



Ohio Bureau of Workers' Compensation Comprehensive Study

Pricing Process: Change of Employer Experience
Rates

Report 4.2

Deloitte Consulting LLP
Group 4
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Audit • Tax • Consulting • Financial Advisory •

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Executive Summary

Introduction

This task evaluates the changing of individual employer rates due to administrative appeals or clerical errors by the BWC. This evaluation would include a review of the rating rules and appeals process for employers. The analysis should include information on industry standards and processes.

Conclusions

Findings

- Some of the adjustments to an employer's experience have no time constraint or have an overly extended reporting period. This adds to the administrative burden required of the BWC staff in order to process multiple changes to employer experience.
- Other monopolistic states do not make as many mid-term adjustments to experience modification; nor do the NCCI guidelines require or permit as many mid-term adjustments.
- A significant amount of claim updates are communicated from the Claims department to the Employer Rate Adjustments Department manually rather than via BWC's IT systems.

Recommendations

Our primary recommendations regarding the changing of individual employer rates due to administrative appeals or clerical errors by the BWC are:

- Eliminate or restrict changes in an employer experience rate for prior years due to subrogation recoveries, handicap claims, fraudulent claims, dismissed claims, disallowed claims, or other factors.
- Restrict the time period for the reporting of errors for changes to employer experience rates to follow typical industry practice.
- Establish shorter and more clearly defined time constraints, similar to industry practices elsewhere, to replace current rules where there is no time constraint or an extended reporting period.

The Deloitte Consulting team appreciates the time and effort dedicated by BWC constituents over the course of our discovery to help us understand the Change to Employer Rate process.

The Situation

| RFP Task Reference | RFP Task Description | Task Category |
|--|---|----------------------------|
| <p>Section 5.1.2 #14, page 13</p> | <p>Evaluate the changing of individual employer rates due to administrative appeals or clerical errors by the BWC. This evaluation would include a review of the rating rules and appeals process for employers. The analysis should include information on industry standards and process.</p> | <p>Underwriting</p> |

Employers experience rating modification factor is changed retroactively based on certain changes to claims, e.g., a subrogation recovery on a claim, handicap claims, fraudulent claims, dismissed claims, and disallowed claims. Some of these retroactive changes to an employer’s experience have no time constraint or have a long extended reporting period. Current practice involves the recalculation of an employer’s experience for prior years and affected employers receive a premium adjustment for each prior year impacted. Other WC state funds do not make such retroactive adjustments to experience; nor do the NCCI guidelines permit such practice. Under BWC’s current process, there are very few retroactive adjustments for increases in claim values. BWC can retroactively make adjustments that increase premiums e.g., to include an acquisition that was not reported when required.

Methodology

Comparisons and analysis were completed for other monopolistic states as well as the NCCI (National Council on Compensation Insurance) as related to Ohio.

Primary Constituents

- **BWC Insured Employers**
- **BWC Group Rating Plan Employers**
- **Third Party Administrators**
- **Self-Insured Employers**
- **BWC**
 - Legal
 - Claims
 - Chief Actuary and Actuarial Department
 - Statutory Surplus Fund
- **Governor’s Office**
- **State Legislature**

Information and Data Gathered

Interviews

To conduct our review and analysis of BWC's Change to Employers Experience Rate methods, we held interviews with BWC staff, reviewed data received from BWC in response to our data request, and researched other monopolistic states' practices via the web and phone interviews.

- Administrator/CEO
- Assistant Director – Actuarial Department
- Actuarial Supervisor – Actuarial Department

Information/Data Request

The following information was reviewed during the course of this project:

- BWC Website - [https://www.ohiobwc.com/downloads/blankpdf/rate change.pdf](https://www.ohiobwc.com/downloads/blankpdf/rate%20change.pdf)
- Reference materials received from BWC regarding the rate change process
- Process steps for processing rate change submissions
- Clarifications and additions to rules and procedures available on BWC web site
- Financial impact data – overhead costs and charges to Insurance Fund
- Phone interviews with and information collected from other state funds or labor and industry departments

Review and Analysis

Benchmarking and Research

Task Research

Deloitte’s research focuses on how BWC defines “employer rate” relative to the industry standard and the types of triggers that cause an insurer (state fund or private company as per NCCI standards) to recalculate an experience modification and ultimate premium.

Table 1: Industry Definition of "Employer Rate" and "Employer Premium"

| Employer Rate | Employer Premium |
|---------------------------|------------------------------------|
| Base rate | Payroll (applied to employer rate) |
| Classification relativity | Experience modification |
| Expenses | Schedule rating |
| | Deductible credit |

Note: BWC includes the following in calculating the experience modification: Handicap reimbursement rulings and subrogation.

Table 2: Processing of Changes to the Experience Modification Due to Appeals or Errors

| Change to Experience | Ohio BWC | NCCI |
|--|--|--|
| Recalculation of Experience Modification due to change in ownership | Upon receiving notice of the change A 2 year limitation | If reported within 90 days of change – date of change. If reported more than 90 days after date of change – next rating effective date. |
| Revision of payroll or classification due to audits | Upon receiving notice of the change Within 2 years | Must be discovered within 3 years of policy expiration, correction report must be sent, current and up to 2 preceding experience modifications will be revised. |
| Corrections in payroll and classifications initiated by the employer | Upon receiving notice of the change and validating Report within 1 year | Upon receipt of correction report, NCCI will reassign past payroll to the appropriate classification code and rating values and determine the impact on the experience modification. NCCI will not revise a modification as a result of a filed and approved change to the classification system, or to a change in risk operations. |
| Revision of losses | Upon receiving notice of the change Primarily a 2 year limitation | Experience modification is revised upon receipt of a correction report, limited to current and up to 2 preceding experience modifications. |

Table 3: Comparison of Frequency of Changes to Experience Modification with Other Monopolistic States

| Ohio | Wyoming | North Dakota | Washington | NCCI |
|--|---|---|--|---|
| <ul style="list-style-type: none"> • Changes to rating are made upon receiving notice of the change and validating. • Employers have 1 year to report inaccuracy, audits go back 2 years, handicap reimbursements go back up to 6 years. • There is primarily a 2 year limitation for rating changes due to losses and ownership. | <ul style="list-style-type: none"> • Experience modifications are calculated once per year. • Employers have 1 month to report inaccuracies. • Changes to rating are only made to current policy term. | <ul style="list-style-type: none"> • Unable to confirm | <ul style="list-style-type: none"> • Experience rating is done in January for all employers. • Employers may report errors at any time. • Changes to rating will go back 3 years from the date the report is received. • Changes to rating are only made in January unless there is a change in ownership. | <ul style="list-style-type: none"> • Most rating changes are made as of the date of change if reported within 90 days of the change. • If notice of change is reported more than 90 days after the change, it is rated at the next policy effective date. • Experience rating will be changed for up to 2 previous policy periods due to audits and revisions of losses. |

Note: the other monopolistic states do not differentiate between the type of adjustment being made

Table 4: Additional NCCI Rules That Do Not Correspond to Existing BWC Operations But Would be Required for Compliance With NCCI Standards

| Scenario | NCCI |
|---|--|
| Decrease in experience modification for any reason other than change in classification | Change can occur at any time during the policy period or after expiration of the policy but within the revision period, and is applied retroactively to the inception of the policy. |
| Increase in experience modification due to change in: payroll, losses, status from preliminary to final, status of contingent | If change occurs within 90 days after the policy effective date, change is applied retroactively to the inception of the policy. If change occurs more than 90 days after the policy effective date, change is applied pro rata from the date the insurer endorses the policy. |
| Other increases in experience modifications including: change in ownership, retroactive reclassification, late issuance of an experience modification due to an uncooperative employer, Appeals Board or other administrative process | Change can occur at any time during the policy period or after expiration of the policy, and applies retroactively to the inception of the policy, or in the case of change in ownership, retroactively to the date of change. |

In addition to researching other monopolistic states' practices and NCCI conventions, Deloitte utilized information obtained from the BWC State Fund Manual and interviews with BWC Staff. Deloitte also reviewed process documentation provided in response to data requests.

Conclusions

Findings

- Some of the adjustments to an employer's experience have no time constraint or have an overly extended reporting period. This adds to the administrative burden required of the BWC staff in order to process multiple changes to employer experience.
- Other monopolistic states do not make as many mid-term adjustments to experience modification; nor do the NCCI guidelines.
- A significant amount of claim updates are communicated from the Claims department to the Employer Rate Adjustments Department manually rather than via BWC's IT systems.

Performance Assessment

We assessed the performance of the Ohio workers' compensation system compared to these four overarching themes: Effectiveness & Efficiency; Financial Strength & Stability; Transparency; and Ohio Economic Impact. Each broad study element (Ohio Benefit Structure; Pricing Process; Cost Controls; Financial Provisions; and Actuarial Department Functions & Resources) is reviewed with these themes in mind to develop a performance assessment of the current state. Our performance assessment is made on each element in the context of its contribution to supporting the overarching themes.

For these performance assessments, the following scoring method applies:

| | |
|---|---|
|  | Strongly supports system performance |
|  | Supports system performance |
|  | Some support for system performance |
|  | Some opportunity for system performance change/enhancement |
|  | Significant opportunity for system performance change/enhancement |

Based on this scoring method, here is the performance assessment for the Change to Employers Rates Program:

| | Effectiveness & Efficiency | Financial Strength & Stability | Transparency | Ohio Economic Impact |
|-------------------------------------|---|---|---|---|
| Change of Employer Experience Rates |  |  |  |  |

Recommendations

The following recommendations address the opportunities identified above, listed in prioritized order:

- Eliminate or restrict changes in an employer experience rate for prior years due to subrogation recoveries, handicap claims, fraudulent claims, dismissed claims, disallowed claims, or other factors.
- Restrict the time period for the reporting of errors for changes to employer experience rates to follow typical industry practice.
- Establish shorter and more clearly defined time constraints, similar to industry practices elsewhere, to replace current rules where there is no time constraint or an extended reporting period.

Impact of Recommendations: Implementing one or more of these recommendations should result in a streamlined experience modification process reducing the administrative burden on the Employer Rate Adjustments Department.

Impact

The impact (high, moderate, or low) of these recommendations as they relate to the overarching themes is shown in the following table:

| | Effectiveness & Efficiency | Financial Strength & Stability | Transparency | Ohio Economic Impact |
|--|----------------------------|--------------------------------|--------------|----------------------|
| Eliminate / Restrict Changes to Employer Rates Due to Changes in Claims | | | | |
| Establish Shorter and Clearly Defined Time Constraints, and Restrict Time to Report Errors | | | | |

Legend

| | | | | |
|-------------|-----------------|------------|-----------|----------------|
| High Impact | Moderate Impact | Low Impact | No Impact | Adverse Impact |
| | | | | |

The Deloitte Consulting team is available to clarify or amplify any issues raised in this report. We express our appreciation for BWC process constituents' time, effort, and guidance in completing this integral task of our comprehensive study.

Appendix A – Deliverable Matrix

Group 4 Study Elements

| |
|---|
| Actuarial Department Functions & Resources |
| Actuarial Department Organization |

| |
|--|
| Pricing Process |
| Individual Rate Calculation 1) Private Employers 2) Rating Rules and Laws a. Administrative Appeals b. Out-of-State Coming In |
| Minimum Administrative Premium |
| Alternative Pricing Methods (Including NCCI Classes) |
| Ancillary Funds |
| 1) Coal Workers Pneumoconiosis |
| 2) Marine Industry |
| 3) Disabled Workers Relief |

| |
|-------------------------------|
| Cost Controls |
| Rehabilitation Program |

Actuarial Department Functions & Resources Area

| Actuarial Department Functions & Resources | Tasks Involved |
|--|---|
| Actuarial Department Organization | 36. Compare and analyze the organization and the structure of the BWC's actuarial department to industry standards. This analysis should compare the BWC's actuarial department organization, structure, and staffing levels to industry standards, other state insurance funds and monopolistic state insurance funds. |

Pricing Process Areas

| Individual Rate Calculation | Tasks Involved |
|---|---|
| 1) Private Employers | 32. Evaluate and assess the experience aggregation approach used by the BWC compared to industry standards. The BWC currently tracks entities at the tax identification level versus a common or majority ownership of the company. This evaluation would identify industry standards in tracking employer ownership. |
| 2) Rating Rules and Laws a) Administrative Appeals | 14. Evaluate the changing of individual employer rates due to administrative appeals or clerical errors by the BWC. This evaluation would include a review of the rating rules and appeals process for employers. This analysis should include information on industry standards and process. |
| 2) Rating Rules and Laws a) Out-of-State Coming In | 16. Evaluate the BWC rules, laws, policies and procedures for rating and employer who is operating in another state and requests to be rated in Ohio. This evaluation would include the experience modifier selected, the use of other states experience, and the future liability for Ohio. |
| Minimum Administrative Premium | Tasks Involved |
| Minimum Administrative Premium | 5. Conduct an evaluation of the minimum administrative premium charged to employers operating in Ohio for worker's compensation coverage. This evaluation should determine the minimum acceptable amount of premium that should be charged to employers in Ohio to bind coverage and to cover expected losses. |
| Alternative Pricing Methods (including NCCI classes) | Tasks Involved |
| Alternative Pricing Methods (including NCCI classes) | 3. Review and make written recommendation of the BWC's use of the National Council on Compensation Insurance (NCCI) manual classification system for rating classifications. This review would include but not be limited to analysis of the assignment of classifications to employers, the process of employer's reporting payroll, the premium auditing process and the procedures for non-reporting of payroll. |

Pricing Process Areas – continued

| Ancillary Funds | Tasks Involved |
|----------------------------------|---|
| 1) Coal Workers Pneumoconiosis | 7. Review and make written recommendations with regard to the Coal-Workers Pneumoconiosis Fund. This review would include a complete analysis of the rating program. This analysis should compare the methodology used in BWC’s rating calculation to industry standards the actuarial standards of practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries. |
| 2) Marine Industry Fund | 10. Review and make written recommendations with regard to the Marine Industry Fund. This analysis should compare the methodology used in BWC’s rating calculation to industry standards and the Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries. |
| 3) Disabled Workers’ Relief Fund | 13. Review and make written recommendations with regard to the Disabled Workers’ Relief Funds. This analysis would include a complete analysis of the funds including but not limited to the loss information, payroll information, and other rating calculations. This analysis should compare the methodology used in BWC’s rating calculation to industry standards and the Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries. |

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