

BWC BOARD OF DIRECTORS

**ACTUARIAL COMMITTEE**

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

**WILLIAM GREEN BUILDING**

**30 WEST SPRING STREET, 2<sup>ND</sup> 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Other changes to the rules encompass updated dates, and revising outdated language to reflect the Board of Directors as opposed to the Oversight Commission.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