

BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

Wednesday, December 17, 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
James Hummel
David Caldwell
Thomas Pitts

Members Absent: Bill Lhota, ex officio

Other Directors Present: Alison Falls
Kenneth Haffey (arrived at 4:10)

CALL TO ORDER

Mr. Bryan called the meeting to order at 4:02 PM and the roll call was taken.

MINUTES OF DECEMBER 17, 2008

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

NEW BUSINESS / ACTION ITEMS

No action items were scheduled for this month's meeting.

DISCUSSION ITEMS

1. Update on Rate Reform

John Pedrick, Chief Actuarial Officer, and Elizabeth Bravender, Director of Actuarial, presented an update on rate reform efforts. Many elements will move forward regardless of what occurs with the group rating litigation.

Administrator Marsha Ryan reported that House Bill 79 has been passed by both branches of the legislature as of this afternoon, and will be sent to the governor for signature. This bill revises the language of ORC 4123.29 to replace the words "retrospective rating" with "group rating", which

addresses a portion of the order issued by the Cuyahoga County Common Pleas Court. It also clarifies expenses of the Workers' Compensation Council, and requires a BWC report to the General Assembly in September 2009 about progress towards creating equity in group rating. A summary will be available for the Board.

The aforementioned court order has been appealed. The Attorney General's Office has also requested a stay of execution for the order. Chairman Bryan asked whether House Bill 79 leaves the present group rating system in place. Administrator Ryan stated BWC believes that it does.

A second reading will be done at the January Committee meeting regarding the capping rules. Deductible and group retro programs are on schedule to be implemented 7/1/2009.

Staff has completed benchmarking of deductible programs with industry standards as used in the NCCI states. The proposed deductible program is based on Ohio data, with five (5) deductible levels up to \$10,000 per incident. Both group and non-group employers are eligible to participate, but the employer must have at least \$2,000 in premiums. The first reading on the deductible program is scheduled for January, with the second reading in February and rollout in March.

Pursuant to a question from Director Pitts, Mr. Pedrick clarified that the deductible program may be available to individual employers only, not group employers. This program will be advantageous to employers who don't qualify for group rating. Eligibility is based on premium amount and ability to collect rather than the number of claims. Chairman Bryan asked if bonds will be required. Mr. Pedrick advised this issue is still being evaluated.

In response to a question from Director Matesich, Mr. Pedrick stated that the deductible program would cover both medical and indemnity claims. An employer who participated in the \$15,000 medical only program or who utilized salary continuation would not be eligible for this deductible program. Minimum premium requirements and collectability of the deductible amounts are additional concerns under review.

A full report will be available in January. Ms. Bravender gave a tentative timetable for rule introduction. Mr. Pedrick added that the group retro program is being moved forward for a 7/09 rollout. The staff proposal will be modeled upon the NCCI retro plan and a similar program in the state of Washington.

Other rules that will be considered are group homogeneity and group continuity

2(a). Quarterly Reserve Adjustments

Tracy Valentino, Chief of Fiscal and Planning, reviewed reserve changes for the first quarter of 2009. Initial projections were made 3/31/08 using data from Oliver Wyman. This information was presented to the Committee in May/June 2008. Similar increases were expected in 2009. When the audit was completed and 9/30/08 data became available, Oliver Wyman predicted 2009 reserves to be lower by \$75M. This necessitated a negative \$159M adjustment to the financial statements. Another similar evaluation process will occur 1/09.

Chairman Bryan posed the question of what the Committee's role should be when estimates change. Director Falls requested quarterly trends information, which Ms. Valentino agreed to provide.

2(b). Actuarial Opinion

Mr. Pedrick noted work by Oliver Wyman is ongoing.

3. Net Asset Position method to be included in private employer rates

Mr. Pedrick submitted discussion points to the Committee regarding the role of premium levels vis-à-vis net assets, and methods of increasing or decreasing net assets. The November funding ratio is 1.05, based upon \$15.5 billion funded assets / \$14.7 billion funded liabilities.

He compared the impact of an additional 1% of investment return to an additional 1% of premium. The former results in an additional \$155M based on current levels, while the latter would produce only \$18M. While investment returns produce a much larger number, BWC has far more control over premiums and rates.

Mr. Matesich commented that if rates become too high, Ohio will lose businesses anyway.

To decrease net assets, BWC could lower premiums by a fixed percentage, or base reductions on meeting performance targets. The latter approach allows for yearly adjustment of reductions. Issuing employer dividends is not advisable as it increases instability. It will be necessary to model when the funding ratio would exceed the maximum level, and timeframes for adjustments to lower net assets.

4. CAO Report

Mr. Pedrick reviewed the report, including several team efforts and a reform plan. The Legal Division is reviewing the RFP. As the actuarial contract

cannot be extended past 12/31/09, the RFP will be sent out in the first quarter of 2009. Per a question from Chairman Bryan regarding the status of MIRA II, Mr. Pedrick noted a positive impact and that expected losses were dropping by approximately 20%.

5. Calendar

Chairman Bryan noted additional time should be devoted to reviewing the reserve analysis at the 2/09 meeting.

There is no Executive Session at today's meeting

Adjournment

The next Actuarial Committee meeting is January 22, 2008 at 2:00 PM.

The meeting was adjourned at 5:22 PM on a motion by Mr. Matesich, seconded by Mr. Hummel.

Prepared by Jill Whitworth, Staff Counsel
December 19, 2008