

**BWC Board of Directors
Actuary Committee
Thurs., March 27, 2008, 2:30 PM**

Ohio Center for Occupational Safety and Health
Conference Room B
13430 Yarmouth Drive
Pickerington, OH 43147

Members Present: Charles Bryan, Chair
Jim Hummel
Jim Matesich
Philip Fulton

Other Members Present:

Ken Haffey
Alison Falls
David Caldwell
James Harris
Larry Price

Call to order

Mr. Bryan called the meeting of the Actuarial Committee to order at 2:30 p.m. and the roll call was taken. Also present were Workers' Compensation Board members David Caldwell, Alison Falls, Kenneth Haffey, and Larry Price.

Minutes of Feb. 27 & 28, 2008

Mr. Fulton moved that the minutes of the education session of February 27, 2008, and plenary session of February 28, 2008, be approved. Mr. Hummel 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.

Private employer rate

John Pedrick, Chief Actuarial Officer, recommended that the Actuarial Committee approve the BWC rate indication for private employers. Mr. Pedrick further reported that the indication is consistent with the actuarial reserve audit of December 31, 2007, and reflects a 5% discount rate. Exhibit 1 of the executive summary shows a downward trend of actual expense in recent years. BWC should take a conservative approach and avoid over-shooting this trend. Also, if the discount rate were to decline, then the premium reduction would be lower.

Mr. Bryan asked Mr. Pedrick if he were comfortable with the indication. Mr. Pedrick replied that he needed to avoid the most optimistic indication in order to avoid a later rate increase and accompanying volatility. Exhibit 2 show the rate indication follows prior years' trends. It is the first reduction in premiums since 2001.

Mr. Hummel asked Jeffrey Scott, Oliver Wyman, if he endorsed the indication. Mr. Scott replied he agreed with the indication. Oliver Wyman is concerned about the decline in the pure premium. However, BWC has been effective in controlling medical costs and the growth of medical costs has been less than the medical inflation assumption used by Oliver Wyman.

Mr. Fulton moved the Bureau of Workers' Compensation Board of Directors consent to the Administrator fixing private employer rates beginning July 1, 2008, to achieve an overall five per cent decrease in the total collectible premium rate from the previous year. The motion also consents to the Administrator preparing private employer rate rules consistent with this policy. Mr. Matesich seconded and the motion was approved by unanimous roll call vote.

Public employer state agency rate change

Mr. Pedrick recommended approval of new rates for public employer state agencies. If the Actuarial Committee is comfortable with the recommendation, then approval will enable BWC to calculate individual employer rates

Public employer rates are not reserved, but premiums are estimated and BWC makes adjustments in later years to adjust for short-falls and overpayments. BWC recommends a 10% decrease in the pure premium. With assessments of other funds, the total decrease is 8.1%.

Mr. Harris asked why the rates of some agencies were much higher than others, such as the Exposition Commission. Ms. Ryan replied that this agency has a high rate because of its short seasonal employment for the Ohio State Fair. Thus, payroll is not a good measure of risk. Tina Kiehmeyer, Chief, Customer Service, added that BWC has a project for identifying high risk employers. Two state agencies qualify and will be contacted.

Mr. Pedrick further reported that BWC calculated that this rate will collect \$62 million in premiums, including payments to the plaintiffs in the Ohio Hospital Association case.

Mr. Bryan asked how rate-making for state agencies differs from that used for private employers. Mr. Pedrick responded that the premiums are used to pay existing claims, but not fund new claims. Mr. Bryan asked where does the liability for state agency claims show. Mr. Scott replied it is listed as a liability of the State Insurance Fund.

Mr. Lhota asked what would happen to the liability for claims if a state agency were to go out of existence. Mr. Pedrick replied that the claims would be paid from the State Insurance Fund.

Mr. Hummel asked what is the Governor's Incentive Program. David Childress, Supervisor for State Agency policies of the Actuarial Department, replied that it was a discount program that ran from 2003 to 2006 that funded safety programs. The program had a 10% premium discount incentive for participants.

Ms. Falls asked if there was a conflict if a Workers' Compensation Board director is also on a board of a state agency. John Williams, Assistant Attorney General, replied there was no conflict.

Mr. Pedrick further reported that the rate includes an assessment for the Managed Care Organizations (MCOs). The assessment corrects for the first MCO assessment in 2007. Rates are being published today to assist agencies in budgeting for the 2009 fiscal year. In 2009, BWC will calculate rates to allow for overshooting the MCO assessment rate.

Mr. Bryan tabled the proposal until the April meeting so the Workers' Compensation Board can understand it more thoroughly.

Discussion items

Committee calendar review for 2008

There was no discussion of the Actuarial Committee calendar.

Chief Actuarial Officer report

Mr. Pedrick reported that as the result of changing the credibility table from a maximum 90% discount to 85% discount, the base rate has declined by 3%. Rates for employers participating in groups have increased by 7.8% and rates for non-group employers have declined by 3.4%. The average rate for employers has declined by 5%. In June, BWC will come to the Workers' Compensation Board with a plan to further change group rating.

BWC has met with Deloitte to review progress. Deloitte will have its first report at the June meeting.

On group rating, BWC will have several meetings with stakeholders for the plan. The plan delivered to the Workers' Compensation Board in June will include split experience rating. BWC will increase employer knowledge of group plans and change the rules. If the Workers' Compensation Board directs BWC to implement a split plan, July 1, 2010 is the earliest, optimistic date of implementation. July 1, 2011, is a more practical date. A split plan will result in significant changes in experience rating of employers. BWC will overcome criticism made in 2007 of insufficient communication with stakeholders.

Finally, Rex Blatieri, MIRA II Project Manager, conducted an education session for the Actuarial Committee on March 26.

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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March 30, 2008