

BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

Wednesday, April 29, 2009, 7:30 A.M.

WILLIAM GREEN BUILDING

30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215

Members Present: Charles Bryan, Chairman
David Caldwell
James Hummel
Jim Matesich
Thomas Pitts

Members Absent: William Lhota, ex officio

Other Directors Present: Alison Falls, Kenneth Haffey, Larry Price, and Robert Smith

Counsel Present: James Barnes, Chief Legal Officer and General Counsel

CALL TO ORDER

Mr. Bryan called the meeting to order at 7:30 A. M. He, Mr. Hummel, and Mr. Matesich reported they were present. Mr. Bryan ruled that a quorum of three was present and commenced the meeting.

MINUTES OF MARCH 19, 2009

Mr. Hummel asked whether the 40% rate on page 3, ¶2, referred to group-rated employers or non-group rated employers. John Pedrick, Chief Actuarial Officer, reported that it referred to group, so Mr. Hummel requested that “non” be stricken from the sentence.

Mr. Matesich asked if “indicated” should be defined in the next sentence. Because it had not been defined elsewhere in the minutes, Mr. Matesich request that “indicated levels” be stricken and replaced with “indicated by actuarial analysis.”

Mr. Bryan reported that Mr. Caldwell (arriving at 7:34 AM) and Mr. Pitts (arriving at 7:35 AM) were now present.

Mr. Matesich moved that the minutes of March 19, 2009, be approved as amended. Mr. Hummel seconded and the amended minutes were approved by a unanimous roll call vote of five ayes and no nays.

AGENDA

Mr. Bryan asked that Agenda items regarding Public Employer State Agency Rates and the Ancillary Funds be moved to the end of the other Action items. Mr. Matesich moved to adopt the Agenda as amended. Mr. Pitts seconded and the Amended Agenda was adopted by unanimous roll call vote.

NEW BUSINESS/ACTION ITEMS

PRIVATE EMPLOYER BASE RATES AND EXPECTED LOSS RATES, OHIO ADMINISTRATIVE CODE RULES 4123-17-05 & 4123-17-06

Mr. Pedrick recommended amendment of Ohio Administrative Code Rules 4123-17-05 and 4123-17-06 and adoption of private employer base rates and expected loss rates for the July 1, 2009, policy year. He reported that at the March meeting, BWC had recommended a base rate decrease of 12%, which was approved by the Workers' Compensation Board of Directors. This was aligned with the central recommendation of Oliver Wyman Consulting Actuaries. The rate recommendation was also computed by Oliver Wyman using a 4.5% discount rate, as discussed by the Workers' Compensation Board in recent meetings. This rate is more conservative than the current 5% rate and is consistent with loss trends and investment returns. In response to a question from Mr. Bryan, Mr. Pedrick stated that a lower discount rate means BWC will need more premiums today, so generally we would need higher premiums than if using a higher discount rate. For this reason and others, the Administrator is recommending a rate change approximately equal to the mid-point in the range recommended by Oliver Wyman. With respect to the impact of medical inflation and the effect of the recessionary downturn in the economy, reductions in reported payroll are also accompanied by reductions in injury frequency so the ratemaking procedure is self correcting.

Ms. Falls asked about the significance of rate increases and decreases in the executive summary table. Mr. Pedrick replied that these reflect the change in the off-balance of group rating from 140% to 123%. The table also reflects changes in experience rating as BWC adds a new year of claims to employers' experience, drops another year, and changes the rate cap.

Mr. Pitts asked if changes in the economy impact workers' compensation expense. Mr. Pedrick replied that with decline in payroll due to lower employment, there is a decline in risk for the system. However, trends in relation to payroll show declining

frequency and increasing severity. Severity is driven by medical cost and additional lost time.

Mr. Pitts moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendations relating to the private employer rate rules beginning July 1, 2009. The motion consents to the Administrator amending Rules 4123-17-05 and 4123-17-06 of the Administrative Code as presented here today. Mr. Matesich seconded and the motion was approved by a unanimous roll call vote.

CAPPING RULE, OHIO ADMINISTRATIVE CODE RULE 4123-17-03

Mr. Pedrick recommended amendment of the capping rule contained in Ohio Administrative Code Rule 4123-17-03. The Workers' Compensation Board approved amendments in January to include methodology for capping an employer's increase in its experience modification to 100% from its July 1, 2008, experience modification. After further evaluation, it has been determined that the cap should be applied to those employers whose individual experience modification is equal to or greater than 1.01. In addition, the employer must participate in safety programs through the ten-step business plan. Many employers in group would not be affected because group sponsors can move employers to other groups when they incur safety problems.

Mr. Hummel asked what the enforcement provisions were. Terry Potts, Underwriting Supervisor, Actuarial Department replied that the rule provides for automatic enrollment of employers at time of experience rating and that the employer must complete the ten-step plan by March 31 of the next year.

Mr. Matesich asked when the cap impacts the employer. Mr. Pedrick replied that since the first bill for premiums is due February 28, 2010, the first six months will be under the cap, whereas the second six months is not under the cap if the employer fails to comply with rule requirements. The eligibility of the employer for the cap is subject to the normal appeal process.

Mr. Matesich asked the substance of input from stakeholders on the amendment. Mr. Pedrick replied that stakeholders noted some inconsistencies because not all employers get the cap; however, the common principle is continuous improvement in employer safety.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendations to amend Rule 4123-17-03 of the Administrative Code. The amendments relate to the cap or limit on the annual increase in an employer's experience modification. The motion consents to the Administrator amending the Rule as presented here today. Mr. Pitts seconded and the motion was approved by unanimous roll call vote.

GROUP BREAK-EVEN FACTOR RULE, OHIO ADMINISTRATIVE CODE RULE 4123-17-64.1

Mr. Pedrick recommended adoption of Ohio Administrative Code Rule 4123-17-64.1 which creates the language for the group experience break-even factor. The factor is not in the rule yet, but will be available at the May meeting. April 24 is the deadline for group rosters.

Mr. Bryan noted that this rule should be considered as a first reading and will come before the Actuarial Committee again to permit additional discussion and consideration of the specific group break even factor.

Mr. Hummel asked why BWC would need a 31% increase to maintain what had been a 25% decrease. Mr. Pedrick replied that a simple illustration is that for a dollar in premium that is reduced to seventy-five cents, it requires a 33% increase to bring the paid premium back to one dollar.

Mr. Pitts expressed concern about any rule that was needed to bring group rates in line with actual losses. Mr. Pedrick responded that the rule is needed now to provide equity; however, after the many changes coming in employer programs, it may not be needed. When premiums are properly priced, then the factor approaches 1.0 and a group break even factor may not be needed.

Ms. Falls asked if approval of this rule will have any impact on the private employer rating rules just approved by the Actuarial Committee. Mr. Pedrick replied the rule will have no impact.

GROUP RETROSPECTIVE RATING PROGRAM RULE, OHIO ADMINISTRATIVE CODE RULE 4123-17-73

Joy Bush, Employer Management Project Manager, recommended adoption of Ohio Administrative Code Rule 4123-17-73 on the Group Retrospective Rating Program. Since the presentation at the March Actuarial Committee meeting, BWC has conducted meetings with group sponsors (including presentations by Oliver Wyman), presentations at the Ohio Safety Conference and Expo, and webinars. BWC now has the table for "Basic Premium Factors," in the PowerPoint presentation, which is the pricing table. If a group pays its premiums and there are no losses, then it will receive a premium refund after three years.

Mr. Bryan commented that three years seems too short a period to justify a premium refund. Ms. Bush replied that loss development factors will be used to adjust known losses to their ultimate value in order to determine the proper amount of refund.

Mr. Bryan then noted that the loss development factors selected will be an important consideration in how well this program works.

Mr. Smith asked what happens if an employer goes out of business. Ms. Bush replied that there will be a pro-rata return of the assessment or refund to other members of the group. Mr. Smith asked if there were going to be bonding of group sponsors. Ms. Bush replied that BWC would not require bonds at this time; however, if credit concerns become an issue then bonds may be required.

Mr. Matesich asked if an employer is locked into one group. Ms. Bush replied that an employer may change its group for the next year or not participate in any group. The employer is locked into the rating year and liable for only three years for that rating year..

Mr. Pitts asked if an employer will pay only one year's premiums or three year's premiums. Ms. Bush replied that for a given year in retro, the employer will pay one year's premiums with adjustments to that premium for the losses evaluated in the subsequent three years.

Mr. Smith asked how Group Retrospective Rating differed from group rating. Ms. Bush replied there were a few differences. For example, the requirement that the group have a one million dollar minimum premium comes from other states' programs.

Mr. Matesich asked why the deadline for sponsor notice is set for the first Monday in April. Ms. Bush replied the date was chosen in response to several variables. If the employer fails sponsor requirements, it will need to find other programs. The date matches other group deadlines. BWC will be flexible on the deadline and may set it differently in the future.

Ms. Bush reviewed changes to the rule presented at the first reading. BWC made ten small changes in definitions and wording to promote clarity. For 2009, stakeholders requested a deadline change from May 29 to June 26. For subsequent years, the deadlines are the last Friday in April for private employers and the last Friday in September for public employer taxing districts.

Ms. Falls noted that the group retrospective rule requires group homogeneity, but homogeneity is not presently enforced in group rating. Ms. Bush replied that homogeneity is required by industry group, but could be better. BWC is planning changes to homogeneity requirements in 2010 for both group rating and group retrospective rating. Ms. Falls also noted that if refund of premiums is by cash, then cash management by the Finance Department will be more difficult.

Mr. Hummel remarked that the deadlines seem late. Ms. Bush replied that BWC was aware that deadlines were later; however, the program will be in its first year and enrollment is predicted to be smaller.

Mr. Pitts moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendations to adopt Rule 4123-17-73 of the Administrative Code, Group Retrospective Rating Program. The Rule creates a Group Retrospective Rating Program for employers. The motion consents to the Administrator adopting the Rule as presented here today. Mr. Caldwell seconded and the motion was approved by unanimous roll call vote.

Mr. Bryan requested that BWC provide a report at the September or October meetings on the progress of this program, initial enrollment, and technical issues such as loss development factors.

PREMIUM DISCOUNT PROGRAM, OHIO ADMINISTRATIVE CODE RULE 4123-17-70

Tina Kielmeyer, Chief of Customer Service, recommended rescission of Ohio Administrative Code Rule 4123-17-70 on the Premium Discount Program Plus and approval of a new rule on the Ten Step Business Plan For Safety. The recommendation was first read at the March meeting and, while there are no changes to report, however, there was a word omitted in error that was brought to the Board's attention. The word "value" following "organizational" in ¶ (B) (1) should be added to the rule.

Mr. Bryan asked how the Ten Step Program is implemented. Ms. Kielmeyer responded an employer must implement it over a two-year period, with steps one, two, six, and two others completed in the first year and the rest completed in the second year.

Mr. Hummel asked how many employers are currently enrolled in the Ten Step Program. Ms. Kielmeyer replied the current census is 2,562.

Mr. Price asked what reasons were given by stakeholders to agree with rule. Ms. Kielmeyer replied that the existing rules were adopted to help penalty-rated employers control costs. However, BWC now has other alternatives such as the deductible program, group retrospective rating, the decrease in the base rate, and the reduction of the non-group off-balance. Mr. Price requested that comparisons between programs be provided to the Workers' Compensation Board in writing. He repeated his observation that many employers report to him that they need BWC discounts to remain in business. Ms. Kielmeyer replied that PDP served as mostly a bandage because of inequities in premium programs, and overall program changes will remove the inequities. Mr. Price added that the Drug Free Workplace Program (DFWP) was more than a monetary incentive, and served other important needs as well.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendations to rescind Rule 4123-17-70 of the Administrative Code, Premium

Discount Program Plus, and replace the Rule with new Rule 4123-17-70, Ten Step Business Plan for Safety. The motion consents to the Administrator rescinding and adopting the rules as presented here today. Mr. Hummel seconded and the motion was approved by unanimous roll call vote.

DRUG FREE WORKPLACE PROGRAM MODIFICATION, OHIO ADMINISTRATIVE CODE RULES 4123-17-58, 4123-17-58.1 & 4123-17-64

Ms. Kielmeyer recommended amendment of the Drug Free Workplace Program rules, Ohio Administrative Code Rules 4123-17-58, 4123-17-58.1, and 4123-17-64, to prevent stacking of the drug free discounts with other discounts available in group rating and group retrospective rating. DFWP has been available since 1997, but has only been used by 14,000 employers. The Deloitte Consulting LLP study noted that the discounts provided are greater than those available in other states. Despite removal of discount stacking, employers may participate in the program, receive grants and take advantage of BWC consulting resources.

Mr. Hummel reported that he believed in the value of the DFWP and its discount and requested that the Workers' Compensation Board review this recommendation in the future in connection with evaluation of all employer programs. Mr. Pedrick added that the DFWP without a discount provides a monetary benefit by preventing accidents.

Marsha Ryan, BWC Administrator, stated that BWC will look at stacking later after more equity is restored to premium programs. Mr. Caldwell added all programs should be subject to review.

Ms. Falls remarked on a letter from safety councils opposing removal of incentives and asked if they still opposed removal. Ms. Kielmeyer replied that the safety councils were mostly concerned with the safety council incentive. BWC has provided information to the safety councils explaining why we were making changes to the stacking of discounts.

Mr. Pitts requested that Mr. Bryan add review of DFWP to the Actuarial Committee calendar and to examine programs of other states. Mr. Bryan responded the calendar would be revised to review the issue in six months.

Mr. Price asked if any discounts are still available. Ms. Kielmeyer replied that the DFWP remains available if the employer is not in group rating or group retrospective rating. Ms. Ryan added that the participation of 14,000 employers since inception of the program is small compared to the more than 200,000 total employers in the State Insurance Fund. She also noted that BWC can do better to encourage more employers to have safe workplaces.

Mr. Caldwell moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's

recommendations to amend the Drug Free Workplace Programs rules relating to stacking of discounts for group rated employers. The motion consents to the Administrator amending Rules 4123-17-58, 4123-17-58.1, and 4123-17-64 of the Administrative Code as presented here today. Mr. Pitts seconded and the motion was approved by unanimous roll call vote.

PUBLIC EMPLOYER STATE AGENCY RATE RECOMMENDAION RULE, OHIO ADMINISTRATIVE CODE RULE 4123-17-35

Mr. Pedrick recommended approval of amendment of Ohio Administrative Code Rule 4123-17-35 concerning rates for public employer state agencies. BWC recommends an overall decrease of 3.75%. The charge for Managed Care Organizations (MCOs) will rise from 9.1% to 9.9%. This is a first reading and final approval will be requested in May.

ANCILLARY FUNDS RECOMMENDATION

Mr. Pedrick recommended that there be a reduction of 10% in rates for the Marine Industry Fund; no changes in either of the Disabled Workers' Relief Funds (DWRF); and no changes in the Coal Workers' Fund. BWC will continue the moratorium on collection of premiums from coal mine operators who subscribed before 1999. This is also a first reading.

Mr. Bryan asked if the self-insured assessment rates will be on the May agenda and Mr. Pedrick confirmed they would be.

DISCUSSION ITEMS

CHIEF ACTUARIAL OFFICER REPORT

Mr. Pedrick reported that BWC has completed background checks for two new employees: the new Director for Actuarial Analysis and another new actuary. They will start in May.

Mr. Pedrick thanked Mr. Hummel for his assistance in the Request for Proposal (RFP) review for a new actuarial consulting firm.

Mr. Pedrick reported that the Actuarial Department has created a new section for Product Development. Joy Bush will be the director.

The Actuarial Department has rolled out the implementation team for implementing selected recommendations from the Deloitte report.

ACTUARIAL COMMITTEE CALENDAR

Mr. Bryan made no additional changes or comments on the Actuarial Committee calendar.

ADJOURNMENT

Mr. Hummel moved to adjourn. Mr. Pitts seconded and the motion was approved by unanimous roll call vote.

Prepared by: Larry Rhodebeck, Staff Counsel
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May 1, 2009