

Governing Committee

Meeting Minutes

Date	Time	Location	Staff Contact
August 12, 2020	9:30 AM	Webinar Teleconference	Eric S. Riley
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Counsel

Dan Brown, McDermott Will & Emery

Represented by

David Sandler
Gretchen Thompson
Tom Collins
Steve Gallacher
Kenneth Van Laar
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Paul Ramont
Susan Gordon

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The meeting of the Governing Committee was called to order by Bill Mudge, WCIRB President and Chief Executive Officer, at 9:30 AM following a reminder of applicable antitrust restrictions.

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Confirmation of Governing Committee Chairperson

Bill Mudge, WCIRB President and Chief Executive Officer, advised the Committee that the Governing Committee Chair, Mike Mulray had advised him that he was no longer available to serve on the Committee and that David Sandler would be representing Everest National Insurance Company for the remainder of its term.

Accordingly, the first order of business was appointing a new Chairperson. After discussing the responsibilities of the Governing Committee Chairperson, a motion was made, seconded and unanimously passed to elect Paul Ramont of Zenith Insurance Company as the Committee's Chair for the balance of Mr. Mulray's two-year term.

Approval of the Minutes

The Minutes of the Governing Committee meeting held on June 11, 2020 were distributed to Committee members in advance of the meeting for review. As there was no discussion or corrections to the Minutes, a motion was made, seconded and unanimously passed to adopt the Minutes as written.

Item II

Additions to the Agenda

The Chair asked the Committee members if there were any items to be added to the Agenda. Hearing none, the Chair accepted the Agenda as published.

Item III

Ratification of Actions of WCIRB Committees

The Minutes of the Actuarial Committee meeting held on June 12, 2020 were provided to Committee members in advance of the meeting for review. As there were no questions or discussion regarding the information, a motion was made, seconded and unanimously passed to ratify the actions of the Actuarial Committee.

The Minutes of the Classification and Rating Committee meeting held on June 2, 2020 were provided to Committee members in advance of the meeting for review. As there were no questions or discussion regarding the information, a motion was made, seconded and unanimously passed to ratify the actions of the Classification and Rating Committee.

Item IV-A

July 1, 2020 and January 1, 2021 Regulatory Filings

WCIRB Senior Vice President and Chief Legal Officer Brenda Keys reminded the Committee that at the April 17, 2020 meeting, the Committee unanimously authorized the WCIRB to make a July 1, 2020 Special Regulatory Filing proposing changes to the *California Workers' Compensation Uniform Statistical Reporting Plan—1995* (USRP) and *California Workers' Compensation Experience Rating Plan—1995* (ERP). The special filing was in response to the impact of the Coronavirus Disease 2019 (COVID-19) pandemic on California's policyholders and employees. Pursuant to the Committee's directive, on April 20, 2020, the WCIRB submitted the Special Filing to the California Department of Insurance (CDI).

On May 18, 2020, the CDI held a public hearing to consider the proposed changes and on June 15, 2020, the Insurance Commissioner issued a Decision approving all proposed changes. Pursuant to the Decision, the WCIRB posted the July 1, 2020 USRP and ERP on WCIRB.com.

Ms. Keys also advised the Committee that on June 25, 2020, the WCIRB submitted the January 1, 2021 Regulatory Filing to the CDI proposing changes to the USRP and ERP. On July 29, 2020, the CDI held a public hearing on the Regulatory Filing. Ms. Keys advised the Committee that, upon receipt of the Insurance Commissioner's Decision on the Regulatory Filing, the WCIRB will initiate publication of 2021 experience modifications. The WCIRB will also update the USRP, Miscellaneous Regulations and ERP to reflect the Commissioner's Decision and post the 2021 regulatory plans on the WCIRB's website.

Item V-A

January 1, 2021 Pure Premium Rate Filing

WCIRB Executive Vice President and Chief Actuary Dave Bellusci advised the Committee that the Actuarial Committee completed its review of March 31, 2020 experience at the meetings held on August 4, and August 10, 2020. Staff provided the Committee with a summary of the Actuarial Committee's review and its recommended methodologies with respect to the indicated January 1, 2021 pure premium rate level. The relevant portions of the Actuarial Committee's Agenda for the August 2020 meetings were included in the Agenda.

In the presentation, the Committee was advised that the Actuarial Committee focused largely on the following three considerations: (1) pre-pandemic development and claim settlement trends; (2) the impact of the economic slowdown on wage, frequency and severity projections and (3) COVID-19 claim cost projections.

Mr. Bellusci advised the Committee that the methodologies recommended by the Actuarial Committee were generally consistent with the methodologies that the WCIRB used in its January 1, 2020 Pure Premium Rate Filing with several refinements that were summarized during the presentation. The approved methodologies, when applied to the statewide experience as of March 31, 2020, produced an indicated statewide average pure premium rate level of \$1.56 which is approximately 2.6% higher than the average approved January 1, 2020 advisory pure premium rate. Mr. Bellusci advised that the indicated average pure premium rate includes the Actuarial Committee's recommended 3.8% increase (\$0.06 per \$100 of payroll) to reflect the projected impact of COVID-19 claims on January 1, 2021 to August 31, 2021 policies.

Mr. Bellusci summarized the key elements of the Actuarial Committee's review of March 31, 2020 experience. Mr. Bellusci noted that the trends including lower loss development and acceleration in claims settlement that have driven the recent series of pure premium rate decreases are continuing, but are showing clear signs of moderation. The Committee was advised that the magnitude of the pandemic-related drop in employment in California is unprecedented, both in its magnitude and velocity. In the months since the pandemic broke, the unemployment level in California quickly rose from a near full employment level to close to 15% unemployment and economic downturns can significantly impact future levels of wages, claim frequency and claim severity. Mr. Bellusci summarized the recommendations of the Actuarial Committee in these areas that were made in light of these potential economic impacts.

Mr. Bellusci also summarized the projected cost of COVID-19 claims reflected in the Actuarial Committee's recommended January 1, 2021 pure premium rate level indication. The Committee was reminded that given that the pandemic did not begin to emerge in California until early 2020 and the 2020 advisory pure premium rates were approved by the Insurance Commissioner in November 2019, those pure premium rates did not reflect provision for COVID-19 claim costs emerging in 2020. However, infectious disease experts and epidemiologists expect the pandemic to continue into 2021 and beyond.

As a result, the Actuarial Committee has estimated the impact of COVID-19 claims to be incurred on policies incepting between January 1, 2021 and August 31, 2021.

The Committee was advised that very limited information on projected COVID-19 infection rates in 2021 and 2022 is available. The projected COVID-19 claim costs for 2021 and 2022 recommended by the Actuarial Committee were based on a series of assumptions predicated on a comprehensive review of a wide range of available COVID-19-related statistics and research. Mr. Bellusci detailed the calculation for the Committee, which involved projecting COVID-19 cost levels for accident year 2020 and then projecting cost levels for the January 1, 2021 to August 31, 2021 policy period in relation to the COVID-19 claim costs for accident year 2020. It was noted that the 3.8% overall cost impact on January 1, 2021 to August 31, 2021 policies computed on this basis equates to \$0.06 per \$100 of payroll.

In reviewing the projected impact of COVID-19, Mr. Bellusci advised the Committee that since the exposure to COVID-19 claims by industry varies significantly and is different to that of other workers' compensation exposures, the Actuarial Committee had recommended that the impact be applied as an additive amount rather than a multiplicative factor and be differentiated by industry sector based upon whether the industry was evaluated to be a "high", "medium", or "low" risk as determined by the ratio of reported COVID-19 claims to estimated payroll in the industry sector. The Committee discussed the preliminarily indicated industry additive amounts at length. Several members suggested refining the groupings further. Staff agreed to reflect this feedback in the COVID-19 additive factors to be applied in the January 1, 2021 Pure Premium Rate Filing.

The Committee was further advised that given the inherent uncertainty in the COVID-19 projection as well as the extreme fluidity of the pandemic, staff recommends reassessing its evaluation of COVID-19 claim costs to be incurred on January 1, 2021 through August 31, 2021 policies in September 2020 based on updated information and statistical models as well as reflect any legislation regarding COVID-19 if enacted by the California Legislature. WCIRB staff plans to present that re-evaluation to the Actuarial Committee at the September 8, 2020 meeting and to the Governing Committee at the September 9, 2020 meeting and, if recommended by the Governing Committee based on that re-evaluation, the WCIRB will amend the proposed January 1, 2021 advisory pure premium rates prior to the Insurance Commissioner's public hearing.

Throughout the presentation, Mark Priven, the consulting actuary to the Public Members of the Governing Committee, was asked to detail how his recommended methodologies differ from those recommended by the Actuarial Committee. Mr. Priven indicated that his recommended methodologies differ primarily based on: (1) the medical severity projection is lower than that recommended by the Actuarial Committee; (2) the use of incurred loss development patterns to develop ultimate medical losses; and (3) the speed in which COVID-19 losses will be mitigated by either a vaccine or improved medical treatments. Mr. Priven noted that his indicated January 1, 2021 average pure premium rate of \$1.49 is approximately 4% lower than that based on the recommendations of the Actuarial Committee.

At the end of the presentation, the Public Members requested a break so they could consult with Mr. Priven privately. Following the break, there was continued discussion regarding several aspects of the proposed methodology.

As part of this discussion, a Public Member of the Committee asked why the WCIRB had recommended that COVID-19 claims be excluded from a policyholder's experience modification, but not from the rates for that policyholder's classification. Mr. Bellusci responded that the underlying goal of experience rating and classification rates differ insofar as the experience modification reflects how a policyholder's anticipated average losses in the future differ from others in the classification to which they are assigned based on that's employer's historical claim experience. In contrast, the pure premium rate for each classification reflects the average projected costs across the entire classification in the year the pure premium rate applies. The intent of excluding COVID-19 claims from an individual policyholder's

experience modification, but not the underlying rates is a reflection that the risk of COVID-19 claims is inherent across the industry and not necessarily an indication of an individual employer's safety practices or of their anticipated future overall workers' compensation losses.

A Committee member also asked if the usual practice of limiting any proposed increase or decrease to an individual classification's advisory pure premium rate to 25% would apply in the allocation of projected COVID-19 costs to specific industries. Mr. Bellusci responded that the 25% limitation typically applies to changes in classification relativities distinct from the overall rate level changes approved by the Insurance Commissioner and would not normally apply to the application of the COVID-19 additive amounts.

At the close of the discussion, a motion was made and seconded to make a January 1, 2021 pure premium rate filing reflecting the methodology recommended by the consulting actuary to the Public Members of the Committee. The motion failed by a vote of 4 in favor and 8 against.

Following the failed motion, a motion was made and seconded to make a January 1, 2021 pure premium rate filing reflecting the methodology recommended by the Actuarial Committee. Included in the motion was a directive that the WCIRB bring to the Committee's September meeting an additional review and analysis of the approach to allocating the projected COVID-19 impact on pure premium rates and that consideration be given to a more layered approach. WCIRB staff indicated that in addition to providing this requested analysis, the WCIRB would also provide an update on June 30, 2020 experience and on the potential impact of any COVID-19 legislation passed by the Legislature. Based on this additional information to be presented at the September meeting, the Committee will determine if the WCIRB should amend its January 1, 2021 Pure Premium Rate Filing. Following the discussion, the motion passed by a vote of 8 in favor and 4 against.

Classification 8871 – Advisory Pure Premium Rate

WCIRB Executive Vice President and Chief Actuary Dave Bellusci reminded the Committee that the WCIRB's January 1, 2021 Regulatory Filing included a recommendation to add Classification 8871, *Clerical Telecommuter Employees – N.O.C.*, as a Standard Exception classification applicable to clerical employees who work more than 50% of their time at their home or other office space away from any location of their employer.

Mr. Bellusci advised the Committee that WCIRB staff had originally suggested proposing an advisory pure premium rate for Classification 8871 equal to that of Classification 8810, *Clerical Office Employees*, until such time as experience for the new classification is available that supports a differentiation in advisory pure premium rates. However, at the June 11, 2020 Governing Committee and June 12, 2020 Actuarial Committee meetings, Committee members recommended that, since the rate for the telecommuting classification in most states is well below that of the clerical classification, consideration be given to basing a differential for Classification 8871's proposed 2021 advisory pure premium rate on information from other jurisdictions.

Mr. Bellusci provided the Committee with a detailed review of both the Classification 8871 experience generated from other jurisdictions as well as those areas where the differences between these jurisdiction's classification rules and California's Standard Classification System significantly mitigate some of the factors that may be influencing the demonstrated rate differential. Mr. Bellusci also noted that, with the COVID-19 pandemic, many workers transitioned to working at home in non-optimal "home offices" virtually overnight, which created additional uncertainty as to the potential for increased frequency in cumulative injury and repetitive motion claims. Given some of these concerns and unique California characteristics, Mr. Bellusci advised the Committee that the consensus of both the Classification and Rating and Actuarial Committees was that no differentiation in advisory pure premium rates between Classification 8871 and Classification 8810 was appropriate at this time.

In the ensuing discussion, Mr. Bellusci reiterated that the WCIRB would closely monitor the payroll and loss experience generated under Classification 8871 and would seek to establish a unique rate as soon as warranted by the available data.

Following the Committee's discussion, there was a consensus among the members that the January 1, 2021 advisory pure premium rate for Classification 8871 should be the same as Classification 8810.

Next Meeting Date

The Committee noted that the next meeting is scheduled for September 9, 2020.

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There being no further business to come before the Committee, the meeting was adjourned at 12:30 PM.

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Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the Minutes of the meeting scheduled for September 9, 2020 for approval and/or modification.