

# WCIRB Actuarial Committee Meeting

Materials Presented at the WCIRB Actuarial Committee Meeting  
September 5, 2017

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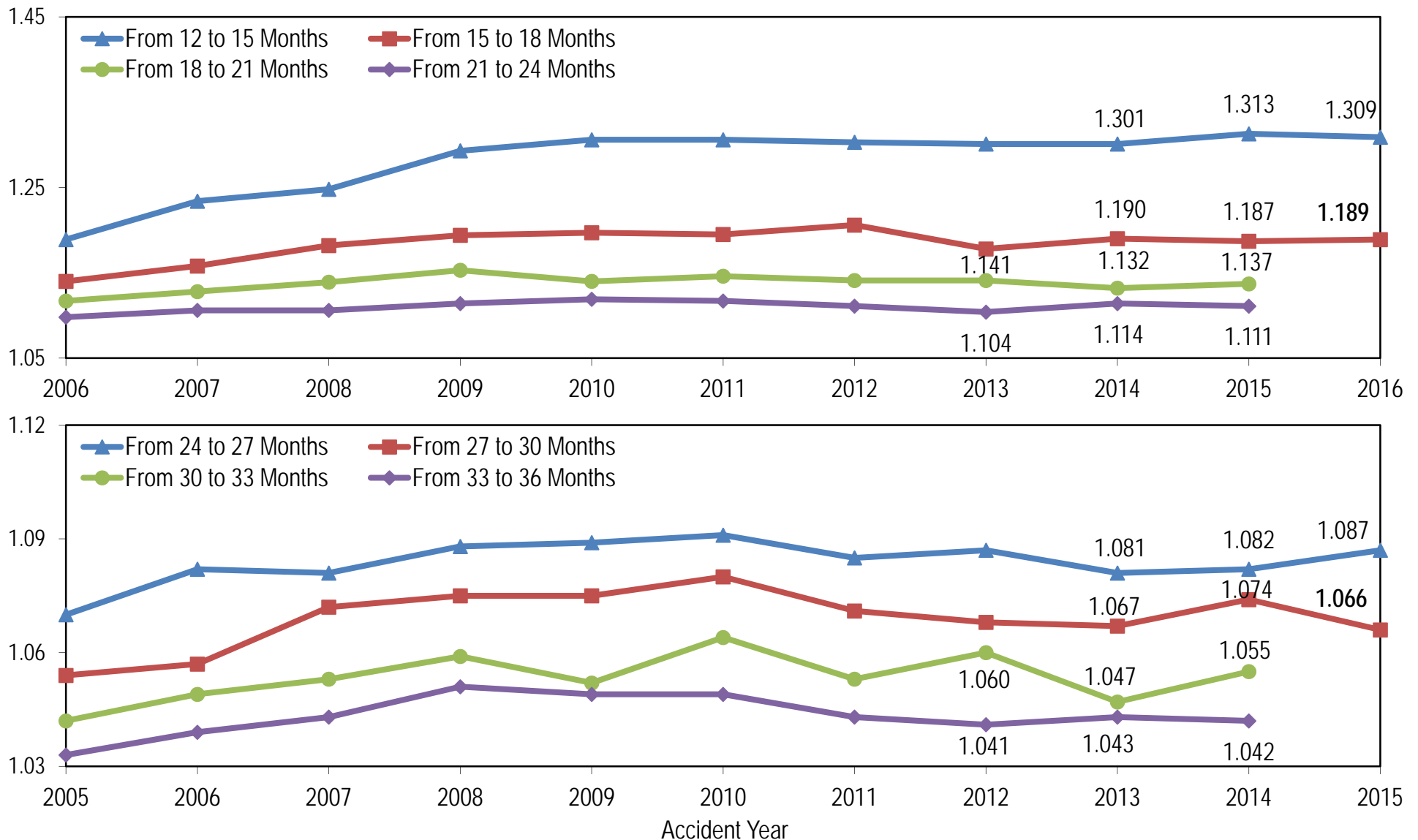
# 6/30/2017 Experience – Review of Methodologies

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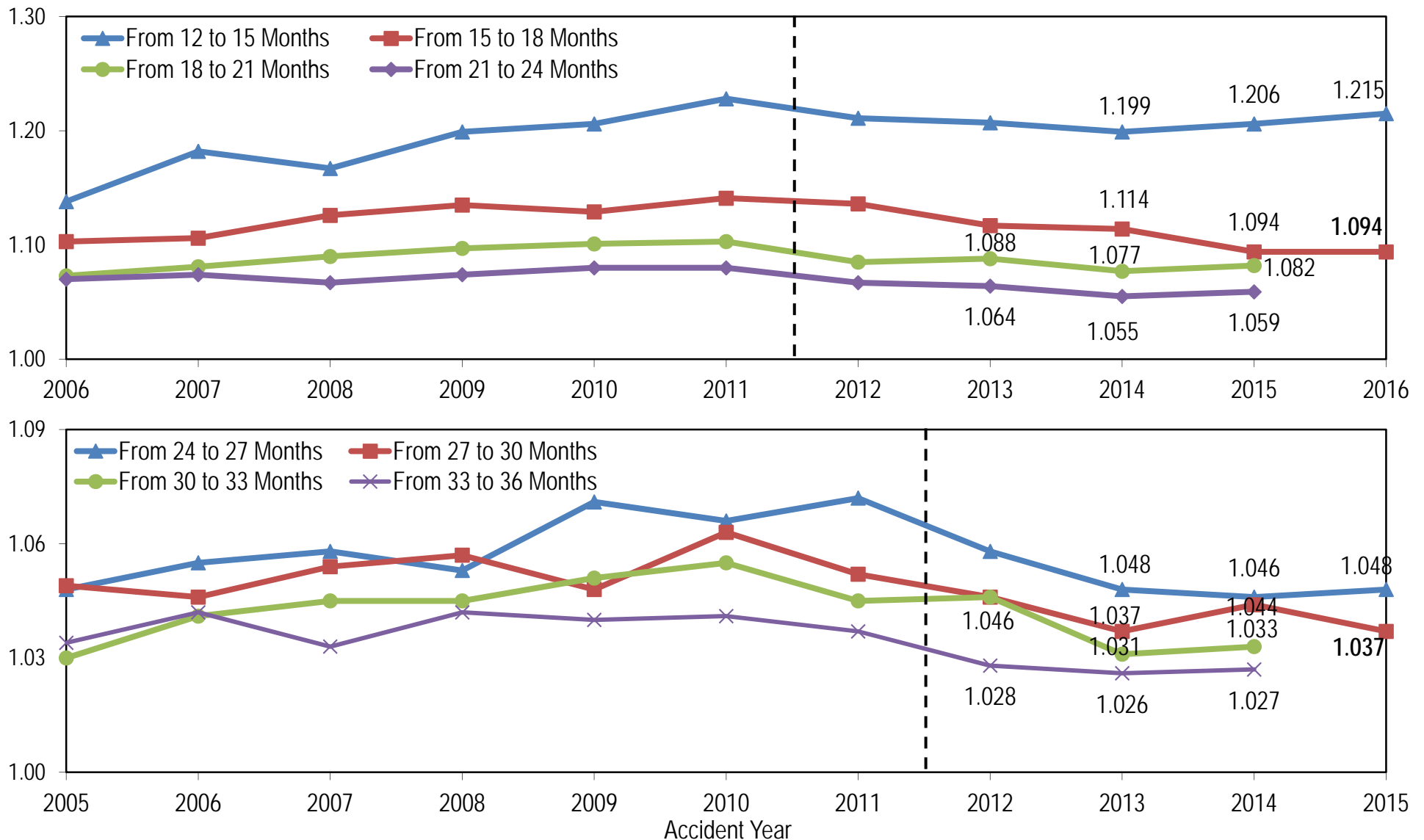
## Summary of June 30, 2017 Experience

- Almost 100% of market reflected
- Same methodologies as in 1/1/18 Filing
- Projected policy year 2018 loss ratio: 0.643
- 2 point decrease from 1/1/18 Filing (0.662) driven by lower loss development

# Quarterly Incurred Indemnity Development (Exhibit 9.1)

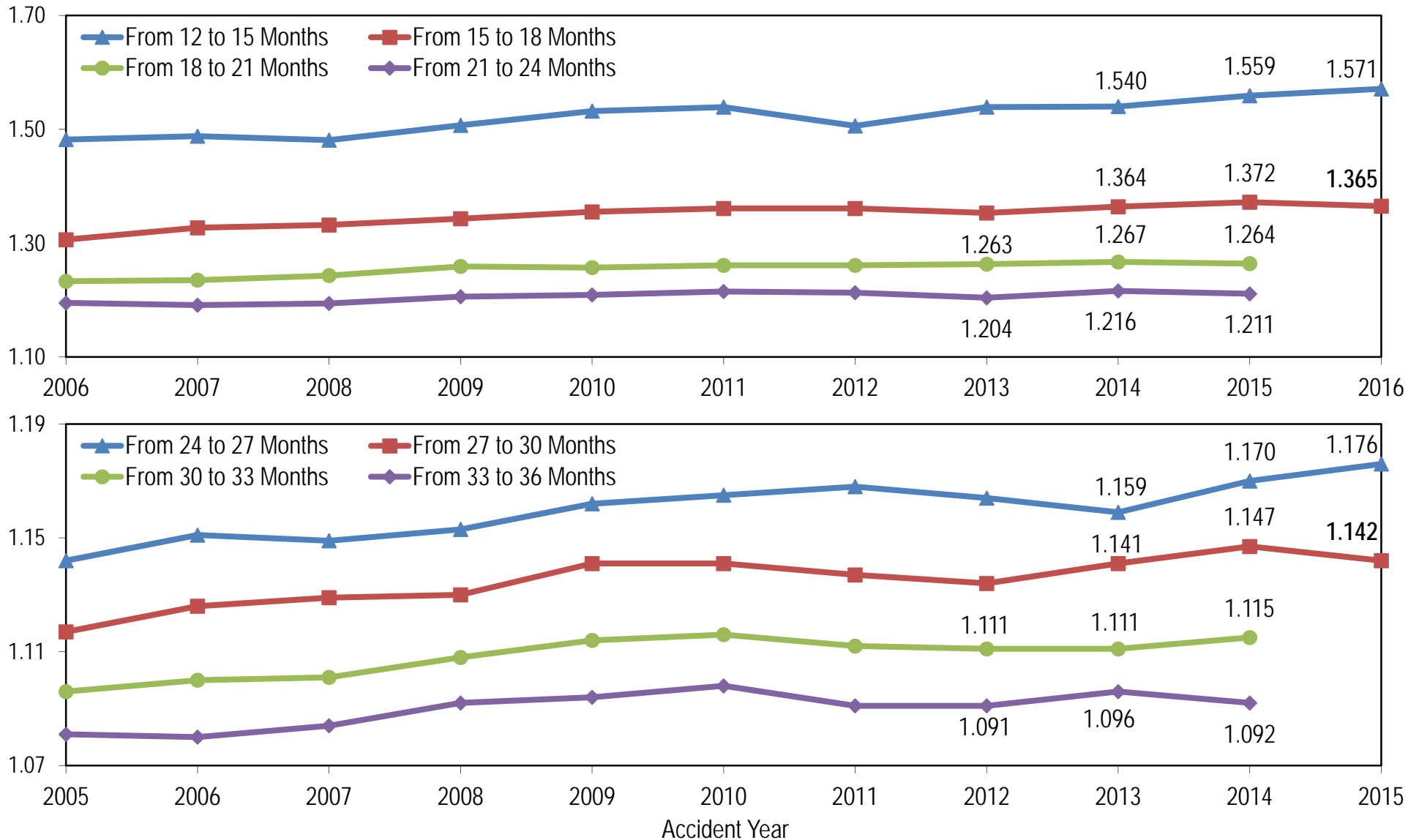


# Quarterly Incurred Medical Development (Exhibit 9.2)

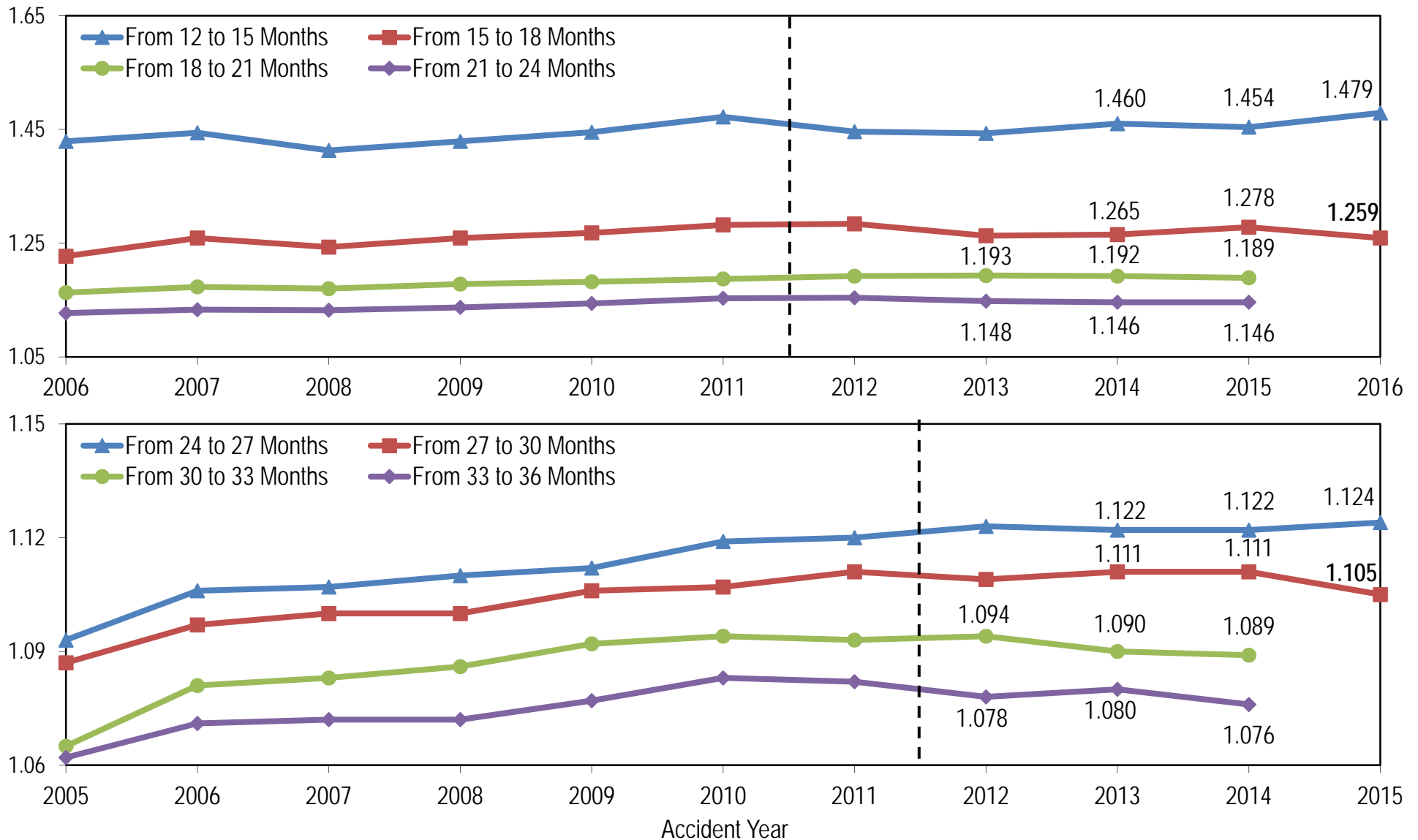


Note: MCCP development is included in incurred medical loss development for 2011 and prior.

# Quarterly Paid Indemnity Development (Exhibit 9.3)



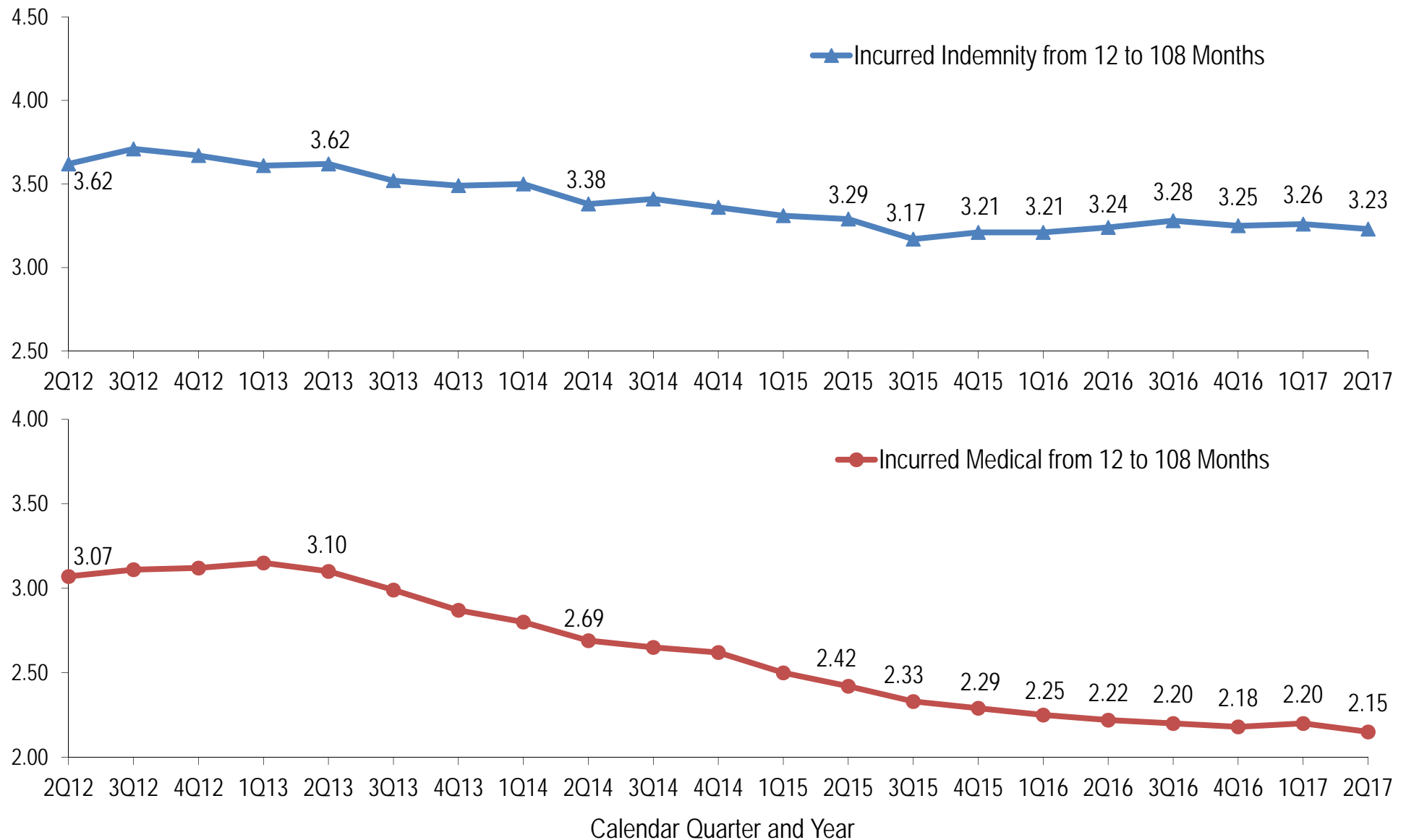
# Quarterly Paid Medical Development (Exhibit 9.4)



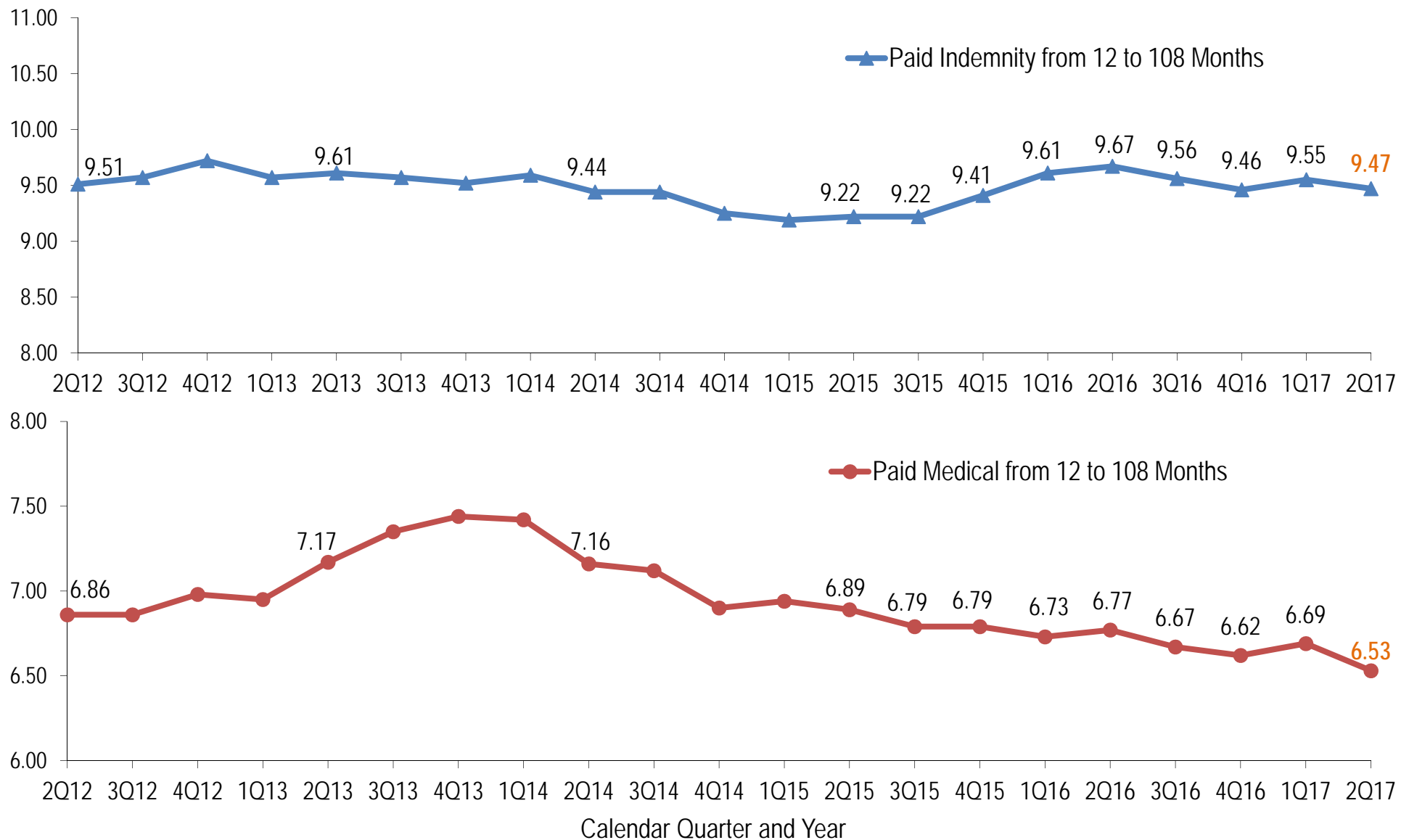
Note: MCCP development is included in paid medical loss development for 2011 and prior.



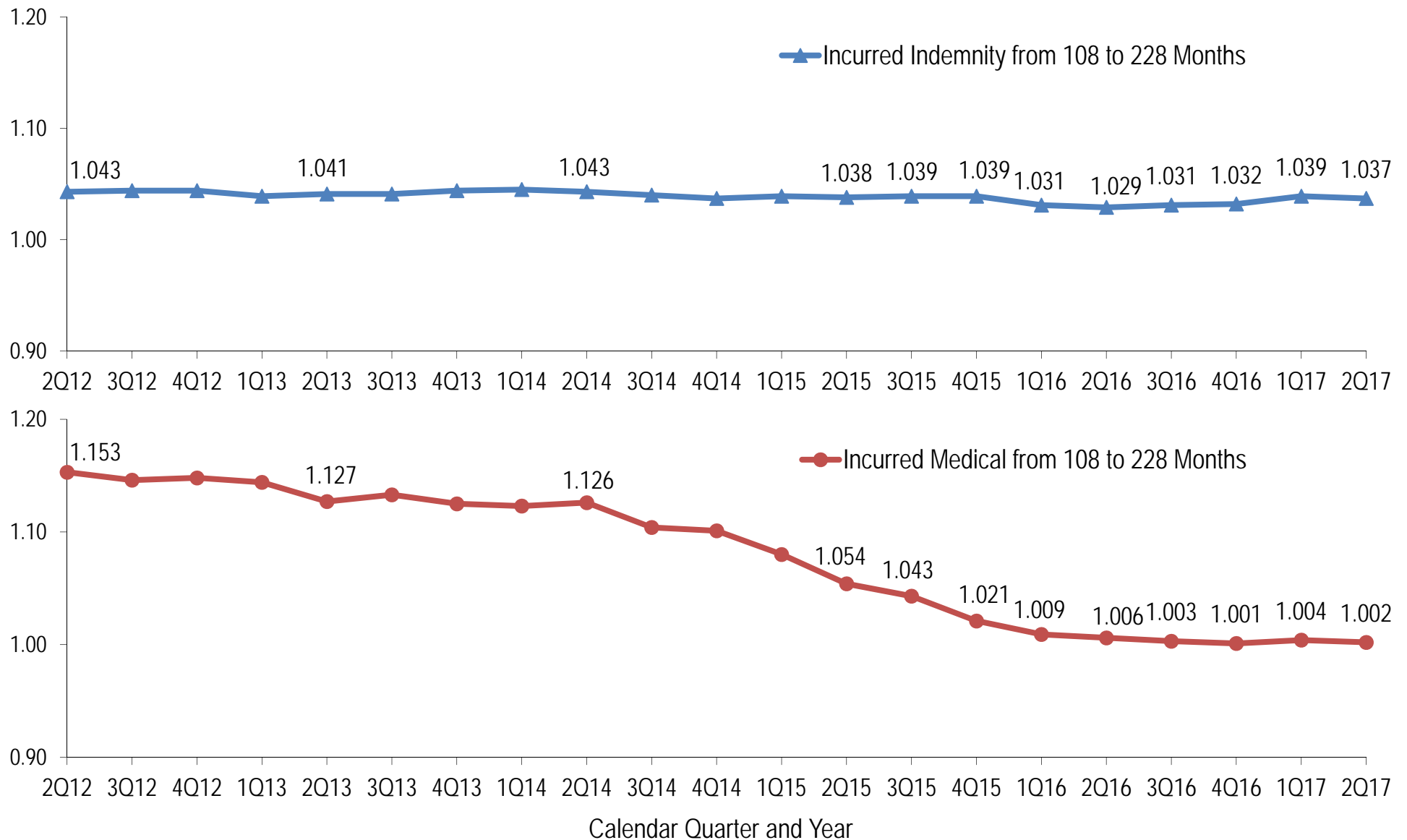
# Cumulative Incurred Development by Quarter



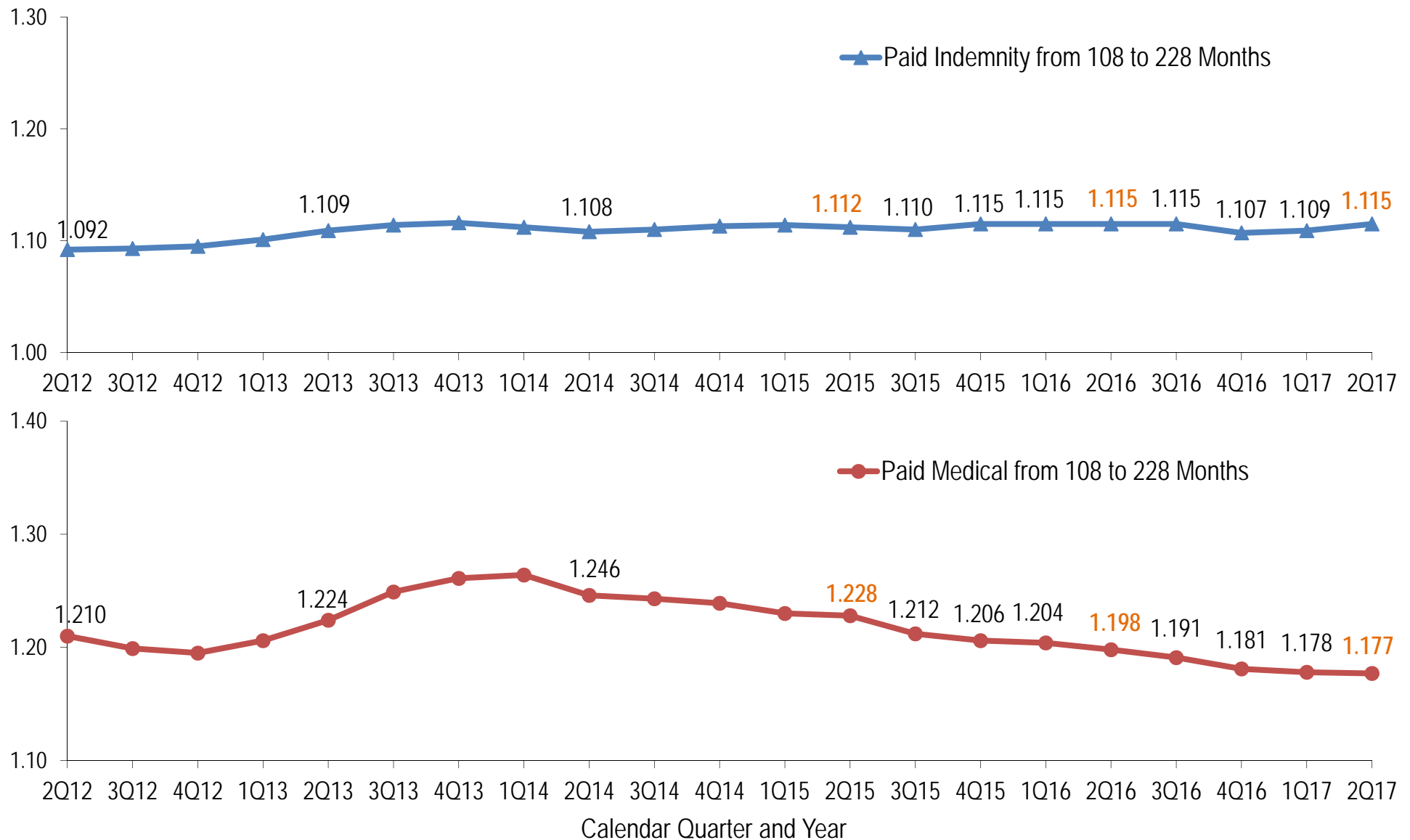
# Cumulative Paid Development by Quarter



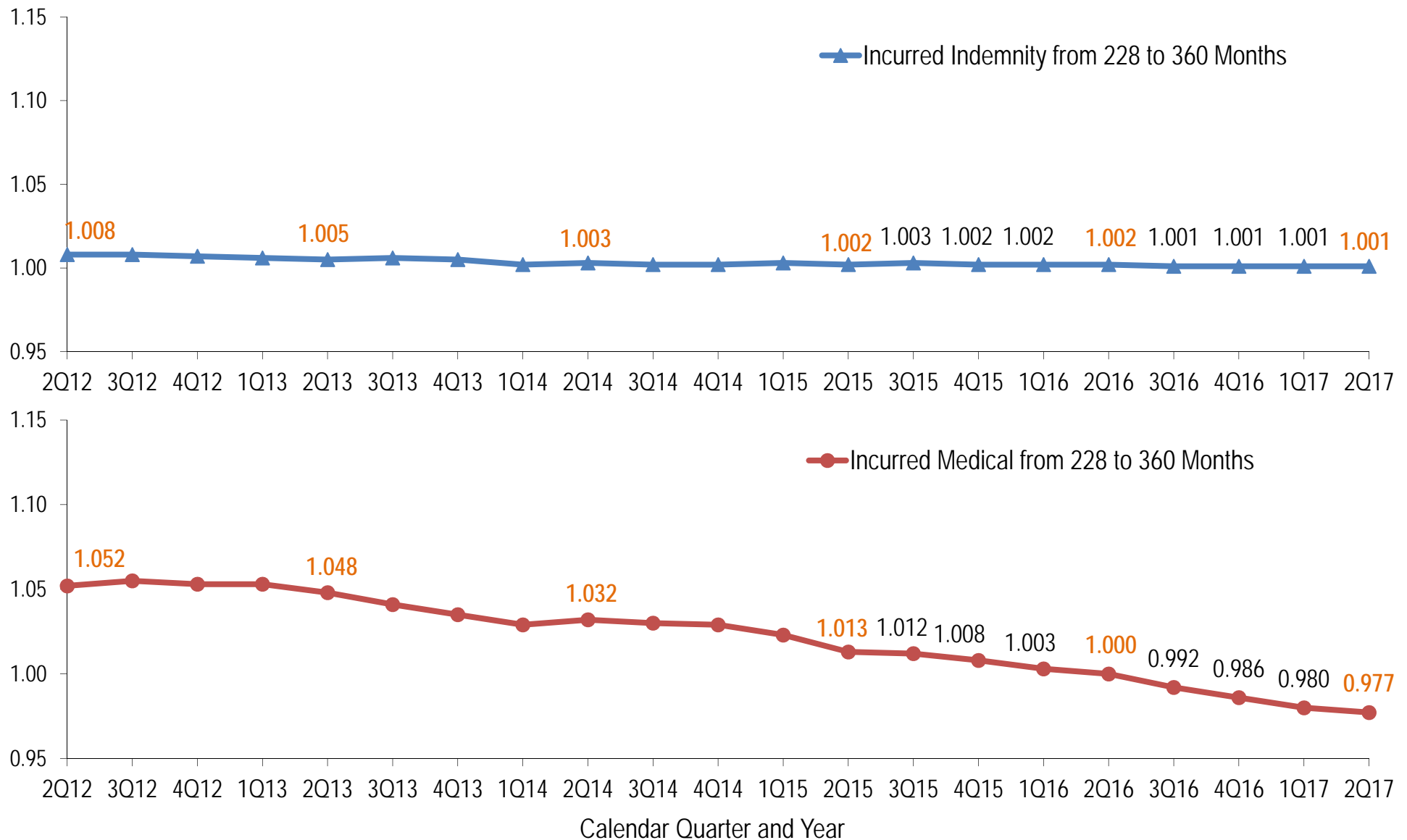
# Cumulative Incurred Development by Quarter



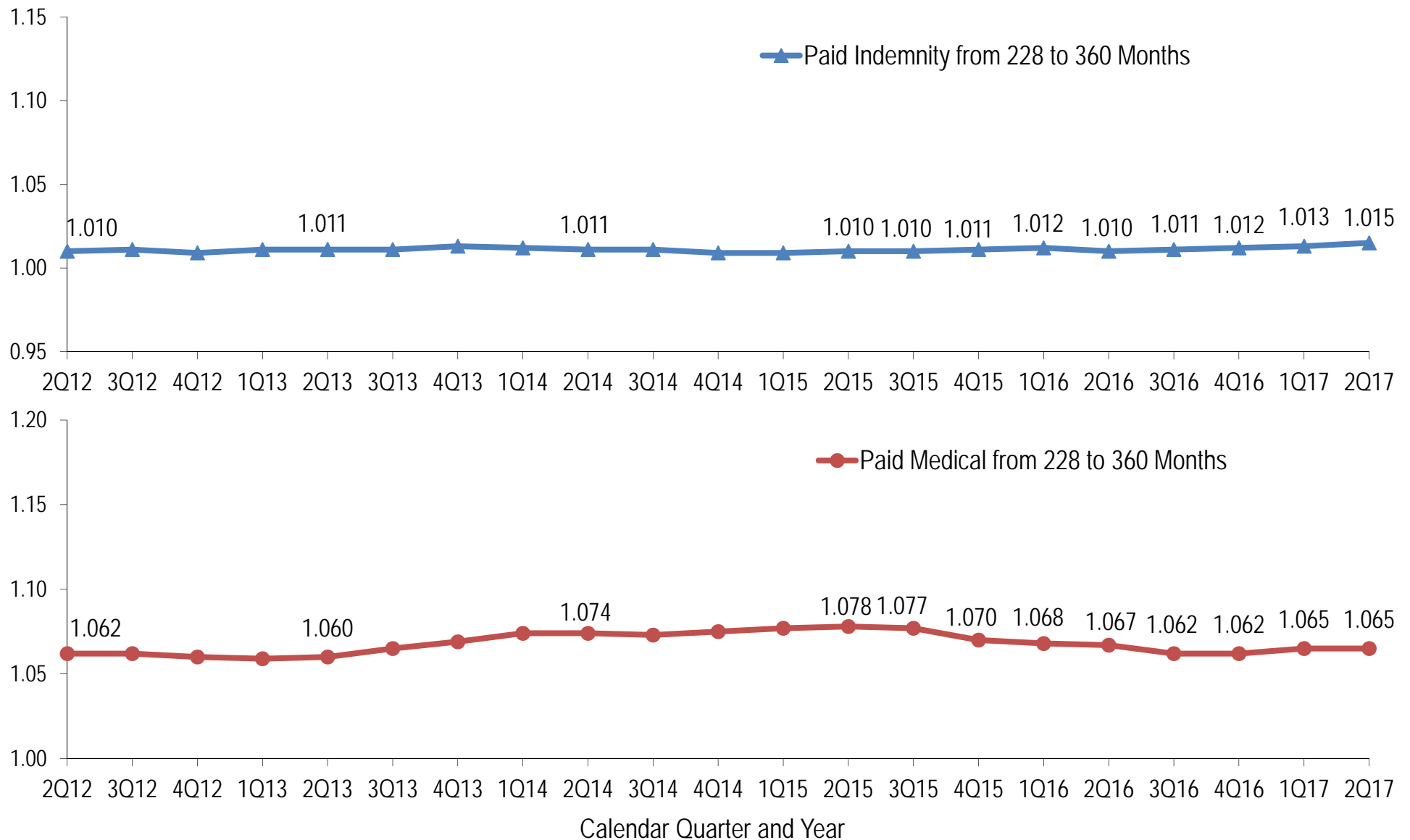
# Cumulative Paid Development by Quarter



# Cumulative Incurred Development by Quarter

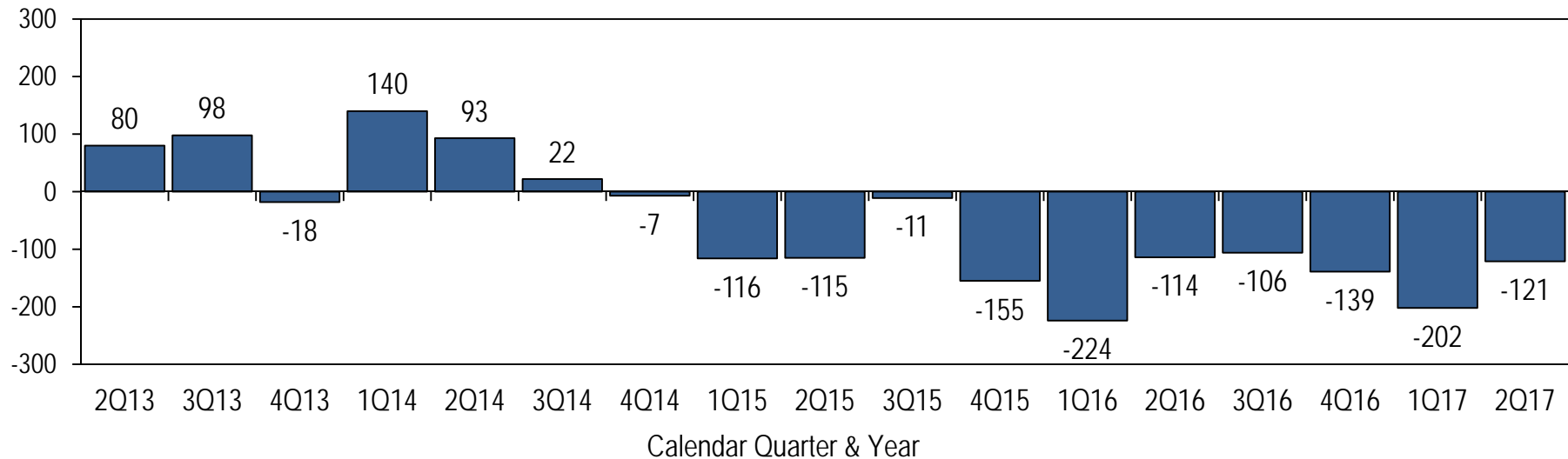


# Cumulative Paid Development by Quarter

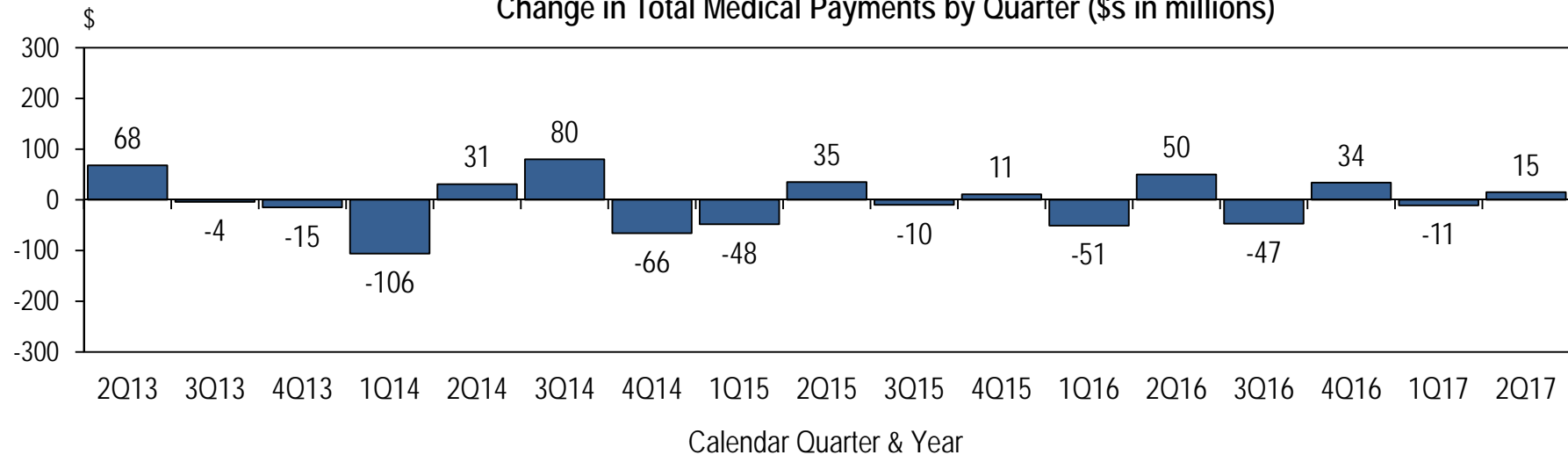


# Change in Total Medical Case Reserves and Payments by Quarter

Change in Total Medical Case Reserves by Quarter (\$s in millions)

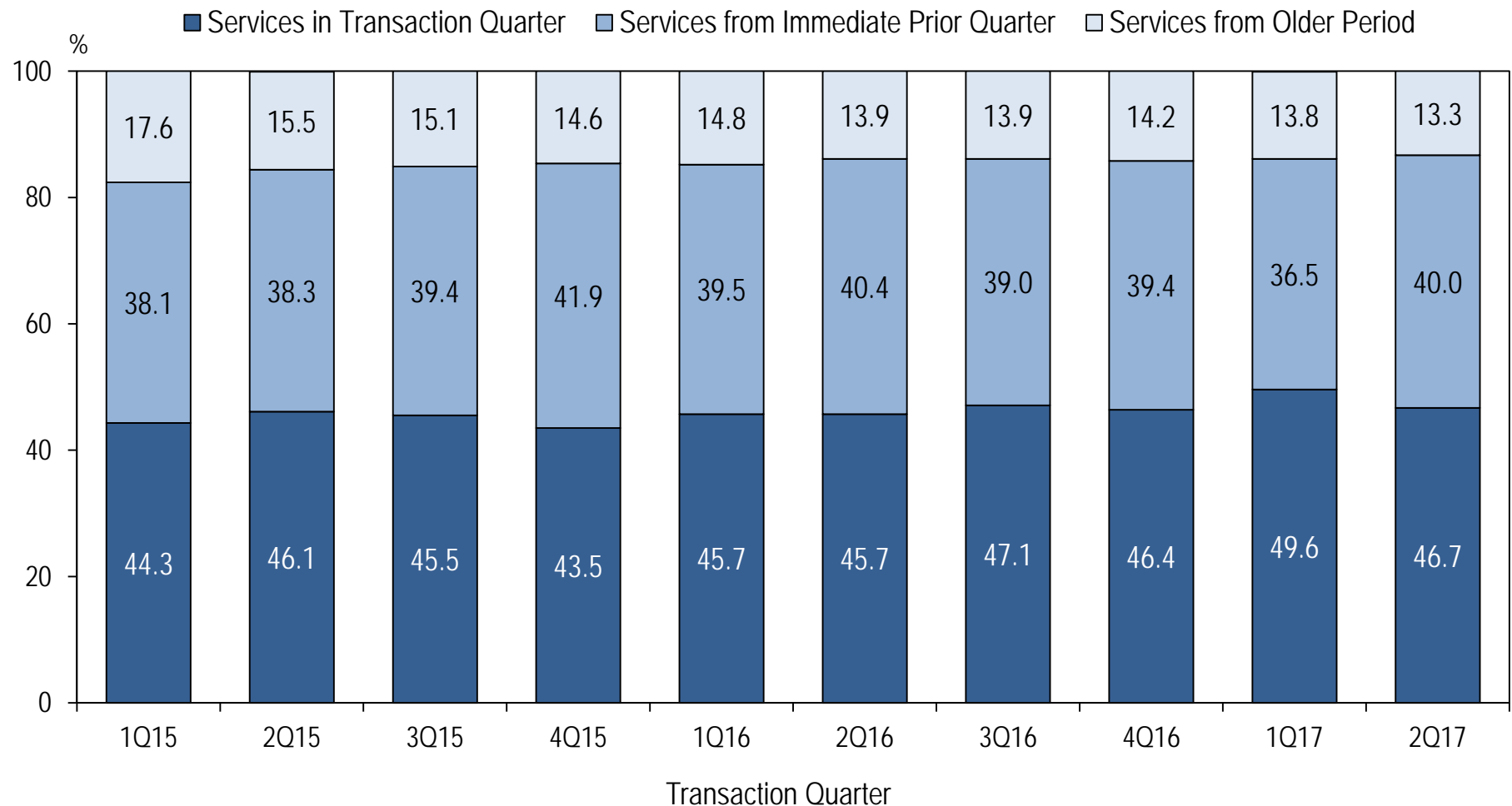


Change in Total Medical Payments by Quarter (\$s in millions)



Source: WCIRB Quarterly Calls for Experience

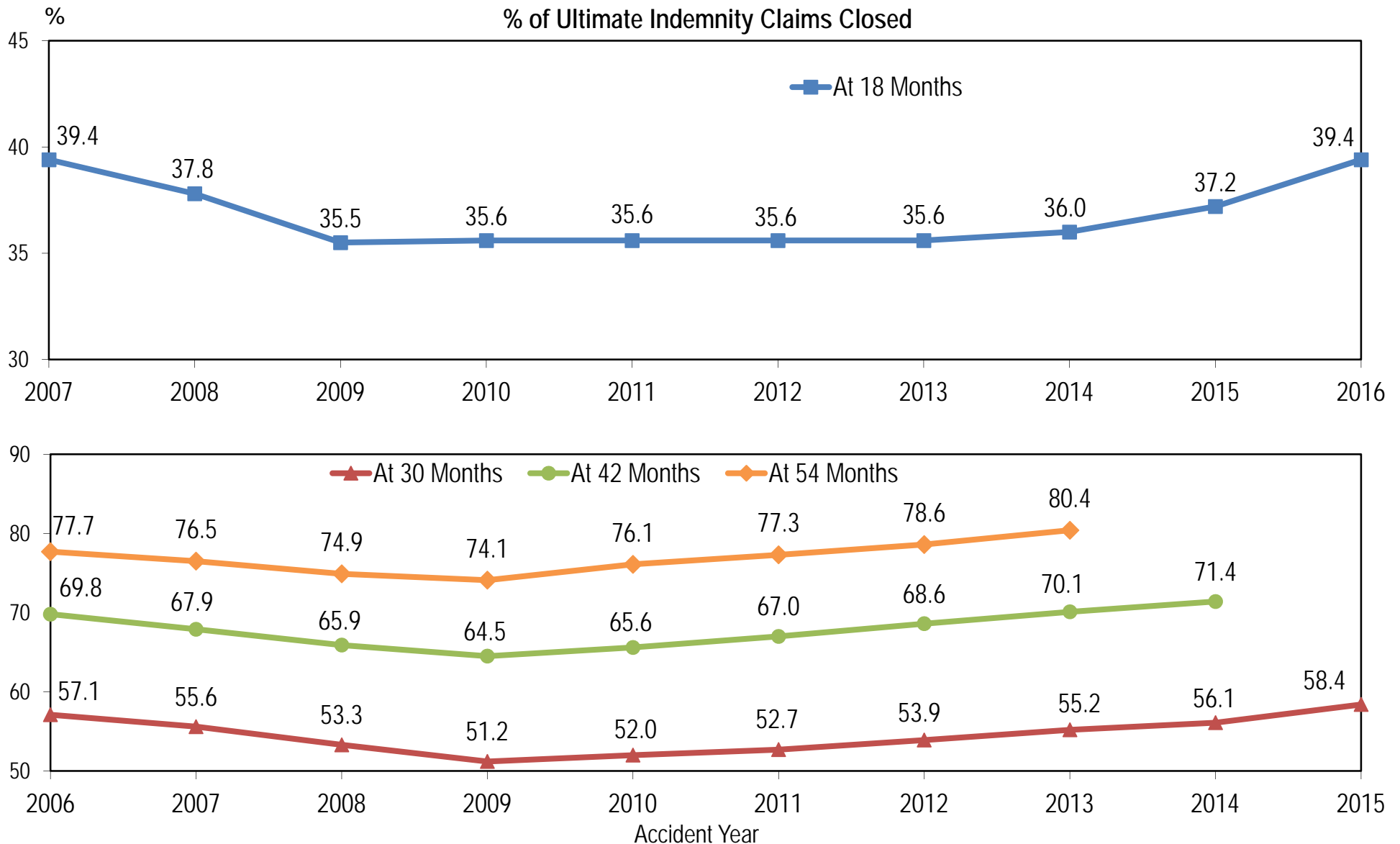
# Distribution of Paid Medical Services by Transaction Quarter



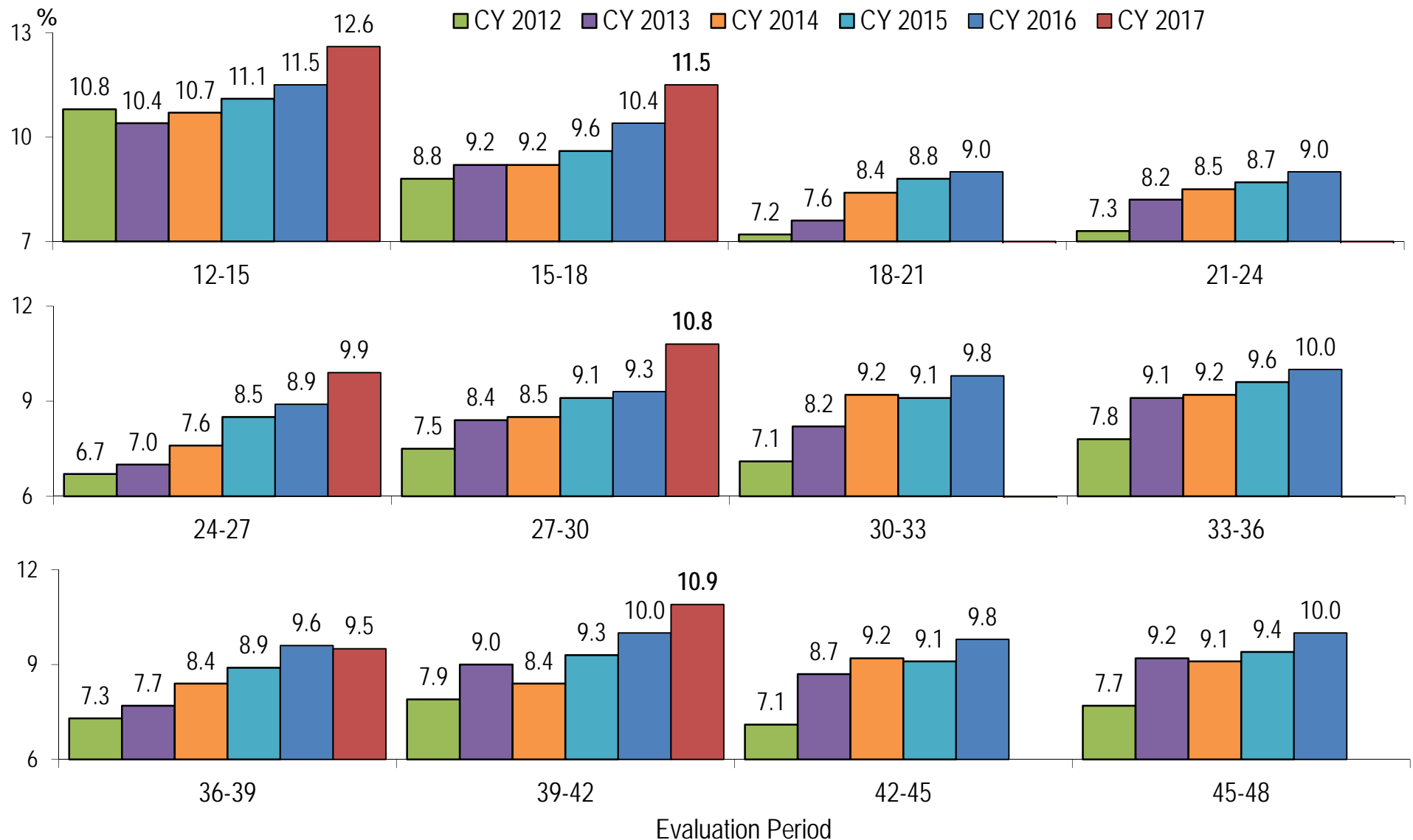
Source: WCIRB Medical Data Call. Only includes services within 2 years of the transaction quarter.



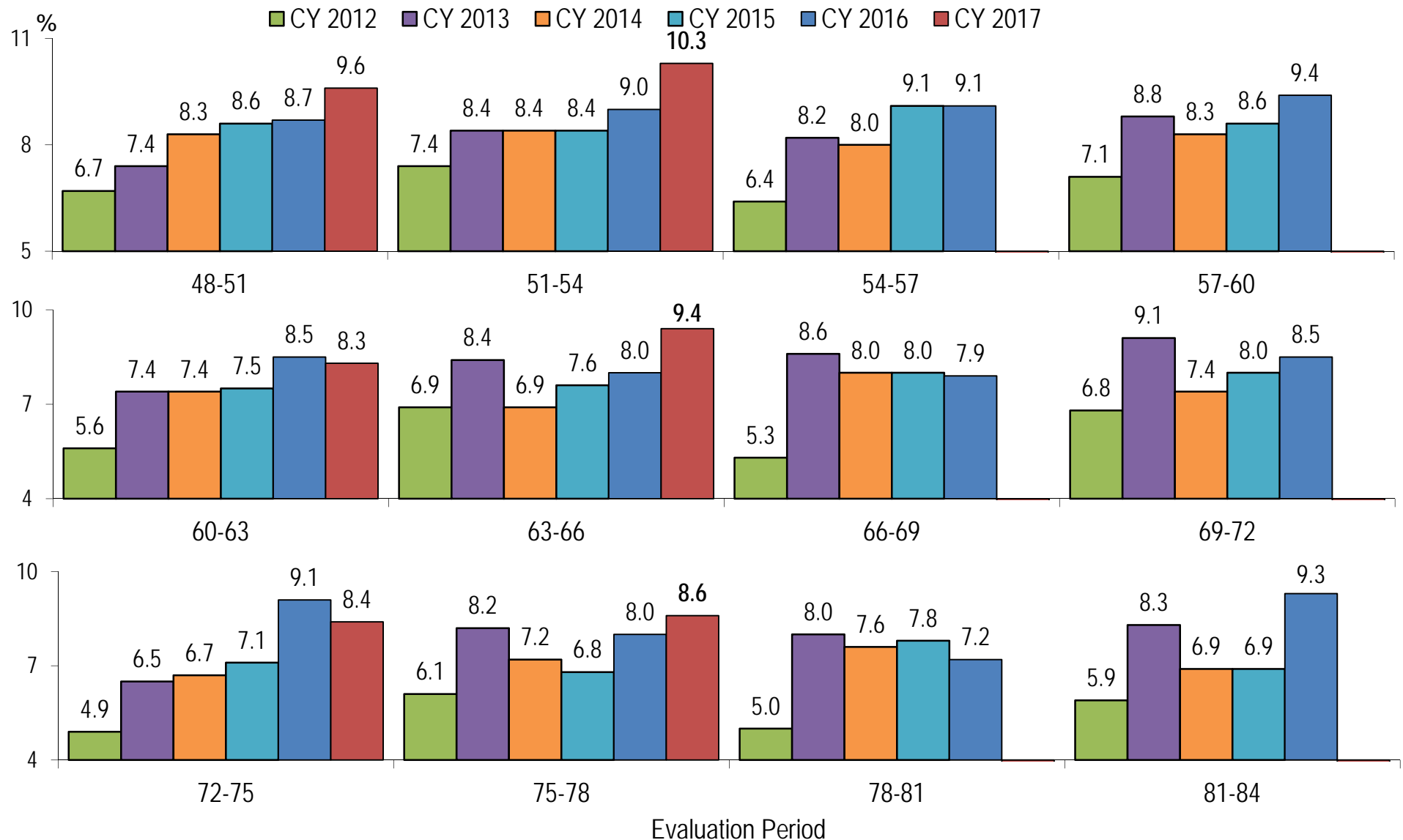
# Indemnity Claim Settlement Ratios (Exhibit 11.2)



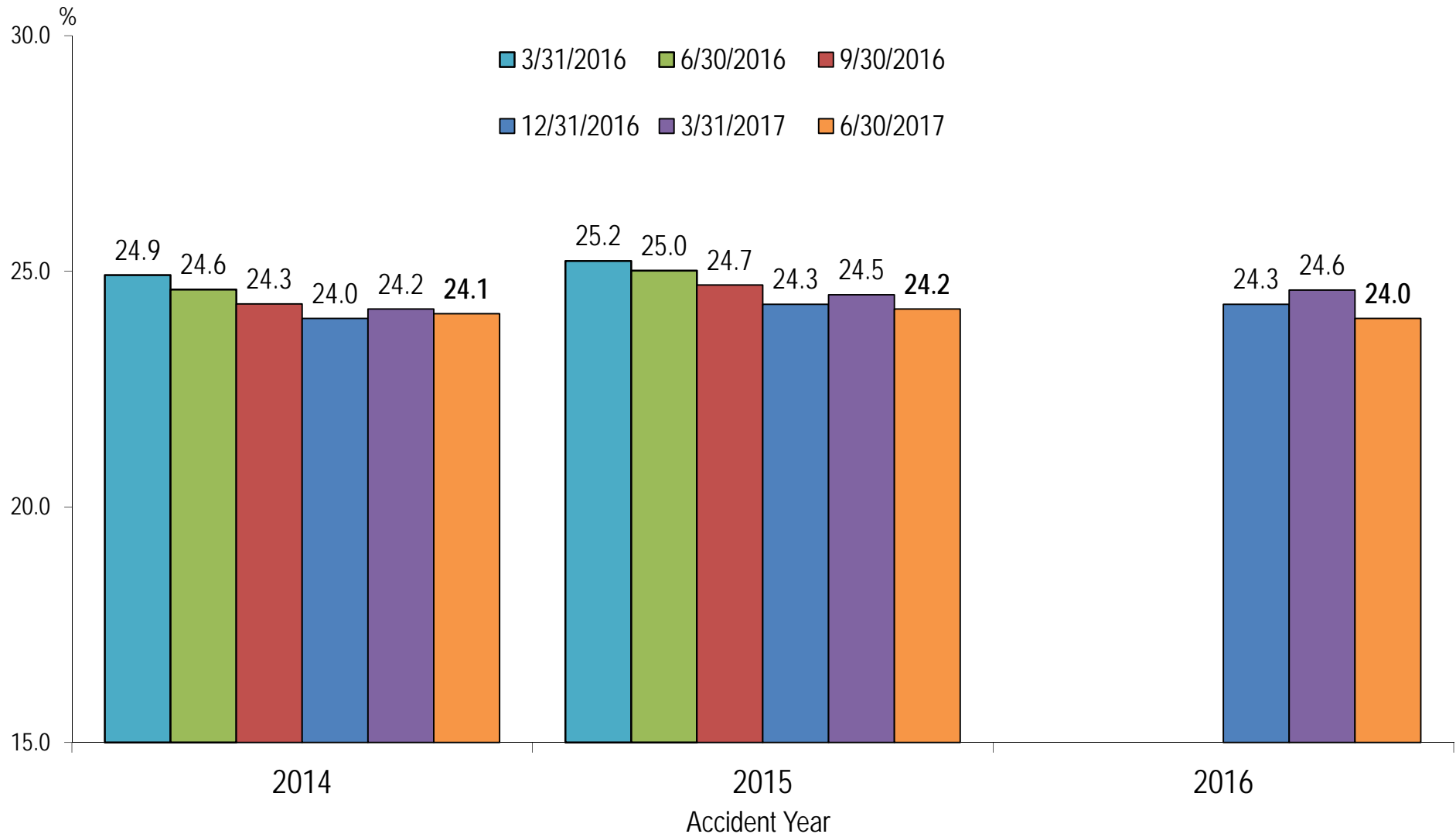
# Ratio of Incremental Closed Indemnity Claims to Estimated Open Indemnity Claims



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

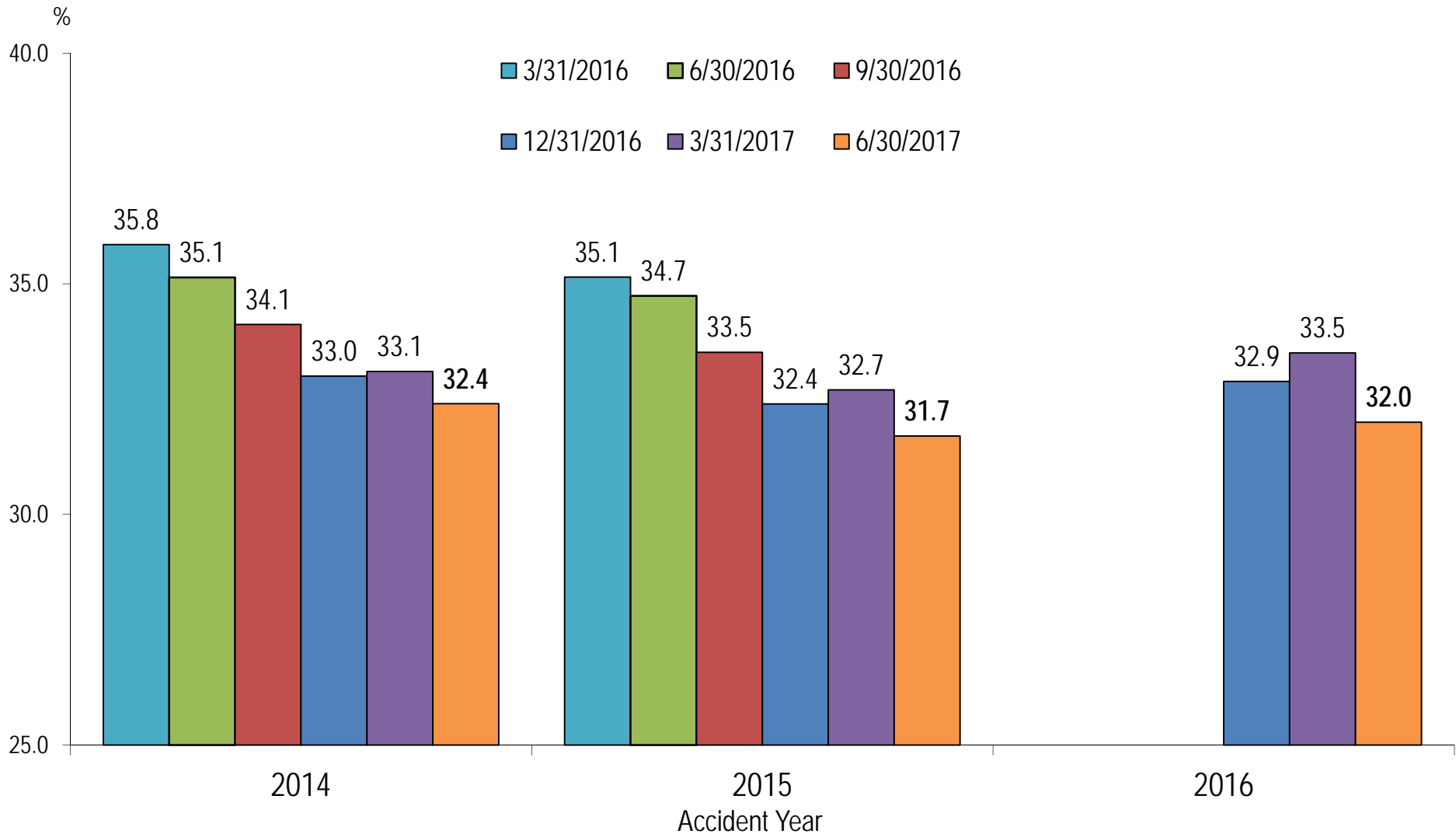


## Projected Ultimate Indemnity Loss Ratios (Exhibit 3.1)



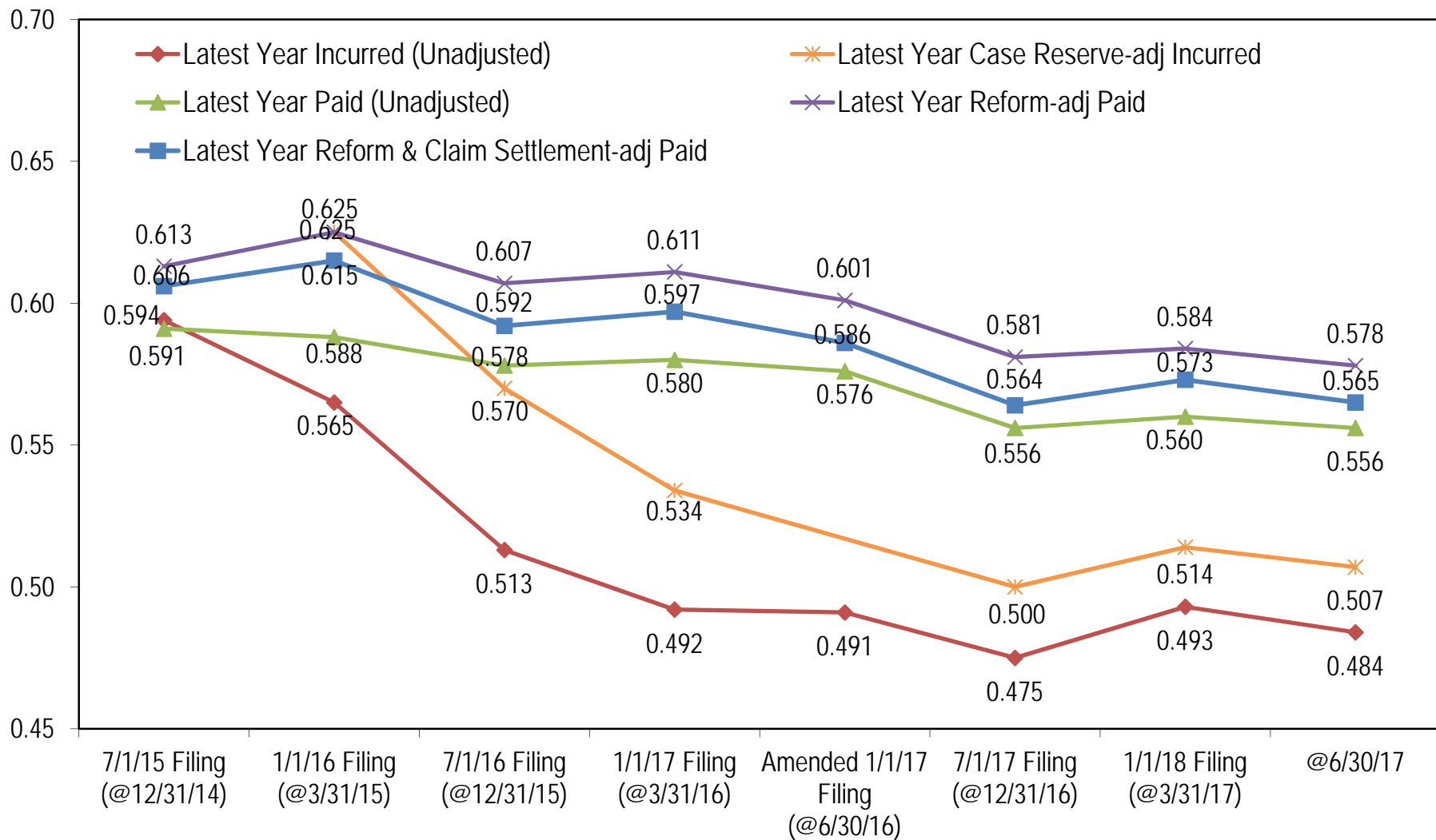
Note: All loss ratios are adjusted to the loss development methodology reflected in the 9/5/2017 Agenda and may not be comparable to the actual loss ratios projected at that time.

## Projected Ultimate Medical Loss Ratios (Exhibit 3.2)

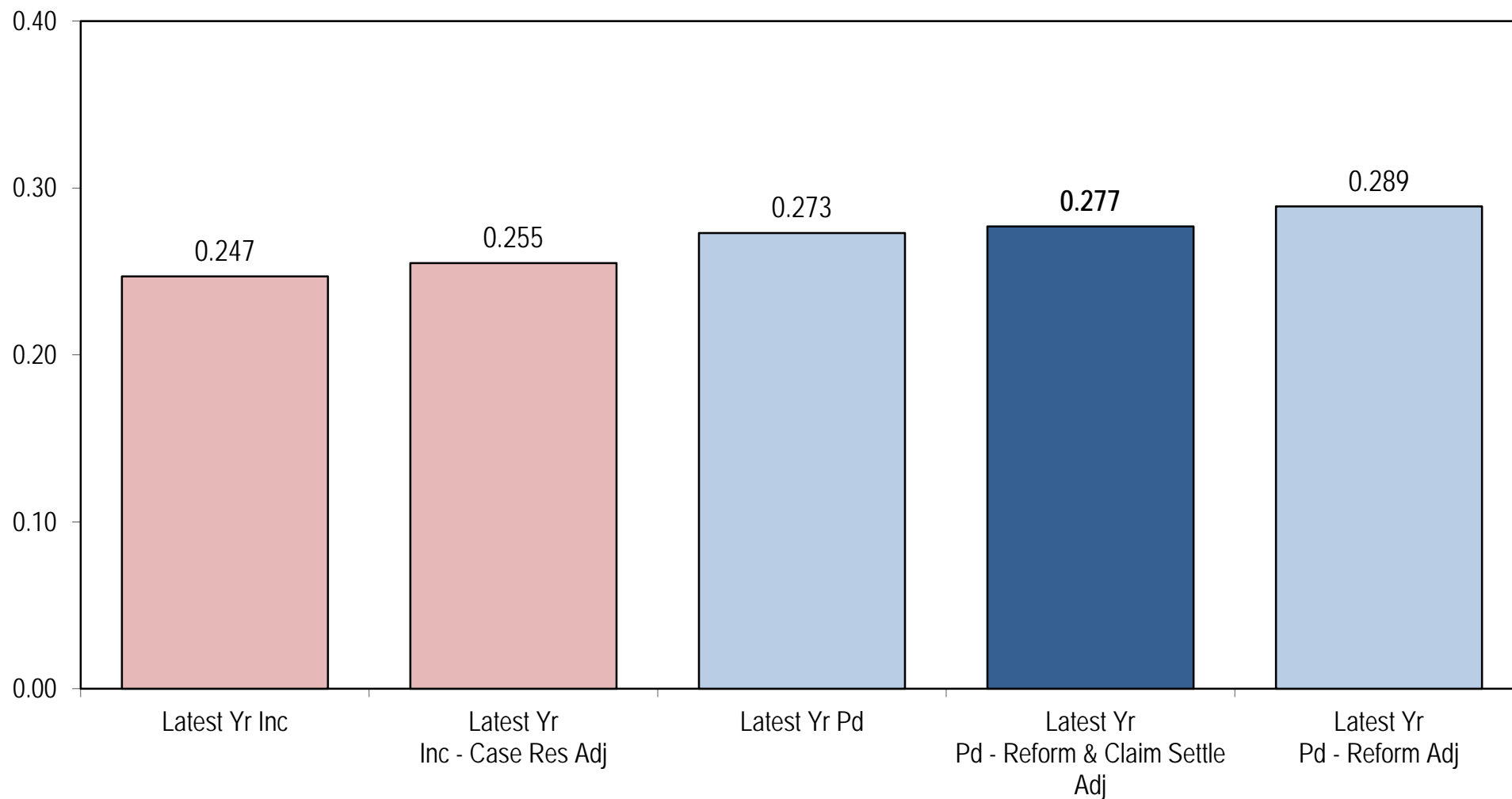


Note: All loss ratios are adjusted to the loss development methodology reflected in the 9/5/2017 Agenda and may not be comparable to the actual loss ratios projected at that time.

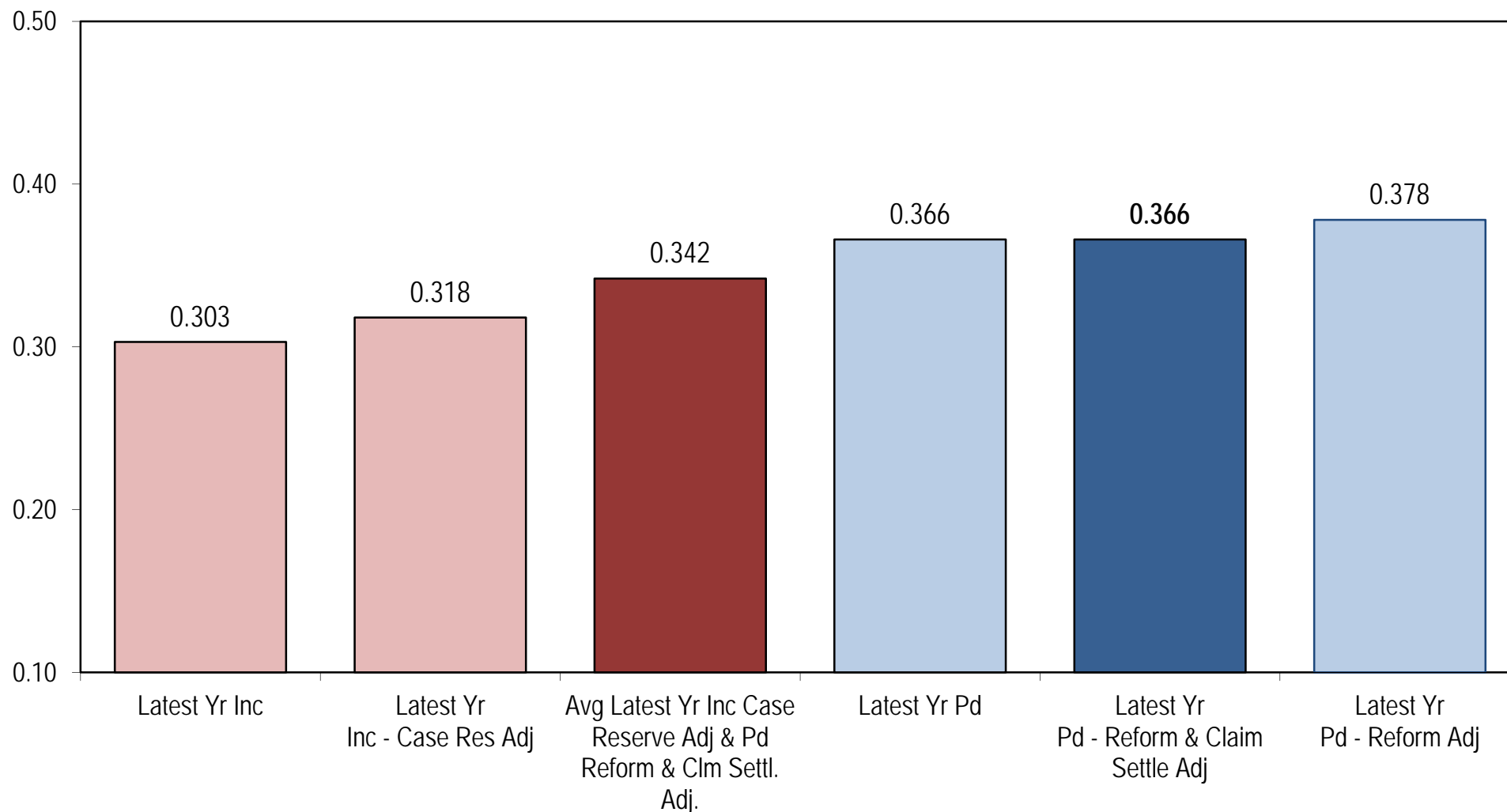
# Accident Year 2014 Projected Total Ultimate Loss Ratios – Methodology Comparison



## Indemnity On-Level Loss Ratios for Policy Year 2018 under Alternative Loss Development Methods

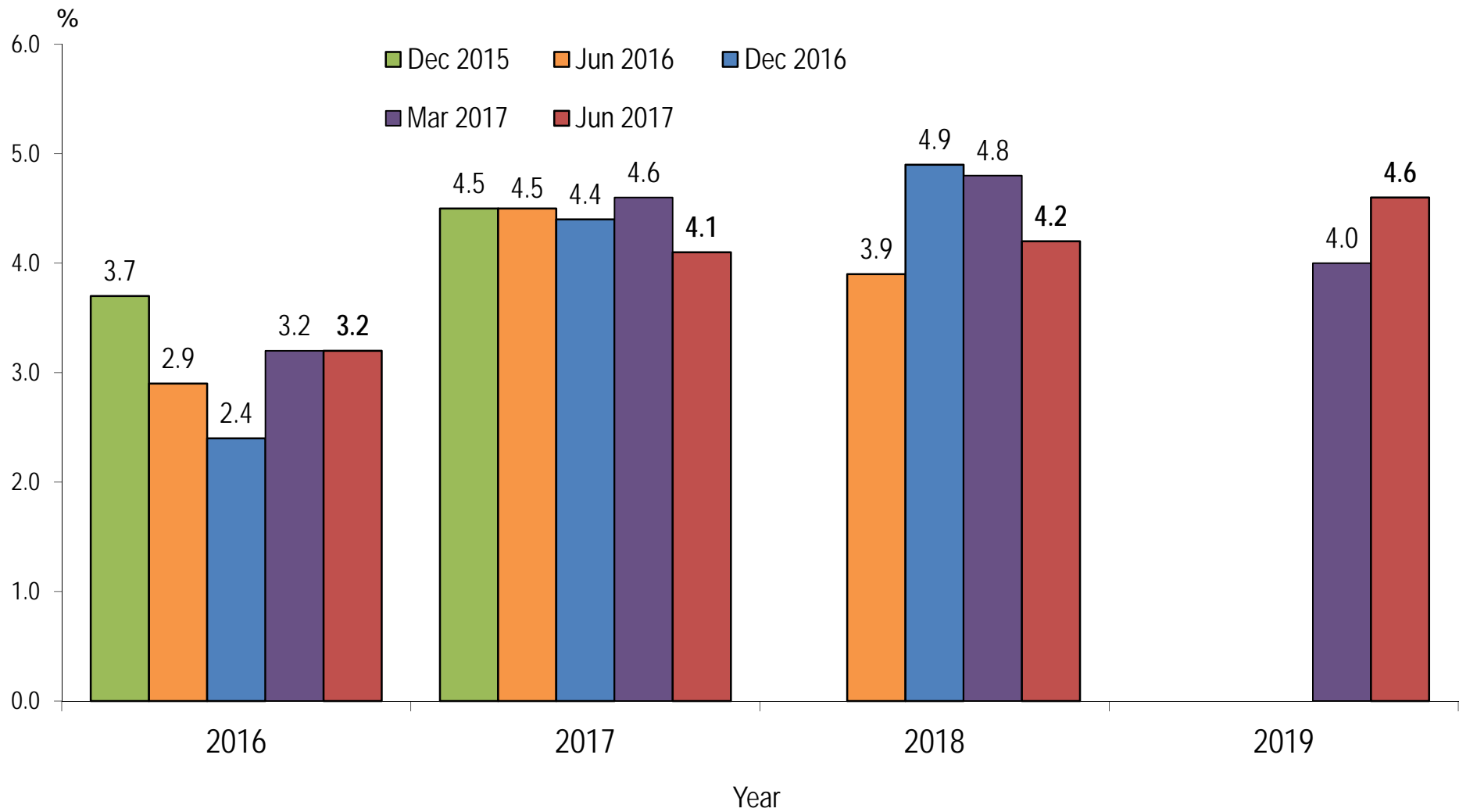


## Medical On-Level Loss Ratios for Policy Year 2018 under Alternative Loss Development Methods

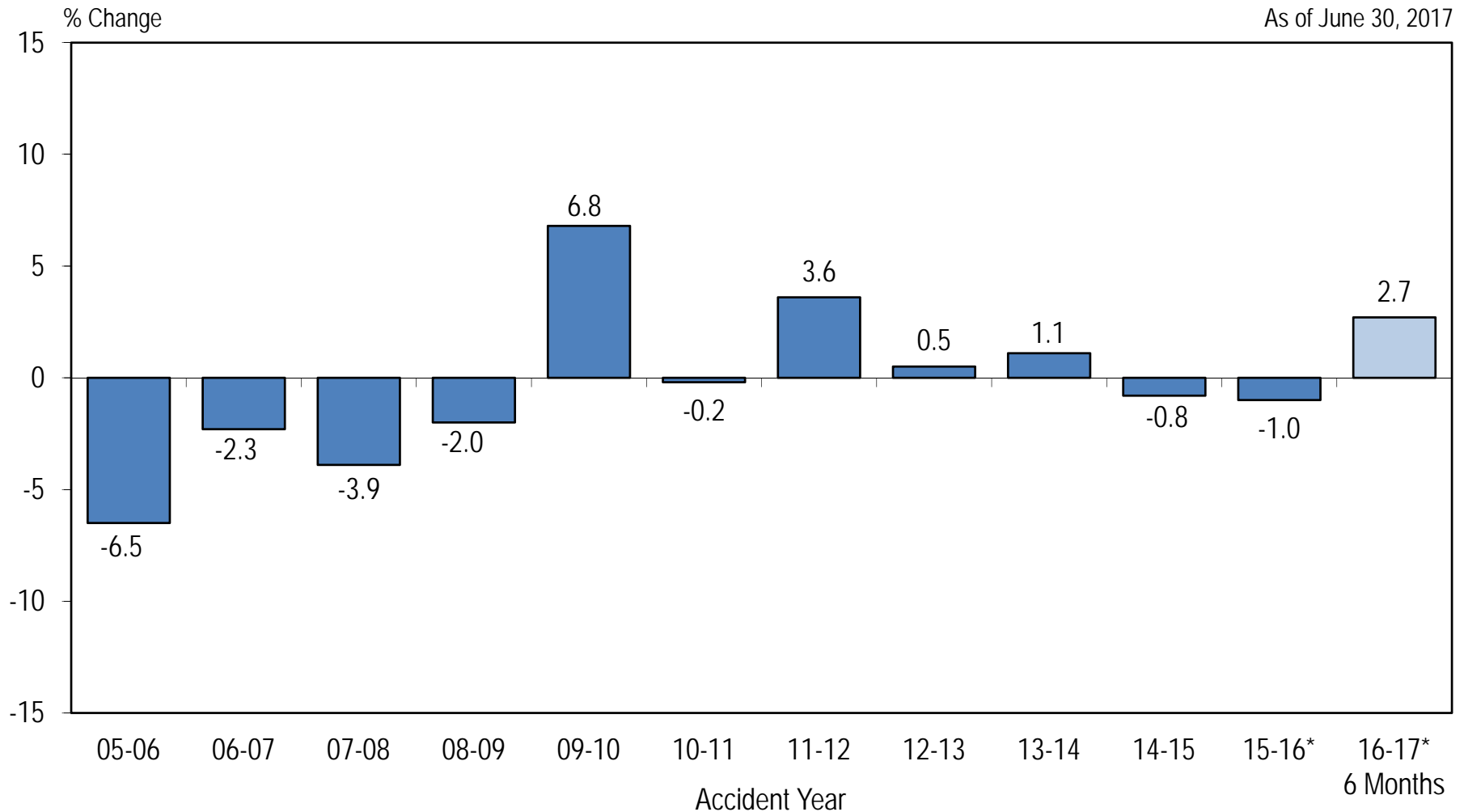




## UCLA Forecasts of Wage Level Changes (Exhibit 5.1)

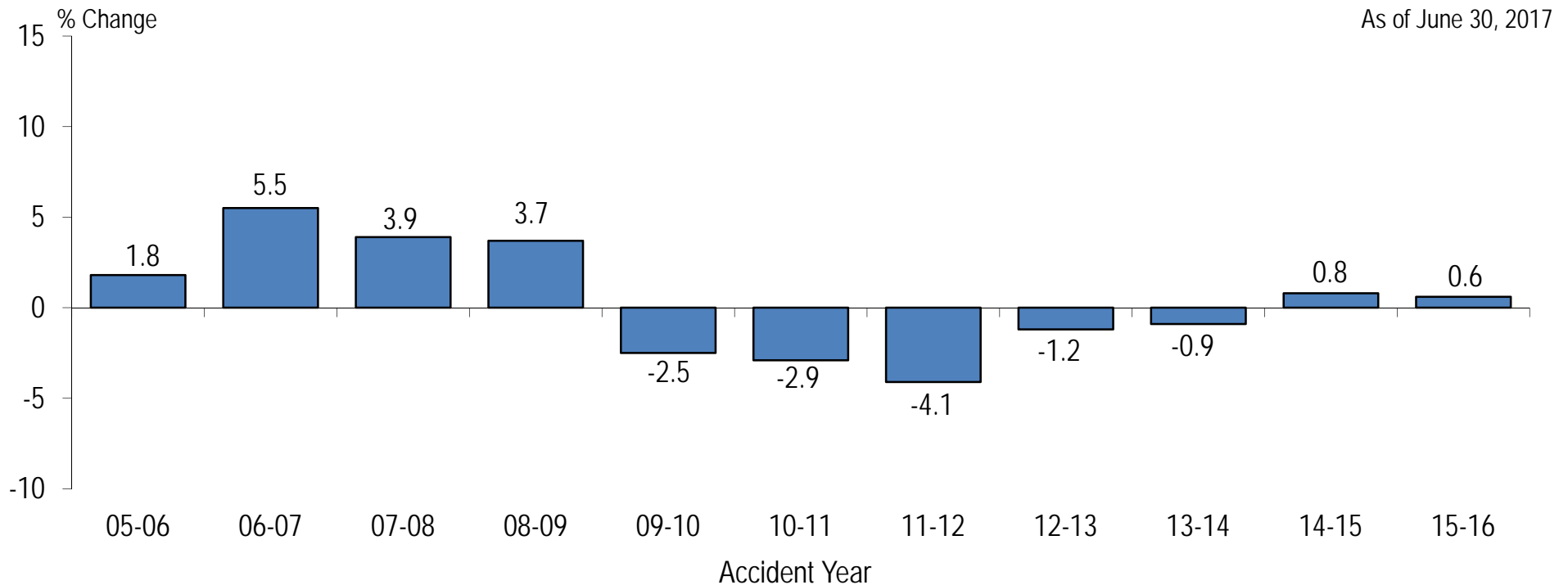


# Estimated Change in Indemnity Claim Frequency (Exhibit 12)



\* 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.

## Change in On-Level Indemnity Severity (Exhibit 6.2)



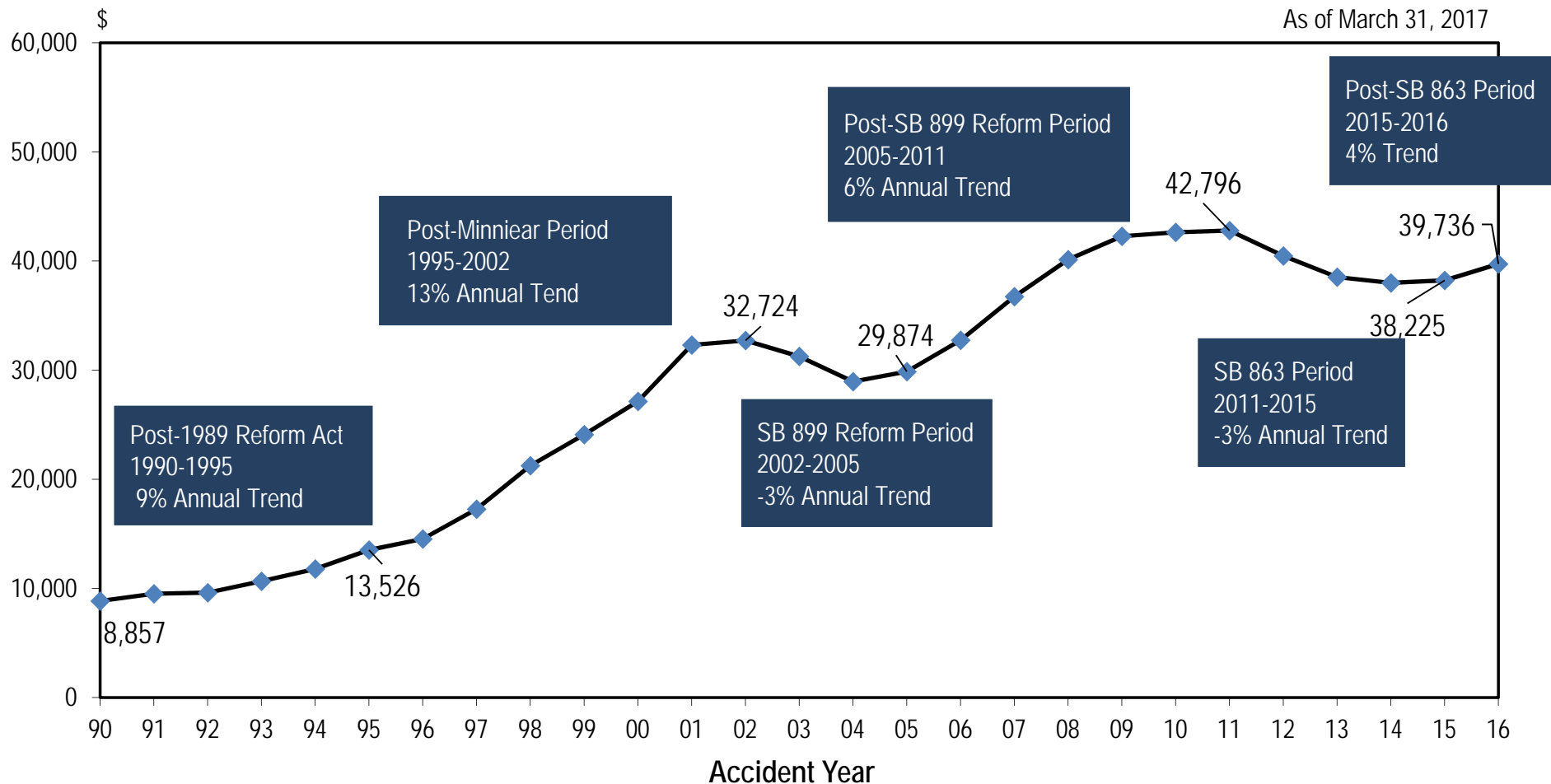
Annual Exponential Trend Based on:

2005 to 2016: -0.1%

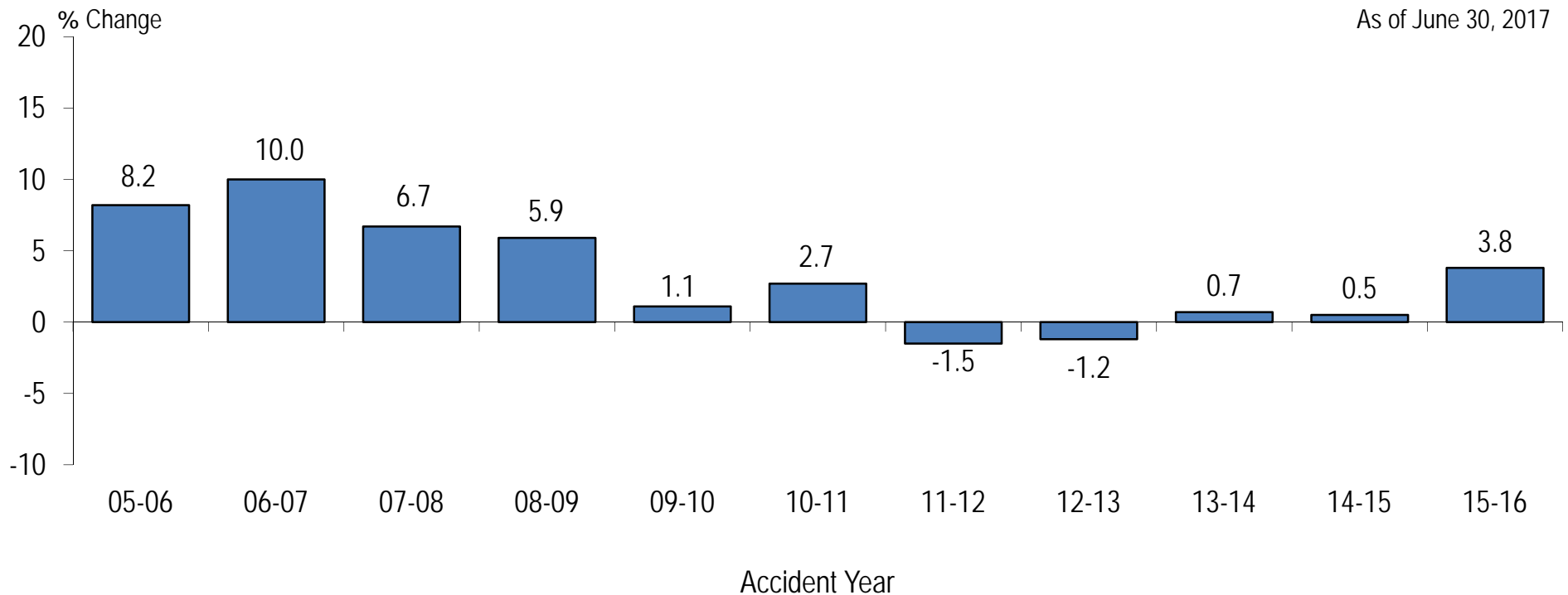
2011 to 2016: -0.8%

Agenda Selected: **1.0%**

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



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



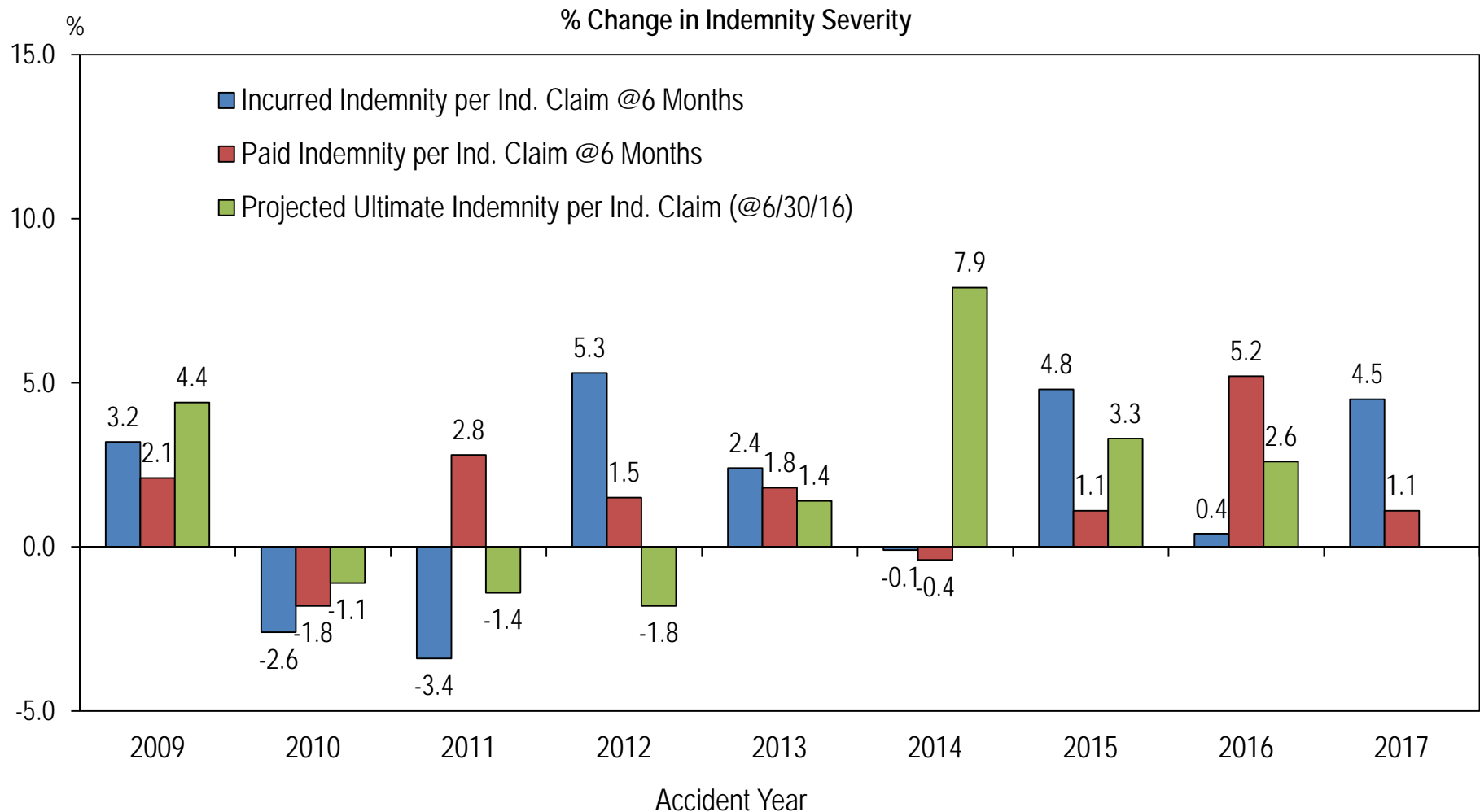
Annual Exponential Trend Based on:

2005 to 2016: +2.6%

2011 to 2016: +0.3%

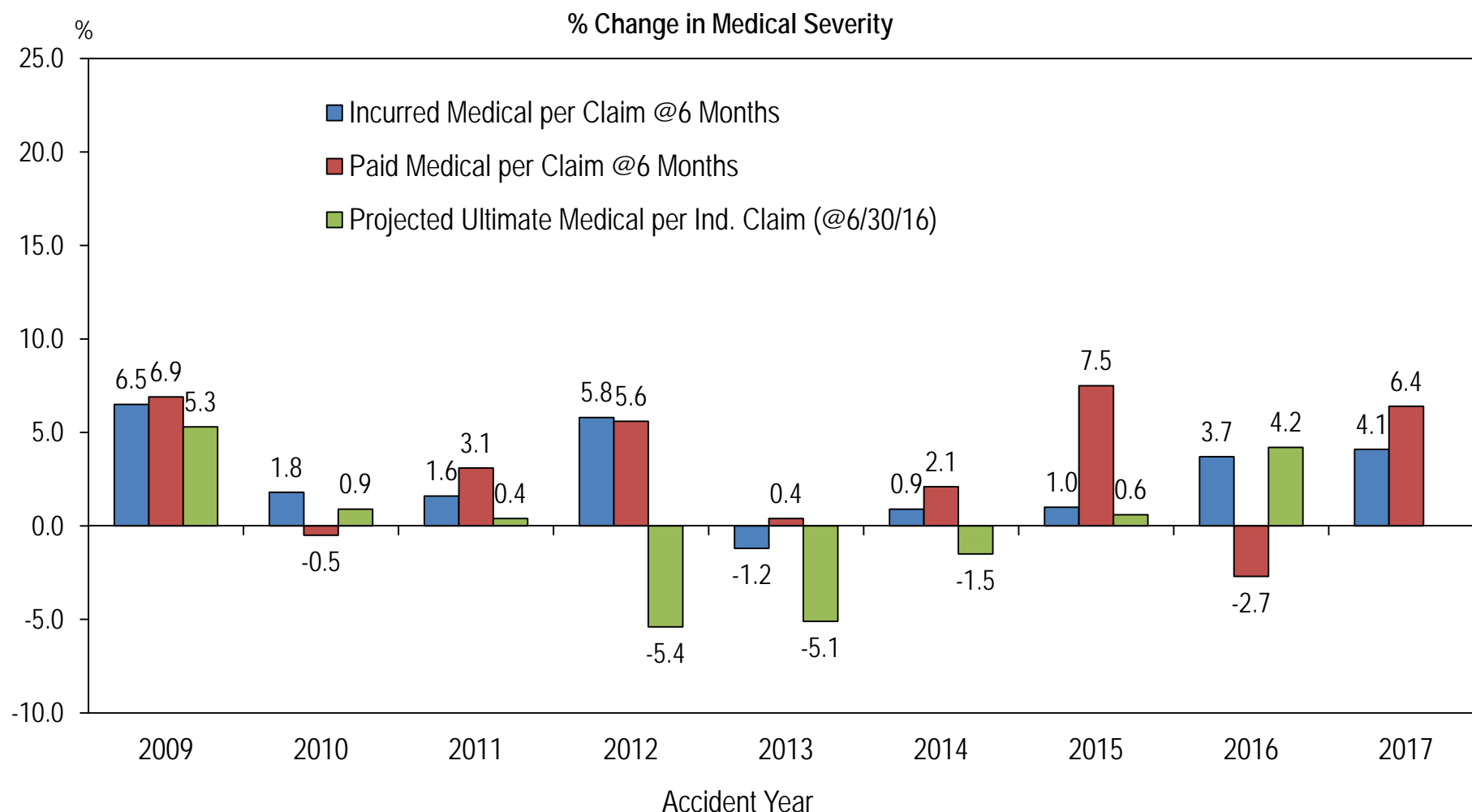
Agenda Selected: **3.0%**

# Indemnity Severity Changes at 6 Months Compared to Ultimate



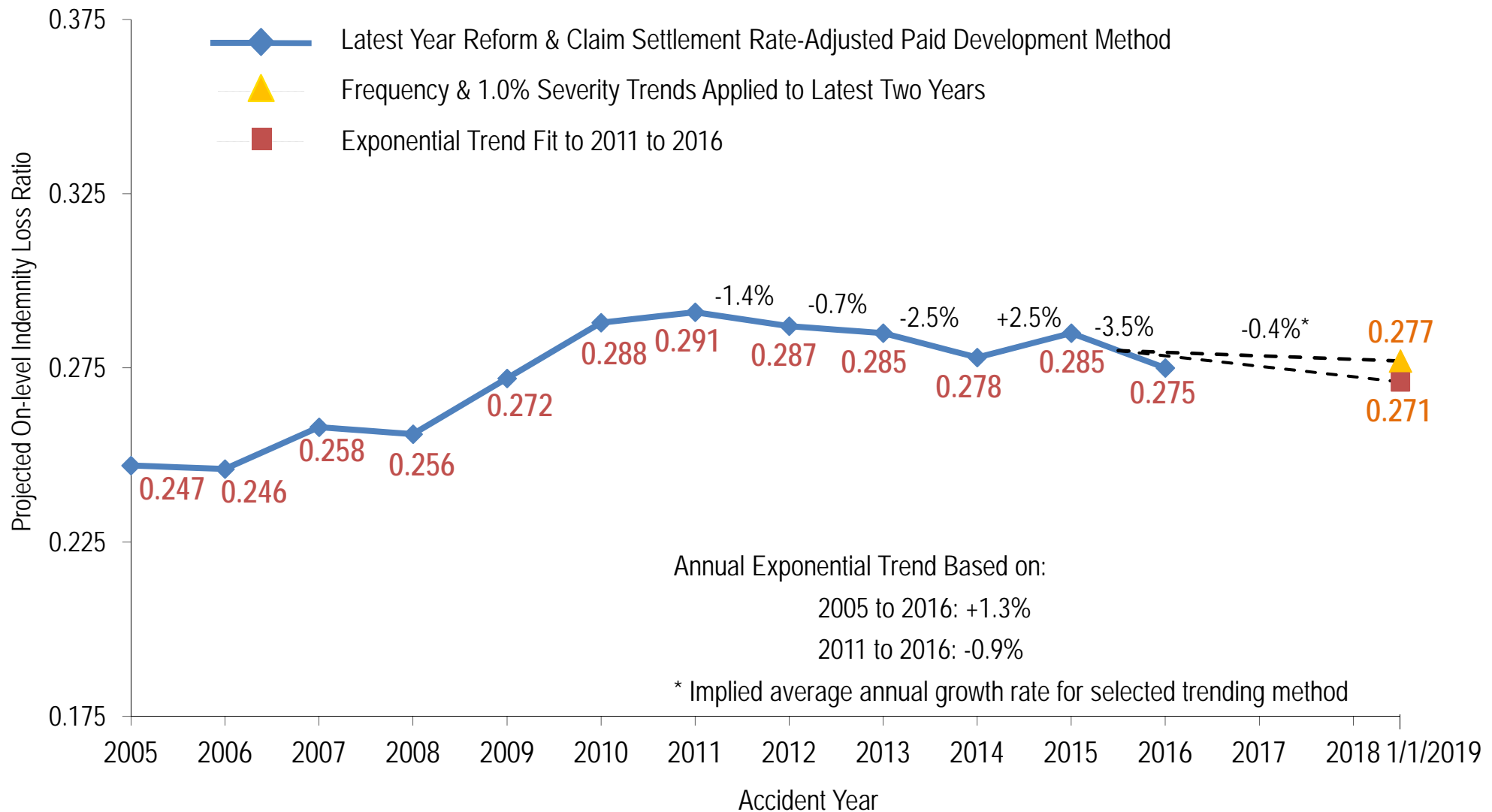
Source: WCIRB Quarterly Calls for Experience

# Medical Severity Changes at 6 Months Compared to Ultimate



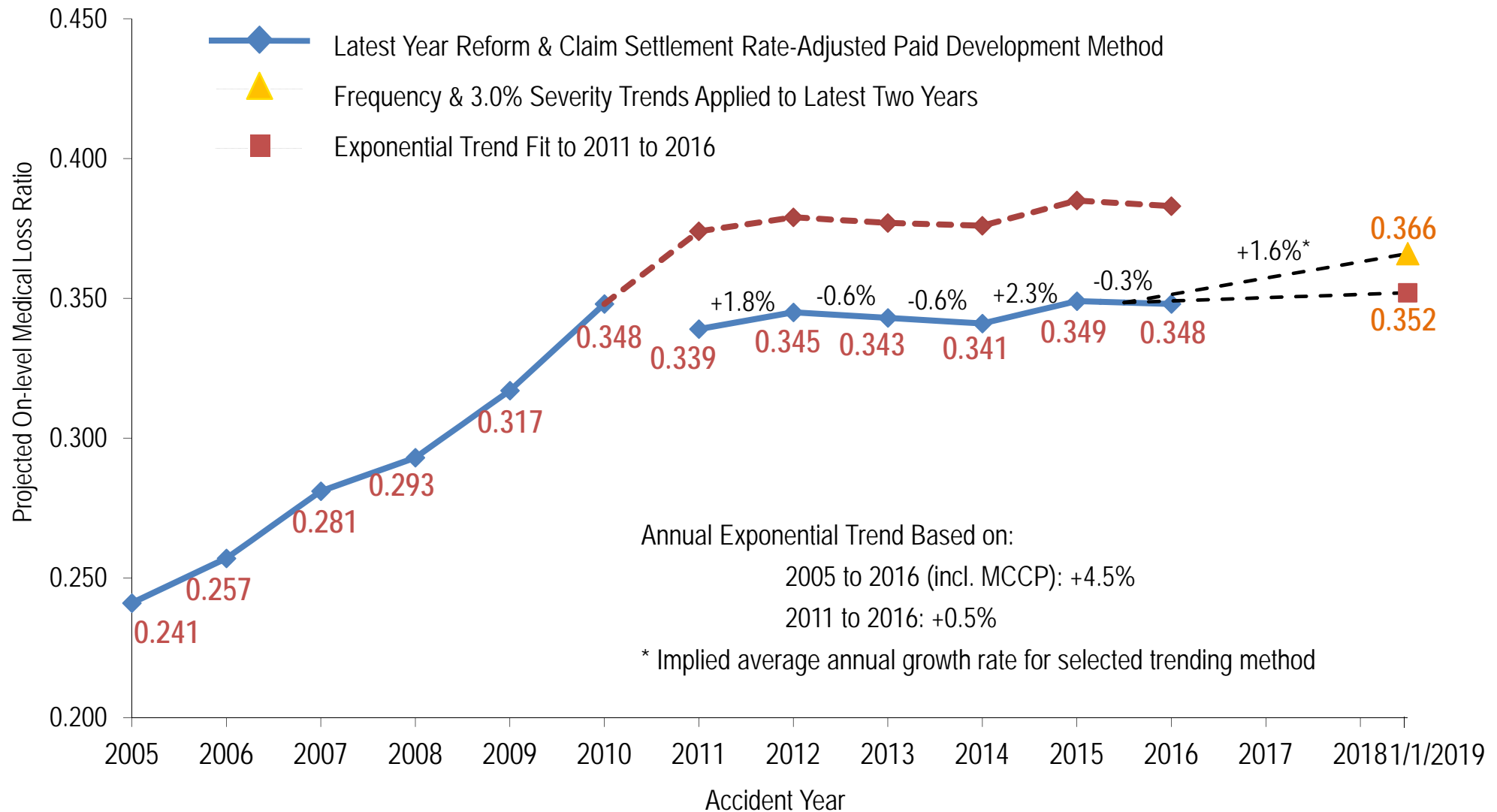
Source: WCIRB Quarterly Calls for Experience. MCCP included in all 6-month severities. MCCP excluded from ultimate severities for 2012 & forward.

# Indemnity Loss Trend & Projections (Exhibit 7.1)





# Medical Loss Trend & Projections (Exhibit 7.3)



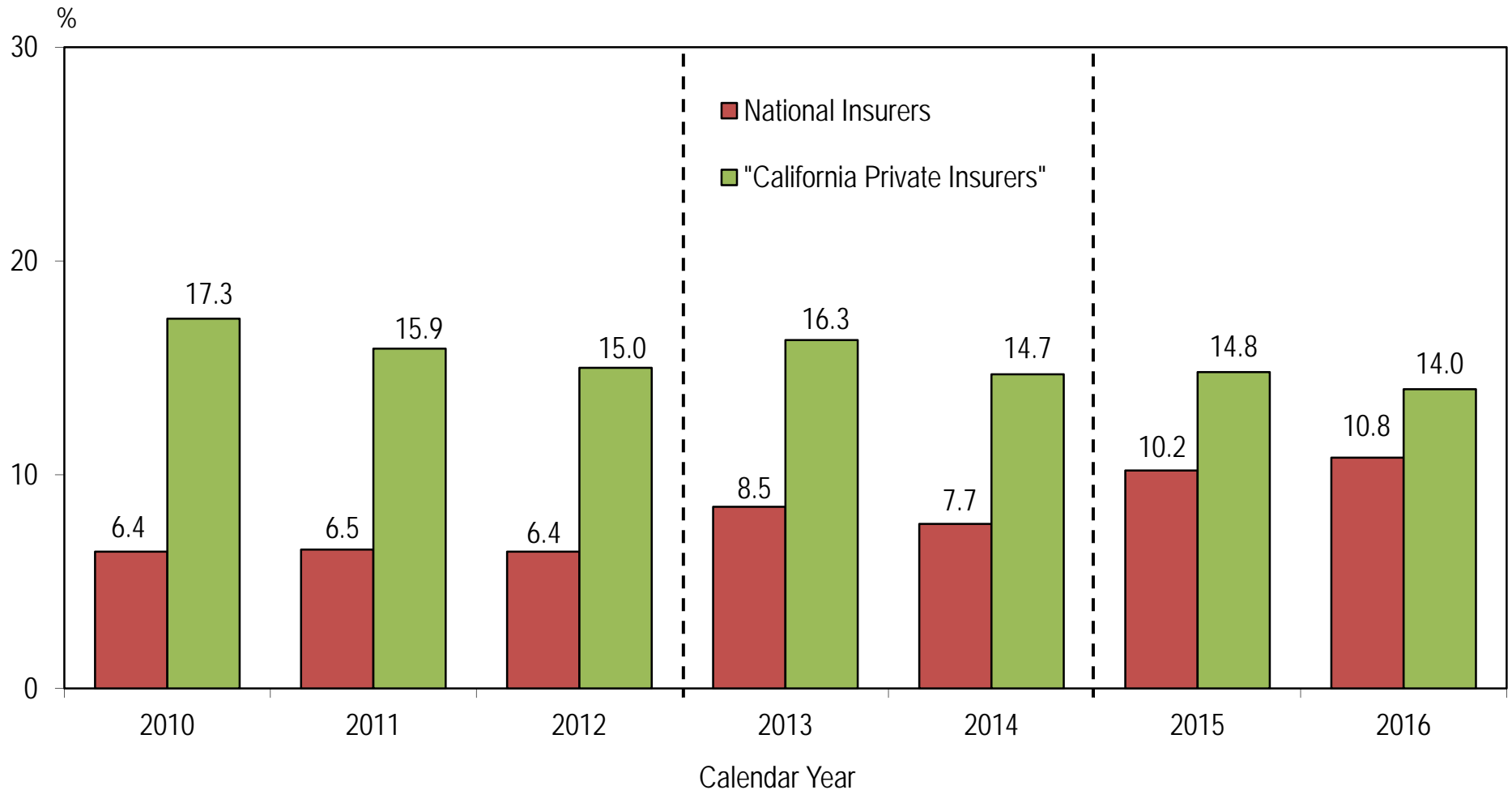
# Basis of Apportioning Countrywide ULAE to California

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# Background

- Longstanding differences of ULAE for insurers writing primarily in CA and those writing in other states reviewed in 2015
- 2015 changes to Expense Call addressed primary issues:
  - Negative “service fee” type adjustments to CW ULAE
  - Losses on deductible policies or handled by TPA in which associated ULAE not in reported CW amounts
  - Various amounts reported on a CW basis and apportioned to CA
- Open issue of method of apportioning CW ULAE to CA
  - Currently using paid losses
  - May not fully reflect complexity of claims handling process in CA

## Ratios of Paid ULAE to Paid Loss



"California Private Insurers" are insurers with at least 80% of their workers' compensation writings in California.

## Computation of Adjusted ULAE for CA

$$1. \quad \text{CW ULAE Adjusted For Negatives} = [\text{CW Paid ULAE}] + [\text{Amount of Negative ULAE Adjustment}]$$

$$2. \quad \text{Adjusted CW Losses} = \begin{aligned} &[\text{CW Paid Losses}] - \\ &[\text{Loss for Claims not in ULAE from Deduct. Policies}] - \\ &[\text{Loss for Claims not in ULAE from Non-Deduct. Policies}] \end{aligned}$$

$$3. \quad \text{Adjusted CW ULAE Ratio} = \frac{[\text{CW ULAE Adjusted for Negatives}]}{[\text{Adjusted CW Losses}]}$$

$$4. \quad \text{Adjusted CW Paid ULAE} = [\text{Adjusted CW ULAE Ratio}] \times [\text{CW Paid Losses}]$$

$$5. \quad \text{Adjusted CA Paid ULAE} = \frac{[\text{Adjusted CW Paid ULAE}] \times [\text{CA Paid Losses}]}{[\text{CW Paid Losses}]}$$

# Alternative Apportionment Methods

- Paid Losses & ALAE
  - Equal to: Calendar year paid losses and ALAE
  - Advantages:
    - Better reflects CA claim complexity through its higher litigation costs
    - Data readily available from annual statement information
  - Disadvantages:
    - Differences between ULAE and ALAE may be ambiguous in some instances (can be inversely correlated)

## Alternative Apportionment Methods

- Open Indemnity Claim Count
  - Equal to: Indemnity claims open at the beginning of the calendar year
  - Advantages:
    - Better reflects longer duration of claims in CA
    - Data somewhat readily available
    - Prior studies have shown open counts highly correlated with changes in ULAE
  - Disadvantages:
    - Does not account for size of claim
    - Possible inconsistency of claim count definitions on a CW basis

## Alternative Apportionment Methods

- Weighted Open Indemnity Claim Count
  - Equal to: Indemnity claims open at the beginning of the calendar year + 2X Indemnity claims opened during the year
  - Advantages:
    - Accounts for additional complexity when establishing claims
  - Disadvantages:
    - Somewhat more complex than standard open count
    - Prior studies have shown this measure not as highly correlated with changes in ULAE as standard open count



## Alternative Apportionment Methods

- Medical Transaction Count
  - Equal to: Number of medical transactions paid during the calendar year
  - Advantages:
    - Direct measure of claim activity
  - Disadvantages:
    - Significantly difficult for insurers to provide on a CW basis
    - Not all insurers report medical transaction data to WCIRB or other jurisdictions

# Statistical Relationships Among Measures

## Private Insurers' CA Data Only

Apportionment Method	Relationship to Paid ULAE for 2010-2016			
	Aggregate Correlation	Median Insurer Correlation*	Insurer Correlation Variance*	% Insurers w/ >0.5 Correlation*
Paid Losses	0.91	0.28	0.39	42%
Paid ALAE	0.90	0.34	0.38	43%
Paid Losses & ALAE	0.91	0.30	0.39	42%
<b>Open Indemnity Claim Counts</b>	<b>0.93</b>	<b>0.52</b>	<b>0.30</b>	<b>51%</b>
Open Indemnity Claim Counts – Average of Beginning & End	0.93	0.53	0.29	53%
Weighted Open Indemnity Claim Counts	0.93	0.48	0.30	49%

\* Only includes insurers with a significant history of paid loss and ULAE and open claim count information.

## Insurer Survey

- Availability of new data surveyed from several large insurers
  - All indicated they can provide CW open indemnity counts
  - One expressed difficulty with having the count data readily available
  - Many indicated CW medical transactions not available
- Preliminary CW open claim count information provided by a few insurers for CYs 2015 and 2016
  - For “CA focused” insurers: no significant change in paid ULAE ratio
  - For “National” insurers: paid ULAE ratios increased by 1 to 4 points

## Recommendations & Next Steps

- Open indemnity claim counts consistently more highly correlated with paid ULAE than other measures
- Long duration of CA claims should address the higher complexity of CA claim process
- Staff recommends adding CW Open Indemnity Claim Counts to Expense Call (Question 17h)
- Approved changes to Expense Call to be effective for 2017 Expense Call (due in April 2018)