

# OLIVER WYMAN

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16 June 2008

Mr. Jeremy J. Jackson  
Director of Communications  
Ohio Bureau of Workers' Compensation  
30 West Spring Street  
Columbus, OH 43266-0581

Subject:

## **Stability testing of the experience rating plans**

Dear Mr. Jackson:

This letter and the accompanying exhibits provide a summary of our stability testing on Ohio's current experience rating plan and the \$10,000 split plan. For the current Ohio plan we used the 85% credibility table effective 7/1/2008, and the testing was done with actual policies renewing from policy year 2005 to policy year 2006.

To evaluate plan stability, premium changes were measured with both policy years rated on the current 85% Ohio plan. Likewise both 2005 and 2006 policy years were rated under the 10k split plan to measure renewal impacts. Because the group rating rules are assumed to be unchanged, these examples include the real process of policies shifting in and out of Group rating.

One measure of stability we used is the average premium increase for policies with a 0% change or higher, and similarly the average decrease for policies with a decrease in renewal premium. The following table summarizes the results.

Status:	Group		Non-Group	
Plan:	Current	Split 10k	Current	Split 10k
Average Increase	43%	19%	6%	3%
Average Decrease	-30%	-13%	-53%	-20%

It is clear from this table that the average increases and decreases in premiums are smaller under the 10k split plan compared to the current 85% Ohio plan.

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The attached histograms illustrate the improved stability of the 10k split plan, showing a distribution more concentrated around the middle for the split plan relative to Ohio's current plan. As an example, the number of risks at the extreme ends of the premium change spectrum is much greater on the Ohio 85% graphs compared to the split plan graphs.

Experience rating plans should balance stability and responsiveness, not necessarily eliminate rate volatility altogether. In fact, we know that the split plan is more responsive to claim frequency than the current plan from the examples provided in our stakeholder sessions. At the same time, we also demonstrated that split plans do not over penalize for large fortuitous claims, or claim severity, which is also a weakness of the current plan.

Another approach to this test would be to use a lower credibility table for the current Ohio plan, like 65%, to isolate plan structure differences. The likely result would be much closer values for the average premium increase and average premium decrease segments, and the experience rating plan differences based on claim frequency and claim severity would emerge as noted previously. In addition, risk shifting in and out of group rating, in concert with the application of experience rating, is the primary source of the largest increases and decreases.

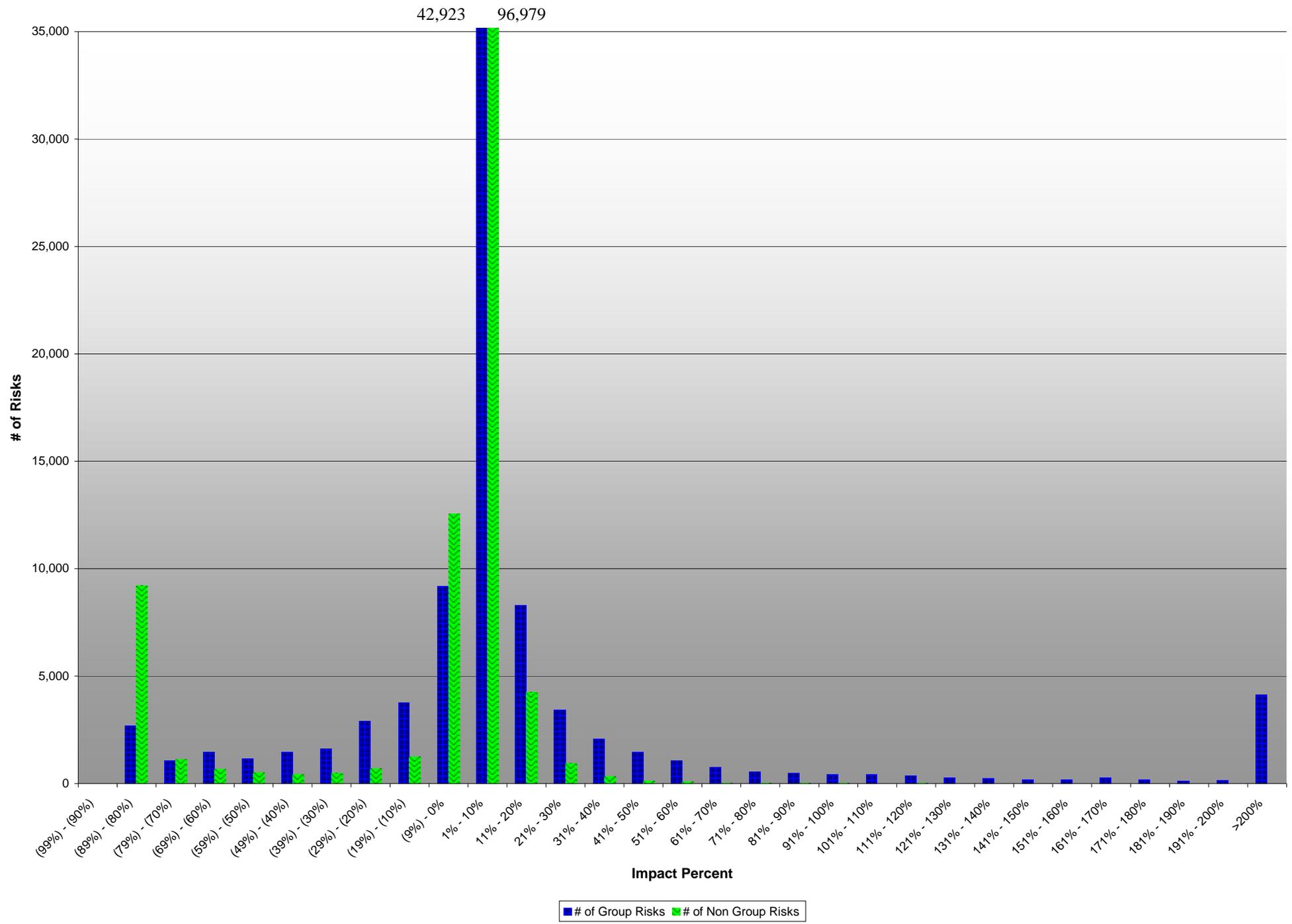
Please let us know if you would like to meet or have a call to discuss the results.

Sincerely,

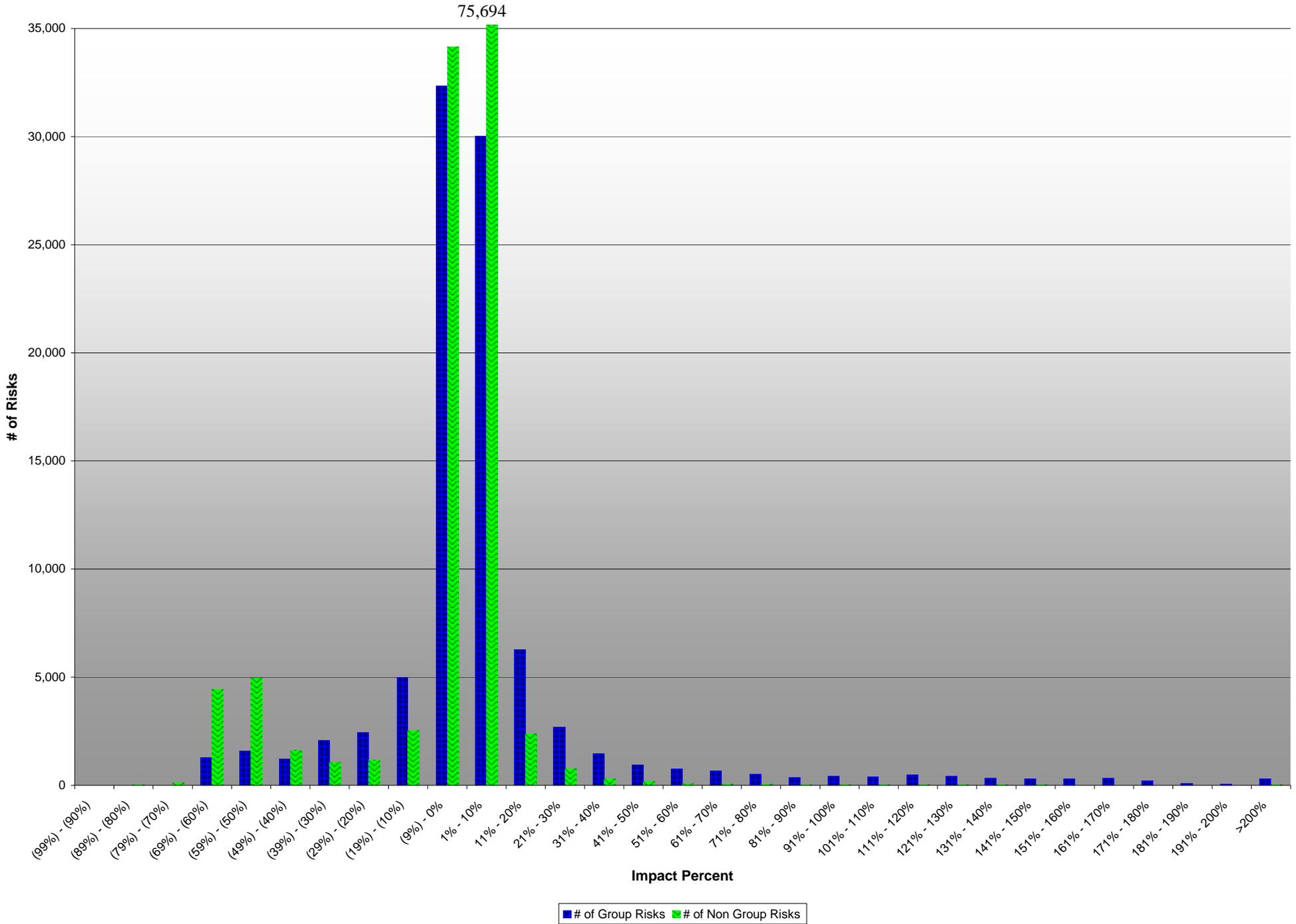
A handwritten signature in blue ink that reads "William D. Hansen". The signature is written in a cursive, slightly slanted style.

William D. Hansen, FCAS, MAAA

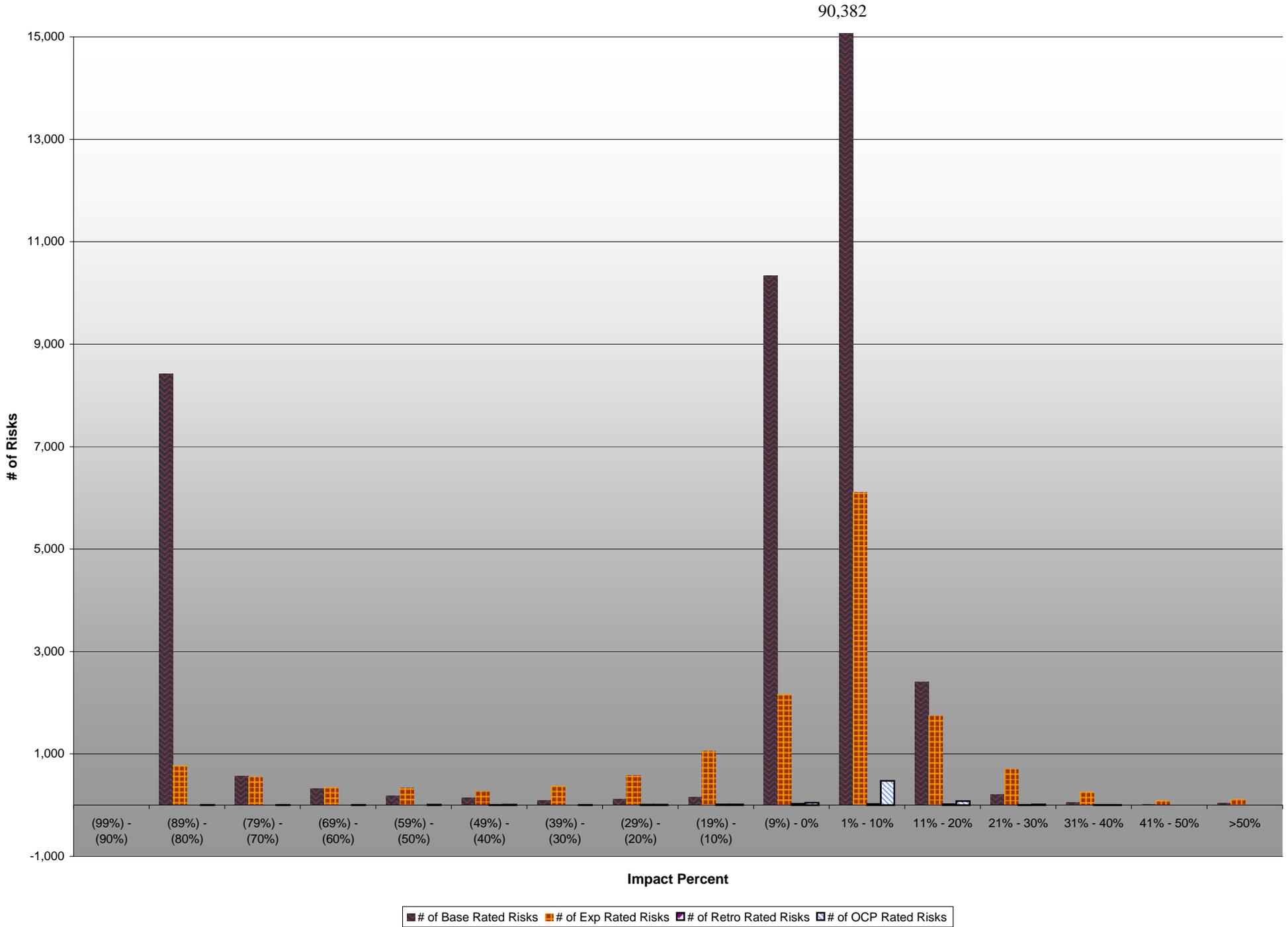
### Impact Calculation (05 - 06 85%)



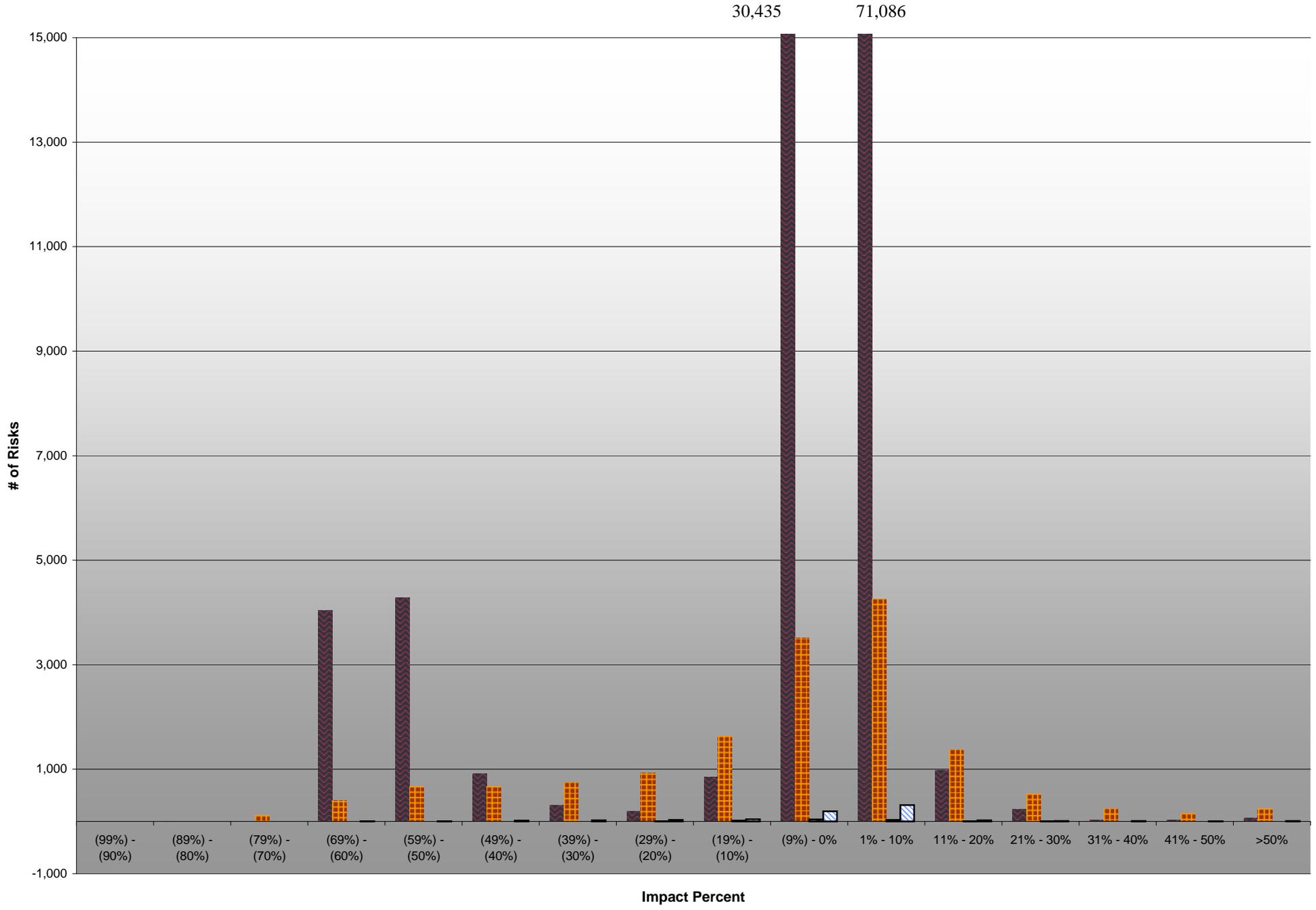
### Impact Calculation (05 - 06 Split Plan 10N)



### Impact Calculation (Non-Group 05 - 06 85%)



### Impact Calculation (Non-Group 05 - 06 Split Plan 10N)



■ # of Base Rated Risks ■ # of Exp Rated Risks ■ # of Retro Rated Risks ■ # of OCP Rated Risks