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Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
April 13, 2023	9:30 AM	WCIRB California 1901 Harrison Street, 17th Floor Oakland, CA	Sean Cooper

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Matt Jahnke	CopperPoint Insurance Companies
Joel Clark	Accident Fund Group, Inc.
Neal Leibowitz	Liberty Mutual Group
Joanne Ottone	Berkshire Hathaway Homestate Companies
Mark Priven	Public Members of Governing Committee
Kate Smith	State Compensation Insurance Fund
Bryan Ware	AmTrust
Chris Westermeyer	Travelers

California Department of Insurance
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WCIRB
Bill Mudge
David Bellusci
Sean Cooper
Laura Carstensen
Jacob Kingsley
Tony Milano
Shane Steele*
Julia Zhang*
Claudia Zhou*

* Participated via teleconference

The meeting of the Actuarial Committee was called to order at 9:30 AM following a reminder of applicable antitrust restrictions, with Mr. Sean Cooper, Executive Vice President and Deputy Chief Actuary, presiding.

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Notice

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Item AC16-06-05
Update to Medical Severity Trends by Component

Staff summarized the latest information on medical severity patterns by type of service. The Committee was advised that the overall medical cost per claim in 2022 remained the same as in 2021, driven by a 5% increase in the paid per medical transaction offset by a 4% decrease in the number of medical transactions per claim. Staff noted that on a cumulative basis, the medical cost per claim went down by 16% since the second half of 2012, mostly driven by continuous declines in service utilization (-34%).

As part of the update, the Committee was advised of a 55% reduction in the number of copy service transactions per claim between 2021 and 2022. The monthly data presented showed that the decline in copy service transactions predates the fee schedule change (effective July 15, 2022) and may have accelerated after the fee schedule update. Staff then summarized the Claims Working Group feedback that the volume of copy services in 2022 has been similar if not higher than prior years. Staff noted that the Claims Working Group also advised that recently more copy service bills may be processed and paid through petitions directly to the workers' compensation judge (Labor Code Section 5811 petitions) and may be outside of the standard medical bill review systems and thereby not reflected in the WCIRB's medical transaction data.

Given the Claims Working Group feedback and that copy services payments account for a very small share (0.7% in 2021) of medical payments, staff recommended not reflecting a specific adjustment for the cost impact of the 2022 update to the copy service fee schedule in the September 1, 2023 Pure Premium Rate Filing. The consensus of the Committee was that staff's recommendation was appropriate and that staff should consider reconciling the copy services costs reported in different sources. Staff agreed to continue monitoring the cost trend of copy services in the transaction data as well as in other sources of claim-related costs.

Item AC20-08-04
Impact of Economic Downturn on Pure Premium Rate Indications

Staff presented a summary of the WCIRB's use of economic data and forecasts as well as recommended statewide average wage changes for use in the September 1, 2023 Pure Premium Rate Filing.

WCIRB Use of Economic Data
Staff summarized how the economic data is used in the WCIRB Indemnity Claim Frequency Model. Staff noted that historical frequency values are adjusted to a common industry mix using USR payroll data at a classification level and adjusted to a common wage level using the most recent historical government wage data, including any adjustments selected for ratemaking purposes. Staff clarified that model projections were not adjusted for industry mix or wage level as the modeled data was already adjusted, and as such, model output is adjusted as well. Finally, staff noted that the economic variables used to fit the model were historical government values while values used for model projections use UCLA economic forecast data.

Staff noted that statewide average wage changes are observed changes from government agencies where available and the average of UCLA and Department of Finance forecasts for future years. It was further noted that these values are typically used without adjustment but are currently subject to two possible adjustments. Staff noted that historical wage changes may be adjusted for industrial mix impacts when the measured impact is significant and atypical while forecast changes would only be adjusted for industrial mix when estimated impacts are both significant and forecast changes in industrial mix appear very likely. Staff noted the second adjustment, for changes in the wage level distribution within industries, would only be applied to historical wage changes when appropriate survey level data is available and there is a known distortion, such as mass layoffs. Finally, staff noted that forecast wage changes would only be potentially made to unwind a portion of historical measurements as forecasts of survey level data are currently unavailable.

Statewide Average Wage Change Recommendations
Staff presented current observations and forecasts of average wage changes in 2020 through 2025, as shown below:

2020	2021	2022	2023	2024	2025
11.3%	7.7%	0.5%	4.3%	2.9%	2.7%

Staff recommended applying both the industrial mix and wage level distribution adjustments to the 2020 and 2021 observations as in the prior filing. The Committee generally supported this recommendation. Staff noted that the 2022 value of 0.5% was abnormally low and reminded the Committee that, as discussed at the March 21, 2023 meeting, the wage level distribution adjustment for 2022 was inappropriate because the implied aggregate wage change was inconsistent with the 0.5% wage change to be adjusted and that the adjustment would be directionally inconsistent with low observation. As an alternative, staff presented a comparison of wage level adjusted historical wage change series compared to the Current Employment Statistics (CES) Hourly wage change series. Staff noted that the CES also publishes a weekly wage series, but staff felt the hourly series was more appropriate, as it would not be sensitive to changes in the number of hours worked. Staff noted that the CES hourly series resulted in similar values to the adjusted wage series used for 2020 and 2021. Staff recommended using an average of the unadjusted 0.5% change and the CES hourly change of 3.8%. There was discussion about potentially using the CES series alone, but the Committee generally agreed with staff's recommendation. Staff also recommended applying the industrial mix adjustment, of an additional 0.5%, in 2022. The Committee also agreed with this recommendation. Finally, staff recommended using the average of the Department of Finance and UCLA forecasts without adjustment in 2023-2025, which was also supported by the Committee.

Item AC22-04-04
Retrospective Evaluation of 2021 Fee Schedule Changes

Staff summarized the retrospective evaluation of the new Medical-Legal (ML) Fee Schedule (effective April 1, 2021) based on two years of post-schedule change payment data in 2021 and 2022, as well as the feedback provided by the Claims Working Group. The Committee was advised that for the second year of the new fee schedule, the average ML payment per claim continued to increase and is 50% higher than the average for the 2019 service year, which was not impacted by the new schedule or the COVID-19 pandemic. The two key drivers of the higher costs are the costs of record review for additional pages and an increase in the number of ML services per claim. Record review costs in 2022 remained similarly high as in 2021. The Claims Working Group indicated that insurers have become more diligent in reviewing the records and in removing duplicate pages; however, in some instances, more lengthy records are being submitted that include less relevant medical information.

The Committee was advised that the number of ML services per claim increased 9% in 2022 compared to 2019, with the increase concentrated in follow-up and supplemental evaluations, as well as in psychological/psychiatric evaluations. Staff noted that the Claims Working Group shared that the pattern is consistent with their experience, and suggested the increase is likely a behavioral response to the structure of the new fee schedule, which eliminates the time-based payment mechanism for several ML evaluations.

Given the suggestion from the Claims Working Group to examine the regional distribution of psychological/psychiatric ML evaluations, subsequent to the meeting staff conducted a preliminary regional analysis and found that most of the regions in California experienced an increase in the number of psychological/psychiatric ML evaluations provided per claim in 2022 with the Central Coast, Central Valley and Los Angeles regions having a larger increase than in other regions. However, the Bay Area did not experience an increase in 2022 compared to 2021. Staff plans to continue monitoring the change in psychological/psychiatric ML evaluations by region.

Based on the latest evaluation and the Claims Working Group feedback, staff recommended reflecting the 50% increase to the ML costs in the loss development adjustment resultant from the new schedule in the September 1, 2023 Pure Premium Rate Filing. After discussion, the consensus of the Committee was that staff’s recommendation was appropriate.

Item AC22-12-05
Study of Paid and Incurred Loss Development

Staff summarized the follow-up analysis of paid and incurred loss development, which was initially presented at the December 8, 2022 meeting. The updated analysis in general showed that the adjusted paid development method continues to be a reliable basis to project future loss development. Although the latest year incurred method shows comparable accuracy to the adjusted paid method at projecting age-to-age development at earlier maturities particularly for the indemnity component, there are volatility concerns with the later period development used in the incurred projections.

Staff first presented the retrospective performance of the methods being tested at earlier maturities. The updated study included data through December 31, 2022 with consideration of the adjusted paid methods to account for reforms and claim settlement rate impacts. For both indemnity and medical, the unadjusted latest year incurred method and the latest year paid method with reform and claim settlement adjustments generally showed smaller root mean square error (rMSE) between actual and expected across the accident years and development ages reviewed.

Staff also presented the retrospective performance of the methods at later maturities. Both paid and incurred loss development at these later maturities have been showing a downward trend over recent years. Paid development has been on average more stable and more accurate in projecting the next period development when compared to the incurred method. Staff noted that the incurred medical development from 240-to-348 months since 2017 has been below 1.000. This is likely a result of the acceleration in claim settlement rates, the sharp drop in pharmaceutical costs and an overall reduction in medical costs from the Senate Bill No. 863 (SB 863) and later reforms resulting in many claims closing at amounts well below the case reserve for the claim. Staff noted that it is unlikely that these trends will continue indefinitely.

The Committee next reviewed the stability of age-to-age factors. The analysis showed that paid development has been generally more stable than incurred development over the long term, particularly for medical. The Committee also discussed the variability of age-to-age factors among the top 20 insurers, in which paid development had a lower coefficient of variation for medical.

Staff next discussed the correlation of settlement ratio changes with paid and incurred projected loss ratios. Projections based on unadjusted incurred development were higher than the corresponding projections based on unadjusted paid development until the trend reversed with the implementation of SB 863. While incurred projection methods have been more highly negatively correlated with settlement ratio changes over the long term than paid projections, both methods have been negatively correlated with settlement rate changes since the implementation of SB 863 in 2013. A Committee member commented that the presented data appeared to show little correlation between settlement ratio changes and unadjusted paid and incurred projected loss ratios from 2001 to 2022.

Staff next compared changes in annual incremental indemnity and medical paid to the annual change in case reserves. Staff noted that changes in both indemnity payments and case reserves have been modest over the last 10 years, while medical payments declined immediately with the implementation of SB 863 in 2013 and medical case reserves have been declining significantly since 2015. This decline is likely due to more mature claims being impacted by system reforms as well as dramatic reductions in pharmaceutical costs. Staff noted that the change in incremental medical payments has steadily declined over the last 10 years other than the pandemic-related slowdown in 2020.

Staff then summarized the divergence in paid and incurred loss ratio projections across development ages and accident years. Staff noted that for accident year 2010, the differences between incurred and paid methods were greatest at earlier ages for both indemnity and medical projections. In contrast, for accident year 2018, the differences between incurred and paid methods were greatest at later ages for both indemnity and medical projections, as late period incurred development has been very flat since the SB 863 reforms while paid projections continue to grow.

Item AC23-03-01
First Quarter 2023 Review of Diagnostics

Staff summarized the Claims Working Group feedback on several of the diagnostics discussed by the Committee at the March 21, 2023 meeting. With respect to the recent growth in the proportion of temporary disability-only claims relative to permanent disability claims, the Committee was advised that no dominant cause was identified by the Claims Working Group. Among the possible explanations suggested were dramatic reduction in the use of opioids, improved medical processes within medical provider networks with respect to returning injured workers to work and a different mix of injuries arising during the COVID-19 pandemic period, with the economic upheaval and increased telecommuting.

The Committee next discussed the recent increase in claim settlement rates at earlier maturity levels. Staff shared the Claims Working Group feedback that claim adjudication processes at the Workers' Compensation Appeals Board are working well, with a combination of in-person and virtual activities, some of which have created efficiencies greater than those prior to the pandemic. Conversely, it was noted that the Qualified Medical Evaluator (QME) process continues to be problematic with issues involving new QMEs and multiple specialties and that these issues are creating challenges in resolving some claims expeditiously.

The Committee next discussed the sharp increase in the proportion of cumulative trauma (CT) claims in accident year 2020 and the sharp decline indicated for 2021, based on preliminary data. Staff shared that the Claims Working Group generally agreed that there was a spike in CT claims in 2020 likely due to growth in post-termination claims arising during the early months of the pandemic. However, staff noted that the Claims Working Group did not indicate that they were experiencing a recent sharp decline in CT claims being flied, with several members suggesting that there were many instances of multiple CT claims being filed for different body parts when in the past a single CT would have been filed. Staff suggested that the large indicated decrease in the proportion of CT claims for 2021 could be in part attributable to the timing of the preliminary data and some of the anomalies arising from the pandemic. Staff agreed to continue to analyze the emerging accident year 2021 data on CT claims.

Item AC23-03-02
12/31/2022 Experience Review

The Agenda included an updated analysis of December 31, 2022 experience, which was first reviewed at the March 21, 2023 meeting. The Committee was advised that the updated analysis reflected updated economic data and methodology refinements from the analysis reviewed at the March 21, 2023 meeting based in part on the discussions from that meeting. The Committee was also advised that the summary of experience reflected only 99% of the total market as an individual insurer’s data remained under query and was not included. Staff noted that it expected the unresolved data question to be resolved shortly and the insurer’s experience included in the September 1, 2023 Pure Premium Rate Filing.

The Committee reviewed loss development and the alternative loss development projections included in the Agenda (Item AC23-04-02). Staff noted that the loss development methodology included in the Agenda and recommended by staff is consistent with that reflected in the September 1, 2022 Pure Premium Rate Filing and was primarily based on latest year paid loss development adjusted for reforms and changes in claim settlement rates. The Committee noted that the differences in the alternative method loss development projections were primarily driven by the use of incurred or paid loss development. Staff noted that, in particular for medical, incurred development for more mature periods continues to be historically low, suggesting that the impact of recent reforms and other system changes continue to be reflected in insurer case reserve changes and claim settlements (see Minutes for Item AC22-12-05).

After discussion, a motion was made and seconded to base the indemnity and medical loss development projections on the methods presented in the Agenda to compute the indicated September 1, 2023 average advisory pure premium rate level. The motion passed with nine in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed the motion recommended a loss development methodology that assigned some weight to a projection based on incurred loss development for both indemnity and medical.)

Staff summarized the review of medical fee schedule updates adopted by the Division of Workers’ Compensation (DWC) since the September 1, 2022 Pure Premium Rate Filing. Staff noted that, due to the generally higher economic inflation experienced in 2021 and 2022, medical fee schedule updates adopted by the DWC effective in late 2022 and early 2023 based on Medicare rates are estimated to increase medical service costs by approximately double the typical rate in total (2.8% compared to 1.4%). However, it was noted that these increases varied by fee schedule and were relatively modest for most individual fee schedules. It was also noted that the impact will vary by accident year as each year includes a different mix of open claims and medical services. As a result, the Committee agreed that these increases should be considered when selecting the on-level medical severity trend in lieu of a special adjustment to the medical on-level factors.

Staff noted that the preliminary estimated claim frequency for accident year 2022 based on aggregate financial data at 12 months is relatively flat. Staff noted that the indemnity claim frequency model included in the Agenda reflects updated UCLA economic forecasts and is consistent with the model assumptions discussed at the March 21, 2023 meeting and reflected in the September 1, 2022 Pure Premium Rate Filing. As included in the Agenda, the model results in modest decreases for accident years 2023 through 2025.

The Committee noted that the projected annual on-level indemnity severity trend of 1.0% reflected in the Agenda is consistent with the indemnity severity trend reflected in September 1, 2022 Pure Premium Rate Filing as well as the long-term and short-term annual rates of growth in on-level indemnity severities. The Committee noted that the average annual on-level medical severity trend of 1.5% reflected in the

Agenda is higher than the short-term average rate of growth in on-level medical severities but gives consideration to the longer-term trends and the higher-than-typical increases in Medicare rates that have not yet been reflected in the underlying loss experience.

The Committee noted that the projected indemnity and medical loss ratios reflected in the Agenda were based on applying the projected frequency and average on-level severity trends to accident years 2021 and 2022. The Committee discussed the alternative trending projections included in the Agenda (Item AC23-04-02). It was noted that the alternative methods reviewed differed generally by the number of years used to select the rates of growth. After discussion, a motion was made and seconded to use the indemnity and medical trending projection methodologies as presented in the Agenda to compute the indicated September 1, 2023 average advisory pure premium rate level. The motion passed with nine in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed the motion supported somewhat lower claim frequency and claim severity trends.)

Item AC23-04-01
9/1/2023 Filing – Loss Adjustment Expense Experience Review

The Committee reviewed the preliminary analysis of ULAE experience included in the Agenda, which reflected ULAE experience through calendar year 2021 and preliminary frequency, wage level, and loss projections based on December 31, 2022 experience as reflected in Agenda Item AC22-03-02. Consistent with the September 1, 2022 Pure Premium Rate Filing, staff recommended not using the calendar year 2020 ULAE information in the projection given that 2020 is significantly impacted by the pandemic. The Committee noted that the ULAE projection in the Agenda was based on the average of the open claim count-based methodology and recent calendar year paid ULAE to paid loss ratios for private insurers based on calendar years 2019 and 2021.

The Committee reviewed the preliminary analysis of ALAE experience through December 31, 2022 included in the Agenda. Staff summarized its recommended methodology for projecting the ALAE to loss ratio which was included in the Agenda and is consistent with the methodology used in prior pure premium rate filings. The Committee noted that paid ALAE development has been relatively flat in the last year and that staff's recommended paid ALAE development approach includes adjustments for periods of significant claim settlement rate change. The Committee noted that changes in ALAE severities have been modest over the last several years and the indicated 0.5% average annual ALAE severity trend is slightly lower than that reflected in prior filings. The Committee was reminded of the methodology to adjust the ALAE to loss ratio for the impact of the Senate Bill No. 1160 reforms related to lien filings, which was consistent with the methodology used in the last several pure premium rate filings. Staff recommended reviewing whether this adjustment continues to be appropriate in the future given that the reforms were enacted a number of years ago.

The Committee next reviewed the preliminary analysis of medical cost containment program (MCCP) experience through December 31, 2022 included in the Agenda. Staff noted that the projection methodology for MCCP costs is very similar to that for ALAE excluding MCCP costs. The Committee noted that changes in MCCP cost severities have been modestly declining over the last several years and the indicated -1% average annual MCCP cost severity trend is consistent with that reflected in the September 1, 2022 Pure Premium Rate Filing.

After discussion, a motion was made and seconded to use the LAE cost projection methodologies as presented in the Agenda and recommended by staff to project the September 1, 2023 advisory pure premium rate level. The motion passed with nine in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed the motion agreed with the general methodology to project LAE costs but supported lower frequency projections.)

Item AC23-04-02
9/1/2023 Filing – Review of Alternative Loss Projection Methodologies

The Agenda included a number of alternative loss development and trending methodologies that had been reflected in prior WCIRB pure premium rate filings or discussed at prior Actuarial Committee meetings.

The Committee reviewed summaries of the alternative loss projection methodologies during the discussion of loss development and trending methodologies in the context of its review of December 31, 2022 experience. (See Minutes for Item AC23-03-02.)

Item AC23-04-04
9/1/2023 Filing – COVID-19 Claim Cost Projection

Staff summarized the latest information available on the cost of COVID-19 claims. The Committee was advised that staff estimates that the cost of losses and loss adjustment expense (LAE) on COVID-19 claims for accident year 2022 is 0.6% of total losses and LAE, compared to 1.6% in 2021 and 5.1% in 2020. The Committee was reminded that 2022 COVID-19 claim costs were inflated by January COVID-19 claims arising from the Omicron variant and that the volume of COVID-19 claims over the March 1, 2022 through February 28, 2023 period was only about one-third of that arising during accident year 2022. Staff also noted that the severity of COVID-19 claims was dropping sharply as the average severity of 2022 COVID-19 claims was only 11% of all indemnity claims in 2022 compared to 43% in 2020. Finally, staff also noted that, despite “long COVID”, the incurred development on COVID-19 claims has been less than on non-COVID-19 claims.

Given this information, staff indicated that its projection of COVID-19 claim costs on September 1, 2023 policies based on the rate of COVID-19 claims over the last 12 months and consistently declining COVID-19 claim severities is only about 0.2% of overall costs. As a result, staff was not recommending including a separate COVID-19 claim cost provision in September 1, 2023 proposed pure premium rates and that consideration be given to including COVID-19 claims costs with all other losses in the September 1, 2024 pure premium rate filing to be made next April.

The consensus of the Committee was that the projection of COVID-19 claim costs was reasonable and that no separate provision for COVID-19 should be included in the proposed September 1, 2023 advisory pure premium rates. The Committee also generally agreed that COVID-19 losses should begin to be included with other losses in the September 1, 2024 pure premium rate filing and that the specific approach to implementing the inclusion of those losses should be developed prior to that filing.

The meeting was adjourned at 1:50 PM.

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Note to Committee Members: These Minutes, as written, have not been approved. Please refer to the Minutes of the meeting scheduled for June 22, 2023 for approval and/or modification.