

# Actuarial Committee

## Meeting Minutes

Date	Time	Location	Staff Contact
December 6, 2017	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci

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### Members

Angelo Bastianpillai  
Laura Carstensen  
Jim Gebhard  
Joanne Ottone  
Jill Petker  
Mark Priven  
Kate Smith  
Bryan Ware  
Chris Westermeyer  
Doug Zearfoss

### Representing

AIG  
Zurich North America  
Farmers Insurance Group of Companies  
Berkshire Hathaway Homestate Companies  
Liberty Mutual Group  
Public Members of Governing Committee  
State Compensation Insurance Fund  
AmTrust  
Travelers  
Employers Insurance Group

### California Department of Insurance

Ron Dahlquist  
Robert Hallstrom  
Patricia Hein\*

### WCIRB

Bill Mudge  
David Bellusci  
Ward Brooks  
Tony Milano  
Linda Radler  
Chris Wong

\* Attended part of the meeting via teleconference

The meeting of the Actuarial Committee was called to order at 9:30 AM following a reminder of applicable antitrust restrictions, with Mr. David Bellusci, Executive Vice President and Chief Actuary, presiding.

\* \* \* \* \*

### Approval of Minutes

The Minutes of the meeting held on September 5, 2017 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.

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## **Item II**

### **Working Group Meeting Summaries**

The summary of the Actuarial Research Working Group meeting held on September 26, 2017 was included in the Agenda materials. Staff presented a summary of the research related to a monthly indemnity claim frequency time series. The Committee subsequently accepted the meeting summary.

The summary of the Medical Analytics Working Group meeting held on October 3, 2017, which was included in the Agenda materials, was accepted by the Committee.

### **Item AC02-03-03 Experience of Large Deductible Policies**

The Agenda materials included a summary of the experience of large deductible workers' compensation policies in California through December 31, 2016. Staff presented a summary of the analysis and noted that (a) the proportion of statewide business written on a large deductible basis has been consistent in recent years; (b) while differences exist in average reserve levels, indemnity claim reporting patterns, and incurred development patterns, the paid development patterns for large deductible business are similar to those of non-large deductible business; and (c) the difference in the indicated pure premium rate level after excluding large deductible experience through December 31, 2016 was very modest. A Committee member noted that while the difference in the indicated pure premium rate level after excluding large deductible experience based on the WCIRB's selected methodology, which is predicated primarily on paid loss development, is modest, the difference may be more significant when using a methodology based on incurred loss development.

After some discussion, the Committee agreed that there was no need to implement any special ratemaking procedures for large deductible experience at this time and the information should continue to be reviewed on an annual basis. During the discussion, a meeting participant requested that staff provide an Excel version of the exhibits included in the Agenda materials. Staff noted that the exhibits would be posted on the WCIRB's website.

## **Item AC17-04-04 Update on New Drug Formulary**

At the April 3, 2017 and August 2, 2017 meetings, staff provided the Committee with an overview of the 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 proposed by the Department of Industrial Relations (DIR) as well as its ancillary rules.

The Committee was advised that on October 23, 2017, the DWC submitted the final drug formulary regulations to the Office of Administrative Law (OAL) to be effective January 1, 2018 and approval is expected soon. The Committee discussed the potential cost impact of the new formulary.

Staff summarized 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 that was published earlier this year. The Committee noted that from an overall system cost impact, the DIR estimated savings were modest, but with the lack of price controls, 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. It was noted that while there may be some modest savings from reduced utilization review and independent medical review on drugs listed on the exempt list in the formulary, as in the DIR's estimate, the key to any savings will be estimates on changing prescribing patterns, particularly as it relates to physician dispensing, opioids and compound drugs.

The Committee was advised that staff anticipates reviewing the analysis of the potential cost impact of the new formulary with the Claims Working Group and Medical Analytics Working Group prior to presenting it to the Committee at the April meeting for consideration of a potential July 1, 2018 Pure Premium Rate Filing.

## **Item AC17-12-01 9/30/2017 Experience – Review of Methodologies**

The Agenda materials included an analysis of statewide accident year experience evaluated as of September 30, 2017. Staff presented a summary of the analysis and noted that the decrease in the projected loss ratio from the analysis of June 30, 2017 experience reviewed at the September 5, 2017 meeting and reflected in the Amended January 1, 2018 Pure Premium Rate Filing was driven by lower than projected loss development in the third quarter, partially offset by a lower wage projection.

The Committee noted that both paid and incurred indemnity and medical loss development continued to decrease in the third quarter of 2017. It was noted that the decreases were in large part related to the 2015 and 2016 accident years emerging at significantly lower than projected levels, although loss development also declined modestly at later maturities. Staff noted that it plans to review Medical Data Call data through the third quarter of 2017 once it becomes available in early 2018 to better assess the characteristics of the paid medical development decreases in the third quarter. A Committee member suggested discussing the recent decreases in indemnity loss development with the Claims Working Group to assess the potential drivers of the decrease. The Committee also noted that indemnity claim settlement rates continued to accelerate in the third quarter, likely driven in part by the recent lien dismissals on older claims.

The Committee next discussed the on-level and trending projections. Staff noted that the decrease in the estimated wage level forecast for 2017 was related to corrections to historical Bureau of Labor Statistics information and lower wage construction employment increasing in the second quarter of 2017. It was also noted that the lower emergence of accident year 2015 and 2016 losses also lowered the on-level severity changes for those years as well as the longer-term average severity changes. However, staff noted that the severity trend projections reflected in the Agenda materials were based on those reflected in the Amended January 1, 2018 Pure Premium Rate Filing and that the trending projection would be reviewed in detail next quarter once the full year severity growth measure for accident year 2017 is available in preparation for a potential mid-year rate filing. The Committee also reviewed severity change estimates based on nine months experience for accident year 2017 which generally showed moderate increases.

## Item AC17-12-02 Legislative Cost Monitoring

The Committee was reminded that at the November 8, 2016 meeting, information on emerging post-Senate Bill No. 863 (SB 863) costs based on the most current data available was reviewed. At the meeting, while the Committee agreed that there is no further need to update the WCIRB's comprehensive SB 863 Cost Monitoring Report, there were areas related to permanent disability (PD) costs that emerge later in the life of a claim and fee schedules that had not yet been fully implemented that warrant further monitoring.

The Agenda materials included staff's most recent cost evaluation of several of the components of SB 863, as well as Senate Bill No. 1160 (SB 1160) and Assembly Bill No. 1244 (AB 1244), which were enacted in 2016. With respect to SB 863 provisions, the Committee noted the following:

- Although PD ratings based on Disability Evaluation Unit (DEU) data showed increases in average PD rating comparable to the WCIRB's prospective estimates, average PD ratings based on unit statistical report data continued to decline at a rate that began prior to the implementation of SB 863. Staff noted that updated DEU data would be reviewed next year as part of the two-year cycle of reviewing this information.
- Although SB 863 only eliminated PD add-ons for psychiatric impairments and continued to allow for these impairments to be treated, psychiatric treatment services from WCIRB Medical Data Call (MDC) data decreased sharply in 2013 and are occurring at about one-fourth of the pre-SB 863 rate.
- Recent increases in supplemental job displacement benefits (SJDB) are approximately twice the level reflected in the WCIRB's 2016 SB 863 Cost Monitoring Report (0.2% of total costs compared to 0.1% reflected). As a result, the consensus of the Committee was to adjust the indemnity on-leveling factors to reflect the most recent information on SJDB.
- The most recent data on the physician fee schedule changes related to the Resource-Based Relative Value Scale (RBRVS) showed decreases in physician costs for the 2014 and 2015 service years generally comparable to prior estimates and increases for the 2016 and 2017 (at six months) service years comparable to the WCIRB's prospective estimates made in 2013. The Committee was reminded that the RBRVS changes are currently primarily reflected in the reform adjustments to paid medical loss development with some residual also reflected in the medical on-leveling factors. After discussion, the consensus of the Committee was to not update the adjustments with the current data at this time until the continued appropriateness of the adjustments to paid medical loss development are reviewed in 2018.

With respect to SB 1160 and AB 1244 provisions, the Committee noted the following:

- The number of lien filings in the third quarter of 2017 were approximately 40% lower than the number of filings in the third quarter of 2016. Lien filings by month in 2017 did not show any signs of an uptick in more recent months.
- Lien payments in the first six months of 2017 were moderately lower than for the prior three calendar years.

- The majority of the liens with no declarations that were recently dismissed by the Division of Workers' Compensation (DWC) were from claims over four years old, filed in 2015 or 2016, for medical services, and from the Los Angeles area.
- A significant proportion of paid medical loss development for older accident years is for liens, suggesting that the recent dismissals may have a significant impact on medical loss development as well as claim settlement patterns. Staff informed the Committee that it is reviewing paid medical loss development as a result of the recent lien filings and any potential adjustments to loss development, if appropriate, will be reviewed with the Committee at the next meeting in consideration of a potential July 1, 2018 pure premium rate filing.
- Based on available provider and claim information, staff had linked some of the recently dismissed liens to WCIRB USR and MDC data, and found that a number of the liens showed as paid in MDC, suggesting that some of the liens may have already been settled prior to being dismissed by the DWC.

After discussion, the Committee accepted staff's findings.

## Item AC17-12-03 On-leveling for Wage Level Changes in Pure Premium Ratemaking

Staff reminded the Committee of prior research into different wage series conducted in 2016 which included analysis of the Occupational Employee Statistics (OES) series. The Agenda materials included a comparison of the current UCLA wage series and the OES wage series for use to on-level losses and premiums for pure premium ratemaking. The Agenda materials also included an analysis of an adjusted UCLA wage forecast to address concerns discussed at recent Actuarial Committee meetings with regards to volatility in the UCLA forecasts.

Staff noted some key differences between the ULCA and OES wage series. The UCLA wage series is based on average wages, more responsive to economic changes, and provides forecasted wage changes. The OES data is based on median wages and may better represent the covered exposure but is less responsive and forecasts of future growth in the series was not available. The Committee was reminded that the UCLA wage forecasts are based on underlying U.S. Bureau of Labor and Statistics data.

The Committee reviewed the analysis of the accuracy of on-leveled loss ratio projections based on the UCLA wage series and the OES wage series compared to the emerged loss ratio. Staff noted that the differences between the wage series is most apparent in the medical results. Staff did not recommend adopting the OES wage series because the series performed about the same or worse than the UCLA wage series and no forecasts of the future OES wage growth are readily available. The consensus of the Committee was that this was appropriate.

Staff presented the analysis of the adjusted UCLA forecast. During the discussion, several Committee members requested an example of the adjustment calculation applied to the UCLA forecast. The calculation below shows the absolute errors between the adjusted and unadjusted UCLA wage changes compared to the wage change at "full maturity" (Exhibit 4 in the Agenda materials).

1. March 2010 Forecast Average Wage Change for 2010 (100% Projection)	4.3%
2. June 2010 Forecast Average Wage Change for 2010 (25% Historical & 75% Projection)	3.8%
3. Change from March 2010 to June 2010 Forecasts (2) – (1)	-0.5%
4. Unadjusted June 2010 Forecast Average Wage Change for 2011	3.6%
5. Adjusted June 2010 Forecast Average Wage Change for 2011 (4) + (3)	3.0%
6. Unadjusted June 2010 Forecast Average Wage Change for 2012	3.8%
7. Adjusted June 2010 Forecast Average Wage Change for 2012 (6) + (3)	3.3%
8. December 2012 Emerged Average Wage Change for 2011 ("full maturity")	3.4%
9. Unadjusted Error on 2011 Change (8) – (4)	-0.2%
10. Adjusted Error on 2011 Change (8) – (5)	0.3%
11. December 2013 Emerged Average Wage Change for 2012 ("full maturity")	3.7%
12. Unadjusted Error on 2012 Change (11) – (6)	-0.1%
13. Adjusted Error on 2012 Change (11) – (7)	0.4%

The Committee expressed concerns with potential bias in UCLA forecasts and expressed a desire to also review other wage forecast options. The Committee requested that staff review the longer-term accuracy of the UCLA forecasts as compared to alternative forecasts. Staff agreed to review the outstanding items with the Committee at the March 19, 2018 meeting.

## **Item AC17-12-04 Earthquake Study**

The Committee was reminded that at the December 6, 2016 meeting, the Committee recommended that the WCIRB undertake a study of the potential earthquake exposure in California as it had been a number of years since the WCIRB had last updated its projections around statewide earthquake exposure and there have been significant enhancements in catastrophe modeling since that time. Staff noted that, subsequent to the Governing Committee authorizing the study at the April 5, 2017 meeting, the WCIRB had contracted with Risk Management Solutions (RMS), a leading catastrophe risk modeling firm, to conduct the analysis.

The Committee was informed that the study had been completed and high level results reviewed by the Actuarial Research Working Group. A RMS representative presented an overview of the earthquake catastrophe model used in the analysis as well as the high-level study results. The Actuarial Committee accepted the study. Staff advised the Committee that the model had evaluated the policy year 2013 exposures by classification by location information, which underlay the WCIRB's 2016 Study of Geographical Differences. Given the advances in earthquake modeling science and the level of refinement of the exposure information provided to RMS, the Actuarial Committee recommended consideration of a provision to reflect average expected losses from the earthquake hazard in advisory pure premium rates. Staff agreed to present this issue for further discussion when the Committee is considering the January 1, 2019 Pure Premium Rate Filing next summer.

Staff informed the Committee that the level of refinement of the model results permitted the evaluation of the earthquake hazard at a classification level. Staff reviewed with the Committee its preliminary findings in evaluating the potential refinement of the results to classifications or industries. The Committee recommended that staff continue to evaluate potential refinement of an earthquake hazard provision for consideration in any potential provision that might be developed for inclusion in proposed advisory pure premium rates.

## Item AC17-12-05 Potential 2018 Actuarial and Research Projects

The Committee reviewed the list of potential actuarial and research studies included in the Agenda materials that are under consideration for 2018. It was noted that many of the listed studies were either requested by the California Department of Insurance (CDI), developed in response to issues raised in recent CDI Decisions, required by legislation, or related to monitoring of recent legislative or regulatory changes.

The Committee was reminded that while the WCIRB's analysis of statewide earthquake exposure had been very recently updated, it has been a number of years since the WCIRB updated projections around statewide terrorism exposure. As a result, staff suggested that the WCIRB should consider updating its analysis of the statewide terrorism exposure in California in 2018 using the "geo-located" exposure measures developed by staff and used in the recent earthquake analysis. Several Committee members noted that while individual insurers have their own modeling processes around terrorism exposures and there are more significant challenges in projecting the frequency of major terrorism events relative to potential earthquake frequencies, a publicly available analysis of the potential statewide terrorism exposure in California would provide value to stakeholders.

After some discussion, the consensus of the Committee was that the schedule of projects outlined in the Agenda materials to be undertaken in 2018 was appropriate.

## Item AC17-12-06 2018 Schedule of Meetings

The following Actuarial Committee meeting schedule has been established for 2018:

Monday, March 19, 2018

Tuesday, April 3, 2018<sup>1</sup>

Friday, June 15, 2018

Wednesday, August 1, 2018

Tuesday, September 4, 2018

Wednesday, December 5, 2018

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<sup>1</sup> Subsequent to the Committee meeting, the April meeting was changed from April 2 to April 3.

The meeting was adjourned at 2:00 PM.

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Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for March 19, 2018 for approval and/or modification.