

# WCIRB Executive Summary

## September 1, 2023

### Pure Premium Rate Filing

June 7, 2023

California Department of Insurance Public Hearing

# Presentation Summary

1. Opening Remarks
2. Executive Summary
3. Key Actuarial Methodologies
4. COVID-19 Claim Cost Projection
5. Advisory Pure Premium Rate Comparison

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# Opening Remarks

# Background & Underlying Environment

## Pre-Pandemic Period

- Reforms kept medical costs low
- Frequency declined at modest levels
- Nine consecutive pure premium rate decreases totaled 40% (1/1/15 – 1/1/20)

## Endemic Period

- COVID-19 claim costs dropping
- Modest non-COVID-19 frequency and severity growth trends
- 0% average 9/1/2022 advisory pure premium rate change

2015-  
2019

2020-  
2021

2022+

## Pandemic Period

- Major impacts on employment, wages, medical delivery, claim frequency, etc.
- 200,000 COVID-19 claims filed
- Non-COVID-19 claim frequency fluctuated widely
- Required significant ratemaking methodology adjustments
- Two additional pure premium rate decreases (1/1/2021 and 9/1/2021)

# Average Advisory Pure Premium Rates

The WCIRB proposes and the Commissioner adopts a set of advisory pure premium rates for each of approximately 500 classifications.

The average of those rates depends on the size (payroll) of each classification.

\$2

**\$1.45**

**\$1.50**

**\$1.50**

(0.3%  
increase)

\$1

\$0

Approved 9/1/2022  
Based on PY 2019  
Class Weights

Approved 9/1/2022  
Based on PY 2020  
Class Weights

Proposed 9/1/2023  
Based on 2020  
Class Weights

# Big 4 Cost Driver Considerations – 9/1/2023 Filing

1

## Loss Development

- Significant reserve reductions on older years driving differences in paid and incurred projections
- Unlikely to be sustained over long-term

2

## Claim Frequency

- Moderation of long-term rate of decline
- Latest 15-year pattern is different than the prior 15-year history

3

## Permanent Disability Claims

- Permanent disability claims as a share of indemnity claims at historical low
- Unclear if trend will continue or revert to historical level

4

## Utilization of Medical Services

- Medical utilization has declined over the last decade
- Utilization declines have largely offset increases in cost per service
- Unlikely to be sustained over long term



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# Executive Summary

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## Advisory Pure Premium Rate Level – Where are we today?

**Cumulative Pure Premium Rate Change  
Since 2015 (11 Decreases)**

**-51%**

**CDI 9/1/2022 Approved Average Pure  
Premium Rate**

**\$1.50**

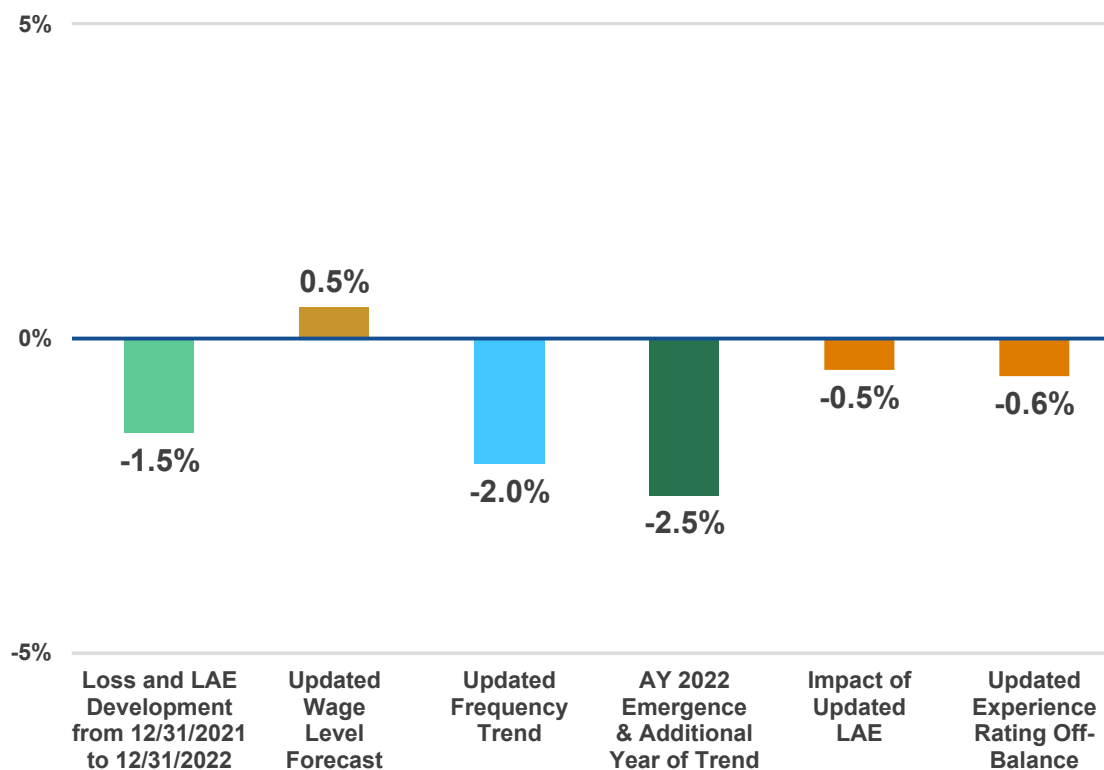
**WCIRB 9/1/2023 Proposed Average Pure  
Premium Rate Change**

**+0.3%**



# Drivers of Change in Average Advisory Pure Premium Rate

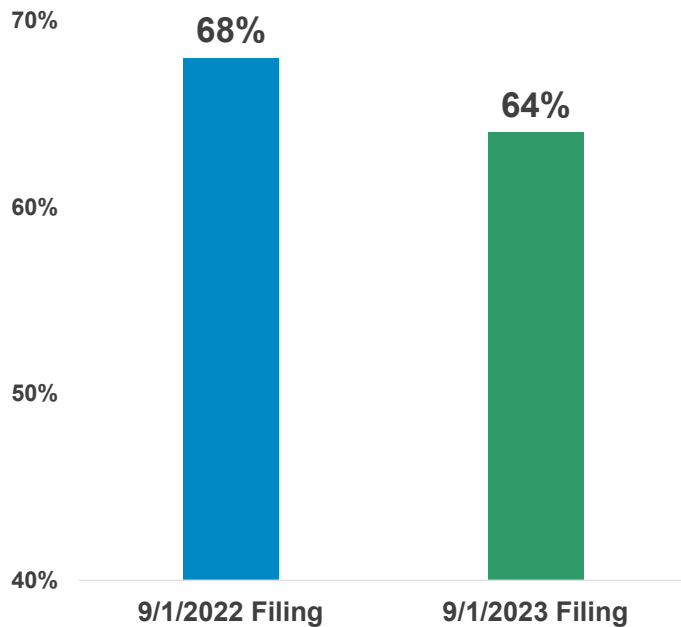
**9/1/2022  
WCIRB  
Filed  
+6.9%**  
(Excluding COVID-19)



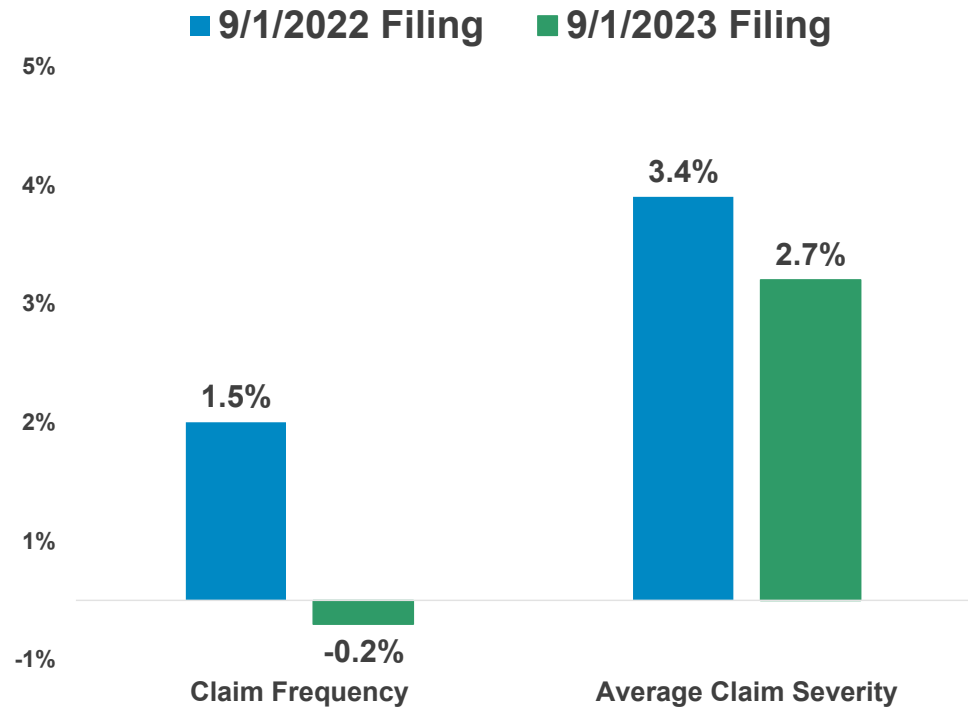
**9/1/2023  
WCIRB  
Filed  
+0.3%**

# Accident Year 2022 Emerging Favorably

Projected Ultimate AY 2022 Loss Ratio



Estimated 2022 Frequency and Loss Severity Change



Source: September 1, 2022 and September 1, 2023 Pure Premium Rate Filings.

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# Key Actuarial Methodologies

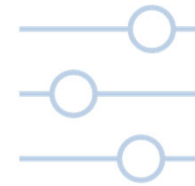
# WCIRB Study Supports Paid Loss Development Method



Both paid and incurred methods exhibited stability across earlier development periods

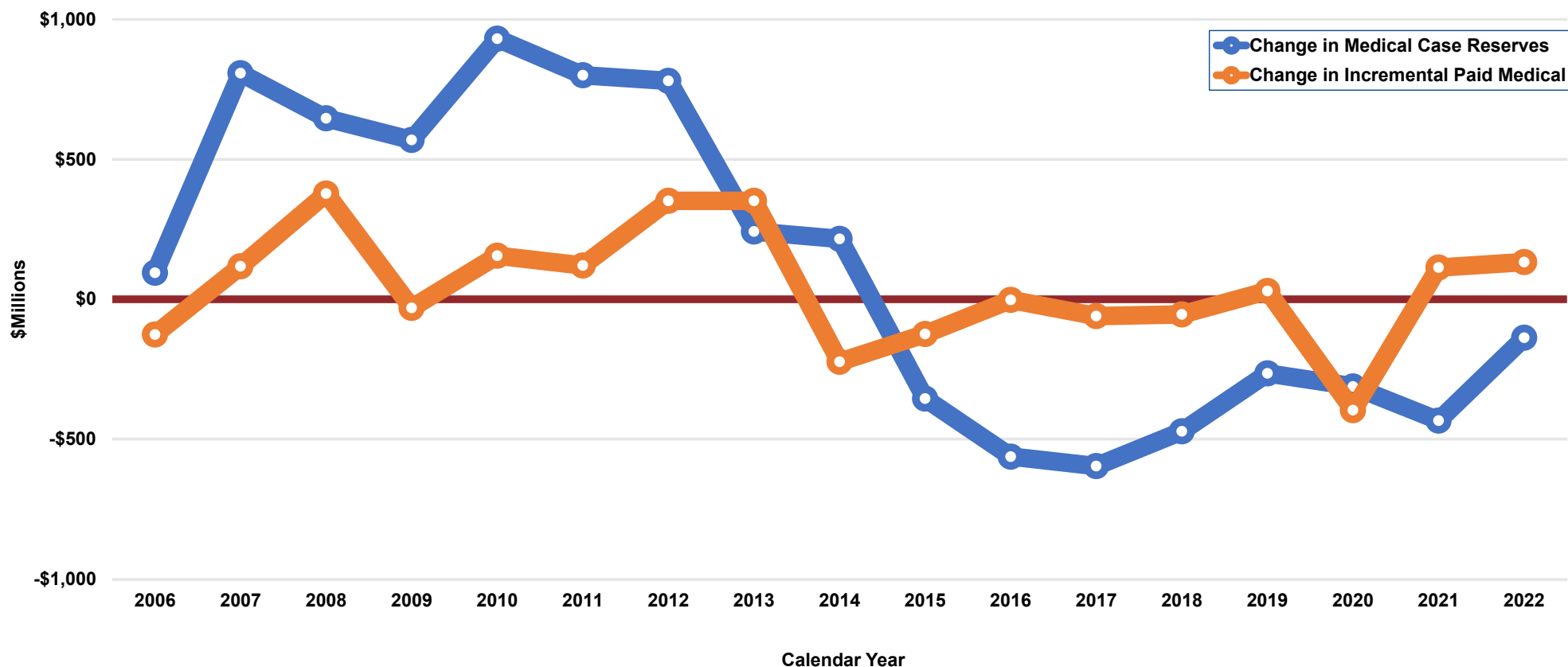


Incurred method exhibited greater volatility across later development periods



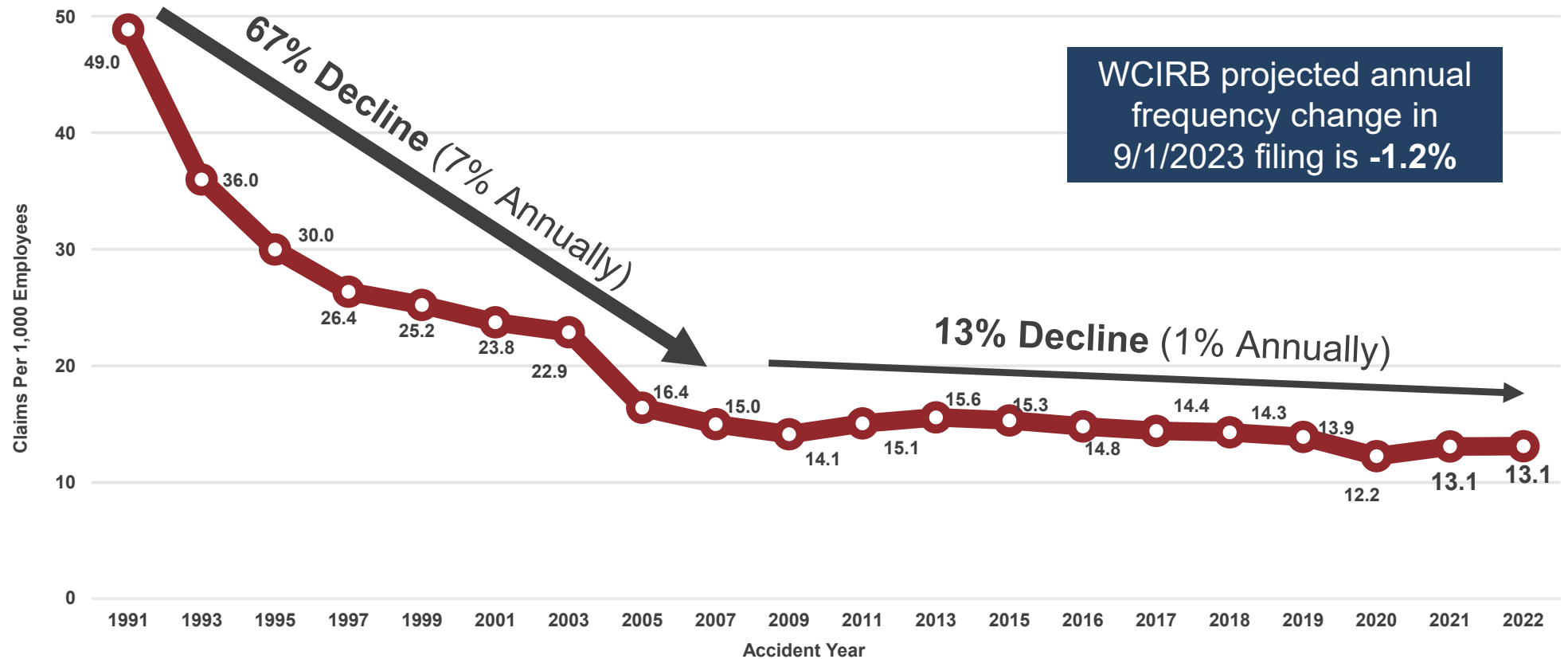
(Adjusted) paid development exhibited stability across later development periods

# Paid Development More Stable than Incurred



Source: WCIRB aggregate financial data

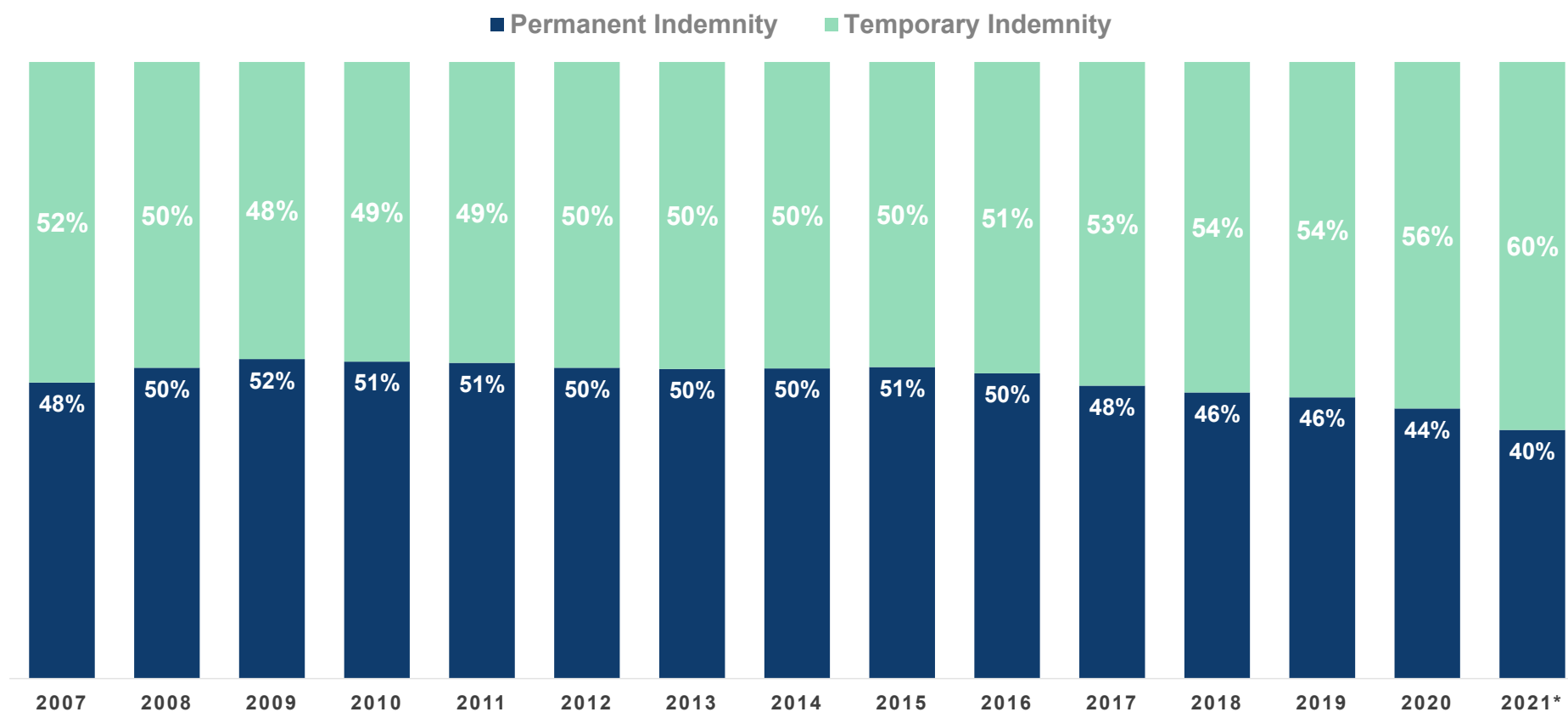
# Indemnity Claims Per 1,000 Employees



Source: WCIRB aggregate financial data calls and unit statistical data. Excludes COVID-19 claims.



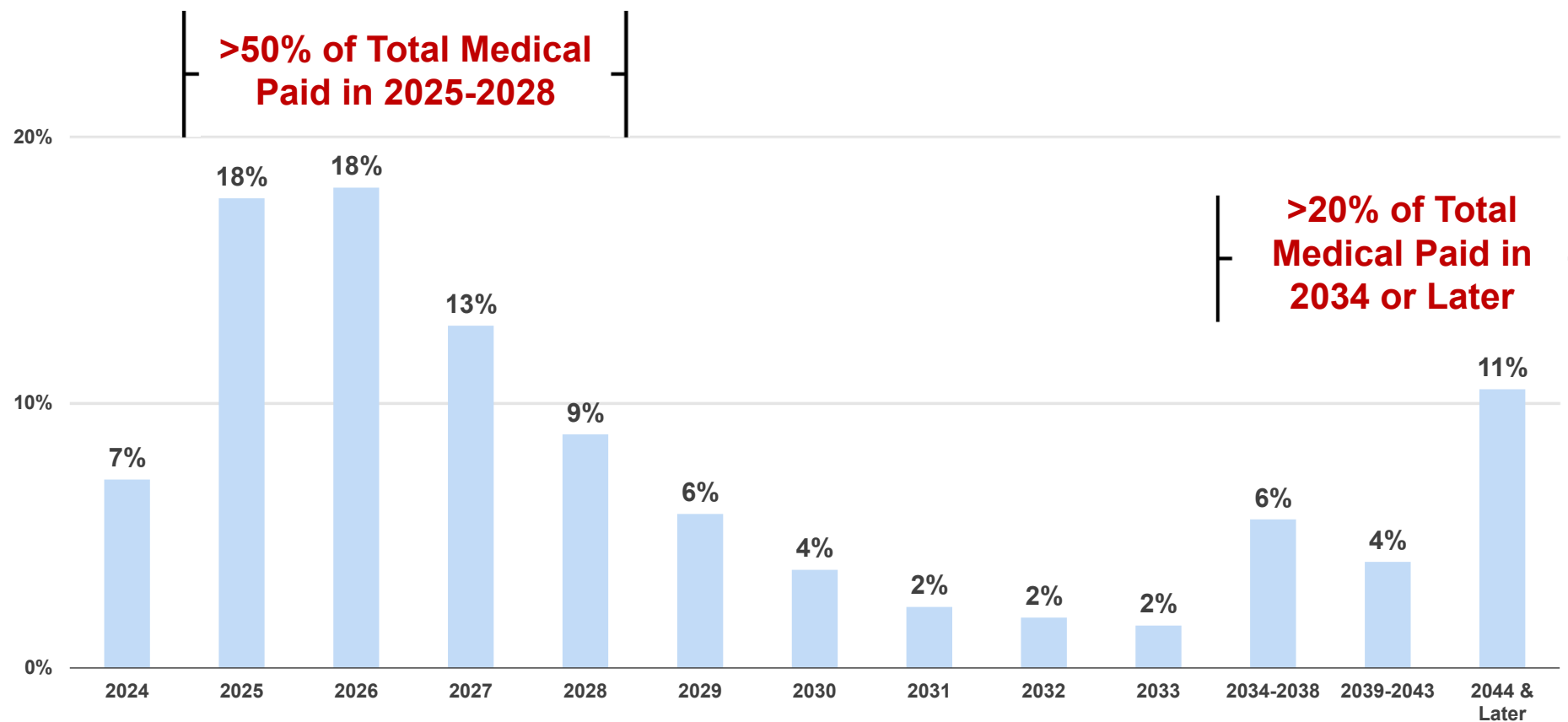
# Permanent Disability Claim Share Trending Down



Source: WCIRB unit statistical data excluding COVID-19 claims. .. \* Accident year 2021 experience is partial in that it only reflects experience from policy year 2020.

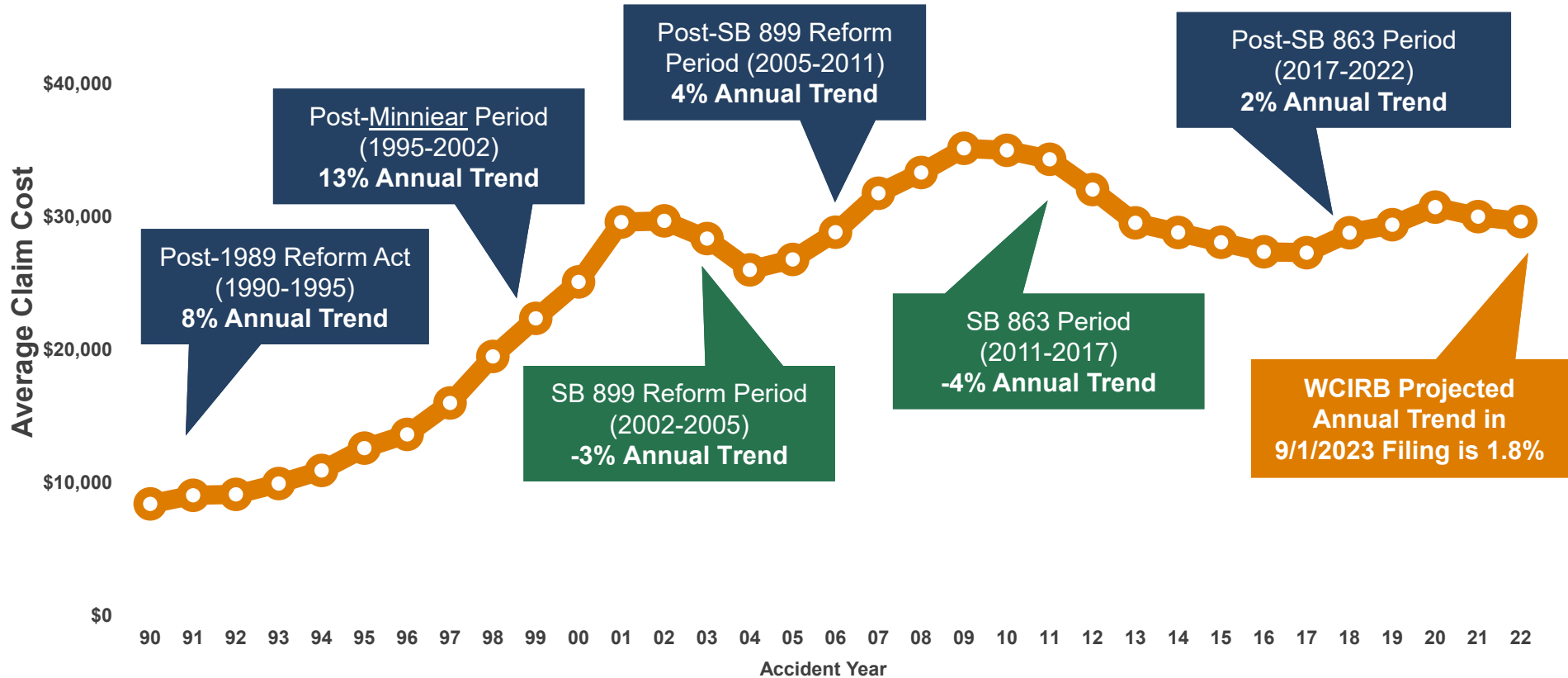
# Medical Payments Span a Long Duration (PY 2024)

As of December 31, 2022



Source: WCIRB aggregate financial data and projections of paid medical

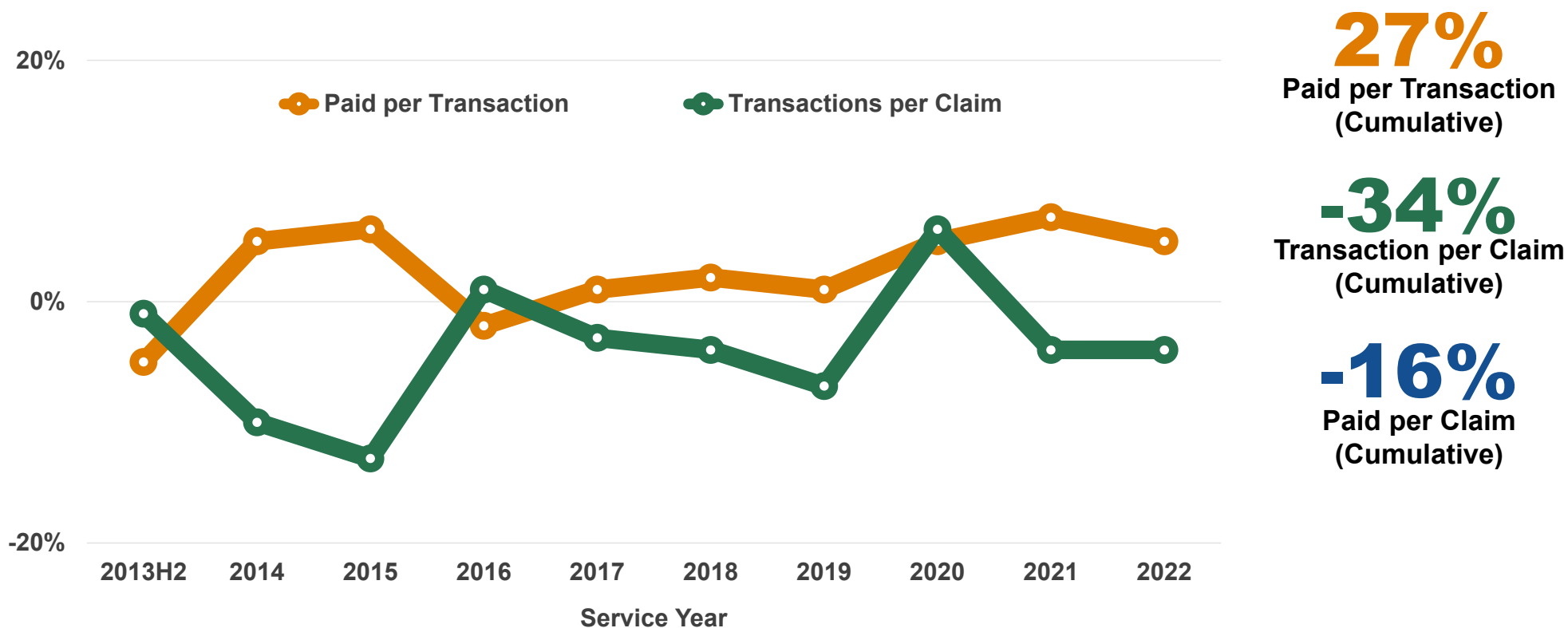
# Medical Severity Decreased Only After Latest Reforms



Source: WCIRB aggregate financial data and projections as of December 31, 2022. Includes MCCP costs in all years for consistency.

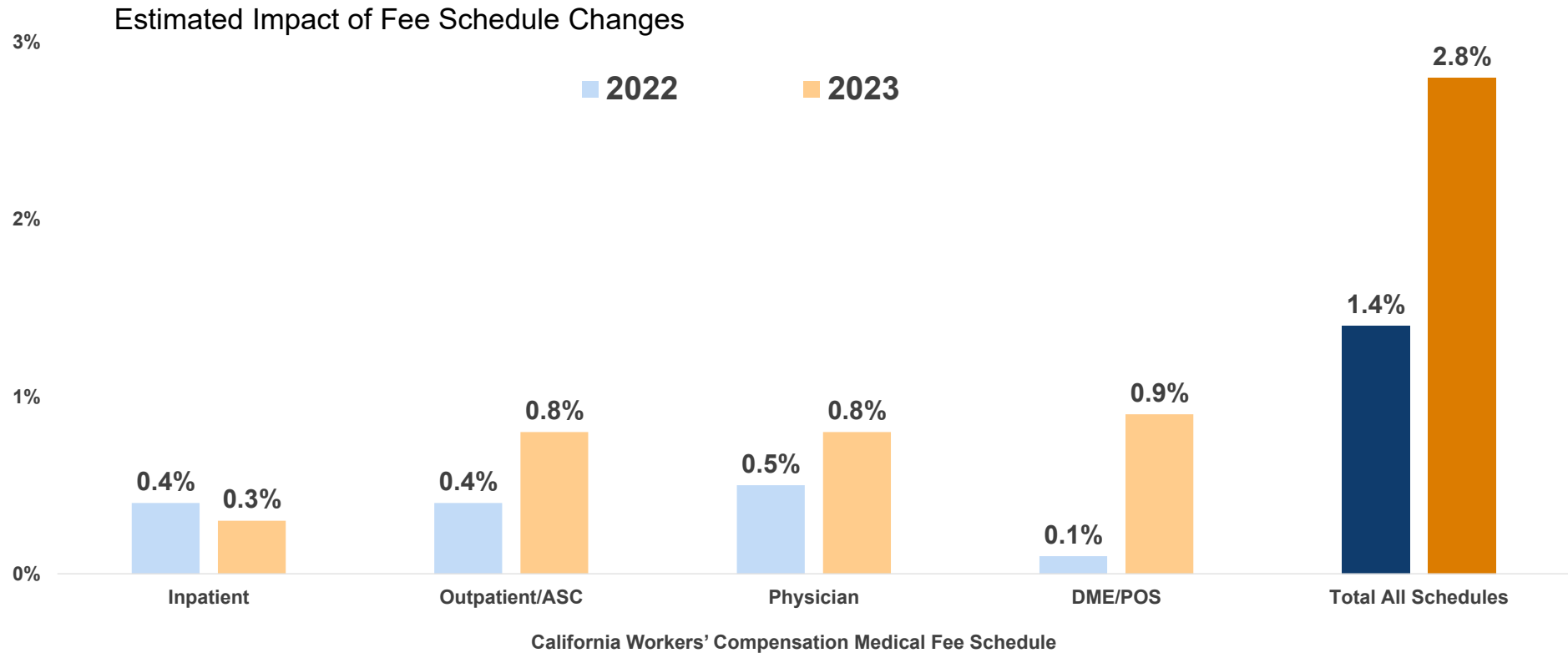
# Percent Change in Medical Services Cost per Claim

As of February 7, 2023



Source: WCIRB medical transaction data (collection started 3Q 2012). COVID-19 claims were excluded from the analysis.

# 2023 Medicare Fee Schedules Are Rising With Inflation



Source: WCIRB medical transaction data and Medicare-based fee schedule values adopted by the DWC.

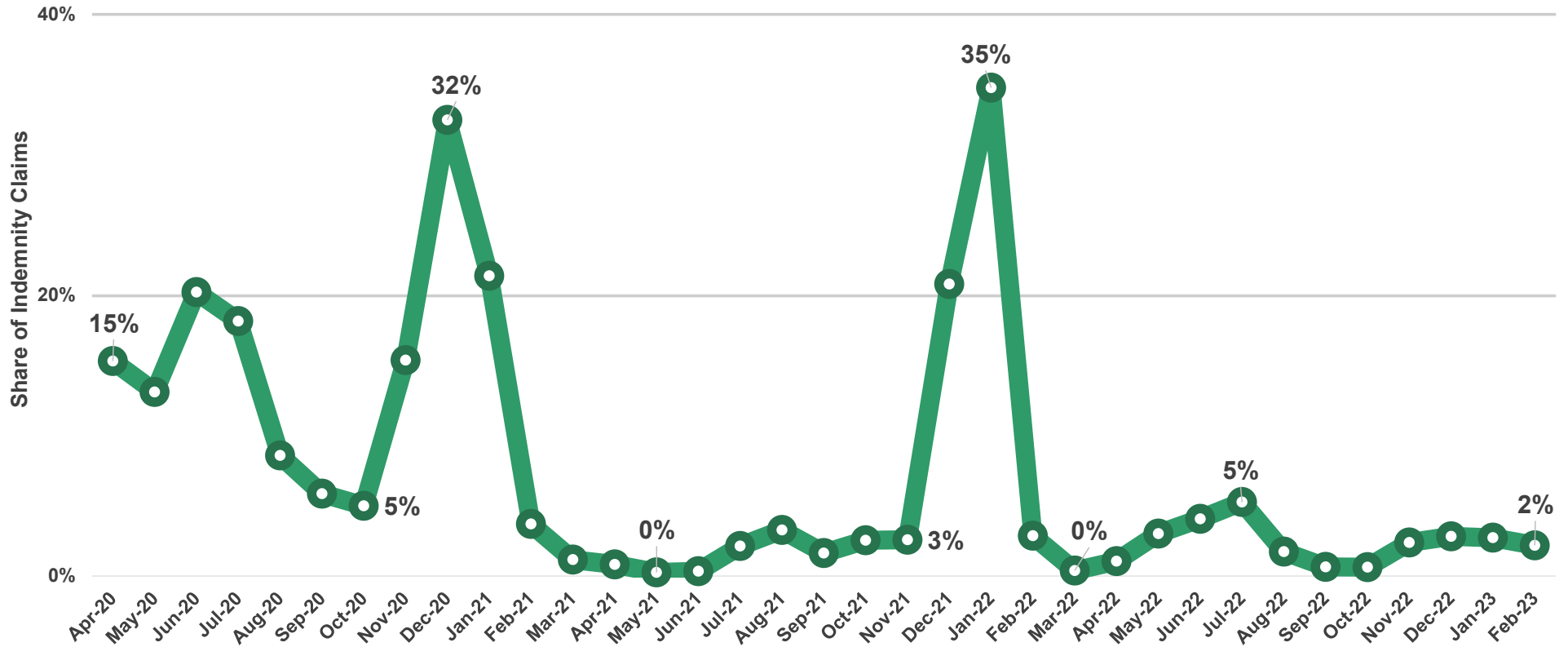
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# COVID-19 Claim Cost Projection



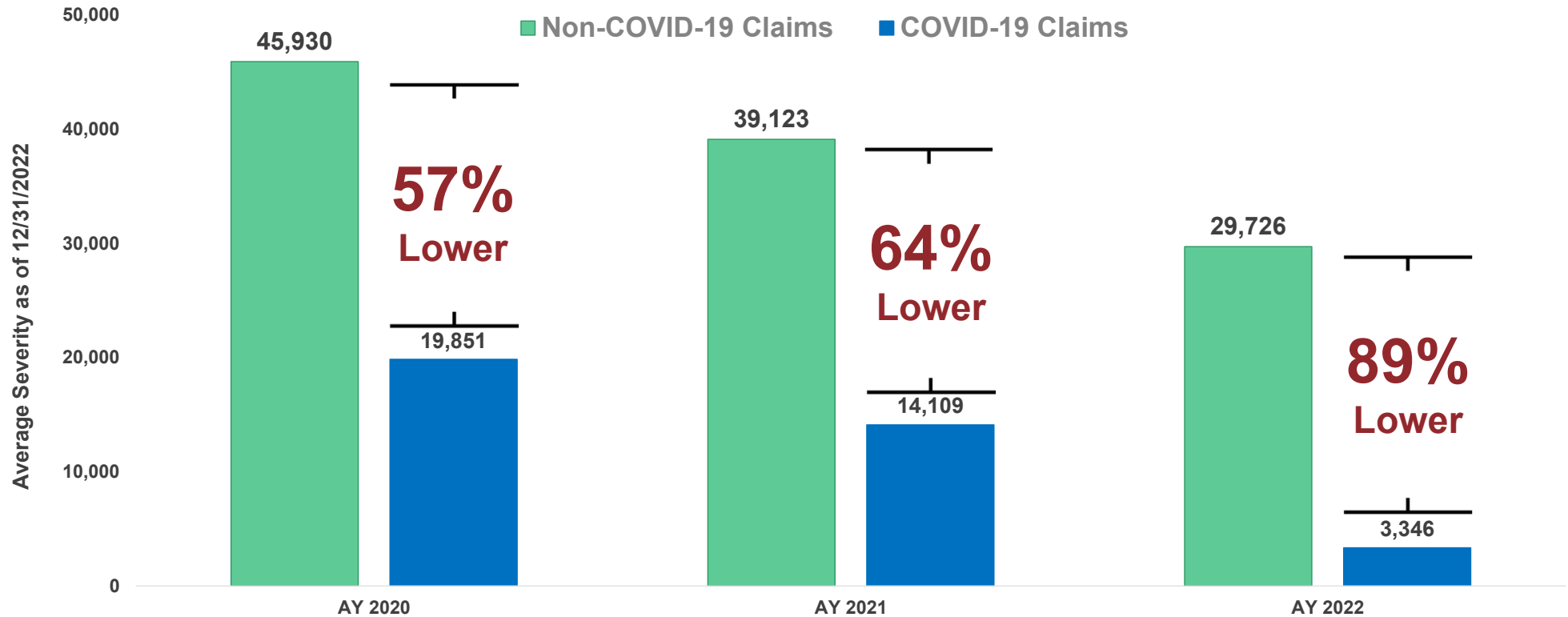
# Share of COVID-19 Claims is Stable Post Omicron Surge

As of March 7, 2023



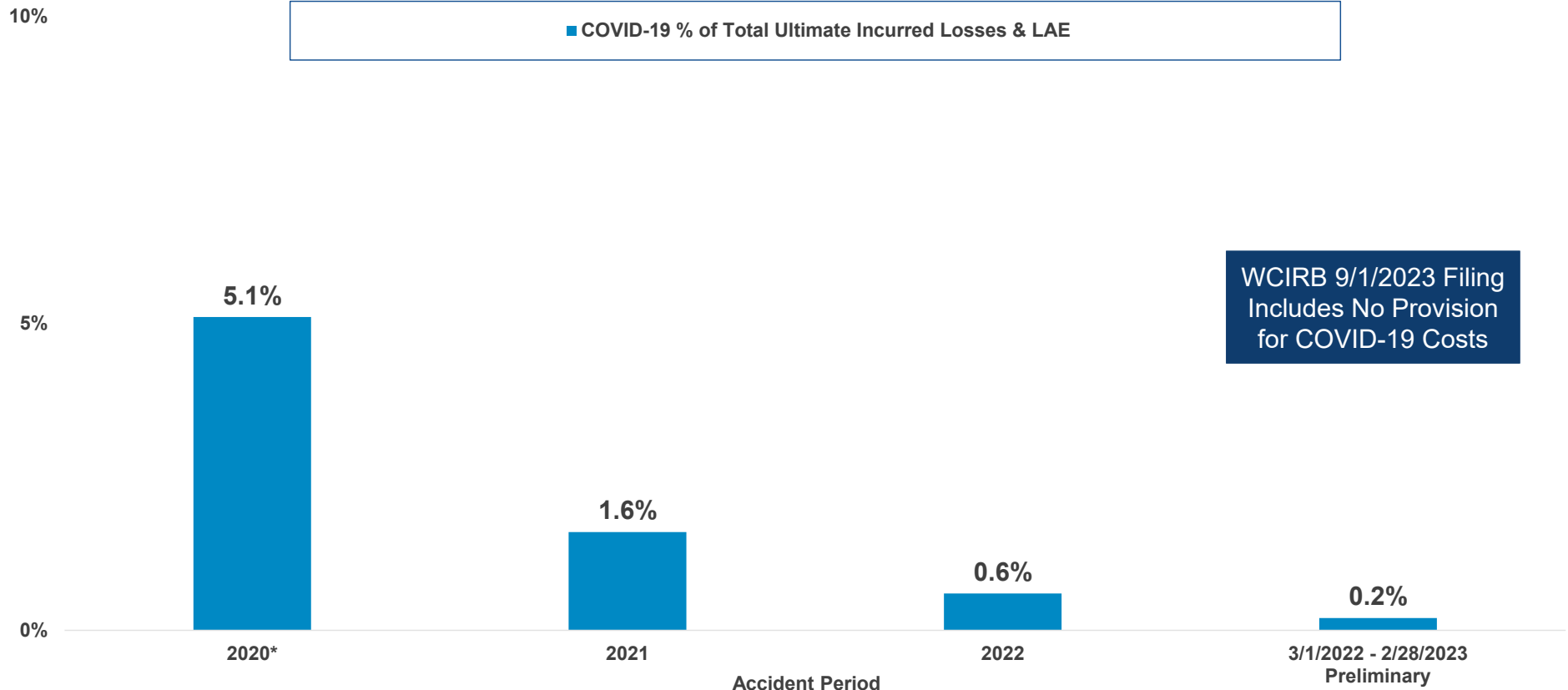
Source: SROI records from WCIRB indemnity transaction data with MTC dates through February 28, 2023

# COVID-19 Claims Cost Less on Average than Non-COVID



Source: WCIRB aggregate financial calls.

# Projected Share of COVID-19 Ultimate Loss and LAE Costs



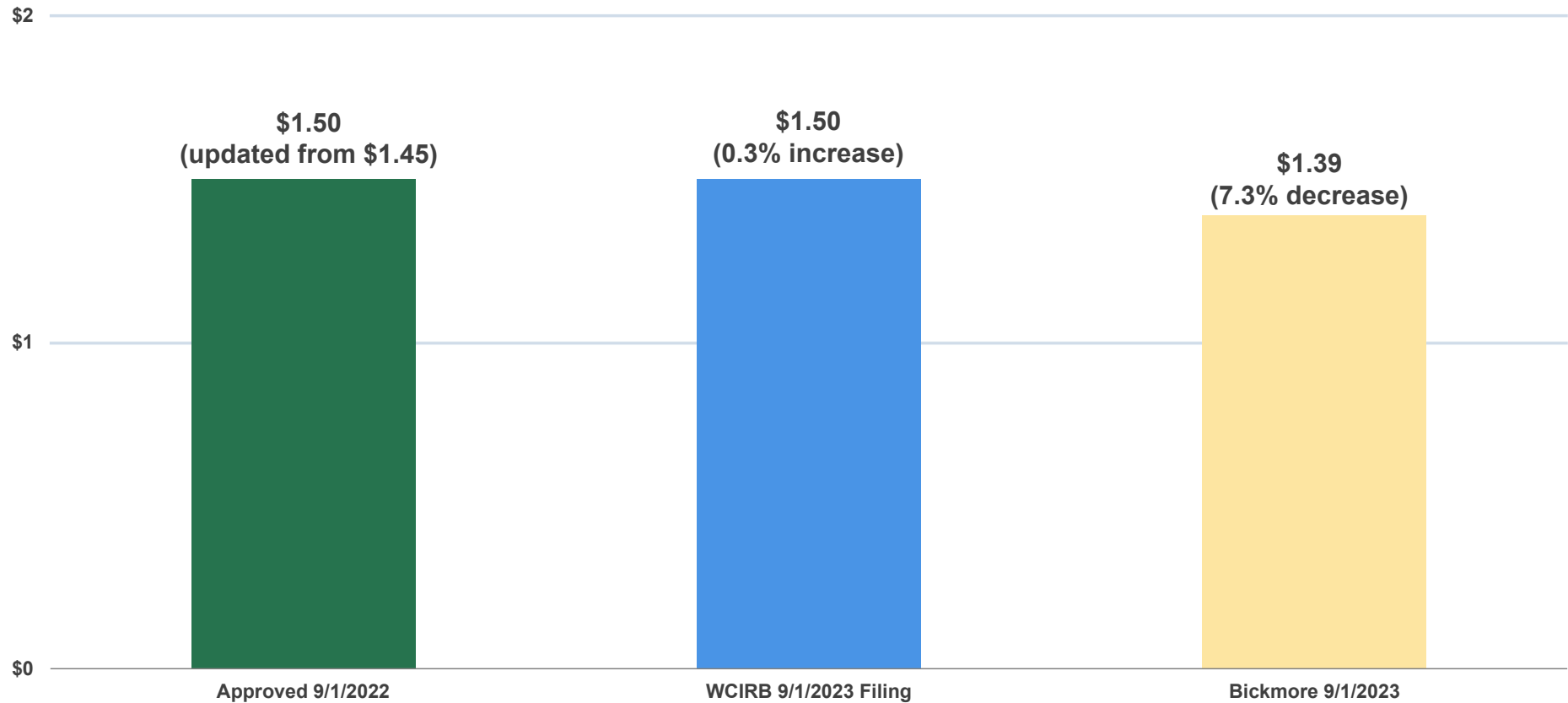
Source: WCIRB aggregate financial calls. \* Percent of indemnity claims for AY 2020 only reflects the April through December time period.

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# Advisory Pure Premium Rate Comparison

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# Comparison of Average Advisory Pure Premium Rates





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