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Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
March 19, 2018	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	David M. Bellusci

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Members	Representing
Angelo Bastianpillai	AIG
Laura Carstensen	Zurich North America
Jim Gebhard	Farmers Insurance Group of Companies
Joanne Ottone	Berkshire Hathaway Homestate Companies
Jill Petker	Liberty Mutual Group
Mark Priven	Public Members of Governing Committee
Kate Smith	State Compensation Insurance Fund
Bryan Ware	AmTrust
Chris Westermeyer*	Travelers
Doug Zearfoss	Employers Insurance Group

California Department of Insurance
Ron Dahlquist
Robert Hallstrom
Giovanni Muzzarelli

WCIRB
Bill Mudge
David Bellusci
Ward Brooks
Tony Milano
Chris M. Wong
Julia Zhang

* Participated via teleconference

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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Approval of Minutes
The Minutes of the meeting held on December 6, 2017, were distributed to the Committee members in advance of the meeting for review. As there were no corrections to the Minutes, a motion was made, seconded and unanimously approved to adopt the Minutes as written.

Notice

The information in these Minutes was developed by the Workers' Compensation Insurance Rating Bureau of California (WCIRB) for the purpose of assisting the WCIRB Actuarial Committee. The WCIRB cannot make any guarantees if this information is used for any other purpose and the WCIRB shall not be liable for any damages, of any kind, whether direct, indirect, incidental, punitive or consequential, arising from the use of or reliance upon this information for any other purpose.

Item II
Working Group Meeting Summaries

The summary of the Actuarial Research Working Group meeting held on February 28, 2018, which was included in the Agenda materials, was accepted by the Committee.

Item AC12-12-02
Review of Trending Methodology

The Agenda materials included a follow-up to a 2017 analysis of trending methodologies that focused on methods trending from the latest year compared to those trending from the latest two years. Staff summarized the data and approach used in the analysis, which included an approach of trending from early development projections rather than more mature projections that had been used in prior studies. Staff noted that in this study the methods trending from the latest two years were generally more accurate overall and particularly more accurate during periods of transition or when projecting from December evaluations, for which the latest year is valued at 12 months. It was noted that the latest-year trending methodology was modestly more accurate for medical in the most recent four years but that it could also significantly overstate or understate the projection during periods of transition. It was also noted that the appropriateness of any methodology depends the underlying claims environment.

Based on the results of the study, staff recommended to continue to trend from the latest two years unless there is clear indication that trending from the latest year may be more appropriate at the time, such as during a period of stable long-term trend. After discussion, the Committee accepted the analysis.

Item AC17-04-04
New Drug Formulary

Staff presented the preliminary analysis of the Medical Treatment Utilization Schedule (MTUS) drug formulary for the Committee's consideration of the formulary impact on the costs underlying the advisory pure premium rates. The analysis includes the impact on frictional costs related to reduced prospective utilization review (UR) and pharmaceutical costs related to shifts in prescribing patterns. Staff also shared feedback from the Medical Analytics Working Group (MAWG) with the Committee.

For the impact analysis on frictional costs, staff presented the estimated volume of prescriptions and drug costs that will no longer be subject to prospective UR, and estimated cost savings from the reduced UR costs resulting from the drug formulary exempting certain drugs from prospective UR. Staff noted that, based on the preliminary analysis, the cost savings from the reduced UR under the drug formulary are fairly small (approximately 0.1% of total losses and loss adjustment expenses (LAE)), and the estimated reduction in independent medical review (IMR) costs is negligible (approximately 0.01% of total losses and LAE). A Committee member also suggested examining the potential cost impact related to drugs exempt from prospective UR under the drug formulary that are currently being denied through the UR process.

For the potential impact of the new drug formulary on pharmaceutical costs due to shifts in prescribing patterns, staff presented the estimated costs of pharmaceutical components likely impacted by the drug formulary and an assessment of research completed by other organizations (RAND, CWCI) on the formulary. A Committee member suggested reviewing the share of prescriptions on generic vs. brand name drugs to better understand changes in the share of each drug components' payments to the total payments, which staff agreed to review. Staff then summarized the basis of the assumptions relied upon in the RAND study that estimated the economic impact of the drug formulary, and shared the feedback from the MAWG on their perspective of the reasonableness of the assumptions.

The Committee was informed that staff will present the cost impact analysis of the MTUS drug formulary to the Claims Working Group for their feedback, and share an updated analysis with the Committee at the April 3, 2018 meeting.

Item AC17-12-03
On-leveling for Wage Level Changes in Pure Premium Ratemaking

The Committee was reminded that during the review of the wage on-level methodology at the December 6, 2017 meeting, the Committee expressed concerns as to potential bias and long-term accuracy in the currently selected forecast based on the UCLA Anderson School of Business model forecasts. The Agenda materials included a retrospective review of the current UCLA wage forecast and an alternative wage forecast provided by the California Department of Finance (DoF). The analysis reviewed these forecast models for bias and overall accuracy to determine the best model to forecast wage level changes in pure premium ratemaking.

Staff noted some differences between the UCLA and DoF wage forecasts. While both forecasts are California specific, the UCLA forecasts are updated quarterly through a paid subscription while the DoF forecasts are updated in April and November through the DoF's public website. The Committee was reminded that the June UCLA forecast model is currently selected for annual rate filings and the equivalent DoF model is released in April.

The Committee reviewed the analysis of the accuracy of wage forecast projections based on the UCLA and DoF forecast models compared to the developed wage change at "full maturity" (Exhibits 2.1 and 2.2 in the Agenda materials). Model forecast bias was determined by reviewing a wage forecast's frequency and accuracy compared to the "full maturity" wage change. Historically, the UCLA forecast model slightly understated wage changes while the DoF slightly overstated wage changes. However, staff noted that using an approach that averaged the forecast changes from both models created an overall unbiased forecast.

The overall accuracy for an annual filing or hypothetical mid-year filing was determined based on the cumulative error factor. The UCLA and DoF forecast models performed similarly, with the UCLA model performing better during certain periods while the DoF model performed better during other periods. Staff proposed an approach of averaging the UCLA and DoF wage forecast models which reduced volatility and improved overall forecast accuracy over each model independently.

After discussion, the consensus of the Committee was to adopt staff's recommended approach and reflect it in the updated summary of December 31, 2017 experience to be reviewed at the April 3, 2018 meeting. It was noted that this approach should also be used in other analyses that include wage level projections, such as in projecting average ULAE costs or changes in the physical audit threshold. A Committee member noted that the method should continue to be reviewed periodically including continuing to explore alternative wage forecast models.

Item AC-18-03-01
First Quarter 2018 Review of Diagnostics

The Agenda materials included the WCIRB's standard set of diagnostics that are reviewed by the Actuarial Committee and the Claims Working Group (CWG) on a semi-annual basis. Among the diagnostics discussed by the Committee were the following:

1. Medical-only claim counts increased significantly during 2017 after a period of relatively flat or declining counts, The Committee was advised that the increase may be due to clarified reporting requirements for first-aid claims effective January 1, 2017. Staff agreed to discuss the medical only claim count increase with the Claims Working Group.

2. Permanent disability claims continue to close at a faster rate while temporary disability claims closures have also moderately increased. The Committee was advised that the acceleration in claim closing is likely associated with the increase in compromise and release settlements, continuing impacts of Senate Bill No. 863 (SB 863) and reduced lien filings.

3. The proportion of indemnity claims involving cumulative trauma in the Los Angeles Basin and San Diego areas continue to increase while the proportions for the remainder of the state continue to decrease. The Committee was reminded that staff will conduct an in-depth analysis of cumulative injury claims later in the year.

4. Lien filings decreased significantly during 2017 after rising sharply in the fourth quarter of 2016. These changes are likely due to Senate Bill No. 1160 (SB 1160), which places additional restrictions on lien filings and became effective on January 1, 2017. A Committee member noted that the decrease in lien filings may be associated with the increase in claim settlement and suggested discussing this with the Claims Working Group.

5. Medical severity showed signs of continuing increases through the fourth quarter of 2017. Accident year 2017 paid medical per indemnity claim severity increased by 4.5% over the fourth quarter of 2016. Incremental paid medical severity growth for recent accident years in the fourth quarter of 2017 also continued to increase. It was noted that the trend is consistent with the long-term medical severity growth projected in the recent pure premium rate filings.

6. There was a sharp downturn in indemnity severity in the second half of 2017. Staff agreed to discuss this downturn with the Claims Working Group.

Item AC18-03-02
12/31/2017 Experience – Review of Methodologies

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of December 31, 2017, which was included in the Agenda materials. Staff noted that the impact of Senate Bill No. 1160 and Assembly Bill No. 1244 has not yet been reflected in the medical development or on-level adjustments (see Item AC18-03-03 for the discussion on these adjustments). It was noted that the decrease in the projected loss ratio from that reflected in the Amended January 1, 2018 Pure Premium Rate Filing based on June 30, 2017 experience was primarily attributable to lower loss development and accident year 2017 emerging at a level lower than projected.

The Committee noted that both indemnity and medical loss development have decreased since the Amended January 1, 2018 Pure Premium Rate Filing. Staff noted that it will discuss the recent decreases in paid indemnity development with the Claims Working Group as they were somewhat unexpected given the increases in permanent disability benefits provided by Senate Bill No. 863 for accident years 2013 and later. It was also noted that paid medical development on earlier to mid-periods (through 108 months) continued to decrease significantly. Staff noted that information from the WCIRB's Medical Data Call data through the third quarter suggests the recent lower paid medical development was spread across multiple service types but somewhat more concentrated in lien payments and medical-legal payments, which had previously been exerting upward pressure on development. In particular, it was noted that utilization of the more complex medical-legal reports decreased significantly, and the Committee suggested staff also discuss this phenomenon with the Claims Working Group. The Committee also noted that indemnity claim settlement rates have continued to accelerate.

A Committee member noted a significant decrease in the projected medical loss development tail factor compared to that reflected in the Amended January 1, 2018 Pure Premium Rate Filing, which is based on an inverse power curve fit to a six-year average of incurred development, excluding the anomalous development of the most recent calendar year. The member noted that the most recent two calendar years are now exhibiting this anomalous pattern. Staff agreed to review the fit approach and report back to the Committee at the next meeting.

Staff noted that the preliminarily estimated indemnity claim frequency change for 2017 based on changes in aggregate claim counts reported as of 12 months relative to changes in statewide employment showed a modest increase, while the estimate based on partial unit statistical first report data for 2016 showed a larger decline than the preliminary estimate reviewed at the previous meeting. A Committee member suggested reviewing the development of the frequency change estimates over time at the next meeting. Another member suggested reviewing the appropriateness of the -0.02 constant reflected in the indemnity claim frequency model prior to the next annual filing given last several years of relatively flat frequency changes.

The Committee noted that the on-level indemnity severity for 2017 is flat while the indemnity severity changes for other recent years show modest declines and as a result staff reflected an indemnity severity trend of 0% in the Agenda materials compared to 0.7% reflected in the Amended January 1, 2018 Pure Premium Rate Filing. For medical, it was noted that on-level severity is estimated to have increased by more than 5% in 2017, which was the largest rate of growth estimated since 2009. However, it was noted that the 2016 medical severity change was also estimated to be above 5% when projected from 12 months and is now approximately 1% and the longer-term average rate of growth of 2% is now somewhat lower than the 3% trend reflected in the Amended January 1, 2018 Pure Premium Rate Filing and in the Agenda materials.

Staff noted that an updated analysis of December 31, 2017 experience, as well as December 31, 2017 loss adjustment expense experience, will be presented to the Committee at the April 3, 2018 meeting in the context of recommending projection methodologies for the Governing Committee's consideration of a potential July 1, 2018 pure premium rate filing.

Item AC18-03-03
Impact of SB 1160 & AB 1244 on Loss Development

The Committee was reminded that Senate Bill No. 1160 (SB 1160) and Assembly Bill No. 1244 (AB 1244), effective in 2017, included several reforms related to liens. The Agenda materials included an analysis of how the reforms related to outstanding liens as well as new lien filings would impact loss development patterns.

Staff noted that the approximately 292,000 liens dismissed by the Division of Workers Compensation (DWC) in July of 2017 should have some impact on the paid medical development emerging after the dismissals. It was noted that, as with similar “date of service” type reforms, if not adjusted, the emerging paid medical age-to-age development may be distorted. Staff summarized its recommended approach for adjusting for the impact of the dismissed liens based on estimating liens as a proportion of medical development by maturity and adjusting all pre-June 30, 2017 medical payments to the post-SB 1160 level using DWC information on the dismissed liens. Staff noted that, although the impact of these lien dismissals on emerging data as of December 31, 2017 is small, it is only based on six months of post-SB 1160 development and would increase in subsequent quarters. Staff recommended applying this adjustment to age-to-age development from 12 months through 84 months, the period for which the lien dismissals had the biggest impact. The consensus of the Committee was that this adjustment was appropriate.

Staff next summarized the potential impact the reduction in new lien filings may have on the loss development projection for more recent years. It was noted that monthly lien filings in the last year have emerged consistently at approximately 40% below pre-SB 1160 levels. It was also noted that lien payments represent a significant proportion of medical loss development projected after 12 and 24 months while very little lien payments occur on claims through 24 months. Staff summarized its recommended approach for reflecting the estimated impact of the reduced lien filings based on weighting the projected paid medical loss development factor excluding all lien payments and the projected factor including liens. Staff recommended giving 40% weight to the factor excluding liens given the recent lien filing information and applying the adjustment to the cumulative development factors projected for accident years 2012 through 2017. Staff noted this adjustment results in moderate decreases in the cumulative 12 and 24 month paid medical development factors.

The Committee discussed staff’s recommended adjustment for the impact of SB 1160 and AB 1244 on new lien filings. Several Committee members noted that some adjustment is appropriate and the assumptions in staff’s recommendation were reasonable. A Committee member noted that the reduction in liens may significantly impact claim settlement rates and staff’s recommended adjustment may in part overlap with the adjustments for changes in claim settlement rates also applied to paid medical development. Staff agreed to review this potential and also discuss the drivers of recent claim settlement rate changes as well as the potential impact on allocated loss adjustment expense development with the Claims Working Group and report back to the Committee at the next meeting. After discussion, the consensus of the Committee was to reflect the adjustment in the updated summary of December 31, 2017 experience to be reviewed at the next meeting at which time any open issues can be discussed prior to recommending a loss development methodology for a potential July 1, 2018 pure premium rate filing.

The meeting was adjourned at 1:00 PM.

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the meeting scheduled for June 15, 2018 for approval and/or modification.