

**BWC Board of Directors  
Actuarial Committee  
Educational Session  
Wed., Feb. 27, 2008, 2:15 P.M.**

William Green Building  
The Neil Schultz Conference Center  
30 West Spring Street, 2nd Floor (Mezzanine)  
Columbus, Ohio 43215

Members Present: Charles Bryan, Chair  
Philip Fulton  
James Harris  
James Hummel  
Jim Matesich  
William Lhota, ex officio

Members Absent: None

**Call to order**

Mr. Bryan called the meeting to order at 2:15 PM. Also present were Workers' Compensation Board member Larry Price and BWC Administrator Marsha Ryan.

**Discussion Item: Education Session**

Managers of the Actuarial Department and representatives of Oliver Wyman Consulting, Inc., conducted an educational session for the Actuarial Committee on rate indications. John Pedrick, Chief Actuarial Officer, reported on the annual January to June timeline for setting the premium rates for private employers.

Jeff Scott and William Hansen, Oliver Wyman, reported on the purpose of rate indications; the estimate of the pure premium for the year 2008—2009; and national trends and comparisons. Liz Bravender, Actuarial Director, distributed reports that provided all the BWC data for the fiscal 2009 rate indications. These include “Ohio Bureau of Workers' Compensation Comparison Data” and “Rate Recommendations for Private Employers, July 1, 2008.”

**Adjournment**

Mr. Bryan adjourned the session at 4:00 PM.

Prepared by: Larry Rhodebeck, BWC Staff Counsel  
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February 28, 2008

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**Actuarial Committee**  
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Members Present: Charles Bryan, Chair  
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William Lhota, ex officio

Members Absent: None

### **Call to order**

Mr. Bryan called the meeting to order at 2 PM and the roll call was taken. Also present were Workers' Compensation Board members Alison Falls, Larry Price, and Robert Smith.

### **Minutes of Jan 24, 2008**

Mr. Matesich moved that the minutes of January 24, 2008, be approved. Mr. Harris seconded and the minutes were approved by a unanimous roll call vote.

### **New Business/Action Items**

Mr. Bryan reported that there were no new business or action items for the Actuarial Committee at this time.

### **Discussion Items**

#### **HB 100 Comprehensive Study**

John Pedrick, Chief Actuarial Officer, reported that there were six responses to the BWC Request for Proposal (RFP) for the HB 100 Study. Deloitte Consulting LLP was clearly the best proposal. He thanked Mr. Hummel for his assistance in selecting the vendor.

Larry King, Assistant Actuarial Director and Project Manager for the HB 100 Study, reported that meetings and project planning had begun with Deloitte last week. Deloitte representatives present today include Jan Lommele, Chief Property and Casualty Actuary; Dick Messick, Senior Actuary and Project Management Coordinator; and Bob Miccolis, Senior Advisor Actuary and Team Leader.

Mr. Lommele reported that this was the largest project that Deloitte had undertaken. There are thirty-nine tasks and the project team has put these into seven groups, including pricing, program structure, actuarial audit and case reserving, underwriting, self-insured programs, actuarial department organization, and surplus indication. After creating a plan, Deloitte will do data requests, analysis of the data, and make comparisons with peers and other states. The RFP allocates 7,000 hours to complete the study.

Mr. Bryan stated that he knew the work of Deloitte and was pleased with the choice of vendor. Deloitte will work with Mercer Investment Consulting, Inc., on several issues, especially the surplus indication.

Mr. Fulton asked what is the plan to interact with the Workers' Compensation Board. Mr. Lommele reported that Deloitte would talk to stakeholders, including the Workers' Compensation Board and BWC internal departments. Mr. Fulton asked how Deloitte would report to the Actuarial Committee. Mr. Bryan replied that Deloitte reports to Marsha Ryan, BWC Administrator. He anticipates there will be reports bimonthly and immediate reports on unusual areas to the Actuarial Committee.

Mr. King reported that reports will be brought to the Actuarial Committee as conclusions are reached and there will not be one single report at the end of the study. Mr. Pedrick stated that Deloitte will try to provide as much on rates as possible in early reports. Mr. Bryan reported that the Actuarial Committee will take reports and review them, but not filter them for the Workers' Compensation Board.

### **Chief Actuarial Officer Report: Legislative Initiatives**

Greg Paul, BWC Legislative Liaison, reported on pending legislation. HB 456 is sponsored by Representative James Raussen and concerns comprehensive healthcare reform. HB 456 creates two employer premium discounts if the employer offers health plans. There have been several hearings, but it appears there is insufficient time to enact the bill in the current General Assembly.

Mr. Matesich asked what is the BWC position on HB 456. Mr. Paul replied that BWC is concerned with mandating discounts that are not related to other programs of BWC, e.g. safety. Mr. Price asked if there has been discussion of the financial impact of mandated discounts. Mr. Paul reported there have been no discussions yet; however, BWC plans to discuss the bill with Representative Raussen after the HB 100 Study.

Mr. Paul reported that HB 397 exempts workers also covered under the federal Longshore and Harbor Workers' Compensation Act. The bill has had three hearings and no opposition testimony.

Mr. Fulton stated that the 1972 report of the National Commission on State Workmen's Compensation Laws recommended that there never be an exemption for injured workers and that injured workers should have a choice of remedies. He recommended that the General Assembly wait until the HB 100 Study is completed.

Ms. Ryan stated BWC will have discussion with Rep. Raussen on HB 456. Concerning HB 297, HB 100 also created the Workers' Compensation Council to oversee legislative changes. Not every member of the council has been named, nor has the council met. Thus, all legislative proposals are premature without the review of this council.

Mr. Bryan asked if BWC is typically asked to offer advice when the General Assembly proposes changes to workers' compensation. Ms. Ryan replied that legislative consultation is infrequent, but that BWC does give testimony at some legislative hearings. Ms. Ryan reported that she and Industrial Commission Chair Gary DiCeglie are ex officio members of the council and will offer their recommendations when it meets.

Mr. Price commented that HB 100 requires that both the Workers' Compensation Board and the Workers' Compensation Council review legislation. He urged the Workers' Compensation Board to be pro active and urged that all seats be filled on the Workers' Compensation Council.

Mr. Paul reported that HB 461 and SB 287 have been introduced by Representative William Batchelder and Senator Steve Stivers and make a \$15,000 deductible available for medical-only claims as well as for lost time claims. There are no hearings yet. The Administrator already has the authority to create the program and will urge restraint. Mr. Fulton stated that the deductible would create self-insurance for all employers and may result in chaos.

Mr. Harris asked what was the status of the bill concerning the Coal Workers Fund. Mr. Paul reported that BWC has met with the General Assembly and the Ohio Department of Natural Resources. The proposal would fund safety equipment for deep mining using interest earned from the Coal Workers Fund. BWC is urging that the draft bill provide for use of the interest depending on the investment performance of the State Insurance Fund.

### **Chief Actuarial Officer Report: Group Rating**

Mr. Pedrick reported that the BWC project on group rating also includes developing an NCCI split experience-rating plan. In a split plan, BWC would use frequency of claims as a factor in experience rating. He reviewed the time lines from March to June when the full report on group rating will be presented to the Workers' Compensation Board.

Ms. Falls asked how the HB 100 Study factors into group rating. Mr. Pedrick replied that it would be part of a class of pricing elements reported by June.

Mr. Bryan asked if BWC plans to make any other changes in group rating this year. Mr. Pedrick reported that the only change would be the change of the credibility table to a maximum of 85%, which affects all employers. Other changes will come later, including reducing the credibility maximum further and proposing a time-line for changes. Ms. Ryan reported that BWC intended to present all recommended changes at the June meeting.

Mr. Fulton asked what kind of meetings BWC will be conducting. Mr. Pedrick responded that BWC will have stakeholder meetings with group sponsors, but is not planning public forums.

Ms. Ryan added that BWC will be conducting four public forums on other topics, but none on group rating.

### **Chief Actuarial Officer Report: MIRA 2**

Mr. Pedrick reported that implementation of MIRA 2 is on target for June 30. BWC is seeking legislation to move the effective date from June 30 to July 1 because the reserve valuation date for public employer taxing districts is June 30 and the existing date would delay use of MIRA 2 reserves until January 2010. A change to July 1 will also help employers in the settlement year of retrospective rating plans.

Ms. Falls asked if there will be a period when BWC can look at both systems so that anomalies can be identified. Mr. Pedrick replied that opportunity would be available only during the month of June. BWC would like to expand that time. Ms. Ryan clarified that public employer and retrospective rating reserves will be available after July 1, but not used for rate making.

Mr. Matesich asked for an explanation on the relationship of the June 1 date and the year 2007. Mr. Pedrick replied that Fair Isaac, the MIRA 2 vendor, is developing a model using data from 2007 and prior year's data, which will be made available on June 1.

Mr. Matesich asked if the Actuarial Committee could get a report before July 1. Ms. Bravender replied that BWC will be able to report by March or April the significant changes in the system. In May or June Fair Isaac will provide a full report. In June, BWC will do a side-by-side comparison of MIRA 1 and MIRA 2.

Mr. Matesich asked for an example of how MIRA 2 addresses the lack of transparency of MIRA 1. Mr. Pedrick responded that if a claim became inactive, MIRA 1 did not remove it from the system. MIRA 2 will remove inactive claims from the system and show that removal. MIRA 2 will also have web service enhancements. The report from Fair Isaac will be what employers use.

Mr. Bryan requested that the Actuarial Department make available to Mr. Matesich what is now available on the web site.

Mr. Smith stated that one of the things he learned from the public forum was that some stakeholders are ignorant of the existence of reserves and assume that workers' compensation payments are a cash-only expense. Ms. Bravender replied that part of the implementation of MIRA 2 will be education, however, that will occur after June 30 because of the tight implementation schedule.

Mr. Smith asked for a prediction on reserve changes after MIRA 2 is adopted. Ms. Bravender predicted that there would be no changes for PTD and death claims. For others, reserves on some claims will go down, others will rise. Premiums will remain the same and reserves will be more fair and equitable. Ms. Ryan commented that if this project were done in the private sector, it would take at least twice as much time and the operator would likely run both systems in parallel for twelve months.

Mr. Price asked if BWC will be able to report back that deficiencies in MIRA 1 were corrected. Ms. Bravender responded that BWC will be able to make that report. Also, BWC cannot run MIRA 1 in parallel because HB 100 prohibits paying for MIRA 1 after July 1.

Mr. Lhota asked if the MIRA changes will affect groups. Ms. Bravender responded that changes will be evaluated employer by employer.

### **Chief Actuarial Officer Report: Routing Rate Changes**

Mr. Pedrick reported that deadlines for routine rate changes are being met. The deadline for filing group applications is February 29. At the March meeting, BWC will report the claims data for the new year and its impact on rates. This will not include the impact of the new group rating applications. The calculation of state agency rates is on time. BWC plans to calculate a two-year rate in order to assist in planning the biennial budget. Rate making for the ancillary funds is on schedule.

### **Committee Calendar Review for 2008**

Mr. Pedrick proposed an education session on public employers for March 26 and asked where the Actuarial Committee wanted it conducted. Mr. Bryan responded that it would be held in the William Green Building from 1 PM to 4 PM. The regular meeting would be held March 27 at the Ohio Center for Occupational Safety and Hygiene. Mr. Pedrick stated that if the education session was three hours, then BWC could cover both public employers and split plans.

Mr. Smith asked what is the proper forum to consider the group program changes. Mr. Bryan stated that would be held at the May or June regular meeting. Mr. Pedrick stated it would be in June when all other pieces of group rating are available.

Mr. Bryan reported that the March 27 meeting would be a joint meeting with the Investment Committee. The Investment Committee will convene at noon; the committees will meet jointly at 12:30 PM; and the Actuarial Committee will conduct its own session beginning at 3:30 PM. (This schedule was later altered slightly.)

### **Educational Session**

Ms. Bravender recapitulated on the ranges of the rate recommendation made by Oliver Wyman. Ms. Bravender reported that the ranges are 3.9% lower than the 2007 recommendation. She illustrated the change by discussing calculation of the rate for manual class 8810, office and clerical workers. The pure premium is set at \$0.12 per hundred dollars of payroll. After including the impact of group rating, the premium is set at \$0.26.

Ms. Bravender distributed "Policy Year 2007 Private employers," a study on the impact on all manual classes of the change of the maximum credibility to 85%. Ms. Bravender reported that

the impact of the credibility table reduction to 85% was a 3% decrease in premiums for all employers, an increase of 7.8% for group employers, and a 3.4% decrease for non-group employers.

## **Adjournment**

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

Prepared by: Larry Rhodebeck, BWC Staff Counsel  
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March 4, 2008