

Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
September 5, 2017	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci
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Members

Carolyn Bergh*
Laura Carstensen
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Joanne Ottone*
Jill Petker*
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Chris Westermeyer*
Doug Zearfoss

Representing

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
Travelers
Employers Insurance Group

California Department of Insurance

Giovanni Muzzarelli

WCIRB

Bill Mudge
David Bellusci
Ward Brooks
Tony Milano

* 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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Correction to Minutes

The Minutes of the Actuarial meeting held on August 2, 2017 were distributed to the Committee members in advance of the meeting for review. A correction was noted with respect to Item AC17-08-01, where the last paragraph on page 7 of the Minutes should read "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." As there were no other corrections, the minutes were unanimously approved.

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Item II Working Group Meeting Summaries

The summary of the Claims Working Group meeting held on July 31, 2017 was included in the Agenda materials. Prior to the meeting, a Committee member noted a correction to Item 5, Legislative, Regulatory and Judicial Update, where the first paragraph should read "...providing that emergency medical treatment and treatment that is for an accepted body part and that is covered by..." (emphasis added). Noting that correction, the meeting summary was accepted by the Committee.

Item AC17-09-01 6/30/2017 Experience – Review of Methodologies

The Agenda materials included a summary of accident year experience through June 30, 2017 that included almost 100% of the market and the methodologies reflected in the January 1, 2018 Pure Premium Rate Filing. The Committee was advised that the approximate two percentage point decrease in the projected policy year 2018 loss ratio was due to lower than projected loss development in the second quarter, primarily for the 2015 and 2016 accident years.

The Committee noted that both paid and incurred loss development decreased in the second quarter of 2017, after showing signs of potential moderation in the first quarter. Staff noted that the recent development patterns were experienced across a number of insurers. Staff also noted that information from the WCIRB's Medical Data Call suggested an increase in payments for services within the first quarter of 2017 that did not continue into the second quarter. The Committee discussed potential factors driving the change in development patterns, including the recent lien reforms and changes in claim settlement patterns. It was noted that indemnity claim settlement rates continued to increase at a steady rate in the second quarter and the loss development projection methodology reflected in the January 1, 2018 Pure Premium Rate Filing and Agenda materials included an adjustment for changes in claim settlement rates.

The Committee next discussed the indemnity claim frequency and claim severity projections. It was noted that the estimated accident year 2016 indemnity claim frequency was unchanged from that reviewed at the August 2, 2017 meeting, while the 2017 indemnity claim frequency based on six months experience was moderately higher than that for 2016.

It was noted that the estimated on-level indemnity severity changes for accident years 2015 and 2016 based on June 30, 2017 experience had moderated from those reflected in the January 1, 2018 Pure Premium Rate Filing and were below the 1.0% annual on-level indemnity severity trend reflected in the Filing and Agenda materials. The Committee discussed the appropriate on-level indemnity severity trend projection in light of the June 30, 2017 experience. A Committee member suggested that an annual trend rate of 0.7%, which was the approximate average of the rates of growth for 2015 and 2016, was appropriate. The consensus of the Committee was that this trend rate was appropriate in that 2015 and 2016 reflect the first two years of experience following the full implementation of the indemnity benefit changes enacted in Senate Bill No. 863.

The Committee next discussed the on-level medical severity trend and noted that the favorable medical loss development experienced for accident year 2016 in the second quarter of 2017 moderated the estimated medical severity for 2016, but the estimated increase for 2016 of 3.8% was still higher than the projected rate of 3.0% reflected in the January 1, 2018 Pure Premium Rate Filing and Agenda materials. The Committee also noted that reported medical claim severities for accident year 2017 through six months show increases generally consistent with those experienced for accident year 2016. As a result, the consensus of the Committee that the annual on-level medical severity trend of 3.0% continued to be appropriate.

The Committee discussed the recommended methodologies to base any amendment to the projected policy year 2018 loss ratio based on June 30, 2017 experience. After discussion, a motion was made and seconded to recommend the methodologies reflected in the January 1, 2018 Pure Premium Rate Filing and Agenda materials but with a 0.7% indemnity severity trend. The motion passed with eight in favor and one opposed. The actuary representing the Public Members of the Governing Committee who opposed the motion indicated that the differences in his recommended methodology from that recommended by the majority of the Actuarial Committee were consistent with those discussed at the August 2, 2017 meeting.

Item AC17-09-02 Basis of Apportioning Countrywide ULAE to California

The Committee was reminded that, in 2015, the Committee adopted an approach to address the long-standing large differential between Unallocated Loss Adjustment Expense (ULAE) ratios reported by private insurers writing business primarily in California and those reported by insurers writing business in other states in addition to California. The adopted approach involved changes to the WCIRB's Expense Call to collect additional countrywide information in order to derive a more appropriate California paid ULAE for ratemaking purposes. At that time, it was noted that the use of paid losses as the basis of apportioning countrywide ULAE to California may understate California ULAE since it is only partially reflective of the extended duration claims open in California relative to other states and that this issue should be revisited in the future.

Staff summarized its review of potential alternative bases to apportion countrywide ULAE to California based on a review of correlations between paid ULAE and the alternative bases by insurer in part using data from informal surveys of several large national insurers. Staff noted that the number of indemnity claims open at the beginning of the year were significantly more correlated with paid ULAE amounts than the current basis of paid losses as well as the alternative bases tested. In addition, staff noted that a basis of open indemnity claim counts is responsive to the longer duration of claims in California, which drives much of the differences between costs in California compared to those in other states. Staff also noted that based on its informal survey of insurers, open indemnity claim counts were generally readily available to provide on a countrywide basis if requested, while some alternative apportionment bases such as medical transaction counts could not be provided on a countrywide basis for many insurers. Staff also noted that, based on countrywide open indemnity claim count information provided by a few large insurers, apportioning countrywide ULAE on this basis potentially has a significant impact on the paid ULAE for national insurers.

The Committee discussed the appropriate basis for apportioning countrywide ULAE to California. A Committee member suggested total case reserves as an alternative basis. Staff acknowledged that case reserves may account for differences in the complexity in handling different sizes of claims, but expressed concern with using case reserve estimates as the basis given the differences in case reserve practices among insurers. After a lengthy discussion, the consensus of the Committee was that using open indemnity claim counts as a basis for apportioning countrywide ULAE to California would improve the accuracy of the ULAE data used for projecting pure premium rates.

The Committee reviewed a draft of the changes to the WCIRB's Expense Call to collect information on countrywide indemnity claim counts open at the beginning of the calendar year and provided some feedback. The consensus of the Committee was that these changes, after reflecting the Committee's feedback, should be implemented for the WCIRB's 2017 Expense Call to be issued early next year.

The meeting was adjourned at 10:45 AM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for December 6, 2017 for approval and/or modification.