

Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
March 20, 2025	9:30 AM	Microsoft Teams Webinar	Tony Milano
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Berkshire Hathaway Homestate Companies
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Serina Wu

WCIRB

Laura Carstensen
Lucy Chen
Andrea Coleman
Ziyan Li
Tony Milano
James Xia
Julia Zhang

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After a reminder of the antitrust restrictions, the meeting of the Actuarial Committee was called to order at 9:30 AM with Mr. Tony Milano, Executive Vice President and Chief Actuary, presiding.

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Approval of Minutes

The Minutes of the meeting held on February 12, 2025, were distributed to the Committee members in advance of the meeting for review. As there were no corrections to the Minutes, they were adopted as written.

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Item AC16-06-05

Update on Medical Severity Trends by Component

Staff summarized the latest medical severity trends by component based on medical transaction data through 2024. The Committee was advised that the overall medical service cost per claim in 2024 increased by 12% compared to 2023. This was driven by an 8% increase in paid per transaction and a 4% increase in number of transactions per claim, which is a proxy for medical service utilization. Staff noted that the uptick in service utilization in 2024 marked a deviation from the long-term downward trend observed since 2012. Of all medical services, medical-legal, inpatient and physician services experienced the most significant increases in paid per claim in 2024, rising by 15%, 14% and 14%, respectively. The Committee was advised that the increase in physician services was largely attributable to a 21% increase in physical medicine and rehabilitation service costs. While the Healthcare Common Procedure Coding System (HCPCS)¹ service category had a below average increase in paid per claim by 10%, and two subcategories, including interpreter services and home health care, experienced a significant increase of 21% and 22%, respectively, in paid per claim.

The Committee was advised of the potential drivers for each cost-driving service type:

1. Physical medicine and rehabilitation services: As the second largest subcategory of physician services, physical medicine and rehabilitation services accounted for 15% of total medical payments in 2024. The Committee was advised that paid per claim increased by 21%, mostly driven by a 17% increase in paid per visit. This was largely driven by a 79% increase in the use of procedure code 97799 (Unlisted Physical Medicine/Rehabilitation Service or Procedure), which has the highest cost per transaction of all physical medicine and rehabilitation codes and is not covered under any fee schedule. In 2024, this code accounted for 24% of total physical medicine and rehabilitation payments, up from about 14% in 2023 and prior years. Staff noted that unlisted codes, such as 97799, are typically used for new or modified procedures lacking a specific code. The Committee suggested investigating whether this increase reflects substitution for other services or the adoption of new treatments. Staff agreed to analyze this further and gather input from the Medical Analytics Working Group and Claims Working Group.
2. Inpatient care: The Committee was advised that inpatient cost per claim increased by 14% in 2024, driven by a 5% increase in paid per inpatient episode and an 8% increase in number of episodes per claim. Staff noted that inpatient services, being high-cost but low-frequency, can be volatile year over year. The Committee was advised that the increase in 2024 was primarily driven by inpatient services in the more severe Diagnosis-Related Group (DRG) category, which represents the highest case severity of all inpatient care. The Committee asked about the differential in average episode cost between the more severe DRG category and less severe DRG category. Staff explored that in the data after the meeting, and the average episode cost of the more severe DRG category is 71% higher than that of the less severe DRG category.
3. Interpreter services: The Committee was advised that interpreter services have shown a steady upward severity trend since 2012, largely due to increasing service utilization. In 2024, interpreter cost per claim increased by 21%, attributed by a similar magnitude of increases in paid per transaction (+11%) and number of transactions per claim (+10%). Staff noted that the continuing increase in the interpreter service costs could potentially be driven by a lack of fee schedule, longer durations of interpreter services, higher charges for interpreting more rare languages, and

¹ The HCPCS includes the Level II codes, which primarily include ambulance services, durable medical equipment, prosthetics, orthotics, and supplies used outside a physician's office, home health services, and interpreter services.

better remote technologies facilitating interpreter services in different settings throughout the claim process. The Committee suggested exploring if and how transportation of interpreters affects the rates for medical interpreters over time. Staff agreed to explore and solicit input from the Claims Working Group.

4. Home health care: The Committee was advised that while home health care services account for a smaller share of medical service payments (2%), the costs have been increasing steadily in recent years. Staff noted that home health care services are not covered under any fee schedule. In 2024, the 22% cost increase was most driven by a 14% increase in number of home health care transactions per claim. Staff noted that skilled nursing was the main driver for this trend, possibly linked to an aging workforce, based on past working group feedback and staff's exploration of the medical data.
5. Medical-legal: The Committee was advised that medical-legal services are the second largest service category and had a 15% increase in paid per claim in 2024. This was driven by a 10% rise in number of services per claim—primarily comprehensive evaluations—and a 5% increase in paid per service, largely due to costs for additional pages of record review. Staff also noted an uptick in the number of evaluations related to psychological or psychiatric conditions.

In addition to the cost-driving service types, the updated medical severity trends for outpatient and pharmaceuticals were also summarized at the meeting.

The Committee was advised that the increase in 2024 was generally consistent throughout the year. Specifically, the increase in the paid per claim in 2024 based on the first half of 2024 is consistent with the full year of 2024. Staff noted that more mature data slightly moderated the cost increases in physical medicine and rehabilitation services, home health care and interpreter services. The Committee was advised that staff plans to incorporate data through January 2025 to further assess how the recent medical severity increases are holding up and will share the findings with the Committee at the April 10, 2025 meeting.

The Committee suggested that it would be beneficial to understand the share of medical payments not subject to any fee schedule. Staff agreed to explore and share the results with the Committee.

Item AC21-12-07

Indemnity Claim Frequency Model

At the February 12, 2025 Actuarial Committee meeting, staff presented analysis of the impact to the Indemnity Claim Frequency Model (model) of adding the latest diagonal of unit statistical report (USR) data. Based on feedback from that presentation, staff presented performance analysis of alternative methods to estimate changes in the accident year (AY) indemnity claim frequency after the AYs based on complete USR data. Staff reminded the Committee that there has been a recent significant increase in the frequency of cumulative injury claims while the frequency of non-cumulative injury claims remains flat, and noted this is consistent across regions.

Staff presented two alternative methods to partial USR data for estimating the change in frequency for the latest AY used in the model and found that, for recent AYs, the current approach for estimating the change based on a partial year of USR data has had the lowest mean squared errors (MSE). Staff reviewed the accuracy of two viable alternatives to forecast the frequency change one year after the latest model AY and found the current approach of estimating the change using changes in aggregate counts of indemnity claims and changes in overall employment at 12 months yielded the lowest error in recent AYs. Staff also reviewed the historical accuracy of the weighted average indemnity claim frequency change that approximates the filing projection period for alternative forecasts of the change in the cumulative injury index (CII). During recent periods, the model parameterized with the long-term average change in the CII had both lower absolute errors and MSE than the model with the time series forecast of the CII.

A Committee member asked if the recent Los Angeles area wildfires and changes in tariffs were contemplated in the economic forecast¹ being used. Staff noted that impacts from the wildfires were estimated by the forecasters and that impacts of federal immigration policy and trade tariffs were also included. The primary assumptions impacting the UCLA economic forecast include:

Federal Policies

- Deportations will reach one million per year by 2026
- Tariffs of 25% imposed on Canada and Mexico while there will be carve outs or lower tariffs assumed for certain industries such as energy, aluminum and lumber
- Increase of 10% to tariffs imposed on China
- Reciprocal tariffs are included when possible and will be updated as their specifics come to fruition

Wildfires

- Direct property loss between \$76 billion and \$131 billion, with roughly \$45 billion of insured loss
- 0.48% (approximately \$4.6 billion) decline in county level GDP
- Wage loss of \$297 million for local businesses and employees

For the April 10, 2025 Actuarial Committee meeting, staff recommended incorporating the model including the partial data for AY 2023 while continuing to exclude AY 2020, 2021 and 2022, and using the long-term average change in the CII for the forecast years. Staff plans to continue to monitor the data and investigate the drivers of frequency changes in order to adjust the model as necessary. Committee members supported staff's recommendation and staff will present this model at the next Actuarial Committee meeting.

¹ UCLA Anderson Forecast: Spring 2025 Economic Forecast

Item AC25-03-01
First Quarter 2025 Review of Diagnostics

Staff presented a summary of the first quarter 2025 diagnostic exhibits. Staff noted that the total number of liens filed per quarter has been generally increasing since 2022. Also, staff observed that recent accident year indemnity claim settlement patterns continue to be flat. Staff noted that the share of indemnity claims involving cumulative trauma (CT) injury increased for 2022 and significantly for the preliminary accident year 2023. The increase in CT claims in 2022 and 2023 was experienced across all major California regions. Additionally, staff noted that the average claim severities for accident year 2024 generally show significant increases in early development ages for medical and allocated loss adjustment expenses (ALAE).

After discussion, the Committee recommended that staff review the items discussed with the Claims Working Group at their next meeting.

Item AC25-03-02

12/31/2024 Experience Review

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of December 31, 2024, which was included in the Agenda. During the discussion, the Committee noted the following:

- Incurred and paid medical loss development continued to increase in the fourth quarter of 2024. As a result, projections of ultimate medical loss ratios as of December 31, 2024 have increased since the December 31, 2023 projections.
- The estimated intra-class indemnity claim frequency change for accident year 2024 based on the preliminary measure of changes in indemnity claim counts compared to changes in statewide employment levels is higher than the small decrease projected in the September 1, 2024 Pure Premium Rate Filing.
- On-level indemnity severities were flat in 2024 (after excluding COVID-19 claims) but grew at a modest rate from 2017 to 2024. The Committee preliminarily agreed to reflect a 0.5% annual on-level medical severity trend in the updated analysis of December 31, 2024 experience to be reviewed at the next meeting.
- Average on-level medical severities increased by approximately 1% in 2023 but shot up by about 8% in 2024 (after excluding COVID-19 claims). The impact of recent medical inflation and increased medical loss development has also pushed measures of medical severities higher over the past year. Following the discussion, the Committee preliminarily agreed to reflect a 3.5% annual on-level medical severity trend in the updated analysis of December 31, 2024 experience to be reviewed at the next meeting. A Committee member suggested reviewing changes in the proportion of medical services not subject to any fee schedule.
- Given the increases in claim frequency and medical severity for accident year 2024, the on-level accident year 2024 loss ratio is significantly higher than recent prior years. Given the immaturity of the 2024 accident year, a Committee member recommended reviewing a trending methodology that averages the projections from the most recent three accident years.

The Committee was reminded that a full range of alternative loss development and trending projections will be reviewed at the next meeting when the recommended methodologies for the September 1, 2025 Pure Premium Rate Filing will be determined.

Item AC25-03-03

Review 7-1-25 Updates to Pharmaceutical Fee Schedule

The Committee was advised that the Division of Workers' Compensation adopted a revised pharmaceutical fee schedule for drugs dispensed on or after July 1, 2025. Staff presented the preliminary findings of a prospective cost impact evaluation of the July 1, 2025 fee schedule changes based on medical transaction data between 2021 and 2024. Staff noted an estimated 0.2% decrease in overall medical service cost, resulting from the combined impact of an estimated 0.1% increase due to increased dispensing fees and an estimated 0.3% decrease due to the changes in the calculation of drug ingredient costs. Due to the small, estimated cost impact and uncertainty in new drug ingredient costs based on the fee schedule update, staff recommended not making any special ratemaking adjustments based on the updates to the pharmaceutical fee schedule. The consensus from the Committee was that staff's recommendation was appropriate. Staff shared the plan to present the cost impact evaluation with the Claims Working Group and Medical Analytics Working Group for their feedback.

Actuarial Committee
Meeting Minutes for March 20, 2025

The meeting was adjourned at 12:30 PM.

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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 June 24, 2025 for approval and/or modification.