Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
April 15, 2021	9:00 AM	Webinar Teleconference	David M. Bellusci

1221 Broadway, Suite 900 • Oakland, CA 94612 • 415.777.0777 • Fax 415.778.7007 • www.wcirb.com • wcirb@wcirb.com

Released: May 25, 2021

Members	Representing
Mauro Garcia	Zurich North America
Ika Irsan	Republic Indemnity Company of America
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
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 9:00 AM following a reminder of applicable antitrust restrictions, with Mr. David Bellusci, Executive Vice President and Chief Actuary, presiding.

* * * * *

Notice

The information in these Minutes was developed by the Workers' Compensation Insurance Rating Bureau of California (WCIRB) for the purpose of assisting the WCIRB Actuarial Committee. The WCIRB cannot make any guarantees if this information is used for any other purpose and the WCIRB shall not be liable for any damages, of any kind, whether direct, indirect, incidental, punitive or consequential, arising from the use of or reliance upon this information for any other purpose.

Item II
Working Group Meeting Summaries

The summaries of the Claims Working Group meeting held on March 22, 2021 and the Medical Analytics Working Group meeting held on April 1, 2021 were included in the Agenda for the Committee's review and were accepted by the Committee.

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

The Committee was reminded that at the March 16, 2021 meeting, the following staff recommendations were preliminarily agreed to:

- WCIRB frequency model projections for 2020 to 2023 should not assume a recession-related increase in the cumulative injury index, as this phenomenon is not yet observed in available accident year 2020 data.
- Absent an update to the California Department of Finance forecast, the 2020 projected change in the statewide average wage should be based on the March 2021 UCLA forecast data, which was primarily based on actual economic information for 2020. Projected changes for 2021, 2022, and 2023 should be based on the average of the March 2021 UCLA and November 2020 California Department of Finance forecasts.
- Projected changes in the statewide average wage based on UCLA and California Department of Finance forecasts should be adjusted to remove impacts of changing industry mix on the average wage. This adjustment removes 1.9% in 2020 and adds 0.4% in 2021. (Changes due to industrial mix in 2022 and 2023 are negligible.)

Staff presented an updated version of a potential additional adjustment to the projected growth in statewide average wages to reflect that the change in average wage, even within industry, was distorted from a pure premium ratemaking perspective by greater than average employment loss within industry sector at lower wage levels. Staff noted that a preliminary adjustment presented at the March 16, 2021 meeting had used nationwide data that was not differentiated by industry. The updated estimate relied on two data sets of California information. The March 2021 UCLA forecast was used to determine industry-level changes in employment and employment distributions. Distributions of employment by wage level and industry were derived from Current Population Survey (CPS) data from the Census Bureau, as compiled by the Economic Policy Institute. Staff noted that the annual values shown in the exhibits were averages of 12 monthly values and that certain industrial sectors with sparse California data had been combined.

Impact of Wage Distribution in 2020
Staff detailed the derivation of the statewide average wage using observed 2019 levels of industry mix, wage distribution within industry, and average wage by industry and wage quartile. This calculation served as the baseline overall wage level in the estimate.

Staff noted that due to differences in the underlying data sets, the overall industry-level employment changes in the CPS data will not equal the changes from the UCLA forecast. The derivation of an off-balance factor by industry was shown so that the employment changes from the two data sets coincide at the industry level. Staff noted that since this off-balance factor was applied uniformly to all wage quartiles for a particular industry, its application does not impact the within-industry 2020 wage distribution.

Staff detailed the derivation of the average wage using 2020 wage levels by industry. This average wage was calculated using the observed 2019 industry mix and average wages by industry and quartile. These values were combined with the 2020 wage distribution by industry. Staff noted that the resulting average wage reflected only changes in the wage distribution within industries, as the only difference between this value and the observed 2019 value was the distribution of employees by wage level within industries. Staff recommended using the overall estimate of the impact of the changing wage distributions within industries of 4.3% to adjust the 2020 average wage growth estimate for pure premium ratemaking purposes.

Impact of Wage Distribution in Future Years

Staff noted that while the 2020 change in the statewide average wage was artificially inflated by the loss of lower wage employees within industries from the workforce, changes in future years would be artificially deflated by the return of at least some of these employees to the workforce.

Staff presented the impact under various assumptions as to the return of the workforce to the pre-2020 wage distribution within industries. The scenarios ranged from the complete return to the previous wage distribution to no future changes. The scenarios were defined as follows:

- Full Unwinding: Assumed that the measured 4.3% 2020 impact on the statewide average wage would fully reverse over the 2021-2023 forecast horizon.
- No Unwinding: Assumed that changes to the wage distribution within industries were permanent.
- Proportional to Industry Mix: Assumed that impacts on the statewide average wage from the change in the wage distribution within industry will reverse in proportion to the reversal due solely to industrial mix.
- Midpoint: Assumed a reversal halfway between the Full Unwinding and Proportional to Industry Mix scenarios.

Staff noted that a prevailing thought among economists is that much of the low wage employment will return, but due to acceleration in automation trends and other factors, some of the change in the wage distribution is permanent. Given the magnitude of the impact of the wage distribution relative to impact of industrial mix, staff believed an unwinding greater than proportional to industry mix is reasonable. Combined with the sparsity of forecasts on the subject, staff recommended the midpoint scenario.

After discussion, the consensus of the Committee was that the recommended adjustments to the wage level and frequency model projections for 2020 to 2023, as presented by staff, should be included in the projections for the September 1, 2021 Pure Premium Rate Filing.

Item AC21-03-01
First Quarter 2021 Review of Diagnostics

At the March 16, 2021 meeting, the Committee discussed a number of system diagnostics and provided feedback to be discussed with the Claims Working Group (CWG) or requested additional information. Staff summarized the feedback provided by the CWG at the meeting of March 22, 2021 as well as the additional information that has been compiled. Among the items discussed by the Committee were the following:

1. At the March 16, 2021 meeting, the Committee requested CWG feedback on the continued post-pandemic slowdown in claims settlement. The Committee was advised that CWG members noted that there continues to be pandemic-related challenges in getting claims settled including obtaining approvals of settlements at WCAB offices.
2. At the March 16, 2021 meeting, the Committee requested CWG feedback on the sharp increase in claims in excess of $1 million. The Committee was advised that the CWG discussed a number of factors that could be increasing the proportion of very large claims. These include earlier recognition of these large claims due to use of enhanced analytical models, improved medical treatment of very serious injuries, improving mortality, increased home health and related costs and that the impacts of medical reforms may not be having as great an impact on serious traumatic claims as on less severe claims.
3. At the March 16, 2021 meeting, the Committee requested CWG feedback on the recent increase in temporary disability duration. The Committee was advised that CWG members suggested that with recent challenges in assessing when a workers' injury is permanent and stationary and in returning injured workers to work during the pandemic, temporary disability duration is likely to continue to increase.
4. At the March 16, 2021 meeting, the Committee discussed the relative frequency of cumulative trauma (CT) claims, particularly those filed following the employee's termination and requested that updated information on 2020 CT claims be provided. Staff presented a summary of the share of indemnity claims that were reported as CT claims by accident quarter based on transactional indemnity data. While there was no indication of increasing CT claims in 2020 despite the significant level of job loss, the Committee agreed that information should continue to be monitored as the year further develops.
5. At the March 16, 2021 meeting, the Committee requested staff to review information on injured worker weekly wages in 2020 to assess whether, with the sharp reduction in low wage employment, the average wage of injured workers grew similarly to that of all employees. Staff presented a summary of the change in injured worker average wages in 2020 based on a sample of transactional indemnity data. The Committee was advised that there was sharp growth in injured worker average weekly wages for most industries, although the typical average growth was somewhat below the average growth over all employees.
6. At the March 16, 2021 meeting, the Committee reviewed the preliminary information on 2020 medical severity growth and requested that additional explanatory information be provided. Staff presented several summary exhibits related to medical severities. The Committee was advised that while the average paid medical severity on all claims had increased by about 10% in 2020, the average paid on indemnity claims was essentially flat. Staff presented a summary of non-COVID-19 claims filed in 2020 that showed the decline in medical-only claims filed was more than twice that on indemnity claims, which largely explained the differences in 2020 medical severity growth between all claims and indemnity claims.

The Committee also reviewed a summary of 2019 and 2020 claims by diagnostic grouping based on the WCIRB's algorithm for assigning claims to diagnostic groups based on the medical transactions on the claim. The information showed that there were significant declines in the frequency of most non-COVID-19 diagnosis claim groupings. As a result, there was no indication of shifting diagnoses driving changes in average severities.

Item AC21-03-02
12/31/2020 Experience Review

The Agenda included an updated analysis of December 31, 2020 experience, which was first reviewed at the March 16, 2021 meeting. The Committee was advised that the updated analysis reflected several refinements from the analysis reviewed at the March 16, 2021 meeting based in part on the discussions from that meeting.

The Committee reviewed loss development and the alternative loss development projections included in the Agenda (Item AC21-04-02). Staff noted that the loss development methodology included in the Agenda and recommended by staff is generally consistent with that reflected in the January 1, 2021 Pure Premium Rate Filing and was primarily based on two-year average paid loss development adjusted for reforms and changes in claim settlement rates. Staff noted that, as discussed at prior meetings, the two-year average was recommended to reduce volatility in loss development emerging during the pandemic period. A motion was made, seconded, and unanimously passed to base the indemnity loss development projection on the method as presented in the Agenda to compute the indicated September 1, 2021 average advisory pure premium rate.

With respect to medical loss development, a motion was made and seconded to base the medical loss development projection on the method as presented in the Agenda to compute the indicated September 1, 2021 average advisory pure premium rate. The motion passed with eight in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed the motion recommended a medical loss development methodology that assigned some weight to a projection based on incurred loss development.)

Staff noted that each year, the Division of Workers' Compensation (DWC) adjusts weekly minimum and maximum temporary disability and permanent total disability benefits by statute. In accordance with statute, increases in these benefits were based on the change in the state average weekly wage (SAWW) for employees covered by unemployment insurance for the 12 months ending March 31 of the prior year. Based on a review of the SAWW for the period ending September 30, 2020, the anticipated increase to January 1, 2022 benefits will likely be significantly higher than typical (7.9% based on September 30, 2020 data)as the change in SAWW will be impacted by distributional shifts in wage levels as discussed at prior meetings. As a result, staff reflected the anticipated increase in the on-level adjustments for indemnity benefits in the analysis included in the Agenda. Conversely, staff also reflected an anticipated flat statutory benefit level effective January 1, 2023 given that growth in the SAWW for 2021 and 2022 is anticipated to be modest as some of the impact of the shift in wage distribution begins to reverse. The consensus of the Committee was that these adjustments were appropriate.

Staff noted that the preliminary accident year 2020 (ex-COVID) frequency change after staff's recommended adjustments for shifts in industrial mix is a moderate decrease generally consistent with the decrease projected in the January 1, 2021 Pure Premium Rate Filing. The frequency changes projected by the WCIRB's frequency model were modest increases for 2021 through 2023 primarily driven by the forecast economic recovery. A Committee member questioned the appropriateness of using the actual 2020 frequency change given the pandemic-related volatility. Staff replied that indemnity claim counts at 12 months were less subject to shifting development patterns compared to paid losses and prior studies have shown that the preliminary measure of the frequency change at 12 months was more predictive of the actual change compared to the WCIRB's frequency model. Another Committee member noted that the projected average change from 2019 to the September 1, 2021 to August 31, 2022 policy period was a modest annual decrease which appeared reasonable. After discussion, the majority of Committee members agreed that the claim frequency projections as presented in the Agenda were appropriate.

The Committee noted that the projected annual on-level indemnity severity trend of 1.0% reflected in the Agenda gave some weight to the increases in projected on-level indemnity severities for 2018 and 2019 and some weight to the decreases experienced over the last several prior years and was consistent with the indemnity severity trend reflected in the January 1, 2021 Pure Premium Rate Filing. Given the volatility arising during the pandemic, staff recommended not giving significant weight to the sharp increase in the accident year 2020 on-level indemnity severity when selecting the on-level indemnity severity trend. Similarly, staff recommended basing the projected loss ratio for September 1, 2021 to August 31, 2022 policies on applying the projected frequency and average on-level indemnity severity trend to accident year 2019 only. The Committee discussed the alternative indemnity trending projections included in the Agenda (AC21-04-02). After discussion, a motion was made and seconded to use the indemnity trending projection methodology as presented in the Agenda, with the refinements to the wage level projection as discussed in Item AC20-08-04. 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 an indemnity severity trending methodology which varied the trend rate by year.)

The Committee noted that the average annual medical severity trend of 1.0% reflected in the Agenda gave consideration to the recent period of generally flat-to-declining on-level medical severities while also considering longer-term trends given that a significant portion of medical costs were paid many years after the claim occurs. It was also noted that the 1.0% average annual on-level medical severity trend was generally consistent with the approximate average rate of growth over the most recent two pre-pandemic years (2018 and 2019). As with indemnity, staff recommended not giving significant weight to the moderate decrease in the accident year 2020 on-level medical severity when selecting the on-level medical severity trend and as this decrease was likely related to shifts in medical services and injury types during the pandemic period and applying the selected trends to accident year 2019 only. The Committee discussed the alternative medical trending projections included in the Agenda (AC21-04-02). After discussion, a motion was made and seconded to use the medical trending projection methodology as presented in the Agenda, with the refinements to the wage level projection as discussed in Item AC20-08-04. 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 a somewhat lower medical severity trend.)

Item AC21-03-04
9/1/2021 Filing – COVID-19 Claim Cost Projection

At the March 16, 2021 meeting, the Committee discussed the COVID-19 claim cost projection reflected in the January 1, 2021 Pure Premium Rate Filing and the potential cost of COVID-19 claims incurred on policies incepting between September 1, 2021 and August 31, 2022. Given that the available models used by the WCIRB in the January 1, 2021 Pure Premium Rate Filing were currently forecasting that COVID-19 rates were plateauing at relatively low levels before significant levels of exposure on post-September 1, 2021 policies will arise, the consensus of the Committee was that a COVID-19 claim cost provision for the September 1, 2021 to August 31, 2022 policy period may not be appropriate. However, before finalizing any recommendations, the Committee agreed to review updated COVID-19-related information at the April 15, 2021 meeting.

Staff summarized the updated information on COVID-19 claims being filed and the available model forecasts of future COVID-19 infections and deaths. As was discussed at the March 16, 2021 meeting, with the winter surge of COVID-19 infections, the volume of claims to be reported for accident year 2020 were two to three times higher than projected in the WCIRB's January 1, 2021 Pure Premium Rate Filing and 2021 is appearing to emerge at level relatively consistent with WCIRB projections. Conversely, it was noted that early preliminary estimates of the average severity of COVID-19 claims were below the filing projections. In addition, the Committee was advised that three of the latest published pandemic forecasts projected a very significant drop in COVID-19 hospitalizations and deaths by late summer 2021. While the Committee generally agreed with staff's suggestion that there will continue to be some COVID-19 claims continuing into 2022, given the information from the available forecasts, the consensus of the Committee was that projected September 1, 2021 advisory pure premium rates should not reflect a provision for COVID-19 claims on policies incepting between September 1, 2021 and August 31, 2022.

Item AC21-04-01
9/1/2021 Filing – Loss Adjustment Expense Experience Review

The Committee was advised that although unallocated loss adjustment expense (ULAE) experience for calendar year 2020 is not yet available, the Agenda included an updated ULAE projection that reflected ULAE experience through calendar year 2019, the ULAE projection methodology refinements adopted by the Committee at the December 11, 2020 meeting, and updated frequency, wage level, and loss projections based on December 31, 2020 experience. The Committee noted that the ULAE projection in the Agenda was based on the average of the open claim count-based methodology and recent calendar year paid ULAE to paid loss ratios for private insurers based on the latest two calendar years (2018 and 2019). Staff noted that the wage level trends included in the Agenda did not yet reflect the refinements to the wage level projection for shifting wage levels within industries as discussed in Item AC20-08-04 and adopted by the Committee. After discussion, a motion was made, seconded, and unanimously passed to use the ULAE projection methodologies as presented in the Agenda and recommended by staff, with the refinements to the wage level projections as discussed in Item A20-08-04, for purposes of computing the indicated September 1, 2021 average advisory pure premium rate.

The Committee reviewed the analysis of allocated loss adjustment expense (ALAE) experience through December 31, 2020 that was included in the Agenda as well as alternative ALAE projection methodologies. The Committee noted that paid ALAE development continues to decrease moderately. The Committee also noted that the adjustments to paid ALAE development for changes in claim settlement rates based on the methodology reflected in the January 1, 2021 Pure Premium Rate Filing appear to be working well as they more accurately projected the next period’s paid ALAE age-to-age factor compared to using the latest year’s unadjusted factor. The Committee was reminded that the claim settlement rate adjustments were only applied when the annual change in claim settlement rate is more than 1.5% in absolute value. Similar to the loss development projection, staff recommended using a two-year average of paid ALAE development with adjustments for changes in claim settlement rates rather than the latest year’s factor in order to mitigate volatility emerging during the pandemic period.

The Committee noted that changes in ALAE severities have been modest over the last several years. As discussed earlier for the loss components of the projection, given the volatility emerging during the pandemic, staff recommended not giving significant weight to the accident year 2020 ALAE severities when selecting the ALAE severity trend. The Committee was advised that the approximate average ALAE severity trend based on the short-term and longer-term average rates of growth through 2019 of 1.0% is somewhat lower than the projected ALAE severity trend reflected in the January 1, 2021 Pure Premium Rate Filing. Staff also noted that, consistent with the loss projections given the volatility in the accident year 2020 data, the ALAE projection included in the Agenda and recommended by staff was based on trending from accident year 2019 ALAE experience only.

The Committee was reminded of the methodology to adjust the ALAE to loss ratio for the impact of the Senate Bill No. 1160 reforms related to lien filings, which was consistent with the methodology used in the January 1, 2021 Pure Premium Rate Filing and updated based on a 70% total reduction in lien filings based on a review of the latest lien filing information from the Division of Workers’ Compensation. After discussion, a motion was made and seconded to use the ALAE projection methodologies as presented in the Agenda and recommended by staff for purposes of computing the indicated September 1, 2021 average advisory pure premium rate. 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 a somewhat lower ALAE severity trend projection.)

The Committee next reviewed the analysis of medical cost containment program (MCCP) cost experience through December 31, 2020 as well as alternative MCCP cost projection methodologies. Staff noted that, similar to ALAE excluding MCCP costs, a two-year average of paid MCCP cost development was recommended to mitigate volatility emerging during the pandemic period. It was noted that average MCCP per indemnity claim decreased in 2019 and 2020 following an increase in 2018. The Committee was advised that the MCCP severity trend of -1.0% reflected in the Agenda was based on the approximate average of the calendar year and accident year average MCCP severity trends through 2019. Staff also noted that, consistent with ALAE excluding MCCP costs, the MCCP cost projection included in the Agenda and recommended by staff was based on trending from accident year 2019 only. After discussion, a motion was made and seconded to use the MCCP cost projection methodologies as presented in the Agenda and recommended by staff for purposes of computing the indicated September 1, 2021 average advisory pure premium rate. 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 a somewhat lower MCCP cost severity trend projection.)

Item AC21-04-02
9/1/2021 Filing – Review of Alternative Loss Projection Methodologies

The Agenda materials included a number of alternative loss development and 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 loss development and trending methodologies in the context of its review of December 31, 2020 experience. (Please refer to the Minutes for Item AC21-03-02.)

Item AC21-04-03
Evaluation of New Medical-Legal Fee Schedule

The Committee was advised that effective April 1, 2021, the Division of Workers' Compensation (DWC) adopted significant changes to California's Medical-Legal Fee Schedule (Schedule).[1] Staff presented the WCIRB's prospective cost evaluation of the April 1, 2021 Schedule based on medical-legal services provided in 2018 and 2019. The Committee was advised that the key assumptions underlying the cost evaluation were reviewed by the Claims Working Group and Medical Analytics Working Group. Feedback from both working groups was incorporated in the evaluation.

Staff summarized the key changes in the April 1, 2021 Schedule, which include changes to procedure codes, relative values and modifiers, the elimination of the time component in billing medical-legal evaluations and new codes for record review and sub rosa recording review. The Committee was advised that, consistent with the WCIRB's standard process in evaluating fee schedule changes, this prospective evaluation assumed the mix of medical-legal services overall under the new schedule is generally consistent with that in 2018 and 2019, except for a lower use (-15%) of the supplemental medical-legal evaluations based on published research and feedback from claims and medical experts.[2] The Committee was advised that, based on the underlying assumptions reviewed, the April 1, 2021 Schedule is estimated to increase the overall cost of medical-legal services by 22%.

The Committee was also advised that the highest level of uncertainty in the evaluation was around the cost of record review under the April 1, 2021 Schedule. Staff's approach in evaluating this change was to compare the cost of each medical-legal evaluation in 2018 and 2019 paid in accordance with the pre-April 1, 2021 Schedule including the amounts paid for additional time provisions to an estimated cost under the April 1, 2021 Schedule. In restating paid amounts that reflected billing for additional time provisions, the WCIRB assumed that one-third of the median time of the current evaluations involve record review and that physicians are reviewing on average 100 pages per hour. Staff shared with the Committee that several members from the Claims Working Group and the Medical Analytics Working Group expressed concern that the per page record review bill component could potentially produce significantly higher costs than what was estimated based on the 100 pages reviewed per hour assumption underlying the cost evaluation. As a result, staff tested the sensitivity of the key assumptions by computing alternative cost estimates for record review assuming 50 page and 150 pages on average are reviewed per hour. The overall cost impact of the April 1, 2021 Schedule was estimated to be 11 percentage points lower based on the 50 page per hour assumption, while assuming a review rate of 150 pages per hour would increase the overall cost estimate by 13 percentage points.

A Committee member asked about the estimated average cost including the record review component for ML104 as ML104 under the pre-April schedule had the highest paid per transaction among all medical-legal evaluations. Staff reviewed the available data following the meeting and estimates that assuming physicians review on average 100 pages per hour, the average payment for ML104 would be about $3,200 inclusive of the record review cost, which is about 16% lower than the average paid per ML104 transaction in 2018 and 2019. However, the estimated average payments including record review costs for ML102 and ML103 are much higher than their historical average payments, mostly due to a much higher flat fee for both procedures under the April 1, 2021 Schedule. Also, under the April 1, 2021 Schedule, ML102 through ML104 are combined into one ML evaluation code (ML201). Given the significant structural changes to the payment system under the April 1, 2021 Schedule and that the changes were apparently intending to help reduce incidences of possible misuse of hourly billing provisions more likely seen in ML104, it is challenging to draw concrete conclusions from the comparison

[1] Title 8, **California Code of Regulations, Sections 9793, 9794 & 9795.** https://www.dir.ca.gov/dwc/DWCPropRegs/2020/Medical-Legal-Fee-Schedule/Med-Legal-Fee-Schedule.htm
[2] DWC Initial Statement of Reasons. Medical Legal Fee Schedule, October 2020.

between the estimated average payments including record review costs for ML104 and the corresponding historical average payments.

Staff noted that the 22% indicated increase in medical-legal costs due to the implementation of the April 1, 2021 Schedule translates to an approximate 1.4% increase in overall medical costs since medical-legal costs comprise approximately 6.5% of overall medical costs.[3] The Committee was advised that the April 1, 2021 Schedule applies to all medical-legal services provided on or after that date including those on claims incurred against in-force or expired policies. Nevertheless, staff noted it was not recommending any adjustments to the advisory pure premium rates applicable to the unexpired terms of in-force policies.

After discussion, a motion was made, seconded and unanimously passed to reflect the cost impact of the April 1, 2021 Schedule based on the methodology and assumptions presented by staff in the September 1, 2021 Pure Premium Rate Filing.

[3] *2019 California Workers' Compensation Losses and Expenses,* WCIRB, June 2020. MCCP costs paid as medical costs in 2019 were excluded.

Item AC21-04-04
Evaluation of Updates to Official Medical Fee Schedule

The Committee was advised that effective March 1, 2021, the Division of Workers' Compensation (DWC) adopted significant changes to the Evaluation and Management (E&M) Section of the Official Medical Fee Schedule (Schedule). The March 1, 2021 Schedule changes include updated relative value units and conversion factors and significant changes to how providers bill for E&M services. Staff presented the WCIRB's prospective cost impact evaluation of the March 1, 2021 Schedule changes at the meeting. The Committee was advised that the cost evaluation reflected the potential impact of the changes to reimbursement rates for E&M services and the impact of the changes to the billing processes would be evaluated later in 2021 and 2022 based on actual billing patterns and payments under the revised schedule. The Committee was also advised that that the key assumptions underlying the cost evaluation were reviewed by the Claims Working Group and Medical Analytics Working Group. Feedback from both working groups was incorporated in the evaluation.

The Committee was advised that, consistent with the WCIRB's standard process in evaluating fee schedule changes, this prospective evaluation assumed the mix of E&M office/outpatient visits under the March 1, 2021 Schedule changes was generally consistent with that in 2019. Staff noted that the average network discount for these E&M office/outpatient visit procedures as reflected in the WCIRB's medical transaction data was approximately 12% and the evaluation assumed the average fee schedule discount would be maintained under the revised Fee Schedule. Staff also noted that the typical annual inflationary adjustment contemplated in the regular Schedule update based on Medicare is 2-3%, which was assumed to be maintained under the March 1, 2021 Schedule changes and the cost impact estimate was net of the standard inflationary impact. The Committee was advised that, based on the underlying assumptions reviewed, the cost impact of the March 1, 2021 Schedule changes to the reimbursement rates for the E&M office/outpatient visits was estimated to be 15%.[1]

The Committee was advised that the 15% indicated increase in E&M office/outpatient visits costs due to the implementation of the March 1, 2021 Schedule changes translates to an approximate 2.4% increase in overall medical costs since costs of E&M office/outpatient visits comprise approximately 15.9% of overall medical costs.[2] The Committee was further advised that the March 1, 2021 Schedule changes apply to all medical services provided on or after that date including those on claims incurred against in-force or expired policies. Nevertheless, staff noted it was not recommending any adjustments to the advisory pure premium rates applicable to the unexpired terms of in-force policies.

After discussion, a motion was made, seconded and unanimously passed to reflect the cost impact of the March 1, 2021 Schedule changes based on the methodology and assumptions presented by staff in the September 1, 2021 Pure Premium Rate Filing.

---

[1] The WCIRB also compared the cost impact estimate of the March 1, 2021 Schedule changes using E&M services provided in 2020 as the basis for the computation. The estimate cost impact using the 2020 E&M service mix as the computation base was similar with that using 2019 (15.5% compared to 15%).

[2] *2019 California Workers' Compensation Losses and Expenses,* WCIRB, June 2020. The 15.9% represents payments for E&M office/outpatient visits relative to all payments for medical services including copy services and interpreter services. The component of claim settlement payments for future medical services, Medicare set-aside related costs and medical lien payments were assumed to reflect E&M office/outpatient visits services proportionate to total medical services.

The meeting was adjourned at 1:25 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for June 22, 2021 for approval and/or modification.