

September 1, 2024 Pure Premium Rate Filing WCIRB Executive Summary

California Department of Insurance Public Hearing
June 6, 2024

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Presentation Summary

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2. Executive Summary
3. Methodology Refinements
4. Key Selections
5. Advisory Pure Premium Rate Comparison

Opening Remarks

Background and Underlying Environment

Reform Period

- Reforms kept medical costs low
- Frequency declined at modest levels
- Nine consecutive pure premium rate decreases totaled 40%+ (1/1/15 – 1/1/20)

Post-pandemic Period

- COVID-19 claim costs dropping
- Modest non-COVID-19 frequency and severity growth trends
- 0% average 9/1/2022 advisory pure premium rate change
- 2.6% average 9/1/2023 advisory pure premium rate decrease

2015
–2019

2020
–2021

2022+

Pandemic Period

- Major impacts on employment, wages, medical delivery, claim frequency, etc.
- Over 200,000 COVID-19 claims filed
- Non-COVID-19 claim frequency fluctuated widely
- Required significant ratemaking methodology adjustments
- Two additional pure premium rate decreases (1/1/2021 and 9/1/2021)

Key Cost Driver Considerations

1 Loss Development

- Significant reserve reductions on older years driving differences in paid and incurred projections
- Unlikely to be sustained over long-term

2 Claim Frequency

- Moderation of long-term rate of decline
- Latest 15-year pattern is different than the prior 15-year history

3 Permanent Disability Claims

- Permanent disability claims as a share of indemnity claims at historical low
- Unclear if trend will continue

4 Utilization of Medical Services

- Medical utilization has declined over the last decade
- Utilization declines have largely offset price increases for medical services
- Unlikely to be sustained over long term



Executive Summary

Average Advisory Pure Premium Rates

The WCIRB proposes and the Commissioner adopts a set of advisory pure premium rates for each of approximately 500 classifications.

The average of those rates depends on the size (payroll) of each classification.

\$2

\$1.46

\$1.41

\$1.42

(0.9% increase)

\$1

\$0

Approved 9/1/2023

Based on PY 2020 Class Weights

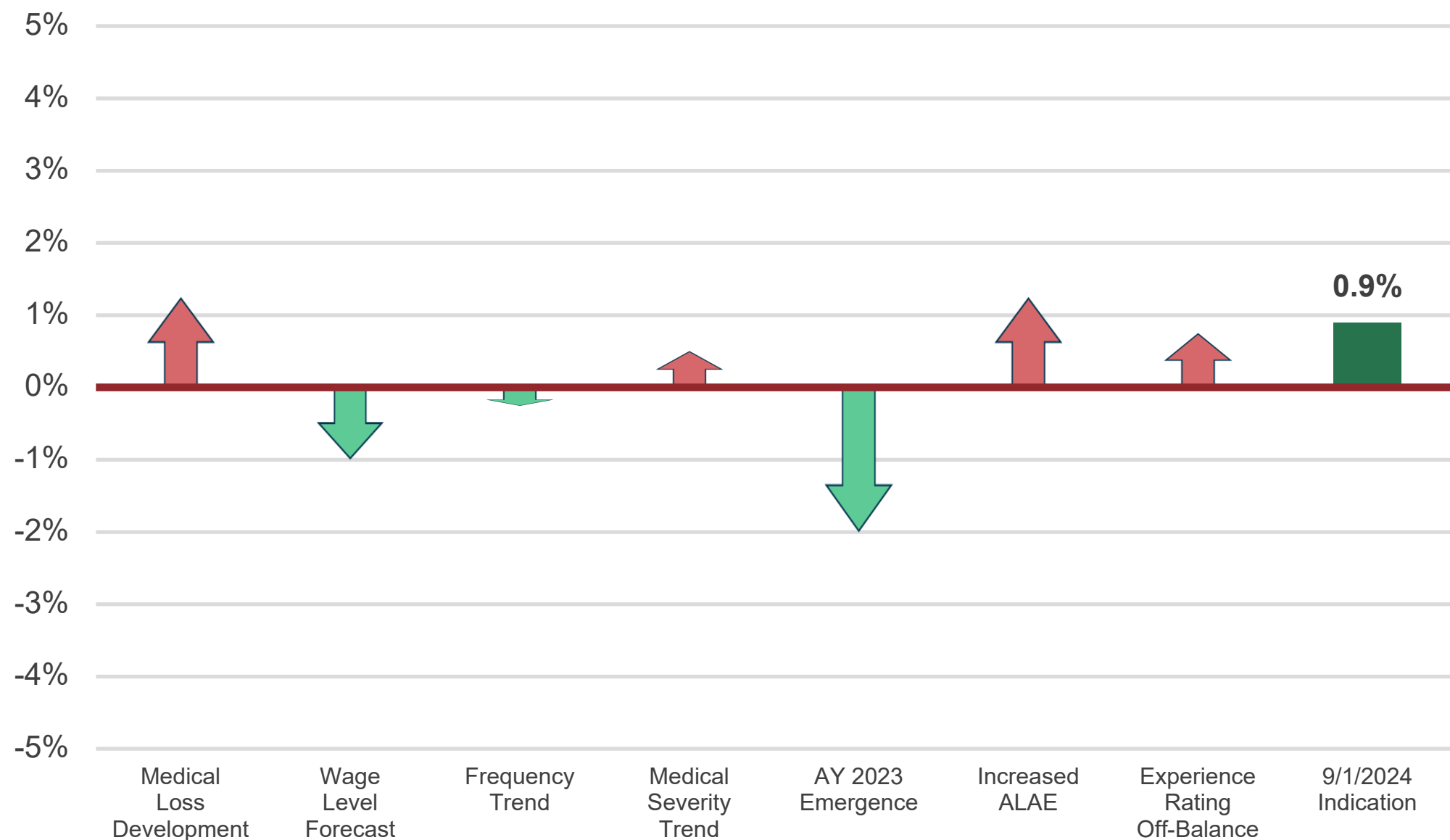
Approved 9/1/2023

Based on PY 2021 Class Weights

Proposed 9/1/2024

Based on PY 2021 Class Weights

Drivers of Average Change in Advisory Pure Premium Rates



2023 Changes

+0.3%

WCIRB 9/1/2023 Indication

-2.6%

CDI 9/1/2023 Approved

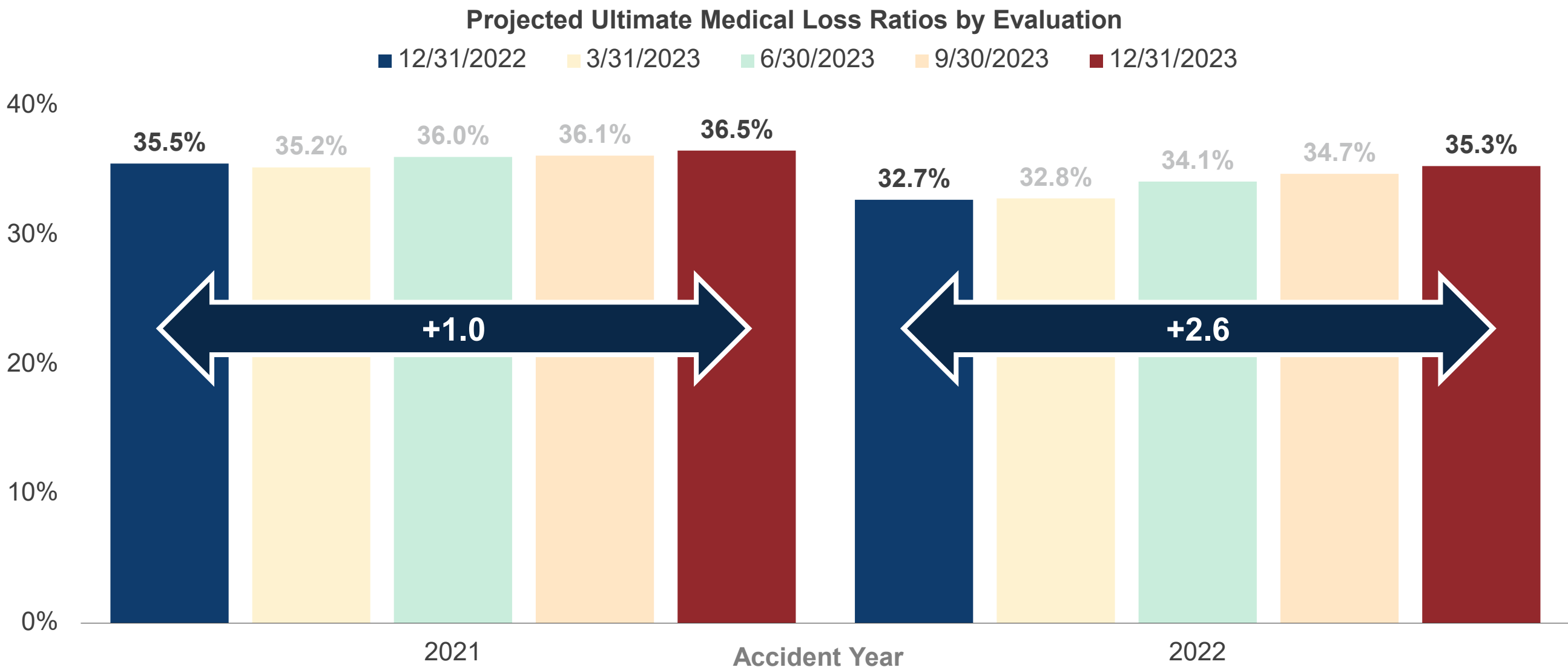
2024 Indication

+0.9%

WCIRB 9/1/2024 Change from 2023 CDI Approved

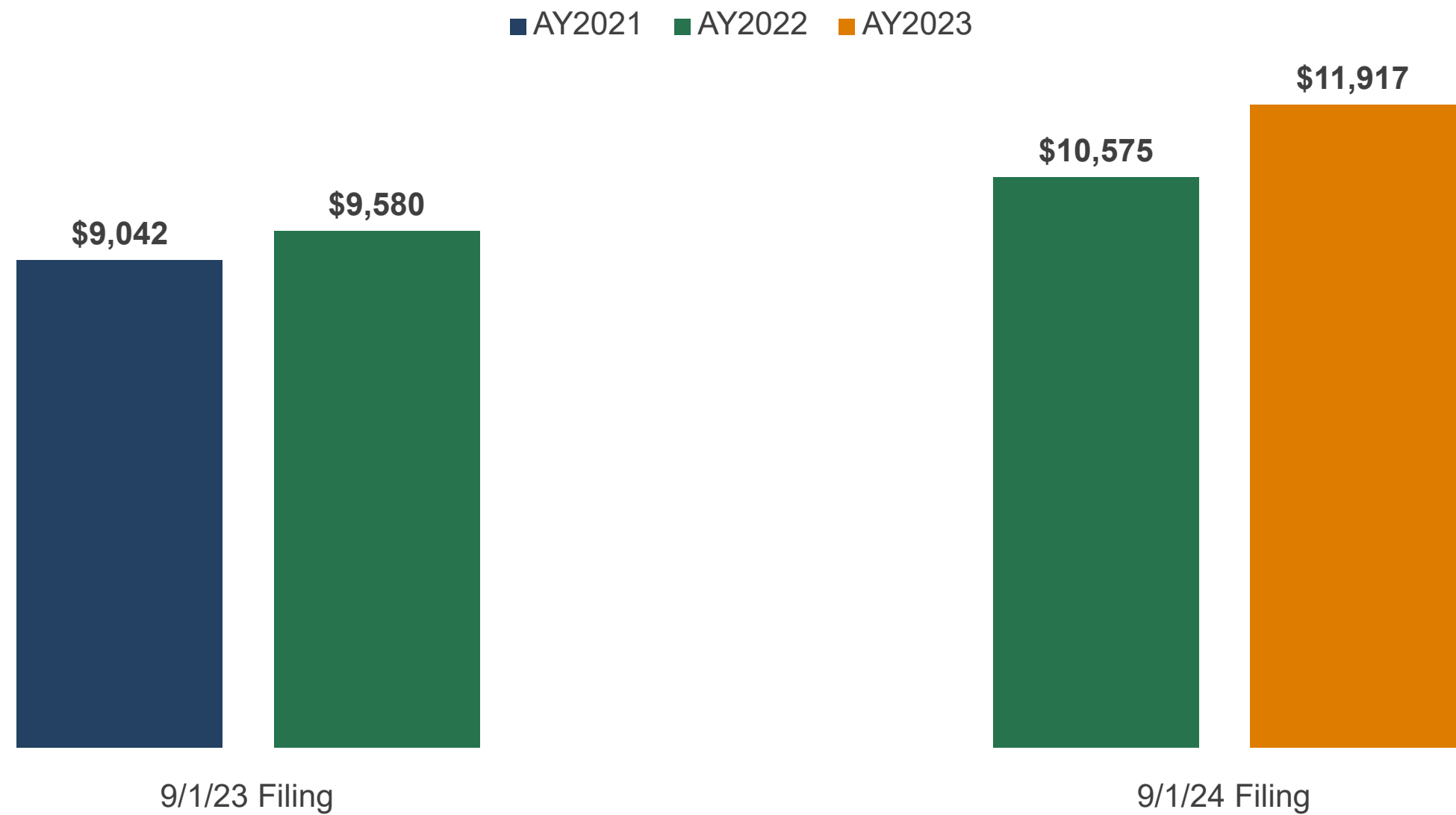
Emerging Medical Loss Development

As of December 31, 2023



Note: For consistency of comparison, projections are based on a common loss development methodology and do not reflect refinements made by the WCIRB to the methodology over time.
Source: WCIRB aggregate financial data excluding COVID-19 claims.

ALAE Cost per Claim Increased Since Last Year



Source: WCIRB aggregate financial data, excluding COVID-19 claims and MCCP costs. Estimated ultimate ALAE per indemnity claim.

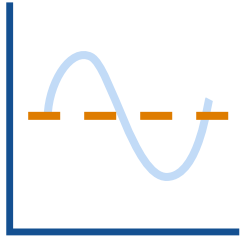
Accident Year 2023 Emerging Favorably



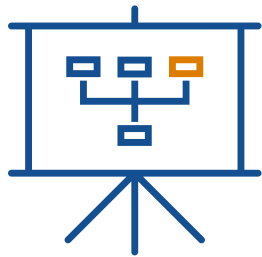
Source: September 1, 2023 and September 1, 2024 Pure Premium Rate Filings. Loss ratios are on-leveled to the September 1, 2023 advisory pure premium rate level.

Methodology Refinements

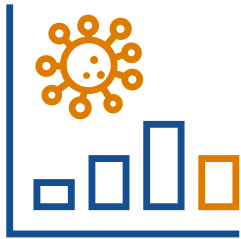
Methodologies Generally Consistent with 9/1/2023 Filing



Average of adjusted paid and hybrid incurred for loss development

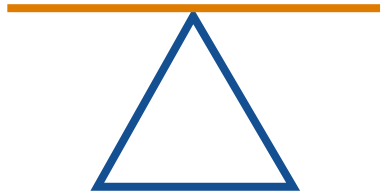


Frequency model includes forecast of cumulative injury index

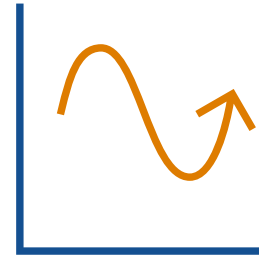


AY 2023 projection includes COVID-19

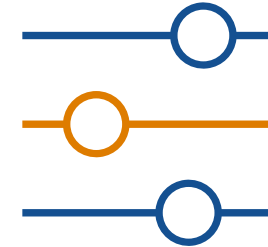
WCIRB Study Supports Paid and Hybrid Incurred Methods



Both paid and incurred methods exhibited stability across earlier development periods



Incurred method more volatile across later development periods



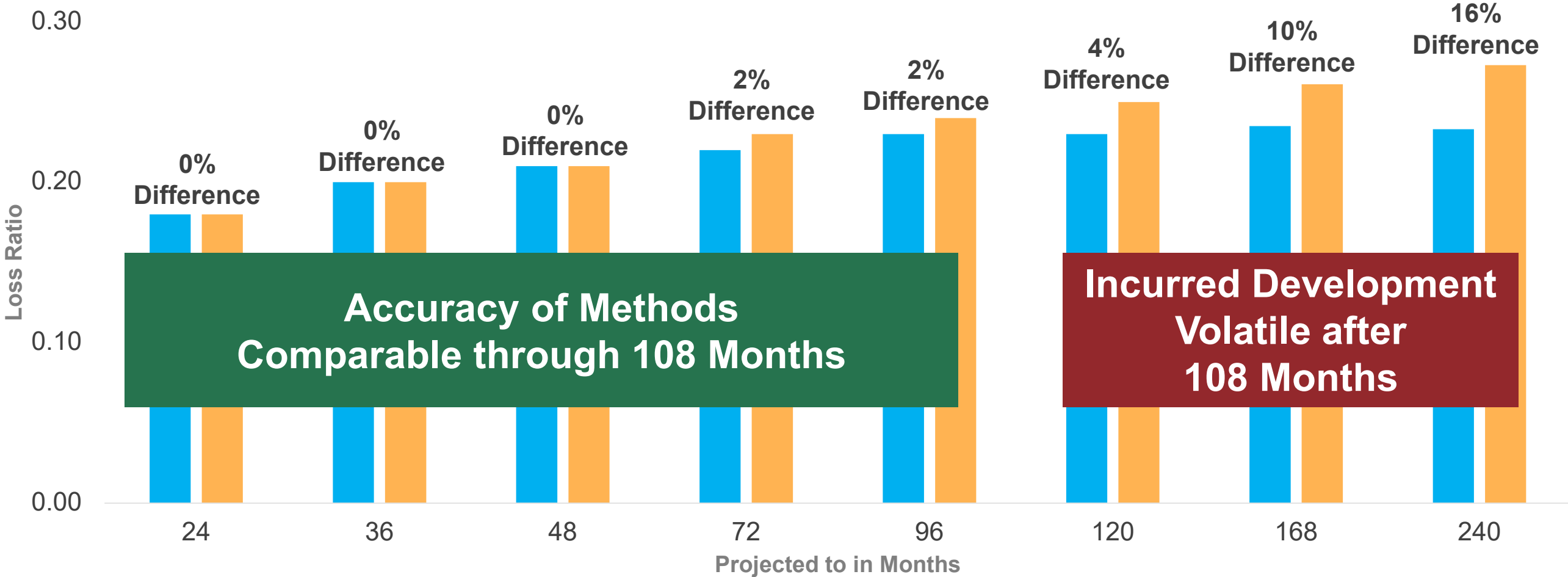
Hybrid incurred method utilizes incurred development for earlier periods and paid development for later periods

Paid and Incurred Projections Diverge in Later Periods

As of December 31, 2023

Medical Loss Ratio Projections for Accident Year 2018

■ Latest Year Incurred Development ■ Latest Year Paid Development



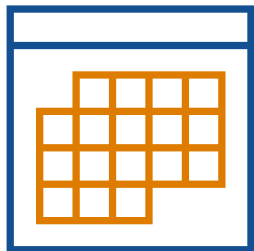
Source: WCIRB aggregate financial data.

Frequency Model Now Includes Forecast of Change in Cumulative Injury Index (CII)



In recent filings:

- The WCIRB frequency model did not forecast a change in the cumulative injury index (CII)
- Consequently, the WCIRB used actuarial judgment to adjust the model constant

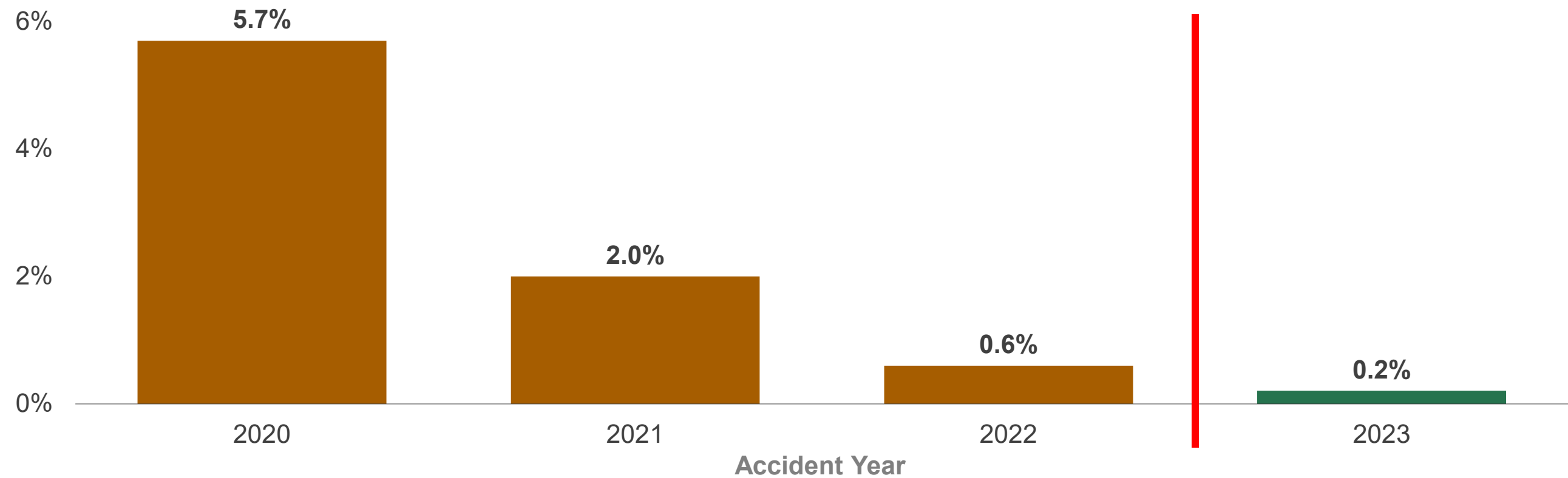


A recent WCIRB study supports the use of a time series forecast of the CII

- Several alternatives performed better than assuming no change in the CII
- Using the time series forecast of the CII change performed best

COVID-19 Share of Incurred Losses Has Declined Significantly

COVID-19 Claim Share of Incurred Losses at 12 Months



- The WCIRB included COVID-19 experience for Accident Year 2023 in the 9/1/2024 filing
- The COVID-19 share of paid losses for Accident Year 2023 is negligible (0.0001)

Source: WCIRB aggregate financial data.

Key Selections

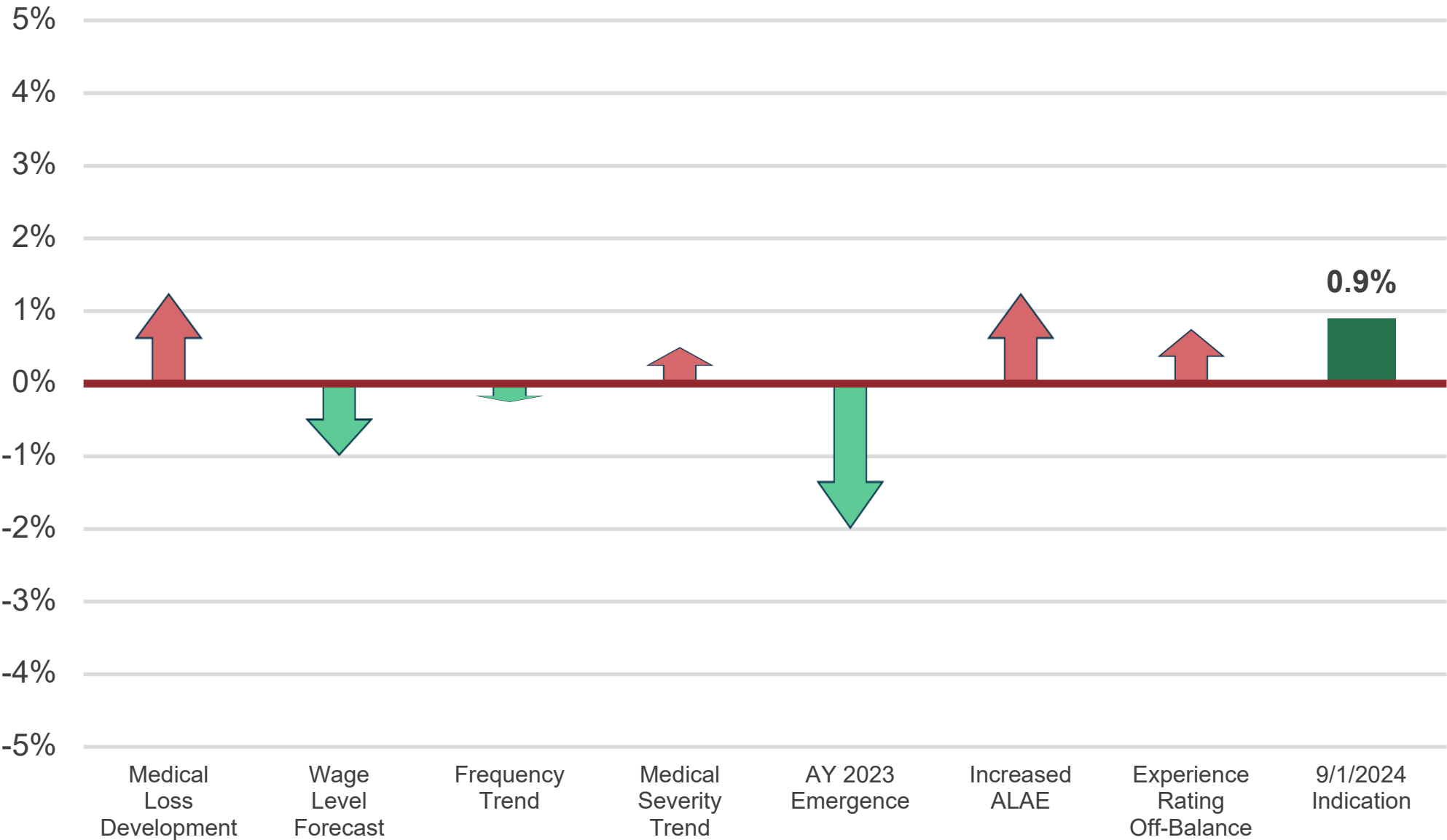
Key Selections

2.0%

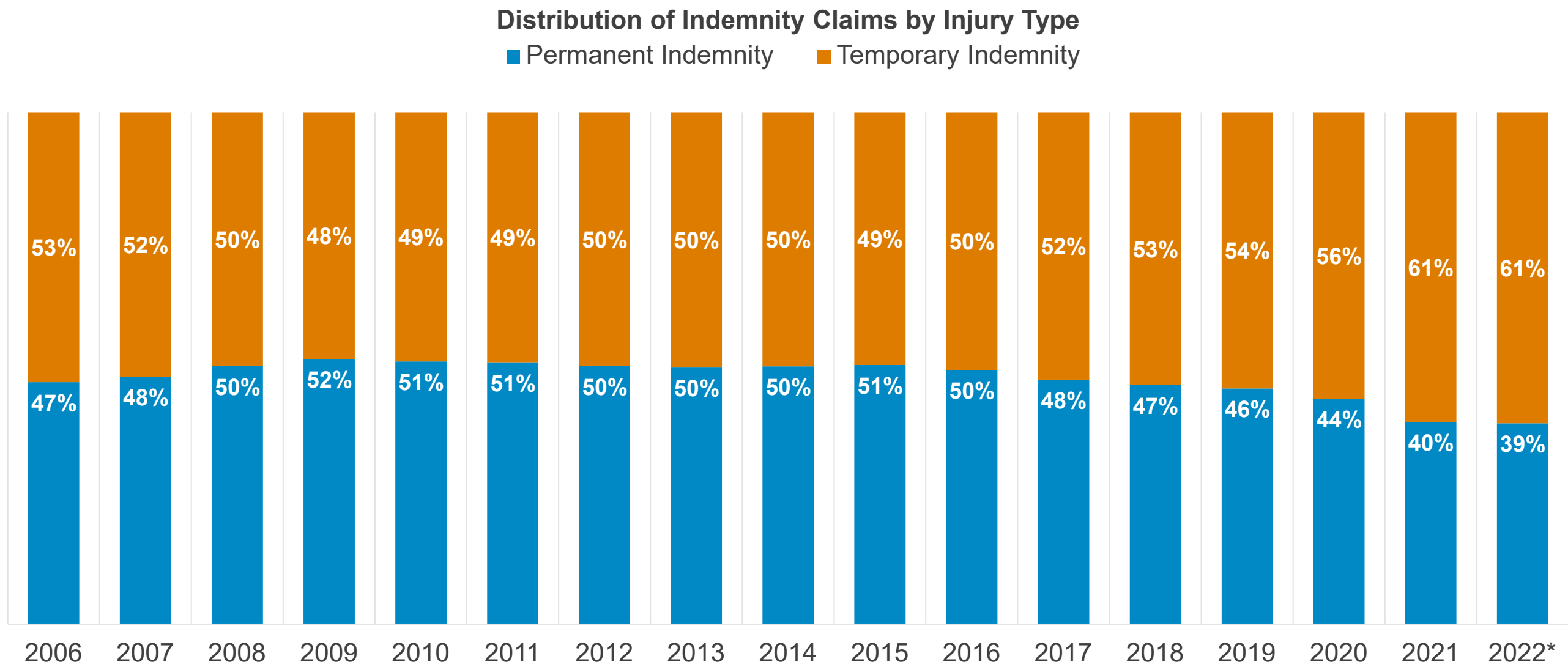
Increased medical severity trend

2.0%

Increased ALAE severity trend



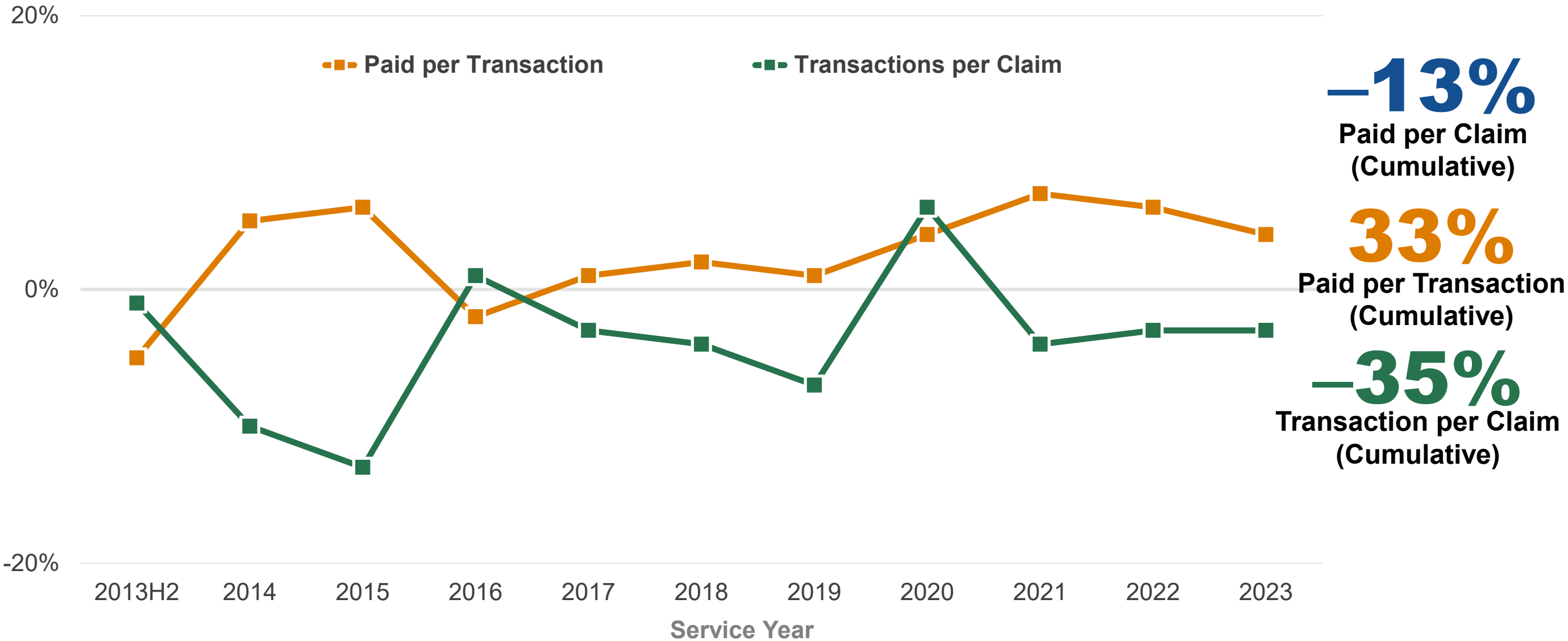
Increasing Share of Temporary Claims Puts Upward Pressure on Trends



*Accident year 2022 experience is partial in that it only reflects experience from policy year 2021.
Source: WCIRB unit statistical data, excluding COVID-19 claims.

Declining Utilization Has Offset Increasing Prices

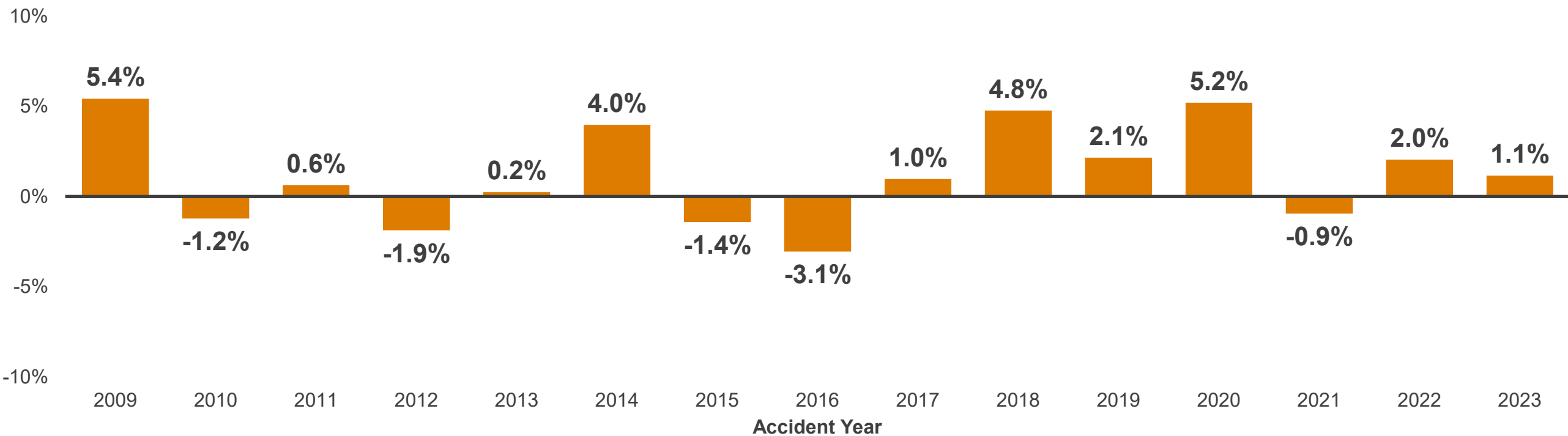
As of February 7, 2024



Source: WCIRB medical transaction data (collection started 3Q 2012). COVID-19 claims were excluded from the analysis.

Projected Changes in On-Level Medical Severity

As of December 31, 2023



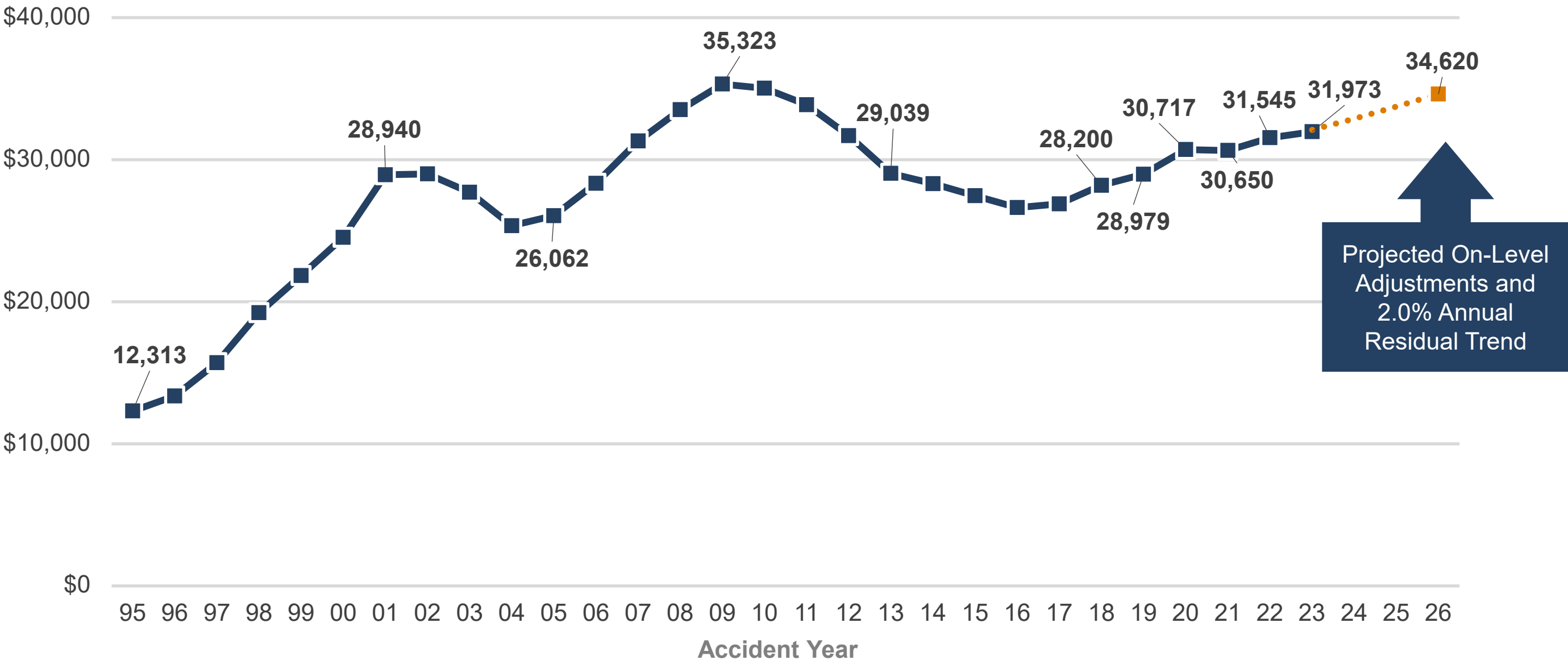
Annual Exponential Trend Fits:

Long-term: 4.5%
Mid-term: 1.4%
Short-term: 1.6%

WCIRB Selected: 2.0%

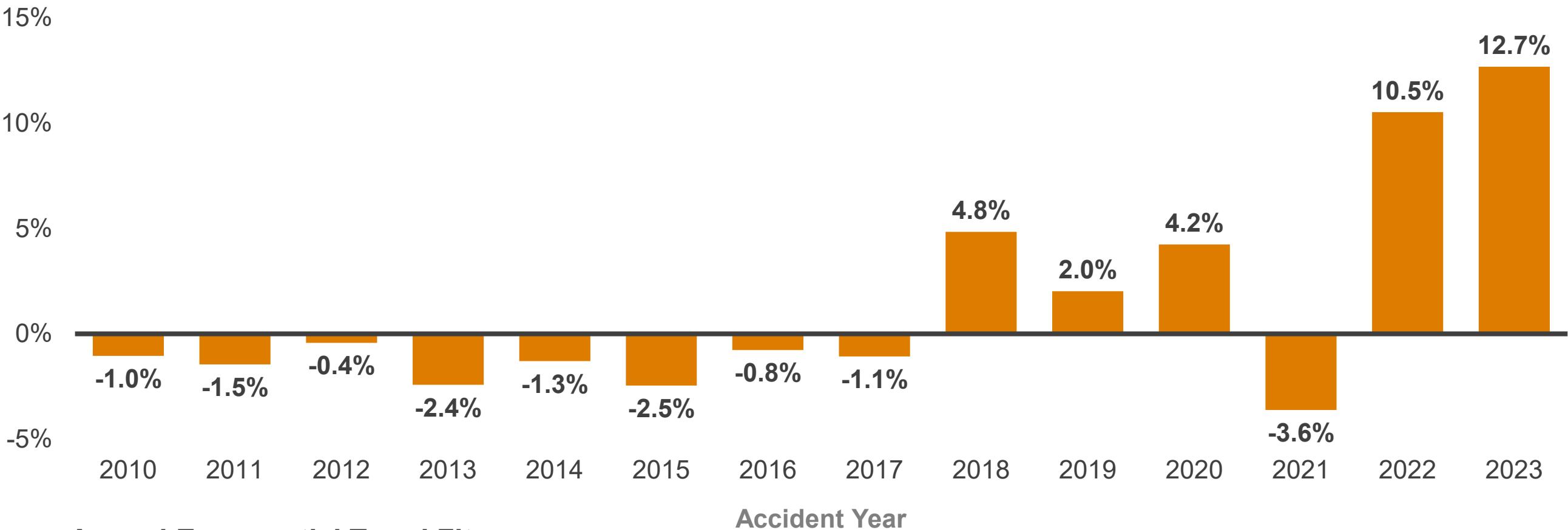
Source: WCIRB aggregate financial data, excluding COVID-19 claims for all accident years. MCCP costs are excluded from accident years 2011 and prior.

Medical Severity Projections



Source: WCIRB aggregate financial data, excluding COVID-19 claims and projections.

Projected ALAE Severity Changes – Private Insurers



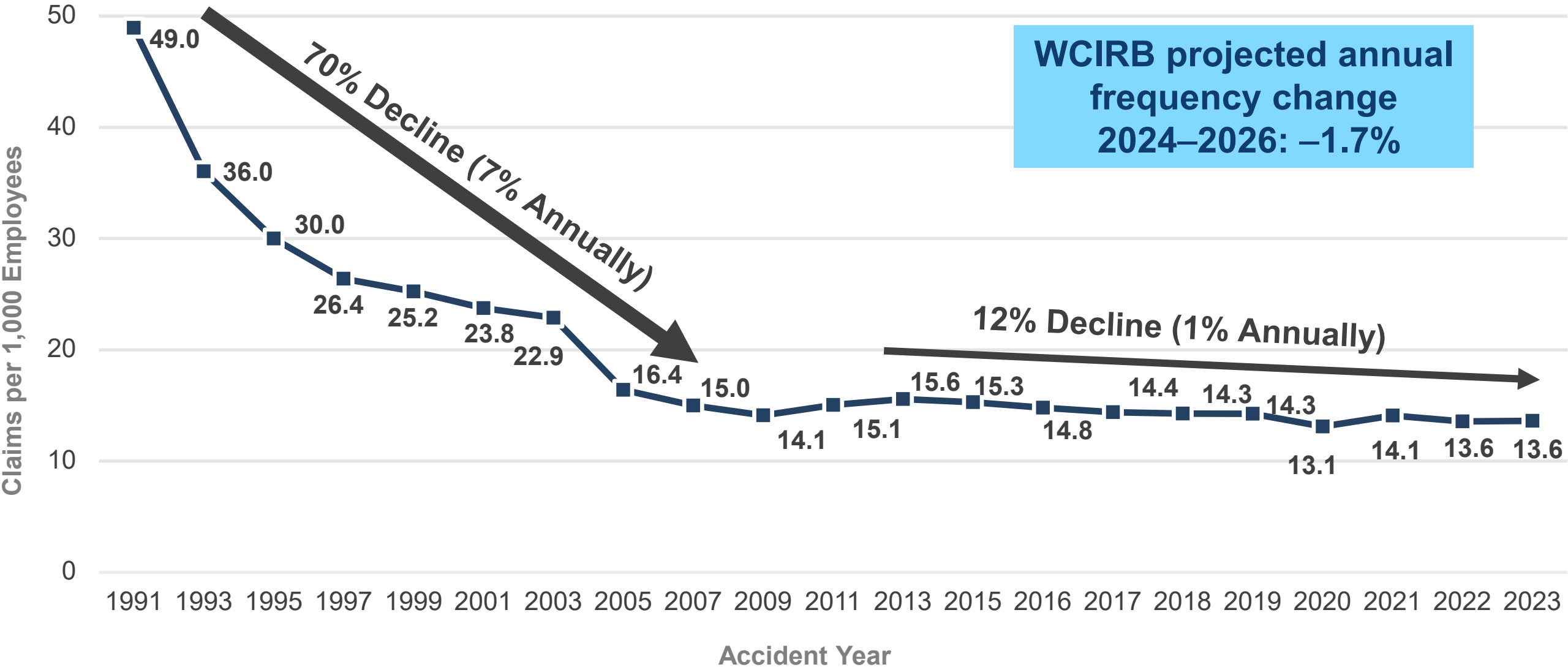
Annual Exponential Trend Fits:

Long-term: 0.6%
Short-term: 5.3%

WCIRB Selected: 2.0%

Source: WCIRB aggregate financial data, excluding COVID-19 claims and MCCC costs.

Indemnity Claims per 1,000 Employees

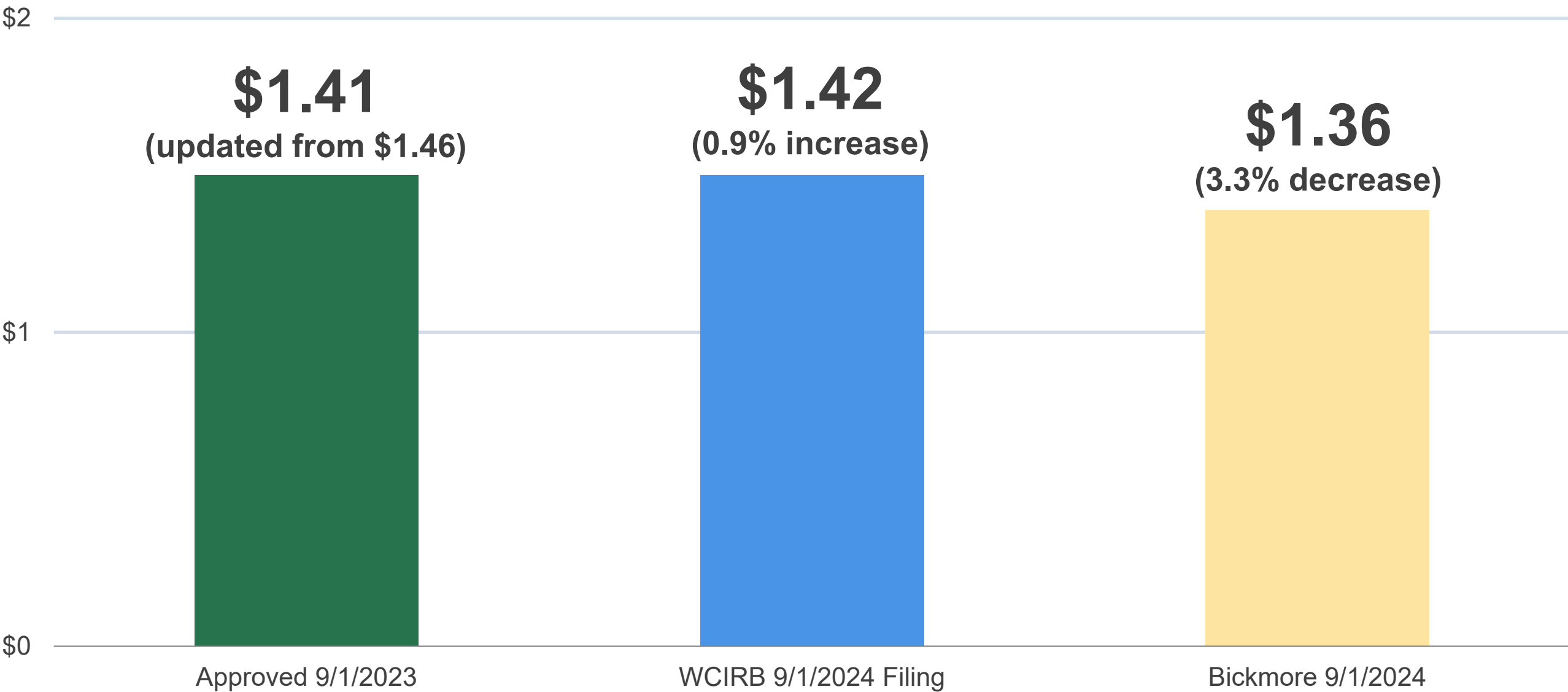


Source: WCIRB aggregate financial data calls and unit statistical data. Excludes COVID-19 claims.



Advisory Pure Premium Rate Comparison

Comparison of Average Advisory Pure Premium Rates





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