GROUP RATING STAKEHOLDER MEETING

Executive summary

On June 27, 2007, the Ohio Bureau of Workers' Compensation (BWC) hosted its second stakeholder meeting to further consider improvements to Ohio's group rating program. The primary topic BWC's rate making methodology, and the stakeholders were asked to consider whether to retain the agency's current model or consider adopting a more commonly used version offered by the National Council on Compensation and Insurance (NCCI).

Bill Hansen of Oliver Wyman led the discussion by reviewing the principles of ratemaking. He explained that, among other things, a sound rating model should provide for the costs of an individual risk transfer so that equity is maintained among those that are insured. He also said a good rating plan should benefit those that use them, provide rate stability, and appropriately balance risk bearing and risk sharing among those who participate.

Mr. Hansen also compared BWC's current rating model with NCCI. He explained how NCCI uses a split plan with primary and secondary losses. Unlike BWC's methodology, such an approach puts greater emphasis on the frequency of claims and would generally reward businesses that invest in workplace safety. He also noted differences in losses between the two plans, though he explained those are defined through the rule-making process.

In addition, Mr. Hansen provided highlights of analysis that was completed by Oliver Wyman showing overall loss ratios using 2002 policy year data. When contemplating loss ratios by premium level, NCCI produced similar loss ratios to BWC's model when the maximum credibility was reduced to 60 percent, suggesting similar macro-level performance. However, because NCCI prioritizes based on frequency, individual employers would still be impacted differently.

Finally, Oliver Wyman provided both hypothetical scenarios and real examples to demonstrate how the two models work in practice. In general, a BWC model capped at 60 percent maximum credibility and NCCI generated higher initial premiums but significantly reduced volatility by providing more predictable and stable rate increases when a loss occurred.

In conclusion, Oliver Wyman recommended that BWC reduce its maximum credibility in the short-term while considering a longer-term transition to NCCI. Mr. Hansen emphasized that such a transition would need to be mindful of implementation concerns and premium impacts to current group rated employers. However, NCCI would allow Ohio employers that provide a generally safe workplace to have stable, predictable rates that would generally not increase dramatically if an accident did occur.

GROUP RATING STAKEHOLDER MEETING RECAP REPORT

Meeting Minutes

Attendees

- Lauri Cochran, Tim Burga, Rep. William Batchelder, Jean Krum, Todd Spence, Joy Bush, Liz Bravender, William Hansen, Jeff Scholl, Keary McCarthy, Jeremy Jackson, Bob Schmitz, Steve Millard, George Haenszel, Stuart Garson, Phil Fulton, Jack Fisher, Tony Fiore

Agenda

Welcome

- Jeremy Jackson gave welcome, mentioned Aon's presentation at the last Oversight Commission meeting, and mentioned that all the data requests received at or since the last meeting were put on a CD that was distributed to all the attendees.
- Review of Requested Information
- Liz discussed the data on the CD which included information on loss ratios, base rates, claim cost analysis, group rating overview, and credibility changes.
- Tony Fiore asked if we could rerun the credibility impact document using 2005 data. That request is being processed.
- Overview of Current and NCCI Rate-making Methodology
- William Hansen discussed the principles of ratemaking.
- A rate is an estimate of the expected value of future costs.
- A rate provides for all costs associated with the transfer of risk.
- It should provide for all costs so that the insurance system is financially sound.
- A rate provides for the costs associated with an individual risk transfer.
- It should provide for the costs associated with an individual risk transfer so that equity among insureds is maintained.
- A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.
- Loss ratios should be the same for different groups of employers.
- William Hansen discussed the point of experience rating.
- Experience rating is not loss recovery or recoupment.
- Now that we know more about the insured, we need to charge more going forward.
- Ohio Plan – minimum expected loss is $8,000.
- Non split plan – maximum loss varies by the amount of expected losses, ranges from $12,500 to $250,000.
- Formula – ((Actual Losses (limited) – Expected Losses) / Expected Losses) * (credibility %) + 1.0 = Modification (EM).

- Credibility goes up as risk size (expected losses) goes up.
- NCCI Plan
- Split plan
- Primary Loss is first $5,000 of a claim.
- Medical Only claims are limited to 30% of loss amount.
- Maximum loss amount is capped at state limit (i.e. $250,000)
- Credibility varies by expected loss size.
- Maximum credibility of 91 percent for primary losses, 80 percent for excess.
- It takes a lot bigger risk to get to 90 percent credibility with the NCCI plan.
- Formula – (W - weight and B - ballast are the credibility components divided between primary and excess losses)
- ((Actual Prim. Losses + Actual Excess Losses * W + Expected Losses * (1-W) + B) / (Expected Losses + B) = Modification (EM).
- The NCCI plan is used in two thirds of states in one form or another.
- Frequency – number of claims per exposure.
- Severity – average cost paid per claim.
- Primary losses recognize frequency.
- Excess losses recognize severity.
- William Hansen discussed retrospective performance tests on the 2002 private employer rating year.
- Using the Ohio plan with a maximum credibility of 60 percent brings the loss ratio relativities among different premium groupings closer together.
- Using the NCCI plan for policy years 2002 through 2004 bring the loss ratio relativities among the different premium groups closer together as well.
- The NCCI plan factors used for these tests were estimates based on other state plans; use of experience rating parameters based on Ohio data would improve performance.
- Tony Fiore asked what factors are being used for the NCCI plan tests.
- William Hansen said the tests are using NCCI credibilities.
- Tony Fiore asked if the factors were closer to 60 percent credibility tables using BWC’s model.
- William Hansen said yes.
- Tony Fiore asked how many other states are achieving loss ratio relativities close to one among the same five premium ranges that were used in the tests.
- William Hansen said we may be able to ask NCCI for that data. That request is currently being processed.
- William Hansen said that the other policy years (2003-2004) show that the NCCI formula is consistent over time.
- Roger Fain noticed that the NCCI plan had a tendency to over change at the fringes of the premium groupings in the tests that were run.
- William Hansen said that using Ohio data would be better.
- Jeff Scholl said one year may be high and one year may be low (using Ohio data).
- Steve Millard noticed the variability for small employers is more.

- Jeff Scholl said the data is centered around one, and the data will look better using Ohio specific data.
- Steve Millard asked if using Ohio data would improve the numbers for small employers.
- William Hansen said yes, but the data is noisier for the smaller employers so there may be more fluctuation in the loss ratio relativities.
- Tony Fiore asked if we can rerun the tests using more current data. He thought we should focus more on the premium groups that are causing the most losses.
- William Hansen said Oliver Wyman probably has 2003 and 2004 data, maybe 2005, but the 2005 data is problematic because the data isn't mature.
- Tony Fiore wanted to see updated information due to the all the policy changes that have been happening at the Bureau.
- Jeff Scholl said that the changes are across the board so it wouldn't change the relativities.
- Steve Millard asked in looking at the small risks if we are using the small risks to subsidize the other groups.
- William Hansen said no, the target for loss ratio relativities is always one. Some try to target less than one for small employers.
- William Hansen discussed some examples of what the Experience Mod (EM) would be for varying size risks using the current Ohio plan, an Ohio plan with a maximum credibility percent of 60 percent, and the NCCI plan.
- There is less variability with the maximum credibility of 60 percent and the NCCI plan than the current Ohio plan.
- Bob Schmitz said there should be a column for the reaction of 100,000 employers.
- William Hansen said the reaction can be looked at in a couple of different ways – starting out with discussions (as we are doing now) and implementation – it is bigger than which plan is the best.
- Tony Fiore wondered what would happen using the NCCI plan if an employer maxes out on one claim.
- William Hansen said that the NCCI plan is more stable. There is only a 17 percent increase in the experience mod over the base case compared to an 80 percent increase in the experience mod over the base case using the Ohio plan with a maximum credibility percent of 90 percent.
- Tony Fiore wanted an explanation of the base case example.
- William Hansen said the first example is for a large employer. The current Ohio plan is more responsive but less stable. The second example uses a small employer. Here the frequency of claims hurts an employer using the NCCI plan.
- Steve Millard asked if this was typical for small employers.
- William Hansen said yes.
- Steve Millard asked how sensitive the data is to the size of expected losses.
- William Hansen said Oliver Wyman would have to run several scenarios to get a feel for what would happen.
- Roger Fain asked if we knew how many employers are credit, base, and group rated, and how much premium was in each of those buckets.

- BWC will provide updated data and is currently processing this request.
- Tony Fiore asked if we can get the number of people paying the minimum administrative fees ($100 per year).
- William Hansen gave his conclusion that we don't have to treat decreases the same as increases, it would be hard to implement all the changes at once, and we want to be competitive across all employer groups.
- Timeframes
- Desirable to phase in changes to minimize disruption.
- Several alternative solutions are possible.
- Considerations
- Need to evaluate best parameters to fit Ohio data.
- Must consider implementation challenges and premium impacts.
- Familiarity within and outside of Ohio.
- Competition
- Safety – frequency of claims as a predictor of future losses.
- Equity can be improved significantly by either the current Ohio plan or the NCCI plan if parameters are selected appropriately.
- Still need to address group rules (plan changes won't achieve balance between group and non-group).
- Need to identify what is most important: fairness, stability, responsiveness, and ease-of-use.
- Roger Fain asked if the monopolistic aspect of Ohio changes the fundamentals of the NCCI plan.
- William Hansen said no.
- Jeff Scholl said the principles for coming up with the NCCI plan is the same.
- William Hansen recommended moving to a 60 percent maximum credibility with the Ohio plan and then transitioning to the NCCI plan.
- Jeremy Jackson pointed out how with the NCCI plan there is a prioritization on the number of claims. He then posed a question of the attendees by asking if moving to an NCCI plan would make it easier to promote safety.
- Roger Fain asked if removing the variability from the plan would remove the incentive to be safe.
- Jeremy Jackson said the NCCI plan doesn't penalize an employer so much for one bad claim.
- Roger Fain asked for some information on current frequency and severity number for employers – where do employers fall.
- Jeremy Jackson said we can provide some data.
- Tony Fiore said the concepts of an NCCI plan could benefit Ohio. He would like to see an analysis on group data over the last 10 years to see what the improvement has been. He doesn't want to eliminate the potential savings for increasing safety and not having claims. He wants to keep the ability for Ohio to do things differently.
- Steve Millard believed that something needed to be done to impact frequency. Give people an incentive to improve and be safe.
- William Hansen said those employers that are effective will be rewarded.

- Steve Millard stated that there was not enough impact to affect safety using the NCCI plan.
- Jeff Scholl said that Oliver Wyman could create reports to reflect frequency decreases by X and rate increases by Y, but the NCCI plan would reflect that better.
- Joy Bush said there needs to be a better incentive for all employers to be safer. A long term relationship affects safety more than one conference or video.
- Steve Millard agreed especially with other small employers not in group.
- Tony Fiore said that 40-50 percent of injuries nationally are drug related. The Drug Free Workplace Program (DFWP) gives a 20 percent discount for reducing frequency and severity, and he doesn't want that program to go away.
- Joy Bush said the NCCI plan is intended to possible replace the experience rating plan not the other plans.
- Tony Fiore asked to look at other states - how does BWC account for discounts on top of discounts.
- Liz said the BWC plan is revenue neutral. Approximately $1.7 billion in premium is collected annually for private employers. The discounts given distribute the premium differently. The DFWP and Premium Discount Program (PDP) pay for themselves. Losses decrease by as much as the discounts.
- Tony Fiore said the experience rating program can't be looked at in a vacuum. We need to look at all programs.
- William Hansen said that Oliver Wyman kept all studies revenue neutral – base rates and EM's are adjusted.
- Joy Bush said that all programs are sound. They are looked at every year.
- Liz Bravender said that all programs are looked at.
- Bob Schmitz asked if handouts will be e-mailed to everyone.
- Jeremy Jackson said yes.
- Next steps
- Next meeting Wednesday, July 11th from 9:00-12:00 in L2 Room 1
- Next meeting agenda:
- Reviewing options for group continuity.