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Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
August 4, 2020	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci

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Released: October 5, 2020

Members	Representing
Mauro Garcia	Zurich North America
Jim Gebhard	Farmers Insurance Group of Companies
Miranda Ma	American International Group
Joanne Ottone	Berkshire Hathaway Homestate Companies
Jill Petker	Liberty Mutual Group
Mark Priven	Public Members of Governing Committee
Kate Smith	State Compensation Insurance Fund
Bryan Ware	AmTrust
Chris Westermeyer	Travelers

California Department of Insurance
Gio Muzzarelli
Mitra Sanandajifar

WCIRB
Bill Mudge
David Bellusci
Laura Carstensen
Tony Milano
Shane Steele
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.

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Approval of Minutes

The Minutes of the webinar teleconference meeting held on June 12, 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.

Item AC19-08-04
Impact of Claim Settlement Rate Changes on ALAE Development

The Agenda included an updated staff analysis of the impact of changes in claim settlement rates on allocated loss adjustment expense (ALAE) development, which was first reviewed at the August 1, 2019 meeting. Staff summarized the updated analysis which included a recommended refinement to the approach used to adjust for significant changes in claim settlement rates that is based on age-to-age paid ALAE development rather than cumulative development. Staff noted that due to the increased precision of the refined approach, judgmental tempering of the adjustment was not needed (as compared to the cumulative adjustment approach which included a 40% tempering). The consensus of the Committee was that the recommended refinement significantly enhanced the methodology and should be considered in projecting paid ALAE development beginning with the January 1, 2021 Pure Premium Rate Filing during periods of significant claim settlement rate changes.

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

The Committee was reminded that at the March 16, 2020 meeting, the Committee reviewed an updated analysis of the WCIRB's loss development tail methodology which suggested that paid development at later maturities produced consistently more accurate and stable projections than incurred development over the last several years. However, given the potential impact of recent significant changes in claim settlement rates on later period paid development, the Committee recommended staff review the issue further. Staff presented a summary of the updated analysis included in the Agenda.

Staff summarized its recommended approach for adjusting later period paid development for the impact of claim settlement rate changes. Staff noted that the recommended approach directly adjusts the projected age-to-age factors for an accident year proportionately based on the accident year change in claim settlement rates. Staff also noted that based on a review of historical changes in claim settlement rates and paid development, the change in paid development was approximately 40% of the change in settlement rates on average, which is reflected in the recommended approach. Staff recommended applying this approach (based on a three-year average which is consistent with the selection of other longer-term paid development factors) after 264 months in lieu of the current approach of applying incurred loss development.

The Committee was also reminded that at the August 1, 2019 meeting, the Committee reviewed a study of the loss development tail methodology that suggested that a tail factor based on an inverse power curve fit to four-year average paid loss development was more stable than any of the alternatives reviewed (including those based on incurred development). Based on the results of this study, staff recommended applying the four-year average paid-based tail factor with the adjustments for changes in claim settlement rates discussed earlier.

Staff noted that the combined impact of the recommended changes resulted in modest (1%) decreases in the projected development factors for accident year 2019 relative to the current approach. After discussion, the consensus of the Committee was that staff's recommended approach was appropriate and should be reflected in the loss development projections included in the January 1, 2021 Pure Premium Rate Filing.

Item AC20-04-04
COVID-19 Crisis

The Committee reviewed several summaries of emerging COVID-19 claim experience from the WCIRB's indemnity transaction data and the Division of Workers' Compensation (DWC). The Committee was advised that updated DWC data through July 8 showed that, as the economy began to re-open in certain sectors, the industry spread of COVID-19 claims was wider than in the early weeks of the pandemic in which the vast majority of COVID-19 claims were among healthcare workers and first responders. The Committee was further advised that the rate of claim closing in the early months of the pandemic was significantly slower among COVID-19 claims than non-COVID-19 claims.

Staff then summarized its recommended approach to evaluate the overall cost of COVID-19 claims to be incurred on January 1, 2021 to August 31, 2021 policies. Staff noted that almost 23,000 workers' compensation claims had been filed in the state as of mid-July and infectious disease experts and epidemiologists expect the COVID-19 pandemic to continue into 2021 and beyond. As a result, staff suggested that reflecting some provision for the cost of COVID-19 claims on 2021 policies was appropriate. There is very limited information available on projected COVID-19 infection, hospitalization or death rates in 2021 and 2022. As a result, staff suggested first estimating the cost of COVID-19 claims arising in 2020 based on available information about COVID-19 deaths and hospitalizations in California as well as from several publicly available disease and statistical models and then projecting COVID-19 claim costs for 2021 and 2022 based on judgmental assumptions relating COVID-19 deaths and hospitalizations in 2021 and 2022 to those in 2020.

Staff summarized its projection of COVID-19 deaths among the working age population. The Committee was advised that the projection was based on published forecasts from the Institute for Health Metrics and Evaluation and Youyang Gu from MIT. At the time of this valuation, both sources projected the statewide COVID-19 deaths through November 1, 2020. Staff recommended extending the average of the two models of projected deaths to the end of 2020 assuming the incremental monthly change in deaths in October persists in November and December 2020, given that a potential winter wave of COVID-19 infections may occur concurrently with the flu season that typically starts around October. The year-end projection for 2020 COVID-19 deaths was adjusted to the California working age population based on the age distribution of deaths published by the California Department of Public Health (CDPH).

The Committee next discussed the projection of the number of 2020 COVID-19 hospitalizations. The Committee was advised that staff projected statewide 2020 COVID-19 hospitalizations based on an assumed total hospitalization rate (including deaths) after the "first infection wave" by using data from five other states that essentially completed a first infection wave. For many of these states, the rate of COVID-19 infections was higher, compared to California, as they were considered "hotspots" during the early months of the pandemic. The Massachusetts total post-first infection wave hospitalization rate was selected by staff to project year-end hospitalizations in California. The year-end projection for COVID-19 hospitalizations (including deaths) was then adjusted to the California working age population based on the age distribution of COVID-19 hospitalizations published by the CDC. A Committee member questioned the appropriateness of using Massachusetts hospitalization data as the sole basis to project California hospitalizations. Staff agreed to compare the industrial mix of Massachusetts to that of California and to review the hospitalization data for Maryland, which essentially completed its first wave but did not have as significant an early spike of infections as did several other states that had completed its first wave such as New York and New Jersey.

The Committee next discussed the adjustment of the projected counts of 2020 working age deaths and hospitalizations to filed workers' compensation claims. To estimate the number of workers' compensation claims that will potentially be filed for accident year 2020, staff recommended comparing the number of claims filed with the DWC through First Report of Injury as of July 23, 2020 with reported working age COVID-19 infections from the CDPH (which include deaths, hospitalizations and mild cases) during the same time period. Staff also recommended assuming that approximately 50% of the working age population with mild cases of COVID-19 will not file a workers' compensation claim, which was consistent with the assumption in the WCIRB's May evaluation of the impact of the rebuttable presumption in the Governor's Executive Order.

A Committee member questioned the extent to which legislation concerning the presumption of compensability under consideration by the California Legislature was reflected in the staff projections. Staff responded that the cost projections presented implicitly assumed that a presumption similar to that reflected in the Governor's Executive Order would apply from the time the order expired. If no presumption legislation is enacted or if legislation is enacted into law that reflects a presumption of compensability that is significantly more or less broad than that of the Governor's Executive Order, staff recommended re-assessing the key assumptions underlying the COVID-19 claim cost projections.

The Committee next discussed the average projected cost of COVID-19 claims. The Committee was advised that staff's projected average cost of losses and loss adjustment expenses on mild, severe, critical and death COVID-19 claims were consistent with those projected in the WCIRB's May 2020 evaluation of the Governor's Executive Order that were reviewed by the Committee at the May 19, 2020 meeting.

The Committee next discussed the projection of accident year 2021 and 2022 COVID-19 claim costs. Staff advised the Committee that while there is very limited information available on COVID-19 infections to occur in 2021 and beyond, a number of published expert forecasts indicate that COVID-19 infections in 2021 will not be significantly better or worse than in 2020, and the number of hospitalizations in 2021 is likely to be similar to that in 2020. Staff also noted that available forecasts indicated that more infection waves will occur in 2020 and 2021 and likely continue until the middle of 2022 when herd immunity may be reached. However, staff noted that there is potential for the pandemic to improve significantly in 2021 due to ongoing improvements in medical treatments for COVID-19 patients and the impact of potential vaccines or treatments likely to be proven effective in 2021. As a result, staff's projection reflected a judgmental estimate of a 25% reduction in COVID-19 cost levels in 2021 due to improved treatments and the potential impact of a vaccine.

For 2022, staff suggested that there is likely continued improvements in treatments and the potential for a reduced number and severity of waves caused by continued impact of COVID-19 vaccines and potential herd immunity to COVID-19. As a result, staff's projection reflected a judgmental estimate of a 67% reduction in COVID-19 cost levels in 2022 relative to 2020.

The Committee discussed staff's projection of COVID-19 claims cost to be incurred on January 1, 2021 to August 31, 2021 policies at length. The consensus of the Committee was that, while a very challenging projection, the underlying assumptions generally appeared reasonable. Given the fluidity of the situation and several of the topics raised during the Committee discussion, it was agreed the Committee would re-evaluate the projection and consider how cost estimates should be reflected in individual classification 2021 advisory pure premium rates at the August 10, 2020 meeting.

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

The Agenda included an updated analysis of March 31, 2020 experience, which was first reviewed by the Committee at the June 12, 2020 meeting. The Committee reviewed loss development and noted that the paid and incurred loss development patterns reflected in the Agenda were consistent with those reviewed at the June 12, 2020 meeting. It was noted that the projected ultimate loss ratios based on March 31, 2020 experience are only slightly lower than those based on December 31, 2019 experience. It was also noted that this quarterly decrease is lower in magnitude compared to the same period one year ago. The Committee also noted that indemnity claim settlement rates continue to increase for the 2017 and prior accident years but have moderated for 2018 and 2019.

The Committee reviewed the loss development projections, including the alternative loss development projections included in the Agenda (Item AC20-08-03). It was noted that the projections based on unadjusted incurred development continue to be lower than the projections based on unadjusted paid development but the paid loss development projections with the adjustments reflected in the last several filings are approximately in the middle of the unadjusted methods. Staff noted that the loss development projections based on paid development including staff's recommended adjustment to longer-term loss development for the impact of claim settlement rate changes (see Item AC19-08-05) would bring the adjusted paid method projections somewhat closer to the incurred method projections.

After a discussion, a motion was made and seconded to recommend basing the projected indemnity loss ratio for January 1, 2021 to August 31, 2021 policies on the latest year paid loss development methodology adjusted for changes in claim settlement rates including staff's recommended adjustment to longer-term paid loss development (see Item AC19-08-05). The motion passed unanimously.

A second motion was made and seconded to recommend basing the projected medical loss ratio for January 1, 2021 to August 31, 2021 policies on the latest year paid loss development methodology adjusted for reforms and changes in claim settlement rates including staff's recommended adjustment to longer-term paid loss development. The motion passed with seven in favor, one opposed, and one abstention. The actuary representing the Public Members of the Governing Committee who opposed the motion believed averaging the projection based on the methodology recommended by the majority of the Committee members with the projection based on three-year average incurred medical loss development adjusted for changes in case reserve levels was appropriate. The Committee member abstaining from the motion agreed with the general medical loss development approach recommended by the majority of the Committee members but expressed some concern with the adjustment to longer-term loss development for the impact of claim settlement rate changes.

The Committee was advised that staff completed a review of medical fee schedule updates adopted by the Division of Workers' Compensation for 2020 to determine if any anomalous changes should be reflected in the medical on-level adjustments. Staff noted that although there were some atypical updates related to COVID-19, they were not anticipated to have a significant impact on average medical costs. The majority of the updates were modest and based on inflationary changes consistent with updates in prior years. Staff noted that, as a result, no adjustments to the medical on-level factors for these changes are needed at this time.

The Committee next discussed the severity trend projections. Staff noted that the projected increases in the proportion of cumulative trauma claims due to the recent economic downturn should have an overall modest impact on average claim severities. It was noted that, for medical in particular, continued impacts of the pandemic and economic downturn may result in delays in treatment or more a prolonged claim duration which could push average medical costs upward. It was also noted that a preliminary review of medical transaction data showed that pharmaceutical costs are beginning to increase in recent months.

Given these considerations, the Committee preliminarily recommended reflecting a 2.5% annual medical severity trend, representing the approximate average in the long-term and shorter-term averages rates of growth, in the updated analysis of March 31, 2020 experience to be reviewed at the August 10, 2020 meeting in lieu of the 1.5% trend rate reflected in the Agenda. A Committee member noted that increases in the duration of claims during the pandemic and recession may also increase average indemnity costs.

The Committee was advised that, due to the many aspects of the trending projection related to the pandemic that are still being reviewed, staff recommended deferring the determination of the recommended trending methodology to project the loss ratio for January 1, 2021 to August 31, 2021 policies until the August 10, 2020 meeting. The Committee agreed with staff’s recommendation.

Item AC20-08-01
Third 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 (CWG) on a semi-annual basis. Among the diagnostics discussed by the Committee were the following:

1. The Committee reviewed the summary of claim settlement rates. The Committee was advised that the CWG noted there will likely be a post-pandemic slowdown in settlement due to slowdowns in medical treatment, obtaining medical-legal reports and in WCAB processes. A Committee member noted that this slowdown could significantly impact loss development beginning in the second quarter of 2020.

2. The number of filed liens continue to decrease. Compared to the first half year of 2019, there was a sharper dip in the second quarter. The Committee was advised that the CWG noted that due to the time lag inherent in lien filings, there might be a larger pandemic-related reduction later.

3. After reaching a historical high in the 2nd quarter of 2018, the number of filed and eligible independent medical reviews has decreased steadily. The Committee was advised that the CWG noted that the larger decrease during the 2nd quarter of 2020 was largely due to the general slowdown of medical activities during the pandemic.

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 retrospective evaluations also show that claim settlement adjustments are improving the accuracy of the paid projections.

5. The number of very large claims has increased sharply in policy years 2016 and 2017. The Committee was advised that the CWG suggested several factors which may have impacted the relative volume of large claims including: recent reforms reducing medical costs may have had less impact on these very large claims, improved mortality rates for seriously injured workers, prolonged hospital stays and increased nursing and home health care. Staff noted that the growth of very large claims was likely a driving factor of the increased medical severity on the 2018 accident year.

6. Early indicators of claim severity for accident year 2020 suggest a significant increase. It was suggested that with the effects of the pandemic including the economic slowdown and delays in medical treatment, accident year 2020 severities on an ultimate basis could increase.

Item AC20-08-02
1/1/2021 Filing – Loss Adjustment Expense Experience Review

The Agenda included an analysis of the projected ratio of loss adjustment expense (LAE) to loss for January 1, 2021 to August 31, 2021 policies based on calendar year unallocated loss adjustment expense (ULAE) experience through calendar year 2019 and accident year allocated loss adjustment expense (ALAE) and medical cost containment program (MCCP) experience as of March 31, 2020.

The Committee was reminded that the ULAE projection included in the Agenda was based on the average of (a) a projection based on the relationship of paid ULAE to open indemnity claims and (b) a projection based on the relationship of paid ULAE to paid losses, with average ULAE amounts based on private insurer experience, which is consistent with the methodology used in the last several pure premium rate filings. Staff recommended that, for the open indemnity claim count-based projection, the forecast claim frequency changes be based on the intra-class indemnity claim frequency changes projected by the WCIRB's claim frequency model with the recommended adjustments for the impact of the recent economic downturn on the proportion of cumulative trauma claim filings (see Item AC20-08-04). Staff noted that the projected average ULAE per open indemnity claim trend was based on the average wage trends from the UCLA Anderson School of Business and California Department of Finance forecasts and recommended that these forecasts include the judgmental adjustment to the 2020 wage level change for the impact of the shifting employment mix (see Item AC20-08-04). After discussion, a motion was made and seconded to base the January 1, 2021 ULAE projection on the methodology reflected in the Agenda with the recommendations made by staff. The motion passed with eight in favor and one abstention.

The Committee next discussed the projection of ALAE (excluding MCCP costs). It was noted that paid ALAE development continued its steady decline through the first quarter of 2020. The Committee was reminded that the ALAE projection included in the Agenda was based on the relationship between projected ultimate ALAE for private insurers and statewide ultimate indemnity claim counts and that the claim frequency projections are based on the same forecasts used in the ULAE projection. The Committee was advised that the projected ALAE severity trend reflected in the Agenda of 2.0% was based on the average of the longer-term and shorter-term average rates of growth in (a) calendar year ALAE per open indemnity claim and (b) accident year ultimate ALAE per indemnity claim for private insurers. It was noted that after reflecting the recommended refinement to the adjustments to paid ALAE development for the impact of the recent increases in claim settlement rates (see Item AC19-08-04), the approximate average annual ALAE severity trend is 1.5%. The consensus of the Committee was that the 1.5% ALAE severity trend was appropriate given the recent moderation of average ALAE cost levels and continued improvement in paid ALAE development.

The Committee was reminded of the approach to adjust the projected ALAE ratio for the impact of Senate Bill No. 1160 reforms to lien filings. Staff noted that based on updated paid ALAE development information, the indicated adjustment for the impact of the reforms not yet reflected in the emerging ALAE experience was -4.8% compared to -7.2% reflected in the January 1, 2020 Pure Premium Rate Filing. After discussion, a motion was made and seconded to base January 1, 2021 ALAE excluding MCCP costs projection on the methodology reflected in the Agenda with the recommendations made by staff. The motion passed with eight in favor and one abstention.

The Committee reviewed the projection of MCCP costs. It was noted that average MCCP cost per indemnity claim for 2019 declined at a level comparable to recent prior years after increasing sharply in 2018. The Committee was reminded that the MCCP cost projection included in the Agenda was based on a similar method to that used to project ALAE excluding MCCP costs. It was noted that the projected MCCP severity trend based on the average rates of growth in calendar year MCCP cost paid per open indemnity claim and accident year ultimate MCCP per indemnity claim was approximately 0%. After a discussion, a motion was made and seconded to base the January 1, 2021 MCCP cost projection on the methodology reflected in the Agenda. The motion passed with eight in favor and one abstention.

Item AC20-08-03
1/1/2021 Filing – Review of Alternative Loss Projection Methodologies

The Agenda included a number of alternative loss development 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 methodologies in the context of its review of March 31, 2020 experience. (Please refer to the August 4, 2020 Actuarial Minutes for Item AC20-06-01.)

Item AC20-08-04
Impact of Economic Slowdown on Pure Premium Rate Indications

Staff presented an analysis of estimated potential impacts on pure premium rate indications due to economic impacts driven by the COVID-19 pandemic. These included both direct and indirect impacts to several components of the ratemaking methodology.

Two potential adjustments to statewide average wage projections were presented. These adjustments were designed to account for dramatic changes in the industrial mix of employment, as employment in lower wage industries were most severely impacted by the pandemic. Absent this adjustment, projections of the statewide average wage in 2020 could be artificially inflated. The first method used observed data through June 2020 from the Bureau of Labor Statistics (BLS) Current Employment Statistics (CES) data set. It was noted that the employment mix in June was assumed to continue for the remainder of 2020. This method produced an estimated 1.9% increase in the statewide average wage in 2020 due to the change in employment mix. It was noted that staff measured the alternate assumptions that either the first half of 2020 was treated as a full year or that a second shutdown period occurred. The impact of either assumption was immaterial. It was further noted that staff considered the estimate of this method to be a reasonableness check for the second method used, as the data set used in this first estimate does not include employment from the agriculture or government sectors and future projections of employment by industry are not available.

The second method uses employment projections from the UCLA Anderson Forecast and observed industry wage relativities from the BLS Quarterly Census of Employment and Wages (QCEW) data series. This method generated estimated wages changes due to the projected shift in industrial mix of 2.5% in 2020, 0.1% in 2021, and -0.5% in 2022. Staff noted that current wage change projections of 1.5% in 2020, 2.6% in 2021, and 3.8% in 2022 based on the March UCLA and April Department of Finance forecasts do not reflect the changes in industrial mix underlying the estimates of this method. Staff noted that it was therefore inappropriate to adjust projected wage changes using this method.

Staff presented an alternate analysis of mean vs. median wage changes during the Great Recession. This analysis showed an average of 0.8% difference between the mean and median wage changes during that period. Based on this analysis staff suggested that tempering the projected 2020 wage change of 1.5% by this 0.8% may be an appropriate estimate to better reflect the expected wage change of the “typical” California worker. The consensus of the Committee was that this judgmental adjustment should be reflected in the wage on-level adjustments for projecting the loss ratio for January 1, 2021 to August 31, 2021 policies.

Staff reminded Committee members that the WCIRB frequency model projections are in part based on projections of economic conditions as well as projected changes in the relative ratio of cumulative trauma claims, which have been correlated with worsening economic conditions in the past. Staff noted that the magnitude of the 2020 value of projected changes in economic conditions is more than twice as large as any prior observation and had investigated whether tempering this observation was appropriate. Staff showed that any tempering of the economic variables below the prior observed maximum reduced the effectiveness of the model fit. Based on this analysis, staff suggested that this tempering was inappropriate and that any tempering of the economic variables at a value between the current maximum and the 2020 projection would be arbitrary and that, as a result, the economic variables should be used unaltered in the model.

The Committee was reminded that the WCIRB’s claim frequency projection model currently assumes no future changes in the relative level of cumulative trauma claim filings. Staff also noted that the cumulative injury index has the largest coefficient in the frequency model, so it would be particularly sensitive to these changes. Staff showed alternative projections of frequency changes that used observed changes in the cumulative injury index during the Great Recession for 2020 and 2021. Given the rise in the cumulative injury index in prior recessions as well as the rise in recent years in post-termination cumulative trauma claims and the magnitude of recent job losses in California, staff suggested that it was appropriate to reflect anticipated changes in the cumulative injury index in the frequency model projection. Staff suggested reflecting this impact based on the average change from the prior two recessions. The consensus of the Committee was that these adjustments should be reflected in the indemnity claim frequency projections to be reviewed at the August 10, 2020 meeting.

Staff also noted that while the frequency model projection used in the pure premium rate projection already adjusts for changes in industrial mix, an additional 3.3% decrease in overall indemnity claim frequency was expected in 2020 due to shifting industrial mix as the greatest loss in employment projected for 2020 was in industries with relatively high frequency rates.

Staff noted that changes in indemnity claim severity due to shifting industrial mix in the past had been modest and are regularly shown for policy years for which unit statistical report (USR) data is available in Exhibit S15 of the semiannual WCIRB set of diagnostic exhibits. (See Item AC20-08-01 of the Agenda for this meeting.) Staff presented an extension of this exhibit that estimates changes in severity due to industrial mix for future years for which USR data is not yet available separately for indemnity and medical components of claim severity. This method uses the latest observed USR industrial claim severity relativities and projects a future claim count distribution by adjusting the most recent observed distribution of claim counts for observed and projected changes in industry level employment. It was noted that this method implicitly assumes that industry frequency and severity relativities are unchanged in the forecast period. Staff noted that this adjustment will be material when and if accident year 2020 severity data is used to project changes in claim severity.

For informational purposes, staff also presented an estimate of the impact of changing industrial mix on overall pure premium. This estimate used approved classification pure premium rates for policy years through 2020 and filed classification pure premium rate relativities for policy year 2021. The exposure distribution used USR data through policy year 2017 and was adjusted for observed and projected changes in industry level employment through 2021.

Item AC20-08-04
Telecommuting Advisory Pure Premium Rate

The Committee was reminded that the WCIRB proposed establishing 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. This proposal was part of the WCIRB's January 1, 2021 Regulatory Filing.

In discussing the January 1, 2021 advisory pure premium rates to be proposed to the Insurance Commissioner this August, staff suggested proposing an advisory pure premium rate for Classification 8871 equal to that of Classification 8810, *Clerical Office Employees,* until such time as California-based experience for the new classification is available that supports a differentiation in advisory pure premium rates. 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.

The Committee was advised that, in response to these requests, staff analyzed the historical loss to payroll experience in New York and a number of NCCI states that have established Classification 8871 for telecommuter employees.[1] The loss to payroll ratio for Classification 8871 in New York has been volatile, but on average over the last five years was significantly higher than that for Classification 8810. Conversely, in the NCCI states that have a telecommuter classification, the average loss to payroll ratio for Classification 8871 has been significantly lower than for Classification 8810. The Committee was further advised that in all of these states reported Classification 8871 payroll is very small relative to that for Classification 8810.

Staff provided the Committee with information that showed the distribution of policy year 2017 payroll by geographical region within California for (1) Classification 8810, (2) all classifications that include clerical within their definition and (3) all other classifications combined. This information showed that, in a number of regions, the payroll of classifications that include clerical and for which Classification 8871 would not apply is significantly greater than that reported in Classification 8810 and, as a result, the impact of the new classification will likely be somewhat muted in California.

Staff also provided the Committee with information about the leading "Cause of Injury" codes and "Nature of Injury" codes, respectively, for these classification groupings showing that claims with cumulative injury and repetitive motion Cause of Injury codes are relatively more common in Classification 8810 and in classifications that explicitly include clerical than in other classifications. Similarly, claims with mental stress, carpal tunnel syndrome and other cumulative injury Nature of Injury codes are relatively more common in Classification 8810 and in classifications that explicitly include clerical than in other classifications. Staff indicated that it is not clear the extent to which the frequency of these types of claims would be different for an employee performing clerical duties at home rather than in the office. Staff also pointed out 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 these types of injuries to occur more frequently.

Finally, staff highlighted the fact that California has a separate classification for computer programmers and software developers that includes clerical employees. This classification is a high wage/low frequency classification, constitutes 9% of total statewide payroll in California and has an advisory pure premium rate much lower the advisory pure premium rate for Classification 8810. Since the California computer programmer and software developer classification includes clerical employees, the proposed telecommuter classification would not apply to this industry in California, unlike New York and NCCI

[1] New York is the only independent rating bureau that has established a telecommuter classification.

jurisdictions that include computer programmers and software developers in the clerical and telecommuter classifications.

A Committee member suggested that, while for the reasons discussed it is probably not appropriate to use historical data from other states as the basis to establish the 2021 Classification 8871 advisory pure premium rate, staff should review California experience reported in the telecommuting classification as soon as possible. Staff indicated that the WCIRB should be able to use its transactional and policy data to get an early sense of how the California telecommuter experience is emerging relative to Classification 8810 and would present that data next year so the Committee could evaluate if a differential would be appropriate for the September 1, 2022 pure premium rate filing.

Following the Committee's discussion, there was a consensus that the January 1, 2021 advisory pure premium rate for Classification 8871 should be the same as Classification 8810. Staff advised the Committee members that their feedback would be provided to the Governing Committee at the August 12, 2020 meeting.

The meeting was adjourned at 2:40 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for December 8, 2020 for approval and/or modification.