BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

THURSDAY, September 24, 2009, 12:30 P.M.
WILLIAM GREEN BUILDING
30 WEST SPRING ST.2ND FLOOR (MEZZANINE)
COLUMBUS, Ohio 43215

MEMBERS PRESENT:	Charles Bryan, Chair Jim Matesich, Vice Chair David Caldwell James Hummel Thomas Pitts William Lhota, ex officio
Members Absent:	None
Other Directors Present:	Alison Falls, James Harris, Larry Price, & Robert Smith
Counsel present:	James Barnes, Chief Legal Officer

CALL TO ORDER
Mr. Bryan called the meeting to order at 12:35 p.m. and the roll call was taken. All members were present.

MINUTES OF AUGUST 27, 2009
Mr. Matesich requested that on page 2, paragraph 5, line 1, "data" be substituted for "date."

Mr. Caldwell moved to approve the minutes of August 27, 2009, as amended. Mr. Hummel seconded and the amended minutes were approved by a roll call vote of six ayes and no nays.

AGENDA
Mr. Hummel moved to adopt the agenda as submitted. Mr. Pitts seconded and the motion was approved by a roll call vote of six ayes and no nays.

NEW BUSINESS/ ACTION ITEMS

RULES FOR FIRST READING

SAFETY & HYGIENE, OHIO ADMINISTRATIVE CODE RULE 4123-17-37

Tracy Valentino, Chief, Fiscal and Planning, introduced Paula Phillips, Director, Fiscal Operations. She has been with BWC Finance for twenty-seven years. She is a CPA and supervises the administrative budget and rate-setting for the Administrative Cost Fund (ACF).

Ms. Phillips recommended amendment of Ohio Administrative Code Rule 4123-17-37 to lower the safety and hygiene assessment for public employer taxing districts from 1 percent to 0.5 percent. Using the same method as calculating the ACF assessment in the annual review of the budget, Safety and Hygiene Division staff reviewed data on services provided to the employer groups. Contributions were in excess of the budget for this particular group and there is a significant balance available to support a reduction in the rate without compromising services. The recommendation has been reviewed and approved by the Chief of Employer Services and Superintendent of Safety and Hygiene. The rate change will yield $1.4 million in assessments and fund all current services.

Mr. Matesich asked if current services are adequate to improve safety for public employers. Ms. Phillips reported that the Safety and Hygiene is in review of all its services. The Superintendent assures that the reduction in the rate will not reduce the availability of services.

Mr. Harris asked if the reduction will affect funding of the state Occupational Safety and Health (OSHA) program. Ms. Phillips replied that the funding will continue, with BWC providing 10 percent of the cost.

Mr. Hummel asked if utilization of services declined in recent years. Ms. Phillips replied she was not aware of a reduction and will research it for the Actuarial Committee. Marsha Ryan, BWC Administrator, added that the Fiscal Division is doing more to accurately evaluate assessment rates for the programs which they fund.

Ms. Falls asked if there will be consideration of adjustment of other assessments. Mr. Bryan stated that this issue would be a topic of future discussions.

Mr. Bryan asked what the impact would be for a reduction of the assessment for public employer taxing districts (PECs). John Pedrick, Chief Actuarial Officer, replied that reduction to 0.5 percent would have negligible impact on the overall rate indication. Mr. Bryan requested that the actuarial indication be calculated using this revised figure to document the small impact it will have.

Mr. Bryan also asked if the 1 percent rate for private employers is consistent with this reduction to .5% for PECs. Ms. Phillips replied that there are many factors included in the calculation. There are only 3,800 taxing districts. Also, the data shows BWC conducts more activity on behalf of private employers. Ms. Valentino added that the calculation uses the volume of services provided to each employer group. Ms. Ryan added that private employers engage in many more different kinds of services than do public employers.

Mr. Harris commended BWC for measuring utilization by public employers and suggesting a lower rate. Mr. Pedrick added that the average premium for taxing districts is much larger than for private employers.

RULES FOR SECOND READING

PUBLIC EMPLOYER TAXING DISTRICTS RATE CHANGE

Mr. Pedrick recommended approval of a 17 percent reduction in rates for public employer taxing districts. Reports in support of the recommendation include his memo to Ms. Ryan of August 14, 2009; a memo to Director Bryan showing amended figures dated August 25; the executive summary; the rate level indication analysis by Oliver Wyman Consulting; a table comparing preliminary proposed rates to current rates; a PowerPoint presentation which he will use to facilitate the discussion; a draft of rule 4123-17-64.2 showing the proposed break-even factors; and an exhibit of historical rate changes and their associated actuarial indications.

Mr. Pedrick reported that non-group employers will benefit from the full rate reduction, while a rate reduction for group-experience rated employers will be limited by the break-even factor. The number of public employer claims has declined per $1 million of payroll since 1997, while the discounted average claim costs per ultimate PEC lost time claim has increased. Payrolls have also increased. The combined frequency, severity, and payroll trends are reflected in a slightly rising loss cost trend. Nevertheless, a reduction is warranted because loss costs for all years are lower due to the reduced medical inflation trends in the annual reserve analysis – the actuarial audit. Slide 6 demonstrates this graphically.BWC will be able to achieve rate equity with a unified off-balance factor of 1.01; credibility table change to a maximum credit of 77 percent (the same as private employers); and the group break-even factor by experience modification ranges. The current off-balance factors range from .998 for transit authorities to 1.693 for villages. This approach improves rate equity and will allow group formation at all discount levels. The impact of rate reform will reduce rates for non-group employers by 24.6 percent; rates for group employers will fall by 4.7 percent, and retrospectively rated employers' rates will be reduced by 21.3 percent.

Mr. Bryan asked which of these segments will have actuarially sound rates. Mr. Pedrick replied that non-group employers will have rates that reflect their risk; retrospectively rated employers will also have cost aligned with risk; and group employers in total will have actuarially sound rates, but within that segment there is additional work to fully achieve actuarial soundness. Overall, the change will achieve equity between group and non-group employers.

Mr. Hummel asked how many public employer taxing districts are in group. Mr. Pedrick replied that about one third of the premium for these public employers is in the group program, but he did not have employer counts at hand.

Mr. Harris asked what contract coverage is. Mr. Pedrick replied it is coverage for volunteer fire and safety forces. Mr. Smith asked what PWRE is. Elizabeth Bravender, Actuarial Director, replied it is the rate paid for Public Employer Work Relief claims.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation concerning the public employer taxing district employer premium rates effective January 1, 2010. The resolution consents to the Administrator fixing public employer taxing district employer rates to achieve an overall decrease of seventeen percent in the total collectible premium from the previous year, and consents to the Administrator preparing rate rules consistent with this policy. Mr. Hummel seconded and the motion was approved by a roll call vote of six ayes and no nays.

PUBLIC EMPLOYER RETROSPECTIVE RATING, OHIO ADMINISTRATIVE CODE RULES 4123-17-42 & 4123-17-42.1

Ms. Kielmeyer recommended amendment of Ohio Administrative Code Rule 4123-17-42 and adopting of Ohio Administrative Code Rule 4123-17-42.1 regarding separate retrospective rating programs for private and public employers. Ms. Ryan added that since the first reading of the rule at the August meeting, BWC consulted with additional stakeholders who are retrospectively rated.

Ms. Kielmeyer reported that an employer suggested qualifying the requirement concerning disputed audit findings. BWC agreed with that recommendation and so changed both rules. Another employer suggested modification of the requirement concerning recent drastic changes in additional debt so increases are always considered concurrent with drastic decreasing revenue. Ms. Valentino reported that BWC did not recommend a change because a drastic increase in additional debt should be one factor when looking at all financial factors. Ms. Kielmeyer reported that another employer requested definition of approved safety programs. BWC determined that the retro rating program does not stipulate a specific program and BWC will evaluate each plan based on the unique needs of the employer. Finally, one employer suggested that Tier II plan employers be able to submit reviewed financial statements instead of GAAP type financial statements. BWC agreed with that change.

Nevertheless, Ms. Kielmeyer reported that other suggestions reported last month did not result in changes. BWC will still require no more than fifteen days of lapse in five years, versus forty days for other BWC programs, because lapse requirements for retro employers should be more stringent.

Mr. Pitts moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendations to amend Rule 4123-17-42 and to adopt new Rule 4123-17-42.1 of the Administrative Code, relating to public employer taxing district eligibility for retrospective rating. The motion consents to the Administrator amending and adopting the rules as presented here today. Mr. Caldwell seconded and the motion was approved by a roll call vote of six ayes and no nays.

COMPREHENSIVE RATE REFORM

Mr. Bryan noted the distribution of a letter to Mr. Lhota from a coalition of group sponsors and others concerning rate reform. There would be no specific reference to the letter unless directors raised issues.

Ray Mazzotta, Chief Operating Officer joined Mr. Pedrick for the discussion with the committee. Mr. Pedrick recommended approval of three rule amendments for private employers at today's meeting: a credibility table with a lower maximum credibility factor of 65 percent, Ohio Administrative Code Rule 4123-17-05.1, which is a second reading; a break-even factor rule with a table of factors rather than a single factor, Ohio Administrative Code Rule 4123-17-64.1, which is a first reading; and group marketing changes, Ohio Administrative Code Rule 4123-17-61.1, which is also a first reading. BWC requests approval of all three and a waiver of the second reading for the second and third rule amendments.

Mr. Pedrick reviewed changes implemented by the Workers' Compensation Board for the policy year beginning July 1, 2009. BWC has reduced the maximum credibility to 77 percent; implemented a single break-even factor of 1.311 (he noted that slide number 3 in the PowerPoint presentation mentions stratified break-even factors in error); and adopted a standardized off-balance factor at 1.23. BWC projected that this change would result in non-group employers paying rates that reflect their risk and they would receive an average base rate decrease of 25.3 percent. The actual result was twofold. First, rates went into effect that are no longer affected by group discounts and that lowered rates for non-group employers by 25.2 percent. Second, those employers not in groups for the 2008 policy year that joined groups for the 2009 policy year managed to get an average decrease of 60.5 percent.

Mr. Bryan asked if the 60.5 percent decrease was expected. Mr. Pedrick replied that a decrease was expected, but the amount had not been quantified prior to beginning of the group policy year.

Mr. Pedrick continued to report that the projected impact of rate reform for group employers was to move these employers closer to their rate level target and receive an average premium increase of 9.6 percent. However, the actual impact was that rates for those in group in both years increased by 11.3 percent and those who left groups received an average premium increase of 15.0 percent. He stated that it would take tremendous effort and resources to model the impact of the group formation process. The principle reason is that BWC cannot predict who is offered group rating status by sponsors and who is rejected from groups. The projected rate change for all employers was a decrease of 12 percent, whereas the actual decrease achieved is expected to be 13.3 percent.

Mr. Bryan asked if group membership should not enhance safety and claims management. Mr. Pedrick replied that group membership is excellent in reducing premiums. Nevertheless, the loss ratios are worse every year. Losses may be less, but the price of group premiums is inadequate to pay the cost of claims.

Mr. Smith asked if stakeholders realize this problem. Mr. Pedrick replied that some do, but many say they do not. BWC met weekly, sometimes twice a week, with group sponsors and third party administrators since June. The meetings were meant to hammer out a long-term solution to the poor performance of the group rating program. However, discussions often centered on the rebuttal of flawed, in the staff's view, analyses presented by those stakeholders who claimed that the need for further reform is not clear. In these meetings staff painstakingly reviewed analyses done by our actuarial staff and consultants showing that we have much more to do to achieve equity. BWC showed that loss ratios for the group program in total and by group are often far higher than those not in groups. One exhibit shows that several sponsors bring consistently high loss ratios every year. Some sponsors bring low loss ratios, but they sponsor smaller specialized groups. This exhibit was also discussed with the sponsor/TPA coalition. In fact, the letter from the coalition is from sponsors who generally have consistently high loss ratios.

Mr. Price observed that the coalition is composed of those who prefer the status quo for those who have paid a certain rate over the years and do not want a raise.

Mr. Lhota requested that copies of the loss-ratios graph be distributed at the meeting to all directors. Mr. Mazzotta added that this was not new information, but the table puts the focus on group sponsors.

Mr. Hummel stated that he understood that the change of credibility to a maximum of 0.65 would provide equity. Mr. Pedrick replied that the change in credibility alone is will not solve this problem as long as group membership can change each year, facilitating the avoidance of claims in group employers' experience.

Mr. Hummel asked if a maximum credibility of 65 percent is enough. Mr. Pedrick replied that 65 percent brings rate equity closer, but is not the final solution. Actuarial studies of the group program have indicated that the maximum credibility for groups should be in the mid 50's along with rules to keep each group's membership constant over many years.

Mr. Harris asked how many employers achieved the 60.5 percent reduction. Mr. Pedrick replied that 7,500 employers were able to meet that reduction.

Mr. Pedrick further reported that the goals for 2010 are to continue providing accurate, equitable rates for non-group employers and move group employers closer to the rate that reflects the risk they bring to system. Getting the rate relativity for group employers to 0.8 is the correct target; however, there has been a significant pushback when attempting to achieve that goal. The changes implemented in 2009 created more equity. BWC proposes to target the group relativity at 0.71 for 2010, the same target as 2009. The proposed table of break-even factors is expected to do this, but BWC must retain flexibility to modify the break-even factor after group formation if necessary to hit this target.

Mr. Bryan asked whether it was necessary to pass all three rule amendments at this meeting. Mr. Pedrick replied if the Actuarial Committee could not pass all three rules, he would prefer the marketing rule, Ohio Administrative Code Rule 4123-16-61.1. However, group sponsors will not have accurate information to provide employers until all three are approved. The time is short for filing group rosters.

Mr. Matesich stated that he did not perceive the wisdom of fixing the break-even factor and the credibility table now if they are changed later. Mr. Pedrick replied that BWC does not anticipate that the break-even factor or credibility table will change at all. Nevertheless, BWC needs discretion to change these after the group filing deadline. If BWC were use a table with an average break-even factor of 1.275, it is unlikely to have to change it later.

Mr. Smith stated that the flexibility to change the break-even factor and credibility table levels the playing field. Any later change will affect all employers.

Ms. Falls asked if changes are made by BWC later, will employers be less likely to regret their choice, or is it a cost for everyone? Mr. Pedrick replied that BWC does not anticipate a change but will recommend one if it is needed. Mr. Mazzotta added that BWC had analyzed the need for a change last year after the group filing deadline, but decided it was not necessary. BWC wishes to retain the right to change but will only recommend a change if absolutely necessary.

Mr. Harris asked what is the downside of making a change in the break-even factor and credibility table and then staying with that change after groups are formed. Mr. Mazzotta replied BWC cannot predict how many employers enter or leave groups in any given year. So BWC has proposed a stratified break-even factor. Ms. Ryan added use of the break-even factor is expected to decline in the future.

Mr. Pitts asked why are the loss ratios of group employers higher. Mr. Pedrick replied it is the sponsors' discretion to add and reject employers. Sponsors work to reduce severity, but do not reduce frequency. As a result, their claim costs are much higher than their premium implies. Mr. Pitts asked whether this encouraged employers to contest legitimate claims. Mr. Pedrick replied he could not speak to that issue.

Mr. Pedrick reported that as the third part of reform, BWC will add three levels to the credibility table for employers who fall below the $8,000 minimum qualification level. Sponsors requested a level playing field for marketing group discounts for the July 1, 2010 policy year. The marketing rule change will include the effect of the break-even factor and credibility table changes.

Mr. Bryan asked if there were any objections to waiving the second reading on the marketing rule and approving the recommendation of BWC. Hearing none, he requested a motion.

Mr. Pitts moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-17-61.1, sponsorship certification requirements. The motion consents to the Administrator amending Rule 4123-17-61.1 as presented here today. Mr. Hummel seconded and the motion was approved by a roll call vote of six ayes and no nays.

Mr. Bryan asked if there were any objections to waiving the second reading on the break-even factor rule, Ohio Administrative Code Rule 4123-17-64.1 Mr. Hummel objected and requested more information. When enacting the first break-even factor rule for 2009, he understood that it was only needed for that year and would be eliminated.

Mr. Bryan determined that there was not general consensus on waiver of the requirement of a second reading, so he would not call for a motion. Mr. Smith asked Mr. Hummel if the information he required could be provided in the fifteen minutes left for the Actuarial Committee meeting. Mr. Hummel replied he needed more time than left in the meeting.

Mr. Bryan asked if BWC wished to have a vote on the credibility table. Mr. Pedrick replied he did not because the break-even factor and credibility table would be marketed together and approval of the credibility table alone would mean marketing incorrect information.

Mr. Lhota asked James Barnes, Chief Legal Officer, to determine if the Workers' Compensation Board can overrule a committee when it does not waive a second reading. Ms. Falls stated that such action may require a motion of a director who is not a member of the Actuarial Committee to present for consideration before the entire Workers' Compensation Board.

Mr. Matesich requested that in the marketing rule, Ohio Administrative Code Rule 4123-17-61.1, paragraph (K) (1)(a)be changed to delete "the" because it is replaced by "a". Mr. Bryan ruled that was an editorial change and did not require voting by the Actuarial Committee.

DISCUSSION ITEMS

MIRA 2 UPDATE

Mr. Pedrick reported that the presentation on MIRA 2 would not be deferred to a future meeting. Directors will receive a memo to describe the status of MIRA.

MEASURES OF COMPETITIVENESS FOR OTHER STATES

Mr. Pedrick described the draft report on competitiveness which compares 2009 premium rates of Ohio with those of other states. He emphasized that no other factors such as overall business climate, benefit levels, legislative and judicial environments are discussed, but are very important aspects of competitiveness. The previous Oregon comparative study had shown Ohio rates to be the highest among the states being compared. After rate reform, Ohio is now in the middle of the states which were evaluated.

Mr. Lhota departed from the meeting at 2:23 p.m.

Mr. Matesich asked if other states included assessments in their rates and Mr. Pedrick replied that they did. He stated that all rates in the draft exhibit reflect full costs. Mr. Bryan commented that the competitiveness study was a work in progress and would be brought to this committee in future months as we improve our approach.

CHIEF ACTUARIAL OFFICER REPORT

Mr. Pedrick reported that BWC is now in outreach with the workers' compensation community to find ways to improve homogeneity in group rating. This effort is also meeting strong resistance. He stated that improving BWC's approach to homogeneity will bring more accuracy and fairness to class rates as well as to the group rating and group retrospective rating programs.

COMMITTEE CALENDAR

There were no additional comments or changes to the Committee Calendar.

EXECUTIVE SESSION

There was no executive session.

ADJOURNMENT

Mr. Bryan thanked BWC staff for the effort made on improving the group rating program.

Mr. Caldwell moved to adjourn. Mr. Matesich seconded and Mr. Bryan adjourned the meeting after the motion was approved by a roll call vote of five ayes and no nays.

The meeting adjourned at 2:30 pm

Prepared by: Larry Rhodebeck, Staff Counsel
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September 29, 2009