Deloitte.

Ohio Bureau of Workers' Compensation Comprehensive Study

Pricing Process: Self-Insurance

Report 1.4

Deloitte Consulting LLP
Group 1
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Contents

Executive Summary

Introduction

BWC has fairly comprehensive rules, processes and procedures for employers exiting the State Insurance Fund to self-insure. There is still some information, however, collected by other states which Ohio BWC does not collect that could help assess an employer's ability to self-insure. There are no explicit controls to prevent volatile industry segments from self-insuring, so employers in industries that are less financially stable such as Automobile might be unfit for self-insuring that otherwise would be fit for self-insurance.

The rules, processes and procedures for an employer re-entering the State Insurance Fund after self-insuring are less complete, primarily because few self-insureds terminate their self-insured status. The securitization requirements for self-insurers terminating their self-insured status are not as firm as those of several other states; this difference being somewhat driven by the different competitive environment in other states. Although the financial benefits of self-insuring are a large enough incentive for most employers to maintain their self-insured status, historically, a few employers have returned to the State Fund. When this does happen, the securitization required does not necessarily cover the former self-insured's outstanding liabilities.

Conclusions

Findings

- Lack of objective metrics in granting self-insurance privileges
- Opportunities for expansion of application criteria to enhance the assessment of an employer's ability to self-insure
- Ohio BWC does not provide a homogeneous group self-insurance program
- Employers in volatile industries might be permitted to self-insure
- Security continuation requirement upon returning to the State Insurance Fund is formulaic and does not necessarily reflect an employer's individual loss experience
- The rules and procedures for how often an employer is allowed to transition to self-insurance and back to the State Insurance Fund are loosely defined and not documented

Recommendations

- Establish objective metrics for granting self-insurance privileges
- Consider requiring an actuarial study, anti-fraud program, and safety program for granting self-insured privileges
- Consider offering a homogeneous group self-insurance program to expand Ohio BWC's product offerings
- Consider implementing industry-specific application criteria to prevent employers from self-insuring that might be less financially capable of funding such a program due to overall industry conditions
- When an employer terminates its self-insured status and returns to the State Fund, analyze the employer's outstanding liabilities on a case-by-case basis to determine the security requirements
- Define and document rules for employers transitioning multiple times between self-insurance and coverage with the State Insurance Fund

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

The Situation

Task Background

RFP Task Reference	RFP Task Description	Task Category
Section 5.1.2 #18, page 14	Evaluate the BWC rules, laws, policies and procedures for rating an employer who is self-insured and desires to return to the state insurance fund. This evaluation would include the experience modifier selected, the use of self insured experience, and the future liability for Ohio.	**Underwriting**
Section 5.1.2 #19.1, page 14	Evaluate the selection criteria used for self-insured employers. This evaluation would include the application of rules and laws in determining the employer's ability to manage and fund a self-insured program.	**Self-Insured Regulations**

Task 18 includes an evaluation the BWC rules, laws, policies and procedures for rating an employer who is self-insured and desires to return to the state insurance fund. This evaluation includes the experience modifier selected, the use of self-insured experience and the future liability for BWC.

Task 19.1 includes an evaluation of selection criteria used for self-insured employers. This evaluation includes the application of rules and laws in determining the employer's ability to manage and fund a self-insured program.

Our research and analysis also contemplates ongoing aspects of BWC's self-insurance program such as renewal, revocation (involuntary termination of self-insured status) and ongoing governance, i.e., Evaluation Board and Review Panel Audits.

Methodology

We began work on tasks 18 and 19.1 by reviewing BWC's State Insurance Fund Manual and website for the current self-insurance rules, laws, policies and procedures and identifying strengths and potential gaps. Of the State Insurance Fund Manual, we primarily reviewed sections 4123-19-01 through 4123-19-15. We then researched the rules, laws, policies and procedures of self-insurance programs in multiple states to establish a baseline of program characteristics against which to compare BWC's self-insurance program. When choosing which states to research, we considered characteristics such as whether they were a monopolistic state, their geographic proximity to Ohio, states with a similar industry base as Ohio and State Funds with significant market share.

We focused on key differences within each category between the states and compared them to BWC's program in order to address gaps. The main categories we considered were Financial Health, Security Requirements, General Risk Characteristics, Employer Organizational Structure and the Structure of the State Insurance Marketplace. We broke down these categories further to enable a full comprehensive analysis of our findings.

We then developed our recommendations based on these findings and prioritized them based on potential impact on BWC financial integrity, reputation and efficiency of the self-insurance application process.

In order to establish a baseline and further our understanding of the BWC self-insurance application process, we created a current state diagram that appears in Appendix B. This diagram outlines BWC's current self-insurance application, renewal, return to State Insurance Fund and monitoring processes. Later in this study, we will look at how our research and subsequent recommendations affect workflow.

Primary Constituents

- Ohio Injured Workers
- BWC
  - Administrator/CEO
  - Chief Actuary and Actuarial Department
  - Employer Management
  - Employer Consulting
  - Safety & Hygiene
  - Self-Insurance Department
  - Claims
  - Legal Department
- Self-Insured Employers Guaranty Fund
- State Insurance Fund
- Governor’s Office, State Legislature
- Self-Insured Employers
- BWC Insured Employers
- Excess Insurers
- Surety Bond Administrators
- Medical Community
- TPA Community

Information and Data Gathered

Interviews

- BWC Administrator/CEO
- Assistant Director - Actuarial Department
- Director - Self-Insurance Department
- Supervisor - Self-Insurance Department
- Chief Actuary – Actuarial Department
- Actuarial Supervisor - Actuarial Department
- Bankruptcy Attorney – Legal Department

Information/Data Request

We considered the following information collected from BWC and other states in order to generate our recommendations:

- Conference Call on April 1, 2008; Guaranty Fund Assessments, Security Requirements and Financial Review of self-insured entities
- Onsite meeting at BWC on April 9, 2008 with Larry King and Dave Boyd discussing current processes for handling self-insured status requests
- Conference Call on April 30, 2008; Discussion with Bankruptcy Lawyer on handling of defaulted self-insured employers
- Reference materials received from BWC (including the Ohio State Insurance Fund Manual)
- BWC Website – http://www.bwc.state.oh.us/employer/services/SelfInsured.asp
- Information collected on other state funds or labor and industry departments
  - CA http://www.securityfund.org/summary_of_requirements.html
    http://www.groupworkcomp.com/faq.html
    http://www.dir.ca.gov/t8/ch8sb2a10.html
  - IL http://www.iwcc.il.gov/rules.pdf
    http://www.ilga.gov/legislation/ilcs
  - IN http://www.in.gov/workcomp/self-insured/
  - KY http://www.lrc.state.ky.us/KRS/304-50/CHAPTER.HTM
    http://www.comped.net/ad_regs_display.php?ID=1687
  - MI http://www.michigan.gov/wca/0,1607,7-191-26927---,00.html
    http://www.state.mi.us/orr/emi
  - NE http://www.wcc.ne.gov/publications/rules69-76.pdf
  - NY http://www.wcb.state.ny.us/content/main/SiLr/selfins_wc.jsp#individual
  - ND https://www.workforcesafety.com/employers/claimsFaq.asp
  - PA http://www.dli.state.pa.us/landi

http://www.pacode.com/secure/data/034/chapter125/chap125toc.html

- TN http://www.state.tn.us/sos/rules/0780/0780-01/0780-01-54.pdf
- TX http://www.tdi.state.tx.us/wc/si/index.html
  http://www.capitol.state.tx.us/tlodocs/78R/analysis/pdf/HB02095E.pdf
- WA http://apps.leg.wa.gov/WAC/default.aspx?cite=296-15
- WV http://www.wvinsurance.gov/wc/selfinsurance/index.htm
- WY http://wydoe.state.wy.us/doe.asp?ID=9

Review and Analysis

Benchmarking

Pursuant to the characteristics described above, we surveyed California, Illinois, Indiana, Kentucky, Michigan, Nebraska, New York, Pennsylvania, Tennessee, Texas, Washington and West Virginia. We included West Virginia in our study despite its recent privatization but we did not include Wyoming or North Dakota as neither of these states allows self-insurance. Washington is listed immediately after Ohio in the following tables for ease of comparison between the only two existing monopolistic states that permit self-insurance.

The following analysis highlights key differences between BWC practices and those of other states, and complete documentation of other states' practices, including a more comprehensive listing with sub-categories, is available in the attached spreadsheet.

The major categories considered in determining an employer's qualification for becoming self-insured include Financial Health, Security Requirements, General Risk Characteristics, Employer Organizational Structure and the Structure of the State Insurance Marketplace. For employers that wish to return to the State Fund or Commercial Marketplace from being self-insured, we primarily found criteria relating to Security Requirements.

Task 19.1 – Self-Insurance Application Criteria

Employer's Financial Health

Our research found that the states we surveyed consider several factors in evaluating an employer's financial health. These include a review of information found in an employer's Financial Statements including: Financial Ratios, Assets and Surplus, and Profits and Earnings. All of the states surveyed require an analysis of audited financial statements as part of the application process.

The key differences found were that some states have specific financial ratio, asset and earnings requirements as outlined below. Some states, much like Ohio, review ratios and assets as part of their evaluation, but are subjective in their criteria in determining whether an employer is financially viable to self-insure.

State	Financial Ratio Requirements
Ohio	Subjective Analysis of Ratios
Washington	Liquidity ratio at least 1.3 to 1 Debt to net worth ratio no more than 4 to 1
California	Subjective Analysis of Ratios
Illinois	Current ratio (Current Assets/Short-Term Liabilities), Capital and retained earnings to sales, and capital retained earnings to long-term debt are rated on a point system
Indiana	Subjective Analysis of Ratios
Kentucky	Subjective Analysis of Ratios
Michigan	Subjective Analysis of Ratios
Nebraska	Subjective Analysis of Ratios
New York	Subjective Analysis of Ratios
Pennsylvania	Subjective Analysis of Ratios
Tennessee	Subjective Analysis of Ratios
Texas	Qualifying tangible net worth ratio of 1.5 to 1
West Virginia	Current Ratio (Current Assets/Short-Term Liabilities) at least 1:1, must have at least 3 of the 6 profitability and solvency ratios fall within industry median

State	Assets and Earnings Requirements
Ohio	Subjective Analysis of Assets and Earnings
Washington	Assets of $25 million or more, 2 out of the last 3 years positive earnings
California	Equity of $5 million or more and average net profits of at least $500,000 for 5 years
Indiana	Subjective Analysis of Assets and Earnings
Illinois	Subjective Analysis of Assets and Earnings
Kentucky	Equity of $10 million or more
Michigan	Combined assets of at least $1 billion
Nebraska	Subjective Analysis of Assets and Earnings
New York	Subjective Analysis of Assets and Earnings
Pennsylvania	Subjective Analysis of Assets and Earnings
Tennessee	Positive Working Capital and net worth
Texas	Credit Ratings as follows: D&B 3A1 or better, S&P BBB or better, Moody's BAA or better
West Virginia	Positive and stable trends in assets and earnings over several years

Employer's Excess Insurance and Security Requirements

Our research found that the states listed below explicitly require that self-insuring employers obtain excess insurance and/or additional security for self-insured employers in order to protect the Guaranty Fund. Much like Ohio, many states were found to have subjective criteria for determining the requirement and calculation of the security amount. Results from Task 19.2 provide more details on a recommended surety calculation.

The following chart outlines the key differences in security requirements among the surveyed states. Many states require some form of additional security in order for an employer to become self-insured. BWC does not require self-insurers to purchase excess insurance, although some other states require this. In most cases, Ohio BWC does not require security in addition to the Guaranty Fund assessment.

State	Excess Insurance Requirements	Security Requirements
Ohio	Not required, but if purchased, retention must be at least $50,000 per loss. Aggregate excess (or excess of aggregate) insurance is not permitted.	If additional security is required, employer is generally denied the self-insurance privilege. Otherwise, additional security is calculated subjectively.
Washington	Not required for individual self-insurers, but required for groups. If purchased, the reinsurance company may not participate in the administration of claims, and the reinsurance may not exceed 80 percent of the employer's liabilities.	Can be cash, corporate or government securities, surety bond, letter of credit, bank must be in WA, limit varies based on actuarial analysis of loss history.
California	Individual – not required.	Post and maintain a minimum security deposit of $220,000 or more depending on future liabilities
Illinois	Optional, unless required by Chairman.	Security deposit of approx. $200,000 required, with reassessment each year
Indiana	May be required as a condition of approval, limits and retentions are determined by the board.	Surety bond of at least $500,000 or two times the average of 3 year losses and total unpaid compensation liability, whichever is more
Kentucky	Excess insurance of either Statutory or at least $10 million per occurrence, retention of $1 million or less.	Minimum Surety Bond of $500,000
Michigan	Specific excess insurance is required for all self-insurers, aggregate limits may be required.	Surety Bond or Letter of Credit of at least $100,000
Nebraska	Excess Insurance is required for all applicants except some political subdivisions, limit is statutory.	Security is required for all applicants except some political subdivisions, can be surety bond or trust, minimum of $500,000 or calculated loss reserves, whichever is greater
New York	Specific excess insurance is required in an amount acceptable to the Workers Compensation Board. It may be waived at the request of the applicant. Aggregate Excess insurance is not required.	Minimum security deposit of $858,000, effective 7/1/08. Determined by current payroll, class codes and rates

State	Excess Insurance Requirements	Security Requirements
Pennsylvania	Excess Insurance is only required in certain cases where employers may not meet minimum self-insurance requirements.	Amount of security is no less than the amount of the applicant's total greatest annual incurred losses during the 3 policy years prior to application plus a security constant, security can be in the form of a surety bond, security deposit or letter of credit
Tennessee	Excess insurance is required and should contain both specific and aggregate features. Amount is determined by a qualified actuary.	Individual – Minimum of $500,000 or 125% of incurred losses, whichever is greater. Acceptable forms are security bonds, letters of credit, certificates of deposit, or negotiable securities.
Texas	Excess insurance is required in the amount of $5 million or more per occurrence.	Minimum of $300,000 or 125 percent of the applicant's incurred liabilities for compensation, whichever is greater. Form of security can be a surety bond, cash, or irrevocable letter of credit.
West Virginia	Not required. However, self-insurers must either (1) elect to subscribe to the state's catastrophic risk coverage, or (2) furnish a catastrophe security, bond, or excess insurance policy approved by the commission. A self-insured employer must provide 15 days' notice of any change in its excess insurance, including cancellation. Premium taxes will not be charged on excess insurance.	Minimum security of $1 million for certain employers as determined by the board.

Risk Characteristics

Our research found that risk characteristics used by the states to qualify employers for self-insurance varies greatly. Most states require common exposure details such as name, address, Federal ID Numbers, payroll and number of employees.

The following chart outlines the key differences in size, experience and loss/claim data criteria among the states in which we found such information. Unlike Ohio, many states do not have minimum employee requirements, however, they ensure only large employers qualify for self-insurance by having a minimum asset requirement. With regard to experience, many states require employers to have been in business for a given length of time, however, unlike Ohio, there is no minimum experience requirement with the subject state insurance marketplace. Most states have loss and claim history requirements.

State	Size	Experience	Loss/Claim Data
Ohio	Minimum 500 Employees	2 years experience with BWC	Available from the State Insurance Fund records
Washington	No specific minimum	3 years in business	By July 1, 2008, all self-insurers must begin submitting claim information to L&I once a month using the new SIEDRS (pronounced "ciders").
California	No specific minimum	No requirement found	Annual report of claims detail, number of employees and total wages
Illinois	No specific minimum	3 years of operating experience	3 years of detailed loss runs
Indiana	No specific minimum	5 years of continuous operations	3 years of loss history
Kentucky	No specific minimum	No specific requirements	5 years of loss history
Michigan	No specific minimum	5 years in business	3 years of loss history
Nebraska	Minimum 100 Employees	5 years in business under current corporate structure	5 years of loss history
New York	No specific minimum	No specific requirements	5 years of full loss details including breakout of claims and open reserves along with current experience modification factors, actuarial study required
Pennsylvania	No specific minimum	3 years in business	3 years of paid and incurred loss experience, valued within 3 months of application
Tennessee	No specific minimum	No specific requirements	Past 3 experience modification factors, or defaults to 1.00 if there is no experience modifications, actuarial study required
Texas	No specific minimum	No specific requirements	3 years of claims information and estimate of future losses
West Virginia	No specific minimum	No specific requirements	Before becoming self-insured, applicant must satisfy all outstanding claims with the State Fund

Administration and Documentation Requirements

Most states we surveyed have requirements regarding claims administration. Some require that whoever serves this function be located within the state in which the employer is self-insured, and most have specific requirements around the qualifications of a claims administrator, whether it be a TPA or within the self-insured company. We also found that several states require some form of documentation from the self-insured employer outlining the organizational structure of the company (e.g., Corporation, Partnership, LLC, etc.) and also how the decision was made to self-insure. Only Tennessee has a specific requirement around claim mitigation in that they require self-insured employers to have a completed and approved anti-fraud program.

Ohio is consistent with what we found in other states, and appears to have more stringent guidelines in terms of administration of claims. Ohio does have documentation guidelines though these guidelines exclude some of the requirements found in other states. The following chart outlines the key differences we found.

State	Administration of Claims	Employer Documentation
Ohio	Demonstrate ability to administer the SI program itself or must use an Ohio administrator Must have an account with a financial institution in Ohio or draw compensation checks from the same account as the payroll checks	Active senior management leadership Employee involvement Return-to-work practices Communications affecting employee safety and health Claims reporting practices Coordination of safety and health practices Training Written and communicated safe work practices Written safety and health policy Record keeping
Washington	In-State administrator required	No specific requirement for individual self-insurers
California	Claims must be administered through the services of a competent person or persons located in CA. Competence may be demonstrated by passing the SI Administrator's Examination	No specific requirement
Indiana	TPA is not required to be in-state	No specific requirement
Illinois	TPA is not required to be in-state	Safety Program required
Kentucky	Application requires information on self-insurance administrator (as applicable); Managed care/utilization review provider that is authorized per regulations	Self-Insured Guarantee Agreement for all subsidiaries that are to be included for self-insurance. If a corporation, resolution by Board of Directors authorizing or directing self-insurance
Michigan	No specific requirement	No specific requirement for individual self-insurers
Nebraska	No specific requirement	More than 50% of voting stock has to be in favor of Self-Insurance, safety program required

State	Administration of Claims	Employer Documentation
New York	Requirement for information on group administrators, no requirements found for individual self-insured risks	Foundation documents (i.e., certificate of incorporation; partnership agreement; etc.)
Pennsylvania	No specific requirement	Safety program required
Tennessee	Fidelity bond required for administrator, TPA must satisfy certain regulations, Fidelity bond required for Service Company	Biographical affidavit of all officers and directors, approved and completed anti-fraud plan
Texas	Must utilize TPA licensed in Texas	No specific requirements
West Virginia	Employers should administer their own claims	No specific requirements

State Self-Insurance Fund Structure

Of the 13 states surveyed, several were found to have more than one guaranty fund in order to fully address the needs of the major industries and exposures within the state. Little information was found as to how assessments are calculated among the states, however, many had rules around which employers pay assessments to certain funds.

Much like many other states, Ohio has separate funds based on industry type, and assessments are based on an individual employer's hazard level and losses. The following chart outlines the structure of guaranty funds and assessments among the states in which we found information.

State	Guaranty Funds	Assessments
Ohio	General Guaranty Fund, Marine Industry Fund and Coal-Workers' Pneumoconiosis Fund	Assessment between 6% and 12% depending on risk characteristics and losses
Washington	Insolvency Fund Assessment	Assessed quarterly based on total reported claims costs
California	General Guaranty Fund Only	Assessments are prorated among members, subject to an annual maximum of 2% of the benefits a member has paid as claims in the previous calendar year
Illinois	Self-Insurers Security Fund, Rate Adjustment Fund, Second Injury Fund and Commission Operations Fund	Individual – Not to exceed 1.2% of benefits paid in preceding calendar year
Indiana	Workers Compensation Supplemental Administrative Fund – there is no state fund	No assessments, only application fees paid at initial application and renewal
Kentucky	Separate Guaranty Fund for Coal and non-Coal risks	Employers pay assessments to their applicable Guaranty Fund only
Michigan	Self-Insured Security Fund	Various ranges and amounts, recalculated each year
Nebraska	Workers Compensation Trust Fund	2 percent of workers compensation benefits paid in Nebraska during the preceding calendar year. All fund assessments are subject to a minimum of $25. When assessments reach $2,300,000, assessments cease until fund is depleted to $1,200,000, at which point assessments begin again
New York	No Guaranty Fund – individual security only	All of the costs associated with administering the self-insurance program are billed back to the self-insurance community through the WCB's assessment process
Pennsylvania	WC Administration Fund, WC Supersedeas Fund, Subsequent Injury Fund and SI Guaranty Fund	Average assessment is between 4-5%. Self-Insured employers pay to all funds
Tennessee	Separate pools for Individual and Group Self-Insured Employers, Uninsured Employers Fund	Assessed at the rate of 4.4% pursuant to regulations

State	Guaranty Funds	Assessments
Texas	Texas Certified Self-Insurer Guaranty Trust Fund	No specific requirements
West Virginia	Security Pool, Guaranty Pool	All active self-insured employers and inactive self-insured employers with active claims pay to the Security Pool and only active self-insured employers pay to the Guaranty Pool

Group Self-Insurance

We found many states that offer group self-insurance in order to accommodate the diversity of employers who may wish to self-insure. This offering is highly concentrated in states that have a competitive market. Some states do not allow group self-insurance for several reasons, including the perception of group self-insurance as an unfavorable exposure due to increased risk of fraud, marginal qualification and adverse selection.

Ohio does not offer group self-insurance. Washington, the only other monopolistic state that offers self-insurance, does not allow group self-insurance except for two specific industry segments. The following chart shows the states that offer group self-insurance as well as their respective eligibility and documentation requirements.

State	Eligibility Requirements	Documentation Requirements
Ohio	Does not allow group self-insurance	N/A
Washington	Must be a public or non-profit hospital or a school district	Generally no
California	Medium sized, homogeneous employers	Strong financials, excess insurance with maximum attachment point of $500,000, some additional security, feasibility study and indemnity agreement
Illinois	2 or more employers with homogeneous risk characteristics or that are members of a bona fide professional, commercial, industrial, or trade association with homogeneous risk characteristics. Gross annual payroll of members must be at least $10 million	Aggregate loss history of at least 3 years, safety and loss control programs, pooling agreement, administrator information, plans of operation
Kentucky	11 or more employers having common interests or membership in a bona fide trade association	Description of group members common ownership, articles of association and incorporation, trust agreement or bylaws, indemnity agreement, excess insurance of at least $2 million or 50% of earned premium aggregate, and $25 million specific, surety deposit of at least $250,000 and fidelity bond of $300,000, combined net worth of $5 million or more, first year premium of at least $750,000

State	Eligibility Requirements	Documentation Requirements
Michigan	Permitted for small employers in the same industry and belong to the same trade organization with combined assets of $1 million or more	Indemnity agreement and proposed bylaws, specific and aggregate excess insurance as determined by the WC Agency, Fidelity Bond of at least $1 million, Surety Bond or Security endorsement
New York	Groups are established by industry	Trust Agreement and Bylaws, description of the safety program, if any, information about trustees
Pennsylvania	5 or more homogeneous employers with aggregate net worth of no less than $1 million. Combined annual premium of $600,000 or more	Financial statements of each member whose group contribution is 10% or more, explanation of homogeneity of the group, schedule of projected expenses and contributions, trust agreement and bylaws, excess insurance, various policy statements
Tennessee	10 or more employers of the same trade or professional association. Estimated annual standard premium of at least $1 million	Each member must provide financial statements, complete loss data for 3 years and current experience modifier. Administrator and Service Company must provide a Fidelity Bond. Certification from a qualified actuary of adequate reserves, specific and excess insurance
Texas	5 or more employers in the same or similar business and are members of an existing bona fide trade association	Excess insurance of at least $5 million per occurrence, $500,000 performance bond by the administrator, financials, combined net worth of at least $1 million, initial annual premium of $250,000 and $500,000 in subsequent years

Task 18 – Self-Insured Employers Returning to the Commercial Marketplace

Requirements for Returning to the Commercial Marketplace

Our research found that many states, unlike Ohio, require a specific security deposit or surety continuation.

Ohio currently treats self-insured employers who wish to return to the State Insurance Fund as new businesses applying for coverage for the first time. The following chart outlines our findings.

State*	Rules of Return from Self-Insurance to Commercial Market
Ohio	Employer assessment calculated on the basis of the paid compensation for such claims attributable to the individual self-insuring employer, employer must re-apply as if they are a new employer applying for coverage with the State Insurance Fund
Washington	Must pay benefits on claims incurred during its period of self-insurance, file quarterly and annual reports as long as quarterly reporting is required, pay insolvency trust assessments for three years after surrender or withdrawal of certificate, pay all expenses for a final audit of its self-insurance program, provide surety at the department required level. A former self-insurer may ask the department to release it from quarterly reporting after it has had no claim activity with the exception of pension or death benefits for a full year. Surety will not be reduced from the last required level (while self-insured) until three full calendar years after the certificate was terminated. A bond may be cancelled for future obligations, but it continues to provide surety for claims occurring prior to its cancellation
California	A self-insured employer that becomes insured may be subject to assessments for up to 5 years after leaving self-insurance
Illinois	There is no state fund in Illinois, however, if an employer wants to withdraw from self-insurance, they are required to continue paying assessments into the Self-Insurers Security Fund, Second Injury Fund and Rate Adjustment Fund. State will hold Security for 3 years until all claims have been cleared
Indiana	Surety must be continued for at least 3 years from the last date of self-insurance. Employer may request reduction after 2 years, but decision to grant a reduction will be based on currently active claims and claims that have been closed within the past two years
Kentucky	If entity leaves self-insurance program they will be required to maintain their current surety amount for a period not less than two (2) years with the Office of Workers Claims. After this two year period, the Office of Workers Claims may reduce the amount of surety on file, with a written audit request
Nebraska	Must maintain current surety amount for a period not less than two (2) years. After this two year period, the entity may request a reduction in the surety amount. Loss runs, financials and other factors will determine eligibility for a reduction
New York	The Board will maintain the security deposit for discontinued self-insurers until all claims, expenses and assessments have been fully paid
Pennsylvania	Must maintain security for a minimum of 1 year after return to state fund, or provide a certificate of insurance showing insured status with an authorized workers compensation carrier. Actuarial report required to determine outstanding obligations. Amount of security is determined by outstanding liability plus a standard additive calculated by formula

Tennessee	Minimum security of $500,000. May be in the form of one of the following: Negotiable Securities, Certificate of Deposit, Surety Bond or Letter of Credit
Texas	Security deposit of $300,000 or more is forfeited. Must keep security of at least $300,000 in place indefinitely, may request a reduction over time, but never below $300,000

*No documentation was found for Michigan or West Virginia

Conclusions

Findings

Issues found with the process of reviewing applications for employers to self-insure:

- The lack of objective metrics in granting self-insurance privileges allows for potential inconsistencies in application processing
- Primary differences between Ohio BWC self-insurance application criteria and that of other states are that Ohio BWC does not require the following: actuarial study, anti-fraud program and safety program
- One service that Ohio BWC does not provide but other states provide is a homogeneous group self-insurance program
- Certain industries are particularly less fit to fund a self-insurance program due to their precarious financial condition

Issues found with the process of admitting self-insureds back into the State Insurance Fund:

- Although the movement of self-insured employers back into the State Fund is minimal, the lack of employer-specific security continuation requirements results in a misalignment of outstanding liabilities and required security
- The rules and procedures for how often an employer is allowed to transition to self-insurance and back to the State Insurance Fund are loosely defined and not documented

Performance Assessment

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

For these performance assessments, the following scoring method applies:

●	Strongly supports system performance
◕	Supports system performance
◑	Some support for system performance
◔	Some opportunity for system performance change/enhancement
○	Significant opportunity for system performance change/enhancement

Based on this scoring method, here is the performance assessment for the Pricing Process area of Self-Insurance:

Peers and Industry Standards Considered

Details on Peers/Industry Standards used: thorough research of self-insurance processes of 13 states* (including Ohio) that are monopolistic, geographically close to Ohio, have an industry base similar to that of Ohio, and/or have a large state fund.

*States include: California, Illinois, Indiana, Kentucky, Michigan, Nebraska, New York, Ohio, Pennsylvania, Tennessee, Texas, Washington, and West Virginia.

Recommendations

The following recommendations are based on our research on 13 states, including Ohio, as outlined above. We have identified potential improvements based on favorable practices we found in the other states and our experience in the insurance industry. We feel that BWC will benefit from these recommendations regarding both the self-insurance application process (19.1) and the process for self-insured employers returning to the State Insurance Fund (18). The prioritization of these recommendations is based on the level of impact their implementation will have on BWC financial integrity, reputation and efficiency of the self-insurance application process.

Task 19.1 – Self-Insurance Application Process

- **Require an Actuarial Study for Self-Insurance Applicants**. BWC should require an approved actuarial study of the applicant's Ohio exposure to more accurately determine the need for, and acceptable limits of, excess insurance and/or surety for each specific applicant. This analysis will better protect the Guaranty Fund by reducing the risk of a self-insurer defaulting. Both New York and Tennessee require an actuarial study as part of the self-insurance application process.
- **Require Additional Security for Employers Applying for Self-Insurance.** We recommend that BWC implement a security requirement in addition to the Guaranty Fund assessments for employers applying for self-insurance. This requirement should include criteria regarding the quality and types of securities, thereby providing more protection for the Guaranty Fund and lowering the risk of a self-insurer defaulting. Most states surveyed have a security requirement for employers to become self-insured.

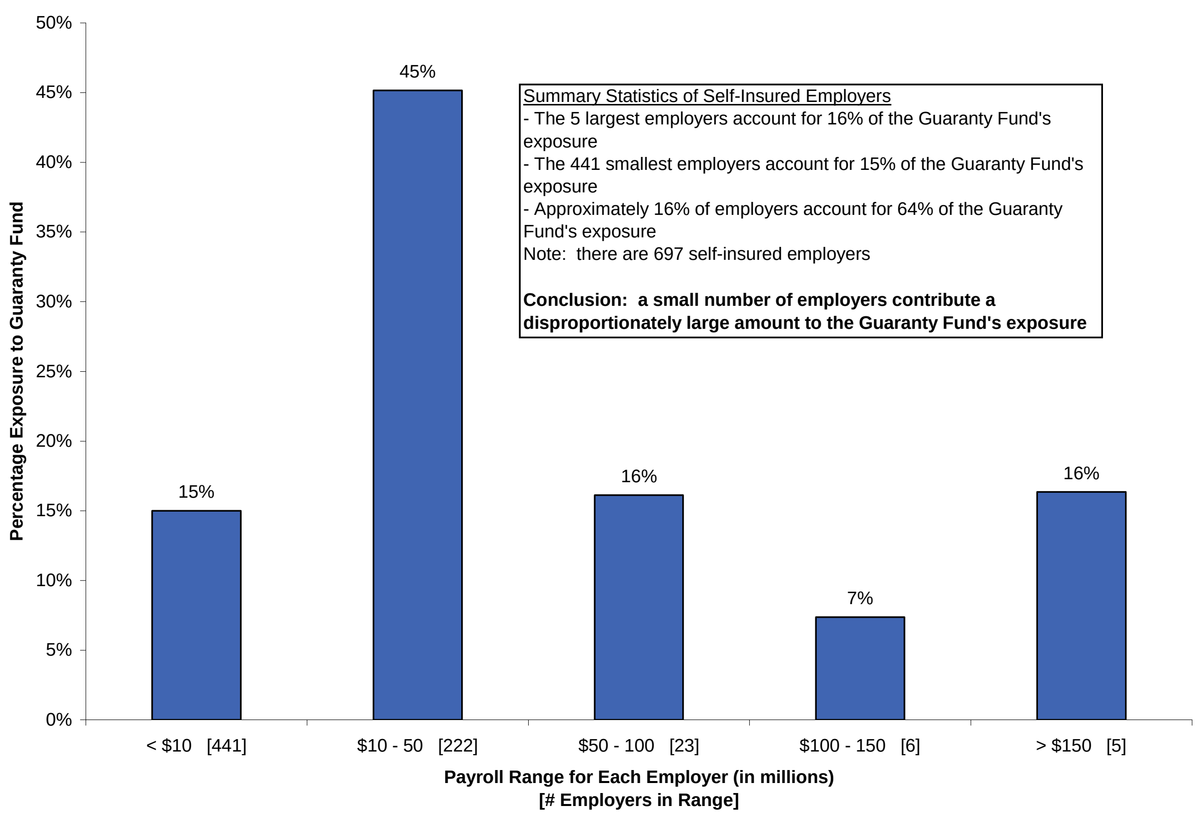
  There are differences in environment between monopolistic and competitive states. In competitive states, employers have many different insurance options; therefore, state funds must compete for quality business. This fact might cause their fund structure to differ from monopolistic states.

In order for a guaranty fund to be successful, there must be a large amount of quality (financially healthy and less likely to default) employers contributing. By implementing a requirement in addition to the guaranty fund assessment, a competitive state might open itself up to adverse selection. However, in a monopolistic state, the only two options are the state fund or self-insurance. In many cases, large employers will choose self-insurance because it is more cost efficient, regardless of whether they might be high or low quality.

- **Consider Offering Group Self-Insurance.** We recommend that BWC consider offering group self-insurance options to employers, particularly if there are changes contemplated in the current discount structure within the State Insurance Fund. Group self-insurance is a way for atypical self-insurance candidates within a particular industry to become self-insured. BWC should consider the potential disadvantages as well as advantages of this offering. Some states consider group self-insurance to be unfavorable due to a possible increase in fraud and marginal qualification, as well as adverse selection. However, group self-insurance could potentially reduce costs for the employer and create a positive public perception that the State Insurance Fund is willing to work with all employers to make sure they have another viable insurance option. There are 36 states in the U.S. that include group options as part of their self-insurance offering.
- **Consider Trends within Industries to Determine Self-insurance Criteria.** We recommend further study on which industries are more likely to apply for self-insurance and why. Industry-specific self-insurance criteria could increase accuracy in determining appropriate security requirements, financial criteria, assessments and modification factors. This will also provide insight into whether some industries may be disproportionately eroding the Guaranty Fund and consider whether a separate fund should be created. The below chart indicates that a small number of employers subject the Guaranty Fund to a disproportionately large amount of exposure.

  Some industries may choose to self-insure due to perceived high rates being charged by the State Insurance Fund. BWC could use this information in order to re-assess rates if it is determined that they may be excessive.

Exposure to BWC Guaranty Fund as a Function of Employer Size



- **Incorporate Objective Financial Criteria as Part of the Self-Insurance Application.** In conjunction with reviewing the financial statements and actuarial study in the self-insurance application process, we recommend that BWC consider implementing objective financial ratio, asset and earnings requirements for qualification. Washington, Texas, and West Virginia use objective financial ratio criteria and also look at assets and earnings trends in order to determine financial health and stability. Having specific and consistent criteria can provide a more accurate evaluation of an employer's fiscal responsibility and reduces the potential difficulties subjectivity can create. This could also help to more accurately determine excess requirements and additional security that may be needed.
- **Consider Offering Enhanced Customer Service Aid to Employers.** We recommend that BWC offer enhanced customer service to employers considering self-insurance. By helping employers review the process and possible completion of the application for self-insurance, BWC will reduce the volume of applications received and quickly eliminate applicants that will not qualify for the program. Another service that could be offered is an explanation of the audit process. This will help self-insurers understand what information will be required so that they can be prepared for an audit, therefore improving efficiency and accuracy.
- **Consider Requiring an Anti-Fraud Program as Part of the Self-Insurance Application.** We recommend that BWC consider requiring that an employer establish an approved anti-fraud program in order to qualify for self-insurance, as fraud is an important claims cost factor. The lack of anti-fraud procedures results in unnecessary hard and soft claim costs, which could significantly affect profitability, thereby increasing financial risk. Tennessee requires an anti-fraud program to self-insure.
- **Consider Requiring a Formal Safety Program as Part of the Self-Insurance Application.** We recommend that BWC consider requiring employers to have an approved safety program in order to be eligible for self-insurance. Several states surveyed – Illinois, Nebraska, and Pennsylvania – require a formal safety program as it is one of the most important and effective worker's compensation loss control methods. By making this a requirement in the self-insurance application program, BWC will ensure that employers are better managing their risk and therefore protecting the Guaranty Fund. An approved safety program reduces the risk of preventable hazards, therefore reducing costs to employers and also reducing the hazards of a particular operation.
- **Require Organization Documents as Part of the Self-Insurance Application.** Some states require submission of organization documents (i.e., certificate of incorporation; partnership agreement; etc.) as part of the application process for self-insurance. Although BWC typically receives organizational information from the Secretary of State's office as part of the review process, we feel obtaining as much information as possible about each risk helps provide a more complete understanding of entities, operations ownership and risks of an employer as a whole. These factors could affect an employer's acceptability for self-insurance, and also the security and/or excess insurance required in order to protect the Guaranty Fund. Kentucky, New York and Tennessee all require an analysis of an employer's organization as part of the application process for self-insurance.

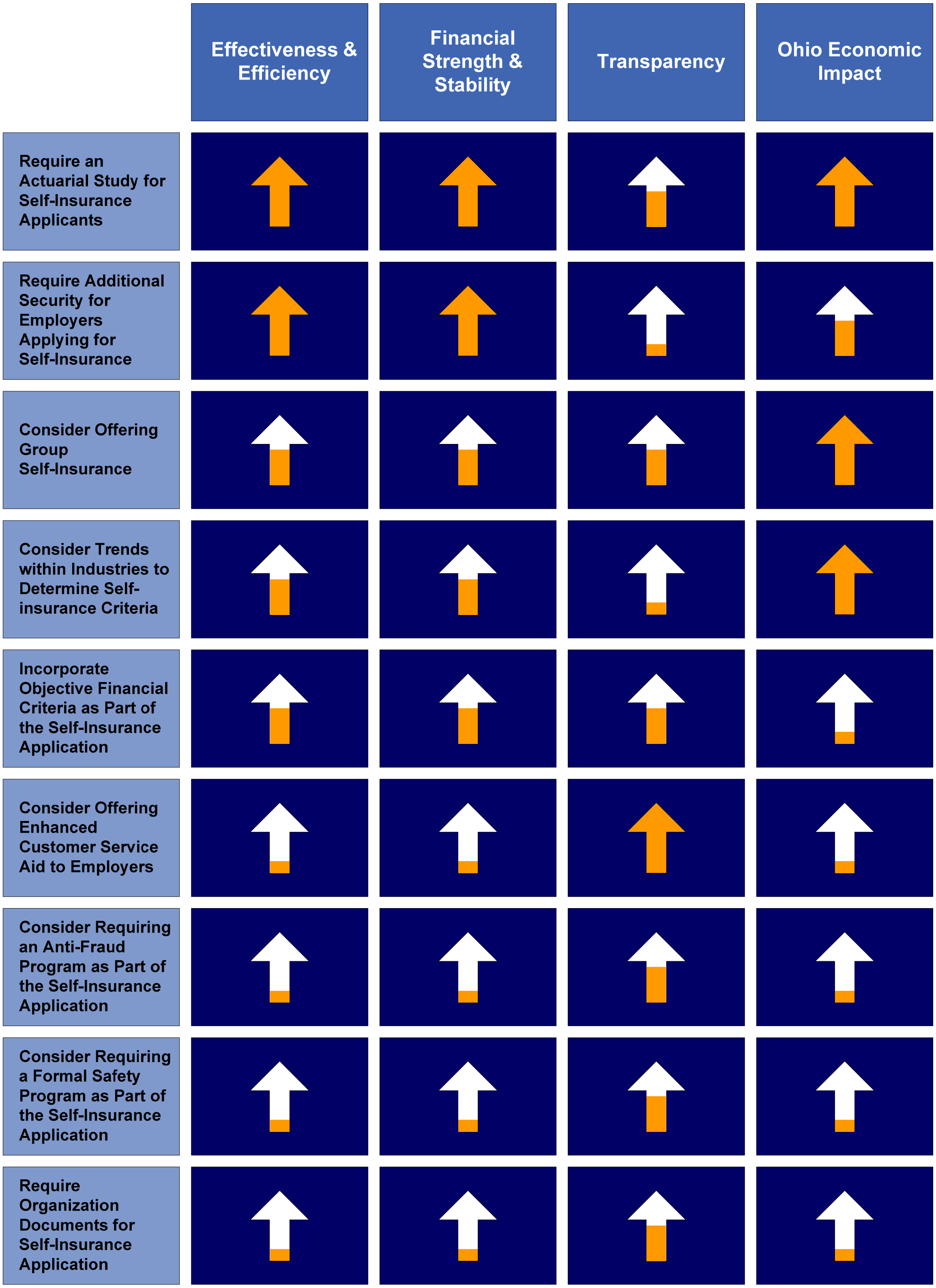
Task 18 – Self-Insurers Returning to the State Insurance Fund

- **Require an Actuarial Study for Self-Insurers Returning to the State Insurance Fund.** We recommend that BWC require an actuarial study (by a firm approved by BWC) prior to self-insurers returning to the State Insurance Fund. BWC should utilize the actuarial study to promulgate an experience modification factor (as per NCCI guidelines) and to estimate future securitization requirements. By more accurately calculating the State Insurance Fund premium and securitization, the State Insurance Fund and Guaranty Fund are protected from employers with poor loss experience and/or financial instability. This information should be reflected in the new application to re-enter the State Insurance Fund. New York and Tennessee require an actuarial study for an employer to be granted the privilege to self-insure.
- **Continuation of Security upon Returning to the State Insurance Fund.** We recommend that BWC implement a security continuation requirement for self-insured employers re-entering the State Insurance Fund in order to protect the employer and the Guaranty Fund. If a self-insured employer should return to the State Insurance Fund, they are still required to pay claims that were incurred but not reported during their self-insurance period, as well as the balance of any under-reserved previously reported claims. Therefore, it is imperative that employers continue to have sufficient funding and protection in order to pay these claims and protect the Guaranty Fund. BWC can ensure this protection by implementing a specific requirement for security continuation. Currently, it does not appear that BWC has any such requirement. Our research has found that the majority of surveyed states require a self-insured employer returning to the state fund or commercial marketplace to carry a surety bond for a defined period of time. The ongoing need for security adequacy should be reviewed at least annually by BWC. Nine of the 13 states reviewed require some form of security after an employer terminates its self-insured status.
- **Do Not Allow Self-Insurers to Leave the State Insurance Fund Multiple Times.** Although we found no evidence that an employer has switched between the State Insurance Fund and self-insurance more than once, we recommend documenting rules and requirements regarding such an event. In general, multiple exit and re-entry should not be allowed; however, the recommended documentation should contemplate unique circumstances for which an exception might be permitted. Having such business rules in place would prevent a financially unstable employer from intentionally or unintentionally having an adverse impact by re-entering the State Insurance Fund.
- **Expand Reporting Forms to Allow for More Detailed Internal Analysis.** We recommend that BWC reporting forms be expanded or supplemented in order to provide more relevant information to be used for internal analysis. This detailed loss and payroll data would typically already be recorded by the self-insurer's Third Party Administrator, and will provide the data needed for more accurate calculation of surety and excess insurance requirements. By requesting this information at the time of renewal, it will be readily available for ongoing financial monitoring or if an employer should decide or be required to return to the State Insurance Fund.

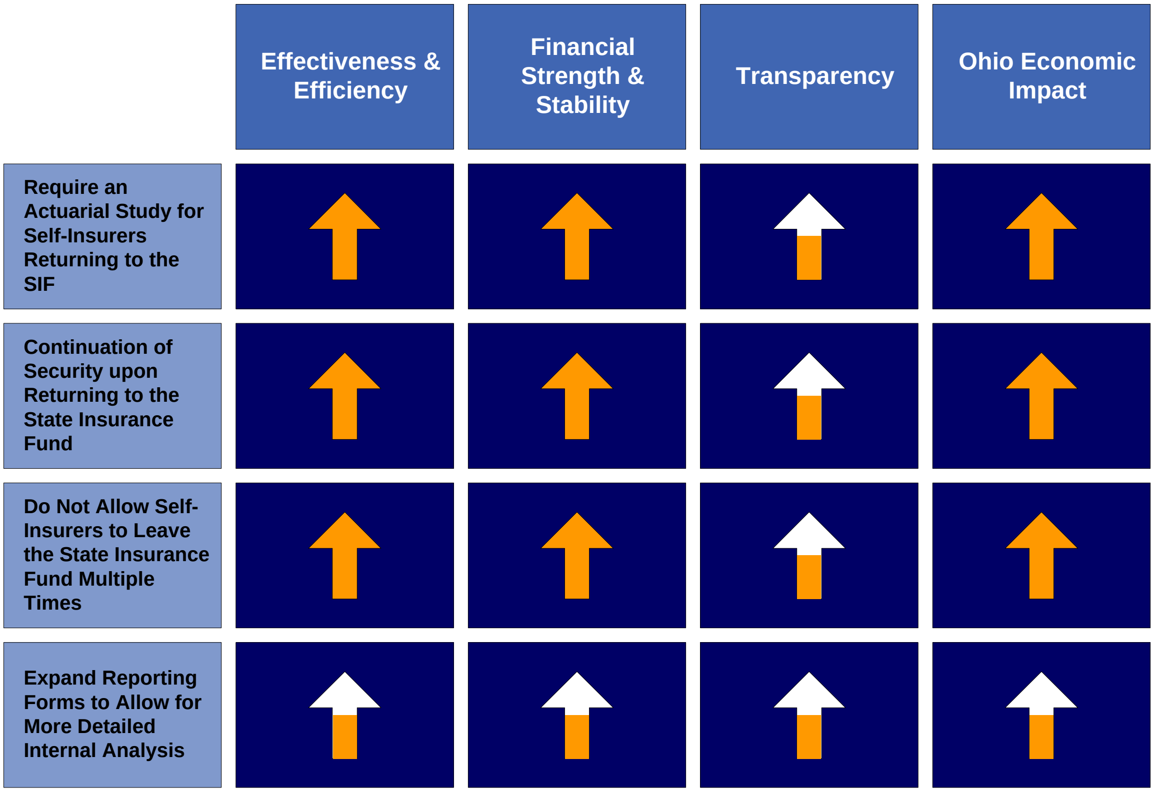
Impact

The impact (high, moderate, or low) of the recommendations for each task (19.1 and 18) as they relate to the overarching themes is shown in the following tables:

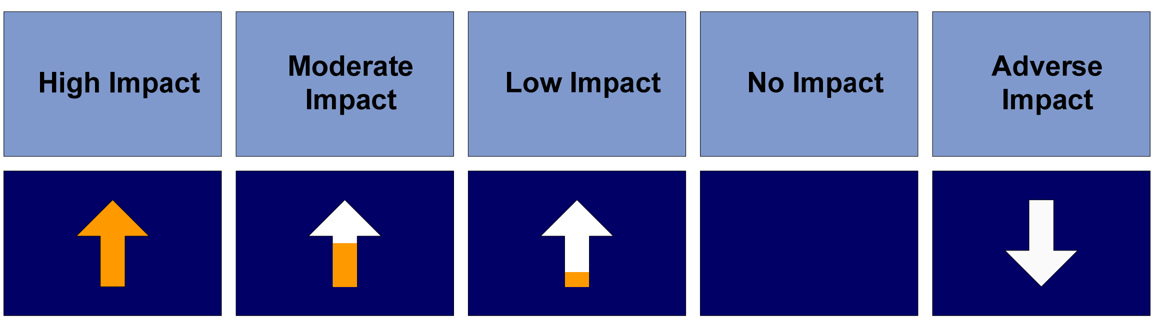
Task 19.1



Task 18



Legend



In order to best implement these recommendations, the following steps should be conducted:

1) Identify BWC Department or Individual responsible for managing the implementation of recommendations

2) Assess recommendations – determine business impact and implementation effort

- Business impact – impact on stakeholders, risk mitigation, customer service
- Implementation effort – modifications to state law, business process changes, technology impact
- Cost/Benefit Analysis of Recommendations

3) Prioritize recommendations based on the assessment

- Considering the business impact and implementation effort for each recommendation, determine the order in which to implement the recommendations

4) Develop project plan for the implementation of each assessment

- Timeline and tasks
- Resource needs
- Deliverables and milestones
- Ongoing monitoring and revisions

Appendix A – Deliverable Matrix

Group 1 Study Elements

Pricing Process
Statewide Rate Level
1) Data
a) Data quality and reliability
b) Experience period
c) Credibility
d) Payroll information
e) Paid versus incurred data
2) Methodology
3) Use of Reserves
4) ELR Comparison
5) Other
Class Ratemaking
1) Private Employer
2) Public Employer Taxing District
3) Rating Rules and Laws
Experience Rating
1) Grouping of employers for experience rating
2) Individual Experience Rating
3) Use of MIRA II
4) Possible Alternatives
Self-Insurance
1) Approval Process
2) Return to BWC
Programs
1) Premium Discount Program
2) Drug Free Workplace Program
3) Safety Council Program
4) One Claim Program
Alternative Pricing Methods

Cost Controls
Subrogation
$15,000 Medical Only Program
Salary Continuation

Financial Provisions
SIEGF
1) Sufficiency Requirements
2) Contribution Calculation Methodology
3) SIEGF Assessments
4) Surplus Fund Assessments

Pricing Process Areas

Statewide Rate Level	Tasks Involved
1) Data	1. Review and make written recommendations with regard to the private employer premium and public employer taxing district rate calculations. This review would include a complete analysis of the rating program including but not limited to the experience period, the credibility tables used, loss information including quality and reliability of the data, payroll information, the off-balance calculation, the expected loss rates, the grouping of employers for experience rating, the use of reserves in the rate calculation, the payroll inflation factors, rating rules and laws, the transparency of the rate making process, and all rating calculations. This analysis should compare the BWC's rating calculation to industry standards, other state insurance funds and monopolistic state insurance funds, actuarial ratemaking principles as promulgated by the Casualty Actuarial Society, and the Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries.
a) Data quality and reliability	
b) Experience period	
c) Credibility	
d) Payroll information	
e) Paid versus incurred data	
2) Methodology	
3) Use of Reserves	12. Review and make written recommendations on the reserving methodology used in the rate making process. This evaluation would include a review of the current MIRA reserving system, an evaluation of the new MIRA II Reserving system expected to be implemented in 2008 and alternative reserving methodologies that can be incorporated into the BWC experience rating system which will make the system more transparent. This evaluation would include the practice of reducing reserves due to certain compensation payments or the nonreserving of claims due to certain injury types.
4) ELR Comparison	24. Conduct a study of the loss rates and base rates of the Ohio BWC as compared to other states. This study would evaluate the trends in Ohio as compared to industry peers.
5) Other	1. See above.

Pricing Process Areas - continued

Class Ratemaking	Tasks Involved
1) Private Employer 2) Public Employer Taxing District 3) Rating Rules and Laws	1. Review and make written recommendations with regard to the private employer premium and public employer taxing district rate calculations. This review would include a complete analysis of the rating program including but not limited to the experience period, the credibility tables used, loss information including quality and reliability of the data, payroll information, the off-balance calculation, the expected loss rates, the grouping of employers for experience rating, the use of reserves in the rate calculation, the payroll inflation factors, rating rules and laws, the transparency of the rate making process, and all rating calculations. This analysis should compare the BWC's rating calculation to industry standards, other state insurance funds and monopolistic state insurance funds, actuarial ratemaking principles as promulgated by the Casualty Actuarial Society, and the Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries.

Pricing Process Areas - continued

Experience Rating	Tasks Involved
1) Grouping of employers for experience rating 2) Individual Experience Rating 3) Use of MIRA II 4) Possible alternatives	6. Review and make recommendations to enhance the equity of the experience-rating system and the resulting rates (public and private), including, but not limited to, discounts and dividends. This review would include analysis of the Drug Free Workplace program, the One Claim Program, the Premium Discount Program, the group rating program, and the safety council program. The analysis should include a study of the cost effectiveness of each program and an evaluation of each program with respect to industry standards.

Pricing Process Areas – continued

Self-Insurance	Tasks Involved
1) Approval Process	19. Evaluate the selection criteria used for self-insured employers. This evaluation would include the application of rules and laws in determining the employer's ability to manage and fund a self-insured program. The analysis will include suggestions for the financial evaluation performed upon application and the use of guarantees and securities to protect the Self-Insured Guaranty Fund (SIEGF).
2) Return to BWC	18. Evaluate the BWC rules, laws, policies and procedures for rating an employer who is self-insured and desires to return to the state insurance fund. This evaluation would include the experience modifier selected, the use of self insured experience, and the future liability for Ohio.

Pricing Process Areas – continued

Programs	Tasks Involved
1) Premium Discount Program 2) Drug Free Workplace Program 3) Safety Council Program 4) One Claim Program	6. Review and make recommendations to enhance the equity of the experience-rating system and the resulting rates (public and private), including, but not limited to, discounts and dividends. This review would include analysis of the Drug Free Workplace program, the One Claim Program, the Premium Discount Program, the group rating program, and the safety council program. The analysis should include a study of the cost effectiveness of each program and an evaluation of each program with respect to industry standards.

Pricing Process Areas – continued

	Tasks Involved
Alternative Pricing Methods (Described throughout)	35. Identify methods of rate setting and reserving, in addition to those already contemplated otherwise in the RFP that the administrator could use to make the rate setting and reserving process more transparent for employers and employees.

Cost Controls Areas

	Tasks Involved
Subrogation	8. Review and make written recommendations on the subrogation standards applied by the BWC. This review would include a review of legislation, the BWC subrogation collection process, the application of subrogation receipts to individual employer's experience, and the assigning of subrogated claims to individual employers.

Cost Controls Areas – continued

	Tasks Involved
$15,000 Medical Only Program	22. Conduct a study on the payment of salary continuation by employers in lieu of temporary total compensation. This study would include an evaluation of the reserve calculation to determine if the premium collected by the BWC is appropriate for the liability presented and an evaluation to determine if salary continuation is a cost effective for employers. Conduct a study on the $15,000 medical only program. This study would include an evaluation of the reserve calculation for claims in this program and an evaluation to determine if the premium collected by the BWC is appropriate, and if the program is a cost effective program for employers.

Cost Controls Areas – continued

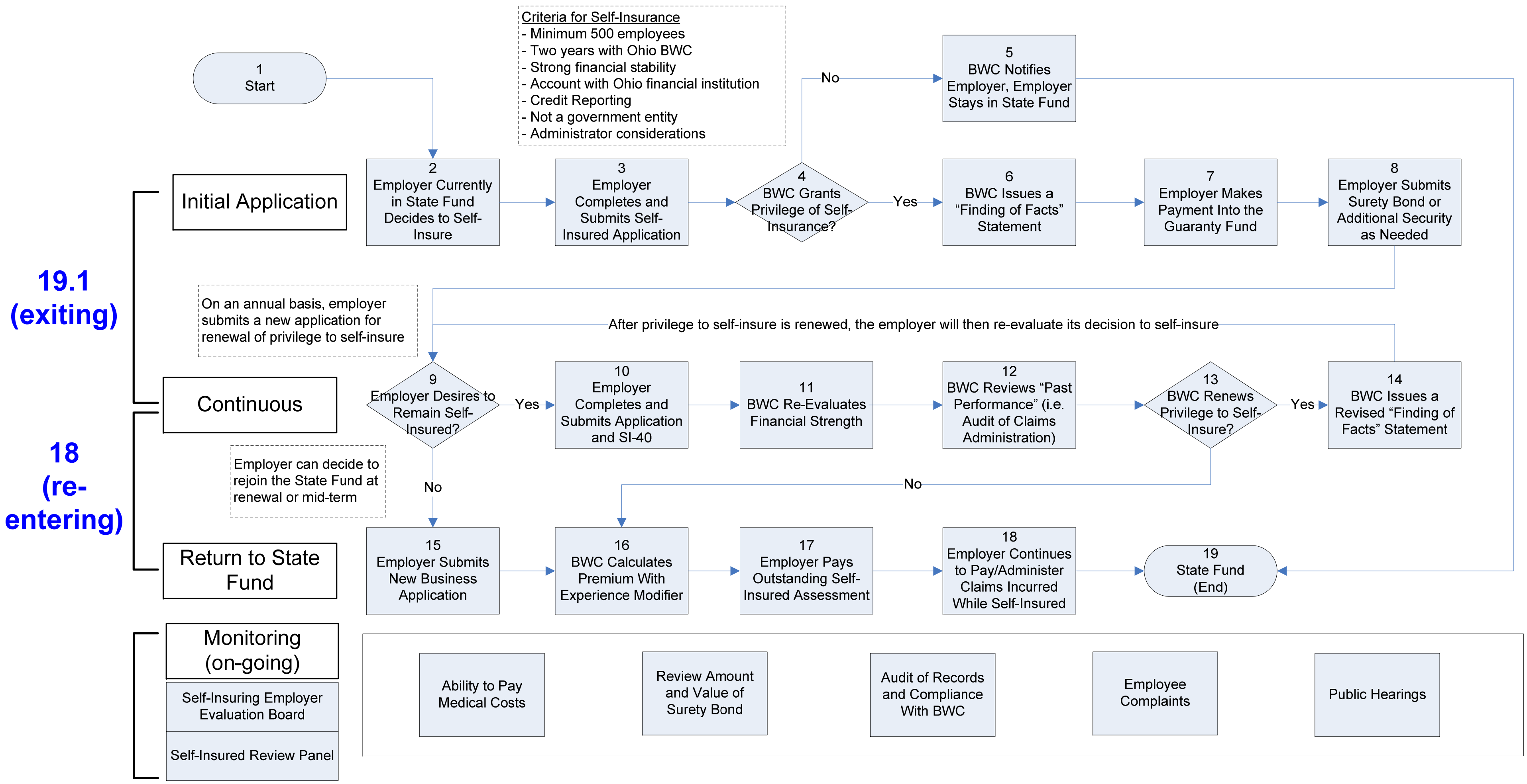
	Tasks Involved
Salary Continuation	22. Conduct a study on the payment of salary continuation by employers in lieu of temporary total compensation. This study would include an evaluation of the reserve calculation to determine if the premium collected by the BWC is appropriate for the liability presented and an evaluation to determine if salary continuation is a cost effective for employers. Conduct a study on the $15,000 medical only program. This study would include an evaluation of the reserve calculation for claims in this program and an evaluation to determine if the premium collected by the BWC is appropriate, and if the program is a cost effective program for employers.

Financial Provisions Areas

SIEGF	Tasks Involved
1) Sufficiency Requirements 2) Contribution Calculation Methodology	20. Evaluate the SIEGF sufficiency requirements and recommend criteria to be used for determining the methodology for the Administrator to establish self insured employers contributions to the SIEGF pursuant to Ohio Revised Code 4123.351. This analysis would include analysis of the BWC's historical funding of the SIEGF and recommendations for funding the SIEGF particularly whether the fund should be pre-assessment or post-assessment.
3) SIEGF Assessments 4) Surplus Fund Assessments	11. Review and make written recommendations with regard to assessments for self-insured employers for the surplus fund and for the Self-Insuring Employers' Guaranty Fund. This review would include an analysis on the loss history used for the calculation, the paid compensation basis, the projected payout, and the methodology used to calculate the assessment rates. 19. Evaluate the selection criteria used for self-insured employers. This evaluation would include the application of rules and laws in determining the employer's ability to manage and fund a self-insured program. The analysis will include suggestions for the financial evaluation performed upon application and the use of guarantees and securities to protect the Self-Insured Guaranty Fund (SIEGF).

Appendix B – Workflow Diagrams

BWC Current State



Future State Vision

The diagram below outlines the proposed application, renewal and return to State Insurance Fund processes as has been determined by our research. Our recommendations provide greater detail as to what needs to be done to improve upon these areas.