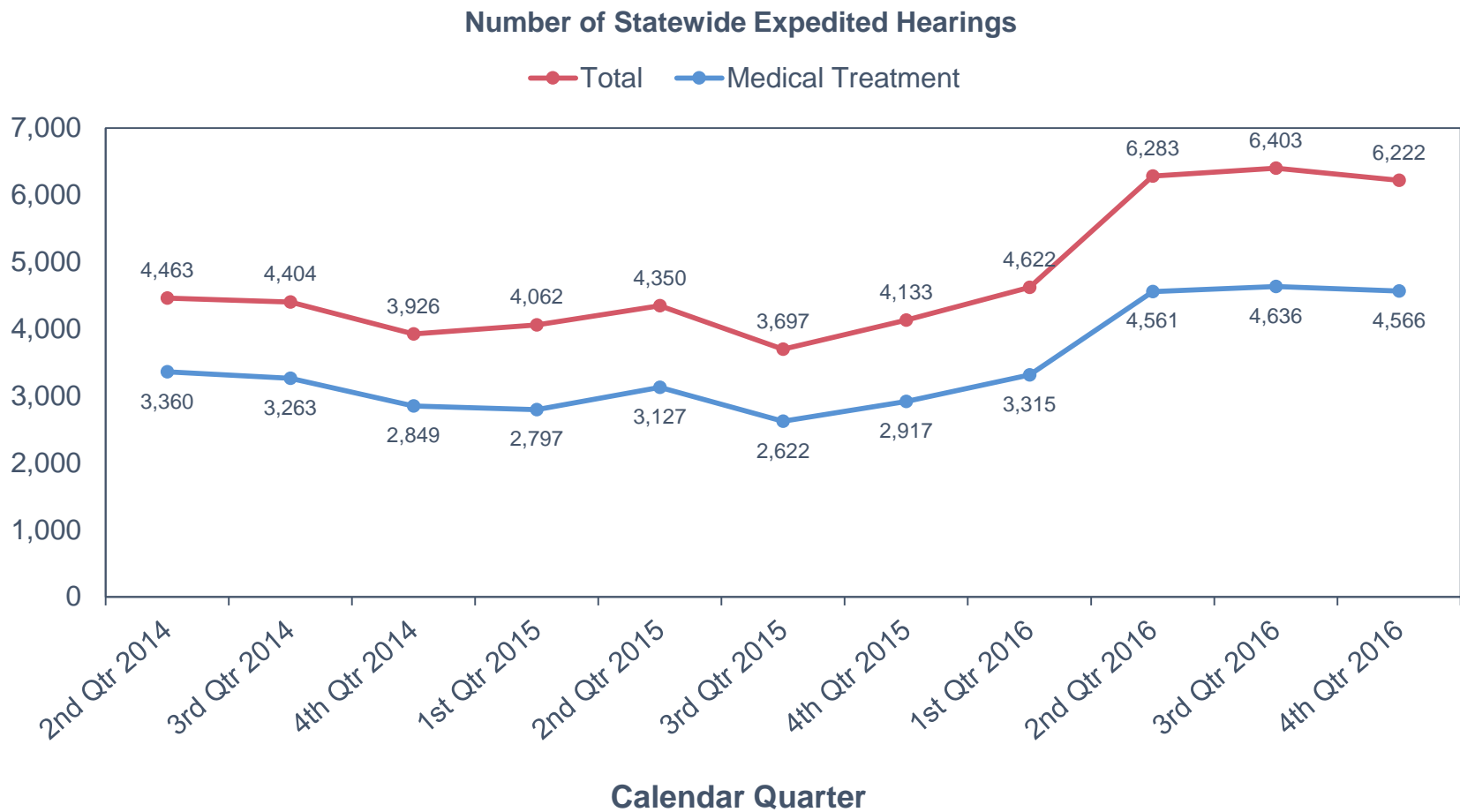
Source: WCIRB unit statistical data

Total Incurred Development (Exhibit C5)



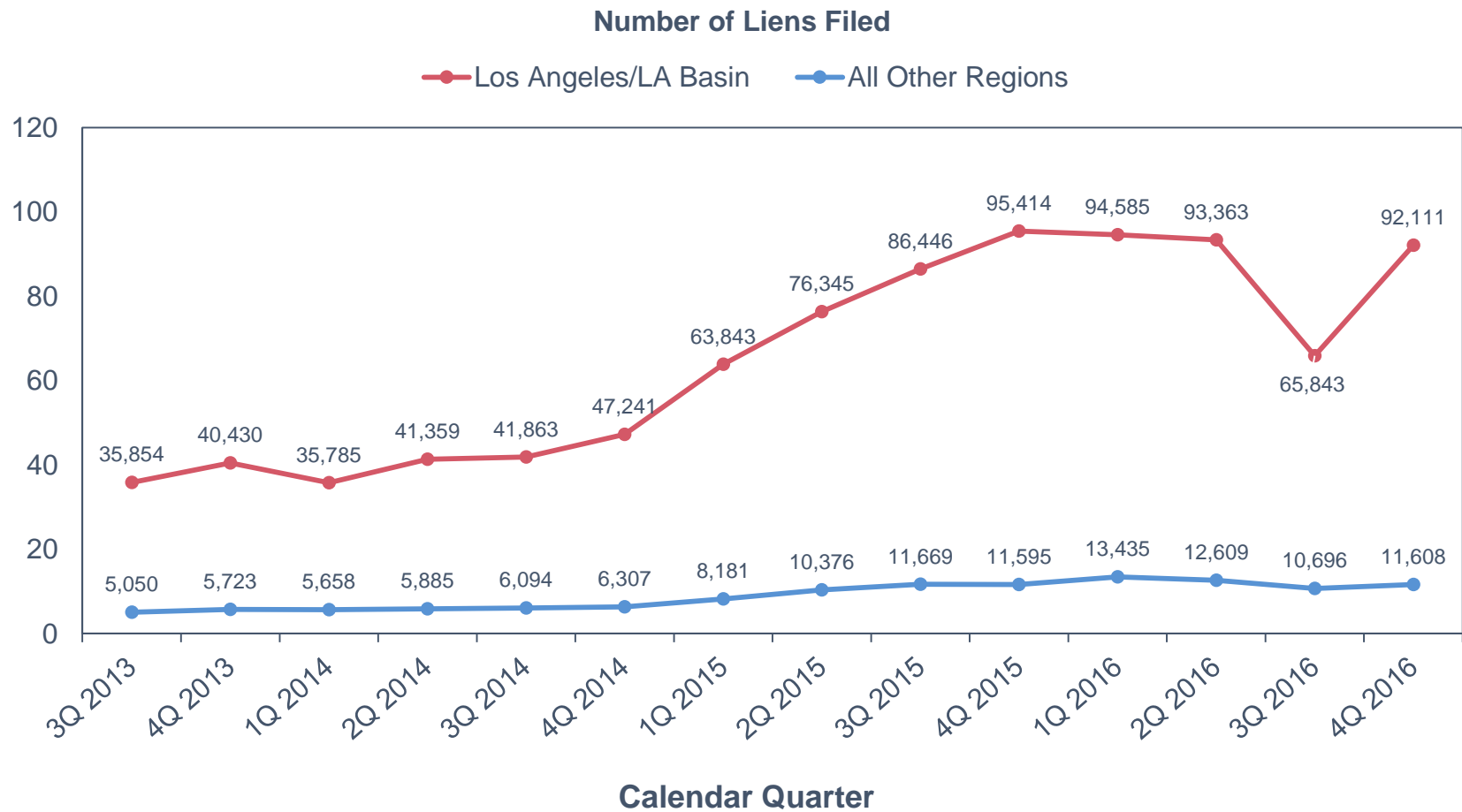
Source: WCIRB unit statistical data

Expedited Hearings (Exhibit M8.2)



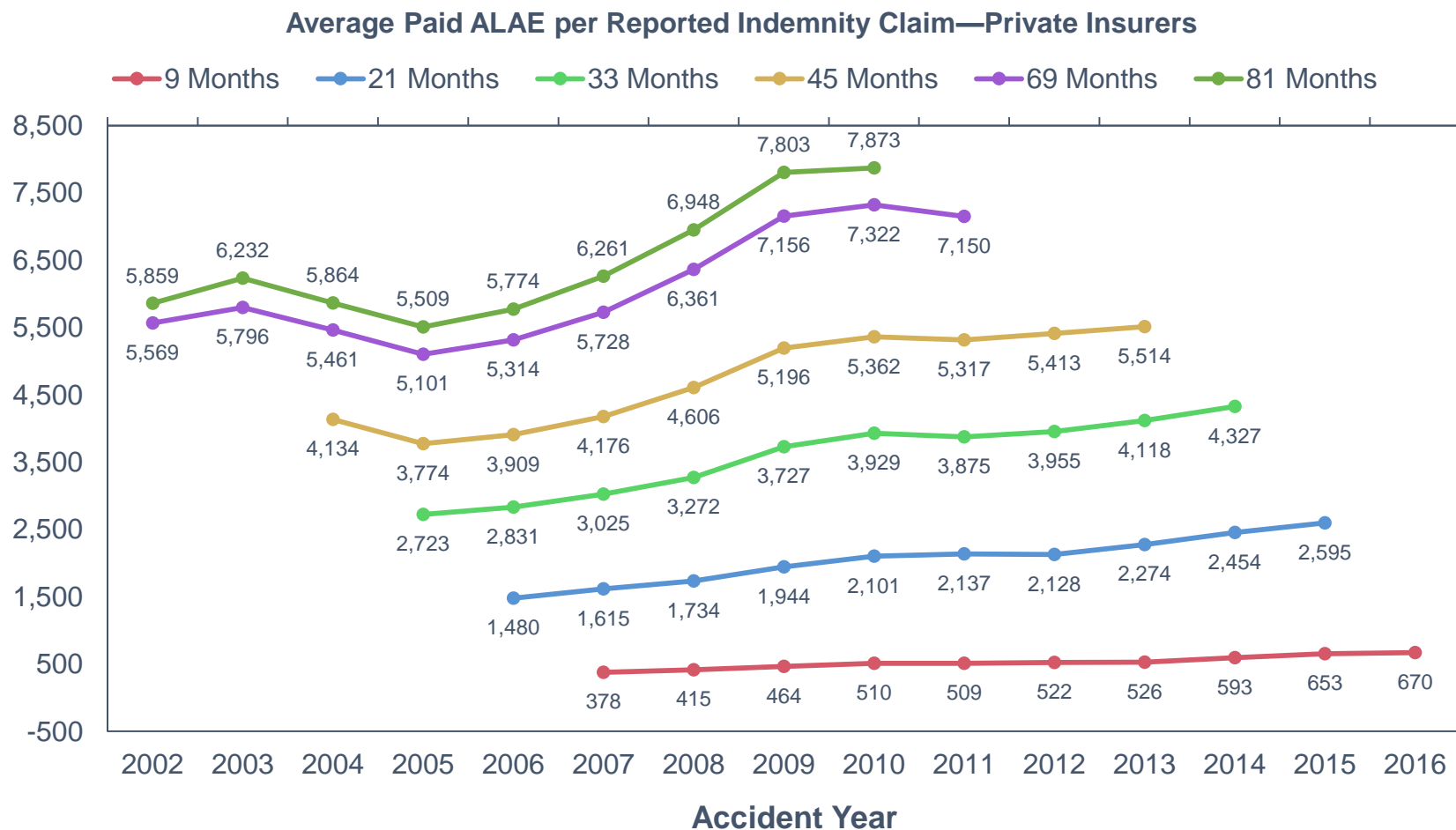
Source: DWC

Filed Lien Counts (Exhibit M9)



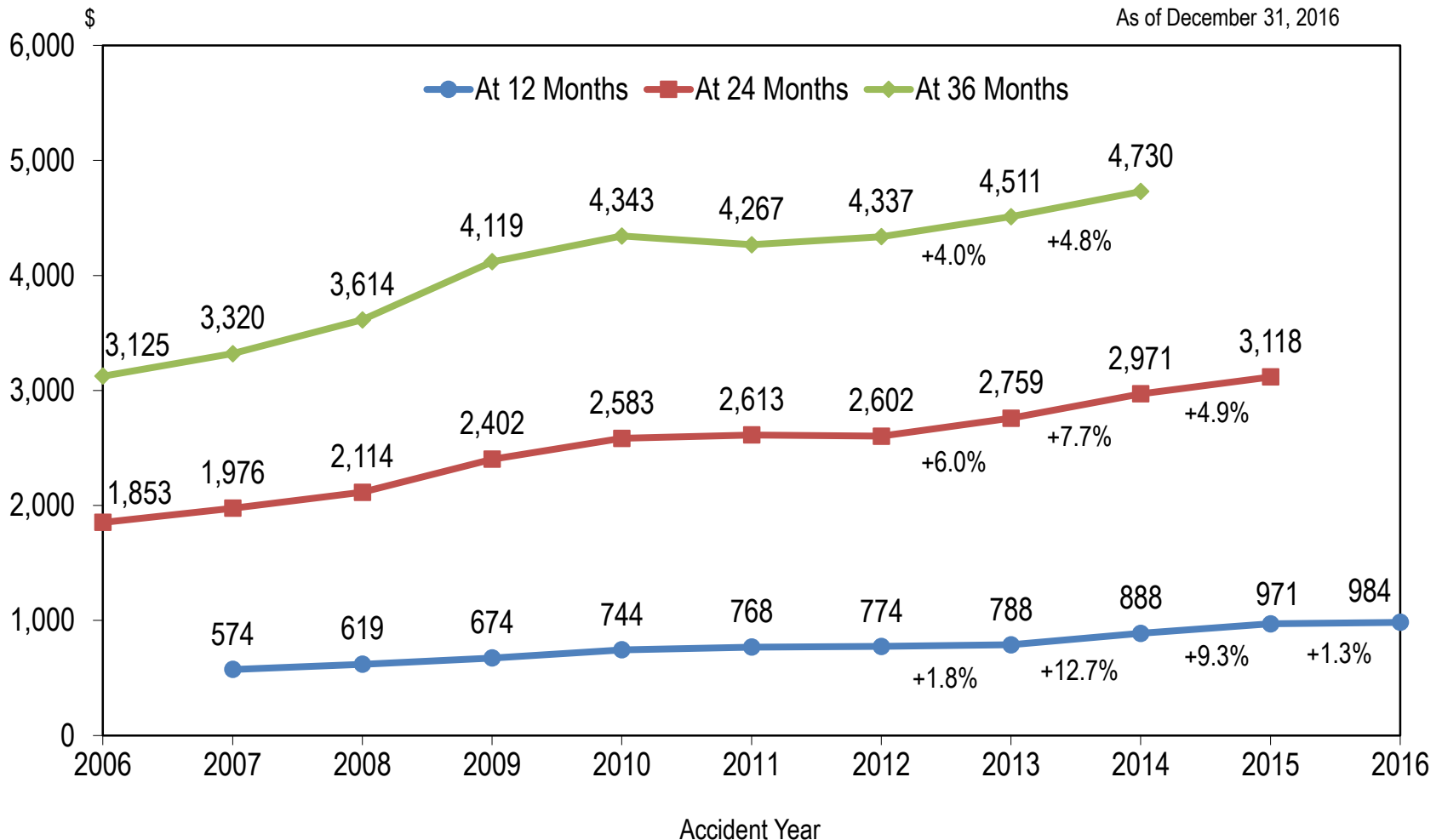
Source: EAMS liens data

Paid ALAE per Indemnity Claim—Private Insurers (Exhibit E5)



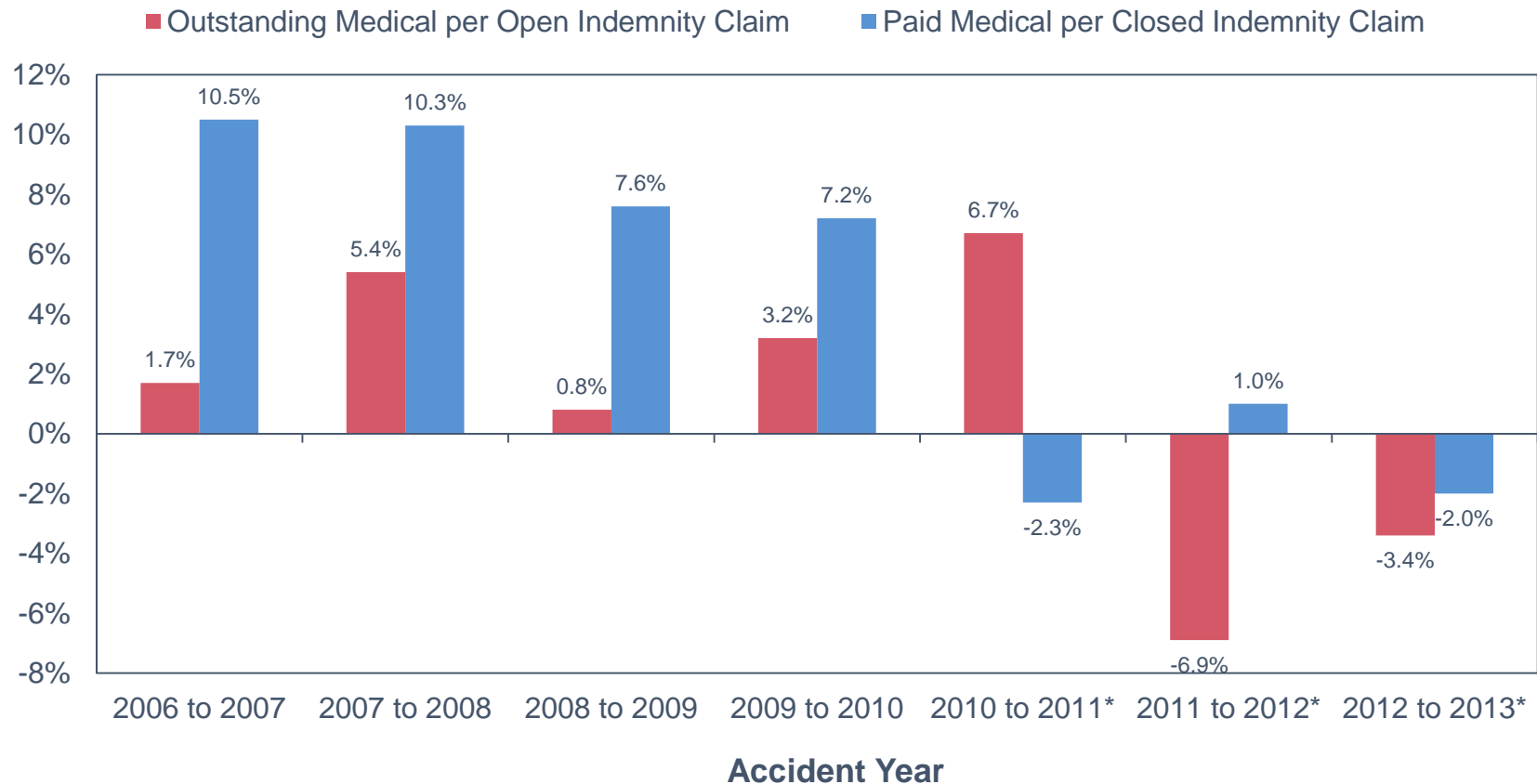
Source: WCIRB accident year experience calls

Paid ALAE (Excl. MCCP) per Reported Indemnity Claim – Private Insurers (Exhibit E5 updated to December 31, 2016)



Medical Severity—Paid and Outstanding (Exhibit S3.2)

Accident Year Changes in Medical Severity as of 45 Months

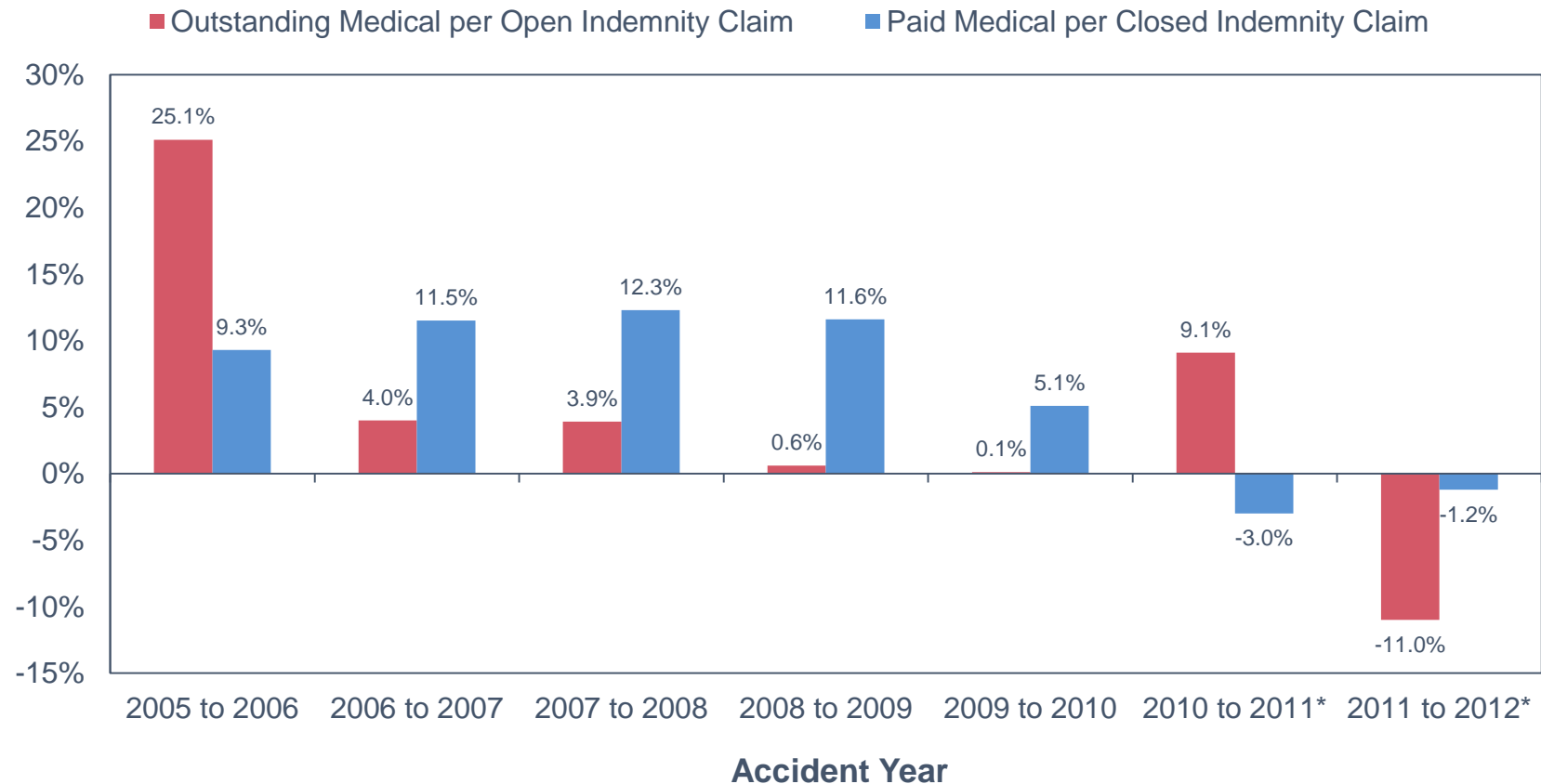


* Paid medical includes MCCP prior to accident year 2010. From 2010 to 2011 MCCP is partially included, and from 2012 and onward MCCP is excluded.

Source: WCIRB quarterly calls for experience

Medical Severity—Paid and Outstanding (Exhibit S3.2)

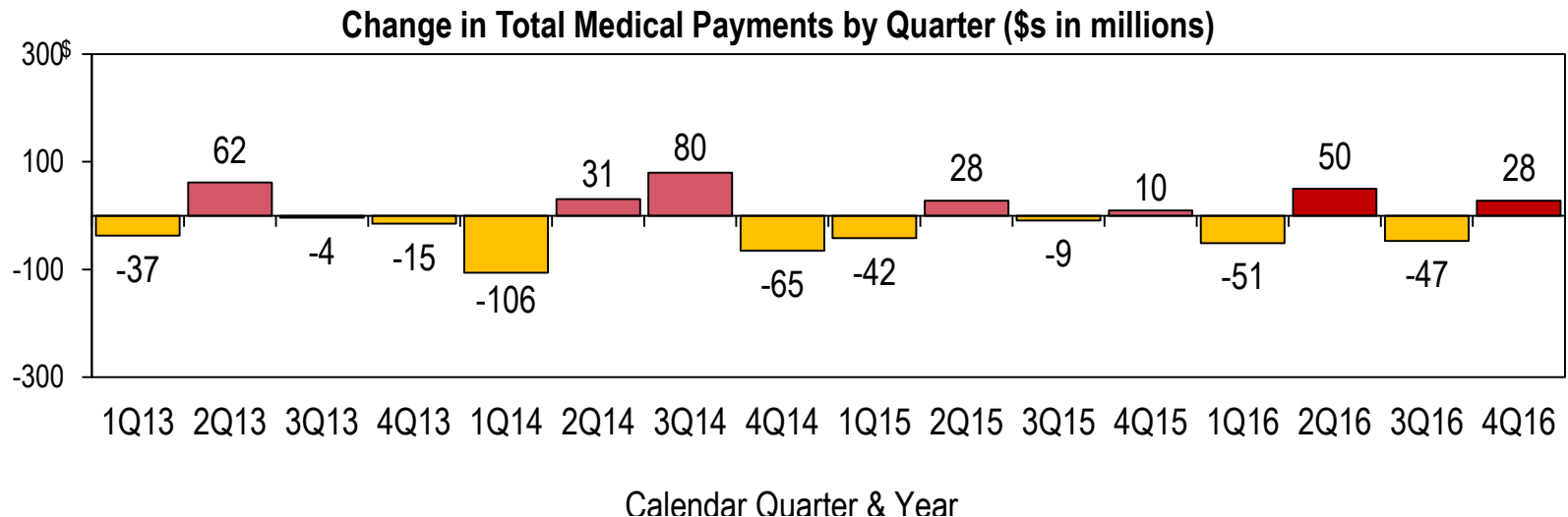
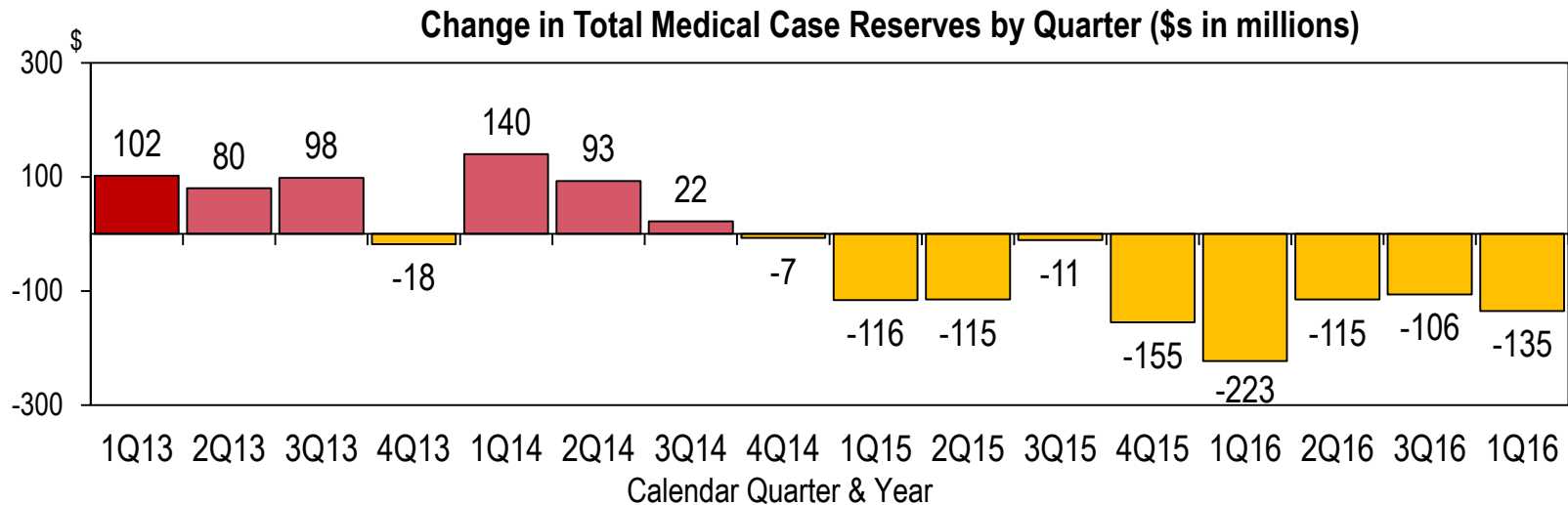
Accident Year Changes in Medical Severity as of 57 Months



* Paid medical includes MCCP prior to accident year 2010. From 2010 to 2011 MCCP is partially included, and from 2012 and onward MCCP is excluded.

Source: WCIRB quarterly calls for experience

Change in Medical Case Reserves & Payments by Calendar Quarter



Source: WCIRB Quarterly Calls for Experience

12/31/2016 Experience – Review of Methodologies

WCIRB Actuarial Committee Meeting
April 3, 2017

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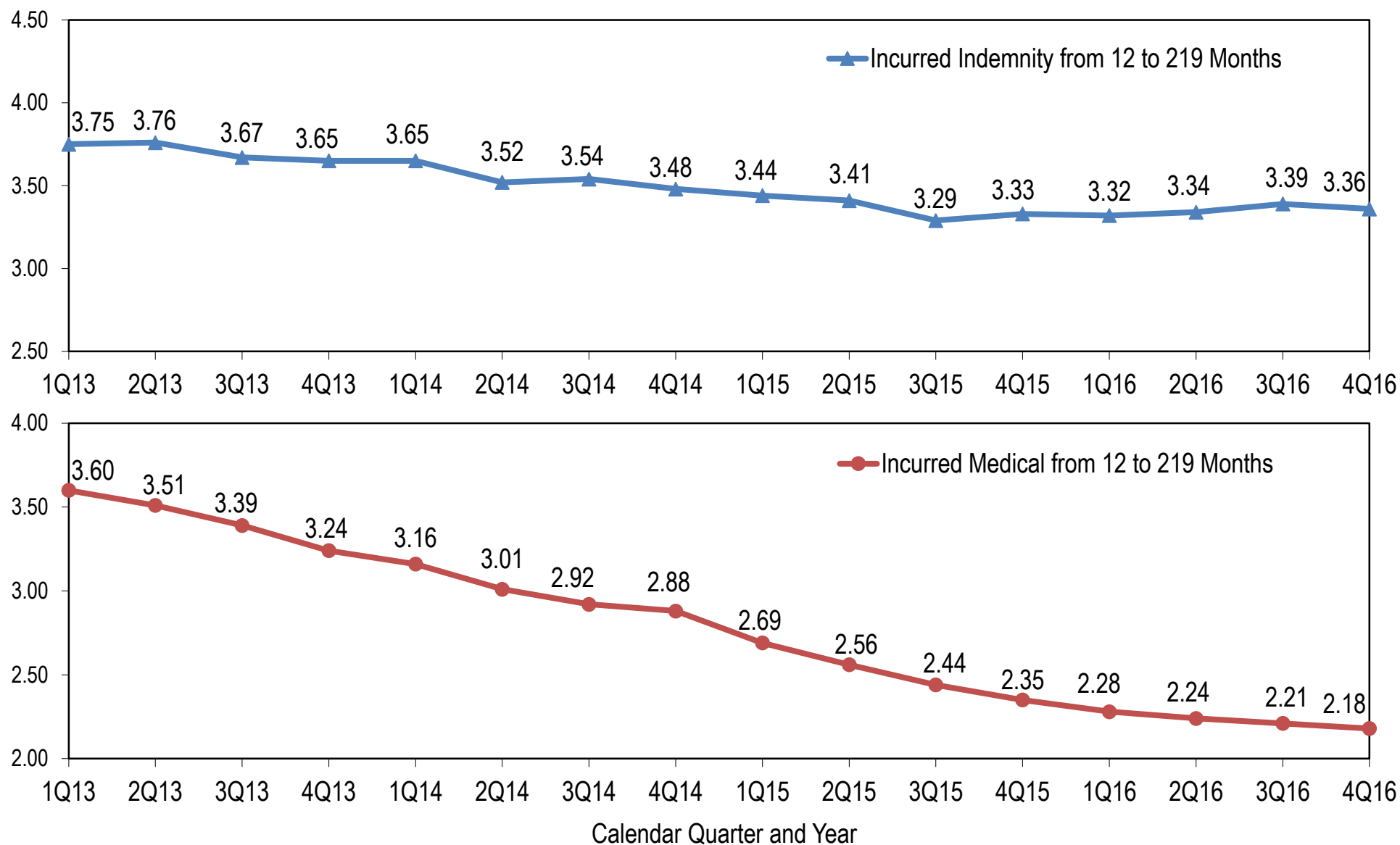
Updated Summary of December 31, 2016 Experience

- Approximately 100% of market reflected
- Updates from 3/21/17 meeting review
 - Adjustments for SB 863 adopted at 3/21/17 meeting
 - March 2017 UCLA forecasts
 - Minor data submission updates
- Benchmarked to 7/1/2016 industry average filed PP rate (consistent with 1/1/17 Filing)
- Projected July 1, 2017 policy period loss ratio: 0.598
- Approx. 4.5 point decrease from Amended 1/1/17 Filing (0.642 based on 6/30/16 data)

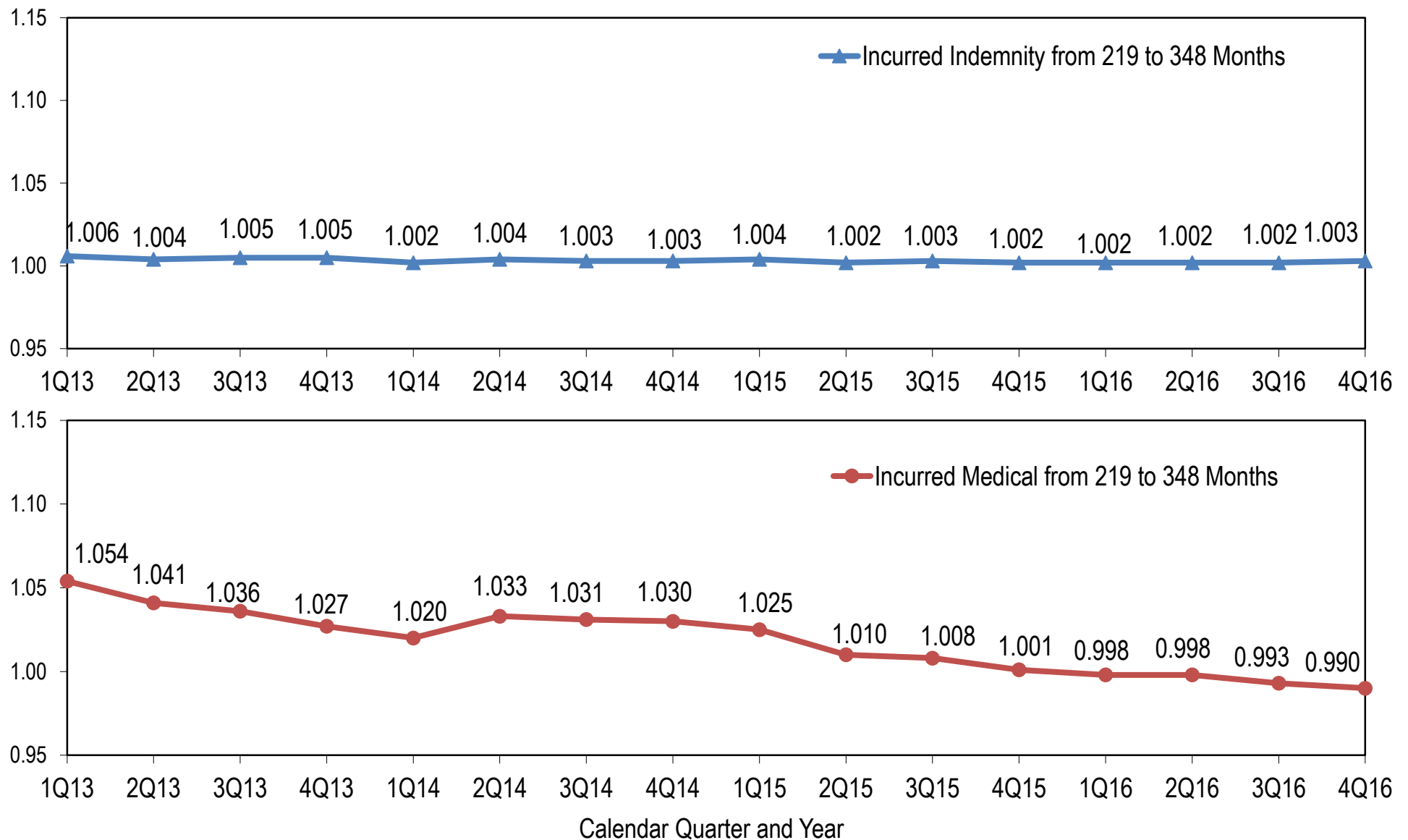
Approximate Percentage Point Change in Loss Ratio Projection

Item	Change from Amended 1/1/17 Filing
Loss Development Change	-2.5
Inclusion of 2016 Accident Year	-1.0
Updated UCLA Wage Forecasts	-0.5
Updated Frequency Trends	-0.5
Trend to July 1, 2017 Policy Period	-0.5
Updated SB 863 Adjustments	+0.5
Total (to 4/3/17 Agenda Projection)	-4.5

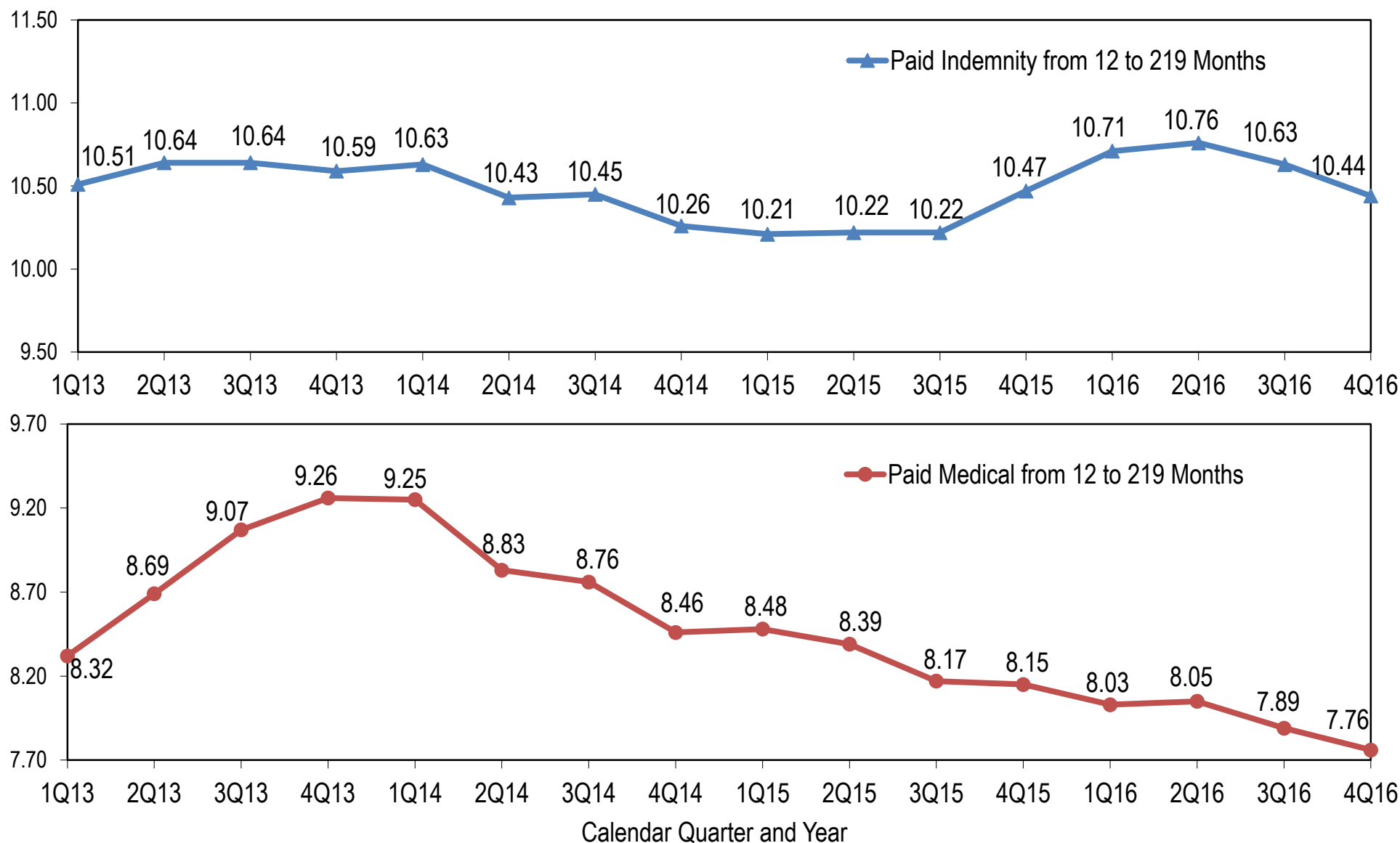
Cumulative Incurred Development by Quarter



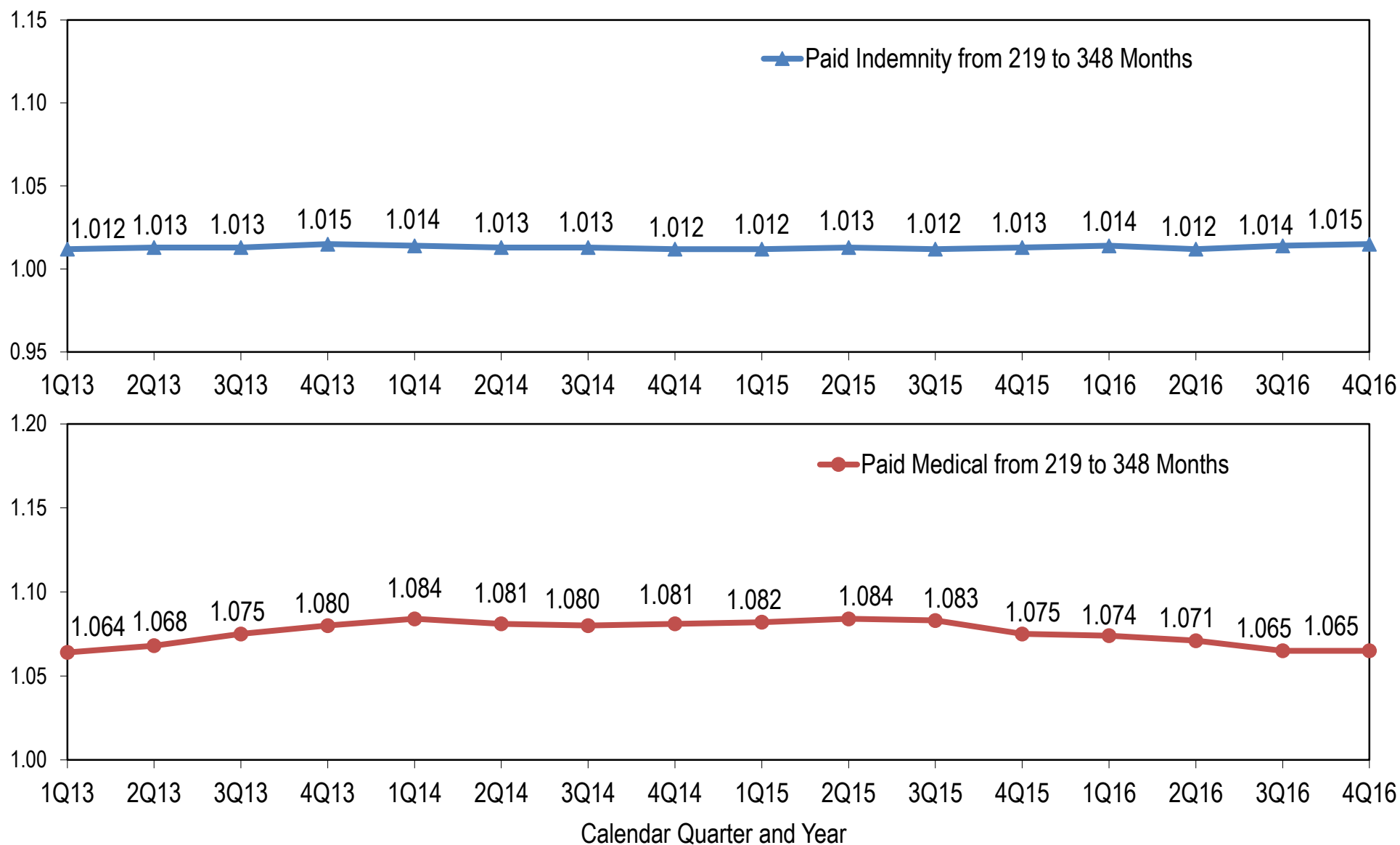
Cumulative Incurred Development by Quarter



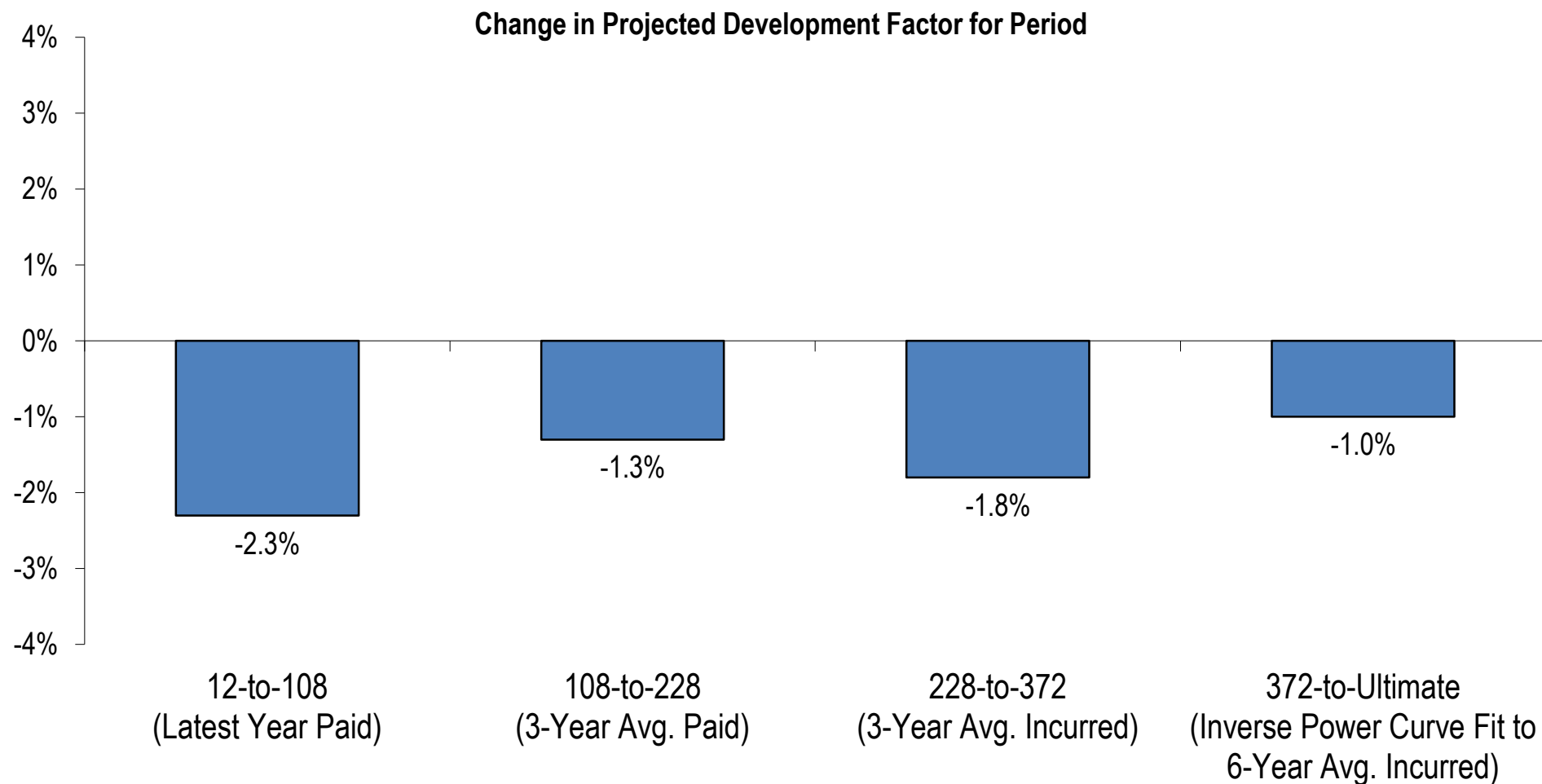
Cumulative Paid Development by Quarter



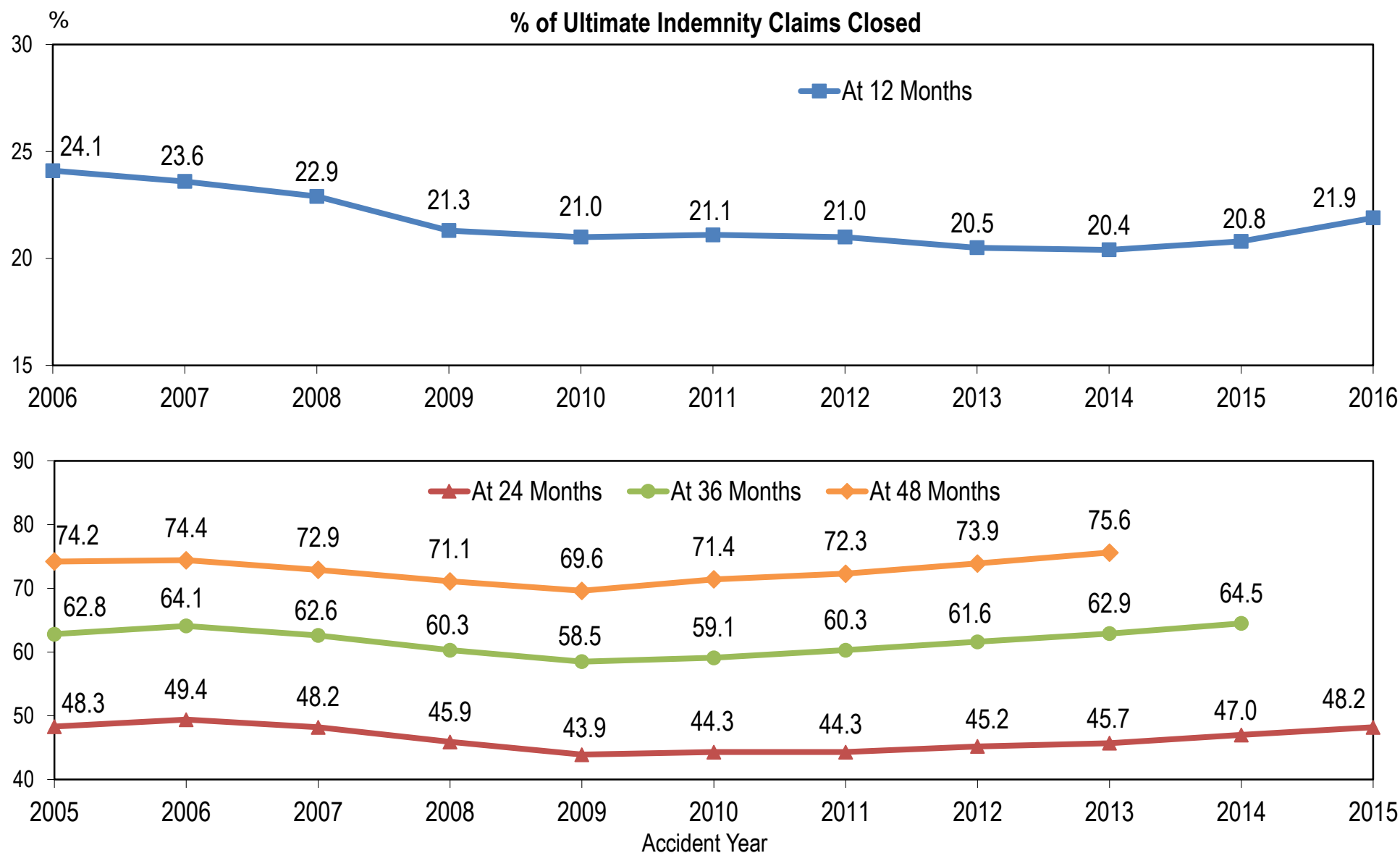
Cumulative Paid Development by Quarter



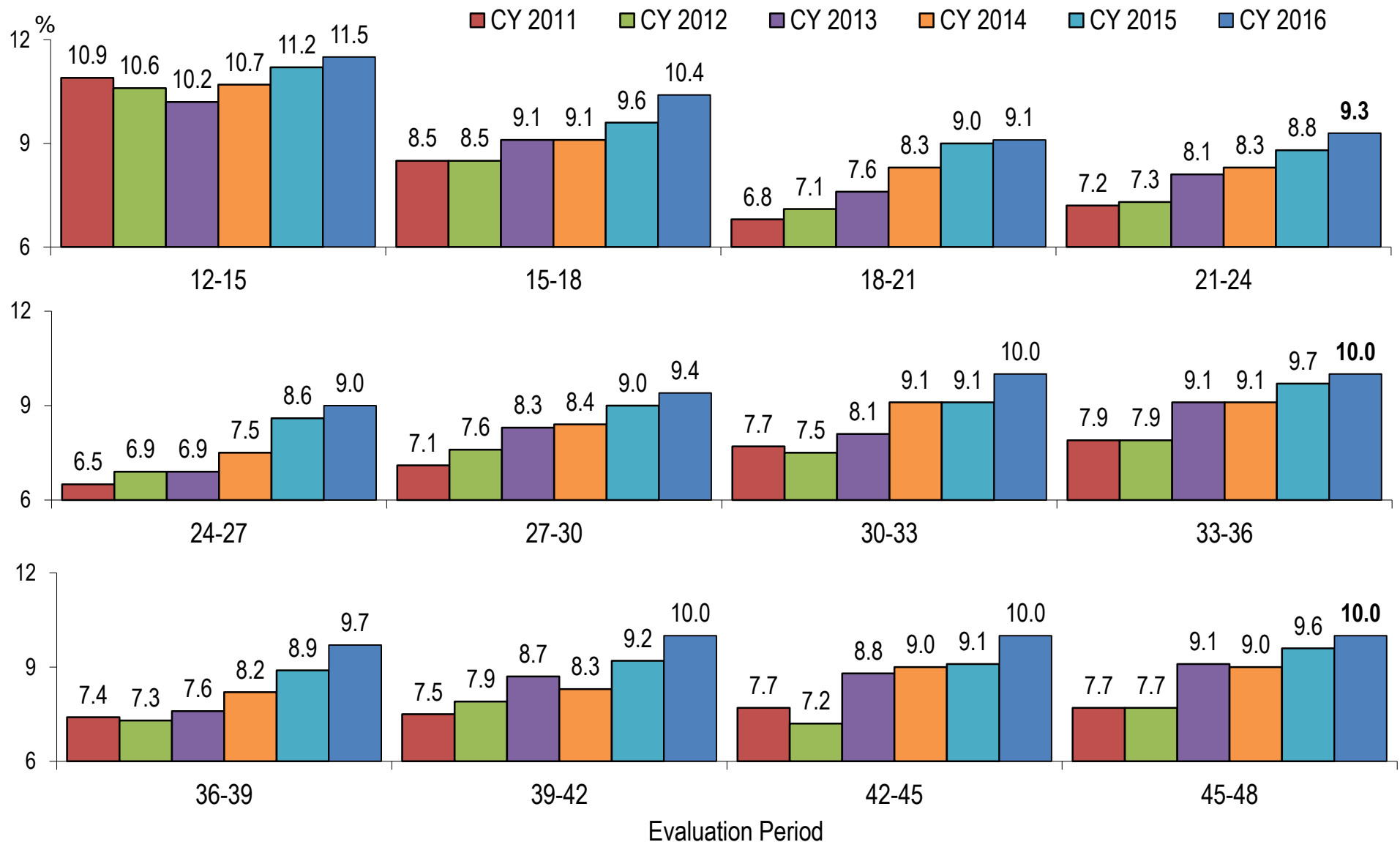
Change in Projected Medical Development Factor December 31, 2015 to December 31, 2016 Experience



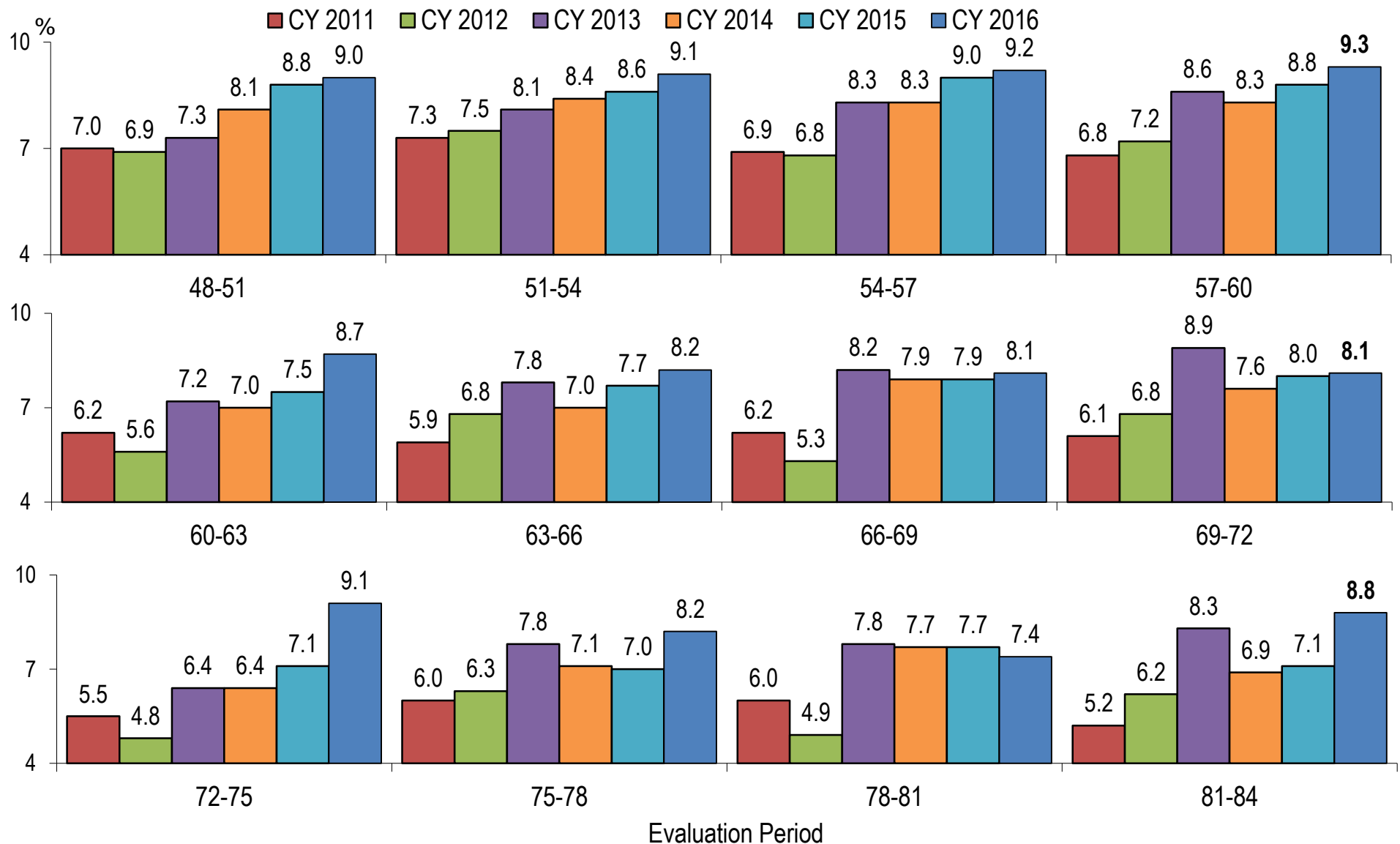
Indemnity Claim Settlement Ratios (Exhibit 11.2)



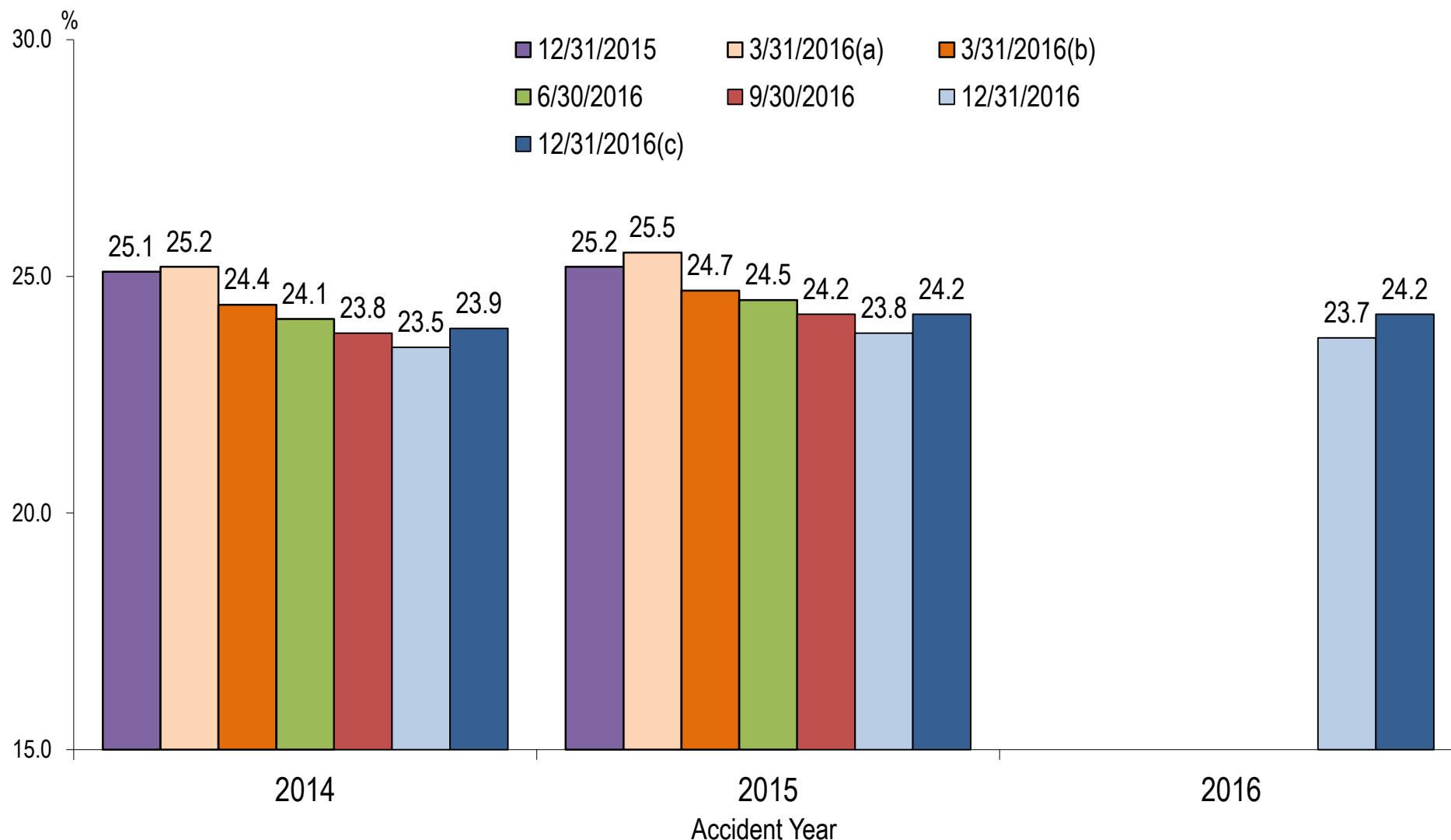
Ratio of Incremental Closed Indemnity Claims to Estimated Open Indemnity Claims



Ratio of Incremental Closed Indemnity Claims to Estimated Open Indemnity Claims (Continued)

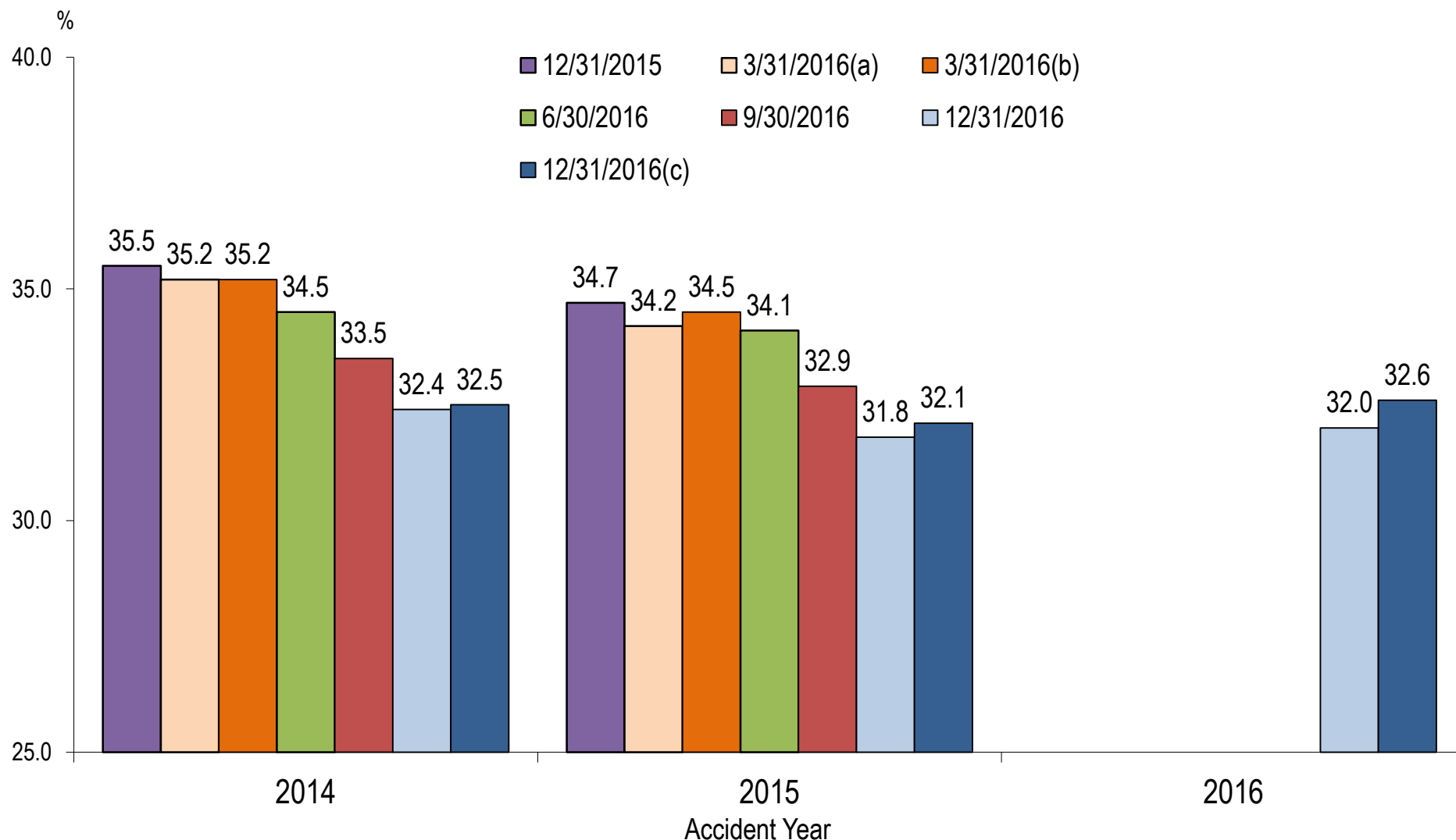


Projected Ultimate Indemnity Loss Ratios (Exhibit 3.1)



- (a) Latest year reform-adjusted paid method (8/3/16 Agenda)
- (b) Latest year reform and claim settlement rate-adjusted paid method (1/1/17 Filing)
- (c) Updated with SB 863 adjustments to loss development adopted at 3/21/17 meeting

Projected Ultimate Medical Loss Ratios (Exhibit 3.2)



(a) Latest year reform-adjusted paid method prior to SB 863 and MCCP development updates (6/17/16 Agenda)

(b) Latest year reform and claim settlement rate-adjusted paid method after SB 863 and MCCP development updates (1/1/17 Filing)

(c) Updated with SB 863 adjustments to loss development adopted at 3/21/17 meeting

Alternative Loss Development Methodologies (Item AC17-04-02)

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 significantly decreased
- **Case Reserve Level-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 above unadjusted incurred projection

Alternative Loss Development Methodologies

Paid Methods

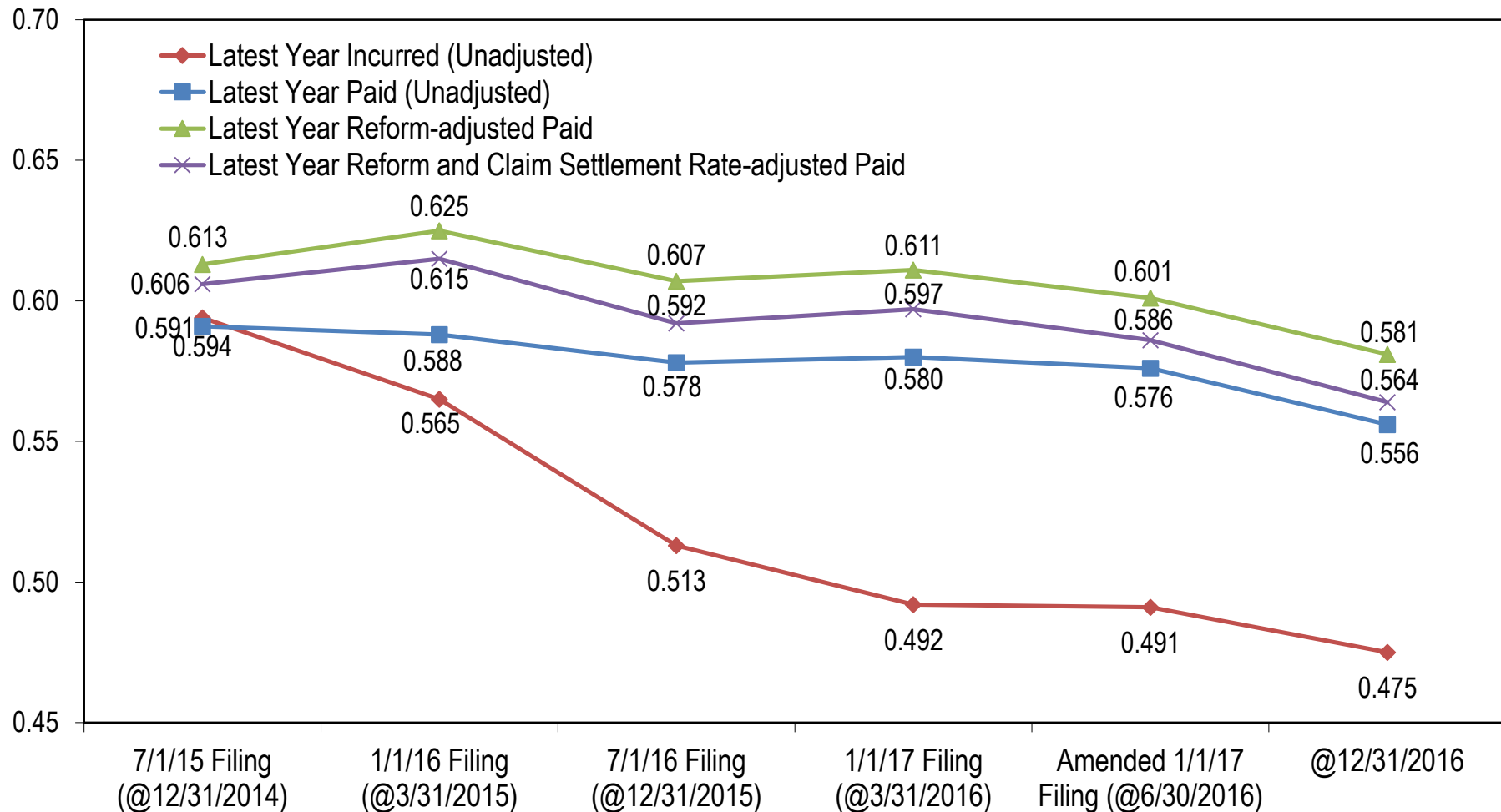
- Unadjusted Paid Projections
 - Best with stable payment patterns
 - Can be distorted by changing settlement rates or reforms
 - Generally outperformed unadjusted incurred during transition periods
 - Less variability in paid patterns across insurers than in incurred patterns
 - Recent indemnity development has been fairly stable
 - Medical development declining modestly over last several quarters
- 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 periods of significant settlement rate change
 - Primary assumptions of method reasonable based on recent review
 - Claim settlement rates have increased significantly over past year
 - Settlement rate increase may also lead to reduced future paid development (not contemplated in current adjustment)

Accident Year 2014 Projected Total Ultimate Loss Ratios – Methodology Comparison

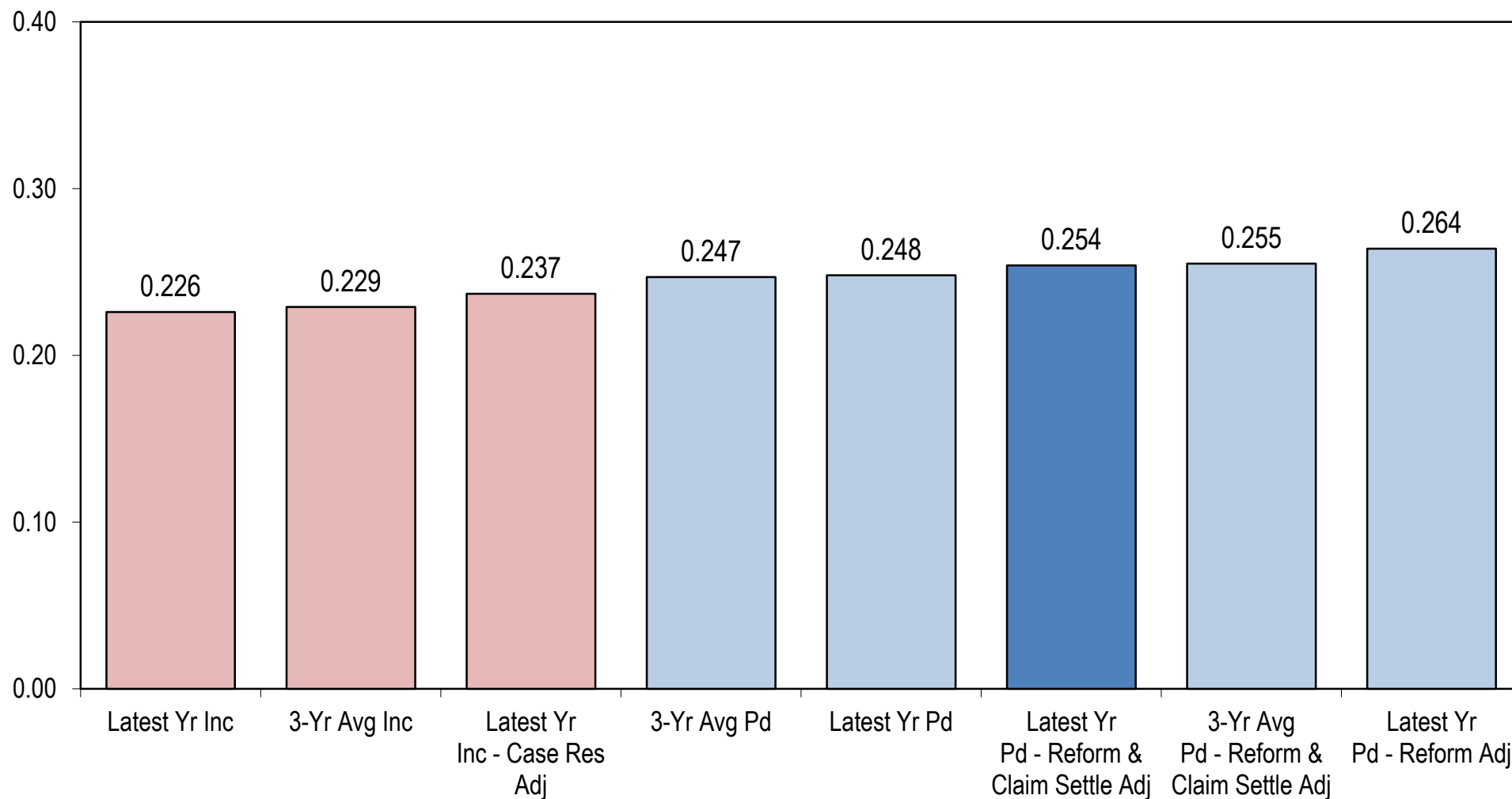


Indemnity On-Level Loss Ratios for Policies Incepting 7/1/2017 to 12/31/2017 under Alternative Loss Development Methods*

Method	Projection
Paid Latest Year Adjusted for Reforms & Claim Settlement Rate (Agenda)	0.254
Incurred 3-Year Average Unadjusted	0.229
Incurred Latest Year Unadjusted	0.226
Incurred Latest Year Adjusted for Case Reserves	0.237
Paid 3-Year Average Unadjusted	0.247
Paid Latest Year Unadjusted	0.248
Paid Latest Year Adjusted for Reforms	0.264
Paid 3-Year Average Adjusted for Reforms & Claim Settlement Rate	0.255

*All methodologies reflect three-year average factors after 108 months. All paid methodologies reflect three-year average incurred factors after 228 months.

Indemnity On-Level Loss Ratios for Policies Incepting 7/1/2017 to 12/31/2017 under Alternative Loss Development Methods

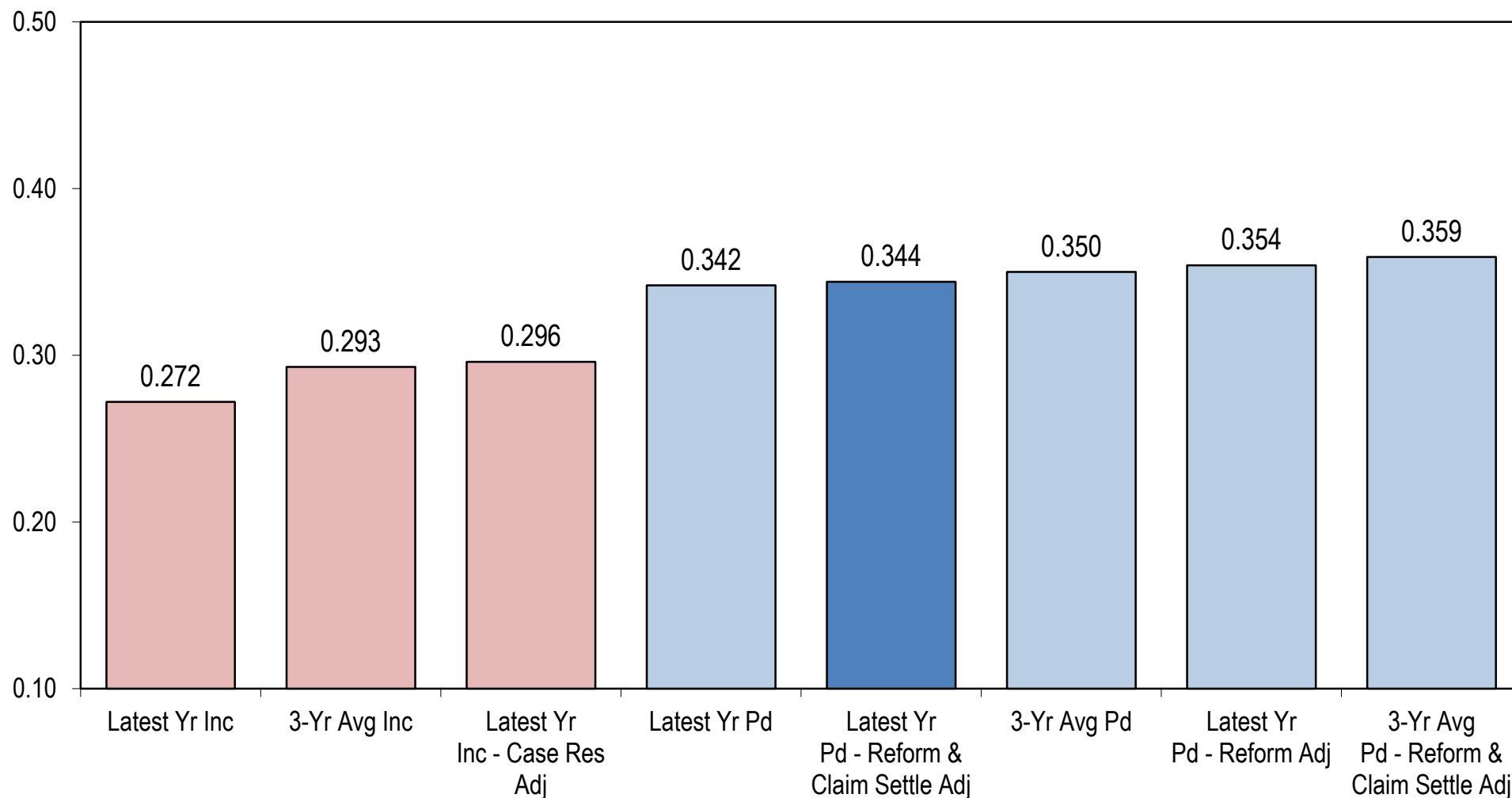


Medical On-Level Loss Ratios for Policies Incepting 7/1/2017 to 12/31/2017 under Alternative Loss Development Methods*

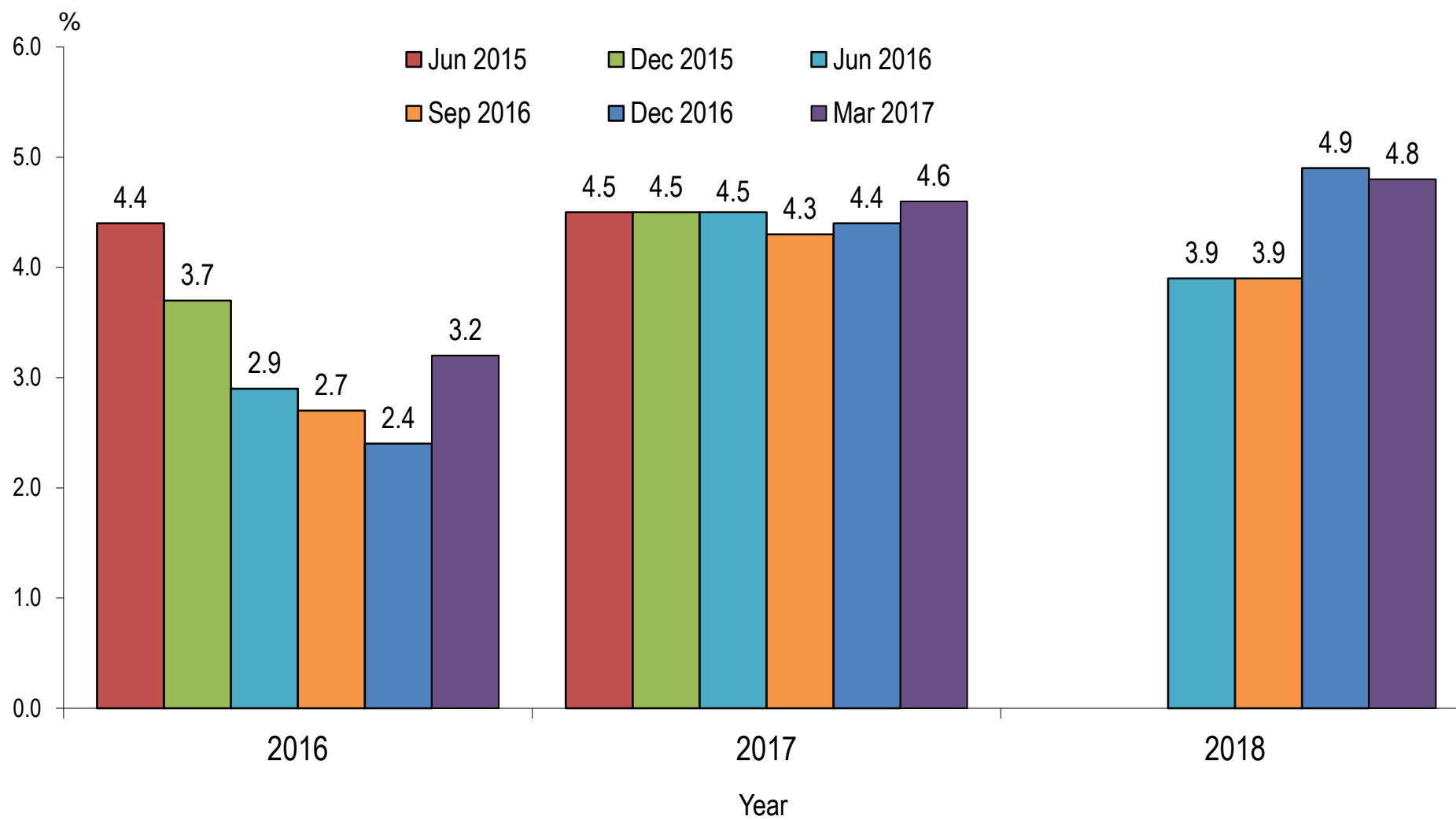
Method	Projection
Paid Latest Year Adjusted for Reforms & Claim Settlement Rate (Agenda)	0.344
Incurred 3-Year Average Unadjusted	0.293
Incurred Latest Year Unadjusted	0.272
Incurred Latest Year Adjusted for Case Reserves	0.296
Paid 3-Year Average Unadjusted	0.350
Paid Latest Year Unadjusted	0.342
Paid Latest Year Adjusted for Reforms	0.354
Paid 3-Year Average Adjusted for Reforms & Claim Settlement Rate	0.359

*All methodologies reflect three-year average factors after 108 months. All paid methodologies reflect three-year average incurred factors after 228 months.

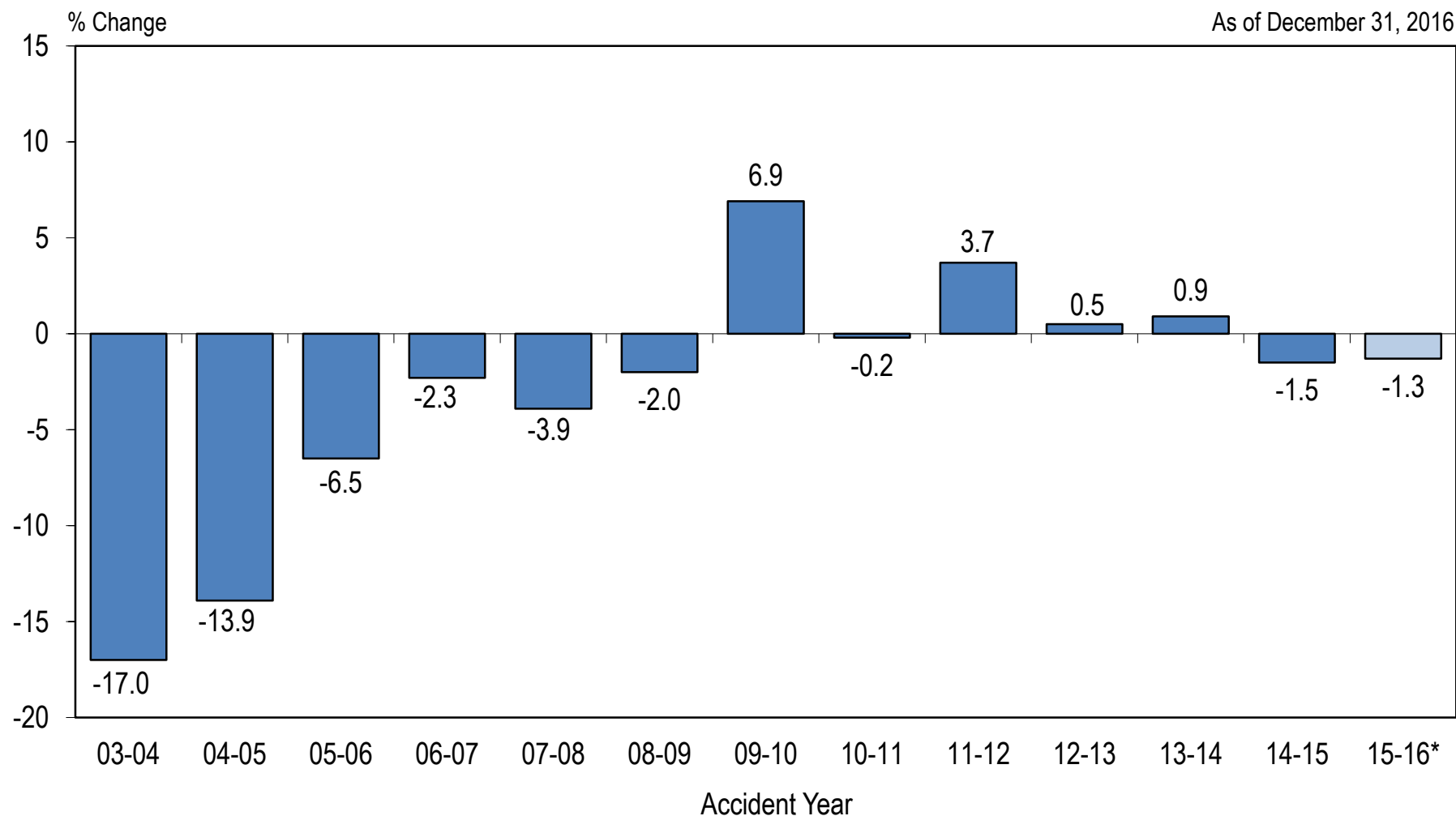
Medical On-Level Loss Ratios for Policies Incepting 7/1/2017 to 12/31/2017 under Alternative Loss Development Methods



UCLA Forecasts of Wage Level Changes (Exhibit 5.1)

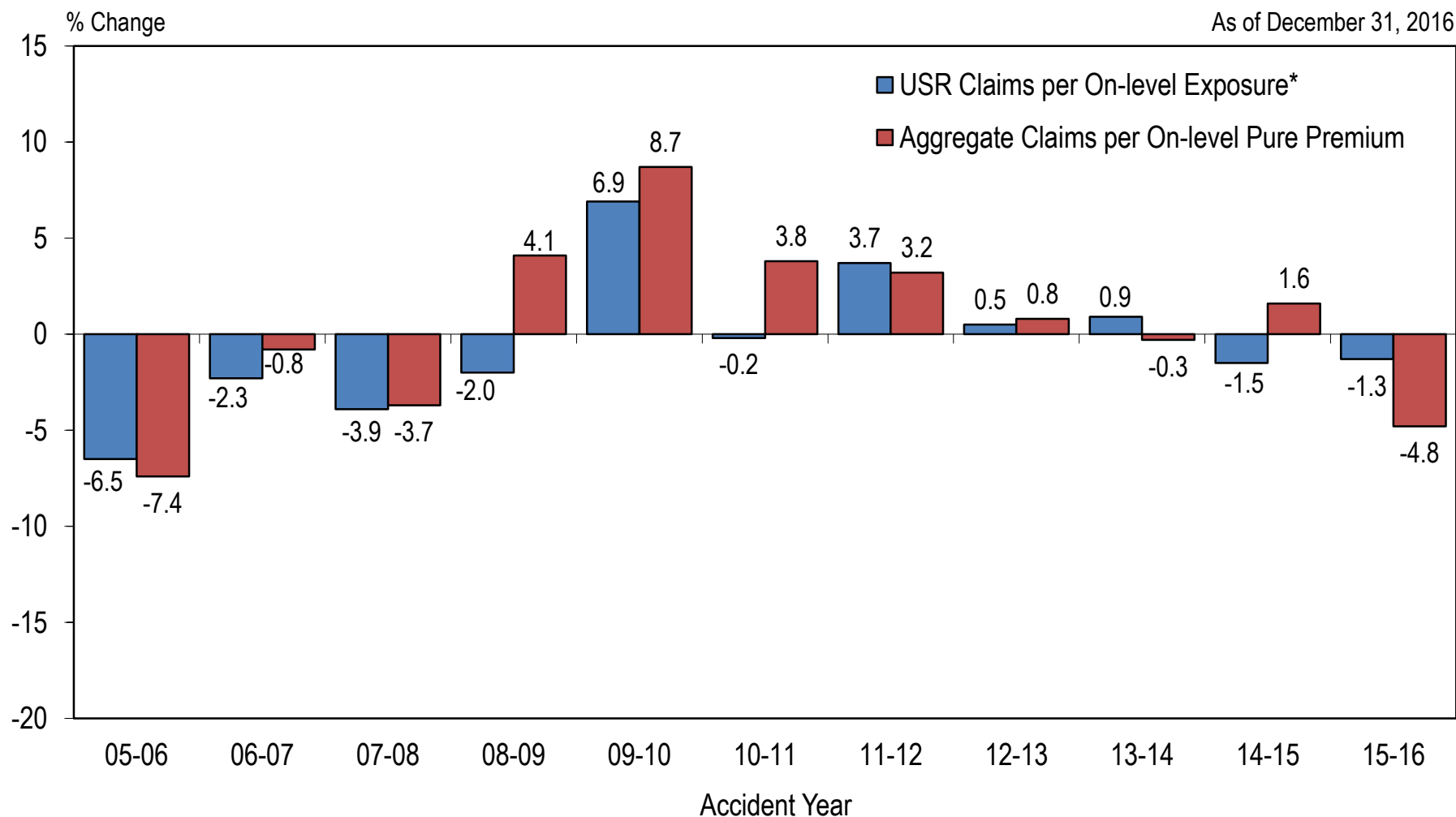


Estimated Change in Indemnity Claim Frequency (Exhibit 12)



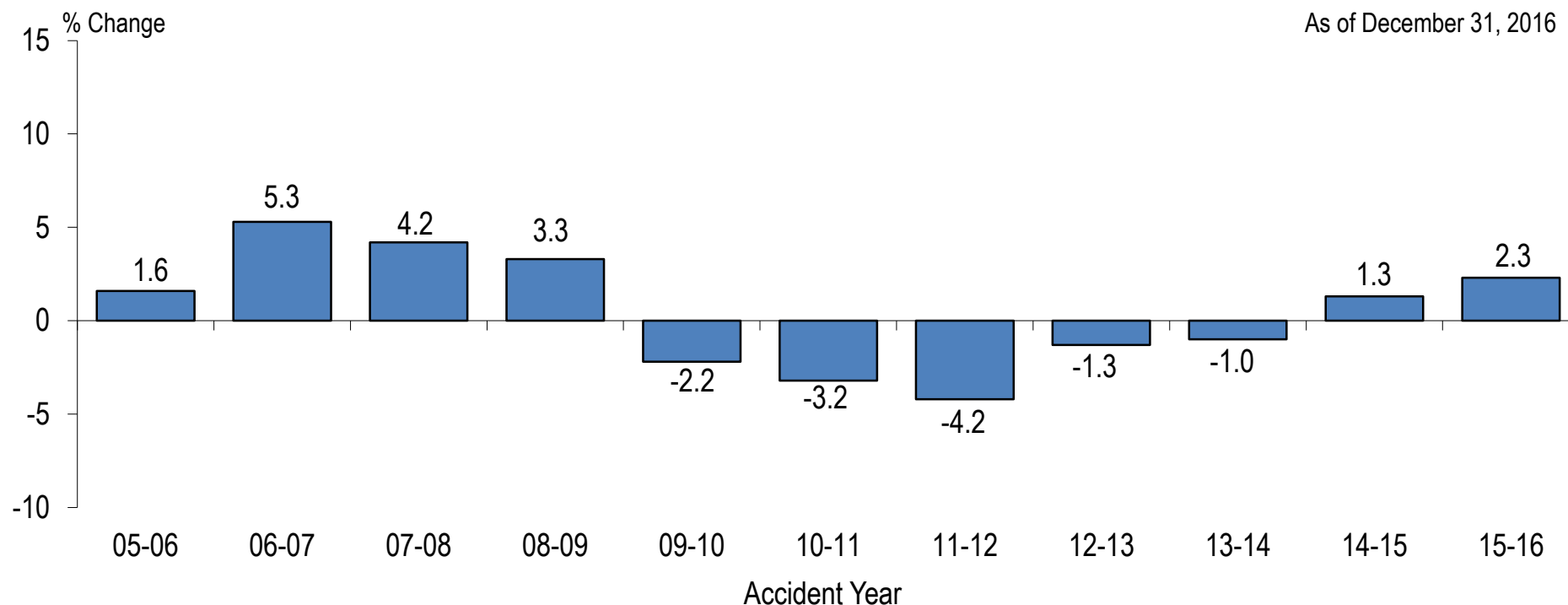
* Based on changes in reported aggregate indemnity claim counts compared to changes in statewide employment. All other estimates based on unit statistical indemnity claims compared to reported insured payroll.

Comparison of Changes in Indemnity Claim Frequency



* 2015-2016 change based on changes in reported aggregate indemnity claim counts compared to changes in statewide employment.

Change in On-Level Indemnity Severity (Exhibit 6.2)



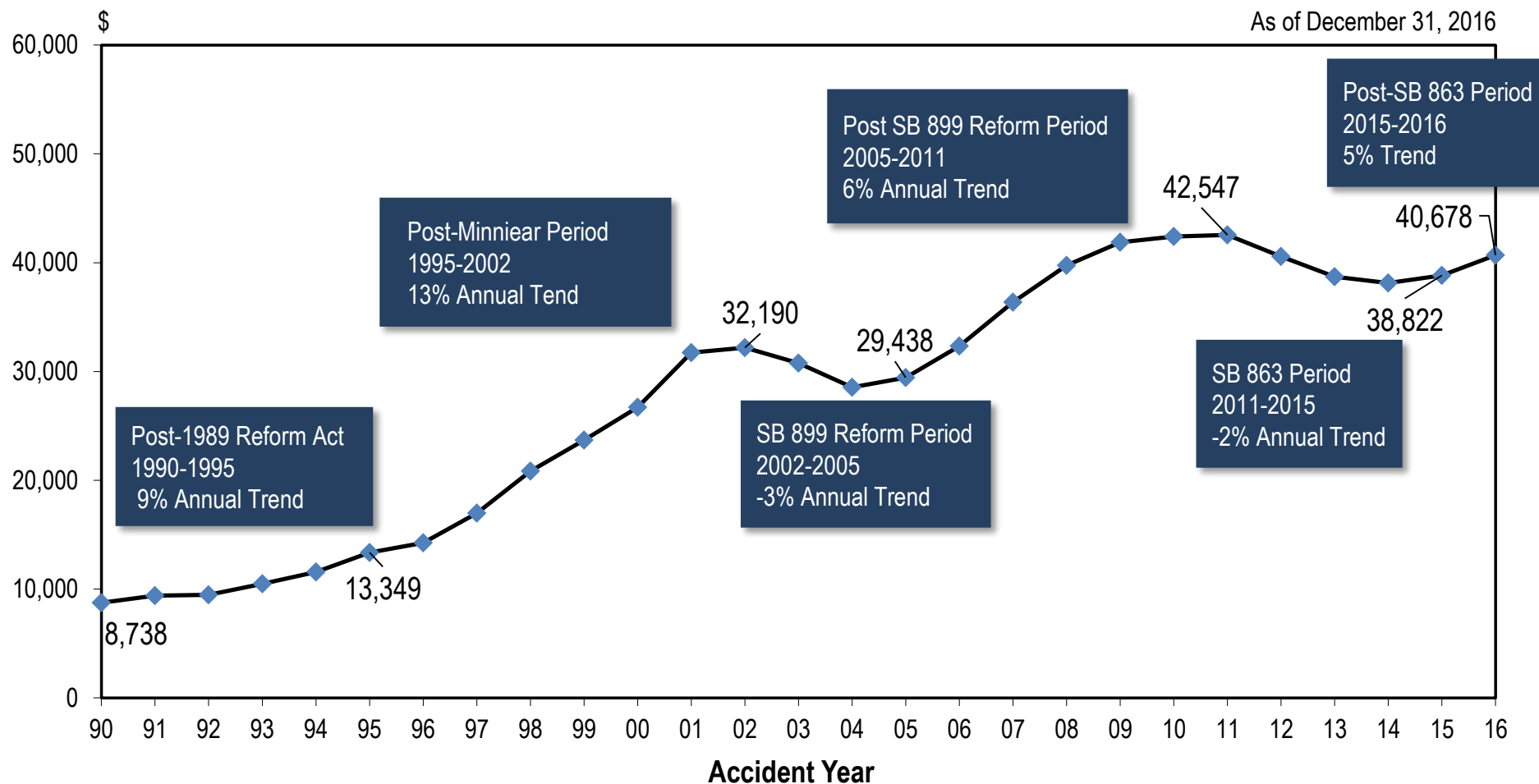
Annual Exponential Trend Based on:

2005 to 2016: -0.1%

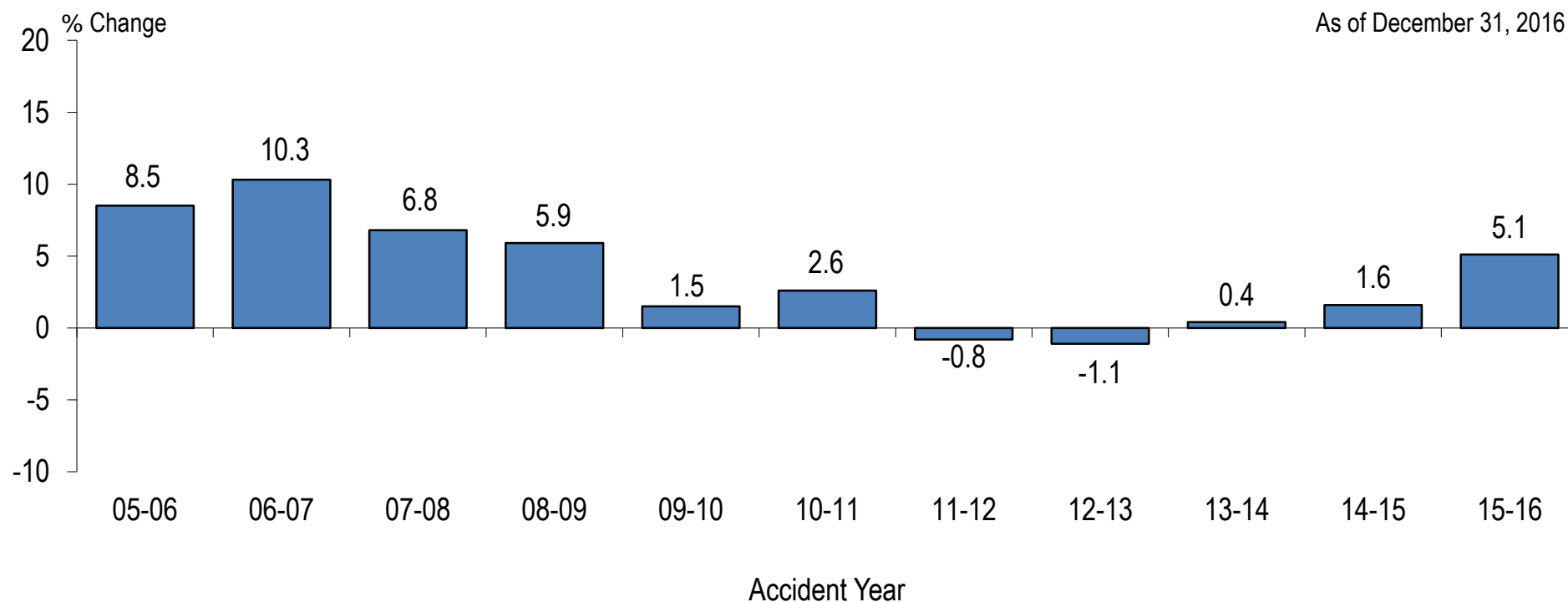
2011 to 2016: -0.5%

Agenda Selected: **0.0%**

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



Change in On-Level Medical Severity – Excluding MCCP (Exhibit 6.4)



Annual Exponential Trend Based on:

2005 to 2016: +2.9%

2011 to 2016: +0.8%

Agenda Selected: 2.5%

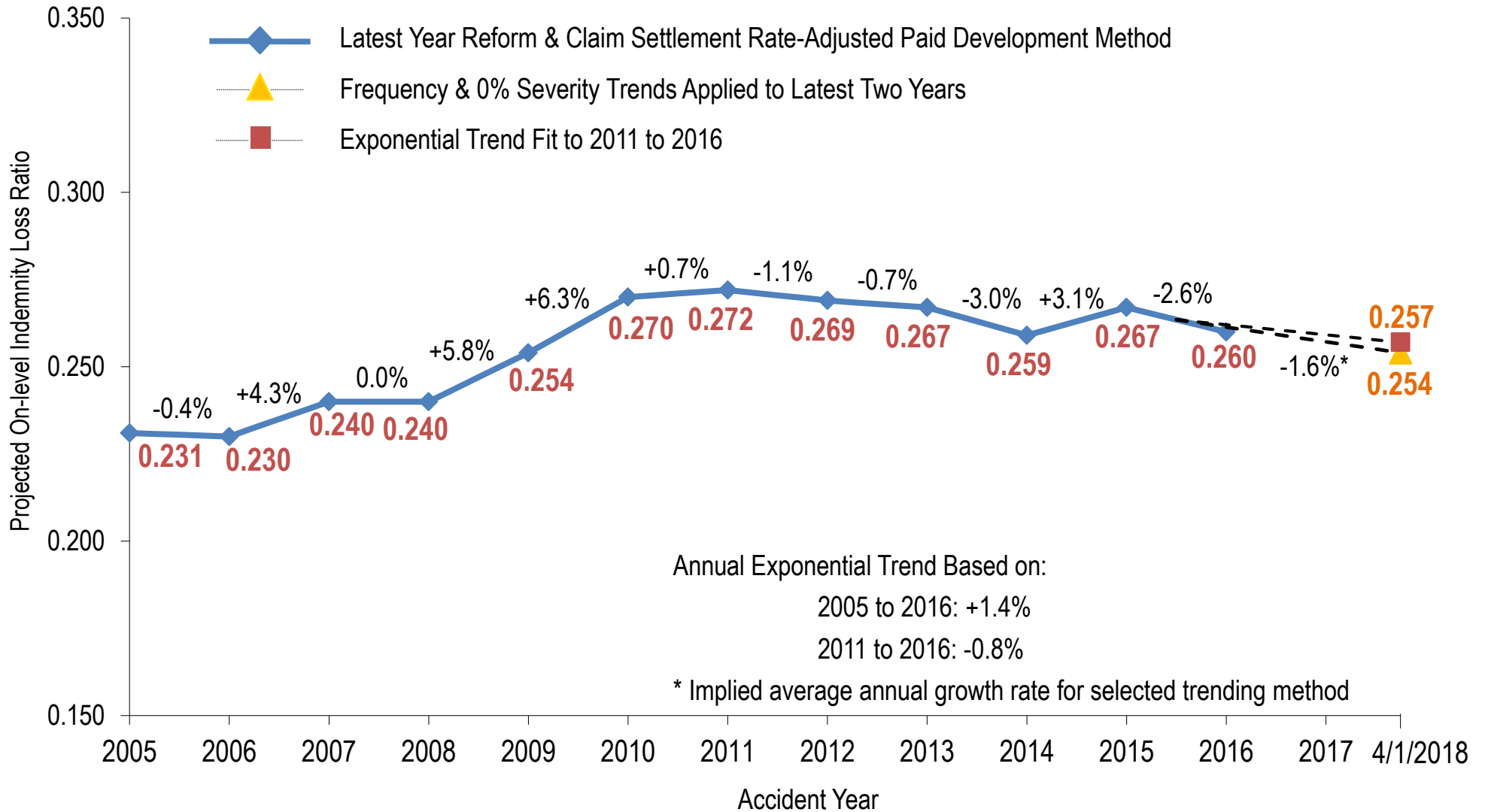
Alternative Trending Methodologies (Item AC17-04-02)

- 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 small frequency decreases consistent with model forecasts
 - On-level indemnity severity relatively flat over last several years
 - On-level medical severity had declined but starting to increase recently
 - Significant medical inflation has historically followed periods of reform

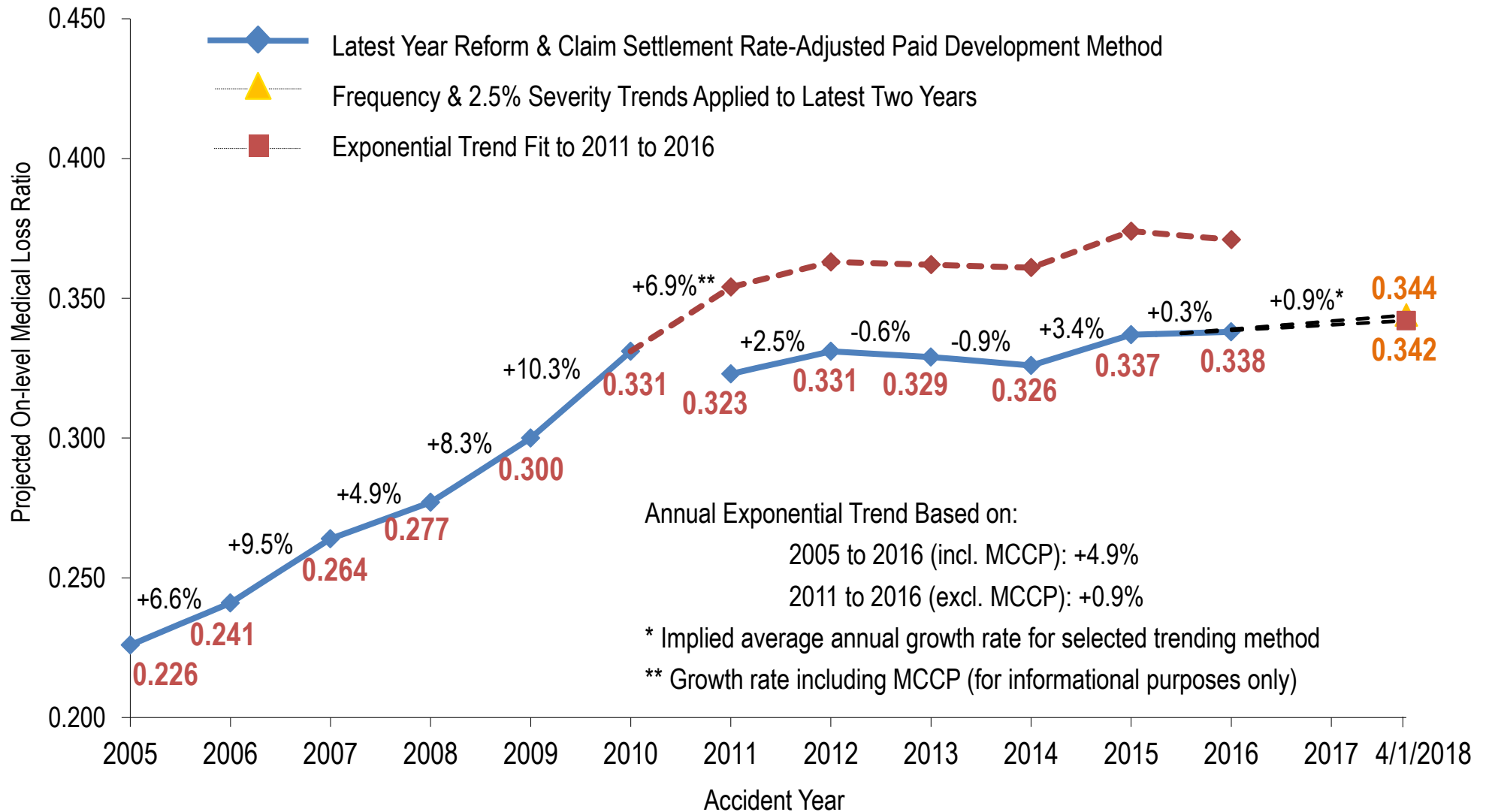
Alternative Trending Methodologies (Continued)

- 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 shorter-term loss ratio projections generally comparable to separate frequency & severity projections

Indemnity Loss Trend & Projections (Exhibit 7.1)



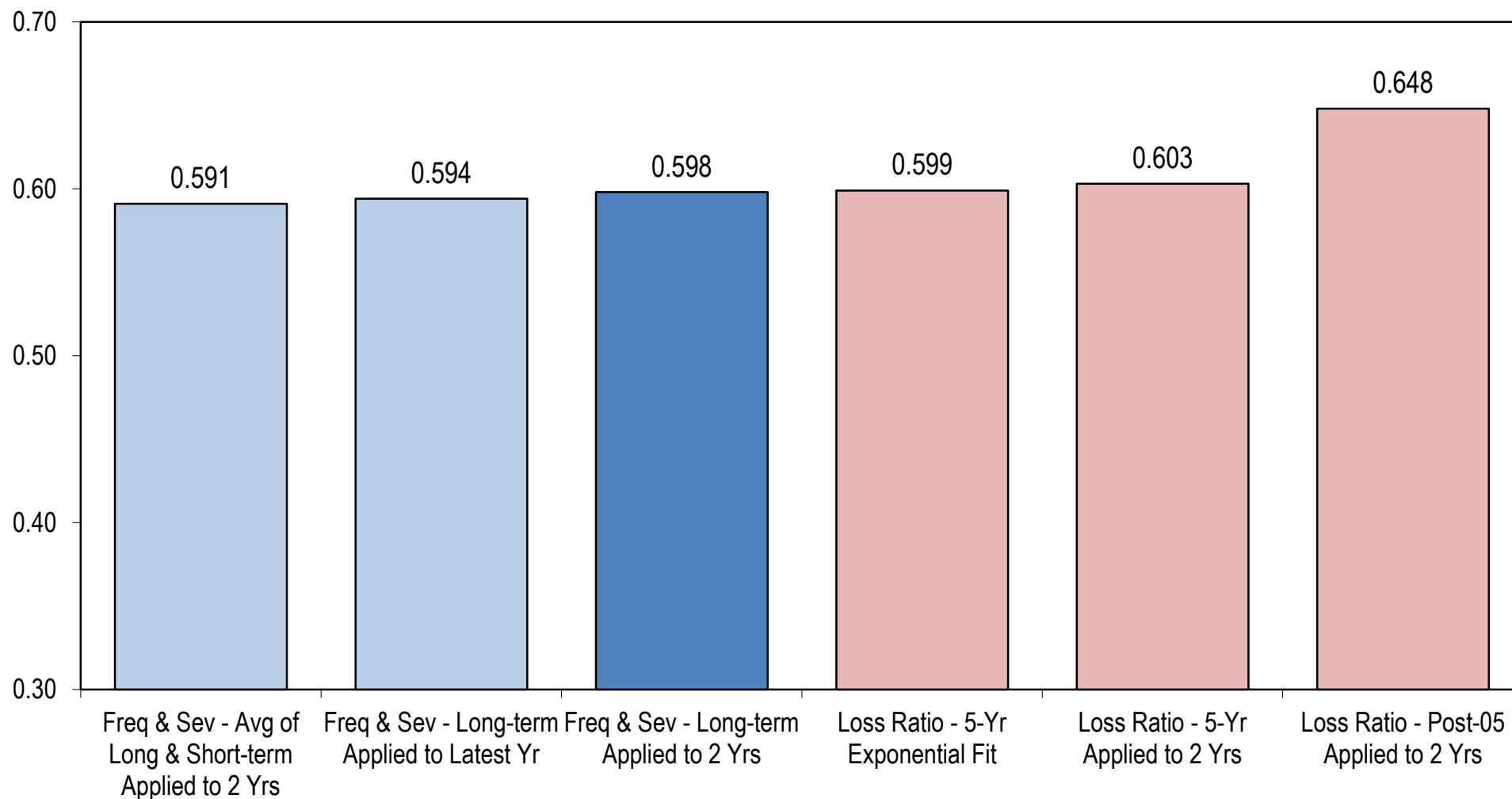
Medical Loss Trend & Projections



Projected On-Level Loss Ratios for Policies Incepting 7/1/2017 to 12/31/2017 under Alternative Trending Methods

Method	Projection
Separate Frequency & Severity Projections (0% Indemnity & 2.5% Medical) Applied to Latest Two Years (Agenda)	0.598
Separate Freq. & Severity (0% Ind. & 2.5% Med.) Applied to Latest Year	0.594
Separate Freq. & Avg. of Long and Short-Term Severity (-0.3% Ind. & 1.9% Med.) Applied to Latest Two Years	0.591
Post-2005 Avg. On-Level Loss Ratio Exp. Trend (1.4% Ind. & 4.9% Med.) Applied to Latest Two Years	0.648
5-Year Avg. On-Level Loss Ratio Exp. Trend (-0.8% Ind. & 0.9% Med.) Applied to Latest Two Years	0.603
On-Level Loss Ratio Exponential Trend Fit to 2011-2016	0.599

Projected On-Level Loss Ratios for Policies Incepting 7/1/2017 to 12/31/2017 under Alternative Trending Methods



12/31/16 Loss Adjustment Expense Experience Review

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April 3, 2017

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Projections of ULAE to Loss

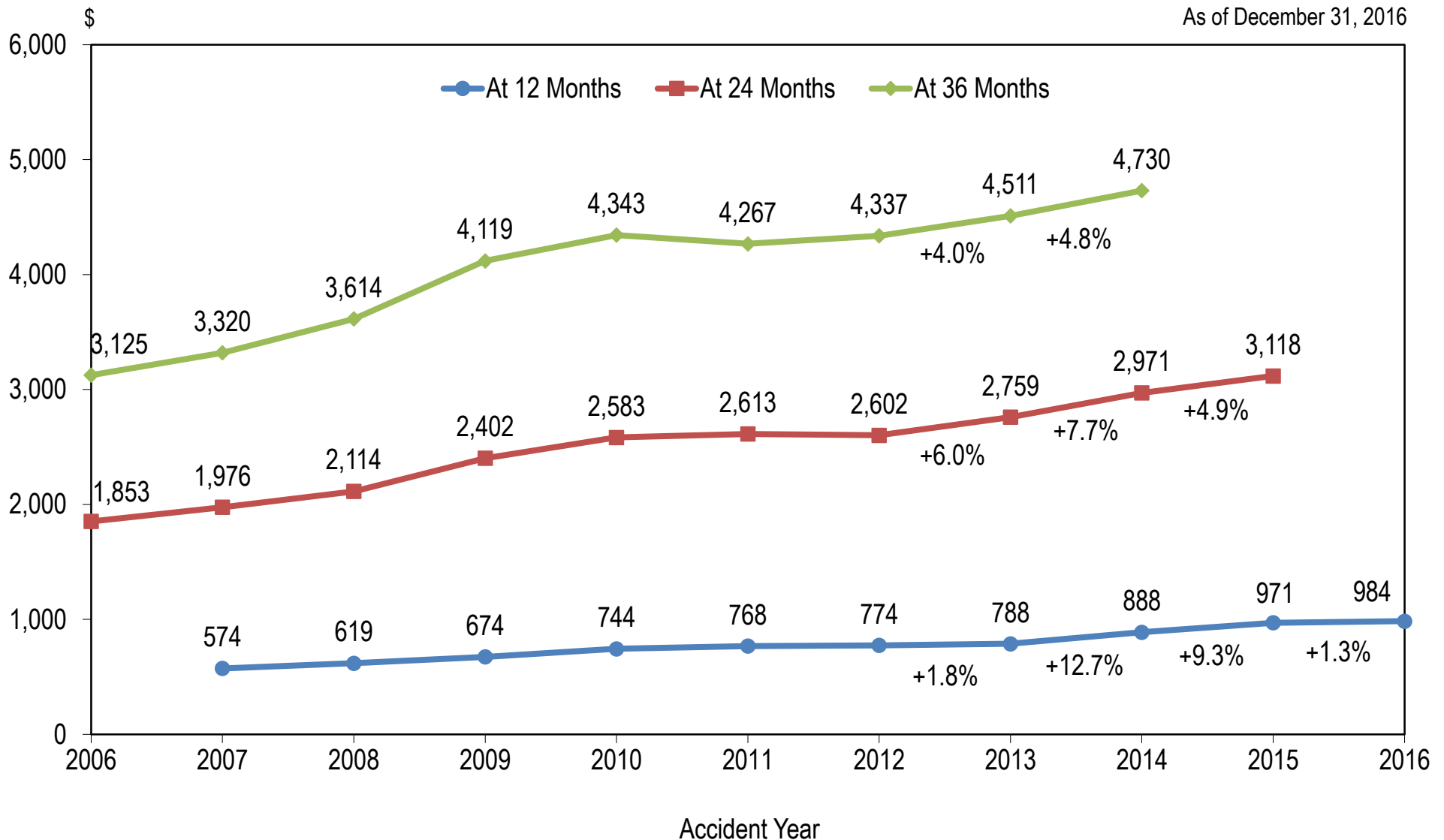
Policy Year 2017 Projection (Amended January 1, 2017 Pure Premium Rate Filing)

ULAE Projection Method	Statewide Using Private Insurer Average ULAE
Paid ULAE per Open Indemnity Claim	12.0%
Paid ULAE to Paid Losses	9.5%
Average of Open Indemnity Claim and Paid Loss-Based Projections	10.8%

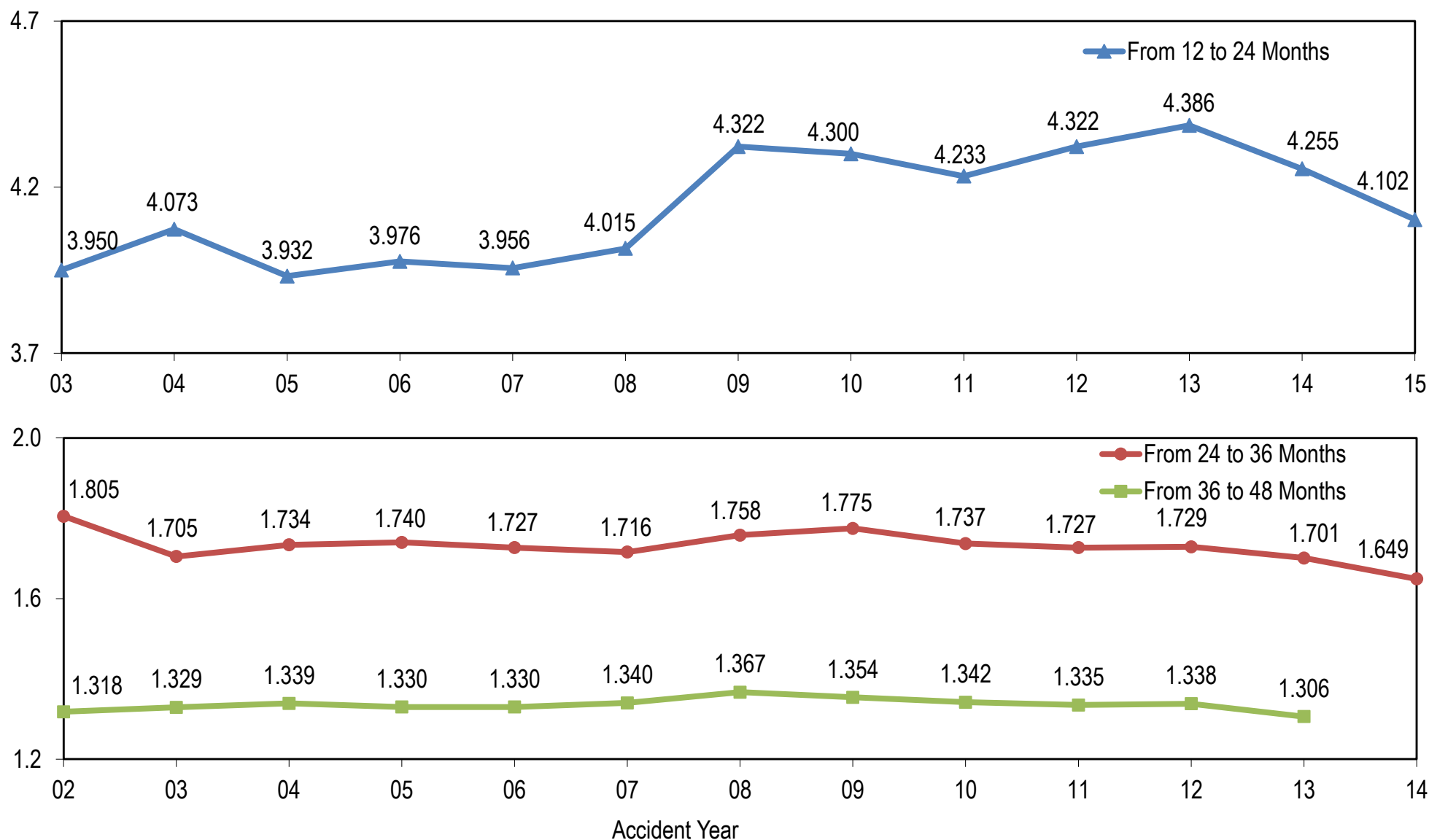
Projection for Policies Incepting July 1, 2017 through December 31, 2017

ULAE Projection Method	Statewide Using Private Insurer Average ULAE
Paid ULAE per Open Indemnity Claim	12.9%
Paid ULAE to Paid Losses	10.0%
Average of Open Indemnity Claim and Paid Loss-Based Projections	11.5%

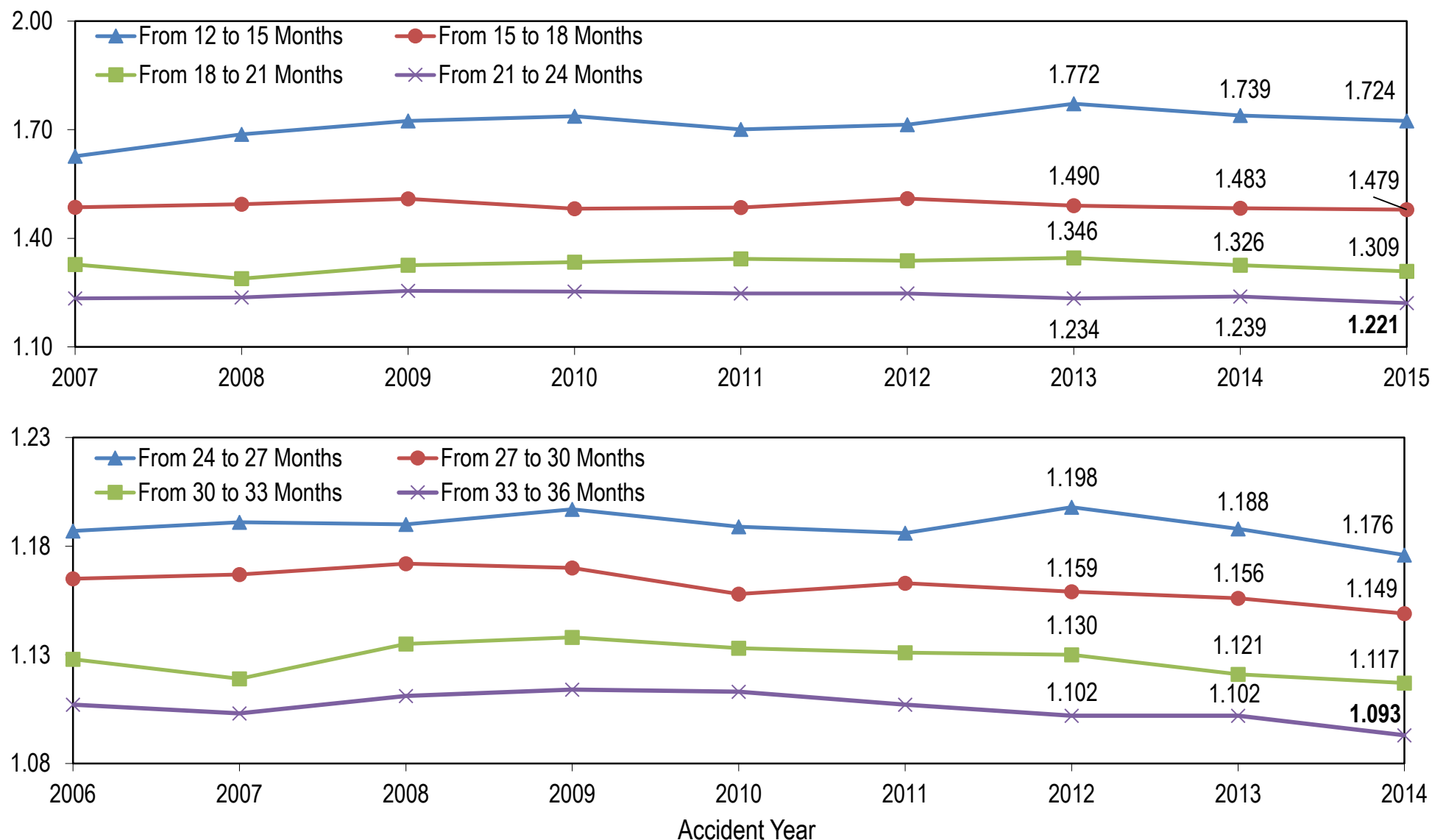
Paid ALAE per Reported Indemnity Claim – Private Insurers Excluding MCCP (Exhibit 1)



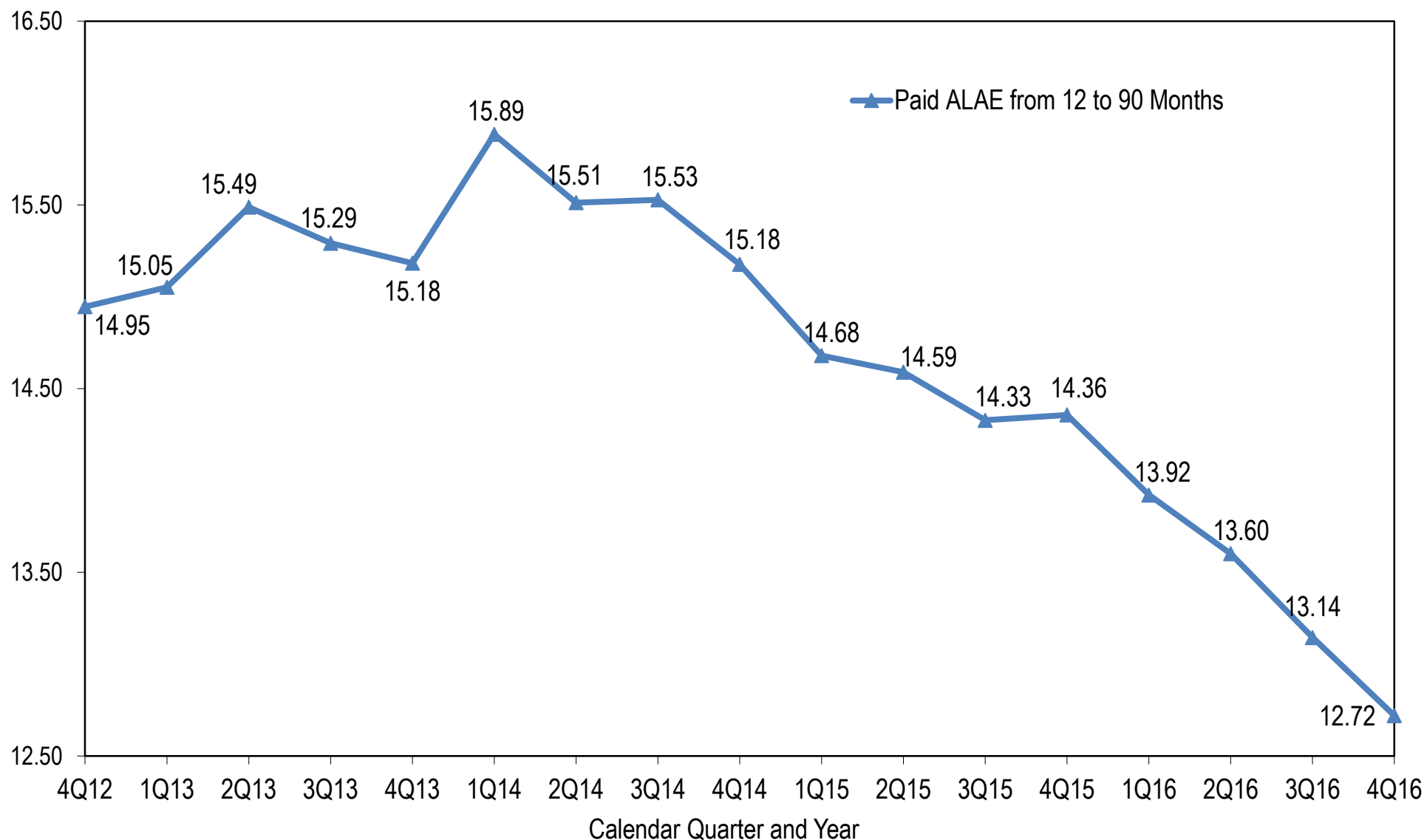
Paid ALAE Excluding MCCP Development Factors – Private Insurers (Exhibit 4.2)



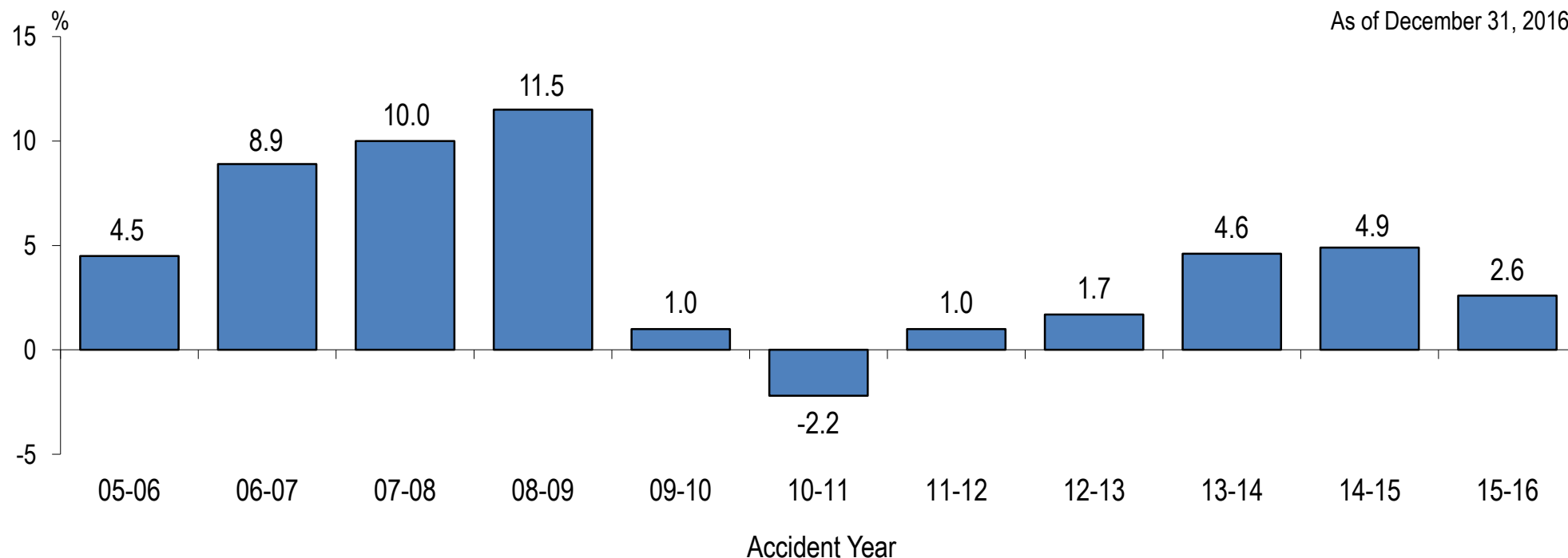
Paid ALAE Excluding MCCP Quarterly Development Factors – Private Insurers (Exhibit 4.3)



Cumulative Quarterly Paid ALAE Development – Private Insurers



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

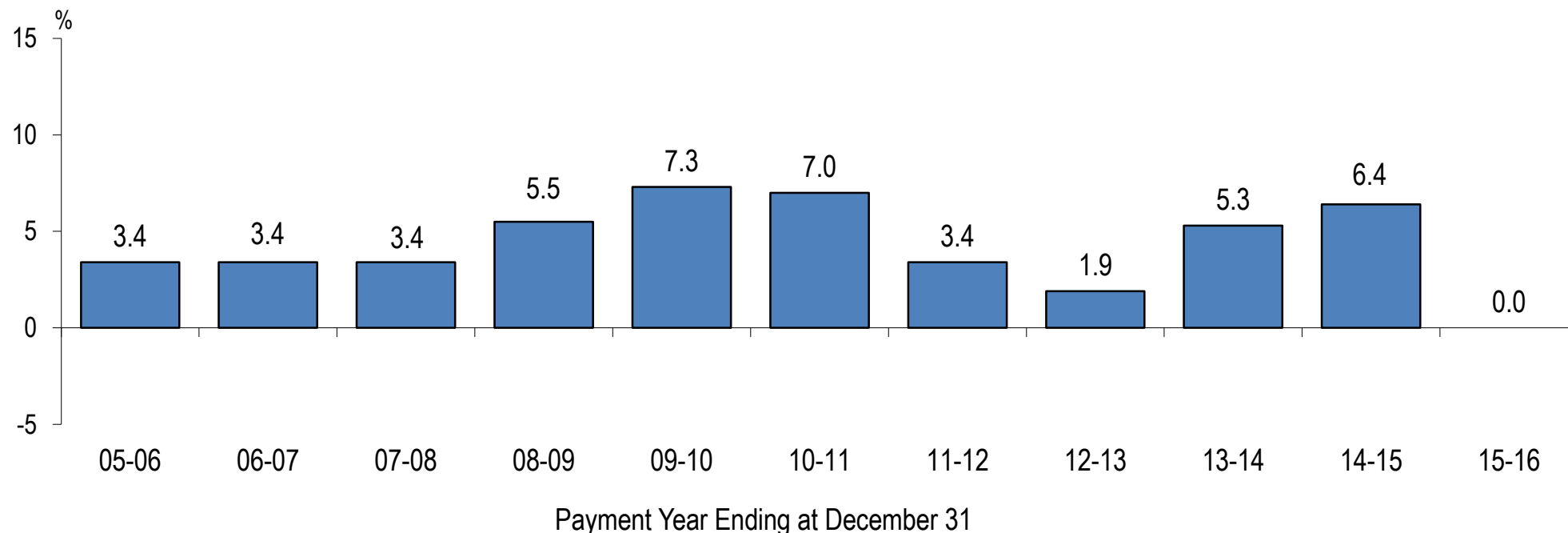


Annual Exponential Trend Based on:

2005 to 2016: +4.0%

2011 to 2016: +3.2%

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



Annual Exponential Trend Based on:

2005 to 2016: +4.6%

2011 to 2016: +3.7%

Agenda Selected ALAE Severity Trend: +4.0%

Projections of ALAE Excluding MCCP to Loss

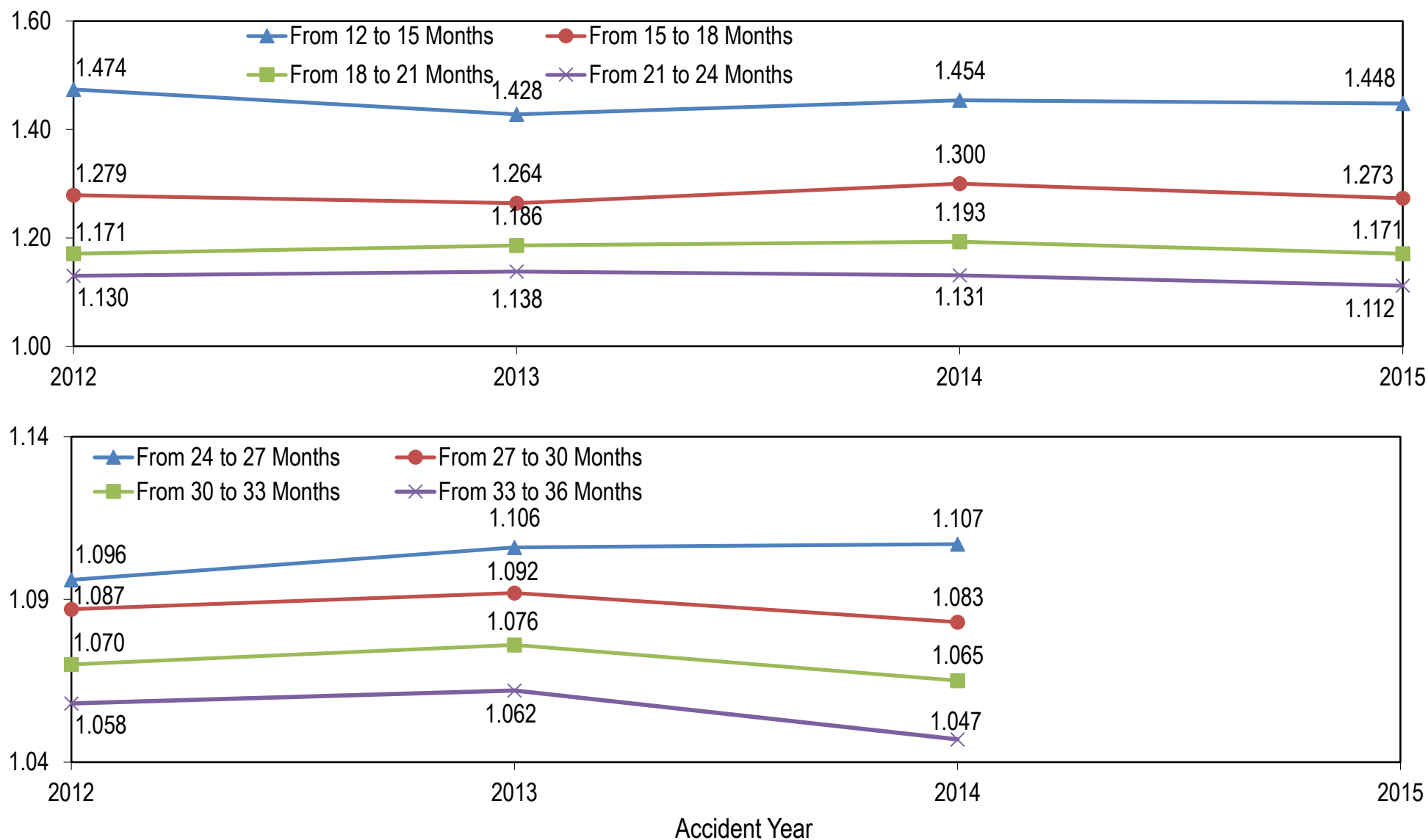
Policy Year 2017 Projection (Amended January 1, 2017 Pure Premium Rate Filing)

ALAE Projection Method	Statewide Using Private Insurer Average ALAE
Trended Ultimate ALAE per Indemnity Claim	20.7%

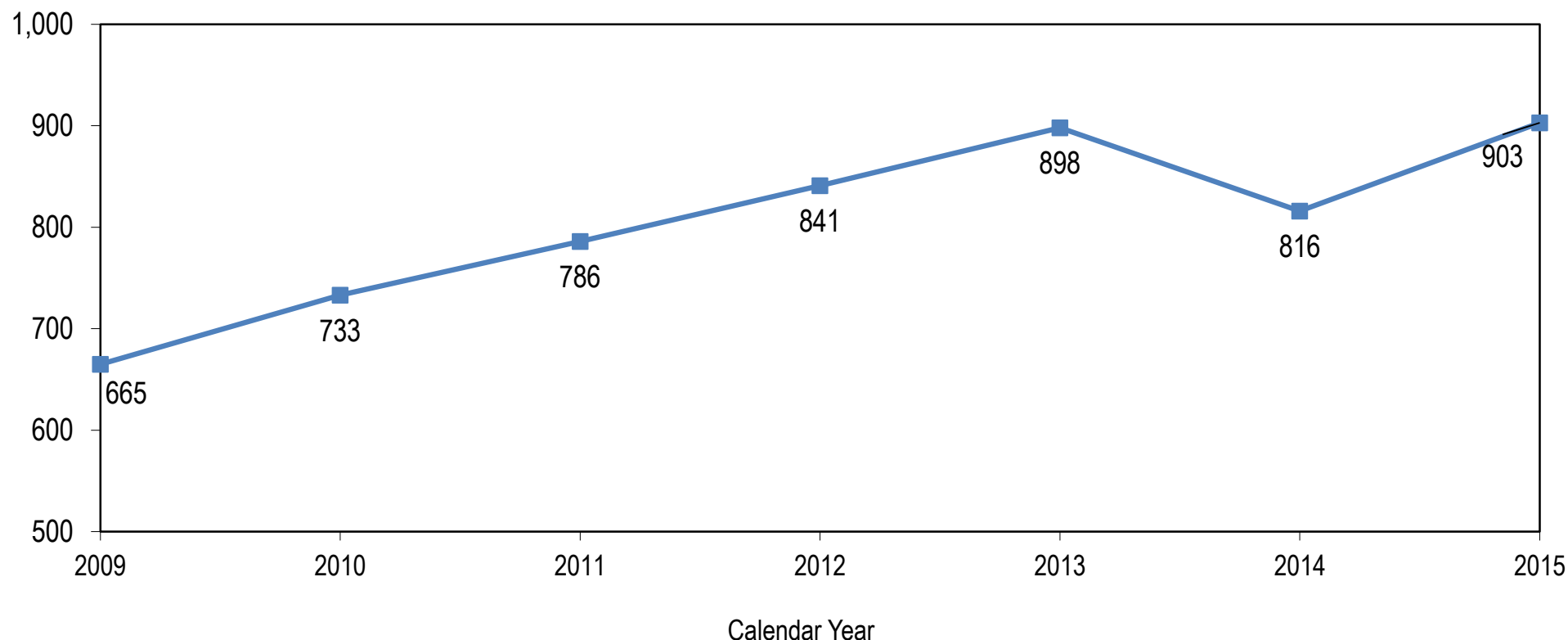
Projection for Policies Incepting July 1, 2017 through December 31, 2017

ALAE Projection Method	Statewide Using Private Insurer Average ALAE
Trended Ultimate ALAE per Indemnity Claim	18.4%

Paid MCCP Quarterly Development Factors (Exhibit 7.1)



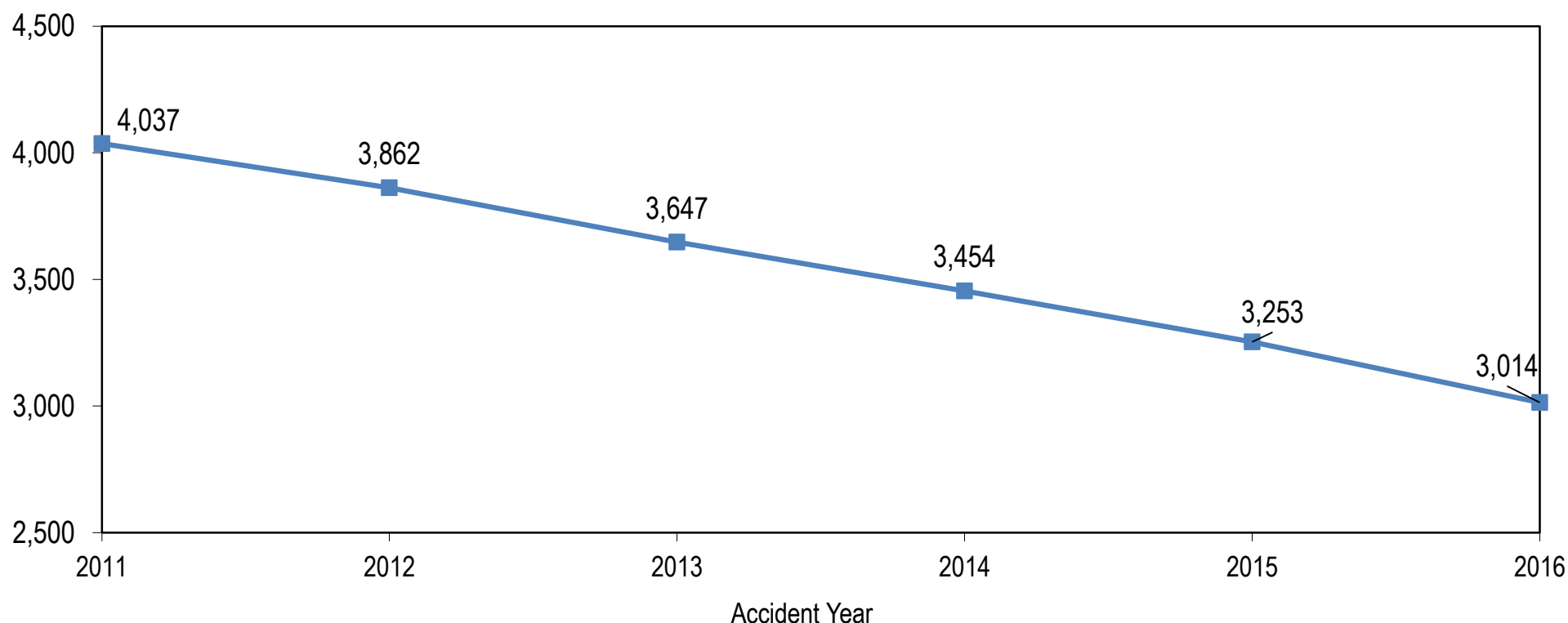
Calendar Year Paid MCCP (Excluding IMR/IBR) per Indemnity Claims Inventory (Exhibit 5)



Annual Exponential Trend Based on:

2009 to 2015: +4.6%

Accident Year Ultimate MCCP per Indemnity Claim (Exhibit 6)



Annual Exponential Trend Based on:

2011-2016: -5.6%

Agenda Selected MCCP Severity Trend: 0%

Projections of MCCP and Combined LAE to Loss

Policy Year 2017 Projection (Amended January 1, 2017 Pure Premium Rate Filing)

Projection Method	Statewide
Trended Ultimate MCCP per Indemnity Claim	5.7%
Total ALAE & MCCP Ratio	26.4%
Total LAE Ratio	37.2%

Projection for Policies Incepting July 1, 2017 through December 31, 2017

Projection Method	Statewide
Trended Ultimate MCCP per Indemnity Claim	4.3%
Total ALAE & MCCP Ratio	22.7%
Total LAE Ratio	34.2%

Industry Average Filed Rates as of 1/1/17

WCIRB Actuarial Committee Meeting
April 3, 2017

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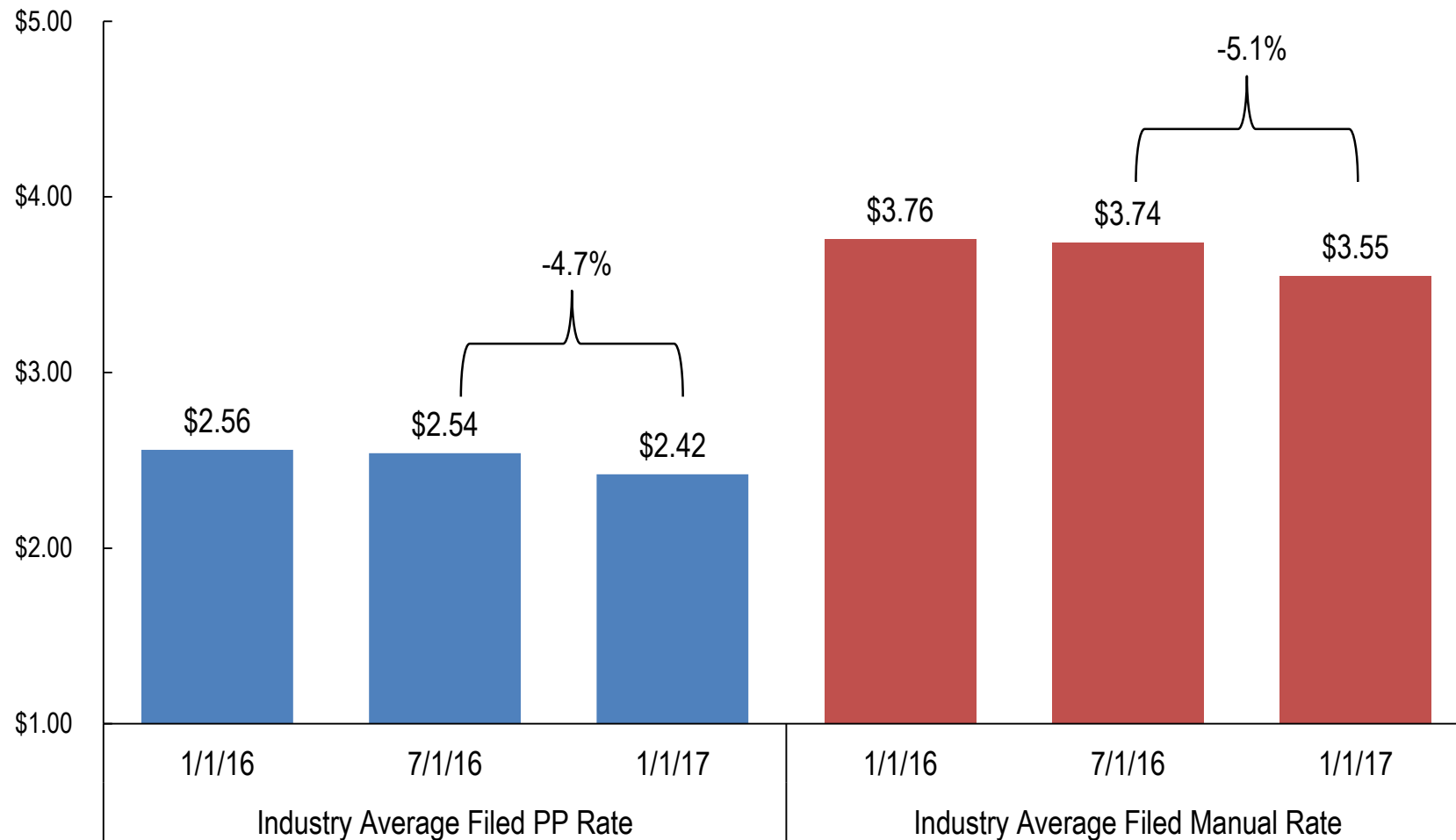
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Calculation of Industry Average Filed Rates as of 1/1/17 Standard and Alternative Methods

- Annual filing method (used for July 1 insurer rates)
 - Input actual insurer filed rates by classification from the largest 120 insurers
 - Use latest exposure weights by classification and insurer from USR data to calculate weighted average rates
- Mid-year filing method (used for January 1 insurer rates)
 - Adjust each insurer's average filed rates from latest annual filing method to reflect insurer filing activity since the last evaluation date
- Both methods have produced comparable results

Industry Average Filed Rates per \$100 of Payroll Based on Exposure Weights from 1/1/17 Filing



Item AC17-04-04

New Drug Formulary

WCIRB Actuarial Committee Meeting
April 3, 2017

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AB 1124 - *Summary & Background*

AB 1124 Goal: an evidence-based drug formulary, consistent with the MTUS to strengthen timely and high-quality medical care while reducing frictional costs

- Signed by the Governor on October 6, 2015
- Authorizes Administrative Director to Establish a Drug Formulary by July 1, 2017
- Pharmaceuticals Fastest Growing Medical Cost up until SB 863
- Significant Reductions in Pharmaceutical Cost Since SB 863
- WCIRB 2015 Calendar Year Summary showed pharmaceutical cost at 11% of medical services and 7% of total medical paid
- Cost Impact is uncertain but is potentially significant
 - In 2014, CWCI Estimated Texas-like Formulary could save \$124 mm. per year and Washington-like Formulary could save \$420 mm. per year in total pharmaceutical payments.

Development of Formulary

- DWC is working with an advisory group on developing the formulary
- Proposed formulary regulations and cost impacts were released March 17, 2017
- The 45-day comment period with the Public Hearing is scheduled May 1, 2017
- The proposed formulary structure is based on
 - MTUS (Medical Treatment Utilization Schedule) treatment guidelines
 - MTUS Drug list
 - Ancillary Formulary Rules

Summary of Proposed Formulary

Preferred drugs	not subject to prospective utilization review if use is consistent with MTUS
Non-preferred drugs	subject to prospective utilization review, all opioids and compounds fall under this category
Unlisted drugs	subject to prospective utilization review
Special fill policy	allows for non-preferred drugs to be prescribed at the single initial visit within 7 days of injury
Perioperative fill policy	allows for non-preferred drugs for post-surgery care (2 days prior, 4 days after surgery)
Off-label use	not subject to prospective review if a preferred drug and follows MTUS treatment guidelines
Generic drug preference	
Physician dispensing	subject to prospective utilization review except on a one-time basis for 'preferred' drugs

Estimated Cost Impact of AB 1124

- The DIR has provided an Economic Impact Statement reflecting a decreased CA WC spending on prescription drugs by an estimated \$23 mm*
- Impacts include the following assumptions:
 - Total number of prescriptions will be reduced in four categories
 - Brand-name drugs where equivalent generic drugs available
 - Non-preferred drugs in therapeutic classes where a preferred drug is available
 - Physician-dispensed drugs where pharmacy-dispensed drugs are available
 - Bulk ingredients used to make compound drugs
 - 20% of physician-dispensed prescriptions will not be written and another 40% of physician-dispensed volume will transition to pharmacy dispensing

*Source: STD 399 State of California – Department of Finance, Economic and Fiscal Impact Statement (Regulations and Orders) Economic Impact Statement by the Department of Industrial Relations for the Medical Treatment Utilization Schedule Drug Formulary signed March 2, 2017

WCIRB process

- After formulary adoption the WCIRB will evaluate cost using the WCIRB's MDC data source & other information to:
 - Identify the drugs by NDC codes
 - Identify the site of service
 - Validate the site of service with reported taxonomy
 - Extract the data by therapeutic class
 - Map to Formulary drug table
 - Review UR & IMR costs impacted
 - Define a methodology based on the final definitions and details of formulary
- Potential Issues
 - No price controls in schedule
 - Changes to Medi-Cal Schedule (Federal Upper Limits)
 - Impact on future prescribing pattern uncertain