

**BWC Board of Directors
Actuarial Committee
Thursday, May 29, 2008, 2:00 P.M.
William Green Building**

Neil Schultz Conference Center
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present: Charles Bryan, Chairman
Philip Fulton
James Harris
James Hummel
Jim Matesich
William Lhota, ex officio

Members Absent: None

Call to order

Mr. Bryan called the meeting to order at 2 P. M. and the roll call was taken. Workers' Compensation Board Directors attending the meeting, asking questions, and making comments included David Caldwell, Alison Falls, Kenneth Haffey, and Larry Price.

Mr. Bryan reminded the Actuarial Committee that there are four overriding issues before the committee at this time: rate stability; impact of *not* using Ohio data in formulating the National Council on Compensation Insurance (NCCI) manual classifications; the possibility of improving Disabled Workers' Relief Fund (DWRF) benefits; and the effect on reserves of the *Wise* case.

Minutes of April 24, 2007

Mr. Hummel moved that the minutes of April 24, 2007, be approved. Mr. Harris seconded and the minutes were approved by a unanimous roll call vote.

New business/Action items

ADMINISTRATIVE COST FUND RATES, OHIO ADMINISTRATIVE CODE RULE 4123-17-36

Tracy Valentino, Chief Fiscal & Planning Officer, recommended amendment of Ohio Administrative Code Rule 4123-17-36 on the Administrative Cost Fund (ACF) rates for the three employer groups in the State Insurance Fund. The executive summary reviews the history of rates, sets forth the amended rule, and provides calculations of the rates. John Georgiton, Industrial Commission Fiscal Officer, is present today. Expected costs for fiscal year 2009 are \$280 million, \$294 million has been appropriated by the General Assembly, and BWC remains under the 5% cap. The BWC portion does not include rent to be received from the Industrial Commission.

Mr. Matesich asked if BWC could use payroll figures that were not rounded to the closest million in order to be more accurate in calculating the assessments. Ms. Valentino responded that using actual payroll receipts would be more accurate, but BWC makes an end-of-year adjustment and calculates the next year's rates to correct for approximations.

Mr. Bryan asked if the Actuarial Committee is being asked to approve the ACF rate as a pass-through and not judge whether the expenses are justified. Ms. Valentino confirmed that the Actuarial Committee was not being asked if the administrative costs were justified.

Mr. Matesich moved that the Actuarial Committee of the BWC Board of Directors consents to the Administrator's recommendation relating to the administrative cost contribution rule, beginning July 1, 2008, to adjust the Administrative Cost contributions from the various classes of employers for the operation of the Bureau, the Board of Directors, and the Industrial Commission. The motion consents to the Administrator amending Rule 4123-17-36 of the Administrative Code as presented here today. Mr. Harris seconded and the motion was approved by unanimous roll call vote.

PRIVATE EMPLOYER RATES, OHIO ADMINISTRATIVE CODE RULES 4123-17-05 & 4123-17-06

Liz Bravender, Actuarial Director, recommended amendment of Ohio Administrative Code Rules 4123-17-05 and 4123-17-06 regarding the premium rates of private employers. The Workers' Compensation Board approved the overall rate reduction at the April 2008 meeting. The rates being requested today are 30% lower than those of 1994. BWC has calculated the base rates for the NCCI manuals and the experience rates of individual employers. The average rate of pure premium is \$1.76 per \$100 of payroll; \$2.11 is the average collectible rate for all premiums and assessments. The 5% reduction is the first since 2001.

For amended rule 4123-17-05, original Table A was moved to Ohio Administrative Code Rule 4123-17-051 in 2007. Table A now contains the NCCI manuals arranged by industry groups. Ohio Administrative Code Rule 4123-17-06 contains the base rates for each manual.

Mr. Bryan asked if adoption of the final rates at this time constitute too short notice to employers and cause problems for their budgets. Mr. Matesich reported that as a small employer in the State Insurance Fund he can confirm the amount of notification time is normal and similar to the notification time for changes in health insurance. An increase in rates is much like any other

unexpected raise in an expense. John Pedrick, Chief Actuarial Officer, added that the employers will not pay premiums on these rates until February 2009. Ms. Bravender reported that a letter will be sent out to each employer at this time with its new rates. Seventy-eight employers will see increases capped at 30% of the 2007 policy year rates.

Mr. Price asked why the block was not checked on the Common Sense Business Regulation form concerning stakeholder input. Donald Berno, Workers' Compensation Board Liaison, reported it was not checked because this is a rating rule and BWC does not require stakeholder comment.

Mr. Fulton moved that the Actuarial Committee of the BWC Board of Directors consents to the Administrator's recommendation relating to the private employer rate rules, beginning July 1, 2008. These rate rules achieve an overall five per cent decrease in the total collectible premium rate from the previous year as approved earlier this year by the Board of Directors. The motion consents to the Administrator amending Rules 4123-17-05 and 4123-17-06 of the Administrative Code as presented here today. Mr. Harris seconded and motion was approved by unanimous roll call vote.

SELF-INSURED ASSESSMENTS, OHIO ADMINISTRATIVE CODE RULE 4123-17-32

Ms. Bravender recommended amendment of Ohio Administrative Code Rule 4123-17-32 regarding assessments of self-insuring employers. No changes are recommended for the rates of the Mandatory Surplus Fund, the Guaranty Fund, and the Safety and Hygiene Fund. There are increases recommend for the ACF portions for both BWC and the Industrial Commission.

Mr. Bryan asked if maintaining a balance in the Guaranty Fund was too low and whether BWC recommended a change. Mr. Pedrick responded that the balance in the Guaranty Fund was being examined by Deloitte Consulting and a report on this issue was due in June with several other elements.

Ms. Bravender reported that there are three employers contributing to the Rehabilitation portion of the Surplus Fund. Mr. Hummel asked why so few are opting in. David Boyd, Director, Self-Insured Department, responded that most self-insuring employers do not want to mutualize expenses for rehabilitation.

Ms. Bravender reported that no employers are contributing to the handicap portion of the surplus Fund. She also reported that 594 employers are contributing to the portion to reimburse employers for disallowed claims under the *Sysco* case; 568 are not. BWC must increase this portion to \$2.85 per \$100 of reported compensation. Mr. Fulton added that when the employers do not opt-in, then they recover from future compensation payments to the injured worker.

Mr. Harris moved that the Actuarial Committee of the Bureau of Workers' Compensation Board of Directors recommend that the Board consent to the Administrator's recommendation relating to the self-insuring employer assessment rule, beginning July 1, 2008, to adjust the assessments for self-insuring employers. The motion consents to the Administrator amending Rule 4123-17-32 of the Administrative Code Rule, "Self-Insuring employer Assessment Based upon Paid Compensation," as presented here today. Mr. Fulton seconded and the motion was approved by unanimous roll call vote.

Marsha Ryan, BWC Administrator, report that there would be a July education session on self-insuring employers. Mr. Harris asked if it would be possible for employees of self-insuring employers to participate. Mr. Lhota suggested that such input could be part of a public form.

Ms. Bravender also reported that the Legal Division files claims in bankruptcy cases of self-insured employers. The program is lead by Larry Rhodebeck, Staff Counsel. The basis of recovery in the bankruptcy cases is the out-of-pocket workers' compensation claims expense, plus individual claim reserves calculated by the Actuarial Department.

Mr. Lhota asked if any liability of LTV Steel or Buckeye Steeling Castings attached to the employers who are currently operating the mills. Mr. Boyd and Mr. Haffey replied that liability did not attach.

Subcommittee Charter

Mr. Matesich moved that the charter of the Actuarial Committee be amended to include a provision for subcommittees. Mr. Fulton seconded and the motion was approved by unanimous roll call vote.

Discussion items

Ohio Hospital Association Case

Ms. Ryan reported that the Workers' Compensation Board had requested an opinion from the Attorney General on whether BWC could mutualize the judgment of the Ohio Hospital Association Case. The Attorney General recently rendered a formal opinion that BWC could not. Greg Paul, Legislative Liaison, reported that both houses had passed legislation to permit mutualization. Ms. Ryan reported the amendment to Ohio Administrative Code Rule 4123.34 would require also changes to the Administrative Code rules to charge the Surplus Fund.

Mr. Price requested a report on how the judgment affected the proposed split rating plan.

Split Rating Plan

Mr. Bryan reported that this subject was covered in the May 28 educational session.

Mr. Hummel asked if BWC is comparing the proposed split rating plan with other states. Mr. Pedrick responded that comparison with other states is part of the Deloitte study. Mr. Hummel asked if any state has a split plan similar to the Ohio proposal. Mr. Pedrick replied that there were plans with some similarities, but that Ohio is creating plans based on the principles of split plans in order to create an easy to understand program. William Hansen, Oliver Wyman Consulting Actuaries, added one example is in broadening the threshold for participation for an amount other than \$8,000 in premium.

Mr. Matesich requested that information on the split rating plan be presented to the Actuarial Committee as available. Reports should be every month, rather than at six month intervals.

June 2008 Committee Calendar

Mr. Bryan reported that topics on the State Insurance Fund reserve have been added more often. For example, there will be a quarterly update on reserves to match the one on financial statements. There will also be other educational topics forthcoming. Additions to the calendar should be given to him and Mr. Berno.

Chief Actuarial Officer Report

Mr. Pedrick reported that HB 323 passed the House of Representatives and sent to Governor Strickland for signature. He also presented a chart on how asset/liability ratio may trigger funding of the mine safety fund. HB 323 also changes the MIRA II effective date to July 1, 2008.

Mr. Fulton asked if there would be rules introduced for the Mine Safety Program. Ms. Ryan reported that the rules would be presented at today's 4 p. m. meeting of the Audit Committee.

Mr. Pedrick reported that BWC had identified 256,000 claims that could be affected by the *Wise* case. Mr. Bryan asked what the financial impact of these claims is. Mr. Pedrick responded that this information should be available at the June meeting. Mr. Fulton asked if the Industrial Commission is denying lump-sum settlements. James Barnes, Chief Legal Officer, replied that the Industrial Commission was denying settlements. Mr. Fulton reported that self-insuring employers are also denying them.

Mr. Pedrick reported that the June meeting would also have a report from Deloitte Consulting on the split rating plan.

Mr. Bryan asked what is the plan for changing the group rating discounts Mr. Pedrick reported that BWC planned to have the changes for July 1, 2009 rules on the table during this summer. BWC will also be proposing a three-year implementation schedule. Ms. Ryan reported that BWC would have a plan by June to get to 75% of the objective for group rating reform.

Ms. Falls stated that she had read a report that group rating groups are heterogeneous, whereas the rule requires they be homogeneous. She asked who is responsible for enforcing the rule. Mr. Pedrick replied there would be no change to group rules until there is reform of the group rating program. Provisions in the experience rating program would change the most.

Mr. Pedrick also reported that there would be a meeting with Fair Isaac Corporation and BWC staff on June 19. MIRA II training has begun and screens will be available to the public on Dolphin in September. Mr. Hummel asked what kind of training is planned. Mr. Pedrick replied that there are several types of training available to staff, TPAs, and employers.

MIRA 2 Communications and Training plan

Keary McCarthy, Chief of Communications, and Matt Gill, Director of Training, reported on MIRA II communications and training. Mr. McCarthy reported that the plan is to have substantial amounts of training material available before implementation. MIRA II will be effective July 1 and screens available will be available on September 5. Internal training has begun. Mr. Gill reported that some training will be e-training. Mr. McCarthy reported that Rex Blatieri, MIRA II Team Leader, is leading the training. A MIRA II session was held at the Safety Congress and there will be sessions at WCU.

Mr. Bryan asked what happens if the MIRA II user has problems with the web site. Mr. McCarthy reported that BWC is training the Call Center and employer service specialists to assist employers and others.

Ms. Ryan reported that she had received two personal notes from TPAs thanking her for the training given so far by BWC on MIRA II.

Mr. Harris asked if a report from Self-Insuring Employers Evaluation Board would be appropriate for the Workers' Compensation Board. Ms. Ryan replied BWC staff would look into it.

Mr. Pedrick stated that a report from Dennis Mealy, Chief Actuary, NCCI, is attached to the meeting materials and is available at the NCCI web-site.

Adjournment

There was a motion by Mr. Hummel, second by Mr. Harris, and adjournment by Mr. Bryan.

Prepared by: Larry Rhodebeck, Staff Counsel
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