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Ohio Bureau of Workers' Compensation Comprehensive Study

Pricing Process: Calculation of Experience Modifications for Out-of-State Employers Who Wish to Enter Ohio

Report 4.3

Deloitte Consulting LLP
Group 4
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Contents

Executive Summary **1**
Introduction 1
Conclusions 1
The Situation **2**
Task Background 2
Methodology 2
Primary Constituents 2
Information and Data Gathered **3**
Interviews 3
Information/Data Request 3
Review and Analysis **4**
Benchmarking and Research 4
Conclusions **8**
Findings 8
Performance Assessment 8
Recommendations 9
Appendix A – Deliverable Matrix **11**

Executive Summary

Introduction

In some instances, an employer that operates in another state may wish to enter Ohio; this task involves evaluating the BWC rules, laws, policies and procedures for rating an employer who is operating in another state and requests to be rated in Ohio. This evaluation includes the experience modifier selected, the use of other states' experience, and the future liability for Ohio.

Conclusions

Findings

- In other states, out-of-state experience is only used for experience rating as part of the NCCI interstate experience rating plan. Many non-NCCI states, such as PA, DE, and CA, have intra-state experience rating plans that only use an employer's in-state claims experience.
- Several technical and practical issues arise when using out-of-state experience to determine an experience rate for premiums appropriate for in-state exposures.

Recommendations

Our primary recommendations regarding the calculation of experience modifications for out-of-state employers who wish to enter Ohio are:

- Utilize only the Ohio based information for experience rating in Ohio (including whether the Ohio exposure alone qualifies an employer for experience rating). Discontinue using out-of-state experience rating factors.
- Adopt the industry standard of using base premium level instead of expected losses as the eligibility criteria for experience rating and retaining the time frame requirement. Document the State Fund Manual with the specific amount of base premium required to qualify for experience rating.

The Deloitte Consulting team appreciates the time and effort dedicated by BWC constituents over the course of our discovery to help us understand the calculation of experience modifiers for employers who operate in other states.

The Situation

Task Background

RFP Task Reference	RFP Task Description	Task Category
Section 5.1.2 #16, page 13	Evaluate the BWC rules, laws, policies and procedures for rating an employer who is operating in another state and requests to be rated in Ohio. This evaluation would include the experience modifier selected, the use of other states experience, and the future liability for Ohio.	**Underwriting**

The current language in the State Fund Manual contains payroll requirements for experience rating; a company which is new to Ohio can use projected Ohio payrolls to qualify for using a non-Ohio experience rating factor for their Ohio business. Other monopolistic states and the NCCI have a premium level requirement, time in business requirement, or a combination of these two to qualify for experience rating. Ohio is the only state that uses expected losses as a requirement to qualify for experience rating. Additionally, compared to other monopolistic states, Ohio is the only state to allow the use of an out-of-state experience modification factor for determining the premium of an employer who is new to that state.

Methodology

As part of industry benchmarking, Deloitte surveyed how the other monopolistic states calculate experience modification for risks with out of state exposure. Deloitte also surveyed the NCCI standard as that is used in many competitive states.

Primary Constituents

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

Information and Data Gathered

Interviews

To conduct our review and analysis of BWC's Calculation of Experience Modifications for Out-of-State Employers method, we held interviews with BWC staff, reviewed data received from BWC in response to our data request, and researched other monopolistic states' practices via the web and phone interviews.

- Administrator/CEO
- Assistant Director – Actuarial Department
- Actuarial Supervisor – Actuarial Department
- Staff – Rate Change Department

Information/Data Request

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

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

Review and Analysis

Benchmarking and Research

Table 1: Overview of Experience Rating Eligibility and Calculation

#	Topic	Ohio	Wyoming	North Dakota	Washington	NCCI
1	Eligibility for Experience Rating	Eligible for experience modification after 1 year Expected losses >=$8,000	Minimum 3 years operating in the state, no minimum payroll	Minimum 3 consecutive years in business within ND, minimum aggregate premium of $25,000 over experience period	Eligible for experience modification after 1 year	Default experience factor of 1.00 until the following is satisfied: 3 years in business, minimum premium of $7,500 on average*
2	Premium and loss base for experience rating calculation	All states payroll and losses	WY payroll and losses	ND payroll and losses	WA payroll and losses	Depends if interstate or intrastate rated

*Different states have different minimum premium thresholds, and the average of this threshold is $7,500.

Table 2: Application of Experience Modification to Single State and Multi-State Employers under Different Scenarios

#	Scenario	Ohio	Wyoming	North Dakota	Washington	NCCI
1	**Single State:** A new business is created with ownership and operations in one state	This is the "base case" and experience rating is assigned to the employer as per the eligibility requirements shown in row 1 of Table 1 Note: this description applies to Ohio, all other monopolistic states, and the NCCI convention				
2	**Single State:** An existing business is purchased and the purchaser has no other operations in any other state	Experience of acquired business is transferred to the new owner Note: this description applies to Ohio, all other monopolistic states, and the NCCI convention				
3	**Multiple States:** Out-of-state employer purchases a company in subject state with similar operations	Average experience of the existing and purchased business	Experience of acquired business is transferred to the purchaser			Experience of purchaser is combined with the seller's experience

Table 2: Application of Experience Modification to Single State and Multi-State Employers under Different Scenarios - continued

#	Scenario	Ohio	Wyoming	North Dakota	Washington	NCCI
4	**Multiple States:** Out-of-state employer expands business into the subject state with similar operations	Experience rating based on total multi-state account payroll and experience	Minimum 3 years operating in the state, experience is based on WY payroll only; no minimum payroll, but calculated differently depending on premium size	If the employer has an experience modification in another state, they will receive a premium discount from the 2nd to 4th years based retrospectively on the most recent out-of-state experience rate.	New operations start with experience mod of 1, then experience mod would change based on WA exposures and experience only; no minimum premium or payroll	Experience of new operations is combined with existing out of state operations
5	**Multiple States:** Out-of-state employer purchases a company in subject state with different operations	Average experience of the existing and purchased business	Minimum 3 years operating in the state, no minimum payroll; but calculated differently depending on premium size	Minimum 3 consecutive years in business within ND, minimum aggregate premium of $25,000 over experience period	New operations start with experience mod of 1, then experience mod would change based on WA exposures and experience only; no minimum premium or payroll	Experience of purchaser is combined with the seller's experience

Table 2: Application of Experience Modification to Single State and Multi-State Employers under Different Scenarios - continued

#	Scenario	Ohio	Wyoming	North Dakota	Washington	NCCI
6	**Multiple States:** Out-of-state employer expands business into the state with different operations	Experience rating based on total multi-state account payroll and experience	Minimum 3 years operating in the state, experience is based on WY payroll only; no minimum payroll, but calculated differently depending on premium size	Minimum 3 consecutive years in business within ND, minimum aggregate premium of $25,000 over experience period	New operations start with experience mod of 1, then experience mod would change based on WA exposures and experience only; no minimum premium or payroll	Experience of new operations is combined with existing out of state operations

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

Conclusions

Findings

- In other states, out-of-state experience is only used for experience rating as part of the NCCI interstate experience rating plan. Many non-NCCI states, such as PA, DE, and CA, have intra-state experience rating plans that only use an employer's in-state claims experience.
- Several technical and practical issues arise when using out-of-state experience to determine an experience rate for premiums appropriate for in-state exposures, such as:
    1. An employer's out-of-state operations can be much different than in-state, e.g., sales or distribution in one state, but manufacturing in another.
    2. An employer may own different types of businesses in different states.
    3. WC benefits follow laws, courts, and rules which differ by state.
    4. The NCCI interstate rating plan is predicated on one insurer who will be providing coverage for the employer in all of the states where that employer's claims experience was used for the experience rating.

Performance Assessment

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

For these performance assessments, the following scoring method applies:

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

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

Recommendations

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

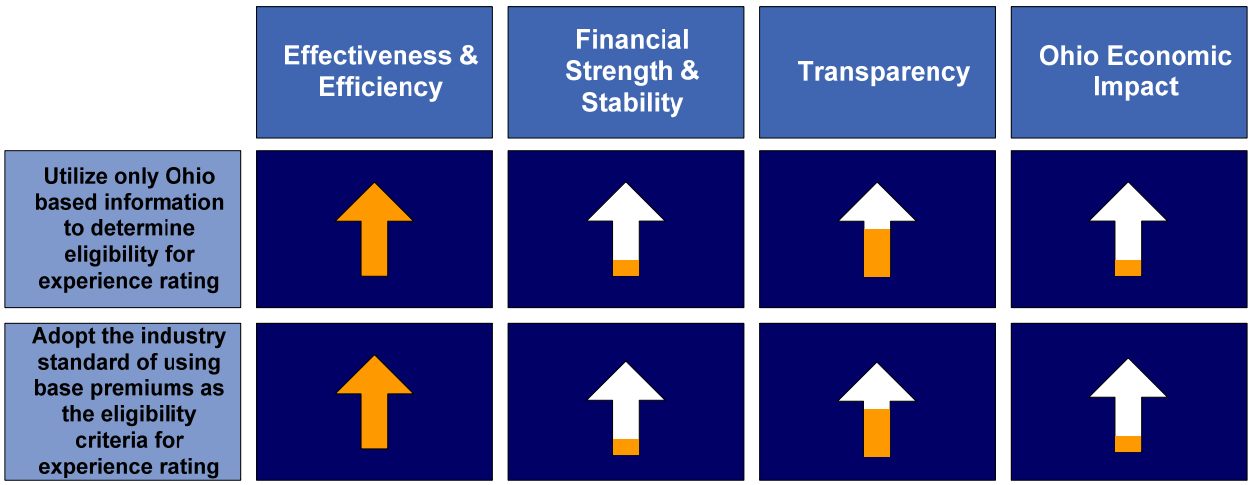
Utilize only the Ohio based information for experience rating in Ohio. This includes whether the Ohio exposure alone qualifies an employer for experience rating). The practice of using out-of-state experience rating factors should be discontinued.

Adopt the industry standard of using base premium level as the eligibility criteria. Instead of using expected losses as the eligibility criteria for experience rating, the base premium level should be used. Additionally, use of the time frame requirement should be retained. The State Fund Manual should document the specific amount of base premium required to qualify.

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

Impact

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



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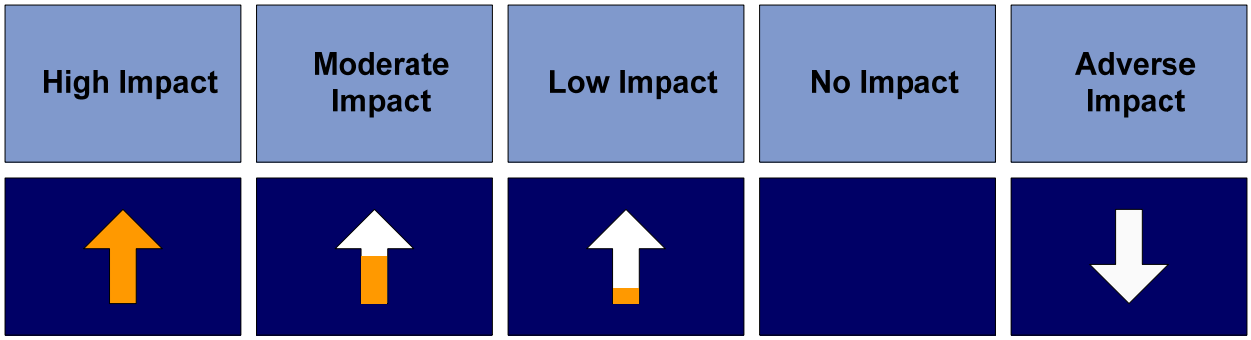

The Deloitte Consulting team is available to clarify or amplify any issues raised in this report. We express our appreciation for BWC process constituents' time, effort, and guidance in completing this integral task of our comprehensive study.

Appendix A – Deliverable Matrix

Group 4 Study Elements

Actuarial Department Functions & Resources
Actuarial Department Organization

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

Cost Controls
Rehabilitation Program

Actuarial Department Functions & Resources Area

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

Pricing Process Areas

Individual Rate Calculation	Tasks Involved
1) Private Employers	32. Evaluate and assess the experience aggregation approach used by the BWC compared to industry standards. The BWC currently tracks entities at the tax identification level versus a common or majority ownership of the company. This evaluation would identify industry standards in tracking employer ownership.
2) Rating Rules and Laws a) Administrative Appeals	14. Evaluate the changing of individual employer rates due to administrative appeals or clerical errors by the BWC. This evaluation would include a review of the rating rules and appeals process for employers. This analysis should include information on industry standards and process.
2) Rating Rules and Laws a) Out-of-State Coming In	16. Evaluate the BWC rules, laws, policies and procedures for rating and employer who is operating in another state and requests to be rated in Ohio. This evaluation would include the experience modifier selected, the use of other states experience, and the future liability for Ohio.

Minimum Administrative Premium	Tasks Involved
Minimum Administrative Premium	5. Conduct an evaluation of the minimum administrative premium charged to employers operating in Ohio for worker's compensation coverage. This evaluation should determine the minimum acceptable amount of premium that should be charged to employers in Ohio to bind coverage and to cover expected losses.

Alternative Pricing Methods (including NCCI classes)	Tasks Involved
Alternative Pricing Methods (including NCCI classes)	3. Review and make written recommendation of the BWC's use of the National Council on Compensation Insurance (NCCI) manual classification system for rating classifications. This review would include but not be limited to analysis of the assignment of classifications to employers, the process of employer's reporting payroll, the premium auditing process and the procedures for non-reporting of payroll.

Pricing Process Areas – continued

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

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