

# September 1, 2024 Pure Premium Rate Filing

## Actuarial Committee Recommendations

Governing Committee Meeting  
April 17, 2024

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# Summary of Recommendations

# Actuarial Committee Review

December 31, 2023 Experience

## Key Cost Drivers

Accident Year 2023 Emerging Favorably

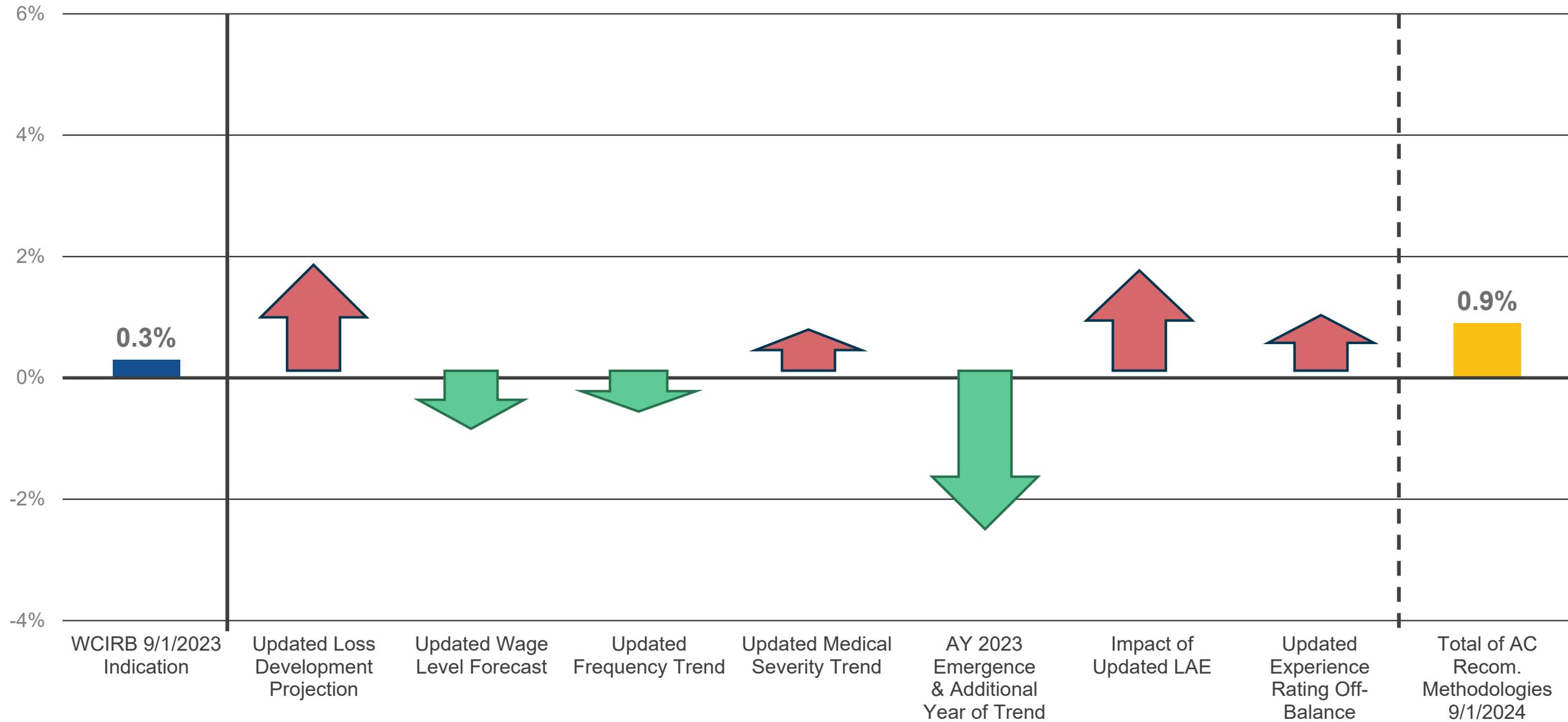
Increasing Medical Loss Development

Rising ALAE Costs

- Recommended Methodologies Generally Consistent with 9/1/2023 Filing
- Methodology Changes:
  - Average of Reform Adjusted Paid and Hybrid Incurred Method
  - Frequency Model includes Forecast of Cumulative Injury Index
  - COVID Experience Partially Included in Projection
- 9/1/2024 Indicated Advisory Pure Premium Rate Change: +0.9%
  - 9/1/2023 WCIRB Filed: +0.3%
  - 9/1/2023 CDI Approved: -2.6%

# Change in Indicated Average Advisory Pure Premium Rate

9/1/2023 to 9/1/2024





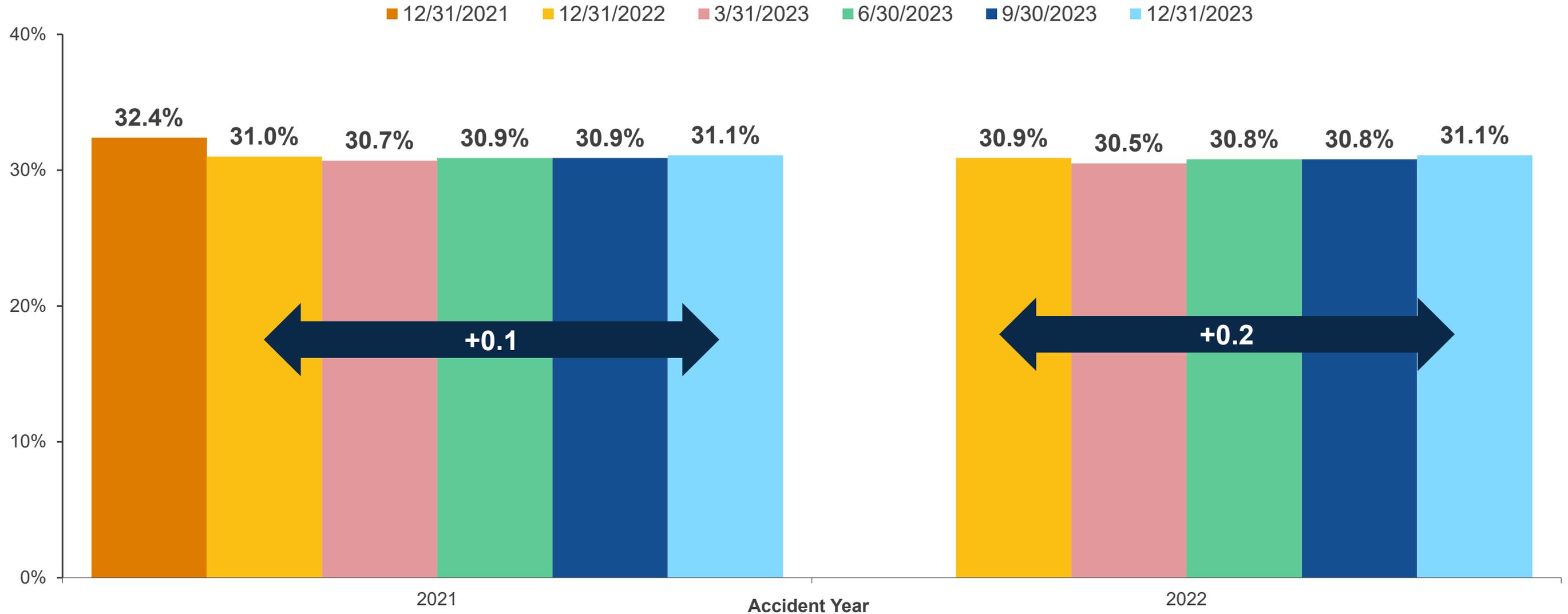
# Actuarial Committee Recommendations

# Loss Development Methodology

- Selected Average of Latest Year Reform Adjusted Paid and Hybrid Incurred
  - Previously, full weight was given to Reform Adjusted Paid Method
  - Reform Adjusted Paid Method continues to be a reliable projection
    - Adjusts for reduction in pharmaceutical costs and 2021 fee schedule changes
    - Reflects long-term settlement rate impact in tail
  - Hybrid method uses Incurred Development through 120 months and then Paid Development
    - Incurred is Stable at Early Maturities but Volatile at Later Maturities if unadjusted
    - Using paid at later maturities overcomes challenges of adjusting incurred
  
- Actuarial Committee vote on Indemnity and Medical Loss Development Methodology
  - **9** in Favor, **1** Opposed
  - Opposing committee member supports giving some weight to the reform adjusted paid method but prefers the unadjusted latest year incurred method instead of the hybrid method

# Developed Indemnity Loss Ratios

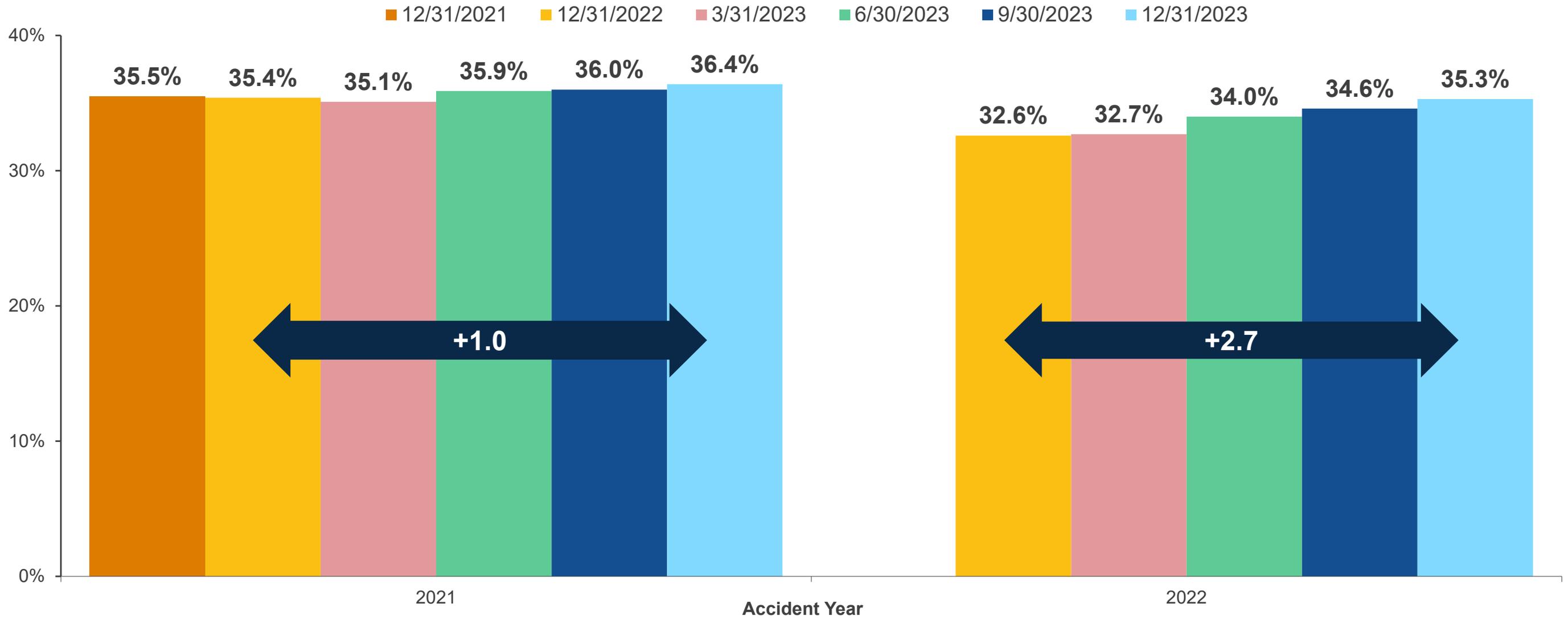
As of December 31, 2023



Note: All loss ratios are adjusted to the loss development methodology reflected in the Actuarial Committee Agenda and may not be comparable to the actual loss ratios projected at that time.  
Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims for accident years 2020 to 2022.

# Developed Medical Loss Ratios

As of December 31, 2023

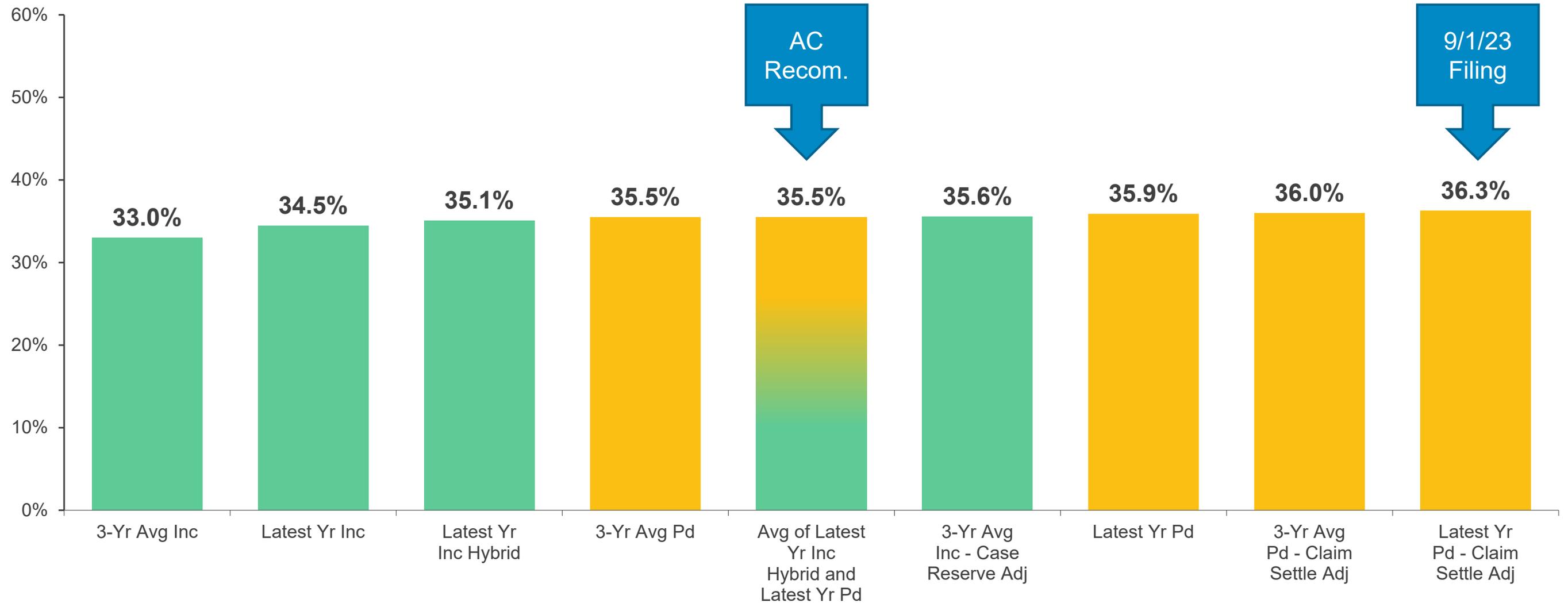


Note: All loss ratios are adjusted to the loss development methodology reflected in the Actuarial Committee Agenda and may not be comparable to the actual loss ratios projected at that time.  
Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims for accident years 2020 to 2022.

# Projected Indemnity On-Level Loss Ratios

## Alternative Development Methods

As of December 31, 2023

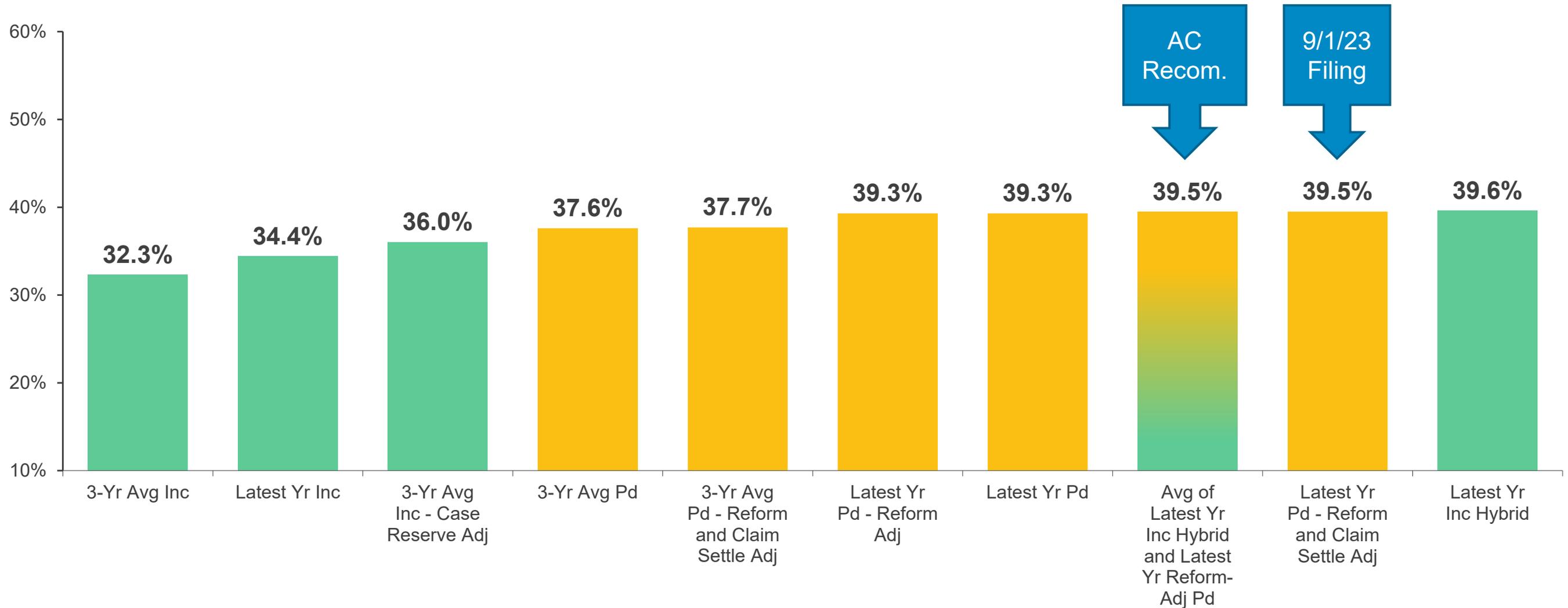


Source: WCIRB aggregate financial data and projections. Each projection uses the trending methodology reflected in the Actuarial Committee Agenda.

# Projected Medical On-Level Loss Ratios

## Alternative Development Methods

As of December 31, 2023



Source: WCIRB aggregate financial data and projections. Each projection uses the trending methodology reflected in the Actuarial Committee Agenda.

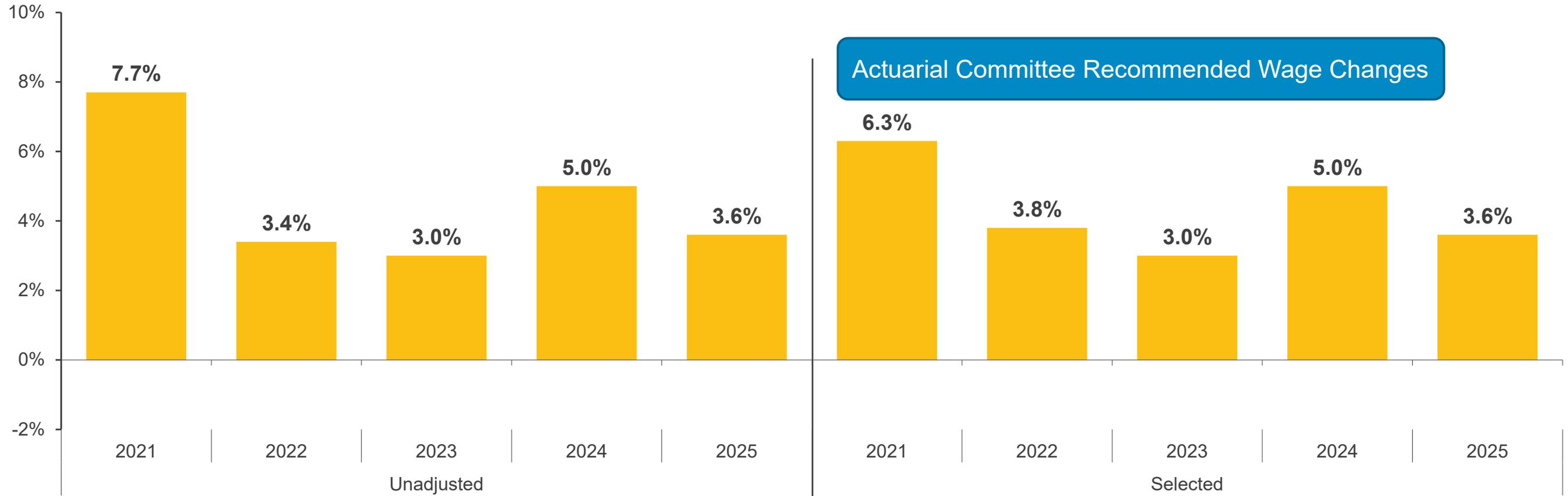
# Trending Methodology

- Consistent with Last Year
  - Trend Frequency and Severity Separately
  - Use WCIRB Frequency Model
  - Make Wage Inflation Adjustments to Calendar Years 2021 through 2023
  - Use average of forecasts from UCLA and Department of Finance
  - Select 1% indemnity severity
  
- New This Year
  - Frequency model includes time series forecast of cumulative injury index
  - Recommendation reflects full model constant
  - Higher medical severity trend selection of 2% to reflect medical inflationary increases
  - COVID-19 claims included in Accident Year 2023 loss ratios
  
- Actuarial Committee Votes
  - Separate Trends for Frequency and Severity applied to AYs 2022 and 2023, including COVID-19 in AY 2023  
**10** in Favor, **0** Opposed
  - Wage and Frequency Trends: **10** in Favor, **0** Opposed
  - Indemnity and Medical Severity Trends:
    - **9** in Favor – **1** Abstention
    - Abstaining Committee member's severity projections will be different due to his loss development recommendations

# Average Wage Level Change Forecast

As of March 2024

■ Average of Mar 2024 UCLA and Nov 2023 CA DoF



## Average Annual Adjusted Wage Change Projection from 2021:

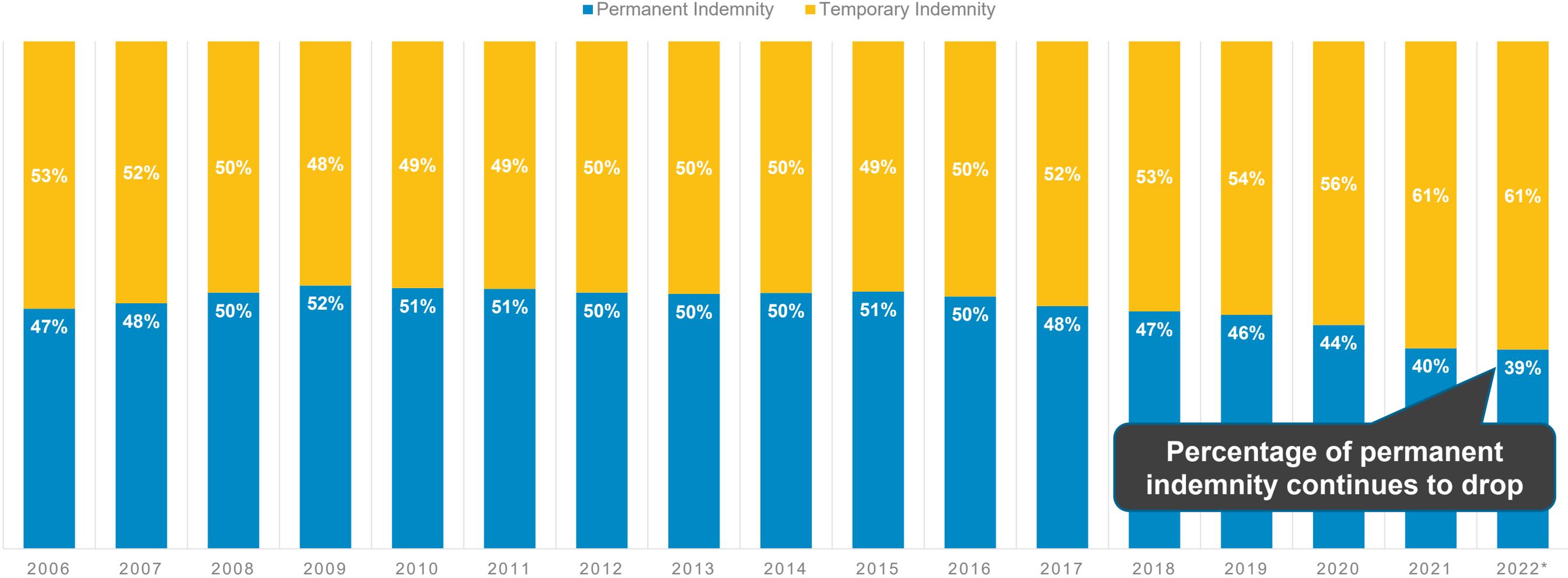
9/1/2023 Filing: 3.3%

Updated Forecast: 3.9%

Source: UCLA Anderson School of Business and California Department of Finance Forecasts.

# Estimated Ultimate Number of Indemnity Claims

## Distribution by Injury Type

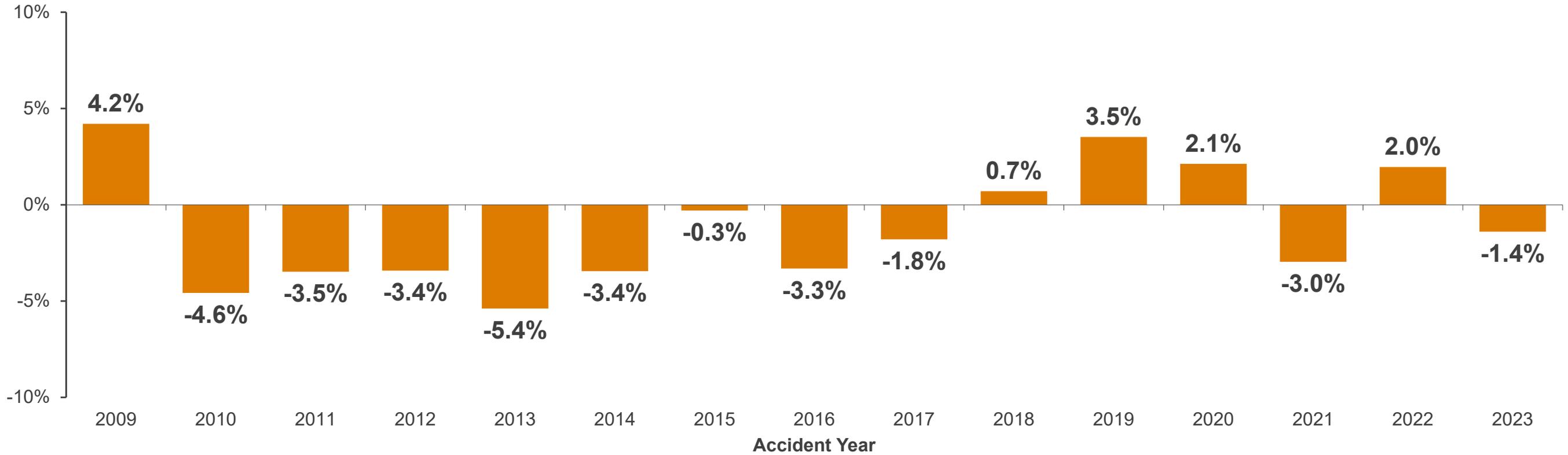


\*Accident year 2022 experience is partial in that it only reflects experience from policy year 2021.  
 Source: WCIRB Unit Statistical Data, excluding COVID-19 claims.

# Projected Changes in On-Level Indemnity Severity

Average of Hybrid Incurred and Adjusted Paid Methods

As of December 31, 2023



## Annual Exponential Trend Based on:

1990 to 2023: 0.7%

2005 to 2023: -1.1%

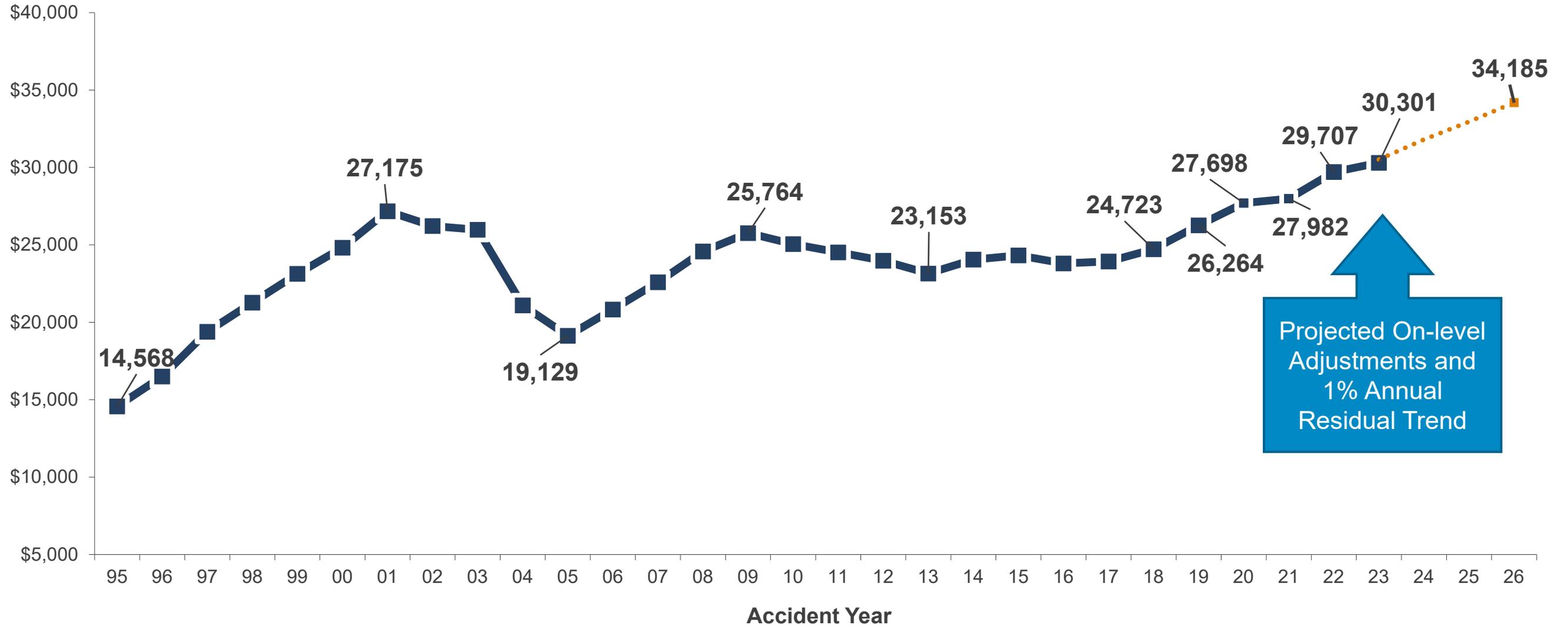
2019 to 2023: -0.2%

**AC Recommended: 1.0%**

Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims for all accident years.

# Ultimate Indemnity per Indemnity Claim

As of December 31, 2023

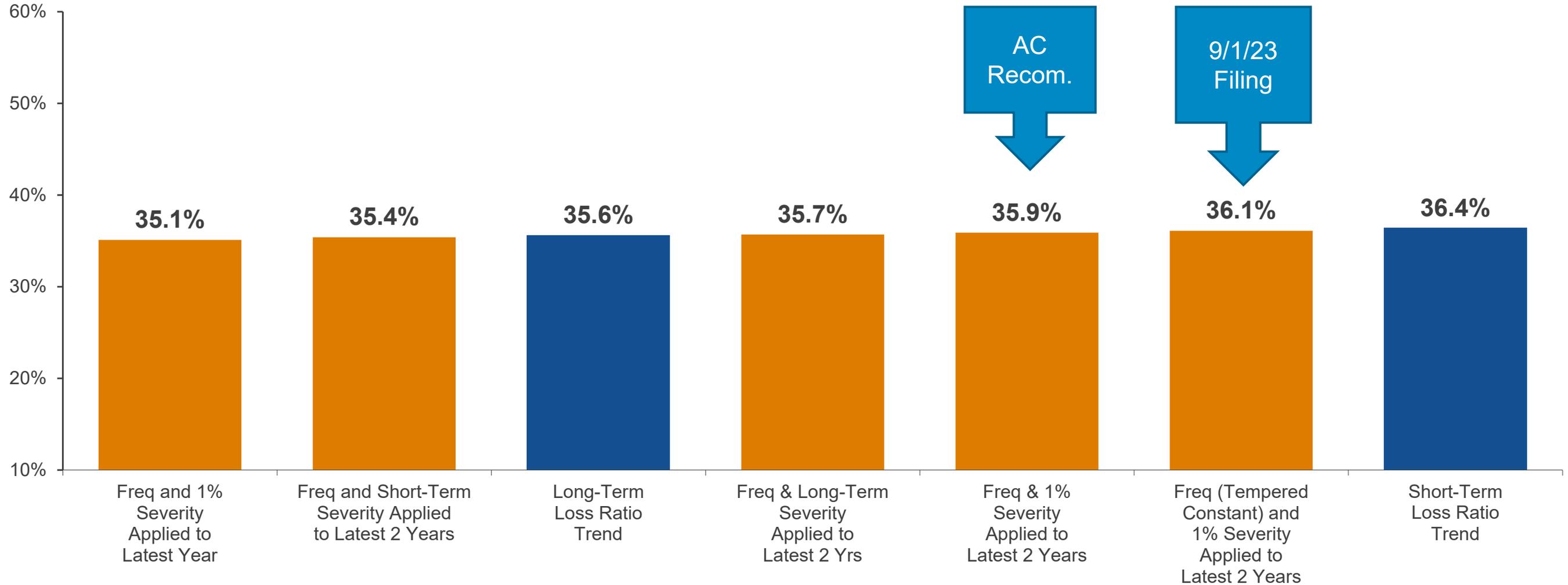


Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims and projections.

# Projected On-Level Indemnity Loss Ratios

## Alternative Trending Methods

As of December 31, 2023

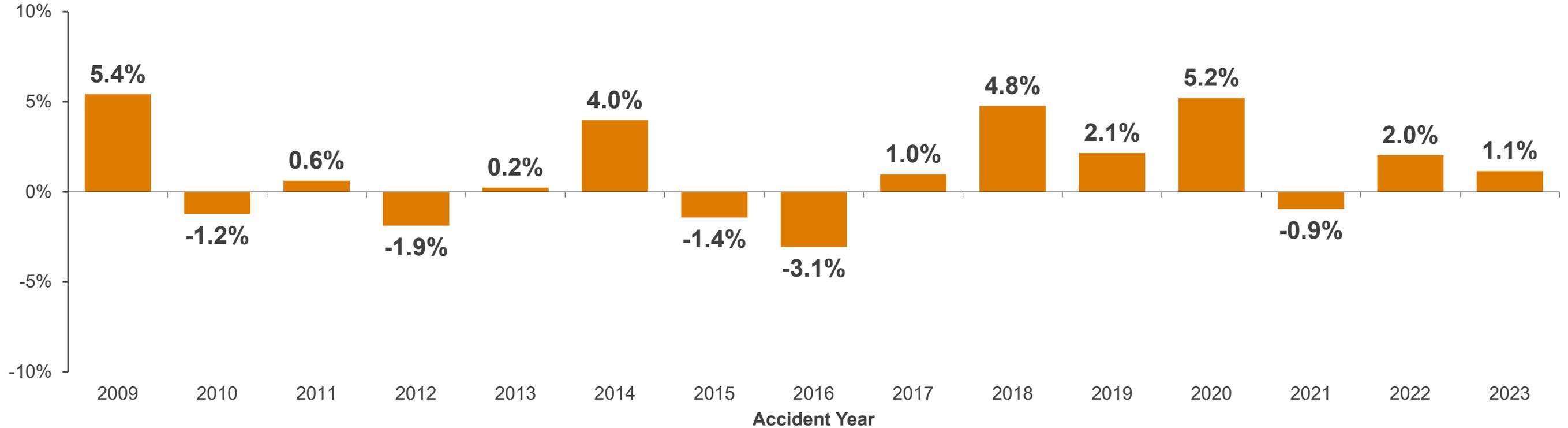


Source: WCIRB aggregate financial data and projections. Each projection uses the loss development methodology reflected in the Actuarial Committee Agenda.

# Projected Changes in On-Level Medical Severity

Average of Hybrid Incurred and Adjusted Paid Methods

As of December 31, 2023



## Annual Exponential Trend Based on:

1990 to 2023 (including MCCP): 4.5%

2005 to 2023: 1.4%

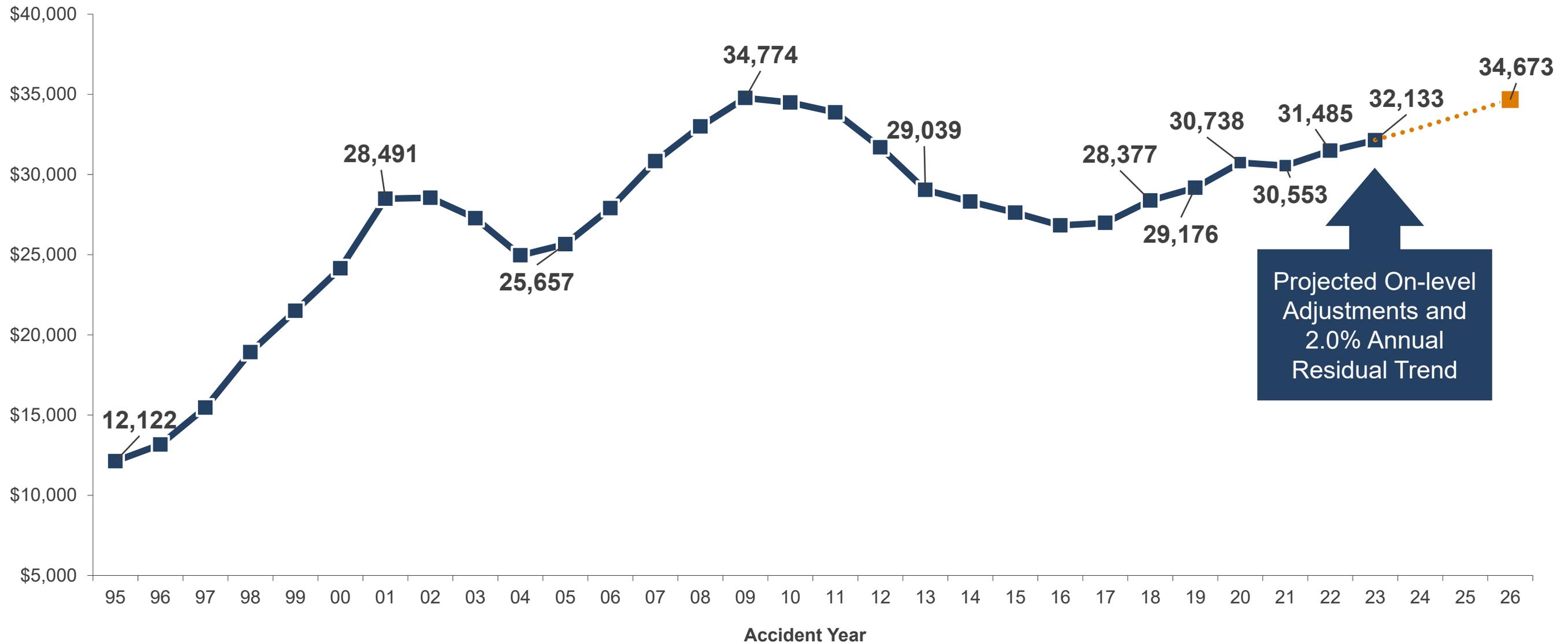
2019 to 2023: 1.6%

**AC Recommended: 2.0%**

Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims for all accident years. MCCP costs are excluded from accident years 2011 and prior.

# Ultimate Medical per Indemnity Claim

As of December 31, 2023

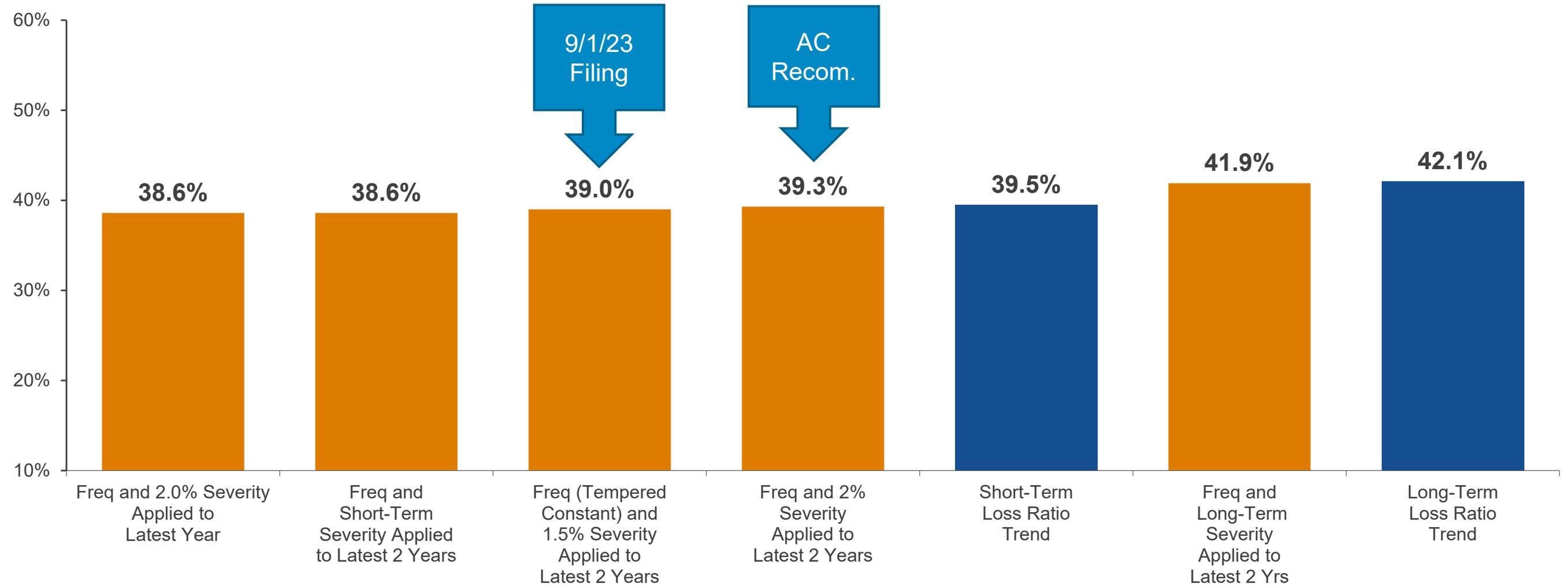


Source: WCIRB Aggregate Financial Data, excluding COVID-19 claims and projections.

# Projected On-Level Medical Loss Ratios

## Alternative Trending Methods

As of December 31, 2023

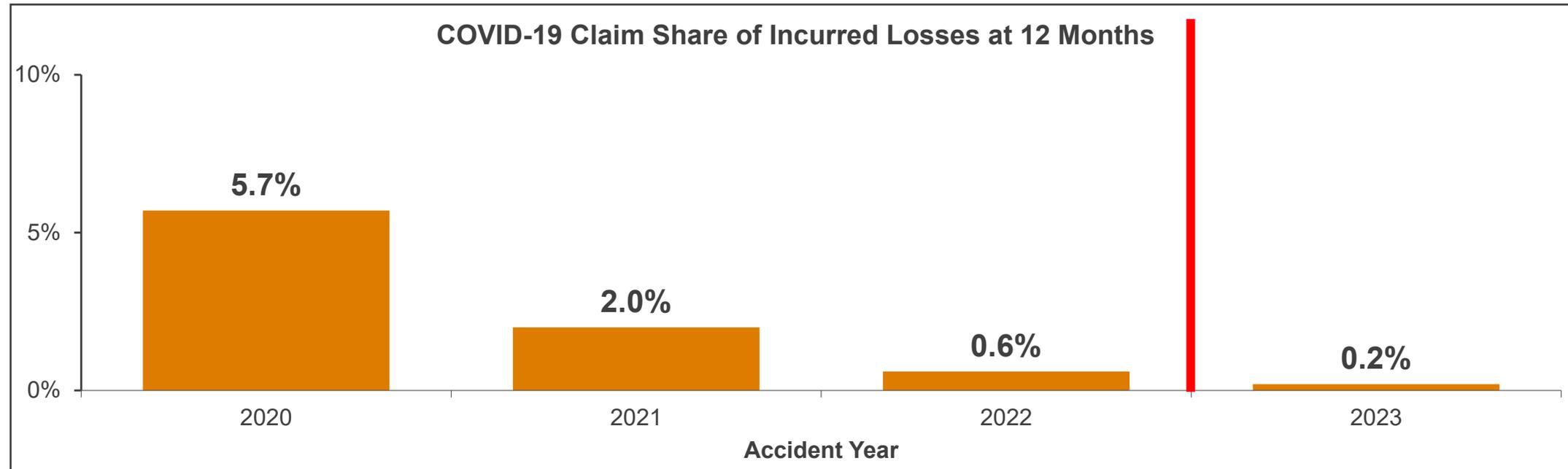


Source: WCIRB aggregate financial data and projections. Each projection uses the loss development methodology reflected in the Actuarial Committee Agenda.

# COVID-19 Claims

## Treatment in Aggregate Ratemaking

- COVID-19 claims and premium charges have been excluded from AY 2020 to 2022 in aggregate ratemaking



- AC recommends including COVID-19 claims and premium charges in reported loss and LAE ratios starting with AY 2023**
- Impact on reported 2023 paid loss ratio at 12 months is negligible (0.0001)

# Loss Adjustment Expense Projection Methodology

## ULAE – No Methodology Change

- ULAE data for 2016-2022 reflects updated allocation method (open indemnity counts)
- 2021 and 2022 ULAE data used (2023 ULAE not yet available)

## ALAE – No Methodology Change

- Trended ultimate severity per open indemnity claim based on private insurer ALAE
- Latest year development used and trend applied to 2022 and 2023 as in loss projection

## MCCP – No Methodology Change

Methodology similar to ALAE except uses statewide experience

**Projected LAE Ratio:** 34.0% of losses (compared to 31.7% in 9/1/2023 Filing)

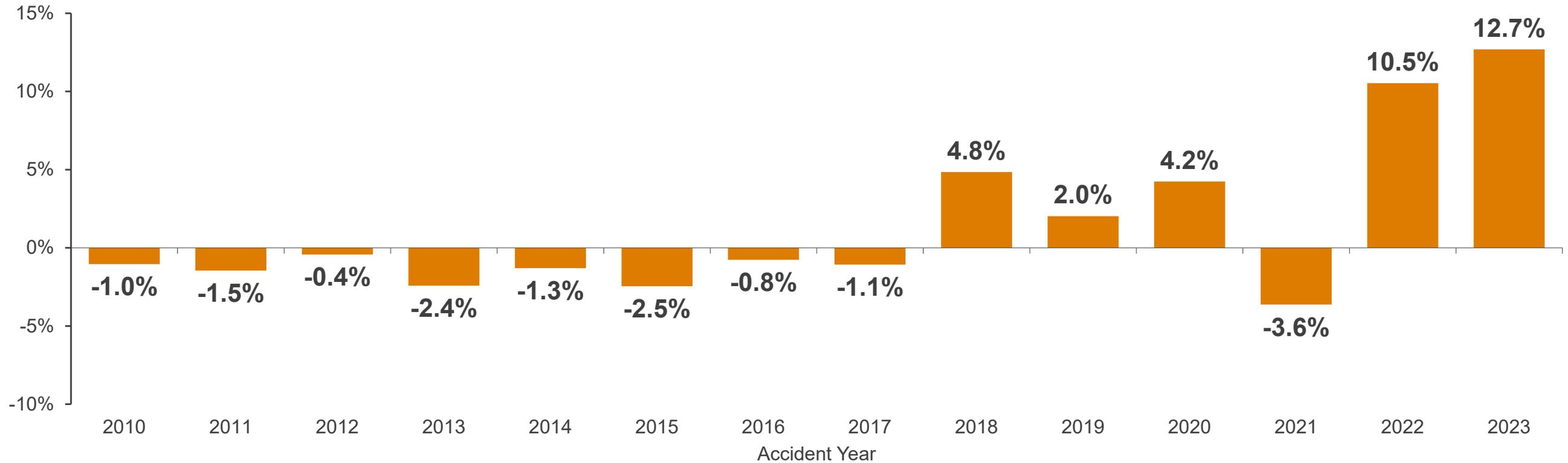
## Actuarial Committee Votes on ULAE, ALAE and MCCP Methodology

- Overall ULAE, ALAE and MCCP Methodology: 10 in Favor, 0 Opposed
- ALAE Severity Trend: 9 in Favor, 1 Opposed
  - Opposing committee member supports methodology but favored a higher ALAE severity trend

# Projected Changes in Ultimate ALAE Severity

Private Insurers

As of December 31, 2023



Annual Exponential Trend Based on: 2009 to 2023: 0.6%  
2019 to 2023: 5.3%

**AC Recommended: 2.0%**

Source: WCIRB aggregate financial data, excluding COVID-19 claims and MCCP costs.



# Summary of Projection

# Indicated Average Advisory Pure Premium Rate Changes





# Discussion



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