

ACTUARIAL COMMITTEE

Thursday, May 28 2009, 2:00 P.M.

William Green Building

30 West Spring St. 2nd Floor (Mezzanine)

Columbus, Ohio 43215

MEMBERS PRESENT: Charles Bryan, Chair
Jim Matesich, Vice Chair
James Hummel
Thomas Pitts
William Lhota, ex officio

Members Absent: David Caldwell
Other Directors Present: Alison Falls, Ken Haffey, James Harris,
Larry Price, Robert Smith

Counsel Present: John Williams, Assistant Attorney General

CALL TO ORDER

Mr. Bryan called the meeting to order at 2:00 p.m. and the roll call was taken. Mr. Bryan announced that Mr. Caldwell would not be present because of another commitment.

AGENDA

Mr. Pitts moved to adopt the agenda as presented. Mr. Matesich seconded and the agenda was adopted by unanimous roll call vote.

MINUTES OF APRIL 29, 2009

Mr. Hummel moved to approve the minutes of April 29, 2009. Mr. Matesich seconded and the minutes were approved by unanimous roll call vote.

LITIGATION

Mr. Bryan announced there would be no litigation update.

ACTION ITEMS

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

John Pedrick, Chief Actuarial Officer, recommended approval of Ohio Administrative Code Rule 4123-17-64.1, which adopts the group rating break-even factor of 1.311 for group-rated employers. When the Workers' Compensation Board approved the group rating program changes, it was not known how many employers would participate in groups during the 2009 policy year and how many groups there would be. As of the group application deadline, there will be about 95,000 employers, sixteen thousand fewer employers than in policy year 2008.

Mr. Pedrick reported that overall there is a decrease of 12%, which was anticipated. BWC has reduced by 25.3% published base rates. This brings Ohio down to the middle of the pack of neighboring states.

Mr. Lhota asked for rates for Indiana, which is the state so often compared favorably to Ohio on rates. Mr. Pitts cautioned that comparison of rates with other states can be misleading. There may also be lower injured worker benefits and a commensurate lower quality workforce. Mr. Harris reminded the Actuarial Committee that in the years BWC was returning dividends to employers, there was no consideration given to improvement of injured worker benefits.

Mr. Pedrick reported that approval of the break even factor is the final piece of the changes to group rating and is a monumental achievement. BWC has reached a 1.23 off-balance ratio, which is not likely to change dramatically in the next several years.

Mr. Pitts moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to adopt Rule 4123-17-64.1 of the Administrative Code, Group Experience Break Even Factor. The rule establishes a factor to be applied to group rating experience modifications. The motion consents to the Administrator adopting the rule as presented here today. Mr. Matesich seconded and the motion was approved by unanimous roll call vote.

ANCILLARY FUNDS RATES, DISABLED WORKERS RELIEF FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-29

Mr. Pedrick reported on rates for the four ancillary funds as recommended in the report from Oliver Wyman Consulting. First, BWC recommends no changes in the Disabled Workers Relief Fund I (DWRF I). The Private Employer rate is \$0.08 per hundred dollars of payroll. For Public Employer Taxing Districts it is \$0.06 and for Public Employer State Agencies it is \$0.05.

Mr. Bryan asked if BWC should consider changes of benefits. Elizabeth Bravender, Director of Actuarial, responded that the rates are based on United States Department of Labor cost of living changes. Oliver Wyman based its assessment recommendation on anticipated expenditures.

Mr. Bryan asked should BWC analyze DWRP benefits. Ms. Bravender replied that the DWRP funds are terminal funded programs. In recent years, BWC has been able to reduce DWRP I rates as the number of beneficiaries diminishes. BWC makes a close match of assessments and payments.

Mr. Pedrick reported that the Deloitte Study evaluated the DWRP funds in its report, so BWC will address them as part of the implementation of recommendations.

Mr. Matesich asked if the DWRP benefit structure can be changed by the Workers' Compensation Board. Mr. Pedrick replied it can only be changed by the General Assembly. Mr. Bryan asked if BWC should not weigh in on these benefits. Marsha Ryan, BWC Administrator, stated that the DWRP funds are one of 178 items in the Deloitte report. BWC would want to provide input on legislation. However, there are many stakeholders who would influence the decision of the General Assembly on DWRP funding and benefits.

Ms. Bravender reported that there is no change in the recommendation in funding for the DWRP 2 fund.

Mr. Matesich moved the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendations to amend Rule 4123-17-29 of the Administrative Code, Disabled Workers Relief Fund. The motion consents to the Administrator amending the rule as presented here today. Mr. Hummel seconded and the motion was approved by unanimous roll call vote.

Ms. Bravender reported that although there is no change in the rule, BWC is required to look at rates each year and affirm them and change dates of assessment.

MARINE INDUSTRY FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-19

Ms. Bravender reported that Oliver Wyman had recommended a range of changes to rates of the Marine Industry Fund from no change to a 20% reduction. The Administrator has selected a 10% reduction. There are 98 policies in force, of which 60 are reporting payroll.

Mr. Hummel asked how many employers are covered. Ms. Bravender replied she did not have that information today, but would provide it.

Mr. Pedrick added that the recommendation is part of an overall decline in trend. The last premium increase was in 1983.

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 4123-17-19 of the Administrative Code, Marine Industry Fund. The motion consents to the Administrator amending the rule as presented here today. Mr. Matesich seconded and the motion was approved by unanimous roll call vote.

COAL WORKERS PNEUMOCONIOSIS, OHIO ADMINISTRATIVE CODE RULE 4123-17-20

Ms. Bravender reported that the Coal Workers Fund has thirty-eight employers, of whom seven pay premiums. The moratorium on premiums against the rest is because of a high level of assets. BWC recommends no change in rates and continuance of the moratorium.

Mr. Bryan asked if there were any changes in federal law on the program. Ms. Bravender reported there were none.

Mr. Smith asked if assets were affected by investments. Mr. Pedrick replied that the fund has increased by investment incomes. Mr. Smith asked if the new subscribers should also be relieved of premiums. Mr. Pedrick replied that the new employers should pay into the Coal Workers Fund as a matter of premium equity. Also, the Coal Mine Safety program at the Ohio Department of Natural Resources takes some of the fund's investment income for its programs.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendations related to Rule 4123-17-20 of the Administrative Code, Coal Workers Pneumoconiosis Fund. The motion consents to the Administrator retaining without change the current rates in the Coal Workers Pneumoconiosis Fund rule as presented here today. Mr. Hummel seconded and the motion was approved by unanimous roll call vote.

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

Mr. Pedrick recommended approval of Public Employer State Agency rates via amendment of Ohio Administrative Code Rule 4123-17-35. BWC recommends a 3.75% reduction. Although expenses are increasing, BWC has eliminated the deficit of the PES fund which existed in recent years and there is an increase in payroll. The assessment for MCOs is 9.91% of premiums before adjustment for 2009 actual costs; the effective MCO rate after adjustments is 10.42%.

Mr. Harris observed that he understood why the rate would be high for the Department of Youth Services and the Department of Rehabilitation and Corrections. However, the rate is also high for the Exposition Commission and that agency would appear to need help with safety issues. Ms. Ryan replied that the Exposition Commission has many part-time and temporary employees during expositions. BWC Safety and Hygiene has reached out to the agency and is working on safety programs.

Mr. Pitts moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approved the Administrator's recommendations to amend Rule 4123-17-35 of the Administrative Code, State Agency Rates. The motion

consents to the Administrator amending the rule as presented here today. Mr. Hummel seconded and the motion was approved by unanimous roll call vote.

**CRITERIA FOR GROUP EXPERIENCE RATING, OHIO ADMINISTRATIVE CODE
RULE 4123-17-61**

Ms. Kilmeyer recommended approval of Ohio Administrative Code Rule 4123-17-61 regarding lapse requirements associated with qualifying for group experience rating. The group rating rules were changed in March, effective for policy years beginning in 2010. However, the lapse requirements for policy year 2009 need to be restored.

Mr. Haffey asked if this restores the fifty-nine days of the previous rule and Ms. Kilmeyer replied that the amendment restores the fifty-nine day period. Mr. Matesich asked if the provision in paragraph (A) would be reflected in the group rating manual and Ms. Kilmeyer confirmed it would.

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 of the Administrative Code relating to an employer's cumulative lapses in coverage as criteria for group rating eligibility. The motion consents to the Administrator amending Rule 4123-17-61 as presented today. Mr. Matesich seconded and the motion was approved by unanimous roll call vote.

RULES FOR FIRST READING

**ADMINISTRATIVE COST FUND ASSESSMENTS, OHIO ADMINISTRATIVE CODE
RULE 4123-17-36**

Tracy Valentino, Chief Financial Officer, recommended approval of amendments to Ohio Administrative Code Rule 4123-17-36 regarding Administrative Cost Fund (ACF) assessments to employer groups. For fiscal year 2010, BWC is proposing a budget of \$274 million, which is less than the fiscal year 2006 budget of \$289 million. The allocation base for premiums is sharply decreased. The methodology for computation is set forth in the executive summary. BWC will be looking at the June 20 cash balance before setting the final assessment rate.

Mr. Matesich noted that the 98% of the contributions for the Workers' Compensation Council comes from private employers. Ms. Valentino replied the actual amount is 75%. She added that the only changes in the rule are in the rates.

Ms. Ryan stressed that there are different methods of budgeting. Rather than take last year's amount and multiply by a percentage, BWC has looked at an alternative that more closely reflects the need to hold down costs in these times.

SELF-INSURING EMPLOYER ASSESSMENTS, OHIO ADMINISTRATIVE CODE RULE 4123-17-32

Terry Potts, Supervisor, Actuarial Department, recommended setting of the assessments for self-insuring employers. The rates are effective July 1, 2009, and will be paid in 2010. The rates are based on the funds' balances as of December 31, 2010. There is no change in the assessment to the Self-Insuring Employers' Guaranty Fund. The rates may be changed for the second reading next month, depending on the number and types of bankruptcies which may arise.

Mr. Harris asked about the decline in the assessment for Safety and Hygiene. Ms. Bravender replied that reduction was a function of the available cash balance and the lack of demand from employers.

Mr. Pedrick added that the Guaranty Fund assessment was made using certain assumptions about insolvencies of manufacturing employers. The fund balance is still more than the minimum needed.

Mr. Potts reviewed graphs set forth in the executive summary. Spikes in expenditures in this decade were the result of insolvencies in the steel-making and retail grocery sectors.

QUARTERLY RESERVE UPDATE

Jeff Scott, Principle, Oliver Wyman, reported that the reserve is still being calculated. In past years, Oliver Wyman used June 30 as the cut-off date and finished its calculations in September. For 2009, it will use March 31 and project a fourth quarter of claims experience. Oliver Wyman met with the external auditor, Schneider Downs, to discuss the data to be given to its actuary. The reserve audit will be part of the fiscal year financial audit. The reserves will use a discount rate of 4.5% instead of 5%.

Barb Ingram, Director of Accounting, reported that the 4.5% discount rate will be incorporated in financial statements which close June 30. Mr. Scott added that a change to 4.5% will lead to a decrease in net assets in the State Insurance Fund of \$700 million. Also, Oliver Wyman will be using a medical inflation rate of about 8%.

Ms. Falls asked if the net surplus is \$1.5 billion, would not the discount rate change result in a \$525 million decrease. Mr. Scott replied that the third and fourth quarters of the fiscal year are showing better than expected pay-outs, which leads to almost no change in net assets.

Mr. Scott further reported that the National Council on Compensation Insurance has completed a new report on medical inflation, which Oliver Wyman will incorporate into the reserve report.

Mr. Bryan asked if Oliver Wyman will be issuing an actuarial opinion. Mr. Scott replied that an opinion was included in its prior two years' audit reports. However, an opinion that comports with NAIC standards is not available. The NAIC permits such an opinion on funds if the discount rate is applied only to tabular reserves and the rate is no greater than 2.5%.

PUBLIC EMPLOYER TAXING DISTRICTS CREDIBILITY TABLE, OHIO **ADMINISTRATIVE CODE RULE 4123-17-33.1**

Mr. Pedrick reported that the credibility table for Public Employer Taxing Districts will be submitted next month for approval. Like the table for private employers, the maximum rate will be 77%. The table is being revised because at this time of year many school districts set budgets. BWC does not anticipate as great a variation in rates for this class of employers.

CHIEF ACTUARY REPORT

Mr. Pedrick reported that approval of the break even factor is the last piece of the group rating change.

Mr. Pedrick introduced Zia Rehman who has been hired as Director of Actuarial Analysis. Mr. Rehman is a Fellow of the Casualty Actuarial Society and member of the American Academy of Actuaries. He most recently worked for AIG.

Mr. Pedrick reported that BWC has begun implementation of the Deloitte Study recommendations. He introduced Jim Fograscher, team leader.

BWC will be developing a deductible plan for Public Employer Taxing Districts.

ADJOURNMENT

Mr. Pitts moved to adjourn. Mr. Matesich seconded and Mr. Bryan adjourned the meeting after the motion was approved by unanimous roll call vote.

Prepared by: Larry Rhodebeck, Staff Counsel

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June 4, 2009