Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
June 15, 2018	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci

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Members	Representing
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
Bryan Ware	AmTrust
Chris Westermeyer	Travelers
Doug Zearfoss	Employers Insurance Group

California Department of Insurance
Ron Dahlquist
Mitra Sanandajifar

WCIRB
Bill Mudge
David Bellusci
Tim Basuino
Ward Brooks
Tony Milano
Chris M. Wong
Julia Zhang

* Participated 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.

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Correction to Minutes
The Minutes of the Actuarial meeting held on March 19, 2018 were distributed to the Committee members in advance of the meeting for review. A correction was noted with respect to the second sentence of page 6, paragraph 3, which is amended to read “Model forecast bias was determined by comparing the forecasted wage changes to “full maturity” and reviewed whether the model consistently understates or overstates the mature wage change.” As there were no other corrections, the Minutes were unanimously approved.

Approval of Minutes

The Minutes of the meeting held on April 3, 2018, 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
Working Group Meeting Summaries

The summaries of the Claims Working Group meeting held on March 29, 2018 and the Actuarial Research Working Group meeting held on May 24, 2018, which were included in the Agenda materials, were accepted by the Committee.

Item AC16-06-05
Update on Medical Severity Trends by Component

Staff presented an updated analysis on the medical severity trends by medical component using medical transaction information through December 31, 2017 (service year (SY) 2017). The updated analysis includes changes in the share of total medical payments by service type determined by different fee schedules, changes in paid per transaction, paid transactions per claim, and cost per claim by service type, as well as cumulative percentage changes in selected components of physician services.

The Committee was advised that the share of total medical payments for pharmaceuticals decreased by more than half from the second half of SY2012 to SY2017, while that of medical-legal (ML) services increased by 2%. The relative share of other medical components has experienced very modest changes. Staff noted that the sharp decline in the pharmaceutical payment share was driven by a number of factors, including 1) legislative and policy changes intended to monitor prescription drug utilization such as independent medical review, 2) reduced physician prescribing and opioid prescribing in particular, 3) public awareness of the opioid epidemic, 4) reduced fee schedules for generic drugs (also known as the “Average Federal Upper Limit”) implemented in 2016, and 5) indictments of providers for fraud. A Committee member suggested analyzing the share of total medical payments for pharmaceuticals by geographic region to assess variability in reduced prescription drug use regionally. Staff also noted that while the ML services share has increased since 2012, it was noted that recently there had been a decline in the most complex and expensive services (ML104) and an increase in the most basic ML services (ML102), which has offset some of the increase in prior years.

On a cumulative basis, staff noted that total medical payments per claim based on medical transaction data have declined by 16% from the second half of SY2012 to SY2017, which was largely attributable to the impact of Senate Bill No. 863, subsequent legislation and anti-fraud efforts. With respect to physician services, staff noted that the decline in transactions per claim and a slight increase in paid per transaction over time drove the medical cost per claim down by 15% in SY2017 compared to the second half of SY2012. The changing trend was largely due to the implementation of the Resource-based Relative Value Scale (RBRVS) for physician services, fewer spinal implant surgeries, independent medical review and the recent indictments of providers for fraud. Staff summarized the percentage changes in inpatient costs at both the transaction and episode levels. Staff noted a continued reduction in transactions per claim from SYs 2015 to 2017, while the paid per transaction increased. This was likely in part attributable to a shift of minor inpatient procedures to outpatient settings, leaving more intensive (and more expensive) care to dominate the remaining inpatient procedures. When summarizing the inpatient costs based on episodes, paid per episode increased more sharply after SY2015, indicating an increase in the intensity of inpatient care, as expected.

Staff summarized the cumulative share changes in a number of physician service categories, and noted a sharp increase in paid per transaction for Evaluation & Management, Physical Therapy and Other Medicine, and a large drop in payments per transaction for major Surgery, Radiology and Anesthesia services. It was noted that these changes were expected with the four-year transition to RBRVS during this period.

Item AC18-06-01
3/31/2018 Experience – Review of Methodologies

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of March 31, 2018 that was included in the Agenda materials. It was noted that the decrease in the projected loss ratio since the July 1, 2018 Pure Premium Rate Filing was primarily attributable to lower loss development emergence in the first quarter of 2018, a modestly lower frequency trend, and an extended trending period in that the projected overall loss trend was somewhat lower than the projected wage trend.

Staff noted that both paid and incurred indemnity and medical development decreased significantly at earlier maturities (from 12 to 108 months) in the first quarter of 2018 and that this period drove a significant proportion of the decrease in the projected loss ratio. It was noted that continued acceleration in claim settlement rates as well as the impact of recent reforms related to liens and the new drug formulary were potential factors driving these changes. The Committee was advised that medical transaction data through March 31, 2018 should be available by the time of the next Committee meeting and that staff plans to review medical transactions through the first quarter of 2018 to detail the factors driving recent paid medical development.

Staff noted that in the Decision on the July 1, 2018 Pure Premium Rate Filing, the California Department of Insurance reflected a loss development projection for medical that blended 25% of the latest year unadjusted incurred loss development method and 75% of the latest year claim settlement rate and reform-adjusted paid loss development method recommended by the WCIRB. The Committee reviewed differences in paid and incurred loss development patterns over time. Staff noted that incurred development has generally been more volatile than paid development with more extreme reactions to system changes but that paid development also reacts to these changes. A Committee member suggested reviewing these patterns based on large deductible and non-large deductible experience given the differences in incurred development for large deductible experience that has been discussed at prior Committee meetings. Staff also noted that there continues to be strong evidence of case reserve adequacy changes and that the methodology to adjust incurred development for changes in case reserve levels is being reviewed and the analysis will be presented to the Committee at the next meeting.

Staff noted that indemnity claim settlement rates continued to increase sharply through the first quarter. It was further noted that the methodology to adjust paid loss development for changes in claim settlement rates assumes the latest calendar year of settlement rates will be consistent in the future and the continued acceleration in settlement rates may be a factor in the WCIRB's projection methodology overstating recent loss development. Staff noted that it is reviewing potential enhancements to the methodology to reflect the continued acceleration in claim settlement rates in the adjustment. The Committee provided feedback and suggestions for potential enhancements and areas to review.

The Committee next discussed the projected frequency and severity trends. It was noted that the 2017 frequency change decreased modestly from that reflected in the July 1, 2018 Pure Premium Rate Filing reflecting December 31, 2017 experience and that preliminarily the frequency change for 2018 through 3 months was negative. A Committee member suggested reviewing the negative constant term in the WCIRB's econometric indemnity claim frequency model given the recent period of relatively flat claim frequency.

The Committee reviewed the projected indemnity claim severity trends and noted that, with the recent decreases in indemnity loss development, changes in on-level indemnity claim severity are below 0% (the projected indemnity severity trend reflected in the Agenda materials) for the last several years. The Committee was reminded that changes in average wage levels impacting indemnity benefits are reflected in the on-level adjustments based on the historical relationship between these changes. A Committee member suggested reviewing the potential impact of recent changes to minimum wage laws that may affect indemnity benefit levels disproportionately compared to average wage levels.

The Committee reviewed the projected medical claim severity trends and noted that the estimated on-level medical severity change for accident year 2017 based on March 31, 2018 experience of approximately 3% is lower than that projected from December 31, 2017 experience (5.5%). It was also noted that the 3% annual severity trend reflected in the July 1, 2018 Pure Premium Rate Filing and in the Agenda materials is above the average rate of growth for the last several years but below the very long-term average rate of growth and the rate of growth that historically has shortly followed prior reform periods. Staff noted that in the Decision on the July 1, 2018 Pure Premium Rate Filing, the CDI reflected a 1% annual on-level medical severity trend compared to the 3% recommended by the WCIRB. The Committee reviewed several measures of long-term and short-term medical severities and discussed potential drivers of the recent changes including the recent reforms to lien filings, the new drug formulary, continued acceleration in claim settlement rates, and continued efforts by regulators to reduce medical provider fraud. A Committee member suggested reviewing recent medical severity changes by region given that the recent reforms related to issues such as liens and spinal surgeries likely affected regions of California disproportionately. Staff agreed to continue to review the recent medical severity changes and provide additional analysis at the next meeting.

Item AC18-06-02
1/1/2019 Regulatory Filing – Experience Rating Plan Values

Staff presented a draft analysis of the indicated policy year 2019 experience rating off-balance correction factor. The Committee was advised that the indicated off-balance factor using the same methodology as in the January 1, 2018 Regulatory Filing was 1.017, which was 0.2% above the off-balance factor reflected in 2018 advisory pure premium rates. The Committee was reminded that in the January 1, 2018 Regulatory Filing, in order to avoid sharp year-to-year fluctuations in the off-balance factor, an adjustment was applied to expected loss rates to target an off-balance factor of 1.015. Given the indicated change in the off-balance factor for 2019 is modest and that the indicated 2019 off-balance is closer to the long-term average, staff recommended reflecting the change in advisory pure premium rates rather than making a similar adjustment to expected loss rates. The consensus of the Committee was that this methodology was appropriate. A motion was made and seconded to reflect the indicated off-balance factor in proposed 2019 expected loss rates and advisory pure premium rates as recommended by staff. The motion passed unanimously.

Staff also presented a draft analysis of the factors used to generate the proposed policy year 2019 expected loss rates, which used the same methodology as in the January 1, 2018 Regulatory Filing with the exception that the indicated 2019 expected loss rates reflect the impact of the $250 loss exclusion that was adopted in 2017 to be used in 2019 experience modifications. The Committee was advised that the impact of reflecting the $250 loss exclusion in both 2019 expected loss ratios and 2019 D-ratios was modest.

After discussion, the consensus of the Committee was that the proposed 2019 expected loss rates should reflect the methodologies summarized at the meeting.

Item AC18-06-03
Classification Payroll Limitations

The Committee was advised that given the wide dispersion of payroll among highly compensated employees and the lack of correlation of exposure to loss with payroll at very high wage levels, limitations on an individual's annual payroll for workers' compensation purposes have been applied in California for certain types of highly compensated employees including executive officers, athletes and certain entertainers. The Committee was further advised that Classification and Rating (C & R) Committee has reviewed whether employees in additional classifications should be subject to a payroll limitation.

The Committee reviewed several summary charts that suggested there is limited correlation of loss experience with increasing wage levels at very high wage levels. Given this, as well as the challenges of applying modest changes in advisory pure premium rates and expected loss rates for classifications with very high wage levels and low advisory pure premium rates, the Committee was advised that the C & R Committee is recommending amendments to the USRP to extend the annual payroll limitations to additional classifications. The additional classifications included those applicable to Video Post-Production; Audio Post-Production; Mortgage Brokers; Auditing, Accounting or Management Consulting Services; Law Firms; Computer Programming or Software Development; and Internet or Web-Based Application Development or Operation.

The Committee was advised that these changes are being proposed to take effect January 1, 2020 to allow the WCIRB time to conduct a comprehensive outreach and education program and to refine the calculation of the appropriate pure premium adjustment to reflect the reduction in reported payrolls due to the limitation. The Committee discussed the general approaches to be used to develop the appropriate 2020 pure premium rate adjustments for these classifications. It was agreed that the final adjustment methodology would be reviewed by the Committee in 2019.

Item AC18-06-04
Demo of WCIRB Inquiry Data Tool

Staff provided a demonstration of the WCIRB Inquiry data tool, which allows insurer members to access statewide aggregate data, unit statistical data, and medical transaction data and perform benchmarking and other analyses. The demonstration included examples from the recent updates to the WCIRB Inquiry tool's data visualization capabilities, ability to define custom cutoff points for limited and excess losses, and the drilldown benchmarking tool on medical transaction data. Staff responded to questions and comments from Committee members and meeting participants.

The meeting was adjourned at 11:55 AM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for August 1, 2018 for approval and/or modification.