

Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
August 10, 2020	9:00 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci
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WCIRB

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David Bellusci
Laura Carstensen
Tony Milano
Julia Zhang

The webinar teleconference meeting of the Actuarial Committee was called to order at 9:00 AM following a reminder of applicable antitrust restrictions, with Mr. David Bellusci, Executive Vice President and Chief Actuary, presiding.

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Item AC20-08-05

Potential Impact of Medical Care Delays

Staff presented the preliminary findings from its analysis of the potential impact of delays in medical care arising from the COVID-19 pandemic and the resultant stay-at-home order.

Staff first shared the preliminary findings on the magnitude of medical treatment delays post-COVID-19 based on the WCIRB's medical transaction data. The analysis compared medical treatment patterns observed in 2020 for the last two weeks of March, April and May to those for the same period in 2019. The comparison was based on medical transaction data of a subset of insurers that submit medical transaction data monthly.

- Based on the preliminary post-COVID-19 data as of July 21, 2020, staff observed that the number of active claims, overall medical services per claim and the total paid per claim dropped significantly in the last two weeks of March and April, but service volumes and the medical payments per claim started to rebound in May.
- Staff also noted there were significant drops in the number of inpatient and outpatient services per claim in late March through April.
- Conversely, average pharmaceutical payments per claim increased in April and May of 2020 compared to the same period of 2019. The increases were mostly driven by a higher paid per transaction for both opioids and non-opioids and slightly higher uses of non-opioids, such as pain medications and dermatologicals.
- Staff also highlighted the surge in telemedicine utilization that started in late March and continued to grow through May.

Staff then presented the preliminary findings of the analysis that quantifies the impact of delays in medical treatments on future claim costs and outcomes. The analysis focused on existing claims with specified leading primary diagnoses in the WCIRB medical transaction data. Preliminary results of the claims with soft tissue injuries were presented.

Staff advised the Committee that soft tissue claims involving delays in their first medical service of about a month tended to have significantly higher medical and indemnity costs, a slower claim closure rate, and a longer duration of receiving temporary disability benefits. Staff noted that patterns for the other leading diagnoses studied, while not yet finalized were very similar to those of claims with soft tissue injuries.

Item AC20-06-01

3/31/2020 Experience – Review of Methodologies

The Committee was reminded that at the August 4, 2020 meeting, the Committee recommended loss development methodologies to be used to project ultimate loss ratios for use in the January 1, 2021 Pure Premium Rate Filing. However, given the number of issues related to the trending projection discussed at the August 4, 2020 meeting, the final review of trending methodologies was deferred until the August 10, 2020 meeting. The Agenda included an updated analysis of March 31, 2020 experience that included updating trending information based on the discussions at the August 4, 2020 meeting.

The Committee was advised that the loss experience summary included in the Agenda reflected the loss development methodology recommended by the Committee at the August 4, 2020 meeting. The Committee was also advised that the wage level projection included the judgmental adjustment of -0.8% to the 2020 wage level change to reflect the shift in the mix of employments which was also recommended at the August 4, 2020 meeting. The Committee was further advised that consistent with the recommendations made at the August 4, 2020 meeting, the frequency projections for 2020 and later were based on (a) the WCIRB's indemnity claim frequency model forecasts, (b) forecast changes in economic conditions based on the June 2020 UCLA Anderson forecast, and (c) a projected increase in the proportion of cumulative trauma claims based on the average increase from the prior two recessions.

The Committee discussed the severity trend projections. The Committee noted that on-level indemnity severities increased by a little less than 1% for each of the last two years after decreasing in each of the prior eight years and the average of the long-term and shorter-term average rates of growth is approximately 0%. A Committee member noted that delays in return-to-work caused by the economic downturn may extend temporary disability and push average indemnity costs upward. The Committee also noted that delays in medical treatment caused by the pandemic may also increase ultimate indemnity payments. Finally, it was noted that the decline in projected non-COVID-19 claim frequency for 2020 may have a greater impact on smaller claims driving average severities up. After discussion, the majority of the Committee members agreed that a 1% annual on-level indemnity severity trend was appropriate.

For on-level medical severities, it was noted that there is significant uncertainty as to how the pandemic will impact medical treatment levels in the future. The Committee noted that a number of factors may push future average medical costs upward including (a) delays or modifications in medical treatment due to shelter-in-place orders, increased social distancing, or a general slowdown in the claims process, (b) a preliminary review of medical transaction data shows that pharmaceutical costs, which have been a cost driver in the past, have begun to rise in recent months, and (c) the projected indemnity claim frequency declines for 2020 may disproportionately impact smaller indemnity claims. After discussion, the majority of the Committee members agreed that a 2.5% annual on-level medical severity trend, which is the approximate average of the long-term and shorter-term average rates of growth, was appropriate.

The Committee reviewed the alternative trending projections included in the Agenda (Item AC20-08-03). It was noted that the projections based on short-term or long-term combined loss ratio trends were generally consistent with those based on separate frequency and severity projections for the comparable period. Given the rapid changes in the claims environment resulting from the COVID-19 pandemic, staff recommended continuing to separately trend frequency and severity as forecasts and judgment about each component can be separately applied.

A motion was made and seconded to base the indemnity trending projection for the January 1, 2021 to August 31, 2021 policy period loss ratio on the frequency trends reflected in the Agenda and a 1% annual indemnity severity trend. The motion passed with eight in favor and one abstention. The actuary representing the Public Members of the Governing Committee who abstained from the motion supported

the separate frequency and severity trending approach and frequency trends recommended by the majority of the Committee but supported a somewhat different approach to the indemnity severity trending projection which varied the projected severity trend rate by year.

A second motion was made and seconded to base the medical trending projection for the January 1, 2021 to August 31, 2021 policy period loss ratio on the frequency trends reflected in the Agenda and a 2.5% annual medical severity trend. The motion passed with eight in favor and one opposed. The actuary representing the Public Members of the Governing Committee who opposed the motion supported the separate frequency and severity trending approach and frequency trends recommended by the majority of the Committee but supported a lower medical severity trend projection.

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

The Agenda included a number of alternative trending methodologies that had been reflected in prior WCIRB pure premium rate filings or discussed at prior Actuarial Committee meetings. The Committee reviewed summaries of the alternative loss projection methodologies during the discussion of trending methodologies in the context of its review of March 31, 2020 experience. (Please refer to the August 10, 2020 Actuarial Minutes for Item AC20-06-01.)

Item AC20-04-04 COVID-19 Crisis

At the August 4, 2020 meeting, the Committee reviewed staff's recommended projection of COVID-19 claim costs to be incurred on January 1, 2021 to August 31, 2021 policies. 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 at the meeting, 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.

Staff presented an updated analysis of the projected overall cost of COVID-19 claims on January 1, 2021 to August 31, 2021 policies. The Committee was advised that the COVID-19 working age deaths and hospitalizations were unchanged from those presented at the August 4, 2020 meeting. With respect to hospitalizations and in response to issues raised at the August 4, 2020 meeting, staff noted that the industrial mix in Massachusetts was relatively similar to that in California and that Maryland was experiencing a recent increase in infections that suggested it may be beginning a second wave. As a result, staff recommended continuing to use only the Massachusetts hospital data to project California hospitalizations. The Committee also reviewed a comparison of deaths and hospitalizations projected for the remainder of the year compared to those reported to date that showed that the projected growth rate in deaths and hospitalizations, while projected using different approaches, were comparable and, as expected with improving treatments, the hospital mortality rate was dropping.

The Committee next discussed the adjustment of the projected counts of 2020 working age deaths and hospitalizations to filed workers' compensation claims which somewhat differed from the approach reflected in the summary presented at the August 4, 2020 meeting. 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 Division of Workers' Compensation (DWC) as of July 23, 2020 with reported working age COVID-19 infections from the California Department of Public Health (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, and that about 10% of all COVID-19 claims filed with the DWC will be denied with the denial ultimately upheld. It was noted that the reasonability of both of these assumptions was validated based on information about COVID-19 claims filed thus far and on feedback from claims experts.

The Committee was also advised that the underlying assumptions related to COVID-19 claim severities and the relativities of cost levels on 2021 and 2022 claims relative to 2020 were similar to those reviewed at the August 4, 2020 meeting. Staff also reminded the Committee that the cost projections being summarized 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 prior to the time of the California Department of Insurance (CDI) Public Hearing on the January 1, 2021 Pure Premium Rate Filing.

The Committee discussed the application of the 4% overall cost estimate in proposed January 1, 2021 classification advisory pure premium rates. The Committee was advised that since the exposure to COVID-19 claims by industry varies significantly and is different to that of other workers' compensation exposures, staff was recommending that the impact be applied as an additive amount rather than a multiplicative factor. In addition, since there are significant differences in COVID-19 claim filing rates by industry sector, staff recommended that the additive amounts 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.

A Committee member 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. Staff indicated that the 25% limitation typically applies to changes in classification relativities distinct from the overall rate level change and would not normally apply to the application of the COVID-19 additive amounts.

A Committee member asked if the impact could be better applied by individual classification rather than by industry. Staff indicated that sufficient detailed data on COVID-19 claims by individual classification is not yet available and the proposed approach would effectively temper the impact on those classes that might otherwise see larger increases. The Committee was also advised that staff plans to review the industry sector additive amounts at the September 8, 2020 meeting based on an additional month of COVID-19 claim information and, to the extent appropriate based on that review, can amend the proposed January 1, 2021 advisory pure premium rates prior to the time of the CDI Public Hearing.

Following discussion, a motion was made and seconded to reflect provisions for the projected cost of COVID-19 claims on January 1, 2021 to August 31, 2021 policies based on the methodologies and assumptions presented by staff. The motion passed with 8 in favor and one abstention.

The meeting was adjourned at 11:45 AM.

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.