

# Actuarial Committee

## Meeting Minutes

Date	Time	Location	Staff Contact
April 2, 2020	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci
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### Members

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

### Representing

Zurich North America  
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

Note: Due to the coronavirus (COVID-19) pandemic, this meeting was held 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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## Item II Working Group Meeting Summaries

The summary of the Claims Working Group meeting held March 23, 2020 was included in the Agenda for the Committee's review and was accepted by the Committee.

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

At the March 16, 2020 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 at the meeting of March 23, 2020. Among the items discussed by the Committee were the following:

1. At the March 16, 2020 meeting, the Committee noted that more current aggregate financial data suggests that claim settlement rates appear to be stabilizing. The Claims Working Group did not offer any major factors causing this apparent stabilization in settlement rates other than suggesting that the effects of the long term trends driving the acceleration are beginning to diminish. However, the Claims Working Group suggested that with the COVID-19 pandemic and resultant shelter-in-place orders there will likely be a significant slowdown in most aspects of claims administration including claims settlement beginning in the first quarter.
2. At the March 16, 2020 meeting, the Committee noted that the proportion of permanent disability claims closing through compromise and release settlements has been increasing modestly but steadily over the last several years. The Committee was advised that a Claims Working Group member noted that with the shelter-in-place orders, “walkthroughs” at the WCAB offices to obtain approvals of compromise and release settlements will become very difficult which could significantly erode the ability to get such settlements.
3. At the March 16, 2020 meeting, the Committee noted that 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, although the decreases in recent quarters have moderated. The Committee was advised that the Claims Working Group suggested possible reasons for these continued decreases, including reduced out-of-network medical treatment, packaging of multiple liens into a single lien filing and potential lien claimants trying to resolve billing disputes prior to a lien settlement.
4. The Committee noted with the sharp economic downturn expected as a result of the pandemic, indemnity claim frequency can be impacted. The Committee was advised that the Claims Working Group suggested that, with the prevalence of shelter-in-place orders in the state, indemnity claim frequency will likely temporarily drop. However, Working Group members also expressed concerns that the lack of ergonomic equipment for temporary work-at-home employees as well as the potential for a significant number of post-termination claims arising from employees who lose their job in the economic slowdown could negatively impact frequency in the longer term.
5. The Committee reviewed the updated information on recent medical severity trends. 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 there are indicators that some of the increase in 2018 was due to an unusual number of very large claims and that staff is exploring whether the 2018 increased severity may also be in part due to an increase in settlements not reflected in the medical transaction data.

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

The Agenda materials included an updated analysis of December 31, 2019 experience, which was first reviewed at the March 16, 2020 meeting. The Committee was advised that the loss projections differed from those reviewed at the March 16, 2020 meeting primarily as a result of reflecting the updated indemnity and medical severity trend projections recommended by the Committee at the March 16, 2020 meeting as well as the March 2020 UCLA forecast.

The Committee reviewed loss development and the alternative loss development projections included in the Agenda (Item AC20-04-02). Staff noted that the loss development methodology included in the Agenda and recommended by staff is consistent with that reflected in the January 1, 2020 Pure Premium Rate Filing and is primarily based on paid loss development adjusted for reforms and changes in claim settlement rates. A motion was made, seconded, and unanimously passed to base the indemnity loss development projection on the method as presented in the Agenda to compute the indicated July 1, 2020 average advisory pure premium rate. With respect to medical loss development, a motion was made and seconded to base the medical loss development projection on the method as presented in the Agenda to compute the indicated July 1, 2020 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.)

Staff noted that after the Agenda was released, UCLA updated its March 2020 forecast from what was reflected in the Agenda. The recently updated forecast reflected additional information on the impact of the economic downturn resulting from the COVID-19 crisis which included lower wage level changes projected for 2020 and 2021. Staff recommended that, given that the most recent California Department of Finance forecast was released in November 2019 and was not impacted by the COVID-19 crisis, only the updated March 2020 UCLA forecast should be reflected in the projected wage level changes for 2020 and 2021. The Committee discussed the economic impacts of COVID-19 and how to most appropriately reflect changes in wage levels in the indicated July 1, 2020 advisory pure premium rate level. After discussion, the consensus of the Committee was that the updated March 2020 UCLA forecast provides the most current information available and staff's recommendation to reflect it for the 2020 and 2021 wage level changes is appropriate.

The Committee next discussed the frequency projections. Staff noted that the updated March 2020 UCLA forecast indicated a significant increase in the unemployment rate for 2020 and 2021. Based on the WCIRB's econometric frequency model, this resulted in a significant decrease in the claim frequency projected for 2020 and 2021 compared to what was reflected in the Agenda and had occurred in recent years. A Committee member suggested that, for consistency, the updated frequency projections should be reflected if the recently updated wage forecast is also reflected. Other Committee members noted that the WCIRB's frequency model is based on a long term history of economic and frequency changes which includes more typical economic cycles and that the current COVID-19 crisis is very different involving a virtually unprecedented sudden rise in unemployment. The Committee also noted that the potential for COVID-19 claims arising directly from the virus or the high level of post-termination claims in recent years are not significantly reflected in the model. After discussion, the majority of Committee members agreed that the claim frequency projections as presented in the Agenda are appropriate given the current environment.

The Committee noted that the projected on-level indemnity severity trend of 0% reflected in the Agenda gives some weight to the modest increases in projected on-level indemnity severities for 2018 and 2019

and some weight to the decreases experienced over the last several prior years. For medical, staff summarized a review of the factors driving the increase in 2018 and decrease in 2019 medical severities. Staff noted that for 2018, the increase was in part attributable to a larger-than-typical volume of large claims with early payments as well as annual inflationary updates to medical fee schedules tied to Medicare. For the 2019 decrease, staff noted that a review of preliminary medical transaction data suggested a decline in the utilization of medical services across most fee schedule categories with the largest category being physician services. The Committee noted that the medical severity trend of 1.5% reflected in the Agenda balances the short-term and long-term rate of change and is consistent with that reflected by the California Department of Insurance in the decision on the January 1, 2020 Pure Premium Rate Filing.

The Committee discussed the alternative trending projections included in the Agenda (AC20-04-02). It was noted that the differences between projections based on a loss ratio trend and those based on separate frequency and severity trend projections primarily result from differences in the number of years on which to base the trend. After discussion, a motion was made and seconded to use the indemnity and medical trending projection methodologies reflected in the Agenda, with the updated March 2020 UCLA forecast reflected in the indemnity and premium on-level adjustments, to compute the indicated July 1, 2020 average advisory pure premium rate. The motion passed with eight in favor and one abstention. (The Actuary representing the Public Members of the Governing Committee who abstained from the motion supported a short-term combined loss ratio trend methodology.)

## Item AC20-04-01 12/31/2019 Loss Adjustment Expense Experience Review

The Committee was advised that unallocated loss adjustment expense (ULAE) experience for calendar year 2019 is not yet available but the Agenda included an updated ULAE projection that reflected ULAE experience through calendar year 2018 as well as updated frequency, wage level, and loss projections based on December 31, 2019 experience.

The Committee reviewed the analysis of allocated loss adjustment expense (ALAE) experience through December 31, 2019. The Committee noted that paid ALAE development continues to decrease moderately. The Committee also noted that the increase in the projected ALAE severity for 2019 is modest and comparable to recent prior years. The Committee was advised that the approximate average ALAE severity trend based on the short-term and longer-term average rates of growth of 2.0% is somewhat lower than the projected ALAE severity trend reflected in the January 1, 2020 Pure Premium Rate Filing.

The Committee was reminded of the methodology to adjust the ALAE to loss ratio for the impact of the Senate Bill No. 1160 reforms related to lien filings, which was consistent with the methodology used in the January 1, 2020 Pure Premium Rate Filing. The Committee also discussed the adjustment to paid ALAE development for the impact of claim settlement rate changes reflected in the January 1, 2020 Pure Premium Rate Filing. Staff noted that given that the claim settlement rate changes for accident years 2018 and 2019—which form the basis of the ALAE projection—are modest, the adjustment was not recommended for this review. Staff also noted that given the continued decline in ALAE development, the ALAE development methodology will be reviewed with the Committee prior to the next annual filing. The consensus of the Committee was that these approaches were appropriate.

The Committee next reviewed the analysis of medical cost containment program (MCCP) experience through December 31, 2019. It was noted that average MCCP per indemnity claim decreased in 2019 following an increase in 2018. The Committee was advised that the MCCP severity trend of 0% reflected in the Agenda materials was based on the approximate average of the calendar year and accident year average MCCP severity trends and is consistent with that reflected in the January 1, 2020 Pure Premium Rate Filing.

After discussion, a motion was made and seconded to use the LAE projection methodologies reflected in the Agenda for purposes of computing an indicated July 1, 2020 average advisory pure premium rate. The motion passed with eight in favor and one abstention.

The Committee next discussed the uncertainty surrounding the pure premium rate projections given the impact of the COVID-19 crisis on workers' compensation costs and the California economy. Several Committee members noted that the uncertainty related to COVID-19 dwarfs any modest change in the pure premium rate indication based on December 31, 2019 experience. Given the modest indicated pure premium rate change based on the Committee's recommended methodologies and the high level of uncertainty around the potential impact of COVID-19 on claim costs, a motion was made and seconded to recommend that the Governing Committee not authorize the WCIRB to submit a mid-year pure premium rate filing. The motion passed unanimously.

Item AC20-04-02  
12/31/2019 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, 2019 experience. (Please refer to the Minutes for Item AC20-03-02.)

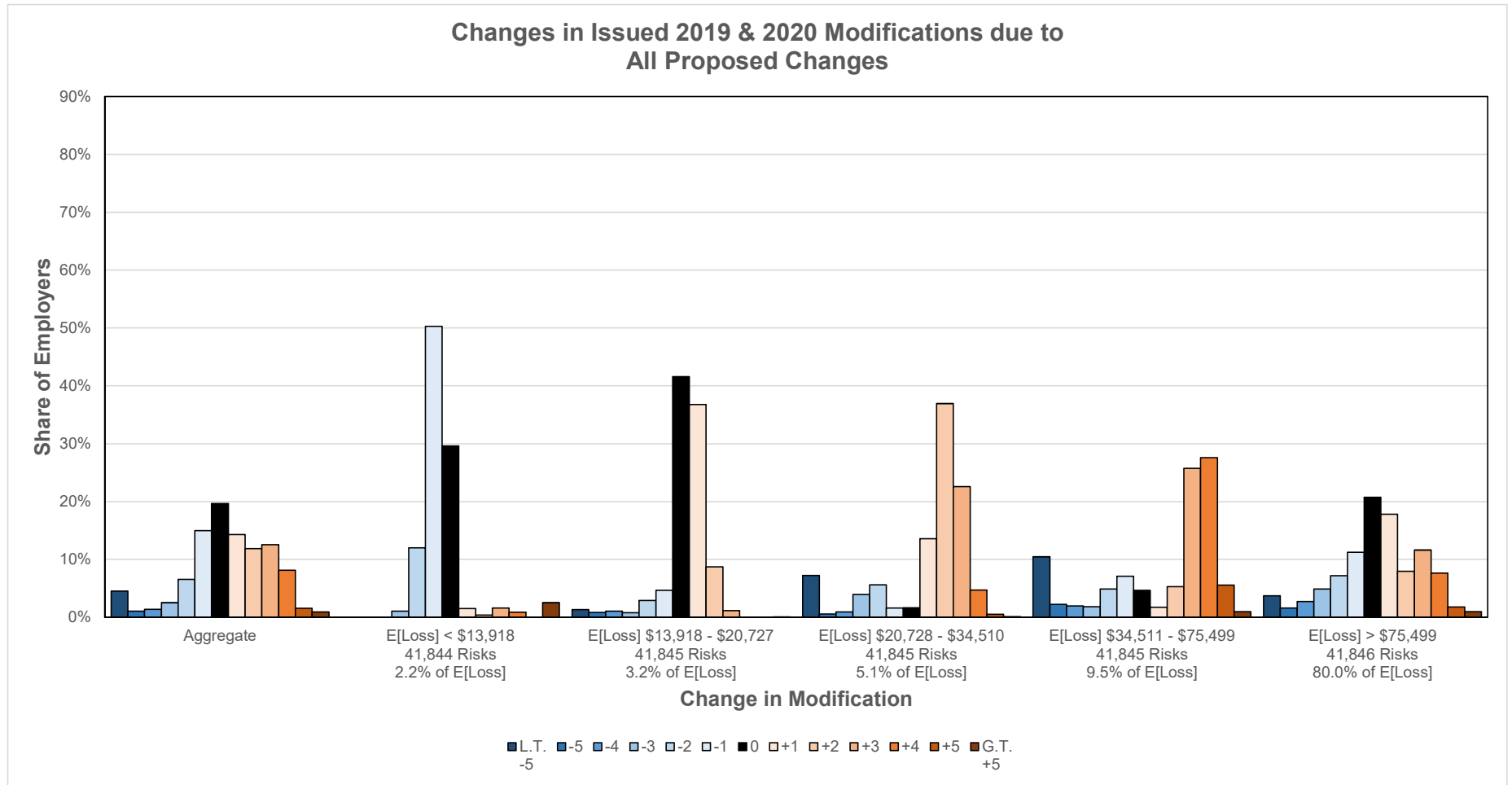


## Item AC20-04-03 2021 Experience Rating Plan Changes

The Committee reviewed a proposal to update the credibility methodology for determination of D-ratios as well as the expected loss ranges that determine the primary thresholds used to calculate experience modifications using the most current experience available. The Committee reviewed exhibits indicating that the current method for D-ratio credibility can be unstable over time and that a Buhlmann credibility approach would be more stable from year-to-year while also yielding more transparent results.

With respect to the expected loss ranges, the Committee reviewed exhibits showing that data indicates that the current variable split plan continues to outperform a single split plan based on the most current available statistical data on experience modifications and that the indicated optimal primary threshold values tend to shift upward over time. The Committee requested additional information on the estimated impact of the proposed changes to the expected loss ranges by size of the insured. The requested information is attached as Exhibit 1.

A motion was made and seconded to include staff's recommended changes to the credibility methodology for establishing D-ratios as well as the updated primary threshold values in the January 1, 2021 Regulatory Filing. The motion passed unanimously among Committee members present. In addition, given the drift in the indicated primary thresholds, the Committee agreed that these values should be updated on annual basis in order to reduce the impact of changes on experience modifications when such changes are made.



## Item AC20-04-04 COVID-19 Crisis

Staff summarized the WCIRB's response to the COVID-19 pandemic. With respect to the reporting of COVID-19 claims, it was noted that WCIRB staff worked with the Workers Compensation Insurance Organizations (WCIO) Data Advisory Committee to identify a catastrophe code as well as nature of injury and cause of injury codes to facilitate the reporting of COVID-19 claims in unit statistical and indemnity transaction data in a consistent manner across all WCIO jurisdictions. The Committee was also advised that staff is assessing several issues including the treatment of COVID-19 claims in experience rating, the reporting of payroll for employees who are no longer working but are continuing to be paid, the classification of working-at-home employees, and potential challenges in completing policy audits. It was noted that any changes once recommended by WCIRB committees would be filed with the California Department of Insurance with a proposed July 1, 2020 effective date.

To help assess the potential impact of COVID-19 on the workers' compensation claims environment, the Committee was advised that the WCIRB is in the process of studying how prior major economic downturns have impacted the frequency and duration of claims in consideration of recent trends in post-termination claims and work-at-home arrangements, and the potential impact of a legal COVID-19 presumption on claims costs. In preparation for the annual pure premium rate filing, the WCIRB will also study how the claim development, frequency, and severity experience emerging during the current "stay-at-home" environment is or is not likely to be indicative of future cost levels.

The meeting was adjourned at 1:20 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.