Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
April 3, 2017	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci

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Released: May 9, 2017

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
Bob Hallstrom
Gio Muzzarelli
Fred Urschel

WCIRB
Bill Mudge
David Bellusci
Ward Brooks
Tony Milano
Linda Radler

* 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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Notice

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

The Committee was reminded that during the review of diagnostics at the March 21, 2017 meeting, there were several diagnostics for which additional information was requested. The following information was provided to the Committee:

1. Cumulative injury claims continued to increase in the Los Angeles Basin. The Committee was advised that the Claims Working Group were not aware of any indications of reduced cumulative injury claim frequency in the Los Angeles Basin and suggested the phenomena driving that growth could be spreading to other neighboring areas.
2. The Committee was advised that the Claims Working Group 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 and reduced rates of spinal surgeries.
3. The Committee was advised that most of the increase in the ratio of development on closed claims to total incurred development noted at the March 21, 2017 meeting was attributable to reduced incurred loss development over the last year.
4. The number of expedited hearings remained steady in the third and fourth quarters of 2016 after a sharp rise in early 2016. The Committee was advised that Claims Working Group members noted that the "dual track" of filing for both expedited hearings and independent medical review on medical treatment disputes continues to be used. Also, many expedited hearings are from arising out of employment / course of employment (AOE/COE) questions and there is a growing tendency for defense requested expedited hearings on restricting treatment to be within medical provider networks.
5. Liens increased sharply in the fourth quarter of 2016 after dropping in the third quarter. The Committee was advised that the Claims Working Group indicated that this was not unexpected given the effect of the change in the statute of limitations to 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. Several Claims Working Group members had noted that there remain significant questions as to eventual effectiveness of the new legislation and lien filing counts should continue to be monitored closely in 2017.
6. Allocated loss adjustment expense (ALAE) trends show signs of moderation and there has been a significant downturn in paid ALAE development. The Committee was advised that Claims Working Group members suggested this is likely due to similar factors driving the acceleration in claims settlement such as IMR, increased efforts to settle liens and reduced spinal surgeries. It was also suggested that some of this ALAE cost reduction could be attributable to resolution of a number of open SB 863 questions.
7. The latest year of data showed average outstanding medical loss per open indemnity claim decreases for many accident years. The Committee was advised that several Claims Working Group members suggested that these recent decreases in average case reserves could be attributable to latent recognition of some of the medical cost reductions resulting from SB 863 that had materialized in paid medical loss patterns several years earlier.

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

The Agenda materials contained an updated analysis of December 31, 2016 experience, which was first reviewed at the March 21, 2017 meeting. The Committee was advised that the loss projections differed from those reviewed at the March 21, 2017 meeting primarily as a result of reflecting the updated adjustments for Senate Bill No. 863 (SB 863) adopted by the Committee at the March 21, 2017 meeting as well as an updated UCLA wage forecast.

During the review of loss development projections, it was noted that the recent decreases in the projected medical loss development factor reflected in the Agenda materials was fairly evenly distributed across maturity periods and among the paid and incurred development factors used in the projection. The Committee was reminded that the methodology reflected in the last several pure premium rate filings and in the Agenda materials is based on applying three-year average paid development after approximately 108 months and three-year average incurred development after approximately 228 months. A Committee member recommended reviewing the appropriate number of years to use in a multi-year average in light of the recent volatility in loss development patterns. Staff agreed to present an update to prior research in this area to the Committee at the next meeting.

The Committee reviewed the alternative loss development projections included in the Agenda materials (Item AC17-04-02). It was noted that the projections based on unadjusted incurred loss development have significantly diverged from the projections based on paid loss development in recent years. A Committee member noted that, although the recent changes in case reserve levels are significant, the methodology that adjusts for changes in case reserve levels, at least for medical development, should be given some weight in the projection. However, other Committee members agreed that, given the concerns with using incurred loss development discussed in prior pure premium rate filings and at prior committee meetings, basing the projection primarily on paid loss development continues to be appropriate.

The Committee then discussed the adjustment to paid loss development for changes in claim settlement rates. Staff noted that indemnity claim settlement rates have increased significantly over the last year and retrospective tests reviewed by the Committee at the March 21, 2017 meeting indicated that the claim settlement rate adjustment generally improved the accuracy of the projection during periods of significant claim settlement rate change. A Committee member noted that some of the recent claim settlement rate increases may be related to settling outstanding liens or other factors that may not continue into the future and would not necessarily result in a shift in paid loss development patterns. Another member noted that the projections that adjust paid loss development for changes in claim settlement rate only address claim settlement rate changes through 84 months and do not address the potential impact of the recent claim settlement rate increases on loss development at later maturities. After discussion, the consensus of the Committee was that the recent changes in claim settlement rates were significant and the current approach to adjust for these changes at least partially addresses the potential impact on paid loss development patterns.

A motion was made and seconded to base the indemnity loss development projection on the reform and claim settlement rate-adjusted paid development method as presented in the Agenda materials to compute the indicated July 1, 2017 average advisory pure premium rate. The motion passed unanimously.

A second motion was made and seconded to also base the medical loss development projection on the reform and claim settlement rate-adjusted paid development method as presented in the Agenda materials to compute the indicated July 1, 2017 average advisory pure premium rate. The motion passed with eight in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed the motion recommended a medical loss development methodology that assigned 50% weight to the reform and claim settlement rate-adjusted paid methodology and 50% weight to the latest year case reserve level-adjusted incurred methodology.)

The Committee next discussed the frequency and severity projections included in the Agenda materials. It was noted that the frequency projections were unchanged from those reviewed at the March 21, 2017 meeting. It was noted that the projected on-level indemnity and medical severity trends reflected in the Agenda materials (0% and 2.5%, respectively) representing the approximate average longer-term rates of growth were somewhat lower than the estimated growth in on-level indemnity and medical severities for the most recent year (2016). After some discussion, most Committee members agreed that the severity trends reflected in the Agenda materials continue to be appropriate but should be monitored closely.

The Committee discussed the alternative trending projections included in the Agenda materials (AC17-04-02). It was noted that projections based on short-term loss ratio trends were consistent with those based on the separate frequency and severity trend projections reflected in the Agenda materials. While one Committee member recommended using a short-term loss ratio trend, most Committee members agreed that the separate frequency and severity trend projection continues to be appropriate but that the trending methodology should be further reviewed in preparation for the January 1, 2018 Pure Premium Rate Filing given the recent stability in the on-level loss ratios and that the SB 863 transition period may be coming to an end. After discussion, a motion was made and seconded to use the trending projection methodologies reflected in the Agenda materials to compute the indicated July 1, 2017 average advisory pure premium rate. The motion passed with eight in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who was opposed to the motion recommended a methodology based on a short-term loss ratio trend.)

Staff agreed to advise the Governing Committee at its April 5, 2017 meeting as to the diversity of opinion on the recommended loss projection methodologies.

Item AC17-04-01
12/31/2016 Loss Adjustment Expense Experience Review

The Committee was advised that unallocated loss adjustment expense (ULAE) experience for calendar year 2016 is not yet available. However, the Agenda materials included an updated ULAE projection that reflected ULAE experience through calendar year 2015 as well as updated frequency, wage level, and loss projections based on December 31, 2016 experience. It was noted that the increase in the projected ratio of ULAE to losses for the July 1, 2017 through December 31, 2017 policy period from that reflected in the Amended January 1, 2017 Pure Premium Rate Filing was primarily due to the decrease in the loss projection.

The Committee reviewed the analysis of allocated loss adjustment expense (ALAE) experience through December 31, 2016. It was noted that the accident year 2016 ALAE through 12 months was emerging at a level modestly higher than that for accident year 2015, which differed significantly from the higher rates of growth experienced over the prior two years. It was also noted that paid ALAE development had declined significantly since the January 1, 2017 Pure Premium Rate Filing, resulting in reductions to the projected ultimate ALAE per indemnity claim for historical accident years. The Committee discussed the drivers of the ALAE development decrease and noted the recent increases in indemnity claim settlement rates and stabilizing ALAE costs in the post-SB 863 transition environment as potential factors. The Committee was also advised that the approximate average longer-term ALAE severity trend of 4.0% is slightly lower than the projected ALAE severity trend reflected in the Amended January 1, 2017 Pure Premium Rate Filing.

The Committee next reviewed the analysis of medical cost containment program (MCCP) experience through December 31, 2016. It was noted that MCCP development has also decreased in recent quarters, although some of that decrease may be related to the change in the reporting of independent medical review (IMR) and independent bill review (IBR) fees, which had initially been reported in MCCP costs but are no longer reported in those costs beginning in 2016. It was also noted that the recent decreases in accident year average ultimate MCCP costs per indemnity claim may be in part driven by the change in IMR and IBR fee reporting. Staff advised the Committee that it plans to review the treatment of IMR and IBR fees in accident year ALAE and MCCP costs with the Committee in preparation for the January 1, 2018 Pure Premium Rate Filing. The Committee was advised that the approximate average of the calendar year and accident year average MCCP severity trends resulted in a projected MCCP severity trend of 0%.

After discussion, a motion was made and seconded to use the LAE projection methodologies reflected in the Agenda materials, which were consistent with those reflected in the Amended January 1, 2017 Pure Premium Rate Filing, for purposes of computing an indicated July 1, 2017 average advisory pure premium rate. 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 his preference for using slightly higher claim frequency and ALAE severity trends and slightly lower MCCP severities in the projection. Staff agreed to advise the Governing Committee at its April 5, 2017 meeting as to the diversity of opinion on the recommended loss adjustment expense projection methodologies.

Item AC17-04-02
12/31/2016 Experience – Alternative Loss Projections

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 December 31, 2016 experience. (Please refer to the Minutes for Item AC17-03-02.)

Item AC17-04-03
Computation of Industry Average Filed Rates as of 1/1/2017

The Committee was reminded of the WCIRB's standard process to compute January 1 industry average filed manual and pure premium rates based on adjusting the calculated average insurer filed rates from the previous evaluation date to January 1 by reflecting individual insurer rate filing activities since that time. The Committee noted that the resulting January 1, 2017 industry average filed rates ($2.42 per $100 of payroll for pure premium rates and $3.55 per $100 of payroll for manual rates) were slightly below the July 1, 2016 industry average filed rates ($2.54 per $100 for pure premium rates and $3.74 per $100 of payroll for manual rates).

The Committee also noted that the methodology for computing the industry average filed rates has been in place for a number of years and has been consistent for some time. As a result, the consensus of the Committee was that further updates to industry average filed rates need not be separately reviewed by the Committee unless a change to the methodology is proposed. Staff noted that updates to the industry average rates will still be provided in pure premium rate filing materials and can be provided to the Committee during its regular reviews of insurer experience as desired.

Item AC17-04-04
New Drug Formulary

Staff provided the Committee with an overview of the current 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 submitted for discussion by the Department of Industrial Relations (DIR) as well as its ancillary rules. Staff clarified that the proposed formulary applies to drugs dispensed for outpatient use on or after July 1, 2017 regardless of the date of injury. Staff has also clarified that the physician drug dispensing rule that requires prospective review for all physician dispensed drugs does not apply to “special fill” and “perioperative fills” in the latest proposed regulations.

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. The Committee noted that from an overall system cost impact, the DIR estimated savings were modest but that 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.

The Committee discussed the potential impact of the April 2016 Medicaid pharmacy fee schedule changes that are related to upper limits on certain drug costs imposed by the federal government. The Committee was advised that staff is reviewing pharmaceutical cost data from the second half of 2016 and will report back to the Committee at the next meeting.

The meeting was adjourned at 12:30 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.