

# WCIRB Governing Committee Meeting September 1, 2022 Pure Premium Rate Filing Summary of Actuarial Committee Recommendations

April 20, 2022



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# 01

## Summary of Recommendations





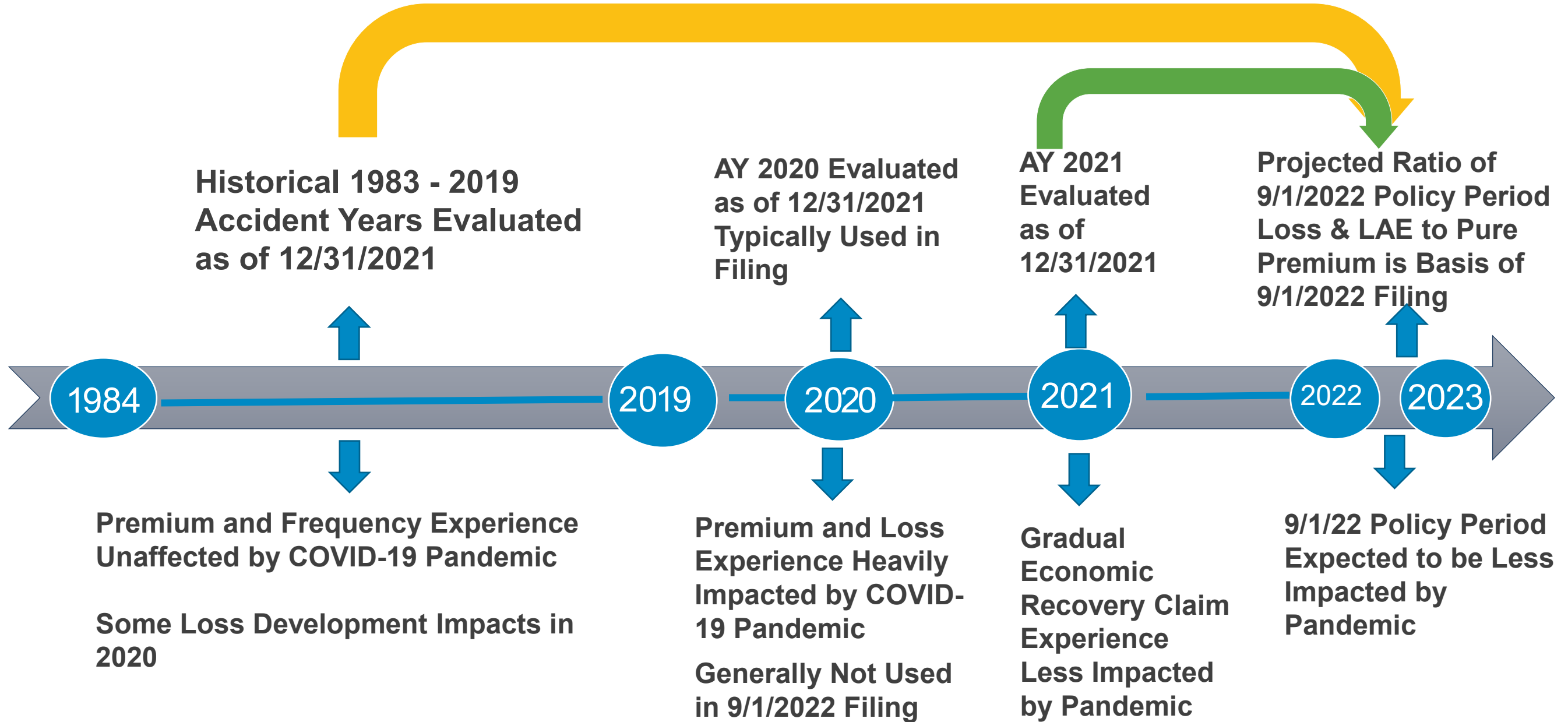
# Actuarial Committee Review

December 31, 2021 Experience

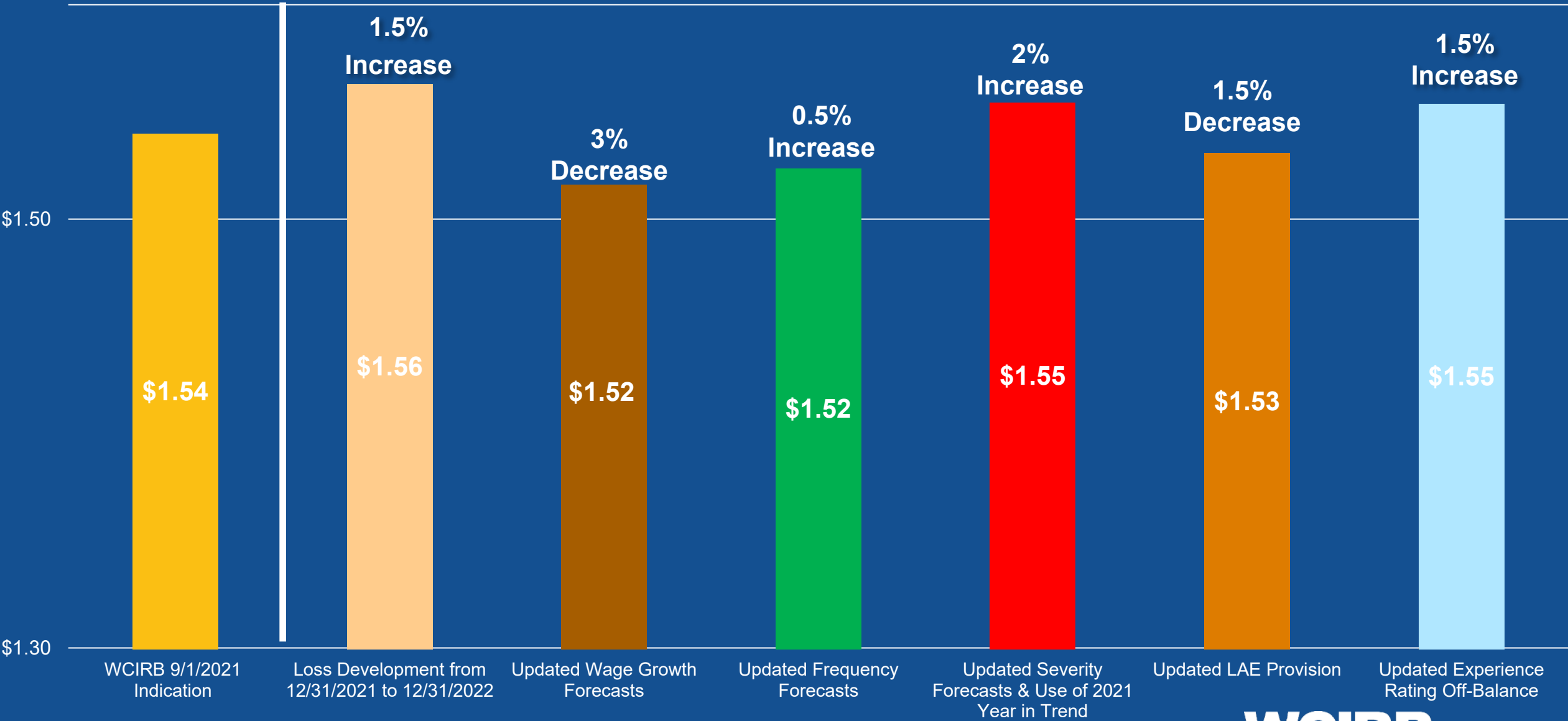
Key Considerations
2020 Claims and Premiums Severely Impacted by Pandemic
Modest Upward Loss Development
Wage Inflation Forecasts Up Significantly
2021 Claim Frequency Up Sharply
COVID Claim Cost Projection

- Recommended Methodologies Generally Consistent with 9/1/2021 Filing
- Generally Excludes 2020 Accident Year Experience in Projection
- Reflects Evaluation of 2021 Fee Schedule Changes
- Loss and Loss Adjustment Expense Projection on Ex-COVID-19 Claims Basis
- Average Pure Premium Rates (ex-COVID-19)
  - 9/1/2022 Actuarial Committee Basis: \$1.55
  - 9/1/2021 WCIRB Indicated: \$1.54
  - 9/1/2021 CDI Approved: \$1.45
- 9/1/2022 Indicated Advisory Pure Premium Rate Change (ex-COVID-19): +6.9%

# September 1, 2022 Pure Premium Rate Filing - Process



# Drivers of Change in Indicated Average Advisory Pure Premium Rate – 9/1/2021 to 9/1/2022



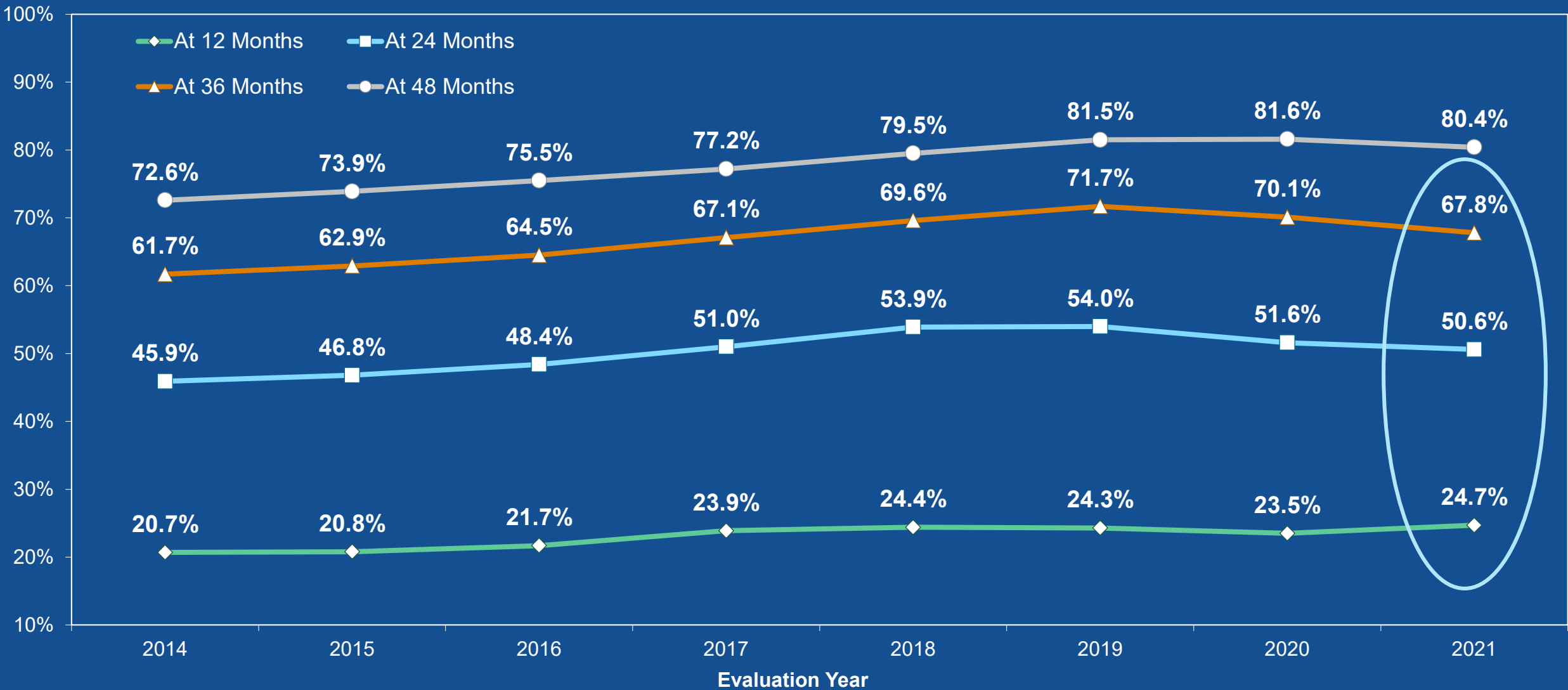
# 02

## Actuarial Committee Recommended Methodology



# Estimated Ultimate Indemnity Claim Settlement Ratios

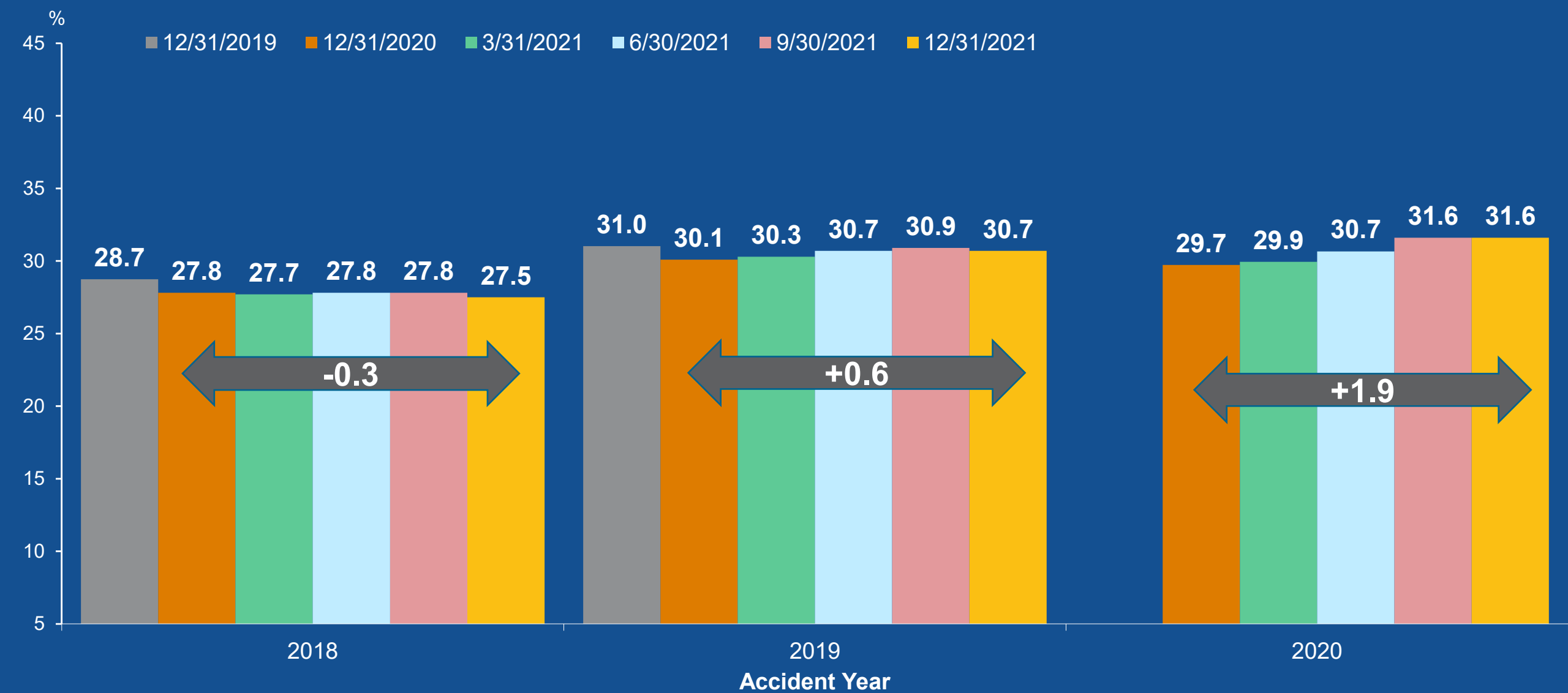
As of December 31, 2021





# Developed Medical Loss Ratios

As of December 31, 2021



Note: All loss ratios are adjusted to the loss development methodology recommended by the Actuarial Committee and may not be comparable to the actual loss ratios projected at that time.  
Source: WCIRB Aggregate Financial Data excluding COVID-19 claims

# Loss Development Methodology

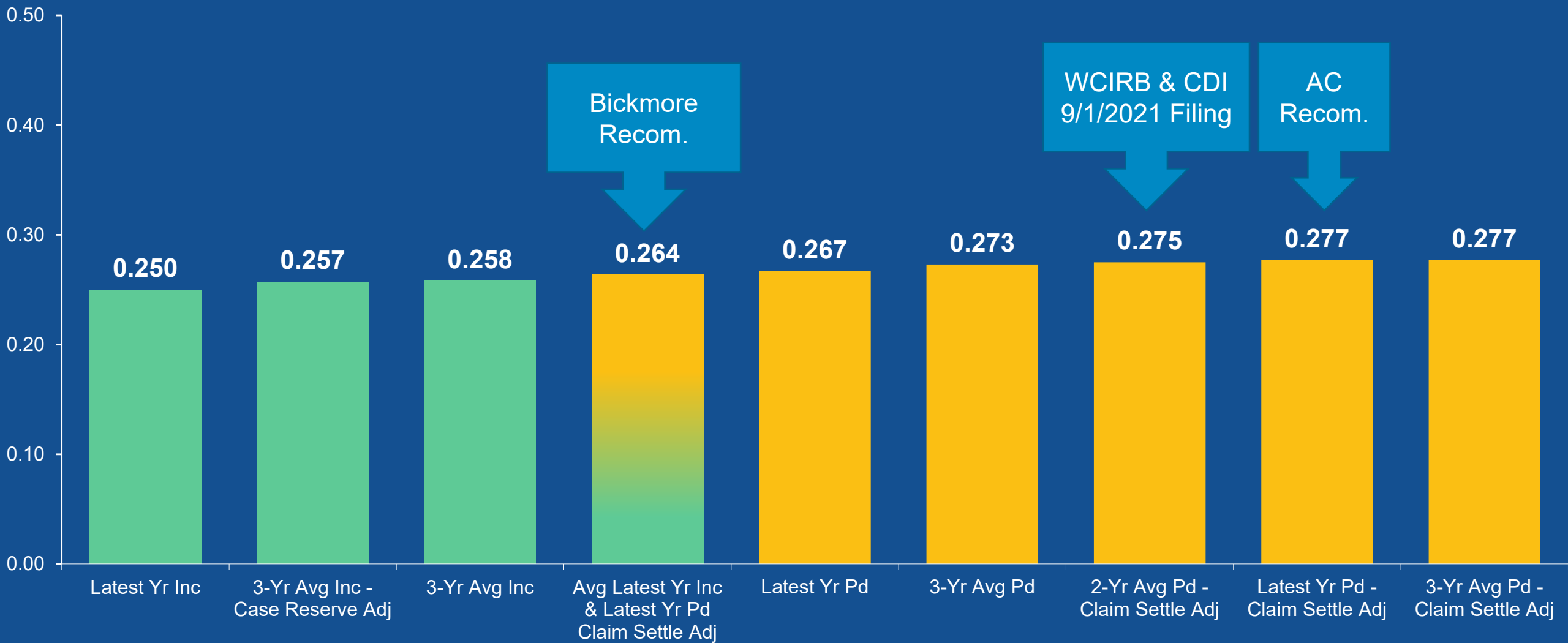
## Actuarial Committee Recommendation

- Latest Year Reform & Claim Settlement Rate-Adjusted Paid
  - Paid development has over the last decade been more stable and accurate
  - Paid development has historically been more consistent across insurers than incurred development
  - Includes adjustment to medical for SB 1160 lien filing reduction and reduction in pharmaceutical costs
  - Includes adjustment for updated evaluation of 2021 Fee Schedule Changes
  - Settlement rate adjustment largely corrects for changing settlement patterns
  - Latest year factor does not use development during calendar year 2020
- Actuarial Committee Votes on Indemnity and Medical Loss Development Methodology
  - **9** in Favor – **1** Opposed
  - Committee member opposed supports giving some weight to incurred method



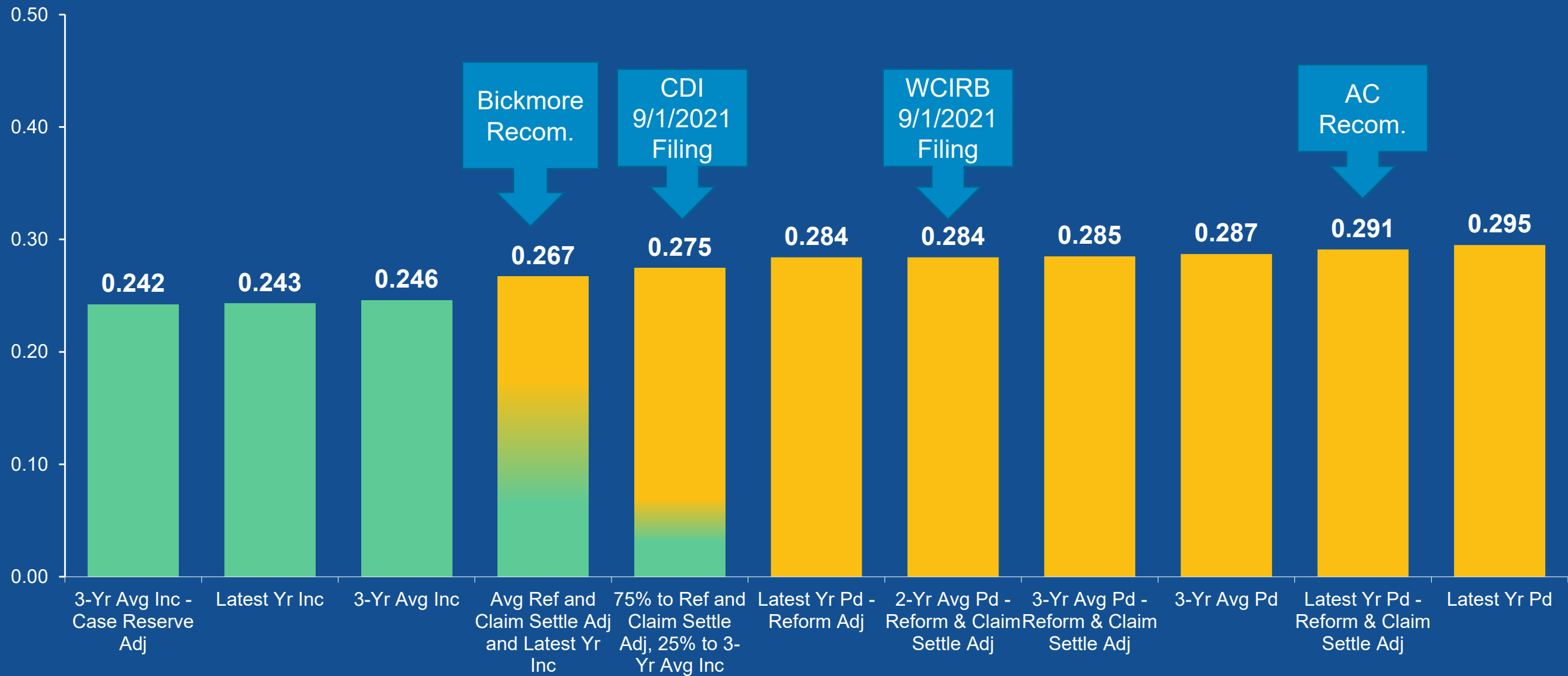
# Projected Indemnity On-Level Loss Ratios under Alternative Development Methods

As of December 31, 2021



# Projected Medical On-Level Loss Ratios under Alternative Development Methods

As of December 31, 2021



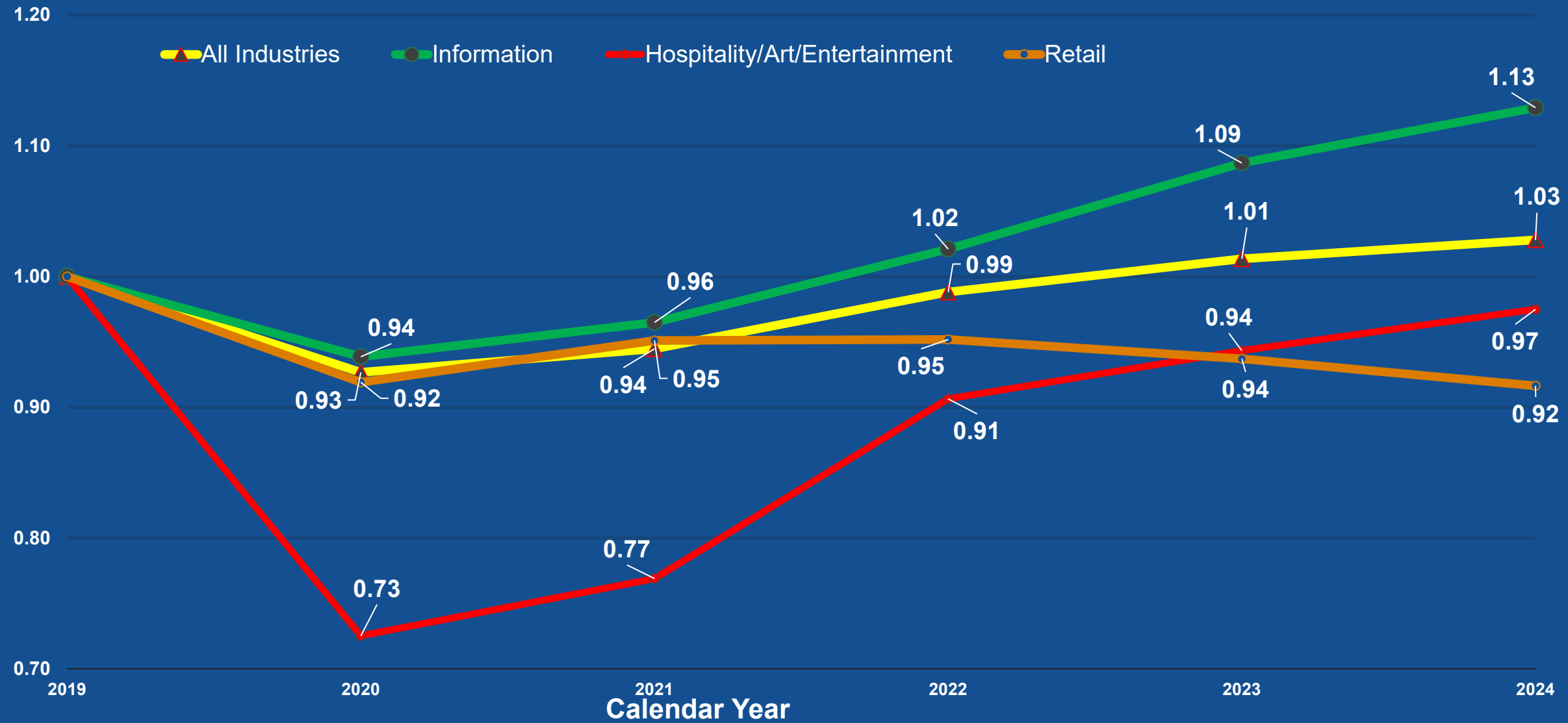


# Trending Methodology

## Actuarial Committee Recommendation

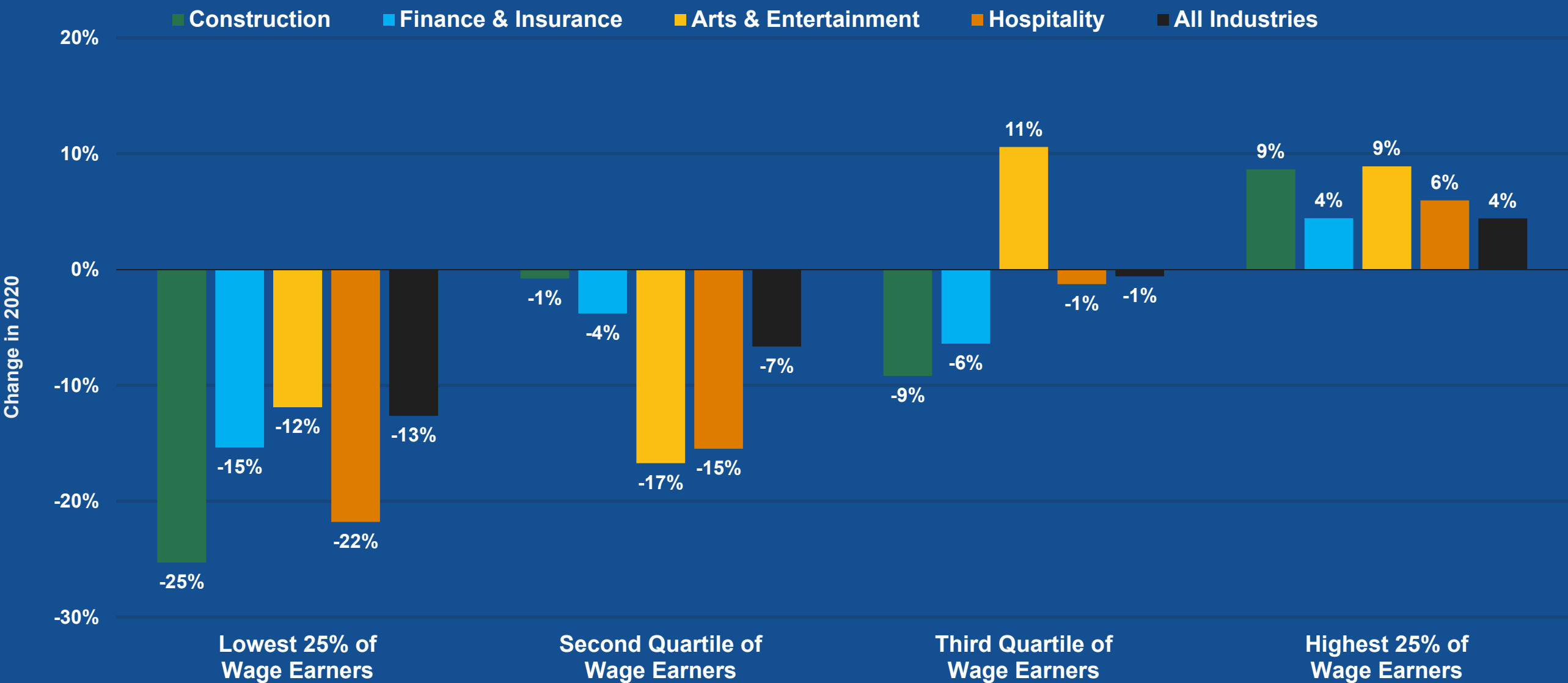
- Projected Wage Inflation Adjusted to Remove Impacts of Shifting Employment by Industry and Wage Level Impact
- Separate Frequency and Severity Trend Projections Applied to the 2019 and 2021 Accident Year Ratios
  - Retrospective tests show method performs better during periods of transition
  - Allows for separate assumptions and actuarial judgment about future frequency and severity trends
  - Generally excludes the pandemic distorted 2020 accident year experience in the trend projection
  - WCIRB frequency model projects very modest frequency growth post 2021 due to recovering economy
  - Severity growth projections remain very modest
  - Projection generally consistent with 5-year exponential trend
- Actuarial Committee Votes on Indemnity and Medical Trending Methodology
  - **9** in Favor – **1** Opposed
  - Committee member opposed supports a lower medical severity growth projection and different frequency projection approach

# California Industry Employment Forecasts – Indexed to 2019

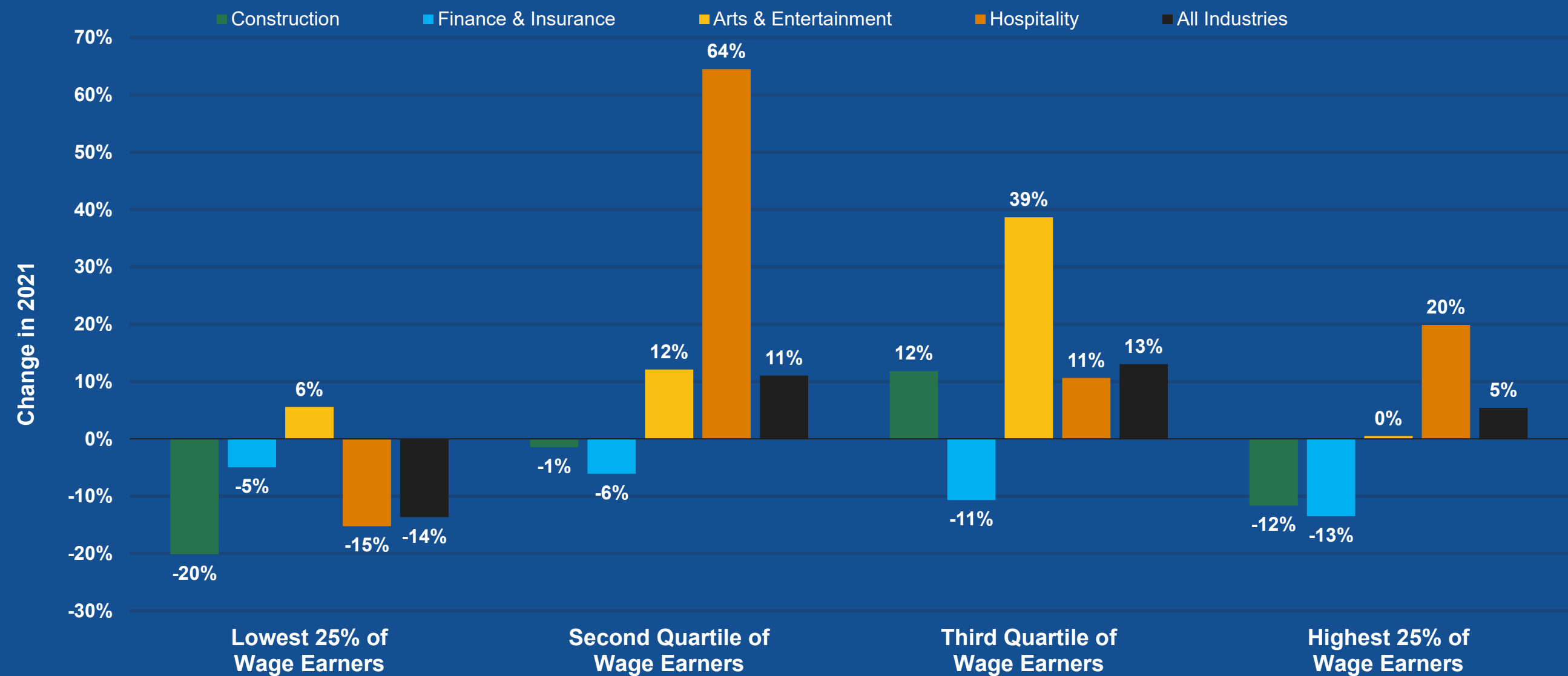




# California Employment Change by Wage Level – 2019 to 2020

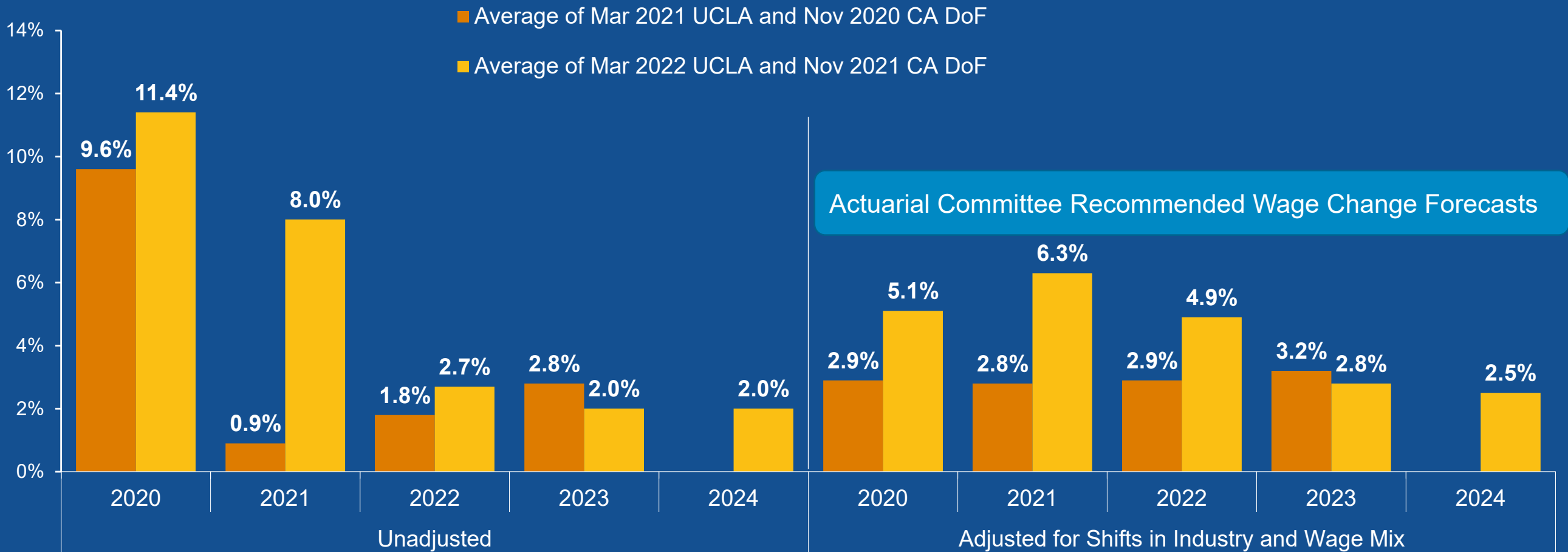


# California Employment Change by Wage Level – 2020 to 2021



# Average Wage Level Change Forecast

As of March 2022



## Average Annual Adjusted Wage Change Projection from 2019:

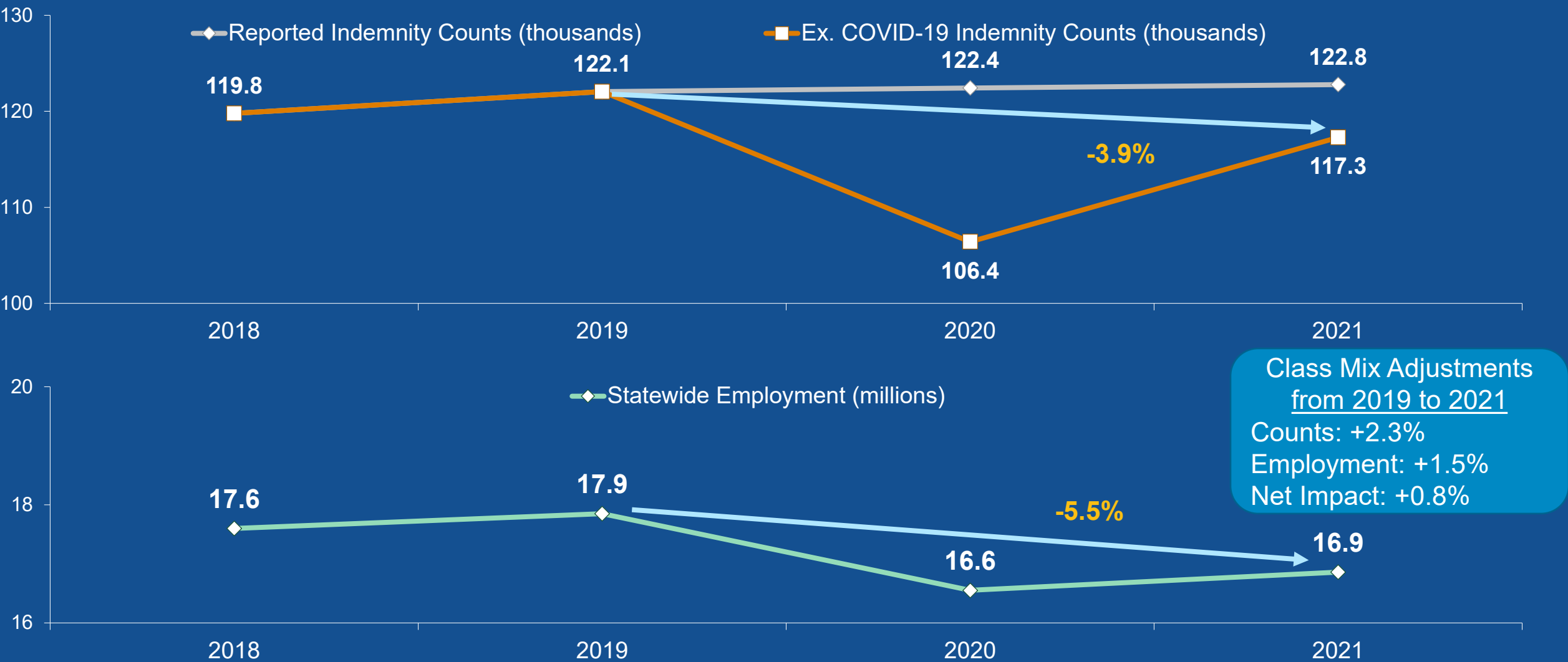
9/1/2021 Filing: 2.9%

AC Recommended: 4.7%



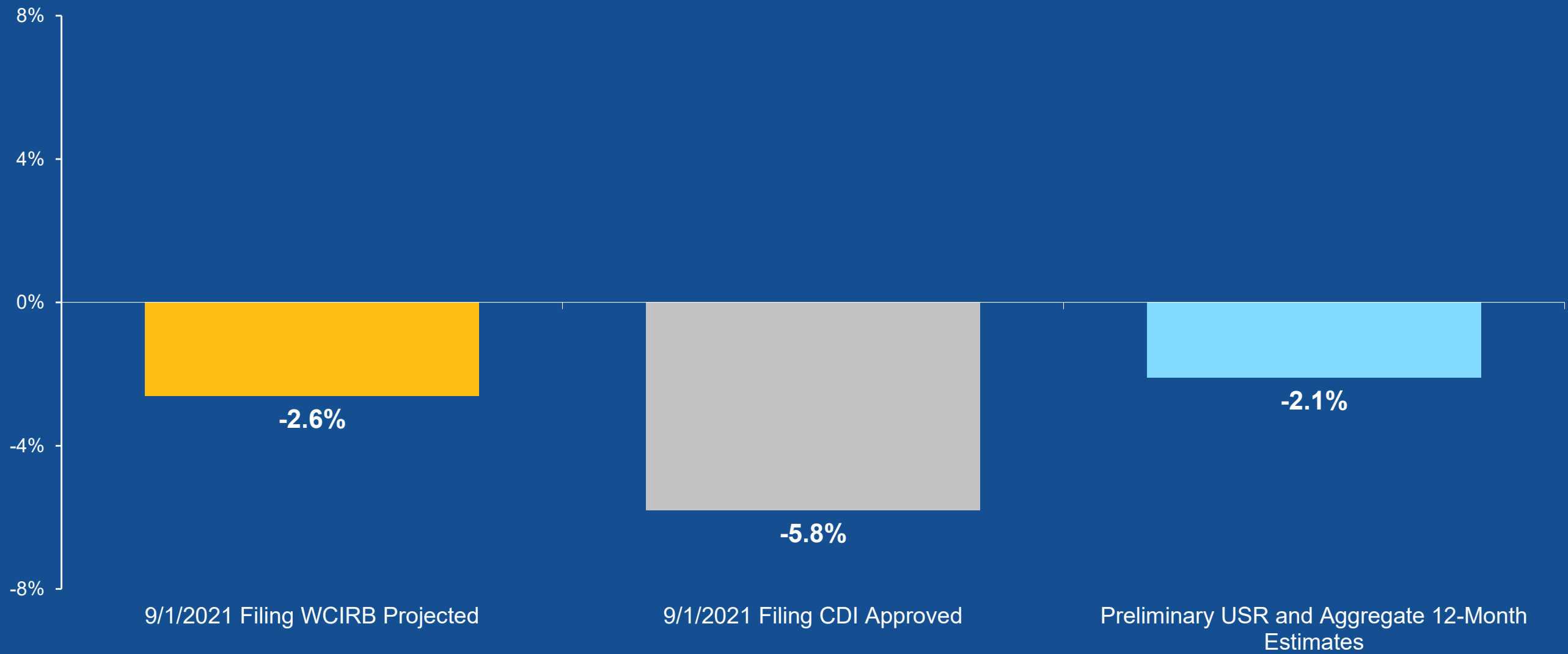
# Changes in 12-Month Indemnity Claim Counts and Employment Levels

As of December 31, 2021



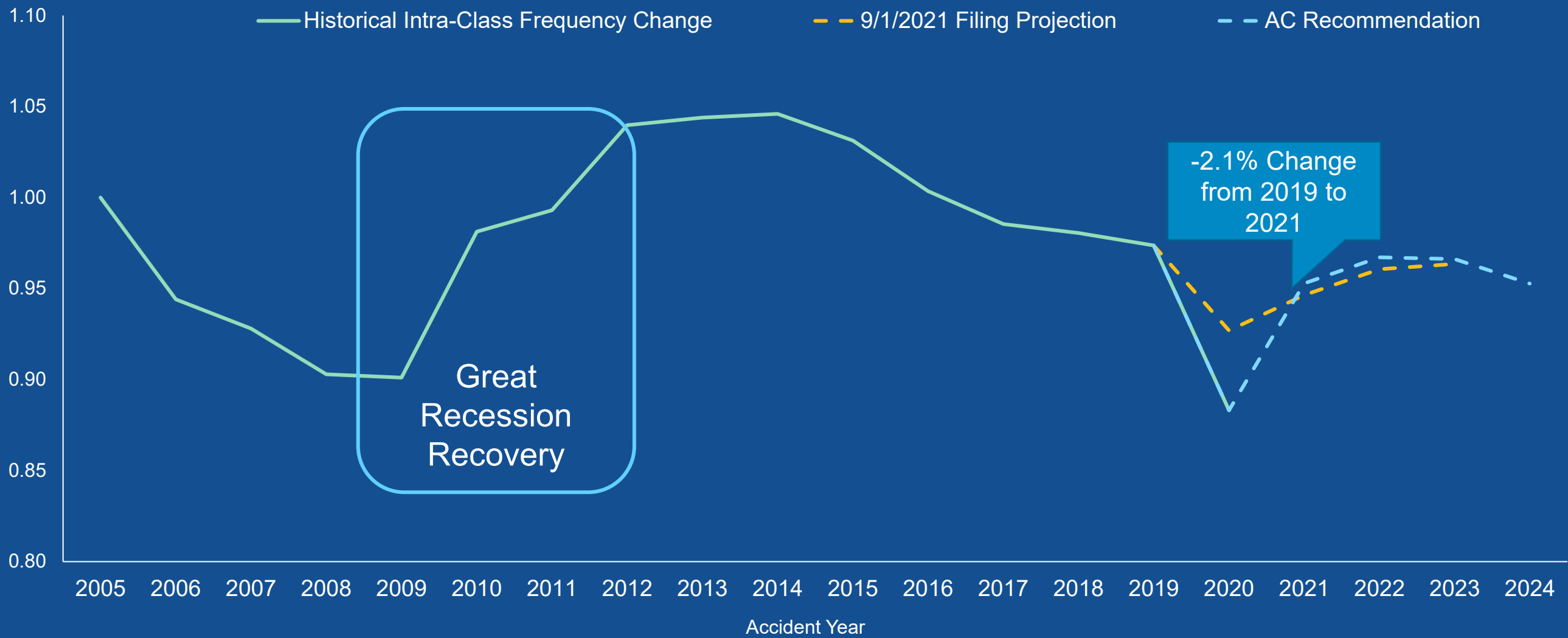
# Estimated 2019 to 2021 Intra-Class Indemnity Claim Frequency Changes Excluding COVID-19 Claims

As of December 31, 2021



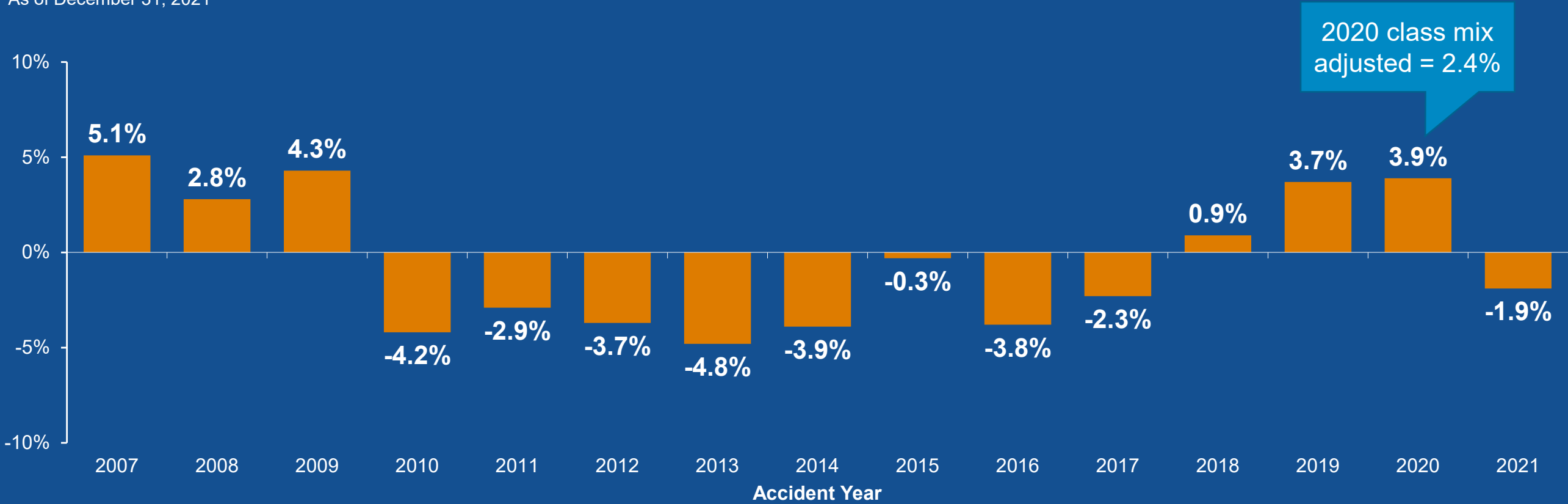
# Indemnity Claim Frequency Indexed to 2005

As of December 31, 2021



# Projected Changes in On-Level Indemnity Severity

As of December 31, 2021



## Annual Exponential Trend Based on:

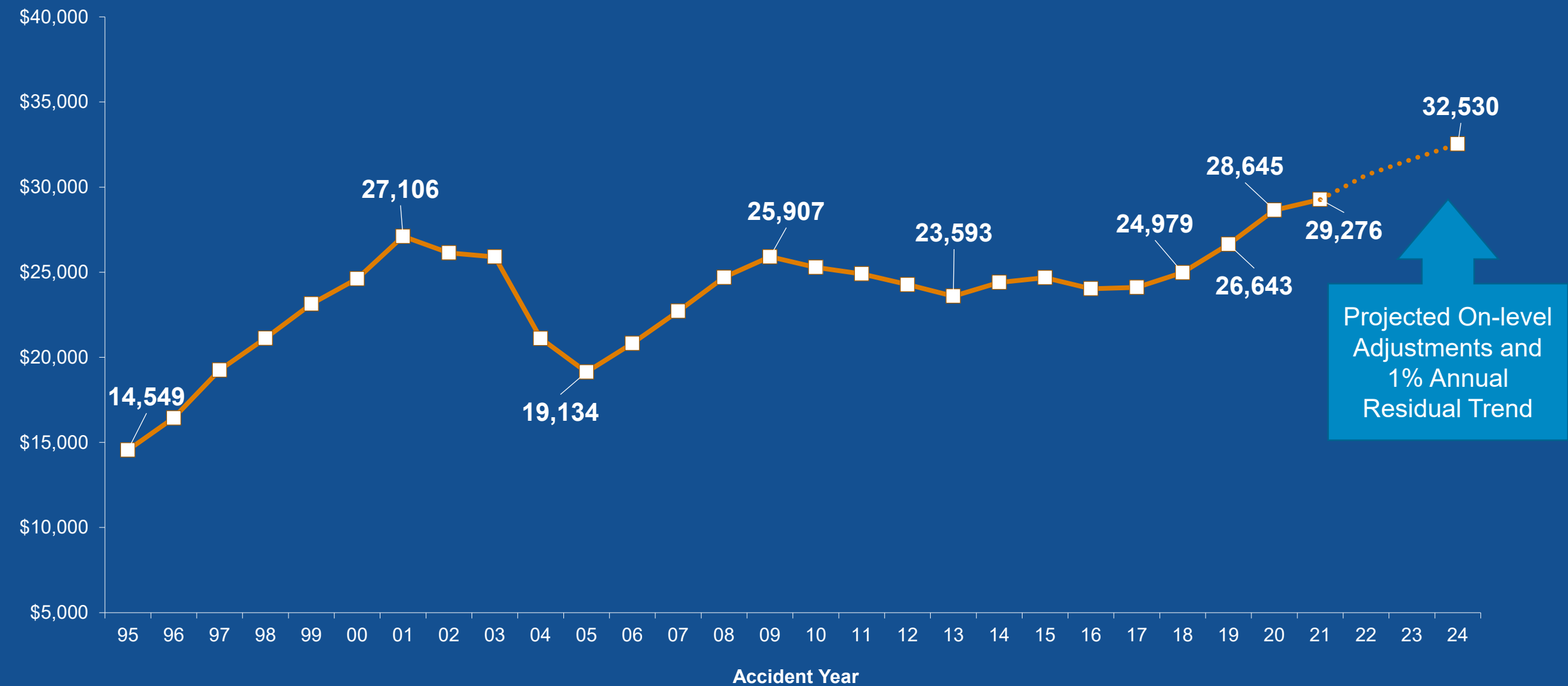
- 1990 to 2021: 0.9%
- 2005 to 2021: -1.2%
- 2017 to 2021: 2.1%

AC Recommended: **+1.0%**



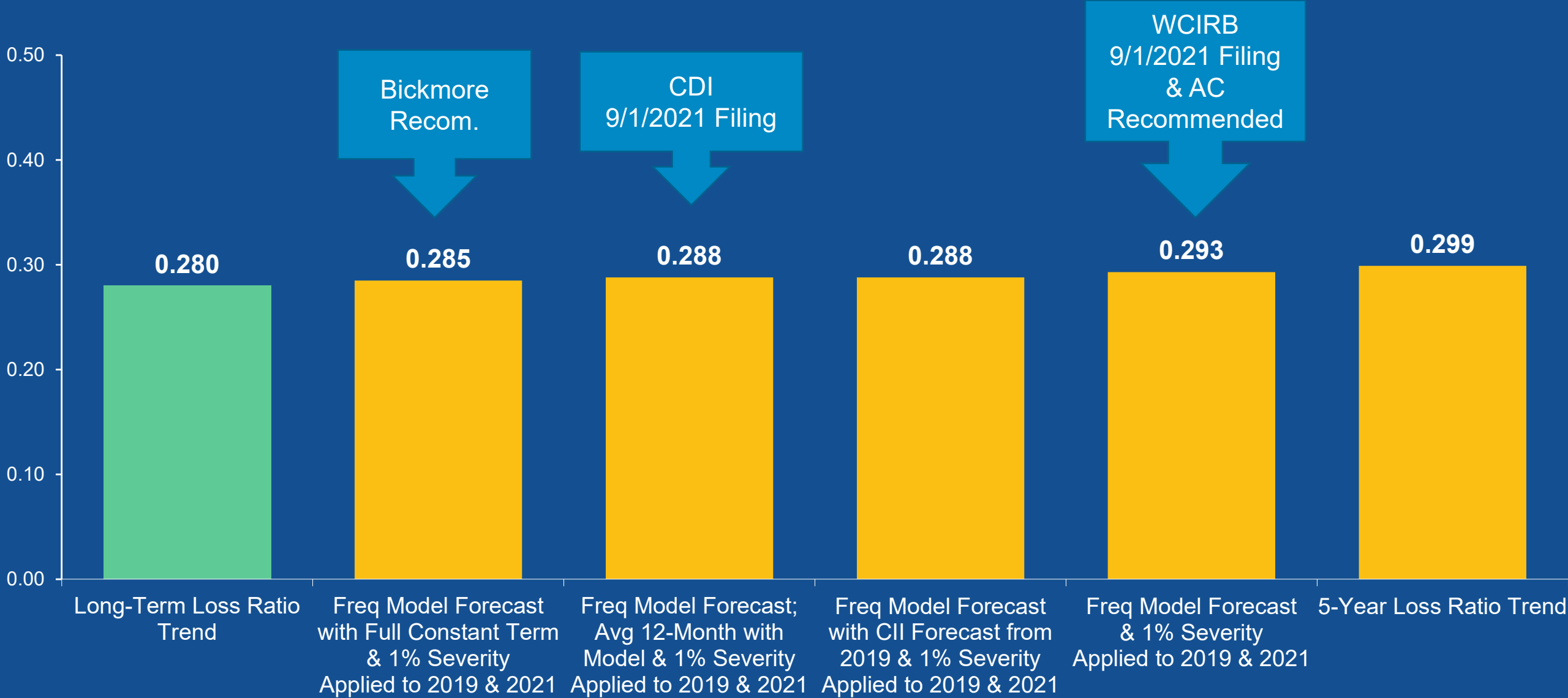
# Ultimate Indemnity per Indemnity Claim

As of December 31, 2021



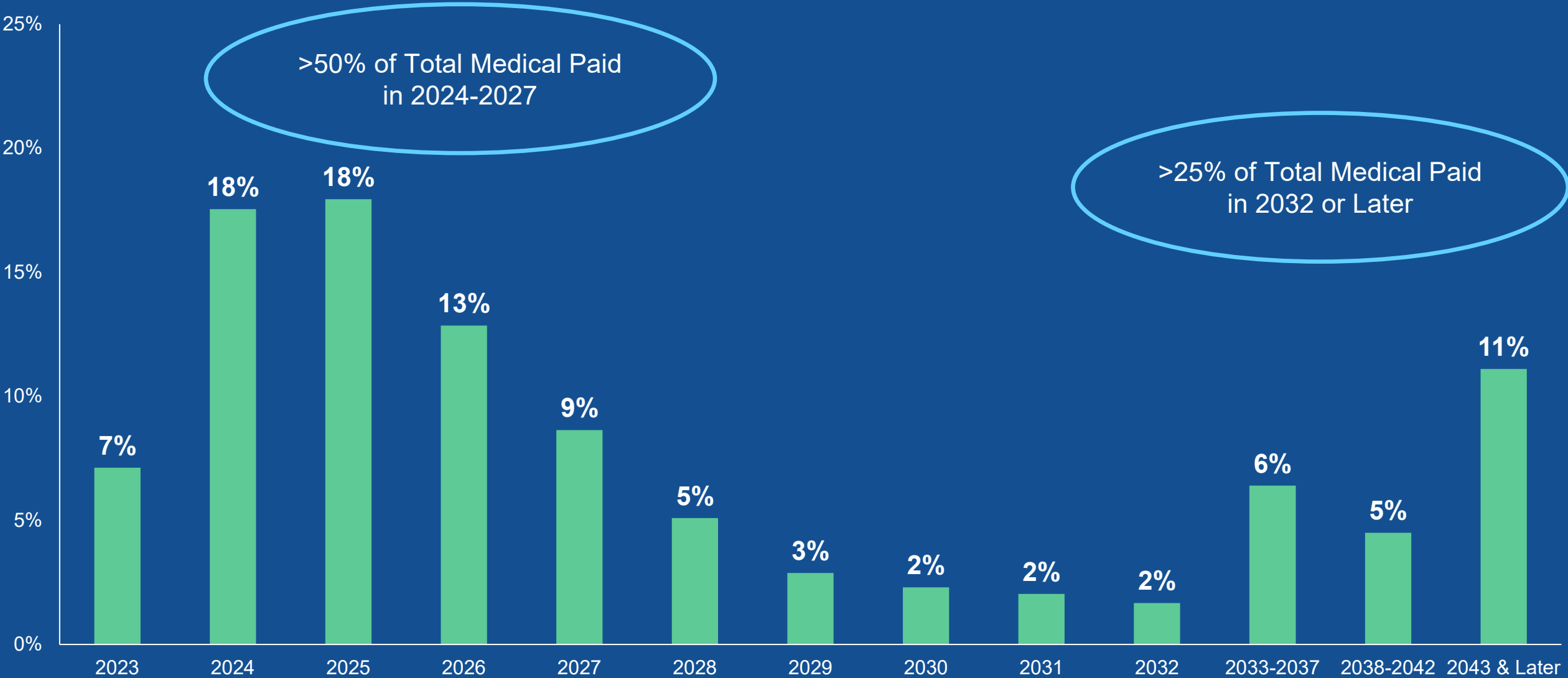
# Projected On-Level Indemnity Loss Ratios under Alternative Trending Methods

As of December 31, 2021



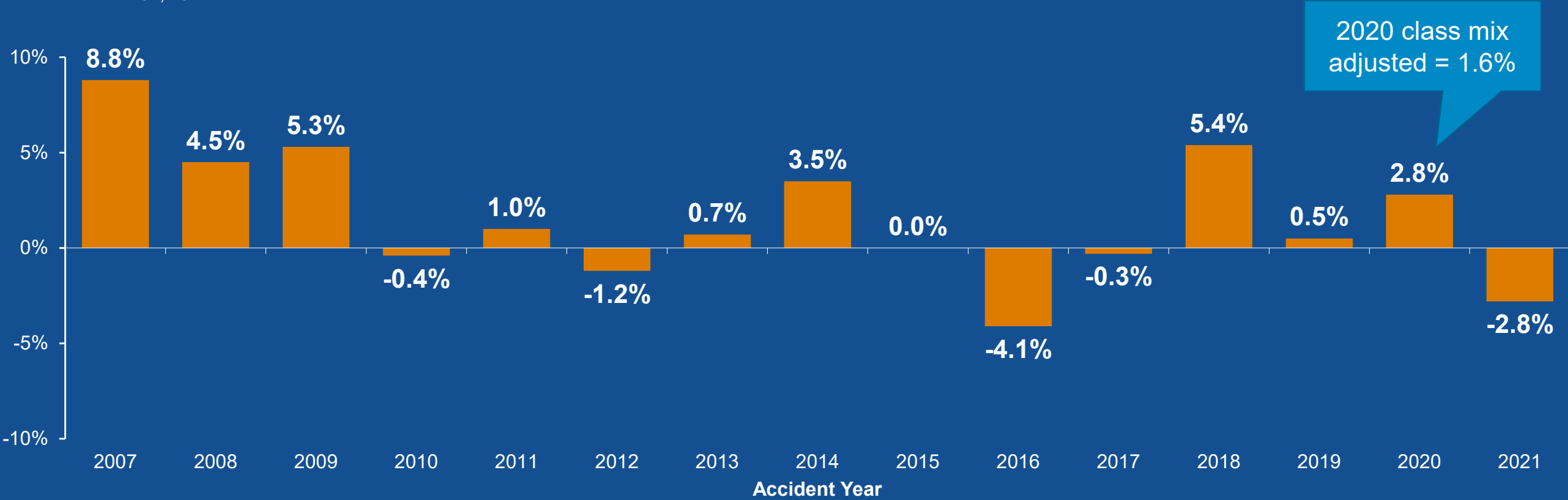
# Policy Year 2023 – Estimated Medical Paid by Year

As of December 31, 2021



# Projected Changes in On-Level Medical Severity

As of December 31, 2021



## Annual Exponential Trend Based on:

1990 to 2021 (including MCCP): 4.9%

2005 to 2021: 1.4%

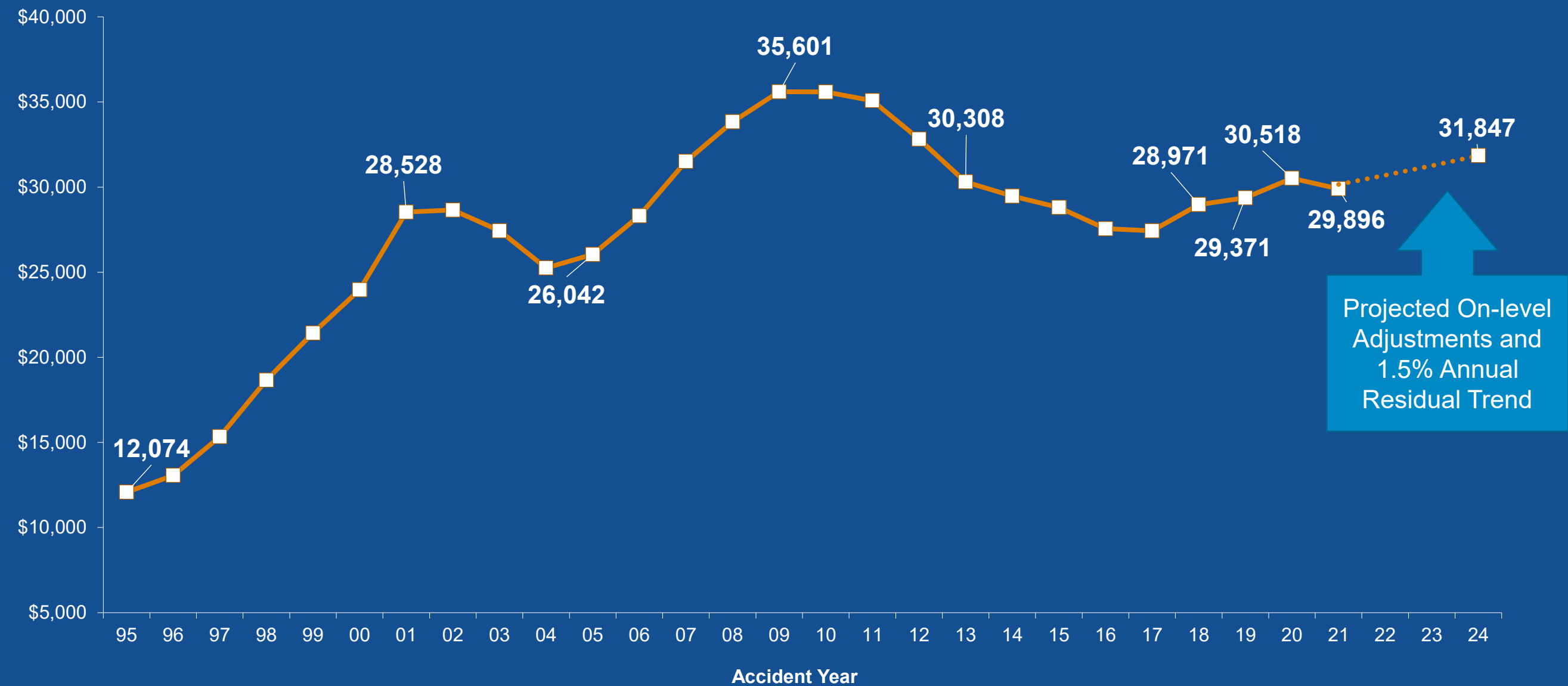
2017 to 2021: 1.5%

AC Recommended: 1.5%



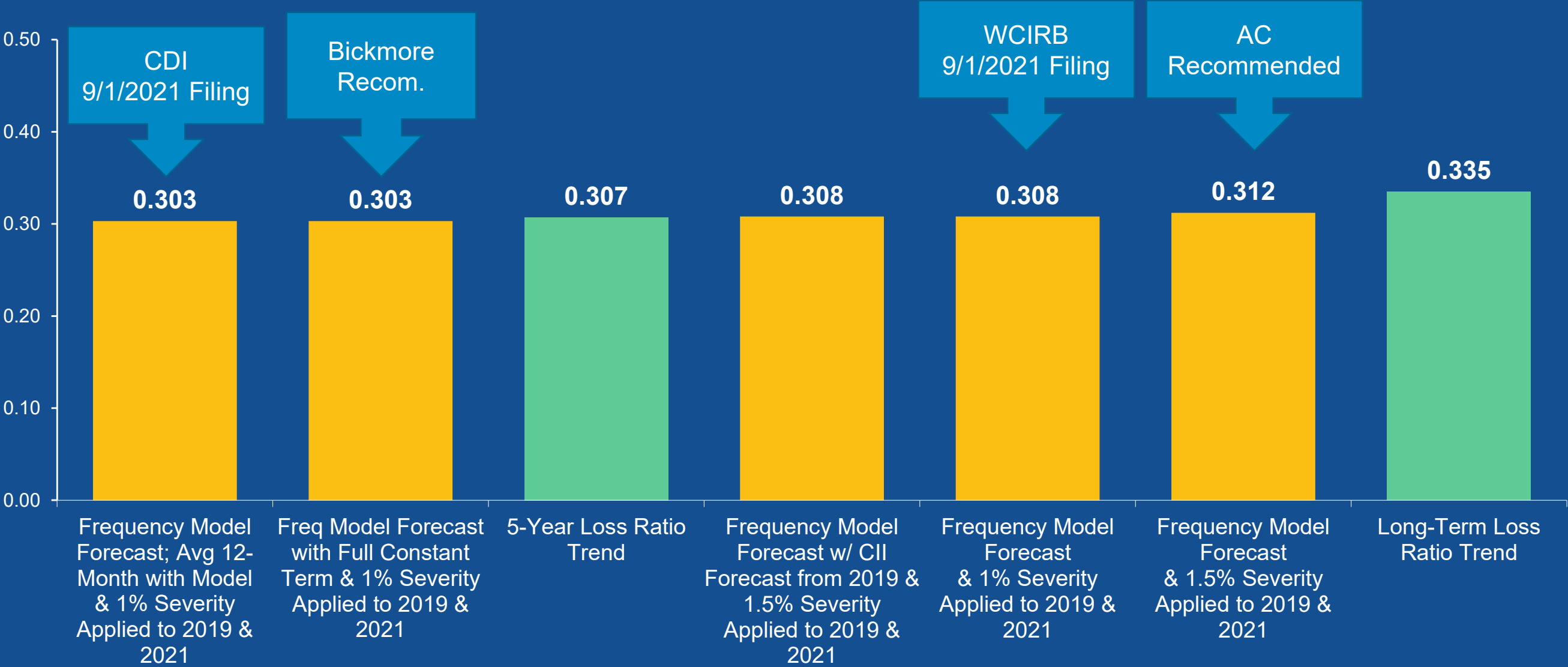
# Ultimate Medical per Indemnity Claim

As of December 31, 2021



# Projected On-Level Medical Loss Ratios under Alternative Trending Methods

As of December 31, 2021



# Loss Adjustment Expense Projection Methodology

## Actuarial Committee Recommendation

### ULAE

- ULAE data for 2016-2020 reflects updated allocation method (open indemnity counts)
- 2021 ULAE data not yet available
- 2020 ULAE not used (distorted by pandemic and can't be segregated into COVID and Non-COVID components)
- ULAE projection methodology consistent with prior years (Private Insurers Only)

### ALAE

- Trended ultimate severity per open indemnity claim based on private insurer ALAE
- Ultimate severity per open indemnity claim based on private insurer ALAE
- ALAE projection adjusted for SB 1160 lien reduction
- Adjustment to ALAE development for claim settlement declines during pandemic period
- Latest year development used and trend applied to 2019 and 2021 as in loss projection

### MCCP

- Methodology similar to ALAE except uses statewide experience and no reform or claim settlement adjustments

**Projected LAE Ratio:** 32.1% of losses (compared to 33.5% in 9/1/2021 Filing)

**Actuarial Committee Votes:** ULAE, ALAE & MCCP - **Unanimous Support**



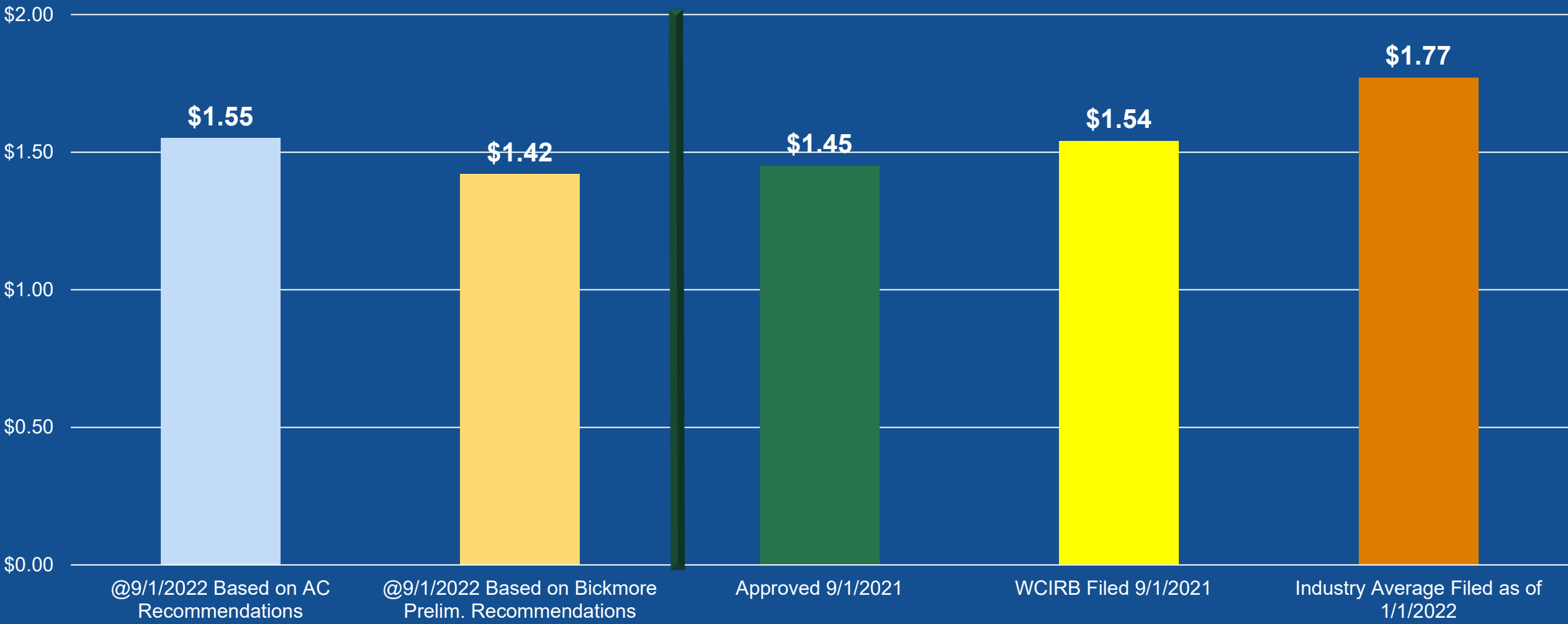
# 03

## Summary of Non-COVID-19 Projection





# Average Pure Premium Rates per \$100 of Payroll



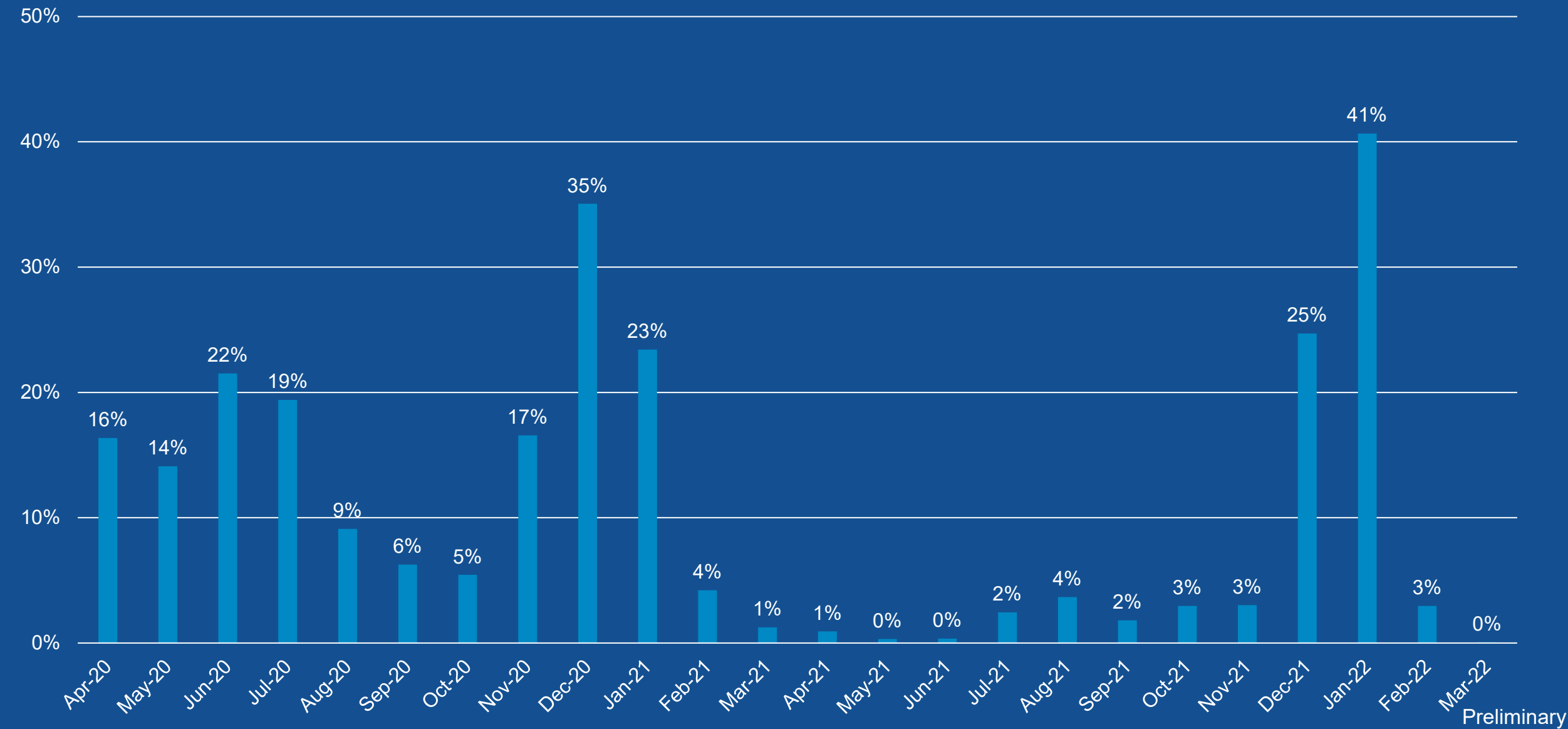
# 04

## COVID-19 Claim Cost Projection

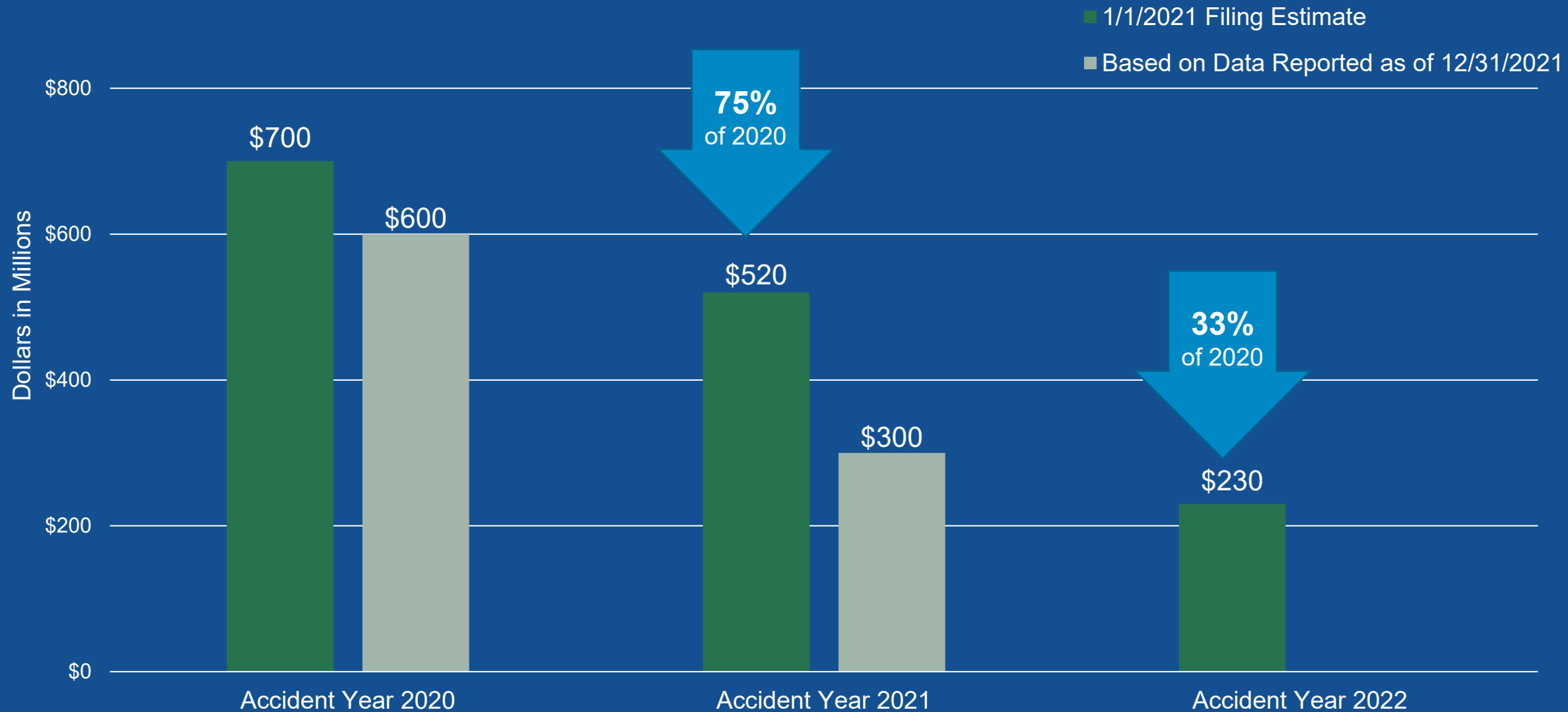


# COVID-19 Share of Indemnity Claims

As of April 7, 2022



# Projected Cost of COVID-19 Claims 1/1/2021 Filing vs. Estimated Actual — Insured Employers Only





# Summary of Leading Published COVID-19 Forecasts

As of April 8, 2022

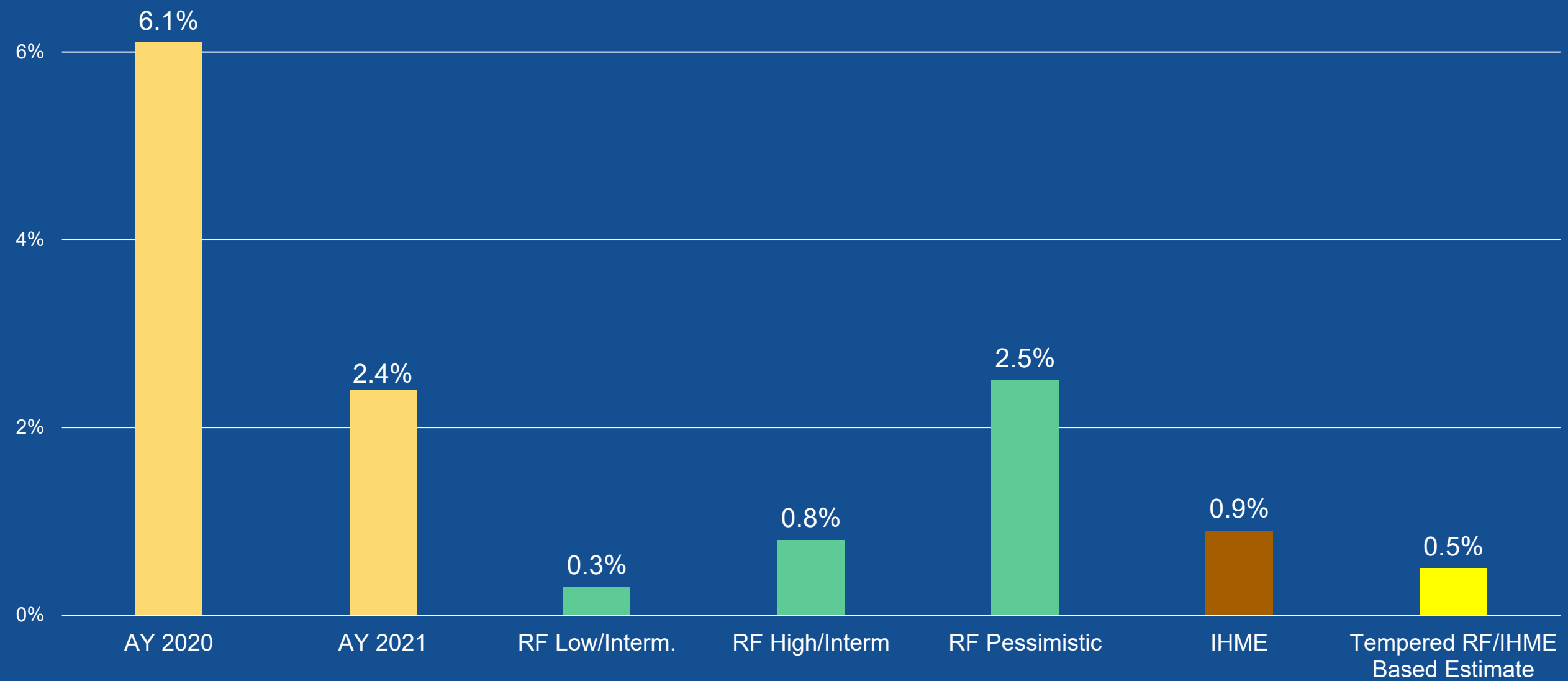
- Overall, expect fewer deaths from COVID-19 in 2022 than in each of the two previous years mostly due to greater population immunity

Source	Projection for U.S.	Projection for California	Ratio of Projected to Actual in California
Institute of Health Metrics and Evaluation (IHME)	52K deaths (March through July 2022)	4,500 deaths (March through July 2022)	38% of actual deaths in the same period in 2021*
The Rockefeller Foundation (intermediate scenario)	30K to 100K deaths (next 12 months)	3,600 to 12K deaths (next 12 months)	11% to 35% of actual deaths in the preceding 12 months**

## ■ Key Considerations

- New variants
- Greater population immunity due to vaccination, booster and infections
- Higher level of immunity among healthcare and frontline workers
- Changes in mitigation measures and work from home → changes in COVID-19 exposure
- Long COVID
- COVID-19 therapeutics

# Estimated Cost of COVID-19 Claims as % of Total Losses & LAE



----- 9/1/2022 – 8/31/23 Policy Period Projections -----

# 05

## Discussion

- Non-COVID Projection
- COVID Projection



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