

WCIRB Actuarial Committee Meeting

December 5, 2018

Agenda

1. AC18-12-06: 2019 Schedule of Meetings
2. AC18-12-03: RMS Terrorism Risk Assessment
3. AC02-03-03: Experience of Large Deductible Policies
4. AC16-06-05: Update on Medical Severity Trends by Component
5. AC17-12-02: Legislative Cost Monitoring
6. AC18-12-01: 9/30/2018 Experience – Review of Methodologies
7. AC18-12-02: Review of Medical On-level Adjustments
8. AC18-12-04: Potential Changes to Filing Schedule
9. AC18-12-05: Potential 2019 Actuarial and Research Study Projects

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01

2019 Schedule of Meetings



Proposed Schedule of Actuarial Committee Meetings

- Monday, March 18, 2019
- Tuesday, April 2, 2019
- Friday, June 14, 2019
- Thursday, August 1, 2019
- Tuesday, September 3, 2019
- Thursday, December 5, 2019

02

RMS Terrorism Risk Assessment



03

Experience of Large Deductible Policies

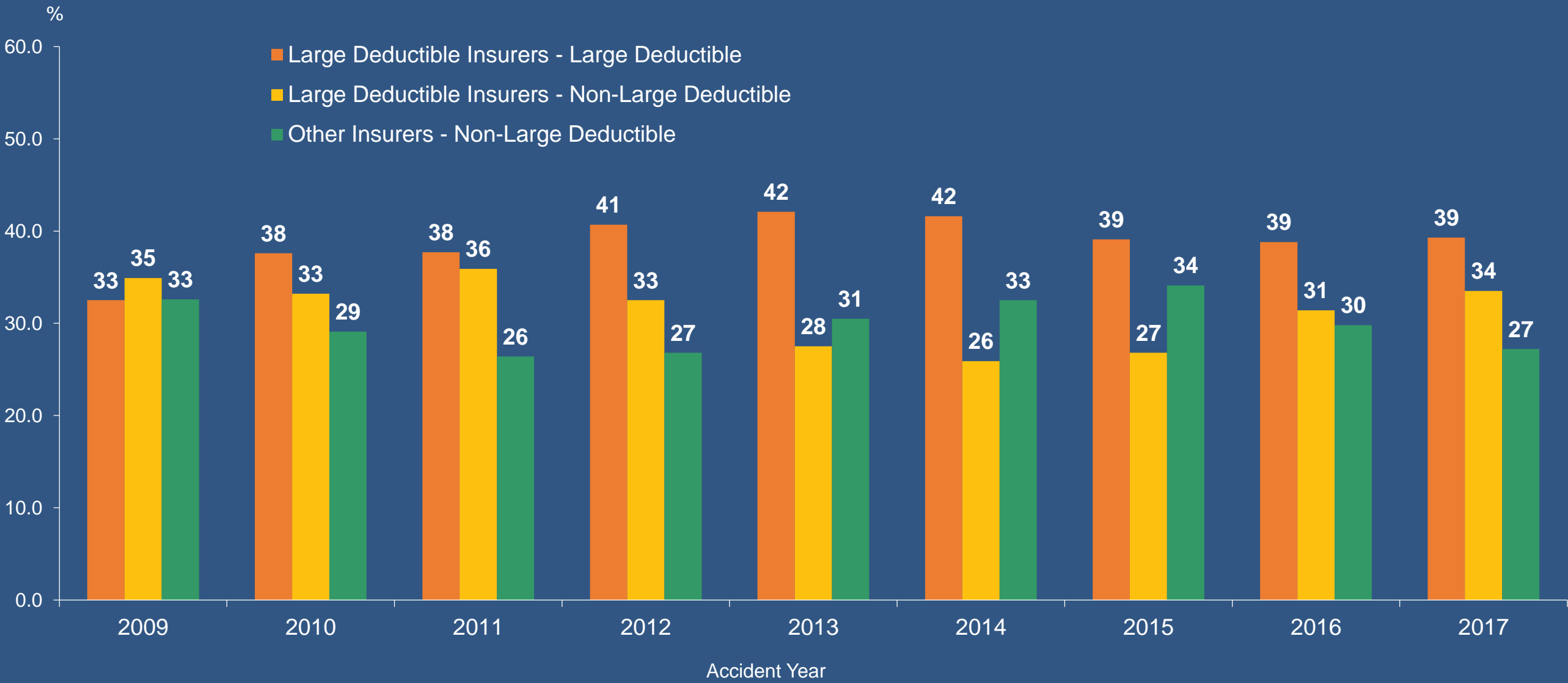


Experience of Large Deductible Policies

- Annually the Actuarial Committee reviews the experience of large deductible policies (December 31 Experience)
- Findings in prior Actuarial Committee evaluations:
 - Large deductible market proportion relatively stable
 - Paid development patterns are generally similar to non-large deductible policies
 - Impact of excluding large deductible experience from the rate level computation is relatively modest
 - No adjustment to rate level computation needed

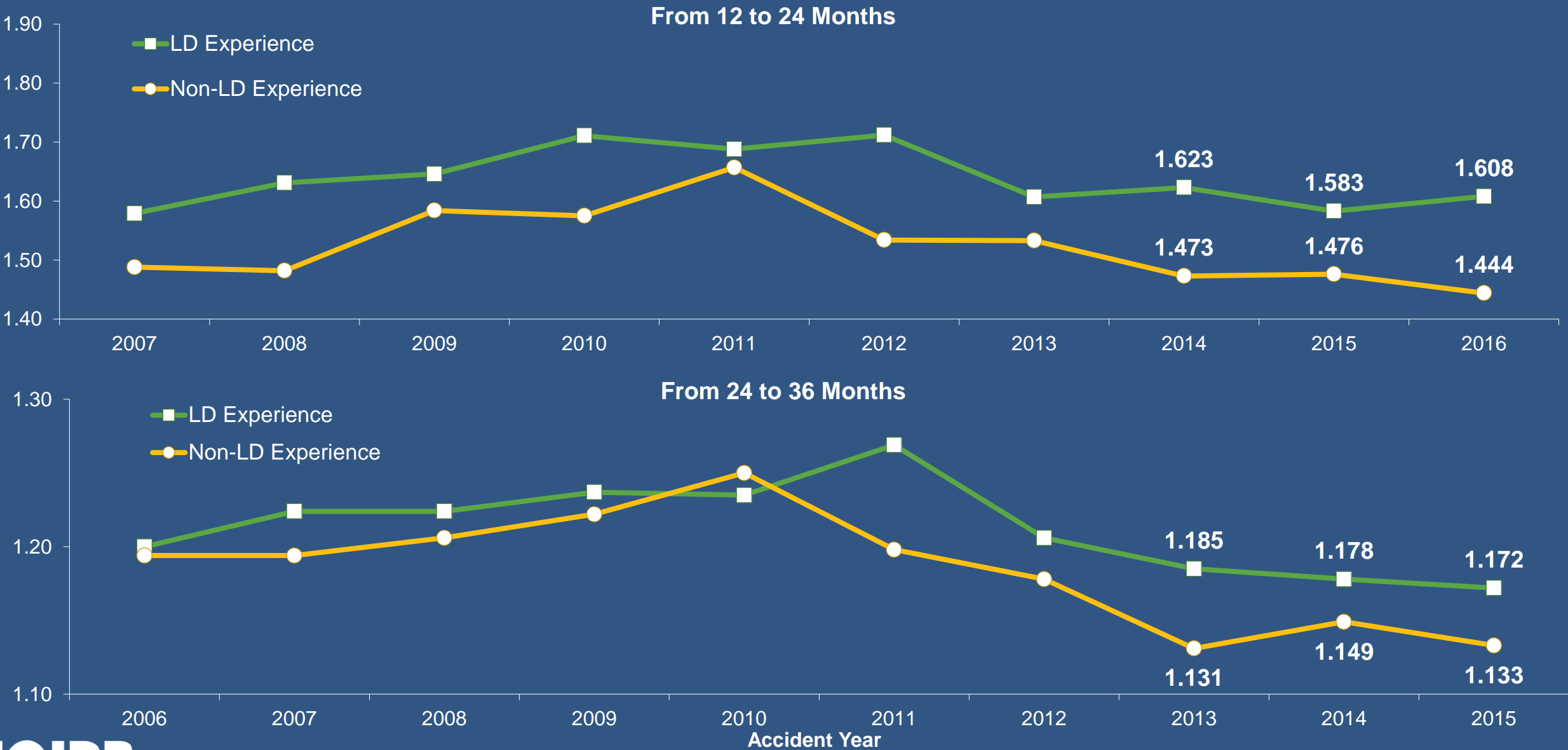
Distribution of Calendar Year Premiums

Written Premium at Pure Premium Rate Level (Exhibit 1.1)



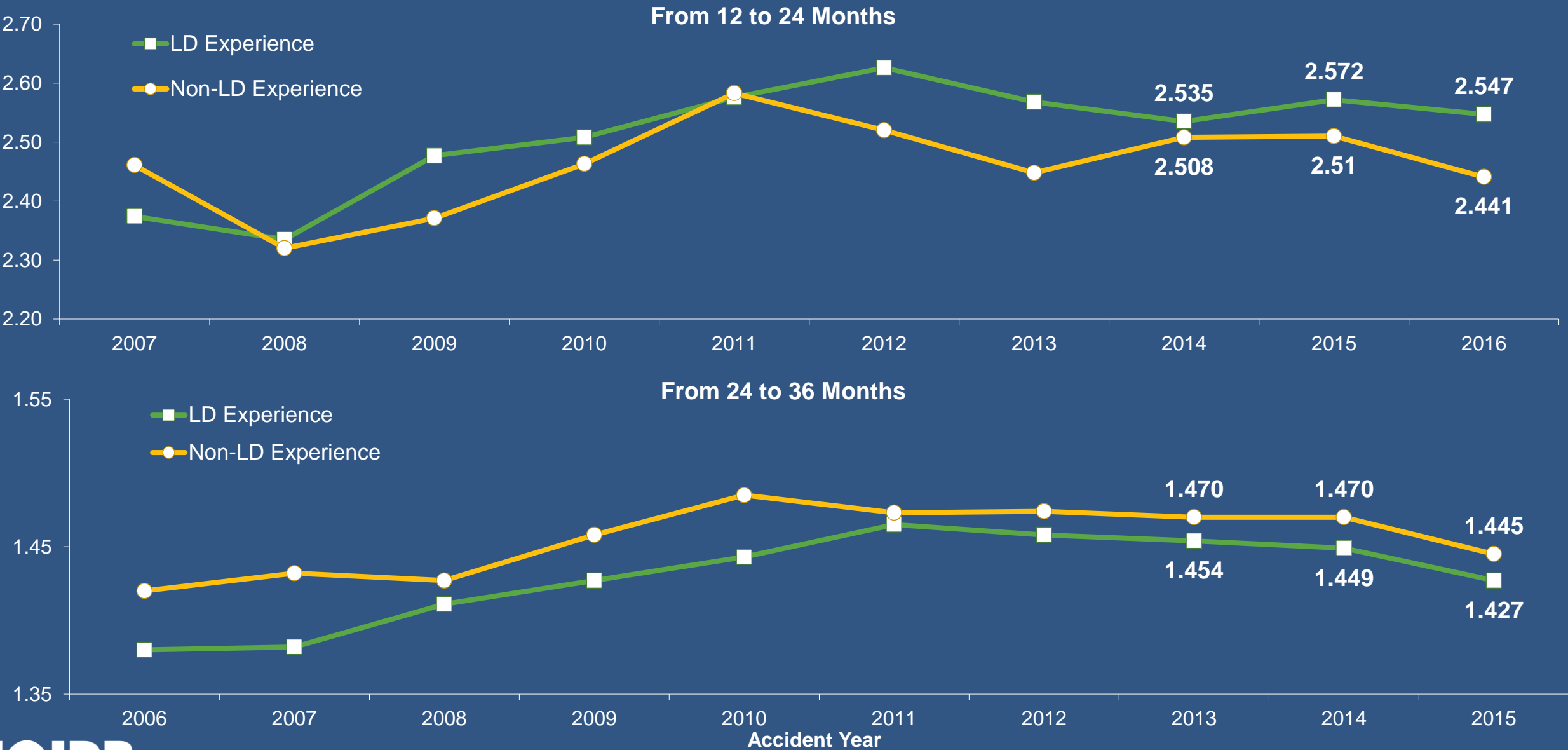
Incurred Medical Development (Exhibit 3.2)

As of December 31, 2017



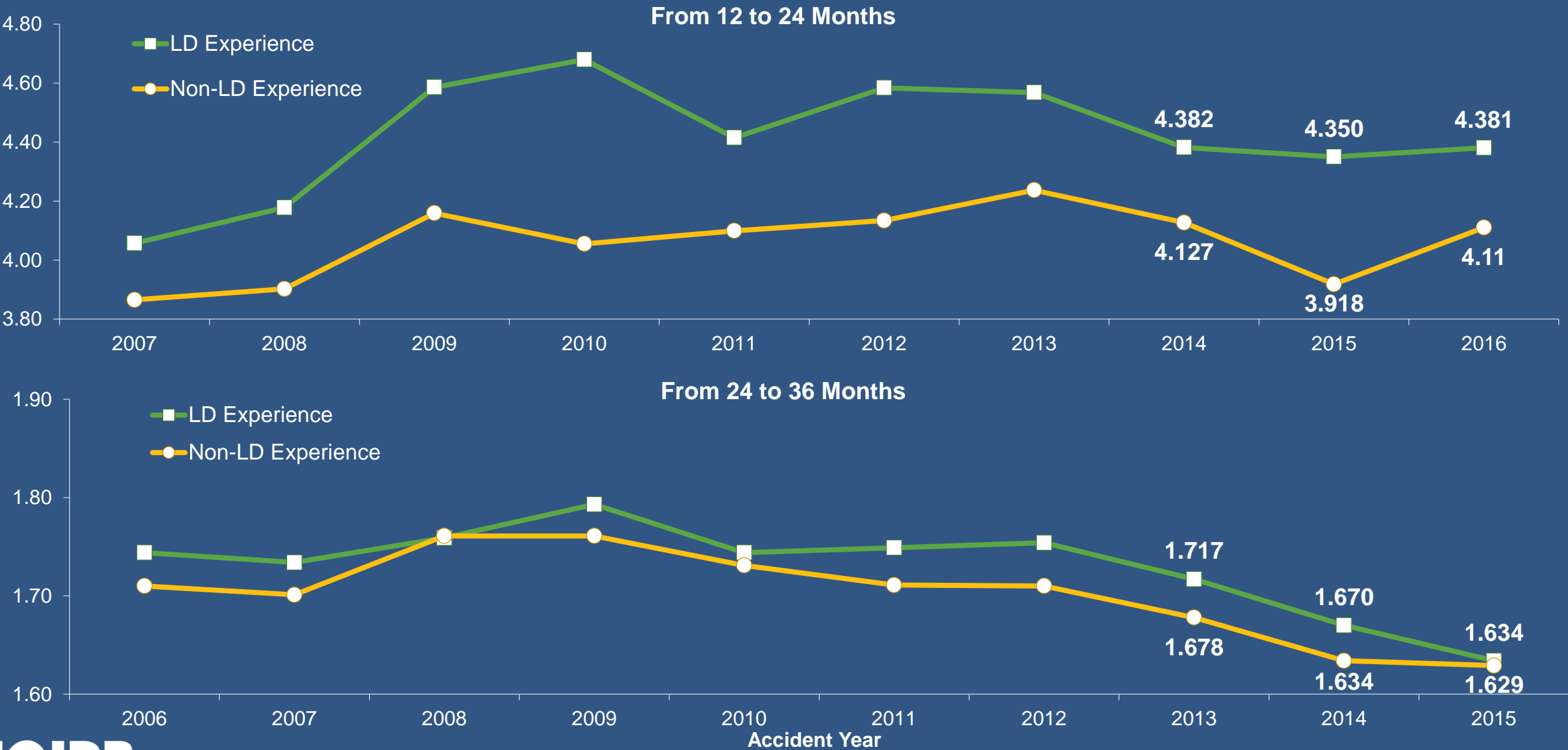
Paid Medical Development (Exhibit 3.4)

As of December 31, 2017



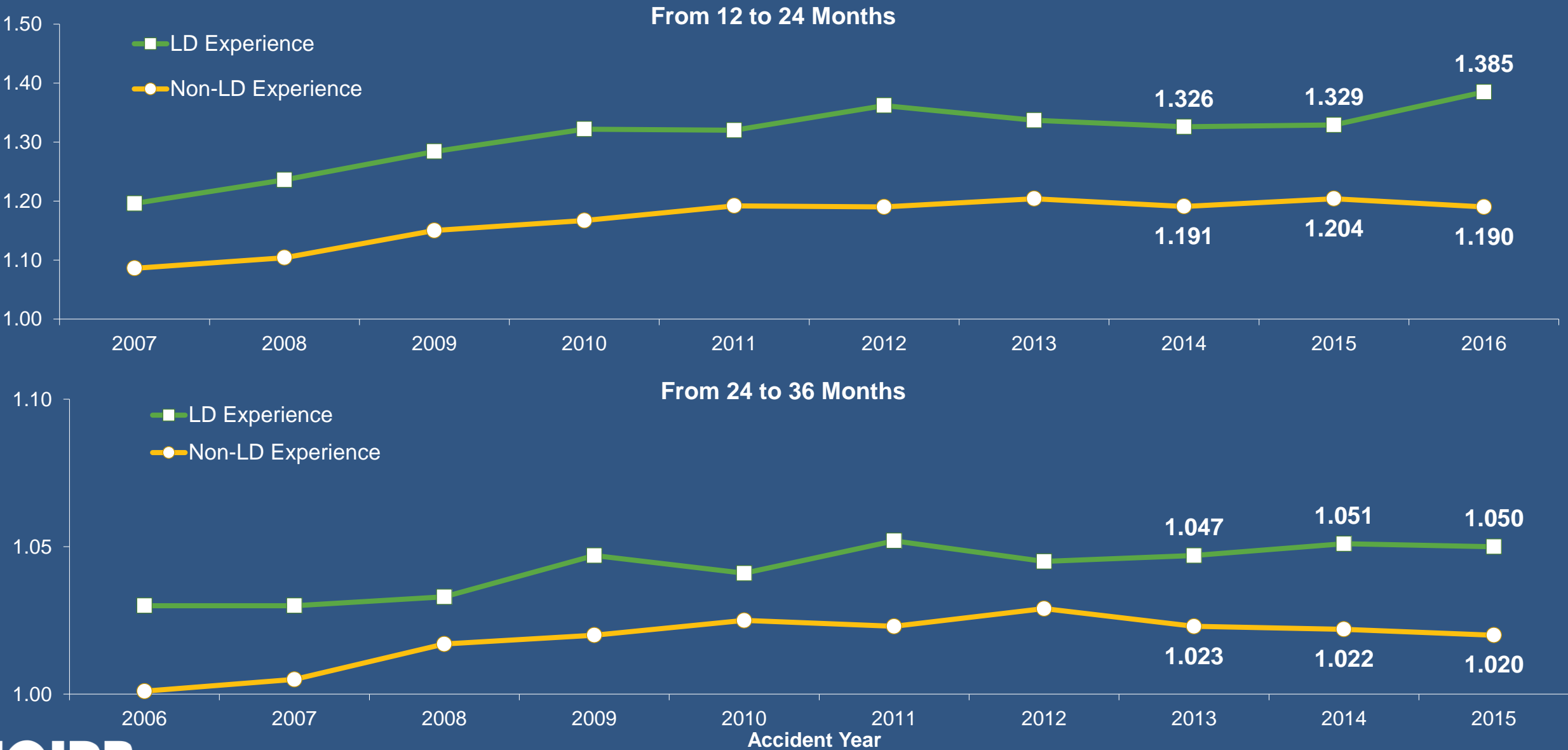
Paid ALAE Development (Private Insurers) (Exhibit 3.5)

As of December 31, 2017

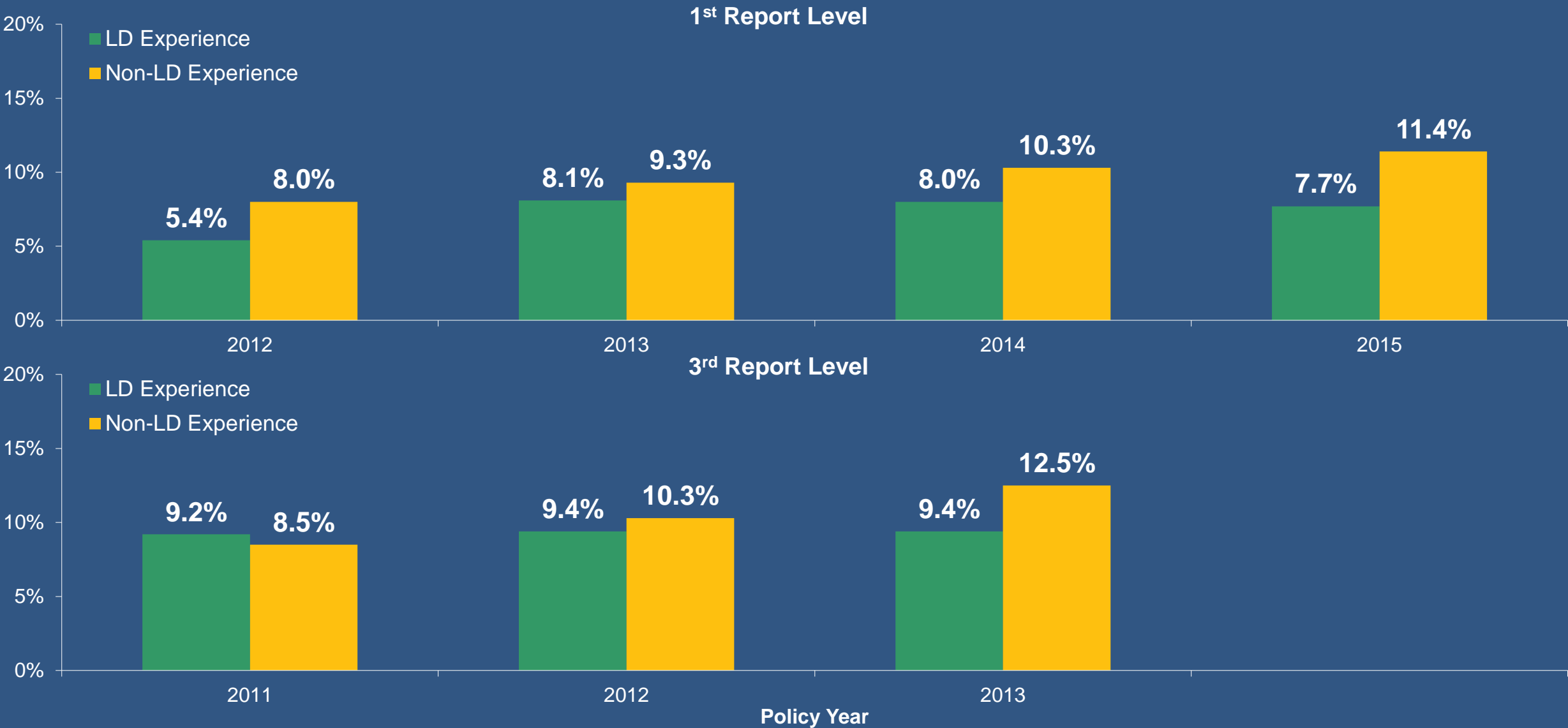


Reported Indemnity Claim Count Development (Exhibit 6.1)

As of December 31, 2017

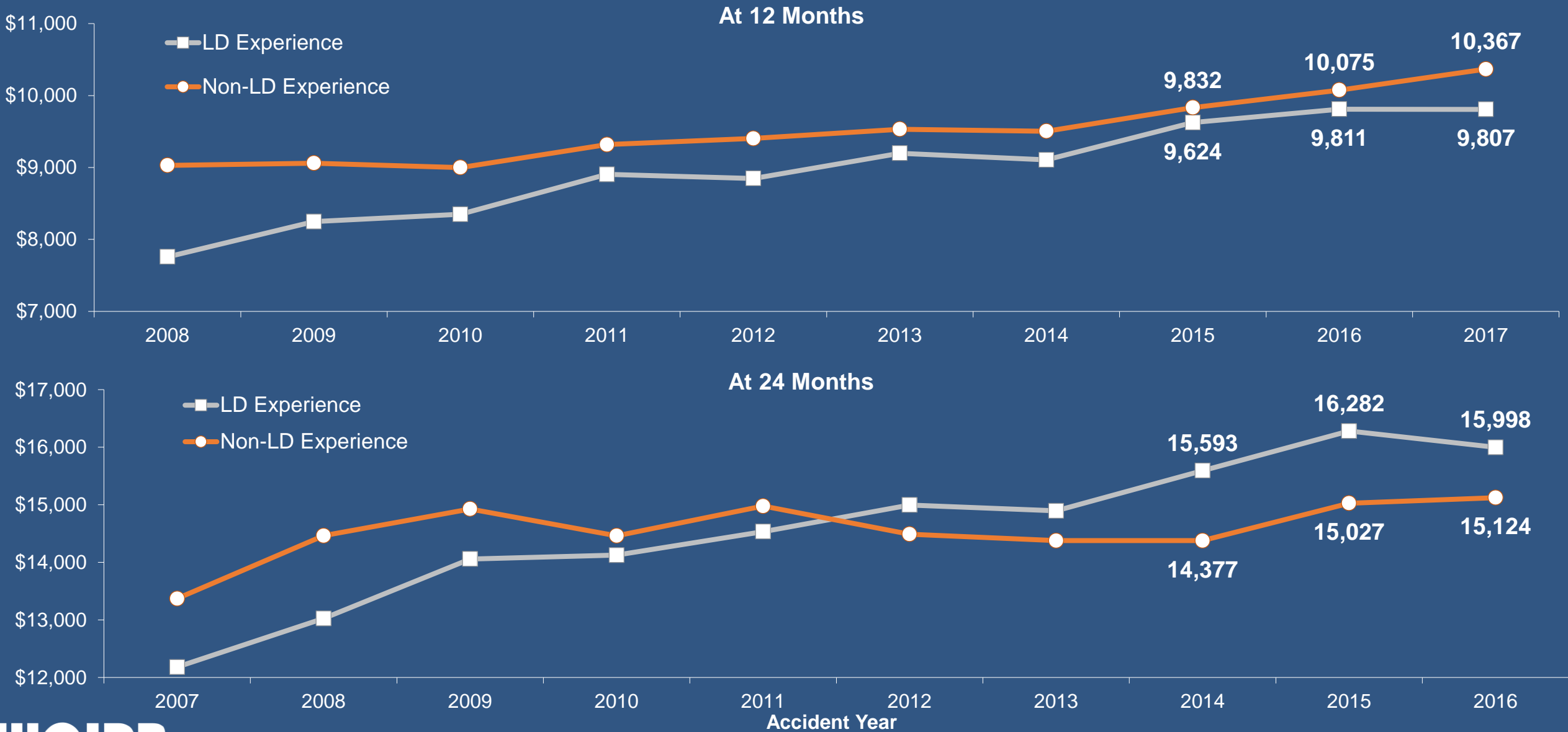


Proportion of Indemnity Claims that are CT



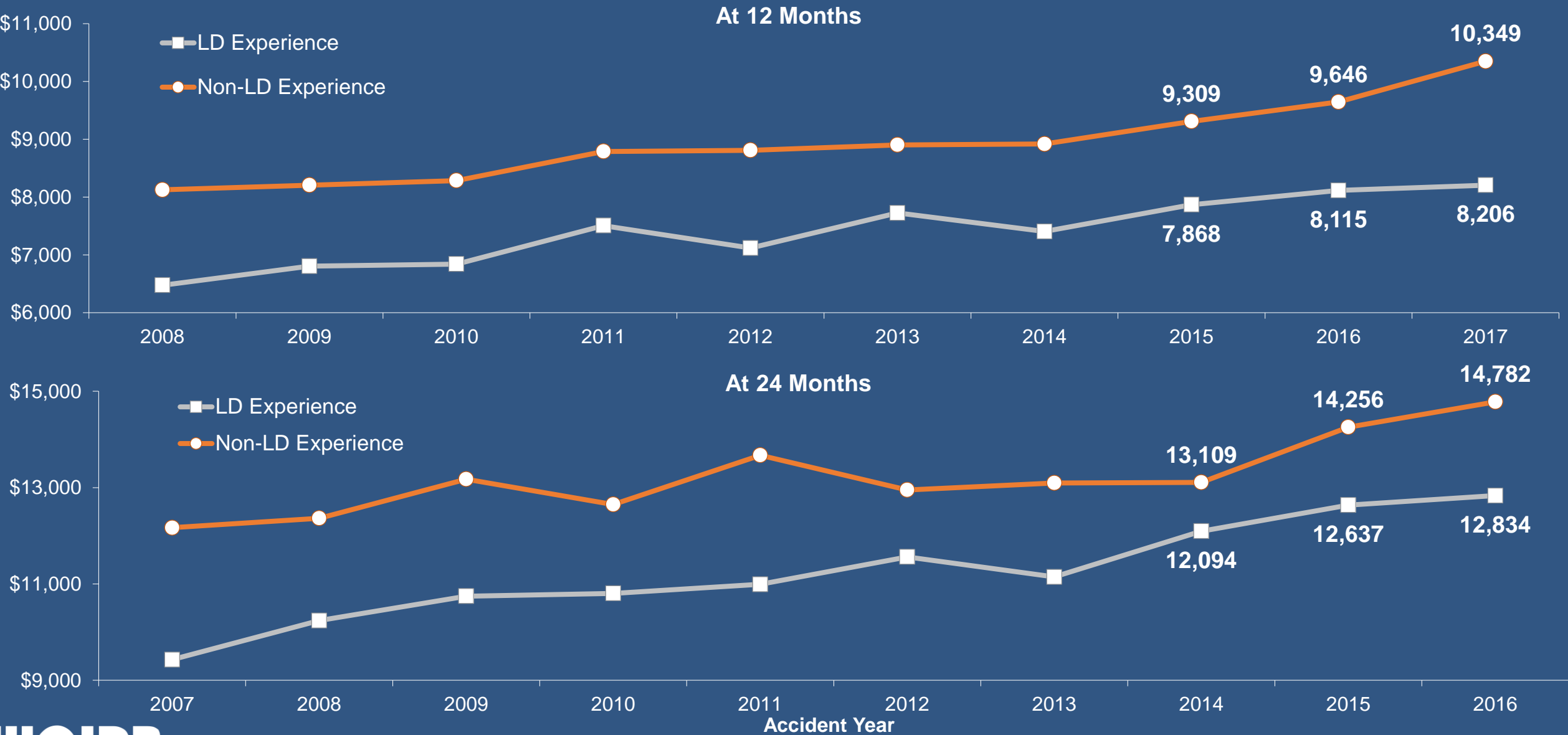
Average Incurred Indemnity per Indemnity Claim (Exhibit 4.1)

As of December 31, 2017



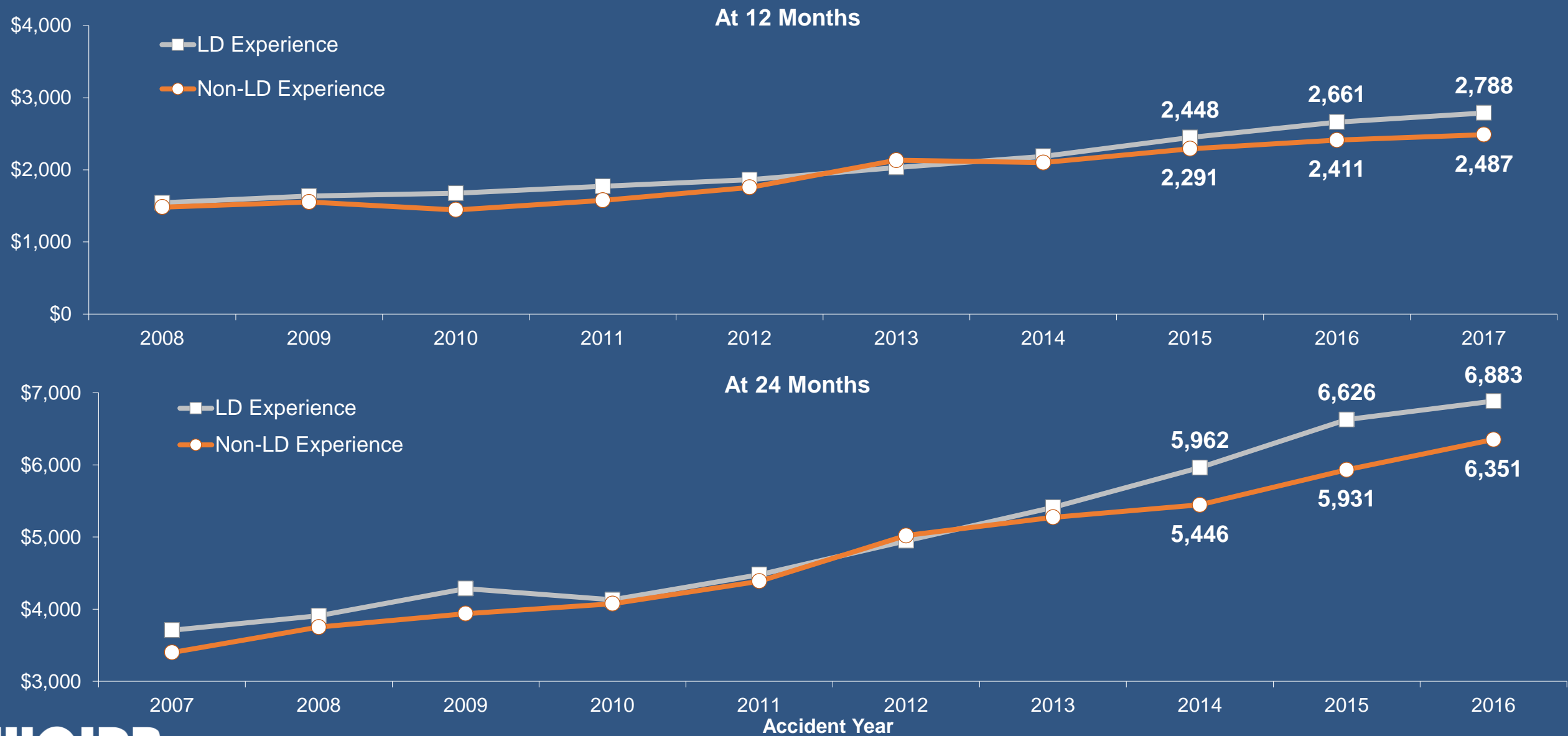
Average Outstanding Indemnity per Open Claim (Exhibit 4.6)

As of December 31, 2017



Average Paid Indemnity per Closed Claim (Exhibit 4.3)

As of December 31, 2017



04

Update on Medical Severity Trends by Component

Outline

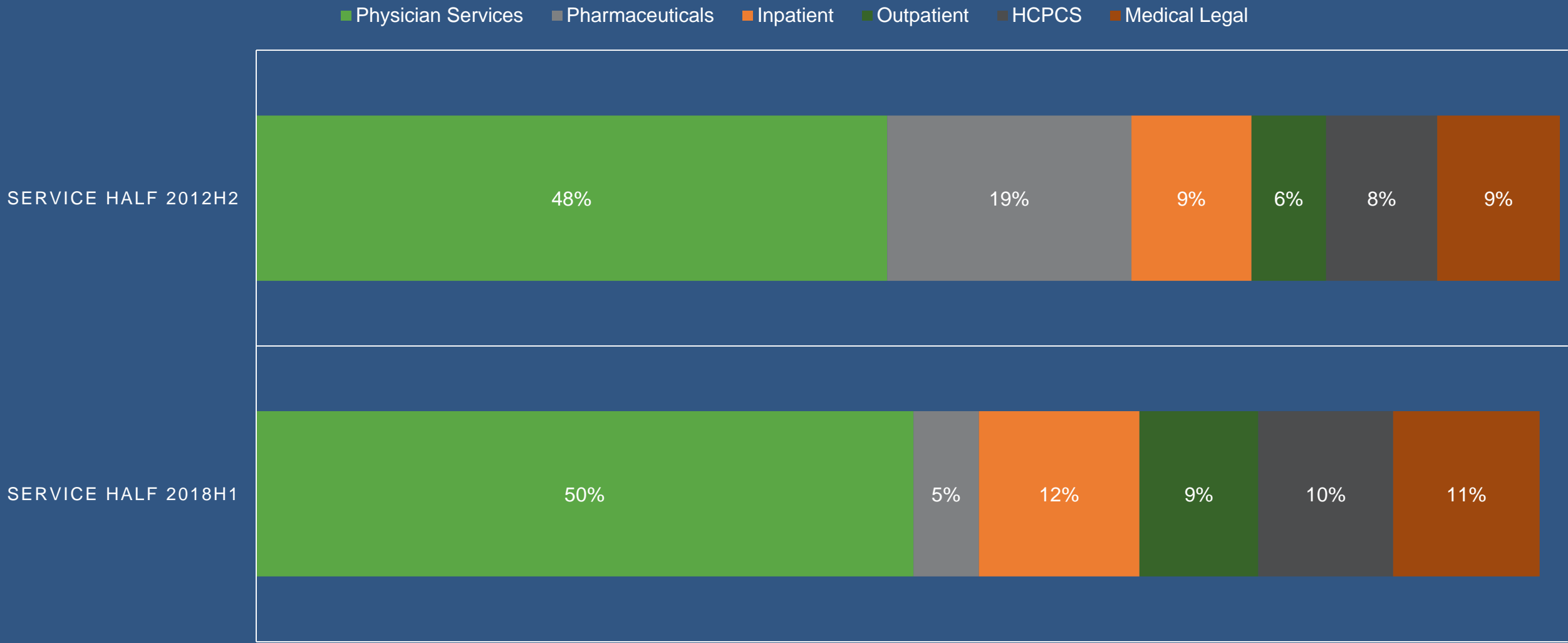
- Methodology of analyzing medical severity trend
- Share of medical payments by service type
- Cost per claim by medical service type
- Cumulative share change in cost per claim by selected component of physician services

Methodology

- Analyzed WCIRB's medical transaction data
 - Service dates between 7/1/2012 and 6/30/2018, controlled for transactional maturity
 - Includes insurers active since 7/1/2012
 - Excludes medical liens
 - Pathology and Laboratory testing transactions and payments were included in Physician Services
 - HCPCS* codes include:
 - Ambulance services
 - Durable medical equipment, prosthetics, orthotics, and supplies used outside a physician's office
 - Home health services
 - Interpreter services

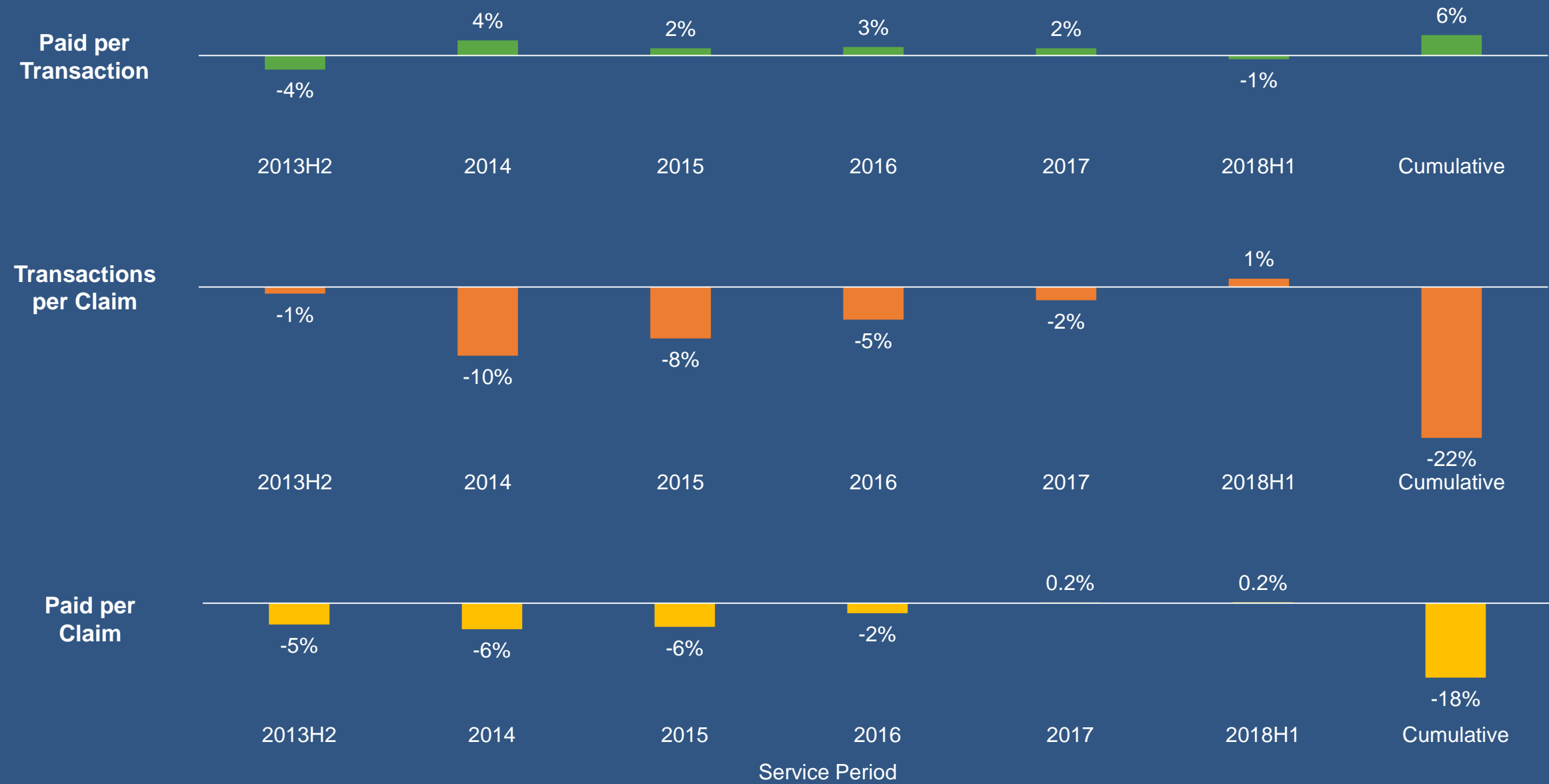
Share of Total Medical Payments by Service Type

As of October 7, 2018



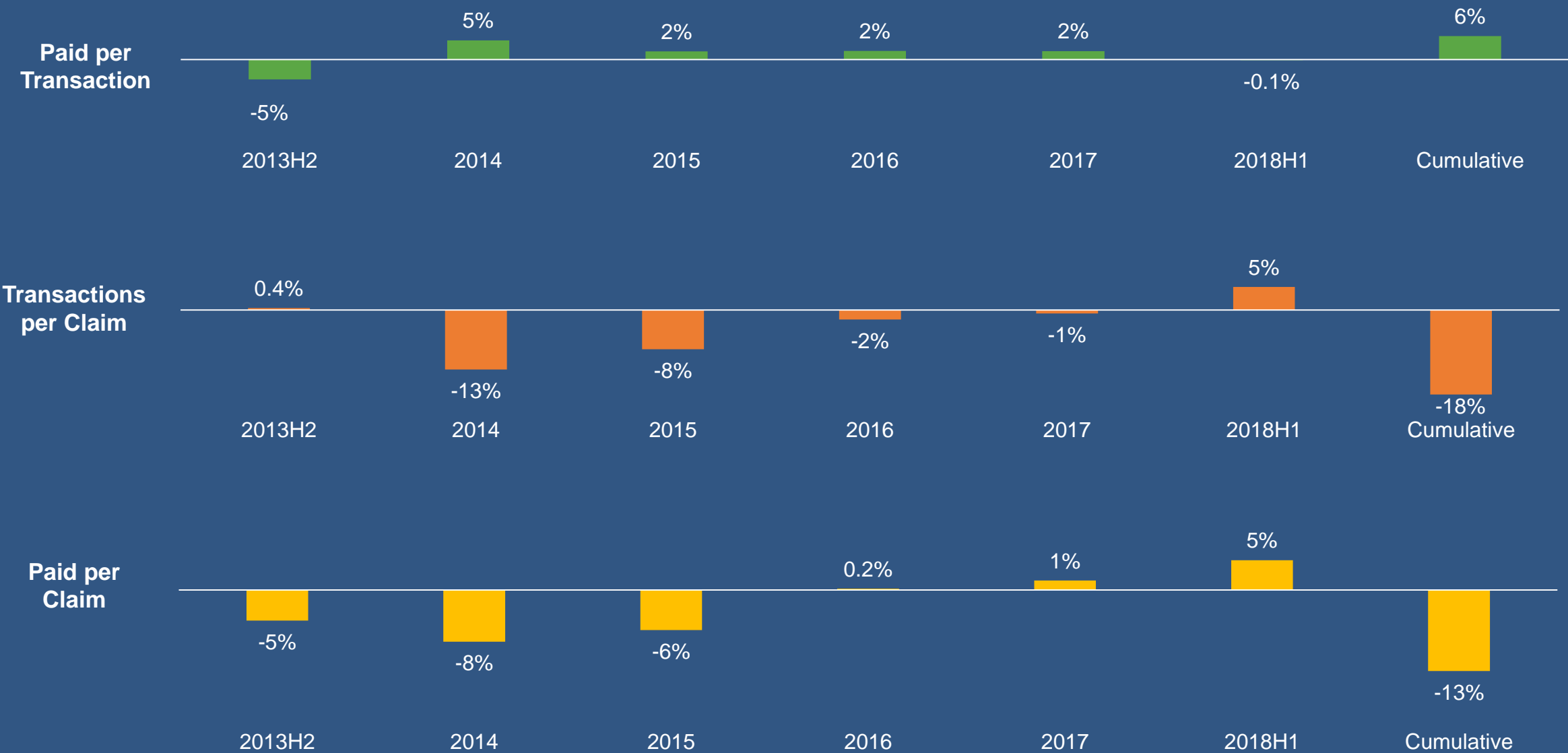
% Change in *All Medical Services* Cost per Claim

As of October 7, 2018



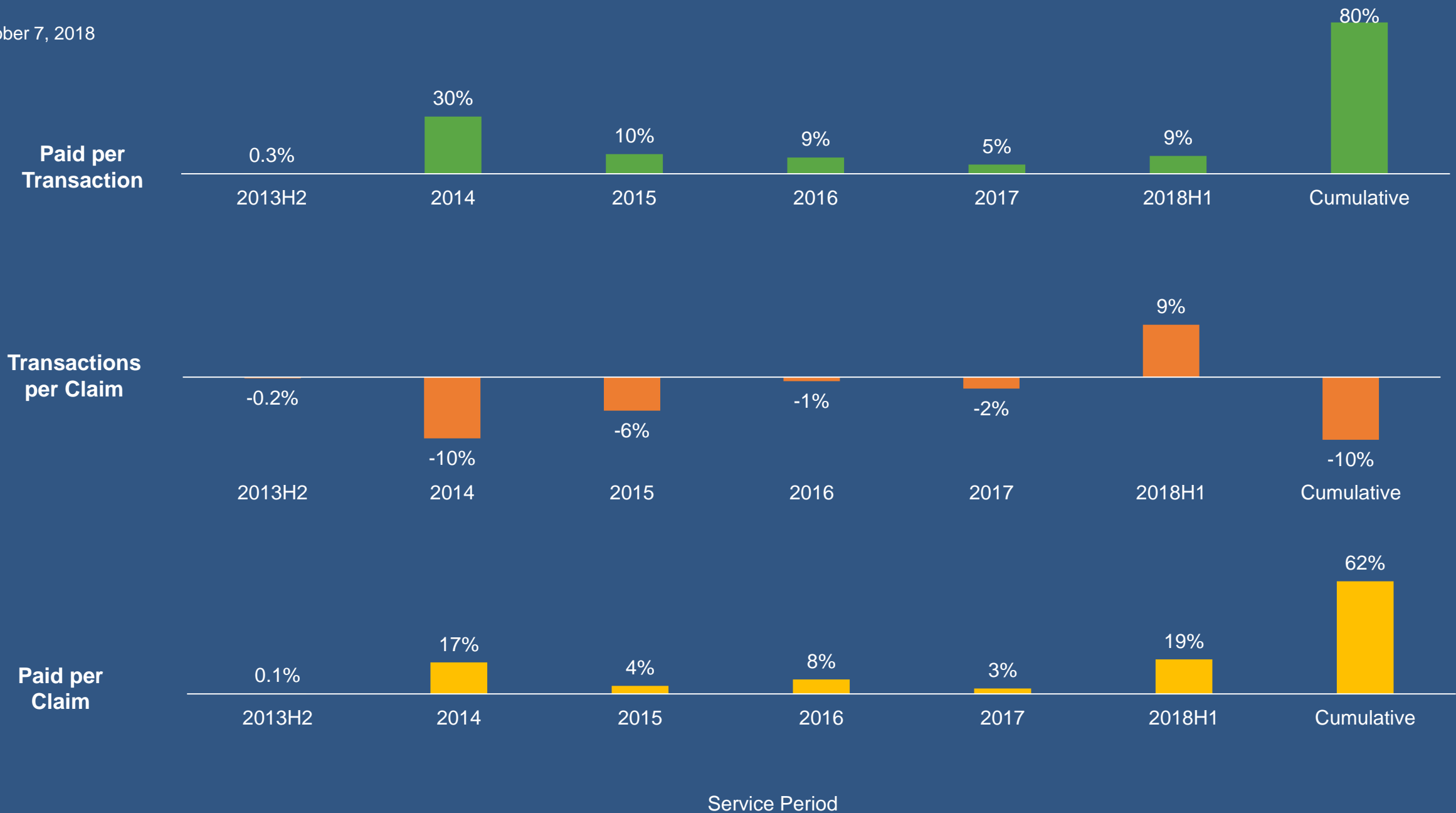
% Change in *Physician Services* Cost per Claim

As of October 7, 2018



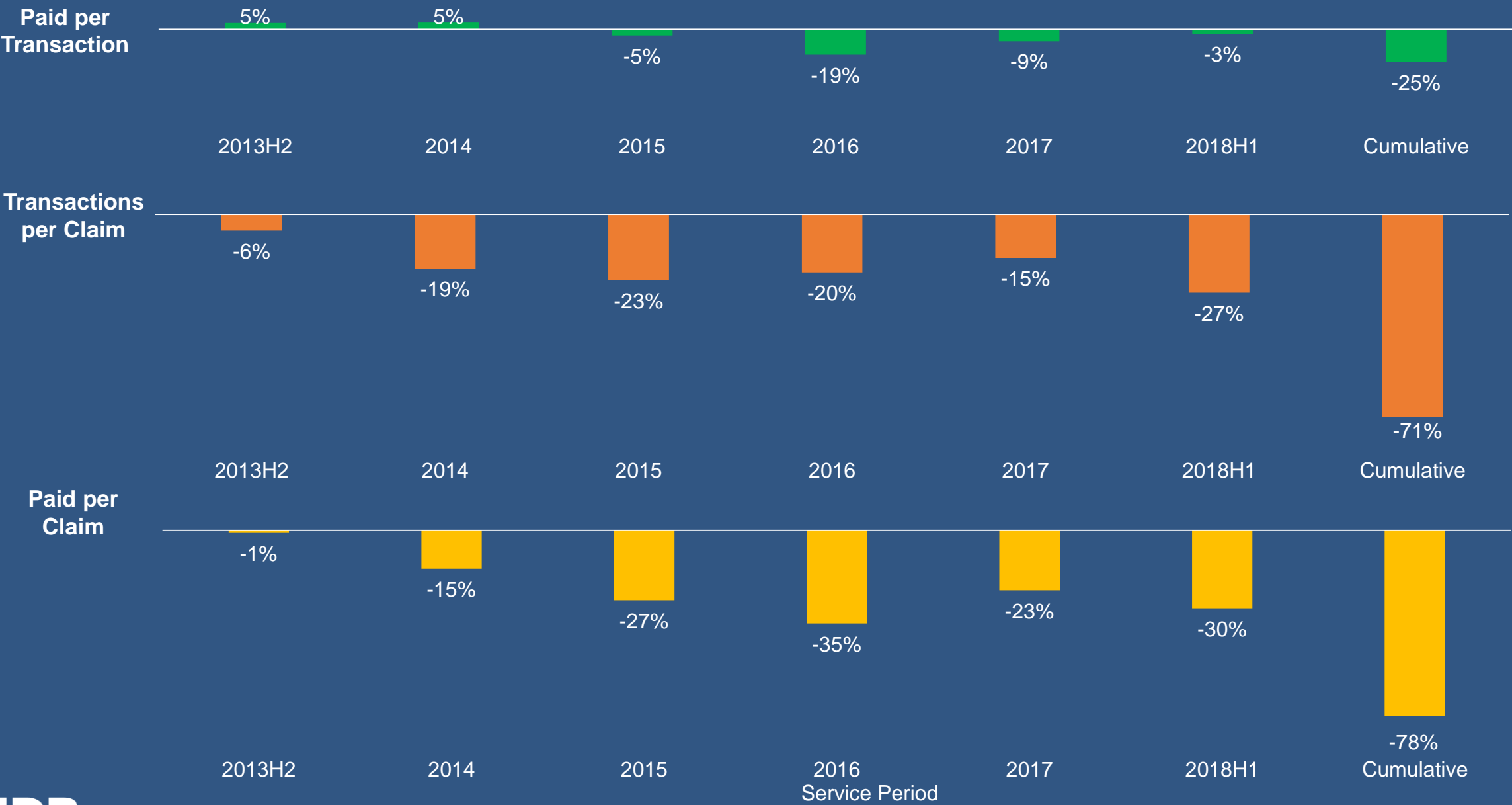
% Change in *Physical Therapy* Cost per Claim

As of October 7, 2018



% Change in *Pharmaceutical* Cost per Claim

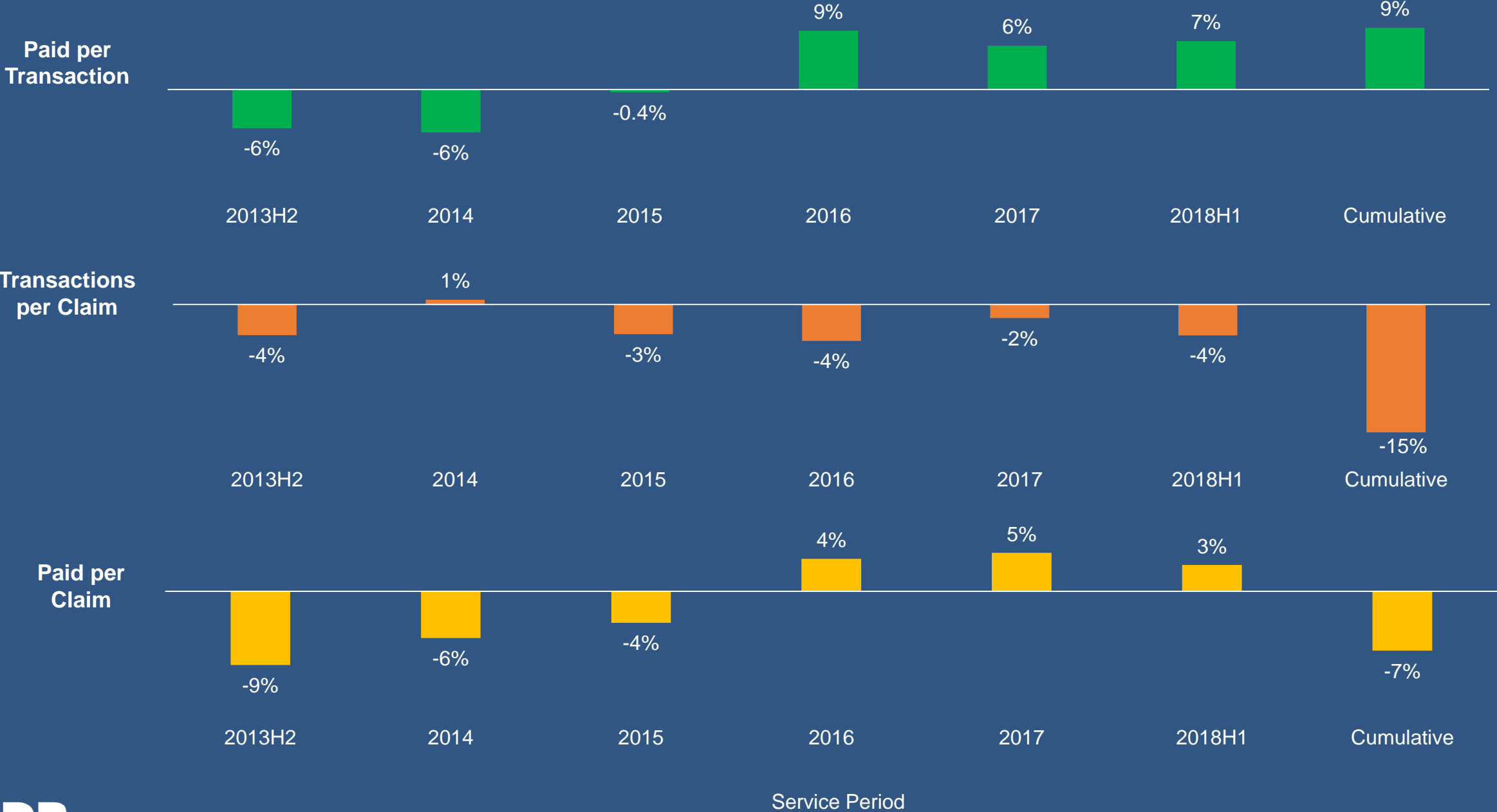
As of October 7, 2018



Source: WCIRB medical transaction data collected beginning in the third quarter of 2012.

% Change in *Inpatient* Cost per Claim (transaction-based)

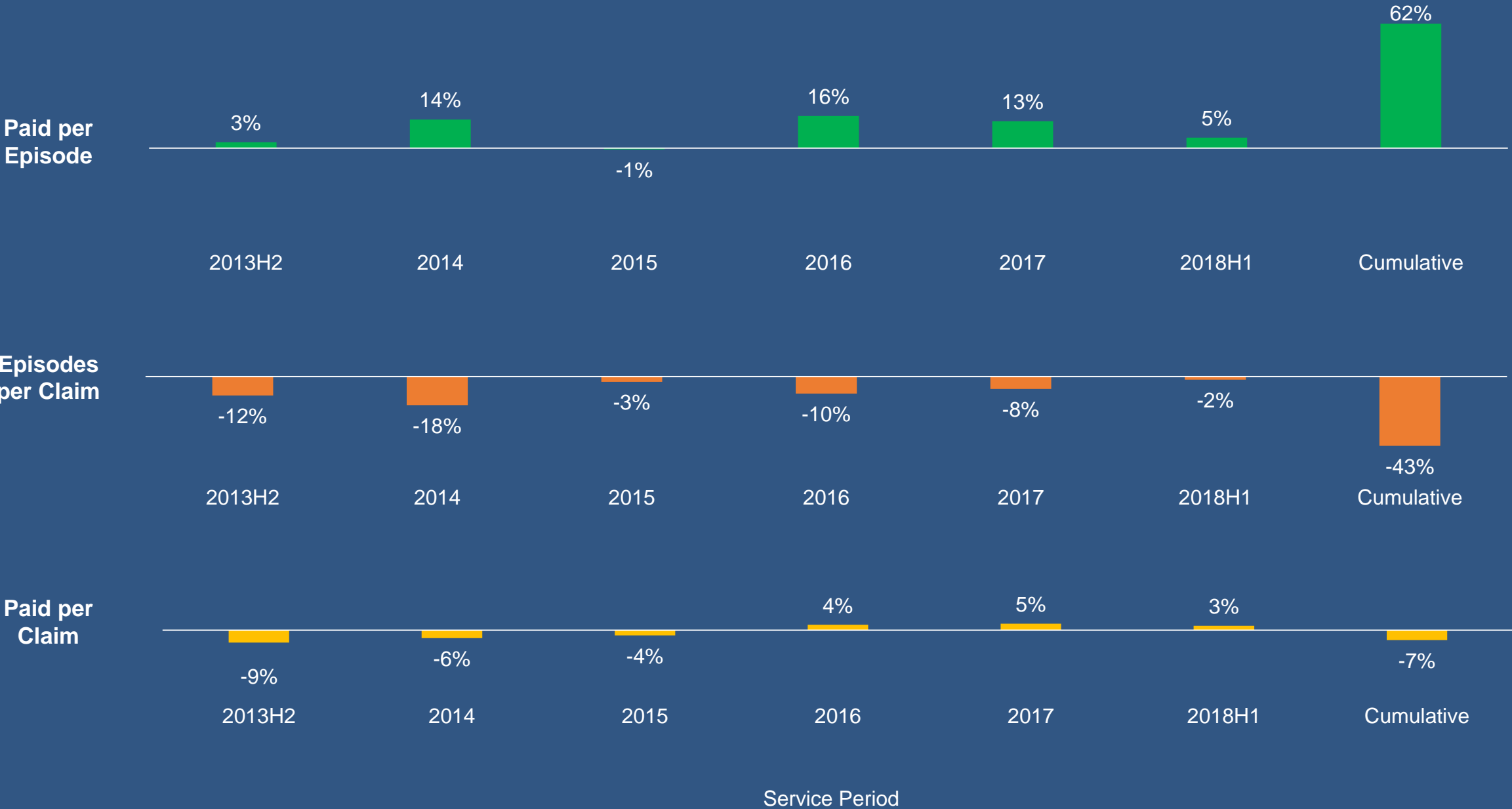
As of October 7, 2018



Source: WCIRB medical transaction data collected beginning in the third quarter of 2012.

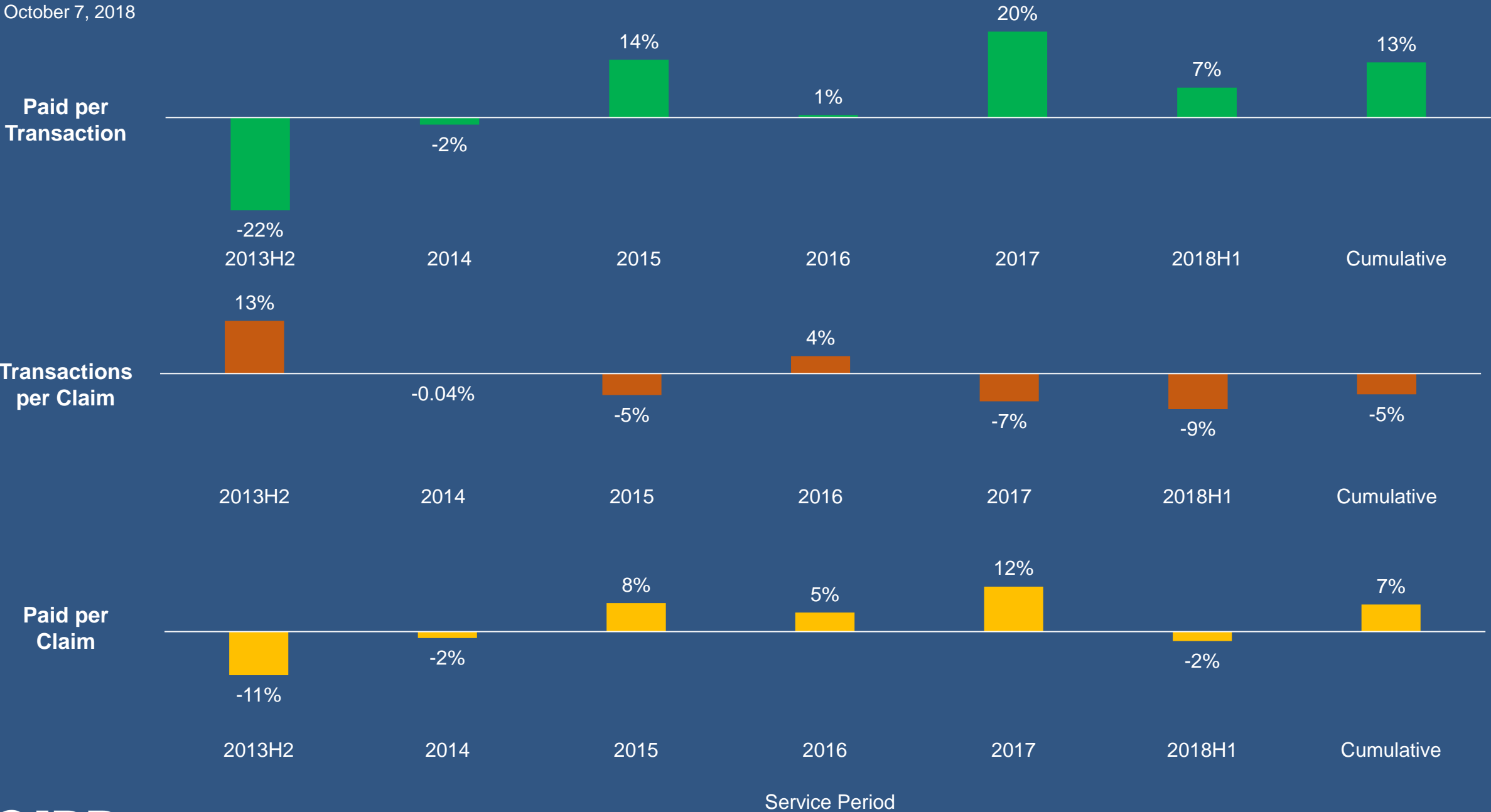
% Change in *Inpatient* Cost per Claim (episode-based)

As of October 7, 2018



% Change in *Outpatient* Cost per Claim

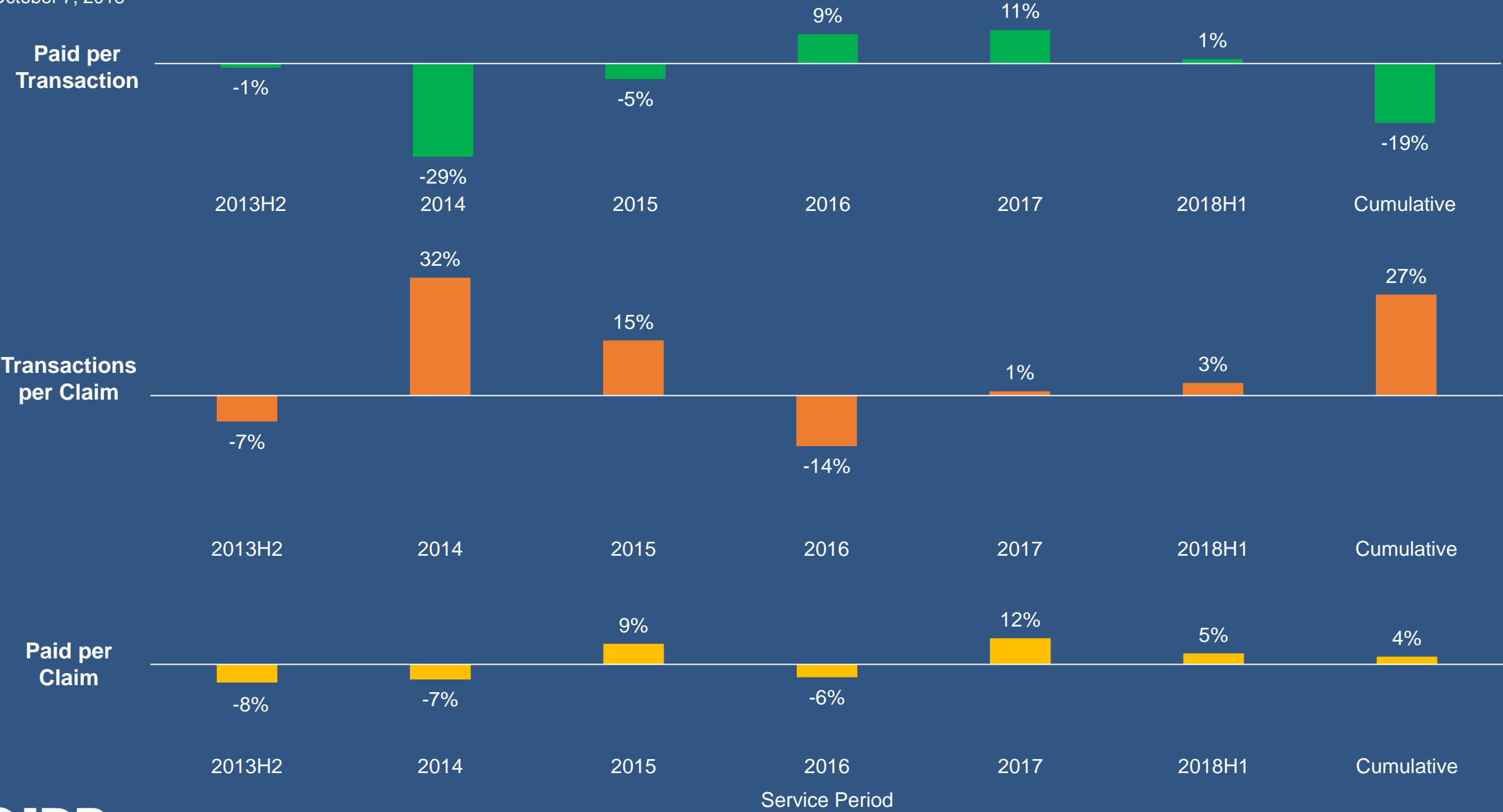
As of October 7, 2018



Source: WCIRB medical transaction data collected beginning in the third quarter of 2012.

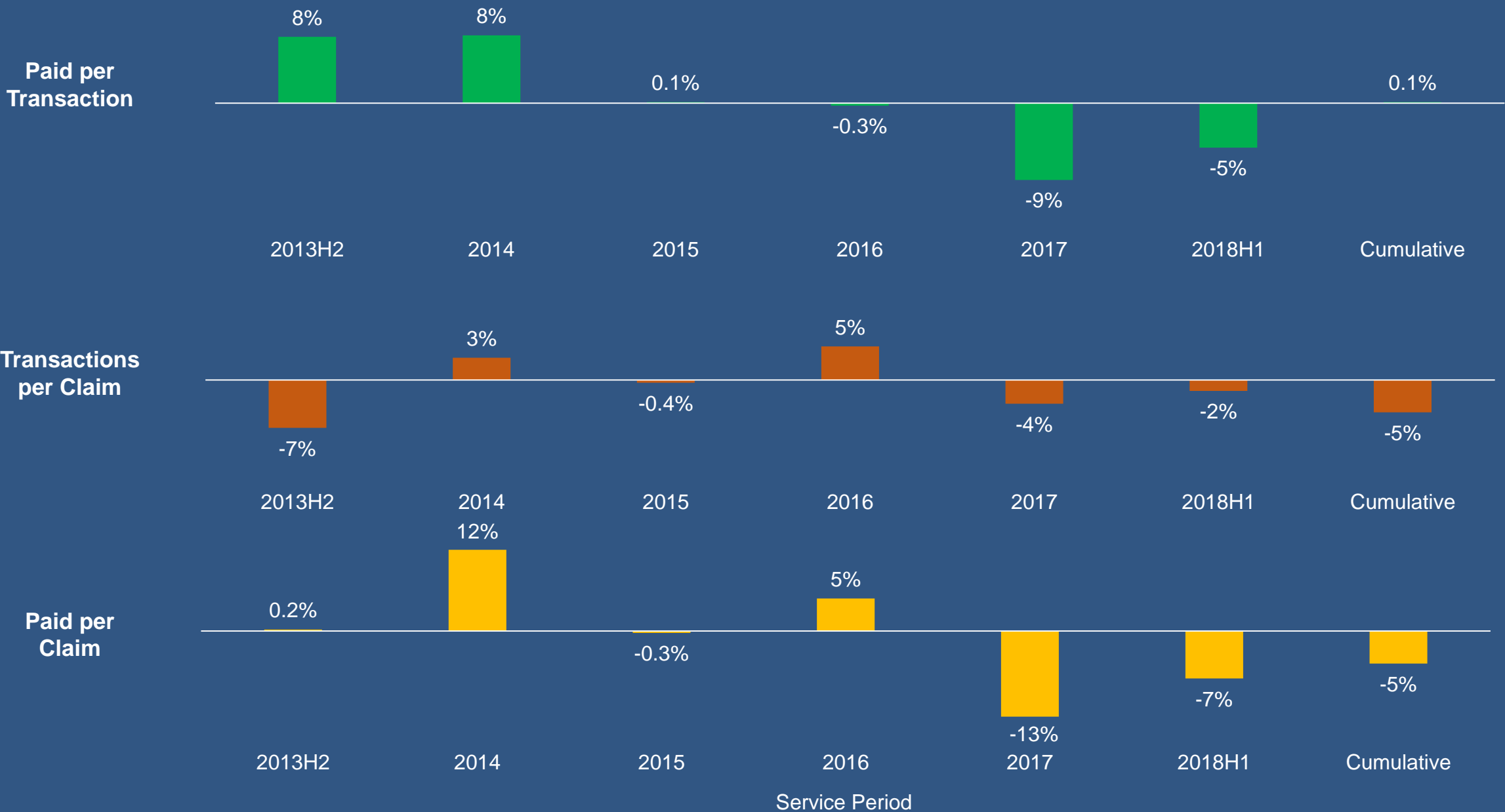
% Change in *HCPCS* Cost per Claim

As of October 7, 2018



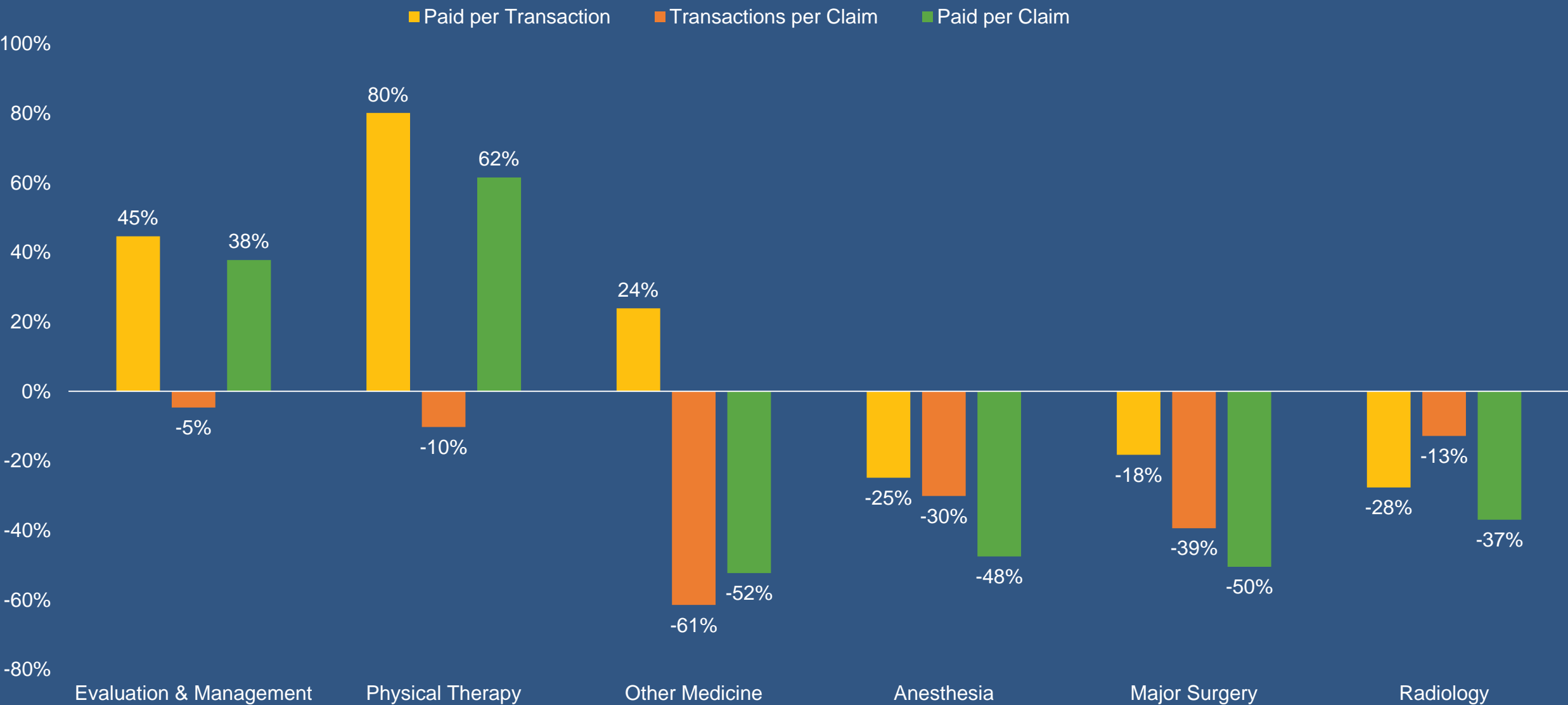
% Change in *Medical Legal* Cost per Claim

As of October 7, 2018



Cumulative % Change in Selected Components of Physician Services 2012H2 through 2018H1

As of October 7, 2018



05

Legislative Cost Monitoring



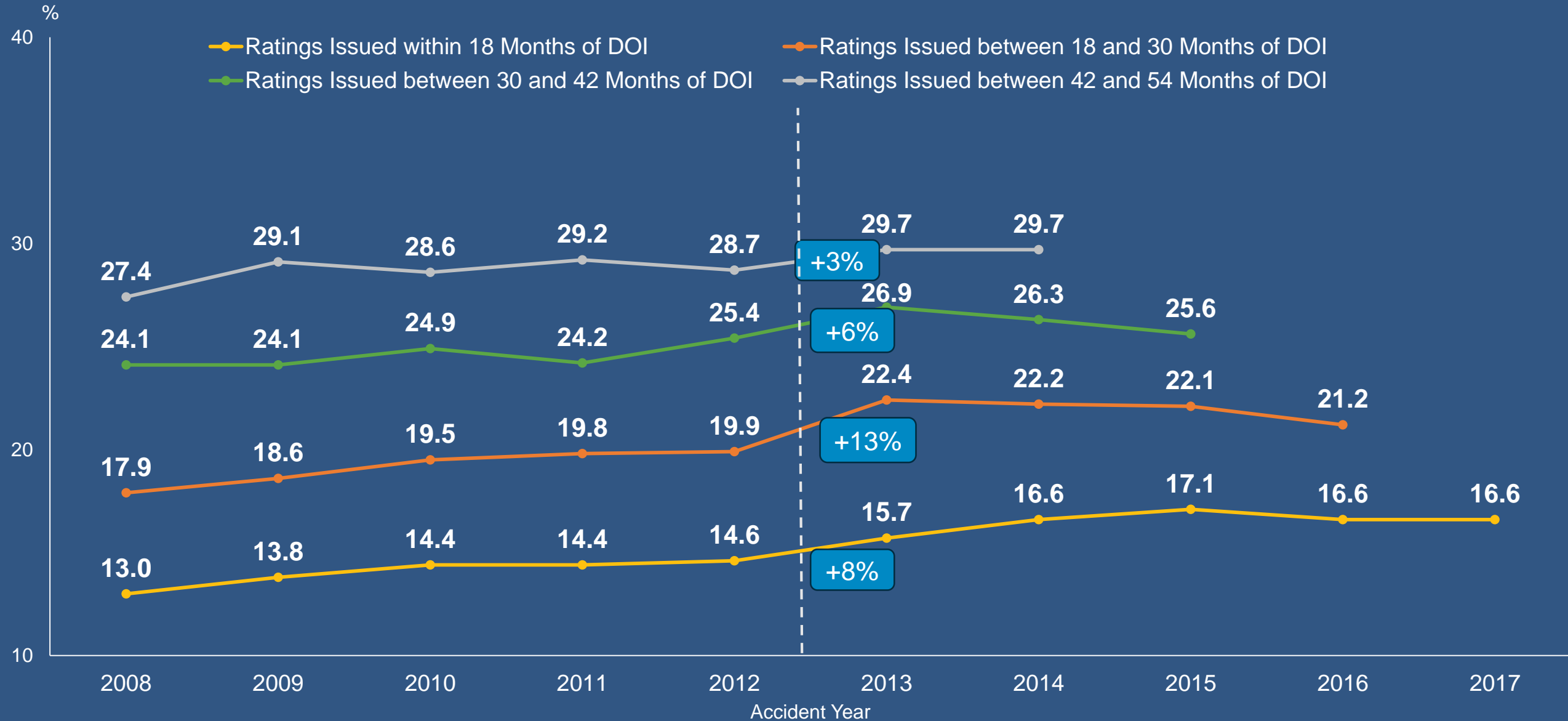
Legislative Cost Monitoring

- SB 863
 - Enacted in 2012, most items first effective in 2013/2014
 - Final comprehensive SB 863 Cost Monitoring Report published in November of 2016
 - Committee recommended continuing to review some items that continue to emerge (PD, RBRVS, etc.)
- SB 1160 / AB 1244
 - Enacted in 2016, first effective in 2017 (liens) and 2018 (UR restrictions in the first 30 days)
 - Initial reviews of lien reforms shows lien counts reducing much greater than projected
 - Preliminary review of first six months of UR reforms for this meeting
- Drug Formulary (AB 1124)
 - Effective in 2018
 - Preliminary review of the first six months of post-formulary experience for this meeting

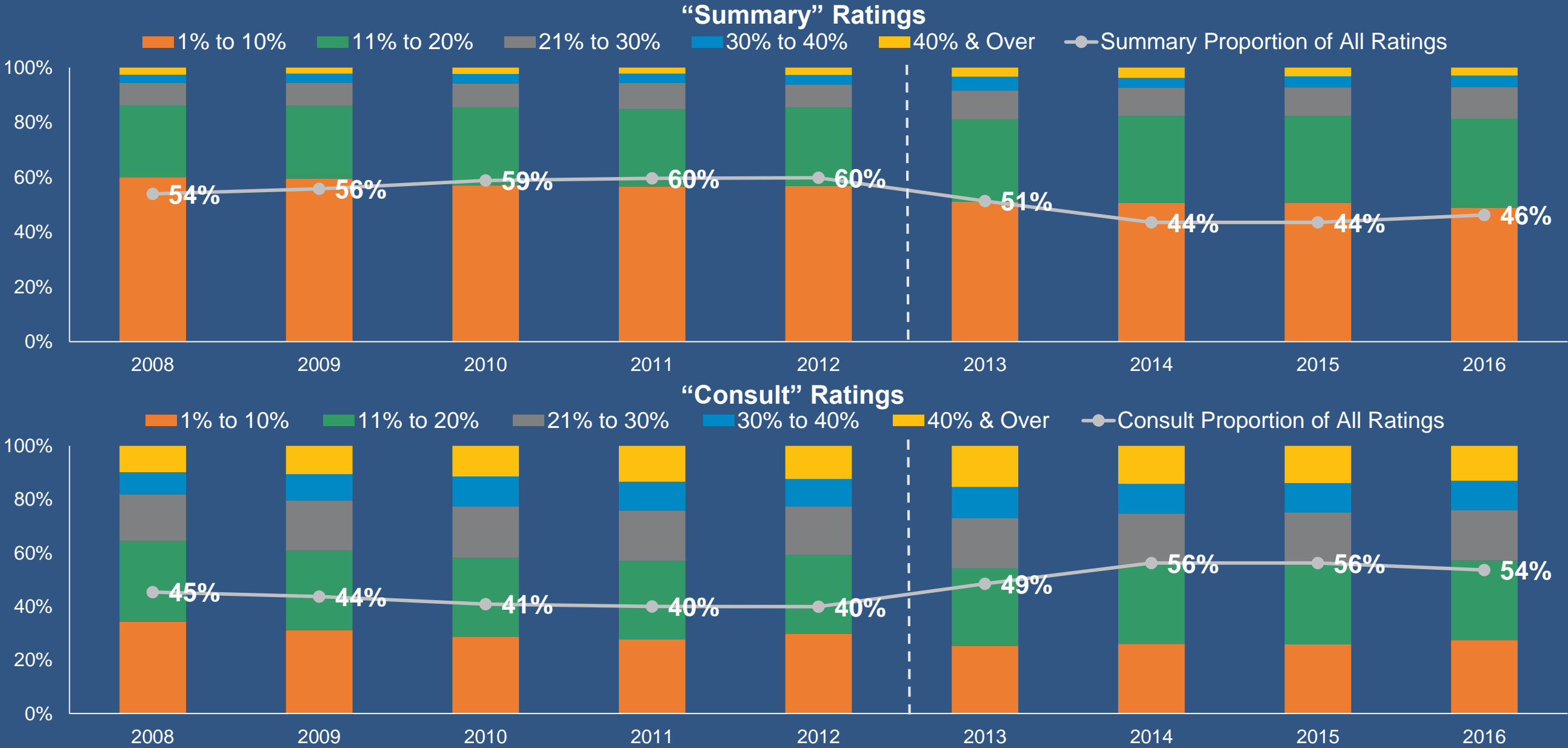
SB 863 Changes to PD Benefits

- SB 863 increased weekly min. and max. PD benefits
- SB 863 changes to PD rating computation
 - Elimination of FEC factor (& Ogilvie adjustments)
 - Addition of uniform 1.40 adjustment factor
 - Elimination of PD rating add-ons
- Combined impact of PD benefit changes estimated to increase costs by 3.8%

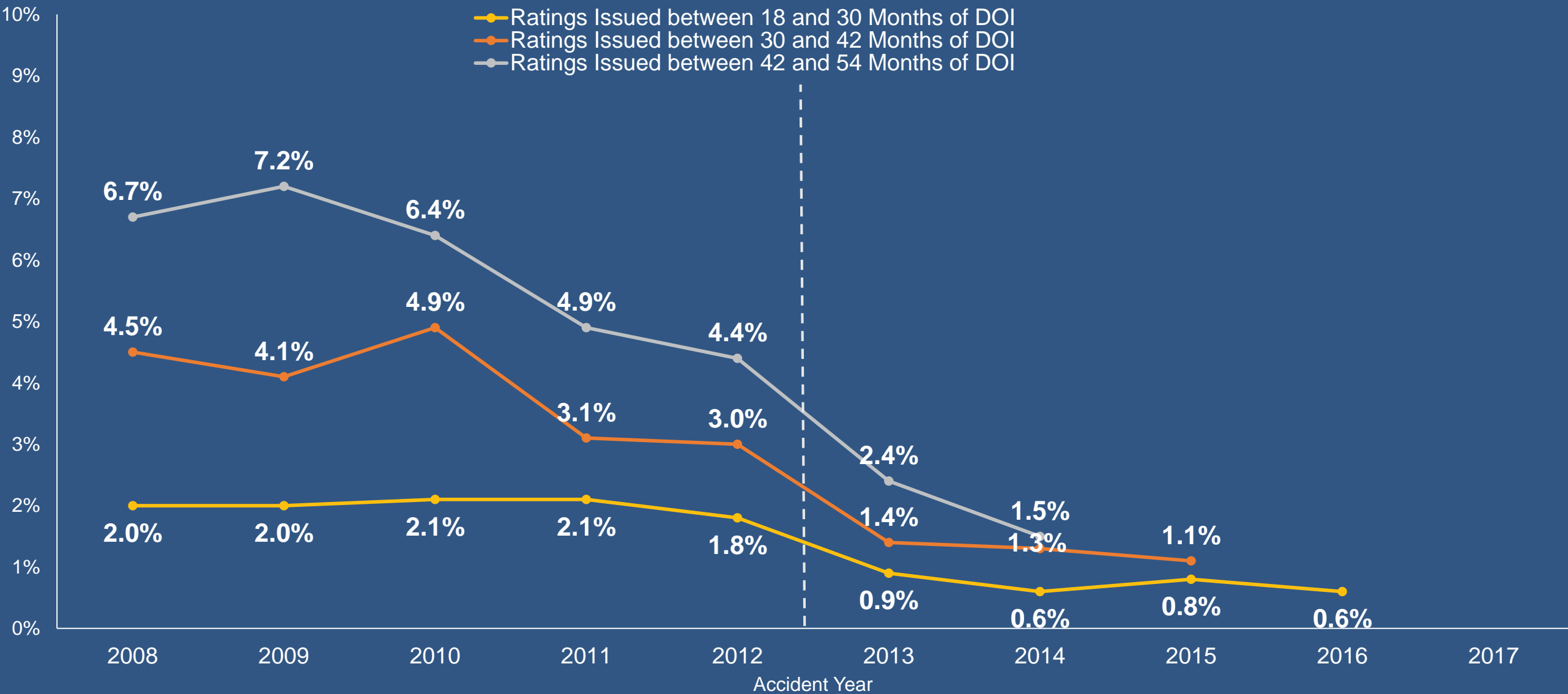
Average PD Ratings Based on DEU Data (Exhibit 2)



Distribution of PD Ratings through 24 Months (Exhibit 3)

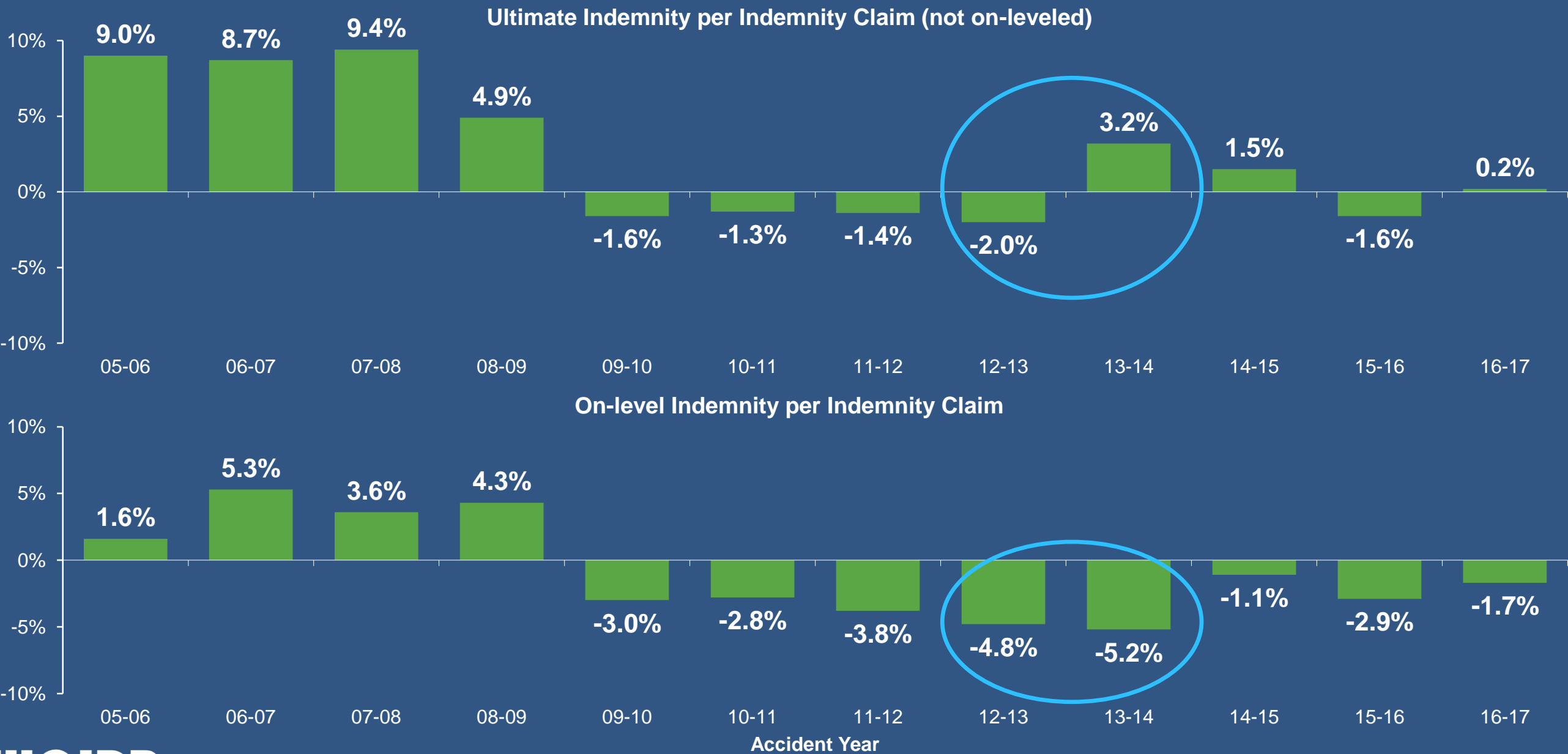


Proportion of PD Claims with Add-ons (Exhibit 5)

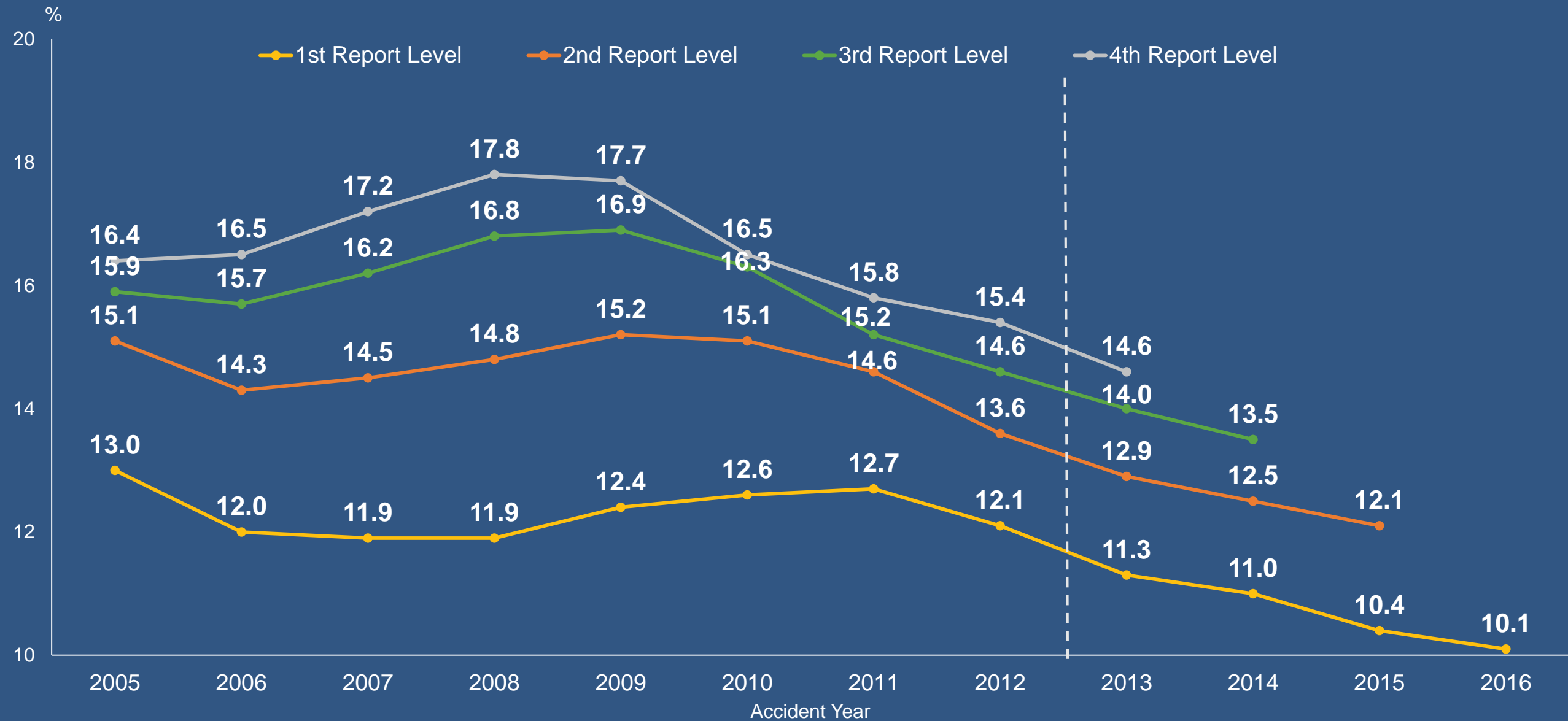


Projected Changes in On-Level Indemnity Severity

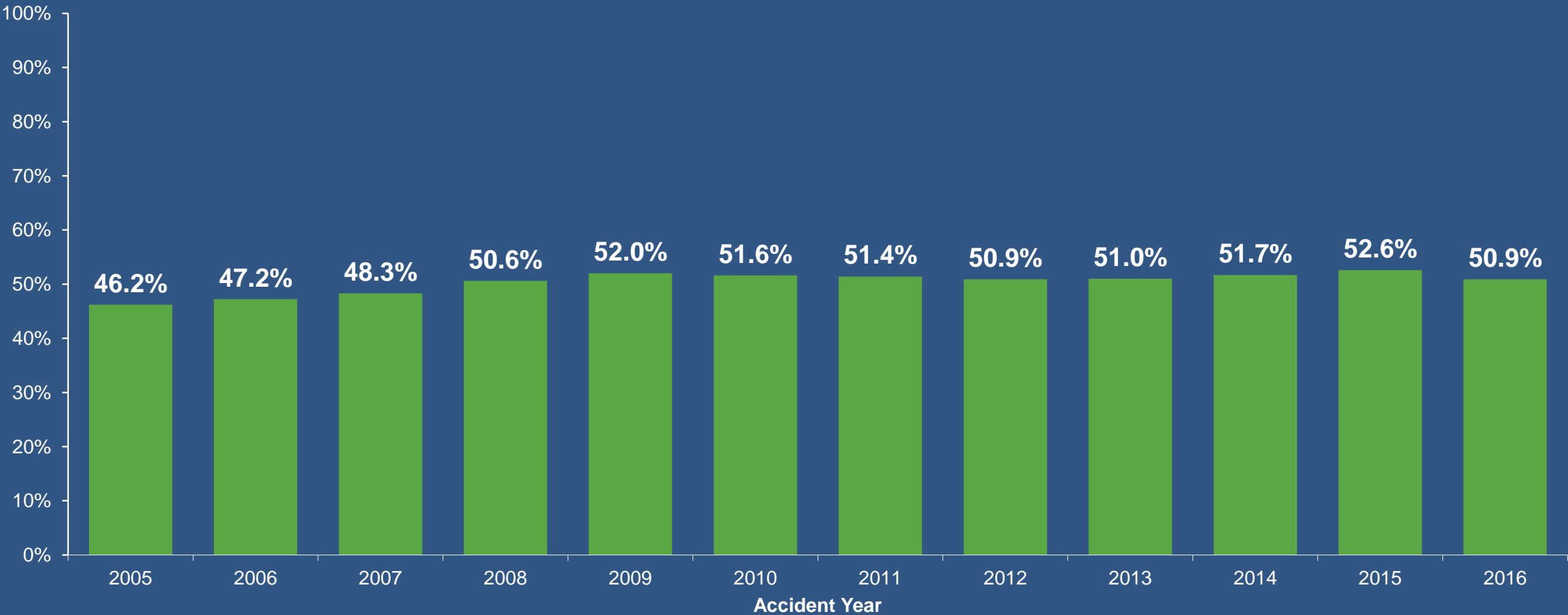
As of September 30, 2018



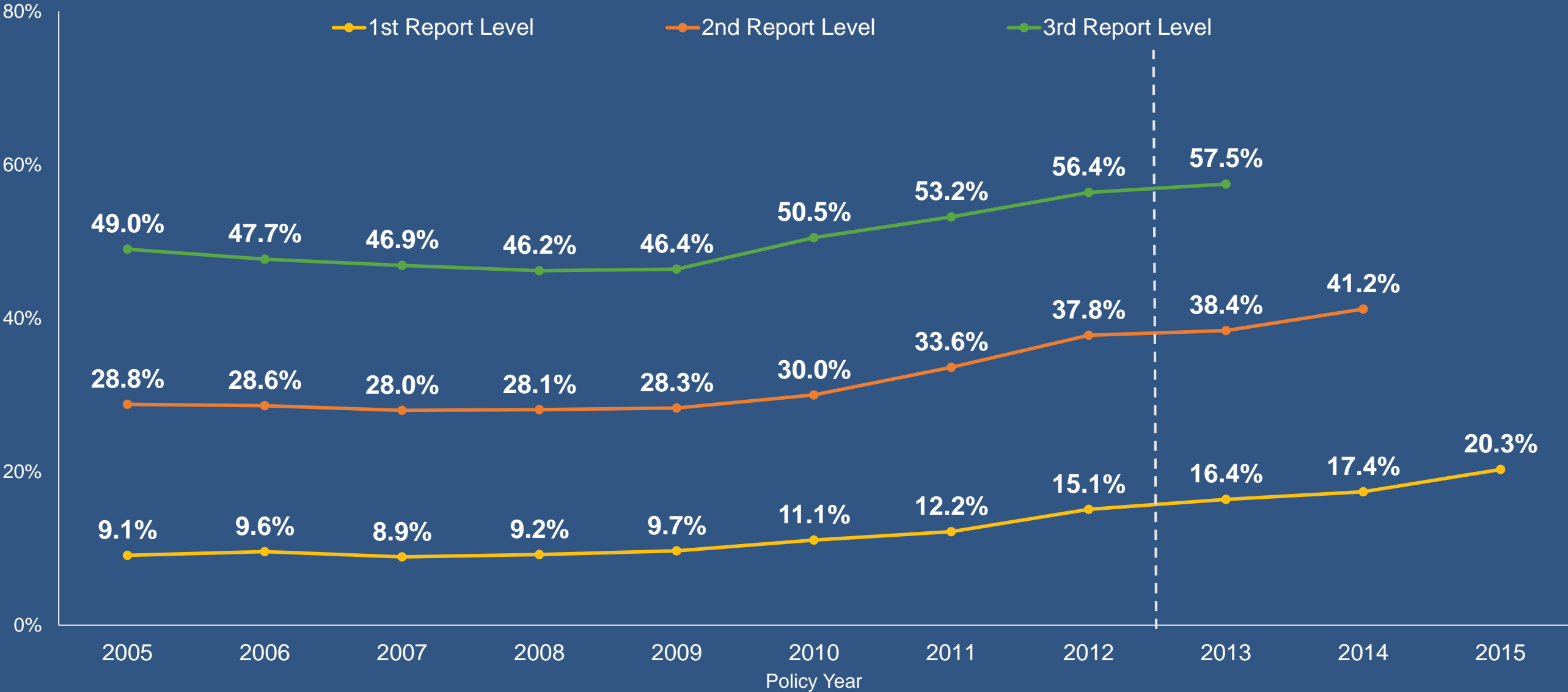
Average PD Ratings Based on Unit Statistical Data (Exhibit 1.1)



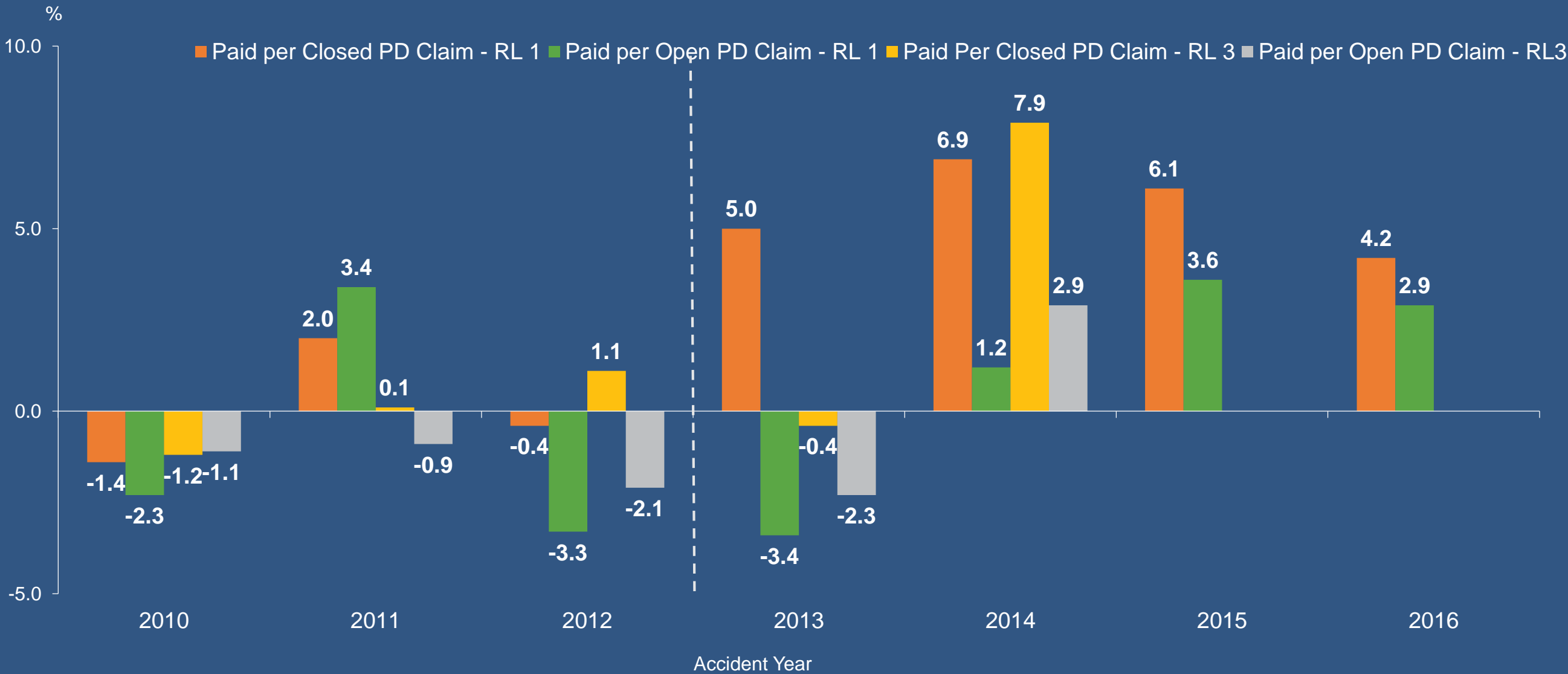
Proportion of Indemnity Claims that are PD



Proportion of PD Claims Closed



Change in Average Indemnity Cost per PD Claim (Exhibit 4)



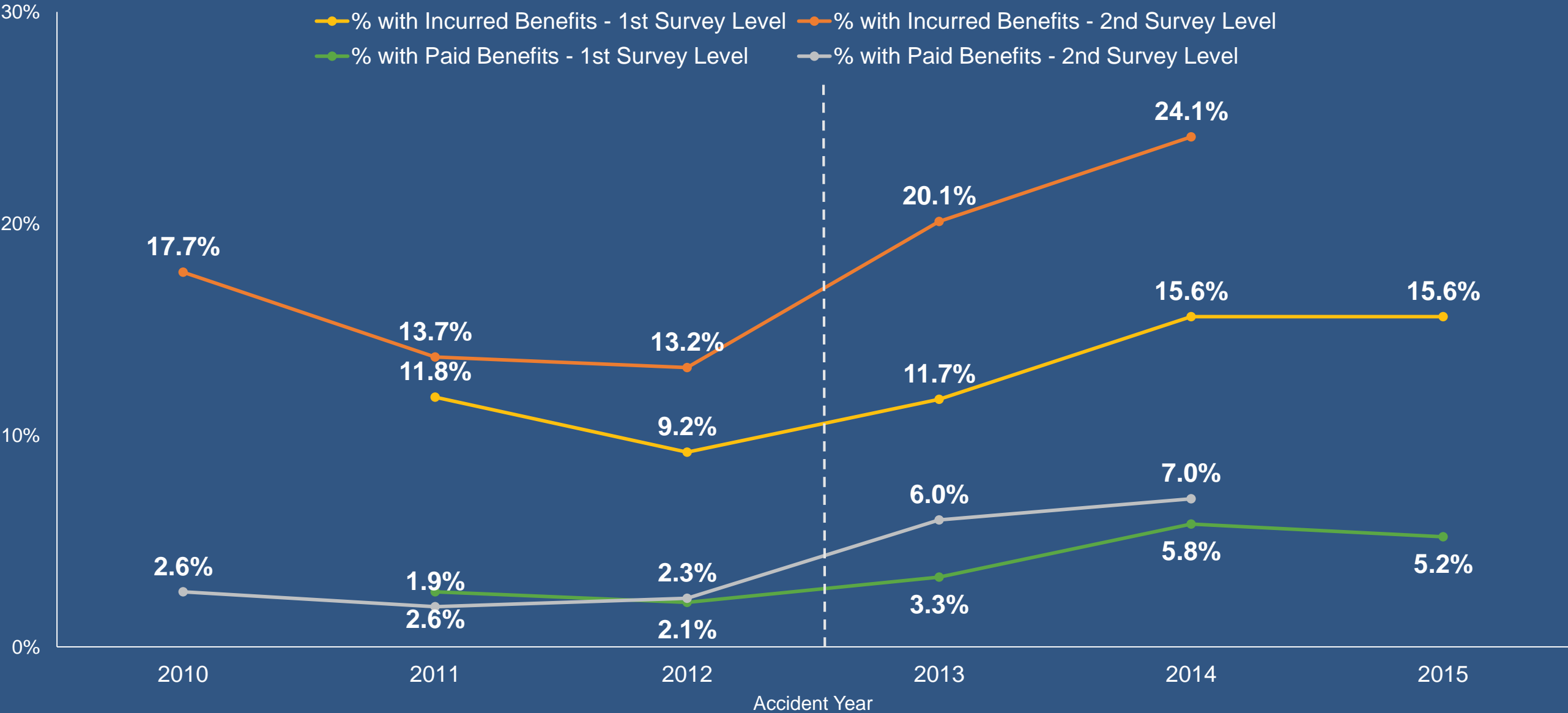
SB 863 Impact on Indemnity Cost Levels

- SB 863 increased promulgated PD ratings and weekly min. and max. as expected
- Overall indemnity costs flat due to SB 863 speeding up PD resolution and claim settlement process
- Staff recommends reviewing indemnity on-level adjustment for SB 863 with Committee at next meeting

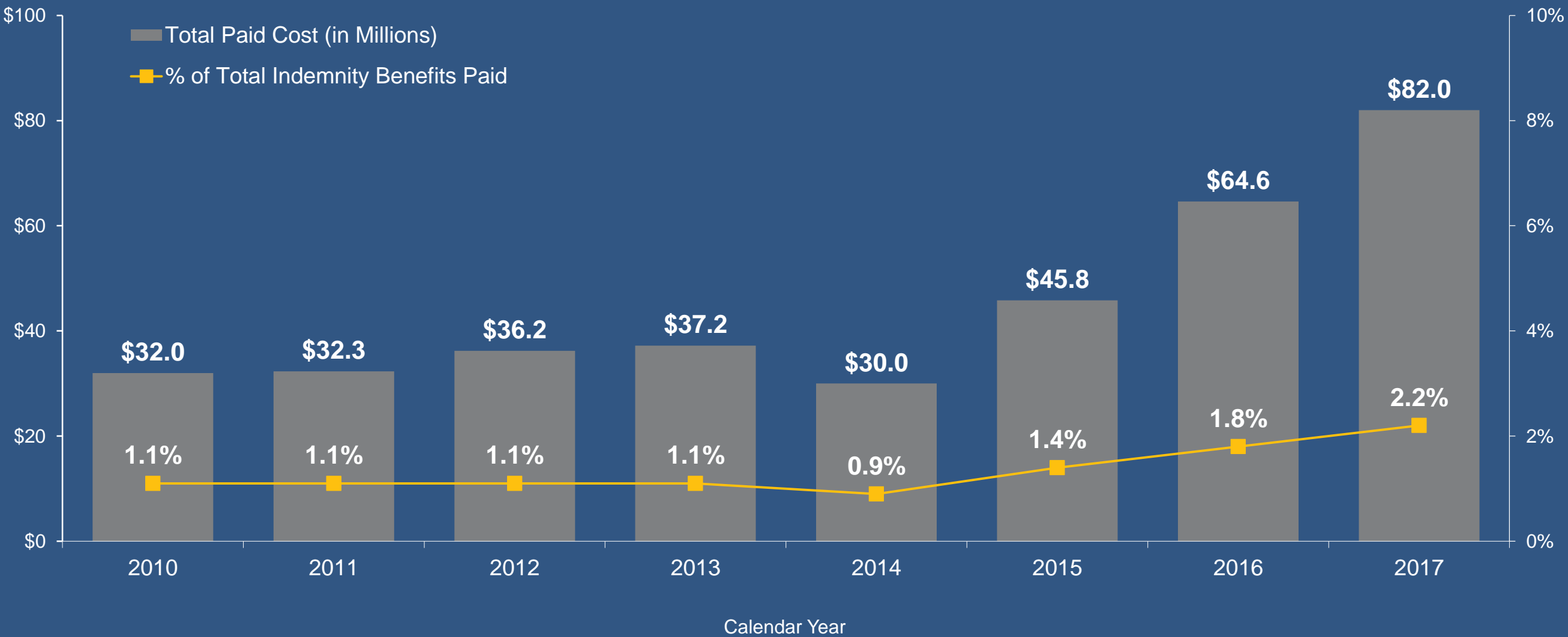
SB 863 Changes to SJDB

- SB 863 changes to SJDB
 - Set at maximum of \$6,000 for all eligible claims
 - Modified types of expenses that can be reimbursed
 - Payments under \$120M RTW fund triggered by reception of SJDB
- Prior reviews showed increased frequency of SJDB utilization resulting in 0.2% increase in total costs

Percentage of Claims with SJDB Costs (Exhibit 6)



Total SJDB Paid Costs (Exhibit 6)

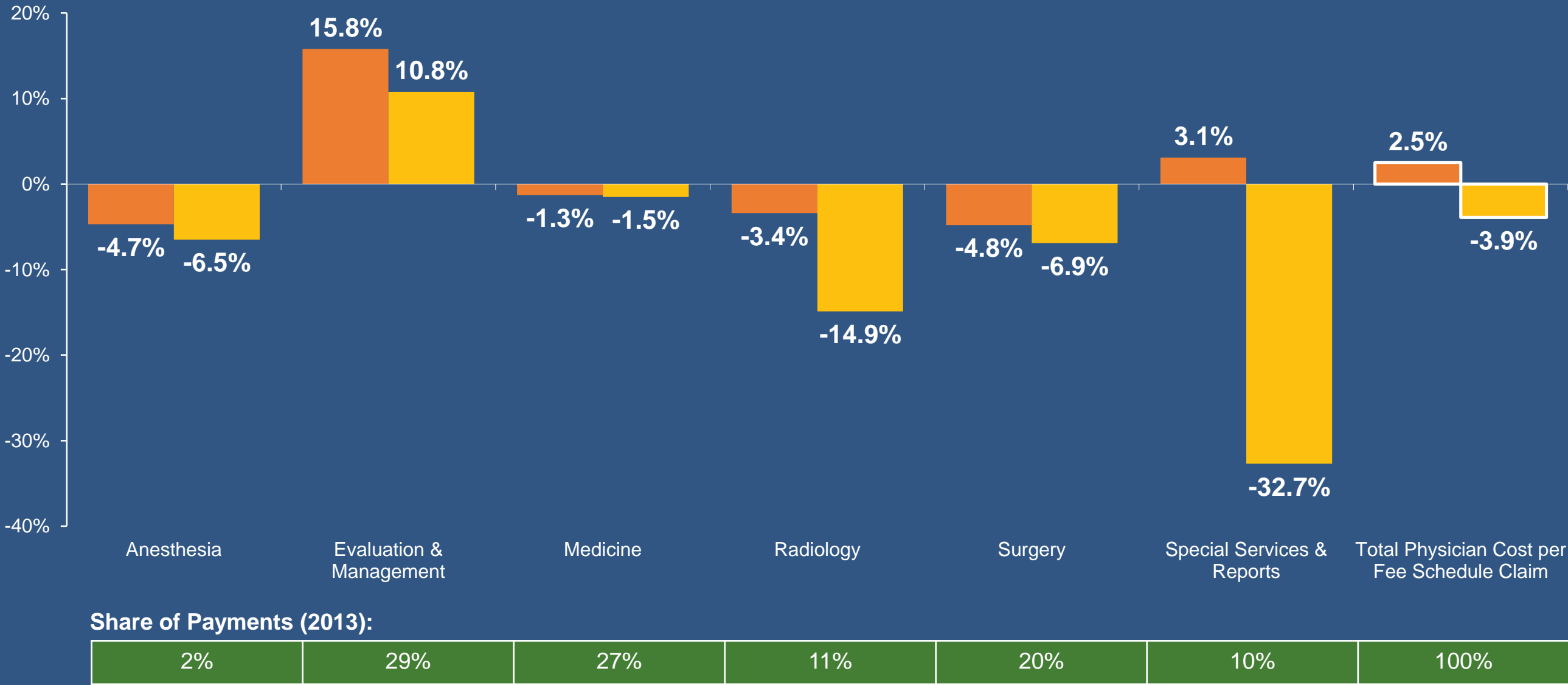


SB 863 Changes to Physician Fee Schedule (RBRVS)

- RBRVS changes to physician fee schedule effective starting in 2014 and phased in over four years
- Prior reviews showed significant savings in 2014 & 2015
- Initial reviews showed 2016 & 2017 emerging consistent with prospective estimates

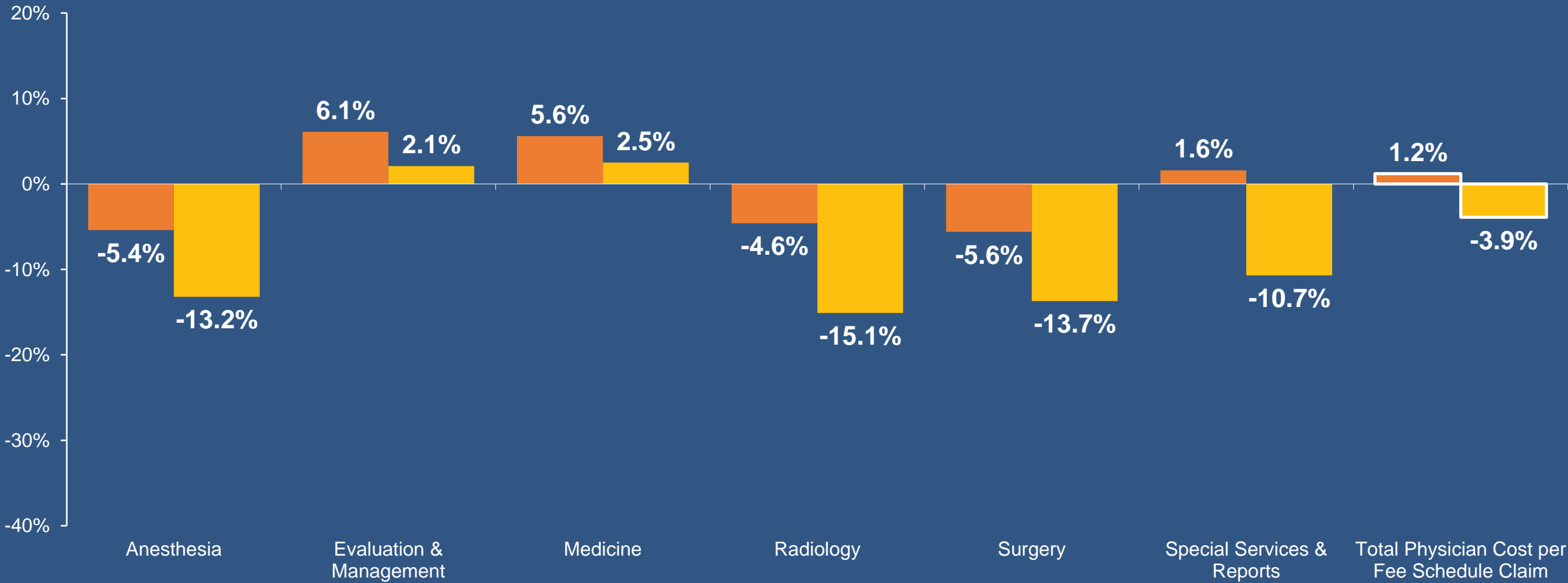
Change in Total Physician Costs Paid per Claim

Service Year 2013 to 2014 through 54 Months (Exhibit 7.1)



Change in Total Physician Costs Paid per Claim

Service Year 2014 to 2015 through 42 Months (Exhibit 7.2)

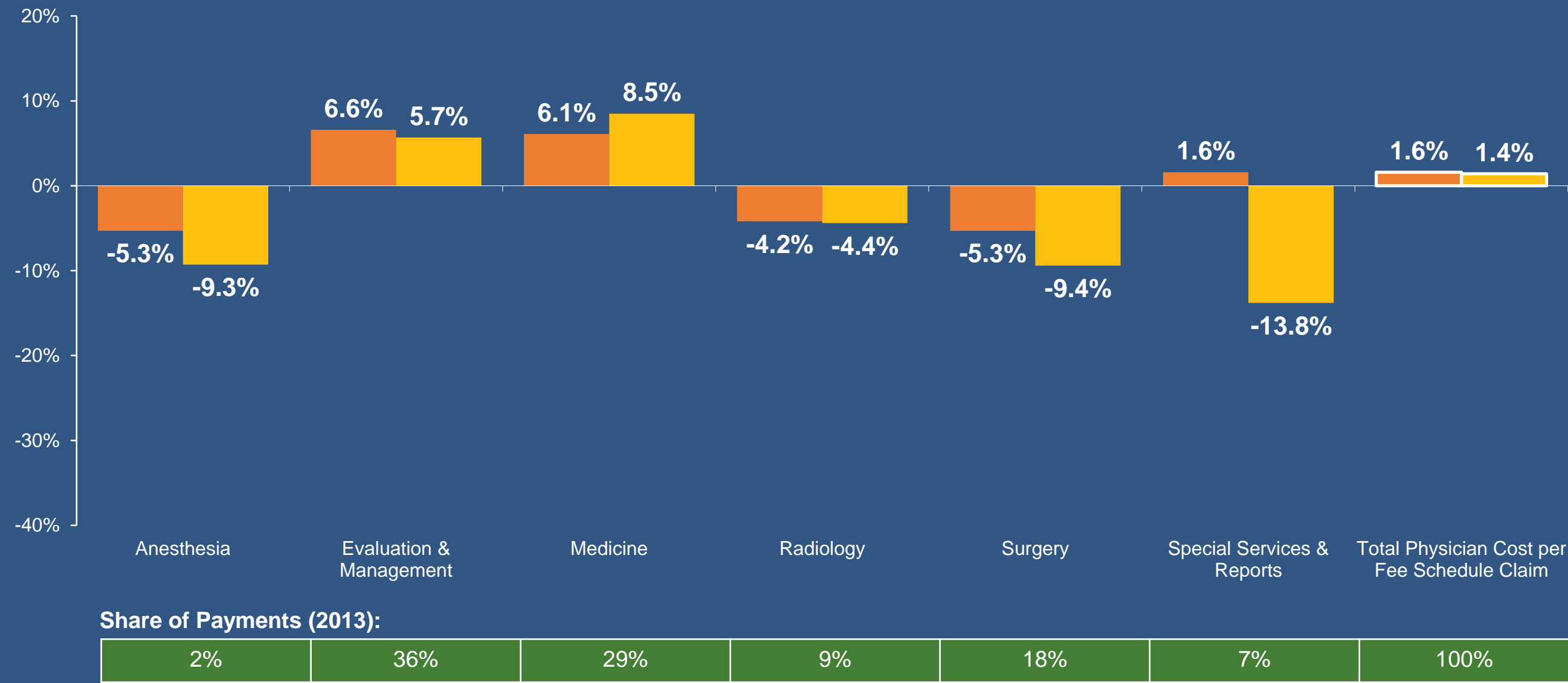


Share of Payments (2013):



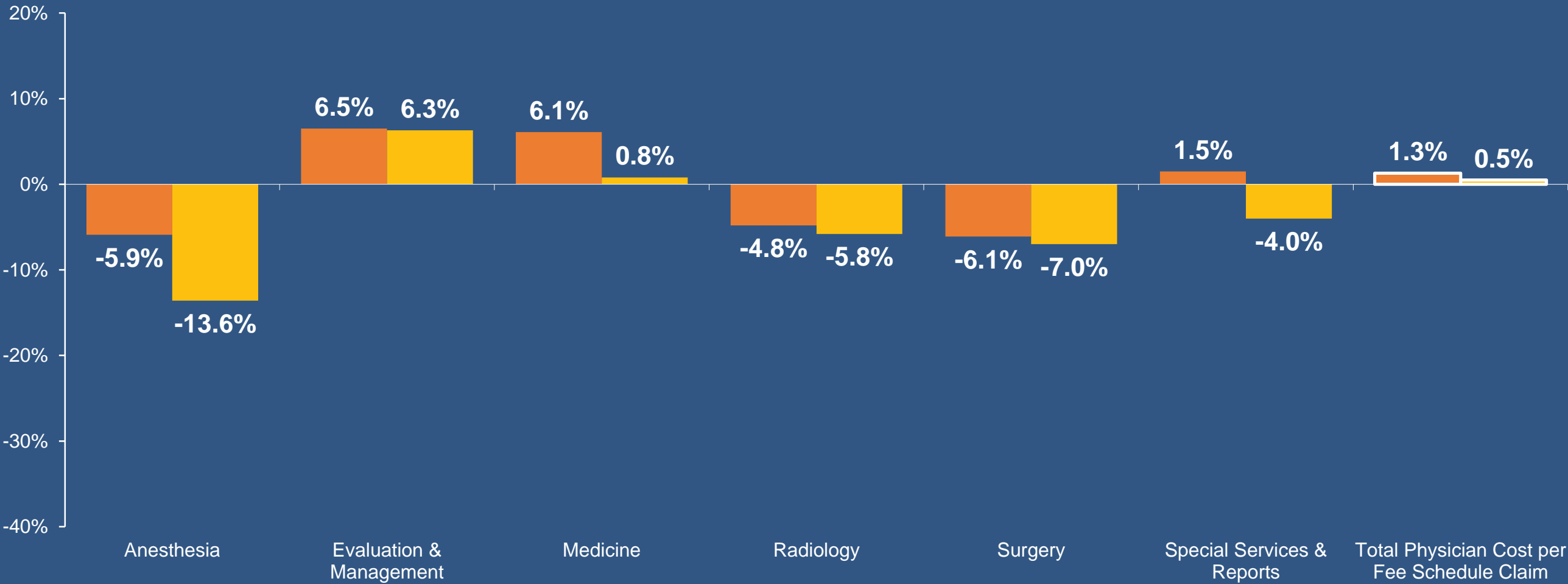
Change in Total Physician Costs Paid per Claim

Service Year 2015 to 2016 through 30 Months (Exhibit 7.3)



Change in Total Physician Costs Paid per Claim

Service Year 2016 to 2017 through 18 Months (Exhibit 7.4)



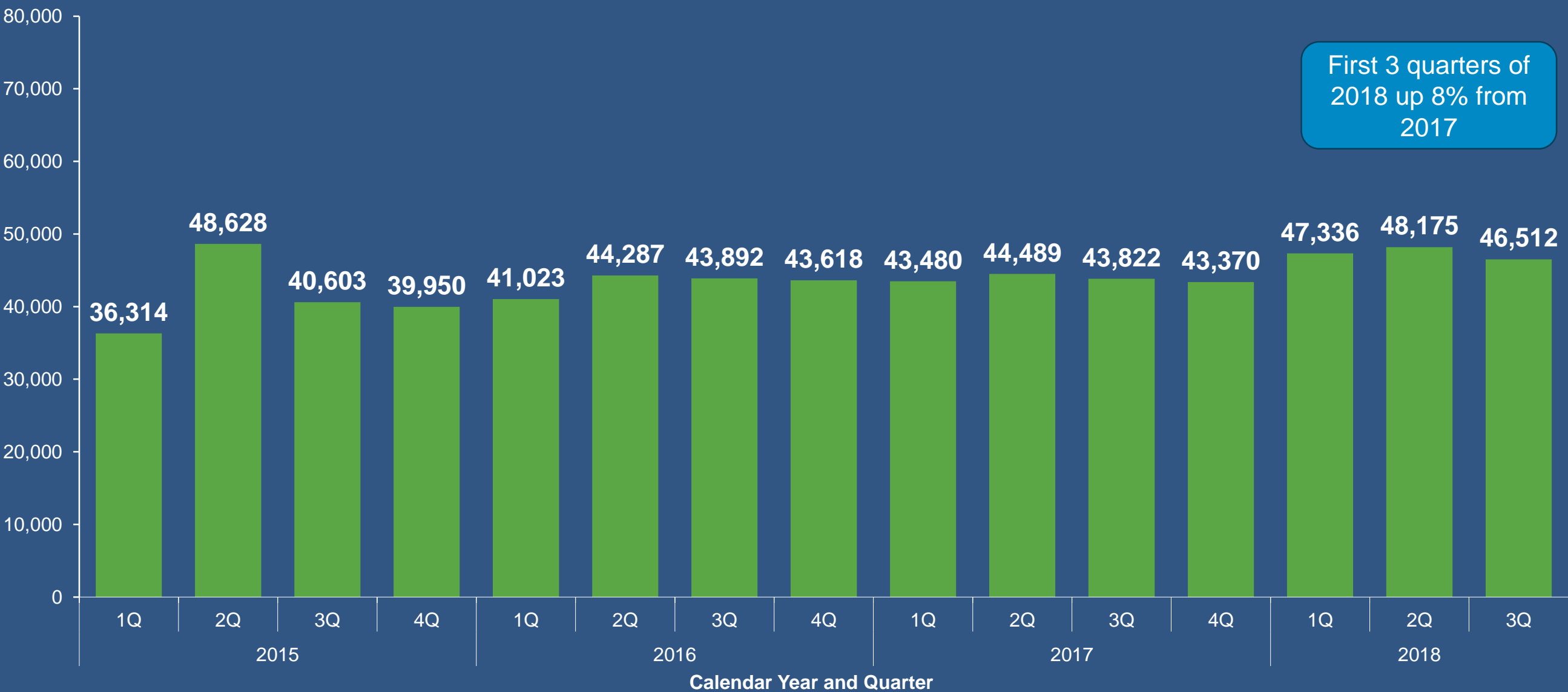
Share of Payments (2013):



SB 863 IMR Process and Impact on Medical Utilization

- SB 863 provided IMR process to handle medical treatment disputes
- Significantly more IMRs filed than originally projected
- However, IMR along with IBR and other SB 863 provisions significantly reduced utilization of medical services
 - Total reduction estimated at 17% over accident years 2011 through 2015 (reviewed at August 1, 2018 meeting)

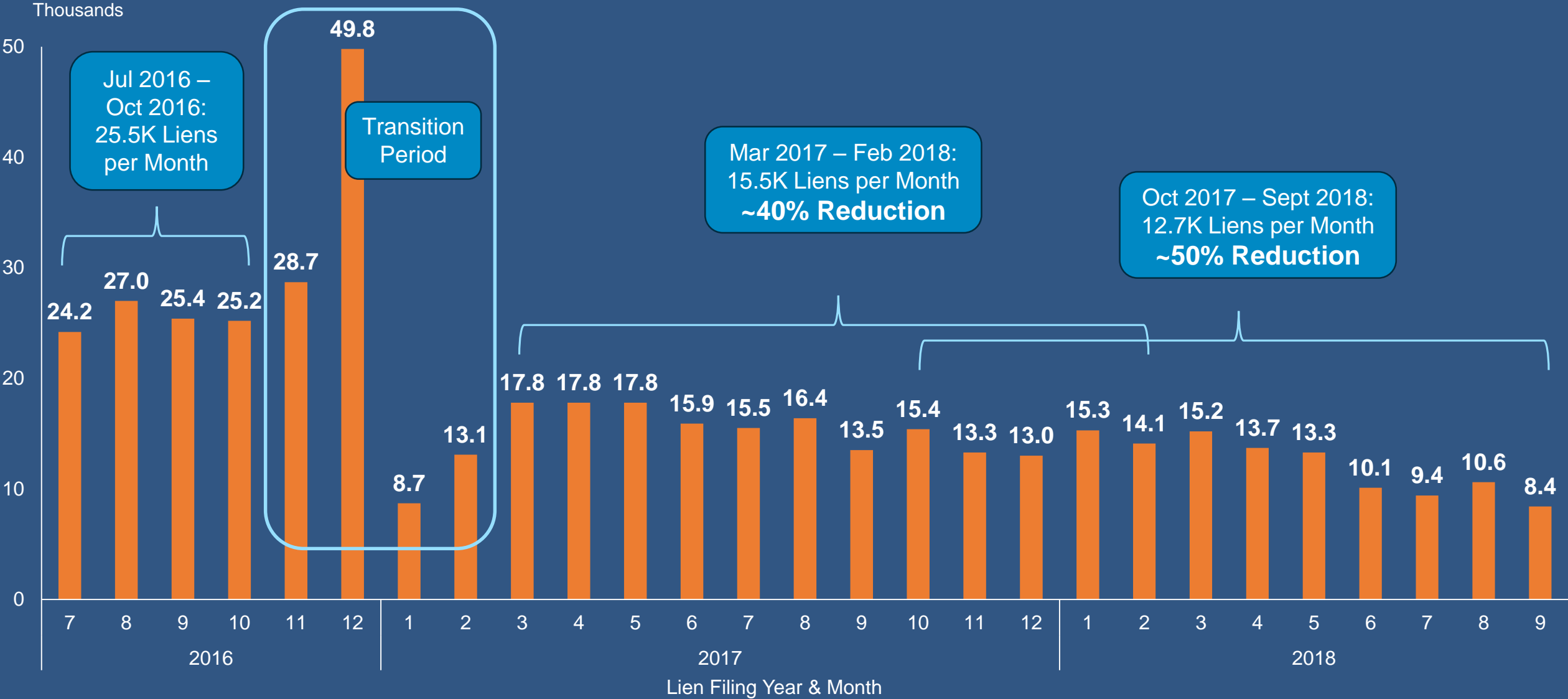
Number of Eligible IMR Requests by Quarter (Exhibit 8)



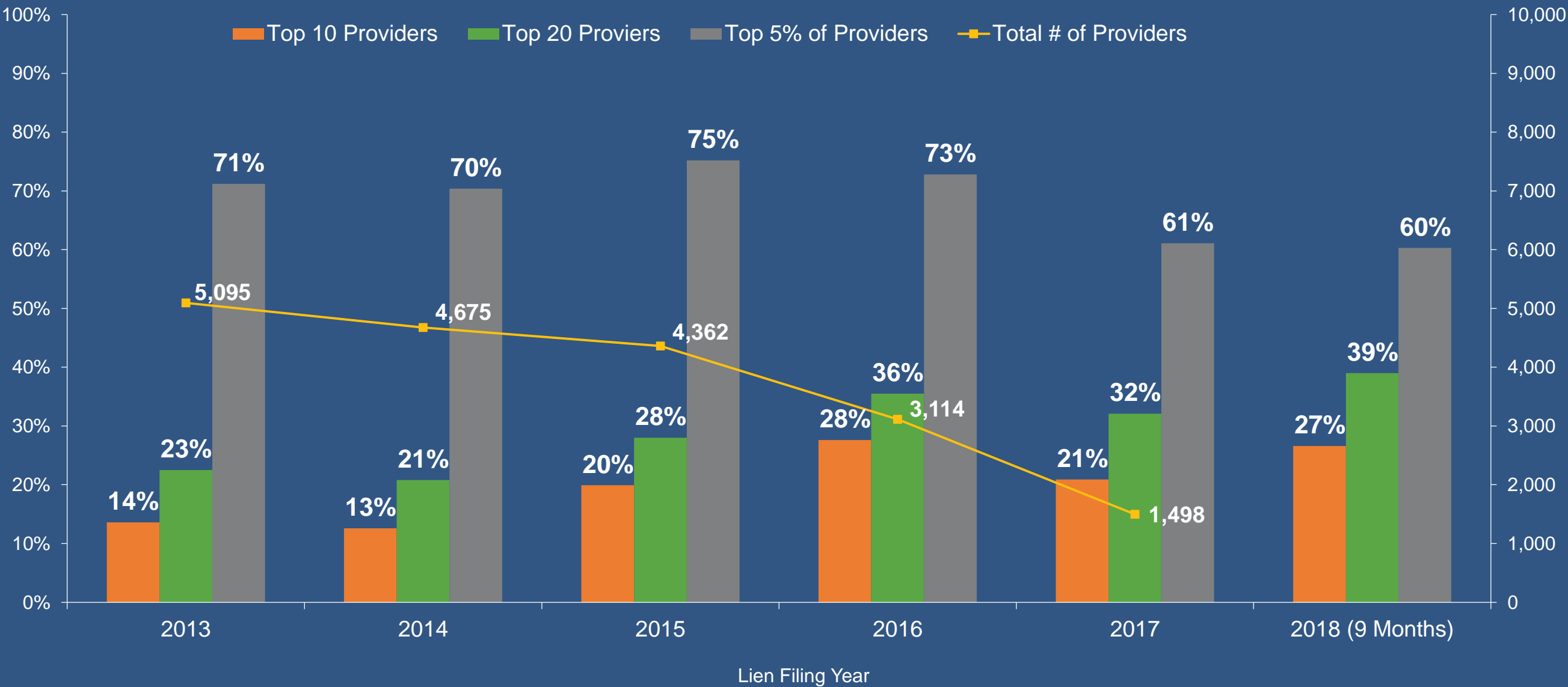
SB 1160 & AB 1244 Provisions Related to Liens

- SB 1160 & AB 1244 provisions related to lien filings
 - Requires declaration under penalty of perjury filed with all new liens
 - Cannot assign liens to a third party
 - Stay on liens from indicted providers (AB 1244 provides consolidated process to resolve these liens)
- WCIRB 7/1/2018 and 1/1/2019 Filings estimated 40% reduction in future lien filings (-2.4% in total costs)
 - Impact reflected in both loss development and on-level adjustments
 - CDI reflected 50% reduction in 1/1/19 Filing decision based on emerging data

Recent Lien Filings (Exhibit 9.2)



Concentration of Medical Lien Filing Counts by Provider



Average Paid Medical per Lien Transaction



SB 1160 UR Restrictions - Background

- Effective on injuries occurring on 1/1/2018 or after
- Treatment requests are automatically authorized without prospective UR if:
 - within 30 days of the DOI
 - meet specified conditions
- Conditions to be met:
 - Accepted body part or condition
 - Performed by a member of an MPN or HCO, or by a physician
 - Allowed for in MTUS
 - Not one of enumerated treatment types:
 - Non-emergency inpatient or outpatient surgery
 - Psychological treatment services
 - Home health care services
 - Imaging and radiology services (excluding x-rays)
 - Durable medical equipment \geq \$250
 - Electrodiagnostic medicine
 - Pharmaceuticals not exempted by drug formulary

SB 1160 UR Restrictions – Analysis Methodology

- WCIRB's medical transaction data
 - Accident dates between 1/1 and 5/31 in 2016, 2017 and 2018
 - Medical services rendered within 30 days of the accident dates
- Identified services excluded from the UR restrictions in the medical data
- Compared the medical service utilization and payments in 2018 vs. 2017
 - Transactions per claim, paid per transaction and paid per claim
 - Assess if there were increases in utilization of certain types of medical services in the first 30 days of treatment

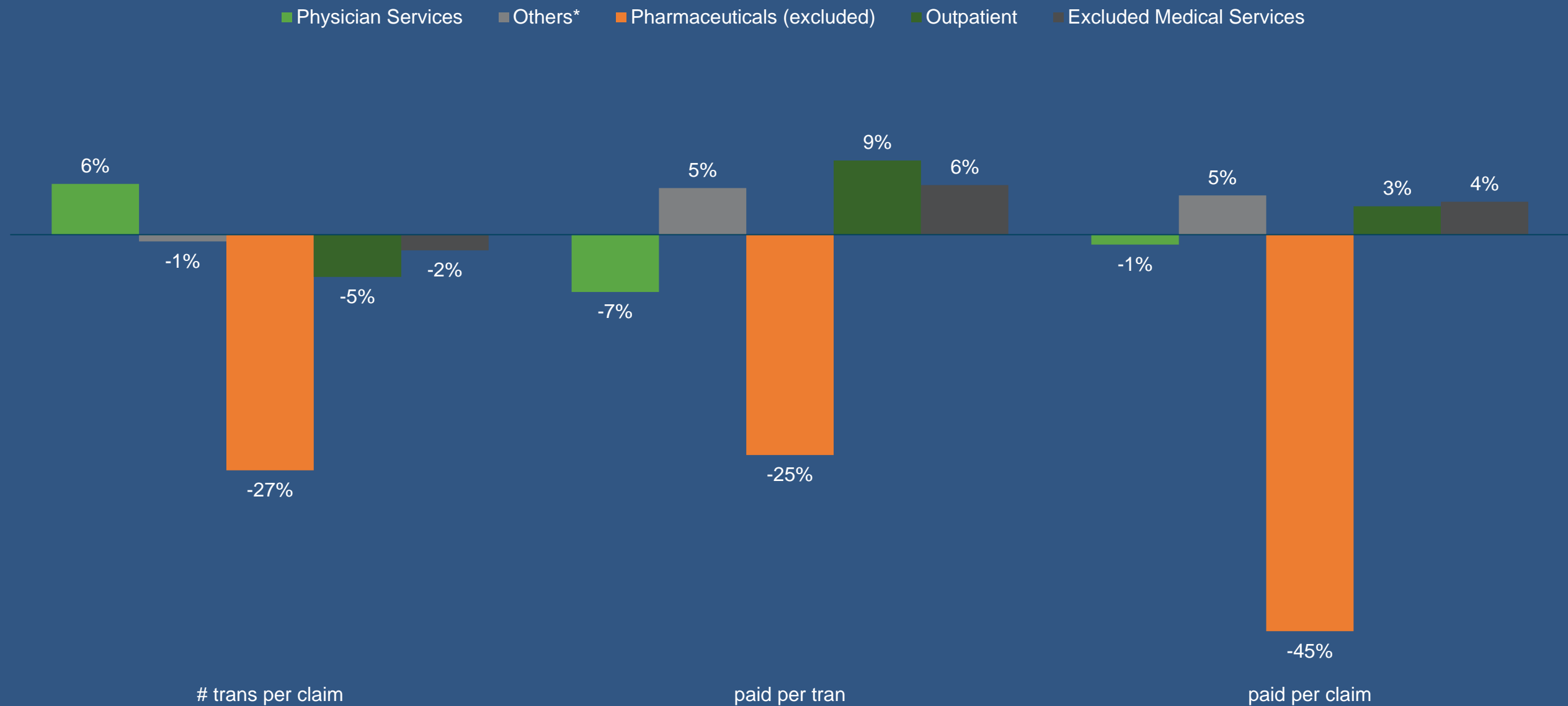
Total medical payments and transactions: AY2018 vs. AY2017

As of Oct 7, 2018

- Claim count: up by 2%
- Total paid: up by 1%
- Total transactions: up by 2%
- Paid per claim: down by 1%
- Paid MCCP per claim: up by 1%

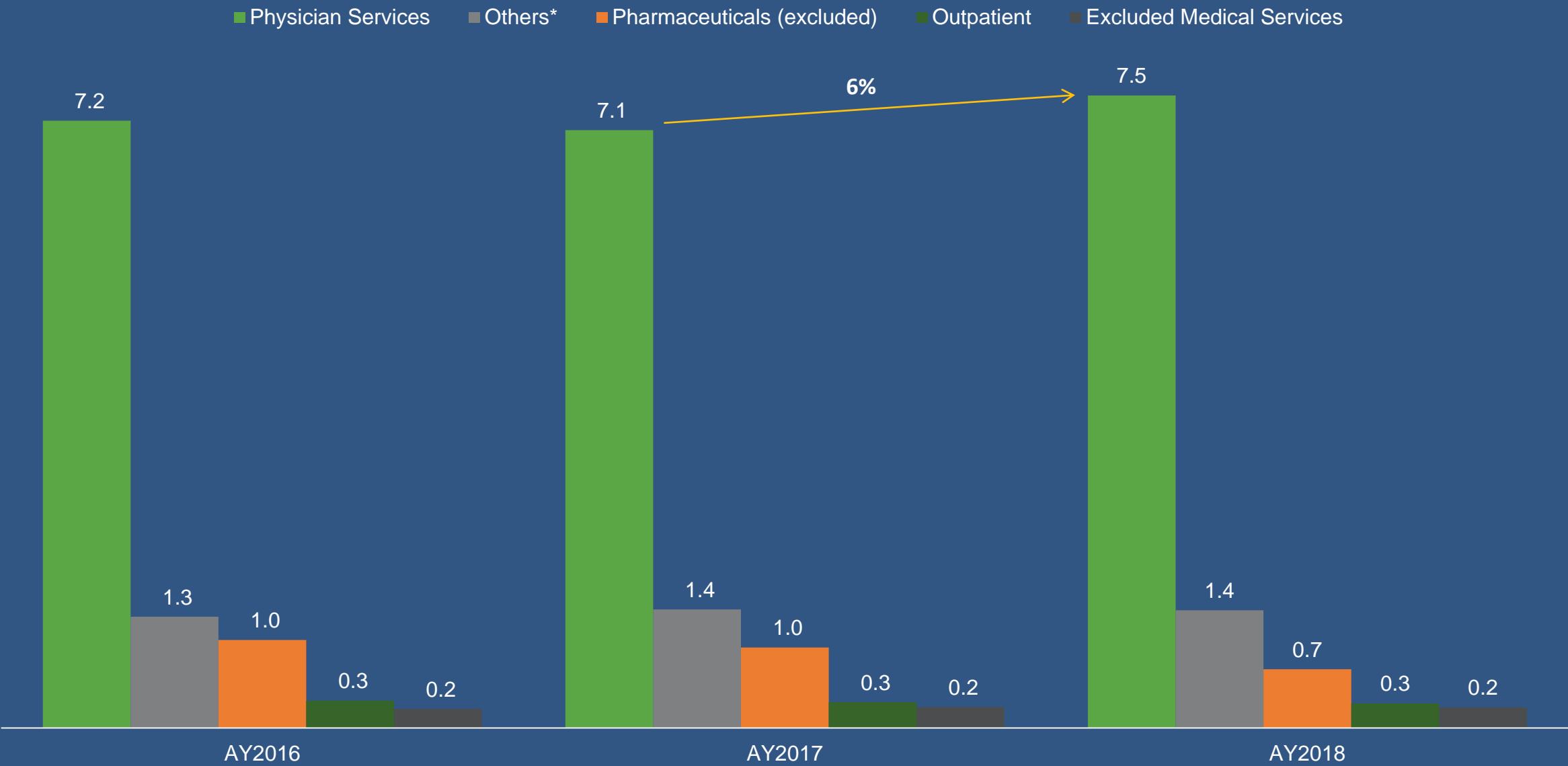
Changes in Medical Transactions and Payments by Component AY2018 vs. AY2017 (within 30 days of the accident date)

As of Oct 7, 2018



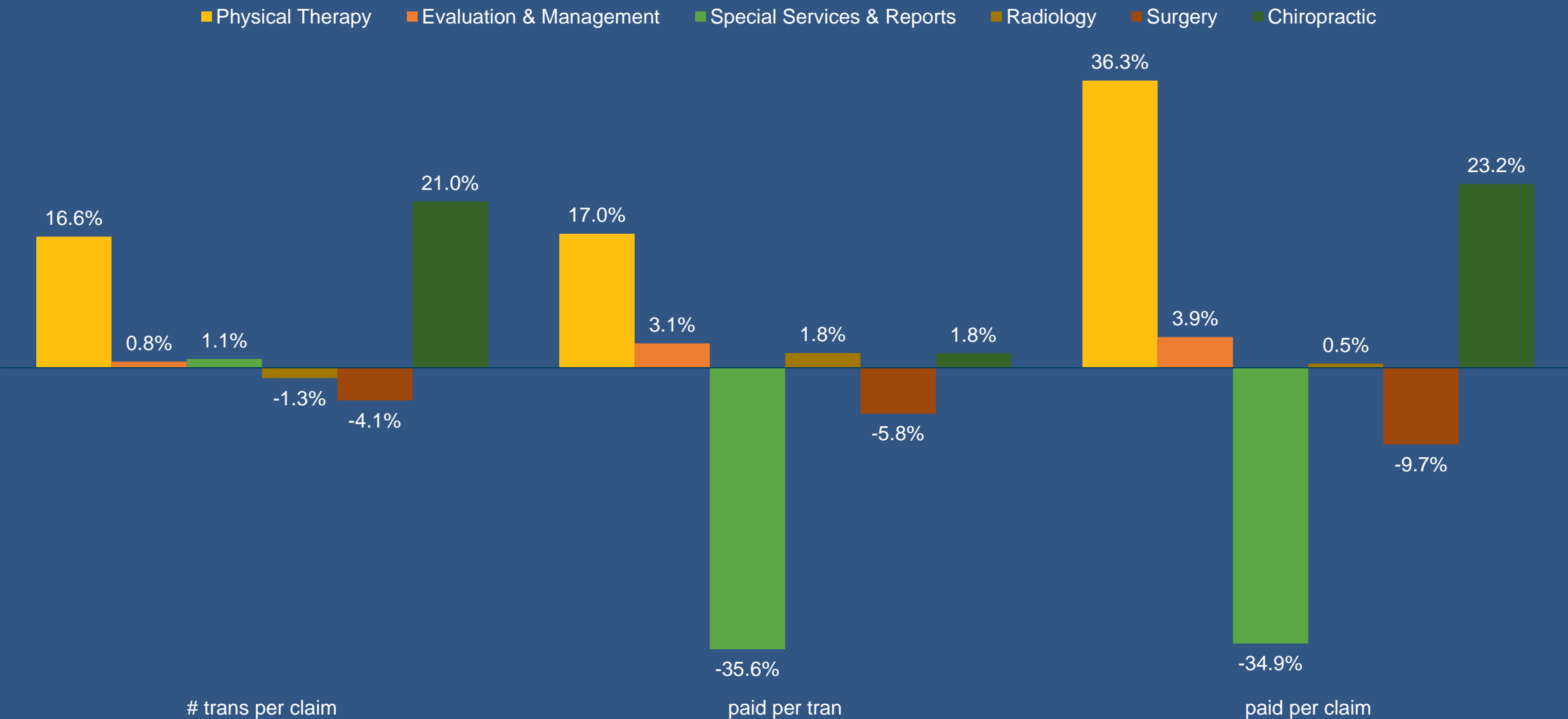
Number of Transactions per Claim by Component (within 30 days of the accident date)

As of Oct 7, 2018



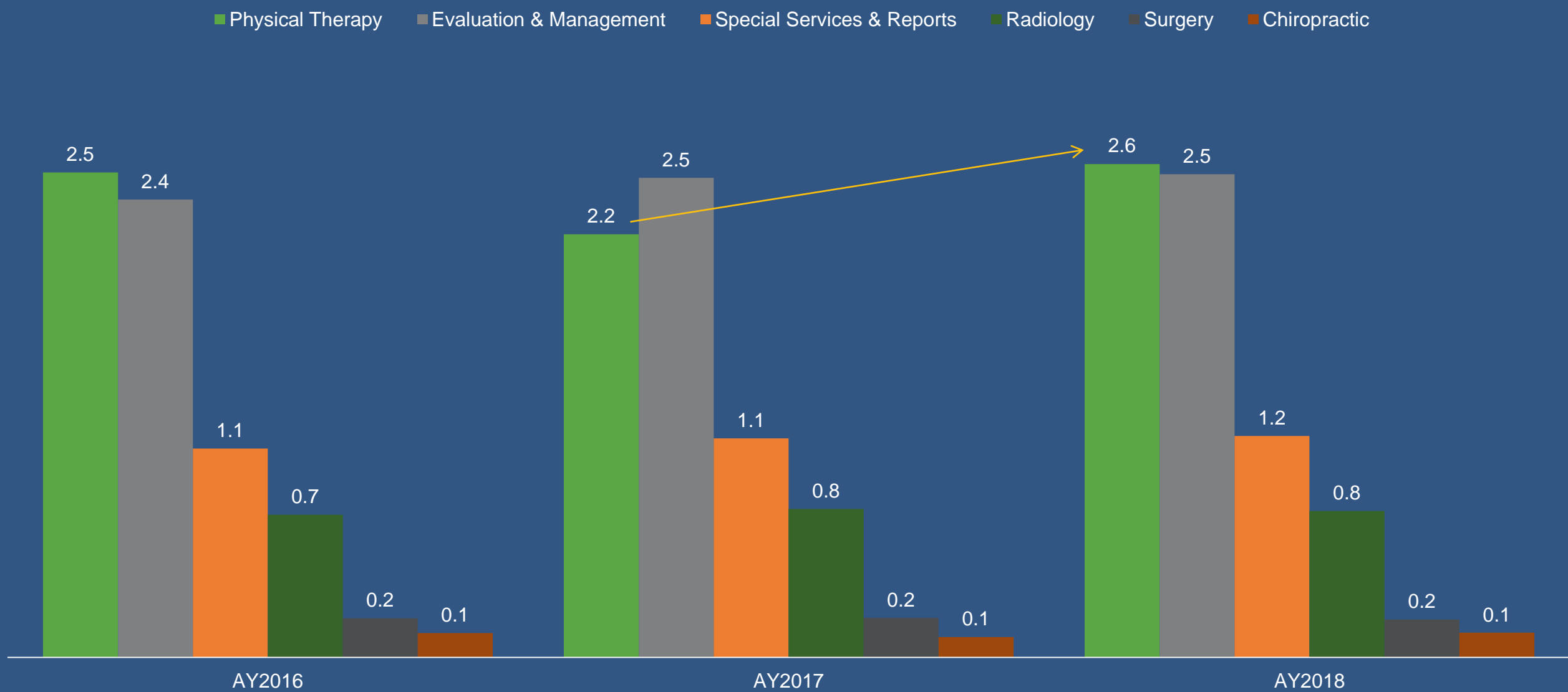
Changes in Physician Services Transactions and Medical Payments by Component: AY2018 vs. AY2017 (within 30 days of the accident date)

As of Oct 7, 2018



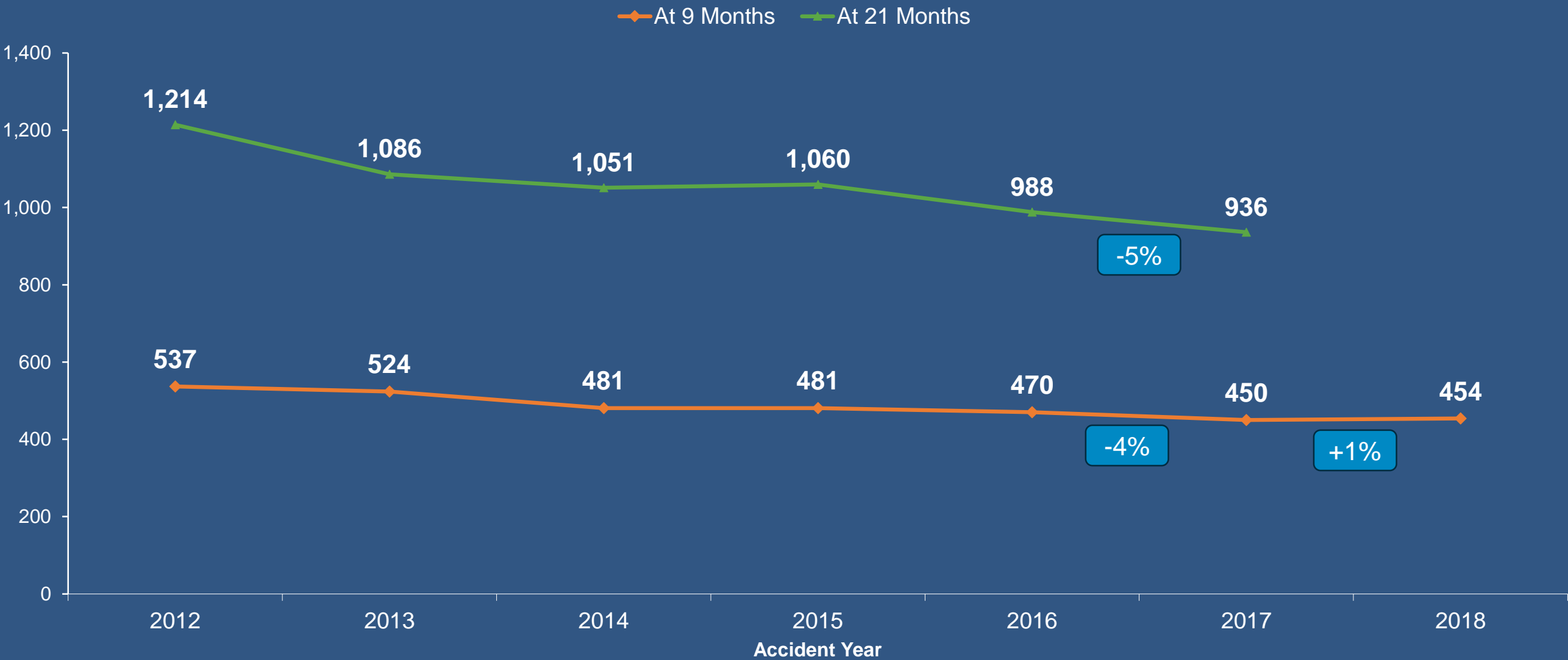
Number of Physician Services Transactions by Component (within 30 days of the accident date)

As of Oct 7, 2018



Paid Medical Cost Containment Program Costs per Claim

As of September 30, 2018



AB 1124 Drug Formulary – Summary of Presentation

- Background and Summary of the 2018 MTUS Drug Formulary
- Update - Estimated Impact on Frictional Costs (UR & IMR)
- Update - Estimated Impact on Pharmaceutical Costs

Background

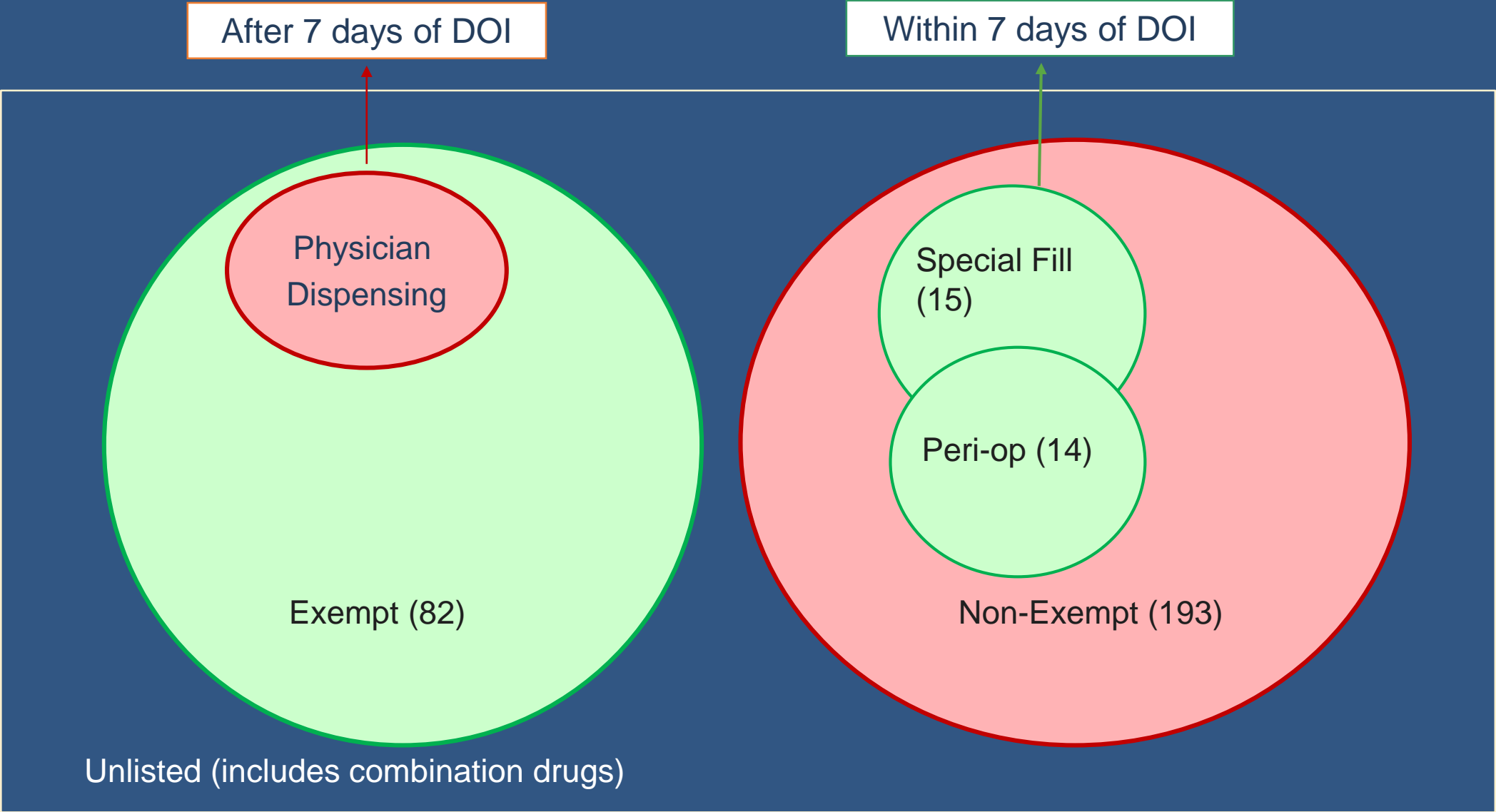
- AB 1124 required the DWC to adopt an evidence-based drug formulary in the California workers' compensation system.
- Primary goals of the Formulary:
 - Regulate prescribing of opioids
 - Reduce frictional costs (from UR and IMR) in the system
 - Ensure medically necessary and timely medications for injured workers
- The new MTUS Drug Formulary became effective January 1, 2018

Summary of the MTUS Drug Formulary

Exempt drugs	No Prospective UR if use is consistent with MTUS
Non-Exempt drugs	Subject to UR, including all opioids and compounds
Unlisted drugs	Subject to UR, including combination drugs
Special fill policy	No Prospective UR on non-exempt drugs prescribed at single initial visit within 7 days of DOI
Perioperative fill policy	No Prospective UR on non-exempt drugs for post-surgery care (4 days before and 4 days after)
Physician dispensing	Subject to UR except on a one-time basis for “exempt drugs” and special fill & perioperative fill
Brand/Generic selection	Prospective authorization for brand name drugs when a less costly generic equivalent exists
Compounds	Prospective authorization before dispensing
Off-label use	No Prospective UR if exempt drugs and the use follows MTUS
45-day rule	Request for authorization to address treatment with non-exempt and unlisted drugs for injured workers (DOI <1/1/2018)

MTUS drug list (275 drug ingredients)

As of Jan 2018



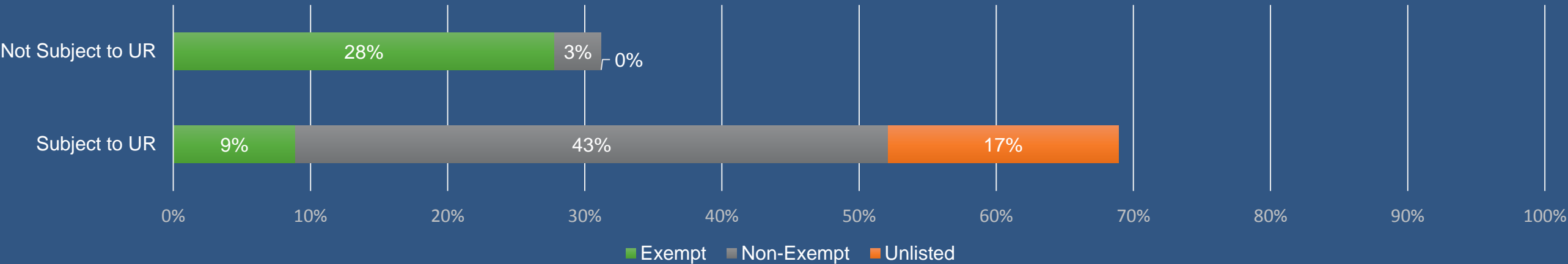
WCIRB's Analysis of Cost Impact of the Drug Formulary

- Impact on Frictional Costs (UR & IMR)
- Impact on Pharmaceutical Costs:
 - Pharmaceutical Costs Dropping Sharply (10.3% of Total Medical Paid in 2016, Medical Cost 43% of Loss and LAE)
 - Areas Likely Impacted:
 - ❖ Opioids
 - ❖ Compounded drugs
 - ❖ Physician-dispensed drugs
 - ❖ Brand name drugs
 - Quantify the Current Cost of these Components

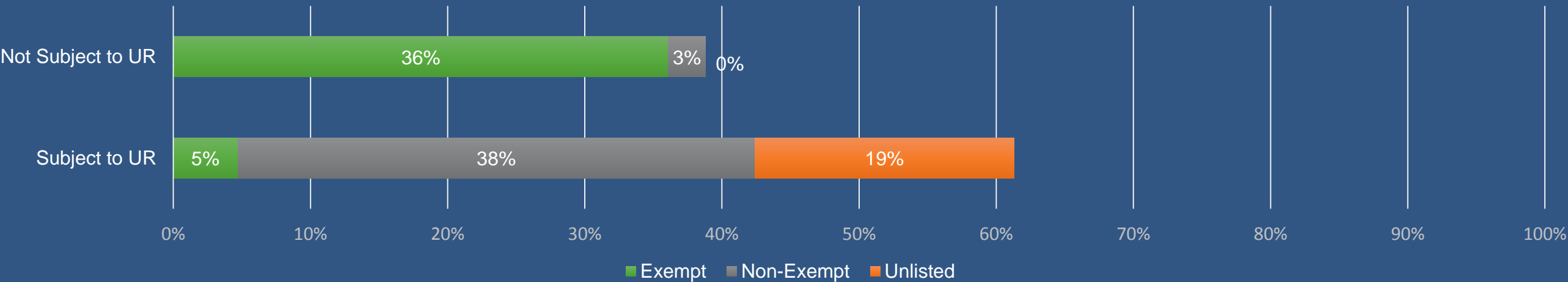
Share of Pharmaceutical Transactions by Category pursuant to the Drug Formulary

As of October 7, 2018

Service dates July 1, 2016 to June 30, 2017 as of Jan 7, 2018



Update - Service dates Jan 1, 2018 to June 30, 2018 as of Oct 7, 2018



Share of Pharmaceutical Transactions by Category and Service Date Relative to Date of Injury

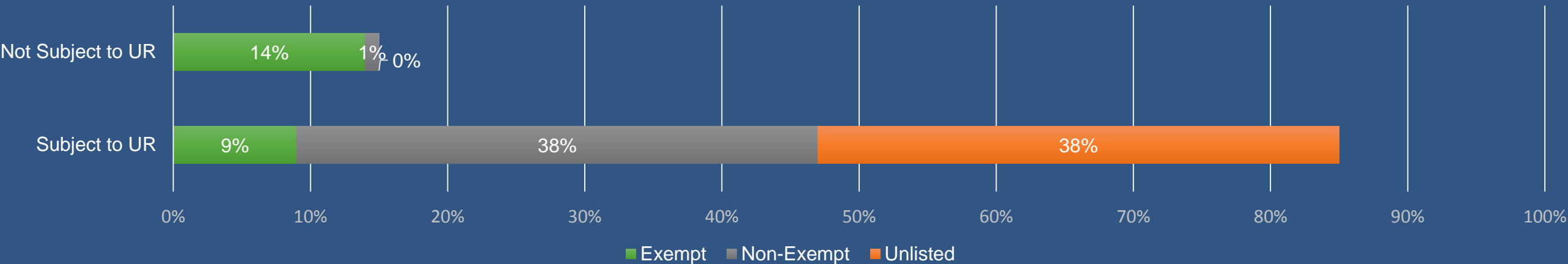
Service dates Jan 1, 2018 to June 30, 2018 as of Oct 7, 2018

Drug formulary group	Within 7 days of DOI		After 7 days of DOI		Total	
	Subject to UR	Not Subject to UR	Subject to UR	Not Subject to UR	Subject to UR	Not Subject to UR
Exempt	0.0%	10.9%	4.7%	25.2%	4.7%	36.1%
Non-Exempt	1.1%	1.7%	36.6%	1.0%	37.7%	2.7%
Unlisted	2.3%	0.0%	16.6%	0.0%	18.9%	0.0%
Total	3.4%	12.6%	57.8%	26.2%	61.2%	38.8%

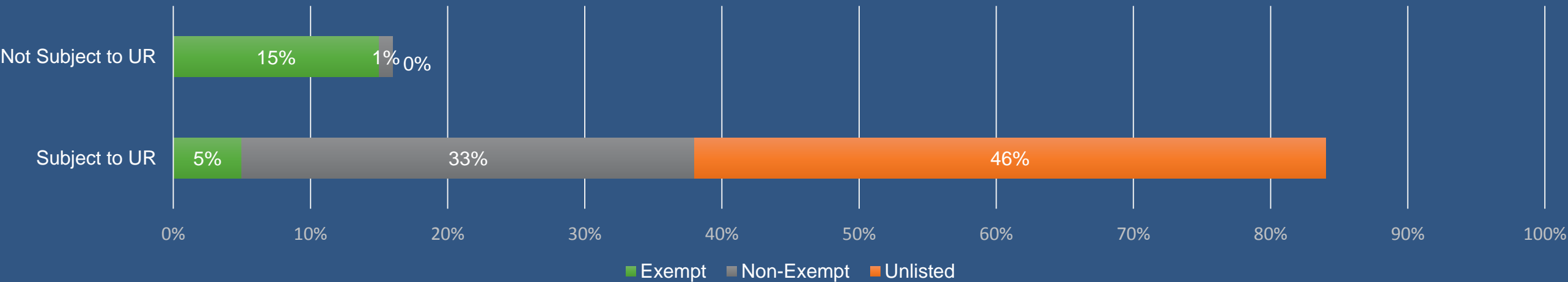
Share of Pharmaceutical Payments by Category pursuant to the Drug Formulary

As of October 7, 2018

Service dates July 1, 2016 to June 30, 2017 as of Jan 7, 2018



Update - Service dates Jan 1, 2018 to June 30, 2018 as of Oct 7, 2018



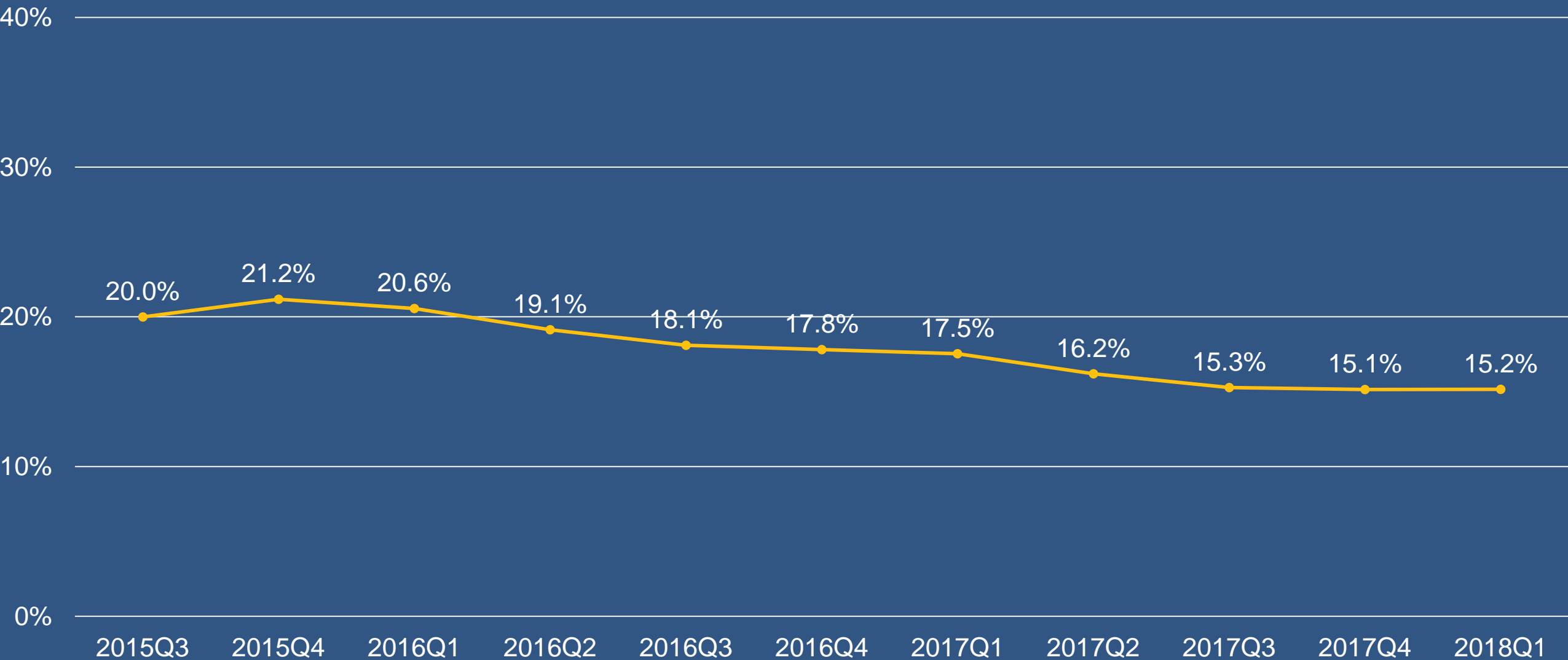
Share of Paid Pharmaceuticals by Category and Service Date Relative to Date of Injury

- Service dates **Jan 1, 2018 to June 30, 2018 as of Oct 7, 2018**

Drug formulary group	Within 7 days of DOI		After 7 days of DOI		Total	
	Subject to UR	Not Subject to UR	Subject to UR	Not Subject to UR	Subject to UR	Not Subject to UR
Exempt	0.0%	2.1%	4.5%	13.3%	4.5%	15.4%
Non-Exempt	0.2%	0.3%	33.2%	0.3%	33.4%	0.5%
Unlisted	1.5%	0.0%	44.5%	0.0%	46.1%	0.0%
Total	1.7%	2.4%	82.3%	13.6%	84.0%	16.0%

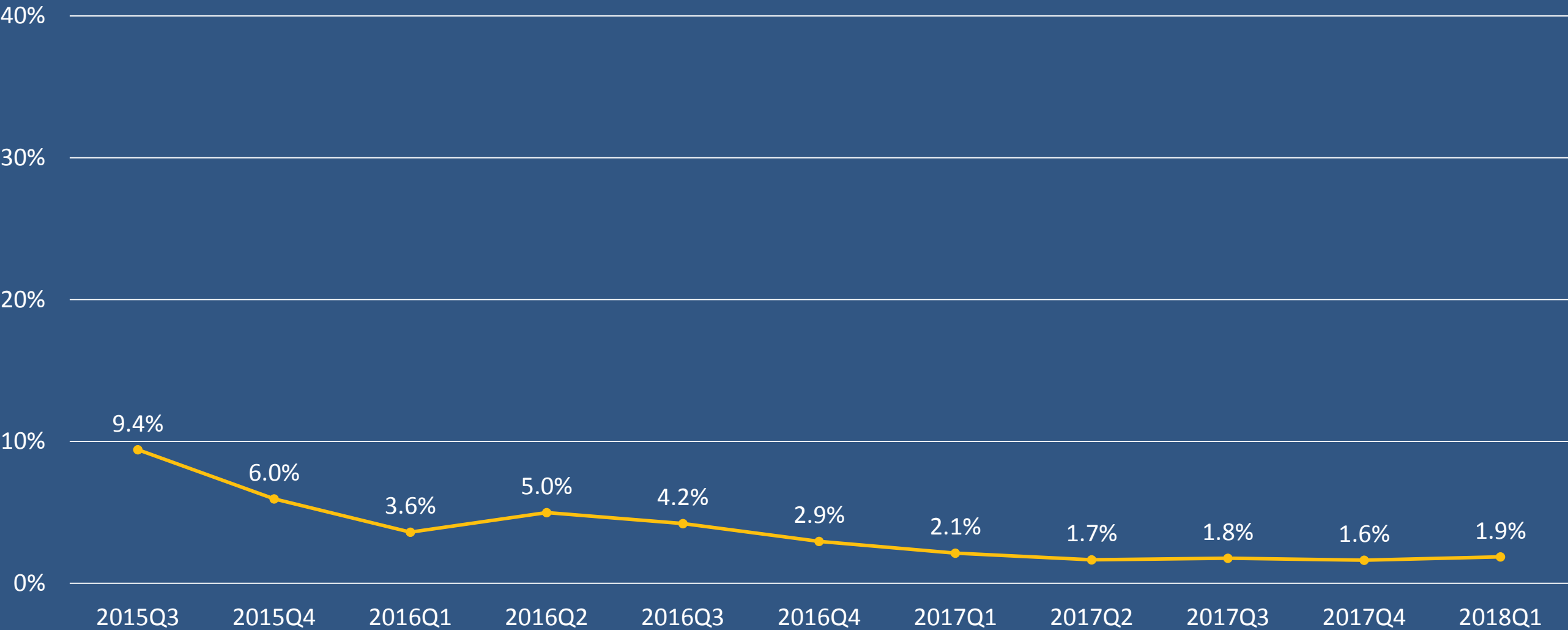
Share of All Drug Payments to Opioids

As of October 7, 2018



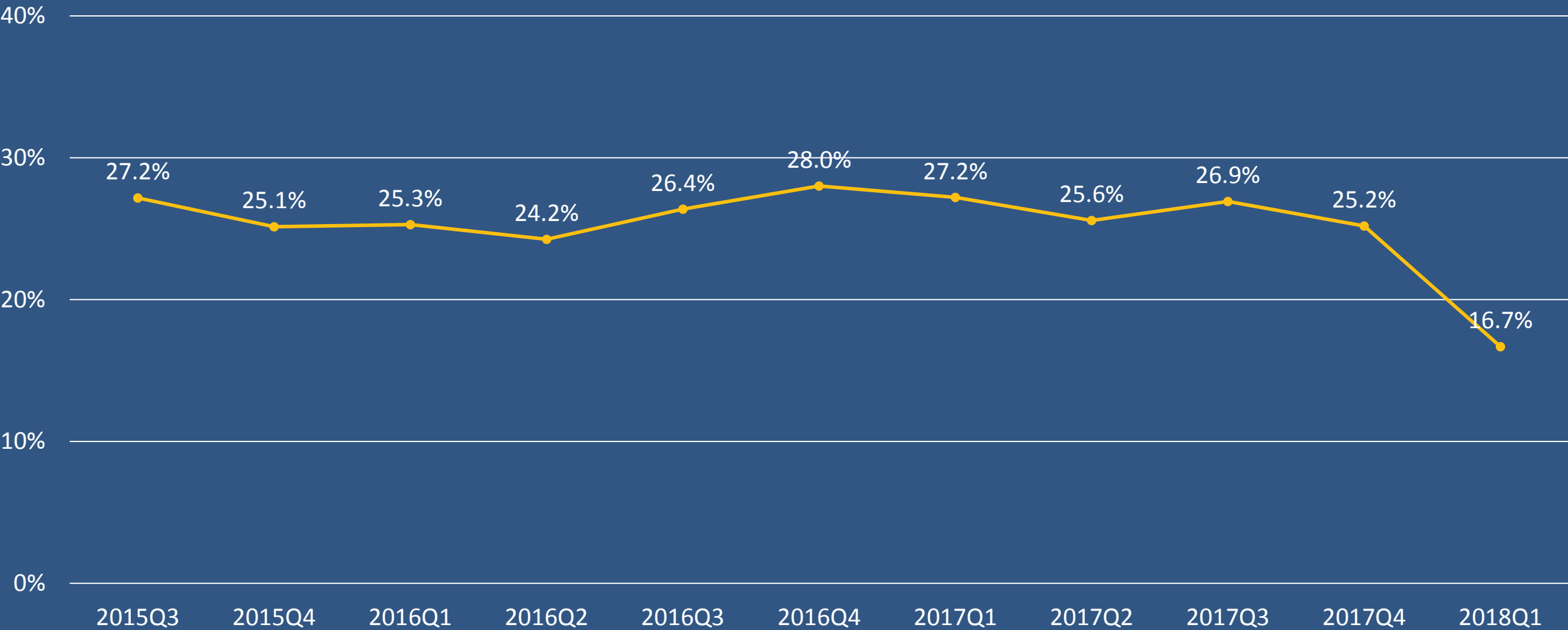
Share of All Drug Payments to Compounded Drugs (excluding opioids)

As of October 7, 2018



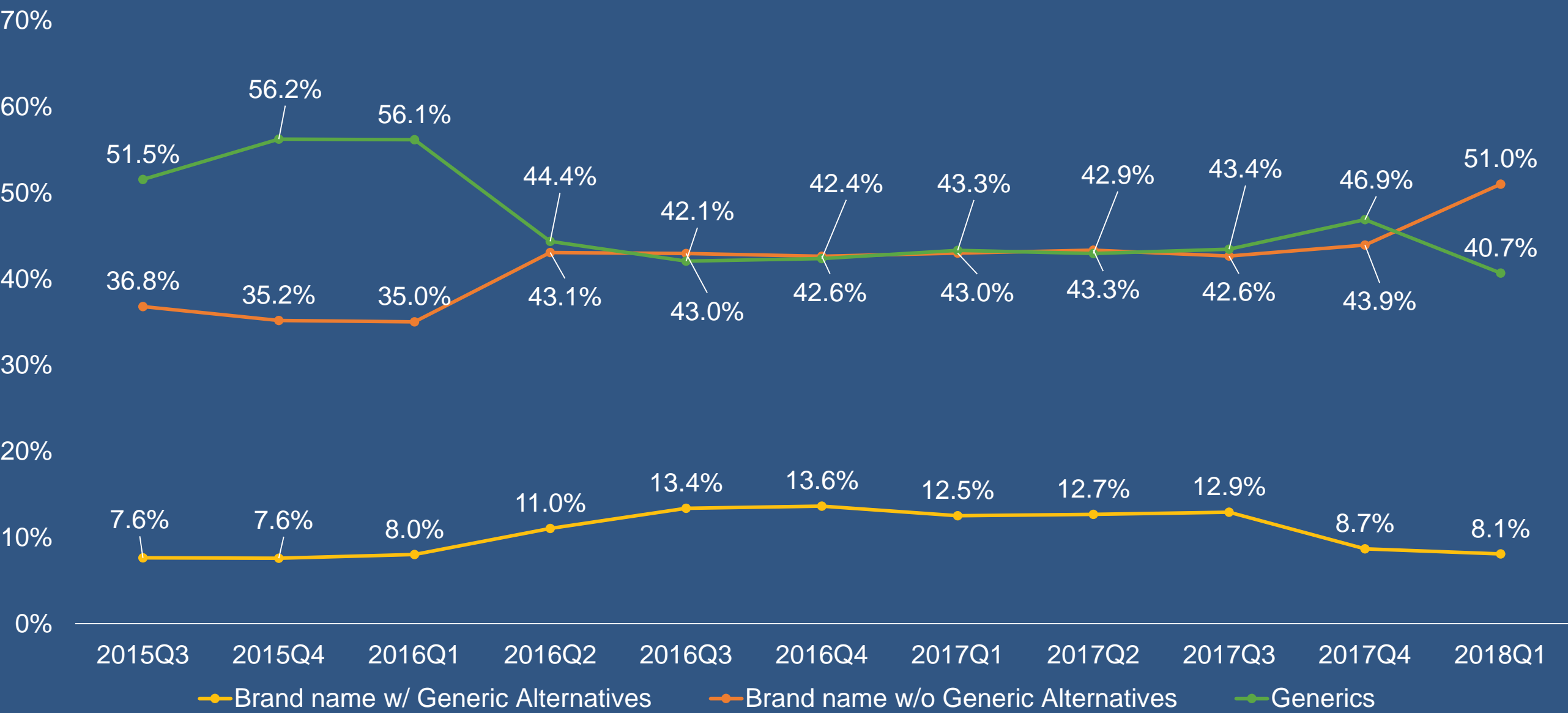
Share of All Drug Payments to Drugs Subject to UR Dispensed by Physicians (excluding opioids and compounded drugs)

As of October 7, 2018



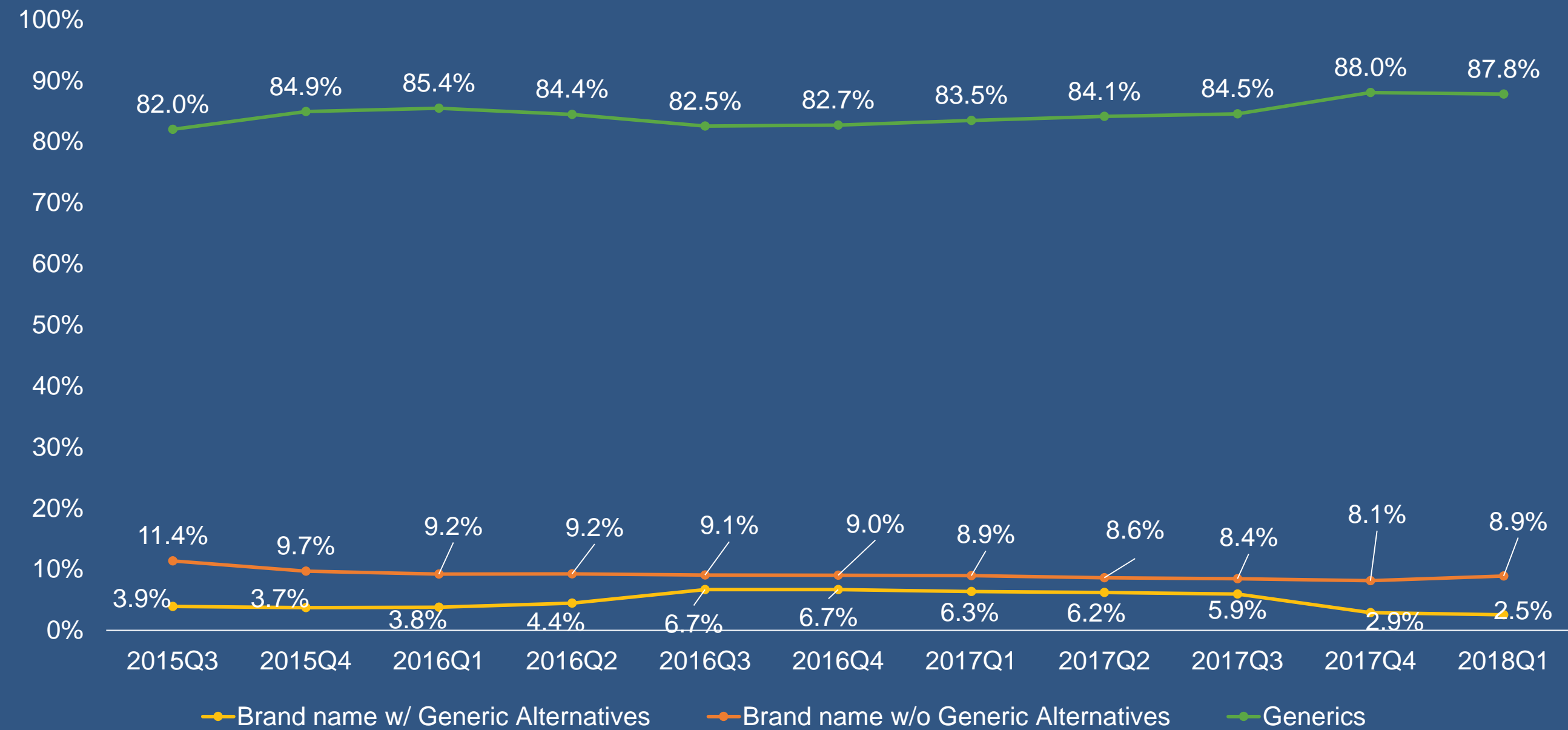
Share of All Drug Payments to Brand Name Drugs vs. Generics

As of October 7, 2018



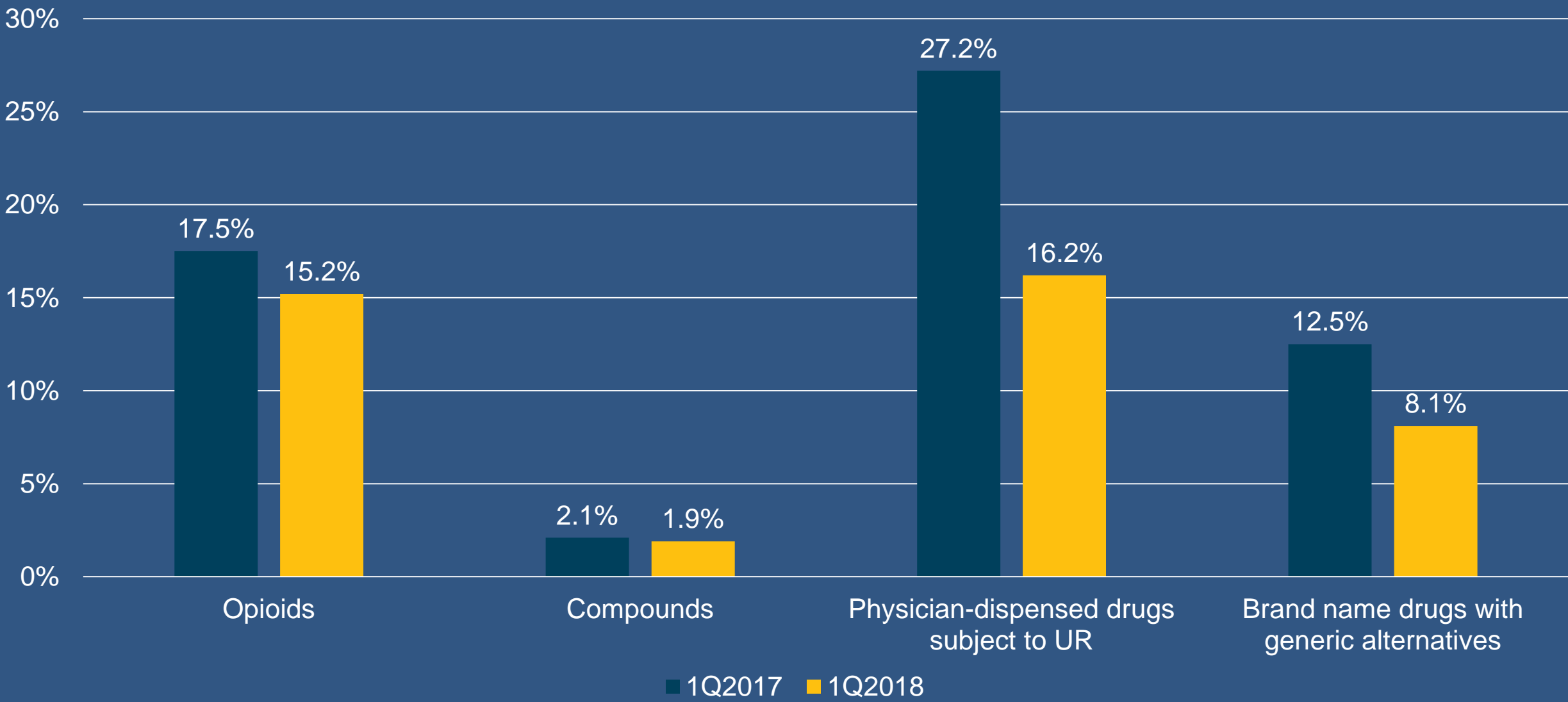
Share of All Drug Prescriptions to Brand Name Drugs vs. Generics

As of October 7, 2018



Summary of Share of Total Drug Payments by Prescribing Category (1Q 2018 vs. 1Q 2017)

As October 7, 2018



06

9/30/2018
Experience –
Review of
Methodologies

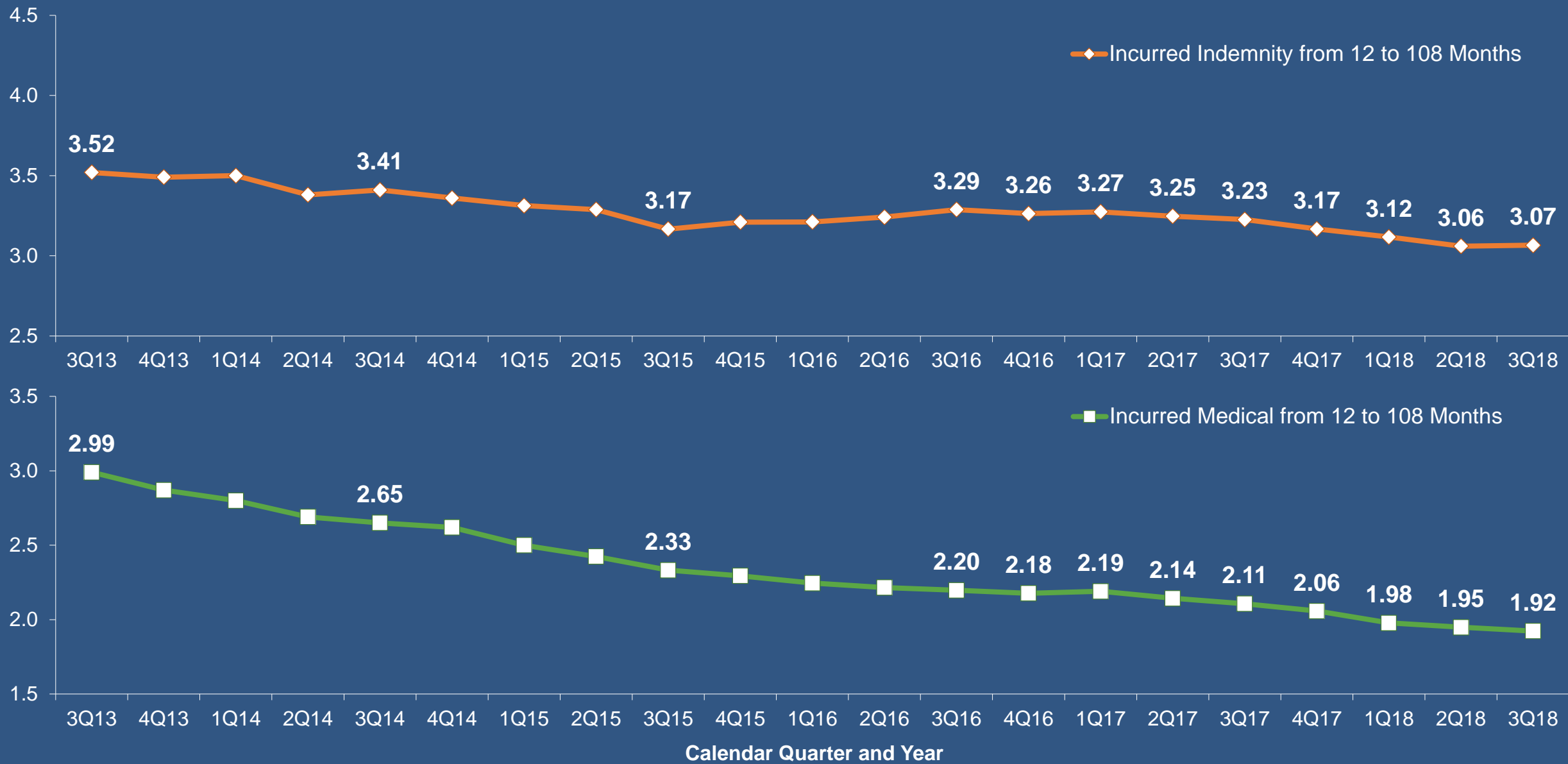


Summary of September 30, 2018 Experience

- Almost 100% of market reflected
- Same methodologies as in 1/1/2019 Filing
 - CDI decision on 1/1/2019 filing reflected 25% incurred medical development and lower indemnity and medical severity trends
- Projected policy year 2019 loss ratio: 0.568
- 2 point decrease from 1/1/2019 Filing projection (0.588)
 - -2.5 points from lower loss development
 - +0.5 points from updated wage level forecast
- 1 point decrease from projection based on 6/30/2018 experience (0.577)

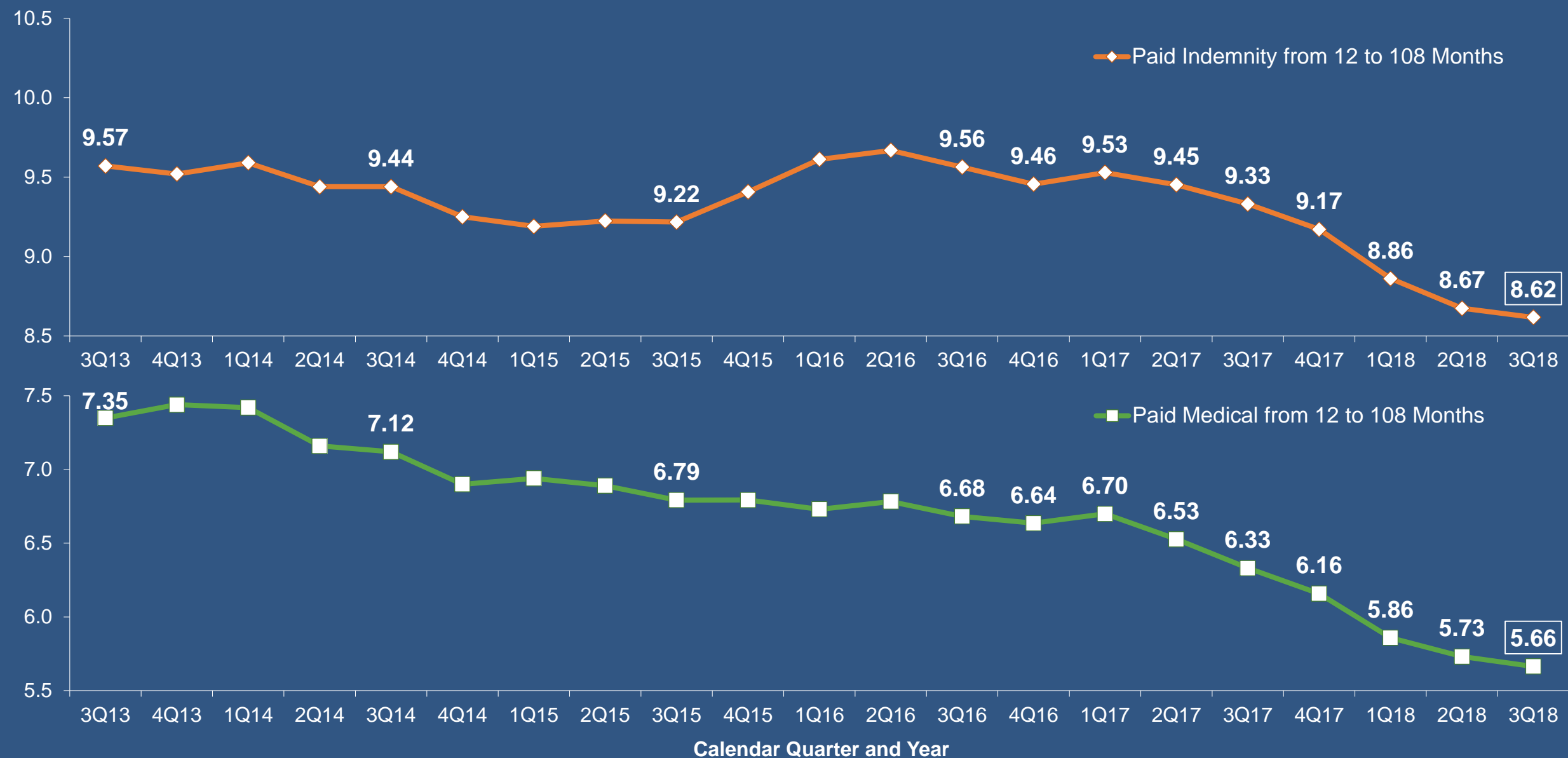
Cumulative Incurred Development from 12 to 108 Months

As of September 30, 2018



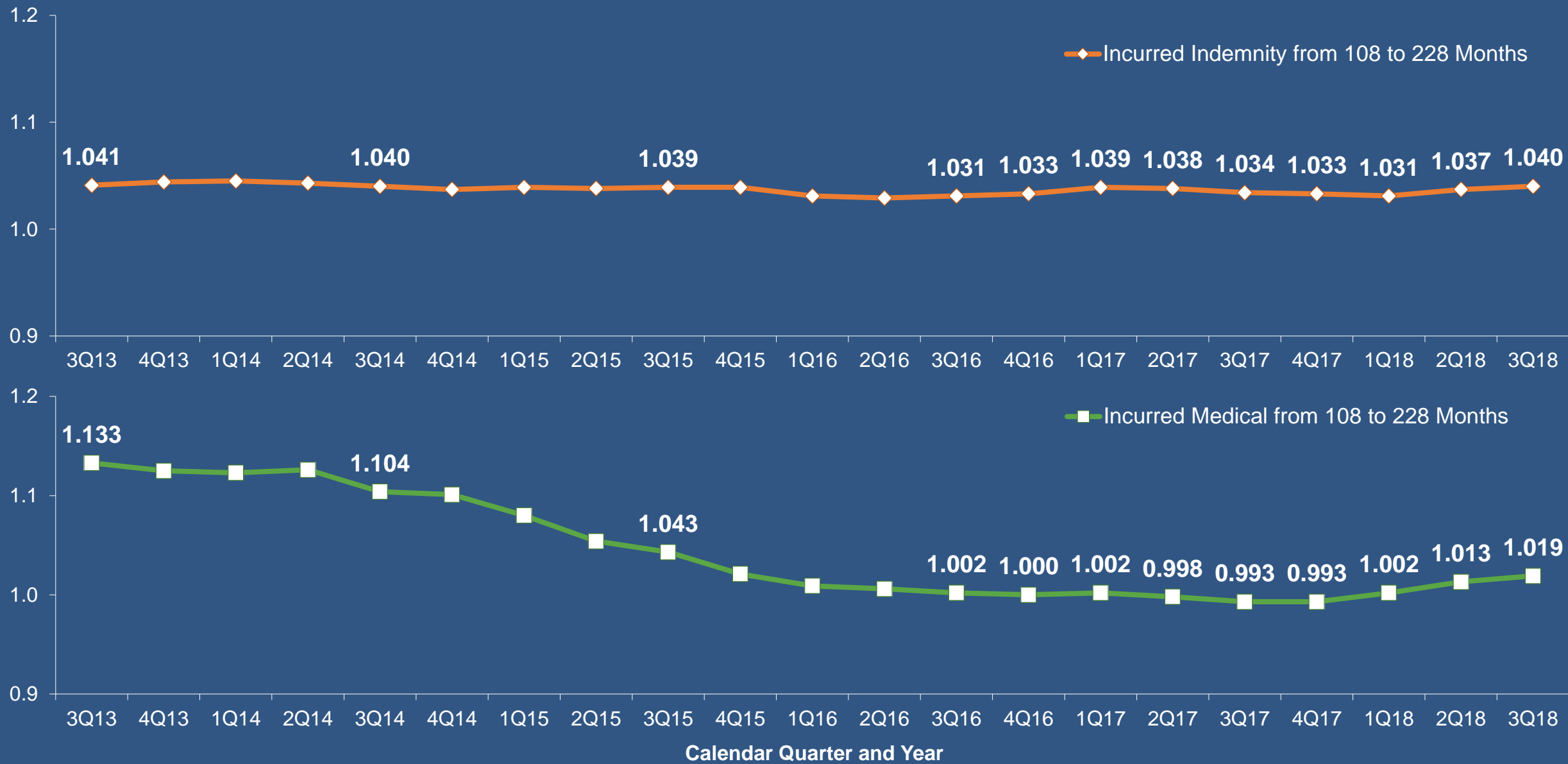
Cumulative Paid Development from 12 to 108 Months

As of September 30, 2018



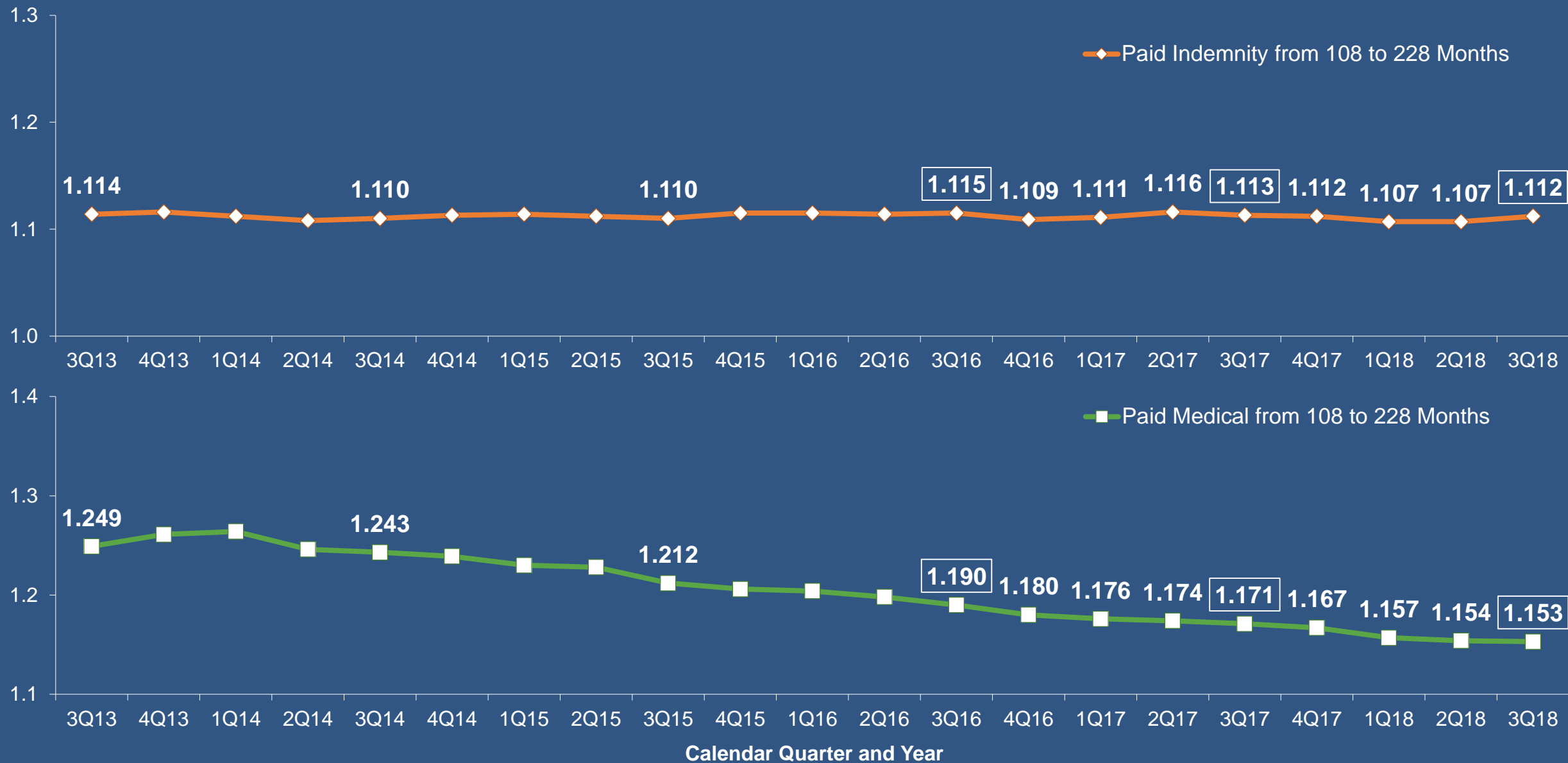
Cumulative Incurred Development from 108 to 228 Months

As of September 30, 2018



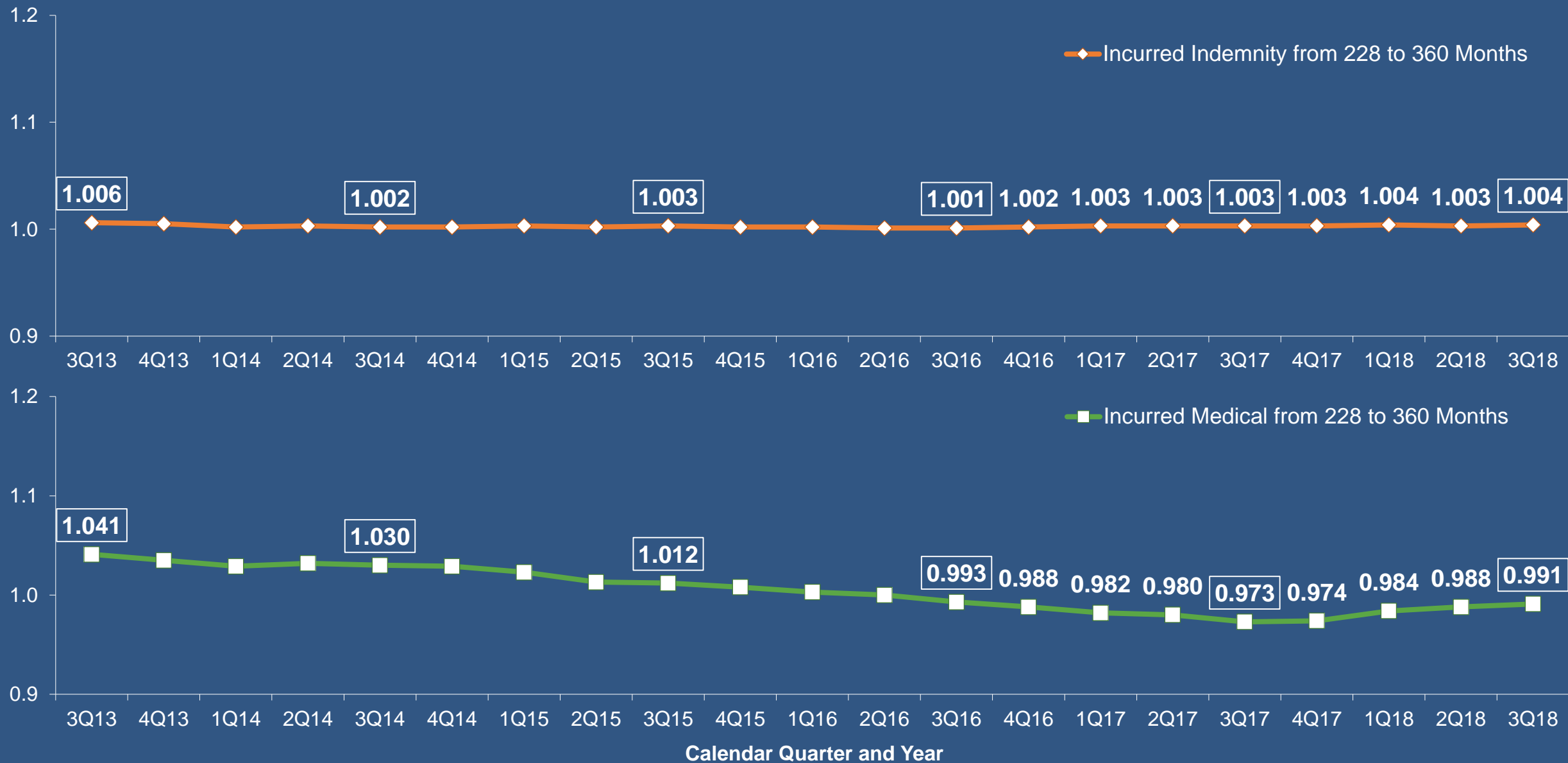
Cumulative Paid Development from 108 to 228 Months

As of September 30, 2018



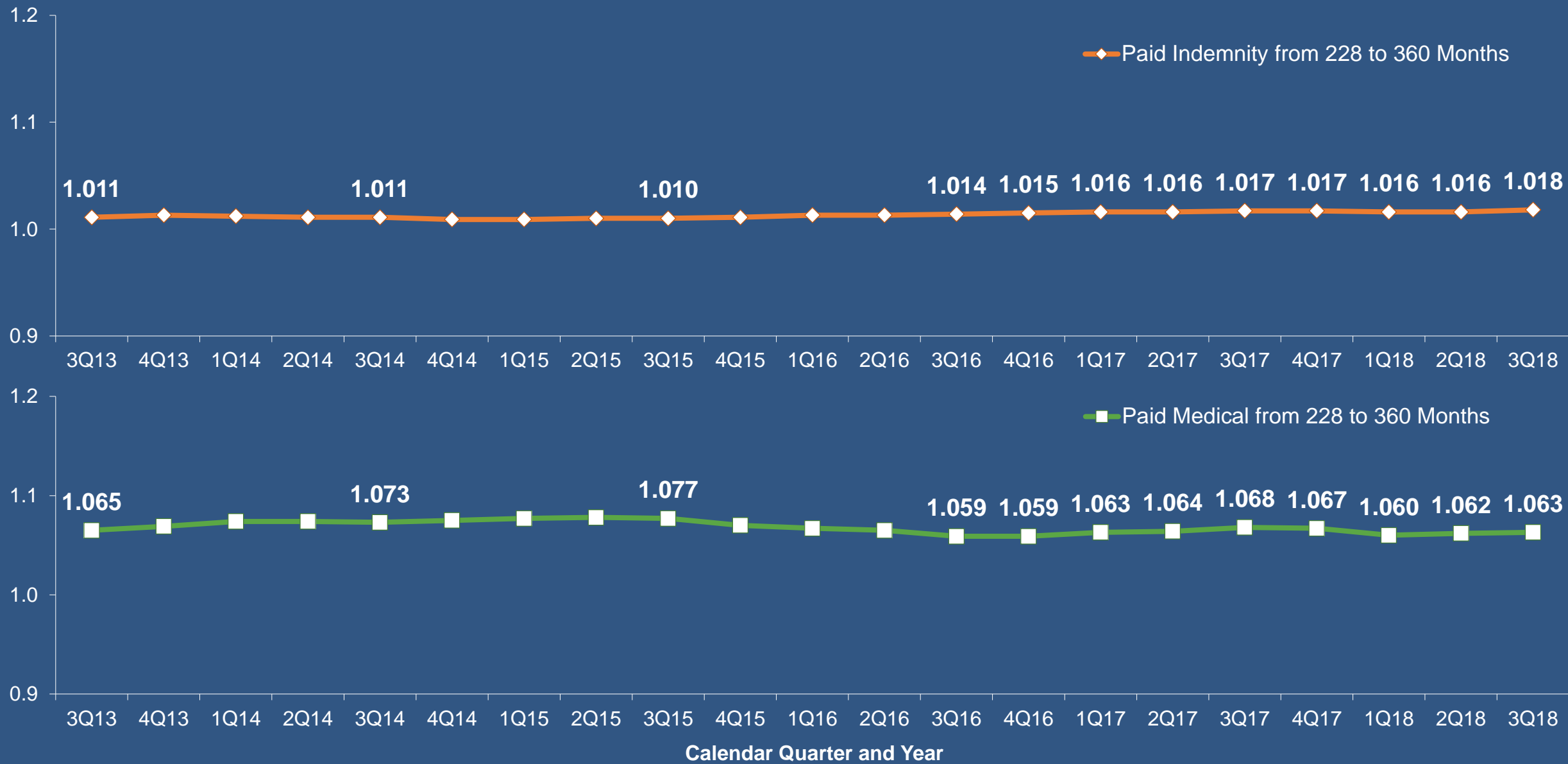
Cumulative Incurred Development from 228 to 360 Months

As of September 30, 2018



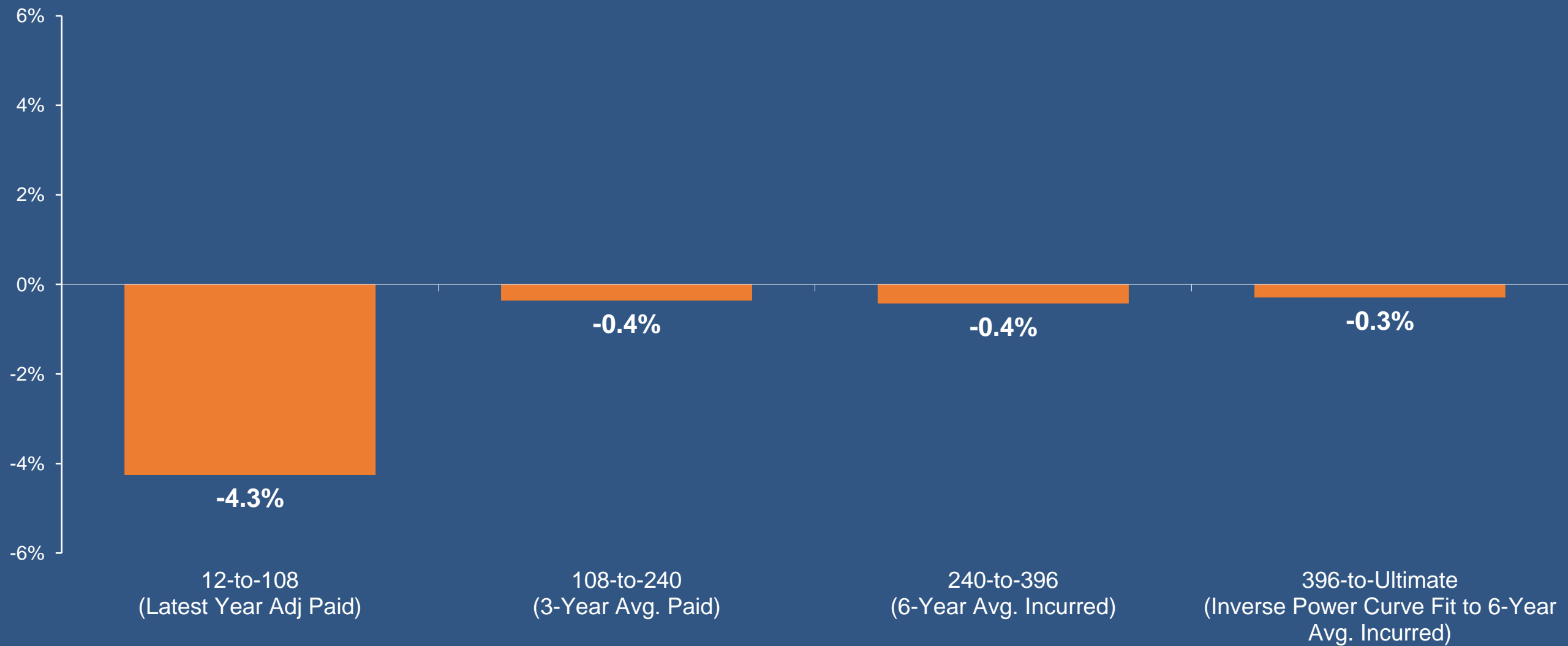
Cumulative Paid Development from 228 to 360 Months

As of September 30, 2018



Change in Projected Medical Development Factor

3/31/2018 to 9/30/2018 Experience



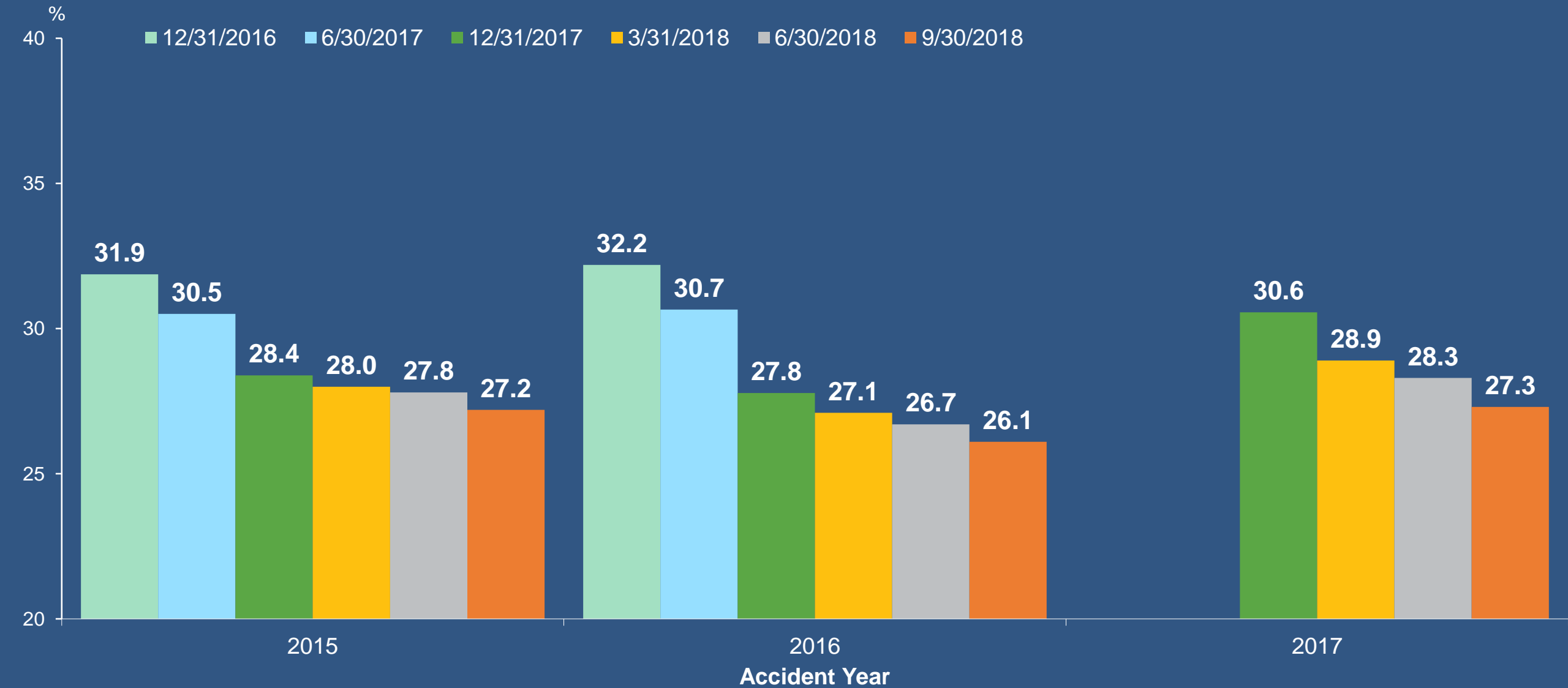
Projected Ultimate Indemnity Loss Ratios (Exhibit 3.1)

As of September 30, 2018



Projected Ultimate Medical Loss Ratios (Exhibit 3.2)

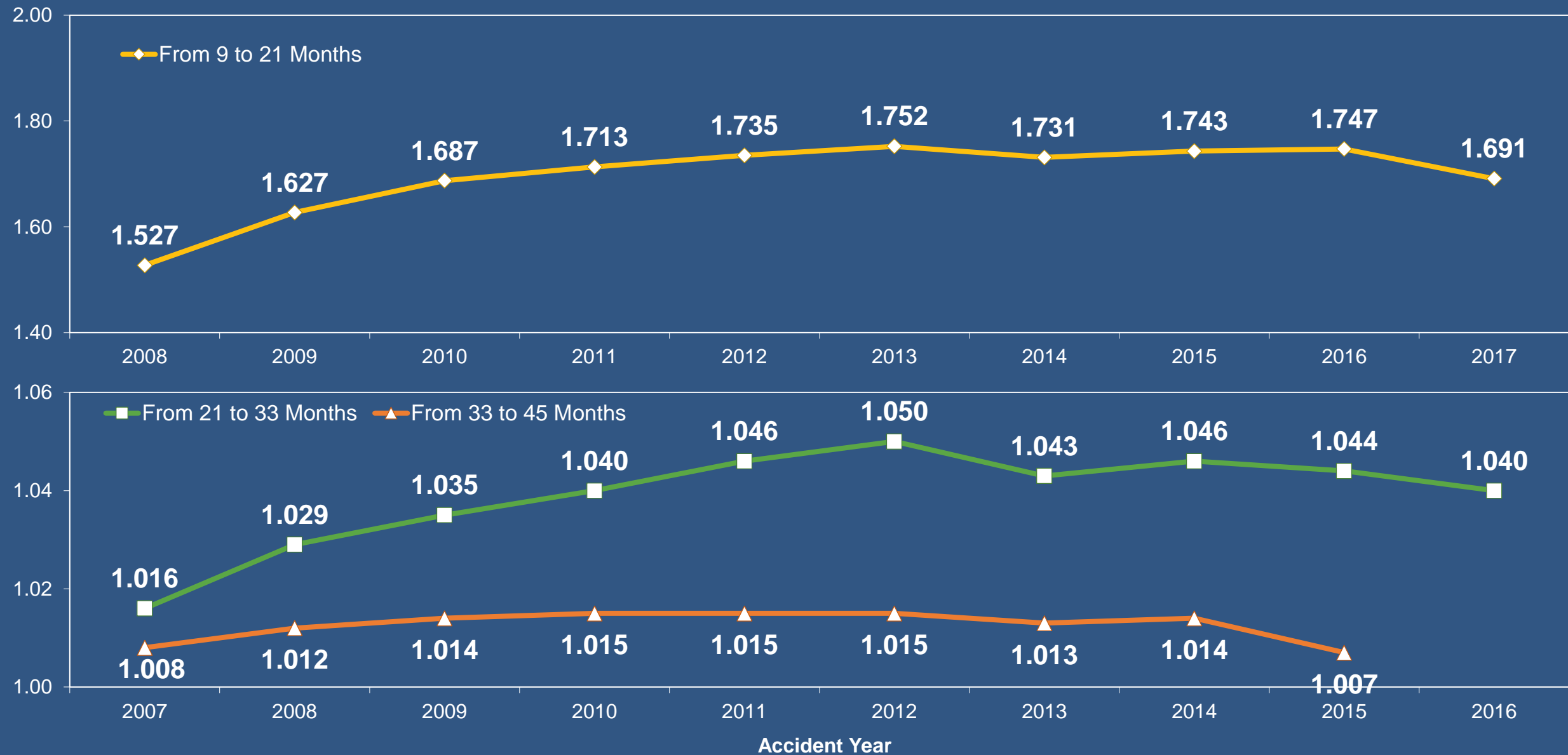
As of September 30, 2018



Note: All loss ratios are adjusted to the loss development methodology reflected in the 12/5/2018 Agenda and may not be comparable to the actual loss ratios projected at that time.
Source: WCIRB aggregate financial data

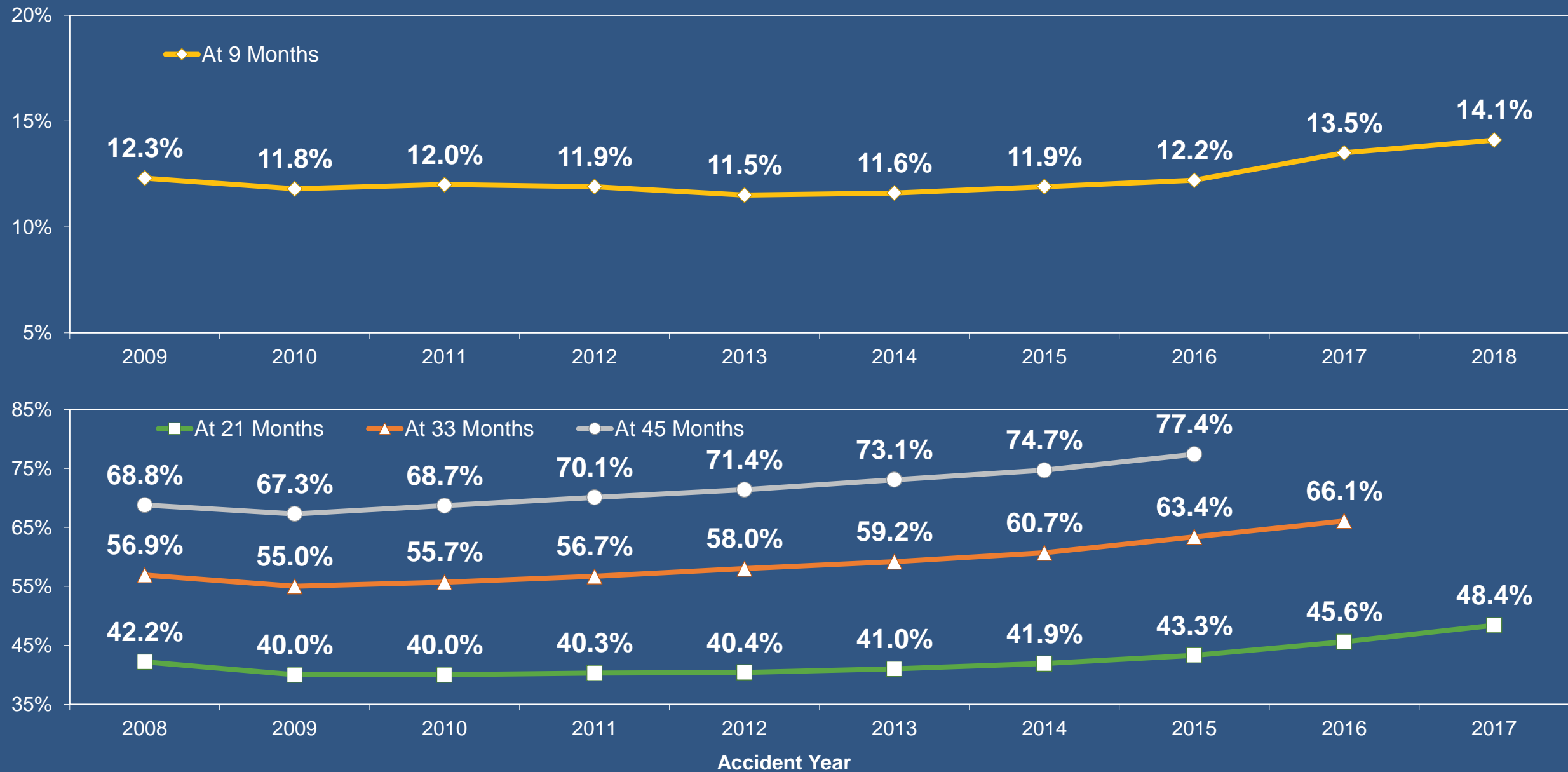
Indemnity Claim Count Development (Exhibit 10.1)

As of September 30, 2018



Ultimate Indemnity Claim Settlement Ratios (Exhibit 11.2)

As of September 30, 2018



Cumulative Wage Level Change Forecast (Exhibit 5.1)

2016 to 1/1/2020

As of September/April 2018

20%

15%

10%

5%

0%

13.0%

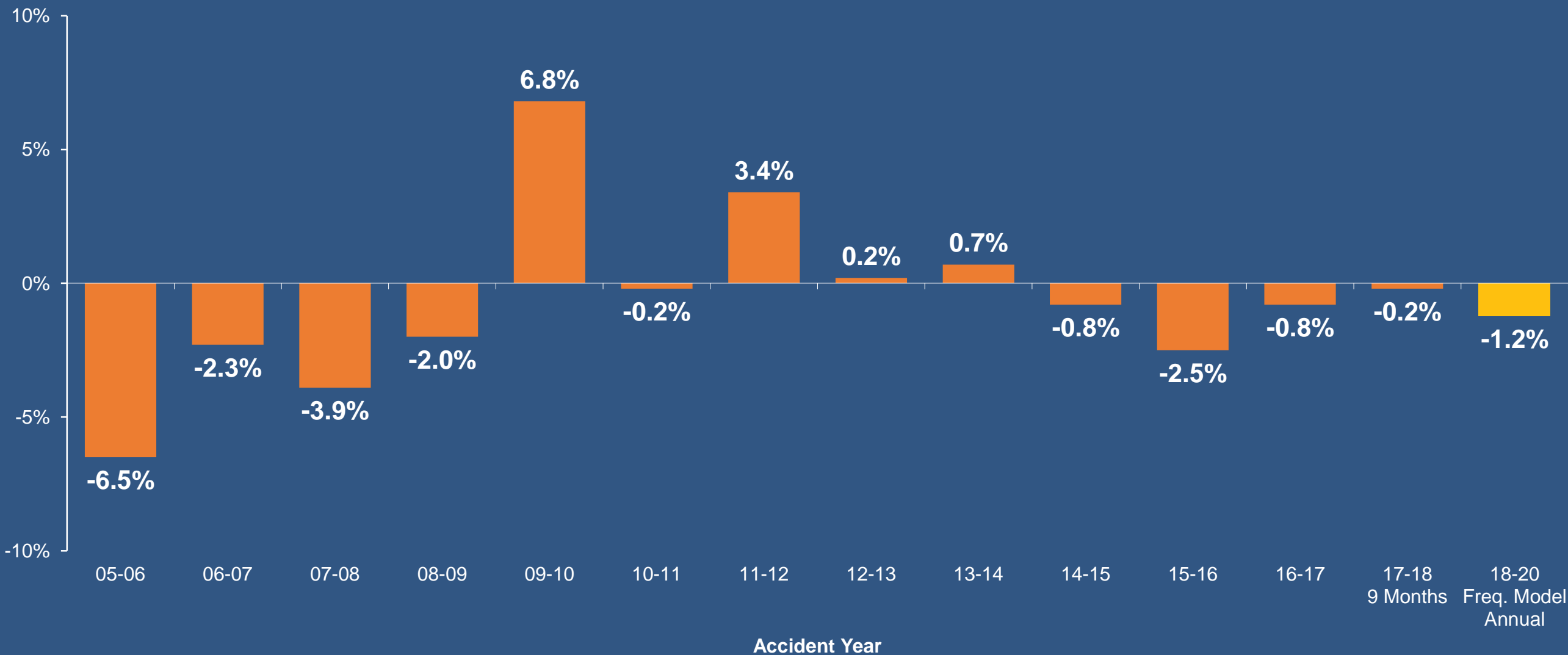
11.8%

June 2018 UCLA / April 2018 DoF (1/1/2019 Filing)

September 2018 UCLA / April 2018 DoF

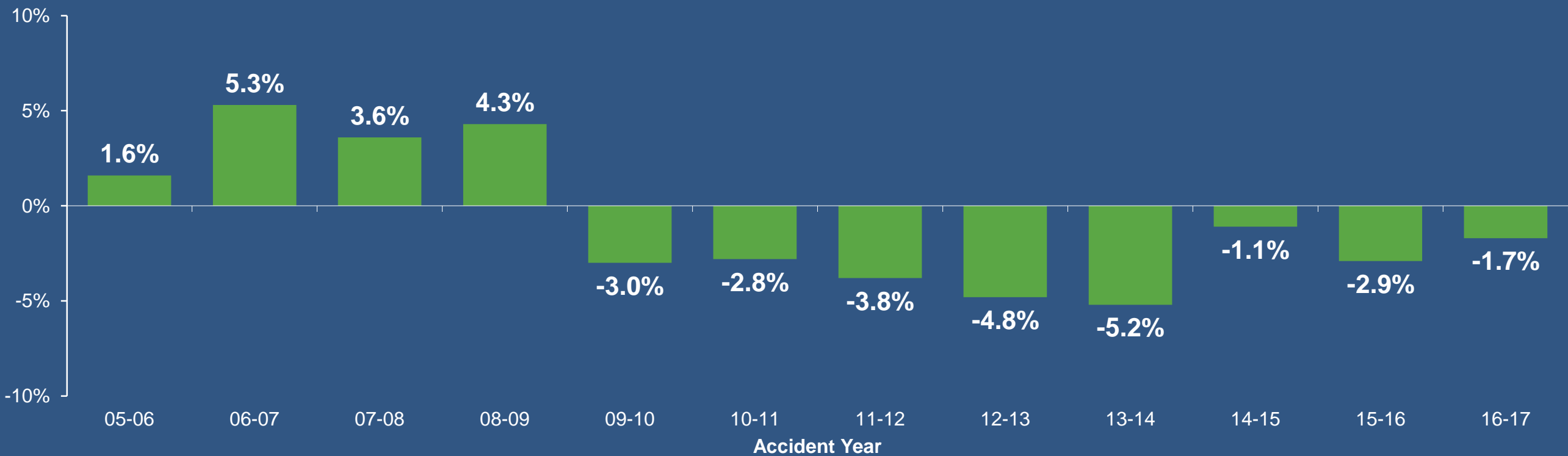
Projected Changes in Indemnity Claim Frequency (Exhibits 6.1 & 12)

As of September 30, 2018



Projected Changes in On-Level Indemnity Severity (Exhibit 6.2)

As of September 30, 2018



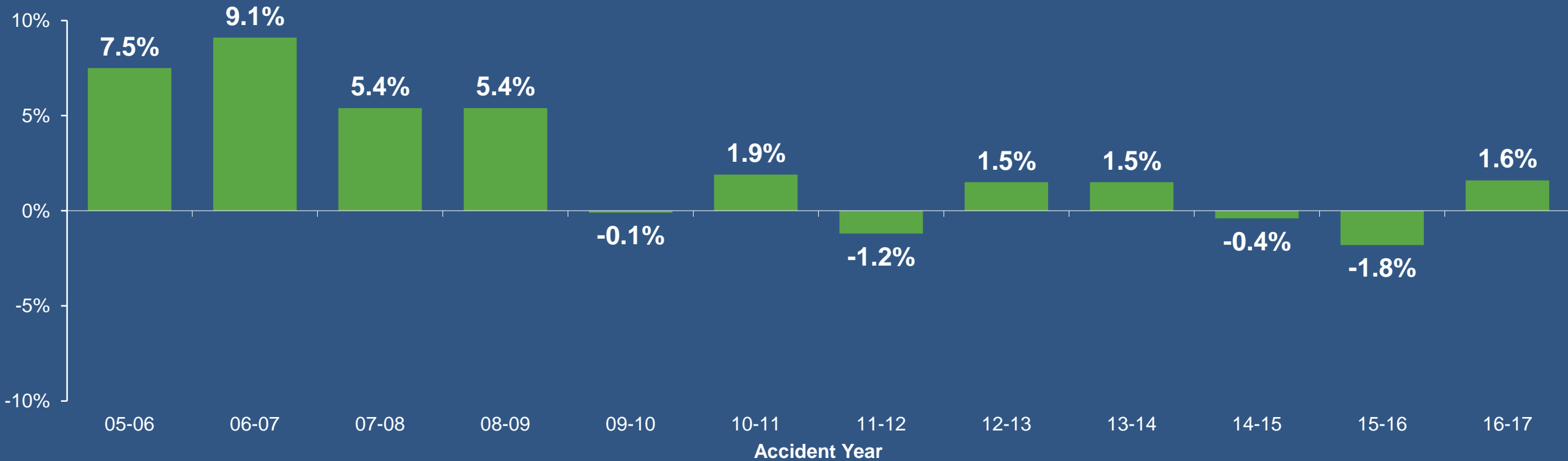
Annual Exponential Trend Based on:

- 1990 to 2017: +1.5%
- 2005 to 2017: -1.4%
- 2013 to 2017: -2.6%

Agenda Selected: **-0.5%**

Projected Changes in On-Level Medical Severity (Exhibit 6.4)

As of September 30, 2018



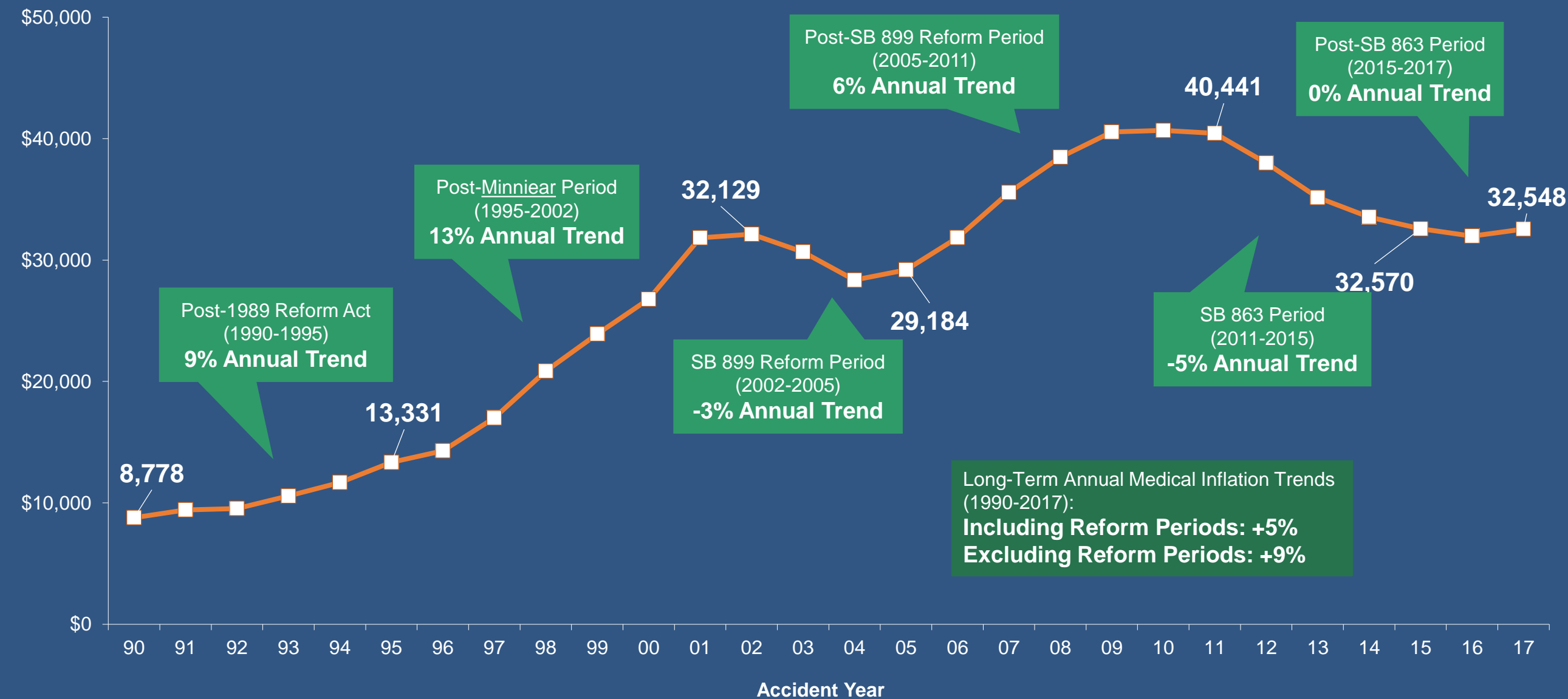
Annual Exponential Trend Based on:

- 1990 to 2017 (Incl. MCCP): +6.0%
- 2005 to 2017: +2.0%
- 2013 to 2017: 0.0%

Agenda Selected: 2.5%

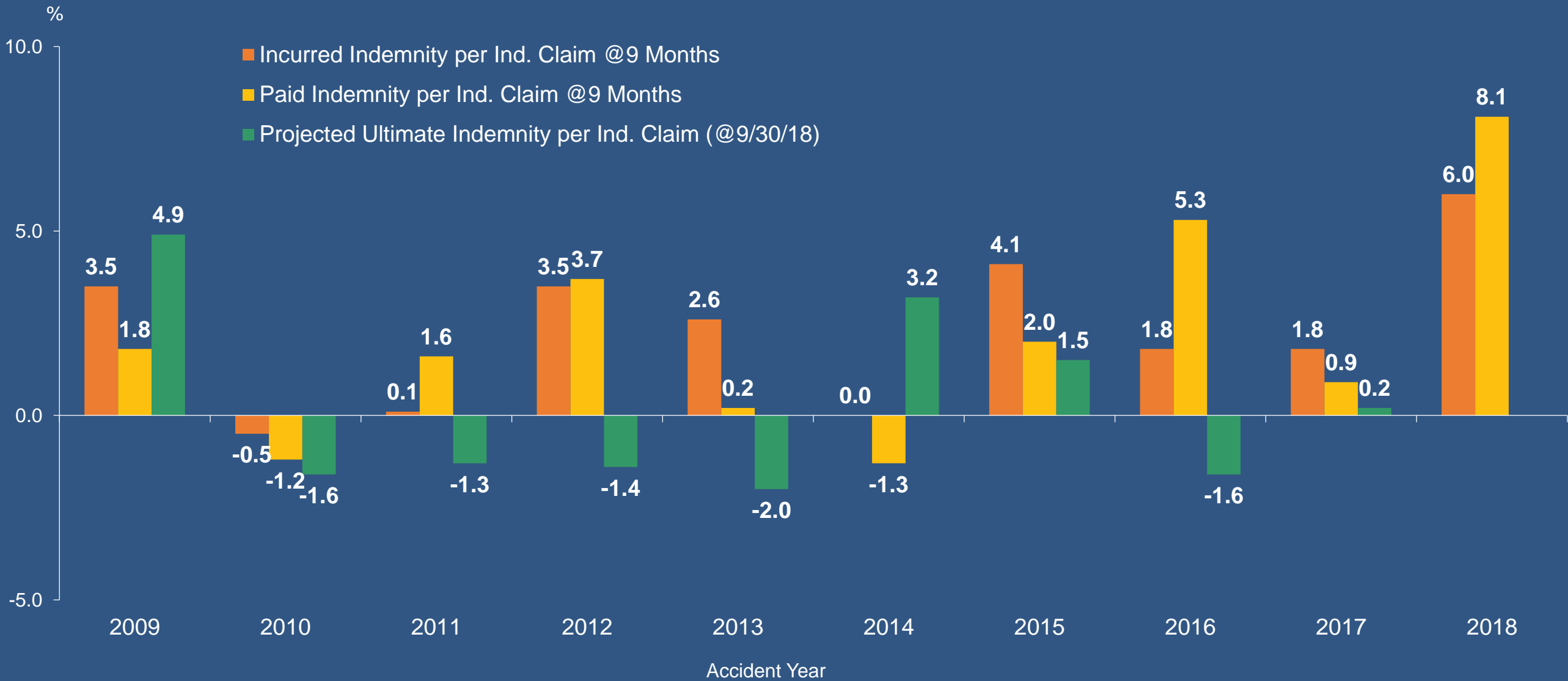
Ultimate Medical per Indemnity Claim (Exhibits 6.3 & 6.4)

As of September 30, 2018



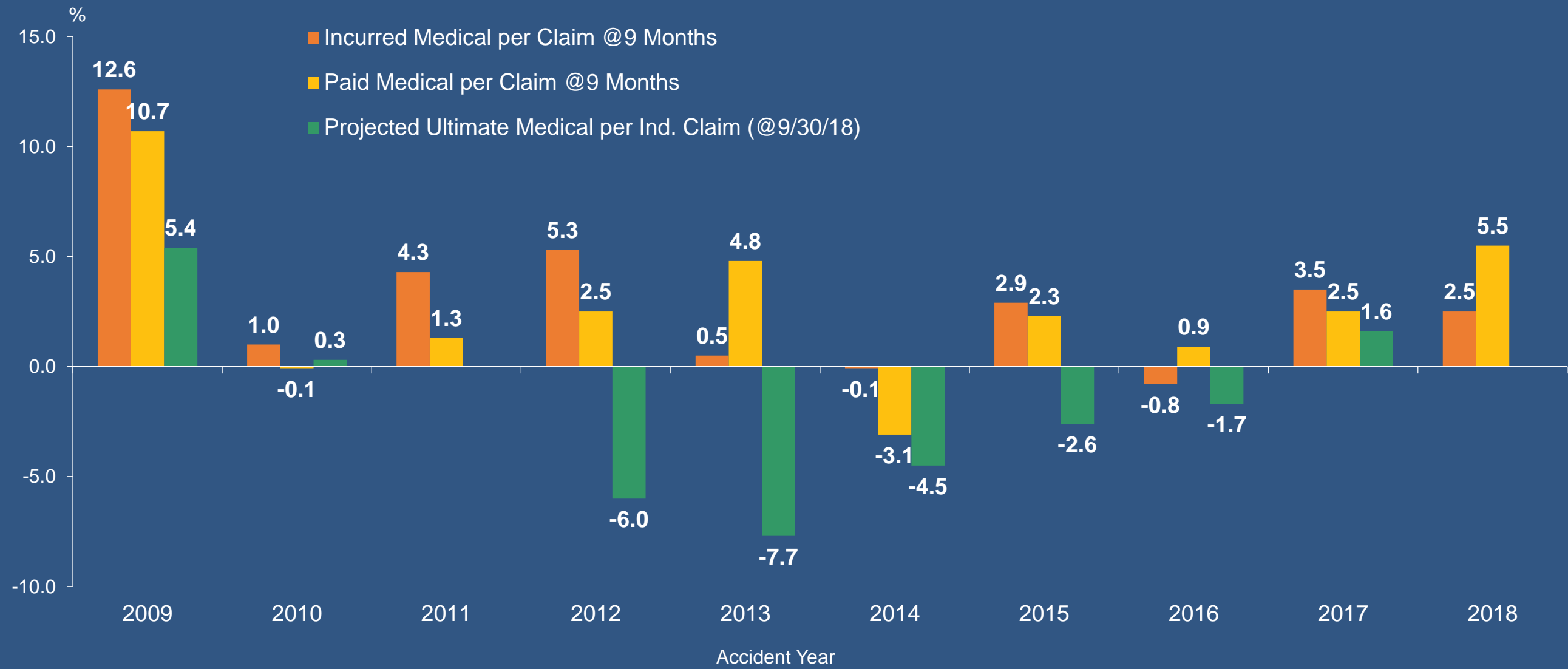
Indemnity Severity Changes at 9 Months Compared to Ultimate

As of September 30, 2018



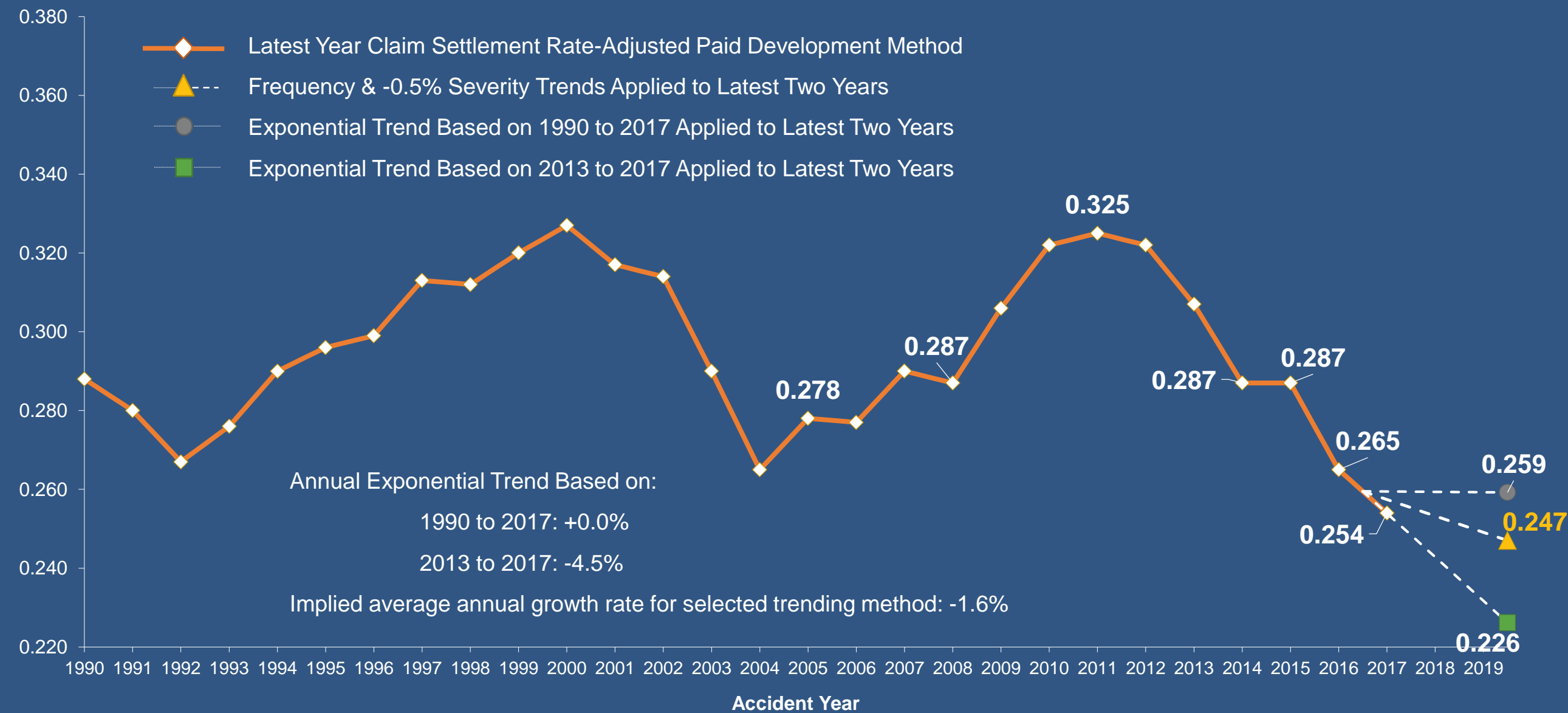
Medical Severity Changes at 9 Months Compared to Ultimate

As of September 30, 2018



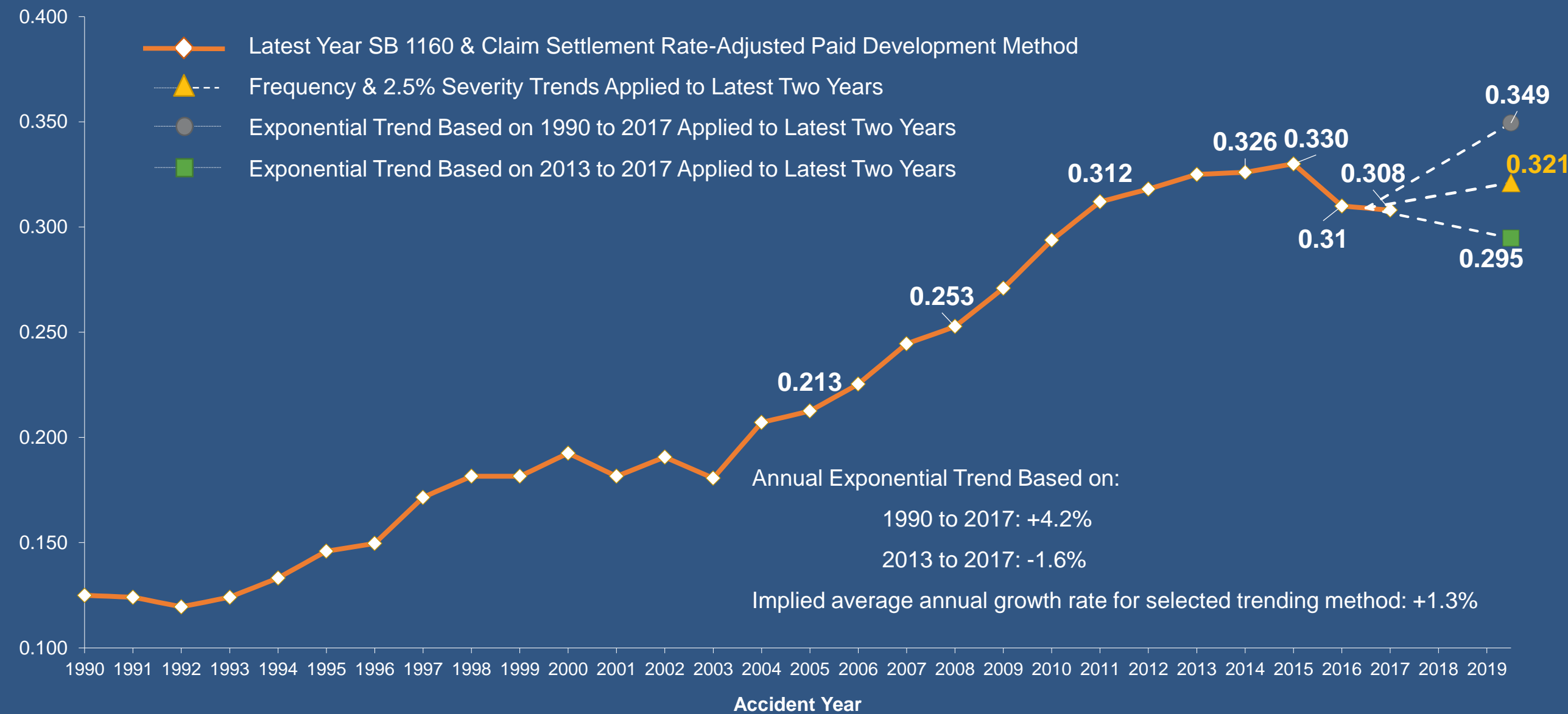
Projected On-Level Indemnity Loss Ratios (Exhibit 7.1)

As of September 30, 2018



Projected On-Level Medical Loss Ratios (Exhibit 7.3)

As of September 30, 2018



07

Review of Medical On-level Adjustments

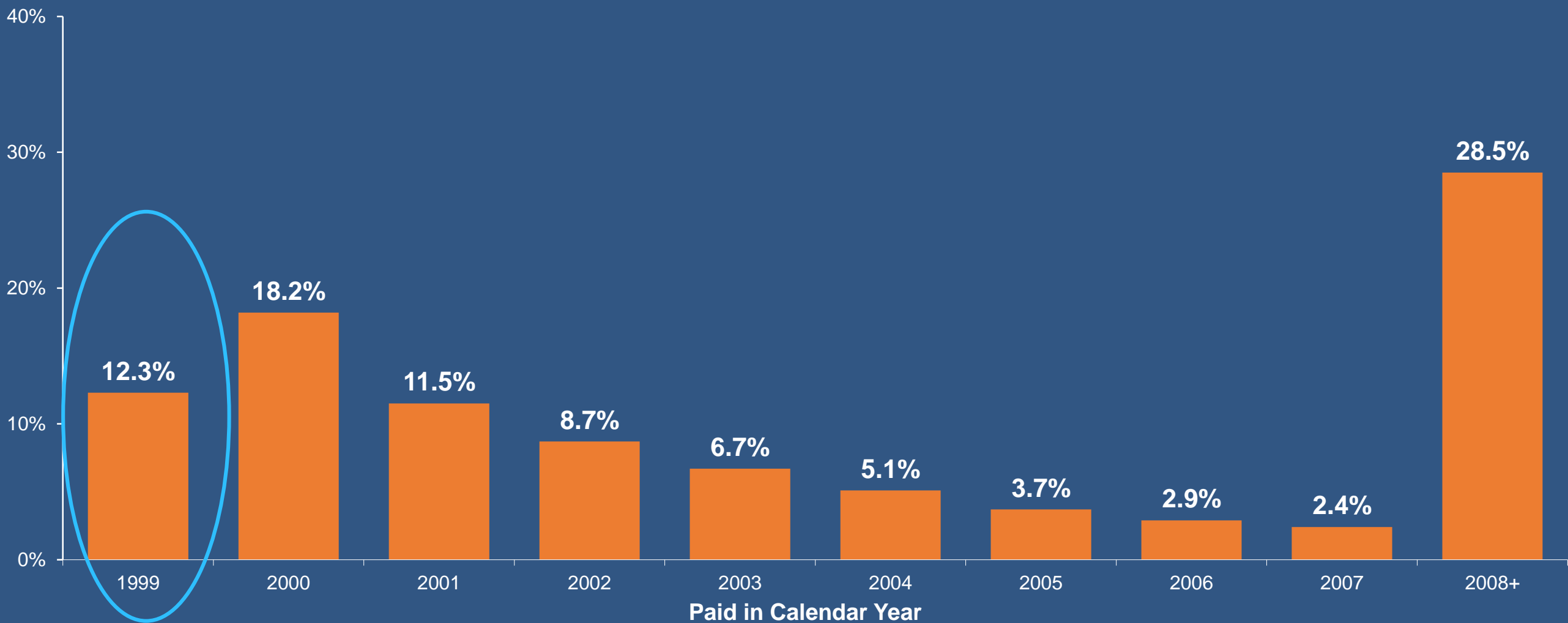
Current Medical On-level Approach

- Adjust medical for changes from legislative and regulatory changes
- Compiled on an accident year basis
- Key assumptions
 - Proportion of services for an accident year are constant and based on the most recent calendar year
 - Medical inflation is also constant for an accident year and based on the most recent calendar year
 - Payment pattern for each type of service is uniform
- Issues with current approach
 - Most medical reforms go into effect on a service year rather than accident year basis
 - Distribution of payments by type of service differs significantly by maturity
 - Current approach does not explicitly reflect annual inflation updates to fee schedules

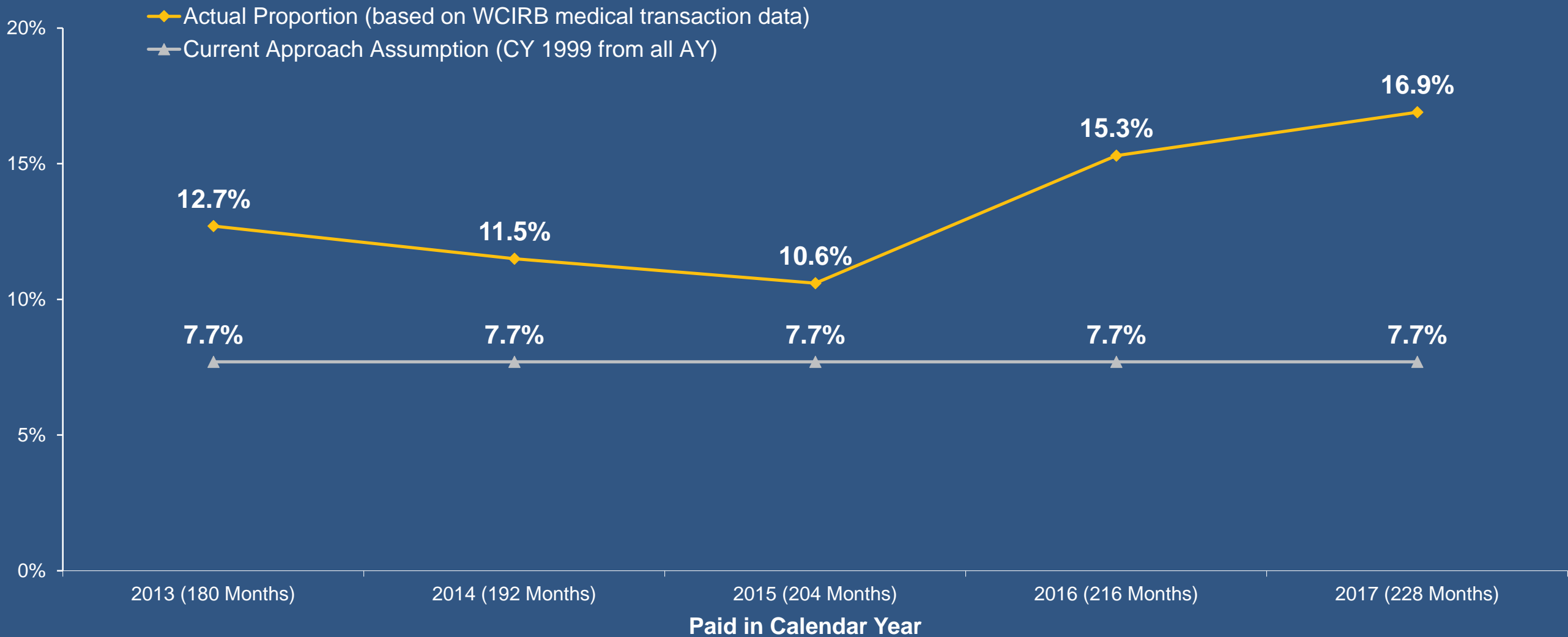
Basis of Refined Medical On-level Approach

- Estimate accident year medical payment pattern to reflect changes that go into effect by service year
- Distribute medical payments by type of service and maturity using WCIRB medical transaction data
- Estimate calendar year inflationary changes by type of service (fee schedule)

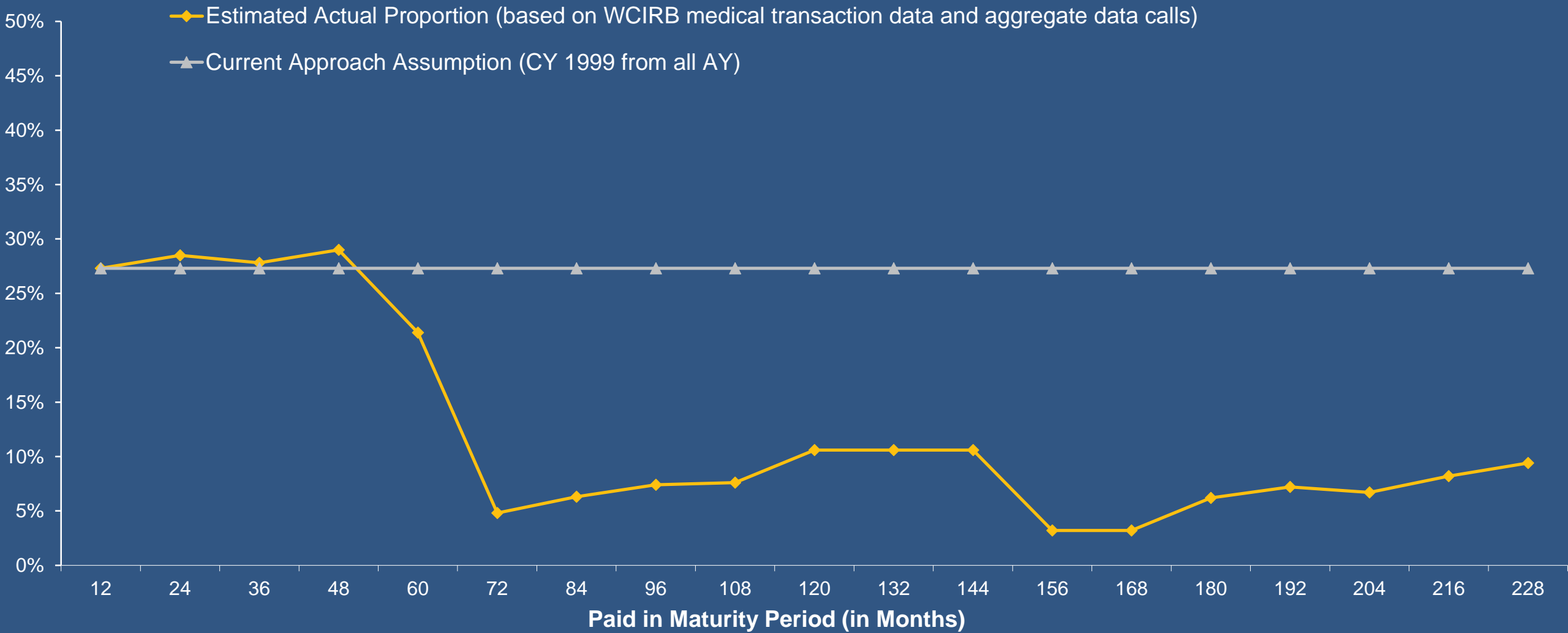
Incremental Medical Payment Pattern for AY 1999 (Exhibit 1.2)



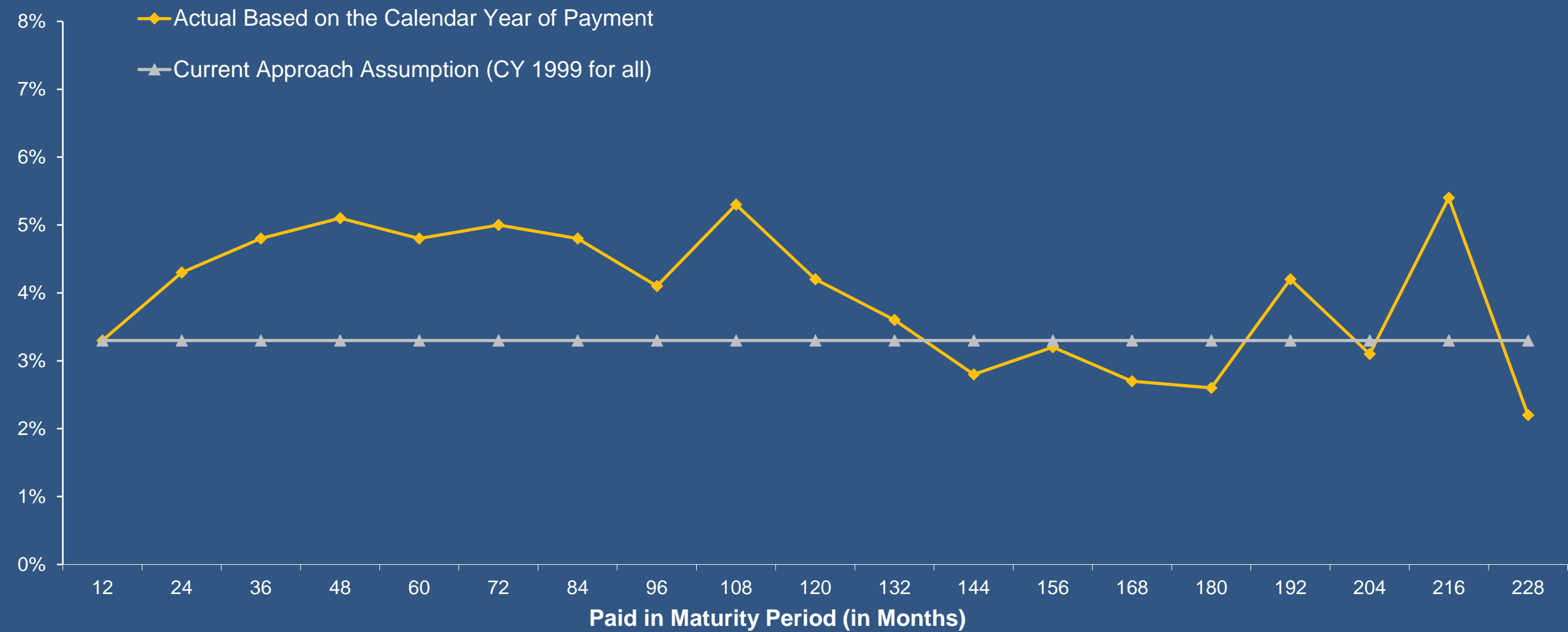
Proportion of Total Medical Paid for Inpatient Services for AY 1999 (Exhibit 2.3)



Proportion of Total Medical Paid Not Subject to Fee Schedules for AY 1999 (Exhibit 2.8)



Medical CPI Changes (Applied to Medical Services Not Subject to Fee Schedule) for AY 1999 (Exhibit 3.3)

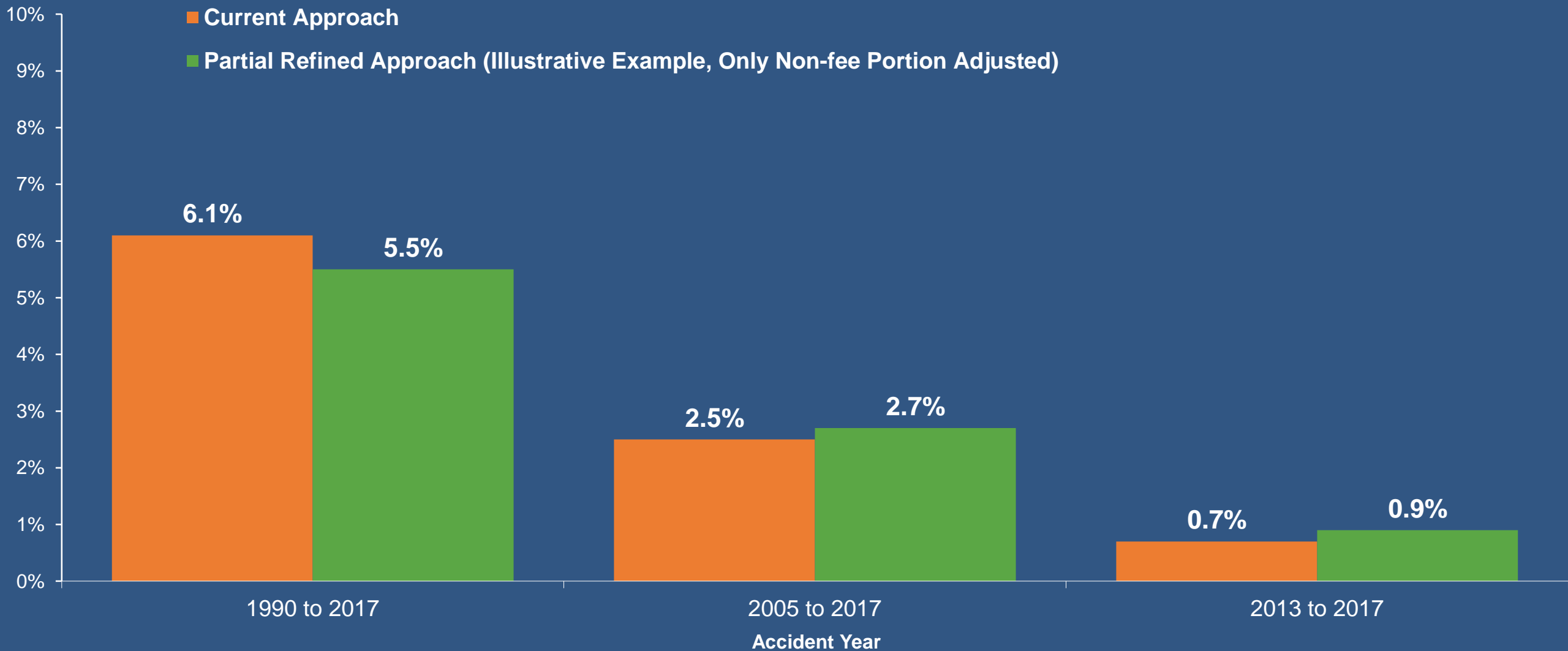


Mechanics of Refined Medical On-level Approach

- Each type “cell” is on-leveled for changes up to the most recent payment year (2017), refined by:
 - Accident year
 - Calendar/Payment year
 - Type of medical service
 - Example: AY 1999 payments made in 2000 (24 months) is adjusted for CY changes in 2001, 2002, etc., up to 2017
- Adjustment for projection period (to PY 2019 level) still based on current approach
 - Factors use current assumption where CY=AY
 - Future enhancement to refine projection period adjustment using the model
- Medical on-level factor for the AY is sum-product of:
 - On-level factor by type of service (above)
 - Service’s proportion of total medical paid in that AY/PY
 - Medical payment pattern for the AY
- Example for 1999 at 12 months with only 2 service types (fee schedule and non-fee schedule):
 - $(1.052 \times 72.7\% + 1.892 \times 27.3\%) \times 12.3\% = 0.161$
 - AY 1999 total on-level factor is sum over all periods (12 months, 24, months, etc.)

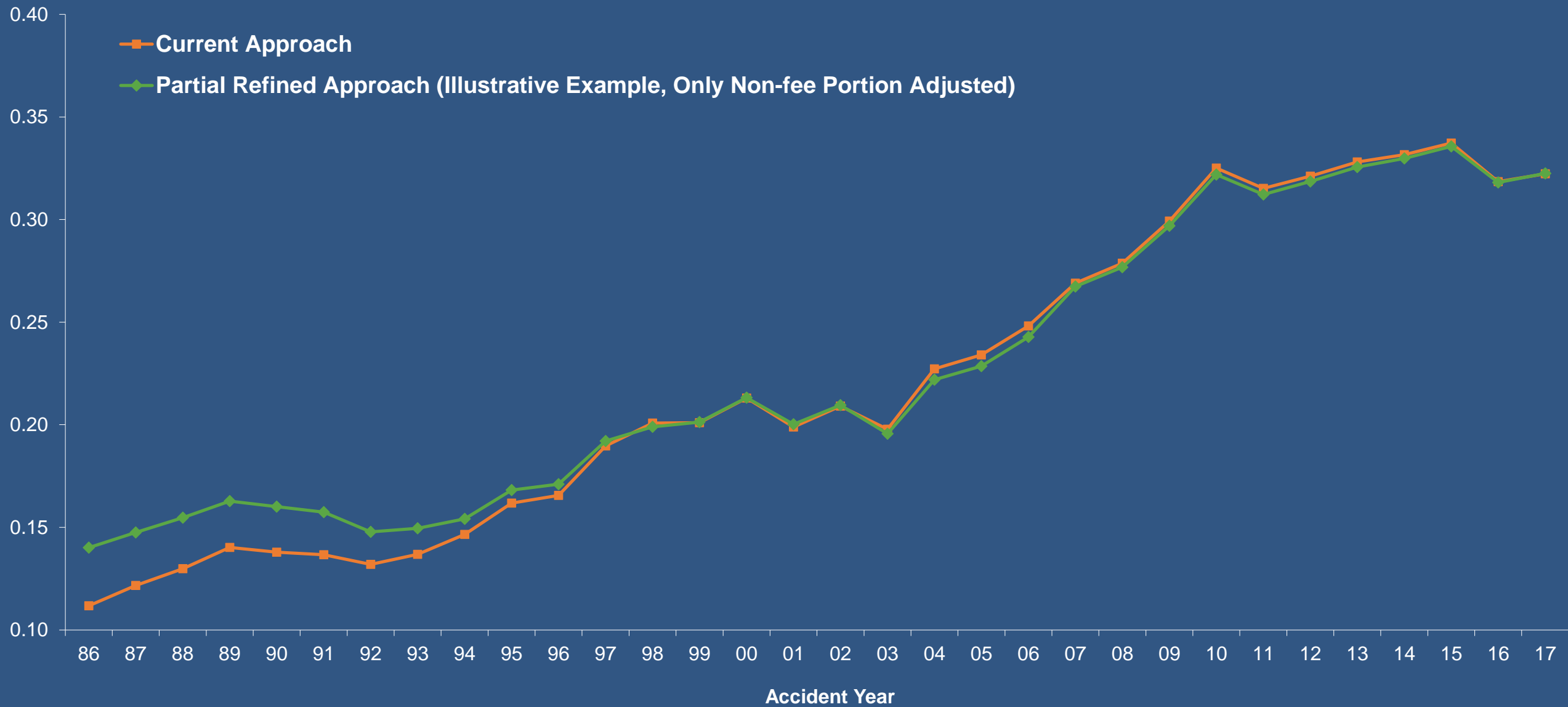
Average Annual Changes in On-Level Medical Severity (Exhibit 6)

As of March 31, 2018



Projected On-level Medical Loss Ratios (Exhibit 7)

As of March 31, 2018



Next Steps

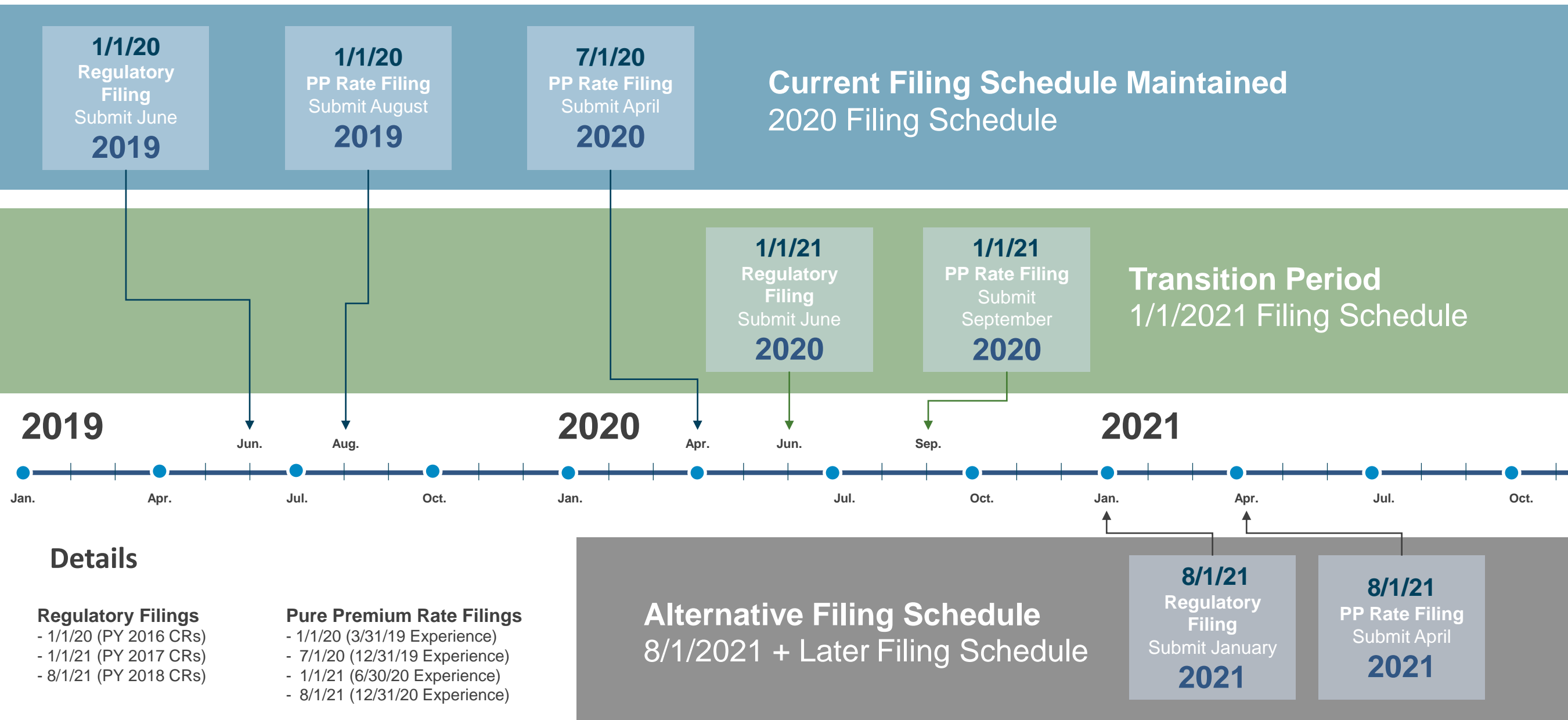
- Research sources of annual inflation updates for each fee schedule
- Determine how non-fee schedule changes (utilization effects) and other adjustments should be incorporated
- Review how model can be leveraged to the projection period to be more predictive of future trends
- Plan to review approach again with Committee prior to next annual filing

08

Potential Changes to Filing Schedule



Potential Alternative Filing Schedule



09

Potential 2019 Actuarial and Research Study Projects



Potential 2019 Actuarial Research and Study Projects

Executive Summary

- Actuarial and Research Agenda Reviewed Annually by the Actuarial Committee and Governing Committee
- Potential Projects Segregated by Purpose (e.g. in Response to CDI Directives, in Response to Legislation, Rating Plans)
- Project List to be Reviewed by Governing Committee at 12/12/18 Meeting

Potential 2019 Actuarial Research and Study Projects Highlights

- Studies Arising out of CDI Directives
 - Studies Requested in 1/1/19 Decision (Indemnity Severity Trends, ALAE Projections and Impact of Reduced Lien Filings)
 - Reporting of Terrorism Information to NAIC and FIO
- Cost Impact of Legislative Changes
 - Retrospective Evaluation of Drug Formulary
 - Impact of SB 1160 Lien and Utilization Review Reforms
- Other Studies Potential Affecting Pure Premium Rate Level
 - Impact of Pharmaceutical Cost Reductions on Loss Development
 - Reduction in Opioid Uses – Alternative Treatments
 - Analysis of Very Large Claims
 - Provider Treatment Patterns
- WCIRB Rating Plans
 - Review of Experience Rating Eligibility

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