

Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
September 14, 2021	9:00 AM	Webinar Teleconference	David M. Bellusci
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Released: September 27, 2021

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Laura Carstensen
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Dilan Sahin
Serina Wu
Julia Zhang

The 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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Approval of Minutes

The Minutes of the meeting held on June 22, 2021, 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.

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Item II

Working Group Meeting Summaries

The summary of the Actuarial Research Working Group meeting held on July 6, 2021 was included in the Agenda for the Committee's review and was accepted by the Committee.

Item AC21-03-03

Review of COVID-19 Claim Diagnostics

Staff summarized a number of COVID-19 claim related diagnostics based on the WCIRB's aggregate financial data calls, unit statistical reports and indemnity transaction data. Staff presented diagnostics showing the patterns of COVID-19 indemnity claims by accident month and industry. It was noted that, while the number of COVID-19 claims had decreased dramatically in the second quarter of 2021, there could be an increase in the third quarter due to the surge in infections resulting from the Delta variant.

Staff presented diagnostics exploring the incurred severity estimates for accident year 2020 COVID-19 and non-COVID-19 indemnity claims. Unlike non-COVID-19 indemnity claims, a significant share of COVID-19 indemnity claims have incurred indemnity losses but no medical losses at first unit statistical report level. Based on indemnity transaction data, these claims often involve two or fewer weeks of paid indemnity benefits and close more quickly than COVID-19 claims with both incurred medical and indemnity losses but a small share have 4 or more weeks of paid temporary disability benefits. The Committee was advised that the Claims Working Group suggested that many of the indemnity-only claims may truly have no paid medical as the worker was sick for a short period of time with minimal medical care and then returned to work. It was also noted that the Claims Working Group also suggested that, in some cases, the medical bills may have been paid by other payers and, particularly on those involving hospitalizations, the medical costs on some of these claims may eventually be reimbursed in the workers' compensation system.

Staff shared information comparing incurred indemnity and incurred medical severities on COVID-19 and non-COVID-19 claims by open/closed status and by medical-only/indemnity-only/indemnity-medical classification. Staff showed that, while the estimated medical severity on COVID-19 indemnity claims is significantly lower than for non-COVID-19 indemnity claims, the estimated medical severity on COVID-19 indemnity-medical claims is higher than that for non-COVID-19 indemnity-medical claims. A Committee member asked if there were any adverse vaccine reaction claims included in this analysis and was advised that the time frame reflected in the data largely preceded release of the vaccines.

Staff observed that COVID-19 claims are currently more likely to be classified as Temporary Total or Death than non-COVID-19 claims. Staff highlighted that COVID-19 indemnity claims close more quickly than non-COVID-19 indemnity claims both due to the higher share of indemnity only claims as well as to faster closing rates for indemnity-medical claims. Staff noted that the share of reported indemnity claims classified as cumulative trauma continued to decrease year over year throughout accident year 2020.

Item AC21-09-01

Third Quarter 2021 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 slower permanent partial claim settlement rates and larger compromise and release claim settlement amounts in the Bay Area compared to the Los Angeles Basin area. The Committee was advised that, as recommended by the Claims Working Group, staff plans to review information from prior years to evaluate whether this is indicative of a long-term pattern or recent trend.
2. After decreasing in the second quarter of 2020, the number of expedited hearings continues to increase over time and the number of expedited hearings in the second quarter of 2021 is the highest since 2012. The Committee was advised that the Claims Working Group suggested that with the absence of in-person WCAB hearings during the pandemic, expedited hearings may be being used to continue to move the claim process forward. With in-person hearings scheduled to resume in October 2021, staff will review the data to assess whether there is a change in the number of expedited hearings.
3. The median costs of Medicare set-aside arrangements were significantly lower in recent years than in earlier years. The Committee was advised that the Claims Working Group suggested potential reasons for these decreases, including a recent trend of more informal set-asides being established at relatively lower costs without submitting the set-asides for formal Center for Medicare and Medicaid Services (CMS) review and approval.
4. The claim settlement rates in the most recent two quarters in 2021 were still well below the pre-pandemic level which is likely at least in part due to slowdowns of in-person WCAB hearings, obtaining medical-legal reports and in compromise and release approvals.
5. The number of medical-only claim counts decreased significantly in 2020 with the COVID-19 pandemic. The Committee was advised that several possible reasons for the decrease, including that injured workers might have been hesitant to visit medical facilities during the early months of the pandemic and slowdowns in medical treatment. The Committee recommended that staff continue to monitor indemnity and medical-only claim counts.

Item AC21-09-02

6/30/2021 Experience Review

Staff presented a summary of the analysis of statewide accident year experience evaluated as of June 30, 2021, which was included in the Agenda. It was noted that the projected loss ratio for policies incepting between September 1, 2021 and August 31, 2022 based on June 30, 2021 experience was approximately one point higher than the projection included in the September 1, 2021 Pure Premium Rate Filing which reflected December 31, 2020 experience. During the discussion, the Committee noted the following:

- Loss development projections for accident years 2019 and earlier based on June 30, 2021 experience increased moderately from those based on December 31, 2020 experience. This was driven by increases in paid indemnity and medical development for earlier periods. Conversely, incurred loss development declined modestly for earlier periods.
- The projected loss ratio for accident year 2020 decreased moderately for indemnity but increased moderately for medical. For indemnity, this is likely in part driven by pandemic-related shifts in industrial and wage level mix. For medical, this is likely in part driven by the impact of initially delayed or deferred treatment during the pandemic occurring in 2021 as the economy reopens.
- The updates to the Official Medical Fee Schedule effective March 1, 2021 and the new Medical-Legal Fee Schedule effective April 1, 2021 are likely contributing to the increased paid medical development. Staff advised the Committee that it plans to review a potential adjustment to paid medical loss development for the new fee schedules with the Committee at the next meeting.
- Indemnity claim count development for accident year 2020 is relatively flat, suggesting that a surge of late reported cumulative trauma claims related to the economic slowdown is not materializing.
- Quarterly incremental indemnity claim settlement rates are beginning to flatten in the second quarter of 2021 after decreasing significantly during the pandemic period.
- The indemnity claim frequency change for accident year 2020 (excluding COVID-19 claims) based on the preliminary measure of changes in indemnity claim counts at 18 months compared to estimated changes in statewide employment levels showed a decrease generally consistent with that reflected in the September 1, 2021 Pure Premium Rate Filing.
- Estimated indemnity claim frequency changes for the first half of accident year 2021 compared to the first half of 2020 shows significant increases, both including and excluding estimated COVID-19 claims. Staff noted that there are challenges in estimating the indemnity claim frequency change compared to the first half of 2020 given the sharp decrease in exposure during the initial shelter-in-place period. When comparing the first half of 2021 to the first half of 2019, indemnity claim frequency (excluding COVID-19 claims) increased by an estimated 5.5% compared to a 2.7% decrease projected in the September 1, 2021 Pure Premium Rate Filing for the same period.
- Average on-level indemnity severities continue to show modest increases for accident years 2018 and 2019. The indicated increase for 2020 projected based on 18 months was lower than the increase projected based on 15 months experience. As discussed at prior meetings, the 2020 average indemnity claim severity is likely impacted by shifts in the wage distribution of injured workers and potential increases in temporary disability duration during the pandemic period.

- Average on-level medical severities show a moderate increase for accident year 2018 and modest decreases for 2019 and 2020. As discussed at prior meetings, the decrease for 2020 may be impacted by shifts in the distribution of injuries and delays or deferrals of medical treatment during the pandemic. Projected changes in accident year 2018 through 2020 average medical severities based on June 30, 2021 experience increased from those projected based on December 31, 2020 experience.
- After declining consistently for the last several years, paid ALAE development in the first and second quarters of 2021 increased. This is likely related to claims activity beginning to increase after declining during the pandemic period.
- Indemnity claim count development for accident year 2020 COVID-19 claims decreased from 15 to 18 months. Initial information from insurers suggests that several indemnity claims have been closed without an indemnity payment. However, paid loss development on COVID-19 claims from 15 to 18 months was higher compared to paid loss development on non-COVID-19 claims.

Item AC21-09-03

Wage Inflation Analysis

Staff shared preliminary research findings on differences between different series of wage inflation measures including inflation in workers' compensation exposure for premium determination and inflation in average weekly wages used for the determination of temporary disability (TD) benefits.

The Committee was advised that, to analyze inflation in TD benefits, the wages for each year in the analysis were capped at the level which would yield the maximum TD benefit for that year and that only a relatively small share of claims reported on unit statistical reports (USR) have reported wages that are above the capped level of wages for that year. Staff also noted that the analysis focused on wages reported for permanent disability (PD) and TD claims as the wages are reported more consistently on USRs for indemnity claims than for medical-only (MO) claims. Staff found that the changes in reported average weekly wages were relatively similar across injury types. In response to a Committee member question, staff confirmed that the study focused on inflation in TD benefits as most injured workers would receive the maximum benefits for PD and, as a result, PD benefits are relatively unaffected by wage inflation.

Staff noted that inflation in uncapped wages from American Community Survey (ACS) data was consistently but modestly higher than inflation in capped wages. Wage inflation for USR indemnity claims was lower than for both the capped and uncapped ACS series early in the study period and higher later in the period. Staff also noted that cumulative wage inflation was similar at different percentiles of the wage distribution with lower inflation in the 25th percentile early in the period and higher later in the period.

The Committee was advised that a research brief on wage inflation characteristics will be published later this fall and any staff recommendations for wage projection methodology enhancements presented at the next Committee meeting.

Item AC21-09-04

Study of California Frictional Costs

Staff noted that despite a recent moderation in average allocated loss adjustment expense (ALAE) costs, overall frictional costs in California workers' compensation are much higher than in other states. Staff presented a summary analysis of California frictional costs. The Committee noted the following:

- Although California ALAE has been recently flat, California still has the highest ALAE to loss ratio of any state. California also has among the highest unallocated loss adjustment expense (ULAE) to loss ratios.
- California has a significantly higher volume of permanent disability (PD) claims per 100,000 workers compared to other states. PD claims incur significantly higher frictional costs compared to other types of claims.
- California claims stay open much longer on average than in other states. ALAE costs develop significantly higher at later maturities.
- California has a significantly higher percentage of claims with defense costs and medical-legal costs compared to the typical state. California also has a significantly higher average defense cost and medical-legal cost on claims with these costs compared to the typical state.
- The post-SB 863 downward trend in paid ALAE development is highly correlated with the claim settlement rate increases over the same period. In the first and second quarters of 2021, both of these measures reversed with paid ALAE development increasing and claim settlement rates declining.
- Claims with nontrivial ALAE amounts (paid ALAE greater than \$1,000) represent approximately 85% of PD claims which corresponds to the proportion of represented PD claims based on WCIRB survey data. These nontrivial ALAE claims represent approximately 80% of paid medical.
- While the majority of nontrivial ALAE claims are PD at later report levels, a significant proportion are reported as temporary-only at first report level. Many of these claims later develop to PD and incur significant ALAE costs.
- Over half of nontrivial ALAE claims come from the Los Angeles Basin area compared to approximately 45% of low ALAE claims. Once a claim has nontrivial ALAE, the average ALAE cost on the claim is generally similar between California regions.
- The vast majority of cumulative trauma (CT) claims involve nontrivial ALAE costs. Recent growth in CT claims has been driven by the growth in nontrivial ALAE claims. Once a claim has nontrivial ALAE, the average ALAE on the claim is generally similar between CT claims and specific injury claims.
- Growth in the proportion of nontrivial ALAE claims has been modest over recent years, corresponding to the flat average ALAE trends.
- Nontrivial ALAE claims have a significantly higher proportion of inpatient and outpatient services.

The Committee was advised that staff is conducting a pair matching study to analyze the association of higher ALAE costs with other system characteristics. Staff summarized the initial framework contemplated

for the pair matching study. The Committee noted the initial framework generally appeared reasonable and the results would be of interest.

Following the discussion, the Committee accepted staff's analysis and was advised that the WCIRB's report on California frictional costs is scheduled for release in November.

The meeting was adjourned at 12:00 PM.

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Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for December 7, 2021 for approval and/or modification.