Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
April 14, 2022	9:00 AM	Webinar Teleconference	David M. Bellusci

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Members	**Representing**
Mauro Garcia	Zurich North America
Ika Irsan	Republic Indemnity Company of America
Matt Jahnke	CopperPoint Insurance Companies
Miranda Ma	American International Group
Neal Leibowitz	Liberty Mutual Group
Joanne Ottone	Berkshire Hathaway Homestate Companies
Mark Priven	Public Members of Governing Committee
Kate Smith	State Compensation Insurance Fund
Bryan Ware	AmTrust
Chris Westermeyer	Travelers

California Department of Insurance
Giovanni Muzzarelli

WCIRB
Bill Mudge
David Bellusci
Laura Carstensen
Tony Milano
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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Item II
Working Group Meeting Summaries

The summary of the Medical Analytics Working Group meeting held on April 1, 2022 was included in the Agenda for the Committee's review and was accepted by the Committee.

Item AC16-06-05
Update to Medical Severity Trends by Component

Staff summarized the update to the WCIRB's medical severity trend analysis using medical transaction data through December 31, 2021 with COVID-19 claims excluded.

The Committee was advised that the average medical severity per claim increased by 6% in 2021, partly due to the 2021 fee schedule changes to the Evaluation and Management (E/M) office visit codes and medical-legal (ML) services codes and values. Staff noted that the pharmaceutical paid per claim increased temporarily in 2020 but declined by 10% in 2021. Staff also observed that the usage of telemedicine services appeared to level off in 2021 after a significant increase in 2020.

The Committee was advised that the increase in the ML costs per claim in 2021 was mostly due to the impact of the new April 1, 2021 ML Fee Schedule. A Committee member asked to clarify the 25% increase in the ML transactions per claim in 2021 relative to those under the pre-April fee schedule. Staff explained that most of the increase was attributable to record review transactions. Staff also noted that since the new fee schedule involves significant structural changes to the reimbursement mechanism for ML services, for example, some procedures codes (ML102-ML104) were consolidated into one (ML201) while new codes for additional record review and sub rosa review were added, a direct comparison of the number of ML transactions per claim before and after the new fee schedule is not very meaningful. Staff noted that the retrospective cost impact evaluation of the new ML fee schedule (se Minutes for Item AC22-04-04) analyzed the number of ML services per claim and did not find the new fee schedule has had any impact on the average use of ML services. A Committee member suggested adding a footnote to the ML severity slide to clarify what the changes in ML transactions per claim represent.

Item AC22-03-01
First Quarter 2022 Diagnostics

At the March 21, 2022 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 31, 2022 as well as the additional information that has been compiled. Among the items discussed by the Committee were the following:

1. At the March 21, 2022 meeting, the Committee requested CWG feedback on the decreasing share of medical-only claims and some minor indemnity claims. The Committee was informed that CWG members had noticed a similar trend and that several members suggested that they are seeing indications of increases in smaller claims for 2021.

2. At the March 21, 2022 meeting, the Committee requested CWG feedback on recent claim settlement patterns. The Committee was advised that the CWG had advised that there has been some improvement in claim settlement rate due to an improved ability to get settlements approved at the WCAB, but that Qualified Medical Evaluator concerns are causing some more complicated litigated claims to potentially stay open longer.

3. At the March 21, 2022 meeting, the Committee requested CWG feedback on the sharp increase in the share of the cumulative injury claims in 2020. The Committee was informed that the CWG suggested several potential causes of the increase including changes on how injury dates are determined in claims for some industries. Increases in claims involving strokes and high blood pressure and migration of some Los Angeles Basin attorneys to the northern part of the state. The Committee also reviewed information on changes in the share of cumulative injury claims by region that showed there was a strong correlation between the increase in cumulative injuries and the severity of the economic downturn by industry sector. The Committee recommended that cumulative injury claims continue to be monitored.

4. At the March 21, 2022 meeting, the Committee requested CWG feedback on the increase in the number of claims in excess of $1 million incurred. The Committee was advised that the CWG recommended reviewing the type of injury and age of the injured workers for these large claims to assess if there have been shifts in large claim patterns. Furthermore, it was noted that the decline in medical-only claims and some minor indemnity claims might be one of the causes driving the increased share of large claims. A Committee member also recommended reviewing large claims by industry and the large claims caused by motor vehicle accidents.

Item AC22-03-02
12/31/2021 Experience Review

The Agenda included an updated analysis of December 31, 2021 experience, which was first reviewed at the March 21, 2022 meeting. The Committee was advised that the updated analysis reflected several refinements from the analysis reviewed at the March 21, 2022 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 AC22-04-02). Staff noted that the loss development methodology included in the Agenda and recommended by staff is generally consistent with that reflected in the September 1, 2021 Pure Premium Rate Filing and was primarily based on latest year paid loss development adjusted for reforms and changes in claim settlement rates. The Committee noted that the differences in the alternative method loss development projections were primarily driven by the use of incurred or paid loss development. The Committee was reminded of some of the concerns discussed at prior meetings with the use of incurred loss development, including greater volatility in the age-to-age factors, greater variation between insurers, and difficulty in imputing reform and claim settlement change impacts in incurred projections. Staff noted that, in particular for medical, incurred development for more mature periods has been historically low, suggesting that the impact of recent reforms and other system changes continue to be reflected in insurer case reserve changes.

After discussion, a motion was made and seconded to base the indemnity loss development projection on the method as presented in the Agenda to compute the indicated September 1, 2022 average advisory pure premium rate. The motion passed with nine in favor and one opposed. A second 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, 2022 average advisory pure premium rate. The motion passed with nine in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed the motions recommended a loss development methodology that assigned some weight to a projection based on incurred loss development for both indemnity and medical.)

Staff summarized the review of medical fee schedule updates adopted by the Division of Workers' Compensation (DWC) since the September 1, 2021 Pure Premium Rate Filing. Staff noted that the estimated impact of the changes to the Evaluation and Management section of the Official Medical Fee Schedule and the Medical-Legal Fee Schedule adopted by the DWC in 2021 were reflected in the medical loss development and on-leveling projections based on staff's retrospective analysis (see Minutes for Item AC22-04-04). Staff further noted that, in general, given the adjustments to loss development there were no significant changes that required special adjustments to the on-leveling of medical losses.

Staff noted that the updated preliminary estimated claim frequency change for accident year 2020 based on unit statistical data showed a sharp decrease driven by the pandemic and economic downturn. Staff also noted that the preliminary estimated claim frequency change for accident year 2021 based on aggregate financial data at 12 months shows a sharp increase during the economic recovery. Given these sharp and likely related changes, staff recommended basing the accident years 2020 and 2021 claim frequency projections on the preliminary actual claim frequency estimates rather than the frequency model projections. Staff also noted that, given the very sharp and unprecedented increase in the cumulative injury index (CII) for accident year 2020 based on preliminary partial unit statistical data and that non-cumulative frequency decreased sharply in 2020 despite the indicated sharp increase in the CII, staff does not recommend using frequency model forecasts that reflect forecasts of the CII at this time. Staff also noted that during the discussion of forecasting the CII at the December 9, 2021 meeting, the appropriateness of using the full claim frequency model constant term or a tempered constant term that has been used for a number of years was related to the discussion of the CII forecast. Given the current unprecedented changes and uncertainty, staff recommended using a claim frequency projection model for the September 1, 2022 Pure Premium Rate Filing generally based on what was used in the last several pure premium rate flings which did not forecast the CII and used a tempered claim frequency constant. The Committee noted that this model produces an overall modest increase in claim frequency from 2022 to 2024 that generally corresponds with the forecast continued economic recovery. After discussion, the majority of Committee members agreed that the claim frequency projections recommended by staff 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 estimated on-level indemnity severities in 2018 through 2020 and some weight to the decreases experienced in the prior period and in 2021 and was consistent with the indemnity severity trend reflected in the last two pure premium rate filings. Given the pandemic-related issues with accident year 2020, the projected indemnity loss ratio reflected in the Agenda was based on applying the projected frequency and average on-level indemnity severity trends to accident years 2019 and 2021. The Committee discussed the alternative indemnity trending projections included in the Agenda (AC22-04-02). It was noted that the alternative methods reviewed produced modest differences in the projected indemnity loss ratio which were generally driven by the number of years used to select the rates of growth. After discussion, a motion was made and seconded to use the indemnity trending projection methodology as presented in the Agenda but with the claim frequency projections recommended by staff and discussed at the meeting. The motion passed with nine in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed the motion supported a somewhat lower claim frequency trend.)

The Committee noted that the average annual on-level medical severity trend over the last five years was 1.5%, which was also generally consistent with the average annual medical severity trend since 2005. Given also the long-term nature of the medical payout pattern and that medical costs have risen sharpy absent reform in the past, staff recommended an on-level average annual medical severity trend of 1.5%, which was slightly higher than the 1.0% reflected in the Agenda and in the September 1, 2021 Pure Premium Rate Filing. As with indemnity, the projected medical loss ratio reflected in the Agenda was based on applying separate trends to accident years 2019 and 2021. The Committee discussed the alternative medical trending projections included in the Agenda (AC22-04-02). As with indemnity, modest differences in the alternative medical trending projections were generally driven by the number of years used to select the average rates of growth. After discussion, a motion was made and seconded to use the medical trending projection methodology as presented in the Agenda but with the claim frequency projections recommended by staff and a 1.5% annual on-level medical severity trend. The motion passed with nine in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed the motion supported somewhat lower claim frequency and on-level medical severity trends.)

Item AC22-04-01
9/1/2022 Filing – Loss Adjustment Expense Experience Review

The Committee was advised that although unallocated loss adjustment expense (ULAE) experience for calendar year 2021 is not yet available, the Agenda included an updated ULAE projection that reflected ULAE experience through calendar year 2020 and preliminary frequency, wage level, and loss projections based on December 31, 2021 experience as reflected in Agenda Item AC21-03-02. Staff recommended not using the calendar year 2020 ULAE information in the projection given that 2020 is significantly impacted by the pandemic and that ULAE for COVID-19 claims cannot be separated from other ULAE amounts. 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 calendar years 2018 and 2019. 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.

The Committee reviewed the preliminary analysis of allocated loss adjustment expense (ALAE) experience through December 31, 2021 that was included in the Agenda as well as alternative ALAE projection methodologies. The Committee noted that paid ALAE development has begun to increase in 2021 after reaching a historical low level during the 2020 pandemic period. Similar to the loss projection, staff recommended using latest year paid ALAE development with adjustments for changes in claim settlement rates and basing the projected ALAE ratio on accident years 2019 and 2021. The Committee noted that changes in ALAE severities have been modest over the last several years and the indicated 1% average annual ALAE severity trend is consistent with that reflected in the September 1, 2021 Pure Premium Rate Filing. 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 last several pure premium rate filings. Staff recommended reviewing whether this adjustment continues to be appropriate in the future given that the reforms were enacted several years ago.

The Committee next reviewed the preliminary analysis of medical cost containment program (MCCP) cost experience through December 31, 2021 as well as alternative MCCP cost projection methodologies. Staff noted that the projection methodology for MCCP costs is very similar to that for ALAE excluding MCCP costs. The Committee noted that changes in MCCP cost severities have been modestly declining over the last several years and the indicated -1% average annual MCCP cost severity trend is consistent with that reflected in the September 1, 2021 Pure Premium Rate Filing. After discussion, a motion was made, seconded, and unanimously passed to use the ALAE and MCCP cost projection methodologies as presented in the Agenda and recommended by staff. Staff noted that the frequency and loss ratio projections will be updated based on the Committee's recommendations on the loss projection methodologies (see Minutes for Item AC22-03-02) and that these updates can affect ULAE, ALAE, and MCCP cost projections.

Item AC22-04-02
9/1/2022 Filing – Review of Alternative Loss Projection Methodologies

The Agenda 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, 2021 experience. (See Minutes for Item AC22-03-02.)

Item AC22-04-03
9/1/2022 Filing – COVID-19 Claim Cost Projection

The Committee discussed the potential cost of COVID-19 claims on policies incepting between September 1, 2022 and August 31, 2023. The Committee was reminded that at the April 15, 2021 meeting, it was noted that the available models were suggesting that with growing levels of vaccination, COVID-19 infection, hospital and death rates would likely plateau before significant levels of exposure on post-September 1, 2021 policies would arise. As a result, at the April 15, 2021, meeting, the Committee agreed that no COVID-19 claim cost provision should be reflected in the September 1, 2021 Pure Premium Rate Filing.

Staff noted that since the time of the September 1, 2021 Pure Premium Rate Filing, more than 100,000 workers' compensation claims have been filed in California in large part due to the emergence of the Delta and Omicron variants. In addition, it was noted that most infectious disease experts expect COVID-19 to be endemic and continue to infect Californians for the foreseeable future. As a result, staff suggested that some provision for the cost of COVID-19 claims incurred on September 1, 2022 to August 31, 2023 policies may be appropriate.

The Committee reviewed the results of two published models with forecasts of future fatality COVID-19 rates. The Committee was advised that in March 2022, the Rockefeller Foundation published a study on COVID-19 based on a collaboration of a number of epidemiologists, physicians and researchers.[1] The study included a projection of U.S. COVID-19 fatalities from March 2022 through February 2023 under an optimistic scenario (estimated at 10% likely), an intermediate scenario (estimated at 50% likely) and a pessimistic scenario (estimated at 40% likely). In addition, it was noted that the Institute for Health Metrics and Evaluation (IHME) has forecasts available of COVID-19 fatalities in California from March 1, 2022 through July 31, 2022.[2]

The Committee reviewed the estimates generated from those models and how those estimates translated into workers' compensation claim cost projections by assuming the relationship between total California fatalities and workers' compensation COVID-19 claim costs for 2021 continued to apply to the September 1, 2022 through August 31, 2023 policy period. The Committee noted that COVID-19 cost projections have a high level of uncertainty. It was observed that it is very unclear as to what variants might emerge in the future and how infectious or severe they might be. However, California potentially has a higher population immunity than in the past due to vaccinations, boosters and prior infections, particularly among healthcare and other frontline workers. Conversely, changes in mitigation measures, such as reduced mask wearing, plus more workers working at their employer's premises, may increase exposure to COVID-19. In addition, the effects of "long COVID" are still largely unknown.

Staff suggested that given the model forecasts and the various considerations discussed that a COVID-19 claim cost provision for September 1, 2022 through August 31, 2023 policies of 0.5% of projected non-COVID-19 claim costs appeared reasonable. It was noted that this estimate is based on the average of the Rockefeller Foundation's high intermediate forecast and the IHME forecast with a judgmental tempering of 40%. A tempering of 40% reflects that the period September 1, 2022 advisory pure premium rates will be in effect is well after the time period reflected in both the Rockefeller Foundation and IHME forecasts as well as after accident year 2021, the basis used for this projection. Also, it was suggested that with higher population vaccination and prior infection rates as well as greater use of emerging

[1] Rockefeller Foundation's Report: https://www.rockefellerfoundation.org/report/getting-to-and-sustaining-the-next-normal-a-roadmap-for-living-with-covid/.

[2] IHME's projections (updated as of April 7, 2022): https://covid19.healthdata.org/united-states-of-america?view=cumulative-deaths&tab=trend.

COVID-19 therapeutics, the severity of COVID-19 claims is likely to be less during the projection period than during 2021.

While no specific motion was made with respect to inclusion of a COVID-19 provision in proposed September 1, 2022 advisory pure premium rates and whether that provision should be additive or multiplicative to a classification's advisory pure premium rate, a motion was made and seconded to advise the Governing Committee that the methodology summarized by staff to estimate the COVID-19 claim cost provision was reasonable. The motion passed with nine in favor and one abstention.

Item AC22-04-04
Retrospective Evaluation of 2021 Fee Schedule Changes

Staff presented the preliminary findings of the retrospective evaluation of the cost impact of the 2021 changes to the Evaluation and Management (E/M) section of the Official Medical Fee Schedule (OMFS) and Medical-Legal (ML) Fee Schedule based on post-schedule change payments in the WCIRB medical transaction data. The Committee was advised that evaluation of E/M schedule changes based on this data indicated a 10% net of inflation cost increase for the nine office/outpatient visit service codes in 2021 compared to 2019. The Committee was reminded that the 10% cost increase based on the actual payment data is lower than the 15% estimate in the WCIRB's initial prospective evaluation of the schedule change reflected in the September 1, 2021 Pure Premium Rate Filing. The difference between the actual and projected cost impact was likely driven by a higher-than-projected average network discount (15%) in 2021 than in 2019 (12%) that partially offset the significant increases in the reimbursement allowance for E/M services.

A Committee member asked about the difference between the 2.5% inflationary adjustment in the evaluation and the WCIRB's on-level medical severity trend of 1.5% for pure premium ratemaking purposes. Staff explained that the 2.5% annual inflationary adjustment was based on typical changes to schedule values adopted annually by Medicare. It was noted that, in contrast, the WCIRB's selected on-level medical severity trend reflects the estimated growth in medical severities beyond the impact of significant fee schedule changes and legislative reforms.

Staff next summarized the retrospective evaluation of the April 1, 2021 ML Fee Schedule. The Committee was advised that the retrospective evaluation indicated a 39% cost increase for ML services in 2021 above 2019, as compared to 22% in the WCIRB's prospective evaluation reflected in the September 1, 2021 Pure Premium Rate Filing. Staff noted that the extra charges for record review appear to be the primary driver of the higher costs, which accounted for 25% of 2021 ML payments. The Committee was advised that the cost patterns of additional record review were validated by members of the Claims Working Group and Medical Analytics Working Group.

The Committee was advised that while the overall average number of ML services per claim remained the same in 2021 as in 2019, the number of follow-up evaluations per claim increased but the number of comprehensive and supplemental evaluations per claim both declined in 2021. Staff shared that the Medical Analytics Working Group suggested that the potential reason for the increased use of follow-up evaluations per claim may be the change in the timeframe (extended to 18 months from the previous 9 months before April 2021) allowed for a follow-up evaluation after an initial ML evaluation under the new fee schedule.

The Committee was advised that the cost impact of psychologist/psychiatrist modifiers was lower than initially projected, as the average payments for ML evaluations completed by psychologists or psychiatrists under the new fee schedule increased by only 1% compared to larger increases for other ML evaluations (+45%). The pattern was consistent with the expectations of other ML analysis based on the feedback from the Medical Analytics Working Group.

The consensus of the Committee was that the updated retrospective estimates of a 10% cost increase for the nine E/M office visit services codes and a 39% cost increase for the ML services should be reflected in the September 1, 2022 Pure Premium Rate Filing loss development and trending adjustments.

The meeting was adjourned at 12:30 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for June 28, 2022 for approval and/or modification.