

WCIRB Actuarial Committee Meeting

April 10, 2025

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3. AC25-03-01: First Quarter 2025 Review of Diagnostics
4. AC25-03-02: 12/31/2024 Experience Review (Includes Item AC25-04-02)
5. AC25-04-01: 9/1/2025 Filing – Loss Adjustment Expense Experience Review

01

Update on Medical Severity Trends by Component



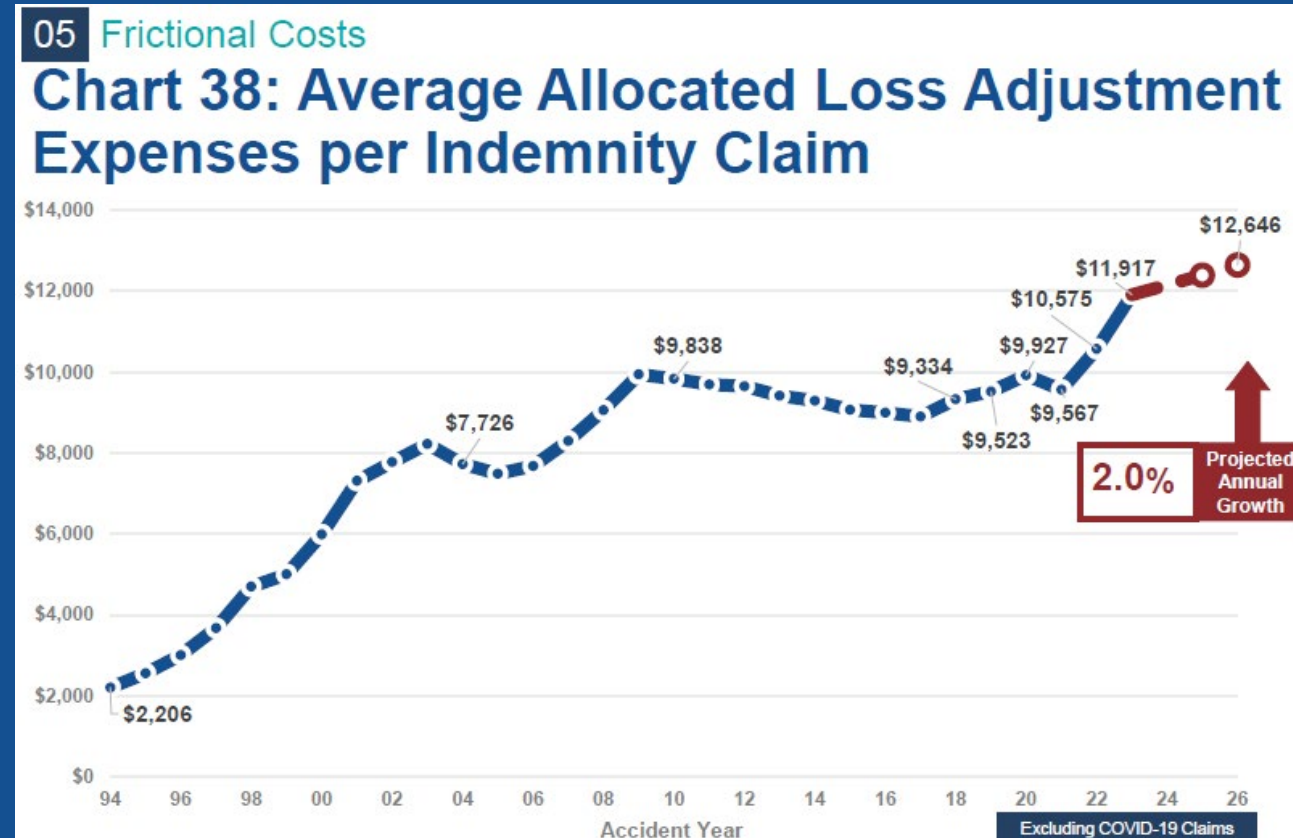
02

Study of Recent Increases in ALAE Costs



Study of Recent Increases in ALAE Costs – Background

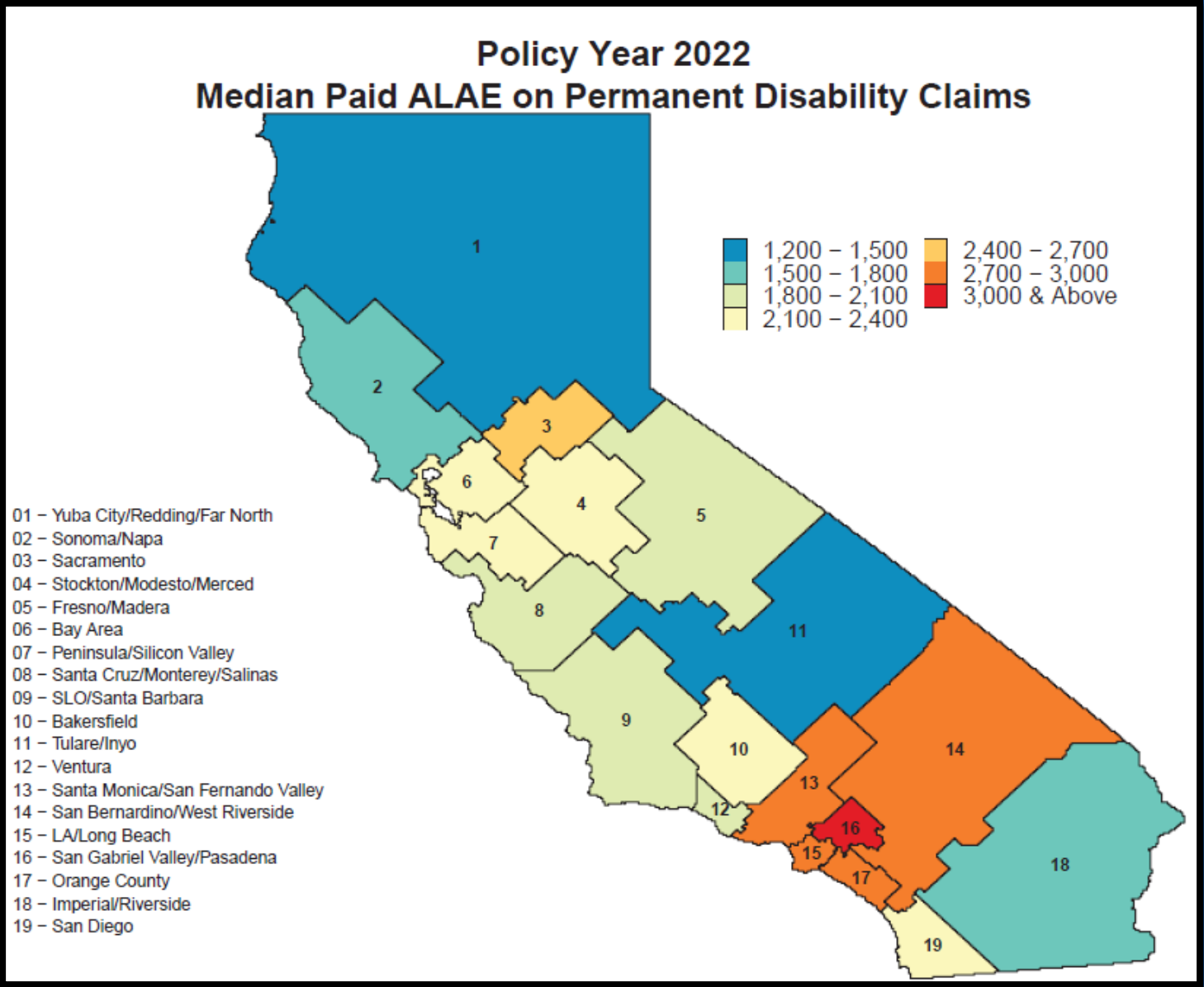
- Average ALAE costs increased significantly in recent years
 - Discussed in CDI decision on September 1, 2024 Pure Premium Rate Filing



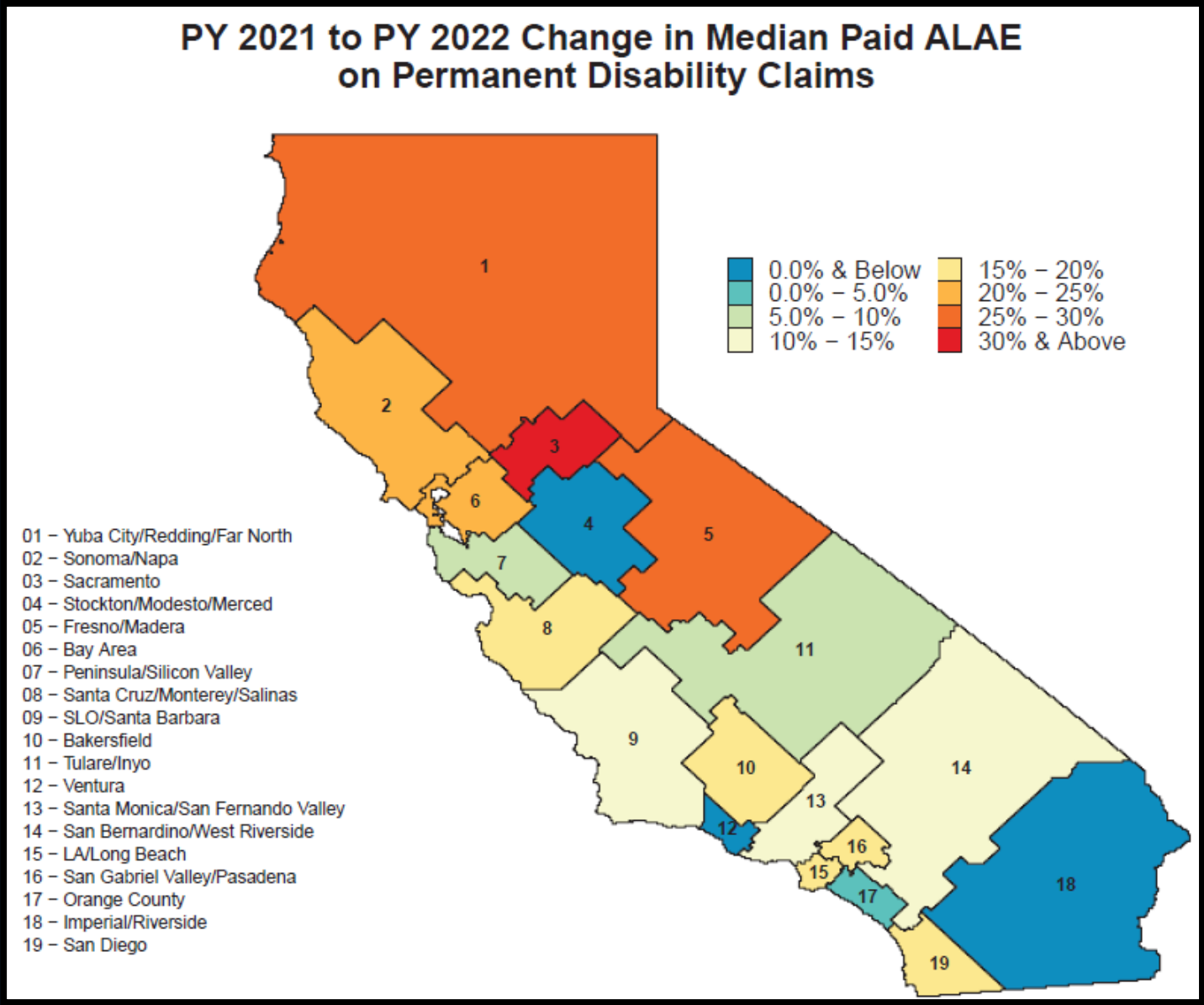
Source: Excerpt from the 2024 WCIRB State of the System Report, released July 25, 2024

- Analysis on factors driving increasing ALAE costs presented at this meeting

Geo Study 2024 – Median Paid ALAE on PD Claims (Exhibit 4.3)



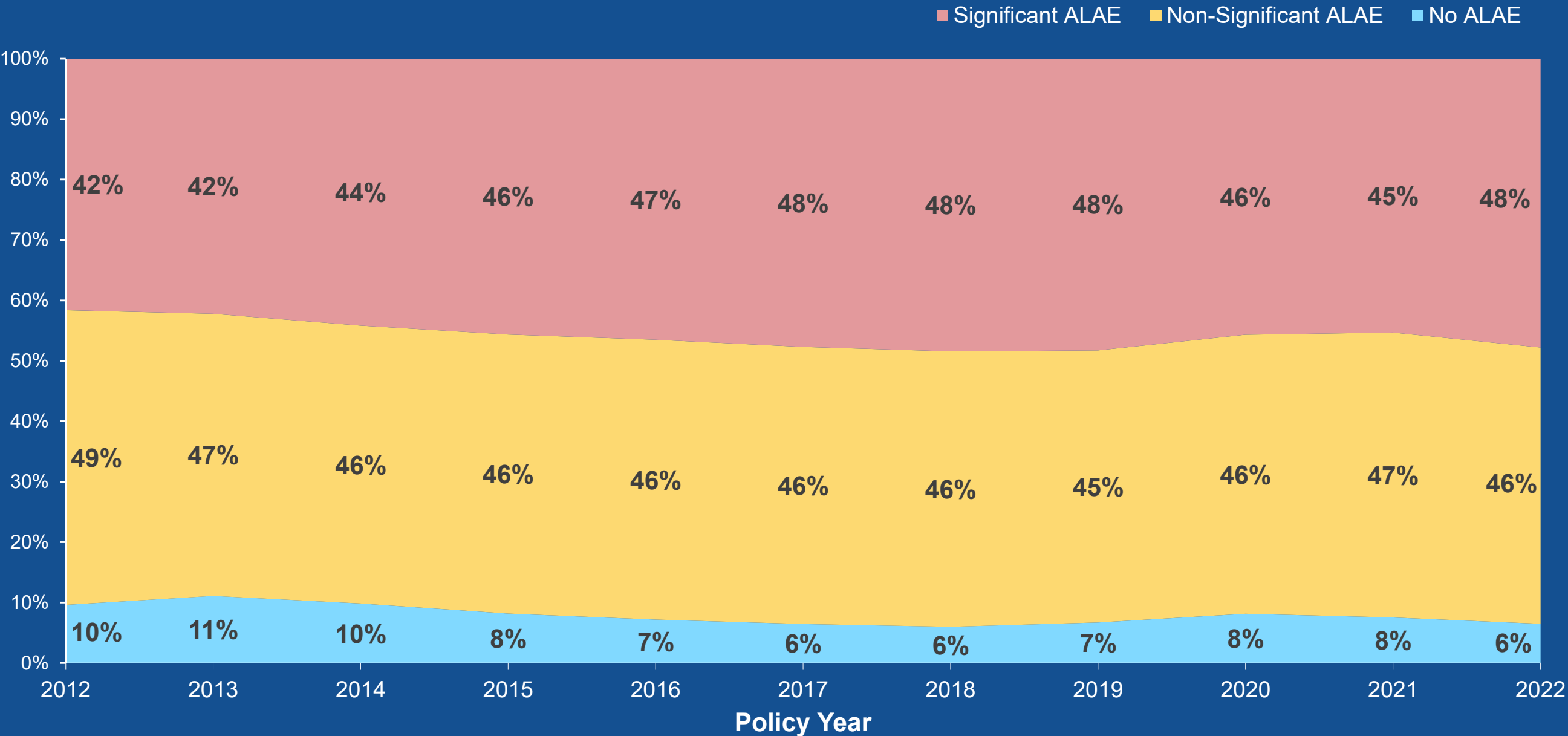
Geo Study 2024 – Change in Median Paid ALAE on PD Claims (Exhibit 4.4)



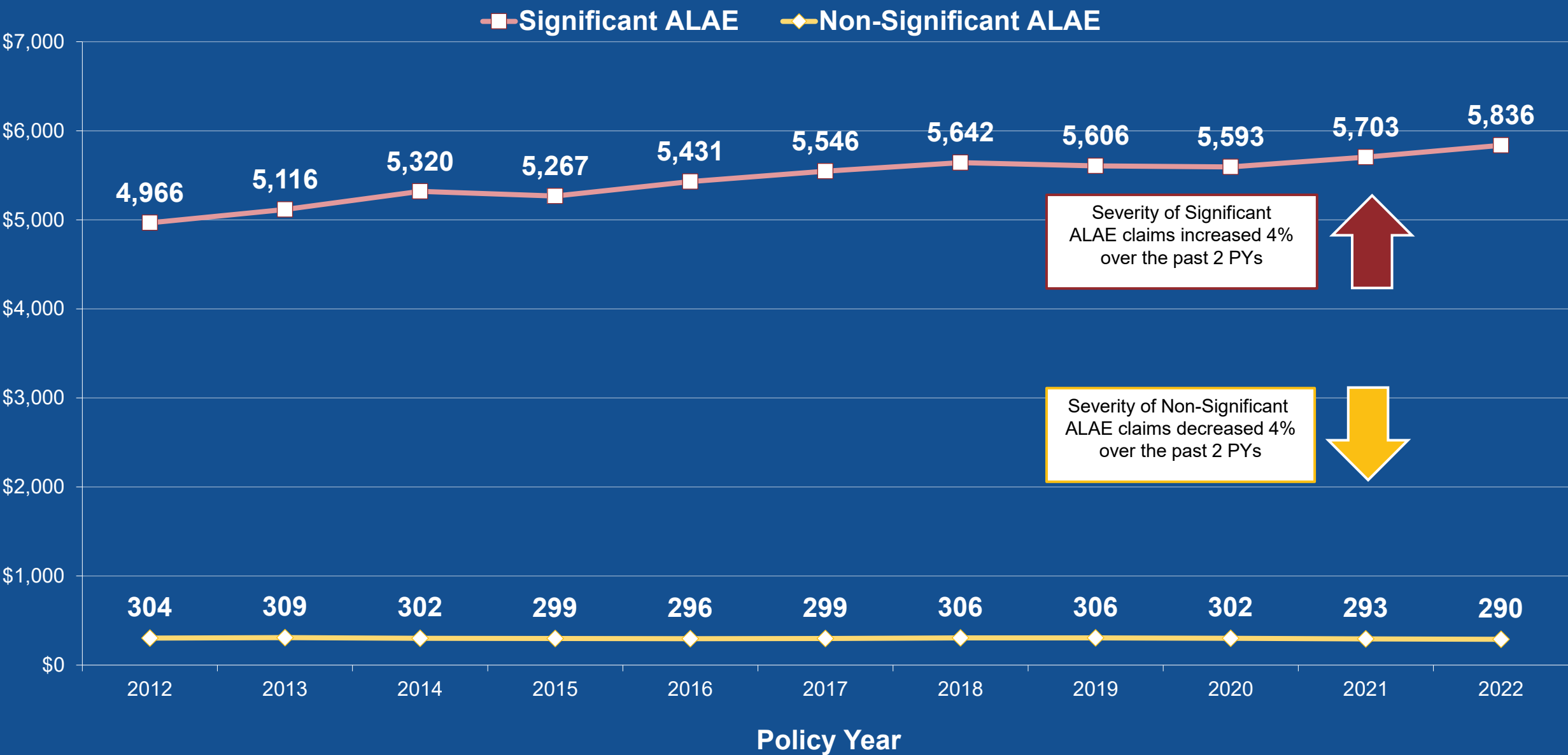
Comparison of Claims with “Significant” ALAE Costs – Background

- Compare characteristics of claims with significant ALAE with other claims based on USR paid ALAE
 - “Significant ALAE” = Paid ALAE > \$1,000
 - “Non-Significant ALAE” = Paid ALAE > \$0 and up to \$1,000
 - “No ALAE” = Paid ALAE = \$0
- Explored characteristics such as:
 - Settlement Type
 - Cumulative Trauma (CT) / Non-CT Claims
 - Region

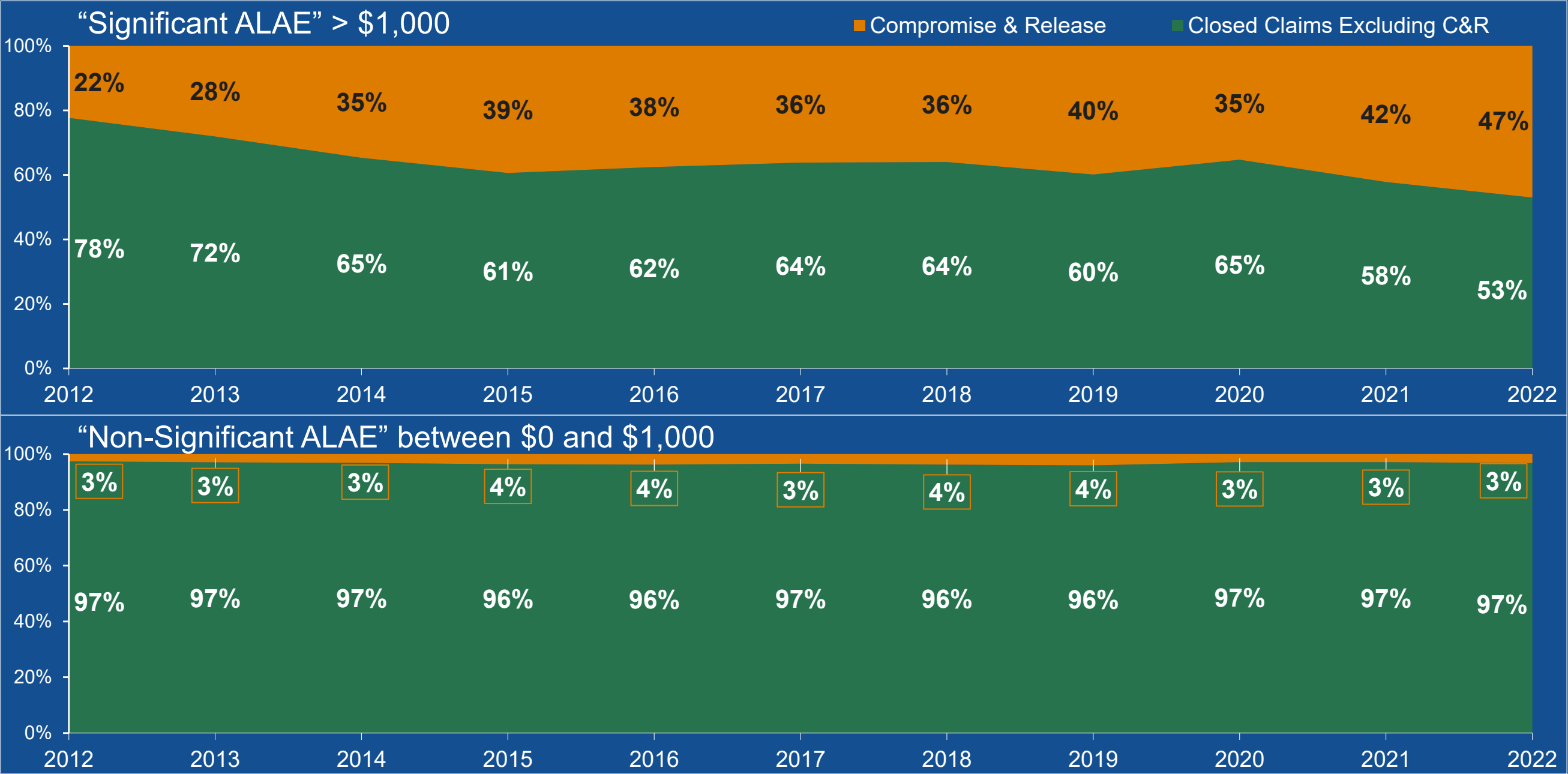
Distribution of Indemnity Claims by Size of ALAE (Exhibit 6.1)



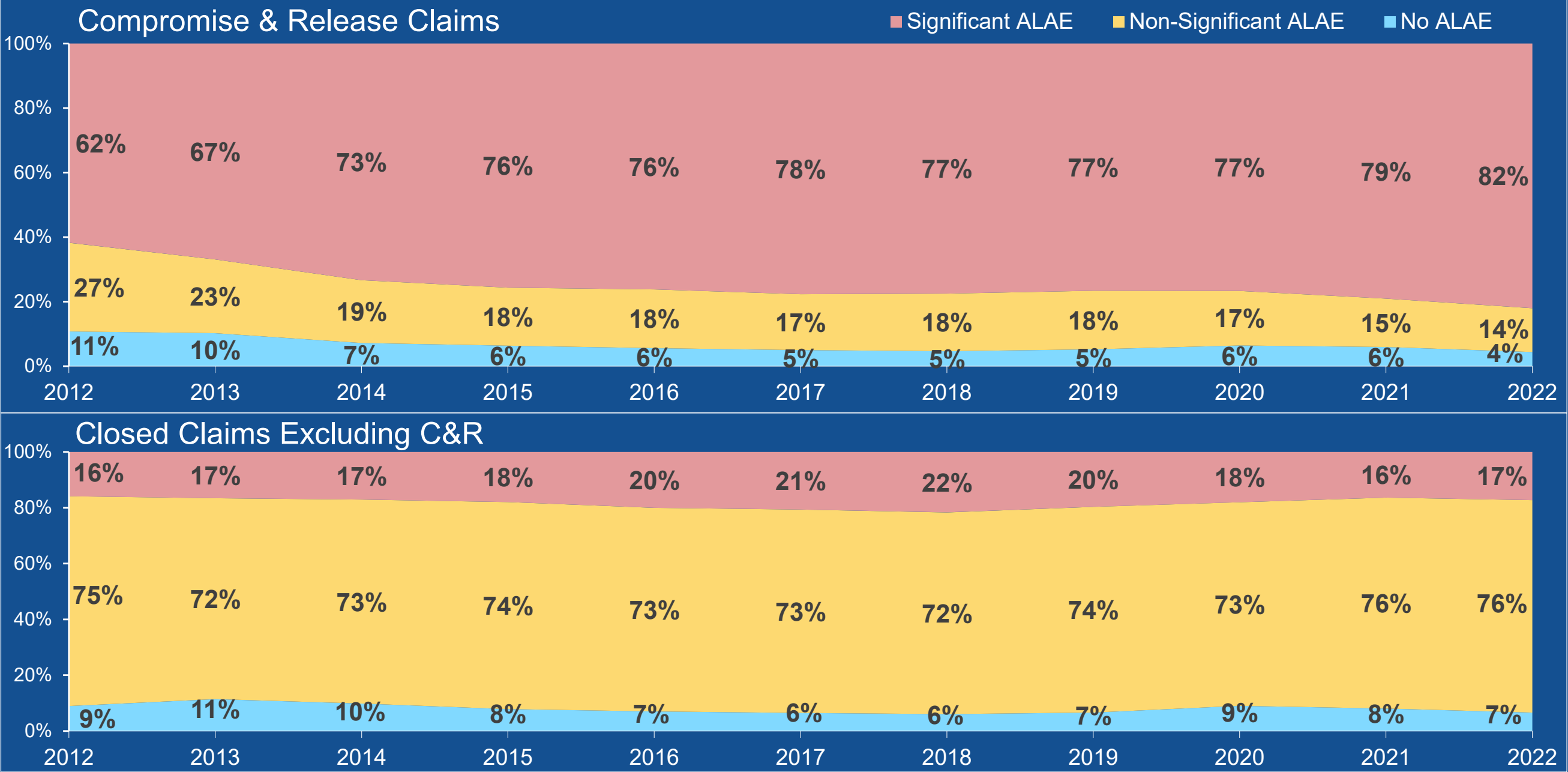
Average Paid ALAE Severity by Size of ALAE (Exhibit 6.2)



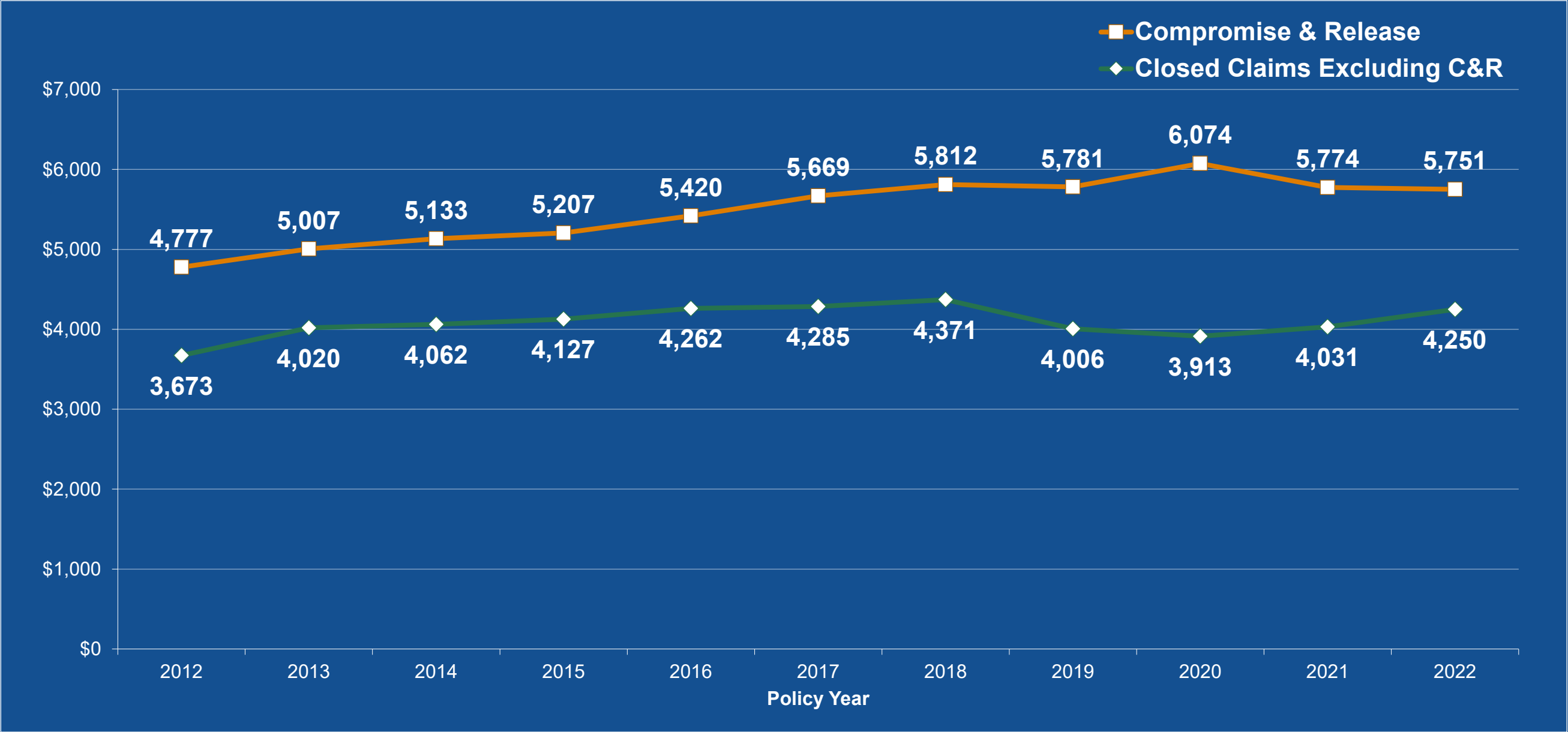
Share of ALAE Claims by Settlement Type (Exhibit 6.18)



Distribution of Indemnity Claims by Size of ALAE and Settlement Type (Exhibit 6.19)



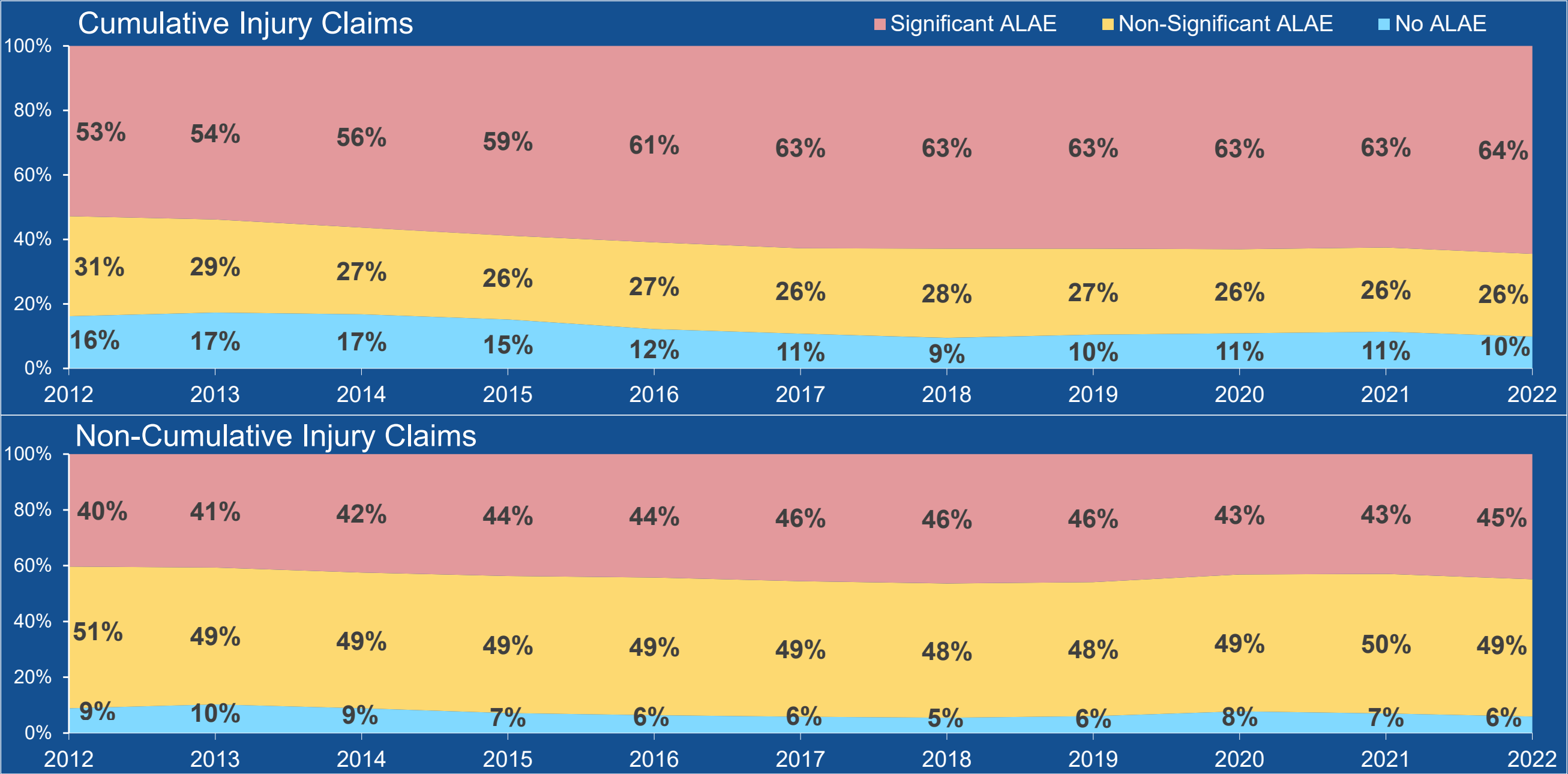
Average “Significant ALAE” Severity by Settlement Type (Exhibit 6.20)



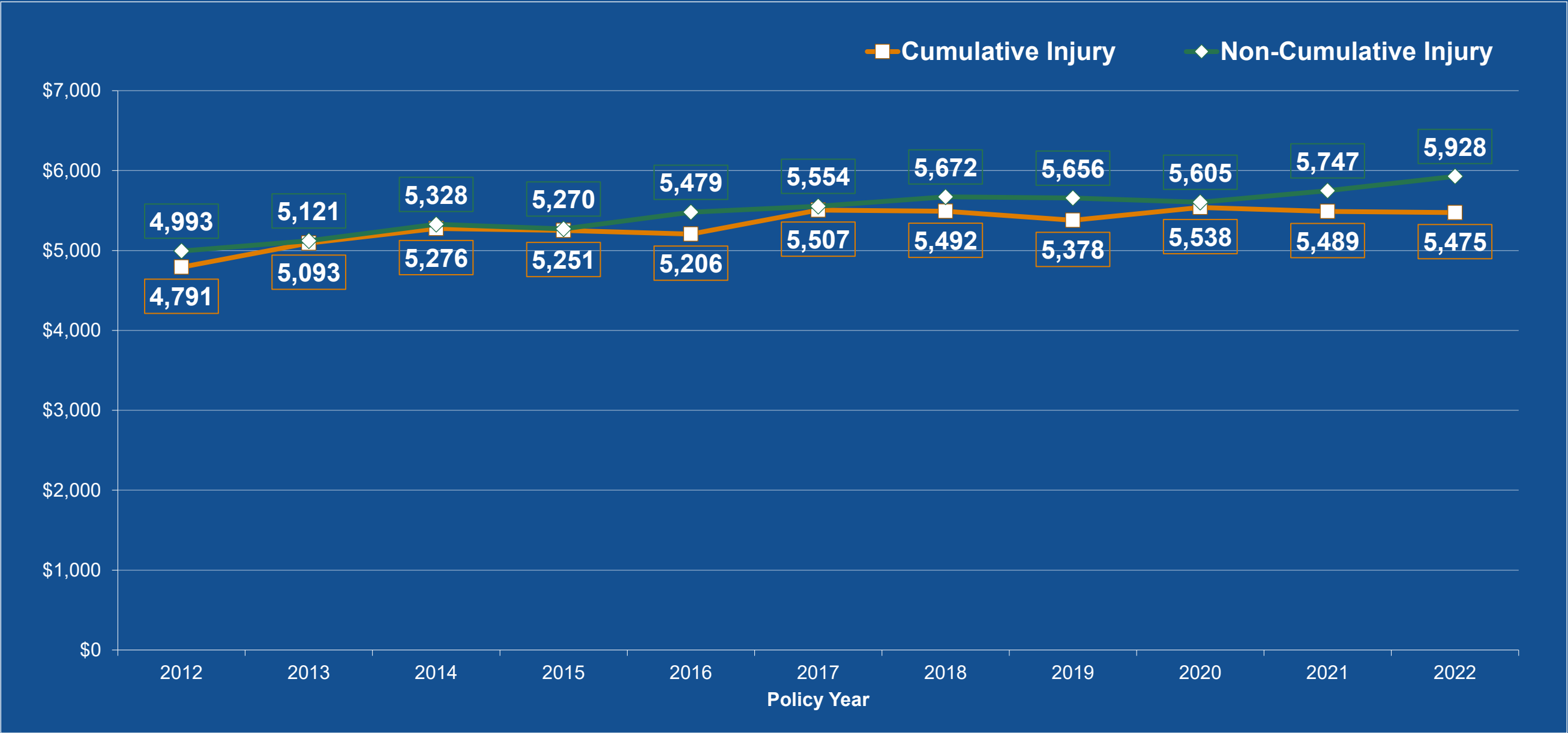
Share of ALAE Claims by Loss Type (Exhibit 6.9)



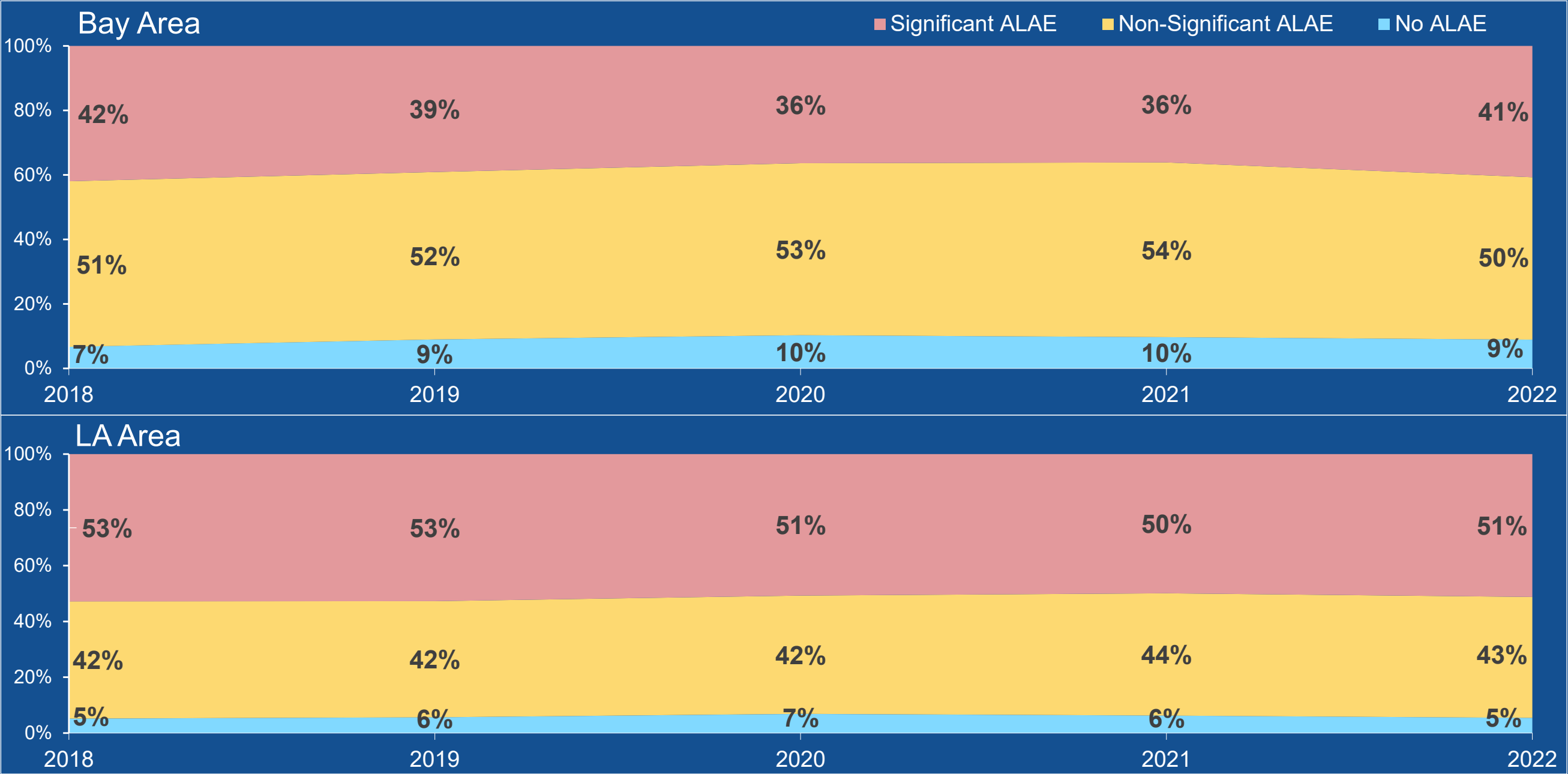
Distribution of Indemnity Claims by Size of ALAE and Loss Type (Exhibit 6.10)



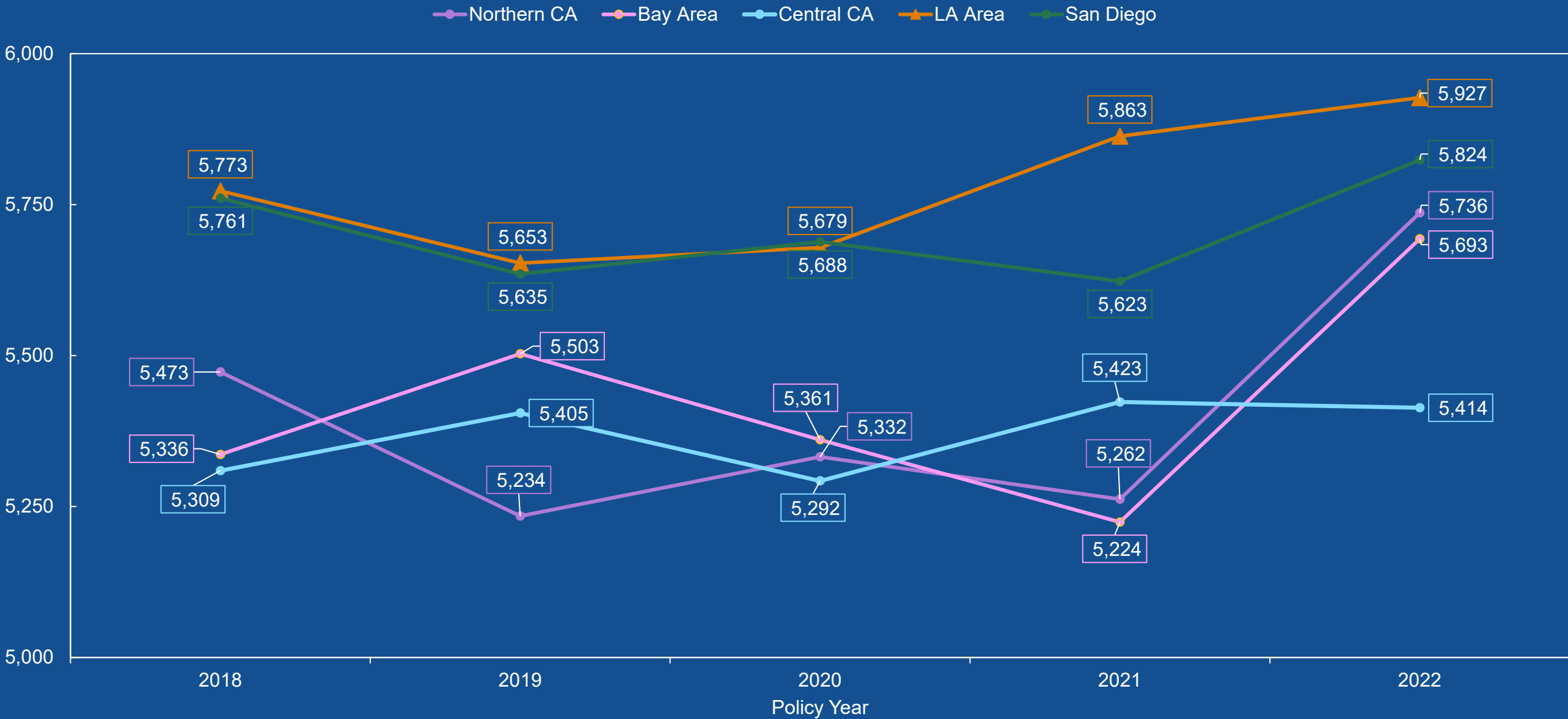
Average “Significant ALAE” Severity by Loss Type (Exhibit 6.11)



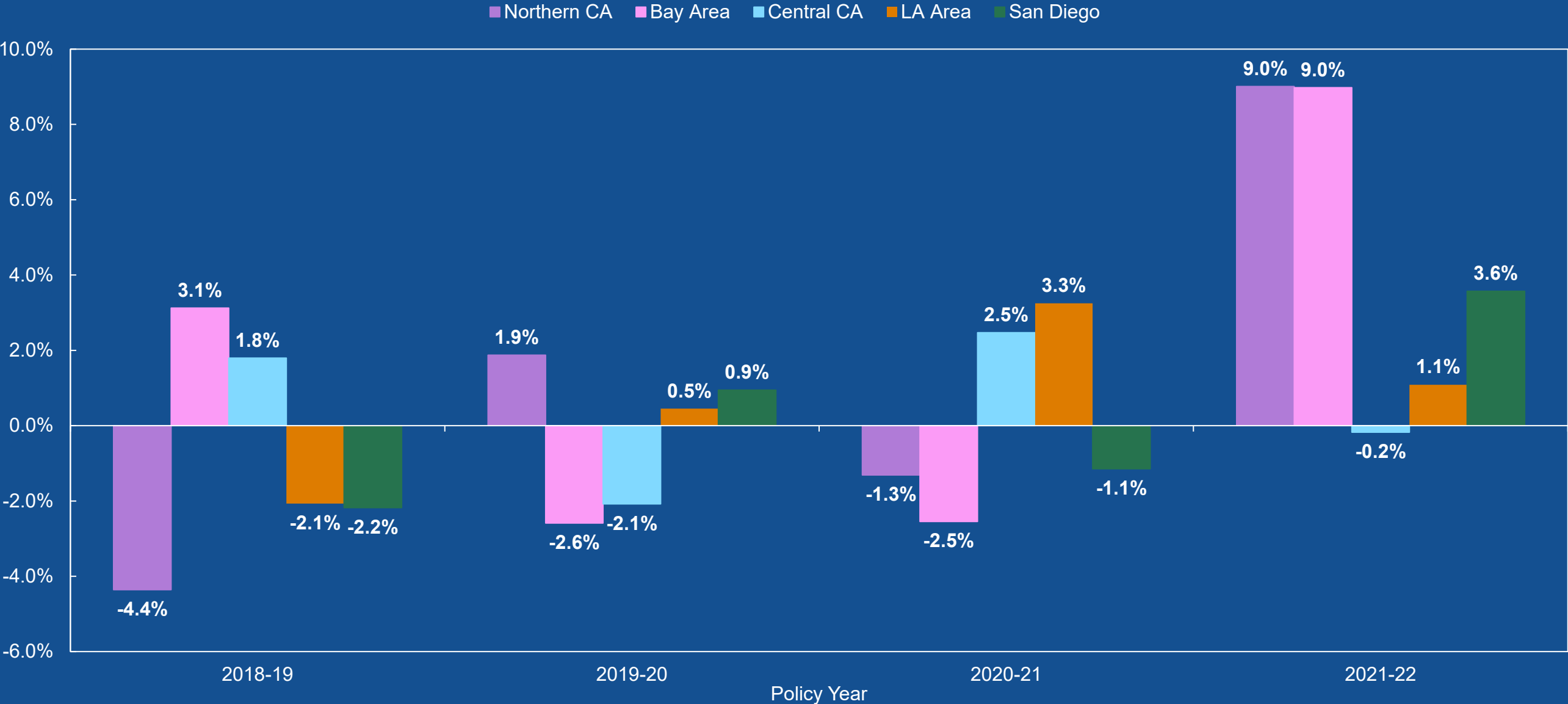
Distribution of Indemnity Claims by Size of ALAE and Region (Exhibits 6.5-6.6)



Average “Significant ALAE” Severity by Region (Exhibit 6.7-6.8)



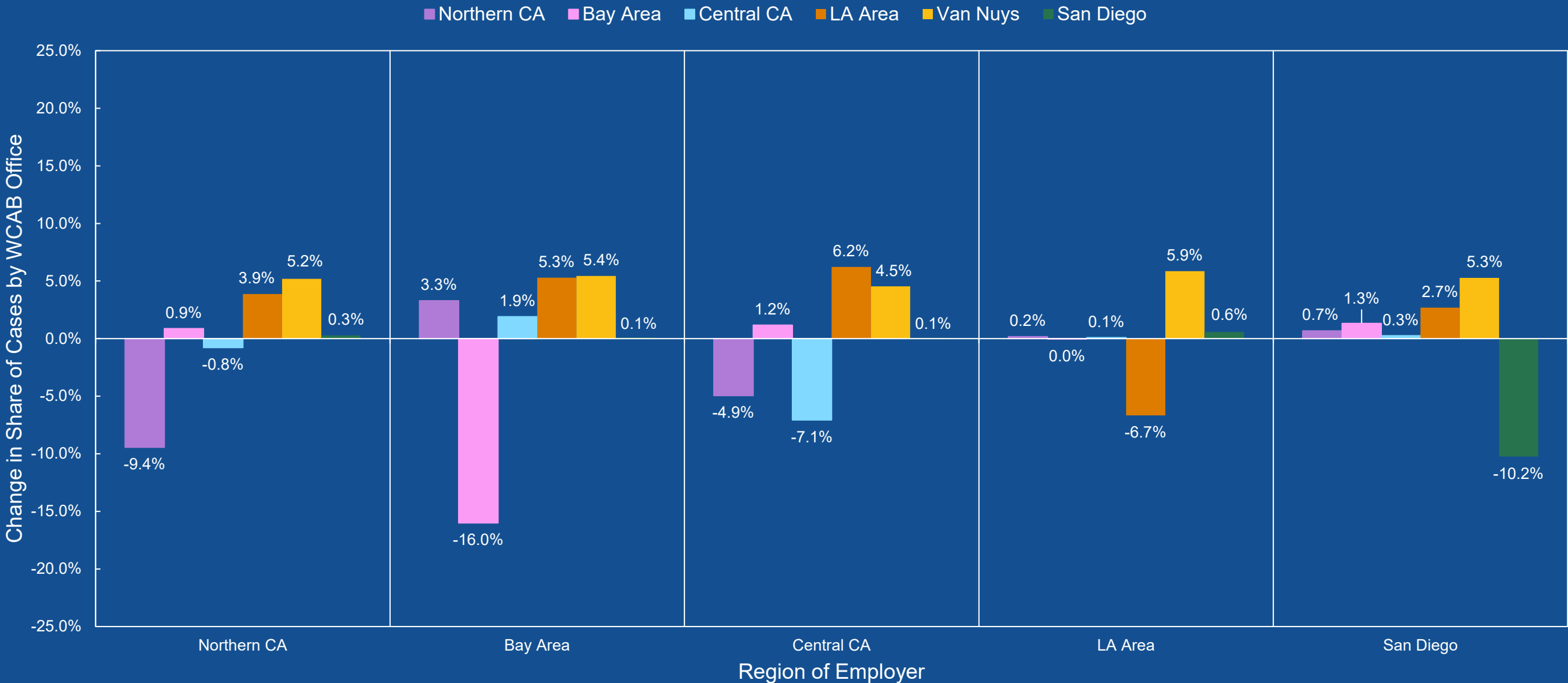
Change in Average “Significant ALAE” Severity by Region



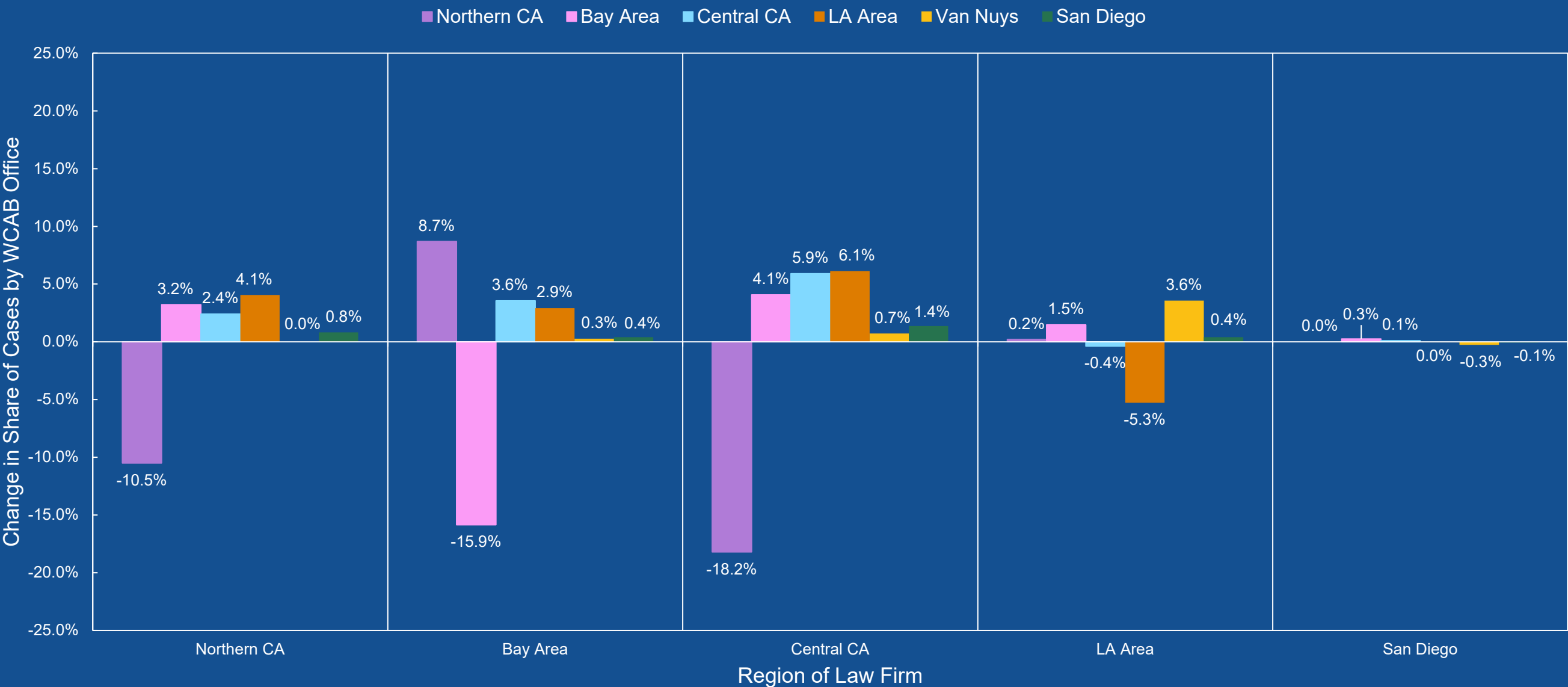
DWC Case Data – Background

- Staff reviewed case hearing data
- Source: Electronic Adjudication Management System (EAMS) by the Division of Workers' Compensation (DWC)
- Includes insured and self-insured employers statewide
- Reviewed regional shifts among employers, applicant's attorneys and DWC hearing locations
- Reviewed transition to fully remote hearings

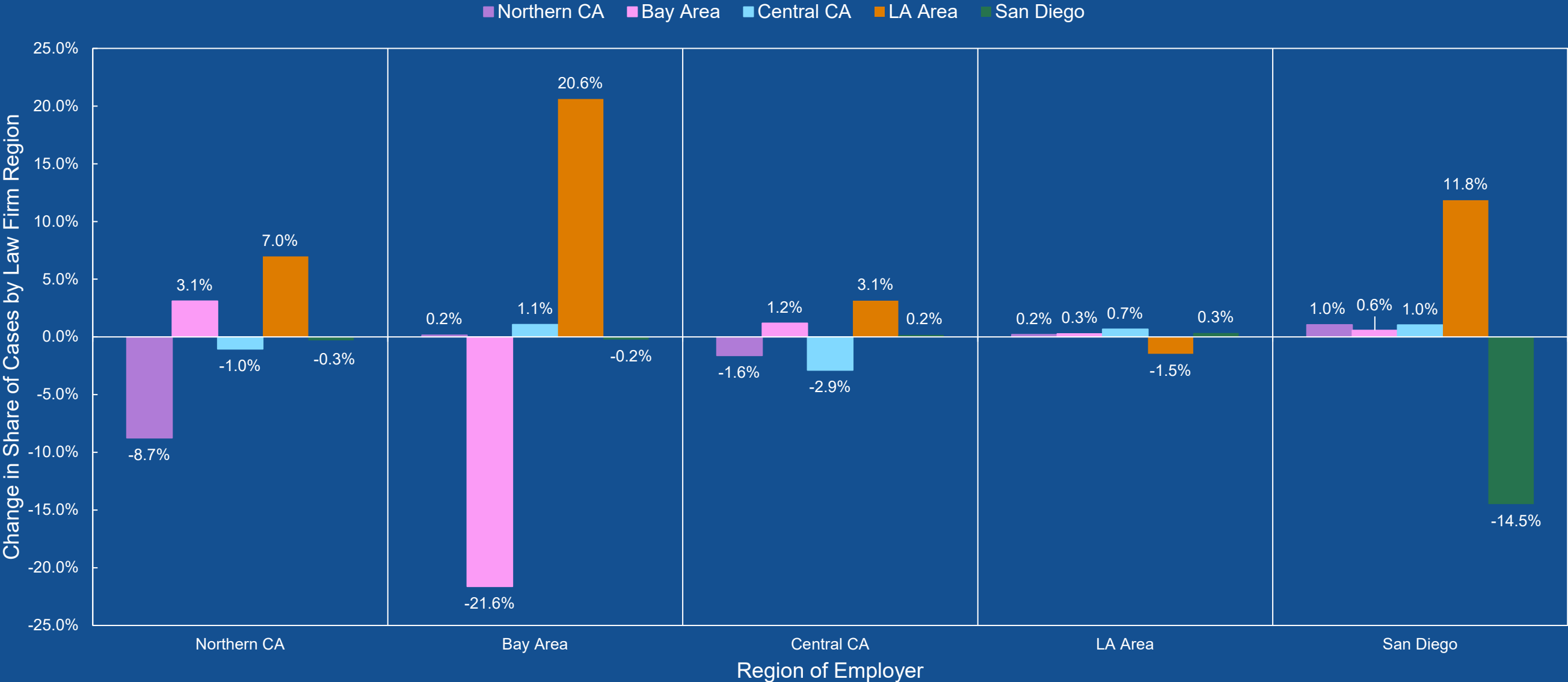
Change in Share of DWC Cases by WCAB Office and Employer Region (Exhibit 7.3)



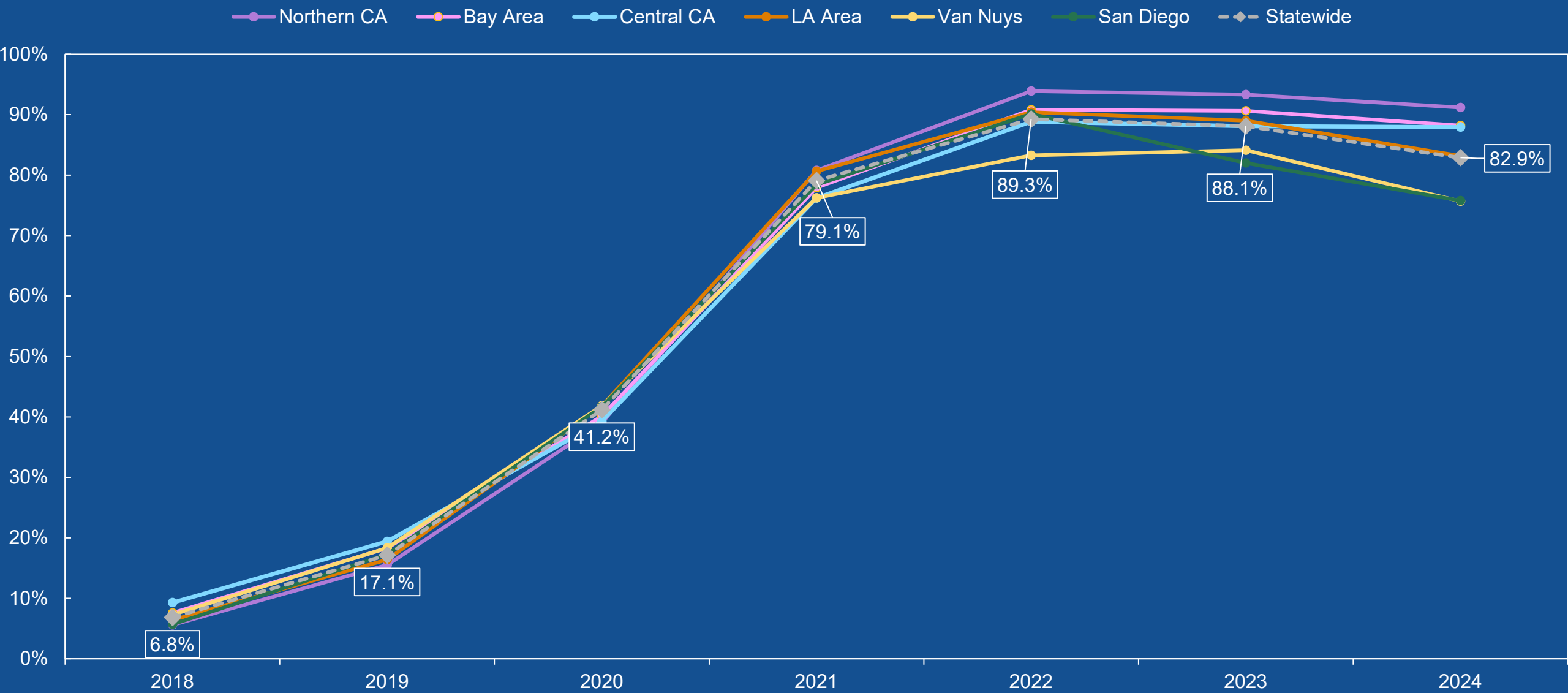
Change in Share of DWC Cases by WCAB Office and Law Firm Region (Exhibit 7.4)



Change in Share of DWC Cases by Law Office and Employer Region (Exhibit 7.5)



Share of Fully Remote DWC Cases by WCAB Location (Exhibit 7.2)



Summary of Findings

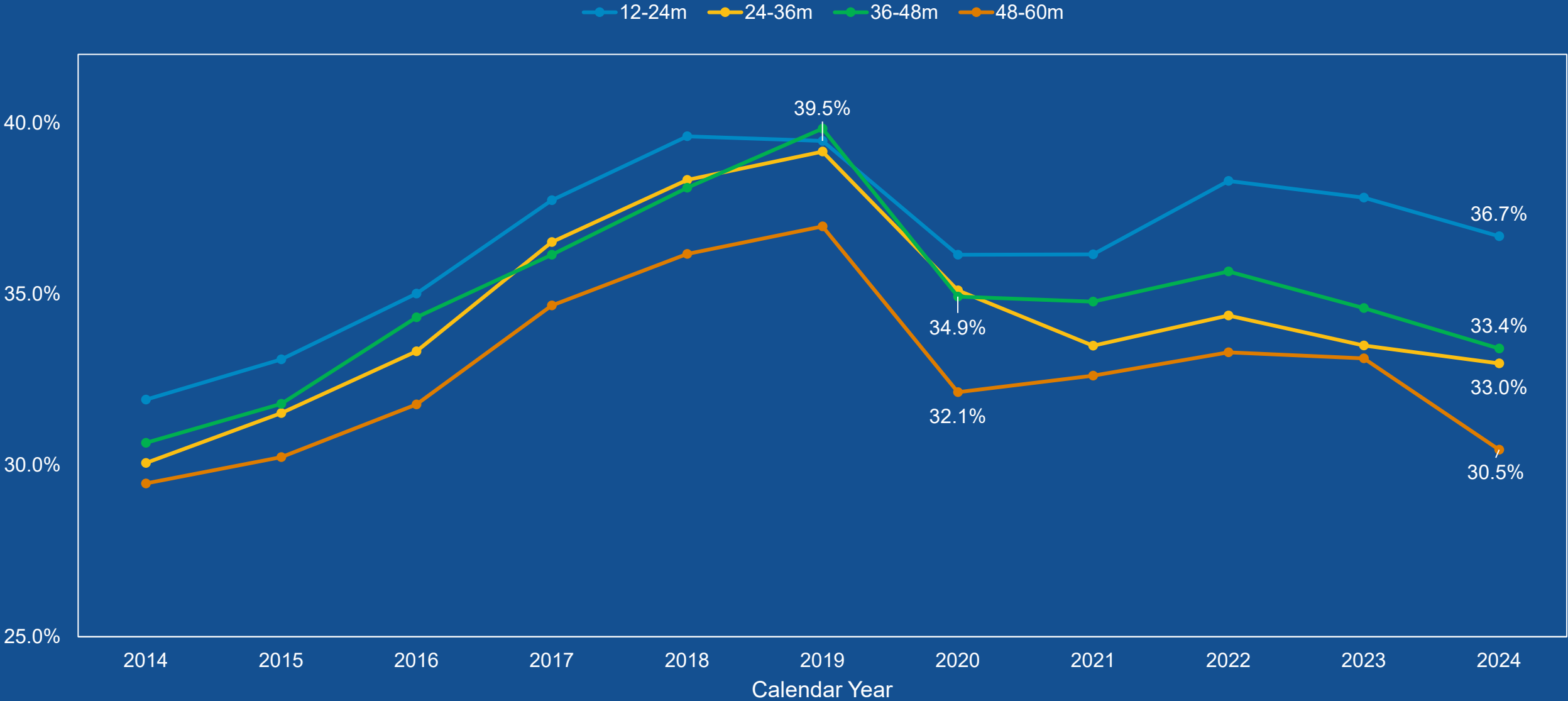
- Increased proportion of cumulative injury claims
- Increased proportion of closed claims settled by compromise and release
- Rising paid ALAE costs in areas outside Los Angeles
 - Increasingly, applicant's attorneys represent further from their office location
 - Likely facilitated by statewide transition to more fully remote hearings

03

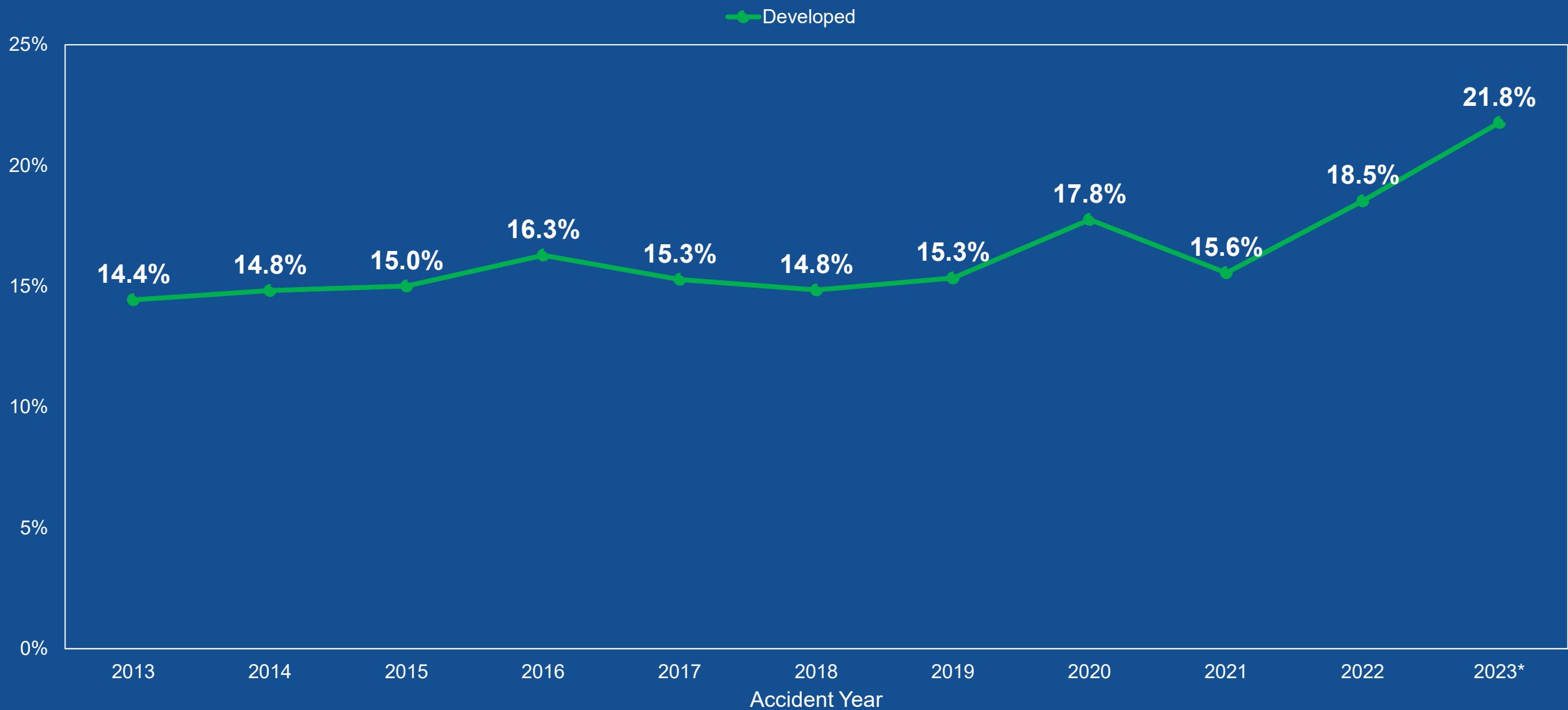
First Quarter 2025 Review of Diagnostics



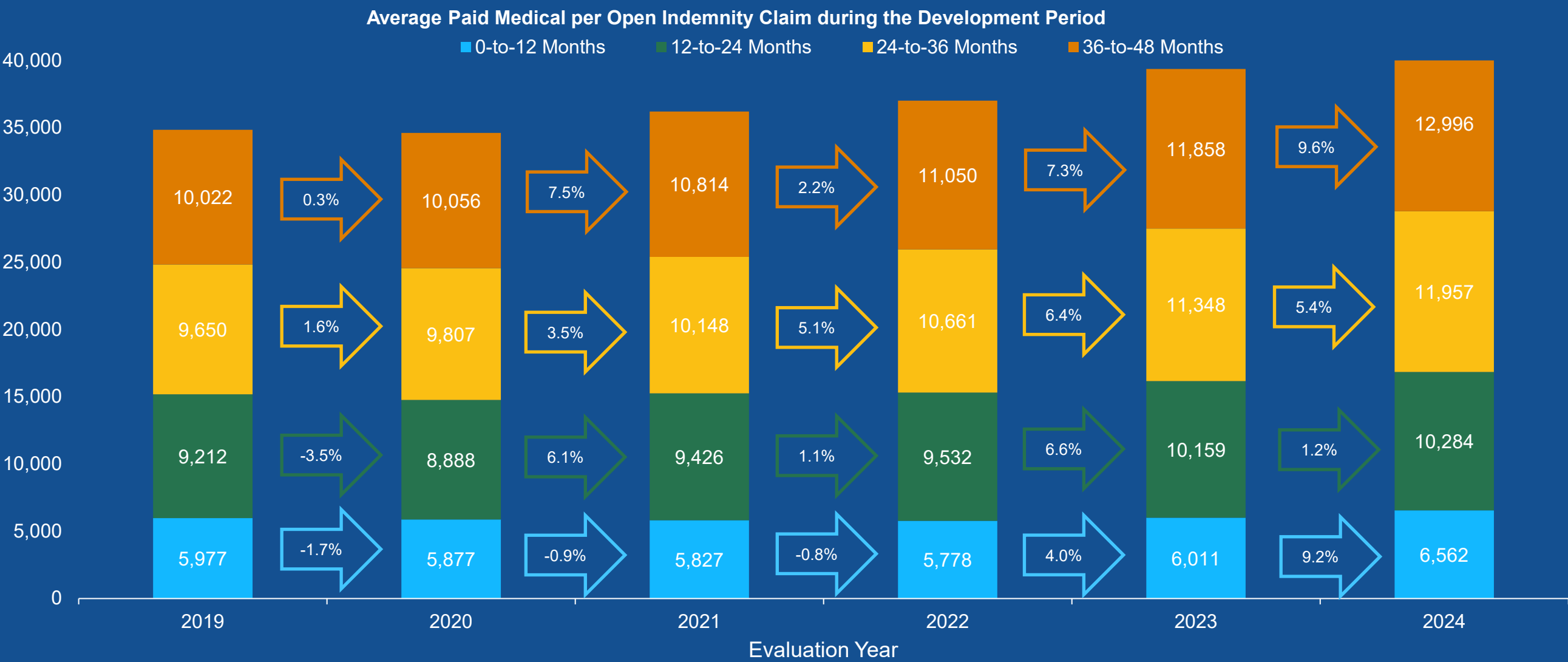
Ratio of Incremental Closed Indemnity Claims to Prior Open Indemnity Claims (Exhibit C3.1 Updated)



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



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



04

12/31/2024 Experience Review



Updated Summary of 12/31/2024 Experience

- Approximately 100% of market included
- Update from 3/20/2025 meeting review:
 - Additional insurer data submissions and revisions
 - Frequency model projections using on long-term average change in the CII in forecast
 - Reflects 0.5% annual on-level indemnity severity trend
 - Reflects 3.5% annual on-level medical severity trend
- Projected loss ratio based on 4/10/2025 Agenda methodology is 0.835
 - Compares to 0.831 reviewed at 3/20/2025 meeting
 - 0.746 was reflected in 9/1/2024 filing

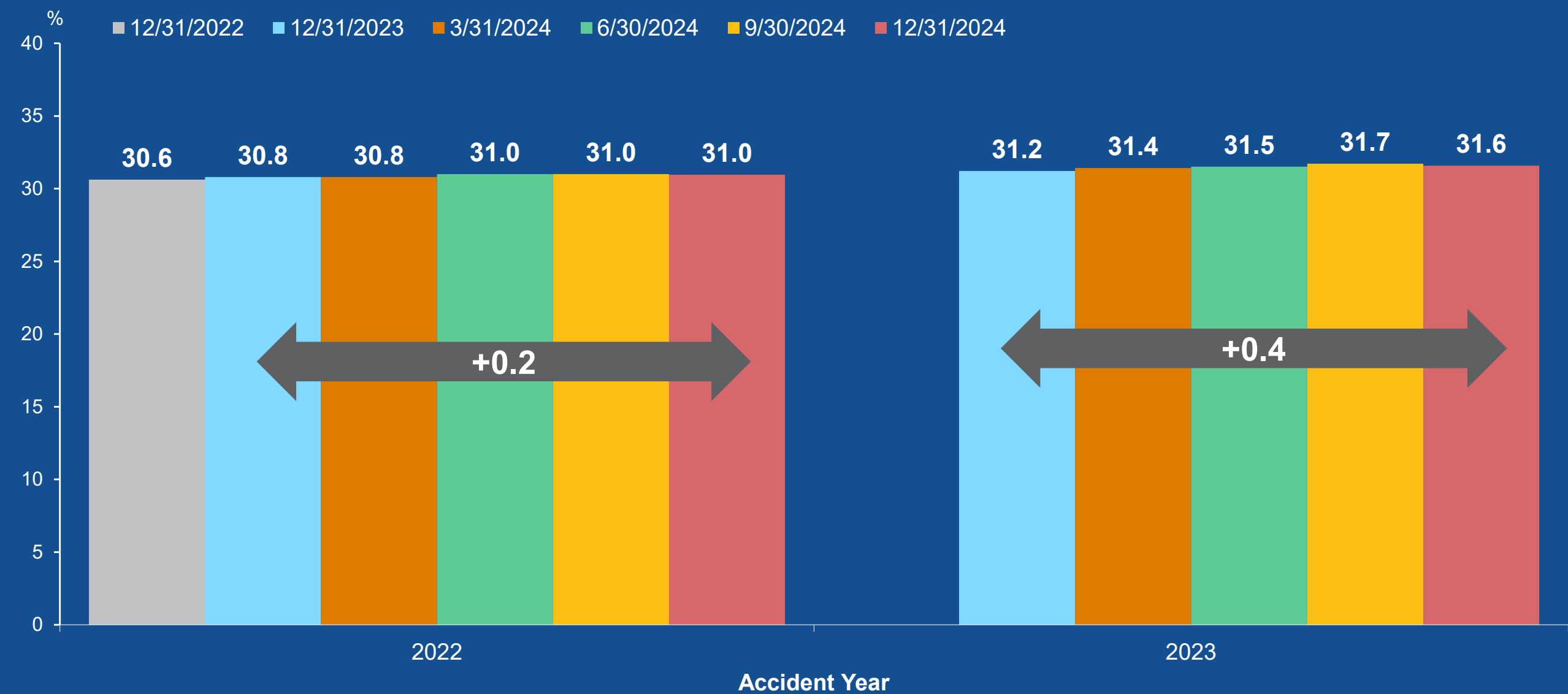
Approximate Percentage Point Change in Loss Ratio Projection

As of December 31, 2024

Factor	Change from 9/1/2024 Filing
Loss Development Emergence	2.5
Updated Wage Level Forecasts	-0.5
Include AY 2024 Actual Frequency Trend	1.5
Updated Frequency Model Forecasts	0.5
Updated Indemnity Severity Trend	-0.5
Updated Medical Severity Trend	1.5
Inclusion of AY 2024 Actual Loss Ratio	2.0
Trend to 9/1/2025 Filing Period	-0.5
Total to 3/20/2025 Agenda (Prior to Updating to 9/1/2024 Approved Rates)	6.5
Update to 9/1/2024 Approved Rates	2.5
Total Change	9.0

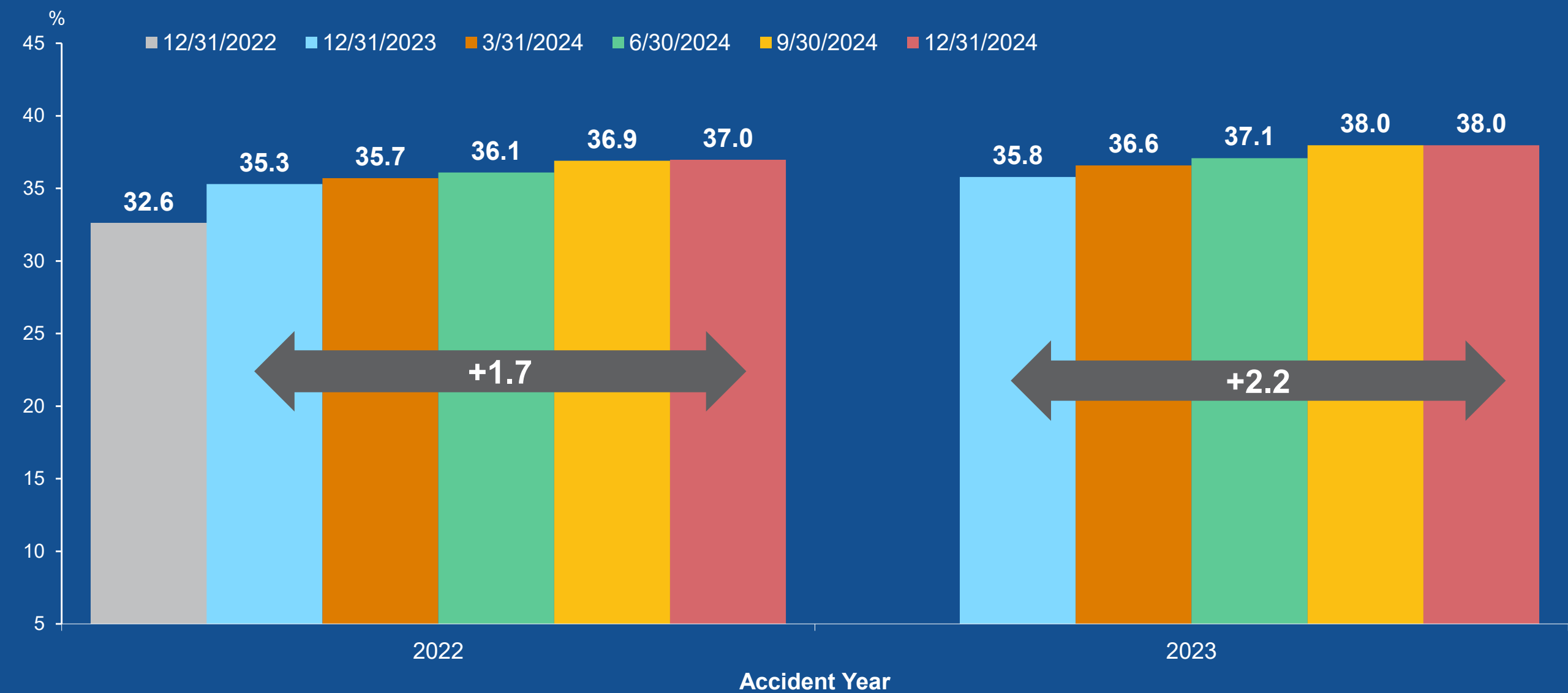
Developed Indemnity Loss Ratios (Exhibit 3.2)

As of December 31, 2024



Developed Medical Loss Ratios (Exhibit 3.4)

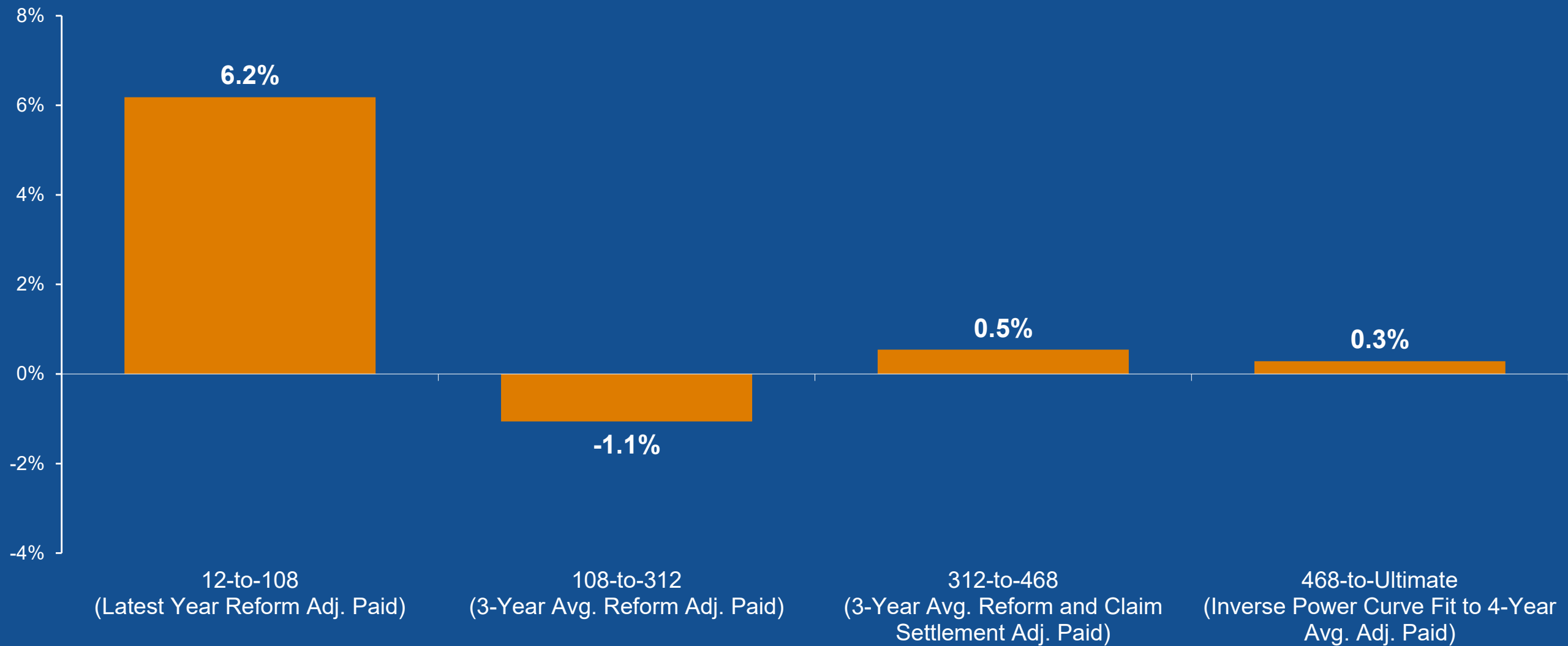
As of December 31, 2024



Change in Projected Paid Medical Development Factor for AY 2023

12/31/2023 to 12/31/2024 Experience

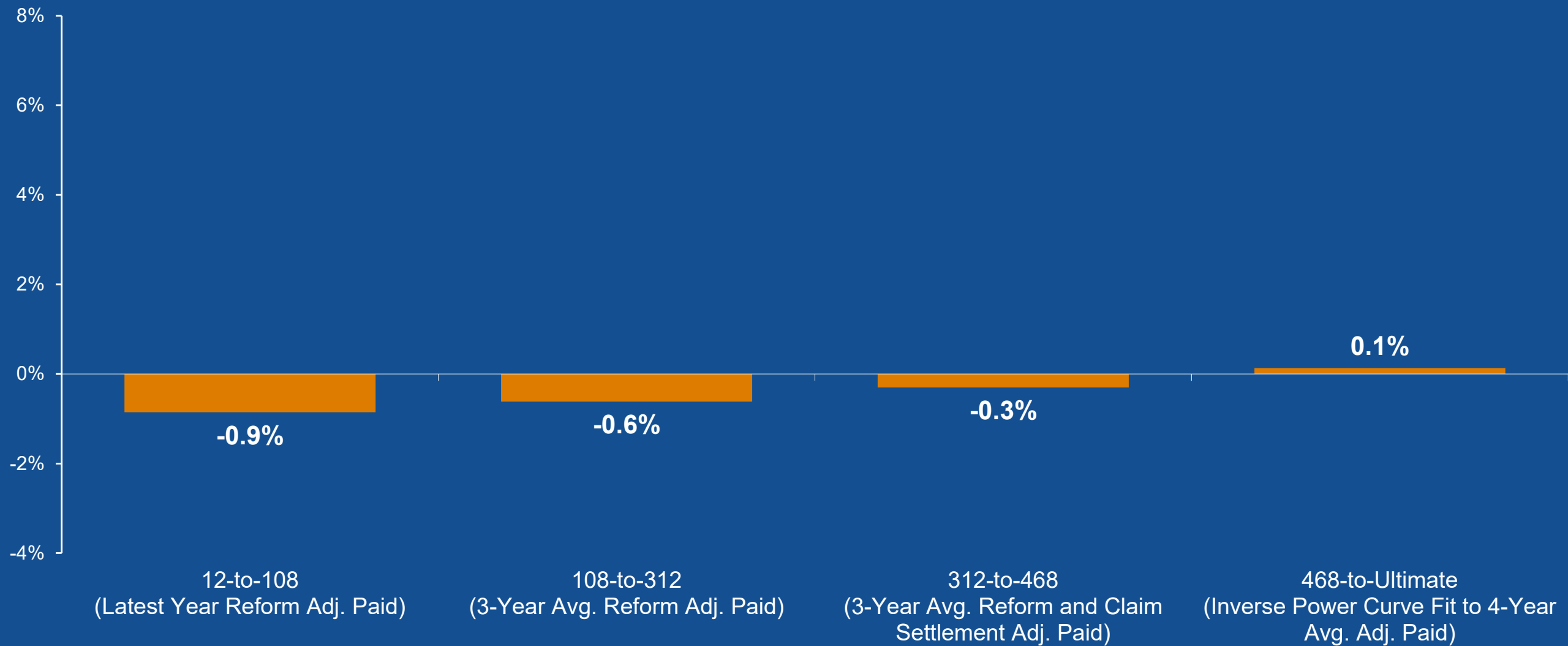
As of December 31, 2024



Change in Projected Paid Medical Development Factor for AY 2023

9/30/2024 to 12/31/2024 Experience

As of December 31, 2024



Alternative Loss Development Methodologies (Item AC25-04-02)

Incurred Methods

- Unadjusted Incurred Projections
 - Best with stable case reserve levels and incurred patterns
 - Can be distorted by changing reserve levels, reforms and claim settlement rate changes
 - Difficult to impute reform and claim settlement adjustments
 - Most recent retrospective study showed latest year incurred development as accurate as adjusted paid method for early maturities but less accurate and more volatile in the later maturities
 - Incurred tail potentially distorted by prior periods of increase (Minniear, opioids, etc.) and reform
 - Unadjusted incurred projections continue to be well below paid projections, driven by the tail
- Latest Year Hybrid Incurred with Paid Tail
 - Latest year incurred development converted to paid at 120 months with adjusted paid after 120 months
 - Uses incurred development where it was accurate in retrospective study but avoids anomalous incurred tail
- Incurred Adjusted for Changes in Case Reserve Levels
 - Best with clear evidence of changing case reserve levels
 - Method can be very volatile with constantly shifting reserve levels (3-year average is used)
 - Current projection significantly impacted by recent sharp increase in medical costs

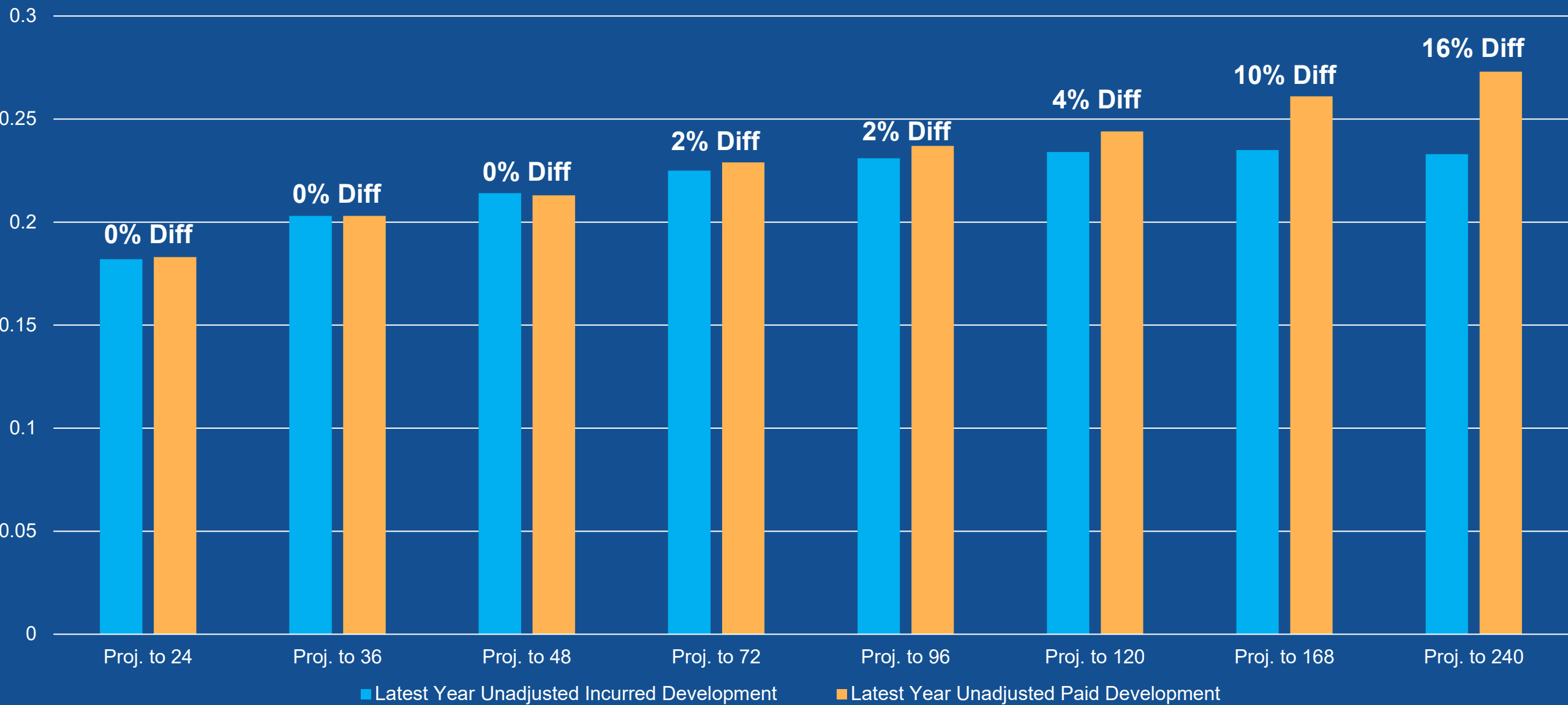
Alternative Loss Development Methodologies (Item AC25-04-02)

Paid Methods

- Unadjusted Paid Projections
 - Best with stable payment patterns
 - Can be distorted by changing settlement rates or reforms
 - Shifts in payment patterns more easily identified and adjusted for compared to case reserves
- Reform-Adjusted Paid
 - Best with clear evidence of reform impact on payment patterns
 - Prior retrospective studies show adjusted paid method more accurate than unadjusted method during reform periods
 - Adjustments include pharmaceutical cost changes and 2021 medical fee schedule changes
 - Adjustments are periodically reviewed for continued appropriateness
- Claim Settlement Rate-Adjusted Paid
 - Best with clear evidence of changes in claim settlement rates affecting loss development
 - Improved projection during periods of significant settlement rate change
 - Claim settlement rate changes are currently modest

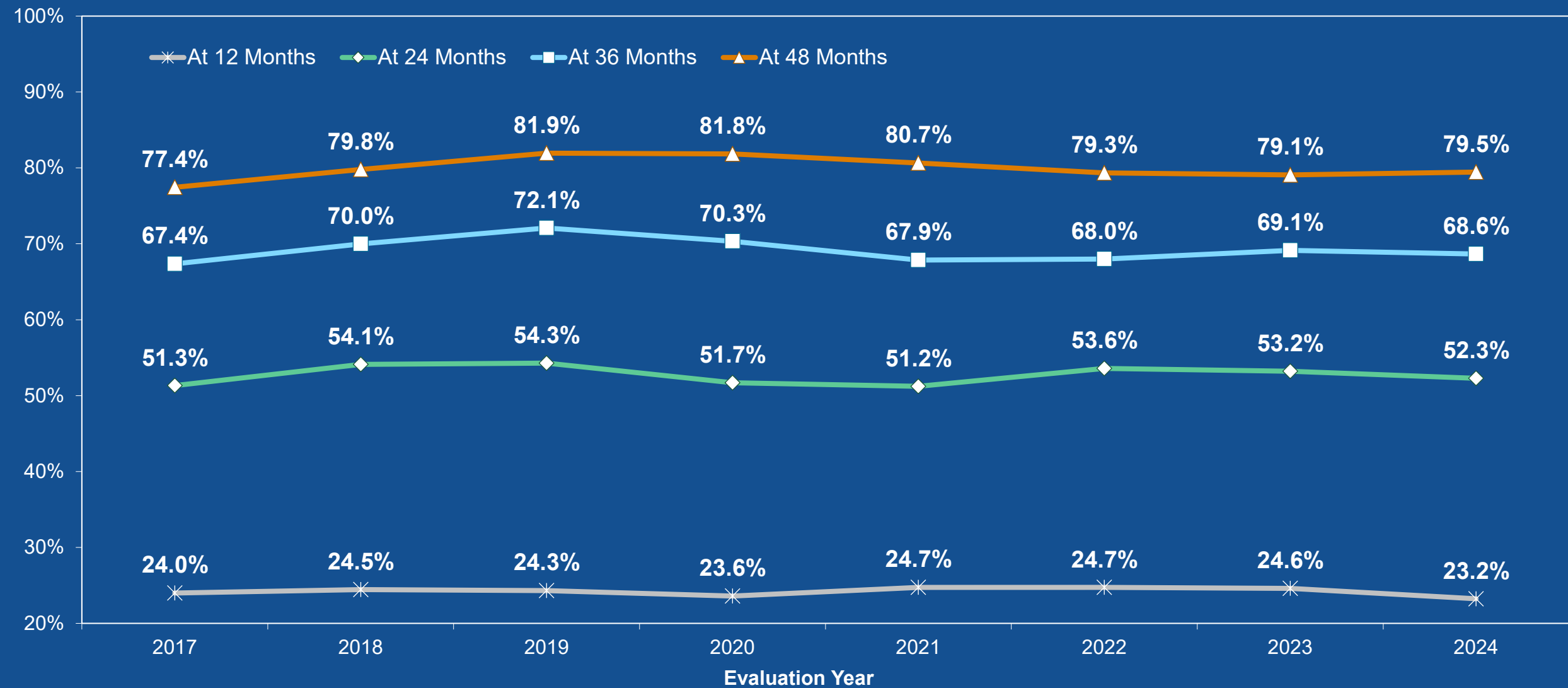
Difference Between Paid and Incurred Loss Ratio Projections – Medical AY 2018

Data as of December 31, 2022



Estimated Ultimate Indemnity Claim Settlement Ratios (Exhibit 11.2)

As of December 31, 2024



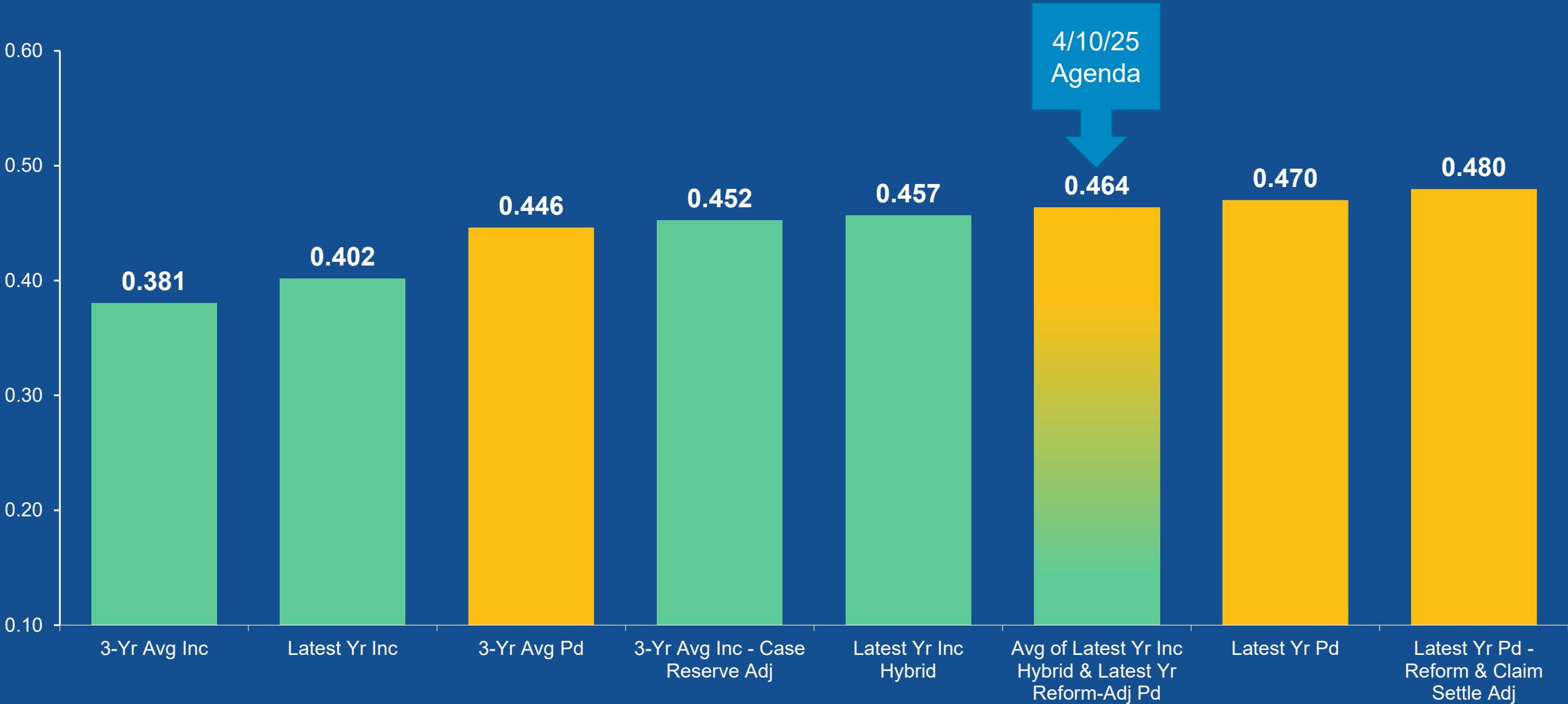
Projected Indemnity On-Level Loss Ratios under Alternative Development Methods

As of December 31, 2024



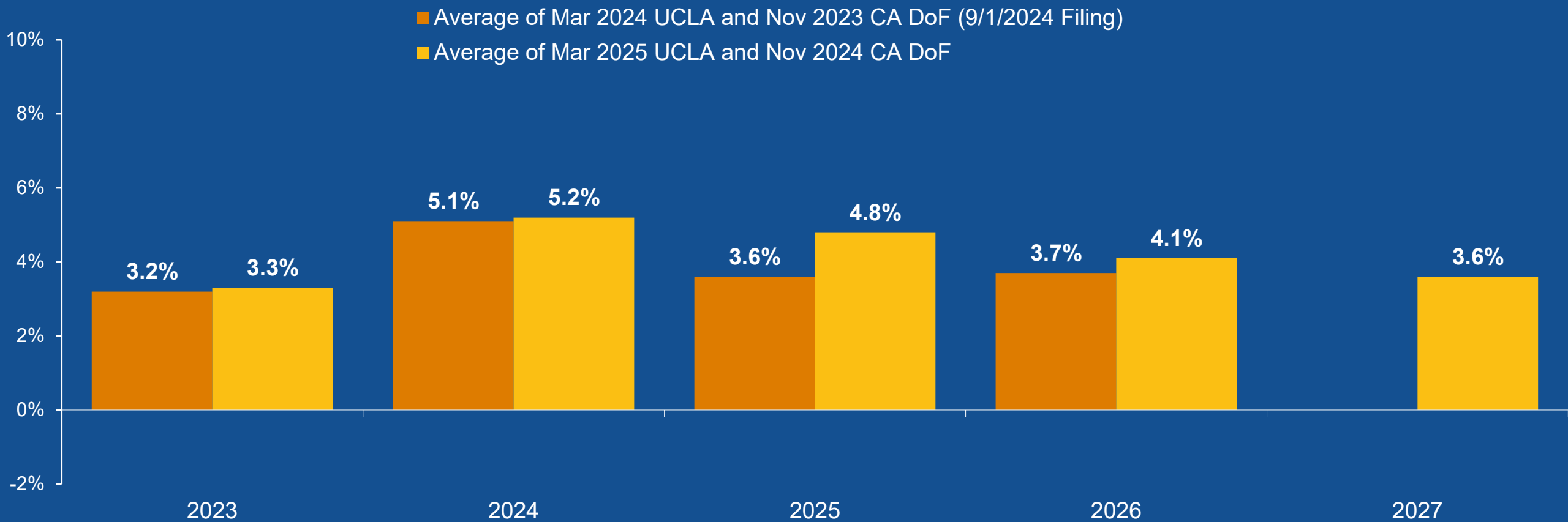
Projected Medical On-Level Loss Ratios under Alternative Development Methods

As of December 31, 2024



Average Wage Level Change Forecast (Exhibit 5.1)

As of March 2025



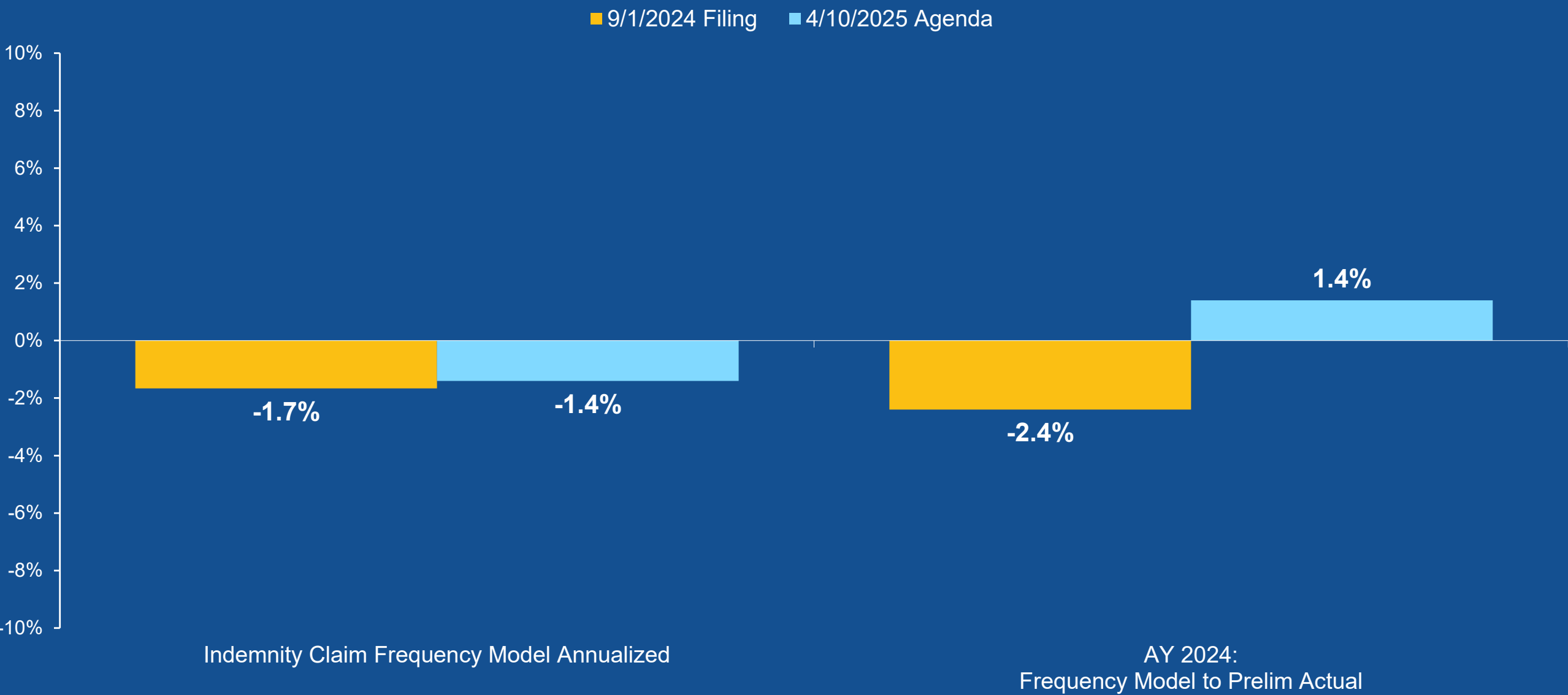
Average Annualized Wage Change Projection from 2023:

9/1/2025 Filing: 4.3%

Updated Forecast: 4.6%

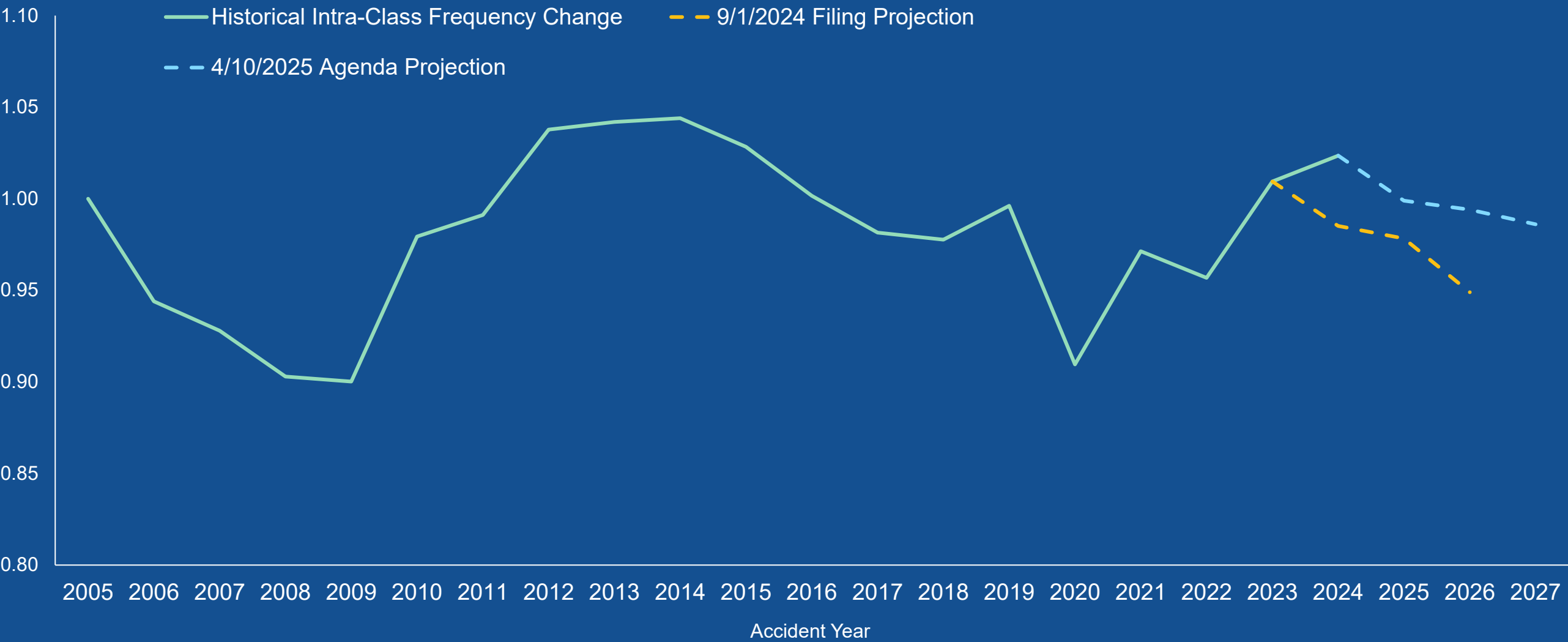
Estimated Intra-Class Indemnity Claim Frequency Change (Exhibits 6.1 and 12)

As of December 31, 2024



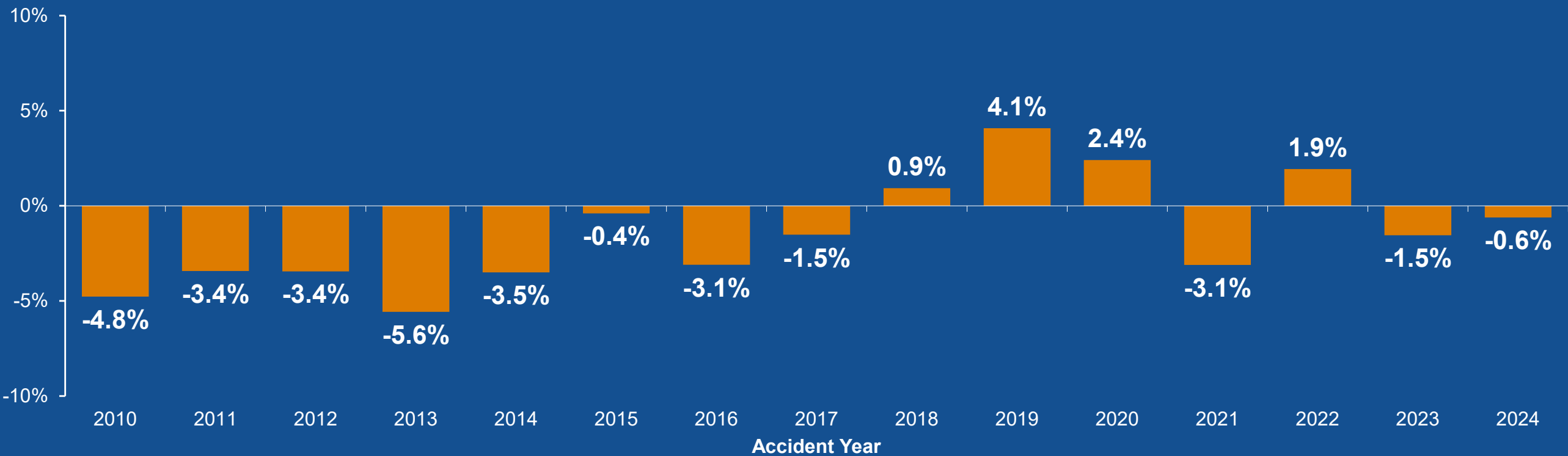
Indemnity Claim Frequency Indexed to 2005

As of December 31, 2024



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

As of December 31, 2024



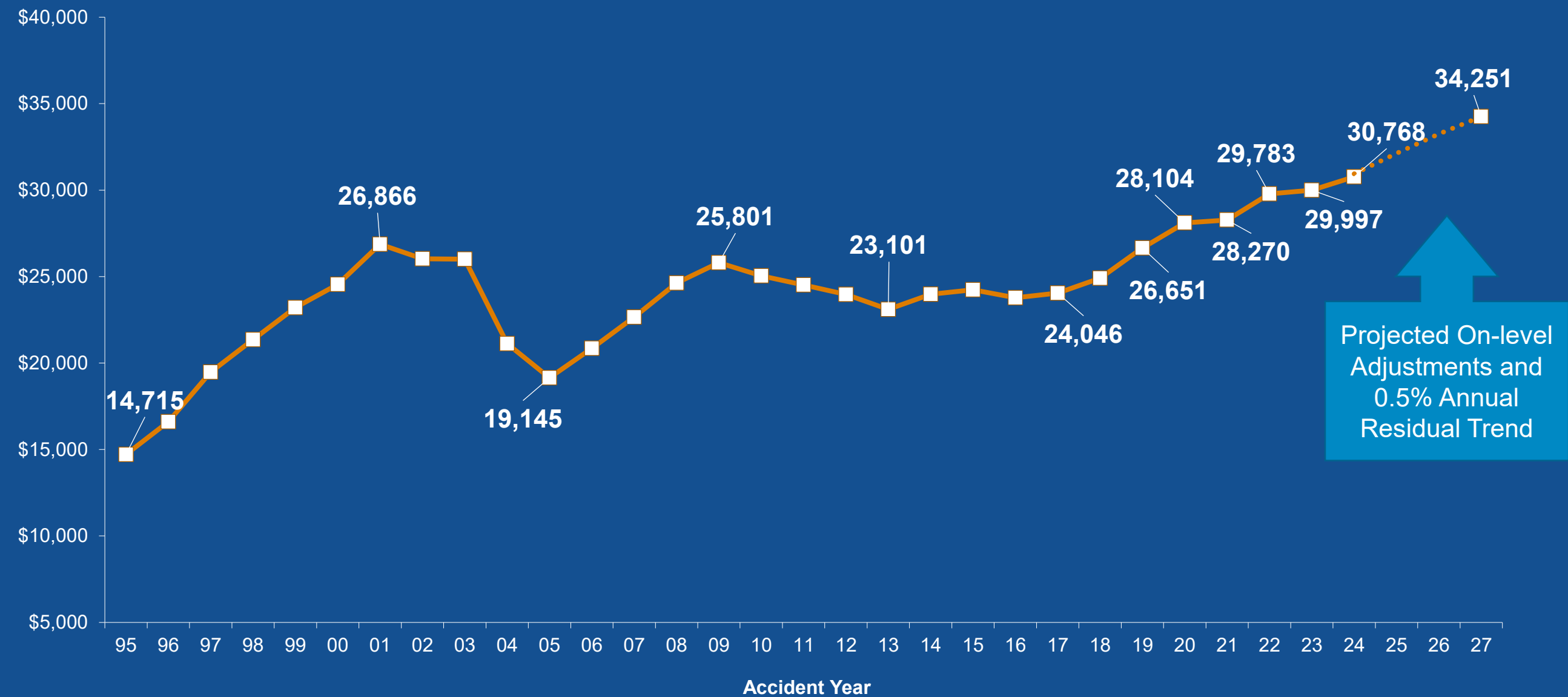
Annual Exponential Trend Based on:

- 1990 to 2024: 0.6%
- 2017 to 2024: 0.5%
- 2021 to 2024: -0.2%

4/10/2025 Agenda Selected: 0.5%

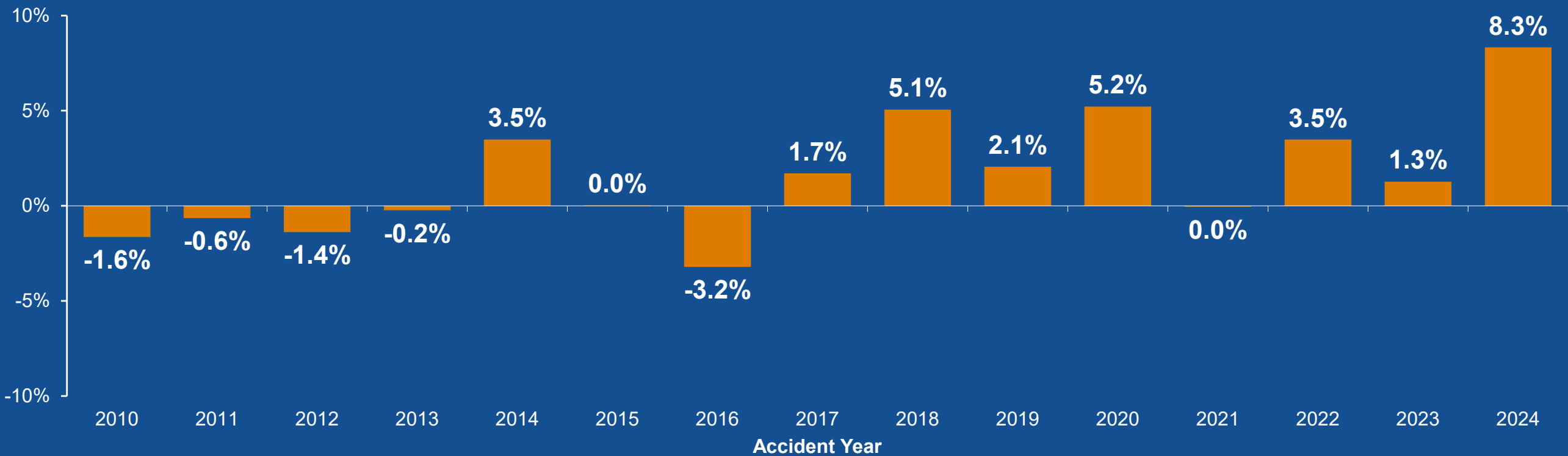
Ultimate Indemnity per Indemnity Claim

As of December 31, 2024



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

As of December 31, 2024



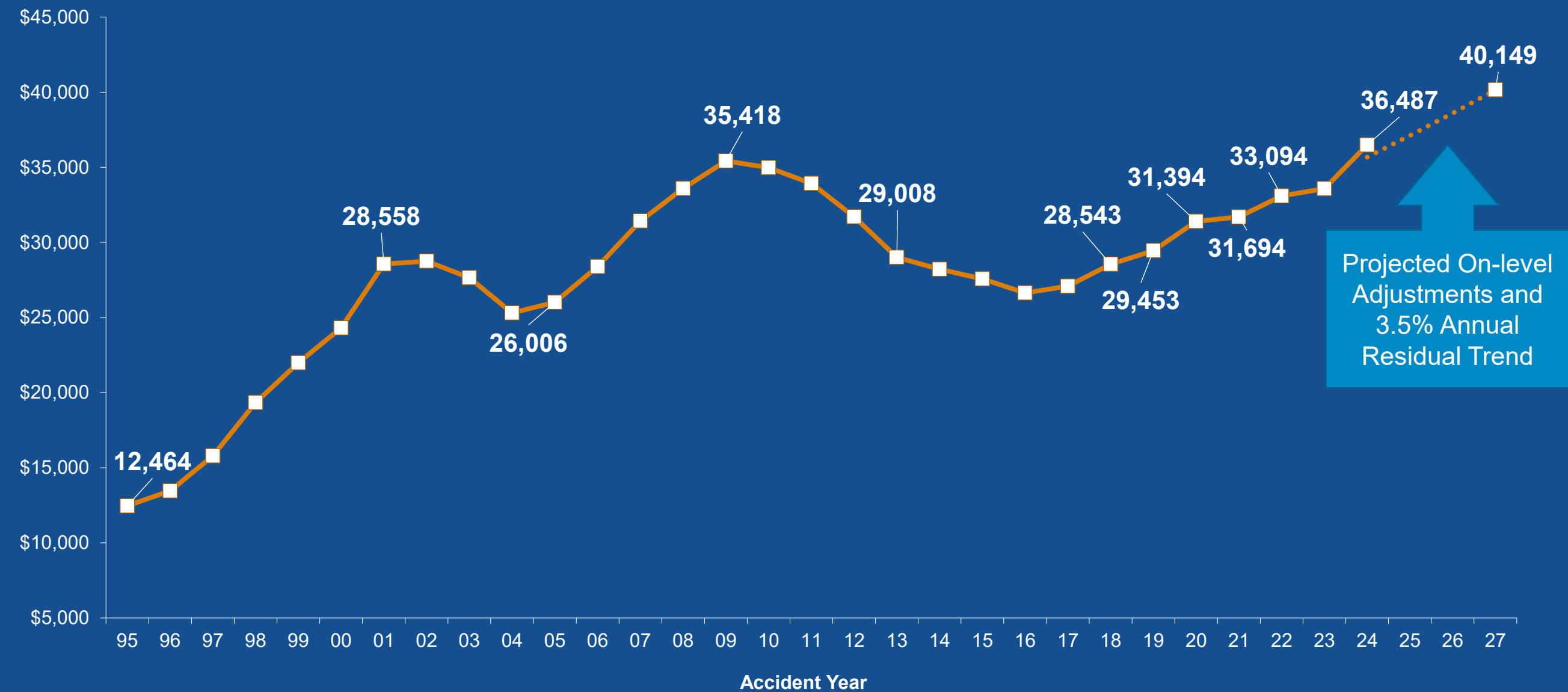
Annual Exponential Trend Based on:

- 1990 to 2024 (including MCCP): 4.4%
- 2017 to 2024: 3.1%
- 2021 to 2024: 4.0%

4/10/2025 Agenda Selected: 3.5%

Ultimate Medical per Indemnity Claim

As of December 31, 2024

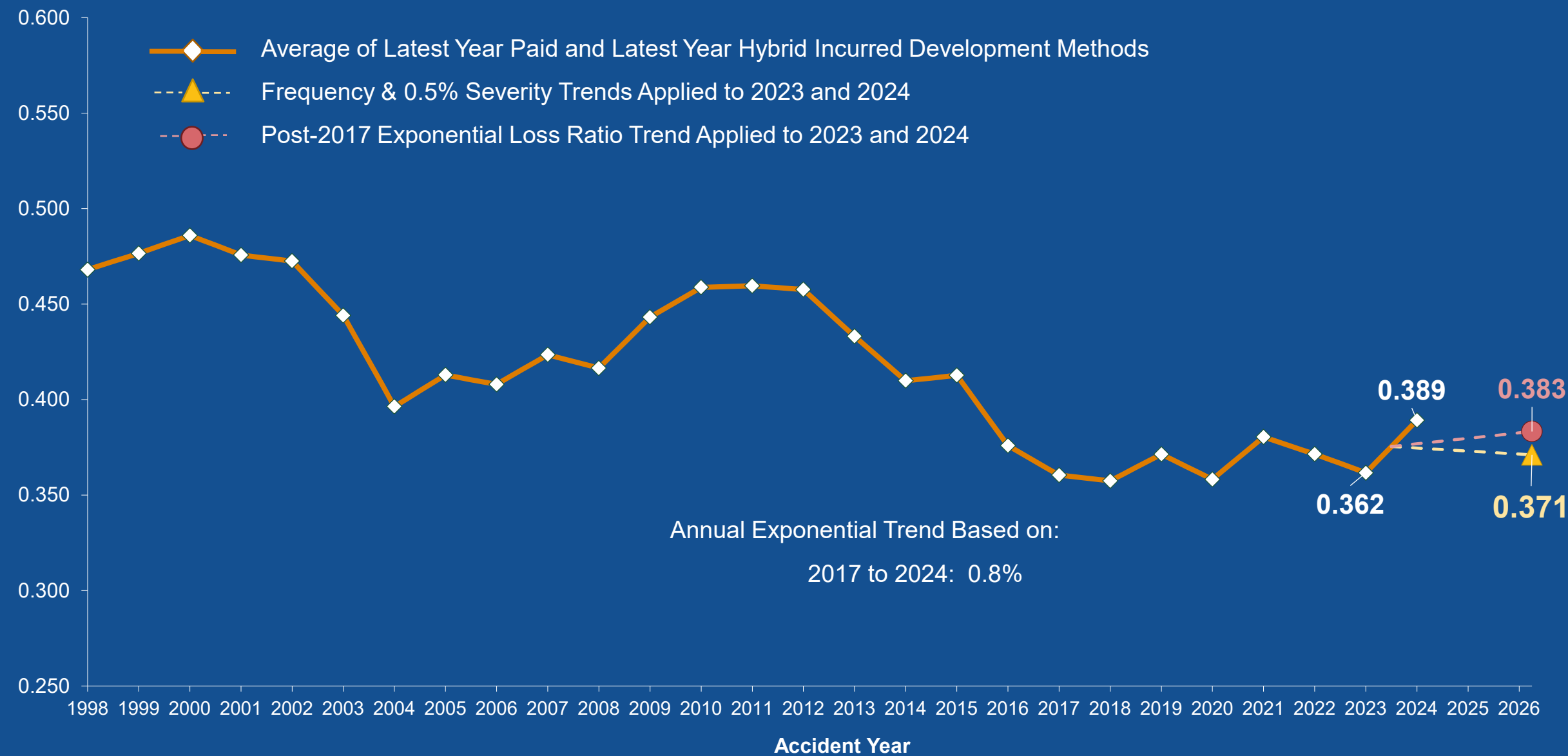


Alternative Trending Methodologies (Item AC25-04-02)

- Separate Frequency & Severity Trends Projections
 - Best during periods when loss ratios are volatile
 - Frequency and severity are affected by differing underlying forces
 - Allows for separate assumptions and judgment about future trends
 - Performed better during reform transition periods than during post-reform periods
 - Performed well in most recent study of trending methods
- Loss Ratio Trend Projections
 - Best during periods with stable loss ratio trends or when frequency and severity are highly correlated
 - Generally not as accurate as frequency & severity method in most recent trending study
 - Projections are similar to separate frequency and severity trending methods with biggest differences on which years to rely on for rates of growth

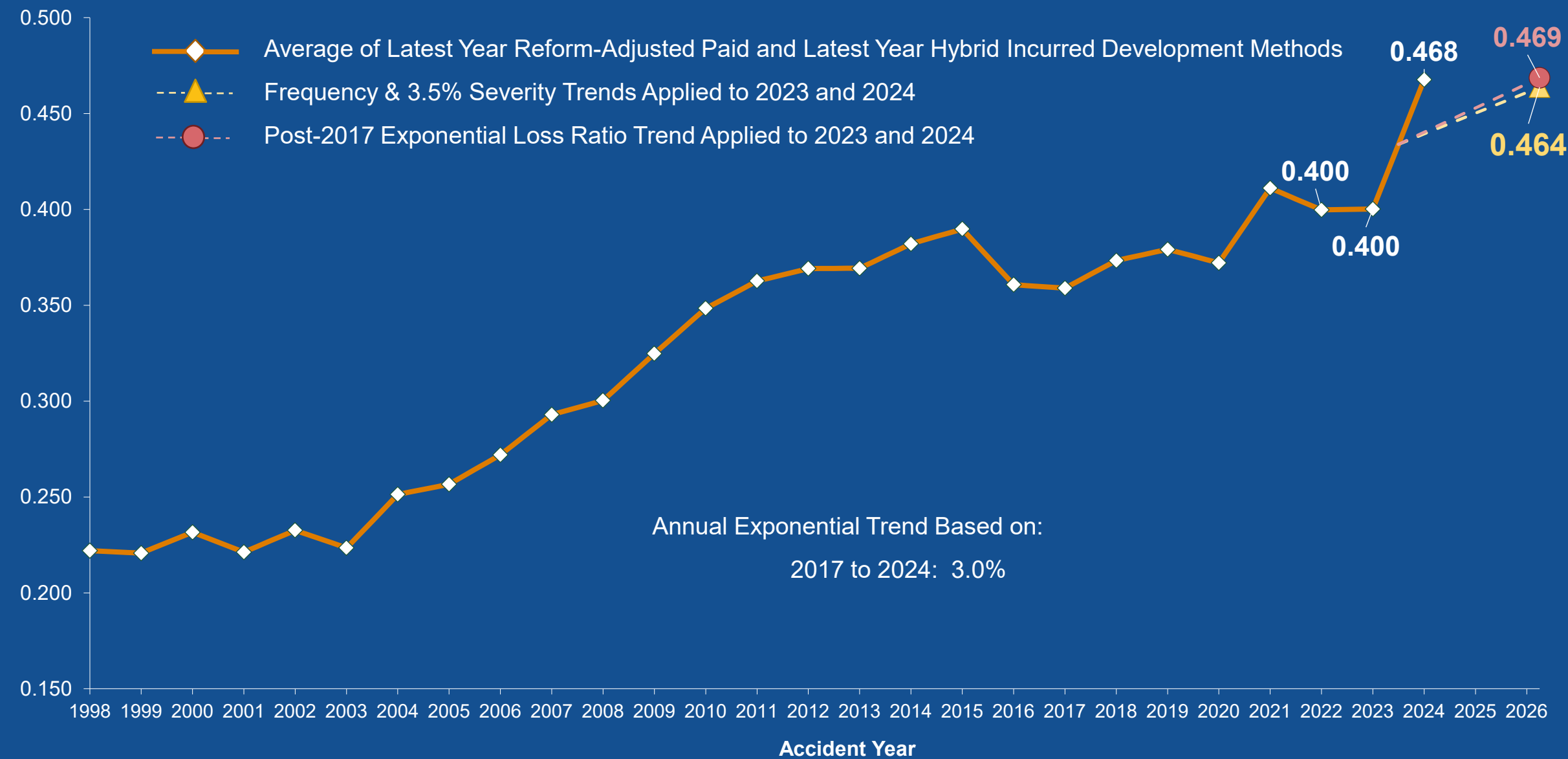
Projected On-Level Indemnity Loss Ratios (Exhibit 7.1)

As of December 31, 2024



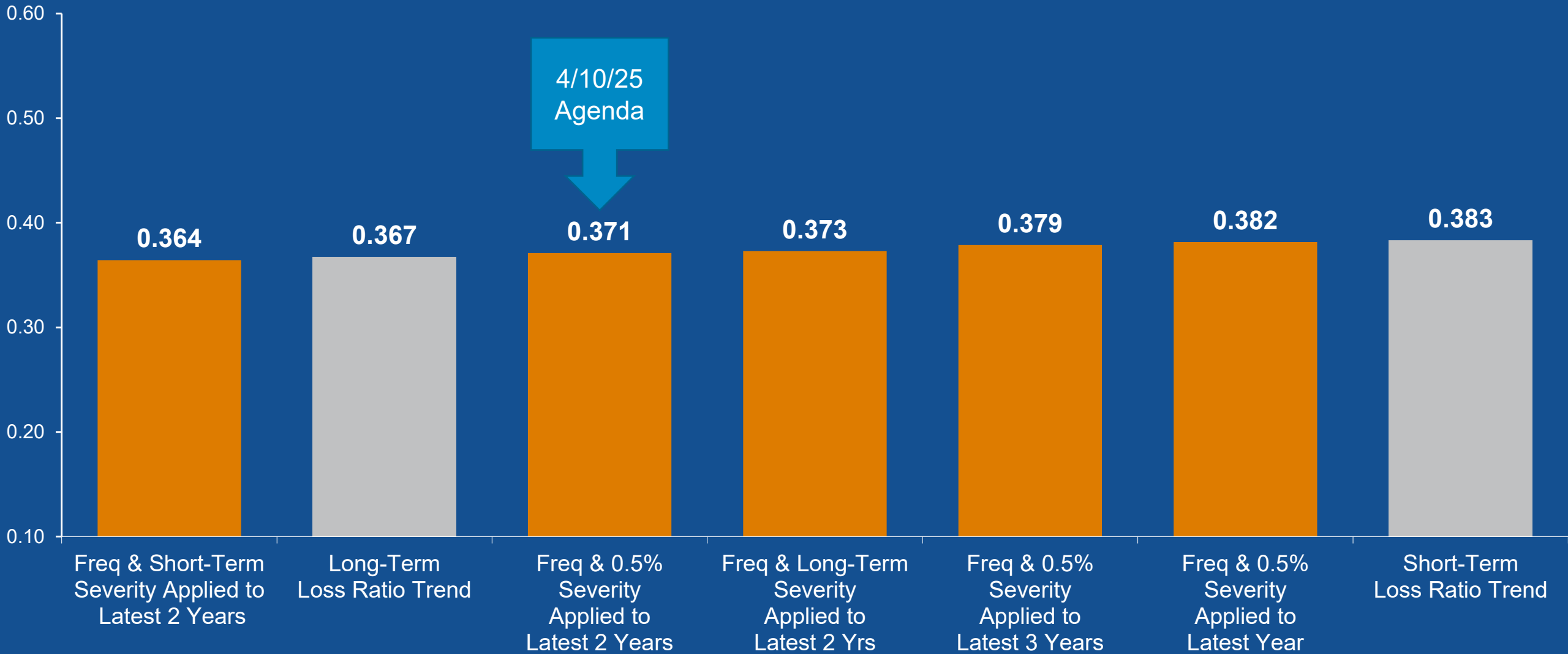
Projected On-Level Medical Loss Ratios (Exhibit 7.3)

As of December 31, 2024



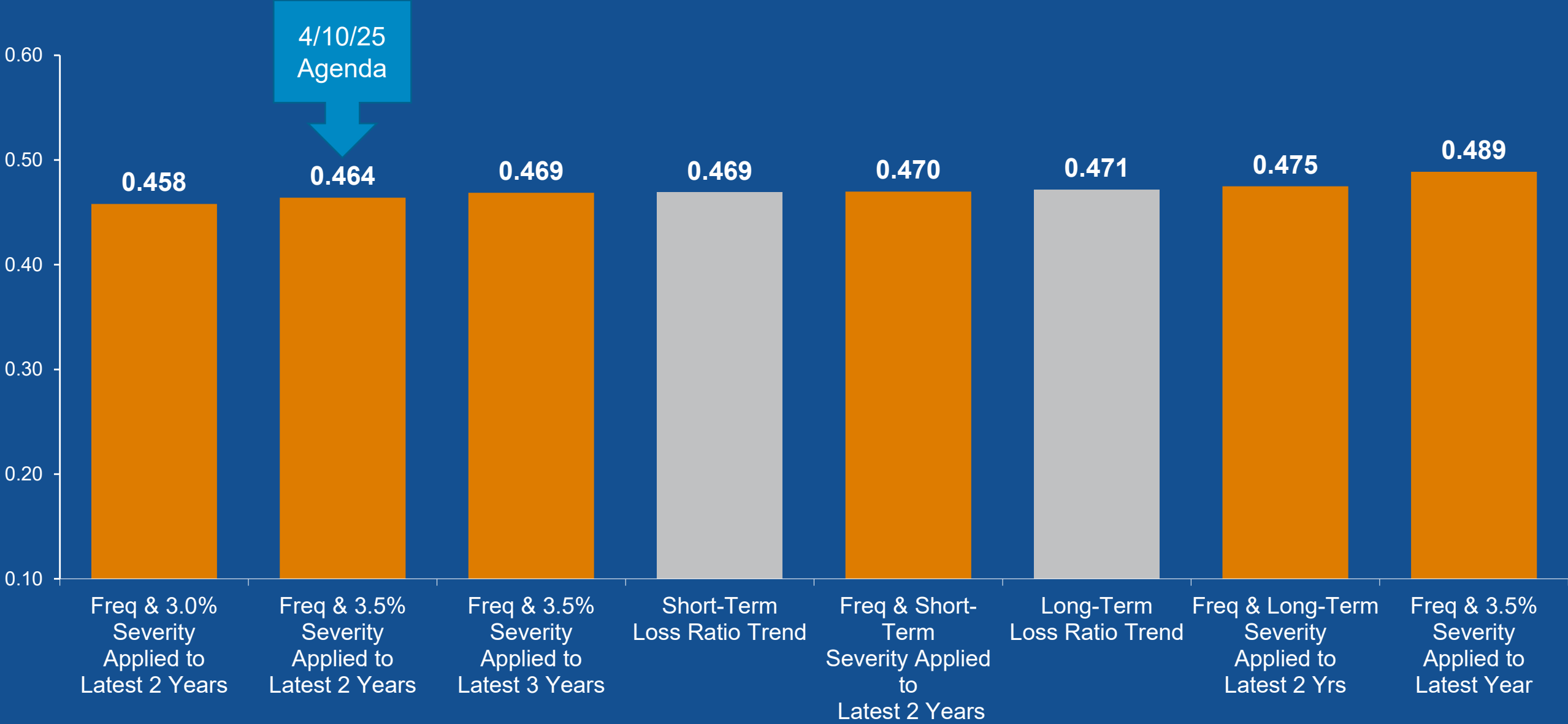
Projected On-Level Indemnity Loss Ratios under Alternative Trending Methods

As of December 31, 2024



Projected On-Level Medical Loss Ratios under Alternative Trending Methods

As of December 31, 2024



05

9/1/2025 Filing – Loss Adjustment Expense Experience Review

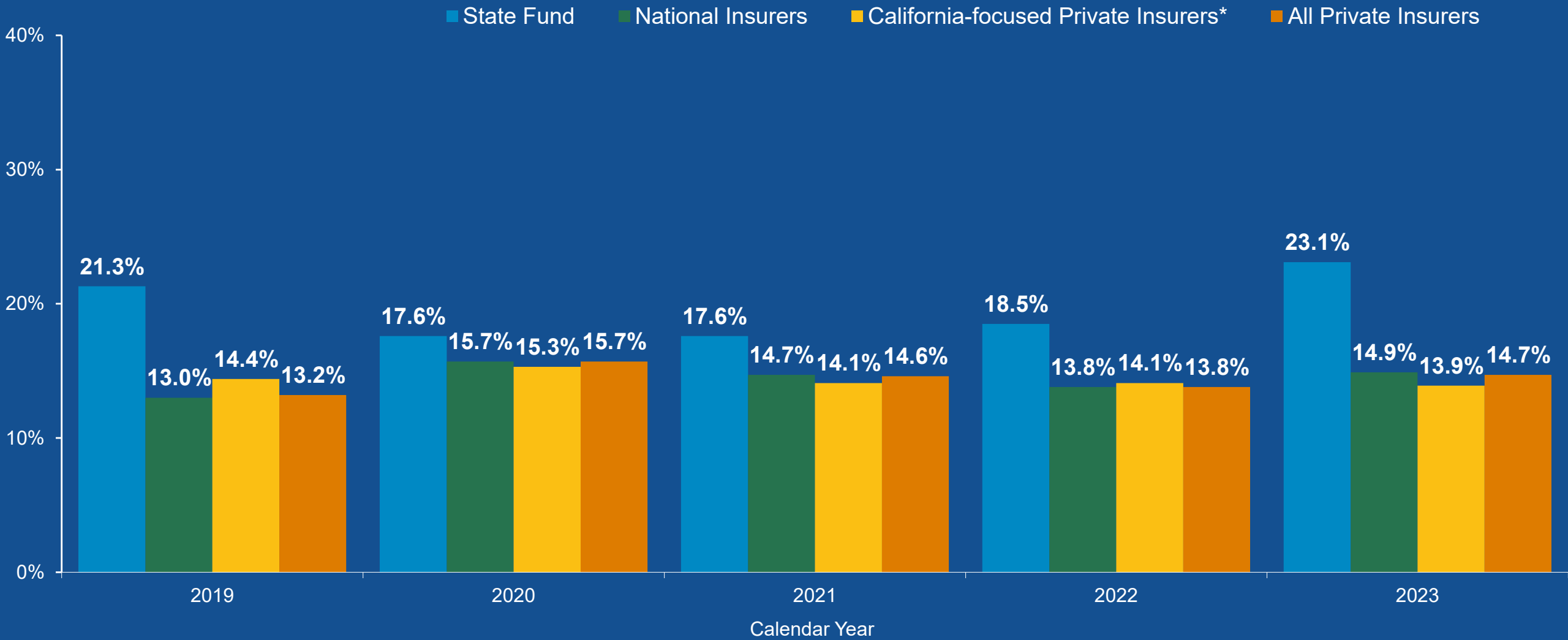


Summary of Preliminary ULAE Projection

- CY 2020 to 2023 ULAE includes COVID-19 claims
 - Unable to separate ULAE on COVID-19 claims from other ULAE amounts
 - CY 2024 ULAE not yet available
- ULAE projection methodologies consistent with 9/1/2024 Filing
 - Average of open count-based method projection and recent CY ULAE to loss ratios
 - Projections of open claim counts exclude COVID-19 claims
 - Average of latest two CY (2022 and 2023) ULAE is used
- ULAE projection preliminary as projected ratios are impacted by frequency, wage and loss projections

Ratios of Paid ULAE to Paid Losses (Exhibit 1)

As of December 31, 2023



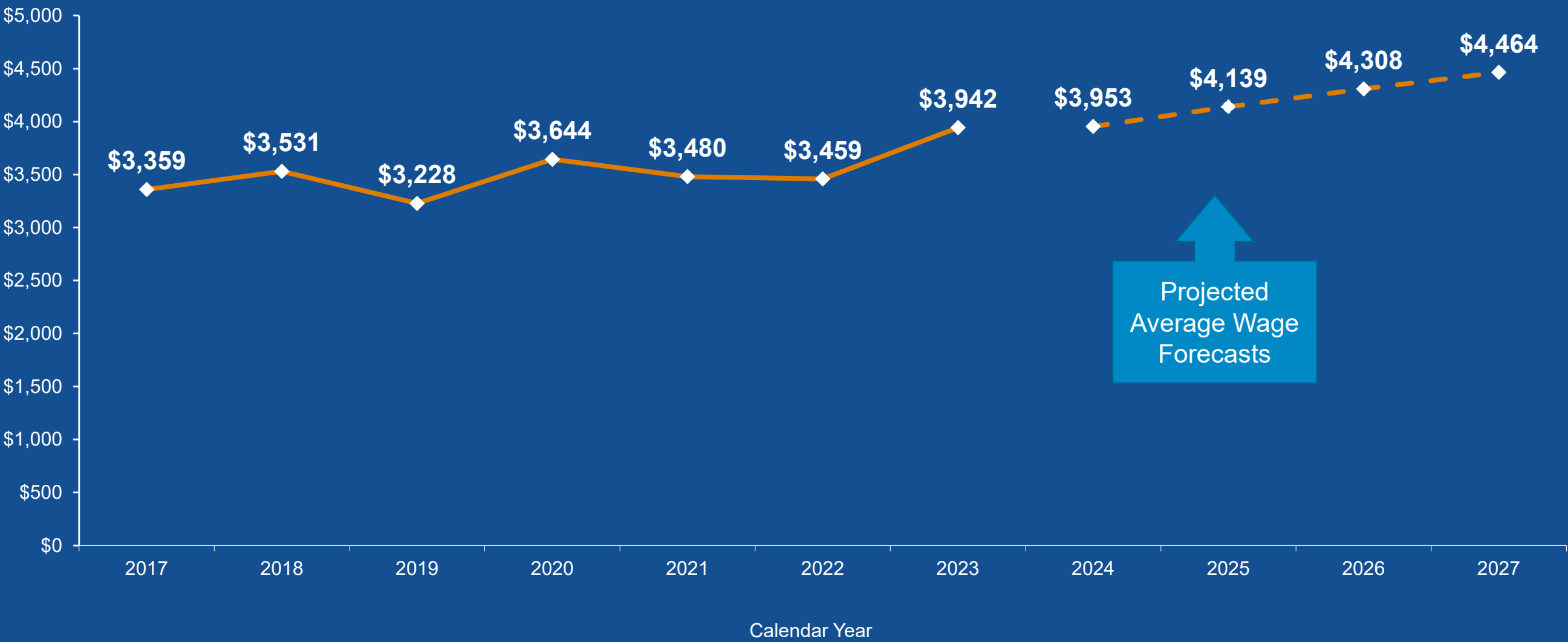
ULAE Projection Methodology

Open Indemnity Claim Count-Based Projection

- Open Indemnity Claims at Beginning of Calendar Year
 - Projected using WCIRB frequency forecasts and recent reporting and closure patterns
 - Open claims by AY projected using latest incremental claim settlement pattern
 - Frequency forecasts consistent with those used for loss projection
 - COVID-19 claims excluded for this calendar year-based method
- Calendar Year Paid ULAE per Open Indemnity Claim
 - Data based on private insurers only
 - Reflects adjustments for national insurers' ULAE similar to prior filings
 - Future values projected using selected wage level changes
- Projected 9/1/2025 Policy Period ULAE
 - Trend to future CY based on average of CYs 2022 and 2023
 - (# of open indemnity claims) X (paid ULAE per open indemnity claim)
 - Paid ULAE per open claim projected out 3 years to approx. average ULAE payment date on claims

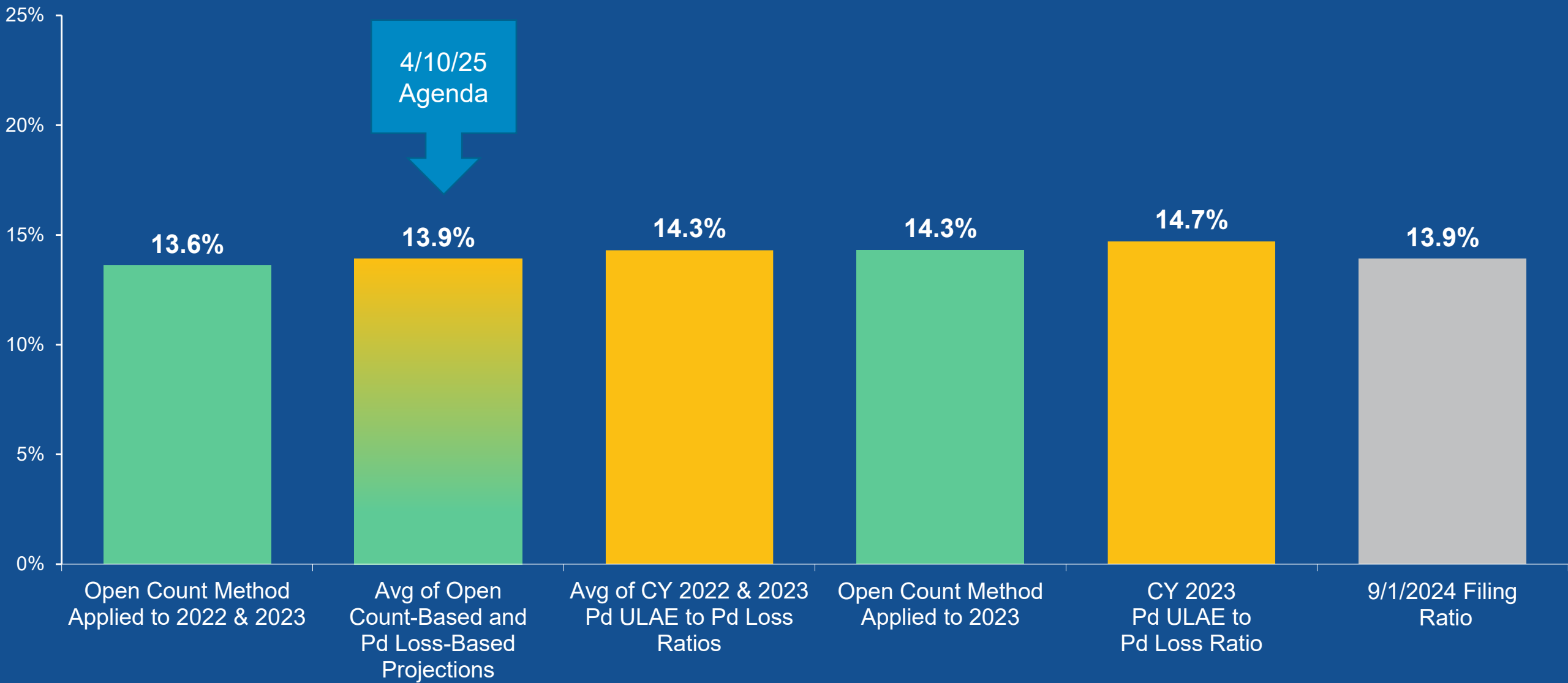
Paid ULAE per Open Indemnity Claim – Private Insurers (Exhibit 3.5)

As of December 31, 2023



Projections of ULAE to Loss

As of December 31, 2023

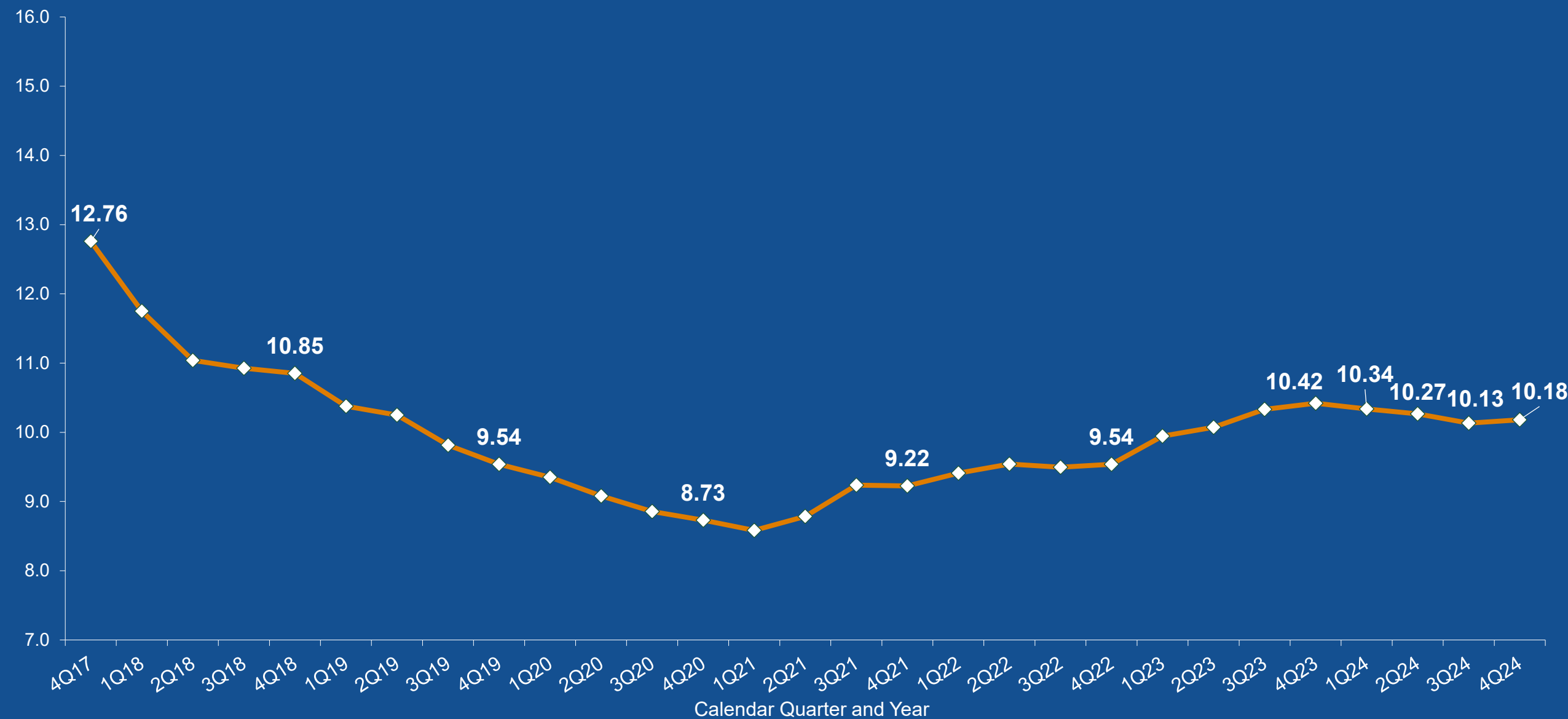


Summary of Preliminary ALAE and MCCP Projections

- Data is through December 31, 2024 with COVID-19 claims and paid ALAE excluded
 - COVID-19 claims are excluded since this method trends from the claim counts directly
- Methodology is consistent with 9/1/2024 Filing
- Development is projected based on the latest year
 - No adjustment for changes in claim settlement rates since current changes are modest
- Projection based on frequency and severity trends applied to accident years 2023 and 2024
- Appropriateness of adjustment to ALAE for the impact of SB 1160 up for review
- ALAE and MCCP projections preliminary as projected ratios are impacted by frequency and loss projections

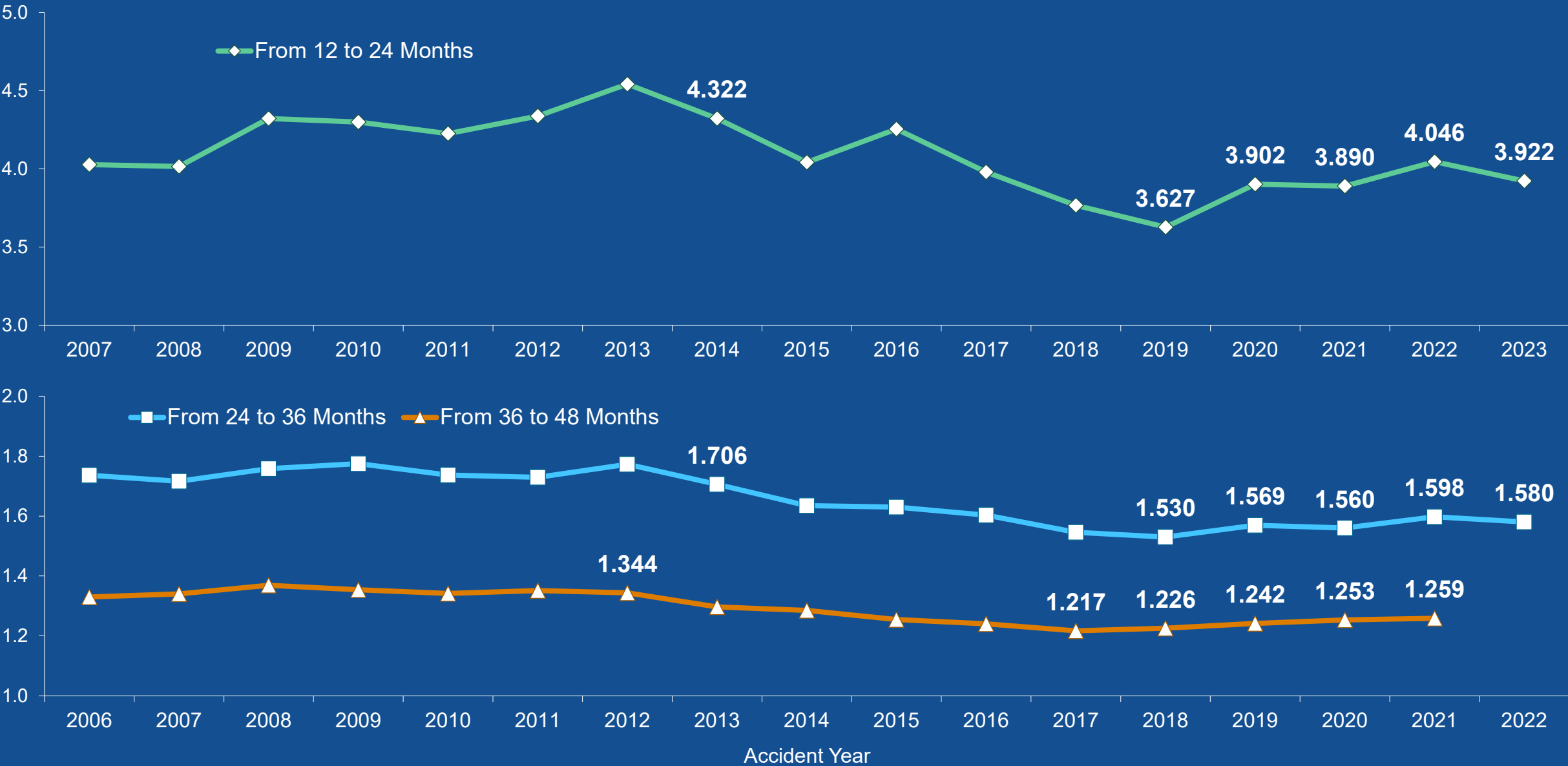
Cumulative Paid ALAE Development from 12 to 90 Months

As of December 31, 2024



Paid ALAE Development – Private Insurers (Exhibit 8.1)

As of December 31, 2024

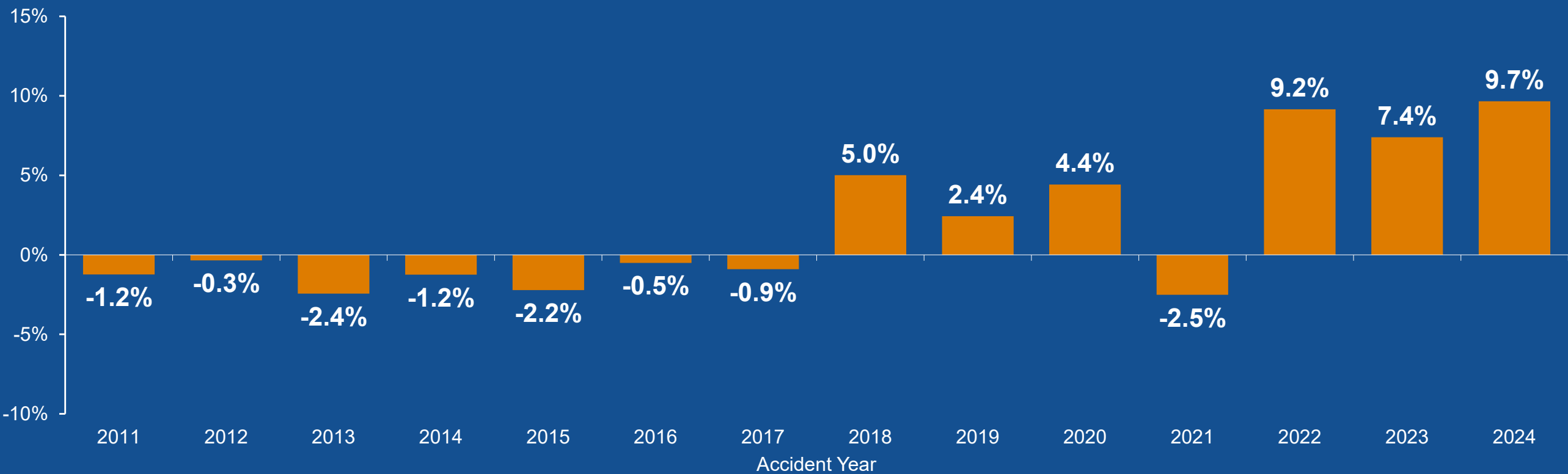


ALAE Projection Methodology

- Accident Year Ultimate Indemnity Claim Counts
 - Latest year development
 - Projected using same frequency forecasts as loss projection
- Accident Year Ultimate ALAE per Indemnity Claim
 - Data based on private insurers only
 - Latest year development with inverse power curve tail
 - Projected using average of ultimate ALAE per indemnity claim and incremental paid ALAE per open indemnity claim for both long-term and short-term periods
- Projected 9/1/2025 Policy Period ALAE
 - (Projected # of ultimate indemnity claims) X (projected ultimate ALAE per indemnity claim)
 - Projection from AY 2023 and 2024
 - Initial projected ratio reduced for lien savings from SB 1160 & AB 1244 not yet reflected in emerging ALAE costs (consistent with prior filing)

Projected Changes in Ultimate ALAE Severity for Private Insurers (Exhibit 6)

As of December 31, 2024

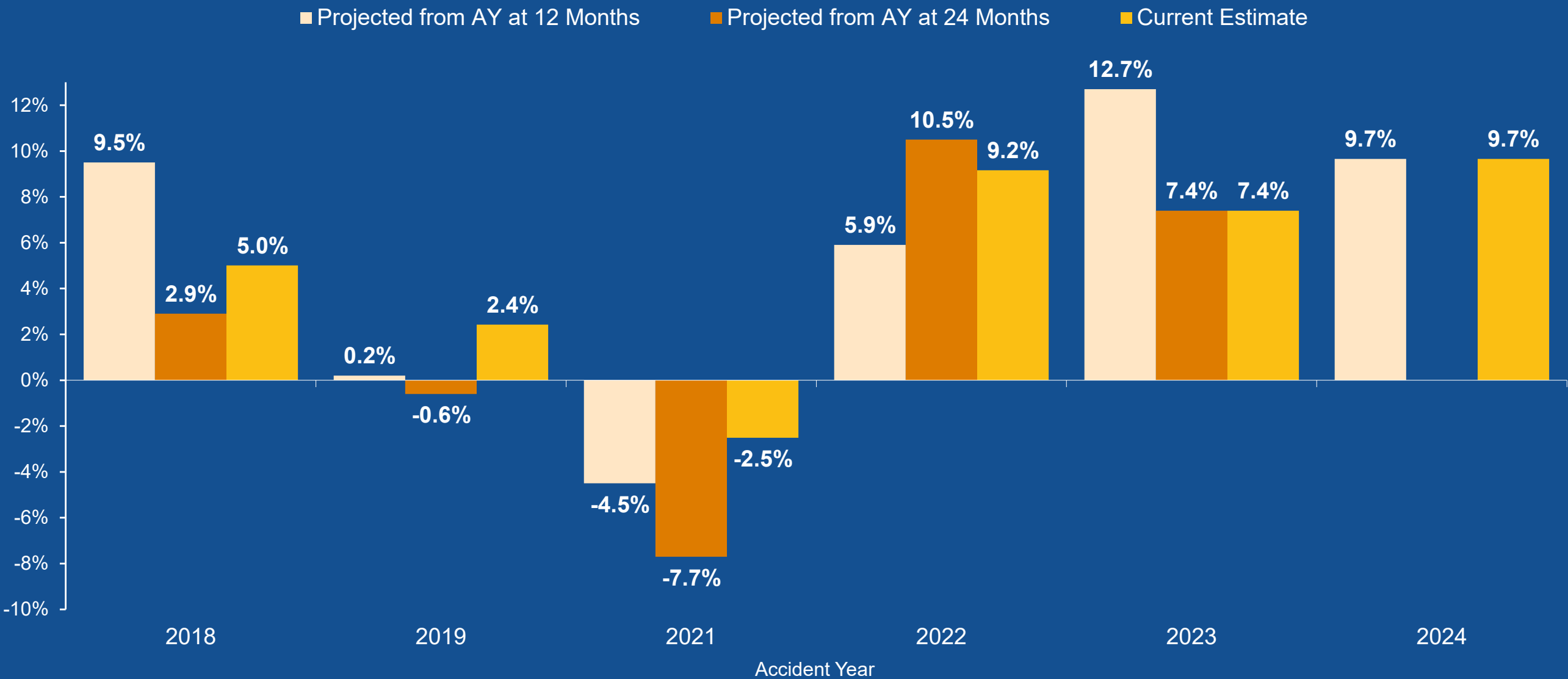


Annual Exponential Trend Based on:

- 1990 to 2024: 5.1%
- 2017 to 2024: 4.5%
- 2021 to 2024: 8.6%

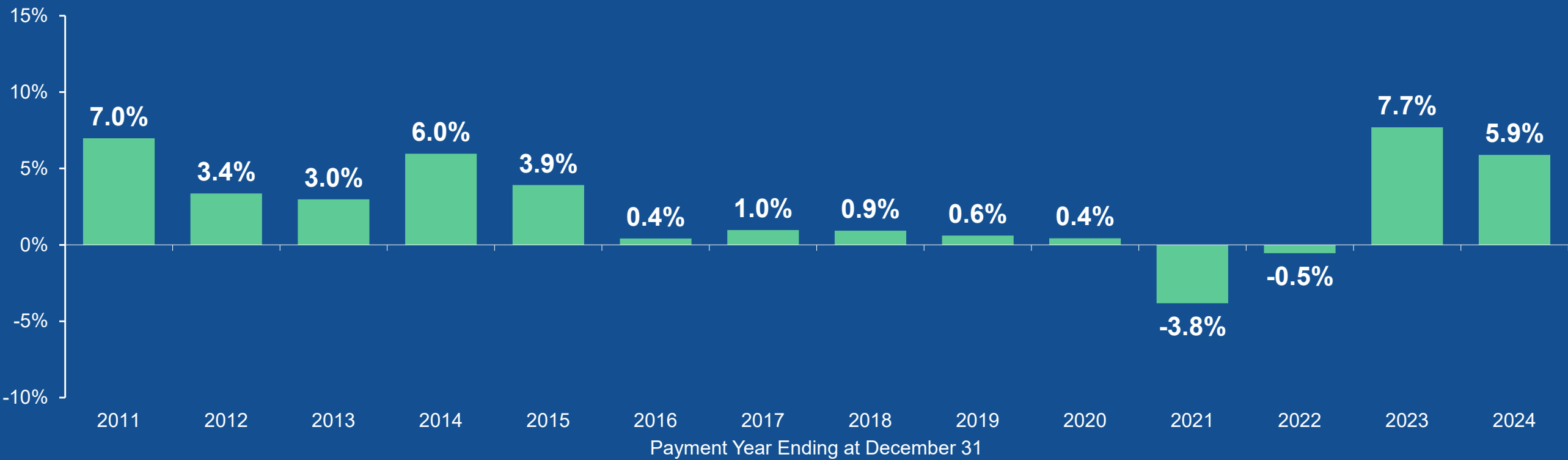
ALAE Severity Changes Projected from Early Evaluations Compared to Current

As of December 31, 2024



Change in Incremental Paid ALAE per Open Indemnity Claim for Private Insurers (Exhibit 7)

As of December 31, 2024



Annual Exponential Trend Based on:

2001 to 2024: 3.4%

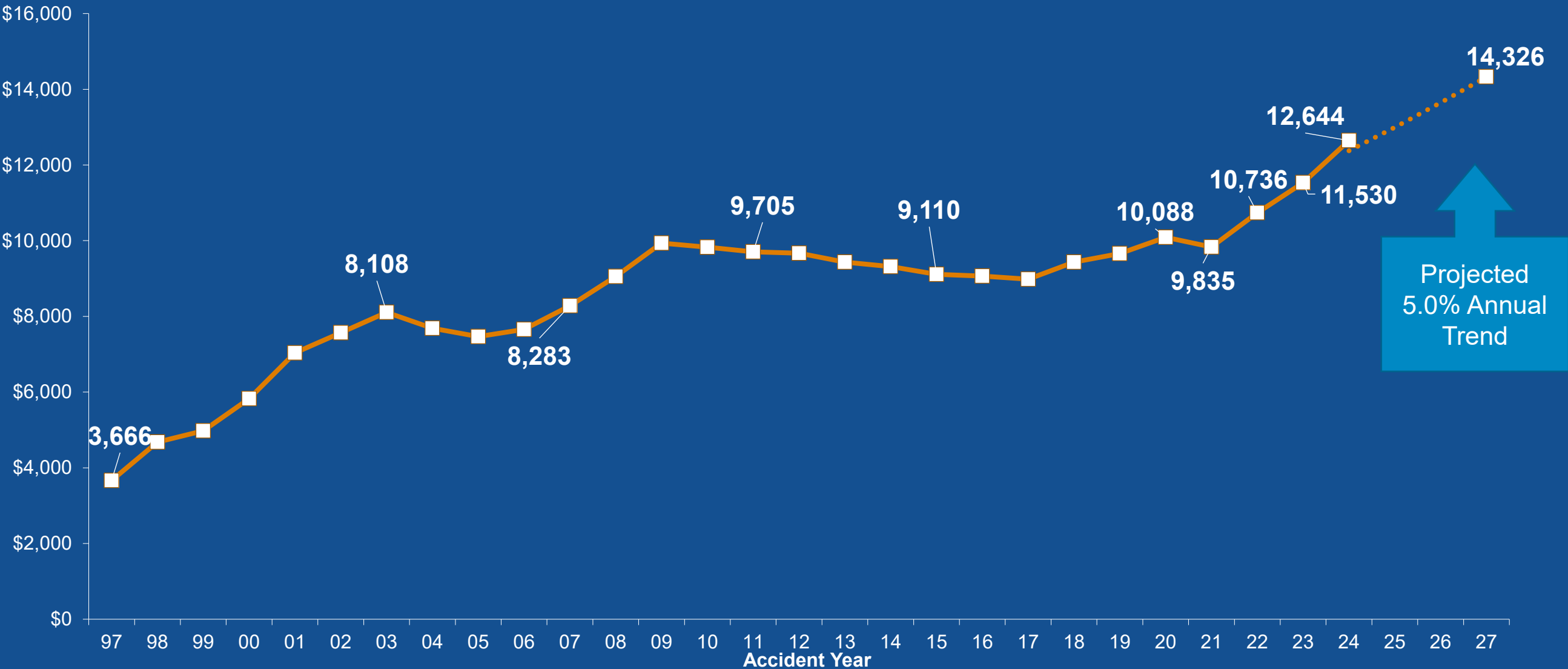
2017 to 2024: 0.9%

2021 to 2024: 4.6%

4/10/2025 Agenda Selected ALAE Severity Trend: 5.0%

Ultimate ALAE per Indemnity Claim for Private Insurers

As of December 31, 2024

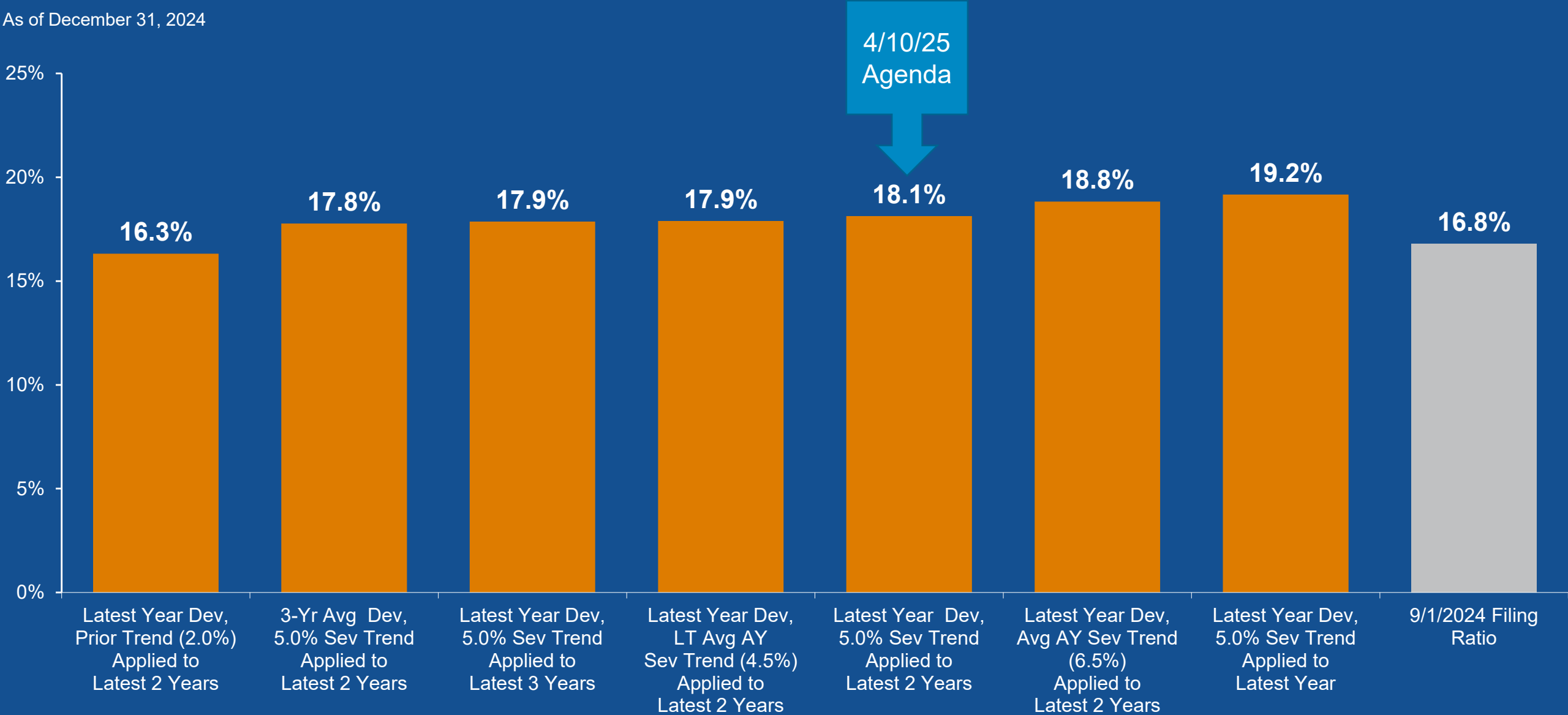


Adjustment for SB 1160 & AB 1244 Lien Reforms in ALAE

- SB 1160 and AB 1244, implemented in 2017, includes reforms to lien filing process
- Liens incur significant ALAE costs and therefore the reforms were estimated to reduce ALAE costs
 - Full impact of the reforms estimated at 11.2% reduction in ALAE
- Projected ALAE ratio has been adjusted for many years for estimated impact not yet reflected in paid ALAE
 - Tempering based on estimated % of ALAE paid for AY 2017 and 2018
 - Estimated tempered adjustment in 9/1/2024 Filing was -1.3% based on 88% reduction
- Current impact to projected ALAE ratio is small (-0.2%)
- Staff recommends eliminating adjustment given reforms almost a decade old

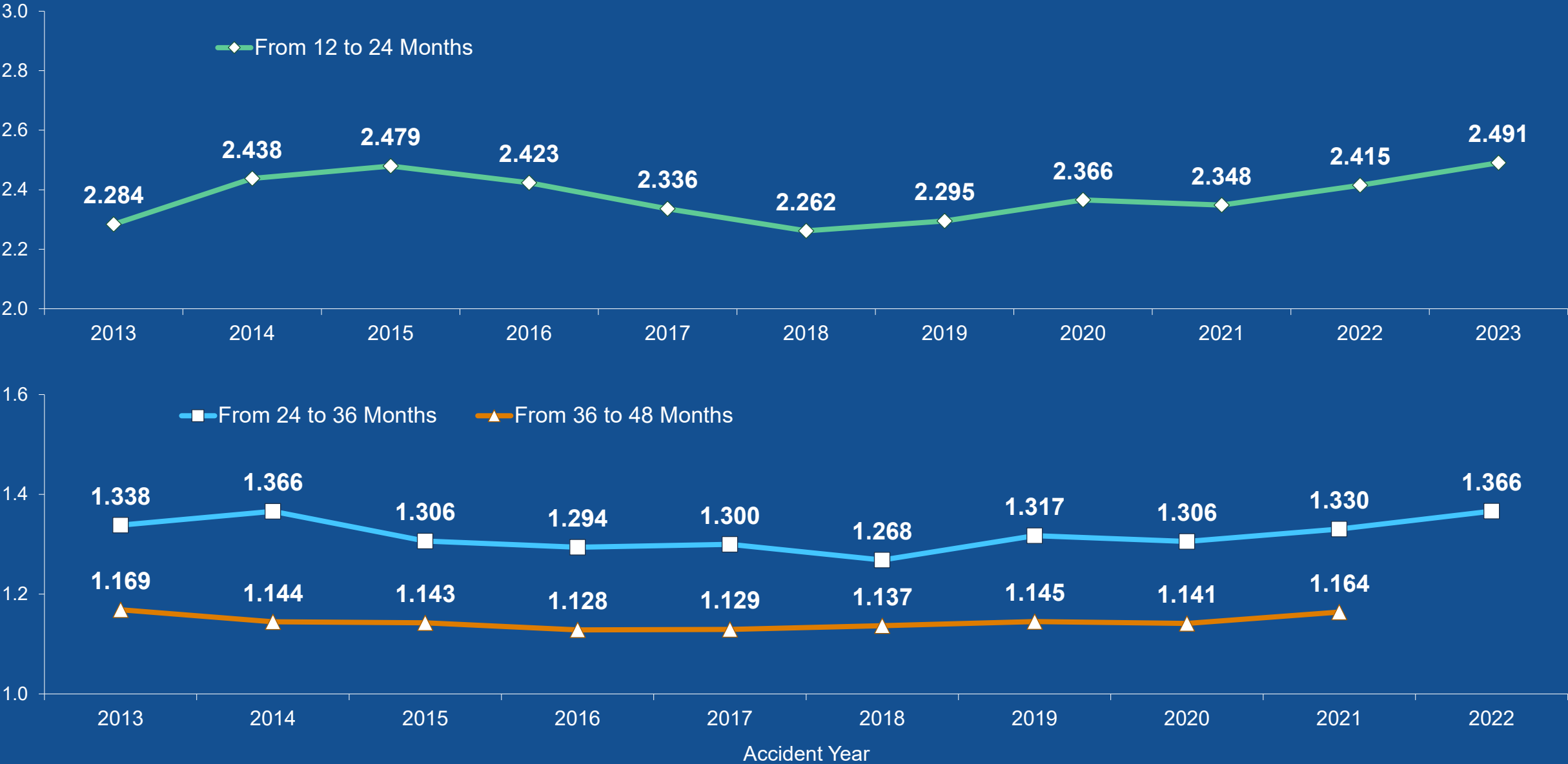
Projections of ALAE (Excluding MCCP) to Loss

As of December 31, 2024



Paid MCCP Development (Exhibit 16.2)

As of December 31, 2024

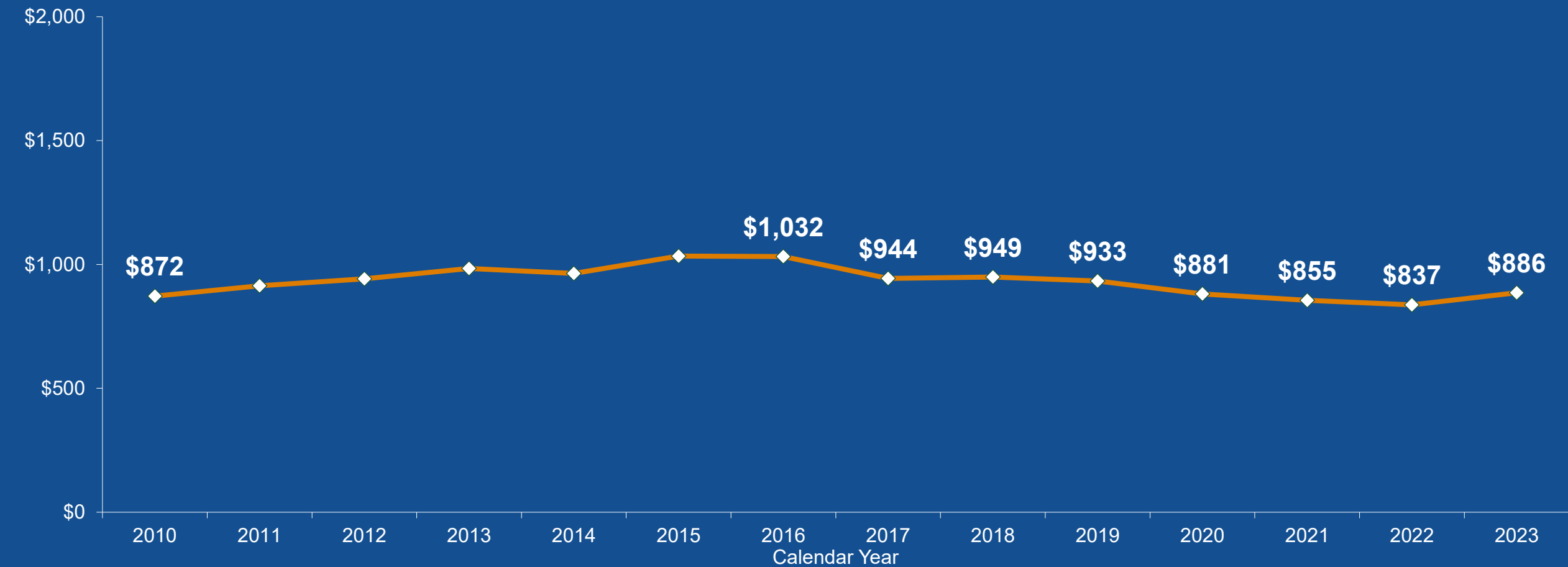


MCCP Projection Methodology

- MCCP methodology based on that for ALAE
 - Statewide data used
 - Development based on the latest paid MCCP through 156 months and paid medical after 156 months
 - Severity trend based on average changes in CY MCCP per open claim and ultimate AY MCCP per indemnity claim
 - Trend applied to 2023 and 2024

Calendar Year Paid MCCP per Indemnity Claims Inventory (Exhibit 15)

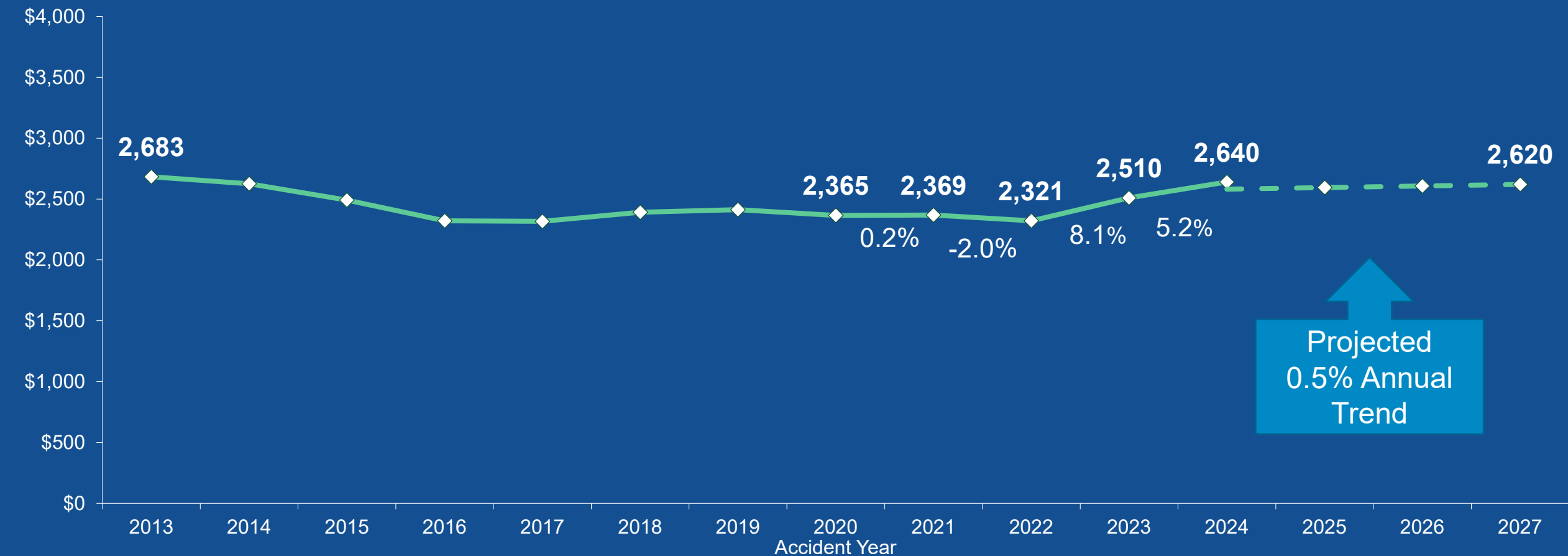
As of December 31, 2024



Annual Exponential Trend Based on:
2017 to 2023: -1.9%

Projected Ultimate MCCP per Indemnity Claim (Exhibit 14)

As of December 31, 2024



Annual Exponential Trend Based on:

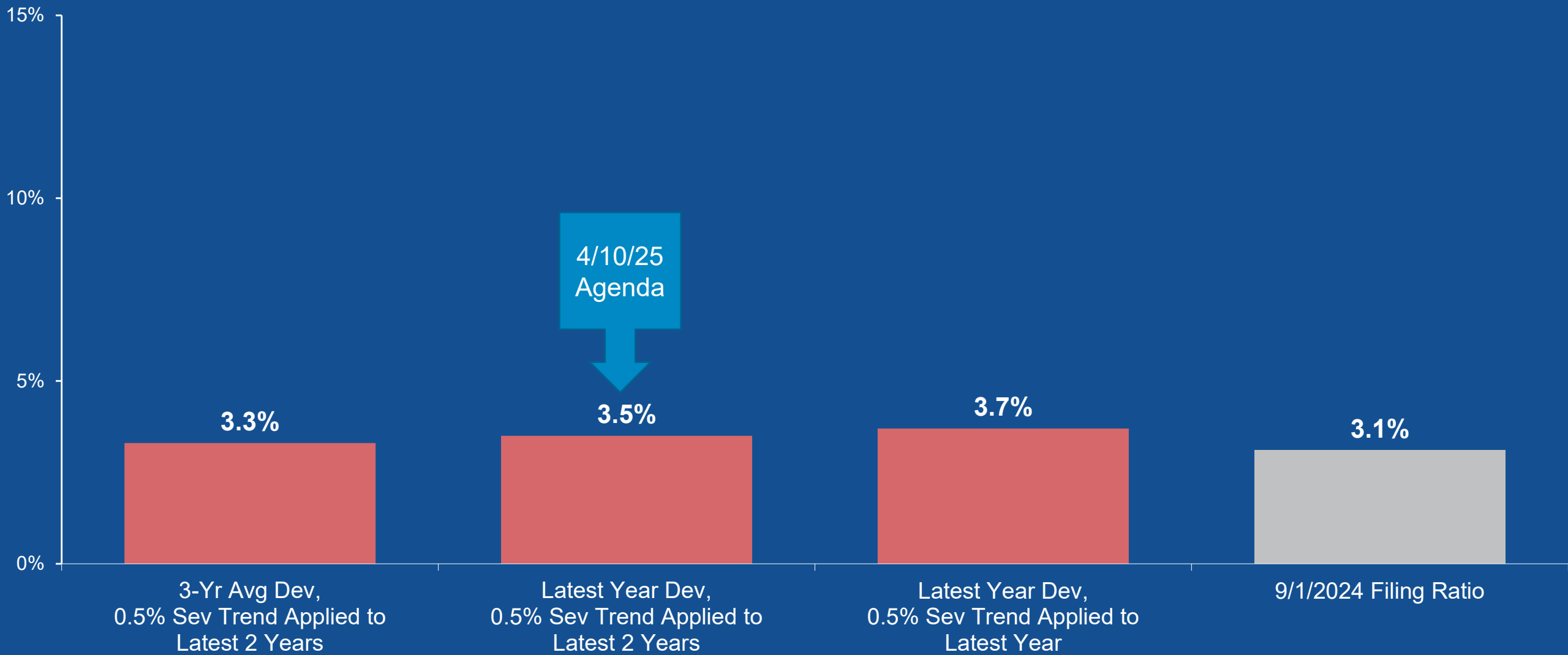
2017 to 2024: 1.2%

2021 to 2024: 4.1%

4/10/2025 Agenda Selected MCCP Severity Trend: 0.5%

Projections of MCCP Costs to Loss

As of December 31, 2024



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