Draft
BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE EDUCATION SESSION

THURSDAY, October 30, 2008, 8:00 A.M.
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING STREET, 2ND FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present: Charles Bryan, Chair
James Matesich, Vice Chair
James Hummel
David Caldwell (arrived at 8:03 AM)
Thomas Pitts

Members Absent: None

Other Directors Present: James Harris, Robert Smith, Alison Falls, Larry Price

Counsel Present: John Williams, Assistant Attorney General

CALL TO ORDER

Mr. Bryan called the meeting to order at 8:00 AM and the roll call was taken. Mr. Caldwell was absent for roll call but arrived at 8:03 AM.

EDUCATION SESSION

Mr. Bryan reported that the meeting was to be devoted to an education session with a report from Deloitte Consulting LLP. House Bill 100 requires that the BWC Administrator obtain a study from an independent actuary to review the base rate of premiums paid by employers and all of the rating programs. Today's report is the THIRD of four on these issues. The report is appropriate for the Workers' Compensation Board because Board action will be required to implement recommendations.

Deloitte representatives included Jan Lommele, Chief Property and Casualty Actuary, Dave Heppen, Surplus/Reinsurance Projects Lead and Pricing & Programs Projects Lead, Randy Hindman, Underwriting Excellence Specialist Leader, and Steve Beigbeder, Claims Specialist Leader. Deloitte has been asked to perform thirty-six tasks, which have been classified into four groups.

For the THIRD group of reports, Deloitte reported on seven of the tasks in this session: MCO effectiveness and medical payment procedures, PES rate setting, retrospective rating, safety grant programs, safety & hygiene program, handicap reimbursement program, and impact of rates on frequency, severity and loss ratios. Each task was evaluated on a five-point scale based on effectiveness and efficiency; financial strength and stability; transparency; and impact on the Ohio economy. The scale ranged from “strongly supports system performance” to “significant opportunity for system performance change/enhancement”. During the presentation, Alison Falls requested that Deloitte provide an implementation cost estimate of as many of their recommendations as possible.

RECESS

Mr. Bryan recessed the meeting at 9:15 AM

RECONVENING

Mr. Bryan reconvened the meeting at 9:30 AM.

FURTHER DISCUSSION

Following the Deloitte presentation, discussion was had among the Committee members as to the necessity of reviewing the comprehensive Deloitte report in draft form. The Committee concurred that such review was not necessary.

ADJOURNMENT

There was a motion by Mr. Matesich, seconded by Mr. Hummel, which passed by unanimous roll call vote. Mr. Bryan adjourned the meeting at 10:30 AM.

Prepared by Jill Whitworth, Staff Counsel
October 30, 2008

Draft
BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

THURSDAY, October 30, 2008, 2:00 P.M.
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING STREET, 2ND FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present:	Charles Bryan, Chairman David Caldwell James Hummel Jim Matesich Thomas Pitts
Members Absent:	William Lhota, ex officio
Other Directors Present:	Alison Falls, Larry Price, and Robert Smith
Counsel Present:	John Williams, Assistant Attorney General

CALL TO ORDER

Mr. Bryan called the meeting to order at 2 P. M. and the roll call was taken.

MINUTES OF SEPTEMBER 25, 2008

John Pedrick, Chief Actuarial Officer, reported that all changes requested by Mr. Bryan to the September 25 minutes had been incorporated, except for the liabilities item for unpaid loss of $19.435 million. This figure is correct.

Mr. Hummel moved that the minutes of September 25, 2008, be approved as amended. Mr. Pitts seconded and the amended minutes were approved by a unanimous roll call vote.

NEW BUSINESS/ACTION ITEMS

PUBLIC EMPLOYER TAXING DISTRICT RATE INDICATION—SECOND READING

Mr. Pedrick and Elizabeth Bravender, Actuarial Director, recommended that the Actuarial Committee and Workers' Compensation Board approve an overall rate reduction of 5% for Public Employer Taxing Districts. The rate covers the policy year from January 1, 2009, to December 31, 2009.

Mr. Pedrick reviewed his memorandum and the analysis from Oliver Wyman Consulting Actuaries. He asked Oliver Wyman to calculate rate level indications using discount rates of 5% and 4%. The impact of decreasing the discount rate from 5% to 4% is a 9% increase in the rate indication. Oliver Wyman included an assumption of 9% medical inflation, which reflects their estimate of the long-term growth in medical costs. In the opinion of Mr. Pedrick, a discount rate of 4% is prudent.

Mr. Bryan asked if the answers to his technical questions on the calculation of the rate indication had been distributed to the Actuarial Committee. Mr. Pedrick replied that the consultants addressed his technical questions satisfactorily, that the document they prepared was not included with the meeting materials, but he would distribute it to the Actuarial Committee and public by the next meeting.

Mr. Pedrick summarized various items of the Oliver Wyman analysis.

Mr. Bryan emphasized that BWC had adopted a rate indication for private employers using a 5% discount rate. Mr. Pedrick replied the different discount rates are appropriate because BWC is looking at funds to be earned in 2009. He added that the discount rate also encompasses what is a reasonable investment return for the future. Ms. Bravender reported that these premiums would be collected in April and September 2009.

Mr. Bryan asked what is the average duration for a claim for a public employer taxing district? Mr. Pedrick replied he did not have a separate calculation this time; however, the average duration for private employers is approximately ten years.

Bruce Dunn, Chief Investment Officer, reported that recent yields from the bond portfolio—comprising 60% of BWC investments—average 6¾%. There has been a material increase in recent years in corporate bonds of 9%, and 4¾% for government bonds. The forthcoming sales of United States bonds will render high yields.

Mr. Pedrick reported on the range of rate indications recommended by Oliver Wyman, from optimistic (-11.4%) to conservative (+1.4%).

Mr. Hummel asked Mr. Pedrick if he still stands as firmly behind his rate recommendation of September. Mr. Pedrick replied that in September he was highly confident of the rate change. After the unsettling events of October, he is still very comfortable with his original recommendation.

Ms. Falls asked what would happen if BWC used a 5% discount rate. Mr. Pedrick replied a 5% rate would decrease the indication to -14%.

In summary, Mr. Bryan commented that the Actuarial Committee could rely on the expertise of the actuarial staff for its calculation of the rate indication. The Committee has been well briefed by the staff on their assumptions. It is appropriate for the members of the Actuarial Committee to question assumptions used and view the rate indication from a business perspective. Staff and the Committee will develop more information as the Board begins the analysis of the funding ratio.

Mr. Pitts asked if the 4% discount rate created inequity in respect to private employers, for which a 5% rate is used. Mr. Pedrick replied that BWC and the Actuarial Committee had the same discussion prior to July 1 for adoption of the private employer indication, at which time analyses were considered using discount rates of 5% and 4%, just as today for PEC's. The same level of deliberation occurred and a decision was made based on the best information at that time. In this respect the treatment is identical.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation concerning the Public Employer Taxing District employer premium rates effective January 1, 2009. The resolution consents to the Administrator fixing Public Employer Taxing District employer rates to achieve an overall decrease of five percent in the total collectible premium from the previous year, and consents to the Administrator preparing rate rules consistent with this policy. Mr. Hummel seconded and the motion was approved by a unanimous roll call vote of five ayes and no nays.

Mr. Pedrick further reported that a preliminary estimate of premium rates for government industry group was set forth in his report. It does not include the new group rating structures currently being formed, but gives an estimate of the impacts at the industry level.

Mr. Bryan asked why the rate indication for Public Works Relief Employee was 32% over 2008. Mr. Pedrick replied that this class has a very low volume, so significant claims in the short experience rating period could change the rate quickly.

Mr. Bryan asked if an increase in the rate of an employer could lead to budget cuts that reduce payroll and, subsequently, reported premiums. Mr. Pedrick confirmed that a reduction would reduce premiums, but not affect the rate indication. At the November meeting, BWC will ask approval by the Actuarial Committee of the final rates and two rule changes.

REFORM PLAN—EXPERIENCE MODIFICATION CAPS, OHIO ADMINISTRATIVE CODE RULES 4123-17-03 & 4123-17-71

Mr. Pedrick, Ms. Bravender, and Terry Potts, Supervisor, reported on the proposal to cap premium increases for employers. The caps are components of the employer rating reform approved by the Workers' Compensation Board in June 2008 and are necessitated by the changes in the credibility table effective 7/1/2009 and the need to moderate premium increases for employers moving in and out of group rating.

Mr. Bryan asked if the premium not collected due to the caps would impact other employers' rates. Mr. Pedrick replied that the caps would be used to calculate overall rates. Mr. Bryan asked if that would create legal problems. Mr. Pedrick replied that the Legal Division has advised him it will defer to the Actuarial Department on matters of rate setting, including caps for employers. Eventually, caps will not be needed to soften the impact of large rate increases. Ms. Bravender reported that caps have been used in the past for premium increases and the change to NCCI manuals.

Mr. Potts reviewed two types of caps. BWC originally considered a cap of 20% on premium changes due to the change in credibility, but was concerned that this would require employers to pay a full premium for a year, and then receive a refund after the cap is applied. This delayed the effect of the cap. So BWC is recommending a cap of 30% on increases to the experience modifier as a result of the changes in the credibility table. This approach provides immediate relief to employers and achieves similar financial results as a 20% premium cap. For example, when the credibility table reaches a 77% maximum, a 20% premium cap results in loss ratios for group employers that are 1.33 times the loss ratio for non-group employers. An experience modifier cap of 30% yields a group to non-group loss ratio relativity of 1.34, showing that these two approaches are financially equivalent. This experience modifier cap will affect 74,000 employers out of a total of 235,000, whereas a 20% premium cap only affects 61,000 employers.

Mr. Pitts asked if the caps affect just members of groups. Mr. Potts replied a majority of employers that are helped would be in group rating.

Mr. Smith asked if caps would be unnecessary after a passage of time. Mr. Potts replied they would probably not be used after two or three years.

Mr. Potts further reported that there will be two calculations for experience modification using an 85% maximum credibility table, increased by 30%, and a 77% maximum table. The experience modifier for an employer will be the lower of the two experience modifiers.

Mr. Potts then described the between year experience modifier cap of 100%. This cap limits the impact of a change in claim experience used for an employer's experience modifier. This capping program excludes those experience modifiers in which more than one policy experience is used to create the changes. This excludes combined policies. As a result, it targets those employers who have been rejected from a group.

Mr. Bryan asked if employers would attempt to game the cap limits. Mr. Potts replied all employers can attempt to manipulate whatever rules are in place to benefit themselves, however the restrictions on the between year 100% cap limit opportunities for manipulation. For example, this cap is not available to professional employer organizations since more than one employer’s experience is used. Mr. Pedrick stated that he believes that the capping programs reduce the opportunities for gaming.

Mr. Pitts asked about the numerical impact of employers leaving group each year. Mr. Potts replied that 10,000 employers leave group each year, of whom 4,000 to 5,000 join a new group and the balance are excluded from groups.

Mr. Price asked if there is any data on the experience modifier cap affect on non-group members. Mr. Potts replied he did not have that now, but can research it. Mr. Smith also asked for a breakdown between employers who leave groups because of a loss and those who leave a group for other reasons.

Mr. Bryan asked about the response of stakeholders to the proposal. Mr. Potts replied BWC had many conversations with TPAs and sponsors. Most all agree it is easy to implement and has an immediate impact. BWC has promised to consider their suggestions, but made no commitments on the final recommendation.

Mr. Pitts asked if there is a cap on premium reductions of any employer. Mr. Potts replied that there would be none; however, premium relief will be spread over all employers, who will experience reductions because of credibility table changes. There will also be an overall reduction in premium volatility.

Mr. Bryan reported that this was the first reading of the proposal and the proposal would come to the Actuarial Committee in November for a vote on two rules, Ohio Administrative Code Rule 4123-17-03 and 4123-17-71

ACTUARIAL COMMITTEE CHARTER REVIEW

Ms. Falls reported that the Governance Committee was asking the Actuarial Committee to examine its charter and recommend changes to the Governance Committee, to be acted on in November. The only suggested change is to add a provision that the Workers’ Compensation Board must ratify all actions of the committee.

Mr. Pitts moved that the Actuarial Committee of the Workers' Compensation Board of Directors refer the Actuarial Committee Charter to the Governance Committee to consider the recommended changes as discussed here today. Mr. Caldwell seconded and the motion was approved by unanimous roll call vote of five ayes and no nays.

DISCUSSION ITEMS

PROJECTED RESERVES AS OF JUNE 30, 2009

Jeffery Scott and Jeffery Scholl, Oliver Wyman Consulting Actuaries, provided a report on the projected reserves as of June 30, 2009. Their presentation is incorporated by reference into these minutes. Mr. Scott reported that Oliver Wyman began estimation immediately after conclusion of the calculation of the June 30, 2008, reserve. Oliver Wyman has used the same methodology, adding a new year of expenses and a new year of claims. Mr. Scott reported that the original reserve estimate for June 30, 2009 was $16.2 billion for the State Insurance Fund, and the reserve estimate was $20.1 billion for all funds. After one quarter of the fiscal year a change in assumptions results in lower estimated reserves for June 30, 2009: $15.6 billion for the State Insurance Fund and $19.4 billion for all funds. The two main reasons for the decline are lower than expected medical payments and better than expected payments for lump sum settlements. Oliver Wyman also reduced the medical inflation factor from 9% to 6% for the next twelve months, to reflect the previous five years average growth. However, future years' estimates increase to 9% by 1% increments per year.

Mr. Smith asked how often Oliver Wyman revisits the medical inflation factor. Mr. Scott reported that it is done annually, as illustrated in the report.

Mr. Bryan commented that these factors also impact on excess reserves and the funding ratio. Mr. Pedrick added that Deloitte's analysis showed lower reserves estimates, while also recommending an offsetting reduction in the discount rate.

Mr. Matesich asked if the chart labels for 2009 on page 5 are correct. Mr. Scott replied they 6/30/2009 column labels were off by one year and should start with 2009 and end with 2015.

Mr. Scott further reported that the average claim cost per ultimate lost time claim count had declined from 9.6% to 6%. The reduction began in 2004.

Mr. Bryan stated that the lump sum settlement reflected payment of future expenses and asked what the impact would be on future reserves. Mr. Scott added that as the discount rate is reduced by 0.5%, reserves would increase by $750 million.

QUARTERLY RESERVE AS OF SEPTEMBER 30, 2008

Mr. Bryan asked if Oliver Wyman had a report for the end of the third quarter of 2008. Mr. Scott reported that it is included in the Actuarial Committee packet.

Mr. Bryan requested that Oliver Wyman work with BWC staff to construct a ten-year run-off. The Securities and Exchange Commission uses a ten-year period in its reserve run-off.

CHIEF ACTUARIAL OFFICER REPORT

Mr. Pedrick delivered the Chief Actuarial Officer (CAO) report. He first reported that BWC has experienced a few glitches in MIRA 2 and has gone to Fair Isaac for assistance. User feedback has been favorable. All issues identified are quickly addressed.

The Oliver Wyman consultant contract will expire in 2009. The Request for Proposal (RFP) is being formulated and the timeline is contained in the CAO report. BWC will need to enter the black-out period soon, including any discussion in public forums. The RFP will need input from the Actuarial Committee. Accordingly, Mr. Bryan appointed Mr. Hummel as the Actuarial Committee representative on the consultant RFP and Mr. Hummell agreed to accept the appointment. Ann Shannon, Legal Counsel, advised that the Actuarial Committee must make a recommendation to the Workers' Compensation Board, so the Actuarial Committee must participate. Mr. Pedrick added that BWC will also include Mr. Bryan for his views. Ms. Falls stated that the process will be similar to the RFP for selection of the investment advisor and urged that the Actuarial Committee learn from the experience of the Investment Committee. Mr. Bryan commented that because of the reserve audit schedule, the new consultant should have a start date of July 1, 2009, in order to provide a seamless transition if a firm other than Oliver Wyman is selected.

Mr. Hummel asked what the impact of HB 562 on the RFP is. Mr. Pedrick replied that BWC is still assessing the impact. The intent is to consolidate state contracting functions in the Department of Administrative Services (DAS) in order to take advantages of economies of scale. However, DAS may delegate this RFP to BWC because of the specialized knowledge and skill for this particular contract.

Finally, Mr. Pedrick reported that BWC has posted job postings for three staff actuaries. BWC has received four applications so far.

COMMITTEE CALENDAR

Mr. Bryan requested that an agenda item be added to the November meeting on obtaining a traditional actuarial reserve opinion from Oliver Wyman. He also asked for time for a discussion on the reserves and a staff report detailing the procedure for the reserve audit consultant RFP.

ADJOURNMENT

There was a motion by Mr. Matesich, second by Mr. Hummel, and adjournment by Mr. Bryan.

Prepared by: Larry Rhodebeck, Staff Counsel
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November 4, 2008

Common Sense Business Regulation (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

Rules 4123-17-33, 4123-17-34

Rule Review

1. ☒ The rule is needed to implement an underlying statute.

   Citation: __R.C. 4123.39, 4123.40______

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): _ These rules establish base rates for public employer taxing districts for the policy year January 1, 2009 to December 31, 2009.

3. ☒ Existing federal regulation alone does not adequately regulate the subject matter.

4. ☒ The rule is effective, consistent and efficient.

5. ☒ The rule is not duplicative of rules already in existence.

6. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. ☒ The rule has been reviewed for unintended negative consequences.

8. ☐ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   Explain: ____Generally, rate rules are not subject to stakeholder input.________

9. ☒ The rule was reviewed for clarity and for easy comprehension.

10. ☒ The rule promotes transparency and predictability of regulatory activity.

11. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost? _____________

13. ☒ The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

EXECUTIVE SUMMARY

RATE RECOMMENDATIONS
PUBLIC EMPLOYER TAXING DISTRICTS
1/1/2009
Rule 4123-17-33 Public employer taxing districts credibility table used for experience rating

Public Employer Taxing Districts are the approximately 3,800 cities, counties, villages, townships, schools, and miscellaneous special districts in Ohio who are provided workers' compensation insurance through the Ohio State Insurance Fund.

At the November, 2007 Workers' Compensation Board of Directors meeting, the board recommended setting the maximum credibility for Private Employers for the 7-1-2008 rating year at 85%. The recommendation of the administrator is to adopt the same credibility table for public employer taxing district rates to allow group administrators enough time to select their groups.

Base rates for Public Employer Taxing Districts must be approved and filed with the Secretary of State and Legislative Services Commission on or before December 20, 2008, to be effective January 1, 2009. The consent of the Workers' Compensation Board of Directors is necessary for the adoption of premium rates.

Base rates for all manual classifications will be calculated in the fall of 2008 using the adopted credibility table selected by the Workers' Compensation Board of Directors.

1-1-2009 Public Employer Taxing District
<u>Rate Summary</u>

<u>Public Employer Taxing District Premium Rates</u>

1. Change in public employer taxing district premium rates at the industry level:

Industry Group	Name	Percent Change	Average Collectible Rate per $100 Unit of Payroll
1	Counties	-6	$2.00
2	Cities	-3	$3.99
3	Villages	-5	$3.33
4	Townships	-8	$3.29
5	Schools	-6	$0.89
6	Public Works' Relief Employees	+32	$0.54
7	Contract Coverage	-10	$25.69
8	Hospitals	0	$1.52
20	Transit Authorities	+4	$4.17
22	Special Districts Excluding Transit Authorities	0	$2.84
	Total	**-5.0**	**$1.76**

2. Projected payroll is $20.0 billion. Estimated premium is $353 million.

3. Average assessment for a public employer taxing district per $100 of reported payroll:

Premium (average collectible base rate)	$1.76
Administrative Cost-**<u>BWC</u>** (8.05% based on the 1/1/2008 Admin. Cost Rate)	.1417
Administrative Cost-**<u>IC</u>** (1.75% based on the 1/1/2008 Admin. Cost Rate)	.0308
Disabled Workers' Relief Fund	.06
Additional Disabled Workers' Relief Fund (.1% of premium at base rate)	.0018
Total Collectible Rate	**1.9943**

4. Disabled Workers' Relief Fund rate was reduced to $0.06 per $100 unit of payroll, effective January 1, 2007.

<u>Miscellaneous Rates and Assessments</u>

A. Safety & Hygiene loading factor remained at 1% of premium.
B. Additional Disabled Workers' Relief Fund remained at .1% of premium at base rate.
C. Administrative Cost Rate is unknown at this time. We have used the 1/1/2008 administrative cost assessment rate for illustration purposes.

4123-17-33 Public employer taxing districts credibility table used for experience rating

The administrator of workers' compensation, with the advice and consent of the bureau of workers' compensation ~~oversight commission~~ board of directors, has authority to approve contributions made to the state insurance fund by employers pursuant to section 4121.121 of the Revised Code. The administrator hereby sets the credibility table parts A~~,~~ and B~~, and C~~ to be effective January 1, ~~2008~~ 2009 applicable to the payroll reporting period January 1, ~~2008~~ 2009 through December 31, ~~2008~~ 2009 for public employer taxing districts as indicated in the attached appendixes A~~,~~ and B~~, and C~~.

Effective date:	January 1, 2009
Certification:	______________________________
	______________________________ Date
Promulgated under:	R.C. Sec. 111.15
Rule amplifies:	R.C. Sec. 4123.39, 4123.40
Rule authorized by:	R.C. Sec. 4121.12, 4121.121
Prior effective dates:	1/1/08, 1/1/07, 1/1/06, 1/1/05, 1/1/04, 1/1/03, 1/1/02, 1/1/01, 1/1/00, 1/1/99, 1/1/98, 1/1/97, 3/15/96, 1/1/96 (Emer.), 1/1/95, 1/1/94, 1/1/93, 1/1/92, 1/1/91, 1/1/90

APPENDIX A

TABLE 1

PART A

INDUSTRY GROUP	MANUAL CLASSIFICATIONS
01	9430
02	9431
03	9432
04	9433
05	9434, 9435, 9436, 9437
06	9438
07	9439
08	9440, 9441
20	9442
22	9443

Revised 1-1-2009 applicable to 2009 calendar year payroll

APPENDIX B
TABLE 1
PART B
INDUSTRY GROUP
(LLR)

Credibility Group	1	2	3	4	5	6	7	8	20	22
1	0.3596	0.425	0.3312	0.4271	0.3949	0.5287	0.2519	0.3877	0.3198	0.3592
2	0.3596	0.4250	0.3312	0.4271	0.3949	0.5287	0.2519	0.3877	0.3198	0.3592
3	0.5030	0.5735	0.4480	0.5632	0.5385	0.7157	0.3527	0.5098	0.4691	0.4961
4	0.6032	0.6655	0.5318	0.6470	0.6332	0.8381	0.4345	0.5983	0.5738	0.5971
5	0.7042	0.7533	0.6196	0.7263	0.7276	0.9351	0.5183	0.6767	0.6775	0.6989
6	0.7793	0.8189	0.6941	0.7943	0.8002	0.9678	0.5950	0.7528	0.7531	0.7862
7	0.8136	0.8481	0.7328	0.8274	0.8337	0.9883	0.6349	0.7914	0.7829	0.8241
8	0.8422	0.8719	0.7663	0.8537	0.8610	1.0000	0.6733	0.8256	0.8099	0.8520
9	0.8672	0.8924	0.7975	0.8763	0.8834	1.0000	0.7084	0.8567	0.8361	0.8760
10	0.8882	0.9094	0.8249	0.8940	0.9023	1.0000	0.7434	0.8836	0.8592	0.8973
11	0.9062	0.9241	0.8509	0.9100	0.9187	1.0000	0.7769	0.9031	0.8797	0.9158
12	0.9218	0.9369	0.8744	0.9249	0.9332	1.0000	0.8078	0.9205	0.8989	0.9330
13	0.9356	0.9478	0.8962	0.9379	0.9460	1.0000	0.8348	0.9364	0.9163	0.9490
14	0.9480	0.9574	0.9160	0.9503	0.9577	1.0000	0.8608	0.9480	0.9306	0.9623

15	0.9592	0.9660	0.9340	0.9607	0.9678	1.0000	0.8867	0.9586	0.9422	0.9718
16	0.9694	0.9739	0.9497	0.9704	0.9764	1.0000	0.9108	0.9680	0.9537	0.9812
17	0.9783	0.9811	0.9645	0.9785	0.9838	1.0000	0.9336	0.9760	0.9653	0.9867
18	0.9863	0.9878	0.9783	0.9861	0.9902	1.0000	0.9565	0.9840	0.9769	0.9914
19	0.9934	0.9941	0.9898	0.9933	0.9954	1.0000	0.9787	0.9920	0.9884	0.9961
20	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

Effective 1-1-2009 applicable to 2009 calendar year payroll.

4123-17-34 Public employer taxing districts contribution to the state insurance fund

The administrator of workers' compensation, with the advice and consent of the bureau of workers' compensation ~~oversight commission~~ board of directors, has authority to approve contributions made to the state insurance fund by employers pursuant to section 4121.121 of the Revised Code. The administrator hereby sets base rates and expected loss rates to be effective January 1, ~~2008~~ 2009, applicable to the payroll reporting period January 1, ~~2008~~ 2009 through December 31, ~~2008~~ 2009, for public employer taxing districts as indicated in the attached appendix A.

TO BE AMENDED

Appendix A

NCCI Classification Code	NCCI Classification Description	Base Rate Per $100 of Payroll		Expected Loss Rate Per $100 of Payroll	
9430	County employees: all employees & clerical, clerical telecommuter, salespersons, drivers	~~2.45~~	2.28	~~0.79~~	0.74
9431	City employees: all employees & clerical, clerical telecommuter, salespersons, drivers	~~4.71~~	4.51	~~1.47~~	1.42
9432	Village employees: all employees & clerical, clerical telecommuter, salespersons, drivers	~~6.60~~	6.29	~~1.28~~	1.18
9433	Township employees: all employees & clerical, clerical telecommuter, salespersons, drivers	~~5.97~~	5.32	~~1.10~~	1.03
9434	Local school districts: all employees & clerical, clerical telecommuter, salespersons, drivers	~~1.17~~	1.07	~~0.34~~	0.32
9435	Public libraries: all employees & clerical, clerical telecommuter, salespersons, drivers	~~1.17~~	1.07	~~0.34~~	0.32

NCCI Classification Code	**NCCI Classification Description**	**Base Rate Per $100 of Payroll**		**Expected Loss Rate Per $100 of Payroll**	
9436	Special public universities: all employees & clerical, clerical telecommuter, salespersons, drivers	~~1.17~~	1.07	~~0.34~~	0.32
9437	Joint vocational schools: all employees & clerical, clerical telecommuter, salespersons, drivers	~~1.17~~	1.07	~~0.34~~	0.32
9438	Public work-relief Employees	~~0.50~~	0.65	~~0.20~~	0.27
9439	Public employer emergency services organizations: contract coverage (See note below)	~~56.02~~	48.42	~~9.43~~	8.62
9440	Public hospitals: all employees & clerical, clerical telecommuter, salespersons, drivers	~~2.07~~	2.20	~~0.52~~	0.51
9441	Special public institutions: all employees & clerical, clerical telecommuter, salespersons, drivers	~~2.07~~	2.20	~~0.52~~	0.51
9442	Public transit authorities: all employees & clerical, clerical telecommuter, salespersons, drivers	~~4.39~~	4.65	~~1.51~~	1.67
9443	Special public authorities: all employees & clerical, clerical telecommuter, salespersons, drivers	~~4.06~~	4.21	~~1.02~~	1.04

(Revised January 1, ~~2008~~ 2009, applicable to the payroll reporting period January 1, ~~2008~~ 2009 through December 31, 2008 2009)

Note: for classification code 9439, contract coverage, actual payroll is to be reported with a minimum of three hundred dollars ($300.00) per enrolled person per year, with a minimum reportable payroll of $4,500.00.

Note: the bureau shall assign claims for emergency management workers occurring due to a disaster or an emergency as provided under sections 4123.031 to 4123.037 of the Revised Code to the risk of the public employer taxing district that administered the loyalty oath. The bureau shall charge all of the costs of such claims to the surplus fund. There is no payroll to be reported or premium charged for this coverage.

Effective Date:	January 1, 2009
Certification:	________________________________
	________________________________ Date
Promulgated Under:	R.C. Sec. 111.15
Rule Amplifies:	R.C. Sec. 4123.39, 4123.40
Rule Authorized By:	R.C. Sec. 4121.12, 4121.121
Prior Effective Date:	1/1/08, 1/1/07, 1/1/06, 1/1/05, 1/1/04, 1/1/03, 1/1/02, 1/1/01, 1/1/00, 1/1/99, 1/1/98, 1/1/97, 3/15/96, 1/1/96 (Emer.), 5/15/95, 1/1/95, 1/1/94, 1/1/93, 1/1/92, 1/1/91, 1/1/90

Experience Rating Reform

In June 2008, the Board of Directors approved a series of proposals to continue experience rating reform that will better align premiums with projected levels of risk. In the proposals, BWC noted the concerns expressed by sponsoring associations and third-party administrators about the potential financial impacts to employers, and recommended to cap increases in employer premiums in two ways:

1) **Cap per-year premium increases resulting solely from changes to the credibility table at 20%.**
2) **Cap year-to-year employer Experience Modifier (EM) increases at 100%.**

The BWC has continued to solicit and receive feedback to develop the detailed capping recommendations that will be presented to the Board of Directors at the October 2008 meeting.

CAPPING DESIGN RECOMMENDATION

BWC's original proposal to cap premium increases at 20-percent would require employers to initially pay their full premiums without regard to the caps. Then, after the policy year ends and premiums are received by the BWC, the premium cap would be calculated with the employers receiving a refund check as applicable. Due to the complexity and the delayed premium reduction for employers, this method of capping would be less than ideal. The BWC would like to implement a capping strategy that is easy to understand, communicate, and implement. Therefore, the BWC recommends using an EM cap at a percentage that will achieve similar results as a 20-percent premium cap. Using a 30% EM cap permits the employers to pay premiums at a capped EM rate immediately without waiting for the policy year to end to receive the benefit of the capping strategy. The BWC continues to recommend the 100% cap to moderate premium increases from one policy year to the next for individually rated employers.

CAPPING IMPACT COMPARISON

The following data compares the projected impacts of the original capping strategy (100-percent EM/20-percent premium) to that of the current recommendation (100-percent Year-to-Year EM/30-percent Single Year EM).

Group Loss Ratio Relative to Non-Group Loss Ratio				Number of Policies Capped		Average Premium of all policies		
At 85% Credibility Table	At 77% Credibility Table	20% Premium cap	30% EM cap	20% premium cap	30% EM cap	Before Capping	After 20% premium cap	After 30% EM cap
1.52	1.34	1.33	1.34	61,529	73,865	$8,348	$8,182	$8,168

*Group loss ratio relative to non-group loss ratio at the 85% maximum credibility table is 1.52

CAPPING DESCRIPTION

1) **Implement a Within-Year EM Cap of 30-percent to moderate premium increases as a result of the July 1, 2009 credibility table change.** This cap will limit to 30-percent the EM increase that is caused solely by the change from an 85-percent maximum credibility table to a 77-percent maximum credibility table. There will be two EM's calculated for 7/1/2009. The first will be calculated using the 85-percent credibility table and the second using the 77-percent credibility table. The selected EM will be the lower of the 85-percent maximum credibility table EM increased by 30-percent or the 77-percent maximum credibility table EM. Any changes due to the employer's experience would not be included as part of this cap, since both EM calculations use the same experience period data. This capping process may be repeated in subsequent years (pending further actuarial analysis) until the uncapped premium level is achieved for the policy.

Within-Year EM Cap of 30-percent Scenarios

Employer EM Scenarios	(A) 7-1-2009 EM	(B) 85% EM plus 30-	(C) 7-1-2009 EM	(D) Selected EM

	(85-percent maximum tables)	percent	(77-percent maximum tables)	(lower of column B or C)
Individual Employer not in a group – cap	0.23	0.30	0.31	0.30
Individual Employer not in a group – no cap	0.57	0.74	0.60	0.60
Individual Employer group rated for PY 7-1-2009 – cap	0.15 (group EM)	0.20 (group EM)	0.23	0.20
Individual Employer group rated for PY 7-1-2009 – no cap	0.36 (group EM)	0.47 (group EM)	0.45	0.45

2) Implement a Between-Year EM Cap of 100-percent to moderate premium increases from one policy year to the next, beginning July 1, 2009. This cap will capture any changes to an individual employer's experience rating history. The baseline EM will be the July 1, 2008 published EM which uses experience period data calculated as of the December 31, 2007 survey date. This baseline EM will not be adjusted at any point in the future. No cap will be applied to EM decreases.

Between-Year EM Cap of 100-percent Scenarios

Employer EM Scenarios	(A) 7-1-2008 EM	(B) 7-1-2009 Capped EM (7-1-2008 EM x 2)	(C) 7-1-2009 EM (77-percent maximum tables)	(D) Selected EM for 7-1-2009 policy year (lower of column B or C)
Individual Employer – no cap	0.63	1.26	0.73	0.73
Individual Employer – no cap	0.63	1.26	0.50	0.50
Individual Employer – cap	0.63	1.26	1.55	1.26
Individual Employer- group rated in PY 7-1-2008 no longer group in PY 7-1-2009	0.15 (group EM)	0.30	1.05 (individual EM)	0.30

Between-Year EM Cap of 100-percent Exclusion

It is important to recognize that changes in exposure have an impact on premium requirements. Therefore, where more than one employer policy's experience is used to develop an EM and the exposure is now different than was used to calculate the baseline EM, the resulting EM is not subject to the 100-percent year to year cap.

Exceptions to the Exclusion that will allow the cap to be applied:

1) A Debtor in Possession policy combination as a result of bankruptcy proceedings. This transaction is a change in policy number without any change in exposure.
2) A succeeding employer policy that is base rated as of the effective date of the transfer that wholly or partially succeeds only one other policy. This exception acknowledges the change in exposure.

In both of the exceptions above, the baseline EM of the successor policy will be the predecessor policy's 7/1/2008 published EM.

Discount Programs

1) The One Claim Program (OCP) will continue to operate under the current rules and parameters. The only exception being, any employer that has a lower EM (due to the 100-percent year-to-year cap) than the .60 EM currently offered under the OCP would receive the 100-percent capped EM. The employer should still apply for the OCP as the current rules require. This will allow the BWC to use the OCP EM as the baseline EM in subsequent policy years.
2) The baseline EM for those employers that are currently participating in either the Premium Discount Program or the Drug Free Workplace Program will be the published EM prior to the program discounts.

Common Sense Business Regulation (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

Rules 4123-17-03, 4123-17-71

Rule Review

1. ☒ The rule is needed to implement an underlying statute.

   Citation: __R.C. 4123.29, 4123.34 ___

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): _ Rule 4123-17-03 establishes the formula for calculating the experience modification for workers' compensation rates. Rule 4123-17-71 describes the one claim program for workers' compensation. The amendments will mitigate the impact of premium fluctuations for employers caused by changes to the credibility table or group rating eligibility, providing more premium predictability for employers.

3. ☒ Existing federal regulation alone does not adequately regulate the subject matter.

4. ☒ The rule is effective, consistent and efficient.

5. ☒ The rule is not duplicative of rules already in existence.

6. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. ☒ The rule has been reviewed for unintended negative consequences.

8. ☒ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   Explain: __Third Party Administrators; Group rating sponsors_________________

9. ☒ The rule was reviewed for clarity and for easy comprehension.

10. ☒ The rule promotes transparency and predictability of regulatory activity.

11. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost? _____________

13. ☒ The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

4123-17-71 One claim program for experience rated and base rated employers.

Pursuant to division (E) of section 4123.34 of the Revised Code, the administrator may grant a discount on premium rates to an eligible employer that meets the one claim program (OCP) requirements under the provisions of this rule.

(A) As used in this rule:

(1) “One claim program” or “OCP” means the bureau’s voluntary rate program which offers a private, state fund employer the opportunity to mitigate the impact of a significant claim that would be coming into the employer’s experience for the first time from the green year.

(2) “Significant claim” means a claim whose total value or maximum claim value, whichever is lower, will be greater than the employer’s total limited losses (TLL).

(B) Application and withdrawal processes. An employer’s participation in the OCP is voluntary and shall be for a maximum of four policy years in relationship to a specific significant claim. The bureau shall evaluate each application to determine the employer’s current eligibility to participate in the OCP at the time of the application and for each year of continuing participation. The bureau shall have the final authority to approve an eligible employer for initial and continued participation in the OCP.

(1) A private state fund employer shall submit a completed application by March thirty-first for the policy year beginning July first of that year.

(2) An employer may withdraw from the OCP under this rule at any time. An employer that withdraws from the OCP after receiving a discount will return to its own individual experience rating for the rest of the policy year.

(3) If the employer withdraws from the OCP and has any remaining years in which the significant claim is still in its experience, the employer may reapply for the OCP and designate the same significant claim as its one claim.

(C) Eligibility requirements. At the time of an employer’s application for the OCP, the employer shall be currently enrolled in a group rating program and shall meet the following program requirements:

(1) The employer shall have no more than four claims in the next experience period including the most recent calendar year with the total cost value of the one significant claim or the employer’s maximum claim value, whichever is lower, greater than the employer’s TLL. The four claims may include up to three medical only claims and one significant claim.

OBWC Board of Directors
Actuarial Committee Charter

Purpose

The Actuarial Committee has been established to assist the Ohio Bureau of Workers' Compensation Committee Board of Directors in fulfilling its responsibilities through:

- monitoring the actuarial soundness and financial condition of the funds and reviewing rates, reserves and the level of net assets
- monitoring the integrity of the actuarial audit process
- monitoring compliance with legal and regulatory requirements
- monitoring the design and effectiveness of the actuarial studies
- confirming external actuarial consultants' qualifications and independence
- reviewing any independent external actuarial work product

In order to constitute the will of the Board of Directors, Committee actions must be ratified or adopted by the Board of Directors to become effective.

Membership

The Committee shall be composed of a minimum of five (5) members. One member shall be the appointed actuary member of the Board. The Board, by majority vote shall appoint four additional members. The Board may also appoint additional members who may or may not be on the Board. Members of the Actuarial Committee serve at the pleasure of the Board and the Board, by majority vote, may remove any member except the member of the committee who is the actuary member of the Board.

Each committee member will be independent from management. The Chair and Vice Chair are designated by the Board, based on the recommendation of the Board Chair. The Board Chair, if not a member, is an ex-officio member and shall not vote if his/her vote will create a tie vote when serving as ex-officio.

The Committee Chair will be responsible for scheduling all meetings of the Committee and providing the Committee with a written agenda for each meeting. The Committee will have a staff liaison designated to assist it in carrying out its duties.

Meetings

By majority vote the Committee will recommend to the Board of Directors its meeting schedule. There shall be not less than nine (9) meetings each year. Reports shall be made to the Board after each meeting. The Committee also has the authority to convene additional meetings, as circumstances require. The Committee will invite members of management, external actuarial firms, internal actuarial staff and/or others to attend meetings and provide pertinent information, as necessary. Committee meetings will be conducted according to Robert's Rules of Order. A quorum will be a majority of the Committee members.

Duties and Responsibilities

The Actuarial Committee shall have responsibility for the following:

1. Recommending actuarial consultants for the Board to use for the funds specified in the Ohio Revised Code.
2. Reviewing the calculation of rate schedules prepared by the actuarial consultants with whom the Board contracts.
3. Reviewing administrative code rules regarding rate making for recommendation to the Board.
4. Supervising for the Board's consideration the preparation of an annual report of the actuarial valuation of the assets, liabilities and funding requirements of the state insurance funds to be submitted to the Workers' Compensation Council and the Senate and House.
5. Coordinating with other Board Committees on issues of common interest.
6. At least once every five (5) years, contracting for an actuarial investigation of experience of employers; mortality, service and injury rate of employees; and payment of benefits in order to update the assumptions on the annual actuarial report. (ORC 4121.125(F), effective 2007)
7. Arranging for an actuarial analysis prepared of any legislation expected to have measurable financial impact on the system, within 60 days after introduction of the legislation.
8. Consulting in the appointment of and overseeing the work of any actuarial firm engaged by Ohio Bureau of Workers' Compensation to complete actuarial studies.
9. Recommending retention and oversight of consultants, experts, independent counsel and actuaries to advise the Committee on any of its responsibilities or assist in the conduct of an investigation.
10. Seeking any information it requires from Bureau employees – all of whom are directed to cooperate with the Committee's requests, or the request of internal or external parties working for the Committee. These parties include the internal actuaries, all external actuaries, consultants, investigators and any other specialties working for the Committee.
11. Making recommendations to the Board of Directors of the Ohio Bureau of Workers' Compensation for Board decisions.
12. At least annually, reviewing this charter and submitting any proposed changes to the Governance Committee and to the Board for approval.
13. Creating, by majority vote, a subcommittee consisting of one or more Directors on the Committee. In consultation with the Chair, other Board members may be appointed to the subcommittee as appropriate. The subcommittee shall have a specific purpose. Each subcommittee shall keep minutes of its meetings. The subcommittee shall report to the Board of Directors through the Committee. The Committee by majority vote may dissolve the subcommittee at any time.

Actuarial Committee Charter.doc
Draft 092607
Review & Approved 112107, Chuck Bryan, Chair
Revised 012408
Revised 092408
Annual Review and Revision 112108

(2) The employer shall be current at the time of the application underwriting review. “Current” means that the employer is not more than forty-five days past due on any and all premiums, assessments, penalties or monies otherwise due to any fund administered by the bureau, including amounts due for retrospective rating at the time of the application deadline. The employer must continue to be current throughout its participation in OCP.

(3) The employer cannot have cumulative lapses in workers’ compensation coverage in excess of fifty-nine days within the eighteen months preceding the March thirty-first application deadline or any time thereafter while participating in the OCP.

(4) An employer in the OCP shall continue to meet all eligibility requirements during each year of participation in the program.

(D) General program requirements.

(1) In signing the application form, the chief executive officer or designated management representative of the employer is certifying to the bureau that the employer will comply with all program requirements.

(2) An employer may have a maximum of three medical only claims at any time in addition to the one significant claim. As a medical only claim exits the employer’s experience period, the employer may include a new medical only claim.

(3) The total number of medical only claims may not exceed three, and the total combined costs of these claims must be below the employer’s TLL.

(4) An employer may participate in the OCP on no more than one claim every four years from the date of the employer’s initial participation in the program. If the combined claim costs for the three medical only claims increase over the TLL, the employer would not be eligible.

(5) Once a claim has been designated as the one significant claim, an employer is not permitted to change the designated claim after the employer’s initial enrollment in the program.

(6) Settled and subrogated claims will be included in the employer’s total claim count.

(7) The employer shall attend the bureau’s Workers’ Compensation University and one other BWC-approved training class each participating policy year.

(E) Program benefits.

(1) The bureau will credit an employer that meets all the criteria with a forty per cent discount from the employer’s base rate.

(a) Any employer that has a lower EM% due to the 100-per cent year-to-year cap as provided in paragraph (H) of rule 4123-17-03 of the Ohio Administrative Code than the forty per cent discount offered under this rule would receive the EM% based on the 100-per cent capped EM.

(b) The employer should still apply for the one claim program as provided in this rule to allow the employer to continue in the one claim program in subsequent policy years.

(2) The employer shall be eligible to participate in the bureau's drug-free workplace program or drug-free EZ program and may add the drug-free discount in addition to the OCP discount.

(F) Removal from program. The bureau will remove an employer from participation in the OCP at the beginning of the next policy year and, upon removal, will return the employer to its individual experience modifier, under the following circumstances:

(1) If the employer has more than four claims, lost time or medical only, including the one significant claim;

(2) If the combined claim costs of the three medical only claims increase past the TLL;

(3) If the employer fails to meet any of the eligibility or general requirements of paragraph (C) or paragraph (D) of this rule.

(G) An employer may appeal the bureau's application rejection or the bureau's participation removal in the OCP to the bureau's adjudicating committee pursuant to section 4123.291 of the Revised Code and rule 4123-14-06 of the Administrative Code.

Prior effective date: 1/1/05
Promulgated Under: 111.15
Statutory Authority: 4121.12, 4121.121
Rule Amplifies: 4123.29, 4123.34

OLIVER WYMAN

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November 18, 2008

Mr. John Pedrick, FCAS, MAAA
Chief Actuarial Officer
Ohio Bureau of Workers' Compensation
30 West Spring Street
Columbus, Ohio 43266-0581

Subject:
Unpaid PA, PEC and PES Loss Re-estimate Exhibits as of June 30, 2009 using data as of September 30, 2008

Dear Mr. Pedrick:

Attached are the unpaid loss re-estimations on both an undiscounted and discounted basis as of June 30, 2009 for PA, PEC and PES employers. We have re-estimated the unpaid liability as of June 30 for each year beginning with June 30, 2002.

Methodology

The calculations use procedures similar to those used in our prior analysis. Discounted and nominal unpaid liability as of June 30, 2009, as well as the latest estimated fiscal year payments, were obtained from our projected analysis of unpaid liability as of June 30, 2009 using data as of September 30, 2008.

The latest estimated fiscal year payments are a combination of the actual payments from July 1, 2008 through September 30, 2008 and the expected payments from October 1, 2008 through June 30, 2009 based on our expected payments determined from the June 30, 2008 actuarial audit.

We restate the respective unpaid liability at prior evaluations by adjusting the current period's estimate of the unpaid liability for the "actual" payments that have occurred for the years prior to the evaluation date considered and excluding any liability for injuries occurring subsequent to the respective prior evaluation date. For instance, the June 30, 2009 re-estimation of the unpaid liability as of June 30, 2008 considers payments made subsequent to June 30, 2008 on injuries that occurred prior to June 30, 2008. In addition, we have excluded any liability included in the June 30, 2009 unpaid liability related to injuries subsequent to June 30, 2008.

If we can be of further assistance, please let us know.

Sincerely,

Jeffery J. Scott, FCAS, MAAA

Jeffery W. Scholl, FCAS, MAAA

Ohio Bureau Of Workers' Compensation
Total PA, PEC and PES Undiscounted Unpaid Loss
Unpaid Loss Reestimates as of June 30, 2009
(Dollars In Millions)

	2002	2003	2004	2005	2006	2007	2008	2009
Discounted	13,136	14,077	14,360	14,868	14,632	14,487	14,838	14,793
Amount of Discount	13,572	13,978	14,505	14,191	13,983	12,548	12,090	11,794
Nominal	26,708	28,055	28,866	29,060	28,615	27,034	26,928	26,587
Payments during 1st Year	1,635	1,725	1,736	1,794	1,753	1,763	1,882	1,883
Incremental Payments as of:								
One year later	1,453	1,477	1,539	1,513	1,540	1,656	1,656	
Two years later	1,193	1,259	1,244	1,291	1,405	1,404		
Three years later	1,073	1,068	1,122	1,234	1,242			
Four years later	932	991	1,103	1,116				
Five years later	880	992	1,008					
Six years later	888	907						
Seven years later	812							
Eight years later								
Nine years later								
Ten years later								
Cumulative Payments as of:								
One year later	3,088	3,202	3,276	3,307	3,293	3,419	3,538	
Two years later	4,281	4,460	4,519	4,598	4,697	4,824		
Three years later	5,355	5,529	5,641	5,833	5,939			
Four years later	6,287	6,520	6,744	6,948				
Five years later	7,167	7,511	7,752					
Six years later	8,054	8,418						
Seven years later	8,867							
Eight years later								
Nine years later								
Ten years later								
Liability reestimated as of:								
One year later	26,256	27,125	27,474	27,106	25,647	25,854	25,601	
Two years later	25,467	25,835	25,792	24,474	24,787	24,733		
Three years later	24,240	24,431	23,313	23,713	23,868			
Four years later	23,000	22,029	22,621	22,963				
Five years later	20,738	21,515	22,006					
Six years later	20,434	21,008						
Seven years later	20,028							
Eight years later								
Nine years later								
Ten years later								

Ohio Bureau Of Workers' Compensation
Total PA, PEC and PES Discounted Unpaid Loss
Unpaid Loss Reestimates as of June 30, 2009
(Dollars In Millions)

	2002	2003	2004	2005	2006	2007	2008	2009
Discounted	13,136	14,077	14,360	14,868	14,632	14,487	14,838	14,793
Amount of Discount	13,572	13,978	14,505	14,191	13,983	12,548	12,837	11,794
Nominal	26,708	28,055	28,866	29,060	28,615	27,034	27,676	26,587
Payments during 1st Year	1,518	1,635	1,725	1,736	1,794	1,753	1,763	1,883
Discount Rate:	5.80%	5.50%	5.50%	5.25%	5.25%	5.00%	5.00%	5.00%
Incremental Payments as of:								
One year later	1,453	1,477	1,539	1,513	1,540	1,656	1,656	
Two years later	1,193	1,259	1,244	1,291	1,405	1,404		
Three years later	1,073	1,068	1,122	1,234	1,242			
Four years later	932	991	1,103	1,116				
Five years later	880	992	1,008					
Six years later	888	907						
Seven years later	812							
Eight years later								
Nine years later								
Ten years later								
Cumulative Payments as of: (Discounted)								
One year later	2,889	3,029	3,178	3,167	3,250	3,327	3,337	
Two years later	3,985	4,191	4,326	4,363	4,551	4,632		
Three years later	4,917	5,125	5,307	5,449	5,644			
Four years later	5,682	5,947	6,222	6,382				
Five years later	6,365	6,726	7,013					
Six years later	7,016	7,401						
Seven years later	7,580							
Eight years later								
Nine years later								
Ten years later								
Liability reestimated as of:								
One year later	12,930	13,625	13,931	13,978	13,600	14,359	14,337	
Two years later	12,682	13,292	13,173	13,132	13,578	13,992		
Three years later	12,369	12,643	12,455	13,150	13,255			
Four years later	11,822	12,028	12,506	12,864				
Five years later	11,325	12,111	12,284					
Six years later	11,448	11,924						
Seven years later	11,314							
Eight years later								
Nine years later								
Ten years later								

Memo

To: Directors

From: Don Berno, BWC Board Liaison

Date: 11/21/2008

Re: We are investigating the requirements imposed by insurance regulators for actuarial opinions on insurance company reserves. The format and required materials have been developed by the National Association of Insurance Commissioners (NAIC) and adopted with some uniformity by the states. The goal of our effort is to improve the information in the actuarial opinion that accompanies our annual reserve audit, and to incorporate applicable parts of the NAIC opinion. A copy of the most recent actuarial opinion, for June 30, 2008, is behind this memo.

OLIVER WYMAN

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August 26, 2008

Mr. John Pedrick, FCAS, MAAA
Chief Actuarial Officer
Ohio Bureau of Workers' Compensation
30 West Spring Street
Columbus, Ohio 43266-0581

Subject:
Actuarial Audit for Ohio Bureau of Workers Compensation

Dear Mr. Pedrick:

You have asked Oliver Wyman Actuarial Consulting, Inc. to comment on the unpaid liabilities estimated in its actuarial audit, dated August 22, 2008, for the Ohio Bureau of Workers Compensation (the Bureau).

Our full report consists of analyzing, by benefit and employer type, historical loss development patterns of payments, claim counts, and relationships to premiums and payroll. We relied upon data prepared by Ms. Elizabeth Bravender and the actuarial section of the Bureau. We evaluated that data for reasonableness and consistency. We then selected figures which, in our opinion, provide the actuarial central estimate of liabilities for loss and loss adjustment expense for each benefit and employer type. These undiscounted estimates are computed in accordance with accepted loss reserving standards and principles and make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Bureau under the terms of its contracts and agreements.

The unpaid loss estimates are also shown on a discounted to present value basis using an annual discount rate of 5% and the selected payment pattern shown in our actuarial audit. The discount rate was provided to us by the management of BWC and we have not performed an independent analysis of its appropriateness or associated risk margins. Greater uncertainty exists when preparing indicated unpaid claim estimates on a discounted basis since results are dependent on additional parameters such as the assumed payout pattern, actual funds invested, and the actual investment return. In fact, the American Academy of Actuaries Actuarial Standard of Practice No. 20, *Discounting of Property and Casualty Loss and Loss Adjustment Expense Reserves*, indicates that a discounted unpaid claim estimate is not an adequate estimate of economic value unless a risk margin is included.

We have relied on the incremental payment patterns as selected in our audit for the unpaid claim estimates. These estimates are net of subrogation and salvage, and reflect no reinsurance as the Bureau currently has no reinsurance in place. We have not used case reserves in our analysis, as reserves calculated by MIRA are not available prior to 1997 and cumulative loss triangles prior to accident year 1989 are not available.

With the net asset (surplus) position of BWC at $2.9 billion, the risk of adverse deviation in the unpaid liability being greater than the net asset amount is significant. The net asset position is approximately 15% of the estimated present value of the unpaid liabilities and would be eliminated by an increase of 15% or more in the unpaid loss estimate. The unpaid loss estimates are projections of many future contingent events, and the present value of the actual payments may vary significantly from our projections due to factors such as the following:

- unanticipated changes in wage and benefit levels;
- legislative changes;
- changes in claims consciousness;
- changes in claims settlement practices, cost containment programs and fraud investigation efforts;
- unexpected judicial interpretations of statutes;
- changes in medical inflation rates;
- changes in utilization of medical services;
- investment returns differing from assumed interest rate;

OLIVER WYMAN

Mr. John Pedrick, FCAS, MAAA
Ohio Bureau of Workers' Compensation

- changes in timing of payments.

If you have any further questions, please feel free to contact us.

Sincerely,

Jeffery J. Scott, FCAS, MAAA

Jeffery W. Scholl, FCAS, MAAA

<u>Proposed</u> Actuarial Consultant Request for Proposal Schedule
New contract beginning July 2009 or October, 2009 or January 1, 2010 to December 2012

Steps	Dates
2006 Actuarial consultant RFP provided to Actuarial Committee for review	November 20, 2008
Comments and recommendations from actuarial committee members.	December 17, 2008
Scope and evaluation criteria meetings	TBD
RFP issued	February 27, 2009
Blackout Period Begins?	February 27, 2009
Question submission begins	March 2, 2009
Question submission ends	March 13, 2009 10:00 AM EST
Answers posted on the web site	March 27, 2009
Mandatory Letter of Intent or Mandatory Pre-submission conference	March 31, 2009 5:15 PM EST
Proposals due	April 16, 2009 2:00 PM EST
RFP review committee makes recommendation to Actuarial committee and Workers' Compensation Board	TBD
Blackout Period ends at selection of actuarial consultant	TBD
Project begins	TBD
Project ends	December 31, 2012

Prepared by: BWC Actuarial Staff
11/21/2008 2:18 PM

BWC Board of Directors
Actuarial Committee
CAO Report
John Pedrick, Chief Actuarial Officer
November 20, 2008

We are investigating the requirements imposed by insurance regulators for actuarial opinions on insurance company reserves. The format and required materials have been developed by the National Association of Insurance Commissioners (NAIC) and adopted with some uniformity by the states. The goal of our effort is to improve the information in the actuarial opinion that accompanies our annual reserve audit, and to incorporate applicable parts of the NAIC opinion. A copy of the most recent actuarial opinion, for June 30, 2008, is in the committee materials to help in today's discussion

The comprehensive rate reform effort, implementing the plan approved by the Board in June, is approaching some key milestones.

- Rules to cap changes to employers' experience modifiers (EM's) were presented for a first reading last month and have returned this month for possible action. The caps address two major reasons that EM's increase.
    - The "Between Year" 100% cap prevents rapid jumps in EM's due to changes in an employer's claim experience from one year to the next, that is, between the two experience periods. By statute, that experience is the oldest four of the last five calendar years. Each year, the oldest of those years drops from consideration (it's now the sixth calendar year) and a new year, the "green" year for the prior policy period, moves into the experience. Employers and group organizers can see this claim experience coming. A severe claim during this year can cause an employer to be eliminated from the group rating program, which often results in the EM rising by several hundred percent. This cap limits the impact of this problem. To reduce unintended consequences, we propose limiting this cap to employers whose EM is calculated using a single employer. Those in groups, and PEO's, would not be eligible.
    - The "Within Year" 30% EM cap limits the increase in EM that could result from changing our credibility table to one with a maximum of 77%, down from the current 85%. This cap will only apply to the current experience period.
- Efforts to craft rules for group governance and continuity have gone slower than anticipated. We still target reporting a workable solution to you this year.
- Performance based options for employers are on target for discussion at the December committee meeting. Several deductible options and a plan for group retrospective rating are being developed. While rules for these options must be filed by June 20 to be in place by July 1, 2009, we hope to have the structure and requirements for these programs set in time for employers to make informed decisions for the next policy year.
- Looking to July, 2011, we are turning our attention to the development of the split experience rating plan. While the method we modeled for the plan presented last June has a single split point at $10,000, we will consider a variety of approaches that will improve performance, such as different split points based on expected loss. Our goal is to have the structure of the new experience rating plan well defined by this summer. We will then use data through June 30, 2009, including a full year of MIRA II reserves, to develop the parameters of the plan. We plan to have the entire plan finalized one year before implementation.

Timelines for all of our projects follow.

Comprehensive Plan Implementation

1. Communications/Group Structure and Governance Team

Jeremy Jackson and David Hollingsworth, Consultant		
Task/Function	**Timeline**	**Status**
Stakeholder Communications	8/1/2008 start	Ongoing
Rules/ Outreach	8/1/2008 start	Ongoing
Media	8/1/2008 start	Ongoing
Targeted Employer Communications	8/1/2008 start	Ongoing

- Workgroups continue to meet on a bi-weekly basis.
- Individual meetings with group sponsors and TPA's continue each week.

2. Capping/Split Plan Team

Terry Potts and Paul Flowers		
Task/Function	**Timeline**	**Status**
Identify parameters and structure for capping strategy	Jul – Dec, 2008	Ongoing
System development	Sep 2008 to Dec 2009	In progress
Capping strategy for PA employers effective	July 1, 2009	In progress
Capping strategy for PEC employers effective	January 1, 2010	
Split Plan development	Jan 2009 to Jun 2010	
Split Plan implementation	July 1, 2011	

- Rules to implement caps for the policy year starting July 1, 2009 have been presented first reading with the Actuarial Committee in October, and for a second reading and action in November.

3. New Products/Deloitte Integration Team

Joy Bush and Jamey Fauque, Centric Consulting		
Task/Function	**Timeline**	**Status**
Develop Project Plan	Aug 11-15	Completed
Develop Deductible Plan	Aug – Dec, 2008	In progress
Develop Dividend/Retro/Sharing Plans	Aug – Dec, 2008	In progress
Review Current Programs	Aug – Dec, 2008	In progress
Board Meeting to Review Final Proposals	Dec 17	In progress

- Proposals for deductibles effective with the policy year starting July 1, 2009 will be brought to the Actuarial Committee in December.
- Additional products may also be ready in the same time frame.

House Bill 100 §512.50 Actuarial Study

Task/Function	Timeline	Status
Project Begins	Feb 19, 2008	Completed
Initial Meeting with Deloitte	Feb 27, 2008	Completed
Deloitte introduced to Actuarial Committee	Feb 28, 2008	Completed

Deloitte training presentation to Actuarial Committee	May 28, 2008	Completed
Deloitte presents first grouping report to Actuarial Committee	June 25, 2008	Completed
Deloitte presents second grouping report to Actuarial Committee	August 28, 2008	Completed
Deloitte presents third grouping report to Actuarial Committee	October 30, 2008	Completed
Deloitte presents final report to Actuarial Committee/Board	Dec 17, 2008	In Progress
Project ends	Dec 31, 2008	

- Deloitte presented groups 1 and 2 findings to the Workers' Compensation Council during its October 29, 2008 meeting and group 3 to the Actuarial Committee during its October 30, 2008 meeting.

MIRA II

Task/Function	Timeline	Status
Historical Data Extraction	January – August 2007	Completed
Customer Workgroups		-----------
• Employer-Web Services Focus Group	November 2007	Complete
• Claim Expert Workgroup	November – December 2007	Complete
• MIRA II-TPA Update Meeting	December 11, 2007	Complete
MIRA II Injury Mapping Logic-Finalized and Approved	January 2008	Complete
MIRA II-Development of Reserve Models (FIC)	February – May 2008	Complete
Data Interface Testing	March – May 2008	Complete
MIRA II- Web Services Enhancement	February – July 2008	Completed
Testing/Review of Initial MIRA II Reserves	May – June 2008	Complete
Training/Education on MIRA II System	July – November 2008	On schedule
MIRA II Reprediction (Adjustment) System		
Design, Develop, Test, Implement	May 2008 – January 2009	In progress
Implement MIRA II	July – September 2008	On schedule

Public Employer Taxing District Rates

Task/Function	Timeline	Status
Public Employer Taxing District Rates	July 2008 - December 2008	In progress
Summary Payroll	August 25, 2008 through September 12, 2008	In progress
Summary Losses	August 25, 2008 through September 19, 2008	In progress
Group Application Deadline	August 29, 2008	Completed
Rate Calculations	September 19, 2008 through November 14, 2008	In progress
Rate recommendation to Actuarial Committee	September 25, 2008	Completed
Rate consent from WCB	October 30, 2008	Completed
Final Rates to WCB	November 20, 2008	In progress
Mailing of Employer Rate Letters	December 30, 2008	

Actuarial Division Staffing

Interviews of applicants for the new Director and Manager positions are being scheduled.

Actuarial Consultant Contract

The Actuarial Consultant Contract expires December 31, 2009. The Actuarial staff will begin reviewing and updating the Request for Proposal and bring to the committee a proposed schedule for the RFP process. The

RFP process will change this year due to the requirements of House Bill 562, which will go into effect in the near future that will significantly affect BWC's procurement processes by requiring DAS involvement in some of the BWC's purchases.

Proposed Actuarial Consultant Request for Proposal Schedule
New contract beginning July 2009 or January 1, 2010 to December 2012

Steps	Dates
Draft RFP created for Actuarial Committee review	November 2008
Review of RFP by Actuarial Committee Chair and selection team members	December 2008 – January 2009
RFP issued	February – March 2009
Question and Answer period	March – April 2009
Mandatory Letter of Intent or Mandatory Pre-submission conference	April 2009
Proposals due	April 2009
Proposals Review and Scoring	April - May 2009
Contract begin date	October 2009

12 - Month Actuarial Committee Calendar

Date	November	Notes
11/20/08	Actuarial Committee 1. Public Employer Taxing Districts rates 2. Reform Plan-Experience Modifier 3. Charter review 4. Reserve issue 5. Actuarial Opinion on 6/30/08 6. RFP 7. Net Asset Position 8. CAO Report Level 2 Room 3, 2:00 pm-4:00 pm	

Date	December	Notes
12/17/08	Education Session 1. HB 100 Comprehensive Study update - Deloitte's report on priority grouping 4 - Other Rate calculations, general rating rules and procedures and actuarial section organization	
12/17/08	Actuarial Committee 1. Report on performance based discount options 2. Report on group continuity, homogeneity and group formation 3. Reserve issues	

Date	January	Notes
1/22/09	1. RFP Plan and issuance schedule 2. Tracking Deloitte recommendations	

Date	February	Notes
2/19/09	1. Quarterly reserve update as of 12/31/08 2. RFP progress	

Date	March	Notes
3/19/09	1. PES Rate indication 2. Employer "How to Buy" guide 3. PA rate indication - 1st reading 4. Deductible Program Rules PA/PEC - 1st reading 5. Group Retrospective Rules - 1st reading 6. RFP finalists	

Date	April	Notes
4/29/09	1. Review of Performance based discount options 2. PES rate approval 3. Ancillary fund rates and SI assessments - 1st reading 4. PA rate indication - 2nd reading possible vote 5. Deductible Program Rules PA/PEC - 2nd reading 6. Group Retrospective Rules - 2nd reading 7. PEC Capping recommendation - 1st reading	

Date	May	Notes
5/28/09	1. Quarterly reserve update as of 3/31/09 2. Continued review of Performance based discount programs 3. Ancillary fund rates and SI assessment rate approval 4. PEC Capping recommendation - 2nd reading 5. PEC Credibility Table Rule 4123-17-33.1 - 2nd reading 2. Group Sponsor requirements 3. PA rate recommendations 4. Reserve Issues	

Date	July	Notes
7/30/09	1. Reserve Audit update as of 6-3-08 (assuming change in procedure) 2. PA Group Rules - 1st reading 3. PA Capping - 1st reading 4. PA Credibility Table Rule 4123-17-05.1 - 1st reading 5. Selection of actuarial consultants	

Date	August	Notes
8/27/09	Actuarial Committee 1. Reserve Audit update 2. PA Group Rules - 2nd reading 3. PA Capping - 2nd reading 4. PA Credibility Table Rule 4123-17-05.1 - 2nd reading	

Date	September	Notes
9/24/09	Actuarial Committee 1. Public Employer Taxing Districts rate change 2. PA Group Retrospective Rating Rules - 1st reading 3. First report from actuarial consultants	

Date	October	Notes
10/29/09	Actuarial Committee 1. Charter changes 2. Projected Reserves as of 6/30	