

# Actuarial Committee

## Meeting Minutes

Date	Time	Location	Staff Contact
March 21, 2024	9:30 AM	Microsoft Teams Webinar	Sean Cooper

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Released: May 3, 2024

### Members

Mauro Garcia  
Ika Irsan\*  
Matt Jahnke  
Joel Clark  
Neal Leibowitz\*  
Joanne Ottone\*  
Mark Priven\*  
Kate Smith\*  
Bryan Ware\*  
Chris Westermeyer

### Representing

Zurich North America  
Republic Indemnity Company of America  
CopperPoint Insurance Companies  
Accident Fund Group, Inc.  
Liberty Mutual Group  
Berkshire Hathaway Homestate Companies  
Public Members of Governing Committee  
State Compensation Insurance Fund  
AmTrust  
Travelers

### California Department of Insurance

Yvonne Hauscarriague  
Margaret Hosel  
Mitra Sanandajifar  
Garen Sargsyan  
Serina Wu

### WCIRB

Bill Mudge\*  
Sean Cooper\*  
Laura Carstensen\*  
Tony Milano\*  
Shane Steele  
Julia Zhang\*  
Claudia Zhou\*

\* 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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### Approval of Minutes

The Minutes of the meeting held on February 13, 2024 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 a summary of observed and forecast changes in employment and employment mix by industry. Staff noted that forecasts were largely consistent with those available at the time of the September 1, 2023 Pure Premium Rate Filing. It was noted that forecast employment for the transportation and warehousing industry had improved substantially while forecast employment for the information industry had declined substantially.

Staff reminded the Committee that the abnormally high observed wage changes in 2020 and 2021 had been adjusted to reflect the distribution of workers by wage level within industry in prior filings. Staff continued to recommend these adjustments.

Staff noted that the 2022 wage change had decreased from 0.5% at the time of the September 1, 2023 rate filing to -1.1% using current data. Staff noted that in the prior filing, the 0.5% value was averaged with a 3.8% change from the Current Employment Series (CES) Hourly wage series. Staff noted that given the further decline to a negative value, staff no longer felt the inclusion of the -1.1% change to be appropriate. Staff reviewed adjusting the 2022 value using survey data in the same manner as the 2020 and 2021 changes. However, the survey data available did not reconcile with the overall change and the calculated adjustment was directionally inconsistent. As a result, staff recommended using the average of the CES Hourly and CES Weekly wage series for the 2022 average wage change. The Committee was generally supportive of this recommendation.

Staff presented an updated calculation of the impact of changes in industry mix on the change in the statewide average wage and noted that this adjustment had been used since the January 1, 2021 filing. Staff noted that typical impacts of changes in industry mix are small and suggested using the adjustment when its magnitude was at least twice the magnitude of typical impacts. Staff observed volatility from year to year in both wage forecasts as well as the measurement of the prior observed year and noted that the change from the initial measurement of the immediate prior year was generally much larger than the impact of the mix adjustment. For this reason, staff recommended not applying the industry mix adjustment to forecast years or the immediate prior observed year. The Committee was generally supportive of these recommendations.

Finally, staff presented the recommended annual wage changes including any adjustments. Several Committee members expressed concern with the large forecast wage change for 2024. Staff noted this change was the average of forecasts from the UCLA Anderson School and the California Department of Finance and that the UCLA forecast was substantially greater. Staff agreed to evaluate the performance and appropriateness of the use of these two forecasts and to contact the forecasters for any insight into the derivation of their forecast before the next meeting.

## **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 relationship between changes in indemnity claim frequency for cumulative injury and non-cumulative injury claims as well as the retrospective performance of alternatives. Staff recommended the following assumptions for the analysis of experience to be included in the April 11, 2024 Actuarial Committee Agenda in preparation for the September 1, 2024 Pure Premium Rate Filing:

- Exclude accident years (AY) 2020, 2021 and 2022 information from the parameterization of the regression model and
- Use the full model constant and project the change in the cumulative injury index (CII) using a second-order autoregressive time series model (consistent with staff's 2021 comprehensive review of the frequency model).

Staff noted that these recommendations increased the accuracy and stability of the model compared to the alternatives reviewed. Committee members noted similarities and differences in patterns of claim frequency during the pandemic years relative to patterns during prior recessions as well as after reforms. They also suggested reviewing the data for AYs 2022 and 2023 prior to the September 1, 2025 Pure Premium Rate Filing. The Committee accepted staff's recommendations for the frequency model.

## **Item AC24-03-01**

### **First Quarter 2024 Review of Diagnostics**

Staff summarized the diagnostic exhibits that were included in the Agenda. Staff noted that the preliminary proportion of permanent indemnity claims for accident year 2022 continues to decline. Additionally, staff observed that the total number of liens filed per quarter has been relatively stable over the last three years with some increases during the third and fourth quarters of 2023 in the Los Angeles County/LA Basin area. Staff noted that the ratio of incremental closed indemnity claims to prior open indemnity claims is flat over the most recent calendar year. Staff noted that following the decrease in 2021, the 2022 preliminary data shows the ratio of cumulative trauma (CT) to total indemnity claim counts increased. Staff noted that average paid medical severities on open claims over the most recent calendar year show moderate increases.

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

## **Item AC24-03-02**

### **12/31/2023 Experience Review**

Staff presented a summary of the preliminary analysis of statewide accident year experience evaluated as of December 31, 2023, which was included in the Agenda. During the discussion, the Committee noted the following:

- Incurred and paid medical loss development continued to increase in the fourth quarter of 2023. As a result, projections of ultimate medical loss ratios as of December 31, 2023 have increased since the December 31, 2022 projections. Staff noted that it plans to review some of the drivers of the recent increases in medical loss development at the next meeting.
- The estimated intra-class indemnity claim frequency change for accident year 2023 based on the preliminary measure of changes in indemnity claim counts compared to changes in statewide employment levels is somewhat higher than the small decrease projected in the September 1, 2023 Pure Premium Rate Filing.
- On-level indemnity severities were flat in 2023 (after excluding COVID-19 claims) but grew at a modest rate from 2019 to 2023. Staff reminded the Committee that the recent shift in the mix of injury types to more temporary-only claims likely dampened indemnity claim severity changes by about 2% to 3% per year (see Item AC24-03-03). A Committee member requested information on the drivers of recent indemnity severity increases, which staff agreed to present at the next meeting.
- Average on-level medical severities increased by approximately 2% in 2022 and 2023 (after excluding COVID-19 claims). Staff noted that the shift in the mix of injury types likely also dampened recent medical severities. The impact of recent medical inflation and increased medical loss development has also pushed measures of medical severities higher over the past year. After discussion, the Committee preliminarily agreed to reflect a 2% annual on-level medical severity trend in the updated analysis of December 31, 2023 experience to be reviewed at the next meeting.

The Committee was reminded that a full range of alternative loss development and trending projections will be reviewed at the next meeting when the recommended methodologies for the September 1, 2024 Pure Premium Rate Filing will be determined.

### **Item AC24-03-03**

#### **Impact of Injury Type Mix Shifts on Development and Trend**

The Committee was reminded that the mix of injury types has been shifting since 2016 to a greater proportion of temporary-only claims and lower proportion of permanent disability (PD) claims. Staff presented an analysis of the impact of this mix shift on loss development and claim severity trends.

Staff noted that the impact on loss development patterns based on fixing the injury type at first report level was not material, since temporary-only claims at first report level have similar development patterns to PD claims. This is in part due to many temporary-only claims later transitioning to PD claims and also partly due to temporary-only claims already starting at a lower base cost at first report level. A Committee member suggested reviewing the loss development patterns after fixing the injury type at a later report level where developing injury types are less common.

Staff noted that the shift to more temporary-only claims has dampened claim severity trends as these claims are less costly on average. Staff estimated that ultimate indemnity and medical severity trends have been 2 to 3 points lower per year due to the shifting injury type mix. The Committee noted that how this information is considered in projecting future severity trends depends on how much of the shift is expected to continue.

After discussion, the Committee accepted staff's analysis.

### **Item AC24-03-04**

#### **Treatment of COVID-19 Claims in Ratemaking**

Staff summarized its recommended future treatment of COVID-19 claims in various aspects of the ratemaking process. For experience rating, the WCIRB recently proposed in the September 1, 2024 Regulatory Filing to include COVID-19 claims occurring September 1, 2024 and later in experience modifications. In aggregate ratemaking, staff recommended continuing to exclude COVID-19 claims from accident years 2020 to 2022 but include accident year 2023 COVID-19 claims in the projected loss ratios. However, staff generally recommended reviewing claim frequency and claim severity patterns exclusive of COVID-19 claims until the claim counts have stabilized. For classification ratemaking, staff recommended including COVID-19 claims in the classification relativities beginning with accident year 2023 to be consistent with aggregate ratemaking. For research studies, staff noted that it plans to provide specific language in the Conditions and Limitations section of each research report that makes clear where COVID-19 claim experience is included or excluded.

After discussion, the Committee agreed with staff's recommendations.



Actuarial Committee  
Meeting Minutes for March 21, 2024

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.