

# Actuarial Committee

## Meeting Minutes

Date	Time	Location	Staff Contact
June 12, 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

Giovanni Muzzarelli  
Mitra Sanandajifar  
Brentley Yim

### WCIRB

Bill Mudge  
David Bellusci  
Laura Carstensen  
Tony Milano  
Julia Zhang

The webinar teleconference 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.

\* \* \* \* \*

### Approval of Minutes

The Minutes of the webinar teleconference meeting held on May 19, 2020, 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 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 December 31, 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 SY 2019, 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. Staff also noted that all medical service types experienced a decline in the paid per claim in 2019, except for physical medicine. In addition, utilization of inpatient and outpatient care per claim dropped at a greater rate in 2019 compared to prior years. A Committee member suggested discussing the reasons for the decline in outpatient transactions per claim with the Claims Working Group.

Staff also shared the payment and utilization patterns of telemedicine services between 2017 and 2019, and noted that despite a sharp increase of telemedicine services after 2017, its utilization remained relatively limited. The Committee was advised that staff plans to monitor changes in telemedicine services due to COVID-19.

Lastly, staff discussed the plan for monitoring the volume and payments for medical services by component since the shelter-in-place order due to the COVID-19 pandemic and bringing the preliminary results to the Committee at the August 4 meeting.

## Item AC19-12-06 Potential 2020 Actuarial and Research Projects

The Committee was reminded that at the December, 5, 2019 meeting, it had approved the 2020 actuarial and research project plan proposed by staff. The Committee was further reminded that, as discussed at the April 2, 2020 and May 19, 2020 meetings, due to the COVID-19 pandemic, the WCIRB has shifted its research and actuarial focus to a number of issues related to the impact of the pandemic on the California workers' compensation system.

The Agenda included a summary of actuarial and research studies recommended by staff for 2020 after consideration of the analyses recommended to be completed with respect to the COVID-19 pandemic. The Committee discussed future 2020 research initiatives planned with respect to COVID-19. A member suggested that the WCIRB should also continue to analyze the long-term medical impacts of COVID-19. Staff agreed to continue to review this issue as additional information emerges as part of any COVID-19 estimates reflected in the WCIRB's January 1, 2021 Pure Premium Rate Filing.

The Committee next discussed potential analyses on telecommuting. The Committee was advised that at the June 11, 2020 meeting, a Governing Committee member requested the WCIRB to review the appropriate rate relativity for the new telecommuting classification that the WCIRB will be proposing to establish effective January 1, 2021. Staff noted that it plans to review this issue as part of the January 1, 2021 Pure Premium Rate Filing to be submitted this summer.

After additional discussion, the consensus of the Committee was that the updated post-COVID-19 2020 actuarial and research study plan detailed in the Agenda was appropriate.

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

At the May 19, 2020 meeting, the Committee discussed the cost evaluation of Governor Newsom's Executive Order N-62-20 which provides for a rebuttable presumption of compensability of COVID-19 claims arising from workers directed by their employer to work outside the home. The Committee was advised that on May 22, 2020, after incorporating Committee feedback, the WCIRB published its cost evaluation of the Order. Staff briefly summarized the results of the analysis.

At the May 19, 2020 meeting, the Committee also discussed the WCIRB's analysis of the potential impact of the pandemic on claim frequency. The Committee was advised that on June 1, 2020, the WCIRB issued a research brief that analyzed the historical impact of prior recessions on claim frequency. The brief also examined the potential impact of the current recession on 2020 claim frequency in light of potential surges of COVID-19 claims as well as recent trends in post-termination claims. Staff briefly summarized the results of the June 1, 2020 research brief. During the discussion, a member requested additional background on the determination of the potential range of post-termination cumulative trauma claims that may be filed given current economic conditions. Attached is a summary of the requested information.

The Committee was advised that as both premium and loss components emerging in 2020 will be heavily impacted by the pandemic, the WCIRB is planning to actively monitor emerging costs and exposures during the year. Staff summarized a number of preliminary indicators of post-COVID-19 claim experience. Staff also advised the Committee that it was considering issuing a special survey to insurers on select policies being audited to assess the extent of payroll on expiring policies that is being re-classified as clerical for employees working at home as well as payroll being paid to workers who are not working. The Committee agreed that this will be important information to obtain to better understand the impact of the pandemic on 2020 exposure levels. Several members also suggested the survey should be carefully crafted with respect to form and timing to capture the needed information in a cost-effective way and that consideration be given to capturing information from interim as well as final audits.

At the May 19, 2020 meeting, a member suggested that given the major impact of the COVID-19 pandemic, consideration should be given to deferring the January 1, 2021 Pure Premium Rate Filing until September. The Committee discussed the January 1, 2021 pure premium rate filing process at length. Staff noted that accident year 2019 and prior experience evaluated as of March 31, 2020 was largely unaffected by the pandemic, but accident year 2020 claim experience and 2020 premium levels are greatly affected. Since the 2020 year would not normally be used in the January 1, 2021 Pure Premium Rate Filing, staff suggested using the accident year 2019 and prior pre-pandemic data evaluated as of March 31, 2020 as the basis for the filing with appropriate assumptions as to exposure, frequency and severity trend to policy year 2021. Under this approach, the filing can be made in late August as originally scheduled.

Staff also noted that while the June 30, 2020 aggregate loss and exposure information will be significantly distorted by the effects of the pandemic, additional economic and claim diagnostic information would be available by September that the Committee could use to review the underlying trend assumptions reflected in the filing and, if appropriate based on that review, recommend amending the proposed 2021 pure premium rates prior to the California Department of Insurance public hearing. The Committee agreed that this suggested approach for the January 1, 2021 Pure Premium Rate Filing was appropriate.

The Committee also reviewed the summary of key COVID-19 WCIRB ratemaking and research issues included in the Agenda materials. The summary included the statistical information needed to evaluate the issue, when the information is available and whether the information is critical to the January 1, 2021 Pure Premium Rate Filing projections.

**Estimated Ratio of Post-Termination Claims to Jobs Lost (1992-2017)**

<b>Accident Year</b>	<b>Post-Termination Claim Count (Insured only)</b>	<b>Post-Termination Claim Count (Statewide) (B * 1.5)</b>	<b>Number of Jobs Lost</b>	<b>Ratio of Post- Termination Claims per 1000 Jobs Lost (C / D * 1000)</b>
1992	-	-	-	6.5
1993	-	-	-	4.0
1994	-	-	-	3.6
1995	-	-	-	-
1996	-	-	-	-
1997	881	1,321	552,985	2.4
1998	1,035	1,553	480,047	3.2
1999	646	969	413,435	2.3
2000	922	1,383	408,968	3.4
2001	873	1,309	511,917	2.6
2002	914	1,371	746,468	1.8
2003	1,078	1,617	671,800	2.4
2004	529	794	586,200	1.4
2005	422	633	459,200	1.4
2006	329	494	407,600	1.2
2007	356	534	500,800	1.1
2008	-	-	-	-
2009	-	-	-	-
2010	-	-	-	-
2011	-	-	-	-
2012	7,303	10,955	1,076,400	10.2
2013	9,612	14,418	900,800	16.0
2014	8,227	12,340	730,700	16.9
2015	9,339	14,009	570,500	24.6
2016	10,703	16,055	517,100	31.0
2017	8,964	13,446	445,700	30.2

Average of 2013-2017

23.7

**Approximate Ratio Used**

**25**

**Note:**

1. 1992-1994 ratios were taken directly from WCIRB No.99-01 bulletin.
2. Job losses data from 2003-2017 are from BLS. The job losses for the years prior to 2002 (italicized) are not available from the BLS and were estimated based on the ratio of job losses to unemployment during different economic situations based on historical patterns.
3. The claim count (insured only) was taken from the AY1997-2007 and AY2015-2017 data of the WCIRB Permanent Disability Claim Survey and the AY2012-2014 data of the WCIRB Cumulative Trauma Claim Survey. The claim count was then rescaled to the entire insured system based on the share of post-termination from the WCIRB surveys to the reported claim count in the WCIRB unit statistical report.

## Item AC20-06-01 3/31/2020 Experience – Review of Methodologies

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of March 31, 2020 that was included in the Agenda. It was noted that the modest decrease in the projected loss ratio was primarily attributable to trending to the midpoint of experience for 2021 policies. Staff noted that the frequency and severity trends reflected in the Agenda were based on those reviewed at the April 2, 2020 meeting and were prior to reflecting any impact for the COVID-19 crisis.

The Committee was advised that the loss development projections based on March 31, 2020 experience were generally consistent with those based on December 31, 2019 experience and did not appear to show any significant impact of COVID-19. It was noted that the stay-at-home orders did not come into effect until the last two weeks of the quarter and medical services that would have been performed during that period would typically not be paid and reflected in the WCIRB's aggregate paid loss data until subsequent quarters. As a result, the consensus of the Committee was that the loss development projections based on March 31, 2020 experience are likely not significantly distorted by COVID-19 and the resulting stay-at-home orders.

The Committee noted that claim settlement rates for accident years 2018 and 2019 continue to emerge at a relatively flat level while increases in claim settlement rates for older accident years continue to moderate. A Committee member noted that claim settlement rates may spike somewhat in the second quarter as a result of the COVID-19 pandemic.

Staff reminded the Committee that at the December 5, 2019 meeting, the Committee recommended that staff review Division of Workers' Compensation updates to medical fee schedules for any changes that may significantly impact medical costs. Staff presented a summary of changes for a number of medical fee schedules and noted that the changes included annual inflation updates as well as special changes related to COVID-19. Staff noted that based on its review, the recent fee schedule changes should not have a material impact on medical cost trends.

The Committee noted that the most recent projections of wage level changes based on the UCLA Anderson and California Department of Finance forecasts show very modest wage growth in 2020 and lower than typical growth in 2021. Staff noted that it plans to monitor sources of wage level information as well as the impact of shifts in average wage level due to changes in industrial mix to be reviewed at the next meeting in preparation for the January 1, 2021 Pure Premium Rate Filing.

It was noted that indemnity claim frequency for the first quarter of 2020 was relatively flat, while medical-only claim frequency decreased significantly. The Committee noted that claim frequency for the remainder of 2020 will be significantly impacted by a number of issues including the sharp economic downturn, potential increases in cumulative trauma claims, COVID-19 claims, shifts in industrial mix, and increased telecommuting during the stay-at-home period. It was noted that projected claim frequency for 2021 policies should be less impacted by a number of these issues impacting 2020 claim frequency. The Committee discussed approaches to project claim frequency to be reviewed at the next meeting in preparation for the January 1, 2021 Pure Premium Rate Filing.

The Committee noted that given the modest changes in loss development, changes in accident year claim severities were generally consistent with those reviewed at the April 2, 2020 meeting. It was noted that the issues impacting 2020 claim frequency may also affect average claim severities. The Committee discussed approaches to project claim severities to be reviewed at the next meeting in preparation for the January 1, 2021 Pure Premium Rate Filing.

## Item AC20-06-02 1/1/2021 Regulatory Filing – Experience Rating Plan Values

Staff presented a draft analysis of the indicated January 1, 2021 experience rating off-balance correction factor. The Committee was advised that the preliminary indicated January 1, 2021 off-balance factor using the same methodology as in the January 1, 2020 Regulatory Filing was 1.019, which is 0.5% above the 1.014 factor reflected in the January 1, 2020 Regulatory Filing. The consensus of the Committee was that this methodology was appropriate and should be used to compute the final January 1, 2021 off-balance factor.

Staff also presented a draft analysis of the factors used to generate proposed January 1, 2021 expected loss rates, which used the same methodology as in the January 1, 2020 Regulatory Filing. Staff noted that there were no significant anomalies in the analyses by industry sector and the number of classification expected loss rates to be limited were generally consistent with recent prior years. After discussion, the consensus of the Committee was that the proposed January 1, 2021 expected loss rates should reflect the methodologies summarized at the meeting. During the discussion, a member noted that a significant number of classifications are impacted by the 15% swing limit in expected loss rates, which differs from the 25% swing limit in classification relativities, and suggested this issue be reviewed in the future.



Item AC20-06-03  
1/1/2020 Regulatory Filing – Maximum Payroll Limitation

The Committee was reminded that each year, the WCIRB reviews and adjusts current wage and payroll limits in the *California Workers' Compensation Uniform Statistical Reporting Plan—1995* (USRP) in light of projected wage inflation. Staff noted that the WCIRB has typically proposed annual increases to these thresholds based on one year of wage inflation projected based on the average of the UCLA Anderson School of Business and California Department of Finance wage model forecasts. Staff noted that as a result of the recent economic downturn, wage inflation for 2020 is significantly lower than originally projected and reflected in the January 1, 2020 changes to the wage and payroll limitations and wage inflation for 2021 is also lower than the typical rate of growth. When trended from 2019 using current projected wage inflation rates, the maximum payroll limitation indicated for 2021 is \$139,400, which is only \$300 or 0.2% different from the current limitation. As a result, the consensus of the Committee was that no changes to the current maximum payroll limitations were needed for 2021.

The meeting was adjourned at 1:00 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for August 4, 2020 for approval and/or modification.