

WCIRB Actuarial Committee Meeting

February 14, 2023

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01

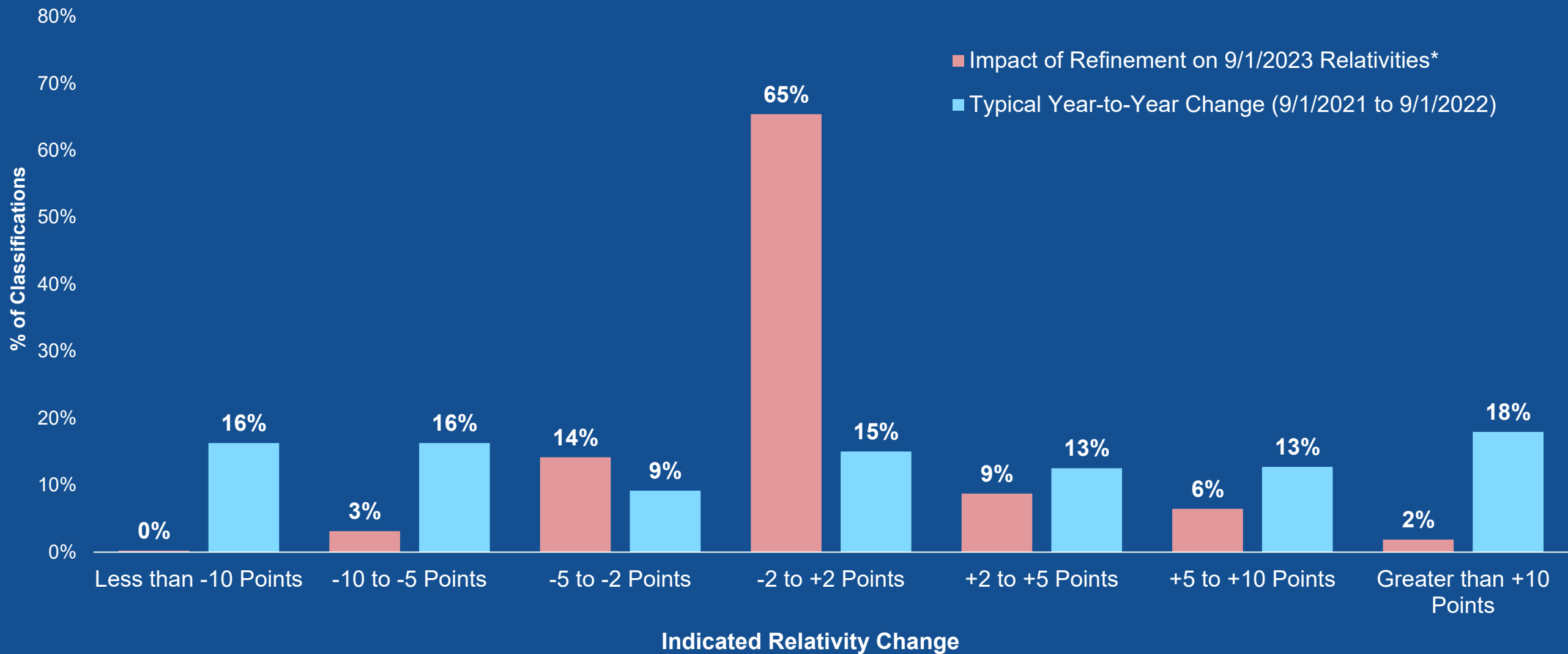
Pandemic Impact on Classification Relativities



Pandemic Period Data in Class Relativities

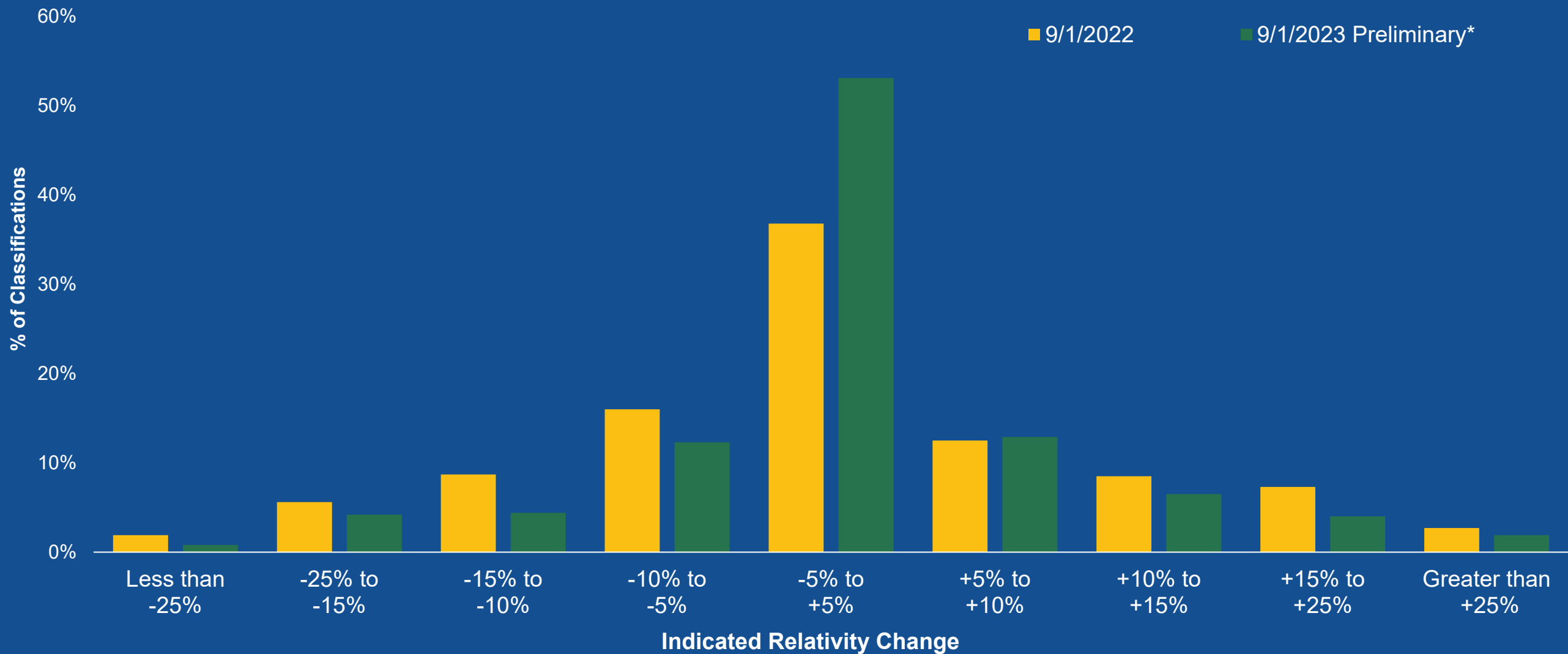
- September 1, 2023 Regulatory Filing will have data from 11/30/2020 and prior policies available
 - Pandemic impacts on exposure and loss levels emerging during initial pandemic period may differ by classification
 - Actuarial Committee discussed mitigation options at the December 6, 2022 meeting
- Actuarial Committee adopted staff recommended approach to increase the number of years used by 1 for each class (up to 5)
 - Mitigates impact of pandemic period for most classes
 - Continues to utilize latest year of experience
- Some classifications already using additional year (from prior filing) for full credibility
 - Staff recommends not adding another year for these classifications
- C & R Committee adopted staff's recommendations for the 9/1/2023 relativities
- Staff will review the data again for the September 1, 2024 filings

Impact of Pandemic Data Refinement on Relativity Changes



*Includes staff recommendation to not add a year to classifications already reflecting an additional year for full credibility

Distribution of Preliminary Indicated Classification Relativity Changes



*Includes staff recommendation to not add a year to classifications already reflecting an additional year for full credibility.

Challenges with 2020 and 2021 Wage Data from the ACS

2020

- The 2020 American Community Survey (ACS) estimates were released late so the relative wage change factors used in the 9/1/22 Regulatory Filing relied on the same data as in the prior filing
- The Census Bureau released experimental estimates for the ACS rather than the standard data products and recommended not using these estimates for year over year comparisons

2021

- Our methodology relies on the total annual wage income and the number of weeks worked to estimate hourly wage inflation with the number of weeks worked provided in bins: 1-13, 14-26, 27-39, 40-47, 48-49 and 50-52
- Typically, this distribution is stable and we assume the number of weeks worked is the max of each bin
- In 2020-2021, this distribution was not stable and the resulting estimates of wage inflation from 2019 to 2021 vary significantly depending on treatment of the bins (i.e. assuming either the max or the min)

Recommendation: Use the same factors as in the prior filing in order to adjust for relative wage change through 2019 and assume no difference in wage change across industries in 2020 and 2021

02

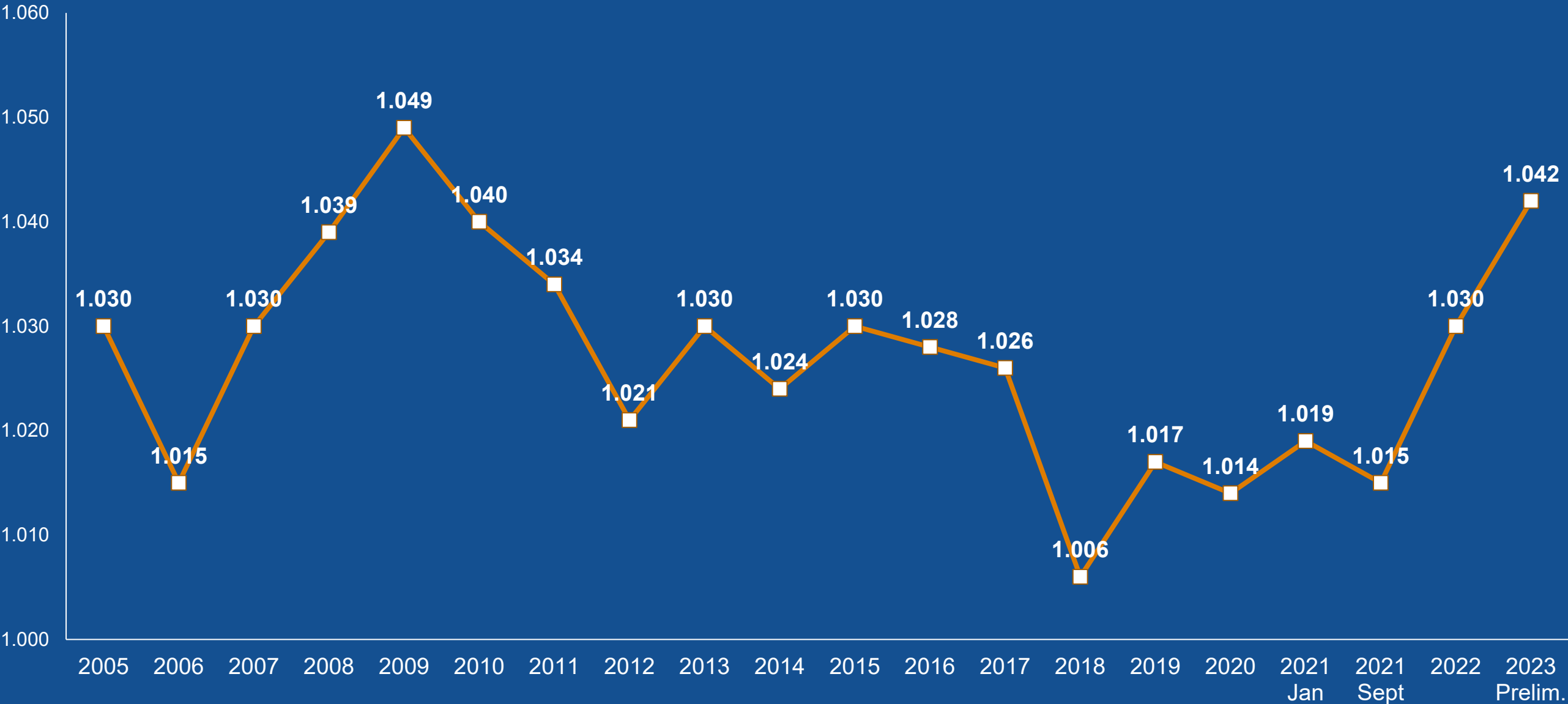
9/1/2023 Regulatory Filing – Experience Rating Plan Values



Computation of Indicated Off-balance Factor

- Based on the average unadjusted ratio of actual losses to expected losses for experience rated employers
 - Latest four policy periods used
- Adjustments to A / E ratios:
 - Off-balance factor in effect for that year (applied to that year's expected loss rates)
 - Adjustment to reflect section 11751.9 rerates
 - Hindsight correction factor to produce average expected loss rate
- Projected A / E ratio and average credibility used to determine change from current off-balance factor
 - Selected average mod based on weighted average over four periods
 - Selected average credibility based on 2020 (latest annual period)

Indicated Off-balance Factor



Computation of Statewide Expected Loss Rate Factors

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

Computation of Individual NAICS Sector Expected Loss Rate Factors

- Computation very similar to statewide factors, with a few differences
- Loss development and trend factors are based on individual NAICS Sector unit statistical data rather than aggregate financial data
 - In rare cases, individual NAICS Sector data is replaced with a broader group of data to reduce volatility
- Each NAICS Sector's expected loss rate factors are balanced to the average of the statewide factors
- Each individual classification's expected loss rate is limited to a 15% relativity change from its prior expected loss rate

Challenges with Bühlmann Credibility for D Ratios

- Currently, empirical classification D-ratios are credibility-weighted with empirical retro hazard group D-ratios to develop the final D-ratios
- Bühlmann credibility = $N/(N+K)$ where $K = EPV/VHM$
 - N = number of observations
 - EPV = Expected Process Variance
 - VHM = Variation of the Hypothetical Means
- Over time and across a range of primary thresholds, the VHM has increased relative to the EPV
- This decreases K and increases the credibility of the empirical D-ratios for smaller classifications which has contributed to volatility in the final D-ratios
- Staff recommends continuing to use the credibility constants used in the 9/1/22 Regulatory Filing and studying further this issue later in the year

03

Clerical Telecommuting Employees Classification



Background and Objective

■ Background

- Classification 8871, *Clerical Telecommuting Employees – N.O.C.*, became effective January 1, 2021
 - For clerical office employees who work more than 50% of their time at their home or other office space away from any employer location
- The advisory pure premium rate for Classification 8871 has been the same as that for Classification 8810, *Clerical Office Employees – N.O.C.*
- Committee recommended reviewing 8871 experience as soon as data becomes available to assess whether a differential in advisory pure premium rate between Classifications 8810 and 8871 may be appropriate
- A review of initial 8871 experience in January 2022 found reported data relatively sparse

■ Objective

- Review available Classification 8871 experience to determine if a differential in advisory pure premium rate between Classifications 8871 and 8810 is warranted

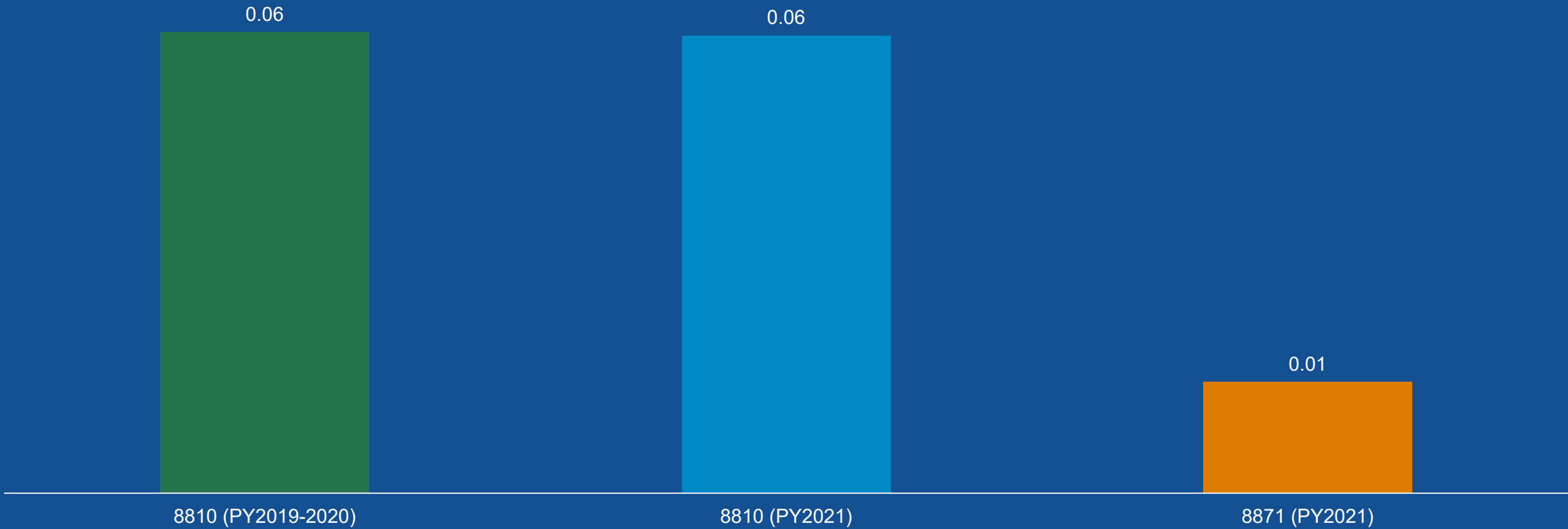
Preliminary Data of 8871 Experience

- Data source:
 - Unit Statistical Report (USR) data for 2021 policies
 - Indemnity transaction data for 2021 and 2022 claims
 - COVID-19 claims are excluded
- Reported Policy Year (PY) 2021 experience as of January 19, 2023:
 - Reflects only the first few months of 2021 policy experience
 - 8810 payroll: \$89B reported (36% of PY2020 experience)
 - 8871 payroll: \$8.6B reported (10% of PY2021 8810 payroll)
 - 87 claims reported for 8871 (USR claims)

Preliminary Loss and Payroll Experience: 8871 vs. 8810

As of January 19, 2023

Capped Loss to Payroll Ratio at First Report Level (per \$100 of payroll)

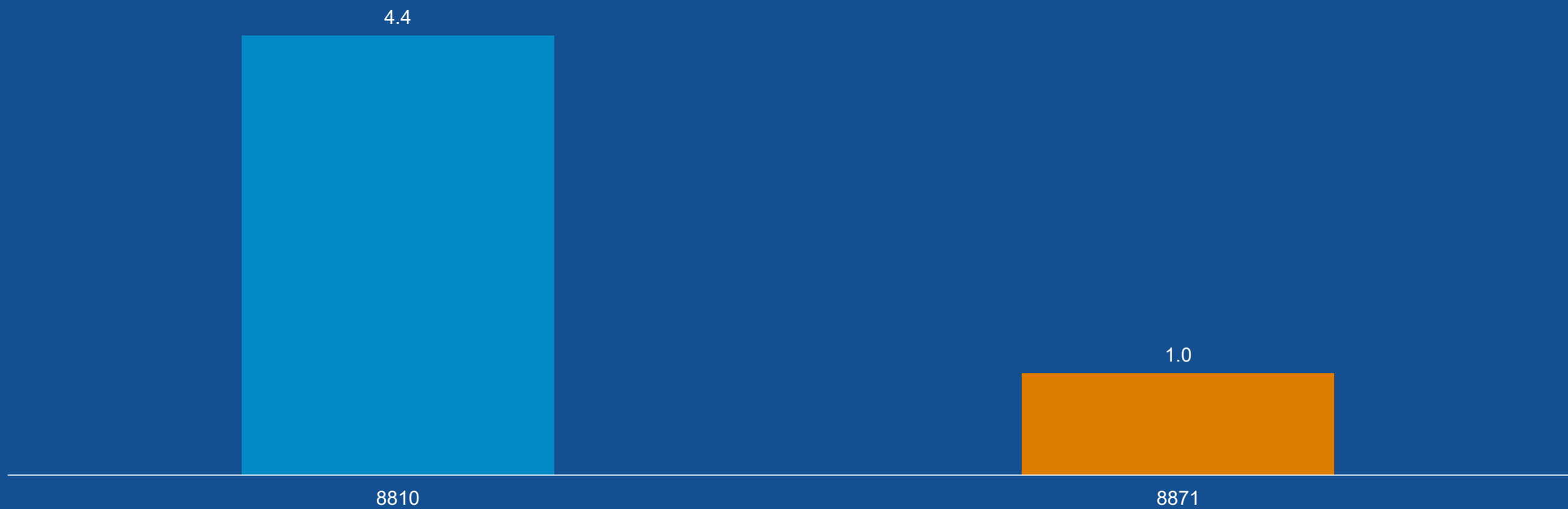


Preliminary Claim Frequency: 8871 vs. 8810

As of January 19, 2023

Claim Frequency per \$100M of Payroll (PY2021)

■ 8810 ■ 8871

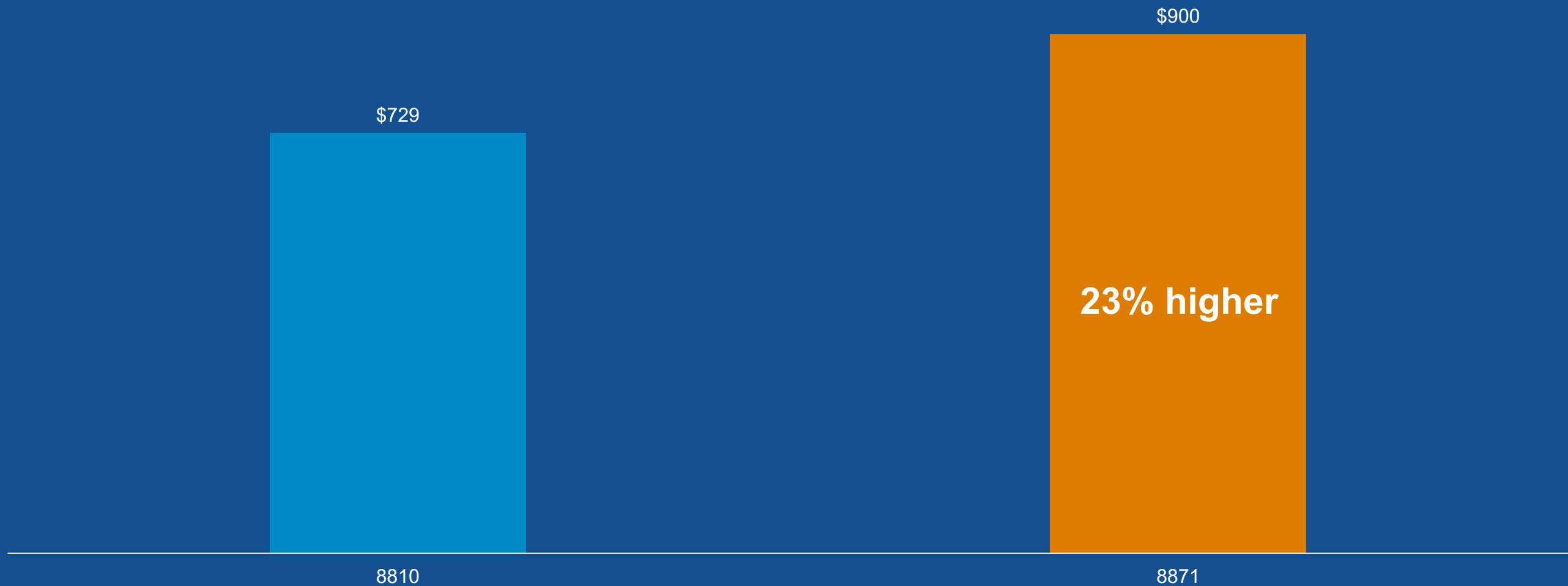


Preliminary Weekly Wage for Injured Workers: 8871 vs. 8810

As of January 19, 2023

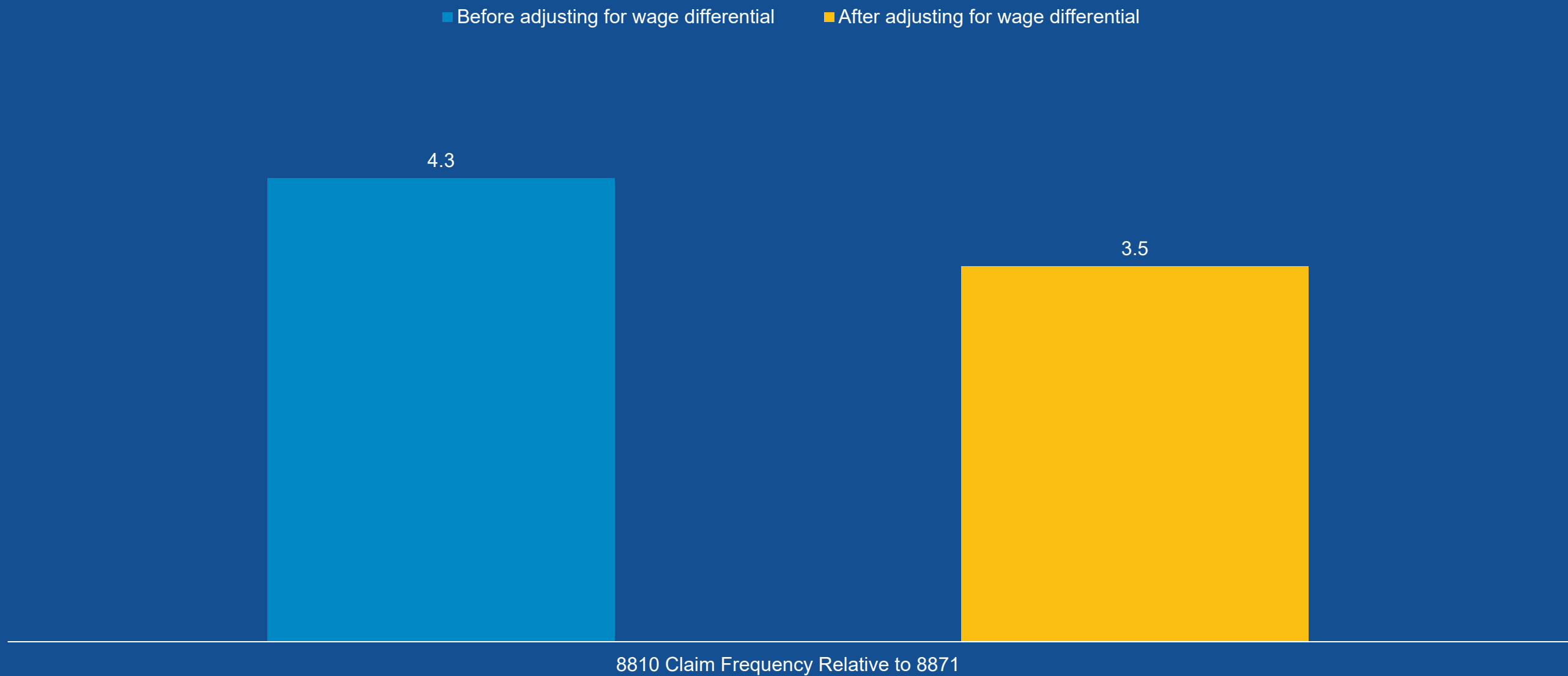
Median Weekly Wage (PY2021)

■ 8810 ■ 8871



Preliminary Differential in Claim Frequency: 8871 vs. 8810

As of January 19, 2023

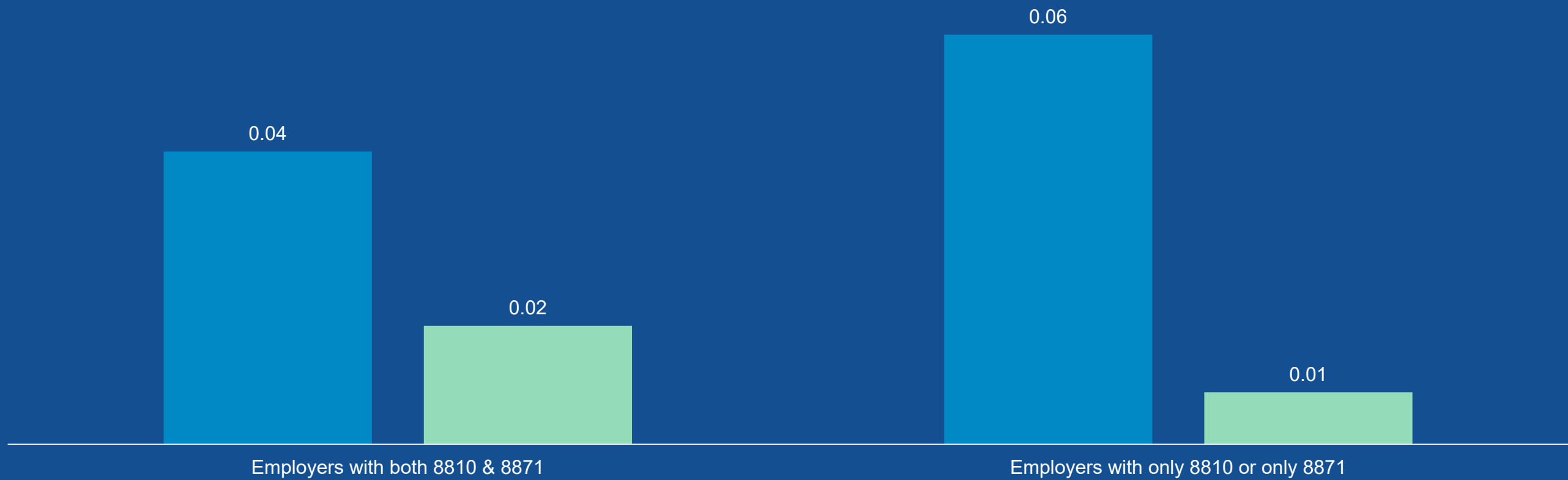


Preliminary Loss and Payroll Experience by Types of Employers

As of January 19, 2023

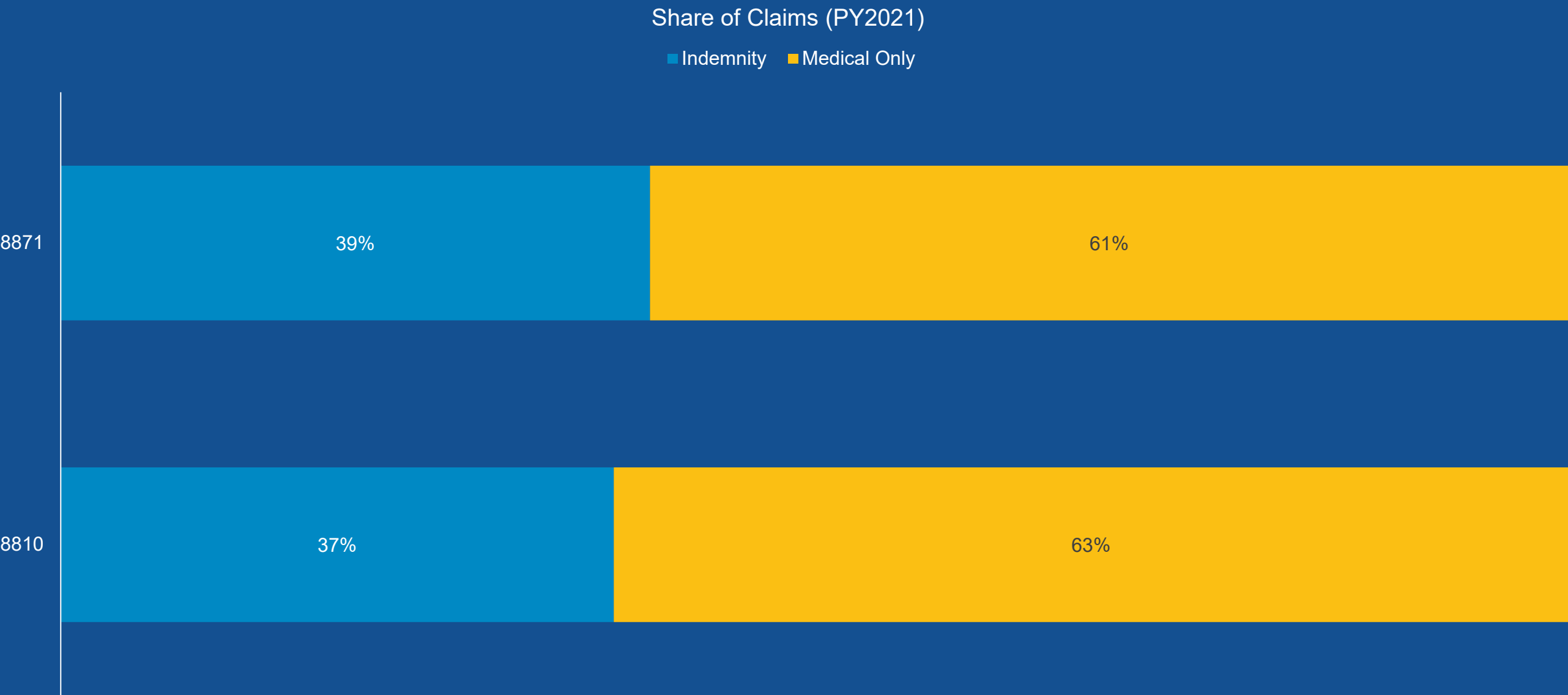
Capped Loss to Payroll Ratio (per \$100 of payroll)
(PY2021)

■ 8810 ■ 8871



Preliminary Injury Type Distribution: 8871 vs. 8810

As of January 19, 2023

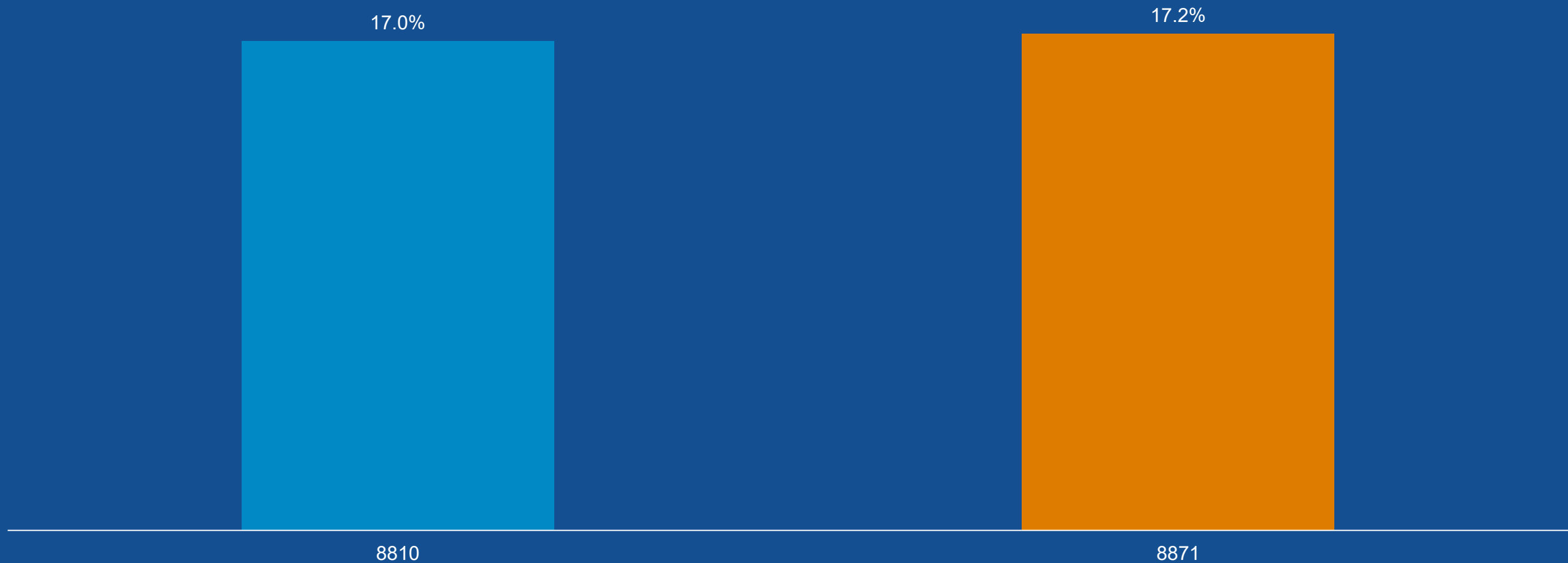


Preliminary Share of Cumulative Trauma Claims: 8871 vs. 8810

As of January 19, 2023

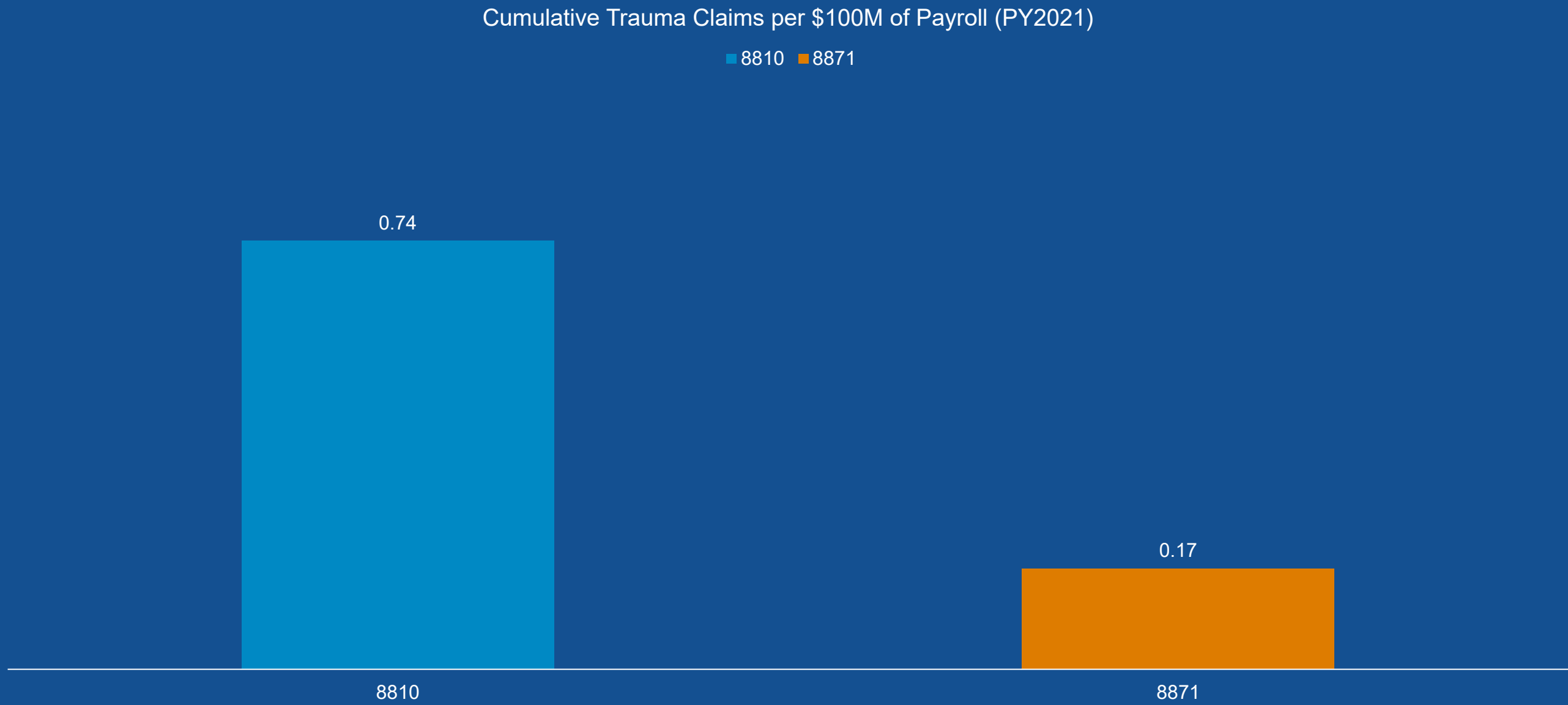
Share of Cumulative Trauma Claims Relative to All Claims (PY2021)

■ 8810 ■ 8871



Preliminary Claim Frequency of Cumulative Trauma Claims: 8871 vs. 8810

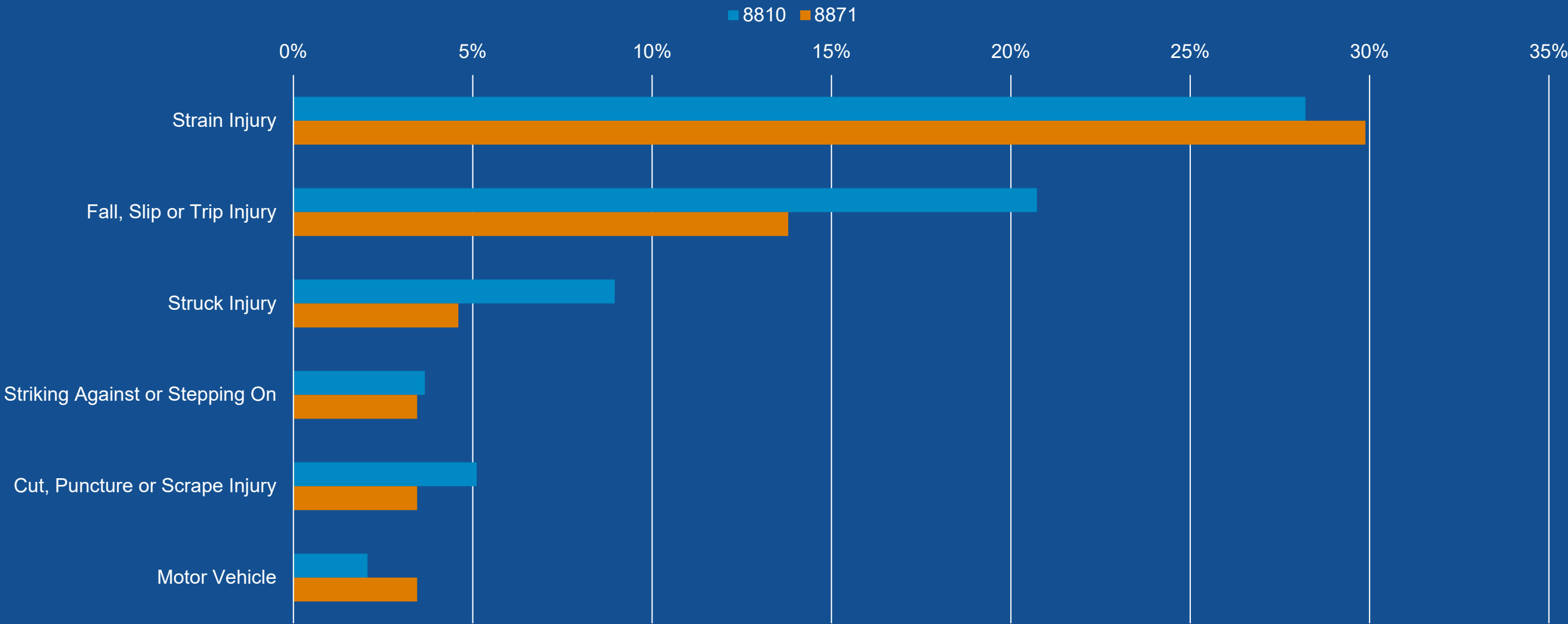
As of January 19, 2023



Preliminary Distribution of Leading Causes of Injury: 8871 vs. 8810

As of January 19, 2023

Share of Claims by Leading Causes of Injury
(PY2021)

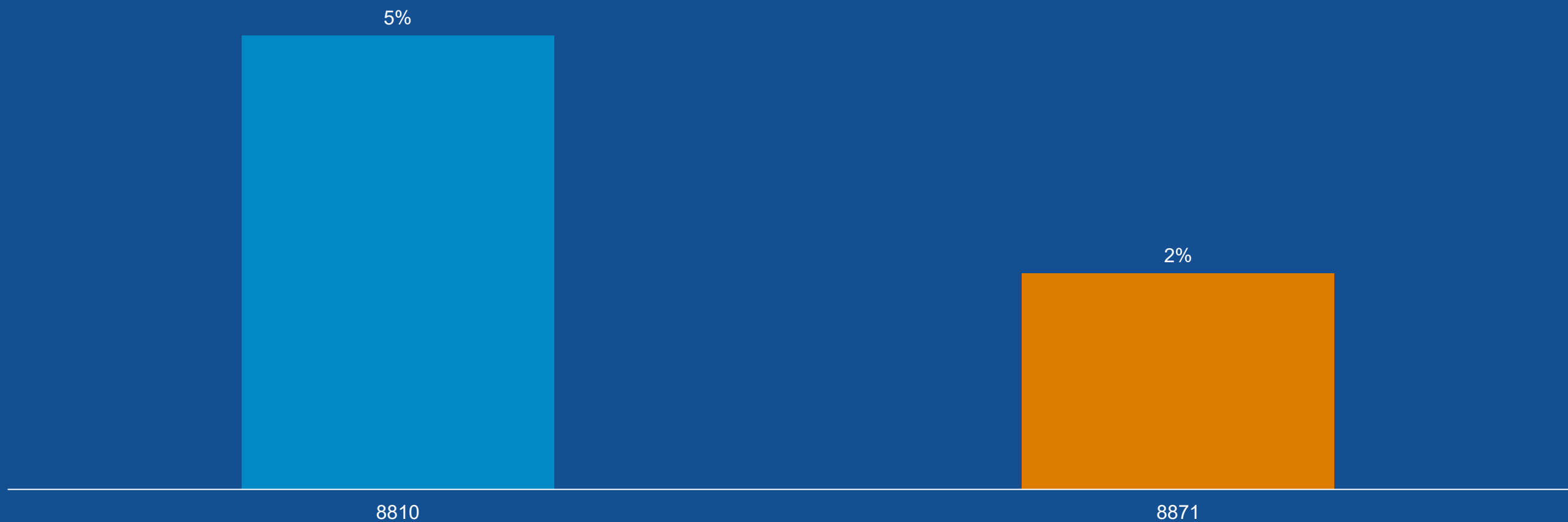


Preliminary Share of COVID-19 Claims: 8871 vs. 8810

As of January 19, 2023

Share of COVID-19 Claims (PY2021)

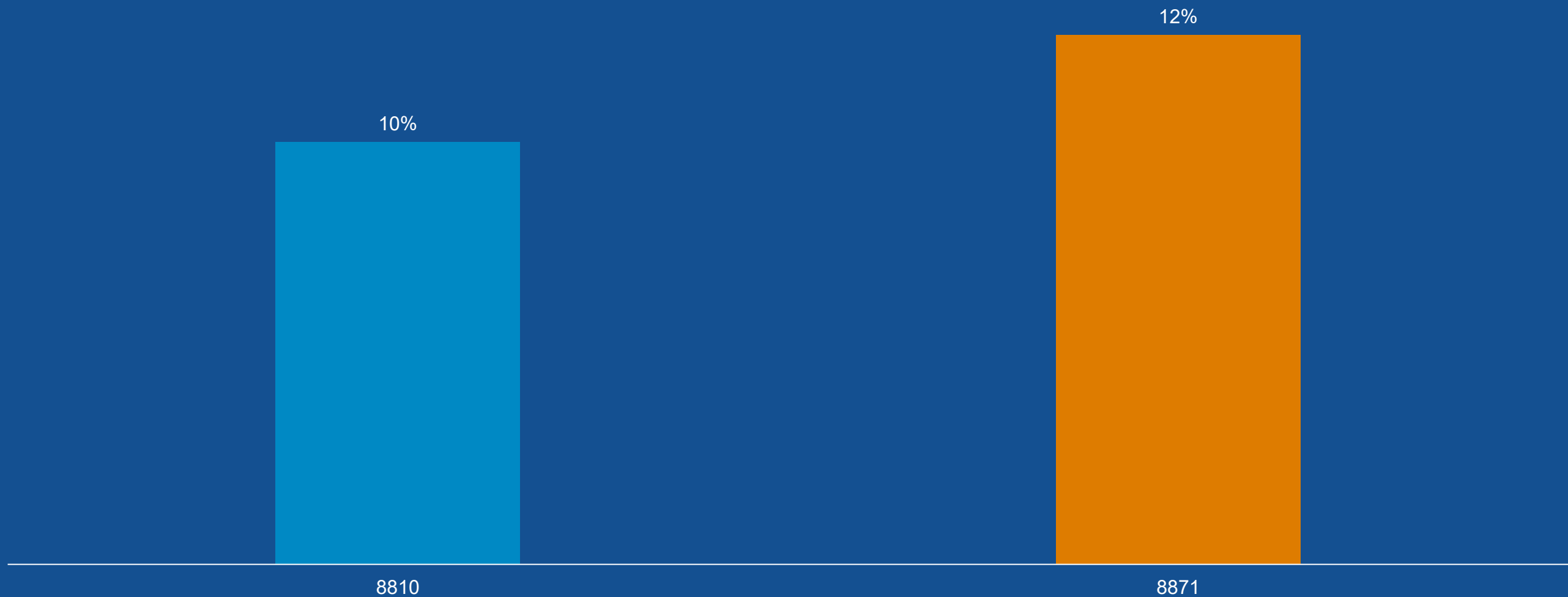
■ 8810 ■ 8871



Preliminary Denial Rate: 8871 vs. 8810

As of January 19, 2023

Share of Denied Claims Relative to All Claims (PY2021-2022)



Summary of Preliminary Findings

- Based on reported 2021 policy data, Classification 8871 has different loss and payroll experience from Classification 8810
 - 8871 has a significantly lower loss to payroll ratio than 8810, mostly driven by lower claim frequency
 - Key characteristics of 8871 claims compared to 8810 claims:
 - Higher median weekly wage among injured workers
 - Lower frequency of cumulative trauma claims
 - Similar share of indemnity claims
 - Similar mix of injuries
- While there is a differential in loss and payroll experience between 8871 and 8810, the reported 8871 experience is very preliminary
 - Reflects only the first few months of experience under the new telecommuting classification
 - Credibility of the reported 8871 payroll and loss data is small (approximately 33%)
 - Relatively small number of 8871 claims reported as of analysis
 - Indicated relativity change for 8871 using WCIRB standard approach on the initially reported preliminary data would be a decrease of 25.5%
- Staff recommends a tempered approach consistent with WCIRB standard practice and limiting the relativity change of Classification 8871 to 25%

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