Improving Ohio's Experience Rating for Workers' Compensation and Strengthening the Group-Rating Program

Project Plan Proposal
For the BWC Board of Directors
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Ohio | Bureau of Workers' Compensation

Table of Contents

Executive Summary

Introduction

The Ohio Bureau of Workers' Compensation (BWC) is engaged in an intensive reform effort to increase the stability, consistency, and competitiveness of workers' compensation insurance for Ohio's injured workers and employers. One aspect of this reform is to improve BWC's overall experience-rating methodology, create new performance-based incentive programs and strengthen Ohio's group-rating program.

Making meaningful improvements to Ohio's workers' compensation system requires the application of sound insurance-rating principles, industry best practices and appropriate performance measures. This includes better aligning premiums with the claims costs of individual employers. It also involves ensuring these discounts correspond with a measurable reduction in risk. The proposed recommendations reflect these considerations to enhance Ohio's workers' compensation system.

The following project plan envisions long-term evolutionary changes that will significantly increase equity while also reducing Ohio's base rates. The proposal recommends phasing in these refinements over time to accomplish meaningful changes and measuring their impacts while being sensitive to the potential consequences individual employers may face throughout implementation.

Overview

Current efforts to improve began in November 2007 when the BWC Board of Directors approved a 5-percent reduction to BWC's credibility table. This reduction lowered the maximum discount from 90 percent to 85 percent. The board's resolution also mandated BWC develop a long-term plan and present it to the board in June 2008. Specifically, it required BWC to consider whether Ohio should adopt a split experience-rating plan while also studying and reporting on group continuity and group rating rules (4.A, p. 10).

BWC staff embraced the board's charge and responded with more than just a proposal to implement a split experience-rating plan. BWC has outlined a greater array of programs and products to meet the dynamic needs of Ohio's diverse employers. These programs will enable Ohio's workers' compensation rating system to more effectively align premium with cost. Most importantly, these proposals aim to meet specific performance standards and ensure each policy pays the right rate for the individual risk it presents to the system.

Key recommendations

1. **Implement a nationally tested, split experience-rating plan**

   BWC recommends a split experience-rating plan to improve the rating accuracy for individual employers and reduce the volatility of BWC's current experience-rating method. This plan would become effective July 1, 2011. This recommendation calls for reducing the maximum credibility level to 77 percent beginning July 1, 2009. In addition, BWC proposes a further reduction to 65 percent beginning July 1, 2010. Once BWC implements the final split plan, additional reductions may be appropriate.

   Adopting a split experience-rating plan would be beneficial for Ohio employers. Used by at least 38 other states (4.E), the split plan rewards businesses that proactively embrace workplace safety and strive to prevent claims. A split plan still considers claim losses but emphasizes the frequency of claims, yielding a better indicator of future risk. By mitigating the impact of an individual claim, employers will see increased rate stability. Moreover, the introductions of new programs will complement a split-rating plan by encouraging employers to not only prevent claims but also effectively manage them should they occur.

2. **Moderate premium volatility by capping or limiting potential premium increases**

   Transitional cap – BWC proposes to moderate the potential effects on employer premiums by capping increases that result from changes in the credibility table. BWC will cap all premium increases caused by changes to the credibility table at 20 percent beginning July 1, 2009. BWC will sustain this transitional cap in successive years until all employers graduate to their appropriate rate under a revised credibility table.

   Global EM cap – BWC also proposes a global cap of 100 percent of an employer's experience modifier (EM) beginning July 1, 2009. This cap would significantly reduce premium increases resulting from loss of a group discount or other factors that cause significant volatility in employer premiums. BWC would leave the cap in place permanently to provide ongoing pricing stability.

   Compared to prior changes in the credibility tables, these caps will enable BWC to more effectively reduce volatility and smooth the transitional impacts for Ohio businesses as it moves to a split-experience rating plan.

3. **Create new performance-based safety incentive and discount options for employers**
   As BWC seeks to align premiums with the risk each employer brings to the system, it must also develop a broader menu of options for those companies that desire different pricing options. This includes development and implementation of performance-based options. Such options allow each employer to choose a level of risk bearing and risk sharing appropriate for their own business model. This may include a deductible program as well as incentive-based approaches such as shared savings and safety group plans.

   Deductible – This program gives employers an option to control their costs by providing an incentive to promote workplace safety programs and services. Employers would receive a premium credit for the deductible selected, while assuming some liability for any losses. Employers would still submit claims, and BWC would continue managing them. However, the employer would pay all costs up to the selected deductible level. This allows BWC to bring medical-case management benefits to the employer and maintain an accurate database of claim activity in Ohio. BWC would like to implement this program July 1, 2009.

   Group retro – Employers participating in this program would actively involve themselves with safety and claims management. Employers continue to pay their own individual premium. However, they would have the opportunity to receive future dividends based on the combined performance of the group. BWC would like to implement this program July 1, 2009.

   Safety dividend – A safety-dividend program would provide incentive to businesses to manage costs and to improve workplace safety efforts. Employers would have the opportunity to receive potential future dividends based on the combined performance of the group. The strength of this program is that it would be performance based, and it can be inclusive of all employers. BWC would like to implement this program July 1, 2009.

   Shared savings – This program encourages top performing employers to share some of their discounts as a way to improve the standing of the entire group. Poorer performing employers would receive some premium relief in exchange for implementing proven safety strategies to improve their individual performance. The group succeeds if it can improve the performance of their high loss members. BWC would like to report on the viability of this program by July 1, 2009.

4. **Further analysis of continuity strategies and group rating rules**
   BWC explored multiple options to improve continuity among groups. Because of improvements resulting from the implementation of MIRA II, and the possible advent of new programs and products, BWC must analyze group- continuity options further. The performance of Ohio's workers' compensation system should improve significantly with adoption of the split experience-rating plan. Meanwhile, BWC will continue to examine and analyze the group-continuity issue, as well as the rules and requirements associated with the group-rating program. This will enable BWC to develop sound and viable approaches to improving performance of the group-rating program.

Testing and performance

It is also critical for BWC to define key performance measures associated with the current testing and analysis. These performance measures will determine whether all segments of employers — and all options that impact the amounts they pay into the Ohio State Insurance Fund — produce the same loss ratio. Loss ratios refer to the ratio of claim losses accrued to premiums collected over the period of one policy year. A higher ratio indicates that a risk incurs a higher rate of losses compared to the premiums paid. Achieving equal performance across any segment of employers indicates that a workers' compensation system is effectively charging employers an appropriate premium level relative to the risk they bring to the system.

Under this model of analysis, when two or more segments of employers in the Ohio State Insurance Fund do not produce the same loss ratio, BWC should determine whether the cause is:

- The random nature of claims in an insurance enterprise;
- An unidentified or under-recognized characteristic, or;
- A systemic issue.

In all but the first case, BWC should search for the underlying cause and identify appropriate potential adjustments.

By constantly scrutinizing Ohio's system, including current and new discount programs, BWC can effectively improve equity among employers and provide competitive rates for both established and developing industries across the state.

Key outcomes and conclusion

BWC believes fully implementing this plan will result in several positive outcomes for Ohio's employers and workers. Listed below are these positive outcomes.

Improving rating accuracy

Transitioning to a nationally tested experience-rating system that uses both frequency of claims and the severity of accidents as a measure of risk will provide better premium pricing for employers. Introducing the split plan and reducing the maximum discount level will better align premiums with costs. This also will improve pricing equity among employers.

Reducing premium volatility

Implementing a split experience-rating system will reduce the premium volatility for an employer that consistently maintains a safe workplace but has one random and costly accident. In addition, implementing both a transitional cap and a global EM cap will ensure that workers' compensation premiums do not suddenly skyrocket because of an isolated accident.

New programs and products

Going forward, BWC will work to provide employers with an array of performance-based programs and services. Businesses will have the benefit of selecting from a menu of options that align safety with financial rewards. These options would allow employers to take on additional risk or participate in performance-based programs where they could earn dividends. They would also complement the split experience-rating plan by encouraging employers to not only prevent claims but to also to manage them effectively should they occur.

Competitively priced workers' compensation system

As BWC establishes greater equity in pricing, Ohio's workers' compensation base rates will decline. By reducing base rates, BWC can become one of the most competitively priced workers' compensation systems in the Midwest. BWC expects the proposed changes to reduce base rates by approximately 23 percent to 27 percent (2.B) once implemented. These projections are based on testing performed using the current group composition. Any future changes to group membership could significantly impact these results.

Adopting these recommendations and continuing to test and monitor the system's performance will improve Ohio's workers' compensation system overall.

Proposed schedule of recommended deliverables

Implement a nationally tested, split experience-rating plan

- Implement a transitional reduction of maximum credibility level to *77 percent* beginning July 1, 2009.
- Implement a second transitional reduction of maximum credibility level to *65 percent* beginning July 1, 2010.
- Transition to a *split plan* by July 1, 2011, with an actuarially appropriate maximum credibility and appropriate corresponding parameters.

Moderate premium volatility by capping or limiting potential premium increases

- Implement an EM cap that prevents any individual employer's EM from increasing by more than 100 percent from one year to the next.
- Implement a 20-percent cap to moderate the potential effects on employer premiums by capping increases that result from changes in the credibility table.

Provide new performance-based safety incentives and discount options for employers

- Study how to implement a safety dividend program and report any findings to the board by Dec. 31, 2008, for implementation by July 1, 2009.
- Study how to implement a group retro program and report any findings to the board by Dec. 31, 2008, for implementation by July 1, 2009.
- Consider whether a shared savings plan would be viable in Ohio's market by July 1, 2009.
- Implement an actuarially sound deductible program that provides an appropriate discount for bearing a proportional amount of risk by July 1, 2009.

Continue ongoing analysis of continuity strategies and group rating rules.

- Study how to improve homogeneity and reporting any findings to the board by Dec. 31, 2008.
- Research additional strategies to improve group continuity and reporting any findings to the board by Dec. 31, 2008.
- Study strategies to improve group formation and report to the board by Dec. 31, 2008.
- Implement strategies to improve the re-rating and reporting any findings to the board by Mar. 31, 2009.
- Determine how to create a "How-to-Buy" guide for employers considering whether to join a group and reporting any findings to the board by Mar. 31, 2009.
- Consider how to enforce current group sponsor requirements and reporting any findings to the board by June 30, 2009.
- Review group employer requirements and reporting findings to the board by Sept. 30, 2009.
- Establish a complaint resolution process for group-rated issues and reporting the process to the Board by Dec. 31, 2009.

Section I

Implement a nationally tested split experience-rating plan

Recommendations

- Implement a split rating-experience plan by July 1, 2011

[I.B] Performance expectations of experience rating

Experience rating is a method of predicting an employer's potential for incurring losses. It provides a prospective look at the risk level of an individual employer and is not a reward or penalty. To determine appropriate premiums, BWC compares an individual employer's payroll and historical losses to the average of all employers of similar size and industry. The agency uses this information to forecast potential cost levels.

Overall, experience rating provides two benefits, according to the National Council on Compensation Insurance (NCCI):

- "It tailors the cost prediction and final net premium cost to the individual insured more closely than does manual rating alone."
- "It provides added incentives for loss reduction that are absent from manual rating alone." (4.D., p. 3)

An equitable rating plan should produce similar loss ratios across any class segmentation. Achieving equal performance across any segment of employers is an indication that a workers' compensation system is effectively charging employers an appropriate premium level relative to the risk they bring to the system.

An effective experience-rating plan should also serve the needs of all employers and employees. It should not provide a benefit or deterrent to any particular business segment, absent rating considerations. The objective should be to provide consistent and equitable premiums based on sound rating principles that match the right rate to the right risk.

[I.C] Challenges surrounding the current experience rating plan

The current experience-rating plan does not effectively align premiums with an employer's costs. At a systemic level, today's plan does not produce comparable loss ratios among employer groups and therefore does not meet the desired performance criteria. A loss ratio is a measure of the relationship between the cost of claims and the premium that is meant to cover those claims. Group-rated employers' loss ratios are more than twice as high as those generated by non-group employers. This indicates businesses in group aren't paying sufficient premium to cover the cost of their claims losses.

In the example below, the loss ratio for group employers was approximately 117 percent for the 2005 policy year when measured in 2008. This indicates that the group loss ratio was approximately 56 percent higher than the average. Using this same measure, non-group employers have a loss ratio of 56 percent, which is 26 percent below the average. Loss ratio measures are dependant on two time frames: the policy year being measured and the time since that policy year ended.

Loss ratio performance by policy status

Policy status	Policy year 2003	Policy year 2004	Policy year 2005
Group	145.1%	131.7%	117.7%
Non-group	63.8%	53.4%	56.1%
Base rated	80.2%	73.7%	83.0%
Total	**87.5%**	**75.0%**	**75.5%**

(2.B)

To understand better the relationship between the loss ratios between employer segments, we examine the relative size of loss ratios within each policy year. The loss ratio relativity for any segment of employers should be around 1.00. As the table below indicates, the loss ratio relatives for employers that make up the largest segment, premium greater than $4,500,000, is significantly higher than this 1.00 target. Groups almost entirely comprise these larger segments.

Loss ratio performance by premium size

Premium range	Policy year 2003		Policy year 2004		Policy year 2005	
	Loss ratio	Loss ratio relativity	Loss ratio	Loss ratio relativity	Loss ratio	Loss ratio relativity
Greater than $4,500,000	148.5%	1.66	156.2%	2.07	126.8%	1.71
$1,000,001 to $4,500,000	124.2%	1.39	95.1%	1.26	103.4%	1.40
$250,001 to $1,000,000	62.1%	0.70	49.8%	0.66	60.3%	0.81
$50,001 to $250,000	61.8%	0.69	53.7%	0.71	54.6%	0.74
Less than or equal to $50,000	69.1%	0.78	59.1%	0.78	56.7%	0.77
Total	**89.2%**		**75.3%**		**74.0%**	

(2.G)

These disparities in both loss ratio and loss ratio relatives indicate inaccurate pricing among employer segments.

The primary reason for the sustained underperformance is the high discount levels permitted under the current credibility table. Credibility is the level of reliance put on experience when estimating future costs. Larger employers are typically more credible than smaller employers because their size and past losses are a better indicator of future risk. BWC treats groups like large employers and, as a result, they receive more credibility.

Credibility levels also dictate the maximum discount levels available. The maximum credibility level as of the July 1, 2008, policy year is 85 percent (4.B.). A large employer or a group that combines the experience of many employers together with little or no claims costs could achieve a premium discount as high as 85 percent.

Experience rating should be revenue neutral for BWC. This means BWC should not gain or lose any additional dollars after applying all debits and credits to all employers. If a large employer or group is receiving a disproportionate discount relative to their actual losses, other employers must make up this lost revenue.

Multiple actuarial studies have indicated that to alleviate this inequity, BWC must reduce the current maximum credibility level. Studies performed by independent actuary Oliver Wyman recommend a 60-percent maximum credibility level, while a second study, performed by Pinnacle, recommended 53 percent. (4.G.1 – 4.G.8). As we reduce the maximum credibility level, large employers receive smaller discounts, reducing the cost shifting among employers.

[I.D] Impact of past credibility table reductions

Beginning July 2005, BWC began reducing the maximum credibility. The schedule of reductions is below.

Year	Maximum credibility
7/1/2005	95 percent
7/1/2006	93 percent
7/1/2007	90 percent
7/1/2008	85 percent

These credibility reductions resulted in some improvement in loss ratio performance between group and non-group employers. As can be seen in the below table, the past credibility reductions have reduced the inequity in loss ratios between these two employer segments.

Year	Group loss ratio	Non-group loss ratio	Group/non-group
2004	85.0%	38.0%	2.24
2005	74.0%	38.1%	1.94
2006	62.3%	35.2%	1.77

(1.G., p. 20)

Because the 2007 policy year is not complete, BWC can only assess the impact of credibility table reductions through 2006. While it has resulted in some improvement the loss ratios for group-rated employers remain notably higher than those incurred by non-group employers. In 2006, the group loss ratio is still 77 percent higher than that of non-group. This trend emphasizes that improved equity can be achieved through further credibility reductions.

[I.E] Recommendation for additional reductions

BWC is proposing additional reductions for each of the next two policy years to better align the maximum discount with the actuarially recommended amount. These progressive reductions will also allow for a smoother transition to a split plan in 2011.

The recommended transition schedule is below.

Year	Maximum credibility
7/1/2009	77 percent
7/1/2010	65 percent

The table below shows the projected impacts of the recommended credibility reductions for both group and non-group employers. With each reduction in maximum credibility, the disparity between group and non-group loss ratios shrinks. This reflects a more equitable environment; where premiums better match the risk that each employer brings to the system.

Year	77% max credibility	65% max credibility
Group	91.5%	82.1%
Non-group	68.2%	71.9%
Total	**75.5%**	**75.5%**

(2.F)

BWC has received feedback from sponsors concerned about further reductions to the credibility tables. Those concerns center around two points.

The first point is that reductions in the maximum discount may result in an overcorrection. There is concern that BWC has not fully analyzed the impacts of previous credibility table reductions making it difficult to determine how much further Ohio should go. As discussed earlier, however, multiple actuarial studies suggest the maximum discount should be from 53 percent to 60 percent.

In addition to studying the impacts of a credibility reduction to 77 percent, independent actuary Oliver Wyman has also analyzed the impact of reducing the maximum credibility in smaller incremental steps. The table below reflects the results of this analysis.

Policy status	Uncapped projected 85% credibility table		Uncapped projected 82% credibility table		Uncapped projected 77% credibility table	
	Loss ratio relativity	Loss ratio	Loss ratio relativity	Loss ratio	Loss ratio relativity	Loss ratio
Group	1.52	99.6%	1.43	95.7%	1.34	91.5%
Non-group	1.00	65.7%	1.00	66.8%	1.00	68.2%
Total		**75.5%**		**75.5%**		**75.5%**

(2.E)

It can be seen that a reduction to 77 percent made more progress toward equity between group and non-group employers than a smaller reduction. While a reduction to 82 percent does improve the disparity between group and non-group employers, a move to 77 percent produces better results. A reduction to 82 percent produces a loss ratio relativity of 1.43 for group employer, which indicates that loss ratios for this segment are 43 percent higher than average. With a 77 percent maximum credibility, group loss ratios are only 34 percent higher than the average.

The loss ratio and loss ratio relativity projections shown above reflect continued disparity between group and non-group employers even at a 77 percent maximum credibility. This suggests that the recommendation to a 77 percent credibility table is appropriate and does not result in an overcorrection

The second point is that a coalition comprised of group sponsors and third-party administrators (TPAs) has hired an actuary from Ernst and Young to review the recommendations BWC is making. Since this actuary's work has just begun, there are no specific and substantiated findings presented at this time.

BWC has publicly committed to working with the business coalition's actuary and considering his findings as the process moves along. While it is unlikely to be necessary, BWC can revisit its recommendation on the credibility table changes if additional information suggests the proposed changes are inappropriate.

[I.F] Implementing a split experience-rating plan

While further reductions in the maximum credibility level will certainly produce a more equitable system that better aligns premiums with risk, it will not produce a more effective measurement of risk. BWC's current rating plan focuses only on total claim losses and ignores the number of claims an employer sustains. This can cause problems for individual employers with a single, high-dollar claim because the current experience-rating plan may treat them as a high risk.

According to NCCI, "an experience rating plan should recognize the cost of a specific accident is often left to chance and is statistically less predictable than the fact that the accident occurred(4.D., p.3). NCCI suggests an insurer may consider an employer with a higher occurrence of claims a higher risk. Therefore, BWC may charge the employer a higher premium than a business that incurs a single high-dollar claim.

NCCI also indicates that when considering the characteristics of an experience-rating plan "the final measure must be a blend of both the occurrence and the individual cost of each injury." (4.D., p.4). Using both factors to compute rates allows for more accurate assessment of the overall risk an individual employer brings to the system.

A split-rating plan separates losses into primary and excess loss components. The primary losses represent the claim frequency of the risk, while the excess loss represents the severity of the risk. A split plan applies more emphasis to the frequency of claims than the severity a claim, though it considers both factors in the rate calculation. Today, 38 other states use a split-rating plan that computes both frequency and severity into the calculation of experience rating.

BWC believes a split-rating plan can improve how Ohio's system measures individual risk. Under the current rating plan, an employer with many claims could pay the same or less premium than a similar employer with one, high-dollar claim. A single, high-dollar claim can cause significant volatility in premium rates from one year to the next. While you can expect moderate fluctuations, significant volatility is not conducive to an effective rating plan.

The current plan provides no incentive to limit claims. Instead, it offers an incentive to limit claims costs. Employers that sustain claims can "hide" costs from their experience by paying out of pocket, through salary continuation or the $15,000 medical-only program and can benefit to the same degree as those employers who implement and maintain effective safety programs to avoid claims occurrences. This does not reflect the effectiveness of safety practices but instead the ability to keep costs out of the system.

To emphasize better the benefit of considering both accident frequency and severity, consider these examples.

Employer A
One loss totaling $250,000

Employer B
Ten losses totaling $250,000

Claims	Employer A	Employer B
1	$250,000	$25,000
2		$25,000
3		$25,000
4		$25,000
5		$25,000
6		$25,000
7		$25,000
8		$25,000
9		$25,000
10		$25,000

Calculation of EM for Employer A with one $250,000 claim under BWC's current rating plan

$$\frac{(250{,}000) - (1{,}000{,}000)}{(1{,}000{,}000)} \ast (0.85) + 1 = 0.36$$

Calculation of EM for employer B with 10 claims totaling $250,000 under BWC's current rating plan

$$\frac{(250{,}000) - (1{,}000{,}000)}{(1{,}000{,}000)} \ast (0.85) + 1 = 0.36$$

Under the current experience-rating plan, employers A and B receive the same EM. Though employer B has 10 times the number of claims, the total losses are equal for both employers. Therefore, BWC views them as having equal risk. This ignores the randomness of one claim in employer A's experience while understating the risk employer B brings to the system.

Using the same data as above, here is the calculation of EM for Employer A with one $250,000 claim under a split-rating plan that recognizes both the severity and frequency of claims activity.

$$1 + (0.89)\ast \frac{(10{,}000) - (400{,}000)}{(1{,}000{,}000)} + (0.32)\ast \frac{(165{,}000) - (600{,}000)}{(1{,}000{,}000)} = 0.51$$

** The above example has a $10,000 split point for primary losses and a maximum single loss of $175,000*

Alternatively, consider what happens to employer B with 10 claims totaling $250,000.

$$1 + (0.89)^{*} \frac{(100{,}000) - (400{,}000)}{(1{,}000{,}000)} + (0.32)^{*} \frac{(150{,}000) - (600{,}000)}{(1{,}000{,}000)} = 0.59$$

** The above example has a $10,000 split point for primary losses and a maximum single loss of $175,000*

Under the split plan, employer B receives a higher EM because it has more claims than employer A. However, the narrow EM spread between the two employers also reflects that claims losses still have a material impact when determining risk levels.

[I.G] Split plan compared to current experience rating plan

When considering loss ratios and loss ratio relativities, an actuarially appropriate split plan outperforms Ohio's current experience-rating plan. When looking at loss ratios by premium size, the current experience-rating plan produces a significant range in loss ratios between the various segments. Comparatively, this disparity is significantly less under the split-rating plan.

Premium range	Policy year 2003		Policy year 2004		Policy year 2005	
	Current	Split plan	Current	Split plan	Current	Split plan
Greater than $4,500,000	148.5%	86.9%	156.2%	84.0%	126.8%	76.4%
$1,000,001 to $4,500,000	124.2%	83.3%	95.1%	68.2%	103.4%	73.1%
$250,001 to $1,000,000	62.1%	76.0%	49.8%	62.1%	60.3%	71.9%
$50,001 to $250,000	61.8%	79.3%	53.7%	70.6%	54.6%	70.3%
Less than or equal to $50,000	69.1%	86.9%	59.1%	75.3%	56.7%	68.5%
Total	**89.2%**	**84.2%**	**75.3%**	**72.3%**	**74.0%**	**72.1%**

(2.G) The above example used a $10,000 split point.

Improved performance remains consistent when considering loss ratios by policy status. A split plan reduces the current disparity between group and non-group employers. The current experience rating maintains a range of 61.6 percent to 81.3 percent. Comparatively, the disparity between group and non-group employers ranged from 6.5 percent to 10.1 percent with a split plan.

Policy status	Policy year 2003		Policy year 2004		Policy year 2005	
	Current	Split plan	Current	Split plan	Current	Split plan
Group	145.1%	89.0%	131.7%	77.8%	117.7%	75.7%
Non-group	63.8%	79.7%	53.4%	67.7%	56.1%	69.2%
Base rated	80.2%	106.8%	73.7%	90.0%	83.0%	96.1%
Total	**87.5%**	**87.5%**	**75.0%**	**75.0%**	**75.5%**	**75.5%**

(2.B) The above example used a $10,000 split point.

When considering loss ratio relativities as another performance measure, the split plan also shows improved performance. The loss ratio relativity for any segment should be around 1.00 with little variance between any segment and the overall average. Using recalculated relativities for the 2003 policy year, there is a 0.97 range between the performance among all premium range segments, while under a split-rating plan, this range narrows to 0.13. For the 2005 policy year, this range narrows even more as the split plan produces a 0.11 range.

Premium range	Policy year 2003		Policy year 2004		Policy year 2005	
	Current	Split plan	Current	Split plan	Current	Split plan
Greater than $4,500,000	1.66	1.03	2.07	1.16	1.71	1.06
$1,000,001 to $4,500,000	1.39	0.99	1.26	0.94	1.40	1.01
$250,001 to $1,000,000	0.70	0.90	0.66	0.86	0.81	1.00
$50,001 to $250,000	0.69	0.94	0.71	0.98	0.74	0.98
Less than or equal to $50,000	0.78	1.03	0.78	1.04	0.77	0.95

(2.G.) The above example used a $10,000 split point.

In addition to improving equity among all employer segments regardless of class or size, the split plan provides better rate stability from one year to the next. While BWC expects there will be some measure of volatility from one year to another, significant fluctuations should not be a part of any effective system.

The table below shows the improvement in premium stability with a split plan. It shows average increases and decreases between two consecutive years with the current rating plan and with a split-rating plan.

Status	Group		Non-group	
Plan	Current	Split plan	Current	Split plan
Average increase	43%	19%	6%	3%
Average decrease	-30%	13%	-53%	-20%

** The above data compares policy year 2005 and 2006 data using an 85 percent credibility table for both years. BWC modeled the split plan with a $10,000 split point. (2.C., p. 1)*

As can be seen, a split plan significantly reduces the volatility. Under the current rating plan there are significant increases and decreases in average premium from one policy year to the next. These swings are mitigated under a split-rating plan. While the impact of a single claim can still negatively impact the experience of an employer, the spit plan limits this impact because of its emphasis on claims frequency.

Again, a well-performing experience-rating plan should produce equitable and stable premiums based on future expected costs. The current plan underperforms in these areas. It's apparent that a split-rating plan would improve performance in these areas.

[I.H] Split-plan testing results

BWC staff worked closely with an independent actuarial consultant Oliver Wyman to test multiple variations of the split plan with varying maximum single loss ceilings and split points. We selected data from policy years 2003 through 2005 because they balance the maturity needed to measure loss ratios along with the advantage of experience that is more recent. We applied the data to various split-plan scenarios to produce a new restated history for policy years 2003-2005. We reviewed each scenario for performance across a number of dimensions, with the objective of improving equity among the premium size groups (2.A).

The table below provides a list of test scenarios run.

Maximum single loss	Split point
$175,000	$10,000
$175,000	$15,000
$175,000	$20,000
$175,000	$25,000
$200,000	$10,000
$200,000	$15,000
$200,000	$20,000
$200,000	$25,000

(2.A)

Based on preliminary testing, a $10,000 split point with a maximum single loss of $175,000 produces the best results because it appears to most effectively provide stable, consistent rates for Ohio's small businesses. As the below charts indicate, while the $15,000 and $20,000 split points did perform better for certain segments, the $10,000 split point produced the best results for the system as a whole. The $10,000 split plan produced more similar loss ratios among all premium segments, as well as loss ratios that had less variation between segments.

Premium range	Policy year 2003			Policy year 2004			Policy year 2005		
	$10,000 Split	$15,000 Split	$20,000 Split	$10,000 Split	$15,000 Split	$20,000 Split	$10,000 Split	$15,000 Split	$20,000 Split
Greater than $4,500,000	86.9%	83.1%	79.6%	84.0%	87.5%	90.6%	76.4%	79.5%	82.5%
$1,000,001 to $4,500,000	83.3%	85.6%	87.9%	68.2%	69.7%	71.3%	73.1%	75.5%	77.8%
$250,001 to $1,000,000	76.0%	75.1%	74.3%	62.1%	61.2%	60.6%	71.9%	71.2%	70.6%
$50,001 to $250,000	79.3%	77.0%	74.7%	70.6%	68.4%	66.6%	70.3%	68.2%	66.4%
Less than or equal to $50,000	86.9%	83.1%	79.6%	75.3%	71.6%	69.1%	68.5%	65.1%	62.5%
Total	**84.2%**	**84.3%**	**84.3%**	**72.3%**	**72.3%**	**72.4%**	**72.1%**	**72.1%**	**72.2%**

(1.G., p. 11-16)

Again, using three successive policy years (2003-2005), the disparity between group and non-group employers ranged from 6.5 percent to 10.1 percent with a $10,000 split point. Comparatively speaking, the range for the $15,000 split point was 11.3 percent to 14.7 percent, and the range for the $20,000 split point was 15.7 percent to 19.1 percent.

Policy status	Policy year 2003			Policy year 2004			Policy year 2005		
	$10,000 Split	$15,000 Split	$20,000 Split	$10,000 Split	$15,000 Split	$20,000 Split	$10,000 Split	$15,000 Split	$20,000 Split
Group	89.0%	92.0%	94.7%	77.8%	80.5%	83.1%	75.7%	78.6%	81.4%
Non-group	79.7%	77.6%	75.6%	67.7%	65.8%	64.4%	69.2%	67.3%	65.7%
Base rated	106.8%	106.2%	106.3%	90.0%	90.0%	89.5%	96.1%	95.7%	95.3%
Total	**87.5%**	**87.5%**	**87.5%**	**75.0%**	**75.0%**	**75.0%**	**75.5%**	**75.5%**	**75.5%**

(1.G., p. 11-16)

As this report has described, an effective experience-rating plan should produce similar loss ratios among all business segments. With both the $15,000 and $20,000 split points, the larger premium ranges maintain higher loss ratios compared to smaller ranges and maintains a higher variance between group and non-group employers. As a result, these two split points would not be as effective as the $10,000 split point in aligning premiums with costs.

[I.I] Refining the split plan

Through the series of modeling as described above, the basic parameters selected for the split plan are as follows:

- Minimum expected losses to qualify for experience rating plan of $8,000;
- A split point of $10,000;
- Uses the oldest four of the most recent five years of experience;
- Individual claims losses are capped at $175,000 for all risks;
- Medical only losses are limited to 30 percent;
- Credibility increases with risk size.

While initial modeling of the split plans indicates that a $10,000 split point performs the best of those plans tested, BWC will conduct additional testing. Several parameters of the plan need further study, and changes to any or all of them may impact the final design of the split plan. These include:

- Determining whether to apply an EM cap for smaller risks;
- Lowering the qualification minimum;
- Varying the split point by size of risk;
- Varying the maximum single loss by size of risk;
- Considering multiple-split points; and,
- Studying solutions for unidentified employer segments that aren't performing adequately.

BWC should consider these factors before it provides an actuarially justified recommendation on credibility levels under a split experience-rating plan. The impact of MIRA II, which will change the current reserving methodology, is unknown. BWC also expects Deloitte Consulting LLP to complete a comprehensive analysis of BWC's rating practices and programs by December 2008. In addition, a group of sponsors and TPAs have hired an actuary to study BWC's recommendations. Finally, significant rule changes to group rating and group continuity remain under consideration, which may also impact performance.

[I.J] Allowing Ohio to provide competitive base rates

The proposed credibility reductions redistribute premiums based on a better reflection of risk brought to the workers' compensation system. In addition, it will improve base rates that off-balance adjustments currently inflate. BWC applies the off-balance factor to each manual classification to offset a premium overage or shortage created by experience rating. Based on the composition of employers, BWC expects to collect a specific amount of premium within each manual class. If some employers within that class are paying a rate different than expected, there must be an adjustment for other employers to ensure appropriate premium collection for that class.

The current off-balance factors result in a 49 percent inflation of base rates (4.K., p. 1). Typically, the off balance within the industry is around 1 percent to 2 percent (1.F., p. 9). BWC expects Additional credibility reductions to reduce average base rates by approximately 23 percent to 27 percent. Additional rule changes may result in further base rate reductions. This would enable Ohio to become significantly more competitive both in the Midwest and across the country.

Each split plan that Oliver Wyman has modeled has showed a significant impact when it comes lowering base rates. The chart below projects the base rate impacts of reducing the current maximum credibility of 85 percent to an actuarially sound level under a $10,000 split-rating plan.

Policy year	Base rate impact
2003	-26%
2004	-27%
2005	-23%

(2.B)

[I.K] Benefits of implementing an actuarially appropriate split plan

Implementing an actuarially appropriate split plan will improve the performance of Ohio's workers' compensation system. The benefits include:

- **Aligning premiums with costs more effectively:** Additional reductions to the credibility table will mitigate cost shifting among employer segments;
- **Assessing employer risk:** Using a nationally recognized split experience-rating plan will enable BWC to charge the right rate based on the future risk each employer brings to the system;
- **Reducing base rates:** BWC anticipates that implementing an actuarially appropriate split experience-rating plan will reduce base rates approximately 23 percent to 27 percent;
- **Improving the system's performance:** A split plan will enable BWC to identify and isolate segments of the employer population that fail to achieve their performance targets and implement strategies for improvement.

Section II

Moderate premium volatility by capping or limiting potential premium increases

Recommendations

- Implement a 20-percent cap for all employers adversely impacted by future reductions in the maximum credibility table until the split plan is complete and all affected employers are paying their full rate
- Implement a 100-percent EM cap for all employers for any circumstance to provide greater rate stability

The transition to a split rating-experience plan will improve overall equity for all segments of employers. However, some employer segments will see an increase in premiums because of this transition.

BWC recognizes the potential for these adverse consequences to arise throughout this process. In an attempt to mitigate any significant premium increases that may result from the transition to a split rating plan, BWC is recommending the following capping strategy.

[II.B] 20-percent cap overview

BWC proposes to apply a 20-percent cap to the starting value premium for policies that see premium increases related to future changes in the credibility table. BWC would repeat this capping process in subsequent years until the policy realizes its full premium level.

The starting value premium is the renewal policy premium with updated payroll, base rates and experience-rating data using the current 85 percent credibility table. BWC then calculates the new premium with all of the same inputs except the updated experience-rating credibility table. Thus, the capping strategy would limit only a premium increase that results from the experience-rating change. BWC would not include any increases due to payroll or experience as part of this cap. (2.D., p 3-4)

Past increases to the credibility table resulted in increases from 40 percent to 50 percent for affected employers.

Policy year	Old maximum discount	New maximum discount	Old minimum EM	New minimum EM	Percent increase
2006	95	93	0.05	0.07	40 percent
2007	93	90	0.07	0.10	42 percent
2008	90	85	0.10	0.15	50 percent

Transitioning the maximum credibility level as BWC is recommending results in comparable increases.

Policy year	Old maximum discount	New maximum discount	Old minimum EM	New minimum EM	Percent increase
2009	85	77	0.15	0.23	53 percent
2010	77	65	0.23	0.35	52 percent

However, BWC is concerned about Ohio's economy and the impact of these changes. Applying a 20-percent cap allows BWC to offset a portion of the premium increases for highly discounted employers while providing premium relief to other businesses more quickly.

[II.C] EM cap overview

Under today's experience-rating plan, there can be significant premium volatility for some employers. This is due primarily to the effects of groups not renewing businesses. However, this can also arise in other circumstances.

To mitigate this impact, BWC recommends an additional capping strategy. Any EM increase for an individual employer would be limited to 100 percent of the EM in the previous year. Unlike the credibility capping strategy, this cap would be inclusive of changes relating to experience-rating history and payroll.

As an example, an employer enrolled in a maximum discount group for the July 1, 2008, policy year would receive an EM of 0.15. If this same employer was not included in a group for July 1, 2009, policy year, with no capping applied, this EM could increase to 1.0 or higher. That could mean a 500-percent premium increase in one year. Under this capping strategy, the EM could only increase by a maximum of 100-percent or in this example to a maximum of 0.30.

Just as with the previous capping strategy, BWC would repeat this process until the policy realizes the full premium level. It would apply no capping for rate decreases.

After studying nearly 4,000 policies that group sponsors did not renew in 2006, it appeared that allowing an EM to double achieved an appropriate balance. The average employer's EM went from 0.27 in 2005 while in group compared to 1.00 in 2006 once eliminated (4.N., p. 81). Had this cap been in place, the average employer would have reached his/her appropriate premium level within two years.

By contrast, at other capping levels, flaws emerged. A lower cap of approximately 50 percent could allow a maximum discount employer to avoid parts of his/her experience-related premium entirely. Because the EM could only increase by only 50 percent, it could take approximately five years for those employers to reach their appropriate EM. By that time, the claims costs that had resulted in the group rejection, and led to the increase, might have fallen out of the experience period altogether. Alternatively, a higher threshold would likely expose employers to their actual EM much more quickly, making the premium more difficult to absorb.

Assuming the proposed credibility table reductions are approved, it would take a maximum discount, group-rated employer two years to reach base rate beginning July 1, 2010 (65 percent maximum credibility) with this policy in place. BWC believes that would provide employers with adequate time to understand the totality of their premium increase and budget appropriately for it.

[II.D] Capping impacts

July 1, 2009, policy year

In the 2009 policy year, BWC would reduce the maximum credibility from the current 85 percent to 77 percent. Approximately 61,529 individual policies (26 percent of all employers) would meet one of the capping requirements in the first step of the transition to split rating. This premium capping would result in approximately $39,005,751 million in total premiums capped for the July 1, 2009, policy year or approximately 2.2 percent of total collected premium.

Policy size range	Total number of risks	Total number of risks capped	Avg. premium with 85% table	Avg. premium with 77% table	Avg. premium with 77% table after capping	% impact after capping
$0 - $500	88,925	22,674	$222	$244	$231	4.2%
$501 - $999	35,882	12,128	$721	$811	$759	5.3%
$1,000 – $2,499	43,193	13,780	$1,608	$1,807	$1,689	5.1%
$2,500 – $4,999	24,400	6,644	$3,537	$3,951	$3,706	4.8%
$5,000 – $9,999	16,428	3,529	$7,047	$7,783	$7,372	4.6%
$10,000 +	26,225	2,774	$60,948	$61,356	$60,661	-0.5%
Total	**235,053**	**61,529**	**$8,149**	**$8,348**	**$8,182**	

(2.D., p 51)

July 1, 2010, policy year

In the 2010 policy year, BWC would reduce the maximum credibility from 77 percent to 65 percent. Approximately 58,157 individual policies would meet one of the capping requirements. This premium capping would result in approximately $40,842,088 million in total premiums capped for the July 1, 2010, policy year or approximately 2.1 percent of total collected premium.

Policy size range	Total number of risks	Total number of risks capped	Avg. premium with 77% table	Avg. premium with 65% table	Avg. premium with 65% table after capping	% impact after capping
$0 - $500	86,707	16,422	$222	$241	$228	3.1%
$501 - $999	35,960	12,089	$722	$815	$753	4.3%
$1,000 – $2,499	43,618	14,621	$1,611	$1,827	$1,685	4.6%
$2,500 – $4,999	24,876	7,535	$3,535	$3,973	$3,699	4.7%
$5,000 – $9,999	16,818	4,211	$7,039	$7,822	$7,389	5.0%
$10,000 +	27,074	3,279	$59,149	$59,242	$58,608	-0.9%
Total	**235,053**	**58,157**	**$8,182**	**$8,357**	**$8,183**	

(2.D., p. 55)

July 1, 2011, policy year

In the 2011 policy year, the transition to a split rating plan would be completed. Approximately 37,958 individual policies would meet one of the capping requirements during the final year of transition. This premium capping would result in approximately $24,961,246 million in total premiums capped for the July 1, 2010, policy year or approximately 1.2 percent of total collected premium.

Policy size range	Total number of risks	Total number of risks capped	Avg. premium with 65% table	Avg. premium with split plan	Avg. premium with split plan after capping	% impact after capping
$0 - $500	85,222	8,073	$221	$234	$228	3.3%
$501 - $999	35,796	8,262	$723	$797	$762	5.4%
$1,000 – $2,499	43,613	10,701	$1,612	$1,790	$1,709	6.0%
$2,500 – $4,999	25,295	5,659	$3,537	$3,919	$3,762	6.4%
$5,000 – $9,999	17,103	3,139	$7,042	$7,726	$7,473	6.1%
$10,000 +	28,024	2,124	$57,040	$57,551	$57,144	0.2%
Total	**235,053**	**37,958**	**$8,183**	**$8,384**	**$8,277**	

(2.D., p. 59)

[II.E] Challenges to implementing a cap

As a result of implementing these capping strategies, the cumulative impact will be an approximately $110.8 million reduction in premium payments collected over a five-year period.

Plan change	Total premium impact (in millions)	% impact of capping
85% to 77%	-$39.0	-2.0%
77% to 65%	-$40.8	-2.1%
65% to split plan	-$25.0	-1.3%
Year 4	-$5.7	-0.3%
Year 5	-$0.3	0.0%
Total	**-$110.8**	

(2.D., p. 5)

Because it is impossible to determine how groups would be composed, the impacts for policy years 2010 and 2011 should be considered optimistic. For testing purposes, Oliver Wyman only tracked those policies removed from group during the 2009 policy year. As a result, the capping total does not include any new policies removed during the 2010 or 2011 policy years.

[II.F] Benefits of capping

By limiting increases to 20 percent, BWC can effectively stabilize the transitional process for highly discounted policies while providing premium relief to other employers. In addition, the EM cap would protect employers from significant premium swings from one year to the next. Finally, capping during transitional periods is an accepted and normal practice.

This balanced package of credibility reductions and mitigation strategies will reduce volatility as Ohio transitions to a split experience-rating plan.

Section III

Create new performance-based safety incentives and discount options for employers

Recommendations

- Study the implementation of a **deductible program** and report findings to the board by Dec. 31, 2008, with an implementation date of July 1, 2009
- Examine the concept of a **shared savings plan** and report findings to the board by July 1, 2009
- Study the implementation of a **group retrospective-rating program** and report findings to the board by Dec. 31, 2008, with an implementation date of July 1, 2009
- Study how to implement a **safety-dividend program** and report findings to the board by Dec. 31, 2008, with an implementation date of July 1, 2009

Much of the concern around Ohio's workers' compensation system revolves around pricing. The state's base rates are relatively high, which makes Ohio less attractive to those looking to create a new business. While group rating certainly benefits those employers who participate in the program, the current cost sharing adversely impacts other segments of the market. Today, those other employers have limited options to reduce their costs.

BWC wants to create a new menu of performance-based solutions for the entire market. These programs should:

- Allow employers to choose an appropriate level of risk bearing and risk sharing;
- Be performance based and meet the desired targets BWC establishes;
- Be supported both by BWC and external stakeholders to best serve the entire Ohio market.

BWC proposes further study of four new concepts that would appear to achieve these objectives. The proposed reporting and implementation dates are estimates based on current operational resources and cooperative dialog with the stakeholder community.

[III. A] Study how to implement a deductible program

BWC believes an actuarially appropriate deductible program would benefit Ohio employers. Virtually all lines of insurance, including workers' compensation providers in other states, offer employers the option of paying lower premiums in exchange for higher deductibles.

Such an approach would give employers an option to control their costs and an incentive to promote workplace safety programs and services. In addition, it would encourage businesses to report all costs to the system, which would allow BWC to set rates more accurately and to understand better what is going on with safety efforts.

BWC has not defined the actual program parameters. However, the basic premise would be to provide a premium reduction proportional to the amount of risk (deductible) an individual employer would be willing to take on for each claim occurrence. Employers who want to lower premium payments would have to agree to take on more risk in the form of a higher deductible. Those employers who experience little to no claims occurrences, or excel at limiting costs, would benefit from reduced premiums.

Therefore, BWC requests board approval to work with stakeholders, study this issue and report to the board on how to implement a deductible program by Dec. 31, 2008, with a target implementation date of July 1, 2009.

[III. B] Study a shared savings plan

Sponsors would administer a shared savings program with a goal to improve rate stability and strengthen workplace safety efforts among its members. Optimum outcomes would be achieved by top performing members sharing some level of discount as a way to improve standing of the group. Poorer performing employers would receive some premium relief in exchange for implementing proven safety strategies to improve their overall performance.

BWC would like to partner with external stakeholders to determine whether it should expand such a program throughout the state. Therefore, BWC requests board approval to work with stakeholders, study this issue and report to the board on whether to implement a shared savings plan by July 1, 2009.

[III. C] Study a group retrospective rating program

Group retrospective rating is another concept that may promote safety. Sponsors would create groups of employers who actively involve themselves with safety and claims management to achieve lower premiums than they could individually.

Employers would continue to pay their own individual premium. However, they would have the opportunity to receive upfront discounts or retrospective premium adjustments based on the combined performance of the group. This performance-based incentive would promote safety among group retro members. Conversely, if the group performs worse, it would receive an assessment for additional premium. BWC would distribute directly refunds and assessments to the group sponsors who then would distribute the credits or debits to members based on individual performance.

BWC would like to partner with external partners to determine whether it should expand such a program throughout the state. Therefore, BWC requests board approval to work with stakeholders, study this issue and report to the board on whether to implement a group retro program by Dec. 31, 2008, with a target implementation date of July 1, 2009 if appropriate.

[III. D] Study how to implement a safety-dividend program

A safety-dividend program would encourage experience-rated employers to manage costs and improve workplace safety efforts. Not only would they enjoy additional premium reductions, but they may also receive a dividend.

The strength of this program is that it would be performance based, actuarially appropriate, and, depending on the structure, focused on those industries or market segments that cause injuries and drive costs. Moreover, it could be inclusive of all employers regardless of their current state, as the members of a group could be measured relative to an appropriate, objective baseline.

BWC believes very strongly that such a program could benefit the market. Therefore, BWC requests board approval to work with select stakeholders, study this issue and report to the board on how to implement a safety group-dividend program Dec. 31, 2008, with a target implementation date of July 1, 2009.

[III. E] Benefits of new performance-based safety incentives

BWC is confident that new, performance-driven products based on industry best practices will better serve the entire state-fund market. This would allow all employers to participate in programs that focus on reducing claims and improving workplace safety. In addition, the agency believes it can expedite the creation of these offerings by working with external stakeholders to study concepts that other states use or are unique to Ohio's market. BWC believes that creating an array of performance-based options will make Ohio's workers' compensation system more attractive to current and prospective employers.

Section IV

Conduct further analysis of continuity and group rating rules

Recommendations

BWC is making these additional recommendations:

- Conduct further study for group continuity and report back to the board on options by Dec. 31, 2008
- Study strategies to improve group formation and report to the board by Dec. 31, 2008
- Study strategies that enable BWC to provide objective information to employers that allow them to make more informed decisions and report to the board by March 31, 2009
- Research strategies to align personnel from BWC's Division of Safety & Hygiene with group sponsors to strengthen safety efforts of groups and report back to the board by June 30, 2009

BWC is aware that additional changes to the group-rating program may be appropriate. However, the agency should study these issues in concert with other systemic changes under way or those proposed by this plan.

These reform recommendations should be made after BWC better understands how a new reserving system, a new experience-rating system, and new products or programs may change Ohio's workers' compensation system. The proposed reporting and implementation dates are estimates based on current operational resources and cooperative dialog with the stakeholder community.

[IV.A] Establishing continuity among groups

Groups are treated like large employers. A large company may have certain parts of its operation that incur the majority of their claims costs, but the business' overall losses dictate its EM and corresponding premium costs. However, groups can purge members that sustain losses to maintain a significant discount. While this process is beneficial for the remaining members of a group, the rejected employer may sustain a substantial premium increase.

The better approach is to keep the collective experience of all employers with the group. Thus, the groups would be more likely to pay premium levels commensurate with their losses. As groups remain together, the more credible the experience of that group becomes. It has been shown that it takes seven years for a group to become fully credible (4.L).

[IV.B] Previous attempts to implement continuity

Group continuity has been a reoccurring topic since the beginning of the group-rating program in 1991. With rule 4123-17-65, BWC attempted to implement a continuity plan. This rule required groups to maintain the experience of its individual members for a three-year period, regardless of whether the group had removed a member. This approach became ineffective as groups began to move employers that had little or no loss history and large payroll from one group to another as a way to achieve larger discounts. Per BWC rule, each member's experience remained with each group the member participated in during the four-year experience period. Thus, a single employer's good experience could be used in up to four different groups in any given experience period. For these reasons, BWC eliminated this rule in 1995.

[IV.C] Studying new approaches to continuity

BWC studied two different group-continuity approaches. The fixed-plan approach was the first approach. This strategy would bind employers in a group together for a required period to allow the group to become fully credible. It would also prohibit group sponsors and TPAs from rejecting employers for adverse claim activity.

Required continuity would mandate BWC factor the collective experience of all participating employers into premium calculations. Groups could no longer target a particular EM, and the premiums paid by the group would reflect actual losses. This would increase the likelihood of paying actuarially sound rates. However, once groups disbanded at the end of the required period, they would no longer be credible. Therefore, it's likely that systemic subsidies would increase significantly.

After significant study and external feedback, BWC determined that this continuity option is not feasible. Requiring groups to remain together for an extended time would steadily reduce subsidies and off-balance factors. This would allow group rating to become more actuarially sound during the fixed continuity period. However, as groups would be permitted to dissolve, subsidization might re-emerge.

The second option, as referenced by independent actuarial Pinnacle, would encourage groups to remain substantially similar from one year to the next. By retaining a certain percentage of employers, the group would receive an additional incentive percentage. This plan benefits those groups that remain intact. However, it does not require continuity, nor would it reduce the impact on employers rejected from a group.

BWC also considered a third strategy prohibiting groups from using claims-experience data when assembling groups. This strategy correlated with suggestions from the 2006 Inspector General report (4.C., p. 3-4). However, such an approach is not feasible. Any employer can give a sponsor or TPA permission to obtain his/her claims experience information. Moreover, such information is necessary for stakeholders to manage effectively an employer's policy, making this solution impractical.

Absent a clearly defined strategy, at this time BWC is not recommending a group-continuity strategy. In addition, the proposed move to a split experience-rating plan, along with study of new, performance-based programs suggest behaviors among groups and individual employers may change. However, BWC will continue to study options for keeping employers experience with the group. Finally, BWC has not had the opportunity to consider newly released analysis from Deloitte Consulting LLP and determine its impact on continuity.

Instead, BWC plans to work with stakeholders, study this issue and report to the board on the need for a continuity strategy by Dec. 31, 2008.

[IV.D] Study and report to the board on strategies to improve group formation

When sponsors assemble groups, BWC requires they use 10 industry classifications as a parameter to determine whether the employers assembled in those groups are homogeneous. As a result, approximately 536 manual classifications are compartmentalized into only 10 industries (4.M). This leads to groups that include dissimilar industries such as garbage truck drivers, florists and restaurateurs.

BWC should examine this rule by working with sponsors and TPAs to establish logical groupings of similar employers. It should also eliminate the current restrictions on the fraud provision. This would allow groups to purge any employers that fraudulently misrepresent themselves in an attempt to gain entry into a group.

BWC also acknowledges that a rigorous process around a group-rating safety plan evaluation and auditing must occur immediately. BWC also believes valid group-rating safety plans and strengthened group governance are key components of any future improvements. BWC must evaluate how it can guarantee that only legitimate trade associations sponsor groups exclusively to their members to insure that the association is fully vested in the decisions regarding participation.

Finally, BWC should develop clear processes and procedures to establish confidence that it is enforcing the statutes and rules that govern the group-rating program. This would protect employers from working with sponsoring organizations not dedicated to promoting safer workplaces and risk reduction strategies.

An improved process for evaluating group safety plans is being developed. Before moving forward on additional rules, BWC would like to review any findings or recommendations from Deloitte. Therefore, BWC requests board approval to work with stakeholders, study these issues and report to the board on how to improve group formation by Dec. 31, 2008.

[IV.E] Study and report to the board on strategies that enable BWC to assist employers in making more informed decisions on choosing a group

BWC provides employers with limited information to consider when choosing a group sponsor. Currently, information includes an overview of the group-rating program on ohiobwc.com and a Web-based tool that allows a business to determine if there are groups with which it would be homogenous.

BWC believes it should create more tools that advance employer education. One critical piece would be the creation of a "How to Buy Group Rating" guide. This document could provide businesses with information such as program benefits, financial impacts and key questions to ask potential sponsors. By creating a road map to navigate the marketplace, BWC could help employers to make more informed decisions.

In addition, BWC would like to create a formalized complaint resolution process. This process would provide employers with an avenue to lodge concerns with BWC. The agency would work with the sponsor, TPA and employer to research and address reported issues.

Before moving forward, BWC would like to analyze the objective data or identify processes that can help a business make a more informed selection regarding whether to join a group and how to select a group. BWC also would like to consider recent findings or recommendation from Deloitte regarding BWC's role in governing the marketplace and educating employers on the group-rating process.

Therefore, BWC plans to work with stakeholders, study this issue and report to the board on the need for creating a "How to Buy Group Rating" guide by March 31, 2009. In addition, the agency requests approval to report to the board on creating a complaint process and perhaps other potential mechanisms that would enhance education among employers considering group rating.

[IV.F] Study strategies to strengthen the workplace safety efforts of groups

The statute governing group rating requires groups to demonstrate they substantially improve accident prevention and claims management among member employers. Undoubtedly, there are groups that do an effective job and easily satisfy their efforts to satisfy this portion of the law.

However, approximately 31 percent of active, group-rated employers sustained a claim during the 2006 policy year. Comparatively, only 13 percent of active, non-group employers had a claim during the same period (4.J). This suggests even more could be done to strengthen safety efforts of groups.

BWC would like to examine ways to connect personnel from the Division of Safety & Hygiene with group sponsors to improve safety of member employers. This could include, among other things, creating objective, measurable safety plans or requiring businesses to participate in a set number of hours of safety training annually. In addition, BWC would like to consider any findings or recommendations from Deloitte on these matters.

Therefore, BWC requests approval to work with stakeholders, study this issue and report to the board on the need for a safety strategy by June 30, 2009.

Section V
External stakeholder involvement

BWC realizes the significance of the proposed plan and the impact it will have on Ohio's workers' compensation system. Throughout the past seven months, the agency has made every effort to communicate with external stakeholders. BWC listened to their feedback and provided realistic expectations in a transparent fashion.

Since February, BWC has held approximately 40 workgroup sessions and individual meetings with various sponsors and TPAs.

These meetings have been very beneficial. BWC has not only listened to the suggestions from stakeholders but also incorporated many of their ideas as part of this plan. These include:

- Capping premium increases for employers affected by credibility table changes at 20 percent;
- Capping significant premium increases for employers, particularly those eliminated from group;
- Creating new performance-based programs that allow for all Ohio employers to be served effectively;
- Working with an outside actuary hired by a coalition of sponsors and TPAs;
- Eliminating a provision that restricts groups from revoking group membership for employers that misrepresent themselves; and,
- Continuing to study rules and group continuity options.

The continued working relationships that BWC establishes with external stakeholders will dictate, in part, to the success of this plan. BWC worked internally to develop a comprehensive plan to improve rate equity and stability. However, it has reached out for external support in defining these details. Many of the above recommendations, especially with respect to the group-rating rules, continuity and programs, are simply concepts. We would like to continue to explore these ideas in partnership with sponsors and TPAs.

BWC expects to develop a series of workgroups to address each of the outstanding areas that it will bring to the board as they are developed. They include:

- Developing details for new programs and products;
- Defining rules and continuity options for Ohio's group-rating program; and,
- Continuing to study parameters in advance of implementing a split experience-rating plan.

In their entirety, this series of recommendations will create significant changes for all employer segments. A clear, unified message will allow for an easier transition throughout the implementation process. Through a continued relationship between BWC and the appropriate external stakeholders, both parties can work toward creating a set of programs and policies that will benefit all Ohio employers.

Section VI
Conclusion

If BWC is successful in implementing this plan, Ohio will benefit from an actuarially sound workers' compensation system. The system will provide performance- and incentive-based programs for all employers. The split experience-rating plan will allow BWC to more accurately predict an employer's future expected losses by identifying those companies with higher injury rates and more costly claims. BWC will use the information to create an array of options designed to reduce costs. This will include cultivating effective accident-prevention and claims-management strategies. Collectively, these changes will enable BWC to charge the right rate to the right risk. More importantly, this plan will allow workers' compensation to work for all employers and their workers

For employers that are in group, BWC will control premium increases throughout the transition to split plan. BWC will accomplish this by:

- Preserving competitive discounts in the group rating program;
- Instituting a 20-percent cap to limit premium increases;
- Creating a safety-dividend program, which may allow these employers to earn a dividend in addition to receiving premium discounts; and,
- Reducing base rates by an estimated 23-27 percent.

For those businesses not in group, BWC will provide improved services and programs, which allow for greater choice in controlling costs and improving safety in the workplace. These include:

- Creating a deductible program that allow employers to reduce premium costs in exchange for effectively managing claims costs;
- Instituting performance-based programs that all employers to earn a dividend; and,
- Reducing base rates by an estimated 23 percent to 27 percent.

Finally, for companies that lose their group discount, BWC will devise a series of programs to help employers to more effectively absorb increases and manage premium costs. These include:

- Instituting an EM cap to limit significant premium increases;
- Creating a deductible program that allow employers to reduce premium costs in exchange for effectively managing claims costs;
- Instituting performance-based programs that all employers to earn a dividend; and,
- Reducing base rates by an estimated 23 percent to 27 percent.

BWC believes this plan will provide greater premium stability and improve service for employers across the rating continuum. It will offer appropriate incentives for businesses to improve their standing. It will also organize how BWC, sponsors and TPAs manage individual policies.

This plan will restore the promise of Ohio's system by improving consistency, being fair to its customers and pricing itself competitively. These collective efforts will strengthen the state's economic vitality and make Ohio a national leader in workers' compensation.

Exhibits

The following exhibits are available online at:
http://www.ohiobwc.com/home/current/releases/2008/GroupExhibits.asp

Exhibit 1: Oliver Wyman Stakeholder Session Materials

1.A. April 2, 2008 – Split Plans for Experience Rating – Stakeholders Meeting
1.B. May 7, 2008 – Experience-Rating Plan Update – Stakeholder's Session
1.C. May 14, 2008 – Experience-Rating Plan Update – Stakeholder's Session
1.D. May 22, 2008 – Experience-Rating Plan Continued – Stakeholder's Session
1.E. May 28, 2008 – Experience-Rating Plan – OBWC Educational Session
1.F. June 2, 2008 – Experience-Rating Plan Continued – Stakeholder's Session
1.G. June 10, 2008 – Experience-Rating Plan Options and Considerations

Exhibit 2: Oliver Wyman Draft Materials

2.A. Development of a Split Plan for Experience-Rated Private Employers
2.B. Summary of Split-Plan Impacts – Plan 10N
2.C. June 16, 2008 – Stability Testing of the Experience-Rating Plans
2.D. June 17, 2008 – Premium-Capping Impacts of the Transition to a New Experience-Rating Plan
2.E. June 19, 2008 – Loss Ratios by Group Status – Policy Year 2005 Data
2.F. June 17, 2008 – Loss Ratios by Group Status – Policy Year 2005
2.G. Plan 10N – Summary of Split-Plan Impacts

Exhibit 3: BWC Stakeholder Session Materials

3.A. March 7, 2008 Split Plan Group-Rating Workgroup Update
3.B. June 10, 2008 Improving Ohio's Experience-Rating Plan

Exhibit 4: Other Materials

4.A. November 2007 Workers' Compensation Board of Directors Meeting Minutes
4.B. Ohio BWC State Insurance Manual 2007 – 2008
4.C. Manual Override Special Audit
4.D. ABC's of Experience Rating
4.E. Ohio's Group-Rating Program
4.F. Group-Retro Correspondence
4.G.1 March 1990 Mercer, Meidinger, Hansen
4.G.2 March 1991 Mercer
4.G.3 October 1993 Mercer
4.G.4 August 1994 Mercer
4.G.5.A. July 1995 Mercer
4.G.5.B. July 1995 Mercer
4.G.5.C. July 1995 Mercer
4.G.6 August 1995 Mercer
4.G.7 May 2001 MMC Enterprise Risk
4.G.8 August 2004 Mercer
4.H. Ohio Revised Code 4123.34 Solvency of Funds – Premium Rates
4.I. Ohio Administrative Code 4123-17 General Rating for the State Insurance Fund
4.J. Policy Year 2006 Claims Counts
4.K. Off Balance Comparisons
4.L. Plan Options and Comparisons
4.M. NCCI Manual Classification
4.N. 2005 Premiums