GROUP RATING STAKEHOLDER MEETING

Executive summary

On June 13, 2007, the Ohio Bureau of Workers' Compensation (BWC) hosted the first of a series of four stakeholder meetings regarding potential changes to the Ohio group rating program.

Jeff Scott, a representative of the Oliver Wyman consulting firm, discussed proposed changes to the credibility table used in the rate-making process for Ohio employers.

Oliver Wyman believes a sound individual rating system will balance risk sharing, distribute costs fairly and minimize fluctuations in rates. Using data from policy years 1991 to 2004, Mr. Scott demonstrated that loss ratios and loss ratio relativities were greatly impacted by participation in group rating. Essentially, it led to an inequity in premiums collected with non-group employers paying more premiums relative to their losses.

Mr. Scott also illustrated how reducing the maximum credibility can greatly reduce discrepancies in loss ratios. He noted that BWC has already taken positive steps to improve by reducing the maximum credibility from 100 percent to 90 percent for the July 1, 2007, policy year. However, while rates are more equitable than before, Mr. Scott pointed out that the reduction was not significant enough to effectively equalize loss ratios for group and non-group employers. Reducing the maximum credibility to 60 percent would achieve greater equity among employers.

Liz Bravender, a representative from BWC's actuarial department, discussed the impact other alternative rating programs offered by BWC have had on premiums. She indicated programs such as the Premium Discount Program+ (PDP+) and Drug-Free Workplace Program (DFWP) are evaluated by Oliver Wyman on a yearly basis. Because participants in those programs have loss ratios that are relatively equal to non-participants, the discounts offered by the programs are justified.

Ms. Bravender also said the retrospective rating program is appropriate because premiums are charged retrospectively based on actual loss history. However, she indicated newer programs such as the One Claim Program and the Safety Council Incentive Program have not yet been evaluated but may not be actuarially sound.

To achieve greater equity in premiums, Oliver Wyman recommends a maximum credibility of 60 percent. Pinnacle Actuarial Resources, Inc., another consulting firm used by BWC, has recommended a maximum credibility of 53 percent. A recommendation from a third firm (AON Risk Consultants) is pending.

In conclusion, at least two external consulting firms believe a move to decrease the maximum credibility will have a positive impact on the equity of rates among employers in the future. BWC is currently collecting feedback from stakeholders on the proposed reduction to 60 percent, and it is also discussing how many years are necessary to potentially complete this transition.

Stakeholders wishing to provide feedback on this topic may do so via e-mail by sending correspondence to Actuarial@bwc.state.oh.us.

In discussing the credibility tables, Jeff Scott talked about the need to stabilize rates by balancing risk sharing, fairly distributing costs, and minimizing fluctuations. He said loss ratios (ratio of incurred losses to paid premiums) are an effective measure of actuarial soundness if the ratios are similar among various segments of employers.

- Ty Pine asked if the loss ratios included dividends.
- Jeff Scott said they do not. The loss ratios use experience-rated premiums which include discounts for group.
- Rep. William Batchelder asked if rate discounts were reflected in the information.
- Jeff Scott said they are.
- Rep. William Batchelder asked if they represent reserving also.
- Jeff Scott said yes, the loss ratios use payments and reserves with no consideration of IBNR (incurred but not reported costs).
- Rep. William Batchelder asked if medical inflation is included for PTD claims.
- Jeff Scott said that could be in reserves.
- George Haenszel wondered if overhead was included in the loss ratio calculation.
- Jeff Scott said it is not.
- Bob Schmitz asked if the numbers were generated by Oliver Wyman or Pinnacle.
- Jeff Scott said that the numbers were generated by Oliver Wyman.
- Tony Fiore asked when newer numbers would be available.
- Jeff Scott said in a couple of weeks.
- Tony Fiore said the information would be good to know and asked how did the language in SB7 concerning settlements affect the numbers.
- Jeff Scott said the loss ratios could go up or down depending on whether the settlement amount is above or below the reserve amount.
- Bob Schmitz asked how the choice between MIRA and Tabular reserves affected the loss ratios.
- Jeff Scott said Oliver Wyman used whatever was lower for the employer so the data reflects what was used for calculating each individual policy's rate.
- Rep. William Batchelder asked whether removing MIRA's "black box" would impact loss ratios.
- Jeff Scott said the same system was used for everyone so there would not be much change.
- Ty Pine asked if employers in other discount programs were included in with the non-group information.
- Jeff Scott indicated they are included in the non-group information.
- Jeff Scholl talked about loss ratio relativities by credibility levels.
- A group counts as one employer.
- Information is only for experience rated employers.
- George Haenszel asked if the data reflected the changes that had been made using the non-group discount and lowering the maximum credibility.
- Jeff Scholl said the study was done using policy 2002 data using different credibility levels.

- Ty Pine asked if legislative changes, such as those included in Senate Bill 7, would affect the combined ratio.
- Jeff Scholl said they would and that premiums consistently change for everyone.
- Liz Bravender talked about the other alternative rating programs including the Premium Discount Program (PDP), Drug Free Work Place (DFWP), "Stacked", One Claim, Safety Council, and Retrospective Rating Programs.
- The PDP, DFWP, and Stacked programs are evaluated every year, and it has been determined that the discounts given by these programs are justified.
- The One Claim and Safety Council Programs have not been evaluated actuarially.
- The Retrospective Rating Program is actuarially sound.
- Phil Fulton asked about the deductible program for medical only claims and about our policies concerning salary continuation claims.
- Liz Bravender said there is not enough data available to analyze the deductible program and said the BWC Internal Audit Department looked at our salary continuation policies, but wasn't sure if they gave an opinion.
- Jeff Scott said the past is not a 100 percent indicator of the future so the maximum credibility percent should continue to be lowered.
- Liz Bravender said the credibility percent table should be reviewed periodically for changes including looking at the maximum claim amount.
- Jeff Scott said that base rates would drop 15-20 percent if the credibility table is lowered to a 60 percent maximum credibility.
- Jeff also indicated there would be premium shifts from credit rated, base rated, and small employers to debit rated and group rated employers.
- Liz Bravender mentioned comparisons between other states and a study the Actuarial Section did looking at policy year 1996.
- Base rates were recalculated by removing off balance factors to estimate the impact of group rating on base rates. Some manuals changed by over 1000%.
- Here are the results of the study:

Percent change range	Count of Manual Classifications
Greater than 100% decrease	51
99% – 75% decrease	46
75% – 50% decrease	102
49% – 1% decrease	295
No change	14
Base rate increase	20

- Tony Fiore asked if other states promote safety as much as Ohio does, if the other states are fully0funded, and if frequency and severity has decreased in other states.
- Jeff Scott said that NCCI (National Council on Compensation Insurance) used to have a maximum credibility of 100 percent but changed the plan and lowered the maximum credibility.

- Liz Bravender said that Ohio is following nationwide trends in frequency and severity. The state of Washington has a group retrospective rating program where credits are given after the fact once groups actually are shown to have lower losses.
- Joy Bush said there also needs to be a focus on the loss side of the equation. If losses are focused on, the loss ratios would come down.
- Bob Schmitz said section 5.12.50 of HB100 mandates that a rate study be done to look at other states and see what rating programs they offer.
- Rep. William Batchelder said the big thing is the rate study.
- Ty Pine said that TPA's (Third Party Administrators) will be talking to prospective group rating clients. Will BWC make changes to the credibility table before the rate study is done?
- Liz Bravender said that we need to continue to make changes now.
- Steve Millard asked about the PDP Program. Since it is successful, can it be applied to group rating participants or other groups of employers to make the loss ratios come down?
- Todd Spence mentioned that this rule and others would be discussed at the July 18 meeting.
- Denny Davis asked about loss ratios for the state fund.
- Jeff Scott said it is around 100 percent including investment earnings.
- Stuart Garson asked about credibility percentages.
- Jeff Scott said a maximum credibility percent of 60 percent would bring a closer band of loss ratios.
- Stuart Garson asked about simplifying the rating system to include only base rating.
- Jeff Scott said there would be no incentive to reduce losses if all employers were base rated.
- Ty Pine asked if there was going to be a similar process followed to reduce the maximum credibility percent that was followed a few years ago.
- Jeremy Jackson stated that information and input will be looked at before a determination by Administrator Ryan was made.
- Bob Schmitz was wondering if the Workers' Comp Board has to approve any changes to the credibility table before it is officially changed.
- Jeremy Jackson said that the Workers' Comp Board would have to approve credibility table changes.
- Rep. William Batchelder anticipated that any changes would be made with Workers' Comp Board approval.
- George Haenszel wondered how to get employers focused on safety with the past dividends BWC has given.
- Joy Bush said BWC is trying to get employers to focus more on the long term.
- Todd Spence acknowledged there was a drop in program participation levels when dividends were in place.