

January 1, 2018 Pure Premium Rate Filing Summary of Actuarial Committee Recommendations

WCIRB Governing Committee Meeting
August 9, 2017

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Actuarial Committee Review of March 31, 2017 Experience

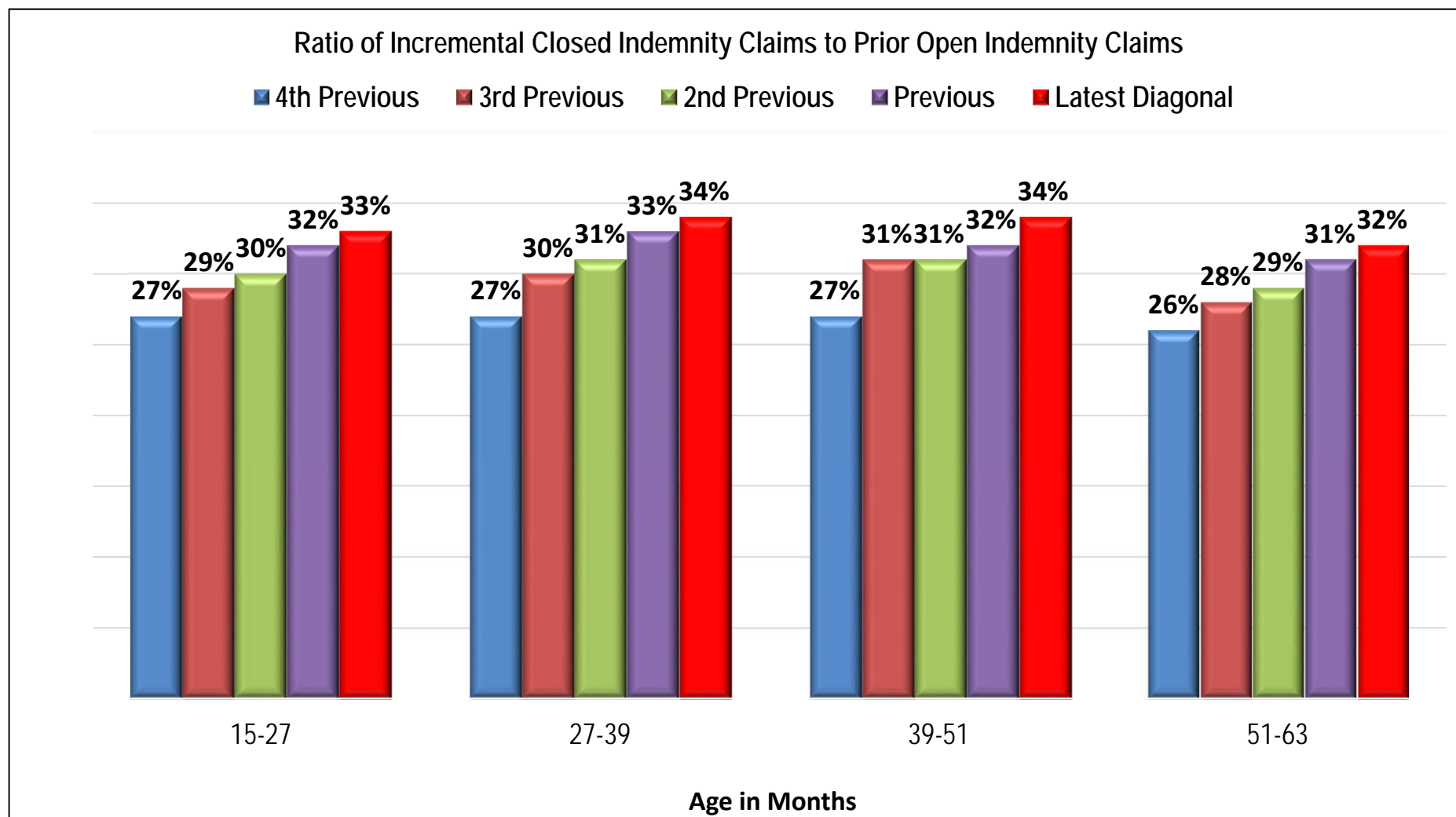
Positive Trends
Claim Settlement Accelerating
AY 2016 Emergence
Moderating Trends
Loss Development
Loss Adjustment Expense

Areas of Concern
Claim Severity Growth
Cumulative Injury Claims
Areas to Monitor
Indemnity Claim Frequency
Lien Filings
Medical Case Reserves

- Recomm. Methodology Generally Consistent with 7/1/17 Filing
- Impact of Formulary to be Assessed once Finalized
- 1/1/2018 Indicated Average Pure Premium Rate: **\$2.01**
- 7/1/2017 Average Approved Pure Premium Rate: \$2.00
- 7/1/2017 Industry Average Filed Pure Premium Rate: \$2.34
- 6/30/2017 Experience to be Reviewed at September Meeting

Positive Trends

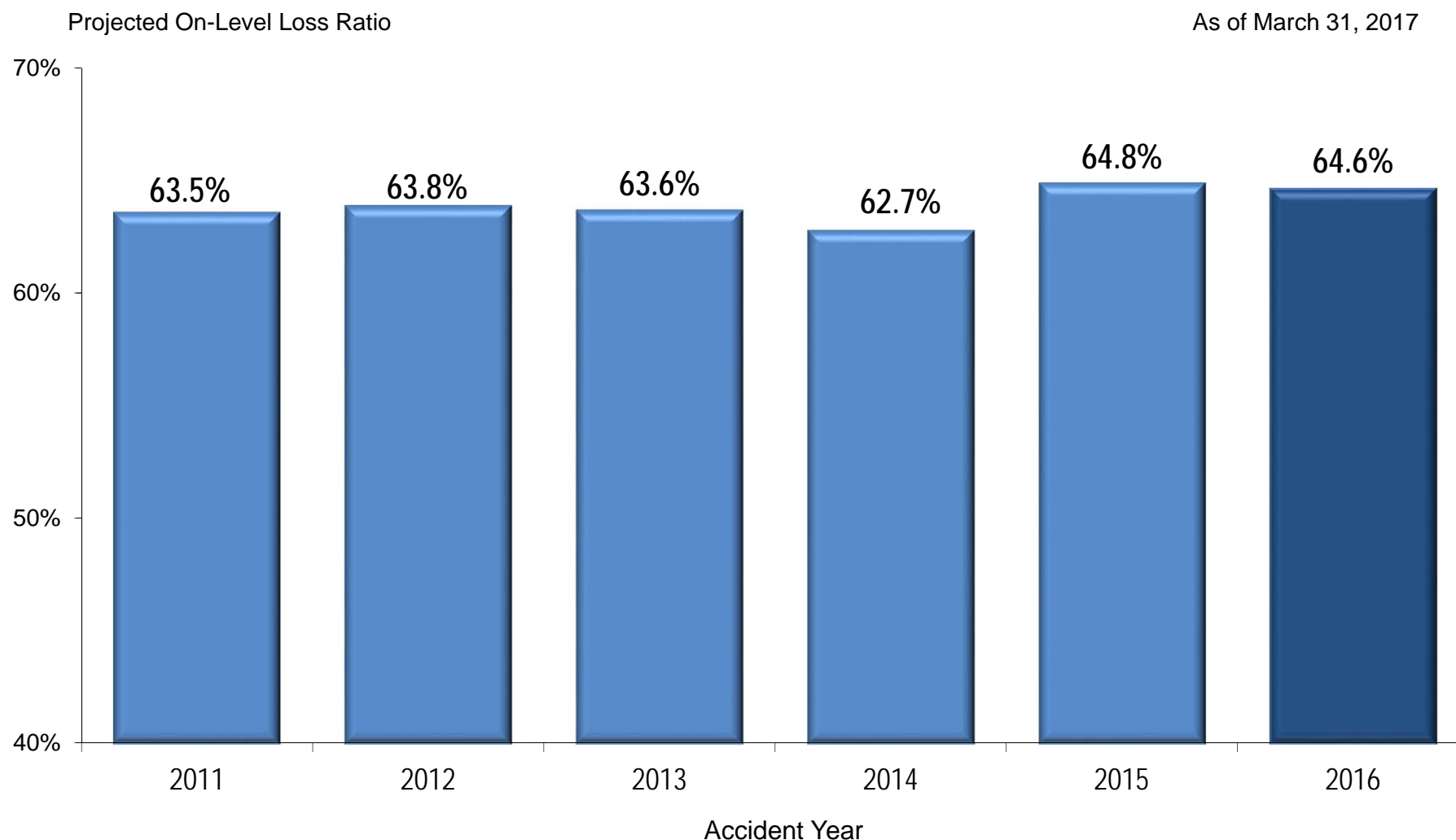
Claim Settlement Rates Accelerating



Source: WCIRB quarterly calls for experience

Positive Trends

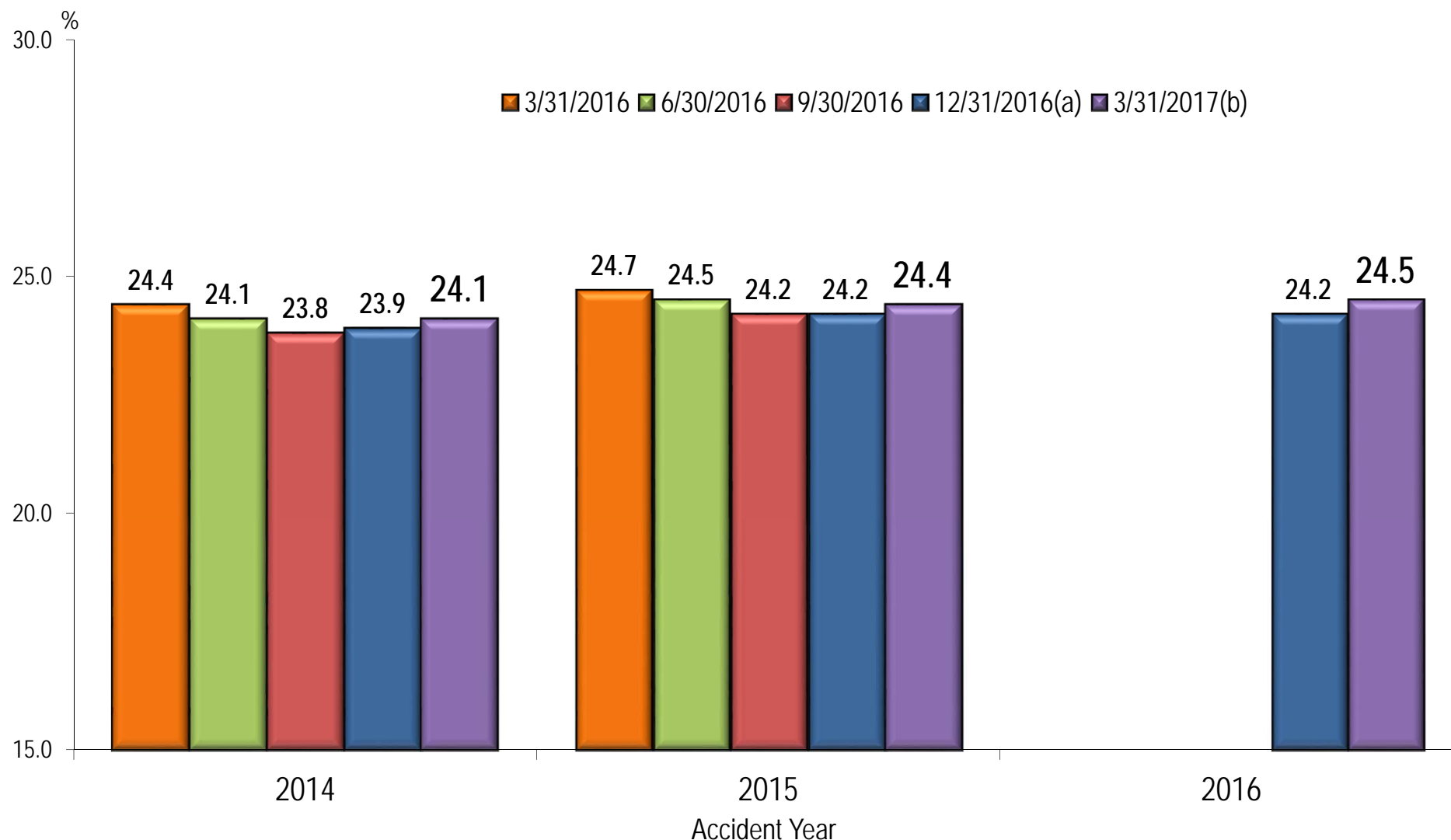
Projected On-Level Loss Ratios (Indemnity & Medical Combined)



Note: Projected on-level losses do not include M CCP.

Moderating Trends

Projected Ultimate Indemnity Loss Ratios

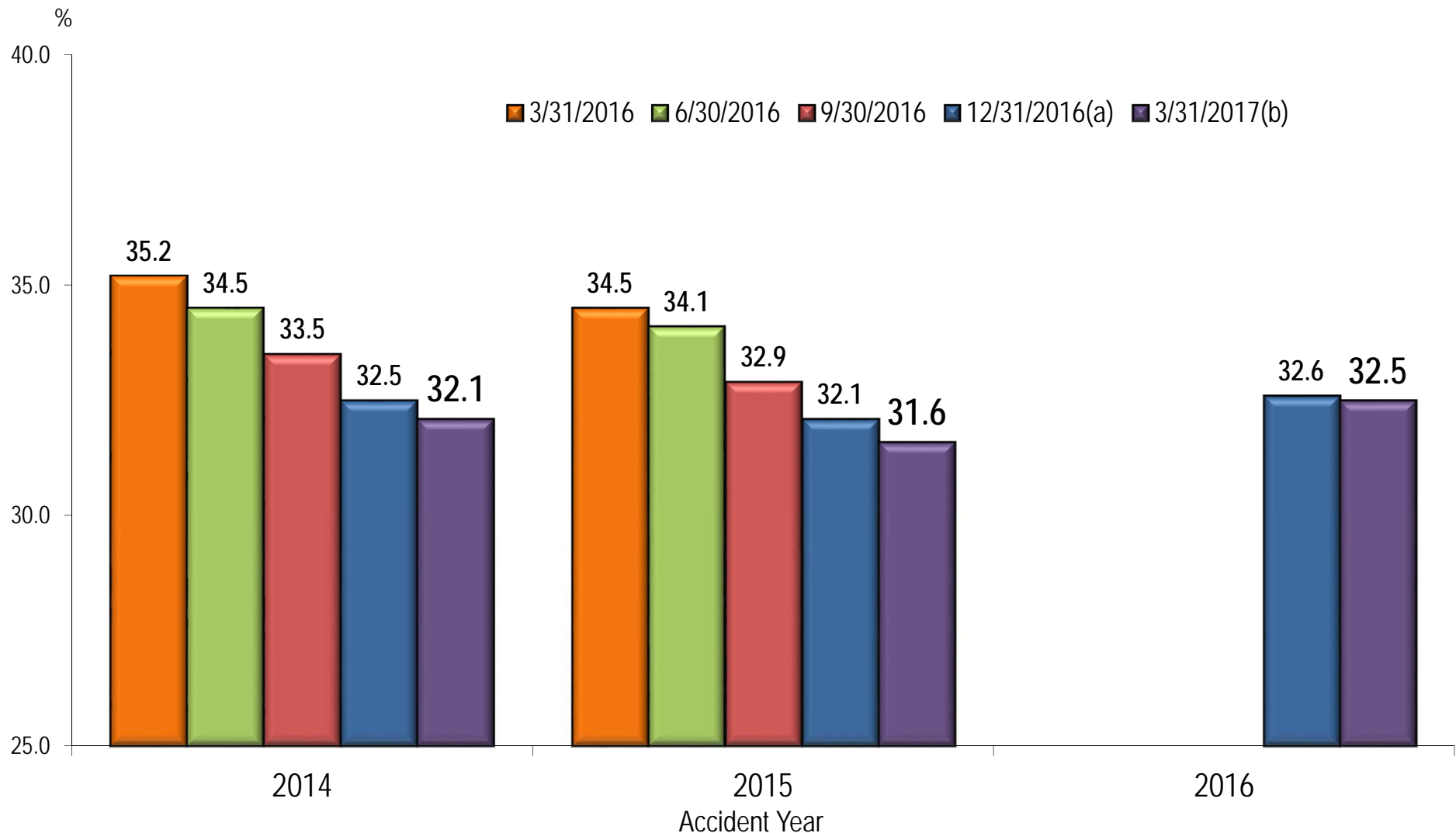


(a) Updated with SB 863 adjustments to loss development adopted at 3/21/2017 Actuarial Committee meeting.

(b) Prior to methodology refinements related to long-term loss development adopted at 8/2/2017 Actuarial Committee meeting.

Moderating Trends

Projected Ultimate Medical Loss Ratios



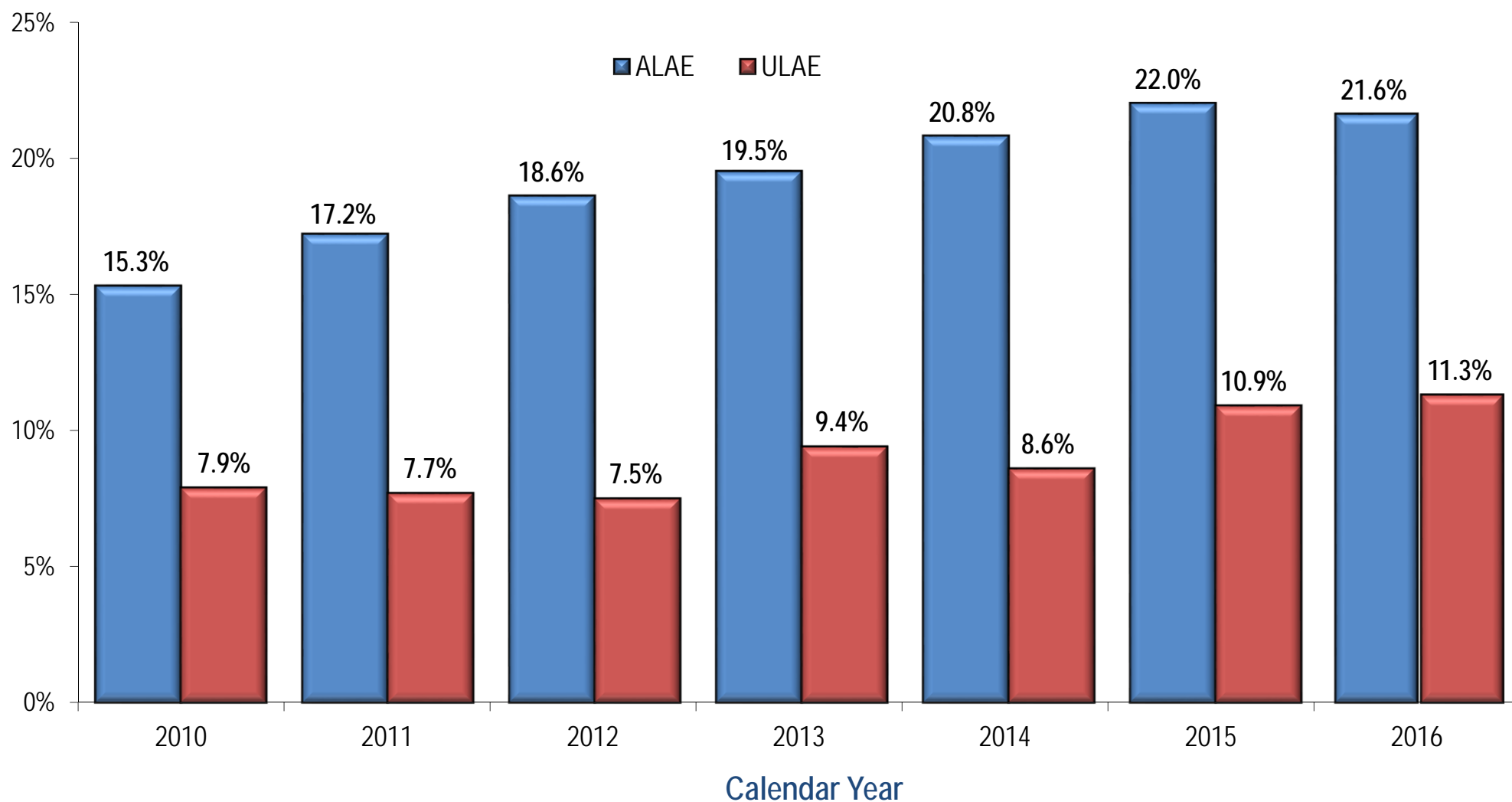
(a) Updated with SB 863 adjustments to loss development adopted at 3/21/2017 Actuarial Committee meeting.

(b) Prior to methodology refinements related to long-term loss development adopted at 8/2/2017 Actuarial Committee meeting.

Moderating Trends

Paid Loss Adjustment Expenses

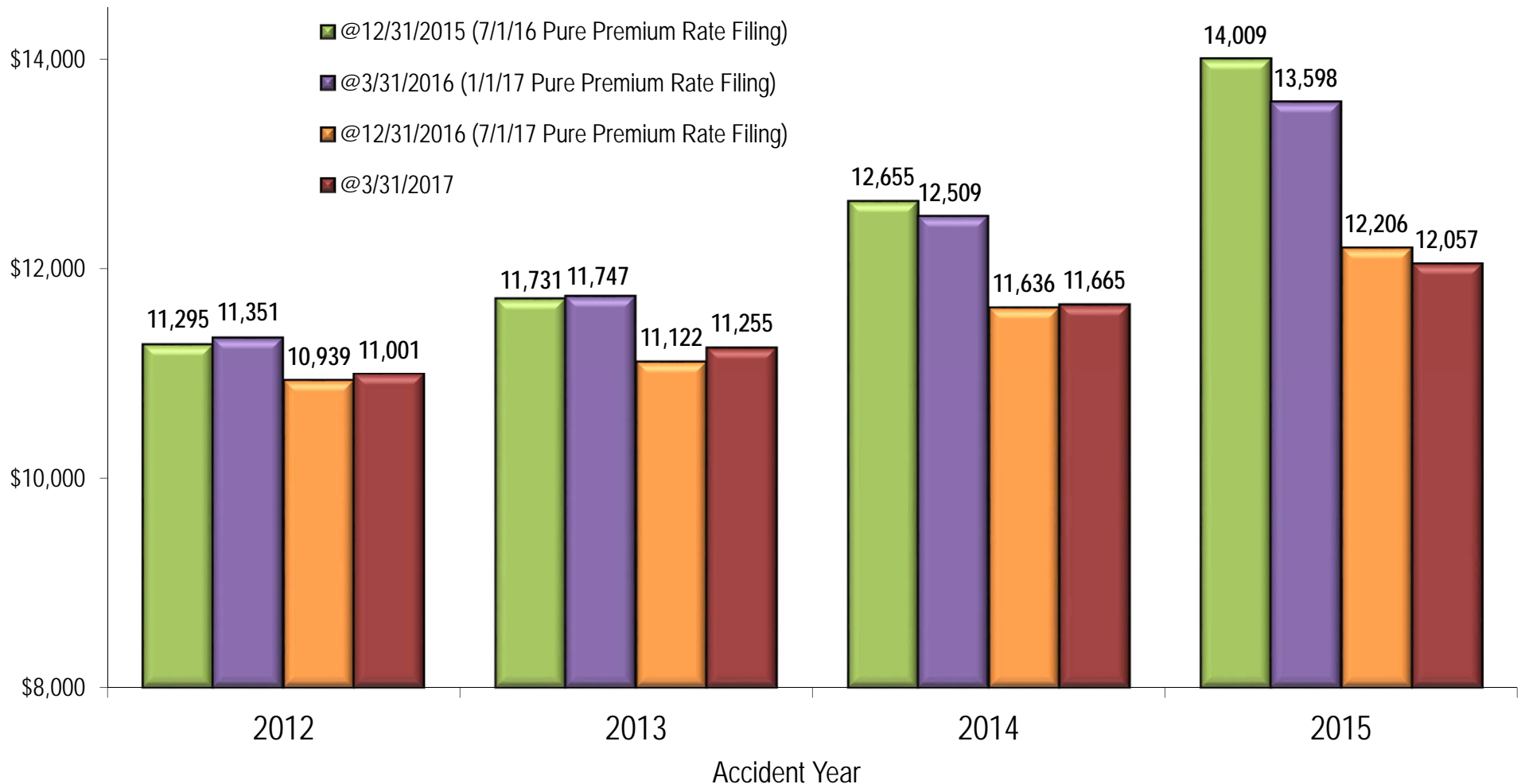
Private Insurers Ratio of Paid LAE to Paid Loss



Source: WCIRB expense calls and quarterly calls for experience

Moderating Trends

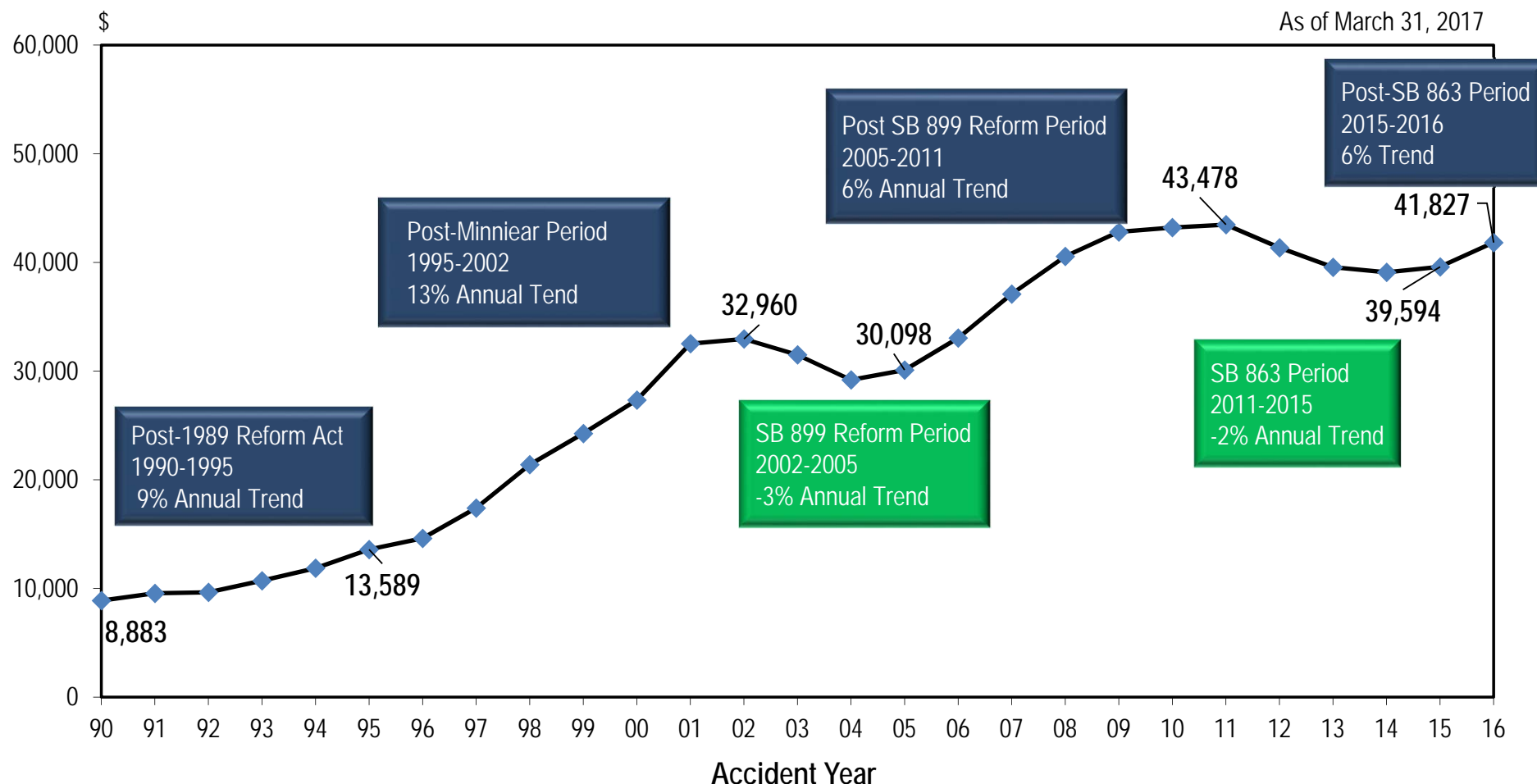
Projected Ultimate ALAE Per Indemnity Claim – Private Insurers



Source: WCIRB projections based on private insurer paid ALAE and indemnity claim count development patterns.

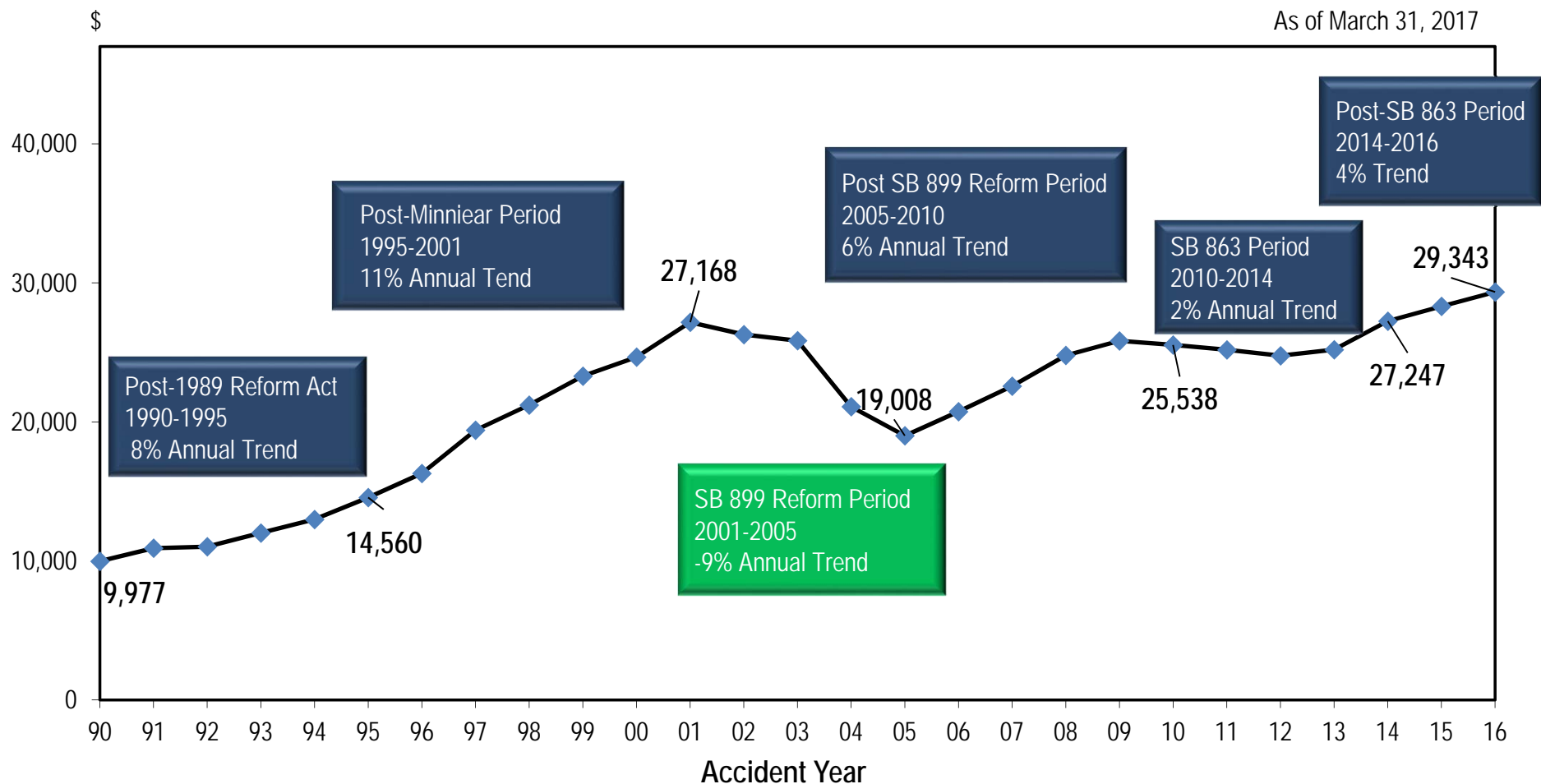
Areas of Concern

Estimated Ultimate Medical (Incl. MCCP) per Indemnity Claim



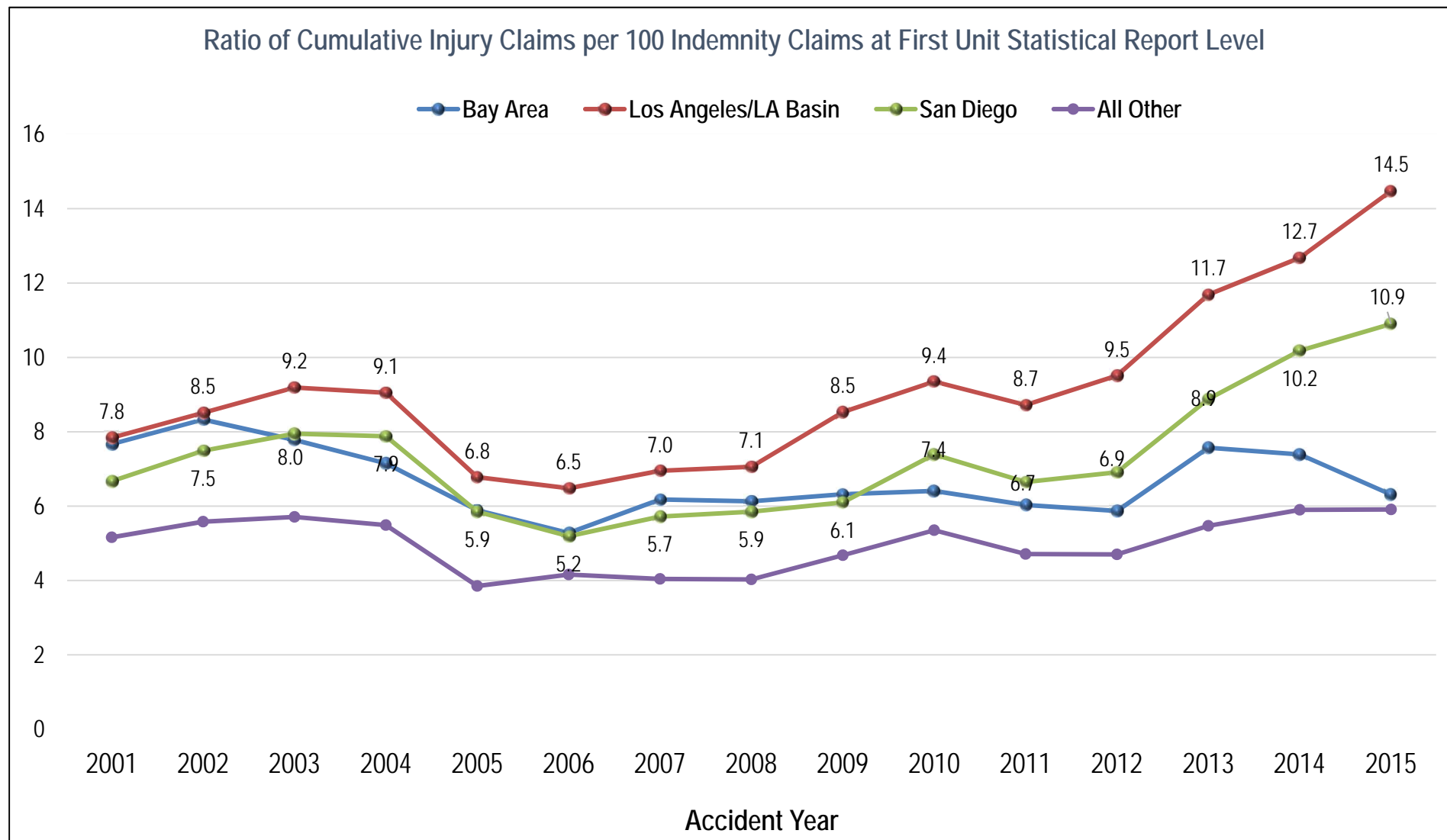
Areas of Concern

Estimated Ultimate Indemnity Loss per Indemnity Claim



Areas of Concern

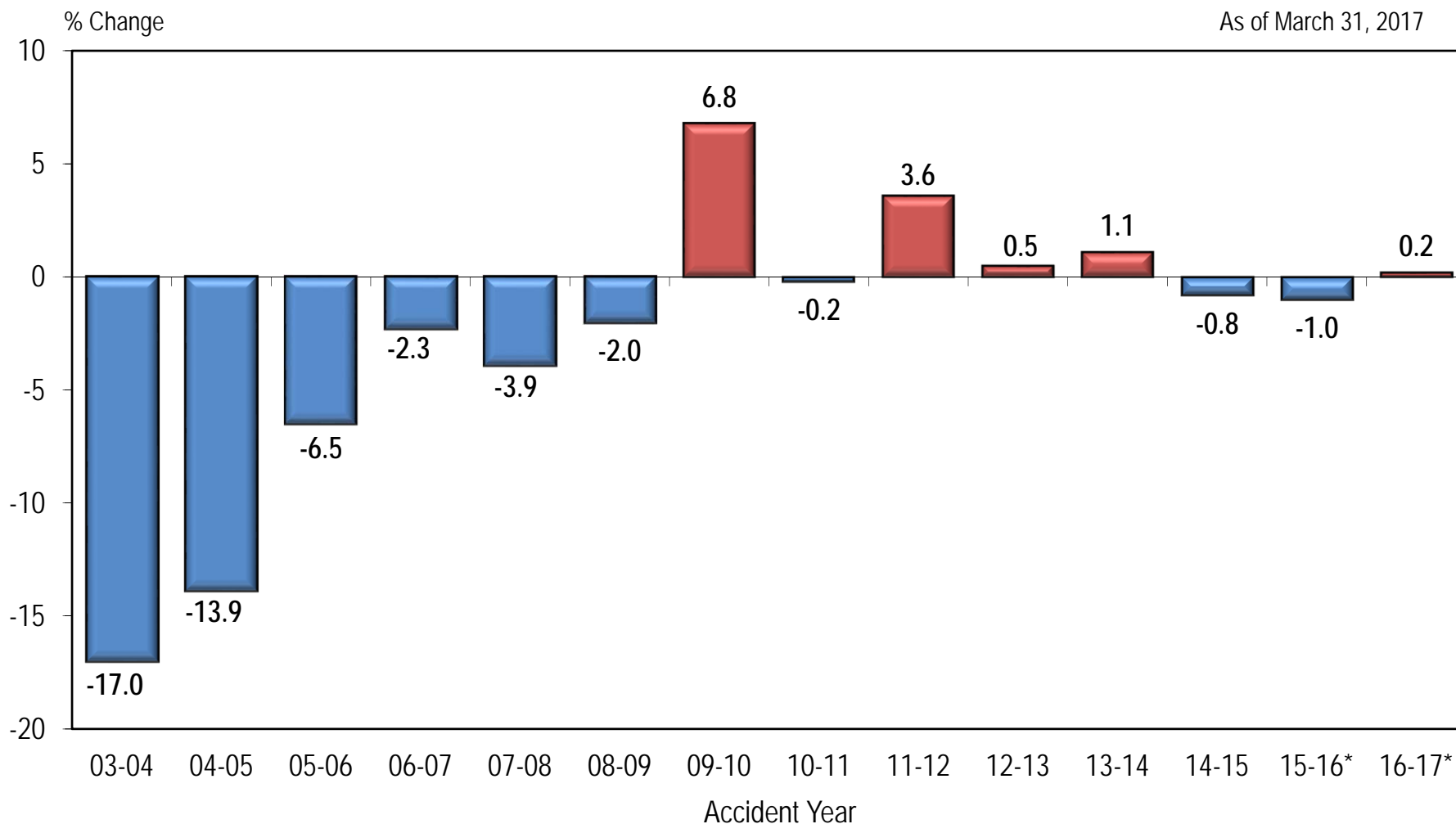
Cumulative Injury Claim Count Ratios



Source: WCIRB unit statistical data

Areas to Monitor

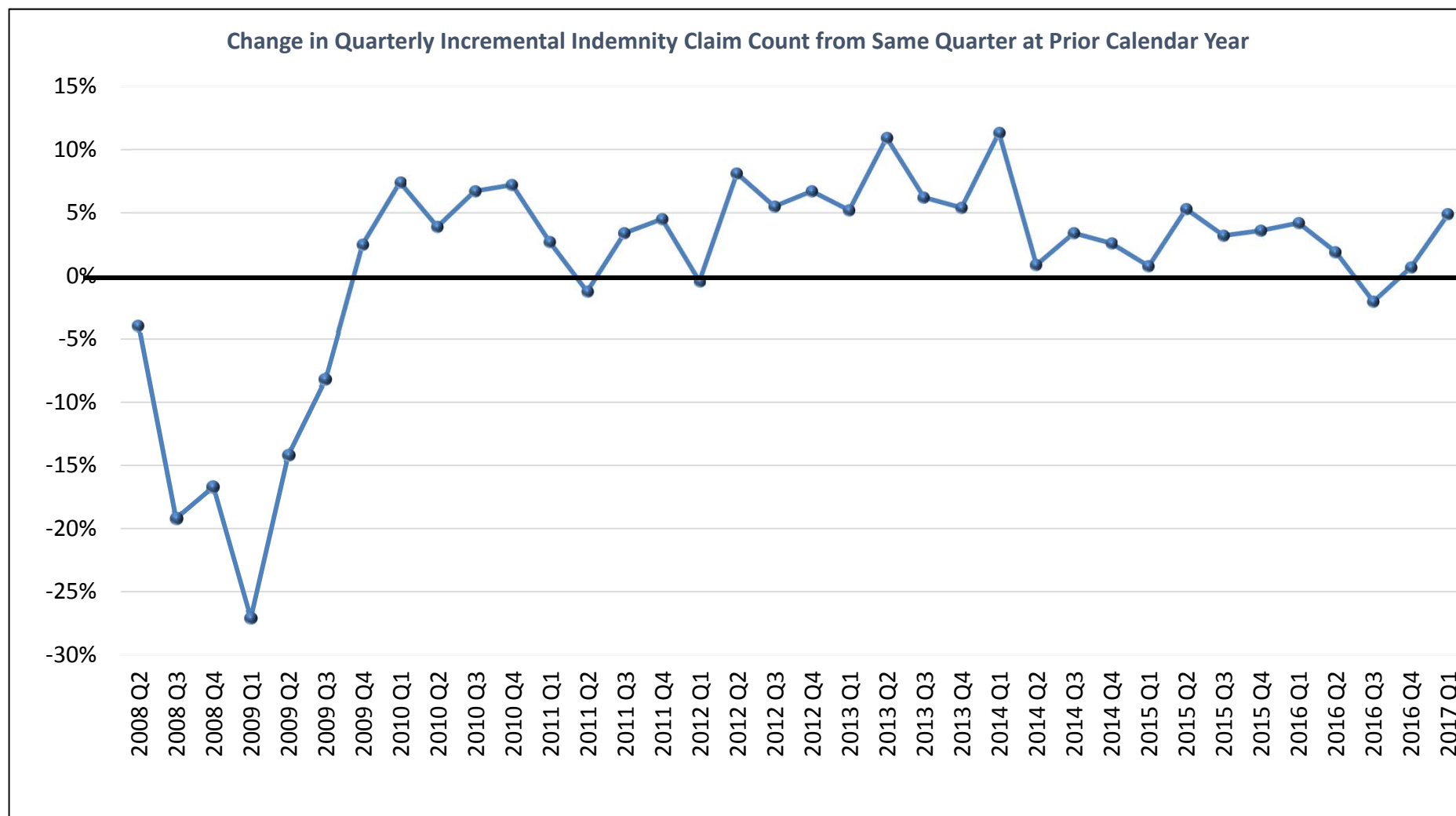
Change in Indemnity Claim Frequency



* Based on changes in reported aggregate indemnity claim counts compared to changes in statewide employment. All other pre-2016 estimates were based on unit statistical indemnity claims compared to reported insured payroll.

Areas to Monitor

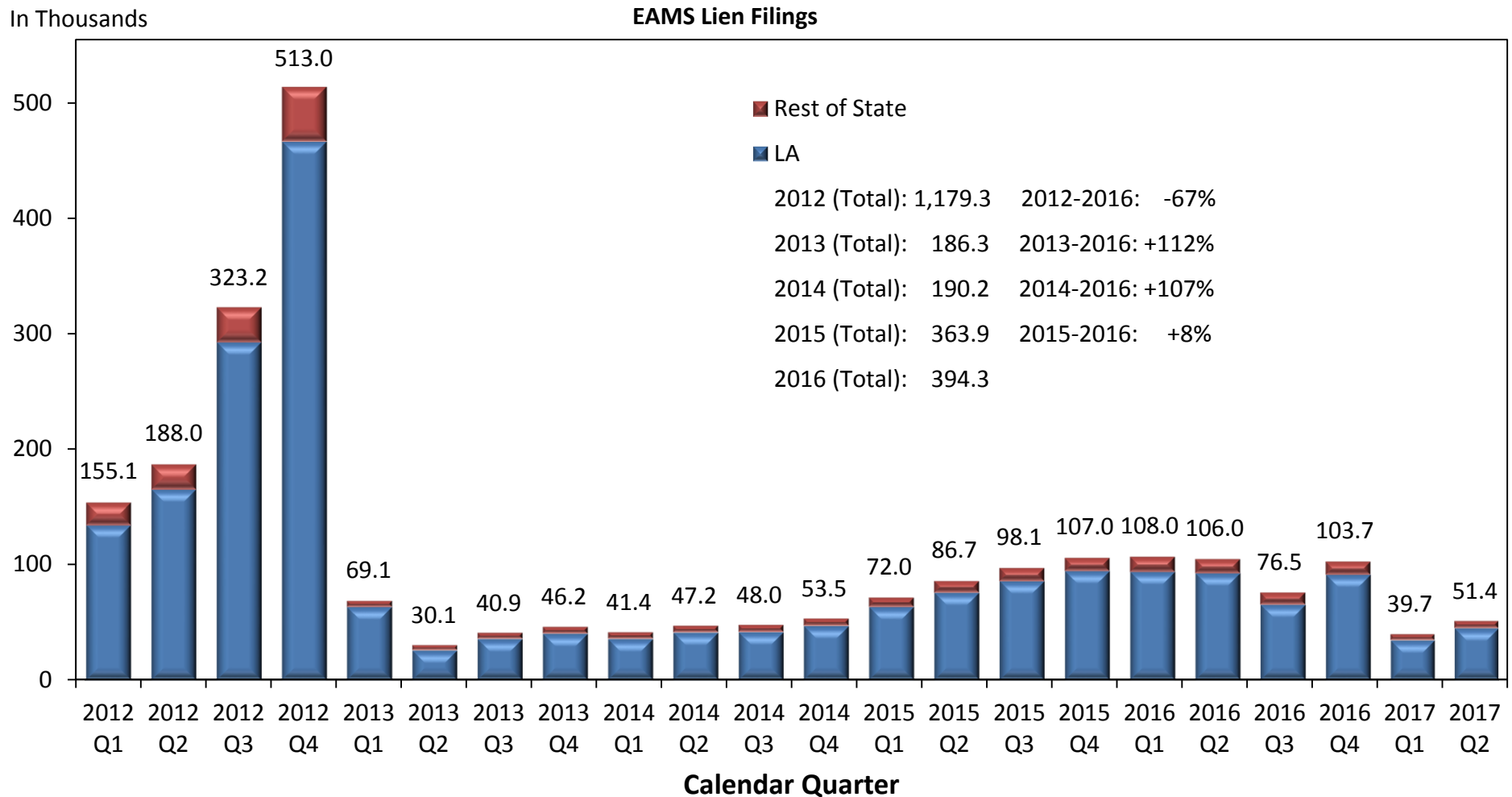
Indemnity Claim Counts



Source: WCIRB quarterly calls for experience

Areas to Monitor

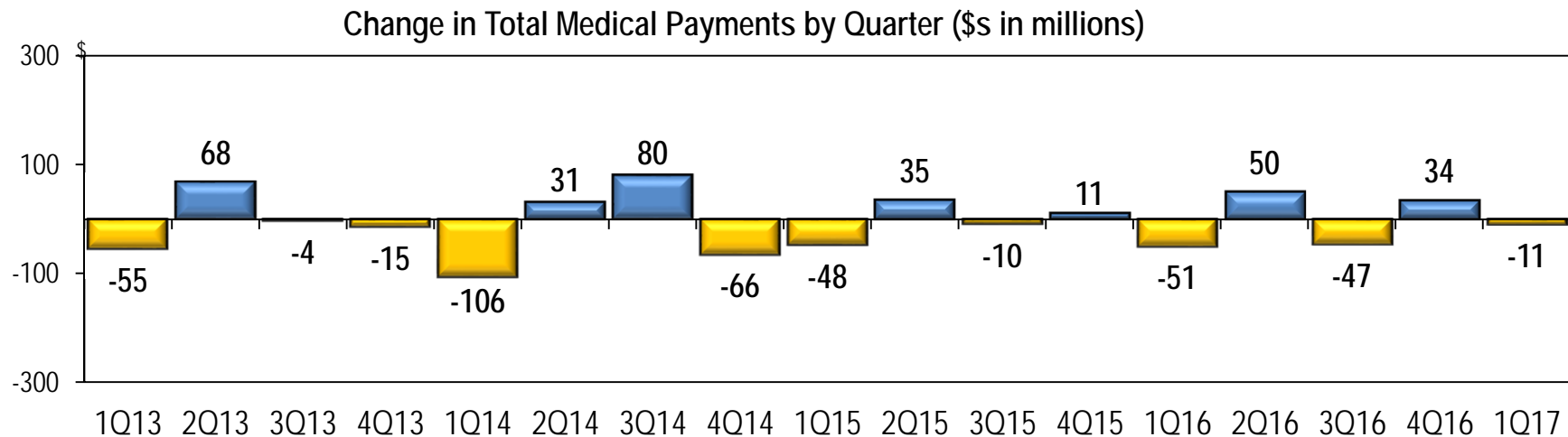
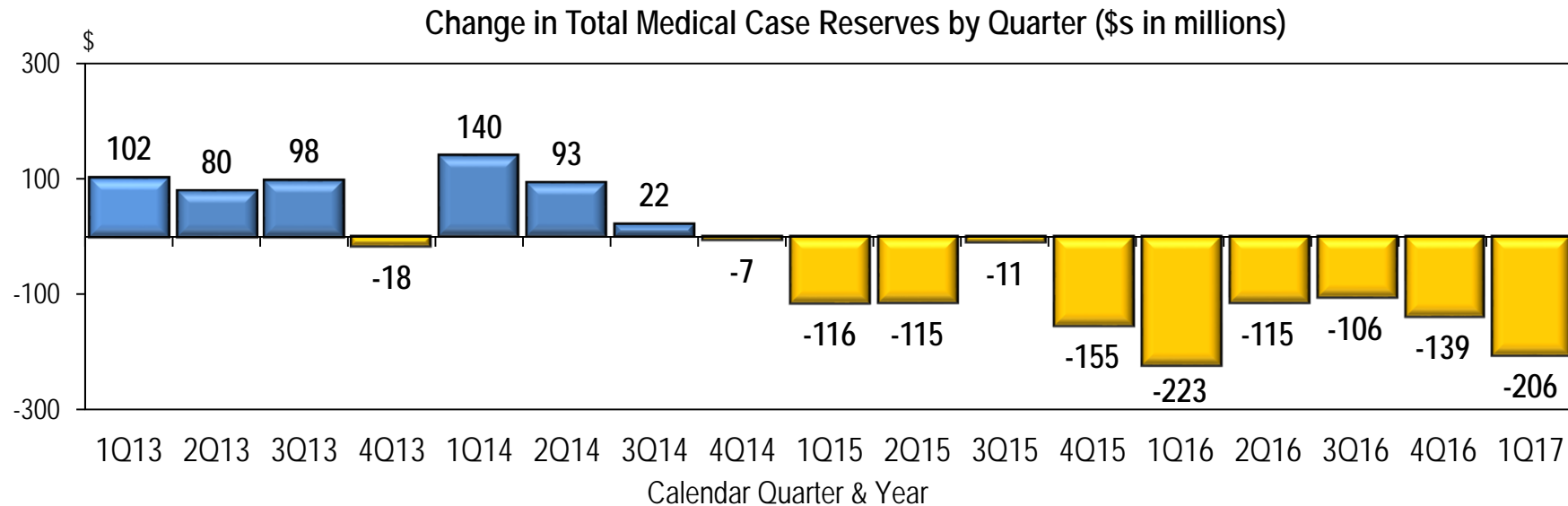
Filed Lien Counts by Region



Source: EAMS Liens Data

Areas to Monitor

Change in Medical Case Reserves by Calendar Quarter



Source: WCIRB Quarterly Calls for Experience

Calendar Quarter & Year

Actuarial Committee Recommended Methodology

Generally Consistent with 7/1/2017 Filing Methodology

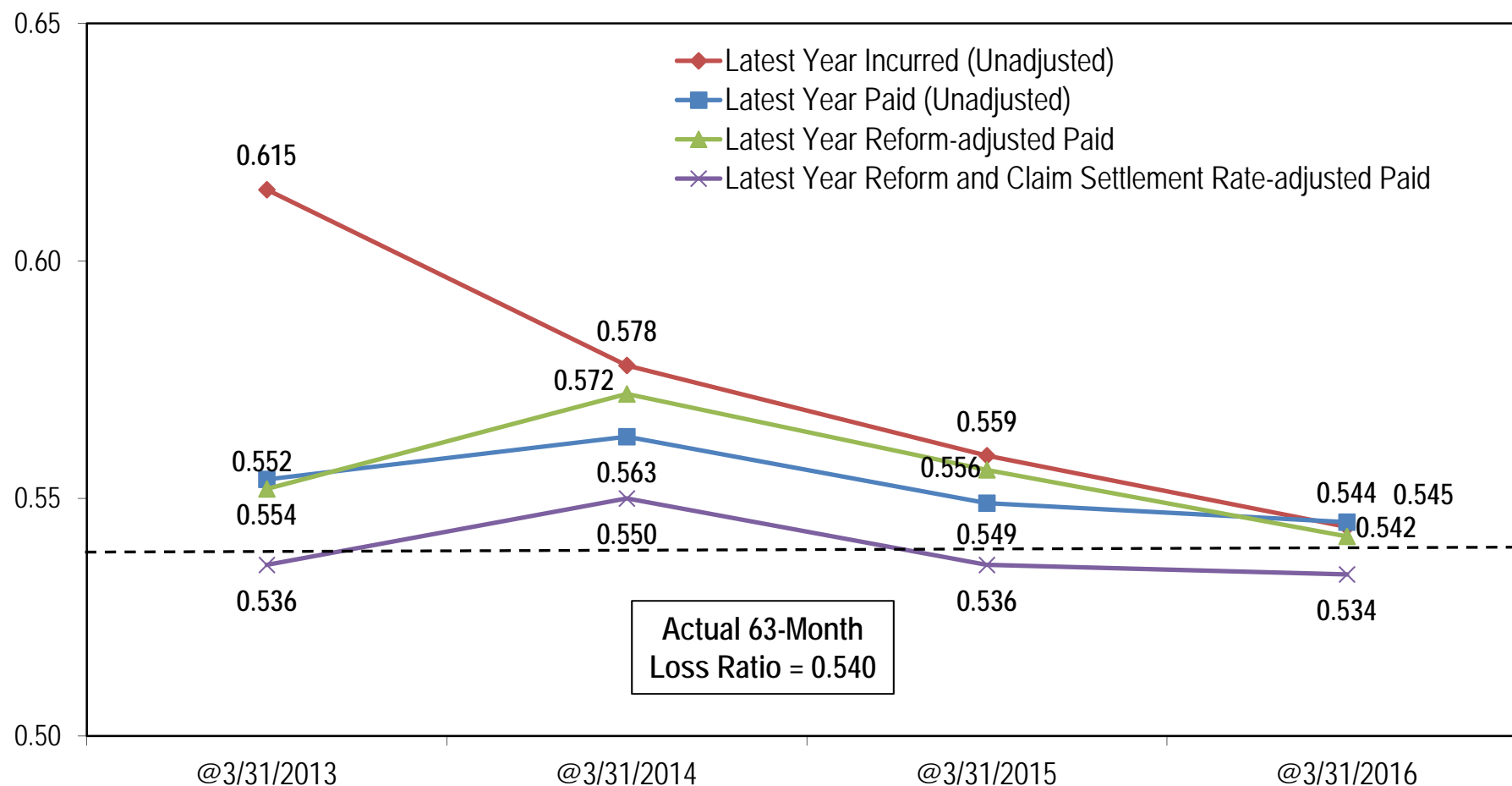
- Loss Development
 - Earlier Periods: Claim Settlement/Reform Adjusted Paid
 - Later Periods: Incurred Development with **Refinement to Mitigate Recent Case Reserve Reductions**
- Trending
 - Frequency & Severity Separately Projected
 - **1% Indemnity Severity Trend Reflected**
 - **3% Medical Severity Trend Reflected**
- Loss Adjustment Expense Projection
 - Frequency and LAE Severity Approaches
 - **IMR/IBR Cost Adjusted with Change in Reporting Requirement**

Loss Development Methodology – Basis of Actuarial Committee Recommendation

- Hybrid of Reform & Claim Settlement-Adjusted Paid and Incurred Methodology (for Post 19-Year Development)
 - Paid development has been more stable
 - Paid development has historically been more consistent across insurers than incurred development
 - Reform adjustments to paid development have historically increased accuracy
 - Claim settlement adjustments improve accuracy during periods of shifting claim settlements
 - Incurred projections may be being distorted by changing case reserve levels
 - Post 19-year incurred development mitigated to reduce impact of recent case reserve reductions on older accident years
- Actuarial Committee Vote on Development Methodologies
 - Indemnity: **Unanimous support**
 - Medical: **8 in Favor – 1 Opposed**

Loss Development Methodology

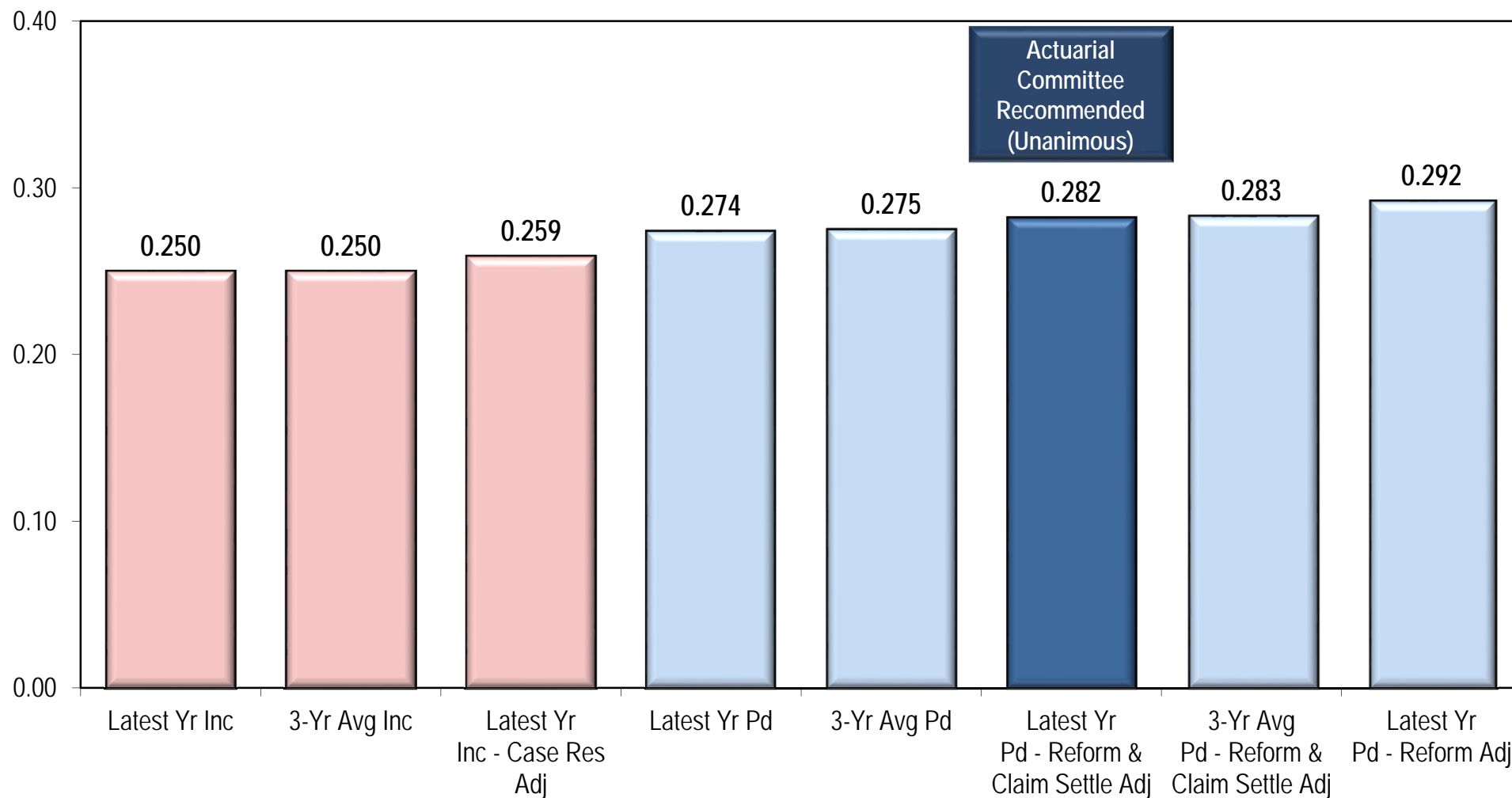
Accident Year 2012 Total Loss Ratios Projected to 63 Months – Methodology Comparison



Source: WCIRB Quarterly Calls for Experience

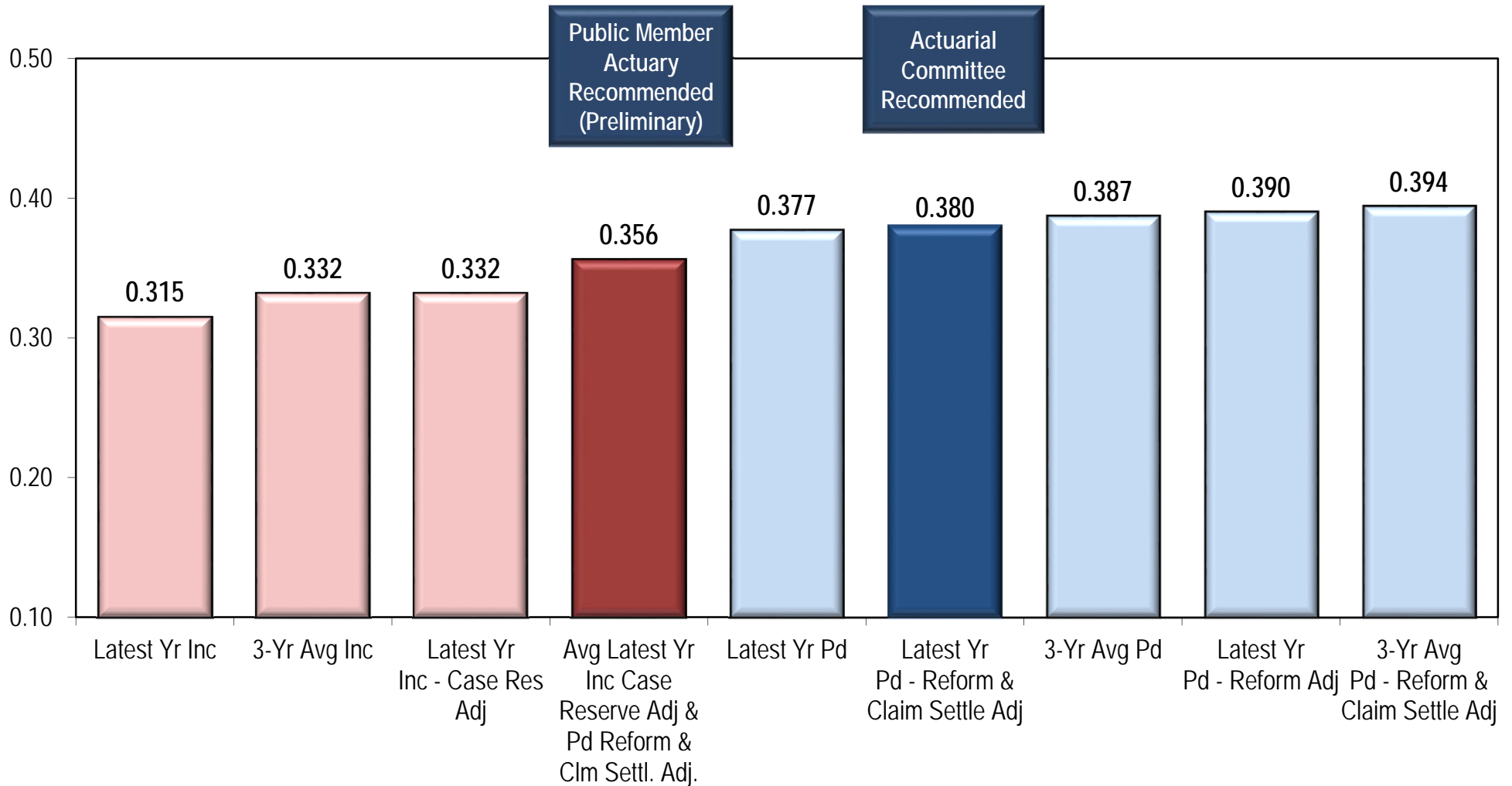
Loss Development Methodology

Indemnity On-Level Loss Ratios for Policy Year 2018 under Alternative Loss Development Methods



Loss Development Methodology

Medical On-Level Loss Ratios for Policy Year 2018 under Alternative Loss Development Methods



Trending Methodology

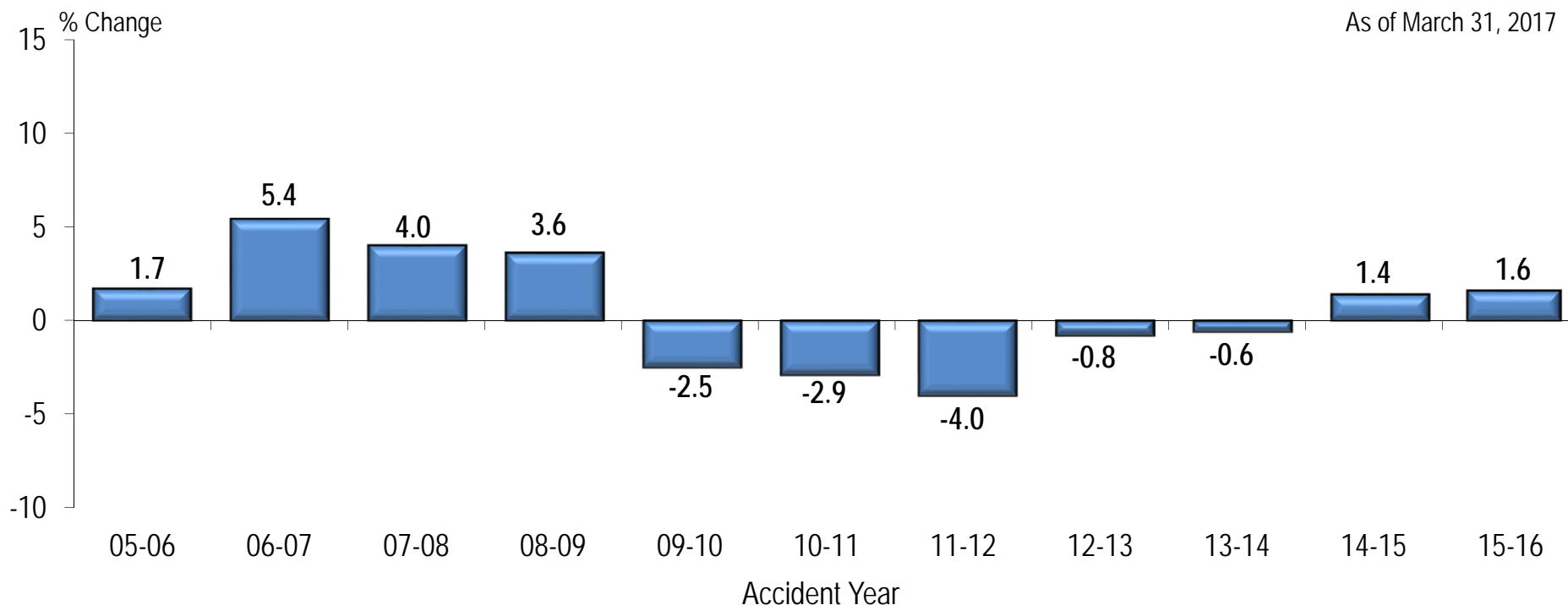
Basis of Actuarial Committee Recommendation

- **Separate Frequency and Severity Trend Projections Applied to the Average of the Latest Two Accident Years**
 - Retrospective tests show method performing well
 - Allows for separate assumptions and actuarial judgment about future frequency and severity trends
 - Results consistent with shorter-term loss ratio trends

- **Actuarial Committee Vote**
 - 8 in Favor – 1 Opposed

Trending Methodology

Change in On-Level Indemnity Severity



Annual Exponential Trend Based on:

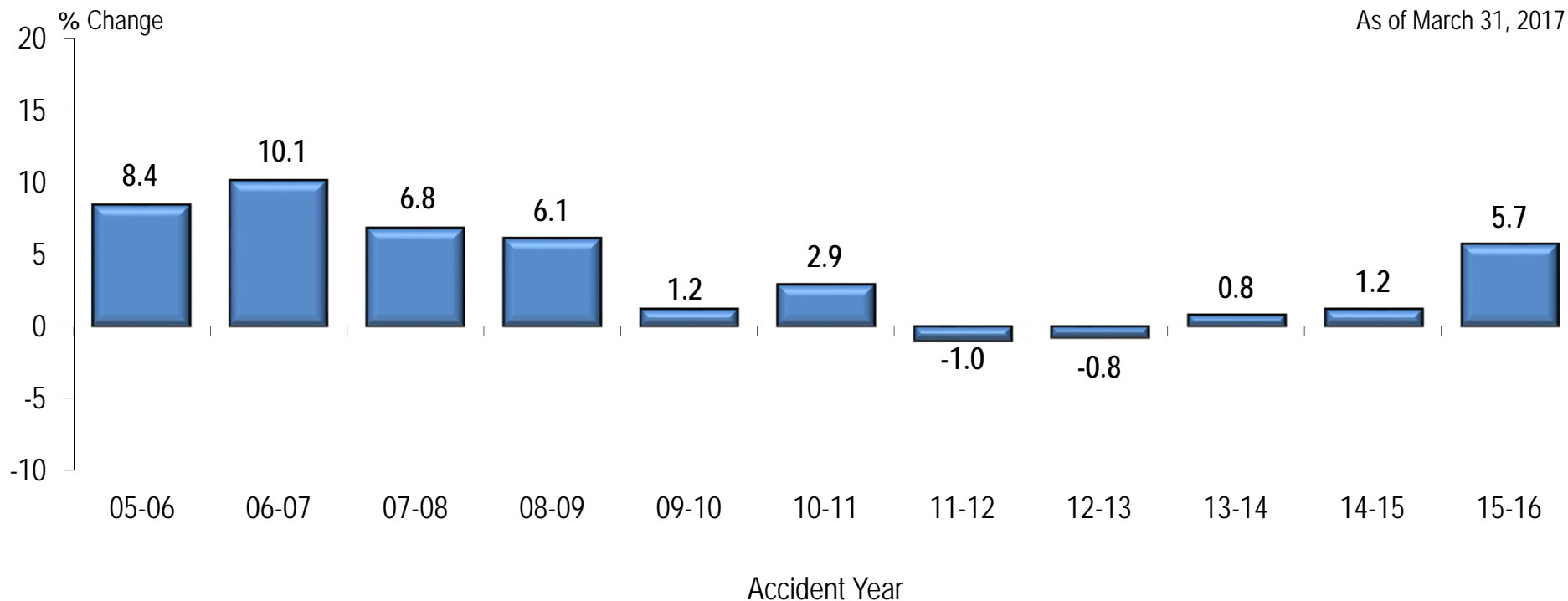
2005 to 2016: 0.0%

2011 to 2016: -0.4%

Actuarial Committee Recommended: 1.0%

Trending Methodology

Change in On-Level Medical Severity – Excluding MCCP



Annual Exponential Trend Based on:

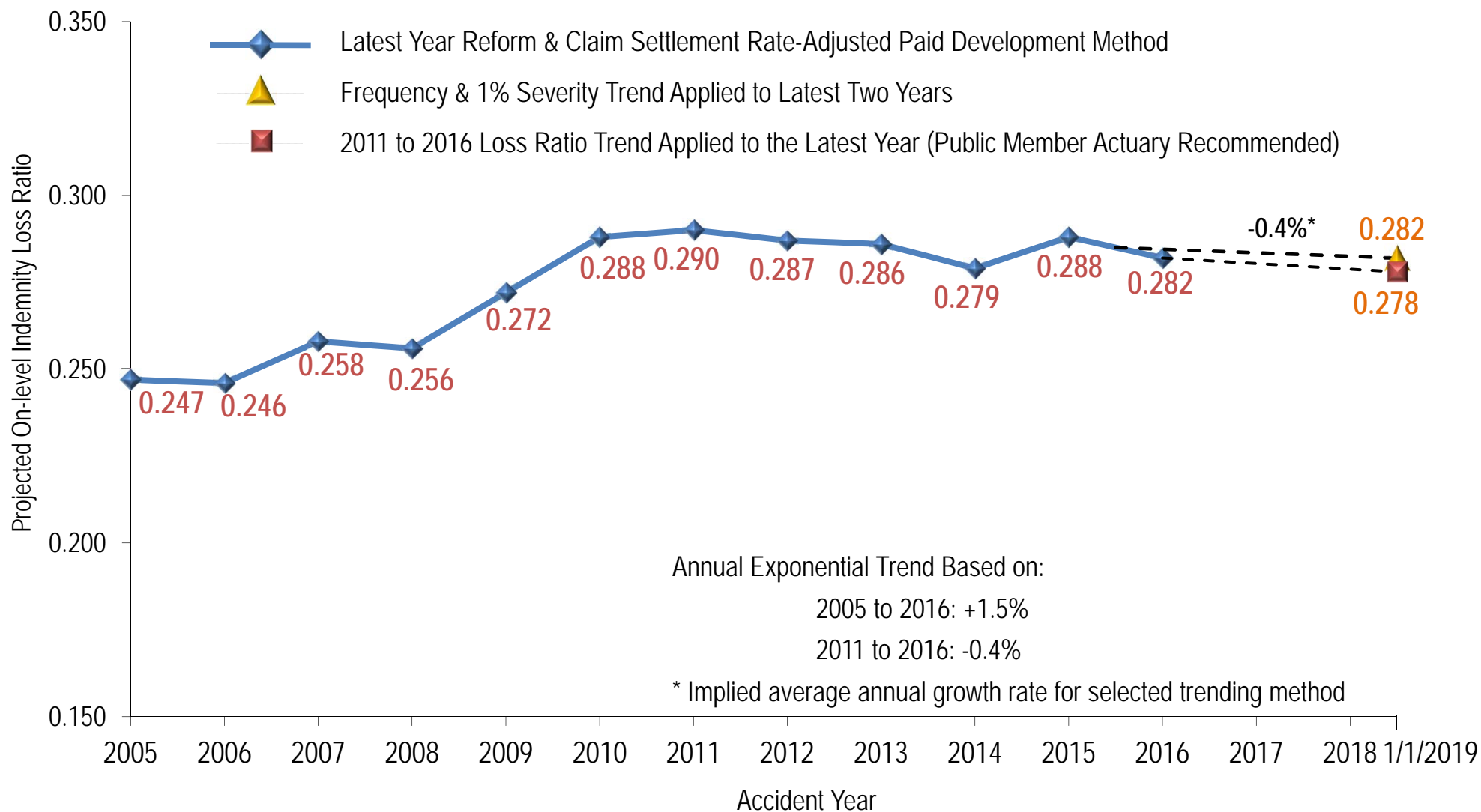
2005 to 2016: +3.0%

2011 to 2016: +0.9%

Actuarial Committee Recommended: 3.0%

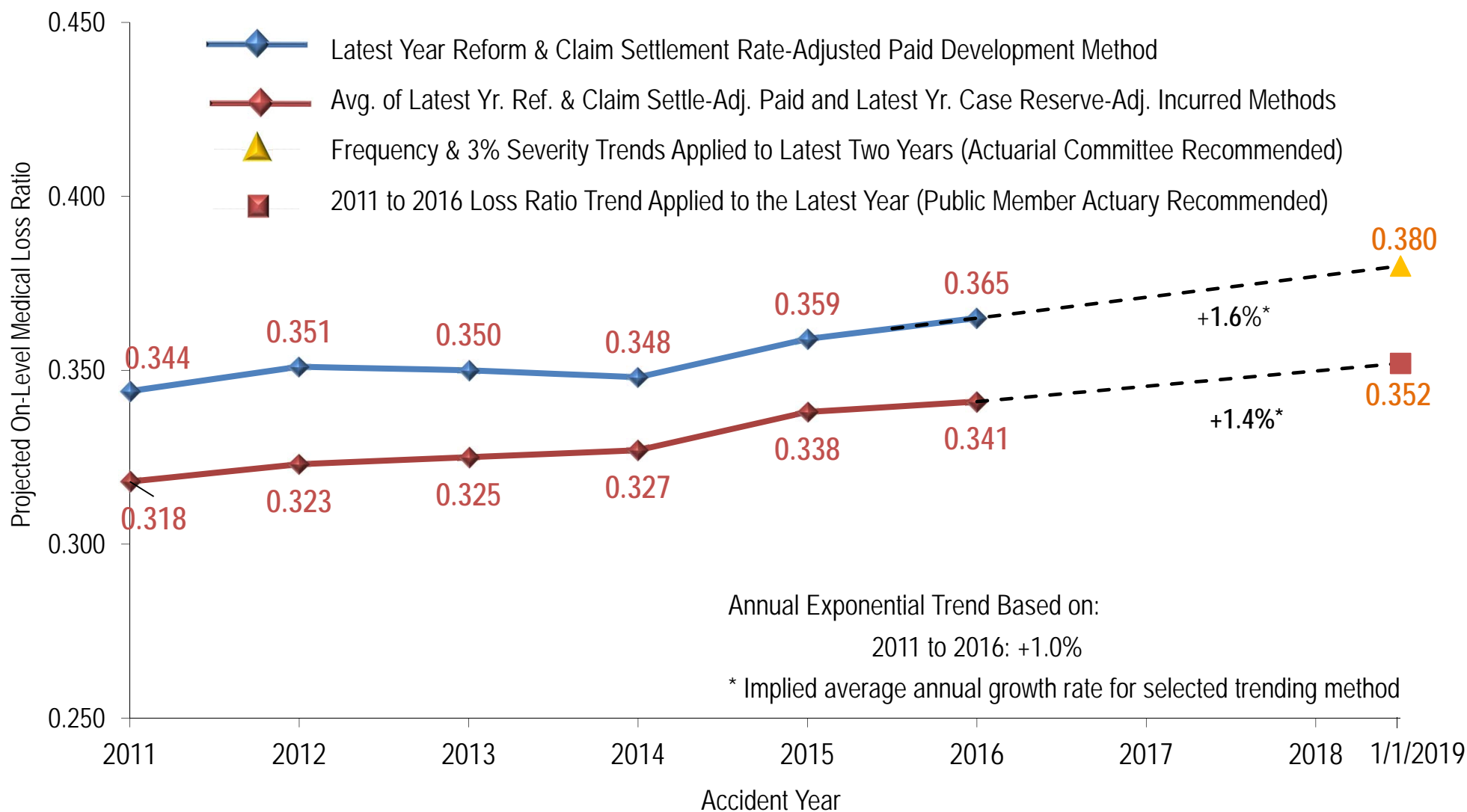
Trending Methodology

Indemnity Loss Trend & Projections



Trending Methodology

Medical Loss Trend & Projections



Loss Adjustment Expense Projection Methodology – Basis of Actuarial Committee Recommendation

- **ULAE Methodology**
 - Average of ULAE per Open Indemnity and ULAE per Paid Loss methods (reflects 2 years of new ULAE data call)

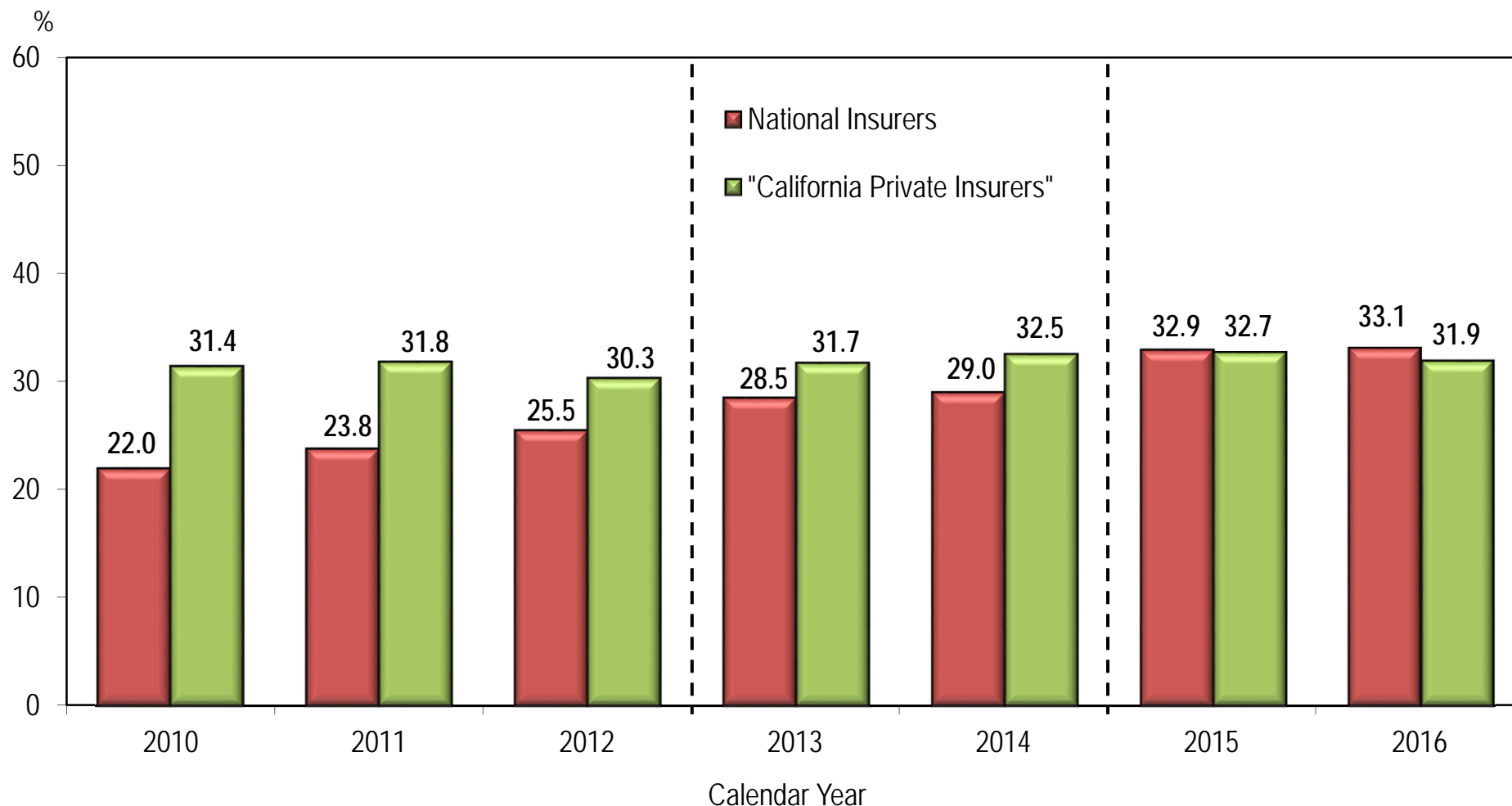
- **ALAE Methodology**
 - Trended ultimate severity per open indemnity claim based on private insurer ALAE with adjustment for IMR/IBR amounts paid

- **MCCP Methodology**
 - Similar to ALAE method

- **Actuarial Committee Vote**
 - Unanimous Support

Loss Adjustment Expense Projection Methodology

Ratios of Total Paid LAE to Paid Loss



Source: WCIRB Expense Calls. "California Private Insurers" are insurers with at least 80% of their workers' compensation writings in California.

Projections of LAE to Loss

Projection for Policies Incepting 7/1/2017 through 12/31/2017 (7/1/2017 Pure Premium Rate Filing)

Projection Method	Projected Ratio to Losses
MCCP – Trended Ultimate MCCP Per Indemnity Claim	4.3%
ALAE – Trended Ultimate ALAE Per Indemnity Claim	18.4%
ULAE – Average of Claim-Based and Paid Loss-Based ULAE Projections	11.5%
Total LAE	34.2%

Policy Year 2018 Projection

Projection Method	Actuarial Comm. Rec. Methodology Projected Ratio
MCCP – Trended Ultimate MCCP Per Indemnity Claim	4.1%
ALAE – Trended Ultimate ALAE Per Indemnity Claim	17.7%
ULAE – Average of Claim-Based and Paid Loss-Based ULAE Projections	9.9%
Total LAE	31.7%

Computation of Indicated Average 1/1/2018 Pure Premium Rate Based on Actuarial Committee Recommendations

1	Indemnity to Industry Average Filed PP Ratio	0.282
2	Medical to Industry Average Filed PP Ratio	0.380
3	Total Loss to Industry Average Filed PP Ratio (1) + (2)	0.662
4	Projected Factor of LAE to Losses	31.7%
5	Projected Loss & LAE to Industry Average Filed PP Ratio (3) x [1.0 + (4)]	0.872
6	Impact of SB 1160 & SB 1244	- 0.6%
7	Projected Change in Experience Rating Off-Balance	-1.1%
8	(1) Indicated Change in PP Rates $\{(5) \times [1.0 + (6)] \times [1.0 + (7)]\} - 1.0$	-14.3%
9	Industry Average Filed PP Rate per \$100 as of 7/1/2017	\$2.34
10	Indicated 1/1/2018 Average PP Rate $[1.0 + (8)] \times (9)$	\$2.01

Average Pure Premium Rates Per \$100 of Payroll

