

WCIRB Actuarial Committee Meeting

June 12, 2020

Agenda

1. AC16-06-05: Update on Medical Severity Trends by Component
2. AC19-12-06: Potential 2020 Actuarial and Research Projects
3. AC20-04-04: COVID-19 Crisis
4. AC20-06-01: 3/31/2020 Experience – Review of Methodologies
5. AC20-06-02: 1/1/2021 Regulatory Filing – Experience Rating Plan Values
6. AC20-06-03: 1/1/2021 Regulatory Filing – Maximum Payroll Limitation

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01

Update on Medical Severity Trends by Component



02

Potential 2020 Actuarial and Research Projects



Planned Future WCIRB COVID-19 Related Research

COVID-19 Early Claim Cost Indicators. The COVID-19 pandemic and resultant stay-at-home orders are expected to have a major impact on accident year 2020 emerging costs as well as the loss development of earlier accident years. Among the areas potentially impacted include claim frequency, medical treatment levels, COVID-19 diagnosis claims, claim settlement rates, litigation rates, cumulative trauma claims, post-termination claims and temporary disability duration.

COVID-19 Early Exposure and Premium Indicators. The COVID-19 pandemic and resultant stay-at-home orders will have a major impact on calendar year 2020 and later exposure and premium. In addition to the impact of employment reductions by sector, the temporary reassignment to the clerical classification of employees temporarily performing clerical duties at home, the continuation of pay to employees not working and return premium on expiring 2019 and early 2020 policies will significantly impact calendar year 2020 and later premiums.

Impact of Medical Treatment Delays. With the COVID-19 pandemic and resultant stay-at-home orders, a significant level of medical treatment that would otherwise have been provided is delayed or foregone completely. At the April 2, 2020 meeting, the Actuarial Committee discussed that, with these potential delays or avoidance of medical treatments early in the life of a claim, future medical costs and return-to-work may be impacted.

Planned Future WCIRB COVID-19 Related Research

Increased Usage of Telemedicine. With the COVID-19 pandemic and resultant stay-at-home orders, the use of telemedicine in workers' compensation is increasing. In recent months, the DWC has adopted a number of changes to fee schedules to address telemedicine.

Increase in Telecommuting. With the COVID-19 pandemic and resultant stay-at-home orders, many employees have begun working from home and significant level of telecommuting is likely to continue even after stay-at-home orders expire.

03

COVID-19 Crisis



Cost Evaluation of Governor Newsom's Executive Order

Background & Introduction – Governor's May 6, 2020 Executive Order

■ Key Provisions

- Rebuttable presumption of compensability applied to workers contracting COVID-19 who worked outside of home at employer's direction within 14 days of diagnosis
- Presumption limited to dates of injury from March 19 to July 5
- Requires a positive test for COVID-19 or a diagnosis of COVID-19
- Temporary disability must be certified by physician and can be offset by specific COVID-19 sick leave
- Death benefits for workers with no dependents (paid to the state) is waived

■ Key Differences in Valuation of Executive Order from WCIRB April Valuation

- Fixed time frame for application of presumption vs. annual period in April valuation
- Application to all workers working outside the home is more broad
- Presumption is rebuttable vs. conclusive in WCIRB April valuation
- More information available on death and hospital COVID-19 rates in California that reflects the impact of stay-at-home orders

Cost Evaluation of Governor Newsom’s Executive Order

Summary of Key Findings

Estimated System Cost of COVID-19 Claims Pursuant to Executive Order N-62-20			
	Health Care Workers and First Responders – Group 1	Others Working Outside the Home – Group 2	Total System Costs
Low-Range Estimate	\$0.3 Billion	\$0.3 Billion	\$0.6 Billion
Mid-Range Estimate	\$0.8 Billion	\$0.4 Billion	\$1.2 Billion
High-Range Estimate	\$1.2 Billion	\$0.8 Billion	\$2.0 Billion

WCIRB Brief on Impact of Economic Downturn on Claim Frequency

Background

- Prior studies suggest that with economic downturn, claim frequency declines accelerate
- Speed and magnitude of the current unemployment rise unprecedented
- Potential impacts of recent COVID-19 driven downturn on claim frequency



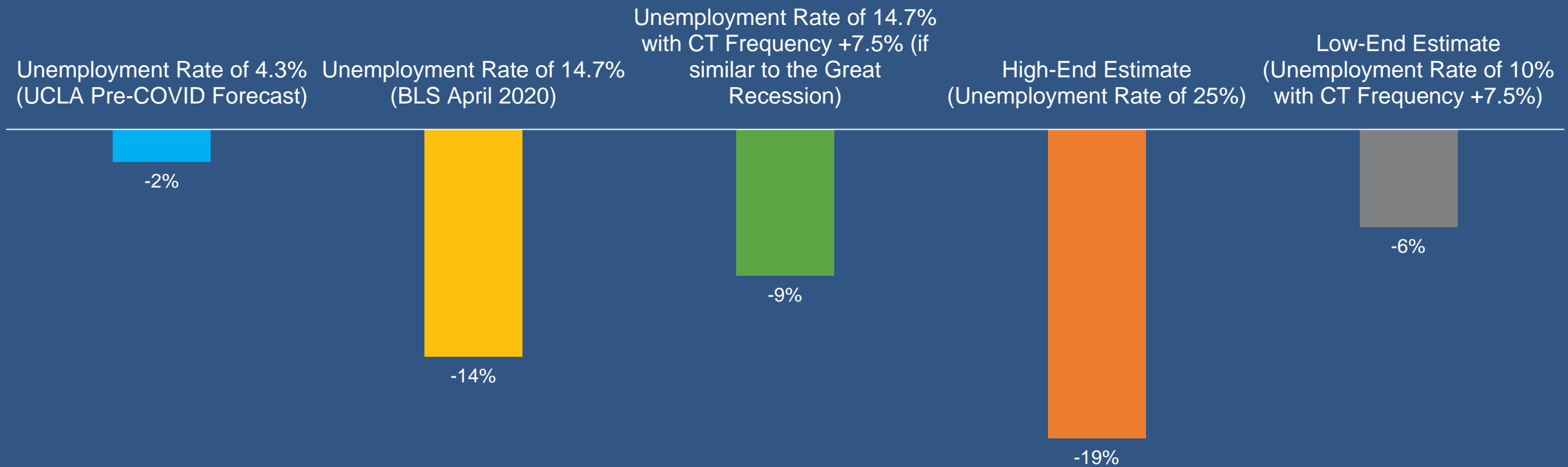
- Economic downturn may accelerate claim frequency declines
- Shift of employees to clerical and telecommuting could reduce claim frequency



- CT claim proportions have increased in California during recessions
- Recent trends in post-termination claims could increase claim frequency
- Claims arising from a COVID-19 diagnosis

WCIRB Model Forecast of Indemnity Claim Frequency Changes Due to Economic Changes

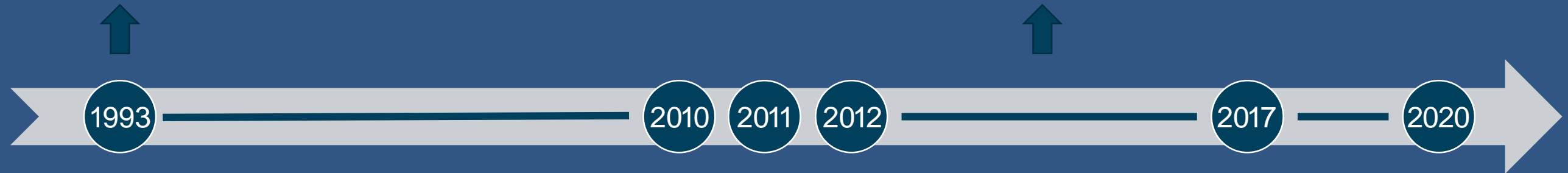
(Excludes Impact of Potential Surges in Post-Termination & COVID-19 Claims as well as Shifts to Clerical and Telecommuting Workers)



Post-Termination Cumulative Trauma (CT) Claims

1993 legislative reforms restricted the filing of post-termination claims.

Estimated about **25 post-term CT claims filed per 1,000 jobs lost** statewide (2012-2017)

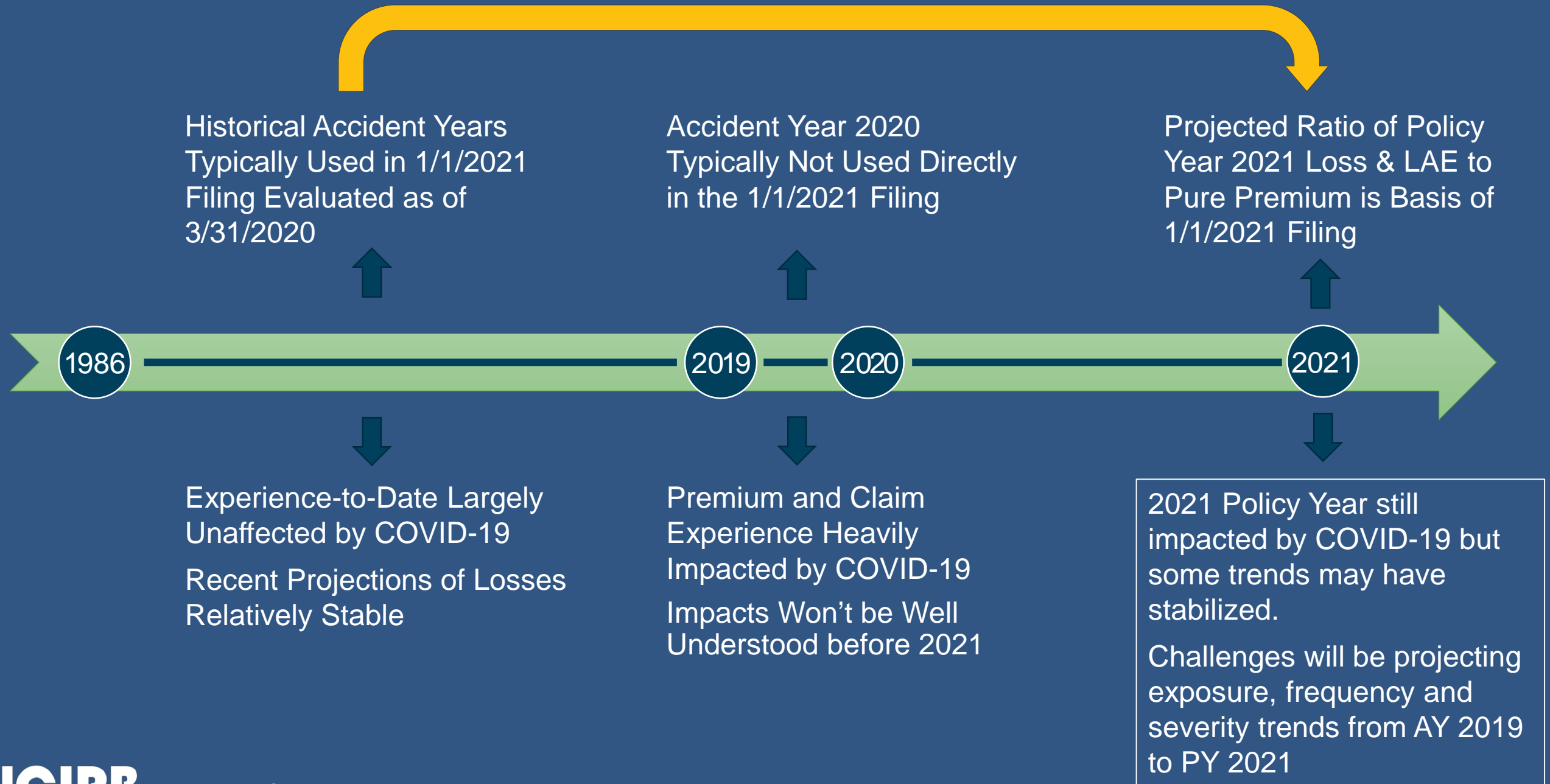


Limited claims filed on post-term basis.

Several judicial decisions in 2011 enabled more workers to file post-termination CT claims.

If applying 50% of the estimated rate:
12.5 claims per 1,000 jobs lost
X
4.3 million jobs lost in California
= **54,000 post-termination CT claims** will be filed over the next year, increasing statewide claim frequency by approximately **25%**.

January 1, 2021 Pure Premium Rate Filing



COVID-19 Ratemaking and Research Issues - Claim Frequency

Issue	Information Source to Evaluate	Timing of Information Availability	Critical for 1/1/21 Filing (Y/N)
Claim Frequency			
COVID-19 Claims	Transactional Indemnity (TI) Data	Preliminary data currently available	Y
	Transactional Medical (TM) Data	Preliminary data currently available	
	Unit Statistical Report (USR) Data	Available starting Q4 2020	
	Division of Workers' Compensation (DWC)	Preliminary data currently available (by request)	
Post-Termination Claims	TI Data	Preliminary data currently available	N
	Permanent Disability Claim Survey	Available Q4 2021	
CT Claims	TI Data	Preliminary data currently available	Y
	TM Data	Available starting Q3 2020	
	USR Data	Available starting Q4 2020	
Economic Impact	UCLA	Latest data as of March 2020, next update in June	Y
	CA Dept of Finance	Latest data as of April 2020, next update in November	
	Other Government Sources	Data currently available although later projections likely more reliable	
	WCIRB Claim Frequency Model	Currently available	
"Stay-at-Home" Period Drop in Claims	Aggregate Data	Q1 2020 available in June, Q2 2020 in Sep.	N
	TI Data	Preliminary data currently available	
Clerical Working at Home	TI Data	Preliminary data currently available	N
	Special Survey of Audits	Available in September 2020	
	USR Data	Available starting Q4 2020	
Furloughed but Paid	Special Survey of Audits	Available in September 2020	N
	USR Data	Available starting Q4 2020	
Shifts in Class/Industry Mix	UCLA	Latest data as of March 2020, next update in June	Y
	Government Sources	Data currently available although later projections likely more reliable	
	USR Data	Available Q3 2021	

COVID-19 Ratemaking and Research Issues - Claim Severity

Issue	Information Source to Evaluate	Timing of Information Availability	Critical for 1/1/21 Filing (Y/N)
Claim Severity			
“Stay-at-Home” Period Drop in Medical Services	Aggregate Data	Q1 2020 available in June, Q2 2020 in September	N
	TM Data	Preliminary data available Q3 2020	
Slowdown in Settlement	Aggregate Data	Q1 2020 available in June, Q2 2020 in September	Y
	TI Data	Preliminary data available Q3 2020	
	DWC Data	Preliminary data available Q3 2020 (by request)	
Change in Litigation Practices	Aggregate Data	Q1 2020 available in June, Q2 2020 in September	Y
	TI Data	Preliminary data available Q3 2020	
	DWC Data	Preliminary data available Q3 2020 (by request)	
	PD Survey	Available Q4 2021	
Impact of Medical Service Drop on Future Medical	Research Brief	September	N
COVID-19 Claim Severity	TI Data	Preliminary data available Q3 2020	Y
	TM Data	Preliminary data available Q3 2020	
	DWC Data	Preliminary data available Q3 2020 (by request)	
	USR Data	Available starting Q4 2020	
Post-Termination and CT Claim Severity	TI Data	Preliminary data available Q3 2020	Y
	TM Data	Preliminary data available Q3 2020	
	USR Data	Available starting Q4 2020	
Shifts in Class Mix (Clerical, etc.) on Severity	TI Data	Preliminary data available Q3 2020	Y
	TM Data	Preliminary data available Q3 2020	
	USR Data	Available starting Q4 2020	
Temporary Disability Duration	TI Data	Preliminary data available Q3 2020	N
	PD Survey	Available Q4 2021	

COVID-19 Ratemaking and Research Issues – Exposure, Premiums & Class Relativities

Issue	Information Source to Evaluate	Timing of Information Availability	Critical for 1/1/21 Filing (Y/N)
Exposure and Premium			
Return Premiums on Policy Years 2019-20	Aggregate Data	Q2 2020 data available in September, Q3 2020 in December	N
	Special Survey of Audits	Available in September 2020	
Clerical Working at Home	Special Survey of Audits	Available in September 2020	N
	USR Data	Available starting Q4 2020	
Furloughed but Paid	Special Survey of Audits	Available in September 2020	N
	USR Data	Available starting Q4 2020	
Unemployment	UCLA	Latest data as of March 2020, next update in June	Y
	Government Sources (BLS, EDD, CA DoF)	Data currently available although later projections likely more reliable	
Average Wage Trend	UCLA	Latest data as of March 2020, next update in June	Y
	CA Dept of Finance	Latest data as of April 2020, next update in November	
	Other Government Sources	Data currently available although later projections likely more reliable	
Shifts in Class Mix	UCLA	Latest data as of March 2020, next update in June	Y
	Government Sources	Data currently available although later projections likely more reliable	
	USR Data	Available Q3 2021	
Classification Pure Premium Rate Relativities			
COVID-19 Impacts by Class	TI Data	Preliminary data currently available, but later is better	Y
	DWC Data	Preliminary data currently available (by request), but later is better	

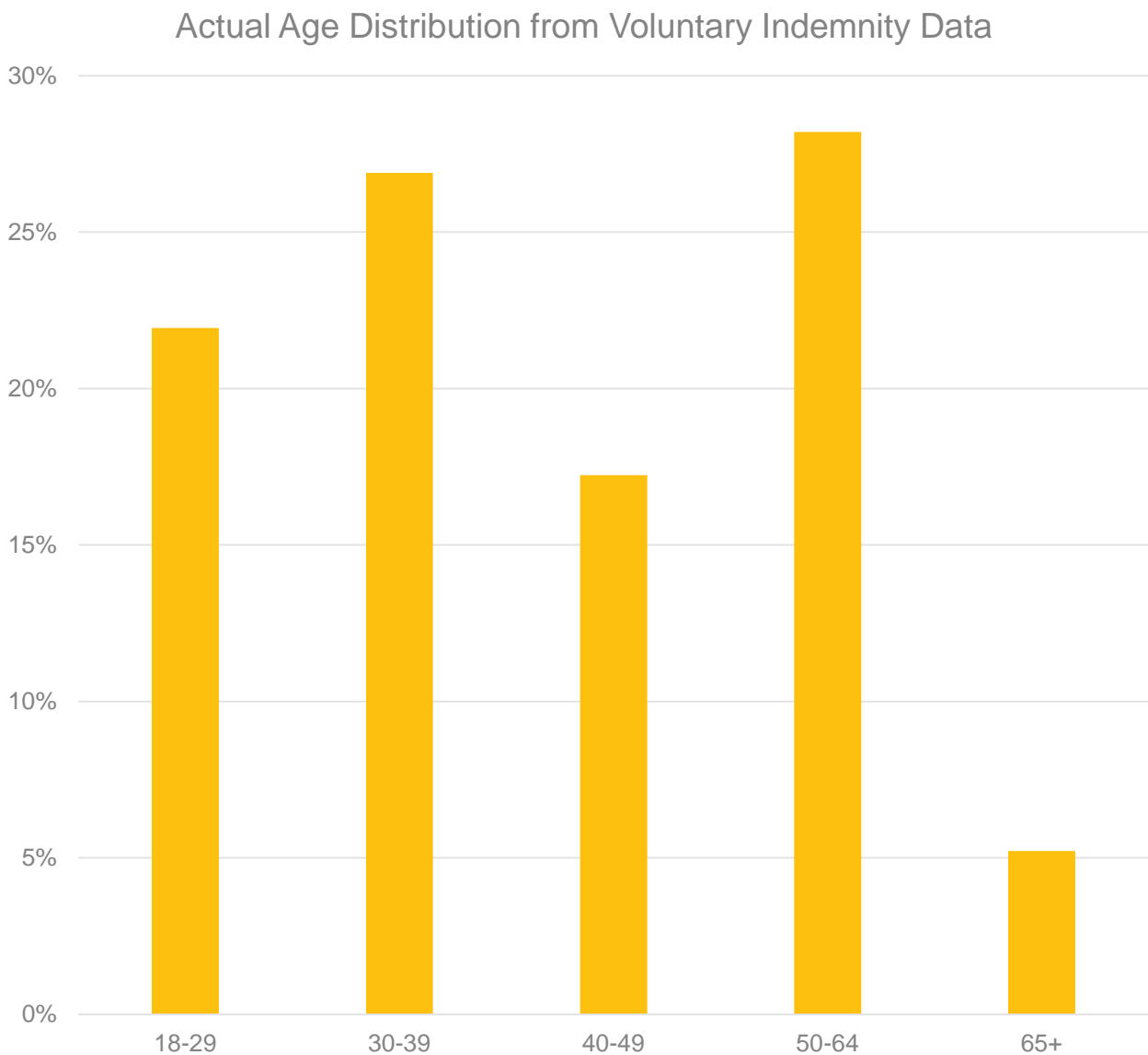
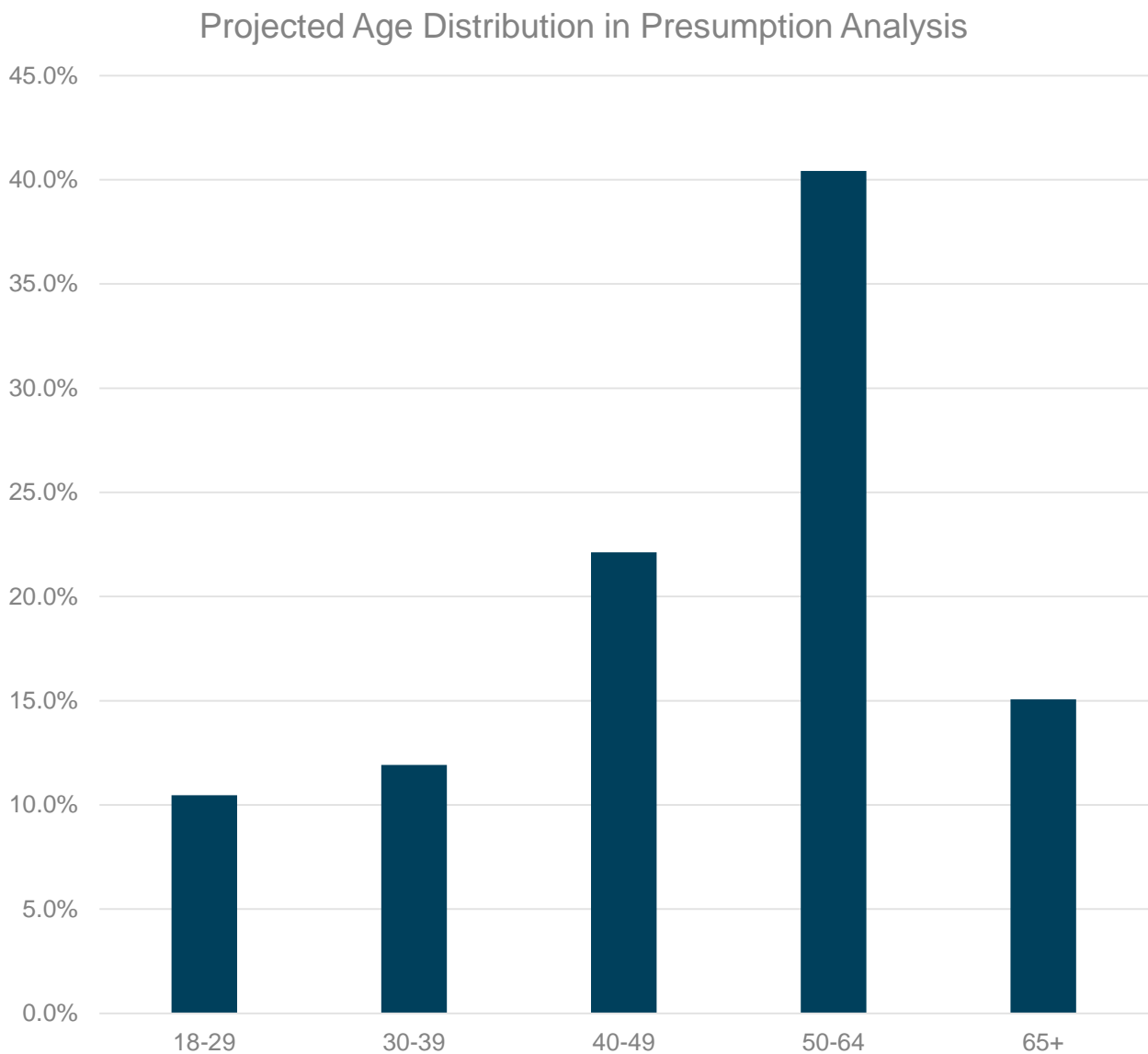
Indemnity Transaction Data Sources

- Voluntary Indemnity Transaction Data
 - FROI and SROI data from voluntary participants corresponding to almost 20% of pure premium
 - Robust distribution of locations and class codes but not a random sample
 - Reflects insured population only
- Mandatory Indemnity Transaction Data
 - Begins with Q2 2020 data
 - Expect to have data for most of the insured market by 9/30/2020
- Summary Data from DWC
 - Reflects full population of WC (both insured and self-insured)
 - Self-insured population is about 1/3 of payroll
 - Through 5/7/2020, around 41% of COVID-19 claims were from the insured population
- Identified claims by Nature of Injury and Cause of Injury codes of 83 or presence of “COVID-19” or “coronavirus” in the accident description
- All data is very preliminary and reflects metrics we expect to review throughout the year

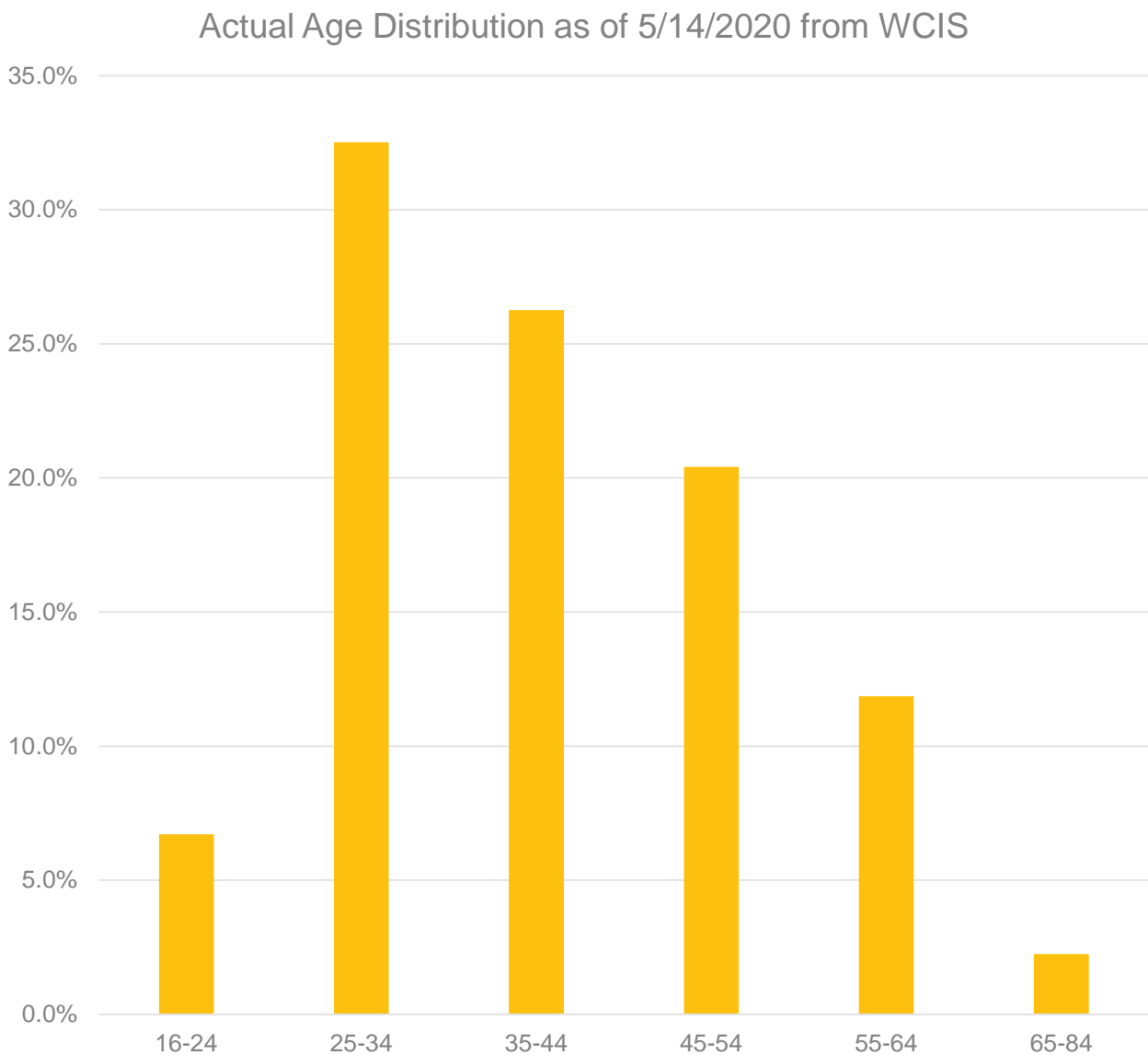
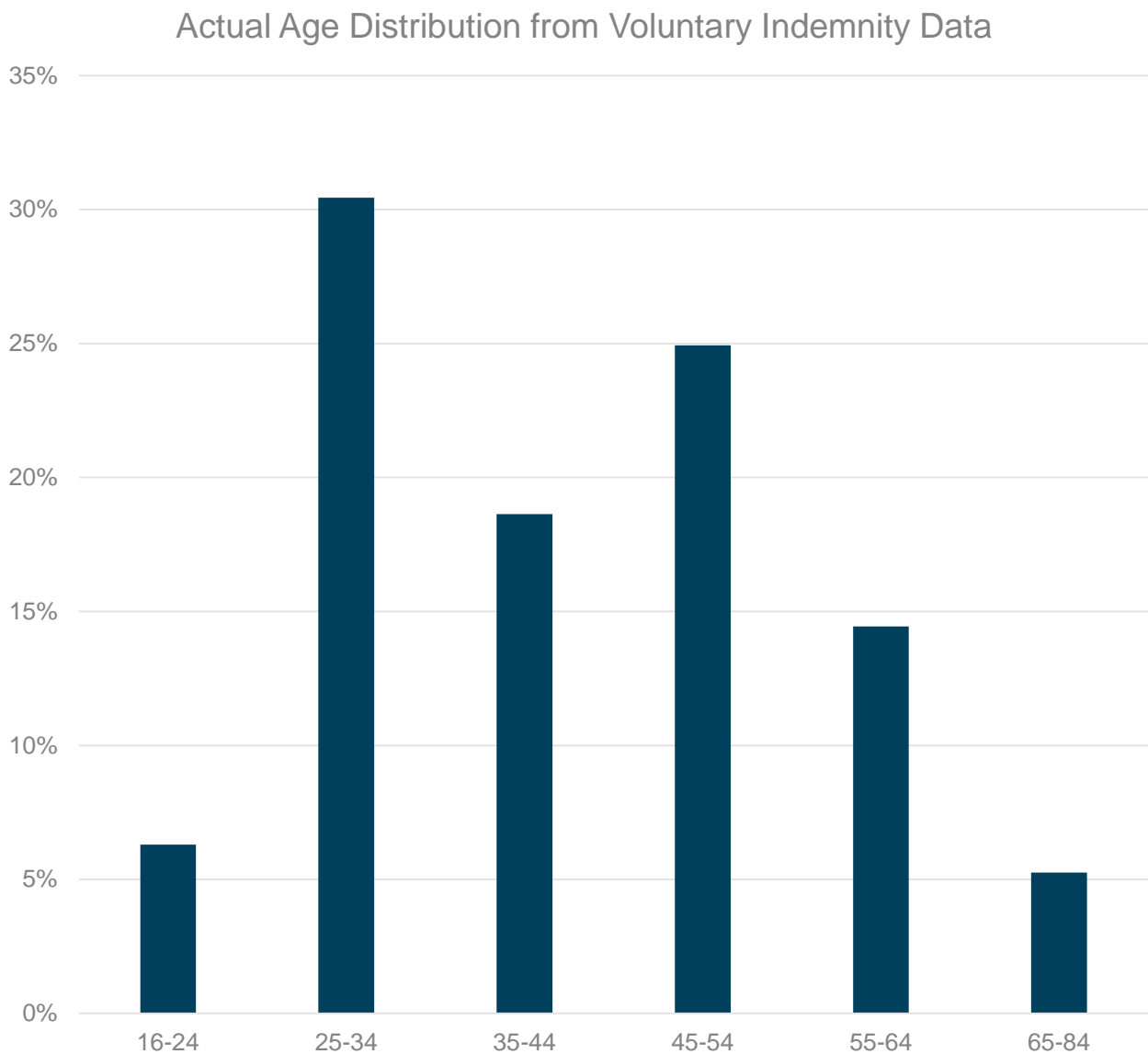
Impact of Age Distribution on COVID-19 Claims

- Data from the CDC and the CDPH indicates that the severity of COVID-19 infections increases with age
- In our presumption model:
 - All workers within a category to be equally likely to be infected
 - Workers with mild infections are considered less likely to file a claim than those with severe infections
 - We expect fewer claims from younger workers as they are more likely to have a mild infection
 - Claim severity is higher for older workers as they are more likely to have more severe outcomes
- If more of the filed claims are from younger workers, we would expect a lower claim severity

Comparison of Modeled and Observed Age Distributions

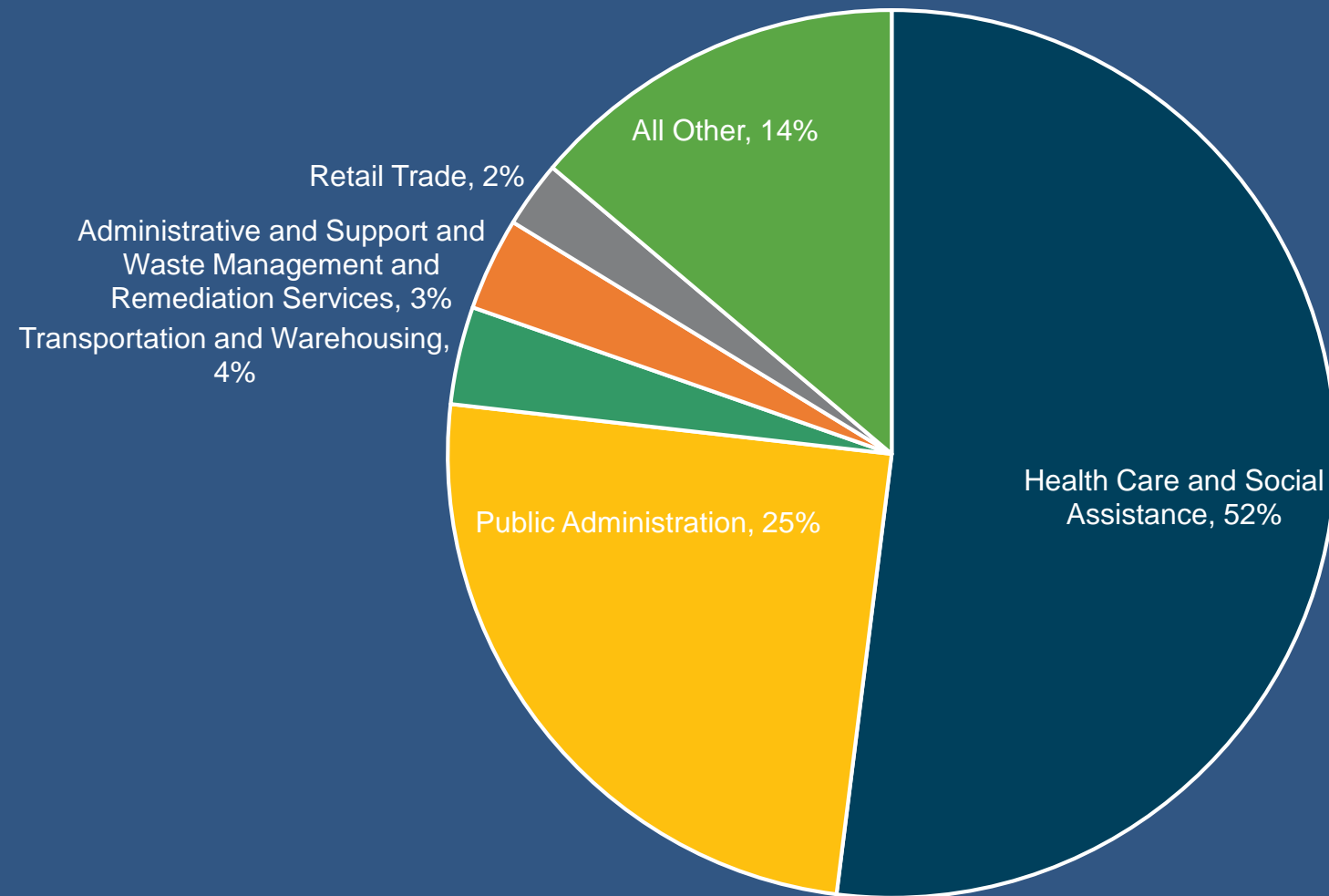


Comparison of Insured and Total System Age Distributions



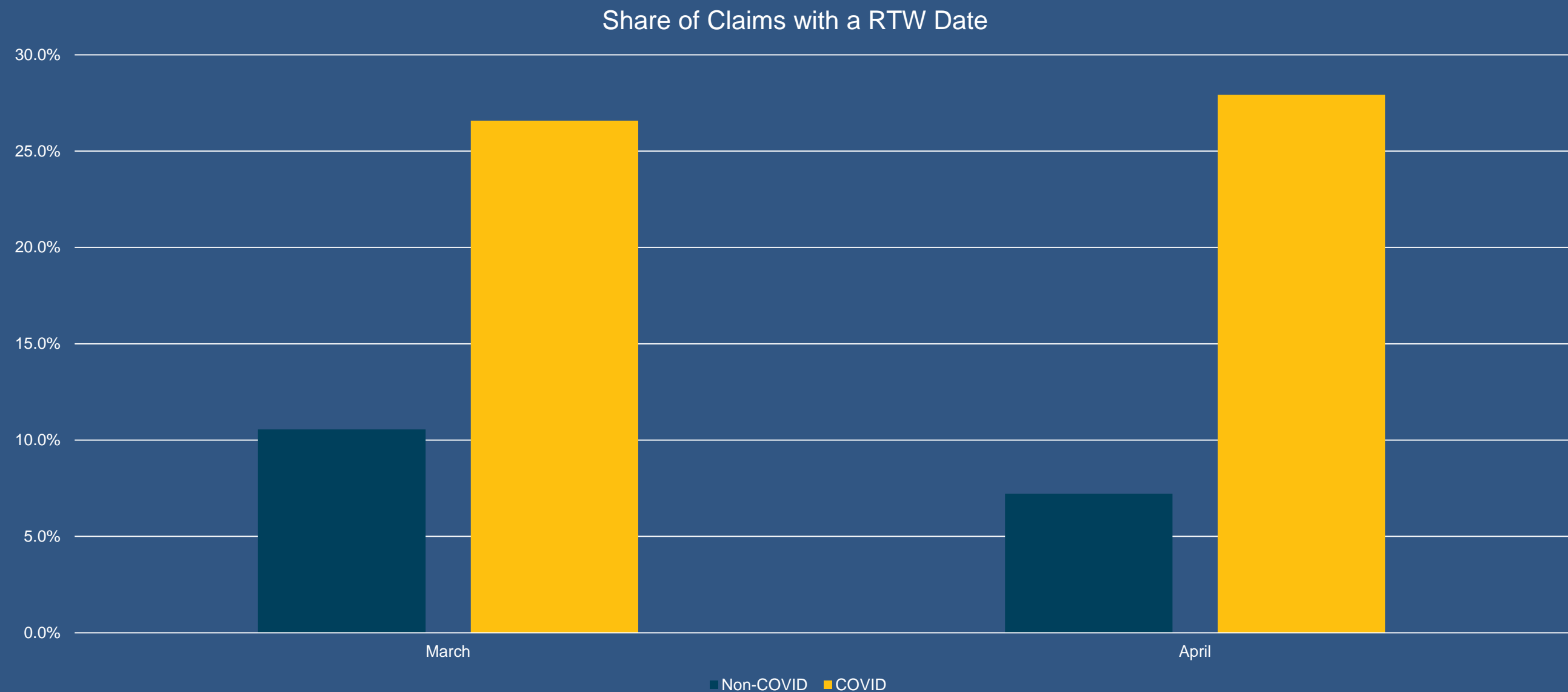
The voluntary indemnity data reflects a portion of the insured system while the WCIS data reflects the full WC system
Voluntary indemnity data is valued as of 6/4/2020 and WCIS data is valued as of 5/14/2020

Industry Distribution of Reported COVID-19 Claims



Source: FROI records from WCIS as of 5/14/2020

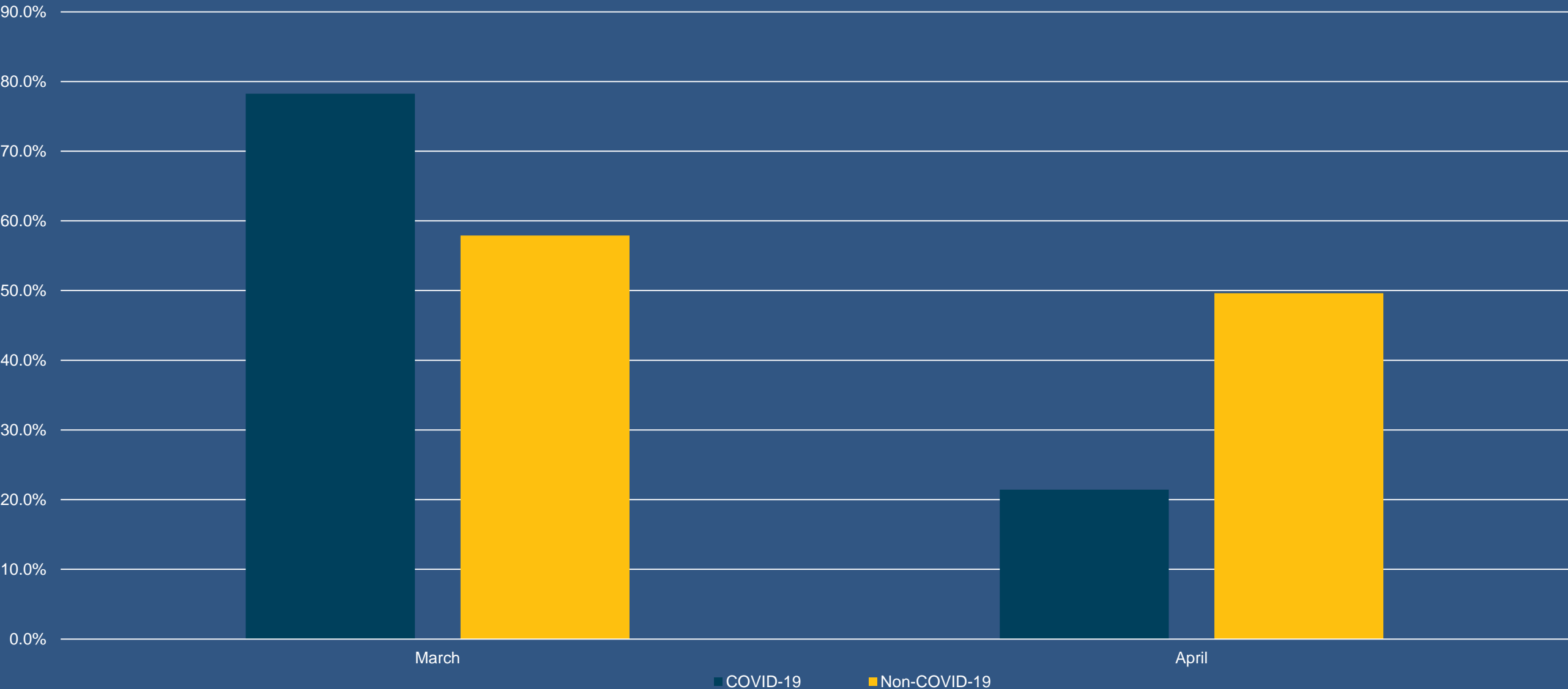
Share of Claims with a RTW Date by Accident Month



Share of Claims Denied

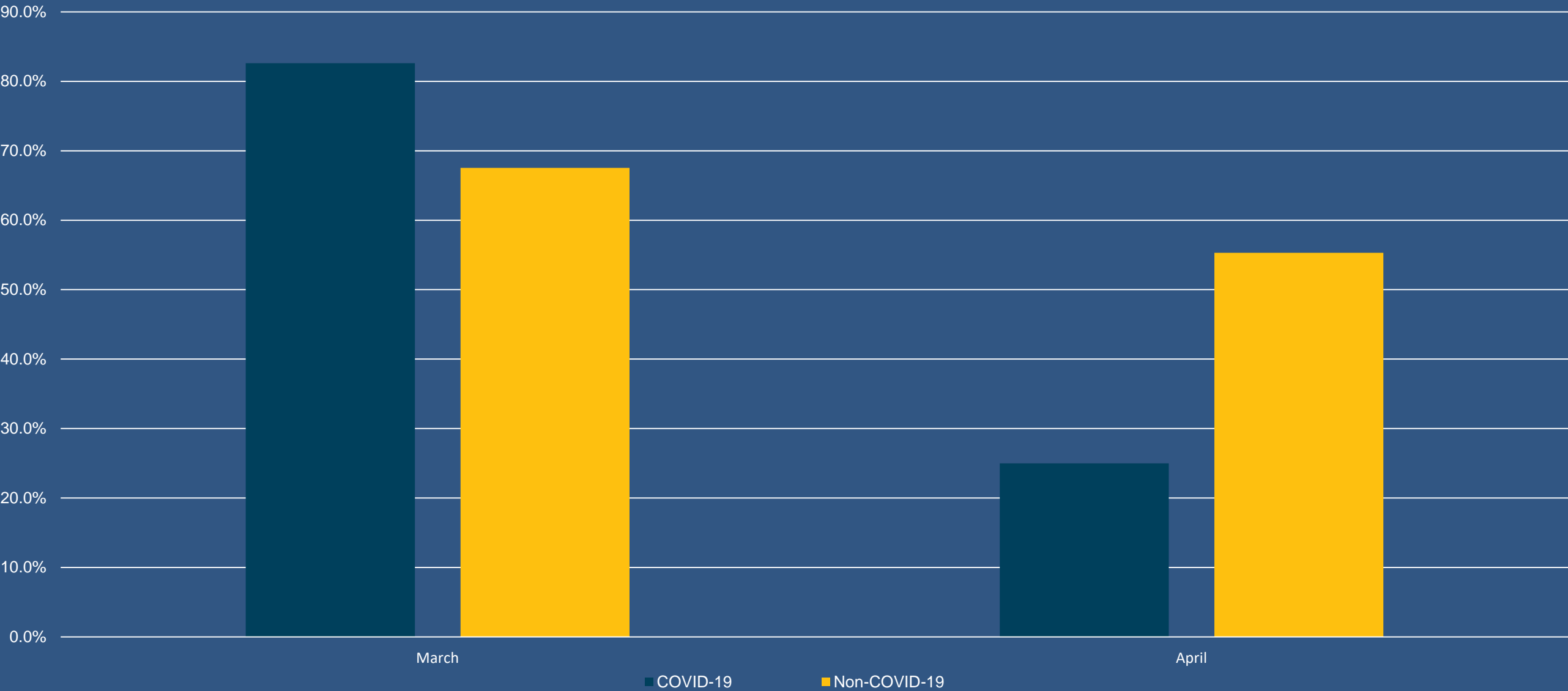
- Reasons for denied claims could include a negative test as well as the results of an AOE/COE investigation
- Per CWCI study, 70% of denials were due to a negative test
- Based on voluntary FROI data:
 - COVID Claims (Claims with an accident date in March or April): 12.9%
 - Non-COVID Claims (Claims with an accident date in March or April): 0.7%
 - COVID Claims (WCIS Data through 5/7/2020): 31.0%

Share of Claims Classified as Med-Only by the Claims Administrator



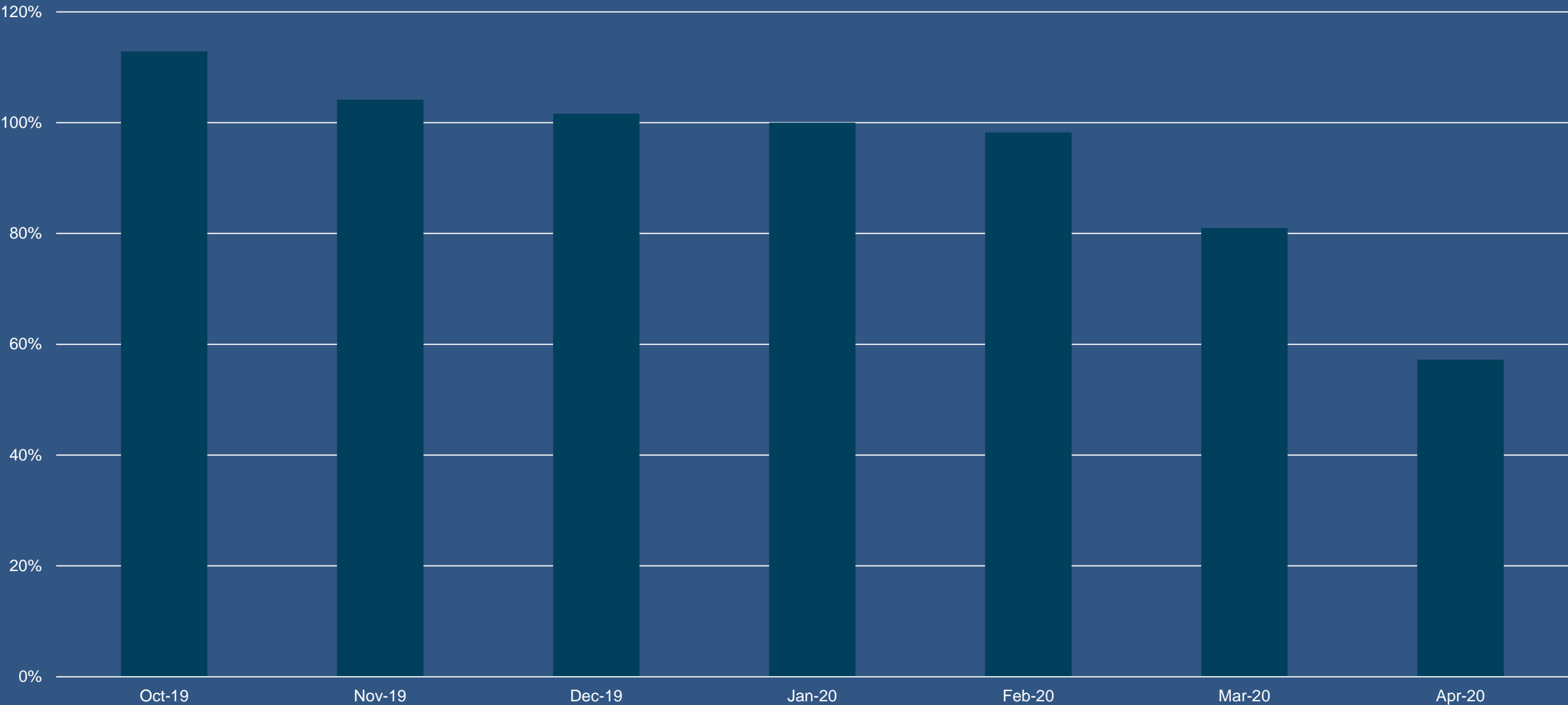
Source: SROI records from Voluntary Indemnity Data as of 6/4/2020

Share of Claims Closed by Accident Month (COVID-19 vs non-COVID-19 claims)



Source: SROI records from Voluntary Indemnity Data as of 6/4/2020

New Claims Reported to Claims Administrators (relative to # filed in January 2020)



04

3/31/2020
Experience –
Review of
Methodologies

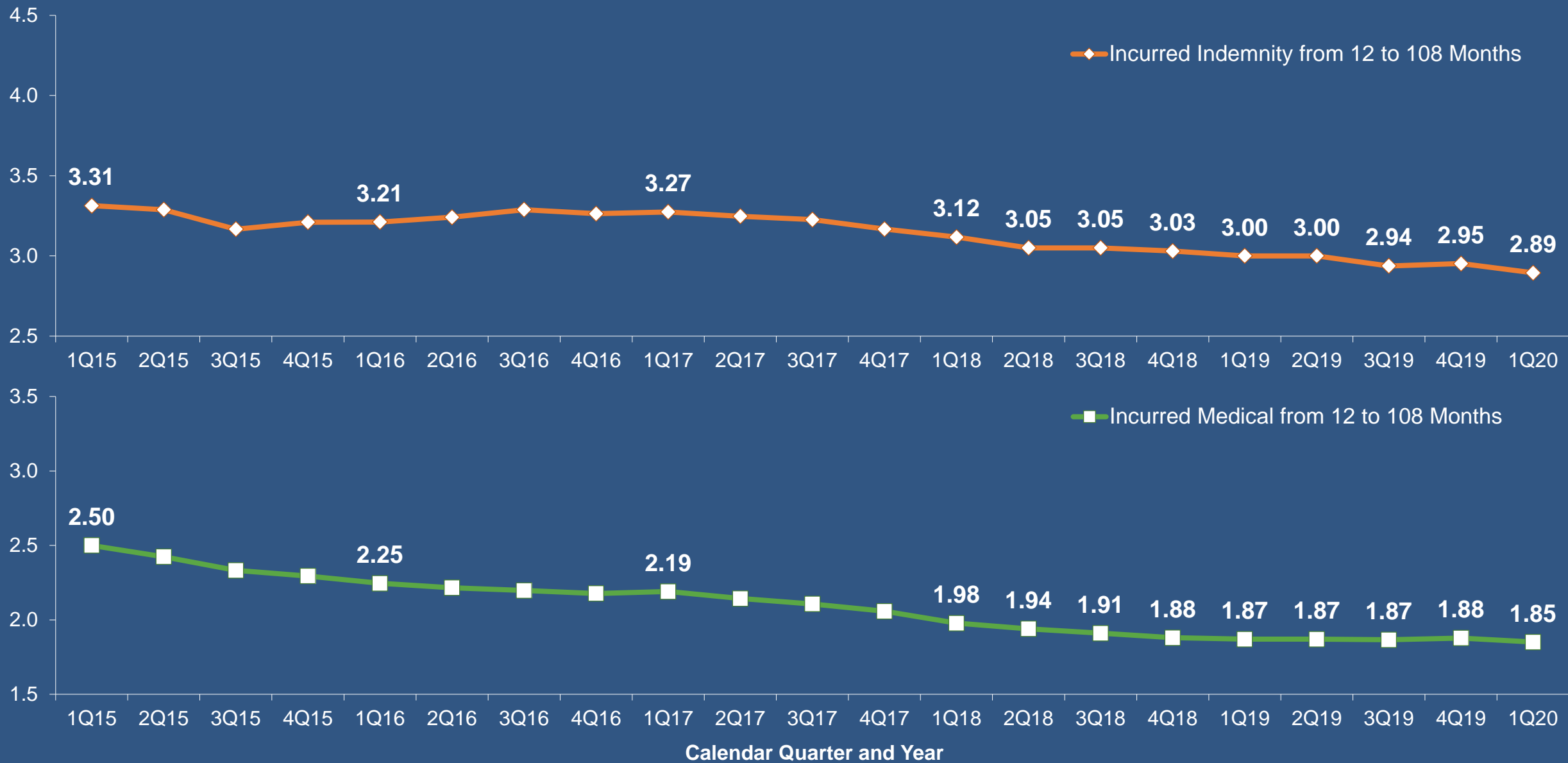


Preliminary Summary of 3/31/2020 Experience

- Approximately 100% of market reflected
- Methodologies consistent with 1/1/2020 Filing
- Experience and projections are substantially pre-COVID-19
- Frequency, severity, and wage trends are based on recommendations at April 2, 2020 meeting
- Projected policy year 2021 loss ratio updated for 3/31/2020 experience (pre-COVID-19): 0.631
- 2 point decrease from projection based on 12/31/2019 experience (0.652)
 - Approx. -0.5 points from loss development emergence
 - Approx. -1.5 points from extending trends to 2021 policy period

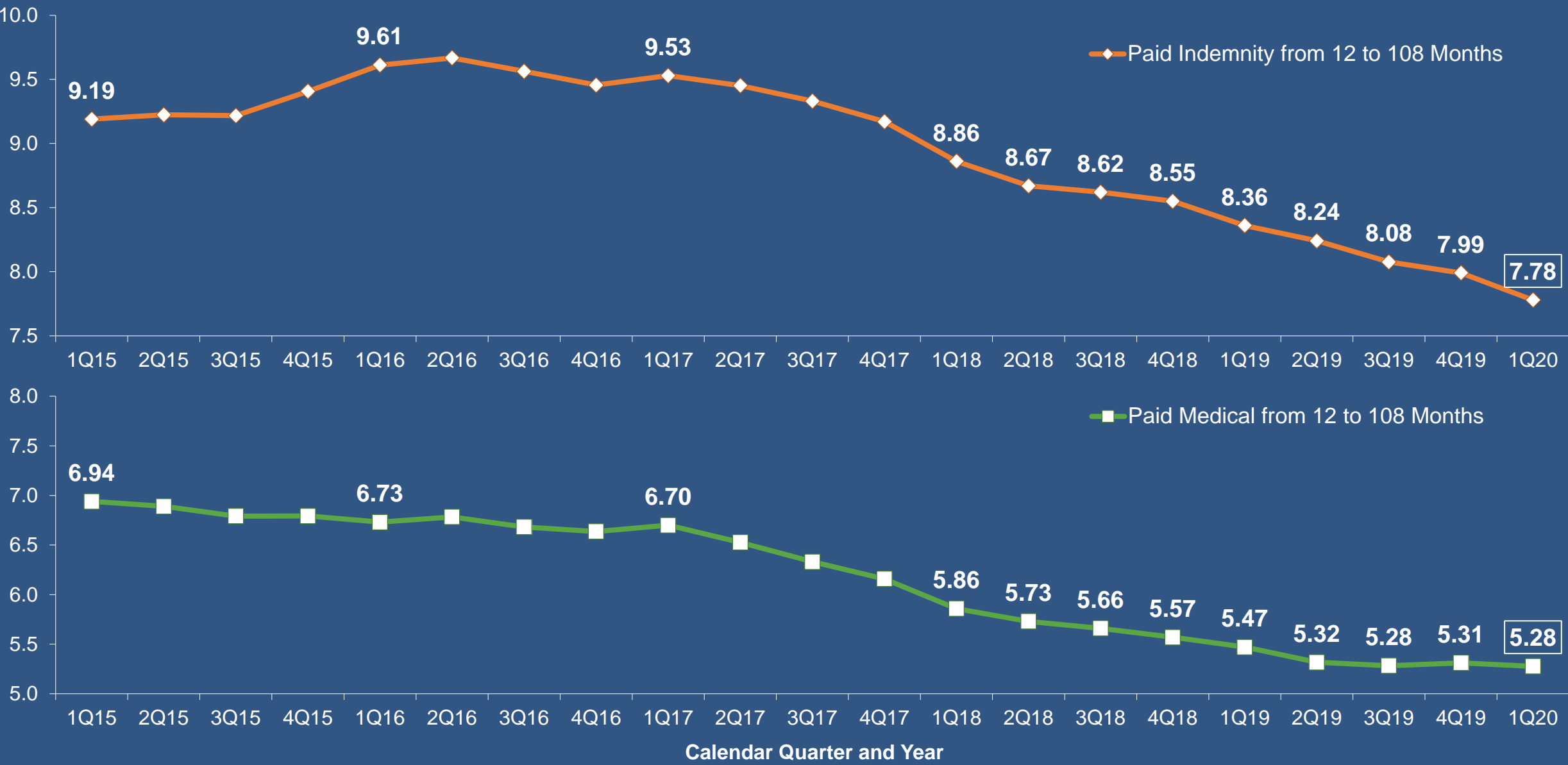
Cumulative Incurred Development from 12 to 108 Months

As of March 31, 2020



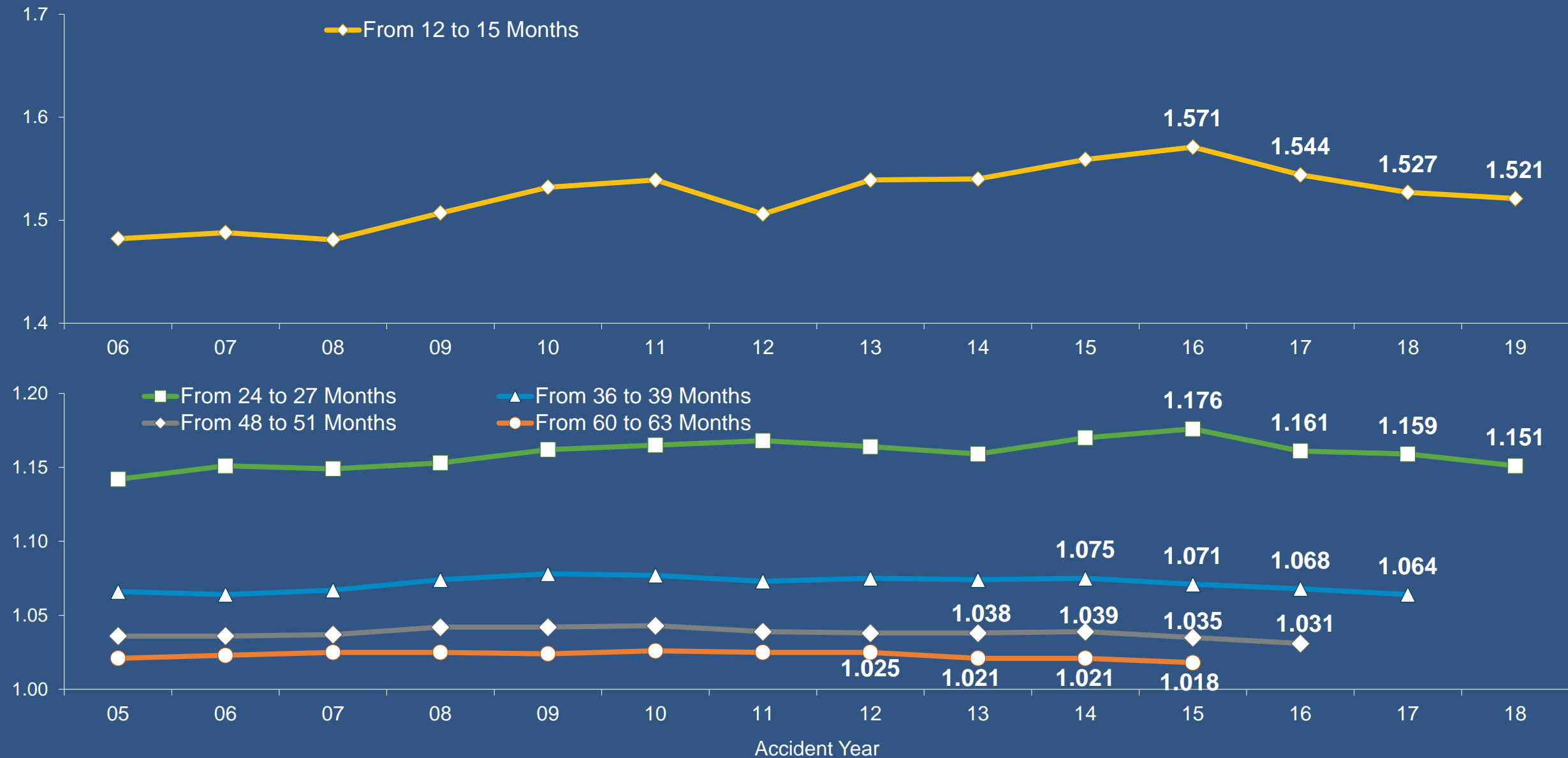
Cumulative Paid Development from 12 to 108 Months

As of March 31, 2020



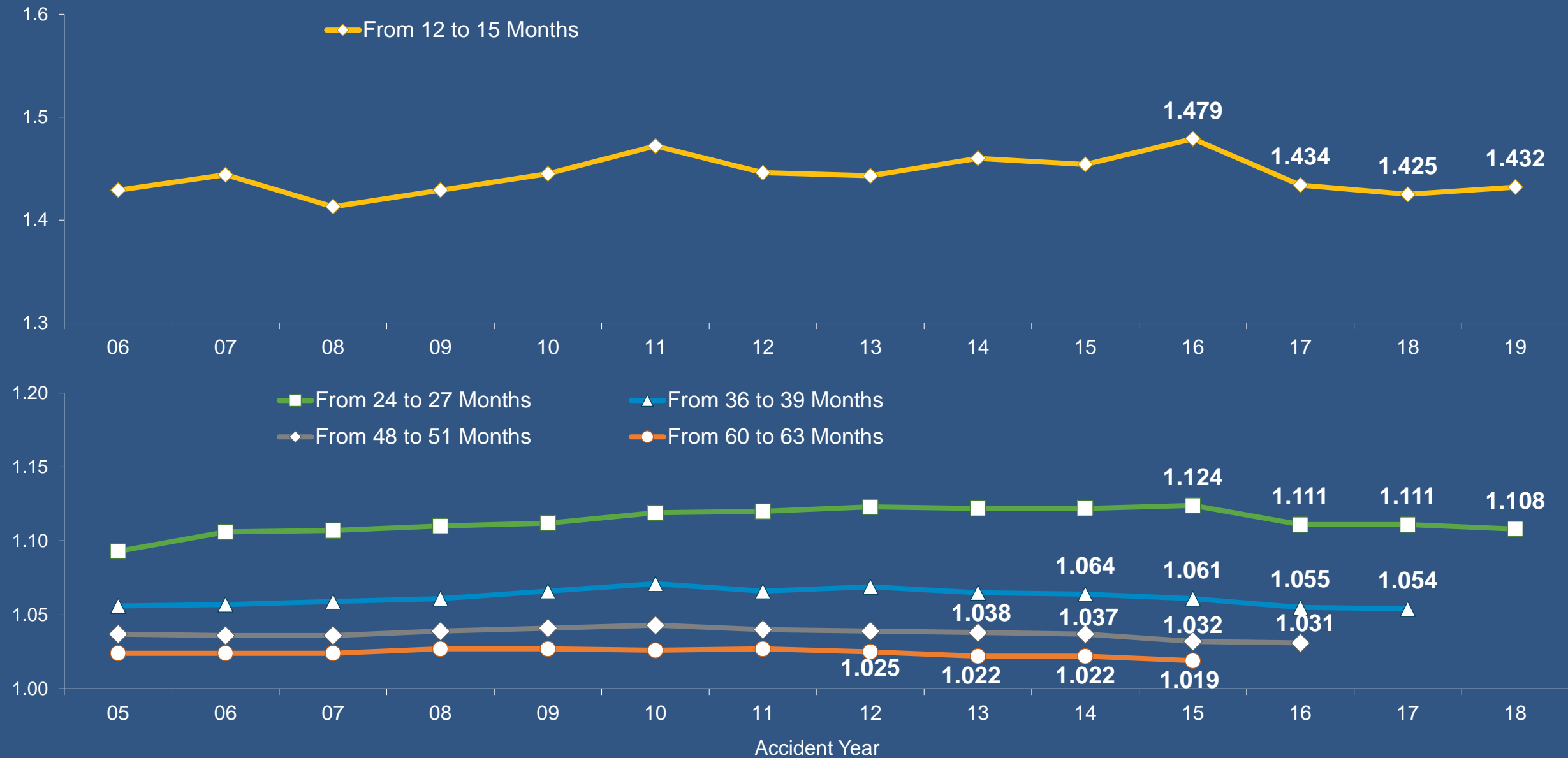
Paid Indemnity Quarterly Development (Exhibit 9.3)

As of March 31, 2020



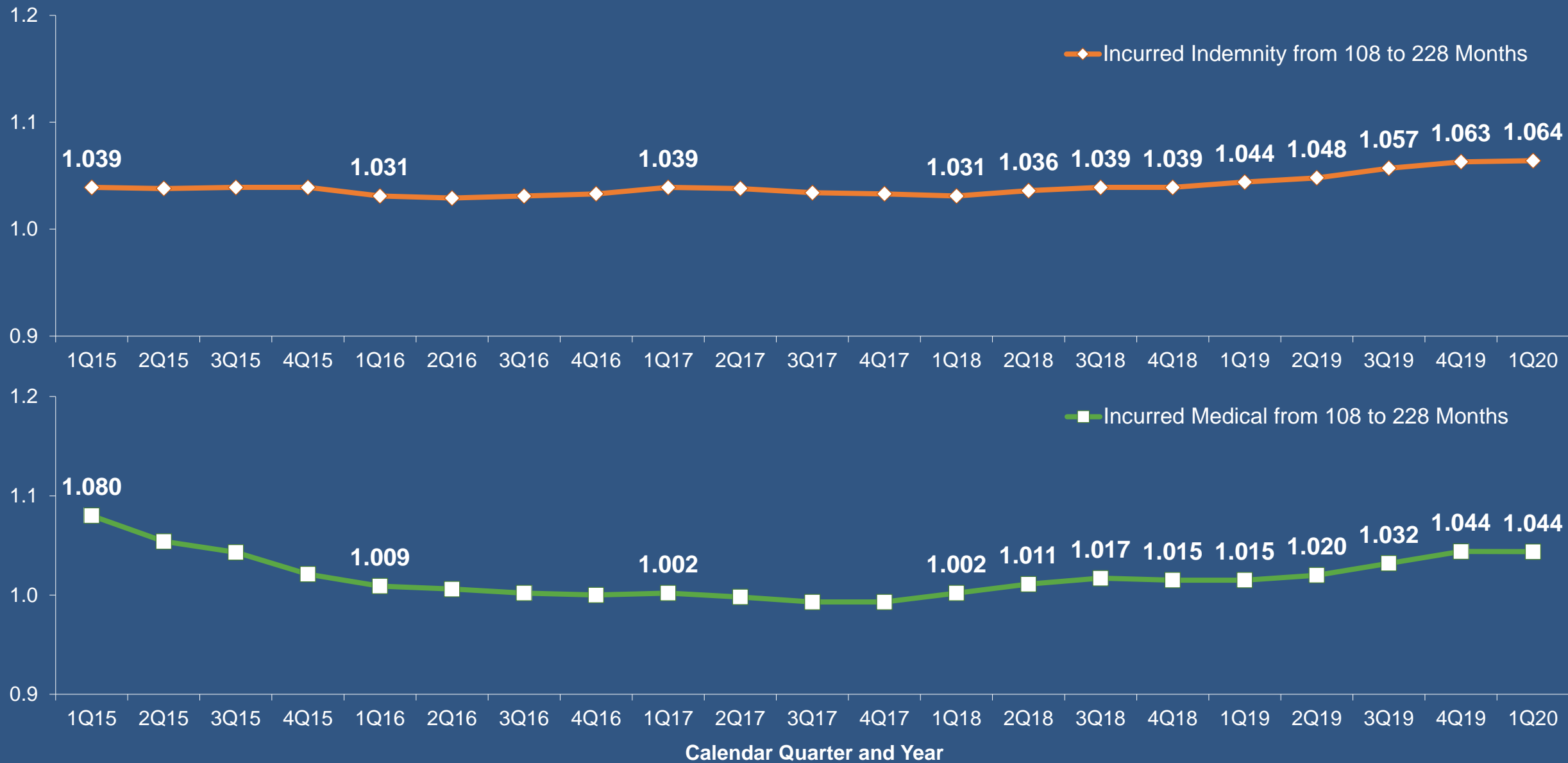
Paid Medical Quarterly Development (Exhibit 9.4)

As of March 31, 2020



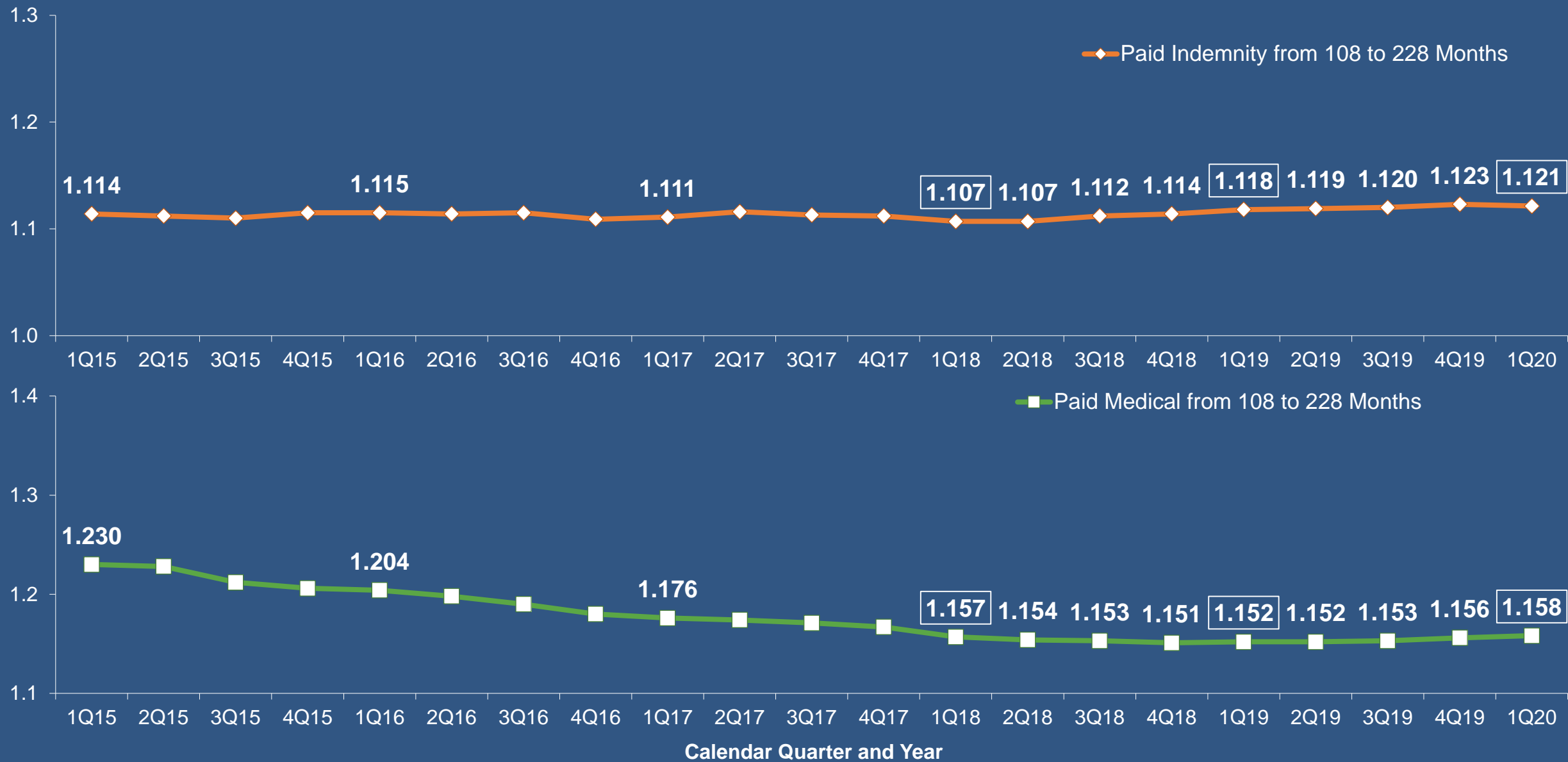
Cumulative Incurred Development from 108 to 228 Months

As of March 31, 2020



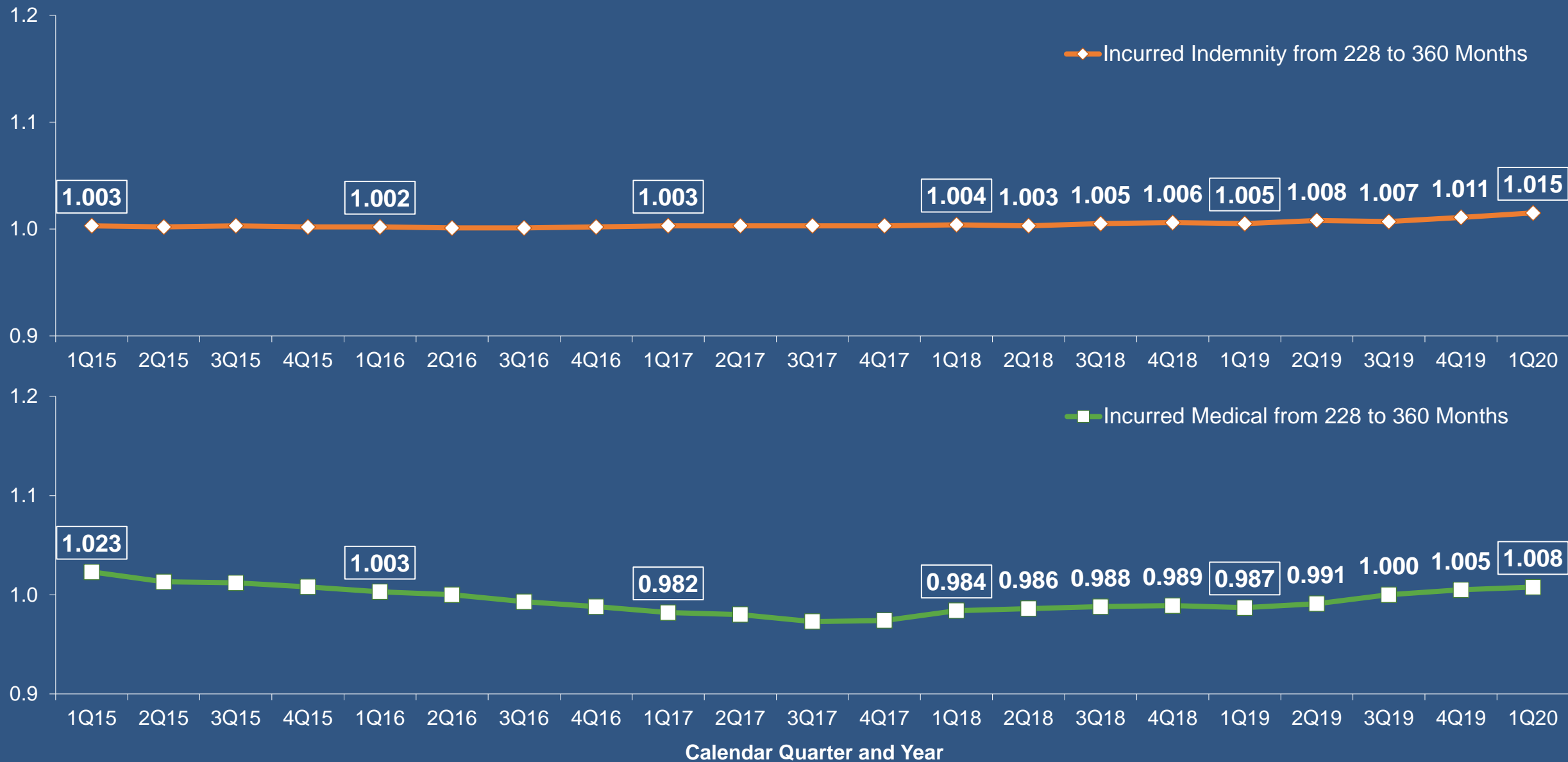
Cumulative Paid Development from 108 to 228 Months

As of March 31, 2020



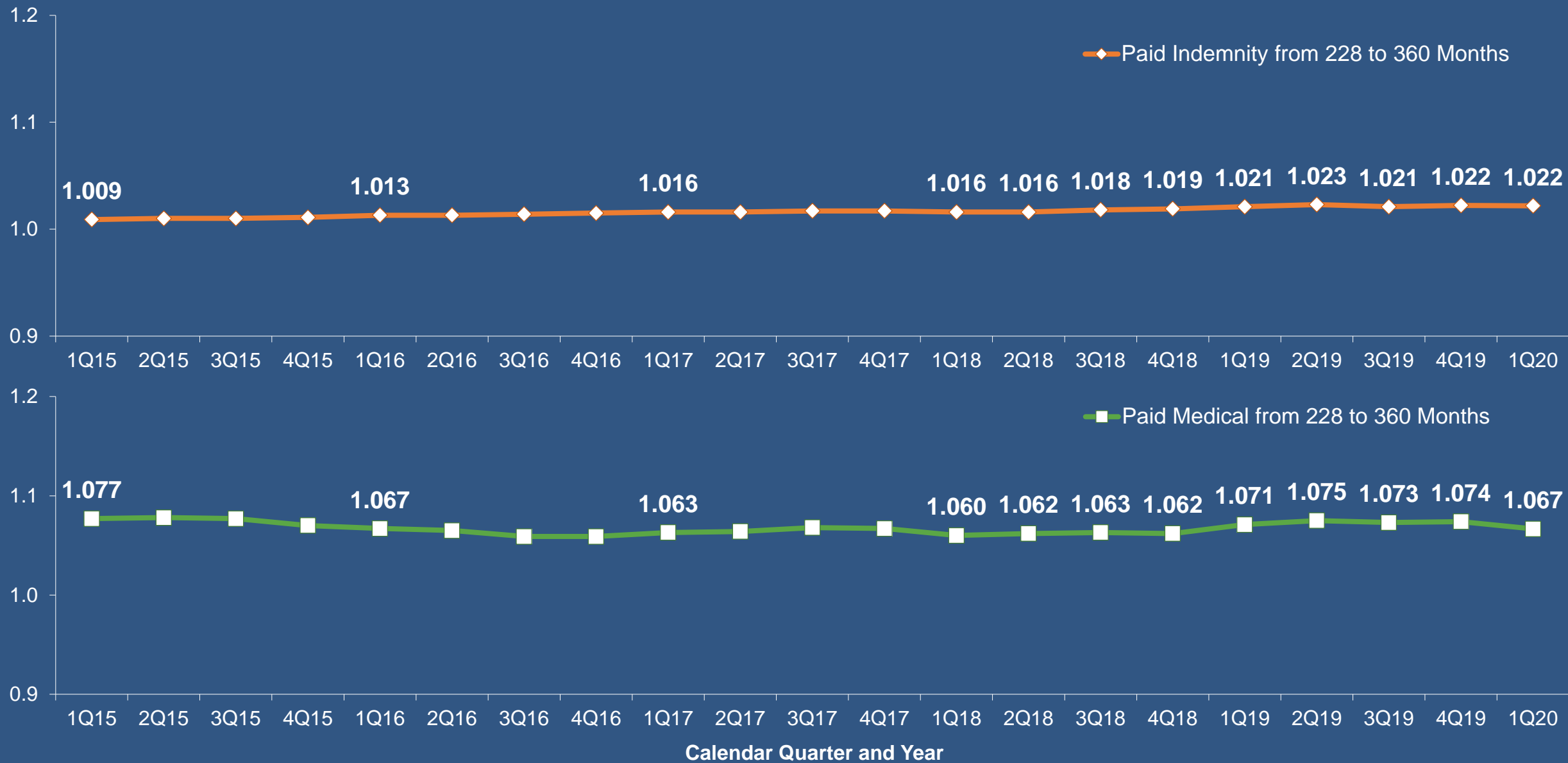
Cumulative Incurred Development from 228 to 360 Months

As of March 31, 2020



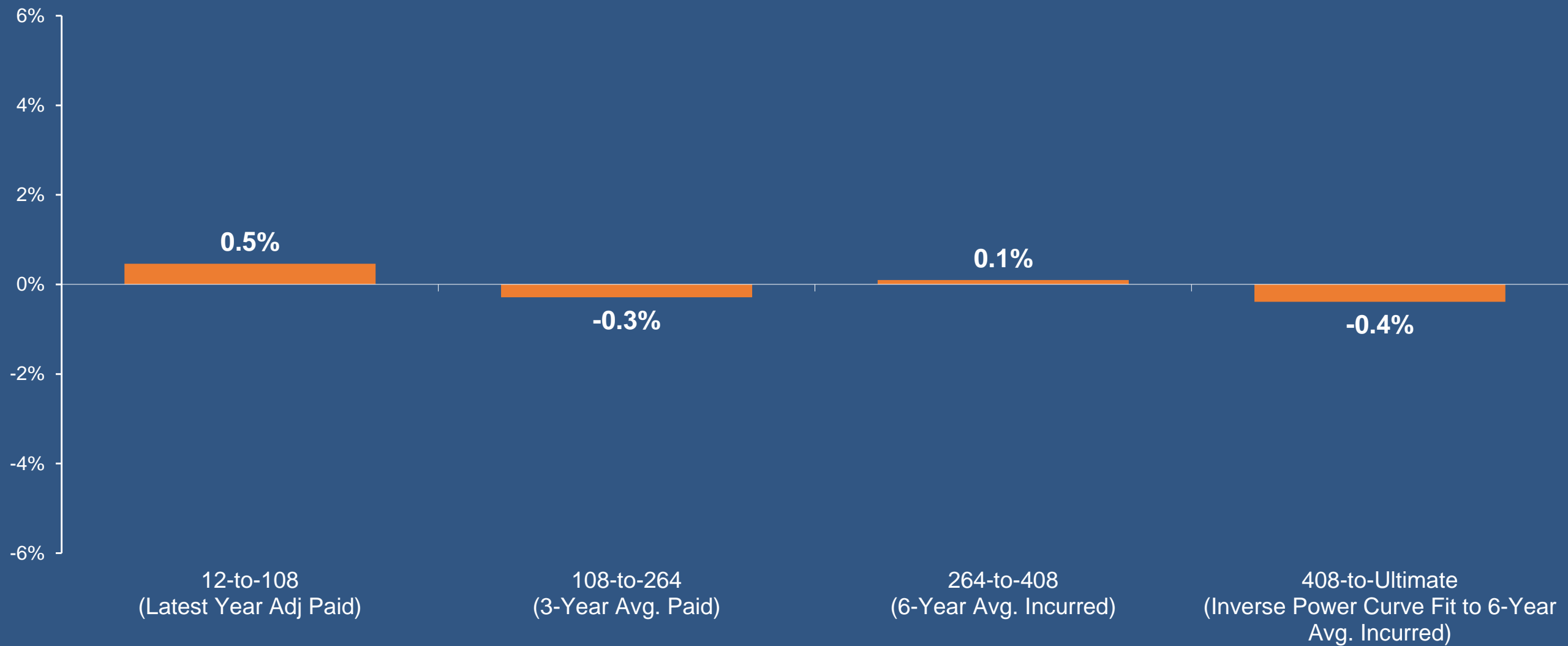
Cumulative Paid Development from 228 to 360 Months

As of March 31, 2020



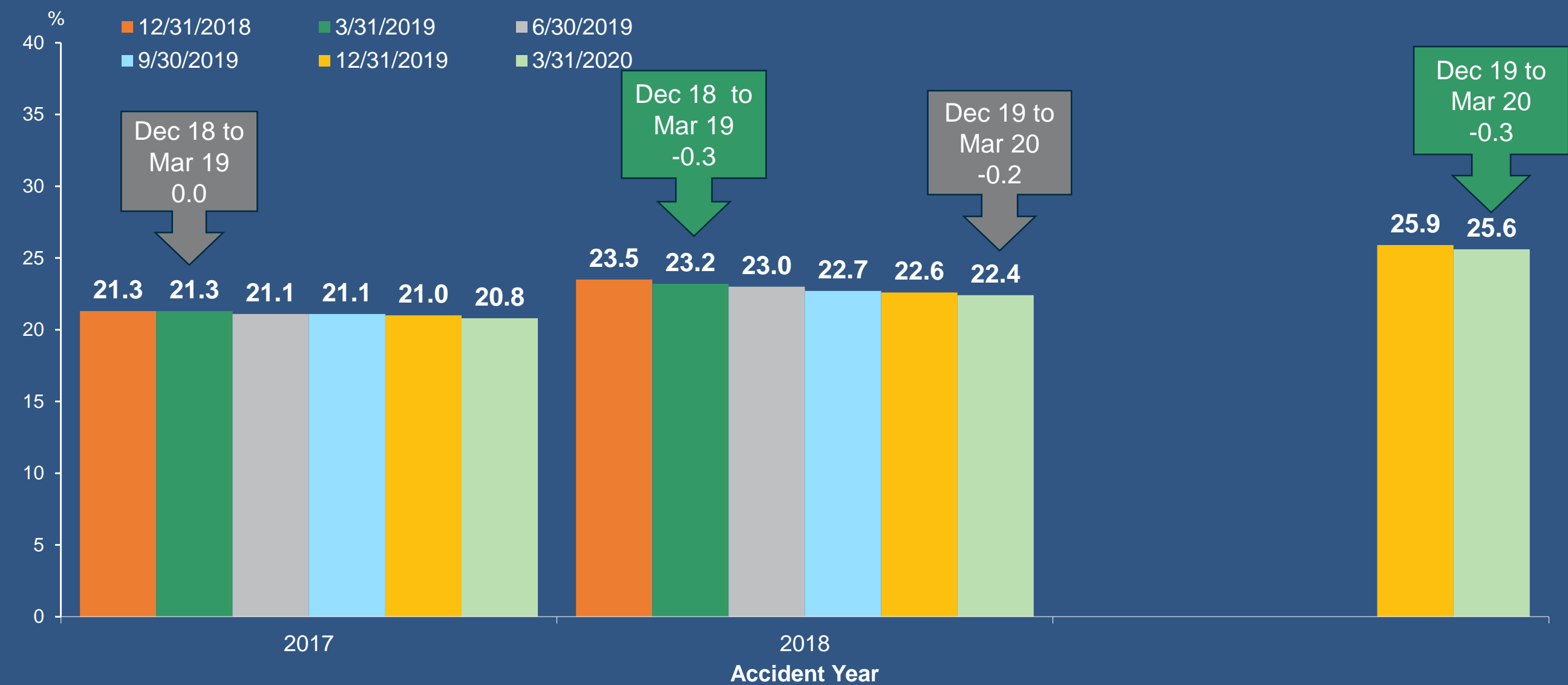
Change in Projected Medical Development Factor

12/31/2019 to 3/31/2020 Experience



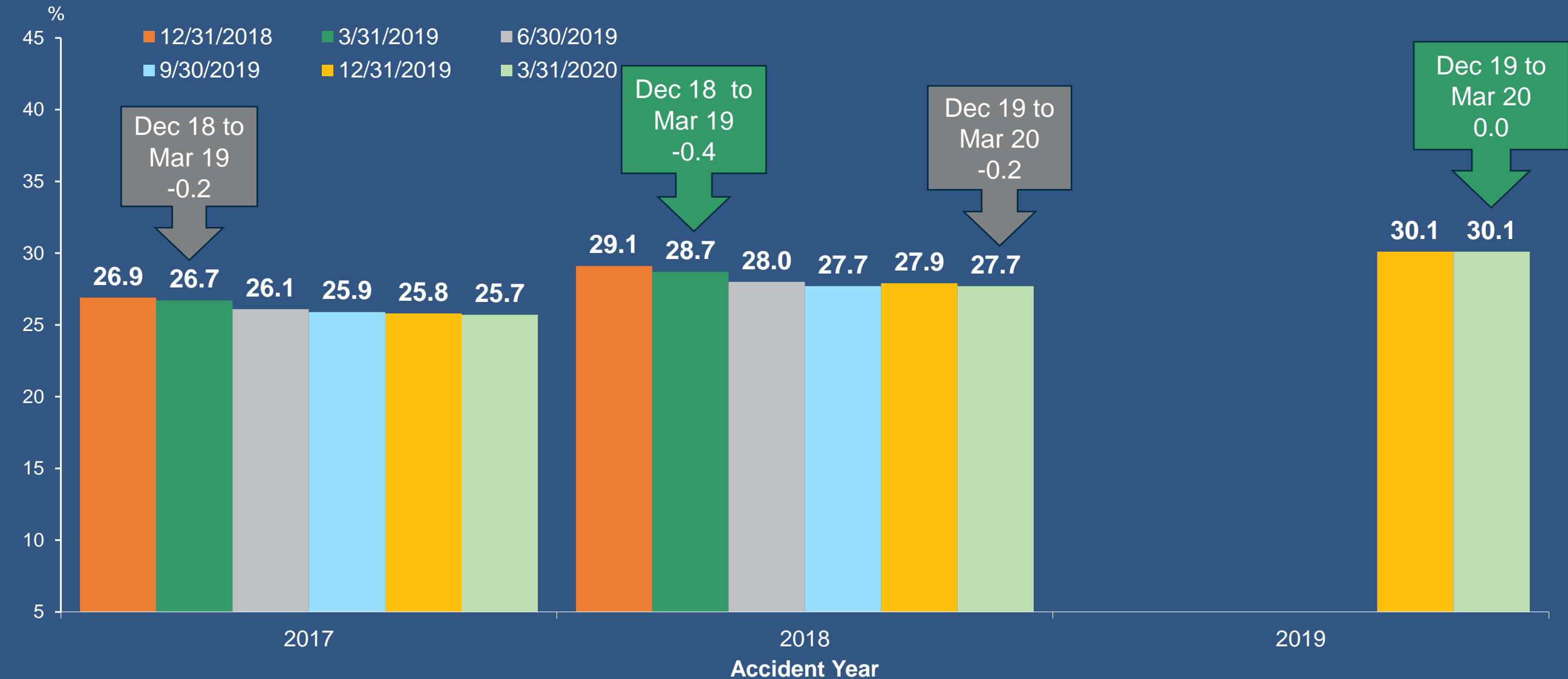
Projected Ultimate Indemnity Loss Ratios (Exhibit 3.1)

As of March 31, 2020



Projected Ultimate Medical Loss Ratios (Exhibit 3.2)

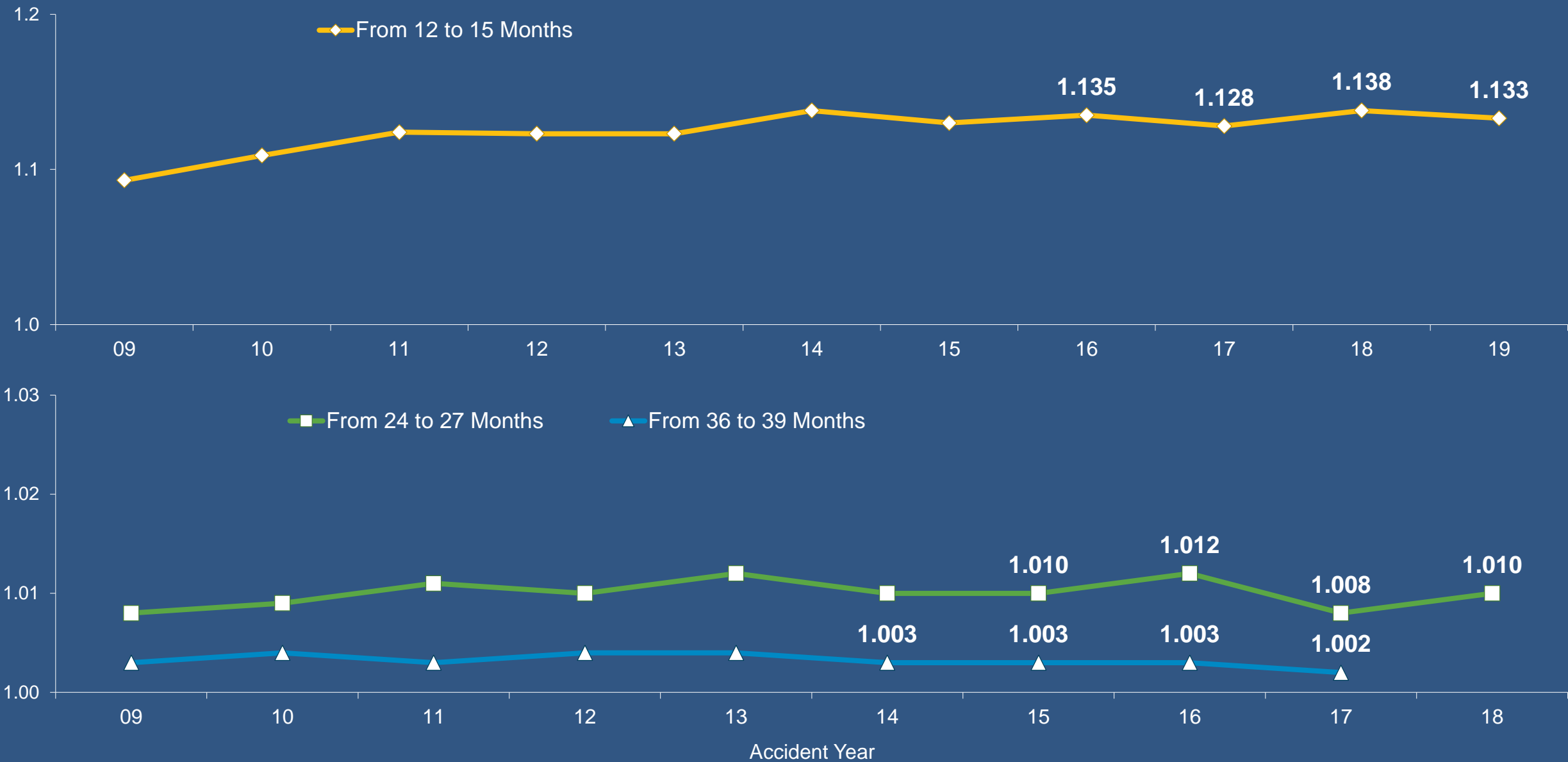
As of March 31, 2020



Note: All loss ratios are adjusted to the loss development methodology reflected in the 6/12/2020 Agenda and may not be comparable to the actual loss ratios projected at that time.
Source: WCIRB aggregate financial data

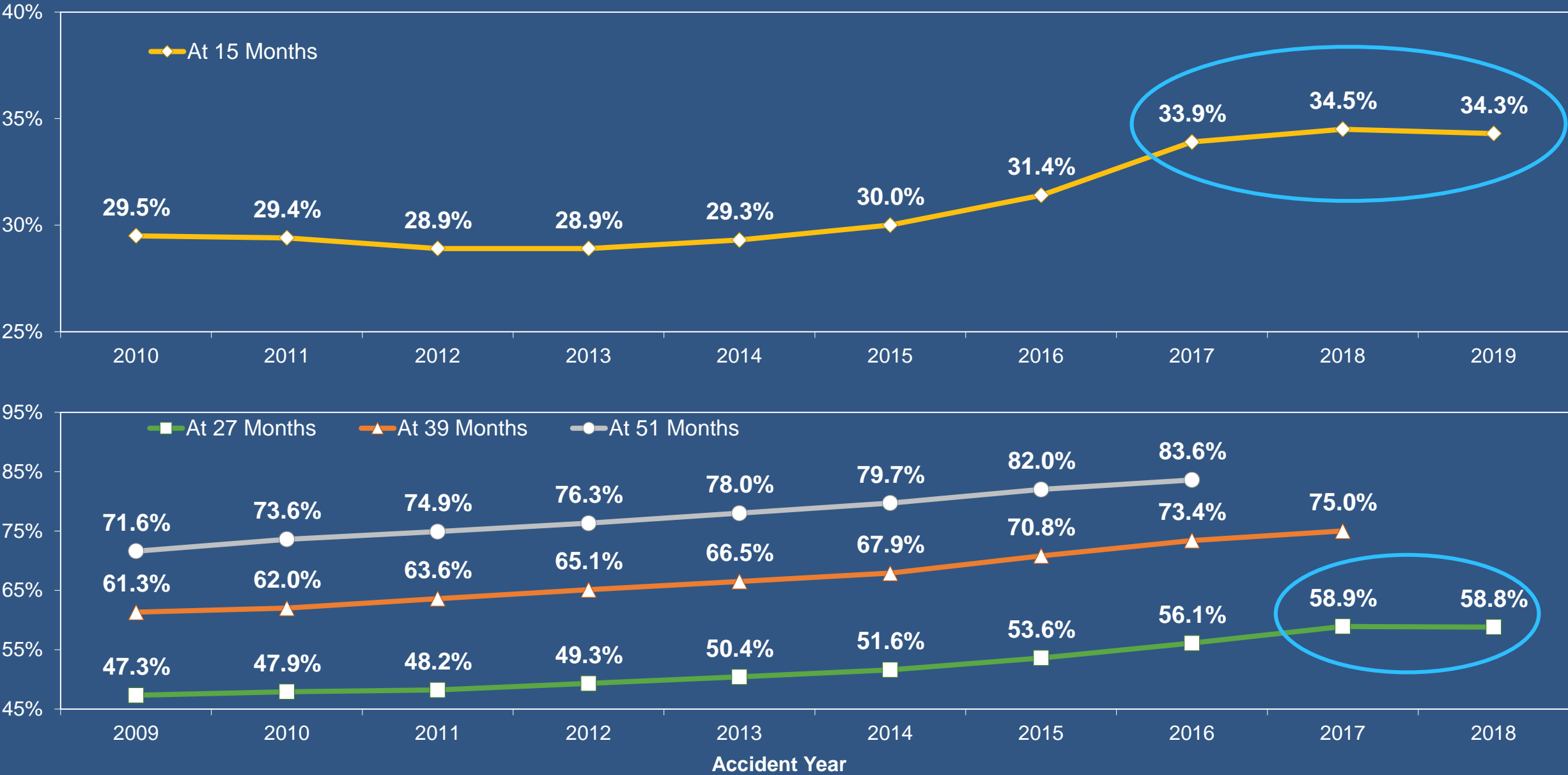
Indemnity Claim Count Development (Exhibit 10.2)

As of March 31, 2020



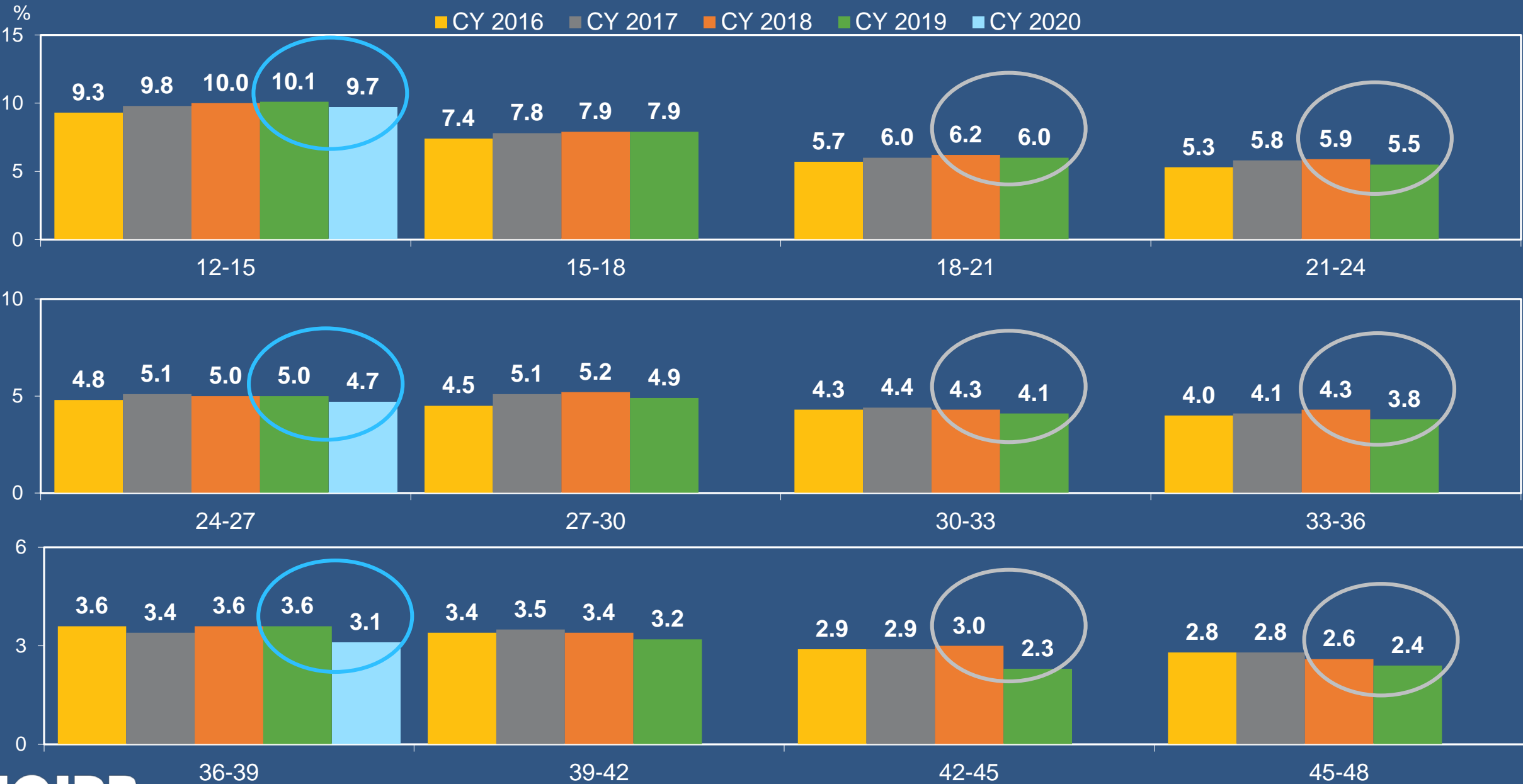
Ultimate Indemnity Claim Settlement Ratios (Exhibit 11.2)

As of March 31, 2020



Incremental Indemnity Claim Settlement Ratios (Exhibit 11.3)

As of March 31, 2020



1/1/2021 Filing – Loss Development Considerations

- March 31, 2020 experience emerging consistent with prior quarters and projections
 - Stay-at-home orders did not begin until late March
 - Services performed in late March typically not paid until subsequent quarters
- Experience for the remainder of 2020 likely distorted by stay-at-home period and other COVID-19 issues
- Post-3/31/20 loss development for claims open in 2020 likely significantly impacted

Review of Medical Fee Schedule Changes

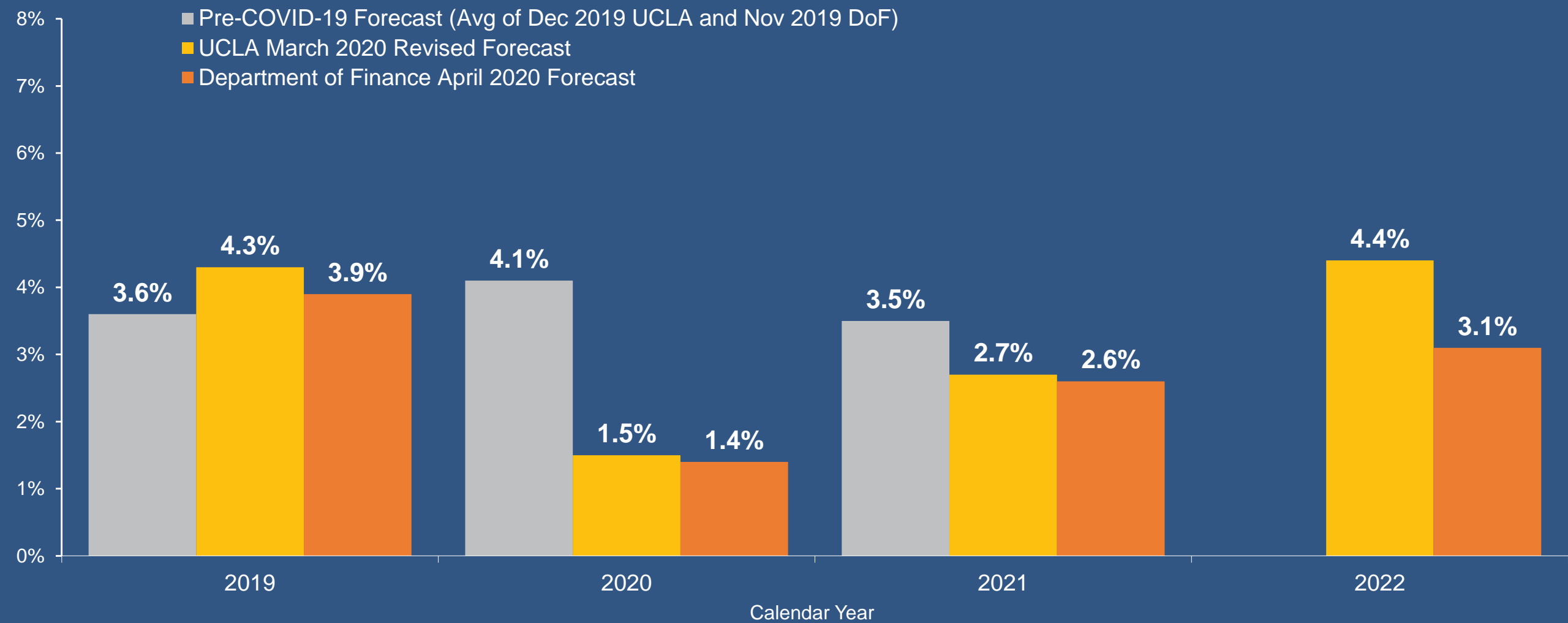
- At 12/5/19 meeting, the Committee recommended staff review updates to OMFS for any significant changes impacting medical costs
- Staff has conducted initial review of fee schedule updates published by DWC in 2020
 - Some updates are as a result of COVID-19 pandemic
 - Updates to Outpatient and Medical-legal fee schedules to be reviewed in August
- Staff compared change in average medical cost after updating fee schedule using 2019 mix of services
- In general, no unusual changes significantly impacting medical severities have yet been discovered

Review of Medical Fee Schedule Changes – Impact on Medical Severities

Fee Schedule	Effective Date	Update Type	Impact on Medical Services
DMEPOS	1/1/2020	Regular inflation update	< 0.1%
DMEPOS	3/6/2020	COVID-19 federally mandated increase	< 0.1%
Inpatient	11/1/2019	Regular inflation update	0.2%
Inpatient	1/27/2020	Special update for COVID-19 related discharges	To be reviewed
Path/Lab	2/1/2020	Regular inflation update	< 0.1%
Path/Lab	4/1/2020	Codes added for COVID-19 testing	< 0.1%
Physician	1/1/2020	Regular inflation update	1.0%
Physician	3/1/2020	Update to Telehealth in reaction to COVID-19	< 0.1%

Average Annual Wage Level Change Forecast (Exhibit 5.1)

As of April 2020

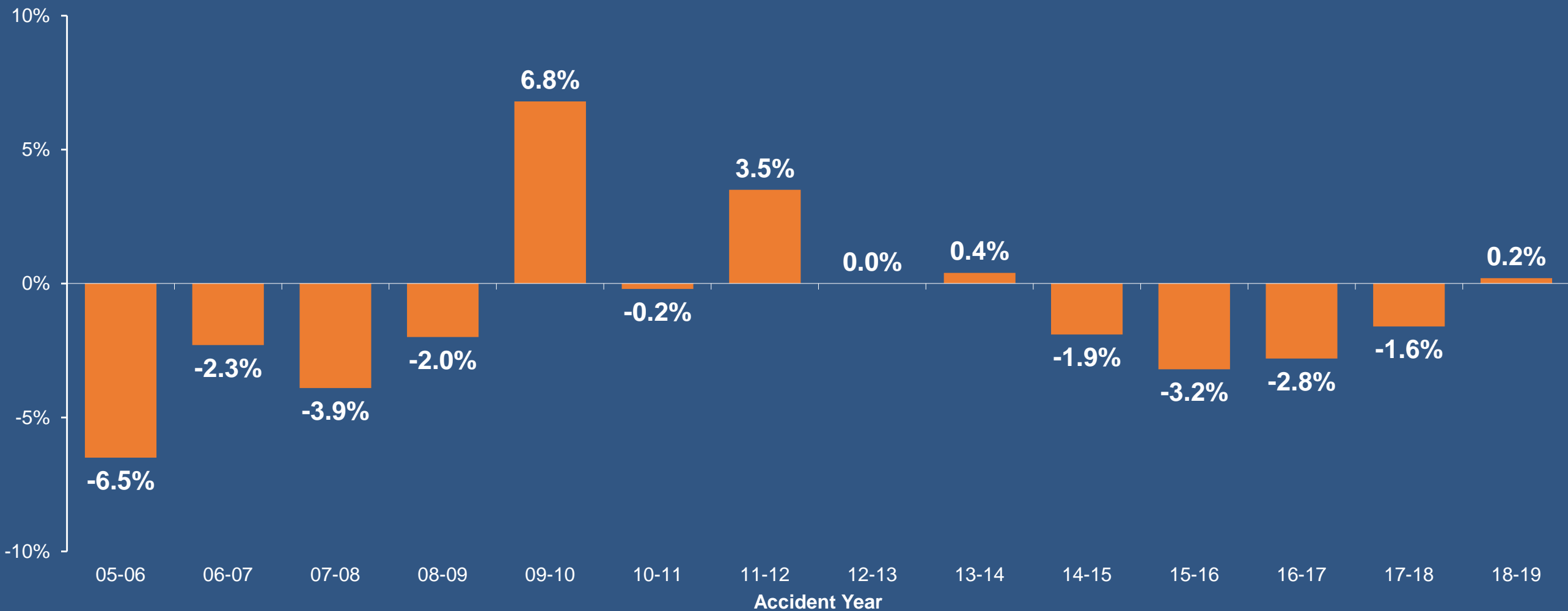


1/1/2021 Filing – Wage/Exposure Trend Considerations

- Issues for 2020 may not significantly impact exposure on 2021 policies
 - Rapid economic downturn resulting in return premiums
 - Employees temporarily assigned to clerical
 - Employees furloughed but paid
- Economic difficulties likely to continue into 2021
 - Average wages impacted by mix of employments
 - UCLA forecast updated quarterly, DoF not until November
- Impact of class mix shifts on overall rate level to be reviewed

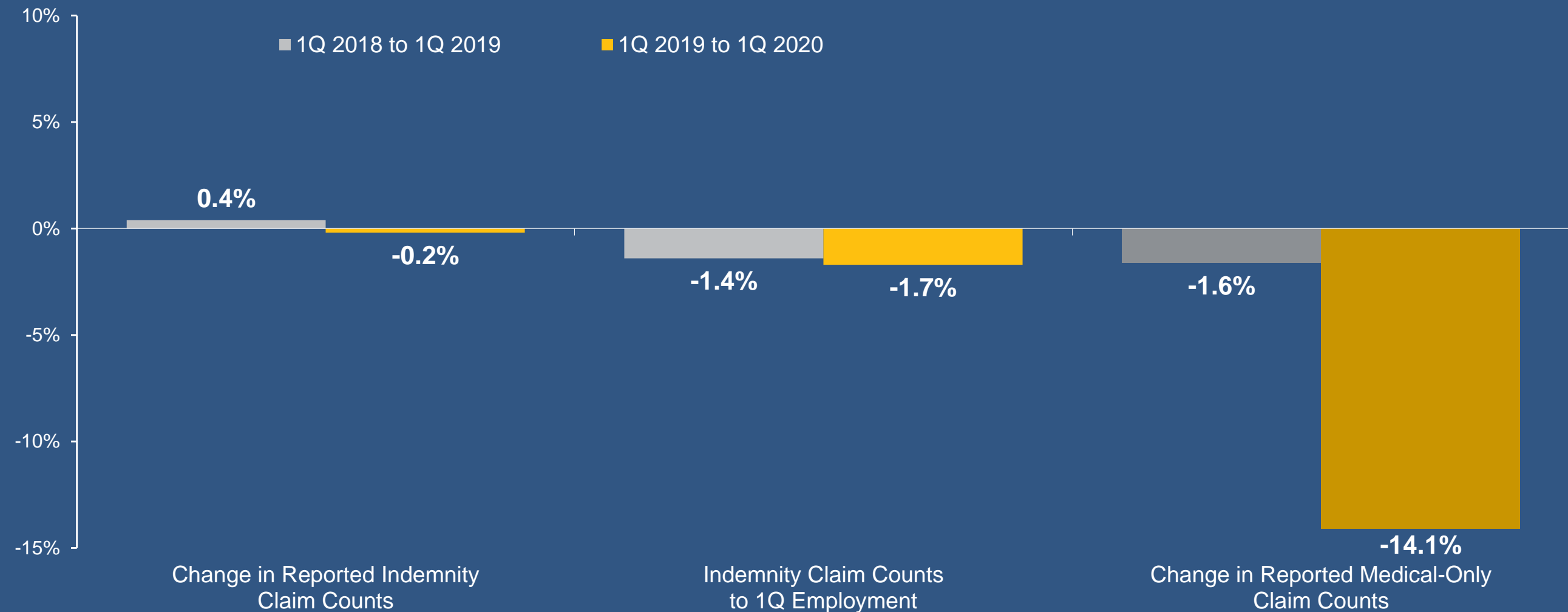
Historical Changes in Indemnity Claim Frequency (Exhibit 12)

As of March 31, 2020

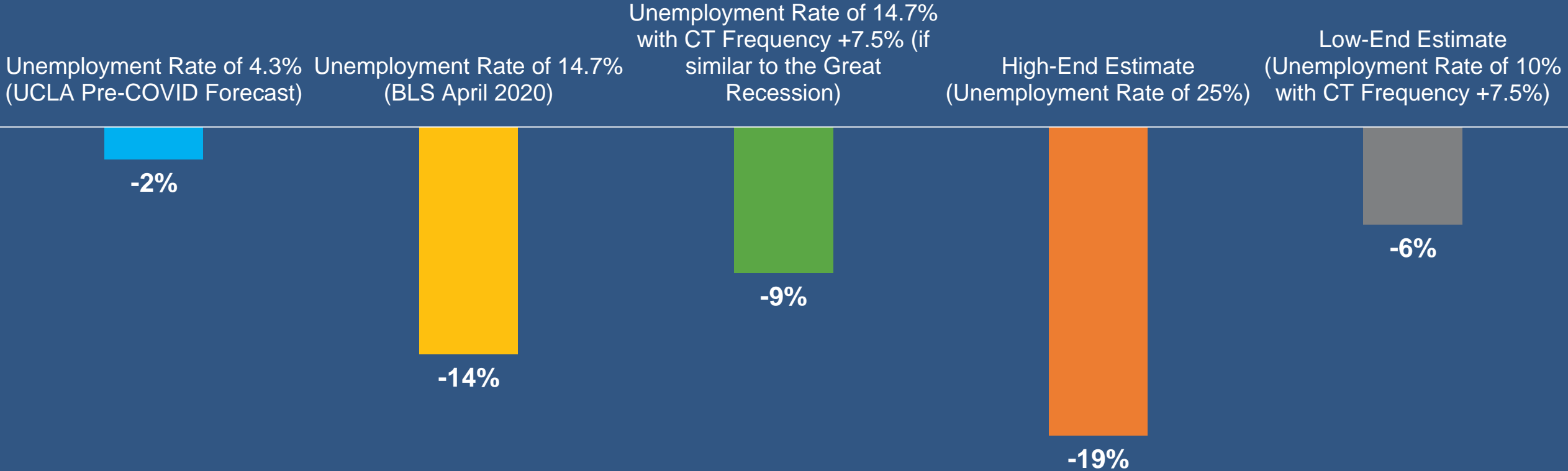


Estimates of First Quarter 2020 Frequency

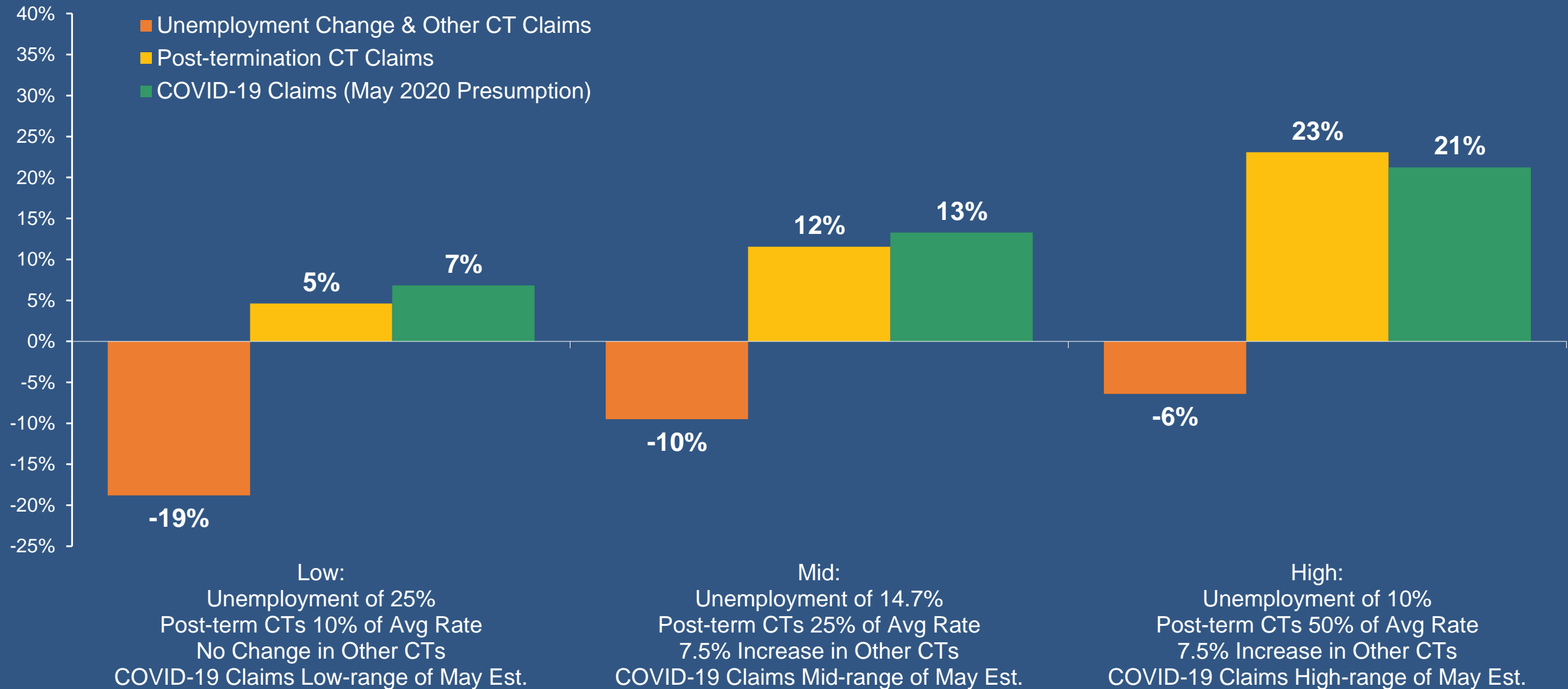
As of March 31, 2020



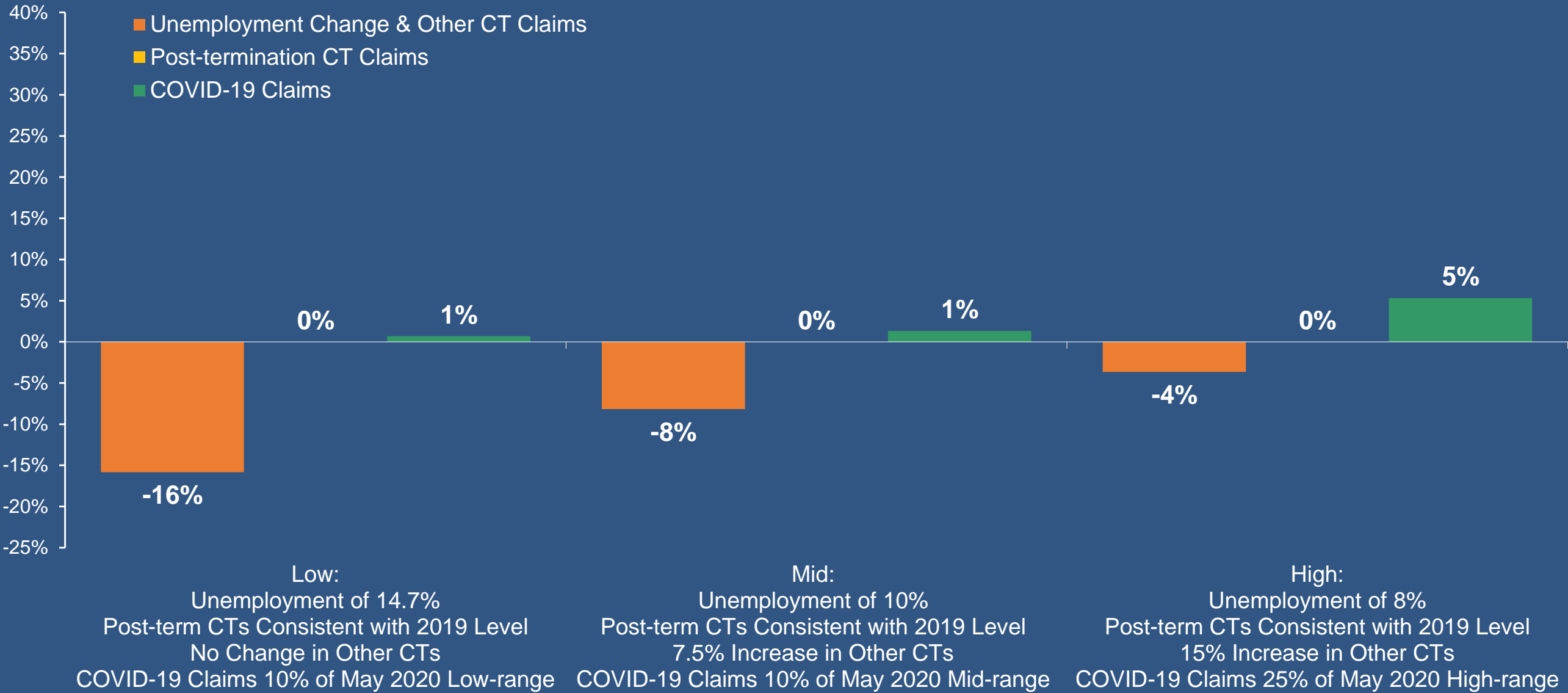
Potential Impact of Economic Change on 2020 Frequency



2019-2020 Frequency Change – Potential Range of Estimates*



2019-2021 Frequency Change – Hypothetical Range of Estimates

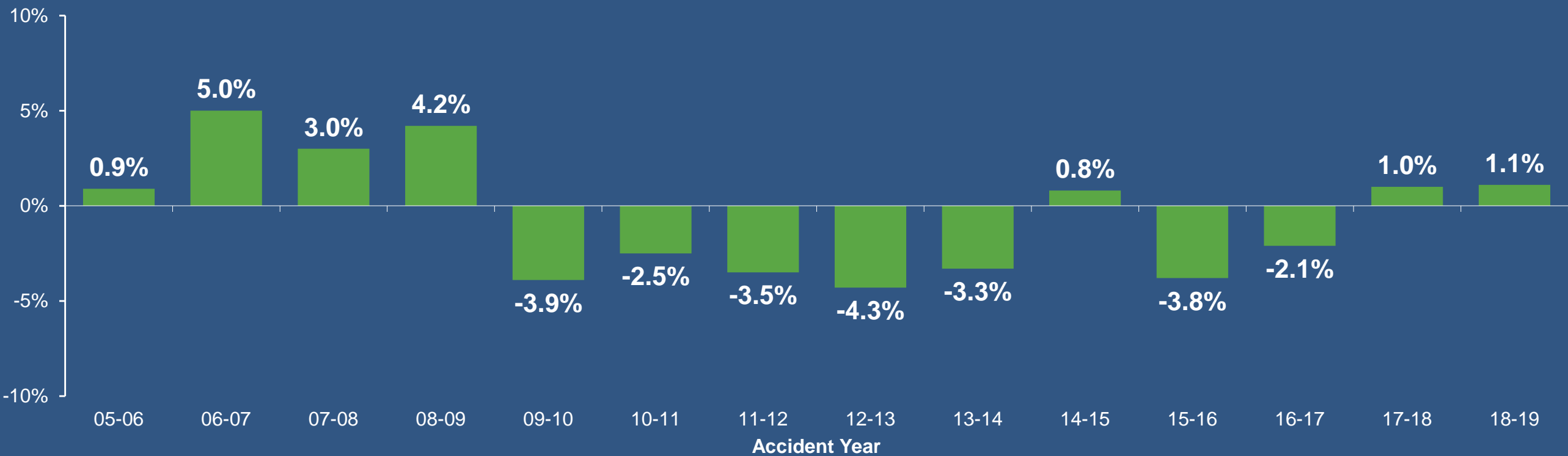


1/1/2021 Filing – Frequency Trend Considerations

Frequency Issue	Potential Impact on AY 2020	Potential Impact on PY 2021
Economic Changes	Very High	High
Post-Termination Claims	High	Low
Other CT Claims	High	Medium
COVID-19 Claims	Very High	Medium
Assignments to Clerical / “Stay-at-Home” Period	High	Low
Furloughed but Paid Employees	Medium	Very Low
Shifts in Classification Mix	High	Medium

Projected Changes in On-Level Indemnity Severity (Exhibit 6.2)

As of March 31, 2020



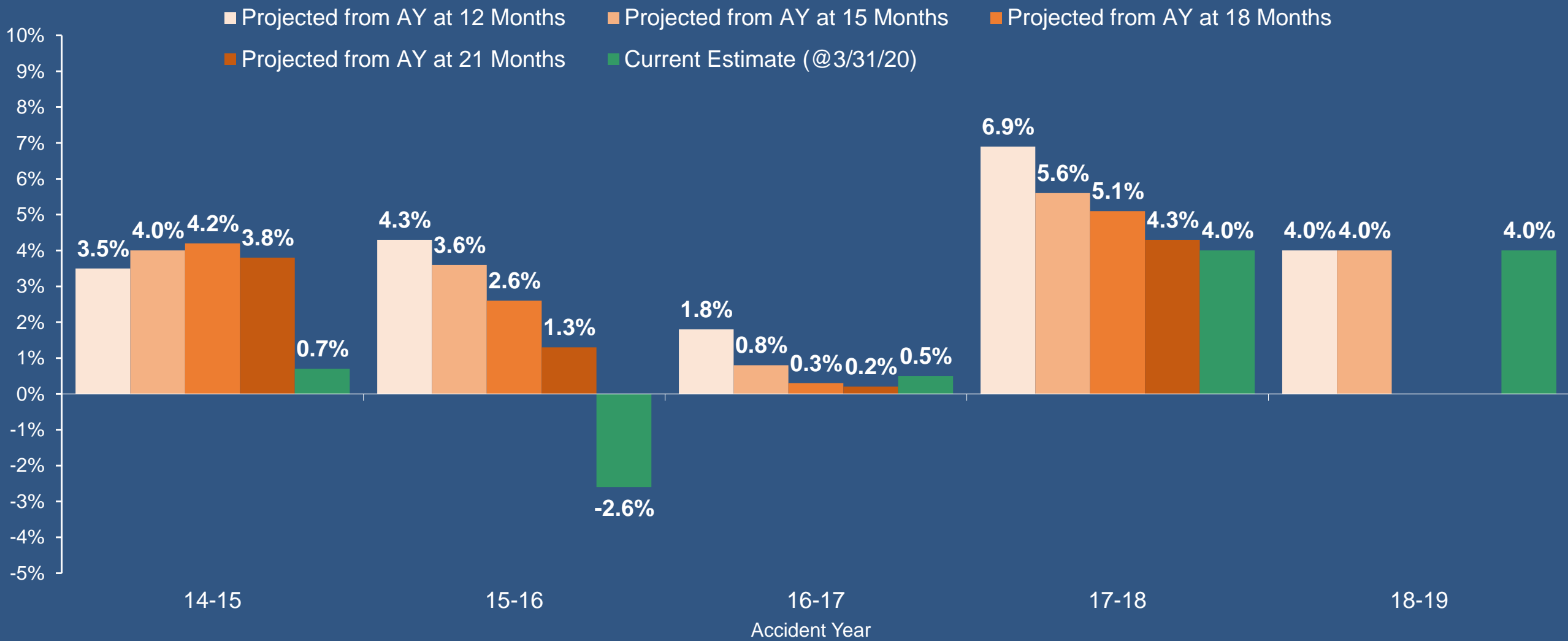
Annual Exponential Trend Based on:

- 1990 to 2019: 1.1%
- 2005 to 2019: -1.4%
- 2015 to 2019: -0.9%

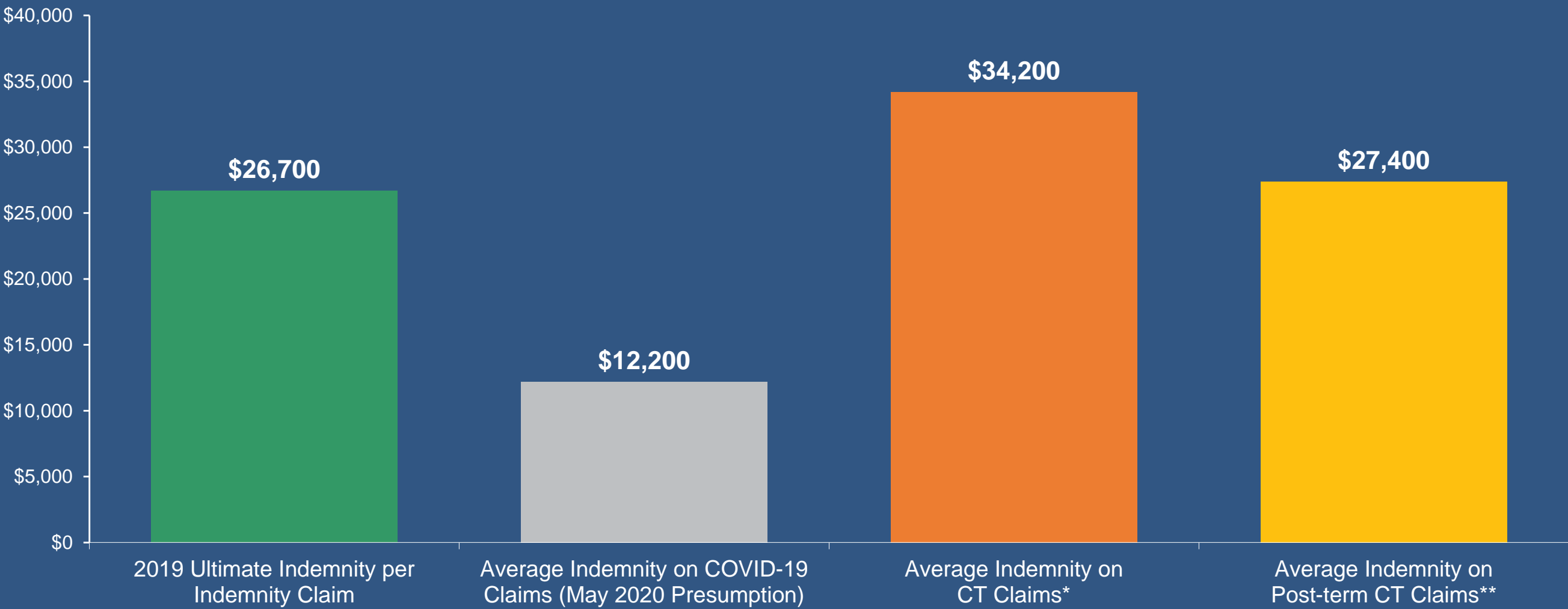
6/12/2020 Agenda Selected: 0%

Indemnity Severity Changes Projected from Early Evaluations Compared to Current

As of March 31, 2020



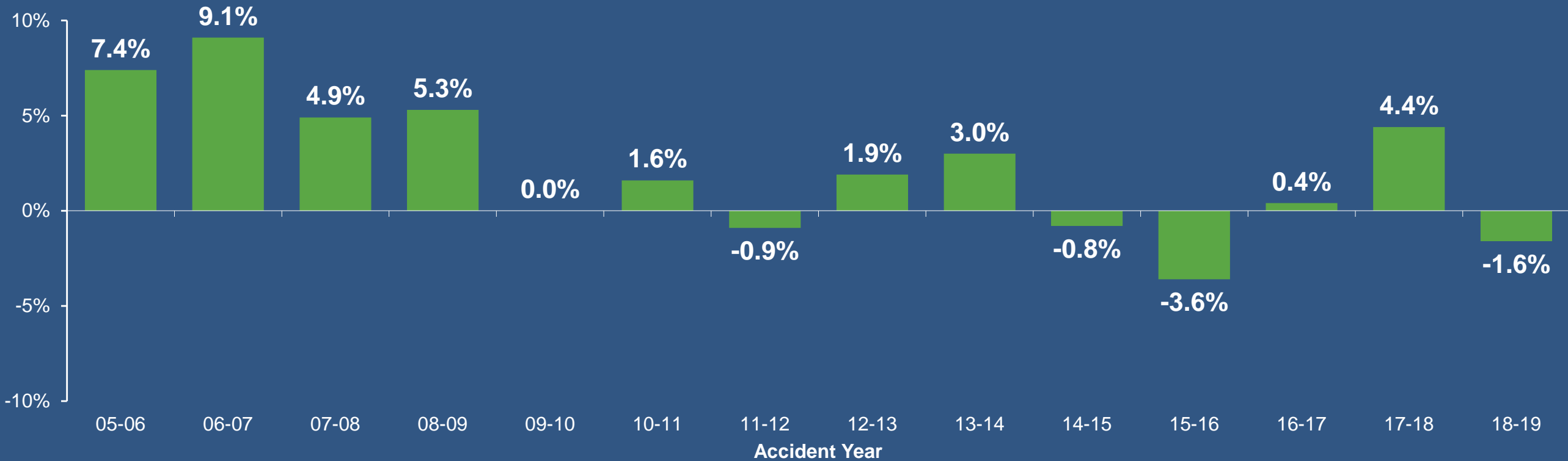
Indemnity Severity Projection – Potential Claim Mix Shifts



Source: WCIRB aggregate financial data, evaluation of May 2020 Executive Order on COVID-19 claims, and 2018 report on CT claims
*Estimated based on incurred severity relative to all indemnity claims at 10th report level
**Estimated based on incurred severity relative to all CT claims at 4th report level

Projected Changes in On-Level Medical Severity (Exhibit 6.4)

As of March 31, 2020



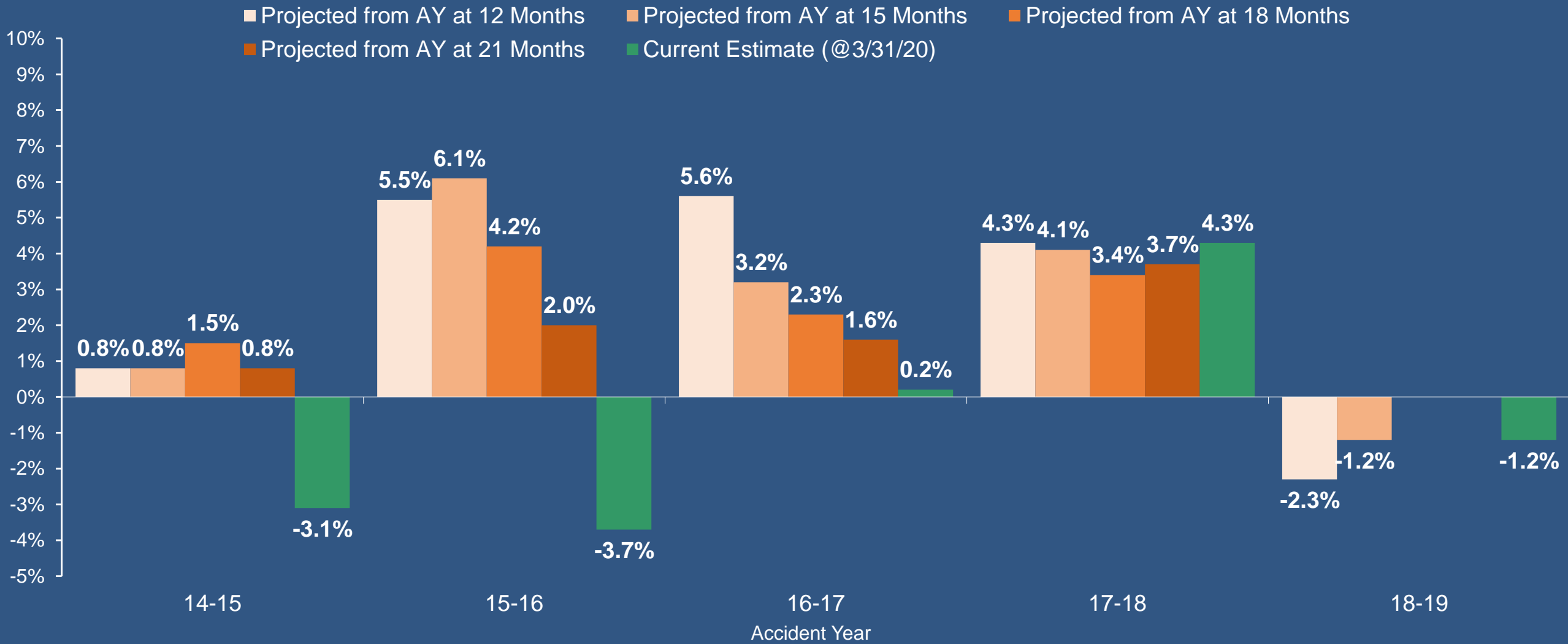
Annual Exponential Trend Based on:

- 1990 to 2019 (Incl. MCCP): 5.5%
- 2005 to 2019: 1.7%
- 2015 to 2019: 0.3%

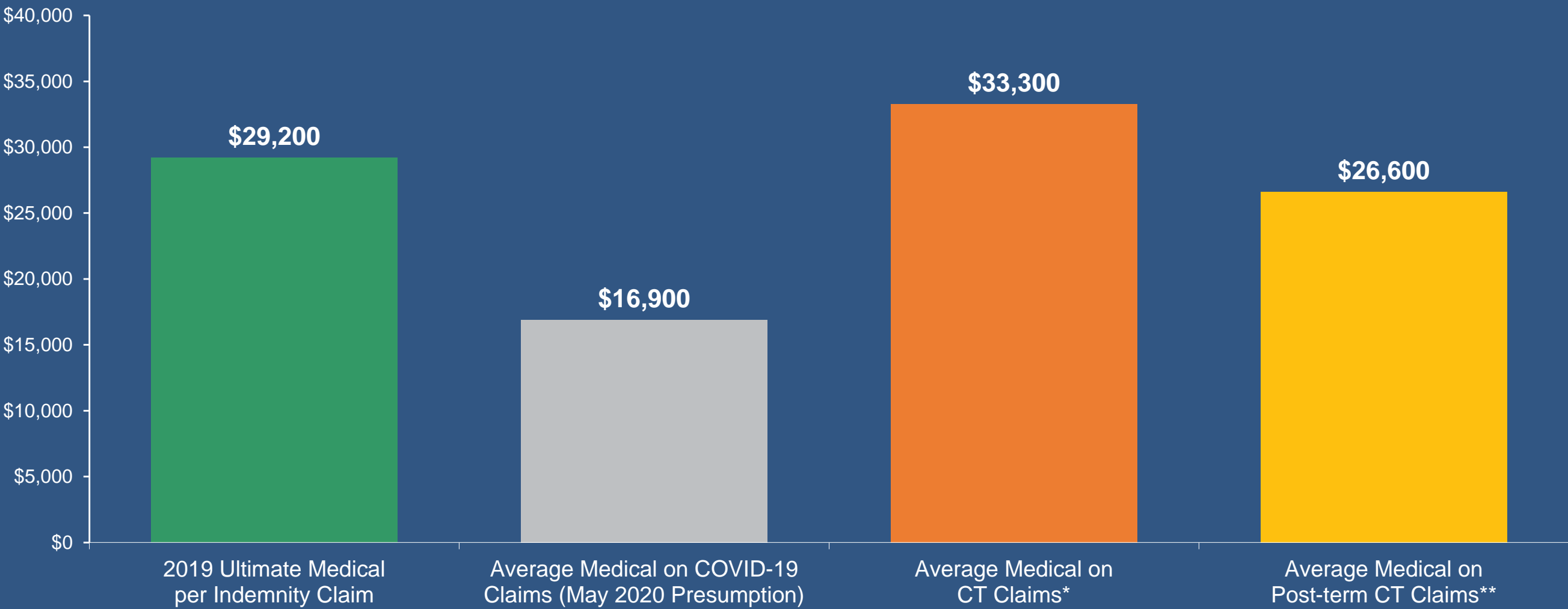
6/12/2020 Agenda Selected: 1.5%

Medical Severity Changes Projected from Early Evaluations Compared to Current

As of March 31, 2020



Medical Severity Projection – Potential Claim Mix Shifts



Source: WCIRB aggregate financial data, evaluation of May 2020 Executive Order on COVID-19 claims, and 2018 report on CT claims
*Estimated based on incurred severity relative to all indemnity claims at 10th report level
**Estimated based on incurred severity relative to all CT claims at 4th report level

1/1/2021 Filing – Severity Trend Considerations

Severity Issue	Potential Impact on AY 2020	Potential Impact on PY 2021
“Stay-at-Home” Period – Long-term impact of medical and claim settlement delays	Medium	Low
Post-Termination Claims	Medium	Low
Other CT Claims	High	Medium
COVID-19 Claims	Very High	Medium
Shifts in Classification Mix	High	Low
Indemnity Utilization (TD duration, PD ratings)	High	Med-High
Medical Utilization (Mix of services, telehealth, etc.)	High	Med-High

05

1/1/2021
Regulatory Filing
– Experience
Rating Plan
Values



06

1/1/2021
Regulatory Filing
– Maximum
Payroll
Limitation



Maximum Payroll Limitations – Update Process

- Maximum payroll limitations apply to executive officers and highly compensated employees in several classifications
- WCIRB typically proposes updates to threshold annually based on projected wage inflation
- Last update effective 1/1/2020
 - Increase from \$133,900 to \$139,100
 - Based on 3.8% wage inflation projected for 2020
- Economic downturn resulted in significantly less wage inflation projected for 2020
 - 1.5% compared to 3.8% a year ago
 - Inflation for 2021 projected to be 2.6%

Indicated Maximum Payroll Limitations

Effective Year	Indicated Maximum Payroll Limitation
2019	\$133,900
2020	\$139,100
2021 (Projected from 2019 based on current economic data)	\$139,400

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