BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE
THURSDAY, NOVEMBER 19, 2009, 2:30 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, Kenneth Haffey, James Harris, Larry Price, and Bob Smith
Counsel present:	James Barnes, General Counsel

CALL TO ORDER

Mr. Bryan called the meeting to order at 2:30 p.m. and the roll call was taken. He reported that Mr. Pitts would be arriving later to the meeting.

MINUTES OF OCTOBER 26, 2009

Mr. Hummel requested that the third full paragraph of page 6 be changed to reflect that he had asked the question, not Mr. Matesich.

Mr. Matesich asked if two of the numbers in paragraphs 3 and 4 of page 4 be changed so both are 0.428 or 0.438. Mr. Pedrick and Mr. Bryan both replied that they were not sure that they were not different. Mr. Matesich also asked that in paragraph 5 of page 4 that " ann" be changed to " an" .

Mr. Pitts reported to the meeting at 2:35 p.m.

Mr. Matesich moved to approve the minutes of October 26, 2009, as amended. Mr. Caldwell seconded and the minutes were approved by a roll call vote of six ayes and no nays.

AGENDA
Mr. Bryan reported there were no changes to the agenda. Mr. Hummel moved to adopt the agenda. Mr. Pitts seconded and the motion was approved by a roll call vote of six ayes and no nays.

NEW BUSINESS/ACTION ITEMS

CHARTER REVIEW AND RECOMMENDATION TO THE BOARD: SECOND READING
Mr. Bryan requested that under "Duties and Responsibilities," the second and fifth bullets be changed from "reviewing" and "contracting" to "review" and "contract" to conform to the other bullet points. He also requested that under the "subcommittee" clause, the sentences be made uniform. Mr. Pitts stated he preferred to change "Each" in the fourth sentence to "The," rather than re-rewrite rest of the paragraph. Ms. Falls concurred.

Mr. Matesich moved that the Actuarial Committee of the Workers' Compensation Board of Directors approve its amended charter and refer it to the Board of Directors for review and approval. Mr. Hummel seconded and the motion was approved by a roll call vote of six ayes and no nays.

RULES FOR FIRST READING: LARGE DEDUCTIBLE PLAN, OHIO ADMINISTRATIVE CODE RULE 4123-17-72
John Pedrick, Chief Actuarial Officer, and Joy Bush, Program Development Director, recommended amendment of Ohio Administrative Code Rule 4123-17-72 to add a large deductible program.

With respect to the current deductible program, 578 individual employers are enrolled for policy year 2009 and are predicted to pay an estimated $42 million in estimated premium on $1.3 billion payroll. The average premium discount is 8.6%. The National Association of Social Insurance reports that prior to 1990, deductible programs were little used in workers' compensation. Most employers have chosen either a deductible of $500 or $1,000 per claim. The average experience modifier is 0.94; 20% of employers are base-rated, 55% are experience-rated, and 25% are group-rated.

Mr. Bryan asked why BWC offers deductibles of $2,500, $5,000, and $10,000 if few employers elect them. Ms. Bush replied that some employers, especially those with high premiums, want to use them.

She continued that the new large deductible program will follow the same basic structure as the small deductible, with monthly billing, annual enrollment, and other procedural requirements. The per claim deductible will be $25,000, $50,000, $100,000, and $200,000. Employers may elect a stop-loss option which limits the maximum payout for all claims at three times the deductible level chosen. Mr. Pedrick added that there is no effect on the benefits paid to injured workers.

Mr. Bryan asked how the deductible differed from the $15,000 medical-only program. Ms. Bush replied that BWC is putting together a package of insurance products which are similar to those in other states. The injured worker benefits by having BWC paying benefits right from the start of the claim, based on statutory benefit levels.. Mr. Pedrick added that when BWC pays, it can immediately begin to actively manage the claim to ensure proper medical treatment and to reduce lost time. The $15,000 medical only program only serves to shield costs from experience rating. Ms. Bush added that the deductible program is open to both private employers and public employers.

Mr. Bryan asked if the deductible program will lead BWC to eliminate the $15,000 medical-only program. Ms. Bush replied that BWC is not replacing the medical-only program with the deductible, but over time the market will select programs that benefit employers more.

Ms. Bush described the difference between the existing deductible and the large deductible program. For the small deductible, the employer cannot have more than 40 days of lapsed coverage in 12 months, whereas the employer in a large deductible may not have 15 days in 5 years. For the small deductible, the minimum premium for eligibility may be as much as 25% of standard premium, whereas the deductible for the large program must not be more than 40% of premiums. The large deductible will permit self-insurers to re-enter the State Insurance Fund and use paid compensation to determine eligibility.

Mr. Matesich asked what the standard premium is. Ms. Bush replied that it is the experience rated premium. Her illustration was that an employer with individually rated, standard premium of $10,000 is eligible for a $2,500 deductible.

Ms. Bush reported that other differences are that the current deductible only uses Dun & Bradstreet scores, whereas the large deductible will use more restrictive Dun & Bradstreet standards and the employer must also submit audited or reviewed GAAP financial statements.

Mr. Matesich commented that privately held companies do not want their financial statements published. Ms. Bush replied that the Fiscal and Planning Department is structuring safeguards for disclosures.

Mr. Matesich asked if the employer does not have GAAP financial reports, then can the employer use its compiled financial statements. Ms. Bush replied that the rule has alternatives for ensuring credit worthiness such as requiring letters of credit, advance payments of premiums, and deposits. Finally, a difference between the current deductible and the large deductible is that the employer with a small deductible may participate in group rating, whereas the large deductible program is incompatible with group rating.

Ms. Bush also reported that the Ohio Administrative Code Rule will be clarified so that experience premium is used to determine the primary hazard group. The preliminary large deductible pricing is set forth in the PowerPoint report at page 7.

Mr. Bryan asked what BWC will report at the next meeting. Ms. Bush reported that BWC will have the full program report from Oliver Wyman Consulting. Tables will be complete for each deductible level and the stop-loss factors will be completed.

Mr. Hummel asked about the range of deductible percentages for premiums for different hazard groups. Ms. Bush replied that under the existing program, the percentage tended to be low, from 5% to 20%. In the large deductible program, the percentages will be higher. For example, in the construction industry they may be up to 50%.

Mr. Bryan predicted that as more employers elect a deductible, then there will be a drop in the Administrative Cost Fund (ACF) assessment and other assessments. Mr. Pedrick replied that these will be accounted for in the pricing. For example, the Managed Care Organization (MCO) fee is already part of the premium charged.

Mr. Pitts observed that at the higher rates, the employer is essentially self-insured. The employer pays fewer dollars and BWC then manages the claims. Ms. Bush added there will be many variables in calculating the different plans. Statistics show that the 700 largest employers in the State Insurance Fund provide 75% of the premiums.

Ms. Bush reviewed the stakeholders input matrix. This version is limited because it contains only those suggestions which BWC rejected. First, interested parties suggested that there would also be a demand for aggregate stop-loss for small deductible levels. However, aggregate stop-loss is rare in small deductible workers' compensation programs and leads to more complex pricing of products. Second, stakeholders suggested that there may be value in offering more than one aggregate stop-loss levels. BWC found that adding another aggregate level would further complicate an already challenging pricing structure.

Third, it was suggested that claims costs covered by deductible payments should not be included in the employers' experiences. Per the recent HB 100 Comprehensive Report, BWC is attempting to move away from programs that distort an employer's loss experience. Finally, stakeholders suggested that employers use salary continuation while participating in the deductible program. However, pricing for the deductible program is based on the full cost of a claim being known and managed. Deductible is an optional program designed to provide an upfront discount as the benefit of participation, not the suppression of loss history.

Mr. Price requested that the matrix cover all stakeholder input, especially the parts that BWC incorporates. He also asked what is the impact of this proposal on the budget. Ms. Bush replied there is no impact because the BWC will be collecting the full administrative cost and BWC will manage the claims.

Mr. Haffey asked about the impact on financial statements of the deductible program. Ms. Bush replied that Tracy Valentino, Chief, Fiscal and Planning, and Barb Ingram, Director of Accounting, are involved in designing the product and will report the effects in later Enterprise Reports. Ray Mazzotta, Chief Operating Officer, stated that BWC has not yet measured the impact on rates.

Mr. Bryan asked what is to prevent the employer from insuring the deductible portion. Ms. Bush replied that Ohio Revised Code §4123.82 prohibits private workers' compensation insurance. Mr. Pedrick added that the Ohio Department of Insurance closely supervises casualty insurance products and prohibits workers' compensation insurance unless it is excess insurance for a self-insurer.

Mr. Matesich asked how BWC will exercise more rigor in the review of financial statements of employers. Ms. Bush replied that Ms. Valentino and her staff are going beyond Z-scores and simple ratios. Ms. Valentino added that Fiscal and Planning is looking at all programs for more rigorous review—including self-insurance and retrospective rating—to use more than Z-scores and results to test employer creditworthiness. These include Moody's and Dun & Bradstreet reports.

Mr. Matesich observed that he needed to know more information on this program before acting and asked that it be provided by the December meeting. Mr. Bryan asked if the Actuarial Committee can postpone this issue beyond December. Ms. Bush reported that the discussion could go to January for approval, but needs to be adopted then in order to meet deadlines for group rating programs.

DISCUSSION ITEMS

STATE-BY-STATE COMPETITIVENESS

Mr. Pedrick presented a summary map that reflects the continuing work on a state-by-state comparison of workers' compensation rates. The data is still incomplete because, for example, information is hard to obtain from Michigan.

Mr. Bryan commented that this report will be an ongoing process. Other national rating systems show Ohio rates are good, but that it can do better.

Marsha Ryan, BWC Administrator cautioned that the other rating reports often use old data, some three or four years old. The challenge will be in using the most recent information.

Mr. Hummel stated that he noticed that information from Washington, a state that provides a key benchmark for Ohio, is not available. Ms. Falls asked if Washington does a state by state comparison. Mr. Pedrick replied that he spoke with the chief actuary of Washington on November 18. Washington does not have its own comparison, but uses the one from Oregon.

Mr. Bryan cautioned the Actuarial Committee that comparisons are always subject to criticism, but BWC should not stop trying so it can show progress. Ms. Ryan added that in her recent discussion with Washington, its Department of Labor and Industries faces some controversy because of large losses in its portfolio and this is leading to legislative scrutiny.

QUARTERLY UPDATE ON H.B. 100 COMPREHENSIVE REPORT BY DELOITTE CONSULTING

Jim Fograscher, Project Manager, delivered the quarterly report on implementation of the recommendations from the HB 100 Comprehensive Report. Ms. Ryan had reported the study findings to the Workers' Compensation Council in September and to the House and Senate insurance committees in October. Nineteen of the recommendations are governed by statute, although it may not be necessary to change the statutes to follow the recommendations. Also since July, the project target dates have been established and stakeholder involvement is underway.

Since the July report, the following eight accomplishments have been completed: the Workers' Compensation Board has adopted a net asset level policy (four recommendations); the Actuarial Department has had an organizational change (one); BWC now follows NCCI recommendations on auditing (two); and BWC uses only Ohio data for rating an out-of-state employer (one). In the upcoming quarter, there will be emphasis on these projects: rate reform, the Drug Free Workplace Program, self-insurance changes, and new products. BWC expects hearings in the Senate Insurance, Commerce and Labor Committee on workers' compensation.

Two charts in the report show the relative stages of each recommendation: evaluation, planning, design, implementation, in place, or no action needed. The charts are followed by an itemized list of the recommendations and their stages of implementation. Mr. Fograscher emphasized that some are not scheduled for completion until fiscal year 2011. These include several regarding Actuarial Department organization. However some work is being accomplished now. The final page of the itemized list shows that 42% of the recommendations are being planned, designed, or implemented.

Ms. Falls commented that the Ancillary Funds should be described as the Specialty Funds to conform to the Investment Policy. She further asked where the recommendation is covering the reduction in the number of years of data used for rate making. Mr. Pedrick replied it is covered under the recommendation concerning providing more responsiveness to Ohio trends under " Statewide Rate Level."

MIRA 2 UPDATE

Rex Blateri, Adjustment Unit Supervisor, delivered an update on MIRA II. The report is in response to a request for a review after one year of use. MIRA II was released to the public via web service offerings on August 30, 2008. MIRA II was first used to calculate private employer rates for the July 1, 2009, policy year for reserves as of December 31, 2008. The first use for public employer rates for the January 1, 2010, policy year is for reserves as of June 30, 2009.

To quote a third-party administrator, " One year after MIRA II was implemented and I can't even recall the last time I spent any time with an employer arguing over reserves . . . it's just a non-issue these days." Although not quantified, protests and complaints have significantly decreased; appeals to the Adjudicating Committee and Administrator's Designee have decreased; and inquiries to the Rate Adjustment Unit have decreased.

Mr. Bryan asked for an example of a complaint under MIRA I that no longer is made. Mr. Blateri replied that employers often claimed that a reserve was excessive, but without providing a rationale for protest. Given that premiums are paid in January, however, there may yet be a spike in protests.

Mr. Blateri compared statistics of MIRA II with MIRA I, using a similar group of claims. The number of claims with a reserve has declined and the average reserve per claim has increased. This shows that BWC is reserving the right claims for the right amount. There are also fewer claims with a long tail.

Claims with awards for percentage of permanent disability (Type 9) were the most problematic under MIRA I because of the high reserve created at the time of award. Percentage claims declined from 37,518 under MIRA I to 13,031 under MIRA II.

Mr. Pitts asked about the logic change that decreased the number of claims. Mr. Blateri replied that under the old logic, percentage of disability awards were placed at the end of claims. MIRA II moved the award to other stages of the claim to fit BWC data. Thus, fewer claims with a percentage award will indicate a later cost.

Mr. Bryan requested that Mr. Pedrick and Mr. Blateri give Mr. Pitts additional education on the background of the change to MIRA II since he joined the Board after the implementation of MIRA II.

Mr. Blateri further reported that more claims are reserved at zero, but the average reserve is higher. For private employers, the average reserve decreased 44% from MIRA I to MIRA II, which resulted in an average decrease in the expected loss rate of 22%. Lower reserves may result in lower total modified losses and lower expected loss rates may result in lower total limited losses. The written report includes three example scenarios.

Mr. Blateri described the ongoing evaluation: BWC will review the stop logic for appropriateness; identify ways to improve reserve accuracy on high claim cost/severe claims such as PTD and catastrophic claims; and elimination of reserve transition rules pursuant to the HB 100 Comprehensive Report recommendations.

Mr. Hummel requested statistics on overall changes.

RESERVING EDUCATIONAL SESSION

Mr. Pedrick, Zia Rehman, Director of Actuarial Analysis; and Jon Turnes, Actuarial Analysis Reserving Manager, conducted an education session on reserving.

CHIEF ACTUARIAL OFFICER REPORT

Mr. Pedrick stated there was nothing to add to the written report distributed to the Workers' Compensation Board.

COMMITTEE CALENDAR

Mr. Bryan solicited suggestions on any modifications to the Actuarial Committee calendar. None were made, so Mr. Bryan stated that calendar would be used as submitted.

EXECUTIVE SESSION

There was no executive session.

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

Prepared by: Larry Rhodebeck, Staff Counsel
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November 24, 2009