

Actuarial Committee

Meeting Minutes

| Date | Time | Location | Staff Contact |
|--|---------|---|-------------------|
| December 5, 2019 | 9:45 AM | WCIRB California 1221 Broadway, Suite 900 Oakland, CA | David M. Bellusci |
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Released: December 19, 2019

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Mauro Garcia
Jim Gebhard*
Miranda Ma
Joanne Ottone
Jill Petker
Mark Priven
Kate Smith
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Chris Westermeyer

Representing

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

California Department of Insurance

Mitra Sanandajifar*

WCIRB

Bill Mudge
David Bellusci
Laura Carstensen
Esther Li
Tony Milano
Julia Zhang

* Participated via teleconference

The meeting of the Actuarial Committee was called to order at 9:45 AM following a reminder of applicable antitrust restrictions, with Mr. David Bellusci, Executive Vice President and Chief Actuary, presiding.

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Approval of Minutes

The Minutes of the meeting held on September 3, 2019, 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 Medical Analytics Working Group meeting held on October 10, 2019, which was included in the Agenda, 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, 2018. 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 loss 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, 2018 was modest.

A Committee member noted that reported paid loss ratios for large deductible policies are generally higher than those for non-large deductible policies, though it was noted this may be related to differences in business or insurer mix. A member suggested reviewing these as ratios to on-level pure premium as well as non-on-level premium in future analyses to partially mitigate the mix differences. Following the 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.

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

Staff presented an update on the medical severity trends using the WCIRB medical transaction data from July 1, 2012 through June 30, 2019. The Committee was advised that the share of total medical payments for pharmaceuticals decreased by 78% from 18% in the second half of Service Year (SY) 2012 to 4% in the first half of SY2019, while the share of medical paid for other components increased. Staff noted that a significant increase in the payment share for physical medicine (including physical therapy, acupuncture and chiropractic care) also contributed to the increases in the physician services payment share.

The Committee was advised that the total medical paid per claim decreased by 4% in the first half of 2019, attributable to a decline in the medical transactions per claim (by 6%). In response to a question, staff clarified that all claims that with a paid medical service were used as the basis for the denominator for transactions per claim and paid per claim for each service type, and agreed to continue monitoring the declining trend when more medical transaction data becomes available. Staff also noted that all medical service types experienced a decline in the paid per claim in the first half of 2019, except for physical medicine.

The Committee was advised of the following severity trends based on different fee schedule and service types:

- Physician Services: Staff noted that there was an increase in paid per transaction in the first half of 2019, but a decrease in the transactions and paid per claim. As noted above, physical medicine was the only service category that experienced an increase in the paid per claim, mostly driven by the continuous increases in the paid per transaction due to the changes in the fee schedule and the billing of some most frequently used physical therapy procedures.
- Pharmaceuticals: The Committee was advised that the paid per claim of opioids continued to decline in the first half of 2019 (by 44%) with a cumulative decline of 94% since the second half of 2012. Payments for non-opioid prescription drugs per claim also declined significantly.
- Inpatient and Outpatient: Staff noted that both utilization and paid per claim for inpatient procedures continued to decrease, potentially due to more advanced technology allowing patients to switch from inpatient care to an outpatient setting.
- Medical-Legal: Staff noted that medical-legal services had minimal changes in utilization and paid per claim in the first half of 2019. Staff also noted that while the number of transactions per claim for ML102 and ML104 decreased, the number of transactions for ML103 increased.

Lastly, staff presented the preliminary findings of WCIRB's upcoming study on physical medicine treatment, including a summary of the overall trends and patterns of service utilization and cost. The study also analyzed the substitution between physical medicine and opioids in the workers' compensation system, as well as the impact of early physical medicine on lost time. The Committee was advised that the study will be published in January of 2020.

Item AC18-12-02 Review of Medical On-Level Adjustments

The Committee was reminded that at the December 5, 2018 meeting, staff presented a draft framework to transform the process to on-level medical losses for regulatory, legislative, or judicial changes from a strictly accident year-based approach to an approach that utilizes data by both accident year and payment year. The framework involved segregating medical payments by accident year, development period, type of medical fee schedule, and estimated the change in each medical fee schedule for on-leveling purposes. The Agenda materials included staff's updated analysis which reflected how this approach would be applied for services provided under the Inpatient Hospital Fee Schedule (IHFS).

Staff summarized the approach to develop the values for the IHFS on-level matrix. Staff noted that the Hospital Market Basket (HMB) provided by Medicare was selected for inflationary updates since the annual changes reasonably matched to the change in the simple average of the composite factors for the IHFS published by the Division of Workers' Compensation (DWC). A Committee member noted that the HMB appeared somewhat biased low compared to the simple average of the IHFS composite factors. Staff advised the Committee that the true inflationary change would be a weighted average of the IHFS composite factors, which is very difficult to compute given limitations on the data available. Staff advised that some rough comparisons of weighted average IHFS composite factors reasonably approximated the change in the HMB.

Staff noted that for this approach to be reflected in full for pure premium ratemaking, projections of future inflationary changes are required so as to not understate the residual medical severity trend. Staff advised the Committee that work in this area is still in its initial phases. Staff also advised the Committee that given that the complexities of the California Official Medical Fee Schedule, fully reflecting this approach in pure premium ratemaking may not be viable for a few years. The Committee discussed whether the benefit of continuing to pursue this approach is worth the effort. Although many Committee members believed that there is value in this approach, given the extent of effort needed and the likely modest impact of the changes, the majority of the Committee suggested that there may be more urgent priorities to undertake in 2020 (see Item AC19-12-06). Staff advised the Committee that, in any case, staff plans to regularly review medical fee schedule updates adopted by the DWC for any unusual changes and, if found, discuss the potential on-leveling impact of such changes with the Committee.

Item AC19-12-01 9/30/2019 Experience – Review of Methodologies

Staff presented a summary of the analysis of statewide accident year experience evaluated as of September 30, 2019, which was included in the Agenda materials. Staff noted that the modest decrease in the projected loss ratio from the analysis of June 30, 2019 experience reviewed at the September 3, 2019 meeting was predominantly driven by slightly lower than projected loss development in the third quarter.

The Committee noted that paid loss development at earlier maturities decreased modestly in the third quarter of 2019, but was stable-to-increasing at later maturities. It was noted that incurred loss development, particularly for medical at later maturities, has been increasing over the last several quarters. Staff noted that indemnity loss ratio projection has been relatively flat for the last several quarters, while the quarterly decrease in the projected medical loss ratio in the third quarter of 2019 was about one-third of the decrease for the similar period in 2018, suggesting continued moderation of the declining trend.

The Committee noted that projected indemnity claim settlement rates for 2018 at 21 months and 2019 at 9 months were relatively stable, while the claim settlement rates for more mature accident years continued to increase. However, staff noted that the quarterly incremental changes in ultimate claim settlement rates for several periods decreased in the third quarter of 2019, suggesting that the impact of the recent claim settlement rate acceleration is plateauing.

The Committee next discussed the on-level and trending projections. It was noted that, while the projected on-level indemnity severity change for accident year 2018 continued to decline modestly compared to the prior quarter's projection, the projected on-level medical severity change for 2018 was relatively flat. The Committee reviewed severity change estimates based on nine months experience for accident year 2019 which showed moderate increases for indemnity. However, the nine month estimates for paid medical showed a moderate decrease in 2019. The Committee discussed potential drivers of this preliminarily indicated decrease in 2019 medical severities and that it was consistent with some of the indications of recent medical severity component decline based on medical transaction data (Item AC16-06-05). Staff noted that the severity trend projections reflected in the Agenda materials were based on those reflected in the January 1, 2020 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 2019 is available in preparation for a potential mid-year rate filing.

During the discussion, a Committee member noted that beginning in 2021, the annual pure premium rate filing will be submitted in April and reflect accident year experience evaluated as of 12 months. As a result, the member recommended reviewing preliminary projections of on-level loss ratios for the accident year evaluated as of 9 months in the future in order to provide an early assessment of the likely impact of the most recent accident year.

Item AC19-12-02 Review of ULAE Projection Methods

Staff summarized the WCIRB's current methodology for projecting unallocated loss adjustment expense (ULAE) costs, which includes projecting ULAE based on (1) the number of open indemnity claims (open count method) and (2) paid loss amounts (paid loss method). Staff noted that these two bases continue to be highly correlated with paid ULAE amounts and, as a result, continue to be a generally appropriate basis to project future ULAE. Staff summarized the review of the ULAE methodologies which was included in the Agenda materials.

With respect to the open count method, staff noted that an approach that projects the number of open claims on an incremental basis should enhance the accuracy of the projection. A Committee member suggested also reviewing changes in exposures when projecting the future number of indemnity claims in this approach. Staff noted that none of the alternative ULAE severity projection approaches reviewed significantly enhanced the accuracy of the projection compared to the current approach of using statewide changes in average wage levels.

With respect to the paid loss method, staff noted that the calendar year loss ratios projected in this approach have overstated the actual loss ratios for the last several calendar years. In addition, staff noted that the projected policy year ULAE-to-loss ratios based on this approach have been significantly lower than recent calendar year paid ULAE to paid loss ratios. Staff also noted that recent calendar year paid ULAE to paid loss ratios, after adjusting for the recent changes to the Expense Call and the methods to determine calendar year paid ULAE for California, have been fairly consistent over the last several years, suggesting that a simpler approach of using recent calendar year paid ULAE ratios may be more appropriate in the current environment.

After discussion, the Committee accepted staff's analysis and was supportive of staff's initial recommendations. Staff advised the Committee that they will continue to review the ULAE methodologies with final recommendations provided to the Committee before the next annual filing.

Item AC19-12-03
Update on Wage Report

Staff presented a demonstration of the updated Wage, Payroll and Exposure Report, which is available to subscribers on WCIRB Analytics Portal.

Item AC19-12-04 Assembly Bill No. 5

The Agenda materials contained a high level summary of Assembly Bill No. 5 (AB 5), which had been signed by the Governor in September and affects the status of whether a worker is classified as an employee or an independent contractor. The Committee discussed the pure premium ratemaking issues related to AB 5.

Staff advised that while overall payrolls and losses will likely be increased by AB 5, at this time it is not clear whether losses will increase at a disproportionate rate to payrolls and, as a result, no prospective pure premium rate adjustment for AB 5 appears appropriate. The consensus of the Committee was that no pure premium rate adjustment at this time was appropriate, but it was suggested that the WCIRB actively monitor AB 5 impacts as they emerge.

The Committee was also advised that staff plans to review classification and basis of premium issues for industries that may be greatly impacted by AB 5 and will propose any appropriate changes as part of the next regulatory filing. Finally, the Committee was advised that staff plans to review whether additional premiums collected at premium audit will be significantly affected by AB 5 and will suggest appropriate adjustments to the premium on-leveling component of the pure premium rate analysis if needed.

Item AC19-12-05 Review of Incremental Loss Development Methods

The Committee was reminded that at prior meetings, the Committee has reviewed an alternative loss development projection based on incremental loss development. However, this approach has been very volatile and, as a result, has not been included in the review for a number of years. The Agenda materials included an initial staff review of incremental loss development approaches to determine if a less volatile approach to incremental development can be found.

Staff presented a summary of the multiplicative incremental approach and noted that the decay ratios utilized in this approach can be volatile, partially at later maturities. Staff presented an alternative approach which combined the decay ratios for several mature periods and also showed an all-year average excluding high and low as the selection to reduce volatility. A Committee member suggested reviewing the distribution of the decay factors to determine the appropriate number of years to include in the selection. Another Committee member expressed concern with potential bias of using a method that excludes the high and low factors. Other Committee members also provided feedback on the approach.

Staff presented a summary of an additive incremental method using open indemnity claim counts as the projection base. Staff noted that this approach was generally more stable than the multiplicative method. Several Committee members provided feedback on the approach. Staff noted that with the recent acceleration in claim settlement, in reviewing this approach, a significantly fewer number of indemnity claims is projected to be open at later maturities for more recent accident years compared to the data currently being reported at those maturities (from older accident years). Staff noted that it plans to review the impact of the recent acceleration in claim settlement on the tail projection in 2020.

The Committee was advised that staff plans to continue refining the incremental approaches, particularly in how they apply to medical development, for the Committee's review next year.

Item AC19-12-06 Potential 2020 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 2020. 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.

A meeting participant suggested that the focus in the proposed research agenda on very large claims was appropriate given evolving medical practices and other factors impacting such claims. Another meeting participant questioned whether the WCIRB was planning to study the potential impact of the recent Wilson case. Staff reminded the Committee that the potential pure premium rate impact of the Wilson case was discussed at the August 1, 2019 meeting and the Committee agreed that, given the modest impact of the Senate Bill No. 863 restriction on psychiatric add-ons on overall costs, no immediate pure premium rate adjustment is needed, but future permanent disability ratings should continue to be monitored. Staff also advised that as part of the regular review of diagnostics, average permanent disability ratings will be reviewed in 2019 and, as appropriate, an in-depth analysis of Disability Evaluation Unit data, which includes information on psychiatric add-ons can also be reviewed. After further discussion, the consensus of the Committee was that the schedule of projects outlined in the Agenda materials to be undertaken in 2020 was appropriate.

Item AC19-12-07 2020 Schedule of Meetings

The following schedule of 2020 Actuarial Committee meetings was approved by the Committee:

Monday, March 16, 2020

Thursday, April 2, 2020

Friday, June 12, 2020

Tuesday, August 4, 2020

Tuesday, September 1, 2020

Tuesday, December 8, 2020

The meeting was adjourned at 2:00 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for March 16, 2020 for approval and/or modification.