Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
April 3, 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

WCIRB
Bill Mudge
David Bellusci
Tim Basuino
Ward Brooks
Tony Milano
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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Notice

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Item II
Working Group Meeting Summaries

The summary of the Medical Analytics Working Group meeting held on March 16, 2018, which was included in the Agenda materials, was accepted by the Committee.

Item AC17-04-04
New Drug Formulary

The Committee was reminded that at the March 19, 2018 meeting, staff presented initial estimates of the cost impact of the Medical Treatment Utilization Schedule (MTUS) drug formulary.

At this meeting, staff presented an updated analysis on the cost impact of the new formulary, which includes the impact on frictional costs from reduced prospective utilization review (UR) and on pharmaceutical costs related to shifts in prescribing patterns. Staff shared feedback from the Claims Working Group (CWG) and discussions with RAND on their analysis of the impact of the new formulary on prescribing patterns.

For the analysis on the impact of potential reductions in prospective UR, 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. Staff also presented an additional analysis on the potential cost of drugs exempt from UR under the drug formulary but which are currently being denied through the UR process. Staff noted that the cost savings from reduced prospective 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). Staff also noted that the estimated increase in the costs of exempt drugs that are currently being denied through the UR process is also negligible and would offset the estimated reduction in IMR costs. The consensus of the Committee was that the estimated impact of the drug formulary on frictional costs of 0.1% of total losses and LAE was reasonable.

For the potential impact of the new 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. In addition, staff presented the share of prescriptions on generic vs. brand name drugs that showed that the relative shares did not change significantly over time despite of changes in the pharmaceutical fee schedule. Staff summarized the assumptions used in the RAND study that estimated the economic impact of the drug formulary, and shared the feedback from the CWG, the Medical Analytics Working Group and RAND on the validity and reasonableness of the assumptions. The consensus of the Committee based on the feedback provided was that the 10% reduction in pharmaceutical costs estimated in the RAND report was generally reasonable, and that, given that the vast majority of pharmaceutical costs on policies incepting between July 1, 2018 and December 31, 2018 will be paid in 2020 or later, no adjustment was needed to reflect that this level of savings would take some time to materialize.

A motion was made and seconded to reflect the combined savings of 0.5% resulting from the impact of the new formulary on frictional costs and future prescribing patterns on the indicated July 1, 2018 advisory pure premium rate level. The motion passed unanimously.

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

The Agenda materials contained an updated analysis of December 31, 2017 experience, which was first reviewed at the March 19, 2018 meeting. The Committee was advised that the loss projections differed from those reviewed at the March 19, 2018 meeting primarily as a result of reflecting the adjustments to medical loss development for Senate Bill No. 1160 (SB 1160) and Assembly Bill No. 1244 (AB 1244) adopted by the Committee at the March 19, 2018 meeting. The updated analysis also reflected the enhancement to the wage on-level methodology to blend the UCLA Anderson School of Business and California Department of Finance wage forecasts that was also adopted by the Committee at the March 19, 2018 meeting. The Committee was advised that this enhancement did not significantly change the projection.

During the review of loss development projections, it was noted that the most recent calendar year of incurred development from 120 months and later is showing a similar anomalous pattern to that of the prior calendar year. The Committee was reminded that the prior calendar year had been excluded from the fit of the inverse power curve to compute the tail development factor due to this anomalous development (as initially discussed at the August 2, 2017 meeting). The Committee noted that this incurred development pattern was likely a result of a temporary shift in reserve levels to adjust to a post-reform level. The consensus of the Committee was that each of the latest two calendar years should be excluded from the inverse power curve fit due to this anomalous development pattern continuing. It was noted that incurred development from these periods continue to be used in the six-year average used to derive the age-to-age factors for projected incurred development (reflected after 240 months in the projection included in the Agenda materials) and would only be excluded when fitting the tail factor.

The Committee reviewed the impact of the adjustments to medical loss development for changes in claim settlement rates and the lien reforms of SB 1160 and AB 1244. Staff noted that feedback from the Claims Working Group suggested that the continued acceleration in claim settlement rates is likely related to changes in claims handling practices to focus more on settling claims earlier and not as significantly impacted by the recent lien reforms. It was also noted that the treatment of liens on claim status differs by insurer. Based on this information, staff noted that the adjustments for these two phenomena in the medical loss development projection should not overlap significantly. Staff recommended that these adjustments be applied to paid development based on the continued acceleration in claim settlement rates and potential impact of the SB 1160 and SB 1244 lien reforms, as discussed at prior meetings.

The Committee reviewed the alternative loss development projections included in the Agenda materials (Item AC18-04-02). Staff summarized the basis of the loss development methodology included in the Agenda materials, which is primarily based on paid development with adjustments for reforms and changes in claim settlement rates. A motion was made and seconded to base the indemnity loss development projection on the reform and claim settlement rate-adjusted paid development method as presented in the Agenda materials, with the adjustment to the loss development tail discussed at the meeting, to compute the indicated July 1, 2018 average advisory pure premium rate. The motion passed unanimously.

A Committee member noted that, although the recent changes in case reserve levels are significant, the methodology that adjusts for changes in case reserve levels, at least for medical development, should be given some weight in the projection. However, other Committee members agreed that, given the concerns with using incurred loss development discussed in prior pure premium rate filings and at prior committee meetings, basing the projection primarily on paid loss development continues to be appropriate. A motion was made and seconded to base the medical loss development projection on the reform and claim settlement rate-adjusted paid development method as presented in the Agenda materials, with the adjustment to the loss development tail discussed at the meeting, to compute the indicated July 1, 2018 average advisory pure premium rate. The motion passed with nine in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed the motion recommended a medical loss development methodology that assigned 50% weight to the reform and claim settlement rate-adjusted paid methodology and 50% weight to the latest year case reserve level-adjusted incurred methodology.)

The Committee reviewed staff's recommended adjustments to the medical on-leveling factors for the impact of SB 1160 and AB 1244. Staff noted that, in order to not double count the impact of these reforms which are also reflected in the loss development adjustments, the approach phased in the overall -2.4% adjustment to medical losses over the 2011 to 2016 accident years based on the estimated proportion of medical paid for these years as of December 31, 2016 (which is immediately prior to the January 1, 2017 effective date of the reforms). The Committee noted that this approach resulted in overall modest changes to each of these years. The consensus of the Committee was that this approach was appropriate.

Staff noted that the change to the wage on-level methodology to blend the UCLA Anderson School of Business and California Department of Finance wage forecasts, which was adopted by the Committee at the March 19, 2018 meeting, had an overall very small impact on the updated projection.

The Committee next discussed the frequency and severity projections included in the Agenda materials. It was noted that the frequency projections were unchanged from those reviewed at the March 19, 2018 meeting. The Committee also noted that the early estimates of indemnity claim frequency changes based on changes in aggregate claim counts compared to changes in statewide employment or the measure based on partial first report unit statistical data have generally been accurate predictors of the more mature estimate for recent accident years. It was also noted that the more extreme early estimates have recently tended to move closer to zero as the estimates mature.

It was noted that the projected on-level indemnity and medical severity trends reflected in the Agenda materials (0% and 3%, respectively) were somewhat higher than the long-term and short-term average rates of growth. For indemnity, the Committee noted that the 2017 on-level severity change is essentially flat and generally consistent with the prior two years. For medical, the Committee noted that the 2017 on-level severity change of over 5% is significantly higher than that of the last several years and may be indicative of a return to the more typical rates of post-reform medical inflation. However, the Committee also noted that this estimate may lower if medical loss development continues the downward trend of the last several quarters. After some discussion, most Committee members agreed that the severity trends reflected in the Agenda materials continue to be appropriate but should be monitored closely and, for medical in particular, it may be appropriate to adjust the severity trend if medical losses continue to develop downward in 2018.

The Committee discussed the alternative trending projections included in the Agenda materials (AC18-04-02). It was noted that projections based on a loss ratio trend were somewhat lower than those based on the separate frequency and severity trend projections reflected in the Agenda materials. It was also noted that methods which applied trends to the latest year were generally consistent with those that applied them to the latest two years. While one Committee member recommended using a loss ratio trend, based on the results of recent analyses of the retrospective performance of alternative trend methodologies, most Committee members agreed that the separate frequency and severity trend projection continues to be appropriate. After discussion, a motion was made and seconded to use the trending projection methodologies reflected in the Agenda materials to compute the indicated July 1, 2018 average advisory pure premium rate. The motion passed with nine in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who was opposed to the motion recommended a methodology based on a loss ratio trend applied to the latest two years.)

Staff agreed to advise the Governing Committee at its April 4, 2018 meeting as to the diversity of opinion on the recommended loss projection methodologies.

Item AC18-04-01
12/31/2017 Loss Adjustment Expense Experience Review

The Committee was advised that unallocated loss adjustment expense (ULAE) experience for calendar year 2017 is not yet available. However, the Agenda materials included an updated ULAE projection that reflected ULAE experience through calendar year 2016 as well as updated frequency, wage level, and loss projections based on December 31, 2017 experience.[1] The Committee discussed the potential impact of the Senate Bill No. 1160 (SB 1160) and Assembly Bill No. 1244 (AB 1244) provisions related to lien filings on ULAE costs. Staff noted that feedback from the Claims Working Group (CWG) suggested that although lien filings have decreased significantly in the last year, lien-related disputes continue to be pursued which continue to incur significant claims-handling costs. Based on this information, the consensus of the Committee was that the impact of the reduced lien filings resulting from SB 1160 and AB 1244 should not be reflected in the projected ULAE ratio.

The Committee reviewed the analysis of allocated loss adjustment expense (ALAE) experience through December 31, 2017. It was noted that the accident year 2017 ALAE through 12 months was emerging at a level significantly higher than that for accident year 2016. It was also noted that paid ALAE development over the last year has moderated when compared to the sharp decreases experienced during the prior year. The Committee was advised that the approximate average ALAE severity trend based on the short-term and longer-term average rates of growth of 4.0% is consistent with the projected ALAE severity trend reflected in the Amended January 1, 2018 Pure Premium Rate Filing.

Staff noted that feedback from the CWG suggested that outstanding liens continue to incur significant defense costs including liens that were dismissed by the Division of Workers' Compensation in July of 2017. As a result, staff recommended no adjustments to ALAE development for the SB 1160 and AB 1244 reforms at this time. However, staff noted that the reduced future lien filings emerging as a result of SB 1160 and AB 1244 should have a significant impact on ALAE costs incurred on July 1, 2018 and later policies and recommended reducing the projected ALAE ratio by 6.4%, which was based on the WCIRB's prospective estimate of the impact of SB 1160 and AB 1244 on ALAE adjusted to reflect an updated reduction in lien filings of 40%.[2] The consensus of the Committee was that this adjustment was appropriate.

The Committee next reviewed the analysis of medical cost containment program (MCCP) experience through December 31, 2017. It was noted that average MCCP per indemnity claim for 2017 is relatively consistent with that for 2016 following several years of sharp decreases. The Committee was advised that the approximate average of the calendar year and accident year average MCCP severity trends resulted in a projected MCCP severity trend of 0%.

After discussion, a motion was made and seconded to use the LAE projection methodologies reflected in the Agenda materials, including the adjustment to the ALAE ratio for the impact of SB 1160 and AB 1244, for purposes of computing an indicated July 1, 2018 average advisory pure premium rate. The motion passed with nine in favor and one abstention. The Committee member representing the Public Members of the Governing Committee indicated that his abstention was not based on any fundamental disagreement but rather different approaches on some of the detailed components of the ALAE and ULAE projections.

[1] The wage level projections reflected the methodology that blends the UCLA Anderson School of Business and California Department of Finance wage level forecasts that the Committee adopted for the loss projection at the March 19, 2018 meeting.

[2] In the last several pure premium rate filings, the WCIRB has reflected as assumed reduction in lien filings of 10%.

Item AC18-04-02
12/31/2017 Experience – Alternative Loss Projections

The Agenda materials included a number of alternative loss development and trending methodologies that had been reflected in prior WCIRB pure premium rate filings or discussed at prior Actuarial Committee meetings.

The Committee reviewed summaries of the alternative loss projection methodologies during the discussion of loss development and trending methodologies in the context of its review of December 31, 2017 experience. (Please refer to the Minutes for Item AC18-03-02.)

Item AC18-04-03
Impact of the Affordable Care Act on California Workers' Compensation

Staff presented the preliminary findings of the WCIRB's study of the impact of the Patient Protection and Affordable Care Act (ACA) on California workers' compensation costs, and shared with the Committee the feedback from the Medical Analytics Working Group and Claims Working Group. Staff presented the analysis of the potential ACA impact on access to care, fees for physician services, claim frequency (overall and for claims with soft tissue injuries specifically), and diagnostic mix focusing on claims with comorbidities of hypertension, obesity and diabetes.

Staff noted that no indication of an ACA impact was evident on access to care, payments for physician services and overall claim frequency, while there were indicators of a significant ACA impact on soft tissue injuries. A Committee Member suggested also analyzing the severity of claims with soft tissue injuries to explore the patterns of severity changes likely associated with the ACA. Staff also noted that there was a limited volume of claims with comorbidities in the WCIRB's data. As a result, limited inferences related to comorbidities can be made. The Committee was advised that staff was planning to finalize and publish the report after reflecting the input of the Committee and Working Groups.

Item AC18-04-04
Impact of Medical Fraud Enforcement

Staff provided an updated analysis on the amount of medical costs generated by providers indicted for fraud or suspended by the Division of Workers' Compensation (indicted/suspended providers). Staff presented an analysis demonstrating the percentage of medical dollars paid to indicted/suspended providers was very significant for periods prior to 2014 but has continued to decrease since then. Staff also noted that, as expected given the typical lag in lien payments, liens are becoming an increasingly significant percentage of medical dollars that are being paid to indicted/suspended providers.

Staff also presented an analysis showing the percentage of medical dollars being paid to the largest indicted/suspended providers by volume of medical services by medical fee schedule section. A Committee member suggested determining, for each indicted/suspended provider, the approximate date of indictment or suspension and subsequently updating the analyses to also reflect medical dollars paid before and after the indictments or suspensions.

The meeting was adjourned at 12:55 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.