

# September 1, 2021 Pure Premium Rate Filing Summary of Actuarial Committee Recommendations

April 21, 2021

Governing Committee Meeting





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# Actuarial Committee Review

## December 31, 2020 Experience

### Key Considerations

2020 Claims, Premiums, Severities & Wages Impacted by Pandemic

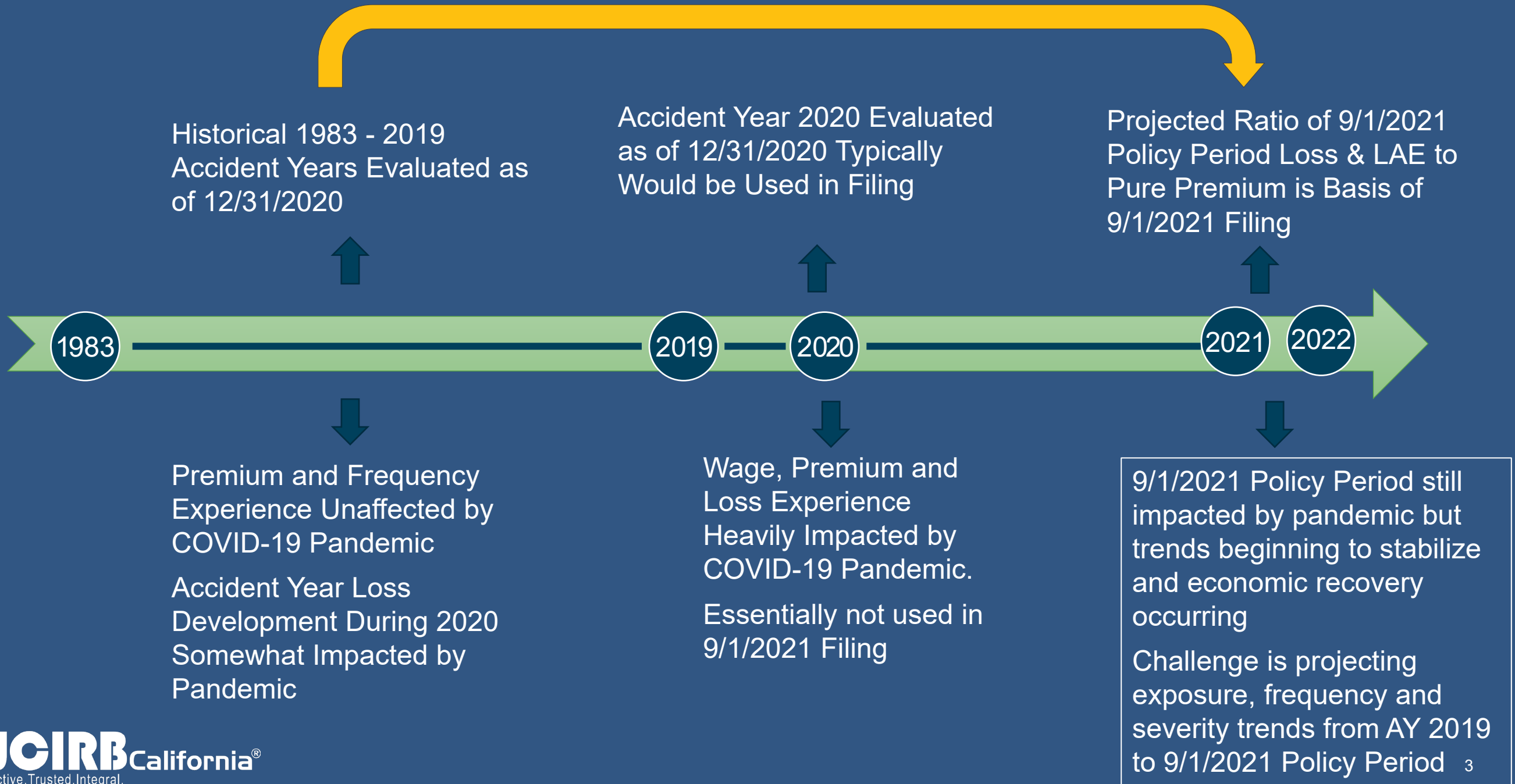
Wage, Frequency & Severity Growth Projections

COVID-19 Claim Cost Projections

New Medical Fee Schedules

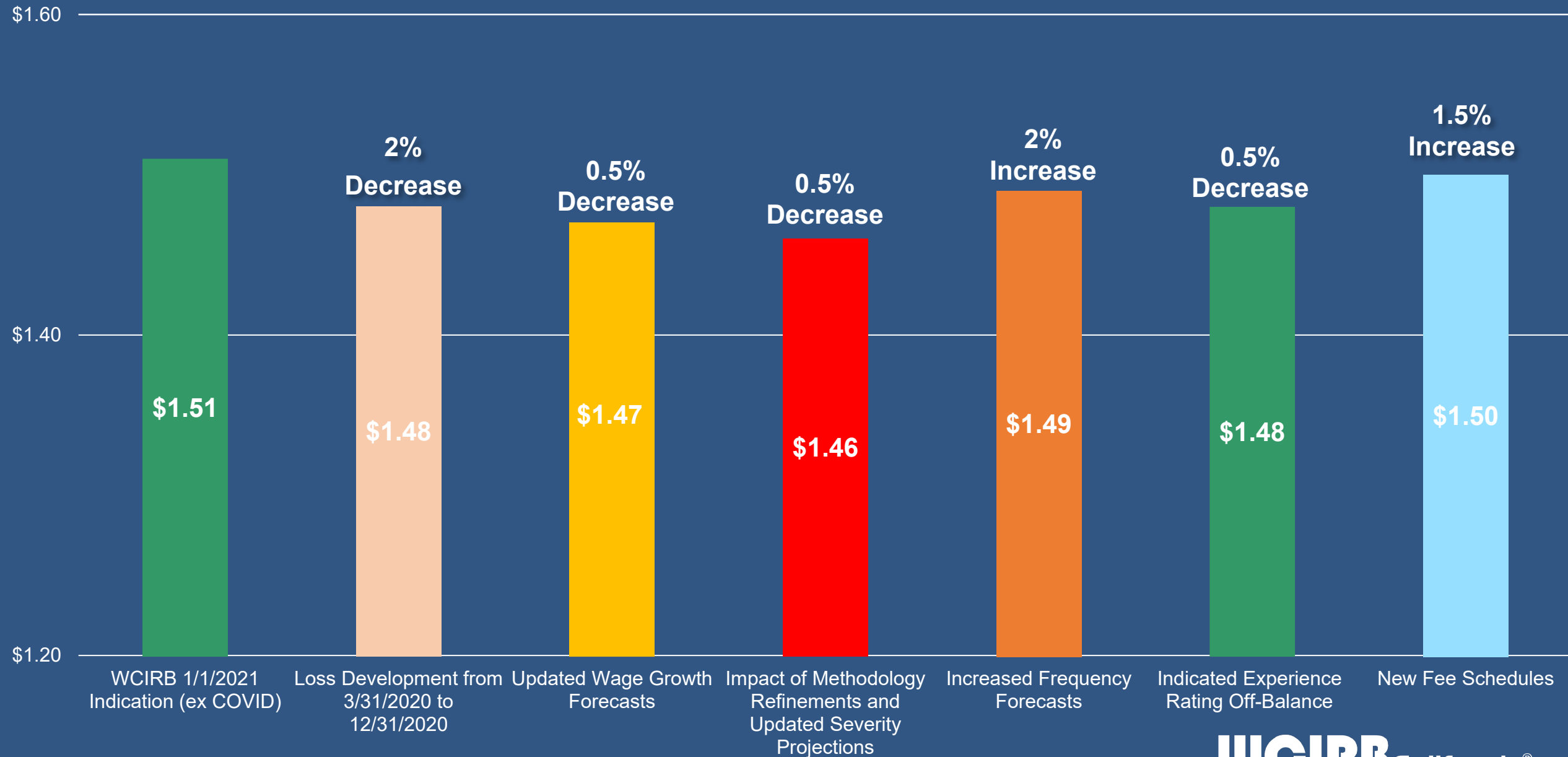
- Recommended Methodologies Generally Consistent with 1/1/2021 Filing
- Generally Excludes 2020 Accident Year Experience in Projection
- Loss and Loss Adjustment Expense Projection on Ex-COVID-19 Claims Basis
- 9/1/2021 Actuarial Committee Recommended Indicated Average Pure Premium Rate: \$1.50
- 1/1/2021 Indicated Average Pure Premium Rate: \$1.51 (excluding COVID-19 projection)
- 1/1/2021 Average Approved Pure Premium Rate: \$1.46
- 9/1/2021 Indicated Advisory Pure Premium Rate Change: +2.7%

# September 1, 2021 Pure Premium Rate Filing



# Drivers of Actuarial Committee Recommended September 1, 2021 Average Advisory Pure Premium Rates

WCIRB Governing Committee  
Meeting of April 21, 2021

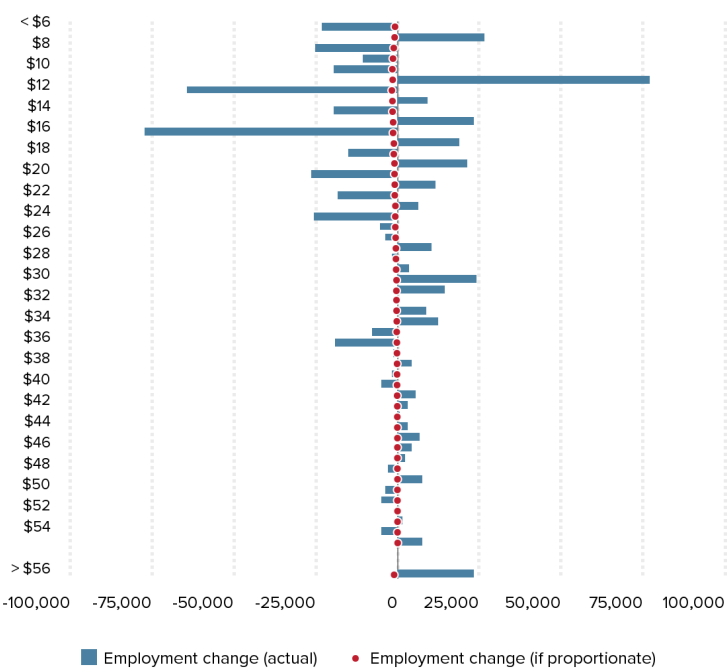


# Pandemic Impacts

## Employment Loss by Wage Level – Comparison with Prior Recessions

### Job losses in the early 2000s recession appear unrelated to wage level

Employment change from 2001 to 2002, by wage level



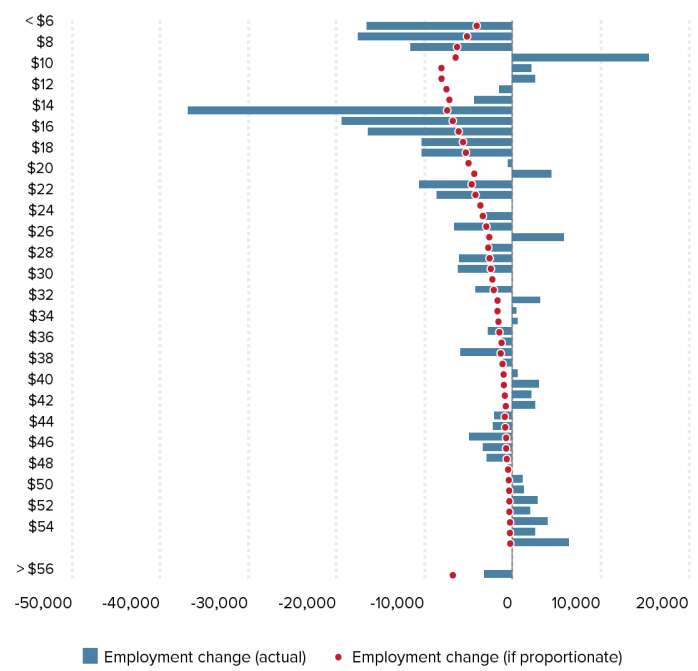
**Notes:** Wages are adjusted for inflation using the CPI-U-RS. The bars represent how much average employment changed, on a monthly basis, for workers in hourly “wage bands” (i.e., levels) labeled by the midpoint value of the band. For example, the bar at \$10 represents the monthly loss in jobs with hourly wages from \$7.50 to \$12.49 and the bar at \$11 represents loss in jobs with hourly wages from \$8.50 to \$13.49. (The last bar represents jobs with wages \$56 an hour or higher.) This smoothing of employment into wage bands was used to clarify underlying trends. The dots are provided as benchmarks—they show how many jobs would have been lost at each wage level if jobs had contracted proportionately across the entire wage distribution. If a bar extends to the right of the zero axis, workers at that wage level actually gained jobs. If the bar extends left of the zero axis but does not extend beyond its dot, workers at that wage level lost jobs but fewer than they would have had jobs been shed proportionately to how many jobs were in that bin in 2001. Finally if the bar extends to the left of its dot, workers at that wage level lost jobs at a faster rate than would have occurred if the losses were proportionate.

**Source:** Authors' analysis of EPI Current Population Survey Extracts, Version 1.0.14 (2021), <https://microdata.epi.org>.

Economic Policy Institute

### Job losses during the Great Recession are weakly related to wage level

Employment change from 2007 to 2010, by wage level



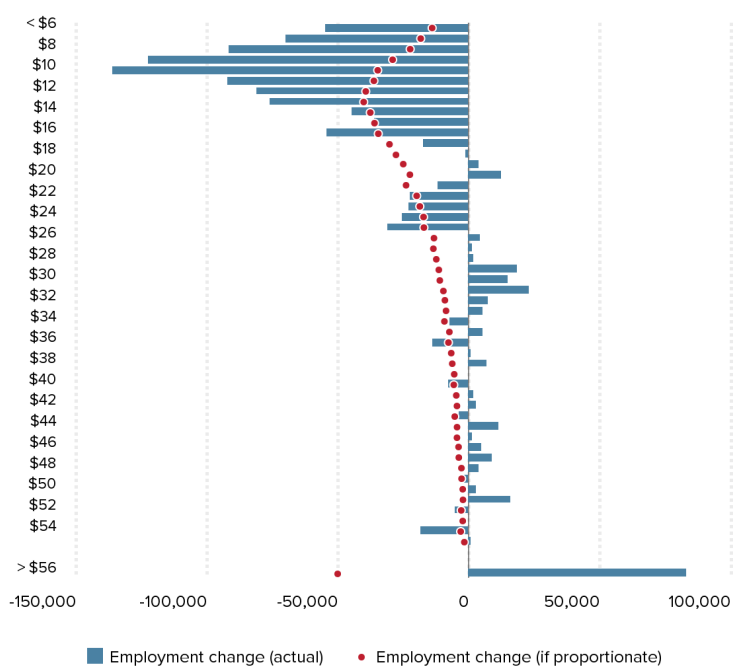
**Notes:** Wages are adjusted for inflation using the CPI-U-RS. The bars represent how much average employment changed, on a monthly basis, for workers in hourly “wage bands” (i.e., levels) labeled by the midpoint value of the band. For example, the bar at \$10 represents the monthly loss in jobs with hourly wages from \$7.50 to \$12.49 and the bar at \$11 represents loss in jobs with hourly wages from \$8.50 to \$13.49. (The last bar represents jobs with wages \$56 an hour or higher.) This smoothing of employment into wage bands was used to clarify underlying trends. The dots are provided as benchmarks—they show how many jobs would have been lost at each wage level if jobs had contracted proportionately across the entire wage distribution. If a bar extends to the right of the zero axis, workers at that wage level actually gained jobs. If the bar extends left of the zero axis but does not extend beyond its dot, workers at that wage level lost jobs but fewer than they would have had jobs been shed proportionately to how many jobs were in that bin in 2007. Finally if the bar extends to the left of its dot, workers at that wage level lost jobs at a faster rate than would have occurred if the losses were proportionate.

**Source:** Authors' analysis of EPI Current Population Survey Extracts, Version 1.0.14 (2021), <https://microdata.epi.org>.

Economic Policy Institute

### Lower-wage workers experienced job losses in far excess of the proportionate shares

Employment change from 2019 to 2020, by wage level



**Notes:** Wages are adjusted for inflation using the CPI-U-RS. The bars represent how much average employment changed, on a monthly basis, for workers in hourly “wage bands” (i.e., levels) labeled by the midpoint value of the band. For example, the bar at \$10 represents the monthly loss in jobs with hourly wages from \$7.50 to \$12.49 and the bar at \$11 represents the monthly loss in jobs with hourly wages from \$8.50 to \$13.49. (The last bar represents jobs with wages \$56 an hour or higher.) This smoothing of employment into wage bands was used to clarify underlying trends. The dots are provided as benchmarks—they show how many jobs would have been lost at each wage level if jobs had contracted proportionately across the entire wage distribution. If a bar extends to the right of the zero axis, workers at that wage level actually gained jobs. If the bar extends left of the zero axis but does not extend beyond its dot, workers at that wage level lost jobs but fewer than they would have had jobs been shed proportionately to how many jobs were in that bin in 2019. Finally if the bar extends to the left of its dot, workers at that wage level lost jobs at a faster rate than would have occurred if the losses were proportionate.

**Source:** Authors' analysis of EPI Current Population Survey Extracts, Version 1.0.14 (2021), <https://microdata.epi.org>.

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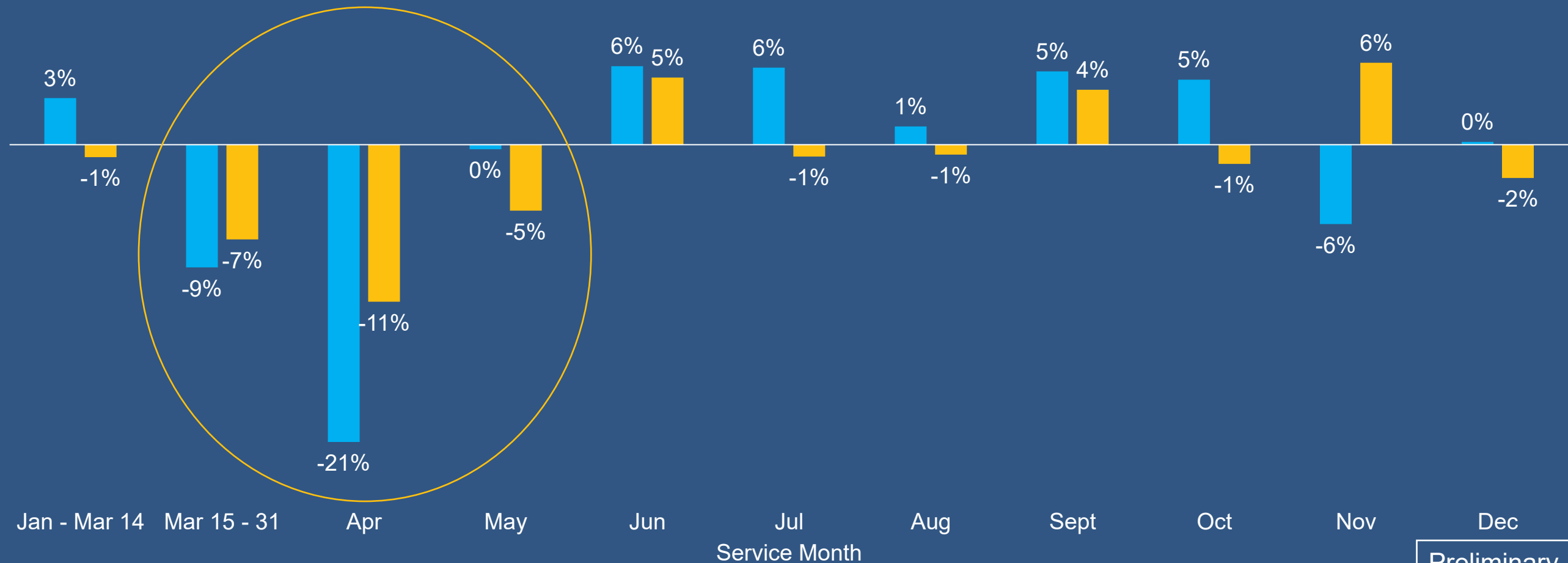
# Pandemic Impacts

## Shifts in Overall Medical Services

As of March 1, 2021

COVID-19 Period in 2020 vs. Same Period in 2019  
(Excl. COVID-19 Claims)

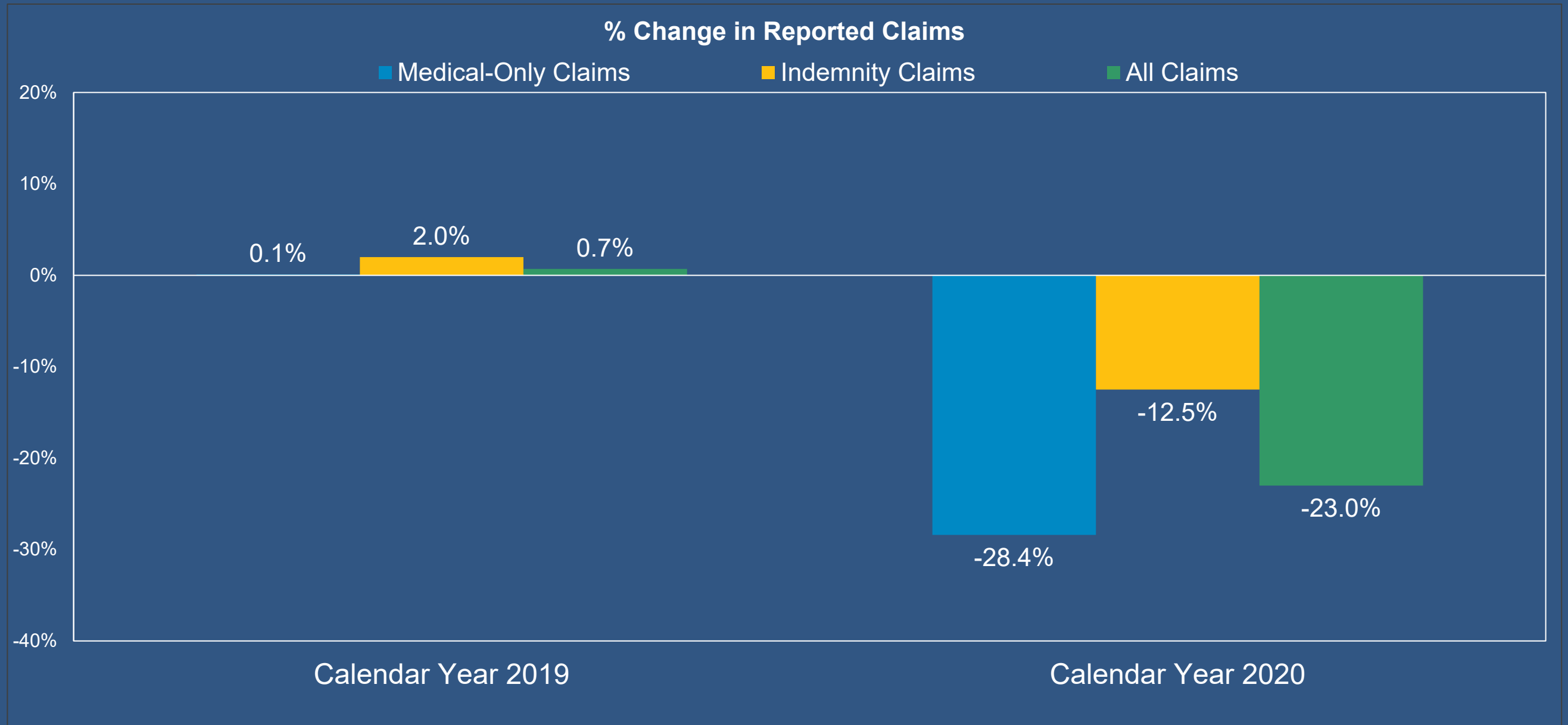
■ Paid per Claim ■ Transactions per Claim



Preliminary

# Pandemic Impacts

## Annual Change in Non-COVID-19 Claims Filed

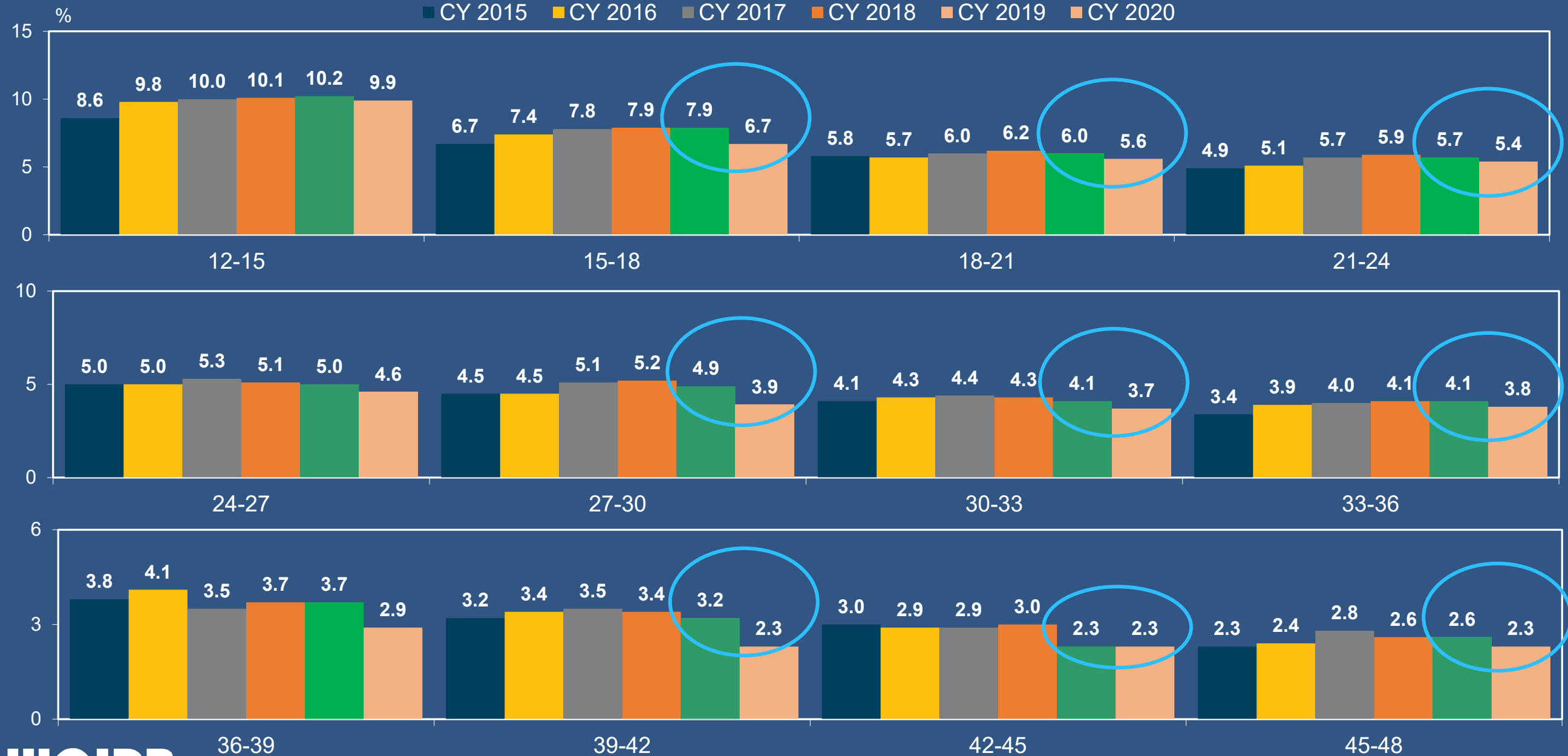




# Pandemic Impacts

## Quarterly Incremental Change in Claim Settlement Ratios

As of December 31, 2020



# Loss Development Methodology

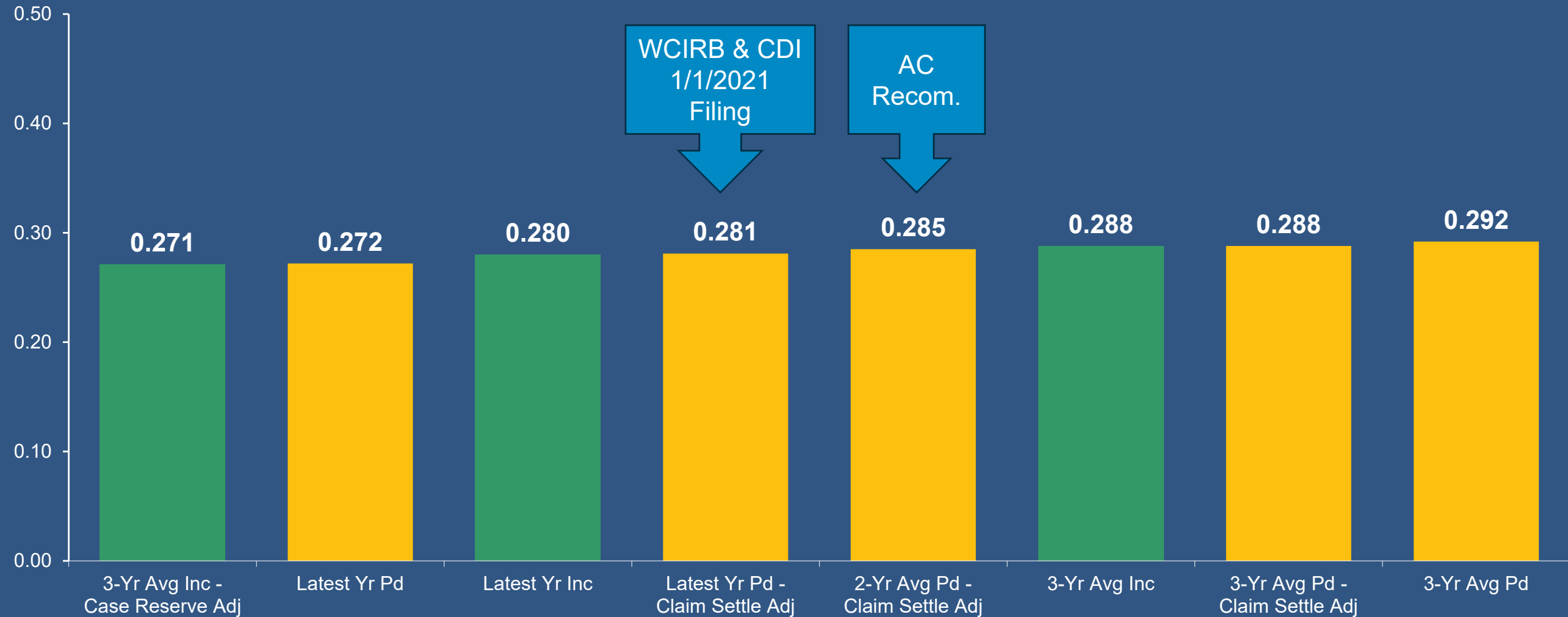
## Basis of Actuarial Committee Recommendation

- Reform & Claim Settlement Rate-Adjusted Paid
  - Paid development has recently been more stable and accurate
  - Paid development has historically been more consistent across insurers than incurred development
  - Includes adjustment to medical for SB 1160 lien filing reduction and reduction in pharmaceutical costs
  - Includes adjustment to long-term paid development to reflect declining settlement rates
  - Settlement rate adjustment largely corrects for slowdown in activity during second quarter of 2020
  - 2-year averaging approach mitigates impact of potentially distorted 2020 loss development
- Actuarial Committee Vote
  - Indemnity: **Unanimous support**
  - Medical: **8** in Favor – **1** Opposed
  - Committee member opposed supports giving some weight to incurred method for medical

# Projected Ultimate Indemnity On-Level Loss Ratios under Alternative Development Methods

As of December 31, 2020

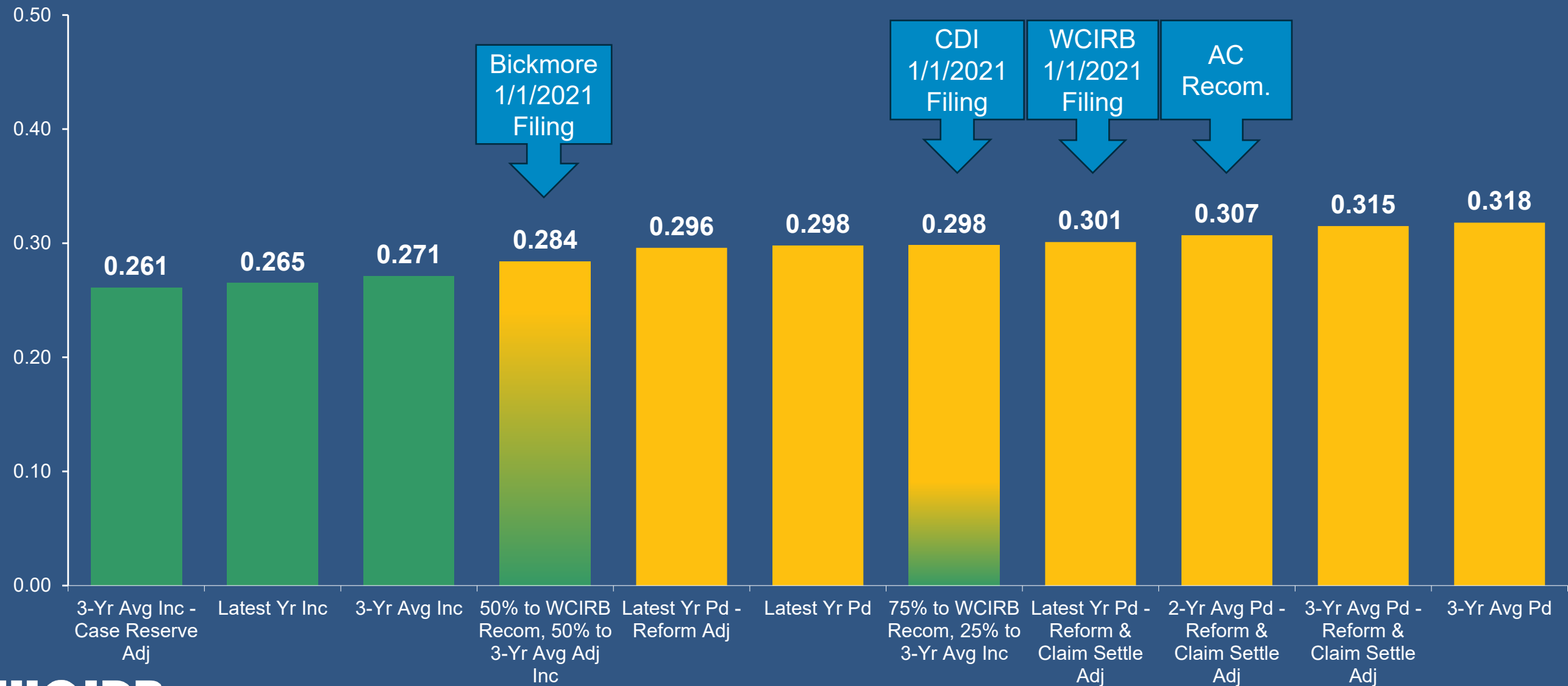
WCIRB Governing Committee  
Meeting of April 21, 2021





# Projected Ultimate Medical On-Level Loss Ratios under Alternative Development Methods

As of December 31, 2020



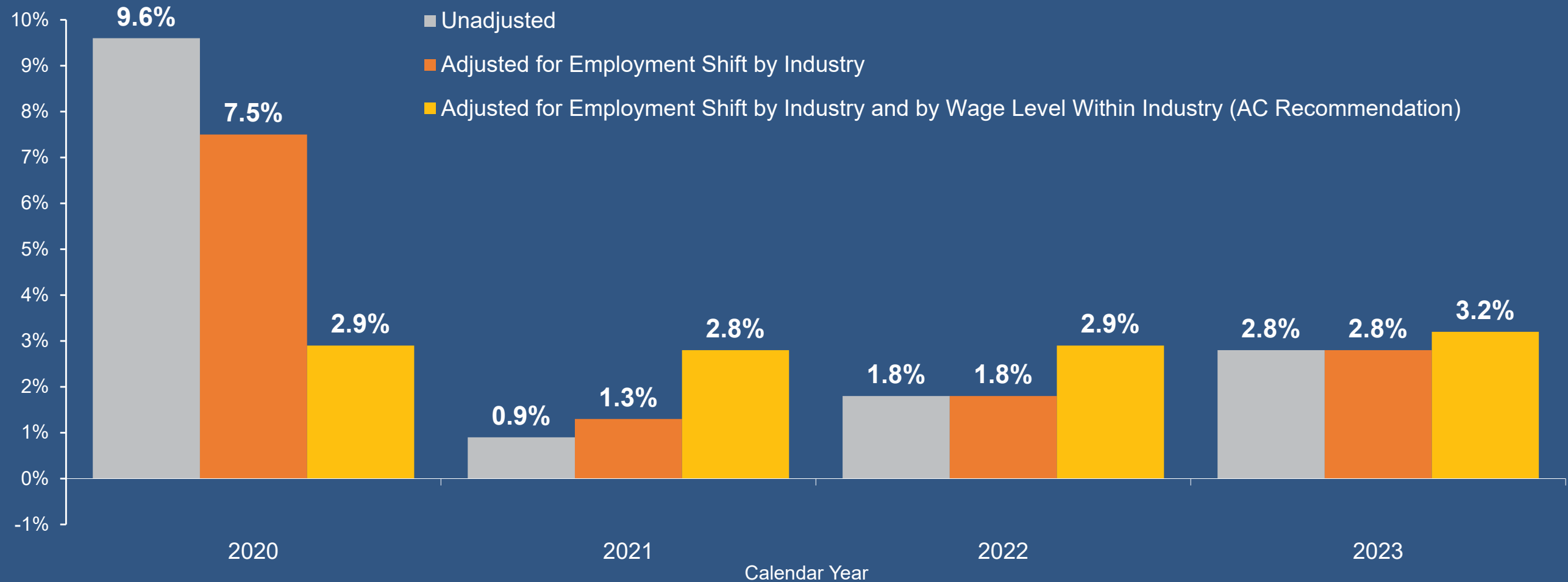
# Trending Methodology

## Basis of Actuarial Committee Recommendation

- Wage Inflation Adjusted to Remove Impacts of Shifting Employment by Industry and Wage Level Impact
- Separate Frequency and Severity Trend Projections Applied to the 2019 Accident Year Ratio
  - Retrospective tests show method performs better during periods of transition
  - Allows for separate assumptions and actuarial judgment about future frequency and severity trends
  - Generally excludes the pandemic distorted 2020 accident year experience in the trend projection
  - WCIRB frequency model projects modest frequency growth in 2021 and 2022 due to recovering economy
  - Medical severity growth projection reduced based on continued very modest medical cost inflation
- Actuarial Committee Vote
  - Indemnity: **8** in Favor – **1** Opposed
  - Committee member opposed supports a somewhat lower indemnity severity growth projection
  - Medical: **8** in Favor – **1** Opposed
  - Committee member opposed supports a lower medical severity growth projection

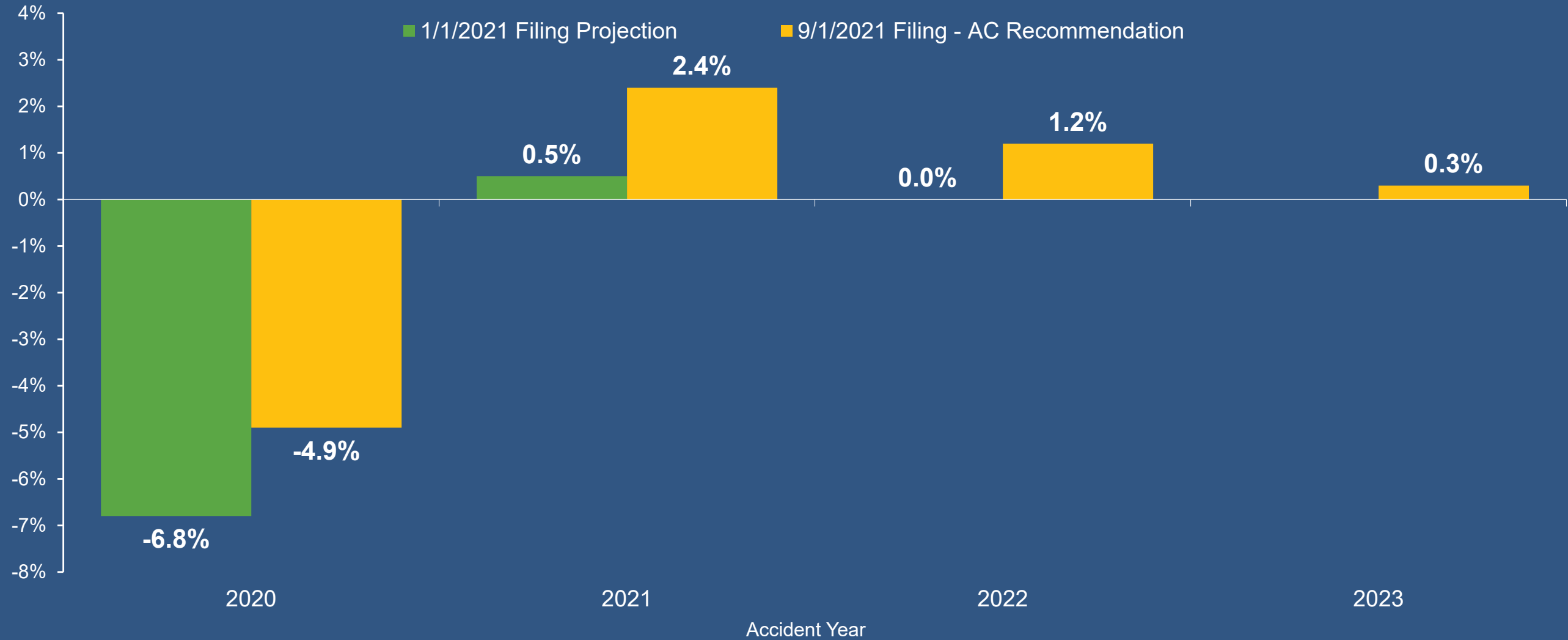
# Average Annual Wage Level Change Forecast

As of March 2021

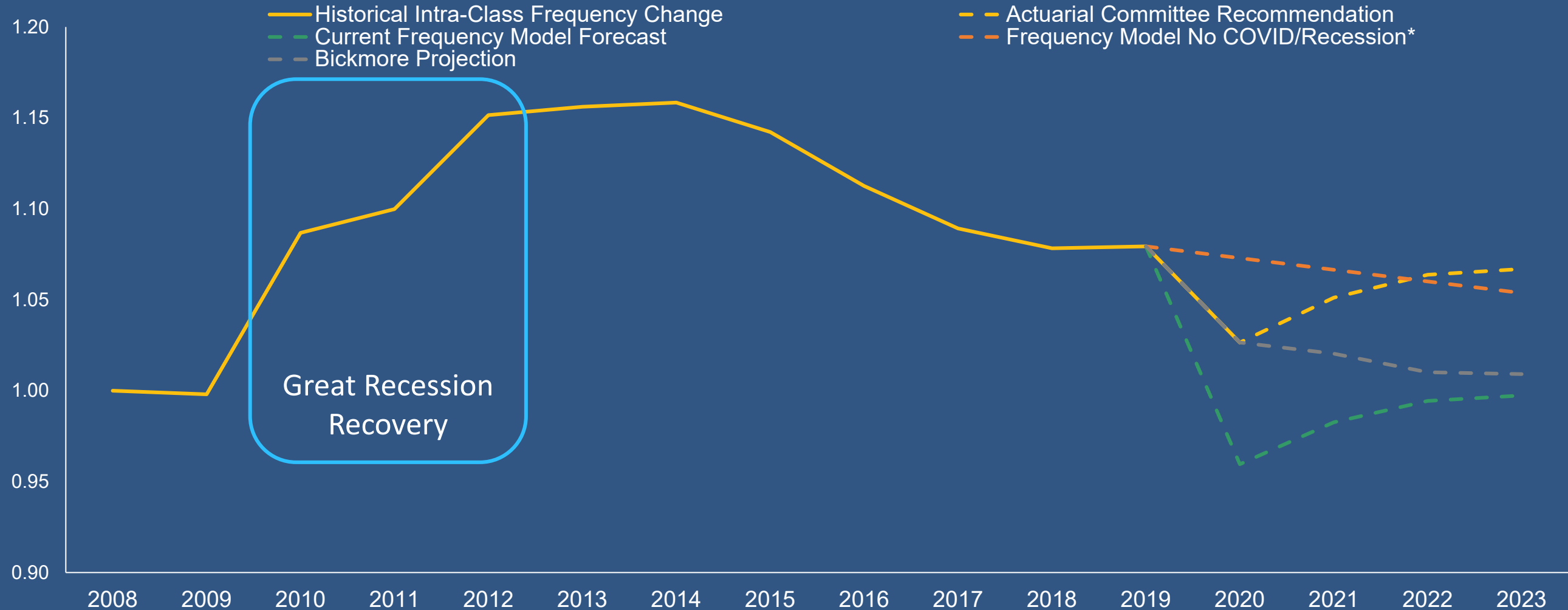




# WCIRB Frequency Model Forecasts

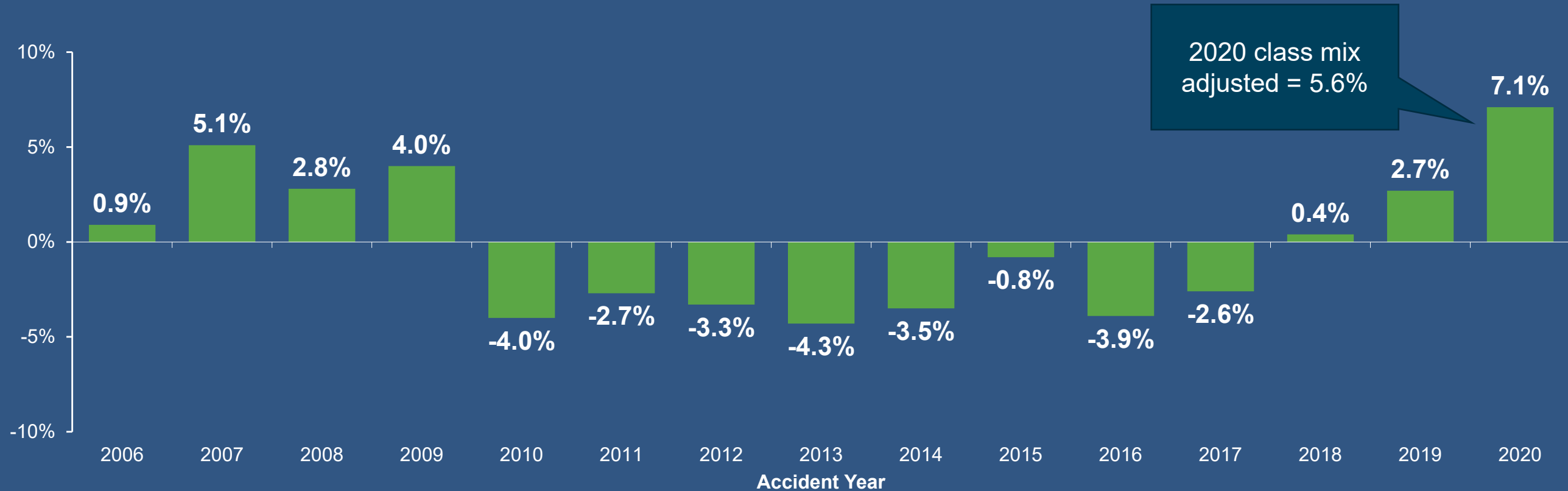


# Indemnity Claim Frequency Index



# Projected Changes in On-Level Indemnity Severity

As of December 31, 2020



## Annual Exponential Trend Based on:

1990 to 2020: +1.0%

2005 to 2019: -1.5%

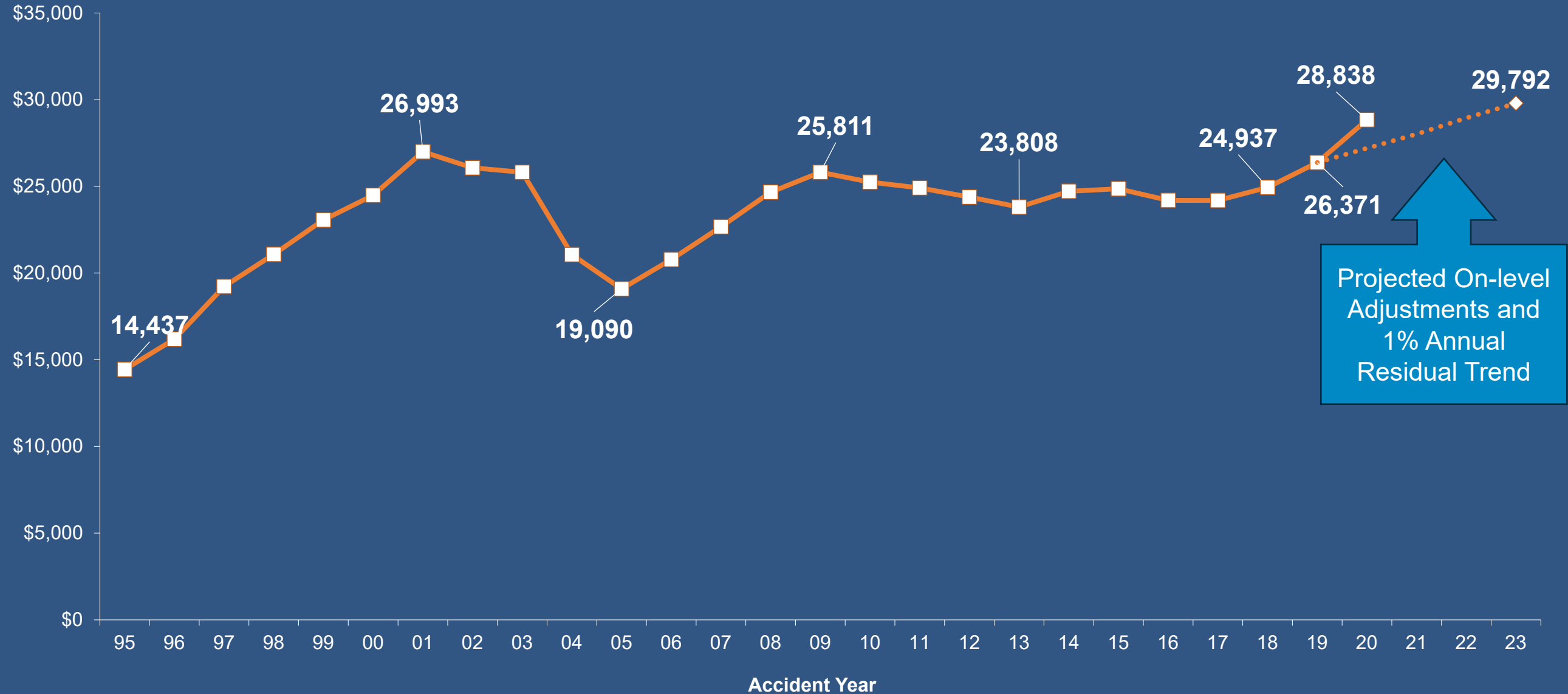
2015 to 2019: -0.9%

Actuarial Committee Recommended: **+1.0%**



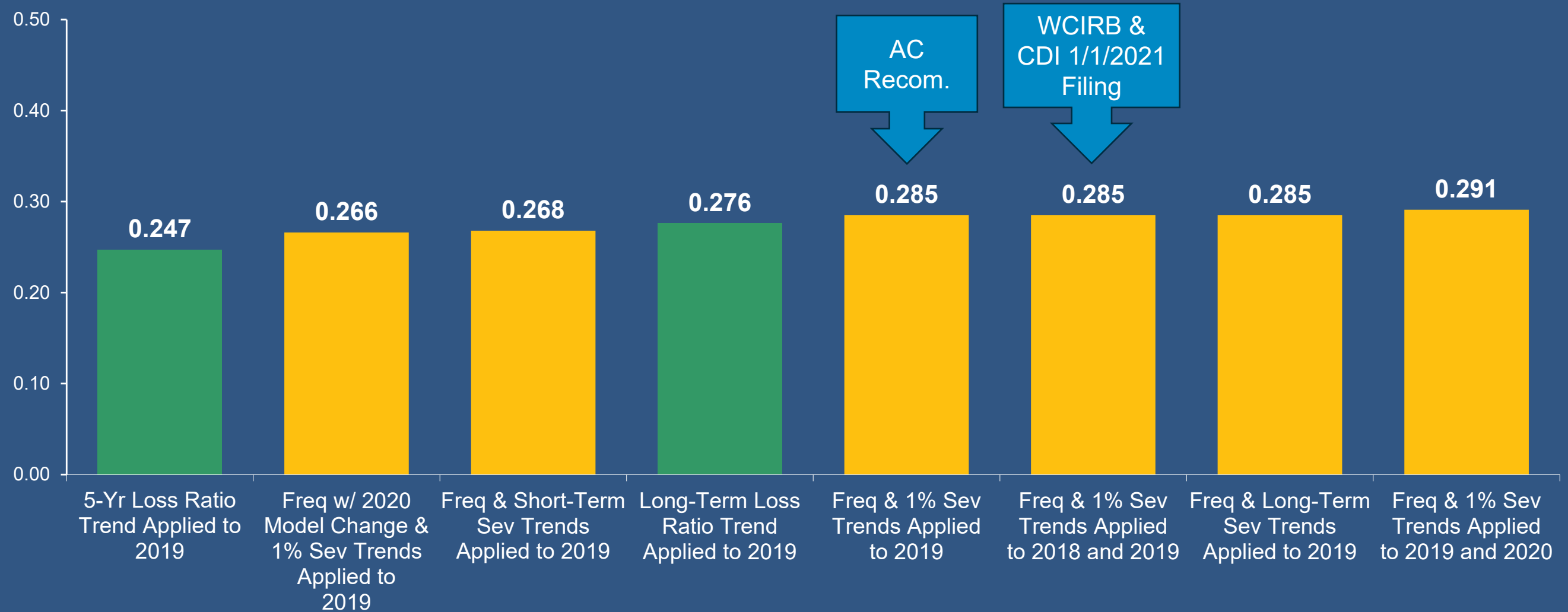
# Ultimate Indemnity per Indemnity Claim

As of December 31, 2020



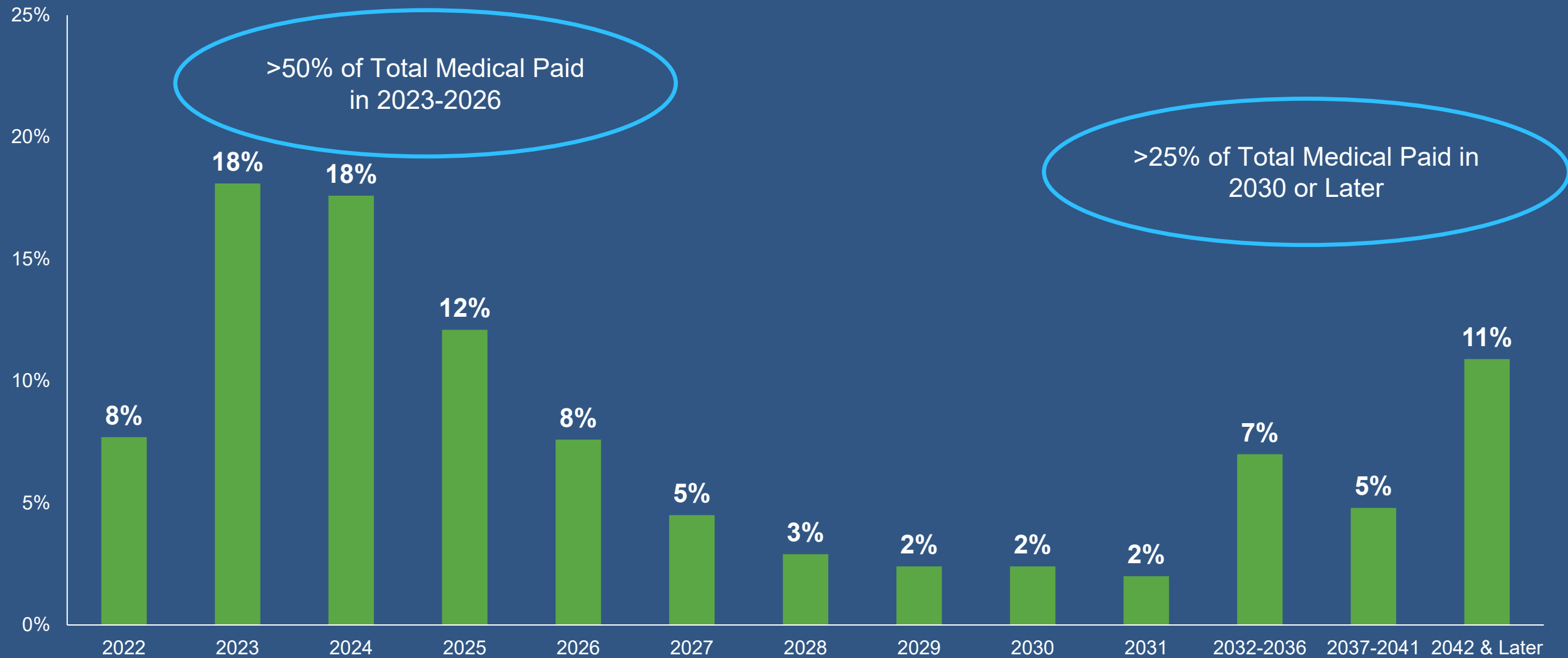
# Projected On-Level Indemnity Loss Ratios under Alternative Trending Methods

As of December 31, 2020



# Policy Year 2022 – Estimated Medical Paid by Year

As of December 31, 2020





# Projected Changes in On-Level Medical Severity

As of December 31, 2020



## Annual Exponential Trend Based on:

1990 to 2020 (including MCCP): +5.1%

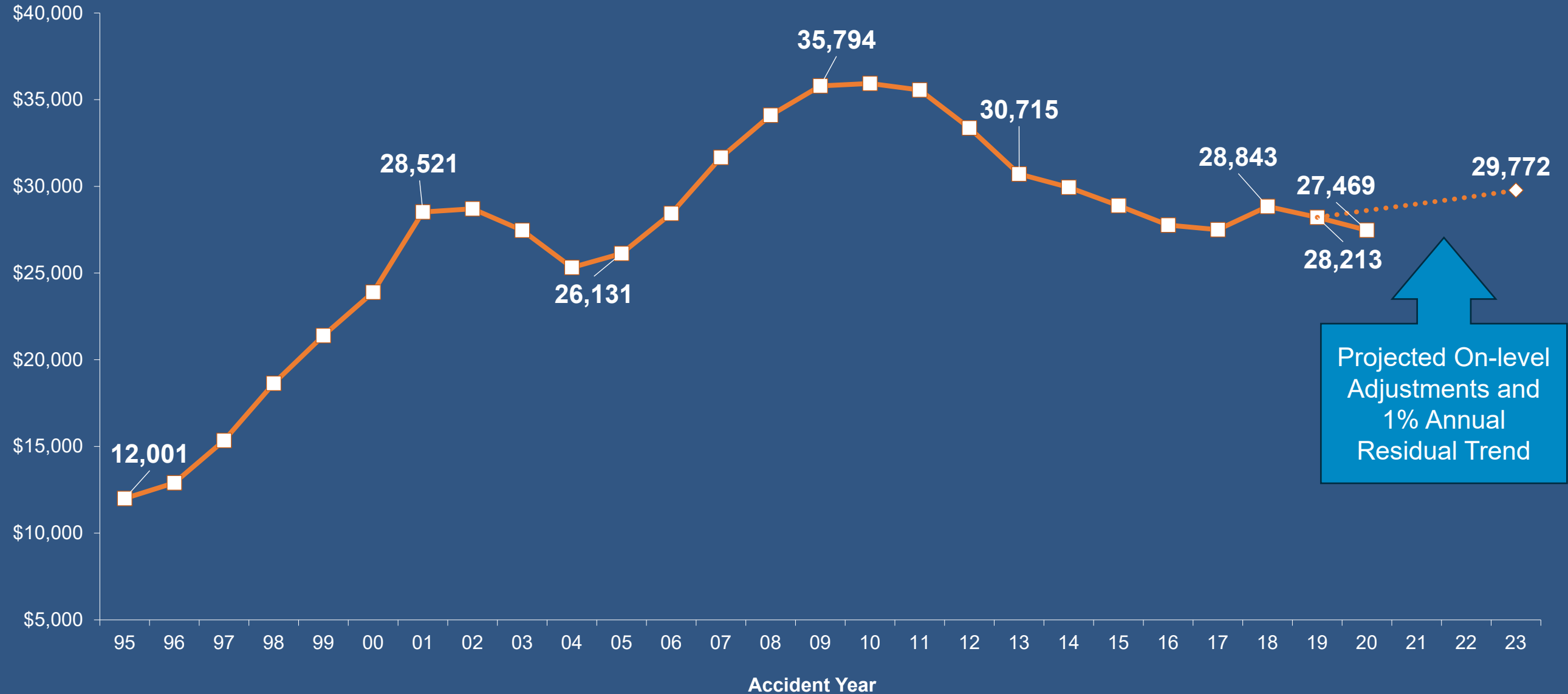
2005 to 2019: +1.5%

2015 to 2019: 0.0%

Actuarial Committee Recommended: **+1.0%**

# Ultimate Medical per Indemnity Claim

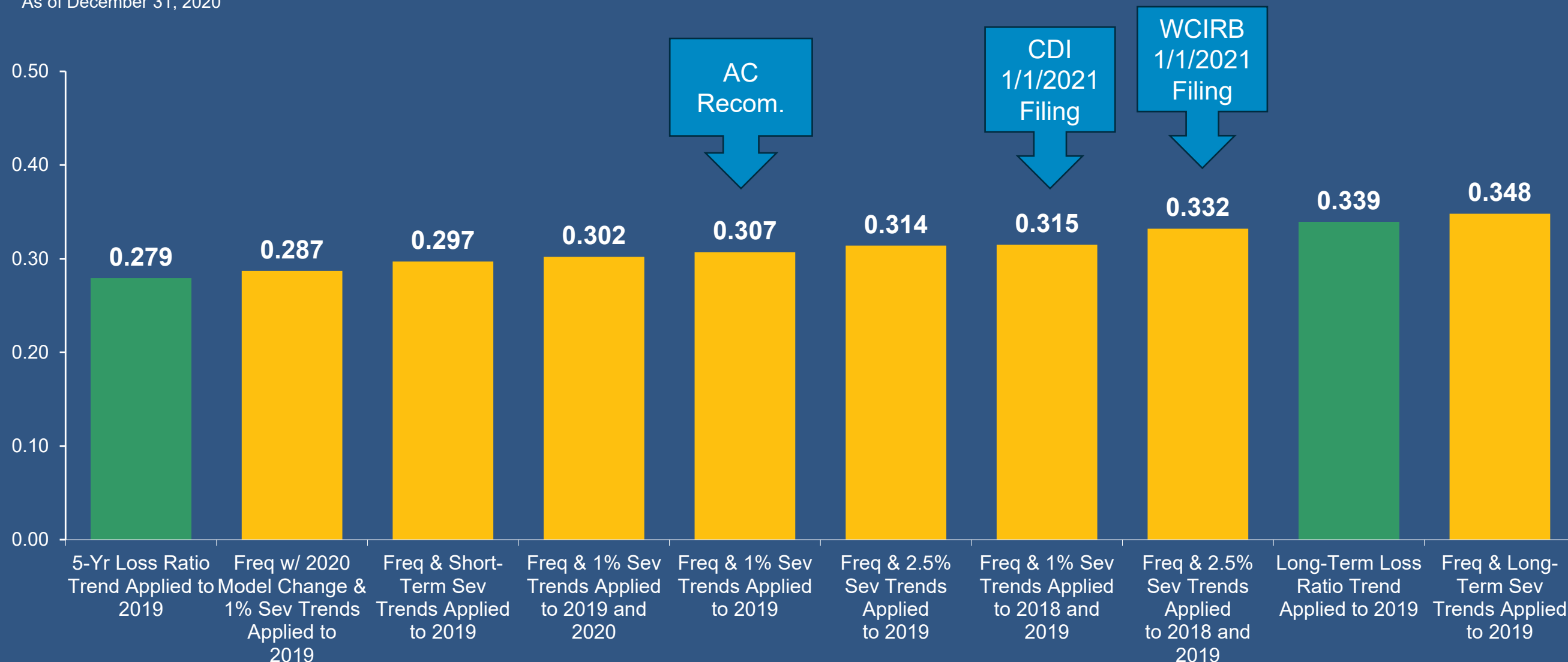
As of December 31, 2020



# Projected On-Level Medical Loss Ratios under Alternative Trending Methods

As of December 31, 2020

WCIRB Governing Committee  
Meeting of April 21, 2021

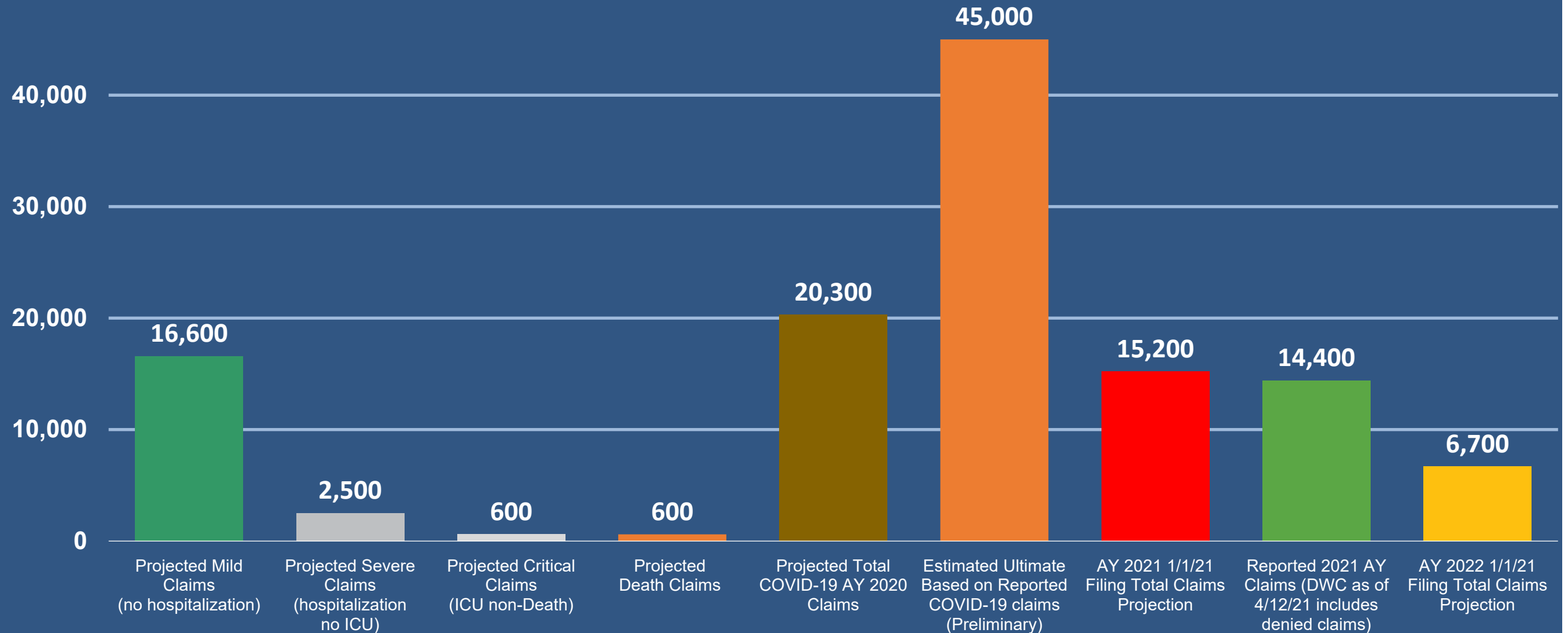


# Loss Adjustment Expense Projection Methodology

## Basis of Actuarial Committee Recommendation

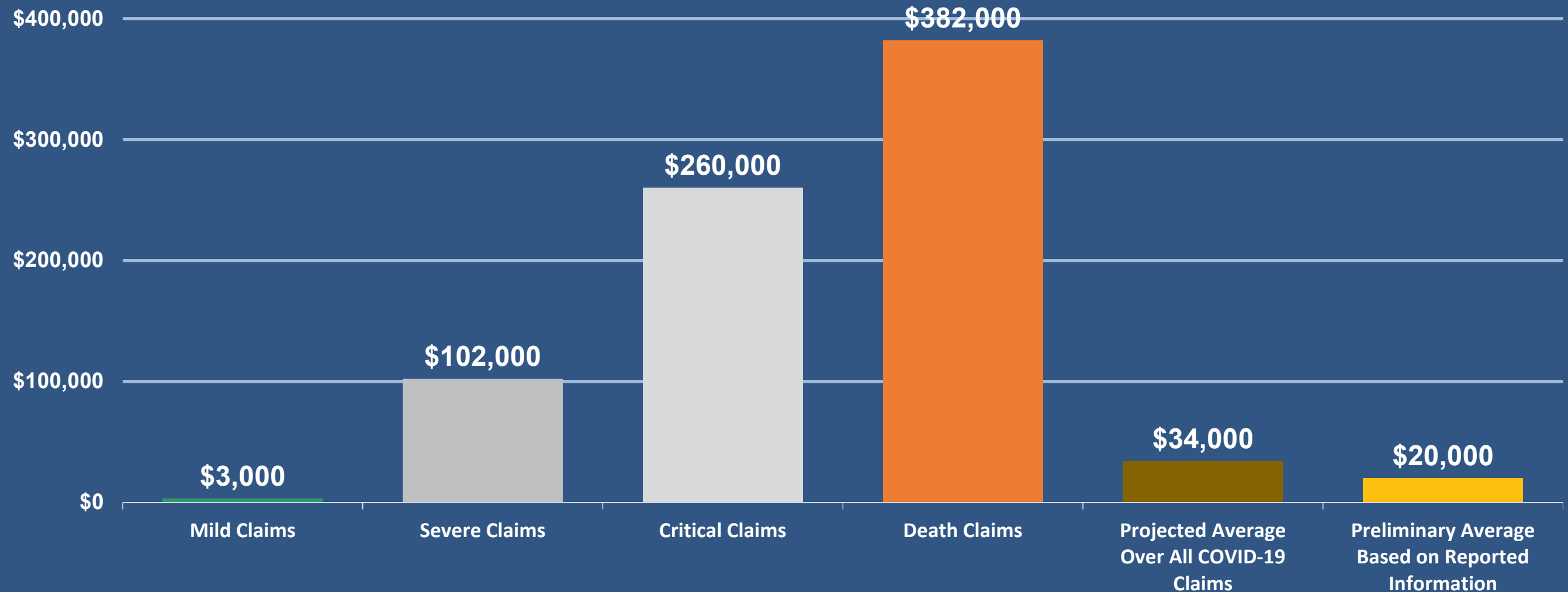
- ULAE data for 2016-2019 reflects updated allocation method (open indemnity counts)
- ULAE 2020 data not yet available (likely distorted by Pandemic)
- ULAE projection methodology consistent with prior years (Private Insurers Only) with several methodology refinements adopted by the Actuarial Committee at December 11, 2020 meeting
- ALAE Methodology
  - Trended ultimate severity per open indemnity claim based on private insurer ALAE
  - ALAE projection adjusted for SB 1160 lien reduction
  - Adjustment to ALAE development for claim settlement acceleration
  - 2-year average development used and trend applied to 2019 only as similar to loss projection
- MCCP Methodology
  - Similar to ALAE except uses statewide experience and no reform or claim settlement adjustments
- Projected LAE ratio: 33.5% of losses (compared to 34.0% in 1/1/2021 Filing)
- Actuarial Committee Votes
  - ULAE: **Unanimous**
  - ALAE & MCCP: **8** in Favor – **1** Opposed
  - Committee member opposed recommended lower ALAE & MCCP severity trend projections

# Projected Accident Year 2020 California Workers' Compensation COVID-19 Claim Counts — Insured Employers Only



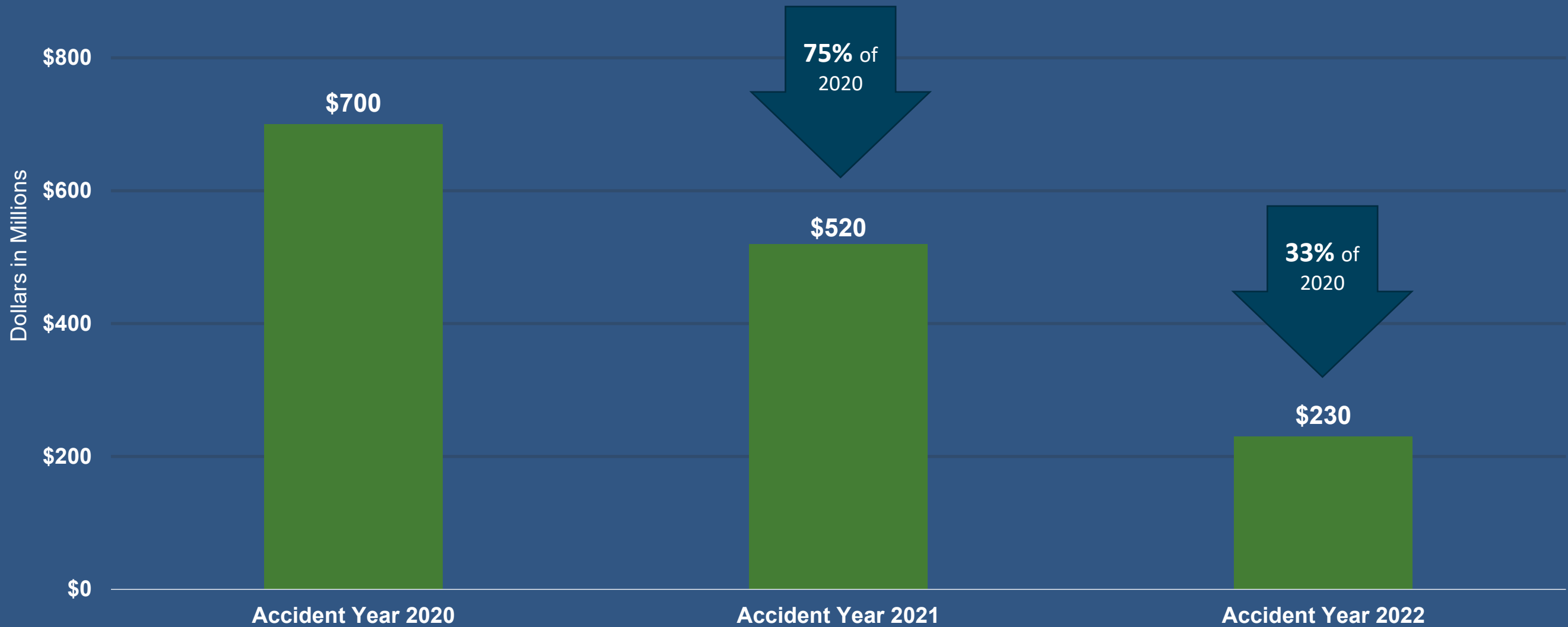
# Projected Accident Year 2020 California Workers' Compensation COVID-19 Claim Severity — Insured Employers Only

WCIRB Governing Committee  
Meeting of April 21, 2021





# Projected Cost of COVID-19 Claims — Insured Employers Only



# Projected COVID-19 Claims for 9/1/2021 Filing

- Limited forecasts for COVID-19 cases available beyond four weeks into the future
- Three published forecasts for COVID-19 in 2021 indicated a small number of COVID deaths would occur after summer 2021
  - Potentially near herd immunity (60-80% of the population immune) via vaccination and infections by end of summer (July-August)
  - Immunity would last at least through 2021
  - COVID-19 deaths and hospitalizations may drop to low levels even before summer (May-July 2021)
    - High-risk individuals prioritized for vaccinations
    - Vaccinations accelerated
    - New vaccines getting approved
    - Emerging evidence on the effectiveness of vaccines in reducing infections, hospitalizations and deaths
  - Key forecasts for CA and the U.S.
    - IHME: 67k deaths in California by August 1, 2021 (plateau starting in June)
    - YYG-MIT: 600k deaths in the U.S. through end of 2021 (deaths negligible after July)
    - Herd immunity modeling: 100k in the U.S. between mid-Feb and July, when herd immunity is achieved
- Variants
  - Emerging evidence on COVID-19 vaccines' continued protection against the variants and severe COVID-19 infections
- Limited evidence of a significant COVID-19 exposure on policies incepting on or after September 1, 2021

# April 1, 2021 Medical-Legal Fee Schedule — Summary

- The Division of Workers' Compensation (DWC) adopted significant changes to the Medical-Legal Fee Schedule effective April 1, 2021
- The new Medical-Legal Fee Schedule is intended to increase the reimbursement rate for medical-legal reports while eliminating the increased hourly billing provisions
  - The current reimbursement procedures or parameters for reimbursement for medical-legal reports were last changed in June 2006.
- WCIRB evaluated the cost impact of the new Schedule using 2018 and 2019 medical transaction data
  - Reviewed by Claims Working Group and Medical Analytics Working Group
  - Unanimously approved by Actuarial Committee
  - Estimated 22% increase in medical-legal fees (1.4% in overall medical costs)

# Summary of the Key Changes in the New Medical-Legal Fee Schedule

- Effective on medical-legal (ML) services on or after April 1, 2021
- Key changes in the new ML fee schedule
  - Increased fees for relative value (RV) from \$12.5 to \$16.25
  - RV changed for some ML codes
  - Changes to modifiers
    - Increased multipliers for current modifier (94 – Agreed Medical Evaluator (AME) but limited use of AME modifier to ML evaluations)
    - Expanded use of interpreter modifier
    - Added modifiers for psychologist/psychiatrist, toxicologist and oncologist services
  - Eliminated the time component in the ML evaluation codes
  - Added ML codes for record review and sub rosa recordings review

New ML Code	Old ML Code	Procedure Description
ML200	ML100	Missed Appointment for a Comprehensive or Follow-Up Medical-Legal Evaluation.
ML201	ML102	Basic Comprehensive Medical-Legal Evaluation.
	ML103	Complex Comprehensive Medical-Legal Evaluation involving three complexity factors.
	ML104	Complex Comprehensive Medical-Legal Evaluation involving four or more complexity factors.
ML202	ML101	Follow-up Medical-Legal Evaluation.
ML203	ML106	Fees for supplemental medical-legal evaluations.
ML204	ML105	Fees for medical-legal testimony.
ML205		Fees for Review of Sub Rosa Recordings
MLPRR		Record Review

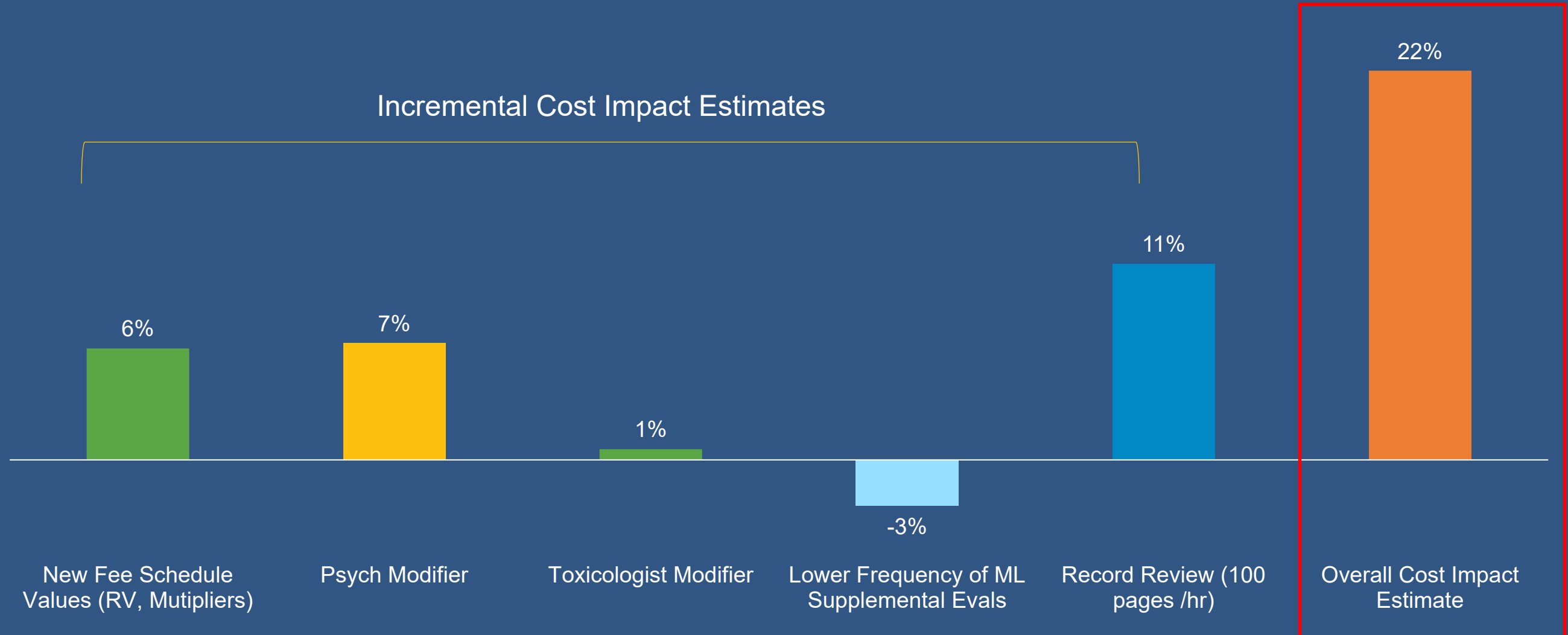
# WCIRB's Approach for the Prospective Cost Impact Evaluation

- Compare the expected payments for ML services under the new fee schedule to historical payments in WCIRB medical transaction data to estimate the cost impact using 2018 and 2019 ML transactions
  - Apply changes to RV, fees for RV and modifiers
- Key assumptions - validated with Claims Working Group and Medical Analytics Working Group:
  1. Mix of ML services remains the same
  2. Modifiers:
    - a. Mix of existing modifiers remains the same – interpreter and AME
    - b. Expanded use of interpreter modifier:
      - Same share of ML101 and ML104 transactions under old fee schedule would have an interpreter as ML102 and ML103
    - c. New psych and toxicologist modifiers:
      - Distribution of psych and toxicological evaluations remains the same
      - ML evaluations provided by psychologist/psychiatrists and toxicologists (taxonomy code) would be using the new modifiers
  3. Supplemental ML evaluations (new ML203) – Assumed a 15% reduction in frequency based on published research\*
  4. ML testimonies (new ML204) - Assumed all are depositions
  5. ML205 sub rosa recordings review - Assumed to be rare
  6. ML record review (MLPRR)
    - Assumed 100 pages / hour for record review based on feedback from claims experts
    - Assumed about one-third of time spent on ML101, ML104 and ML106 evaluations under old fee schedule is for record review

# Cost Estimates of New Medical-Legal Fee Schedule Impact Based on SY2018- SY2019 Medical Transaction Information

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Meeting of April 21, 2021

## Incremental and Overall Cost Impact Estimates of New ML Fee Schedule





# March 1, 2021 Changes to Official Medical Fee Schedule Evaluation and Management Office Visit Services — Summary

- DWC made major changes to E&M billing for 2021 and posted new reimbursement rates for E&M services to conform to relevant 2021 changes in the Medicare payment system, effective March 1, 2021.
- Some of the significant changes to the E&M Section of the OMFS include the following:
  - Updated relative value units (RVU)
  - Updated conversion factors
  - Updated telehealth list
  - Altered the way providers bill for E&M service
    - 1995 and 1997 E&M Documentation Guidelines are no longer used
    - Code change: eliminated 99201 and adopted G2212
    - Determination of the level of E&M service (via time or medical decision making)
- WCIRB evaluated the cost impact of the new reimbursement rates for E&M office/outpatient visit services using 2019 using medical transaction data
  - Reviewed by Claims Working Group and Medical Analytics Working Group
  - Unanimously approved by Actuarial Committee
  - Estimated 15% increase in E&M Office Visit fees (2.4% in overall medical costs)
  - WCIRB will later value the impact of E&M billing process changes based on actual billing and payment patterns under the 3/1/2021 schedule

# WCIRB's Approach for Estimating the Cost Impact of Increased Reimbursement Rates for E&M Office/Outpatient Visit Services

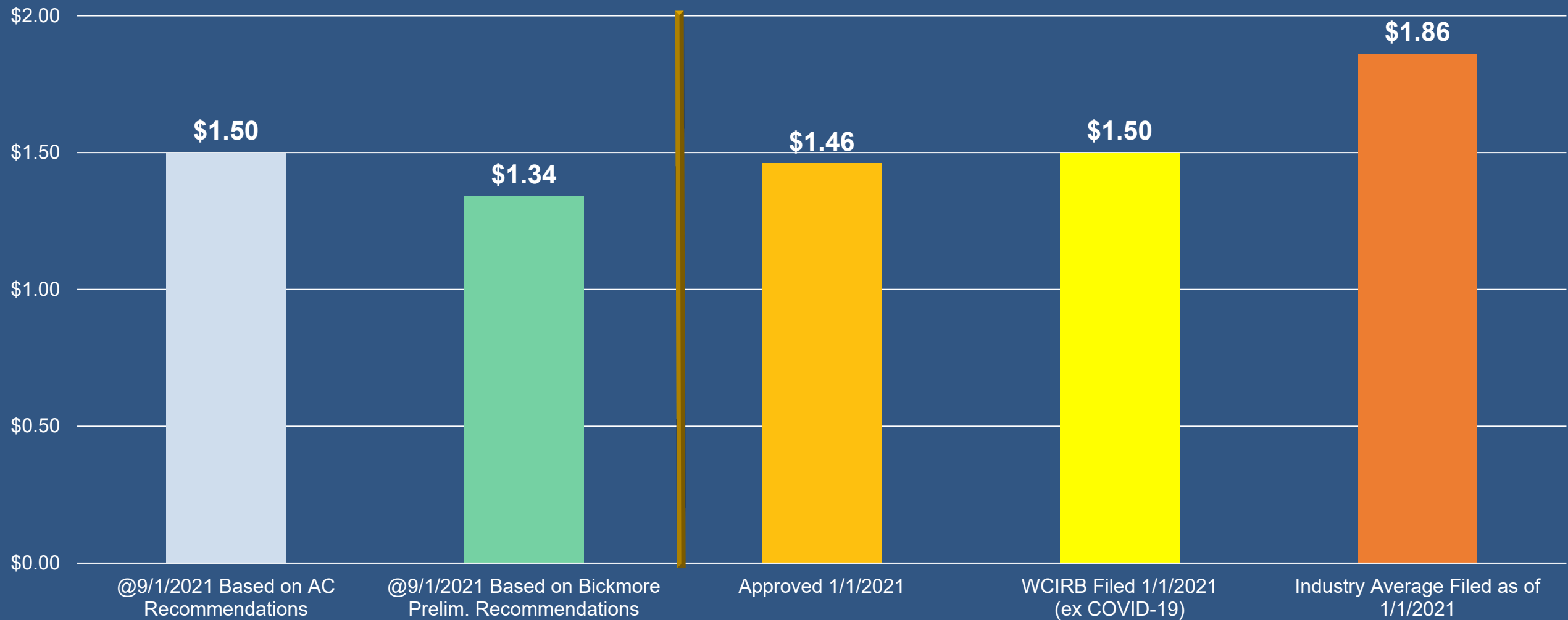
- Compare the expected payment for E&M office/outpatient services under the updated fee schedule to historical payments in WCIRB medical transaction data to estimate the cost impact - 2019 E&M transactions
  - Apply the updated RVU, GPCI, conversion factor and estimated network discount
- Key assumptions:
  1. Mix of E&M office/outpatient visit services remains the same
  2. Region mix remains the same for GPCI factors
  3. The magnitude of network discount remains the same (about 12%)
  4. Year-over-year inflationary change of 2-3% remains the same

# Estimates for Cost Impact of Increased Reimbursement Rates for E&M Office/Outpatient Visit Services Based on 2019 Services

- Based on the WCIRB medical transaction data in service year 2019
- The expected average payments for the nine office/outpatient visits are estimated to be 15% higher

E&M Office/Outpatient Visit CPT Code	Description	Percentage Change in Non-Facility Fee Schedule from 2020 to 2021	Transaction Share in 2019	Historical Average Payments in 2019	Expected Average Payments Adjusted for Discounting in 2021
99202	New straightforward 15-29 min	-3%	2%	\$97	\$95
99203	New low 30-44 min	5%	8%	\$135	\$145
99204	New moderate 45-59 min	3%	8%	\$199	\$210
99205	New high 60-74 min	8%	1%	\$239	\$266
99211	Established minimal prob	0%	0%	\$33	\$34
99212	Established straightforward 10-19 min	25%	3%	\$58	\$74
99213	Established low 20-29 min	23%	35%	\$92	\$117
99214	Established moderate 30-39 min	20%	39%	\$132	\$163
99215	Established high 40-54 min	25%	4%	\$168	\$215
Overall Average Payment*				\$124	\$149 (+20%)
Removing the typical annual inflation from 2019 to 2021 (2.5% per year)					<b>+15%</b>

# Average Pure Premium Rates per \$100 of Payroll



# September 1, 2021 Change in Advisory Pure Premium Rates

Questions?

Discussion

Adoption

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