

WCIRB Actuarial Committee Meeting

**Materials Presented at the WCIRB Actuarial Committee Meeting
December 6, 2017**

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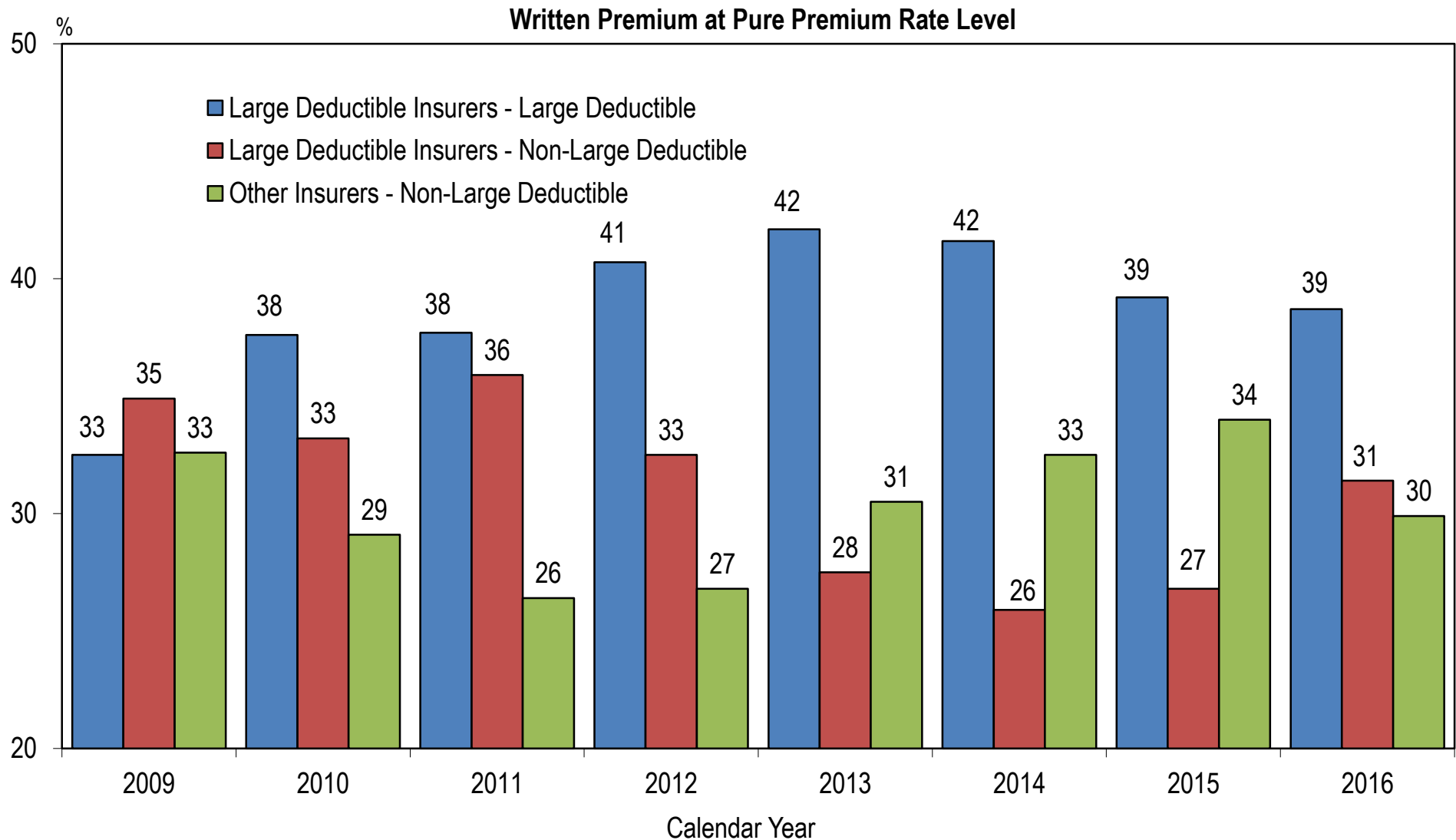
Experience of Large Deductible Policies

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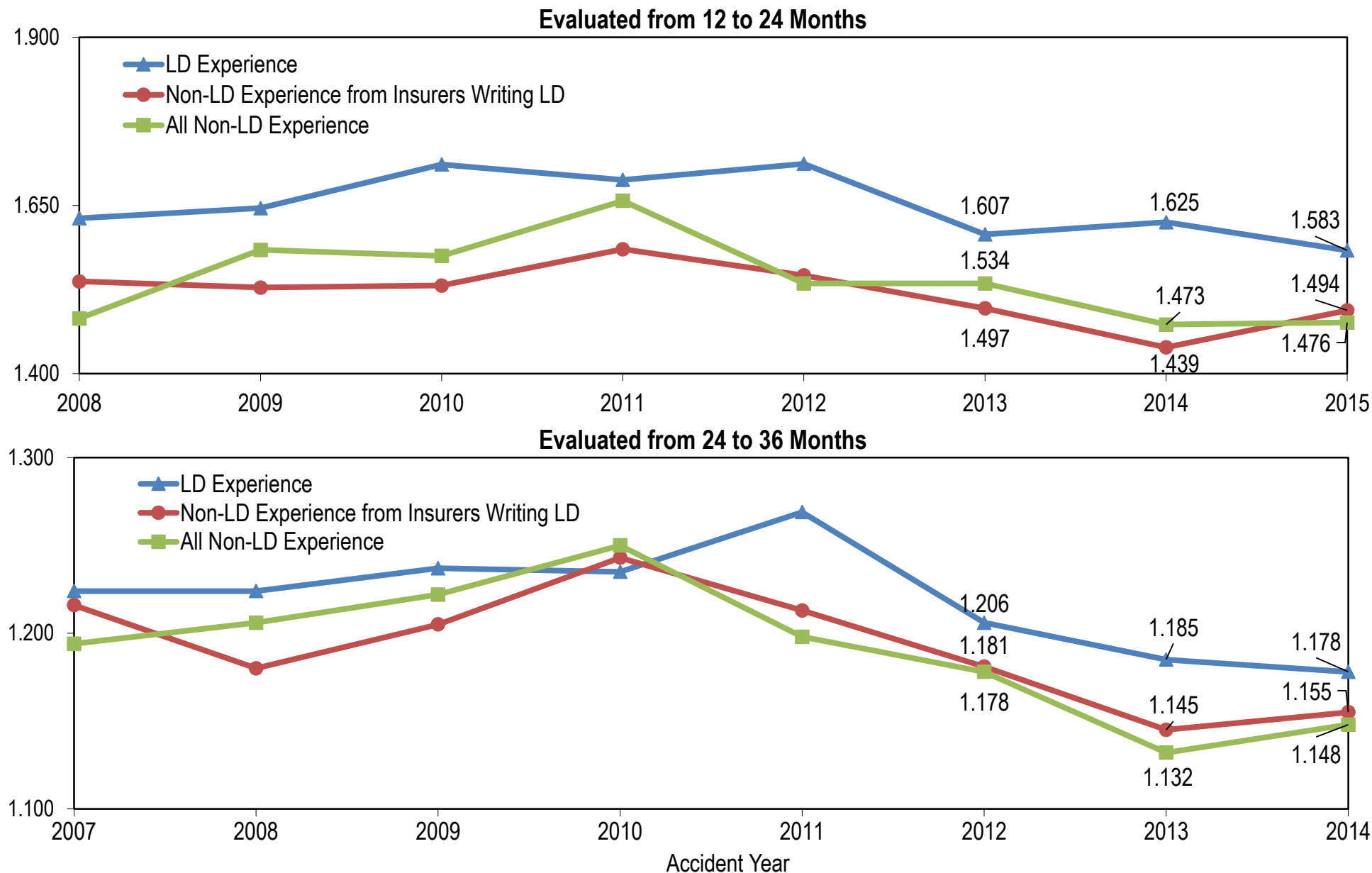
Experience of Large Deductible Policies

- Annually the Actuarial Committee Reviews the Experience of Large Deductible Policies (December 31 Experience)
- Findings in Prior Actuarial Committee Evaluations
 - Large deductible market proportion relatively stable
 - Paid development patterns are generally similar to non-large deductible policies
 - Impact of excluding large deductible experience from the rate level computation is relatively modest
 - No adjustment to rate level computation needed

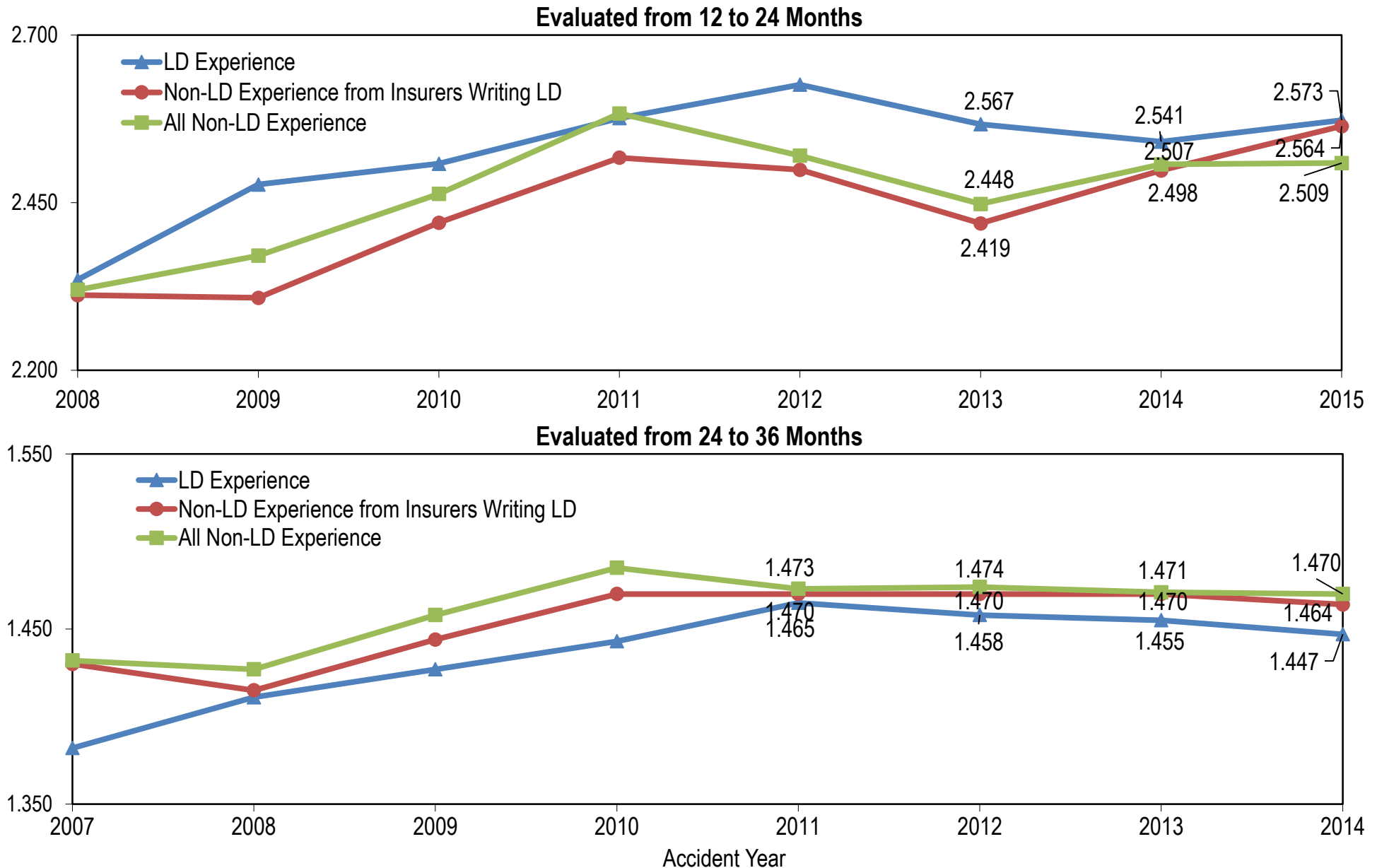
Distribution of Calendar Year Premiums (Exhibit 1.1)



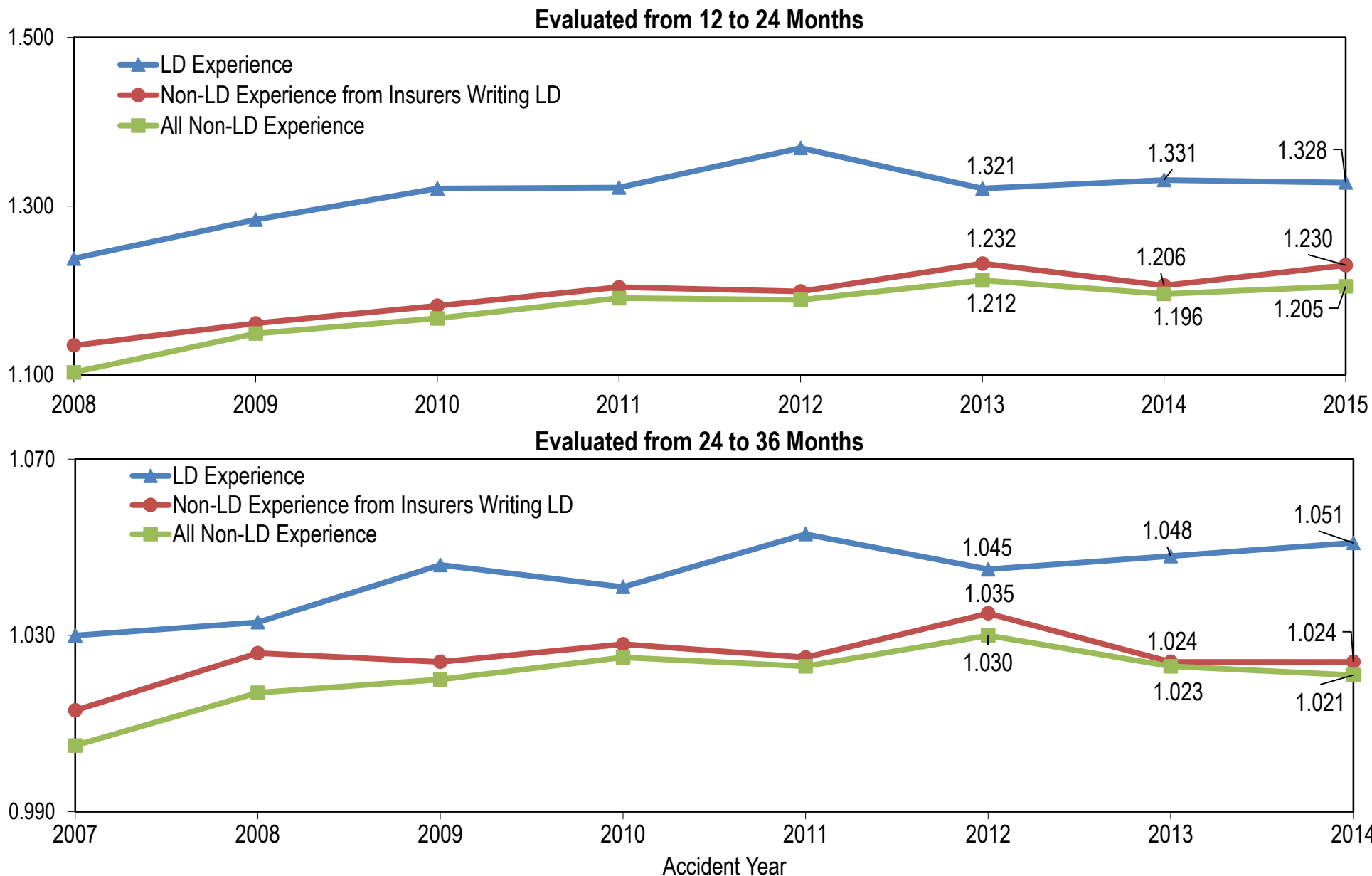
Incurred Medical Development (Exhibit 3.2)



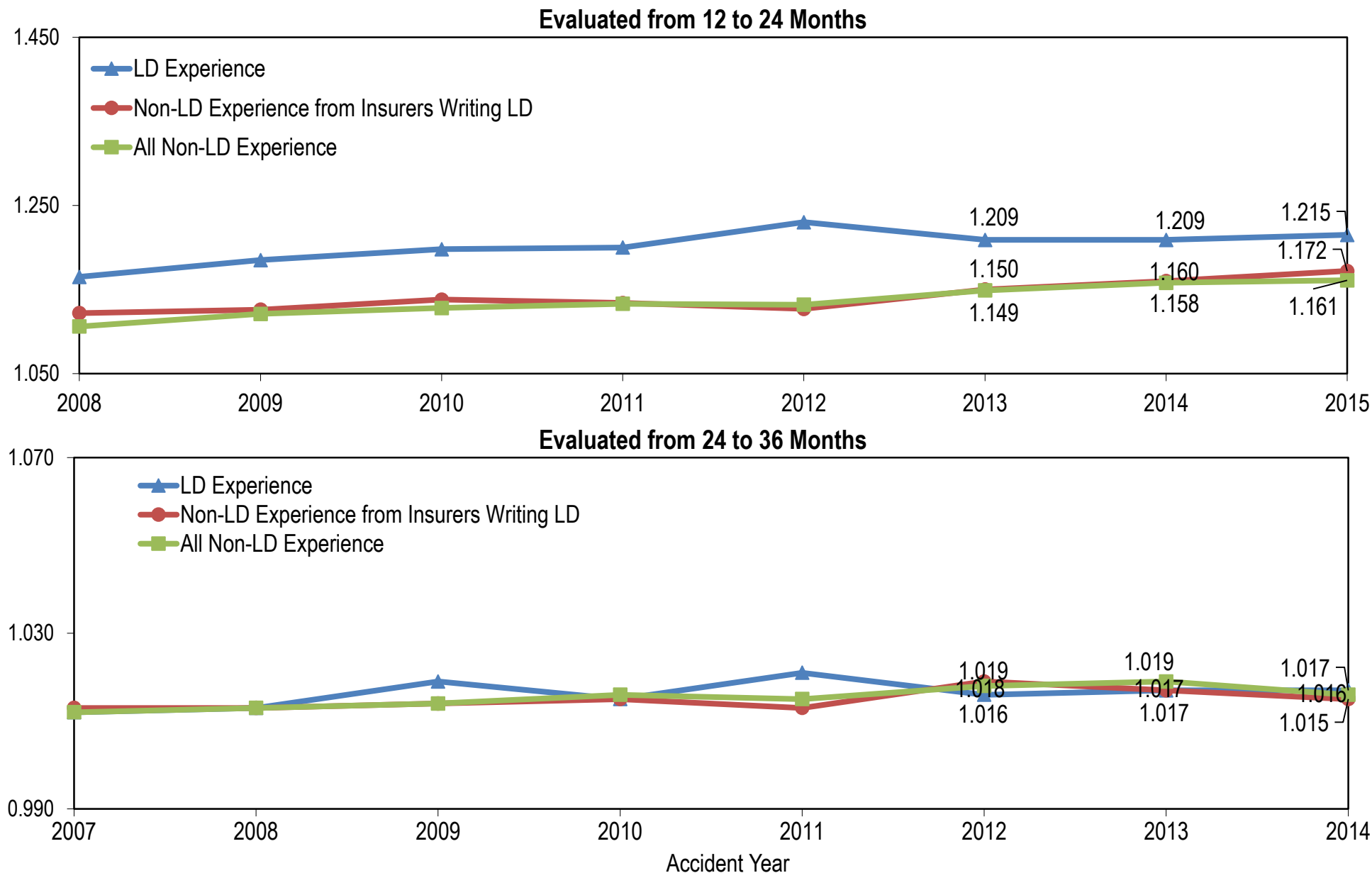
Paid Medical Development (Exhibit 3.4)



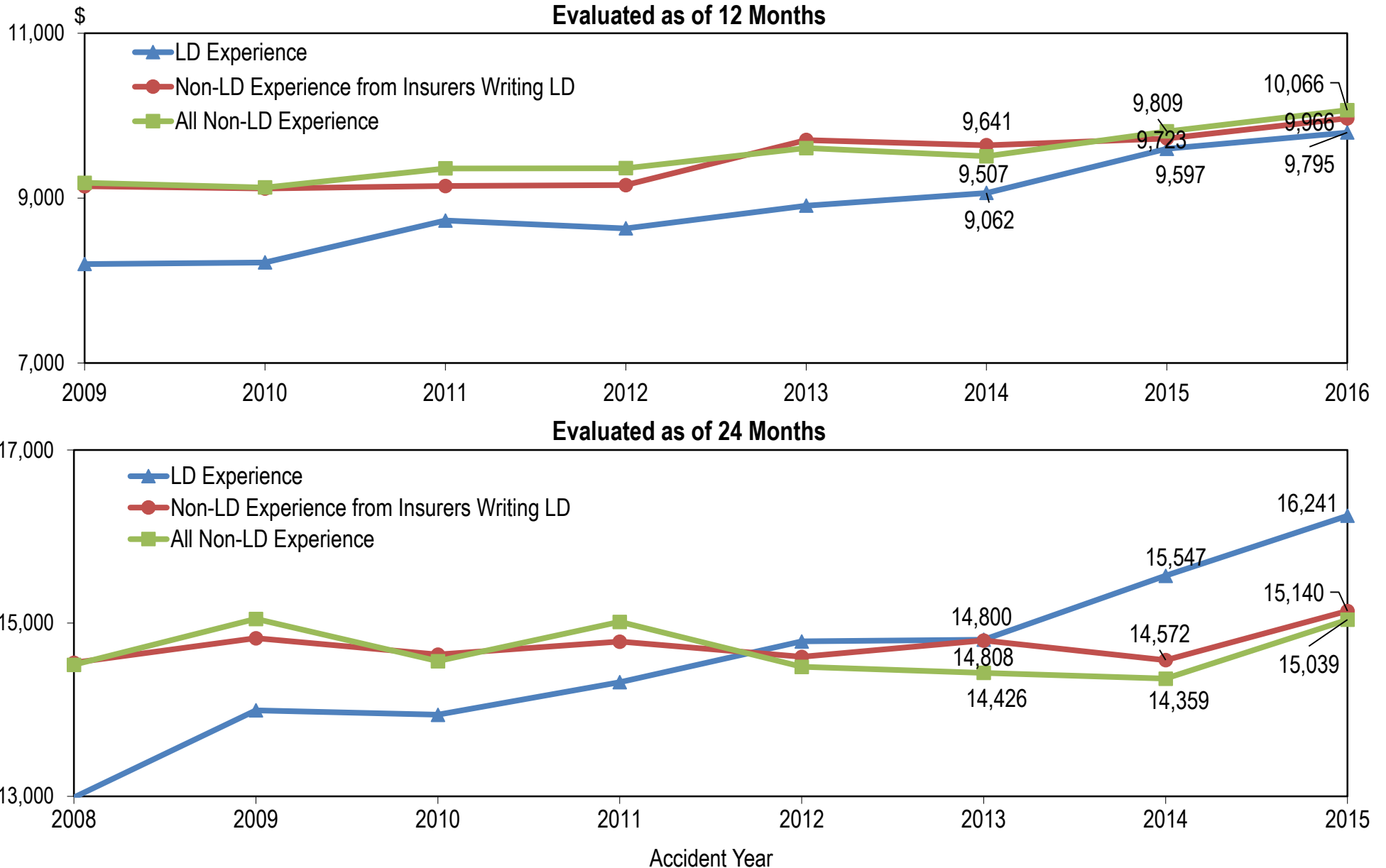
Reported Indemnity Claim Count Development (Exhibit 6.1)



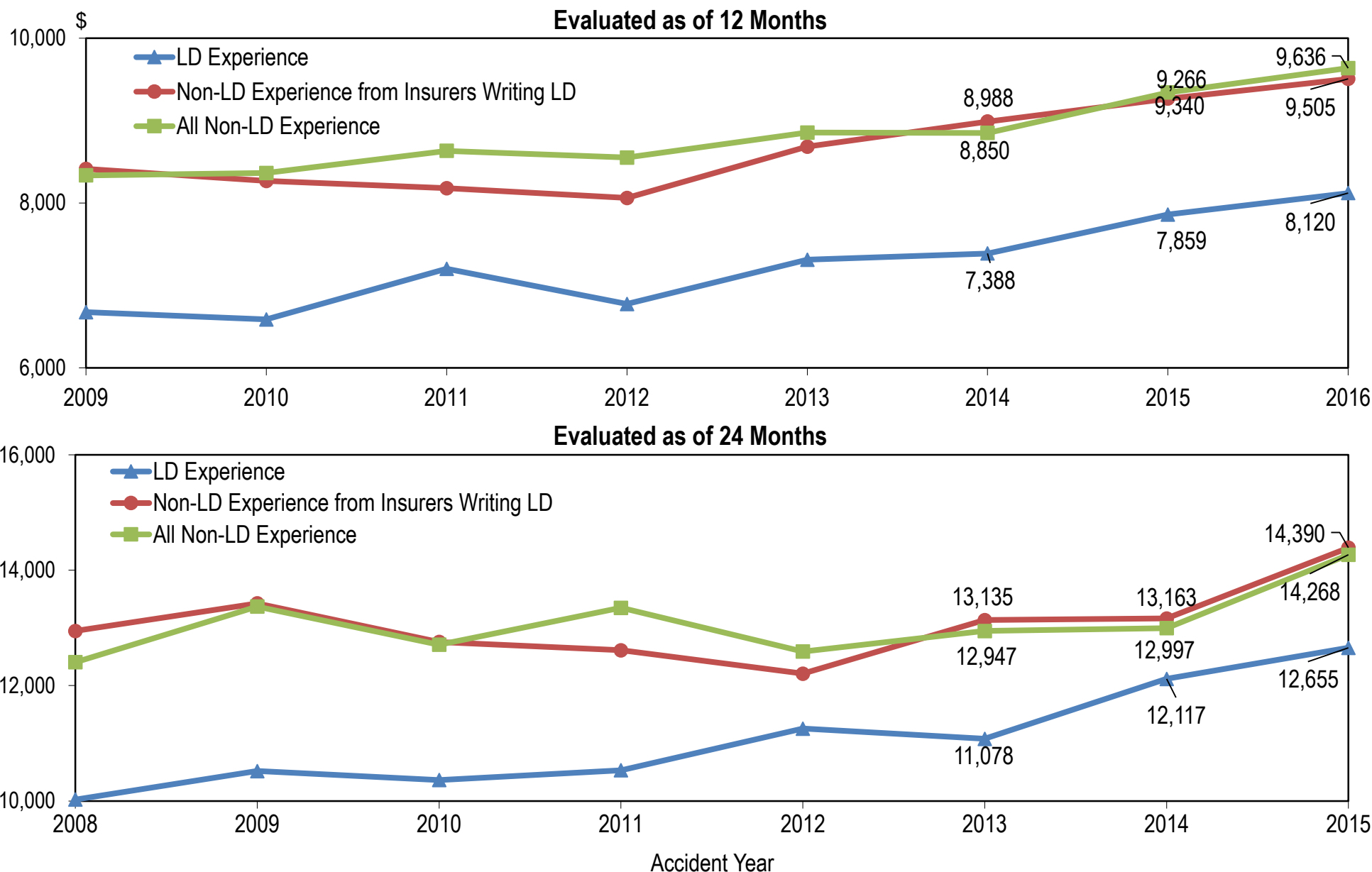
Reported Total Claim Count Development (Exhibit 6.2)



Average Incurred Indemnity Per Reported Claim (Exhibit 4.1)

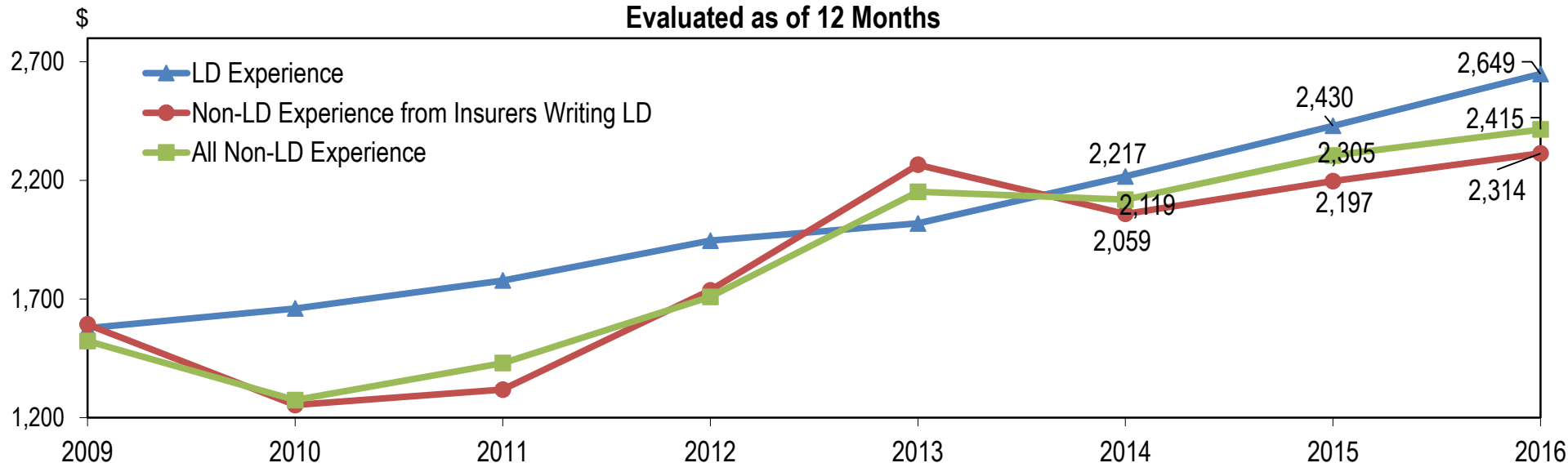


Average Outstanding Indemnity Per Open Claim (Exhibit 4.4)

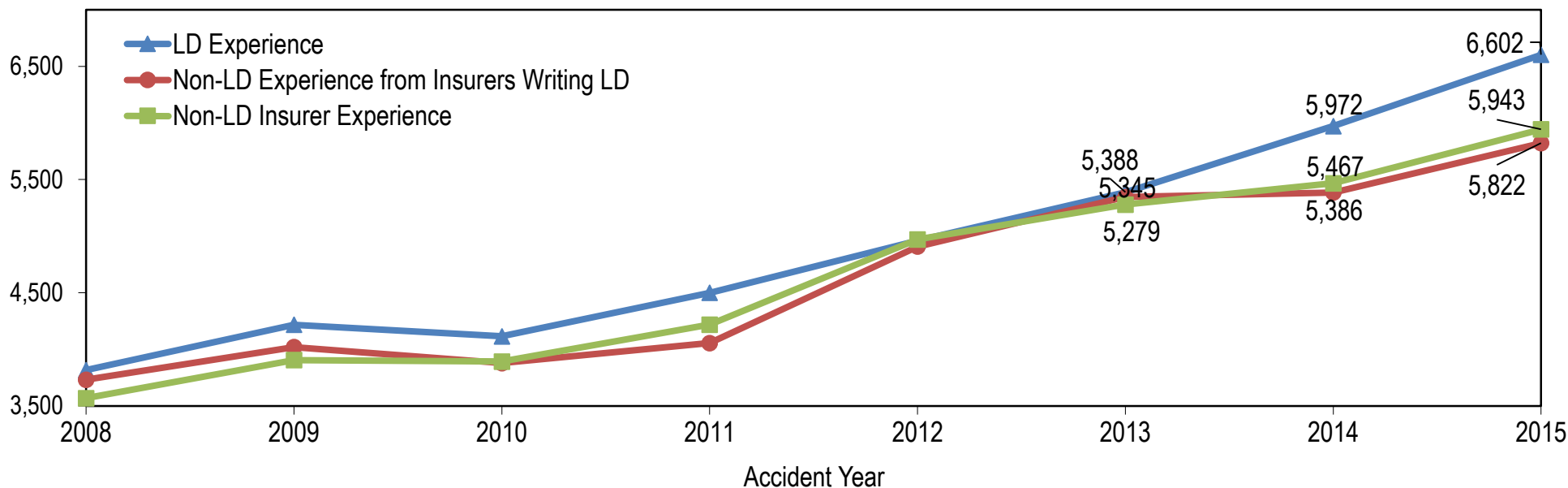


Average Paid Indemnity Per Closed Claim (Exhibit 4.2)

Evaluated as of 12 Months



Evaluated as of 24 Months



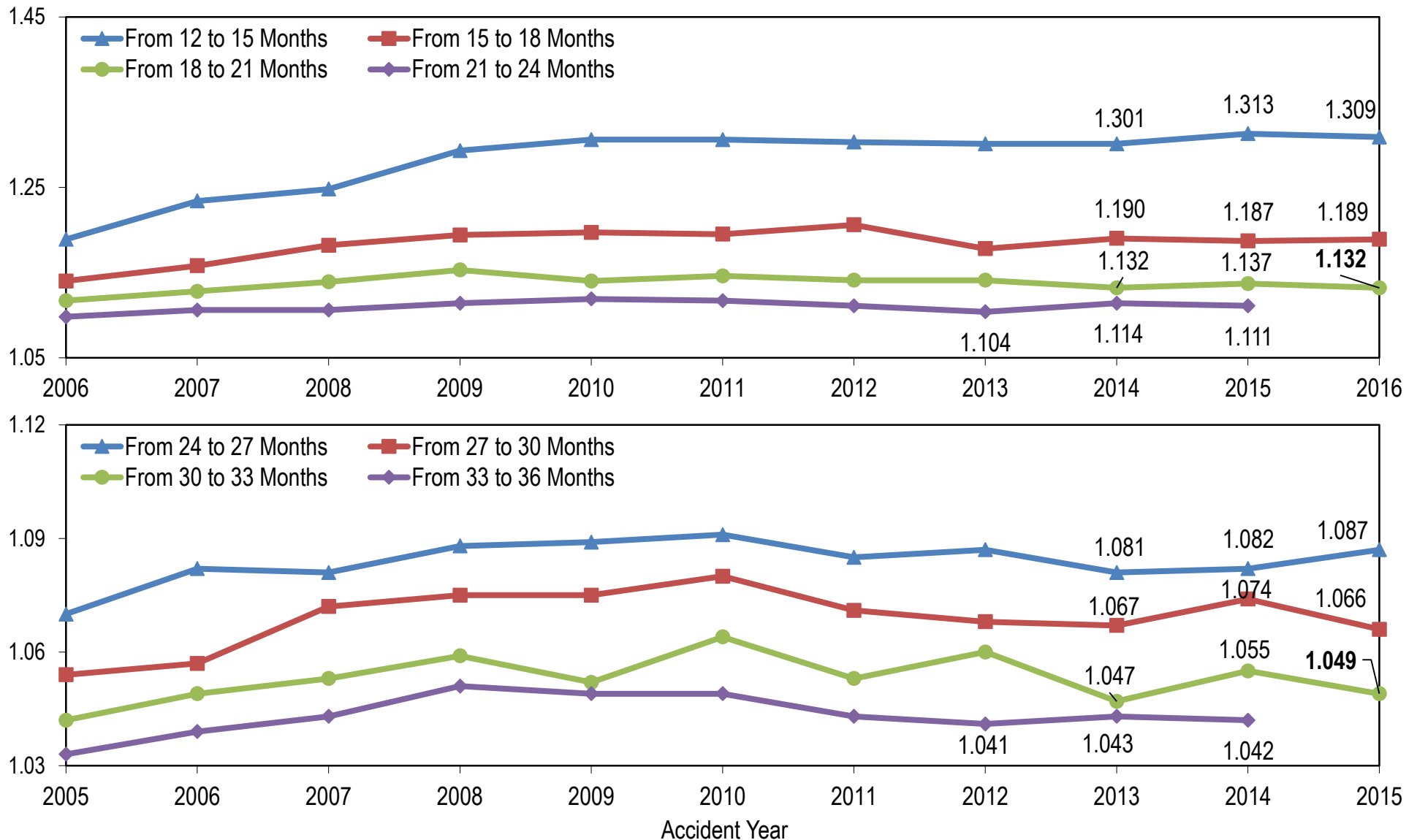
9/30/2017 Experience – Review of Methodologies

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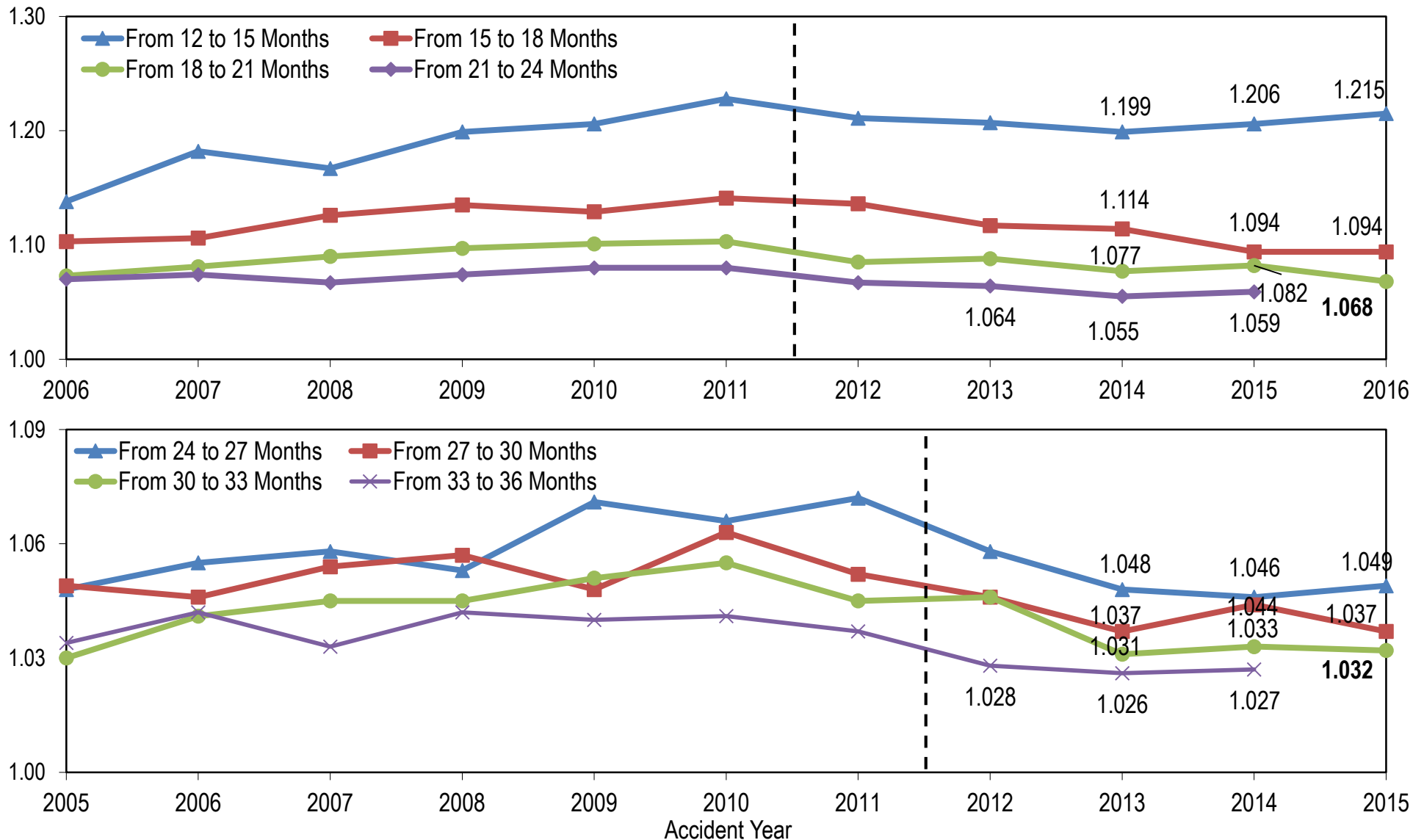
Summary of September 30, 2017 Experience

- Almost 100% of market reflected
- Same methodologies as in 1/1/18 Filing
- Projected policy year 2018 loss ratio: 0.628
- 1.3 point decrease from Amended 1/1/18 Filing (0.641)
 - 2.3 point decrease from lower loss development
 - 1.0 point increase from updated wage forecast

Quarterly Incurred Indemnity Development (Exhibit 9.1)

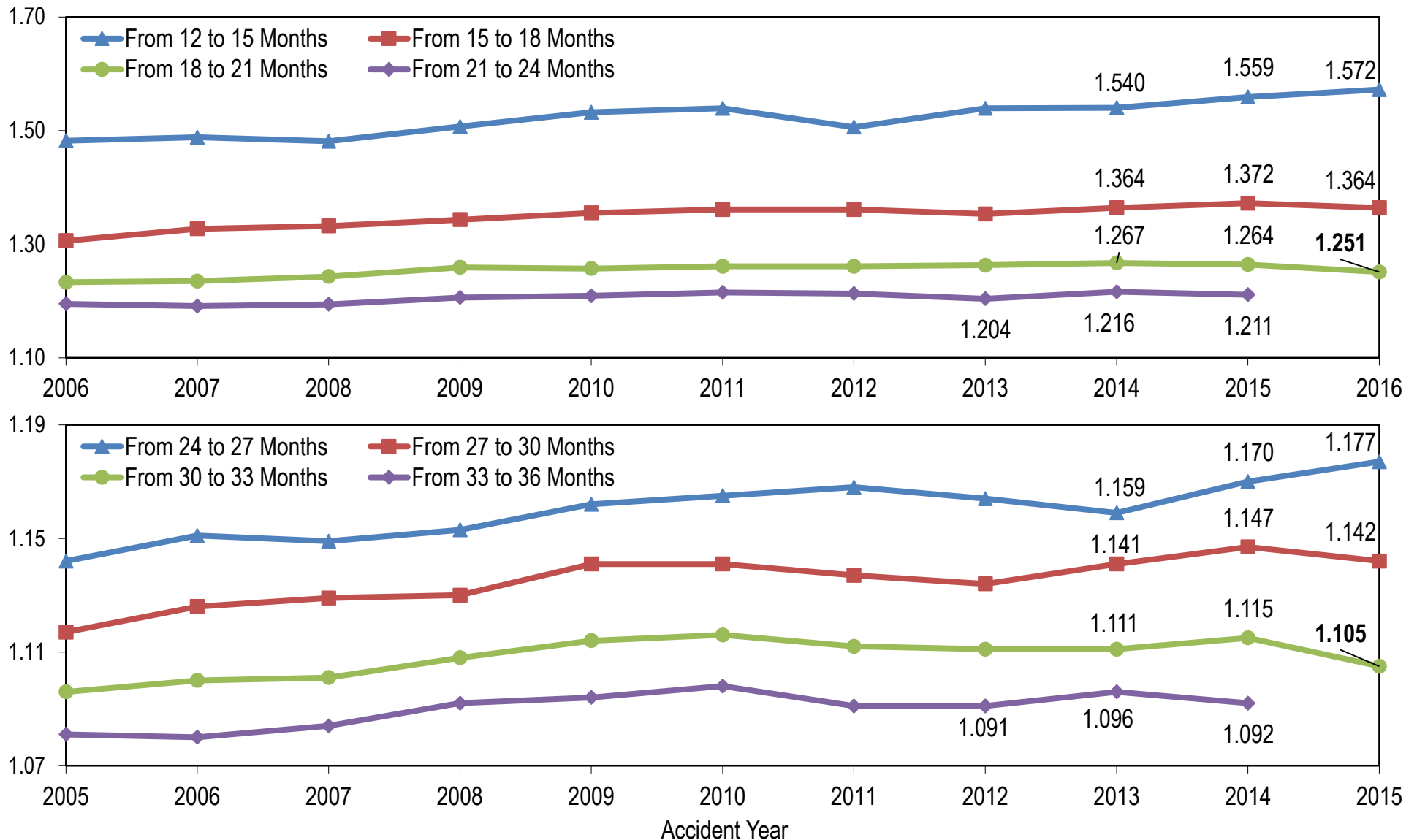


Quarterly Incurred Medical Development (Exhibit 9.2)

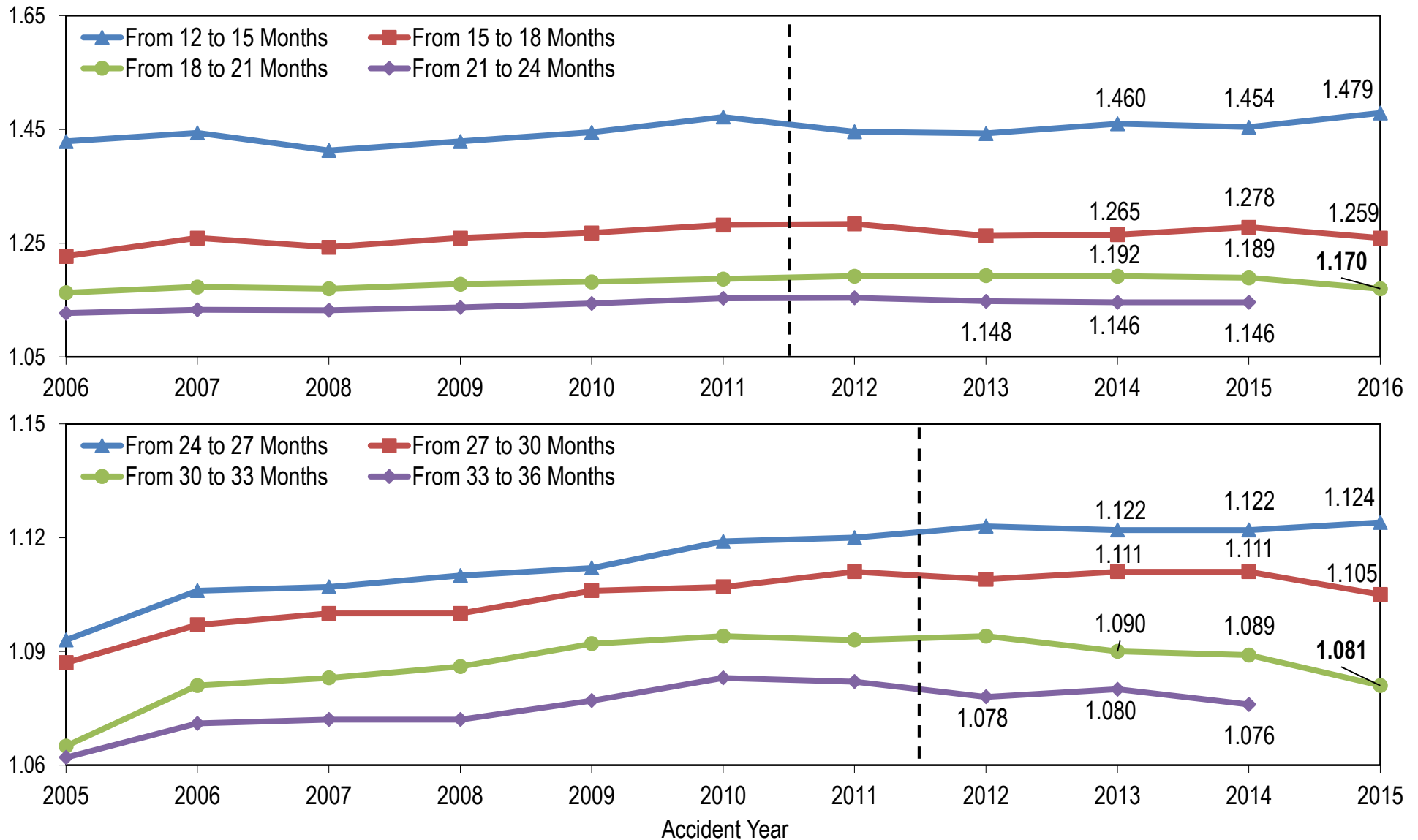


Note: MCCP development is included in incurred medical loss development for 2011 and prior.

Quarterly Paid Indemnity Development (Exhibit 9.3)

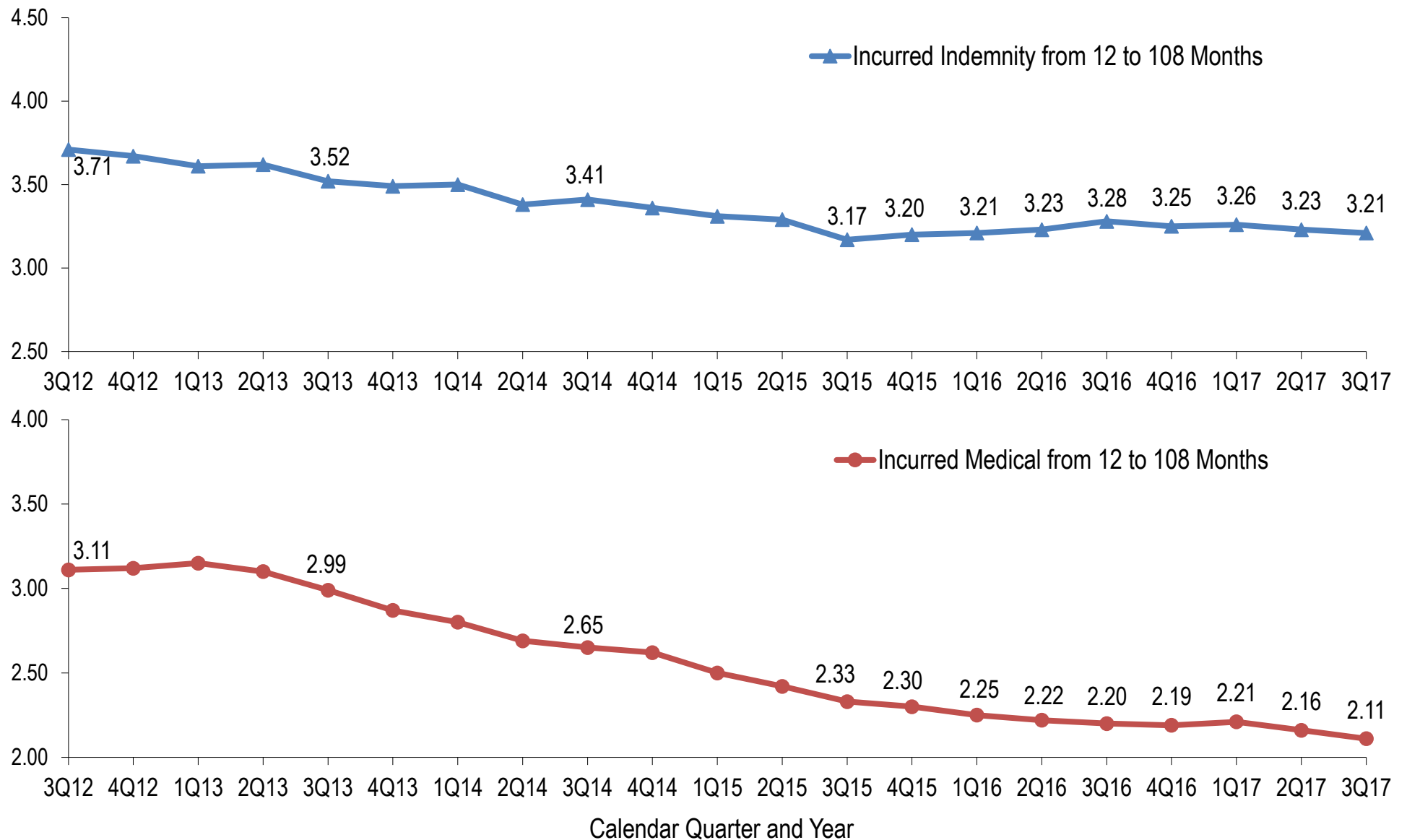


Quarterly Paid Medical Development (Exhibit 9.4)

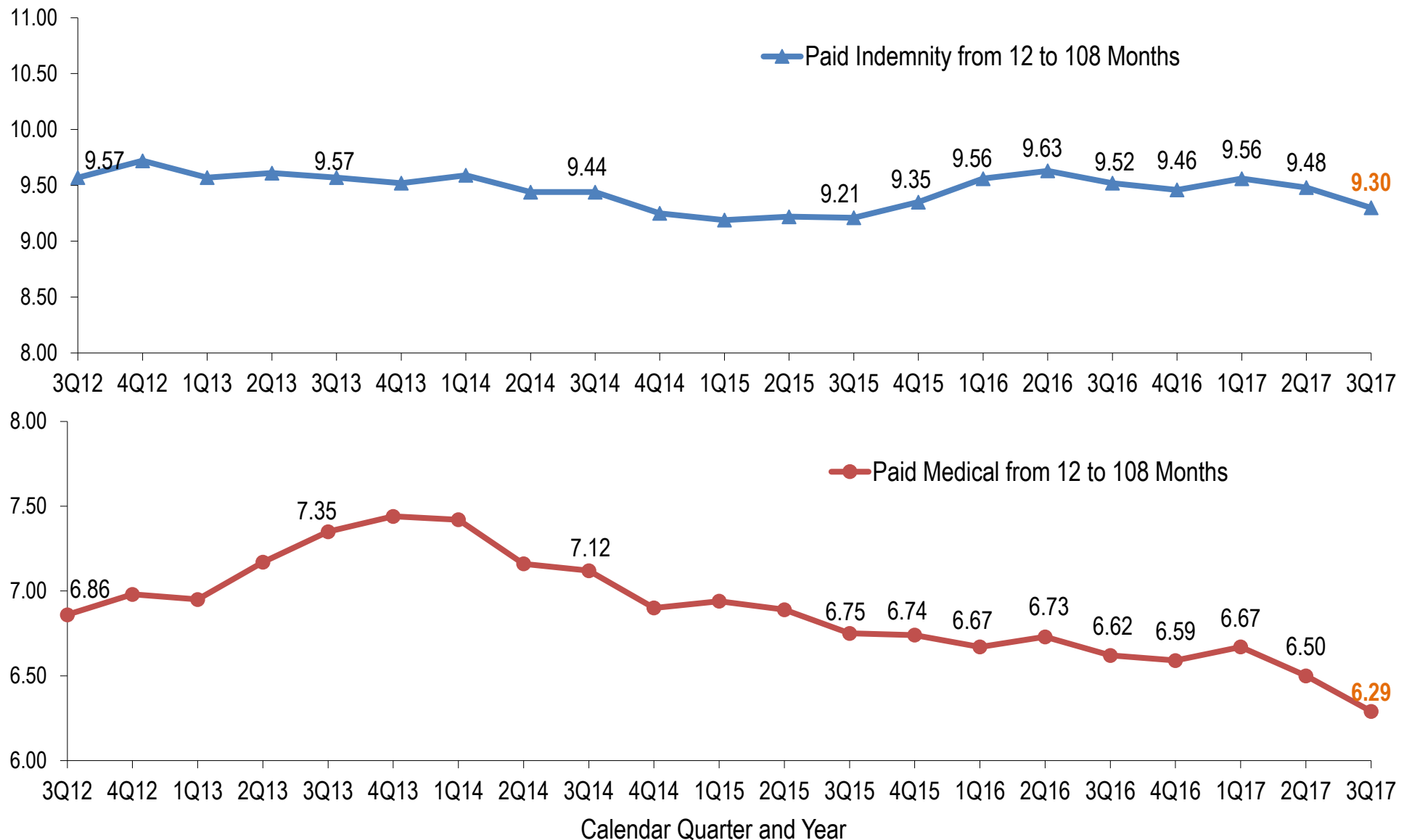


Note: MCCP development is included in paid medical loss development for 2011 and prior.

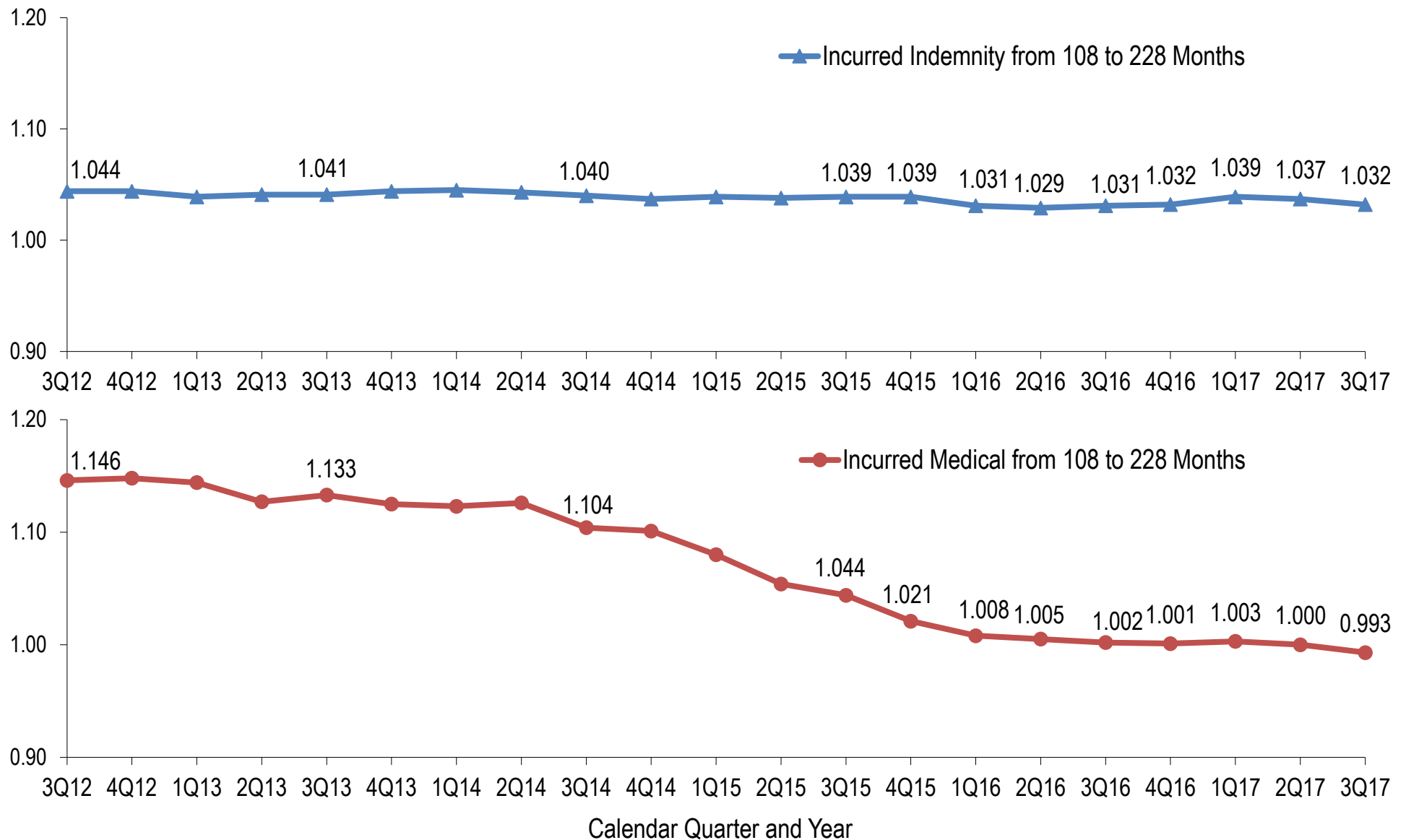
Cumulative Incurred Development by Quarter



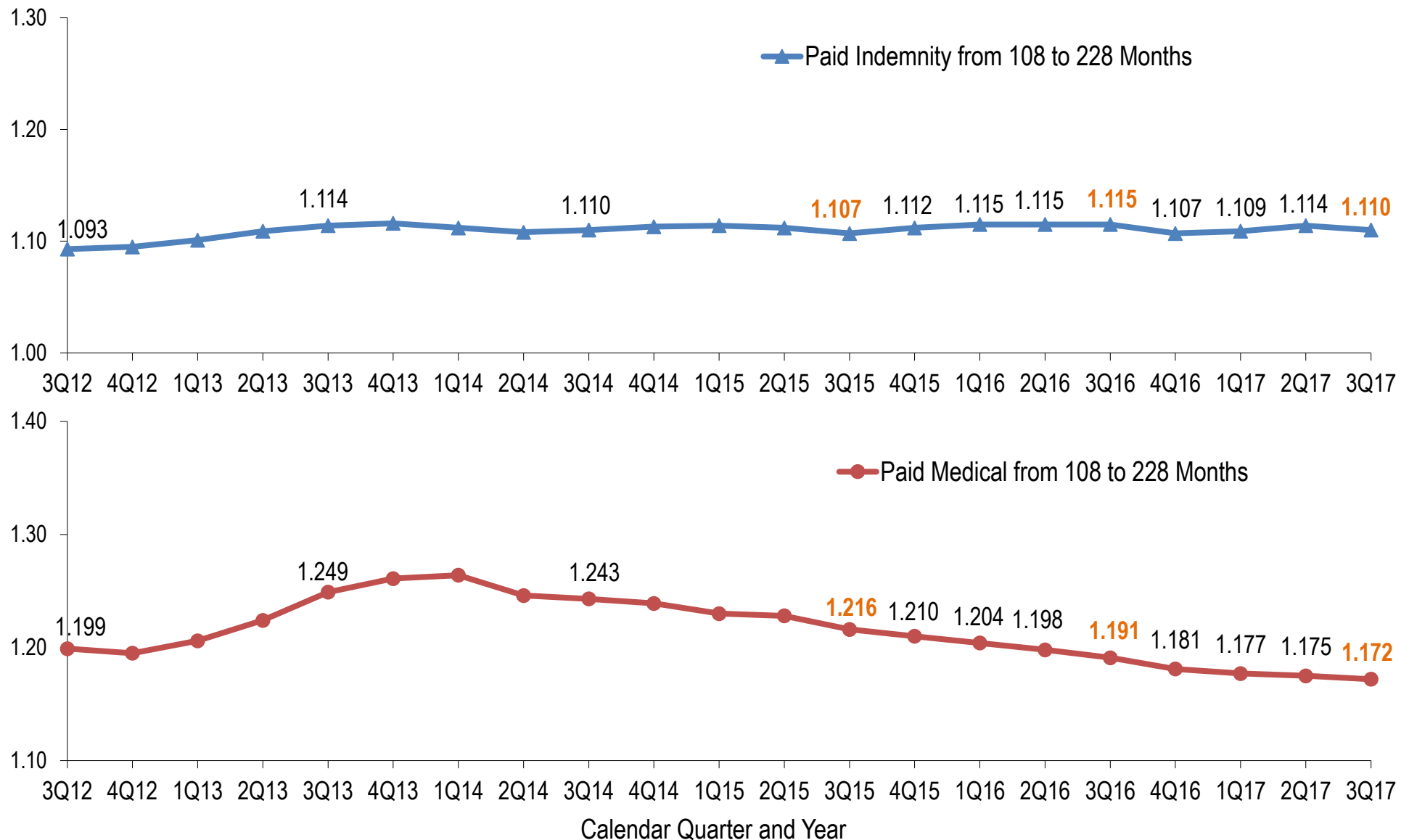
Cumulative Paid Development by Quarter



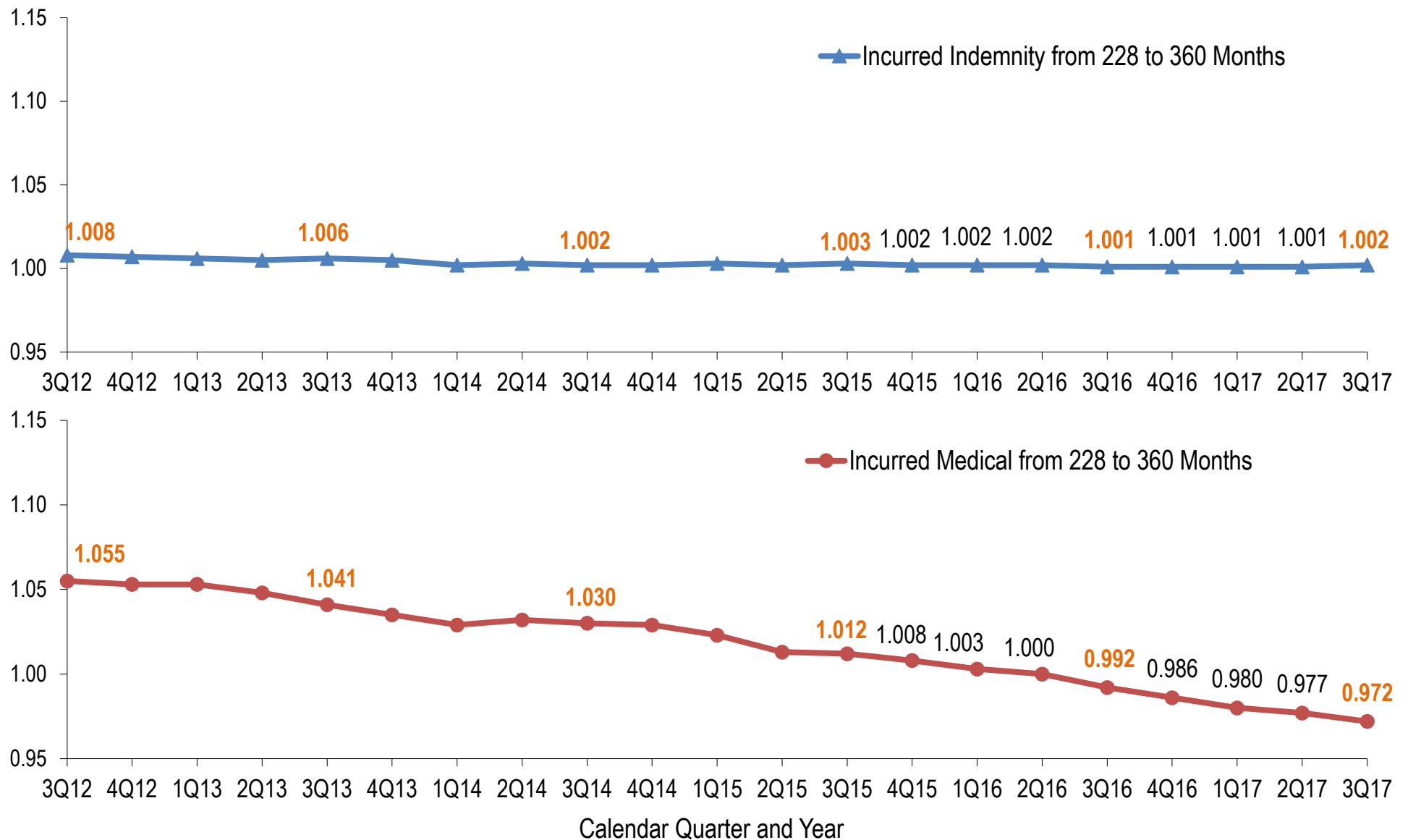
Cumulative Incurred Development by Quarter



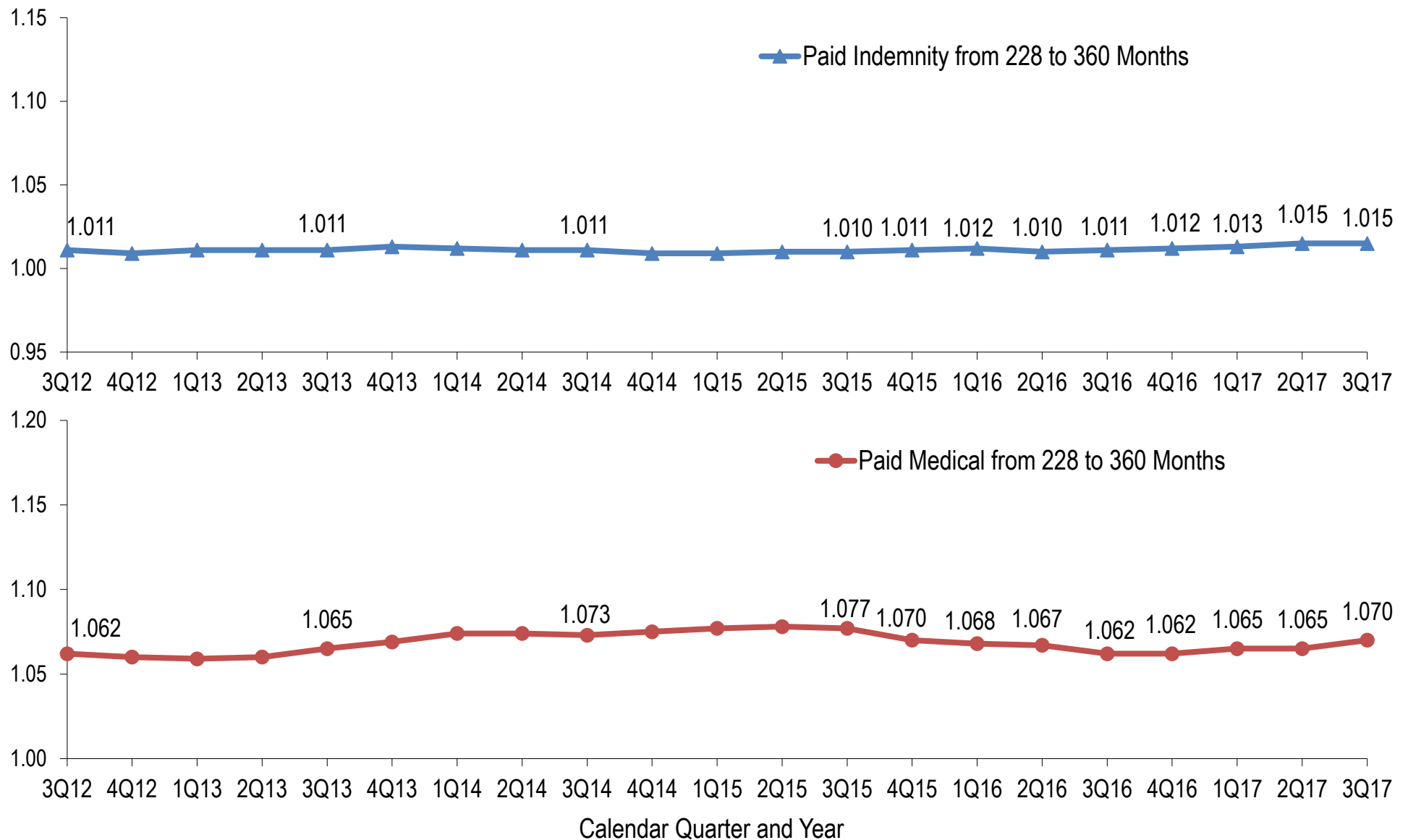
Cumulative Paid Development by Quarter



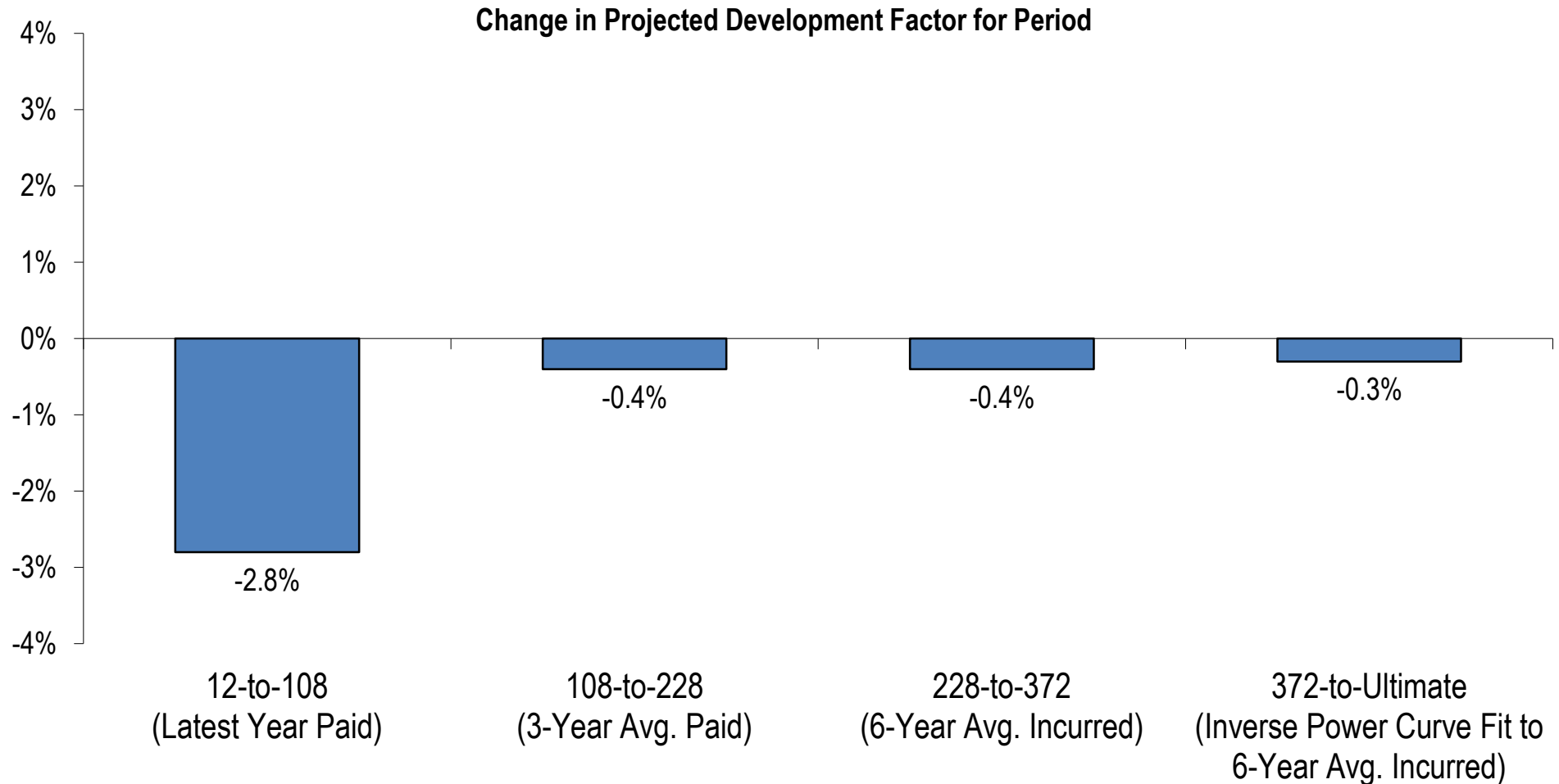
Cumulative Incurred Development by Quarter



Cumulative Paid Development by Quarter

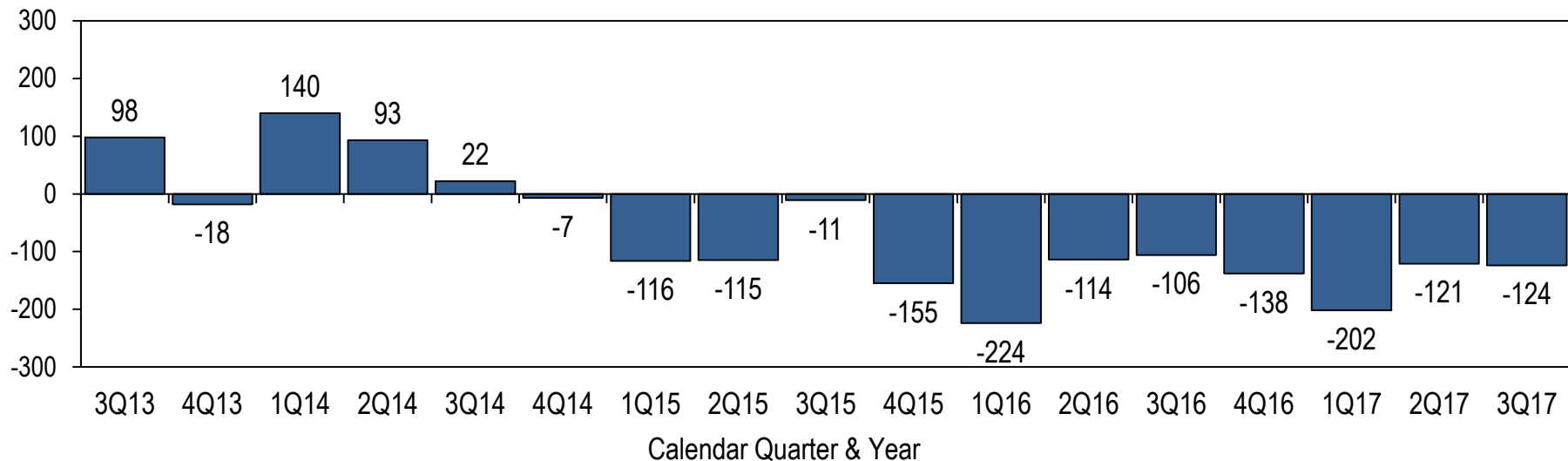


Change in Projected Medical Development Factor June 30, 2017 to September 30, 2017 Experience

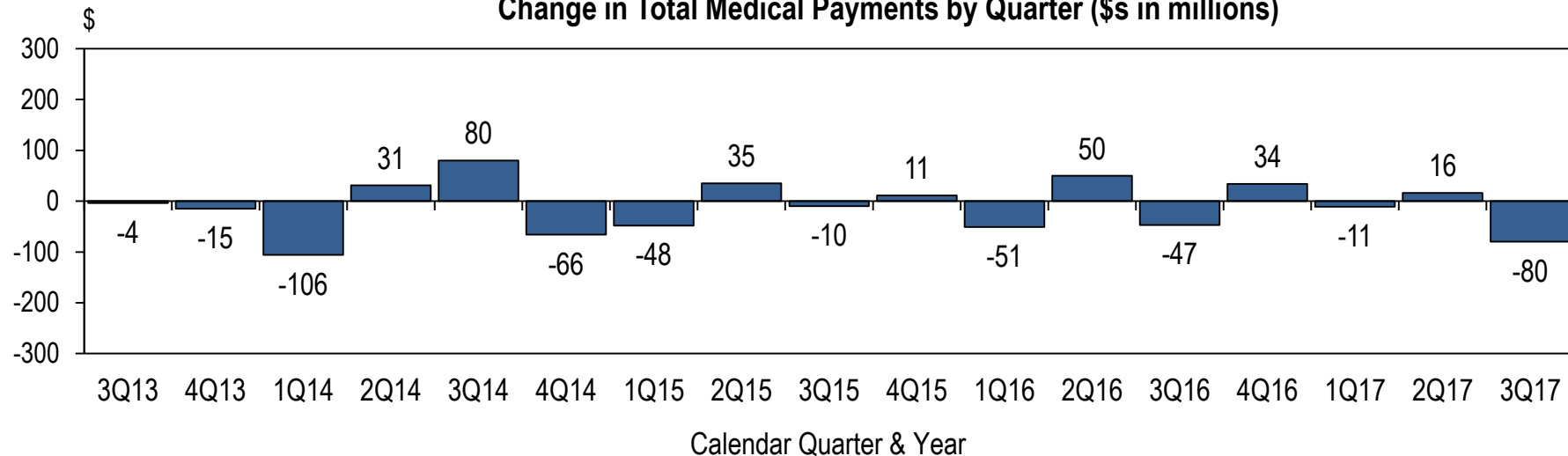


Change in Total Medical Case Reserves and Payments by Quarter

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

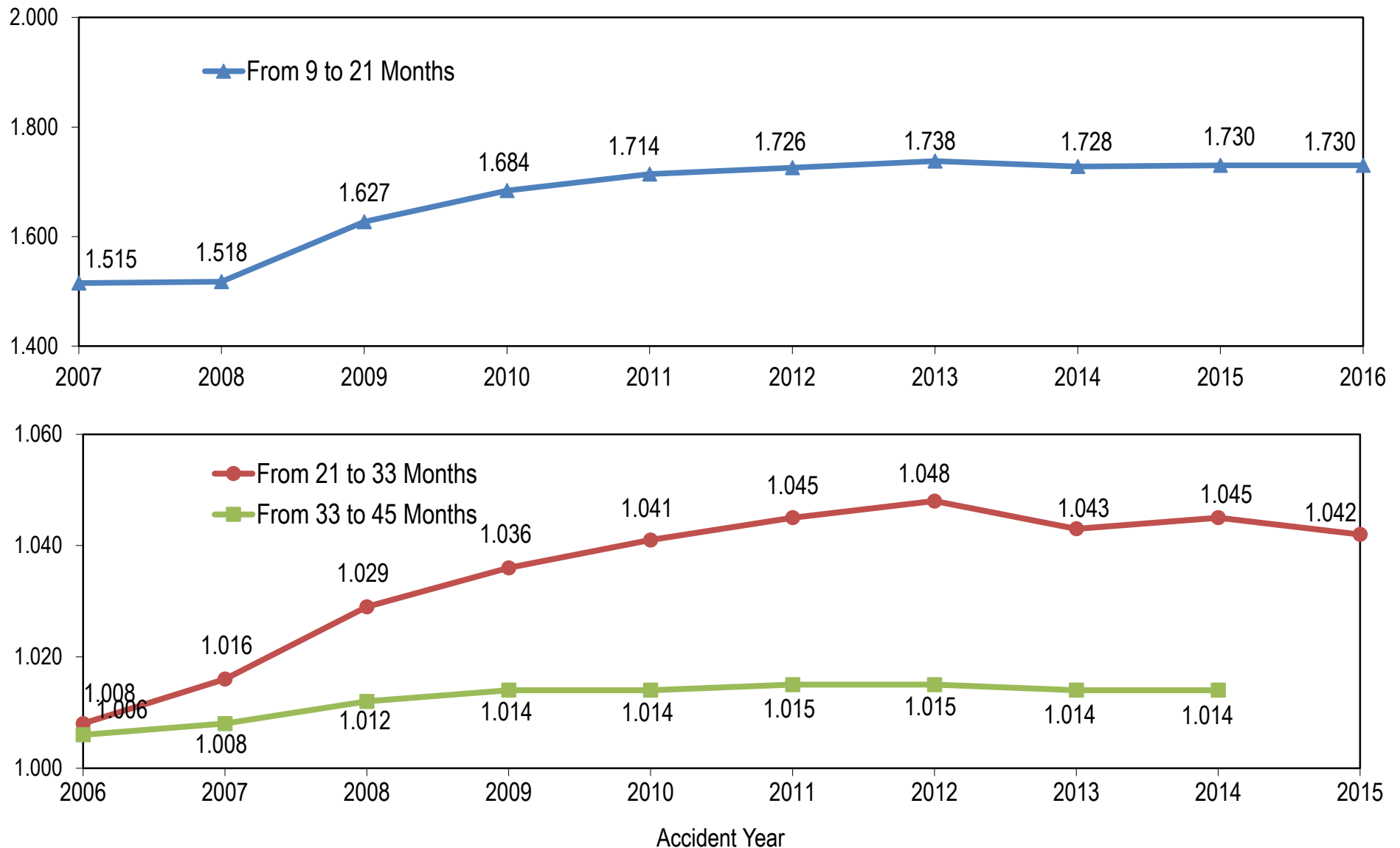


Change in Total Medical Payments by Quarter (\$s in millions)

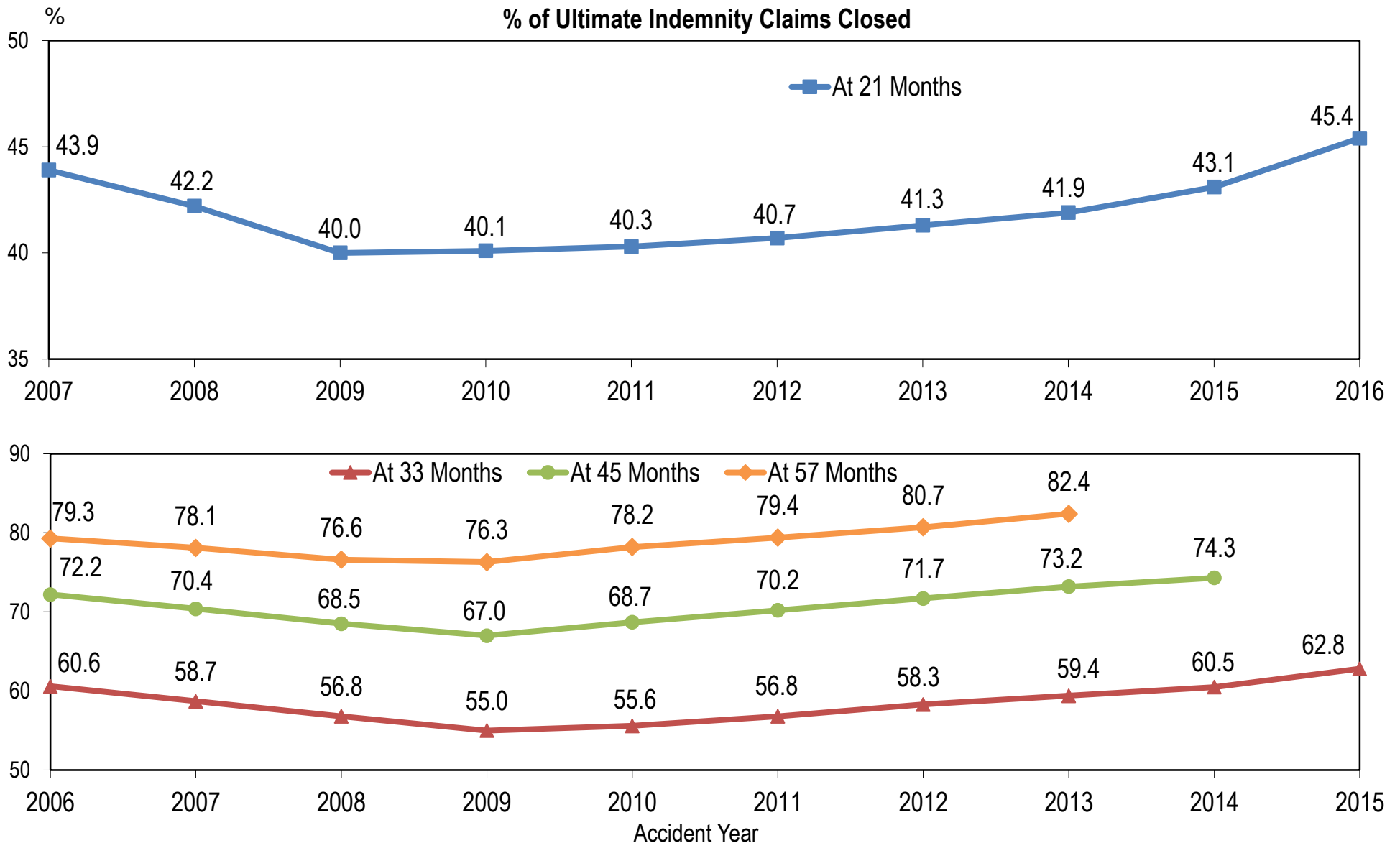


Source: WCIRB Quarterly Calls for Experience

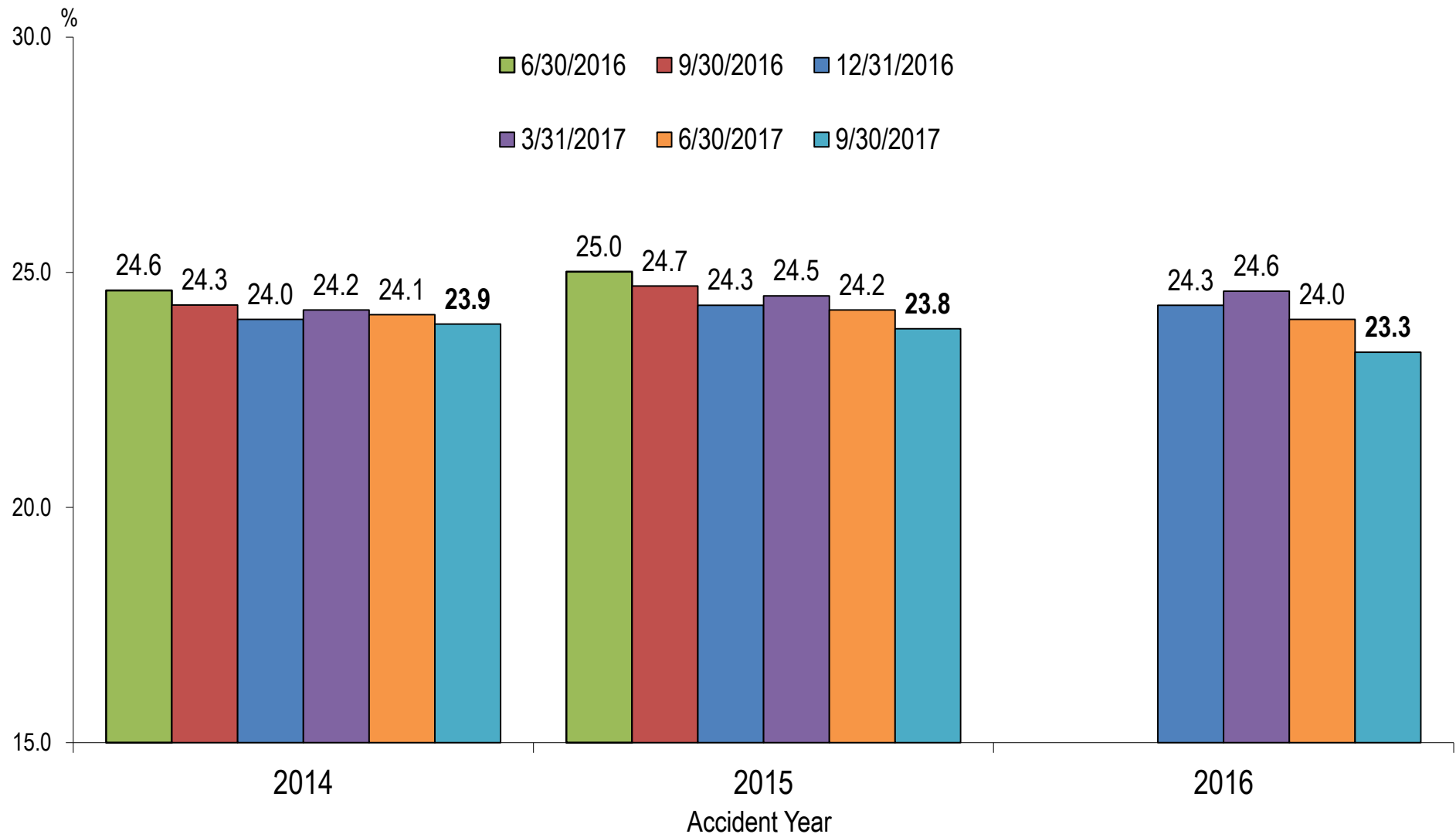
Indemnity Claim Count Development (Exhibit 10.1)



Indemnity Claim Settlement Ratios (Exhibit 11.2)

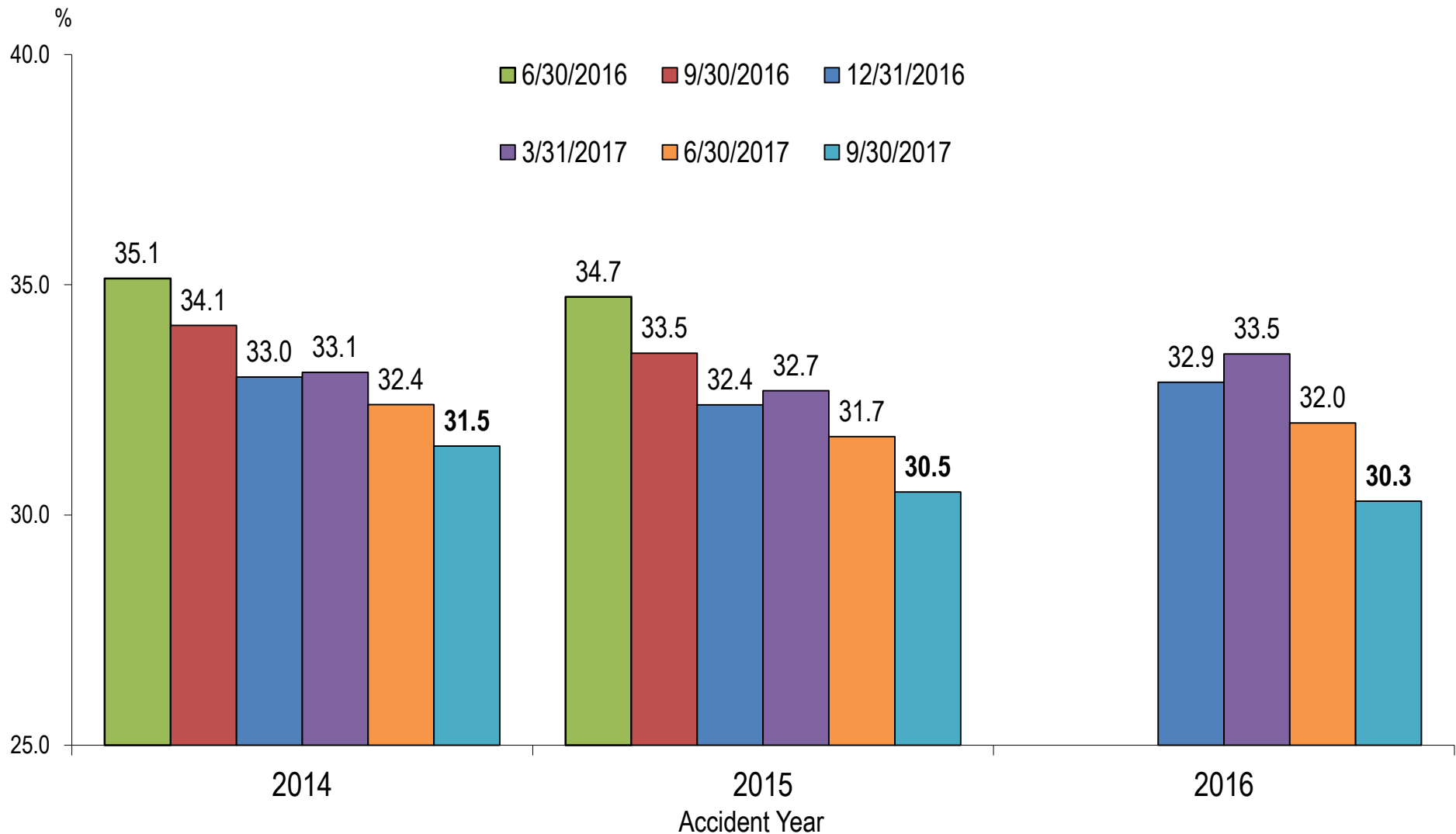


Projected Ultimate Indemnity Loss Ratios (Exhibit 3.1)



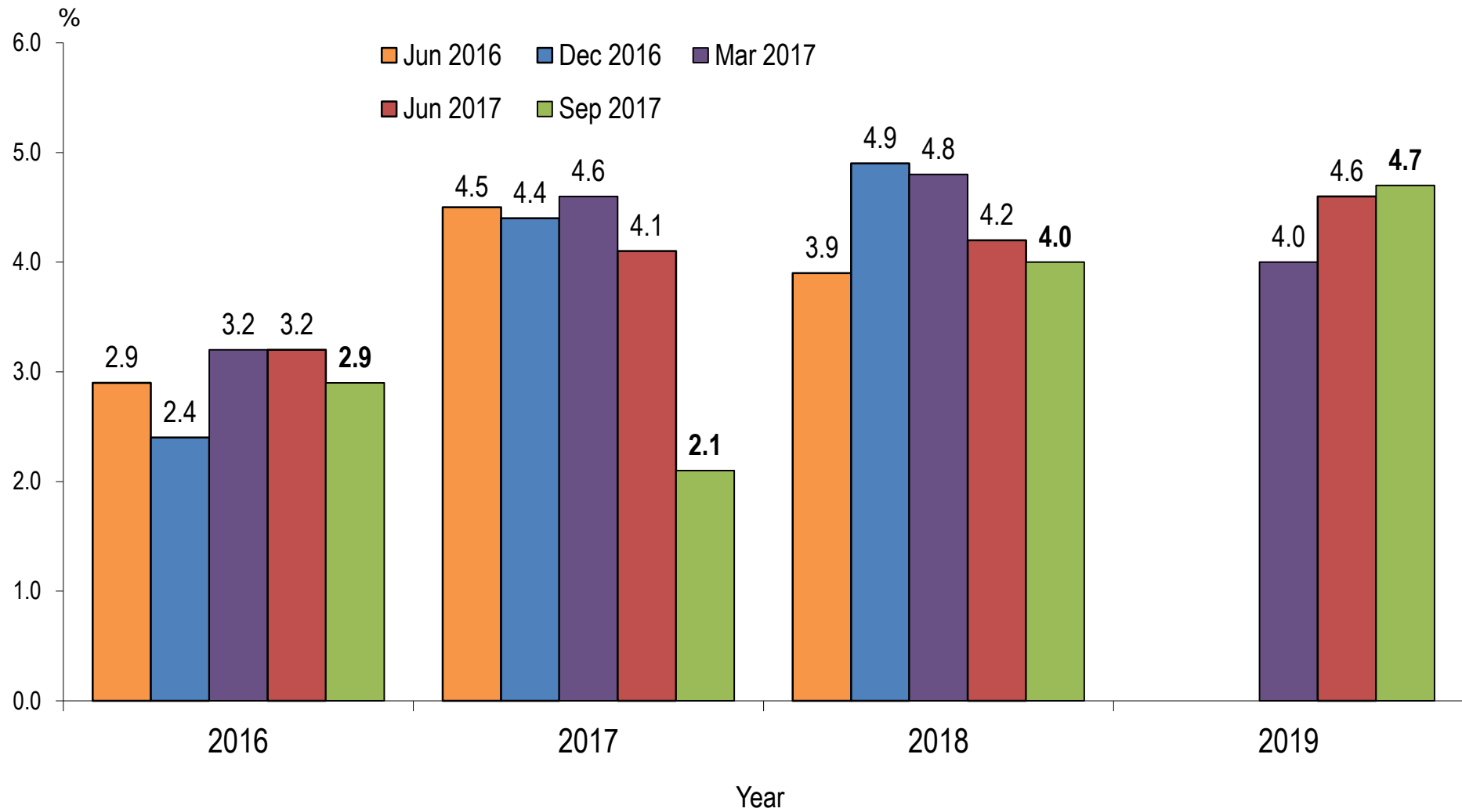
Note: All loss ratios are adjusted to the loss development methodology reflected in the 9/5/2017 Agenda and may not be comparable to the actual loss ratios projected at that time.

Projected Ultimate Medical Loss Ratios (Exhibit 3.2)

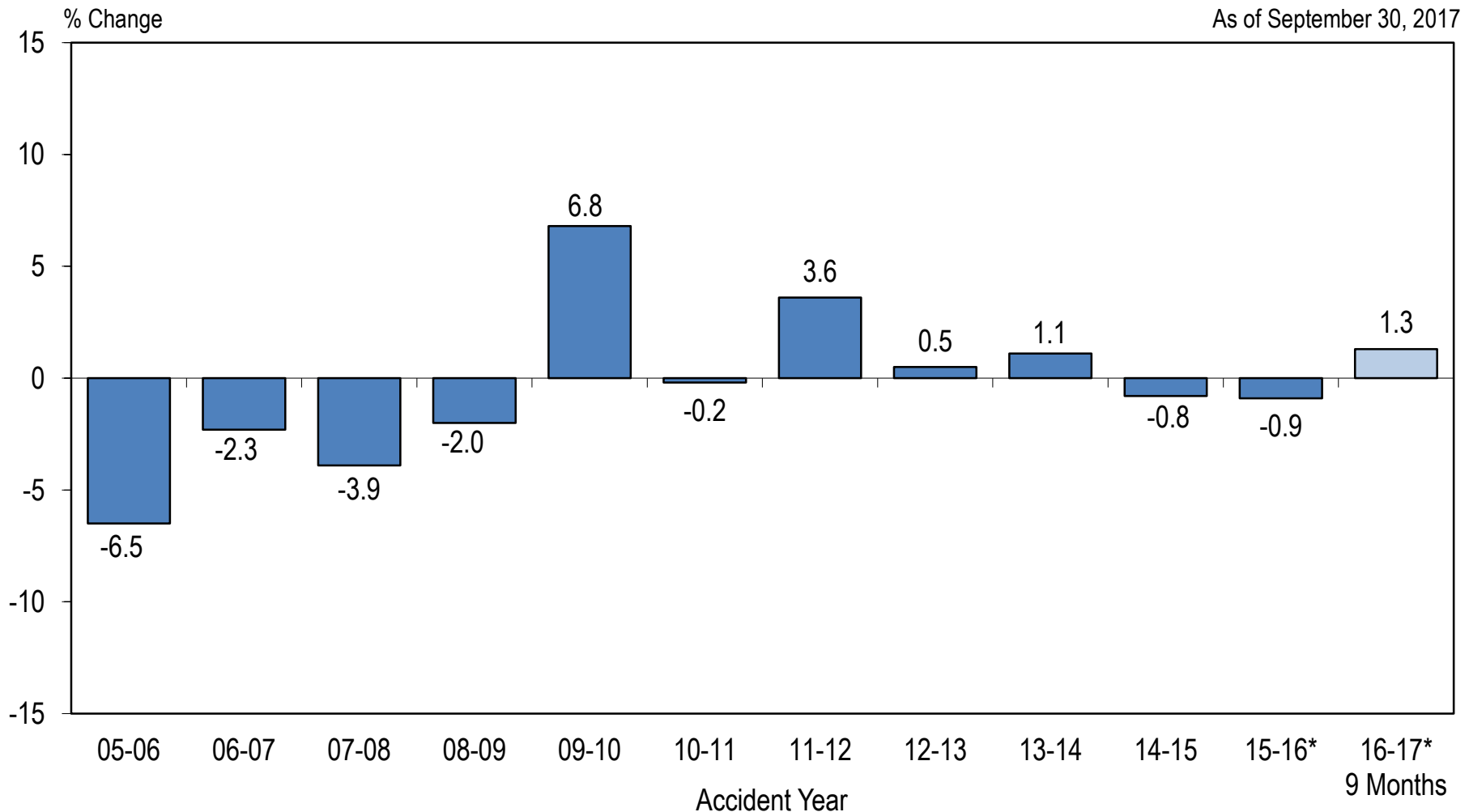


Note: All loss ratios are adjusted to the loss development methodology reflected in the 9/5/2017 Agenda and may not be comparable to the actual loss ratios projected at that time.

BLS Historical & UCLA Forecasts of Wage Level Changes (Exhibit 5.1)

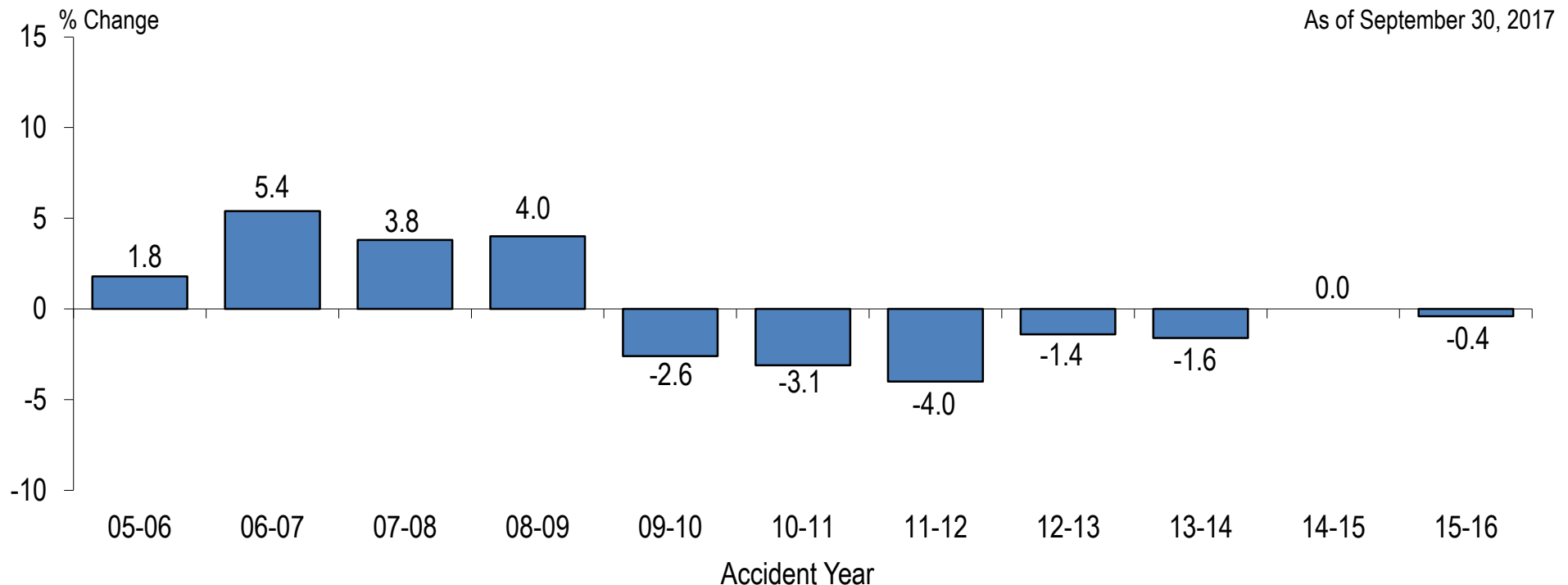


Estimated Change in Indemnity Claim Frequency (Exhibit 12)



* 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)



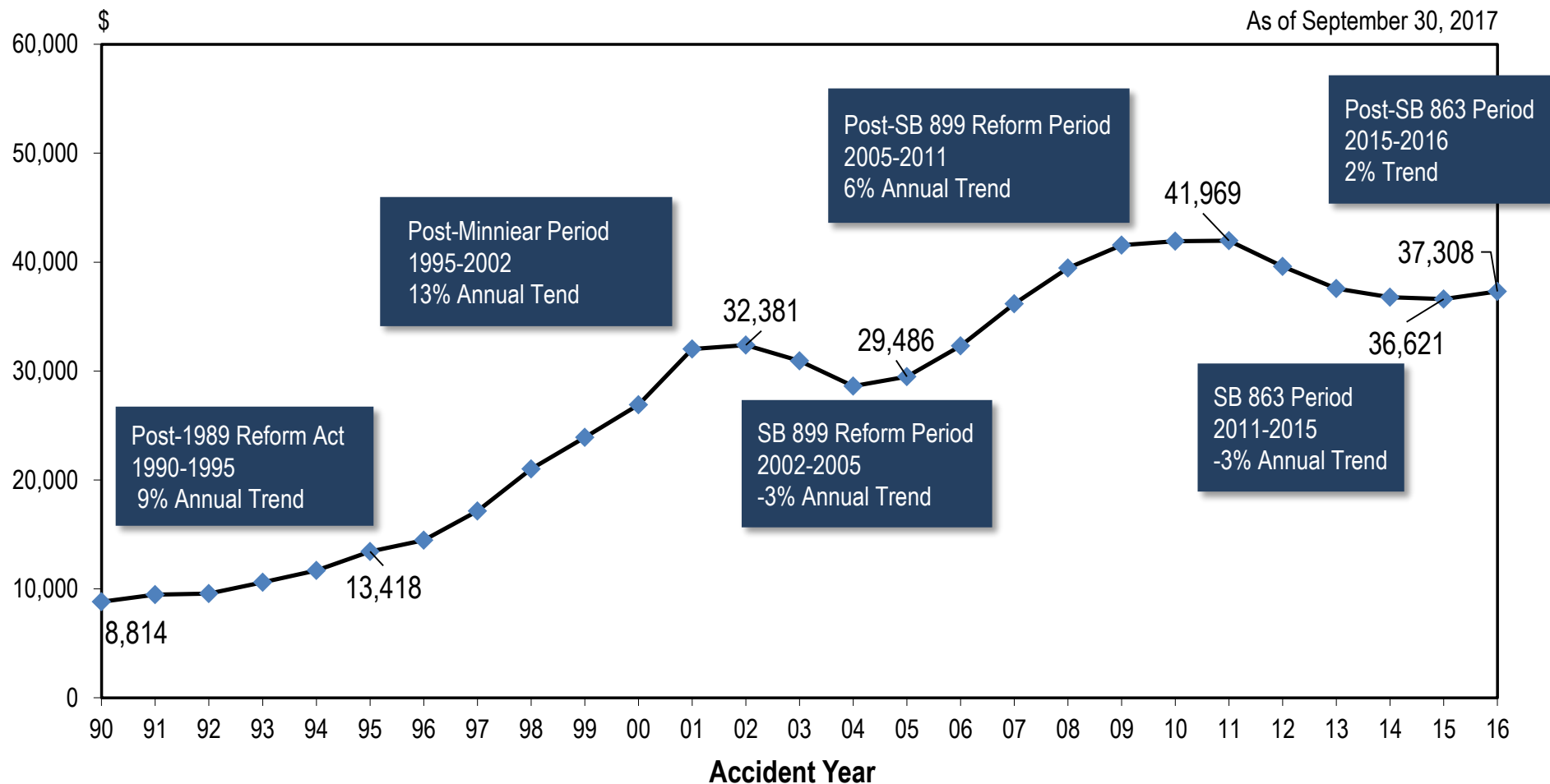
Annual Exponential Trend Based on:

2005 to 2016: -0.3%

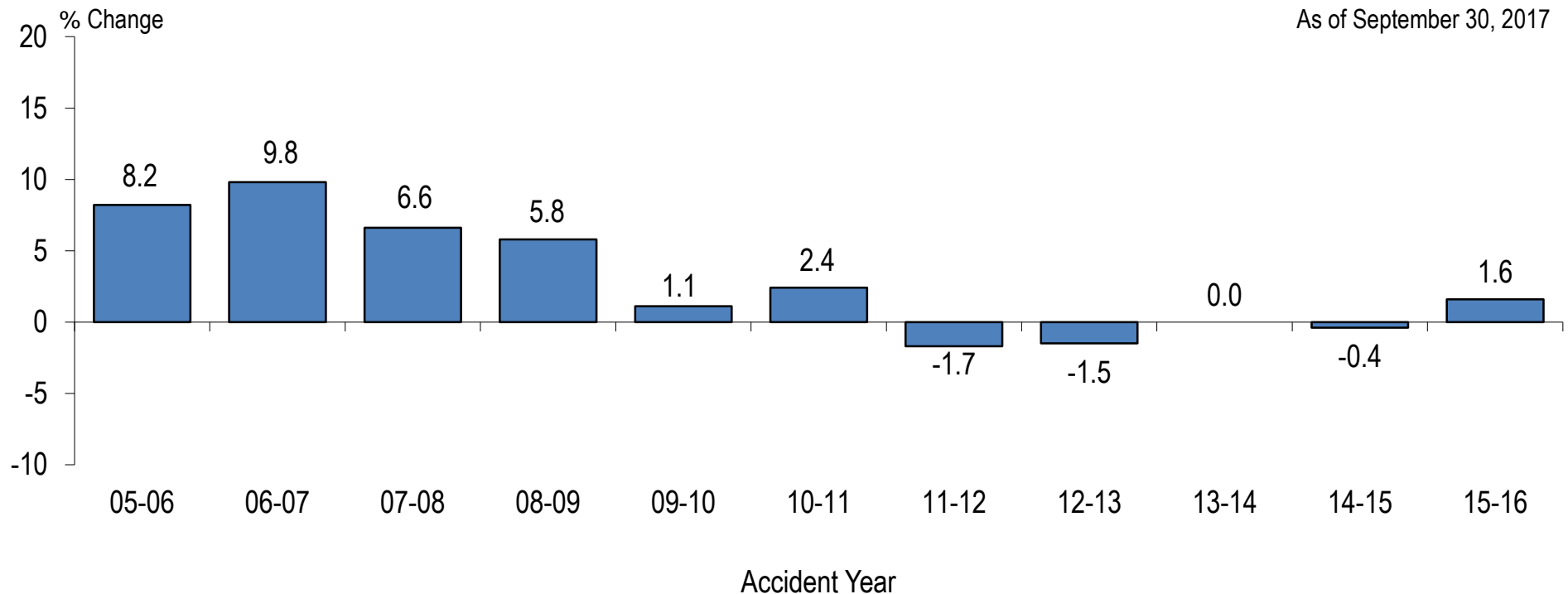
2011 to 2016: -1.4%

Agenda Selected (Based on Amended 1/1/2018 Filing): 0.7%

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



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



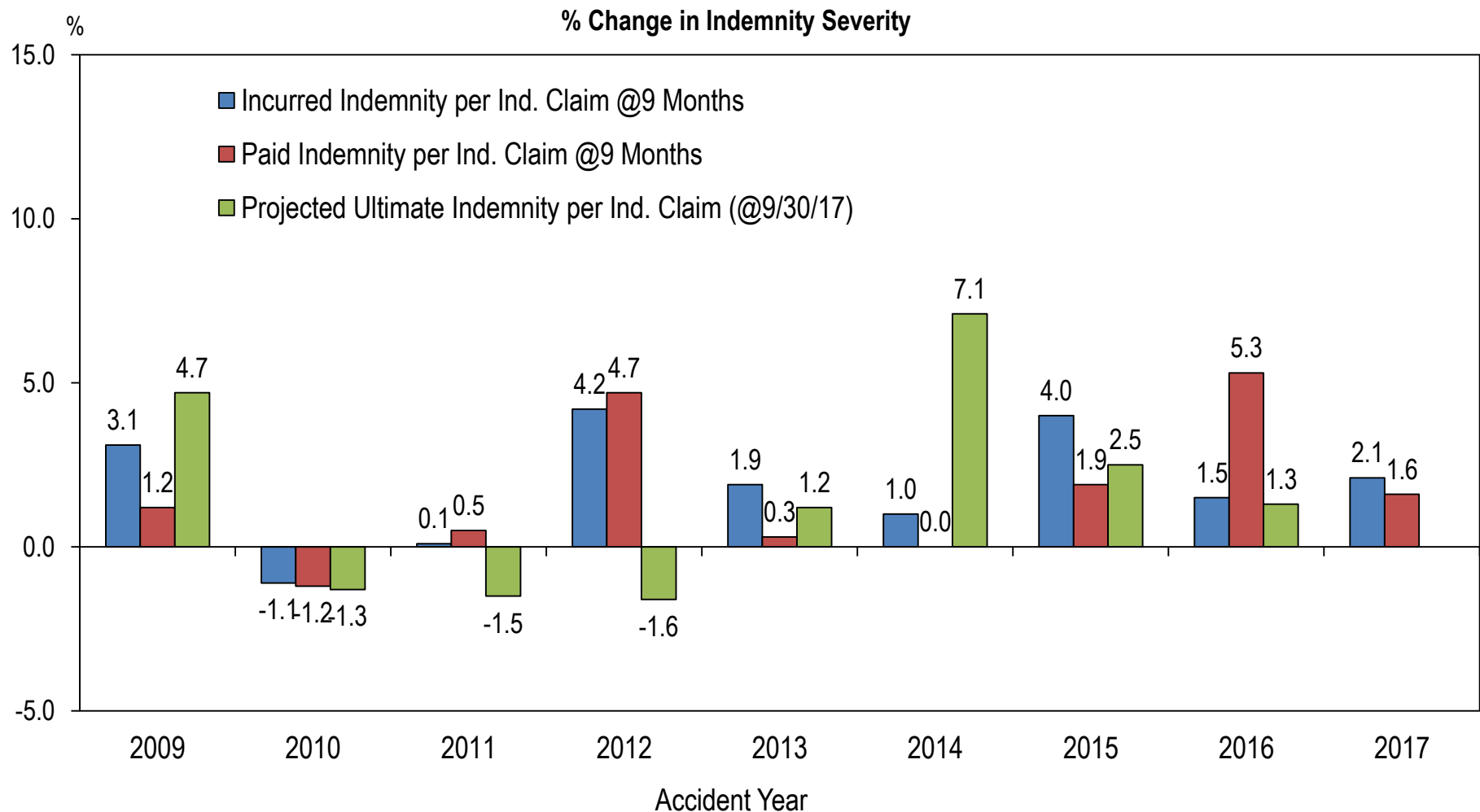
Annual Exponential Trend Based on:

2005 to 2016: +2.3%

2011 to 2016: -0.5%

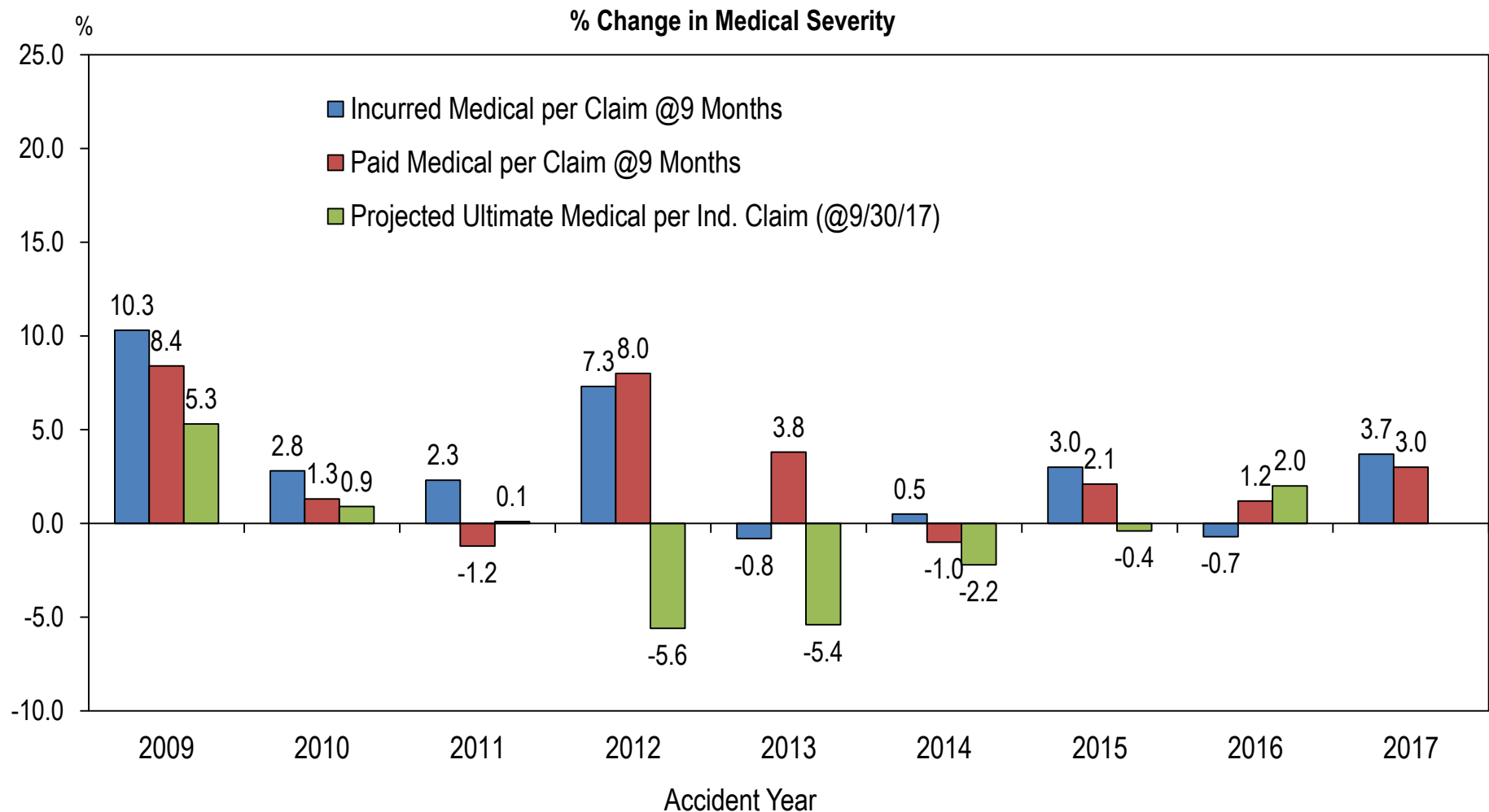
Agenda Selected (Based on Amended 1/1/2018 Filing): 3.0%

Indemnity Severity Changes at 9 Months Compared to Ultimate



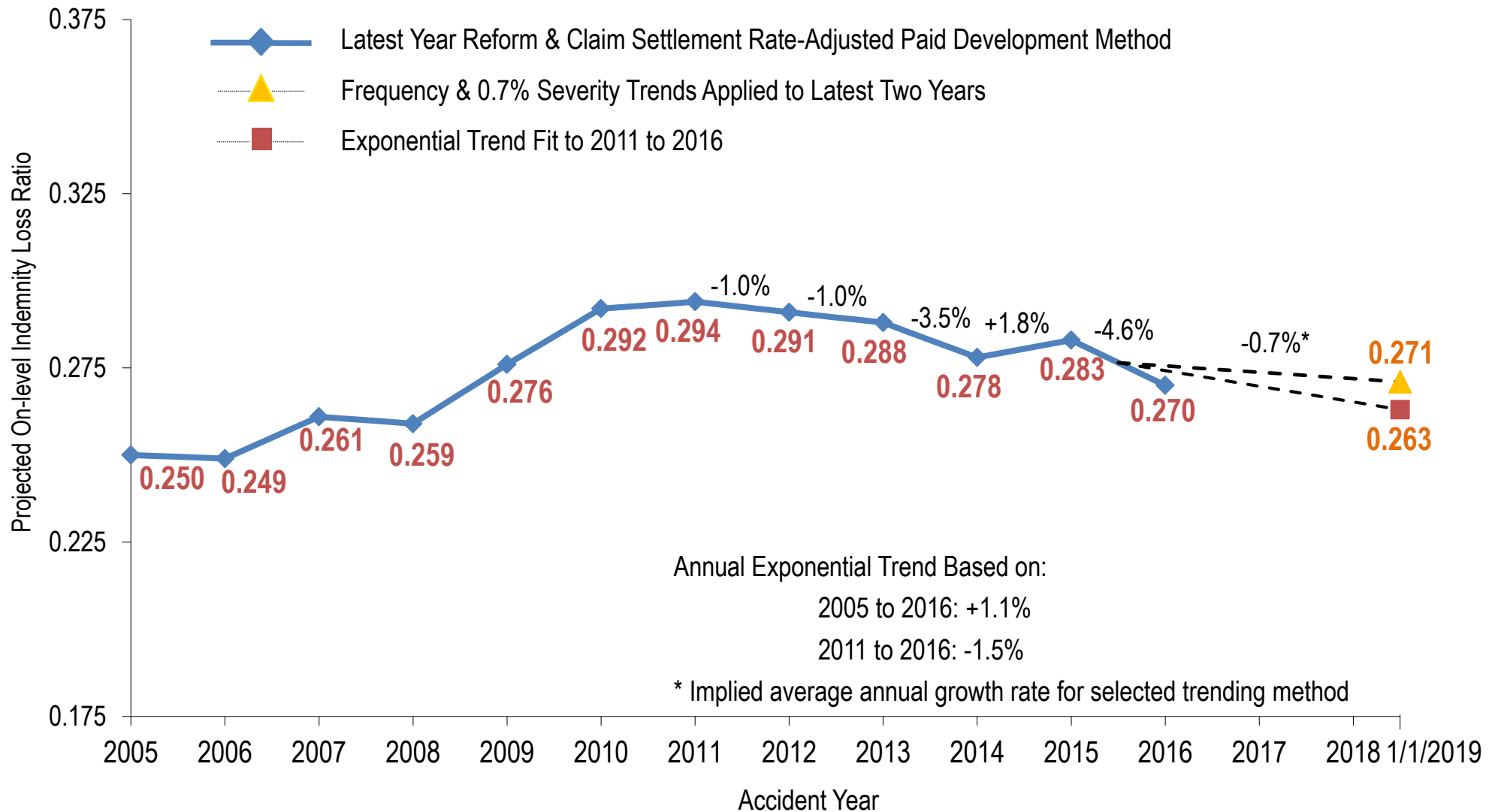
Source: WCIRB Quarterly Calls for Experience

Medical Severity Changes at 9 Months Compared to Ultimate

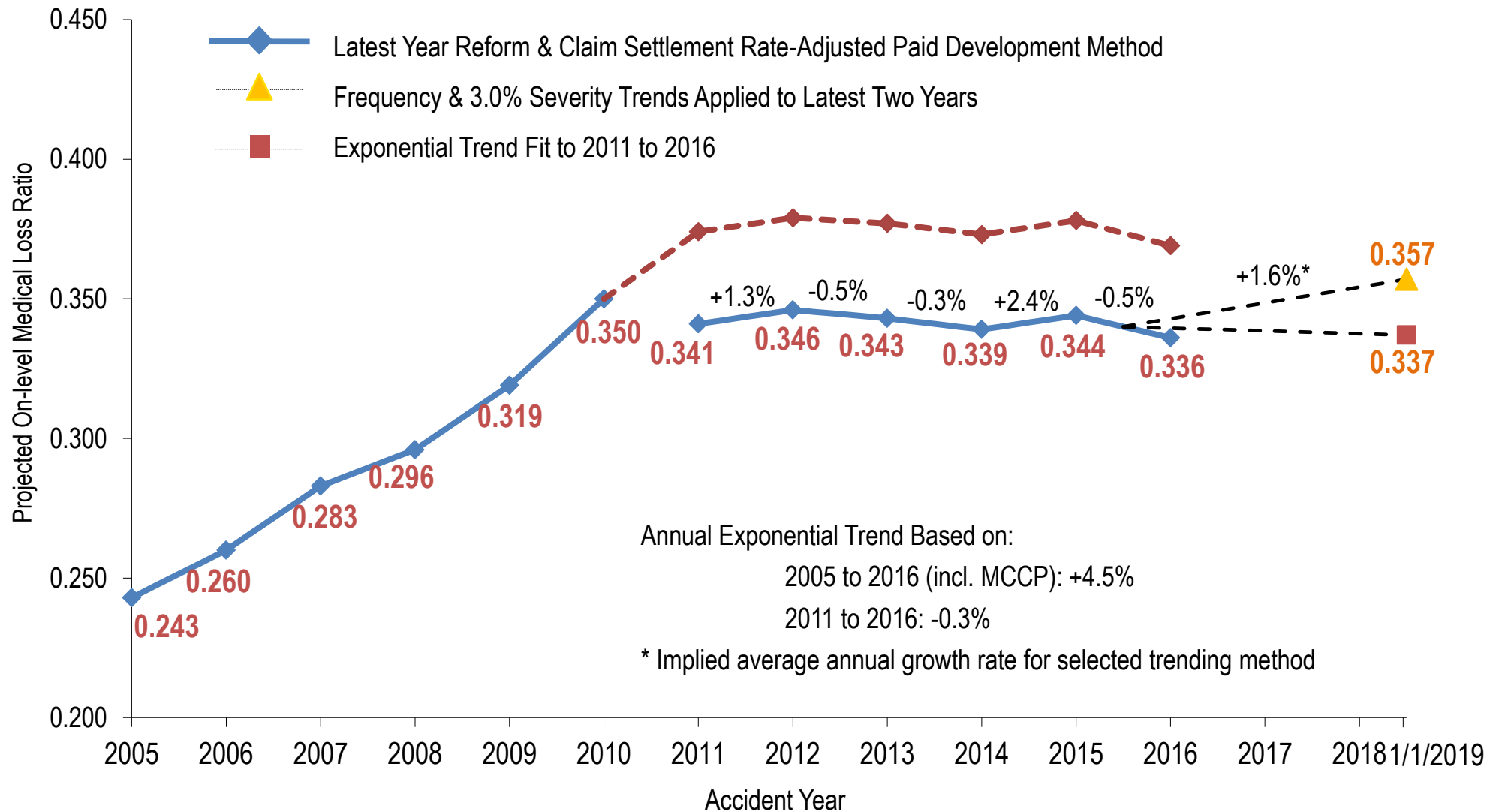


Source: WCIRB Quarterly Calls for Experience. MCCP included in all 6-month severities. MCCP excluded from ultimate severities for 2012 & forward.

Indemnity Loss Trend & Projections (Exhibit 7.1)



Medical Loss Trend & Projections (Exhibit 7.3)



Legislative Cost Monitoring

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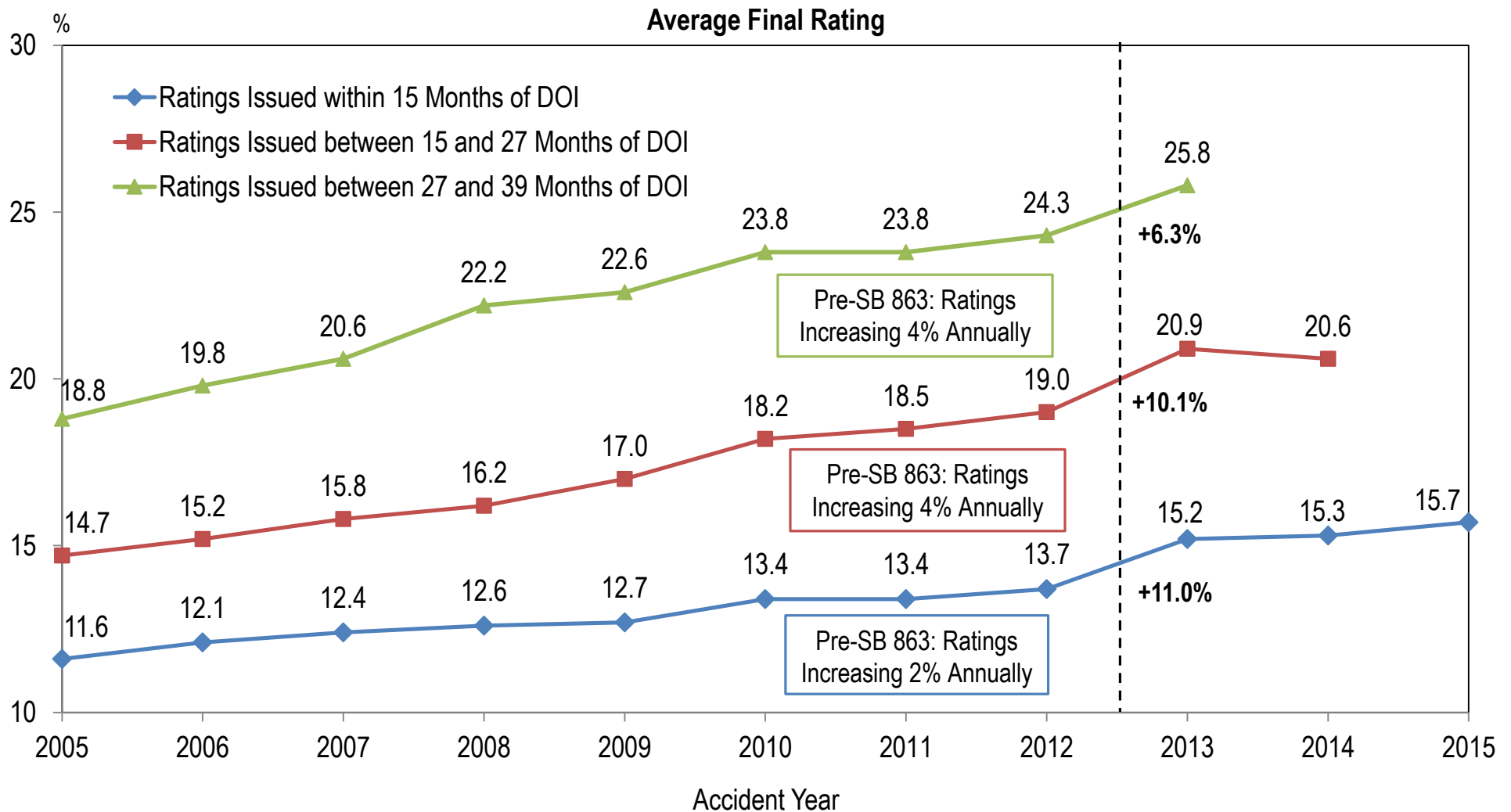
Legislative Cost Monitoring

- SB 863
 - Enacted in 2012, most items first effective in 2013/2014
 - Final comprehensive SB 863 Cost Monitoring Report published in November of 2016
 - Committee recommended continuing to review some items that continue to emerge (PD, RBRVS, etc.)
- SB 1160 / AB 1244
 - Enacted in 2016, first effective in 2017 (liens) and 2018 (UR)
 - Review of first nine months of lien reforms
 - Initial review of recent lien dismissals by DWC

SB 863 Changes to PD Ratings

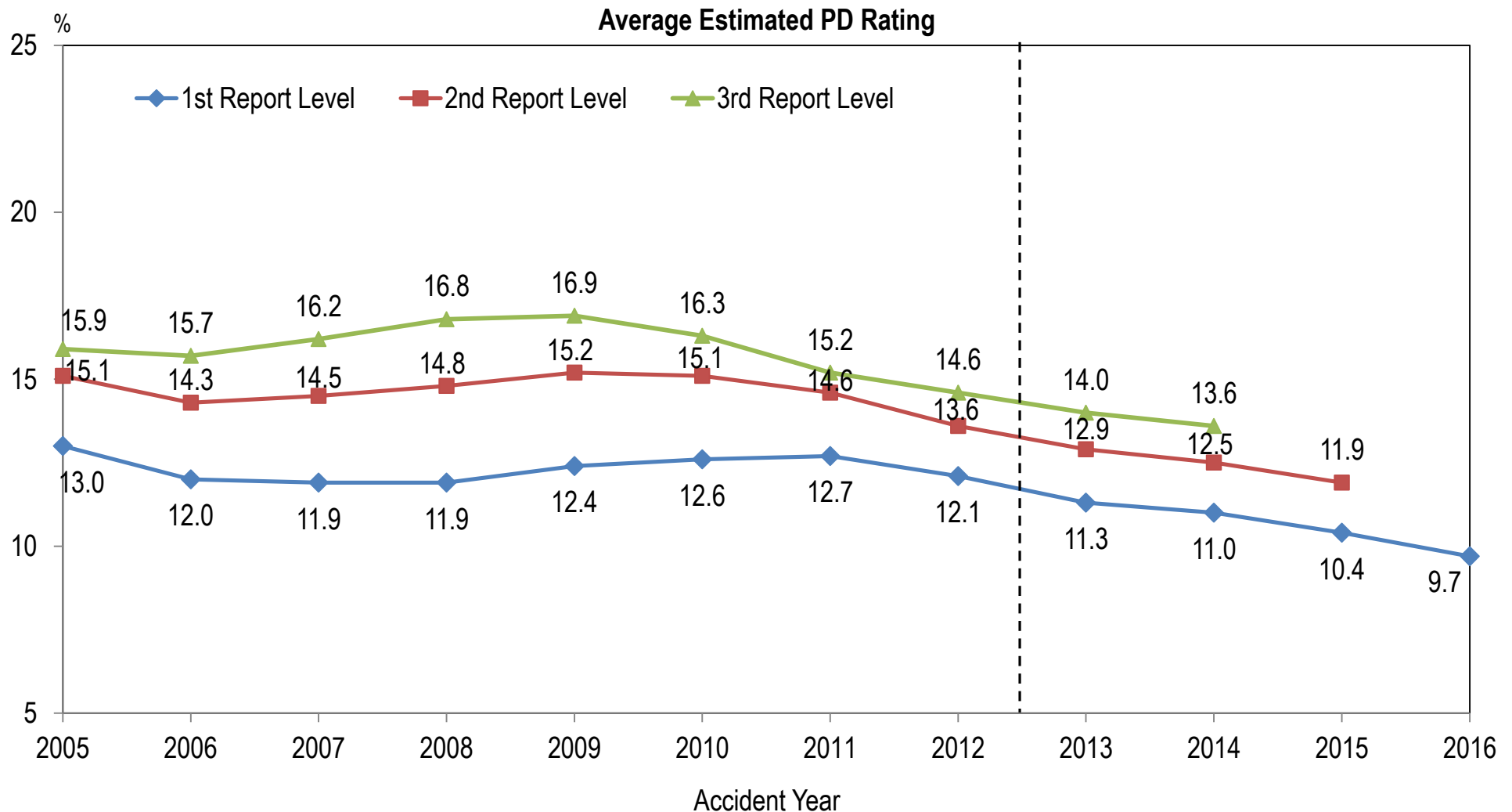
- SB 863 changes to PD ratings
 - Elimination of FEC factor (& Ogilvie adjustments)
 - Addition of uniform 1.40 adjustment factor
 - Elimination of PD rating add-ons
- Combined impact of PD rating changes estimated to increase costs by 1.2%
- Prior reviews of DEU ratings showed increases in average rating consistent with initial estimates

Average PD Ratings Based on DEU Data



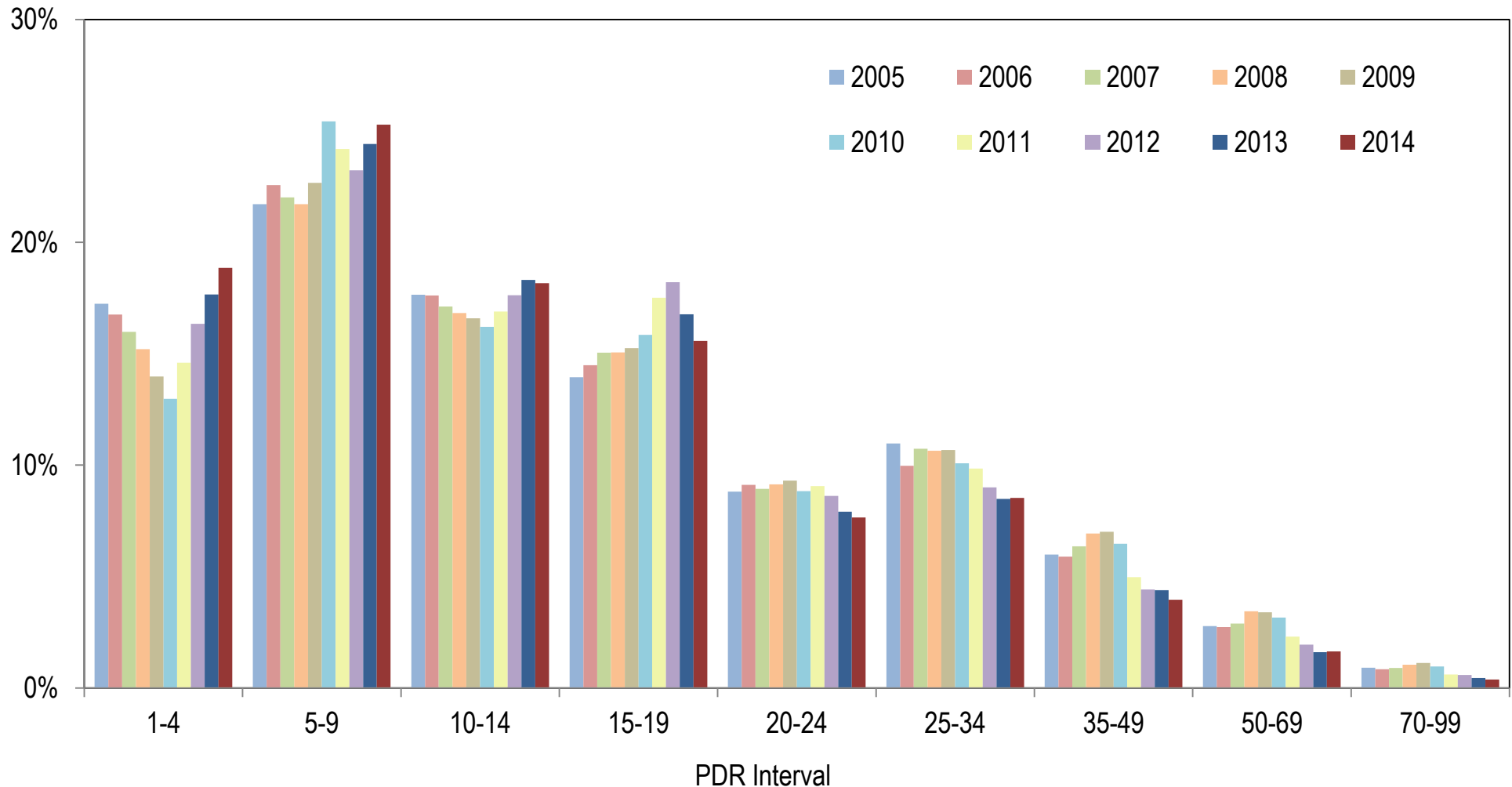
Source: Disability Evaluation Unit data.

Average PD Ratings Based on USR Data (Exhibit 1.1)



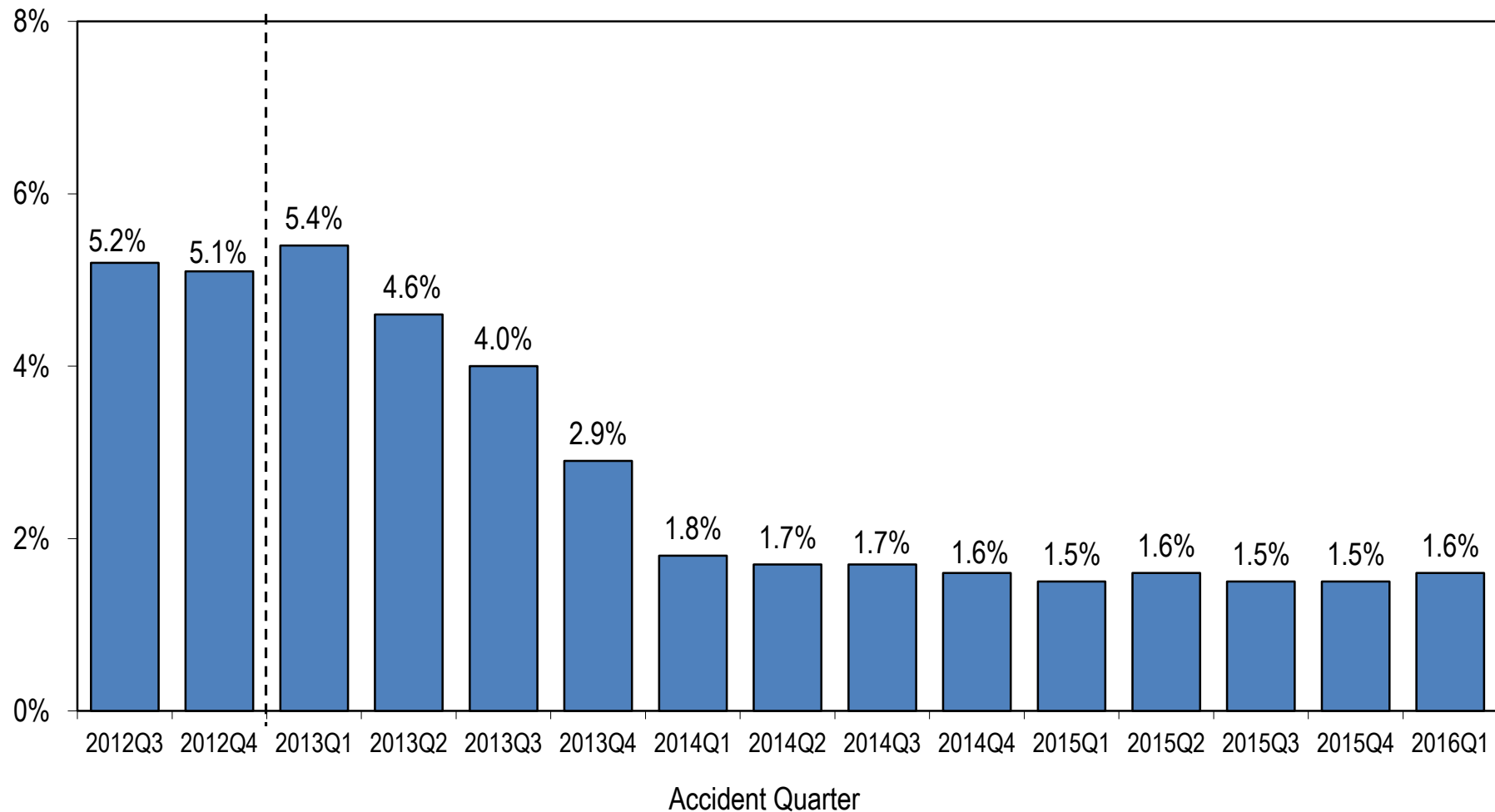
Source: WCIRB unit statistical data.

Distribution of PD Ratings (Exhibit 1.2)



Source: WCIRB unit statistical data at 3rd report level.

Proportion of Claims with Psychiatric Treatment (Exhibit 2.1)

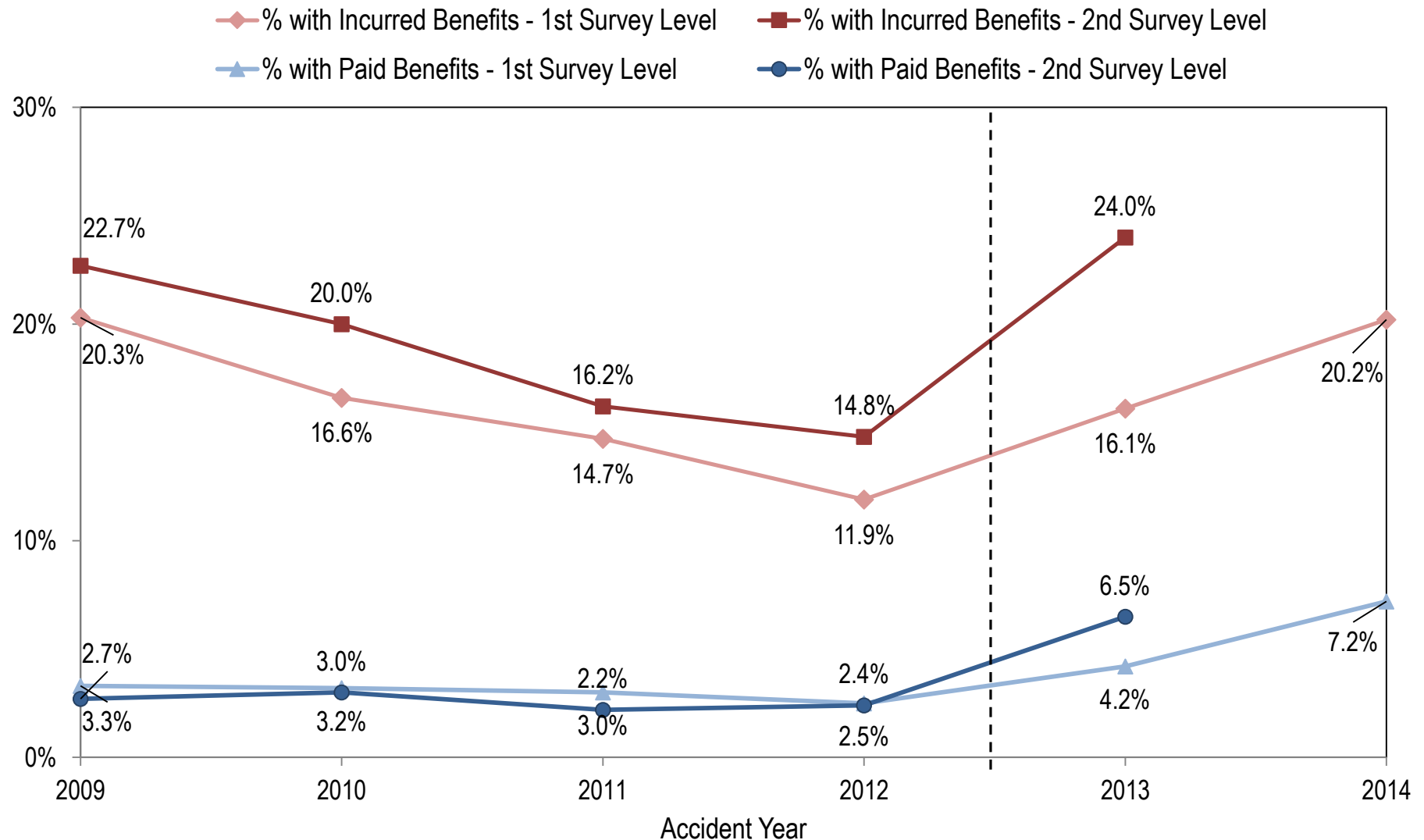


Source: WCIRB Medical Data Call. Figures are based on all claims with physician services paid within 4 quarters of the accident quarter.

SB 863 Changes to SJDB

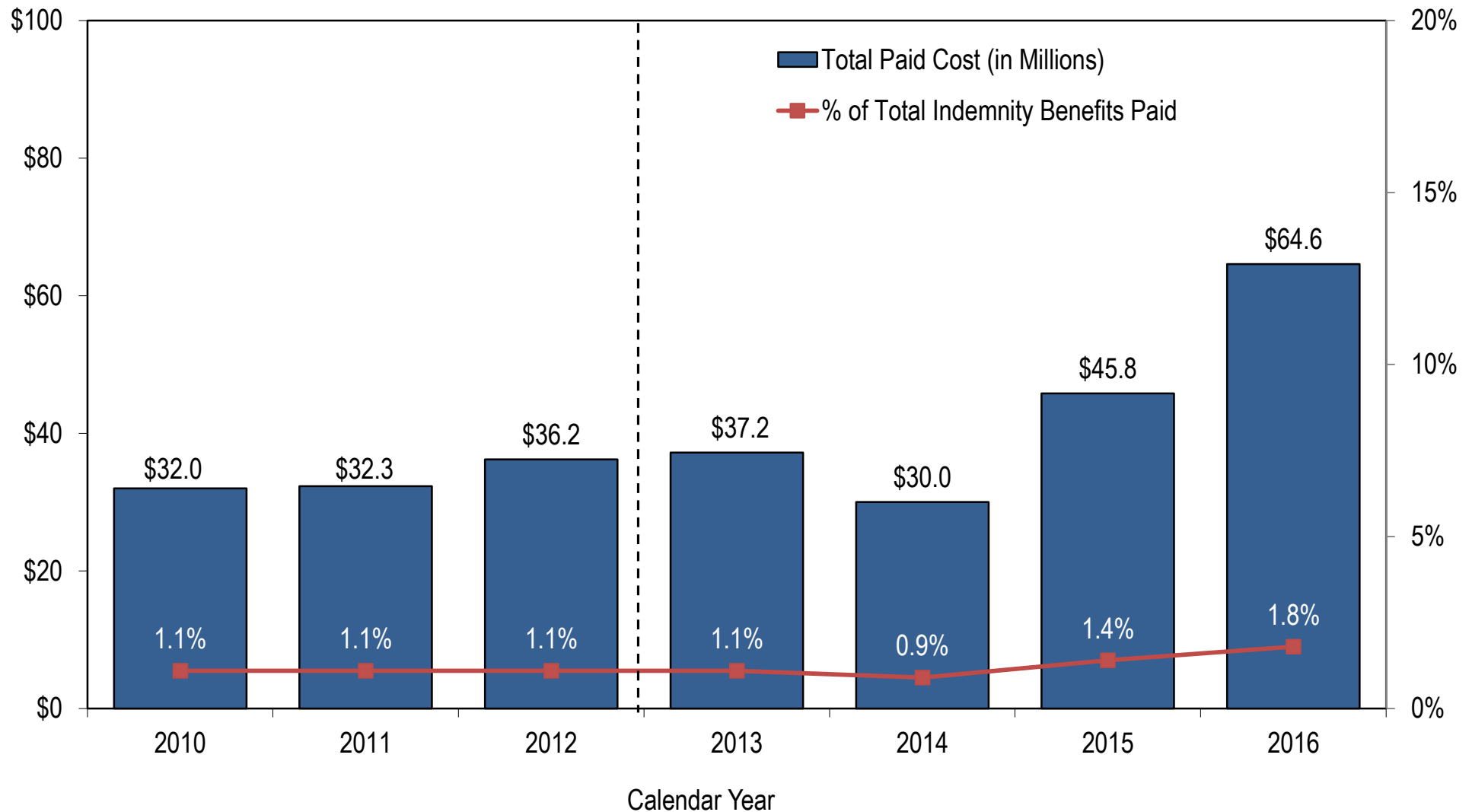
- SB 863 changes to SJDB
 - Set at maximum of \$6,000 for all eligible claims
 - Modified types of expenses that can be reimbursed
 - Payments under \$120M RTW fund triggered by reception of SJDB
- 2016 SB 863 Cost Monitoring Report showed increased frequency of SJDB utilization resulting in 0.1% increase in total costs

Percentage of Claims with SJDB Costs (Exhibit 3)



Source: WCIRB Permanent Disability Claim Survey

Total SJDB Paid Costs (Exhibit 3)

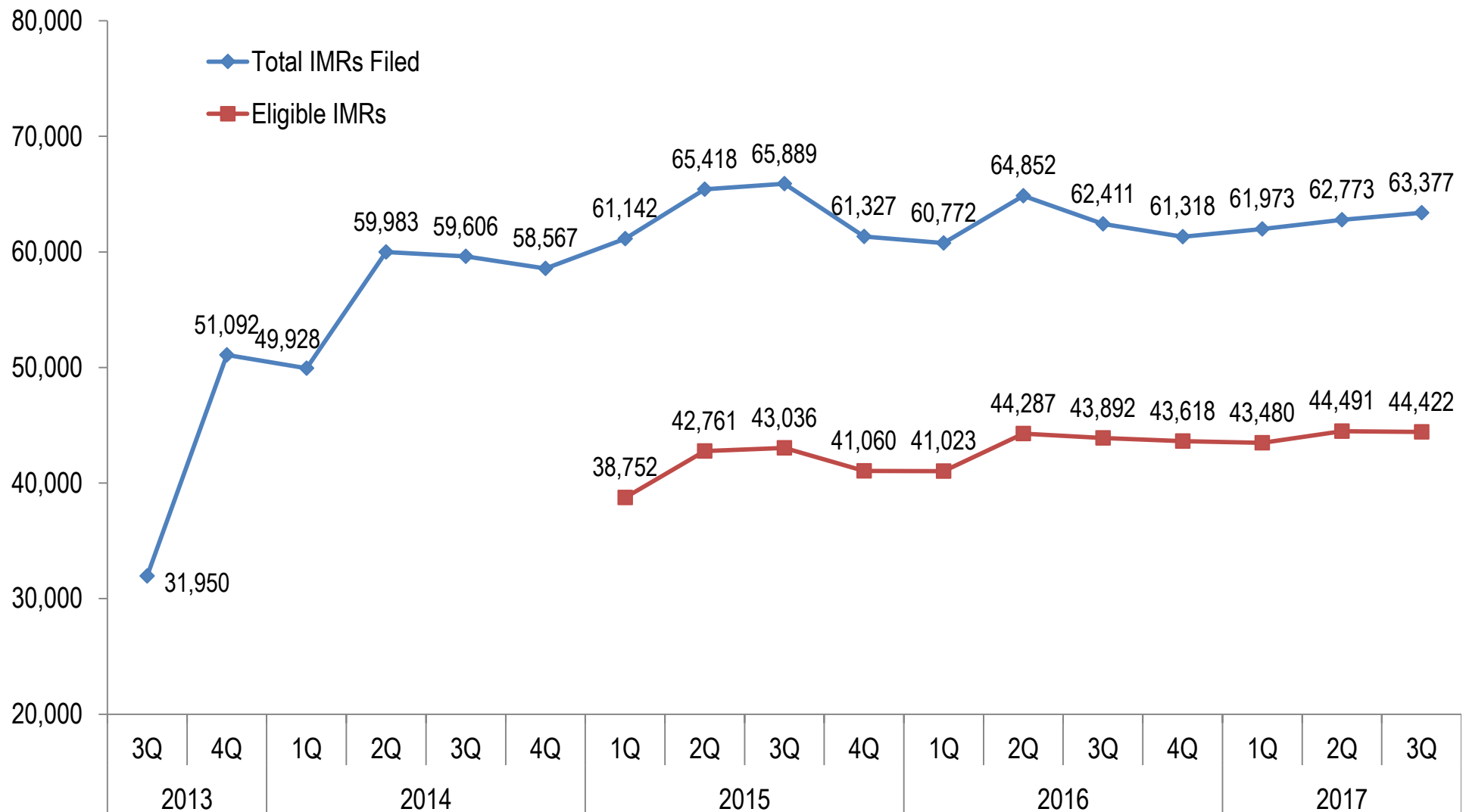


Source: WCIRB aggregate financial data calls

SB 863 IMR Process

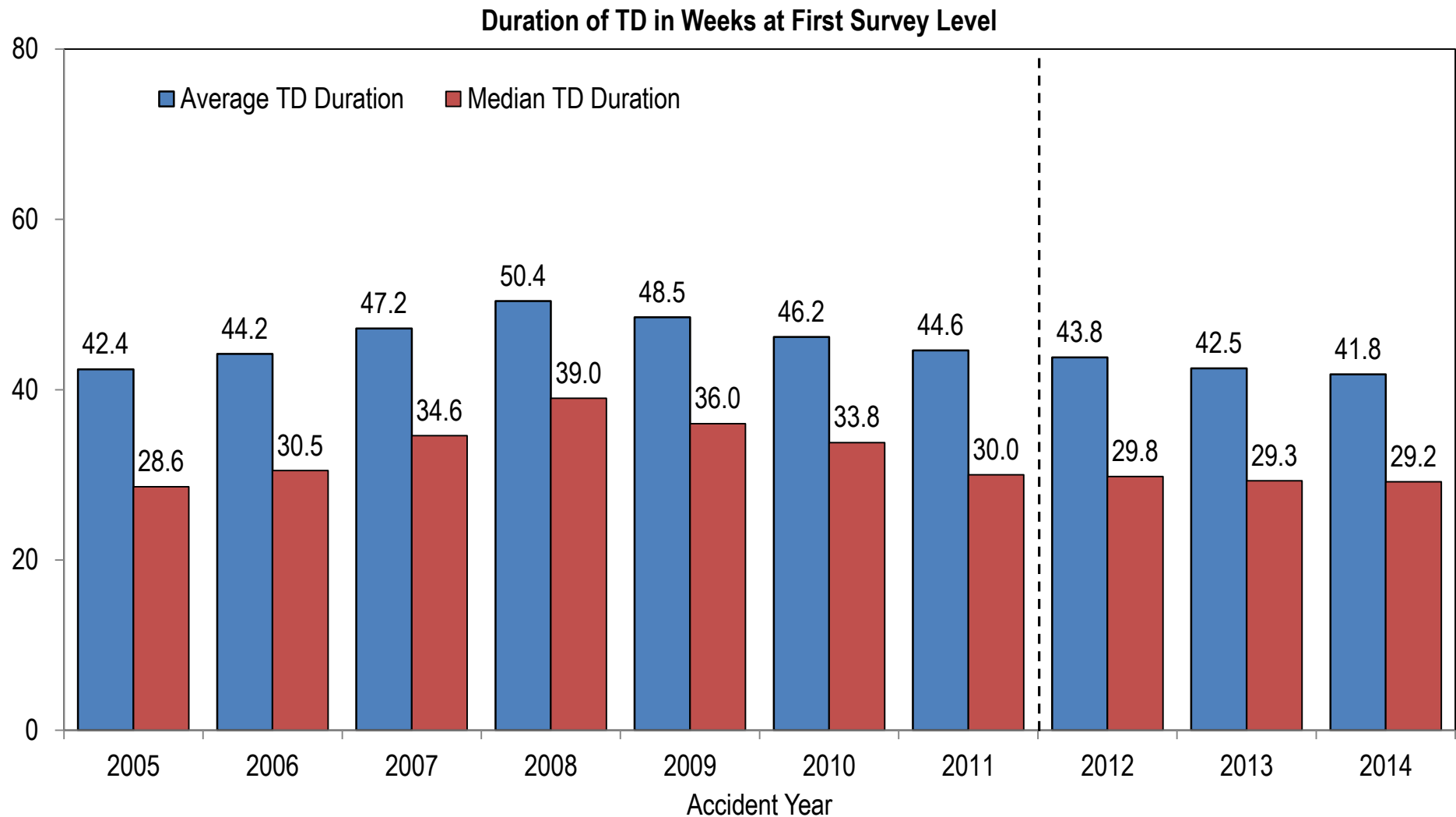
- 2016 SB 863 Cost Monitoring Report noted
 - Approx. 44,000 IMRs filed per quarter compared to 13,000 originally projected
 - No significant savings to frictional costs from IMR process
 - No significant reductions in TD duration from IMR process
 - Significant reductions in overall medical severities, largely in part attributable to IMR process and other SB 863 provisions

Number of IMR Requests by Quarter (Exhibit 4)



Source: DWC from IMR vendor.

Temporary Disability Duration (Exhibit 5)



Source: WCIRB Permanent Disability Claim Survey

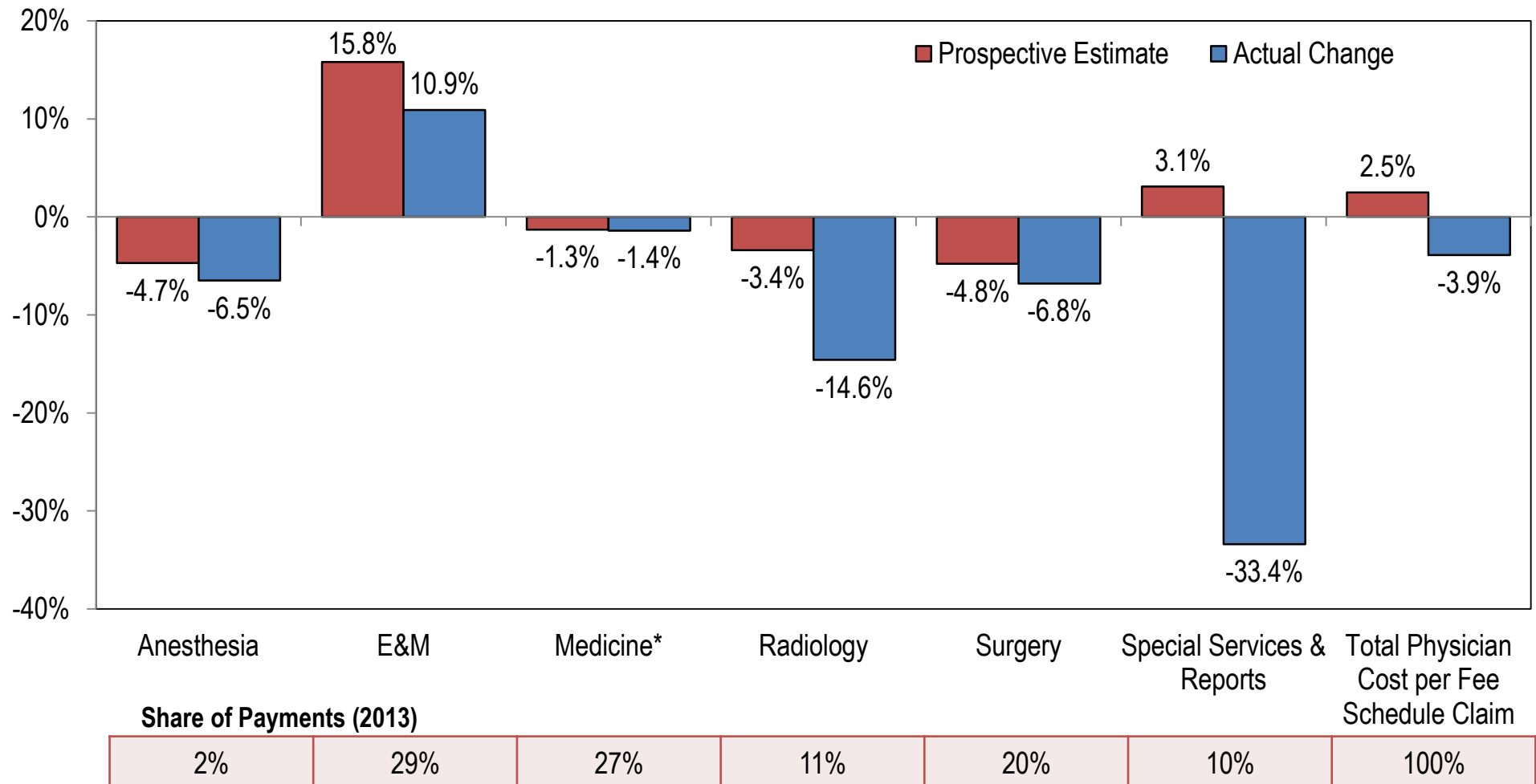
SB 863 Changes to Physician Fee Schedule (RBRVS)

- RBRVS changes to physician fee schedule effective starting in 2014 and phased in over four years
- 2016 SB 863 Cost Monitoring Report estimated changes in physician fees
 - SY 2014 (@30 months) = -5.7%
 - SY 2015 (@18 months) = -4.5%
 - SY 2016 (@6 months) = +1.0%

Update on RBRVS Trends

- Previously presented in November 2016, the following slides have been updated to reflect WCIRB Medical Call Data received through the second quarter of 2017.
- The Pathology and Laboratory data that follows the Clinical Laboratory Fee Schedule (CLFS) are not reflected in this RBRVS data, consistent with the quarterly benchmark reports that report Pathology and Laboratory under the HCPCS category.
- Copy Services Schedule, effective July 1, 2015, is excluded.

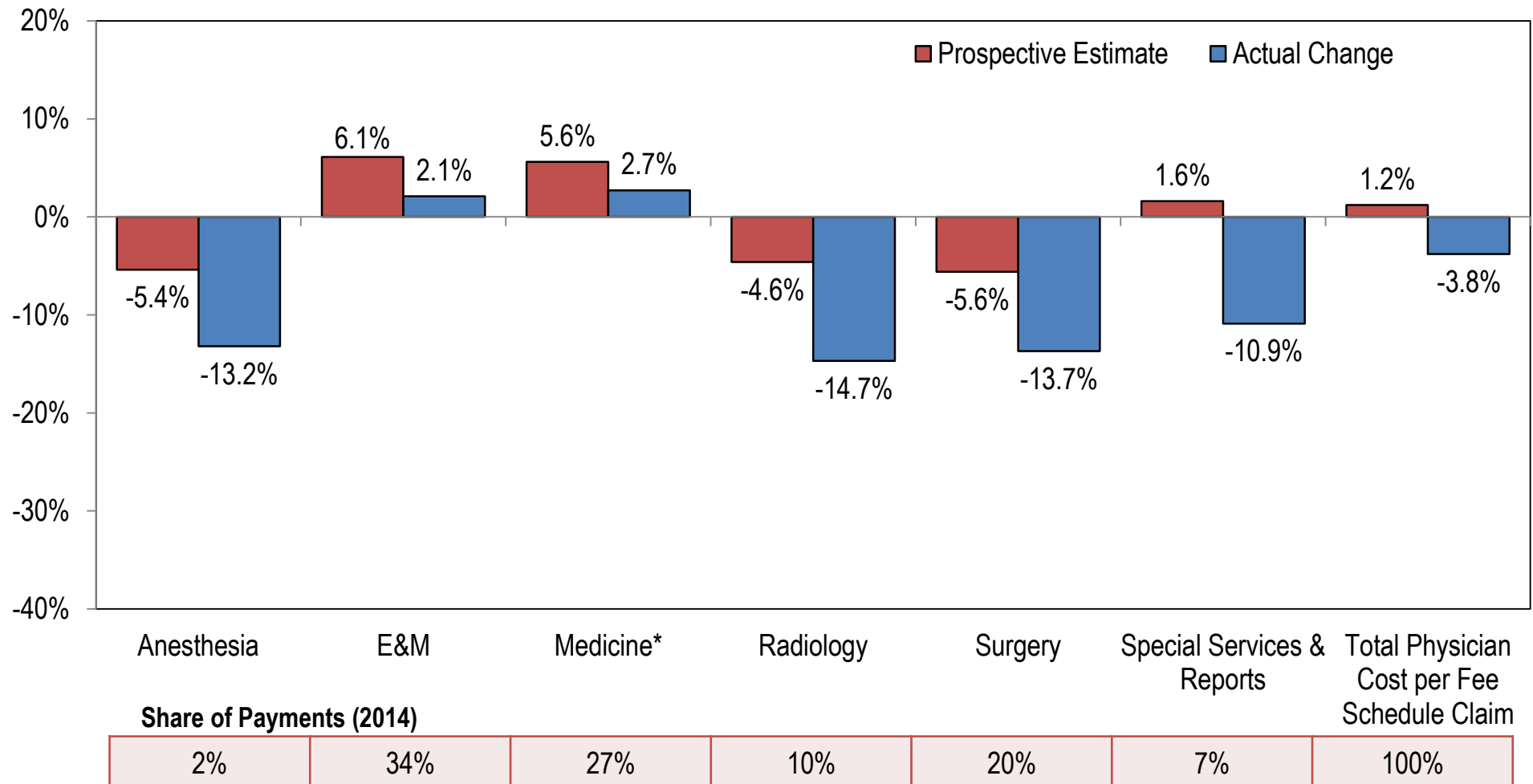
Projected vs. Actual Change in Physician Fees – 2013 to 2014 Transactions through 2Q 2017 (42 Months)



* Includes Physical Medicine, Chiropractic and Acupuncture

Source: WCIRB Medical Data Call.

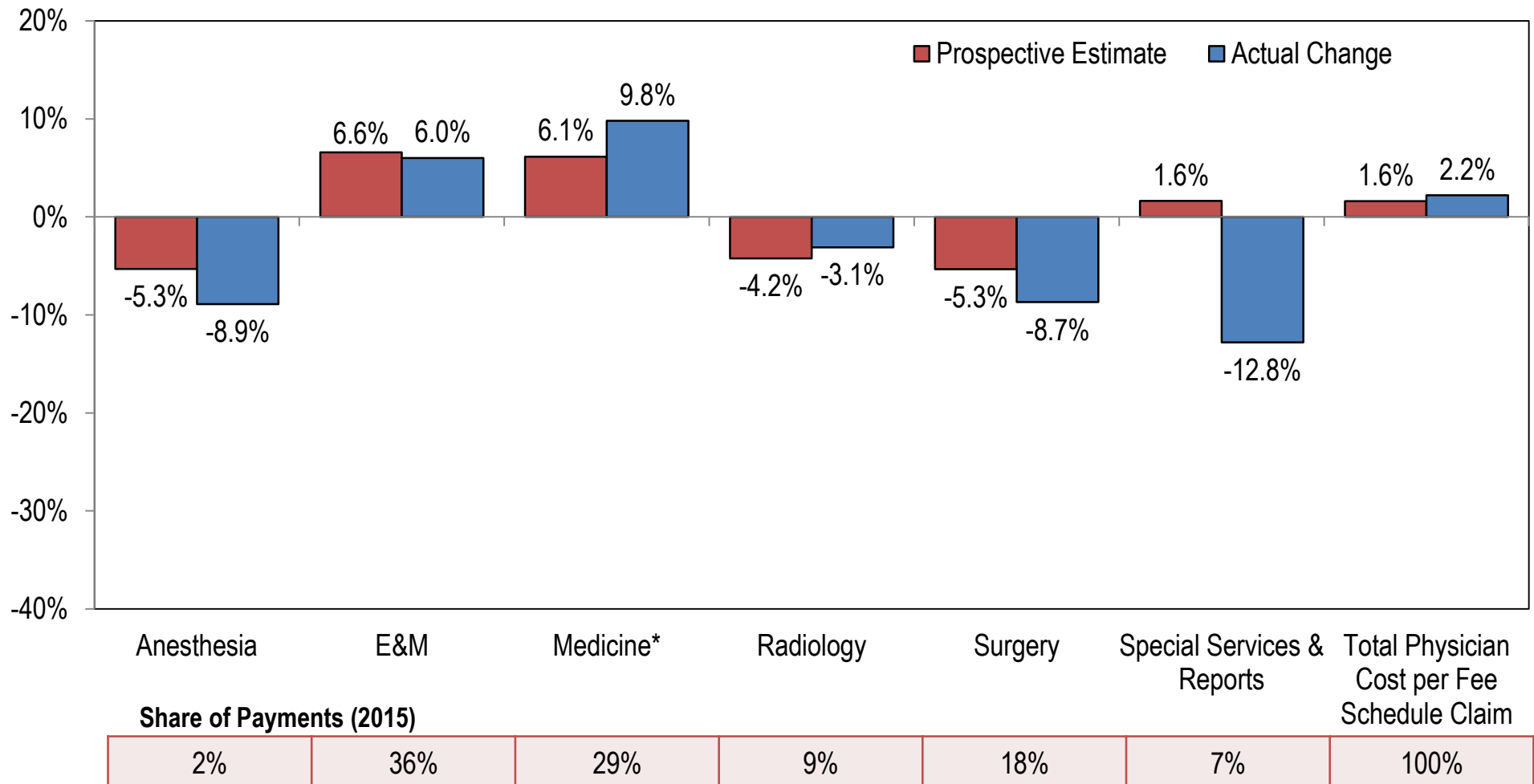
Projected vs. Actual Change in Physician Fees – 2014 to 2015 Transactions through 2Q 2017 (30 Months)



* Includes Physical Medicine, Chiropractic and Acupuncture

Source: WCIRB Medical Data Call.

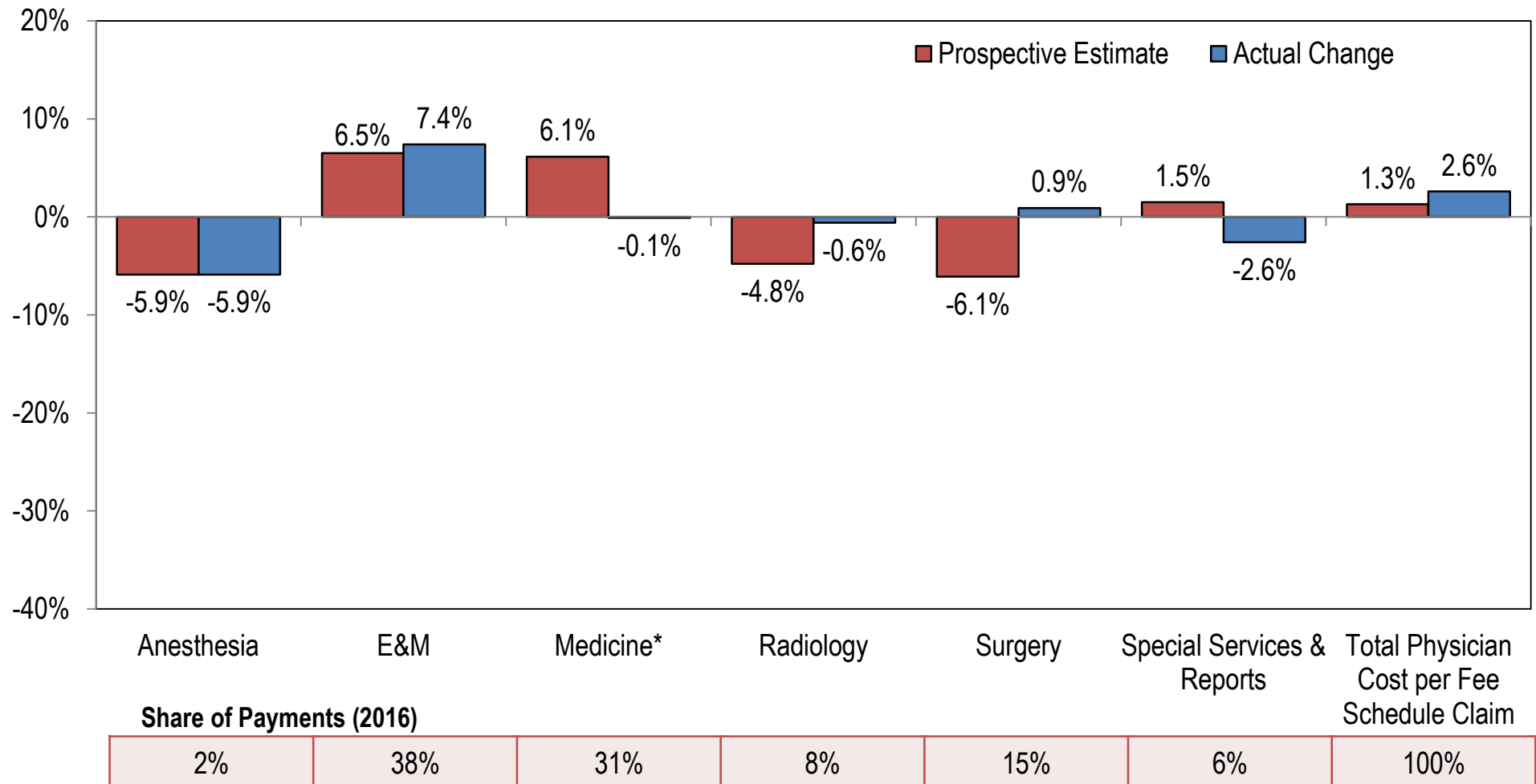
Projected vs. Actual Change in Physician Fees – 2015 to 2016 Transactions through 2Q 2017 (18 Months)



* Includes Physical Medicine, Chiropractic and Acupuncture

Source: WCIRB Medical Data Call.

Projected vs. Actual Change in Physician Fees – 2016 to 2017 Transactions through 2Q 2017 (6 Months)



* Includes Physical Medicine, Chiropractic and Acupuncture

Source: WCIRB Medical Data Call.

Changes in Average Physician Costs per Claim Over Time

Change in Physician Payments per Fee Schedule Claim for Transactions through...

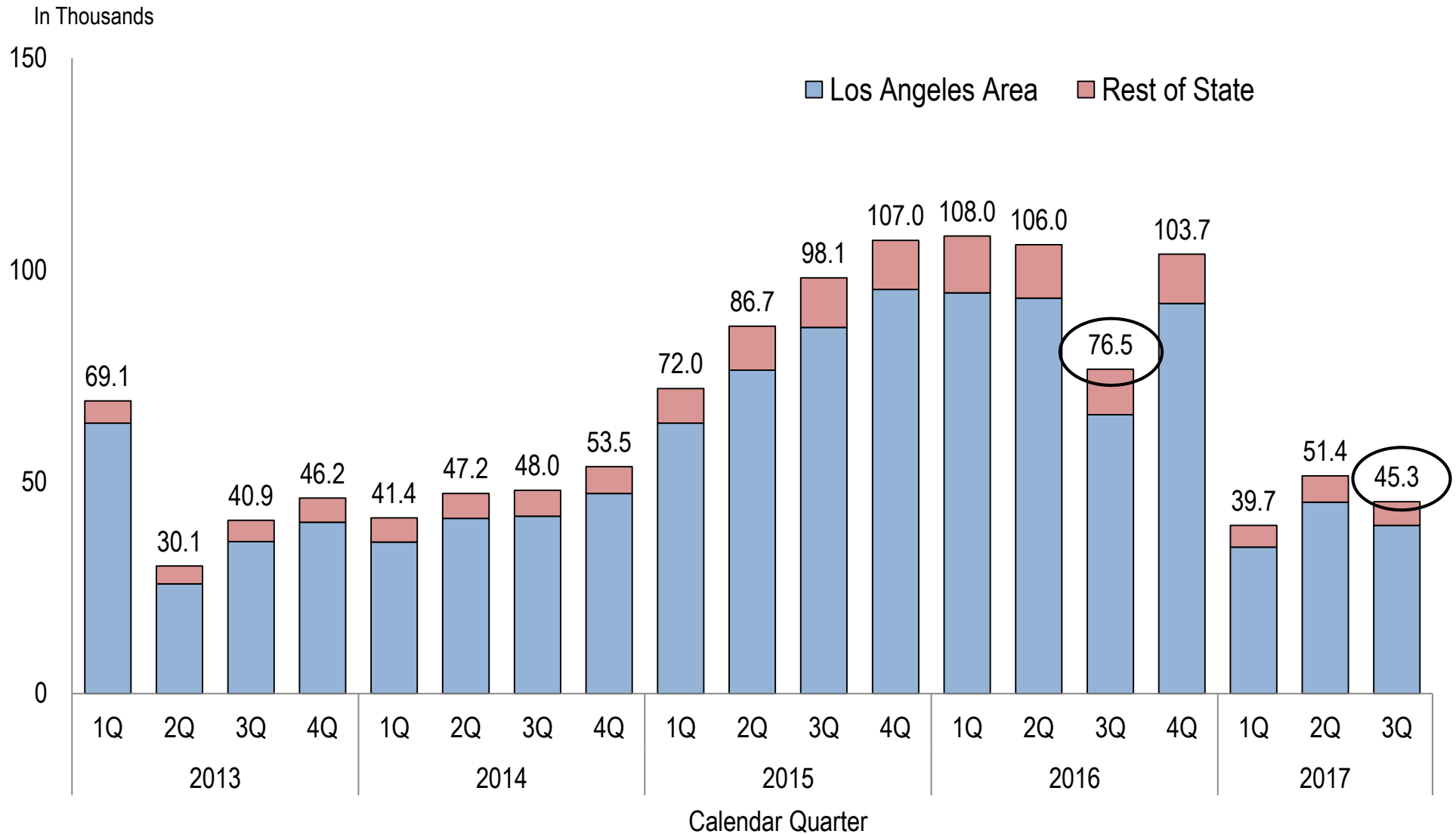
Service Year	6 Months	12 Months	18 Months	24 Months	30 Months	36 Months	42 Months
2014	-2.4%	-2.2%	-2.9%	-3.3%	-3.8%	-3.8%	-3.9%
2015	3.4%	-2.5%	-3.9%	-3.8%	-3.8%		
2016	1.6%	0.7%	2.2%				
2017	2.6%						

Source: WCIRB Medical Data Call

SB 1160 / AB 1244 Lien Reforms

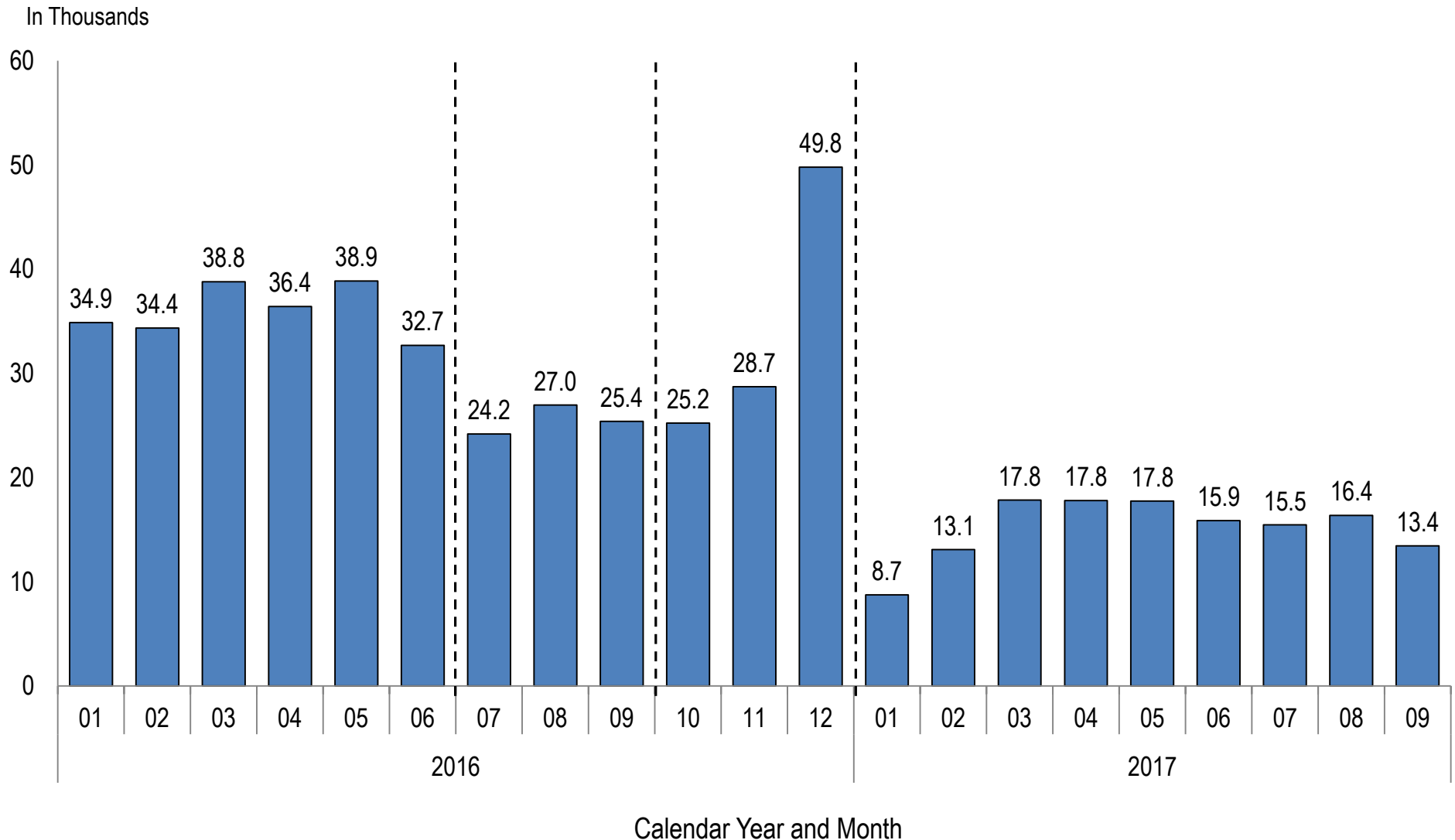
- SB 1160 changes related to liens effective starting in 2017
 - All new liens to be filed with declaration under penalty of perjury (required for outstanding liens by July 1, 2017)
 - Liens can no longer be assigned to a third party
 - Liens from providers indicted for fraud are automatically stayed
- AB 1244 provides process for consolidating liens from providers convicted of fraud
- WCIRB prospective estimate included in Amended January 1, 2017 Filing assumed 10% reduction in lien filings (0.6% decrease in total costs)

Quarterly Number of Liens Filed (Exhibit 7.1)



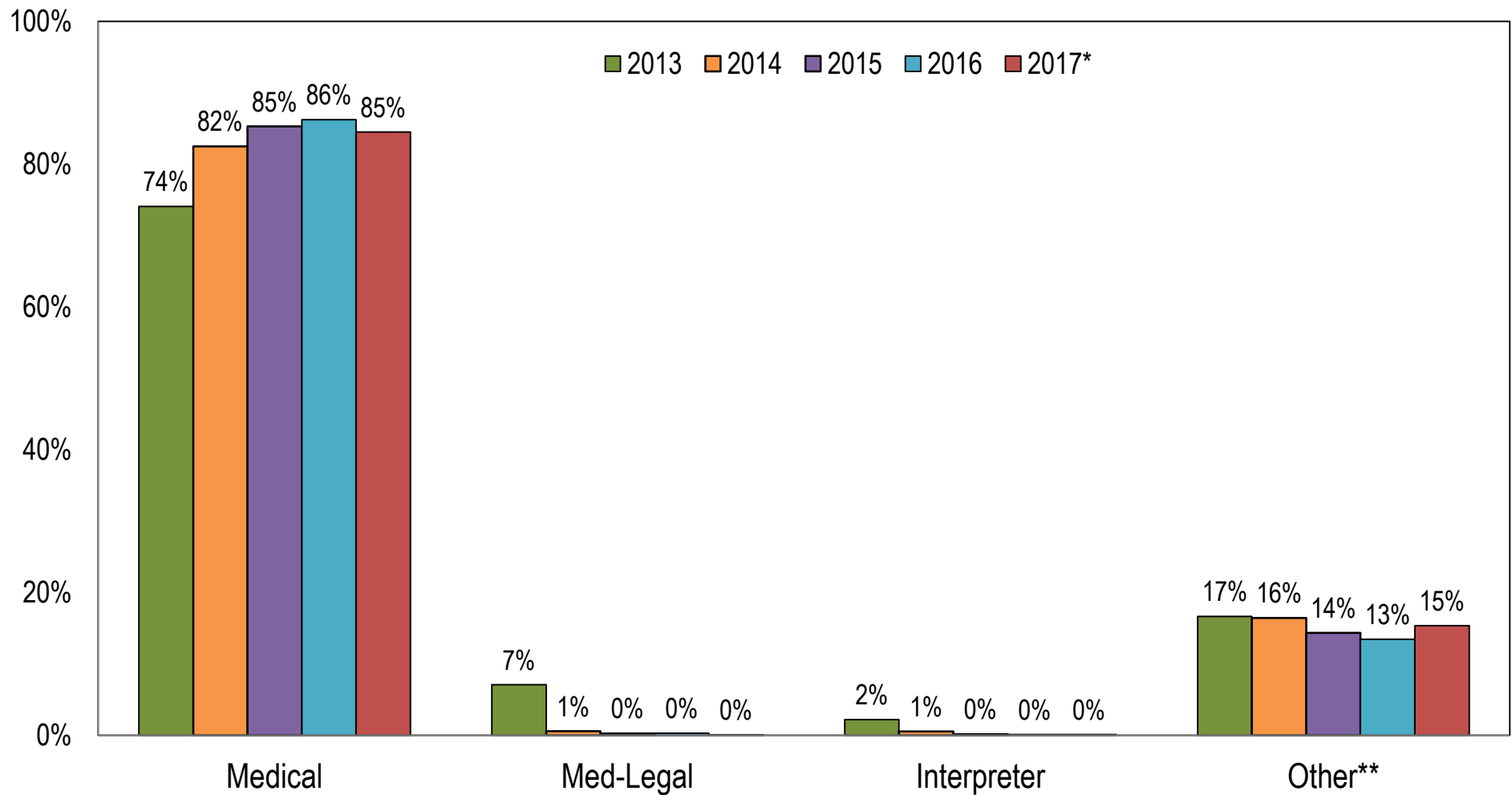
Source: EAMS Liens Data

Monthly Number of Liens Filed (Exhibit 7.2)



Source: EAMS Liens Data

Distribution of Liens Filed by Type

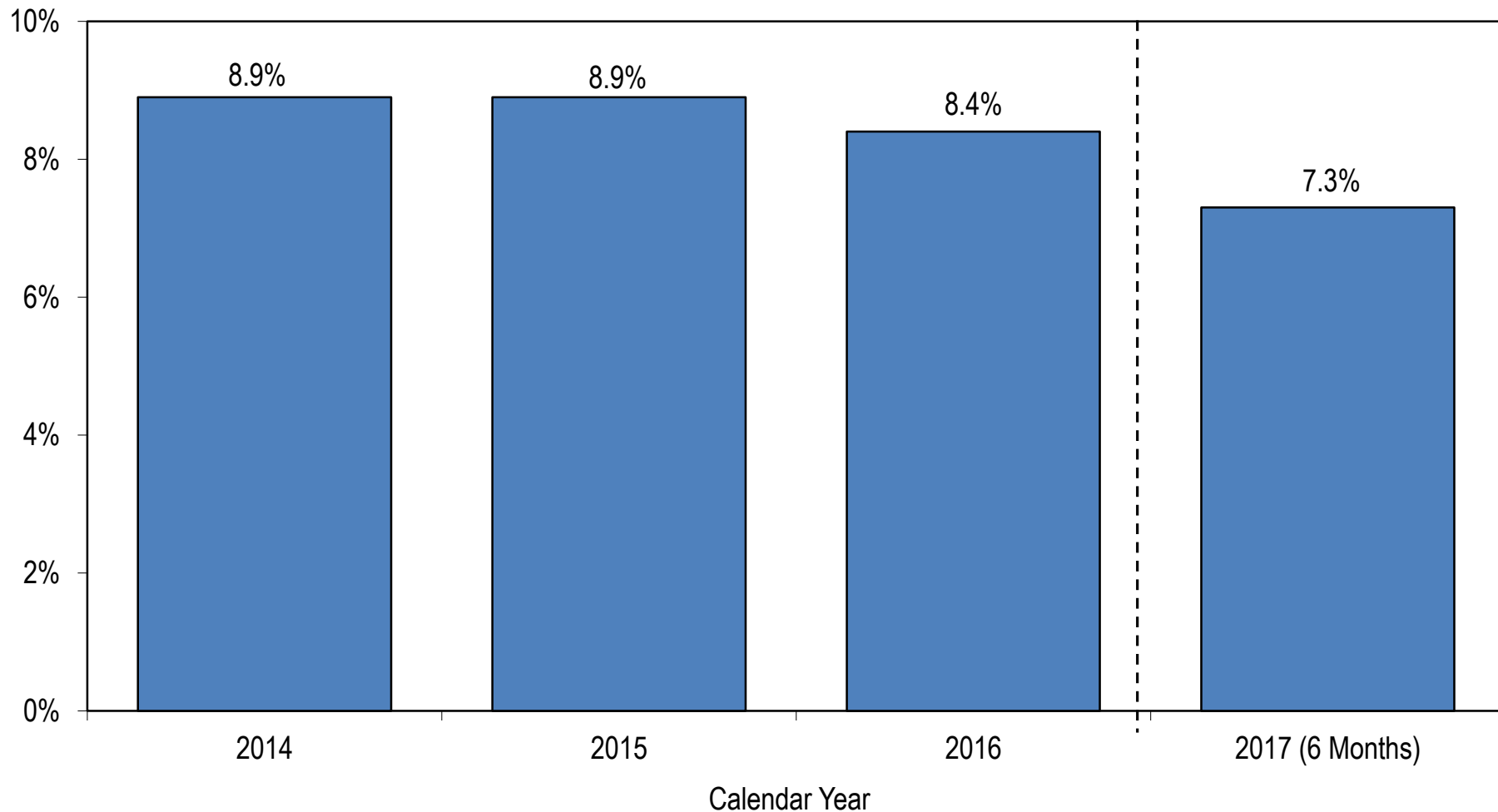


* Based on the first 3 quarters.

** Other includes Attorney Fees, Family Support, Living Expense, PFL, Transport, Wage Replacement, Copy Service

Source: EAMS Liens Data

Lien Payments as a % Total Medical Services Payments (Exhibit 8)



Source: WCIRB Medical Data Call

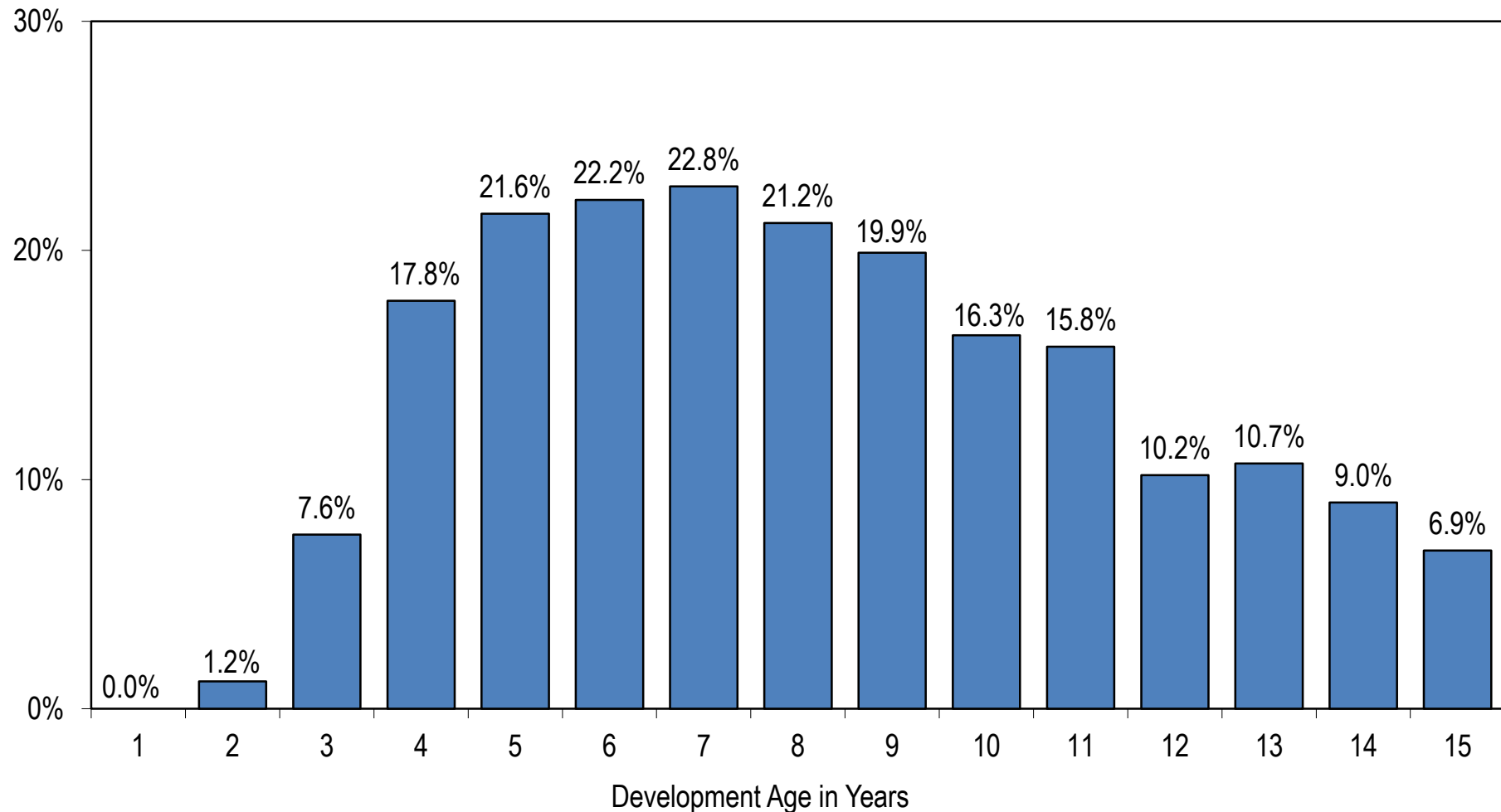
SB 1160 / AB 1244 Lien Reforms – Summary of New Lien Filings

- Lien filings in first three quarters of 2017 approximately 40% lower than third quarter 2016 level (compared to 10% projected)
- Initial post-SB 863 lien filings were also lower than projected but then increased significantly
- Monthly lien filings in 2017 show no signs of upward creep
- Proportion of liens by type or region consistent with pre-reform

SB 1160 / AB 1244 Lien Reforms – Outstanding Liens

- Lien declaration required on all outstanding liens by July 1, 2017
 - Only includes liens subject to the SB 863 lien filing fee
- Approximately 292,000 liens with no declarations filed dismissed by DWC in August
- Potential significant savings to medical and LAE costs from dismissed liens and impact on development and settlement patterns
- However, some of these liens may have already been settled or incurred significant LAE
- Staff has begun mining dismissed lien information and linking to other WCIRB data where available

Lien Payments as a % Total Medical Services Payments for Calendar Year 2016 (Exhibit 8)

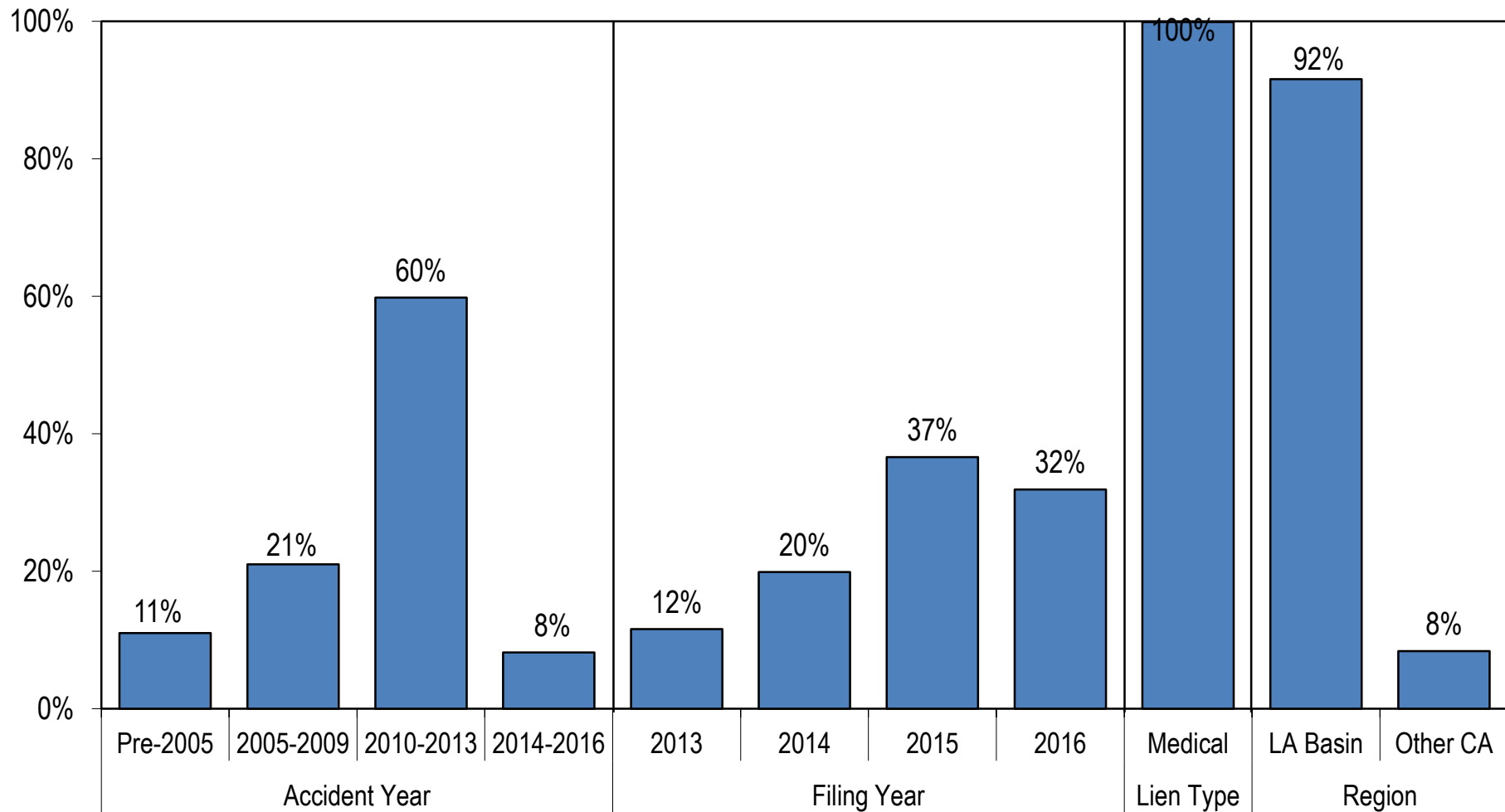


Source: WCIRB Medical Data Call

Linking DWC Liens to Other Data

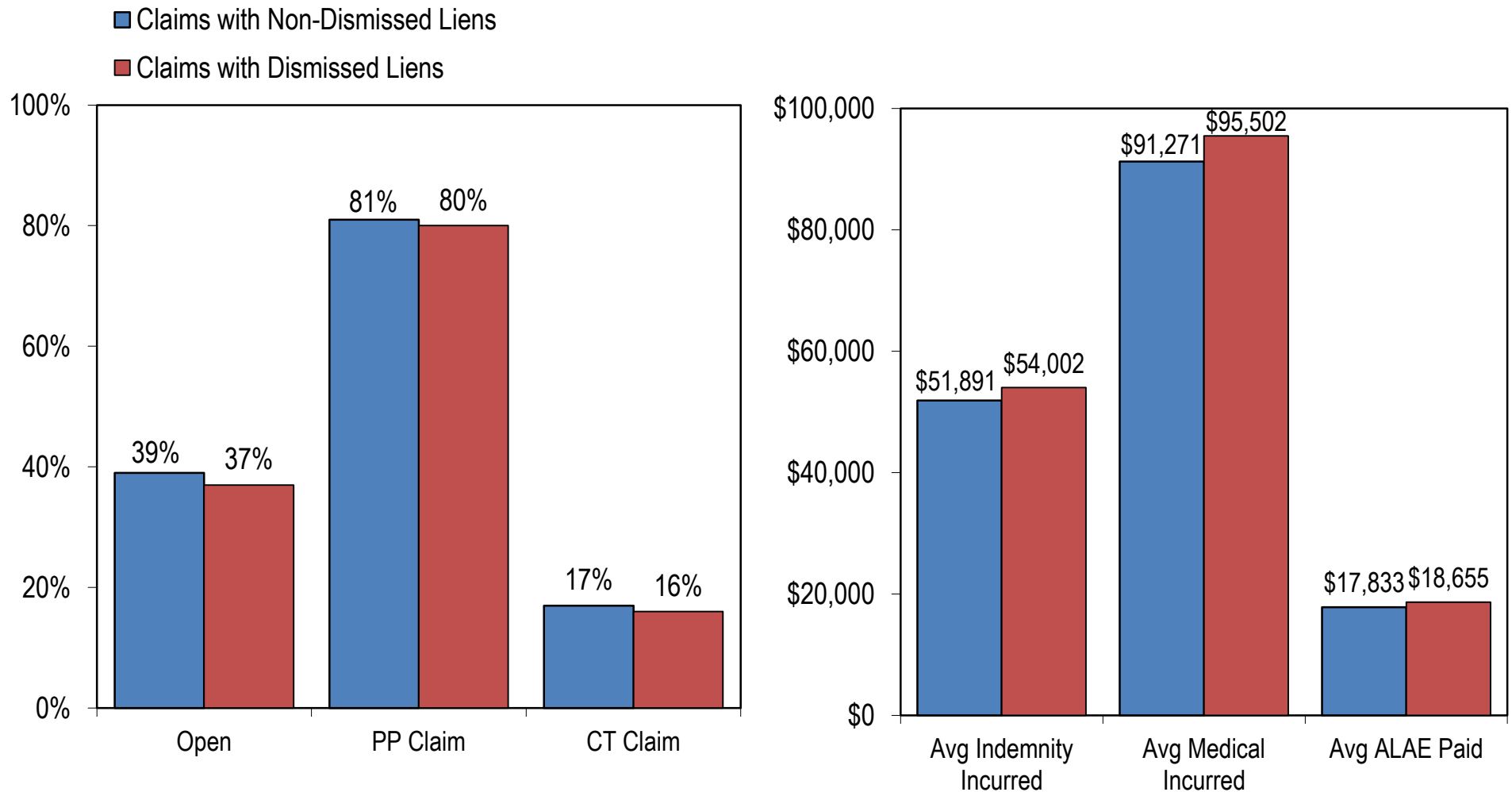
- Dismissed liens include provider name and filing date
 - 271,000 liens (93%) linked to original DWC lien filing data that includes accident date
- Provider and accident date info linked to MDC data to get policy/claim information and then to USR
 - Approx. 3,100 USR claims with “dismissed” liens and 8,600 claims with other “non-dismissed” liens identified
 - Approx. 1,000 “dismissed” liens identified with MDC payments while 2,800 other “non-dismissed” liens were identified
- Matching logic still being refined
 - Such as more complete provider matching and dealing with providers with multiple services/liens

DWC Dismissed Lien Summary (Exhibit 9)



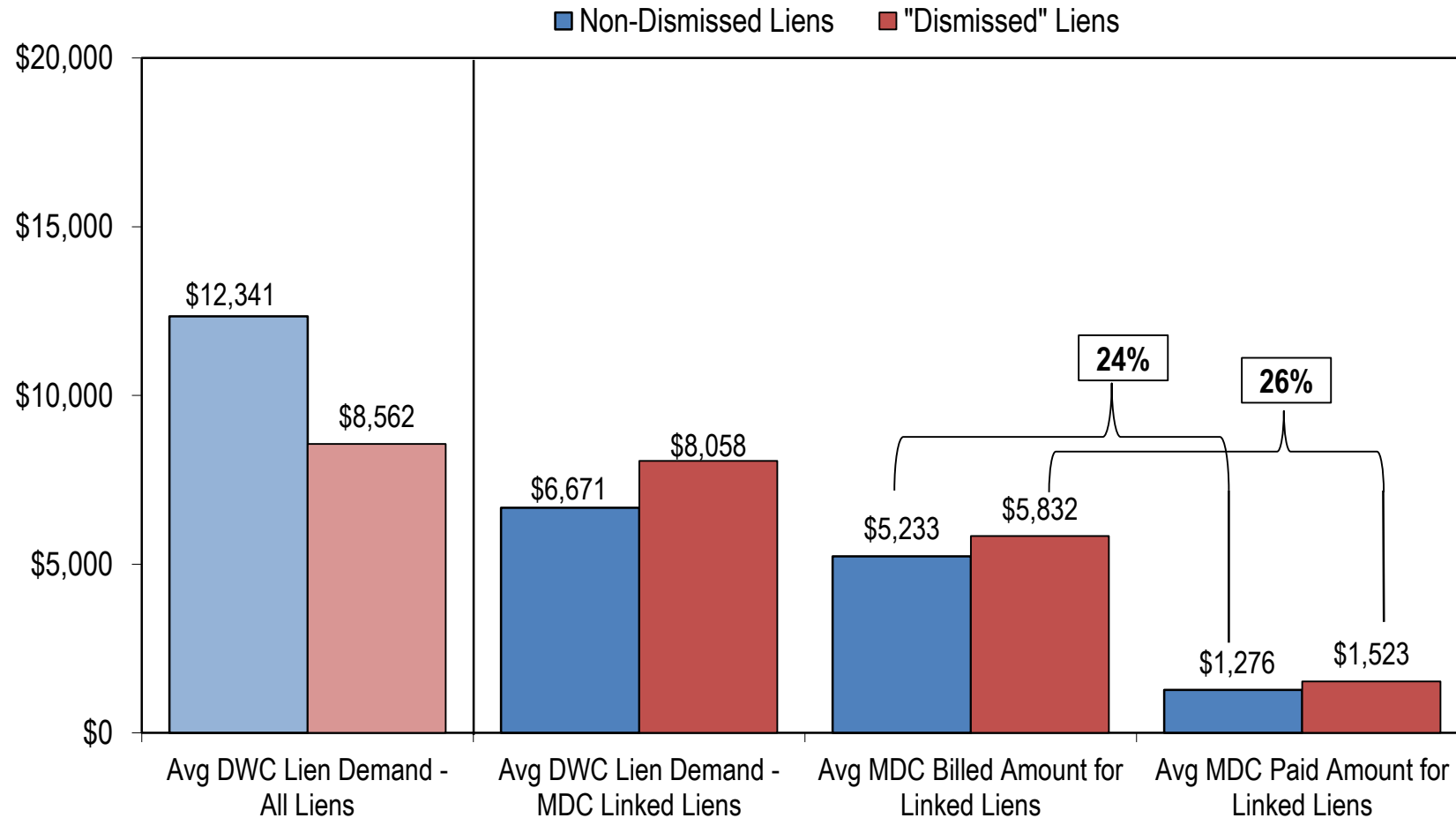
Source: 271,000 DWC dismissed liens linked to original lien filing

USR Claims Involving Liens (Preliminary) (Exhibit 10)



Source: 12,000 DWC liens linked to claims from WCIRB unit statistical data. Comparisons are controlled for a common average maturity.

Average Lien Costs



Source: DWC lien filings and 4,000 DWC liens linked to lien payments from WCIRB Medical Data Call data

SB 1160 / AB 1244 Lien Reforms – Summary of Dismissed Liens

- Based on preliminary matching rates to MDC lien payments, between 25% to 40% of dismissed liens may have already been settled prior to dismissal
- Other dismissed liens still have a potential significant impact on claim development and settlement patterns and LAE
- Characteristics of claims with dismissed or non-dismissed liens are comparable
- Staff to continue to review dismissed lien data
- Any potential adjustment to loss development projections to be reviewed with Committee in first quarter of 2018

Review of On-leveling for Wage Level Changes

WCIRB Actuarial Committee Meeting
December 6, 2017

On-leveling for Wage Changes – Background

- Changes in wage levels are on-leveled as part of the aggregate ratemaking process
 - Exposure in premium is on-leveled to year of projected PP rates
 - Wage inflation impact on indemnity benefits also on-leveled
- Current process uses BLS historical wage data and UCLA wage forecasts which is based on all-employee average wages
- Prior studies have shown that UCLA forecasts are more accurate than trending historical wages forward
- Committee has expressed concerns with current approach
 - All-employee average wages may not fully reflect insured exposure
 - Concerns over volatility in UCLA projections in recent years

Alternative Wage Series Reviewed

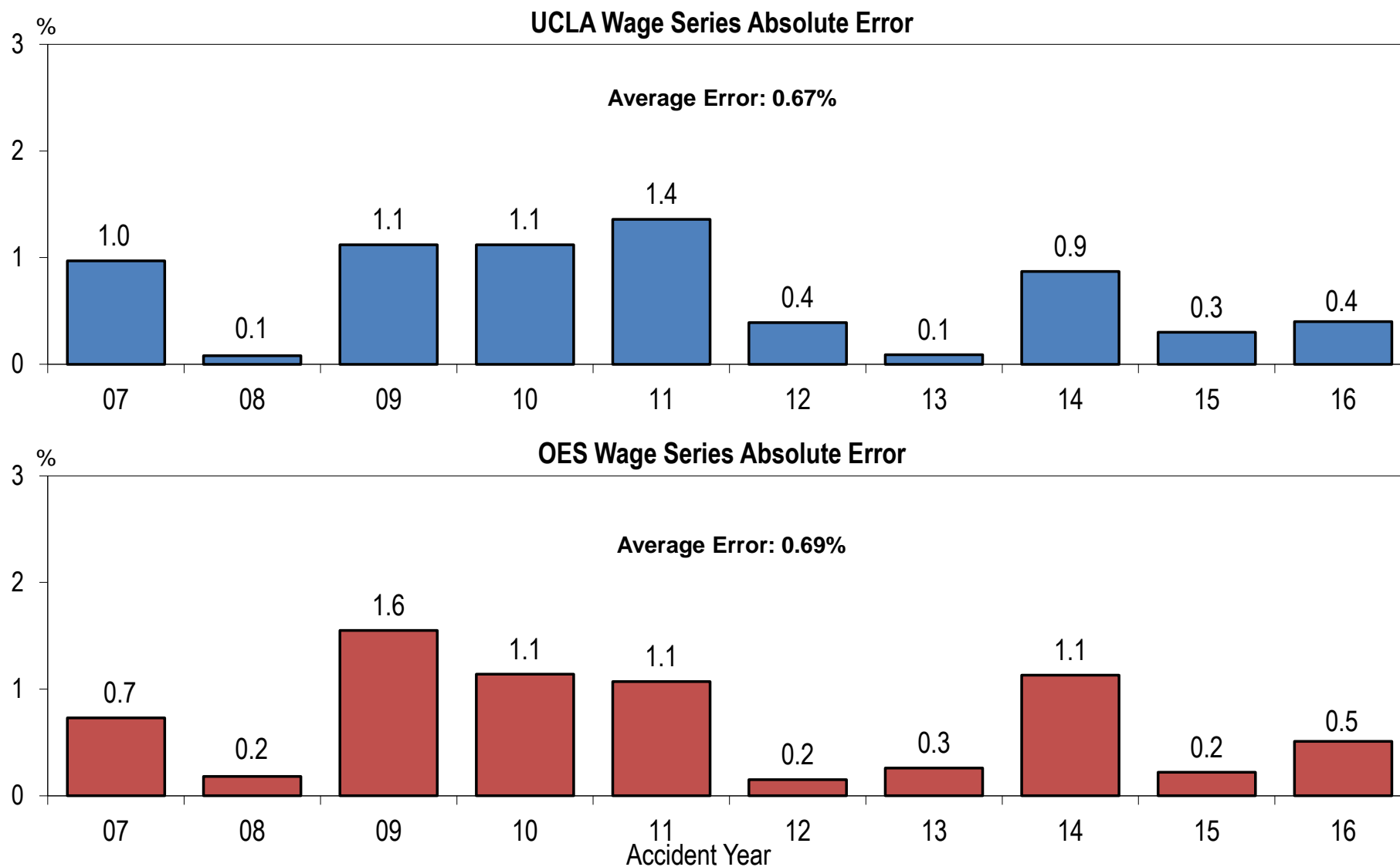
- Unadjusted UCLA wage series (current selection)
 - Updated quarterly and based on average wages
 - Based on BLS historical wage data and UCLA forecast
- Adjusted UCLA wage series
 - Adjusted UCLA forecast to be more responsive to changes in emerging year
- OES wage series
 - Updated annually and based on median wages which may better represent covered exposure
 - Available at occupation level (some adjustments to class level required)
 - No forecast provided in the series

Review of Wage Series On-Leveling

- Evaluated adjusted and unadjusted UCLA wage series compared to “full maturity” wage change (12 mo. after end of year)
- Retrospectively evaluated the UCLA wage series and the OES wage series on-level factors
 - Compared on-leveled projected loss ratios to emerged loss ratios at current wage level
- Retrospective testing methodology
 - Projections for AYs 2007 to 2016 analyzed
 - Loss assumptions and trending methodology consistent with Amended January 1, 2018 Filing

Retrospective Tests Results

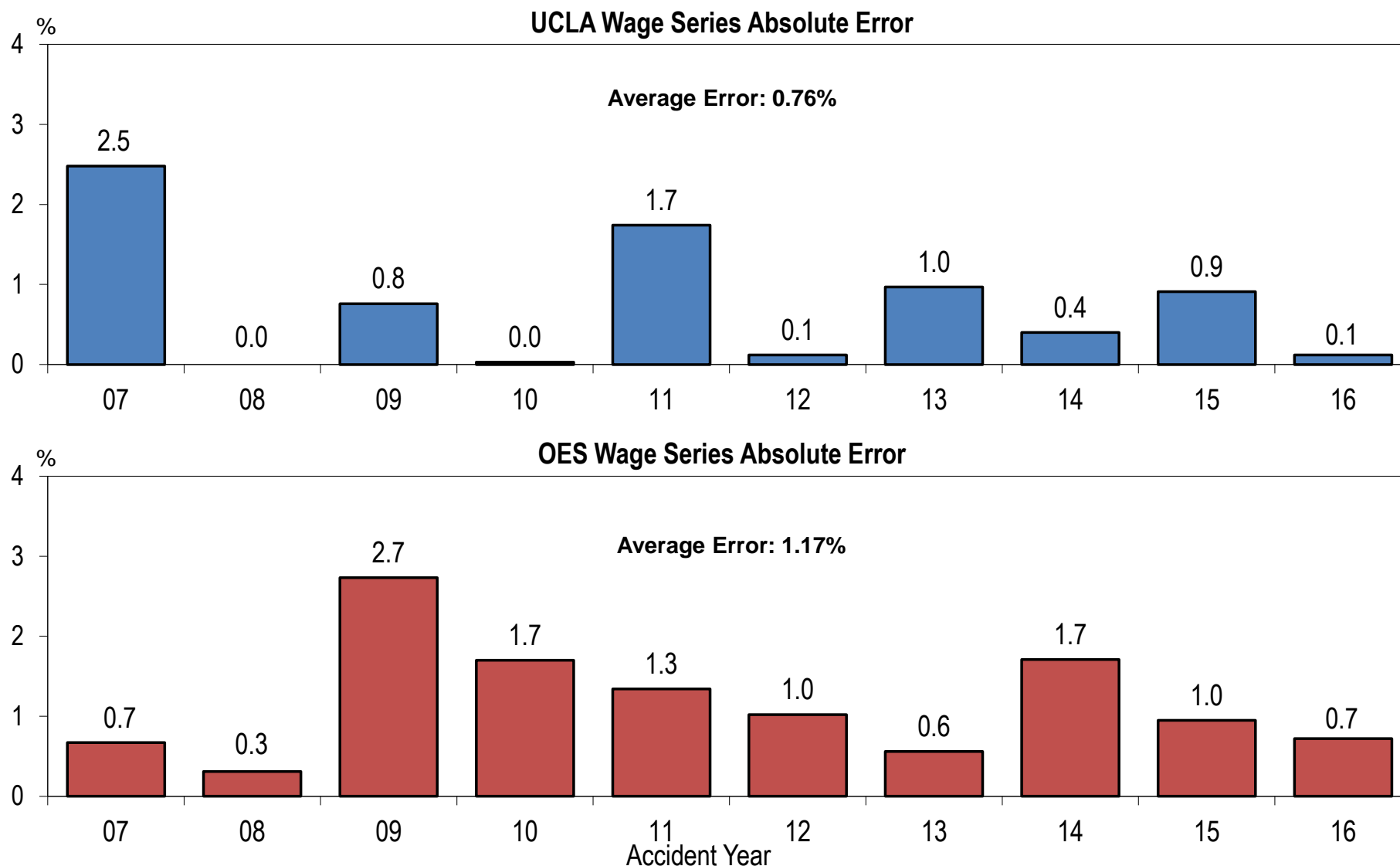
Absolute Error in Indemnity On-Level from Actual (Exhibit 3)*



*Projections and assumptions based on Amended January 1, 2018 Advisory Pure Premium Rate Filing

Retrospective Tests Results

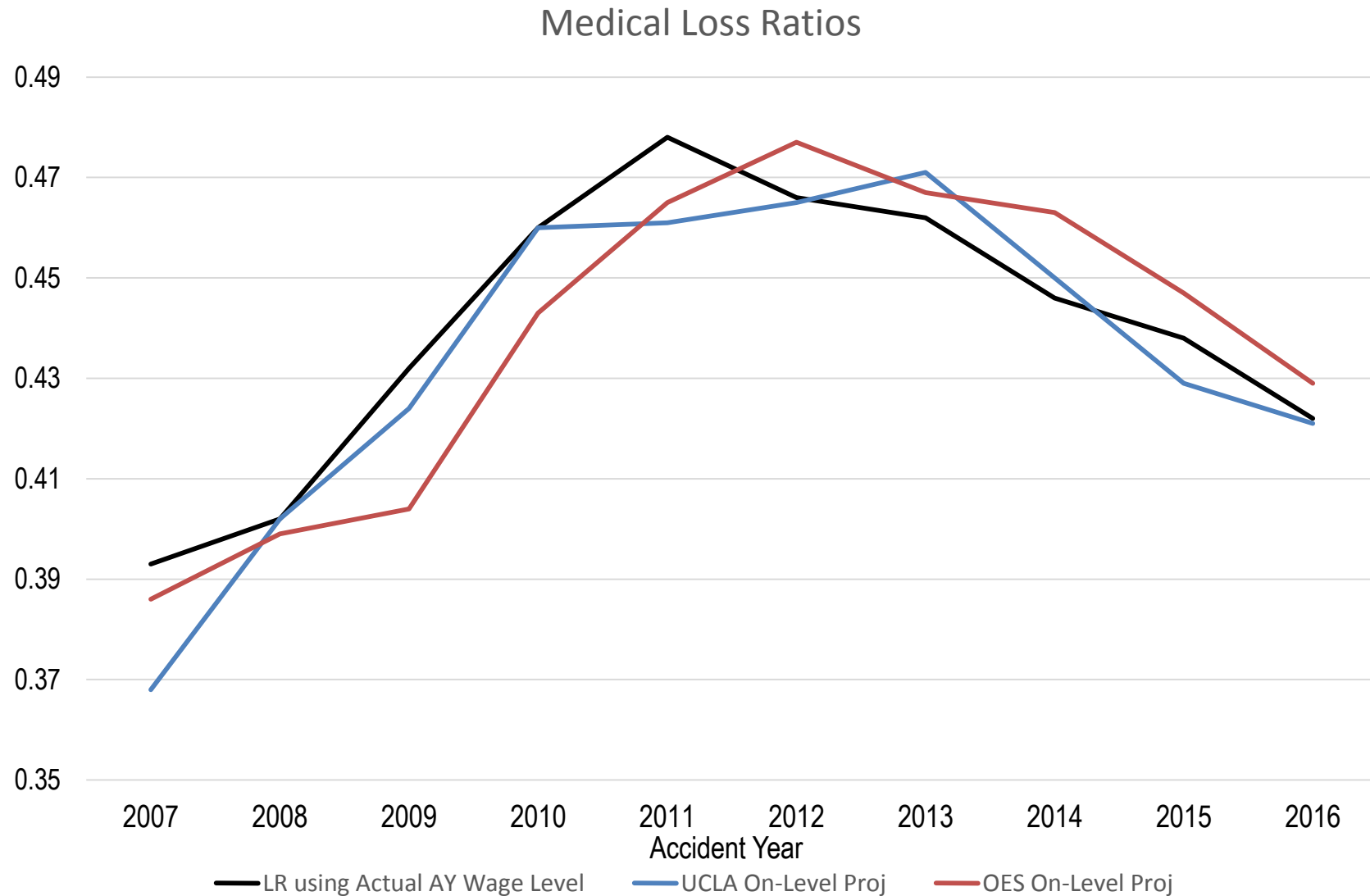
Absolute Error in Medical On-Level from Actual (Exhibit 3)*



*Projections and assumptions based on Amended January 1, 2018 Advisory Pure Premium Rate Filing

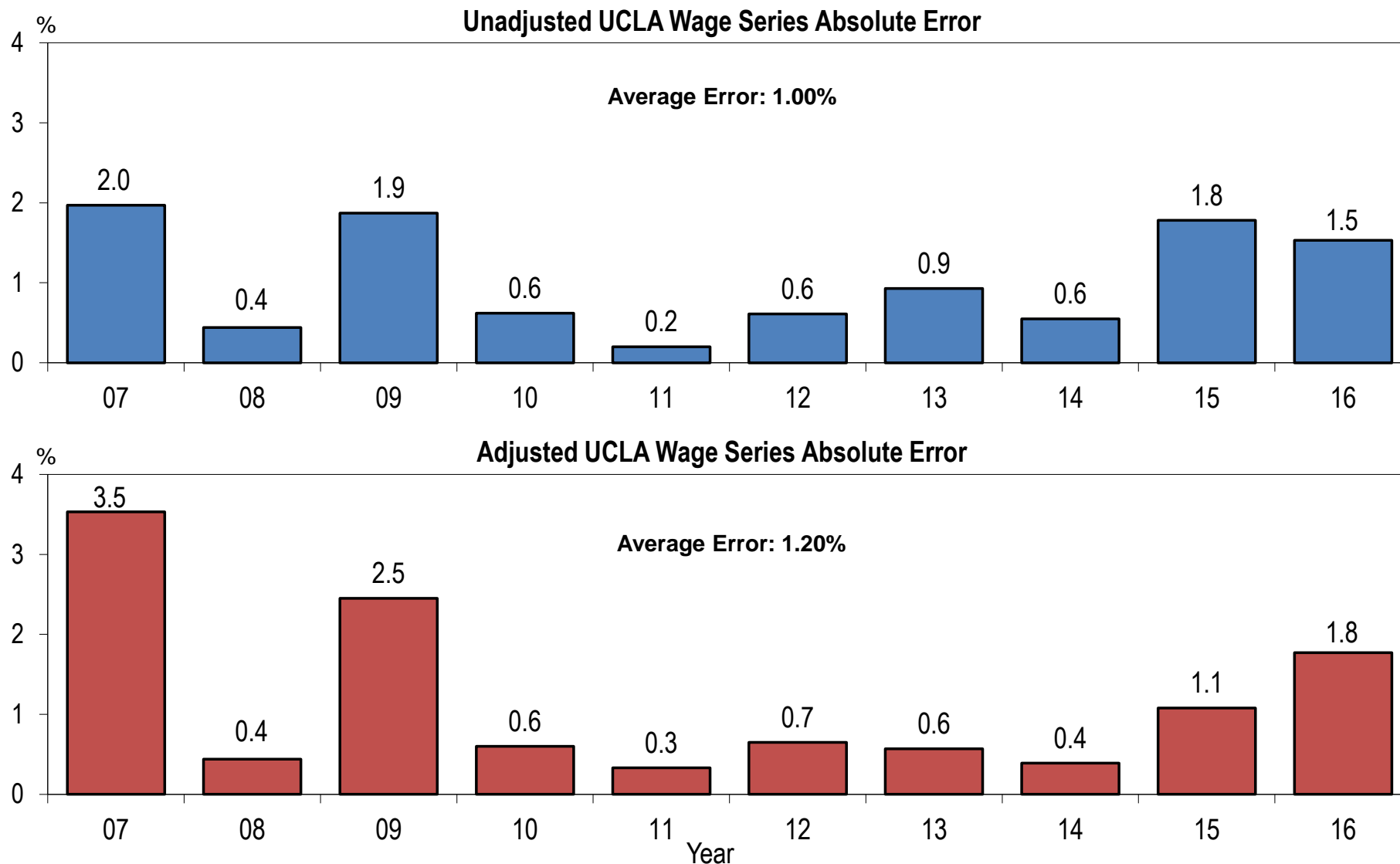
Retrospective Tests Results

Medical Projected On-Level Loss Ratios (Exhibit 2)



Retrospective Tests Results

Absolute Error in Adj and Unadj UCLA Wage Change (Exhibit 4)



Conclusions of the Wage On-level Review

- OES wage series performs similar or worse than the selected method
- Adjusting the UCLA projections to be more responsive to recent changes generally does not improve the accuracy of the forecast
- Staff does not recommend any changes to the current wage series at this time

Item AC17-12-06

New Drug Formulary – Assembly Bill No. 1124

WCIRB Actuarial Committee
December 6, 2017

Summary of Proposed Formulary

Exempt drugs	not subject to prospective utilization review if use is consistent with MTUS
Non-Exempt drugs	subject to prospective utilization review, all opioids and compounds fall under this category
Not listed drugs	subject to prospective utilization review
Special fill policy	allows for non-exempt drugs to be prescribed at the single initial visit within 7 days of injury
Perioperative fill policy	allows for non-exempt drugs for post-surgery care (4/14 days prior, 4/14 days after surgery)
Off-label use	not subject to prospective review if an exempt drug and follows MTUS treatment guidelines
Generic drug preference	physicians must obtain prospective authorization and document the need for brand name drug where a less costly generic equivalent exists
Physician dispensing	subject to prospective utilization review except on a one-time basis for “exempt drugs”

Summary Information on Formulary Drugs

- 82 Exempt Drug names
- 193 Non-Exempt Drug names
- 15 Special Fill Drug names
- 14 Peri-Op Drug names

- Drug Formulary list available at
<https://www.dir.ca.gov/dwc/DWCPropRegs/MTUS-Formulary/MTUS-Formulary.htm>

- We mapped the formulary drug names to 190,282 National Drug Codes(NDCs).

Estimated Cost Impact of AB 1124

- The DIR has provided an Economic Impact Statement reflecting a decreased CA workers' compensation spending on prescription drugs by an estimated \$23M*
- Impacts include the following assumptions:
 - Total number of prescriptions will be reduced in four categories
 - Brand-name drugs where equivalent generic drugs available
 - Non-exempt drugs in therapeutic classes where a exempt drug is available
 - Physician-dispensed drugs where pharmacy-dispensed drugs are available
 - Bulk ingredients used to make compound drugs
 - 20% of physician-dispensed prescriptions will not be written and another 40% of physician-dispensed volume will transition to pharmacy dispensing

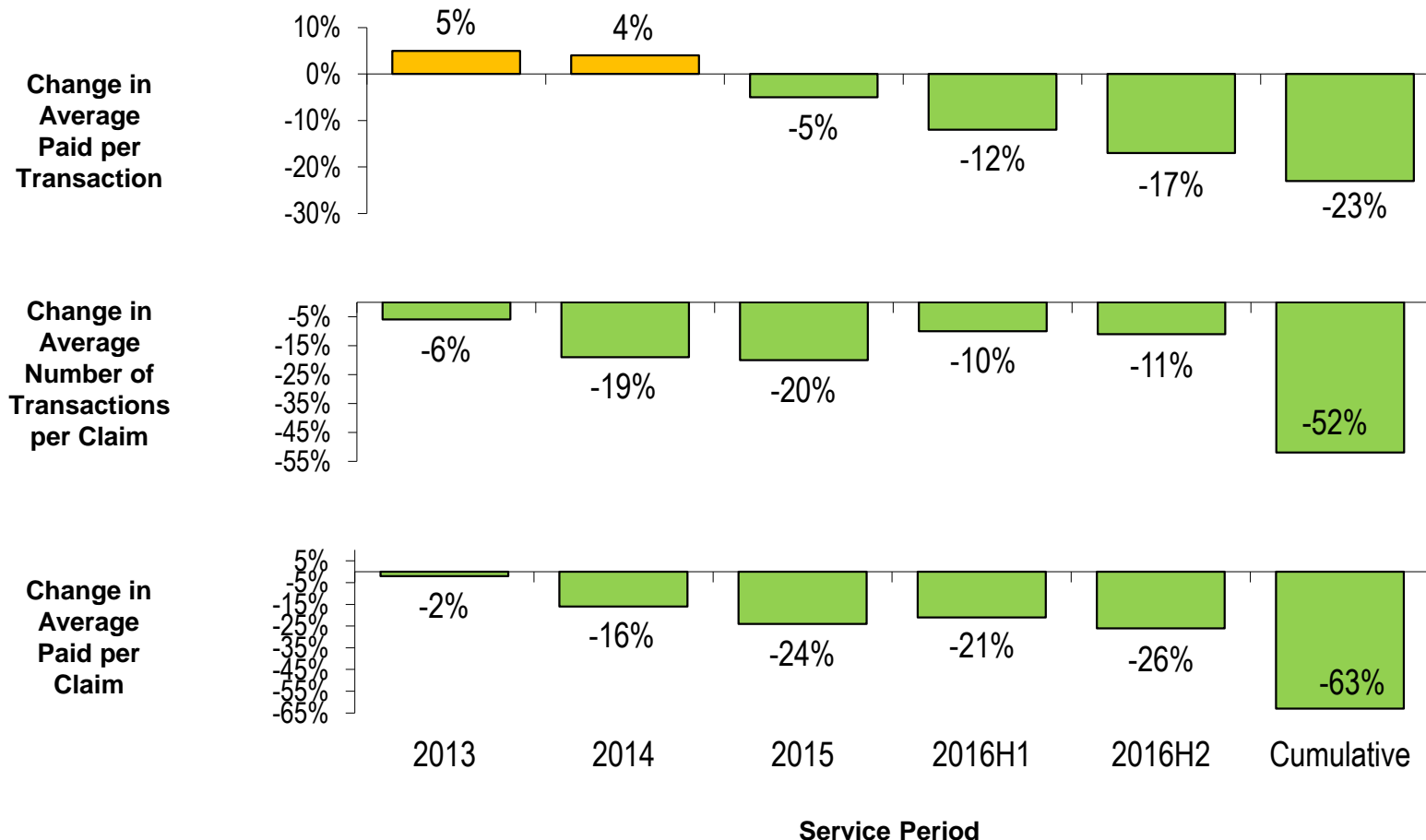
*Source: STD 399 State of California – Department of Finance, Economic and Fiscal Impact Statement (Regulations and Orders) Economic Impact Statement by the Department of Industrial Relations for the Medical Treatment Utilization Schedule Drug Formulary signed March 2, 2017

WCIRB process

- After formulary adoption, the WCIRB will complete evaluating the cost using WCIRB's MDC data sources and other information:
 - Identifying the drugs by NDC codes
 - Identifying and validating the site of service with reported taxonomy
 - Extract the data by therapeutic class
 - Map to Formulary drug table
 - Review UR & IMR costs impacted

- Potential Issues
 - No price controls in schedule
 - Impact on future prescribing pattern uncertain
 - Sharp drop prescription drugs since 2012 – in 2016, pharmaceutical costs only 8% of total medical

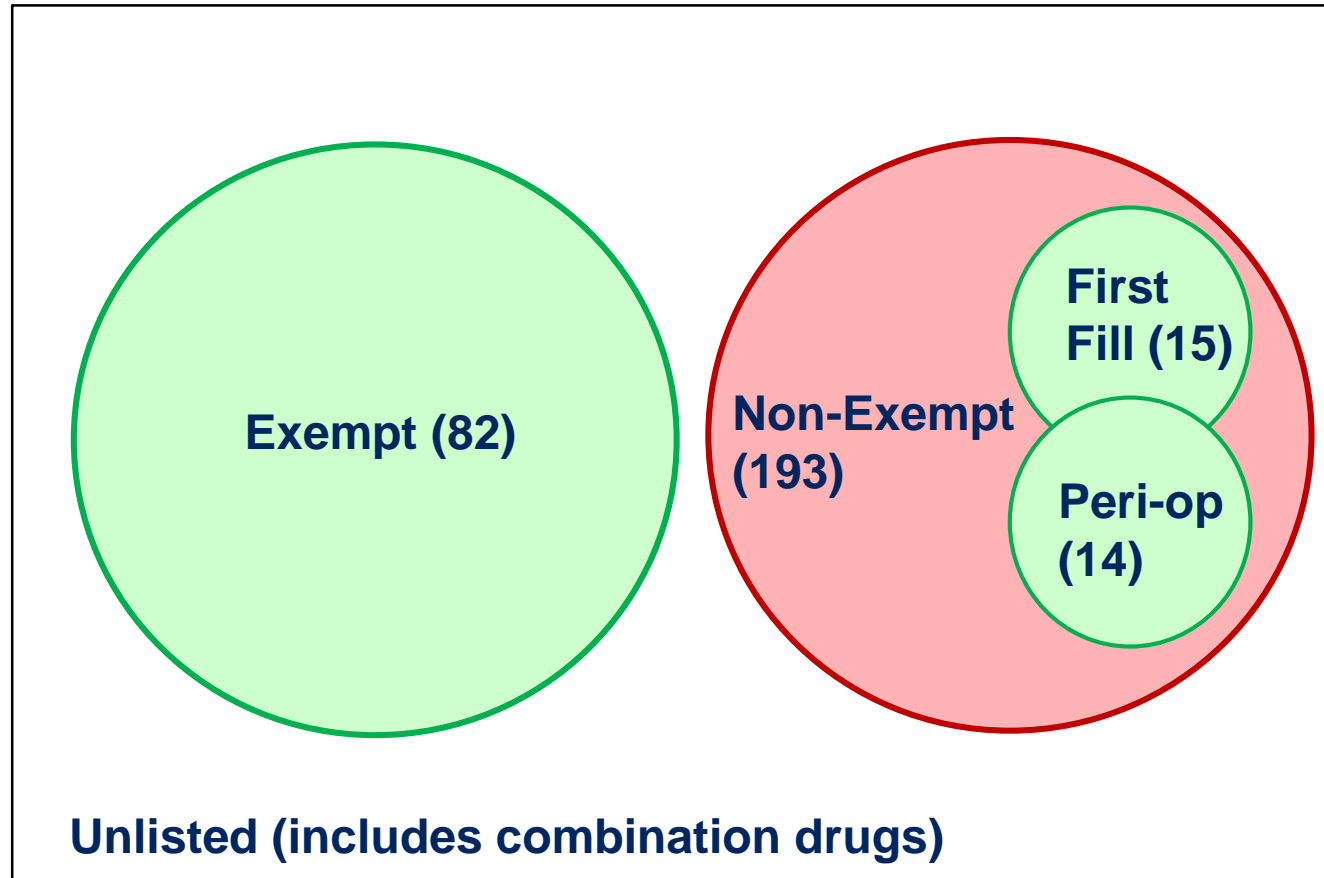
% Change in *Pharmaceutical* per Claim (Pharmaceutical Costs in 2016: 8% of Total Medical)



Downward cost impacts from the CA Medi-Cal Fee methodology change (Federal Upper limit/AWP), reduced physician prescribing (including opioids) and increased PBM transactions, and impacts from IMR and fraud indictments.

Source: WCIRB medical transaction data collected beginning in the third quarter of 2012.

WCIRB Methodology – Analyzing Spending by Statutory Rules



1. Baseline and trend drug data
 - Within 7 days of injury
 - Within 8-30 days of injury
 - 31+ days after injury
2. Analyze brand vs. generic
3. Review UR & IMR costs impacted
4. Trend of Pharmacy and Physician Dispensing
5. Compound Dispensing

Preliminary Summary of Current Formulary – Accident Dates July 1, 2016 - June 30, 2017*

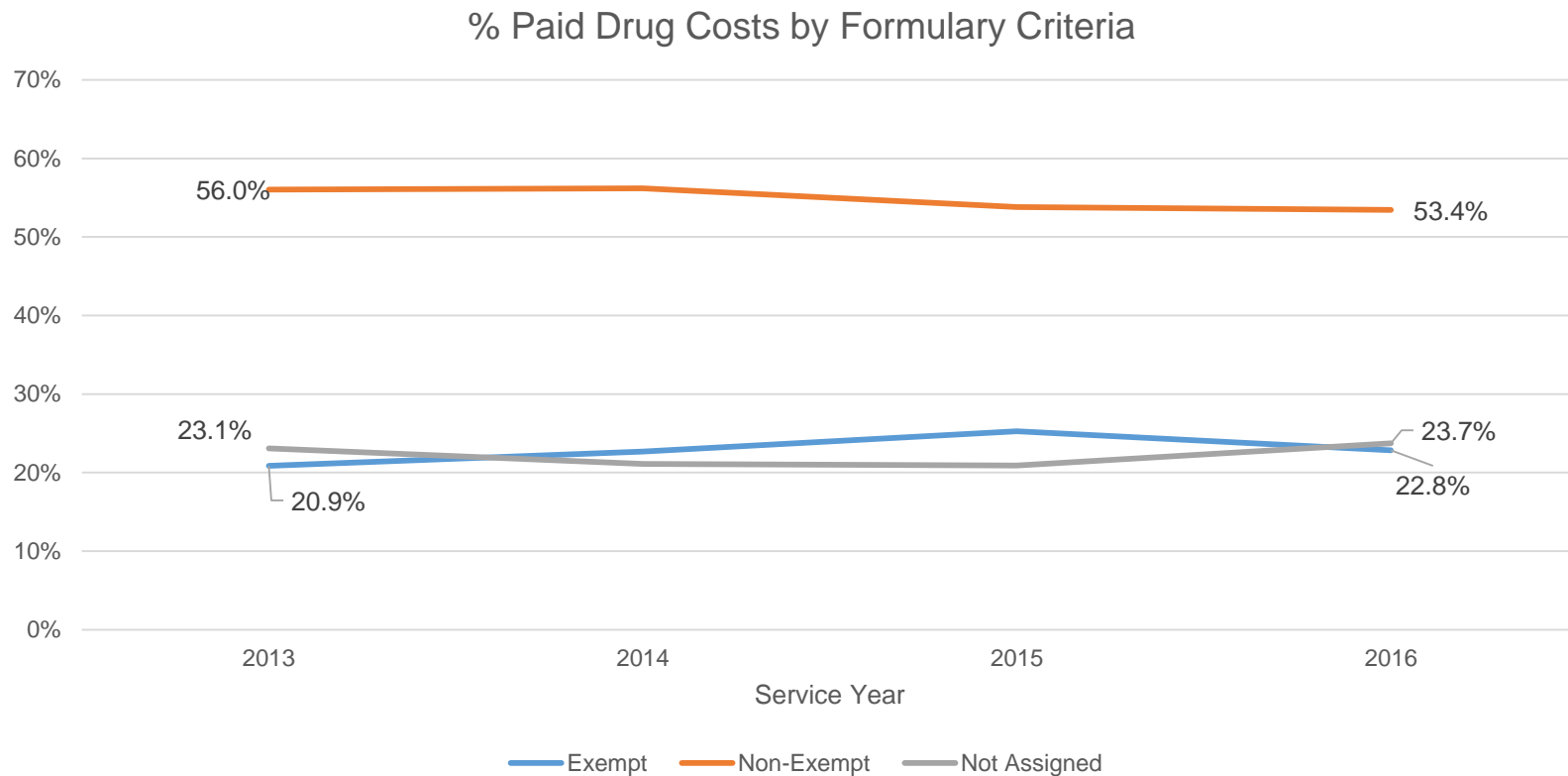
Share of Paid Medical by Formulary Category and Service Date Relative to Date of Injury

Accident Year July 1, 2016 to June 30, 2017 as of June 30, 2017

31+ Days after DOI					Subtotals by Category
	Within 7 days of DOI	Within 8-30 days of DOI	Not Perioperative	Perioperative	
Exempt	20.2%	8.2%	19.2%		47.6%
Non-Exempt - Subject to UR - Not Subject	7.8%	5.2%	17.8%	0.1%	30.9%
	0.4%	0.1%			0.6%
Not listed - Subject to UR	11.0%	2.0%	7.9%		20.9%
Subtotals by Days of DOI	39.4%	15.6%	45.0%		100.0%
Not Subject to UR	48.2%				
Subject to UR	51.8%				

Source: WCIRB Medical Call Data as of December 4, 2017

Preliminary Summary of Current Formulary Categorization* (All Accident Dates)



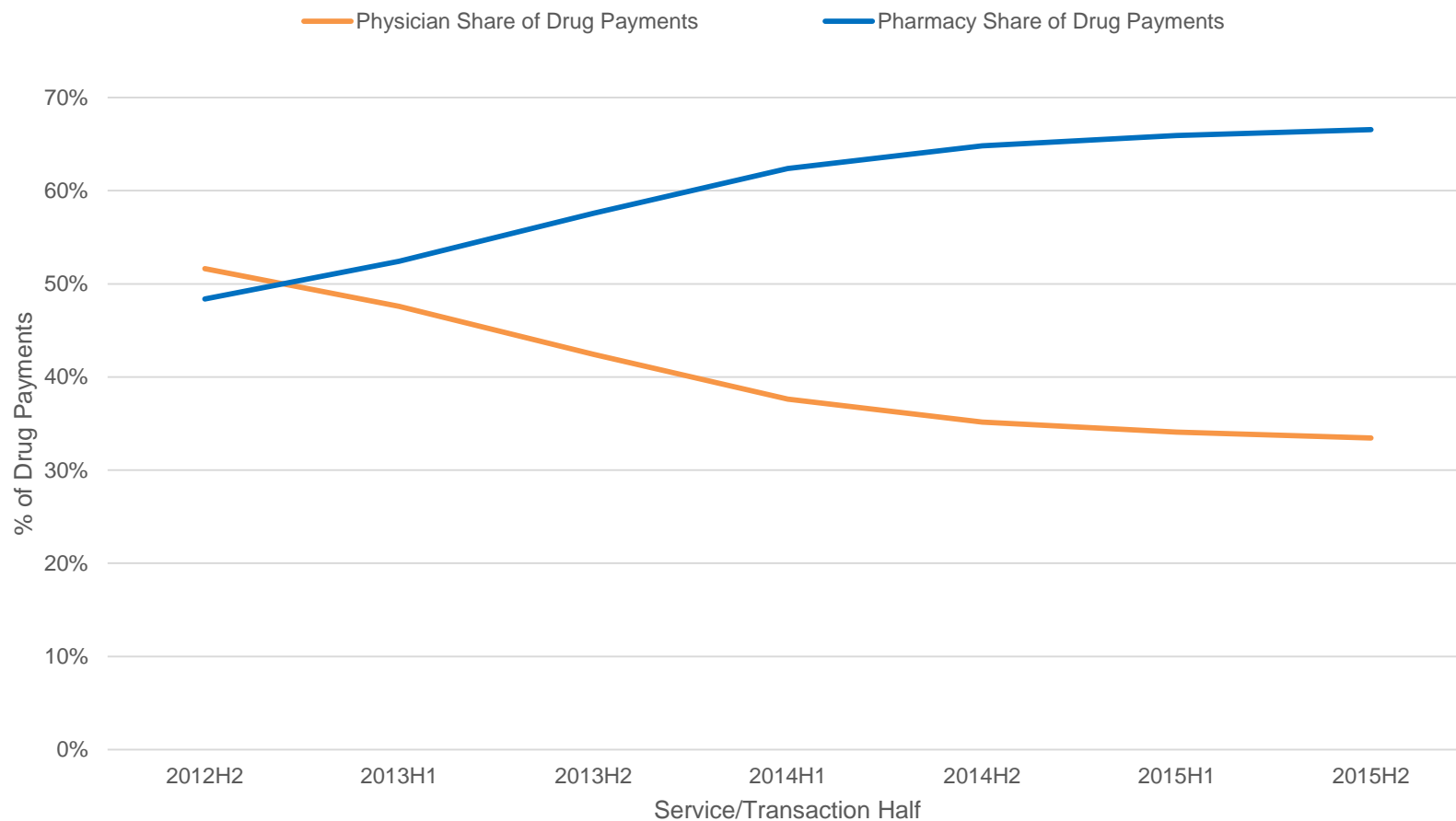
Source: WCIRB Medical Call Data

MDC as is date is December 4. Special Fill and Peri-op exceptions (<2% of spend) are included in the Non-exempt figures.

Potential Impact on Prescribing Patterns

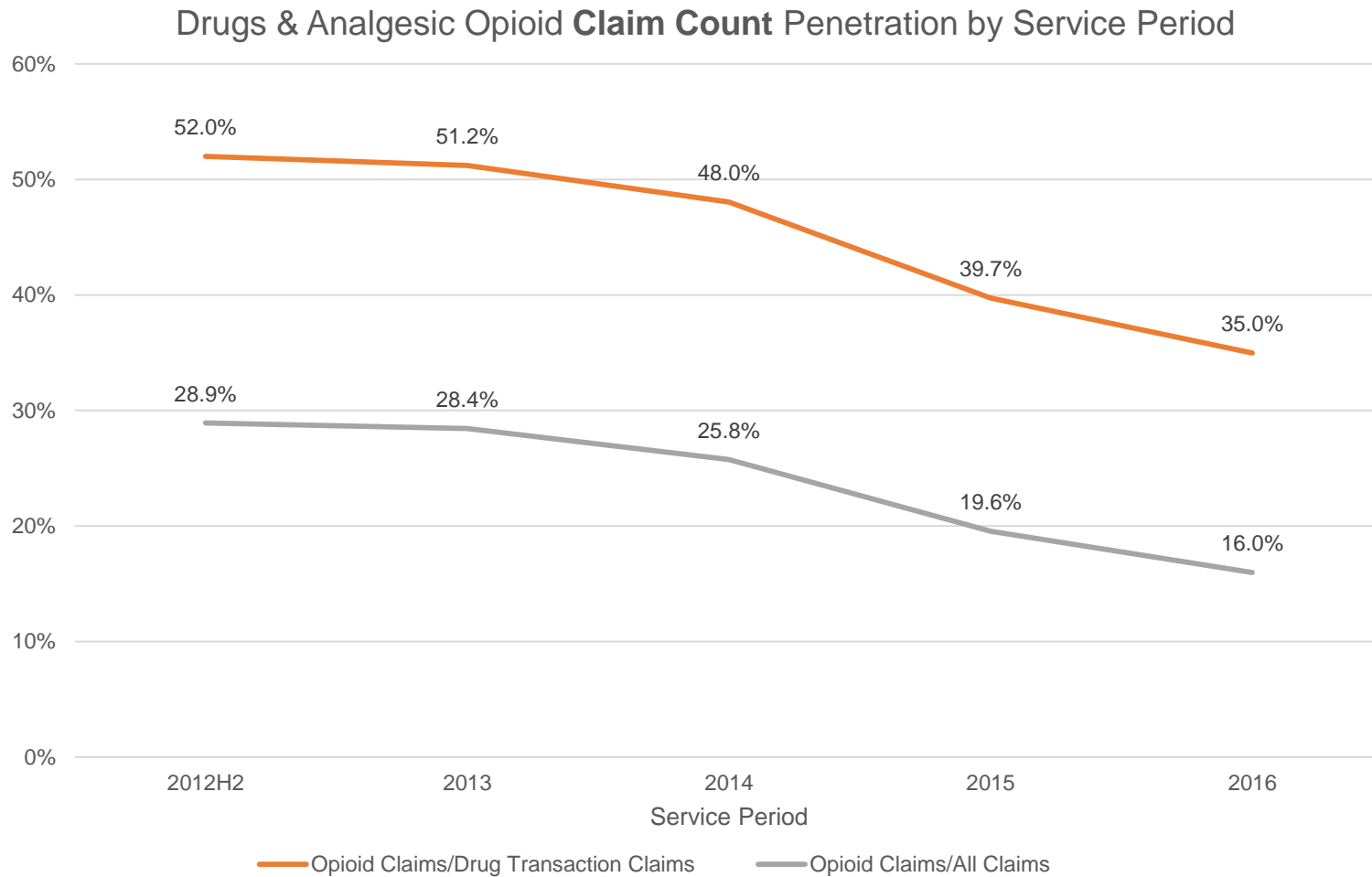
- **Physician Dispensed Drugs**
 - WCIRB 2016 report showed the share of physician dispensed drug payments down to 33% in 2015 from 50%+ in 2012 (drops in all categories)
- **Opioids**
 - Shares down significantly in last four years
- **Compound Drugs**
 - WCIRB 2016 report showed sharp drop in physician dispensed compound drugs since 2012

Patterns of Drug Payments to Physicians and Pharmacies



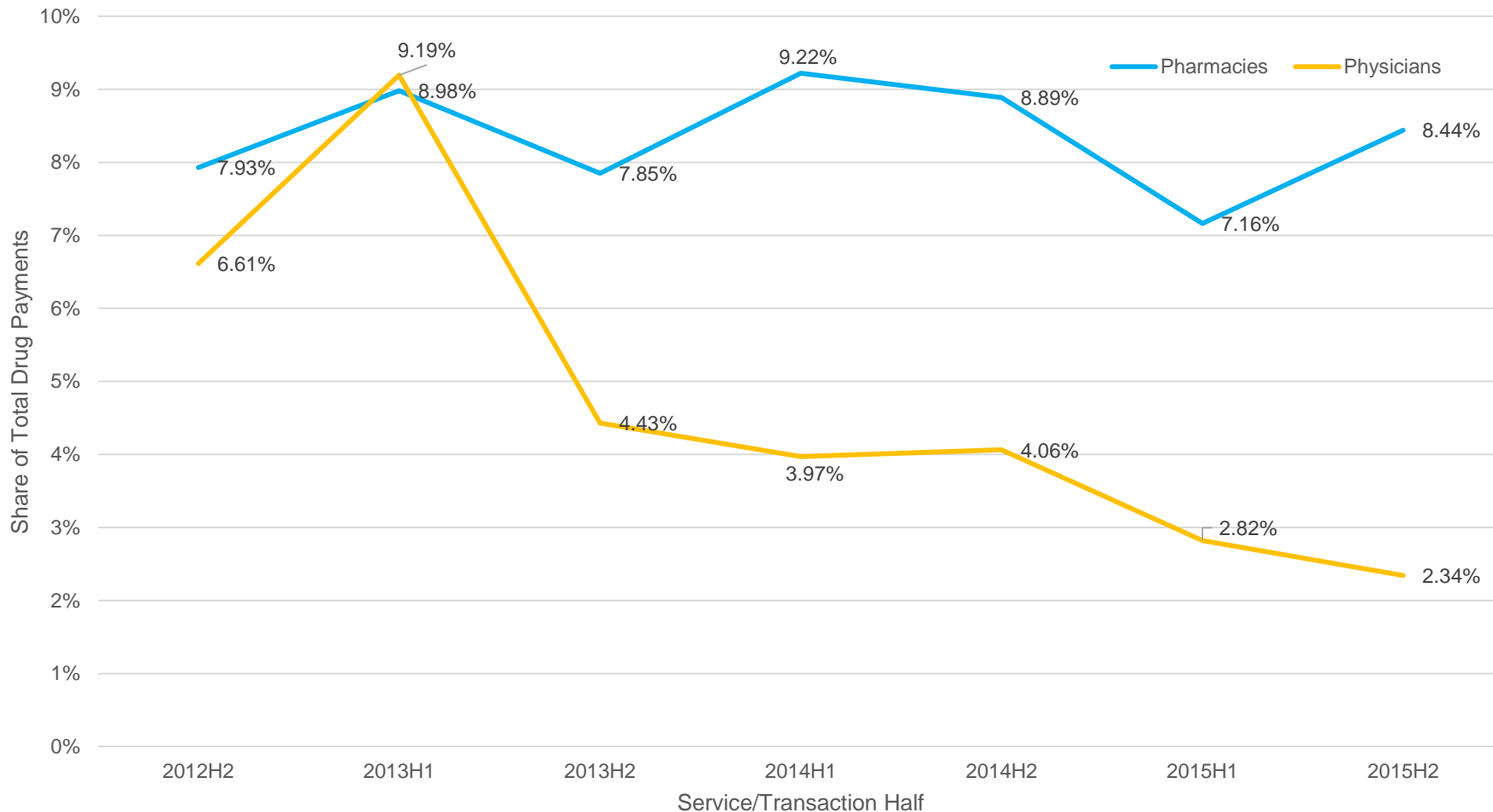
Source: WCIRB Medical Call Data

Opioid Trends by Service Period



Source: WCIRB Medical Call Data

Patterns of Compound Payments to Physicians and Pharmacies



Source: WCIRB Medical Call Data