Actuarial Committee Meeting

Wednesday, December 16, 2009

Employer Programs

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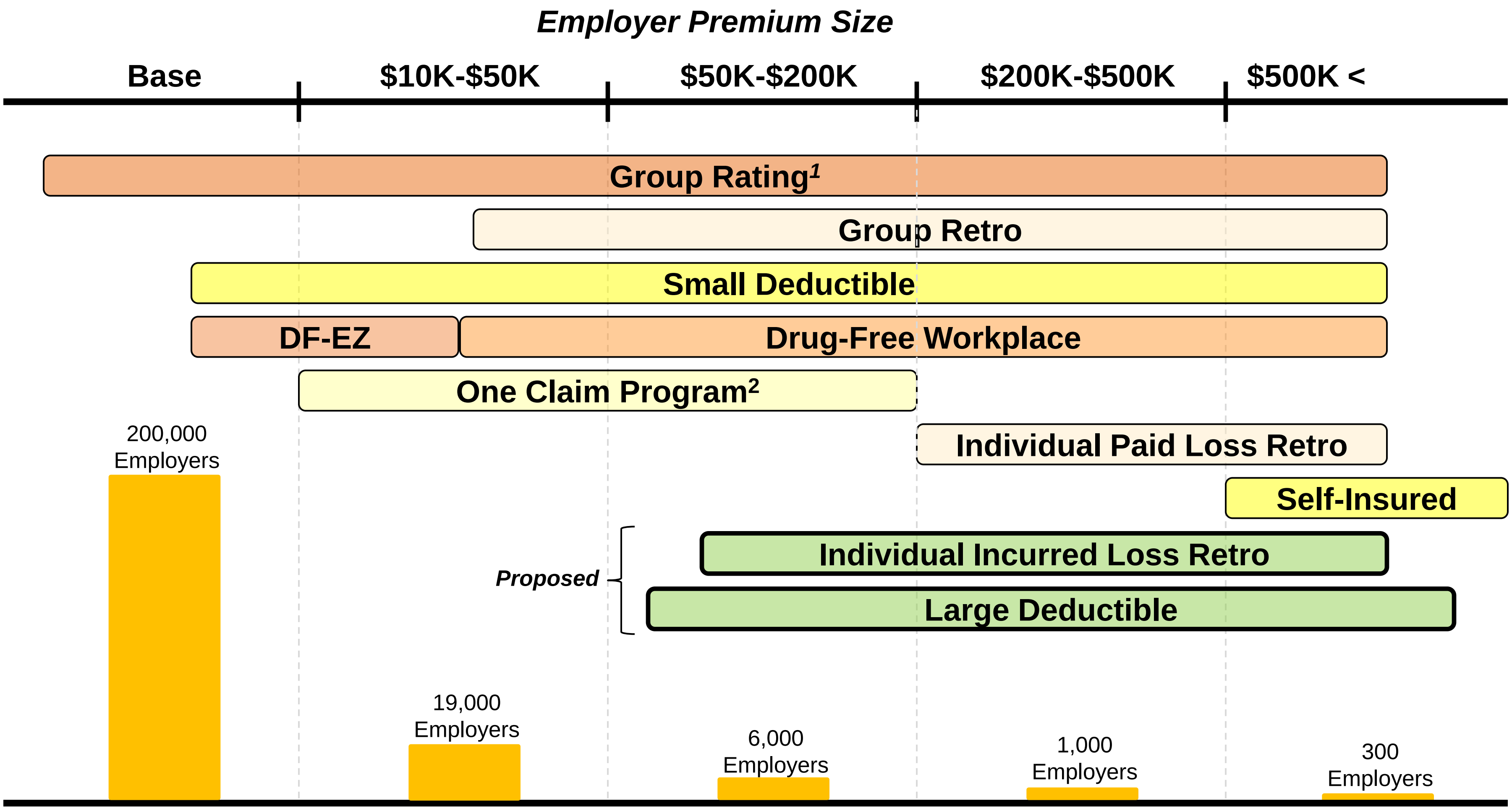
Employer Programs Portfolio Overview

Joy Bush

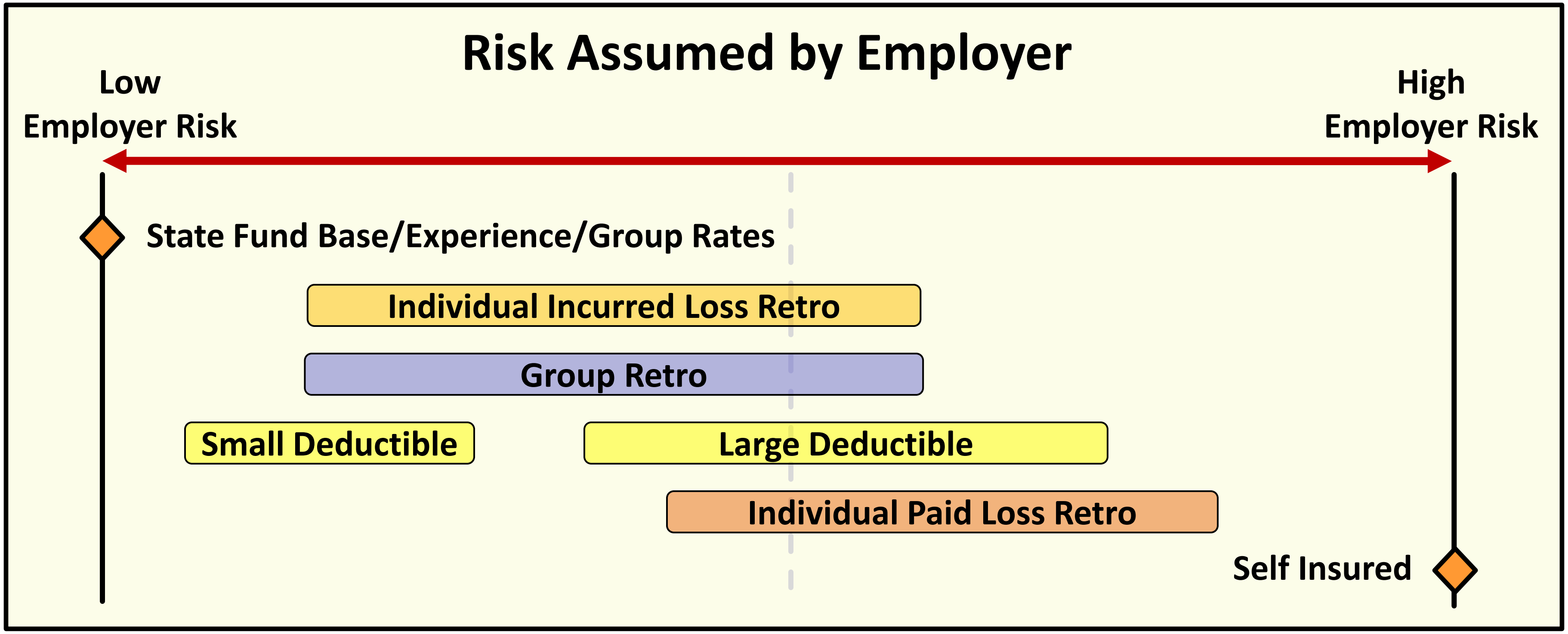
BWC Program Portfolio



[1] *Available only to credit rated employers*
[2] *Enrollment is limited to employers that are non-renewed in groups*

Alternative Rating Programs

By assuming some portion of risk, an employer may be able to reduce their total workers' compensation costs. The higher the risk assumed, the greater the potential benefits.



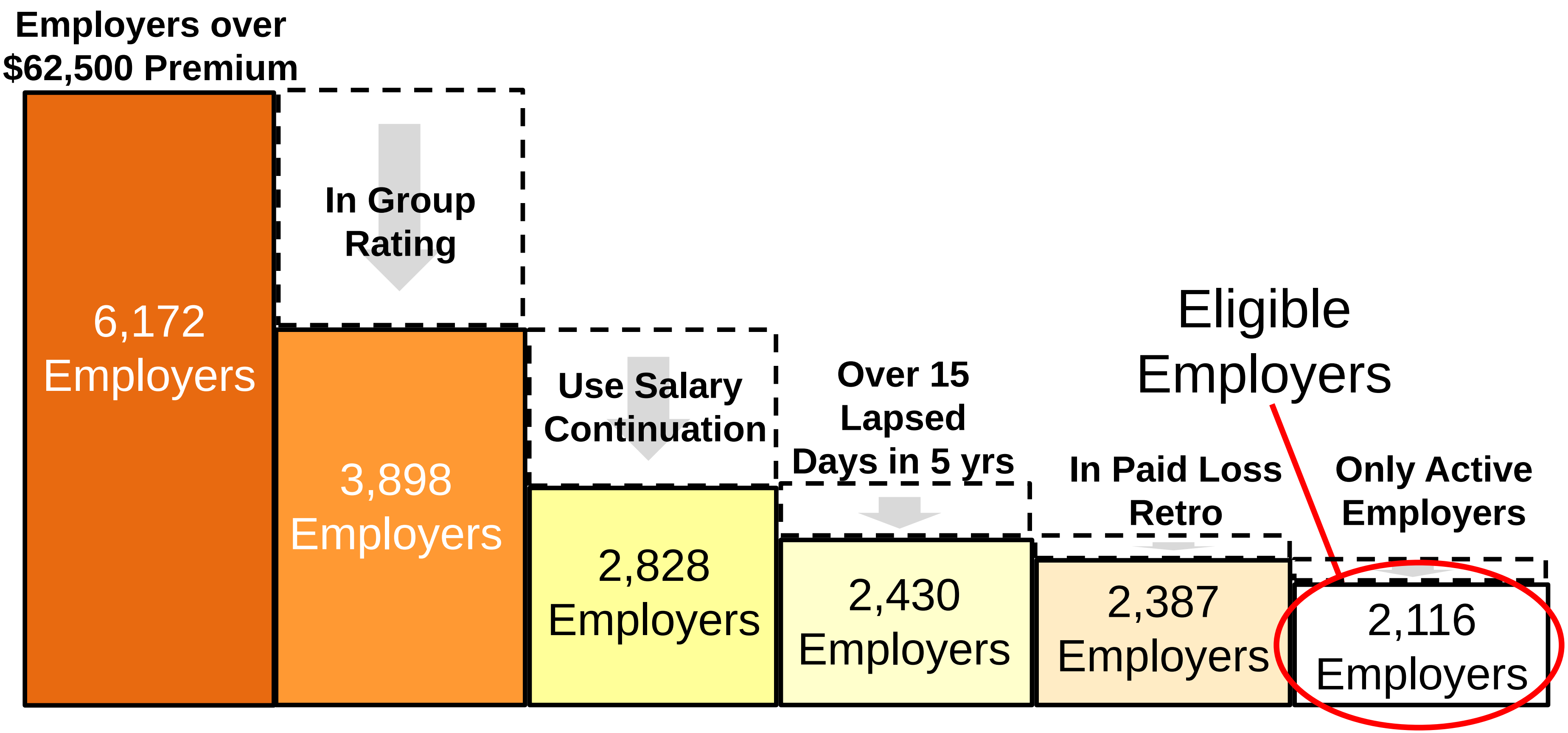
Deductible Pricing and Analysis

Bill Hansen – Oliver Wyman

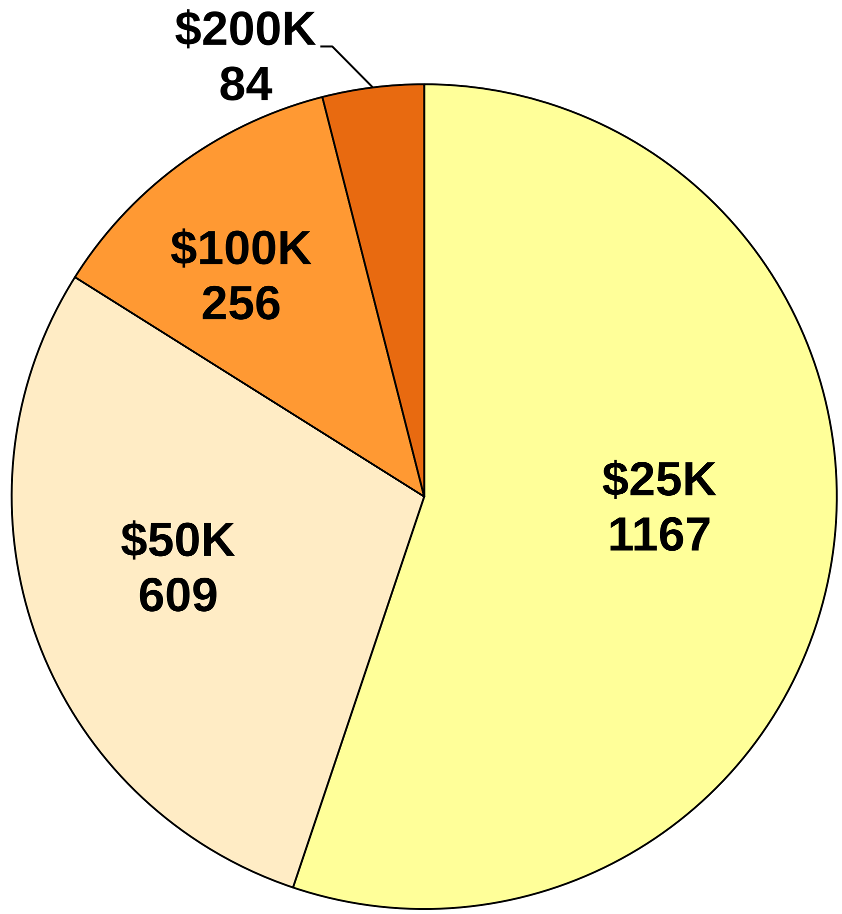
Large Deductible Market Analysis

Joy Bush

Determining Eligible Employers



Eligible Employers by Deductible Size



Assuming an employer chooses the maximum deductible size for which they are eligible.

Projected Shift to Claims Cost Reimbursement

- At 10% Acceptance Rate
  - 212 employers
  - $35 million premium of participants
  - $13.5 million in potential shift to claims cost reimbursement
- At 3% Acceptance Rate
  - 63 employers
  - $10.3 million premium of participants
  - $4 million in potential shift to claims cost reimbursement

Individual Incurred Loss Retrospective Program

Joy Bush

Retrospective Programs Overview

	Incurred Loss Retrospective (Group Retro and IIL Retro)	**Paid Loss Retrospective** (Current Individual Retro)
Overview	**An employer or group agrees to be reviewed after the policy year end and receive a premium adjustment based on claims performance**	**An employer pays a minimum premium for the policy year and agrees to annually reimburses BWC for claims losses**
Program Length	**4 years** Final adjustment 36 months after policy year end	**10 years** A final settlement at 10 years includes the established reserves
Credit Risk	**Low** Full premium is paid and potential assessment is capped	**High** Small up-front premium and a long repayment window

Individual Incurred Loss Retro Product Structure

- Incurred Loss Retro programs are available in 35 NCCI states and 5 independent bureau states
- The IIL Retro program will follow the incurred loss structure of Group Retro
- Open to PA and PEC employers
- Evaluations will occur at 12,24, and 36 month after the policy year end and premium adjustments distributed accordingly

Individual Incurred Loss Eligibility

- Basic eligibility criteria will match Group Retro and other programs
- An employer must have at least $75,000 in premium for the last full policy year
- Compatibility with other programs will match the Group Retro program
- No additional financial screening will be required since the employer pays their full premium in the first year

Financial Underwriting/ Employer Education

Tracy Valentino

Tom Prunte

Large Deductible Market Analysis

The purpose and goal of this analysis is to estimate the potential market acceptance of the Large Deductible Program and determine its impact on premium and administrative cost.

Using data obtained from the PY07 file provided by Actuarial (Slippage Study), eligible employers were identified based on premium size and analyzed separately by PA and PEC. Applying BWC program rules and market knowledge, employers participating in group experience rating or paid loss retro programs were removed along with those using salary continuation, greater than 15 days lapse or inactive status. A population of 1,971 PA employers and 145 PEC employers remain and are further segmented by deductible level in the attached document.

Two (2) premium projections were run assuming a 3% and a 10% acceptance/participation rate among those eligible employers. The 3% acceptance rate is based on the actual adaption rate of employers in the $10,000 deductible level. The 10% acceptance rate is based on the participation of PEC employers currently in the paid loss retrospective program. The assumptions consider one (1) new product and one (1) mature product. Both programs have some element of risk sharing on the part of the insured and thus provide a sound basis for comparison. Eligible employers will also be surveyed to gauge interest.

While the percentage (%) of premium based only on premium size accounted for 57% of total premium for PA and 88% for PEC employers, after all the other eligibility filters were applied, the percentage was reduced to 21% ($341,328,760) for PA employers and 9% ($22,183,628) for PEC employers.

Referencing the draft pricing tables provided by Oliver Wyman on 12/2/09, the average premium size of eligible employers was identified and applied. Discounts for Hazard Group C were averaged with the aggregate limit and the average discount % was determined to be 38.5% and the average premium discount to be $64,151.

At a 10% acceptance rate, BWC would see a shift between premium and claims cost reimbursement of $12,644,088 for PA employers and $930,184 and PEC employers. At a 3% acceptance rate, BWC would see a shift between premium and claims cost reimbursement of $3,793,226 for PA employers and $279,055 for PEC employers.

Estimated Eligible Employers - Large Deductible Program

	PEC		PA		
	Filtered	Remaining Employers	Filtered	Remaining Employers	Total Remaining
All Employers	3,849	3,849	229,914	229,914	**467,526**
Filter Criteria					
Under $62,500	-3,050	799	-224,541	5,373	**6,172**
In Group	-401	398	-1,873	3,500	**3,898**
Use Sal Cont	-250	148	-820	2,680	**2,828**
Over 15 lapsed days	0	148	-398	2,282	**2,430**
In Paid Loss Retro	-3	145	-40	2,242	**2,387**
Not Active	0	145	-271	1,971	**2,116**
Eligible Employers	**145**		**1,971**		**2,116**

Estimated Eligible Employers per Deductible Level

Deductible Level	PEC	PA	Total
$25,000	145	1971	2116
$50,000	59	890	949
$100,000	21	319	340
$200,000	6	78	84

Projected Premium Impact

Avg SP of Elig Empl	Estimated HG	Avg Disc w/Agg	Avg Disc
$166,625	C	38.50%	$ 64,151

Projected Premium Impact at 10% Acceptance Rate

	PEC	PA	Total
Participants at 10% Acceptance[1]	14.50	197.10	211.60
Premium of Participants at 10%	$2,416,063	$32,841,788	$35,257,850
Est. Premium Discounts at 10%	$930,184	$12,644,088	**$13,574,272**

[1] A 10% acceptance rate was used based on PEC Paid Loss acceptance levels. PA Paid Loss Retro has a 2% acceptance rate.

Projected Premium Impact at 3% Acceptance Rate

	PEC	PA	Total
Participants at 3% Acceptance	4.35	59.13	63.48
Premium of Participants at 3%	$724,819	$9,852,536	$10,577,355
Est. Premium Discounts at 3% Acceptance	$279,055	$3,793,226	**$4,072,282**

[1] A 3% acceptance rate was used based on the adoption rate of $10,000 deductibles among eligible employers.

Common Sense Business Regulation (BWC Rules)

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

Rule 4123-17-74

Rule Review

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

   Citation: __R.C. 4123.29__________

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

   What goal(s): Provide for a large deductible program that is considered the industry standard and facilitates employers creating safer workplaces and receiving a financial incentive for their safety and claims management efforts and performance attained.

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: Meetings were held with various interested parties*, and their support was obtained. The Individual Incurred Loss Retro program is a derivative of the Group Retrospective program. The Group Retro program received thorough scrutiny from interested parties at a series of monthly meetings.

* Central Ohio Builders' Exchange, COSE, NFIB, Ohio Chamber of Commerce, Ohio Farm Bureau, Ohio Manufacturers' Association, Frank Gates, CCI, Sheakley, Gates McDonald, CompManagement (Sedgwick) and members of the SAO and WC Forum.

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.

BWC Board of Directors

Executive Summary

Individual Incurred Loss Retrospective Program Rules

Introduction

The Individual Incurred Loss Retrospective Program will provide Ohio employers an option to benefit from preventing losses and containing claims costs. This new program will mirror the Group Retrospective Rating Program but be available to individual employers.

Background Information

Rule 4123-17-73 was passed by BWC's Board of Directors in April of 2009 enabling the launch of the Group Retrospective Rating Program. In Group Retrospective Rating, employers form homogeneous groups that may receive premium refunds or assessments based on the group's claims losses for the policy year. Claims losses are evaluated at 12, 24, and 36 months after the policy year end.

During the creation of the Group Retrospective Program, BWC received feedback that the incurred loss retrospective structure would also benefit individual employers. The Individual Incurred Loss Retrospective Program proposed in Administrative Rule 4123-17-74 is designed to address this market demand.

Proposed Changes

The Individual Incurred Loss Retrospective Program would be a new rating plan option for Ohio PA and PEC employers. Incurred loss retrospective programs are common in the workers' compensation industry; currently 35 NCCI states and 5 independent bureau states host some form of an incurred retro program.

In the program, an employer will continue to pay their full individual premium during the policy year. Three loss evaluation periods will follow at 12, 24, and 36 months after the policy year end. A new premium will be calculated based on the employer's actual losses during the policy year. If the new premium calculated at the evaluation period is less than the amount the employer has already paid in for the policy year, then a refund will be distributed. An assessment will be billed if the retro premium is greater. The total amount that could be assessed will be capped by a "Maximum Premium Ratio" which is selected by the employer.

4123-17-74 Individual Incurred Loss Retrospective Rating Program.

(A) As used in this rule:

(1) "Individual incurred loss retrospective" or "individual incurred retro" is a voluntary workers' compensation insurance program offered by the bureau of workers' compensation. Individual incurred retro is designed to provide financial incentive to employers participating in the program that, through improvements in workplace safety and injured worker outcomes, are able to keep their claim costs below a predefined level.

(2) "Basic premium factor" is a component of the retrospective rating premium formula used to account for insurance charges and costs that are distributed across all employers. The basic premium factor (BPF) is based upon charges for the cost of having retrospective premium limited by the selected maximum premium ratio and the cost of excluding surplus costs from incurred losses.

(3) "Developed losses" or "total incurred losses (developed)" are a component of the retrospective rating premium formula intended to account for the fact that total incurred losses in claims are likely to increase over time. This trend results from a number of factors, including, but not limited to, reactivation of claims and claims that may be incurred but not reported for a substantial period, and result in costs that would otherwise not be captured.

(4) "Evaluation period" means the three-year period beginning immediately after the end of the retro policy year. Annual evaluations will occur three times during the evaluation period at twelve, twenty-four, and thirty-six months after the end of the retro policy year.

(5) "Incurred losses" means compensation payments and medical payments paid to date as well as open case reserves. The total incurred losses will not include surplus costs and will be limited on a per claim basis.

(6) "Loss development factor" means actuarially determined factors that are multiplied by incurred losses of non-PTD/death retro claims to produce developed losses. Loss development factors (LDF) are unique to each retro policy year.

(7) "Maximum premium ratio" means a factor pre-selected by the employer that is multiplied by the standard premium to determine the maximum retrospective premium for the policy year.

(10) "Reserve" means the bureau's estimate of the future cost of a claim at a specific point in time.

(11) "Retro policy year" means the policy year in which an employer is enrolled in individual incurred retro. Claim losses which occur during this year will be tracked for individual incurred retro participants and refunds/assessments will be distributed based on those losses in the subsequent evaluation period. The retro policy year start and end date will match that of the rating policy year. For public employer taxing districts, the retro policy year shall be January first through December thirty-first of a year. For private employers, the retro policy year shall be July first through June thirtieth of the following year.

(12) "Standard premium" for the purposes of retro evaluation means the total premium paid by an employer for a given policy year, excluding the assessments for the disabled workers' relief fund and the administrative cost fund.

(B) Employer eligibility requirements.

An employer seeking to participate in the bureau individual incurred loss retrospective program shall meet the following standards:

(1) The employer shall be a private state funded employer or public employer taxing district. A self-insuring employer or a state agency public employer shall not be eligible for participation in the individual incurred loss retrospective program.

(2) The employer must have active workers' compensation coverage according to the following standards:

(a) Unless the employer submits prior to the application deadline a dispute of the obligation to the bureau's adjudicating committee by a written letter containing the detailed reasons for the objection and the supporting documentation, the employer must be current (not more than forty-five days past due) on any and all premiums, administrative costs, assessments, fines or monies otherwise due to any fund administered by the Ohio bureau of workers' compensation.

(b) As of the deadline for the application for the individual incurred retro program, the employer must be current on the payment schedule of any part-pay agreement into which it has entered for payment of premiums or assessment obligations.

(c) The employer cannot have cumulative lapses in workers' compensation coverage in excess of forty days within the twelve months preceding the application deadline date for the individual incurred retro program.

(3) An employer participating in the individual incurred retro program must have a standard premium during the most recent full policy year of at least $75,000

(4) An employer participating in the individual incurred retro program shall be entitled to participate in any other bureau rate program concurrent with its participation in the individual incurred loss retrospective program, except that an employer cannot utilize or participate in, with respect to any injuries which occur during a period for which the employer is enrolled in individual incurred retro, the following bureau rate programs:

(a) Individual retrospective rating as defined in 4123-17-41 of the Administrative Code;

(b) The $15,000 medical-only program;

(c) Deductible program;

(d) One claim program;

(e) Group rating;

(f) Drug-free workplace discount program;

(g) Group retrospective rating.

(C) For public employer taxing districts, applications for individual incurred retro coverage shall be filed with the bureau on or before the last business day of October of the year immediately preceding the rating year. For private employers, applications for individual incurred retro shall be filed with the bureau on or before the last business day of April of the year of the July first beginning date for the rating year. An individual incurred retro application is applicable to only one policy year. The individual incurred retro employer must reapply each year to continue participation in the program. Continuation of a plan for subsequent years is subject to timely filing of an application on a yearly basis and the meeting of eligibility requirements each year.

(1) To apply for the individual incurred retro program, an employer must submit a completed Individual Incurred Loss Retrospective Program Application Form (U-155). The application must contain the signature of an officer from the employer submitting the application.

(2) The bureau may request of an employer additional information necessary for the bureau to rule upon the application for individual incurred loss retro participation. Failure or refusal of the employer to provide the requested information on the forms or computer formats provided by the bureau shall be sufficient grounds for the bureau to reject the application and refuse the employer's participation in the individual incurred loss retrospective program.

(3) In reviewing the individual incurred retro application, if the bureau determines the employer does not meet the eligibility requirements for the individual incurred loss retrospective program, the bureau will notify the employer of this fact.

(D) Once an employer has applied for the individual incurred retro program, the employer may not voluntarily terminate the application. All changes to the original application must be filed on a bureau form provided for the application for the individual incurred retro program and must be filed prior to the filing deadline. Any changes made must be completed in writing, signed by an officer of the organization and filed prior to the filing deadline. The employer may make no changes to the application after the last day for filing the application. Any changes received by the bureau after the filing deadline will not be honored. The latest application form received by the bureau prior to the filing deadline will be used in determining the premium obligation.

(E) Participation in the individual incurred retro program for the associated policy year may not be voluntarily terminated during the policy year or during the subsequent evaluation periods.

(F) The bureau shall charge premium to an employer using the standard bureau specified methodology for the premium payments for the retro policy year.

(G) The individual incurred loss retrospective premium calculation will occur at twelve, twenty-four, and thirty-six months following the end of the policy year.

(1) On the evaluation date, the bureau will evaluate all claims with injury dates that fall within the retro policy year. The incurred losses and reserves that have been established for these claims are "captured" or "frozen." The employer's retrospective premium will be calculated based on the developed incurred losses. The retrospective premium will be compared to the employer's standard premium and all subsequent retro refunds/assessments. The difference will be distributed or billed to the employer as a refund or assessment.

(a) The assessments will be limited per a maximum premium ratio selected during the individual incurred retro application process.

(b) Any reserving method that suppresses some portion of an employer's costs for the purpose of calculating an experience modification will not apply in the calculation of incurred losses for calculating retrospective premium.

(c) The bureau may hold a portion of refunds in the first and second evaluation periods to minimize possible future assessments. Any net refund will be fully distributed by the bureau in the third evaluation period.

(2) Incurred losses used in the retrospective premium will be limited to $500,000 per claim.

(3) Incurred losses will not include surplus or VSSR costs.

(H) The retrospective premium calculation that will occur at various evaluation points after the retro policy year end will be as follows:

Retrospective premium =

(Basic premium factor x standard premium)

+

developed incurred losses

(1) An employer will elect a maximum premium ratio each year as part of the individual incurred retro application process. This ratio will determine the maximum amount of total premium an employer may pay for the retro year after refunds and assessments.

(2) Options for the Maximum Premium Ratio are provided in Appendix A of this rule.

(3) A basic premium factor is applied in the retro premium calculation to account for insurance costs, surplus costs, and a per claim cap. The basic premium factor is determined using the following factors: standard premium and maximum premium ratio.

(4) Developed incurred losses are created by totaling incurred losses and reserves for the employer and applying an actuarially determined loss development factor.

(5) Within four months of the evaluation date, if entitled, the bureau will send premium refunds.

(6) If the employer owes additional premium, the additional premium will be included in the employer's next invoice and must be paid by the due date stated on the invoice. The bureau will charge penalties on any additional premium not paid when it is due. If the employer is entitled to a refund for one retro policy year and owes any additional monies to the bureau, the bureau will deduct the monies due the bureau from the refund. The bureau will refund the difference to the employer. In the event that this adjustment still leaves a premium balance due, the bureau will send a bill for the balance.

(I) Where there is a combination or experience transfer of an employer within a individual incurred loss retrospective program policy year or evaluation period, following the application of any other rules applicable to a combination or experience transfer, the employer may be eligible to remain in the individual incurred loss retrospective program as follows:

(1) Successor: Entity not having coverage
Predecessor: Enrolled in individual incurred retro currently or in the evaluation period for a past individual incurred retro policy year:

Where there is a combination or experience transfer, where the predecessor was a participant in individual incurred retro and the successor is assigned a new policy with the bureau, the successor shall not be considered a participant in the individual incurred retro program. The successor may make a formal application should it desire to participate in the individual incurred retro program for the next policy year. The successor shall be responsible for any and all existing or future rights and obligations stemming from the predecessor's participation in the individual incurred retro program prior to the date that the bureau was notified of the transfer as provided under paragraph (C) of rule 4123-17-02 of the Administrative Code.

(2) Successor: Enrolled in the individual incurred retro program
Predecessor: Not enrolled in the individual incurred retro program

Where there is a combination or experience transfer involving two or more entities, each having Ohio coverage at the time of the combination or experience transfer, and the successor policy is enrolled in the individual incurred retro program for the program year, the successor shall automatically remain in the individual incurred retro program for the program year and is subject to renewal in accordance with paragraph (H) of this rule. The successor shall be responsible for any and all existing or future rights and obligations stemming from the predecessor's prior participation in the individual incurred retro program prior to the date the bureau was notified of the transfer as provided under paragraph (C) of rule 4123-17-72 of the Administrative Code.

(3) Successor: Not enrolled in individual incurred retro
Predecessor: Enrolled in individual incurred retro

Where there is a combination or experience transfer involving two or more entities, each having Ohio coverage at the time of the combination or experience transfer, and the successor policy is not enrolled in the individual incurred retro program, the predecessor's plan(s) shall terminate as of the ending date of the evaluation period. Payroll reported and claims incurred on or after the date of succession will be the responsibility of the successor under its current rating plan. The successor may make a formal application should it desire to participate in the individual incurred retro program for the next policy year. Whether or not the successor chooses or is otherwise eligible to participate in an individual incurred retro program, under paragraph (C) of rule 4123-17-02 of the Administrative Code, the successor remains responsible for any existing and future rights and obligations resulting from a predecessor's participation in individual incurred retro program.

(4) Successor: Enrolled in individual incurred retro
Predecessor: Enrolled in individual incurred retro

Where there is a combination or experience transfer involving two or more entities, each having Ohio coverage at the time of the combination or experience transfer, and both successor and predecessor policies are enrolled in the incurred retro program, predecessor's plan(s) shall terminate as of the ending date of the evaluation period. Payroll reported and claims incurred on or after the date of succession will be the responsibility of the successor under its incurred retro plan. The successor shall be responsible for any and all existing or future rights and obligations stemming from the predecessor's prior participation in the individual incurred retro program prior to the date the bureau was notified of the transfer as provided under paragraph (C) of rule 4123-17-72 of the Administrative Code.

(5) Successor and/or predecessor: open individual incurred retro policy years in the evaluation period

If the successor and predecessor are not currently enrolled in the individual incurred retro program, but either or both have open individual incurred retro policy years in the evaluation period, the successor shall be responsible for any and all existing future rights and obligations stemming from the predecessor's prior participation in the individual incurred retro program prior to the date the bureau was notified of the transfer as provided under paragraph (C) of rule 4123-17-72 of the Administrative Code.

(6) Partial transfer

If an entity partially succeeds another entity and the predecessor entity has any individual incurred retro policy years in the evaluation period, the predecessor entity will retain any rights to assessments or refunds. If the successor is enrolled in the individual incurred retro program, payroll reported and claims incurred on or after the date of the partial transfer will be the responsibility of the successor under its individual incurred retro plan.

Interested Parties Feedback - 4123-17-74 Individual Incurred Loss Retrospective Program

Line	Rule #	Draft Rule Suggestions	Interested Parties Rationale	BWC Response	Resolution
1	4123.17-74	Interested parties suggested during the Group Retrospective Program design that employers would benefit from an incurred loss retrospective program at the individual level.	Medium to large size employers would like to receive benefits from improved safety and claim costs suppression efforts without having to share risk with other employers as they do in the Group Retrospective Program.	BWC concurred that an individual version of the incurred retrospective could be implemented with minimal impact and could benefit a number of employers.	Rule 4123-17-74 will allow medium and large employers to participate in an incurred loss retrospective program individually.
2	4123.17-74 (B)	"An employer seeking to participate in the bureau individual incurred loss retrospective program shall meet the following standards:…"	Eligibility requirements should be as similar as possible between the various employer programs. This will minimize confusion for employers.	BWC agrees that program eligibility requirements should be consolidated as much as possible.	The rule follows the same basic eligibility requirements as the Deductible, Group Retrospective, and most other Employer Programs.
3	4123.17-74 (F)	A variation to the rule stating: "The bureau shall charge premium to an employer using the standard bureau specified methodology for the premium payments for the retro policy year. "	Interested parties requested that an up-front discount be included in the program to encourage participation.	By giving an up-front discount, an employer becomes much more likely to receive an assessment instead of a premium in the program. We believe that this would severely harm the long term perception of the program.	BWC will charge IIL retro employer their full premium in the policy year and give employers refunds only if they are successful in containing claims costs.
4	4123.17-74 (B) (4)	"...an employer cannot utilize or participate in, with respect to any injuries which occur during a period for which the employer is enrolled in individual incurred retro, the following bureau rate programs:…~~(h) Salary Continuation~~"	Employers should be allowed to pay salary continuation while participating in the program. Some employers are contractually obligated to pay salary continuation, so could not participate if it was incompatible with IIL Retro.	BWC agreed that employers would benefit from allowing salary continuation and an actuarially sound method could be put in place to account for the variance.	Employers will be allowed to pay salary continuation and paid amounts will be excluded from incurred loss totals. Indemnity reserves will still be included in the incurred losses because an employer may return the claim to BWC at any time.
5	4123.17-74	Preliminary Loss Development Factors published by BWC are too high.	Sponsors and TPAs believe that the initial Loss Development Factors published by BWC appeared inflated.	BWC intended these as draft and will undergo a thorough analysis to verify their adequacy.	BWC is having Deloitte verify the LDFs completed by Oliver Wyman. Various methodologies are being used to cross-check.

DRAFT

Premium Size A

Premium Size	Total Deductible				Total Deductible Limited Aggregate			
	25,000	50,000	100,000	200,000	25,000	50,000	100,000	200,000
62,500	41%	53%	65%	77%	41%	53%	65%	77%
75,000	41%	53%	65%	77%	40%	53%	65%	77%
100,000	41%	53%	65%	77%	38%	52%	65%	77%
125,000	41%	53%	65%	77%	36%	51%	65%	77%
150,000	41%	53%	65%	77%	34%	50%	65%	77%
175,000	41%	53%	65%	77%	31%	48%	64%	77%
200,000	41%	53%	65%	77%	28%	45%	63%	77%
250,000	41%	53%	65%	77%	23%	40%	59%	76%
300,000	41%	53%	65%	77%	21%	38%	58%	75%
400,000	41%	53%	65%	77%	16%	30%	51%	72%
500,000	41%	53%	65%	77%	13%	25%	45%	68%
600,000	41%	53%	65%	77%	11%	21%	40%	65%
700,000	41%	53%	65%	77%	10%	19%	35%	61%
800,000	41%	53%	65%	77%	8%	16%	31%	56%
900,000	41%	53%	65%	77%	8%	15%	28%	52%
1,000,000	41%	53%	65%	77%	7%	14%	26%	48%

Premium Size B

Premium Size	Total Deductible				Total Deductible Limited Aggregate			
	25,000	50,000	100,000	200,000	25,000	50,000	100,000	200,000
62,500	32%	44%	57%	71%	32%	44%	57%	71%
75,000	32%	44%	57%	71%	32%	44%	57%	71%
100,000	32%	44%	57%	71%	32%	44%	57%	71%
125,000	32%	44%	57%	71%	31%	44%	57%	71%
150,000	32%	44%	57%	71%	29%	43%	57%	71%
175,000	32%	44%	57%	71%	26%	40%	56%	71%
200,000	32%	44%	57%	71%	24%	39%	55%	70%
250,000	32%	44%	57%	71%	22%	37%	53%	69%
300,000	32%	44%	57%	71%	19%	34%	51%	68%
400,000	32%	44%	57%	71%	17%	30%	49%	67%
500,000	32%	44%	57%	71%	13%	24%	42%	63%
600,000	32%	44%	57%	71%	11%	21%	37%	60%
700,000	32%	44%	57%	71%	9%	17%	33%	55%
800,000	32%	44%	57%	71%	8%	15%	29%	51%
900,000	32%	44%	57%	71%	7%	14%	26%	48%
1,000,000	32%	44%	57%	71%	6%	12%	22%	42%

Premium Size C

Premium Size	Total Deductible				Total Deductible Limited Aggregate			
	25,000	50,000	100,000	200,000	25,000	50,000	100,000	200,000
62,500	31%	42%	55%	69%	30%	41%	54%	68%
75,000	31%	42%	55%	69%	29%	41%	54%	68%
100,000	31%	42%	55%	69%	28%	41%	54%	68%
125,000	31%	42%	55%	69%	27%	40%	54%	68%
150,000	31%	42%	55%	69%	25%	39%	53%	68%
175,000	31%	42%	55%	69%	25%	39%	53%	68%
200,000	31%	42%	55%	69%	22%	36%	52%	68%
250,000	31%	42%	55%	69%	19%	34%	51%	67%
300,000	31%	42%	55%	69%	17%	30%	48%	67%
400,000	31%	42%	55%	69%	13%	25%	43%	63%
500,000	31%	42%	55%	69%	11%	21%	38%	60%
600,000	31%	42%	55%	69%	9%	18%	33%	55%
700,000	31%	42%	55%	69%	8%	16%	30%	52%
800,000	31%	42%	55%	69%	8%	15%	28%	50%
900,000	31%	42%	55%	69%	7%	13%	25%	45%
1,000,000	31%	42%	55%	69%	6%	12%	23%	43%

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Premium Size D

Premium Size	Total Deductible 25,000	50,000	100,000	200,000	Total Deductible Limited Aggregate 25,000	50,000	100,000	200,000
62,500	29%	39%	51%	64%	29%	39%	51%	64%
75,000	29%	39%	51%	64%	27%	38%	51%	64%
100,000	29%	39%	51%	64%	27%	38%	50%	63%
125,000	29%	39%	51%	64%	24%	35%	50%	63%
150,000	29%	39%	51%	64%	24%	34%	50%	63%
175,000	29%	39%	51%	64%	23%	34%	50%	63%
200,000	29%	39%	51%	64%	21%	34%	49%	63%
250,000	29%	39%	51%	64%	18%	32%	47%	63%
300,000	29%	39%	51%	64%	16%	29%	46%	63%
400,000	29%	39%	51%	64%	13%	24%	41%	60%
500,000	29%	39%	51%	64%	10%	20%	36%	56%
600,000	29%	39%	51%	64%	9%	17%	32%	52%
700,000	29%	39%	51%	64%	8%	15%	29%	50%
800,000	29%	39%	51%	64%	7%	14%	26%	46%
900,000	29%	39%	51%	64%	7%	13%	25%	44%
1,000,000	29%	39%	51%	64%	6%	12%	23%	42%

Premium Size E

Premium Size	Total Deductible 25,000	50,000	100,000	200,000	Total Deductible Limited Aggregate 25,000	50,000	100,000	200,000
62,500	22%	32%	43%	56%	22%	32%	43%	56%
75,000	22%	32%	43%	56%	22%	32%	43%	56%
100,000	22%	32%	43%	56%	22%	32%	43%	56%
125,000	22%	32%	43%	56%	21%	31%	42%	56%
150,000	22%	32%	43%	56%	20%	29%	41%	55%
175,000	22%	32%	43%	56%	19%	29%	41%	55%
200,000	22%	32%	43%	56%	18%	29%	41%	55%
250,000	22%	32%	43%	56%	16%	26%	39%	53%
300,000	22%	32%	43%	56%	14%	24%	38%	53%
400,000	22%	32%	43%	56%	12%	21%	35%	51%
500,000	22%	32%	43%	56%	10%	19%	32%	49%
600,000	22%	32%	43%	56%	9%	17%	30%	47%
700,000	22%	32%	43%	56%	8%	15%	27%	45%
800,000	22%	32%	43%	56%	7%	13%	25%	42%
900,000	22%	32%	43%	56%	6%	13%	24%	41%
1,000,000	22%	32%	43%	56%	6%	12%	22%	39%

Premium Size F

Premium Size	Total Deductible 25,000	50,000	100,000	200,000	Total Deductible Limited Aggregate 25,000	50,000	100,000	200,000
62,500	20%	28%	39%	52%	19%	28%	39%	52%
75,000	20%	28%	39%	52%	19%	28%	39%	52%
100,000	20%	28%	39%	52%	19%	28%	39%	52%
125,000	20%	28%	39%	52%	19%	28%	39%	52%
150,000	20%	28%	39%	52%	19%	28%	39%	52%
175,000	20%	28%	39%	52%	18%	27%	39%	52%
200,000	20%	28%	39%	52%	17%	27%	39%	52%
250,000	20%	28%	39%	52%	16%	26%	38%	51%
300,000	20%	28%	39%	52%	15%	25%	37%	51%
400,000	20%	28%	39%	52%	13%	22%	35%	50%
500,000	20%	28%	39%	52%	11%	20%	33%	49%
600,000	20%	28%	39%	52%	10%	19%	32%	48%
700,000	20%	28%	39%	52%	9%	17%	30%	46%
800,000	20%	28%	39%	52%	9%	16%	28%	45%
900,000	20%	28%	39%	52%	8%	16%	28%	45%
1,000,000	20%	28%	39%	52%	8%	15%	27%	44%

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Premium Size	Total Deductible				Total Deductible Limited Aggregate			
	25,000	50,000	100,000	200,000	25,000	50,000	100,000	200,000
62,500	16%	23%	32%	44%	16%	23%	32%	44%
75,000	16%	23%	32%	44%	16%	23%	32%	44%
100,000	16%	23%	32%	44%	15%	23%	32%	44%
125,000	16%	23%	32%	44%	15%	23%	32%	44%
150,000	16%	23%	32%	44%	14%	23%	32%	43%
175,000	16%	23%	32%	44%	14%	23%	32%	43%
200,000	16%	23%	32%	44%	14%	22%	31%	43%
250,000	16%	23%	32%	44%	13%	21%	31%	43%
300,000	16%	23%	32%	44%	13%	21%	31%	43%
400,000	16%	23%	32%	44%	11%	19%	29%	42%
500,000	16%	23%	32%	44%	11%	18%	29%	42%
600,000	16%	23%	32%	44%	10%	17%	27%	41%
700,000	16%	23%	32%	44%	9%	17%	27%	40%
800,000	16%	23%	32%	44%	9%	16%	26%	40%
900,000	16%	23%	32%	44%	9%	16%	26%	40%
1,000,000	16%	23%	32%	44%	9%	16%	26%	40%

Actuarial Committee Meeting

Wednesday, December 16

Review

Last time we learned:

1. A loss reserve is an estimate of the remaining amount to be paid on a claim or group of claims.
2. We’re carrying a discounted reserve of $19.2 billion in the financial statement on a nominal reserve estimate of $33.7 billion.
3. We demonstrated the development on a hypothetical claim from a cut finger through to spousal benefits.
4. We learned how data is organized into loss triangles.

Preview

Today we will talk about:

1. How to calculate age-to-age factors
2. How our measurement of loss development leads to a reserve estimate
3. Judgment involved in selecting age-to-age factors
4. Alternatives to the loss development method

Data in Loss Triangles

Below is a hypothetical medical triangle.

Hypothetical Medical Triangle (000's omitted)

Accident Year	6	18	30	42	54	66	78	90	102
	Age in Months								
2000	19,313	139,060	87,371	48,136	37,794	32,528	29,877	25,598	22,222
2001	22,122	140,811	86,696	47,426	36,766	34,343	30,474	25,528	
2002	19,848	129,884	73,213	41,487	33,837	28,370	22,750		
2003	22,360	130,719	79,940	47,148	36,236	29,396			
2004	25,939	167,356	109,124	61,422	46,856				
2005	25,168	185,607	119,143	67,017					
2006	27,347	180,047	111,481						
2007	26,219	154,535							
2008	34,162								

Triangle Analysis

The goal of a triangular analysis is to project all of the future payments for each accident year. After projecting the future payments for each accident year at each age, we can sum them to get a total reserve.

Hypothetical Medical Triangle (000's omitted)

Accident	Age in Months								
Year	6	18	30	42	54	66	78	90	102
2000	19,313	139,060	87,371	48,136	37,794	32,528	29,877	25,598	22,222
2001	22,122	140,811	86,696	47,426	36,766	34,343	30,474	25,528	22,162
2002	19,848	129,884	73,213	41,487	33,837	28,370	22,750	19,275	16,733
2003	22,360	130,719	79,940	47,148	36,236	29,396	25,553	21,649	18,794
2004	25,939	167,356	109,124	61,422	46,856	40,348	35,073	29,715	25,796
2005	25,168	185,607	119,143	67,017	52,373	45,099	39,202	33,214	28,834
2006	27,347	180,047	111,481	62,797	49,075	42,259	36,734	31,122	27,018
2007	26,219	154,535	95,643	53,875	42,102	36,255	31,515	26,700	23,179
2008	34,162	223,168	138,120	77,802	60,801	52,357	45,511	38,558	33,474

Age to Age Factors

To estimate these future payments, we look at the historical relationship between payments in successive development ages. These are referred to as “Age-To-Age Factors”.

An Age-To-Age factor is the ratio of payments in one development period to payments in the prior development period.

(000's omitted)

Accident Year	Age in Months 6	18	ATA Factor = Paid at 18 mo's / Paid at 6 mo's	
2000	19,313	139,060	7.200	
2001	22,122	140,811	6.365	
2002	19,848	129,884	6.544 = 129,884 / 19,848	
2003	22,360	130,719	5.846	
2004	25,939	167,356	6.452	
2005	25,168	185,607	7.375	
2006	27,347	180,047	6.584	Projected 2008 paid at 18 mo's
2007	26,219	154,535	5.894	= 6.533 * 34,162
2008	34,162		**6.533 Selected**	=223,168

Age to Age Factors (cont)

We calculate an age to age factor for every pair of successive development ages. Dividing each pair of successive payments gives us a triangle of age to age factors, which we use to select the relationships we believe will hold in the future. Typically the selected relationship is based on an average of past relationships, unless there's a specific reason to believe that these past relationships will change.

Accident				Age in Months				
Year	6:18	18:30	30:42	42:54	54:66	66:78	78:90	90:102
2000	7.200	0.628	0.551	0.785	0.861	0.919	0.857	0.868
2001	6.365	0.616	0.547	0.775	0.934	0.887	0.838	
2002	6.544	0.564	0.567	0.816	0.838	0.802		
2003	5.846	0.612	0.590	0.769	0.811			
2004	6.452	0.652	0.563	0.763				
2005	7.375	0.642	0.562					
2006	6.584	0.619						
2007	5.894							
Average	6.533	0.619	0.563	0.781	0.861	0.869	0.847	0.868

Loss Projections

Once we have selected our Age to Age factors, we can project future losses.

Hypothetical Medical Triangle (000's omitted)

Accident Year	6	18	30	42		
	Age in Months					
2000	19,313	139,060	87,371	48,136		
2001	22,122	140,811	86,696	47,426		
2002	19,848	129,884	73,213	41,487		
2003	22,360	130,719	79,940	47,148		
2004	25,939	167,356	109,124	61,422		
2005	25,168	185,607	119,143	67,017		
2006	27,347	180,047	111,481	62,797	62,797 = 111,481 * 0.563	
2007	26,219	154,535	95,643	53,875	95,643 = 154,535 * 0.619	53,875 = 95,643 * 0.563
2008	34,162	223,168	138,120	77,802	223,168 = 34,162 * 6.533	138,120 = 223,168 * 0.619
					77,802 = 138,120 * 0.563	
ATA	6.533	0.619	0.563			

Loss Projections (cont)

Hypothetical Medical Triangle (000's omitted)

Accident Year	Age in Months 6	18	30	42	54	66	78	90	102
2000	19,313	139,060	87,371	48,136	37,794	32,528	29,877	25,598	22,222
2001	22,122	140,811	86,696	47,426	36,766	34,343	30,474	25,528	22,162
2002	19,848	129,884	73,213	41,487	33,837	28,370	22,750	19,275	16,733
2003	22,360	130,719	79,940	47,148	36,236	29,396	25,553	21,649	18,794
2004	25,939	167,356	109,124	61,422	46,856	40,348	35,073	29,715	25,796
2005	25,168	185,607	119,143	67,017	52,373	45,099	39,202	33,214	28,834
2006	27,347	180,047	111,481	62,797	49,075	42,259	36,734	31,122	27,018
2007	26,219	154,535	95,643	53,875	42,102	36,255	31,515	26,700	23,179
2008	34,162	223,168	138,120	77,802	60,801	52,357	45,511	38,558	33,474

Loss Projections (cont)

- The goal of loss development is to estimate the expected amount of future loss payments.
- Loss development estimates are uncertain. When you compare projected payments to actual payments, you can see that our projections are clearly estimates.

Projection for Calendar Year 2009 (000's omitted)

Accident Year	Projected	Actual	Actual - Projected Difference
2001	22,162	23,095	934
2002	19,275	19,381	106
2003	25,553	23,319	-2,234
2004	40,348	40,021	-327
2005	52,373	52,057	-315
2006	62,797	62,800	3
2007	95,643	93,254	-2,389
2008	223,168	217,956	-5,212
Total	541,317	531,884	-9,434
Total ex 2008	318,150	313,928	-4,222

Judgment in Loss Development

- When selecting age to age factors, it is important to keep in mind that we’re trying to select relationships that will exist in the future.
- We only use an average if we expect that <u>all</u> of the historical data is representative of the future development.
- However, there are many reasons one might select something other than an average.

Possible Reasons Not to Use an Average

1. Extraordinary losses that are unlikely to be repeated
2. Changes in the rate of claim payments
3. Changes in benefit structure due to new laws or court decisions
4. Changes in the mix of business

A Closer Look

When we take a closer look at the historical ATA factors from our hypothetical triangle, we see that calendar year 2005 has the highest ATA factor for all development ages.

Accident				Age in Months				
Year	6:18	18:30	30:42	42:54	54:66	66:78	78:90	90:102
2000	7.200	0.628	0.551	0.785	0.861	0.919	0.857	0.868
2001	6.365	0.616	0.547	0.775	0.934	0.887	0.838	
2002	6.544	0.564	0.567	0.816	0.838	0.802		
2003	5.846	0.612	0.590	0.769	0.811			
2004	6.452	0.652	0.563	0.763				
2005	7.375	0.642	0.562					
2006	6.584	0.619						
2007	5.894							

Selections Using Judgment

In our hypothetical triangle, assume that the higher calendar year 2005 development factors were due to an inflation spike that is unlikely to occur again. Therefore, we remove them from the average.

Accident				Age in Months				
Year	6:18	18:30	30:42	42:54	54:66	66:78	78:90	90:102
2000	7.200	0.628	0.551	0.785	0.861	~~0.919~~	0.857	0.868
2001	6.365	0.616	0.547	0.775	~~0.934~~	0.887	0.838	
2002	6.544	0.564	0.567	~~0.816~~	0.838	0.802		
2003	5.846	0.612	~~0.590~~	0.769	0.811			
2004	6.452	~~0.652~~	0.563	0.763				
2005	~~7.375~~	0.642	0.562					
2006	6.584	0.619						
2007	5.894							
Initial	6.533	0.619	0.563	0.781	0.861	0.869	0.847	0.868
Excl CY 05	6.412	0.613	0.558	0.773	0.837	0.845	0.847	0.868

Selections Using Judgment (cont)

- When we exclude the inflated historical points from the average, our estimate becomes significantly closer to actual results.

Projection for Calendar Year 2009 (000's omitted)

Accident Year	Initial Projected	New Projected	Actual	Actual - New Difference	Actual - Initial Difference
2001	22,162	22,162	23,095	934	934
2002	19,275	19,275	19,381	106	106
2003	25,553	24,829	23,319	-1,510	-2,234
2004	40,348	39,208	40,021	813	-327
2005	52,373	51,801	52,057	256	-315
2006	62,797	62,206	62,800	594	3
2007	95,643	94,789	93,254	-1,535	-2,389
2008	223,168	219,058	217,956	-1,102	-5,212
Total	541,317	533,327	531,884	-1,443	-9,434
Total ex 2008	318,150	314,270	313,928	-342	-4,222

Selections Using Judgment (cont)

- It's not just 1 year that we're projecting. Below are the projections out to age 102 months under the initial and the new age-to-age factor selections. In reality, we project them out to ultimate, at which point payments have ceased.

Projection to Age 102 Months / 8.5 Years (000's omitted)

Accident Year	Initial Projected	New Projected	Absolute Difference	Percent Difference
2001	22,162	22,162	0	0.0%
2002	36,007	36,007	0	0.0%
2003	65,996	64,127	-1,870	-2.8%
2004	130,931	124,739	-6,192	-4.7%
2005	198,722	189,706	-9,016	-4.5%
2006	249,004	238,292	-10,711	-4.3%
2007	309,269	297,401	-11,868	-3.8%
2008	669,791	640,632	-29,159	-4.4%
Total	1,681,882	1,613,066	-68,816	-4.1%
Total ex 2008	1,012,091	972,434	-39,657	-3.9%

Alternative Reserving Methods

Loss Development Method Weakness	Alternative
Cannot be used where data doesn't exist, in particular, for the tail liability.	Extrapolation methods to project age to age factors themselves.
The least mature years have very high development factors, and are very sensitive to early payment amounts.	Bornhuetter-Ferguson (BF) method relies on historical loss ratios to estimate the unpaid liability in the current year.
If historical trends and relationships are likely to change in the future, the loss development method can't adjust for this.	The persistency method removes the medical trend from the data and replaces it with an explicit trend assumption.

BWC Board of Directors
Actuarial Committee
CAO Report
John Pedrick, Chief Actuarial Officer
December 16, 2009

During this month's meeting, we'll continue two discussions. First, Joy Bush, Director of Program Development introduced the large deductible program during the last meeting. During this month's meeting we will continue to discuss this program and introduce the new incurred loss retrospective rating program for individual employers. Second, Jon Turnes, Reserving Actuary, will continue the discussion of reserves, aimed at developing an appreciation for some of the major assumptions, needs, and approaches that actuaries use to estimate future claim costs. A central principle of determining loss reserves is that they are estimates of unpaid amounts for workplace injuries and illnesses that have already occurred. The actual amounts paid over future decades will differ from estimates we develop today.

We have been busy addressing several legislative issues. The first is Senate Bill 213, which would prohibit the break-even factor, delay changes in the group rating program for two years, require all discount programs to be approved ten months ahead of time and require a study of BWC's rate structure. On December 8, 2009, we testified to the Senate Insurance, Commerce and Labor Committee about the problems with this legislation. The testimony is attached at the end of this report. The Workers' Compensation Council (WCC) staff is analyzing the bill, which will require an actuarial analysis under Revised Code § 4123.125.

House Bill 259 changes the standards for BWC investments. We sent a letter to the WCC stating that any future restrictions on investments allowed could reduce investment returns and could then present upward pressure on rates. Since it is not clear whether this bill has a measurable financial impact on the system, no actuarial analysis is contemplated at this time.

Senate Bill 94 would create a rebuttable presumption that certain diseases contracted by firefighters, police, and other safety personnel are job related and covered by BWC. We have instructed Deloitte Consulting to look into the cost implications and have advised the WCC that we are studying this legislation and that we recognize we are past the deadline under the revised code for an actuarial analysis. The bill was initially introduced in April 2009. We sent a letter to the WCC about the status of our work.

Further details and current timelines for our various projects follow.

Comprehensive Plan Implementation

1. Communications/Group Structure and Governance Team

Jeremy Jackson		
Task/Function	**Timeline**	**Status**
Communications, Outreach	8/1/2008 start	Ongoing
PEC and PA group rating structure	1/1/2009 start	Ongoing
Split Plan Discussions	Late 2009	Ongoing
Targeted Employer Communications	8/1/2008 start	Ongoing

2. Capping/Split Plan Team

Terry Potts and Paul Flowers		
Task/Function	**Timeline**	**Status**
Capping strategy for PA employers effective	July 1, 2009	Completed
Capping strategy and Group Break Even Factor for PEC employers effective	January 1, 2010	Completed
Rating strategies for PA employers effective July, 2010	October, 2009	Completed
Split Plan parameters decided	Fall, 2009	In-Progress
Split plan development	September, 2009 to July, 2010	In-Progress
Split Plan implementation	July 1, 2011	

- The split plan development is continuing among actuarial and IT staff to determine the parameters of the split plan and the programming requirements. Analysis continues to determine the appropriate split points.
- BWC staff continues to evaluate options for group rating for the 7/1/2011 rating period and has brought Deloitte into the discussions.

3. New Products

Joy Bush and Jamey Fauque, Centric Consulting		
Task/Function	**Timeline**	**Status**
Small Deductible Plan Implemented	July, 2009	Completed
Group Retro Program Implemented	July, 2009	Completed
Research and Development of employer programs	Fall, 2009	In-Progress

- The large deductible program was presented at the November, 2009 actuarial committee meeting and is on the agenda for discussion in December and a potential vote in January.
- The new Individual Incurred Loss Retro program will be presented at the December meeting with potential action in January.

1/1/2010 Public Employer Taxing Districts (PEC) Rates

Task/Function	Timeline	Status
Public Employer Taxing District Rates	July 2009 to November 2009	In progress
Summary Payroll	July – August 2009	Completed
Summary Losses	August – September 2009	Completed
Rate Calculations	September 2009 to November 2009	Completed
Rate recommendation received from Oliver Wyman	July 30, 2009	Completed
Rate decision from WCB	September 2009	Completed
Final Rates to WCB	November 2009	Completed
Mailing of Employer Rate Letters	December 2009	In Progress

Deloitte Consulting Preparation

- The BWC is meeting with Deloitte on December 16th and 17th. The topics will include the initial reserve estimates, the private employer and public employer municipalities rate indications and group rating.
- The BWC has been placing information for Deloitte to review on the SharePoint site.
- The BWC continues to transfer data to Deloitte. Recent data transmissions included information on Self-Insuring employers and information to evaluate BWC rating programs.

Comprehensive Study Implementation

- The BWC continues to prioritize, update and implement the recommendations from the comprehensive study.

Testimony to the Ohio Senate Insurance, Commerce and Labor Committee

Regarding Senate Bill 213

by John R. Pedrick, FCAS, MAAA, Chief Actuarial Officer

Ohio Bureau of Workers' Compensation

December 8, 2009

Chairman Buehrer, Vice-chairman Faber, esteemed members of the Insurance, Commerce and Labor Committee, thank you for the opportunity to testify today.

I have grave concerns about Senate Bill 213. This legislation would stop the Bureau of Workers' Compensation from implementing sorely needed improvements designed to impact segments of our employer customer base. Senate Bill 213 would push back the day when Ohio will have stable workers' compensation premium by several years; and would delay economic development in order to preserve the status quo.

I will explain by first describing the system that the Bureau has been diligently building for Ohio. In that system, employers will see stability in their premiums; they will be able to develop business plans that incorporate reasonable estimates of future workers' compensation costs; their businesses will not be devastated by quantum premium jumps due to a single or a few large claims; and they will have greater certainty in their future.

Employers do not have this certainty today. They face the real possibility that their group sponsor will eject them because of a single claim, causing a premium increase of 200% to 300% or more in a single year. One or even a few claims are not a sign of a significant change in risk. Giving an employer a discount of 50% or 70% one year, then taking it away in the next year solely due to a few claims creates instability.

Many group sponsors and third party administrators wrongly suggest that the group rating program that has existed in Ohio since 1991 is based on a concept that any employer who has not presented costs to the State Insurance Fund in the oldest four of the last five calendar years deserves the largest discount afforded by the Bureau, and that these employers don't "use the system." In fact, both group and non-group employers have a comparable volume of claims and use the Bureau's services.

Ohio's group program is not a model used anywhere else in the United States because we do not have a secret for success. The program is widely known and discussed, but only because it does not work and creates instability in the overall workers' compensation system.

The fee to get into a group is usually based on the savings an employer achieves from the large discount afforded to the group – the larger the savings, the larger the fee. This financial incentive has prompted some group sponsors and third party administrators to ask you to force the Bureau to delay the progress we are making in fixing this broken program. It is in these sponsors' financial interest, not that of employers, to maintain the status quo for as long as possible.

Like most property and casualty insurers, the Bureau sets rates in advance of a policy year. It does so using sound actuarial methods for estimating future costs. An insurer must estimate the cost of the risk the employer will present and sets premium rates to match that risk. In workers' compensation the employer's past claim experience is used to tailor rates to the risk it will present during the upcoming policy year. Experience rate adjustments, known as experience modifiers or "EMs," are not designed to punish employers with more claims and to reward those with less, they are designed to adjust the rate to the level of risk an employer presents through a debit or a credit.

House Bill 100 of the 127th General Assembly established a professional board of directors. The eleven individuals include representatives of small employers, large employers, employees, injured workers, and self-insured employers. There are also two investment professionals, an actuary, an accountant, and a public member. All of these individuals were appointed by the Governor with the consent of the Ohio Senate, through this committee and its predecessor. The board meets monthly and carries out in-depth deliberation of issues such as group rating. They ask tough questions, expect thorough answers, and demand professionalism from Bureau staff and consultants. The group rating program has been one of the most discussed and deliberated topics since this board first met in August 2007. The Board analyzed all of the facts and decided that the group program must be fixed. Most recently, it approved the structure for 2010 that Senate Bill 213 would undo.

Previous Bureau administrators recognized that the group program had serious deficiencies and started to reduce group discounts even before this new board was formed. The plan that we are implementing will take several years, with deliberate steps in the transition to a more fair and equitable system. In 2008, the maximum discount fell from 90 percent to 85 percent; in 2009, to 77 percent. In 2010, it will fall to 65 percent. In 2011, we will implement a new experience rating method based on the same approach used in most other states, known as a "split plan." This plan will use factors based on actuarial science and will be held to the highest performance standards. In 2012, the second year with this fair and equitable rate structure, employers will finally see the stability and predictability that they, and the state of Ohio, sorely need. That is when Ohio employers, as well as businesses considering new operations in Ohio, will see our system as an asset that sets this state above others when it comes to workers' compensation.

The plan approved by the Board in October 2009 sets the maximum credibility and the resulting maximum discount for 2010 at 65 percent and includes a factor to set rates for the group program closer to the appropriate level. We call that factor the "break-even factor" because it keeps group rates from dropping as we reduce base rates. With this factor, group rated employers will still underpay premium by $50M. Simply speaking, they use more coverage than they pay for. We expect the reduction in maximum credibility and the new break-even factors to produce an average increase of 9.8 percent for group rated employers. The 2010 plan also includes a drop of 4.7 percent for non-group employers. The combined effect on the entire private employer population is revenue neutral.

However, if Senate Bill 213 becomes law the break-even factor will not be applied. That will result in $135 million less premium from group employers. Since the 2010 plan already sets group premium levels $50 million short of the full target, this would mean that the group rating program will be $185 million short of target.

But the harm from continuing this program goes far beyond financial. The process to select employers for a group roster or to reject them is arbitrary and inequitable. We can safely predict that over 5000 of the employers that sponsors call the best will be rejected next year for bringing claims to the system, yet they were awarded excessive discounts anyway.

Ten separate actuarial studies have described the deficiencies of the group rating program, including the most recent comprehensive independent study required by HB 100 done by Deloitte Consulting LLP. Senate Bill 213 calls for yet another study of the Bureau's rates. Such a study is truly a waste of employer dollars. The need to fix this program has been apparent since it started in 1991, and is long overdue.

Senate Bill 213 will also prevent the Bureau from implementing programs for 2010 that enhance the choices for employers, giving them an array of options so they can pick the one that best fits their business needs. A large deductible program and a new retrospective rating program are in development for next year. We are retooling the drug free workplace program and will implement related discounts for 2010. We are progressing well beyond a one-size-fits-all system.

Prohibiting these needed changes that will improve Ohio's workers' compensation system and set it on a path to stability is short sighted and detrimental to meaningful rate reform.

Thank you again for the opportunity to speak here today.

12 - Month Actuarial Committee Calendar

Date	December 2009	
12/16/2009	1. Large Deductible Plan – 2nd reading	
	2. Individual Incurred Retrospective Rating program – 1st reading	
	3. Reserving educational session	
Date	**January 2010**	
1/28/2010	1. Quarterly Update on the H.B.100 Comprehensive report Deloitte recommendations	
	2. Individual Incurred Retrospective Rating program – 2nd reading	
	3. Group Retrospective Rating Loss Development Factors – 1st reading	
	4. Reserving education session	
Date	**February 2010**	
2/25/2010	1. Quarterly reserve update as of 12/31/09	
Date	**March 2010**	
3/25/2010	1. Private employer rate change indication – 1st reading	
	2. PES Rate indication – 1st reading	
Date	**April 2010**	
4/29/2010	1. Private employer rate change indication – 2nd reading	
	2. PES Rate indication – 2nd reading	
	3. Disabled Workers' Relief Fund and Additional Disabled Workers' Relief Fund Rule 4123-17-29 – 2nd reading	
	4. Marine Industry Fund – Rule 4123-17-19 – 2nd reading	
	5. Coal-Workers' Pneumoconiosis Fund – Rule 4123-17-20 – 2nd reading	
	6. Self-Insured Assessments – Rule 4123-17-32 – 2nd reading	
	7. Quarterly Update on the H.B.100 Comprehensive report Deloitte recommendations	
	8. March 30, 2010 Reserve Estimate	
Date	**May 2010**	
5/27/2010	1. Disabled Workers' Relief Fund and Additional Disabled Workers' Relief Fund Rule 4123-17-29 – 2nd reading	
	2. Marine Industry Fund – Rule 4123-17-19 – 2nd reading	
	3. Coal-Workers' Pneumoconiosis Fund – Rule 4123-17-20 – 1st reading	
	4. Self-Insured Assessments – Rule 4123-17-32 – 1st reading	
	5. Admin Cost Fund – 1st reading	
	6. Quarterly reserve update as of 3/31/10	
Date	**June 2010**	
6/17/2010	1. Admin Cost Fund – 2nd reading - possible vote	
	2. PEC Credibility Table Rule 4123-17-33.1 – 1st reading	
	3. PEC Capping recommendation – 1st reading possible vote	

12 - Month Actuarial Committee Calendar

Date	July 2010	
7/29/2010	1. Reserve Audit as of 6-30-2010	
	2. PA credibility table effective 7-1-2011 – Rule 4123-17-05.1 – 1st reading	
	3. Quarterly Update on the H.B.100 Comprehensive report Deloitte recommendations	
Date	**August 2010**	
8/26/2010	1. Reserve Audit update	
	2. Public Employer Taxing Districts rate change – 1st reading	
	3. PA credibility table effective 7-1-2011 – Rule 4123-17-05.1 – 2nd reading	
Date	**September 2010**	
Date	**October 2010**	