

Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
March 21, 2023	9:30 AM	WCIRB California 1901 Harrison Street, 17 th Floor Oakland, CA	David M. Bellusci
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Zurich North America
Republic Indemnity Company of America
CopperPoint Insurance Companies
Accident Fund Group, Inc.
Liberty Mutual Group
Berkshire Hathaway Homestate Companies
State Compensation Insurance Fund
AmTrust

California Department of Insurance

Yvonne Hauscarriague*
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Brently Yim*

WCIRB

Bill Mudge
David Bellusci
Sean Cooper
Laura Carstensen
Tony Milano
Dilan Sahin
Shane Steele*
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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Approval of Minutes

The Minutes of the meeting held on February 14, 2023, were distributed to the Committee members in advance of the meeting for review. As there were no corrections to the Minutes, a motion was made, seconded and unanimously approved to adopt the Minutes as written.

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Item AC20-08-04

Impact of Economic Downturn on Pure Premium Rate Indications

Staff presented an updated analysis of economic changes related to the COVID-19 pandemic and their impacts on the indicated September 1, 2023 pure premium rates. This analysis included measured and forecast impacts on claim frequency, claim severity, and the statewide average wage. These impacts were largely due to changes in the industrial mix of employment, which were also presented.

Industrial Mix of Employment

Staff presented industry level employment information from economic forecasts from December 2019 through March 2023. Staff noted that employment in many industries has recovered to 2019 levels and remaining employment loss is concentrated in a few industries and nearly all industries are expected to fully recover by the 2025 forecast horizon.

Indemnity Claim Frequency

The Committee was reminded that the WCIRB indemnity frequency model projects changes in mix-adjusted non-cumulative indemnity claim frequency using an economic variable as one dependent variable. Staff presented the forecast values of the statewide unemployment rate and aggregate employment that underly the economic variable in the WCIRB model. Staff then presented the annual frequency changes predicted based on values in the current economic forecast, as well as changes that would have been predicted by past forecasts.

Finally, staff presented updated measurements of historical and forecast frequency changes due to changing industrial mix. Staff noted these figures are informational and do not factor into ratemaking decisions.

Indemnity Claim Severity

Staff presented updated measurements of changes in claim severity due to changing industrial mix. Using updated economic forecasts, the estimated severity changes due to shifts in industrial mix were summarized as follows:

Accident Year	Severity Change Due to Industrial Mix		
	Indemnity	Medical	Total
2020	1.26%	0.85%	1.06%
2021	-0.15%	-0.17%	-0.16%
2022	-0.41%	-0.32%	-0.37%
2023	-0.51%	-0.42%	-0.46%
2024	-0.13%	-0.06%	-0.09%
2025	0.29%	0.28%	0.29%

Statewide Average Wage

The Committee was shown both the current historical observations and forecasts of changes in the statewide average wage, based on the average of November 2022 Department of Finance (DoF) and March 2023 UCLA forecasts. These changes were 11.3% in 2020, 7.7% in 2021, 0.5% in 2022, 4.3% in 2023, 2.9% in 2024, and 2.7% in 2025. Staff noted that both the estimated 2020 and 2021 changes had stabilized after an extended period of volatility, while the current measurement of the 2022 change had decreased substantially and was abnormally low, particularly given the inflationary environment.

Staff presented an updated analysis of estimated changes in statewide average wage due to changes in industrial mix. The WCIRB has produced two methods of measuring this impact. The first, using Occupational Employment Survey data from the Bureau of Labor Statistics (BLS), was available only for

historical years and was used to assess the reasonableness of the second method. The second method, using employment figures from the UCLA forecast and historical wage relativities from the BLS Quarterly Census of Employment and Wages, showed similar changes for 2021 and 2022 and explained a portion of the low observed wage change in 2022.

Staff presented an updated analysis of average wage changes due to changing distributions of employment by wage level within industries using UCLA forecast data, American Community Survey (ACS) data, and Current Population Survey (CPS) data. These estimates remained the same for 2020 and 2021 changes. Staff noted that while the low observed wage change in 2022 likely suggests some unwinding of the wage level distribution changes in 2020 and 2021, this approach proved unsuccessful in adjusting the 2022 wage change. Staff noted that the implied overall wage change using survey data in 2022 was out of line, 8.0% compared with the 0.5% change being adjusted while similar comparisons for 2020 and 2021 were reasonable. Furthermore, staff noted that the indicated adjustment using this approach was directionally inconsistent with expectations. Staff recommended not using this adjustment for the 2022 statewide wage change and the Committee agreed. Staff informed the Committee that an alternative adjustment or wage series for the 2022 wage change would be presented at the April 13 meeting.

Item AC21-03-03

COVID-19 Claim Diagnostics

Staff presented the COVID-19 claim diagnostic exhibits and discussed the key observations and trends with the Committee members. Staff noted that, since the Omicron surge in December 2021 and January 2022, the share of reported claims due to COVID-19 had decreased to around 2% for the last twelve months. Staff presented estimates of the incurred severities for COVID-19 and non-COVID-19 claims from accident years 2020, 2021 and 2022, noting that the accident year 2022 severities for COVID-19 claims were significantly lower than for the prior two years, both in dollar value and relative to the severity of non-COVID-19 claims. Staff showed the severity distributions of incurred losses for COVID-19 and non-COVID-19 claims and noted that the share of larger COVID-19 claims had remained stable.

Item AC21-03-05

Pandemic Impact on Premium Measures

The Agenda included an updated analysis of the potential impact of the COVID-19 pandemic on insurer earned premium used for aggregate ratemaking, which was last reviewed by the Committee at the March 21, 2022 meeting. Staff noted that the updated analysis of calendar years 2021 and 2022 earned premium showed that they included atypical amounts of audit premiums experienced during the COVID-19 economic downturn and subsequent recovery. Staff summarized the recommended adjustments to earned premium to correct for these distortions, which was similar to the approach used in 2022 and reflected in adjustments to the on-level loss ratios in the September 1, 2022 Pure Premium Rate Filing. Staff noted that the adjustments resulted in a moderate increase to earned premiums for 2021 and modest decreases to 2020 and 2022. After discussion, the consensus of the Committee was that the adjustments recommended by staff should be included in the on-leveling adjustments in the analysis of insurer loss experience to be reflected in the September 1, 2023 Pure Premium Rate Filing.

Item AC21-12-07 Indemnity Claim Frequency Model

Staff presented an update of the Indemnity Claim Frequency model as well as alternative assumptions for consideration. Based on analysis of the drivers of recent changes in indemnity claim frequency for cumulative and non-cumulative injury claims, staff recommended the following assumptions for the analysis of experience to be included in the April 13, 2023 Committee Agenda in preparation for the September 1, 2023 Pure Premium Rate Filing:

- Excluding accident years (AY) 2020 and 2021 information from the regression model projection,
- Continuing to not forecast the cumulative injury index and to temper the model constant; and
- For AY 2022, applying the early measure of change in claim frequency based on aggregate claim and employment data instead of the model forecast.

Committee members noted several anomalous patterns in claim frequency during the pandemic years relative to prior patterns such as the recent increase in post termination claims, the impact of newly hired workers on claim frequency, challenges in estimating the true frequency changes in AY 2020 and 2021 due to the difficulty in accurately earning exposure during the period, and the recent pre-pandemic pattern of very modest changes in indemnity claim frequency. After a lengthy discussion, the Committee accepted the staff recommendations for the frequency model to be reflected in the analysis of experience to be included in the April 13, 2023 Committee Agenda.

Item AC23-03-01

First Quarter 2023 Review of Diagnostics

Staff summarized the diagnostics exhibits that were included in the Agenda. Staff noted the historically low share of permanent indemnity claims and suggested the mix shift towards more temporary disability only claims is a significant deflating factor in recent indemnity and medical severity trends. Staff noted the ratio of incremental closed indemnity claims to prior open indemnity claims have generally increased over the most recent calendar year but have not recovered to pre-pandemic levels. Staff noted there was a large decrease in the 2021 ratio of cumulative trauma (CT) to total indemnity claim counts observed in the preliminary data. This ratio had increased sharply in 2020, correlating with layoffs during the pandemic that gave rise to post-termination CT claims.

After discussion, the Committee recommended that staff review the items discussed with the Claims Working Group at their next meeting.

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

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of December 31, 2022 (excluding COVID-19 claims), which was included in the Agenda. It was noted that the analysis included in the Agenda was preliminary in that it did not fully address several open issues for the September 1, 2023 Pure Premium Rate Filing that were discussed in other Agenda items. In particular, it was noted that the wage and frequency projections reflected in the Agenda were based on December 2022 UCLA forecasts and will be updated to reflect the March 2023 forecasts at the April 13 meeting. During the discussion, the Committee noted the following:

- Incurred loss development increased moderately in the fourth quarter of 2022, while paid loss development decreased modestly. The developed indemnity loss ratios for recent accident years have declined steadily but modestly since the September 1, 2022 Pure Premium Rate Filing which was based on December 31, 2021 experience. Recent developed medical loss ratios have been generally flat since the September 1, 2022 Pure Premium Rate Filing.
- Following the pandemic-period declines, indemnity claim settlement rates for accident years 2021 and 2022 at the latest evaluation have increased and are approximately at the pre-pandemic level.
- The estimated intra-class indemnity claim frequency change for accident year 2022 based on the preliminary measure of changes in indemnity claim counts compared to changes in statewide employment levels is close to 0%, which is somewhat lower than the modest increase projected in the September 1, 2022 Pure Premium Rate Filing.
- On-level indemnity severities grew by an average rate of 1% per year from 2018 to 2022, which is consistent with the long-term (1990 to 2022) average rate of growth and the projected on-level indemnity severity trend reflected in the September 1, 2022 Pure Premium Rate Filing.
- Average on-level medical severities declined modestly in 2022 and the average change in on-level medical severities from 2018 to 2022 is close to 0%. The projected on-level medical severity trend reflected in the September 1, 2022 Pure Premium Rate Filing and the Agenda of 1.5% is generally higher than changes in recent years. However, a Committee member noted that the recent period of atypically high economic inflation may result in higher than typical increases in the California medical fee schedules that are based on Medicare rates. The Committee requested staff to review the impact of recent changes in medical fee schedules adopted by the Division of Workers' Compensation prior to the next meeting. The Committee also noted that the recent decreases in average medical costs may be related to declines in medical service utilization or the proportion of permanent disability claims that are likely not to continue indefinitely into the future.
- As discussed at the December 6, 2022 meeting, the projected loss ratio reflected in the Agenda is based on separate frequency and severity trends applied to the latest two accident year (2021 and 2022) on-level loss ratios.

The Committee was reminded that a full range of alternative loss development and trending projections will be reviewed at the next meeting at which the recommended methodologies for the September 1, 2023 Pure Premium Rate Filing will be determined.

Actuarial Committee
Meeting Minutes for March 21, 2023

The meeting was adjourned at 12:30 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.