

**BWC Board of Directors
Actuarial Committee
Thursday, August 28, 2008 3:00 P.M.
William Green Building
Neil Schultz Conference Center
30 W SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215**

Members Present: Charles Bryan, Chairman
David Caldwell
James Hummel
Jim Matesich
Thomas Pitts
William Lhota, ex officio

Members Absent: None

Other Directors Present: James Harris, 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. Mr. Bryan welcomed Mr. Pitts as a new director of the Workers' Compensation Board and member of the Actuarial Committee. He thanked former director Philip Fulton for his service.

MINUTES OF JULY 21, 2008

Mr. Bryan requested that the minutes of July 21 be amended to show the meeting occurred on Monday, not Thursday and to correct typographical errors on page 3.

Mr. Matesich moved that the amended minutes of July 21, 2008, be approved. Mr. Hummel seconded and the amended minutes were approved by a unanimous roll call vote.

FOLLOW UP REPORTS FROM PRIOR MEETINGS

Mr. Bryan asked if the Actuarial Department had a report on statutory provisions of other states similar to Ohio Revised Code §4121.125 regarding workers' compensation fund reserves. John Pedrick, Chief Actuarial Officer, and Liz Bravender, Actuarial Director, reported that a partial compilation had been started and distributed it to the Actuarial Committee. Few states expressly require a fund reserve. However, competitive funds are subject to statutory accounting principles, which would require reserves.

Mr. Bryan asked if the Actuarial Department had made plans to retain an actuary to review legislation on an ongoing basis. Mr. Pedrick reported the plan now is for Oliver Wyman to review legislation as it arises. However, BWC may decide to retain a different independent actuary for that purpose. Mr. Bryan requested that recommendations be made so that a decision could be reached by the October meeting.

Mr. Bryan reported that he had undertaken steps to initiate coordination with the Workers' Compensation Council by meeting with Representative William Batchelder. One purpose is to use the services of the same actuaries, so BWC and the Workers' Compensation Board do not have to deal with dueling reports.

Mr. Bryan asked about developments in relations with stakeholders and especially the retaining of outside actuary Art Cohen as consultant to some of the third party administrators. Mr. Pedrick reported that he corresponds regularly with Mr. Cohen on fund analysis and group rating program. One project is a severity analysis to determine if group rating employers have lower severity rate because of their membership in groups. Mr. Bryan commented that BWC should remain open to customer contacts and that the current situation appears to be manageable.

DISCUSSION ITEMS

RESERVE AUDIT UPDATE

Marsha Ryan, BWC Administrator, reported that she has written Representative Batchelder and the Workers' Compensation Council explaining why the reserve audit will not be available by the September 1st deadline required by Ohio Revised Code. Representative Batchelder has acknowledged receipt of the letter and understands the reason for the delay of the report. BWC will seek clarification of the legislative deadline in future budget bills to match operational requirements.

Mr. Bryan stated that this is the first reading of the reserve audit report. The Actuarial Committee will accept it at its September meeting for submission to the Workers' Compensation Board and transmittal to the Workers' Compensation Council. The full audit is available on paper or a CD-Rom. The board materials contain the summary portion of the audit, which excludes the 600 pages of appendices.

Jeffery J. Scott, FCAS, MAAA and Jeffery W. Scholl, FCAS, MAAA, Oliver Wyman Consulting, Inc., reported on the reserve audit. Oliver Wyman prepares reserve calculations on a quarterly basis. The one prepared for June 30 of each year is a comprehensive review and includes final valuation of the reserve for the BWC's financial reports. The presentation today is comprised of four parts: results, liability runoff, reserve variability and ranges, and an example of a reserve calculation focusing on medical expense.

Mr. Scott reported that the report begins with an opinion from himself and Mr. Scholl which expresses that the reserve was calculated in accordance with actuarial standards of practice. The reserve for all funds administered by BWC as of June 30 is \$19,482,000,000, an increase of \$212 million over June 30, 2007. The reasons for the increase are a new year of injuries, offset by changes in prior years' reserves, expected payments, amortization of interest, and improvements in losses. Notable issues of the reserve include refund of hospital payments due to fee schedules, increased level of lump-sum settlement payments, prior medical liability decreases, and prior compensation liability increases. In particular, the rise in lump-sum settlements creates uncertainty on the future liability of all types of benefits because it is too early to quantify the effect.

With respect to liability runoff, there has been favorable development since 2002. This has been driven primarily by favorable medical development which is dependent on inflation factors and cost containment activities. Compensation runoff is mostly in line with expected amounts.

Mr. Smith asked how much of the projections are based on the judgment of the actuary. Mr. Scholl replied that with respect to medical inflation, Oliver Wyman uses a 9% annual inflation factor because that has been the trend over the past quarter century. Mr. Pedrick added that an appropriate approach to projecting medical costs for several decades into the future is to use several past decades of medical inflation data. While the last five years show lower inflation of approximately 6%, the long-term inflation rate of 9% is a more prudent choice for this long-term projection. Mr. Smith asked about the effect of the Health Partnership Program on inflation. Mr. Pedrick predicted that similar to the implementation of HMOs, there was an immediate decline in the rate of inflation, but a return to historic trends after several years.

Reserve variability and ranges can be affected by many factors, including legislative changes, unexpected judicial interpretations of statutes, and differences in investment returns. Three major factors in reserve variability are the rate of medical inflation, the choice of the discount rate, and past liability runoff.

ADJUDICATING COMMITTEE POLICY REVIEW

James Barnes, General Counsel, discussed a draft Adjudication Committee Policy for consideration by the Actuarial Committee. Pursuant to House Bill 100, the Board of Directors, based upon recommendations from the Actuarial Committee, is charged with setting the policy and procedures, including establishing criteria for manual overrides, of the Adjudicating Committee. During his presentation, Mr. Barnes set forth the responsibilities of the Adjudicating Committee as set forth in Ohio Revised Code §4123.291. Mr. Barnes further explained that the requirements in House Bill 100 arose, at least in part, from an Inspector General Report that faulted a previous BWC administration's failure to have internal controls in place for manual overrides.

Mr. Barnes asked the Committee to review the draft Adjudicating Committee Policy and to contact him with any questions prior to its September meeting. The policy will come before the Committee and Board in September for possible vote to approval. Mr. Barnes provided examples of issues heard by the Adjudicating Committee on appeal from decisions by BWC business units. Under the draft policy, the Adjudicating Committee may exercise discretion in granting requested relief to employers where extenuating circumstances and good cause exist.

CAO REPORTS

Mr. Pedrick first reported that he and Ms. Bravender spent one and one-half weeks in Cleveland testifying in the San Allen case. The suit challenges the group rating program.

The Actuarial Department has formed three teams to implement the comprehensive rating plan presented to the Workers' Compensation Board in June. The teams are Communications/ Group Structure and Governance; Capping/Split Plan; and New Products/Deloitte Integration.

Mr. Bryan asked Mr. Pedrick to expand on the comment that he had received no positive response to the lowering of the maximum of the credibility tables to 77%. Mr. Pedrick replied that he did receive some positive responses after making his statement. After lowering the maximum to 77%, then BWC will use a 65% for the next policy year. However, beginning July 1, 2011, the new experience rating plan will be in place and further changes will be built into that.

Mr. Pedrick reported that discussions with Art Cohen, independent actuary, have been very productive. He is providing input on the split rating plan and the final version will be exhibiting his insights.

MIRA II is on schedule for full implementation on the September 5 rollout. The schedule to refresh reserve information begins September 9. Mr. Pitts asked if injured workers could see the MIRA II reserve on the BWC web site. Mr. Pedrick and Ms. Bravender replied they did not know, but would research to answer.

Mr. Pedrick reported that the BWC Legal division had identified 265,000 claims settled since 1993. Since the Wise case decision in April 2008, there has been one request for relief under Wise filed with the Industrial Commission. It appears the request did not meet the requirements for relief. Because of lack of evidence that Wise will result in large numbers of reopened claims, BWC has not estimated a separate liability.

Finally, Mr. Pedrick reported that progress continues in adding staff with credentials to the Actuarial Department.

COMMITTEE CALENDAR

Mr. Bryan requested that there be educational sessions scheduled on days when there are no public forums held.

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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September 3, 2008

