

Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
June 16, 2017	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci
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Joanne Ottone
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Liberty Mutual Group
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State Compensation Insurance Fund
Travelers
Employers Insurance Group

California Department of Insurance

Ron Dahlquist
Bob Hallstrom

WCIRB

Bill Mudge
David Bellusci
Ward Brooks
Tony Milano
Linda Radler
Chris Wong

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 meetings held on March 21, 2017 and April 3, 2017 were distributed to the Committee members in advance of the meeting for review. As there were no corrections to these Minutes, a motion was made, seconded and unanimously approved to adopt these Minutes as written.

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Item II

Working Group Meeting Summaries

The summaries of the Claims Working Group meeting held on March 30, 2017 and the Medical Analytics Working Group meeting held on April 12, 2017, which were included in the Agenda materials, were accepted by the Committee.

Item AC99-05-02

Annual Report on Paid Costs

The Committee was reminded that Section 11759.1 of the California Insurance Code requires the WCIRB to summarize various insurer, premium, loss, and expense information for each calendar year and submit a report to the Governor and the Legislature by June of the following year. Staff presented a preliminary summary of the WCIRB's report for calendar year 2016. It was noted that changes in paid medical costs by type were consistent with information that has been reviewed and discussed at prior Committee meetings. It was also noted that decreases in paid medical cost containment program (MCCP) costs experienced in 2016 are likely in part attributable to fees paid for independent medical review (IMR) and independent bill review (IBR), which were no longer reported in MCCP costs beginning in 2016. Staff advised the Committee that an analysis of the impact of this change in IMR and IBR cost reporting on the MCCP and other allocated loss adjustment expense (ALAE) projections will be reviewed at the next meeting.

Staff then presented a preliminary summary of calendar year 2016 unallocated loss adjustment expense (ULAE) information derived from the questions included in the WCIRB's Expense Call beginning with expenses incurred in 2015. It was noted that the preliminary data suggested that ULAE ratios for 2016 computed from the new Expense Call information were generally consistent with those computed for 2015. The Committee then discussed the treatment of ULAE in accident year and calendar year combined ratios that are included in WCIRB quarterly summaries of insurer experience, which continue to base ULAE on that reported by insurers for California rather than that computed from the new Expense Call information reported at a countrywide level and apportioned to California. Staff recommended that, while calendar year combined ratios should still be based on the reported California ULAE (as well as ALAE and loss) information, the accident year combined ratios should use ULAE projected based on the WCIRB's methodology for projecting these costs, similar to the approach used to report projected ultimate losses and ALAE. After discussion, the consensus of the Committee was that this approach was appropriate.

Staff then noted that recent changes to this report to utilize the WCIRB's Medical Data Call data have been fully implemented and that no further significant changes to the data or methodology are currently being contemplated. It was also noted that much of the information reviewed by the Committee in this item is also included in the Committee's reviews of other items such as system diagnostics and quarterly insurer experience summaries. As a result, staff recommended that this item no longer be separately reviewed by the Committee unless significant changes to the data or methodology are proposed or if significant data anomalies have emerged. The consensus of the Committee was that this approach was appropriate. It was noted that the full report would still be provided to the Governor and Legislature each June and published on the WCIRB website.

Item AC16-06-05

Update on Medical Severity Trends by Component

Staff presented an update of the WCIRB's medical severity trends by component based on medical transaction data collected by the WCIRB. This analysis included medical payments through December 31, 2016. The Committee was advised that payments per claim for the medical services increased 1% in the first half of 2016 then decreased 2% in the second half of 2016. Staff shared with the Committee that on a cumulative basis, medical costs per claim have declined 12% from the second half of 2012 through the second half of 2016, which was largely attributable to the impact of Senate Bill No. 863.

Staff noted the largest shifts in share of medical paid by service type was the pharmacy cost share that decreased from 15% to 8% and the medical legal cost share that increased from 9% to 14% comparing service half of 2012 to service year 2016.

The Committee was advised pharmaceutical payments per claim declined significantly in both halves of 2016 continuing the sharp downward trend that began in 2013. The cumulative decrease in pharmaceutical costs from the second half of 2012 through service year 2016 was 63%. Staff noted there were a number of factors influencing this trend including the April 1, 2016 California MediCal fee methodology change that incorporated the average Federal Upper Limit. Other impacts include the independent medical review process, reduced physician prescribing and decreased opioid prescribing, fewer spinal implant surgeries and potential savings related to fraud indictments.

The cumulative decrease in the average paid per claim for the physician fee schedule was 8% since the second half of 2012. This decrease was largely impacted by the changes to convert the California Physician Fee Schedule to a Resource-Based Relative Value Scale (RBRVS) basis. Staff shared details of the various Physician Fee Schedule components, namely the increases in the evaluation and management (E&M) cost percentage that increased from 25% in the second half 2012 to 36% in 2016. Staff noted the most frequent E&M code in the database is the second most complex follow up office visit (CPT code 99214) whose allowance changed from \$72.25 in 2012 to \$139.57 in 2016.

Staff also noted an increase in payments per claim for physical therapy services and suggested that physical therapy could be being used as a potential substitute for certain pharmaceuticals.

The Committee was advised that staff plans to further analyze the causes of medical severity trends and the changes in total medical services cost per claim by accident year.

Item AC16-12-03
Adjustment for Wage Level Differences in Classification Ratemaking

The Committee was reminded that, at the December 6, 2016 meeting, the Committee adopted enhancements to the classification ratemaking methodology to reflect the relative differences in wage level changes by classification. Staff summarized the methodology enhancements, which were included in the preliminary 2018 classification relativities reviewed by the Classification and Rating Committee at the June 1, 2017 meeting. The Committee then reviewed the impact of the methodology enhancements. Staff noted that the overall impact was modest for most classifications and was consistent with the preliminary impacts reviewed by the Committee at the December 6, 2016 meeting.

Item AC17-03-03

Study of Claim Settlement Rate Adjustments to Loss Development

The Committee was reminded that, at the March 21, 2017 meeting, the Committee reviewed staff's initial analysis of adjustments to loss development to reflect changes in claim settlement rates. The Agenda materials included a follow-up analysis of several of the issues raised at the March 21, 2017 meeting.

The Committee reviewed the analysis of the impact of changes in claim settlement rates that differ by injury type. Staff noted that, although recent increases in claim settlement rates have been focused in permanent disability claims, separately adjusting for changing claim settlement rates by injury type did not significantly improve the projection. As a result, staff did not recommend any refinement to the current approach to address differences in claim settlement rate changes by injury type.

The Committee next reviewed the potential impact of changing claim settlement rates on the loss development tail. Staff noted that differences between projected and actual tail development were generally in the opposite direction of changes in claim settlement rate observed during a period. However, staff also noted that this relationship was not always consistent and that several changes to the system that also affect the loss development tail occurred between the time of the projection and the actual emergence of development for an accident year. Staff also noted that, while a negative statistical relationship between the change in claim settlement rate and the difference from the projected to the actual loss development existed for some periods, the correlation was inconsistent and generally weak, particularly when comparing longer-term loss development to prior periods of significant claim settlement rate change. As a result, staff did not recommend any adjustment to the loss development tail to reflect the impact of changing claim settlement rates. A Committee member noted that changes in claim settlement rates may have an impact on projected allocated loss adjustment expense (ALAE) development. Staff agreed to review the potential impact on ALAE development and report back to the Committee. (During the discussion, staff noted a revision to Exhibit 6.1 of the Agenda materials, which is included in these Minutes.)

The Committee then reviewed sensitivity tests of the imputed severities applied to the closed and open indemnity claims in transition as part of the current approach. Staff noted that the adjusted loss development factors using the alternative severities based on unit statistical data tracked by claim status were generally consistent with those computed under the current approach.

After discussion, the Committee accepted staff's analysis.

Summary of Change in Claim Settlement Rate Compared to Difference in
Paid Loss Development Factors

Periods where Settlement Rate Change > 1.0% in Absolute Value

Claim Settlement Period Loss Development Period	Indemnity Paid										Medical Paid													
	12	24	36	48	60	72	All											12	24	36	48	60	72	All
	12-84	24-84	36-84	48-84	60-84	72-84	All											12-84	24-84	36-84	48-84	60-84	72-84	All
Settlement Down/ Development Up	5	5	6	9	6	4	35											6	8	7	10	7	5	43
Settlement Down/ Development Down	2	4	3	2	1	0	12											1	2	2	0	0	0	5
Settlement Up/ Development Up	0	0	1	1	1	1	4											3	1	3	4	1	0	12
Settlement Up/ Development Down	5	4	4	5	3	0	21											3	3	1	1	1	0	9
Settlement./Devel. Oposite Direction	10	9	10	14	9	4	56											9	11	8	11	8	5	52
Settlement./Devel. Same Direction	2	4	4	3	2	1	16											4	3	5	4	1	0	17
Settlement./Devel. Oposite Direction	83%	69%	71%	82%	82%	80%	78%											69%	79%	62%	73%	89%	100%	75%
Settlement./Devel. Same Direction	17%	31%	29%	18%	18%	20%	22%											31%	21%	38%	27%	11%	0%	25%

Periods where Settlement Rate Change > 1.5% in Absolute Value

Claim Settlement Period Development Period	Indemnity Paid							Medical Paid						
	12	24	36	48	60	72	All	12	24	36	48	60	72	All
	12-84	24-84	36-84	48-84	60-84	72-84	All	12-84	24-84	36-84	48-84	60-84	72-84	All
Settlement Down/ Development Up	3	4	5	4	4	1	21	4	7	6	4	5	1	27
Settlement Down/ Development Down	2	3	3	0	0	0	8	1	1	2	0	0	0	4
Settlement Up/ Development Up	0	0	0	1	0	0	1	3	1	2	4	0	0	10
Settlement Up/ Development Down	5	4	4	5	2	0	20	3	3	1	1	1	0	9
Settlement./Devel. Oposite Direction	8	8	9	9	6	1	41	7	10	7	5	6	1	36
Settlement./Devel. Same Direction	2	3	3	1	0	0	9	4	2	4	4	0	0	14
Settlement./Devel. Oposite Direction	80%	73%	75%	90%	100%	100%	82%	64%	83%	64%	56%	100%	100%	72%
Settlement./Devel. Same Direction	20%	27%	25%	10%	0%	0%	18%	36%	17%	36%	44%	0%	0%	28%

Item AC17-06-01

3/31/2017 Experience – Review of Methodologies

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of March 31, 2017 that was included in the Agenda materials. It was noted that the modest decrease in the projected loss ratio since the July 1, 2017 Pure Premium Rate Filing was primarily attributable to an extended trending period in that the projected overall loss trend was somewhat lower than the projected wage trend from the July 1, 2017 policy period to the 2018 policy year.

Staff noted that both paid and incurred indemnity and medical development generally increased for the most recent accident years in the first quarter of 2017, suggesting that the trend of declining paid and incurred development experienced over the last several years may be shifting or at least moderating. It was also noted that longer-term development continued to decrease modestly for medical. Staff advised the Committee that it is continuing to review the recent changes in longer-term paid and incurred loss development and will provide an analysis to the Committee at the next meeting. Staff also noted that indemnity claim settlement rates continued to increase sharply through the first quarter.

The Committee next discussed the projected frequency and severity trends. It was noted that the preliminary 2017 frequency through 3 months was consistent with the 2016 frequency through 3 months. It was also noted that the 2016 frequency change increased modestly from that reflected in the July 1, 2017 Pure Premium Rate filing reflecting December 31, 2016 experience based on updated claim count and employment information but continues to emerge below the increases experienced in the 2012 through 2014 accident years.

The Committee was reminded that, in recent pure premium rate filings, the selected indemnity and medical severity trend projections have been generally based on the long-term average rate of growth. For indemnity severity, it was noted that the 0% trend reflected in the July 1, 2017 Pure Premium Rate Filing and in the Agenda materials is approximately equal to the long-term rate of growth, although on-level indemnity severity shows increases of over 1% for the last two years. For medical severity, it was noted that the 2.5% severity trend reflected in the July 1, 2017 Pure Premium Rate Filing and in the Agenda materials is somewhat below the long-term rate of growth of approximately 3%. It was also noted that the indicated growth in the accident year 2016 on-level medical severity of 6.1% has increased from that reflected in the July 1, 2017 Pure Premium Rate Filing (which was projected from December 31, 2016 experience). Staff also noted that medical severity growth for recent accident years in the first quarter of 2017 was somewhat higher than that for prior periods. After discussion, the Committee agreed that a 3% medical severity trend should be reflected in the updated summary of March 31, 2017 experience to be presented at the next meeting.

It was noted that the indicated loss trends based on separate frequency and severity projections were generally consistent with those based on the short-term exponential loss trend. It was noted that prior WCIRB studies have shown that the separate frequency and severity trend methodology has worked well during periods of transition while the combined loss ratio trend methodology has been generally more accurate during more stable periods. Staff advised the Committee that it will be updating the study of trending methodologies last reviewed in 2015 for the next meeting. The Committee was also reminded that a number of alternative loss development and trending methodologies will also be reviewed with updated March 31, 2017 experience at the next meeting.

Item AC17-06-02
1/1/2018 Regulatory Filing – Experience Rating Plan Values

Staff presented a draft analysis of the indicated policy year 2018 experience rating off-balance correction factor which included a small adjustment for the estimated impact of the 2017 experience rating plan change to the variable split formula. The Committee was advised that the average experience modification emerging for 2017 of 0.960 is reasonably consistent with earlier projections.

The Committee was advised that the indicated off-balance factor using the same methodology as in the January 1, 2017 Regulatory Filing was 1.006, which was 1.9% below the off-balance factor reflected in 2017 advisory pure premium rates. The Committee was reminded that in order to avoid sharp year-to-year fluctuations in the off-balance factor in a number of prior years in which there were unusual movement in the indicated factor, the change was mitigated and a resultant adjustment to expected loss rates made to maintain the pure premium neutrality of experience rating. Given the sharp decrease in the indicated off-balance and that the indication was the lowest in recollection, the Committee generally agreed that it was appropriate to reduce potential year-to-year volatility by mitigating the indicated decrease in the off-balance factor. A motion was made and seconded and to reflect a 2018 off-balance factor of 1.015 in proposed 2018 expected loss rates and advisory pure premium rates with a corresponding increase to proposed 2018 expected loss rates to maintain the pure premium neutrality of experience rating based on the most current indications. The motion passed unanimously.

Staff also presented a draft analysis of the factors used to generate the proposed policy year 2018 expected loss rates, which used the same methodology as in the January 1, 2017 Regulatory Filing. It was noted that changes in the factors to generate the policy year 2018 expected loss rates were consistent with what has been observed in the last several years.

After discussion, the consensus of the Committee was that the proposed 2018 expected loss rates should reflect the methodologies summarized at the meeting.

The meeting was adjourned at 12:00 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for August 2, 2017 for approval and/or modification.