

# WCIRB Governing Committee Meeting September 1, 2023 Pure Premium Rate Filing Summary of Actuarial Committee Recommendations

April 19, 2023



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# 01

## Summary of Recommendations



# Actuarial Committee Review

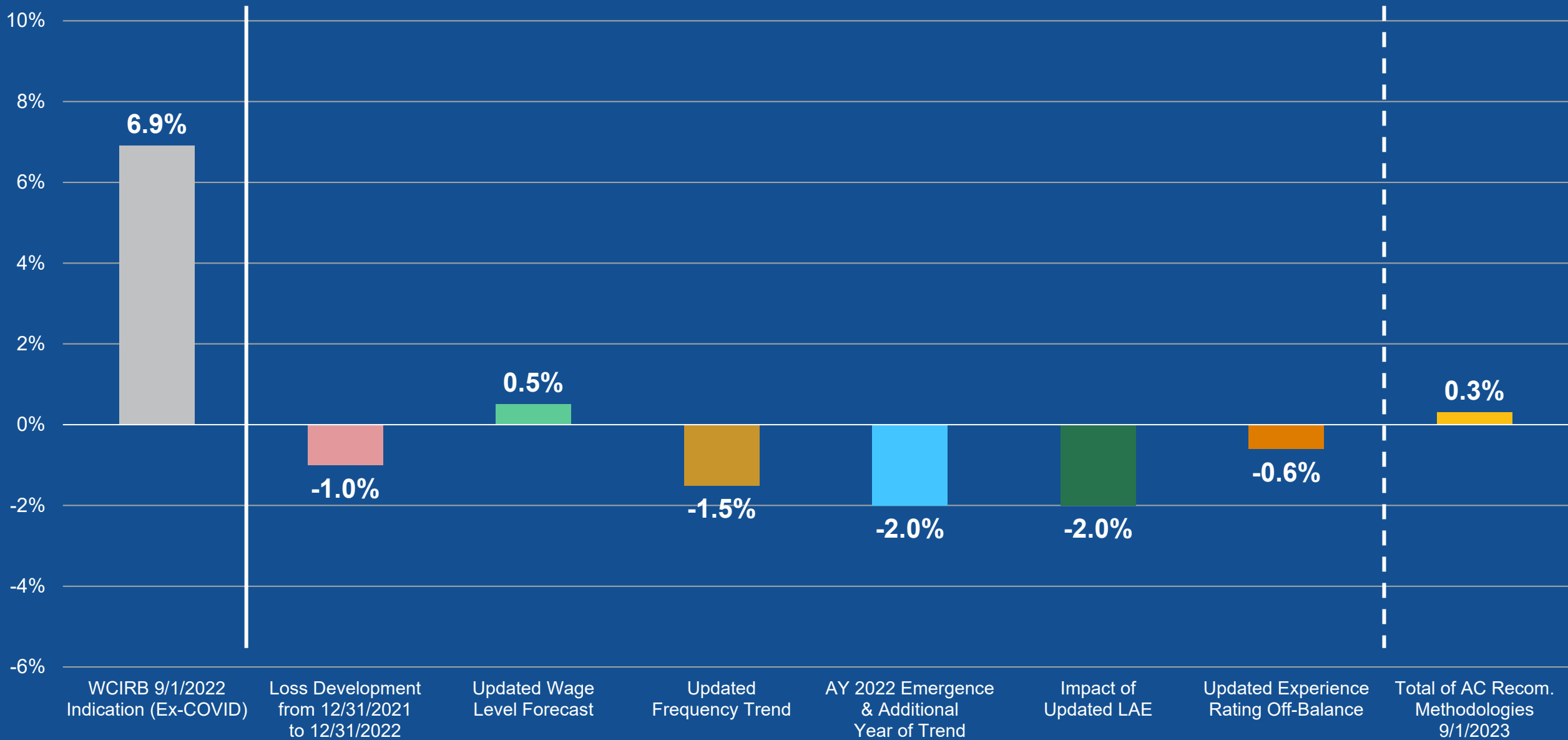
December 31, 2022 Experience

Key Considerations
Modest Downward Indemnity Loss Development
Stable Medical Loss Development
Claim Frequency Flat
Potential Medical Inflation
COVID Activity Settling Down

- Recommended Methodologies Generally Consistent with 9/1/2022 Filing
- COVID Experience Excluded from Projection
- 9/1/2023 Indicated Advisory Pure Premium Rate Change: +0.3%
- Average Pure Premium Rates
  - 9/1/2023 Actuarial Committee Basis: \$1.50
  - 9/1/2022 WCIRB Indicated: \$1.60
  - 9/1/2022 CDI Approved: \$1.50



# Drivers of Indicated Advisory Pure Premium Rate Change – 9/1/2022 to 9/1/2023



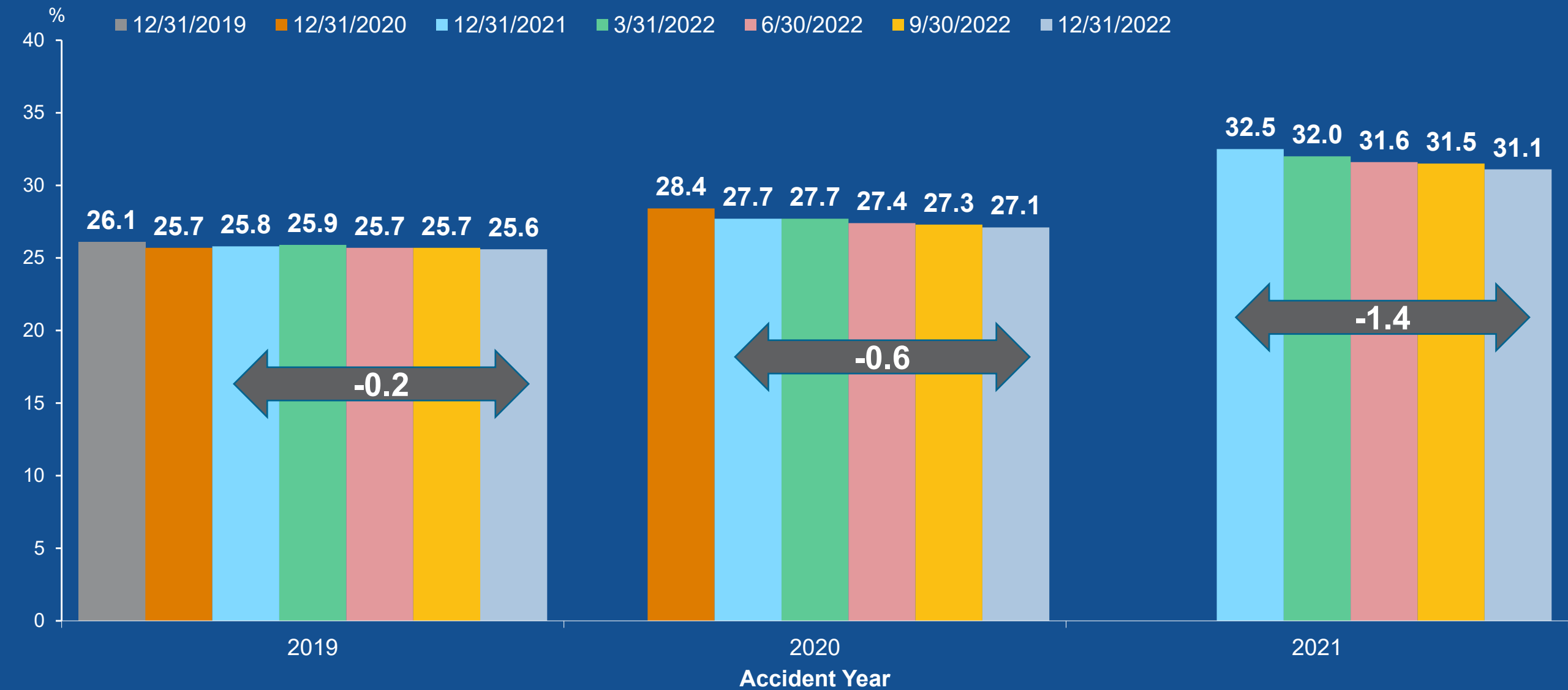
# 02

## Actuarial Committee Recommended Methodology



# Developed Indemnity Loss Ratios

As of December 31, 2022



# Developed Medical Loss Ratios

As of December 31, 2022





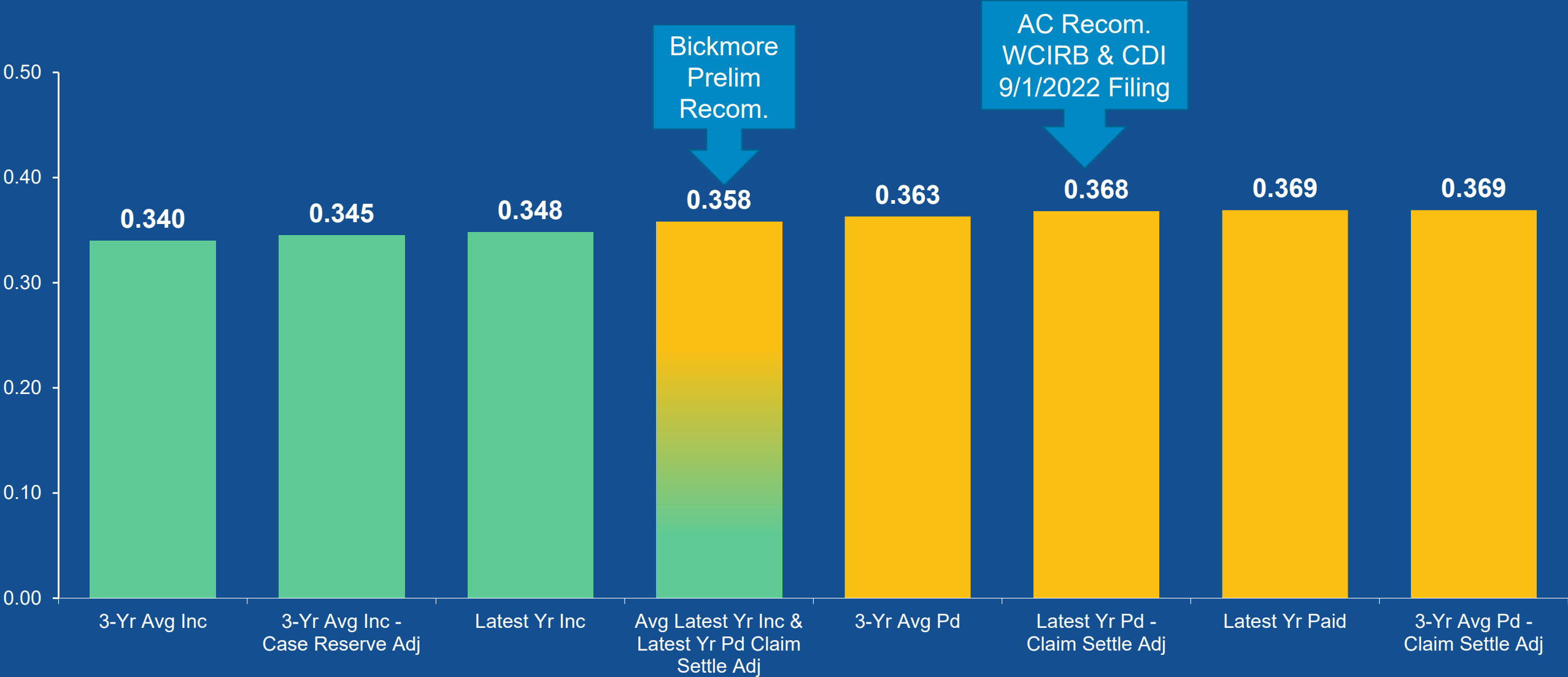
# Loss Development Methodology

## Actuarial Committee Recommendation

- Latest Year Reform & Claim Settlement Rate-Adjusted Paid
  - Adjusted paid development continues to be a reliable basis to project future loss 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 incurred and adjusted paid methods show comparable accuracy at earlier maturities
  - Incurred development projections are more volatile at later maturities
    - Incurred development continues to be impacted by reforms, claim settlement rate increases, and declines in pharmaceutical costs in later period development
    - These impacts are more quickly realized in paid development and can be more consistently adjusted for when they cause distortions
- Actuarial Committee Votes on Indemnity and Medical Loss Development Methodology
  - **9** in Favor, **1** Opposed
  - Committee member who is opposed supports giving some weight to the incurred method

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

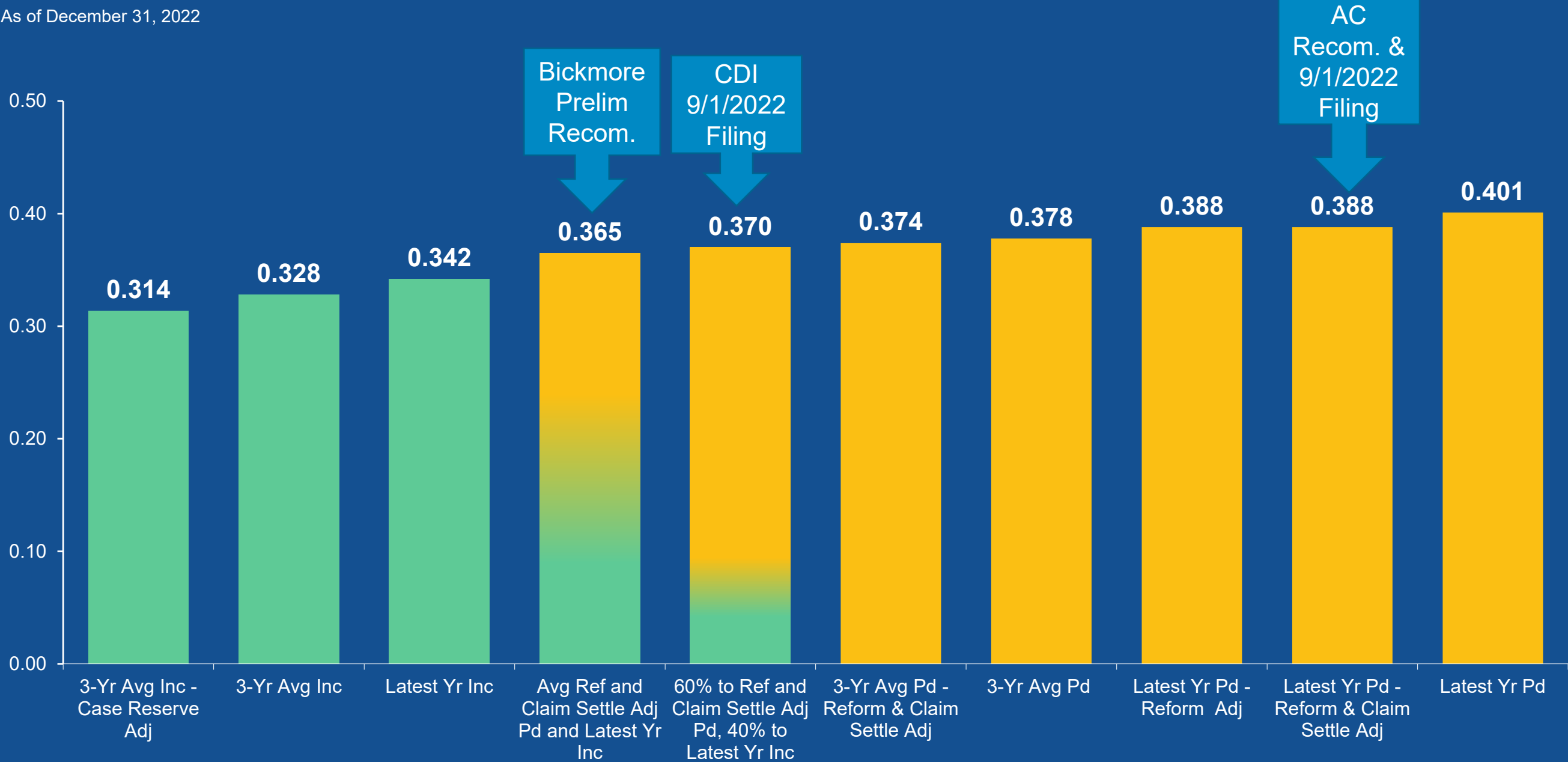
As of December 31, 2022





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

As of December 31, 2022



# Trending Methodology

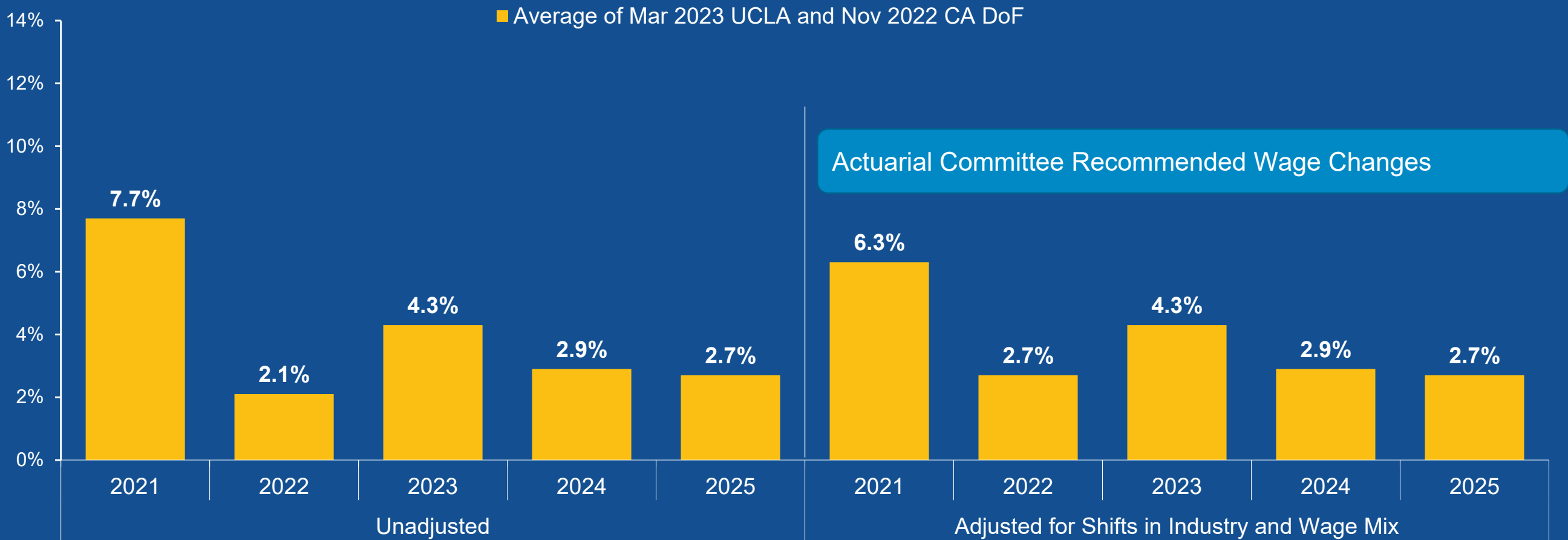
## Actuarial Committee Recommendation

- Wage Inflation Adjustments to Calendar Years 2020 through 2022
  - Employment shifted between industry segments and by wage level
  - AC recommended adjustments remove the impact of these shifts
- Separate Frequency and Severity Trend Projections Applied to the 2021 and 2022 Accident Year Ratios
  - WCIRB frequency model projects modest frequency decline post 2021 due to recovering economy
  - Severity growth projections remain modest, despite potential medical inflationary increases
  - Projection generally consistent with 5-year exponential trend
- Actuarial Committee Votes on Indemnity and Medical Trending Methodology
  - **9** in Favor – **1** Opposed
  - Committee member who is opposed supports lower projections for frequency and severity



# Average Wage Level Change Forecast

As of March 2023

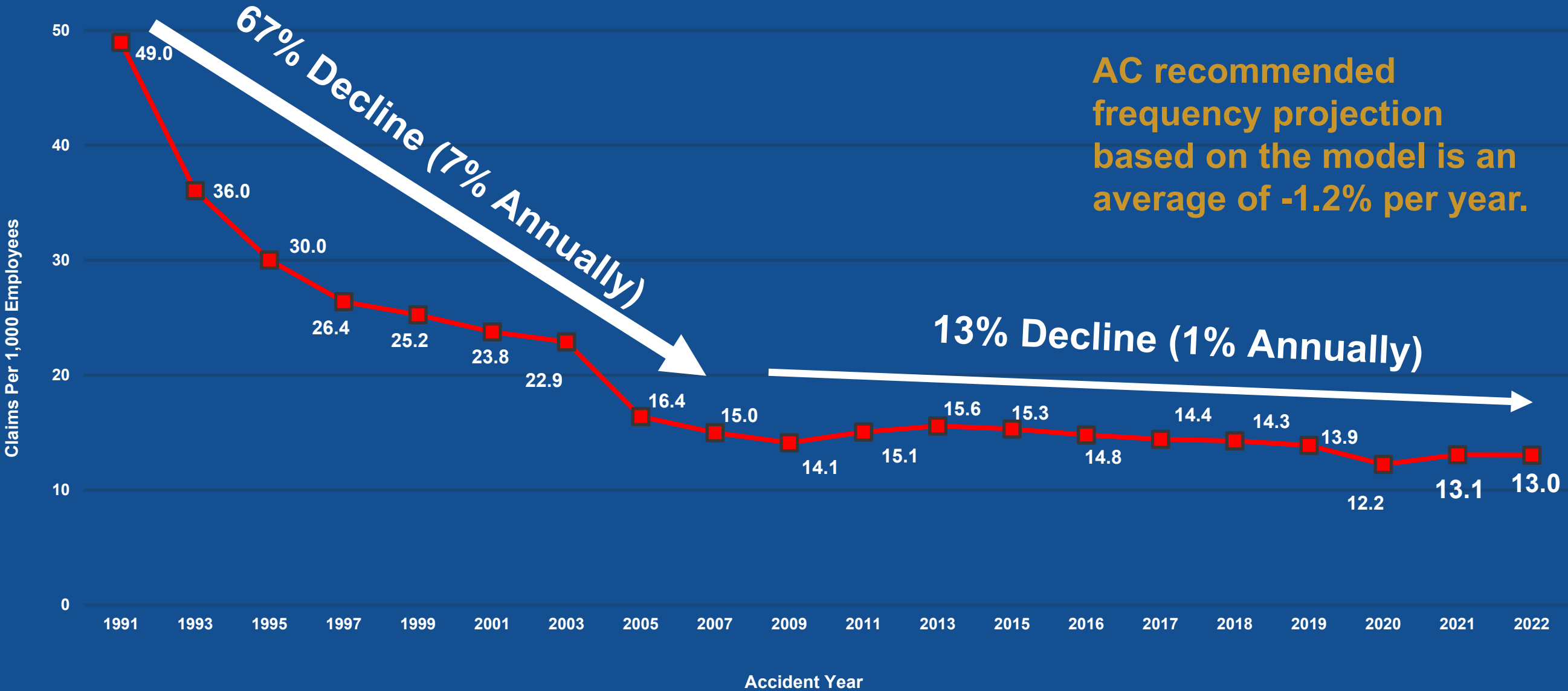


## Average Annual Adjusted Wage Change Projection:

9/1/2022 Filing: 3.7%

Updated Forecast: 3.3%

# Indemnity Claims Per 1,000 Employees

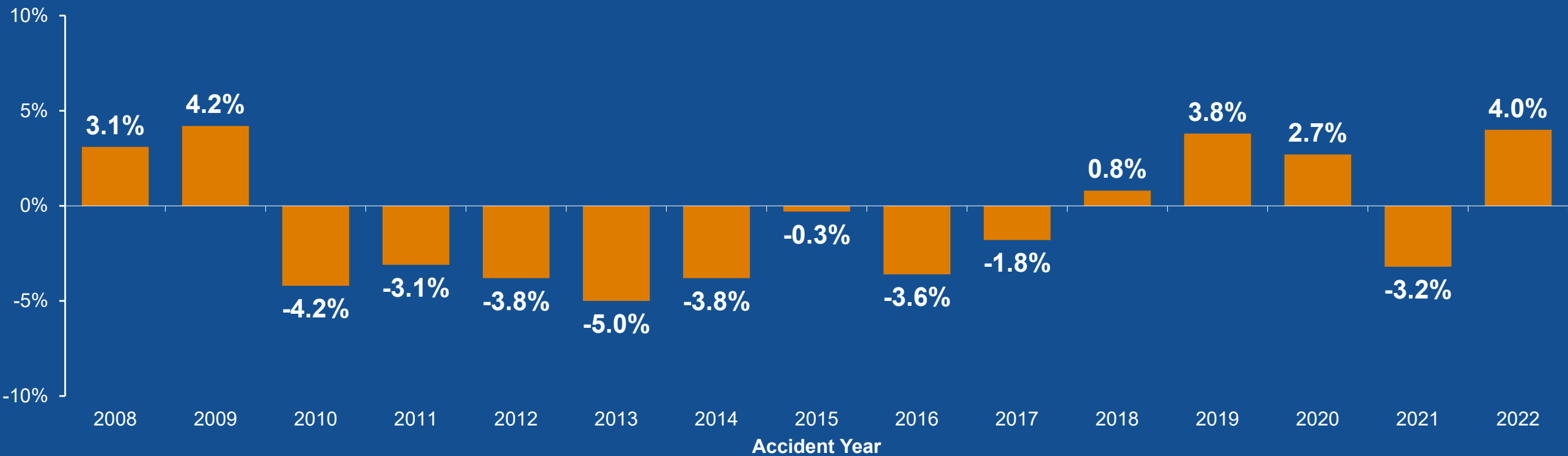


Source: WCIRB Unit Statistical and Aggregate Financial Data excluding COVID-19 claims



# Projected Changes in On-Level Indemnity Severity

As of December 31, 2022



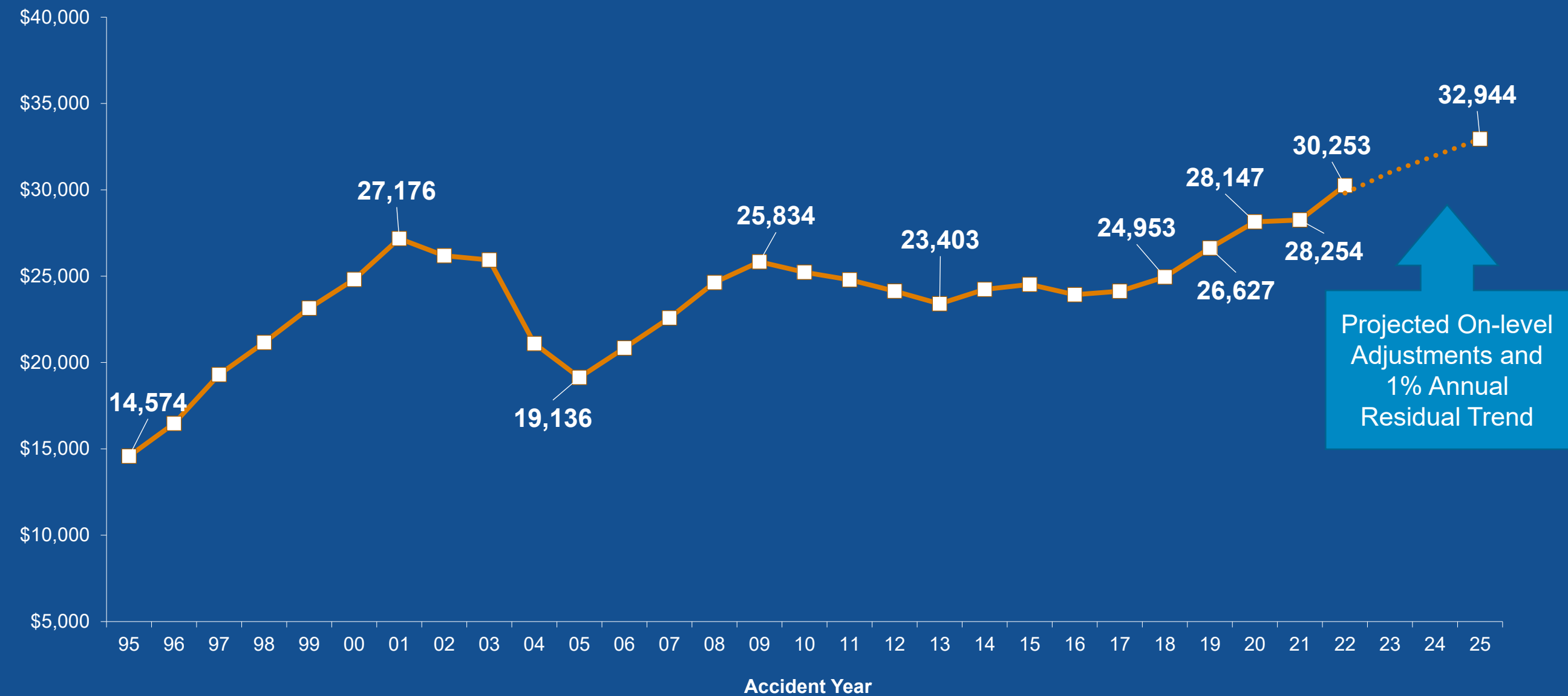
## Annual Exponential Trend Based on:

- 1990 to 2022: 0.8%
- 2005 to 2022: -1.1%
- 2018 to 2022: 1.4%

AC Recommended: **+1.0%**

# Ultimate Indemnity per Indemnity Claim

As of December 31, 2022



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

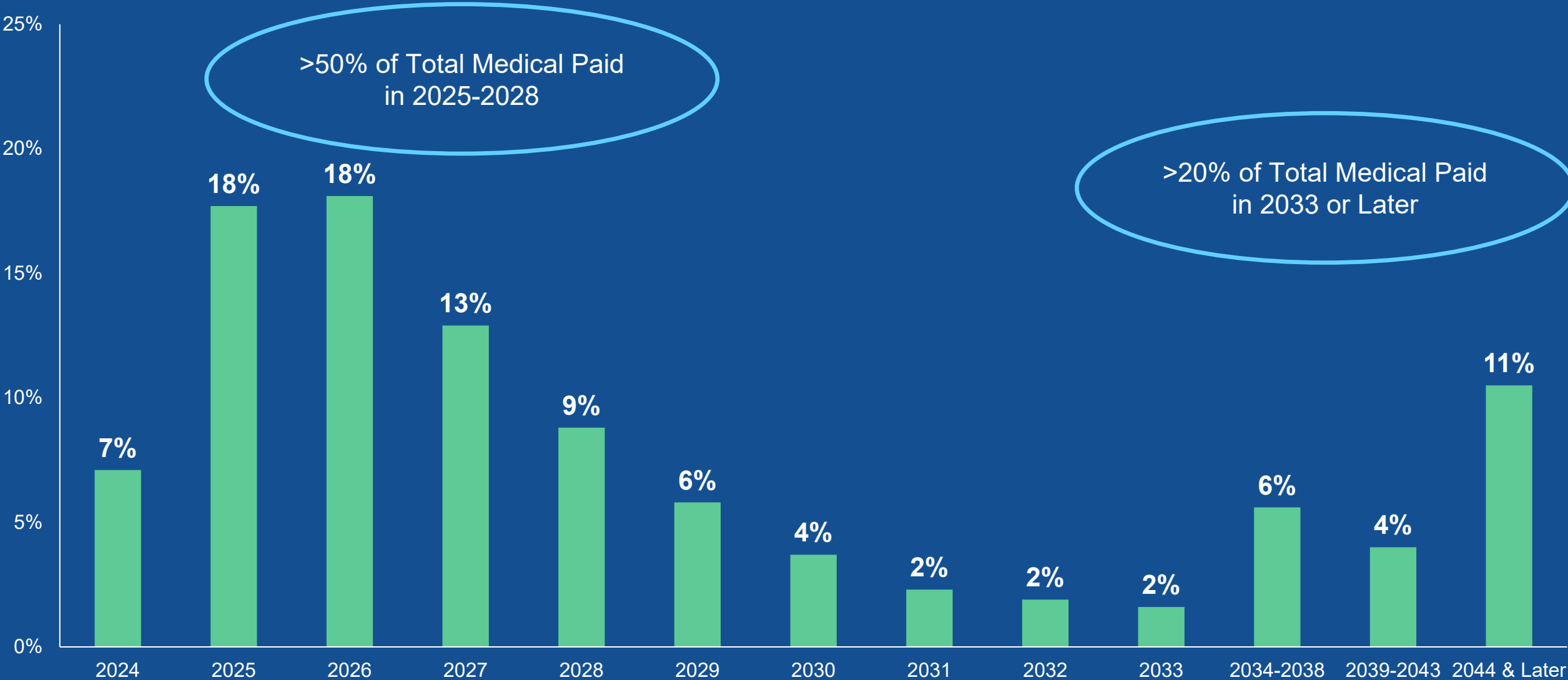
As of December 31, 2022



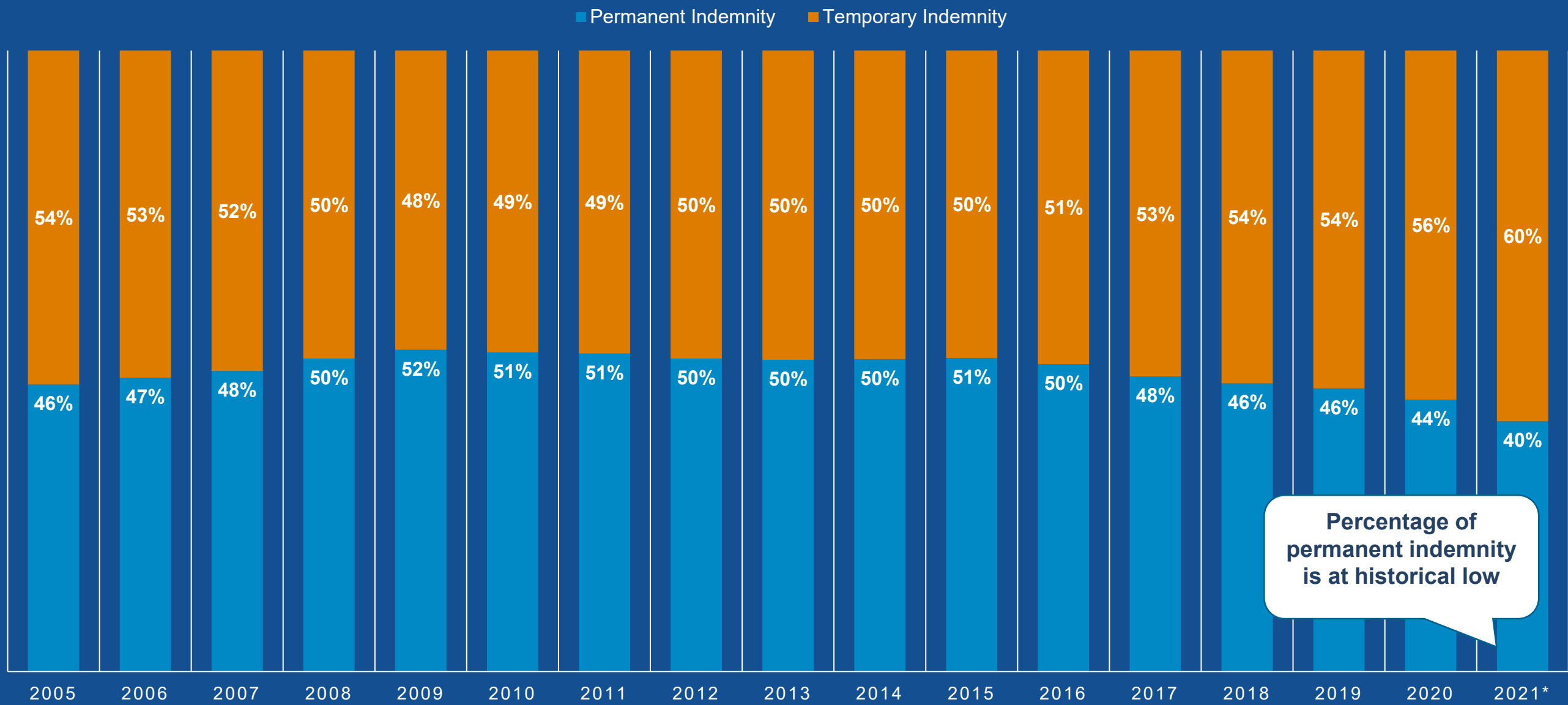


# Policy Year 2024 – Estimated Medical Paid by Year

As of December 31, 2022



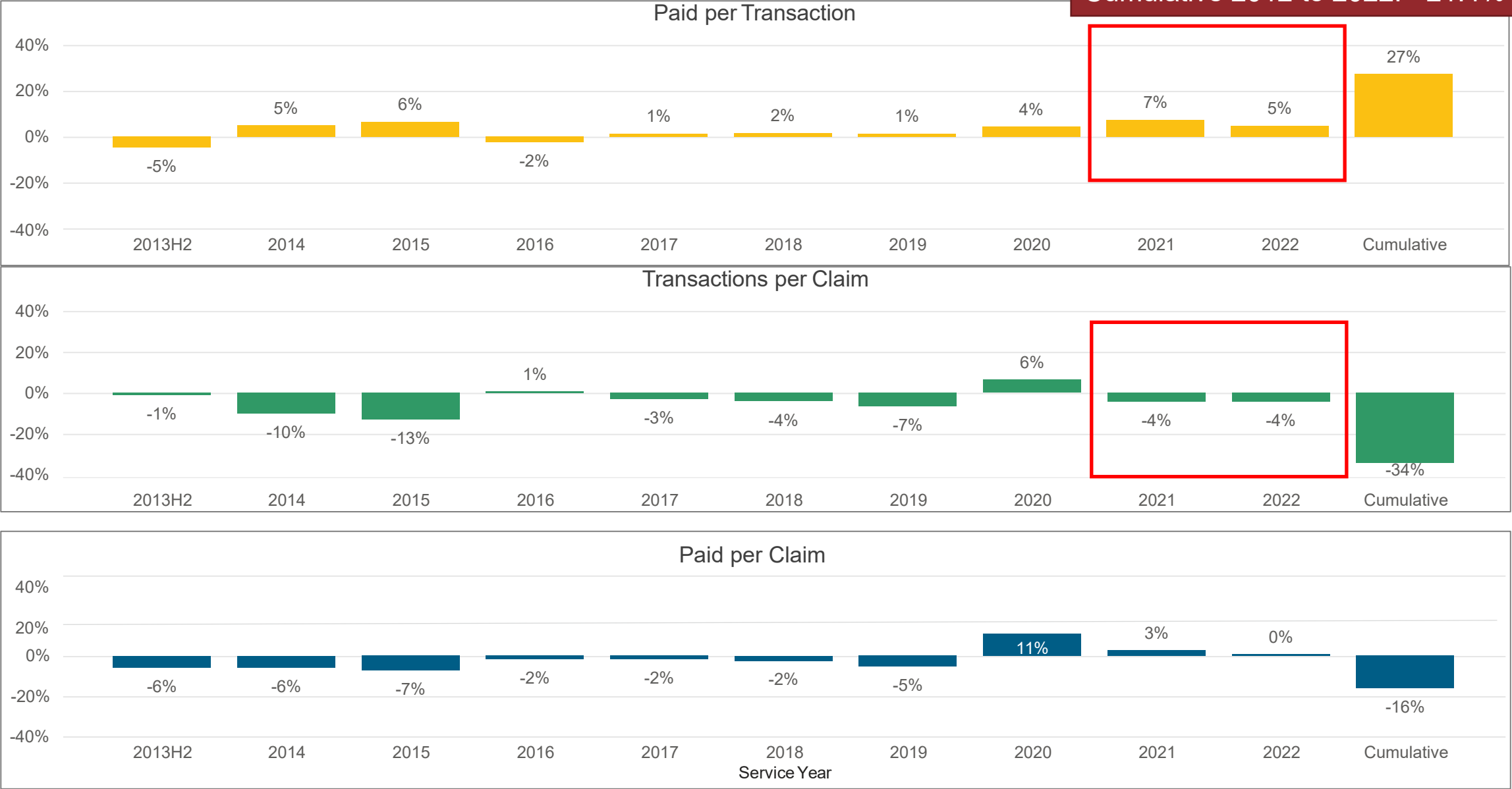
# Distribution of Estimated Ultimate Number of Indemnity Claims by Injury Type



Percent Change in *All Medical Services* Cost per Claim

As of February 7, 2023

CPI-U: Medical care services  
2020 to 2021: +1.9%  
2021 to 2022: +4.3%  
Cumulative 2012 to 2022: +21.4%



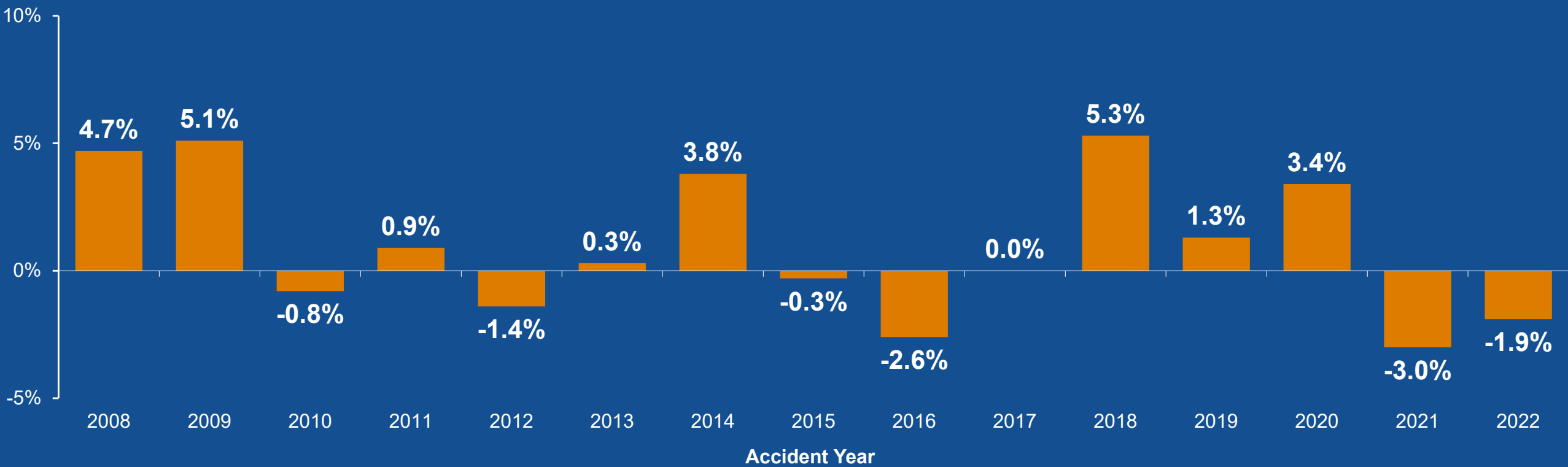
# Review of Medical Fee Schedule Changes

Fee Schedule	Effective Date	Impact to Fee Schedule	Share of Total Medical Services	Impact on Total Medical Services	2022 Change Impact
Inpatient	12/1/2022	2.5% to 4.1%	7.9%	0.3%	0.4%
DMEPOS	1/1/2023	8.5%	10.5%	0.9%	0.1%
Path/Lab	1/1/2023	0.2%	0.2%	< 0.1%	< 0.1%
Ambulance	1/1/2023	8.7%	0.9%	< 0.1%	< 0.1%
Physician	2/15/2023	1.7%	48.8%	0.8%	0.5%
Outpatient/AS C	3/1/2023	6.8%	11.7%	0.8%	0.4%
Others*	N/A	N/A	19.8%	N/A	N/A
<b>Total</b>			<b>100%</b>	<b>2.8%</b>	<b>1.4%</b>



# Projected Changes in On-Level Medical Severity

As of December 31, 2022



## Annual Exponential Trend Based on:

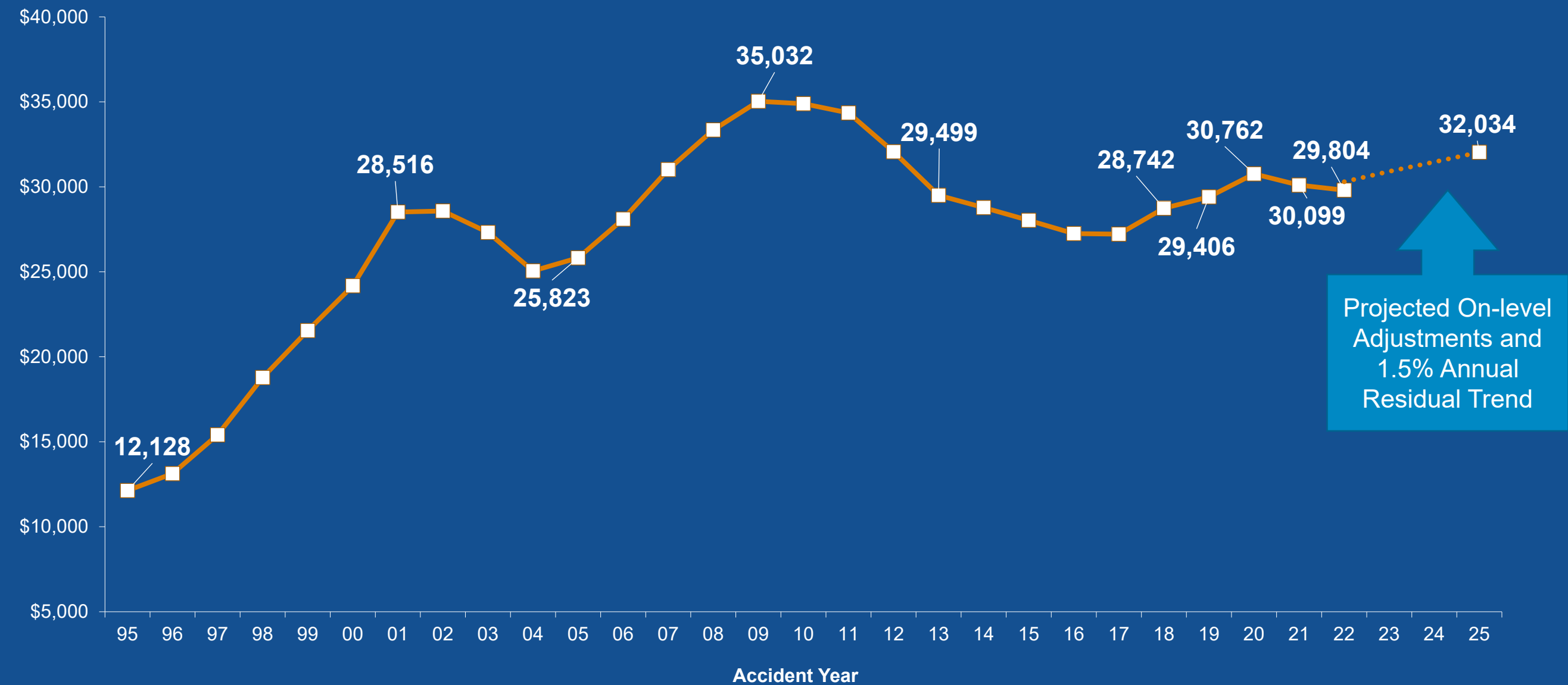
- 1990 to 2022 (including MCCP): 4.6%
- 2005 to 2022: 1.3%
- 2018 to 2022: 0.0%
- **AC Recommendation: +1.5%**

## Considerations:

- Increased medical costs have been offset by lower utilization and shift toward temporary claims
- Next year's fee schedule impact will be higher than typical
- Larger utilization declines will be needed to overcome upcoming medical cost increases

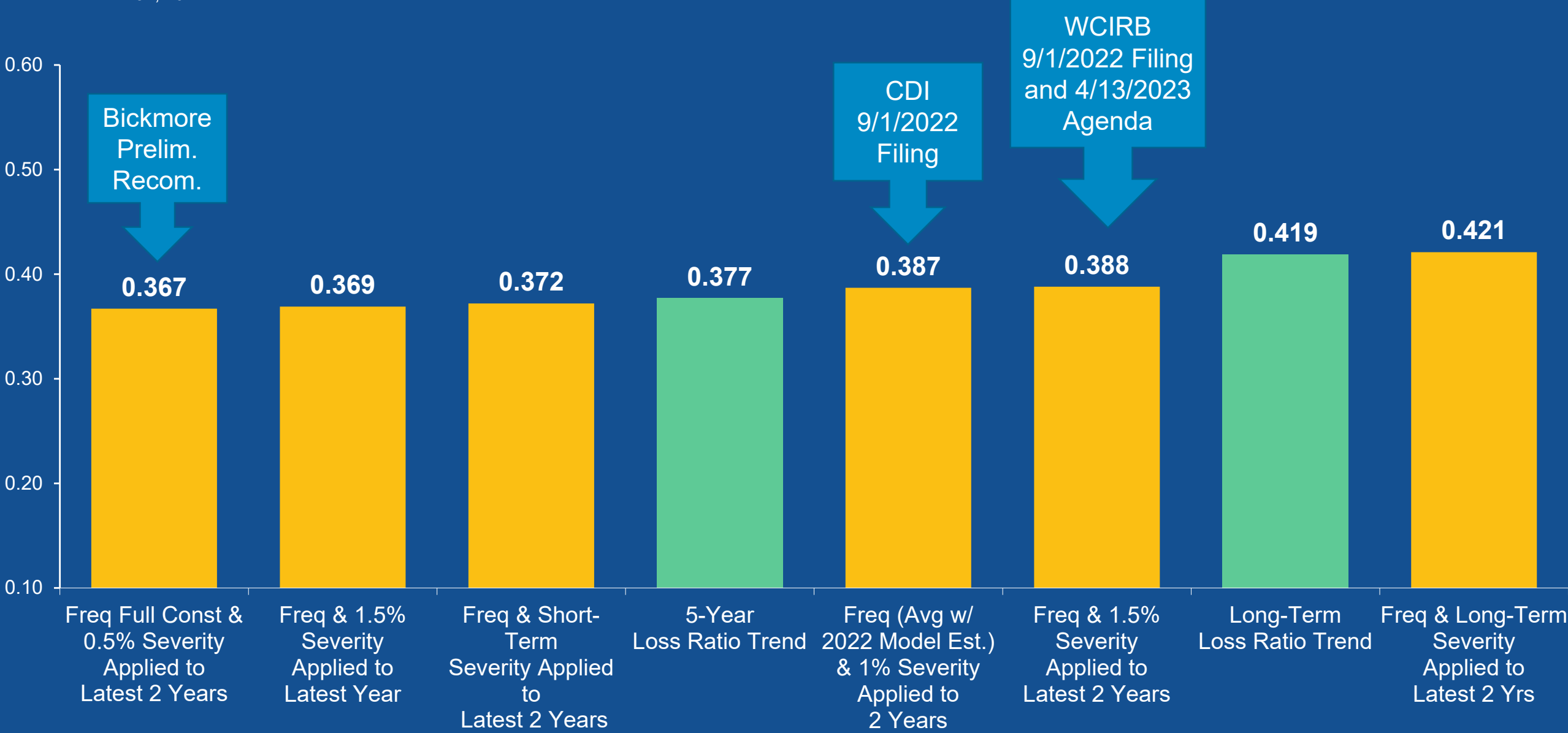
# Ultimate Medical per Indemnity Claim

As of December 31, 2022



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

As of December 31, 2022



# Loss Adjustment Expense Projection Methodology

## Actuarial Committee Recommendation

### ULAE

- ULAE data for 2016-2021 reflects updated allocation method (open indemnity counts)
- 2022 ULAE data not yet available
- 2020 ULAE not used (distorted by pandemic)
- ULAE projection methodology consistent with prior years (private insurers only)

### ALAE

- Trended ultimate severity per open indemnity claim based on private insurer ALAE
- Adjustment to ALAE development for claim settlement declines during pandemic period
- Latest year development used and trend applied to 2021 and 2022 as in loss projection

### MCCP

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

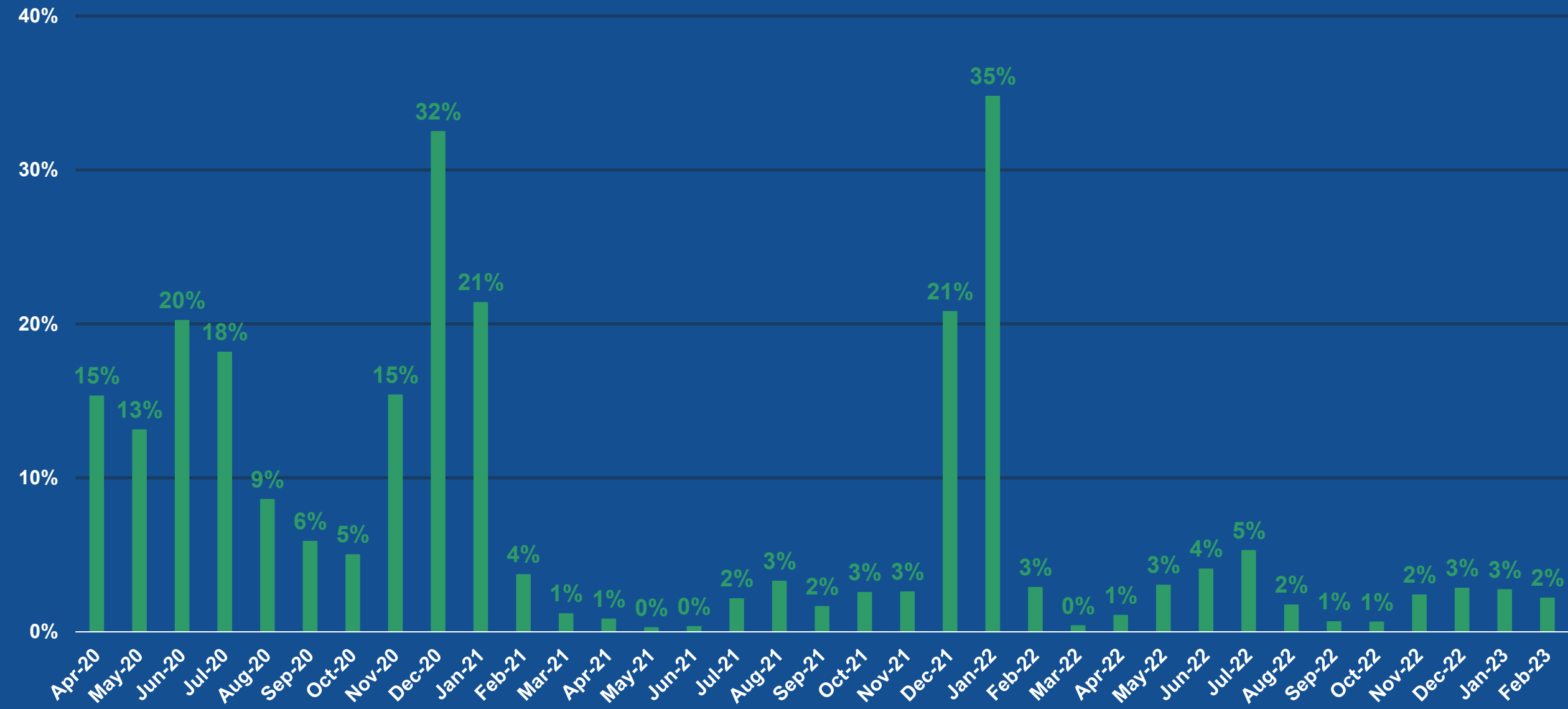
**Projected LAE Ratio:** 31.7% of losses (compared to 32.1% in 9/1/2022 Filing)

- **Actuarial Committee Votes:** ULAE, ALAE & MCCP - **9** in Favor – **1** Opposed
- Committee member who is opposed supports general methodology but used different loss and frequency projections



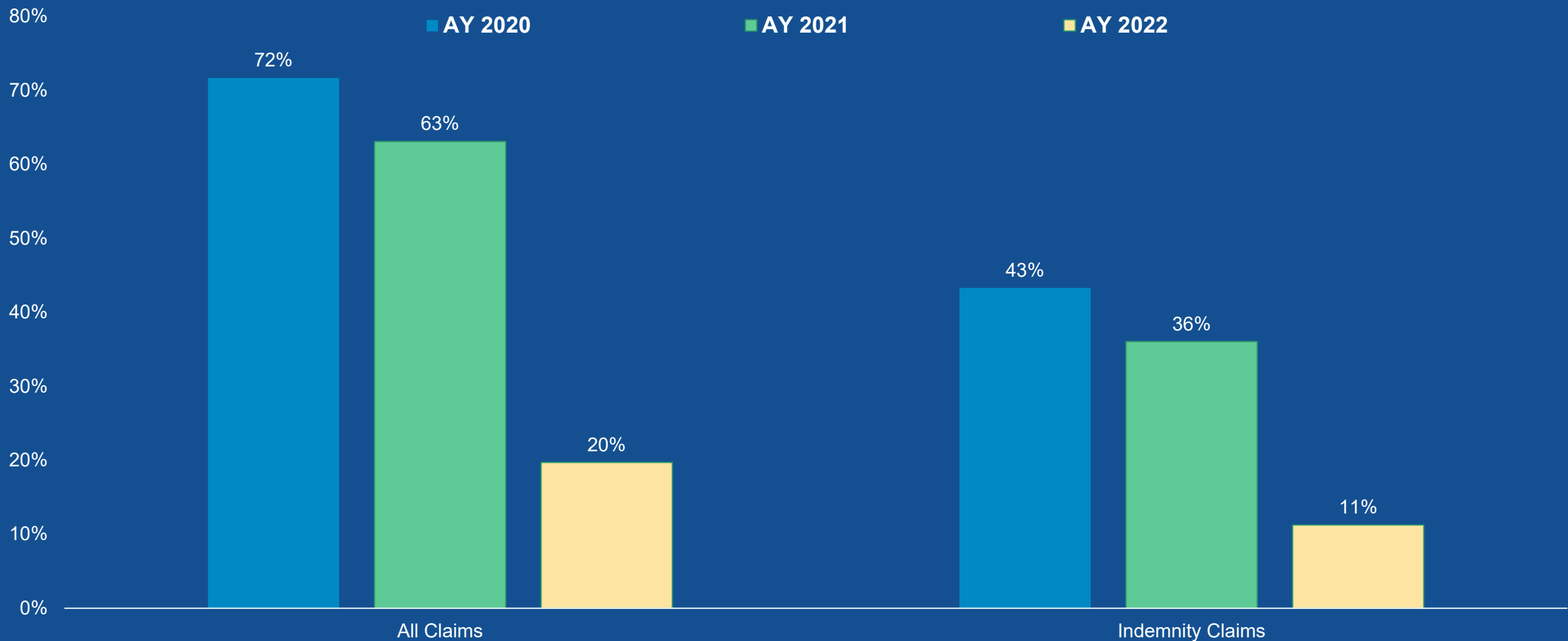
# COVID-19 Share of Indemnity Claims

As of March 7, 2023

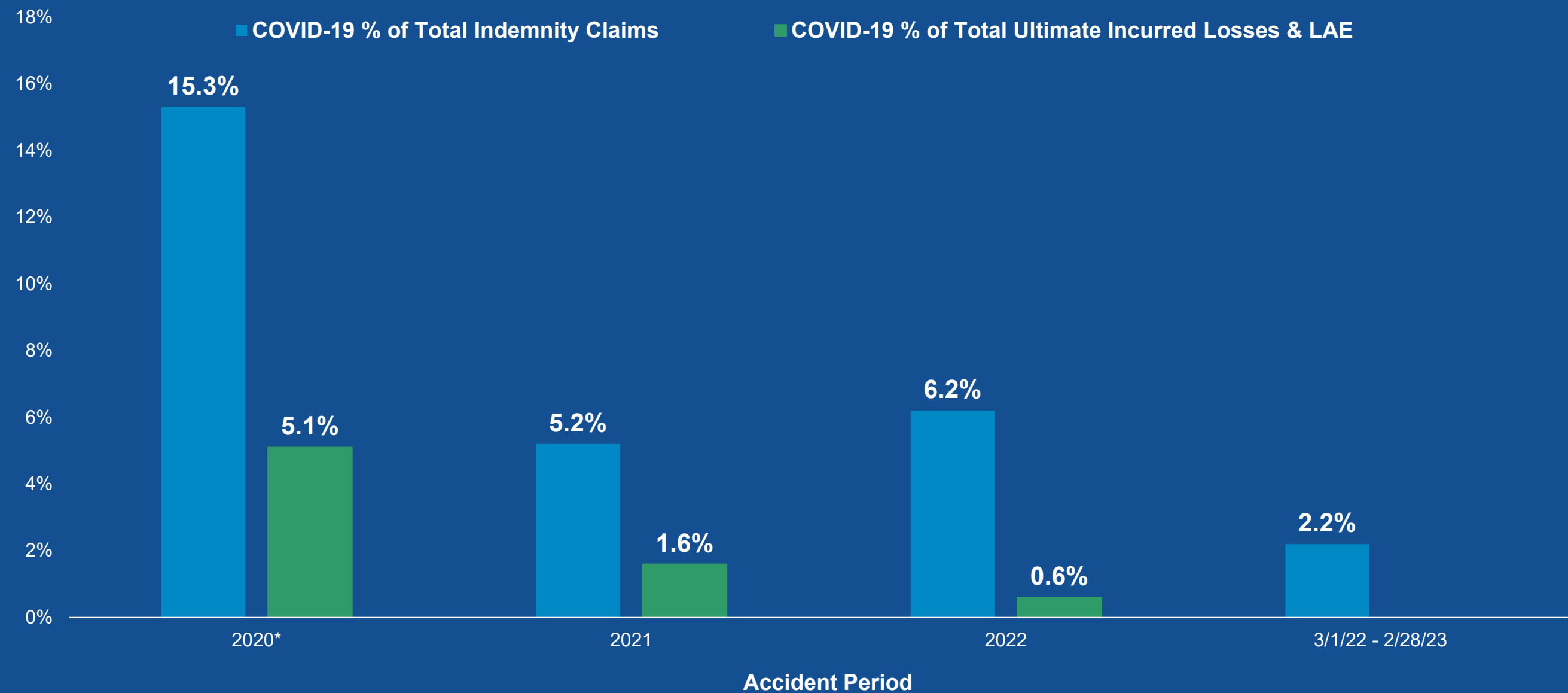


# Ratio of COVID-19 to Non-COVID-19 Average Claim Severity

As of December 31, 2022



# Estimated Share of COVID-19 Indemnity Claims and Ultimate Losses & LAE



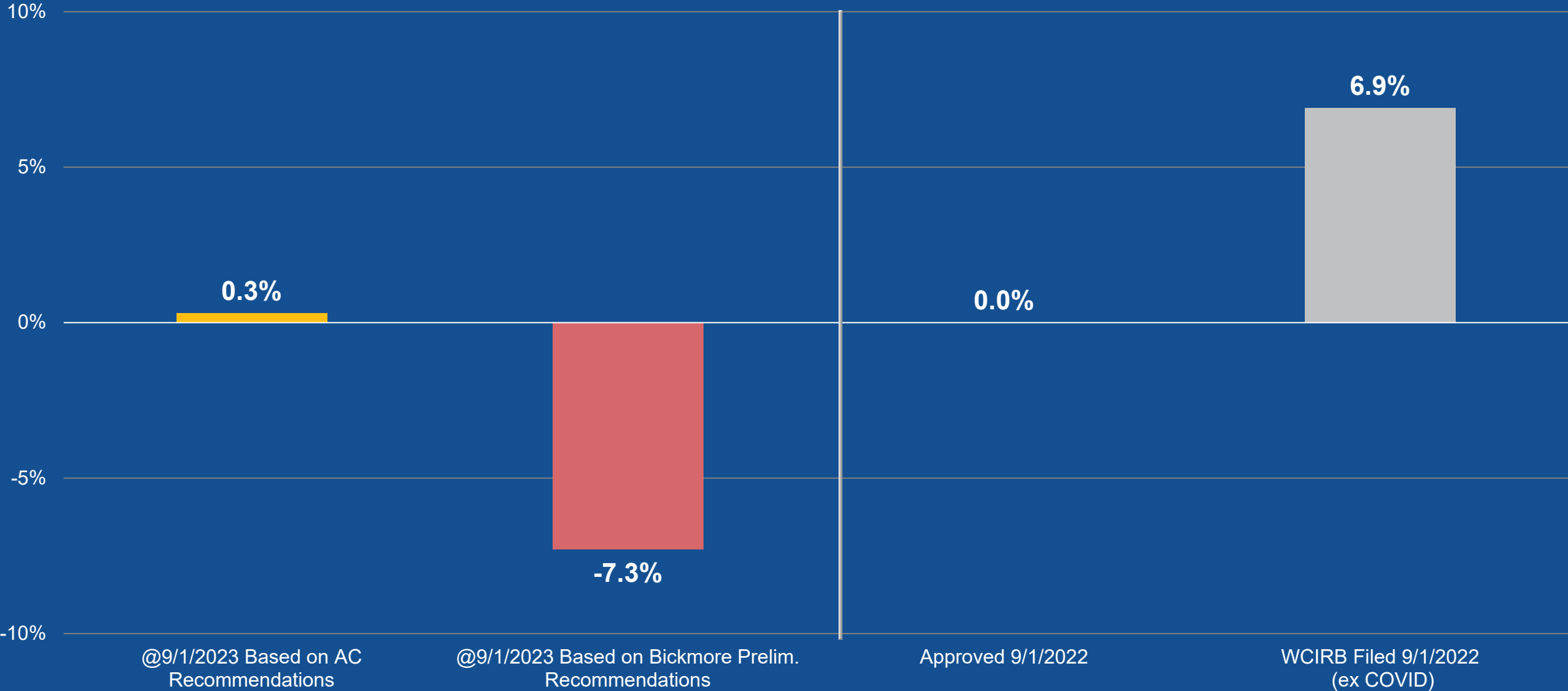
# 03

## Summary of Projection





# Indicated Advisory Pure Premium Rate Changes



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# 04

## Discussion

