Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
April 2, 2019	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 Financial Services
Chris Westermeyer	Travelers
Doug Zearfoss	Employers Insurance Group

California Department of Insurance
Robert Hallstrom
Mitra Sanandajifar*

WCIRB
Bill Mudge
David Bellusci
Tony Milano
Chris 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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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 AC-19-03-01
First Quarter 2019 Review of Diagnostics

At the March 18, 2019 meeting, the Committee discussed a number of system diagnostics and provided feedback to be discussed with the Claims Working Group. Staff summarized the feedback provided by the Claims Working Group. Among the items discussed by the Committee were the following:

1. Recent increases in indemnity claim frequency in the San Diego region may be related to increased cumulative trauma claims arising from greater involvement of applicant's attorneys that are based out of the greater Los Angeles area. Frequency decreases in other regions of California may be related to lower unemployment and a stronger economy leading to fewer claims being filed.

2. Continued increases in indemnity claim settlement rates may in part be related to the growing economy and decreasing unemployment rates resulting in greater efforts by employers to provide return-to-work alternatives to injured workers due to a tight labor market. Increases in claim settlement rates for larger claims may be related to fewer opioids and spinal surgeries, which have tended to keep larger claims open longer.

3. The recent historical low levels of lien filings are expected to continue at least in the short-term, as more medical treatment is being provided within networks and fewer out-of-network providers are treating patients with the intent to file a lien later.

4. The recent increase in medical cost containment program costs for 2018 at 12 months may be related to increased irregular prescribing patterns outside of fee schedule recommended dosages being sent for utilization review.

Item AC19-03-02
12/31/2018 Experience – Review of Methodologies

The Agenda materials included an updated analysis of December 31, 2018 experience, which was first reviewed at the March 18, 2019 meeting. The Committee was advised that the loss projections differed from those reviewed at the March 18, 2019 meeting primarily as a result of refinements adopted at the March 18, 2019 meeting including updating the adjustments to medical loss development for Senate Bill No. 1160 (SB 1160) and Assembly Bill No. 1244 (AB 1244) and updating the approach to compute the medical loss development tail factor.

The Committee reviewed loss development and the alternative loss development projections included in the Agenda materials (Item AC19-04-02). Staff summarized the basis of the primary loss development methodology included in the Agenda materials, which is primarily based on paid development with adjustments for reforms and changes in claim settlement rates. Staff recommended this loss development methodology and noted that it continues to be appropriate given that the impact of reforms and changing claim settlement rates on loss development continues to be significant. It was noted that the differences between the projection based on staff's recommended loss development methodology and those based on the alternative loss development methodologies were much more modest than in recent prior reviews. A motion was made, seconded and unanimously passed 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, 2019 average advisory pure premium rate.

Staff noted that the projection based on the medical loss development methodology selected by the California Department of Insurance in the Decision on the January 1, 2019 Pure Premium Rate Filing, which gave 25% weight to the unadjusted 3-year average incurred loss development projection, was only modestly lower than the projection reflected in the Agenda materials. A Committee member noted that, although the recent changes in case reserve levels are significant, the incurred loss development 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. A motion was made and seconded to 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, 2019 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 3-year average case reserve level-adjusted incurred methodology.)

The Committee reviewed staff's recommended adjustment to the medical on-level factors for the impact of the SB 1160 reforms related to utilization review (UR) within the first 30 days of the date of injury. Staff noted that the reforms became effective on claims occurring January 1, 2018 and later and resulted in a 0.3% increase in overall medical costs based on the WCIRB's prospective estimate included in the Amended January 1, 2017 Pure Premium Rate Filing. Staff noted that an early retrospective evaluation of 2018 claims did not suggest anything contraindicative of the prospective estimate. The consensus of the Committee was that the 0.3% adjustment should be reflected in the medical on-level factor for 2018.

The Committee next reviewed staff's recommended adjustment to medical costs for the impact of the Drug Formulary that became effective in 2018. Staff noted that an updated prospective estimate based on

calendar year 2017 pharmaceutical costs results in a 0.6% decrease in overall medical costs.[1] Staff noted that an early retrospective evaluation showed pharmaceutical costs continuing to decline through the first six months of 2018. Given that the Drug Formulary also impacts outstanding claims and that the impact of pharmaceutical costs on loss development will be studied later this year, staff recommended reflecting the updated prospective estimate (-0.6%) as an adjustment to the projected medical loss ratio in this analysis. The consensus of the Committee was that this adjustment was appropriate.

It was noted that the projected on-level indemnity severity trend reflected in the Agenda materials (-0.5%) was lower than the 2018 change but somewhat higher than the average for the last several prior accident years. The Committee was advised that the Claims Working Group noted that the recent muted on-level indemnity severity growth may be impacted by the recent speed-up in medical treatment and greater focus by employers on return-to-work with a tightening job market resulting in reduced temporary disability duration. The Claims Working Group also noted that these trends appear to be continuing in more recent claims. Staff noted that indemnity severity projections based on 12 months have come down in recent years and that a number of factors, including temporary disability duration, average permanent disability ratings, and claim settlement rates are correlated with changes in average indemnity costs. Some Committee members noted that the projected indemnity severity change for 2018 is significantly higher than any recent prior year and is unlikely to develop down to a small decrease. However, the majority of the Committee members noted that the -0.5% trend reflected in the Agenda materials gives some weight to the 2018 increase and some weight to the longer-term average of declining indemnity costs.

It was noted that the medical severity trend reflected in the Agenda materials (2.5%) was somewhat higher than recent average rates of growth. However, it was also noted that, as discussed at prior meetings, most medical costs on July 1, 2019 to December 31, 2019 policy period claims will be paid out many years in the future and California medical inflation has typically been significant over the long-term. After discussion, most Committee members agreed that the 2.5% trend reflected in the Agenda materials continues to balance the recent flat medical costs with the long-term considerations.

The Committee discussed the alternative trending projections included in the Agenda materials (AC19-04-02). It was noted that projections based on a loss ratio trend and those based on separate frequency and severity trend projections were much closer than in prior reviews with the differences primarily resulting from differences in the number of years on which to base the trend. While one Committee member recommended using a loss ratio trend, most Committee members agreed that the separate frequency and severity trend projection methodology continues to be appropriate. After discussion, a motion was made and seconded to use the indemnity trending projection methodologies reflected in the Agenda materials to compute the indicated July 1, 2019 average advisory pure premium rate. The motion passed with five in favor, three opposed, and one abstention. (The Committee members opposed to the motion supported the separate frequency and severity trending approach but supported a flat indemnity severity trend projection.) A second motion was made and seconded to use the medical trending projection methodologies reflected in the Agenda materials to compute the indicated July 1, 2019 average advisory pure premium rate. The motion passed with eight in favor and one abstention. (The Committee member abstaining from both motions supported a short-term combined loss ratio trend methodology.)

Staff agreed to advise the Governing Committee at the April 3, 2019 meeting as to the diversity of opinion on the recommended loss projection methodologies.

[1] The original prospective estimate reflected in the July 1, 2018 Pure Premium Rate Filing resulted in a 1% decrease in medical costs based on calendar year 2016 pharmaceutical costs.

Item AC19-04-01
12/31/2018 Loss Adjustment Expense Experience Review

The Committee was advised that unallocated loss adjustment expense (ULAE) experience for calendar year 2018 is not yet available. However, the Committee was also advised that the Agenda materials included an updated ULAE projection that reflected ULAE experience through calendar year 2017 as well as updated frequency, wage level, and loss projections based on December 31, 2018 experience.

The Committee reviewed the analysis of allocated loss adjustment expense (ALAE) experience through December 31, 2018. It was noted that the accident year 2018 ALAE through 12 months was emerging at a level significantly higher than that for accident year 2017. However, it was noted that the change in average ALAE costs for recent prior accident years projected at 12 months have decreased significantly as the years mature. The Committee was advised that the approximate average ALAE severity trend based on the short-term and longer-term average rates of growth of 3.5% is consistent with the projected ALAE severity trend reflected in the January 1, 2019 Pure Premium Rate Filing. After discussion, the consensus of the Committee was that this ALAE severity trend continues to be appropriate.

The Committee reviewed staff's recommended adjustment for the impact of the Senate Bill No. 1160 (SB 1160) and Assembly Bill No. 1244 (AB 1244) reforms related to liens on ALAE costs. Staff noted that the updated adjustment based on a 60% reduction in liens was a 9.6% reduction in ALAE costs. Staff also noted that some of the savings is now reflected in emerging ALAE costs and recommended adjusting the savings based on the estimated amount of ALAE costs paid to date on accident year 2017 and 2018 claims (resulting in an overall 7.7% reduction to ALAE costs). The consensus of the Committee was that this adjustment was appropriate.

The Committee next reviewed the analysis of medical cost containment program (MCCP) experience through December 31, 2018. It was noted that average MCCP per indemnity claim for 2018 is significantly higher than that for 2017 following several years of sharp decreases. The Committee was advised that the MCCP severity trend of -1% reflected in the Agenda materials was based on the approximate average of the calendar year and accident year average MCCP severity trends. A Committee member noted that the significant increase estimated for 2018 may represent a turning point in MCCP costs. The Committee also noted that MCCP severity change projections based on 12 months have not shifted dramatically over time. After discussion, most Committee members agreed that a flat MCCP severity trend, which continues to give some weight to the sharp increase indicated in early 2018 claims and the several prior years of declines, is appropriate.

The Committee reviewed potential adjustments for the impact of the SB 1160 reforms related to utilization review, which became effective on claims occurring January 1, 2018 and later, on MCCP costs. The Committee was reminded that the WCIRB's prospective estimate of SB 1160 reflected in the Amended January 1, 2017 Pure Premium Rate Filing resulted in a 2.5% reduction in MCCP costs. However, staff noted that accident year 2018 MCCP costs through 12 months increased significantly rather than decreased as expected. As a result, staff recommended not reflecting any adjustments to MCCP costs for the impact of SB 1160. The Committee agreed with staff's recommendation.

The Committee next reviewed staff's recommended adjustments for the impact of the Drug Formulary effective in 2018 on MCCP costs. The Committee was reminded that the WCIRB's prospective estimate of the Drug Formulary reflected in the July 1, 2018 Pure Premium Rate Filing resulted in a 2.6% reduction in MCCP costs. Staff noted that an early retrospective evaluation showed pharmaceutical costs continuing to decline through the first six months of 2018. Given that the Drug Formulary also impacts outstanding claims and that MCCP cost development continues to decline modestly, staff recommended reflecting the prospective estimate as an adjustment to the projected MCCP ratio, similar to the

adjustment recommended for medical losses. The consensus of the Committee was that this adjustment was appropriate.

After discussion, a motion was made and seconded to use the ULAE projection methodologies reflected in the Agenda materials for purposes of computing an indicated July 1, 2019 average advisory pure premium rate. The motion passed with eight in favor and one abstention. A second motion was made and seconded to use the ALAE (excluding MCCP costs) projection methodologies reflected in the Agenda materials, including the adjustment to the ALAE ratio for the impact of SB 1160 and AB 1244, for purposes of computing an indicated July 1, 2019 average advisory pure premium rate. The motion passed unanimously. A third motion was made and seconded to use the MCCP costs projection methodologies reflected in the Agenda materials, including the adjustment to the MCCP ratio for the impact of the Drug Formulary, but reflecting a flat MCCP severity trend projection for purposes of computing an indicated July 1, 2019 average advisory pure premium rate. The motion passed with eight in favor and one opposed. (The Committee member representing the Public Members of the Governing Committee opposed to the motion instead supporting a -2% MCCP severity trend projection.)

Item AC19-04-02
12/31/2018 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, 2018 experience. (Please refer to the Minutes for Item AC19-03-02.)

Item AC19-04-03
Early Indicators of High-Risk Opioid Use and Potential Alternative Measures

Staff presented the preliminary analysis of the WCIRB's second opioid study that focuses on some early indicators of high-risk opioid use and potential alternative measures being used in lieu of heavy use of opioids. The Committee was advised of the following:

- About 2.5% of all claims that had any opioid prescription and had accidents in 2013 involved high-risk opioid use compared to 1.4% of similar claims that had accidents in 2016.

- Claims involving high-risk opioid use incurred significantly higher medical and indemnity losses approximately four years after the injury than claims of similar distributions of age and injury mix but which involved lower doses of opioids. These high-risk use claims also tended to remain open longer and receive permanent disability benefits four years after the injury.

- Staff presented four indicators found in the analysis that may help identify claims involving high-risk opioid use early, including obtaining similar opioids from multiple dispensers, getting overlapping opioid prescriptions, using extended-release opioids and concurrently using opioids and benzodiazepines.

- Staff also presented analysis results involving both physician services (non-drug alternatives) and drug alternatives to high-risk opioid use. Staff noted that physical therapy, acupuncture and chiropractic care, as well as NSAIDs and non-narcotics were found to be utilized significantly more on lower-dose opioid use claims than similar high-risk use claims.

One Committee member suggested further exploring geographic variations in high-risk use of opioids, as well as the variations in high-risk opioid use across industrial sectors. Staff agreed to explore other dimensions in the data related to high-risk opioid use in the future. The Committee was informed that the final study report is anticipated to be published by the end of April 2019.

Item AC19-04-04
Impact of Geographic Practice Cost Index on Physician Fees

The Committee was advised that the California Division of Workers' Compensation adopted the Medicare Geographic Practice Cost Index (GPCI), effective January 1, 2019, to replace the statewide geographic adjustment factor (GAF) in the calculation of maximum allowable reimbursements for physician services. Staff presented a preliminary prospective analysis on the potential cost impact of the GPCI-based fee schedule on physician fees using the WCIRB's medical transaction data with service dates from July 1, 2017 to June 30, 2018. The Committee was advised the following:

- The GPCI would affect 49% of all medical services that are provided by physicians. These services account for 35% of the total medical services paid reflected in WCIRB medical transaction data (e.g., excludes settlements for future medical costs and the cost of Medicare set-asides).
    - Adopting the GPCI in the physician fee schedule would increase the overall average maximum reimbursements for services that are more frequently provided in the urban areas while decrease those that are more frequently provided in the rural areas.
- Overall, adopting the GPCI was estimated to increase the total medical payments (excluding future medical settlement) by 0.1%. Staff evaluated the cost impacts of the GPCI by locality and service type:
    - Areas experiencing the largest increase in the fee schedules included Santa Clara, San Mateo, Oakland/Berkeley and San Francisco, yet these areas only covered about 4% of all medical services in the WCIRB database. Conversely, areas that would experience the largest decrease in the fee schedules accounted for only about 6% of all medical services in the WCIRB database.
    - Regarding service types, acupuncture (often provided in the urban area based on the medical data) would experience the largest average increase in the maximum reimbursements (14%), yet it only accounted for 2% of all medical services. Conversely, Evaluation and Management and Physical Therapy would experience the largest average decreases, by 2% and 3%, respectively. These two services accounted for 37% of all medical services.

A Committee member suggested clarifying the six-year transition period in which Medicare has transitioned California payment localities to Metropolitan Statistical Areas. Staff examined the Medicare rules and the Administrative Director's orders, and found that the six-year transition period has not been specified in the context of the California workers' compensation system. Based on limited information in the Medicare rules, staff's preliminary interpretation is that the localities currently grouped in the *Rest of State* category may have their own specific GPCI in the future. Staff will keep monitoring the changes in the GPCI and their potential impact on the medical costs in the workers' compensation system.

After discussion, the consensus of the Committee was that the impact of transitioning to the GPCI was not large enough to warrant a specific ratemaking adjustment to advisory pure premium rates at this time.

The meeting was adjourned at 1:50 PM.

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Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for June 14, 2019 for approval and/or modification.