BWC Board of Directors

ACTUARIAL COMMITTEE

Thursday, July 30, 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, Ken Haffey, James Harris, Larry Price, & Robert Smith
Counsel Present:	James Barnes, Chief Legal Counsel

CALL TO ORDER

Mr. Bryan called the meeting to order 12:30 p.m. and the roll call was taken. All members were present.

MINUTES OF JUNE 18, 2009

Mr. Hummel moved to approve the minutes of June 18, 2009. Mr. Caldwell seconded and the minutes were approved by roll call vote of six ayes and no nays.

AGENDA

Mr. Caldwell moved to adopt the agenda as presented. Mr. Pitts seconded and the agenda was adopted by a roll call vote of six ayes and no nays.

EXECUTIVE SESSION—LITIGATION UPDATE

There was no litigation update and no executive session.

ACTION ITEMS

RULES FOR FIRST/SECOND READING

PRIVATE EMPLOYER CREDIBILITY TABLE FOR JULY 1, 2010, OHIO ADMINISTRATIVE CODE RULE 4123-17-05.1

John Pedrick, Chief Actuarial Officer, reported on the Private Employer Credibility Table to be adopted for the 2010 policy year. He reviewed prior credibility tables which reduced the maximum discount available from 95% to the current maximum of 77%. The proposed table will reduce the maximum credibility further to a 65% maximum and increase the minimum level from 10% to 16%. BWC will be asking for a vote in September and the table is presented today for discussion and to allow interested parties to have information as soon as possible about this table. This is the most likely version of the final table; however, as further discussion of the structure for group rating and the split experience rating plan move forward, there could be adjustments to it.

Mr. Pitts asked how the table is applied. Mr. Pedrick replied that if an employer with expected losses in excess of $1,000,000 has zero accidents, then it can receive a 65% discount. If its accident rate is one-half of predicted losses, then its discount is about 32%.

Mr. Pitts asked how many employers qualify for the 65% discount. Mr. Pedrick replied that very few do and that most employers are in a lower range. Mr. Bryan commented that the disparities arise from group rating because many groups could qualify for the maximum discount due to credibility of the group.

Mr. Bryan reported to the Actuarial Committee that the technical derivation of the credibility table could be obtained from Mr. Pedrick and Elizabeth Bravender, Actuarial Director.

SPONSORSHIP MARKETING RULE, OHIO ADMINISTRATIVE CODE RULE 4123-17-61.1

Tina Kielmeyer recommended amendment of Ohio Administrative Code Rule 4123-17-61.1 on Group Sponsor Marketing. The first reading was at the June meeting and so this was a second reading. The Workers' Compensation Board and Administrator Marsha Ryan have received many complaints that some sponsors are falsely marketing group plans with promises of unattainable discounts. BWC will use these changes for the 2009 policy year and then evaluate their effectiveness. Ms. Kielmeyer reported that there was overwhelming—although not unanimous—support from stakeholders.

Mr. Bryan asked for an example of criticisms of the changes. Ms. Kielmeyer responded that some stakeholders complained misbehavior by brokers should not result in discipline of sponsors. However, it was determined that sanctions against sponsors would be the most effective approach. The rule explains violations and clarifies the sanctions. For example, sponsors may not provide false information, assert endorsement by BWC, or promise unattainable discounts. An example of a sanction is: If the sponsor asserts an unattainable discount in the course of its marketing, then the BWC will designate the sponsor "at capacity" and prohibit it from sponsoring additional groups. BWC may also revoke the certification of the sponsor.

Mr. Matesich asked what was the meaning of "must substantially" in ¶ (D) of the rule? Ms. Kielmeyer responded that was the most discussed of all the group rating reforms. The amendment of the sponsorship rules details requirements of safety training, safety consultants, and report cards on sponsors, thus defining "substantially."

Mr. Matesich requested periodic reports to the Workers' Compensation Board on the application of sanctions including the number of sponsors with sanctions and the reasons for the sanctions.

Mr. Matesich asked what the procedures for handling complaints on false marketing are. Ms. Kielmeyer replied that the procedures will be set forth in BWC policies. They will be similar to those used to evaluate violations by Managed Care Organizations (MCOs), and will most likely be handled through the Adjudicating Committee process.

Mr. Price asked if there is a list of participants for stakeholder comments. Ms. Kielmeyer stated BWC will provide it to the Workers' Compensation Board by the time of the meeting on which this will be voted.

Mr. Lhota asked if the annual report required under ¶ (K) (3) will include only those sponsors who have been completely vetted for violations. Ms. Kielmeyer replied that the report will only include sponsors who have had complete due process.

Mr. Matesich 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. Pitts seconded and the motion was approved by a vote of six ayes and no nays.

DISCUSSION ITEMS

QUARTERLY RESERVE UPDATE

Mr. Pedrick reported on the time-frame for setting the reserve for the financial statement liabilities. This year, for the first time, BWC used data as of March 31 to perform the annual reserve audit for the end of the fiscal year. The actuarial audit is reviewed and discussed with the Workers' Compensation Board in June through August. In August, the draft audit is reviewed by the Actuarial and Fiscal & Planning Departments; the actuarial opinion and final reserve audit is issued; the Chief Actuarial Officer recommends the liability for claim expense; and draft financial statements are completed. The independent auditor's report is filed with the Auditor of State by September 30 and the actuarial reserve audit is filed with the standing committees of the Ohio General Assembly and the Workers' Compensation Council by November 1. Changes in assumptions and methodologies were discussed in prior months. BWC can refine the time-line as needed.

Zia Rehman, Director of Actuarial Analysis, reported on the reserve reconciliation. His presentation used data as of March 31, 2009, but excluded expenses for the Health Partnership Program (HPP) and self-insured claims prior to 1987. This audit estimates that the reserve for all years up through June 30, 2008, the evaluation date of the previous audit, declined by $965 million. This decline is due to the combination of a release of reserves through payments or reevaluations and the accrual of investment income. The medical inflation change was responsible for an additional reduction of $1.2 billion. The reduction of the discount rate from 5% to 4.5% increased reserves by $602 million. The most recent accident year, July 1, 2008 through June 30, 2009 requires an additional reserve of $1.4 billion. The total of all these effects results in a reserve of $14,674,043,000, a decline of $164 million. Most of the change is derived from a decline of $176 million in reserves for Public Employer Taxing Districts. Private employer reserves increased by $88 million. The remainder of the change is due to a decrease of $77 million for Public Employer State Agencies.

Mr. Bryan asked if the discount rate differed for each employer district. Mr. Rehman replied that a uniform discount rate was applied to all employers. He added he would research the desirability of doing so. Mr. Pedrick added that BWC has thought of using different discount rates for different types of injury.

Mr. Smith asked why the reserve for public employer taxing districts declined. Jeff Scholl, Principal, Oliver Wyman, responded that the persistency factors for public employers have declined further than for other employers.

Mr. Matesich asked if this report was compared with data of the Enterprise Report and what is the correlation in charts of medical and indemnity of reserves. Mr. Rehman reported the data was compared and that both reflect a decline in losses.

Mr. Pitts asked is there a reworking of claims reserves for claims in past years. Mr. Rehman replied that there is.

Mr. Scholl discussed the reporting of the reserves in accordance with Government Accounting Standards Board Standard Statement No. 10 (GASB 10). Unpaid losses of the State Insurance Fund and ancillary funds totaled $19.435 billion at the beginning of the fiscal year. The total incurred for the year was $2.1 billion and the total paid was $2.3 billion. At the end of the year the total unpaid loss of the State Insurance Fund plus ancillary funds was $19.289 billion.

Mr. Pitts asked why the incurred portion from prior fiscal accident years was only $19 million, whereas it was $449 million for 2008. Mr. Scholl replied there was less change in the incurred portion of prior years' losses in 2009 than prior years. Mr. Bryan also stated that a $19.4 billion unpaid loss is a very large base for computation.

Mr. Scholl further reported on two other GASB 10 exhibits which include all funds which BWC administers and which exhibit the change of the discount rate from 5% to 4.5%. The net effect of the change is an increase of $869.8 million in liabilities.

UPDATE ON COMPREHENSIVE RATE REFORM

Mr. Pedrick reported on progress in comprehensive rate reform. The update was based on a presentation for stakeholders on the Public Employer Taxing Districts (PECs). The desired outcomes include rate equity for all non-group employers, retrospectively rated employers, and group public employer entities; moving towards a uniform off-balance factor, and determining whether group public employer entities are making progress towards paying rates that reflect their risk. The analysis was similar to that undertaken for private employers.

The BWC findings are that PEC group employers generate costs that are 30% lower than average, using base premiums; non-group employers generate costs that are 10% higher than average using base premiums; the overall public employer off-balance is 1.09; and the retro program is priced appropriately. The differences with analysis of private employers arose because a larger percentage of PECs are in retro policies. The move to a uniform off-balance of a 1.00 target improves equity with each manual. However, at the present time there are industry groups with a significant off-balance, such as villages (1.693) and PECs with volunteer workers such as firemen, known as "contract coverage" (1.687).

Mr. Bryan asked what the significance of the village off-balance is. Mr. Pedrick replied that BWC would have to apply a break even factor of 1.66 for group employers to offset the reduction in the rates for the non-group rated PECs.

Mr. Pedrick further reported that early scenarios use a 10% decrease in the base rate for discussion purposes and that a final proposal will be presented in August. The impact on each class was illustrated.

The last piece of the rate reform for PECs is the break-even factor. More than one factor is needed because of differences in each industry. The range is 1.11 to 1.66. The results for the book of business are, first, that BWC provides rates for non-group and retro employers that reflect their risks (costs are 10% higher than average). Second, BWC can implement a standard off-balance factor. Third, a stratified break-even factor provides equitable distribution of costs among classes that drive the off-balance. Finally, the break-even factor does not increase PEC premiums in the aggregate. The policy impacts are that 42% of policies see a premium decrease and another 33% see an increase of less than 5%. The next steps are to present the finalized rate indication to the August meeting; finalize the stratified break-even factors; and demonstrate the full impact of the plan.

Mary Yorde, Employer Program Unit Supervisor, recommended amendment of Ohio Administrative Code Rule 4123-17-62 on group rating deadlines. BWC is recommending two changes, applicable only to PECs: The deadline for notice from the sponsor to the employer for only policy year 2010 is changed from August 14 to September 16, 2009. Also, the application for group coverage deadline is changed from August 28 to September 30, 2009. All stakeholders have agreed to the change and had advocated for it.

Mr. Bryan asked if there were objections from the Actuarial Committee to waiving the first reading of the rule revision. Hearing none, he called for 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 4123-17-62, Application for Group Experience Rating, to extend the deadline for filing public employer taxing district group rating applications in accordance with the staff request. The motion consents to the Administrator amending Rule 4123-16-62 as presented today. Mr. Hummel seconded.

Mr. Price asked if there should be a vote to waive the first reading of the rule. Ms. Falls replied that the Governance Committee felt there were too many procedural votes on committee matters and recommended that a waiver of the first reading should be handled as Mr. Bryan had done.

Mr. Matesich and Mr. Bryan asked if the motion addresses the change of dates. Mr. Pitts replied that the dates need not be specific in the motion because the changes are included in the amended rules.

Mr. Lhota reported that Governance Guidelines do not require a vote to waive the first reading.

The motion was approved by a roll call vote of six ayes and no nays.

H. B. 100 COMPREHENSIVE STUDY/DELOITTE RECOMMENDATIONS

Jim Fograscher, Project Manager for implementation of the Deloitte Recommendations, reported on timelines for implementation. BWC received the final report in April 2009. BWC formed an internal team to digest its provisions and prioritize them. In the executive summary and table, if any item is to be "addressed" that means BWC will begin work, not necessarily complete it during the fiscal year 2010. The Legal Division has advised that more than one-half of the recommendations may need enabling legislation. The first two priorities are in experience rating and group rating. The next two are MCO effectiveness and medical payments. The fifth and sixth are safety and self-insurance. With respect to priorities, BWC has three groupings: several recommendations have been implemented, about half (seventy) will be addressed in fiscal year 2010, and the remainder (64) will be addressed later.

Mr. Haffey requested a quarterly update on the table and progress on the implementation.

INTRODUCTION OF ACTUARIAL CONSULTANT—DELOITTE CONSULTING LLP

Mr. Bryan introduced five of the members of the new actuarial consultant team from Deloitte Consulting LLP. They are Jan Lommele, Lead Actuary; Bob Miccolis, Senior Advisory Actuary & Alternate Lead Actuary; Dave Heppen, Surplus/

Reinsurance Lead and Pricing & Programs Project Lead; Bill Van Dyke, Loss Reserves Project Lead; and Dick Messick, Project Management Coordinator. Mr. Lommele described the training and experience of each member present and other Deloitte members assigned to the contract. In particular, Mr. Lommele described predictive analytics and personnel who would work on them.

CHIEF ACTUARIAL OFFICER REPORT
Mr. Pedrick emphasized the first paragraph of page 2 of his monthly report. There he extends his thanks for service from not only the Actuarial Division staff, but those from Information Technology, Employer Services, Communications, Fiscal, and Legal.

Mr. Matesich asked if it were possible to include reports on group performance and add information on homogeneity approvals. Mr. Pedrick responded that staff could provide that information in the future.

COMMITTEE CALENDAR
Mr. Bryan requested that any changes or additions to the calendar be given to him.

ADJOURNMENT
Mr. Matesich moved to adjourn. Mr. Caldwell seconded and Mr. Bryan adjourned the meeting after the motion was approved by roll call vote of five ayes and no nays. Mr. Lhota had left the meeting prior to adjournment.

Prepared by: Larry Rhodebeck, Staff Counsel
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August 3, 2009