

WCIRB Actuarial Committee Meeting

June 15, 2018

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01

Update on Medical Severity Trends by Component



Outline

- Methodology of analyzing medical severity trend
- Share of medical payments by service type
- Cost per claim by medical service type
- Cumulative share change in cost per claim by selected component of physician services

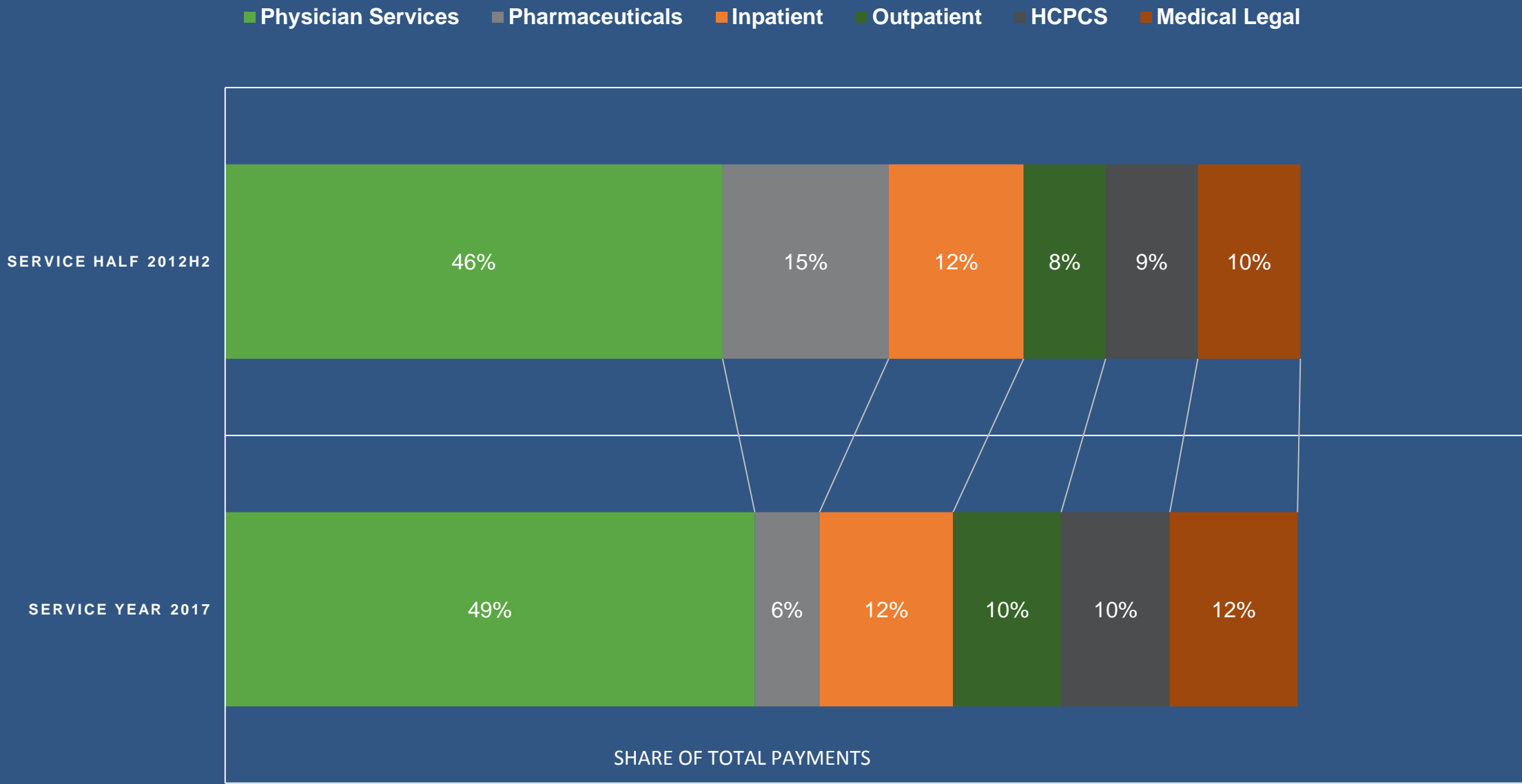
Methodology

- Analyzed WCIRB's medical transaction data
 - Service dates between 7/1/2012 and 12/31/2017
 - Includes insurers active since 7/1/2012
 - Excludes medical liens
 - Pathology and Laboratory testing transactions and payments were included in Physician Services
 - HCPCS* codes include:
 - Ambulance services
 - Durable medical equipment, prosthetics, orthotics, and supplies used outside a physician's office
 - Home health services
 - Interpreter services

* HCPCS stands for Health Care Procedure Coding System

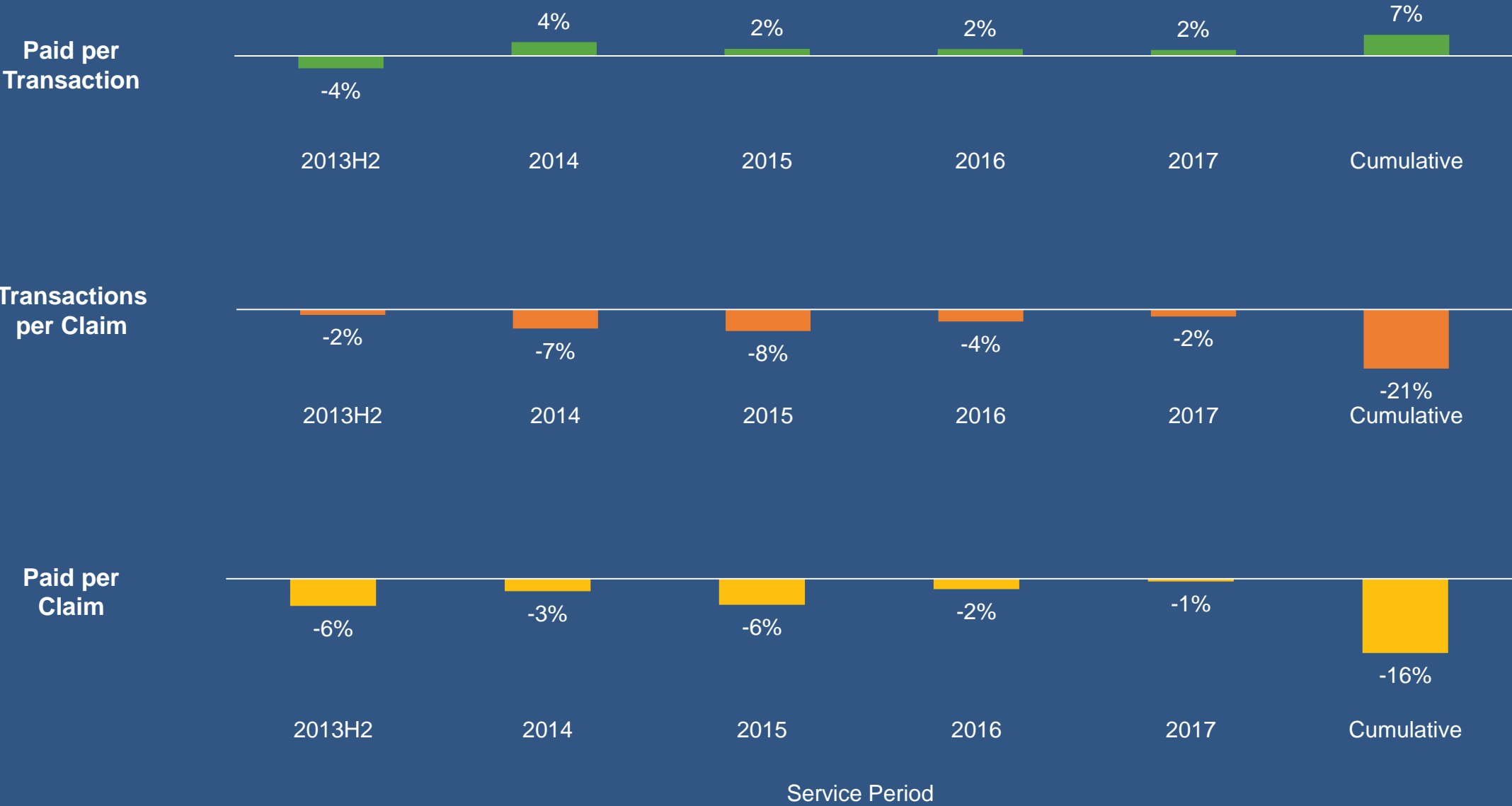
Share of Total Medical Payments by Service Type

As of April 7, 2018



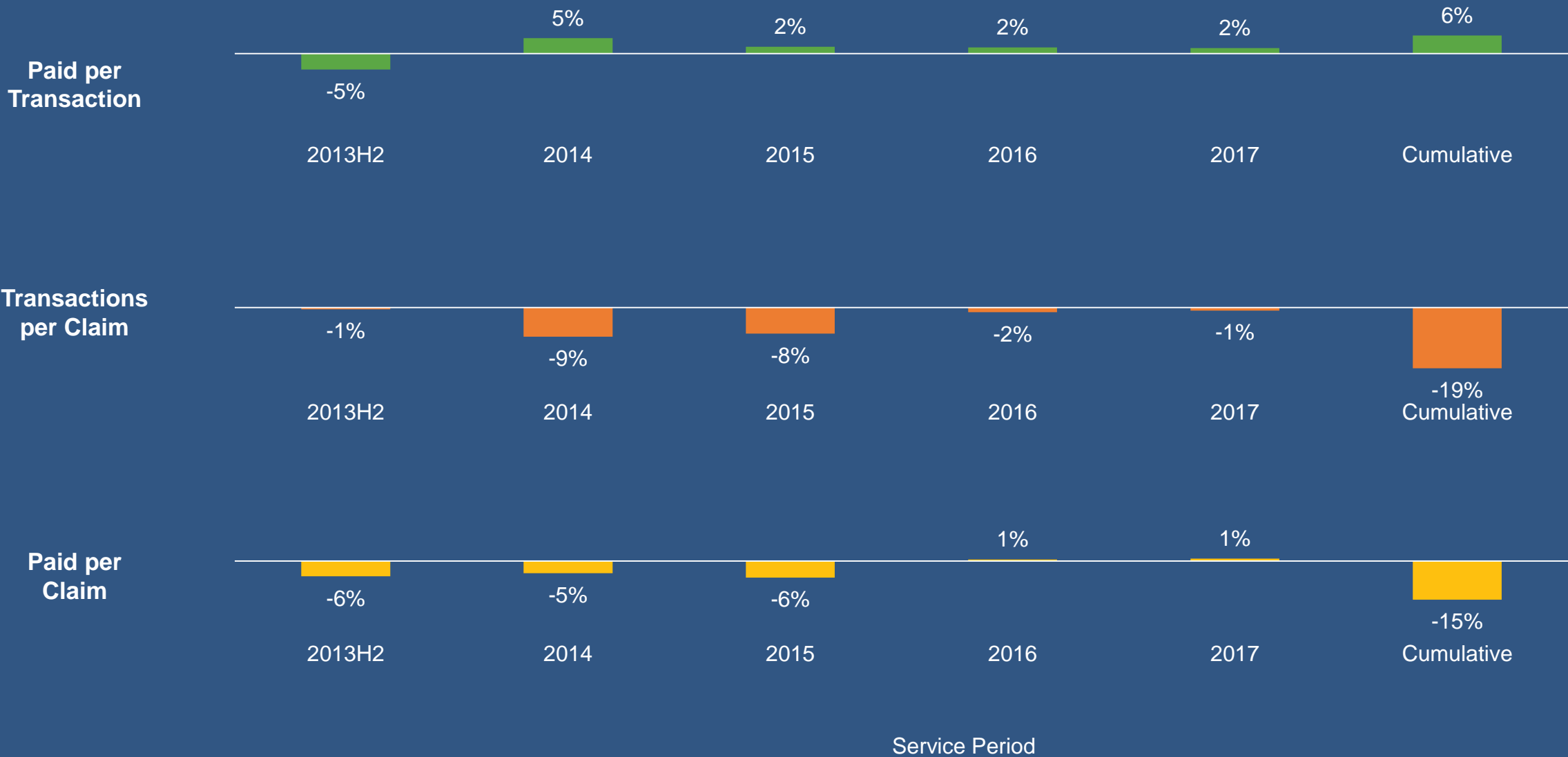
% Change in *All Medical Services* Cost per Claim

As of April 7, 2018



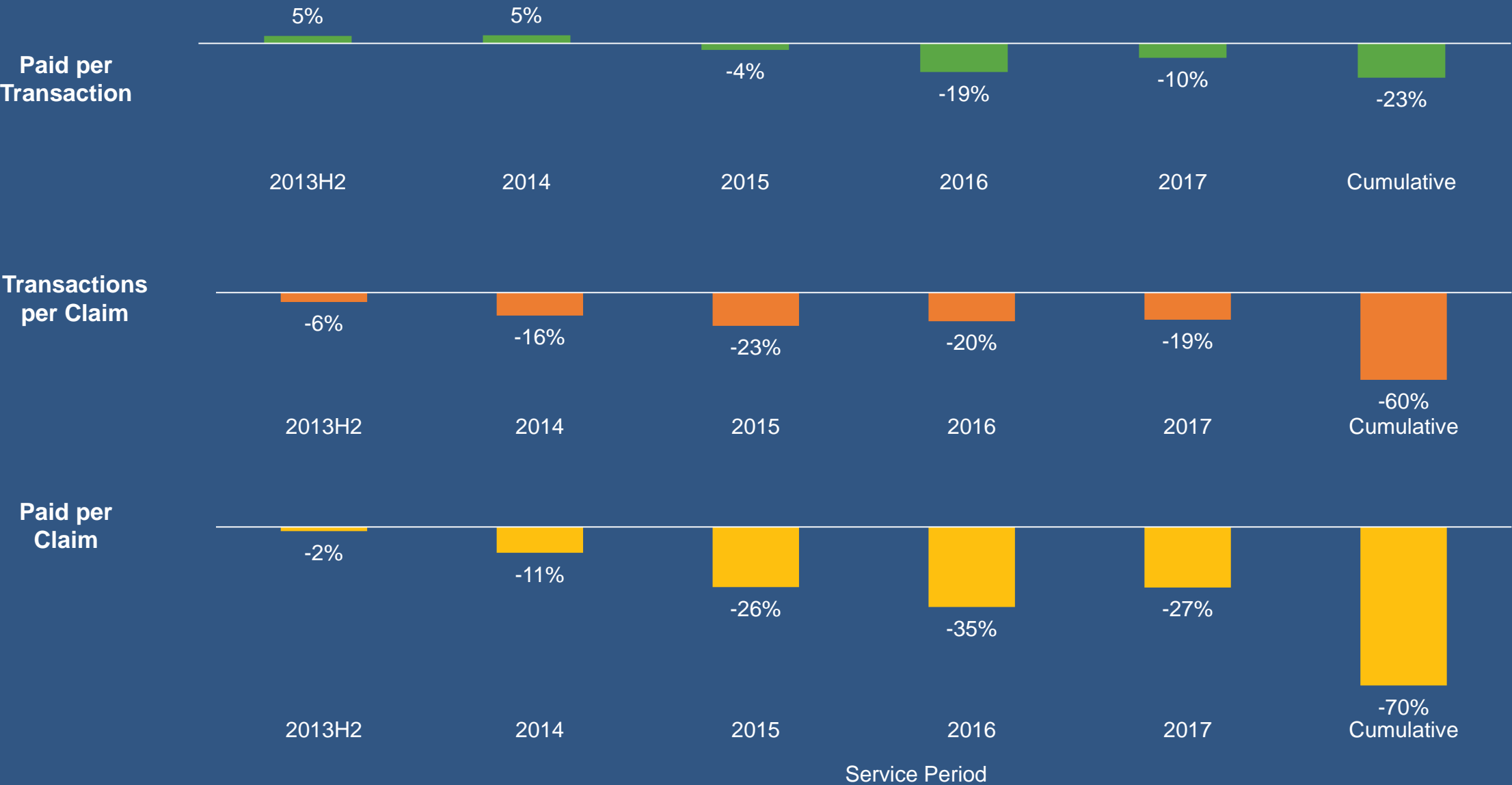
% Change in *Physician Services* Cost per Claim

As of April 7, 2018



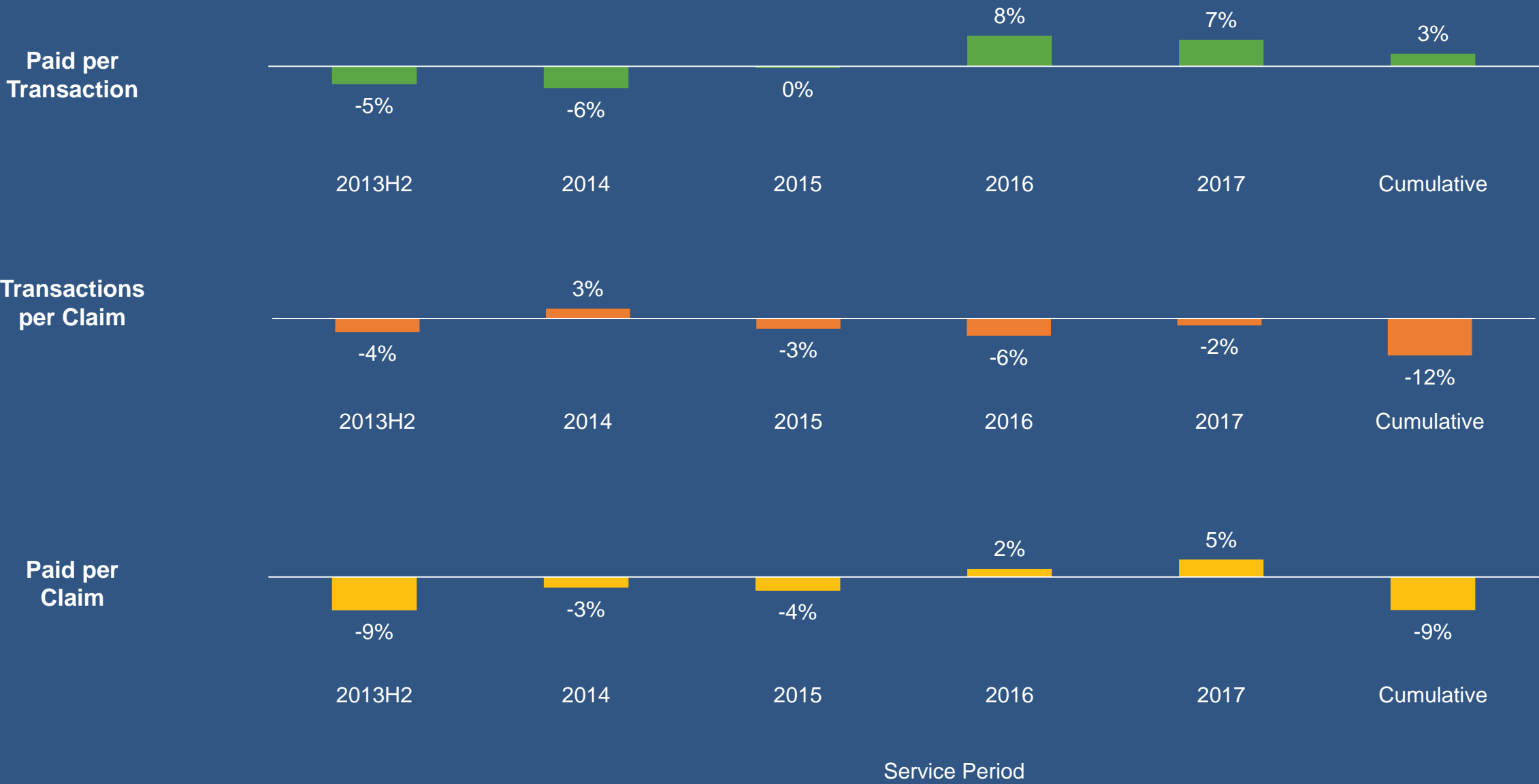
% Change in *Pharmaceutical* Cost per Claim

As of April 7, 2018



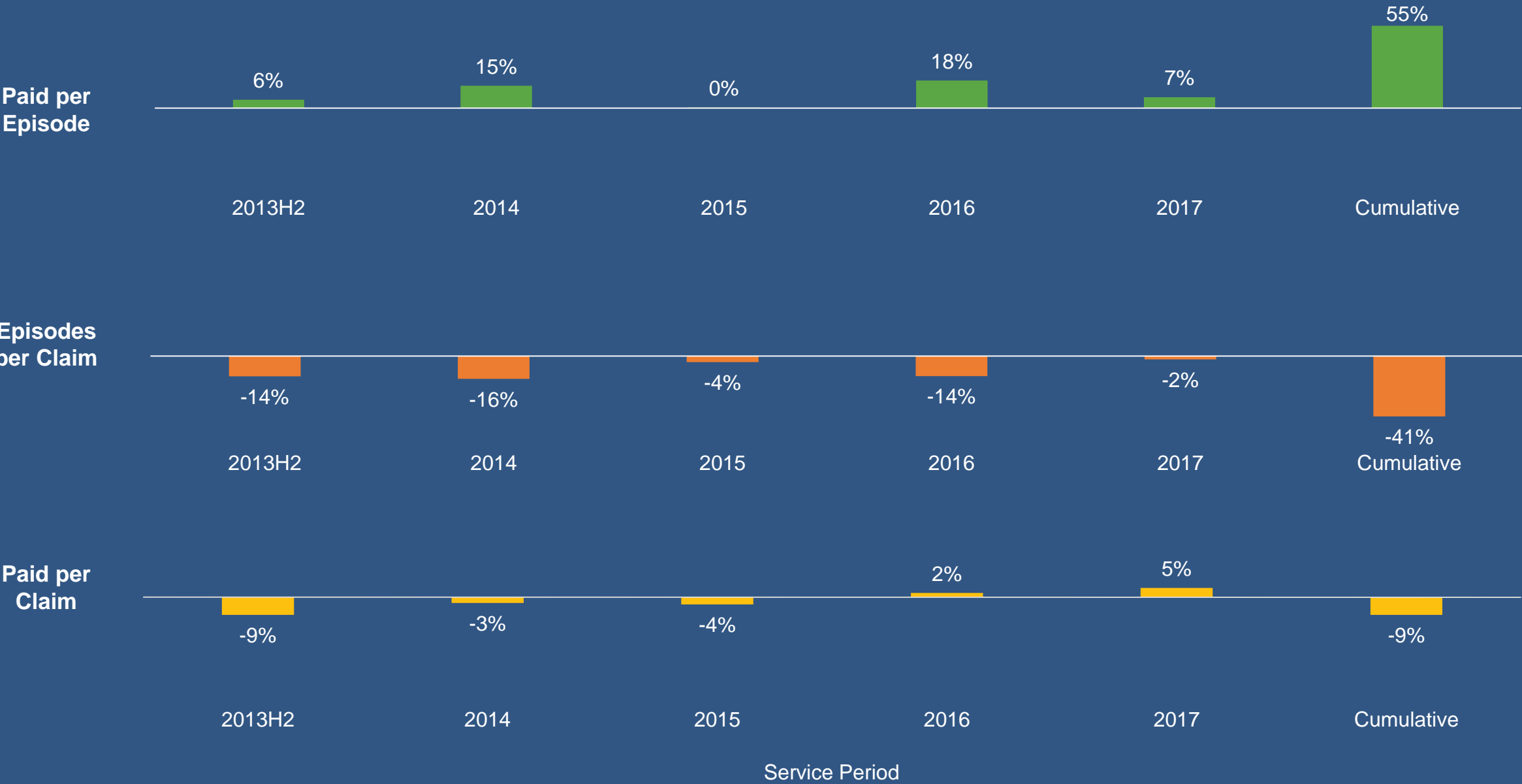
% Change in *Inpatient* Cost per Claim (transaction-based)

As of April 7, 2018



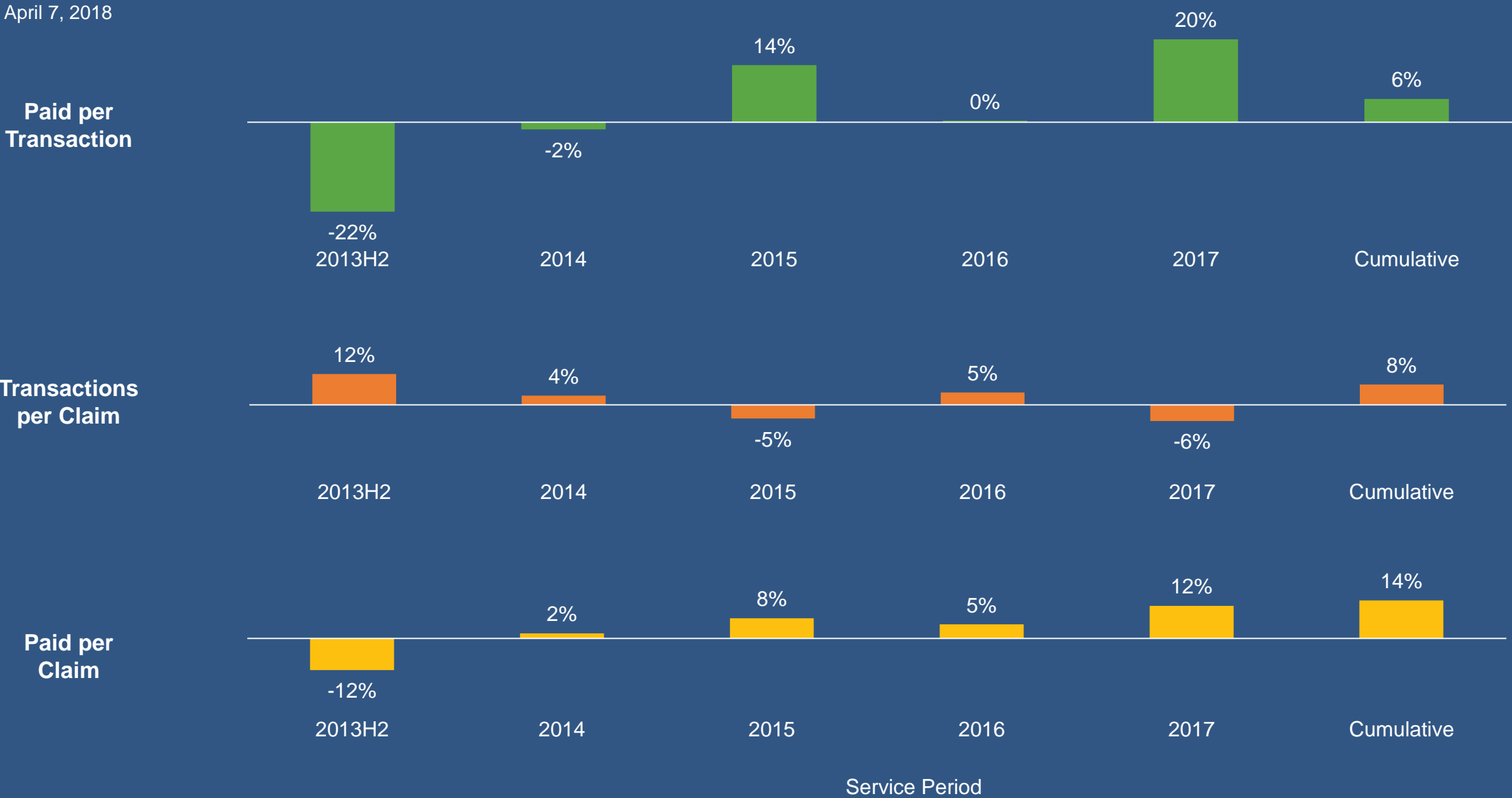
% Change in *Inpatient* Cost per Claim (episode-based)

As of April 7, 2018



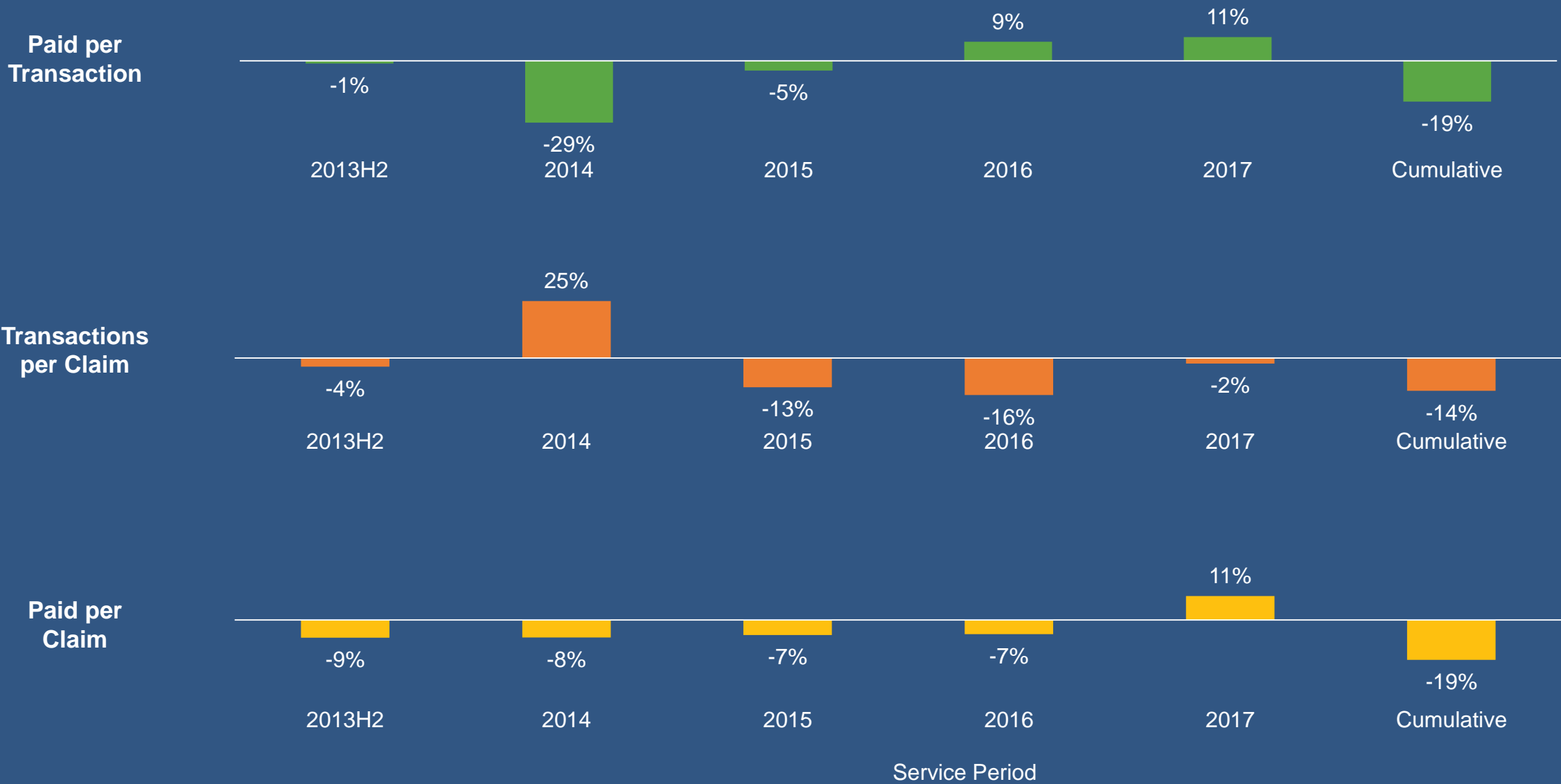
% Change in *Outpatient* Cost per Claim

As of April 7, 2018



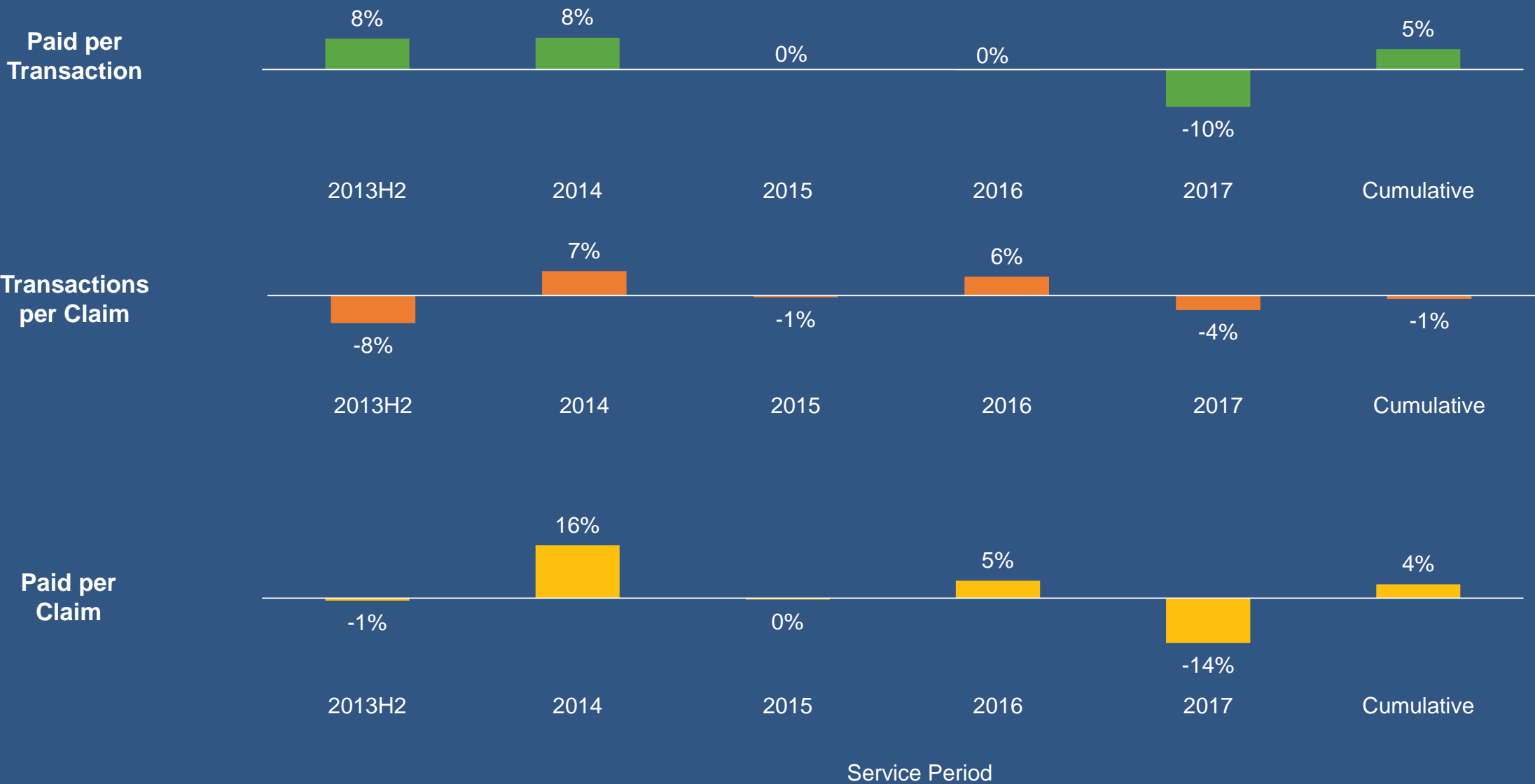
% Change in *HCPCS* Cost per Claim

As of April 7, 2018



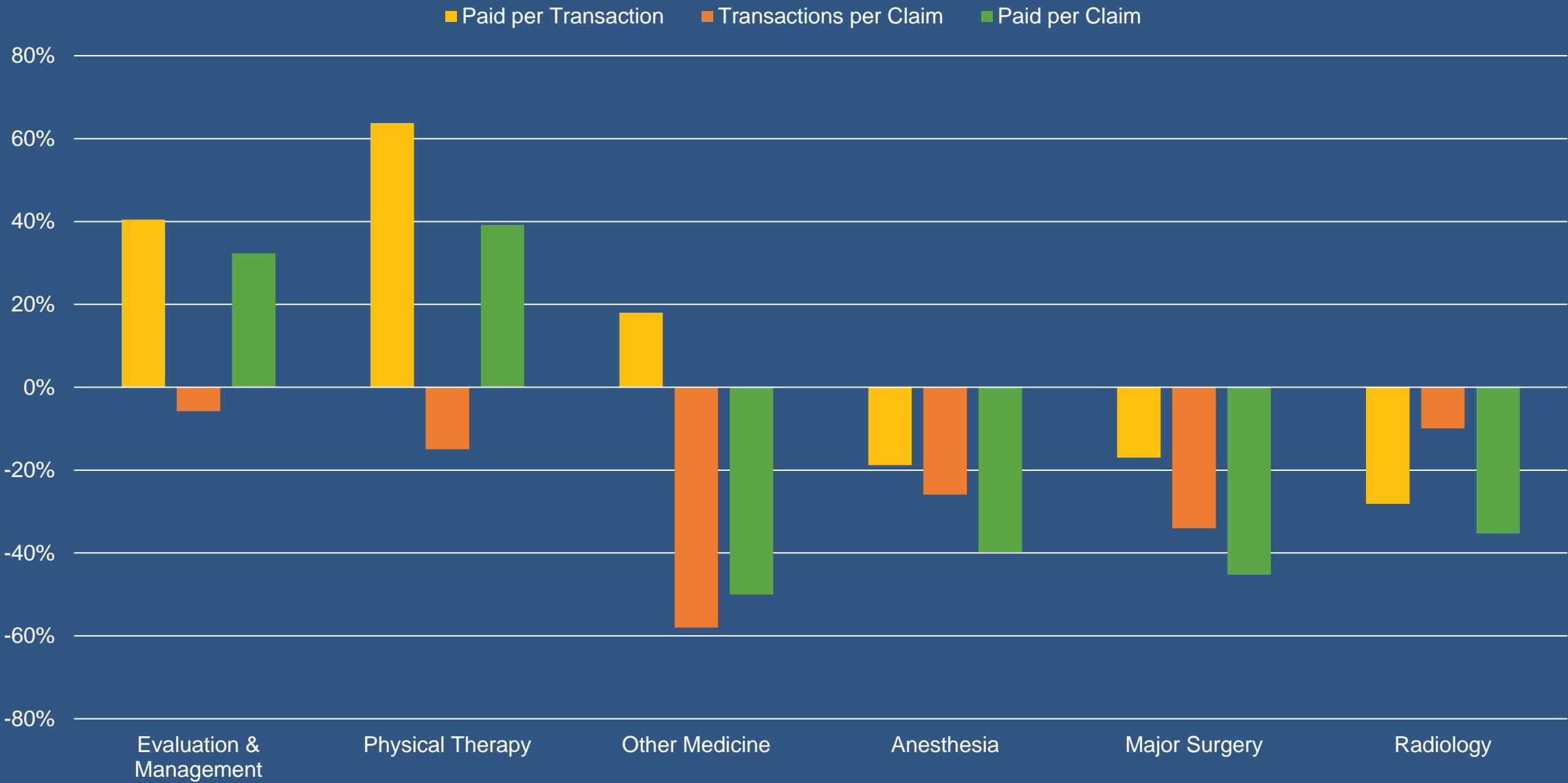
% Change in *Medical Legal* Cost per Claim

As of April 7, 2018



Cumulative % Change in Selected Components of Physician Services 2012H2 through 2017

As of April 7, 2018



02

3/31/2018 Experience – Review of Methodologies

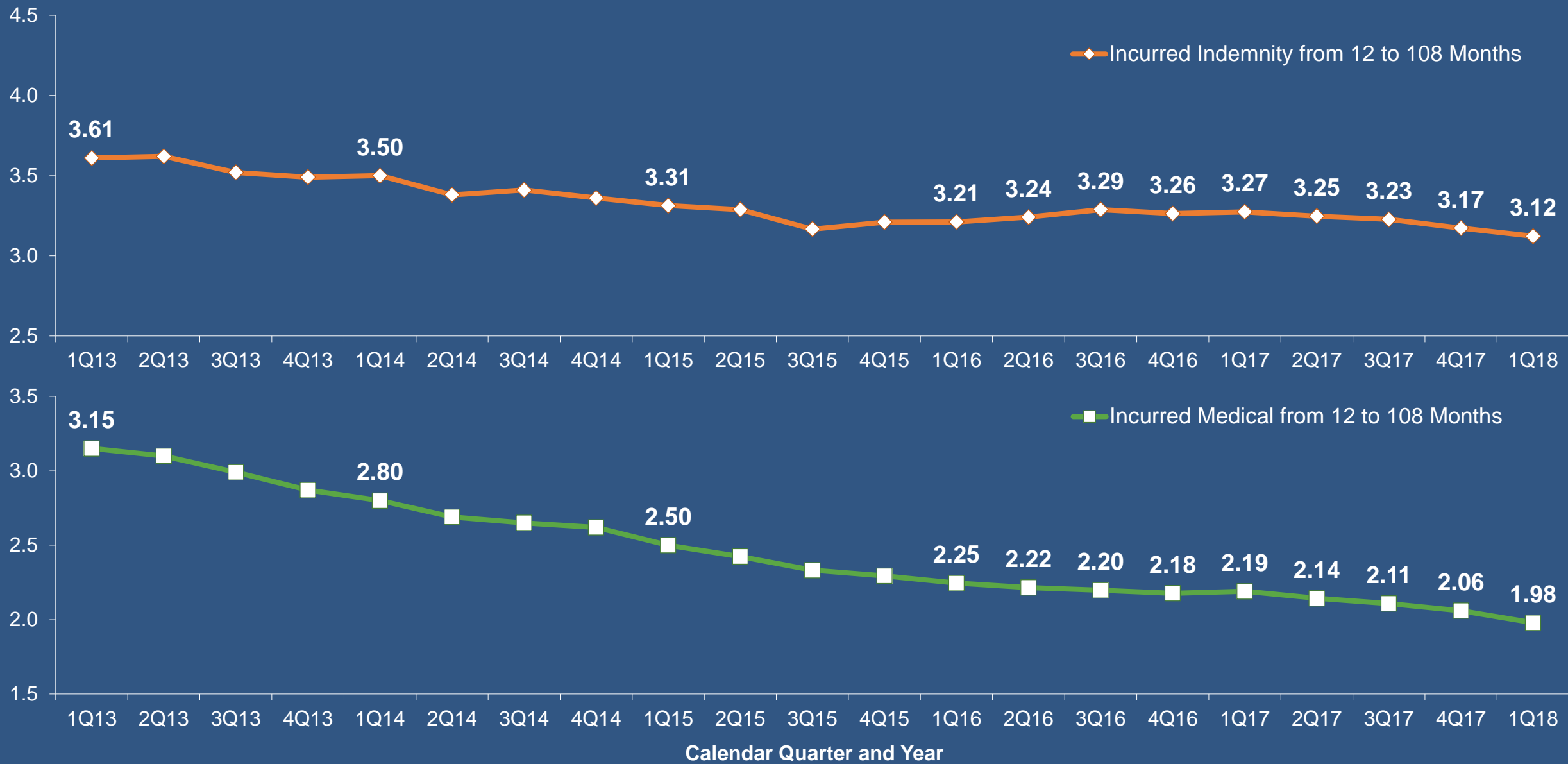


Summary of 3/31/2018 Experience

- Almost 100% of market reflected
- Same methodologies as in 7/1/2018 Filing
 - CDI Decision on 7/1/2018 Filing blended 75% of WCIRB loss development projection and 25% of the unadjusted incurred method projection
 - CDI also reflected a 1% medical severity trend projection compared to 3% reflected in the Filing
- Projected policy year 2019 loss ratio: 0.574
- ~3.5 point decrease from 7/1/2018 Filing projection (0.608)
 - -2 points from lower loss development emergence
 - -1 point from trending to policy year 2019 period
 - -0.5 points from updated frequency trend

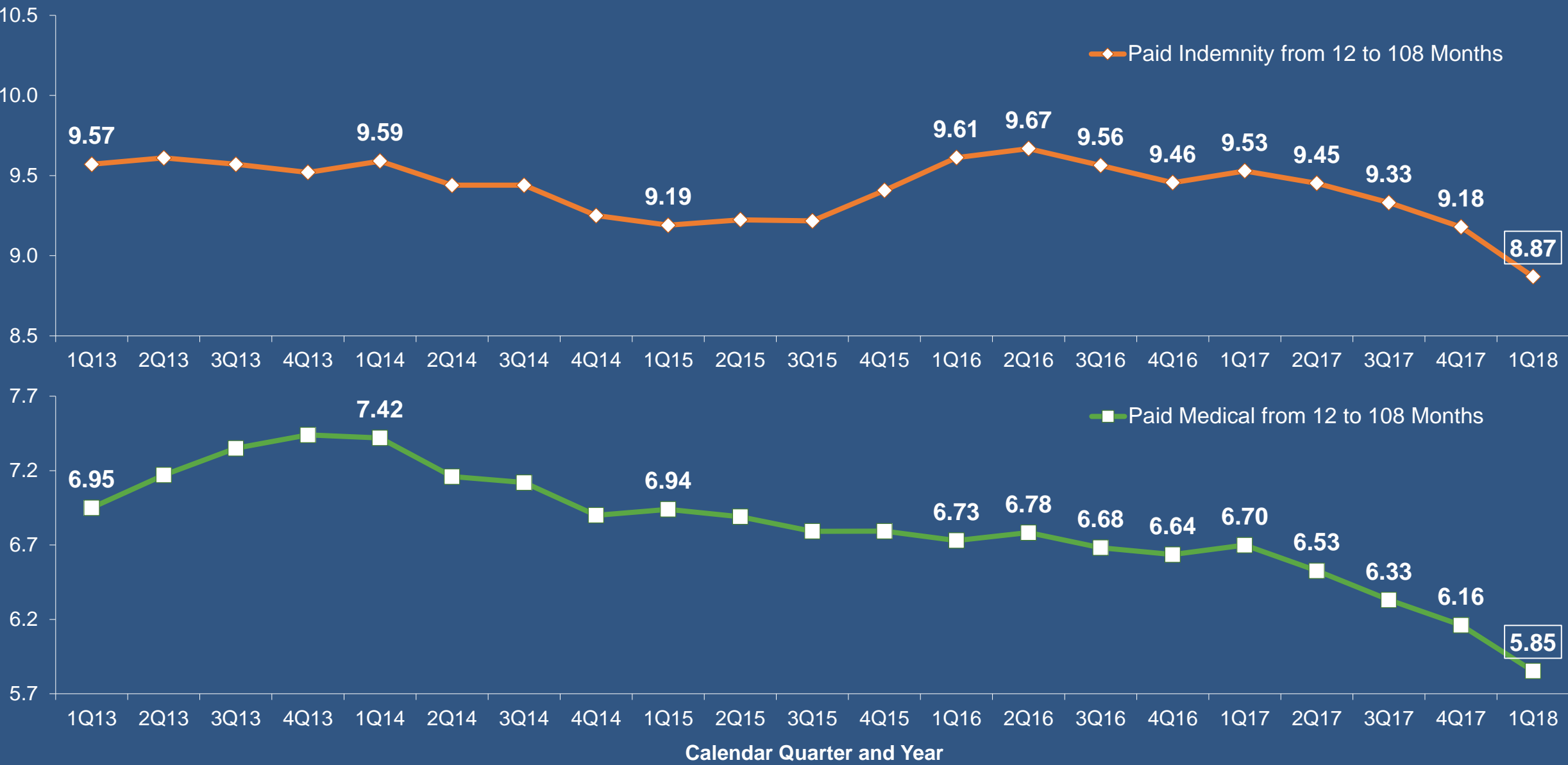
Cumulative Incurred Development from 12 to 108 Months

As of March 31, 2018



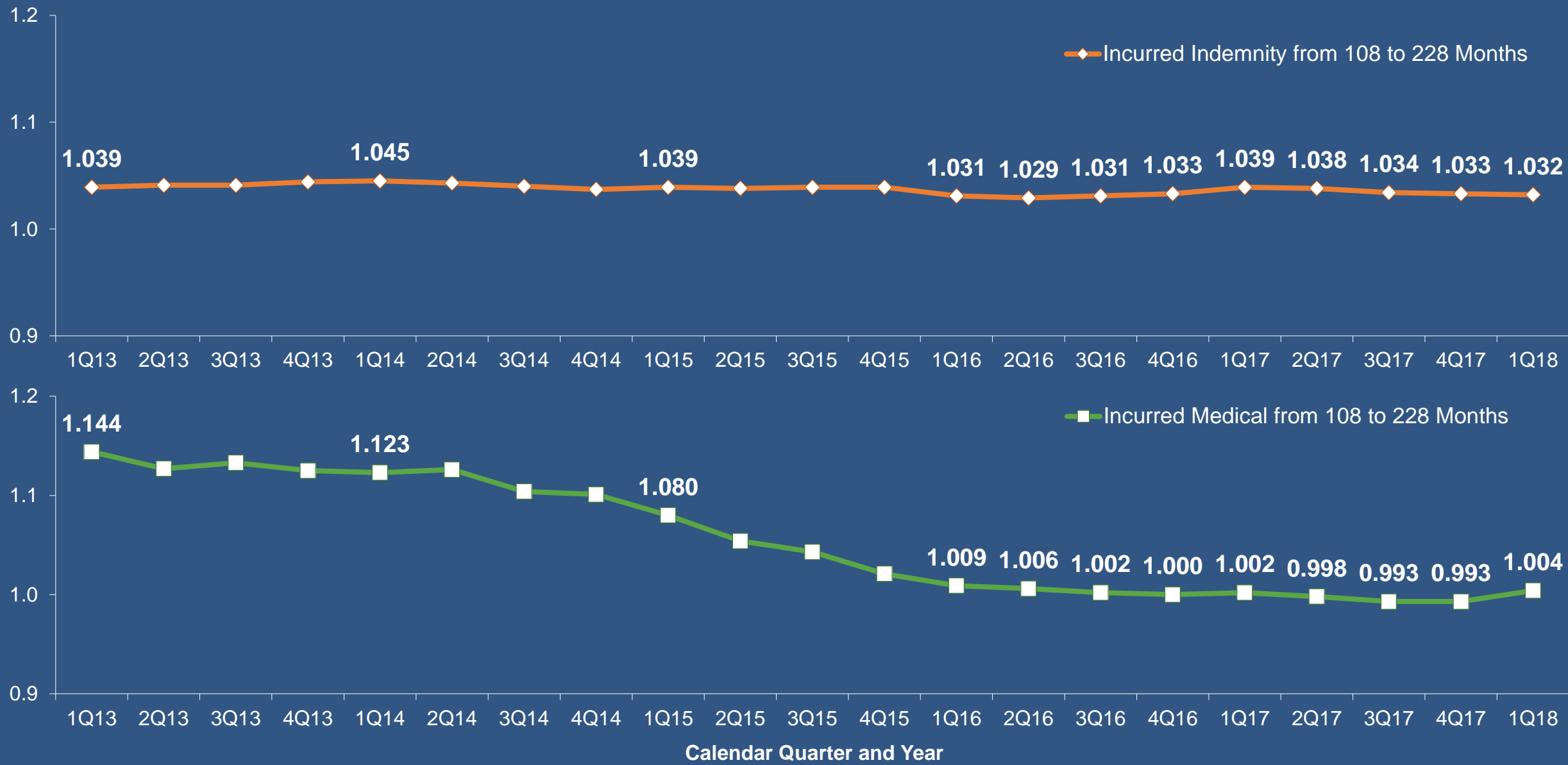
Cumulative Paid Development from 12 to 108 Months

As of March 31, 2018



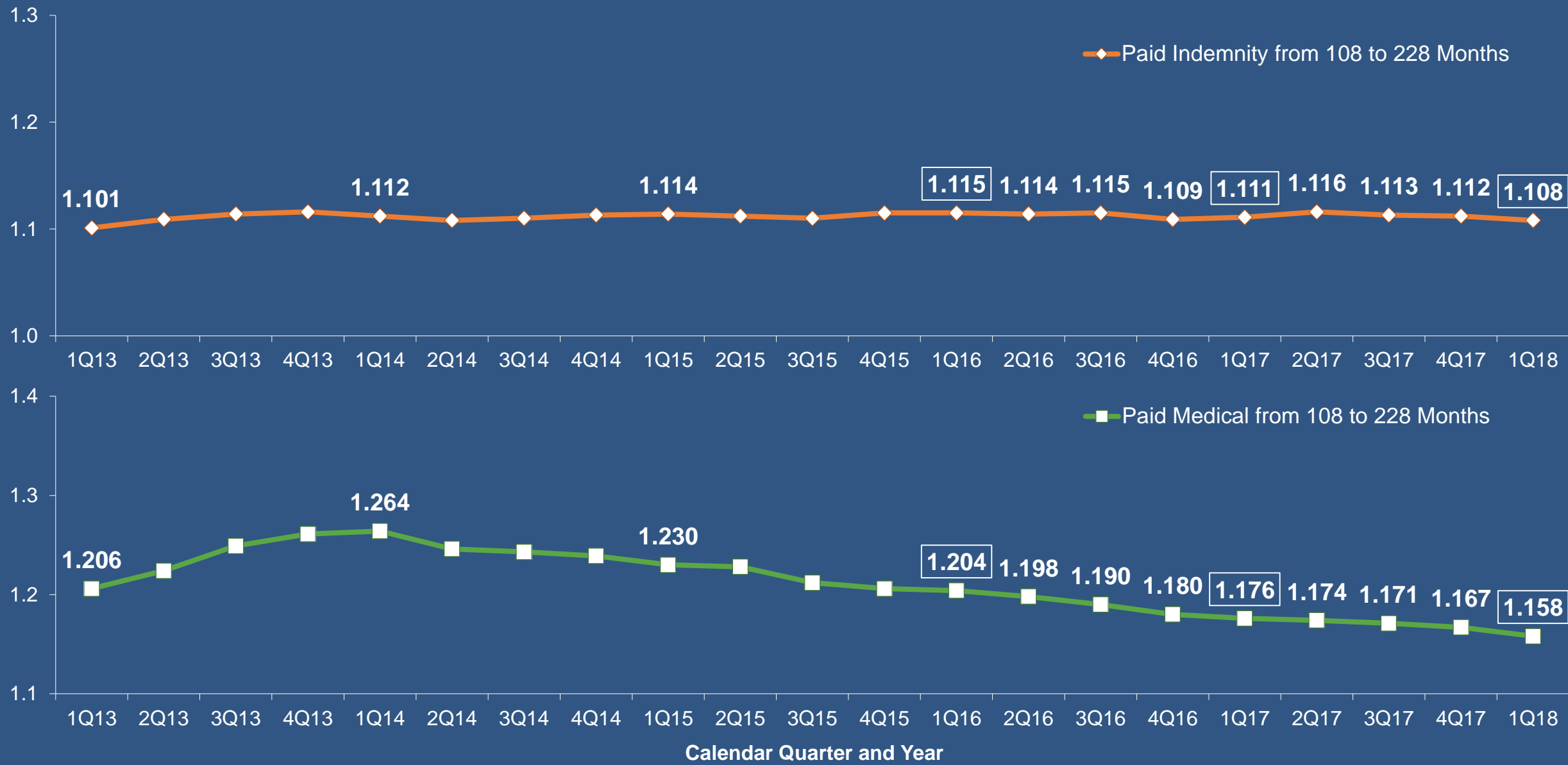
Cumulative Incurred Development from 108 to 228 Months

As of March 31, 2018



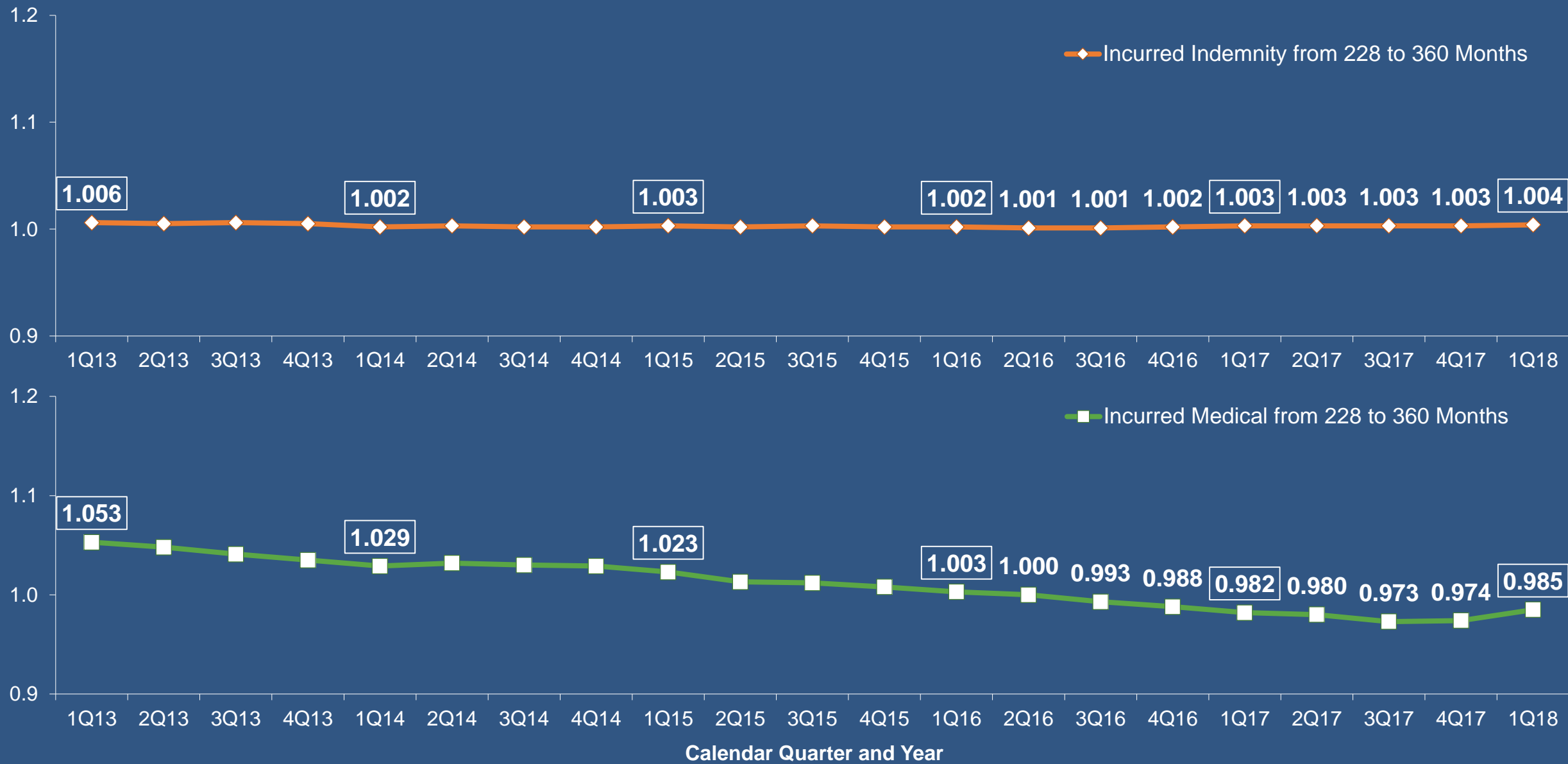
Cumulative Paid Development from 108 to 228 Months

As of March 31, 2018



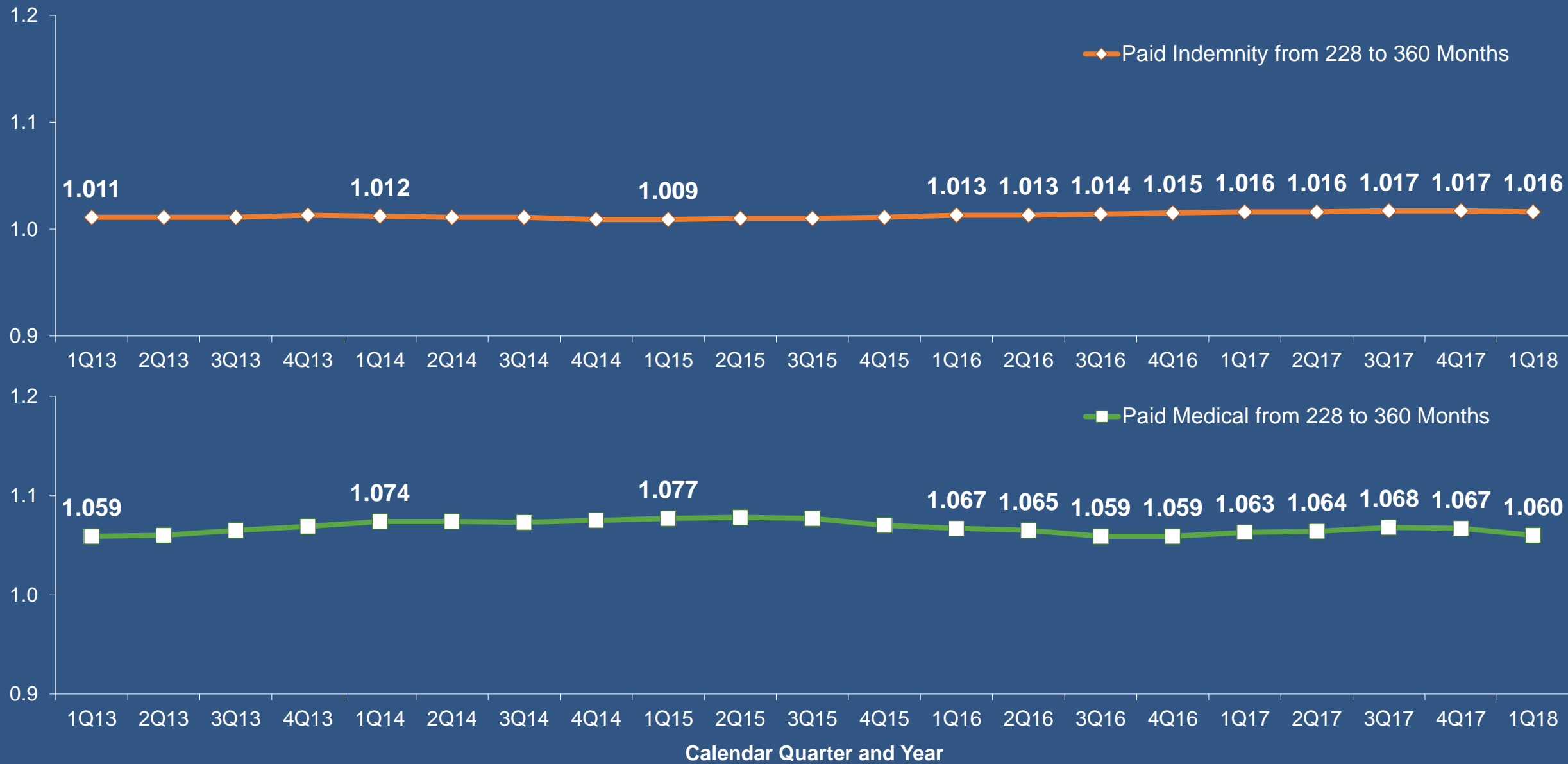
Cumulative Incurred Development from 228 to 360 Months

As of March 31, 2018



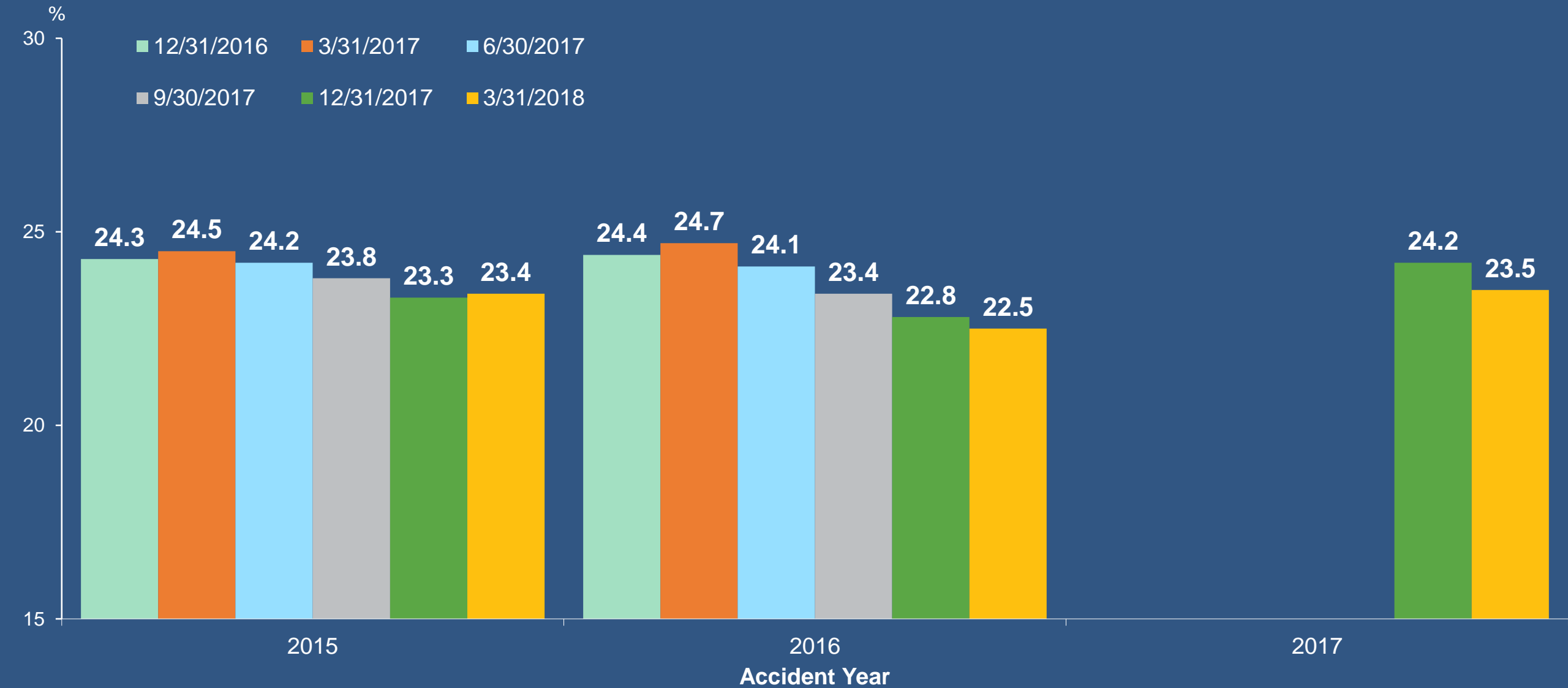
Cumulative Paid Development from 228 to 360 Months

As of March 31, 2018



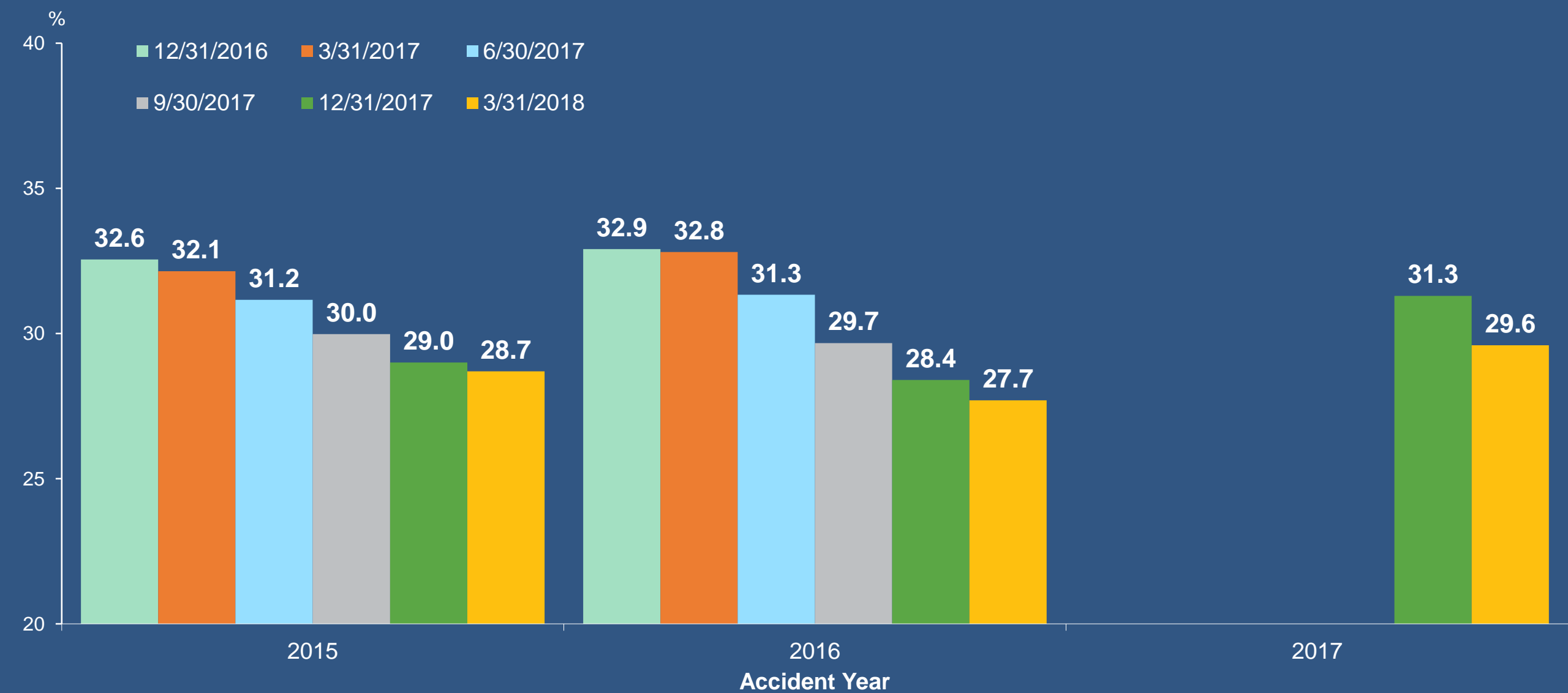
Projected Ultimate Indemnity Loss Ratios (Exhibit 3.1)

As of March 31, 2018



Projected Ultimate Medical Loss Ratios (Exhibit 3.2)

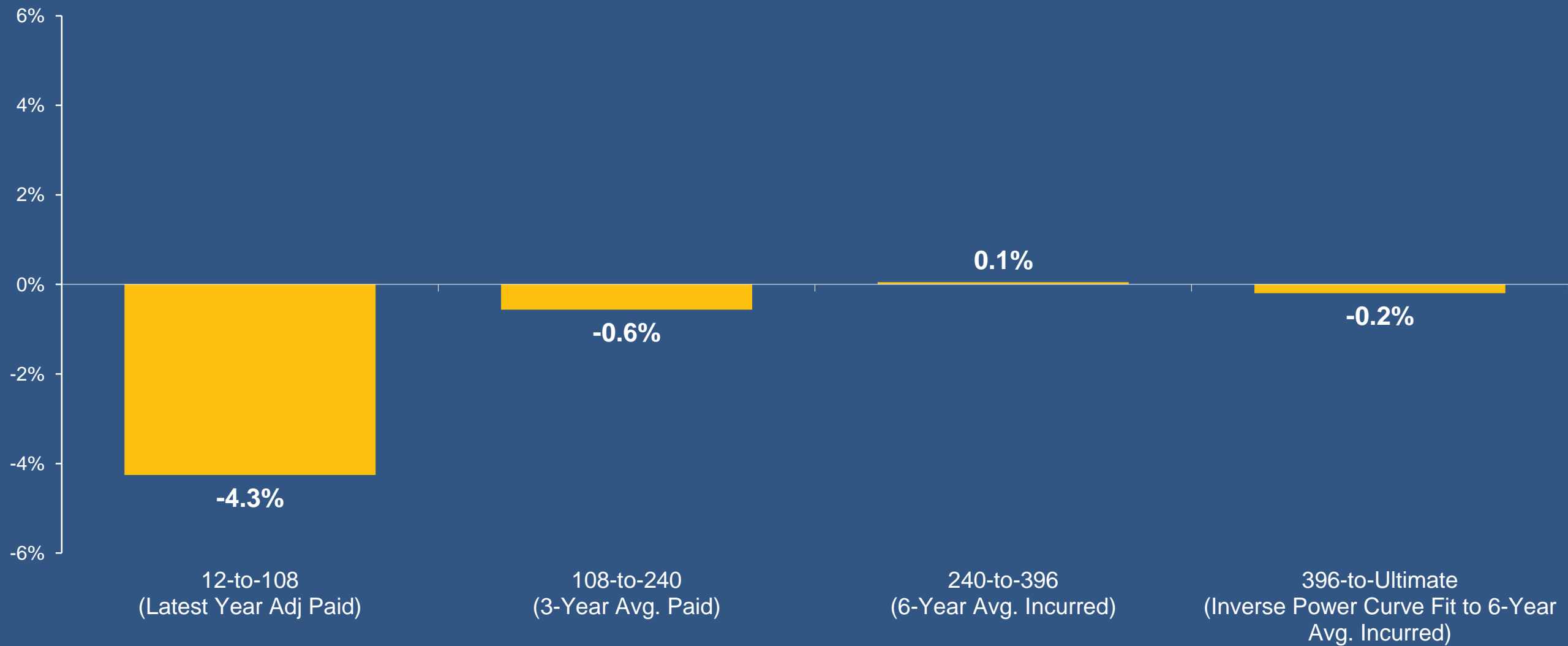
As of March 31, 2018



Note: All loss ratios are adjusted to the loss development methodology reflected in the 6/15/2018 Agenda and may not be comparable to the actual loss ratios projected at that time.
Source: WCIRB aggregate financial data

Change in Projected Medical Development Factor

12/31/2017 to 3/31/2018 Experience



Paid vs. Incurred Development Medical from 15 to 111 Months Indexed to 1997

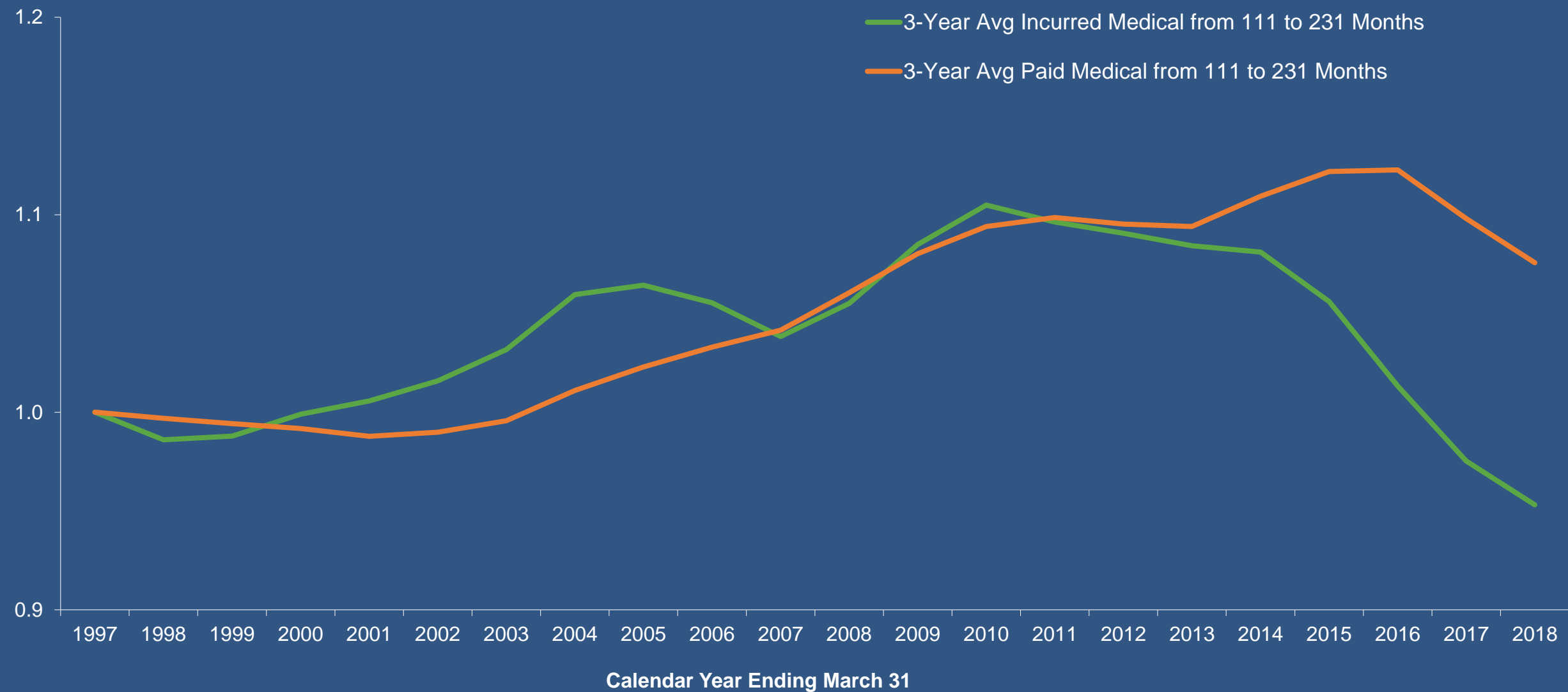
As of March 31, 2018



Paid vs. Incurred Development

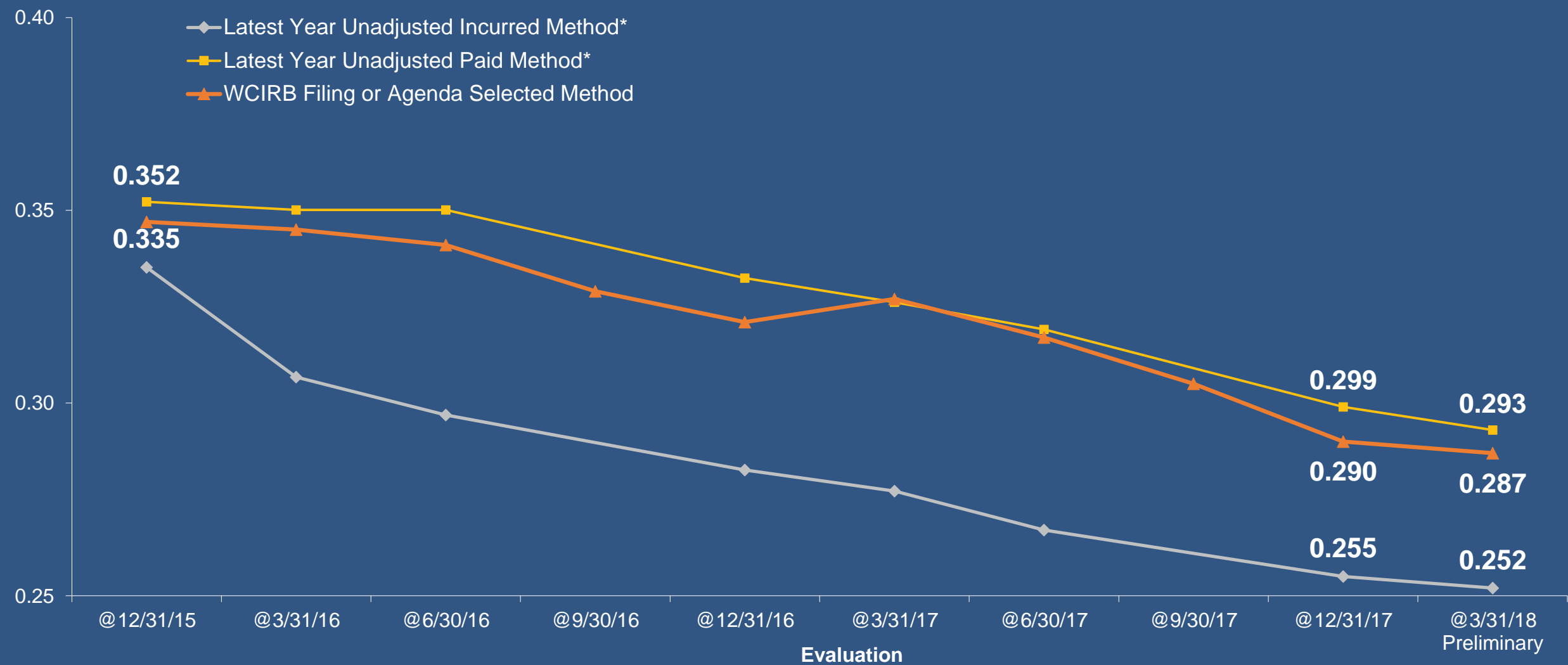
Medical from 111 to 231 Months Indexed to 1997

As of March 31, 2018



Paid vs. Incurred Development

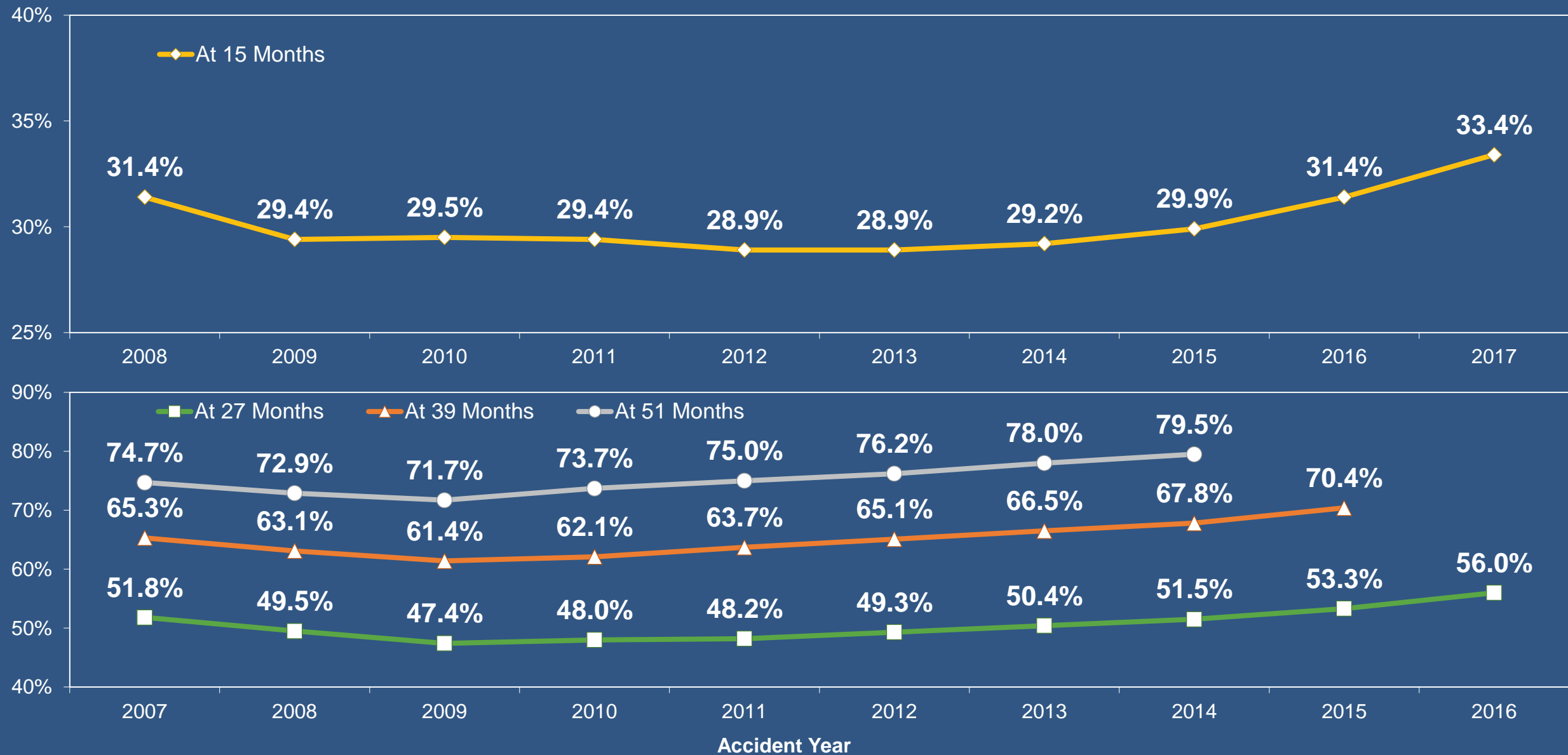
Projected Ultimate Medical Loss Ratios for Accident Year 2015



*Includes 6-year average incurred development applied after approximately 228 months and the change to the loss development tail adopted at the 4/3/2018 meeting.
Source: WCIRB aggregate financial data and projections

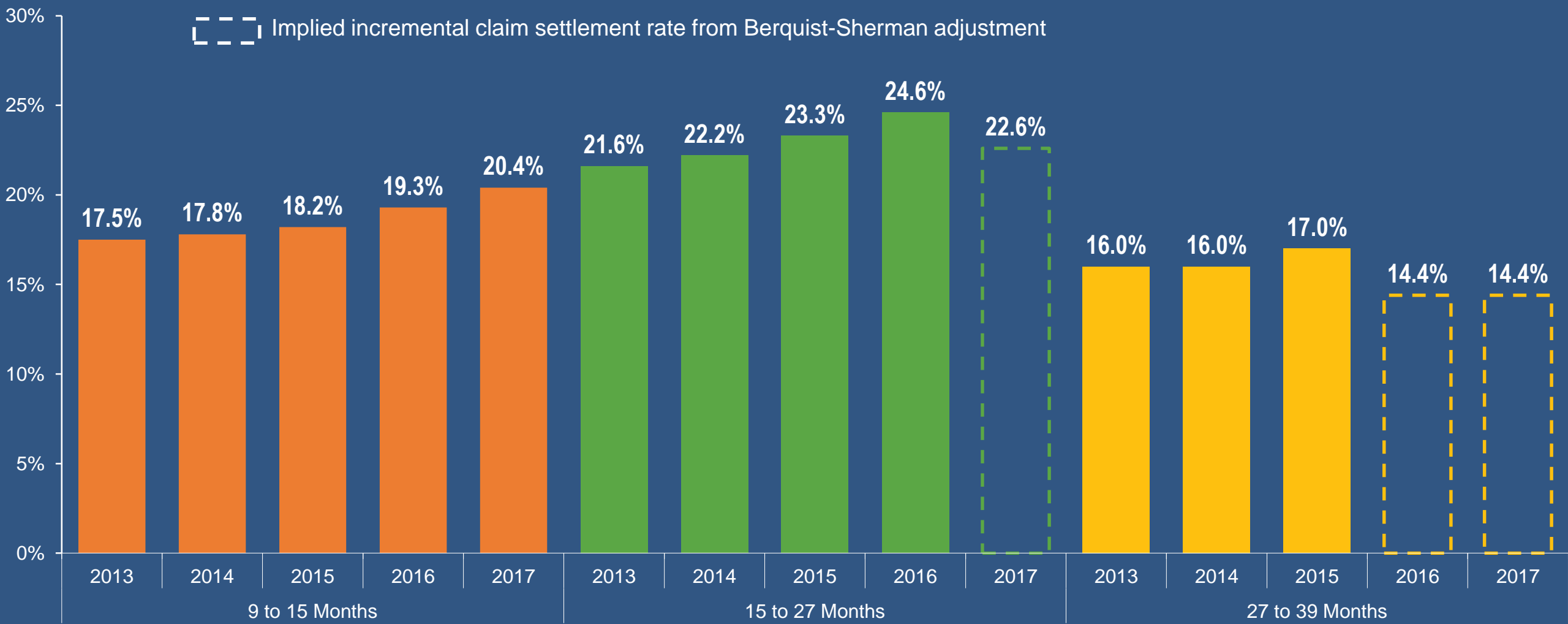
Ultimate Indemnity Claim Settlement Ratios (Exhibit 11.2)

As of March 31, 2018



Incremental Claim Settlement Ratios

As of March 31, 2018



Indemnity Claim Count Development (Exhibit 10.1)

As of March 31, 2018



Cumulative Wage Level Change Forecast (Exhibit 5.1)

2016 to 2019

As of March/April 2018

20%

15%

10%

5%

0%

11.0%

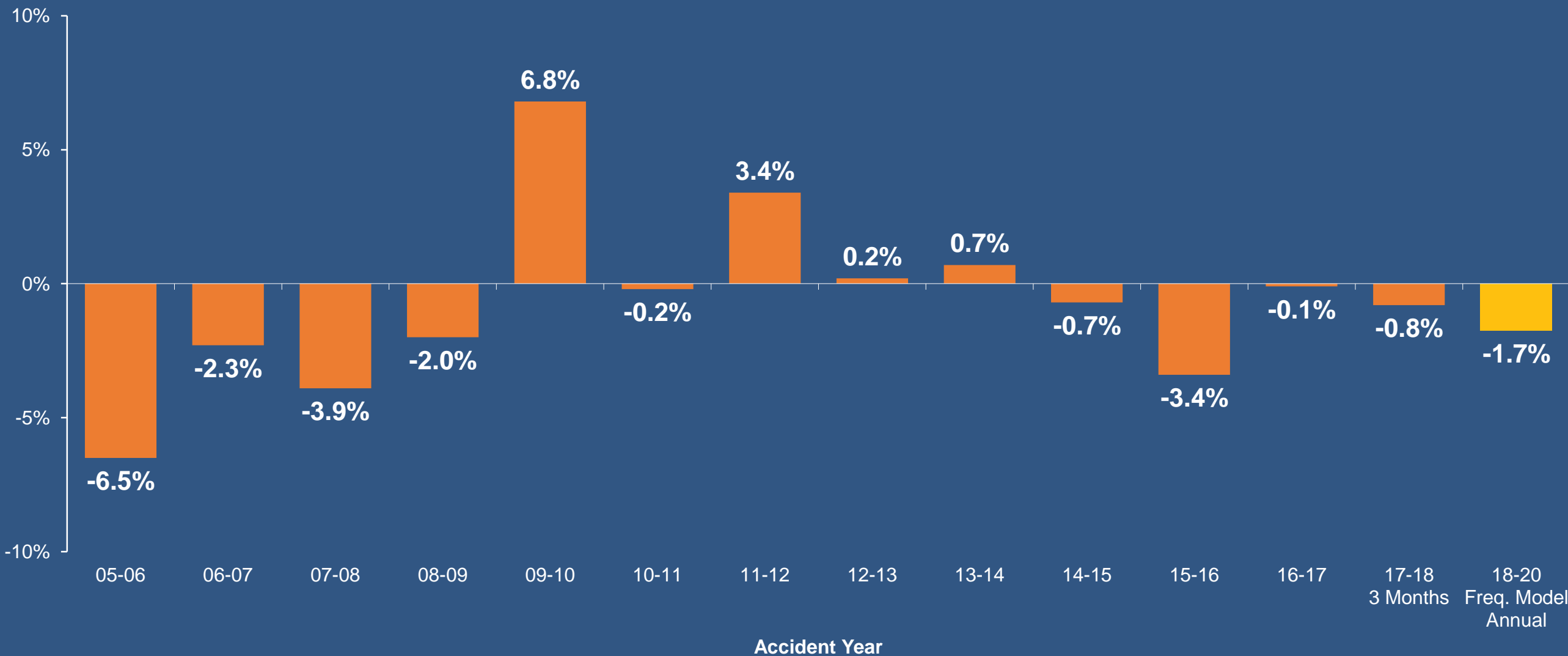
11.0%

December 2017 UCLA / November 2017 DoF

March 2018 UCLA / April 2018 DoF

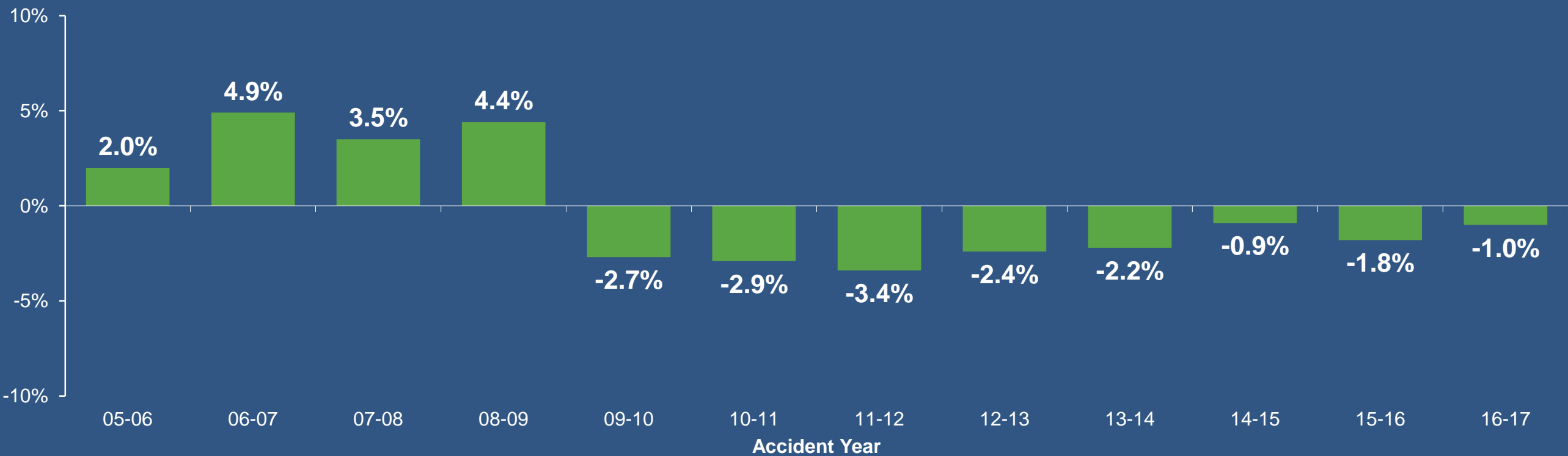
Projected Changes in Indemnity Claim Frequency (Exhibits 6.1 & 12)

As of March 31, 2018



Projected Changes in On-Level Indemnity Severity (Exhibit 6.2)

As of March 31, 2018



Annual Exponential Trend Based on:

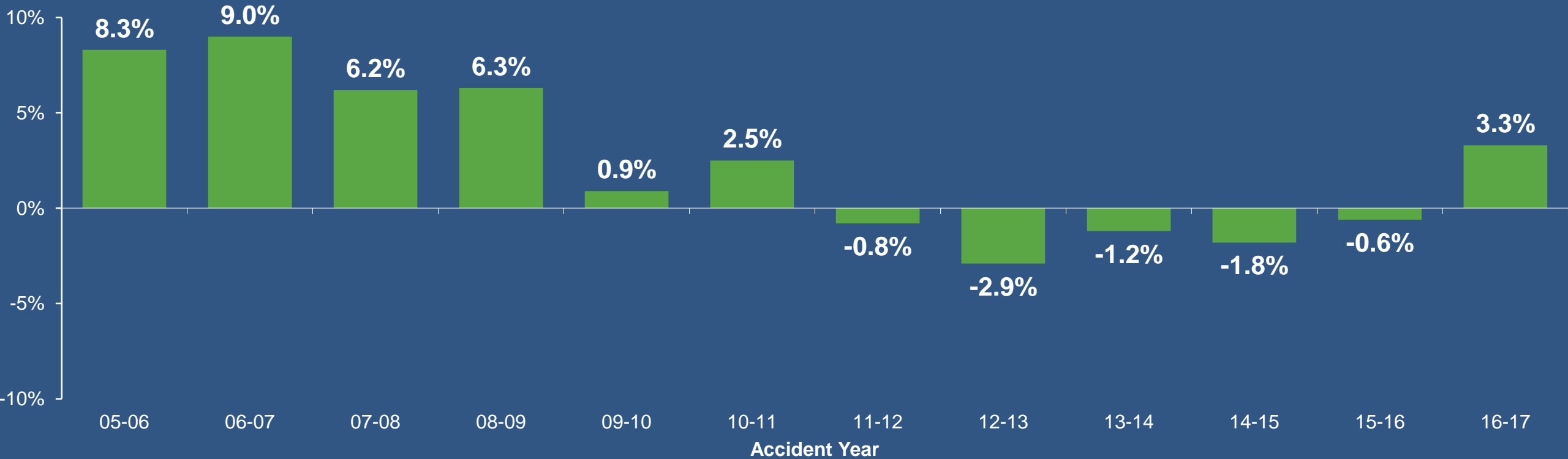
2005 to 2017: -0.7%

2012 to 2017: -1.6%

Agenda Selected: 0.0%

Projected Changes in On-Level Medical Severity (Exhibit 6.4)

As of March 31, 2018



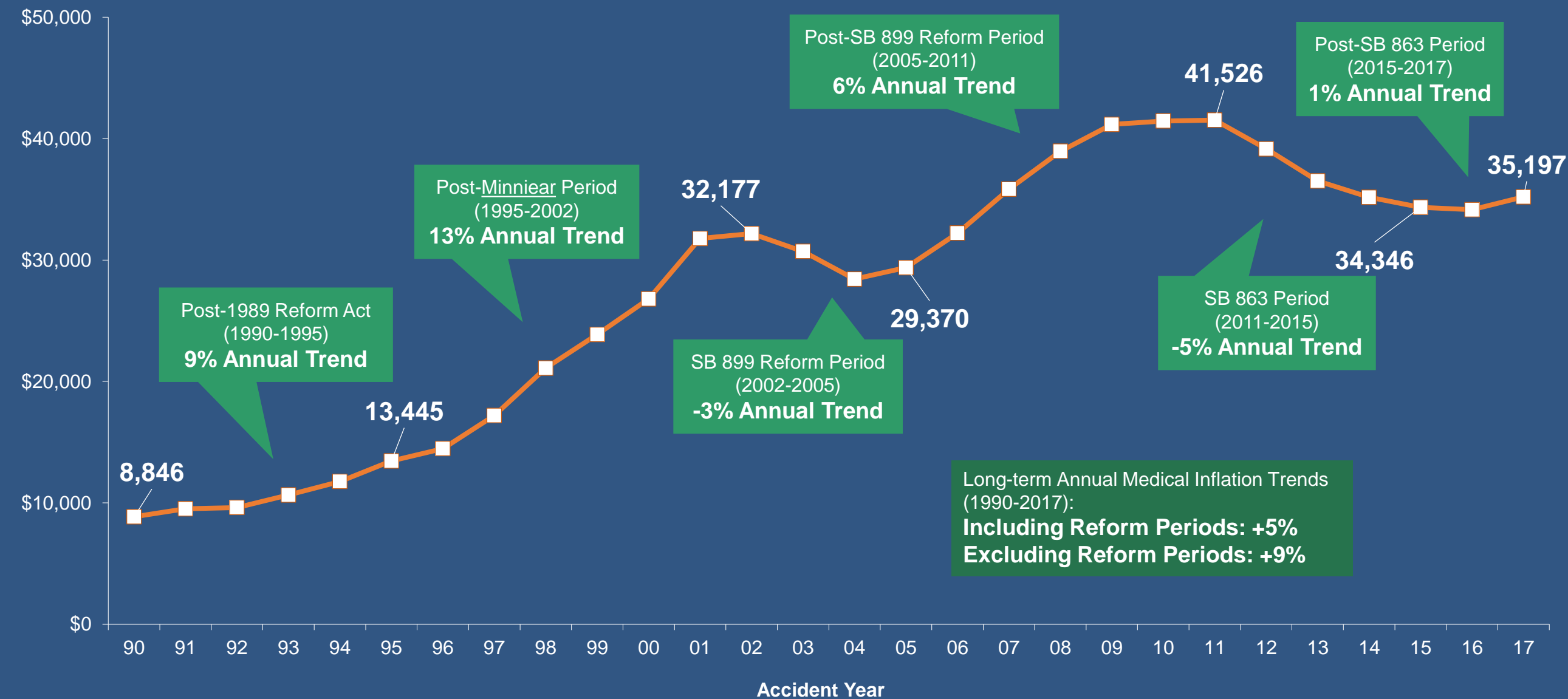
Annual Exponential Trend Based on:

- 1990 to 2017: +6.0%
- 2005 to 2017: +1.7%
- 2012 to 2017: -0.8%

Agenda Selected: 3.0%

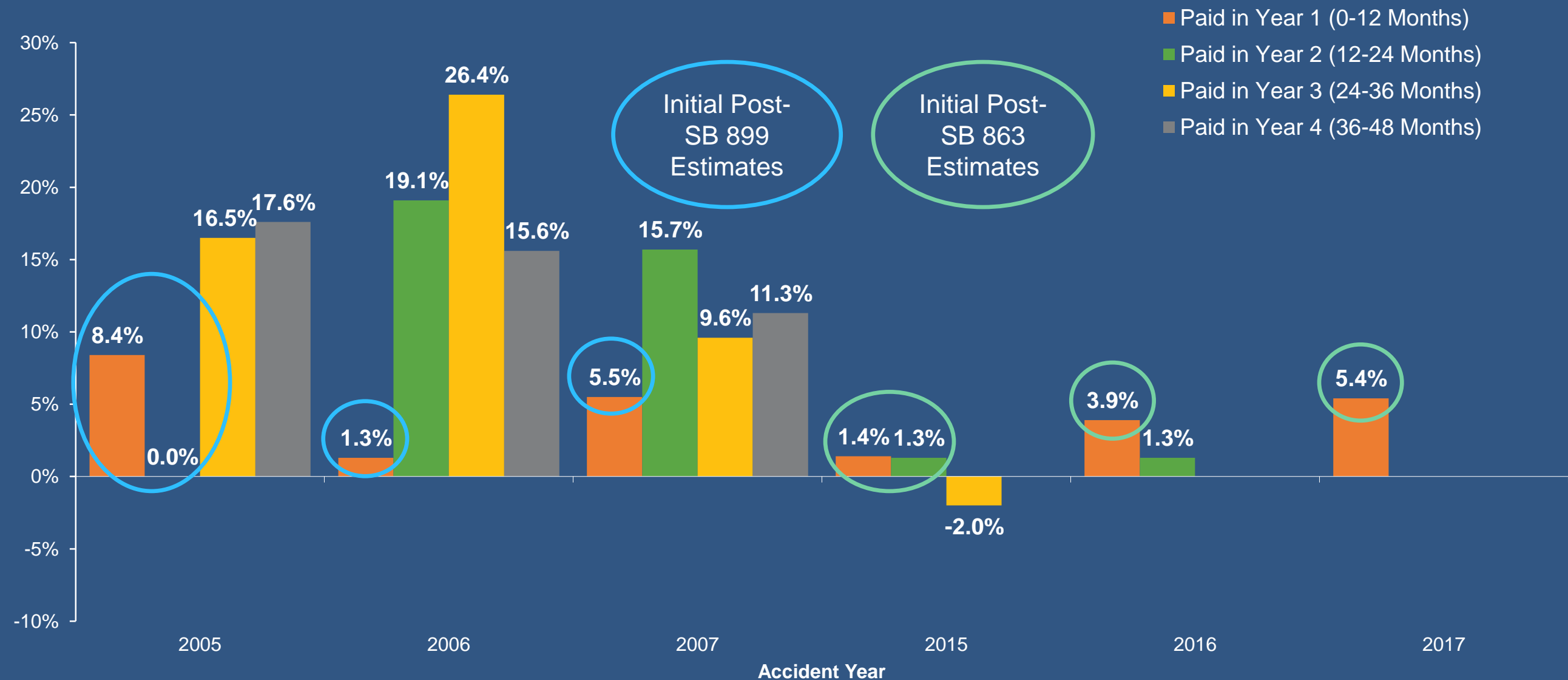
Ultimate Medical per Indemnity Claim (Exhibits 6.3 & 6.4)

As of March 31, 2018



Changes in Incremental Medical Paid per Indemnity Claims Inventory

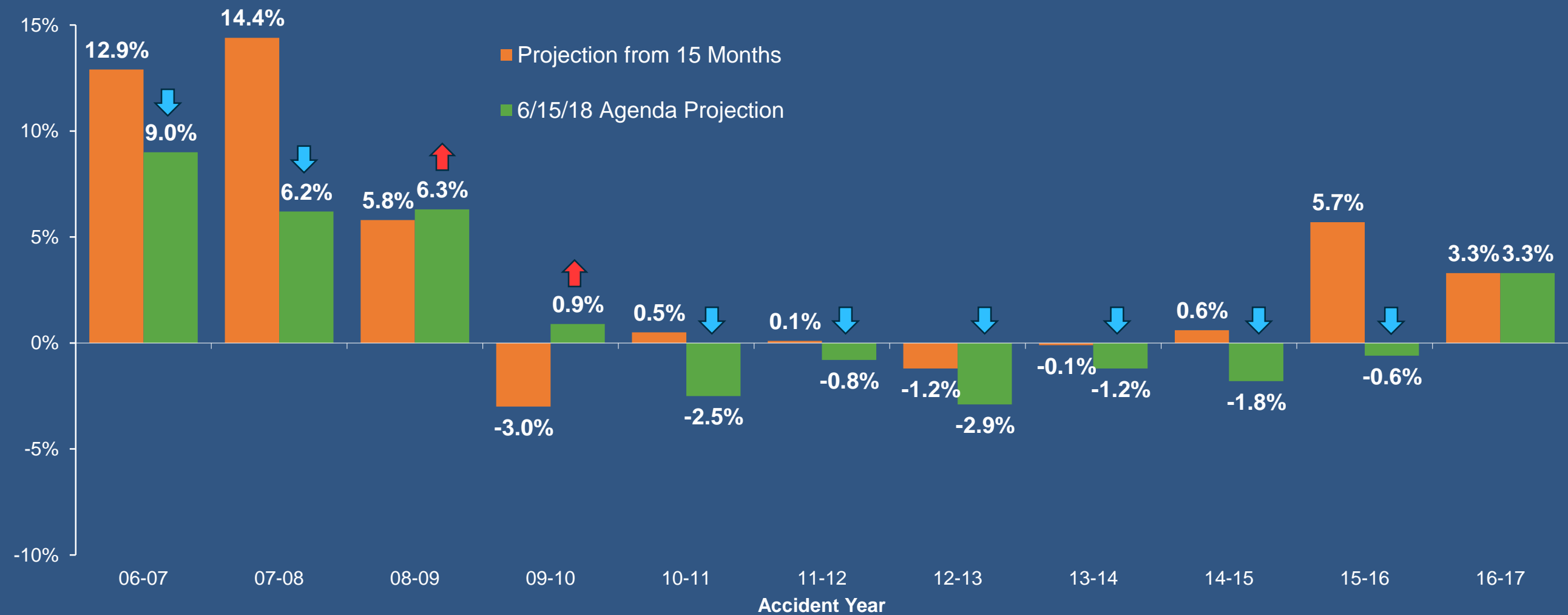
Early Post-Reform Periods Compared to Later Calendar Year Inflation



Projected Changes in On-Level Medical Severity

Projections from 15 Months Compared to Current

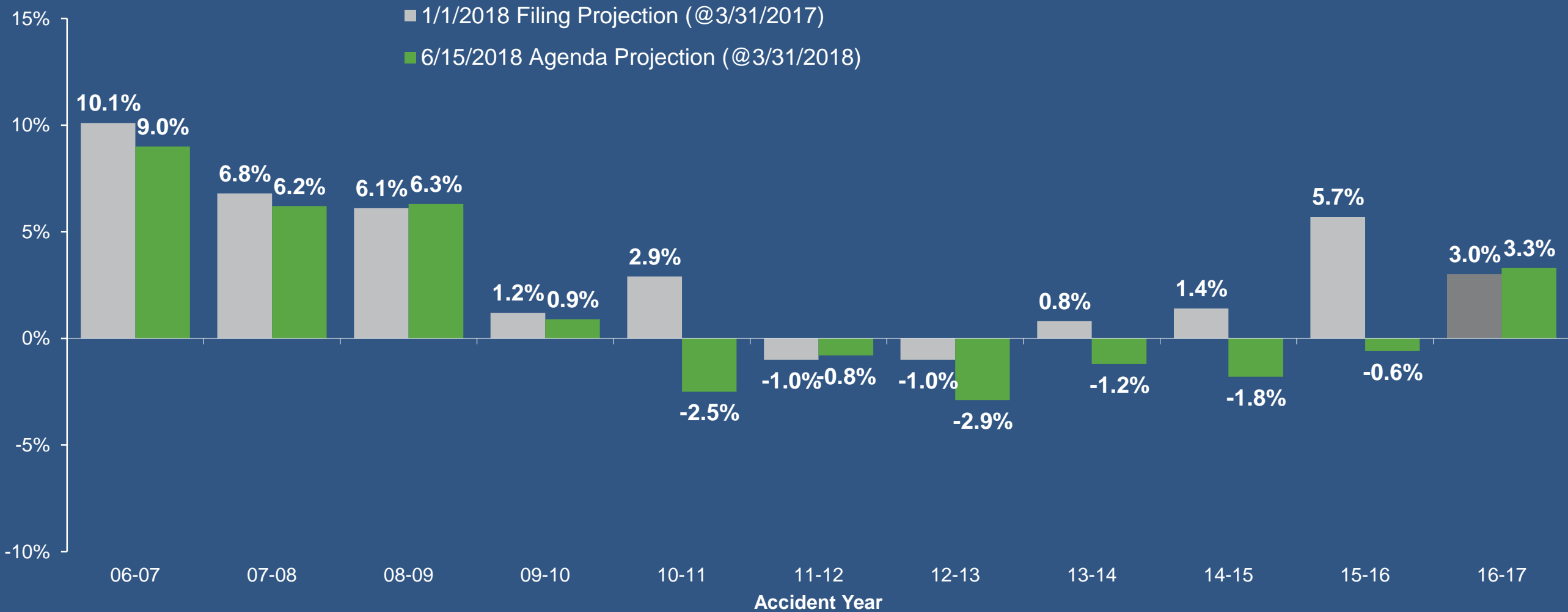
As of March 31, 2018



Projected Changes in On-Level Medical Severity

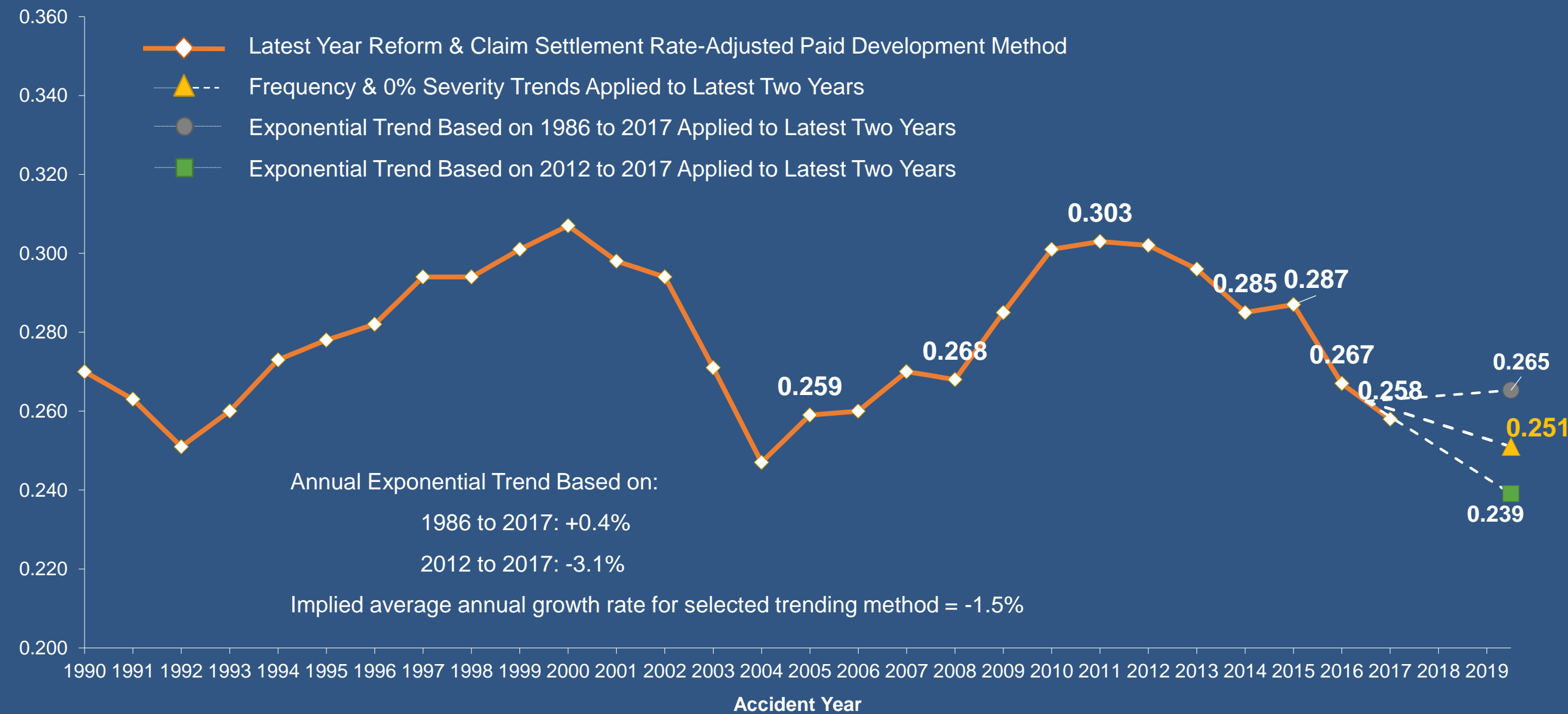
1/1/2018 Filing Projections Compared to Current

As of March 31, 2018



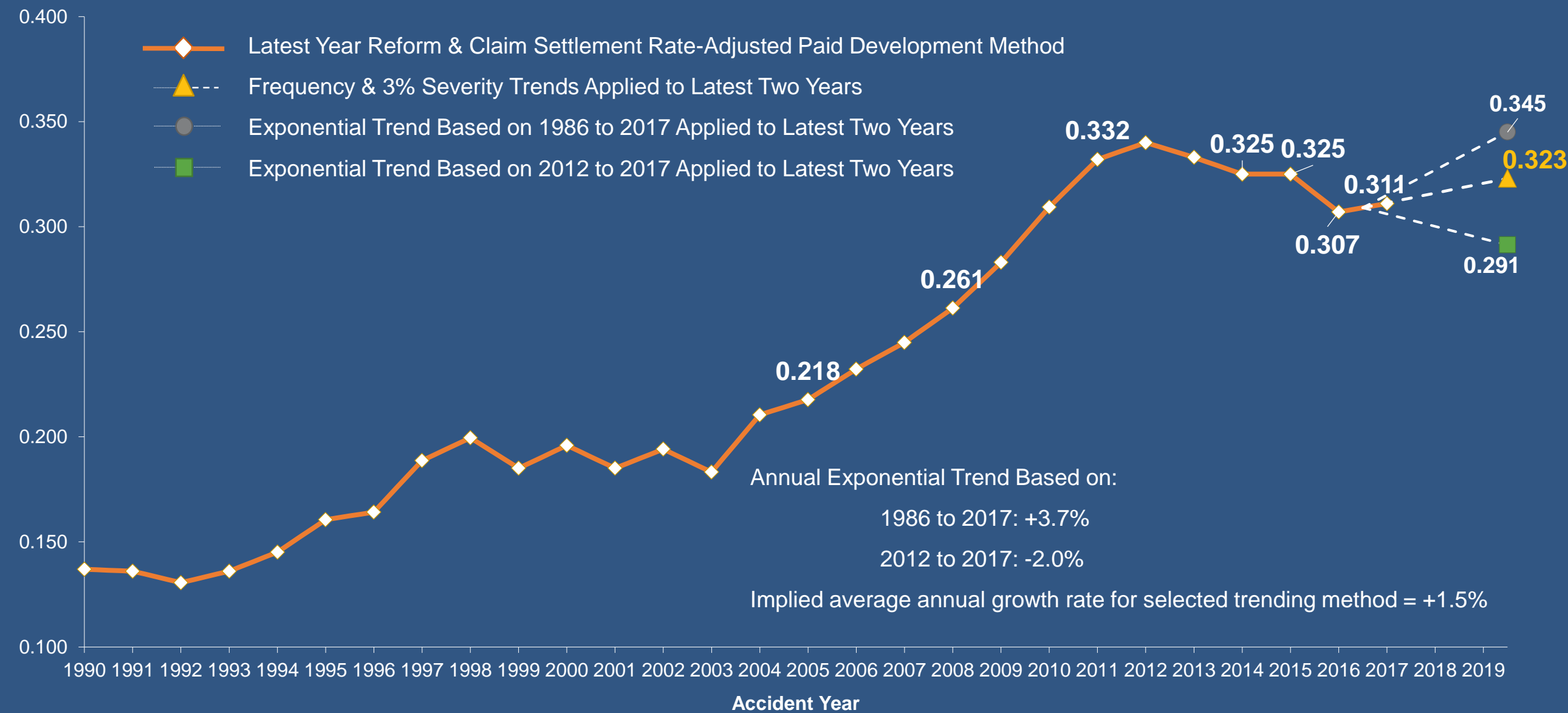
Projected On-Level Indemnity Loss Ratios (Exhibit 7.1)

As of March 31, 2018



Projected On-Level Medical Loss Ratios (Exhibit 7.3)

As of March 31, 2018



03

Classification Payroll Limitations



Classification Payroll Limitations

Summary

Concerns

- Losses do not track well with exposure at high wage levels
- Some classifications have a significant number of workers at high wage levels
- Numerical rounding sometimes creates unwanted volatilities when Expected Loss Rate and Pure Premium Rate are very low

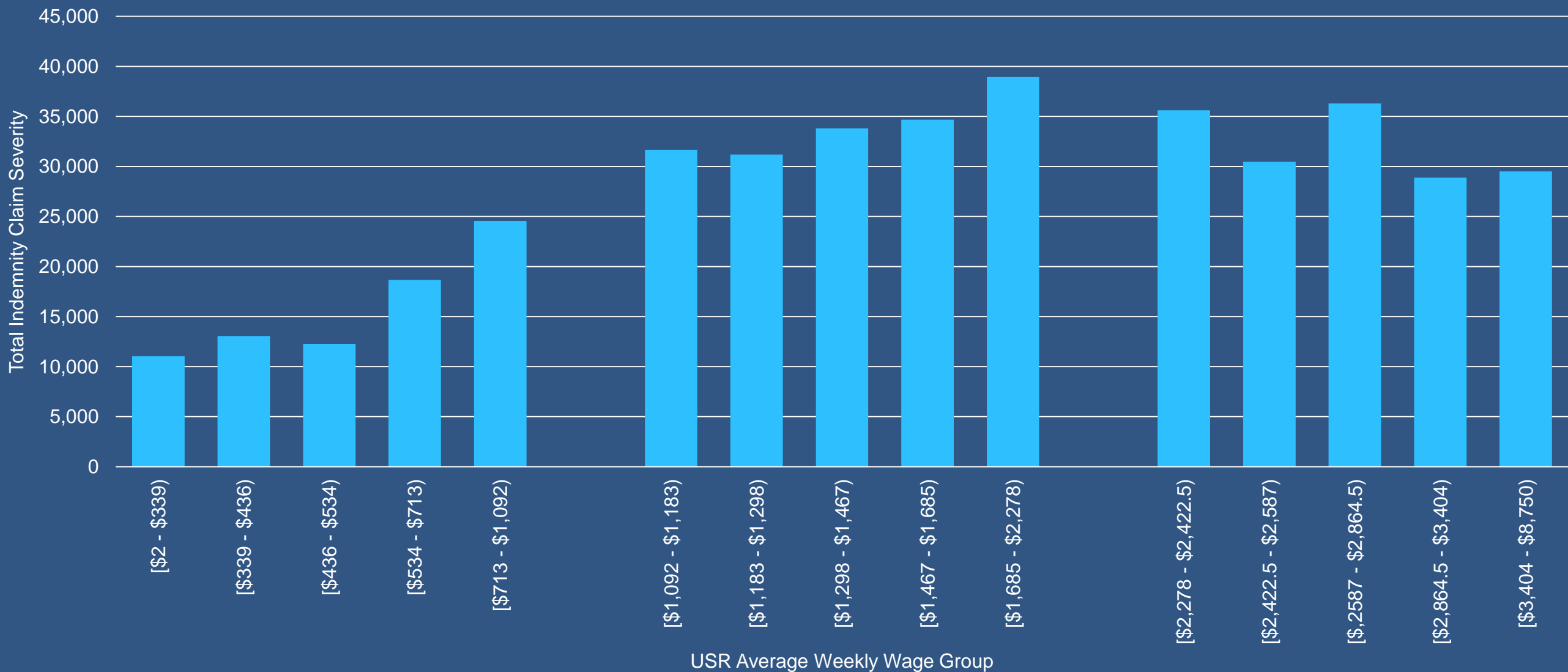
Approach

- Identify classes with a large proportion of high wage workers, low advisory pure premium rates and for which a payroll limitation can be administered relatively easily
- Analyze necessary pure premium rate adjustment for selected classifications

C & R Committee Recommendations

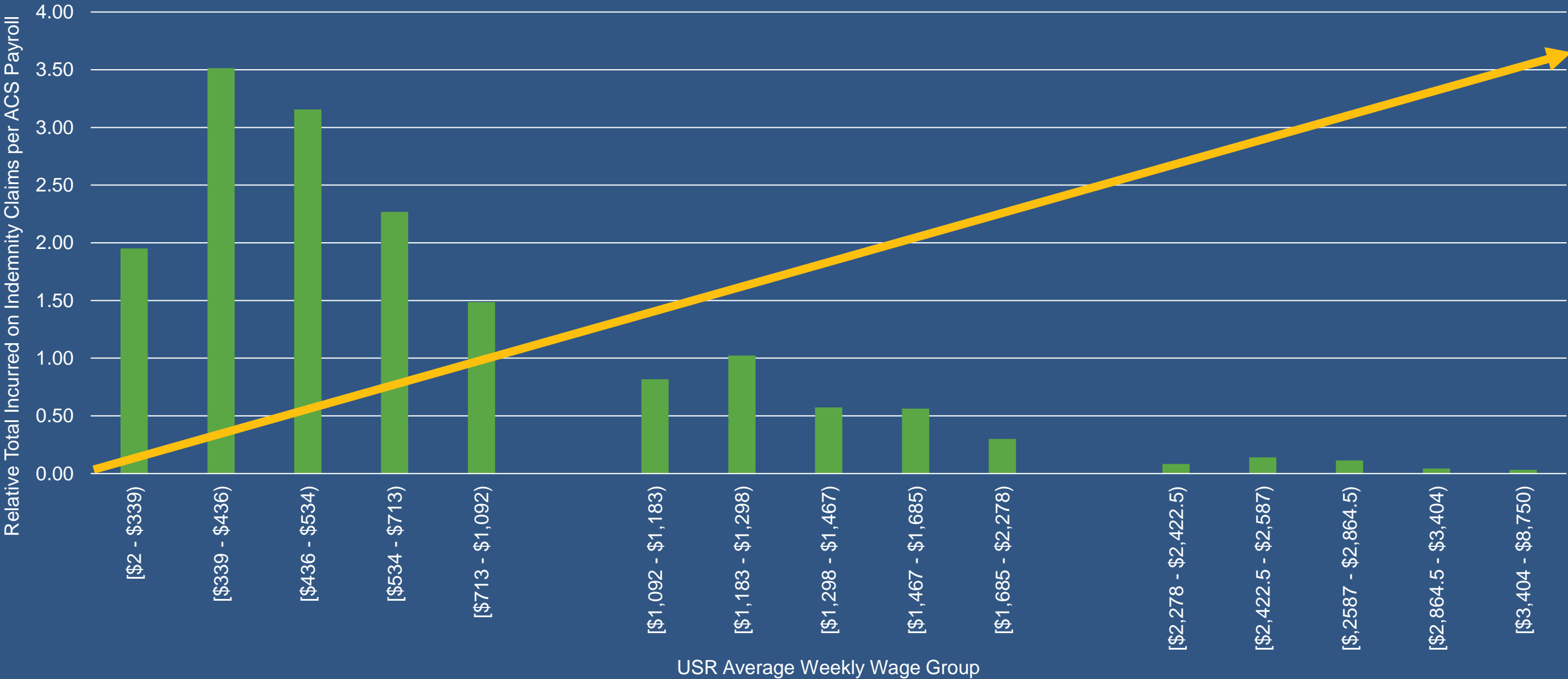
- Establish payroll limitation in 5 additional classifications
- Limit payroll at current limitation for executive officers and current classes for which a limitation applies
- Defer effective date until January 1, 2020 to allow for outreach to employers, premium auditors and underwriters

Total Incurred per Indemnity Claim



Source: USR Policy Year 2014

Relative Total Incurred on Indemnity Claims per Payroll



Source: USR Policy Year 2014

Classifications Recommended for Payroll Limitation

Class Code	Phraseology	Clerical Office Employees	Outside Salespersons	7/1/2018 Advisory Pure Premium Rate
8859	Computer Programming or Software Development	included	included	0.05
8803	Auditing, Accounting or Management Consulting Services	included	not included	0.13
8820	Law Firms	included	included	0.30
8743	Mortgage Brokers	included	included	0.15
7607	Video/Audio Post-Production	included	included	0.27

We selected classifications that include Clerical Office Employees or Outside Salespersons. Many highly compensated employees are Standard Exception Employees.

Impact of Capping Payroll

Preliminary Projections

Class Code	% of Payroll Above \$127,000	1/1/2018 Loss to Payroll Ratio	Revised Loss to Payroll Ratio	Impact of Capping Payroll
8859	19.5%	0.039	0.048	23%
8803	17.6%	0.088	0.107	22%
8820	27.5%	0.214	0.295	38%
8743	15.7%	0.114	0.135	18%
7607	17.3%	0.203	0.245	21%

Extension of Payroll Limitations

Advisory Pure Premium Rate Adjustments

- Review Available Data Sources
 - ACS provides refined data on California workers wages by industry and occupation and allows for exclusion of executive officers
 - Usefulness depends on the mapping of occupation and industry to classification
 - To adjust for definitional differences in wages between ACS and workers' compensation payroll data can be augmented by BLS data as appropriate
- Pure Premium Ratemaking Approach
 - Approach reviewed by Actuarial Research Working Group
 - If needed, public sources of wage data can be augmented by a wage survey to develop 2020 advisory pure premium rate adjustments
 - 25% limitation on class relativity change may not be applied

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