

**BWC Board of Directors
Actuarial Committee
Thursday, April 24, 2008, 1:30 P.M.
William Green Building
Neil Schultz Conference Center
30 W. Spring St., 2nd Floor (Mezzanine)
Columbus, Ohio 43215**

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

Members Absent: None

Other Directors Present: David Caldwell, Alison Falls, Larry Price, and Robert Smith.

Call to order

Mr. Bryan called the meeting of the Actuarial Committee to order at 1:40 p.m. and the roll call was taken.

Minutes of March 27, 2008

Mr. Harris requested that the minutes be amended to show he was present as a committee member and not as a Workers' Compensation Board Director. Mr. Hummel moved that the minutes of March 27, 2008, be approved as amended. Mr. Harris seconded and the amended minutes were approved by a unanimous roll call vote.

NEW BUSINESS/ACTION ITEMS

**Public Employer State Agency Rate Change,
Ohio Administrative Code Rule 4123-17-35**

John Pedrick, Chief Actuarial Officer, recommended that the Actuarial Committee approve new rates for public employer state agencies. The exhibits in the BWC report include the 10% premium reduction and the Managed Care Organization (MCO) fee, but not the Administrative Cost Fund (ACF) assessment to be voted on later.

Mr. Bryan and Ms. Falls raised questions about rate instability of individual agencies. The agencies include, for example, the Ohio Supreme Court with an increase of 92.73%. Marsha Ryan, BWC Administrator, explained that these are relatively small agencies for which one serious accident could raise costs. Mr. Bryan requested that within the next year that BWC staff report on approaches to state agency rates in order to reduce instability.

Mr. Matesich moved that the Actuarial Committee of the Bureau Workers' Compensation Board of Directors consent to the Administrator fixing state agency and state university employer rates beginning July 1, 2008, to achieve an overall ten percent (10%) decrease in the total collectible premium rate from the previous year. The motion consents to the amendments to Rule 4123-17-35 of the Administrative Code, Public Employer State Agency Contributions to the State Insurance Fund, as presented here today. Mr. Harris seconded and the motion was approved by a unanimous roll call vote.

Public Employer Taxing District Credibility Table Changes, Ohio Administrative Code Rule 4123-17-33.1

Mr. Pedrick proposed adoption of a new credibility table for public employer taxing districts. The proposal breaks out the table from the industry group and limited loss ratio tables of Rule 4123-127-33. The Workers' Compensation Board approved the same credibility table for private employers in November 2007.

Mr. Hummel moved that the Actuarial Committee of the Bureau of Workers' Compensation Board of Directors consent to the Administrator adopting Rule 4123-17-33.1 of the Administrative Code, Public Employer Taxing Districts Credibility Table Used for Experience Rating. The motion consents to the adoption of Rule 4123.17-33.1 as presented today. Mr. Fulton seconded and the motion was approved by unanimous roll call vote.

NCCI Classification Changes

Michael Glass, Employer Compliance Director, proposed amendment of Ohio Administrative Code Rule 4123-17-04 to bring BWC manual classifications into agreement with revisions made by the National Council on Compensation Insurance (NCCI). First, the NCCI has consolidated the bottling industry codes from two into one. The NCCI also consolidated charitable and welfare organizations into one and created a new code for group homes. Mr. Pedrick added that the proposal is brought to the Actuarial Committee now so that the most recent NCCI codes can be used in developing rates by manual class reflecting the 5% premium reduction.

Mr. Bryan noted that Ohio data is not used in creation of the codes and requested that BWC review the impact of using NCCI codes even though Ohio data is not used in creation of the codes.

Mr. Fulton moved that the Actuarial Committee of the Bureau of Workers' Compensation Board of Directors consent to the Administrator adopting Rule 4123-17-04 of the Administrative Code, Classification of Occupations or Industries. The motion consents to the adoption of Rule 412-17-04 as presented here today. Mr. Harris seconded and the motion was approved by a unanimous roll call vote.

Discussion items

Review May 2008 Committee Calendar

Mr. Bryan reported that there would be an educational session on May 28 at 10 a.m. He requested that any additions to the calendar be communicated to Don Berno, BWC Board Liaison, Mr. Pedrick, or to him.

Ancillary fund rates: Coal miners fund

Liz Bravender, Actuarial Director, reported on the ancillary fund rate recommendations. Mr. Bryan indicated that the “Discussion” items on the ancillary funds may become “Action” items if the Actuarial Committee is comfortable with the rate recommendations of BWC.

Ms. Bravender reported that the Coal Workers’ Pneumoconiosis Fund currently has a moratorium on collection of premiums for employers subscribing before May 15, 1999, and only collects premiums for eight subscribers added since that date. BWC and Oliver Wyman recommend no change.

Ms. Falls noted that liabilities of the Coal Workers’ Pneumoconiosis Fund are \$63 million and asked what the undiscounted amount is. Jeffrey Scott, Oliver Wyman, estimated that the undiscounted amount was about double the stated liability.

Ms. Ryan reported that legislation was introduced on April 23 in the Senate to permit transfer of earnings of the Coal Workers’ Pneumoconiosis Fund to a mine safety program. This legislative proposal does not affect the rate recommendation.

Mr. Matesich moved that the Actuarial Committee of the Bureau of Workers' Compensation Board of Directors consent to the Administrator’s recommendation of taking no rate change in the rates for the Coal Workers’ Pneumoconiosis Fund, and maintaining the moratorium on premium collections for employers who have been subscribers to the fund since May 15, 1999. The motion consents to retaining Rule 4123-17-20 of the Administrative Code, Employer Contribution to the Coal Workers’ Pneumoconiosis Fund, as presented here today. Mr. Hummel seconded the motion.

Ms. Falls asked why BWC did not check the block concerning input from stakeholders on the Common Sense Business Regulation form for BWC rules. Mr. Sico replied that stakeholders were not consulted concerning these rules because they are rating rules.

The motion was approved by unanimous roll call vote.

Ancillary fund rates: Marine industry fund

Ms. Bravender next reported on the Marine Industry Fund. Oliver Wyman had recommended that the rate be decreased by a range from zero to 20%. BWC staff is recommending a 10% reduction.

Mr. Fulton stated that stevedore companies on the Lake Erie ports claim they are paying too much for insurance and have sponsored legislation to remove Ohio workers' compensation coverage when duplicative. Accordingly, should not BWC consider a full 20% reduction? Ms. Ryan replied that a

10% reduction is very significant and BWC was unsure whether a 20% reduction was too risky. Mr. Pedrick added that the legislation is not yet in place and that BWC must be conservative in its rate changes.

Mr. Harris moved that the Actuarial Committee of the Bureau of Workers' Compensation Board of Directors consents to the Administrator's recommendation relating to the Marine Industry Fund rates, beginning July 1, 2008, to achieve an overall ten percent (10%) decrease in the total collectible premium rate from the previous year. The motion consents to amending Rule 4123-17-19 of the Administrative Code, Employer Contribution to the Marine Industry Fund, as presented here today. Mr. Matesich seconded and the motion was approved by a unanimous roll call vote.

Ancillary fund rates: Disabled workers relief funds

Ms. Bravender reported on the rate recommendations for the Disabled Workers' Relief Funds (DWRF) for all employer groups. For private employers, BWC and Oliver Wyman recommend a reduction to \$0.08 per hundred dollars of payroll. For public employer taxing districts and public employer state agencies, BWC recommends that rates remain the same at six cents and five cents, respectively.

Mr. Bryan asked why there are two funds. Ms. Bravender replied that at the time the DWRF Fund II was created, DWRF I had a maximum 10 cents rate and operated at a deficit. So the General Assembly created a second fund for future claims only. The number of injured workers with claims for injuries prior to 1987 are decreasing due to mortality and the DWRF I rate can be reduced. BWC and Oliver Wyman recommend no change to the DWRF II rate of \$0.10 per hundred dollars. Mr. Bryan recommended that BWC examine DWRF with an eye to the costs and benefits of improving injured workers benefits given the apparently minimal costs.

Mr. Fulton moved that the Actuarial Committee of the Bureau of Workers' Compensation Board of Directors consent to the Administrator's recommendation relating to the DWRF rule, beginning July 1, 2008, to reduce the private employer assessment of DWRF I from nine cents per one hundred dollar unit of payroll to eight cents per one hundred dollar unit of payroll, and maintaining the current rate for public employer taxing districts and state agency employers. The motion consents to amending Rule 4123-17-29 of the Administrative Code, "Disabled Workers' Relief Fund: Employers' Assessments, and Self-Insurers' Payments," as presented here today. Mr. Harris seconded and the motion was approved by a unanimous roll vote.

Mr. Bryan tabled the discussion on self-insured assessments.

Administrative cost fund (ACF) methodology

Tracy Valentino, Chief, Fiscal & Planning Division, provided an educational session on the ACF. She reported that since 1990, BWC has been required to allocate portions of the assessment to the four employer groups. The assessment process involves undertaking a cost allocation study; a review by management; and obtaining approval by the Administrator and Workers' Compensation Board. The major rate variables are the administrative budget, the allocation methodology, prior period expenses, assessment allocation base, and the ACF cash balance. The presentation included tables for prior years' rates.

Mr. Bryan remarked that the role of the Actuarial Committee should be to look at the rate and, if too high, recommend greater efficiencies in operation of BWC. Ms. Ryan replied that the ACF assessment is driven by several factors and that greater efficiency is only one of them. Mr. Lhota asked if approval was needed from the Industrial Commission on its portion of the ACF. Ms. Valentino replied that none was needed.

Oliver Wyman split plan study

William Hansen, Oliver Wyman, reported on the split plan experience-rating project. He first reviewed the principles of experience rating. For the first phase of the project, Oliver Wyman will analyze a split plan using Ohio data, capturing impacts on base rates, credibility levels, experience modifiers, and individual premiums. Then Oliver Wyman will create actuarially sound parameters for a split plan including state average cost per claim, maximum single loss, credibility parameters, primary and excess expected loss rates, and qualification minimums. Mr. Hansen presented tables showing how loss ratios of segments move towards the total average for: loss ratios by group status, loss ratios by premium size, and experience rated loss ratios by size and quintile. A final report is expected by the June meeting.

MIRA web design and transparency

Mr. Bryan tabled the presentation on MIRA Web Design and Transparency.

CHIEF ACTUARIAL OFFICER REPORT

Mr. Pedrick reported that Fair Isaac, the vendor for MIRA 1 and 2, had recently undergone a reorganization that briefly affected its responses to BWC. Fair Isaac has informed BWC that the reorganization enables it to concentrate on its core function—analytics—and will be able to meet requirements for MIRA 2 implementation.

ADJOURNMENT

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

Prepared by: Larry Rhodebeck, BWC Staff Counsel
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May 2, 2008