

# Actuarial Committee

## Meeting Minutes

Date	Time	Location	Staff Contact
February 14, 2023	9:30 AM	Microsoft Teams Webinar	David M. Bellusci

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Released: March 1, 2023

### Members

Joel Clark  
Mauro Garcia  
Ika Irsan\*  
Matt Jahnke  
Neal Leibowitz\*  
Joanne Ottone\*  
Mark Priven  
Kate Smith  
Bryan Ware  
Chris Westermeyer

### Representing

Accident Fund  
Zurich North America  
Republic Indemnity Company of America  
CopperPoint Insurance Companies  
Liberty Mutual Group  
Berkshire Hathaway Homestate Companies  
Public Members of Governing Committee  
State Compensation Insurance Fund  
AmTrust  
Travelers

### California Department of Insurance

Yvonne Hauscarriague  
Mitra Sanandajifar  
Brentley Yim

### WCIRB

Bill Mudge  
David Bellusci  
Laura Carstensen  
Tony Milano  
Julia Zhang

\* Attended in person

\* \* \* \* \*

The meeting of the Actuarial Committee was called to order at 9:30 AM following a reminder of applicable antitrust restrictions with Mr. David Bellusci, Executive Vice President and Chief Actuary, presiding.

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### **Item AC22-09-03**

#### **Pandemic Impact on Classification Relativities**

The Committee was reminded that, at the December 6, 2022 meeting, the Committee adopted staff's recommended approach for mitigating the impact of the pandemic-period data on the classification relativities. The refined methodology involves increasing the number of years used by one for each classification (up to five years maximum). Staff noted that for several classifications, an additional year of data (compared to the prior filing) is already utilized when determining the number of years required for full credibility. In these instances, staff recommended not adding an additional year of experience to mitigate the impact of the pandemic as using an older year in this analysis not used in the prior filing may create unnecessary volatility.

Staff summarized the impact of the methodology refinements on the proposed September 1, 2023 relativities. It was noted that, for most classes, the impact is small and generally consistent with the preliminary review conducted last year. For other classes, where the impact is larger, the refinements are reducing the magnitude of the relativity change the vast majority of the time.

The Committee next discussed the adjustments to reported payroll amounts to on-level for relative changes in wage levels by classification. Staff noted that this adjustment is primarily based on the American Community Survey (ACS) data. Staff noted that significant anomalies were observed in the 2020 and 2021 ACS data that is likely related to the pandemic and that the Census Bureau recommended not using this data for year-to-year comparisons. As a result, staff recommended not reflecting the relative changes in wage levels by classification for 2020 and 2021 in the September 1, 2023 relativities. Staff noted that it will review the 2022 ACS data and how to reflect it in the September 1, 2024 classification relativities with the Committee next year.

After discussion, the consensus of the Committee was that staff's recommended methodology refinements should be reflected in the classification relativities to be computed for the September 1, 2023 Regulatory Filing.

## **Item AC23-02-01**

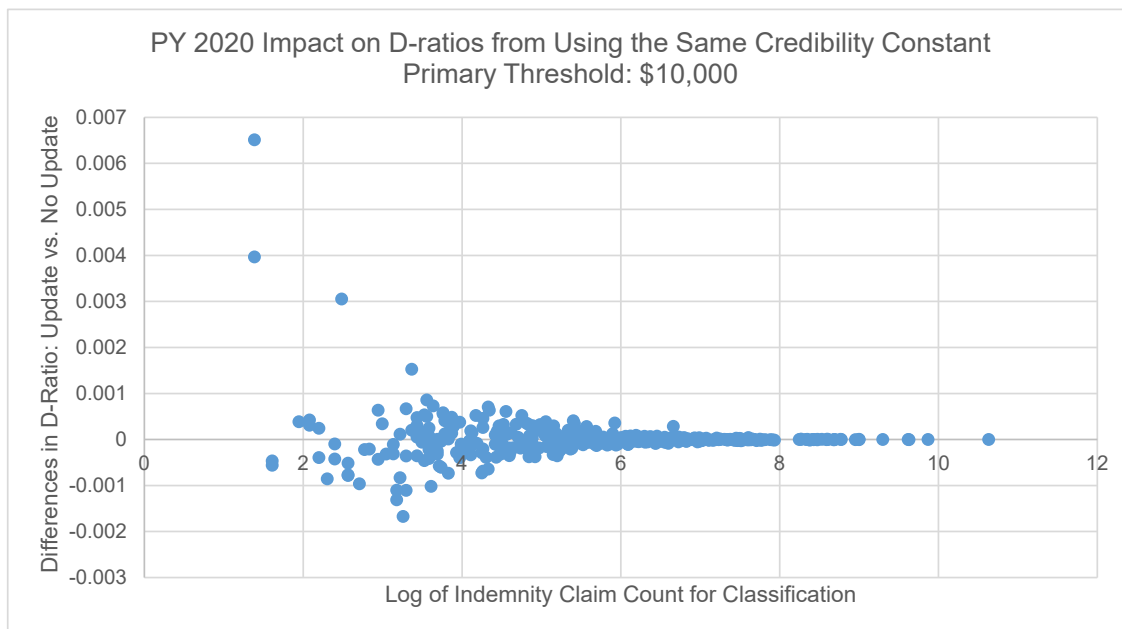
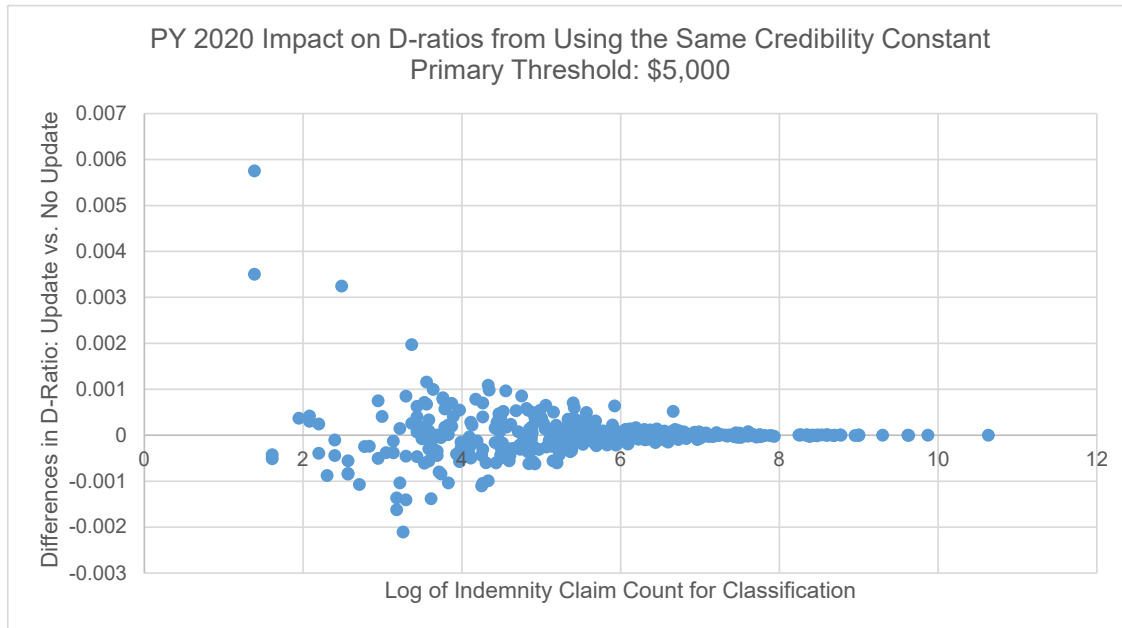
### **9/1/2023 Regulatory Filing – Experience Rating Plan Values**

Staff presented a draft analysis of the indicated September 1, 2023 experience rating off-balance correction factor. Staff noted that the methodology used to compute the indicated off-balance factor for policies incepting between September 1, 2023 and August 31, 2024 was consistent with the methodology reflected in the September 1, 2022 Regulatory Filing. The Committee was advised that the preliminary indicated September 1, 2023 off-balance factor using this approach is 1.042, which is 1.2% above the 1.030 factor reflected in the September 1, 2022 Regulatory Filing. Staff noted that, although the indicated off-balance factor is higher than in recent filings, it is reasonably within the longer-term range of indicated off-balance factors. The consensus of the Committee was that this methodology was appropriate and should be used to compute the final September 1, 2023 off-balance factor.

Staff then presented a draft analysis of the factors used to generate proposed September 1, 2023 expected loss rates. Staff noted that the overall methodology to compute the expected loss rate factors was consistent with that reflected in the September 1, 2022 Regulatory Filing. Staff informed the Committee that a comprehensive review of the expected loss rate methodology is scheduled to begin later this year. The consensus of the Committee was that the proposed September 1, 2023 expected loss rates should reflect the methodologies summarized at the meeting.

Staff next summarized the methodology to compute the credibility constants for use in the computation of D-ratios by classification and experience rating primary threshold. In reviewing the indicated credibility constants for the September 1, 2023 Regulatory Filing, staff observed that, over time and across a range of primary thresholds, the variance of the hypothetical means has increased relative to the expected process variance. This has decreased the credibility constants  $K$  which, in turn, increased the credibility for smaller classifications and contributed to increased volatility in the D-ratios. As a result, staff recommended using the same credibility constants as in the September 1, 2022 Regulatory Filing and undertaking an in-depth study of the issue later in the year. A Committee member requested additional information on the impact of using the same credibility constants which is shown in Exhibit 1 for two primary thresholds.

After discussion, the consensus of the Committee was that the proposed September 1, 2023 D-ratios should reflect the methodologies recommended by staff.



## **Item AC23-02-02**

### **Clerical Telecommuting Employees Classification**

The Committee was reminded that Classification 8871, *Clerical Telecommuting Employees – N.O.C.*, was established effective January 1, 2021 as a new Standard Exception classification applicable to clerical employees who work more than 50% of their time at their home or other office space away from any location of their employers. The Committee was also reminded that, at the August 4, 2020 meeting, the Committee discussed the advisory pure premium rate to be proposed for Classification 8871 and recommended that the January 1, 2021 advisory pure premium rate for Classification 8871 be proposed at the same level as that for Classification 8810, *Clerical Office Employees*. The Committee also recommended staff review Classification 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.

Staff summarized the initial unit statistical loss and payroll experience and claim characteristics reported thus far in Classification 8871 on 2021 policies. The Committee was advised that based on the first few months of 2021 policy experience, Classification 8871 has a significantly lower loss to payroll ratio than Classification 8810, driven mainly by lower claim frequency. Staff also noted that Classification 8871 has higher median weekly wage among injured workers and lower frequency of cumulative trauma claims than those for Classification 8810. However, Classifications 8871 and 8810 have a similar share of indemnity claims and a similar mix of injuries.

The Committee was advised that since the reported Classification 8871 experience is very preliminary, staff recommended establishing a distinct advisory pure premium rate for Classification 8871 using a tempered approach consistent with WCIRB standard practice that limits the relativity change of Classification 8871 to 25%. A Committee member suggested comparing the 8810 experience of employers whose governing classification is 8810 with the statewide 8871 experience to improve comparability. Staff agreed to incorporate the additional exploration in future analysis when additional 8871 experience becomes available.

After the discussion, the consensus of the Committee was that staff's recommended approach should be reflected in the classification relativities for the September 1, 2023 Regulatory Filing.

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The meeting was adjourned at 10:45 AM.

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Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the Minutes of the meeting scheduled for March 21, 2023 for approval and/or modification.