Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
August 2, 2017	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci

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Members	Representing
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
Chris Westermeyer	Travelers
Doug Zearfoss	Employers Insurance Group

California Department of Insurance
Ron Dahlquist
Giovanni Muzzarelli

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

* 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.

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Approval of Minutes
The Minutes of the meeting held on June 16, 2017, 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 AC12-12-02
Review of WCIRB Trending Methodology

The Agenda materials included an updated retrospective analysis of trending methodologies, which was last reviewed in detail by the Committee in 2015. Staff summarized the overall approach and results. Staff noted that, unlike the prior post-reform period, the trending methods based on the on-level loss ratios generally did not perform as well as the separate frequency and severity methods in the post-Senate Bill No. 863 period (accident years 2015 and 2016). A Committee member noted that some of the higher error terms for older years that were based on the prior (2012) study for the frequency and severity method may be partially a result of using the full frequency model constant in that study rather than the tempered constant currently used. Staff has subsequently confirmed that the full frequency model constant was used as the basis for the frequency and severity method in that study.

A Committee member noted that methods based on trending from the latest year generally outperformed the comparable methods based on trending from the latest two years in the most recent periods. Staff noted that, generally, trending from the latest two years has recently been recommended due to the immaturity of the most recent accident year, which is typically valued as of 12 months or 15 months in pure premium rate filings and the potential to be overly responsive to the latest year when there is a potential turning point in the trend. As a result, staff suggested this approach be further studied before it is recommended.

After discussion, the Committee accepted staff’s analysis.

Item AC17-04-04
Update on New Drug Formulary

At the meeting of April 3, 2017, staff provided the Committee with an overview of the status and timeline for the drug formulary being developed pursuant to Assembly Bill No.1124 (AB 1124). This included a discussion of the structure of the draft formulary that was proposed by the Department of Industrial Relations (DIR) as well as its ancillary rules.

Staff updated the Committee as to the current status of DIR regulations related to the formulary. The Committee was advised that the most recent comment period ended August 2, 2017 and it is now expected that the formulary will most likely apply to drugs dispensed for outpatient use on or after January 1, 2018 regardless of the date of injury.

The Committee discussed the economic impact figures released by the DIR including some of the assumptions used to calculate the DIR's expected decrease in California workers' compensation prescription drug spending that was published earlier this year. The Committee noted that from an overall system cost impact, the DIR estimated savings were modest but that, with the lack of price controls, the ultimate cost impact would depend on how the presence of the formulary will impact how drugs are being prescribed in the California system. Staff also summarized the process envisioned to evaluate the cost impact of the new formulary once the final regulations are adopted.

Item AC17-06-01
3/31/2017 Experience – Review of Methodologies

The Agenda materials contained an updated analysis of March 31, 2017 experience, which was first reviewed by the Committee at the June 16, 2017 meeting. The Committee was advised that the principal changes in the analysis included in the Agenda materials from that reviewed at the June 16, 2017 meeting included (a) updated wage projections based on UCLA's June 2017 forecasts, (b) updated claim frequency projections, and (c) an annual medical severity trend of 3% preliminarily recommended by the Committee at the June 16, 2017 meeting compared to the 2.5% reflected in the June 16, 2017 Agenda materials.

The Committee reviewed loss development and noted that the paid and incurred loss development patterns reflected in the Agenda materials were consistent with those reviewed at the June 16, 2017 meeting. The Committee also noted that indemnity claim settlement rates continue to increase in the most recent quarters.

The Committee reviewed the loss development projections, including the alternative loss development projections included in the August 2, 2017 Agenda materials (Item AC17-08-03). It was noted that the projections based on unadjusted incurred development continue to be significantly lower than the corresponding projections based on paid development. It was noted that average case reserve levels shifted significantly over the last year and that the incurred loss development projection that adjusts for changes in average case reserve levels was closer to the paid loss development projections. However, it was noted that this methodology is very sensitive to the factors and assumptions applied in the computation and only applies the adjustment for early evaluations while there is evidence of case reserve level shifts in both earlier and more mature evaluations. With regards to paid loss development, the Committee was reminded that the study of the claim settlement rate adjustment to paid loss development reviewed by the Committee earlier this year indicated that the adjustment has improved the accuracy of the projection during periods of significant claim settlement rate changes and claim settlement rates continue to increase.

After discussion, a motion was made and seconded to recommend basing the projected policy year 2018 indemnity loss ratio on the loss development methodology reflected in the Agenda materials (latest year paid adjusted for reforms and changes in claim settlement rates), but with the refinements to incurred loss development recommended based on staff's most recent study of longer-term loss development (see the August 2, 2017 Actuarial Minutes for Item AC17-08-04). The motion passed unanimously.

A second motion was made and seconded to also recommend basing the projected policy year 2018 medical loss ratio on the loss development methodology reflected in the Agenda materials, but with the same refinements to incurred loss development as for indemnity. 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 that he believed giving some weight to the latest-year incurred medical projection adjusted for changes in case reserve levels was appropriate and recommended averaging this method with the method recommended by the other Committee members.

The Committee noted that the average annual rate of growth forecast by the UCLA Anderson School of Business for 2016 through 2019 is on average modestly lower than the growth projected in the July 1, 2017 Pure Premium Rate Filing. Staff informed the Committee that a review of the wage level trends used for aggregate ratemaking is scheduled for later this year.

The Committee discussed the frequency and severity projections reflected in the Agenda materials. Several Committee members noted that the longer-term average rate of growth in on-level indemnity severities of 0% includes the recession period of flat to declining trends as well as modest increases over the last two years subsequent to the implementation of Senate Bill No. 863 permanent disability increases. A meeting participant observed that the 1.6% on-level indemnity severity growth indicated for accident year 2016 is the fourth consecutive year of increasing severity growth. The Committee discussed the most appropriate indemnity severity trend to project into the future given the historical and recent emerging rates of growth. After discussion, the consensus of the Committee was that a 1% on-level indemnity severity trend was responsive to the most recent two years of increases while still giving some consideration to the flat trends in the prior period.

The Committee next discussed the medical severity trend projection. It was noted that the 2016 on-level medical severity change of approximately 6% is much higher than the modest trends experienced in the last several prior years. However, a Committee member suggested caution against giving too much weight to a single year given the recent declines in medical cost levels. After discussion, the consensus of the Committee was that the on-level medical severity trend of 3% reflected in the August 2, 2017 Agenda materials based on the longer-term average rate of growth was appropriate. The Committee did express concern that a significantly higher medical severity trend assumption may be appropriate if accident year 2017 medical severity emerges at a significantly higher level than accident year 2016.

The Committee reviewed the alternative trend projections included in the August 2, 2017 Agenda materials (Item AC17-08-03) as well as the findings of staff's recent update to the retrospective evaluation of the performance of a number of alternative trending methodologies (Item AC12-02-02) included in the August 2, 2017 Agenda materials. It was noted that the projections based on combined loss ratio trends for recent years were generally consistent with those based on separate frequency and severity projections. After discussion, the consensus of the Committee was that the trending methodology based on the separate frequency and severity projections continues to be appropriate. A motion was made and seconded to recommend basing the projected policy year 2018 loss ratio on the trending methodology reflected in the Agenda materials, but with a 1% indemnity severity projection. 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 that he believed a combined loss ratio trend applied to the latest year was more appropriate in that a combined loss ratio approach is not affected by the interrelationships of frequency and severity and projections based on the latest year have recently outperformed those based on the average of the latest two years.

Item AC17-08-01
Third Quarter 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. Permanent disability claims continue to close at a faster rate, while the rate at which temporary disability claims close has remained relatively steady. The Committee was advised that the CWG suggested that the factors driving the acceleration in the settlement rates of permanent disability claims included the independent medical review (IMR) provisions of Senate Bill No. 863 (SB 863) expediting medical treatment dispute resolution, reduced post-SB 863 lien activity, reduced rates of spinal surgeries and decreased uses of opioids. It was noted that recent WCIRB research had indicated that the adjustment to loss development to reflect changing claim settlement improves loss development projections as long as there are continued indications of changing claim settlement rates.

2. The number of expedited hearings remained stable in the first quarter of 2017, continuing the trend from the previous three quarters, after a large increase in the second quarter of 2016. The distribution of expedited hearings by type of hearing have also remained relatively stable. The Committee was advised that with recent WCAB decisions, the CWG advised that there will likely be a drop in expedited hearings on medical treatment issues and suggested that staff review the underlying data provided by the Division of Workers' Compensation (DWC) with the DWC.

3. Lien filings decreased significantly in the first two quarters of 2017 after rising sharply in the fourth quarter of 2016. These changes are likely due to Senate Bill No. 1160 (SB 1160), which places additional restrictions on lien filings and became effective on January 1, 2017. The Committee was advised that the CWG suggested there remained significant uncertainties as to the impact of SB 1160 and the lien filing volume in subsequent quarters should be monitored closely.

4. The number of quarterly incremental indemnity and medical-only claims both increased significantly in the first quarter of 2017. A Committee member suggested that this increase in medical-only claim filings may be in part attributable to recent changes to Uniform Statistical Reporting Plan requirements that were intended to clarify the reporting requirements related to first aid claims.

5. The proportion of indemnity claims involving cumulative trauma in the Los Angeles Basin and San Diego areas continue to increase sharply. The percent of first unit statistical report claims for accident year 2015 that were reported as involving cumulative injury was 14% for the Los Angeles Basin area, almost 11% for the San Diego area and only 6% for the remainder of the state.

6. Medical severity showed signs of continuing increase in the first quarter of 2017. Accident year 2016 paid medical per indemnity claim severity as of the first quarter of 2017 increased 6.6% over that for accident year 2015 as of the first quarter of 2016. Incremental paid medical severity growth for recent accident years in the first quarter of 2017 was also up significantly. It was noted that very recent indicators of medical severity growth are above the level projected in recent pure premium rate filings.

Item AC17-08-02
1/1/2018 Filing – Loss Adjustment Expense Experience Review

The Agenda materials included an analysis of the projected policy year 2018 ratio of loss adjustment expense (LAE) to loss based on calendar year unallocated loss adjustment expense (ULAE) experience through calendar year 2016 and accident year allocated loss adjustment expense (ALAE) and medical cost containment program (MCCP) experience as of March 31, 2017.

The Committee was reminded of the changes to the WCIRB's 2015 Expense Call related to ULAE on large deductible policies and claims handled by third party administrators. It was noted that the calendar year 2016 ULAE amounts reflected in the Agenda materials were adjusted based on the same process as reflected in the January 1, 2017 Pure Premium Rate Filing. Staff noted that the methodology used to apportion countrywide ULAE amounts to California (based on paid losses in the Agenda materials) will be reviewed later this year.

The Committee was reminded that the ULAE projection included in the Agenda materials was based on the average of (a) a projection based on the relationship of paid ULAE to open indemnity claims and (b) a projection based on the relationship of paid ULAE to paid losses. Staff noted that, as in the January 1, 2017 Pure Premium Rate Filing, average ULAE amounts were based on private insurers while all other information was on a statewide basis. Staff noted that inasmuch as adjusted ULAE data based on the WCIRB's 2015 Expense Call changes are now available for two calendar years (2015 and 2016), the ULAE projections included in the Agenda materials were based on the average of the latest two calendar years rather than the latest calendar year only (which was reflected in the January 1, 2017 and July 1, 2017 Pure Premium Rate Filings when only one year of ULAE information reported in accordance with the expanded call was available). After discussion, a motion was made and seconded to base the policy year 2018 ULAE projection on the methodologies reflected in the Agenda materials. The motion passed unanimously.

The Committee next discussed the projections of ALAE (excluding MCCP). The Committee was reminded that, beginning with independent medical review (IMR) and independent bill review (IBR) fees paid in 2016, the cost of IMR and IBR is no longer reported in MCCP though it continues to be reported in ALAE. Staff noted that the change in IMR and IBR reporting results in a distortion in ALAE and MCCP payment patterns when reviewing the components separately. Staff presented a recommended adjustment to correct for this distortion, which was based on compiling a triangle of IMR and IBR payments by accident year and transaction quarter based on information provided by the Division of Workers' Compensation, adjusted to reflect current insurer market shares. Staff recommended that all pre-2016 ALAE (excluding MCCP) payments be adjusted to include IMR and IBR fees paid prior to January 1, 2016 to be consistent with post-2016 paid ALAE which includes these costs. The consensus of the Committee was that this adjustment was appropriate.

It was noted that ALAE cost trends, after adjusting for IMR and IBR costs, continue to moderate through the first quarter of 2017 after several years of sharp growth following Senate Bill No. 863. The Committee was reminded that the ALAE projection included in the Agenda materials was based on the relationship between projected ultimate ALAE for private insurers and statewide ultimate indemnity claim counts. The Committee was reminded that the projected ALAE severity trend reflected in the Agenda materials (4%) was based on the average of the longer-term and shorter-term average rates of growth in calendar year ALAE per open indemnity claim and accident year ultimate ALAE per indemnity claim for private insurers—the methodology reflected in the last several pure premium rate filings. After discussion, a motion was made and seconded to base the policy year 2018 ALAE projection on the methodologies reflected in the Agenda materials with the adjustment for IMR and IBR costs recommended by staff. The motion passed unanimously.

The Committee reviewed the projection of MCCP costs. Staff noted that the adjustment for IMR and IBR costs is also recommended for MCCP and thereby remove all IMR and IBR fees paid prior to January 1, 2016 from MCCP, since these costs are no longer included in MCCP costs. It was noted that after the adjustment for IMR and IBR costs, paid MCCP development continues to decrease, likely related to recent declines in paid medical loss development and the recent increases in indemnity claim settlement rates. The Committee was reminded that the MCCP projection included in the Agenda materials was based on a similar method to that used to project ALAE excluding MCCP costs and is based on statewide data. It was noted that the projected MCCP severity trend based on the average rates of growth in calendar year MCCP per open indemnity claim and accident year ultimate MCCP per indemnity claim after reflecting the adjustment for IMR and IBR costs was approximately 0%, consistent with the MCCP severity trend reflected in the July 1, 2017 Pure Premium Rate Filing. After discussion, a motion was made and seconded to base the policy year 2018 MCCP projection on the methodologies reflected in the Agenda materials with the adjustment for IMR and IBR costs recommended by staff. The motion passed unanimously.

Item AC17-08-03
1/1/2018 Filing – Review of Alternative Loss Projection Methodologies

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 March 31, 2017 experience. (Please refer to the August 2, 2017 Actuarial Minutes for Item AC17-06-01.)

Item AC17-08-04
Study of Longer-Term Loss Development

The Committee was reminded that at recent Actuarial Committee meetings, the Committee noted the recent volatility in incurred loss development patterns and its impact on the loss development projected for the very mature periods for which the WCIRB projection is based on incurred development. Staff summarized the analysis of loss development at these longer-term periods that was included in the Agenda materials.

Staff noted that incurred age-to-age development has been significantly more volatile than paid development, particularly at later maturities. It was also noted that the WCIRB's current approach to utilize a three-year average of age-to-age development for these more mature periods (after approximately 108 months) still produces significant variance in projected incurred medical development over time. Staff recommended using a six-year average of incurred age-to-age factors for this period, which decreases the variance significantly but is still responsive to long-term trends in incurred development patterns. The consensus of the Committee was that this approach was appropriate for incurred indemnity and incurred medical development. Staff noted that a six-year average did not produce significant reductions in the volatility of paid development after 108 months and continued to recommend using a three-year average for these periods.

Staff summarized the approach for selecting the loss development tail factor based on fitting an inverse power curve to six-year average of incurred development at later maturities. Staff noted that the six-year average of factors used in the fit continues to minimize the variance in the tail factor and did not recommend any change to that approach. Staff noted that although longer-term incurred indemnity development has been stable over time, longer-term incurred medical development has significantly decreased recently. It was noted that the period used to fit the inverse power curve (development years 10 through 29) for the December 31, 2016 evaluation shows flat medical development with factors often below 1.0 rather than the asymptotically declining shape assumed by the inverse power curve. The Committee discussed the factors driving this recent anomalous incurred medical development and whether it is appropriate to include it in the fitting of the tail development factor. After discussion, the consensus of the Committee was that staff's recommendation to exclude the most recent evaluation of incurred development from the fitting of the inverse power curve tail factor was appropriate.

During the discussion of tail development, a Committee member noted that paid development should also fit well to the inverse power curve. Staff noted that preliminary fits of the inverse power curve to paid development were promising, but did not recommend utilizing a paid development tail at this time until the factors driving later-term deviations of paid and incurred development patterns (last reviewed in 2014) could be further studied.

The meeting was adjourned at 1:25 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for September 5, 2017 for approval and/or modification.