

Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
March 16, 2020	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci
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Kate Smith
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Farmers Insurance Group of Companies
American International Group
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
Tony Milano
Julia Zhang

Note: Due to concerns over the coronavirus (COVID-19), this meeting was held via teleconference.

The meeting of the Actuarial Committee was called to order at 9:55 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 December 5, 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 Actuarial Research Working Group (ARWG) meeting held March 3, 2020 was included in the Agenda for the Committee's review. Staff summarized the early research into the review of the loss development methodology for classification ratemaking that will be presented to the Committee later this year. Staff also noted that the ARWG reviewed components of the 2021 changes to the Experience Rating Plan that are being developed and that these proposed changes will be presented to the Committee at the next meeting.

Item AC19-08-05 Review of Loss Development Tail Methodology

The Committee was reminded that at the August 1, 2019 meeting, the Committee reviewed an initial study of the loss development tail methodology which suggested that an approach based on applying an inverse power curve to paid loss development may be more appropriate than the current approach based on incurred loss development. However, the Committee noted it was unclear whether the factors that led to the selection of incurred loss development in lieu of paid development from accident years 1998 and prior, which was based on a comprehensive study conducted in 2014, continued to apply. In addition, the Committee recommended the impact of recent claim settlement rate increases on tail development be reviewed in 2020.

Staff presented a summary of the updated analysis of the loss development tail methodology included in the Agenda. The Committee noted that paid development was consistently more accurate and stable than incurred development at later maturities in the retrospective tests performed.

The Committee discussed the potential impact of the recent claim settlement rate increases on tail development. Staff noted that the proportion of claims projected to be open for more recent accident years at later maturities is approximately 50% less than what underlies the age-to-age development currently observed. Staff also noted that, based on a review of medical transaction data, there does not appear to be a significant increase in the closing of claims with no or low incremental payments which would dampen the impact on the loss development tail. The Committee provided feedback on potential approaches to adjust the loss development tail for claim settlement rate changes.

After discussion, the consensus of the Committee was that staff should continue to develop approaches to adjust for changing claim settlement rate impacts on tail development in preparation for the next annual filing.

Item AC20-03-01 First Quarter 2020 Review of Diagnostics

The Agenda included the WCIRB's standard set of diagnostics that are reviewed by the Actuarial Committee and Claims Working Group on a semi-annual basis. Among the diagnostics discussed by the Committee were the following:

1. Updated unit statistical data shows that claim settlement rates continue to increase for both permanent partial disability and temporary disability-only claims. Staff noted that more current aggregate financial data suggests that the claim settlement rates appear to be stabilizing. It was also noted that the most significant improvement in settlement ratios over the last five years has been in the Los Angeles Basin, which now has among the highest settlement rates in the state.
2. The proportion of permanent disability claims closing through compromise and release settlements has been increasing modestly but steadily over the last several years. It was noted that the highest proportion of compromise and release settlement claims was in the Los Angeles Basin, but those claims had the lowest average incurred amounts. A member suggested reviewing the impact of increasing compromise and release settlements on loss development patterns.
3. Lien filings continue to decrease since the enactment of Senate Bill No. 1160 (SB 1160) and Assembly Bill No. 1244 (AB 1244) effective in 2017. It was noted that lien filings in 2019 were approximately 75% below the pre-SB 1160 level. Staff agreed to discuss the continued reduction in lien filings with the Claims Working Group.
4. Retrospective evaluations of the performance of alternative loss development methodologies indicate that paid development methodologies generally continue to outperform the other methods reviewed. Staff noted that the evaluations also show that claim settlement adjustments are continuing to improve the accuracy of the paid projections.
5. Average indemnity severity measures for accident years 2018 and 2019 are above that of the prior years and reflect increases above that estimated due to wage inflation and annual cost of living increases in temporary and permanent total disability benefits. It was noted that the latest unit statistical information on permanent disability ratings and very preliminary indemnity transaction data on temporary disability duration do not suggest a significant increase in either of these areas. The Committee suggested obtaining feedback from the Claims Working Group on these indemnity severity increases.
6. The Committee reviewed the updated diagnostics on medical severities. It was noted that while 2018 accident year severities continue to be well above those for accident year 2017, accident year 2019 medical severities have dropped. It was also noted while the 2019 decrease in medical severities was consistent with early indicators based on both aggregate financial data and medical transaction data, the significant 2018 increase does not conform to the indicators based on medical transaction data. The Committee was advised that staff is exploring whether the 2018 increased severity may be due to an increase in settlements not reflected in the medical transaction data or an increase in very large claims in 2018 that may have only been partially reflected in the medical transaction data. Staff also agreed to solicit feedback from the Claims Working Group on this medical severity pattern.

Item AC20-03-02 12/31/2019 Experience – Review of Methodologies

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of December 31, 2019, which was included in the Agenda. It was noted that the modest decrease in the projected loss ratio from that reflected in the January 1, 2020 Pure Premium Rate Filing based on March 31, 2019 experience was primarily attributable to lower loss development.

The Committee noted that the decreases in paid indemnity and paid medical loss development have continued to moderate, while incurred loss development has started to increase across maturities. Staff noted that the decreases in the developed loss ratios from June 30, 2019 experience to December 31, 2019 experience were very modest, particularly when compared to the same period one year ago. The Committee also noted that, while claim settlement rates for older accident years continue to increase, settlement rates for 2018 and 2019 have been flat and incremental changes in claim settlement rates for earlier maturities have declined over the last two quarters.

The Committee reviewed the loss development tail factor and noted that incurred medical development in 2019 after 120 months has begun to show a return to a more normal pattern. As a result, the consensus of the Committee was that calendar year 2019 should be included in the tail development factor fit in the loss development projection, while the three prior calendar years (2016 through 2018) should continue to be excluded from the tail development factor fit given the anomalous pattern observed for those years.

Staff noted that the wage projection included in the Agenda based on the average of the UCLA Anderson School of Business (as of December 2019) and California Department of Finance (as of November 2019) forecasts was on average consistent with that reflected in the January 1, 2020 Pure Premium Rate Filing. Staff noted that an updated UCLA wage forecast based on data through March 2020 showed a much more modest wage change for 2020, driven by a potential economic downturn caused by the COVID-19 pandemic. The Committee discussed the potential impact of the COVID-19 pandemic and resulting economic changes on the pure premium rate projection. Staff recommended that, given the Department of Finance forecasts were made prior to the pandemic, only the recently published UCLA wage change forecast should be reflected for 2020. A Committee member noted that a significant change in economic conditions would impact premium audits on 2019 and 2020 policies. Other Committee members noted that a recession may impact the filing of cumulative trauma claims and that the impact would differ by industry.

The Committee noted that the on-level indemnity severities for 2018 and 2019 show modest increases following several years of flat-to-declining on-level indemnity severities. Staff recommended an indemnity severity trend of 0% (compared to -0.5% reflected in the January 1, 2020 Pure Premium Rate Filing), which considers the recent increases and prior period of sustained decreases. For medical, it was noted that on-level severity for 2019 decreased moderately after increasing by more than 4% in 2018. Staff noted that a preliminary review of medical transaction data showed reductions in medical transactions for 2019 consistent with the indicated decrease. Staff also noted that it will continue to review the factors driving the 2018 and 2019 medical severity changes and discuss with the Committee at the next meeting. Given the 2019 decrease, staff recommended a medical severity trend of 1.5% compared to 2.5% reflected in the January 1, 2020 Pure Premium Rate Filing. The consensus of the Committee was that these severity trends should be reflected preliminarily in the update of December 31, 2019 experience to be reviewed at the April 2, 2020 meeting. The Committee was reminded that a full range of alternative loss development and trending projections will also be reviewed at that meeting.

The meeting was adjourned at 12:30 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for June 12, 2020 for approval and/or modification.