

BWC Board of Directors
Actuarial Committee
Thursday, July 21, 2008 3:00 P.M.
William Green Building
Neil Schultz Conference Center
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present: Charles Bryan, Chairman
David Caldwell
Philip Fulton
James Hummel
Jim Matesich

Members Absent: William Lhota, ex officio

Other Directors Present: James Harris and Larry Price

Counsel Present: John Williams, Assistant Attorney General

CALL TO ORDER

Mr. Bryan called the meeting to order at 3 P. M. and the roll call was taken. Mr. Bryan introduced Mr. Caldwell as a new member of the Actuarial Committee. He thanked Mr. Harris for his prior service.

MINUTES OF JUNE 25 & 26, 2008

Mr. Matesich moved that the minutes of June 25 & 26, 2008, be approved. Mr. Hummel seconded and the minutes were approved by a unanimous roll call vote.

NEW BUSINESS/ACTION ITEMS

None

DISCUSSION ITEMS

MIRA II UPDATE

Rex Blateri, MIRA II Project Manager, delivered a preliminary report in which he reviewed statistics of both MIRA I and MIRA II from June 30. An online tutorial for the public will be available July 30. Web-testing begins today. BWC should reach the goal of online availability of September 5. When online, BWC staff will be able to repredict reserves by correcting claim factors.

Mr. Bryan asked if there was a MIRA II user group. Mr. Blateri replied there was a user group and it will be brought back to evaluate MIRA II in the near future.

Mr. Blateri compared 71,325 claims with both MIRA I and MIRA II reserves. Aggregate reserves under MIRA II were lower than MIRA I; MIRA II exhibited improved and quicker stop logic; MIRA II rendered lower average reserve predictions; and MIRA II exhibited more claims with reserves equal to zero.

Mr. Fulton asked if MIRA II uses thirteen months of inactivity as the cut-off date for determining if a claim is dormant. Mr. Blateri replied that thirteen months is still the rule, however, other stop-logic criteria will set a reserve of zero before the thirteen months are up.

Mr. Bryan asked if MIRA I over-reserved. John Pedrick, Chief Actuarial Officer, reported that MIRA I did so on many claims. Mr. Price asked why and Mr. Pedrick replied that the MIRA II design is based on "per claim accuracy," whereas MIRA I increased reserves to make the aggregate total equal to the reserve audit.

Mr. Blateri further reported that when looking at Type 9 claims, in which permanent conditions are identified, then the claim count is reduced by 11,000 claims for MIRA II. With respect to death claims, MIRA II initially identified only \$341,000 in reserves. Fair Isaac was contacted and agreed the system was defective on that issue and a correction was made. Increases in reserves for PTD claims are the result of improvements in medical predictors.

Mr. Bryan stated that the Workers' Compensation Board will need future reports on improvements. Mr. Pedrick replied that MIRA II will improve individual claims reserves and experience rating and evaluate the reserve audit. Mr. Bryan added that the differences between MIRA II and the reserve audit will need reconciliation. Mr. Pedrick also added that because a history of incurred losses was lacking until recently. When a history is available it will bridge the two reserves.

RESERVE AUDIT PROCESS

Jeffery Scholl, Oliver Wyman Consulting Actuaries, reviewed the June 30, 2007, actuarial reserve audit as a prelude to the August report for the 2008 reserve audit.

Mr. Bryan asked if the Actuarial Committee will receive the data to measure the accuracy of the reserve audit. Mr. Scholl replied that the data will be included in the bound volume of the reserve audit report. Mr. Bryan added that the Actuarial Committee will need reports on the reserve on a regular basis.

Mr. Scholl reported that Oliver Wyman relied on payment data because of the lack of claims reserves in the past. With respect to the 2008 reserve audit, the process will be similar to prior years;

Oliver Wyman will take a closer look at whether there has been a reduction in the amount of benefits because of the impact of lump-sum settlements; and Oliver Wyman will comment on the potential impact of the Ohio Supreme Court decision in the Wise case, which permits reopening of lump-sum settlements when the injured worker was not represented by an attorney.

Mr. Bryan commented that the Actuarial Committee is best equipped to evaluate assumptions, not the methodology. Mr. Scholl replied the assumptions will be documented and set out in the report. Oliver Wyman will illustrate the report using the medical inflation assumptions.

Mr. Harris asked why there was lower growth in award of PTD benefits. Marsha Ryan, BWC Administrator, replied that there has been an overall decline in the number of claims filed. Mr. Fulton added that the Industrial Commission hearing officers currently use the disability factors differently in PTD applications. Mr. Scholl also cited the decline in industrial jobs.

HB 100 ACTUARIAL STUDIES

Ann Shannon, Legal Counsel, reported on the actuarial reports required by H. B. 100 and other provisions of the Ohio Revised Code. The report was requested at the June meeting of the Actuarial Committee. Some reports are mandatory, some are discretionary, and some may be combined with those to be submitted to the Workers' Compensation Council. BWC is meeting the statutory requirement for an actuarial study of the Ohio workers' compensation system and a comparison of that system with other states' workers' compensation systems with the Oliver Wyman actuarial audit and the Deloitte actuarial study.

Mr. Bryan reported that he would be meeting with Representative William Batchelder of the Workers' Compensation Council on August 4 to open communication and determine if actuarial studies can be coordinated to prevent duplication.

With respect to requesting additional actuarial studies, Ms. Ryan reported that a sixty-day period for requesting a study of pending legislation could be too short a period of time to retain an actuarial firm under the requirements of state contracting. Instead, an actuarial firm would need to be under contract prior to the introduction of legislation to perform an analysis of the legislation. She further reported that the next meeting of the Workers' Compensation Council will be on August 13. Mr. Pedrick state he would seek clarification whether a letter from the BWC Chief Actuary would satisfy the pending legislation study requirement.

FIVE-YEAR RULE REVIEW

Tom Sico, Assistant General Counsel, recommended amendments of three rules of Ohio Administrative Code Chapter 4123-17 as part of the five-year rule review. BWC also recommends that ten rules not be changed. The remaining rules of the chapter are rating rules which are exempt from approval by the Joint Committee on Agency Rule Review (JCARR). Rule 4123-17-01 is amended to change the name of the body from the Workers' Compensation Oversight Commission to the Workers' Compensation Board. Rule 4123-17-27 is amended to no longer require written, signed protests. This matches current procedures and the joint electronic signature rule of BWC and the Industrial Commission.

Mr. Fulton recommended a further amendment to Rule 4123-17-27 that it follow electronic filing rules already in place. Mr. Caldwell recommended adding a definition of “in writing.” Mr. Sico reported he will add these changes and transmit them to the Actuarial Committee before the July 25 meeting of the Workers' Compensation Board.

Mr. Sico also reported that Rule 4123-17-10 is being amended to reflect the change in H. B. 100 that removes the discretion to declare an excess of premiums from the Administrator to the Workers' Compensation Board. However, the Workers' Compensation Board could initiate the policy it wants in connection with the rule change. Currently, the amendment is only made to comply with the statute.

Mr. Harris stated he was against any dividends and preferred lower premium rates. Mr. Price added that any changes needed to comply with H.B. 100. Mr. Fulton stated the Actuarial Committee should approve the rule and report to the Workers' Compensation Board that the Actuarial Committee will address the dividend policy at a later date.

Mr. Fulton moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendations on the five year rule review of thirteen rules of Chapter 4123-17 of the Administrative Code as amended today, July 21, 2008. The motion consents to the Administrator retaining ten rules without change, and amending Rules 4123-17-01, 4123-17-10, and 4123-17-27 as presented today. Mr. Matesich seconded the motion. The motion was approved by unanimous roll call vote.

CHIEF ACTUARIAL OFFICER REPORT

Mr. Pedrick reported that BWC is forming teams needed to implement the plan to restore equity to rating programs. One team will implement a split experience rating plan and set caps on premium increases. A second team will address new product offerings such as deductibles, shared savings plan, and implementation of recommendations from the Deloitte study.

Mr. Bryan asked about the reception of the change of the credibility tables to a maximum of 77%. Mr. Pedrick reported there was some reaction, but that none he had received was positive. So additional outreach was necessary. Ms. Ryan read from a copy of a letter sent by Sheakley Uniservice which linked the change in the credibility to other, but unrelated, economic issues in the state, such as the minimum wage and energy costs. She distributed copies to the Actuarial Committee. Ms. Ryan committed BWC to continue to reach out to TPAs. Also, she reported that some group sponsors have thanked BWC for changes to the credibility tables.

On other issues, Mr. Pedrick reported that the next report from Deloitte Consulting would be at the August meeting. A MIRA II report was given today and shows BWC is meeting all timelines and resolving implementation problems. BWC is moving ahead with a plan to set premium rates for two years for state agencies to meet budget schedules. Finally, he reported that he has met with BWC Human Resources on plans to increase staffing of the Actuarial Division.

COMMITTEE CALENDAR

Mr. Bryan reported that there would be an educational session on August 27 at which there would be a further report from Deloitte. At the August 28 regular meeting, Oliver Wyman will present the reserve audit.

Mr. Matesich requested that the education session be moved to August 28 because the Governance Committee will not meet that day. Don Berno, Board Liaison, replied that he would be able to make that change.

ADJOURNMENT

There was a motion to adjourn by Mr. Fulton, second by Mr. Caldwell. Mr. Bryan adjourned the meeting at 5:00 pm.

Prepared by: Larry Rhodebeck, Staff Counsel
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July 24, 2008