

BWC Board of Directors
Actuarial Committee
Thursday, June 26, 2008, 2:00 P.M.
William Green Building
Neil Schultz Conference Center
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

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

Members Absent: None

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

Counsel Present: John Williams, Assistant Attorney General

CALL TO ORDER

Mr. Bryan called the meeting to order at 2 P. M. and the roll call was taken.

MINUTES OF MAY 28 & 29, 2008

Mr. Bryan requested that the May 29 meeting be corrected to show it occurred on Thursday. Mr. Hummel moved that the minutes of May 28 & 29, 2008, be approved as amended. Mr. Harris seconded and the amended minutes were approved by a unanimous roll call vote.

DISCUSSION ITEMS

ACTUARIAL COMMITTEE REQUIREMENTS UNDER OHIO REVISED CODE §4121.125

Mr. Bryan asked for information on any other reports that should be required of the Actuarial Committee.

Ann Shannon, BWC Legal Counsel, reported that the annual actuarial reserve audit of Oliver Wyman Consulting Actuaries, is a requirement of both Ohio Revised Code §4121.125(C)(1) and §4123.47(A). John Pedrick, Chief Actuarial Officer, reported the reserve audit will be submitted to the BWC by August 24.

Mr. Bryan asked if the review is required to be submitted to the Actuarial Committee. Ms. Shannon replied that the Governance Committee has determined that all required reports be reviewed by the appropriate committee. She added that September 1 is the required deadline for external delivery. Mr. Bryan asked why §4121.125(A) was added to the list. Ms. Shannon replied it was added to show the authority for Actuarial Committee to enter consulting contracts. The Deloitte study is a separate, one-time report mandated by an uncodified section of House Bill 100. The rest of §4121.125 provides for contractual authority. Mr. Bryan remarked that the Actuarial Committee could then contract with another firm after the Deloitte study, or choose to do nothing at the time. Mr. Fulton added that §4121.125 requires comparison of statutory provisions of other states.

Mr. Bryan asked if the actuarial analysis required by §4123.125(C)(6) can be done in-house or must it be external. Ms. Shannon replied that the preliminary opinion of the BWC Legal Division is that an outside actuary may be required, but additional review by the Attorney General's office must be completed. Mr. Williams added that this provision is taken from legislation regarding the Ohio Retirement Study Council. All funds have their own retained actuaries who routinely review legislation.

Mr. Bryan stated that there was an issue of whether to use Oliver Wyman or a different actuary for the Workers' Compensation Board for purposes of conducting a comparison of Ohio's system to other states. He requested clarification at the next meeting.

Finally, Ms. Shannon reported that there is five-year requirement for a report on actuarial assumptions in §4123.125(C)(4), so there is leeway for compliance.

Mr. Williams added that the Workers' Compensation Council has an actuarial review function and that the Actuarial Committee might be the coordinator of actions between the Council and the Workers' Compensation Board. Again, as modeled on the Retirement Study Council, the Workers' Compensation Council will be summoning the agency directors to meetings.

COMPREHENSIVE RATING PLAN REPORT

Mr. Pedrick recommended adoption of the Comprehensive Reform Plan for BWC. The key recommendations are to implement a split experience rating program by 2011 with transitional credibility table reductions; moderate premium volatility by capping increases; create performance-based safety incentives and discounts; and conduct further analysis on continuity and group rules. The final recommendations will be derived from stakeholder input. BWC staff will come to the board in December with additional specifications and rule amendments.

Mr. Pedrick reported that a coalition of stakeholders has retained an independent actuary, Art Cohen of Ernst & Young, for input in the final product. Mr. Pedrick welcomed that input.

Mr. Matesich asked if the split plan would use the number of claims per employer, or a percentage of the number of claims per employees of the employer. Mr. Pedrick replied that issue is addressed by the split plan by using the first \$10,000 per claim for calculating experience.

Mr. Pedrick further reported that equalizing the loss ratios is the key to creating premium equity. The loss-ratio tables are provided by William Hansen, Oliver Wyman, and show that if BWC used a split plan, then the loss ratios would be closer and there would be greater equity. (The loss ratio tables use the actual credibility tables in effect from 2003 to 2005, not a uniform 85% maximum credibility as erroneously described in the executive summary.) The recommendation now is to move to 77% as the first step.

Mr. Bryan asked why not move to the ultimate maximum credibility goal in the first step. Mr. Pedrick replied that stakeholder group rates would rise too fast to maintain stability. BWC wants to show the impact of the split plan to employers before full implementation. He also stated that the three year transition and the caps on increases address input and concerns from stakeholders.

Mr. Hummel asked if it makes sense to delay adoption of the plan because of the need for the stakeholders' actuary to provide input. Mr. Pedrick replied it did not. BWC knows that it needs to move from the current program now. BWC does need time to deliberate on the details of the plan to be proposed in December.

Mr. Bryan asked how BWC can value the input of the stakeholders' actuary when it has decided to implement the credibility changes now. Mr. Pedrick responded that he had spoken at length with Mr. Cohen on two occasions. At no time did a clear alternative to changing the credibility table arise.

Mr. Hummel asked if adoption of the split plan and change of group rating go hand in hand. Mr. Pedrick responded that the split plan will improve equity even if BWC did not have group rating. Moreover, the credibility table needs change anyway. Both are necessary for long-term equity in the system.

Mr. Matesich asked if Deloitte Consulting LLP addressed credibility. Jan Lommele, Chief Property and Casualty Actuary, responded that credibility is not specifically addressed. Bob Miccolis, Senior Advisor Actuary and Team Leader replied that change of credibility will improve equity and reduce off-balances overall.

Mr. Smith added that the evidence is all in favor of equalizing loss ratios.

Mr. Fulton stated that the letter from the stakeholders requests that the Workers' Compensation Board take its vote in August and not June. He asked what the damage from delay would be. Mr. Pedrick replied that it would shorten the time for proposing a new rating plan. He is hesitant to approve additional expenses for Oliver Wyman without full Board approval of the plan. There would be delays in informing employers of program changes. Finally, by acting now, the Workers' Compensation Board will be able to demonstrate its commitment to reform.

Ms. Falls inquired of Deloitte if the focus of the effect of the rate program change is on transparency and benefit to the Ohio economy. In addition, she asked if Deloitte would put the BWC proposal among its top five recommendations? Mr. Lommele replied that the plan would have a high priority. Mr. Miccolis added it would not aid in transparency, but would enhance competitiveness and efficiency, thereby benefiting the Ohio economy.

Mr. Matesich asked how the Deloitte study helped when the decision has been made. Mr. Pedrick responded that the study does not change the decision on credibility, however, the study will help some elements of experience rating and group membership.

NEW BUSINESS/ACTION ITEMS

COMPREHENSIVE RATING PLAN & PRIVATE EMPLOYER CREDIBILITY TABLE, OHIO ADMINISTRATIVE CODE RULE 4123-17-05.1

Mr. Bryan called the question on the motion to adopt the Comprehensive Rating Plan and the 77% credibility limit.

Mr. Fulton asked how the motion incorporates the work of the stakeholders' actuary. Mr. Pedrick replied that BWC will form workgroups to write rules, suggest changes, and fine-tune the final plan. Marsha Ryan, BWC Administrator, added that BWC faces difficult issues of group continuity, stickiness, etc., and the input of the actuary will be helpful in implementing them. Also, there are stakeholders who support the plan as currently proposed.

Mr. Fulton moved that the Actuarial Committee recommend to the Bureau of Workers' Compensation Board of Directors that it consent to the Administrator's recommendation relating to the development of the elements of a Comprehensive Rating Plan, and that the Board of Directors provide changes to the Private Employer Credibility Table of Rule 4123-17-05.1 of the Administrative Code. This motion consents to the Administrator proceeding with the development of the elements of the Comprehensive Rating Plan as presented today. The Administrator shall provide the Board with periodic updates on the development of the rating plan, and shall present to the Board any rule changes relating to the plan at the appropriate times during the development of the plan. In addition, the motion consents to the amendment of Rule 4123-17-05.1, "Credibility and Maximum Value of a Loss," to be effective July 1, 2009, applicable to the payroll reporting period July 1, 2009, through June 30, 2010, with a maximum credibility of 77 percent, as provided in the appendix to the rule. Mr. Harris seconded the motion.

Mr. Hummel agreed with Mr. Smith that all the evidence shows that the maximum credibility is too high. He was concerned that the credibility reduction and the split plan implementation move together. He asked Mr. Pedrick if he were confident of the change to a 77% maximum and Mr. Pedrick confirmed that he was.

Mr. Matesich stated that it was difficult to argue against reduction of the credibility maximum, however, he was concerned about moving too fast with too little information. It had been only twenty-four hours since the presentation of Deloitte to the Actuarial Committee. Mr. Fulton replied that the Workers' Compensation Board is only committing to change credibility to 77% and this commitment can be changed. Other details on the comprehensive plan are to be worked out between now and the end of the year.

Mr. Price agreed there was overwhelming evidence in favor of the changes. He is concerned with transparency of the process to the stakeholders, which he is assured can be fulfilled.

Keary McCarthy, Chief of Communications, reported that stakeholders have already been active in the process. BWC began in February and has had forty meetings with different stakeholder groups. The recent letter from some stakeholders alleges that the plan was not presented to them until June 23. However, most parts of the plan were distributed to stakeholders earlier in June and BWC held meetings during the week of June 16 to receive feedback concerning the draft plan. The stakeholders requested that its actuary have input, which led to the discussions with Mr. Pedrick over the past week. BWC has committed itself to working with the stakeholders' actuary. Mr. McCarthy then detailed the various sections of the plan proposal, including all of section V, which document stakeholder involvement.

Mr. Smith asked if stakeholder input included both group employers and non-group employers. Mr. McCarthy replied that it was mostly group representatives and TPAs. Their input so far has enlightened BWC on how marketing for group rating operates. BWC also received input from opponents of group rating.

Mr. Matesich thanked Mr. McCarthy for his clarification of the process of forming the plan.

The motion was approved by a roll call vote of six ayes and no nays.

DISCUSSION ITEMS

CHIEF ACTUARIAL OFFICER REPORT

Mr. Pedrick reported that the Deloitte study was moving forward. With respect to implementation of MIRA II, BWC has received data from Fair Isaac which it is now verifying. BWC is working on web screens to achieve the September 5 public access deadline. BWC is working with state agencies to get a two-year rate in place. However, some universities and university hospitals do not see the benefit of a two-year rate in their budgets, so alternatives for them will be explored.

DELOITTE REPORT—GROUP I TASKS

Mr. Bryan asked if the Actuarial Committee had any questions for Deloitte on its June 25 presentation. He asked if the Group II report is on schedule for August, which was confirmed by Mr. Lommele. Ms. Falls asked that when the formal report on Group I tasks is finished that it include observations on credibility.

COMMITTEE CALENDAR

Mr. Bryan reported that there would be increased examination of reserves in the future, after the Oliver Wyman report in August. The actuarial reserve will be reviewed on a quarterly basis, along with the quarterly financial reports. This is derived from a mandate of HB 100.

Mr. Hummel asked if all months had an educational session. Mr. Berno replied that the July schedule had a place-holder, but did not have a formal education session planned. The next education session would be the Deloitte report in August.

ADJOURNMENT

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

Prepared by: Larry Rhodebeck, Staff Counsel
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June 30, 2008