

Governing Committee

Meeting Minutes

Date	Time	Location	Staff Contact
April 4, 2018	9:30 AM	WCIRB California 1221 Broadway, Suite 900 Oakland, CA	Eric S. Riley

1221 Broadway, Suite 900 • Oakland, CA 94612 • 415.777.0777 • Fax 415.778.7007 • www.wcirb.com • wcirb@wcirb.com

Released: April 17, 2018

Insurer Members

Everest National Insurance Company
Hartford Accident and Indemnity Company
Pacific Compensation Insurance Company
Preferred Employers Insurance Company
State Compensation Insurance Fund
Travelers Property Casualty Company of America
Zenith Insurance Company
Zurich American Insurance Company

Represented by

Michael Mulray
Gretchen Thompson
Janet Frank
Steve Gallacher
Vernon Steiner
Eric Belk
Paul Ramont*
Susan Gordon*

Public Members

Roberto Cortez (did not attend)
Jeremy Smith
Karyn Smithson-Hughes
Mitch Steiger (did not attend)

Representing

Insured Employers
Organized Labor*
Insured Employers*
Organized Labor

California Department of Insurance

Patricia Hein
Brentley Yim*

WCIRB

Bill Mudge
David Bellusci
Brenda Keys
Eric Riley
Tony Milano
Julia Zhang

Public Members' Staff

Mark Priven

Counsel

Dan Brown, Drinker, Biddle & Reath LLP

*Participated via teleconference

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 Governing 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.

© 2018 Workers' Compensation Insurance Rating Bureau of California. All rights reserved.

No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including, without limitation, photocopying and recording, or by any information storage or retrieval system without the prior written permission of the Workers' Compensation Insurance Rating Bureau of California (WCIRB), unless such copying is expressly permitted in this copyright notice or by federal copyright law. No copyright is claimed in the text of statutes and regulations quoted within this work.

Each WCIRB member company, including any registered third party entities, (Company) is authorized to reproduce any part of this work solely for the following purposes in connection with the transaction of workers' compensation insurance: (1) as necessary in connection with Company's required filings with the California Department of Insurance; (2) to incorporate portions of this work, as necessary, into Company manuals distributed at no charge only to Company employees; and (3) to the extent reasonably necessary for the training of Company personnel. Each Company and all agents and brokers licensed to transact workers' compensation insurance in the state of California are authorized to physically reproduce any part of this work for issuance to a prospective or current policyholder upon request at no charge solely for the purpose of transacting workers' compensation insurance and for no other purpose. This reproduction right does not include the right to make any part of this work available on any website or any form of social media.

Workers' Compensation Insurance Rating Bureau of California, WCIRB, WCIRB California, WCIRB Connect, WCIRB Inquiry, WCIRB CompEssentials, X-Mod Direct, eSCAD and the WCIRB California logo (WCIRB Marks) are registered trademarks or service marks of the WCIRB. WCIRB Marks may not be displayed or used in any manner without the WCIRB's prior written permission. Any permitted copying of this work must maintain any and all trademarks and/or service marks on all copies.

To seek permission to use any of the WCIRB Marks or any copyrighted material, please contact the WCIRB at customerservice@wcirb.com.

The meeting of the Governing Committee was called to order at 9:30 AM following a reminder of the antitrust restrictions, with Chair Steve Gallacher presiding.

* * * * *

Item I

Governing Committee Public Members

Prior to the Committee Chairperson, Steve Gallacher, commencing the regular agenda, Ms. Patricia Hein from the California Department of Insurance thanked, on behalf of the Insurance Commissioner, Mr. Bruce Wick for his years of service as a Public Member of the WCIRB's Governing Committee. Both Bill Mudge, WCIRB President and CEO, and Mr. Gallacher also thanked Mr. Wick for his service. Ms. Hein also advised the Committee that the Insurance Commissioner had reappointed Mr. Jeremy Smith to the Committee as a representative of Organized Labor and appointed Roberto Cortez as a representative of Insured Employers.

Item II

Approval of the Minutes

The Minutes of the Governing Committee meeting held on December 13, 2017 were distributed to Committee members in advance of the meeting for review. As there was no discussion or corrections to the Minutes, a motion was made, seconded and unanimously passed to adopt the Minutes as written.

Item III

Additions to the Agenda

The Chair asked the Committee members if there were any items to be added to the Agenda. Hearing none, the Chair accepted the Agenda as published.

Item III

Ratification of Actions of WCIRB Committees

The Minutes of the Actuarial Committee meeting held on December 6, 2017 were provided to Committee members in advance of the meeting for review. As there were no questions or discussion regarding the information, a motion was made, seconded and unanimously passed to ratify the actions of the Actuarial Committee.

The Minutes of the Classification and Rating Committee meetings held on October 17, 2017 and January 23, 2018 were provided to Committee members in advance of the meeting for review. As there were no questions or discussion regarding the information, a motion was made, seconded and unanimously passed to ratify the actions of the Classification and Rating Committee.

Item IV-A

Potential July 1, 2018 Advisory Pure Premium Rate Filing

Dave Bellusci, Executive Vice President and Chief Actuary, presented the Actuarial Committee's findings and recommendations concerning the July 1, 2018 advisory pure premium rate indication. The Committee was advised that the Actuarial Committee met on March 19, 2018 and April 3, 2018 to discuss December 31, 2017 experience and to develop a recommendation with respect to the July 1, 2018 advisory pure premium rate indication. A summary of the materials reviewed by the Actuarial Committee at the April 3, 2018 meeting was provided to the Governing Committee in advance of the meeting.

Mr. Bellusci reminded the Committee that, at the December 14, 2011 meeting, the Committee adopted a general guideline that a mid-year pure premium rate filing should generally not be made unless there is either (1) evidence of highly unusual volatility in the experience or (2) major legislative, regulatory or judicial action. At the December 14, 2011 meeting, the Committee also directed that the Actuarial Committee's review of year-end experience should include development of a mid-year advisory pure premium rate indication to be provided to the Governing Committee in early April to inform their decision as to whether the WCIRB should make a mid-year filing.

Mr. Bellusci summarized the Actuarial Committee's analysis and recommendations for the Committee. In his detailed review of the December 31, 2017 experience, Mr. Bellusci noted that the decrease in the indicated pure premium rate is primarily the result of four emerging trends: (1) favorable medical and indemnity loss development, (2) accelerated claim settlement rates, (3) lower than projected Accident Year 2017 loss ratios, and (4) a continuing decline in the volume of lien filings. Mr. Bellusci also noted that while these trends are significantly lowering the indicated advisory pure premium rate level, there remain several areas of concern that warrant continued monitoring including (1) a continued increase in cumulative trauma claims, (2) the rate of medical inflation, and (3) increasing allocated loss adjustment expenses (ALAE). Mr. Bellusci also summarized the Actuarial Committee's estimate of the cost savings to arise from the new drug formulary that was adopted by the Division of Workers' Compensation to be effective January 1, 2018. The Committee was advised that the overall estimated savings on policies incepting between July 1, 2018 and December 31, 2018 arising from the new formulary is 0.5%.

Mr. Bellusci advised the Committee that the Actuarial Committee's recommendation was based on the methodologies reflected in the WCIRB's January 1, 2018 Pure Premium Rate Filing. The Committee was further advised that applying the methodologies recommended by the Actuarial Committee to the December 31, 2017 statewide experience produces a July 1, 2018 indicated statewide average pure premium rate of \$1.80 per \$100 of payroll. This represents a 7.2% decrease from the approved average January 1, 2018 advisory pure premium rate of \$1.94 and a 19% decrease from the average industry filed pure premium rate as of January 1, 2018 of \$2.22 per \$100 of payroll.

Throughout the presentation, a number of Committee members questioned Mr. Bellusci to elicit a more thorough understanding of the data and information being presented and the basis of the Actuarial Committee's recommended methodologies. Mr. Bellusci discussed in detail several instances in which there was a diversity of opinion among members of the Actuarial Committee and the basis for those differences.

Also through the course of the presentation, Mark Priven, the consulting actuary to the Public Members of the Governing Committee, advised the Committee of those specific areas – and their relative impact – in which his methodology differed from that adopted by the Actuarial Committee. Mr. Priven advised the Committee that his methodology produced an indicated average July 1, 2018 pure premium rate of \$1.71, or \$.09 below that produced using the Actuarial Committee's recommended methodology. The Committee was advised that the principal difference in the two indications was attributable to (1) basing medical loss development on an average of the latest year case-reserve adequacy adjusted incurred loss development and the reform adjusted and claim settlement adjusted paid method and (2) basing the medical and indemnity trend projections on a combined loss ratio trend rather than separate frequency and severity trend projections.

At the close of the discussion, a motion was made and seconded to adopt the recommendations of the Actuarial Committee and to submit a July 1, 2018 Pure Premium Rate Filing to reflect an average pure premium rate of \$1.80 per \$100 of payroll. The motion passed by a vote of 8 in favor and 2 against. The Public Members of the Committee who voted against the motion indicated that their votes were predicated on the differences in the indication based on the Actuarial Committee's recommended methodologies and those recommended by Mr. Priven.

Next Meeting Date

The Committee noted that the next meeting is scheduled for June 13, 2018 at 1:00 PM.

* * * * *

There being no further business to come before the Committee, the meeting was adjourned at 11:00 AM.

* * * * *

Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the Minutes of the meeting scheduled for June 13, 2018 for approval and/or modification.