

# WCIRB Actuarial Committee Meeting

February 16, 2021



# Agenda

1. AC20-12-04: Experience Rating Eligibility
2. AC21-02-01: 9/1/2021 Regulatory Filing – Experience Rating Plan Values

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# 01

9/1/2021  
Regulatory Filing  
– Experience  
Rating Plan  
Values





# Computation of Indicated Off-balance Factor

- Based on the average unadjusted ratio of actual losses to expected losses for experience rated employers
  - Latest three policy years used
- Adjustments to A / E ratios:
  - Off-balance factor in effect for that year (applied to that year's expected loss rates)
  - Factor to achieve target off-balance (2018 only)
  - Adjustment to reflect section 11751.9 rerates
  - Hindsight correction factor to produce average expected loss rate
- Projected A / E ratio and average credibility used to determine change from current off-balance factor
- Notable changes for 9/1/2021 Regulatory Filing:
  - Latest policy year (2020) no longer preliminary; average credibility from 2020 used

# Computation of Statewide Expected Loss Rate Factors

- Based on average indicated limited loss to payroll ratios from classification relativity analysis
- Adjustments to targeted expected loss rate level:
  - Years and maturity level used in experience mods (1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> report levels)
  - Selected experience rating off-balance
  - Factor to reflect loss limitations (first \$250 and \$175,000 maximum)
  - Adjustment for Section 11751.9 rerates

# Computation of Statewide Expected Loss Rate Factors – Years and Maturity Level for Experience Mods

- Experience mods for 9/1/2021 to 8/31/2022 policies will typically use:
  - 9/1/2017 to 8/31/2018 data at 3<sup>rd</sup> report level
  - 9/1/2018 to 8/31/2019 data at 2<sup>nd</sup> report level
  - 9/1/2019 to 8/31/2020 data at 1<sup>st</sup> report level
- For 9/1/2017 period, actual unit statistical data from 1<sup>st</sup> RL is developed to 3<sup>rd</sup> RL
  - LDFs based on latest available aggregate financial data (from AYs 2017 and 2018)
- For 9/1/2018 period, latest available unit statistical data from 1<sup>st</sup> RL is trended and developed to 2<sup>nd</sup> RL
  - 4/1/2018 to 3/31/2019 data is available (5 months short of target period)
  - 5-month trend is applied based on projected loss ratios from 1/1/2021 Rate Filing (weighted average of AYs 2018 to 2020)
  - LDFs based on latest available aggregate financial data (from AYs 2017 to 2019)
- For 9/1/2019 period, 1-year trend is applied from 9/1/2018 period ratio
  - Trend is based on projected loss ratios from 1/1/2021 Rate Filing (weighted average of AYs 2019 to 2021)

# Computation of Statewide Expected Loss Rate Factors – Loss Limitations

- \$250 and \$175,000 limits are deflated from target experience period level to level of latest available unit statistical data
  - Target experience period is 9/1/2017 to 8/31/2020 policies (3 years)
  - Approximately 2 years of de-trend to available unit statistical data level
- Deflation factors computed based on an AY-weighted average of projected ultimate indemnity and medical severities from 1/1/2021 Rate Filing

# Computation of Individual NAICS Sector Expected Loss Rate Factors

- Computation very similar to All-NAICS factors, with a few differences
- Development from 1<sup>st</sup> to 2<sup>nd</sup> and 2<sup>nd</sup> to 3<sup>rd</sup> report levels are derived from latest available unit statistical data for each NAICS Sector (10/1 to 9/30 policies)
- 9/1/2019 policy period loss ratios are trended from 9/1/2018 period loss ratios using the latest available annual trend from unit statistical data for that NAICS Sector
- Each NAICS Sector's expected loss rate factors are balanced to the average of the statewide factors
- In rare cases, individual NAICS Sector data is recommended to be replaced with a broader group of data to reduce volatility
- Each individual classification's expected loss rate is limited to a 15% relativity change from its prior expected loss rate



# 02

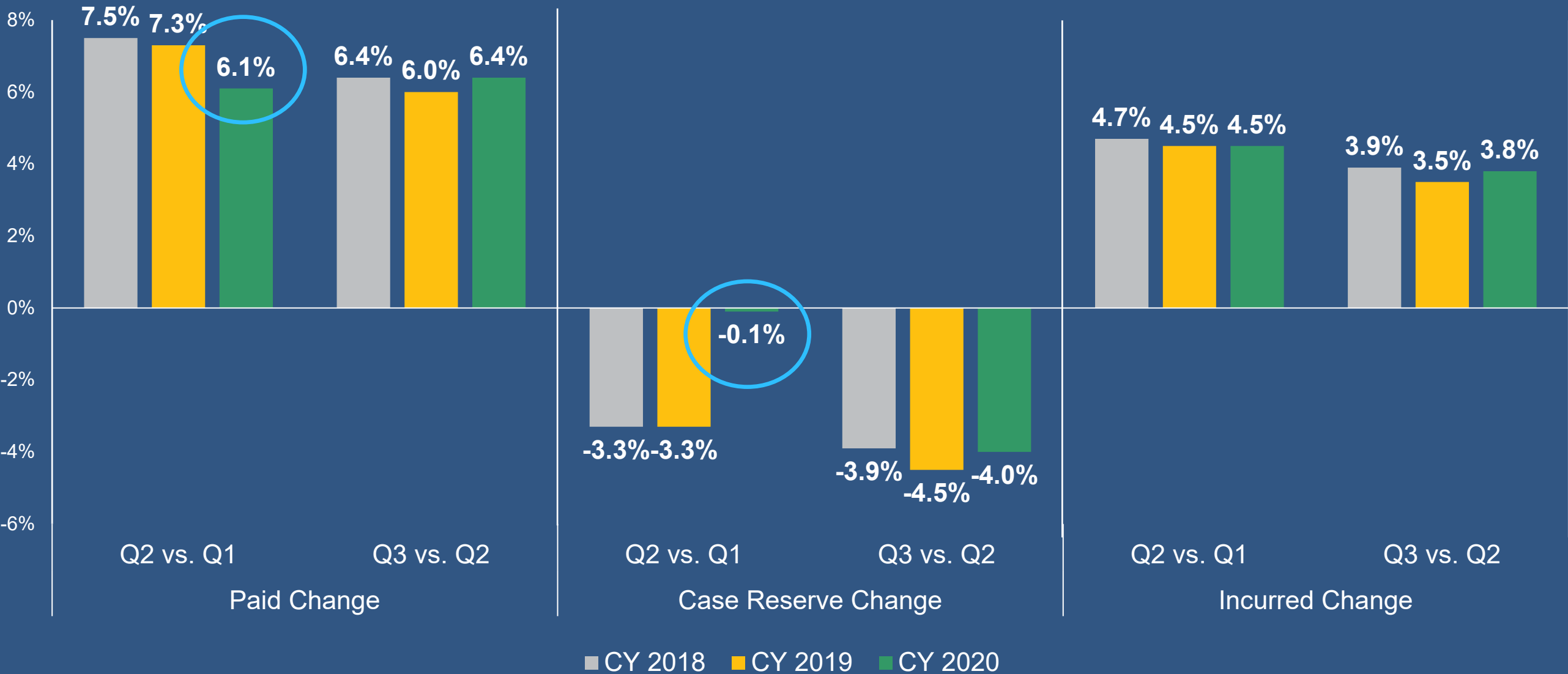
## Pandemic Impact on 2020 Development



# Loss Development in 2020

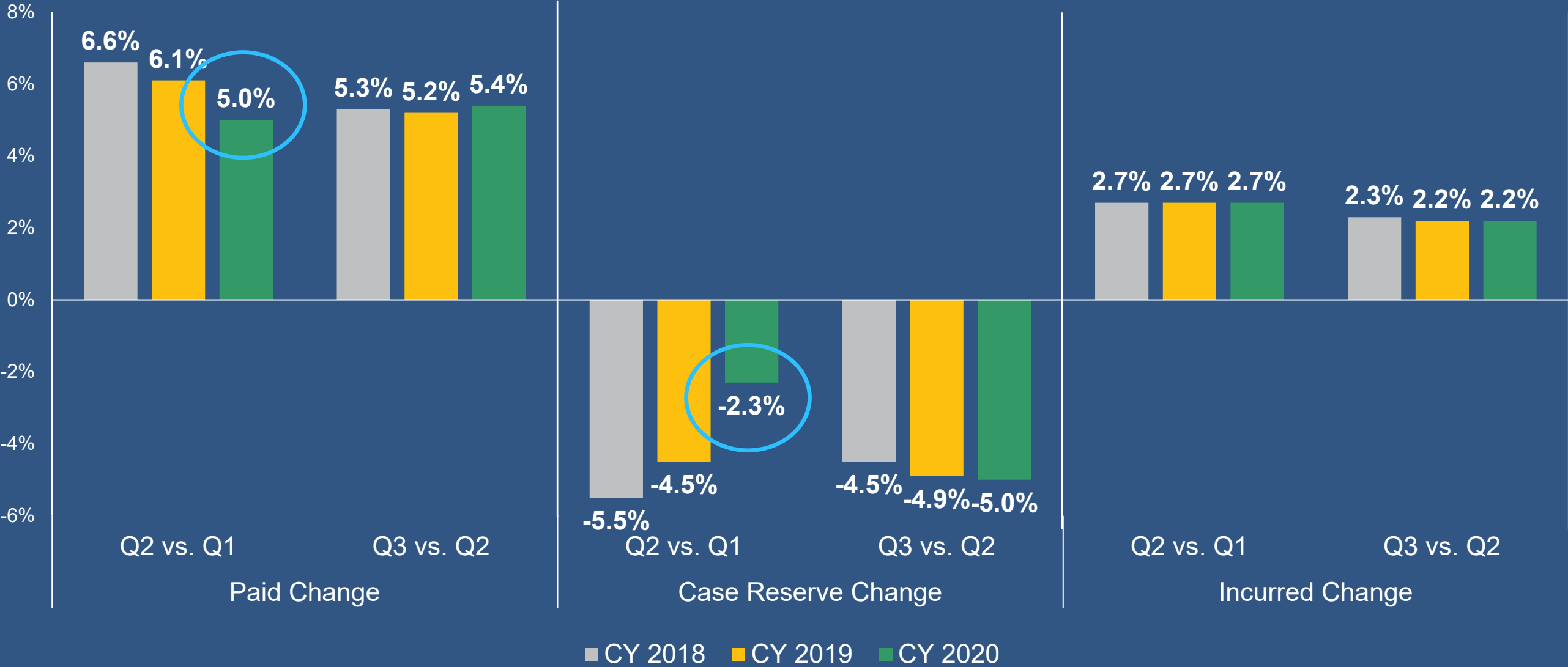
- First quarter 2020 development comparable to prior quarters
- Second quarter 2020 development impacted by slower claim activity during pandemic
  - Decrease in paid development
  - Increase in case reserves
  - Slowdown in claim settlement rates for AYs 2019 and prior
- Third quarter 2020 development showed somewhat of a more “typical” pattern
  - Claim settlement rates continued to emerge at lower levels
- Fourth quarter 2020 development to be reviewed at March 16 meeting
- Staff conducted initial review of potential approaches to adjust for shifting loss development in 2020

# Quarterly Indemnity Change – 2<sup>nd</sup> through 6<sup>th</sup> Least Mature AYs (Exhibit 1.1)

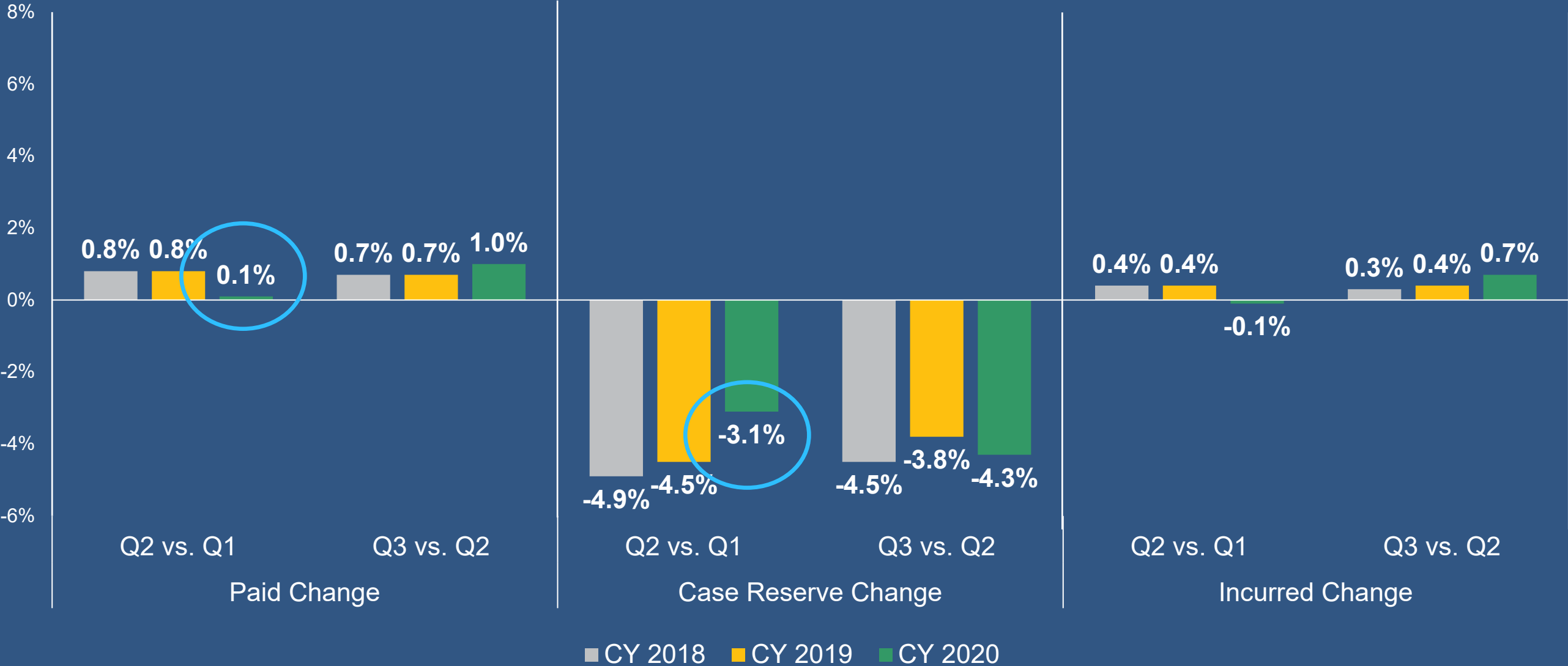




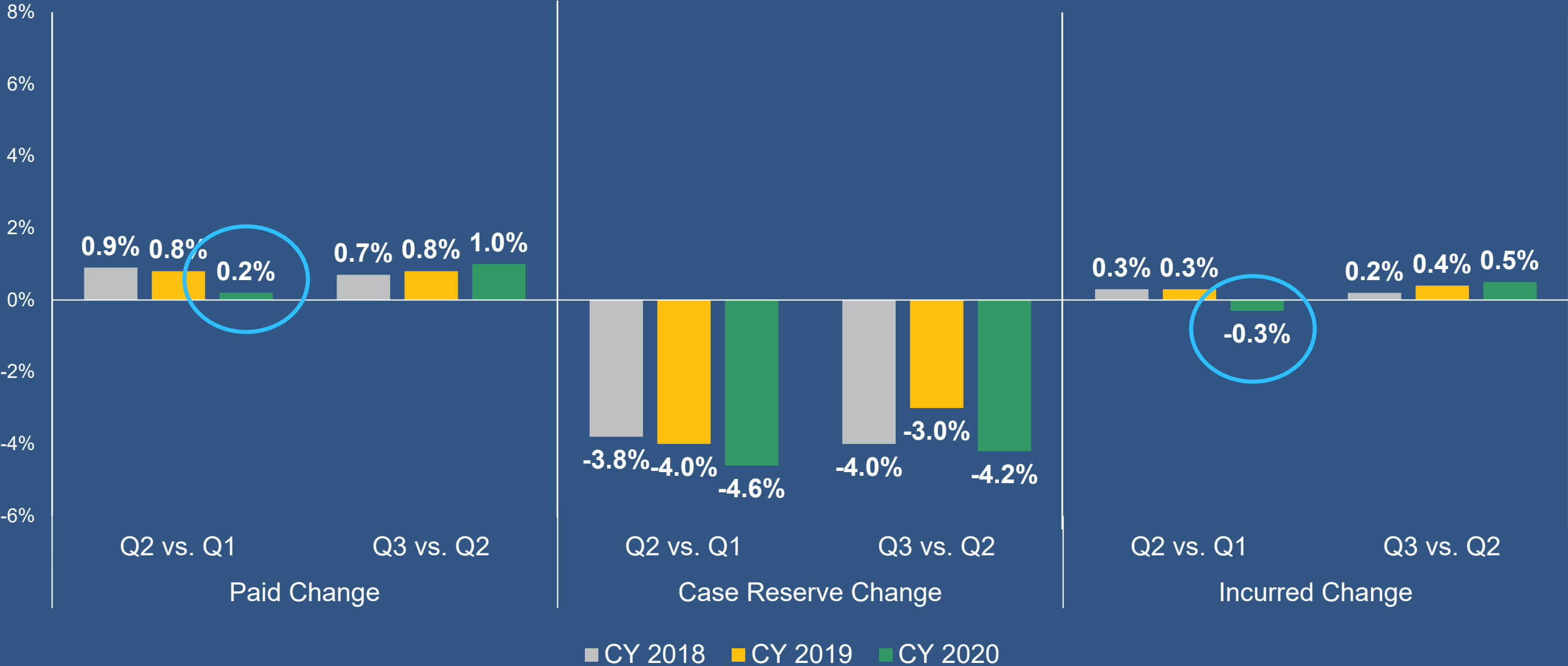
# Quarterly Medical Change – 2<sup>nd</sup> through 6<sup>th</sup> Least Mature AYs (Exhibit 1.2)



# Quarterly Indemnity Change – 7<sup>th</sup> through 11<sup>th</sup> Least Mature AYs (Exhibit 2.1)

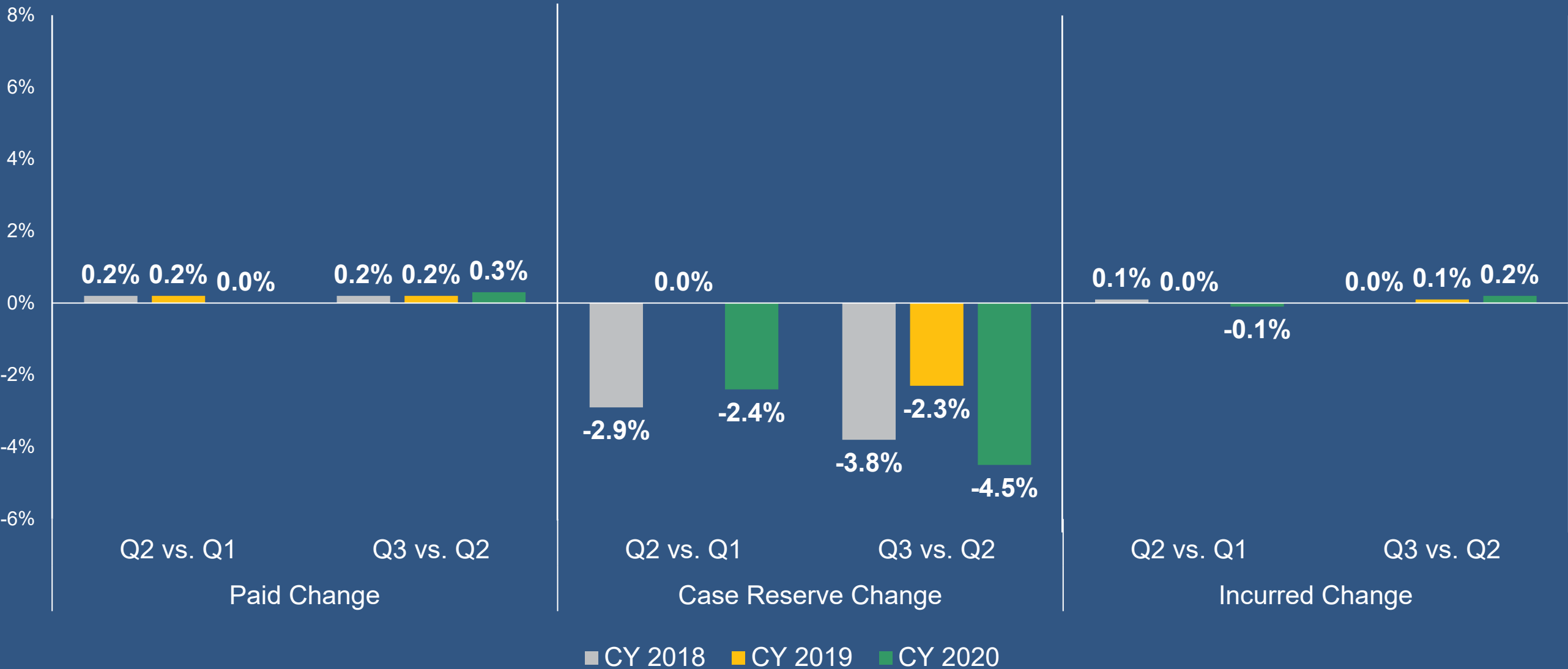


# Quarterly Medical Change – 7<sup>th</sup> through 11<sup>th</sup> Least Mature AYs (Exhibit 2.2)

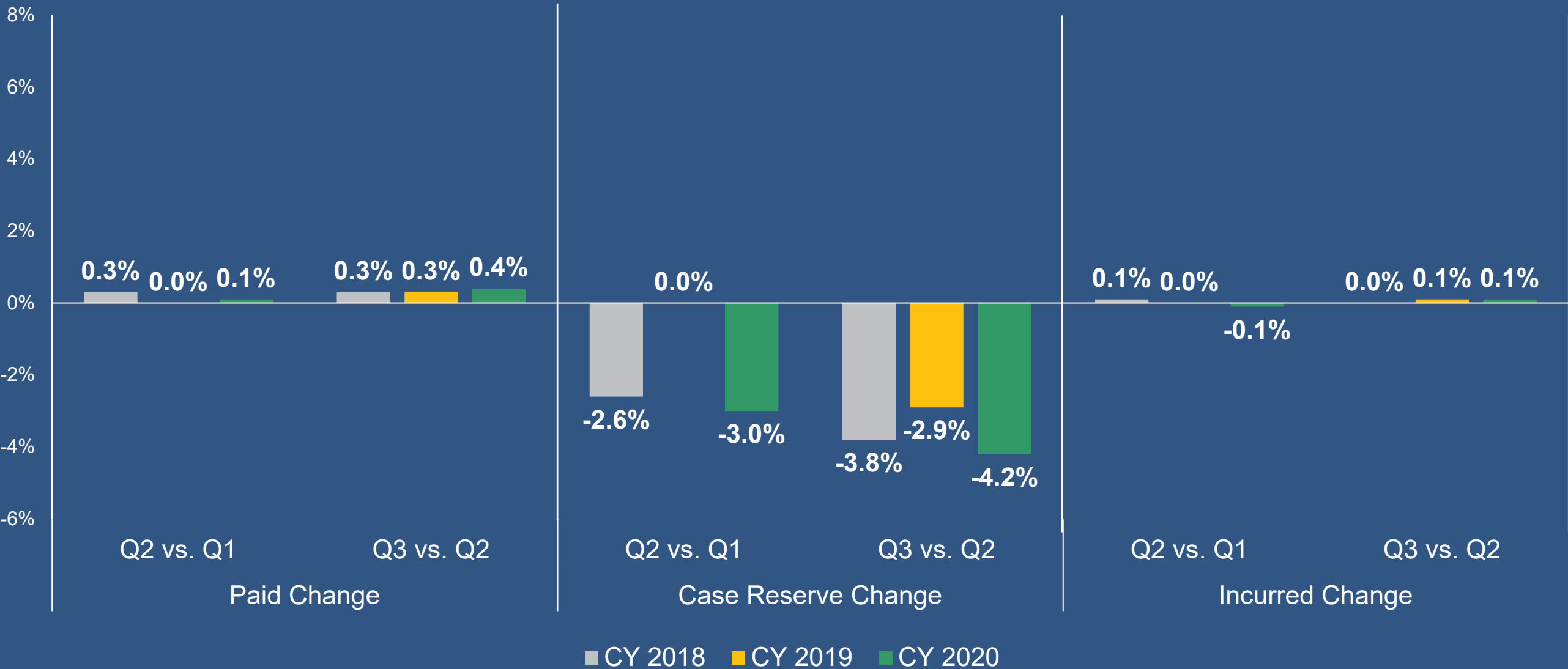




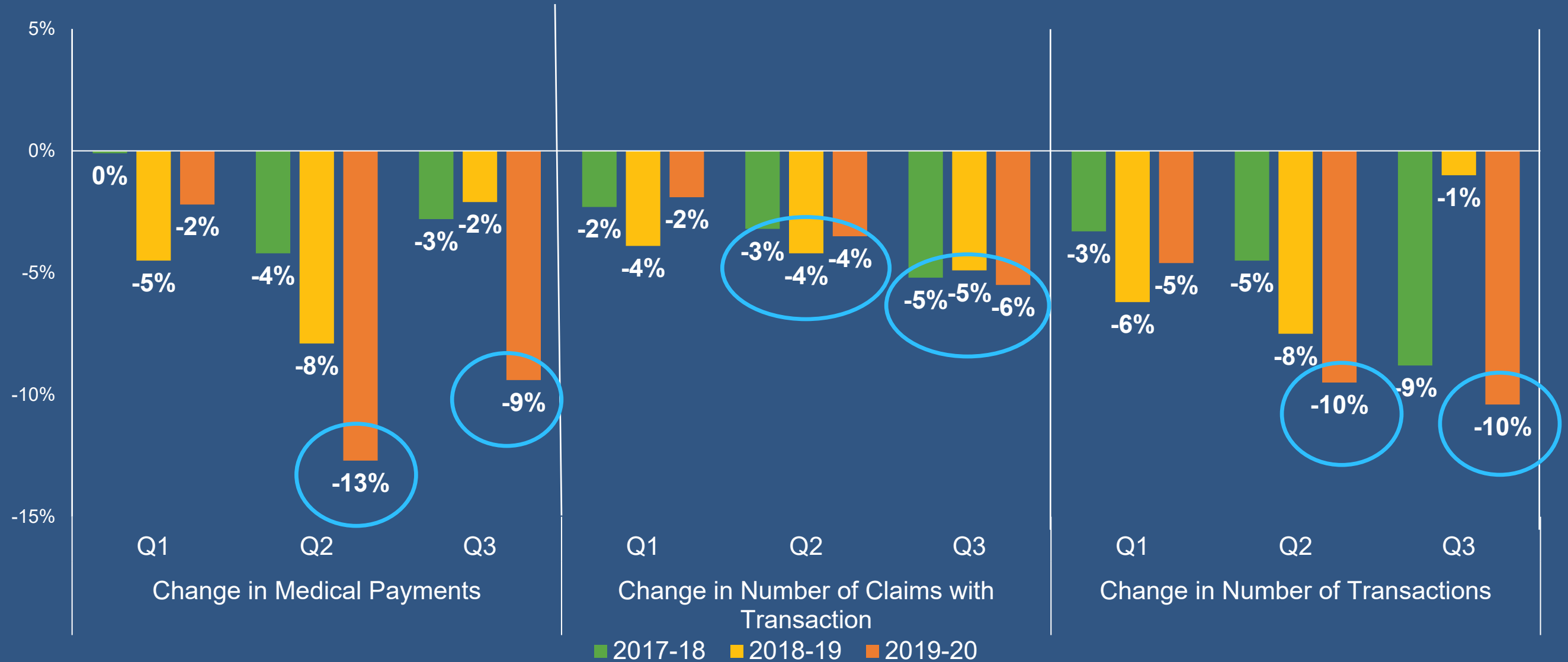
# Quarterly Indemnity Change – 12<sup>th</sup> through 21<sup>st</sup> Least Mature AYs (Exhibit 3.1)



# Quarterly Medical Change – 12<sup>th</sup> through 21<sup>st</sup> Least Mature AYs (Exhibit 3.2)

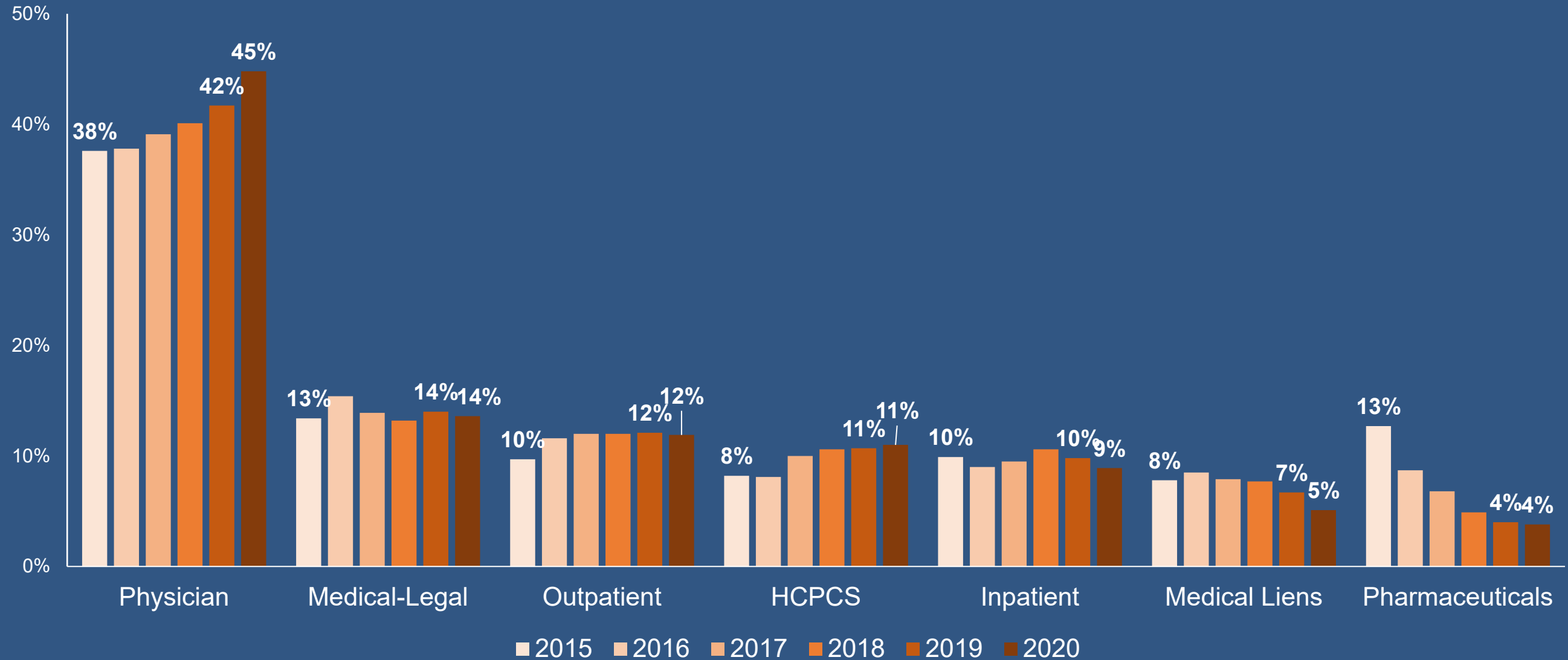


# Quarterly Medical Payments – Change from Same Quarter of Prior Year – Excluding Most Recent Accident Year (Exhibit 4)

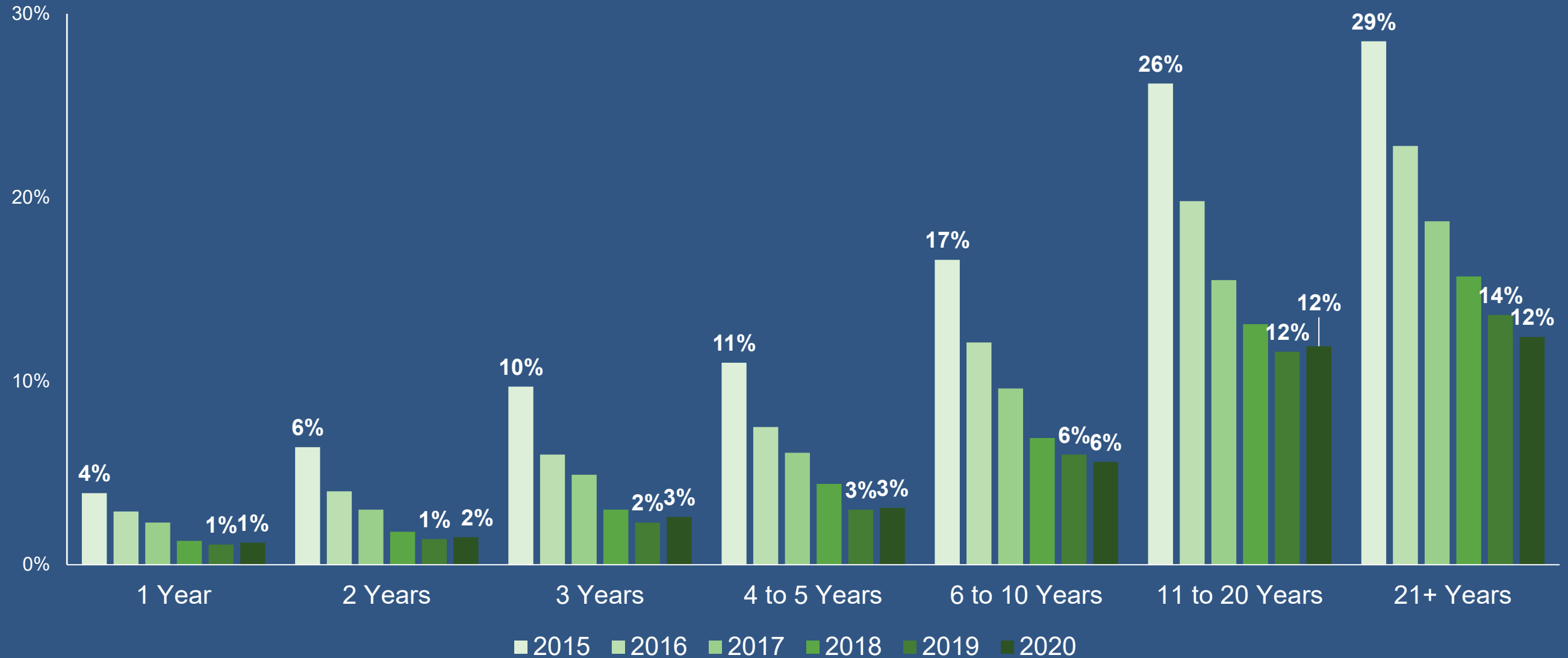




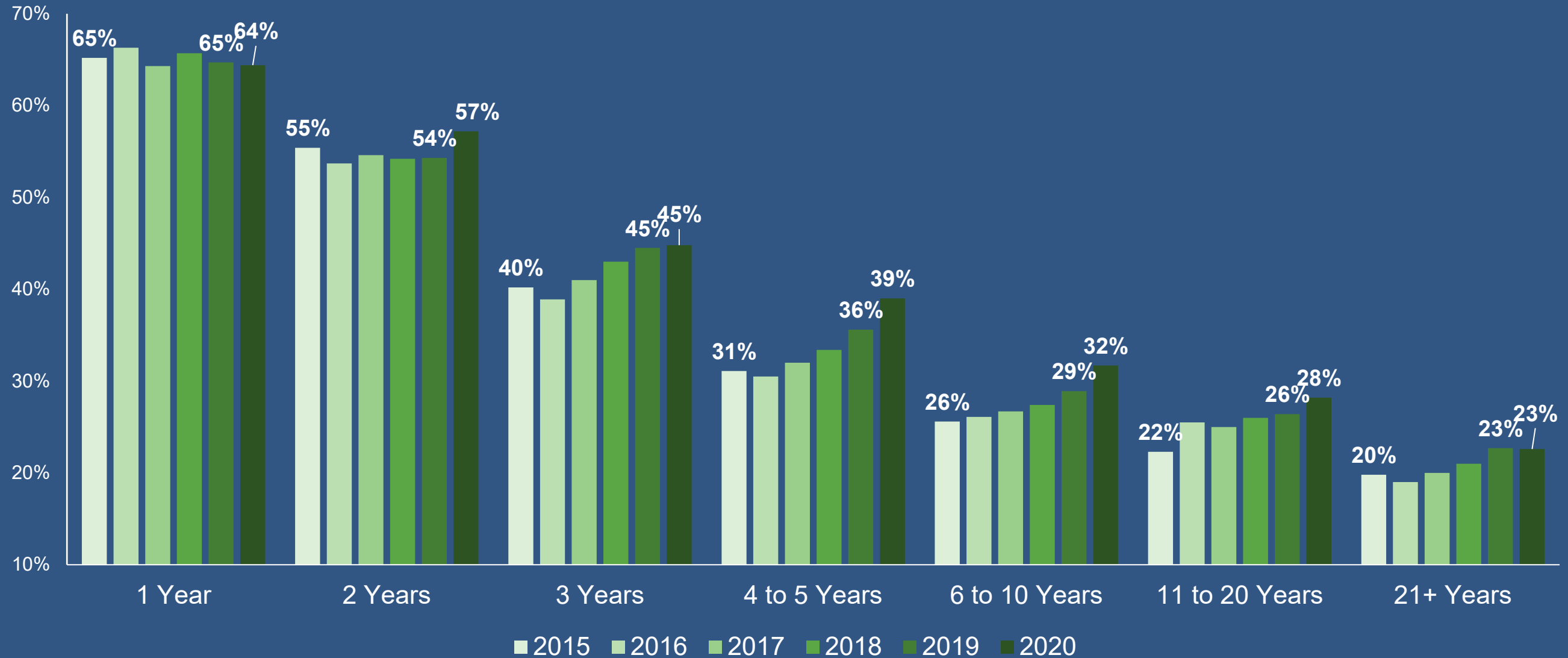
# Share of First 9 Months Medical Payments by Service Type – Excluding Most Recent Accident Year (Exhibit 5.2 – Revised)



# Share of First 9 Months Medical Payments by Age of Claim – Pharmaceuticals (Exhibit 6)

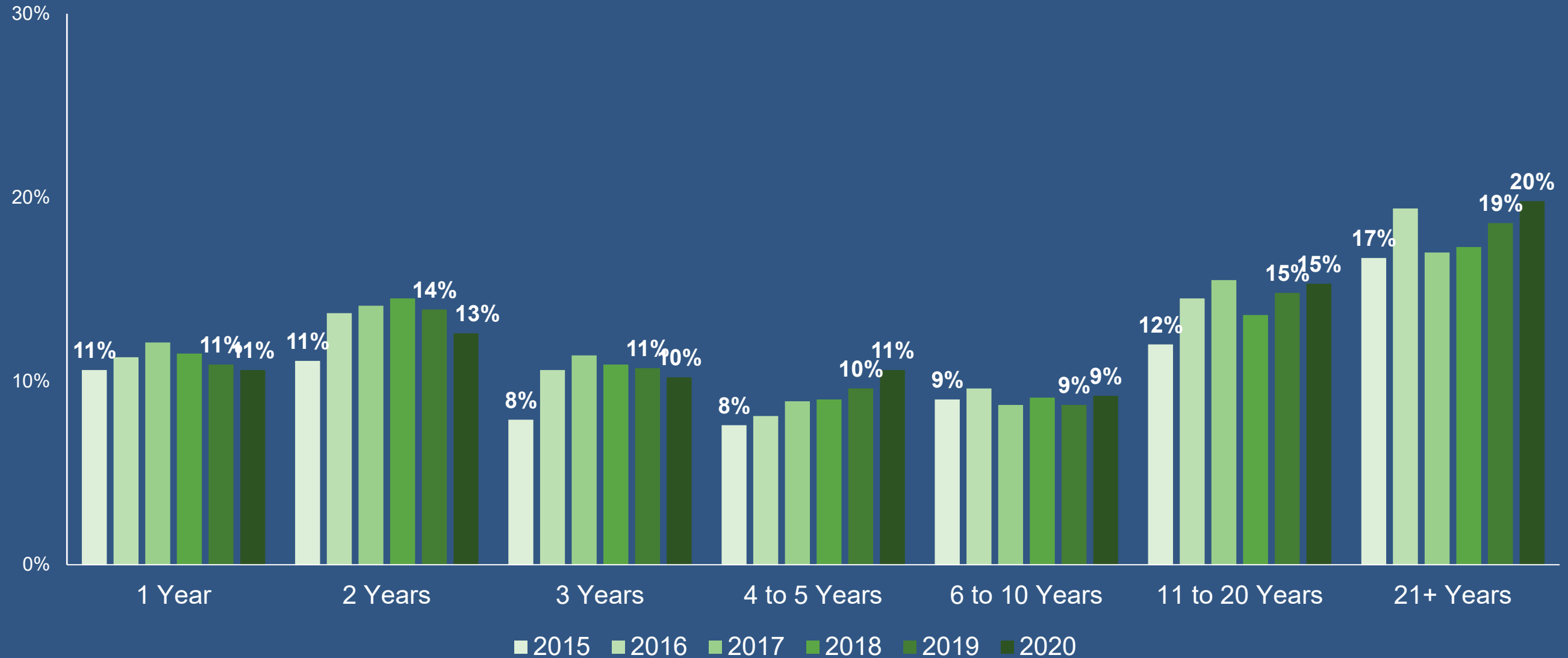


# Share of First 9 Months Medical Payments by Age of Claim – Physician Services (Exhibit 6)



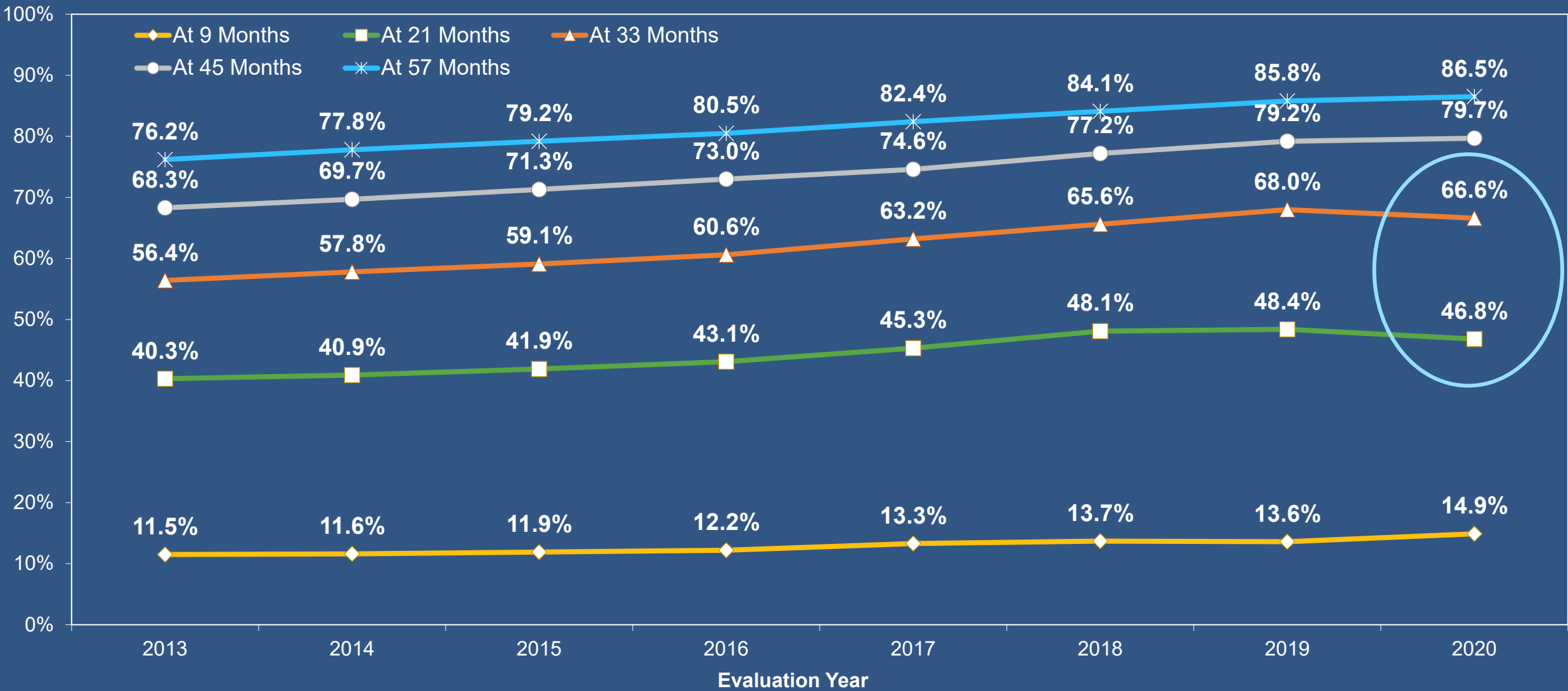


# Share of First 9 Months Medical Payments by Age of Claim – Outpatient Services (Exhibit 6)

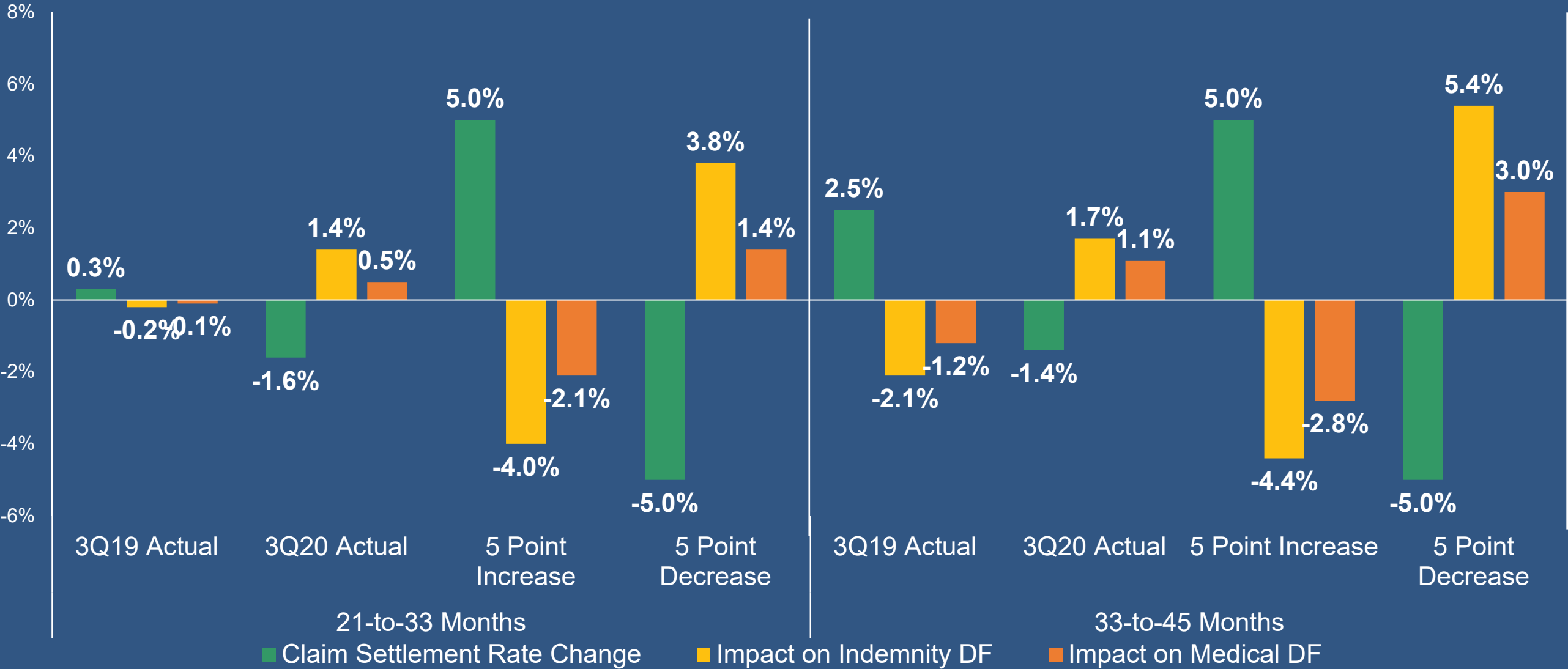


# Estimated Ultimate Indemnity Claim Settlement Ratios (Exhibit 7)

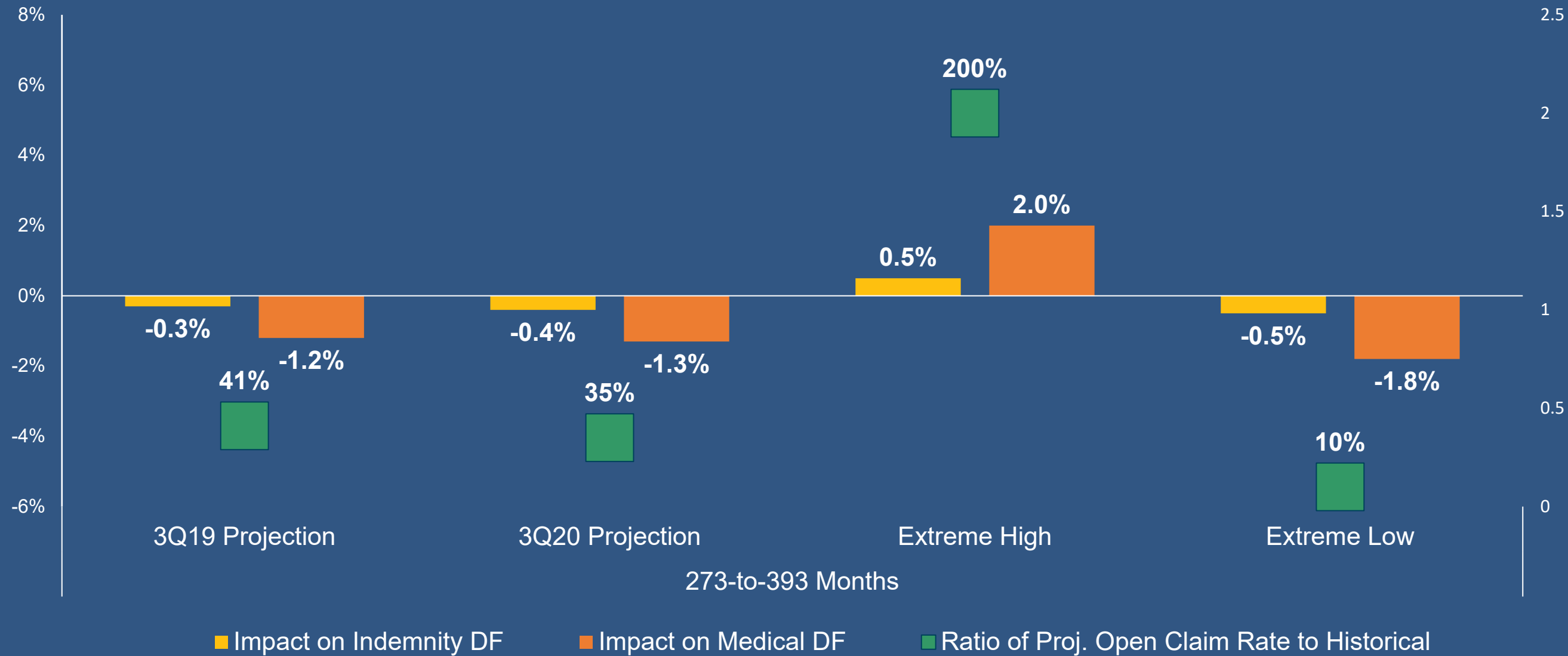
As of September 30, 2020



# Sensitivity Testing of Berquist-Sherman Claim Settlement Adjustment (Exhibit 8)



# Sensitivity Testing of Claim Settlement Adjustment to Longer-term Loss Development (Exhibit 8)





# Method to Adjust Post-Pandemic Development with Pre-Pandemic Development

1. Annual 21-33 Paid Indemnity LDF as of 9/30/2020: 1.709
2. Quarterly 27-30 Paid Indemnity LDF as of 6/30/2020: 1.116
3. Quarterly 27-30 Paid Indemnity LDF as of 6/30/2019: 1.131
4. Replacing quarterly 2Q20 development with 2Q19 development:

$$Annual \times \frac{2Q19}{2Q20} = 1.709 \times \frac{1.131}{1.116} = 1.732$$

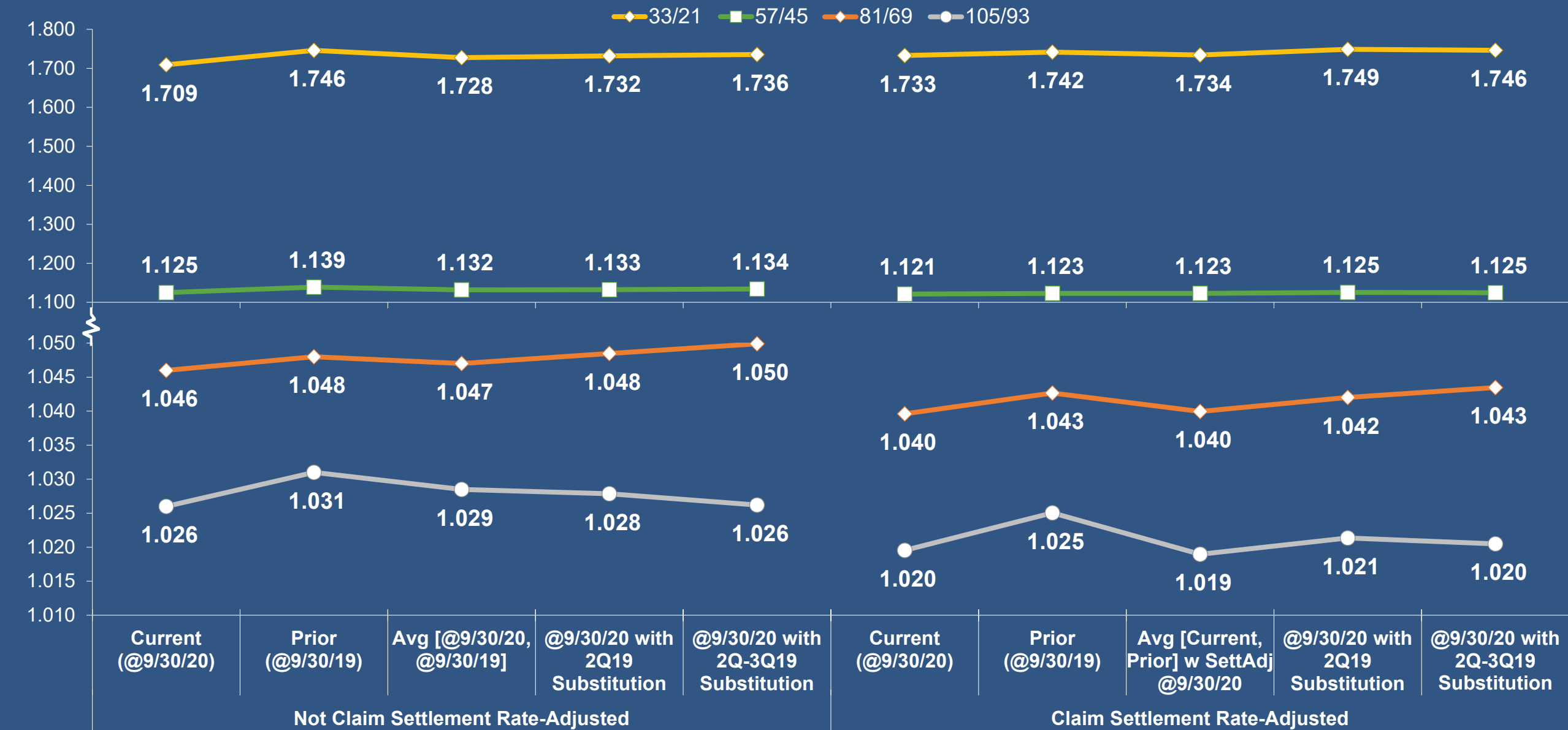
5. These adjustments can be expressed as a relativity

$$\frac{2Q19}{2Q20} = \frac{1.131}{1.116} = 1.103$$

- This approach uses data prior to claim settlement rate adjustments
- Approach is similar when applied to claim settlement rate-adjusted factors
  - Impact of annualized claim settlement adjustment spread proportionately among the quarters

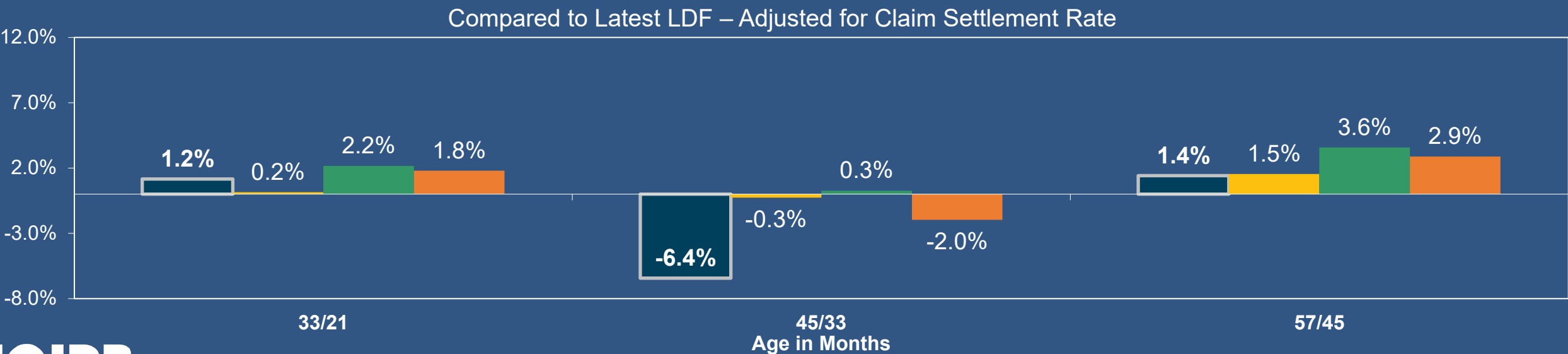
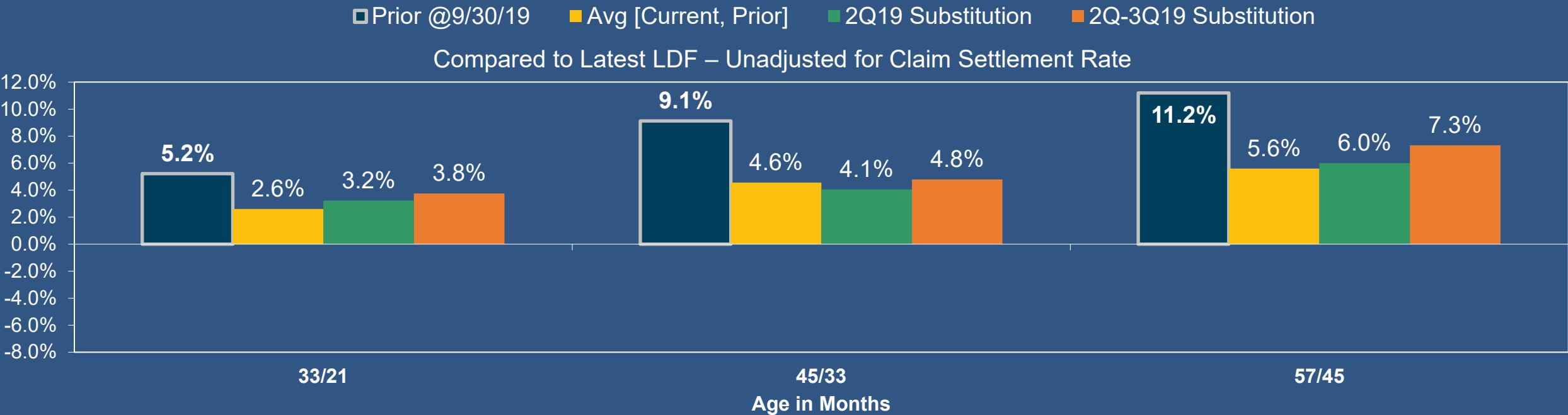
# Comparison of Paid Age-to-Age LDF Adjustments – Indemnity

As of September 30, 2020



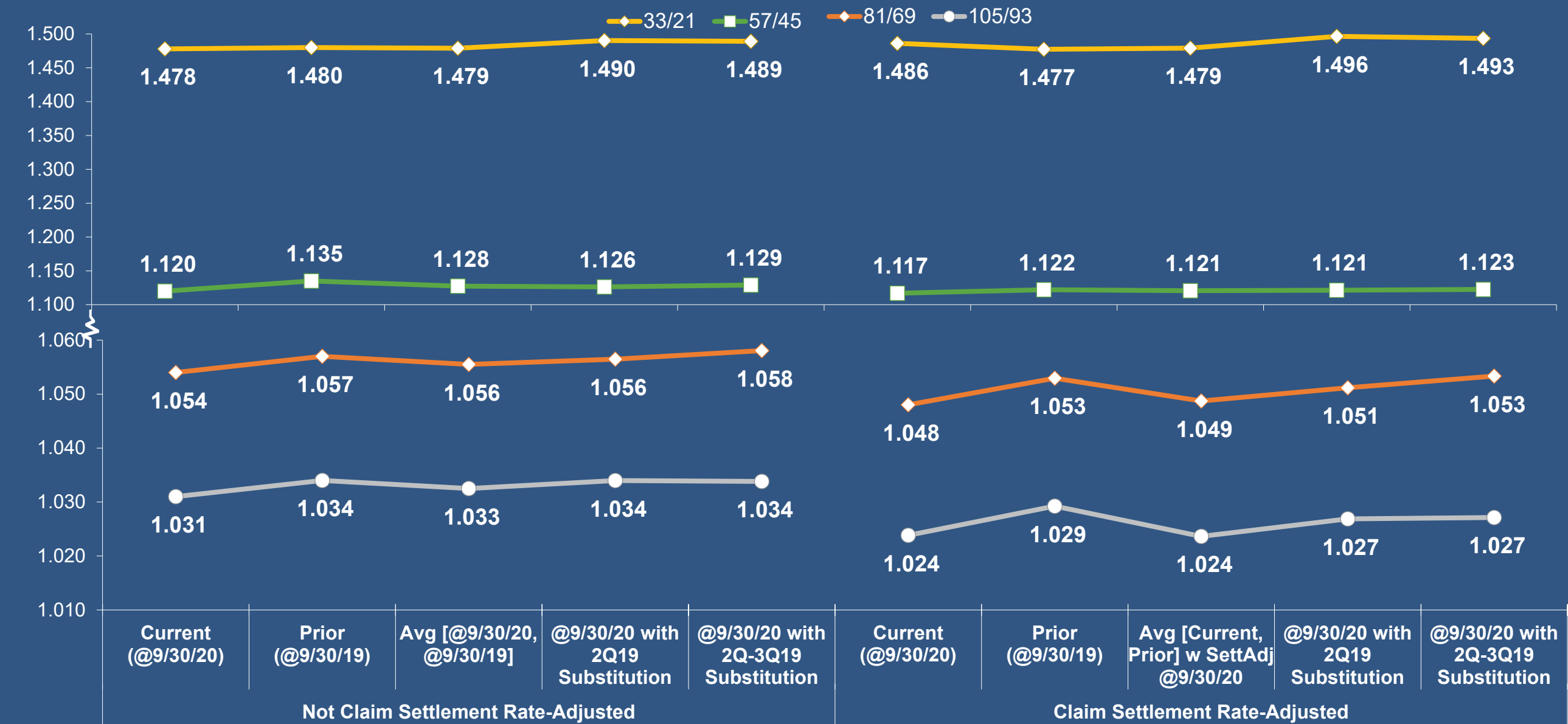
# Impact of Adjustments on Age-to-Age LDF – Paid Indemnity

As of September 30, 2020



# Comparison of Paid Age-to-Age LDF Adjustments – Medical

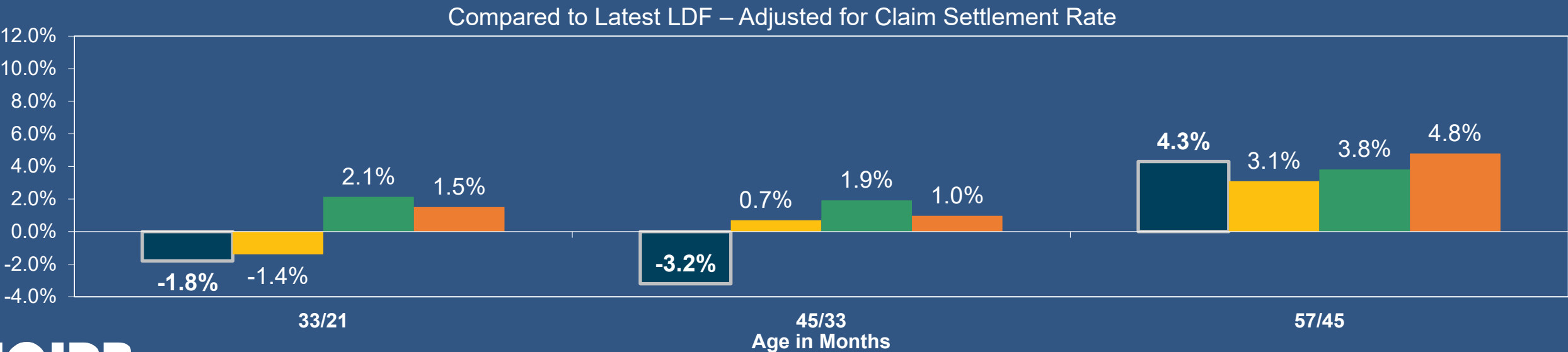
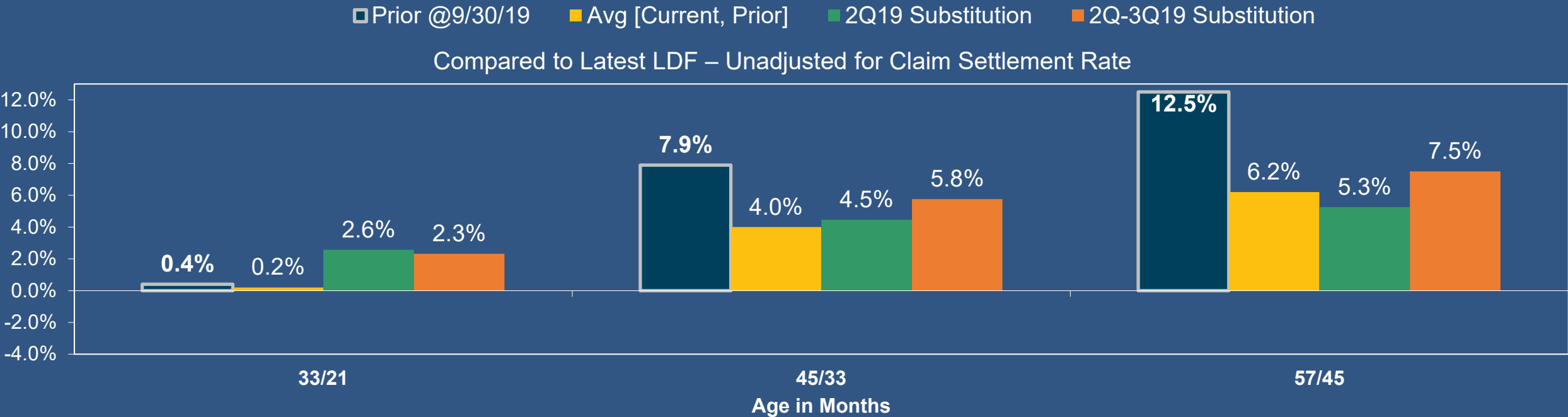
As of September 30, 2020





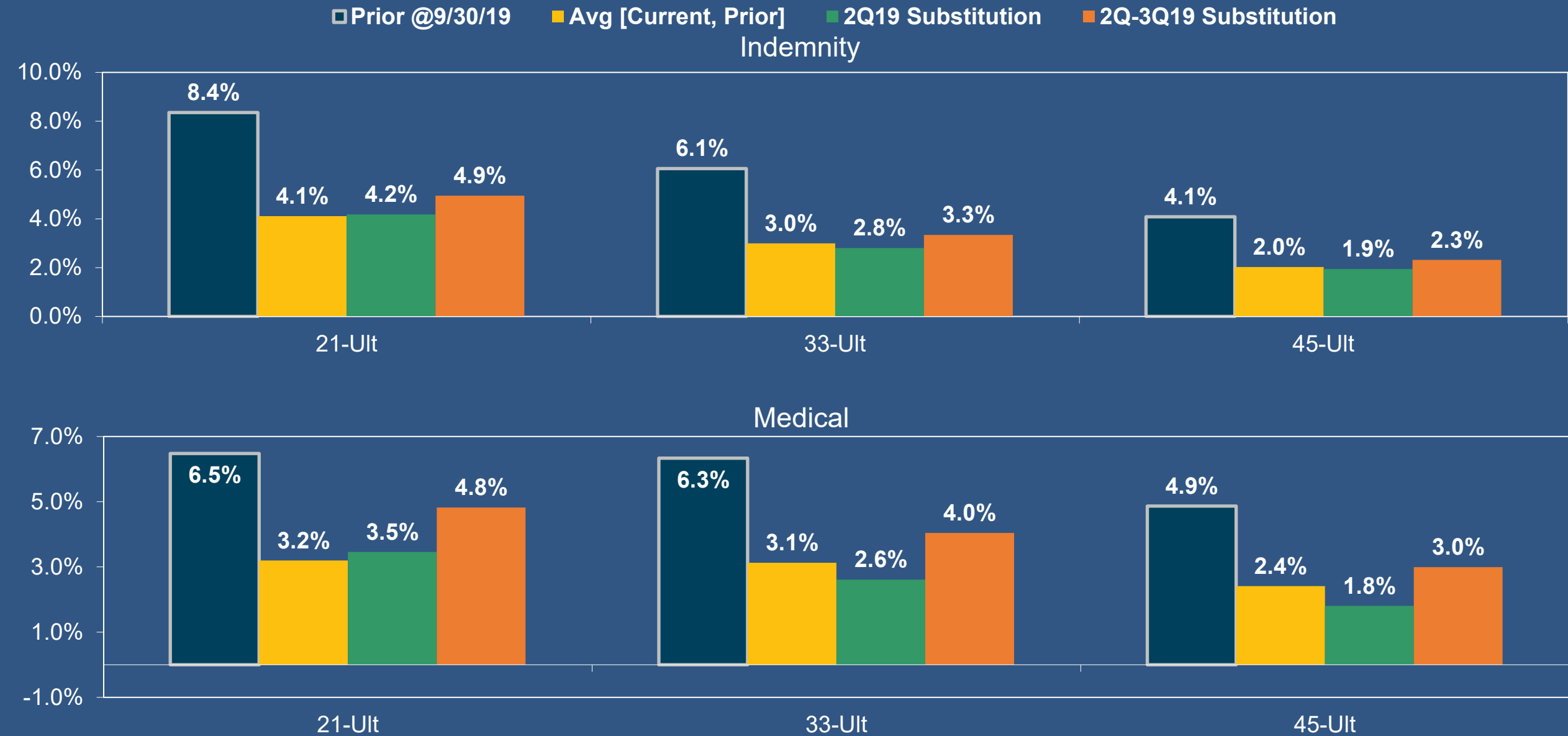
# Impact of Adjustments on Age-to-Age LDF – Paid Medical

As of September 30, 2020



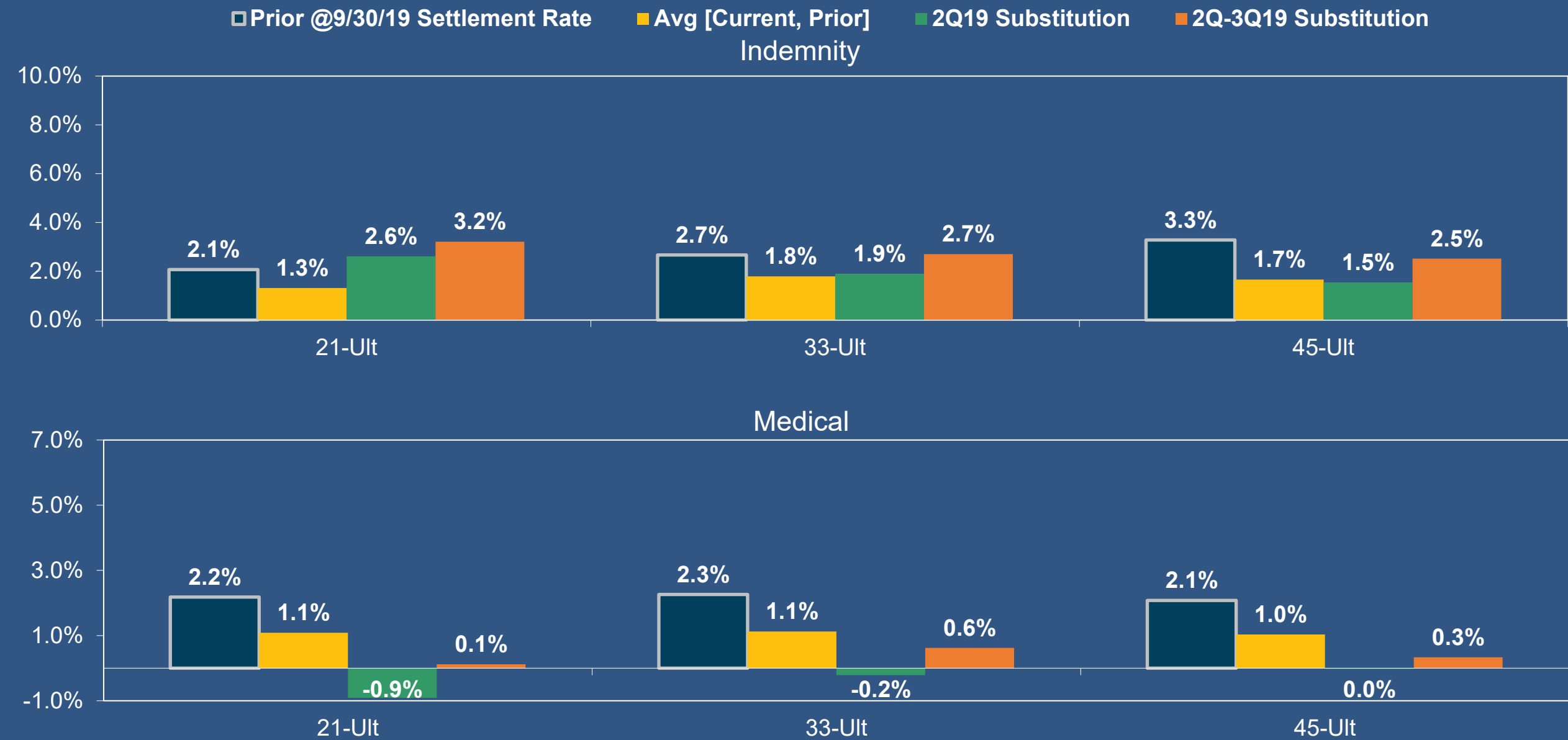
# Impact Compared to Current CDF – Before Reflecting Claim Settlement Adjustments (Exhibit 9.3 – Revised)

As of September 30, 2020



# Impact Compared to Current CDF – After Reflecting Claim Settlement Adjustments

As of September 30, 2020



# Summary & Other Considerations

- Berquist-Sherman claim settlement adjustments substantially offset slowdown in second quarter payments
- Adjustment to replace second quarter 2020 development with 2019 (after reflecting claim settlement adjustments) results in modest changes
- Averaging current and prior claim settlement rate-adjusted LDFs may mitigate recent volatility
- Not sufficient evidence to vary adjustments by type of service or claim age
- Impact of delays in treatment on established claims unclear
  - WCIRB 2020 study found delays in initial treatment associated with higher incurred costs later, but focused on initial treatment using pre-pandemic data
  - Adjustment for this issue premature at this time
- Projected development on AY 2020 highly uncertain given shifts in claim patterns and prevalence of COVID-19 claims
  - Planning to reflect COVID-19 claim experience separately from non-COVID-19 claim experience
  - 2020 to be reviewed in more detail at March 16 meeting



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