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NCCI and WCIRB: WC—What's Now? What's Next?

Casualty Loss Reserve Seminar

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Chief Actuary
NCCI

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Executive Vice President & Chief Actuary
WCIRB

Agenda

Premium and Combined Ratios

Prepandemic position of strength

Claim Frequency

Long-term decline and preliminary projections

Indemnity and Medical Severity

Moderating growth and potential future impact

Economic Downturn

Impact on employment and exposure

COVID-19 Claims

Hypothetical scenarios and what we know now



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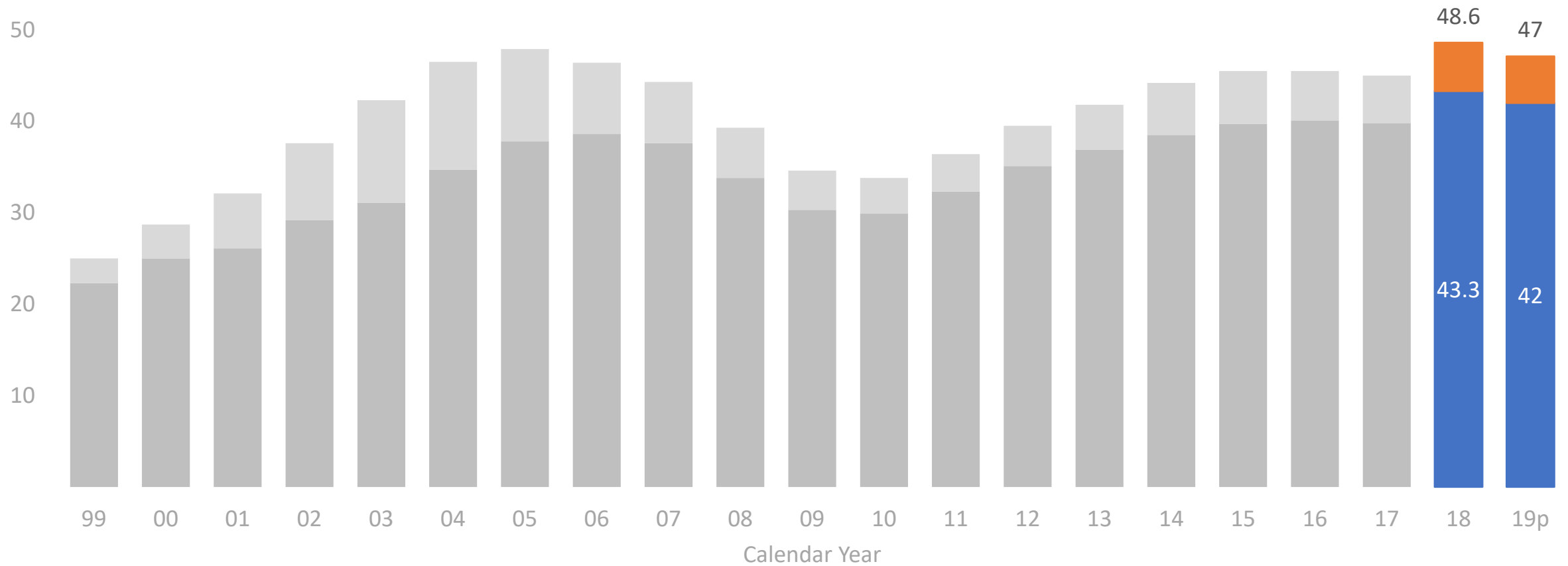
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Premium and Combined Ratios

WC Net Written Premium

Private Carriers and State Funds

\$ Billions



p Preliminary

Source: NAIC's Annual Statement data; includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT
Each calendar year total for state funds includes all funds operating as a state fund in that year

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Reported California Written Premium—Gross of Deductible Credits



Drivers of California Written Premium Changes

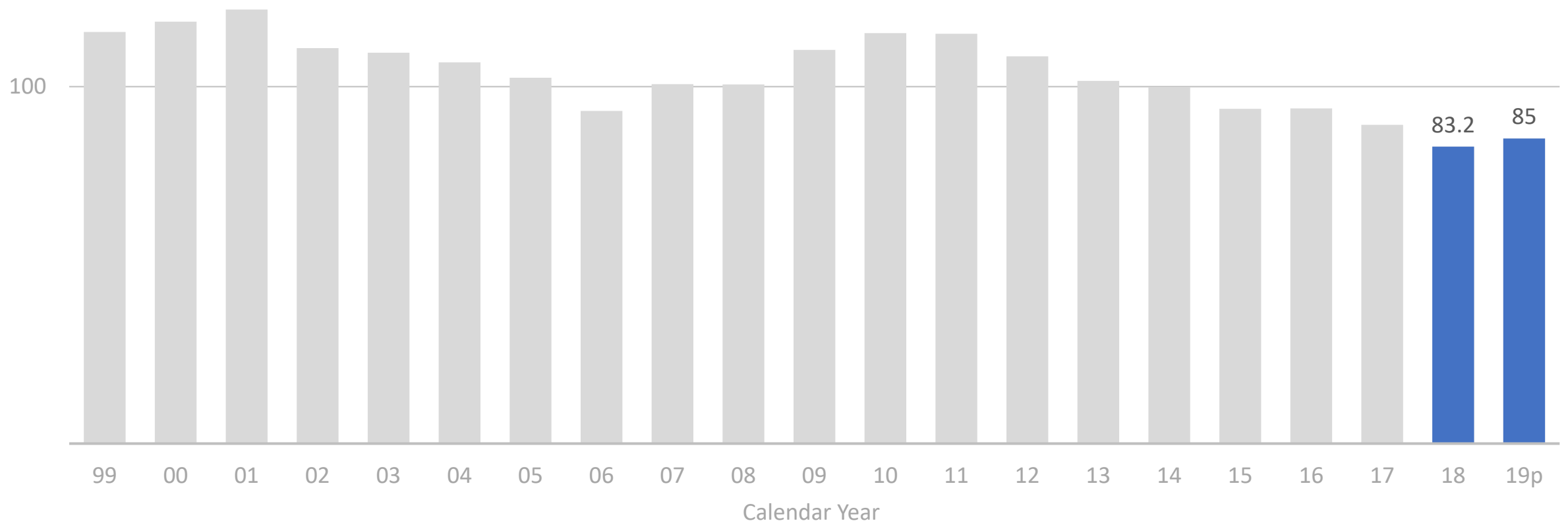


Source: WCIRB aggregate financial calls and published California wage information

WC Combined Ratio—Underwriting Gain Achieved

Private Carriers

Percent



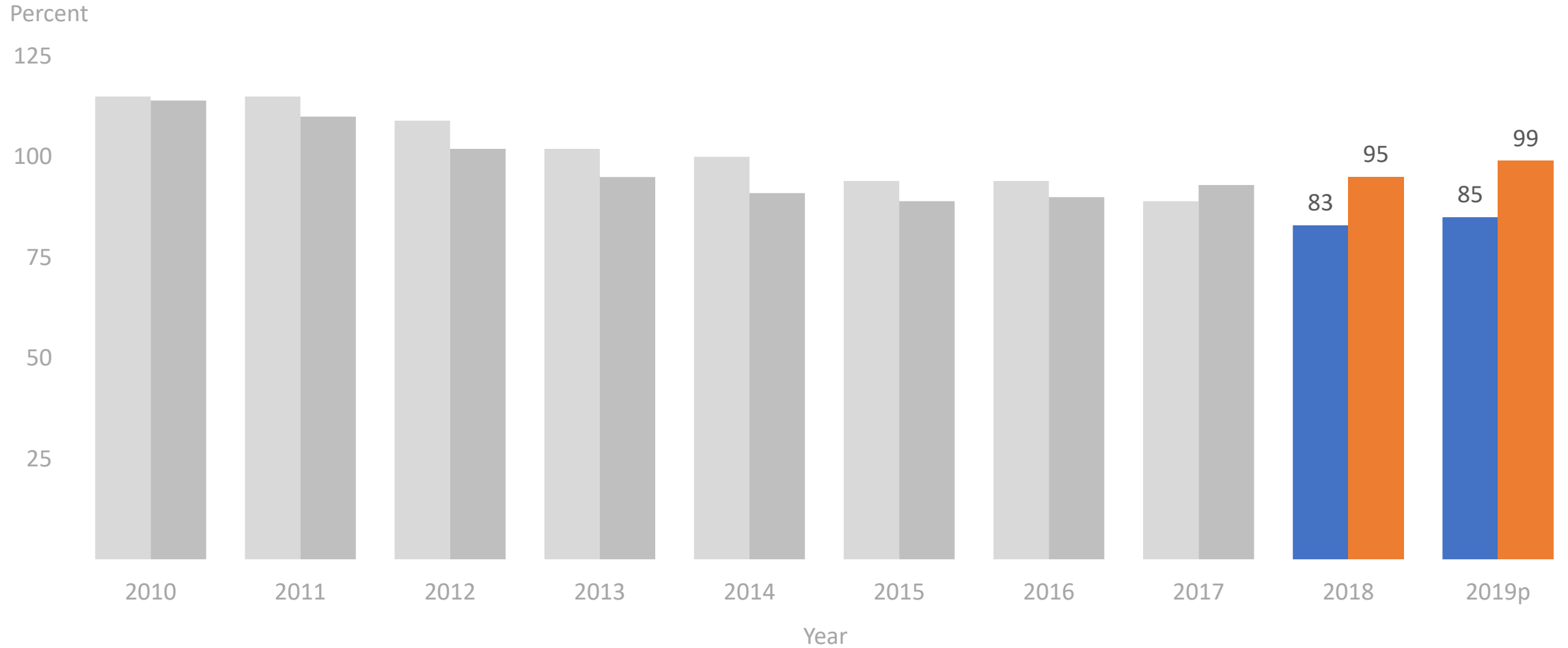
p Preliminary

Source: NAIC's Annual Statement data

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WC Net Combined Ratios—Calendar Year vs. Accident Year



p Preliminary

Source: NAIC's Annual Statement data

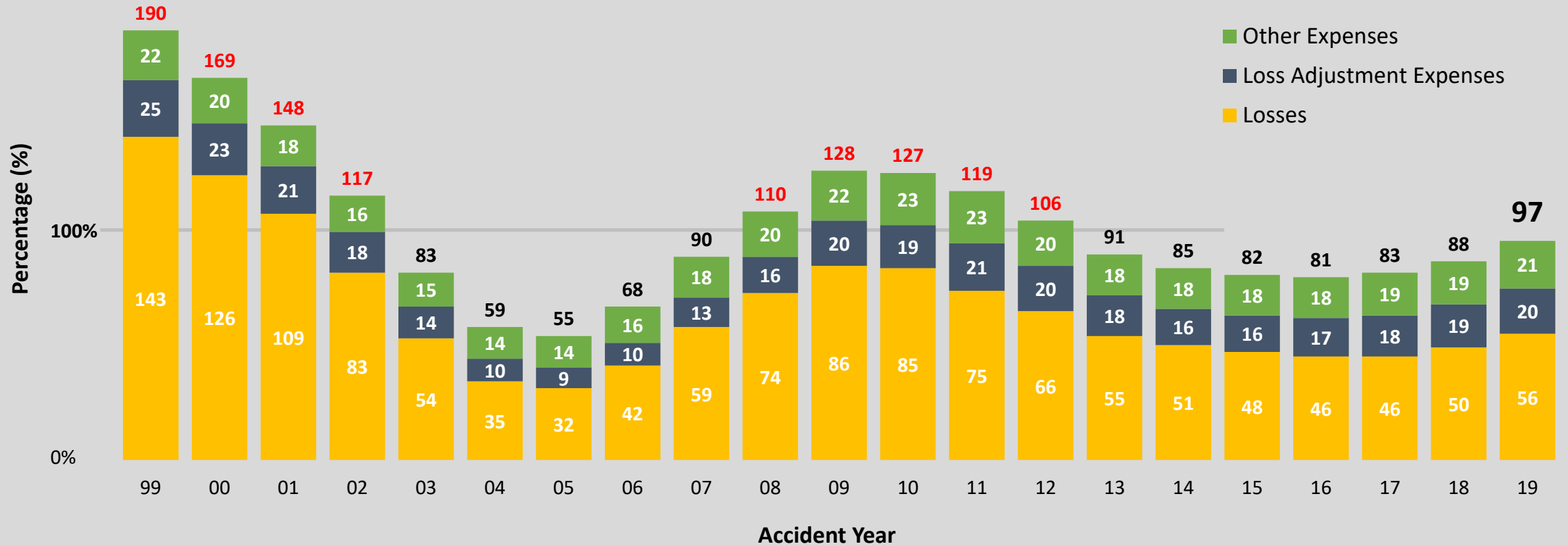
Accident Year information is reported as of 12/31/2019

Includes dividends to policyholders

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Projected California Accident Year Combined Loss and Expense Ratios



Source: WCIRB projections based on aggregate financial data calls as of March 31, 2020



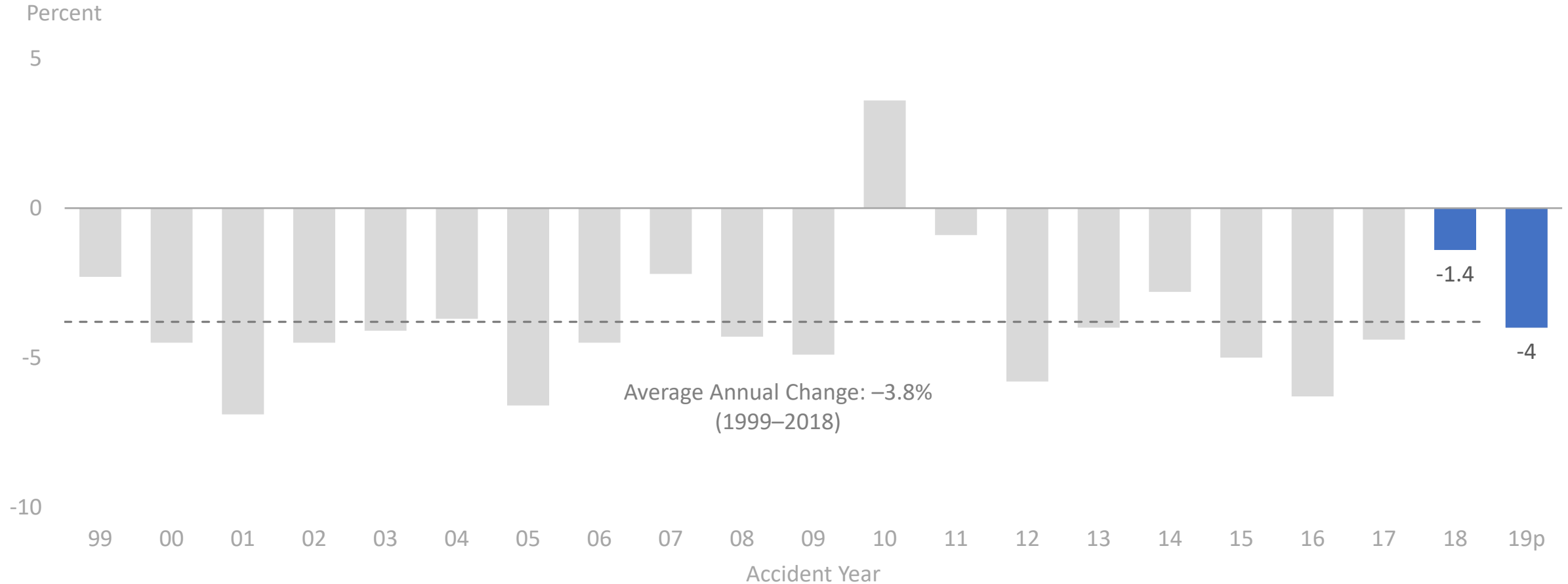
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Claim Frequency

WC Lost-Time Claim Frequency

Change in Claims per \$1M Pure Premium, Private Carriers and State Funds—NCCI States



2010 and 2011 adjusted primarily for significant changes in audit activity

p Preliminary, based on data valued as of 12/31/2019

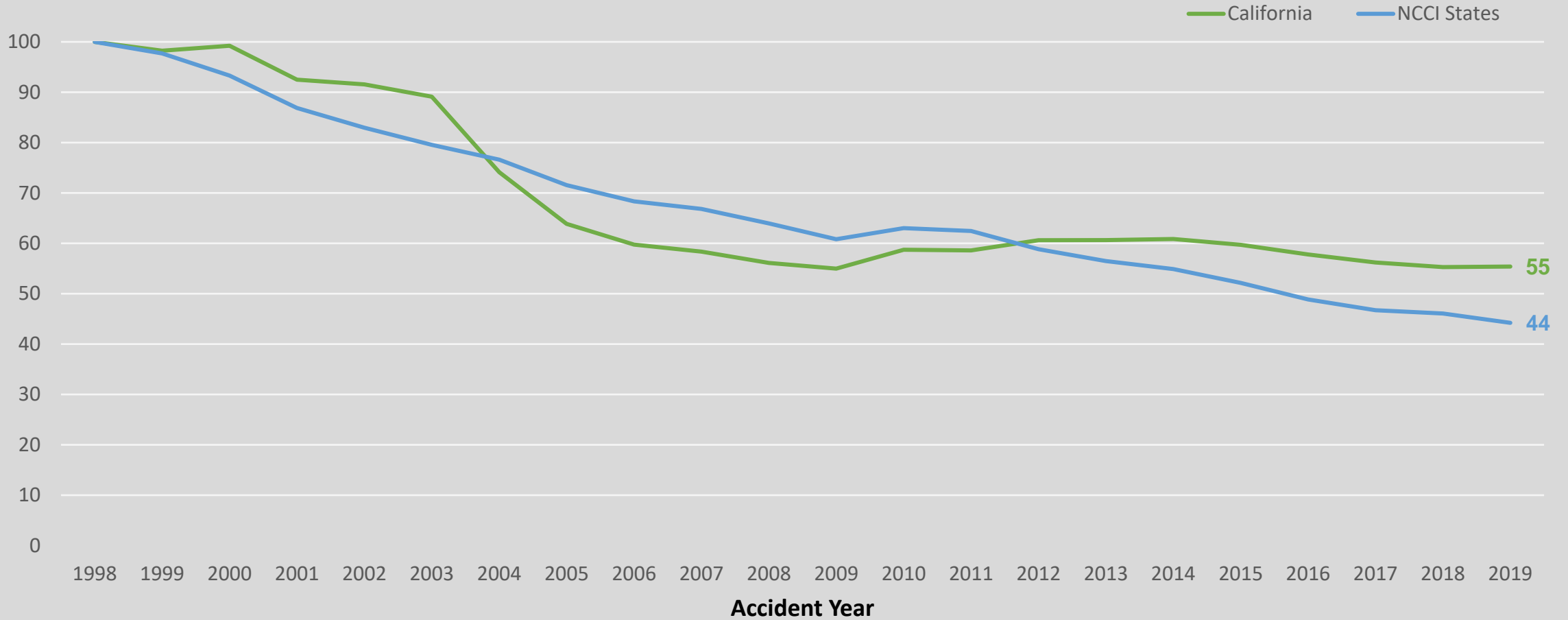
Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2018

Includes all states where NCCI provides ratemaking services; NV is excluded prior to 2002, TX is excluded prior to 2007, and WV is excluded prior to 2012

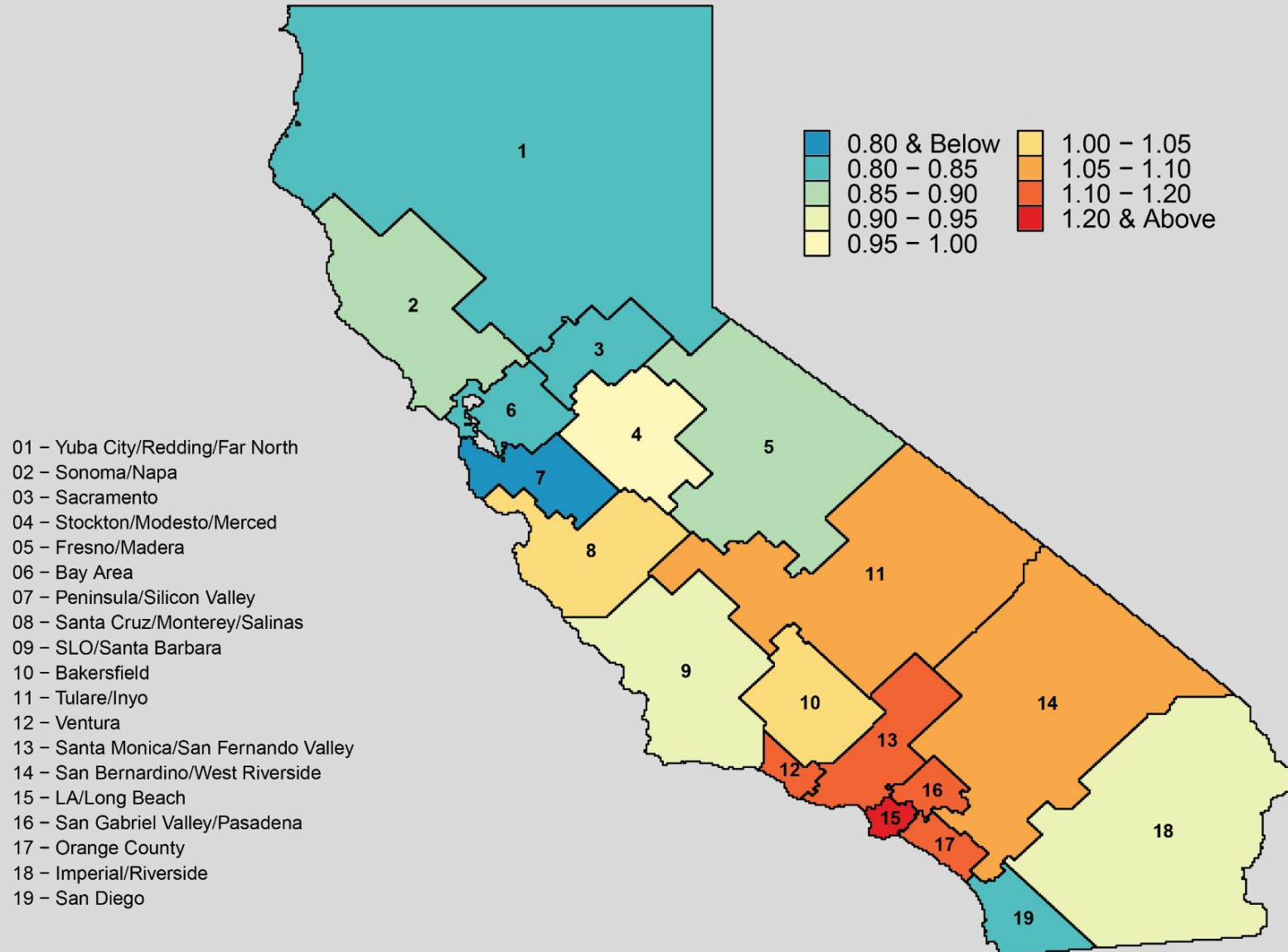


Indemnity Claim Frequency Indexed to 1998

California vs. NCCI States

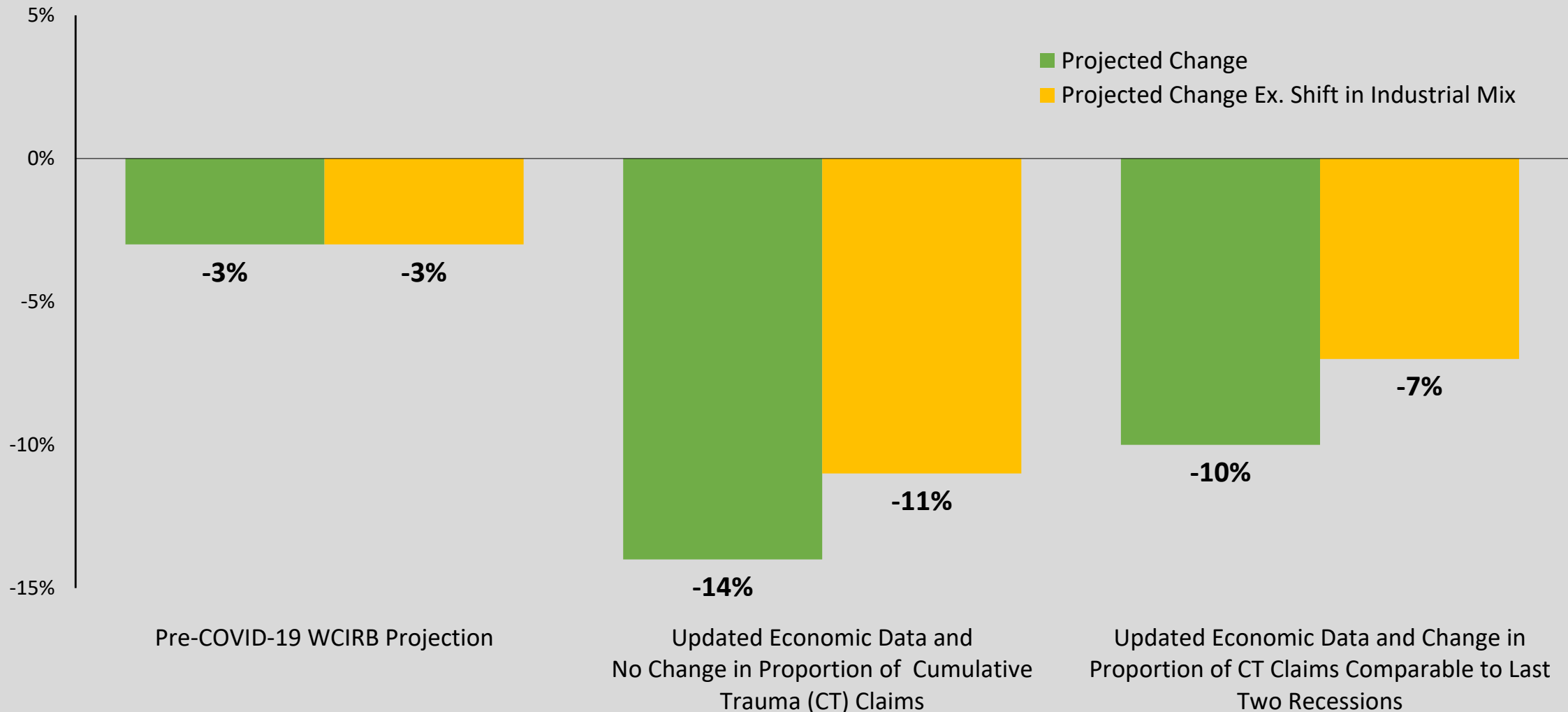


California Regional Differences in Indemnity Claim Frequency



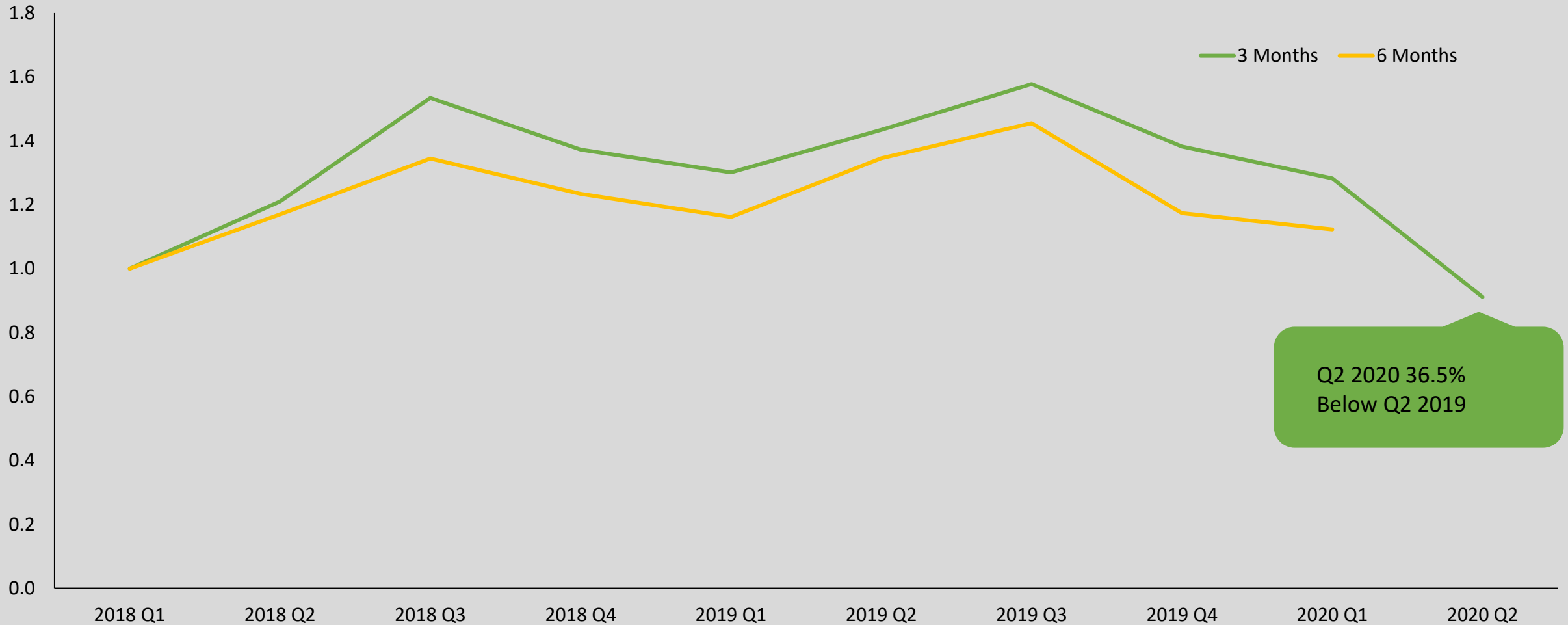
Source: WCIRB unit statistical data for Policy Year 2017 at first report level. See 2019 WCIRB Geo Study

Indemnity Claim Frequency— Alternative California Accident Year 2020 Projections



Indemnity Claims by Accident Quarter

Based on a Sample of Insurers' Data (excl. COVID-19 Claims)



COVID-19 and Claim Frequency

Claim Reporting

Possible **deferral of claim reporting** may result in **reduced** injury frequency



Changes in Exposure

Increased telecommuting reduces driving and may result in **fewer motor vehicle accidents**



Elevated Unemployment

In addition to those who have lost their jobs, **employed individuals** may be **reluctant to file claims**



However, **remote working environments** may increase **ergonomic injuries**



Occupational Disease

Recent legislation clarifies coverage for **first responders and healthcare workers**



Compensability Expansion

Potential for employees in other **“essential” occupations**





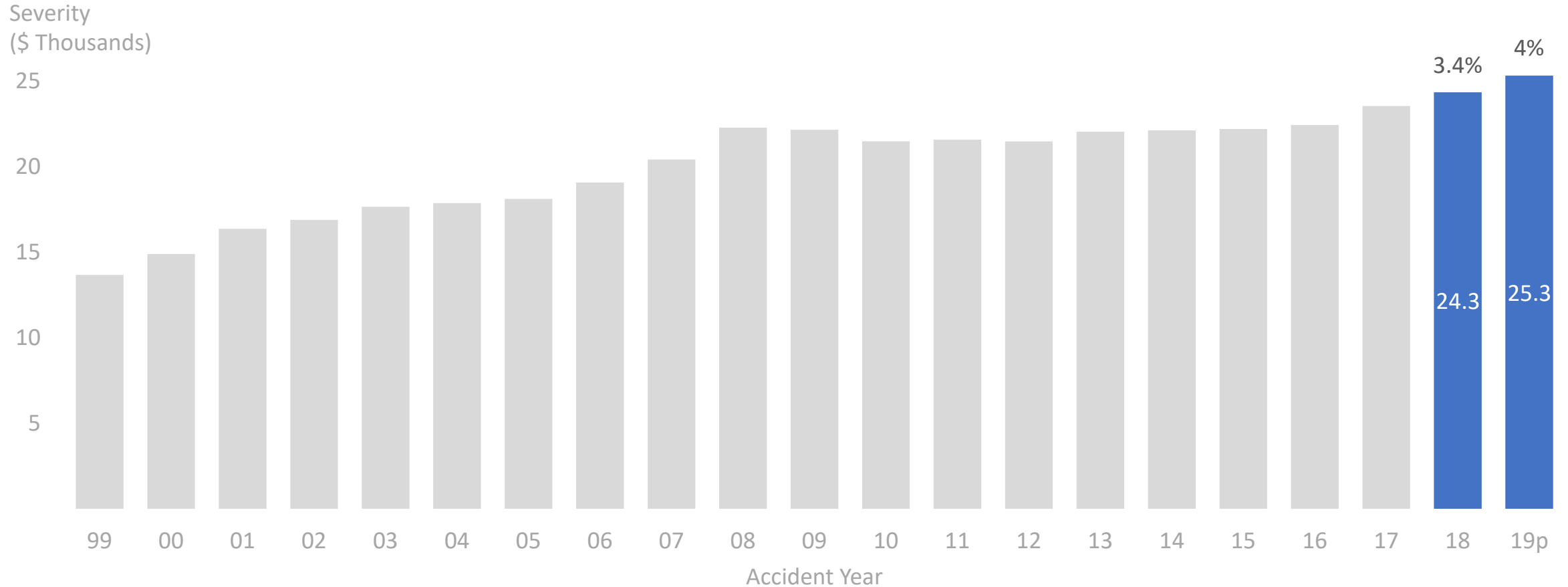
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Indemnity Severity

WC Average Indemnity Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2019

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2018

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

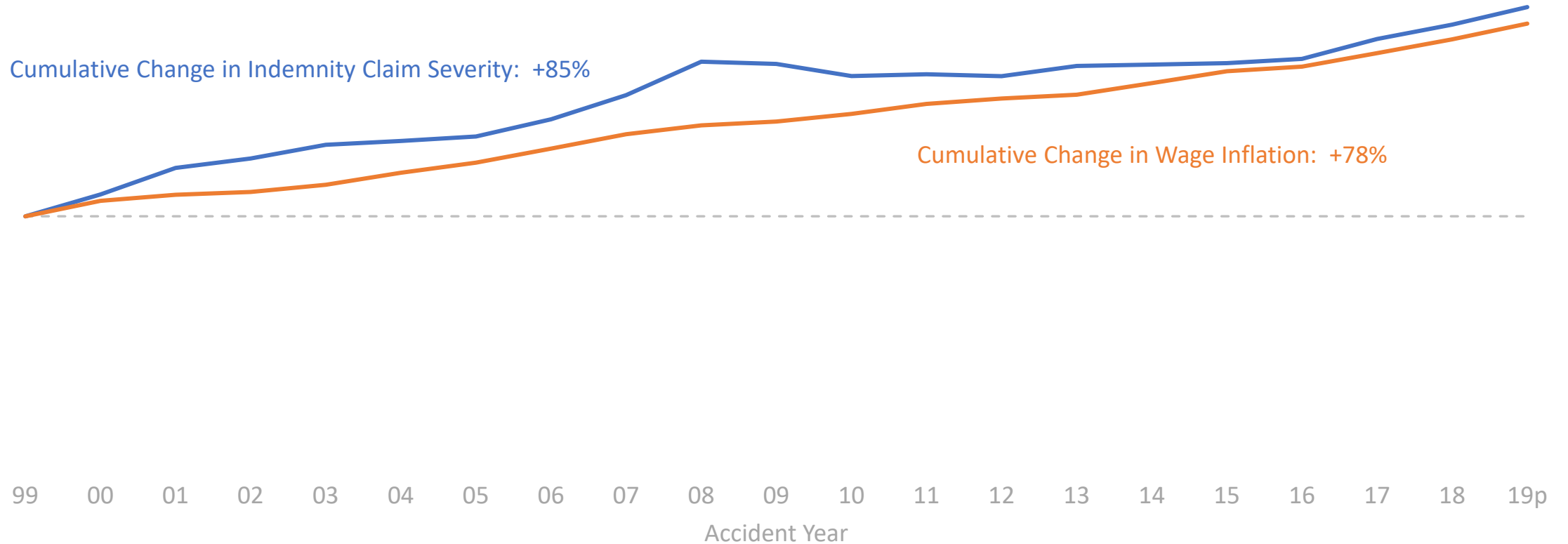
Includes all states where NCCI provides ratemaking services; NV is excluded prior to 2004, TX is excluded prior to 2005, and WV is excluded prior to 2009

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WC Average Indemnity Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2019

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2018

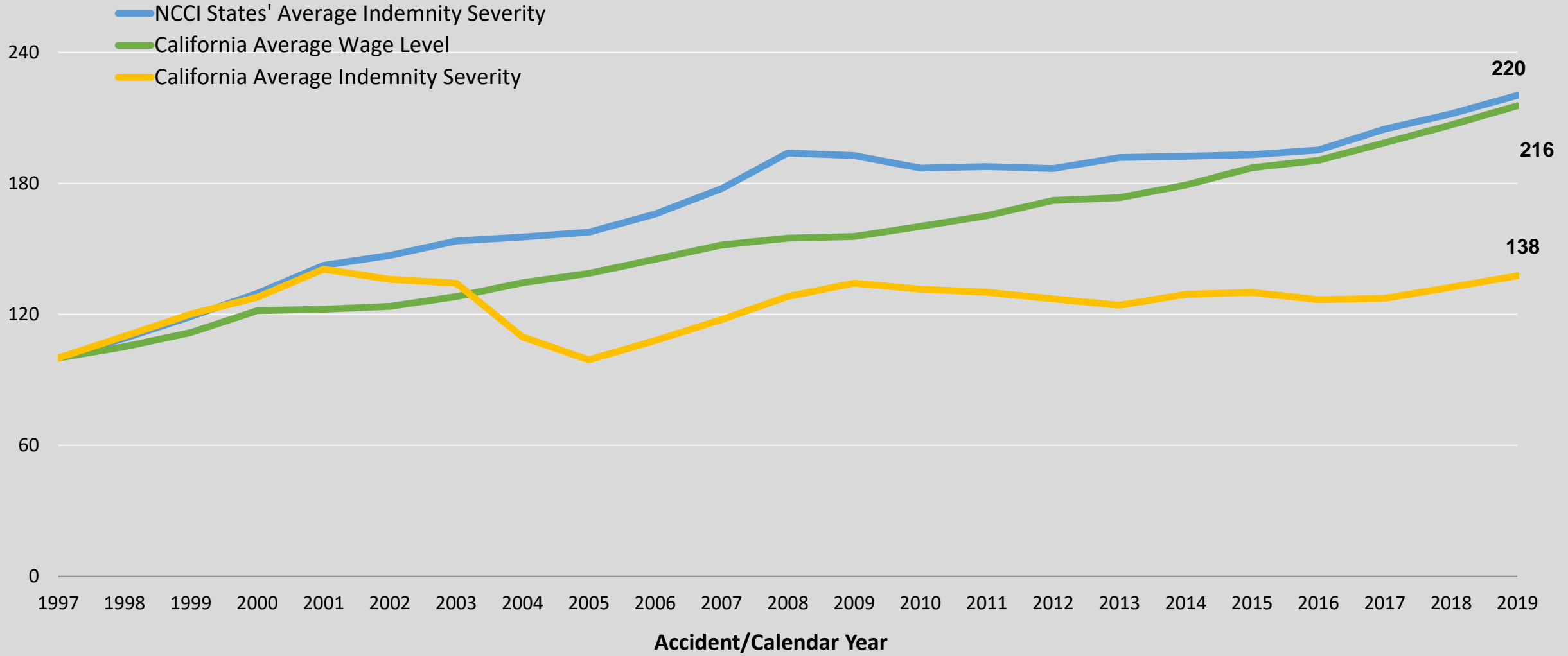
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; NV is excluded prior to 2004, TX is excluded prior to 2005, and WV is excluded prior to 2009

US Average Weekly Wage: 1999–2007 and 2012–2018 Quarterly Census of Employment and Wages, US Bureau of Labor Statistics (BLS); 2008–2011 NCCI; 2019p NCCI and Moody's Analytics



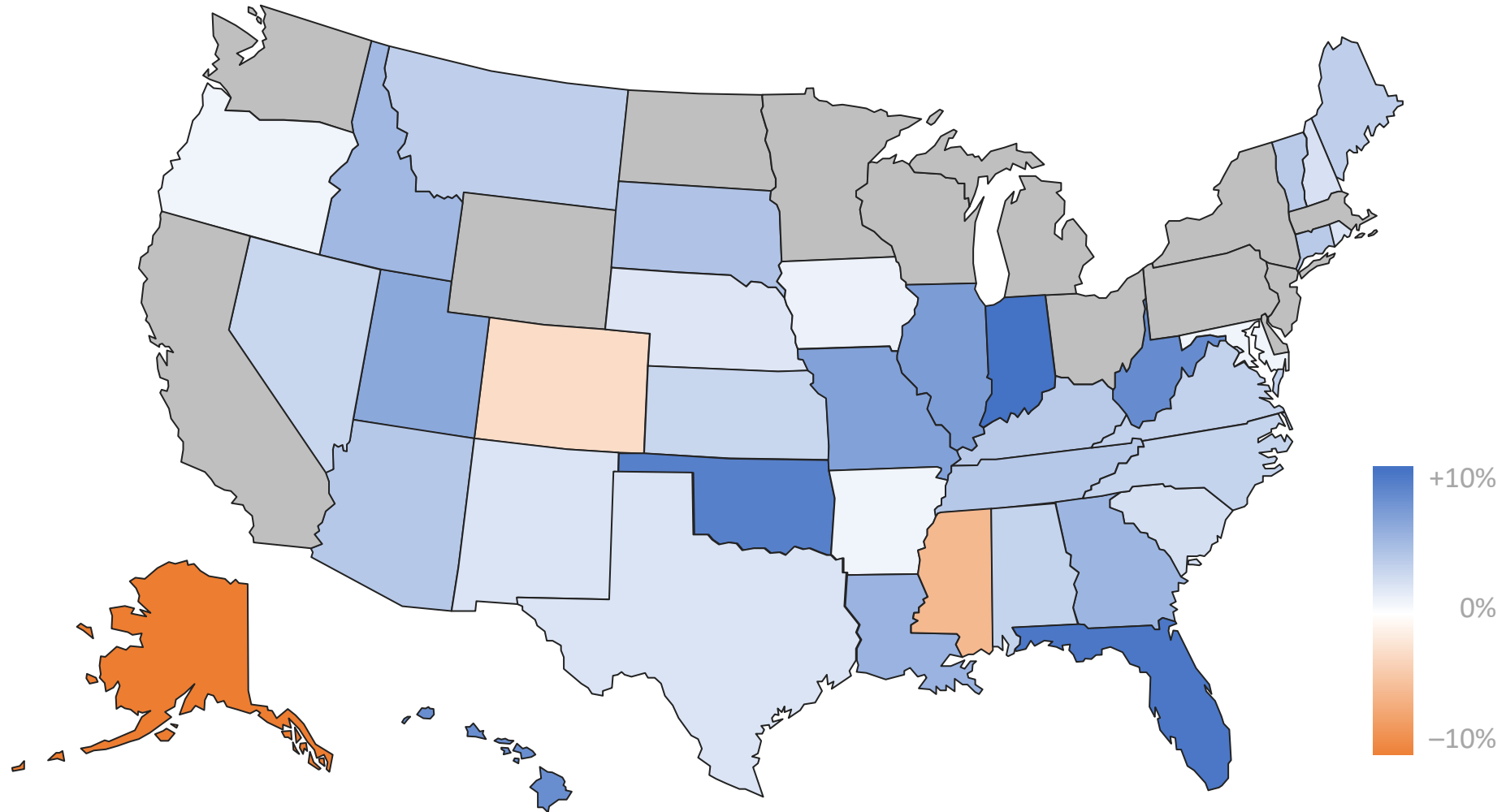
California Average Indemnity Severity Level Indexed to 1997



Sources: WCIRB aggregate financial data calls as of March 31, 2020, NCCI 2020 State of the Line Guide and BLS

WC Average Indemnity Claim Severity

Average Annual Change 2014–2018, Private Carriers and State Funds—NCCI States



Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2018
Values displayed reflect the methodology underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services



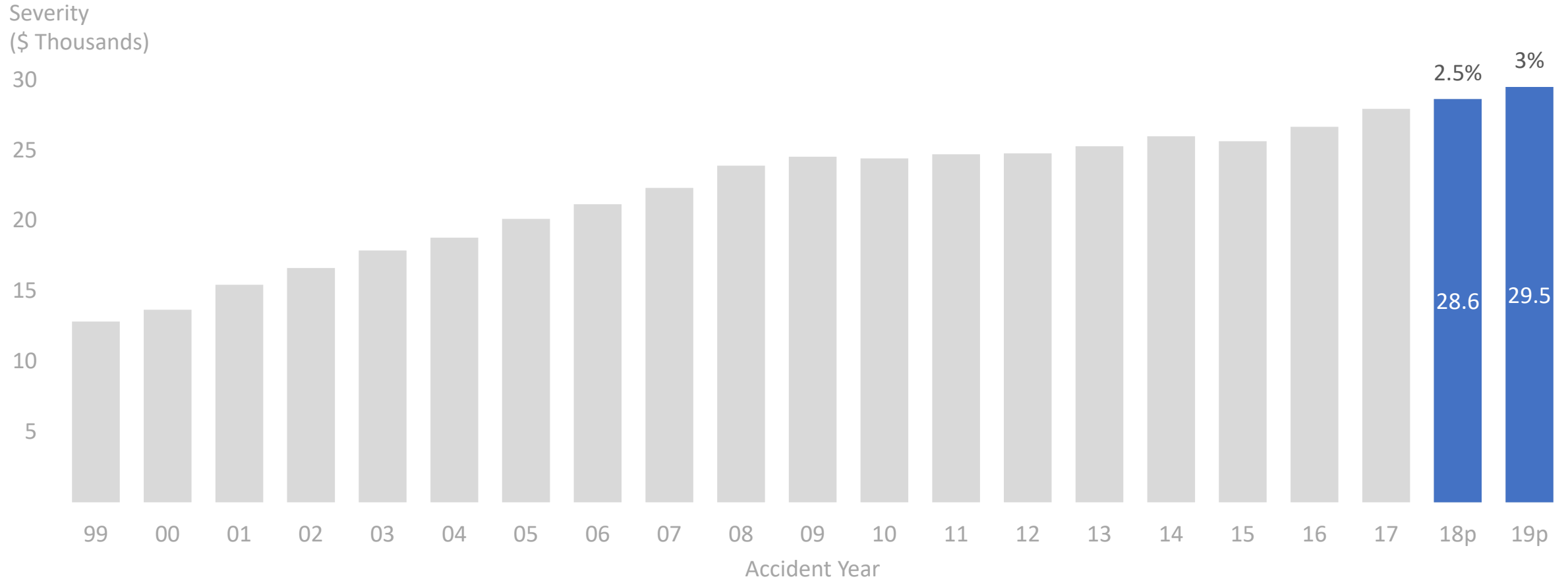
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Medical Severity

WC Average Medical Lost-Time Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2019

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2018

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

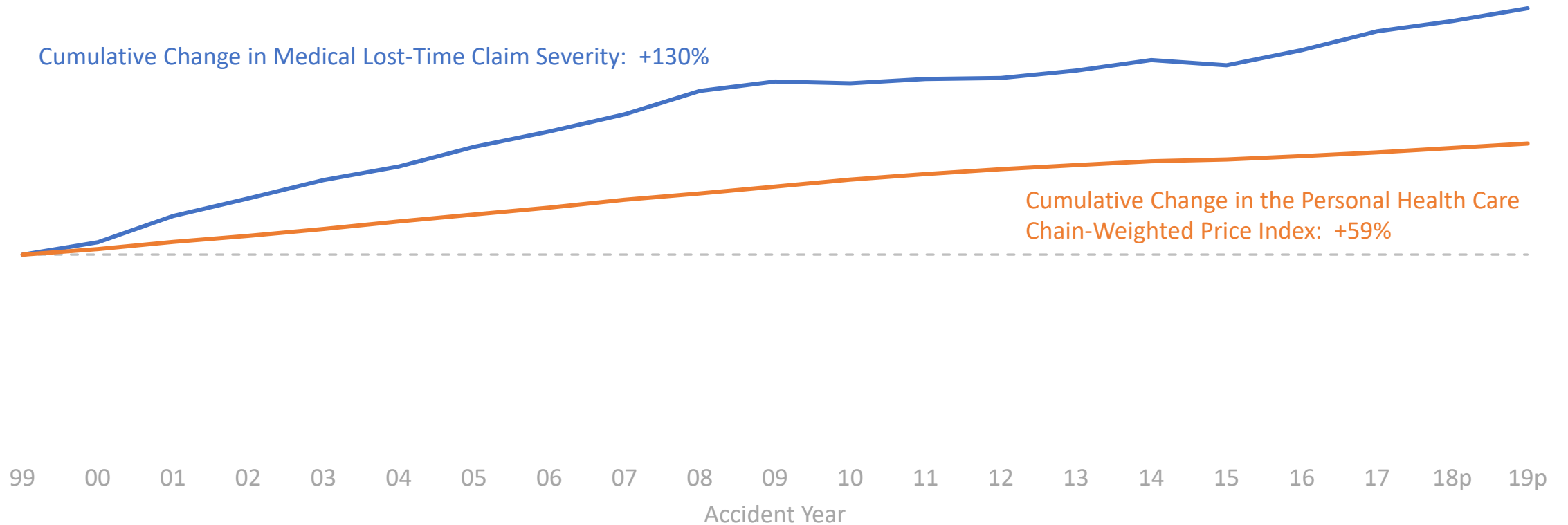
Includes all states where NCCI provides ratemaking services; NV is excluded prior to 2004, TX is excluded prior to 2005, and WV is excluded prior to 2009

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WC Average Medical Lost-Time Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2019

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2018

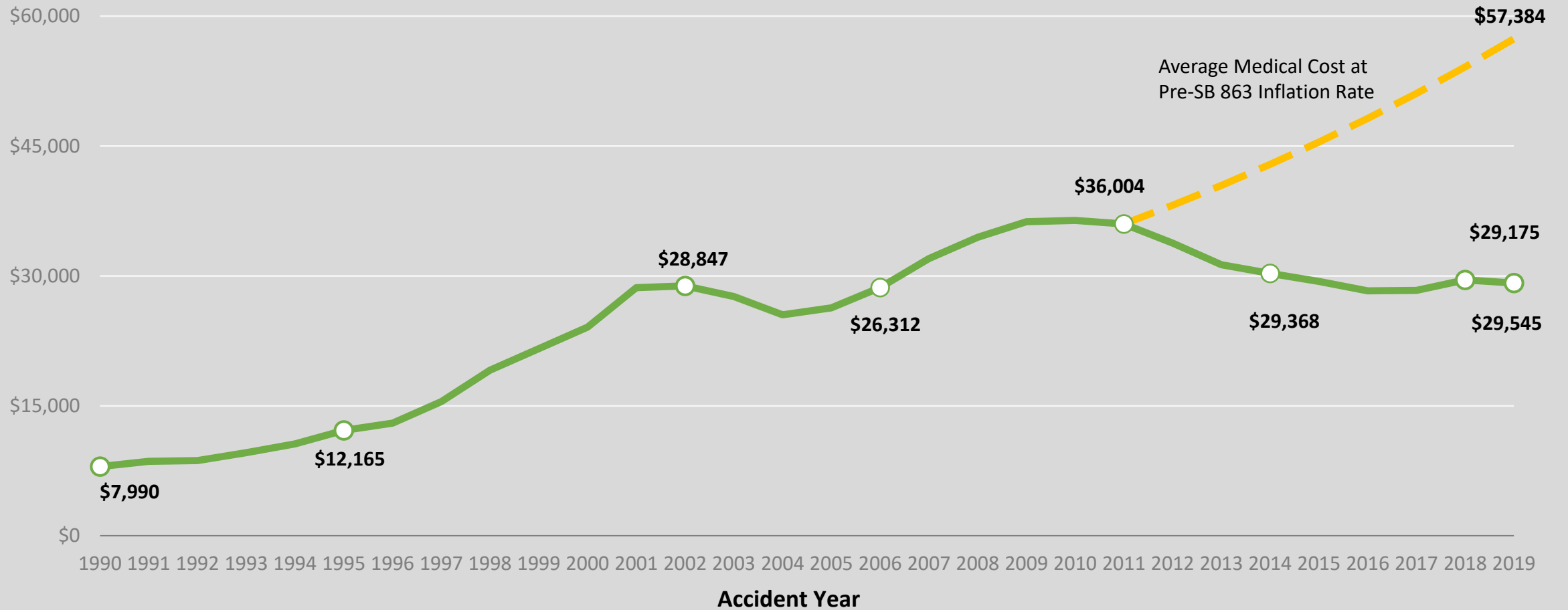
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; NV is excluded prior to 2004, TX is excluded prior to 2005, and WV is excluded prior to 2009

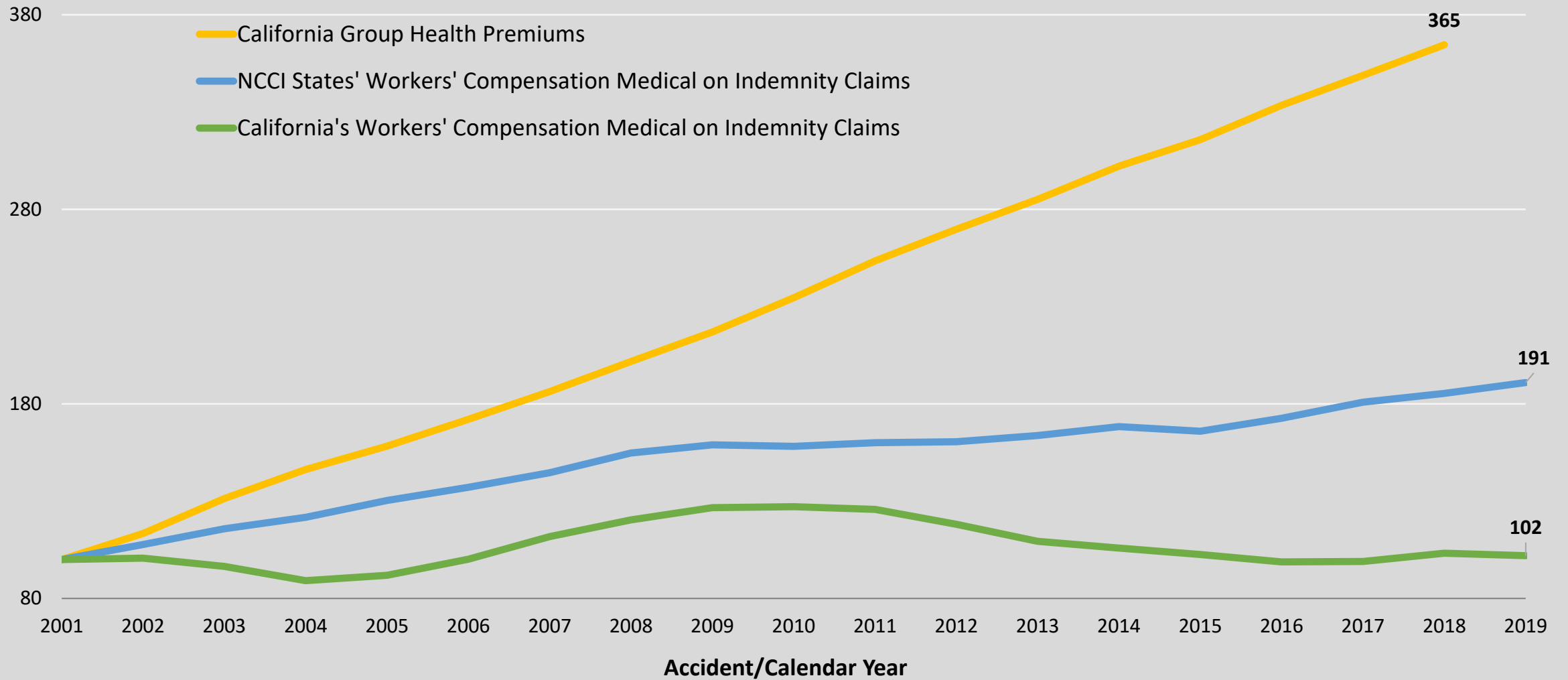
PHC Chain-Weighted Price Index: Centers for Medicare & Medicaid Services



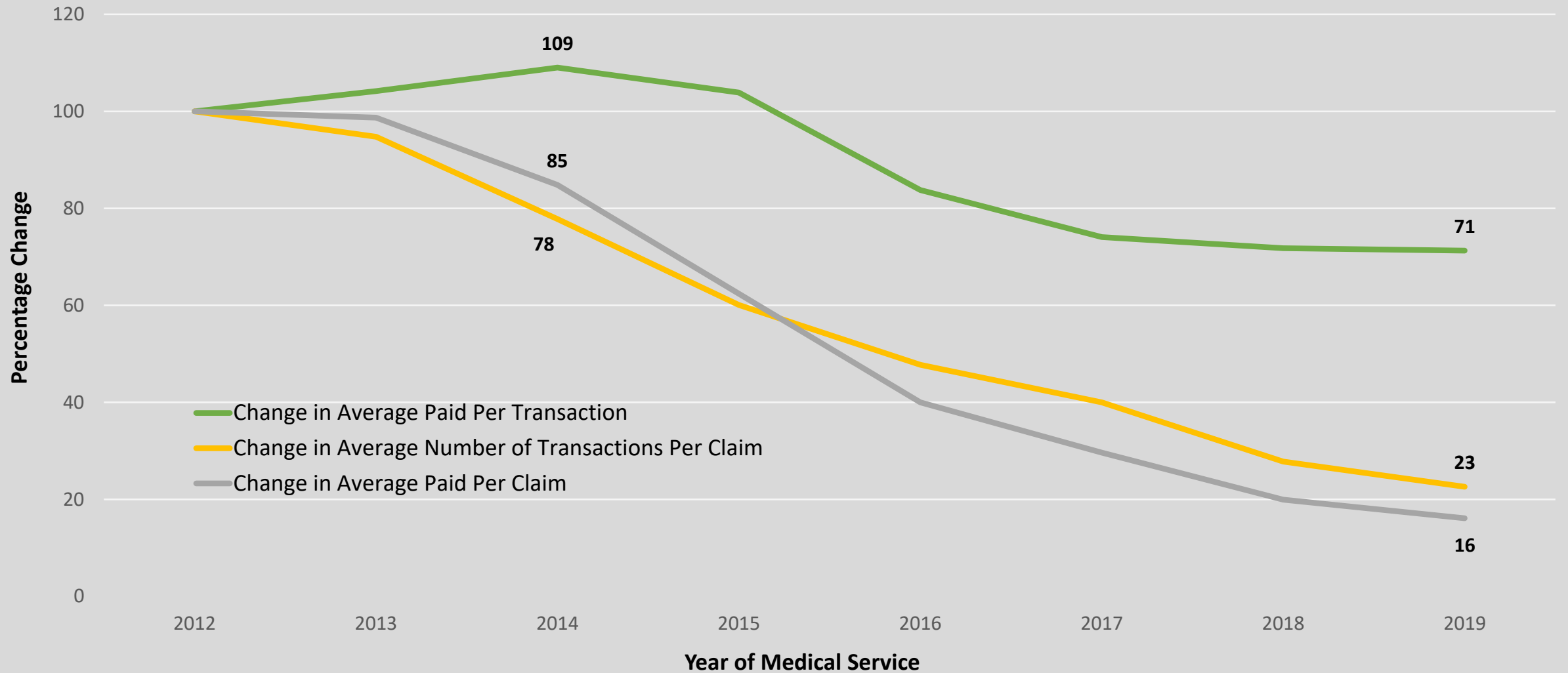
Average California Medical Cost per Indemnity Claim



California Medical Cost Level Indexed to 2001

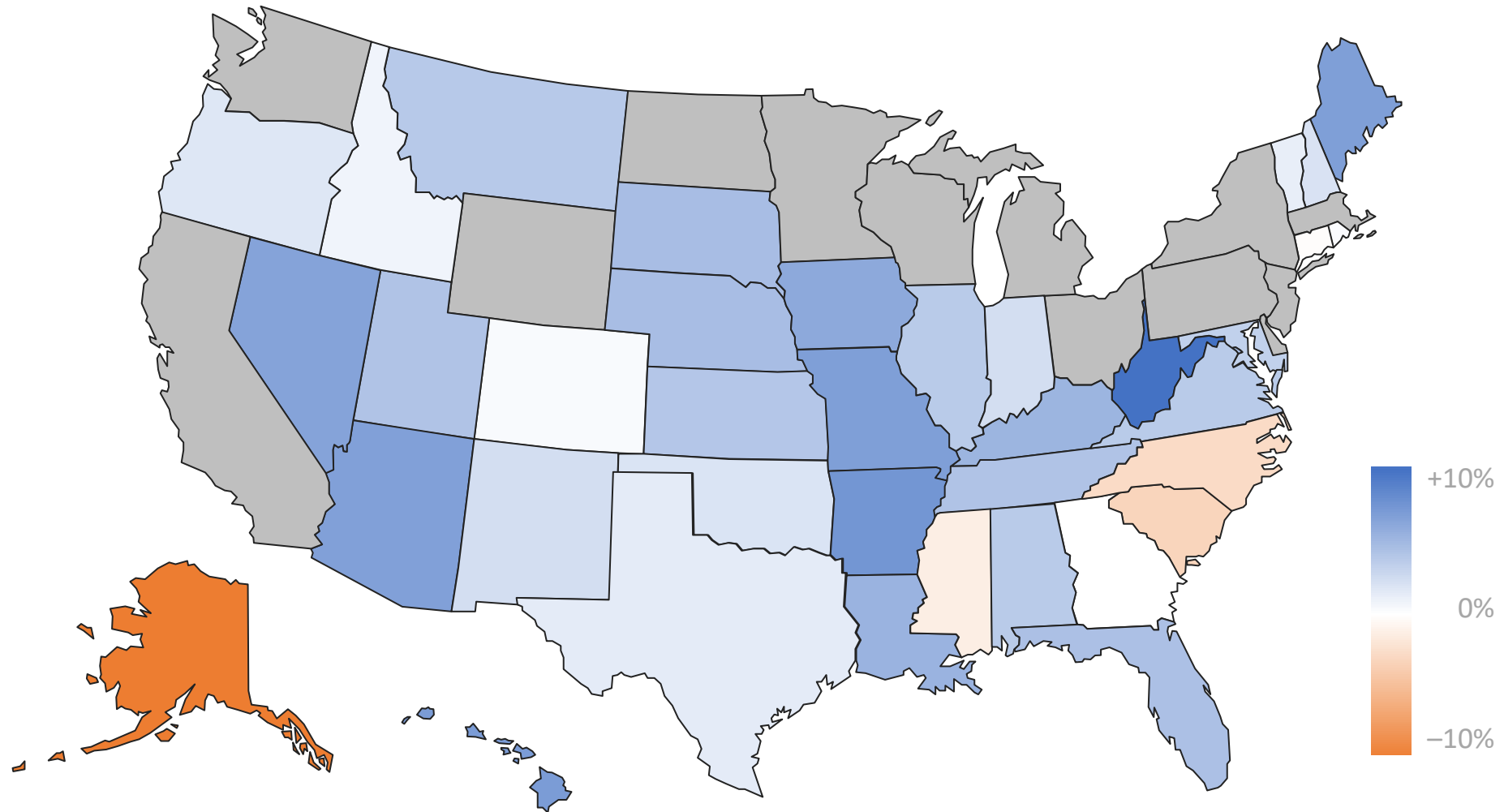


California Pharmaceutical Cost Level Indexed to 2012



WC Average Medical Lost-Time Claim Severity

Average Annual Change 2014–2018, Private Carriers and State Funds—NCCI States



Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2018
Values displayed reflect the methodology underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services

COVID-19 and Claim Severity



Telehealth

Increased use may reduce severities

Return-to-Work

May take longer due to deferred treatment, and some jobs will remain furloughed



Return-to-work and light-duty programs may be used less often while WC benefits continue

Medical Care

Deferral of hospital treatments and physical therapy may increase claim duration



Claims Handling

Potential for reduced efficiencies and impacts to claim adjustment costs





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Economic Downturn

COVID-19 and Employment

Leisure, Hospitality, and Travel



Many **shut down** by government mandate or saw **traffic drop to near zero**

Durable and Discretionary Goods

Cancelled or deferred orders have impacted a wide range of products



Professional Services

Telecommuting may help to **maintain current employment** with a reduced risk of COVID-19 exposure



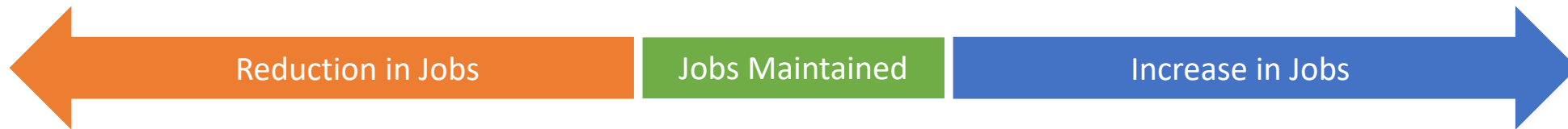
Healthcare for Urgent Needs



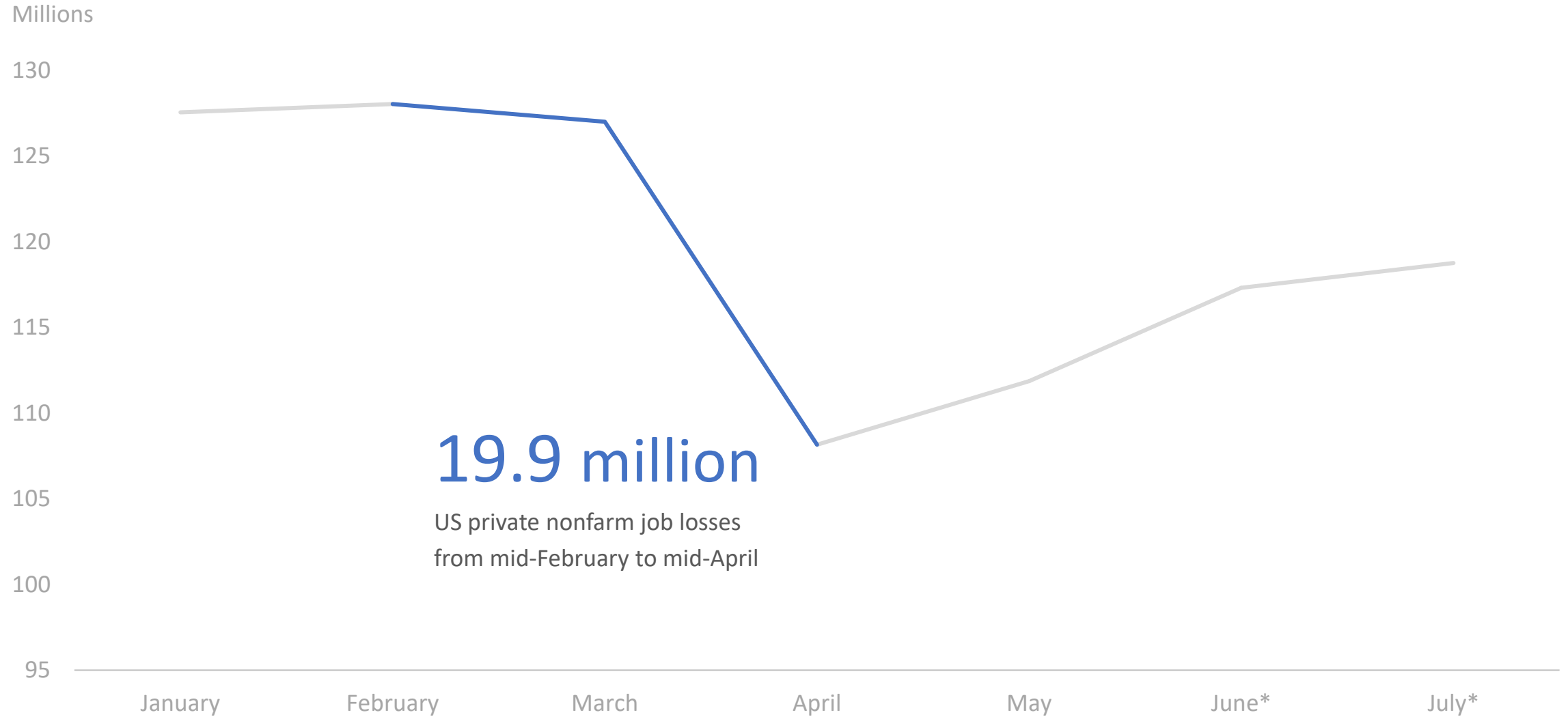
Demand surged for **urgent medical service and supplies**

Groceries and Direct Delivery

Demand and online sales **skyrocketed**, resulting in **temporary new hires**



2020 Employment Levels



* Preliminary

Source: US Bureau of Labor Statistics

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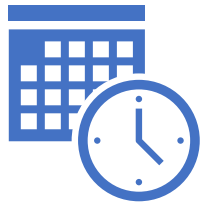


Key Drivers of Job Losses in Service Sectors



Physical Proximity

Refers to the degree of **interpersonal contact** associated with a service or activity



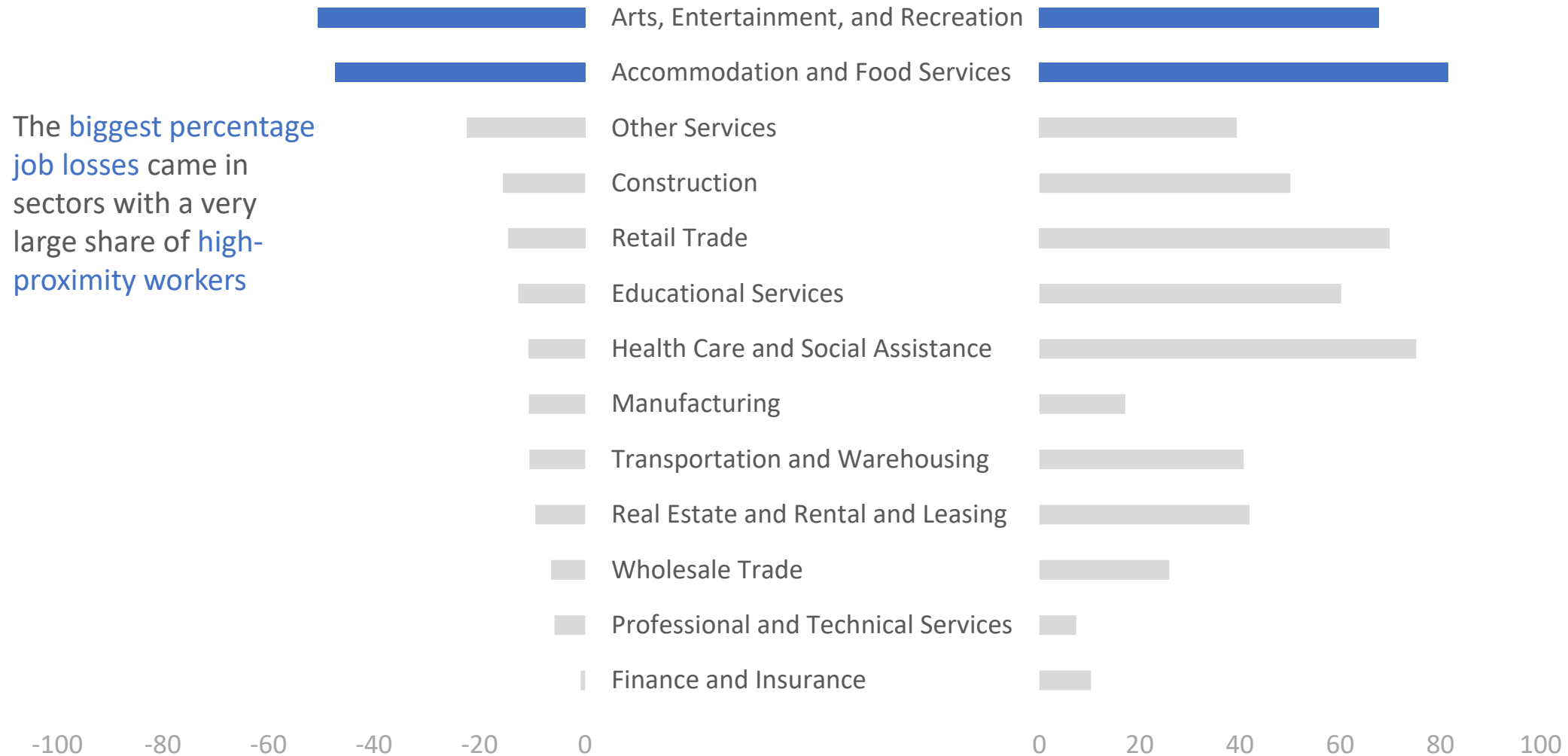
Essentiality

Refers to the degree to which a **service cannot be postponed**; services that are more discretionary or capable of postponement are less essential

Job Losses by Economic Sector

Percent Change in Employment

Share of Employment With High Physical Proximity

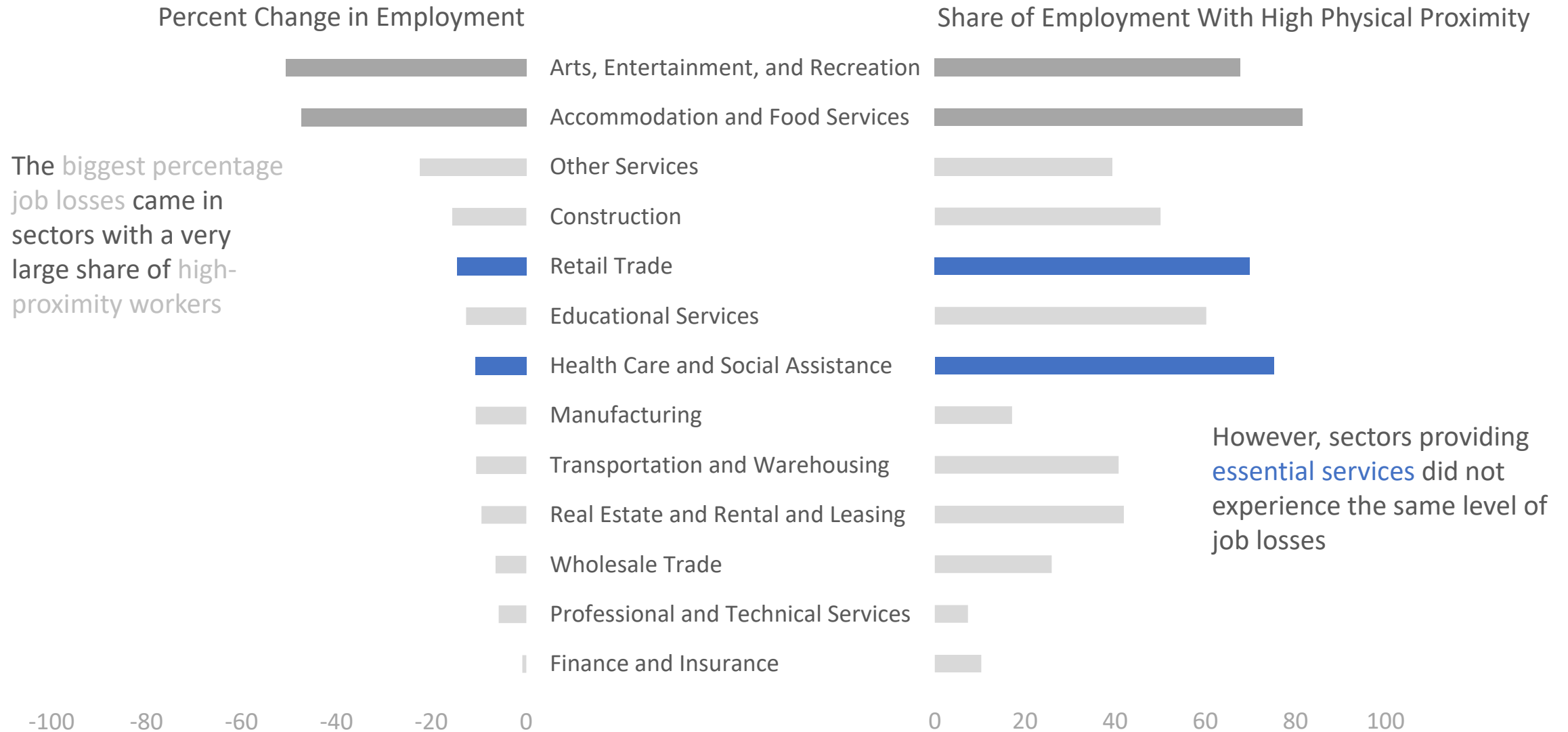


Sources: *Quarterly Economics Briefing*—2020 Q2: “Job Losses and Physical Proximity” and US Bureau of Labor Statistics

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Job Losses by Economic Sector



Sources: *Quarterly Economics Briefing*—2020 Q2: “Job Losses and Physical Proximity” and US Bureau of Labor Statistics

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COVID-19 and Premium

Exposure Decline

Recent changes in **unemployment** and **fewer hours** worked have **reduced payroll**



Small businesses may be especially impacted



Audit vs. Mid-Term Adjustments



Mid-term endorsement activity capturing changes in exposure is likely to **impact premium** in the **short term**

Otherwise, **negative audits** after policy expiration are **expected**



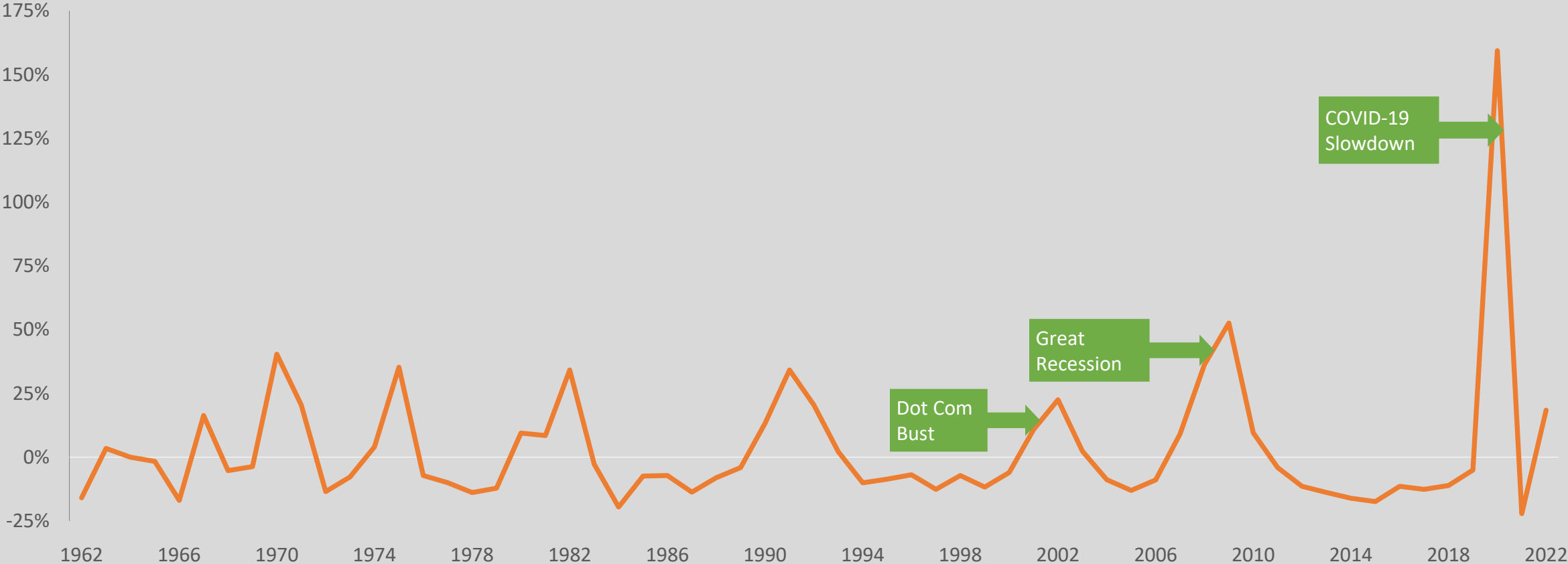
Timing Flexibility

Some carriers have **suspended the cancellation of policies** and **penalties** for late premium payments



Annual Change in California Unemployment Rate

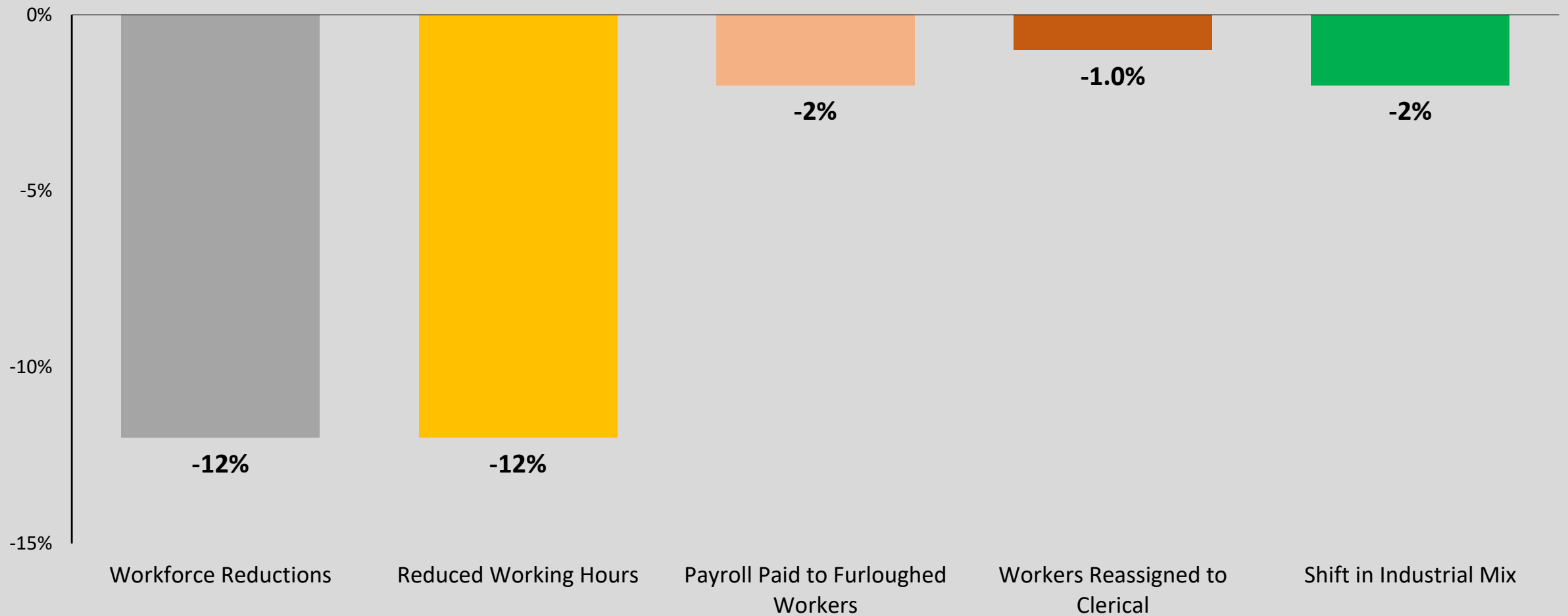
Based on Bureau of Labor Statistics and UCLA Forecast



Sources: BLS and UCLA Anderson

Potential 2020 California Exposure Impacts

Based on WCIRB Employer Surveys and Updated Economic Forecasts



Sources: WCIRB Employer Surveys and UCLA Anderson



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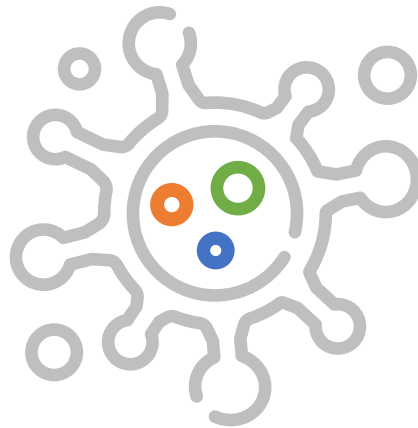
COVID-19 Claims

What Could a COVID-19 Claim Look Like?

— Indemnity —

Minimal time
away from work

Significant time
away from work



— Medical —

Mild symptoms with
low medical costs

Long-term
hospital stay

Short-term
hospital stay

Need for
rehabilitation



— Mental-Mental —

OTC/Rx
Medication

Require
therapy session(s)

Long-term
impairment



COVID-19 Hypothetical Scenarios Tool

Choose a Jurisdiction: All NCCI States

Choose a Workforce: Healthcare-Related

Row Description	Scenario Assumption	
(1) Infection Rate	10%	Double-click to reset
(2) Report Rate	50%	
(3) Hospitalization Rate	10%	
(4) Critical Care Rate	15%	
(5) Fatal Rate	0.5%	
(6) Compensability Rate	100%	
(7) Average Fatal Indemnity Benefit ¹	\$402,865	
(8) Average Salary ²	\$59,350	
(9) Pure Premium Factor ³	0.36	

Row Description	Symptom Group			Overall ⁴
	Mild	Moderate	Severe	
(10) COVID-19 Claim Frequency	4.500%	0.425%	0.075%	5.000%
	$= (1) \times (2) \times [1.0 - (3)]$	$= (1) \times (2) \times (3) \times [1.0 - (4)]$	$= (1) \times (2) \times (3) \times (4)$	$= (1) \times (2)$
(11) Wage Replacement Severity ¹	\$812	\$1,656	\$3,712	\$927
(12) Medical Severity ¹	\$1,000	\$22,300	\$67,000	\$3,801
(13) Nonfatal Total Severity = (11) + (12)	\$1,812	\$23,956	\$70,712	\$4,728

Row Description	Estimate	
(14) Workforce (Healthcare-Related)	8,490,310	
(15) Expected Payroll	\$503,900M	$= (14) \times (8)$
(16) COVID-19 Total Severity	\$6,742	$= (13) \text{ Overall} + (7) \times (5)$
(17) COVID-19 Expected Losses⁵	\$2,862.1M	$= (14) \times (10) \text{ Overall} \times (6) \times (16)$
(18) Expected Losses Without COVID-19 ⁵	\$1,814.0M	$= (15) / 100 \times (9)$
(19) Scenario Expected Losses With COVID-19 ⁵	\$4,676.2M	$= (17) + (18)$
(20) All NCCI States—Scenario Workforce Impact⁵	+158%	$= (19) / (18) - 1.0$

Intended Use

The calculations presented here model the potential impact to expected losses for the associated jurisdiction and workforce under the scenario framework described in NCCI's Research Brief:

[COVID-19 and Workers Compensation: Modeling Potential Impacts.](#)

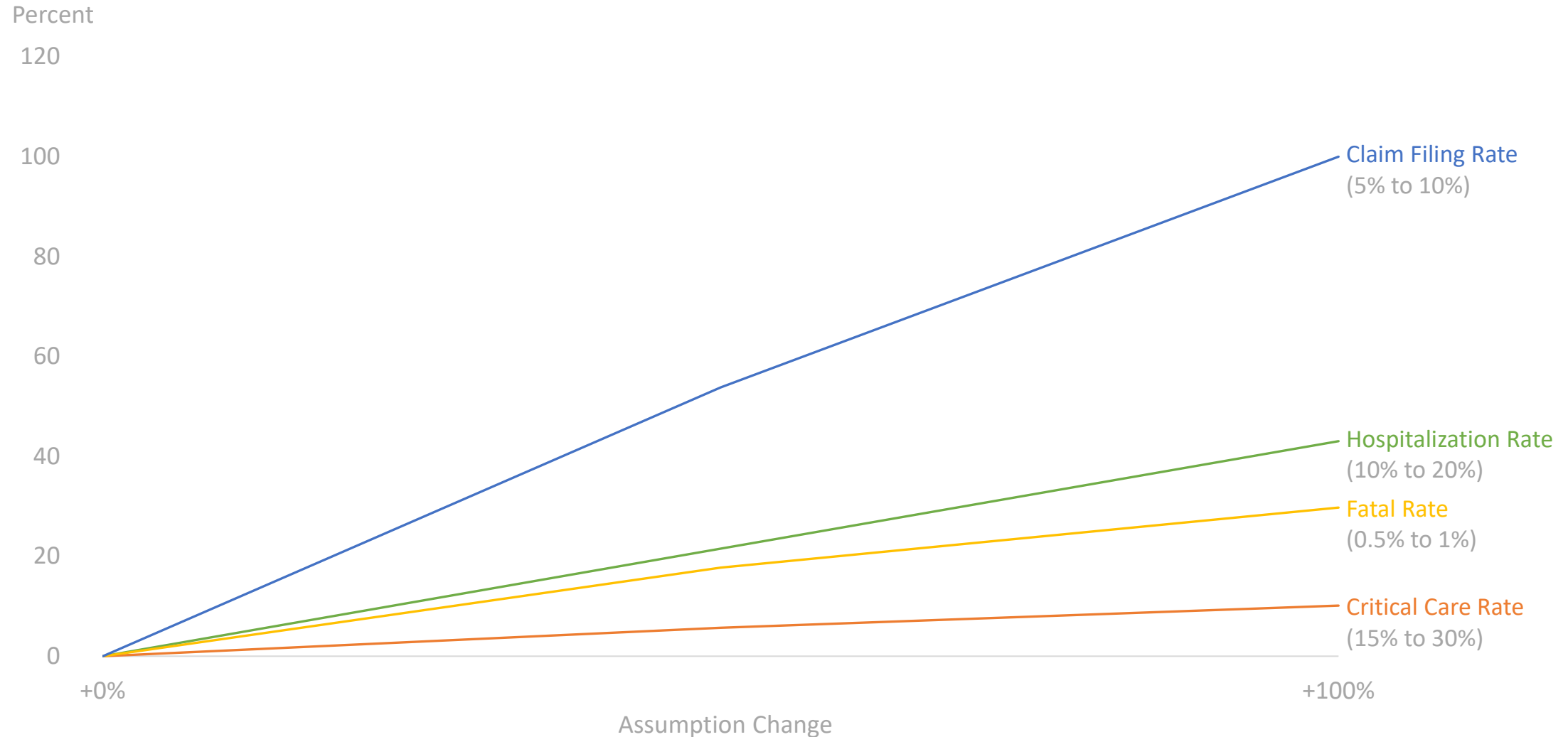
Adjust the sliders in rows (1) through (6) to vary the assumptions of the scenario.

NOTE: The model scenario may not include consideration for all potential benefit costs such as permanent disability, mental illness, or employers liability.



COVID-19 Scenario Impact—Sensitivity Testing

Change to Overall Impact on Healthcare-Related Workforce by Varying Assumptions



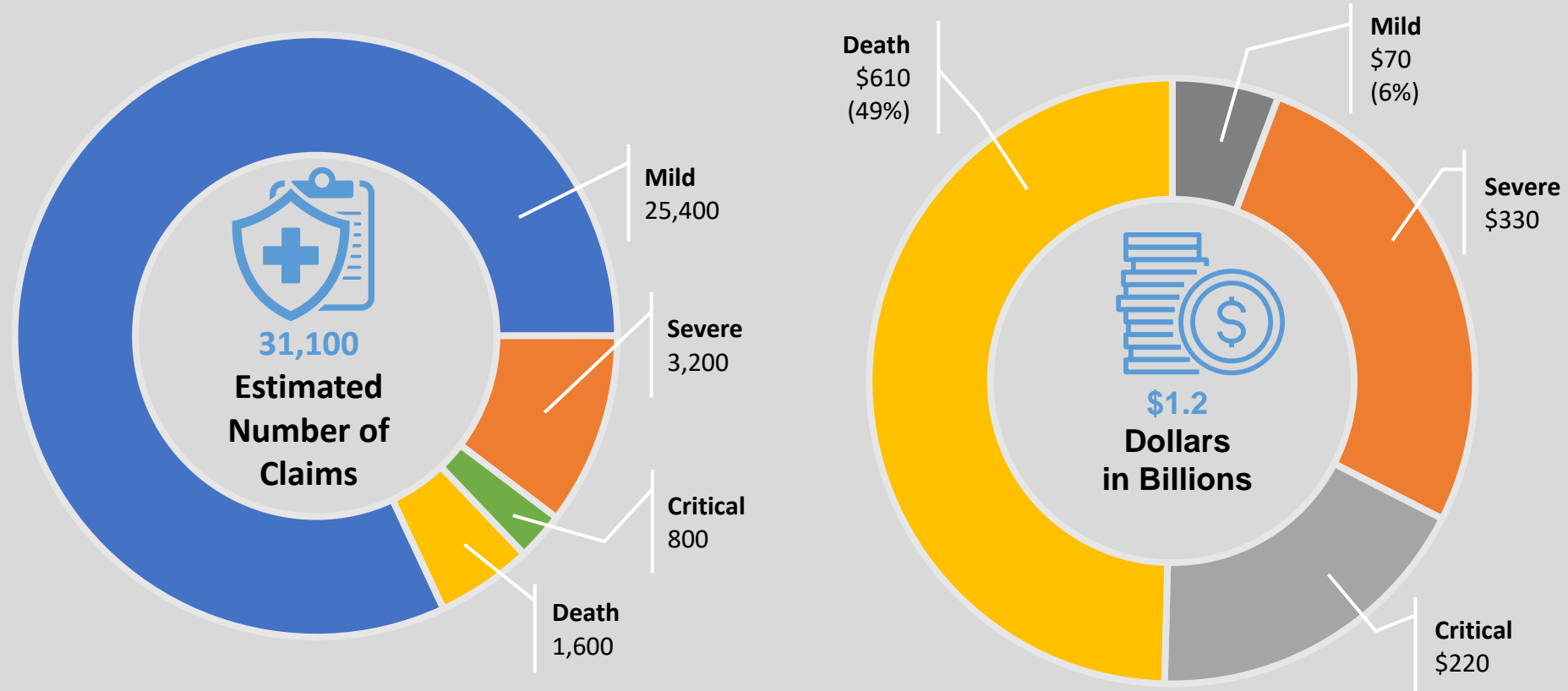
Claim Filing Rate = Infection Rate * Report Rate
Source: COVID-19 Hypothetical Scenarios Tool

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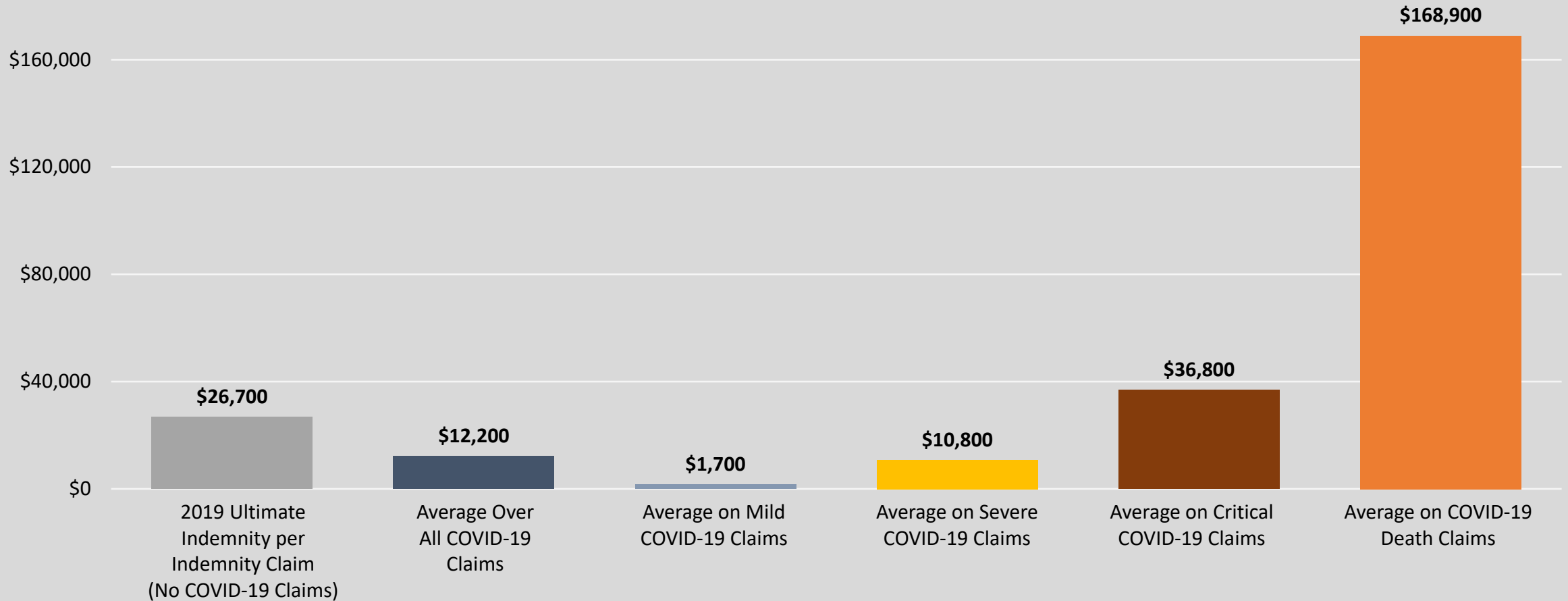
WCIRB Cost Evaluation of Governor Newsom's Executive Order

Mid-Range Estimates by Type of COVID-19 Claim



WCIRB Cost Evaluation of Governor Newsom's Executive Order

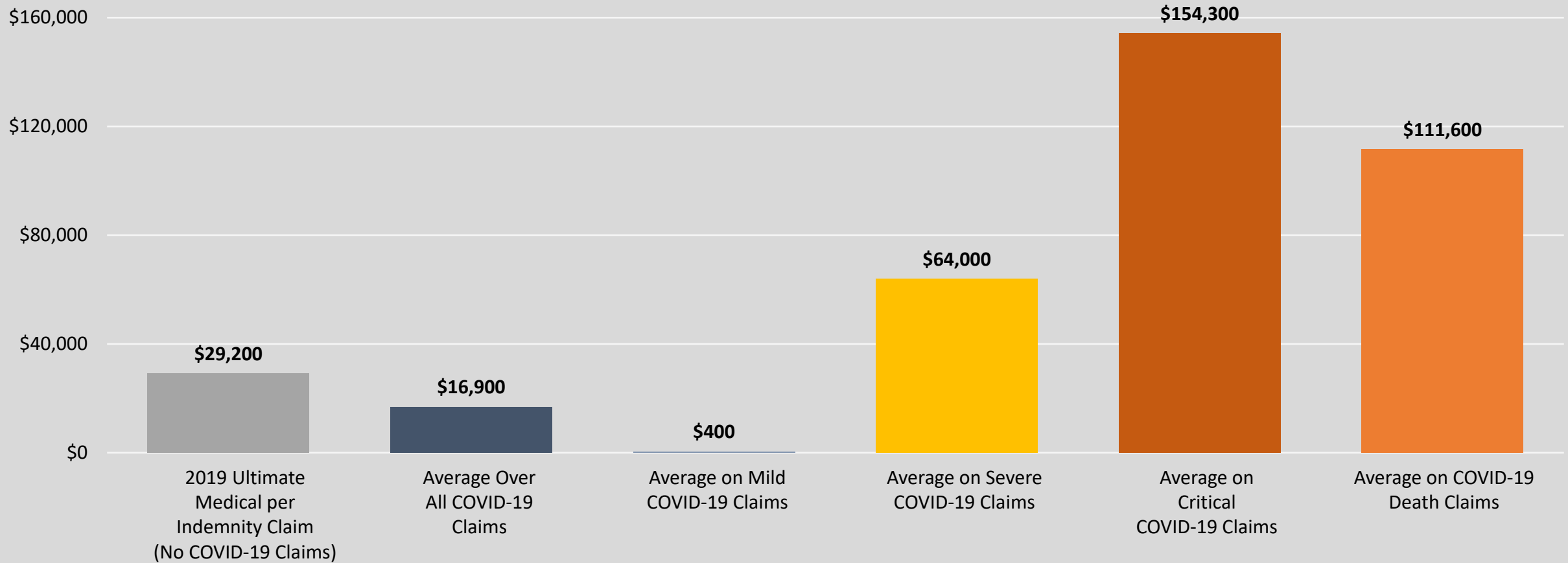
COVID-19 Claim Severity Estimates—Indemnity



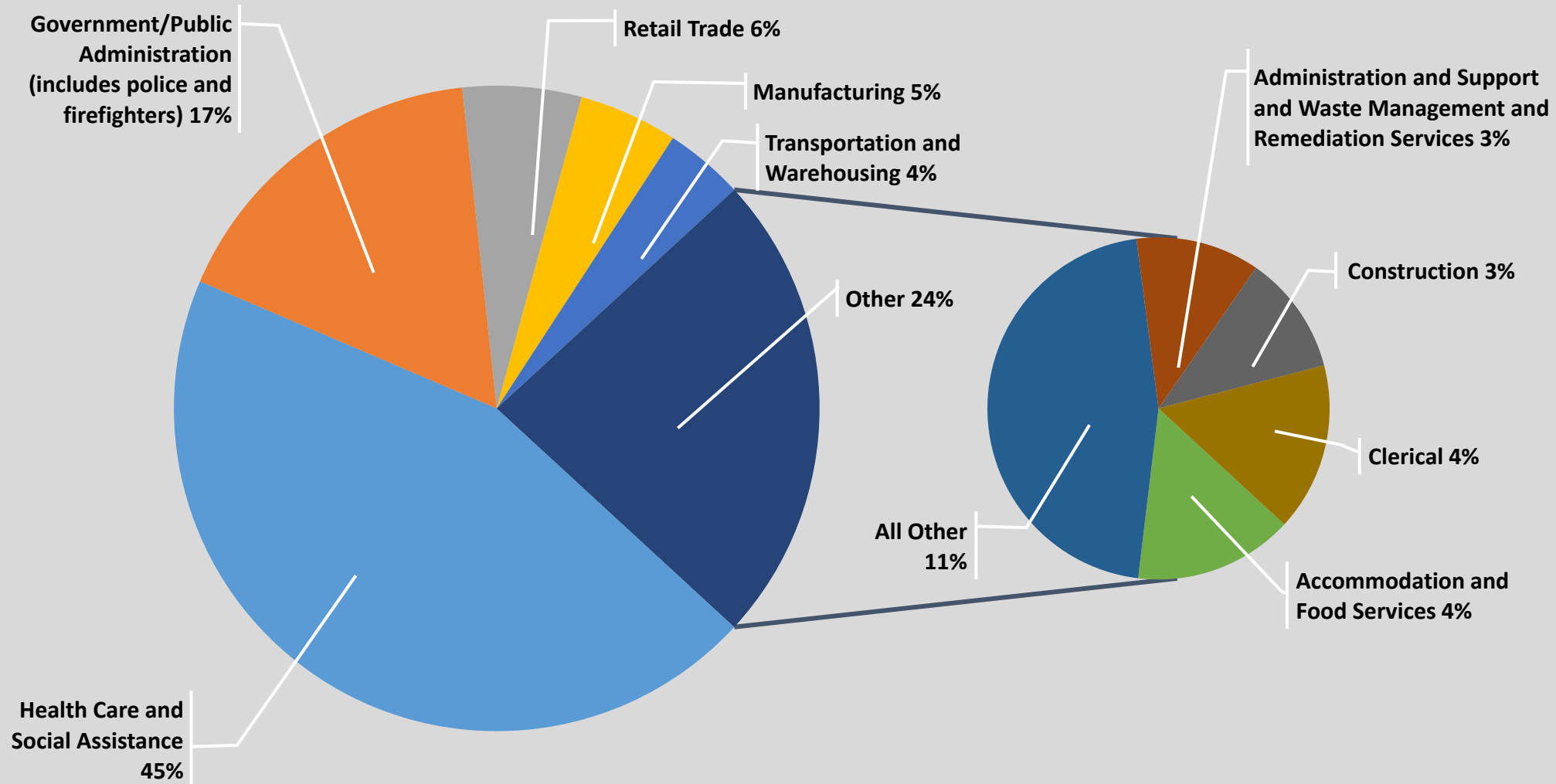
Source: Evaluation of Cost Impact of Governor Newsom's Executive Order on Rebuttable Presumption for California Workers' Compensation Claims, WCIRB, May 2020

WCIRB Cost Evaluation of Governor Newsom's Executive Order

COVID-19 Claim Severity Estimates—Medical



Reported California COVID-19 Claims by Industry as of July 7, 2020



WCIRB 1/1/21 Pure Premium Rate Filing

Current & Projected 2020 COVID-19 Deaths and Hospitalizations

California Working Age Population (18-69 years)	Current (end of July/Early Aug)	Projected to 2020 Year End	% Change between Aug and Dec 2020
Total Deaths	3,230	7,790	+141%
Total Hospitalizations (incl. deaths)	19,017	48,953	+157%
Mortality per 100k	12	29	+141%
Total Hospitalizations per 100k (incl. deaths)	71	183	+157%
Mortality in the Hospital (deaths / total hospitalized)	17%	15.9%	-7%

WCIRB 1/1/21 Pure Premium Rate Filing

Projected COVID-19 Workers' Compensation Claims as a % of Working Age Population Claims

Key Assumptions:

- Approximately 10% of claims filed are denied
- About 50% of mild claims will be filed
- Approximately 83% of California Infections (CDC 8/2/20) are of the working age population (18-69 yrs)

Mild Cases (18-69 yrs) =
Total Cases (18-69 yrs) - Total Hospitalizations
(incl. Deaths) (18-69 yrs)

50% of Mild Cases + Total
Hospitalizations (incl. Deaths)

COVID Claims Filed in WCIS
(as of July 23, DWC): 22,261

/

COVID Cases (18-69 yrs) likely to File a
WC Claim (as of July 25): 165,688

= 13.4%

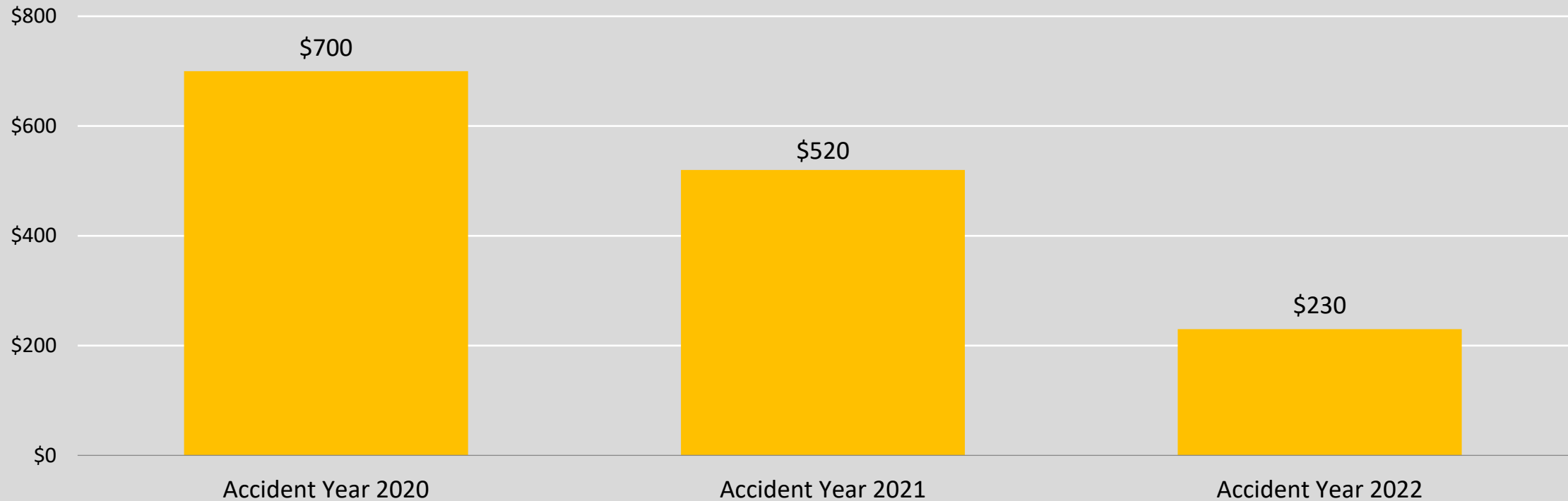
Adjusting for approx. 10% claim denial rate:

= 12%

WCIRB Projected COVID-19 Losses and Loss Adjustment Expenses

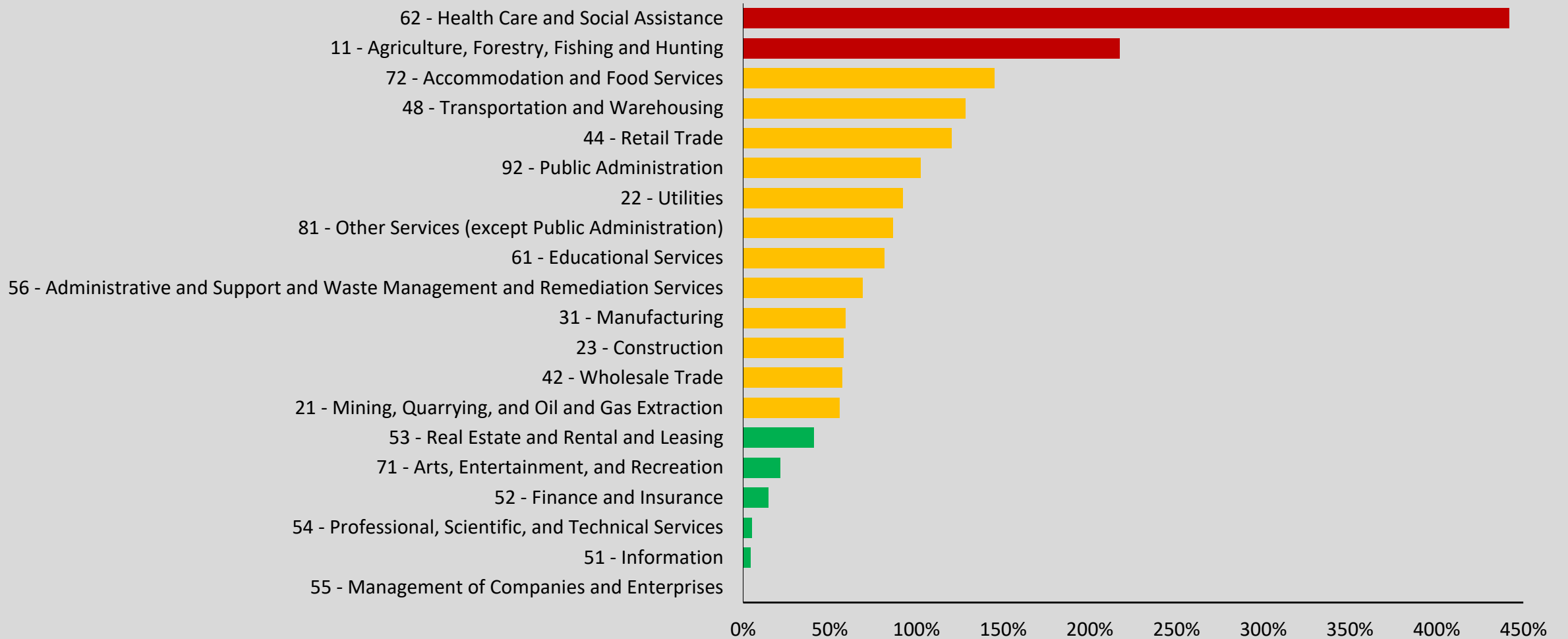
Insured System Only

Dollars in Millions



Relativity of COVID-19 Claims to Payroll by Industry

Based on DWC FROW Reports and BLS Data



Florida's 2020 COVID-19 Indemnity Claims

According to the Florida Division of Workers' Compensation as of July 31, 2020

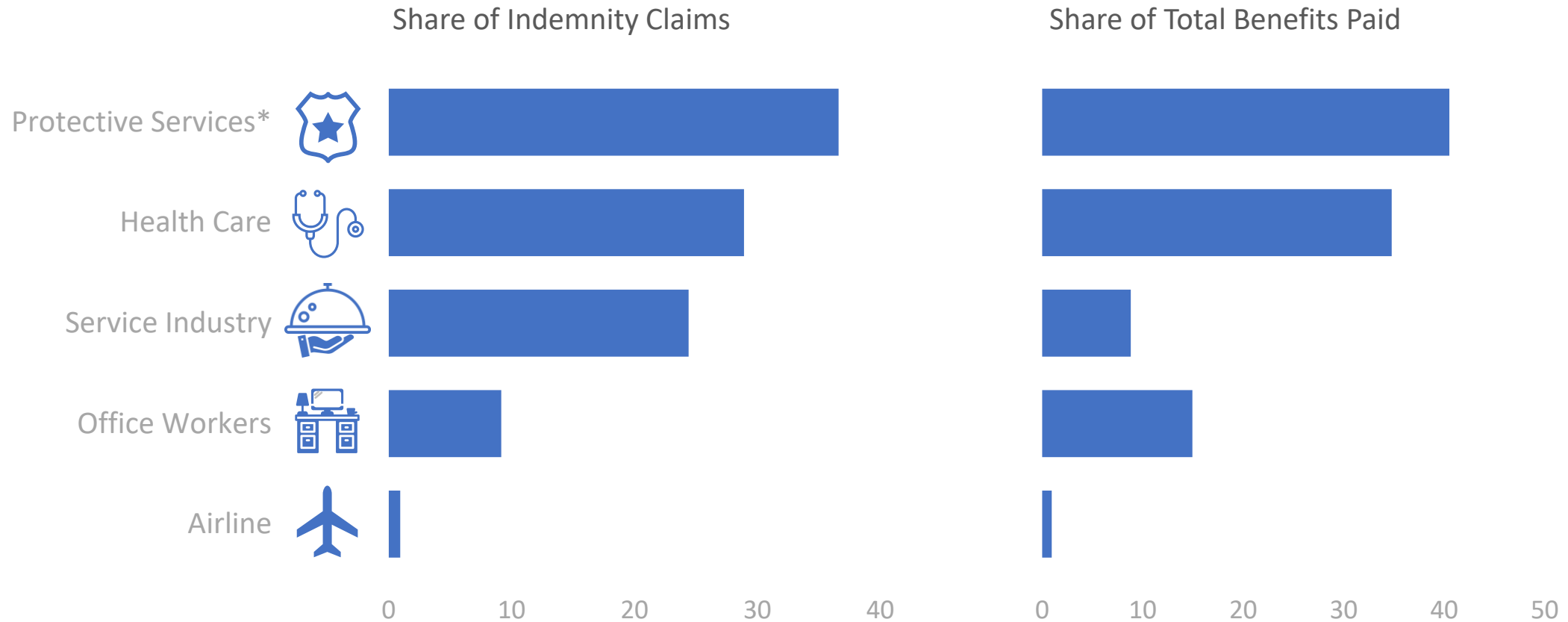
To date, the
average payment
is approximately
\$1,100

Almost **45%**
have been at least
partially denied

Approximately **60%**
were reported as being
closed

These make up over **25%**
of all reported AY 2020
indemnity claims
and approximately **5%**
of total paid benefits

Distribution of Florida's COVID-19 Claims by Occupation



*Protective Services includes First Responders

Source: Florida Division of Workers' Compensation, 2020 COVID-19 Report, Data Summary as of July 31, 2020

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Summary

Through 2019

Favorable combined ratios continued for the sixth year

Frequency declined, consistent with the long-term average

Indemnity and medical severity moderately increased

2020 and Beyond

Premium is expected to decline with reduced employment and hours

Several factors may exert upward or downward pressure on frequency and severity

Overall employment is down, with job losses varying by sector



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Resources on **ncci.com**

State of the Line Report

State of the Line Guide

COVID-19 Resource Center

*COVID-19 and Workers Compensation:
Modeling Potential Impacts*

COVID-19 Hypothetical Scenarios Tool

Resources on **wcirb.com**

2020 State of the System Report

COVID-19 Page

COVID-19 Webinars