Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
March 21, 2017	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci

1221 Broadway, Suite 900 • Oakland, CA 94612 • 415.777.0777 • Fax 415.778.7007 • www.wcirb.com • wcirb@wcirb.com

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Members	Representing
Carolyn Bergh	The Hartford
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
Robert Hallstrom

WCIRB
Bill Mudge
David Bellusci
Ward Brooks
Tony Milano
Ryan Purcell

* 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 December 6, 2016, 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.

Notice

The information in these Minutes was developed by the Workers' Compensation Insurance Rating Bureau of California (WCIRB) for the purpose of assisting the WCIRB Actuarial Committee. The WCIRB cannot make any guarantees if this information is used for any other purpose and the WCIRB shall not be liable for any damages, of any kind, whether direct, indirect, incidental, punitive or consequential, arising from the use of or reliance upon this information for any other purpose.

Item II
Actuarial Research Working Group Summary

The summary of the Actuarial Research Working Group meeting held on February 17, 2017, which was included in the Agenda materials, was accepted by the Committee.

Item AC14-08-07
SB 863 Cost Monitoring – Adjustments to Pure Premium Ratemaking

The Committee reviewed the summary of Senate Bill No. 863 (SB 863) cost monitoring information based on the WCIRB's 2016 SB 863 Cost Monitoring Report and the adjustments for the cost impact of SB 863 currently reflected in pure premium ratemaking. Staff summarized the changes to the assessment of the cost impact of SB 863 provisions related to supplemental job displacement benefits, temporary disability duration as it relates to independent medical review and medical provider network changes, and the changes to the physician fee schedule related to the resource-based relative value scale detailed in the 2016 SB 863 Cost Monitoring Report. The consensus of the Committee was that these changes, as detailed in the report, should be reflected in the on-level factors and, when applicable, the loss development factors to be reflected in a potential July 1, 2017 Pure Premium Rate Filing based on the standard approach the WCIRB has been using to reflect these adjustments over the last several years.

The Committee then reviewed the -10% adjustment for the overall decrease in the utilization of medical services resulting from SB 863 that was reflected in the WCIRB's Amended January 1, 2017 Pure Premium Rate Filing. It was noted that although the magnitude of the -10% adjustment was consistent in the 2016 SB 863 Cost Monitoring Report, staff had reviewed alternative approaches for distributing the total adjustment across historical accident years. Staff presented its recommended alternative approach of basing the distribution on the projected unpaid medical losses as of December 31, 2013 for each accident year through 48 months relative to the total paid development estimated at 48 months. This approach resulted in the 10% decrease distributed over accident years 2011 through 2014 at rates of -2%, -3%, -3%, and -2%, respectively. After discussion, the consensus of the Committee was that this approach was reasonable and should be reflected in the on-level factors to be reflected in a potential July 1, 2017 Pure Premium Rate Filing.

Item AC17-03-01
First Quarter 2017 Review of Diagnostics

The Agenda materials included the WCIRB's diagnostic exhibits that are reviewed by the Actuarial Committee and the Claims Working Group on a semi-annual basis. Among the diagnostics discussed by the Committee were the following:

1. The latest year of data showed average outstanding medical loss per open indemnity claim decreases for many accident years. A Committee member noted that the decreases were consistent with the increased settlement rates seen in other diagnostics. Staff agreed to discuss the issue with the Claims Working Group and report back to the Committee at the next meeting.

2. Indemnity claim settlement ratios continued to increase in the third quarter of calendar year 2016. A Committee member noted that California claims still close far slower than national averages.

3. The number of expedited hearings remained steady in the third and fourth quarters of 2016 after a sharp rise in early 2016. A Committee member commented that the independent medical review (IMR) process has not been effective at reducing the number of expedited hearings. Staff agreed to discuss why the volume of expedited hearings has not been reduced with the Claims Working Group and report back to the Committee.

4. Liens increased sharply in the fourth quarter after dropping in the third quarter. Staff noted that increase was not unexpected given the effect of the change in the statute of limitations at 18 months and the likelihood that many lien claimants accelerated their lien filings to make the filing prior to the January 1, 2017 effective date of Senate Bill No. 1160 and Assembly Bill No. 1244. The Committee agreed with staff's analysis of the increase and directed staff to discuss the high level of lien filings with the Claims Working Group.

5. Allocated loss adjustment expense (ALAE) trends show signs of moderation and there has been a significant downturn in paid ALAE development. A Committee member stated that this could be a sign that the intended frictional cost reductions of SB 863 are beginning to have an impact. Others suggested this could also be the result of the continued acceleration in claim settlement.

Item AC17-03-02
12/31/2016 Experience – Review of Methodologies

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of December 31, 2016, which was included in the Agenda materials. Staff noted that the adjustments for Senate Bill No. 863 (SB 863) reflected in the Agenda materials were based on those reflected in the January 1, 2017 Pure Premium Rate Filing (see Item AC14-08-07 for the discussion on these adjustments). It was noted that the decrease in the projected loss ratio from that reflected in the Amended January 1, 2017 Pure Premium Rate Filing based on June 30, 2016 experience was primarily attributable to lower medical loss development as well as slightly decreased frequency trends and accident year 2016 emerging at a level lower than projected.

The Committee noted that both indemnity and medical loss development decreased since the Amended January 1, 2017 Pure Premium Rate Filing. In particular, paid medical development through 219 months and incurred medical development after 219 months has continued to decrease significantly. It was noted that some of this decrease may be related to the recent increases in indemnity claim settlement rates as well as changes in case reserve levels as a reaction to the more favorable paid medical loss development patterns that have emerged since the enactment of SB 863. The Committee also noted that indemnity claim development patterns have begun to stabilize and indemnity claim settlement rates continued to increase steadily in the fourth quarter.

Staff noted that the estimated indemnity claim frequency change for 2016 based on changes in aggregate claim counts reported as of 12 months relative to changes in statewide employment showed a moderate decrease, while estimates of indemnity claim frequency changes for other recent accident years have emerged at lower levels than previously projected. It was noted that a more significant frequency decrease for 2016 is indicated when comparing changes in claim counts to changes in on-level premium. However, staff noted that a comparison of indemnity claim frequency projections for recent accident years showed that the measure based on changes in statewide employment levels generally more accurately projected these changes when compared to the measure based on changes in on-level premium. Nonetheless, it was noted that the recent trends in indemnity claim frequency suggested frequency may be returning to the longer-term pattern of moderate decline.

The Committee noted that, although the on-level indemnity severity for 2016 shows a modest increase, on average on-level indemnity severities continue to be relatively flat and the longer-term average rate of growth is approximately 0%, which is consistent with that reflected in the Amended January 1, 2017 Pure Premium Rate Filing. For medical, it was noted that on-level severity increased by almost 5% in 2016, which was the largest rate of growth estimated since 2009. However, it was noted that medical severities have remained relatively flat for other recent accident years and the longer-term average rate of growth is generally consistent with the 2.5% trend reflected in the Amended January 1, 2017 Pure Premium Rate Filing.

Staff noted that an updated analysis of December 31, 2016 experience, as well as December 31, 2016 loss adjustment expense experience, will be presented to the Committee at the April 3, 2017 meeting in the context of recommending projection methodologies for the Governing Committee's consideration of a potential July 1, 2017 Pure Premium Rate Filing.

Item AC17-03-03
Study of Claim Settlement Rate Adjustments to Loss Development

The Committee was reminded that the Committee has, for many years, reviewed a loss development methodology that adjusts for changes in claim settlement rates based on the "Berquist-Sherman" approach as part of its regular review of alternative loss development methodologies. Staff noted that this methodology has been used in the determination of the WCIRB's indicated advisory pure premium rate level in several instances when there was strong evidence of changing claim settlement patterns and was last reviewed in detail by the Committee in 2011. The Committee was further reminded that as a result of the recent increases in indemnity claim settlement rates and the fact that the methodology had not been reviewed in detail since 2011, at the August 3, 2016 meeting, the Committee directed that the methodology be again reviewed in depth and the underlying assumptions validated. The Agenda materials included staff's initial review of the claim settlement rate adjustment methodology which attempts to address the concerns discussed by the Committee at the August 3, 2016 meeting.

The Committee reviewed retrospective tests of the accuracy of the claim settlement rate adjustment compared to a paid loss development methodology that does not adjust for changes in claim settlement rates. It was noted that, during periods of more moderate changes in claim settlement rates, the adjustment was generally more accurate than the unadjusted latest year paid methodology, though not by a significant margin. During periods of significant claim settlement rate change, the adjustment for changing claim settlement rates significantly improved the accuracy of the projection the vast majority of the time, although relatively few observations of settlement rate changes of this magnitude were observed. A Committee member suggested reviewing the changes multiplicatively rather than additively in order to potentially observe more instances of significant claim settlement rate change.

The Committee next reviewed the key assumptions of the current claim settlement rate adjustment methodology. Staff noted that alternative claim settlement rate patterns were retrospectively tested in addition to the current approach of reflecting the latest cumulative claim settlement rate pattern and that these alternatives did not improve the accuracy of the projection. Staff also noted that the assumption of a log-linear relationship between the claim settlement rate and average paid losses per closed claim was reviewed based on direct fits of a log-linear curve as well as comparisons to actual paid severities on closing claims based on unit statistical data and that the assumption was found to be reasonable. Finally, staff noted that the current adjustment to reflect payments on open claims in transition resulting from the adjustment was compared to actual payments on open claims from unit statistical data and the severities assumed in the current adjustment were comparable. A Committee member suggested sensitivity testing some of the alternative severity assumptions to assess their impact. After discussion, the consensus of the Committee was that these assumptions as reflected in the current claim settlement adjusted methodology continue to be reasonable.

The Committee next discussed the potential impact on the adjustment of changing claim settlement rates that differ by injury type. Staff noted that based on an initial review of the adjustment applied by injury type, there did not appear to be a significant difference in the overall impact when compared to the current approach which adjusts for all indemnity injury types in aggregate. However, the Committee noted that claim and loss development patterns differ significantly by injury type and the individual assumptions of the current approach may not be appropriate when the adjustment is applied by injury type. Staff agreed to continue to review the impact of the adjustment by injury type as well as other issues raised by the Committee during the discussion and report back to the Committee at the June 16, 2017 meeting.

Item AC17-03-04
Experience Rating—Treatment of Small Medical Claims

The Committee was reminded that at the June 17, 2016 meeting, the Committee had discussed the recommendations of the Working Group on the Reporting of Small Medical Claims and that among the Working Group's recommendations was to consider eliminating the first $250 of each claim from the experience rating computation.

The Committee was reminded that in 2016 the Actuarial Research Working Group had reviewed Experience Rating Plan options that excluded the first $250, $500 or $1,000 of each claim as alternatives to reduce incentive not to report small claims for experience rating. The Committee was reminded that the exclusion was for medical and indemnity combined as the additional complexity of excluding only medical was not found to be cost effective or materially impactful for predictive accuracy and that the alternative excluding the first $250 of each claim was found to result in only a small loss of predictive accuracy and the findings for four projection periods (policy years 2010-2013) were reviewed in 2016 by the Actuarial Committee and Classification and Rating Committee. The Committee was reminded that the committees had agreed that a change to the Experience Rating Plan to exclude the first $250 dollars of each claim should be further studied with an updated year of experience.

The Committee reviewed a fifth projection year (policy year 2014) and confirmed that the findings for the most recent evaluable period were comparable to those found for the four prior years studied. The Committee was informed that the findings were reviewed by the Actuarial Research Working Group at its February 17, 2017 meeting. Staff reviewed the findings, by size of employer and industry, for the fifth projection year, noting that the results were comparable to the other four periods studied. Staff reviewed expected impacts of adopting the $250 exclusion and noted that these too, for the fifth year studied were comparable to those of the prior four years.

The Committee accepted staff's analysis and a motion was made and seconded to recommend adoption of the Small Medical Exclusion alternative this June as part of the WCIRB's 2018 Regulatory Filing to be effective with the experience modifications for policies incepting January 1, 2019. The motion passed unanimously. The Committee was informed that, subject to approval by the Classification and Rating Committee and the Governing Committee, staff would make this filing.

The meeting was adjourned at 12:20 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for June 16, 2017 for approval and/or modification.