# Actuarial Committee

## Meeting Agenda

| Date | Time | Location | Staff Contact |
|---|---|---|---|
| February 14, 2023 | 9:30 AM | Webinar Teleconference | David M. Bellusci |

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To Members of the Actuarial Committee, WCIRB Members and All Interested Parties:

**This meeting is Open to the Public.**

Please use this link to register for the meeting webinar. After registering, you will receive a confirmation email containing information about the meeting.

**I. Approval of Minutes**

Meetings held on December 6, 2022 and December 8, 2022

**II. Working Group Meeting Summaries**

None

**III. Unfinished Business**

A. AC22-09-03: Pandemic Impact on Classification Relativities

**IV. New Business**

A. AC23-02-01: 9/1/2023 Regulatory Filing – Experience Rating Plan Values

B. AC23-02-02: Clerical Telecommuting Employees Classification

**V. Matters Arising at Time of Meeting**

**VI. Next Meeting Date:** March 21, 2023

**VII. Adjournment**

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# Item AC22-09-03
# Pandemic Impact on Classification Relativities

At the September 13, 2022 meeting, the Committee noted that the September 1, 2023 classification relativities will reflect policy year 2020 experience which is significantly impacted by the pandemic. At the December 6, 2022 meeting, the Committee adopted staff's recommended approach for mitigating the impact of the pandemic-period data on the classification relativities. The refined methodology involves increasing the number of years used by one for each classification (up to five years maximum). At the meeting, staff will summarize the impact of this approach on the proposed September 1, 2023 relativities.[1]

During the review of the preliminary classification relativities, staff observed that, for several classifications, an additional year of data (compared to the prior filing) is already utilized when determining the number of years required for full credibility. In these instances, staff recommends not adding an additional year of experience to mitigate the impact of the pandemic as using an older year in this analysis not used in the prior filing may create unnecessary volatility.

For a number of years, the classification relativities have reflected adjustments to reported payroll amounts to on-level for relative changes in wage levels by classification. This adjustment is primarily based on the American Community Survey (ACS) data. Staff observed significant anomalies in the 2020 and 2021 ACS data that is likely related to the pandemic. As a result, staff recommends not reflecting the relative changes in wage levels for 2020 and 2021 in the September 1, 2023 relativities. At the meeting, staff will discuss these anomalies and the refined approach.

[1] The proposed September 1, 2023 classification relativities including the refined approach were reviewed and adopted by the Classification and Rating Committee at the January 31, 2023 meeting.

# Item AC23-02-01
# 9/1/2023 Regulatory Filing – Experience Rating Plan Values

An analysis of the indicated experience rating off-balance factor and the factors used to generate proposed expected loss rates for policies incepting between September 1, 2023 to August 31, 2024 will be presented at the meeting. The methodology to produce the indicated experience rating off-balance factor and expected loss rates effective September 1, 2023 that will be presented at the meeting is summarized below.

**Off-Balance Factor**
The calculation of the indicated off-balance factor is based on the average modification and average credibility assigned to the experience of all experience rated employers for recent policy years. This information is based on the WCIRB's experience modification records and reflects the actual modifications issued for each of those policy years. As in the September 1, 2022 Regulatory Filing, the most recent four policy inception periods are used in the computation of the indicated September 1, 2023 off-balance factor (January 1, 2020 to December 31, 2020, January 1, 2021 to August 31, 2021, September 1, 2021 to August 31, 2022, and September 1, 2022 to August 31, 2023 (preliminary)).[1] This information is based on the WCIRB's experience modification records and reflects the actual modifications issued for each of those policy periods. Based on this information, the ratio of actual to expected losses for experience rated employers in each of these periods is estimated.

The ratios for each of these policy periods are then adjusted by (a) the off-balance factor that was used to adjust each period's expected loss rates, (b) the adjustment that was made to the expected loss rates to produce the target off-balance factor for that period (if applicable), (c) the adjustment that was made to each historical period's expected loss rates to reflect the impact of California Insurance Code Section 11751.9 corrections based on closed claim values that are significantly below the values of the claims that were used in an experience modification computation, and (d) the hindsight correction factor to the expected losses for each of these policy periods, which is intended to adjust for any difference in projected expected loss rates and the level of losses that actually underlies a year's experience modifications.[2]

The ratios, after adjustment as described above, represent the estimated ratios of actual to expected losses for experience rated employers in which the total actual losses for all employers equal the total expected losses for the experience period. Consistent with the September 1, 2022 Regulatory Filing methodology, the projected ratio of actual to expected losses for experience rated employers is selected as the weighted average of the four periods' adjusted ratios, with full weight given to the final and full year periods of January 1, 2020 to December 31, 2020 and September 1, 2021 to August 31, 2021, 75% weight given to the partial year period for January 1, 2021 to August 31, 2021, and 50% weight given to the preliminary and partial period for September 1, 2022 to August 31, 2023.[3] The projected average credibility for experience rated employers is selected as the average credibility for the most recent completed annual policy period of experience. In the September 1, 2023 Regulatory Filing, this represents policies incepting between September 1, 2021 and August 31, 2022.

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[1] Prior to the September 1, 2022 Regulatory Filing, the most recent three policy inception years were used. Given the partial year for January 1, 2021 to August 31, 2021, four policy periods are used.

[2] The hindsight correction factor for each period is computed as the ratio of the statewide weighted average of the promulgated expected loss rates (adjusted to remove that period's off-balance factor and its related adjustment, if any, and the adjustment to reflect the impact of California Insurance Code Section 11751.9 rerates) to the hindsight weighted average statewide ratio of losses (excluding first $250 and limited to $175,000) to payroll for the policy years and report levels reflected in that period's experience modifications.

[3] The September 1, 2022 to August 31, 2023 period is preliminary and partial in that it only reflects experience modifications for policies incepting through May 2023.

The computation of the indicated off-balance factor is based on the projected ratio of actual to expected losses and the projected average credibility computed as described above as well as the ratio of experience rated premium to total premium. This ratio is based on a comparison of the premiums at the advisory pure premium rate level for experience rated employers with those for all employers including employers who are not experience rated based on the most recent three policy years of experience (policy years 2018 through 2020 for the September 1, 2023 Regulatory Filing). The computation of the indicated off-balance factor is derived from the relationship of the off-balance factor as the reciprocal of the average modification over all risks.[4]

**Expected Loss Rates**

The expected loss rates represent the average losses per $100 of payroll by classification estimated to be reflected in experience rating calculations for policies incepting between September 1, 2023 and August 31, 2024. They are computed by comparing the average limited loss to payroll ratio included for each classification as computed in the WCIRB's proposed September 1, 2023 classification relativities with the average level of losses per $100 of payroll anticipated to be used in September 1, 2023 to August 31, 2024 experience modification calculations.

The WCIRB's methodology to determine classification expected loss rates uses adjustment factors based on the experience of classifications grouped in accordance with the North American Industry Classification System (NAICS). The average adjustment factors on a statewide, all classifications combined basis are first computed to ensure that the factors computed by NAICS sector groupings balance to the statewide, all classifications combined expected loss rate level. These factors begin with the calculation of the average indicated ratio of limited losses to $100 of payroll based on the total statewide payroll generated on policies incepting between December 1, 2017 and November 30, 2020 (the most recent three years used in the September 1, 2023 classification relativities)[5] and the indicated limited loss to payroll ratios for each classification, segregated between the indemnity and medical components.

Next, the estimated average ratio of losses to $100 of payroll for the time period and maturity level to be reflected in September 1, 2023 to August 31, 2024 experience modifications is computed. For the September 1, 2023 Regulatory Filing, this generally reflects policies incepting between September 1, 2019 and August 31, 2020 at third unit statistical report level, policies incepting between September 1, 2020 and August 31, 2021 at second unit statistical report level, and policies incepting between September 1, 2021 and August 31, 2022 at first unit statistical report level. These estimated ratios are determined as follows:

- The average expected ratios of indemnity and medical losses per $100 of payroll for policies incepting between September 1, 2019 and August 31, 2020 are determined by developing the first unit statistical report level (18 months from policy inception) ratios from these policies to third unit statistical report level (42 months from policy inception).[6] The development factors used to develop these ratios are based on the most recently available accident year experience converted to reflect the September 1, 2019 to August 31, 2020 policy inception period.[7]

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[4] That is OBF = 1 / (Avg. Mod All Risks), where Avg. Mod All Risks = (Avg. Mod Rated Risks x Premium Share of Rated Risks) + (1.0 x Premium Share of Non-rated Risks), and where the formula for the average modification for rated risks is as follows: Avg. Mod Rated Risks = [(Avg. Ratio of Actual to Expected) x (1 / OBF) x (Avg. Credibility)] + [1.0 x (1 - Avg. Credibility)].

[5] In prior regulatory filings, the most recent two years were used. In the September 1, 2023 Regulatory Filing, three years are used to mitigate the impact of the pandemic period data. This is consistent with the approach used for the classification relativities.

[6] Claims arising out of a diagnosis of COVID-19 are excluded as these claims are not included in the computation of September 1, 2023 to August 31, 2024 experience modifications.

[7] For development from 18 to 21 months, a weighted average based on 25% weight applied to accident year 2020 development and 75% weight applied to accident year 2021 development is used. For development from 21 to 33 months, accident year 2020 development is used. For development from 33 to 42 months, accident year 2019 development is used. See Exhibits 9.1 and 9.2 of Item AC22-12-01 of the December 6, 2022 WCIRB Actuarial Committee Agenda for the development factors used.

- The average expected ratios of indemnity and medical losses per $100 of payroll for policies incepting between September 1, 2020 and August 31, 2021 are determined by developing available data at first unit statistical report level (18 months from policy inception) to second unit statistical report level (30 months from policy inception).[8] For the average expected ratios for policies incepting between September 1, 2020 and August 31, 2021, experience from policies incepting between April 1, 2020 and March 31, 2021 are used and trended forward five months to reflect the period of experience underlying policies incepting between September 1, 2020 and August 31, 2021.[9] The development factors used to develop these ratios are based on the most recently available accident year experience converted to the September 1, 2020 to August 31, 2021 policy inception period.[10]

- The average expected ratios of indemnity and medical losses per $100 of payroll for policies incepting between September 1, 2021 and August 31, 2022 are estimated from the prior year's ratios (ratios for policies incepting between September 1, 2020 and August 31, 2021), adjusted for the change in the average accident year loss ratios estimated in the WCIRB's most recent evaluation of accident year experience[11]—with the premiums adjusted to a common basis but with the impact of projected wage inflation removed—and converted to a September 1 to August 31 policy period basis using a standard actuarial parallelogram approach to convert accident year experience to policy periods.

The average of the expected loss to payroll ratios for each of the three years of the experience rating period computed as described above are adjusted by three additional factors: (1) the selected experience rating off-balance correction factor to be reflected in September 1, 2023 to August 31, 2024 expected loss rates, (2) the factor to reflect the individual loss limitation of $175,000 and the elimination of the first $250 of each claim in the experience rating calculation[12] and (3) the factor to reflect the estimated average impact of experience modification revisions resulting from Insurance Code Section 11751.9 rerates. The product of these factors represents the average adjustments across all NAICS Sector groupings to produce the average indicated September 1, 2023 to August 31, 2024 expected loss rates when applied to the statewide indicated limited loss to payroll ratios from the September 1, 2023 classification relativity analysis.

The computation of the adjustment factors for each of the NAICS Sector groupings is analogous to that described above on a statewide, all classifications combined basis, with the following exceptions:

- The estimated first report level ratios of indemnity and medical losses per $100 of payroll for policies incepting between September 1, 2019 and August 31, 2020 and policies incepting between September 1, 2020 and August 31, 2021 for each NAICS Sector grouping are developed to third and second report levels, respectively, based on the latest policy year incurred development factor derived from unit statistical data for that NAICS Sector grouping.

- The estimated first report level ratios of indemnity and medical losses per $100 of payroll for policies incepting between September 1, 2021 and August 31, 2022 for each NAICS Sector

[8] Claims arising out of a diagnosis of COVID-19 are excluded as these claims are not included in the computation of September 1, 2023 to August 31, 2024 experience modifications.

[9] The trend factors used are based on changes in accident year indemnity and medical loss ratios reflected in Item AC22-12-01 of the December 6, 2022 WCIRB Actuarial Committee Agenda, converted to a September 1 to August 31 policy period using a standard actuarial parallelogram approach to convert accident year experience to policy periods.

[10] For development from 18 to 21 months, accident year 2021 development is used. For development from 21 to 30 months, accident year 2020 development is used. See Exhibits 9.1 and 9.2 of Item AC22-12-01 of the December 6, 2022 WCIRB Actuarial Committee Agenda for the development factors used.

[11] See Exhibits 3.1 and 3.2 of Item AC22-12-01 of the December 6, 2022 WCIRB Actuarial Committee Agenda.

[12] This factor is based on utilizing the latest available unit statistical data and de-trending the $175,000 and $250 loss limits from the average level underlying the data used to compute September 1, 2023 to August 31, 2024 experience modifications to the average level of the latest available unit statistical data.

grouping are computed by adjusting the first report level ratios of indemnity and medical loss to payroll for policies incepting between September 1, 2020 and August 31, 2021 for that NAICS Sector grouping by the change in the first report level ratios of indemnity and medical loss to payroll for that NAICS Sector grouping from the latest available unit statistical data,[13] with individual claims limited to $500,000.[14]

- In total, the average statewide expected loss rate determined by separate adjustments by NAICS Sector grouping should be equal to that based on the statewide, all classification data. The indemnity and medical expected loss rate factors computed at the NAICS Sector grouping level are adjusted to balance to the statewide, all classifications combined expected loss rate factors.

- The change in a classification's expected loss rate relativity to the statewide average expected loss rate from the prior year's expected loss rate relativity is limited to 15%. A factor is applied to each NAICS Sector grouping's adjustment factor to reflect the cost of redistributing the impact of the capped classifications' net expected losses above (or below) the 15% limitation among the remaining uncapped classifications.

The factors by NAICS Sector grouping, computed as described above, are applied to the indicated limited loss to payroll ratios for indemnity and medical that are computed in the September 1, 2023 classification relativity analysis. Each indemnity and medical loss to payroll ratio is adjusted by the appropriate factor based on the NAICS Sector grouping to which that classification is assigned. The adjusted indemnity and medical ratios for each classification are then added together to generate the expected loss rate for that classification proposed to be effective September 1, 2023 with each classification's expected loss rate change in relativity limited to a 15% change from the classification's relativity underlying the September 1, 2022 expected loss rates.

Effective January 1, 2020, annual payroll limitations are applied to employees in five additional classifications, including 7607, *Video Post-Production/Audio Post-Production*; 8743, *Mortgage Brokers*; 8803, *Auditing, Accounting or Management Consulting Services*; 8820, *Law Firms*; and 8859, *Computer Programming or Software Development/Internet or Web-Based Application Development or Operation*. The expected loss rates for these classifications are in large part computed using unit statistical data from policies incepting prior to January 1, 2020. Effective September 1, 2022, annual payroll limitations are applied to employees in seven additional classifications, including 8601, *Engineers/Oil or Gas Geologists or Scouts/Forest Engineers*; 8741, *Real Estate Agencies*; 8749, *Mortgage Bankers*; 8801, *Credit Unions*; 8808, *Banks*; 8822, *Insurance Companies*; and Classification 8874, *Instrument Mfg. – electronic/Computer or Computer Peripheral Equipment Mfg./Telecommunications Equipment Mfg./Audio/Video Electronic Products Mfg./Integrated Circuit and Semiconductor Wafer Mfg.* In order to appropriately reflect the payroll limitation in the expected loss rates for these classifications, for which the experience period includes payroll experience from policies in which the maximum payroll limitations do not apply, the expected loss rates for these classifications are adjusted to reflect the payrolls that will not be limited in the experience rating computation. The factors used to adjust the expected loss rates for these classifications are consistent with those used to adjust the classification relativities. The factor estimated for each classification's expected loss rate are shown in Table 1.

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[13] Policies incepting between April 1, 2019 and March 31, 2020 compared to policies incepting between April 1, 2021 and March 31, 2022.

[14] A number of classifications assigned to NAICS Sectors 51, 52, 54, or 92 and 8810 combined have recently become subject to maximum payroll limitations creating challenges in determining the loss to payroll trend for those sectors. As a result, the statewide average trend is used in lieu of the individual NAICS Sector trend for those sectors.

**Table 1 – Adjustments for Payroll Limitations to Expected Loss Rates**

| Classification | Effective Date | Full Adjustment | Proportion of Limited Payroll in Experience Period[15] | Factor to Apply to Expected Loss Rate[16] |
|---|---|---|---|---|
| 7607 | 1/1/2020 | 20% | 88.9% | 0.98 |
| 8743 | 1/1/2020 | 29% | 88.9% | 0.97 |
| 8803 | 1/1/2020 | 19% | 88.9% | 0.98 |
| 8820 | 1/1/2020 | 33% | 88.9% | 0.96 |
| 8859 | 1/1/2020 | 27% | 88.9% | 0.97 |
| 8601 | 9/1/2022 | 14% | 0.0% | 0.86 |
| 8741 | 9/1/2022 | 30% | 0.0% | 0.70 |
| 8749 | 9/1/2022 | 27% | 0.0% | 0.73 |
| 8801 | 9/1/2022 | 22% | 0.0% | 0.78 |
| 8808 | 9/1/2022 | 22% | 0.0% | 0.78 |
| 8822 | 9/1/2022 | 19% | 0.0% | 0.81 |
| 8874 | 9/1/2022 | 20% | 0.0% | 0.80 |

**D-Ratios**

A classification's D-ratio represents the proportion of the expected losses in the classification that is estimated to be primary. The D-ratio for each classification and each primary threshold included in the Experience Rating Plan is calculated based on the proportion of that classification's own claim costs which is primary. The data used is based on WCIRB unit statistical data for the most recent three years available (polices incepting between December 1, 2017 and November 30, 2020), adjusted to the experience period cost level underlying policies incepting between September 1, 2023 and August 31, 2024 (generally policies incepting between September 1, 2019 and August 31, 2020 at third unit statistical report level, policies incepting between September 1, 2020 and August 31, 2021 at second unit statistical report level, and policies incepting between September 1, 2021 and August 31, 2022 at first unit statistical report level).[17]

The formula for a classification's D-ratio credibility is: N / (N + K), where N equals the number of indemnity claims for the three-year experience period and K is a credibility constant that is determined by the relationship between the in-group and between-group variance of the threshold being evaluated. The complement of credibility is the D-ratio for the classification's retro hazard group. In reviewing the indicated credibility constants K for the September 1, 2023 Regulatory Filing, staff observed some volatility in the data that will be discussed at the meeting.

[15] For classifications with maximum payroll limitations effective January 1, 2020, the payroll limitations apply to 32 out of 36 months of the experience period. For classifications with maximum payroll limitations effective September 1, 2022, the payroll limitations does not apply to any of the experience period.

[16] Equal to 1.0 - [Full Adjustment] * (1.0 - [Proportion of Limited Payroll in Experience Period]). These factors will bring the loss to payroll ratios underlying the classification relativities which are on a fully payroll limited basis to the basis underlying the experience period for September 1, 2023 to August 31, 2024 experience modifications.

[17] Beginning with the January 1, 2019 Experience Rating Plan, the first $250 of each claim is eliminated from the experience rating calculation. In deriving the D-ratio for each classification, the first $250 of each claim is eliminated from both the expected losses and the primary component of expected losses.

# Item AC23-02-02
# Clerical Telecommuting Employees

In the January 1, 2021 Regulatory Filing, the WCIRB proposed and the Insurance Commissioner approved the establishment of Classification 8871, *Clerical Telecommuter Employees – N.O.C.*, as a Standard Exception classification applicable to clerical employees who work more than 50% of their time at their home or other office space away from any location of their employer.

At the August 4, 2020 meeting, the Committee discussed the advisory pure premium rate to be proposed for the new classification. As there was no California specific experience available for the new telecommuting classification, the Committee reviewed the telecommuting loss to payroll experience relative to Classification 8810 experience in states that had previously established a clerical telecommuting classification. The data showed lower telecommuting loss to payroll ratios in most, but not all, states. However, the available telecommuting experience was relatively sparse, pre-dated the COVID-19 pandemic and it was unclear how relevant that experience was in projecting 2021 and later relative cost levels in California given the pandemic-related rapid rise in telecommuting in the state and the greater prevalence of cumulative trauma claims. As a result, the Committee recommended that the January 1, 2021 advisory pure premium rate for Classification 8871 be proposed at the same level as that for Classification 8810.The Committee also recommended that as soon as experience reported in Classification 8871 becomes available, it should be reviewed to assess whether a differential in advisory pure premium rates between Classifications 8810 and 8871 may be appropriate. The Minutes of the August 4, 2020 Committee meeting related to this item are included.

A summary of the initial unit statistical loss and payroll experience and claim characteristics reported thus far in Classification 8871 on 2021 policies will be presented at the meeting.

# Item AC20-08-04
# Telecommuting Advisory Pure Premium Rate

The Committee was reminded that the WCIRB proposed establishing Classification 8871, *Clerical Telecommuter Employees – N.O.C.*, as a Standard Exception classification applicable to clerical employees who work more than 50% of their time at their home or other office space away from any location of their employer. This proposal was part of the WCIRB's January 1, 2021 Regulatory Filing.

In discussing the January 1, 2021 advisory pure premium rates to be proposed to the Insurance Commissioner this August, staff suggested proposing an advisory pure premium rate for Classification 8871 equal to that of Classification 8810, *Clerical Office Employees,* until such time as California-based experience for the new classification is available that supports a differentiation in advisory pure premium rates. At the June 11, 2020 Governing Committee and June 12, 2020 Actuarial Committee meetings, Committee members recommended that, since the rate for the telecommuting classification in most states is well below that of the clerical classification, consideration be given to basing a differential for Classification 8871's proposed 2021 advisory pure premium rate on information from other jurisdictions.

The Committee was advised that, in response to these requests, staff analyzed the historical loss to payroll experience in New York and a number of NCCI states that have established Classification 8871 for telecommuter employees.[1] The loss to payroll ratio for Classification 8871 in New York has been volatile, but on average over the last five years was significantly higher than that for Classification 8810. Conversely, in the NCCI states that have a telecommuter classification, the average loss to payroll ratio for Classification 8871 has been significantly lower than for Classification 8810. The Committee was further advised that in all of these states reported Classification 8871 payroll is very small relative to that for Classification 8810.

Staff provided the Committee with information that showed the distribution of policy year 2017 payroll by geographical region within California for (1) Classification 8810, (2) all classifications that include clerical within their definition and (3) all other classifications combined. This information showed that, in a number of regions, the payroll of classifications that include clerical and for which Classification 8871 would not apply is significantly greater than that reported in Classification 8810 and, as a result, the impact of the new classification will likely be somewhat muted in California.

Staff also provided the Committee with information about the leading "Cause of Injury" codes and "Nature of Injury" codes, respectively, for these classification groupings showing that claims with cumulative injury and repetitive motion Cause of Injury codes are relatively more common in Classification 8810 and in classifications that explicitly include clerical than in other classifications. Similarly, claims with mental stress, carpal tunnel syndrome and other cumulative injury Nature of Injury codes are relatively more common in Classification 8810 and in classifications that explicitly include clerical than in other classifications. Staff indicated that it is not clear the extent to which the frequency of these types of claims would be different for an employee performing clerical duties at home rather than in the office. Staff also pointed out that, with the COVID-19 pandemic, many workers transitioned to working at home in non-optimal "home offices" virtually overnight, which created additional uncertainty as to the potential for these types of injuries to occur more frequently.

Finally, staff highlighted the fact that California has a separate classification for computer programmers and software developers that includes clerical employees. This classification is a high wage/low frequency classification, constitutes 9% of total statewide payroll in California and has an advisory pure premium rate much lower the advisory pure premium rate for Classification 8810. Since the California computer programmer and software developer classification includes clerical employees, the proposed telecommuter classification would not apply to this industry in California, unlike New York and NCCI

[1] New York is the only independent rating bureau that has established a telecommuter classification.

jurisdictions that include computer programmers and software developers in the clerical and telecommuter classifications.

A Committee member suggested that, while for the reasons discussed it is probably not appropriate to use historical data from other states as the basis to establish the 2021 Classification 8871 advisory pure premium rate, staff should review California experience reported in the telecommuting classification as soon as possible. Staff indicated that the WCIRB should be able to use its transactional and policy data to get an early sense of how the California telecommuter experience is emerging relative to Classification 8810 and would present that data next year so the Committee could evaluate if a differential would be appropriate for the September 1, 2022 pure premium rate filing.

Following the Committee's discussion, there was a consensus that the January 1, 2021 advisory pure premium rate for Classification 8871 should be the same as Classification 8810. Staff advised the Committee members that their feedback would be provided to the Governing Committee at the August 12, 2020 meeting.