

BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

THURSDAY, NOVEMBER 20, 2008, 2:00 P.M.

WILLIAM GREEN BUILDING

**30 WEST SPRING STREET, 2ND FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215**

Members Present: Charles Bryan, Chair
James Matesich, Vice Chair (arrived at 2:25 PM)
James Hummel
David Caldwell
Thomas Pitts
William Lhota (ex officio)

Members Absent: None

Other Directors Present: Kenneth Haffey
Alison Falls, James Harris, Larry Price (all arrived at 2:30 PM)
Robert Smith (arrived at 2:40 PM)

Counsel Present: John Williams, Assistant Attorney General (arrived at 2:25 PM)

CALL TO ORDER

Mr. Bryan called the meeting to order at 2:04 PM and the roll call was taken. Mr. Matesich was absent for roll call but arrived at 2:25 PM.

MINUTES OF OCTOBER 30, 2008

The minutes were approved without further changes by unanimous roll call vote on a motion by Mr. Caldwell, seconded by Mr. Pitts.

NEW BUSINESS / ACTION ITEMS

Mr. Bryan stated that discussion of experience modification reform would be deferred until the December meeting, and an Executive Session would commence at 3:15 PM.

1. Public Employer Taxing District Rates

John Pedrick, Chief Actuarial Officer, and Elizabeth Bravender, Director of Actuarial, presented a recommendation that Rules 4123-17-33 and 4123-17-34 be recommended to the Board for approval. It was clarified that recent issues involving group rating would not impact these rules.

The credibility table was removed from Rule 33. The remaining language encompasses what is involved in setting collectible rates. The only changes from year to year are limited loss ratios reflected in Appendix B, Table I, Part B. Ms. Bravender explained that the numbers are derived from losses which exceed maximum value for each employer and distributed among the industry group.

Rule 34 contains actual base rates and expected loss rates. Per a question from Mr. Bryan, Mr. Pedrick went over the details involved in determining base rates, which stem from the overall 5% reduction.

Other changes to the rules encompass updated dates, and revising outdated language to reflect the Board of Directors as opposed to the Oversight Commission.

Mr. Pitts moved that the Committee recommend to the Board that it approve the revised rules 4123-17-33 and 4123-17-34, including adoption of the credibility tables and rates therein. The motion was seconded by Mr. Hummel and approved by unanimous roll call vote.

2. Charter Review

Further changes to the Actuarial Committee Charter were reviewed. No further discussion was had. Mr. Matesich moved that the Committee refer the amended Charter to the Board for review and approval. The motion was seconded by Mr. Caldwell and approved by unanimous roll call vote.

DISCUSSION ITEMS

1. Non-Voting Committee Members

Mr. Bryan, while noting the congenial, cooperative atmosphere of the Committee as presently constituted, requested feedback on having retired, credentialed actuaries sit as non-compensated, non-voting members. This is permitted by the Actuarial Committee Charter. Mr. Matesich inquired as to potential benefits from such an arrangement. Mr. Bryan commented that they would be another source of review and commentary for the various reports.

Mr. Pedrick expressed that additional viewpoints from experienced actuaries is always valuable, and would not interfere with the work of his department. Mr. Bryan noted this would be an agenda item for the December meeting. (Subsequent to the meeting Mr. Bryan determined the very limited availability of people with the skills needed to help in

the process and a potential reluctance of people to serve in this capacity and decided not to pursue the concept any further.)

2. Reserve Issues – Quarterly Runoff – Oliver Wyman

Jeffery Scott of Oliver Wyman presented their quarterly report of unpaid loss re-estimates as of September 30, 2008. A review of 2002 figures for reserves and actual payments shows that net assets were understated at the time by \$2 Billion because of an approximately \$2B overstatement of required loss reserves. Due to the large absolute size of reserves and variation inherent in the reserving process, this understatement was within a reasonable range. Mr. Scott indicated this is not a matter of overt concern, but steps should be taken to mitigate in the future. Mr. Bryan noted in response that methodology is being changed in response to this. He further indicated the Committee should see this analysis every quarter.

3. Formal Actuarial Opinion on 6/30/08 Reserves

Mr. Pedrick is working with Oliver Wyman to develop a new format for the actuarial opinion that accompanies the annual reserve audit. He reviewed the current opinion and highlighted those elements that are consistent with the formal actuarial opinion letters on reserves that private companies are required to use under National Association of Insurance Commissioners (NAIC) guidelines. He highlighted several components of the current letter, including the statement that the reserve is a central estimate that the calculations follow accepted loss reserving standards and principles, and that Oliver Wyman relied on BWC for the data and the discount rate.

4. RFP Timeline and Process

Mr. Pedrick explained that the BWC and the Board are subject to a “blackout” period once we begin looking at the RFP scope for a new actuarial consultant, and must not publicly discuss more than the administrative details such as the time line, so as not to give any firm an unfair advantage. A timeline was reviewed, and the Committee will receive documentation in the near future for review and comment. Mr. Hummel will represent the Committee on an internal staff review group. Proposals from prospective consultants are due in April 2009, with the assignment to begin 1/1/2010. Mr. Bryan emphasized this process is no reflection on the Oliver Wyman firm or the work they have accomplished. (See Mr. Pedrick’s clarification of the blackout period prior to adjournment.)

5. CAO Report

Mr. Pedrick reviewed the report, including postponed items and investigation of reserve opinion requirements. Per inquiry from Mr. Hummel, Mr. Pedrick indicated he is still prepared to bring continuity rules to the Committee in December. Per a question from

Mr. Bryan, Mr. Pedrick advised that BWC has the statutory authority to propose new products such as claim deductibles.

Three positions in the Actuarial Division have been posted: Director of Actuarial Analysis, Manager of Ratemaking, and Manager of Reserving. Interviews are scheduled the week after Thanksgiving.

EXECUTIVE SESSION

Mr. Pitts offered a motion for the Committee to move to Executive Session for the purpose of discussing pending litigation, which motion was seconded by Mr. Caldwell. The Committee approved by unanimous roll call vote. The Committee left from Executive Session through Mr. Caldwell's motion, which was seconded by Mr. Matesich. The Committee approved by unanimous roll call vote.

Upon motion by Mr. Caldwell, seconded by Mr. Hummel, the Committee ended the Executive Session and returned to open meeting.

ADDITIONAL BUSINESS

Mr. Bryan asked if there was any additional business, and Mr. Pedrick clarified his earlier statement regarding the blackout period for the RFP. The blackout period is now in effect and will continue until a selection is announced.

ADJOURNMENT

Mr. Bryan adjourned the meeting at 4:05 PM

The next Actuarial Committee meeting is Wednesday, December 17, 2008 at 2:00 PM. (The meeting time was subsequently changed to 4:00 PM).

Prepared by Jill Whitworth, Staff Counsel
November 21, 2008

Ohio Bureau of Workers' Compensation
Financial Statement Impact of Reserve Changes

\$ in millions

Reserves for Compensation & Compensation Adjustment Expenses 6/30/2008	\$ 19,435
First Quarter FY 2009 Accrual	<u>141</u>
Reserves for Compensation & Compensation Adjustment Expenses 9/30/2008	\$ 19,576
Reserves for Compensation & Compensation Adjustment Expenses 6/30/2008	\$ 19,435
First Quarter FY 2009 Accrual Using 9/30/08 Reserve Evaluation	<u>(18)</u>
	\$ 19,417
Decrease in Reserves for First Quarter FY 2009	\$ 159

Discussion of Net Asset Strategy for Premium

This document provides discussion topics related to premium strategies for increasing or decreasing net assets. For discussion purposes, the elements of the current Funding Ratio will be used.

$$\text{November Funding Ratio} = 1.05 = (\$15.5 \text{ billion funded assets}) / (\$14.7 \text{ billion funded liabilities})$$

Major sources of income (SIF):

- Assets of \$15.5 billion
- Premium and assessments of \$1.8 billion.

Methods to increase net assets:

- Investment returns in excess of liability discount rate.
 - Each additional 1% return above the 5% discount rate will produce approximately \$155 million based on the November figure.
 - Currently, liabilities use a 5% discount rate. Thus, the first 5% of investment returns is needed to fund future payments.
- Contingency provision in rates.
 - A provision of 1% would produce approximately \$18 million of additional income.
 - Amounts exceeding costs (incurred loss and loss adjustment) flow to income.

Methods to decrease net assets:

- Net Asset Adjustment to lower premium by a fixed percentage. There are several approaches we could use:
 - One percentage reduction for all employers
 - Reductions for employer segments that exceed performance targets, such as those with loss ratios below average for the SIF.

This has the advantage of allowing for stable, long term reductions that can be adjusted each year.

- Employer dividends. This has been used in the past and is not advisable. While this approach provides an immediate reduction in net assets, it does not contribute to premium stability, and tends to increase instability due to abrupt changes in the balance sheet.

Issues

- Triggering a premium adjustment.
 - Projections of income, assets, and liabilities that will result in a funding ratio above the maximum
 - Actual funding ratio above maximum
- Timeframe for adjustment
 - One year – could result in major reduction in premium, followed by a return to full premium levels the next year.
 - Several years (e.g., five) – provides lower reduction per year, but maintains stability across years. This also allows for annual changes as conditions merit.

Future Analysis and Discussion

- Incorporate elements from Asset Liability Modeling
- Develop model for the Net Asset Adjustment in premium
- Other topics?

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

At the time of this writing there is uncertainty regarding the group rating program. Judge Richard McMonagle’s decision would require the BWC to cease the current approach using experience rating and to implement a group retrospective rating program for the 2009 policy year. We are developing a timeline and identifying the resources needed to do so. There is some activity in the legislature that might lead to a modification in a group rating provision in the Ohio Revised Code. Under some circumstances, we may be able to continue with our comprehensive reform efforts. As a result, we are working on multiple paths at once. In addition, key elements of the comprehensive plan, such as a new deductible program, will be needed regardless.

Current timelines for our projects follow subject to appropriate changes as developments warrant.

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 were presented for a first reading with the Actuarial Committee in October.
- Further action on the rules is dependent on developments over the next few months.

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
Develop Group Retro Program	Dec 2008 – Jun, 2009	In progress
Review Current Programs	Aug – Dec, 2008	In progress
Board Meeting to Review Final Proposals	Dec 17	In progress

- We plan to make our report to the Actuarial Committee in January on proposed deductibles effective with the policy year starting July 1, 2009.
- A group retrospective rating plan may need to be developed for implementation on July 1, 2009.
- 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 is scheduled to present its findings on the fourth group of tasks during this December meeting. We expect to have them return during the first quarter of 2009 to present an overall report.

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	Completed
Summary Losses	August 25, 2008 through September 19, 2008	Completed
Group Application Deadline	August 29, 2008	Completed
Rate Calculations	September 19, 2008 through November 14, 2008	Completed
Rate recommendation to Actuarial Committee	September 25, 2008	Completed
Rate consent from WCB	October 30, 2008	Completed
Final Rates to WCB	November 20, 2008	Completed
Mailing of Employer Rate Letters	December 30, 2008	On schedule

Actuarial Division Staffing

Interviews of applicants for the new Director and Manager positions are underway. In addition, Deloitte will present its findings in this regard during this December meeting.

Actuarial Consultant Contract

We are now in the “blackout period” for the actuarial consultant contract RFP. The current contract expires December 31, 2009.

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	July - October 2009 (new firm) January 1, 2009 (current firm)

12 - Month Actuarial Committee Calendar

Date	December	Notes
12/17/2008	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	
12/17/2008	Actuarial Committee	
	1. Update on Rate Reform	
	2. Reserve Issues	
	a. Quarterly reserve adjustments impact on financial statements	
	b. Actuarial Opinion	
	3. Net Asset Position method to include in Private Employer rates	
Date	January	
1/22/2009	1. RFP Plan and issuance schedule	
	2. Tracking Deloitte recommendations	
Date	February	
2/19/2009	1. Quarterly reserve update as of 12/31/08	
	2. RFP progress	
Date	March	
3/19/2009	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	
4/29/2009	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	

12 - Month Actuarial Committee Calendar

Date	May	Notes
5/28/2009	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	
	6. Group Sponsor requirements	
	7. PA rate recommendations	
	8. Reserve Issues	
Date	June	
6/18/2009	1. Recommend Performance based discount options	
	2. Group Sponsor requirements	
	3. PA Rate Recommendations	
	4. Admin Cost Fund	
Date	July	
7/30/2009	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	
8/27/2009	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	
9/24/2009	1. Public Employer Taxing Districts rate change	
	2. PA Group Retrospective Rating Rules - 1st reading	
	3. First report from actuarial consultants	

12 - Month Actuarial Committee Calendar

Date	October	Notes
10/29/2009	1. Charter changes	
	2. Projected Reserves as of 6/30	
Date	November	
11/19/2009		
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