

# WCIRB Actuarial Committee Meeting

March 20, 2025

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# Table of Contents/Agenda

1. AC16-06-05: Update on Medical Severity Trends by Component
2. AC21-12-07: Indemnity Claim Frequency Model
3. AC25-03-01: First Quarter 2025 Review of Diagnostics
4. AC25-03-02: 12/31/2024 Experience Review
5. AC25-03-03: Review 7/1/2025 Updates to Pharmaceutical Fee Schedule

# 01

## Update on Medical Severity Trends by Component



# Summary of the Medical Severity Trends through 2024

As February 7, 2025

Comparing medical payments in 2024 with those in 2023:

- Payments for all medical services per claim increased by 12%
  - Paid per medical transaction: +8%
  - Number of medical transactions per claim: +4%
- Service types with a significant increase in the paid per claim:
  - Physical therapy (part of physician services): +21%
  - Medical-legal: +15%
  - Inpatient: +14%
  - Interpreter services (part of HCPCS): +21%
  - Home health (part of HCPCS): +22%
- Service types with a lower or similar cost level:
  - Outpatient: +1%
  - Pharmaceuticals: +0%
  - Durable medical equipment (part of the HCPCS category): -5%

Note: HCPCS stands for Healthcare Common Procedure Coding System. HCPCS codes primarily include (1) ambulance services, (2) durable medical equipment, prosthetics, orthotics, and supplies used outside a physician's office, (3) home health services and (4) interpreter services. The subgroup (2) within HCPCS experienced a 5% decrease in the paid per claim in 2024 compared to 2023.  
Source: WCIRB medical transaction data through 2024.

# 02

## Indemnity Claim Frequency Model



# Background

- Data and assumptions to be used for the September 1, 2025 Pure Premium Rate Filing
  - Correlation between frequency of cumulative injury claims and frequency of non-cumulative injury claims
  - Differences in changes in frequency between the first and second PY portions of the AY
  
- Questions to be answered in preparation for the September 1, 2025 Pure Premium Rate Filing
  - What is our best estimate of the AY 2023 change in the frequency of cumulative injuries?
  - Should we incorporate the changes in the cumulative injury index (CII) in the model?
  - If so, how should we forecast the changes in the CII?

# Data Available for September 1, 2025 Pure Premium Rate Filing

USR Latest PY 2022

AY 1979 to 2018:  
Full AY at RL 5

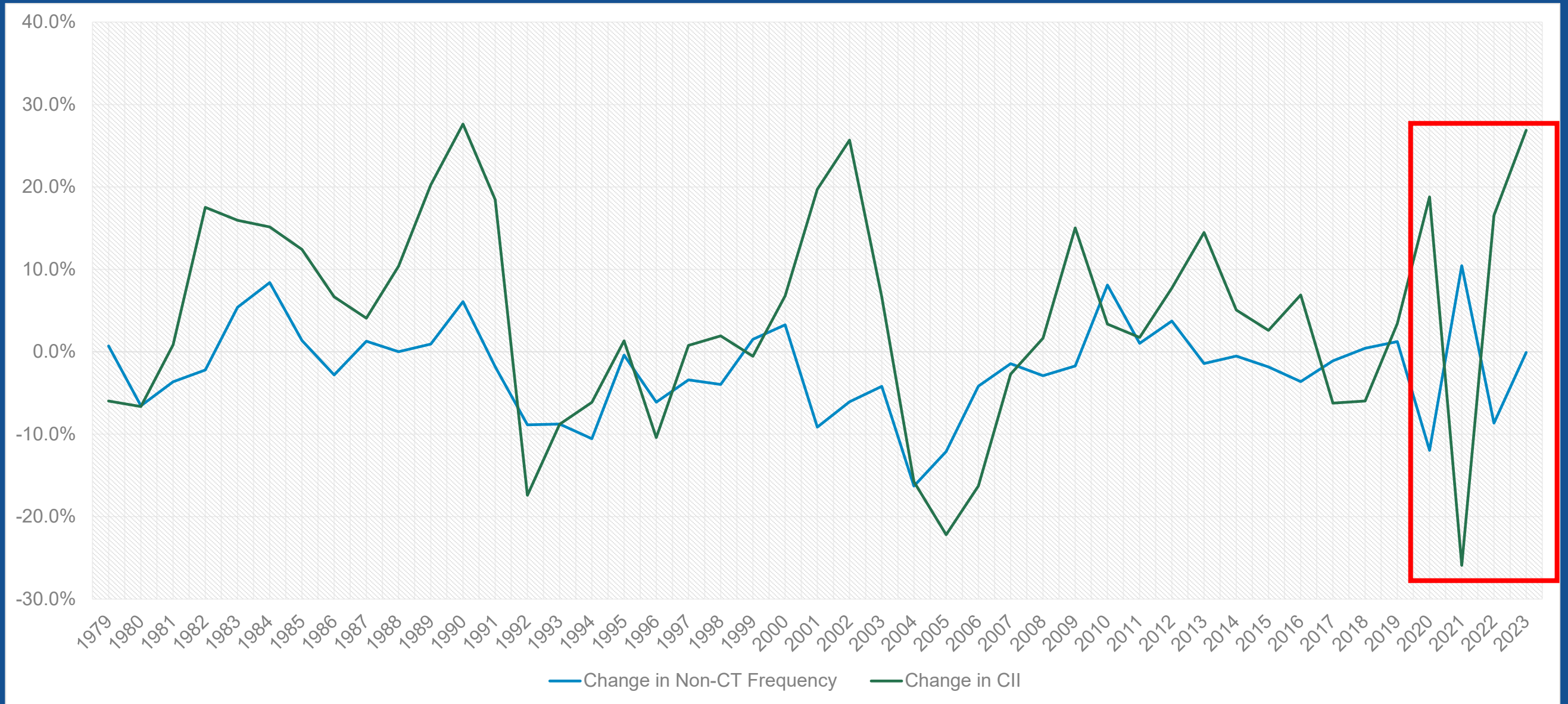
AY 2019 to 2022:  
Full AY developed to RL 5

AY 2023:  
PY 2022 portion (First  
Partial AY)

AY 2024:  
Aggregate Estimate of  
claim counts and  
changes in employment

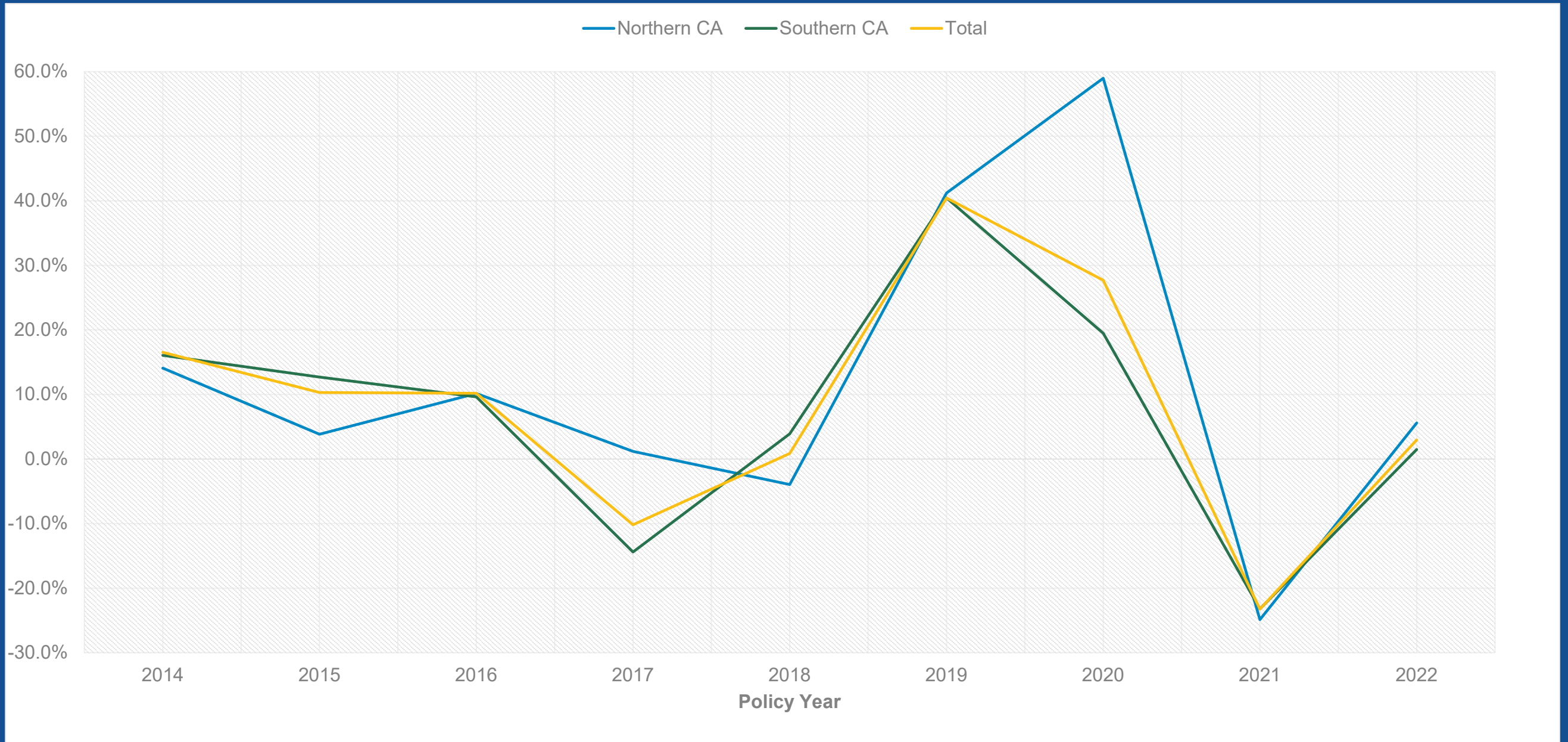
AY 2025 to 2027:  
Model Forecast

# Change in Frequency of Non-Cumulative Injuries vs Change in CII by AY





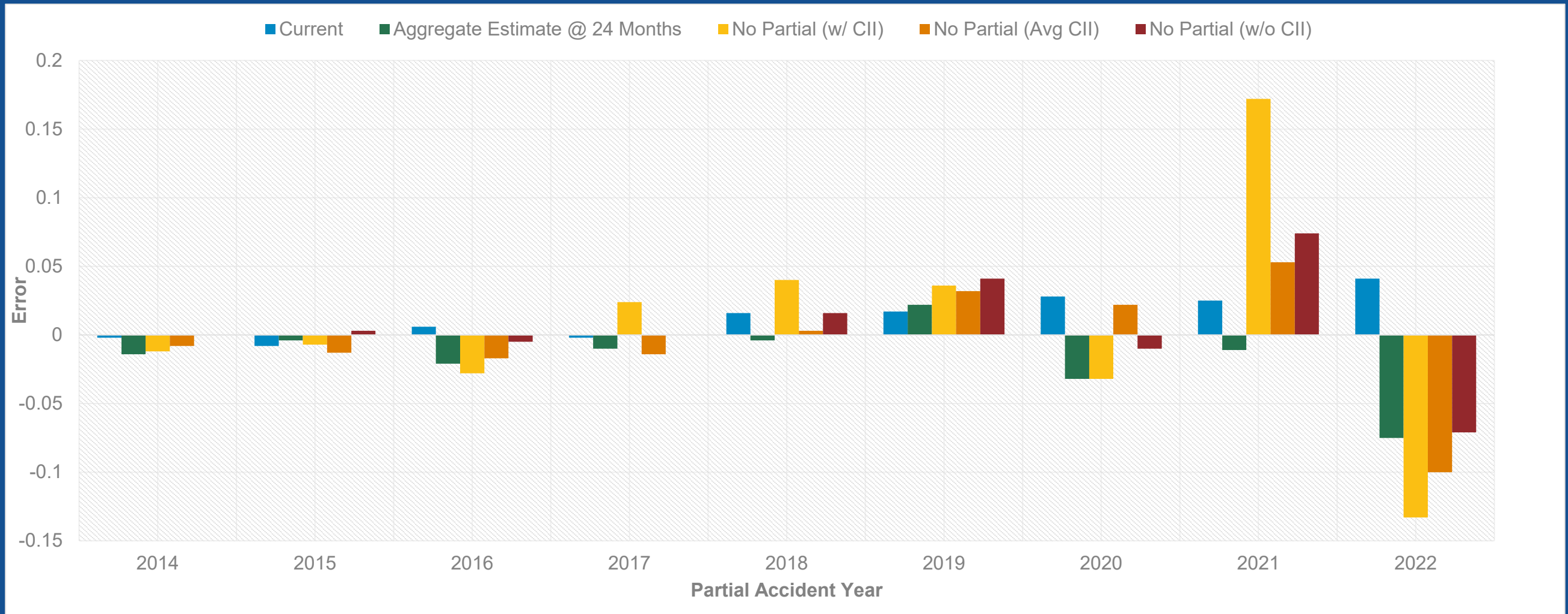
# Annual Policy Year Change in Cumulative Injury Index (CII)



# Components of Alternative Model Parameterizations for the Latest AY

Latest Years with USR Data	Current Approach	Aggregate Estimate	No Partial Year
Latest Complete USR AY (2022)	Full AY 2022 from USR data	Full AY 2022 from USR data	Full AY 2022 from USR Data
Latest USR AY (2023)	PY 2022 portion of AY 2023 from USR data	AY 2023 Aggregate Estimate @ 24 months	Frequency Model Output – One year out projection

# Accuracy of the Estimated Frequency Change for the Partial AY

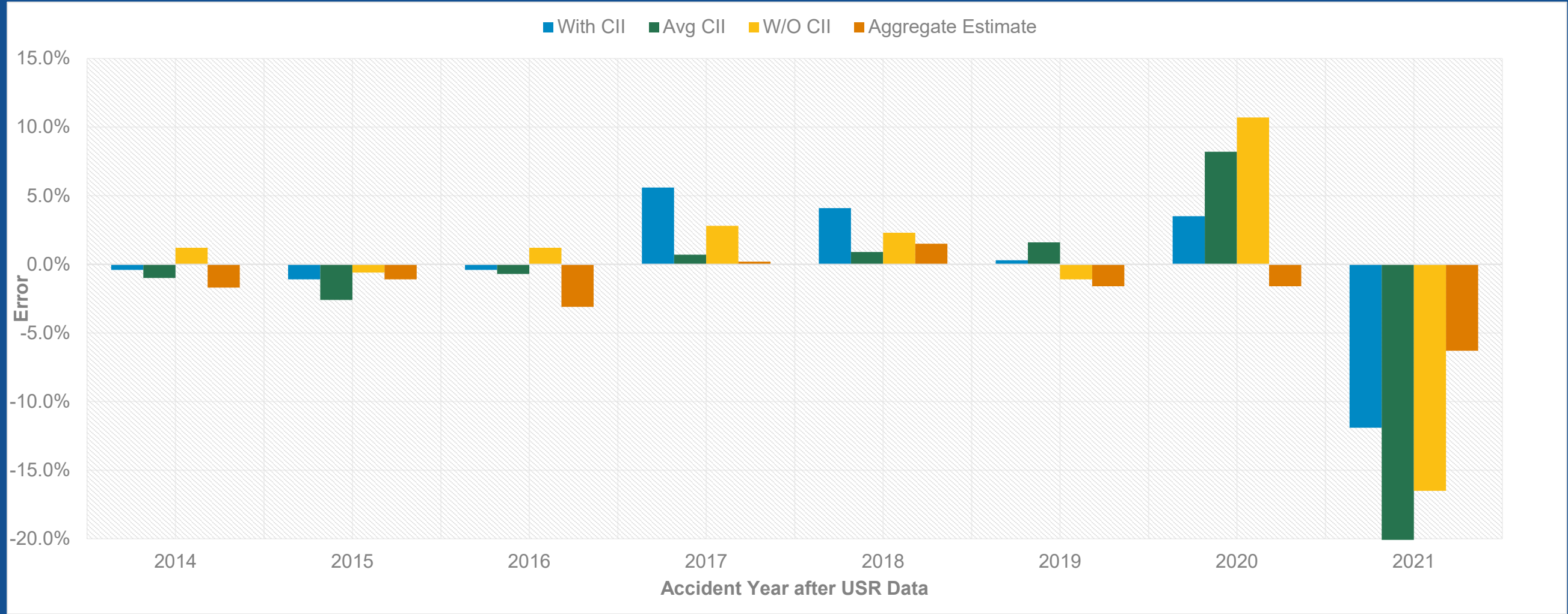


Method	Current Approach	Aggregate Estimate	No Partial (With CII)	No Partial (Avg CII)	No Partial (W/O CII)
MSE	0.0004	0.0009	0.0059	0.0017	0.0014

# Components of Alternative Model Parameterizations for Forecast AYs

Forecast Years	With CII	Average CII	Without CII
Latest Actual AY (2024)	AY 2024 Aggregate Estimate @ 12 months	AY 2024 Aggregate Estimate @ 12 months	AY 2024 Aggregate Estimate @ 12 months
Forecast AY (2025 to 2027)	Uses time series forecast of change in CII	Uses long term average change in CII	Model fit without CII

# Accuracy of the Forecast Frequency Change One Year Beyond USR Data



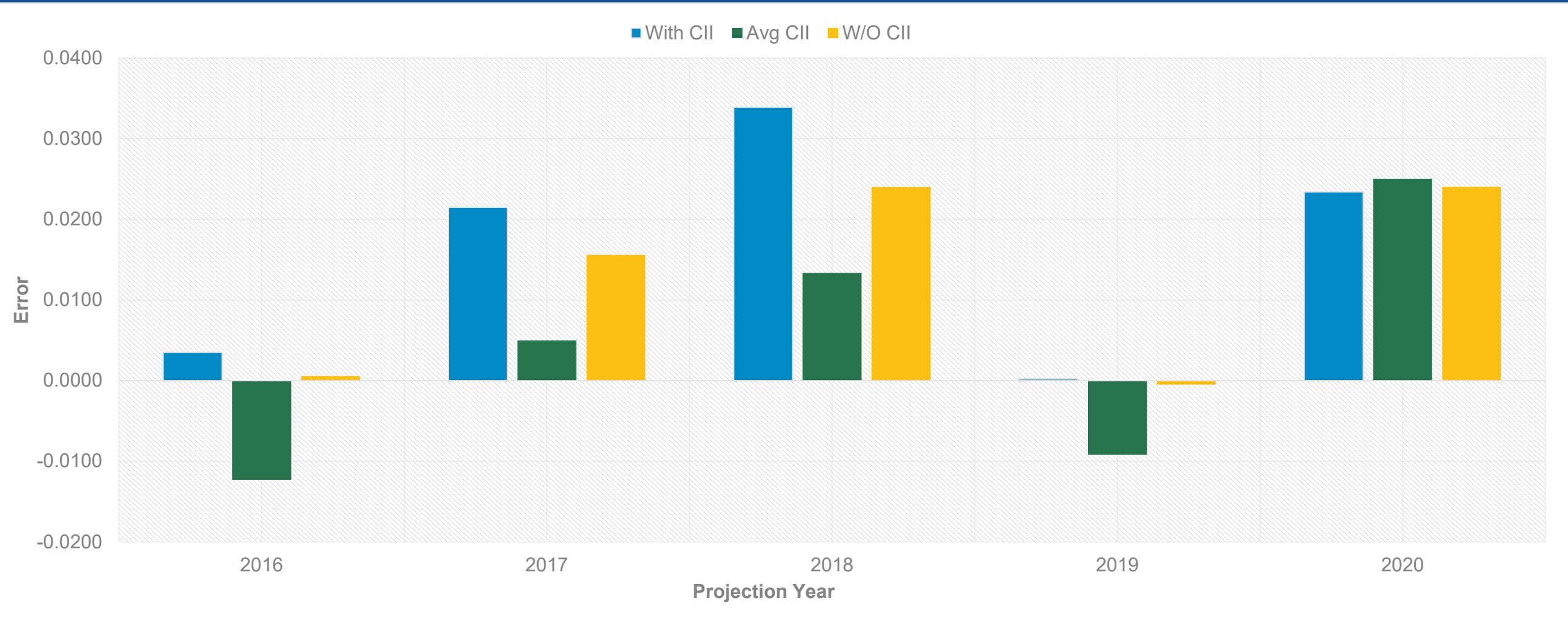
Method	With CII	Average CII	Without CII	Aggregate Estimate @ 12 months
MSE	0.0025	0.0061	0.0051	0.0008

# Forecast Change Throughout Projection Period

Period	Frequency Change	Weight
AY 2024 to AY 2025	A1	1
AY 2025 to AY 2026	A2	1
AY 2026 to AY 2027	A3	1/6

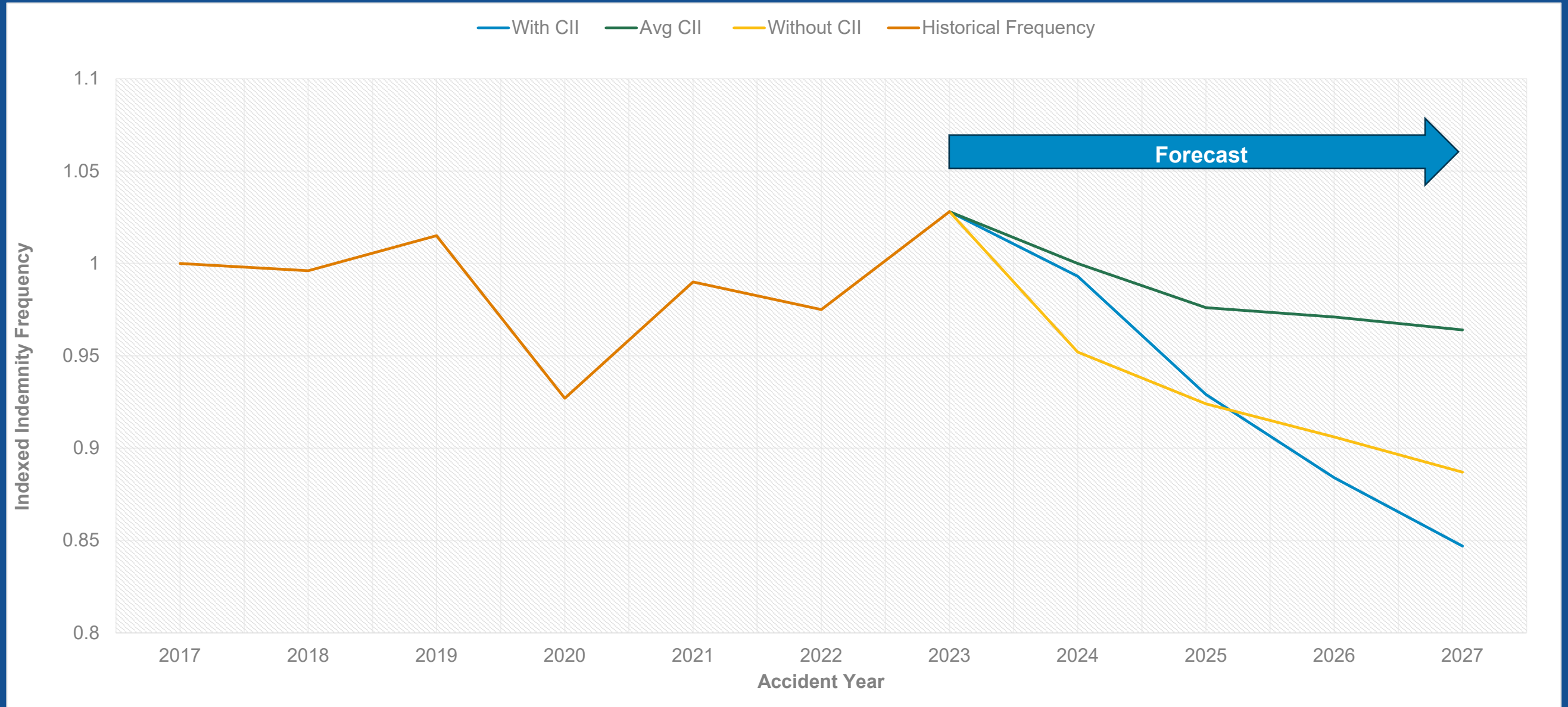
$$\text{Projection Period Frequency Change} = \frac{\sum \text{Frequency Change}_i * \text{Weight}_i}{\sum \text{Weight}_i}$$

# Accuracy of the Forecast Frequency Change Throughout the Projection Period



Method	With CII	Average CII	Without CII
MSE	0.0004	0.0002	0.0003

# Forecast Frequency Change for 9/1/2025 Projection Period





# Conclusion and Feedback

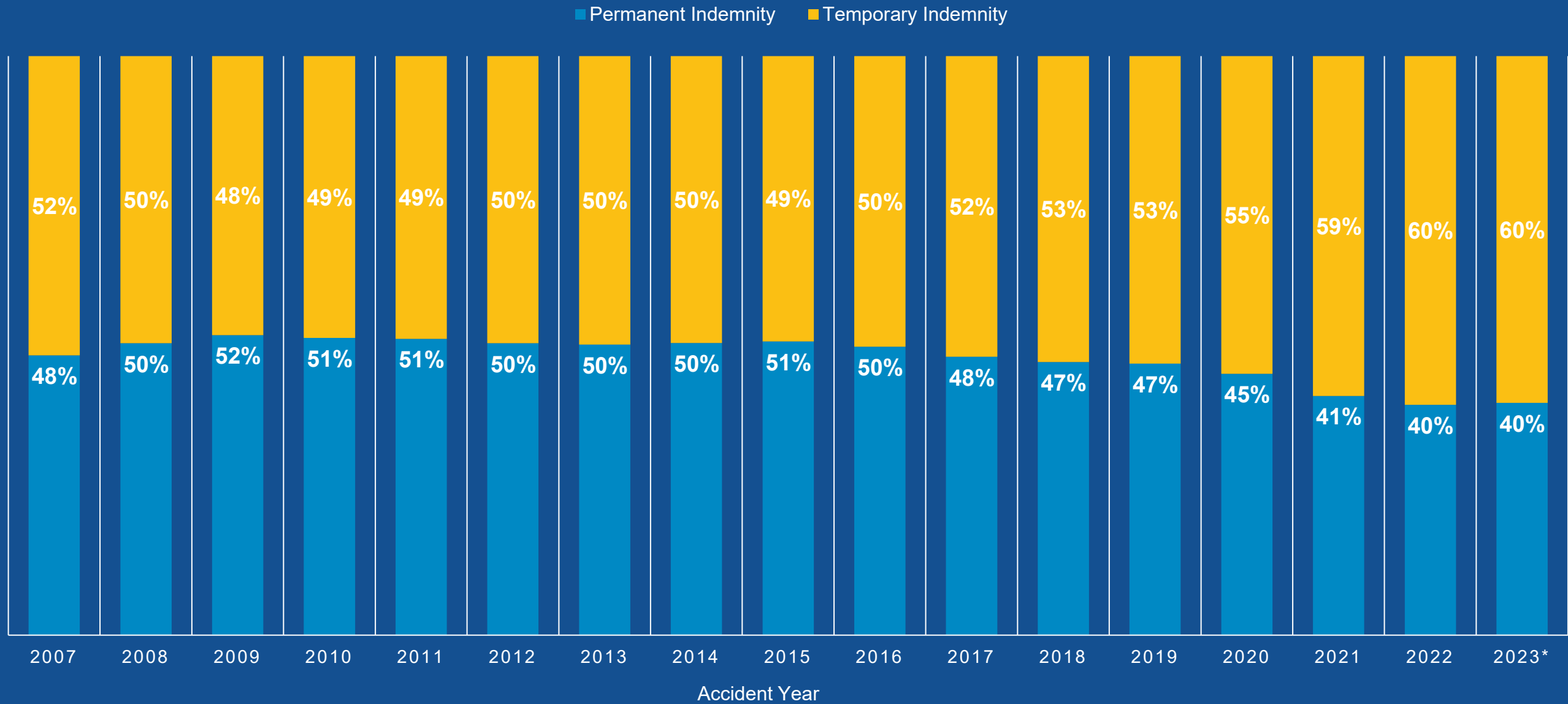
- While data for recent AYs has been volatile, the current methods for projecting changes using a partial accident year of USR data and estimated aggregate change at 12 months have outperformed alternatives
- Forecasts relying on the long-term average change in the CII have slightly outperformed other alternatives in the recent period
- Staff recommends parameterizing the indemnity claim frequency model for April 10, 2025 Actuarial Committee meeting with forecasted changes in the CII relying on the long-term average change and continuing to use the aggregate estimated change at 12 months

# 03

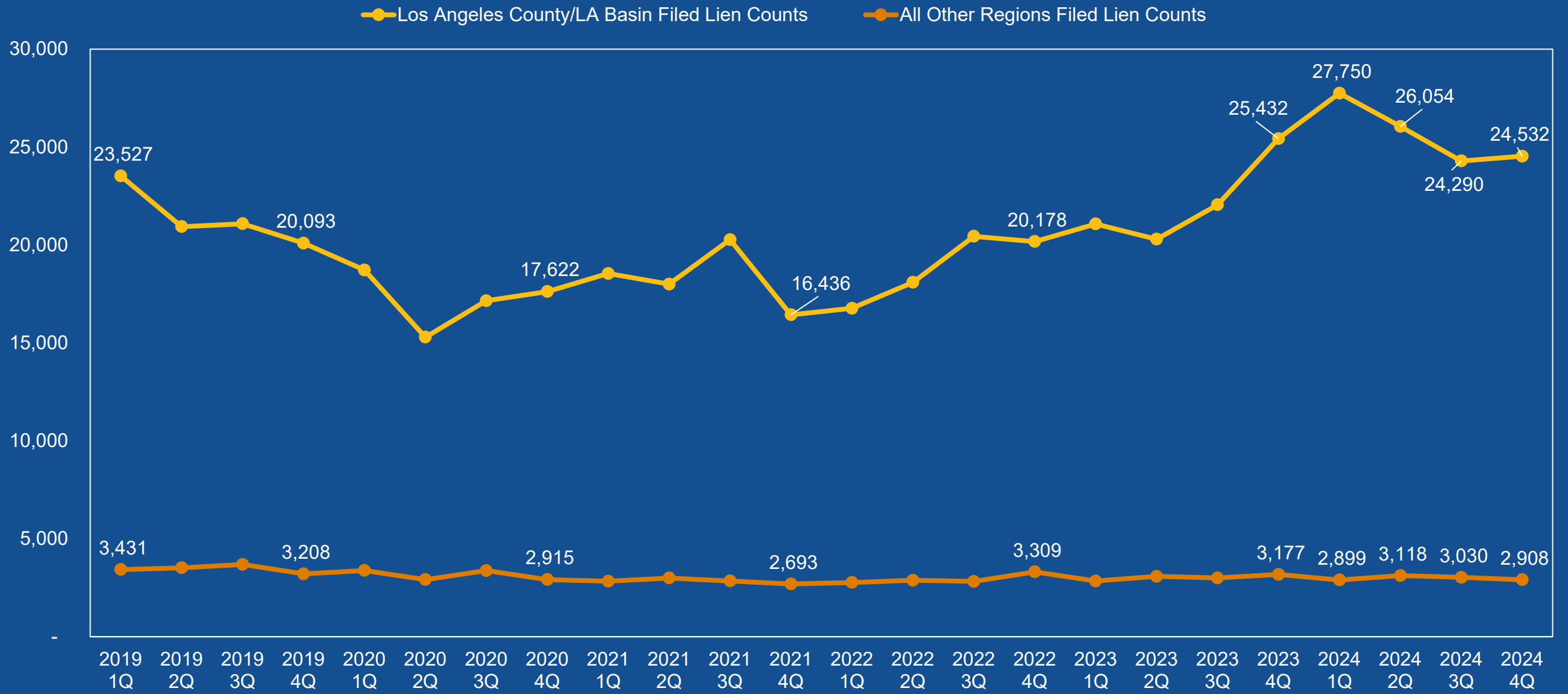
## First Quarter 2025 Review of Diagnostics



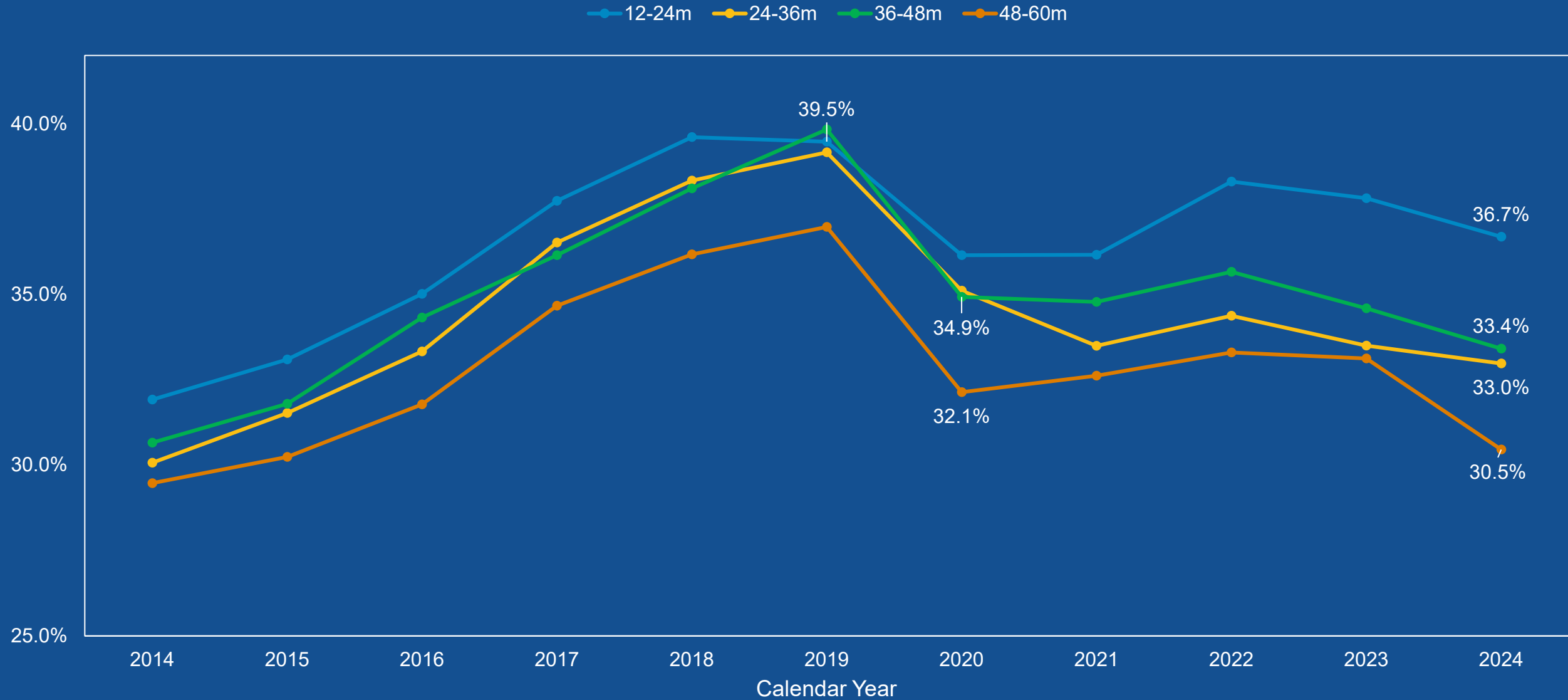
# Distribution of Estimated Ultimate Number of Indemnity Claims by Injury Type (Exhibit M4)



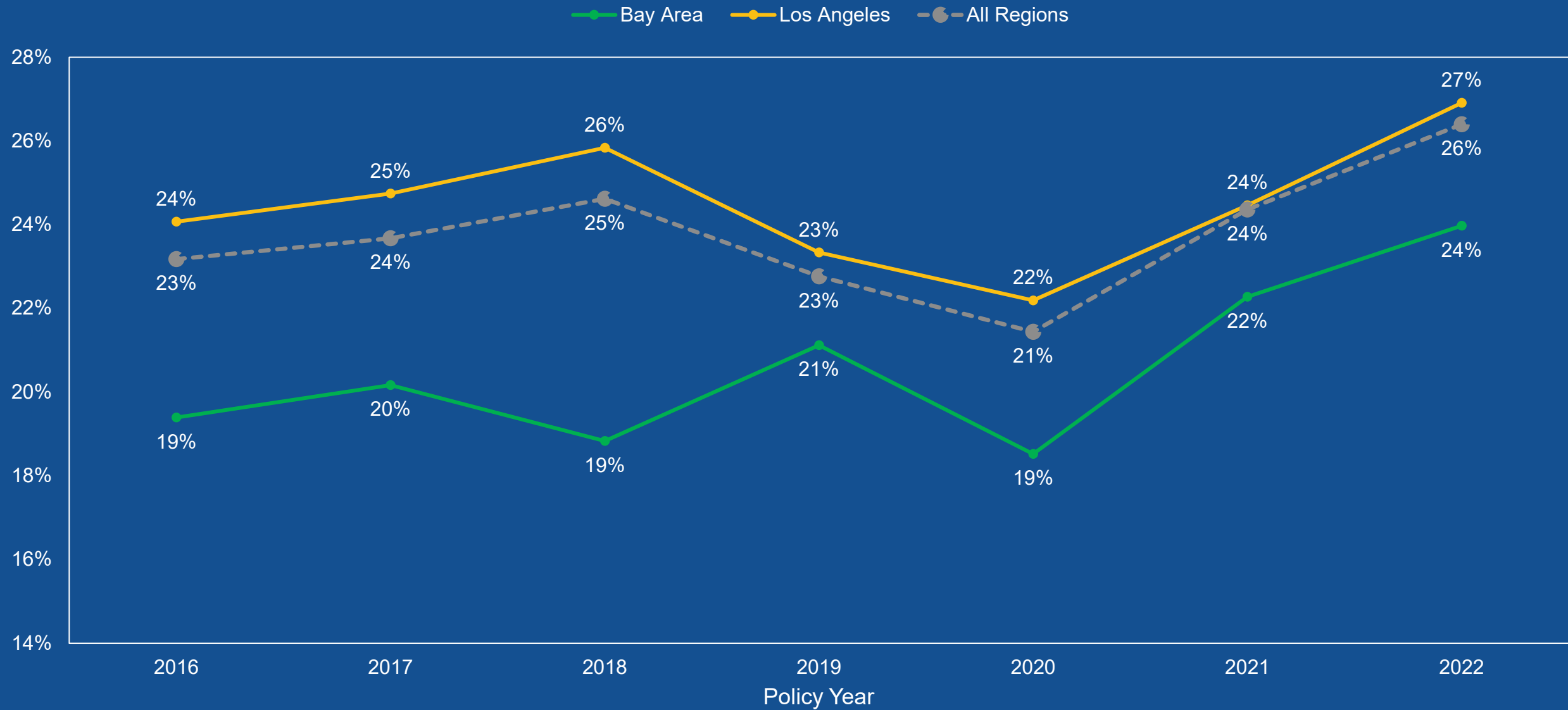
# Number of Filed Lien Counts (Exhibit M9.2)



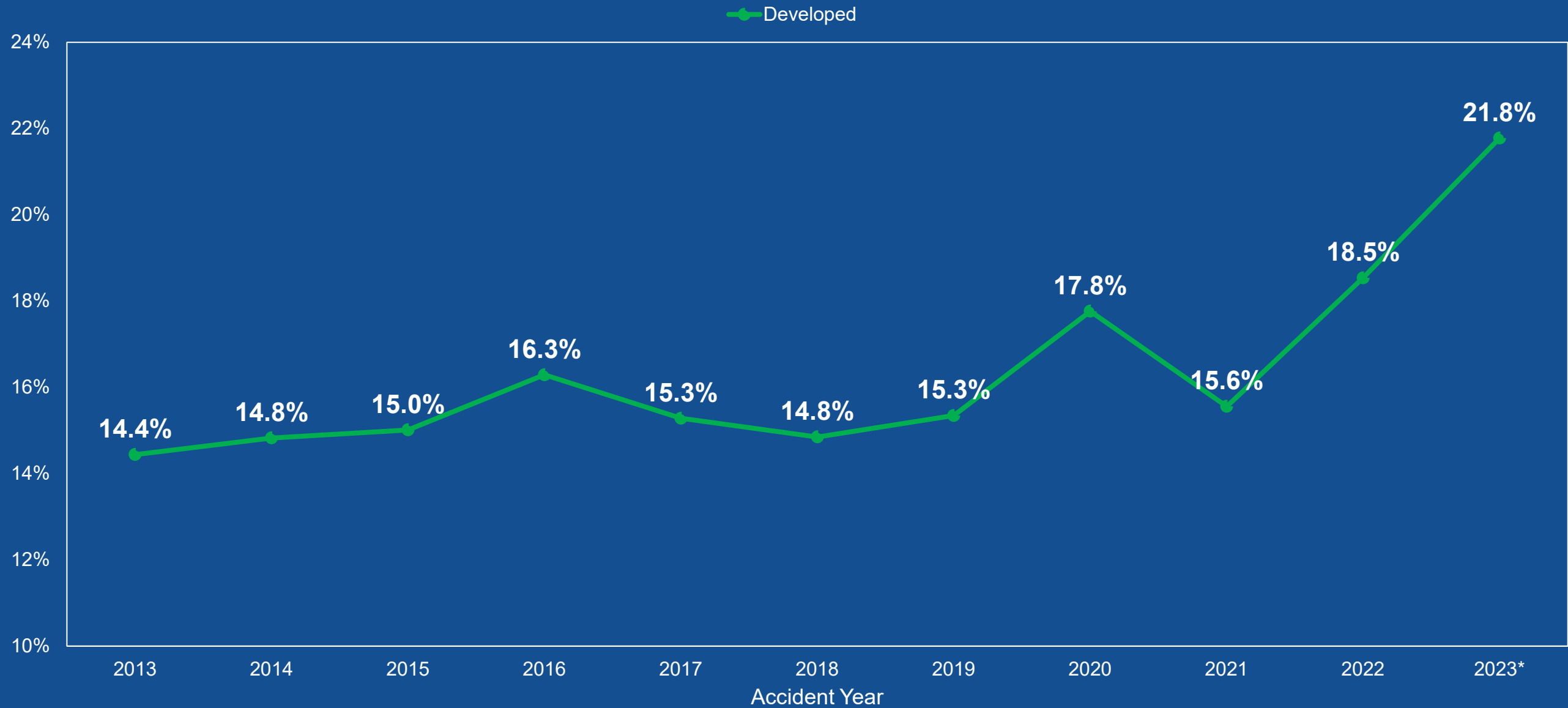
# Ratio of Incremental Closed Indemnity Claims to Prior Open Indemnity Claims (Exhibit C3.1 Updated)



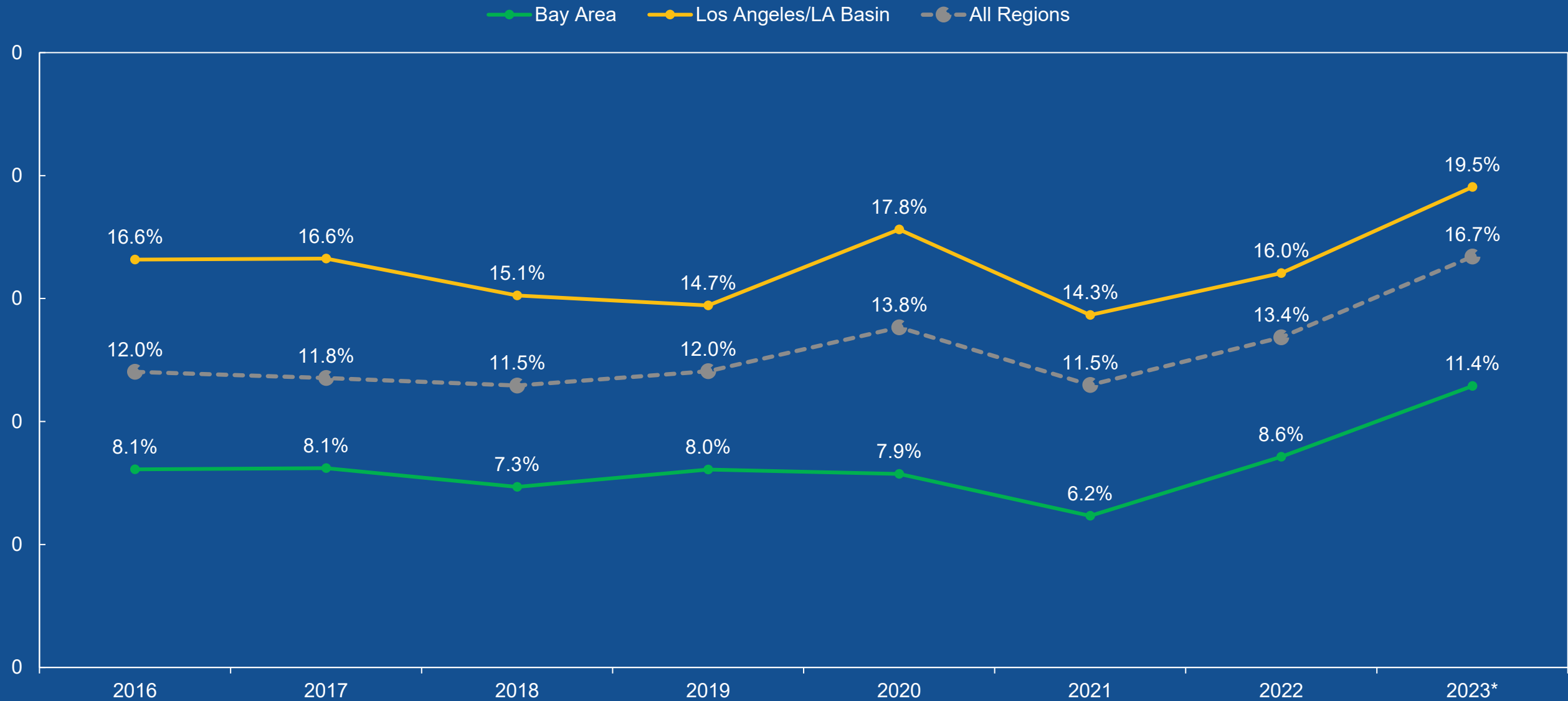
# Percentage of Permanent Partial Claims Closed at First Report Level (Exhibit M5)



# Estimated Cumulative Injury Share of Total Indemnity Claim Count (Exhibit C15)

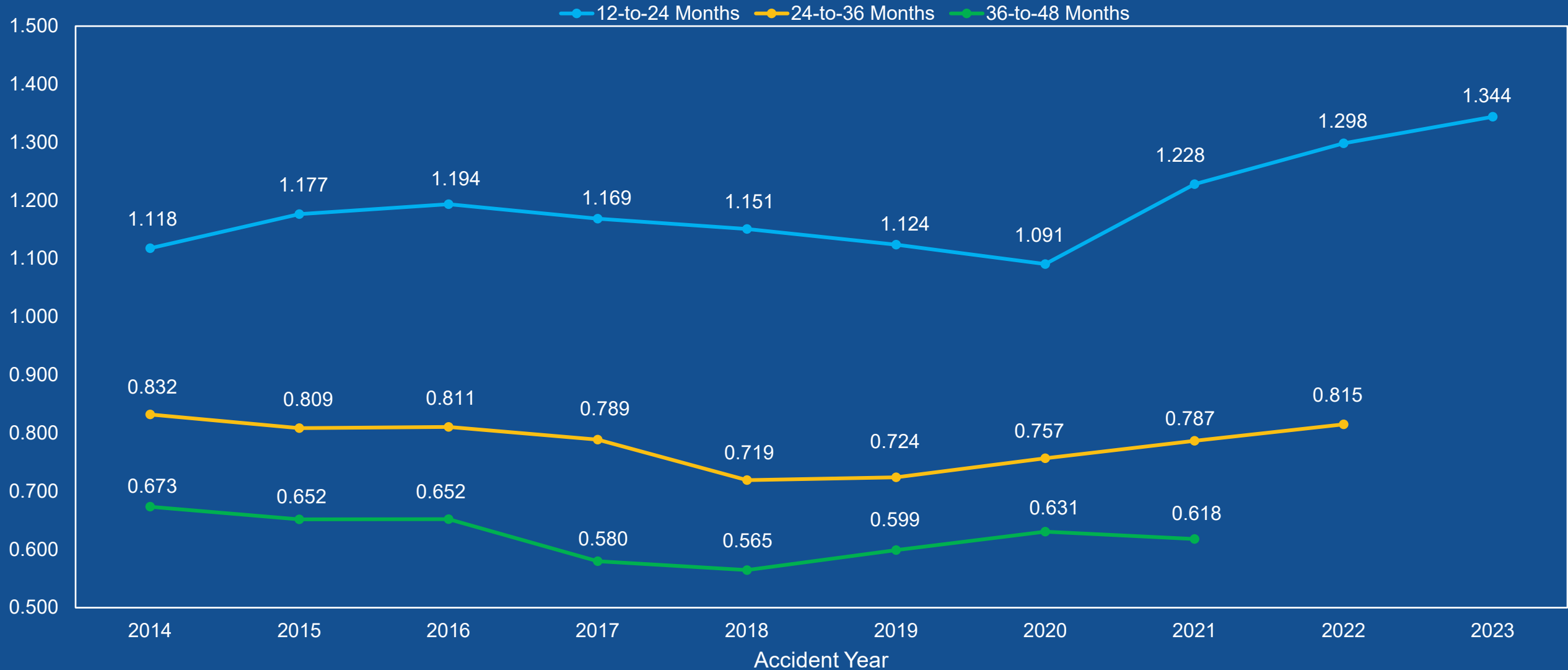


# Cumulative Injury Claims per 100 Indemnity Claims (Exhibit C17)

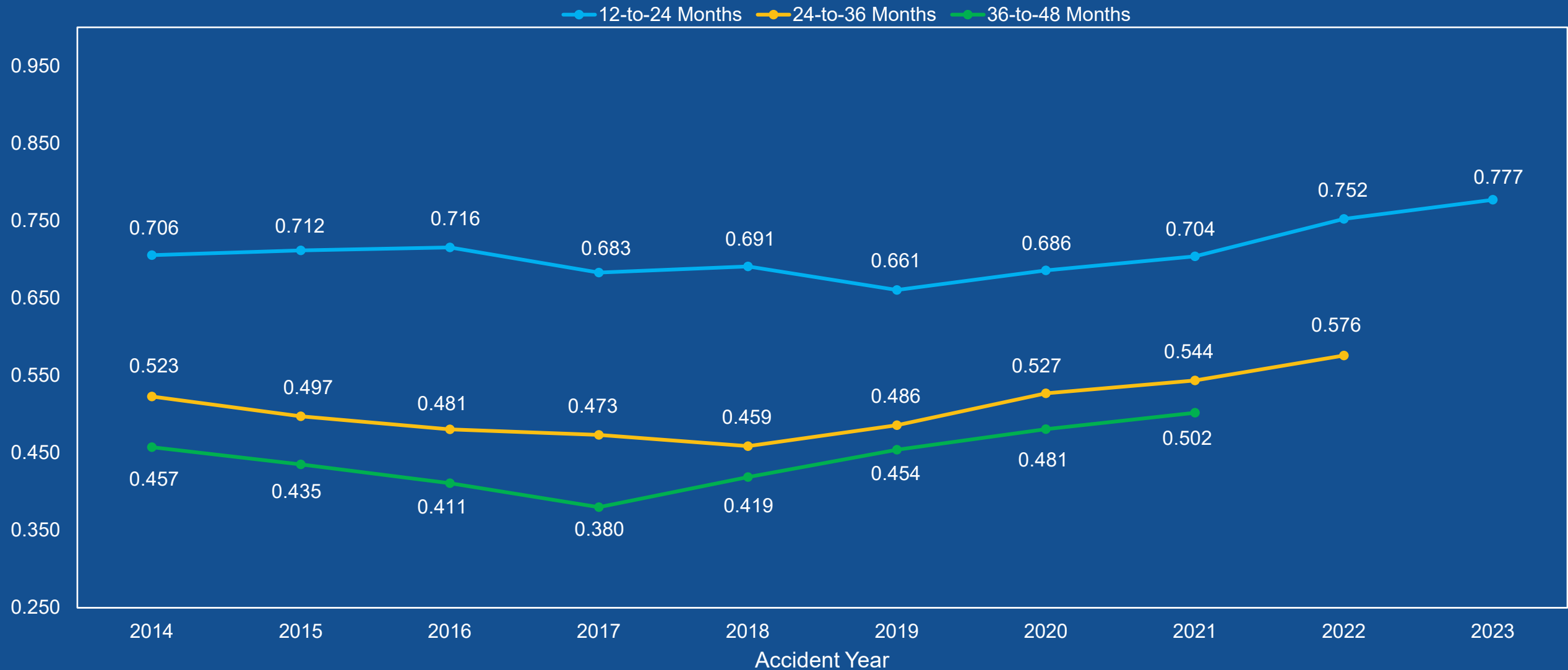




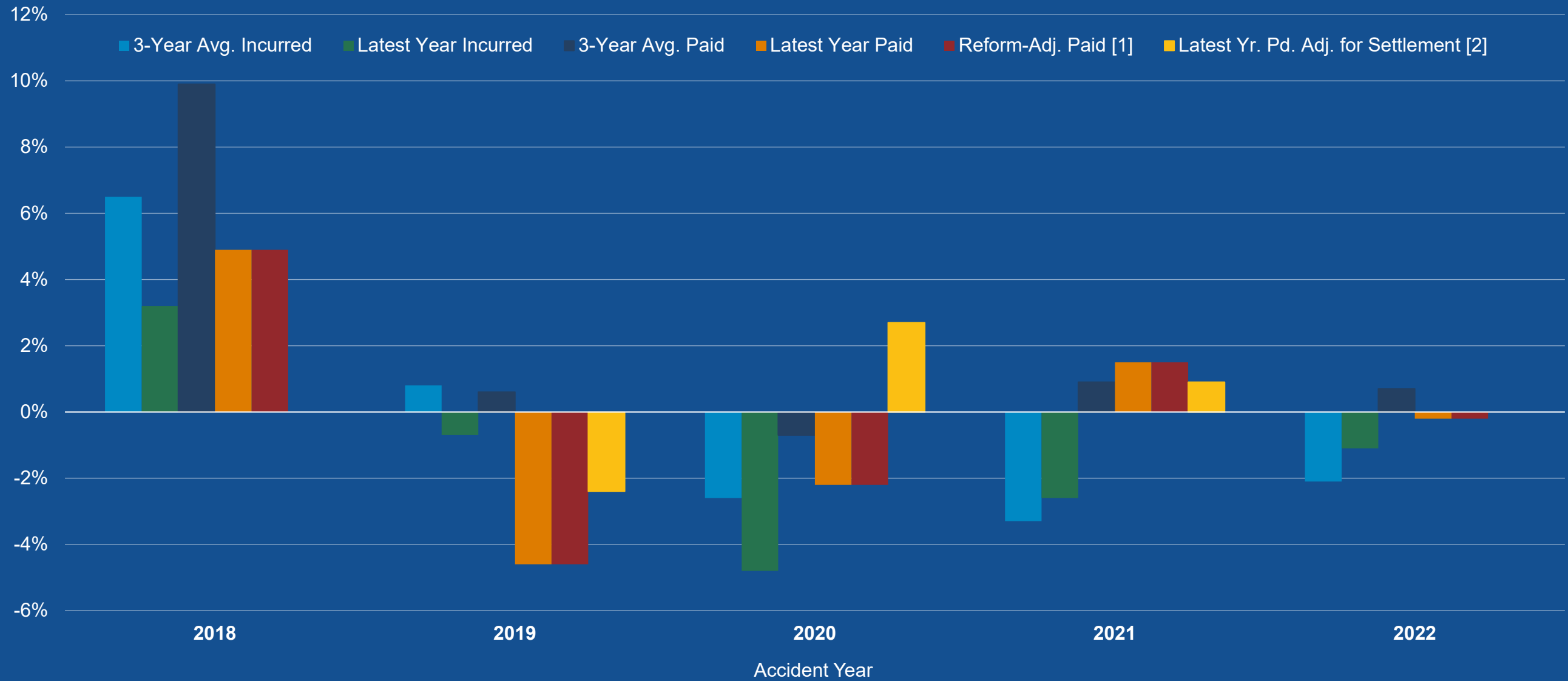
# Ratios of Incremental Paid Losses to Prior Outstanding Losses – Indemnity (Exhibit D4 Updated)



# Ratios of Incremental Paid Losses to Prior Outstanding Losses – Medical (Exhibit D4 Updated)

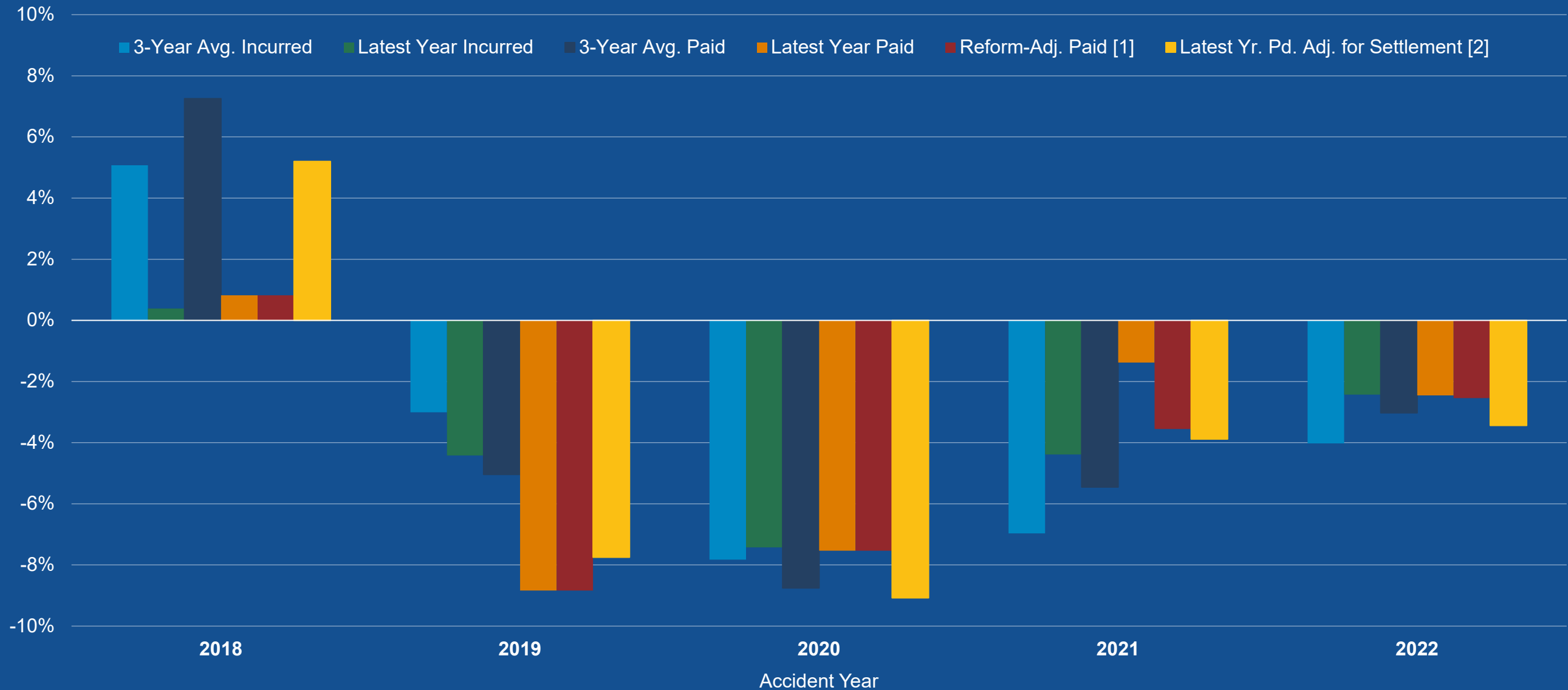


# Comparison of Indemnity Loss Ratios Projected from Age 21 to Actual as of September 30, 2024 (Exhibit D6)



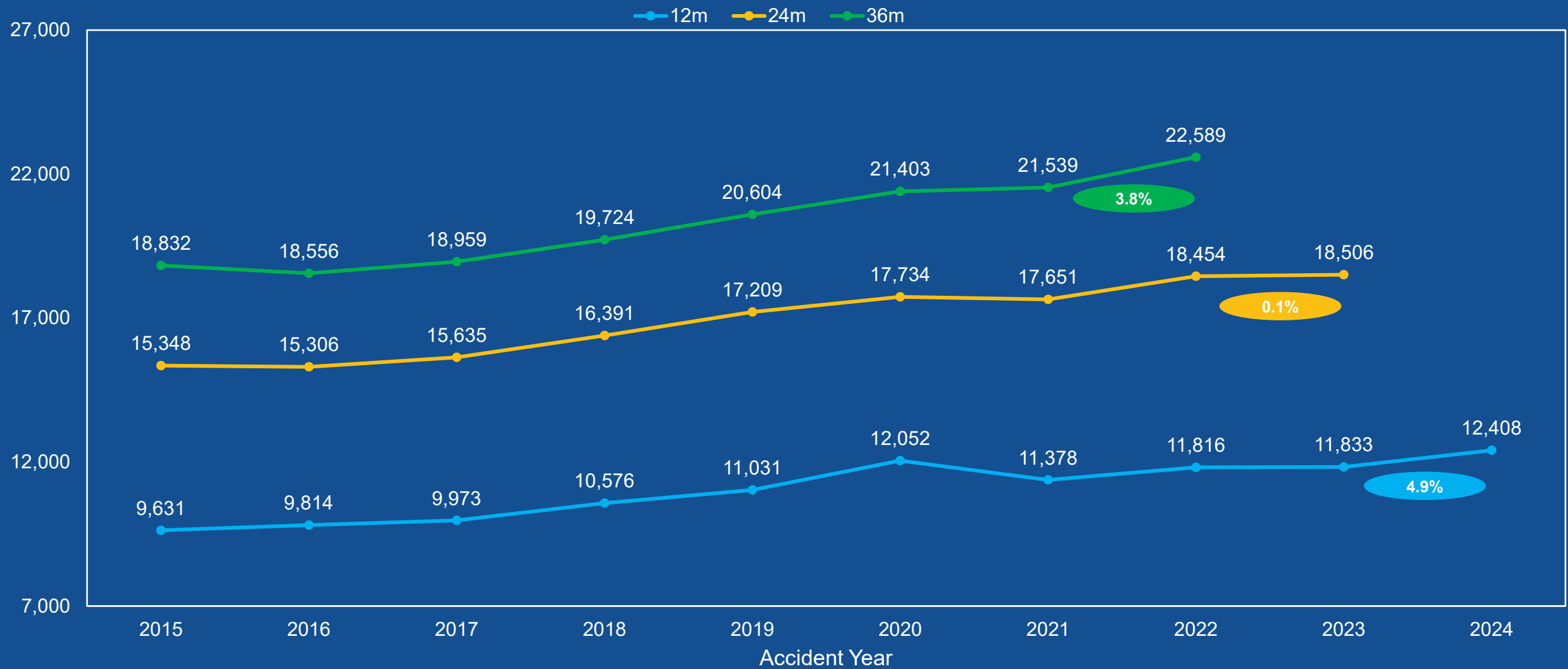
<sup>[1]</sup> The Reform-Adjusted Paid Methodology reflects adjustments for the impact of pharmaceutical cost reductions through 2018 and the 2021 changes to the Official Medical Fee Schedule and Medical-Legal Fee Schedule in order to bring the historical payments to the current pharmaceutical and medical service cost level.  
<sup>[2]</sup> The Latest Year Claim-Settlement Methodology for projecting ultimate loss ratios also contemplates adjustments for reforms.  
 Source: WCIRB quarterly experience calls, excluding COVID-19 claims

# Comparison of Medical Loss Ratios Projected from Age 21 to Actual as of September 30, 2024 (Exhibit D6)

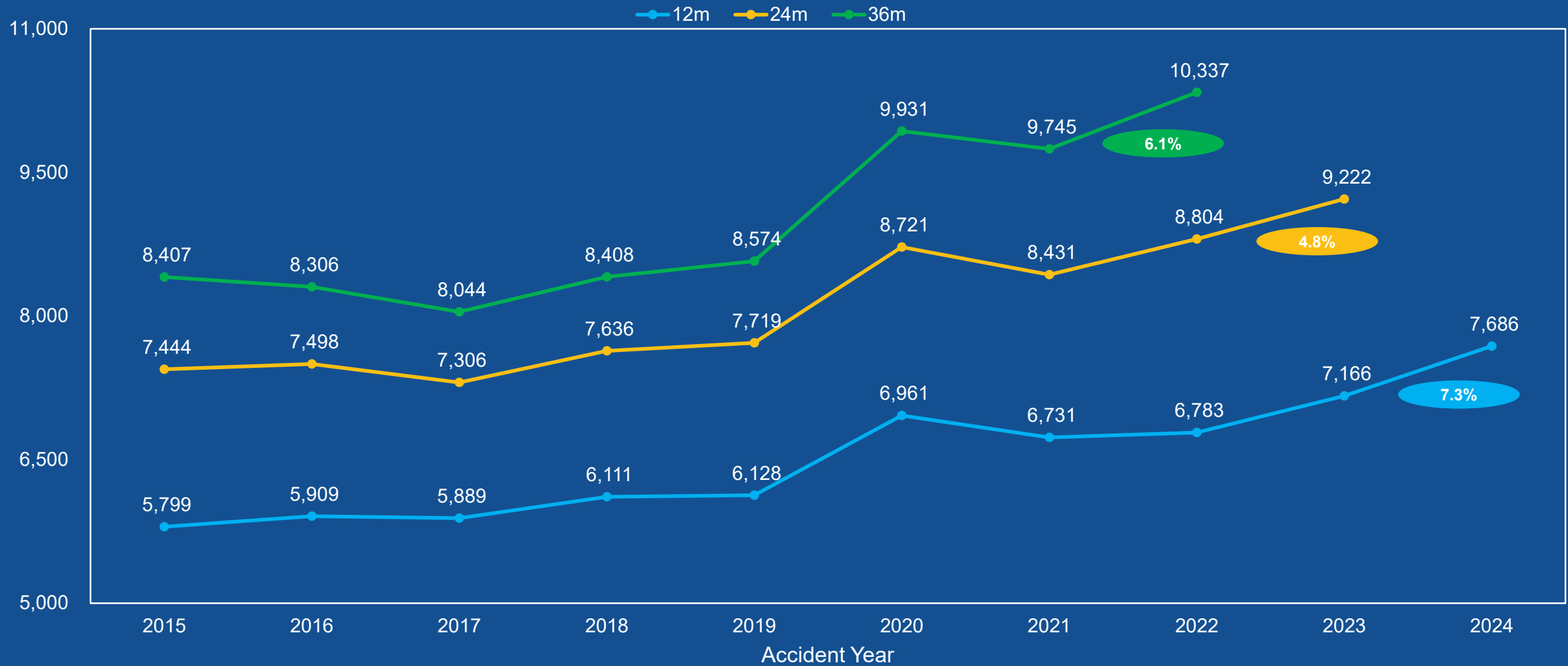


<sup>[1]</sup> The Reform-Adjusted Paid Methodology reflects adjustments for the impact of pharmaceutical cost reductions through 2018 and the 2021 changes to the Official Medical Fee Schedule and Medical-Legal Fee Schedule in order to bring the historical payments to the current pharmaceutical and medical service cost level.  
<sup>[2]</sup> The Latest Year Claim-Settlement Methodology for projecting ultimate loss ratios also contemplates adjustments for reforms.  
 Source: WCIRB quarterly experience calls, excluding COVID-19 claims

# Average Incurred Indemnity Loss per Indemnity Claim (Exhibit S2.1 Updated)



# Average Incurred Medical Loss per Claim (Exhibit S2.2 Updated)

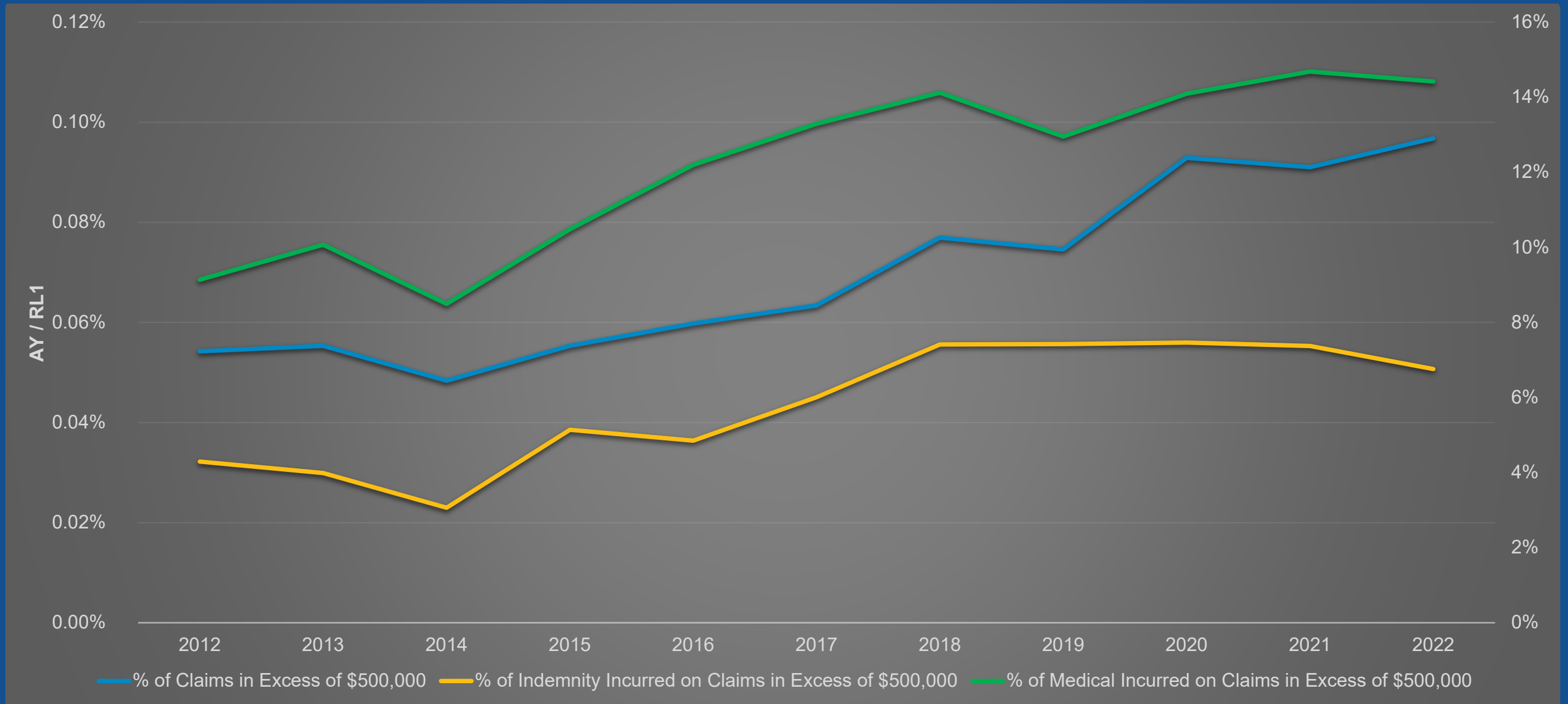


# Incremental Paid Medical per Open Indemnity Claim During the Development Period (Exhibit S7 Updated)

Average Paid Medical per Open Indemnity Claim during the Development Period



# Share of Claims and Incurred Loss on Claims in Excess of \$500,000 (Exhibit S16.2)

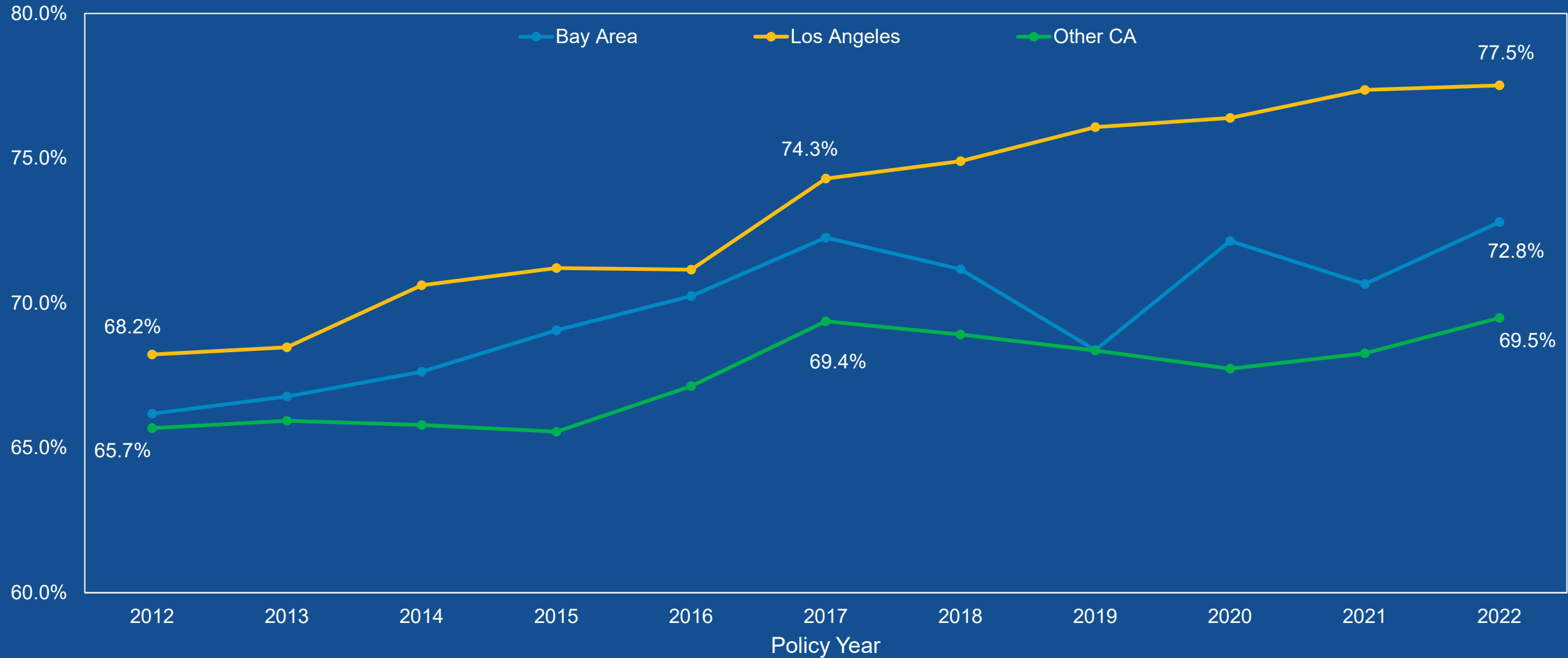




# Average Paid ALAE per Reported Indemnity Claim (Exhibit E5 Updated)



# Share of Open Permanent Disability Claims with Significant ALAE Paid (Exhibit E7)



# 04

## 12/31/2024 Experience Review



# Summary of 12/31/2024 Experience

- Approximately 95% of market included
- Loss development projection based on latest year reform-adjusted paid and hybrid incurred methods
- Premiums and losses on-leveled to September 1, 2025 policy period
- Frequency and severity trends based on 9/1/2024 filing selections
- Trend applied from AY 2023 and 2024
- Key insights:
  - Indemnity emerging generally consistent with projections
  - Early period paid and incurred medical development continuing to increase
  - AY 2024 claim frequency up modestly
  - AY 2024 medical severity and loss ratio shows significant increase
- Projected loss ratio based on 12/31/2024 experience and Agenda methodology is 0.831
  - 0.746 was reflected in 9/1/2024 filing

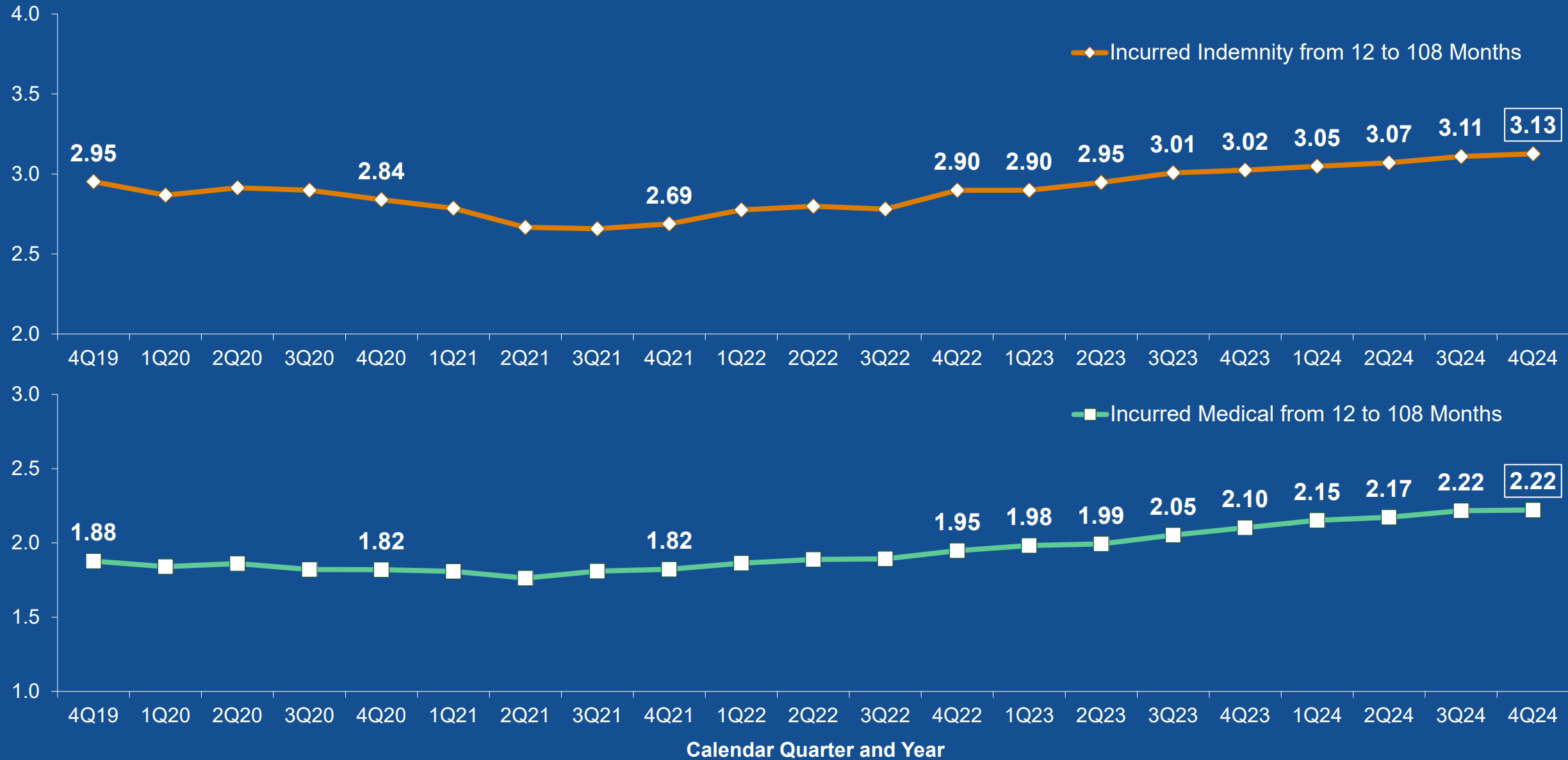
# Approximate Percentage Point Change in Loss Ratio Projection

As of December 31, 2024

Factor	Change from 9/1/2024 Filing
Loss Development Emergence	3.0
Updated Wage Level Forecasts	-0.5
AY 2024 Frequency Trend	1.5
Inclusion of AY 2024 Actual Loss Ratio	4.0
Trend to 9/1/2025 Filing Period	-2.0
<b>Total to 3/20/2025 Agenda (Prior to Updating to 9/1/2024 Approved Rates)</b>	<b>6.0</b>
Update to 9/1/2024 Approved Rates	2.5
<b>Total Change</b>	<b>8.5</b>

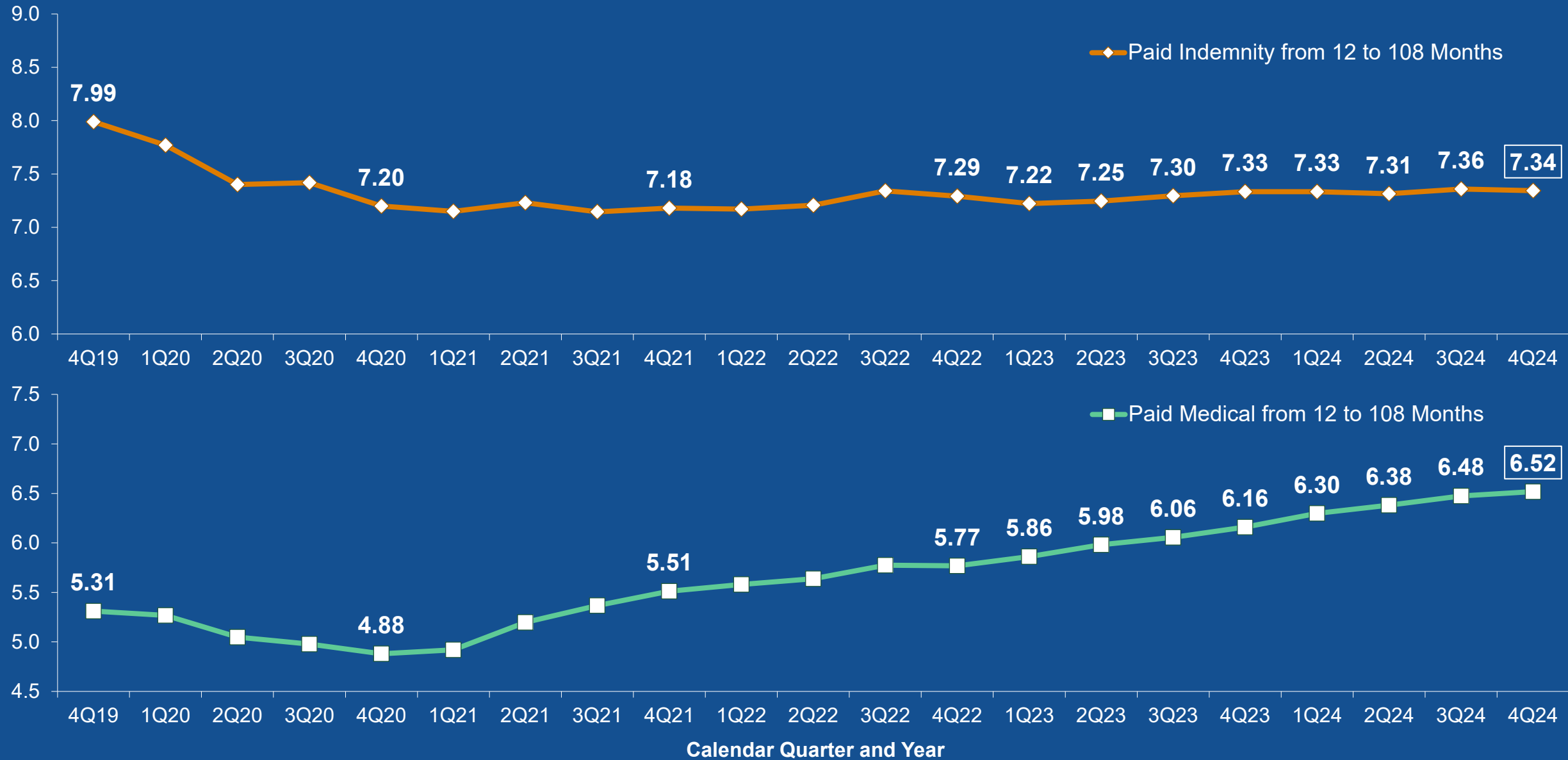
# Cumulative Incurred Development from 12 to 108 Months

As of December 31, 2024



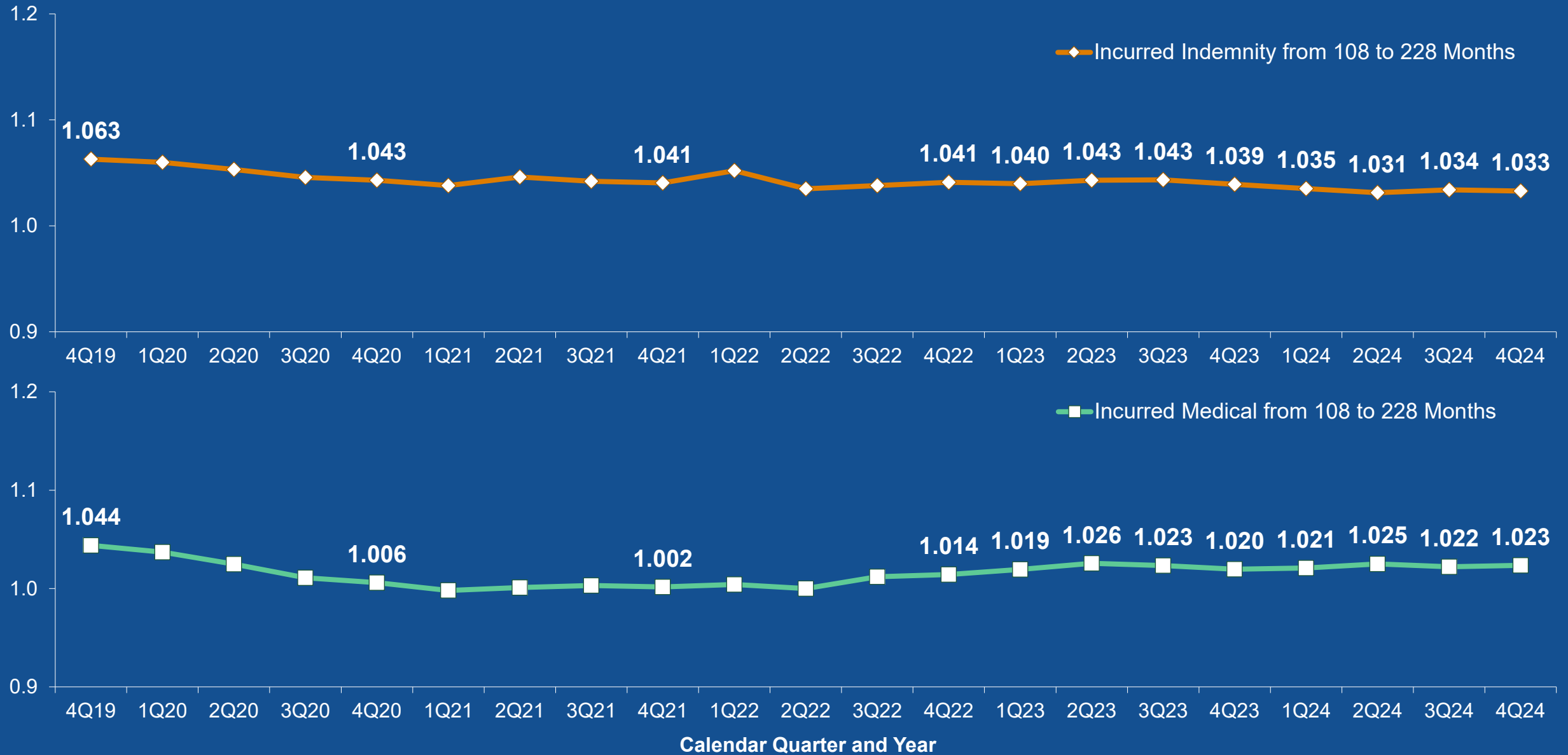
# Cumulative Paid Development from 12 to 108 Months

As of December 31, 2024



# Cumulative Incurred Development from 108 to 228 Months

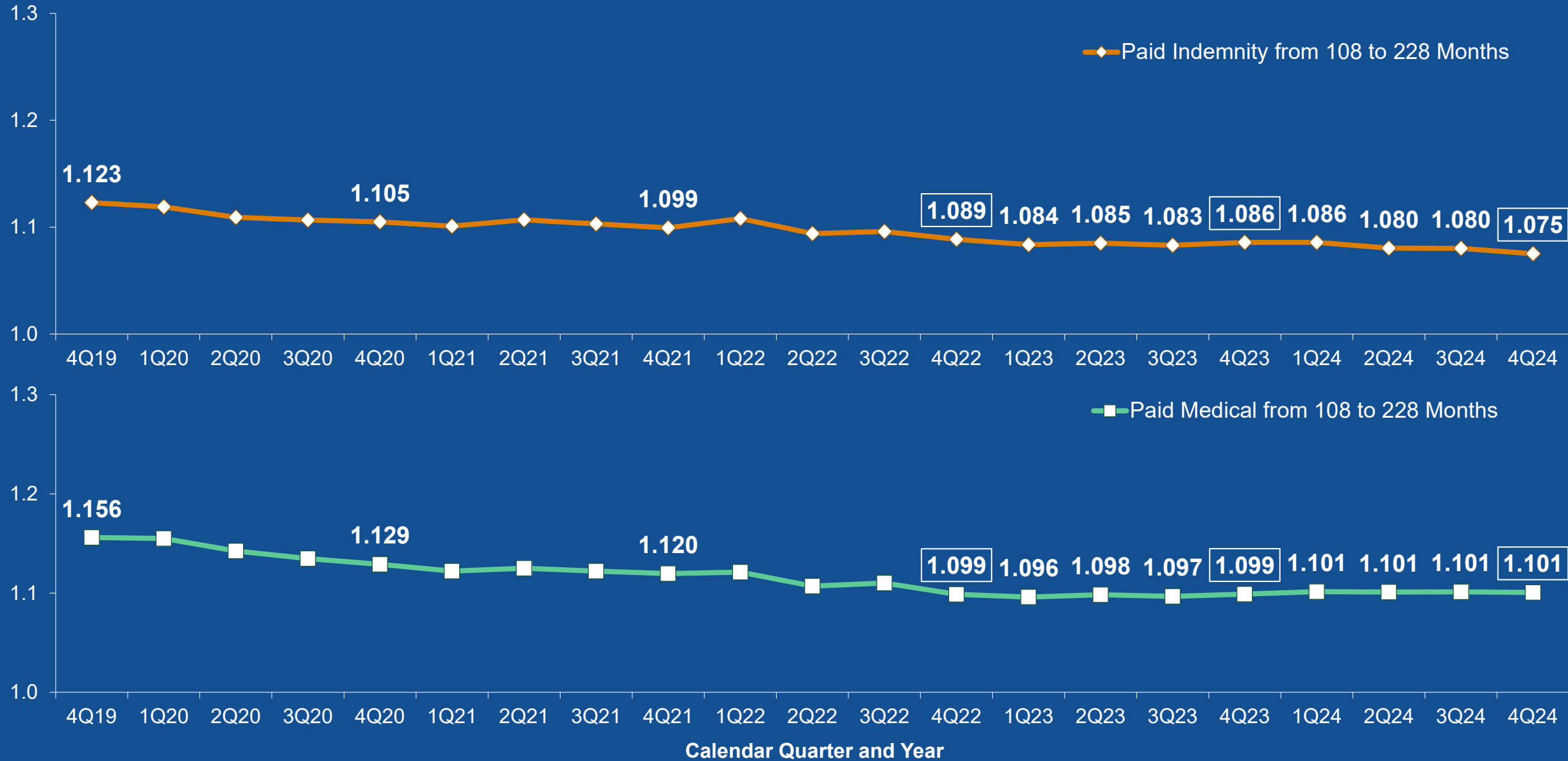
As of December 31, 2024





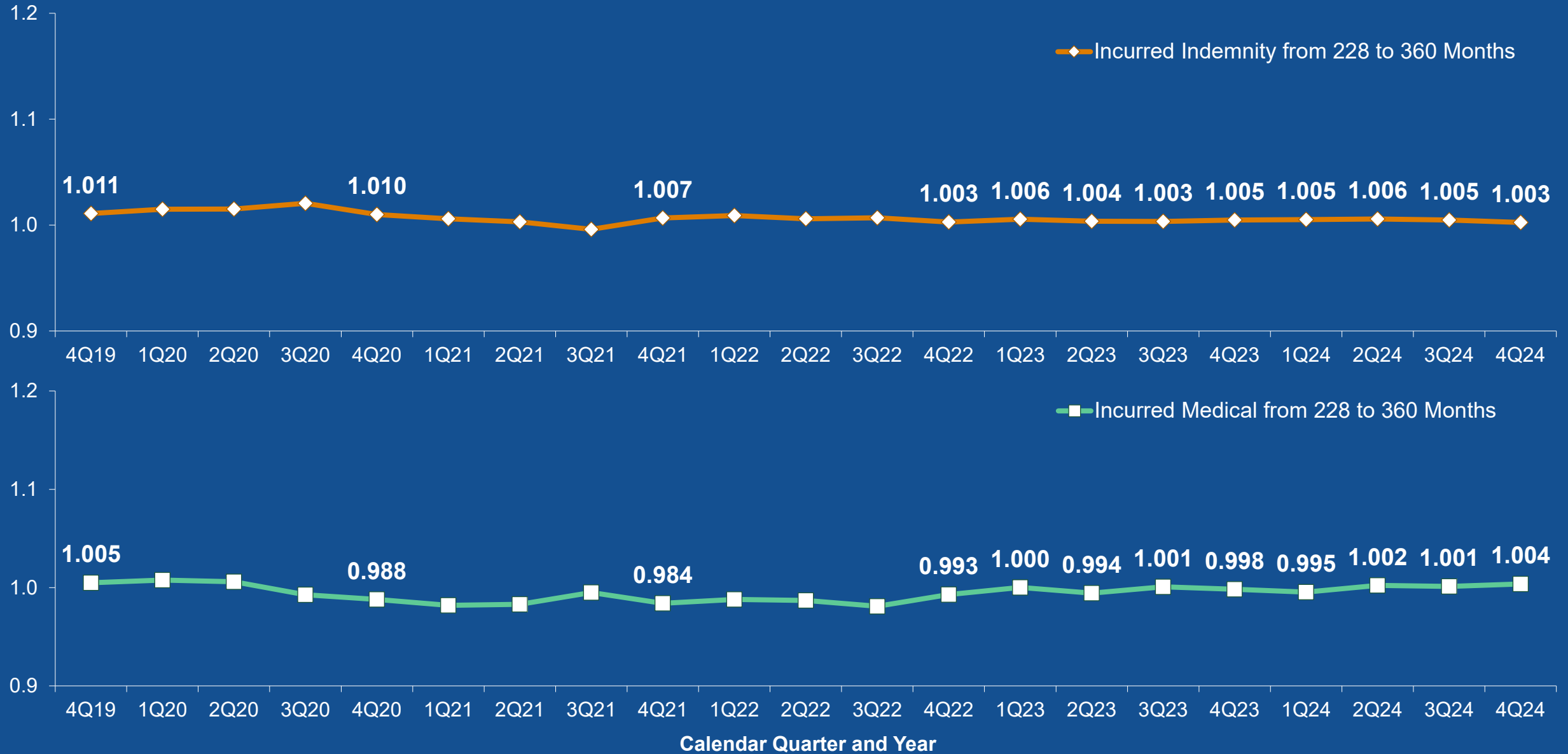
# Cumulative Paid Development from 108 to 228 Months

As of December 31, 2024



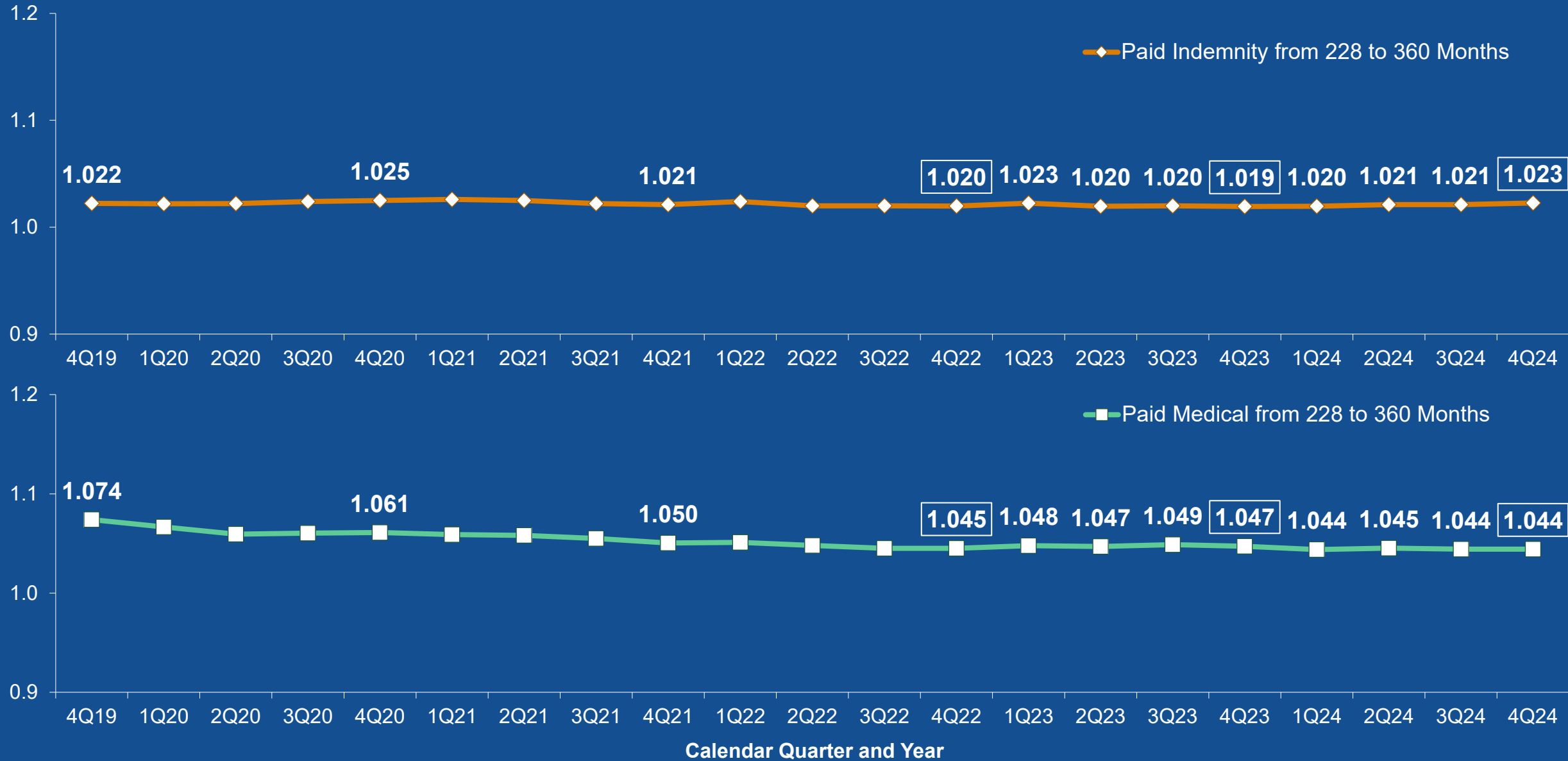
# Cumulative Incurred Development from 228 to 360 Months

As of December 31, 2024



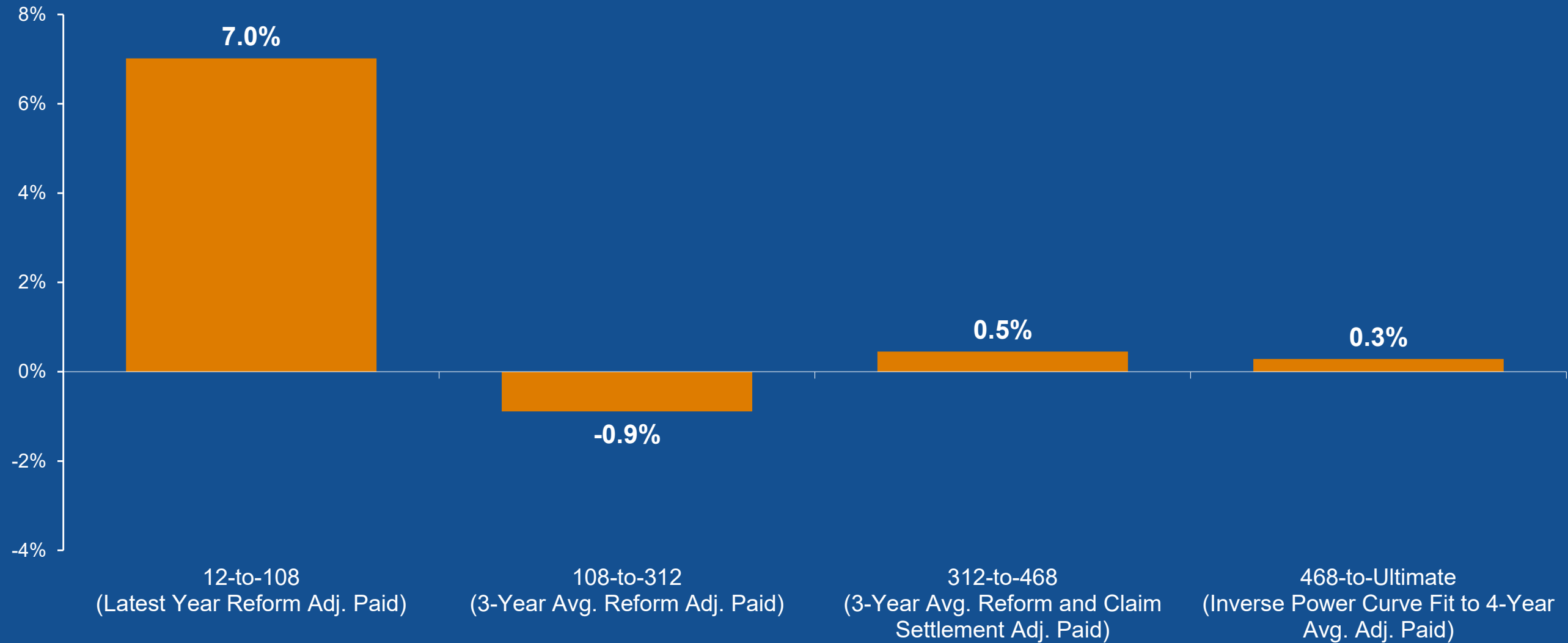
# Cumulative Paid Development from 228 to 360 Months

As of December 31, 2024



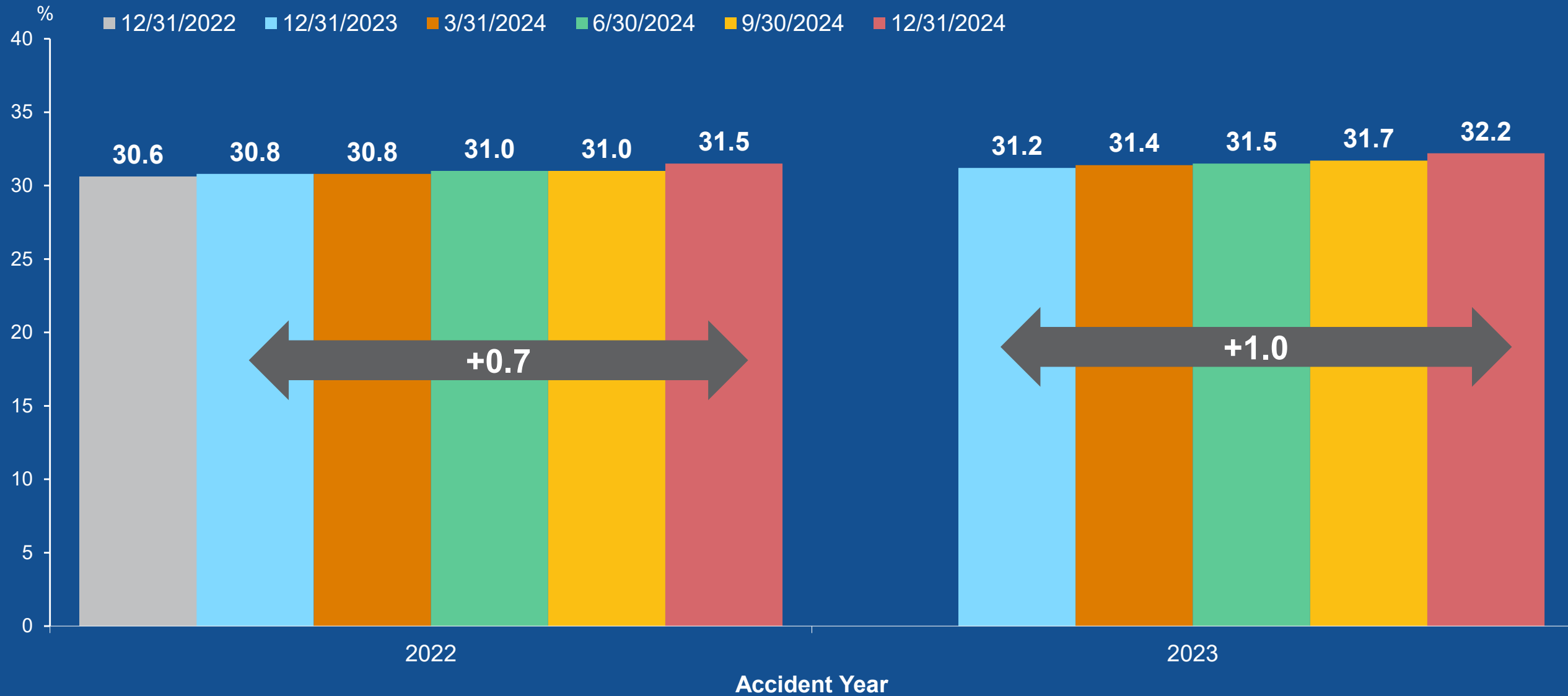
# Change in Projected Paid Medical Development Factor for AY 2023 12/31/2023 to 12/31/2024 Experience

As of December 31, 2024



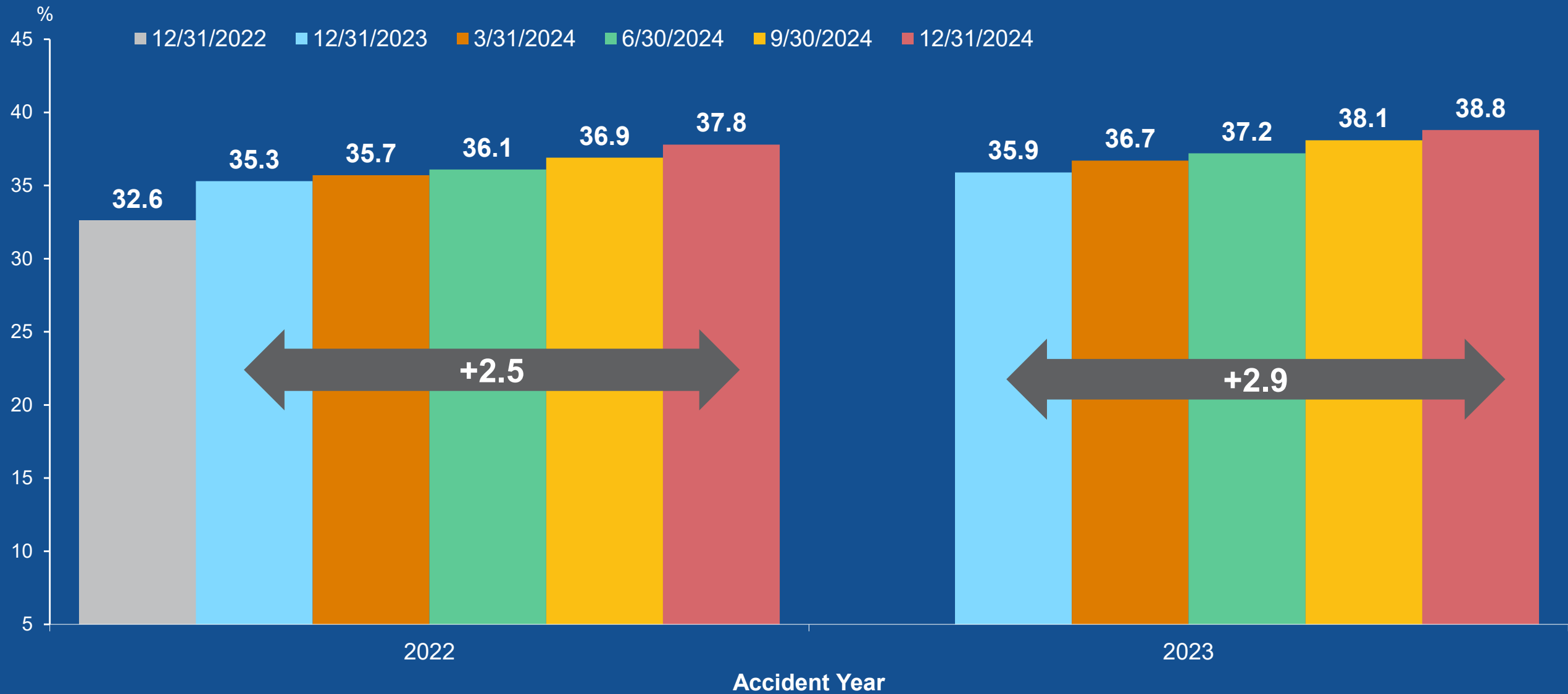
# Developed Indemnity Loss Ratios (Exhibit 3.2)

As of December 31, 2024



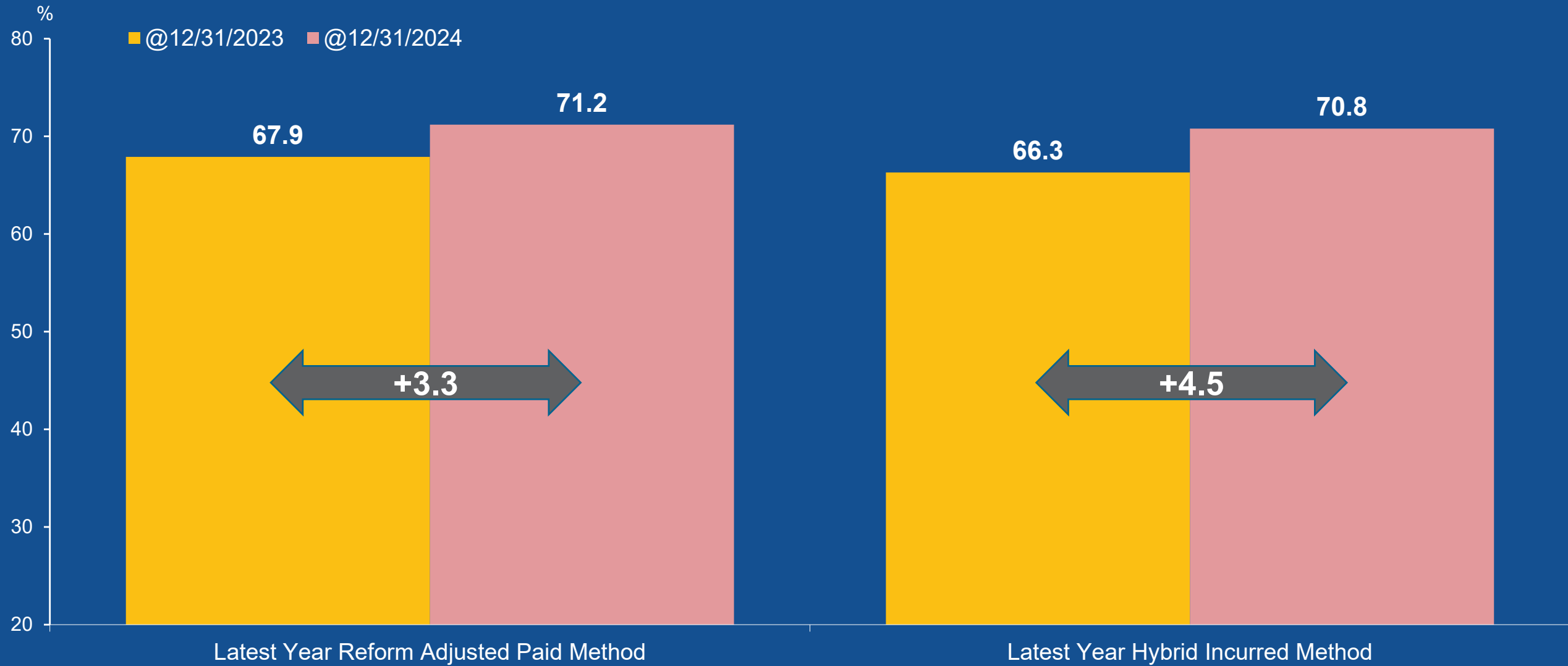
# Developed Medical Loss Ratios (Exhibit 3.4)

As of December 31, 2024



# AY 2023 Developed Total Loss Ratio Comparison

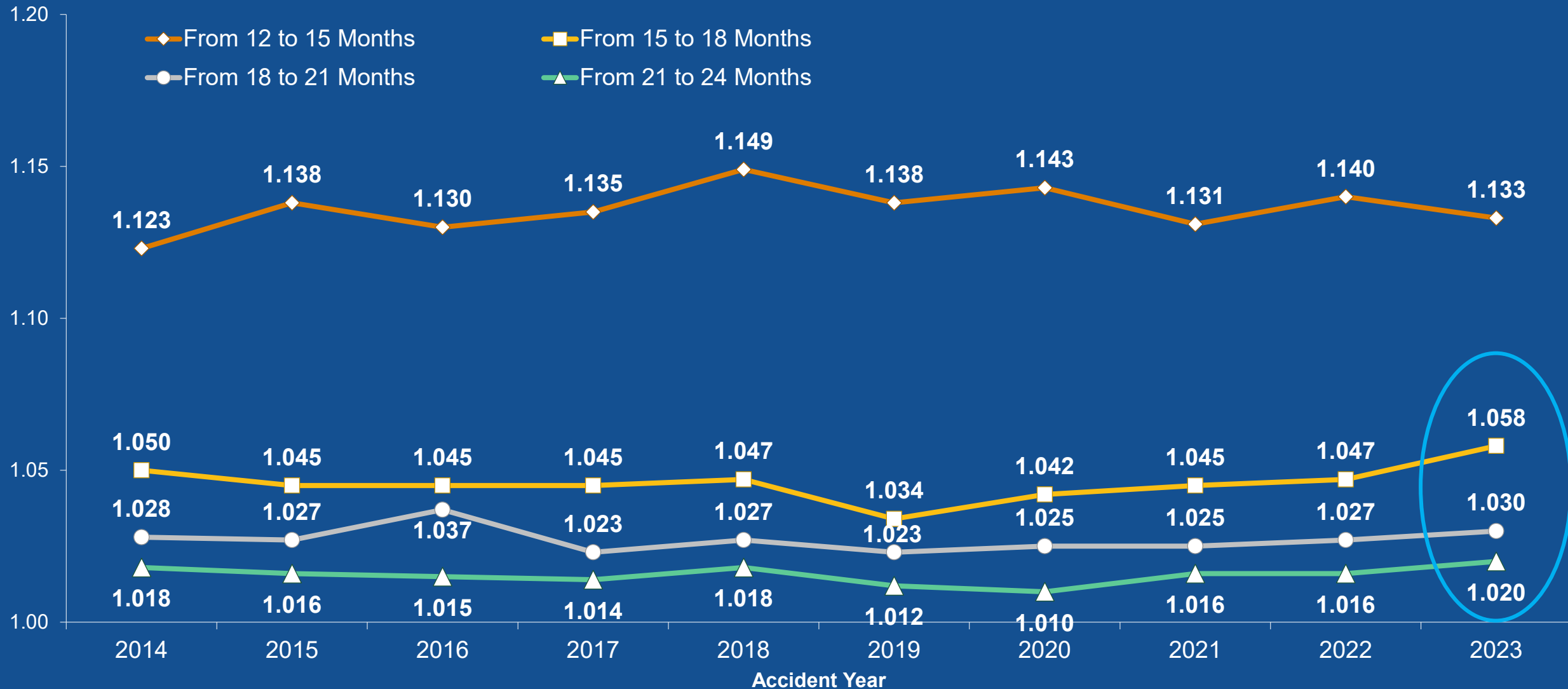
As of December 31, 2024



\*After 120 months, both methods are equivalent.

# Indemnity Claim Count Development (Exhibits 10.1 and 10.2)

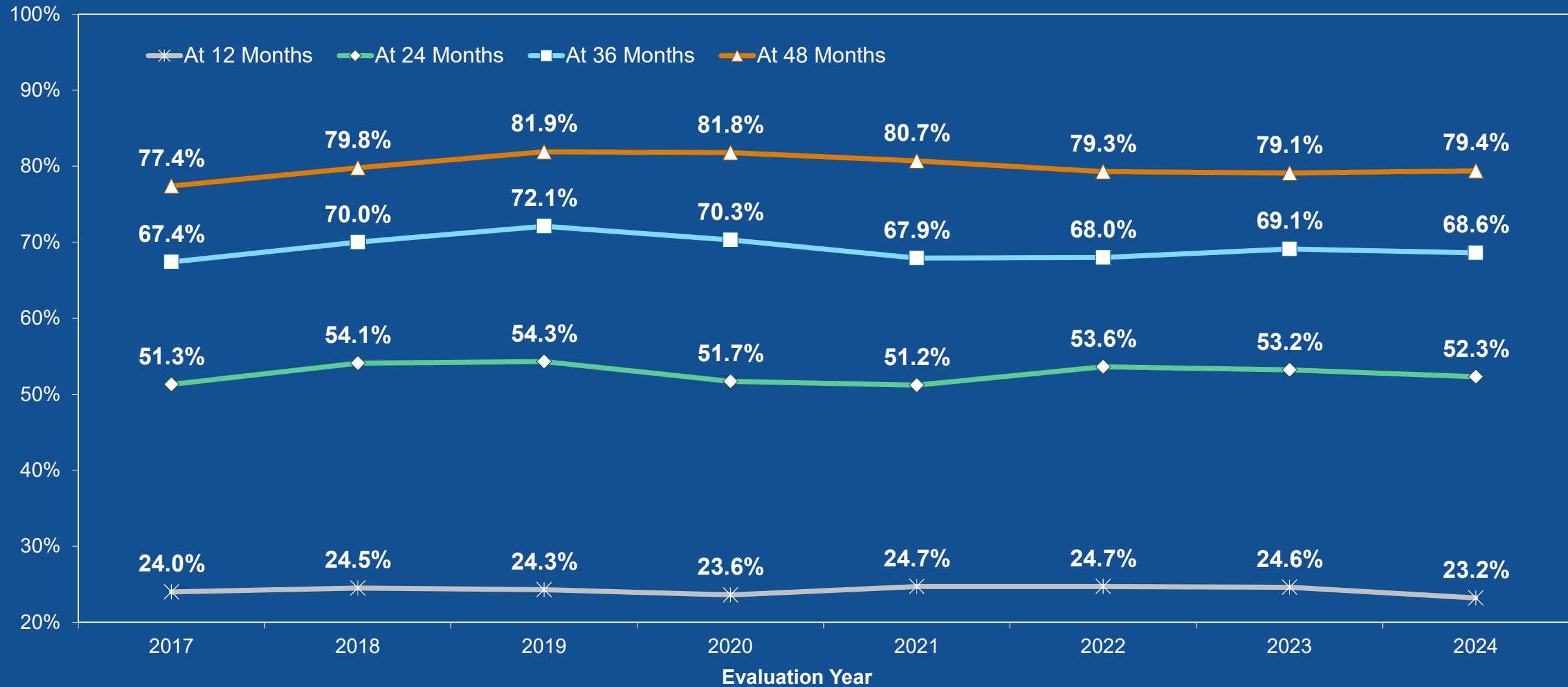
As of December 31, 2024





# Estimated Ultimate Indemnity Claim Settlement Ratios (Exhibit 11.2)

As of December 31, 2024

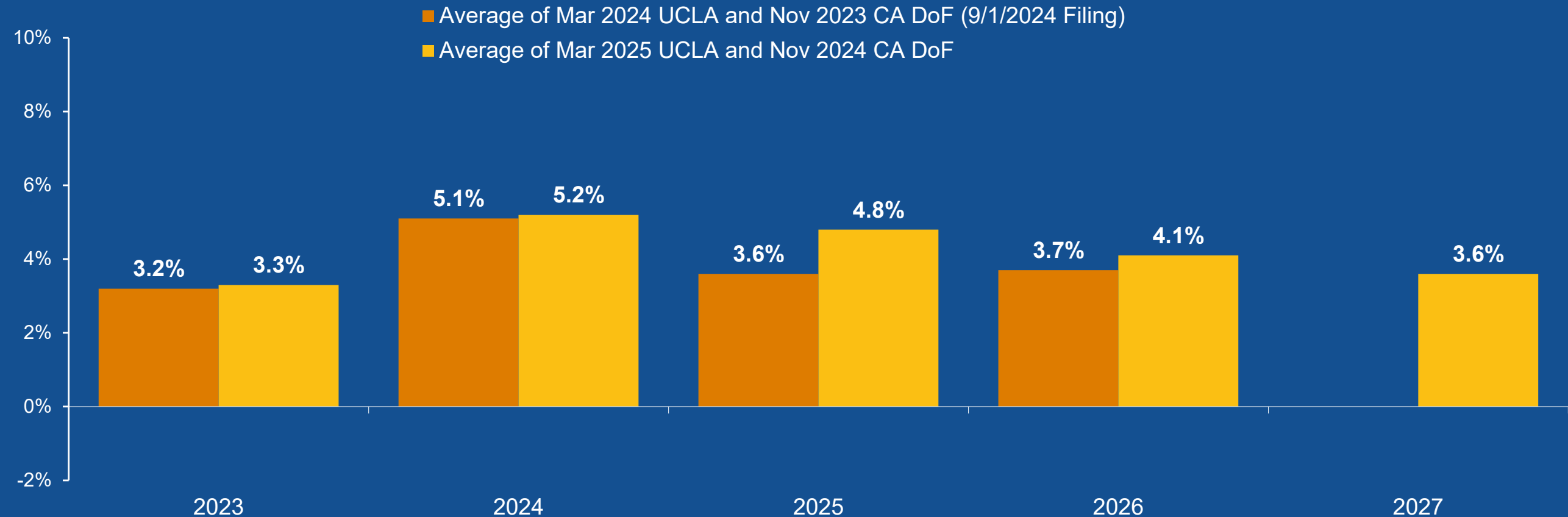


# Review of Recent Medical Fee Schedule Changes

Fee Schedule	Effective Date	Update Type	Impact to Fee Schedule	Share of Total Medical Services	Impact on Total Medical Services
Inpatient	12/1/2024	Regular inflation update	2.6% to 3.4%	7.3%	0.2%
DMEPOS	1/1/2025	Regular inflation update	2.48%	11.9%	0.3%
Path/Lab	1/1/2025	Regular inflation update	0.187%	0.1%	< 0.1%
Ambulance	1/1/2025	Regular inflation update	2.4%	0.6%	< 0.1%
Physician	2/15/2025	Regular inflation update	2.4%	49.1%	1.2%
Outpatient/ASC	3/1/2025	Regular inflation update	3.4%	10.5%	0.4%
Others*	N/A	None	N/A	20.5%	N/A
<b>Total</b>				<b>100%</b>	<b>2.1%</b>

# Average Wage Level Change Forecast (Exhibit 5.1)

As of March 2025



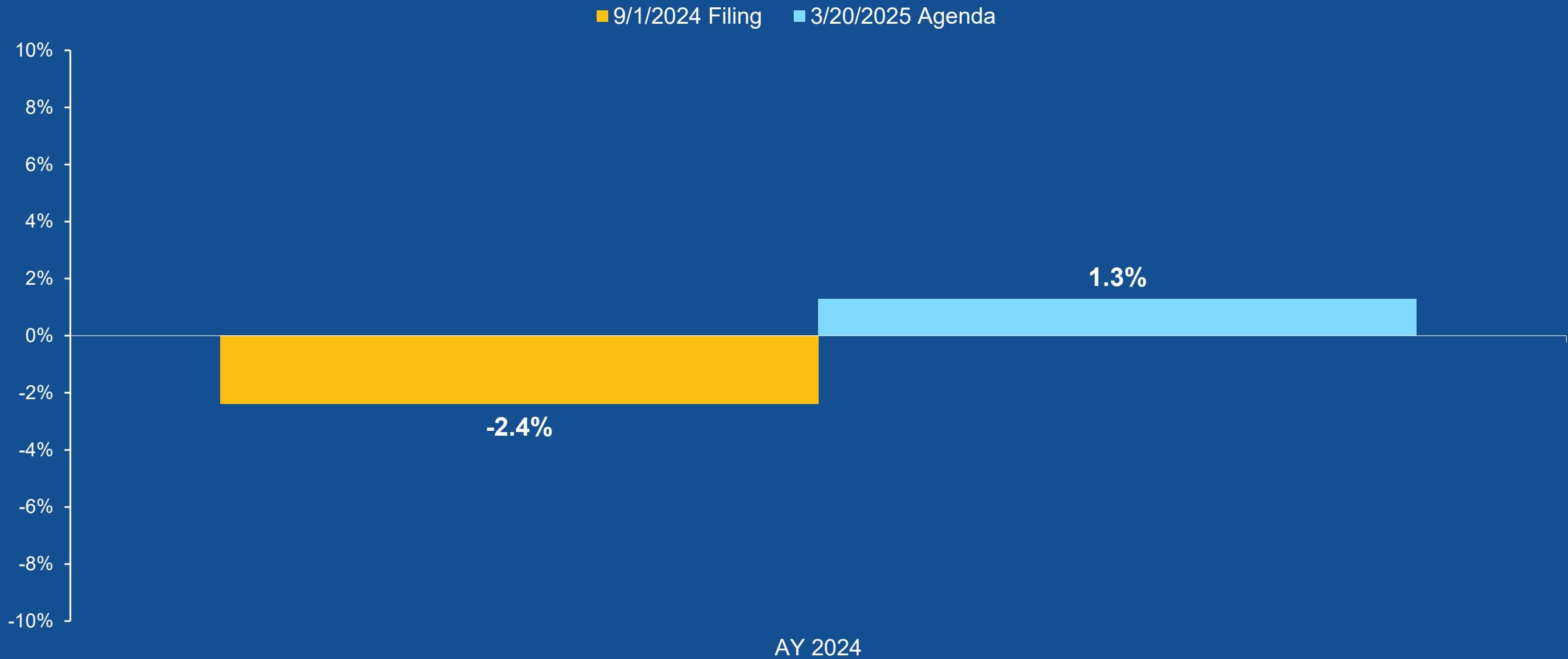
## Average Annualized Wage Change Projection from 2023:

9/1/2024 Filing: 4.3%

Updated Forecast: 4.6%

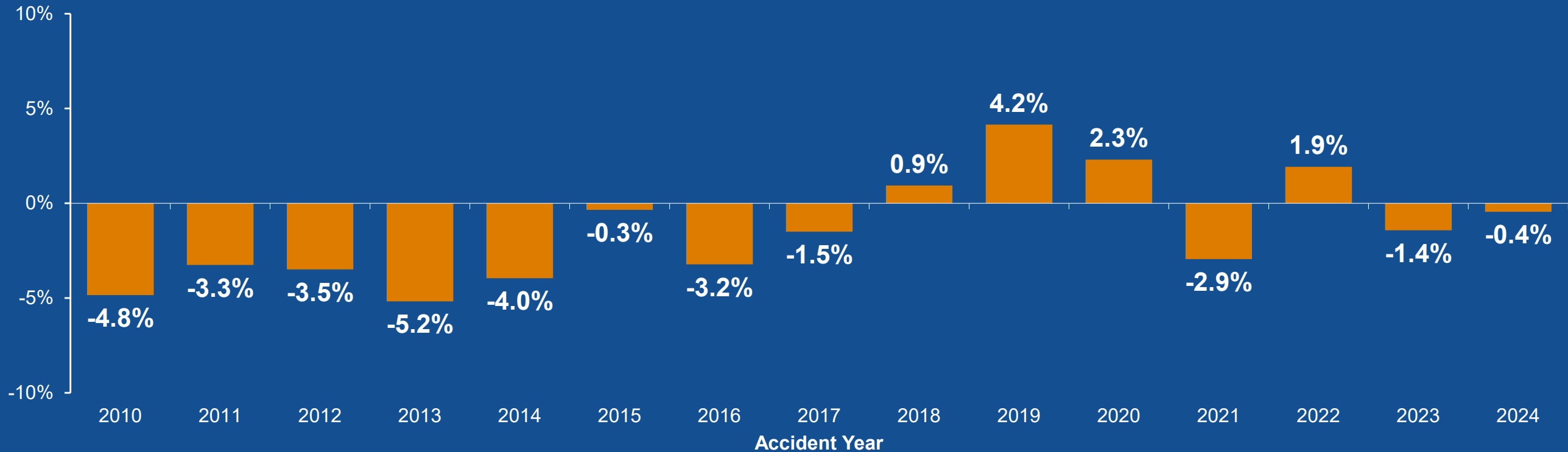
# Estimated Intra-Class Indemnity Claim Frequency Change (Exhibit 12)

As of December 31, 2024



# Projected Changes in On-Level Indemnity Severity (Exhibit 6.2)

As of December 31, 2024



## Annual Exponential Trend Based on:

1990 to 2024: 0.7%

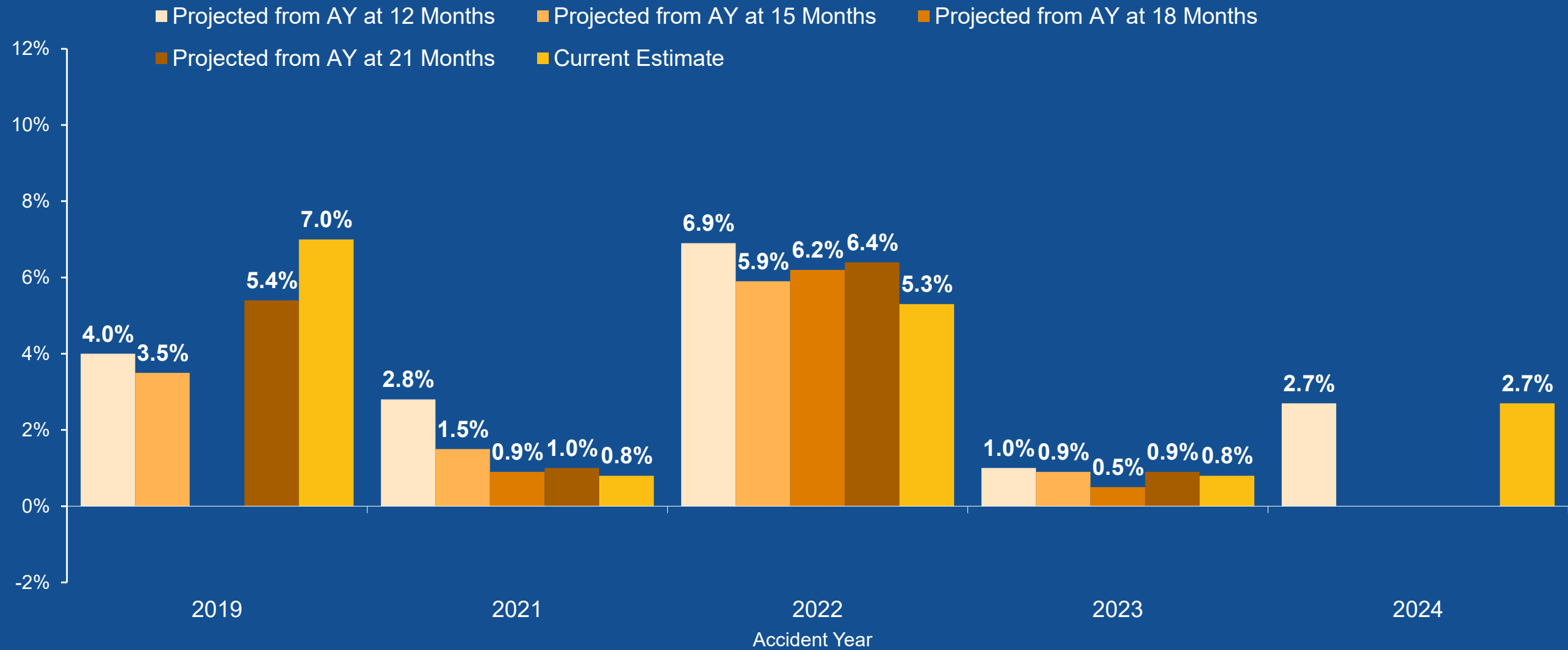
2017 to 2024: 0.6%

2021 to 2024: -0.1%

3/20/2025 Agenda Selected: 1.0%

# Indemnity Severity Changes Projected from Early Evaluations Compared to Current

As of December 31, 2024



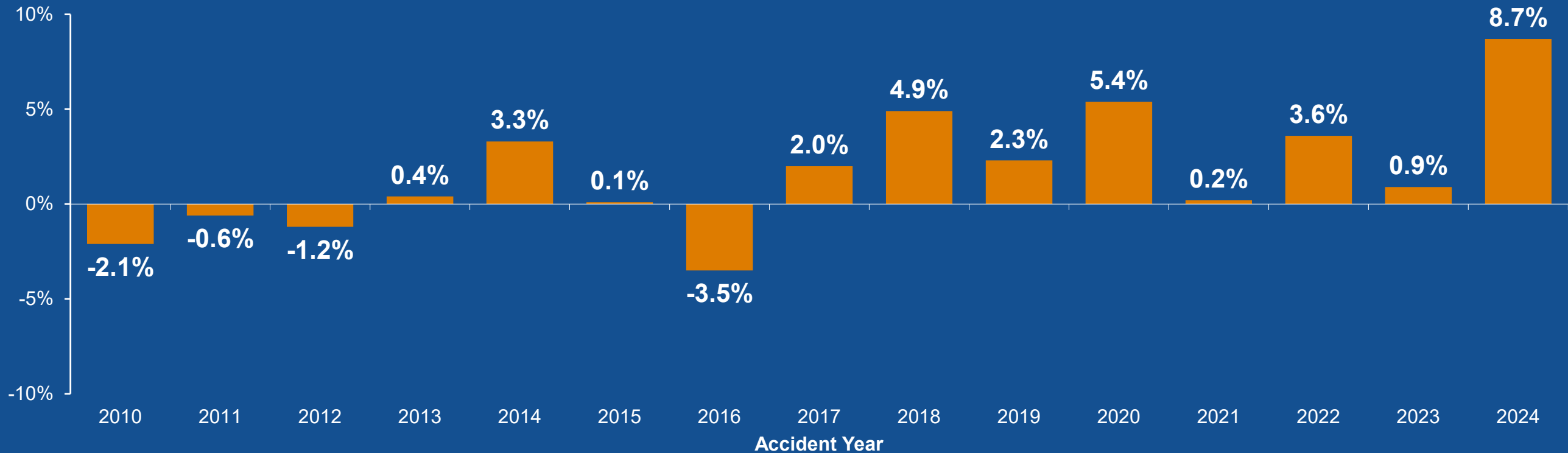
# Ultimate Indemnity per Indemnity Claim

As of December 31, 2024



# Projected Changes in On-Level Medical Severity (Exhibit 6.4)

As of December 31, 2024



## Annual Exponential Trend Based on:

1990 to 2024 (including MCCP): 4.5%

2017 to 2024: 3.2%

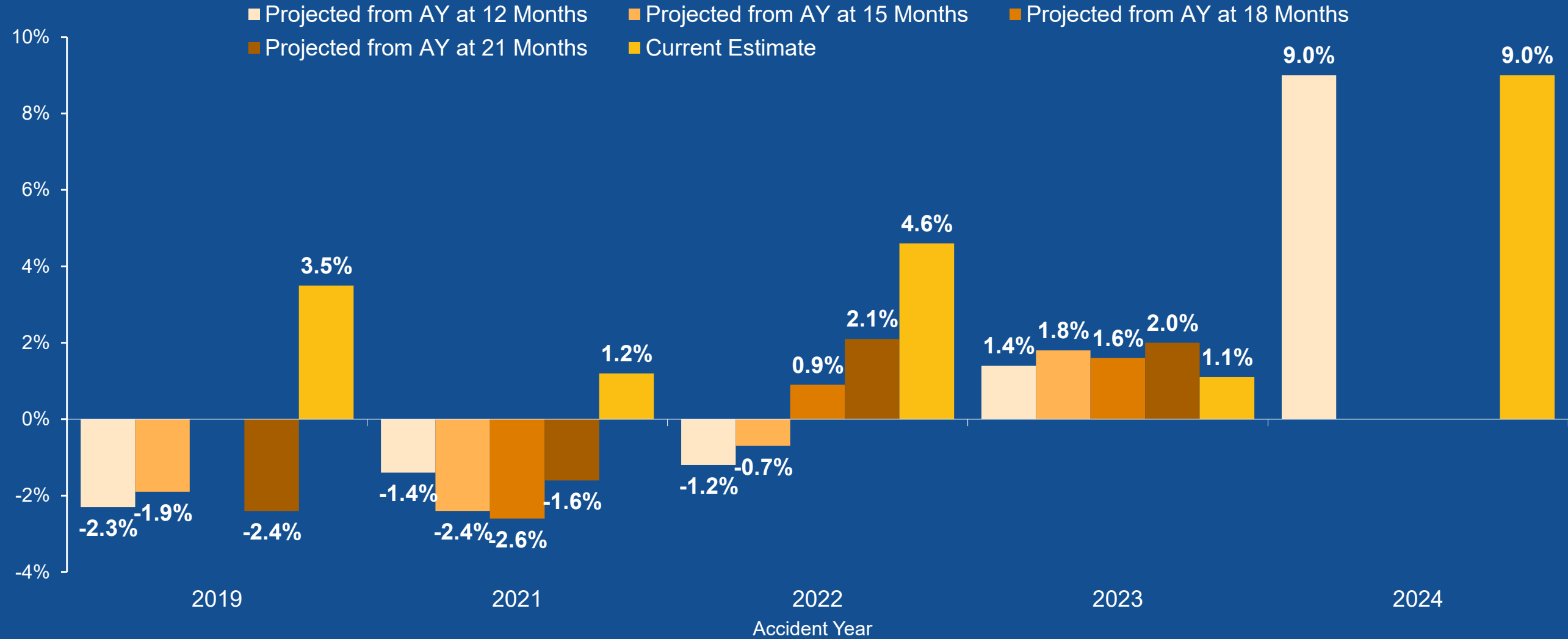
2021 to 2024: 4.0%

3/20/2025 Agenda Selected: 2.0%



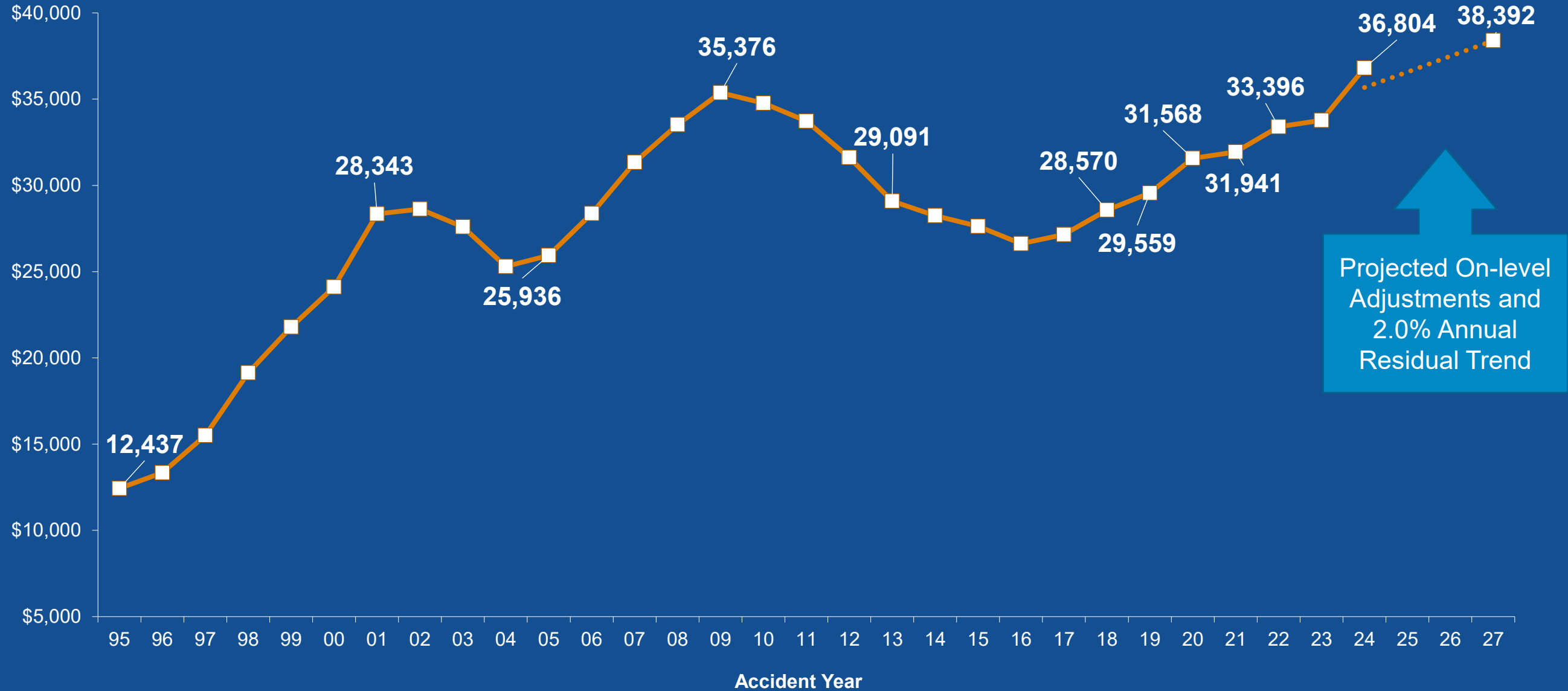
# Medical Severity Changes Projected from Early Evaluations Compared to Current

As of December 31, 2024



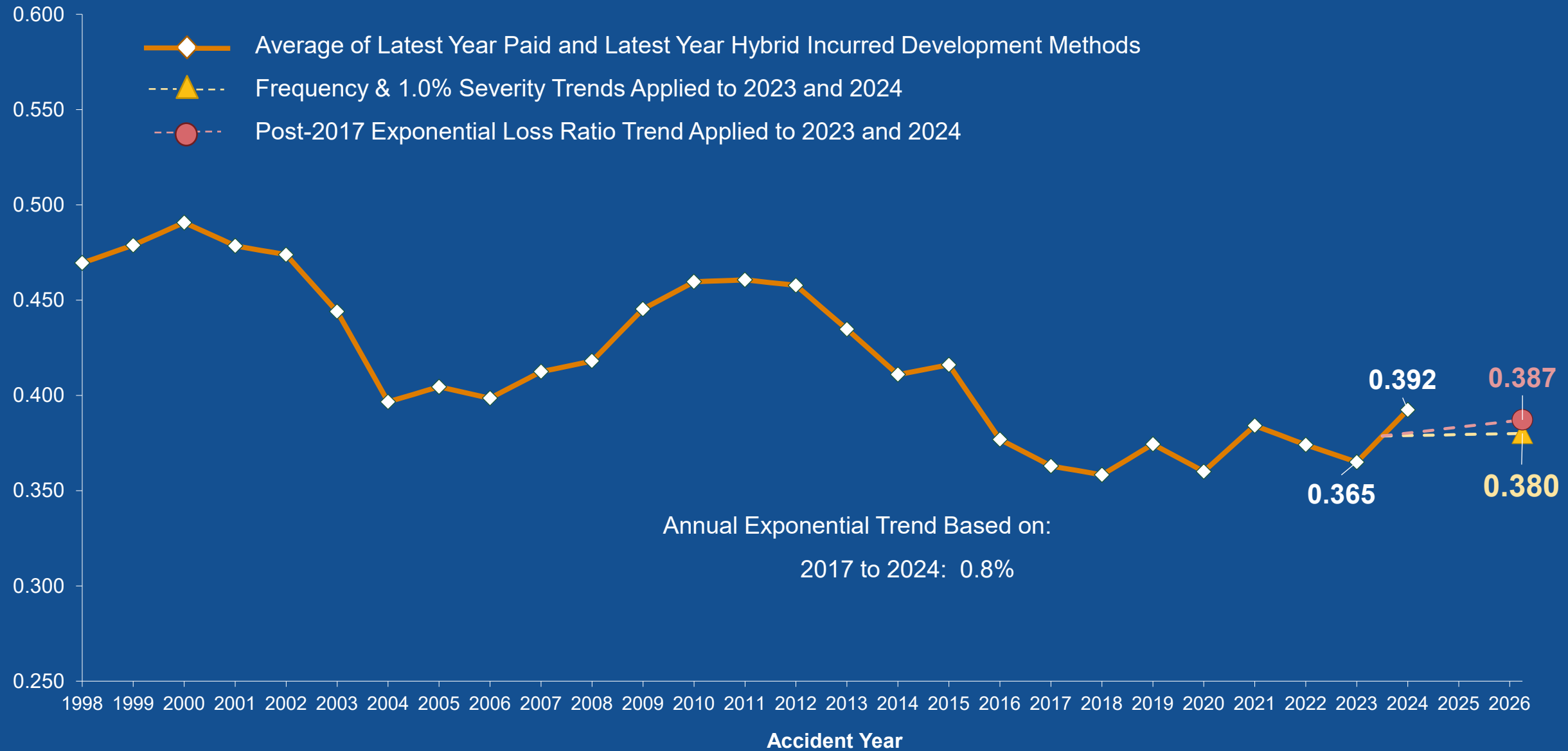
# Ultimate Medical per Indemnity Claim

As of December 31, 2024



# Projected On-Level Indemnity Loss Ratios (Exhibit 7.1)

As of December 31, 2024



# Projected On-Level Medical Loss Ratios (Exhibit 7.3)

As of December 31, 2024



# 05

**Review 7/1/2025  
Updates to  
Pharmaceutical Fee  
Schedule**



# 7/1/2025 Pharmaceutical Fee Schedule

- The Division of Workers' Compensation (DWC) adopted a revised pharmaceutical fee schedule for drugs dispensed on or after July 1, 2025.
- The updated Pharmaceutical Fee Schedule intends to align the workers' compensation pharmacy fee structure with the new Medi-Cal pharmaceutical payment structure and reflect Labor Code amendments.
- Key changes include:
  - Increase dispensing fee for physicians
  - Adopt Medi-Cal two-tier dispensing fee for pharmacies
  - Update calculation of drug ingredient cost
  - Carry out Labor Code provisions relating to compounded drugs and clarify applicability of Medi-Cal methodology for compounding fees

# Key Changes in the 7/1/2025 Pharmaceutical Fee Schedule

	Current (Prior to July 1, 2025)	New (Effective July 1, 2025)
Physician-dispensing fee	\$7.25	\$10.05
Pharmacy-dispensing fee	\$7.25	\$10.05 (Tier 1) for higher-volume pharmacies*
		\$13.20 (Tier 2) for lower-volume pharmacies*
Drug Ingredient Cost	Lowest cost = lower of: <ul style="list-style-type: none"> <li>• <b>Average Wholesale Price (AWP) minus 17%</b></li> <li>• Federal Upper Limit (FUL)</li> <li>• Maximum Allowable Ingredients Cost (MAIC)</li> </ul>	Lowest cost = lower of: <ul style="list-style-type: none"> <li>• <b>National Average Drug Acquisition Cost (NADAC) / Wholesale Acquisition Cost (WAC) plus 0%</b></li> <li>• FUL</li> <li>• MAIC</li> </ul>
		No substitution cost (brand-name drugs only) = NADAC / WAC

# Data Source and Definitions

## Data Source

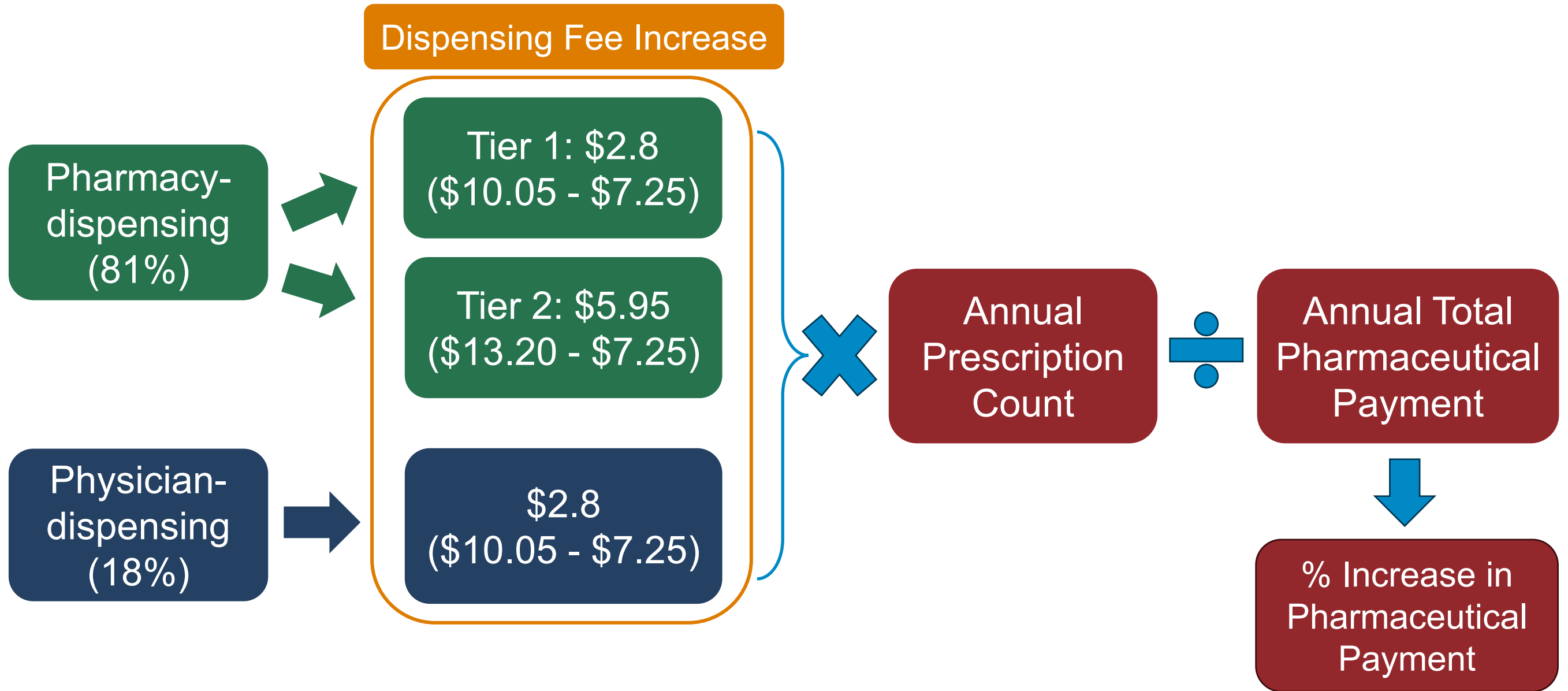
- Based on WCIRB medical transaction data for service years 2021 to 2024 as of February 7, 2025
- Pharmaceutical Fee Data File and NPI file from DWC
  - Data file for the current fee schedule\*
  - Sample data files for the new pharmacy fee schedule\*\*

## Definitions

- Pharmacy-dispensing: Place of Service code 01
- Physician-dispensing: Place of Service code 03, 04, 05, 06, 07, 08, 09, 11, 15, 20, 24, 26, 34, 49, 50, 53, 60, 71, 72
  - Includes Physician's Office, Urgent Care Center and Ambulatory Surgical Center



# Estimate Cost Impact of Increased Dispensing Fee



# Estimated Cost Impact of Increased Dispensing Fee

- Percent Increase in Pharmaceutical Cost = Dispensing Fee Increase x Prescription Count / Total Pharmaceutical Paid

Service Year	% Increase in Pharmaceutical Cost			% Pharmaceutical Paid among Medical Transaction Data	% Increase in Medical Service Cost		
	Lower Bound*	Upper Bound**	60% Tier 1 40% Tier 2		Lower Bound*	Upper Bound**	60% Tier 1 40% Tier 2
2021-2023	3.8%	6.9%	5.0%	2.4%	0.09%	0.17%	0.12%
2024 (P)	3.7%	6.8%	4.9%	2.0%	0.07%	0.14%	0.10%

# Method for Estimating Cost Impact of Changes to Drug Ingredient Cost

$$\sum^{(3)} \left( \begin{array}{c} \% \text{ change in} \\ \text{"lowest cost" of} \\ \text{each drug (1)} \end{array} \times \begin{array}{c} \text{Payment share} \\ \text{of each drug (2)} \end{array} \right)$$

- (1) Calculate percentage change of “lowest cost” for each drug between current fee schedule and new fee schedule
  - New fee schedule values are from DWC’s published sample data file\*
- (2) Weight each percentage change by the drug’s payment share among all pharmaceuticals
  - Drugs without available information in the fee schedule files are assumed to have no change in drug ingredient cost
    - About 45% of drugs are not available from fee schedule files, partly due to 1) new drugs added after the latest update (Feb. 2019) to the current fee schedule data file and 2) new fee schedule files are only sample files; DWC will post final data files shortly before July 1
- (3) Sum up the weighted percentage change of each drug from step 2

# Estimated Cost Impact of Changes to Drug Ingredient Cost

Service Year	% Change in Pharmaceutical Cost (A)	% Pharmaceutical Paid among Medical Transaction Data (B)	% Change in Medical Service Cost (A x B)
2021-2023	-14.2%	2.4%	-0.34%
2024 (P)	-16.2%	2.0%	-0.33%

# Estimated Cost Impact of 7/1/2025 Pharmaceutical Fee Schedule

- Adding up the cost impacts from increased dispensing fee and changes to drug ingredient cost

	Change in Medical Service Cost		
Service Year	Lower Bound*	Upper Bound**	60% Tier 1 40% Tier 2
2021-2023	-0.25%	-0.18%	-0.22%
2024 (P)	-0.26%	-0.19%	-0.23%

# Preliminary Recommendation and Next Steps

## Preliminary Recommendation:

- Given the small cost impact, staff does not recommend any ratemaking adjustments based on the updates to the Pharmaceutical Fee Schedule

## Next Steps:

- Present the evaluation to Claims Working Group and Medical Analytics Working Group and obtain feedback on the methodology and estimated cost impact
- Summarize working group feedback to the Actuarial Committee at the April meeting

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