BWC Board of Directors
Actuarial Committee
Educational Session
Wednesday, May 28, 2008, 10:00 A.M.
William Green Building
Neil Schultz Conference Center
30 W. Spring St., 2nd Floor (Mezzanine)
Columbus, OH 43215

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

Call to order

Mr. Matesich called the meeting to order at 10 A. M. and the roll call was taken. Workers' Compensation Board Directors attending the meeting, asking questions, and making comments included David Caldwell, Allison Falls, Kenneth Haffey, and Robert Smith. Mr. Matesich reported that Mr. Bryan was enroute to Columbus from New York in a delayed flight.

Educational Session

Mr. Matesich reported that the meeting was to be devoted to an education session with an update on MIRA II, a report on the split rating plan, and a report from Deloitte Consulting LLP.

MIRA II Update

Rex Blatieri, MIRA II Team Leader, first reported that Senate Bill 323 contained emergency legislation to change the implementation date of MIRA II to July 1, 2008. This will enable BWC to use a transition period for MIRA II implementation. MIRA II will first be used for public employer rates effective January 1, 2009, and July 1, 2009 for private employer rates. Mr. Blatieri continued with a description of the six MIRA II screens on Dolphin that will be available to the public after implementation.

Split Rating Plan

Jeffery Scholl and William Hansen, Oliver Wyman Consulting Actuaries, reported on the proposed split rating plan for BWC. They were assisted by John Pedrick, Chief Actuarial Officer, and Liz Bravender, Actuarial Director. Mr. Hansen's report reviewed experience rating plan fundamentals covered in previous education sessions. He then reviewed the impact of past credibility changes on group rates and on base rate off-balance adjustments. The impact of a split plan will be a decrease in base rates, non group experience rated risk, retro and one-claim program risks. Group rate risks and risks removed from group will likely pay more premiums. Mitigation of the impact will be accomplished by caps on premium increases for both group and non-group employers.

Mr. Hummel requested that a copy of the group rating rules be distributed to the Workers' Compensation Board.

Deloitte Consulting Update

The Actuarial Committee received a report from Deloitte Consulting LLP representatives Jan Lommele, Chief Property and Casualty Actuary; Dick Messick, Senior Actuary and Project Management Coordinator; Dave Heppen, Surplus/Reinsurance Projects Lead and Pricing & Programs Project Lead; and Bob Miccolis, Senior Advisor Actuary and Team Leader. Deloitte has been asked to perform thirty-six tasks, which have been classified into four groups. The first report on rating program review, rate setting, experience rating, group rating, MIRA/MIRA II case reserving, subrogation, self-insurance, assessments for the Self-Insuring Employers Guaranty Fund, salary continuation, and the $15,000 medical-only program will be made to the Actuarial Committee at its June 26 meeting.

Mr. Fulton, Mr. Caldwell, and Mr. Harris requested that Deloitte interview represent-atives of injured workers from, respectively, the Ohio Association for Justice, the AFL-CIO, and the United Auto Workers.

Adjournment

There was a motion by Mr. Hummel, second by Mr. Fulton, and adjournment by Mr. Matesich.

Prepared by: Larry Rhodebeck, Staff Counsel
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June 4, 2008

BWC Board of Directors
Actuarial Committee
Thursday, May 29, 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

Call to order

Mr. Bryan called the meeting to order at 2 P. M. and the roll call was taken. Workers' Compensation Board Directors attending the meeting, asking questions, and making comments included David Caldwell, Alison Falls, Kenneth Haffey, and Larry Price.

Mr. Bryan reminded the Actuarial Committee that there are four overriding issues before the committee at this time: rate stability; impact of *not* using Ohio data in formulating the National Council on Compensation Insurance (NCCI) manual classifications; the possibility of improving Disabled Workers' Relief Fund (DWRF) benefits; and the effect on reserves of the *Wise* case.

Minutes of April 24, 2007

Mr. Hummel moved that the minutes of April 24, 2007, be approved. Mr. Harris seconded and the minutes were approved by a unanimous roll call vote.

New business/Action items

ADMINISTRATIVE COST FUND RATES, OHIO ADMINISTRATIVE CODE RULE 4123-17-36

Tracy Valentino, Chief Fiscal & Planning Officer, recommended amendment of Ohio Administrative Code Rule 4123-17-36 on the Administrative Cost Fund (ACF) rates for the three employer groups in the State Insurance Fund. The executive summary reviews the history of rates, sets forth the amended rule, and provides calculations of the rates. John Georgiton, Industrial Commission Fiscal Officer, is present today. Expected costs for fiscal year 2009 are $280 million, $294 million has been appropriated by the General Assembly, and BWC remains under the 5% cap. The BWC portion does not include rent to be received from the Industrial Commission.

Mr. Matesich asked if BWC could use payroll figures that were not rounded to the closest million in order to be more accurate in calculating the assessments. Ms. Valentino responded that using actual payroll receipts would be more accurate, but BWC makes an end-of-year adjustment and calculates the next year’s rates to correct for approximations.

Mr. Bryan asked if the Actuarial Committee is being asked to approve the ACF rate as a pass-through and not judge whether the expenses are justified. Ms. Valentino confirmed that the Actuarial Committee was not being asked if the administrative costs were justified.

Mr. Matesich moved that the Actuarial Committee of the BWC Board of Directors consents to the Administrator’s recommendation relating to the administrative cost contribution rule, beginning July 1, 2008, to adjust the Administrative Cost contributions from the various classes of employers for the operation of the Bureau, the Board of Directors, and the Industrial Commission. The motion consents to the Administrator amending Rule 4123-17-36 of the Administrative Code as presented here today. Mr. Harris seconded and the motion was approved by unanimous roll call vote.

PRIVATE EMPLOYER RATES, OHIO ADMINISTRATIVE CODE RULES 4123-17-05 & 4123-17-06

Liz Bravender, Actuarial Director, recommended amendment of Ohio Administrative Code Rules 4123-17-05 and 4123-17-06 regarding the premium rates of private employers. The Workers' Compensation Board approved the overall rate reduction at the April 2008 meeting. The rates being requested today are 30% lower than those of 1994. BWC has calculated the base rates for the NCCI manuals and the experience rates of individual employers. The average rate of pure premium is $1.76 per $100 of payroll; $2.11 is the average collectible rate for all premiums and assessments. The 5% reduction is the first since 2001.

For amended rule 4123-17-05, original Table A was moved to Ohio Administrative Code Rule 4123-17-051 in 2007. Table A now contains the NCCI manuals arranged by industry groups. Ohio Administrative Code Rule 4123-17-06 contains the base rates for each manual.

Mr. Bryan asked if adoption of the final rates at this time constitute too short notice to employers and cause problems for their budgets. Mr. Matesich reported that as a small employer in the State Insurance Fund he can confirm the amount of notification time is normal and similar to the notification time for changes in health insurance. An increase in rates is much like any other unexpected raise in an expense. John Pedrick, Chief Actuarial Officer, added that the employers will not pay premiums on these rates until February 2009. Ms. Bravender reported that a letter will be sent out to each employer at this time with its new rates. Seventy-eight employers will see increases capped at 30% of the 2007 policy year rates.

Mr. Price asked why the block was not checked on the Common Sense Business Regulation form concerning stakeholder input. Donald Berno, Workers' Compensation Board Liaison, reported it was not checked because this is a rating rule and BWC does not require stakeholder comment.

Mr. Fulton moved that the Actuarial Committee of the BWC Board of Directors consents to the Administrator's recommendation relating to the private employer rate rules, beginning July 1, 2008. These rate rules achieve an overall five per cent decrease in the total collectible premium rate from the previous year as approved earlier this year by the Board of Directors. The motion consents to the Administrator amending Rules 4123-17-05 and 4123-17-06 of the Administrative Code as presented here today. Mr. Harris seconded and motion was approved by unanimous roll call vote.

SELF-INSURED ASSESSMENTS, OHIO ADMINISTRATIVE CODE RULE 4123-17-32

Ms. Bravender recommended amendment of Ohio Administrative Code Rule 4123-17-32 regarding assessments of self-insuring employers. No changes are recommended for the rates of the Mandatory Surplus Fund, the Guaranty Fund, and the Safety and Hygiene Fund. There are increases recommend for the ACF portions for both BWC and the Industrial Commission.

Mr. Bryan asked if maintaining a balance in the Guaranty Fund was too low and whether BWC recommended a change. Mr. Pedrick responded that the balance in the Guaranty Fund was being examined by Deloitte Consulting and a report on this issue was due in June with several other elements.

Ms. Bravender reported that there are three employers contributing to the Rehabilitation portion of the Surplus Fund. Mr. Hummel asked why so few are opting in. David Boyd, Director, Self-Insured Department, responded that most self-insuring employers do not want to mutualize expenses for rehabilitation.

Ms. Bravender reported that no employers are contributing to the handicap portion of the surplus Fund. She also reported that 594 employers are contributing to the portion to reimburse employers for disallowed claims under the *Sysco* case; 568 are not. BWC must increase this portion to $2.85 per $100 of reported compensation. Mr. Fulton added that when the employers do not opt-in, then they recover from future compensation payments to the injured worker.

Mr. Harris moved that the Actuarial Committee of the Bureau of Workers' Compensation Board of Directors recommend that the Board consent to the Administrator's recommendation relating to the self-insuring employer assessment rule, beginning July 1, 2008, to adjust the assessments for self-insuring employers. The motion consents to the Administrator amending Rule 4123-17-32 of the Administrative Code Rule, "Self-Insuring employer Assessment Based upon Paid Compensation," as presented here today. Mr. Fulton seconded and the motion was approved by unanimous roll call vote.

Marsha Ryan, BWC Administrator, report that there would be a July education session on self-insuring employers. Mr. Harris asked if it would be possible for employees of self-insuring employers to participate. Mr. Lhota suggested that such input could be part of a public form.

Ms. Bravender also reported that the Legal Division files claims in bankruptcy cases of self-insured employers. The program is lead by Larry Rhodebeck, Staff Counsel. The basis of recovery in the bankruptcy cases is the out-of-pocket workers' compensation claims expense, plus individual claim reserves calculated by the Actuarial Department.

Mr. Lhota asked if any liability of LTV Steel or Buckeye Steeling Castings attached to the employers who are currently operating the mills. Mr. Boyd and Mr. Haffey replied that liability did not attach.

Subcommittee Charter

Mr. Matesich moved that the charter of the Actuarial Committee be amended to include a provision for subcommittees. Mr. Fulton seconded and the motion was approved by unanimous roll call vote.

Discussion items

Ohio Hospital Association Case

Ms. Ryan reported that the Workers' Compensation Board had requested an opinion from the Attorney General on whether BWC could mutualize the judgment of the Ohio Hospital Association Case. The Attorney General recently rendered a formal option that BWC could not. Greg Paul, Legislative Liaison, reported that both houses had passed legislation to permit mutualization. Ms. Ryan reported the amendment to Ohio Administrative Code Rule 4123.34 would require also changes to the Administrative Code rules to charge the Surplus Fund.

Mr. Price requested a report on how the judgment affected the proposed split rating plan.

Split Rating Plan

Mr. Bryan reported that this subject was covered in the May 28 educational session.

Mr. Hummel asked if BWC is comparing the proposed split rating plan with other states. Mr. Pedrick responded that comparison with other states is part of the Deloitte study. Mr. Hummel asked if any state has a split plan similar to the Ohio proposal. Mr. Pedrick replied that there were plans with some similarities, but that Ohio is creating plans based on the principles of split plans in order to create an easy to understand program. William Hansen, Oliver Wyman Consulting Actuaries, added one example is in broadening the threshold for participation for an amount other than $8,000 in premium.

Mr. Matesich requested that information on the split rating plan be presented to the Actuarial Committee as available. Reports should be every month, rather than at six month intervals.

June 2008 Committee Calendar

Mr. Bryan reported that topics on the State Insurance Fund reserve have been added more often. For example, there will be a quarterly update on reserves to match the one on financial statements. There will also be other educational topics forthcoming. Additions to the calendar should be given to him and Mr. Berno.

Chief Actuarial Officer Report

Mr. Pedrick reported that HB 323 passed the House of Representatives and sent to Governor Strickland for signature. He also presented a chart on how asset/liability ratio may trigger funding of the mine safety fund. HB 323 also changes the MIRA II effective date to July 1, 2008.

Mr. Fulton asked if there would be rules introduced for the Mine Safety Program. Ms. Ryan reported that the rules would be presented at today’s 4 p. m. meeting of the Audit Committee.

Mr. Pedrick reported that BWC had identified 256,000 claims that could be affected by the *Wise* case. Mr. Bryan asked what the financial impact of these claims is. Mr. Pedrick responded that this information should be available at the June meeting. Mr. Fulton asked if the Industrial Commission is denying lump-sum settlements. James Barnes, Chief Legal Officer, replied that the Industrial Commission was denying settlements. Mr. Fulton reported that self-insuring employers are also denying them.

Mr. Pedrick reported that the June meeting would also have a report from Deloitte Consulting on the split rating plan.

Mr. Bryan asked what is the plan for changing the group rating discounts Mr. Pedrick reported that BWC planned to have the changes for July 1, 2009 rules on the table during this summer. BWC will also be proposing a three-year implementation schedule. Ms. Ryan reported that BWC would have a plan by June to get to 75% of the objective for group rating reform.

Ms. Falls stated that she had read a report that group rating groups are heterogeneous, whereas the rule requires they be homogeneous. She asked who is responsible for enforcing the rule. Mr. Pedrick replied there would be no change to group rules until there is reform of the group rating program. Provisions in the experience rating program would change the most.

Mr. Pedrick also reported that there would be a meeting with Fair Isaac Corporation and BWC staff on June 19. MIRA II training has begun and screens will be available to the public on Dolphin in September. Mr. Hummel asked what kind of training is planned. Mr. Pedrick replied that there are several types of training available to staff, TPAs, and employers.

MIRA 2 Communications and Training plan

Keary McCarthy, Chief of Communications, and Matt Gill, Director of Training, reported on MIRA II communications and training. Mr. McCarthy reported that the plan is to have substantial amounts of training material available before implementation. MIRA II will be effective July 1 and screens available will be available on September 5. Internal training has begun. Mr. Gill reported that some training will be e-training. Mr. McCarthy reported that Rex Blatieri, MIRA II Team Leader, is leading the training. A MIRA II session was held at the Safety Congress and there will be sessions at WCU.

Mr. Bryan asked what happens if the MIRA II user has problems with the web site. Mr. McCarthy reported that BWC is training the Call Center and employer service specialists to assist employers and others.

Ms. Ryan reported that she had received two personal notes from TPAs thanking her for the training given so far by BWC on MIRA II.

Mr. Harris asked if a report from Self-Insuring Employers Evaluation Board would be appropriate for the Workers' Compensation Board. Ms. Ryan replied BWC staff would look into it.

Mr. Pedrick stated that a report from Dennis Mealy, Chief Actuary, NCCI, is attached to the meeting materials and is available at the NCCI web-site.

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 5, 2008

TASKS FOR THE ACTUARIAL COMMITTEE AS MANDATED BY STATUTE

RC 4121.125 (A): Based upon the recommendations of the Actuarial Committee, the Board shall contract with **one or more** actuarial firms to assist in measuring the performance of Ohio's workers' compensation system and in comparing it to other state and private workers' compensation systems.

- Gives the Board the authority and discretion to contract with as few as one actuarial consulting firm to perform the many tasks required, or more as it may deem necessary.

RC 4121.125(C)(1): The Board shall contract to have an annual actuarial valuation of assets, liabilities and funding requirements of the State Insurance Fund and other funds.

- Due by September 1 of every year. (RC 4121.125(C)(3)).
- Part of new language in HB 100, but duplicates requirements of RC 4123.47(A).

RC 4123.47 (A): The Administrator shall have annual actuarial audits of the State Insurance Fund and other funds done by actuaries selected by the Board.

- Long-standing statutory requirement that pre-dates HB 100.
- BWC's current contract with Oliver Wyman to perform the annual actuarial audit pre-dates the Board.
- RC 4121.125(C)(1) and RC 4123.47(A) can be read in concert as requiring the same annual actuarial audit.

RC 4121.125(C)(6) The Board must contract with an actuary to do an actuarial analysis of any introduced legislation expected to have a measurable financial impact on the workers' compensation system.

- Analysis due within 60 days of introduction of legislation.
- Board has discretion to decide whether same actuaries that perform annual audit should analyze legislation, or if other actuaries should be used.

RC 4121.125(C)(4) Within 5 years of the effective date of HB 100, the Board must contract with an actuary to do a review of the actuarial assumptions used in the annual actuarial audit report.

- Due by November 1st following the fifth year of the period that the report covers. It must be submitted to the WCC, and the standing committees of the House and Senate with primary responsibilities for workers' compensation legislation. (RC 4121.125(C)(5)).
- Review must be performed every five years.
- Board has discretion to decide whether same actuaries that perform annual audit should do 5 year review, or if other actuaries should be used.

Actuarial Filler

Rating Plan Report

Materials will be issued at the meeting

Proposed Credibility Table
Incremental Steps

The attached table illustrates the current credibility table effective 7-1-2008 and the proposed incremental steps for the next two policy years. The first three columns are from Rule 4123-17-05.1 adopted by the Board of Directors at the November 2007 meeting. With the current proposal to implement a $10k single split plan for experience rating by 2011, the next two credibility columns are designed to smooth the transition over the three year period. Specifically, the fourth column labeled “New Credibility 77%”, shows the first transition year table to be implemented effective 7-1-2009. The last column, labeled “New Credibility 65%”, is the second step towards the split plan to be effective 7-1-2010.

At the credibility levels (first column) 1 through 7, there are increasing amounts of credibility compared to the current level of credibility. At the credibility groupings 8 through 13, the various levels have similar or no change in the amount of credibility compared to the current level of credibility. At the credibility groupings 14 and above, the various levels have lowering amounts of credibility compared to the current level of credibility. This implies that the impact of moving towards $10k split plan credibility function will predominately decrease the weight given to the claims experience of those employers and groups at the higher credibility levels of 14 and above. Likewise those employers in credibility groups 1 through 13 will either see no change or an increase in the weight given to their claims experience. .

These credibility table changes are vastly different than the changes made in the past 4 policy years. The past credibility table changes simply used a sliding scaled down approach as compared to the previous year table. The proposed tables for policy year 7-1-2009 and 7-1-2010 have been computed to progress towards the levels of credibility proposed under the $10k split plan.

In the second table, the first four columns shows the proposed credibility table to be used with the 10k split rating plan as described in the full report. The last 3 columns show the credibility amounts for a comparison state.

Ohio Bureau of Workers Compensation

Credibility Tables for Transition Years

Credibility Group	Expected Losses	Current Credibility 85%	New Credibility 77%	New Credibility 65%
1	8,000	4%	10%	16%
2	15,000	9%	14%	19%
3	27,000	13%	18%	22%
4	45,000	17%	21%	25%
5	62,500	21%	24%	27%
6	90,000	26%	28%	29%
7	122,500	30%	31%	31%
8	160,000	34%	34%	33%
9	202,500	38%	37%	35%
10	250,000	43%	40%	36%
11	302,500	47%	43%	38%
12	360,000	51%	45%	39%
13	422,500	55%	48%	41%
14	490,000	60%	52%	42%
15	562,500	64%	55%	44%
16	640,000	68%	59%	48%
17	722,500	72%	64%	53%
18	810,000	77%	69%	58%
19	902,500	81%	73%	63%
20	1,000,000	85%	77%	65%

Oliver Wyman Actuarial Consulting, Inc.

Credibility Values for 10k Split Plan Curve				Comparison State NCCI Credibilities		
Expected Losses	Primary Credibility	Excess Credibility	10k split Weighted Credibility*	Primary Credibility	Excess Credibility	5k split Weighted Credibility**
11,500	46%	3%	16%	45%	3%	10%
21,000	56%	4%	19%	55%	4%	13%
36,000	65%	5%	22%	65%	6%	16%
53,750	72%	6%	25%	71%	8%	18%
76,250	76%	7%	27%	75%	9%	20%
106,250	80%	9%	29%	79%	11%	23%
141,250	82%	10%	31%	82%	13%	25%
181,250	84%	12%	33%	83%	16%	27%
226,250	85%	14%	35%	85%	18%	29%
276,250	86%	16%	36%	86%	21%	32%
331,250	87%	18%	38%	87%	23%	34%
391,250	87%	20%	39%	87%	25%	36%
456,250	88%	22%	41%	88%	28%	38%
526,250	88%	24%	42%	88%	30%	40%
601,250	89%	25%	44%	88%	33%	42%
681,250	89%	27%	45%	89%	35%	44%
766,250	89%	29%	46%	89%	36%	45%
856,250	89%	30%	47%	89%	38%	47%
951,250	89%	32%	48%	89%	40%	49%
1,000,000	89%	32%	49%	89%	41%	49%
1,050,000	90%	33%	49%	89%	42%	50%
1,200,000	90%	35%	51%	90%	44%	52%
1,350,000	90%	36%	52%	90%	46%	53%
1,500,000	90%	38%	53%	90%	48%	55%
1,750,000	90%	39%	54%	90%	50%	57%
2,000,000	90%	41%	55%	90%	52%	59%
2,500,000	90%	43%	57%	90%	55%	61%
3,000,000	90%	45%	58%	90%	58%	63%
3,500,000	90%	47%	59%	90%	60%	65%
4,000,000	91%	48%	60%	91%	61%	66%
5,000,000	91%	49%	61%	91%	63%	67%
6,000,000	91%	50%	62%	91%	64%	69%
7,000,000	91%	51%	63%	91%	65%	70%
8,000,000	91%	52%	63%	91%	66%	70%
9,000,000	91%	52%	64%	91%	67%	71%
10,000,000	91%	53%	64%	91%	67%	71%
15,000,000	91%	54%	65%	91%	69%	73%
20,000,000	91%	55%	65%	91%	70%	73%
25,000,000	91%	55%	66%	91%	71%	74%

*29% weight given to primary credibility

**17% weight given to primary credibility

Bureau of Workers' Compensation
History of Rating Caps and Transitions

Penalty/Debit Limit

History: The BWC limited the amount of penalty or debit TM (total modifier, which has since been replaced by the EM or experience modifier) that could be applied to the base rate. The total modifier is a percentage computed for all experience rated employers based upon their individual loss and payroll history. The TM indicated a percentage reduction or percentage increase applied to the base rate. Prior to 1992, the TM penalty or credit was limited to an increase or decrease of 95% of the base rate. The BWC recognized that many penalty rated employers with extreme losses viewed the penalty limit as a benefit in that no matter how many claims losses they incurred, their penalty/debit could get no worse and therefore did nothing to increase safety in the workplace. In the same manner, if an employer's losses were significantly above that which was expected, any small decrease in their losses would not result in any decrease to their debit/penalty because they were so far above the cap. As a result, the BWC lifted the penalty caps. Beginning 1-1-1992 for Public Employer Taxing Districts (PEC) and 7-1-1992 Private Employers (PA), the penalty modifier limit was lifted. Below is the schedule of the phase in approach.

Rule: 4123-17-03 (F)(3) effective 1-1-1992

Employer group	Effective Date	TM Limit
PEC	1-1-1992	150%
PA	7-1-1992	150%
PEC	1-1-1993	250%
PA	7-1-1993	250%
PEC	1-1-1994	350%
PA	7-1-1994	350%
PEC	1-1-1995	Unlimited penalty/debit
PA	7-1-1995	Unlimited penalty/debit

Classification Codes

History: Prior to 1996, the BWC had its own classification system consisting of 217 different manual classifications. Amended Substitute House Bill 222 enacted on October 10, 1993, required the BWC to change from the BWC classification system to the National Council of Compensation Insurance (NCCI) classification system with 536 different manual classifications. The BWC required employers to report payroll using both classification systems for the first year beginning 7-1-1996 but paid their premiums under the BWC classification system. Beginning July 1, 1997, employers calculated their premiums due on their payroll report under both classification systems and chose the lower of the two premiums at the total employer premium level. The BWC classifications were calculated each year using the base rate methodology effective at the time plus an added percentage to the base rate to determine a "BWC rate limitation" rate. This added percentage is listed in the table below.

Rule: 4123-17-06 effective 7-1-1996

Employer group	Effective Date	Added percentage to BWC base rate
PA	7-1-1996	No percent, dual reporting
PA	7-1-1997	30%
PA	7-1-1998	60%
PA	7-1-1999	90%
PA – first half of policy year only	7-1-2000	120%
PA	7-1-2001	NCCI reporting and paying only

MIRA Reserving

History: Prior to 2002, the BWC used a tabular method of calculating reserves. In 1997, the BWC purchased the MIRA system in a pilot program. After determining the feasibility of using MIRA and quantifying the impact to employers, the BWC transitioned to the MIRA reserving system. The first time MIRA reserves were used in ratemaking was for private employer rates beginning 7-1-2002 and continuing through the 7-1-2004 policy year. The change was phased-in by BWC's computer systems that chose the lower of either the MIRA reserved total modified losses or the tabular reserved total modified losses at the employer level. Effective 7-1-2005 BWC discontinued using the lower of the two reserving systems and began using MIRA reserves exclusively. The BWC also modified the MIRA reserves to be similar to the old tabular reserving system using "transition rules" as described in the attached document.

The first time MIRA reserves were used in ratemaking for public employer taxing district rates was 1-1-2003 and continuing through the 1-1-2005 policy year. After this phase-in period, MIRA reserves were used exclusively for public employer taxing district rates effective 1-1-2006.

Rule: 4123-17-03(C)

Employer group	Effective Date	TM Limit
PA	7-1-2002	Lower of either MIRA or tabular reserves
PEC	1-1-2003	Lower of either MIRA or tabular reserves
PA	7-1-2003	Lower of either MIRA or tabular reserves
PEC	1-1-2004	Lower of either MIRA or tabular reserves
PA	7-1-2004	Lower of either MIRA or tabular reserves
PEC	1-1-2005	Lower of either MIRA or tabular reserves
PA	7-1-2005	MIRA only
PEC	1-1-2006	MIRA only

MIRA Transition Table for MIRA Reserves
For Cut-Off date 12-31-2001 for Private Employers

Transition or Phase in Rule for rating year beginning 7-1-2002:

For Private Employers, the BWC will use the lower of the Employer Total Modified Losses (TML) using Tabular reserves or Employer Total Modified Losses using MIRA reserves at the employer level for the 7-1-2002 rating year. This will be determined within the Rates and Payments System (RAP) automatically.

Group Rated Employers: The selection of reserving system will be at the policy level TML limited to the Group's credibility limit.

Subsequent adjustments to the employer's claims after the rates have been calculated will be completed by the Risk Technical Adjustment unit. These changes will not impact the selection of the lower of the two reserve system TMLs.

I. Suppression of MIRA Reserves (reserve set to zero) will occur in the following cases:

Suppression of MIRA Reserves will be handled in the Rates and Payments system and will be based upon the information that RAP is able to obtain from its interfaces and databases within the other host systems. Suppression of reserves means that the reserve figure will be set at zero and the actual medical or indemnity payments made by the BWC will be reflected in the appropriate paid category. Below is the list of claim categories that will have the MIRA reserve suppressed:

1. **Medical Only claims –** Includes those claims that are statutorily a medical only claim. Requires that the V3 system designate this as a MO or medical claim type. These will be suppressed until such time as the claim becomes a lost-time claim as of the evaluation date.

2. **Salary Continuation Claims –** any claim that has salary continuation or wage continuation as its only indemnity type paid will have the reserve suppressed. This requires that the claim have the salary continuation payment rows built into V3 payment plan screens. If these are absent, RAP will not be able to detect this claim type and a reserve may be present. These claims reserves will be suppressed until such time as the BWC begins to make any other indemnity type payments with the exception of the other fact patterns described in this section. Medical payments made by the BWC will be included in the medical paid field.

3. **Salary Continuation followed by Living Maintenance claims –** this describes any claim that has had only salary continuation immediately followed by living maintenance indemnity type and only these two indemnity types are paid in the claim. This requires that the claim have the salary continuation payment rows built into V3. If these are absent, RAP will not be able to detect this claim type and a reserve will be present. These claim's reserves will be suppressed until such time as the BWC begins to make any other indemnity type payments with the exception of the other fact patterns described in this section. Medical payments made by the BWC will be included in the medical paid fields.

4. **Salary Continuation followed by Employer Incentive Contract (EIC) claims –** this describes any claim that has had only salary continuation immediately followed by an EIC created by the Rehabilitation consultants. (Living Maintenance may also be paid in this category of claims with MIRA reserve suppressed.) This type of claim is unrecognizable in any of the BWC host computer systems and therefore any reserve established will have to be removed after rate calculations by the Risk Technical Adjustment unit. Medical payments made by the BWC will be included in the medical paid fields.

II. Recalculation of MIRA Reserves in Rates and Payments will occur in the following situations:

1. **Salary Continuation Reserve Reduction:** The Rates and Payments system accepts an upload file from the MIRA system. The data elements include MIRA incurred amounts and paid amounts. RAP will calculate the reserve based upon the information in the upload file under the following equation.

Example:

MIRA total incurred amount	$30,000.00
Less: total paid amounts paid by BWC	$ 5,000.00
Less: salary continuation paid by employer	$ 4,000.00
Equals: total reserve	$21,000.00

2. **Living Maintenance Reserve Reduction:** Where Living Maintenance or Living Maintenance Wage Loss is the latest indemnity type with a payment authorization in the claim, the following formula will be used with the exception of any claim receiving PTD or death benefits:

Example:

MIRA total incurred amount	$30,000.00
Less: total paid amounts paid by BWC	$ 5,000.00
Equals: total reserve	$25,000.00
LM reduction multiply by .5	$12,500.00

III. Dolphin Claim Cost Screens:

Note that the following field amounts may not be equal under the two reserving systems due to the differences in which the systems treat Permanent and Total Disability claims and Death Claims. MIRA includes PTD and Death indemnity type payment authorizations in the indemnity field and places reserves in the reserve field. The Tabular reserve system includes PTD and Death present values in the indemnity field.

Fields that may be different:
Indemnity paid Risk
Indemnity paid Surplus
Reserve Risk
Reserve Surplus
Total Unlimited Charges Risk
Total Unlimited Charges Surplus

Fields that continue to remain the same under both systems are:
Medical paid risk
Medical paid surplus
Subrogation amount collected
Handicap percentage

Ohio Bureau of Workers' Compensation Board

Executive Summary: Comprehensive Study
Group 1 Tasks

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Bob Miccolis, FCAS, MAAA
Deloitte Consulting LLP

June 2008

Deloitte.

Agenda

Introduction

Comprehensive Study Assessment Matrix

Executive Summary Conclusions

Next Steps

Appendix

Introduction

Introduction

Pursuant to House Bill 100, the BWC engaged Deloitte Consulting to perform a Comprehensive Study to:

Measure the performance of Ohio’s workers’ compensation system;

and

Compare Ohio’s workers’ compensation system to other state and private compensation systems.

Introduction

The Comprehensive Study includes 36 tasks described in the Actuarial Consulting Services RFP.   Deloitte divided these tasks into the following categories:

- Pricing & Programs
- Loss Reserves
- Net Assets & Reinsurance
- Self-Insured Regulations
- Claims
- Underwriting
- Actuarial Department Functions & Resources

The categories organize the tasks detailed in the RFP into related work streams

Introduction

The tasks in the Comprehensive Study were prioritized and placed into 4 groups with the following scheduled completion dates:

Ranking	Areas Included	Completion Date
Group 1	Rating program review; rate setting; experience rating; group rating; MIRA/MIRA II case reserving; subrogation; self-insurance; SIEGF assessments; salary continuation; and $15,000 medical only program.	June 2008
Group 2	Actuarial reserves; payment projections; benefit comparison; medical payment structure comparison; net asset levels; administrative cost calculation; MCO effectiveness; and excess insurance/reinsurance needs.	August 2008
Group 3	PES rate setting; retrospective rating; Safety Grant program; safety & hygiene programs; and other cost controls.	October 2008
Group 4	NCCI classification system; minimum premium; Coal-Workers Pneumoconiosis Fund; Marine Industry Fund; Disabled Workers' Relief Fund; appeals process; out-of-state employers; handicap reimbursement; rehabilitation program; employer ownership versus tax ID; and Actuarial Department functions and resources.	December 2008

Comprehensive Study Assessment Matrix

Comprehensive Study Assessment Matrix

We are assessing the performance of the workers' compensation system for four overarching themes:

Effectiveness & Efficiency	How well does the Ohio workers' compensation system utilize its resources and administer benefits?
Financial Strength & Stability	Is the Ohio workers' compensation system fiscally sound? Does the system promote pricing stability?
Transparency	Can the public understand the workings of the Ohio workers' compensation system?
Ohio Economic Impact	Does the workers' compensation environment encourage business growth and development in Ohio?

Comprehensive Study Assessment Matrix

We have also mapped the various tasks in the RFP into several broad study elements:

- Ohio Benefit Structure
- Pricing Process
- Cost Controls
- Financial Provisions
- Actuarial Department Functions & Resources

The four themes can be overlaid onto Comprehensive Study Elements to create a matrix that displays their relationship.

Our performance assessment is made on each element in the context of its contribution to supporting the overarching themes.

Comprehensive Study Assessment Matrix

<table>
<tr><th></th><th>Effectiveness & Efficiency</th><th>Financial Strength & Stability</th><th>Transparency</th><th>Ohio Economic Impact</th></tr>
<tr><td>Ohio Benefit Structure</td><td colspan="4" rowspan="5">Conclusions</td></tr>
<tr><td>Pricing Process</td></tr>
<tr><td>Cost Controls</td></tr>
<tr><td>Financial Provisions</td></tr>
<tr><td>Actuarial Dep't. Functions & Resources</td></tr>
</table>

Note: Not all areas may involve specific conclusions/recommendations for each theme

Comprehensive Study Assessment Matrix

In the context of the matrix we provide the following high level summary conclusions, performance assessments, and comparison notes.

For performance assessments, the following scoring method applies:

	Strongly supports system performance
	Supports system performance
	Some support for system performance
	Some opportunity for system performance change/enhancement
	Significant opportunity for system performance change/enhancement

Executive Summary
Conclusions

Executive Summary Conclusions

- Group 1 includes the following study elements:

Pricing Process	Cost Controls	Financial Provisions
▪ Statewide Rate Level ▪ Class Ratemaking ▪ Group Rating ▪ Experience Rating ▪ MIRA II Reserving ▪ Self-Insurance ▪ Programs	▪ Subrogation ▪ $15,000 Medical Only Program ▪ Salary Continuation	▪ SIEGF

- For each sub-heading, we will present:
  - The background situation;
  - A performance assessment for each applicable theme as compared to peers and industry standards; and
  - Our conclusions.

Executive Summary Conclusions

- The complexity of some of the areas reviewed has created the need to present additional detail in an “Analysis & Review” section.

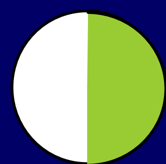
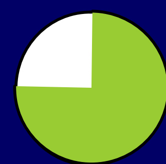
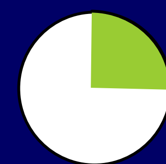
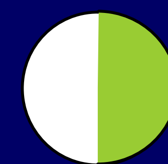
Statewide Rate Level

The Situation:

- For private employers, overall rate indications are based on 10 years of historical loss costs derived from the actuarial reserve review.
- A baseline rate change indication is provided, along with a range of rate change indications termed “reasonable expectation optimistic” and “reasonable expectation conservative”.
- Historical loss costs in the overall rate study are presented on a discounted basis.
- The baseline rate change indication is based on the trend in the last 10 years of indicated discounted loss costs.
- The range of rate change indications is based on the variability of the discounted loss costs in the 10 year period.

Statewide Rate Level

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Statewide Rate Level				

Peers and Industry Standards Considered

NCCI, Indiana, Kentucky, Michigan, Pennsylvania, Washington, West Virginia.

Statewide Rate Level

Review & Analysis:

- The overall ratemaking process uses a fairly standard actuarial approach with typical assumptions. However, there are significant differences in methodology compared to peer states, particularly in estimating ultimate losses for past years.
- The process is not fully supported by detailed documentation which results in reduced actuarial transparency.
- The process incorporates more stability than necessary by using 10 years for the baseline indications.

Statewide Rate Level

Review & Analysis (continued):

- The methodology produces a broad range of “Reasonable” scenarios for “Optimistic” and “Conservative” based on standard deviation of loss cost estimates for prior years. There is no recognition of the financial strength of the system to absorb the variability indicated by the range.
- The rate level indications in the reserve audit report are not tested using alternative methods.
- We are currently reviewing the Oliver Wyman reserve audit process, which is a key input to the statewide rate level indication, and will report on our findings when our work is complete.

Statewide Rate Level

Deloitte Conclusions:

- Provide more responsiveness to Ohio trends by using fewer years, e.g., 3-5 years. Ohio data is very credible, and sufficient stability can be achieved.
- Include an alternative method, such as one based on incurred losses, in calculating an indicated rate change.
- Perform the baseline indication before discounting and then apply discounting in arriving at the final indicated rate change.
- Develop the range of indicated rate changes (Optimistic to Conservative) in light of the potential impact on net assets, i.e., what is the risk if actual experience is worse than expected, rather than using a variability measure (standard deviation) to arrive at the range of actuarially sound rate changes.

Statewide Rate Level

Deloitte Conclusions (continued):

- Display the historical loss costs at the proposed cost and wage levels by making explicit adjustments needed for loss trend, wage changes and benefit changes.
- Re-label the term “pure premium” as “loss cost” to better reflect the meaning of the amounts, and be more consistent with industry norms.
- Display the impact of collecting premium in arrears on the rate change indication.

Class Ratemaking

The Situation:

- Ohio uses the NCCI manual classification system for rating calculations.
- Manual classifications are divided into 10 industry groups for certain aspects of the class ratemaking process.
- Base rates and Expected Loss Rates (ELRs) are determined through the class ratemaking process.
- The experience period used to determine base rates is the oldest four of the last five years preceding the effective date of the rates.
- Incurred losses (paid plus case reserves) limited to $250,000 per claim are developed to ultimate by class to calculate indicated class loss costs.

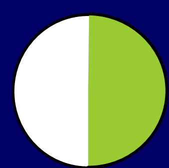
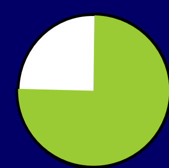
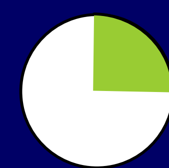
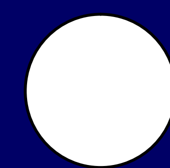
Class Ratemaking

The Situation (continued):

- Classifications are assigned credibility based on the volume of losses in the experience period; full credibility is used for classes with > $1 million of losses.
- The complement of credibility is the prior year loss cost for the class, adjusted for the indicated change for the industry group to which the class belongs.
- The selected loss cost is loaded for several factors. Significant factors include the catastrophe factor, off-balance factor and rate change factor.

Class Ratemaking

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Class Ratemaking				

Peers and Industry Standards Considered

NCCI, Illinois, Indiana, Kentucky, Michigan, New York, Pennsylvania, Virginia, West Virginia.

Class Ratemaking

Review & Analysis:

- Ohio base rates are much higher than peer states, primarily due to large off-balance factors resulting from experience rating (group rating in particular).
- Case reserves in the class ratemaking process are attributed to indemnity losses only, rather than divided between the indemnity and medical portions. This approach is not used elsewhere and is a potential source of bias.
- The class ratemaking process is complex relative to peer states and could be simplified to improve actuarial transparency.
- The experience period is consistent with industry practice.
- There is limited documentation provided for the adjustment factors that are applied to the class pure premiums to determine the class base rates.

Class Ratemaking

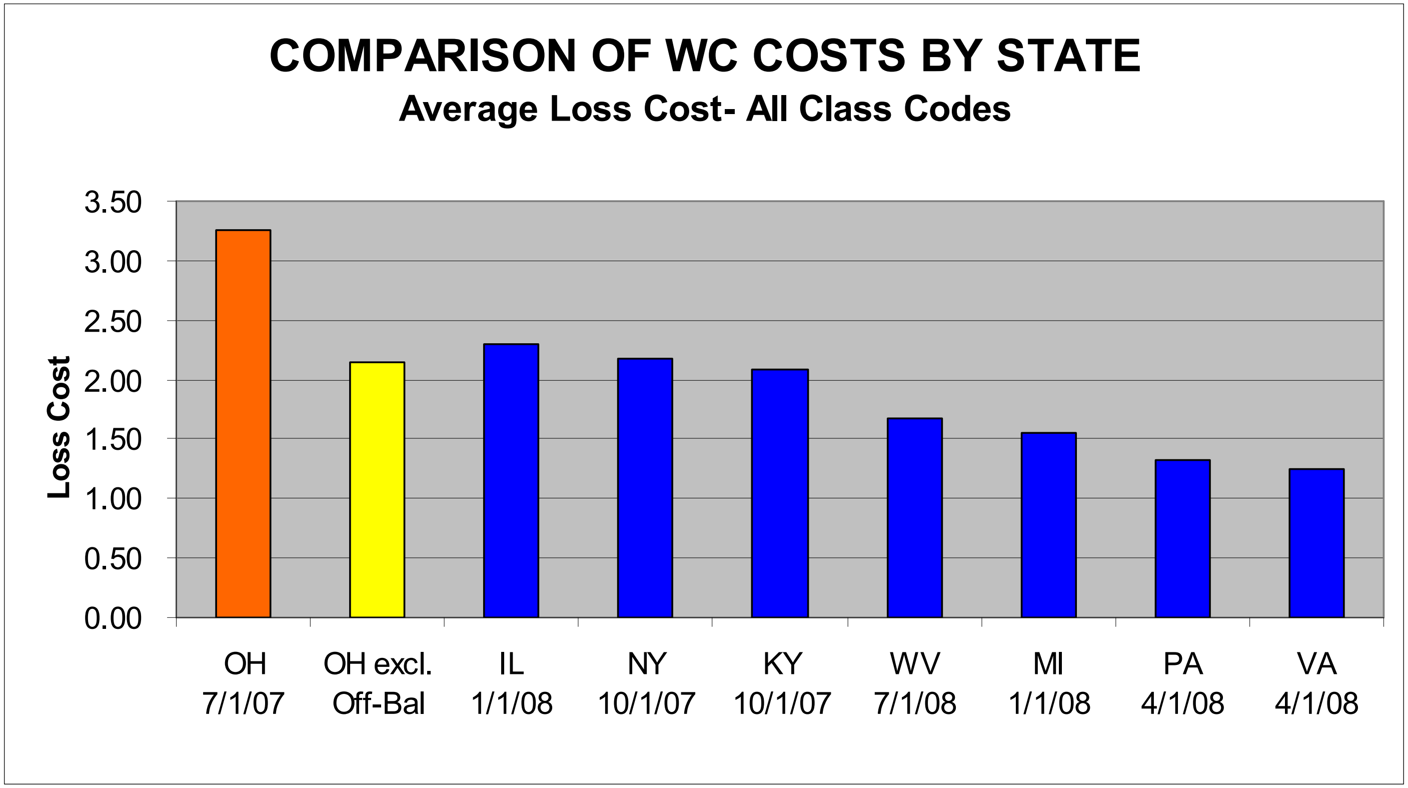
Review & Analysis (continued):

- The ELRs are relatively high compared to the peer states we reviewed; the comparison should be considered in the context of Ohio's benefit structure to other states. That work is part of the Comprehensive Study yet to be completed.
- The base rate change is limited to +/- 30%, which is at the upper end of the limits in the peer states we reviewed.

Class Ratemaking

Review & Analysis (continued):

Base Rate Comparison to Peer Group: All Classes



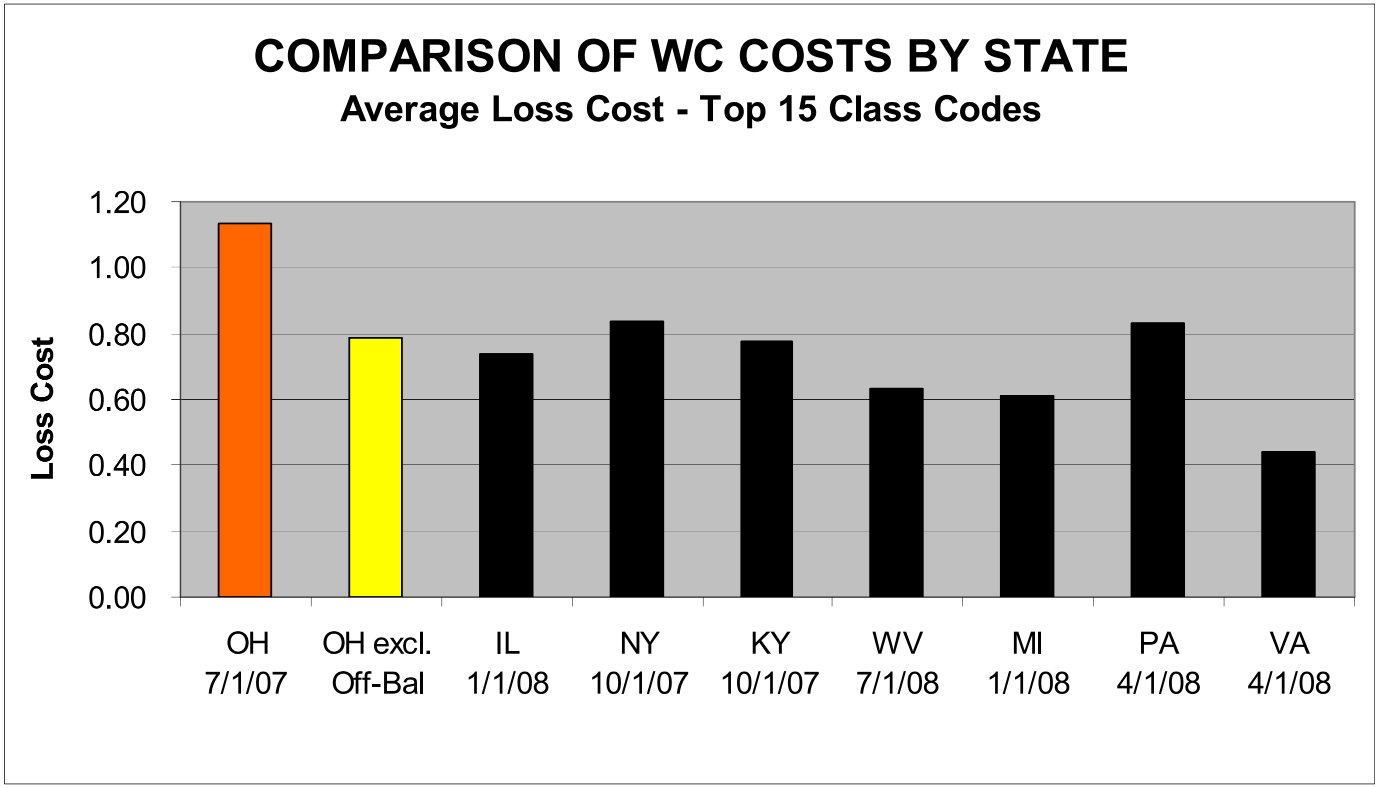
Average Loss Costs are payroll-weighted based on the latest OH experience period.
OH excl Off-Bal = OH loss cost excluding adjustment for Experience Rating Off-Balance.

Class Ratemaking

Review & Analysis (continued):

Base Rate Comparison to Peer Group: Top 15 Classes

(Top 15 classes based on raw losses used for 7/1/07 class ratemaking)



Average Loss Costs are payroll-weighted based on the latest OH experience period.
OH excl Off-Bal = OH loss cost excluding adjustment for Experience Rating Off-Balance.

Class Ratemaking

Review & Analysis (continued):

Conclusion:

- Ohio class loss costs would be more in line with peer states if the experience rating off-balance was not a significant factor in the class rates.

Class Ratemaking

Deloitte Conclusions:

- Separate case reserves between indemnity and medical for incurred losses in estimating the historical class loss costs.
- Use an alternative indication of class loss costs to credibility weight Ohio class loss costs, such as NCCI class relativities from other states and/or by comparisons to similar classes.
- Provide more detailed documentation for each adjustment factor, e.g. “rate change factor”.
- Eliminate the use of experience rating off-balance adjustment factor for class base rates.

Class Ratemaking

Deloitte Conclusions (continued):

- Modify the e-mod formula to apply the individual experience rating off-balance adjustment to individual experience rated risks only. (See separate recommendations for group rating off-balance.)
- Calculate the catastrophe factor by NCCI hazard group rather than industry group.

Group Rating

The Situation:

- Group rating allows employers of similar business types to be experience rated as if they were one employer.
- Combining experience allows small employers in a group who would otherwise be base rated or experience rated with minimal credibility to receive the maximum credibility available to an individual employer.
- There are over 500 groups in Ohio, and approximately 100,000 employers (private and public combined) participate in groups.

Group Rating

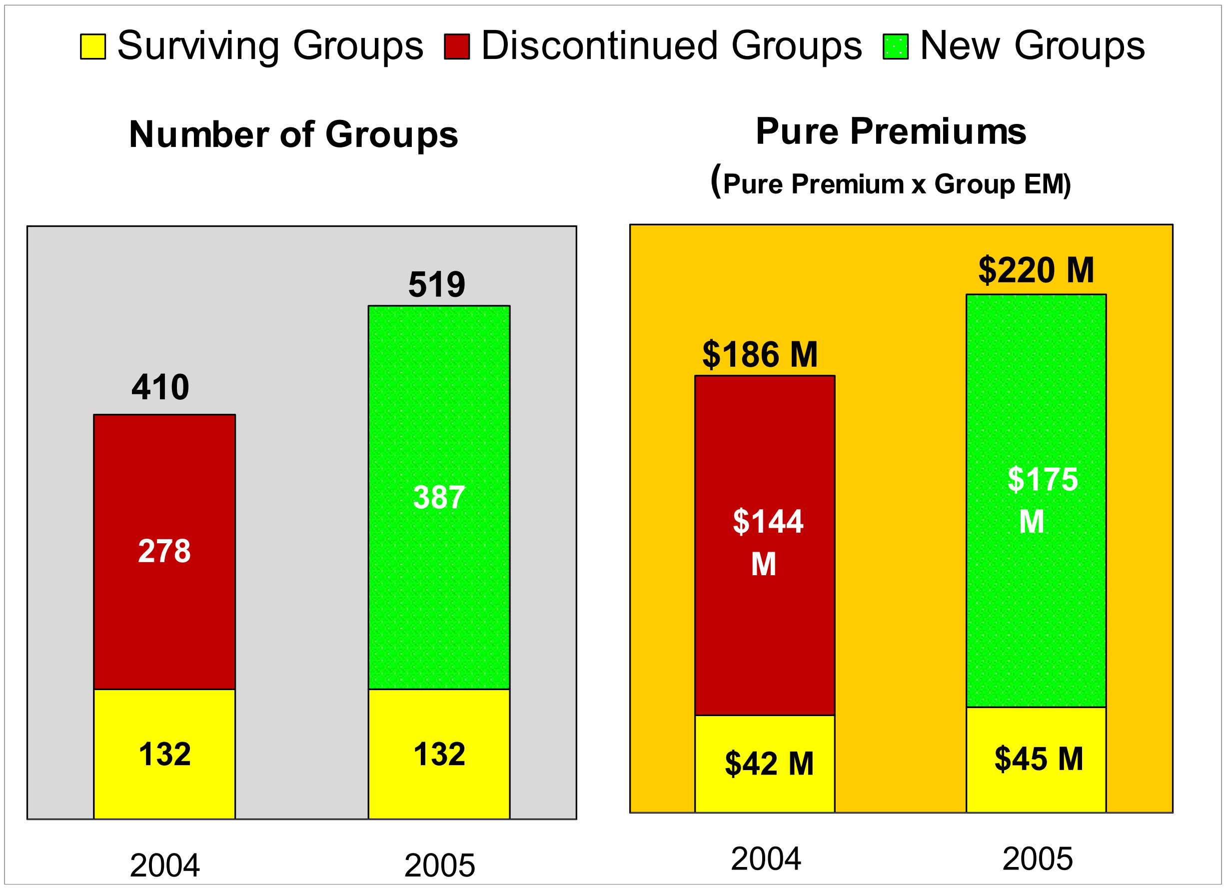
Review & Analysis:

- The group experience rating process is inconsistent with two basic tenets of an experience rating plan:
  1) The plan should produce post experience rated loss ratios which are closer to the overall average than before experience rating; and
  2) The plan should balance stability of price with responsiveness.
- Group experience rating accomplishes neither and in fact exacerbates the post experience rated loss ratios so that there is more dispersion about the average loss ratio than less.
- Policyholders in the group experience rating process experience significant variability in their pricing as they move in to a group, to another group, or out of a group, which occurs frequently.
- We are unaware of any other state that has a program which functions similarly to group rating as it exists in Ohio.

Group Rating

Review & Analysis (continued):

- The turnover of groups is very high at 75-80%.
- This lack of stability is indicative that groups are functioning poorly.



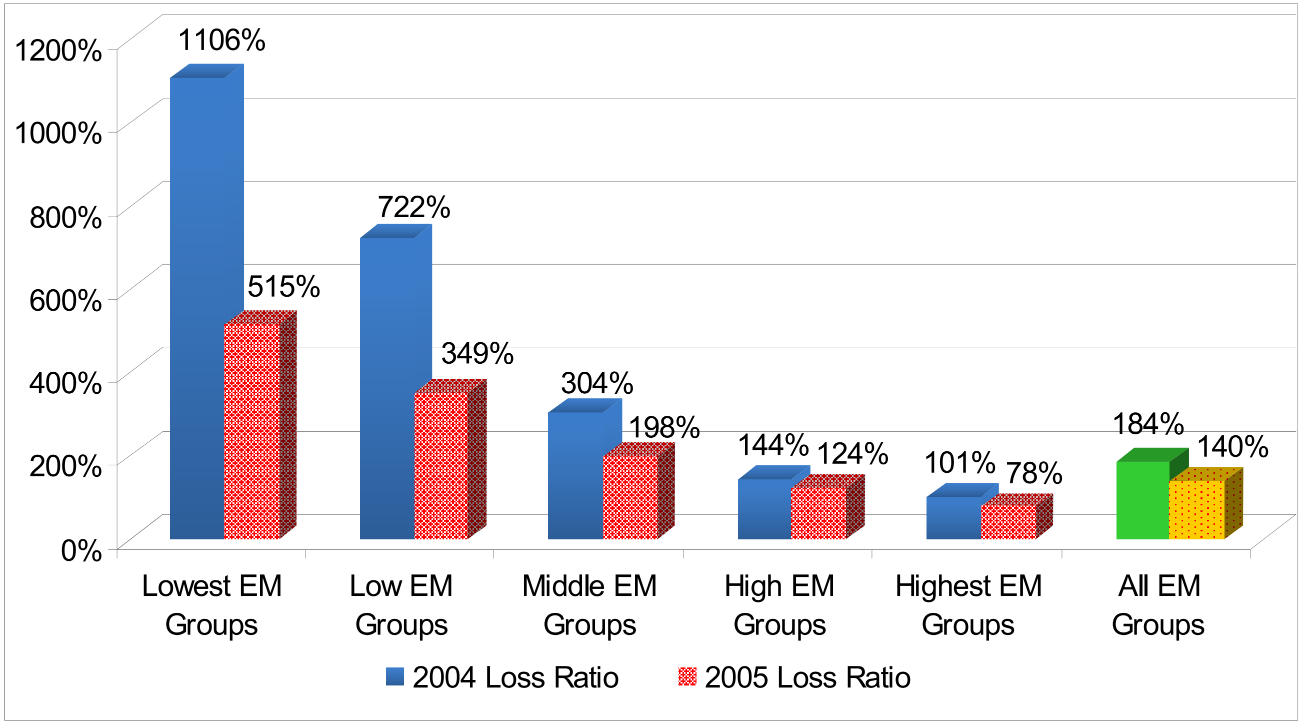
88% to 91% of group policies stayed in some group for 2004 to 2005.
For group pure premiums, 68% to 80% of the premiums stayed in some group.

Deloitte.

Group Rating

Review & Analysis (continued):

- Graph shows Group Loss Ratio Patterns by Low to High Group EM.
- Loss Ratios should be roughly equal if EMs are equitable.
- Such large dispersions indicate that group rating needs to be discontinued in its present form.



* Losses valued as of 12/07; 2005 Loss Ratios are 1 year less mature than 2004 Loss Ratios

Group Rating

Review & Analysis (continued):

GROUP RATING USING AN INDIVIDUAL EXPERIENCE RATING FORMULA

- Differences in the loss experience of individual employers are largely driven by the differences in the behavior of the management and employees of each employer, in terms of employee selection and training, safety programs, operating procedures, accident prevention, risk controls, etc.
- Such behaviors directly affect the frequency and severity of work injuries.
- Experience rating is a good predictor of future losses for an employer, because prior loss experience reflects an employer's oversight of such behaviors.

Group Rating

Review & Analysis (continued):

GROUP RATING USING AN INDIVIDUAL EXPERIENCE RATING FORMULA

- A group of employers will not have the same management influencing such behavior, and therefore an individual experience rating formula applied to a group is not generally predictive of future losses for that group, regardless of similarities in type of business and prior loss experience of the group members.
- Studies of BWC's group rating program have consistently demonstrated that applying the individual experience rating formula to group experience has resulted in significant under-prediction of losses for groups.
- The poor performance of the individual experience rating formula when applied to groups is evidence of the flaws in the current approach to group rating, and indicates a need for a different approach to group rating.

Group Rating

Review & Analysis (continued):

CONVERSION TO NCCI-TYPE SPLIT PLAN

- A split experience rating plan, with lower credibility assigned to group experience compared to the current plan, will mitigate some of the inequity currently produced by group rating.
- However, a split plan shares the same basic flaw as the current plan in that it applies a formula designed for an individual employer to a group of employers.
- The opportunity to manipulate the composition of a group in order to maximize discount will still be present under such a structure, and inequity will persist.

Group Rating

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Group Rating				

Peers and Industry Standards Considered

NCCI, Other State Funds, Actuarial Standards of Practice.

Group Rating

Deloitte Conclusions:

A group rating program should have a primary focus on safety, preventing injuries, and mitigating severity of work injuries. However, the current group rating formula has led to:

- Behaviors focused on achieving the maximum group credit
- Retaining "Loss-free" employers in groups
- Excluding employers from groups if their losses impact the group credit
- Churning of employers to different groups, new groups, or out of groups, driven by group rating impact
- Programs such as $15,000 Medical Only and Salary Continuation, to keep claims out of group rating
- The One Claim Program, driven by reducing the premium impact between group and non-group status

Group Rating

Deloitte Conclusions (continued):

- Change the structure of group rating to mitigate the present inequities.
- Provide appropriate incentives for groups to focus primarily on accident prevention and loss mitigation activities.
- Eliminate the use of the individual e-mod formula for group rating.
- Determine group rating through the use of a group discount factor.
- Establish a minimum number of years of experience for a group to qualify for a discount factor, e.g. 3 years.

Group Rating

Deloitte Conclusions (continued):

- Develop a group discount formula based on the past performance of each group, with the goal of achieving equity between group rated and non-group rated employers, and equity between different groups.
- Apply a separate group rating off-balance adjustment to the group discount factors, rather than applying an overall off-balance adjustment to all employers through class rating.
- Develop the group discount factor based on the actual past performance of each specific group.
- In determining the group discount factor, include the experience of all group members only during the period when they were in the group, including members who leave the group.

Group Rating

Deloitte Conclusions (continued):

- Apply the group discount factor to the individual e-mod adjusted premium of each member of the group.
- Develop a group discount formula simpler than an e-mod formula, based on a loss ratio or loss rating approach.
- Vary the maximum discount factor with the premium size of the group, reflecting the credibility of the group size, but without a credibility formula.
- Apply a phase-in period of at least two years to new group members prior to receiving the full group discount, e.g. 1st year 25%, 2nd year 50% .

Group Rating

Deloitte Conclusions (continued):

Evaluate possible alternatives for group rating:

- ***Group dividend plan***, in which dividends are credited to group members based on the actual profits generated by the group. Both new and established groups could be eligible for such a program.
- ***Group retro plan***, in which premiums are adjusted upward or downward within certain limits depending on the actual loss experience of the group.
- ***Per accident loss limitations (optional at different amounts)*** for any group rating program, in which large losses are capped before being used in group rating.
- ***Tiering*** within a single group, with varying discounts by tier, where the average discount over all tiers equals the total discount for the group.

Experience Rating

The Situation:

- The purpose of an experience rating plan is to create equity amongst risks considering two basic tenets:

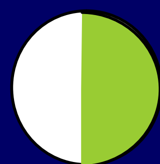
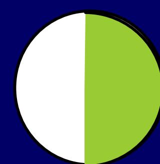
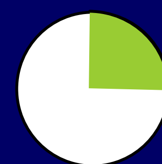
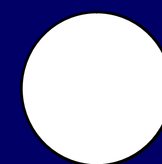
  1) the plan should produce post experience rated loss ratios which are closer to the overall average than before experience rating; and

  2) the plan should balance stability of price with responsiveness.

- The data used in the formula consists of paid data and MIRA claim reserves for the four years immediately preceding the latest available full year. Employers have had questions and concerns about the impact of claim level reserves on their experience modification factor.

Experience Rating

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Experience Rating				

Peers and Industry Standards Considered

NCCI, State of West Virginia, Other State Funds,
Actuarial Standards of Practice.

Experience Rating

Review & Analysis:

- Credibility assigned to individual risk experience is higher than is typically seen in other states.
- Application of off-balance to class rates is standard NCCI practice, but typical off-balance factors in other states are very close to 1.0 in contrast to Ohio where the off-balance factor is approximately 1.5 for private employers.

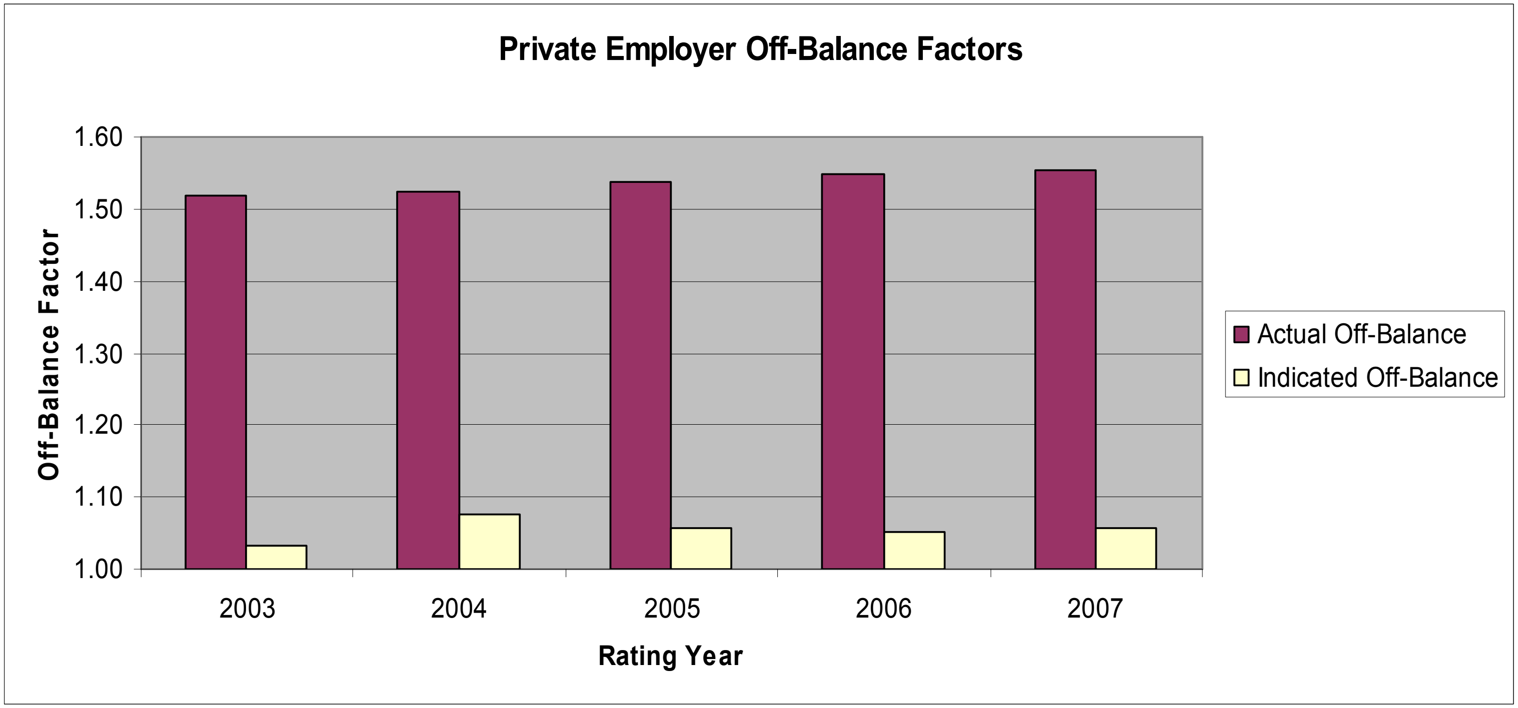
Experience Rating

Review & Analysis (continued):

- Certain rules and programs specific to Ohio result in the exclusion of claims, or portions of claims, from the experience rating process. These exclusions include handicap relief, salary continuation, and the 15K medical-only program. These rules are not standard industry practice, potentially erode the effectiveness of experience rating, and contradict a key underlying premise of experience rating by ignoring the excluded claims.
- Despite inconsistencies with industry practice, our analysis indicates that the Ohio individual experience rating plan appears to meet the two basic tenets of experience rating when the experience rating formula is applied to individual employers only (removing the impact of group rating).

Experience Rating

Review & Analysis (continued):



- Indicated off-balance results from application of indicated individual e-mod to all experience-rated employers, including those in groups.
- The fact that the indicated off-balance factors are near 1.0 suggests that the experience rating plan is fairly balanced prior to the impact of group rating.

Experience Rating

Deloitte Conclusions:

- Change the credibility associated with an individual employer's experience to be in line with industry practices, e.g. through a split rating plan.
- Change the rules to prohibit the exclusion of claims from the experience rating calculation, particularly salary continuation and the 15K medical only claims, which is in line with industry practice.

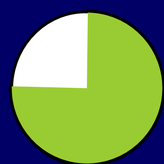
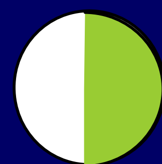
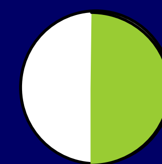
MIRA II Reserving

The Situation:

- House Bill 100 requires the BWC to implement a new claims reserving system.
- BWC is planning a transition from the current MIRA system to MIRA II during 2008.
- MIRA II is a system designed to predict the total incurred cost of claims at the individual claim level.
- The present MIRA system used by BWC produces incurred values at the claim level, but is designed to predict the incurred cost of claims in the aggregate.
- The claims reserving system impacts employers through the class rating and the experience rating process.

MIRA II Reserving

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
MIRA II Reserving			Not Rated*	

*Given the recent introduction/implementation of MIRA II, we cannot assess its transparency at this time. Therefore, the Transparency category is not rated.

Peers and Industry Standards Considered

Other State Funds, Industry Practices.

MIRA II Reserving

Review & Analysis:

- The switch in emphasis from accuracy at the aggregate level (MIRA I) to accuracy at the individual claim level (MIRA II) is likely to result in transitional effects.
- Our expectation is that the aggregate incurred value of overall claims under MIRA II is likely to be lower than the aggregate incurred value of the same set of claims under MIRA I, as individual claim reserving tends to lead to under-estimation of claim values in the aggregate (this is true throughout the industry).
- Individual policyholders will experience changes in claim reserves for injured workers which will affect class, group and individual experience rating.

MIRA II Reserving

Review & Analysis (continued):

- While the MIRA system predicts objectively, it cannot reflect the human element of informed judgment for particular claim circumstances. The use of predicted reserves is not an industry standard practice to set case reserves and make settlements.
- Standard industry practice is to have a claim function set case reserves, and use tools, such as MIRA II, to assist in managing claims, particularly above some threshold, such as $50,000 or $75,000.

MIRA II Reserving

Deloitte Conclusions:

- Study the impact of new MIRA II claim reserves on class rates and on experience rating.
- Develop a long term alternative which uses MIRA II, or other claim predictive model, in conjunction with other processes and/or products to manage claims, in addition to being a means to set case reserve values. MIRA II could be used as input for managing claims, negotiating settlements and setting benchmarks for case reserve values.
- Determine where MIRA II claim values are most predictive, e.g. certain smaller, high volume claims, and determine a process for input from professional adjusters to best manage claims and to adjust the claim values.

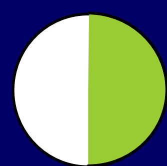
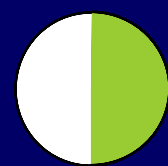
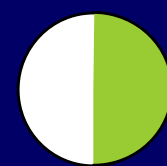
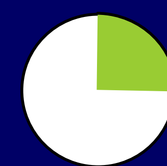
Self-Insurance

The Situation:

- The rules, processes, and procedures for exiting the State Insurance Fund to self-insure are fairly comprehensive and robust, although requirements that could be used to collect information to better assess an employer's ability to self-insure could be strengthened. There are no explicit controls to prevent volatile industry segments from self-insuring.
- The rules, processes, and procedures for re-entering the State Insurance Fund are less complete. The securitization requirements for self-insurers terminating their self-insured status are not as firm as those of several other states; this difference being somewhat driven by the different competitive environment in other states. Currently very few employers return to the state fund due to the higher costs.

Self-Insurance

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Overall Self-Insurance Process				

Peers and Industry Standards Considered

Details on Peers/Industry Standards used: thorough research of self-insurance processes of 13 states* (including Ohio) that are monopolistic, geographically close to Ohio, have an industry base similar to that of Ohio, and/or have a large state fund.

*States include: California, Illinois, Indiana, Kentucky, Michigan, Nebraska, New York, Ohio, Pennsylvania, Tennessee, Texas, Washington, and West Virginia.

Self-Insurance

Deloitte Conclusions:

Application/Approval Process:

- Objective metrics should be established for granting self-insurance privileges to ensure consistency in application processing.
- An actuarial study should be required for better understanding of the applicant's underlying exposure.
- Anti-fraud and safety program requirements should be considered.
- A homogenous group self-insurance program should be considered as an additional option.
- Industry-specific application criteria should be considered for employers in industries that might be less financially stable, more volatile and hence less fit to fund a self-insurance program.

Self-Insurance

Deloitte Conclusions (continued):

Self-Insurers Returning to the SIF:

- Security requirements tailored to a specific self-insured should be continued after a self-insurer returns to the State Insurance Fund.
- Rules and procedures should be developed and documented on how often an employer can transition to self-insurance and back to the SIF.

Programs

The Situation:

- Employers who meet various eligibility requirements can participate in one or more of several discount programs offered by the BWC. These programs include the Premium Discount Program (PDP), Drug-Free Workplace Program (DFWP), One Claim Program (OCP) and Safety Council program.

Programs

Review & Analysis:

- The discount programs offered in the state of Ohio are generally similar to those offered in other states.
- The magnitude of the credits available under these programs in some cases is out of line with other states. As an example, in the state of Washington, an employer with no compensable claims during the three year experience period used for experience rating can potentially earn a discount from 10-40%. In contrast, Ohio's One Claim Program offers a discount of 40% to certain employers with a significant compensable claim in the most recent policy period.

Programs

Review & Analysis (continued):

- Participation in the discount programs, is relatively low, both for private employers (“PA”) and, for the applicable programs, public entities (“PEC”).
- For the 7/1/04-05 period, PA policies that participate in the PDP and/or DFWP have, in general, higher loss ratios than PA policies that do not participate in either program or both programs (where loss ratios reflect the premium discounts provided under these programs).
- Loss Ratios for those PEC policies that participate in the PDP and/or DFWP are, in general, comparable to the PEC policies that do not participate in either program or both program

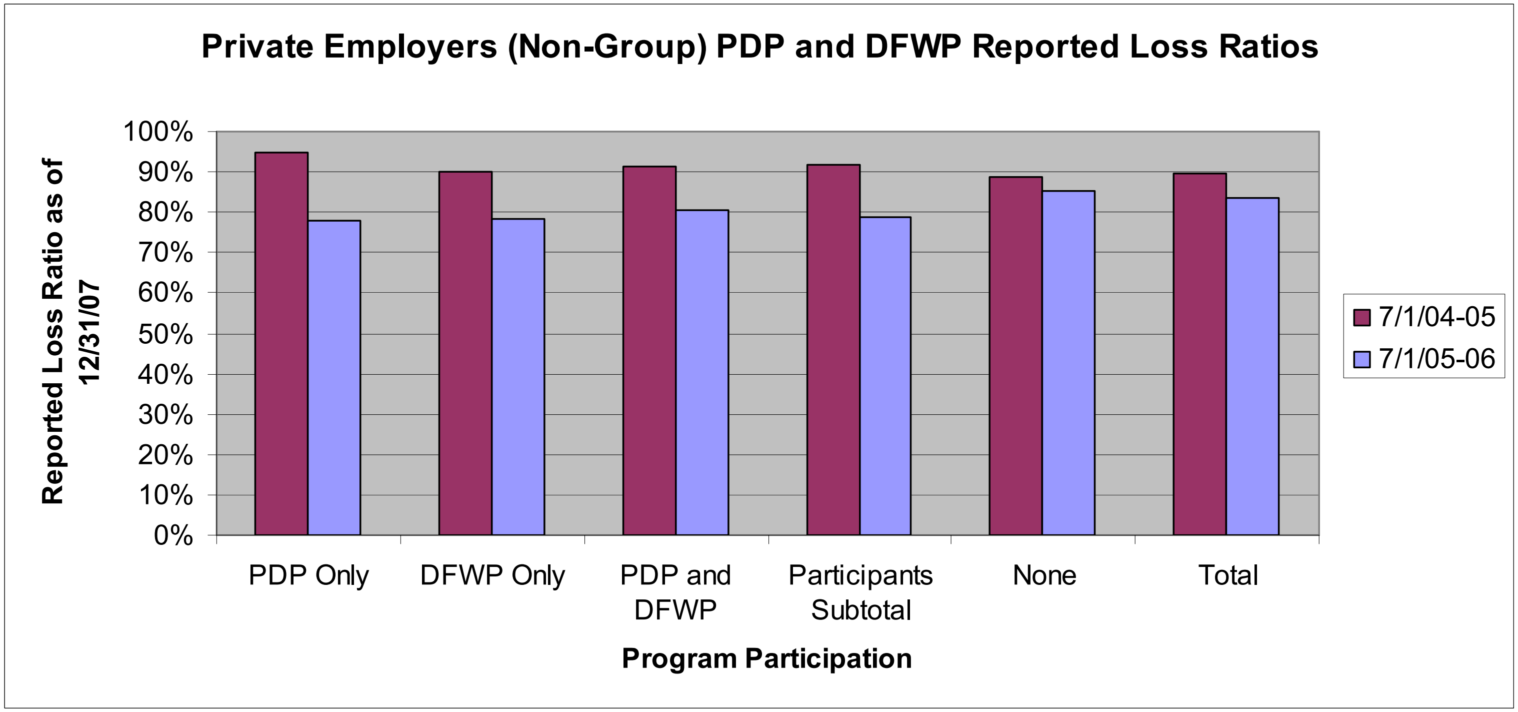
Programs

Review & Analysis (continued):

- OCP participants in the 7/1/05-06 policy period are producing loss ratios that compare favorably to experience rated policies. However, there are only a small number of participants in this program, and as such, no strong conclusions can be drawn.
- The safety council program, which offers a relatively low discount, has low participation to date and has not demonstrated a clear positive or negative impact on loss experience for those employers who have participated.

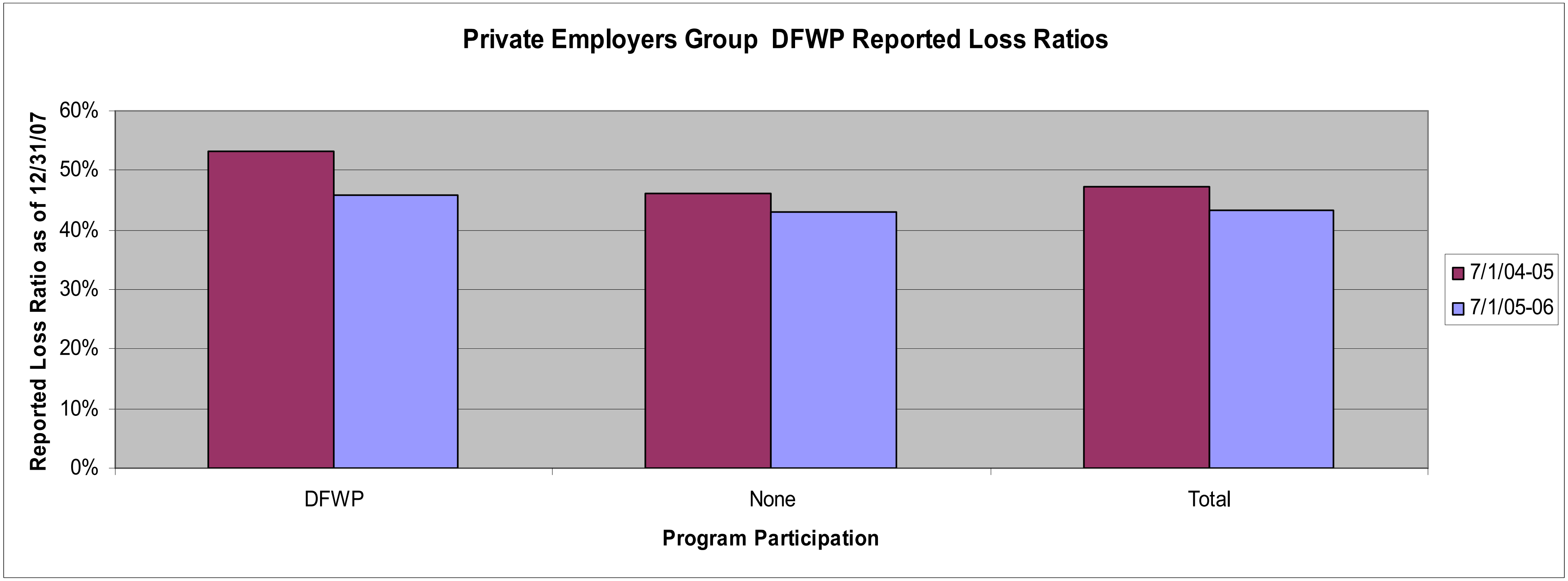
Programs

Review & Analysis: Non-Group PDP and DFWP



Programs

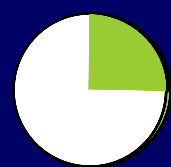
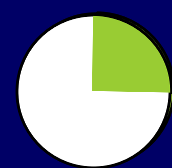
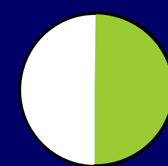
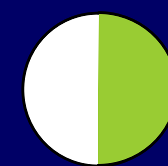
Review & Analysis: Group DFWP



Deloitte.

Programs

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Programs				

Peers and Industry Standards Considered

NCCI, State of West Virginia, Other State Funds, Actuarial Standards of Practice.

Programs

Deloitte Conclusions:

- The fact that a factor is loaded into the class ratemaking process in part for “premium slippage” resulting from employer participation in the discount programs suggests that the cost of the discounts outweigh the improvement to losses resulting from participation in the programs. Our analysis indicates that in general, this is indeed the case.
- For both PA and PEC policies, the PDP and DFWP appear to be functioning ineffectively. This conclusion holds, in general, for both group rated policies and non-group rated policies.

Programs

Deloitte Conclusions (continued):

- The results for OCP appear to be relatively favorable to date. However, as this program started in 2005, this program should be closely monitored for effectiveness. To the extent the structure of group rating is changed, this program may become unnecessary in its current form, as it is provided only for members who participated in groups in the prior policy period.

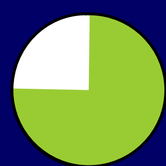
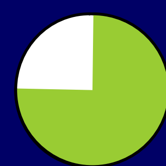
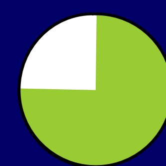
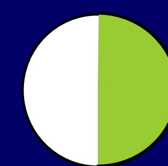
Subrogation

The Situation:

- Subrogation laws vary from state to state.
- Ohio laws are largely consistent with others with respect to statutes of limitations, statutory subrogation rights, attorney fees and costs, and allocation of recoveries.
- BWC generally applies reasonable practices for the recognition, determination, processing, and monitoring of subrogation.
- BWC staff is challenged with high caseloads.
- Technology is deficient in enabling operational efficiency and in generating robust performance metrics

Subrogation

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Overall Subrogation Indication				

Peers and Industry Standards Considered

Peers: 8 State Comparison – OH, IL, IN, KY, MI, NY, WA, WV
Referenced Standards – State Laws, Industry Leading Practices
References – Commercially available studies (e.g. Juris Publishing, International Risk Management Institute, US Chamber of Commerce, US Dept. of Labor), industry conference & internal insurance practice sources

Subrogation

Deloitte Conclusions:

- Build functionality in V-3 to fully manage subrogation claims
- Maintain staffing to ensure subrogation specialist caseloads do not exceed 400
- Establish a more robust set of program performance metrics
- Investigate utilization of text mining to augment existing business rules for subrogation referral of medical-only claims.

$15,000 Medical Only Program

The Situation:

- The historical motivation for employers to participate in this program is to help preserve the employer's experience-rating credit, especially in a group.
- The program only applies to medical only claims.
- The BWC does not currently reserve for medical only claims in the experience-rating process.
- The $15k program compromises application of leading industry practices for early intervention of medical management and oversight of the process by BWC.

$15,000 Medical Only Program

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
$15,000 Medical Only Program				

Peers and Industry Standards Considered

State Funds; Industry Practices

$15,000 Medical Only Program

Review & Analysis:

- There are inherent costs incurred by the BWC by offering this type of program. Loss of certain claim economies is highly likely.
- Since there is no current requirement to report the dollars paid on these claims to the BWC the total cost of claims within this program is not known by BWC.

$15,000 Medical Only Program

Deloitte Conclusions:

- This program does not appear to offer any appreciable benefits to employers or the BWC. As such we recommend terminating the program.

Salary Continuation

The Situation:

- The program allows employers to continue payment of full salary in lieu of filing TT claims against their policy.
- BWC will not include the MIRA reserve on that claim or the amount of salary paid to the injured worker in the experience rating modification calculation.

Salary Continuation

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Salary Continuation	○	○	○	○

Peers and Industry Standards Considered

State Funds; Industry Practices.

Salary Continuation

Review & Analysis:

- Payment of full salary decreases the incentive to return to work.
- Payment of full salary, instead of TT limited benefits, increases costs to the State overall.
- Reserve estimates for BWC's TT program could be understated due to the lack of consideration of these claims.
- There are inherent costs incurred by the BWC by offering this type of program. Loss of certain claim economies is highly likely.
- The total cost of claims within this program is not directly known by BWC - any quantitative evaluation of the programs is very limited.

Salary Continuation

Deloitte Conclusions:

- By paying full salary and providing a disincentive for employees to return to work, this program appears to be detrimental to Ohio's economic system. As such we recommend terminating the program.
- An appropriately priced deductible program may serve as a reasonable alternative to employers who are interested in self-insuring a portion of their exposure to losses.

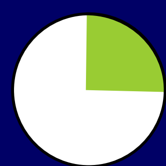
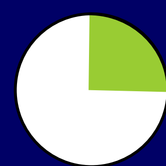
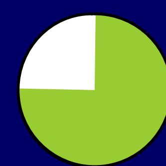
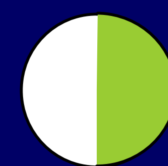
SIEGF

The Situation:

- Current assessments for SIEGF are based on prior calendar year payments and fluctuate from year to year and do not recognize future liabilities to SIEGF
- There is currently no significant difference in assessment rates based on the credit worthiness or financial strength of a self insured employer.
- The insolvency of a large self insured may result in a current increase in the financial burden on remaining self insured employers.
- Current quality of data collected does not easily facilitate the quantification of true self insurance exposure to risk.

SIEGF

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
SIEGF Situation				

Peers and Industry Standards Considered

Other States Security/Guaranty Fund Requirements.

SIEGF

Deloitte Conclusions:

- Consider a pre-assessment methodology to help improve ability of SIEGF to address the cost of future bankruptcies and mitigate the additional financial burden that this would pose to remaining self-insured employers
  - Methodology should allow for the pro-active identification of industries or characteristics of employers that might pose a particularly high risk of future exposure to the SIEGF.
  - Methodology may result in increase in overall costs to self-insured employers but would temper potential volatility in future assessments.

SIEGF

Deloitte Conclusions (continued):

- Enhance quality and quantity of data collected from self-insured employers to facilitate measurement of self-insurance exposure
  - Collect more detailed electronic data from all self-insured employers on an ongoing basis in electronic format and/or required actuarial reports.

Performance Assessment Summary

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Statewide Rate Level	◑	◕	◔	◑
Class Ratemaking	◑	◕	◔	○
Group Rating	○	◑	◔	○
Experience Rating	◑	◑	◔	○
MIRA II Reserving	◕	◑	Not Rated	◑
Self-Insurance	◑	◑	◑	◔
Programs	◔	◔	◑	◑
Subrogation	◕	◕	◕	◑
$15,000 Medical Only	○	○	○	○
Salary Continuation	○	○	○	○
SIEGF	◔	◔	◕	◑

Performance Assessment Summary

Overarching Themes

Effectiveness & Efficiency	How well does the Ohio workers' compensation system utilize its resources and administer benefits?
Financial Strength & Stability	Is the Ohio workers' compensation system fiscally sound? Does the system promote pricing stability?
Transparency	Can the public understand the workings of the Ohio workers' compensation system?
Ohio Economic Impact	Does the workers' compensation environment encourage business growth and development in Ohio?

Scoring Method

	Strongly supports system performance
	Supports system performance
	Some support for system performance
	Some opportunity for system performance change/enhancement
	Significant opportunity for system performance change/enhancement

Next Steps

Next Steps

- Finalize documentation of the findings
- Continue work on other Group tasks

Appendix

Group 1 Study Elements

Pricing Process

Statewide Rate Level

1) Data
   - a) Data quality and reliability
   - b) Experience Period
   - c) Credibility
   - d) Payroll information
   - d) Paid versus incurred data
2) Methodology
3) Use of Reserves
4) ELR Comparison
5) Other

Class Ratemaking

1) Private Employer
2) Public Employer Taxing District
3) Rating Rules and Laws

Experience Rating

1) Grouping of employers for experience rating
2) Individual Experience Rating
3) Use of MIRA II
4) Possible Alternatives

Self Insurance

1) Approval Process
2) SIEGF assessments
3) Surplus Fund Assessments
4) Return to BWC

Programs

1) Premium Discount Program
2) Drug Free Workplace Program
3) Safety Council Program
4) One Claim Program

Alternative Pricing Methods

Cost Controls

Subrogation

$15,000 Medical Only Program

Salary Continuation

Financial Provisions

SIEGF

1) Sufficiency Requirements
2) Contribution calculation methodology

Pricing Process Areas

Statewide Rate Level	Tasks Involved
1. Data	1. Review and make written recommendations with regard to the private employer premium and public employer taxing district rate calculations. This review would include a complete analysis of the rating program including but not limited to the experience period, the credibility tables used, loss information including quality and reliability of the data, payroll information, the off-balance calculation, the expected loss rates, the grouping of employers for experience rating, the use of reserves in the rate calculation, the payroll inflation factors, rating rules and laws, the transparency of the rate making process, and all rating calculations. This analysis should compare the BWC's rating calculation to industry standards, other state insurance funds and monopolistic state insurance funds, actuarial ratemaking principles as promulgated by the Casualty Actuarial Society, and the Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries.
a) Data quality and reliability	
b) Experience Period	
c) Credibility	
d) Payroll information	
e) Paid versus incurred data	
2) Methodology	
3) Use of Reserves	12. Review and make written recommendations on the reserving methodology used in the rate making process. This evaluation would include a review of the current MIRA reserving system, an evaluation of the new MIRA II Reserving system expected to be implemented in 2008 and alternative reserving methodologies that can be incorporated into the BWC experience rating system which will make the system more transparent. This evaluation would include the practice of reducing reserves due to certain compensation payments or the nonreserving of claims due to certain injury types.
4) ELR Comparison	24. Conduct a study of the loss rates and base rates of the Ohio BWC as compared to other states. This study would evaluate the trends in Ohio as compared to industry peers.
5) Other	1. See above.

Pricing Process Areas

Class Ratemaking	Tasks Involved
1. Private Employer 2. Public Employer Taxing District 3. Rating Rules & Laws	1. Review and make written recommendations with regard to the private employer premium and public employer taxing district rate calculations. This review would include a complete analysis of the rating program including but not limited to the experience period, the credibility tables used, loss information including quality and reliability of the data, payroll information, the off-balance calculation, the expected loss rates, the grouping of employers for experience rating, the use of reserves in the rate calculation, the payroll inflation factors, rating rules and laws, the transparency of the rate making process, and all rating calculations. This analysis should compare the BWC's rating calculation to industry standards, other state insurance funds and monopolistic state insurance funds, actuarial ratemaking principles as promulgated by the Casualty Actuarial Society, and the Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries.

Pricing Process Areas

Experience Rating	Tasks Involved
1. Grouping of employers for experience rating	6. Review and make recommendations to enhance the equity of the experience-rating system and the resulting rates (public and private), including, but not limited to, discounts and dividends. This review would include analysis of the Drug Free Workplace program, the One Claim Program, the Premium Discount Program, the group rating program, and the safety council program. The analysis should include a study of the cost effectiveness of each program and an evaluation of each program with respect to industry standards.
2. Individual Experience Rating	
3. Use of MIRA II	
4. Possible alternatives	

Pricing Process Areas

<table>
<tr><th>Self-Insurance</th><th>Tasks Involved</th></tr>
<tr><td>1. Approval Process</td><td>19. Evaluate the selection criteria used for self-insured employers. This evaluation would include the application of rules and laws in determining the employer’s ability to manage and fund a self-insured program. The analysis will include suggestions for the financial evaluation performed upon application and the use of guarantees and securities to protect the Self-Insured Guaranty Fund (SIEGF).</td></tr>
<tr><td>2. SIEGF Assessments</td><td rowspan="2">11.Review and make written recommendations with regard to assessments for self-insured employers for the surplus fund and for the Self-Insuring Employers’ Guaranty Fund. This review would include an analysis on the loss history used for the calculation, the paid compensation basis, the projected payout, and the methodology used to calculate the assessment rates.</td></tr>
<tr><td>3. Surplus Fund Assessments</td></tr>
<tr><td>4. Return to BWC</td><td>18. Evaluate the BWC rules, laws, policies and procedures for rating an employer who is self-insured and desires to return to the state insurance fund. This evaluation would include the experience modifier selected, the use of self insured experience, and the future liability for Ohio.</td></tr>
</table>

Pricing Process Areas

Programs	Tasks Involved
1. Premium Discount Program	6. Review and make recommendations to enhance the equity of the experience-rating system and the resulting rates (public and private), including, but not limited to, discounts and dividends. This review would include analysis of the Drug Free Workplace program, the One Claim Program, the Premium Discount Program, the group rating program, and the safety council program. The analysis should include a study of the cost effectiveness of each program and an evaluation of each program with respect to industry standards.
2. Drug Free Workplace Program	
3. Safety Council Program	
4. One Claim Program	

Pricing Process Areas

	Tasks Involved
Alternative Pricing Methods (Described throughout)	35. Identify methods of rate setting and reserving, in addition to those already contemplated otherwise in the RFP that the administrator could use to make the rate setting and reserving process more transparent for employers and employees..

Cost Controls Areas

	Tasks Involved
Subrogation	8. Review and make written recommendations on the subrogation standards applied by the BWC. This review would include a review of legislation, the BWC subrogation collection process, the application of subrogation receipts to individual employer's experience, and the assigning of subrogated claims to individual employers.

Cost Controls Areas

	Tasks Involved
$15,000 Medical Only Program	22. Conduct a study on the payment of salary continuation by employers in lieu of temporary total compensation. This study would include an evaluation of the reserve calculation to determine if the premium collected by the BWC is appropriate for the liability presented and an evaluation to determine if salary continuation is a cost effective for employers. Conduct a study on the $15,000 medical only program. This study would include an evaluation of the reserve calculation for claims in this program and an evaluation to determine if the premium collected by the BWC is appropriate, and if the program is a cost effective program for employers.

Cost Controls Areas

	Tasks Involved
Salary Continuation	22. Conduct a study on the payment of salary continuation by employers in lieu of temporary total compensation. This study would include an evaluation of the reserve calculation to determine if the premium collected by the BWC is appropriate for the liability presented and an evaluation to determine if salary continuation is a cost effective for employers. Conduct a study on the $15,000 medical only program. This study would include an evaluation of the reserve calculation for claims in this program and an evaluation to determine if the premium collected by the BWC is appropriate, and if the program is a cost effective program for employers.

Financial Provisions Areas

SIEGF	Tasks Involved
1. Sufficiency Requirements 2. Contribution Calculation Methodology	20. Evaluate the SIEGF sufficiency requirements and recommend criteria to be used for determining the methodology for the Administrator to establish self insured employers contributions to the SIEGF pursuant to Ohio Revised Code 4123.351. This analysis would include analysis of the BWC's historical funding of the SIEGF and recommendations for funding the SIEGF particularly whether the fund should be pre-assessment or post-assessment.

Deloitte.

Member of
Deloitte Touche Tohmatsu

BWC Board of Directors
Actuarial Committee
CAO Report
John Pedrick, Chief Actuarial Officer
June 26, 2008

Restoring Operational Excellence

This month is an important milestone for three top level initiatives: the first installment of the comprehensive study required by House Bill 100; the delivery of a plan to improve Ohio's experience and group rating programs; and the transition from MIRA I to MIRA II. These initiatives still require significant work as we move forward through additional phases. However, I can report that the teams devoted to each have successfully met their deadlines this month.

House Bill 100 §512.50 Actuarial Study

Deloitte Consulting LLP will have presented their first installment of the comprehensive study during the Actuarial Committee educational session scheduled for June 25, 2008. This portion of the study addresses all BWC rate setting practices and rate programs, as well as elements of our self insured program. The timeline for the entire study is in the table below.

Task/Function	Timeline	Status
Project Begins	February 19, 2008	Completed
Initial Meeting with Deloitte	February 27, 2008	Completed
Deloitte introduced to Actuarial Committee	February 28, 2008	Completed
Deloitte training presentation to Actuarial Committee	May 28, 2008	Completed
Deloitte presents first grouping report to Actuarial Committee	June 25, 2008	On schedule
Deloitte presents second grouping report to Actuarial Committee	August 28, 2008	On schedule
Deloitte presents third grouping report to Actuarial Committee	October 30, 2008	
Deloitte presents final report to Actuarial Committee/Board	December 18, 2008	
Project ends		

Plan to Address Group Rating and Experience Rating

During this meeting, we will have presented our plan to improve the experience and group rating programs and to bring meaningful options to Ohio employers that balance risk bearing and risk sharing with actuarially sound pricing features. The table below shows the timeline for the development of the plan. If the Actuarial Committee and the Board direct us to move forward, we will report back with a new, multi-year time line for the implementation of the plan.

Task/Function	Timeline	Status
Develop Plan	December 2007 – January 2008	Complete
Form Team	December 2007	Complete
Develop NCCI Split Experience Rating Plan		
Create Ohio NCCI parameters and run simulation	December 2007 – March 2008	Complete

(Oliver Wyman)		
Impact of New Experience Rating Method	December 2007 – March 2008	Complete
Communications with Stakeholders	March – June	Complete
Group Rating Rule changes		
Continuity of group requirements	December 2007 – March 2008	
Other rules	December 2007 – March 2008	
Present full plan to Board	June 26 – 27, 2008	On schedule
Team Leader: Jeremy Jackson Executive Sponsors: John Pedrick, Keary McCarthy, Tina Kielmeyer		

MIRA II

Task/Function	Timeline	Status
Historical Data Extraction	January – August 2007	Completed
Customer Workgroups		-----------
• Employer-Web Services Focus Group	November 2007	Complete
• Claim Expert Workgroup	November – December 2007	Complete
• MIRA II-TPA Update Meeting	December 11, 2007	Complete
MIRA II Injury Mapping Logic-Finalized and Approved	January 2008	Complete
MIRA II-Development of Reserve Models (FIC)	February – May 2008	Complete
Data Interface Testing	March – May 2008	Complete
MIRA II- Web Services Enhancement	February – July 2008	In progress
Testing/Review of Initial MIRA II Reserves	May – June 2008	In progress
Training/Education on MIRA II System	July – November 2008	
MIRA II Reprediction (Adjustment) System		
Design, Develop, Test, Implement	May 2008 – January 2009	
Implement MIRA II	July – September 2008	On schedule

- The MIRA II system has been successfully loaded and made available to the BWC to begin testing the week of June 16, 2008.
- The MIRA II Legislation issue included in SB323 was signed by June 13, 2008 which will make the MIRA II implementation date July 1, 2008.
- Actuarial and Communications held an internal and external customers MIRA II kick off meeting on June 19, 2008. MIRA II kick off meeting.

Continuing Projects

Timelines and status for the several key projects and work of the actuarial division follow.

Rates and Reserves

Private Employer Rates

Task/Function	Timeline	Status
Private Employer Rates	January 2008 through June 2008	On Schedule
Summary Losses	January 17, 2008 through February 20, 2008	Completed
Summary Payroll	January 21, 2008 through February 20, 2008	Completed
Group Application Deadline	February 29, 2008	Completed
Rate Calculations	February 21, 2008	Completed

	though May 23, 2008	
Rate indication to WCB	March 27, 2008	Completed
Rate indication consent from WCB	March 28, 2008	Completed
Final Rates to WCB	May 29, 2008	Completed
Mailing of Employer Rate Letters	June 30, 2008	On Schedule

Other Rates and Quarterly Loss summaries

Task/Function	Timeline	Status
Self Insured Assessments	April 2008 through June 2008	Completed
Disabled Workers' Relief Fund Rates	April 2008 through June 2008	Completed
Marine and Coal Industry Fund Rates	April 2008 through June 2008	Completed
Quarterly Reserve Analysis – 1st quarter 2008	April 1, 2008 through April 17, 2008	Completed
Quarterly Reserve Analysis – 4th quarter 2007	July 1, 2008 through July 17, 2008	

Public Employer State Agency Rates

Task/Function	Timeline	Status
Public Employer State Agency Rates	January 2008 - April 2008	
Run payroll and premium jobs & verify	February 8-21, 2008	Completed
Run losses & verify	February 28 – March 5, 2008	Completed
Run base rates & verify	March 6-17, 2008	Completed
Discuss rate change with administrator	March 6-10, 2008	Completed
Actuarial Committee/Board Meeting – Initial Consideration	March 27-28, 2008	Completed
Actuarial Committee/Board Meeting – Final Consideration	April 24-25, 2008	Completed
Rate letters	May 26 – June 6, 2008	In Progress

Other Analyses

- State agencies, universities, and university hospitals (PES) – We will explore alternative methods of setting rates, including rates that would be in place throughout a full biennium. We will also forecast costs for the upcoming FY'10/11 biennium to assist these employers with the state's budgetary process.
- Wise v. Ryan – Staff continues to explore the potential impact of similar settled claims.

6 - Month Actuarial Committee Calendar

Date	June	Notes
6/26/08	Actuarial Committee 1. Group/Experience Rating (NCCI) Plan 2. MIRA II update - BWC results 3. HB 100 Comprehensive Study update - Deloitte's first report on priority grouping 1 - Rates and Self-insured	
Date	**July**	
7/23/08	Education Session	
7/24/08	Actuarial Committee 1. MIRA update	
Date	**August**	
8/27/08	Education Session 1. PEC Rate training	
8/28/08	Actuarial Committee 1. Reserve Audit update 2. Fiscal Year 2009/2010 Budget 3. PES rate estimates for biennial budget 4. HB 100 Comprehensive Study update - Deloitte's first report on priority grouping 2 - Actuarial Audit, Net Asset Level and Discount Rate	
Date	**September**	
9/24/08	Education Session	
9/25/08	Actuarial Committee 1. Public Employer Taxing Districts rate change 2. Annuity Table - Rule 4123-17 - **possible based on discount rate** 3. Reserve Audit - full 4. PES Rate estimates for biennium 5. Comprehensive study update from consultant	
Date	**October**	
10/29/08	Education Session	
10/30/08	Actuarial Committee 1. Actuarial Audit Reserves - Oliver Wyman, consulting actuaries 2. Reserve levels 3. NCCI/BWC State of the line report comparisons	
Date	**November**	
11/19/08	Education Session	
11/20/08	Actuarial Committee 1. Public Employer Taxing Districts 2. HB 100 Comprehensive Study Update - Deloitte's first report on priority grouping 3 Sate Agency Rates, Retrospective Rating and Saftey	

Common Sense Business Regulation (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

Rule 4123-17-05.1

Rule Review

1. ☒ The rule is needed to implement an underlying statute.

   Citation: __O.R.C. 4123.29, 4123.34___________________

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): _ The rule notifies private employers of the credibility table to be used in calculating rates for the policy year 7/1/09 to 6/30/10. The rule change will allow BWC to set the credibility table for private employer rates at a more equitable rating level.___

3. ☒ Existing federal regulation alone does not adequately regulate the subject matter.

4. ☒ The rule is effective, consistent and efficient.

5. ☒ The rule is not duplicative of rules already in existence.

6. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. ☒ The rule has been reviewed for unintended negative consequences.

8. ☒ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   Explain: Third party administrators; employer trade associations.

9. ☒ The rule was reviewed for clarity and for easy comprehension.

10. ☒ The rule promotes transparency and predictability of regulatory activity.

11. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost? _____________
    ____

13. ☒ The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

4123-17-05.1 **Private employer credibility table.**

The administrator of workers' compensation, with the advice and consent of the bureau of workers' compensation board of directors, has authority to approve contributions made to the state insurance fund by employers pursuant to sections 4121.121, 4123.29, and 4123.34 of the Revised Code. The administrator hereby sets the credibility table part A, “credibility and maximum value of a loss,” to be effective July 1, ~~2008~~ 2009, applicable to the payroll reporting period July 1, ~~2008~~ 2009, through June 30, ~~2009~~ 2010, for private employers as indicated in the attached appendix A.

APPENDIX A
TABLE 1
PART A

Credibility and Maximum Value of a Loss

Credibility Group	Expected Losses	Credibility Percent	Group Maximum Value
1	8,000	10%	12,500
2	15,000	14%	12,500
3	27,000	18%	25,000
4	45,000	21%	37,500
5	62,500	24%	55,000
6	90,000	28%	75,000
7	122,500	31%	87,500
8	160,000	34%	100,000
9	202,500	37%	112,500
10	250,000	40%	125,000
11	302,500	43%	137,500
12	360,000	45%	150,000
13	422,500	48%	162,500
14	490,000	52%	175,000
15	562,500	55%	187,500
16	640,000	59%	200,000
17	722,500	64%	212,500
18	810,000	69%	225,000
19	902,500	73%	237,500
20	1,000,000	77%	250,000