BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

Thursday, May 26, 2011, 1:00 p.m.
William Green Building
30 West Spring St. 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present:	Steve Lehecka, Chair Jim Matesich, Vice Chair David Caldwell James Hummel Thomas Pitts Nicholas Zuk, ex officio
Members Absent:	None
Other Directors Present:	Ken Haffey, Mark Palmer, Larry Price, Robert Smith, & Dewey Stokes
Counsel Present:	Janyce Katz, Assistant Attorney General Tom Sico, Assistant General Counsel
Staff Present:	Steve Buehrer, Administrator Ray Mazzotta, Chief Operating Officer Tracy Valentino, Chief Fiscal & Planning Officer John Pedrick, Chief Actuarial Officer Elizabeth Bravender, Director of Actuarial Operations Terrence Potts, Actuarial Supervisor
Consultants Present:	Bob Miccolis, Deloitte Consulting, LLP Dave Heppen, Deloitte Consulting, LLP Bill Van Dyke, Deloitte Consulting, LLP
Scribe:	Larry Rhodebeck, Staff Counsel

CALL TO ORDER

Mr. Lehecka called the meeting to order at 1:00 p.m. and the roll call was taken.

MINUTES OF APRIL 28, 2010

Mr. Caldwell moved to adopt the minutes of April 28, 2010. Mr. Pitts seconded and the minutes were approved by unanimous voice vote.

AGENDA

Mr. Lehecka removed the Program Compatibility Action Item from the agenda because the proposal needs additional changes.

Mr. Caldwell moved to accept the agenda as amended. Mr. Matesich seconded and the amended agenda was approved by unanimous voice vote.

REVIEW AND APPROVE CONSENT CALENDAR: MARINE INDUSTRY FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-19

Mr. Matesich moved to approve the Consent Calendar. Mr. Hummel seconded and the Consent Calendar was approved by unanimous voice vote.

NEW BUSINESS/ ACTION ITEMS

MOTIONS FOR SECOND READING: PRIVATE EMPLOYER RATE CHANGE RECOMMENDATION, BASE RATES, AND EXPECTED LOSS RATES, OHIO ADMINISTRATIVE CODE RULES 4123-17-05 & 4123-17-06

John Pedrick, Chief Actuarial Officer, and Terrence Potts, Actuarial Supervisor of Rates, recommended an overall reduction in rates for policy year 2011 for private employers. The recommended reduction is an average of 4% over rates for policy year 2010. The presentation includes reference to the May 13, 2011, memorandum from Mr. Pedrick, "Private Employer (PA) Rate Change Effective 7/1/2011," and the BWC Executive Summary, "Private Employer Industry Group and Limited Loss Ratio Tables," of May 26, 2011, with the amended Ohio Administrative Code Rules.

Mr. Pedrick stated that he believes claim costs for the upcoming policy year will closely follow trends underlying the baseline rate recommendation of 1.3% found in the report from Deloitte Consulting LLP. Nevertheless, the 4% decrease is justified level of investment income expected over the next year. The combination of premium and investment income is likely to match cost incurred during the policy year with this decrease – a neutral position in regard to the net asset balance. A difference over prior years is that class increases and decreases will both be limited to maximum difference from the average change of 25%. That is, the maximum/minimum change will follow the 4% change, so the maximum increase is 21%, and the maximum decrease is 29%.
Mr. Zuk asked if a clerical mistake is found does BWC have discretion to correct it. Mr. Pedrick replied that if a mistake is found, BWC may correct it until June 16, when the Workers' Compensation Board meets to approve the rates. However, when the rule is filed, the rate cannot be changed without Board approval prior to June 20, 2011. Thus, considerable effort is used to ensure the accuracy of the

proposed rates. BWC uses an automated program in the Rates and Payments Systems, and Actuarial Department staff manually calculates rates in spreadsheets as a crosscheck.

Mr. Lehecka asked if there were any classes whose actual rate decreases were more than 29%. Mr. Pedrick confirmed that there were two such classes. Mr. Potts reported that manual class 1430 merited a 95% reduction and manual class 2174 an 85% reduction because they had little or no payroll. When this occurs, BWC uses the rate for the industry group. Mr. Pedrick further reported that with 535 classes, BWC will examine smaller classes for anomalies and take appropriate action.

Mr. Matesich moved the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors consent to the Administrator's recommendation to amend private employer rate Rules 4123-17-05 and 4123-17-06 of the Administrative Code, effective July 1, 2011. The motion consents to the Administrator amending private employer rates rules 4123-17-05 and 4123-71-06 as presented here today. Mr. Hummel seconded and the motion was approved by unanimous voice vote.

MOTIONS FOR SECOND READING: PUBLIC EMPLOYER STATE AGENCY RATE CHANGE RECOMMENDATION, OHIO ADMINISTRATIVE CODE RULE, 4123-17-35

Mr. Pedrick recommended amendment of Ohio Administrative Code Rule 4123-17-35 to raise public employer state agency rates by an average of 14.45%. During the recommendation, reference was made to the executive summary, "Public Employers State Agency Rate Recommendation" of May 13, 2011.

Mr. Pedrick reported that the fund for public employer state agencies is a "pay-as-you-go" fund, so its behavior is dissimilar to the private employer fund. That is, if the agency's payrolls decline, this leads to an increase in rates. The rate has been set to achieve a partial erasure of a fund deficit of about $2.5 million. Without a deficit, the overall change to agencies would be approximately 2%.

Mr. Hummel moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors consent to the Administrator's recommendation to establish state agency rates beginning July 1, 2011, to achieve an overall fourteen point four five per cent increase in the total collectible premium rate from the previous year. The motion also consents to the Administrator amending Rule 4123-17-35, "Public Employer State Agency Contribution to the State Insurance Fund," as presented here today. Mr. Pitts seconded and the motion was approved by unanimous voice vote.

MOTIONS FOR SECOND READING: DISABLED WORKERS' RELIEF FUND AND ADDITIONAL DISABLED WORKERS' RELIEF FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-29

Mr. Pedrick recommended amendment of Ohio Administrative Code Rule 4123-17-29 for the Disabled Workers' Relief Fund (DWRF) funds. His recommendation included reference to an executive summary "Disabled Workers' Relief Fund (DWRF I)" of April 15, 2011.

Mr. Pedrick reported there is no change in rates for any employer group. However, this motion was not on the Consent Calendar because DWRF is a later discussion item concerning the risks of inflation relating to its funding.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors consent to the Administrator's recommendation to retain without change Rule 4123-17-29 of the Administrative Code, "Disabled Workers' Relief Fund; Employer's Assessments and Self-Insurers' Payment." This motion consents to the Administrator retaining without change Rule 4123-17-29 as presented here today. Mr. Hummel seconded and the motion was approved by unanimous voice vote.

MOTIONS FOR SECOND READING: COAL WORKERS' PNEUMOCONIOSIS FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-20

Mr. Pedrick recommended amendment to Ohio Administrative Code Rule 4123-17-20. The recommendation included reference to the executive summary "Coal-workers' Pneumoconiosis Fund (CWPF)" of April 18, 2011. Mr. Pedrick reported that BWC is proposing two changes. BWC will apply the premium moratorium to all subscribers in exchange for supplying data on its workers. Coal workers pneumoconiosis is a difficult risk to assess. BWC has between now and the February 2012 payroll reports to encourage employer participation. Three companies undergoing audit have been asked and have responded positively. BWC has assured confidentiality of the data it acquires.

Mr. Smith asked if BWC has been asked about an additional "one-time" transfer of funds from the CWPF to the Ohio Department of Natural (ODNR). Steve Buehrer, Administrator, replied that he and staff in the office of Governor Kasich had spoken to the coal companies on the transfer and on the importance of reporting the requested data.
Mr. Caldwell asked how BWC will know if all employers respond. Mr. Pedrick replied that the subscribers all know of the request. There are about thirty. If BWC does not receive the data, a bill for premiums will be generated.

Mr. Smith stated he understood that the requested information was more than just payroll, but specific employee information to track employment histories. Mr. Pedrick replied this was true, but there are limits. BWC will not be able to reach data for worker employment in West Virginia or Pennsylvania. The data elements sought from the coal mine operators can be found in the materials with the proposed rule.

Mr. Hummel asked if BWC will share the data with any federal agency. Mr. Pedrick replied that BWC has no plans to share with federal agencies. When BWC approached the Department of Labor, it was clear that they do not have the resources to process new additional data from Ohio. The CWPF has liabilities of $69 million and $269 million in total assets. However, BWC does not have sufficient information to fully recognize the financial exposure, which in turn does not allow an accurate statement on the level of net assets truly needed.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-17-20 of the Administrative Code, "Employer Contribution to the Coal-Workers Pneumoconiosis Fund." The motion consents to the Administrator amending Rule 4123-17-20 as presented here today. Mr. Pitts seconded and the motion was approved by unanimous voice vote.

MOTION FOR FIRST READING: ADMINISTRATIVE COST FUND, OHIO ADMINISTRATIVE CODE RULES 4123-17-32 & 4123-17-36

Tracy Valentino, Chief Fiscal and Planning Officer, recommended amendment of two rules to change the Administrative Cost Fund (ACF) assessments: Ohio Administrative Code Rules 4123-17-32 and 4123-17-36. Through this assessment, BWC funds the administrative budget. The first step is approval of the budget. If the budget were to be changed at the Audit Committee meeting, BWC will re-evaluate the recommendation. The second step is to divide the projected cost by the projected premiums to be collected. The ACF is allocated between the four employer groups. BWC uses a program recognized by the United States government to calculate cost allocation among federally funded programs. The executive summary provides a history of ACF rates.

For fiscal year, 2012 the estimated costs to be funded are $249,112,190. This is compared to the previous years. Rates are equal to other years, except the one for public employer state agencies has been decreased by 12%. The Industrial Commission calculates its administrative assessment using the same process.

Actual calculations are set forth in page 5 of the executive summary. BWC undertakes an annual adjustment derived from the cash balance available at the end of the previous fiscal year. The Ohio Revised Code requires a $45 million

unencumbered cash maximum balance. At the end of 2010, the balance was approximately $75 million. This has led to a credit before calculation of the rates. The Industrial Commission calculation is on page 6. The Workers' compensation Council has a cash balance for the fiscal year, so the rate is set at zero.

Mr. Zuk asked if the Actuarial Committee is approving the rates for the Industrial Commission. Ms. Valentino replied the Actuarial Committee is being asked now to approve all rates except for those in the self-insured assessment rule.

Mr. Lehecka asked if the two agencies can be compared. Ms. Valentino replied that both agencies use the same methodology. However the agencies have different operations and different usage by the four groups.

Mr. Matesich asked about the status of the Workers' Compensation Council. Ms. Valentino and Mr. Buehrer confirmed there had been no change in its status. Ms. Valentino added that the Workers' Compensation Council has not requested release of funds this year. Mr. Buehrer also reported that there is an agency "sunset" bill in the Senate which includes the Workers' Compensation Council. BWC will not release funds until an authorized officer requests the release.

MOTION FOR FIRST READING: SAFETY AND HYGIENE ASSESSMENT, OHIO ADMINISTRATIVE CODE RULE 4123-17-37

Ms. Valentino recommended approval of the rates for the Safety and Hygiene Fund and amendment of Ohio Administrative Code Rule 4123-17-37. The recommendation included reference to the executive summary, "Safety and Hygiene Rate" of May 9, 2011. She reported that there is no separate assessment. Rather, there is a set aside from premiums. The Ohio Revised Code caps the rate at 1%. Self-insuring employers pay a separate assessment, similar to evaluation of other assessments. BWC has determined the current rate is sufficient. The Safety and Hygiene Division also has a cash surplus that will be leveraged to maintain rates at the current level. Adoption of the recommendation will have no impact on services.

MOTION FOR FIRST READING: SELF-INSURED ASSESSMENTS, OHIO ADMINISTRATIVE CODE RULE 4123-17-32

Mr. Pedrick and Terry Potts, Actuarial Supervisor of Rates, recommended adoption of new assessment rates for self-insuring employers. Their recommendation included reference to the executive summary, "Self-Insured Employers Assessments" of May 26, 2011. Mr. Potts reported this is the first reading of the proposal. There are currently 1,201 active self-insuring employers. Self-insured assessments are based on paid compensation, which includes

indemnity payments, and excludes medical payments made by self-insured employers on behalf of injured workers.

Page 5 of the executive summary sets forth the new rates and total changes. At approximately 25¢ per $1.00 of paid compensation, the total assessment rate is the lowest in the past six years. BWC recommends retaining the rate for the mandatory Surplus Fund assessment. The Self-Insuring Employers Guaranty Fund rate is decreased from approximately 11.5 ¢ per $1.00 of paid compensation to approximately 5¢. Four other assessments for administrative costs and to support the Division of Safety and Hygiene were described by Ms. Valentino.

Employers may opt-out from three Surplus Fund assessments. Currently, two employers participate in the rehabilitation fund and BWC recommends no change. No employers participate in the handicap reimbursement fund and BWC recommends no change. For denied claims reimbursement, 538 employers participate and BWC recommends a slight decrease.

Mr. Zuk asked about the significance of the chart on page 3. Mr. Potts described the chart as the number of employers per year who have defaulted on self-insurance.

Mr. Caldwell asked about the disparity for years 2002 and 2004 in number of employers and dollars spent. Mr. Potts replied the reported sums represent expenditures for all claims of defaulted employers in a specific policy year. Ray Mazzotta, Chief Operating Officer, replied the report for 2002 reflected the bankruptcy of LTV Steel and cumulative totals for the year of default.

Mr. Zuk asked if the Guaranty Fund rate reflects the $16,249,212 expended for 2010. Mr. Potts replied that was essentially true, but that BWC uses the expended dollars to project the next year's expense.

Mr. Stokes asked for clarification of the employer reimbursement fund. Mr. Potts replied the fund does not directly affect the injured worker. It provides for recoupment to the employer.

Mr. Pitts asked if the employer could still obtain reimbursement from the injured worker. Tom Sico, Assistant General Counsel, replied that the Ohio Revised Code permits recoupment.

Mr. Stokes asked if the reimbursement is related to the pharmacy expense reimbursement. Mr. Mazzotta replied the employer reimbursement is a type of insurance for self-insuring employers.

DISCUSSION ITEMS

RISK OF INFLATION ON THE DISABLED WORKERS' RELIEF FUNDS

Mr. Pedrick, Bob Miccolis, Dave Heppen, and Bill Van Dyke, Deloitte Consulting, LLP, reported on the risks of inflation to DWRF. Reference was made to the Deloitte PowerPoint report, "DWRF—Sensitivity Study" of May 26, 2011.

Mr. Miccolis stated that Deloitte was addressing the funding impact of inflation. The DWRF funds are the second largest of all funds managed by BWC. DWRF provides a supplemental cost of living adjustment (COLA) benefit to injured workers receiving permanent total disability (PTD) benefits. The purpose is to protect PTD claimants from inflation. Similar benefits are available in other states. DWRF operates as an independent fund from the State Insurance Fund. DWRF has provided benefits since 1959. Both PTD and DWRF are life-time benefits. DWRF operates on a "pay-as-you-go" basis. In general, premiums collected in a given year are estimates based on payments in the prior year without regard to the year of injury. DWRF is payable to all eligible employees of all four groups of employers.

Prior to 1986, premium rates were capped by law at $0.10 per $100 of payroll and any shortfalls between capped rate premiums and actual loss payments were borrowed from the State Insurance Fund. The total outstanding loan amount owed to State Insurance Fund was $218 million in 1986. In 1986, SB307 established new DWRF II premium rate rules for claims occurring after 1986. The new rates changed to a percentage of State Insurance Fund premiums instead of payroll and there is no cap on new rates. SB307 also forgave the $218 million loan from the State Insurance Fund and provided and any additional shortfalls would be paid by interest income. Different nomenclature sometimes applies, but all benefits are based on the date of injury.

Since 2007, all DWRF I rates have been below the cap because there are fewer injured workers in the class and benefit payments have declined. DWRF II did not operate as a pay-as-you-go basis from 1987 to 1993 and $430 to 459 million premiums were collected. In 1993, the Ohio Attorney General advised that DWRF II should also be determined on pay-as-you-go basis. The DWRF II rate of 0.1% of State Insurance Fund generates less than $2 million. BWC has set this rate at the lowest reasonable rate in order to comply with Ohio law and because the DWRF has significant cash and investments still remaining from the period of full funding. Investment earnings generated from DWRF II collected premiums have grown the cash and invested assets to over $1.3 billion as of December 2010. Unbilled premiums total $1.7 billion. Undiscounted liabilities are $3.5 billion, whereas discounted liabilities are $1.5 billion at 4%.

Mr. Van Dyke further reported that not all PTD claims are eligible to receive DWRF. Eligibility is dependent on the PTD benefit, plus Social Security Disability (SSD) benefits received from the Social Security Administration. To qualify, the PTD benefit plus the SSD must be less than the DWRF threshold for this year. The threshold is set by Ohio law and indexed to the Consumer Price Index (CPI). If qualified, the DWRF benefit equals the difference between the threshold and the greater of the PTD or SSD.

Mr. Miccolis added that this appears to be an aberration. However, after Deloitte conferred with BWC staff, Deloitte can confirm BWC follows the law as written and applied.

Mr. Van Dyke continued, stating that to summarize the example on page 3, $151 represents a one-time increase for the injured worker. Another anomaly is the lack of effect of Social Security Retirement benefits in that there is no off-set. The bar chart on page 4 shows the impact of returns over time over thirty years. This is a "second nuance" in the calculation of DWRF and its effect can be seen in the block chart on the lower right side of page 4.

Mr. Van Dyke further reported that page 5 discusses programs of other states. Twenty-seven states have a COLA benefit for injured workers on PTD, however 23 do not. The benefit adjustment is typically based on the change in the CPI or state-wide average weekly wage, but some states use other adjustment formulas. Ohio does not cap DWRF. Open-competition states with COLA benefits are funded by employer paid premiums for any claims occurring during the policy period. Washington also funds its COLA on a pay-as-you-go basis. Employers and employees split the cost 50/50.

Over the past thirty years, changes in the CPI have been small and relatively stable. For the past twenty years, the average has been 2.5%; for the past ten years, the CPI average is 2.3%. In looking at trends for Inflation over the past 95 years, the last period of higher inflation was 1970—1981 when the CPI increased 8.0% per year. There were also period of high inflation during World War I and World War II.

Mr. Van Dyke reported that Deloitte has run four scenarios set forth on page 7 on the effects of inflation. Many others are possible, but they all fall within the limits of these. If inflation is assumed at 2.5%, discounted losses will be $1.9 billion, an increase of 94%. The undiscounted, nominal losses would $3.5 billion, but only a 102% increase. The scariest scenario is a repeat of 1970s inflation of 8%. Losses would be $4.6 billion, a 228% increase in discounted losses. If not discounted the losses would be $9.5 billion and increase by 274%.

The impact on the BWC December 31, 2010, balance sheet is that the current recorded DWRF discounted reserve is consistent with the assumptions that future inflation will be similar to actual inflation over the past twenty years. If future inflation increases to levels of 1970 to 1981 (8%), substantial increases in the recorded reserve would be necessary. Net assets would not be affected by higher inflation because the unbilled premium receivable asset would also increase, offsetting the higher recorded reserves. These remain at $1.1 billion.

The impact on expected annual payments is that DWRF annual payments have been decreasing due to fewer claims and low inflation. Future annual payments may decline slightly if future inflation stays consistent with that observed over the past twenty years. Finally, if future inflation increases to 8%, future payments would likely increase substantially.

On the impact on cash and invested assets: Assuming the constant 2.5% inflation, DWRF II will decline to zero over time. Eligibility will still take several years. For the next ten years, there will be no decline in the cash balance. Finally, it will be 2048 before BWC needs to raise the premium rate. If the inflation assumption is 4.4%, then the cash balance does not hit zero until 2033. For 8% inflation, the cash balance does not hit zero until 2026.

Mr. Miccolis reported on final observations by Deloitte: PTD and DWRF are not offset for Social Security Retirement or other retirement benefits. Other states, for example Pennsylvania, have offsets. Also the DWRF pays COLA benefits when the PTD amount falls below a certain threshold. The number of open claims and the amount of benefits increase over time as the threshold is adjusted upward. Consequently, the unpaid claim obligations of DWRF and the future premiums needed to pay DWRF benefits are subject to significant risk and uncertainty due to the leveraging effect of future inflation. Finally, a sustained period of inflation greater than that observed over the past twenty years may result in higher costs that could add significant stress to the Ohio workers' compensation system. For example, a 4.4% inflation rate could increase benefit costs of existing claims by 50% to 90%. A 4.4% inflation assumption is not unrealistic.

Deloitte recommended the following legislative changes in the HB100 Comprehensive Study: Establish a funding basis which supports reducing unfunded DWRF obligations over time. Also, set DWRF rates at a level to cover the expected benefit payments for the upcoming year and to address reducing the burden on future employers for the unfunded liability. There is a big discrepancy between income and expenditures, but currently investment income is covering that gap.

Today, the funding gap to get to actuarially sound full funding for DWRF is approximately $700 million. The gap will increase given the current law and the

1993 opinion of the Attorney General. The current $1.3 billion of cash and invested assets could be used to help relieve the cost burden of moving DWRF towards actuarially sound full funding. Under pay-as-you-go, the $1.3 billion in assets would reduce the need to increase DWRF II rates in the short term, but not in the long term. A strategy to manage increases in DWRF II rates over time will be needed even if DWRF stays pay-as-you-go.

In delineating the differences between pay-as-you-go and fully funded payments, pay-as-you-go does not match premiums to costs incurred in an accident year. Under full funding, employers would pay premiums for claims occurring the year of coverage regardless of what year the benefit payments are made. With pay-as-you-go funding, employers pay premiums for claims that occurred many years before.

There is a benefit of pay-as-you-go because future premiums can be increased to offset higher payments from inflation. Under a fully funded approach, the premiums collected for a year must include an estimate of future cola benefits for claims occurring that year. Consequently, the ability to adjust future premiums based on actual inflation involves less estimation risk. As long as inflation is low, less funding is required.

The negative of a pay-as-you-go is that current and future employers pay for claims from employers who are no longer in business. For example, in fiscal year 2010, 89% of the DWRF payments were for claims more than twenty years old. These DWRF benefit costs were paid by premiums from all current employers, many who were not in business twenty years ago. This is similar to Social Security Administration funding.

Mr. Zuk asked if DWRF can borrow from the State Insurance Fund. Mr. Miccolis replied that in particular years, DWRF received funds from investments of the State Insurance Fund. Mr. Van Dyke added for short-falls of DWRF II, BWC is authorized to increase the assessment. Mr. Miccolis also reported that significant increases are not likely. Deloitte recommends a funding strategy and legislation. Mr. Heppen added that premiums for DWRF II are less than projected payments, so it is not strictly pay-as-you-go.

Mr. Matesich commented that the recommendations seem weak and seem to throw the ball back to the state. Also, the Workers' Compensation Board does not have authority to make these changes. Consequently, he requested analysis of a strict pay-as-you-go system over the last five years and its real effect on funding.

Mr. Price endorsed the observations and request of Mr. Matesich. The Workers' Compensation Board and BWC needs to obtain recommendations from Deloitte so they may make legislative recommendations.

Mr. Lehecka asked has there been staff discussion. Mr. Pedrick replied that DWRF funding has been discussed. He emphasized the chart on page 10 which shows where BWC will be ten years out. Action needs to be taken before funds runs out. It will take one to two years to change. If BWC starts more than five years from now, it may be too late to avoid a shortage.

Mr. Miccolis reported that Deloitte struggled with the type of recommendations and decided to calculate impacts of present system rather than recommend major changes. Cost issues are significant, but will not impact for some time. The DWRF funds run under the radar. Whether legislation is need, BWC must look at interest rates first.

Mr. Matesich asked if Deloitte used 4% interest rate on returns in its analysis and Mr. Miccolis confirmed that it had.

Mr. Stokes asked if the recommendation reflects increases in benefits. Mr. Miccolis replied the analysis is based on current claims and the level of employment. If Ohio adds 200,000 employees, costs will go up.

Mr. Zuk asked if there were legislative change, would Deloitte be able to assess its impact. Mr. Miccolis replied that since completion of this analysis, data has been obtained to estimate the effect of changes.

Mr. Pitts asked whether changes affect current recipients. Mr. Van Dyke replied it would depend on the legislation, but it would be best not to reduce benefits of current injured workers who are recipients of the DWRF benefits.

LEGISLATIVE DISCUSSION AND ANALYSIS

There was no discussion of legislation.

CAO REPORT

Mr. Lehecka recognized Mr. Pedrick for attending his last meeting. He has accepted a position in the private sector.
Mr. Matesich stated that as vice chair of the Actuarial Committee and senior member of the Committee, he thanked Mr. Pedrick for patience and diligence in education of its members. There followed acclamation and applause from those present. Mr. Pedrick thanked the Actuarial Committee.

Mr. Pedrick stated he had last comments. He is resigning effective June 10. He thanked the Workers' Compensation Board and Mr. Buehrer for having confidence in his recommendations. BWC is in a position of strength, but must keep three

things in mind. First while accounting rules permit recording of liabilities at present value, we must keep the full value of liabilities in mind. There is a reasonable risk that assets may not be enough to pay liabilities. The pertinent actuarial standard of practice advises, "The actuary should be aware that a discounted reserve is an inadequate estimate of economic value unless appropriate risk margins are included." A strong funding ratio is not a negative outcome; rather it is a sign of a disciplined approach in meeting your fiduciary duties in setting an appropriate risk margin. Second, the rate structure today is more equitable than in the past. He encouraged continuing work to achieve greater equity, and noted the loss ratio and relative loss ratio will always answer the question of whether one group of employers is paying above or below the costs it brings to the system relative to other employers. Third, we must balance the two roles of being a state entity and largest single line workers' compensation insurer in the country. This means our unique programs must be measured to ensure they are achieving their goals, and do not produce unintended consequences nor create a burden on the overall system. He thanked staff and especially Liz Bravender for their professionalism and high quality, reliable work. More applause followed.

COMMITTEE CALENDAR

Mr. Lehecka announced that the June meeting will have a second reading of other assessment rules and the quarterly update of the loss reserve audit. Mr. Pedrick replied that Deloitte has presented a draft analysis of the audit for review by BWC.

EXECUTIVE SESSION

There was no executive session for a litigation update.

ADJOURNMENT

Mr. Matesich moved to adjourn. Mr. Hummel seconded and Mr. Lehecka adjourned the meeting at 3:05 p.m. after a unanimous voice vote.

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