BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

THURSDAY, March 19, 2009, 2:30 P.M.
WILLIAM GREEN BUILDING
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

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

Members Absent: None

Other Directors Present: Alison Falls
Kenneth Haffey
James Harris
Robert Smith (arrived 3:07)

Counsel Present: John Williams, Assistant Attorney General

CALL TO ORDER

Chairman Bryan called the meeting to order at 2:34 PM and the roll call was taken.

AGENDA

The agenda was approved unanimously on motion by Mr. Matesich, seconded by Mr. Caldwell.

MINUTES OF FEBRUARY 19, 2008

The minutes were approved without further changes by unanimous roll call vote on a motion by Mr. Hummel, seconded by Mr. Pitts.

EXECUTIVE SESSION

Upon motion by Chairman Bryan, second by Mr. Caldwell, and approved by unanimous roll call vote, the Committee recessed for executive session at 2:40 to discuss current litigation.
The Committee returned at 3:07 and upon motion by Mr. Pitts, seconded by Mr. Lhota, approved a return from executive session by unanimous roll call vote.

ACTION ITEMS

1. Private Employer Rate Proposal

Mr. Lhota moved to bring rate reform up for discussion, seconded by Mr. Hummel. The motion was approved by unanimous roll call vote.

John Pedrick, Chief Actuarial Officer, and Ray Mazzotta, Chief Operating Officer, presented the recommendations for rate reform in a report dated March 19, 2009 which was reviewed with the Committee. The goals of this proposal are to:

- lower base rates;
- provide actuarially sound base rates for non-group employers;
- bring group rate levels closer to their indicated level for July 1, 2009; and
- set group rates at the indicated level for July 1, 2010 to achieve full rate equity for the group and non-group segments.

Mr. Pedrick referenced the Oliver Wyman report and addendum which produced a range of indicated rate changes based on claim cost projections from “optimistic” (-18.1%) to “conservative” (-5.5%). The baseline change was -11.8%. The overall proposed base rate decrease as proposed by staff is -12%. Staff indicated that this recommendation is consistent with the baseline indication, and is actuarially sound. It also provides the opportunity to reduce the differential between non-group rated employers and group rated employers to a level much closer to the actuarially indicated differential. The actual impact is a -25.3% decrease for non-group employers, and a 9.6% increase for group employers. Per a question from Mr. Hummel, Mr. Pedrick clarified that a 4.5% reserve discount rate was used in evaluating the claims costs in the indicated rates.

Mr. Matesich asked whether the decrease was related to frequency, cost, or both. Mr. Pedrick stated that the primary driver is frequency in relation to payroll. Mr. Matesich questioned whether payroll is increasing in the current economy. Mr. Pedrick explained that the economy is not the driving factor, but many attribute this trend to the move away from manufacturing to non-manufacturing on a national basis and in Ohio.

Mr. Pedrick explained that the 12% decrease is an overall average. The 9.6% increase for group employers includes the impact of the credibility table change for maximum credibility from 85% to 77%, approved at the June 2008 Board meeting. The 25.3% decrease for non-group employers brings the overall average to a 12% decrease. The proposal does not rely on a contribution from net assets. Net assets help protect the fund from unanticipated risks, but are not explicitly involved in this rate proposal. The decrease is in line with the best actuarial estimate of future costs.

Mr. Pedrick continued that actuarial analysis conducted by Oliver Wyman shows that claim costs for non-group employers have consistently been 30% above average for all private employers, and that claim costs for group employers have been consistently 20% below average. However, rate levels for non-group employers are 60% higher than average, while rate levels for group employers are 40% below average. The recommendation presented today brings the extremes closer to the levels indicated by loss analysis.

The proposal also includes a fundamental change in the off-balance. Rather than use over 500 manual class off-balances averaging 1.49, one off- balance of 1.23 will be used for all classes and employers. This moves non-group employers to the correct rate level relativity of 1.30. A handout was reviewed showing the change in base rate for each manual class. Published base rates will decline overall by an average of 25%, with some manual classes receiving larger decreases and some receiving increases.

Mr. Pedrick responded in the affirmative when asked by Chairman Bryan if the off-balance will remain stable after this year. The off-balance will be analyzed yearly, but should not change a great deal. Chairman Bryan asked why a single off balance was used. Mr. Pedrick started that this will provide a foundation of stability which has not been in place for years. Deloitte also recommended the use of a single off-balance.

With respect to group employers, another proposal is to eliminate the “stacking” of other discounts, such as drug-free workplace (DFWP) and safety council, in addition to the overall group discounts. Per a question from Mr. Matesich, Mr. Pedrick explained that the current system prohibits group employers who have reached the maximum discount from receiving these additional discounts. The proposed change is that this limitation be extended to all group employers. Mr. Mazzotta added that this ensures the results anticipated by adjusting the credibility table are captured.

Per questions from several of the directors, Mr. Pedrick further explained the various calculations. Group rate level relativity will rise to 71% of average, an increase from just below 60%, which is more than halfway to the goal of 80%. Per an inquiry from Chairman Bryan, this is a reasonable method of solving the group/non-group discrepancy, and also complies with standard insurance industry methods. Mr. Mazzotta clarified that out of 98,000 group-rated employers, 74,000 will see either a less than $500.00 increase, no increase, or a decrease. Ms. Falls asked about the driving force behind large increases. Mr. Pedrick replied that these are primarily based on class rate changes and the large size of the particular employer. There is a change to the 100% cap on experience modifier (EM) increases in this proposal. In January, the Board approved a 100% EM cap, based on the actuarial recommendation that it is good general policy to avoid large EM swings. However, after discussion with stakeholders, this cap must now be modified to avoid becoming an employer rate strategy, creating a risk of a premium shortfall. The cap will now only apply if the employer's EM is above 1.0. In addition, the employer must participate in a safety plan based on the ten-step plan currently used in the premium discount (PDP+) plan, and the employer cannot be non-compliant. Mr. Pedrick and Mr. Mazzotta endorsed these stakeholder recommendations.

As a result of this proposal, some employers may be better off to opt out of group rating. BWC will provide data to group sponsors. Approximately 44,000 group employers would not receive the DFWP discount. Several directors expressed concern about the message this would send and the importance of safety. Tina Kielmeyer, Chief of Customer Services, explained that a marketing strategy is being created to advise all employer customers, including through TPA's, that BWC has not lessened its commitment to DFWP. Grants continue to be available as well as other internal programs. The only restriction for group employers is discount stacking.

Vendors and stakeholders have suggested more changes which BWC will continue to review later this year, and perhaps revisit the policy in 2010. Per a question from Ms. Falls, Mr. Mazzotta explained that if discount stacking was not restricted, it would increase the break-even factor by 3-4 points.

Mr. Matesich pointed out that on page 10 of the applicable handout, corresponding to slide 19 of the PowerPoint, the parenthetical phrase "but apply to non-group only" was incorrect and should be eliminated. Mr. Pedrick agreed.

Sponsoring associations have requested a one-week extension, from March 30, 2009 to April 6, 2009, to notify employers they have been rejected from a group. This requires the Board to adopt a rule change. This has no major impact and is endorsed by the BWC staff.

With respect to slide 20 entitled "Elements of rate reform proposal", per a request for clarification by Ms. Falls, the phrase "no shortfall" means achieving the full rate level for group.

Mr. Matesich moved that the Actuarial Committee recommend that the Board adopt the overall rate change recommendation as presented by the Administrator today, and to establish more equitable rates between group and non-group employers as presented. The Bureau shall prepare the necessary rules to implement these recommendations and present any rule changes to the Board for approval. The motion was seconded by Mr. Pitts. Prior to vote, Chairman Bryan asked Mr. Caldwell if the changes in discount programs were handled to his satisfaction. Mr. Caldwell replied in the affirmative. Mr. Matesich noted the continuing issue of eliminating DFWP for group members, but that

this would not cause him to vote against the motion. The motion was approved by unanimous roll call vote.
In conclusion of this item, Chairman Bryan noted that both Oliver Wyman and independent consultant James Shoenfelt had reviewed the proposal and expressed agreement that the proposal was developed using actuarially sound methodologies.

2. Rule 4123-17-70, Premium Discount Program

Ms. Kielmeyer and Joy Bush, Employer Management Project Manager, presented a first reading of a proposed “sunset” of the premium discount program. The old rule would be deleted, and replaced with a new rule containing the 10-step business plan which is presently a part of PDP. A history of the program was presented, noting $450M in discounts paid out since 1995. However, new programs such as deductible and group retro will be of more benefit and are actuarially sound. This is built into the proposed rate reform and overwhelmingly supported by stakeholders.

A vote on this recommendation will be held at the April committee meeting.

3. Drug Free Program Modifications

Ms. Kielmeyer discussed proposed rule changes to Rules 4123-17-58 and 4123-17-58.1 which removes the discount for group rated employers. It also proposes changes which make DFWP unavailable for group retro, unavailable for employers who are lapsed more than 40 days in a 12-month period, and eliminates stacking with PDP. Administrator Marsha Ryan stated these changes are consistent with Deloitte recommendations to have programs which are effective, transparent and subject to evaluation.

Mr. Matesich asked if further changes are anticipated; why not modify the rule all at once instead of piecemeal. Ms. Kielmeyer replied that these initial changes are to assist in implementing the new rating system. Further changes would be directed to tweaking the model and requirements, not eligibility.

Chairman Bryan asked if these changes needed to be voted on today. Ms. Kielmeyer replied in the negative and a second reading will take place next month.

4. Rule 4123-17-62, Group Experience Rating

Ms. Kielmeyer discussed the proposed change to this rule for a one-time extension of the group rejection notification date from March 30, 2009 to April 6, 2009. Mr. Bryan clarified with Ms. Falls that there was no need to pass a motion to waive a second reading absent objection. No objection was heard.

Upon motion by Mr. Pitts, seconded by Mr. Hummel, the Actuarial Committee recommended the Board consent to the Administrator’s recommended changes to Rule

4123-17-62 to permit group sponsors additional time to provide notice to employers in 2009. The motion was approved by unanimous roll call vote.

5. Rules 4123-17-73, Group Retrospective Rules

Ms. Bush presented a first reading overview and PowerPoint presentation of proposed rules for group retrospective rating. This program is based in part upon the National Council of Compensation Insurance model and was reviewed with other states and stakeholders.

This is a voluntary, performance-based plan by which an employer receives retrospective adjustments to paid premium based upon the combined performance of the group. Premiums will be recalculated at 12, 24 and 36 months following the close of the policy year. Mr. Hummel inquired about comparisons with the established retrospective rating plan. This is an incurred retrospective plan and is very different. NCCI encourages this type of plan.

Ms. Bush reviewed both individual employer and group eligibility restrictions and explained that enrollment will begin in May 2009. Mr. Matesich asked whether employers could make an informed enrollment decision given the compressed time frame. Ms. Bush and Administrator Ryan discussed the overall marketing plan, including a Safety Congress booth, cooperation with sponsors, and sponsor approval to be completed in early April. Per a question from Mr. Hummel, this plan creates an incentive for the entire group to focus on safety.

With respect to the second reading, Chairman Bryan requested more information for the Committee on how this program will impact premiums.

DISCUSSION ITEMS

1. Quarterly Reserve Update

Jeffrey Scott of Oliver Wyman presented a quarterly reserve update through December 31, 2008, projecting to June 30, 2009. There was a $6M reduction in unpaid loss for the State Insurance fund and a reduction of $17M total unpaid loss for all funds. These results are very consistent with past trends. The computations are based on a 5% discount rate, and will be adjusted if the Board approves a change to 4.5%.

Mr. Lhota departed the meeting at 5:42.

Mr. Scott explained in response to Chairman Bryan that downward development is due to a drop in medical inflation from previous projections. This may continue to drop next quarter.

2. CAO Report

Mr. Pedrick reviewed the report. He noted that expected loss rates will be reviewed very thoroughly to gauge the impact of MIRA II. The RFP for an actuarial consultant was released timely and a blackout period is in effect until the contract is awarded. Proposals are due April 16, 2009. Actuarial Division continues to review candidates for various positions. There were no further questions for Mr. Pedrick.

3. Committee Calendar

Chairman Bryan reviewed the calendar and any questions should be directed to him or Board Liaison Don Berno.

ADJOURNMENT

The next Actuarial Committee meeting is April 29, 2009 at 2:00 PM.

The meeting was adjourned at 5:55 PM on a motion by Mr. Matesich, seconded by Mr. Pitts and approved by unanimous roll call vote.

Prepared by Jill Whitworth, Staff Counsel
March 23, 2008