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Actuarial Committee

Meeting Minutes

Date	Time	Location	Staff Contact
April 11, 2024	9:30 AM	Microsoft Teams Webinar	Sean Cooper

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Members	**Representing**
Mauro Garcia*	Zurich North America
Ika Irsan*	Republic Indemnity Company of America
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 Member of Governing Committee
Kate Smith*	State Compensation Insurance Fund
Bryan Ware*	AmTrust
Chris Westermeyer*	Travelers

California Department of Insurance
Yvonne Hauscarriague
Giovanni Muzzarelli
Mitra Sanandajifar
Garen Sargsyan
Serina Wu

WCIRB
Bill Mudge*
Sean Cooper*
Laura Carstensen*
Tony Milano*
Shane Steele
Julia Zhang*

* Attended in Person

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

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Notice

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

Staff summarized the latest medical severity patterns by service type based on the medical transaction data through 2023. The Committee was advised that the overall medical cost per claim in 2023 was 1% higher than in 2022, driven by a 4% increase in the paid per transaction and a 3% decrease in the number of transactions per claim. Of all medical services, both inpatient costs per claim and pharmaceutical costs per claim had a large decrease in 2023, by 9% and 12%, respectively. On the other hand, costs of the Healthcare Common Procedure Coding System (HCPCS)[1] services per claim increased by 11%, driven by an increase in both the paid per transaction (+7%) and the number of transactions per claim (+4%). Other service types, including physician services, outpatient and medical-legal services, had a similar cost per claim in 2023 as in 2022.

For pharmaceutical costs, the Committee was advised that a new pharmacy fee schedule is currently going through the rulemaking process, and the new pharmacy fee schedule includes a potential increase in pharmacy dispensing fee from $7.25 to a two-tier dispensing fee of $10.05 or $13.20 depending on the annual volume of prescriptions processed. Staff shared the preliminary initial cost estimates of the potential increase in pharmacy dispensing fee, which would have a modest impact. The Committee indicated that the estimates seem reasonable. Staff also shared the feedback from the Claims and Medical Analytics Working Groups that the increased pharmacy dispensing fee may affect the negotiation between Pharmacy Benefit Managers and individual pharmacies but it is unclear how the increased dispensing fee would affect pharmacies' dispensing patterns.

For physician service costs, the Committee was advised that the consistent declines in the number of transactions per claim over the past decade, except for 2020, was a key driver for the cumulative decrease of the medical cost per claim by 13% since 2012. The Committee asked about the reasons for the continuing downward trend and whether it was due to improved outcomes, better diagnosing or increased efficiency. A Committee member shared that the acceleration of claim settlement may have contributed to the decline.

For HCPCS costs, the Committee was advised that the 7% increase in the paid per transaction in 2023 was similar to that in 2022, both partly driven by a higher inflationary adjustment in the Durable Medical Equipment, Prosthetics, Orthotics and Supplies (DMEPOS) fee schedule in the recent years and higher average costs of home health services. A Committee member asked about the HCPCS cost trend before 2022, and staff responded that the trend was more moderate partly due to smaller inflationary adjustments in the DMEPOS fee schedule.

[1] The HCPCS includes the Level II codes, which primarily include ambulance services, durable medical equipment, prosthetics, orthotics, and supplies used outside a physician's office, home health services, and interpreter services.

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

Staff presented a continuation of the WCIRB's determination of recommended statewide average wage changes for use in the September 1, 2024 Pure Premium Rate Filing, which was initially discussed at the March 21, 2024 meeting.

Staff reminded the Committee of the following recommendations from the March 21, 2024 meeting:

- Use of the average of BLS Current Employment Statistics hourly and weekly wage series for the historic 2022 wage change
- Continued use of wage level distribution adjustments for historic 2020 and 2021 changes
- Specific cutoff for use of industry mix adjustment for historic years

Staff presented a retrospective analysis of the Department of Finance (DoF) and UCLA wage forecasts, which underlie rate indications. Staff noted that the DoF forecast slightly outperforms when forecasting one year into the future, while the UCLA forecast slightly outperforms when forecasting two or three years into the future. Staff noted that the average of the two forecasts was the best option for the cumulative three years used for rate filing purposes.

At the March 21, 2024 meeting, several Committee members noted the large difference between the UCLA and DoF forecasts for 2024 with the UCLA forecast being significantly higher. Staff relayed to the Committee that UCLA staff explained that they expected larger than average wage growth in 2024 due to continuing labor shortages as well as minimum wage increases that would have both direct and indirect impacts on wages. It was also noted that the DoF forecast was made in November 2023, which is four months prior to the March 2024 UCLA forecast and may reflect more recent economic information.

Staff continued to recommend using an average of the two forecasts for projections and the Committee agreed with this recommendation.

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

Staff summarized the retrospective evaluation of the new Medical-Legal (ML) Fee Schedule that became effective April 1, 2021 based on three years of post-schedule change payment data in 2021 through 2023. The Committee was advised that, in the third year of the new fee schedule, the average ML payment per claim was similar to 2022 but was 57% higher than the average for service year 2019, which was not impacted by the new schedule or the COVID-19 pandemic. The key cost drivers of the higher costs in 2023 compared to 2019 are the costs of record review for additional pages and an increase in the number of ML services per claim, concentrated in the follow-up ML evaluations.

The Committee was advised that the higher costs of record review in 2023 were driven mostly by a higher cost per record review due to more pages per record. Staff shared that the Claims and Medical Analytics Working Groups were not surprised to see the higher costs of record review continued in 2023 and shared that it was helpful to understand the magnitude of the increase.

The Committee was advised that the increase in the number of ML services per claim in 2023 was potentially driven by two factors. First, the new ML fee schedule extends the time frame allowed to request a follow-up evaluation following a comprehensive evaluation from 9 months to 18 months. The longer time frame may have contributed to the increase. Second, based on feedback from the Claims Working Group, lower quality ML reports from newer qualified medical examiners could be driving the need for more follow-up evaluations.

Since the average ML payment per claim in 2023 was similar to the 2022 evaluation, staff recommended applying the same ML fee schedule loss development adjustment in the September 1, 2024 Pure Premium Filing.

Item AC24-03-01
First Quarter 2024 Review of Diagnostics

Staff summarized some of the diagnostic exhibits that were reviewed with the Committee at the March 21, 2024 meeting. Staff noted that the preliminary proportion of permanent indemnity claims for accident year 2022 continues to decline and noted that there was not a lot of feedback from the Claims Working Group regarding this trend. Staff also noted that the ratio of incremental closed indemnity claims to prior open indemnity claims is flat over the most recent calendar year. Based on feedback from the Claims Working Group, this could be driven by claim adjusters working remotely.

Staff noted moderate increases in the average paid medical severities on open claims over the most recent calendar year. Feedback from the Claims Working Group suggests that this could be driven by more cumulative trauma claims and increased attorney involvement. Additionally, staff noted an increasing trend in paid ALAE per reported indemnity claim. Feedback from the Claims Working Group was that this could be driven by attorneys filing more cumulative trauma claims, including post-termination and multiple body parts, and by Southern California attorneys expanding into other parts of the state.

Item AC24-03-02
12/31/2023 Experience Review

The Agenda included an updated analysis of December 31, 2023 experience, which was first reviewed at the March 21, 2024 meeting. The Committee was advised that the updated analysis reflected updated economic data and methodology refinements from the analysis reviewed at the March 21, 2024 meeting based in part on the discussions from that meeting.

The Committee reviewed loss development and the alternative loss development projections included in the Agenda (Item AC24-04-02). Staff reminded the Committee that during the most recent retrospective review of loss development, the latest-year adjusted paid method and latest-year unadjusted incurred method were among the most accurate of the methods reviewed through 108 months. However, the review showed the incurred loss development tail continues to be volatile after 120 months. Staff noted that the "hybrid" incurred method reviewed with the Committee in December addresses staff's concerns with using the incurred development tail. Staff recommended to base loss development for the September 1, 2024 Pure Premium Rate Filing on the average of the latest-year reform-adjusted paid method (reflected in the Agenda) and the latest-year hybrid incurred method (which uses unadjusted incurred development through 120 months and adjusted paid development after 120 months).

After discussion, a motion was made and seconded to base the indemnity loss development projection on the method recommended by staff to compute the indicated September 1, 2024 average advisory pure premium rate level. A second motion was made and seconded to base the medical loss development projection on the method recommended by staff to compute the indicated September 1, 2024 average advisory pure premium rate level. These motions passed with nine in favor and one opposed. (The Actuary representing the Public Members of the Governing Committee who opposed these motions recommended the unadjusted latest year incurred method rather than the hybrid method to be weighted with the adjusted paid method for both indemnity and medical.) A third motion was made and seconded to adjust for the 2021 Medical-Legal Fee Schedule changes as reflected in the Agenda. This motion passed unanimously.

Staff summarized the wage and claim frequency projections included in the Agenda, which are based on the approaches discussed at the March 21, 2024 meeting. Motions were made and seconded to base the wage projections and frequency projections on those reflected in the Agenda to compute the indicated September 1, 2024 average advisory pure premium rate level. These motions passed unanimously.

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 the September 1, 2023 Pure Premium Rate Filing. Staff noted that this selected severity trend is slightly higher than the long-term and short-term annual rates of growth but reminded the Committee that the recent shift to more temporary-only indemnity claims has dampened indemnity severity trends by 2% to 3% per year since 2016.

The Committee noted that the average annual on-level medical severity trend of 2.0% reflected in the Agenda is somewhat 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. Staff noted that the shift in the injury type mix to less severe injury types has also dampened medical severity trends similar to indemnity. Staff summarized the review of medical fee schedule updates adopted by the Division of Workers' Compensation (DWC) since the September 1, 2023 Pure Premium Rate Filing. Staff noted that, due to the generally higher economic inflation experienced in 2022, these updates have a slightly higher impact than typical but are less than what was reviewed a year ago. 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.

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 2022 and 2023. The Committee discussed the alternative trending projections included in the Agenda (Item AC24-04-02). 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 utilize the indemnity severity trend reflected in the Agenda to compute the indicated September 1, 2024 average advisory pure premium rate level. A second motion was made and seconded to utilize the medical severity trend reflected in the Agenda to compute the indicated September 1, 2024 average advisory pure premium rate level. These motions passed with nine in favor and one abstention. (The Actuary representing the Public Members of the Governing Committee who abstained from these motions indicated that his severity trends may differ based on his different loss development projections.) A third motion was made to base the trending projections by applying separate frequency and severity trends to accident years 2022 and 2023. This motion passed unanimously.

Item AC24-04-01
9/1/2024 Filing – Loss Adjustment Expense Experience Review

The Committee reviewed the analysis of ULAE experience included in the Agenda, which reflected ULAE experience through calendar year 2022 and frequency, wage level, and loss projections based on December 31, 2023 experience as reflected in Agenda Item AC24-03-02. 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 2021 and 2022. A motion was made and seconded to use the ULAE projection methodology as presented in the Agenda to project the September 1, 2024 advisory pure premium rate level. The motion passed unanimously.

The Committee next reviewed the analysis of ALAE experience through December 31, 2023 included in the Agenda. The Committee noted that paid ALAE development has increased in the last year. 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. A Committee member recommended reviewing whether this adjustment continues to be appropriate in the future given that the reforms were enacted a number of years ago. After discussion, a motion was made and seconded to use the general ALAE projection methodology (with the exception of the selected ALAE severity trend, discussed below) as presented in the Agenda to project the September 1, 2024 advisory pure premium rate level. The motion passed unanimously.

The Committee noted that changes in ALAE severities are much higher for the most recent accident years compared to the prior period of very flat ALAE severity growth. The indicated 2.0% average annual ALAE severity trend based on the average of long-term and short-term average rates of growth is higher than that reflected in the September 1, 2023 Pure Premium Rate Filing but much lower than the growth for accident years 2022 and 2023, which are both over 10% per year. The Committee discussed the challenges in projecting an average ALAE severity trend given the recent sharp growth in ALAE severities following a very flat period. A Committee member noted that the selected rate of growth would be applied to accident years 2022 and 2023 in the projection, which are already at a higher level, suggesting the more modest trend reflected in the Agenda is appropriate. After discussion, a motion was made and seconded to reflect the 2.0% average ALAE severity trend included in the Agenda to project the September 1, 2024 advisory pure premium rate level. The motion passed with nine in favor and one opposed. (The Committee member who opposed the motion recommended a somewhat higher ALAE severity trend given the recent sharp growth.) After the discussion, a Committee member suggested reviewing ALAE severity growth rates excluding the latest accident year in the future given that it is the most leveraged year.

The Committee next reviewed the analysis of medical cost containment program (MCCP) cost experience through December 31, 2023 included in the Agenda. Staff noted that the projection methodology for MCCP costs is very similar to that for ALAE excluding MCCP costs. A motion was made and seconded to use the MCCP cost projection methodology as presented in the Agenda to project the September 1, 2024 advisory pure premium rate level. The motion passed unanimously.

Item AC24-04-02
9/1/2024 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, 2023 experience. (See Minutes for Item AC24-03-02.)

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 27, 2024 for approval and/or modification.