Common Sense Business Regulation (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

Rules 4123-17-03

Rule Review

1. ☒ The rule is needed to implement an underlying statute.

   Citation: __R.C. 4123.29, 4123.34 ___

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): _ Rule 4123-17-03 establishes the formula for calculating the experience modification for workers' compensation rates. This amendment is being made to eliminate the policy year specificity and make the rule more generic, reducing the likelihood of bringing the rule back every six months to update the effective policy years.

3. ☒ Existing federal regulation alone does not adequately regulate the subject matter.

4. ☒ The rule is effective, consistent and efficient.

5. ☒ The rule is not duplicative of rules already in existence.

6. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. ☒ The rule has been reviewed for unintended negative consequences.

8. ☒ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   Explain: __Third Party Administrators; Group rating sponsors_________________

9. ☒ The rule was reviewed for clarity and for easy comprehension.

10. ☒ The rule promotes transparency and predictability of regulatory activity.

11. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost? _____________

13. ☒ The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

Executive Summary

Employer Classification Rates

Introduction
Rule 4123-17-03 of the Administrative Code contains the methodology to calculate an employer's experience modification percent (EM), including language that implements the 100% EM cap.

Background Information
In October 2009 the board of directors approved a change to this rule to include the methodology for applying the 100% EM cap to public employer taxing districts effective with the policy year beginning January 1, 2010.

Rule Changes
Paragraph (G) and (H) of rule 4123-17-03 have been amended to remove language that is specific to a particular policy year and insert language that makes this rule effective for each succeeding policy year with references to the current and prior policy years, rather than specific policy years.

Executive summary
The Administrator is recommending that the EM cap methodology be applied in future rating years without the need to revisit the rule each year. The intent of the rule is to limit the premium fluctuations for an employer from year to year to no more than a 100% increase. These changes will allow BWC to continue to implement the 100% EM cap without coming to the board every six months to update the specific policy years. The recommended changes are applicable to both private employers and public employer taxing districts.

4123-17-03 Employer's classification rates.

(A) An employer's premium rates shall be the manual basic rates as provided under rules 4123-17-02, 4123-17-06, and 4123-17-34 of the Administrative Code for each of its classifications except as modified by its experience rating, and shall apply for the first two six-month periods beginning on or after the first of July for private employers and shall apply for the calendar year beginning on or after the first of January for public employer taxing districts.

(1) In calculating the manual base rate under this rule, the bureau shall exclude the experience of an employer that is no longer active if the inclusion of the inactive employer's experience would have a significant negative impact upon the remaining active employers in a particular manual classification.

(2) The calculation of the base rate and the experience rate shall be applied to all employers reporting payroll in the manual classification, whether or not the premiums of the individual employers are reduced.

(3) Once the bureau has determined that the loss data of a specific inactive employer shall be removed from the manual classification experience, the bureau shall exclude the data of that employer from all future manual classification rate calculations. If that inactive employer reactivates its account with the Ohio state insurance fund, the bureau shall include the loss data in rate calculations for the manual classification.

(4) As used in this rule, an employer that is "no longer active" or is "inactive" is defined as an employer that satisfies all of the following criteria:

(a) The employer is assigned the policy status "bankrupt cancel," "cancel effective date," "final cancel," "canceled uncollectible," "no coverage due to claim," or "no coverage;"

(b) The employer is not reporting payroll;

(c) The employer is not paying premiums or assessments to the Ohio state insurance fund as of the rate cut off date under either its own identity, the identity of any successor entity, or as a self-insured entity; and

(d) The employer does not employ employees for which Ohio workers' compensation jurisdiction would apply.

(5) As used in this rule, a "significant negative impact" is defined as occurring when the inactive employers in the manual reported forty per cent or more of the payroll in the manual classification in any calendar year in the experience period and when the loss rate and loss/premium ratio of the inactive employers taken as a whole are significantly higher than those of the active employers taken as a whole as measured using the data from the prior policy year's most current four years data. For private employer rates effective July 1, 1997, the bureau shall use the experience period data of the current policy year.

(B) An experience-rated employer's manual classification rate modification (credit or debit) shall be determined by multiplying its experience modification (EM) times the basic manual rate for each assigned manual classification. The amount of the modification shall then be subtracted from or added to the respective basic rate to obtain the employer's premium rate for each classification.

(C) The experience modification (EM) shall be determined on the basis of the employer's experience and applied to the basic rate. The experience modification is determined in accordance with the following formula:

Subtract the TLL from the TML (TML – TLL), then divide by the TLL; multiply the resulting number by the C%; which will equal the EM.

TML = Actual losses of the employer for the experience period as reduced in accordance with the maximum value.

TLL = Total limited losses = TEL x LLR

TEL = Total expected losses as determined by applying the national council of compensation insurance (NCCI) expected loss rate to the NCCI classification payroll of each NCCI classification in the employer's experience period, as provided in appendix A to rule 4123-17-05.1 of the Administrative Code for private employers and rule 4123-17-33.1 of the Administrative Code for public employer taxing districts. The total expected losses are then used to determine credibility group, credibility, and the maximum value of a loss.

LLR = Limited loss ratio. This ratio is calculated for each credibility group within each industry group and is published as Table 1, Part B, in rule 4123-17-05 of the Administrative Code for private employers and Part B of rule 4123-17-33 of the Administrative Code for public employer taxing districts.

C% = Credibility given to an employer's own experience. Credibility is assigned by applying the employer's total expected losses to Table 1, Part A, in rule 4123-17-05.1 of the Administrative Code for private employers and rule 4123-17-33.1 of the Administrative Code for public employer taxing districts.

EM = Credit or debit applied to the basic rate.

(D) The "experience period" shall be the oldest four of the latest five calendar years immediately preceding the beginning of the payroll reporting period to which the revised rates are applicable.

(E) Experience modification per cent (EM) shall be subject to the following conditions and limitations:

(1) Actual losses include all incurred costs and shall be limited at the claim level to the amounts provided in Table 1, Part A, to rule 4123-17-05.1 of the Administrative Code for private employers and rule 4123-17-33.1 of the Administrative Code for public employer taxing districts according to the total expected losses of an employer;

(2) An employer shall not be eligible for experience modification of basic rates unless its expected losses are at least the minimum amount in the credibility table as provided in Table 1, Part A, to rule 4123-17-05.1 of the Administrative Code for private employers and rule 4123-17-33.1 of the Administrative Code for public employer taxing districts, as periodically established for the applicable rating period by rule adopted by the administrator with the advice and consent of the bureau of workers' compensation board of directors;

(F) Commencing with the rating year beginning July 1, 1987, and all subsequent rating years, all manual classifications of the state insurance fund are subject to experience rating (i.e., merit rating).

(G) Private employer year-to-year cap: Commencing with the rating year beginning July 1, 2009, the bureau shall cap or limit at one hundred per cent the increase to the employer's experience modification (EM) from the ~~July 1, 2008~~ prior rating year published EM. The bureau will not adjust the prior rating year published EM for the purposes of determining the cap for the current rating year. The bureau will not apply a cap to any EM decreases.

(1) Eligibility requirements:

(a) The employer shall be current as of June first immediately prior to the policy year to which the cap will be applied (not more than forty-five days past due) on any and all premiums, assessments, penalties or monies otherwise due to any fund administered by the bureau, including amounts due for retrospective rating.

(b) The employer cannot have cumulative lapses in workers' compensation coverage in excess of forty days within the twelve months preceding June first immediately prior to the policy year to which the cap will be applied.

(c) The bureau will only apply the cap to a policy that has an initial published EM of 1.01 or greater. Any subsequent adjustments to the initial published EM will not affect the employer's cap eligibility, including an employer that does not initially qualify for the cap.

(d) To be eligible for the cap in the first policy year, an employer must complete steps one, two, six, and any other two steps of the ten step business plan for safety of rule 4123-17-70 of the Administrative Code. The employer shall submit the required documentation by March thirty-first of the year in which the cap applies. To be eligible for the cap in the second year, an employer must complete the remaining steps of the ten step business plan for safety of rule 4123-17-70 of the Administrative Code. The employer shall submit the required documentation by March thirty-first of the second policy year. If the employer fails to comply with these requirements, the bureau will remove the cap for the policy year in which the requirements were not met.

(2) Opt-out provision:

The bureau will automatically apply the cap to an employer that meets the eligibility requirements of paragraphs (G)(1)(a) to (G)(1)(c) of this rule. If an employer wishes to not have the cap applied, the employer must notify the bureau in writing by September thirtieth of the policy year.

~~(3) The bureau will cap the July 1, 2009 EM at a one hundred per cent increase from the published July 1, 2008 EM which used the experience period data calculated as of December 31, 2007. The bureau will not adjust the July 1, 2008 published EM for the purposes of determining the cap for the July 1, 2009 rating year. The bureau will not apply a cap to any EM decreases.~~

~~(4)~~(3) Exclusion to the one hundred per cent EM cap: Where more than one employer policy's experience is used to develop an EM, the resulting EM is not subject to the one hundred per cent year to year cap.

~~(5)~~(4) Exceptions to the exclusion:

(a) The bureau will allow the cap to be applied to a debtor in possession policy combination as a result of bankruptcy proceedings. This transaction is a change in policy number without any change in exposure. The baseline EM of the successor will be the predecessor's ~~July 1, 2008~~ prior rating year published EM.

(b) The bureau will allow the cap to be applied to a succeeding employer policy that is base rated as of the effective date of the transfer that wholly or partially succeeds only one other policy. This exception acknowledges the change in exposure. The baseline EM of the successor will be the predecessor's ~~July 1, 2008~~ prior rating year published EM.

(H) Public employer taxing district year-to-year cap: Commencing with the rating year beginning January 1, 2010, the bureau shall cap or limit at one hundred per cent the increase to the employer's experience modification (EM) from the ~~January 1, 2009~~ prior rating year published EM. The bureau will not adjust the prior rating year published EM for the purposes of determining the cap for the current rating year. The bureau will not apply a cap to any EM decreases.

(1) Eligibility requirements:

(a) The employer shall be current as of December first immediately prior to the policy year to which the cap will be applied (not more than forty-five days past due) on any and all premiums, assessments, penalties or monies otherwise due to any fund administered by the bureau, including amounts due for retrospective rating.

(b) The employer cannot have cumulative lapses in workers' compensation coverage in excess of forty days within the twelve months preceding December first immediately prior to the policy year to which the cap will be applied.

(c) The bureau will only apply the cap to a policy that has an initial published EM of 1.01 or greater. Any subsequent adjustments to the initial published EM will not affect the employer's cap eligibility, including an employer that does not initially qualify for the cap.

(d) To be eligible for the cap in the first policy year, an employer must complete steps one, two, six, and any other two steps of the ten step business plan for safety of rule 4123-17-70 of the Administrative Code. The employer shall submit the required documentation by September thirtieth of the year in which the cap applies. To be eligible for the cap in the second year, an employer must complete the remaining steps of the ten step business plan for safety of rule 4123-17-70 of the Administrative Code. The employer shall submit the required documentation by September thirtieth of the second policy year. If the employer fails to comply with these requirements, the bureau will remove the cap for the policy year in which the requirements were not met.

(2) Opt-out provision:

The bureau will automatically apply the cap to an employer that meets the eligibility requirements of paragraphs (H)(1)(a) to (H)(1)(c) of this rule. If an employer wishes to not have the cap applied, the employer must notify the bureau in writing by March thirty-first of the policy year.

~~(3) The bureau will cap the January 1, 2010 EM at a one hundred per cent increase from the published January 1, 2009 EM which used the experience period data calculated as of June 30, 2008. The bureau will not adjust the January 1, 2009 published EM for the purposes of determining the cap for the January 1, 2010 rating year. The bureau will not apply a cap to any EM decreases.~~

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(a) The bureau will allow the cap to be applied to a debtor in possession policy combination as a result of bankruptcy proceedings. This transaction is a change in policy number without any change in exposure. The baseline EM of the successor will be the predecessor's ~~January 1, 2009~~ prior rating year published EM.

(b) The bureau will allow the cap to be applied to a succeeding employer policy that is base rated as of the effective date of the transfer that wholly or partially succeeds only one other policy. This exception acknowledges the change in exposure. The baseline EM of the successor will be the predecessor's ~~January 1, 2009~~ prior rating year published EM.

Effective:

Promulgated Under: 111.15

Statutory Authority: 4121.12, 4121.121, 4121.13

Rule Amplifies: 4123.29, 4123.34

Prior Effective Dates: 8/19/77, 7/2/78, 7/1/79, 7/1/80, 7/1/82, 7/1/83, 7/1/87, 7/1/88, 1/1/92, 7/1/97, 9/8/97, 7/1/02, 7/21/08, 2/7/09, 05/21/09, 11/27/09

Stakeholder Feedback on the EM capping 4123-17-03 (G) and (H)

Line	Rule #	Draft Rule Suggestions	Stakeholder/Suggestions	BWC Response	Resolution
1	4123-17-03 (G) and (H)	Current: "Commencing with the rating year beginning July 1, 2009, the bureau shall cap or limit at one hundred percent the increase to the employer's experience modification (EM) from the July 1, 2008 published EM." Proposed: "Commencing with the rating year beginning July 1, 2009, the bureau shall cap or limit at one hundred per cent the increase to the employer's experience modification (EM) from the prior rating year published EM."	None	N/A	N/A
2	4123-17-03 (G) and (H)	Current: "Commencing with the rating year beginning July 1, 2009, the bureau shall cap or limit at one hundred percent the increase to the employer's experience modification (EM) from the July 1, 2008 published EM." Proposed: "Commencing with the rating year beginning July 1, 2009, the bureau shall cap or limit at one hundred per cent the increase to the employer's experience modification (EM) from the prior rating year published EM."	BWC received feedback from one stakeholder. When BWC created the cap, the group break even factor (GBEF) did not exist. With the GBEF, a group rated employer will actually pay at a higher "effective" EM than their published EM. For example, an employer in a maximum discount group for 7/1/09 has had an EM of 0.23 but an effective EM of 0.30 after the GBEF was applied. Under the interpretation of the rule, this employer will receive an EM of 0.46 for the 7/1/10 policy year. The stakeholder believes BWC should use the EM after applying the GBEF, which would result in an employer receiving a capped EM of 0.60.	BWC acknowledges the comment but does not have an issue with applying the EM cap rule as it is currently written. The intent of the EM cap is to limit an employer's premium increase to no more than 100% from year to year. The rule continues to offer that protection to employers. By applying the rule as it is currently written, some employers will not see a 100% increase in premiums, that otherwise will if the suggested change is made.	BWC will continue to apply the 100% EM cap to the prior rating year published experience modification.

Ohio Bureau of Workers' Compensation
Comparative Data
January 2010

Prepared by Actuarial Division
January 2010

Ohio Bureau of Workers' Compensation
Comparative Data
January 2010

The graphs and data in the following report were created to examine how the Ohio Bureau of Workers' Compensation (BWC) compared to the workers' compensation insurance line.

The first section, "Actuarial Data" is primarily data collected from the National Council of Compensation Insurers (NCCI) and from BWC's June 30, 2009, Actuarial Audit. NCCI presents a review of the workers' compensation insurance line each year at the NCCI Annual Issues Symposium. The materials created by Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary, were the basis for the comparison.

The second section, Payment reports, is the ten year history of BWC payments by benefit type that is reported quarterly and annually.

The last section contains the NCCI State of the Line report for 2009 and PowerPoint presentation in its entirety, downloaded from the NCCI website.

Chart Title: Ohio Bureau of Workers' Compensation Accident Year Premium

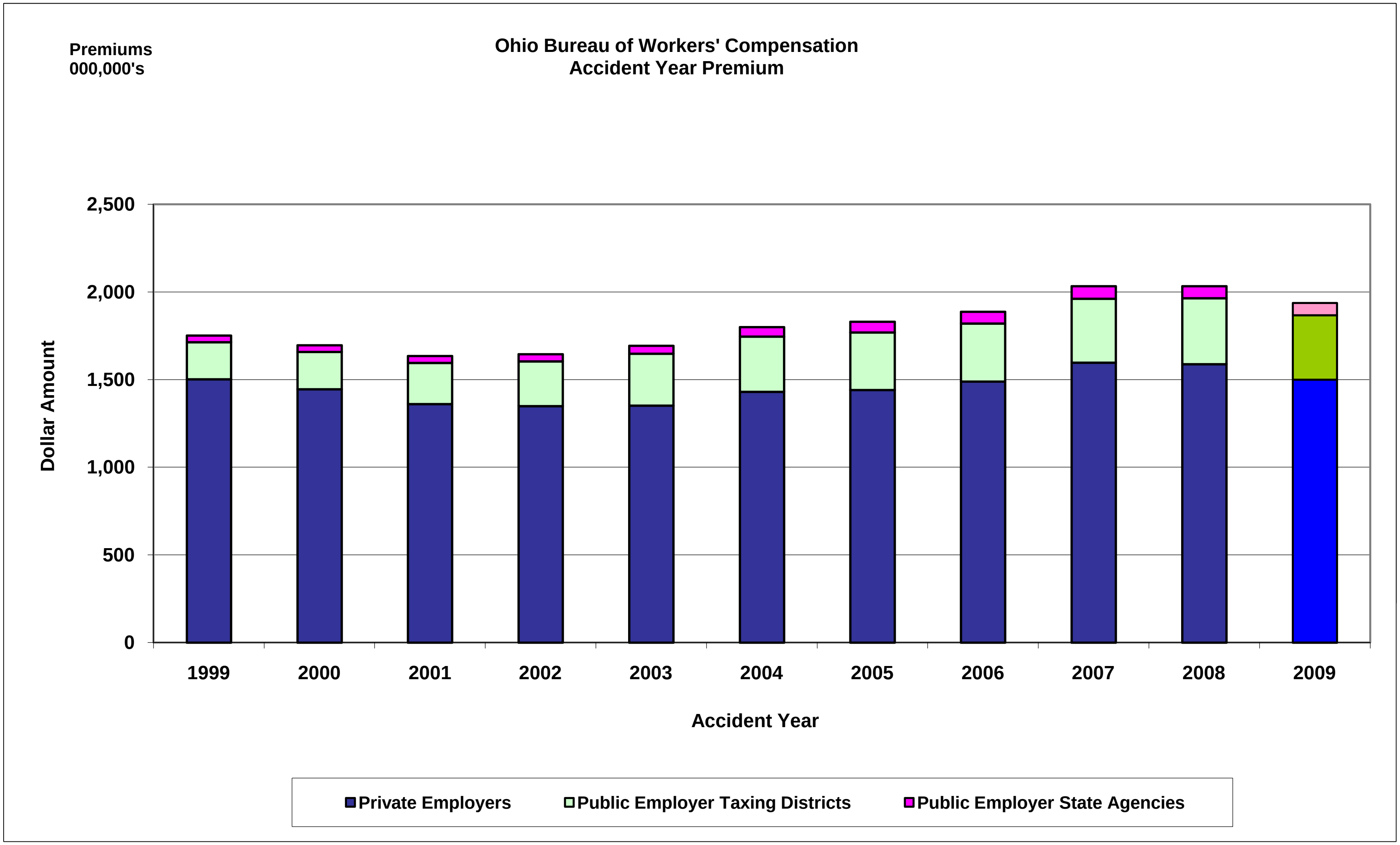
Description and Conclusions:
This chart is an eleven year history of premiums for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) by accident year. The premiums are stable for all employer groups. The cumulative change in rates for the PA employers for this eleven year period is an 11.74% rate decrease. The 2009 accident year is a different color to denote that it is estimated.

Source of Data:
The premiums are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants. Accident year 2009 is estimated.

Ohio Bureau of Workers' Compensation
History of actual premium
($000,000)

Accident Year	Private Employers	Public Employer Taxing Districts	Public Employer State Agencies	Total Premium from Private and Public Employers
1999	1,502	212	38	1,752
2000	1,445	213	38	1,696
2001	1,361	235	39	1,635
2002	1,350	255	40	1,645
2003	1,352	296	46	1,694
2004	1,431	315	54	1,800
2005	1,442	327	62	1,831
2006	1,489	331	68	1,888
2007	1,597	365	71	2,033
2008	1,589	376	69	2,034
2009	1,500	368	70	1,938
**	**750**	**184**	**35**	

**** These are the actual numbers for the 1st half of 2009. The 2nd half of 2009 is not available so we have doubled the 1st half to get an estimate for the whole calendar year.**



Source: June 30, 2009 Actuarial Audit, Oliver Wyman, Actuarial Consultants

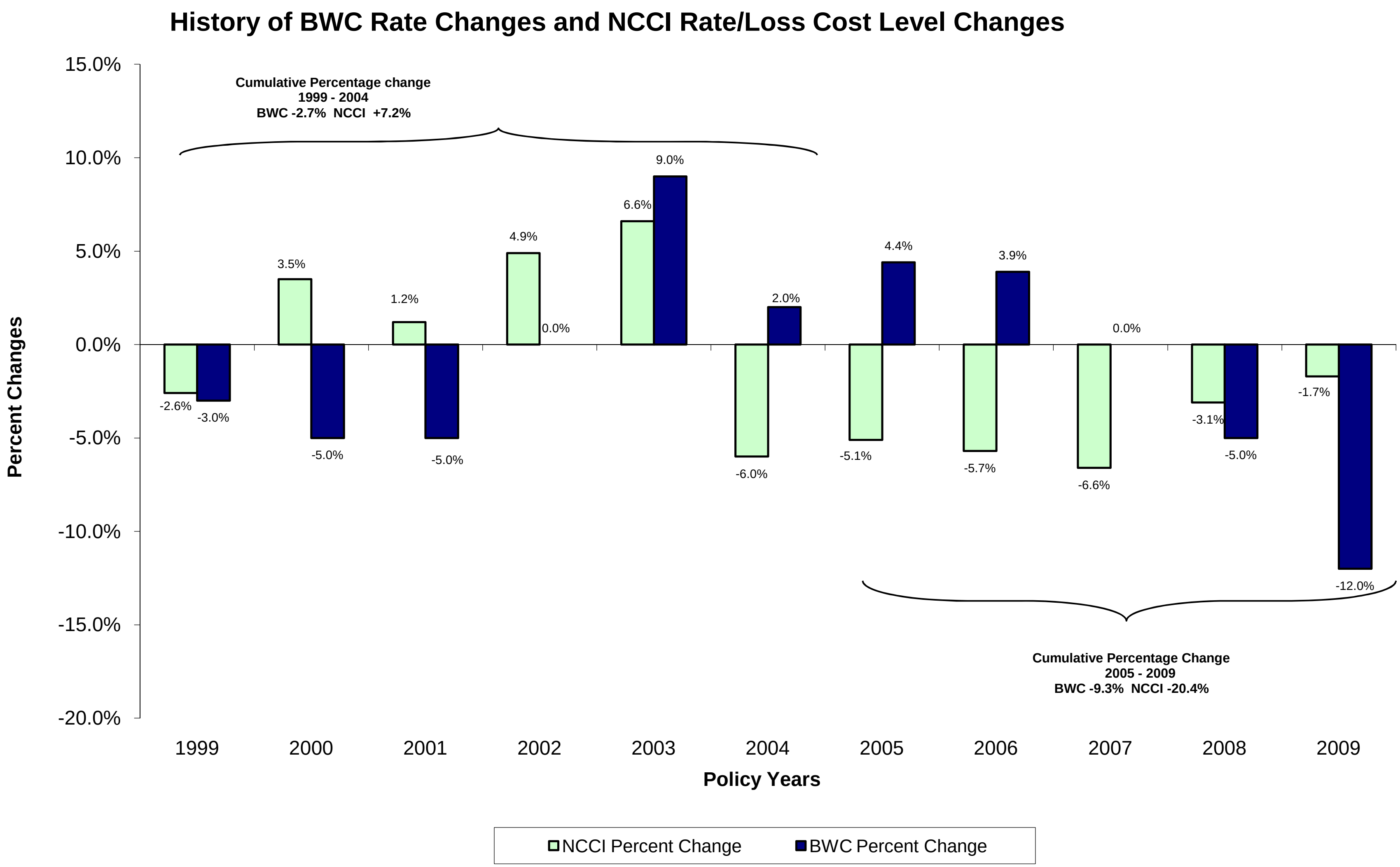
Accident year 2009 is estimated

I:\Actuarial_Confidential\Executive Reporting\Executive Reporting\Complete Copy of State of the Line Jan 2010\03a Premiums Chart.xlsx

Chart Title: History of BWC Premium Rate Changes and NCCI Average Rate/Loss Cost Changes

Description and Conclusions:
This chart shows an eleven year history of rate changes for both the Ohio BWC and the NCCI workers' compensation subscribers. For the period of 1999 through 2009, the BWC's cumulative rate change was a decrease of 11.74%, while the rest of the industry had a cumulative decrease of 14.62%. The rates used in this chart are for the Private Employer group.

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from annual rate filings.



*NCCI Annual Issue Symposium 2009

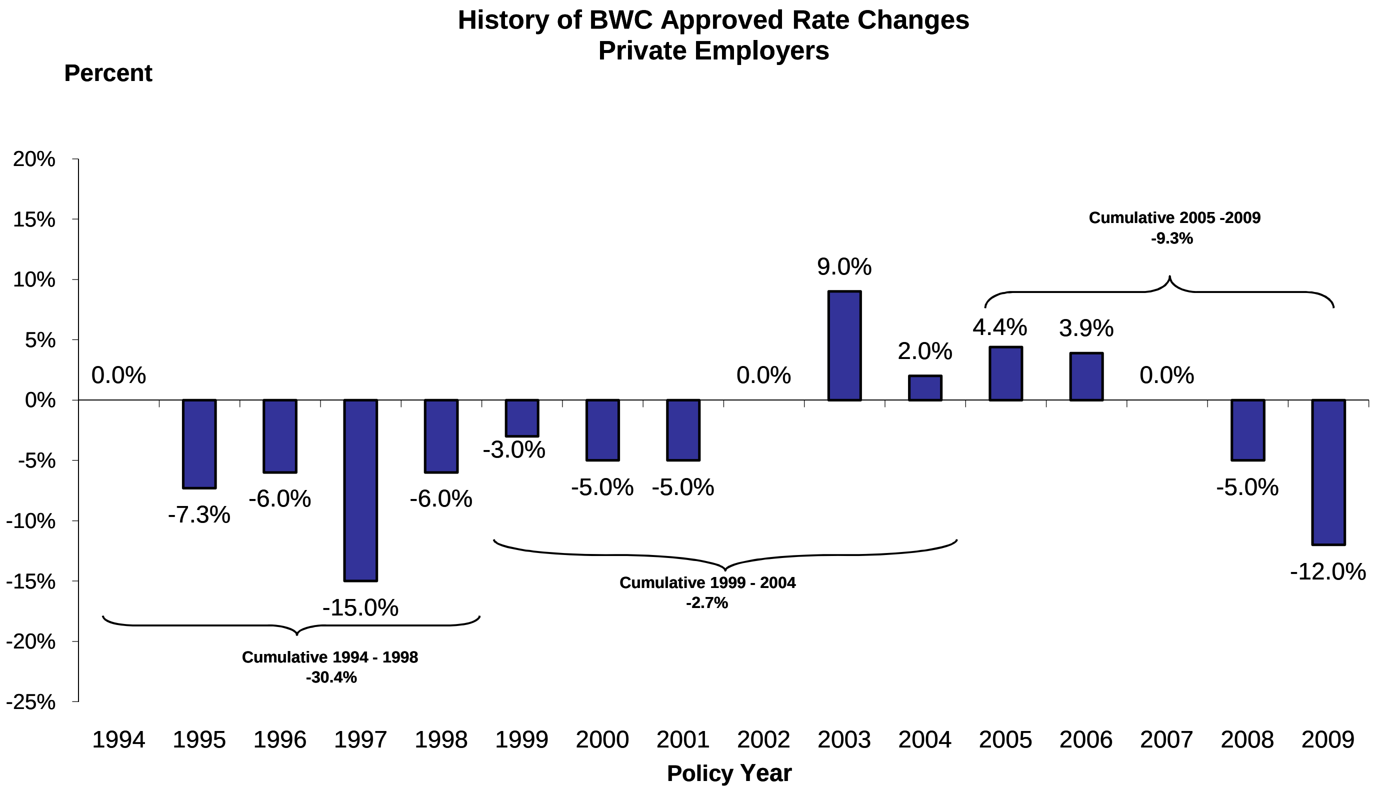
*NCCI rate change for 2008 and 2009 is only for states approved through 4/17/2009.

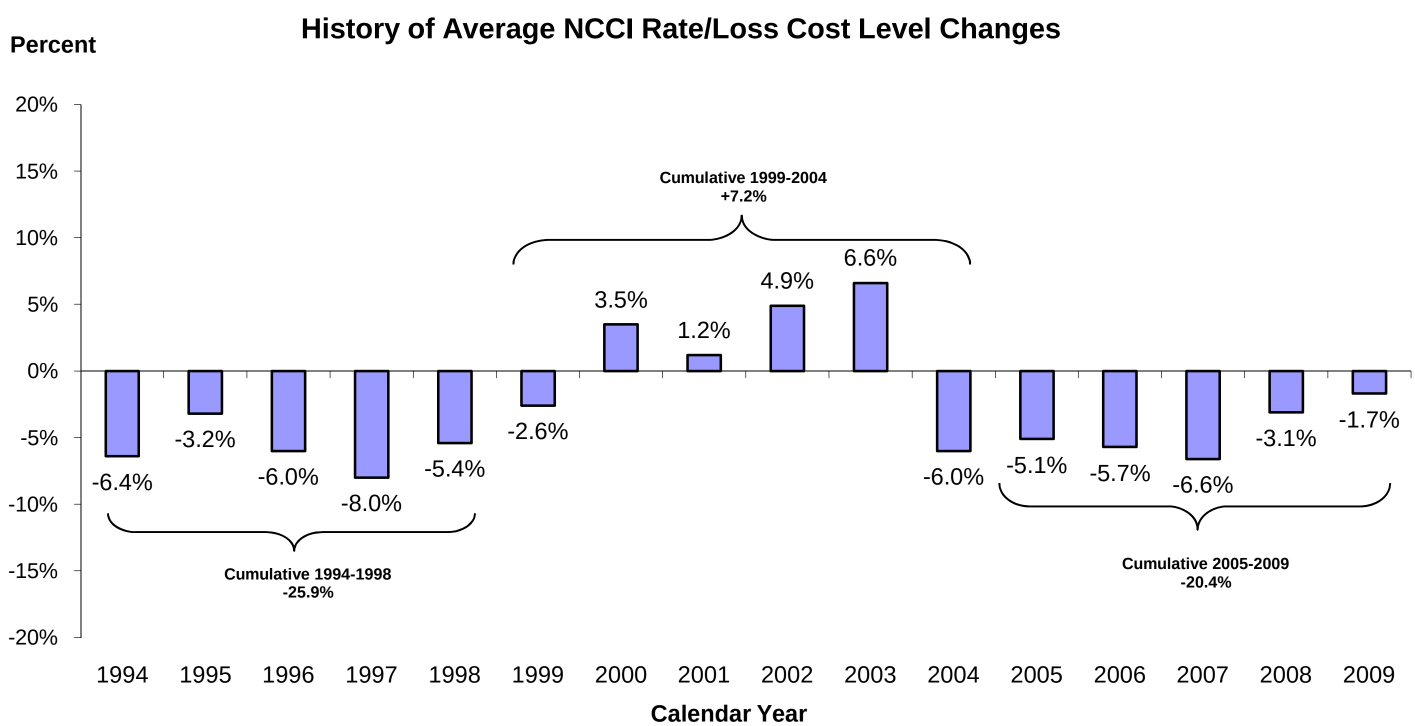
*BWC data from the annual Private Employer rate filings

Chart Title: History of BWC Approved Rate Changes, Private Employers / History of Average NCCI Rate/Loss Cost Level Changes

Description and Conclusions:
These charts show a sixteen year history of rate changes separately for both the Ohio BWC and the NCCI subscribers. For the period of 1994 through 2009, the BWC's cumulative rate change was a decrease of 38.55%, while the rest of the industry had a cumulative decrease of 36.72%. The rates used in this chart are for the Private Employer group.

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from annual rate filings.





* NCCI Annual Issue Symposium 2009
* NCCI rate change for 2008 and 2009 is only for states approved through 4/17/2009
* BWC data is based on Private employer rates

HISTORICAL
PERCENT CHANGE IN PRIVATE
EMPLOYER RATES

Period	Percent Change	Period	Percent Change
7-1-60	3.7% increase	7-1-1992	3.5% increase
7-1-61	No Change	7-1-1993	No Change
7-1-62	6.4% increase	7-1-1994	No Change
7-1-63	2.1% increase	7-1-1995	7.3% decrease
7-1-64	1.5% increase	7-1-1996	6% decrease
7-1-65	.6% decrease	7-1-1997	15% decrease
7-1-66	4.9% decrease	7-1-1998	6% decrease
7-1-67	1.9% increase	7-1-1999	3% decrease
7-1-68	.2% decrease (no change)	7-1-2000	5% decrease
7-1-69	2.2% decrease	7-1-2001	5% decrease
7-1-70	5.6% decrease	7-1-2002	No Change
7-1-71	12.5% increase	7-1-2003	9% increase
7-1-72	13.1% increase	7-1-2004	2% increase
7-1-73	17.3% increase	7-1-2005	4.4% increase
7-1-74	7.8% decrease	7-1-2006	3.9% increase
7-1-75	10.5% increase	7-1-2007	No Change
7-1-76	28.8% increase	7-1-2008	5.0% decrease
7-1-77	29.7% increase	7-1-2009	12.0% decrease
7-1-78	19.4% decrease		
7-1-79	3% decrease		
7-1-80	No Change		
7-1-81	3% decrease		
7-1-82	1% decrease		
7-1-83	3% decrease		
7-1-84	6% decrease		
7-1-85	6% increase		
7-1-86	6% decrease		
7-1-87	30% increase		
7-1-88	15% increase		
7-1-89	9.5% increase		
7-1-90	No Change		
7-1-91	4.5% increase		

Private Employer
Average Collectible Rate

	Average Base Rate*	Average Collectible Rate*
7-1-75	$1.42	
7-1-76	$1.83	
7-1-77	$2.38	
7-1-78	$1.93	
7-1-79	$1.88	
7-1-80	$1.88	
7-1-81	$1.83	
7-1-82	$1.82	
7-1-83	$1.76	
7-1-84	$1.65	
7-1-85	$1.75	
7-1-86	$1.75	
7-1-87	$2.34	
7-1-88	$2.61	
7-1-89	$2.78	
7-1-90	$2.91	
7-1-91		$2.97
7-1-92		$3.00
7-1-93		$2.85
7-1-94		$2.73
7-1-95		$2.67
7-1-96		$2.63
7-1-97		$2.17
7-1-98		$2.11
7-1-99		$2.03
7-1-2000		$1.93
7-1-2001		$1.81
7-1-2002		$1.80
7-1-2003		$1.94
7-1-2004		$1.98
7-1-2005		$1.76
7-1-2006		$1.85
7-1-2007		$1.85
7-1-2008		$1.76
7-1-2009		$1.55

*Rates have been rounded to the nearest cent

Percent Change in Base Rates for Public Employer Taxing Districts

Period	Percent Change
1-1-1984	6% decrease
1-1-1985	6% decrease
1-1-1986	4% increase
1-1-1987	16% increase
1-1-88 – 1987 payroll	10% increase
1-1-88 – 1988 payroll	10% increase
1-1-1989	4% increase
1-1-1990	2% increase
1-1-1991	No Change
1-1-1992	4.5% increase
1-1-1993	4.8% increase
1-1-1994	No Change
1-1-1995	No Change
1-1-1996	7.3% decrease
1-1-1997	5 % decrease
1-1-1998	10% decrease
1-1-1999	10% decrease
1-1-2000	No Change
1-1-2001	3.7% increase
1-1-2002	6.4% increase
1-1-2003	12.1% increase
1-1-2004	2% increase
1-1-2005	2% increase
1-1-2006	1% decrease
1-1-2007	3.2% increase
1-1-2008	No Change
1-1-2009	5% decrease
1-1-2010	17% decrease

Public Employer Taxing Districts
Average Rate

Rate Date	Applicable to Calendar Year	Average Collectible Rate
1-1-1982	1981	$1.48
1-1-1983	1982	1.44
1-1-1984	1983	1.36
1-1-1985	1984	1.28
1-1-1986	1985	1.33
1-1-1987	1986	1.51
1-1-1988	1987	1.62
1-1-1988	1988	1.77
1-1-1989	1989	1.85
1-1-1990	1990	1.88
1-1-1991	1991	1.90
1-1-1992	1992	2.01
1-1-1993	1993	2.08
1-1-1994	1994	2.09
1-1-1995	1995	2.07
1-1-1996	1996	1.95
1-1-1997	1997	1.80
1-1-1998	1998	1.64
1-1-1999	1999	1.47
1-1-2000	2000	1.47
1-1-2001	2001	1.53
1-1-2002	2002	1.62
1-1-2003	2003	1.81
1-1-2004	2004	1.84
1-1-2005	2005	1.89
1-1-2006	2006	1.87
1-1-2007	2007	1.84
1-1-2008	2008	1.85
1-1-2009	2009	1.76
1-1-2010	2010	1.46

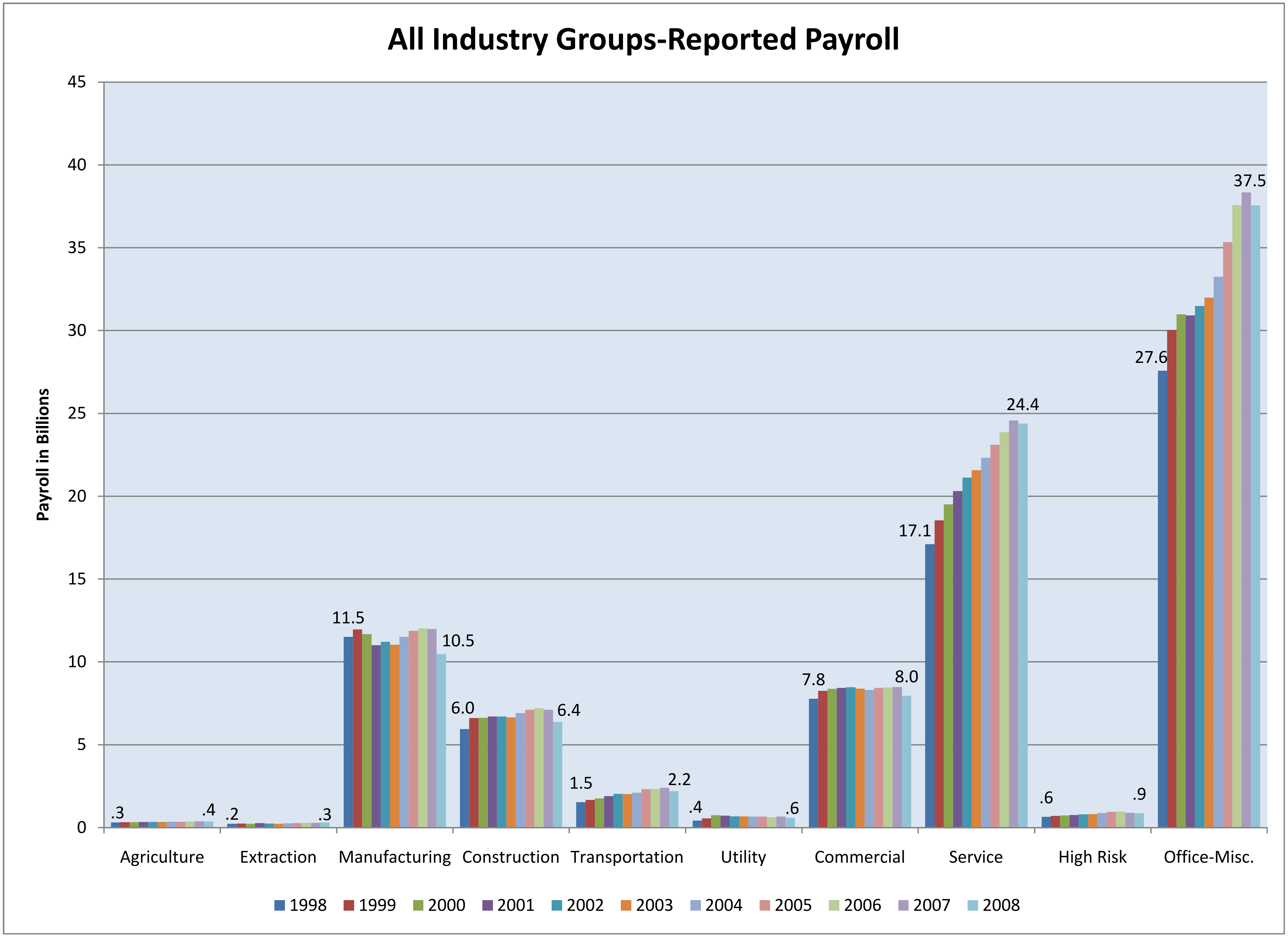
Chart Title: All Industry Groups – Reported Payroll
All Industry Groups – Wage Inflation Adjusted Payroll
10 graphs by Industry Group

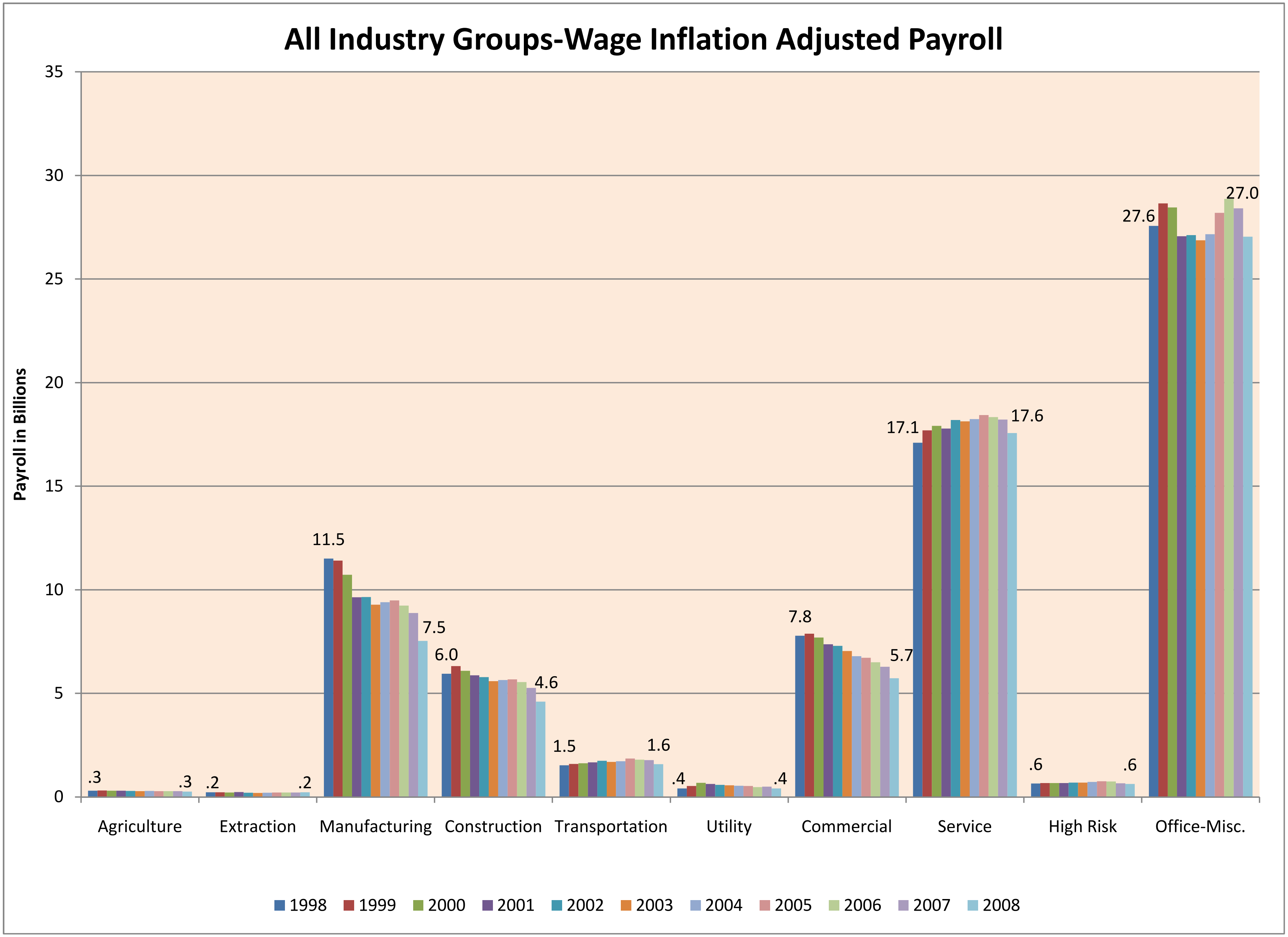
Description and Conclusions:
The following graphs show an eleven year history of reported payroll by industry group, payroll adjusted for wage inflation, and reported medical only and lost time claim counts by policy year.

The payroll was adjusted to take out the effect of wage inflation which allows us to look at the actual exposure base compared to the frequency of claims. The wage inflation factor is derived from the Ohio maximum weekly wage. The maximum weekly wages are created by the Actuarial Division using data from the Ohio Department of Job and Family Service's report on the Average Employment, Total payroll and Average Weekly Wage Earnings of All Ohio Workers Covered under the Ohio Unemployment Compensation Law.

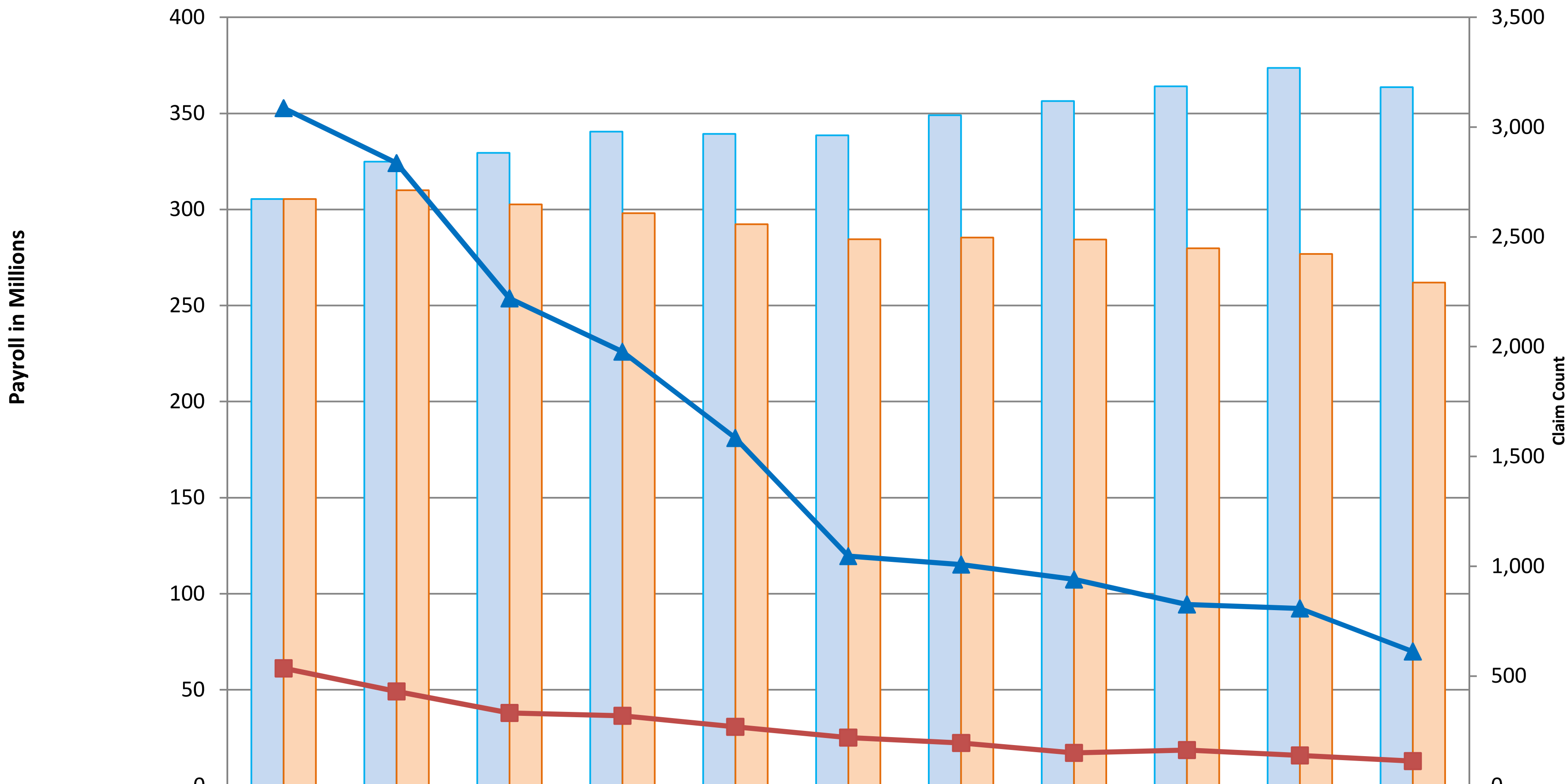
There is a positive correlation between the decrease of claim counts and the change in the wage inflation adjusted payroll for 8 of the industry groups. Positive correlation indicates that the changes in both measures are related to each other. Agriculture, Manufacturing, Construction, and Commercial show the greatest positive correlation. Extraction, Utility, High Risk and Office-Misc. are also positively correlated, but not to the extent as the previously mentioned industry groups. Two of the industry groups, Transportation and Service are negatively correlated.

Source of Data:
The payroll is taken from the BWC's data warehouse as of February 7, 2010. Wage inflation was calculated using the BWC's maximum Death and Temporary Total maximum wage indexed using policy year 1998 as the base year. Claim counts are also from the BWC's data warehouse as o February 7, 2010.


All Industry Groups-Reported Payroll
Payroll in Billions
45
40
35
30
25
20
15
10
5
0
.3
.4
.2
.3
11.5
10.5
6.0
6.4
1.5
2.2
.4
.6
7.8
8.0
17.1
24.4
.6
.9
27.6
37.5
Agriculture
Extraction
Manufacturing
Construction
Transportation
Utility
Commercial
Service
High Risk
Office-Misc.
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008


All Industry Groups-Wage Inflation Adjusted Payroll
Payroll in Billions
35
30
25
20
15
10
5
0
.3
.3
.2
.2
11.5
7.5
6.0
4.6
1.5
1.6
.4
.4
7.8
5.7
17.1
17.6
.6
.6
27.6
27.0
Agriculture
Extraction
Manufacturing
Construction
Transportation
Utility
Commercial
Service
High Risk
Office-Misc.
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008

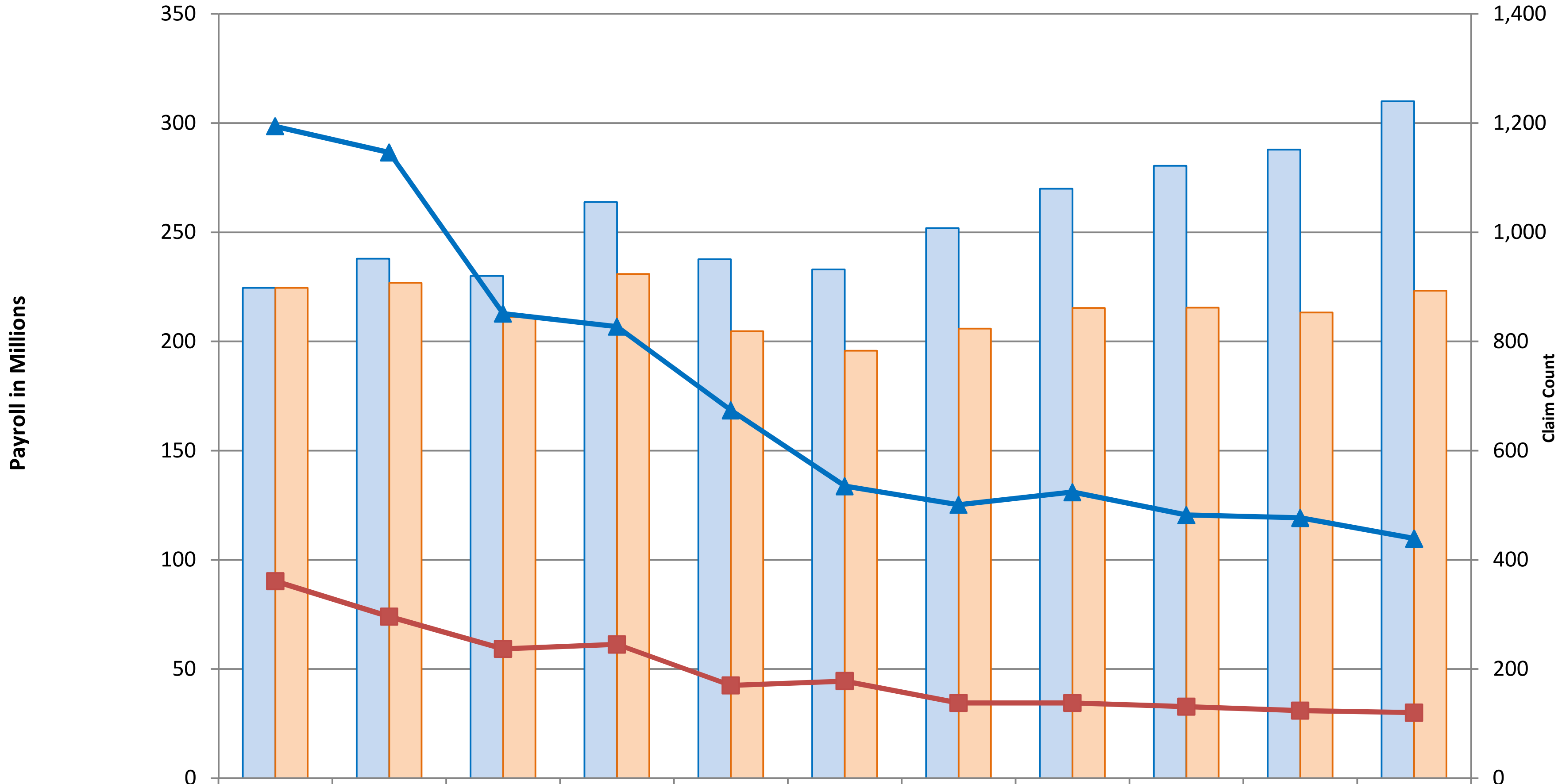
Agriculture Payroll & Claims
Industry Group 1



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	305.37	324.86	329.44	340.56	339.35	338.65	349.12	356.36	364.02	373.62	363.63
Indexed Payroll*	305.37	309.96	302.59	298.12	292.34	284.49	285.31	284.35	279.74	276.86	261.95
LT Claims	535	430	332	319	269	220	195	150	163	138	113
MO Claims	3,086	2,836	2,220	1,977	1,584	1,046	1,008	940	826	808	612

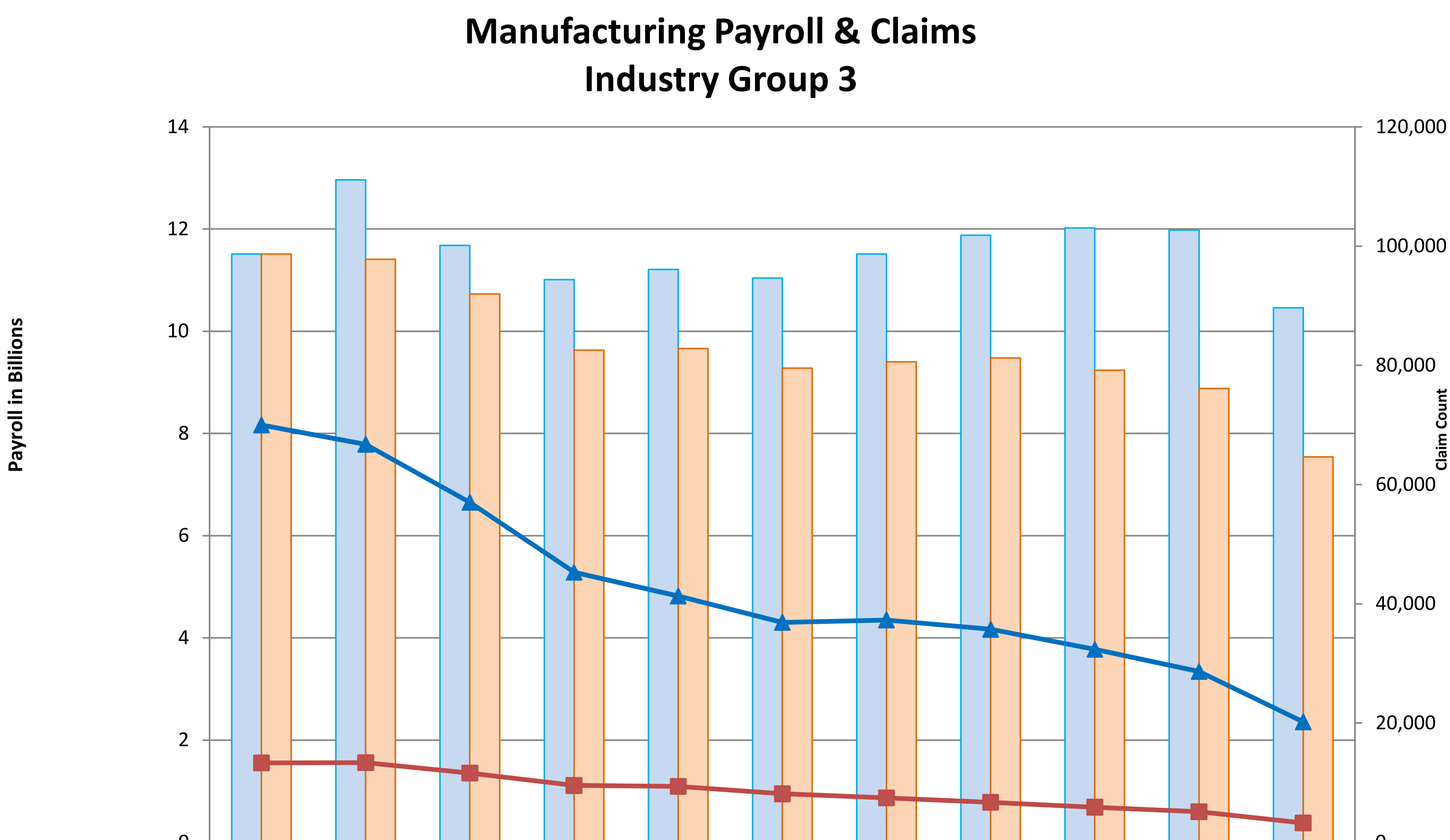
*Indexed payroll is wage inflation adjusted payroll.

Extraction Payroll & Claims
Industry Group 2



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	224.61	237.84	229.99	263.82	237.66	232.96	251.90	269.94	280.47	287.83	309.99
Indexed Payroll*	224.61	226.93	211.25	230.95	204.74	195.70	205.86	215.40	215.53	213.31	223.31
LT Claims	361	296	237	245	170	178	138	138	131	124	120
MO Claims	1,194	1,146	851	827	674	535	501	524	482	477	439

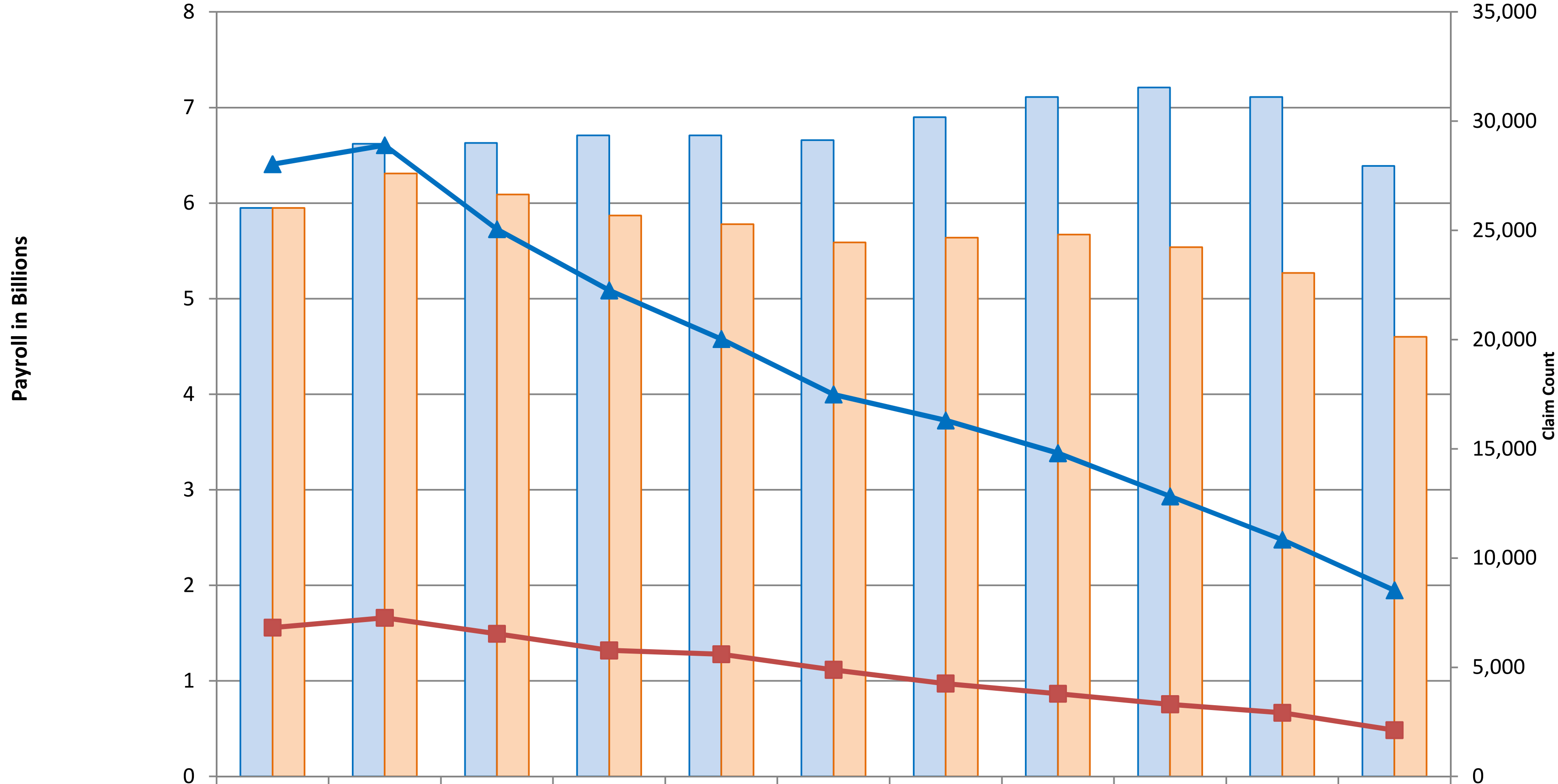
*Indexed payroll is wage inflation adjusted payroll.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	11.51	12.96	11.68	11.01	11.21	11.04	11.51	11.88	12.02	11.98	10.46
Indexed Payroll*	11.51	11.41	10.73	9.63	9.66	9.28	9.40	9.48	9.24	8.88	7.54
LT Claims	13,329	13,372	11,606	9,527	9,378	8,128	7,442	6,702	5,889	5,140	3,233
MO Claims	69,972	66,747	57,019	45,279	41,294	36,884	37,278	35,715	32,351	28,635	20,197

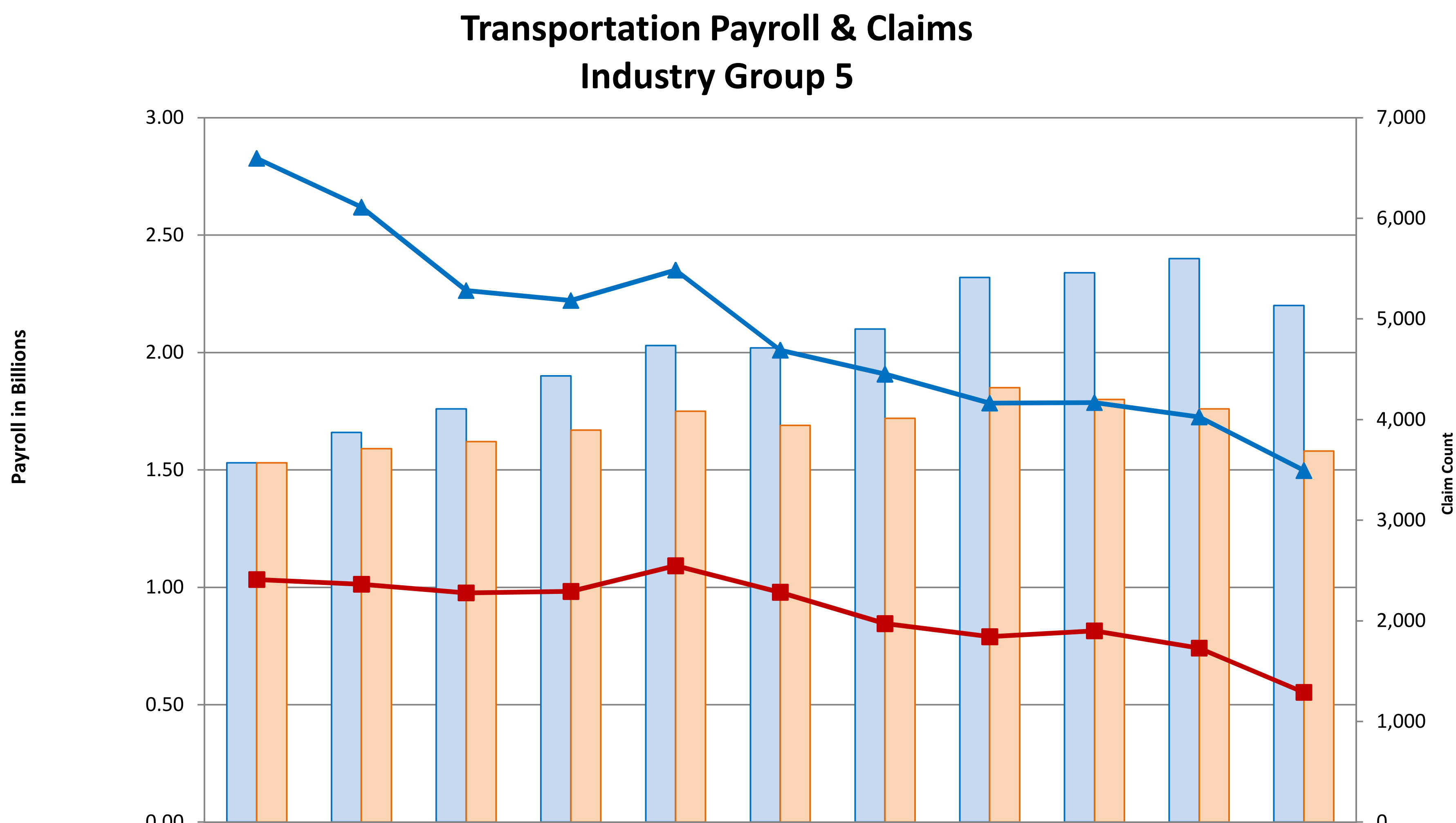
*Indexed payroll is wage inflation adjusted payroll.

Construction Payroll & Claims
Industry Group 4



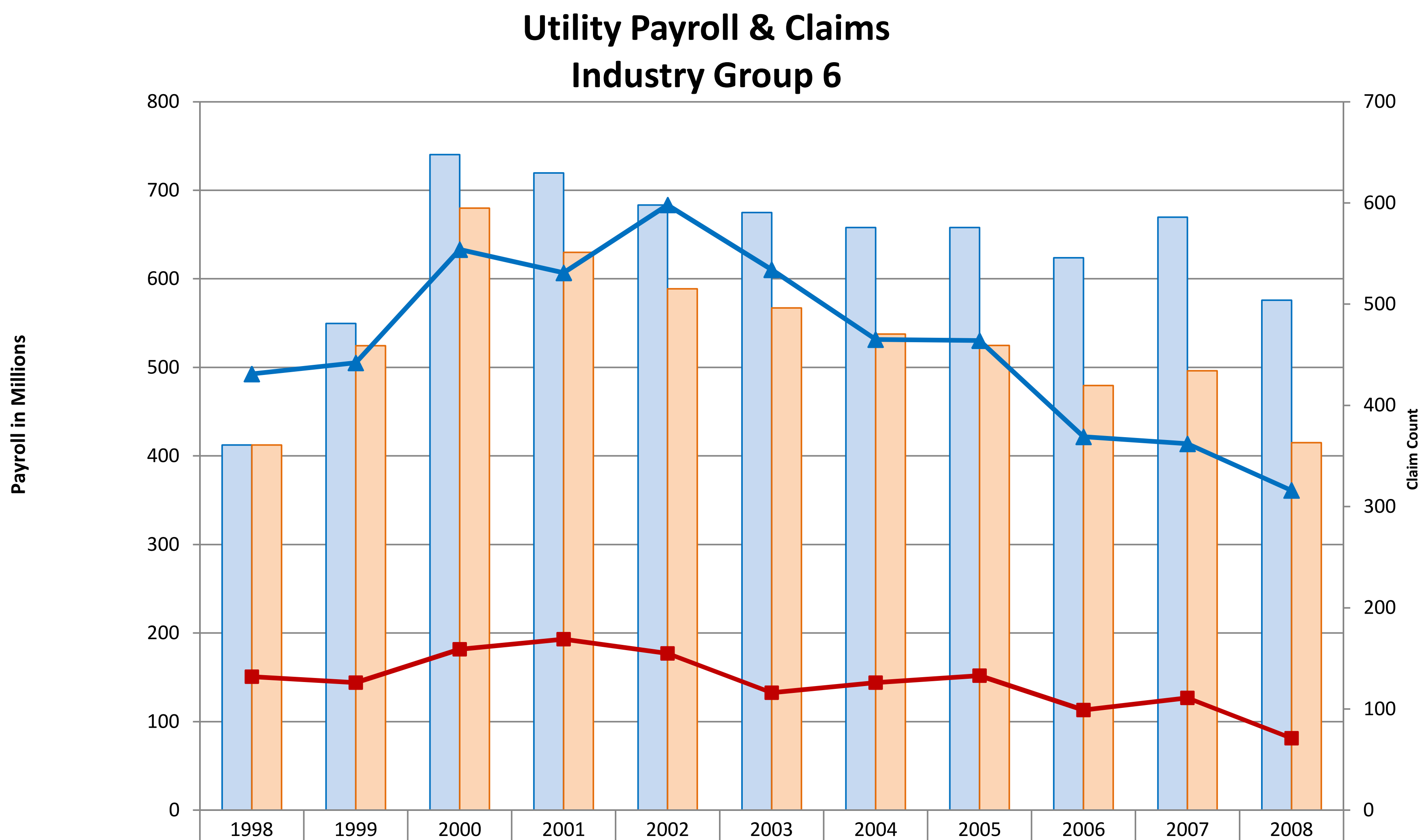
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	5.95	6.62	6.63	6.71	6.71	6.66	6.90	7.11	7.21	7.11	6.39
Indexed Payroll*	5.95	6.31	6.09	5.87	5.78	5.59	5.64	5.67	5.54	5.27	4.60
LT Claims	6,817	7,267	6,531	5,773	5,597	4,885	4,256	3,792	3,307	2,921	2,125
MO Claims	28,035	28,903	25,057	22,255	20,032	17,492	16,302	14,803	12,826	10,844	8,527

*Indexed payroll is wage inflation adjusted payroll.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	1.53	1.66	1.76	1.90	2.03	2.02	2.10	2.32	2.34	2.40	2.20
Indexed Payroll*	1.53	1.59	1.62	1.67	1.75	1.69	1.72	1.85	1.80	1.76	1.58
LT Claims	2,410	2,364	2,278	2,292	2,547	2,284	1,972	1,842	1,900	1,728	1,289
MO Claims	6,595	6,111	5,282	5,183	5,486	4,690	4,452	4,164	4,170	4,027	3,494

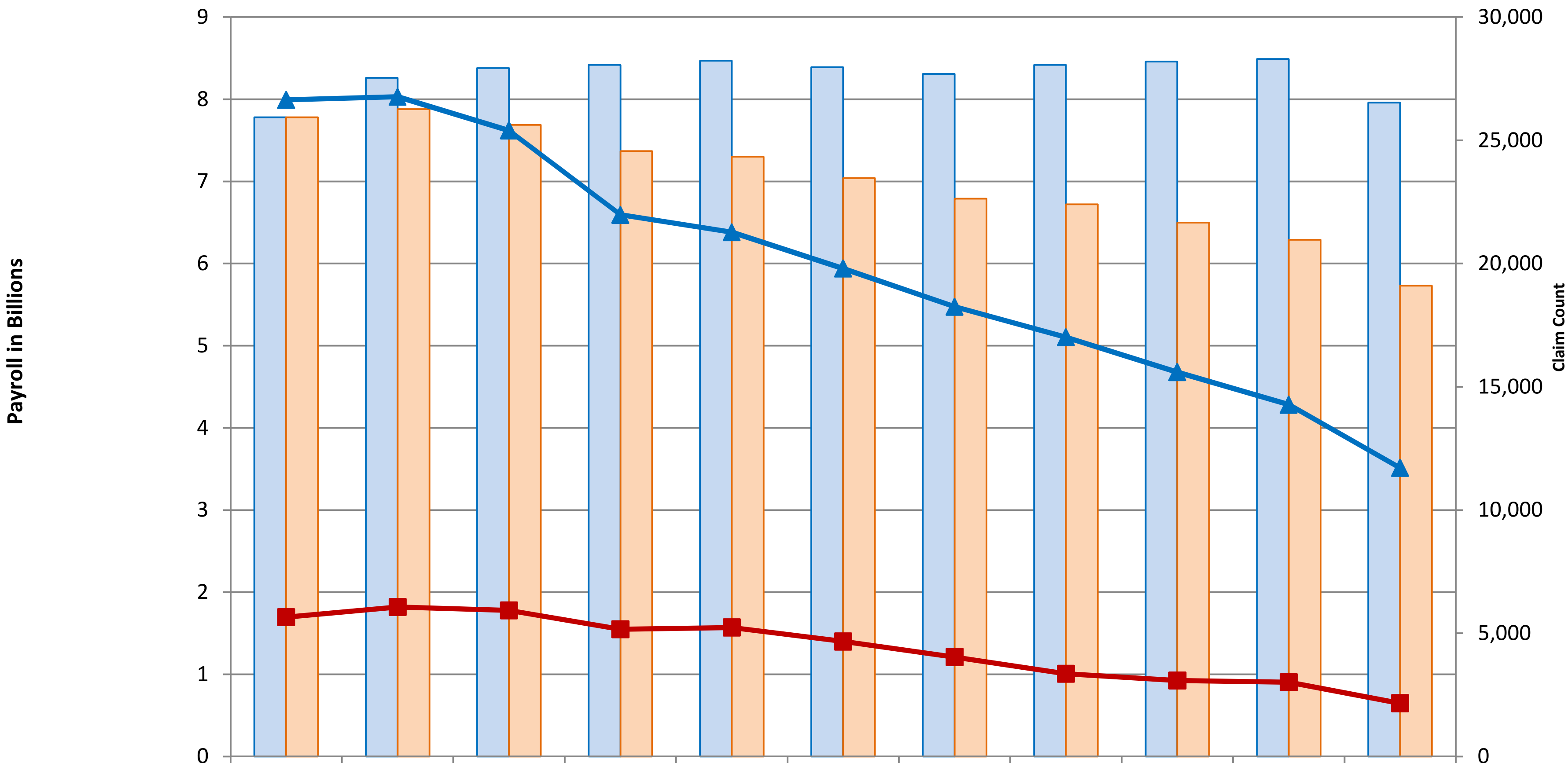
*Indexed payroll is wage inflation adjusted payroll.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	412.48	549.68	740.23	719.64	683.29	675.03	657.97	657.85	623.90	669.53	575.96
Indexed Payroll*	412.48	524.48	679.90	629.98	588.63	567.07	537.71	524.92	479.44	496.18	414.90
LT Claims	132	126	159	169	155	116	126	133	99	111	71
MO Claims	431	442	554	531	598	534	465	464	369	362	316

*Indexed payroll is wage inflation adjusted payroll.

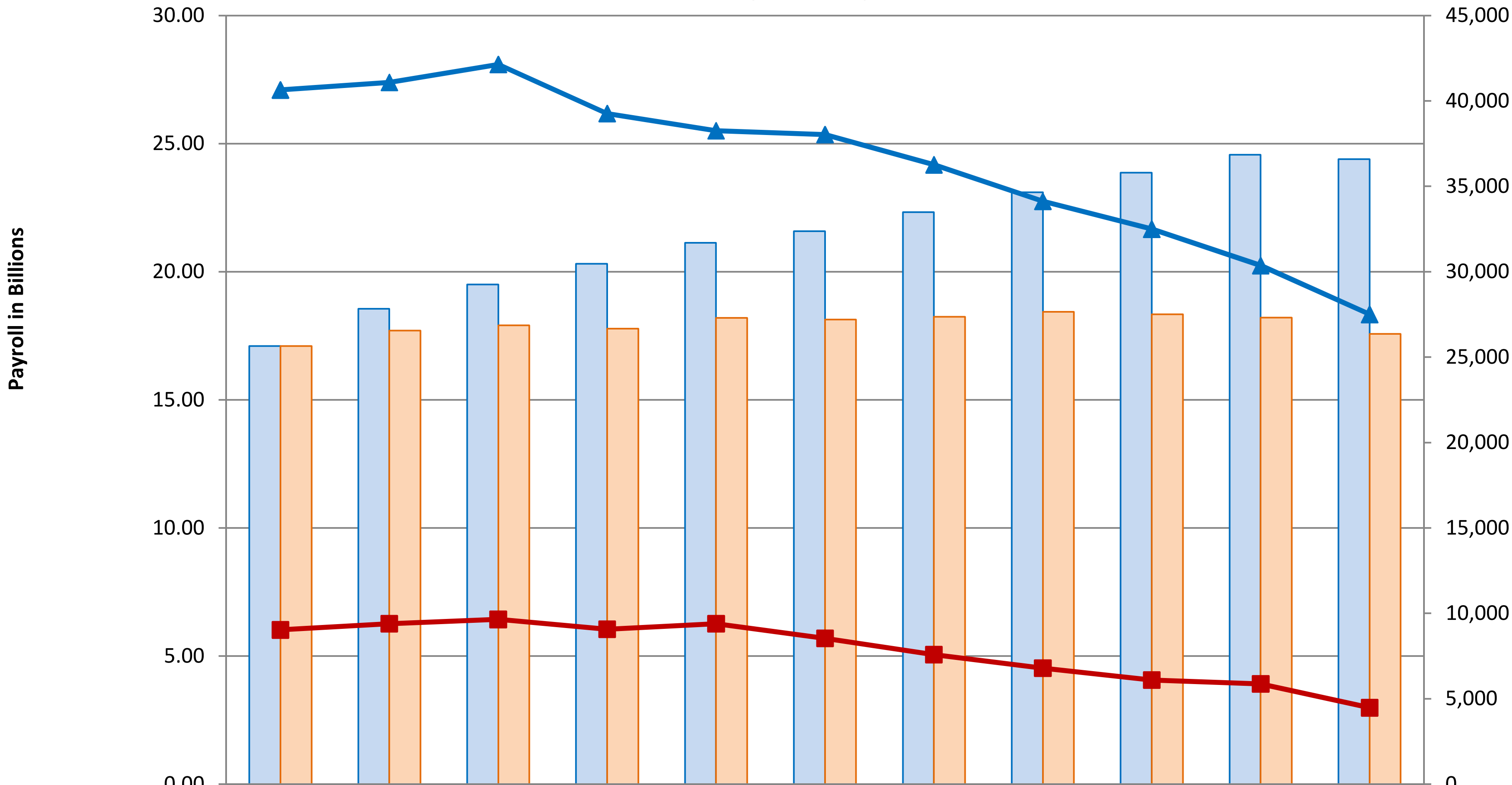
Commercial Payroll & Claims
Industry Group 7



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	7.78	8.26	8.38	8.42	8.47	8.39	8.31	8.42	8.46	8.49	7.96
Indexed Payroll*	7.78	7.88	7.69	7.37	7.30	7.04	6.79	6.72	6.50	6.29	5.73
LT Claims	5,649	6,065	5,928	5,164	5,234	4,665	4,035	3,352	3,081	3,016	2,160
MO Claims	26,645	26,770	25,405	21,978	21,274	19,804	18,251	17,015	15,598	14,276	11,713

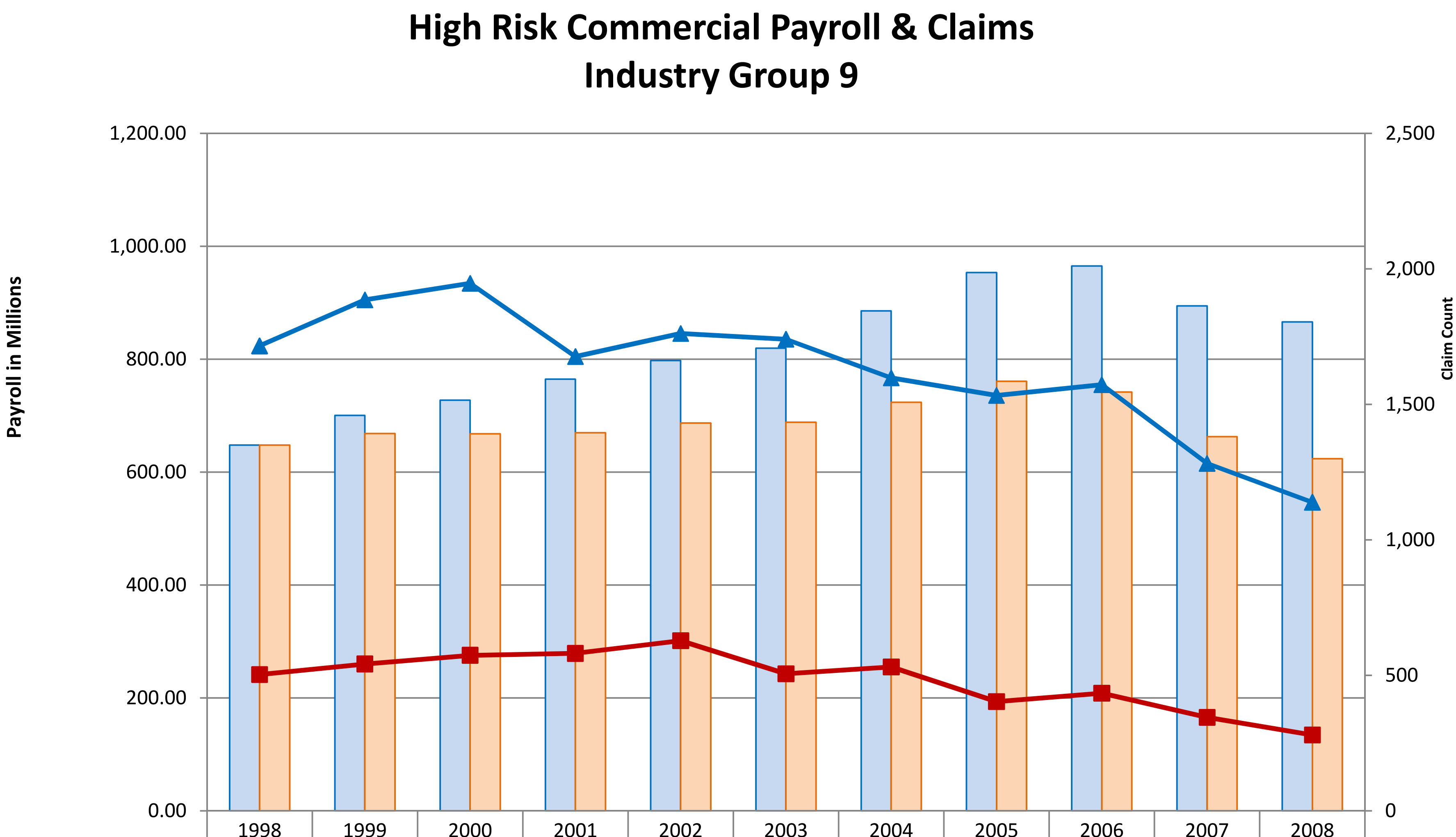
*Indexed payroll is wage inflation adjusted payroll.

Service Payroll & Claims
Industry Group 8



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	17.10	18.55	19.50	20.31	21.13	21.58	22.32	23.10	23.87	24.57	24.39
Indexed Payroll*	17.10	17.70	17.91	17.78	18.20	18.13	18.24	18.43	18.34	18.21	17.57
LT Claims	9,029	9,390	9,643	9,068	9,394	8,531	7,581	6,792	6,093	5,868	4,472
MO Claims	40,642	41,080	42,132	39,260	38,257	38,028	36,264	34,120	32,493	30,362	27,501

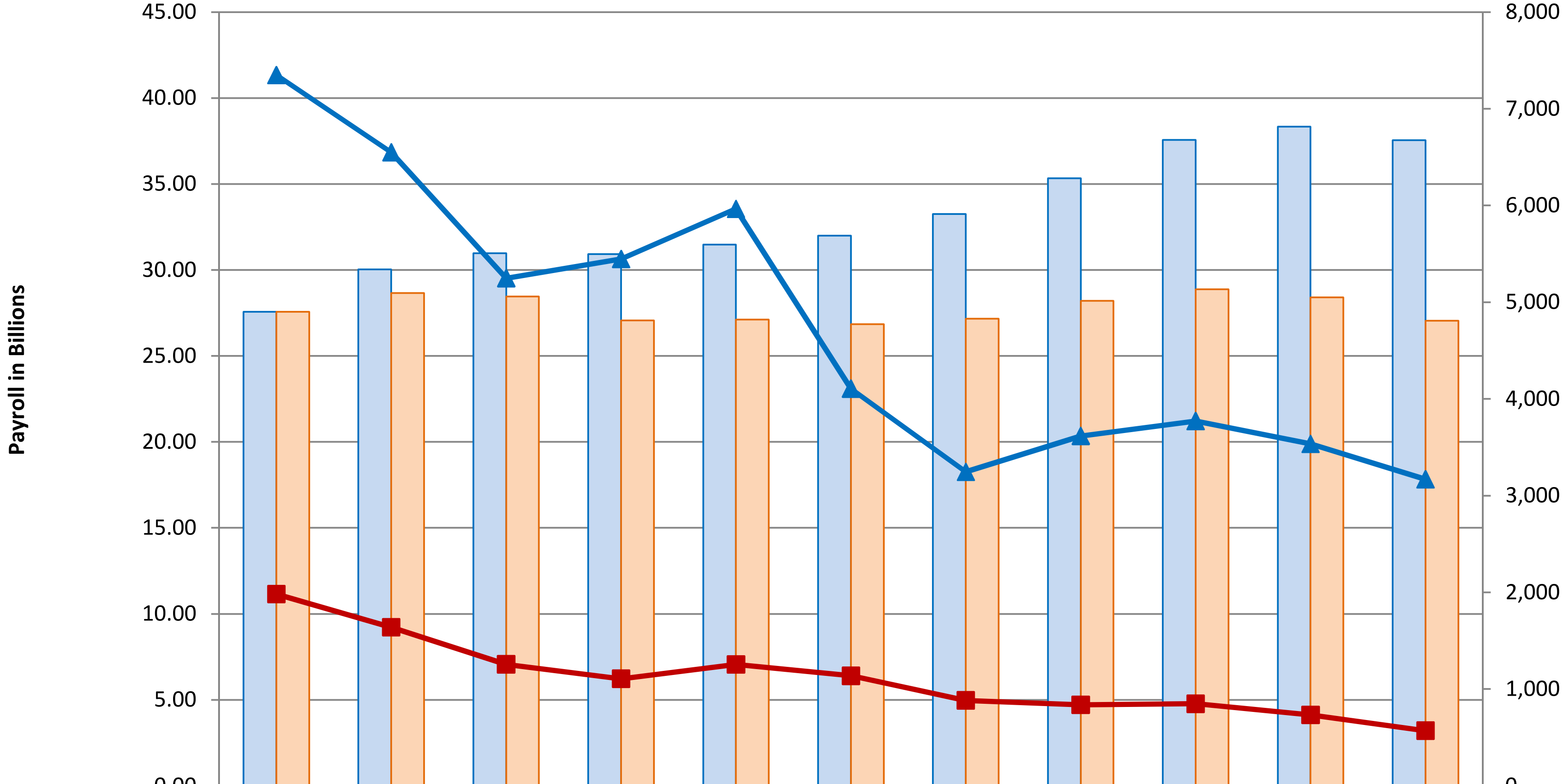
*Indexed payroll is wage inflation adjusted payroll.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	648.00	700.71	727.38	764.95	797.80	819.48	885.89	953.56	965.28	894.70	865.96
Indexed Payroll*	648.00	668.58	668.11	669.64	687.00	688.41	723.97	760.88	741.78	663.06	623.82
LT Claims	503	542	574	581	628	506	531	403	434	345	280
MO Claims	1,716	1,886	1,947	1,677	1,762	1,741	1,598	1,533	1,573	1,282	1,139

*Indexed payroll is wage inflation adjusted payroll.

Office-Miscellaneous Payroll & Claims
Industry Group 10



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	27.57	30.03	30.98	30.92	31.48	31.99	33.25	35.34	37.57	38.34	37.55
Indexed Payroll*	27.57	28.65	28.46	27.07	27.12	26.84	27.17	28.20	28.87	28.41	27.05
LT Claims	1,982	1,639	1,256	1,107	1,255	1,137	883	837	848	732	570
MO Claims	7,348	6,550	5,247	5,446	5,964	4,105	3,245	3,616	3,770	3,534	3,168

*Indexed payroll is wage inflation adjusted payroll.

Chart Title: BWC and NCCI Subscriber Workers' Compensation Lost-Time Claim Frequency Percentage Change

Description and Conclusions:
This chart shows the BWC and NCCI Subscribers change in lost-time claims frequency for the period 1995 through 2008. The data indicate that the workers' compensation industry continues to make improvements in the number of lost-time claims filed. The BWC's cumulative change for this period is a decrease of 53%, while NCCI subscribers have a cumulative change of a 46% decrease.

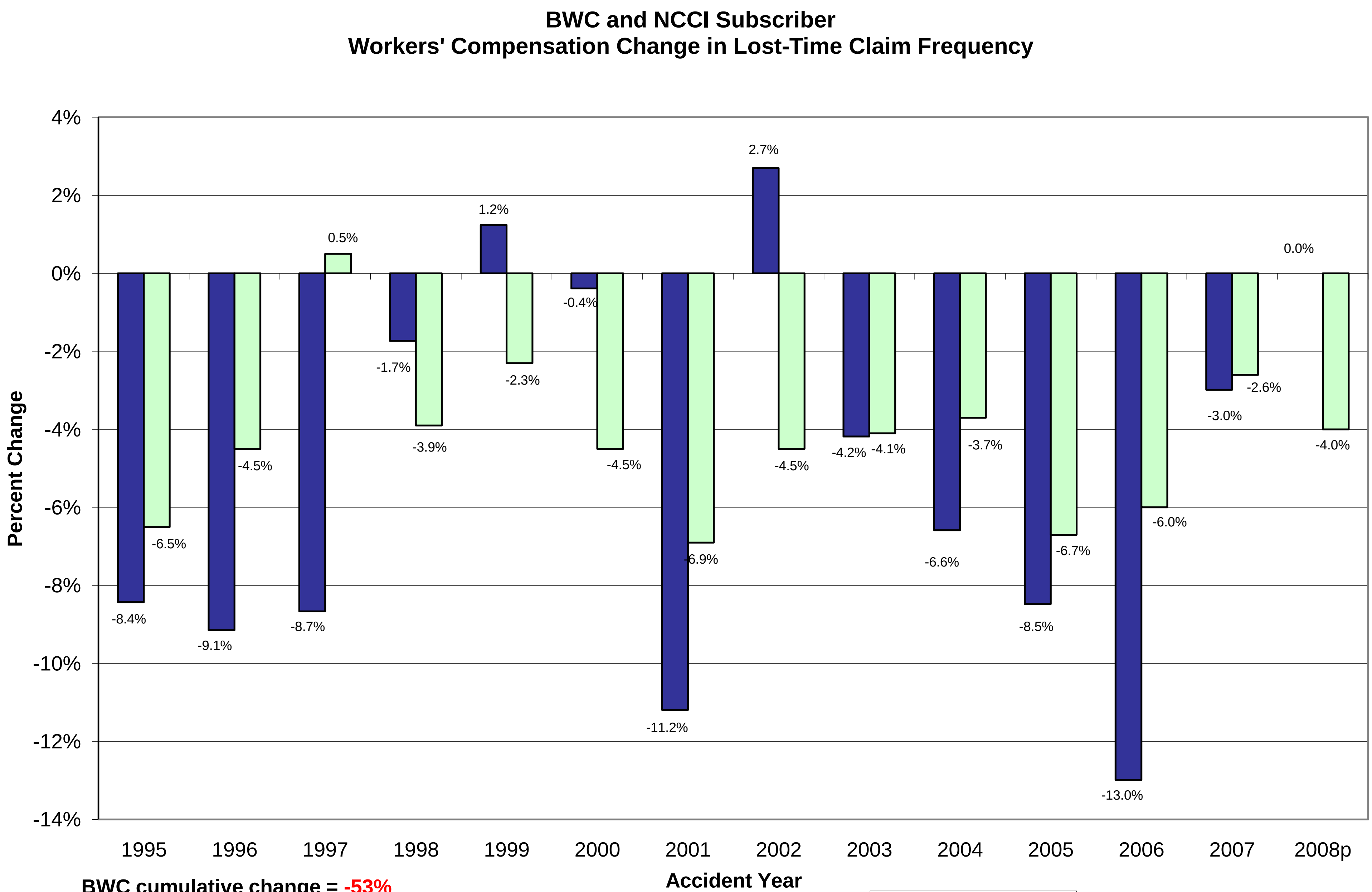
The actuarial audit indicates that the projected ultimate frequency of PTD claims (not shown below) is declining compared to previous audits. However, the Ohio BWC's actual number of newly awarded PTD claims continues to far exceed the national norm. The ultimate number of lost-time claims has decreased significantly since policy year 2000 by more than 28.55%. The June 2009 actuarial audit includes the following table of surrounding states.

Claim Frequencies per 100,000 workers:

2009 NCCI annual statistical bulletin				2008 NCCI annual statistical bulletin		
State	Policy Year	PTD count	Lost-time claim count	Policy Year	PTD count	Lost-time claim count
Illinois	04/05-03/06	16	1,117	04/04-03/05	13	1,156
Indiana	07/05-06/06	2	805	07/04-06/05	2	883
Kentucky	05/05-04/06	9	966	05/04-04/05	11	1,018
Michigan	04/05-03/06	7	970	04/04-03/05	5	978

BWC PA and PEC combined		
Policy Year	PTD Count	Lost – Time Claim Count
2000	78	2,788
2001	69	2,454
2002	72	2,537
2003	74	2,429
2004	72	2,317
2005	71	2,187
2006	70	1,964
2007	70	1,992

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.



BWC cumulative change = -53%
NCCI cumulative change = -46%
(1995 - 2008p) * p=preliminary

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freq chart

Chart Title: Ohio Bureau of Workers' Compensation Ratio of Discounted Indemnity and Medical Costs to Total Losses for Accident Years 1998 and 2008; NCCI Ratio of Indemnity and Medical Costs to Total Losses for Accident Years 1998 and 2008

Description and Conclusions:
This information shows the ratio of discounted indemnity and medical costs to total losses for injury years 1998 and 2008. In 1998, the majority of a claim's ultimate cost was wage replacement or indemnity for the Oho Bureau of Workers' Compensation while for NCCI states, the majority was medical costs. In 2008, the majority of a claim's ultimate cost is now medical costs for both. This chart demonstrates that the BWC is experiencing the same medical cost inflation that the industry is experiencing.

The 2005 NCCI State of the Line report addressed the increasing cost of the medical portion of the claim stating that their research indicates the following reasons:

- possibly the lack of fee schedules for workers' compensation
- increasing prescription drug costs and
- increasing utilization of medical services

The 2006 NCCI State of the Line report also highlighted increasing drug costs in relation to the age of the claim. NCCI statistics indicate the first year of a claim, costs for prescription drugs are 19% of the total medical costs. In years 6-9, in the life of a claim, the prescription drug costs increase to 53% of the total medical.

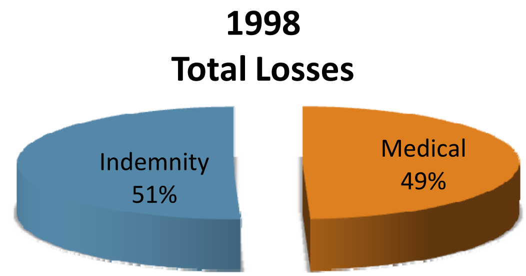
The June 2006 actuarial audit cites medical utilization trends as the cause of the medical increases.

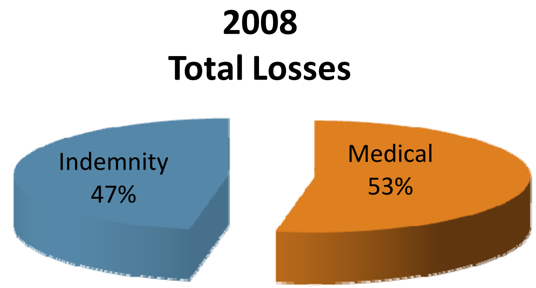
The 2008 NCCI State of the Line report states, "Medical costs continue to increase faster than wages, even though the increases seem to have tempered a bit in 2007. … Medical costs are 59% of total losses in NCCI states with many states in the 65%-70% range. The increased interest in medical benefits and costs is creating a demand for ever more medical data to analyze cost drivers of medical. To meet that demand, the NCCI Board of Directors approved a new Call for detailed medical transactions… from many of [their] member companies".

The 2009 NCCI State of the Line reports once again states, "Medical costs continue to increase faster than wages, even though the increases have tempered a bit in recent years. Many states continue to look for ways to control medical costs in their workers compensation systems. We typically analyze 150 to 200 proposed bills that might impact workers compensation costs in a year, with about one-third of those dealing with medical. Medical cost control remains a forefront issue in many states".

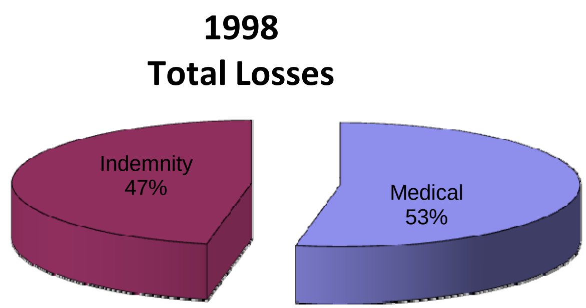
Source of Data: The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.

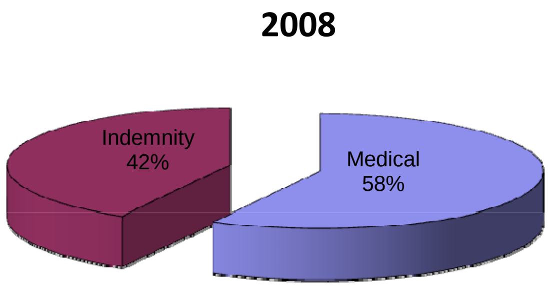
Ohio Bureau of Workers' Compensation Ratio of Discounted Indemnity and Medical Costs to Total Losses for Accident Years 1998 and 2008





NCCI Ratio of Indemnity and Medical Costs to Total Losses for Accident Years 1998 and 2008





* NCCI Annual Issue Symposium 2009
* All Claims-NCCI States
* NCCI information for 1998 is based on date through 12/31/2007; 2008 is based on data through 12/31/2008
* BWC data is based on Private employer claim costs from the 6/30/2009 Actuarial Audit

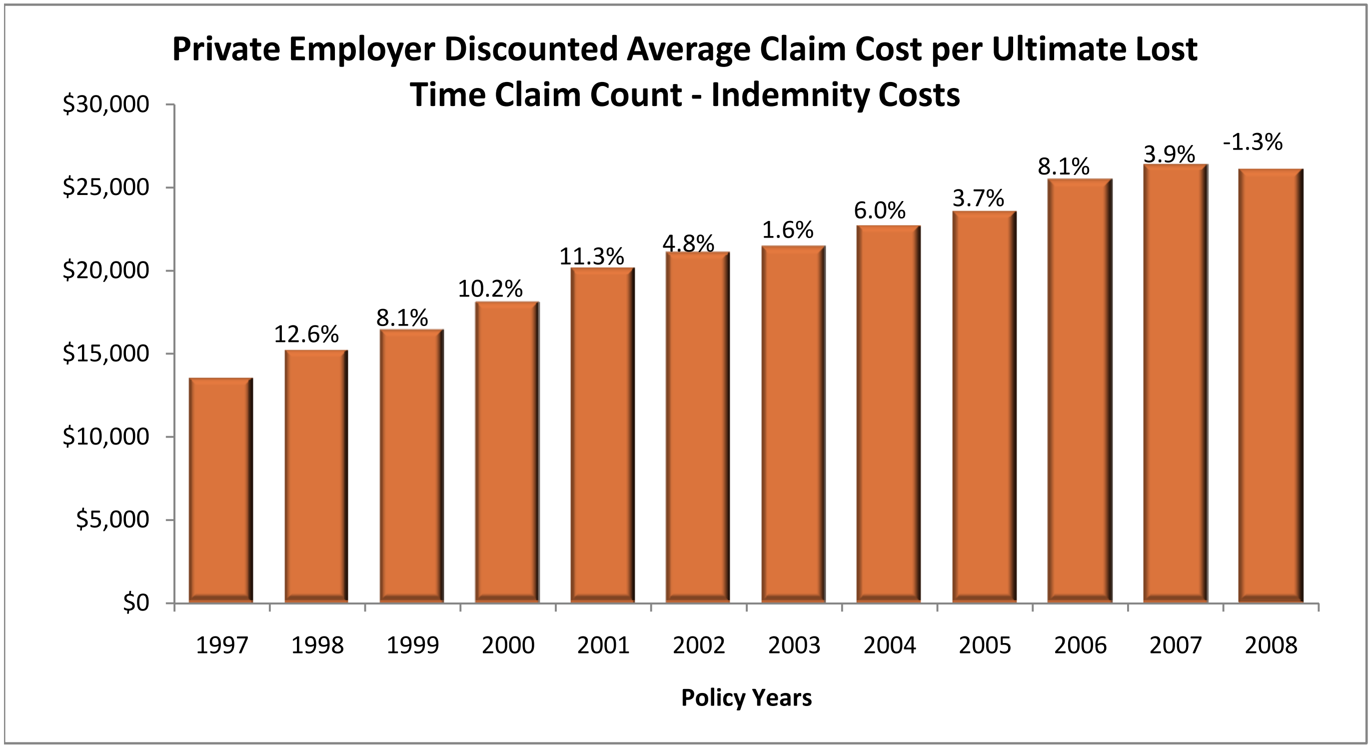
Ohio Bureau of Workers' Compensation
PA Discounted Average Claim Cost per Ultimate Lost Time Claim Count

Accident Year	Indemnity	Medical	Indemnity % Change	Medical % Change	Total Indemnity + Medical	% Medical Costs	% Indemnity Costs
1997	$13,441	$12,759					
1998	$15,136	$14,819	12.6%	16.1%	$29,955	49.5%	50.5%
1999	$16,358	$15,422	8.1%	4.1%	$31,780	48.5%	51.5%
2000	$18,020	$17,230	10.2%	11.7%	$35,250	48.9%	51.1%
2001	$20,054	$19,558	11.3%	13.5%	$39,612	49.4%	50.6%
2002	$21,007	$20,971	4.8%	7.2%	$41,978	50.0%	50.0%
2003	$21,338	$21,925	1.6%	4.5%	$43,263	50.7%	49.3%
2004	$22,624	$23,850	6.0%	8.8%	$46,474	51.3%	48.7%
2005	$23,456	$25,655	3.7%	7.6%	$49,111	52.2%	47.8%
2006	$25,357	$27,776	8.1%	8.3%	$53,133	52.3%	47.7%
2007	$26,335	$28,665	3.9%	3.2%	$55,000	52.1%	47.9%
2008	$25,984	$29,204	-1.3%	1.9%	$55,188	52.9%	47.1%

Data is from the June 30, 2009 Actuarial Audit

NCCI Data

	% Medical Costs	% Indemnity Costs
1998	53.0%	47.0%
2008	58.0%	42.0%


Private Employer Discounted Average Claim Cost per Ultimate Lost Time Claim Count - Indemnity Costs
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
12.6%
8.1%
10.2%
11.3%
4.8%
1.6%
6.0%
3.7%
8.1%
3.9%
-1.3%
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1998
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2002
2003
2004
2005
2006
2007
2008
Policy Years

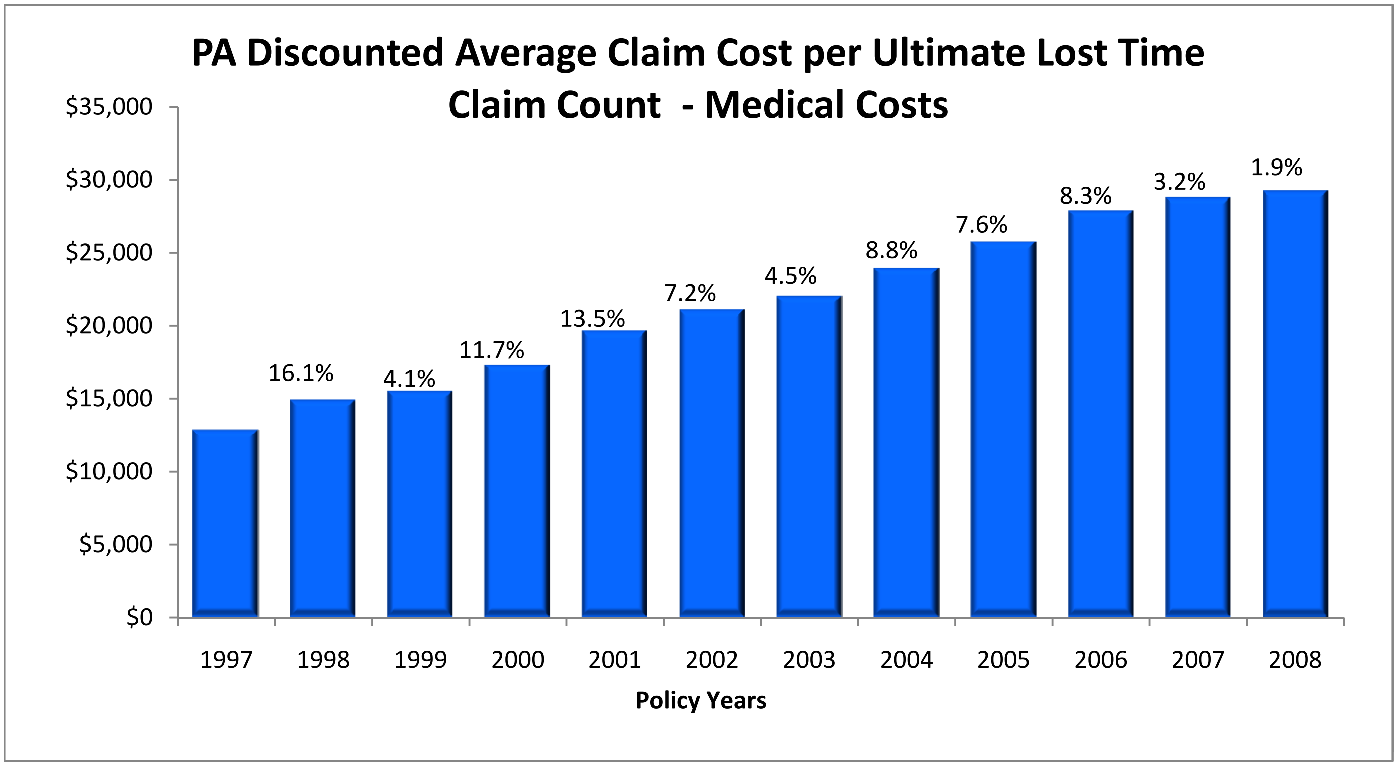

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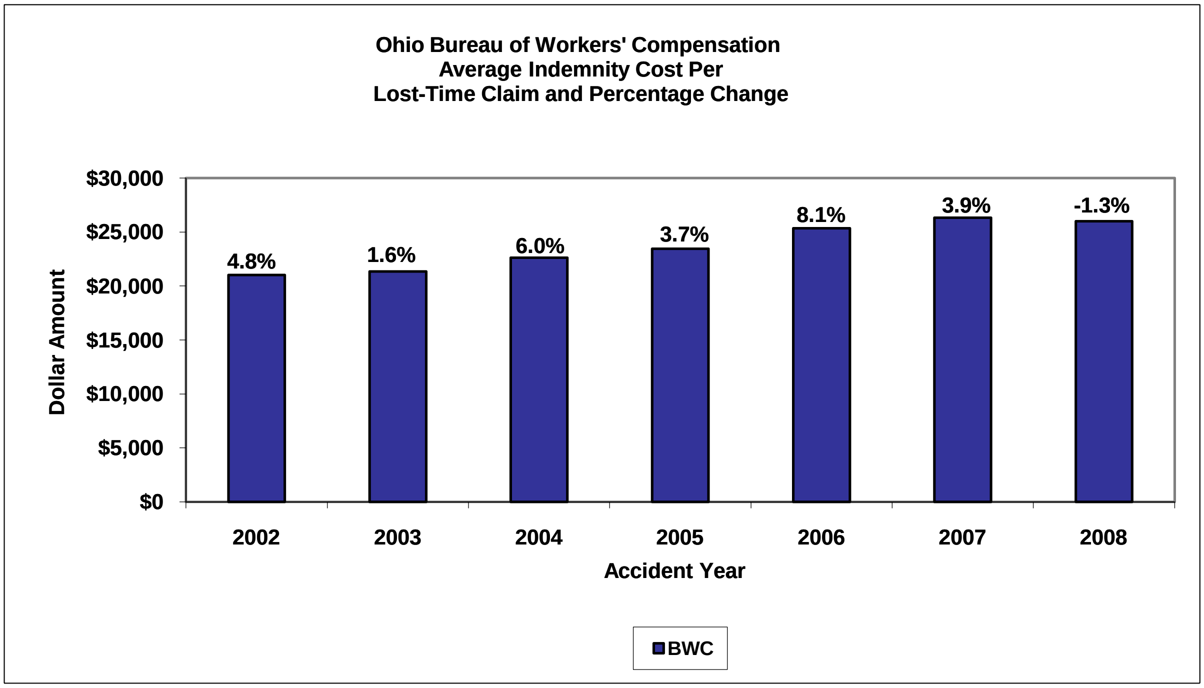
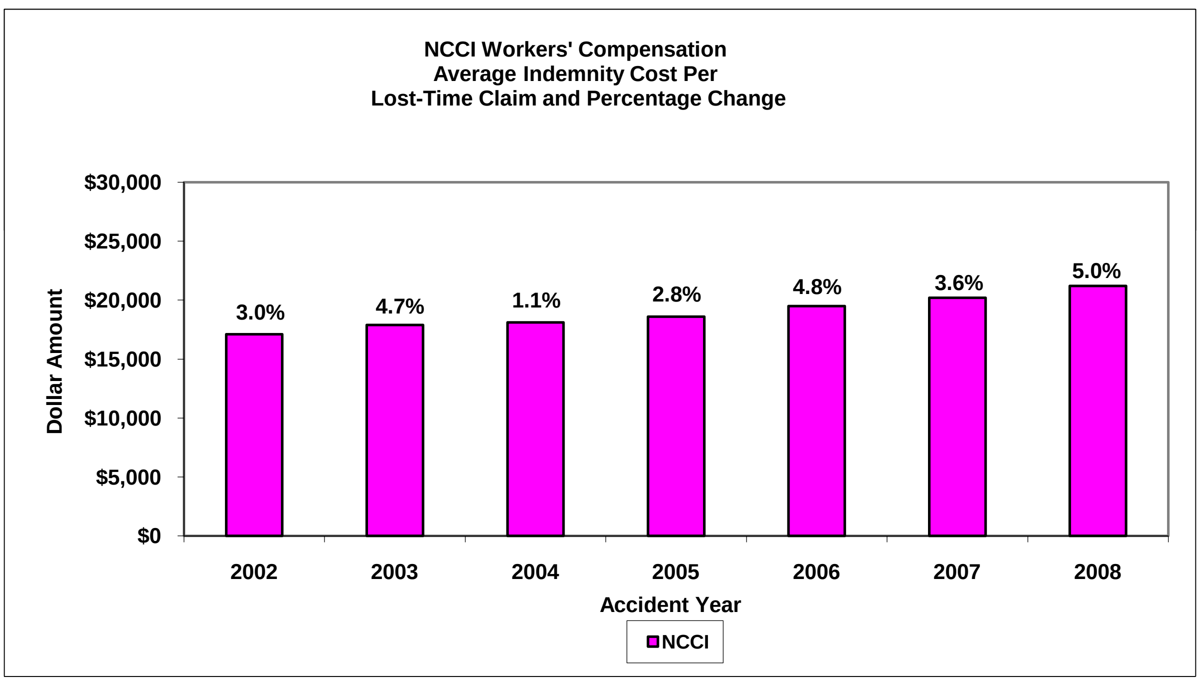
Chart Title: Ohio Bureau of Workers' Compensation Average Indemnity Cost per Lost-Time claim and Percentage Change/NCCI Average Indemnity Cost per Lost-Time claim and Percentage Change

Description and Conclusions:
This bar chart shows a seven year history and percent change in the average indemnity cost per lost-time claim for the BWC and the NCCI subscribers. The percent at the top of each bar is the percentage change in the cost from the year before. Each bar represents the average ultimate indemnity dollar cost by injury year. The BWC is following a similar trend as the industry. The BWC's average ultimate indemnity cost per claim is higher overall.

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.





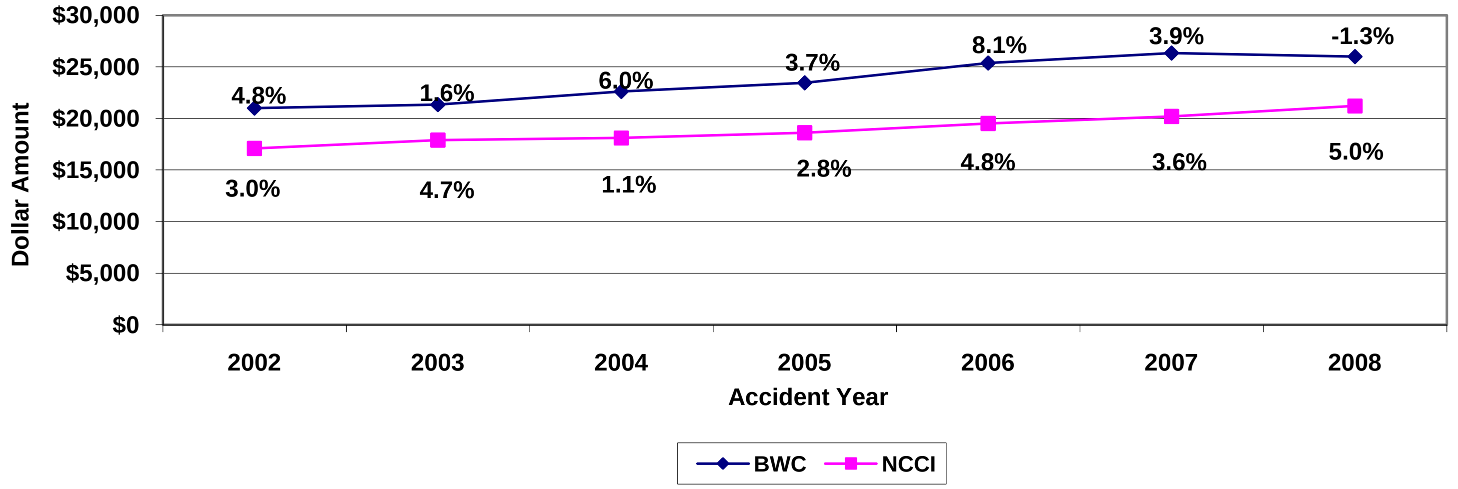
NCCI data from the NCCI Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary
BWC data from the June 30, 2009 Actuarial Audit, Oliver Wyman, Actuarial Consultants

Chart Title: Ohio Bureau of Workers' Compensation Average Indemnity Cost per Lost-Time claim and Percentage Change/NCCI Average Indemnity Cost per Lost-Time claim and Percentage Change

Description and Conclusions:
This line chart shows a seven year history and percent change in the average indemnity cost per lost-time claim for the BWC and the NCCI subscribers. The percent at the top or bottom of each point is the percentage change in the cost from the year before. Each point represents the average ultimate indemnity dollar cost by injury year. The BWC is following a similar trend as the industry. The BWC's average ultimate indemnity cost of claims is higher overall.

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.

NCCI and Ohio Bureau of Workers' Compensation Percentage Change in Average Indemnity Costs on Lost-Time Claims



NCCI data from the NCCI Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary
BWC data from the June 30, 2009 Actuarial Audit, Oliver Wyman, Actuarial Consultants

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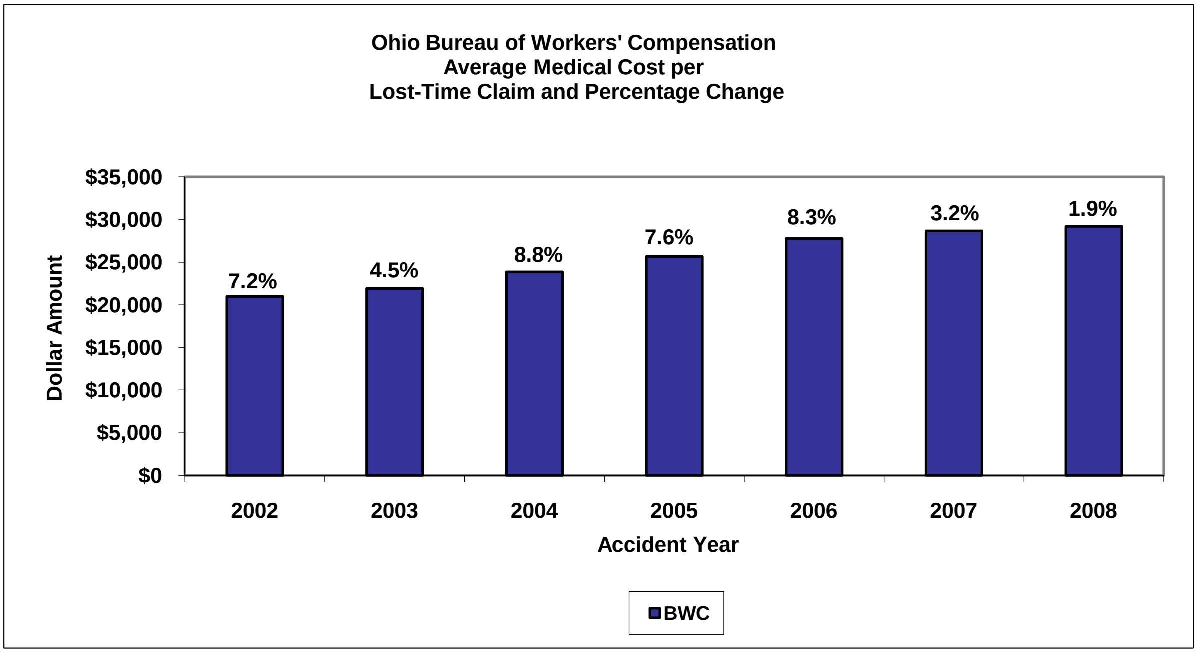
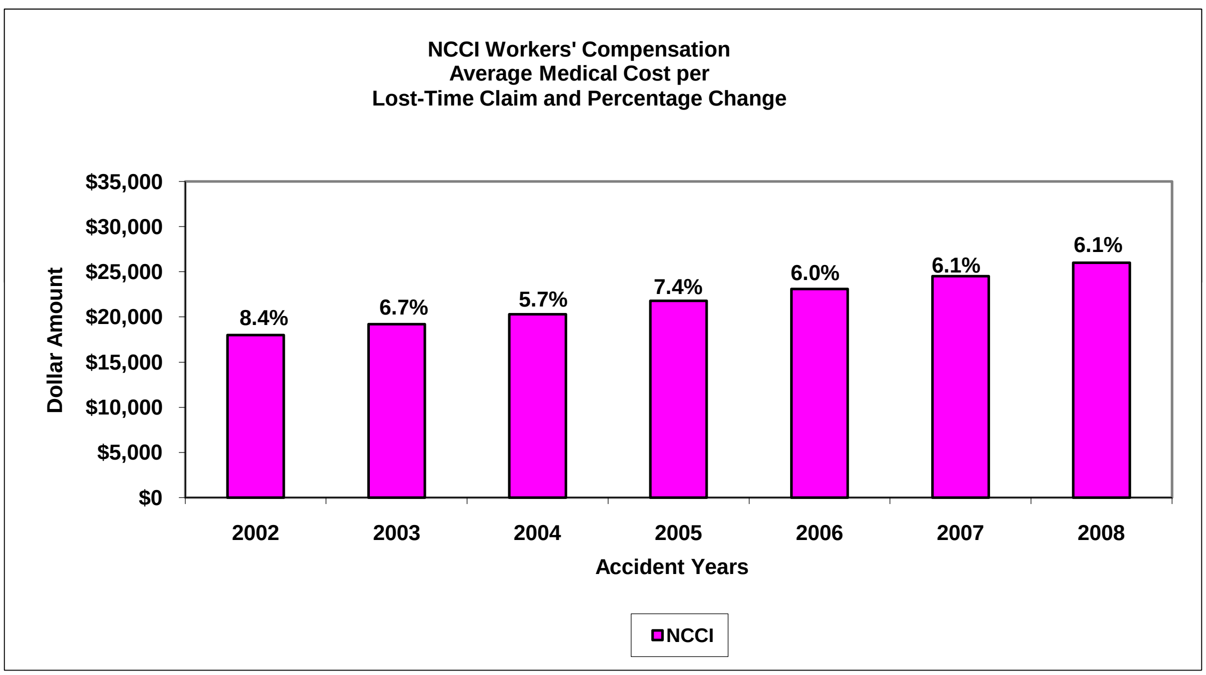
Chart Title: Ohio Bureau of Workers' Compensation Average Medical Cost per Lost-Time claim and Percentage Change/ NCCI Average Medical Cost per Lost-Time claim and Percentage Change

Description and Conclusions:
This bar chart shows a seven year history and percent change in the average medical cost per lost-time claim for the BWC and the NCCI subscribers. The percent at the top of each bar is the percentage change in the cost from the year before. Each bar represents the average ultimate medical dollar cost by injury year. The BWC is following a similar trend as the industry. The BWC's average ultimate medical cost of claims is higher overall.

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.





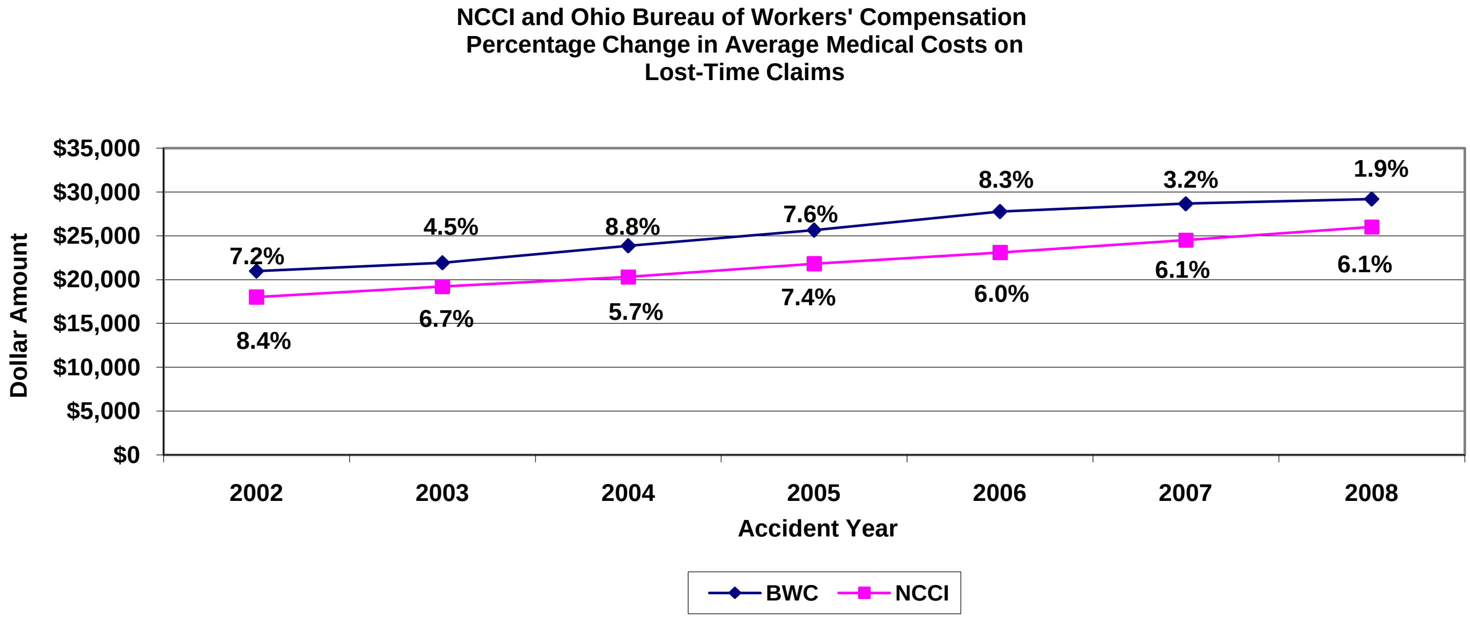
NCCI data from the NCCI Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary

BWC data from the June 30, 2009 Actuarial Audit, Oliver Wyman, Actuarial Consultants

Chart Title: Ohio Bureau of Workers' Compensation Average Medical Cost per Lost-Time claim and Percentage Change/NCCI Average Medical Cost per Lost-Time claim and Percentage Change

Description and Conclusions:
This line chart shows a seven year history and percent change in the average medical cost per lost-time claim for the BWC and the NCCI subscribers. The percent at the top or bottom of each point is the percentage change in the cost from the year before. Each point represents the average ultimate medical dollar cost by injury year. The BWC is following a similar trend as the industry. The BWC's average ultimate medical cost of claims is higher overall.

Source of Data:
The NCCI data are from the Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, and NCCI Chief Actuary. The BWC data are from the June 30, 2009 Actuarial Audit, by Oliver Wyman, Actuarial Consultants.



NCCI data from the NCCI Annual Issues Symposium 2009, Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary
BWC data from the June 30, 2009 Actuarial Audit, Oliver Wyman, Actuarial Consultants

Chart Title: Reported Lost Time Claim per $1M-Adjusted Payroll
Reported Death and PTD Claim per $1M-Adjusted Payroll
Reported Temporary Total and Permanent Partial Claim per $1M-Adjusted Payroll

Description and Conclusions:

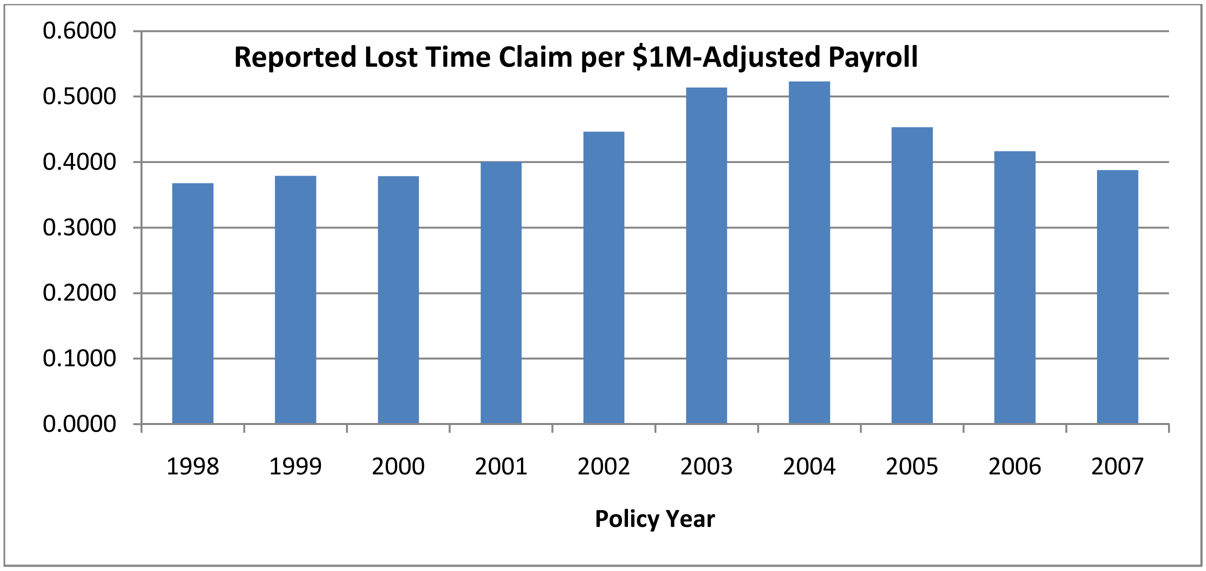
The Reported Lost Time Claim per $1M-Adjusted Payroll chart shows the amount of lost time claims reported per $1 million of wage inflation adjusted payroll. The claim counts per $1 million of wage inflation adjusted payroll is further broken out by claim type in the graphs labeled Reported Death and PTD Claim per $1M-Adjusted Payroll and Reported Temporary Total and Permanent Partial Claim per $1M-Adjusted Payroll.

The PTD chart is misleading in that it is indicating a sharp decrease in the reported PTD claims. Typically, it takes an average of about 10 years before a claim files and becomes a PTD claim. The chart labeled All Employer PTD Incremental Claim Counts is a triangle of incremental reported PTD claims beginning in 1993 and the cumulative percent awarded compared to the ultimate PTD claim count from the Actuarial Audit as of June 30, 2009. The highlighted cells indicate when approximately 50% of the ultimate PTD have been awarded/reported and it is occurring at eight years after the original injury date.

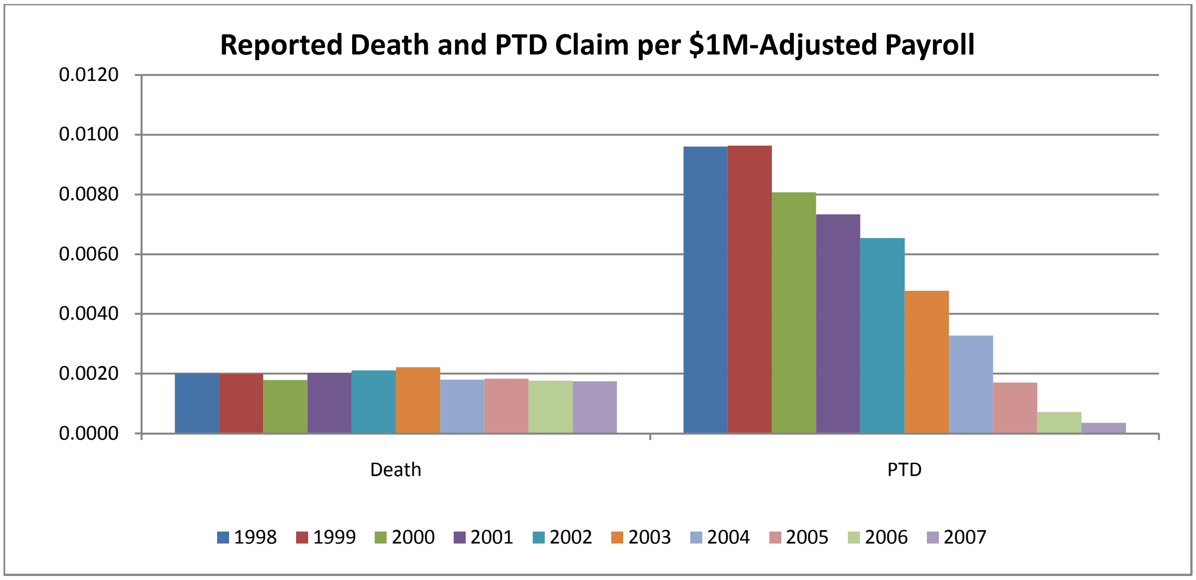
The Permanent chart reflects claim frequency higher than the frequency for Temporary claims. This is primarily as result of Percent Permanent Partial (%PP) awards in Ohio. MIRA II maps the claim injury type as Permanent if a %PP is awarded. The awards can be made on claims that are currently listed as Medical Only claims, therefore causing the claim to be considered permanent by the MIRA II system and also will include in the Permanent mapping of a claim where the percent award is greater than 0%.

Source of Data:
The payroll used in the calculation of claim frequency is taken from the BWC's data warehouse as of February 7, 2010. Wage inflation was calculated using the BWC's maximum Death and Temporary Total maximum wage indexed using policy year 1998 as the base year.

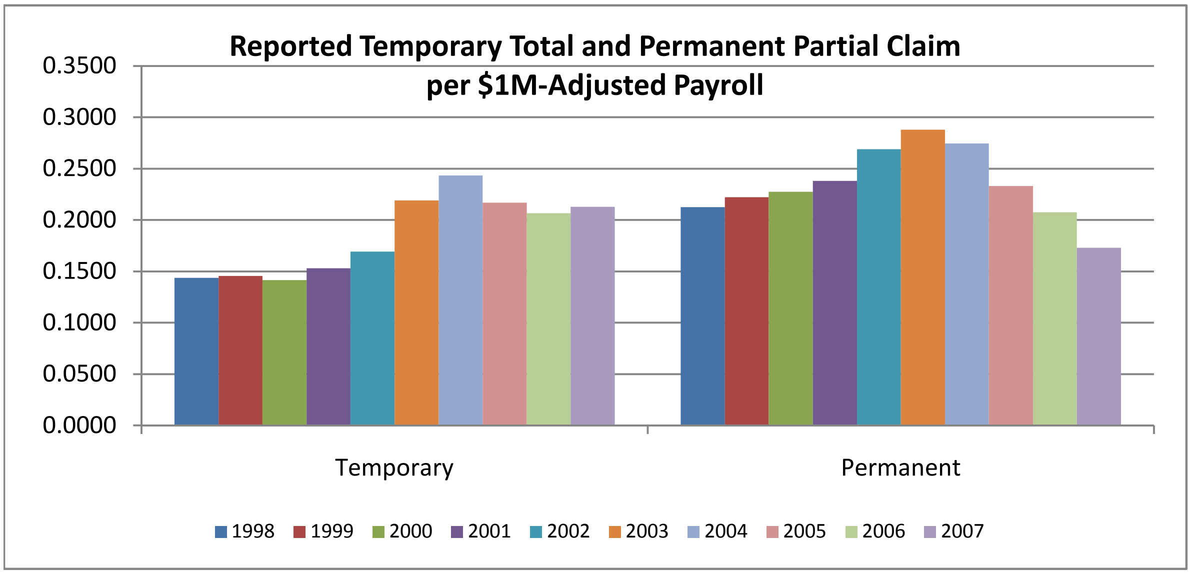
The claim data is obtained from the MIRA II claim reserving system and was obtained on February 8, 2010, with predictions as of Dec. 31, 2009. The claim injury type determined by the MIRA II system reflects the ultimate claim severity as of the evaluation date and is based primarily on the type and/or duration of indemnity payments. MIRA II will assign an injury type of Death and/or PTD to claims that have had actually death and/or PTD awards paid. Therefore MIRA II does not predict Death and/or PTD claims prior to the actual awards being paid. The claim counts include claims that are Open/Close, and Active/Inactive.



Reported Lost Time Claim per $1M-Adjusted Payroll
0.6000
0.5000
0.4000
0.3000
0.2000
0.1000
0.0000
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
Policy Year



Reported Death and PTD Claim per $1M-Adjusted Payroll
0.0120
0.0100
0.0080
0.0060
0.0040
0.0020
0.0000
Death
PTD
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007



Reported Temporary Total and Permanent Partial Claim
per $1M-Adjusted Payroll
0.3500
0.3000
0.2500
0.2000
0.1500
0.1000
0.0500
0.0000
Temporary
Permanent
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007

All Employer PTD Incremental Claim Counts

	Year of award														
Accident Year	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
1994	16	41	64	80	74	87	64	74	68	64	54	52	33	52	25
1995	4	10	36	68	68	85	68	64	81	61	51	41	42	59	28
1996		3	13	27	55	70	77	72	64	72	53	49	40	45	34
1997			2	10	26	56	75	73	81	76	76	61	50	61	39
1998				3	17	37	55	75	96	87	89	75	57	97	58
1999					1	13	45	53	78	115	89	83	75	99	58
2000						1	13	52	88	99	129	107	89	95	81
2001							5	13	43	67	92	81	84	98	84
2002								5	13	46	66	88	72	126	97
2003									2	15	45	64	66	111	108
2004										2	17	44	55	98	98
2005											7	18	15	56	81
2006												4	15	24	33
2007													5	6	30
2008														5	11
2009															2
	20	54	115	188	241	349	402	481	614	704	768	767	698	1,032	867

All Employer PTD Incremental Claim Counts Percentage of Ultimate PTD Claim Count

	Year of award														
Accident Year	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
1994	2%	6%	12%	20%	28%	36%	43%	50%	57%	64%	69%	74%	77%	83%	85%
1995	0%	1%	5%	12%	19%	28%	35%	42%	51%	57%	62%	67%	71%	77%	80%
1996		0%	2%	5%	11%	18%	27%	35%	42%	50%	55%	61%	65%	70%	74%
1997			0%	1%	4%	9%	17%	24%	32%	40%	47%	53%	58%	65%	68%
1998				0%	2%	5%	10%	17%	25%	33%	41%	48%	53%	62%	67%
1999					0%	1%	5%	10%	16%	26%	34%	41%	48%	56%	61%
2000						0%	1%	5%	12%	20%	30%	38%	45%	53%	59%
2001							0%	2%	5%	11%	19%	25%	32%	41%	48%
2002								0%	2%	5%	11%	18%	24%	35%	43%
2003									0%	1%	5%	11%	16%	26%	35%
2004										0%	2%	5%	10%	18%	27%
2005											1%	2%	4%	9%	16%
2006												0%	2%	4%	7%
2007													0%	1%	4%
2008														0%	1%
2009															0%
Grand Total															

Count
848
766
674
686
746
709
754
567
513
411
314
177
76
41
16
2
7,300

Utimate Count
995
955
914
1,002
1,116
1,161
1,278
1,185
1,192
1,176
1,170
1,122
1,130
1,133
1,126
1,136
17,791

Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Temporary Total and Living Maintenance; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total Temporary Total (TT) and Living Maintenance (LM) benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Benefit Description:
TT compensation is provided to compensate an injured worker who is totally disabled from work on a temporary basis or a short period of time due to the work related injury or occupational disease. TT is generally the initial award of compensation paid to an injured worker to compensate for lost wages.

LM is a type of compensation paid to an injured worker while he/she is actively participating in an approved rehabilitation plan.

Notable Events/Information:
The decrease in payments from fiscal year 2005 to fiscal year 2008 is likely due to the Settlement programs that BWC has implemented during that time period and it could also be because BWC implemented the Disability Management IME (DM IME) policy in early 2006. The DM IME claims management strategy is to facilitate the earliest possible safe return to work and to ensure appropriate and timely medical treatment.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC
PA, PEC, PES Employers
Temporary Total and Living Maintenance
Fiscal Year Payments

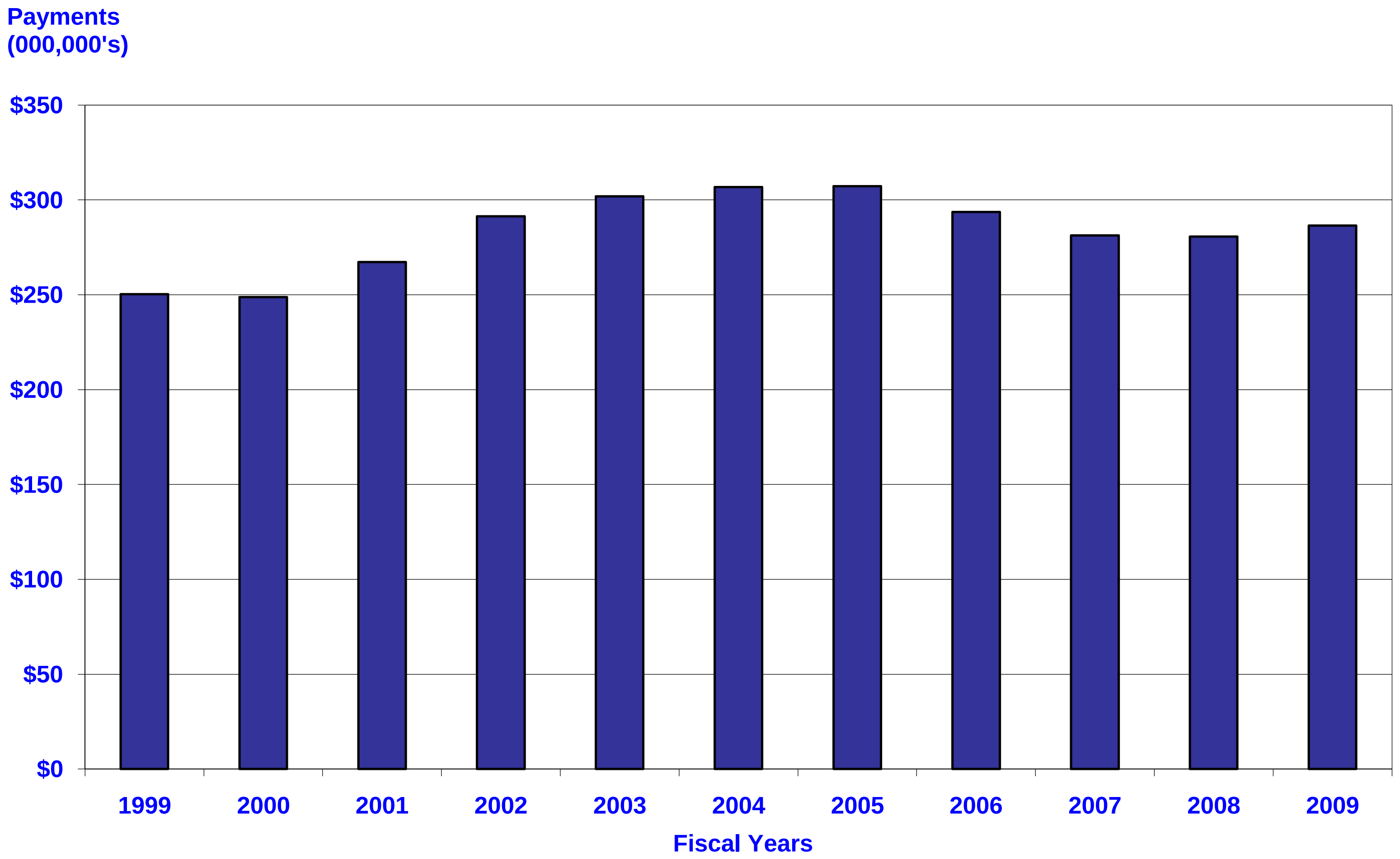


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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Permanent Total Disability and Lump Sum Advancements; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Permanent Total Disability and Lump Sum Advancements benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

The increase of approximately $15 million between fiscal year 2004 and 2005 is attributable to an increase in both the PTD and the LSA benefits. An increase in PTD benefits of approximately $11 million is due to both an extra benefit payment of approximately $5.3 million and an increase in the average payment amount, which resulted in an approximately $7 million increase in benefits in fiscal year 2005.

The LSA benefits increased approximately $4.3 million between fiscal year 2004 and 2005. The average payment amount increased from $8,837 per LSA payment in fiscal year 2004 to $10,675 per LSA payment in fiscal year 2005. The number of LSA benefits payments increased by 158 payments.

The PTD payments for fiscal year 2006 have decreased by approximately $9M from FY 2005. As shown on the graph, the 2006 payments are similar to 2004 PTD payments with a $4.3M increase between 2004 and 2006.

Attorney fees and expenses were increased from $8,500 ($8,000 fees and $500 expenses) to 11,000 ($10,000 fees and $1,000 expenses) on 5/2/2007. Also, in December, 2004 BWC provided various options for paying back the advancement instead of reducing the rate for the life of the claim, although that is still an option. The IW can opt to pay back in 5, 10, 20 years or life of claim reduction. More applications may be filed for LSA due to flexibility in pay back options.

Benefit Description:
PTD benefits are to compensate the injured worker for permanent impairment of earning capacity. Compensation for PTD is payable for life. When an injured worker applies for permanent total disability, he/she must attend an Industrial Commission examination and hearing to determine if he/she meets the eligibility criteria for this type of compensation.

A Lump Sum Advancement (LSA) is the prepayment of future compensation. Advancement applications will be reviewed for meeting financial relief and rehabilitation purposes only. Advancements may be requested by injured workers or dependents (in case of death) who are currently receiving Permanent Total Disability, Scheduled Loss or Death Benefits.

Other Notable Events:
PTD rates on claims in which the injured worker was collecting regular social security benefits were not at the appropriate level. PTD claimants receiving social security *disability* benefits have a reduced PTD benefit rate. Apparently, this reduction was being systematically applied to all PTD claimants receiving any kind of social security benefit. The claims department has corrected this by reviewing claims that fall into this situation and adjusting the benefit rate and making reimbursement payments for back pay entitled. The impact to the payment reports was a slight increase in PTD benefits during the months of November and December 2002.

The Price Supreme Court Decision: This decision found that the PTD benefit rate that was based upon the injured workers' average weekly wage at the time of the injury was not appropriate for those injured workers who may have returned to work for a period of time before becoming PTD and where the injured workers' pay had increased substantially over the pay at the time of the injury.

On July 19, 2006 the Price Supreme Court Decision was overruled. The Supreme Court decision held that the original AWW rate established in a claim should not be adjusted.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Permanent Total Disability and Lump Sum Advancements
Fiscal Year Payments

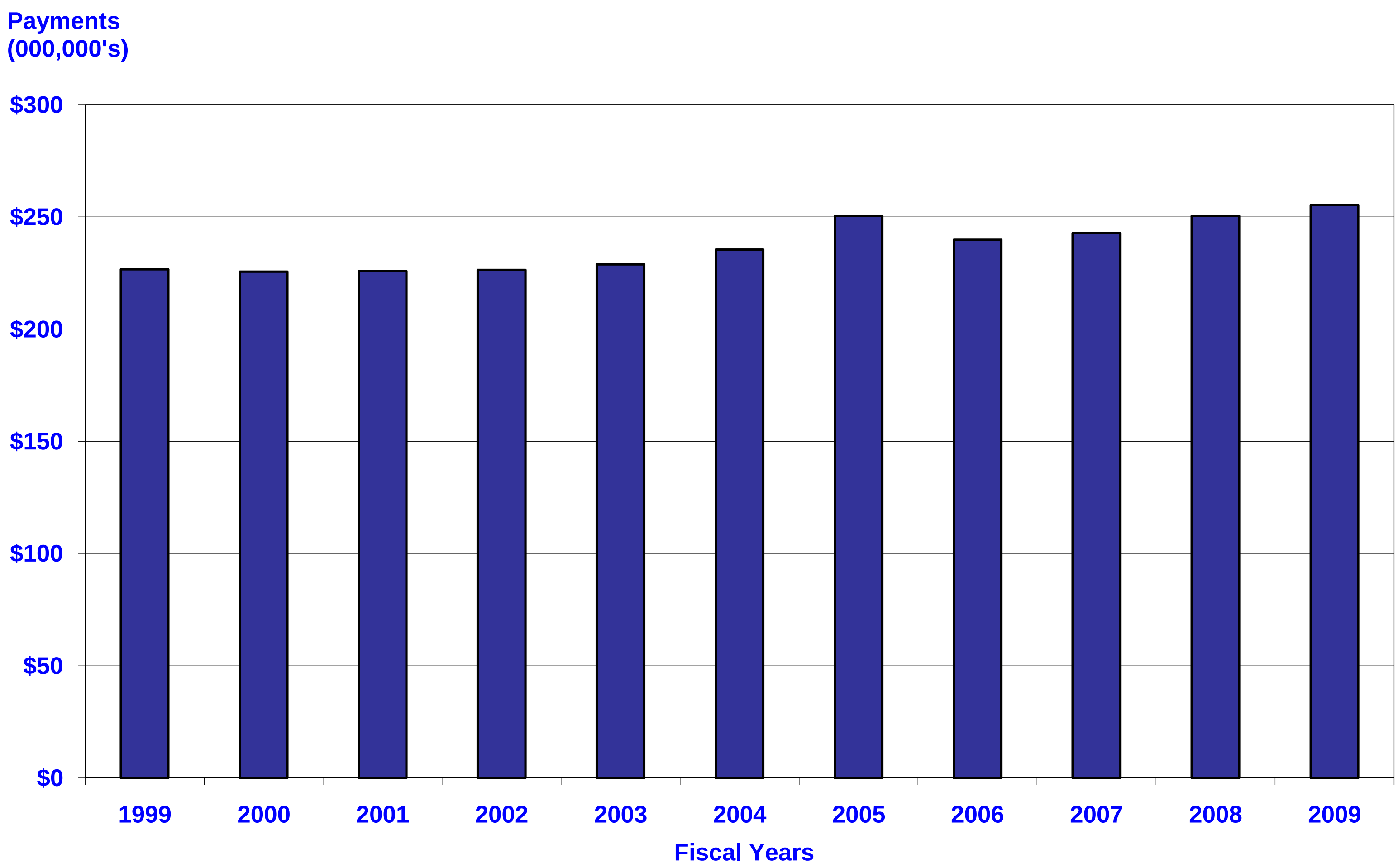

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Death; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total Death benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Benefit Description:
A death claim is filed by the dependents of an injured worker (IW) who died as a result of an industrial accident or occupational disease. Dependent death benefits will be based on the level of dependency or support each dependent had while the worker was living. Death benefits can be divided into two categories. The first is when death results instantaneously as a result of an injury. The second is when death is not an instantaneous but a proximate result of an injury or occupational disease.

Notable Events/Information:
From the May 2004 report, Death payments are about $2.3 M above expected. As a part of the death payments conversion to allow EFT payments, a "clean-up" of death payments occurred.

Death payments increased over the expected due to the death payment clean up that occurred in the months of March, April and May 2004. All death claims were reviewed as a part of a V3 death payment enhancement project that took place in 2004. The statistics compiled by the clean up team indicate that there were approximately $13.9 million in payments identified as being underpaid, and payments were made (where possible) as was evidenced in the actual vs. expected payment reports. The clean up statistics also indicate that the BWC overpaid death payments by $8 million. This information has been provided to the auditors to ensure that the future forecasts used in the actuarial and financial audits are not impacted by this aberration in payments.

Death payments have decreased from FY 2005 to FY 2006 by 3%. Death claim counts have decreased by 297 claims. The 2006 Actuarial Audit indicated lower actual payments then were expected.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Death
Fiscal Year Payments

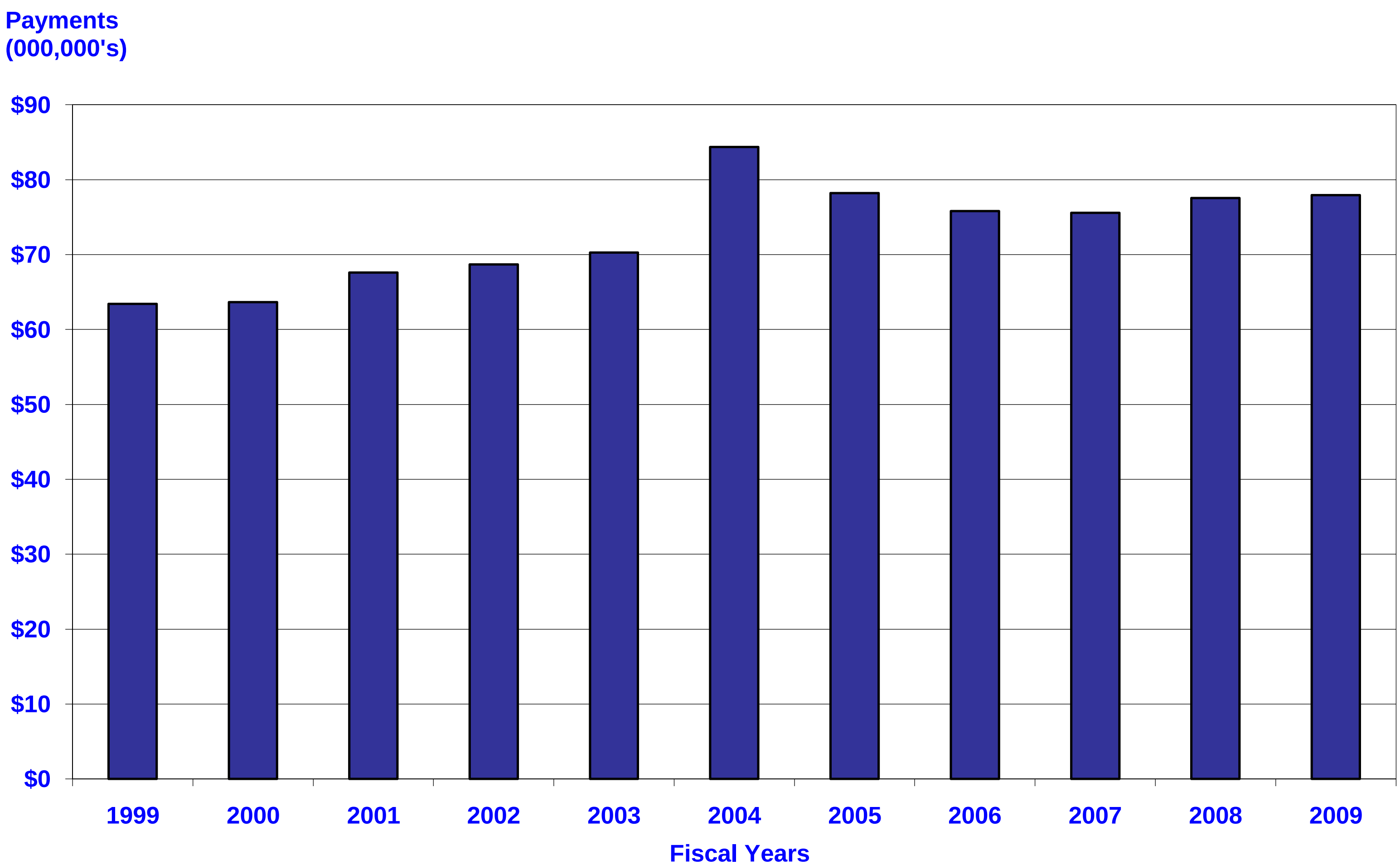

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Percent Permanent Partial; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total Percent Permanent Partial benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Benefit Description:
A certain amount of permanent damage (called residual damage) may remain as a result of the injury. %PP is compensation awarded for residual impairment resulting from an allowed injury or occupational disease. The permanent impairment may be physical, psychological or psychiatric.

Notable Events/Information:
Payments for %PP benefits decreased approximately $7.5 million from fiscal year 2007 to 2008. This reduction is likely due to the "fast track" settlement process wherein BWC attempted to settle claims when a %PP award was requested in a claim; so BWC settled the claims instead of awarding the %PP.

There was a $4 million increase in payments from fiscal year 2008 to 2009. This is due to the number of %PP payments increasing from 33,594 in fiscal year 2008 to 35,071 in fiscal year 2009 and an increase in the average payment amount from $2,471 to $2,494. It is also likely that the large decrease in lump sum settlements attributed to this increase.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Percent Permanent Partial
Fiscal Year Payments

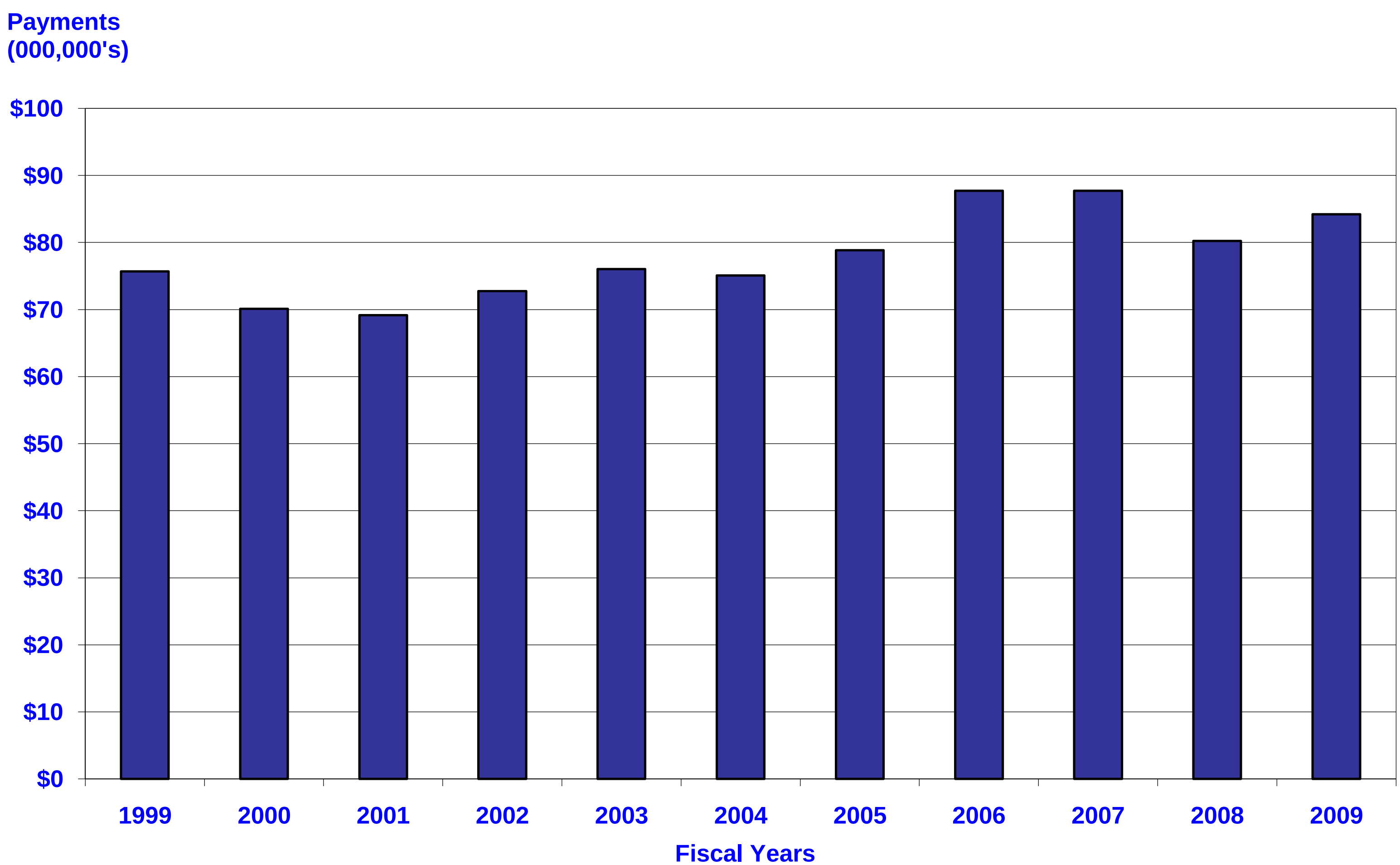

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Permanent Partial; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Permanent Partial benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Benefit Description:
A certain amount of permanent damage (called residual damage) may remain as a result of the injury. A scheduled loss (permanent partial) award encompasses amputations and loss of use, including vision and hearing. A scheduled loss award is based on the loss suffered by the injured worker prior to treatment, not on the injured worker's condition after treatment. A Facial Disfigurement Award (FD) is a one-time award granted for visible damage to the face or head with the potential to impair the injured worker's ability to secure or retain employment.

Notable Events/Information:
The increase of approximately $2 million between fiscal year 2004 and 2005 is an extra benefit payment of approximately $2.6 million which was off-set by a decrease in the average payment amount totaling $536,522.

BWC had an unusually high number of IW who were entitled to %PP and PP suddenly dying and the practice of paying accrued benefits to the beneficiaries in a lump sum settlement occurred. This may be the result of an aging workforce with more degenerative types of injuries and an increase of allowance for psychological conditions. PP payments increased 13.6% from FY 2004 to FY 2006.

Senate Bill 7 was passed in fiscal year 2007. It reduced the 40 week waiting period for filing of an application for PP to 26 weeks. While this may have led to an earlier awarding of benefits in the claim development and an increase in payments, the trend may be leveling off now. The number of payments has decreased about 4% from fiscal year 2007 to fiscal year 2008.

Payments decreased approximately $569,000 from fiscal year 2008 to 2009. Although there were no law, rule, policy, procedure or process changes that can be contributed to the decrease in PP benefit payments, the count of PP payments and the average payment decreased from fiscal year 2008 to 2009. The payment counts decreased from 14,973 to 14,670, and the average payment decreased from $2,116 to $1,946.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Permanent Partial
Fiscal Year Payments

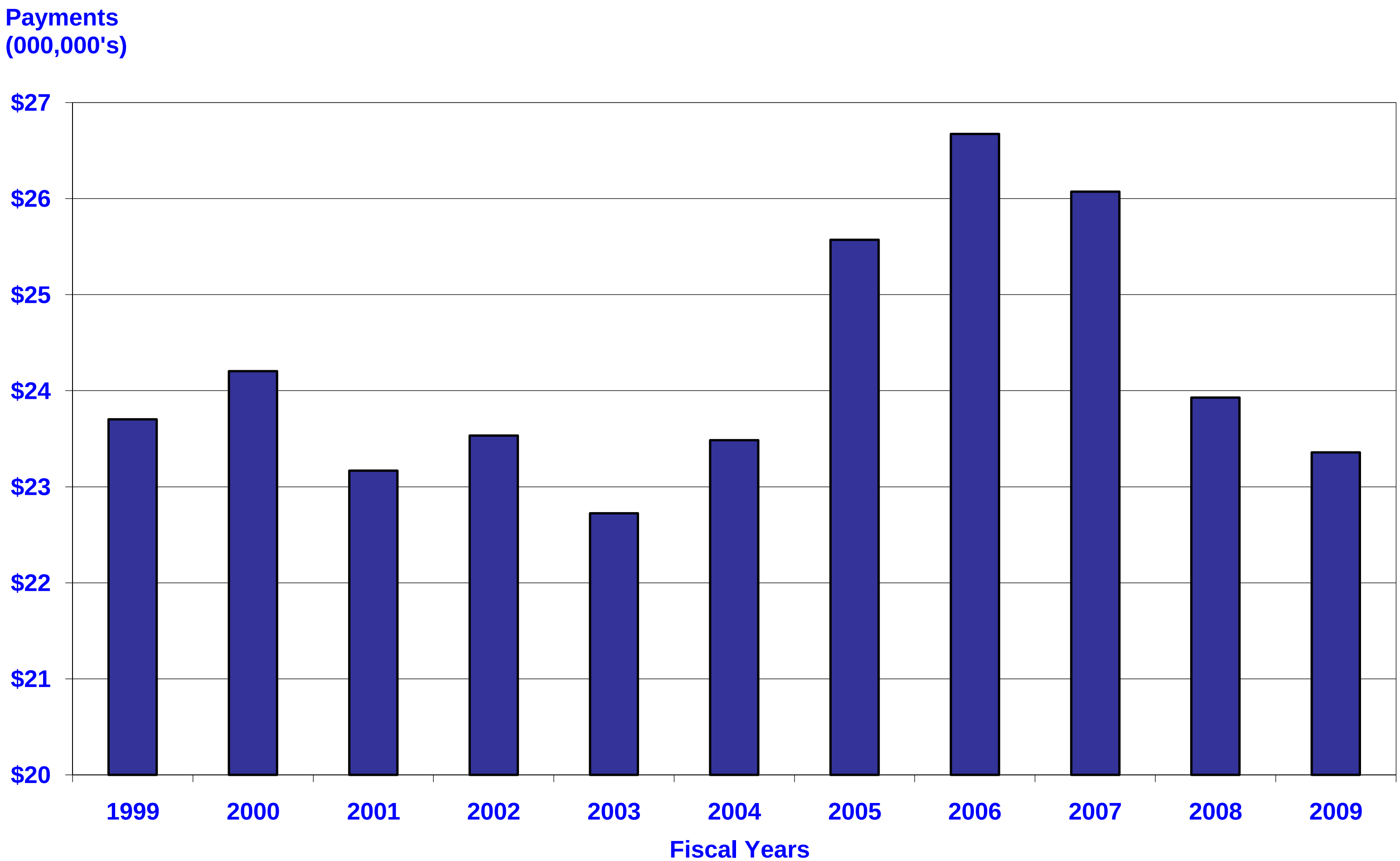

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Temporary Partial, Wage Loss, Living Maintenance Wage Loss and Change of Occupation; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total Temporary Partial, Wage Loss, Living Maintenance Wage Loss and Change of Occupation benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Benefit Description:
Living Maintenance Wage Loss may be paid to an injured worker with a date of injury on or after Aug. 22, 1986. The injured worker must have completed a rehabilitation plan and continues to have physical restrictions and experiences a wage loss upon return to work.

Wage Loss compensation may be paid to an injured worker that suffers a reduction in earnings as a direct result of restrictions from the allowed conditions in the claim. Wage loss is payable in claims with a date of injury or diagnosis on or after Aug. 22, 1986.

Working Wage Loss is payable when the IW returns to employment other than his or her former position of employment. This would include return to work with the employer of record or a new employer with different job duties, fewer hours and less pay resulting from the physical restrictions.

Non-Working Wage Loss is payable when the IW is unable to find suitable employment. In order to qualify for NWWL the injured worker must demonstrate that he/she is making a good faith effort to secure employment within his/her physical restrictions.

Change of Occupation is payable when the IW has contracted silicosis, coal miners pneumoconiosis, or asbestosis, and a change of occupation is medically advisable in order to substantially decrease further exposure to silica dust, asbestos, or coal dust.

Notable Events/Information:
The decrease in payments from fiscal year 2005 to fiscal year 2008 is likely due to the Settlement programs that BWC has implemented during that time period and it could also be because BWC implemented the Disability Management IME (DM IME) policy in early 2006. The DM IME claims management strategy is to facilitate the earliest possible safe return to work and to ensure appropriate and timely medical treatment.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Temporary Partial, Wage Loss, Living Maintenance Wage Loss and Change of Occupation
Fiscal Year Payments

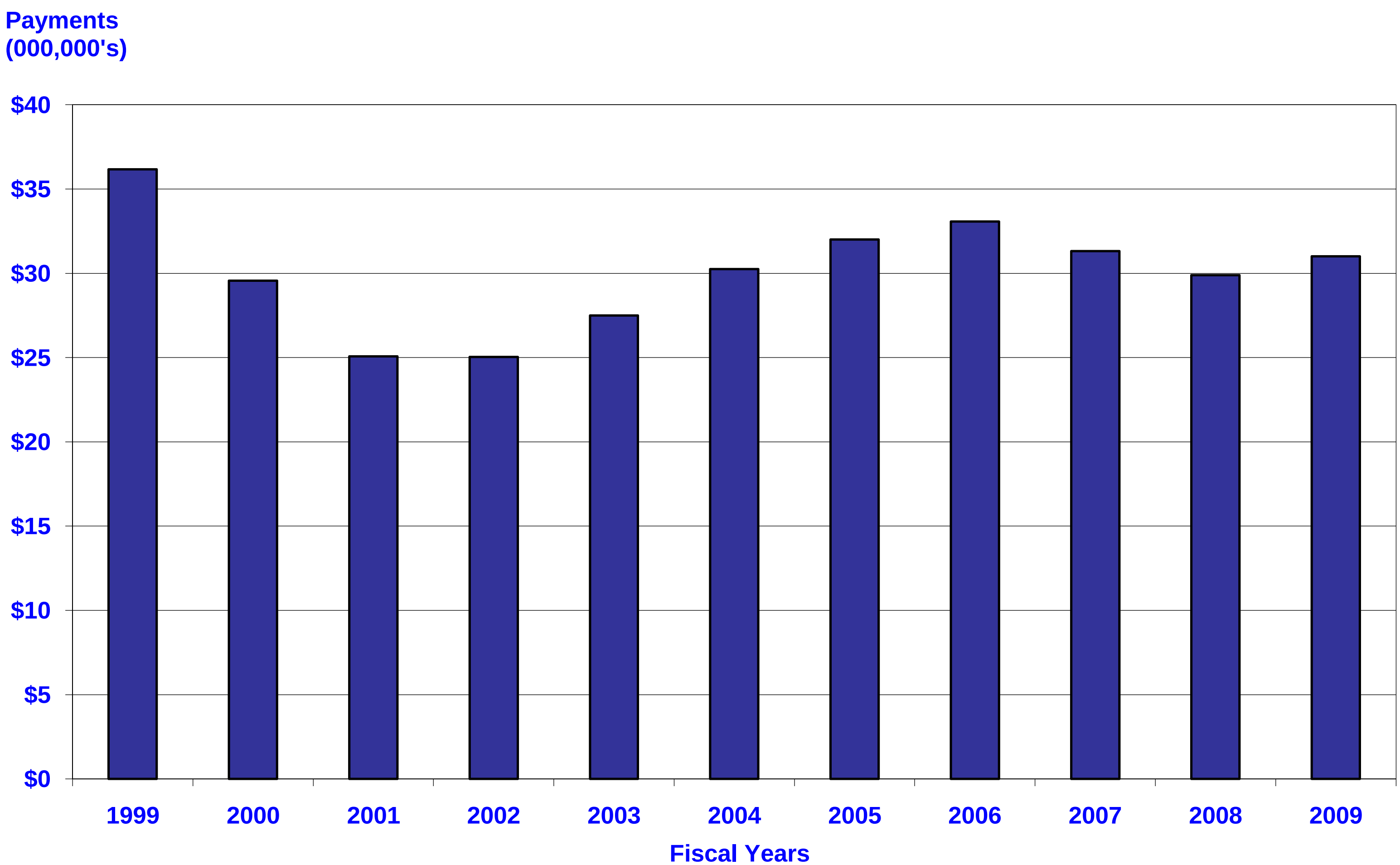

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Lump Sum Settlement; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total Lump Sum Settlement benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Benefit Description:
A lump sum settlement is a negotiated amount between the injured worker, the employer and the BWC to close a claim.

Notable Events/Information:
The steady increase in lump sum settlements from fiscal year 2005 to fiscal year 2008 is due to various lump sum settlement initiatives that have been instituted at BWC in order to reduce BWC's future claim liability. One initiative was to target PTD and Death claims; another was to target claims that had a return to work date. Both initiatives were implemented late in fiscal year 2005. A subsequent initiative was implemented in fiscal year 2007. Claims that were mainly inactive, but became active after the filing of an application for %PP benefits, were targeted.

The reduction in lump sum settlements for FY2008 to FY2009 is multi-fold. One, in late 2008 and early 2009, BWC began a comprehensive reevaluation of its settlement philosophy and process. As such some settlement strategies, such as the fast track settlement process were eliminated, thereby requiring all settlements to go through the formal settlement process. Second, with implementation of the new MIRAII system, we believe employers may be less likely to engage in settlements with the suppression of reserves at earlier dates and changes to reserving of claims receiving C92 awards specifically. Finally, at the end of the fiscal year, April 20th, several new processes were put in place during our redesign efforts. As a result, there was an initial learning curve that would have delayed action on some of these settlements.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Lump Sum Settlement
Fiscal Year Payments

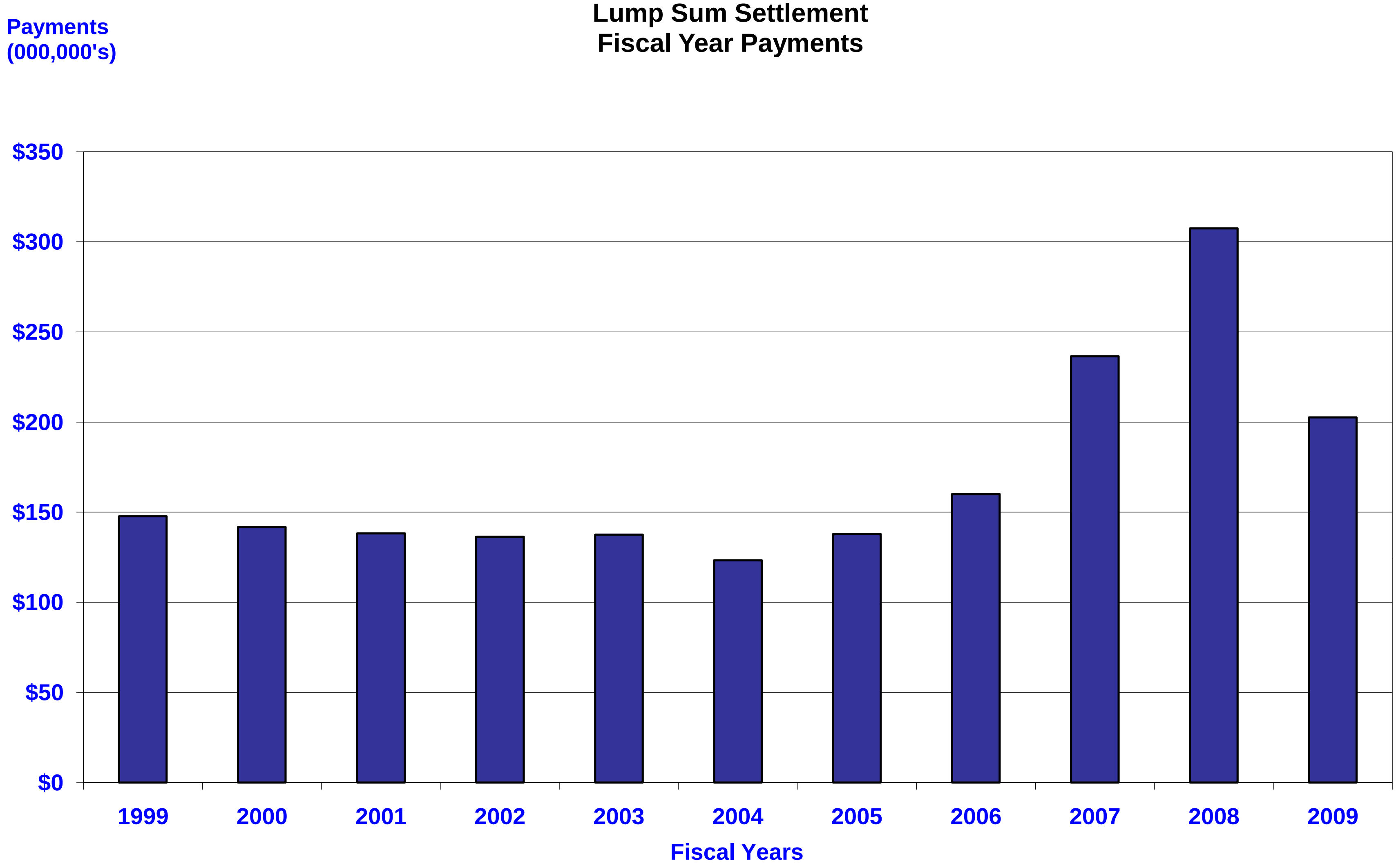

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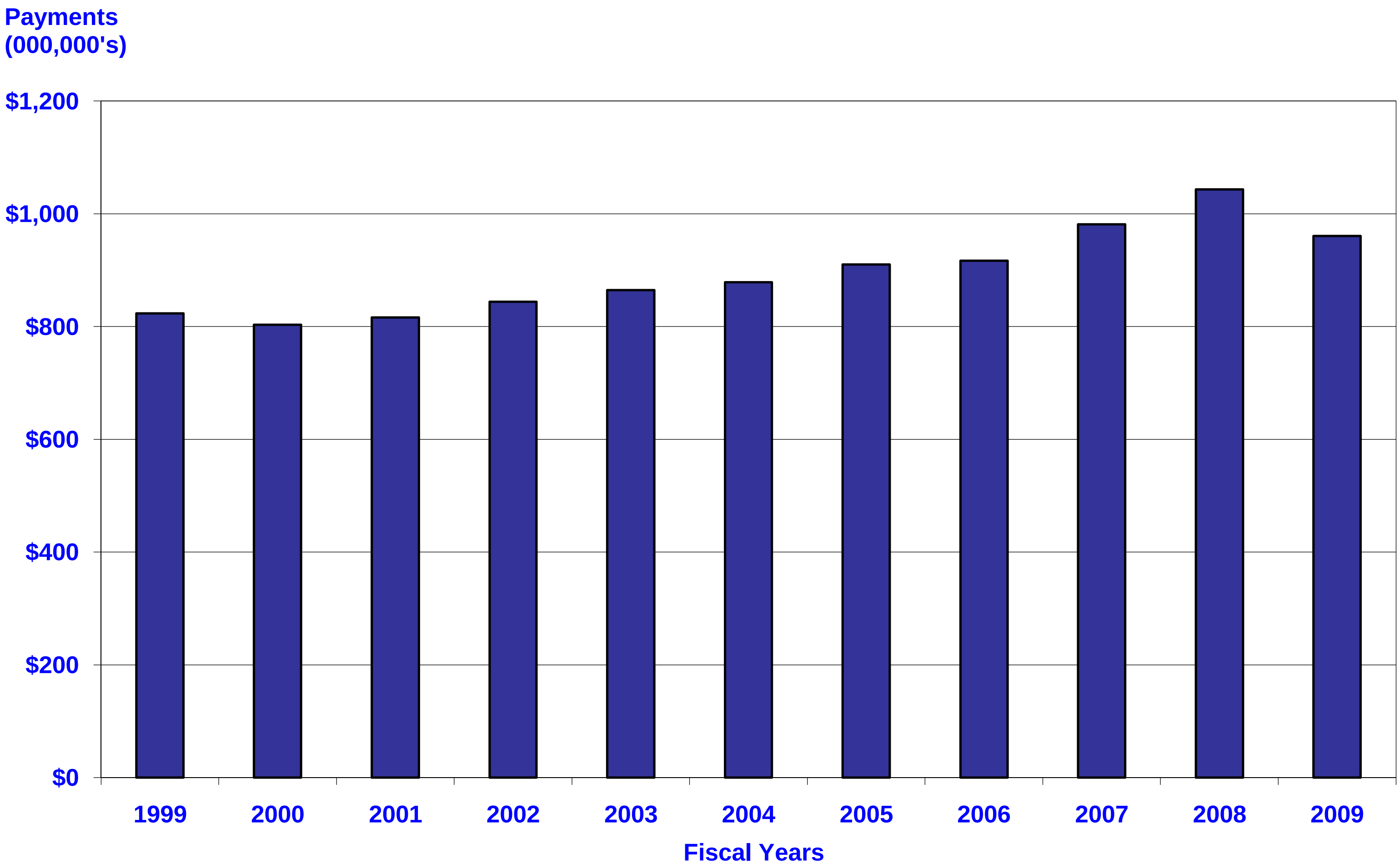
Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Indemnity Totals; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total indemnity benefit payments made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
IndemnityTotals
Fiscal Year Payments



I:\Actuarial_Confidential\Executive Reporting\Executive Reporting\Complete Copy of State of the Line Jan 2010\34 Indemnity Totals.xlsx

Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Hospital; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Hospital benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Notable Events/Information:
Payments have decreased 13.8% from fiscal year 2005 to fiscal year 2007. This decrease is a result of changes to the fee schedules for inpatient and outpatient hospital charges. It is also being caused by a decrease in the number of claims being filed on an annual basis.

Settlement of the Ohio Hospital Association lawsuit in regards to how BWC sets its fee schedules accounts for about $23.7 million of the $26 million increase in hospital expenditures from fiscal year 2007 to fiscal year 2008.

There was a $4.2 million increase in hospital payments from fiscal year 2008 to fiscal year 2009. BWC continued to pay inpatient bills using the Diagnosis Related Group methodology. This methodology has a built-in "cost-of-living" increase. In addition, BWC went from paying 115% of Medicare in CY 2007 and 2008 to 120% of Medicare in 2009. This would have accounted for part of the cost increase. For both periods analyzed, outpatient hospital services were reimbursed according to the cost to charge methodology. Because this methodology pays a percent of charges, a portion of this increase may have been due to higher charges.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Hospital
Fiscal Year Payments

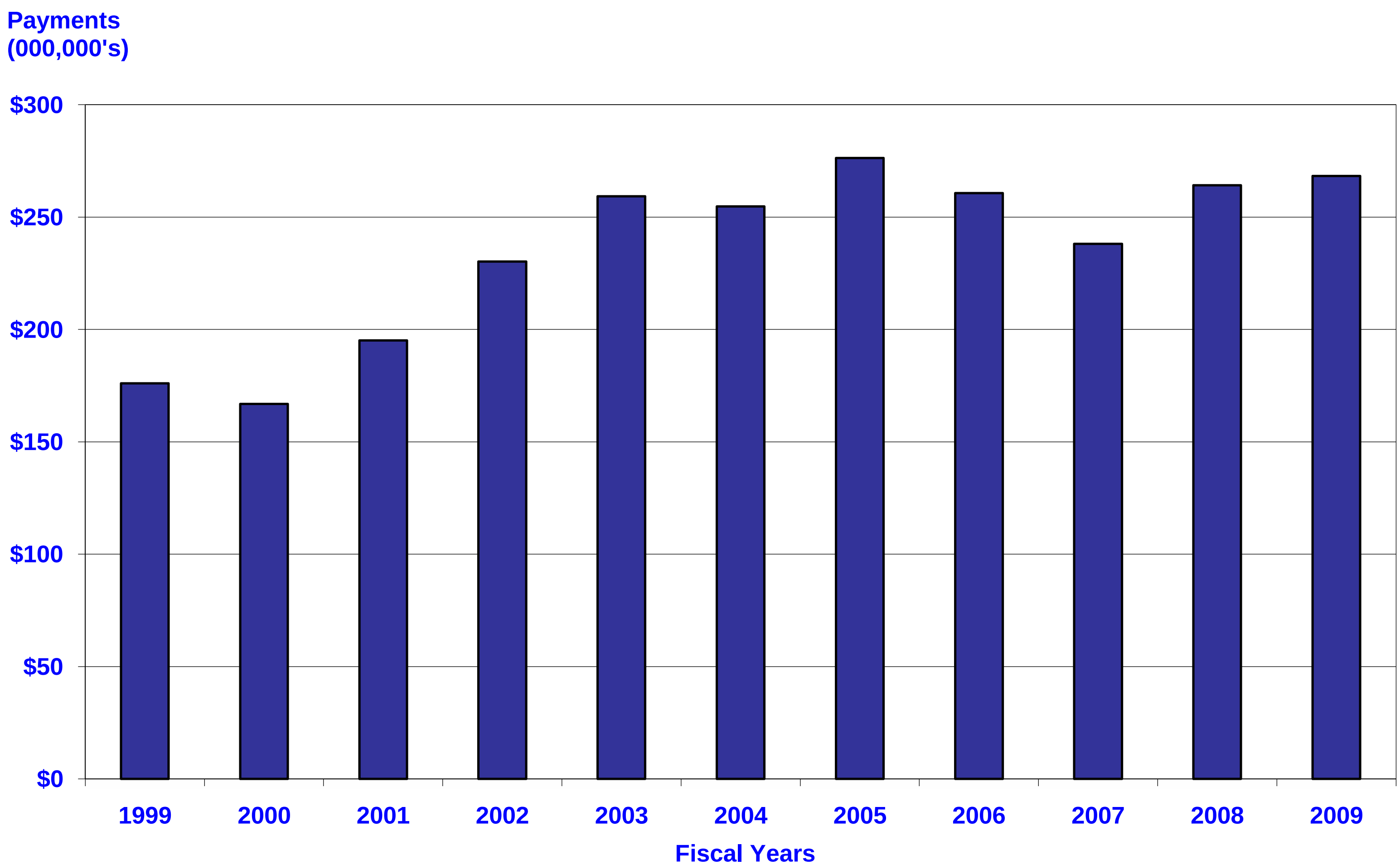


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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Physician; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Physician benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Notable Events/Information:
There was a change in reimbursement level that increased reimbursement rates on bills with dates of service 2/19/2009 and later. The net decrease in expenditures most likely reflects decreased utilization as a result of fewer claims being active and receiving treatment.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

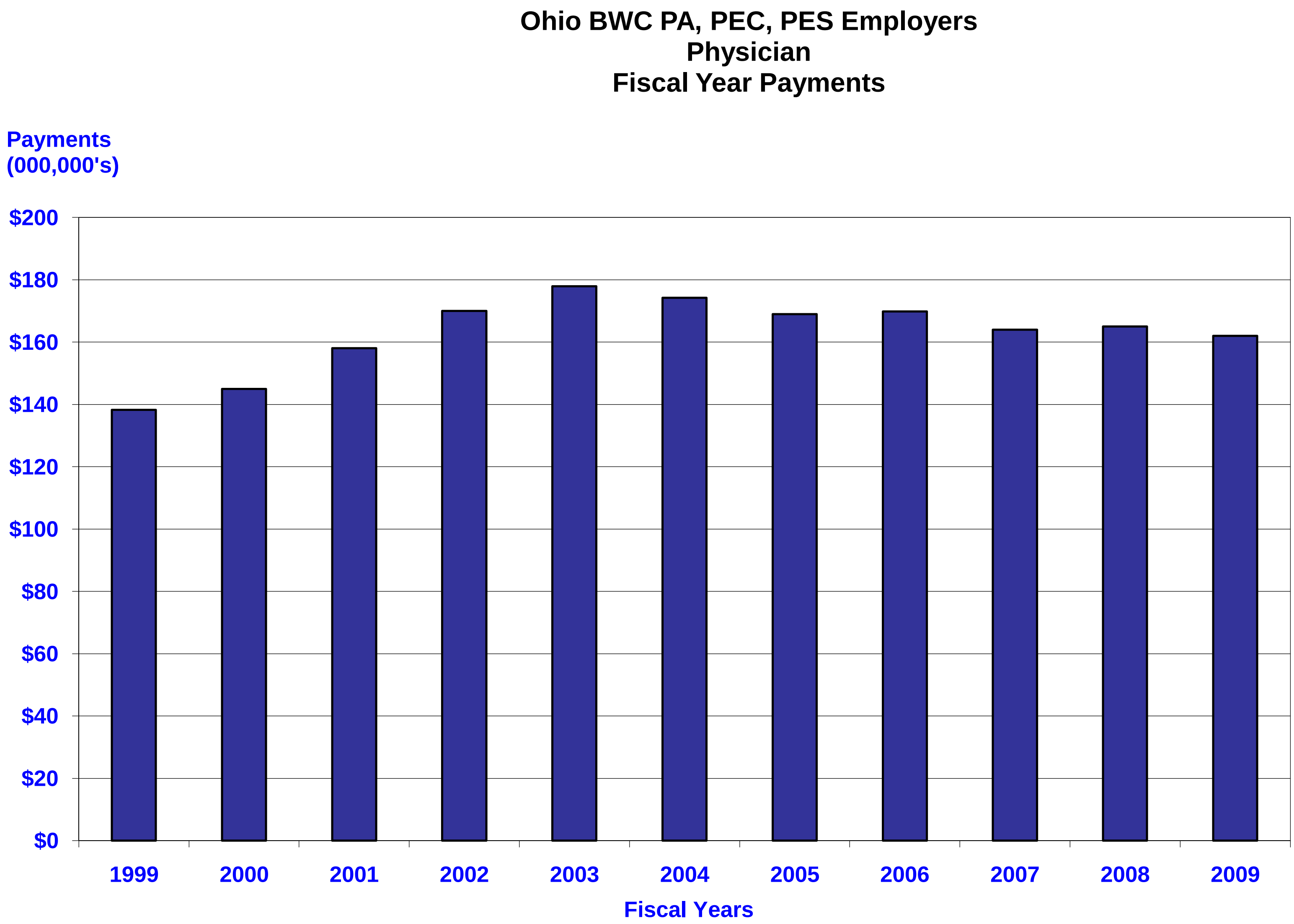

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Pharmacy; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Pharmacy benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Notable Events/Information:
The BWC began a preferred drug program on 7-10-05 which impacted anti-inflammatory, analgesics and skeletal muscle relaxants. BWC and its PBM (Pharmacy Benefits Manager) also introduced MAC pricing and in December 2005 began a mandatory generic drug policy in which BWC pays only the amount of the generic drug for brand names in which a generic equivalent exists. These changes resulted in approximately $30 million in savings in fiscal year 2006 compared to fiscal year 2005.

Payments increased approximately $13 million from fiscal year 2007 to fiscal year 2008. In fiscal year 2008 there were 53 warrants issued to Affiliated Computer Services (ACS) while in fiscal year 2007 there were only 52, an increase of approximately $2 million. Additionally, roughly $5.8 million of the increase is directly attributed to the drug OxyContin. Although BWC reimbursed for fewer Rxs for this drug in fiscal year 2008, the removal of the generic equivalents of this drug from the market in mid-fiscal year 2008 caused a major increase in cost for this drug. New drugs on the market that were introduced in fiscal year 2008 account for approximately $1.2 million in increases as well, with the drug Flector being responsible for almost $500 thousand of this amount. Price increases and increased utilization of Cymbalta and Lyrica resulted in an increase in cost for these drugs of about $1.3 million for Cymbalta and $1.6 million for Lyrica.

The following changes in mediations available for treatment were made during late fiscal year 2008: payment was denied for Lidoderm, Actiqk Fentora, soma 250, Flector, Amarix, and Fexmid. These changes may have been a factor in the 1.4% overall reduction in prescription payments seen between fiscal year 2008 and 2009.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

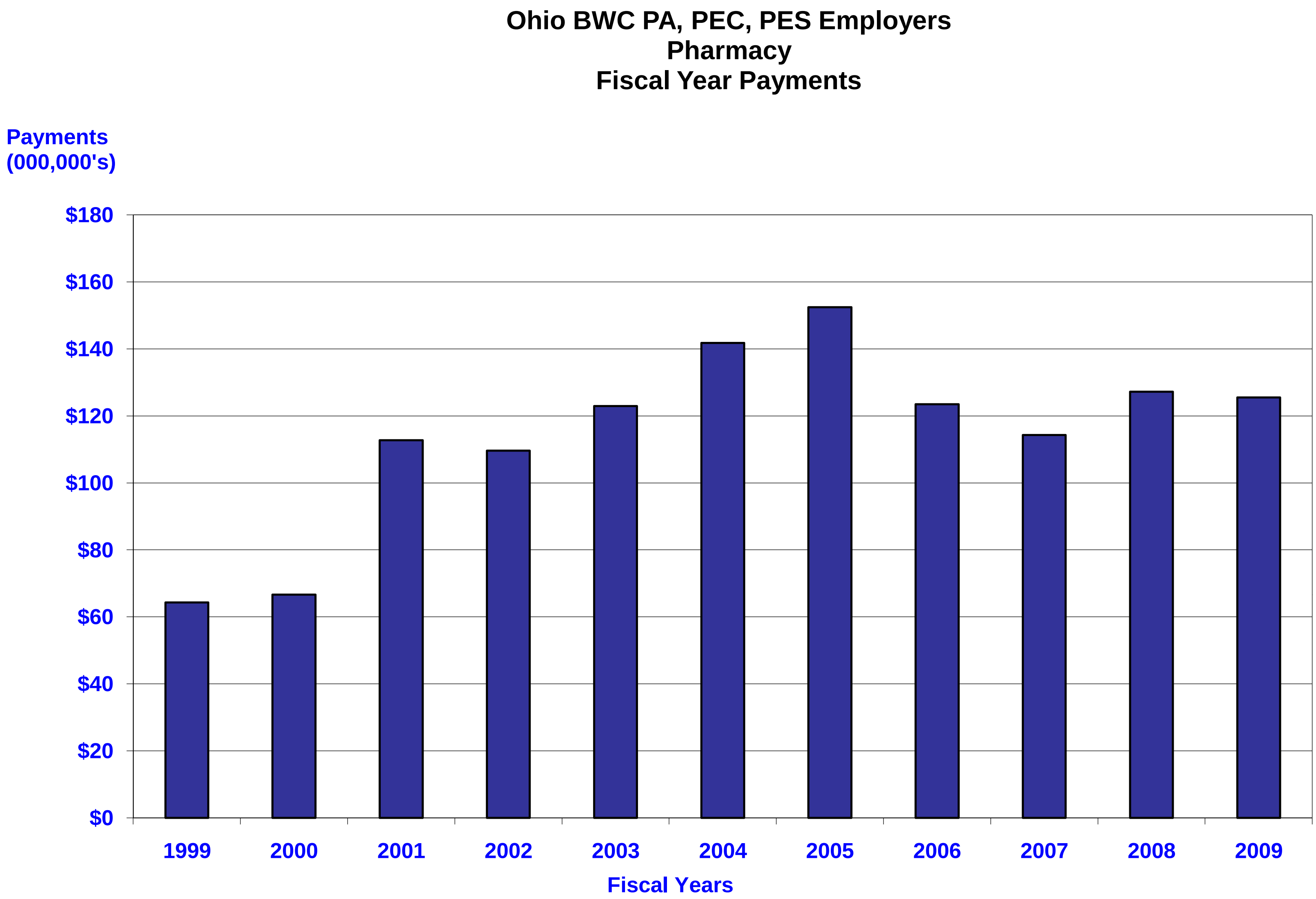

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Chiropractor; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Chiropractor benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Notable Events/Information:
The Chiropractor payment category decreased at the time of the implementation of the HPP. Prior to HPP, the providers were all re-registered with the BWC and given new provider certification and numbers. There was a policy change to the way the Chiropractors were categorized. A new category, "group practice" was added and many of the Chiropractors were now captured in this category. The "group practice" code is included in the Physician benefit payment bucket.

There was a slight change in reimbursement level that increased reimbursement rates on bills with dates of service 2/19/2009 and later. This may account for part of the change. In addition there may be increased utilization.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Chiropractor
Fiscal Year Payments

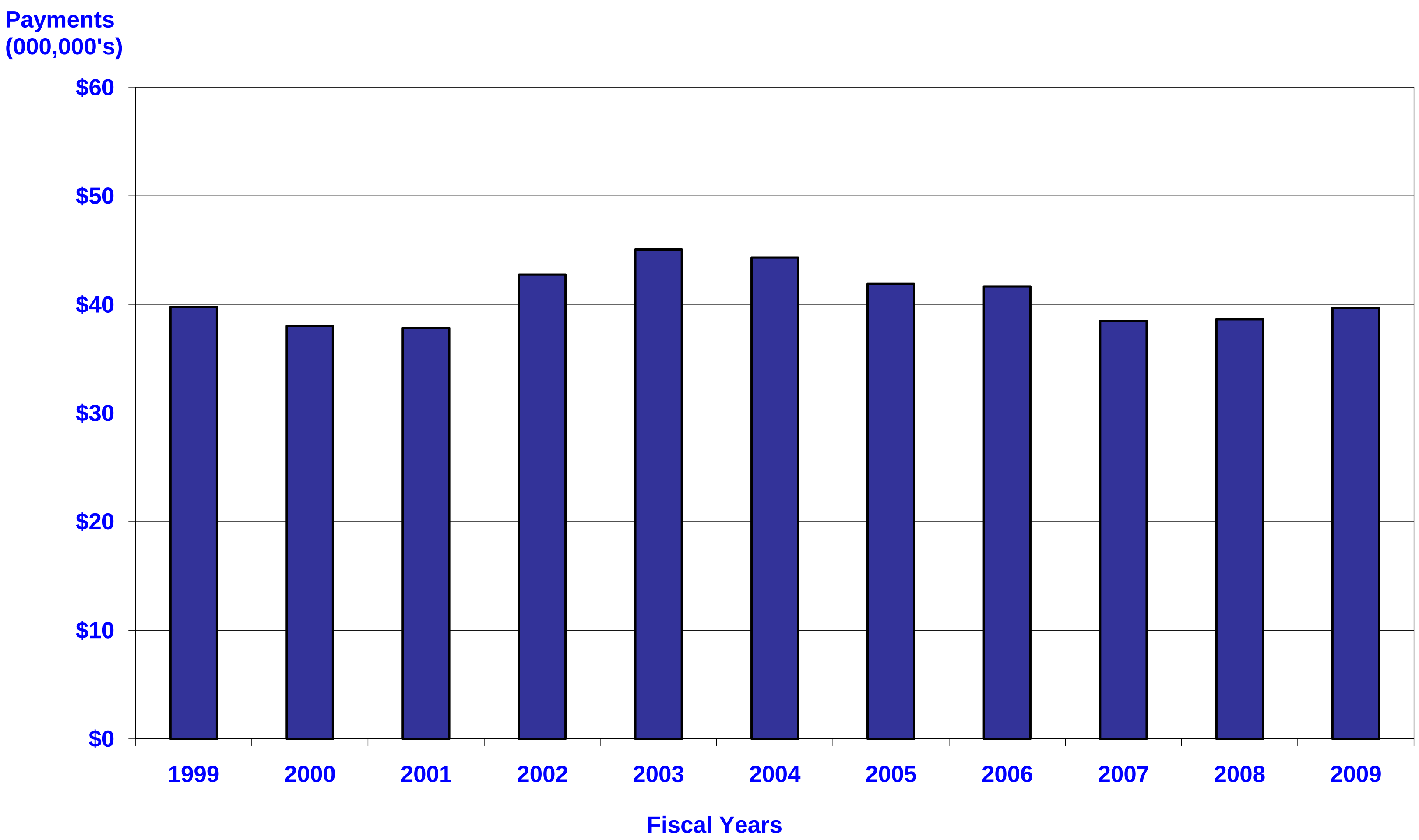

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Rehabilitation; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Rehabilitation benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Notable Events/Information:
Rehabilitation benefits are "charged" to the SIF surplus account. Charges to this account are not included in the individual employer rate calculation and the costs are spread among all employers. This information is widely known and employers are encouraged by their third party administrators and some BWC employees to get their injured workers into rehab as a cost savings measure.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Rehabilitation
Fiscal Year Payments

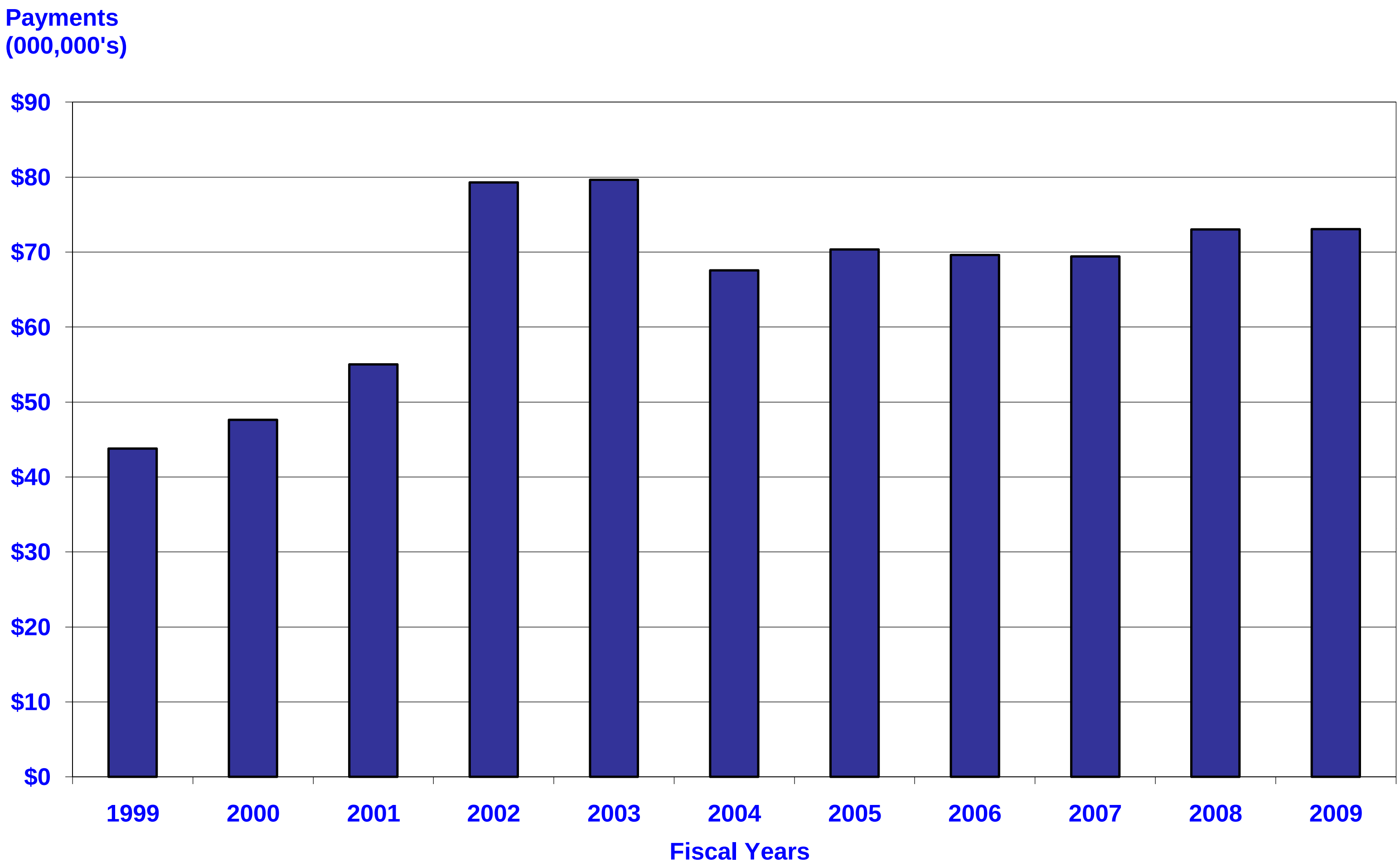

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Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Health Related Other; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of Health Related Other benefit payments on lost-time claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Notable Events/Information:
Beginning March 1, 1997, BWC implemented HPP (Health Partnership Program). We found that when the MCO's began paying BWC's claims, the coding of the payments was incorrect and all the MCO payments were being added into our Health Related-Other field. This coding problem caused the increase in the Health Related-Other provider type and the decrease in all the other provider types for fiscal years 1997 to 1999.

Payments increased approximately $3.4 million from fiscal year 2007 to fiscal year 2008. There were no changes in reimbursement so this most likely reflects increased utilization. There is a trend towards shortened hospital length of stays (cost containment measure), which may have resulted in the increase in home healthcare services paid by BWC. Home healthcare services increased by $2.4 million dollars over the previous year, which accounts for a significant portion of the increased costs in this category.

Payments from fiscal year 2008 to fiscal year 2009 increased approximately $4.2 million. There was a change in reimbursement level that increased reimbursement rates on some bills with dates of service 2/19/2009 and later. This may account for part of the change. In addition, there may be increased utilization. There have been no new payment codes or provider codes added to the health related other payment bucket, so the increase is not due to any similar problem as in 1997.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

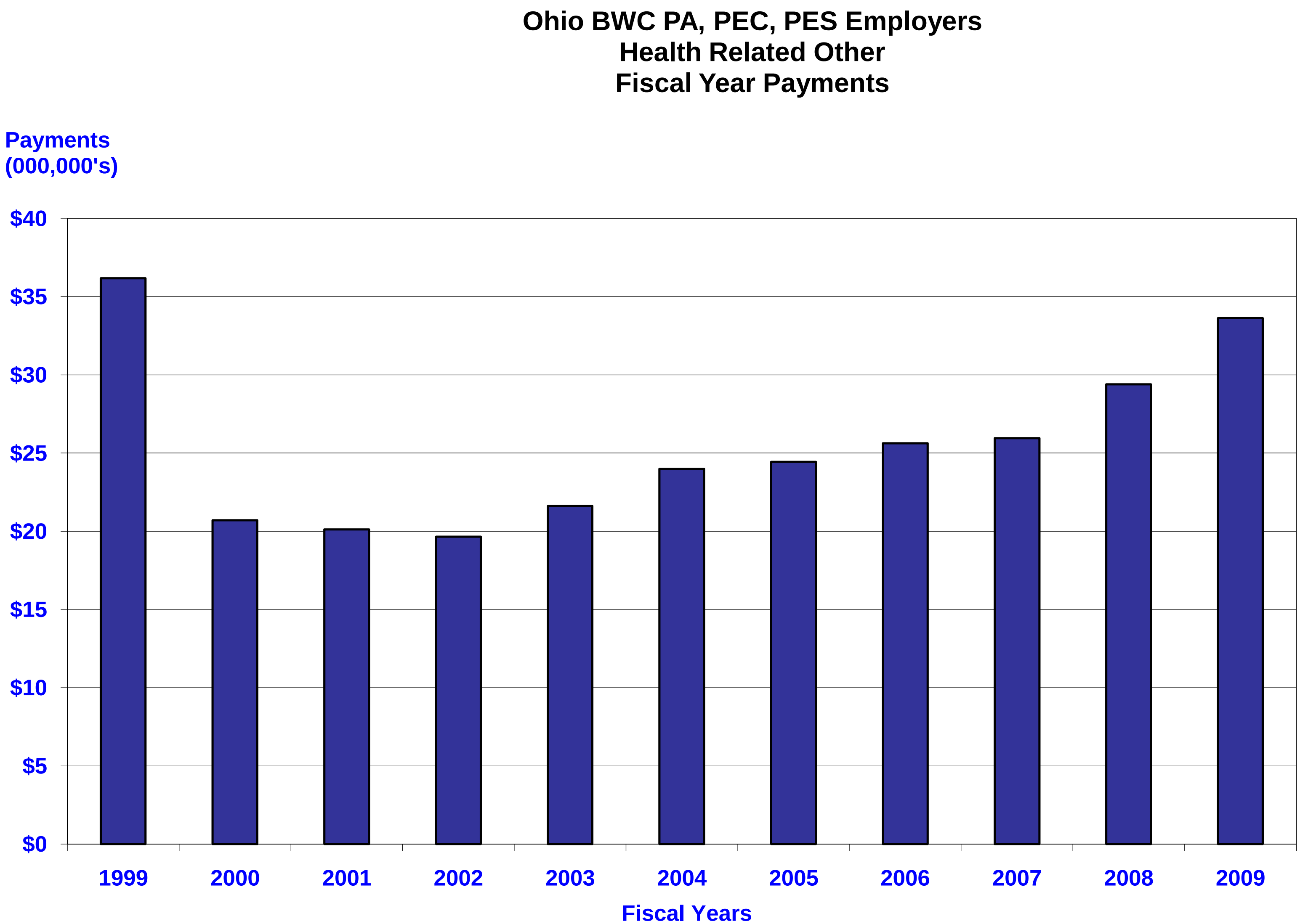
Ohio BWC PA, PEC, PES Employers
Health Related Other
Fiscal Year Payments
Payments
(000,000's)
$40
$35
$30
$25
$20
$15
$10
$5
$0
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Fiscal Years

Chart Title: Ohio Bureau of Workers' Compensation PA, PEC, PES Employers; Medical on Medical Only Claims; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of medical benefit payments on medical-only Claims made for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1999 through 2009.

Notable Events/Information:
Settlement of the Ohio Hospital Association lawsuit in regards to how BWC sets its fee schedules accounted for about $5.3 million in this category for fiscal year 2008. Without the settlement, payments would have decreased approximately $3.1 million from fiscal year 2007 to fiscal year 2008.

Payments decreased $12 million from fiscal year 2008 to fiscal year 2009. Because overall reimbursement rates increased in the second half of the fiscal year, this most likely reflects decreased utilization as a result of fewer claims being filed, remaining active and receiving treatment

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.

Ohio BWC PA, PEC, PES Employers
Medical on Medical Only Claims
Fiscal Year Payments

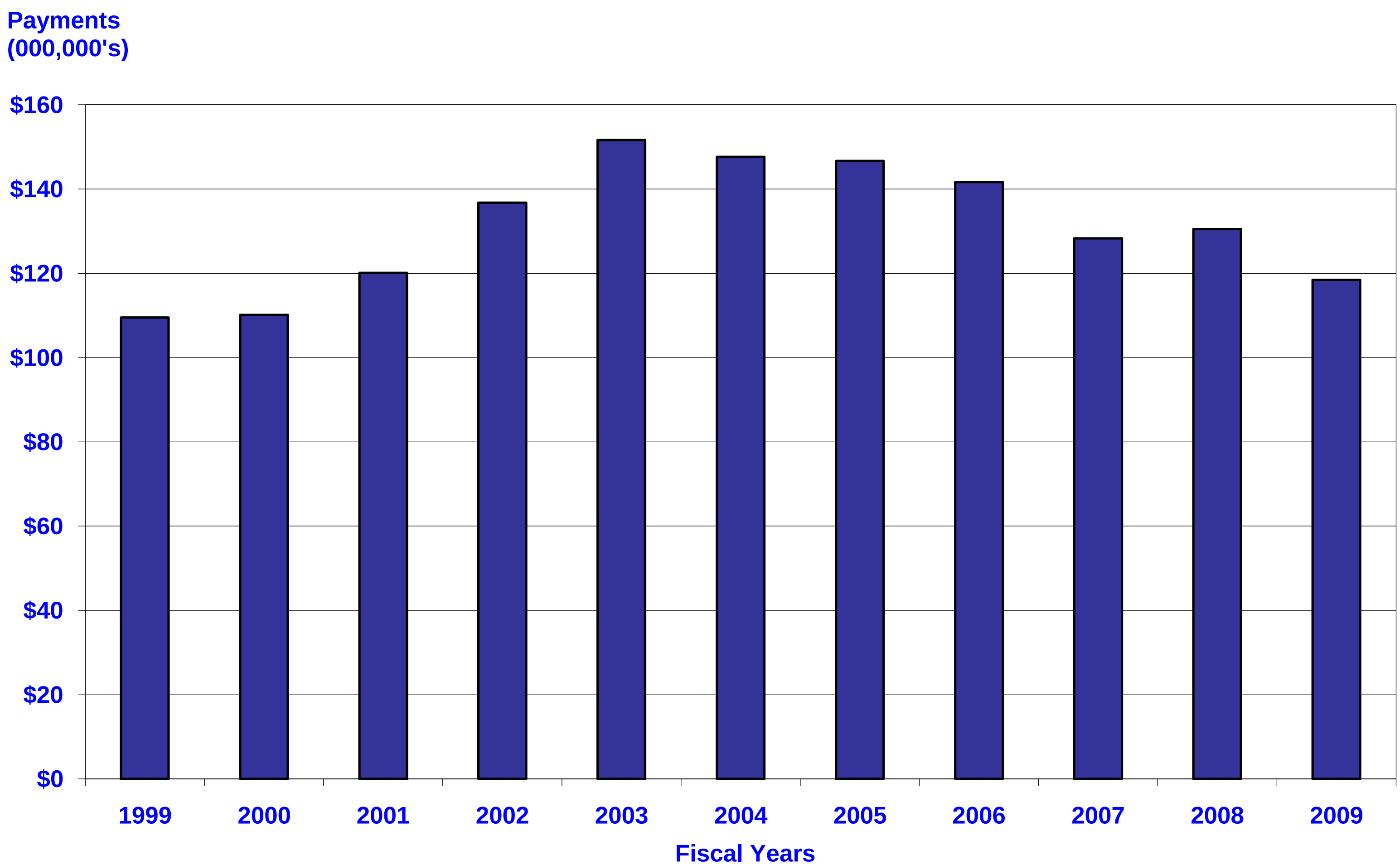

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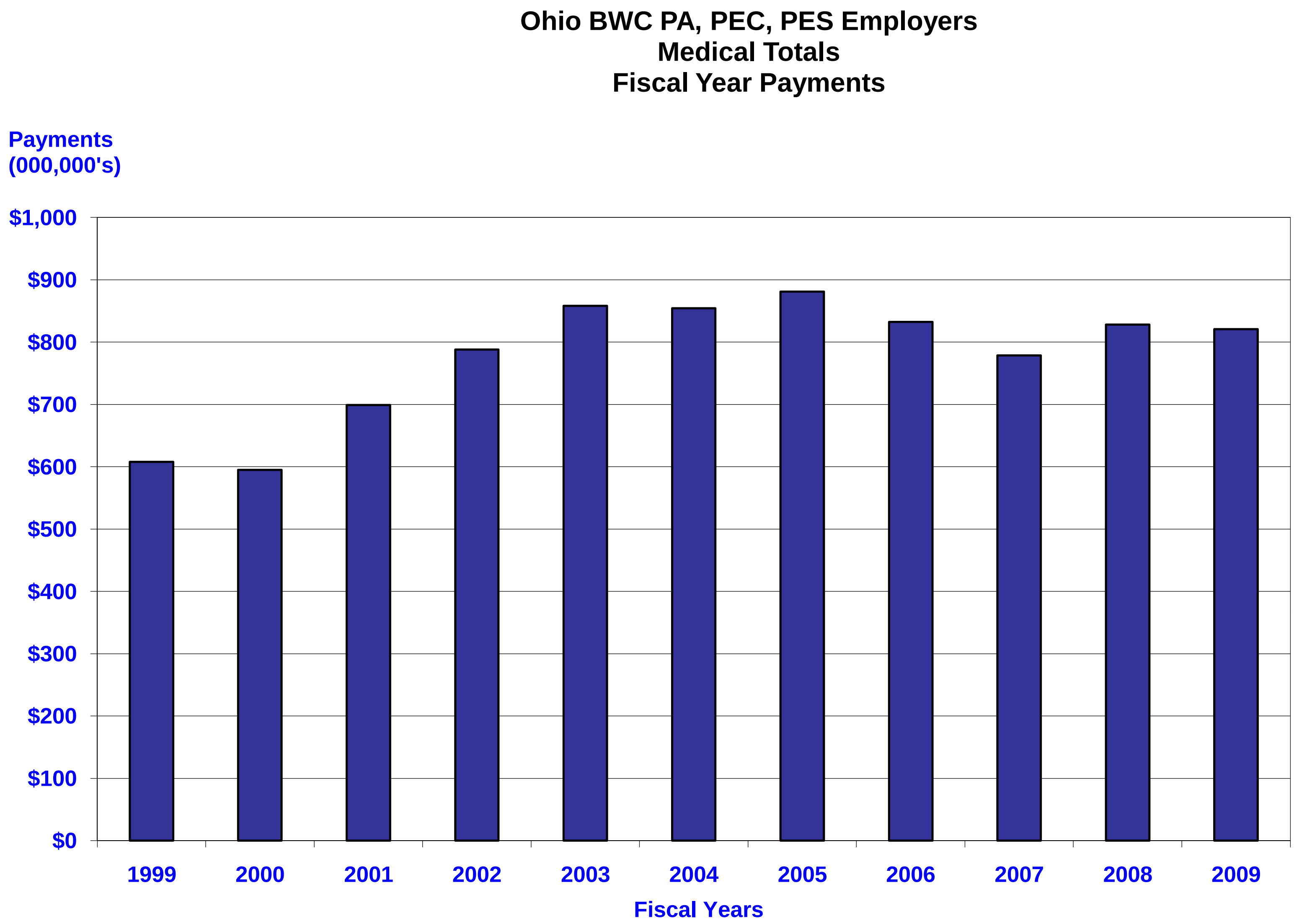
Chart Title: Ohio Bureau of Workers' Compensation; PA, PEC, PES Employers; Medical Payment Totals; Fiscal Year Payments

Description and Conclusions:
This bar chart shows an eleven year history of total medical payments for Private Employers (PA), Public Employer Taxing Districts (PEC) and Public Employer State Agencies (PES) for fiscal years 1998 through 2009.

Source of Data:
BWC Actuarial Division reporting on the Actual versus Expected payment reports.



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NCCI
NCCI Holdings, Inc.

2009 STATE of the LINE

Analysis of Workers Compensation Results

By Dennis C. Mealy, FCAS, MAAA, Chief Actuary, National Council on Compensation Insurance, Inc.

The property/casualty insurance industry was like an island of stability in the stormy sea of the US financial markets in 2008 and early 2009. Although the results for the industry were mediocre at best—compared to banking, investment banking, and even life insurers—the results for property/casualty insurers looked relatively good. The property/casualty insurance industry was rewarded for its generally strong capital position, prudent management of risk, and a conservative asset side of its balance sheet. As of this writing, the property/casualty insurance markets continue to function quite normally, maintaining the capacity to write business and pay claims without interruption.

The workers compensation insurance industry also continues to function quite well with active competition for business and a shrinking residual market. The calendar combined ratio held steady in 2008, and underwriting results remain at near record levels. However, the low interest rate environment that has persisted for several years, combined with the dismal short-term performance of the equity markets, continues to leave the line with post-tax returns that barely return the industry's cost of capital. The calendar year net written premium declined for the second straight year for the private carriers—for the third year in a row if one includes the state funds. The 10% decline in premium for private carriers is the largest single year drop in premium for workers compensation since 1995.

Workers compensation insurance prices continued their declines in 2008 in most jurisdictions. However, in two of the states that have seen substantial bureau decreases in recent years due to reforms in 2003 (California and Florida), the decreases may be nearing an end. The countrywide claim frequency declines also continued, consistent with long-term trends. These declines, combined with some tempering of the growth in indemnity and medical claim costs and modest increases in average wages, allowed bureau loss costs and rates to drift downward in most jurisdictions for another year. When bureau-filed decreases are combined with carrier pricing actions and a slowing economy, it is not too surprising that the written premiums declined significantly.

The line is not without its challenges that we need to monitor. Many of these are unchanged from prior years:

- Medical costs remain the single biggest cost challenge the industry faces. Although their growth has moderated, they are still increasing at least twice the rate of general price inflation.
- Low investment yields, along with the potential of a stagnant stock market, will keep pressure on industry underwriting results. Combined ratios will need to be at historic lows for insurers to earn an adequate return on their capital.
- An increasing number of legislative proposals resulting from a changing political climate in many states may put upward pressure on indemnity costs if enacted.
- The political situation in Washington, with the potential to revamp the nation's healthcare and financial regulatory systems, makes for a period of particular uncertainty for workers compensation.
- The underwriting cycle is entering a period of uncertainty, along with much else in the economy.

For these reasons, NCCI's short-term view of the line is now guarded; the long-term outlook is cautionary.

The workers compensation calendar year combined ratio was 101 in 2008, unchanged from the final 2007 number. The pattern of combined ratios from 2004 to 2008 is looking eerily similar to the pattern from 1993–1997, at the low point of the last cycle. Hopefully, the industry is not repeating past cycles of deteriorating underwriting results. The 2008 accident year combined ratio is 100%, up 4 points from a revised 2007. The current underwriting cycle topped out in 2006 with an 85% combined ratio, more than a 58-point improvement since 1999.

NCCI estimates that the reserve position of the private carriers deteriorated to about a $6 billion deficiency at year-end 2008, up from a $2 billion deficiency last year. After consideration of the allowable discounting of the indemnity reserves of lifetime pension cases, the reserve position is essentially one of adequacy.

California is large enough to have some impact on the countrywide workers compensation numbers, particularly when its results are substantially different from most of the other states, as they have been in recent years. In 2008, those differences remained on a calendar year basis and are not significant on an accident year basis. Excluding California would increase the calendar year combined ratio by about 5 points to 106%. Excluding California from the accident year combined ratio would leave it unchanged at 100%.

As we expected with the economic slowdown, frequency continued to decrease in 2008. For NCCI states, the frequency change was -4%. The prior year's change was -2.6%. NCCI's research indicates that the recession would put additional downward pressure on frequency. Data from the Bureau of Labor Statistics for manufacturing back to the 1920s shows that frequency of workplace injuries dropped substantially even in the Great Depression.

Although the underwriting results remain quite good, and even the pre-tax operating gain is satisfactory, we continue to watch several challenges facing workers compensation insurers.

Medical costs continue to increase faster than wages, even though the increases have tempered a bit in recent years. Many states continue to look for ways to control medical costs in their workers compensation systems. We typically analyze 150 to 200 proposed bills that might impact workers compensation costs in a year, with about one-third of those dealing with medical. Medical cost control remains a forefront issue in many states.

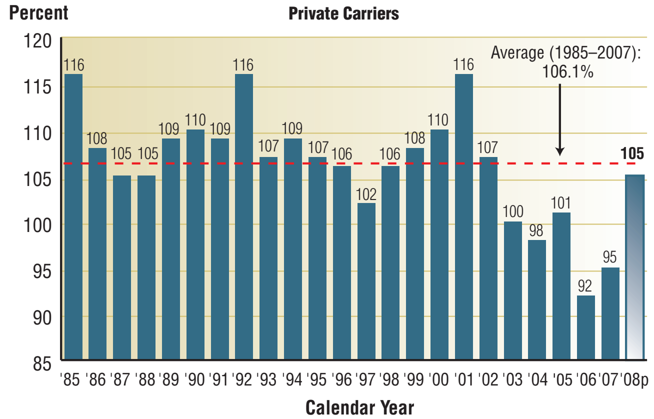
Indemnity claim costs also continue to outpace wage increases. In addition, we are seeing an increasing number of legislative proposals and judicial actions that may serve to increase indemnity costs and undo some of the reform efforts of recent years. The most significant recent judicial action in an NCCI state is the *Murray v. Mariner Health* decision of the Florida Supreme Court. This decision, handed down in September 2008, struck down limitations on claimant attorney fees contained in the major reform enacted by the Florida Legislature in 2003. NCCI made a law-only filing to change rates as a result of this decision. The Office of Insurance Regulation approved a 6.4% increase in rates effective April 1, with the potential for another increase next year of a similar magnitude. As of this writing, the legislature has passed legislation that restores the limits in the original reform and now awaits the governor's signature.

With the political climate changing and relatively good results experienced in the last few years by the insurance industry, some may feel that now is an opportune time to review benefit levels and past reforms, to the potential detriment of efficiently running and well-balanced workers compensation systems.

Low investment yields seem likely to be a fact of life for the foreseeable future. With the interest rates on fixed-rate home mortgages at all-time lows, the yield on 10-year treasuries less than 3%, and the meltdown of the financial markets, we cannot expect much relief anytime soon. When one thinks yields cannot go any lower, something always seems to happen. Last year at this time, 10-year treasuries were yielding 3.7%. Needless to say, the lower the investment yields, the lower the combined ratio needs to be to maintain a reasonable return on capital.

The political landscape has changed substantially since the November 2008 elections. The nation has a Democratic president with large Democratic majorities in both houses of Congress for the first time since 1993. The new administration has healthcare and revised federal regulation of the financial services industry as two major items on its agenda. Although it is too early to say what might happen, changes in either of these areas could have major implications on how the workers compensation insurance business operates.

Exhibit 1 **Property/Casualty Industry Calendar Year Net Combined Ratios**



p Preliminary
Source: 1985–2007, Best's Aggregates & Averages; 2008p, ISO

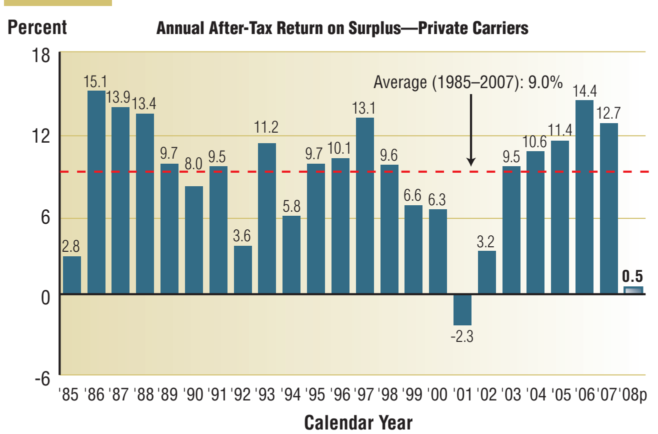
Exhibit 2 **Return to Underwriting Losses**

Net Combined Ratio—Private Carriers

	Calendar Year		
Line of Business (LOB)	**2006**	**2007**	**2008p**
Personal Auto	96%	98%	99%
Homeowners	90%	96%	117%
Other Liability (Incl Prod Liab)	95%	99%	101%
Workers Compensation	**93%**	**101%**	**101%**
Commercial Multiple Peril	93%	92%	106%
Commercial Auto	92%	94%	99%
Fire & Allied Lines (Incl EQ)	81%	70%	105%
All Other Lines	86%	93%	119%
Total P/C Industry	**92%**	**95%**	**105%**

p Preliminary
Source: Workers Compensation, NCCI;
All Other Lines, Best's Review Preview and ISO

Exhibit 3 **Property/Casualty Industry Return on Surplus**



p Preliminary
Source: 1985–2007, Best's Aggregates & Averages; 2008p After-Tax Net Income, ISO;
2008p Surplus, 2007 Best's Aggregates & Averages + 2008 ISO contributions to surplus
Note: After-tax return on average surplus, excluding unrealized capital gains

A more detailed discussion of the workers compensation market follows a brief overview of the total property/casualty industry results. The results discussed are averages of all states and carriers; they can vary significantly from state to state and company to company.

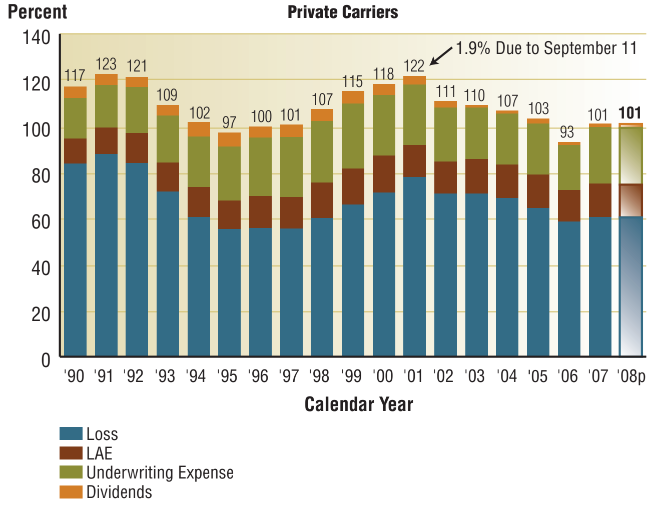
Property/Casualty Industry Results

The combined ratio for the property/casualty insurance industry increased 10 points in 2008 to 105% (Exhibit 1). This is the first significant underwriting loss in six years and the largest single year increase in the combined ratio in years. This increase in the combined ratio was primarily driven by weather-related catastrophes in the property lines, and led by the 21-point increase in homeowners combined ratio from 96% to 117% (Exhibit 2). Commercial multiperil also had a 14-point increase in combined ratio to 106%. Auto and the "liability lines" had modest increases in combined ratios. The other notable contributors to the industry's deteriorating underwriting results were financial guarantee and mortgage guarantee insurance lines of business. Although the industry has very limited exposure to the financial and housing meltdown in general, these two relatively obscure lines were hit hard and are the major contributor to the 119% combined ratio in the "all other lines" category. In addition, the industry posted its second straight year of decreasing premium, the first time that has happened since the early 1930s.

The industry earned a meager 0.5% after tax return on surplus (Exhibit 3). The increased combined ratio plus the dismal performance of many financial markets produced the worst after-tax return on surplus since 2001, and one of the worst in history. As in past years, we noted how a combined ratio that may have led to a reasonable post-tax return on surplus in past years yielded a totally unsatisfactory result in today's investment climate of low interest rates and poor equity market performance.

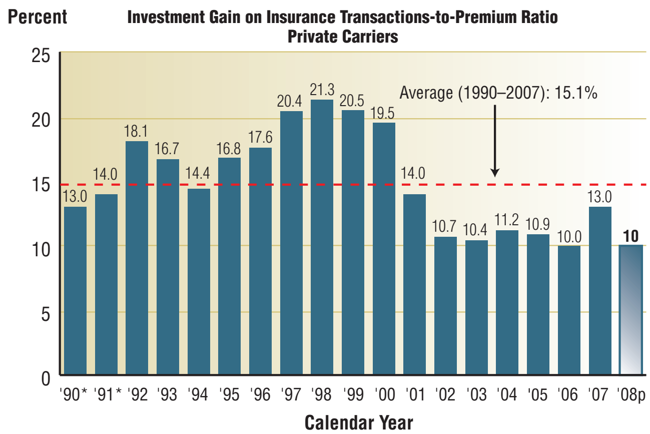
The property/casualty insurance industry's surplus declined by 12% in 2008 to $462 billion. Not surprisingly, the reasons for the decline (the first since 2002) were related to the financial markets. Although the industry generally has an excellent portfolio of invested assets, conservatively invested, it was not immune to the financial meltdown. Realized capital losses were almost $20 billion. These realized losses were

Exhibit 4 Workers Compensation Calendar Year Combined Ratio—Will History Repeat Itself?



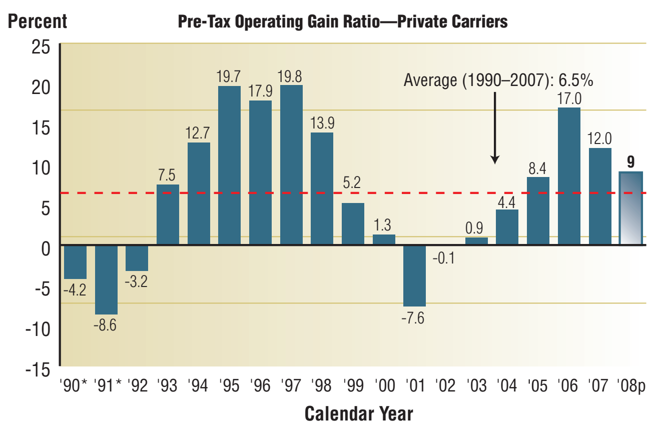
p Preliminary
Source: 1990–2007, Best's Aggregates & Averages: 2008p, NCCI

Exhibit 5 Workers Compensation Investment Returns Remain Below Historical Average



p Preliminary
*Adjusted to include realized capital gains to be consistent with 1992 and after;
Source: 1990–2007, Best's Aggregates & Averages; 2008p, NCCI
Investment Gain on Insurance Transactions includes Other Income

Exhibit 6 Workers Compensation Results Remain Above Historical Average



p Preliminary
*Adjusted to include realized capital gains to be consistent with 1992 and after;
Source: 1990–2007, Best's Aggregates & Averages; 2008p, NCCI
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

made up of $5 billion of gains on sales of invested assets and $25 billion of other realized losses, as some assets became impaired as a result of the financial market turmoil. In addition, there were almost $53 billion of unrealized losses on marketable securities.

Even with these "hits" to surplus, the industry premium-to-surplus ratio remains at 0.94:1, leaving it in a very strong capital position. This past year has served as a reminder of why the industry needs to have a strong capital position to serve its customers. In addition to all the risks borne by the industry on the liability side of its balance sheet, there are also risks on the asset side of even a conservative portfolio of investments that need to be considered.

Workers Compensation Calendar Year Results

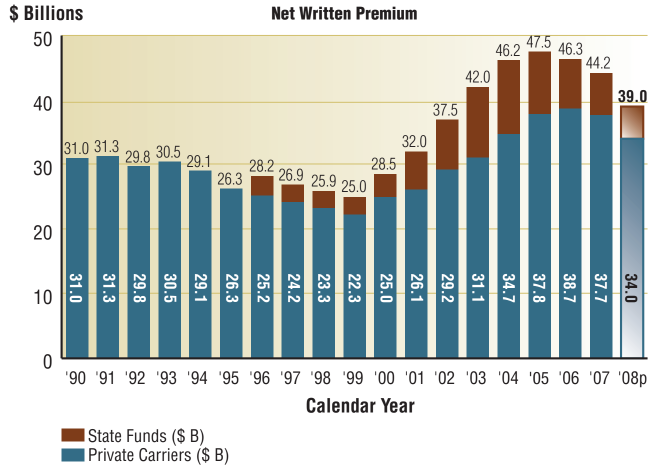
NCCI's preliminary analysis indicates that the workers compensation combined ratio for private carriers was 101% for 2008, unchanged from 2007 (Exhibit 4). The combined ratio is low by historic standards. However, the pattern of combined ratios for the last five years is starting to look a lot like the pattern in the peak of the last underwriting cycle in the mid-1990s. Hopefully, one good outcome of today's investment climate of low interest rates and equity market turmoil will be to encourage continued underwriting discipline as we move forward.

California is always large enough to impact the countrywide numbers for the line. Our estimate is that excluding California raises the countrywide calendar year combined ratio about 5 points this year, about the same as last year.

California continues to make news in the workers compensation arena. The Workers Compensation Insurance Rating Bureau of California recently filed its second straight increase in benchmark loss cost. The latest filing was for a 24% increase. This may mean that the cost reduction benefits of previously enacted reforms have ended.

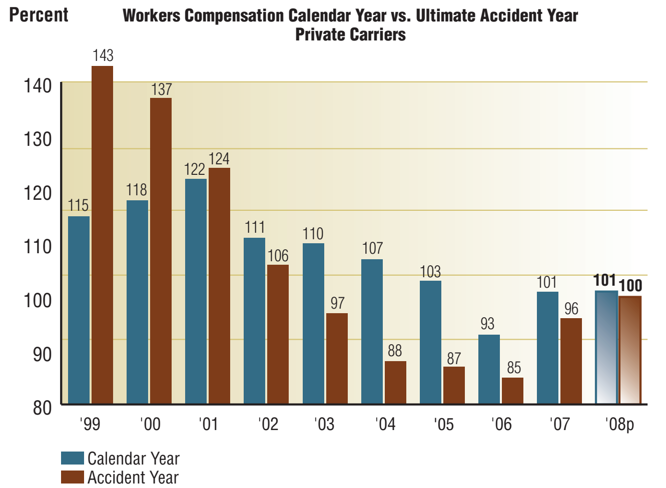
The investment gain associated with workers compensation insurance transactions returned to the 10% level, where it had been for several years after seeing a 3-point increase in 2007 (Exhibit 5). The investment gain ratio remains dramatically lower than in the late 1990s, when interest rates were higher and the stock market produced large gains. Note

Exhibit 7 Workers Compensation Premium Continued to Decline in 2008



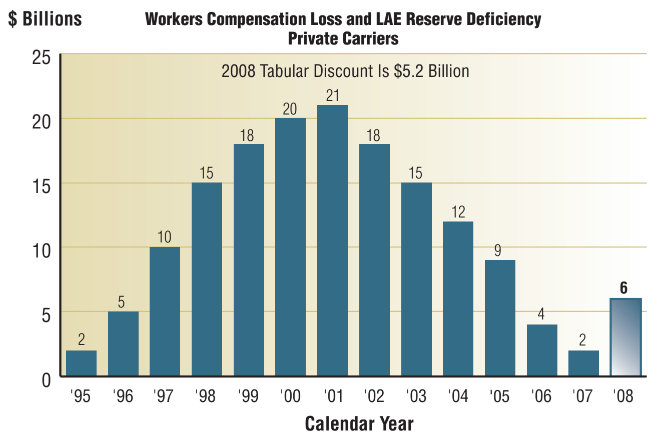
p Preliminary
Source: 1990–2007 Private Carriers, Best's Aggregates & Averages: 2008p, NCCI
1996–2008p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

Exhibit 8 Accident Year Combined Ratios



p Preliminary
Accident Year data is evaluated as of 12/31/2008 and developed to ultimate
Source: Calendar Years 1999–2007, Best's Aggregates & Averages;
Calendar Year 2008p and Accident Years 1999–2008p, NCCI analysis based on Annual Statement data
Includes dividends to policyholders

Exhibit 9 Calendar Year Reserve Deficiencies



Consider all reserve discounts as deficiencies
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections
Source: NCCI analysis

that the investment gains contained in this exhibit have been somewhat immune to the realized and unrealized losses that impact surplus, since some of the impacts on surplus are not included in the investment gain in this display.

Combining the underwriting loss with the investment gains, the result is a pre-tax operating gain of 9% (Exhibit 6). This operating result is reasonably close to the industry's long-term cost of capital, assuming that, over time, the assets supporting the surplus earn a reasonable return.

Workers Compensation Net Written Premium

Net written premiums, including the state funds, had a third year of decline in 2008, dropping more than 12% to $39 billion (Exhibit 7). The private carriers dropped by about 10% to $34 billion. This is the largest drop in workers compensation net written premium in many years. It was driven by significant price decreases resulting from bureau-filed decreases and carrier actions, as well as the impact of the dramatically slowing economy in the last half of 2008.

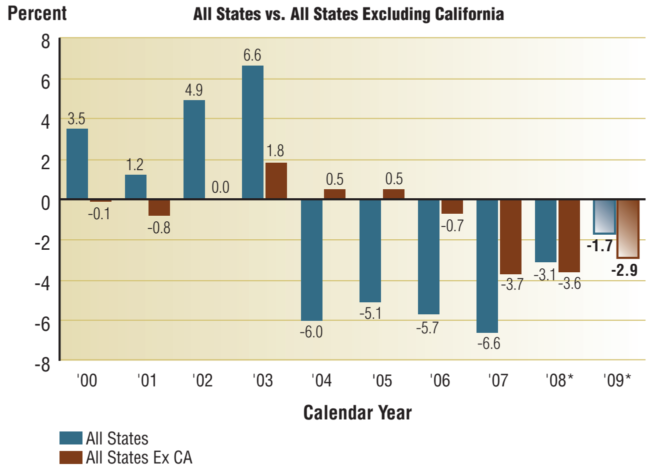
Accident Year Results

Analyzing experience on an accident year basis can provide additional insights about the underlying performance of "long tail" lines like workers compensation without the distortions of prior year reserve adjustments.

The workers compensation insurance industry experienced its sixth consecutive year of no underwriting losses on an accident year basis. NCCI estimates the combined ratio for Accident Year 2008 at 100% (Exhibit 8). On an accident year basis, the current underwriting cycle peaked in 2006 at a combined ratio of 85%. Since Accident Year 1999 (the bottom of the current cycle), the combined ratio declined by 58 points. However, since the top of the current cycle in 2006, it has increased by 15 points, leaving it virtually identical with the calendar year result. Much of the improvement in the accident year combined ratios resulted from significant increases in carrier pricing since 1999 and the reforms in California and Florida in 2003.

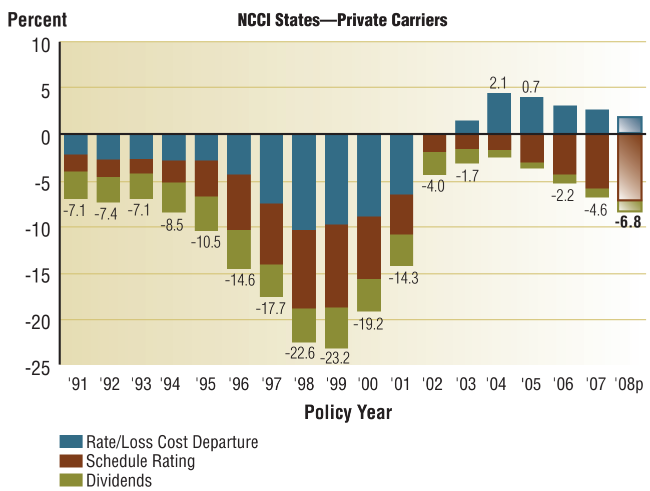
The exclusion of California from the 2008 countrywide accident year numbers leaves the 2008 accident year combined ratio virtually unchanged. This implies that the combined ratios have come into

Exhibit 10 Average Approved Bureau Rates/Loss Costs



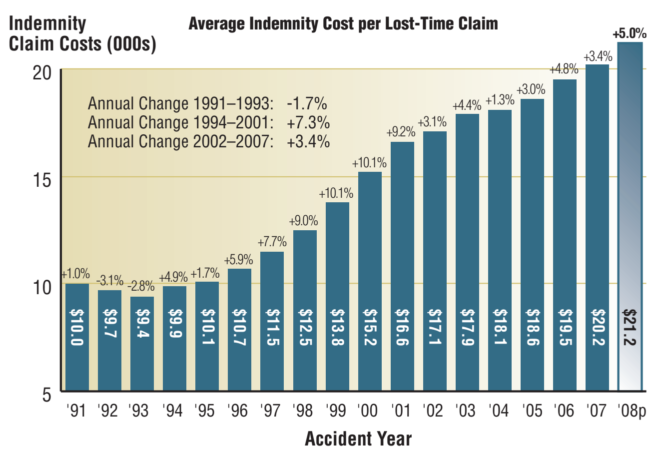
*States approved through 4/11/2008
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

Exhibit 11 Impact of Discounting on Workers Compensation Premium



p Preliminary
NCCI bechmark level does not include an underwriting contingency provision
Dividend ratios are based on calendar year statistics
Based on data through 12/31/2008 for the states where NCCI provides ratemaking services

Exhibit 12 Workers Compensation Indemnity Claim Costs Continue to Grow



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

line between California and the rest of the country on the current accident year, and the differences in the calendar year numbers result from adjustments to prior year reserve positions.

Reserve Position

The private carrier reserve position deteriorated slightly in 2008 for the first time in seven years. NCCI's estimate of the reserve position for the private carriers as of year-end 2008 shows a $6 billion deficiency (Exhibit 9). After allowing for the permissible discounting of the indemnity reserves for lifetime pension cases, the reserve position becomes essentially one of adequacy. Our analysis shows that the industry has made substantial progress on its reserve position over the last seven years. With the cycle turning, the industry will need to continue to work hard to maintain its strong reserve position.

Bureau Rate/Loss Cost Changes

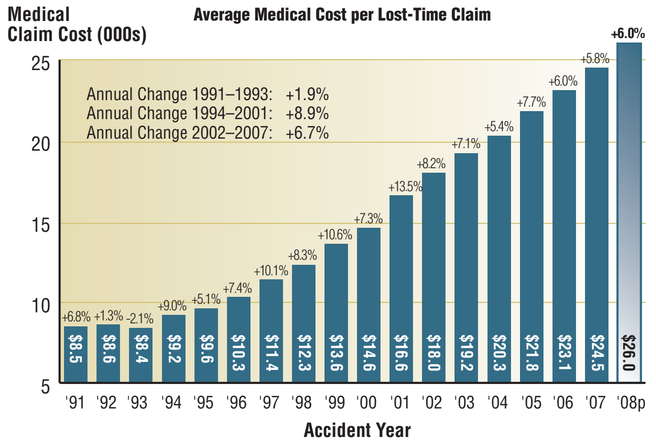
Exhibit 10 displays a history of bureau rate and loss cost changes since 2000. Excluding the impact of California changes (which were heavily affected by significant systems problems and subsequent reform-related reductions until 2008), the average of the rest of the states is quite modest until 2006. Since 2006, we have seen generally moderate declines for states other than California, as the significant claim frequency declines in recent years, combined with payroll growth, have more than offset the loss severity increases. The net effect was to decrease overall loss costs in the vast majority of states.

Carrier discounting from bureau loss costs/rates continues to increase, dropping another couple of points to nearly 7% less than bureau loss costs and rates in NCCI states (Exhibit 11).

Indemnity and Medical Average Claim Costs

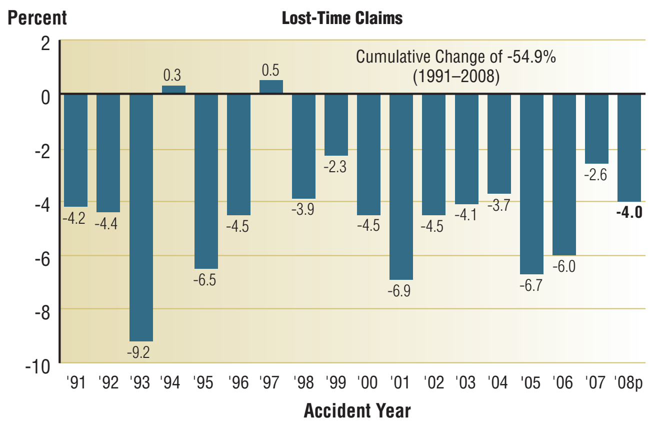
NCCI estimates that the average workers compensation indemnity claim cost increased 5% in 2008 (Exhibit 12). This follows the pattern of recent years that has seen the indemnity claim costs increase by between 1.5% and 5% each year, generally in the neighborhood of the 3.5% annual change in average wages over the same time period. The exhibit shows that average indemnity claim cost increases have moderated in recent years (2002–2008) compared to the 1994–2001 era when they rose an average of 7.3% per year.

Exhibit 13 **Workers Compensation Medical Claim Cost Trends—Growth Continues in 2008**



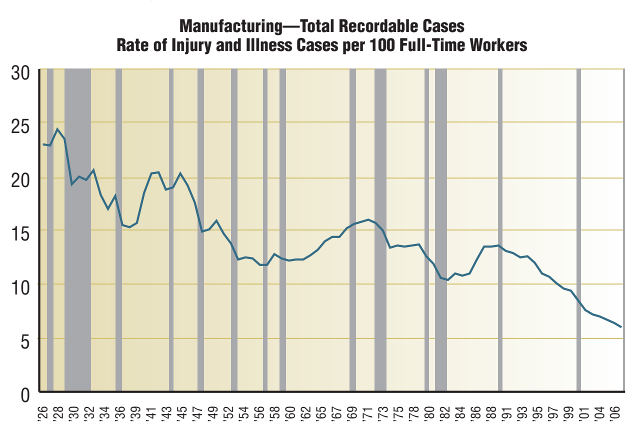
2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Exhibit 14 **Workers Compensation Lost-Time Claim Frequency Continues to Decline**



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Frequency is the change in lost-time claims per 100,000 workers as estimated from reported premium

Exhibit 15 **Frequency A Long-Term Drift Downward**



Note: Recessions indicated by gray bars
Source: US Bureau of Labor Statistics; National Bureau of Economic Research

Medical average claim costs per lost-time claim continued to increase in 2008, although the increases have tempered a bit in the last few years (Exhibit 13). NCCI estimates that the average medical claim costs per lost-time claim increased by 6% in 2008. This is the third straight year when the average costs have increased about 6%. Those of you who follow these discussions from year to year may notice that we have seen some favorable development in the medical cost increases for Accident Years 2004–2006 as they have become more mature. We are encouraged that some of the industry's efforts to control medical costs are paying off. Our studies of prescription drug costs are definitely showing some favorable trends in that significant cost category in recent years.

Claim Frequency Continues to Decline
Based on a preliminary analysis of data in NCCI states, the frequency of lost-time claims per 100,000 workers declined 4% in 2008 (Exhibit 14). This frequency drop is greater than the 2.6% decline recorded in 2007.

Our research indicates that the decline in claim frequency is a long-term phenomenon related to improved technology and its application in the economy to create ever safer workplaces over time. Further research has shown that economic slowdowns put additional downward pressure on claim frequency. Some have speculated that things might be different in this downturn given its likely depth. However, Exhibit 15 shows that even in the Great Depression, as well as the deep downturns of 1973–1974 and 1981–1982, manufacturing injury rates declined. New research by NCCI's economists explains that the driving force behind the reduction in frequencies relates to changing rates of job creation and job destruction during the economic cycle. For more detailed information, please refer to the research paper, "Workplace Injuries and Job Flows," by Frank Schmid on **ncci.com**.

Exhibit 16 shows that frequency has declined quite consistently for all injury types except Permanent Total Disability (PTD). Although PTD frequency declined from 1998 to 2003, it has been rising since then. Our preliminary research as to the cause has ruled out most obvious explanations such as law changes, aging of the workforce, and a

Exhibit 16 Declines in Claim Frequency Are Consistent for All injury Types Except Permanent Total

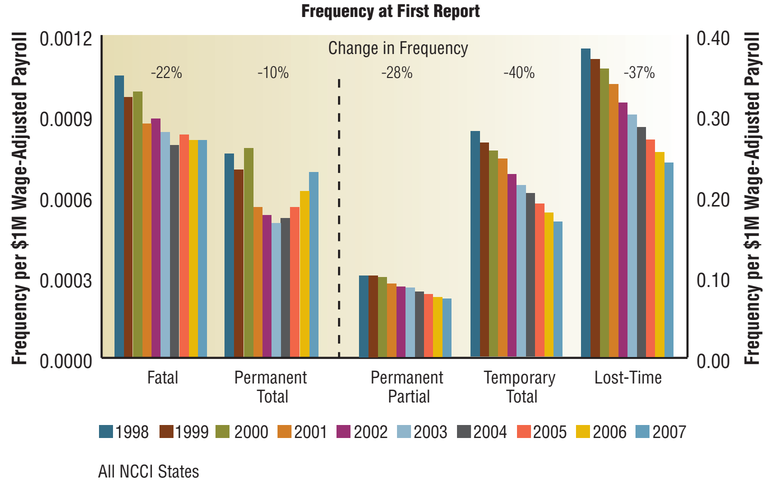
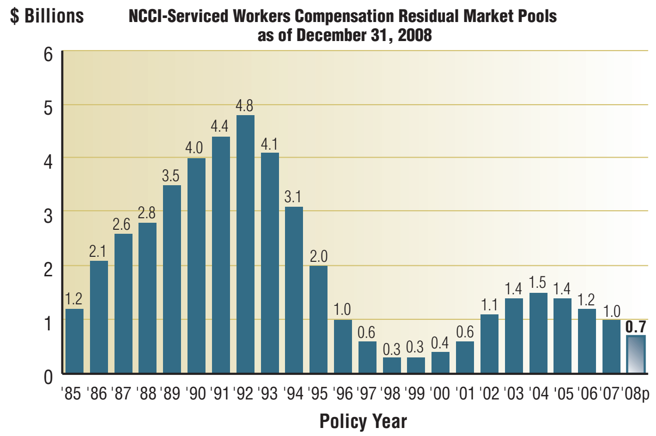
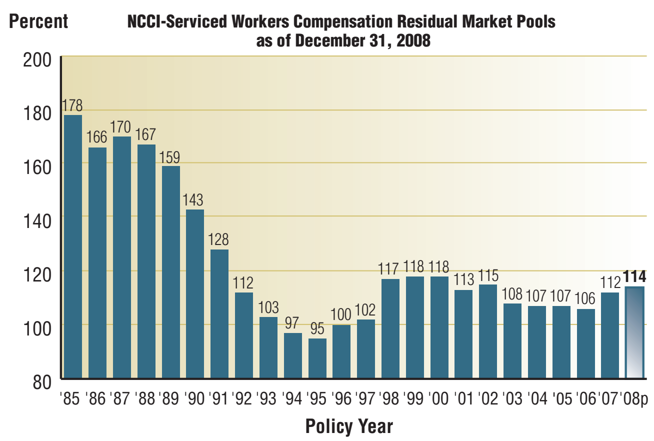


Exhibit 17 Workers Compensation Residual Market Premium Volume Declines



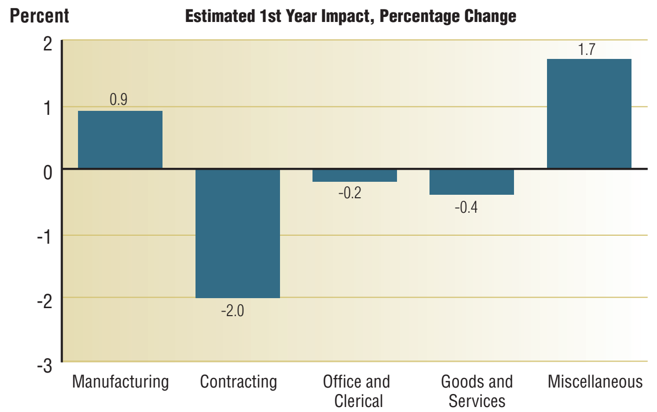
p Incomplete Policy Year projected to ultimate

Exhibit 18 Workers Compensation Residual Market Combined Ratios



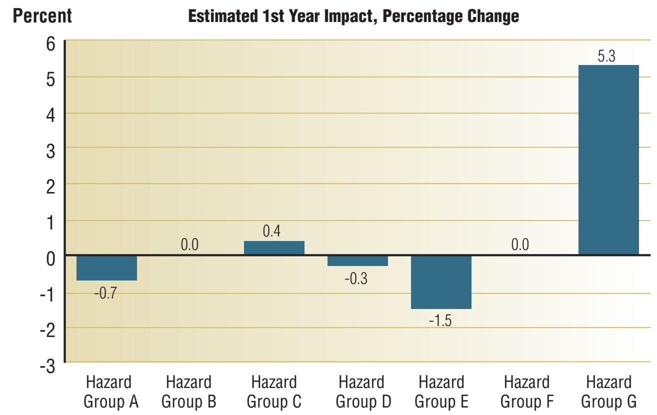
p Incomplete Policy Year projected to ultimate

Exhibit 19 Industry Group Loss Cost Changes (New vs. Prior Method)



Percentage change impact in loss costs due to new ratemaking methodology
Note: Results exclude F-class and Maritime class codes
Source: NCCI analysis

Exhibit 20 Hazard Group Loss Cost Changes (New vs. Prior Method)



Percentage change impact in loss costs due to new ratemaking methodology
Note: Results exclude F-class and Maritime class codes
Source: NCCI analysis

particular cause of injury. Other explanations currently under investigation include interaction of the workers compensation systems and Medicare set-asides for settled claims and the Social Security disability income system.

Residual Market Update
Depopulation of the residual market continues at a rapid rate in 2008. Premium dropped about 30% in 2008 and is now about $700 million, less than half the volume in 2004 (Exhibit 17). A few states continue to struggle to get their residual markets depopulated as rapidly as one might hope at this point in the cycle. Overall, the market share of the residual market pools serviced by NCCI for 2008 dropped to about 6%, down from 8% in 2007. It is less than 5% in states where NCCI calculates the rates for the residual market. This is a great improvement from the 13% market share peak that was reached in 2004 for this cycle.

The combined ratio for the residual market pools continues the recent pattern of being in the 105% to 115% range (Exhibit 18). The combined ratio has drifted up a bit in recent years as the pools have shrunk, leaving the more challenging risks in the residual market. However, just four states contribute almost 75% of the current policy year underwriting loss, leaving most pools at or near our self-funded objective.

NCCI's New Class Ratemaking Methodology
NCCI is introducing the most major changes to its class ratemaking methodology since the inclusion of the National Pure Premiums 40 years ago. The new methodology will be used in all of NCCI filings with an effective date of October 1, 2009 and later.

Features of the new methodology include:
- Lower loss limits by classification that will stabilize loss cost changes
- Revised methods to develop losses that are more stable and accurate for each classification
- Revised methods to include large losses that incorporate expected provisions resulting in better equity among classes

Exhibit 19 shows an estimate of the loss cost changes by industry group resulting from the new methodology. Exhibit 20 displays the same information by hazard group. Although the group changes may appear to be modest, keep in mind that individual classification changes within each group could be more significant. The changes displayed on these exhibits relate to improved class equity resulting from the new methodology. Another expected benefit of these changes to methodology is improved stability of loss costs/rates. This will result as the lower loss limits, revised loss development methods, and the use of the expected excess provision smooth the changes in loss costs/rates from year to year, particularly for smaller classes.

Looking Forward
The property/casualty insurance industry came through the financial turmoil of the last year in remarkably good shape. Even after the decline in surplus, it remains strongly capitalized for these uncertain times. The workers compensation part of that industry also had a good year. All the major financial performance measures for the workers compensation insurance industry continued to perform well in 2008. The calendar year and accident year underwriting results continued near breakeven, which in this investment climate is a necessity for the industry to hope to earn a reasonable return on its capital.

Other positive trends include:
- Frequency continues to decline
- Residual markets are depopulating in most states
- Reserves are reasonably adequate

Areas of concern include:
- Medical costs
- Reform challenges
- Low investment returns
- Uncertain political fallout from federal actions
- Underwriting cycle

NCCI will continue to work with all of our stakeholders in these times of uncertainty to help ensure that rates and loss costs are adequate, to provide unbiased quantification of the impacts of legislative reform proposals, and to strive for self-funded residual markets. In addition, we will continue to produce pertinent and timely research to help stakeholders understand current and emerging trends impacting workers compensation. All these objectives will help to maintain a healthy workers compensation insurance market that is able to deliver the promised benefits quickly, fairly, and efficiently to the injured worker and provide the proper incentives to have the safest workplaces possible.

NCCI Holdings, Inc.

State of the Workers Compensation Line

Dennis C. Mealy, FCAS, MAAA
Chief Actuary
National Council on Compensation Insurance, Inc.
May 7, 2009

AIS
Annual Issues Symposium
2009

I. Property/Casualty Results

II. Workers Compensation Results

III. Current Topics of Interest

IV. Concluding Remarks

Property/Casualty Results

P/C Industry Net Written Premium—Another Decline

Private Carriers

Line of Business (LOB)	2006	2007	2008p	2007–2008p Change
Personal Auto	$160.2 B	$159.1 B	$159.9 B	0.5%
Homeowners	$54.5 B	$54.8 B	$56.2 B	2.5%
Other Liability (Incl Prod Liab)	$45.7 B	$44.3 B	$41.2 B	-7.0%
Workers Compensation	**$38.7 B**	**$37.7 B**	**$34.0 B**	**-9.8%**
Commercial Multiple Peril	$31.7 B	$31.1 B	$29.5 B	-5.0%
Commercial Auto	$26.7 B	$25.5 B	$23.7 B	-7.0%
Fire & Allied Lines (Incl EQ)	$20.0 B	$21.9 B	$25.0 B	14.5%
All Other Lines	$65.9 B	$66.2 B	$65.1 B	-1.8%
Total P/C Industry	**$ 443.5 B**	**$ 440.6 B**	**$ 434.6 B**	**-1.4%**

p Preliminary

Source: Workers Compensation, NCCI;
All Other Lines, *Best's Review Preview and ISO*

Return to Underwriting Losses

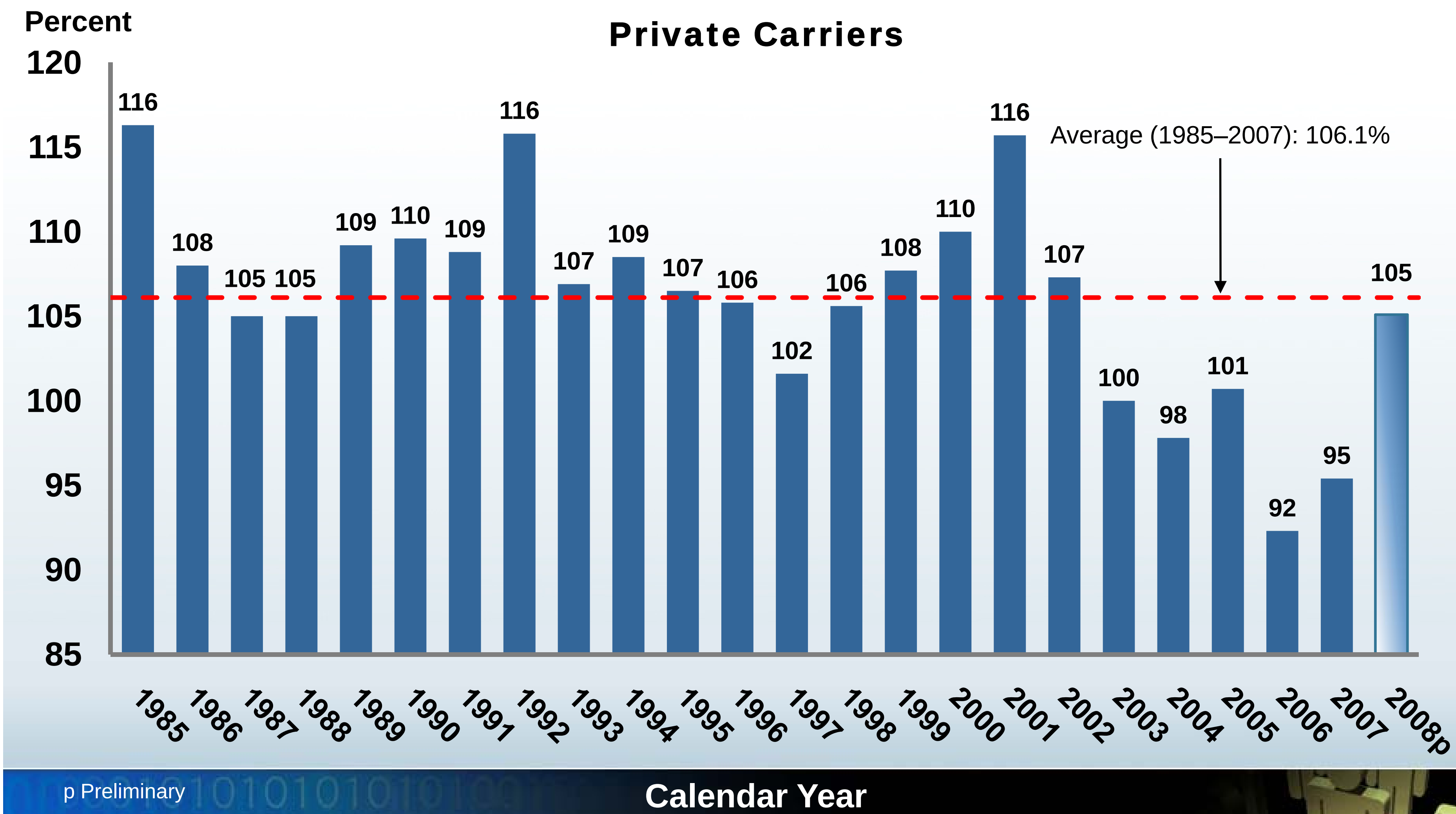
Net Combined Ratio—Private Carriers

Line of Business (LOB)	Calendar Year 2006	2007	2008p
Personal Auto	96%	98%	99%
Homeowners	90%	96%	117%
Other Liability (Incl Prod Liab)	95%	99%	101%
Workers Compensation	**93%**	**101%**	**101%**
Commercial Multiple Peril	93%	92%	106%
Commercial Auto	92%	94%	99%
Fire & Allied Lines (Incl EQ)	81%	70%	105%
All Other Lines	86%	93%	119%
Total P/C Industry	**92%**	**95%**	**105%**

p Preliminary

Source: Workers Compensation, NCCI;
All Other Lines, *Best's Review Preview and ISO*

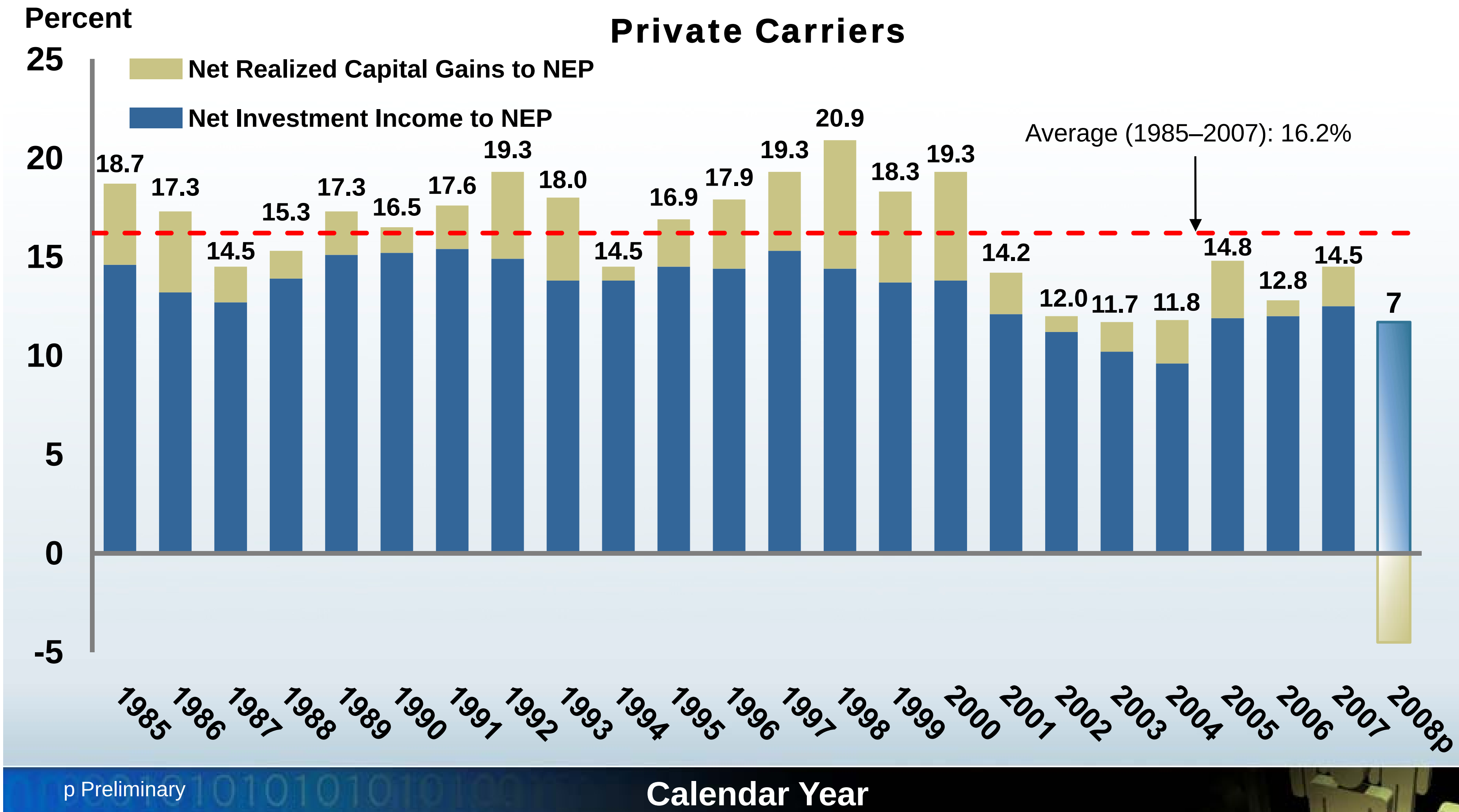
P/C Industry Calendar Year Net Combined Ratios



p Preliminary

Source: 1985–2007, Best's Aggregates & Averages; 2008p, ISO

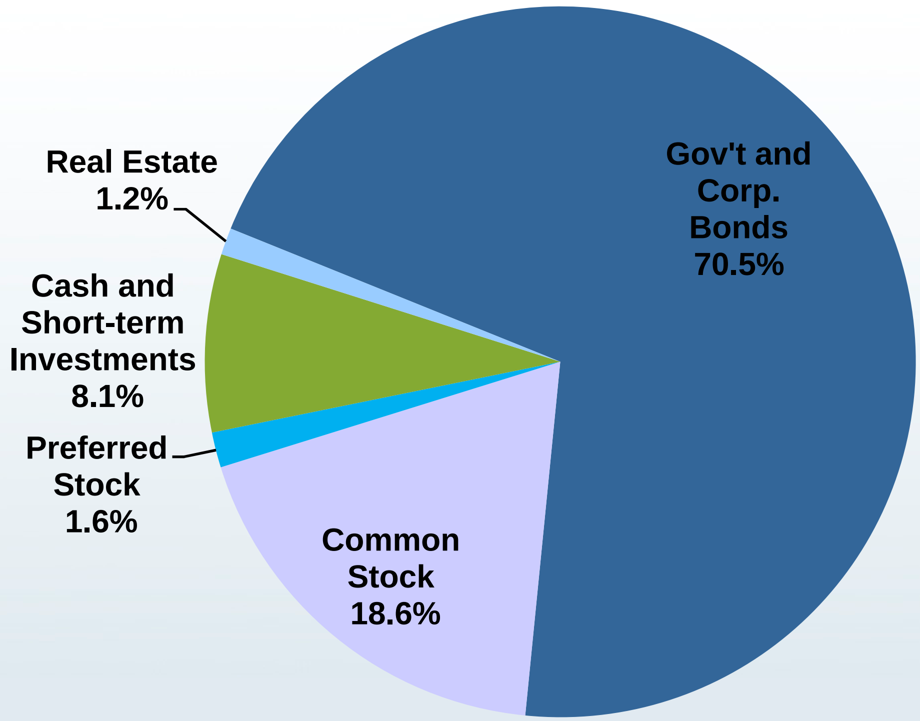
Investment Gain Ratio Remains Below Historical Average



p Preliminary

Source: 1985–2007, Best's Aggregates & Averages; 2008p, ISO

Bonds Comprised Roughly 70% of P&C Invested Assets and Yields Declined



Invested Asset Distribution as of December 31, 2007

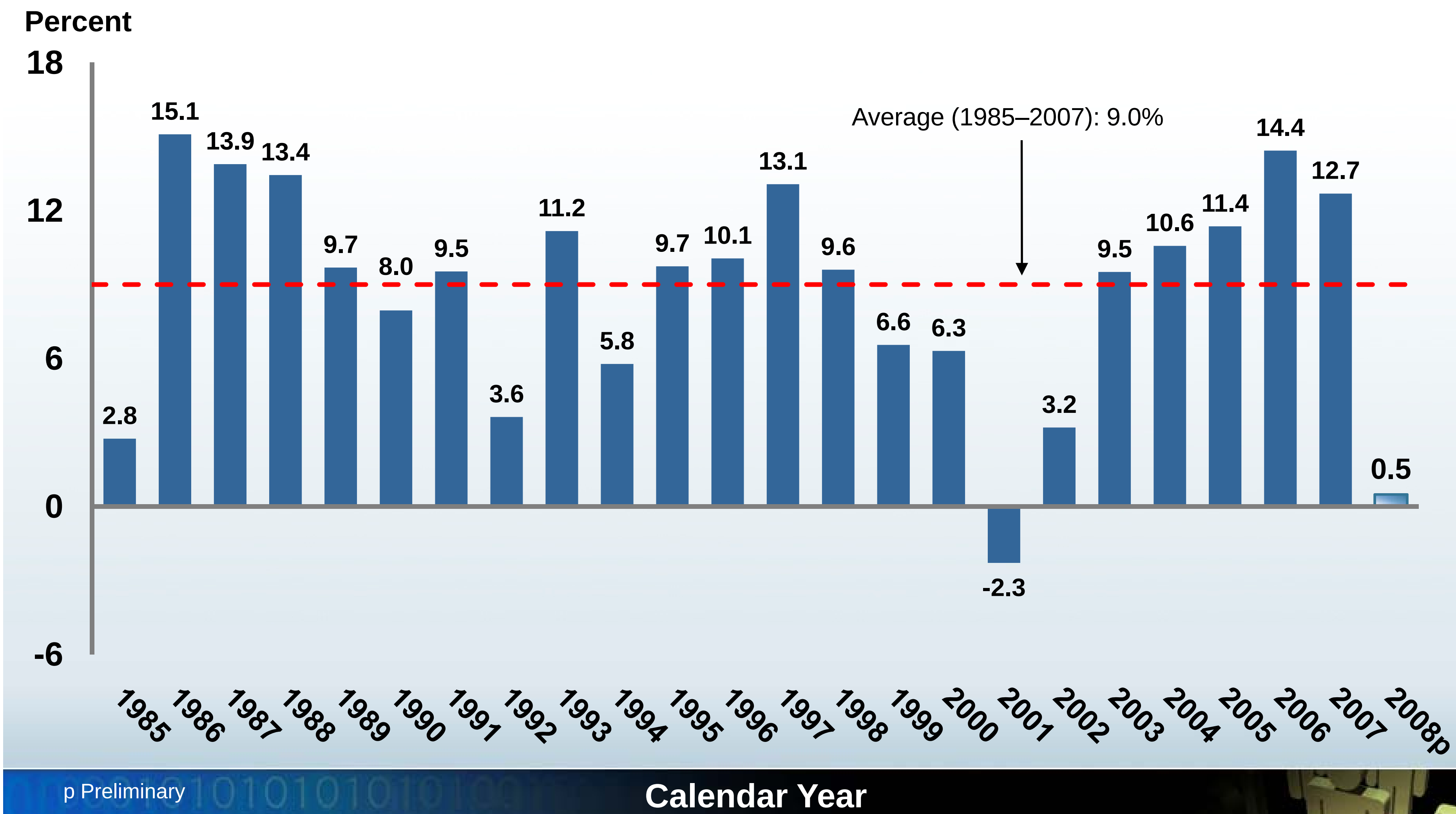
Portfolio Mix New Money Yield

2006	5.2%
2007	4.5%
2008	3.3%

Source: Invested Asset distribution, Best's Aggregates and Averages, 2008 Edition; Yields, NCCI

P/C Industry Return on Surplus

Annual After-Tax Return on Surplus—Private Carriers

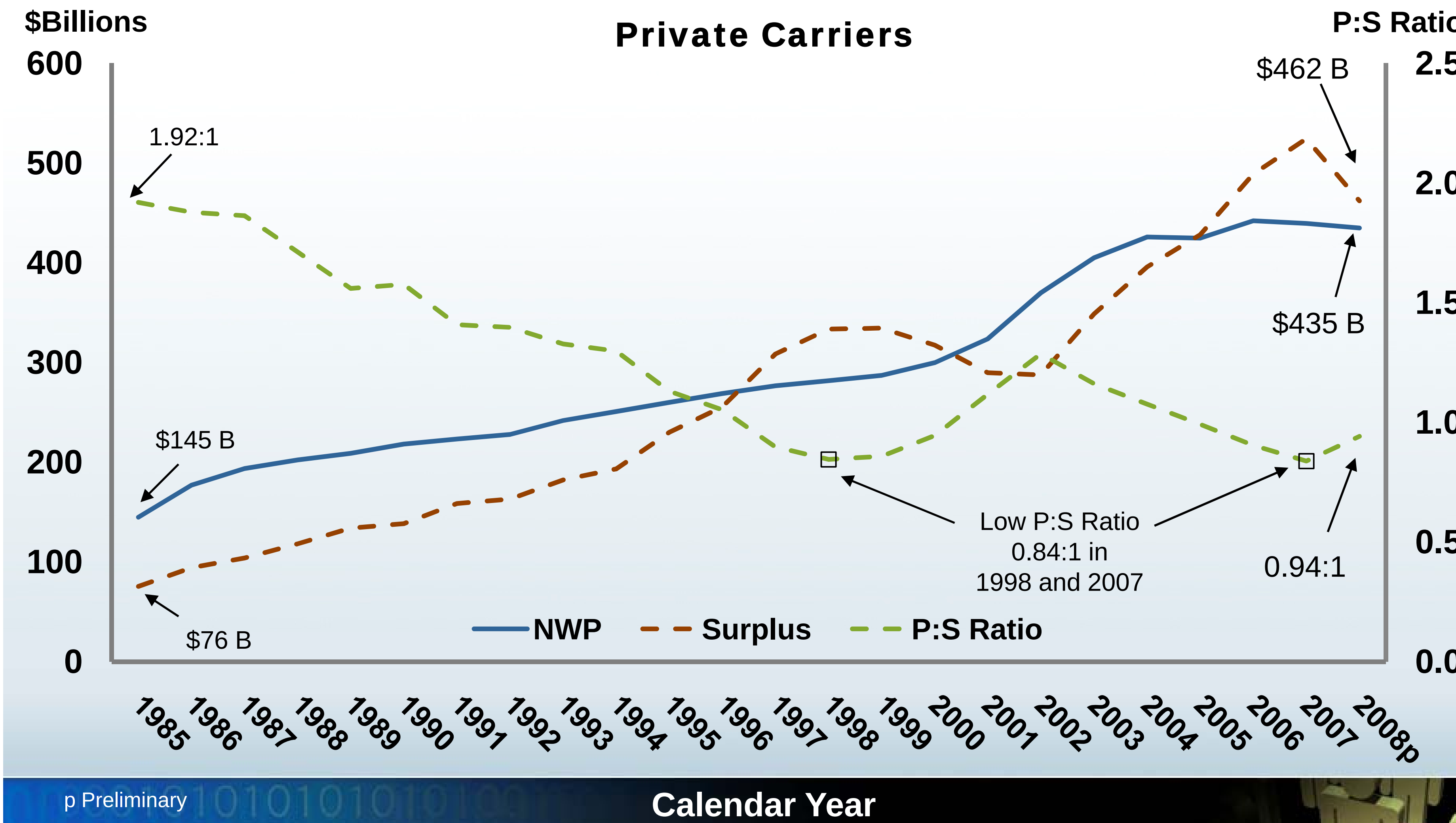


p Preliminary

Source: 1985–2007, Best's Aggregates & Averages; 2008p After-Tax Net Income, ISO;
2008p Surplus, 2007 Best's Aggregates & Averages + 2008 ISO contributions to surplus

Note: After-tax return on average surplus, excluding unrealized capital gains

P/C Industry Premium-to-Surplus Ratio Remains Strong



p Preliminary

Source: 1985–2007, Best's Aggregates & Averages;
2008p Surplus, 2007 Best's Aggregates & Averages + 2008 ISO contributions to surplus

Contributions to Surplus

Private Carriers

	2006	2007	2008p
Underwriting Gains/Losses	$ 31.1 B	$ 19.3 B	$ (21.2) B
Investment Income	$ 52.3 B	$ 55.1 B	$ 51.2 B
Realized Capital Gains/Losses	$ 3.5 B	$ 8.9 B	$ (19.8) B
Other Income	$ 1.2 B	$ (1.0) B	$ (0.1) B
Unrealized Capital Gains/Losses	$ 20.6 B	$ (0.6) B	$ (52.9) B
Federal Taxes	$ (22.4) B	$ (19.8) B	$ (7.7) B
Shareholder Dividends	$ (24.7) B	$ (32.2) B	$ (23.3) B
Contributed Capital	$ 3.8 B	$ 3.2 B	$ 11.2 B
Other Changes to Surplus	$ (4.9) B	$ (1.2) B	$ 0.3 B
Total	$ 60.4 B	$ 31.7 B	$ (62.3) B

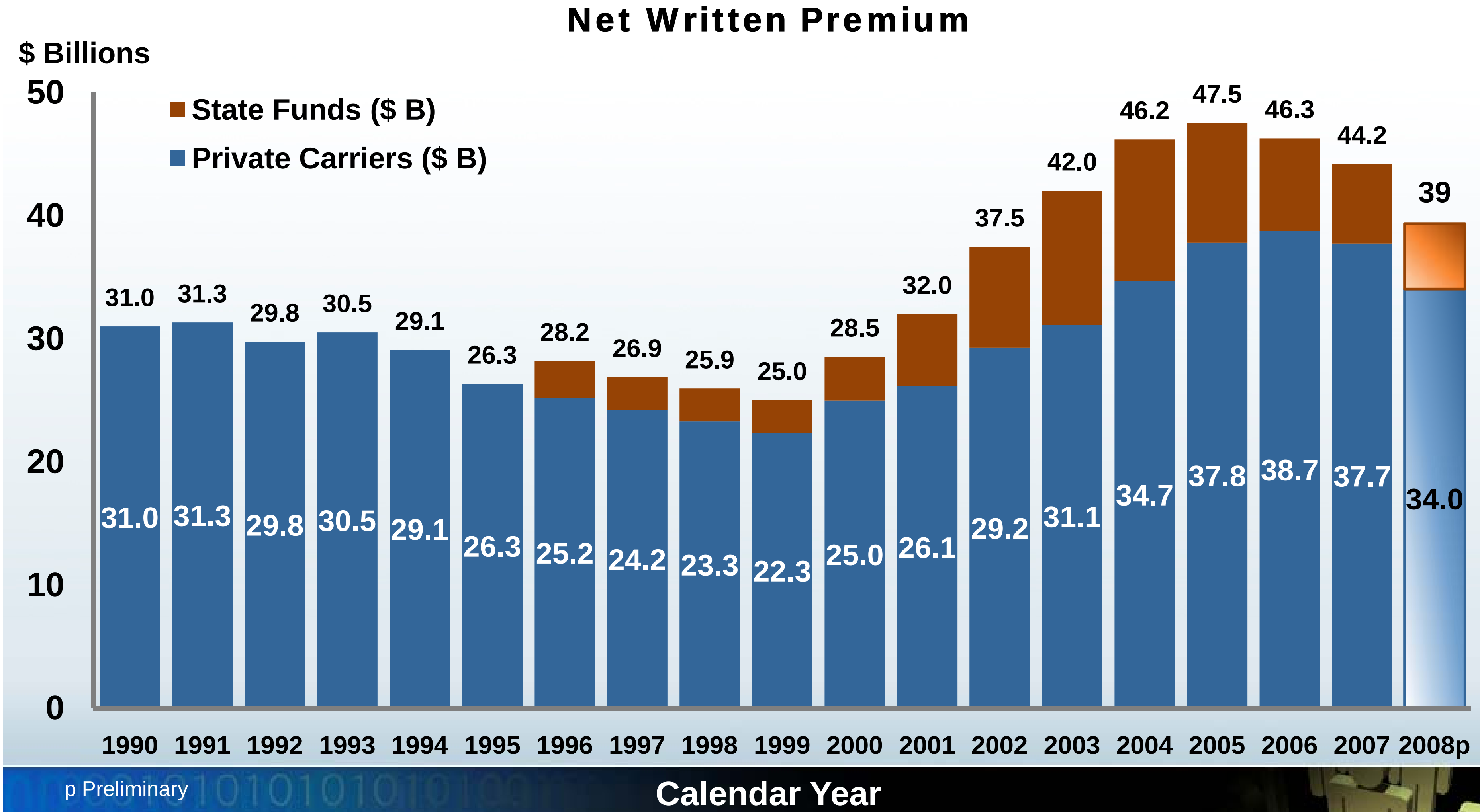
p Preliminary

Source: ISO

Workers Compensation

Results

Workers Compensation Premium Continued to Decline in 2008

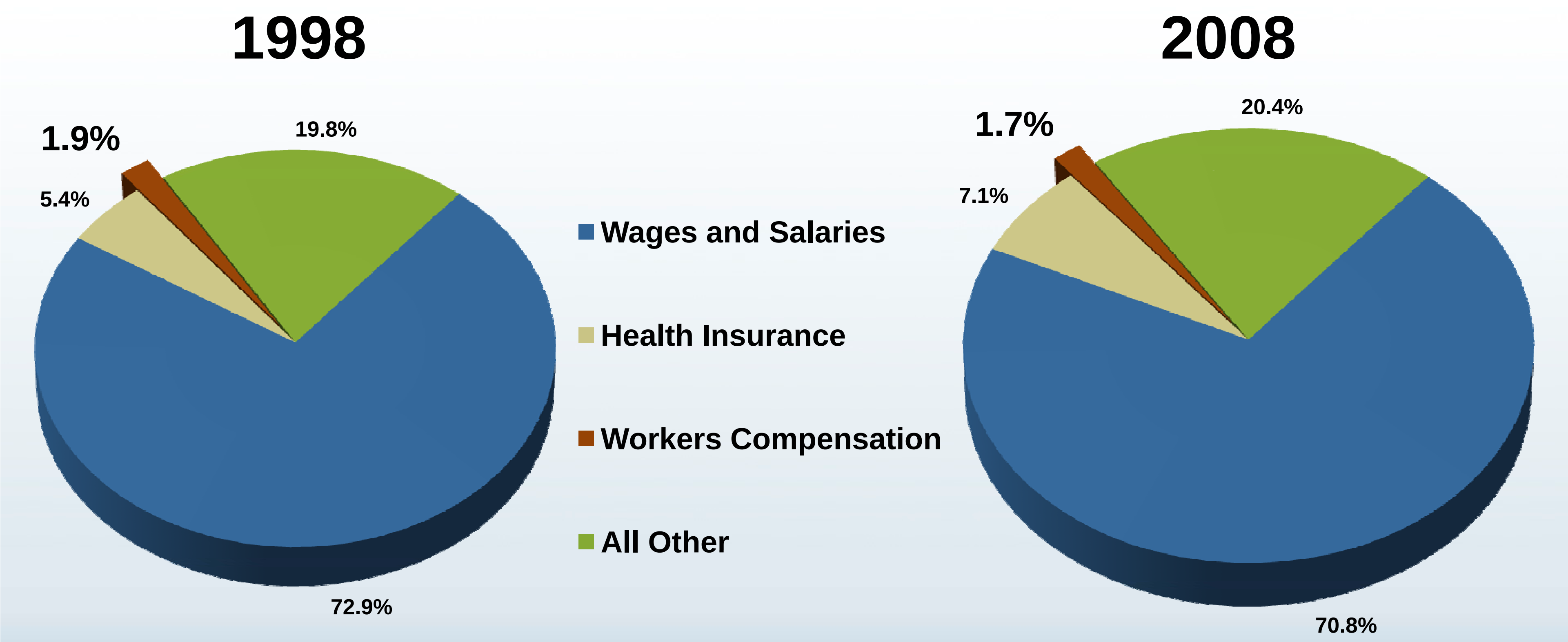


p Preliminary

Source: 1990–2007 Private Carriers, Best's Aggregates & Averages; 2008p, NCCI
1996–2008p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

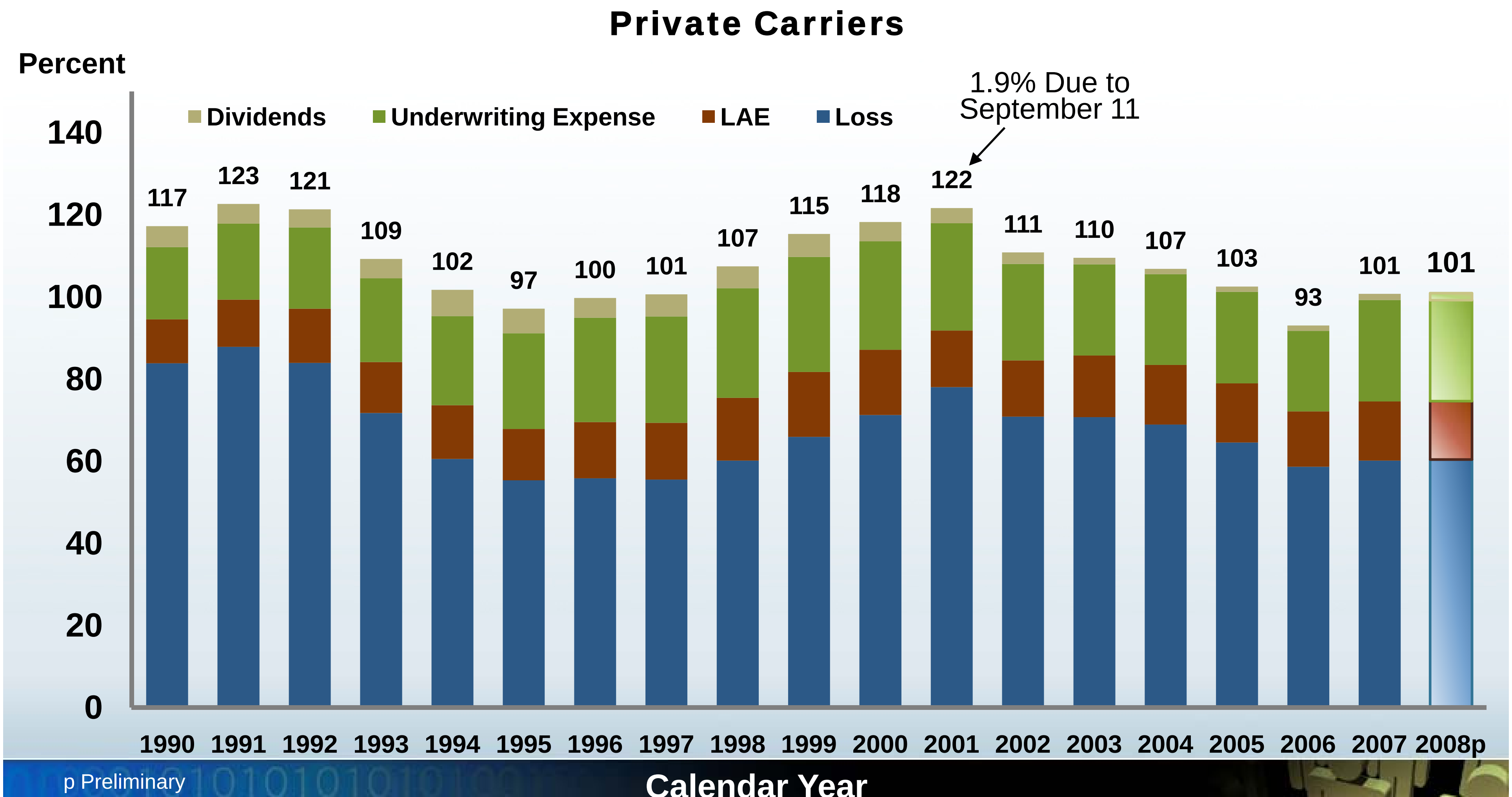
Employer Costs as Percentage of Total Compensation

Private Industry



All Other includes Paid Leave, Supplemental Pay, Insurance (other than Health), Social Security, Retirement and Savings
Source: US Department of Labor, Bureau of Labor Statistics

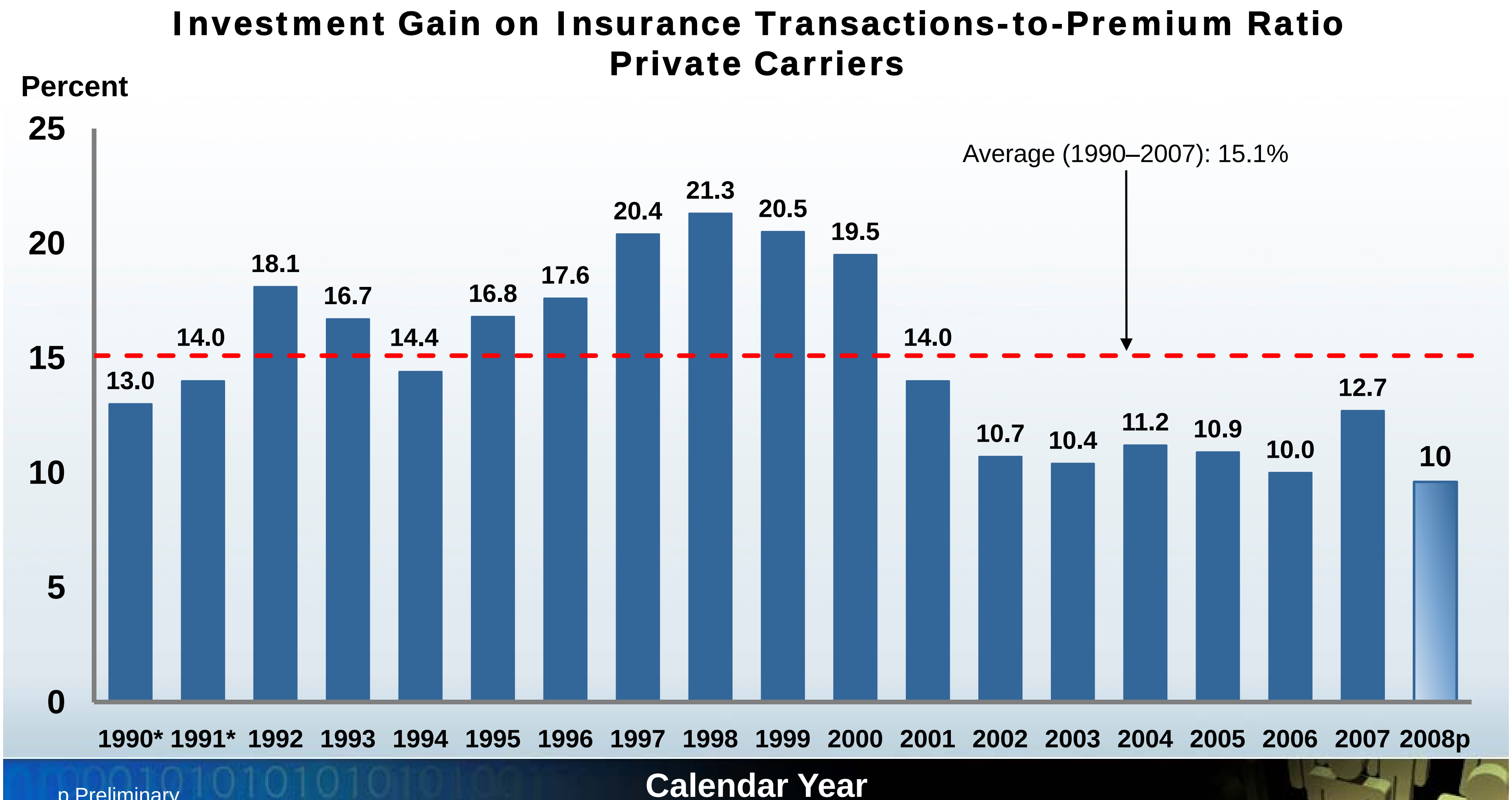
WC Calendar Year Combined Ratio—Will History Repeat Itself?



p Preliminary

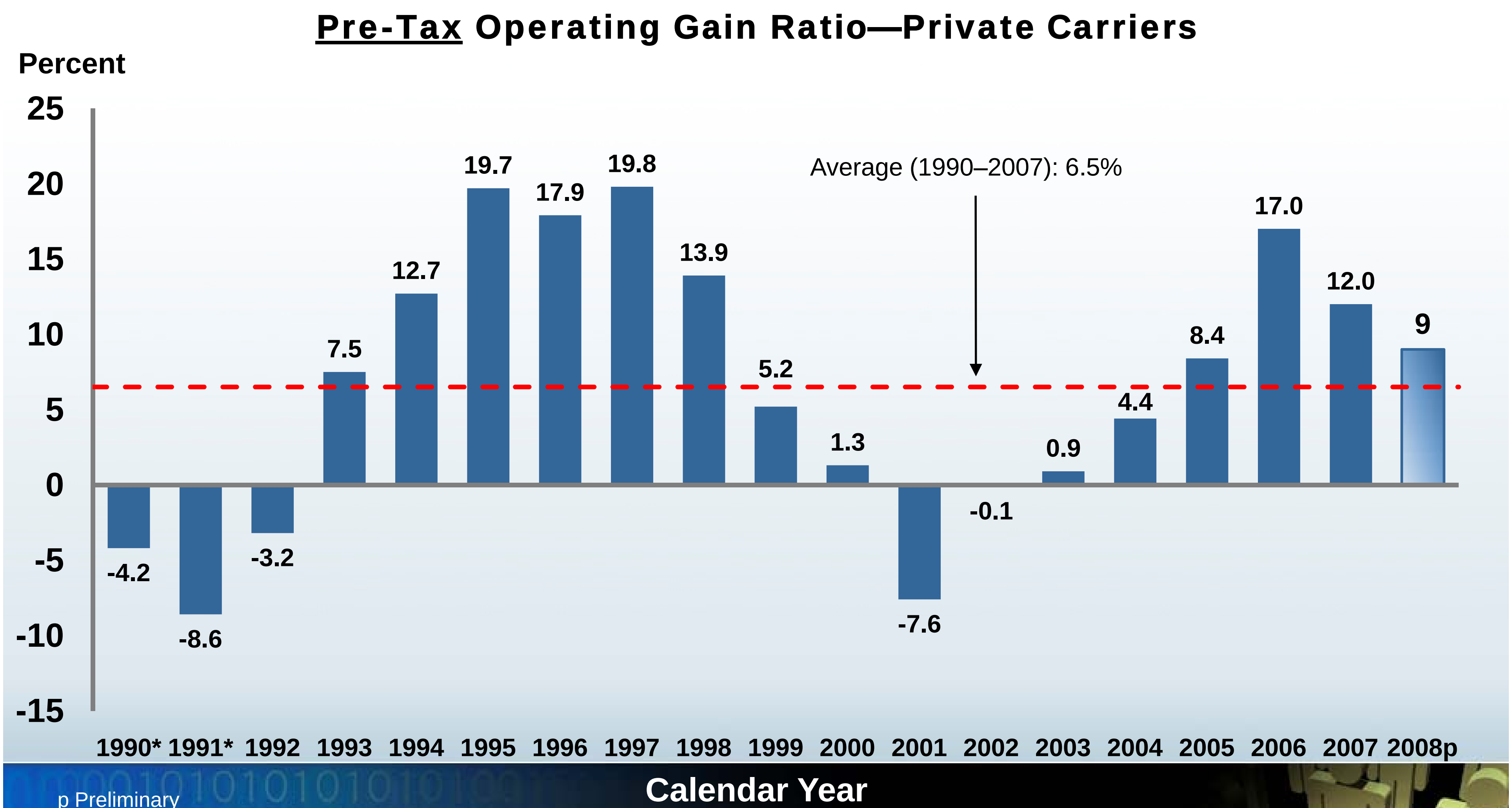
Source: 1990–2007, Best's Aggregates & Averages; 2008p, NCCI

Workers Compensation Investment Returns Remain Below Historical Average



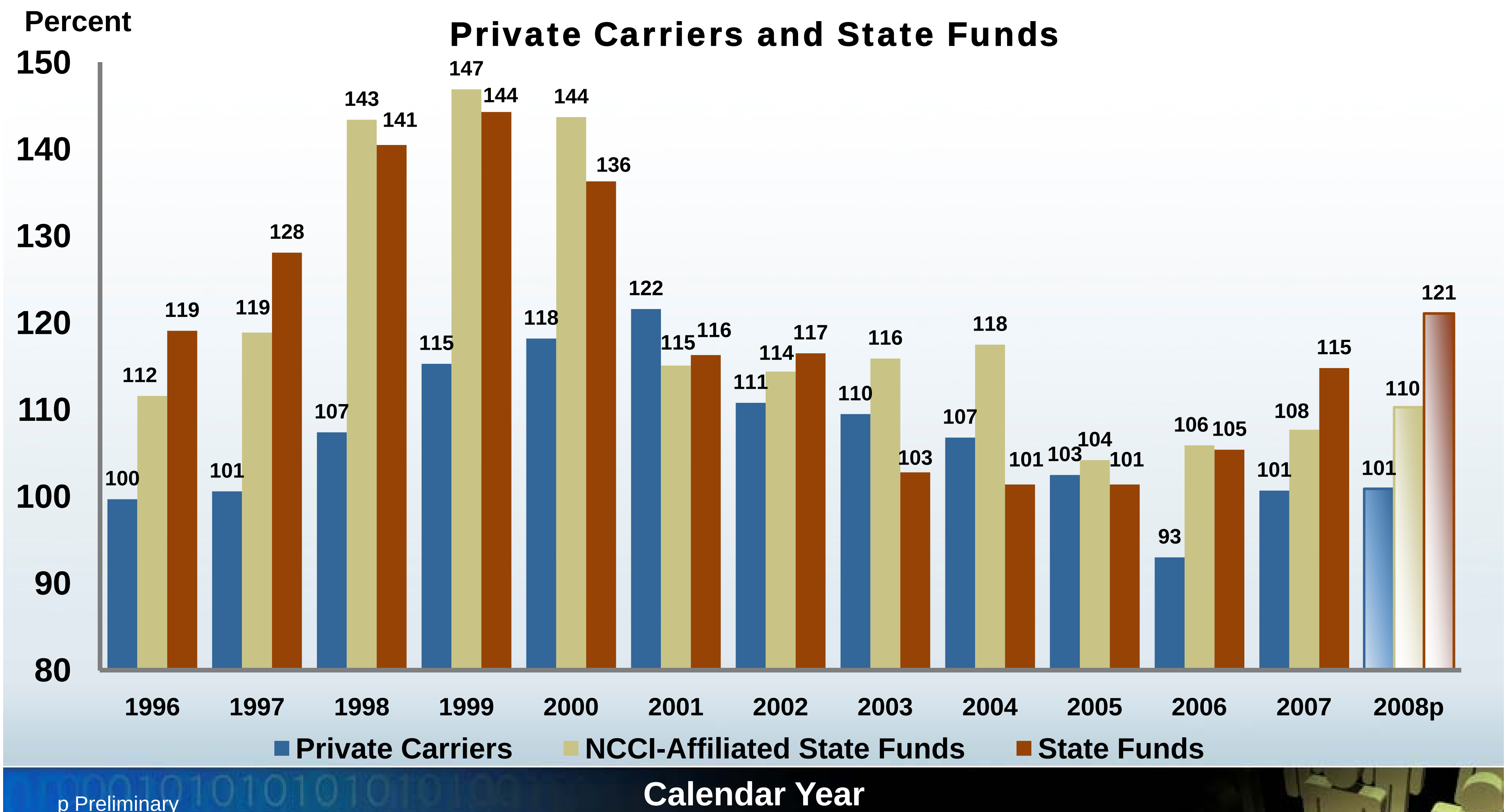
p Preliminary
* Adjusted to include realized capital gains to be consistent with 1992 and after ;
Source: 1990–2007, Best's Aggregates & Averages; 2008p, NCCI
Investment Gain on Insurance Transactions includes Other Income

Workers Compensation Results Remain Above Historical Average



p Preliminary
* Adjusted to include realized capital gains to be consistent with 1992 and after
Source: 1990–2007, Best's Aggregates & Averages; 2008p, NCCI
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

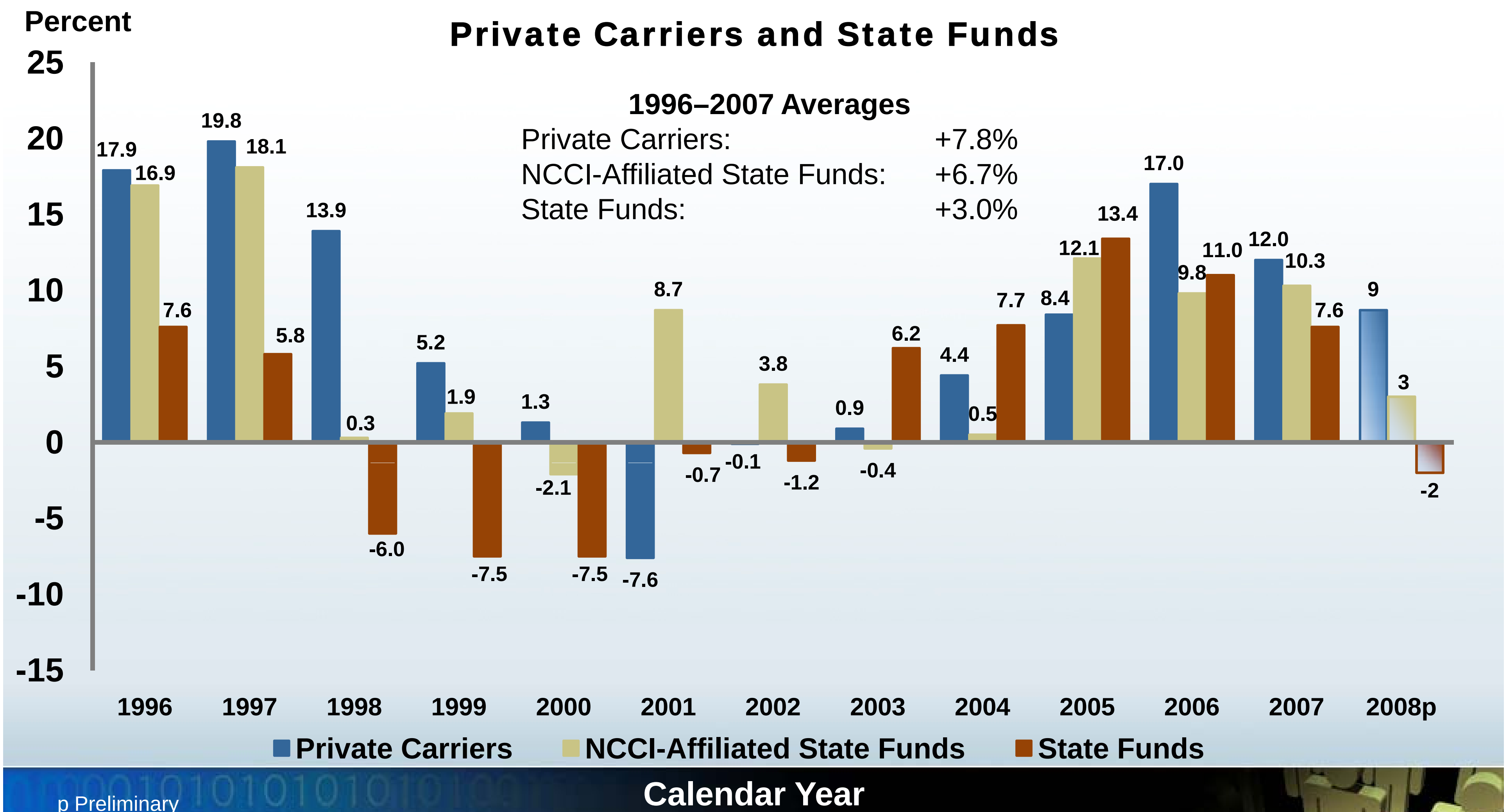
Workers Compensation
Calendar Year Net Combined Ratios



p Preliminary

Source: 1996–2007 Private Carriers, Best's Aggregates & Averages; 2008p, NCCI
1996–2008p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
1996–2008p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Workers Compensation
Pre-Tax Operating Gain Ratios



p Preliminary

Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

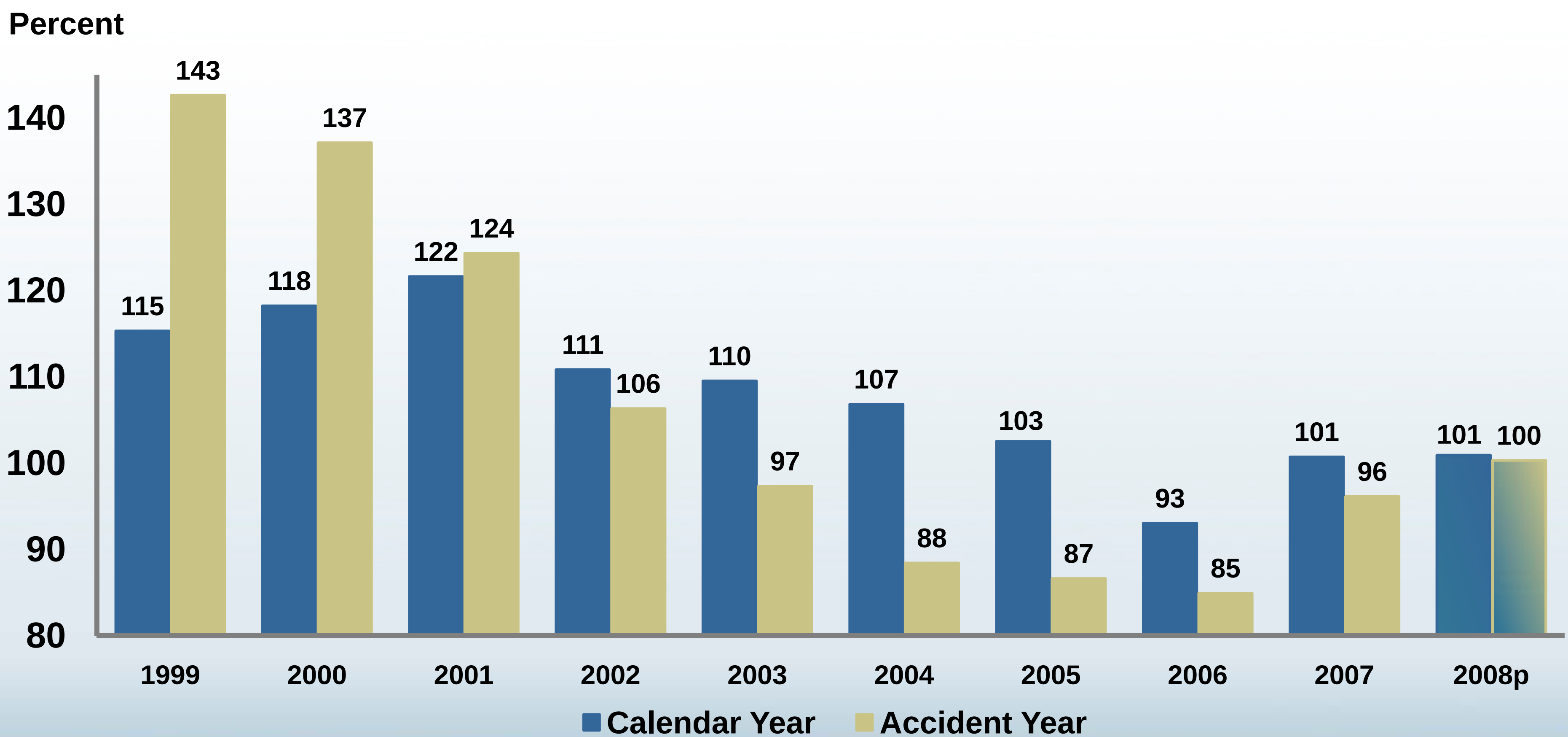
Source: 1996–2007 Private Carriers, Best's Aggregates & Averages; 2008p, NCCI
1996–2008p NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
1996–2008p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

Workers Compensation

Accident Year Results and Reserve Estimates

Accident Year Combined Ratios

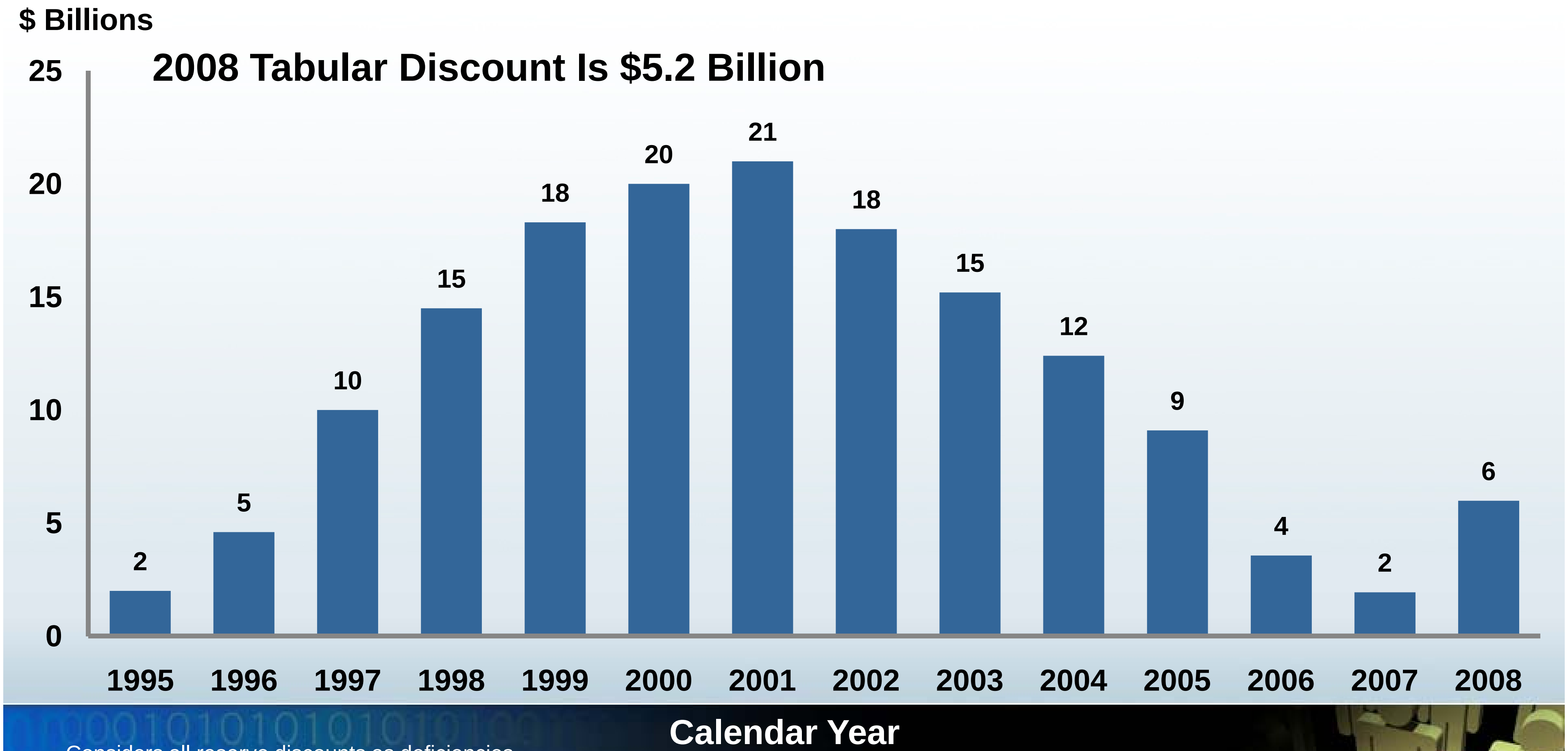
Workers Compensation Calendar Year vs. Ultimate Accident Year
Private Carriers



p Preliminary
Accident Year data is evaluated as of 12/31/2008 and developed to ultimate
Source: Calendar Years 1999–2007, Best's Aggregates & Averages;
Calendar Year 2008p and Accident Years 1999–2008p, NCCI analysis based on Annual Statement data
Includes dividends to policyholders

Calendar Year Reserve Deficiencies

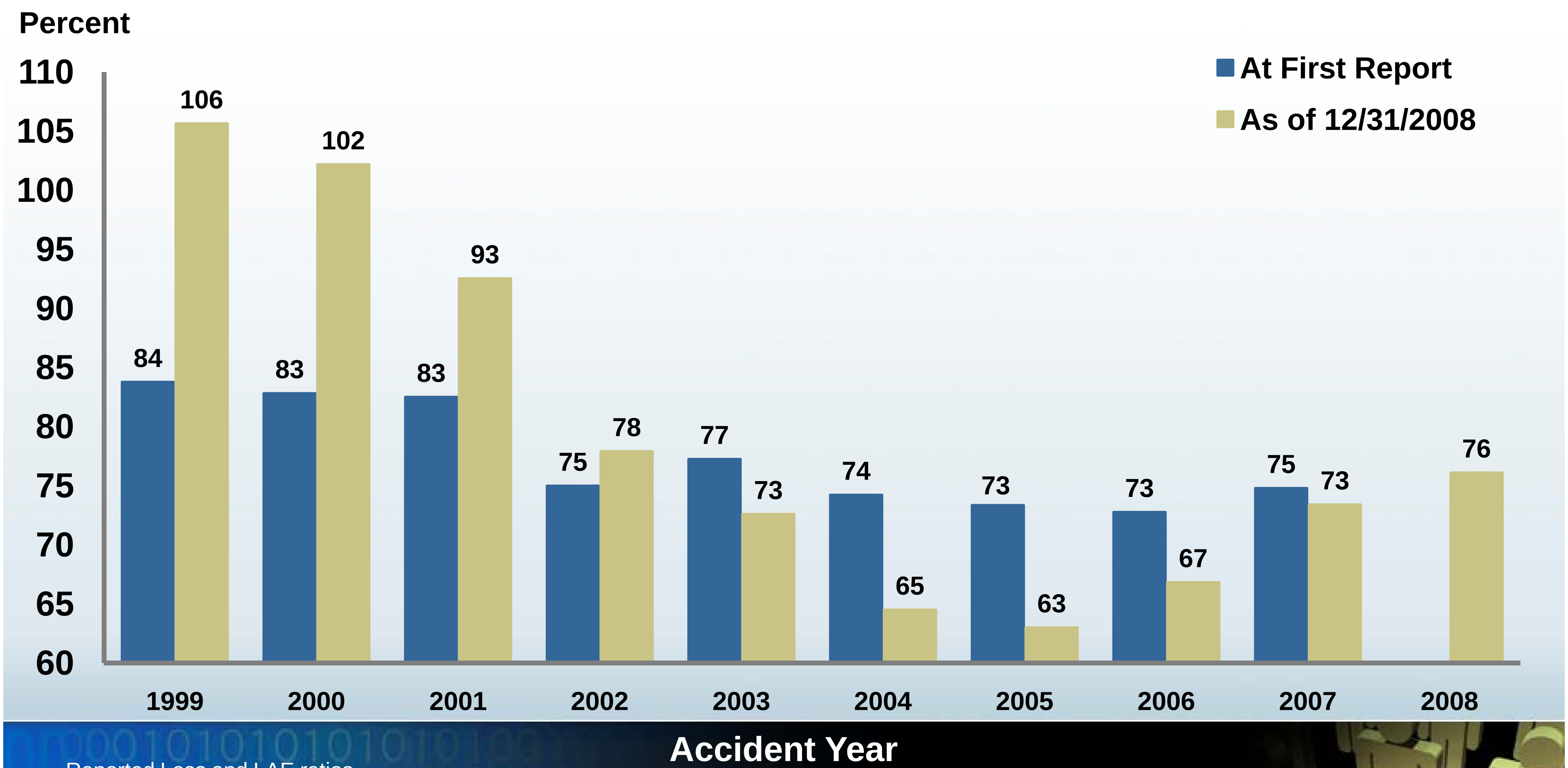
Workers Compensation Loss and LAE Reserve Deficiency
Private Carriers



Considers all reserve discounts as deficiencies
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections
Source: NCCI analysis

Workers Compensation Accident Year Loss and LAE Ratios

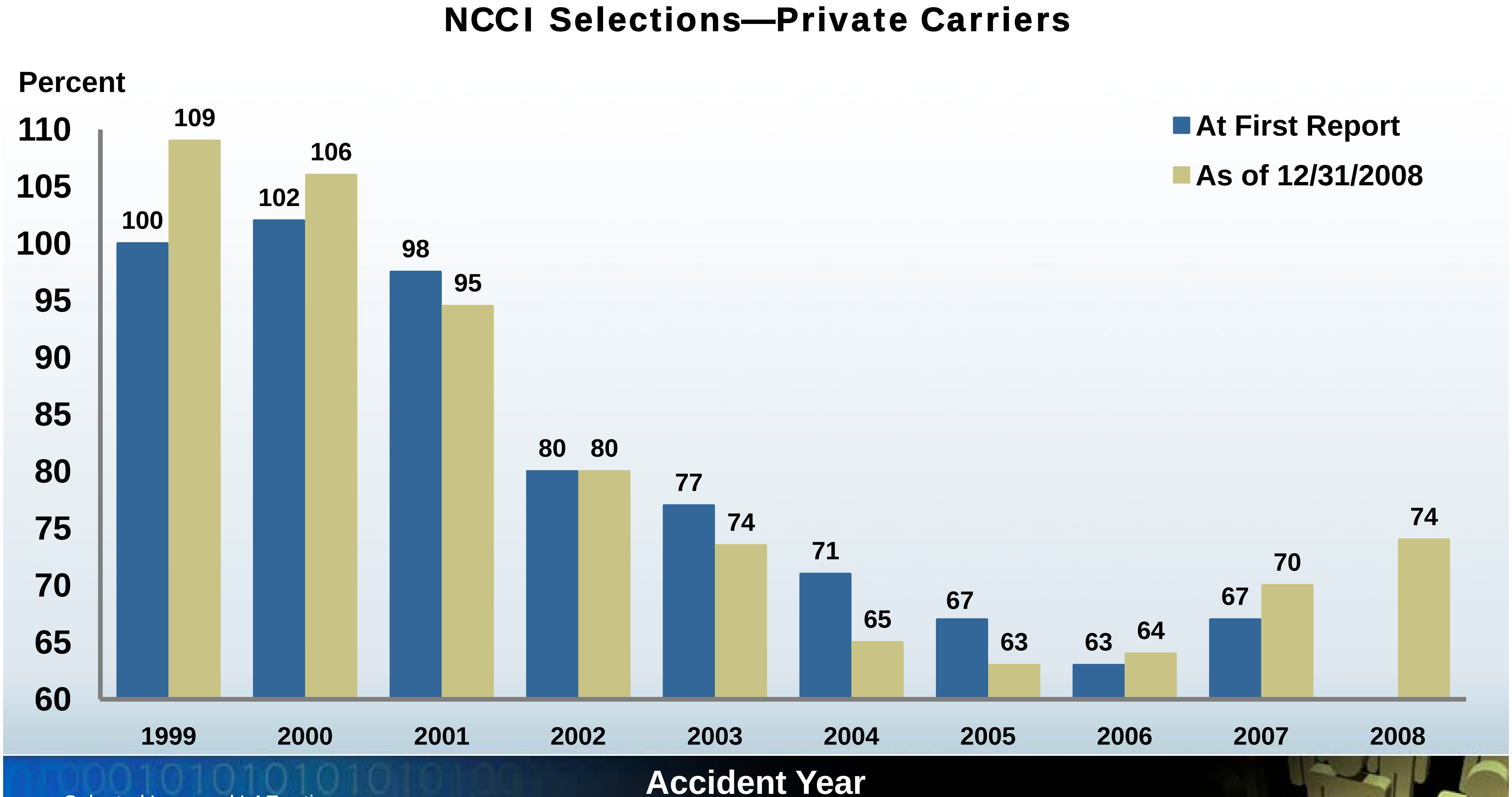
As Reported—Private Carriers



Reported Loss and LAE ratios

Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers

Workers Compensation
Accident Year Loss and LAE Ratios



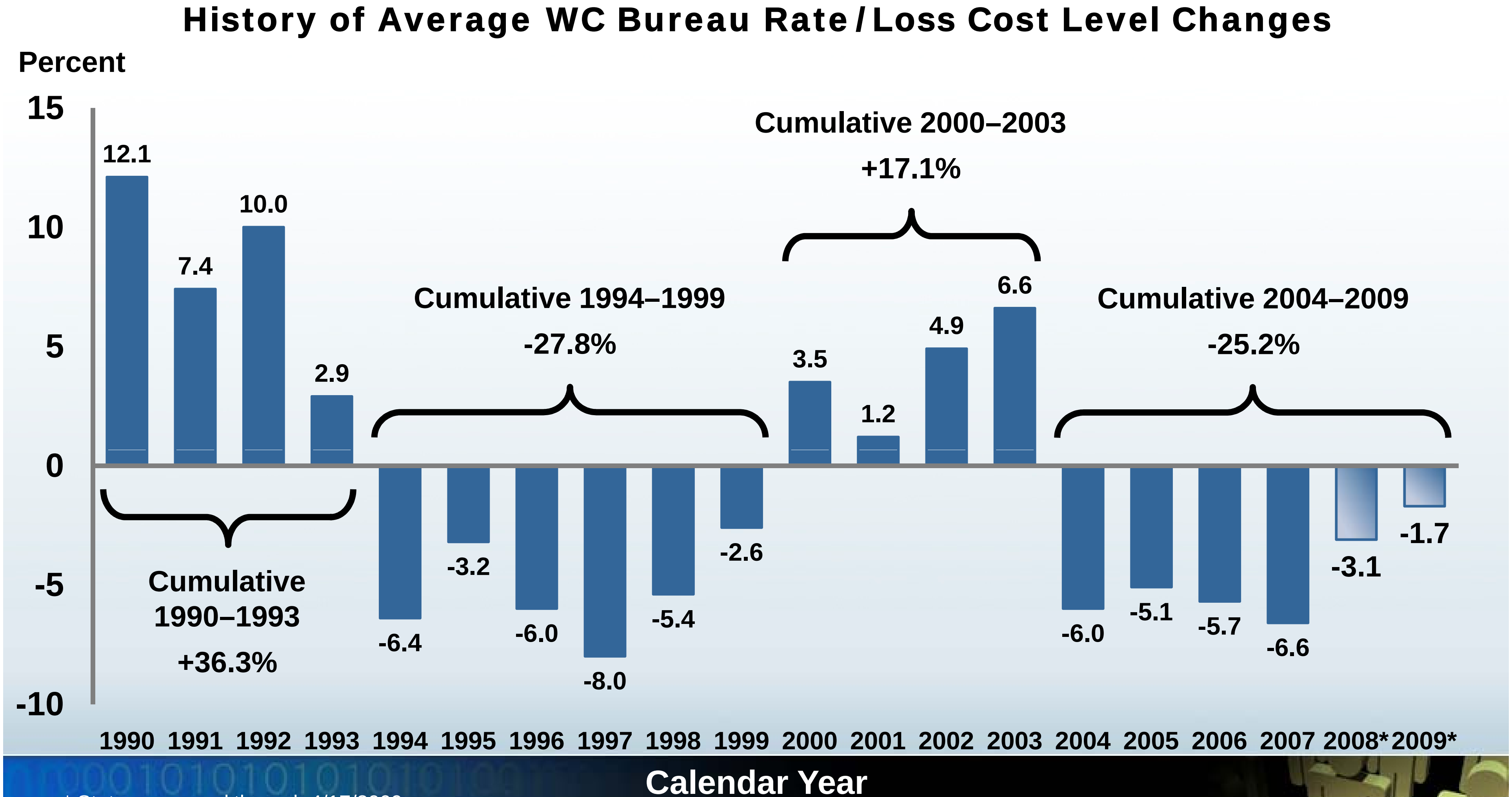
Selected Loss and LAE ratios

Source: NCCI Reserve Analysis

Workers Compensation

Premium Drivers

Average Approved Bureau Rates / Loss Costs

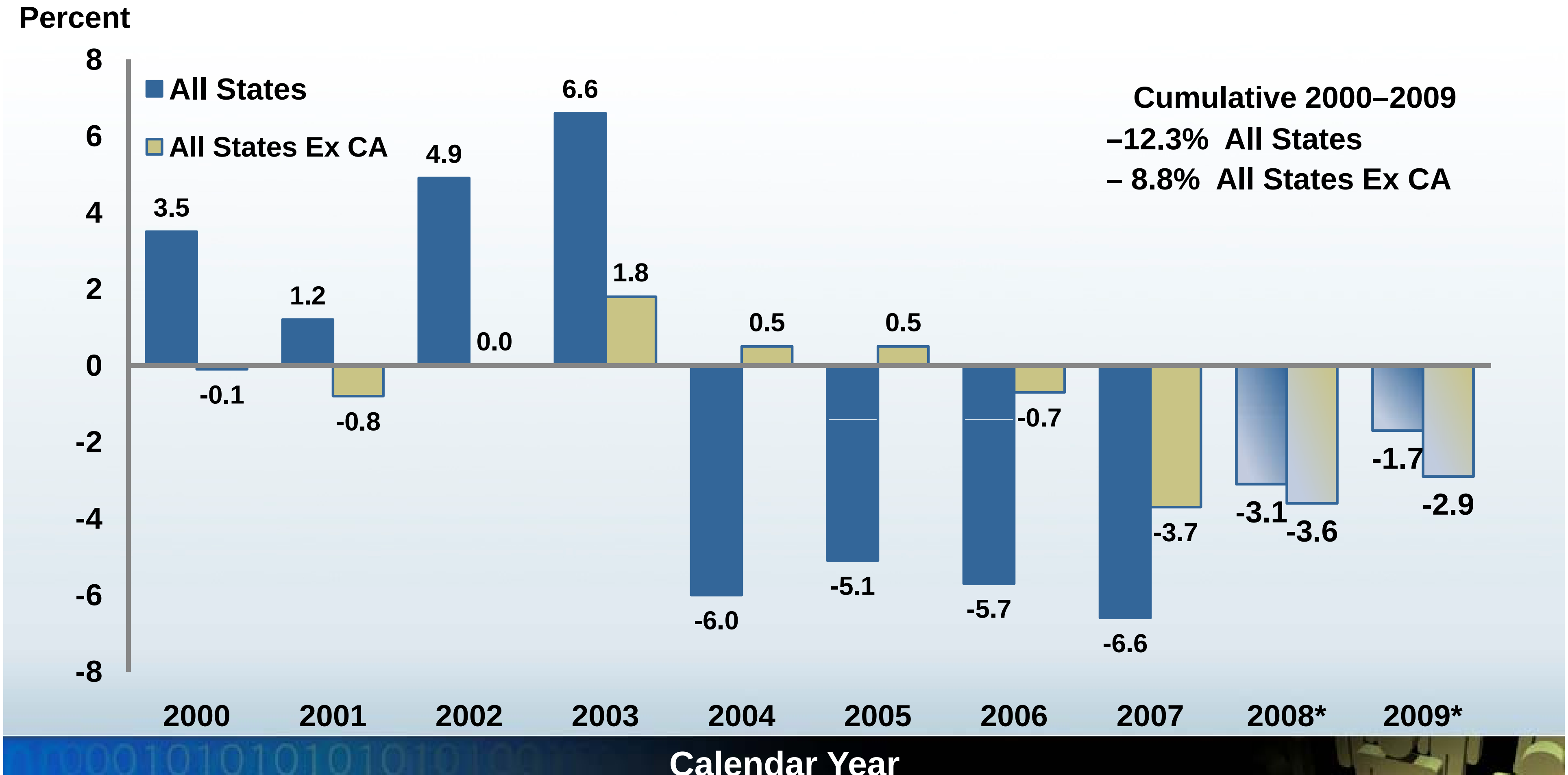


* States approved through 4/17/2009

Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

Average Approved Bureau Rates / Loss Costs

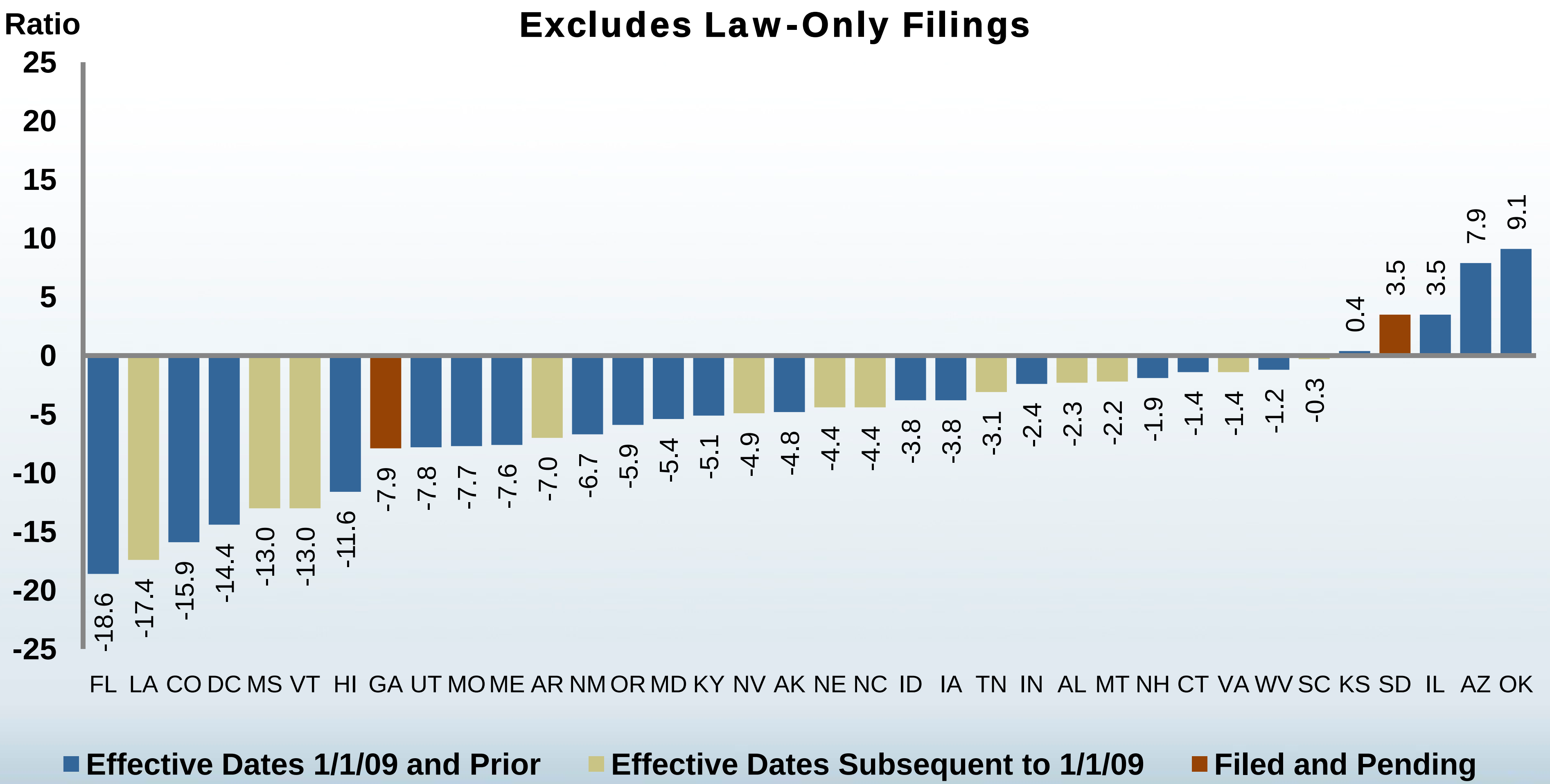
All States vs. All States Excluding California



* States approved through 4/17/2009

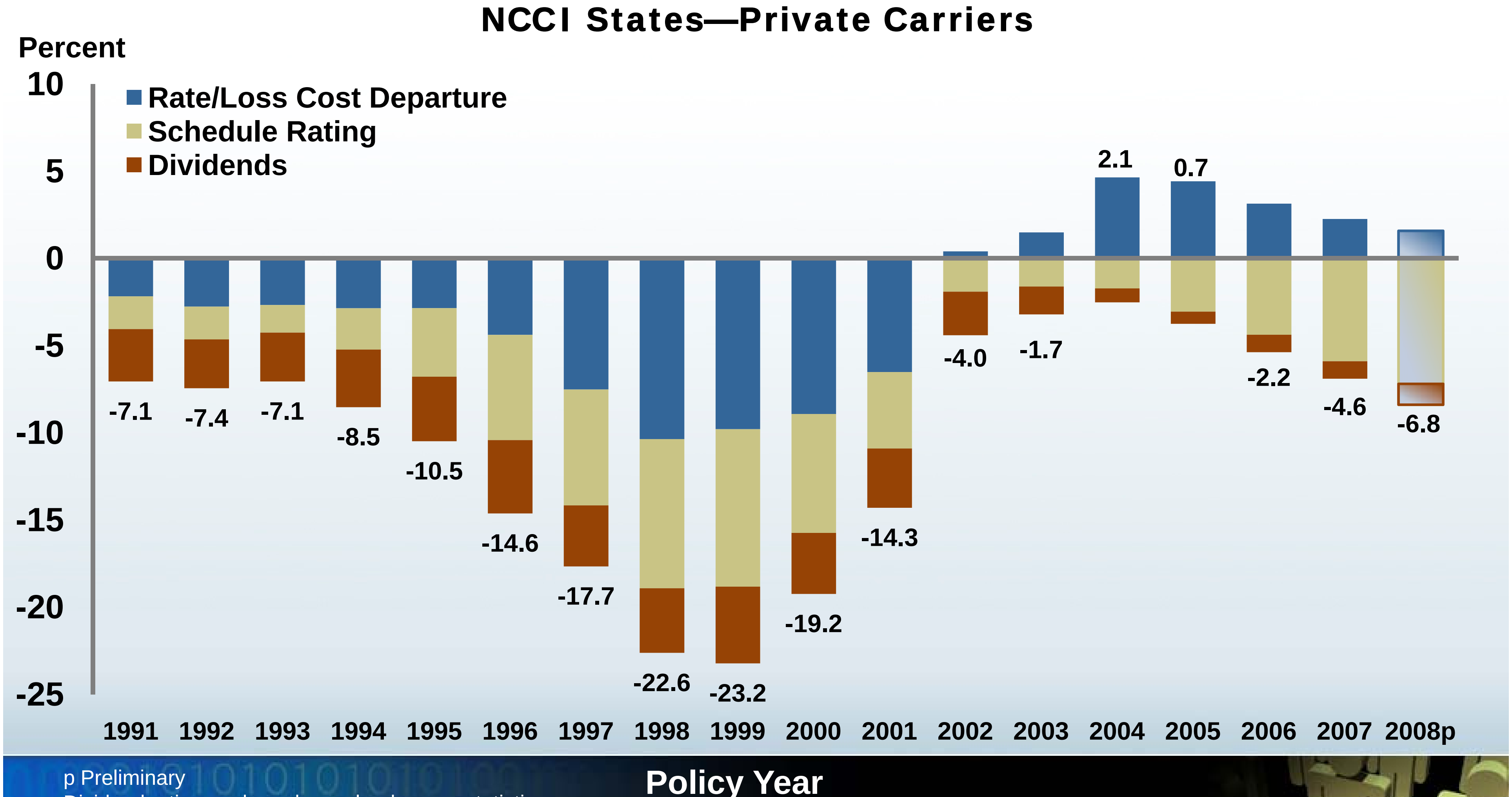
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

Current NCCI Voluntary Market Filed Rate / Loss Cost Changes



States filed through 4/24/2009

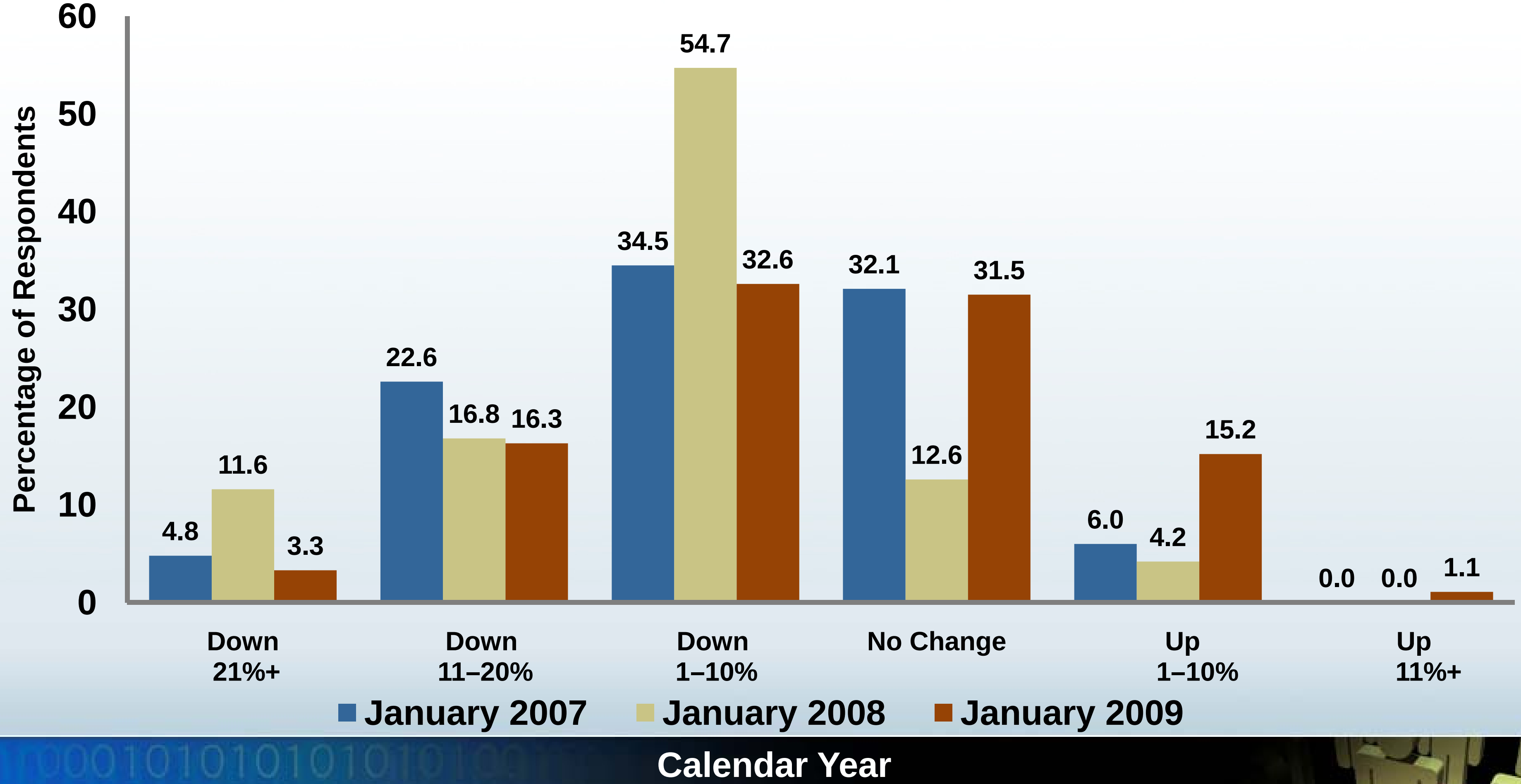
Impact of Discounting on Workers Compensation Premium



p Preliminary
Dividend ratios are based on calendar year statistics
NCCI benchmark level does not include an underwriting contingency provision
Based on data through 12/31/2008 for the states where NCCI provides ratemaking services

According to Goldman Sachs, Most Survey Respondents See Price Declines Moderating

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior

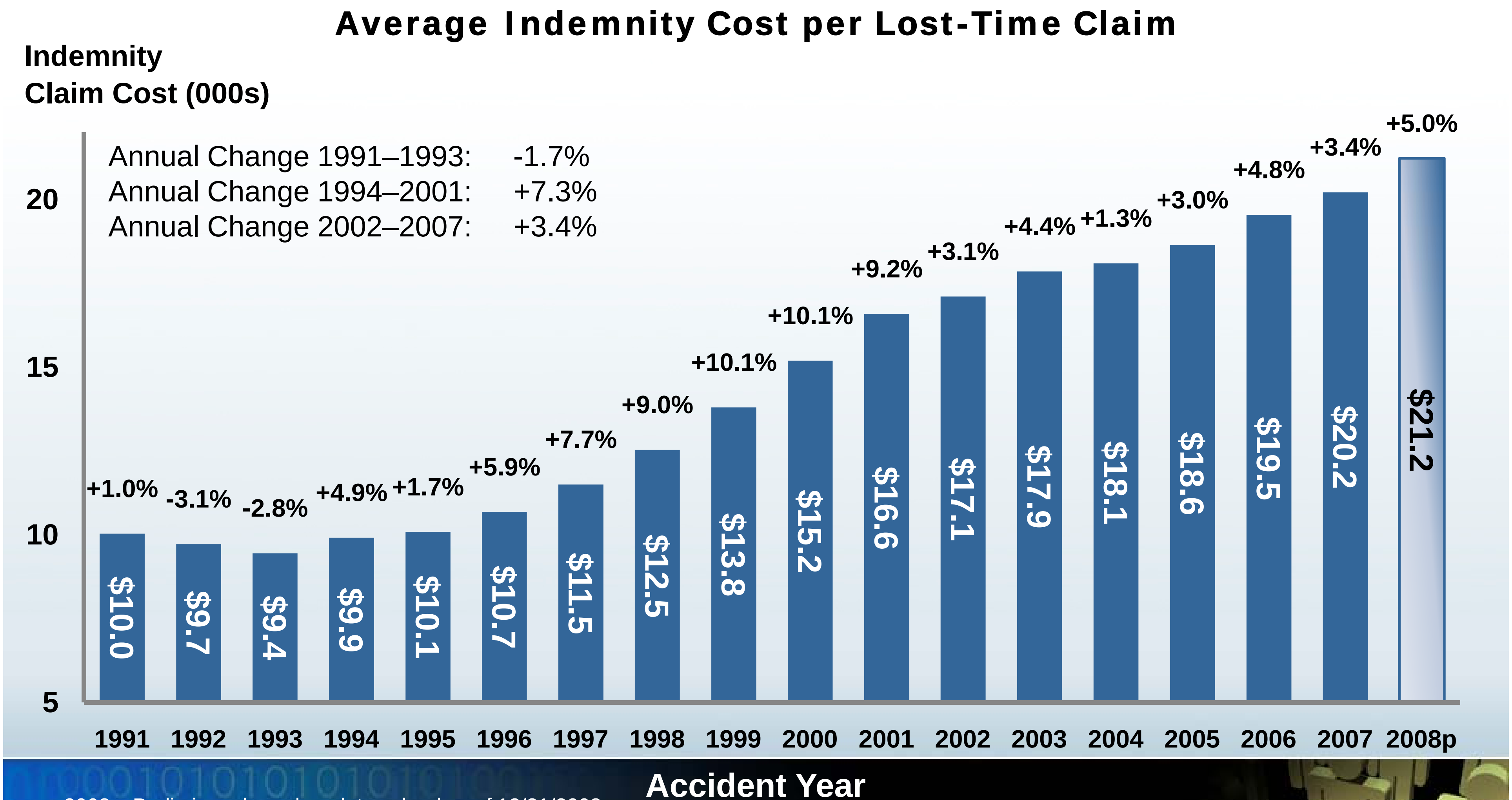


Source: Goldman Sachs Research, Proprietary Survey, "January 2009 Pricing Survey, Insurance: Property & Casualty" (Exhibit 8, Workers' Compensation, Percentage of Respondents)

Workers Compensation

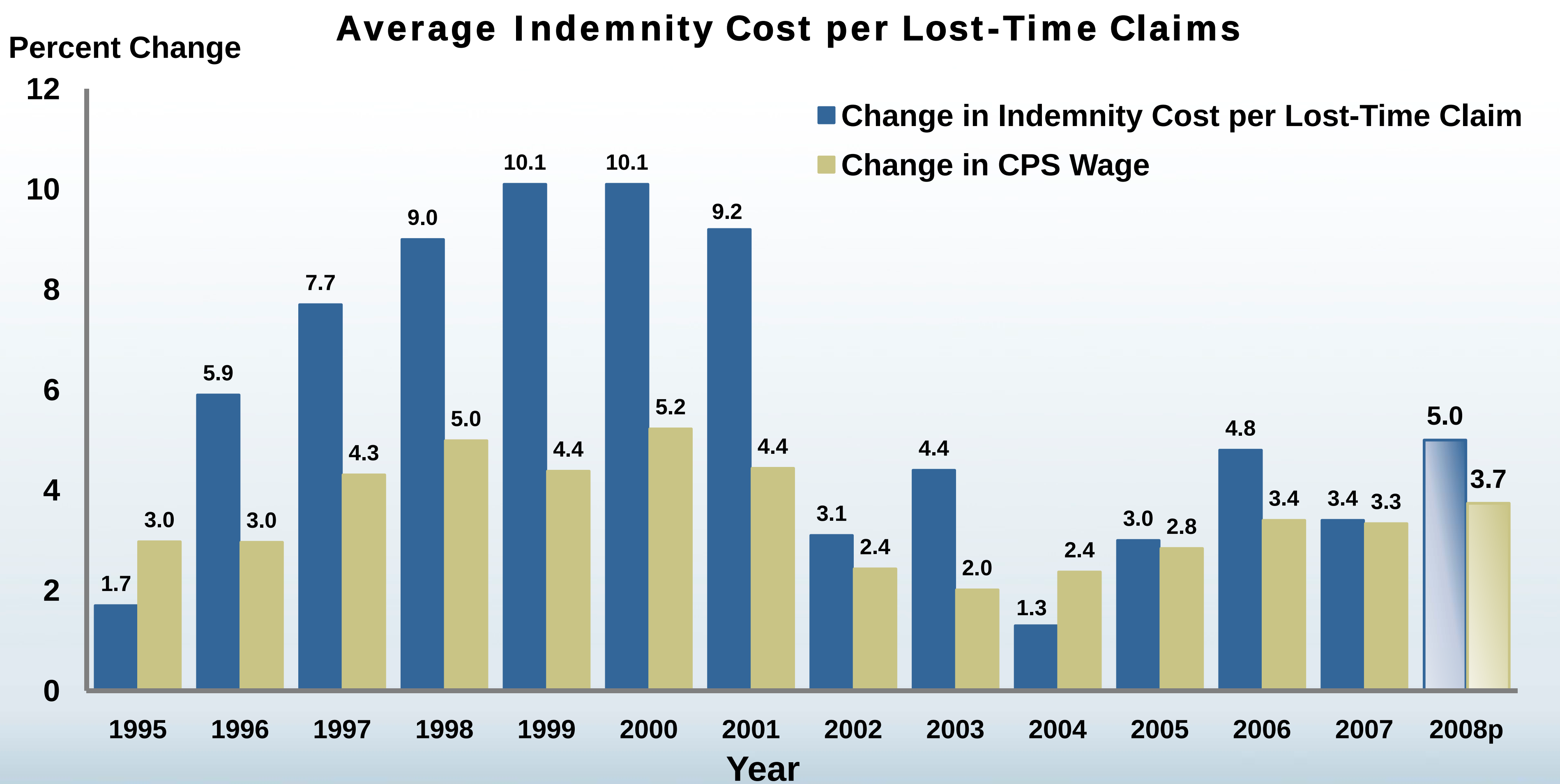
Loss Drivers

Workers Compensation Indemnity Claim Costs Continue to Grow



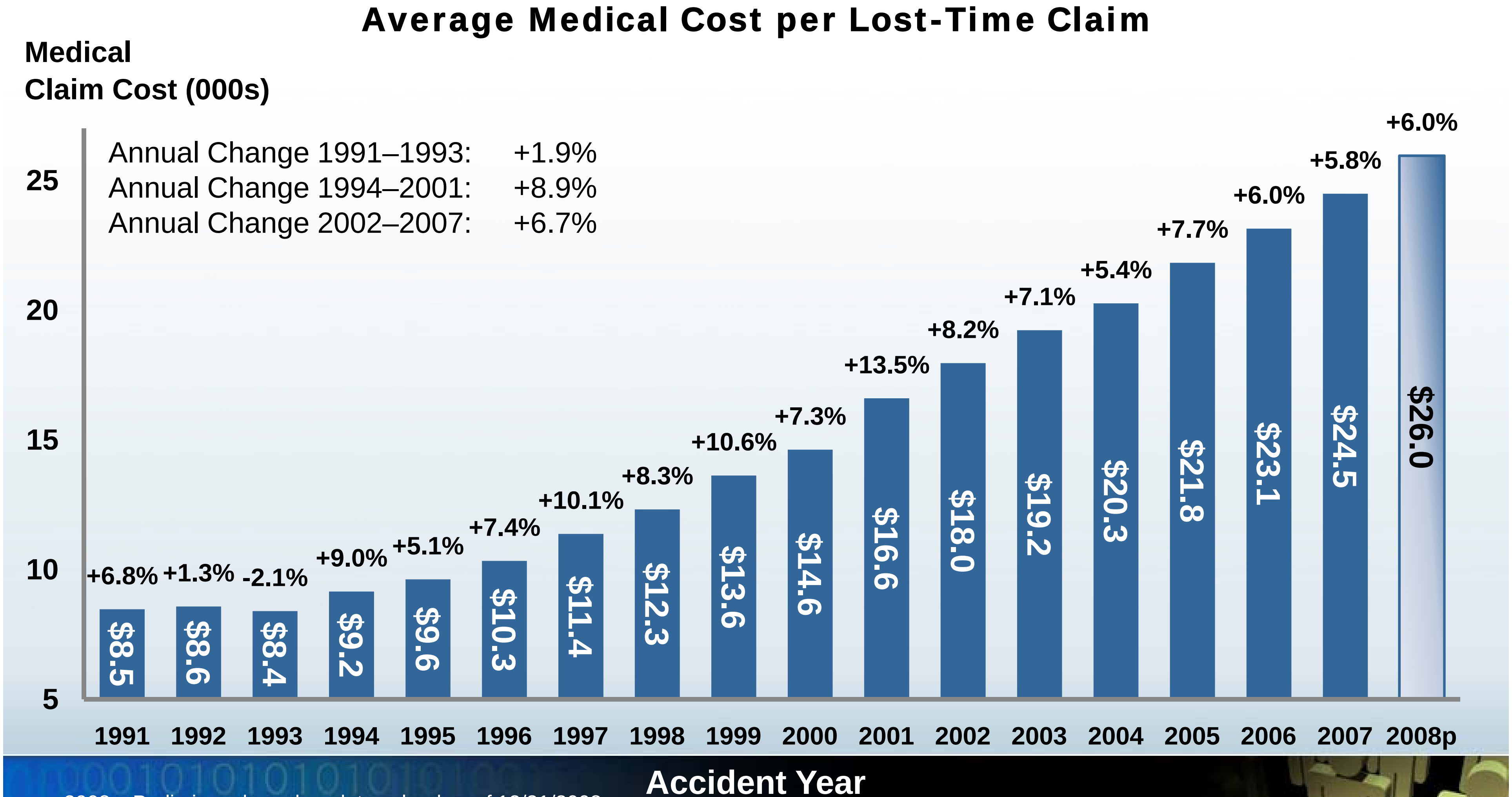
2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

WC Indemnity Severity Outpacing Wage Inflation in 2008



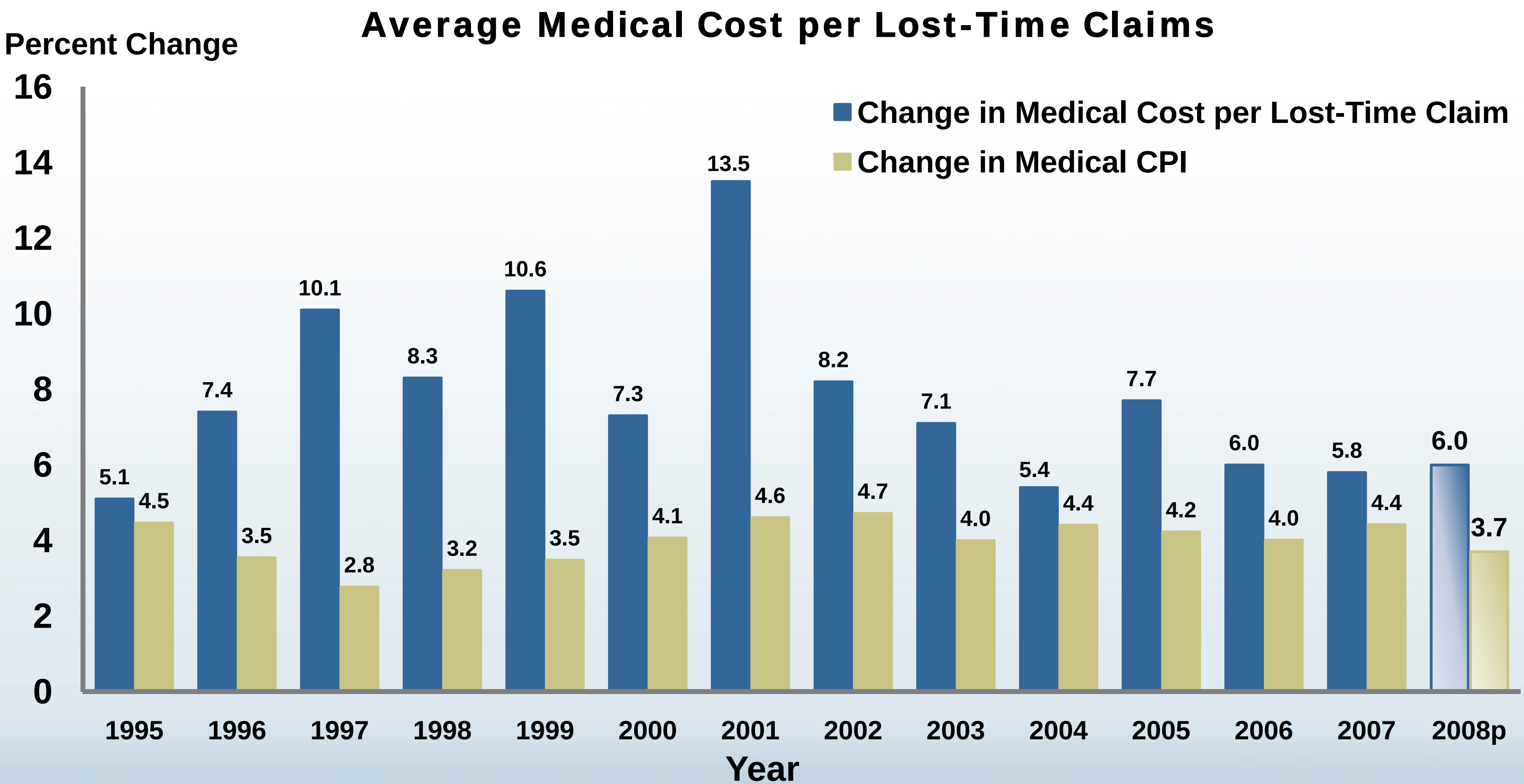
Indemnity severity 2008p: Preliminary based on data valued as of 12/31/2008
Indemnity severity 1995–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Source: CPS Wage—All states (Current Population Survey), Economy.com;
Accident year indemnity severity—NCCI states, NCCI

WC Medical Claim Cost Trends—Growth Continues in 2008



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

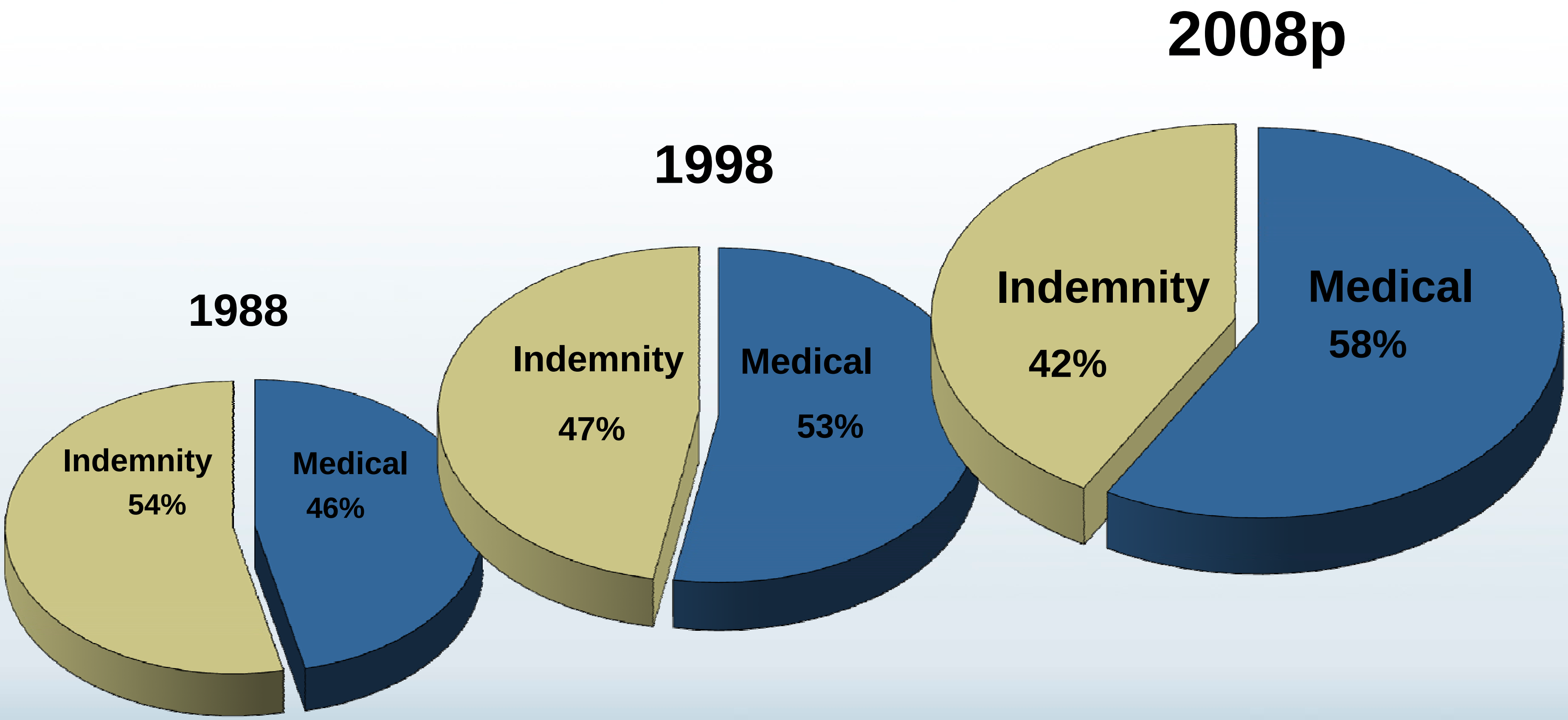
WC Medical Severity Still Growing Faster Than the Medical CPI



Medical severity 2008p: Preliminary based on data valued as of 12/31/2008
Medical severity 1995–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

Workers Compensation Medical Losses Are More Than Half of Total Losses

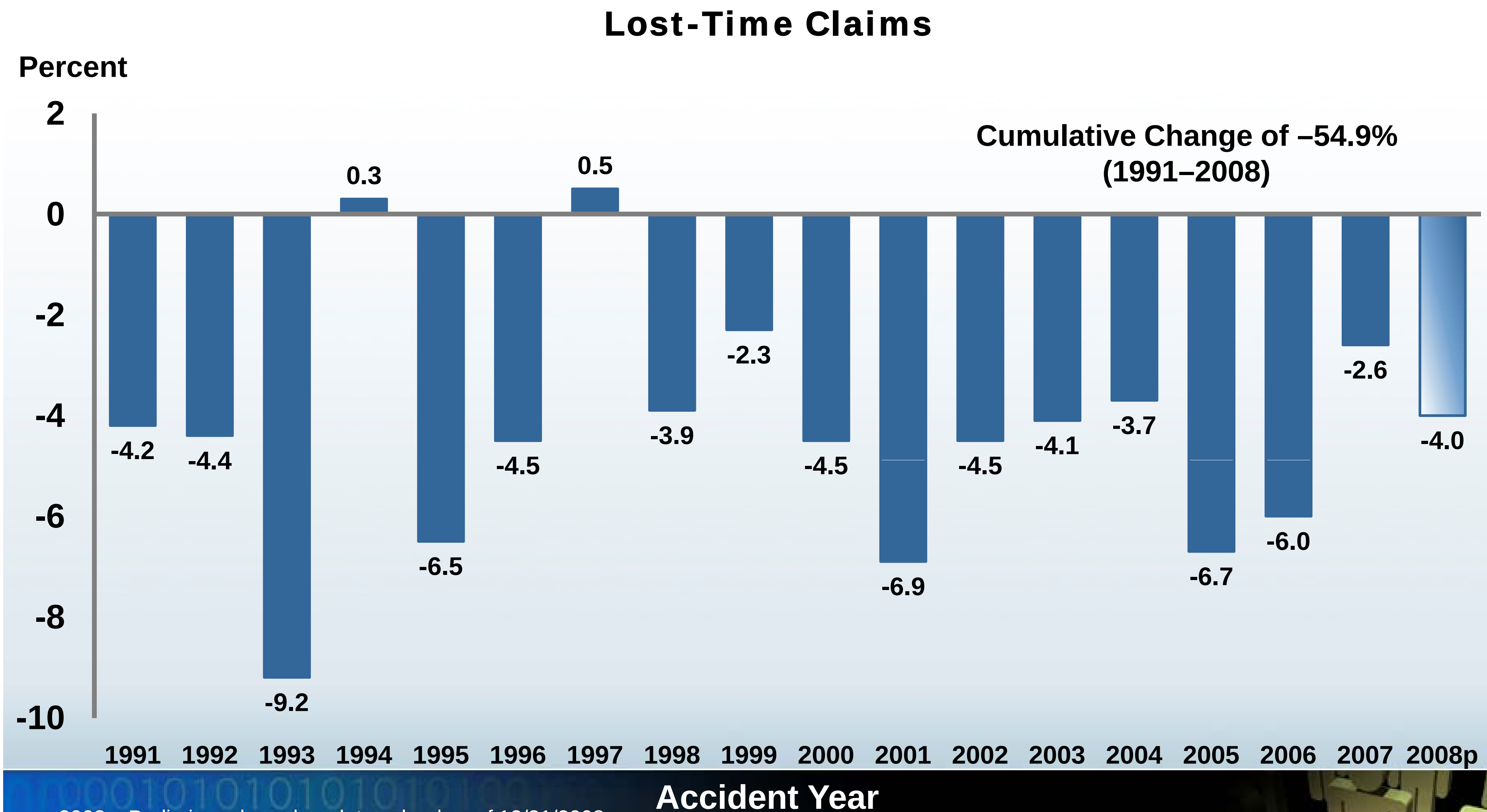
All Claims—NCCI States



Accident Year

2008p: Preliminary based on data valued as of 12/31/2008
1988, 1998: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

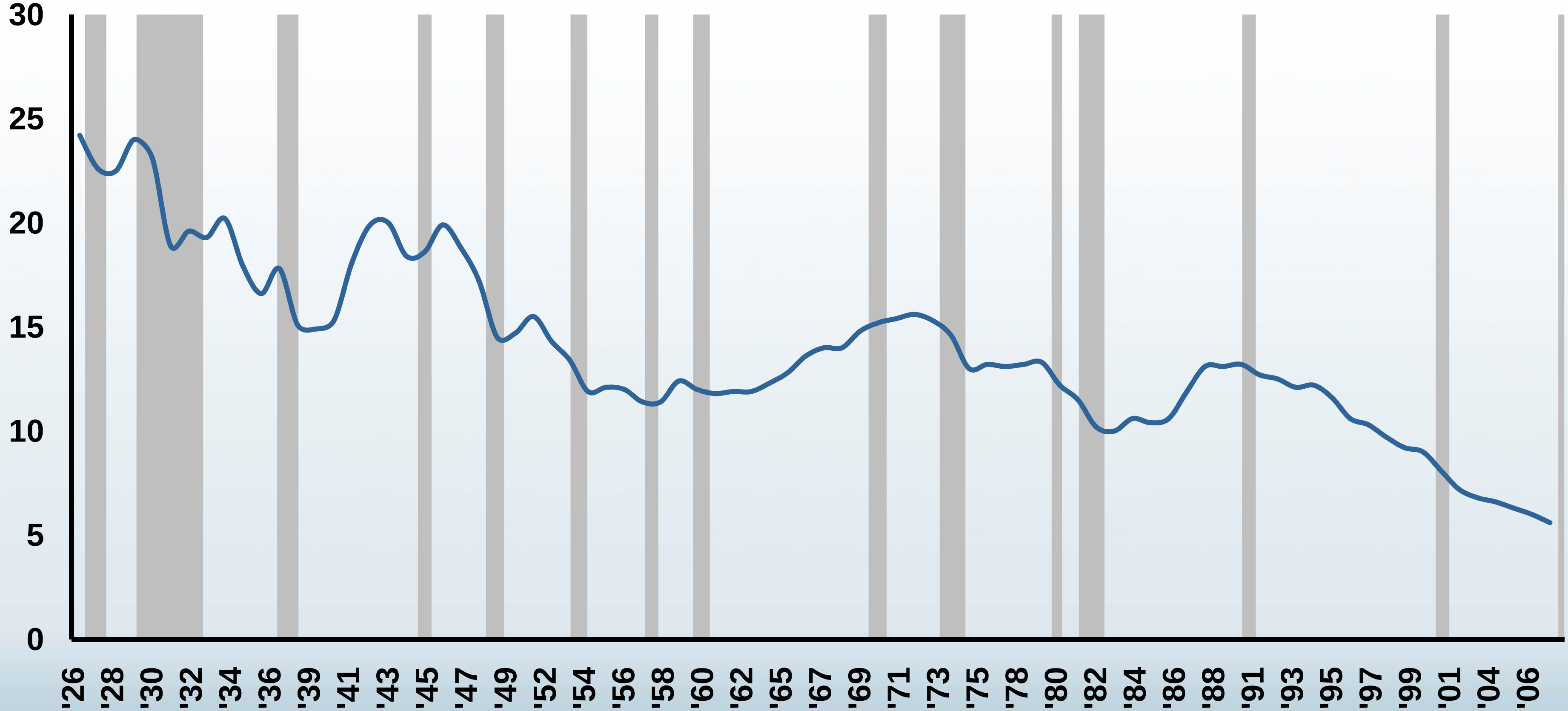
Workers Compensation Lost-Time Claim Frequency Continues to Decline



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Frequency is the number of lost-time claims per 100,000 workers as estimated from reported premium

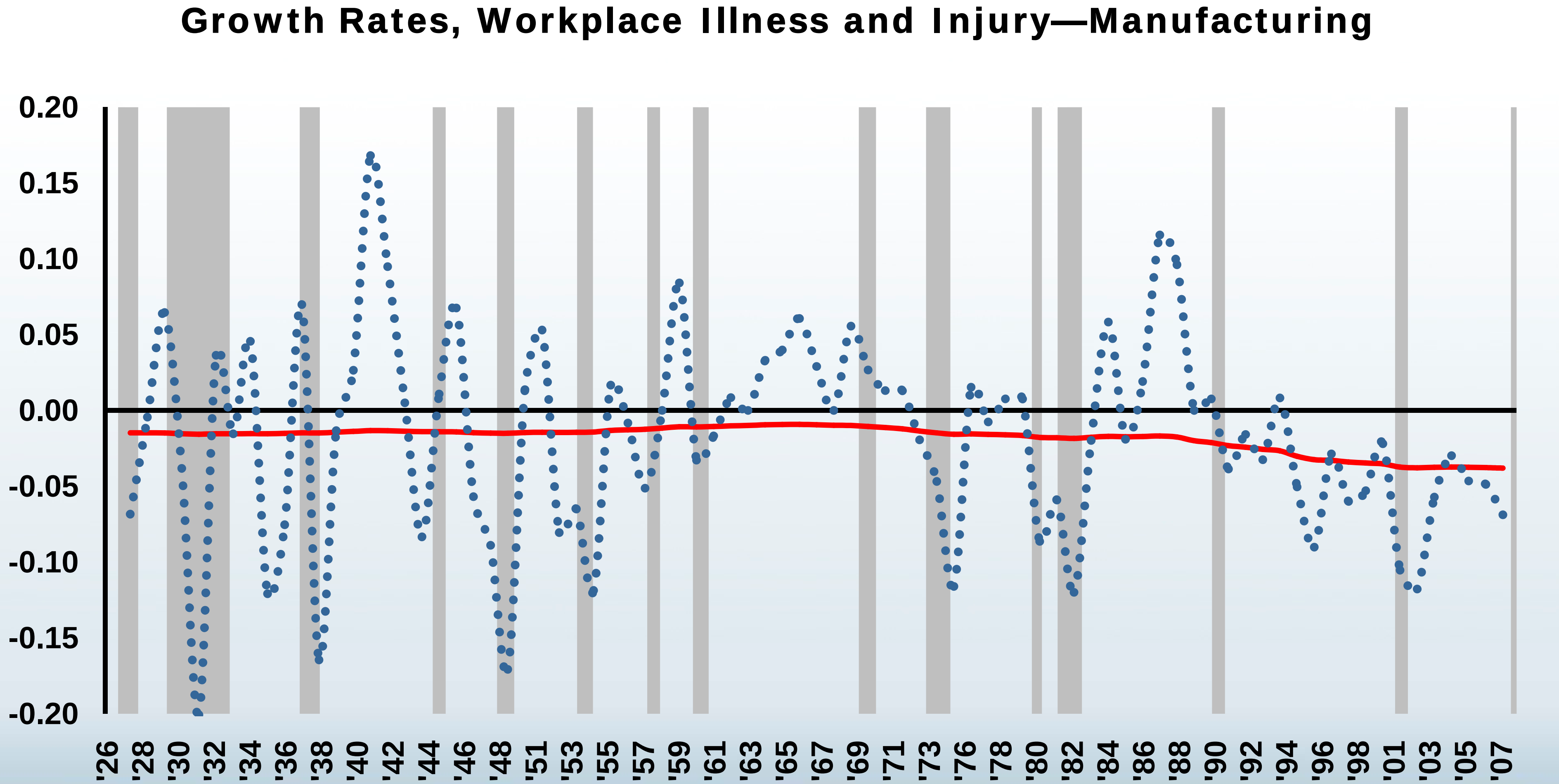
Frequency
A Long-Term Drift Downward

Manufacturing—Total Recordable Cases
Rate of Injury and Illness Cases per 100 Full-Time Workers



Note: Recessions indicated by gray bars
Source: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

The Business Cycle Impact on the Frequency Growth Rate in Isolation



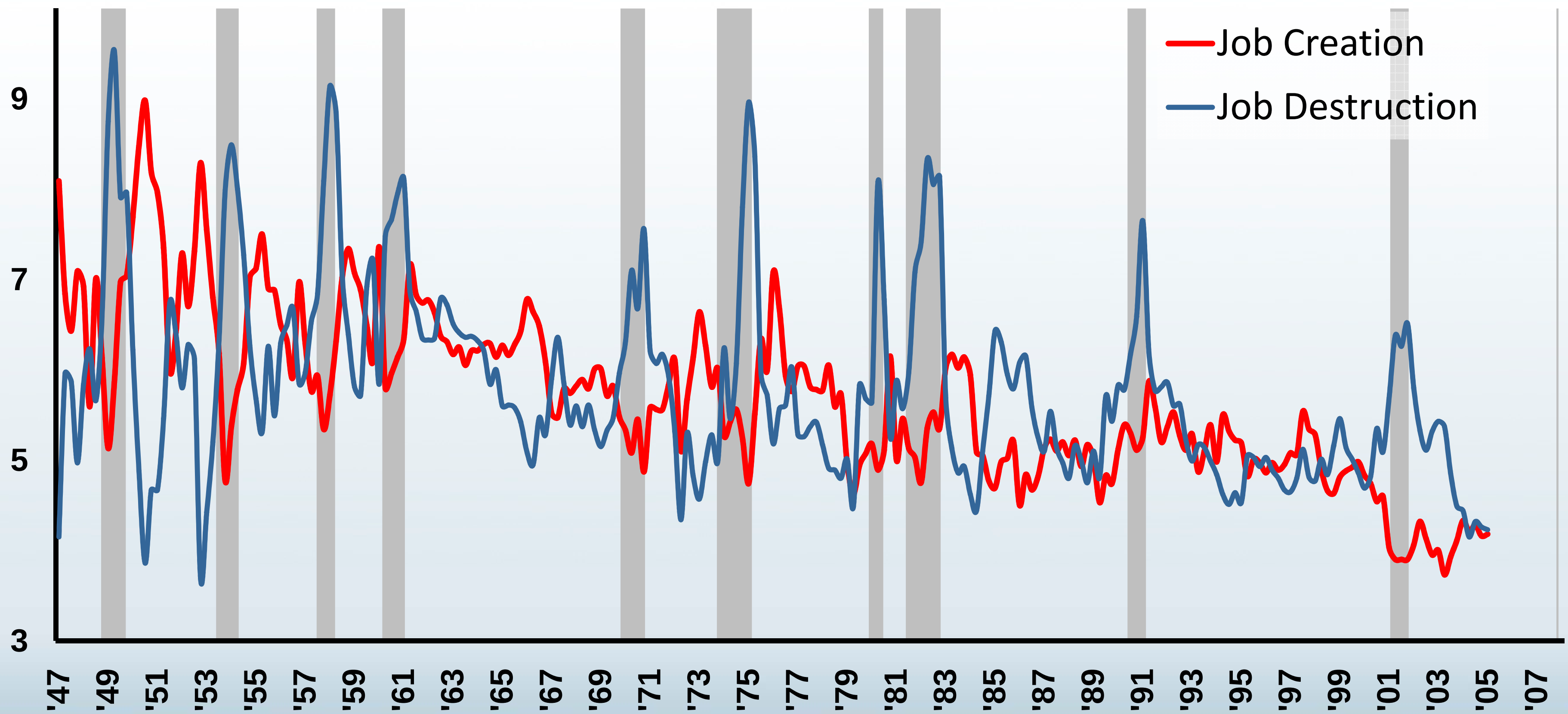
Note: Recessions indicated by gray bars
Source: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

Job Creation Is a Leading Indicator of the Change in WC Claim Frequency

- Job creation and job destruction increase frequency
- During recessions, job creation slows dramatically
- The rate of job creation bottoms at the trough of economic activity and rises sharply during the ensuing economic recovery
- During recession, job destruction increases
- NCCI's statistical modeling shows that the decline in job creation dominates quantitatively

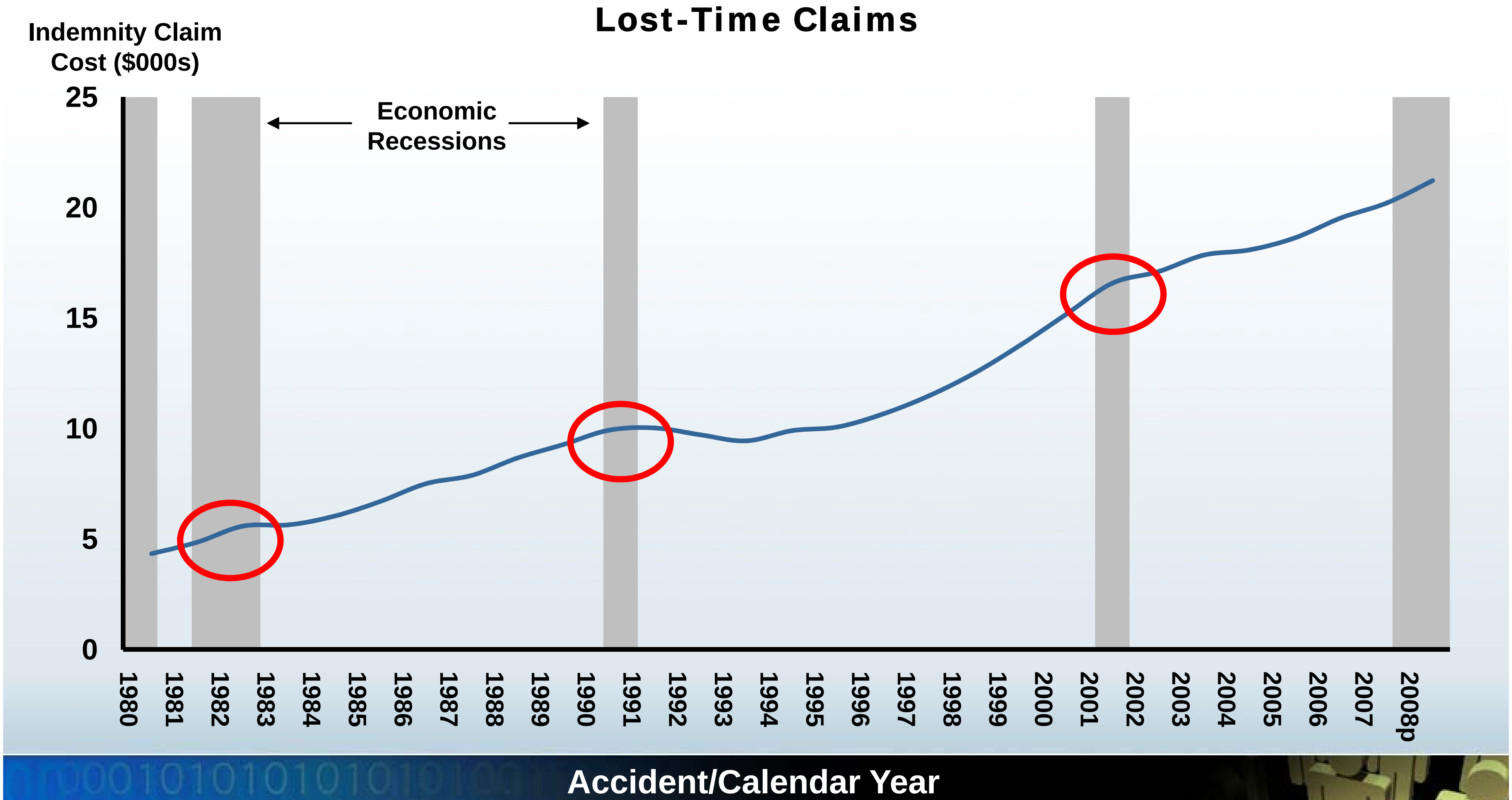
Cyclical Pattern of Job Creation and Job Destruction

Rates of Job Creation and Job Destruction—Manufacturing



Note: Recessions indicated by gray bars
Source: Davis, S.J., R.J. Faberman, and J. Haltiwanger (2006) "The Flow Approach to Labor Markets: New Data Sources and Micro-Macro Links," Journal of Economic Perspectives 20(3), pp. 3-26.

The Growth in Indemnity Severity Has Eased Coming Out of Prior Recessions



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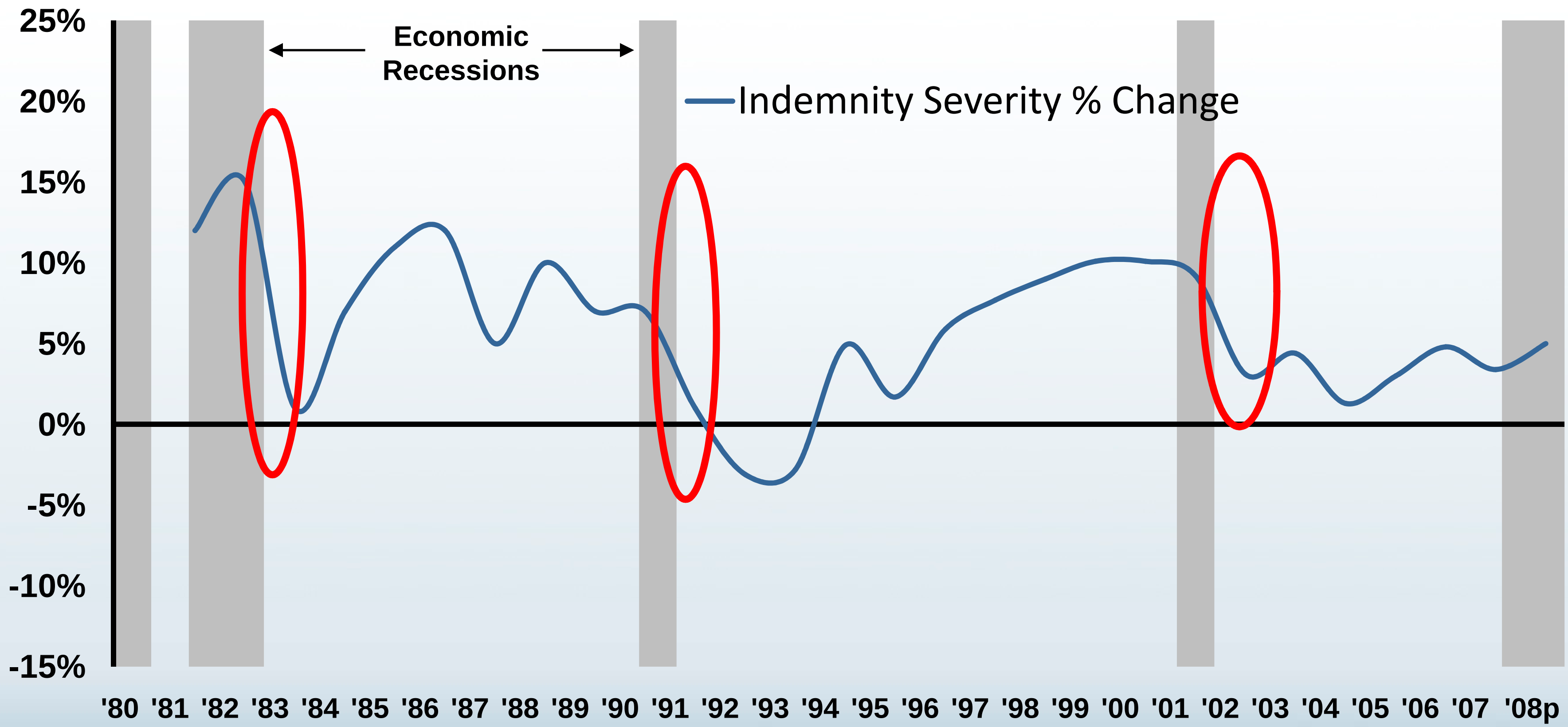
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Indemnity Severity Growth Rates Show a Lagged Response to Recessions

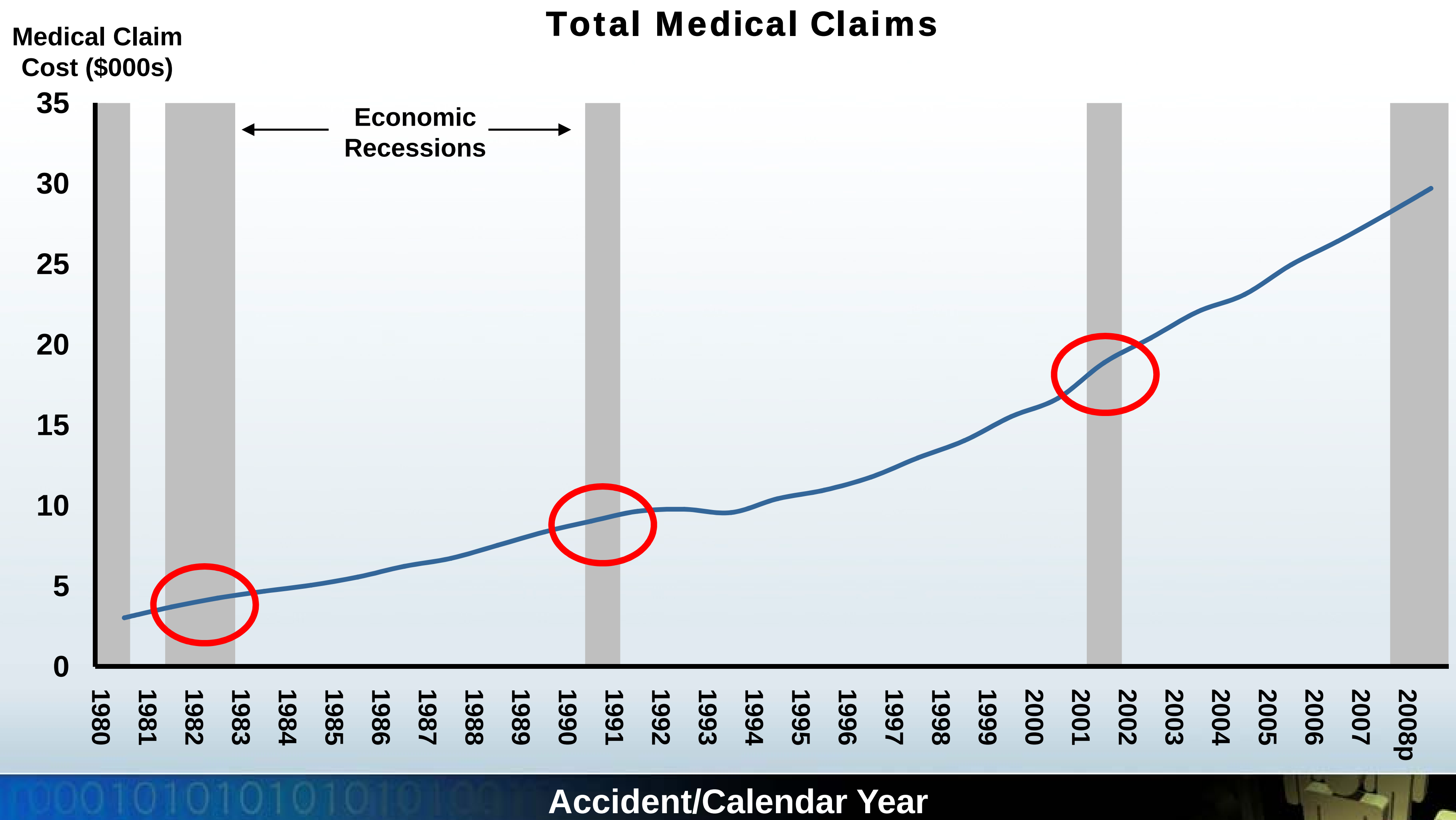
Percent Change, Lost-Time Claims



Accident/Calendar Year

2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

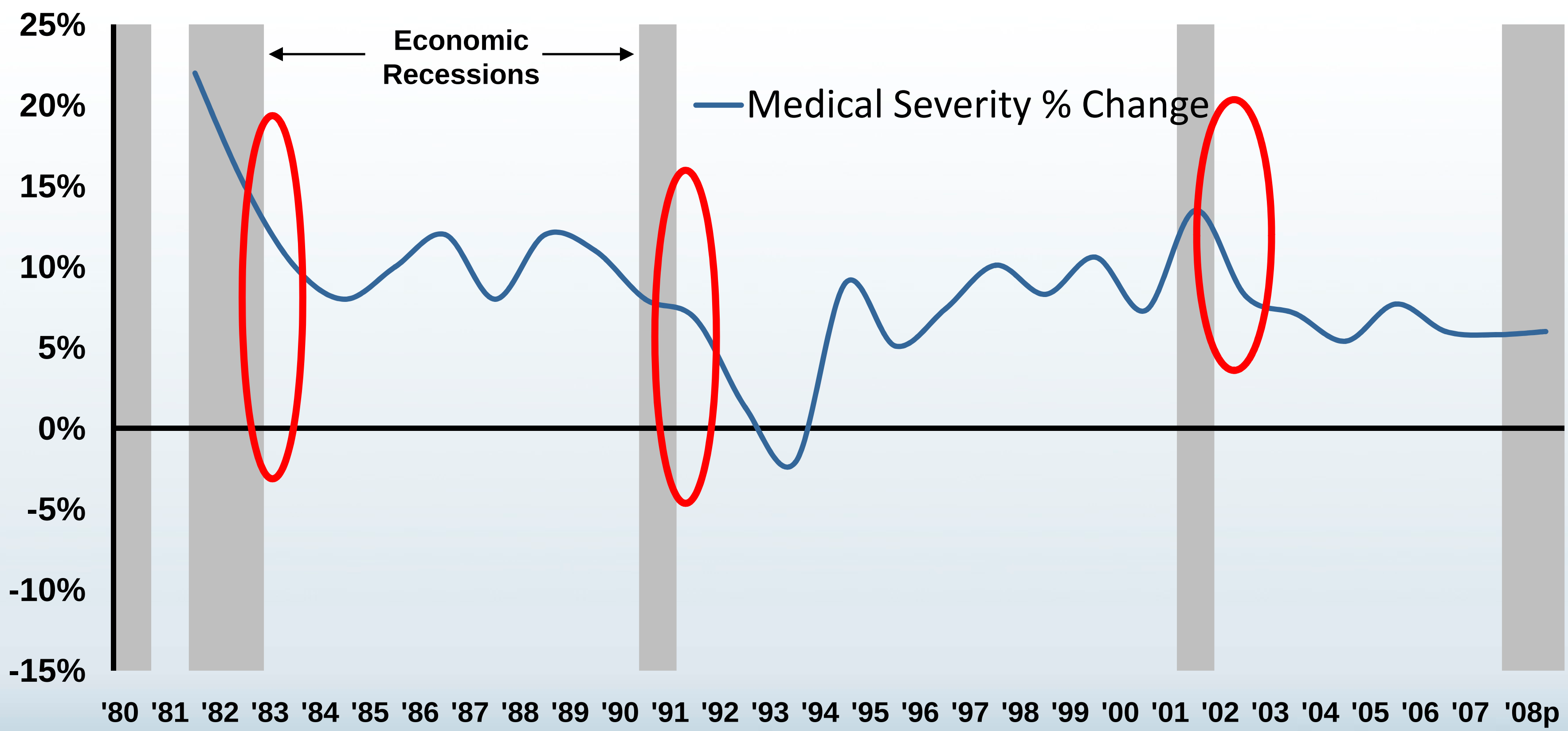
Medical Claim Costs Increased During Prior Recessions



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Medical Severity Growth Rates Show a Varied Response

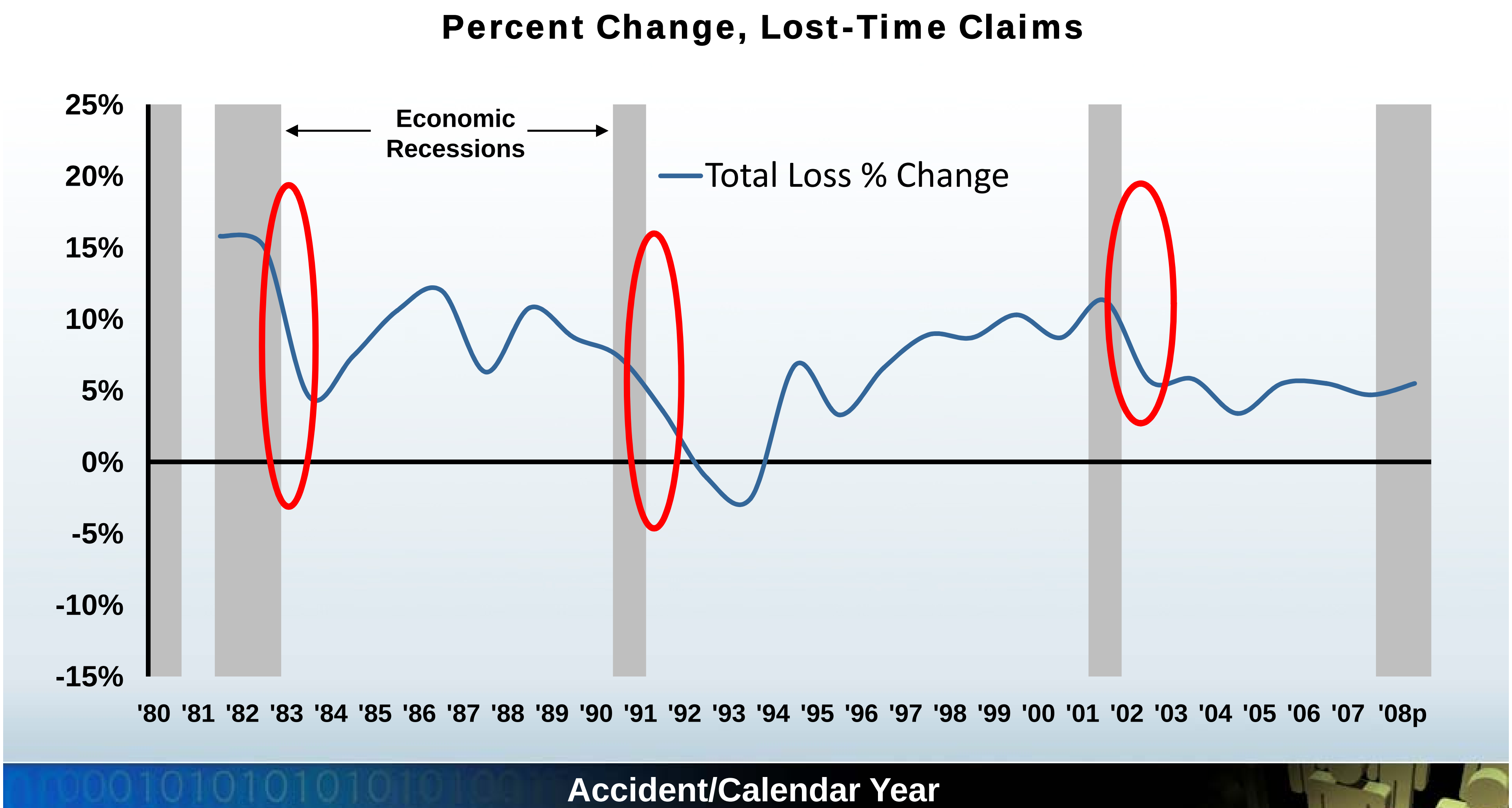
Percent Change, Lost-Time Claims



Accident/Calendar Year

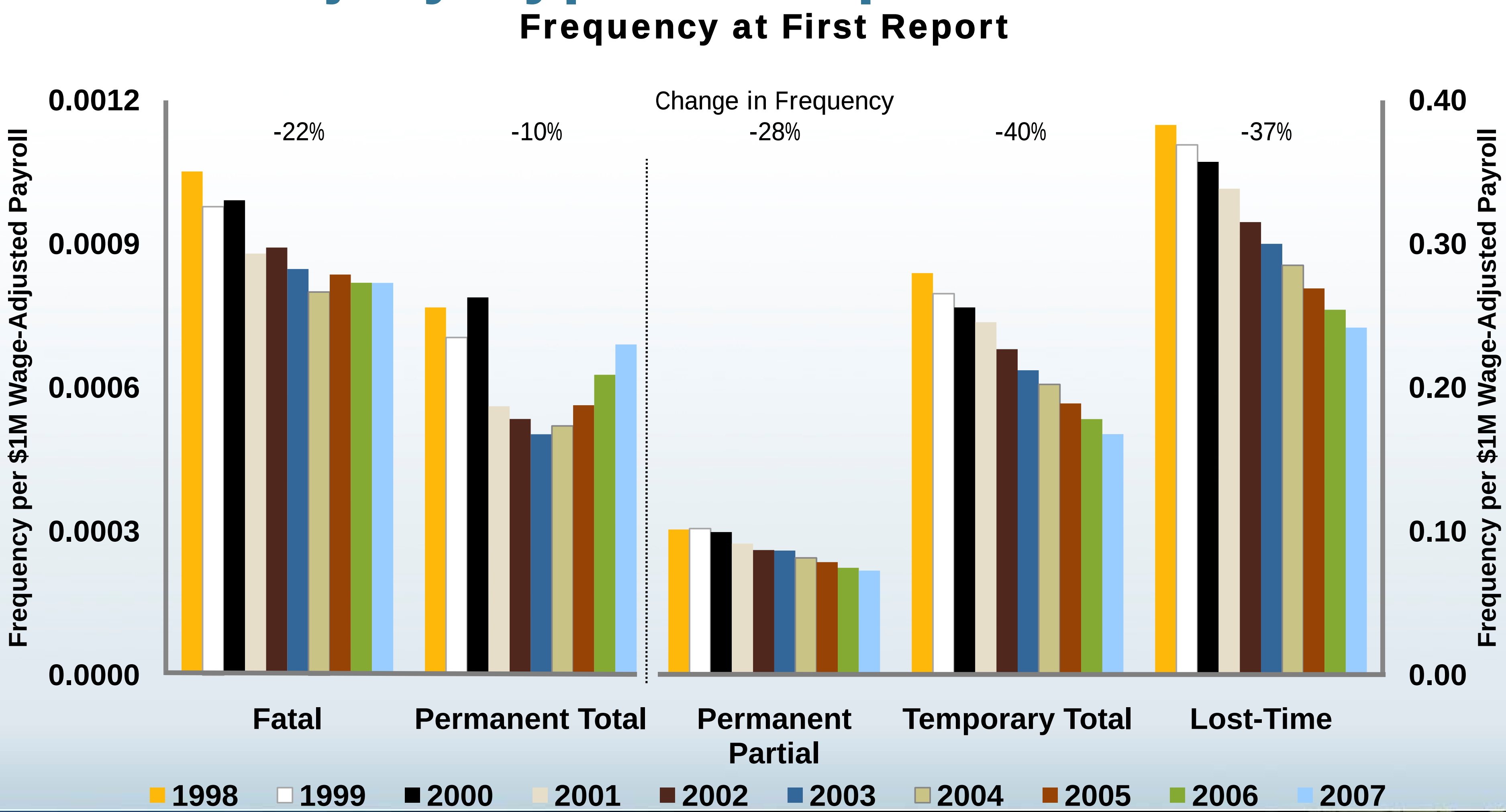
2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Total Severity Growth Rates—Up and Down Response



2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

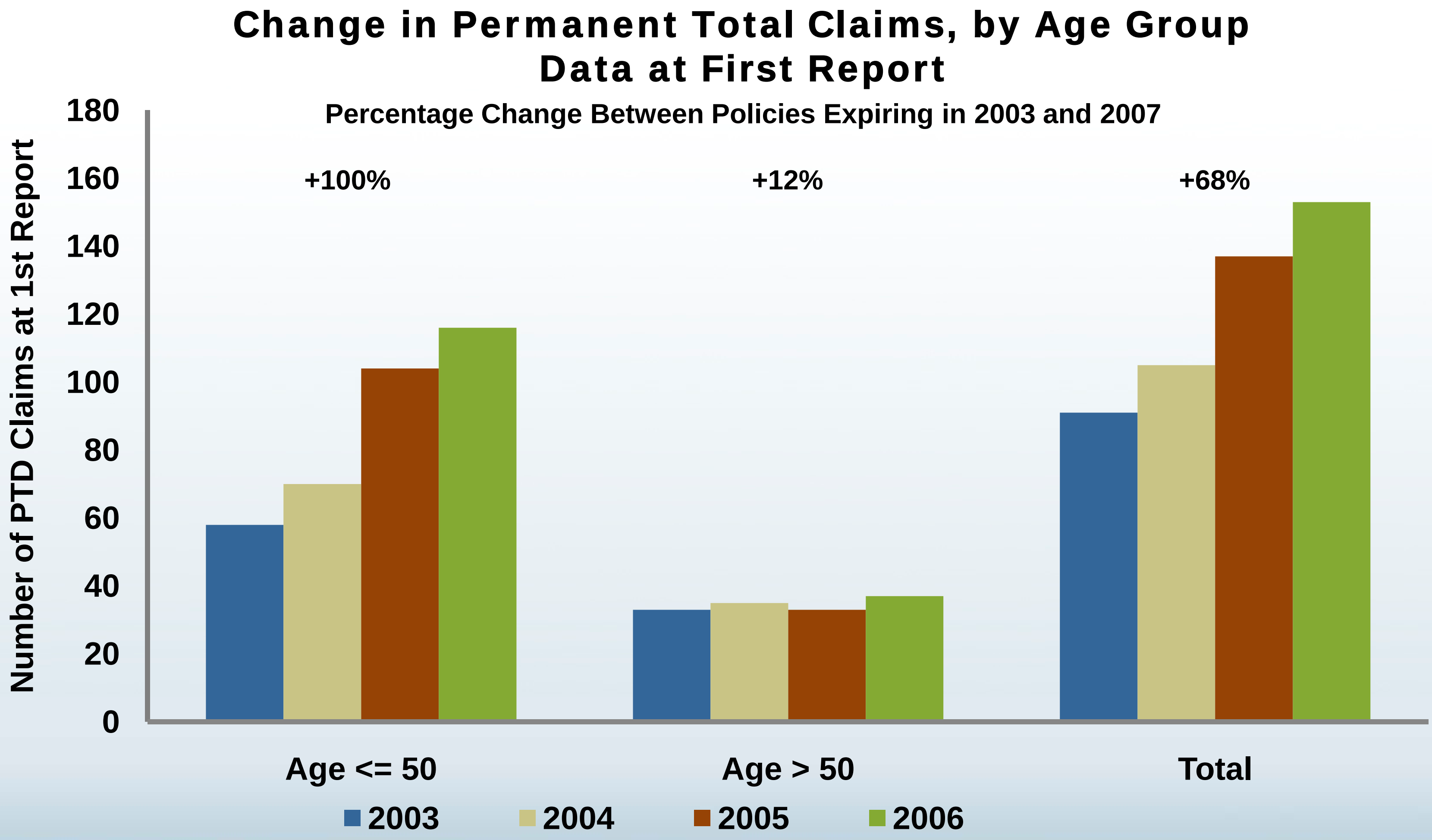
Declines in Claim Frequency Are Consistent for All Injury Types Except Permanent Total



All NCCI States

Source: NCCI Unit Statistical Plan data, First Report.

Increase in Permanent Total Claims
It Wasn't Older Workers

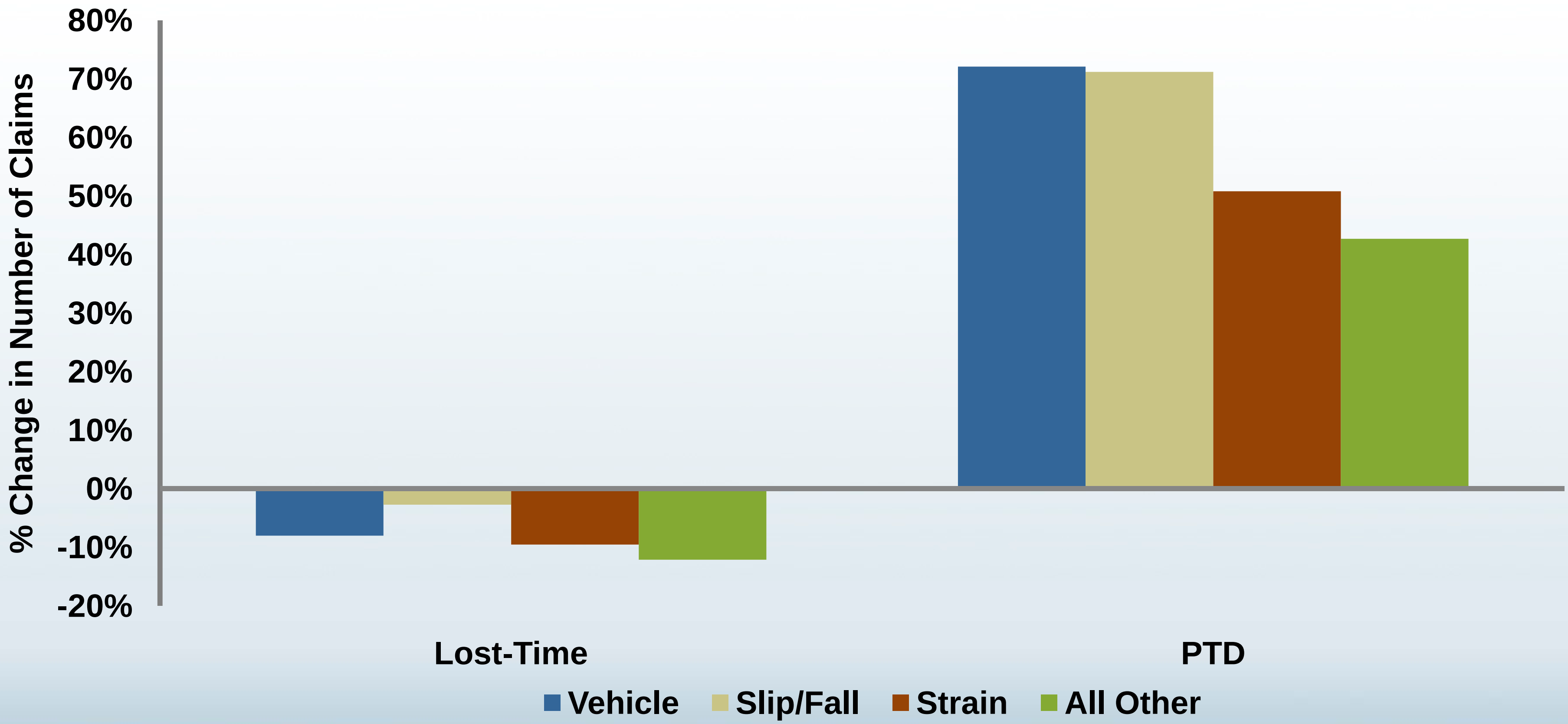


All NCCI States

Source: Sample data

Lost-Time and Permanent Total Disability Claims by Cause of Injury

Percentage Change, Data at First Report

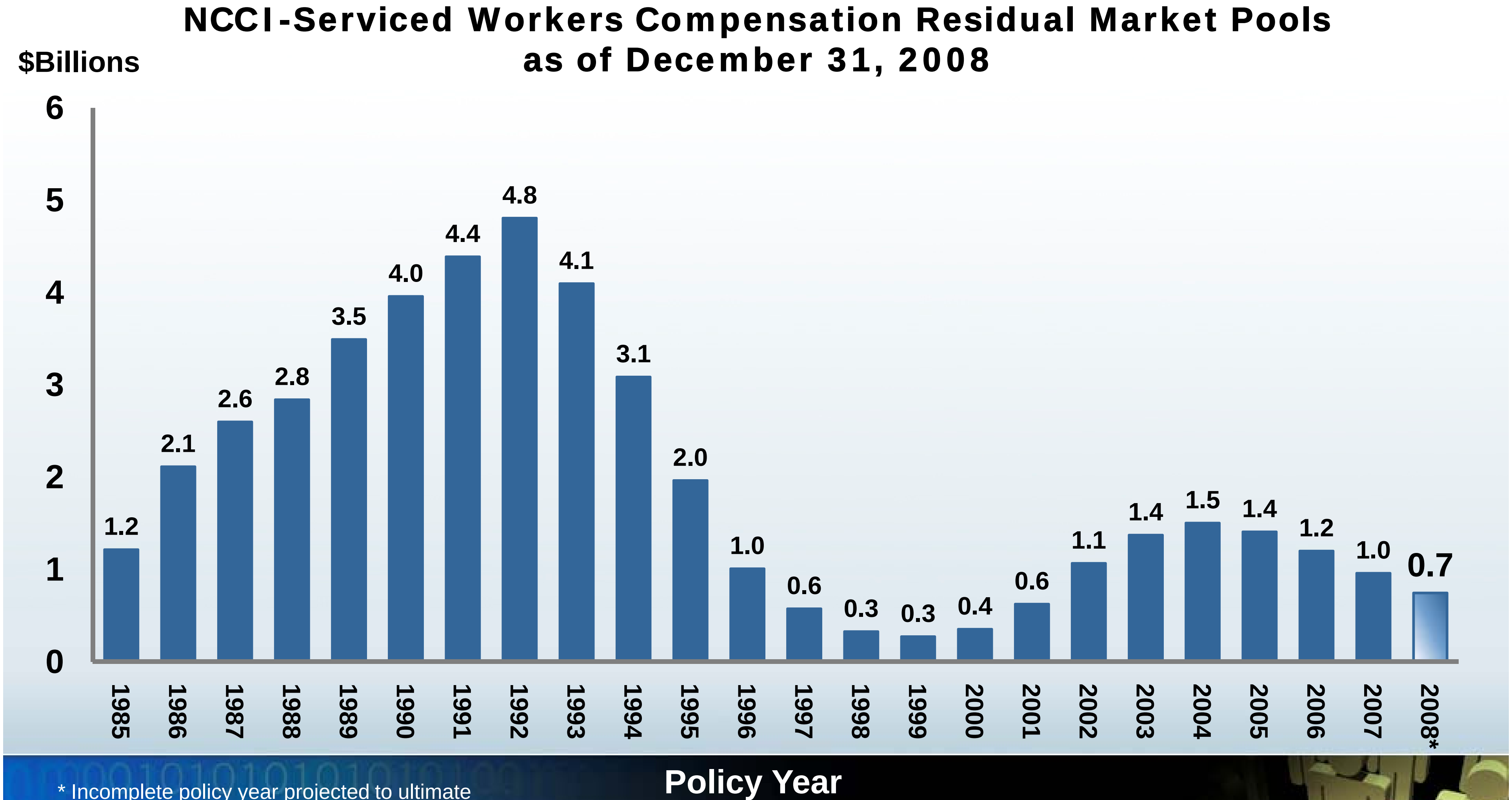


All NCCI States
Percentage change between policies expiring in 2003 and 2007
Source: NCCI Unit Statistical Plan data, First Report.

Workers Compensation

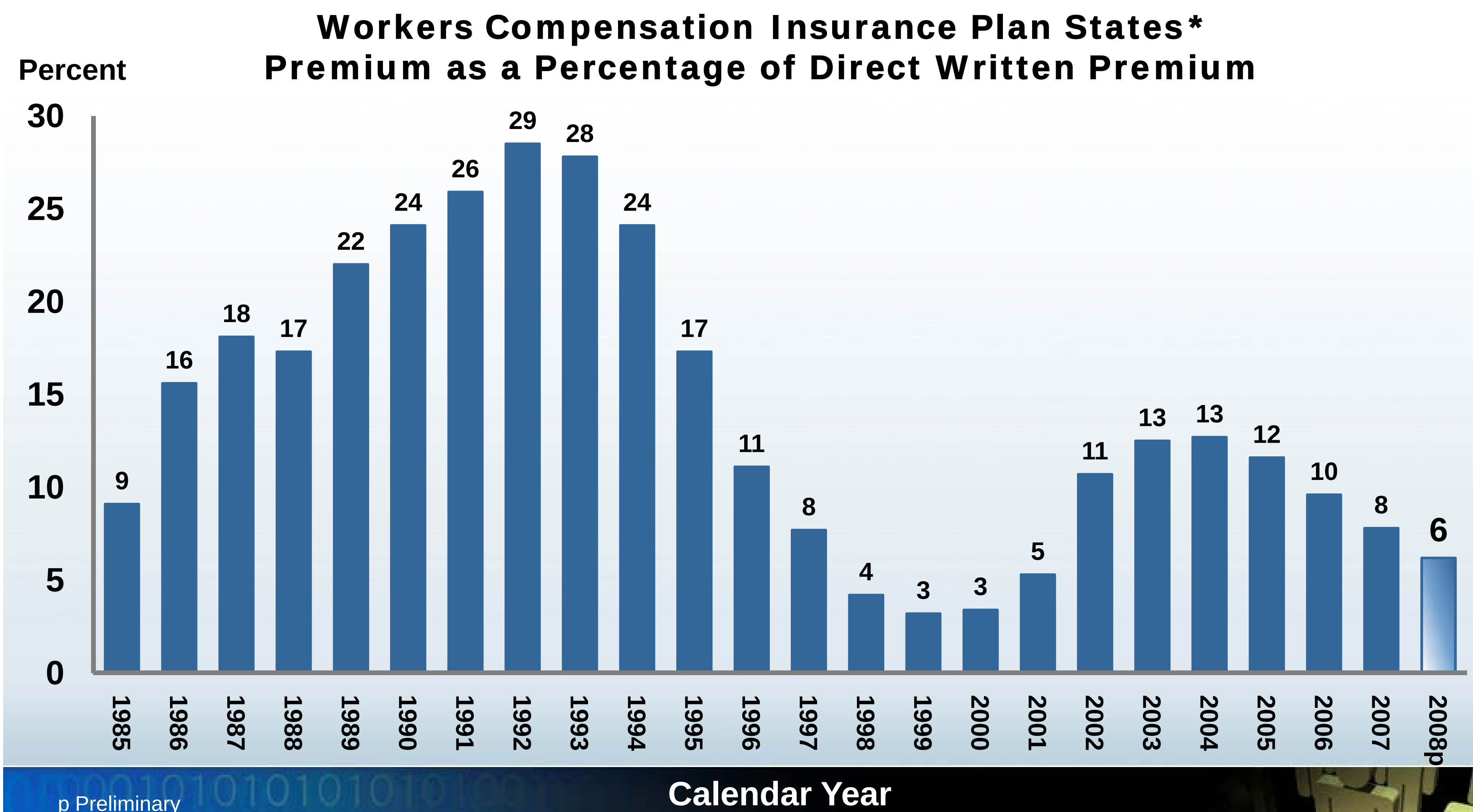
Residual Market

Workers Compensation Residual Market Premium Volume Declines



* Incomplete policy year projected to ultimate

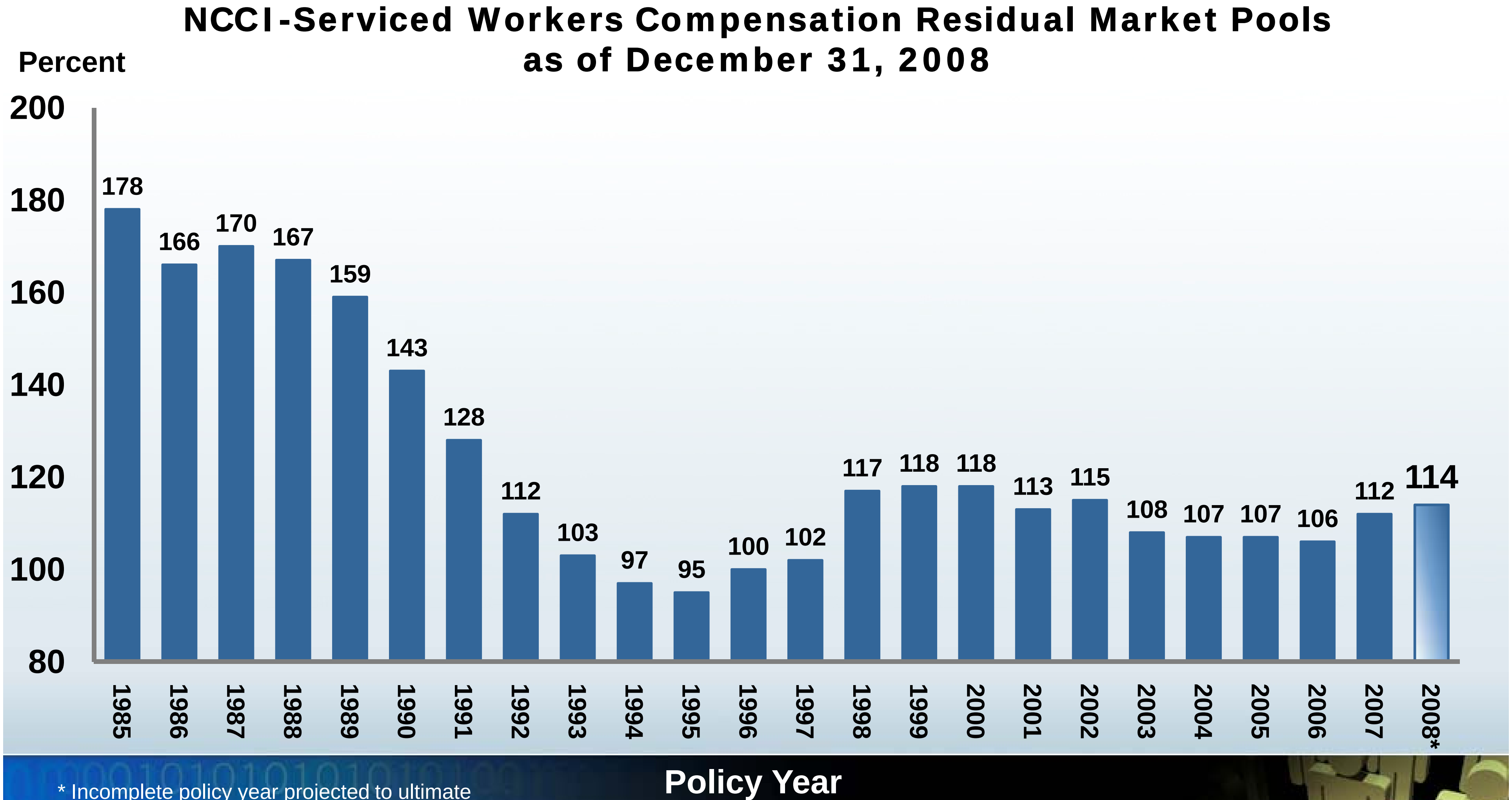
Workers Compensation Residual Market Shares Continue to Decline



p Preliminary

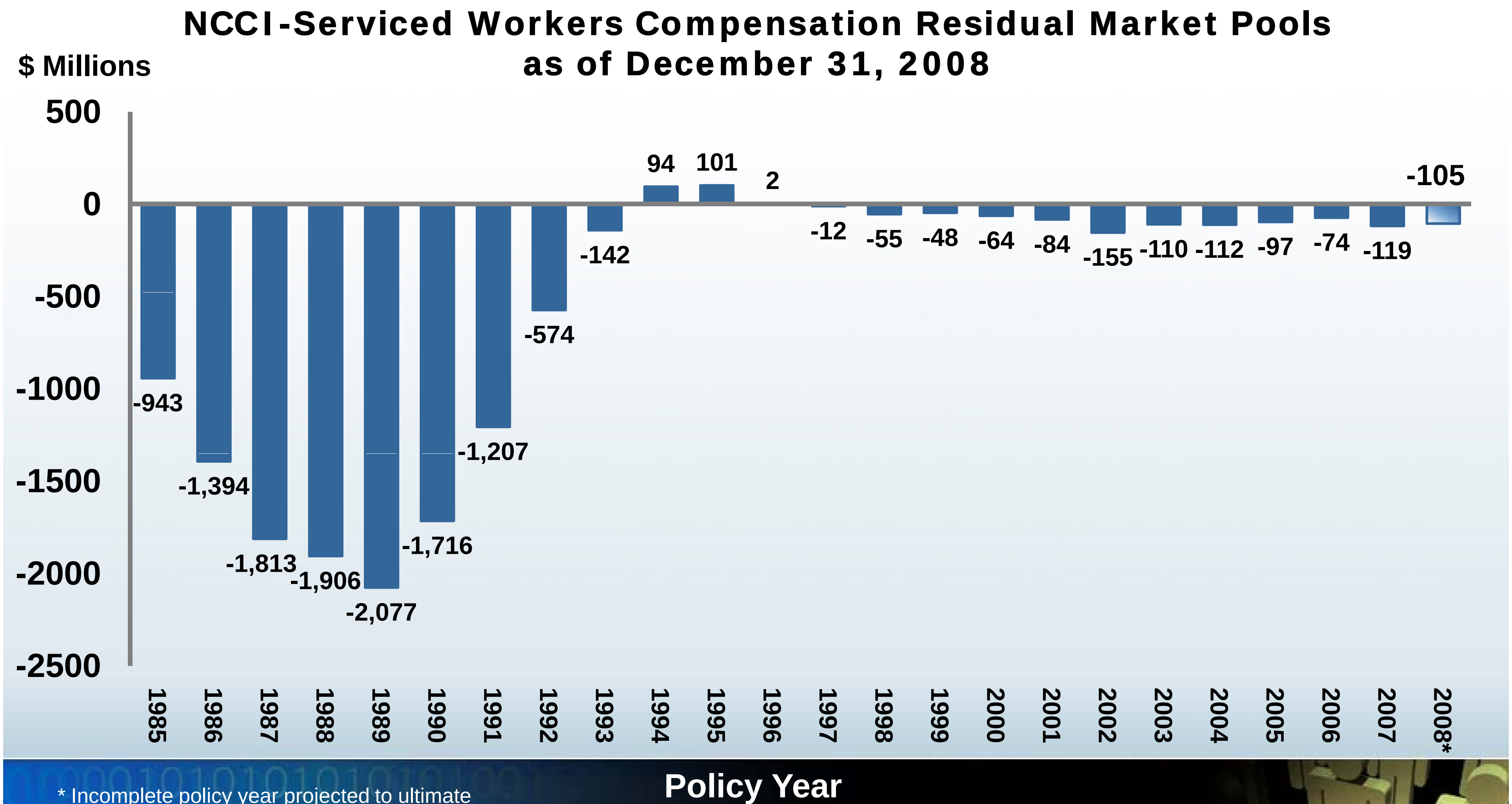
* NCCI Plan states plus DE, IN, MA, MI, NJ, NC

Workers Compensation Residual Market Combined Ratios



* Incomplete policy year projected to ultimate

Workers Compensation Residual Market Underwriting Results



* Incomplete policy year projected to ultimate

Residual Markets Depopulated

2008 vs. 2004

Size of Risk	2004	2008	Change
\$ 0 – \$ 2,499	110.9 M	103.7 M	**-6%**
\$ 2,500 – \$ 4,999	80.6 M	55.7 M	**-31%**
\$ 5,000 – \$ 9,999	106.2 M	67.7 M	**-36%**
\$ 10,000 – \$49,999	315.8 M	160.5 M	**-49%**
\$ 50,000 – \$99,999	149.4 M	56.5 M	**-62%**
\$100,000 and over	236.5 M	56.6 M	**-76%**
Total	**999.5** M	**500.8** M	**-50%**

Total estimated annual premium on policies
Includes residual market policies for:
AK, AL, AR, AZ, CT, DC, GA, ID, IL, IA, IN, KS, MS, NV, NH, NM, OR, SC, SD, VT, VA

Residual Markets Depopulated

First Quarter 2009 vs. First Quarter 2008

Size of Risk	2008	2009	Change
$ 0 – $ 2,499	26.3 M	20.1 M	**-24%**
$ 2,500 – $ 4,999	15.9 M	10.8 M	**-32%**
$ 5,000 – $ 9,999	21.9 M	12.6 M	**-43%**
$ 10,000 – $49,999	53.8 M	33.0 M	**-39%**
$ 50,000 – $99,999	18.6 M	11.7 M	**-37%**
$100,000 and over	20.7 M	11.5 M	**-45%**
Total	**157.2** M	**99.6** M	**-37%**

Total estimated annual premium on policies
Includes residual market policies for:
AK, AL, AR, AZ, CT, DC, GA, ID, IL, IA, IN, KS, MS, NV, NH, NM, OR, SC, SD, VT, VA

Current Topics of Interest

NCCI Developments in Class Ratemaking Methodology

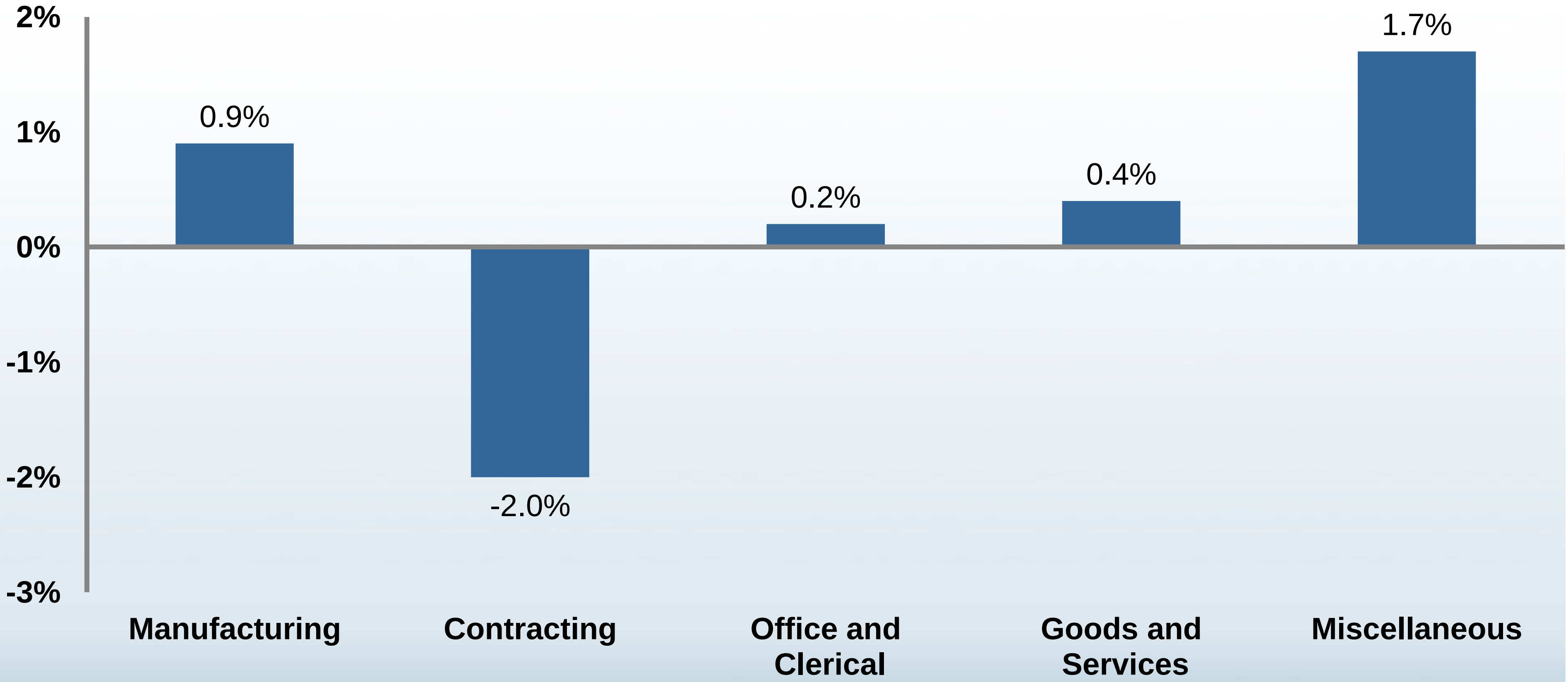
- NCCI conducted a comprehensive review of all class ratemaking methodologies
- The review concluded in August 2008
- The goal of NCCI's new class ratemaking methodology is to improve accuracy, class equity, and loss cost stability from year to year
- The new methodology will be in NCCI loss cost filings effective October 1, 2009 and subsequent

Class Ratemaking Changes

- Lower loss limits
- Revised loss development approach using injured part of body
- Medical development differentiated between likely to develop and not likely to develop for reports 1 through 5
- Replaced use of serious and non-serious partial pure premiums with indemnity partial pure premiums
- Revised excess loss treatment to incorporate ELPPFs
- Revised industry group differentials using new methodology
- Adjusted class credibility to accommodate new partial pure premiums

Industry Group Loss Cost Changes New vs. Prior Method

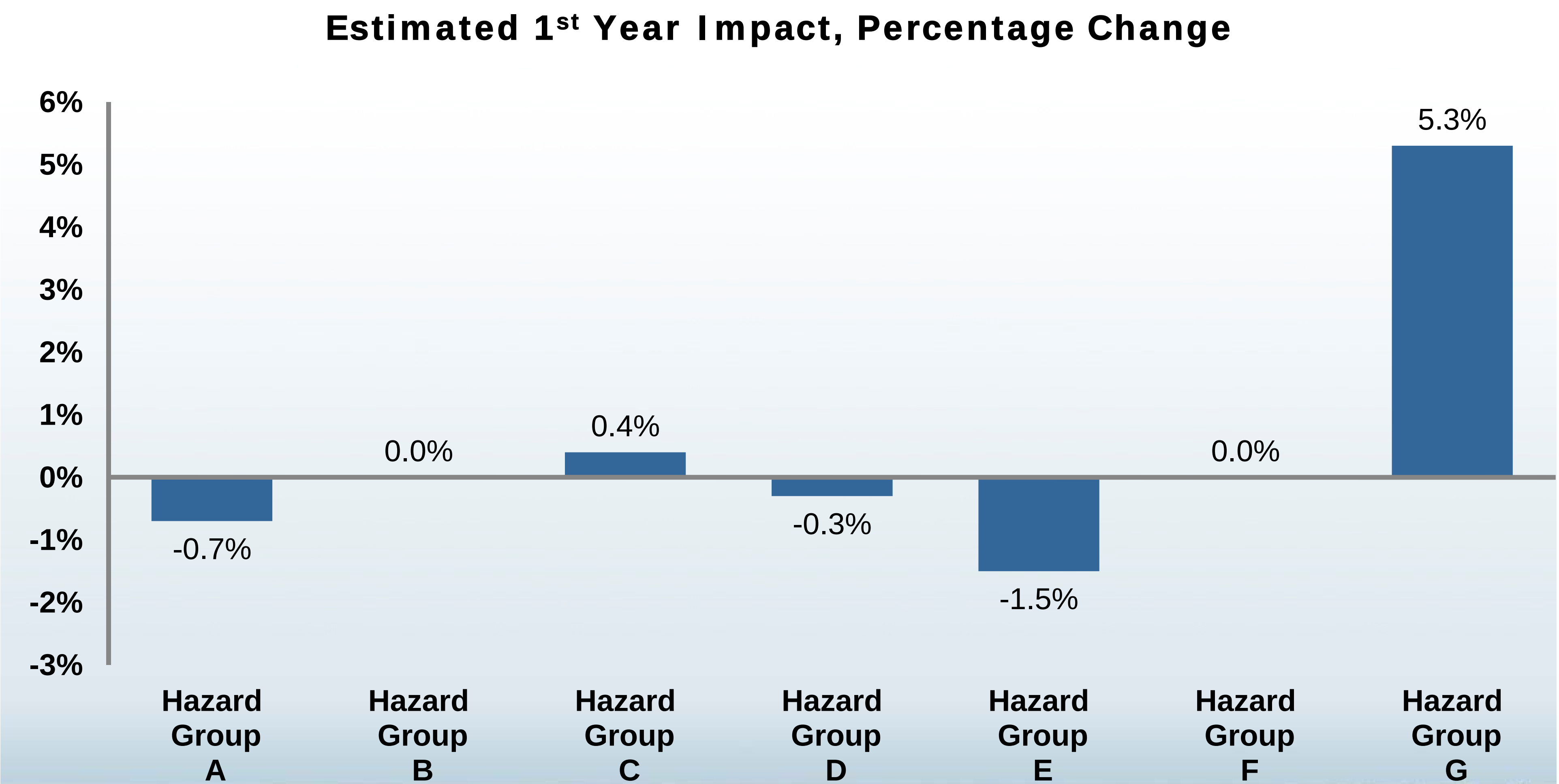
Estimated 1st Year Impact, Percentage Change



Percentage change impact in loss costs due to new class ratemaking methodology
Note: Results exclude F-Class and Maritime class codes

Source: NCCI analysis

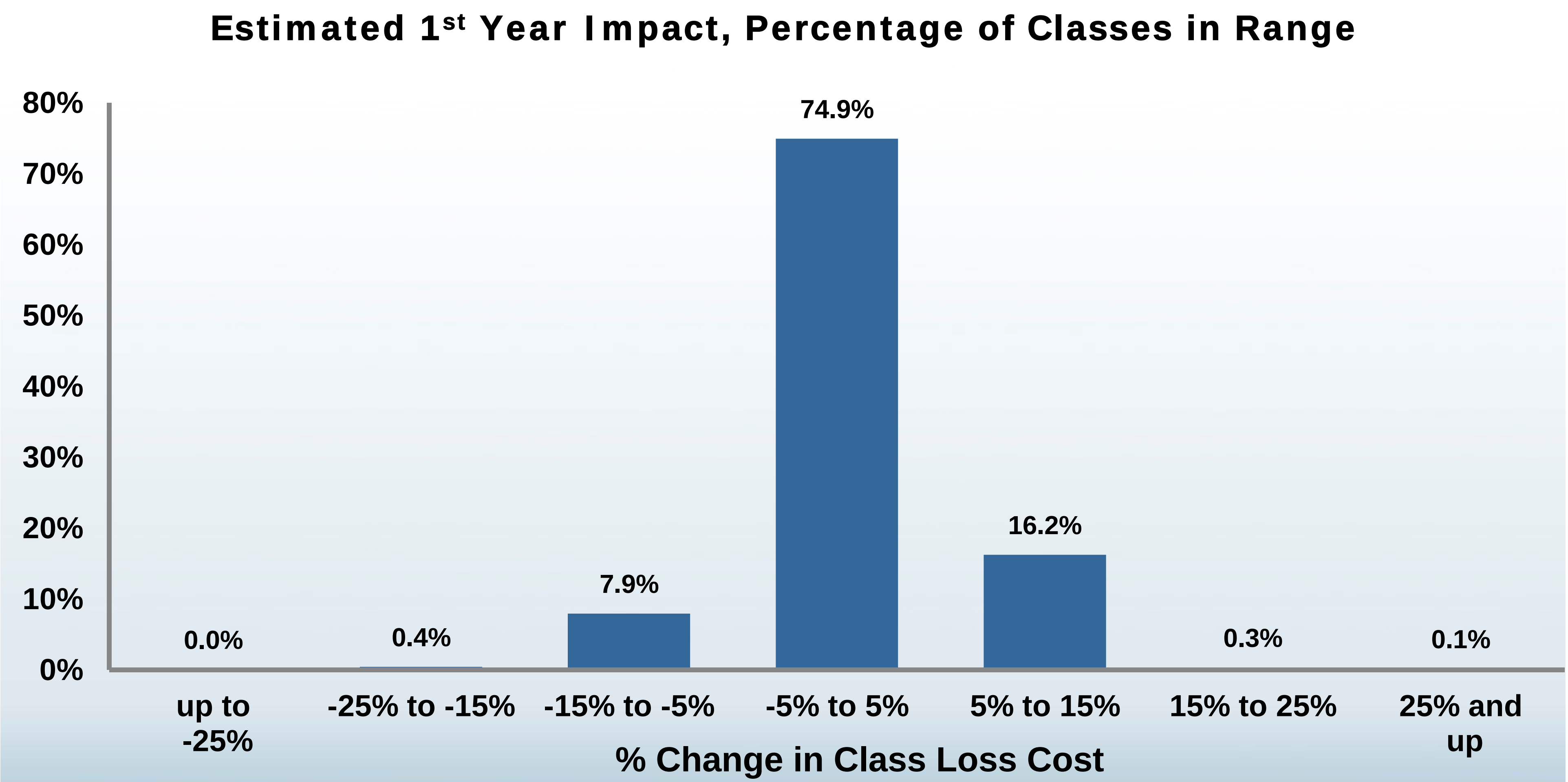
Hazard Group Loss Cost Changes New vs. Prior Method



Percentage change impact in loss costs due to new class ratemaking methodology
Note: Results exclude F-Class and Maritime class codes

Source: NCCI analysis

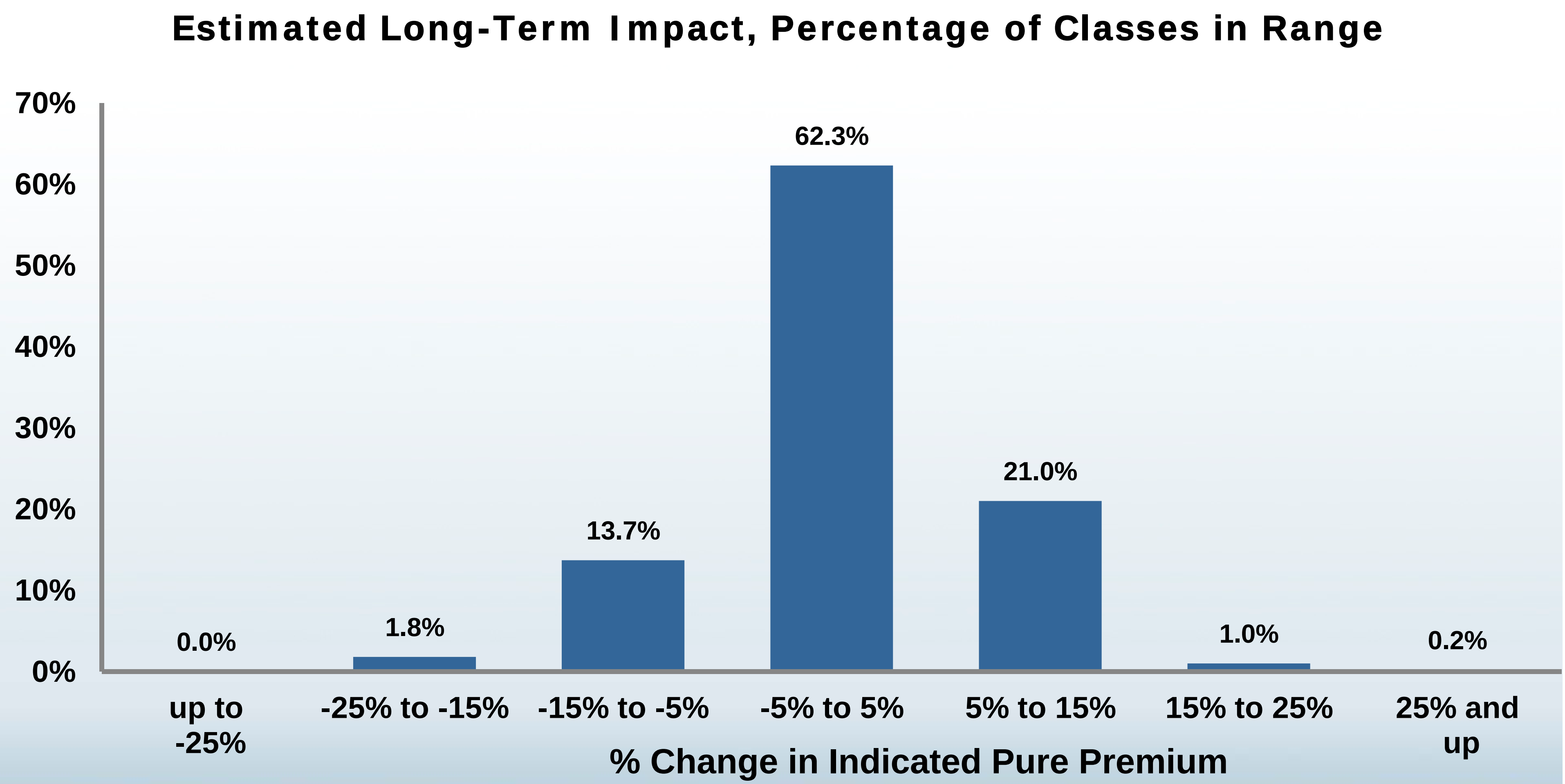
Distribution of Class Loss Cost Changes New vs. Prior Method



Percentage change impact in loss costs due to new class ratemaking methodology
Note: Results exclude F-Class and Maritime class codes

Source: NCCI analysis

Distribution of Changes: Large Class Codes, New vs. Prior Method



Percentage change impact due to new class ratemaking methodology for classes with credibility greater than 50%
Note: Results exclude F-Class and Maritime class codes
Both Indemnity and Medical Credibility greater than 50%
Source: NCCI analysis

Anticipated Benefits of New Class Ratemaking Methodology

- Equity
  - New loss development using injured part of body
  - Medical development for likely and not likely
  - Expected excess by hazard group
  - Revised industry group calculations
- Stability
  - Lower loss limits
  - New loss development using injured part of body
  - Expected excess by hazard group
  - Revised industry group calculations
  - Revised credibility formulae

Experience Rating Plan Methodology Review

- Experience Rating Plan in midst of three-year review
- Excellent results in prior years' performance testing
- Number of years in the plan will remain the same
- Progress to date includes:
  - Review of performance by Hazard Group
    - Suggests that credibility should be modestly increased
  - Review of single vs. multiple split point options
    - We will maintain a single split point
  - Methodology for determining primary and excess credibility
    - We will use a Bayesian statistical approach

Concluding Remarks

In Summary

Positives

- Industry's Capital position
- WC Underwriting results
- Frequency continues to decline
- Residual market depopulation continues

Negatives

- Low investment returns continue to put pressure on underwriting results
- Potential reform erosion
- Medical costs still above inflation
- Uncertain political fallout from federal action
- Underwriting cycle

Questions and More Information

Questions on the State of the Line presentation?
E-mail us at stateoftheline@ncci.com

Download the complete presentation materials and watch a video overview of the State of the Line at **ncci.com**

Deloitte.

Ohio Bureau of Workers' Compensation

Drug-Free Workplace Program Review

Deloitte Consulting LLP
February 2010

Audit.Tax.Consulting.Financial Advisory.

Contents

Background

Current Drug-Free Workplace Program

The Bureau of Workers' Compensation ("BWC") introduced a Drug-Free Workplace Program ("DFWP") in 1997 to help employers establish a safer and more cost effective workplace. As an incentive, participating employers may be eligible for a discount on their premiums of up to 20% in addition to individual or group experience modification factors.

Future Vision of Drug-Free Workplace Program

BWC envisions the future DFWP to be an effective loss prevention program directed at:

1. Reducing the cost of workers' compensation to employers;
2. Promoting occupational safety and health for workers by preventing and reducing the risk of workplace accidents and injuries attributed to the use and abuse of alcohol and drugs in the workplace;
3. Encouraging employers to detect and deter substance use and misuse, and to take appropriate corrective action.

To realize this vision, the program design and elements should allow BWC to measure and monitor the effectiveness of the program and make pricing adjustments based on performance analysis models.

BWC intends to describe the new program as the Drug-Free Safety Program ("DFSP"). The overall sophistication of employers (insureds) varies and therefore not all employers are able to implement the same type of DFSP. For instance, some employers are able to implement pre-employment drug screening only, whereas others are capable of performing on-going random drug testing. As the Drug-Free Safety Program may be designed to acknowledge this variety among customers, there is a potential need to vary the credit level based on the customer's ability to participate. This may have the desirable effect of encouraging a broader group of employers to participate in the program, even if they are not prepared to implement all aspects of the full program. Therefore, BWC has indicated the desire for multiple credit levels based on the customer's ability to implement varying degrees of the drug-free safety processes.

Specifically, the BWC has proposed that the new DFSP consist of two levels:

- Basic Program Level
- Advanced Program Level

Both program levels include a safety element that aims to assist employers participating in the program with their accident/injury prevention and risk reduction efforts. For example, the safety measure includes:

- Online Safety Self-Assessment
- Online Accident Analysis Training for Supervisors
- Online accident reporting
- BWC's Safety Services will be available upon request or as indicated (increasing loss ratios, injury trends, inadequate accident analysis, catastrophic claim, fatality, etc.)
- Annual employee substance awareness training, content identified by BWC (could RFP development of BWC-offered online courses)
- Annual supervisor training, content identified by BWC, including conducting accident investigations

To facilitate program implementation, the safety element components including the safety assessment, supervisor accident analysis and accident reporting will be designed to be completed online.

Both program levels are, generally, similar to the current DFWP and include written policy, employer education, supervisor skill-building training, drug testing, and employee assistance. The advanced level builds upon the basic level with additional elements, including:

- Developing a safety action plan based on the safety self-assessment
- Conducting random drug testing for 25% of the workforce
- Participating employers agree not to terminate employees upon first positive drug test

Analysis

BWC Analysis

BWC reviewed two sets of data for companies that completed participation in the DFWP in the periods 2002-2006 and 2003-2007. The analysis included reviewing frequency, severity and loss ratio data with comparisons to two similar groups of companies (control groups) that did not participate in the DFWP. BWC separated the selected DFWP group and Control policies based on industry groups, whether or not a policy was group-rated, and various payroll size ranges. BWC's original analysis consisted of 232 policies for DFWP participants and 232 policies in the control group. The 232 policies in the selected DFWP group included employers who had participated in the DFWP program between 2002 and 2006, but did not participate between 1999 and 2001 nor did they participate from 2007 to 2009. The two groups of policyholders were chosen by BWC to represent similar types of employers in an attempt to minimize any bias that may exist when comparing employers that may be of various sizes, industries, organization types, resources, and levels of sophistication.

At Deloitte's suggestion, BWC subsequently analyzed a larger group of DFWP participants and a larger control group based on participation in the program from 2003 to 2007. This produced larger number of policies, 2,516. Similar metrics were produced to those described above for the 2002 to 2006 group. BWC produced loss ratio and frequency results for these larger study groups of cohorts as well.

Deloitte Analysis

Deloitte Consulting was asked to recommend premium credits for the two levels (Basic and Advanced) envisioned for the new program. Our analysis, like BWC's, considered loss ratios between the various study groups. One difference in the analysis, however, is that BWC used final premium as the basis for the metrics it considered. Final premium includes various adjustments to premium, including DFWP credits, which were stripped out of our analysis in order to analyze the two study groups on a comparable basis.

To perform our analysis, BWC provided Deloitte with the following:

- A listing of policies to include in each of the DFWP and Control cohorts
- The "PA 2009 Slippage _DB" Access database, from which we were able to extract the 2005, 2006, and 2007 year policy data for each of the policies in the two groups of cohorts
- The "Incurred Claim Costs as of 6-30-2009" Access database, from which we were able to extract the 2005, 2006, and 2007 year loss data for each of the policies in the two groups of cohorts

Our process was to analyze the loss ratios for the two cohorts by year and in total considering both base premium and experience modification adjusted premium (standard premium). We separated both cohorts of policies by those who are base rated ("BASE"), individually experience rated ("EXP"), group rated ("GROUP"), One Claim Program policies ("OCP"), or those with retrospective policies ("RETRO"). Our analysis considers only individually experience rated policies. This category had the largest standard premium. We did not include the other policy categories. The second largest category based on standard premium is group rated policies. We note that many group rated policies would include a lower group experience modification factor (i.e. more discount in the group rated premium) than would be applicable from an individual experience modification factor for the same risk.

Base premium was determined as the product of payroll by class code and base rate by class. The standard premium additionally reflects any applicable experience modification factor. Neither premium includes other adjustment factors or discounts for the current DFWP or other safety programs. The loss amounts are based on incurred losses as of June 30, 2009. The loss ratio for each cohort was calculated by dividing the group's incurred loss by its premium. We considered both undeveloped incurred losses and developed incurred losses.

Developed incurred losses are based on incurred losses as of June 30, 2009 multiplied by a factor to project these losses to their ultimate value.

Results

Table 1 below shows a summary of undeveloped loss ratios for individually experience rated employers based on standard premium (payroll multiplied by base rate multiplied by experience modification factor).

Table 1 - Undeveloped Loss Ratios to Standard Premium - Individually Experience Rated Employers

	2005		2006		2007		2005-2007	
Basis	**DFWP**	**Control**	**DFWP**	**Control**	**DFWP**	**Control**	**DFWP**	**Control**
Undeveloped Losses, Standard Premium	33%	35%	29%	29%	18%	22%	27%	28%

The loss ratios in Table 1 show different results for the 2005-2007 years. The DFWP cohort has had a lower three year loss ratio than the Control cohort.

Table 2 below shows a summary of developed loss ratios for individually experience rated employers based on standard premium.

Table 2 - Developed Loss Ratios to Standard Premium - Individually Experience Rated Employers

	2005		2006		2007		2005-2007	
Basis	**DFWP**	**Control**	**DFWP**	**Control**	**DFWP**	**Control**	**DFWP**	**Control**
Developed Losses, Standard Premium	61%	65%	63%	62%	46%	55%	57%	60%

Similar to Table 1, the loss ratios in Table 2 show that the DFWP cohort has had a lower three year loss ratio than the Control cohort.

Tables 3 and 4 summarize the data underlying Tables 1 and 2. For example, for an individual experience rated DFWP policy, the undeveloped standard loss ratio for 2005 is $34,086,802 / $103,313,932 which is approximately equal to 33%, as shown in the first column of table 2a. Tables 3 and 4 also show the number of policies and amount of premium and loss for each rating group in each year. As noted above, we believe that the individual experience rated policies is the only rating group n the study cohorts from which to draw reasonable conclusions.

Table 3 - DFWP Policy Data

Rating Group	Policy Count	Standard Premium	Incurred Loss	Policy Count	Standard Premium	Incurred Loss
	2005			2006		
BASE	92	615,798	641,685	91	626,309	288,882
EXP	861	103,313,932	34,086,802	723	89,122,298	25,988,299
GROUP	1,526	44,835,887	23,947,986	1,676	61,368,006	28,951,943
OCP	12	188,820	70,294	20	294,152	12,666
RETRO	5	4,007,075	1,204,909	6	4,581,872	2,301,891
Total	**2,496**	**152,961,511**	**59,951,676**	**2,516**	**155,992,637**	**57,543,681**
	2007			2005-2007		
BASE	80	525,986	328,492	263	1,768,093	1,259,059
EXP	635	83,835,780	15,204,604	2,219	276,272,010	75,279,706
GROUP	1,770	69,721,039	25,705,429	4,972	175,924,932	78,605,358
OCP	26	403,673	4,439	58	886,644	87,399
RETRO	5	4,216,770	1,435,153	16	12,805,717	4,941,953
Total	**2,516**	**158,703,247**	**42,678,117**	**7,528**	**467,657,395**	**160,173,475**

Table 4 - Control Group Policy Data

Rating Group	Policy Count	Standard Premium	Incurred Loss	Policy Count	Standard Premium	Incurred Loss
	2005			2006		
BASE	244	523,330	204,324	238	499,064	14,255
EXP	658	70,553,998	24,673,555	602	68,246,099	19,526,732
GROUP	1,580	38,464,452	30,626,032	1,633	47,037,251	27,784,335
OCP	4	24,745	-	16	131,885	53,543
RETRO	13	6,049,808	932,960	13	7,350,047	1,436,832
Total	**2,500**	**115,616,333**	**56,436,871**	**2,502**	**123,264,346**	**48,815,698**
	2007			2005-2007		
BASE	241	598,050	236,723	724	1,620,444	455,302
EXP	591	75,762,465	16,296,152	1,851	214,562,562	60,496,440
GROUP	1,640	51,234,510	18,124,107	4,853	136,736,213	76,534,474
OCP	19	159,677	315,937	39	316,307	369,479
RETRO	11	6,644,828	1,608,116	37	20,044,684	3,977,908
Total	**2,502**	**134,399,529**	**36,581,034**	**7,503**	**373,280,209**	**141,833,603**

Using the standard premium loss ratios shown in Table 1 for the individually experience rated policies, we can calculate the performance difference between the 2 cohorts as the ratio of the DFWP loss ratio to the Control loss ratio minus 1. Table 5a shows this calculation by year and in total over three years based on the undeveloped loss ratios from Table 1:

Table 5a - DFWP vs. Control Group - Individually Experience Rated Policies (Based on Undeveloped Loss Ratios)

Year	DFWP	Control	Performance Difference	
2005	33%	35%	-6%	
2006	29%	29%	2%	
2007	18%	22%	-16%	
Total	**27%**	**28%**	-3%	*=(27% / 28% - 1)*

For the individually experience rated group, using the undeveloped loss ratio to standard premium, the performance differences by year varies from a 16% credit to a 2% debit. In total, for the 3 years, the average performance difference is 3% better for the DFWP cohort vs. the control group.

Table 5b shows the performance differences for individually experience rated policies based on the developed loss ratios from Table 2:

Table 5b - DFWP vs. Control Group - Individually Experience Rated Policies (Based on Developed Loss Ratios)

Year	DFWP	Control	Performance Difference	
2005	61%	65%	-6%	
2006	63%	62%	2%	
2007	46%	55%	-16%	
Total	**57%**	**60%**	-5%	*=(57% / 60% - 1)*

The performance differences by year are the same in Table 5b as 5a. This is due to the fact that the same development factors are used for the DFWP and Control groups, resulting in no change to the relationship between developed and undeveloped loss ratios for a given year. Overall however, there is a larger performance difference by using the developed loss ratios. The 2007 year has the largest performance difference of the three years (16%). On a developed basis, the 2007 year has a higher impact on the three year average as compared to the undeveloped loss ratios in Table 5a. The 2007 year is the least mature of the three years included in this analysis, and therefore small differences in the reported loss ratio for this year can have a relatively large impact on the indicated performance difference.

The three year average performance difference from Tables 5a and 5b are 3% and 5% respectively. We used these results to derive our recommend range of credits for the Basic Program. We do not believe that any one year's result is sufficiently credible to rely upon, particularly the most recent year which is the least mature.

Our conclusions and recommendations are based on the comparisons for the rating group that contained individually experienced rated policies using standard premiums. The data available for the group rated policies produces inconsistent results using base premium and the standard premium for group rated policies were significantly affected by the very high group rating discounts applied to their standard premium. Also, there is some concern that it is more difficult to isolate the impact of DFWP for the cohorts of group-rated policies versus other characteristics of group rated policies. Failure to isolate such other characteristics may lead to misestimating the impact of DFWP because of the difficulty in designing an appropriate control group and producing credible results.

Comparisons to Other States

A recent survey found that 12 states offered a premium discount for employers with a drug free workplace program or a safety program which included drug-free incentives. Of the 12 states, Ohio’s current maximum credit of 20% was the largest credit. The next largest was only 7.5%, which was only a single state (Georgia). All other states offered a 5% discount (one state included a discount but the amount was not indicated).

Recommendations

Conclusion

It is our recommendation, based on the results of our analysis, as well as the information available regarding other states that the BWC offer a premium credits for participants in the Basic Program of between 3% and 5% and an additional 2% to 3% premium credit for participants in the Advanced Program.

Recommendation:		
Include a 2 level premium discount structure, with the following range of possible credits.	Basic	3% to 5%
	Advanced	Additional 2% to 3%
	Maximum	5% to 8%

We believe this recommended premium credit structure would be reasonable for the current program and bring the credits more in line with those offered by other states as well as the average indicated performance difference from the experience study. We also believe this to be an appropriate performance target for BWC to use as a baseline as the BWC develops the premium credit applicability structure in the new DFSP program.

We also recommend that BWC begin to track drug or substance abuse related accidents so as to better be able to analyze the impact of the future program on workplace safety. We believe that in future analysis, after collection of such data, the BWC would be able to directly analyze the frequency and severity of those claims which are a direct or indirect result of drug or substance abuse. This would provide greater insight into the effectiveness of the program and a more accurate analysis of the premium credits.

Conditions and Limitations

In evaluating whether the conclusions from our analysis are reasonable, it is necessary to project future results from past loss data. It is certain that actual future losses will not produce results exactly as estimated and may, in fact, vary significantly from the projections. We express no warranty nor imply that such variance will not occur. We believe, however, that the actuarial methods and assumptions used in our analysis are reasonable.

Additionally, our recommended premium credits are based on data available from the current DFWP and extrapolated to a new program, the DFSP, which has not yet been implemented. We believe our estimates based on the current system are reasonable. However, the results of the new program could vary significantly for those recommend in this analysis.

Ohio Bureau of Workers' Compensation Actuarial Committee

Pricing Analysis for Proposed Drug-Free Safety Program

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Deloitte Consulting LLP

February 2010

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Drug-Free Safety Program

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Introduction:

- BWC is implementing changes to its Drug-Free Workplace Program
- The new program is to be renamed the Drug-Free Safety Program (“DFSP”)
- The DFSP will consist of two levels, *Basic* and *Advanced*
- BWC asked Deloitte Consulting to recommend premium credits for the Basic and Advanced levels
- This report includes a description of Deloitte Consulting’s analysis and recommendations

Drug-Free Safety Program

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Drug-Free Credits in Other States:

- Deloitte Consulting researched credits offered in other states for Drug-Free programs
- 12 states were identified with information on Drug-Free credits
- These states include AL, AR, FL, GA, HI, ID, MI, OH, SC, TN, VA, and WA
- For states other than Ohio, credits ranged from **5% to 7.5%**, with most states offering 5%
- Ohio has offered Drug-Free credits as high as **20%**

Data Provided:

- Data was provided for two cohorts of employers:
  - **Cohort 1**: participants in the Drug-Free Workplace Program ("DFWP") from 2003-2007 (2,516 employers); and
  - **Cohort 2**: a control group that did not participate in the DFWP. This groups otherwise has similar characteristics to Cohort 1 and also consists of 2,516 employers.
- Deloitte Consulting's analysis used the following data for both cohorts:
  - Policy years 2005-2007 payroll by manual class;
  - Policy years 2005-2007 base rates by manual class;
  - Policy years 2005-2007 experience modification factors by employer;
  - Policy years 2005-2007 incurred losses by employer as of June 30, 2009

Drug-Free Safety Program

Deloitte.

Review & Analysis:

- Both cohorts included employers in the following categories:
  - Base-rated
  - Individually-experience rated
  - Group rated
  - One Claim Program participants
  - Retro rated
- Based on a review of the data, Deloitte Consulting selected the **individually experience rated** category as the most indicative of credits for purposes of pricing the DFSP credits
- The rationale for selecting this category is that individually experience rated employers have significantly higher standard premium compared to the other categories, and therefore have higher credibility. Results in this category are also less likely to be skewed by other factors such as group experience rating modification factors ("e-mod")

Drug-Free Safety Program

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Review & Analysis (continued):

- Deloitte Consulting compared the policy years 2005-2007 loss ratios for Cohort 1 versus Cohort 2 under two approaches:
  - **Reported loss ratios:** (paid losses + MIRA II case reserves as of June 30, 2009) / Standard Premium
  - **Developed loss ratios:** (paid losses + MIRA II case reserves as of June 30, 2009) * Loss Development Factor / Standard Premium

Note:

1. Standard Premium = payroll * base rate * e-mod
2. Note: Loss Development factors were derived from Deloitte Consulting's Draft unpaid claim ("reserve") analysis as of September 30, 2009 and are intended to develop reported losses to their estimated ultimate value.

Drug-Free Safety Program

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Review & Analysis (continued):

- Results – Performance Differences between Cohorts
  - **Approach 1 - Reported loss ratios: 3% better than control**
  - **Approach 2 - Developed loss ratios: 5% better than control**

Note:

Performance differences are based on the relationship of Cohort 1 (DFWP) to Cohort 2 (Control) loss ratios results under the two approaches (1- reported loss ratio and 2-developed loss ratio).

Drug-Free Safety Program

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Deloitte Recommendations:

- Deloitte Consulting recommends the following premium credits for the DFSP:
  - Basic Level: **3% to 5% credit**
  - Advanced Level: **additional 2% to 3% credit**
- Rationale: the analysis indicates an appropriate credit under the existing DFWP program is 3% to 5%. Based on discussions with BWC Management, the existing DFWP program is similar to the Basic Level envisioned for the DFSP
- Therefore the recommended credit for the Basic Level is consistent with the results of the analysis, 3% to 5%

Drug-Free Safety Program

Deloitte.

Deloitte Recommendations:

- The Advanced Level, as envisioned by BWC, is expected to provide additional risk mitigation, therefore an additional 2% to 3% credit is Deloitte Consulting's recommendation for this Advanced Level.
- The combined recommended credit for the Basic and Advanced Levels is **5% to 8%**, consistent with observed credits in other states.
- Deloitte Consulting has been informed by BWC that the proposed credits will be **4%** for the Basic Level and an additional **3%** for Advanced, consistent with Deloitte Consulting's recommendations.

Deloitte.

Ohio Bureau of Workers' Compensation

Group Retrospective Rating – Loss Development Factor Review

Deloitte Consulting LLP
February 2010

Contents

Background

Group Retrospective Rating Program

The Bureau of Workers' Compensation ("BWC") launched a Group Retrospective Rating Program ("Group Retro") for the policy year starting July 1, 2009. The program allows employers to form groups that will be evaluated 12, 24, and 36 months after the policy year end. At each evaluation, a retrospective premium will be calculated for the group based on the projected ultimate claims costs for the retro year. Refunds or assessments will be distributed to the group based on the results of the retrospective premium calculation.

An important element of the retrospective premium calculation is the Loss Development Factor ("LDF"). The Retro Premium Calculation is as follows:

Retro Premium = (Basic Premium Factor x Standard Premium) + (PTD, Settled, Death Losses) + (LDF x All Other Losses)

The LDF's are used to account for claims costs that are unaccounted for in the paid losses and case reserves. These may include incurred but not reported and additional loss development from existing claims. There will be a Loss Development Factor developed for each policy year and each retro evaluation period. Oliver Wyman created draft LDFs for the July 1, 2009 Group Retro Program.

BWC asked Deloitte to review Oliver Wyman's recommended LDF's for the July 1, 2009 Group Retro Program. Our analysis and recommendations are described in this report. BWC asked Deloitte to consider LDF's for both Private Employers ("PA") and Public Taxing Districts ("PEC").

Features of BWC's Group Retrospective Rating Program

BWC's Group Retro Program includes certain features which need to be considered in the analysis of the LDF's. These features include the following:

- Incurred losses are limited to $500,000 per claim before applying the LDF.
- The LDF is not applied to Death claims.
- The LDF is not applied to Permanent Total Disability ("PTD") claims.
- The LDF is not applied to settlements. A settlement could relate to the entire claim or a feature of the claim (indemnity or medical). When only a portion of the claim is settled, that portion is removed from the development while the unsettled portion of the claim will be developed to the extent the total value of the claim is less than $500,000.
- For purposes of rating individual employers or groups of employers, BWC excludes certain types of losses, referred to as "surplus losses". Surplus losses are removed from the retro premium calculation and are charged back to employers through the basic premium loading.
- The projected losses underlying the group's standard premium have been discounted at 4.5%. The group retro program has been designed such that the impact of discounting losses is intended to be recognized in the loss development factors.

Analysis

Oliver Wyman Analysis

BWC provided Deloitte with an exhibit prepared by Oliver Wyman which showed a derivation of LDF's for the PA group retro program. Oliver Wyman's recommended LDF's are:

- 12 months after policy year-end: 3.280
- 24 months after policy year-end: 2.604
- 36 months after policy year-end: 2.317

While no report was provided describing the methodology, Deloitte has the following observations on Oliver Wyman's analysis:

- The starting point is standard premium.
- The methodology is to estimate implied loss development factors based on targeted losses divided by incurred losses for various policy years.
- Group-rated employers are excluded from the analysis.
- Surplus losses are estimated to represent 17% of total losses.
- An adjustment of 25% adjustment is made to the implied loss development factors for "Reduction Due to New Rating Rules".

As no written report is available to Deloitte, Deloitte offers no opinion on Oliver Wyman's analysis.

Deloitte Analysis

Deloitte Consulting's methodology is based on the following process:

1. Estimate unlimited discounted ultimate losses by accident year (includes both group and non-group claims)
2. Limit incurred losses by accident year to $500,000 per claim
3. Determine targeted losses excluding Death/PTD/Settlement claims (i.e., excluding those claims which are not developed in the retro formula)
4. Calculate implied loss development factors

Each step is described below:

Step 1: Estimate unlimited discounted ultimate losses by accident year

Unlimited undiscounted ultimate losses by accident year were estimated by Deloitte Consulting in its September 30, 2009 unpaid claims analysis. A draft report documenting this study has been provided to BWC.

Step 2: Limit incurred losses by accident year to $500,000 per claim

Deloitte was provided with a database with individual claim information as of June 30, 2009. This database was used to determine the relationship of incurred losses limited to $500,000 to unlimited incurred losses as of June 30, 2009. This relationship was applied to the actual unlimited incurred losses as of September 30, 2009 from Deloitte's unpaid claim analysis.

Step 3: Determine targeted losses excluding Death/PTD/Settlement claims

Death/PTD/Settlements are not multiplied by a LDF in the retro formula. A loss development factor is applied to the incurred losses from all other claims and the resulting developed incurred losses are added to the incurred losses limited to $500,000 and the Death/PTD/Settlements that are less than $500,000. The total of these calculations for PA or PEC should equal the discounted ultimate losses for PA or PEC from Step 1.

Step 4: Calculate implied loss development factors

Dividing targeted losses in Step 3 by incurred losses limited to $500,000 (excluding Death/PTD/Settlement claims) results in implied LDF's by accident year. These LDF's are interpolated to the ages required for the Group Retro Program. These calculations are performed separately for PA and PEC.

Note on Surplus Losses:

As mentioned above, surplus losses need to be considered in the analysis. In BWC's Group Retro program, such losses are intended to be funded by the basic premium. Surplus losses are not separately identified in the data used for Deloitte Consulting's unpaid claim analysis. Deloitte Consulting did not attempt to estimate the impact of surplus losses on the LDF's. Thus, no explicit adjustment is made for surplus losses in the determination of the LDF recommendations. The implication of using data that includes the surplus losses for the LDF analysis is that those losses would not have a significant impact on the indicated LDF's if we could split them out. At the present time, there is no alternative for the current analysis. In the future, the loss data collected for the LDF determination should provide the surplus loss data separately.

Results - PA

The exhibits below show the results of our analysis for private employers:

STEP 1 - ESTIMATE UNLIMITED DISCOUNTED ULTIMATE LOSSES BY ACCIDENT YEAR
(from 9/30/09 reserve analysis)

Accident Year	Estimated Ultimate Losses	Acc Yr 2009 Discount Factor (4.5%)	Estimated Discounted Ultimate Losses
2004	1,933,670	0.636	1,229,223
2005	1,870,518	0.636	1,189,077
2006	1,824,280	0.636	1,159,684
2007	1,826,450	0.636	1,161,064
2008	1,837,663	0.636	1,168,192
2009	1,691,761	0.636	1,075,442

STEP 2 - LIMIT INCURRED LOSSES TO $500K

	Incurred Loss Limited to 500K as of 9/30/09					
Accident Year	Total	Death	PTD	Settlements	Total Death, PTD, Settlements	Total Excl Death, PTD, Settlements
2004	1,083,006	42,878	30,755	79,911	153,544	929,462
2005	1,001,192	33,394	17,820	56,687	107,901	893,291
2006	847,429	25,770	8,532	37,176	71,478	775,951
2007	730,737	25,691	3,191	15,910	44,791	685,946
2008	610,084	18,973	1,578	1,992	22,543	587,541
2009	272,020	8,702	141	28	8,872	263,148

STEP 3 - DETERMINE TARGETED LOSSES EXCLUDING DEATH/PTD/SETTLEMENTS

Accident Year	Estimated Unlimited Discounted Ultimate Losses	9/30/09 Death, PTD, Settlements Incurred Loss Limited to $500K	Targeted Losses Excl. Death, PTD, Settlements Limited to $500K
2004	1,229,223	153,544	1,075,678
2005	1,189,077	107,901	1,081,177
2006	1,159,684	71,478	1,088,206
2007	1,161,064	44,791	1,116,272
2008	1,168,192	22,543	1,145,649
2009	1,075,442	8,872	1,066,571

STEP 4 - CALCULATE IMPLIED LOSS DEVELOPMENT FACTORS						
Accident Year	Targeted Losses Excl. Death, PTD, Settlements Limited to $500K	9/30/09 Incurred Loss Excl. Death, PTD, Settlements Limited to $500K	9/30/09 Implied Loss Development Factor	Age at 9/30/09 (Months)	Required Age	**Interpolated Loss Development Factor**
2004	1,075,678	929,462	1.157	69		
2005	1,081,177	893,291	1.210	57		
2006	1,088,206	775,951	1.402	45	48	**1.349**
2007	1,116,272	685,946	1.627	33	36	**1.565**
2008	1,145,649	587,541	1.950	21	24	**1.858**
2009	1,066,571	263,148	4.053	9		

Results - PEC

The exhibits below show the results of our analysis for public employer taxing districts:

STEP 1 - ESTIMATE UNLIMITED DISCOUNTED ULTIMATE LOSSES BY ACCIDENT YEAR
(from 9/30/09 reserve analysis)

Accident Year	Estimated Ultimate Losses	Acc Yr 2009 Discount Factor (4.5%)	Estimated Discounted Ultimate Losses
2004	302,185	0.644	194,611
2005	303,391	0.644	195,388
2006	294,239	0.644	189,494
2007	313,824	0.644	202,107
2008	320,152	0.644	206,183
2009	333,234	0.644	214,608

STEP 2 - LIMIT INCURRED LOSSES TO $500K

	Incurred Loss Limited to 500K as of 9/30/09					
Accident Year	Total	Death	PTD	Settlements	Total Death, PTD, Settlements	Total Excl Death, PTD, Settlements
2004	166,056	4,084	5,481	7,472	17,036	149,020
2005	155,910	3,762	4,519	5,347	13,628	142,283
2006	120,793	4,169	801	2,820	7,790	113,003
2007	121,487	5,435	983	986	7,404	114,083
2008	98,910	4,861	-	222	5,083	93,827
2009	57,109	1,158	-	7	1,165	55,944

STEP 3 - DETERMINE TARGETED LOSSES EXCLUDING DEATH/PTD/SETTLEMENTS

Accident Year	Estimated Unlimited Discounted Ultimate Losses	9/30/09 Death, PTD, Settlements Incurred Loss Limited to $500K	Targeted Losses Excl. Death, PTD, Settlements Limited to $500K
2004	194,611	17,036	177,575
2005	195,388	13,628	181,760
2006	189,494	7,790	181,704
2007	202,107	7,404	194,703
2008	206,183	5,083	201,100
2009	214,608	1,165	213,443

STEP 4 - CALCULATE IMPLIED LOSS DEVELOPMENT FACTORS						
		9/30/09				
	Targeted	Incurred				
	Losses	Loss				
	Excl.	Excl.	9/30/09			
	Death, PTD,	Death, PTD,	Implied			**Interpolated**
	Settlements	Settlements	Loss	Age at		**Loss**
Accident	Limited to	Limited to	Development	9/30/09	Required	**Development**
Year	$500K	$500K	Factor	(Months)	Age	**Factor**
2004	177,575	149,020	1.192	69		
2005	181,760	142,283	1.277	57		
2006	181,704	113,003	1.608	45	48	**1.510**
2007	194,703	114,083	1.707	33	36	**1.681**
2008	201,100	93,827	2.143	21	24	**2.014**
2009	213,443	55,944	3.815	9		

Recommendations

Conclusion

It is our recommendation, based on the results of our analysis, that BWC apply the following LDF's for the Group Retro rating program for PA and PEC.

RECOMMENDED GROUP RETRO LDF's

Months After Policy Year-End	Recommended PA	Recommended PEC
12	1.858	2.014
24	1.565	1.681
36	1.349	1.510

We recommend that BWC continue to track the employers who participate in the Group Retro program so that on an on-going basis, the decision can be made to re-evaluate the LDF's based on those participants rather than the entire employer base.

We also recommend that BWC consider implementing Group Retro LDF's concurrently with the overall rate recommendations for future policy years.

Lastly, we recommend that BWC reconsider the manner in which losses and expenses are reflected in the Retro Programs in the basic premium factors and LDF's. As an example, the cost to BWC of limiting losses to $500,000 could be included in the basic premium factor rather than the LDF.

Conditions and Limitations

In evaluating whether the conclusions from our analysis are reasonable, it is necessary to use projections of future results from past loss data. It is certain that actual future losses will not produce results exactly as estimated. We express no warranty nor imply that such variance will not occur. We believe, however, that the actuarial methods and assumptions used in our analysis are reasonable.

Additionally, our recommended LDF's are based on data representing all private employers and public taxing districts. It is possible that the employers who participate in the Group Retro program will have characteristics that differ from those of PA and PEC as a whole. This could influence the appropriate LDF's for the participants. However, because the program is new and there are relatively few participants, it is Deloitte's opinion that using a large population of employers as the basis for the LDF's is preferable for credibility purposes.

Ohio Bureau of Workers' Compensation Actuarial Committee

Analysis of Group Retrospective Rating Program Loss Development Factors ("Group Retro LDF's")

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Deloitte Consulting LLP

February 2010

Deloitte.

Group Retro LDF's

Deloitte.

Introduction:

- BWC launched a Group Retro program for the policy year beginning July 1, 2009
- The Group Retro program allows employers to form groups that will be evaluated at 12 months, 24 months, and 36 months after policy year end
- At each evaluation, a retrospective premium for the group will be calculated based on the projected ultimate claim costs for the policy year
- Refunds or assessments will be distributed to the group based on the results of the retrospective premium calculation

Group Retro LDF’s

Introduction (continued):

- Retrospective Premium = (Basic Premium Factor x Standard Premium) + (PTD, Settled, Death Losses) + (Group Retro LDF x All Other Losses)
- An important element of the retrospective premium calculation is the Group Retro LDF
- BWC asked Deloitte Consulting to recommend the Group Retro LDF’s for both Private Employers (“PA”) and Public Taxing Districts (“PEC”)

Group Retro LDF’s

Deloitte.

Review & Analysis:

- The Group Retro LDF’s should reflect the following features of the Group Retro program as designed by BWC:
  - Losses are limited to $500,000 per claim
  - The Group Retro LDF is not applied to PTD, Death, and Settled claims
  - Losses classified by BWC as “surplus losses” are also excluded from the employer’s losses in the retrospective premium calculation. A provision is made for surplus losses in the basic premium factors
  - Losses underlying premium rates in Ohio are discounted. BWC has designed the Group Retro program such that the impact of discount should be reflected in the Group Retro LDF’s

Group Retro LDF's

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Review & Analysis (continued):

- Deloitte Consulting's approach for estimating the Group Retro LDF's consists of the following steps:
  - **Estimate unlimited discounted ultimate losses by accident year ("A")**
  - **Limit incurred losses by accident year to $500,000 per claim ("B")**
  - **Remove Death/PTD/Settlements limited to $500,000 per claim ("C")**
  - **Calculate Group Retro LDF by accident year**

Group Retro LDF by accident year:

Group Retro LDF = (A – C) / (B – C)

Note: This is equivalent to A = C + (B – C) * Group Retro LDF, where [C + (B – C) * Group Retro LDF] are the losses used in the retrospective premium calculation.

Group Retro LDF's

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Review & Analysis (continued):

- Deloitte Consulting's approach for estimating the Group Retro LDF's addresses the following features of the program:
  - Losses limited to $500,000 per claim
  - The Group Retro LDF is not applied to PTD, Death, and Settled claims (surplus losses are also excluded)
  - Losses underlying premium rates in Ohio are discounted

Note:

For Deloitte Consulting's analysis, data was not available to allow for explicit adjustment to be made for surplus losses, which are excluded from the Group Retro. This implicitly assumes that the development of surplus losses will not be materially different than the development of other losses.

Group Retro LDF's

Deloitte.

Deloitte Recommendations:

- *Results – Recommended Group Retro LDF's*
  - **PA 12 months after policy year-end: 1.858**
  - **PA 24 months after policy year-end: 1.565**
  - **PA 36 months after policy year-end: 1.349**

  - **PEC 12 months after policy year-end: 2.014**
  - **PEC 24 months after policy year-end: 1.681**
  - **PEC 36 months after policy year-end: 1.510**

Common Sense Business Regulation (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

Rule 4123-17-73

Rule Review

1. ☒ The rule is needed to implement an underlying statute.

   Citation: __R.C. 4123.29___________

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): Add loss development factors to the Group Retrospective Rating rule. These factors will be used to calculate a retrospective premium for retro groups.

3. ☒ Existing federal regulation alone does not adequately regulate the subject matter.

4. ☒ The rule is effective, consistent and efficient.

5. ☒ The rule is not duplicative of rules already in existence.

6. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. ☒ The rule has been reviewed for unintended negative consequences.

8. ☒ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   Explain: Not applicable. Loss development factors are based on common actuarial standards. They would not be appropriate to modify based on stakeholder feedback.

9. ☒ The rule was reviewed for clarity and for easy comprehension.

10. ☒ The rule promotes transparency and predictability of regulatory activity.

11. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost? ____________

13. ☒ The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

BWC Board of Directors

Executive Summary

Group Retrospective LDF Rules Addition

Introduction

Loss development factors are used to project the ultimate claims costs for a retro group when calculating a retrospective premium. The loss development factors account for the increase in incurred losses which occurs overtime as a result of incurred but not reported claims and unforeseen claims complexities. The addition of Appendix C to the group retro rules will define the loss development factors to be used for all policy year that have started since the program's inception in 2009.

Background Information

Rule 4123-17-73 was passed by BWC's Board of Directors in April of 2009. This rule enabled certified sponsors to form employer groups that agree to be evaluated 12, 24, and 36 months after the policy year end. The group of employers will receive refunds or assessments depending on their success in containing claims costs.

To determine whether an employer receives a refund or assessment, the bureau will utilize a retrospective premium calculation to establish an amount that a group should have paid based on their actual losses. To create an accurate retrospective premium, the ultimate costs of claims created by the group must be estimated. A loss development factor is multiplied times the current incurred losses to approximate the ultimate claims costs.

Proposed Changes

The addition of the loss development factors to the Group Retrospective Rating Program rules will allow retro groups to estimate their future potential refund or assessment and provide a valuable input when formulating new groups. A separate LDF is defined for the 12, 24, and 36 month evaluation periods.

4123-17-73 Group Retrospective Rating Program.

(A) As used in this rule:

(1) “Group retrospective rating” or “group retro rating” is a voluntary workers' compensation insurance program offered by the bureau of workers’ compensation. Group retro rating is designed to provide financial incentive to employer groups participating in the program that, through improvements in workplace safety and injured worker outcomes are able to keep their claim costs below a predefined level.

(2) “Basic premium factor” is a component of the retrospective rating premium formula used to account for insurance charges and costs that are distributed across all employers. The basic premium factor (BPF) is based upon charges for the cost of having retrospective premium limited by the selected maximum premium ratio and the cost of excluding surplus costs from incurred losses.

(3) “Developed losses” or “total incurred losses (developed)” are a component of the retrospective rating premium formula intended to account for the fact that total incurred losses in claims are likely to increase over time. This trend results from a number of factors, including, but not limited to, reactivation of claims and claims that may be incurred but not reported for a substantial period, and result in costs that would otherwise not be captured.

(4) “Evaluation period” means the three-year period beginning immediately after the end of the retro policy year. Annual evaluations will occur three times during the evaluation period at twelve, twenty-four, and thirty-six months after the end of the retro policy year.

(5) “Incurred losses” means compensation payments and medical payments paid to date as well as open case reserves. The total incurred losses will not include surplus costs and will be limited on a per claim basis.

(6) “Loss development factor” means actuarially determined factors that are multiplied by incurred losses of non-PTD/death retro claims to produce developed losses. Loss development factors (LDF) are unique to each retro policy year.

(7) “Maximum premium ratio” means a factor pre-selected by the retro group that is multiplied by the standard premium to determine the maximum retrospective premium for the group.

(8) “Member of a retro group” means the individual employers that participate in a group retro plan of a sponsoring organization.

(9) “Reserve” means the bureau’s estimate of the future cost of a claim at a specific point in time.

(10) “Retro policy year” means the policy year in which an employer is enrolled in group retrospective rating. Claim losses which occur during this year will be tracked for all retro group members and refunds/assessments will be distributed based on those losses in the subsequent evaluation period. The retro policy year start and end date will match that of the rating policy year. For public employer taxing districts, the retro policy year shall be January first through December thirty-first of a year. For private employers, the retro policy year shall be July first through June thirtieth of the following year.

(11) “Standard premium” for the purposes of retro evaluation means the total premium paid by an employer for a given policy year, excluding the assessments for the disabled workers’ relief fund and the administrative cost fund.

(B) Sponsor eligibility requirements.

Each sponsoring organization seeking to sponsor a retro group must be certified under the bureau’s sponsor certification process as specified in rule 4123-17-61.1 of the Administrative Code.

(C) Retro group eligibility requirements.

Each retro group seeking to participate in the bureau group retro program shall meet the following standards:

(1) A retro group must be sponsored by a bureau certified sponsoring organization.

(2) The employers' business in the organization must be substantially similar such that the risks which are grouped are substantially homogeneous. A group shall be considered substantially homogeneous if the main operating manuals of the risks as determined by the premium obligations for the rating year beginning two years prior to the retro policy year are assigned to the same or similar industry groups. Industry groups are determined by appendix B to rule 4123-17-05 of the Administrative Code. Industry groups seven and nine as well as eight and nine are considered similar. The bureau may allow an employer to move to a more homogeneous group when, after December thirty-first for private employer groups and June thirtieth for pubic employer taxing district groups, but before the application deadline, the employer:

(a) Is a new employer;

(b) Is reclassified as a result of an audit; or

(c) Fully or partially combines with another employer.

(3) A retro group of employers must have aggregate workers' compensation premiums expected to exceed one million dollars, as determined by the administrator based upon the last full policy year for which premium information is available.

(a) For new employers without a full year of recorded premium, the bureau may use the employer’s expected premium.

(b) The bureau shall calculate the premium based upon the experience modified premium of the individual employers excluding group rating discounts.

(4) The retro group must include at least two employers.

(5) The formation and operation of the retro group program by the organization must substantially improve accident prevention and claims handling for the employers in the retro group. The bureau shall require the retro group to document its safety plan or program for these purposes, and, for retro groups reapplying annually for group retro coverage, the results of prior programs. The safety plan must follow the guidelines and criteria set forth under rule 4123-17-68 of the Administrative Code.

(D) Employer eligibility requirements.

Each employer seeking to participate in the bureau group retrospective program shall meet the following standards:

(1) The employer shall be a private state funded employer or public employer taxing district. A self-insuring employer or a state agency public employer shall not be eligible for participation in the group retro program.

(2) Each employer seeking to enroll in a retro group for workers' compensation coverage must have active workers' compensation coverage according to the following standards:

(a) Unless the employer submits prior to the application deadline a dispute of the obligation to the bureau's adjudicating committee by a written letter containing the detailed reasons for the objection and the supporting documentation, the employer must be current (not more than forty-five days past due) on any and all premiums, administrative costs, assessments, fines or monies otherwise due to any fund administered by the Ohio bureau of workers' compensation, including amounts due for group or individual retrospective rating at the time of the application deadline date.

(b) As of the deadline for the application for group retrospective rating, the employer must be current on the payment schedule of any part-pay agreement into which it has entered for payment of premiums or assessment obligations.

(c) The employer cannot have cumulative lapses in workers' compensation coverage in excess of forty days within the twelve months preceding the application deadline date for group retro rating.

(3) No employer may be a member of more than one retro group or a retro and non-retro group for the purpose of obtaining workers' compensation coverage. Applying for more than one group, whether retro or not, on a valid application, will result in the bureau contacting the associated sponsor or sponsors for all groups for which the employer applied. The employer must notify the bureau of the employer’s final group selection. If no notification is received by the start of the policy year, the employer will be rejected from participating in any groups for the year.

(4) An employer must be homogeneous with the industry group of the retro group as defined in paragraph (C) (2) of this rule.

(a) An individual employer member of a continuing retro group who initially satisfied the homogeneous requirement shall not be disqualified from participation in the continuing retro group for failure to continue to satisfy such requirement.

(5) An employer participating in the group retrospective program shall be entitled to participate in any other bureau rate program concurrent with its participation in the group retrospective program, except that an employer cannot utilize or participate in, with respect to any injuries which occur during a period for which the employer is enrolled in group retro, the following bureau rate programs:

(a) Individual retrospective rating;

(b) The $15,000 medical-only program;

(c) Deductible program;

(d) One claim program;

(e) Group rating;

(f) Drug-free workplace discount program.

(E) A sponsoring organization shall make application for group retro on a form provided by the bureau and shall complete the application in its entirety with all documentation attached as required by the bureau. If the sponsoring organization fails to include all pertinent information, the bureau will reject the application.

(1) The group retro application (U-151) shall be signed each year by an officer of the sponsoring organization.

(2) The sponsoring organization shall identify each individual employer in the retro group on an employer roster for group retro plan (U-152).

(F) For public employer taxing districts, applications for group retro coverage shall be filed with the bureau on or before the last Friday of September of the year immediately preceding the rating year. For private employers, applications for group retro coverage shall be filed with the bureau on or before the last business day of April of the year of the July first beginning date for the rating year; except that for 2009 only, the application for group retro coverage shall be filed on or before June 26th. A retro group's application for group retrospective rating is applicable to only one policy year. The retro group must reapply each year for group retro coverage. Continuation of a plan for subsequent years is subject to timely filing of an application on a yearly basis and the meeting of eligibility requirements each year.

(G) Upon receipt of an application for retro group, the bureau shall do the following:

(1) Determine the industry classification of the retro group based upon the makeup of retro group employers submitted.

(2) Screen prospective retro group members to ensure that their business operations fit appropriately in the retro group’s industry classification.

(3) In reviewing the retro group's application, if the bureau determines that individual employers in the retro group do not meet the eligibility requirements for group retrospective rating, the bureau will notify the individual employers and the retro group of this fact, and the retro group may continue in its application for group retro coverage without the disqualified employers.

(H) The group retro sponsor shall submit to the bureau an employer statement (U-153) each year for each employer that wishes to participate in group retrospective rating with the sponsor. Where an employer files a new employer statement form during an application period, it shall be presumed that the latest filed employer statement form of the employer indicates the employer's intentions for group retro. An employer statement form shall remain effective until the end of the policy year as defined on the employer statement form.

(I) The bureau may request of individual employers or the retro group sponsor, additional information necessary for the bureau to rule upon the application for group retro coverage. Failure or refusal of the retro group sponsor to provide the requested information on the forms or computer formats provided by the bureau shall be sufficient grounds for the bureau to reject the application and refuse the retro group's participation in group retrospective rating program.

(J) Individual employers who are not included on the final retro group roster or do not have an individual employer application (U-153) for the same retro group or another retro group sponsored by the same sponsoring organization on file by the application deadline, will not be considered for the group retro plan for that policy year; however, the bureau may waive this requirement for good cause shown due to clerical or administrative error, so long as no employer is added to a retro group after the application deadline. The group retro sponsor shall submit all information to the bureau by the application deadline.

(K) A sponsoring organization shall notify an employer that is participating in a retro group of that sponsoring organization if the employer will not be included in a retro group by that sponsoring organization for the next rating year. For private employer retro groups, the sponsoring organization shall notify the employer in writing prior to the first Monday in April of the year of the retro group application deadline. For public employer taxing district retro groups, the sponsoring organization shall notify the employer in writing prior to the second Friday of September of the year of the group retro application deadline. If an employer notifies the bureau that a sponsoring organization has not complied with this rule and the sponsoring organization fails to prove that the notice was provided in a timely manner, the bureau will, without the approval of the sponsoring organization, allow the employer to remain in the retro group for the rating year for which the notice was required. If that retro group no longer exists, the bureau will, without the approval of the sponsoring organization, place the employer in a homogeneous retro group with the same sponsoring organization or take other appropriate action.

(L) Once a retro group has applied for group retrospective rating, the organization may not voluntarily terminate the application. All changes to the original application must be filed on a bureau form provided for the application for the group retrospective rating plan and must be filed prior to the filing deadline. Any rescissions made must be completed in writing, signed by an officer of the sponsoring organization and filed prior to the filing deadline. The retro group may make no changes to the application after the last day for filing the application. Any changes received by the bureau after the filing deadline will not be honored. The latest application form or rescission received by the bureau prior to the filing deadline will be used in determining the premium obligation.

(M) After the group retro application deadline but before the end of the policy year for the retro group, the sponsoring organization may notify the bureau that it wishes to remove an employer from participation in the retro group. The sponsoring organization may request that the employer be removed from the retro group after the application deadline only for the employer's gross misrepresentation on its application to the retro group.

(1) "Gross misrepresentation" is an act by the employer that would cause financial harm to the other members of the retro group. Gross misrepresentation is limited to any of the following:

(a) Where the sponsoring organization discovers that the employer applicant for group retro rating has recently merged with one or more entities, such that the merger adversely affects the employer's risk of future losses and the employer did not disclose the merger on the employer's application for membership in the retro group.

(b) Where the sponsoring organization discovers that the employer applicant for group retrospective rating has failed to disclose the true nature of the employer's business pursuit on its application for membership in the retro group, and this failure adversely affects the loss potential of the retro group.

(2) Where the sponsoring organization requests that an employer be removed from the retro group, the burden of proof is on the sponsoring organization to provide documentation. The bureau shall review the request to remove the employer from the retro group, and the employer shall be removed from the retro group only upon the bureau's consent.

(N) A retro group formed for the purpose of group retrospective rating may not voluntarily terminate a plan during the policy year. A change in the name of the retro group will not constitute a new retro group. A change of the organization sponsoring a retro group or moving a retro group to a new sponsoring organization shall constitute a new retro group and the members of the new retro group must meet the homogeneity requirement of paragraph rule (C)(2) of this rule. A retro group shall be considered a continuing retro group if more than fifty per cent of the members of the retro group in the previous rating year is members of the retro group in the current rating year.

(O) Selection of an authorized representative for the retro group shall meet the following requirements:

(1) A retro group that has been established and has been accepted by the bureau of workers' compensation for the purpose of group retrospective rating shall have no more than one permanent authorized representative for representation of the retro group and the individual employers of the retro group before the bureau and the industrial commission in any and all risk-related matters pertaining to participation in the workers' compensation fund.

(2) The selection of an authorized representative must be made by submission of a completed form U-151, and any change or termination of the authorized representative can be made only by a subsequent submission of form U-151. Only an officer of the sponsoring organization may sign a U-151.

(P) The bureau shall consider an employer individually when assessing the premium payments for the retro policy year. The retro group will be considered a single entity for purposes of calculating group retrospective premium adjustments.

(Q) The group retrospective premium calculation will occur at twelve, twenty-four, and thirty-six months following the end of the group retro policy year.

(1) On the evaluation date, the bureau will evaluate all claims with injury dates that fall within the retro policy year. The incurred losses and reserves that have been established for these claims are "captured" or "frozen." The group's retrospective premium will be calculated based on the developed incurred losses of the group. The group retrospective premium will be compared to the group standard premium (the combined standard premiums of retro group members for the retro policy year) and all

subsequent group retro refunds/assessments. The difference will be distributed or billed to employers as a refund or assessment.

(a) These assessments will be limited per a maximum premium ratio selected during the group retro application process.

(b) Any reserving method that suppresses some portion of an employer's costs for the purpose of calculating an experience modification will not apply in the calculation of incurred losses for group retrospective rating.

(c) The bureau may hold a portion of refunds in the first and second evaluation periods to minimize possible future assessments. Any net refund will be fully distributed by the bureau in the third evaluation period.

(2) Incurred losses used in the retrospective premium will be limited to $500,000 per claim.

(3) Incurred losses will not include surplus or VSSR costs.

(R) The retrospective premium calculation that will occur at various evaluation points after the retro policy year end will be as follows (please note that standard premium and developed incurred losses are for the total of the entire retro group):

Group retrospective premium =

(Basic premium factor x standard premium)

+

developed incurred losses

(1) A group will elect a maximum premium ratio for the group each year as part of the group retro application process. This ratio will determine the maximum amount of total premium a retro group may pay after refunds and assessments.

(2) Options for the Maximum Premium Ratio will be as follows: 1.05, 1.10, 1.15, 1.20, 1.25, 1.50, 1.75, or 2.00.

(3) A basic premium factor is applied in the retro premium calculation to account for insurance costs, surplus costs, and a per claim cap. The basic premium factor is determined using the following factors: group size by standard premium and maximum premium ratio.

(4) Developed incurred losses are created by totaling incurred losses and reserves for the entire retro group and applying an actuarially determined loss development factor, **as defined in Appendix C of this rule.**

(5) Refunds and assessments will be distributed directly to group retro employers. The amount refunded or assessed to an individual employer will be based upon the percentage of the total group standard premium paid by the employer at the time of evaluation. The refund or assessment will be multiplied by this percentage and the resulting amount will be distributed or billed to the employer.

(6) Within four months of the evaluation date, if entitled, the bureau will send premium refunds.

(7) If additional premium is owed, it will be included in the employer's next invoice and must be paid by the due date stated on the invoice. The bureau will charge penalties on any additional premium not paid when it is due. If the group retro member is entitled to a refund for one retro policy year and owes any additional monies to the bureau, the bureau will deduct the monies due the bureau from the refund. The bureau will refund the difference to the group retro member. In the event that this adjustment still leaves a premium balance due, the bureau will send a bill for the balance.

(S) Terminations, transfers, and change of ownership will be handled in regards to group retrospective as follows:

(1) Predecessor: enrolled in group retro program.
Successor: new entity.

Where there is a combination or experience transfer during the current policy year, wherein the predecessor was a participant in the group retro program, and the successor is assigned a new policy with the bureau, the successor may be considered a member of the group retro program if agreed to by both the succeeding employer and the group retro sponsor. Written agreement signed by both the succeeding employer and the group retro sponsor must be received by the bureau within thirty days of the date of succession. If the succeeding employer and the group sponsor agree to successor joining the retro group, the successor's group retro evaluation shall be based on the group's reported payroll and claims incurred. Notwithstanding this election, the successor shall be responsible for any and all existing or future rights and obligations stemming from the predecessor's participation in the group retro program prior to the date that the bureau was notified of the transfer as prescribed under paragraph (C) of rule 4123-17-02 of the Administrative Code.

(2) Predecessor: not enrolled in group retro program.
Successor: enrolled in group retro program.

Where one legal entity that has established coverage and is enrolled in the group retro program, wholly succeeds one or more legal entities having established coverage and the predecessor entities are not enrolled in the group retro program at the date of succession, the payroll reported and claims incurred by the predecessor from the date of succession to the end of the policy year, shall be included in successor's retrospective rating plan. If the predecessor had at any time participated in a group retro program, the successor shall be responsible for any and all existing or future rights and obligations stemming from the predecessor's participation in the group retro program prior to the date that the bureau was notified of the transfer as prescribed under paragraph (C) of rule 4123-17-02 of the Administrative Code.

(3) Predecessor: enrolled in group retro program.
Successor: not enrolled in group retro program.

Where one legal entity that has established coverage and is not currently enrolled in a group retro plan wholly succeeds one or more entities that are enrolled in a group retro plan, predecessor's plan(s) shall terminate as of the ending date of the evaluation period. Payroll reported and claims incurred on or after the date of succession will be the responsibility of the successor under its current rating plan. The successor shall be responsible for any and all existing or future rights and obligations stemming from the predecessor's participation in the group retro program prior to the date that the bureau was notified of the transfer as prescribed under paragraph (C) of rule 4123-17-02 of the Administrative Code.

(4) Predecessor: enrolled in group retro program.
Successor: enrolled in different group retro program.

Where one legal entity that has established coverage and is enrolled in a group retro plan wholly succeeds one or more entities that are enrolled in a group retro plan, predecessor's plan(s) shall terminate as of the ending date of the evaluation period. Payroll reported and claims incurred on or after the date of succession will be the responsibility of the successor under its group retro plan. The successor shall be responsible for any and all existing or future rights and obligations stemming from the predecessor's participation in the group retro program prior to the date that the bureau was notified of the transfer as prescribed under paragraph (C) of rule 4123-17-02 of the Administrative Code.

(5) Predecessor: enrolled in group retro program.
Successor: enrolled in same group retro program.

Where one legal entity that has established coverage and is enrolled in a group retro plan wholly succeeds one or more entities that are enrolled in the same group retro plan, the successor shall be responsible for any and all existing or future liabilities stemming from the predecessor's participation in the group retro program prior to the date that the bureau was notified of the transfer as prescribed under paragraph (C) of rule 4123-17-02 of the Administrative Code. If the predecessor had at any time participated in a different group retro program, the successor shall be responsible for any and all existing or future rights and obligations stemming from the predecessor's participation in the group retro program prior to the date that the bureau was notified of the transfer as prescribed under paragraph (C) of rule 4123-17-02 of the Administrative Code.

(6) Successor: cancels coverage and was enrolled in group retro program.
Predecessor: no predecessor.

If the successor cancels coverage and there is no predecessor, the premium and losses of the cancelling employer will remain with the retro group for future retrospective premium calculations. The resulting refund or assessment will be collected from the remaining members of the retro group.

Group retro sponsors and authorized representatives have the right to represent the interest of the cancelled employer on behalf of the group with regard to claims which occurred during the year or years the employer was active in a retro group sponsored by the organization.

(7) Successor and/or predecessor: open group retro policy years in the evaluation period.

If the successor and predecessor are not currently enrolled in the group retro program, but either or both have open group retro policy years in the evaluation period, the successor shall be responsible for any and all existing or future rights and obligations stemming from the predecessor's participation in the group retro program prior to the date that the bureau was notified of the transfer as prescribed under paragraph (C) of rule 4123-17-02 of the Administrative Code.

(8) Partial transfer.

If an entity partially succeeds another entity and the predecessor entity has any group retro policy years in the evaluation period, the predecessor entity will retain any rights to assessments or refunds. If the successor is enrolled in the group retro program, payroll reported and claims incurred on or after the date of the partial transfer will be the responsibility of the successor under its group retro plan.

(9) Successor: files a petition for bankruptcy.
Predecessor: no predecessor.

If a current or previously group retro program employer with open retro policy years files a petition for bankruptcy under chapter seven or chapter eleven of the Federal bankruptcy law, that employer shall notify the bureau legal division by certified mail within five working days from the date of the bankruptcy filing. The bureau will petition the bankruptcy court to take appropriate action to protect the state insurance fund and other related funds.

Appendix A: Basic Premium Factors for Group Retrospective Rating

	Max %																			
Size	**105%**	**110%**	**115%**	**120%**	**125%**	**130%**	**135%**	**140%**	**145%**	**150%**	**155%**	**160%**	**165%**	**170%**	**175%**	**180%**	**185%**	**190%**	**195%**	**200%**
19	56.2%	48.4%	43.4%	39.8%	36.9%	34.7%	32.7%	31.1%	29.7%	28.5%	27.5%	26.6%	25.8%	25.0%	24.4%	23.8%	23.3%	22.8%	22.3%	21.9%
18	54.7%	47.0%	42.0%	38.5%	35.7%	33.4%	31.6%	30.0%	28.7%	27.5%	26.5%	25.6%	24.9%	24.2%	23.5%	23.0%	22.5%	22.1%	21.7%	21.3%
17	53.2%	45.5%	40.6%	37.1%	34.4%	32.2%	30.4%	28.9%	27.6%	26.5%	25.5%	24.7%	24.0%	23.3%	22.7%	22.2%	21.8%	21.4%	21.0%	20.7%
16	51.6%	43.9%	39.1%	35.7%	33.0%	30.9%	29.2%	27.7%	26.5%	25.5%	24.6%	23.8%	23.1%	22.5%	22.0%	21.5%	21.1%	20.7%	20.4%	20.1%
15	49.9%	42.3%	37.6%	34.2%	31.7%	29.6%	28.0%	26.6%	25.4%	24.4%	23.6%	22.9%	22.2%	21.7%	21.2%	20.8%	20.4%	20.1%	19.8%	19.5%
14	48.1%	40.6%	36.0%	32.8%	30.3%	28.3%	26.8%	25.5%	24.4%	23.5%	22.7%	22.0%	21.4%	20.9%	20.5%	20.1%	19.8%	19.5%	19.2%	19.0%
13	45.3%	38.0%	33.6%	30.5%	28.2%	26.4%	25.0%	23.8%	22.8%	22.0%	21.3%	20.8%	20.3%	19.9%	19.5%	19.2%	18.9%	18.7%	18.5%	18.3%
12	42.2%	35.2%	31.1%	28.2%	26.1%	24.5%	23.2%	22.2%	21.4%	20.7%	20.1%	19.7%	19.3%	18.9%	18.7%	18.4%	18.2%	18.1%	17.9%	17.8%
11	38.9%	32.4%	28.5%	25.9%	24.1%	22.6%	21.6%	20.7%	20.0%	19.5%	19.1%	18.7%	18.4%	18.2%	18.0%	17.8%	17.7%	17.6%	17.5%	17.4%
10	35.8%	29.6%	26.2%	23.9%	22.2%	21.1%	20.2%	19.5%	19.0%	18.6%	18.2%	18.0%	17.8%	17.6%	17.5%	17.4%	17.3%	17.3%	17.2%	17.2%
9	32.4%	26.9%	23.9%	21.9%	20.6%	19.6%	19.0%	18.5%	18.1%	17.8%	17.6%	17.5%	17.4%	17.3%	17.2%	17.2%	17.1%	17.1%	17.1%	17.1%
8	29.9%	24.9%	22.2%	20.6%	19.5%	18.7%	18.2%	17.9%	17.6%	17.4%	17.3%	17.2%	17.2%	17.1%	17.1%	17.1%	17.0%	17.0%	17.0%	17.0%
7	29.1%	24.2%	21.7%	20.1%	19.1%	18.5%	18.0%	17.7%	17.5%	17.3%	17.2%	17.2%	17.1%	17.1%	17.1%	17.0%	17.0%	17.0%	17.0%	17.0%
6	28.2%	23.6%	21.2%	19.8%	18.8%	18.2%	17.8%	17.6%	17.4%	17.3%	17.2%	17.1%	17.1%	17.1%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
5	27.4%	23.0%	20.7%	19.4%	18.6%	18.0%	17.7%	17.4%	17.3%	17.2%	17.1%	17.1%	17.1%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
4	26.6%	22.4%	20.3%	19.0%	18.3%	17.8%	17.5%	17.3%	17.2%	17.1%	17.1%	17.1%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
3	25.8%	21.8%	19.8%	18.7%	18.1%	17.6%	17.4%	17.2%	17.1%	17.1%	17.1%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
2	25.0%	21.2%	19.4%	18.4%	17.8%	17.5%	17.3%	17.2%	17.1%	17.1%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
1	24.2%	20.7%	19.0%	18.1%	17.6%	17.4%	17.2%	17.1%	17.1%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%

Note: Handicap surplus is reflected in the basic premium factor and losses excess of $500,000 are reflected in the loss development factors.

Appendix B: Standard Premium Size Ranges

Size	Range	
19	500,000	599,999
18	600,000	699,999
17	700,000	799,999
16	800,000	899,999
15	900,000	999,999
14	1,000,000	1,059,999
13	1,060,000	1,288,999
12	1,289,000	1,604,999
11	1,605,000	2,051,999
10	2,052,000	2,621,999
9	2,622,000	3,348,999
8	3,349,000	4,438,999
7	4,439,000	6,147,999
6	6,148,000	8,861,999
5	8,862,000	12,839,999
4	12,840,000	18,909,999
3	18,910,000	29,399,999
2	29,400,000	46,399,999
1	46,400,000	100,000,000

Appendix C: Group Retrospective Loss Development Factors

Group Retrospective Loss Development Factors are applicable for retro program years that begin on or after the given effective date but not after the expiration date.

Private Employers (PA)

Effective Date	Expiration Date	12-month LDF	24-month LDF	36-month LDF
July 1, 2009		1.858	1.565	1.349

Public Employers-Taxing Districts (PEC)

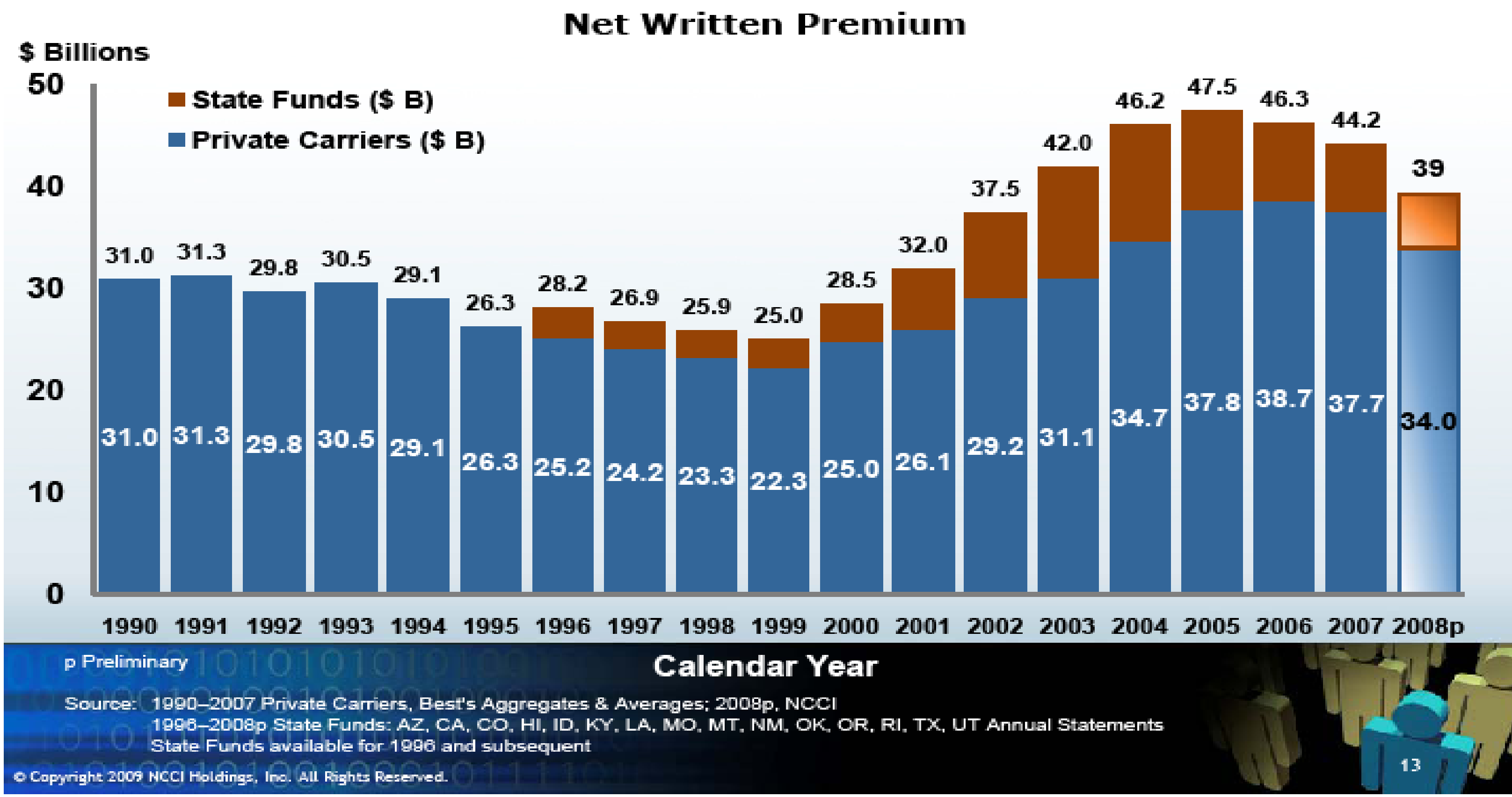
Effective Date	Expiration Date	12-month LDF	24-month LDF	36-month LDF
January 1, 2009		2.014	1.681	1.510

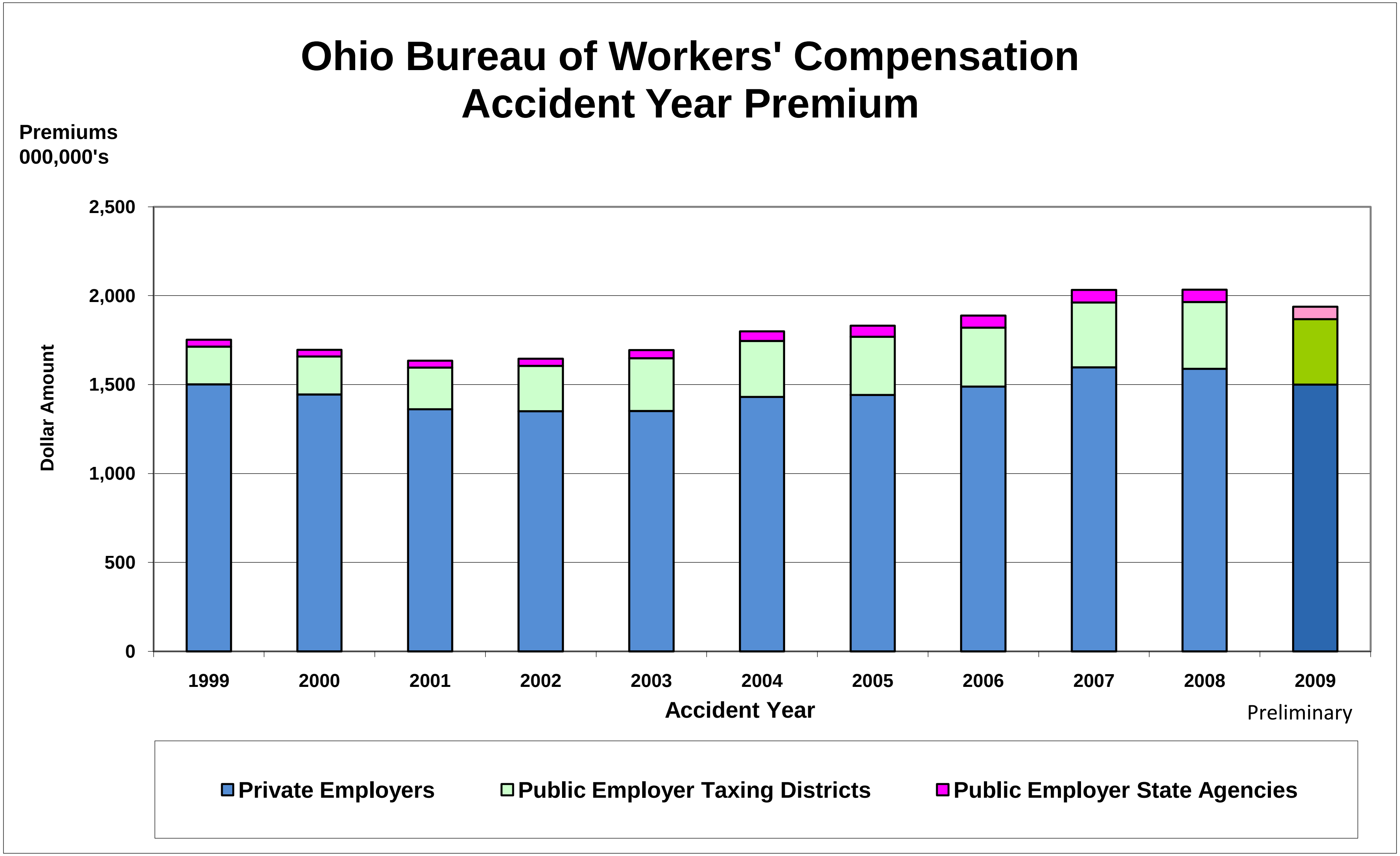
Ohio Bureau of Worker's Compensation
Actuarial Committee
Board of Directors

Elizabeth G. Bravender, CPCU, Director of Actuarial

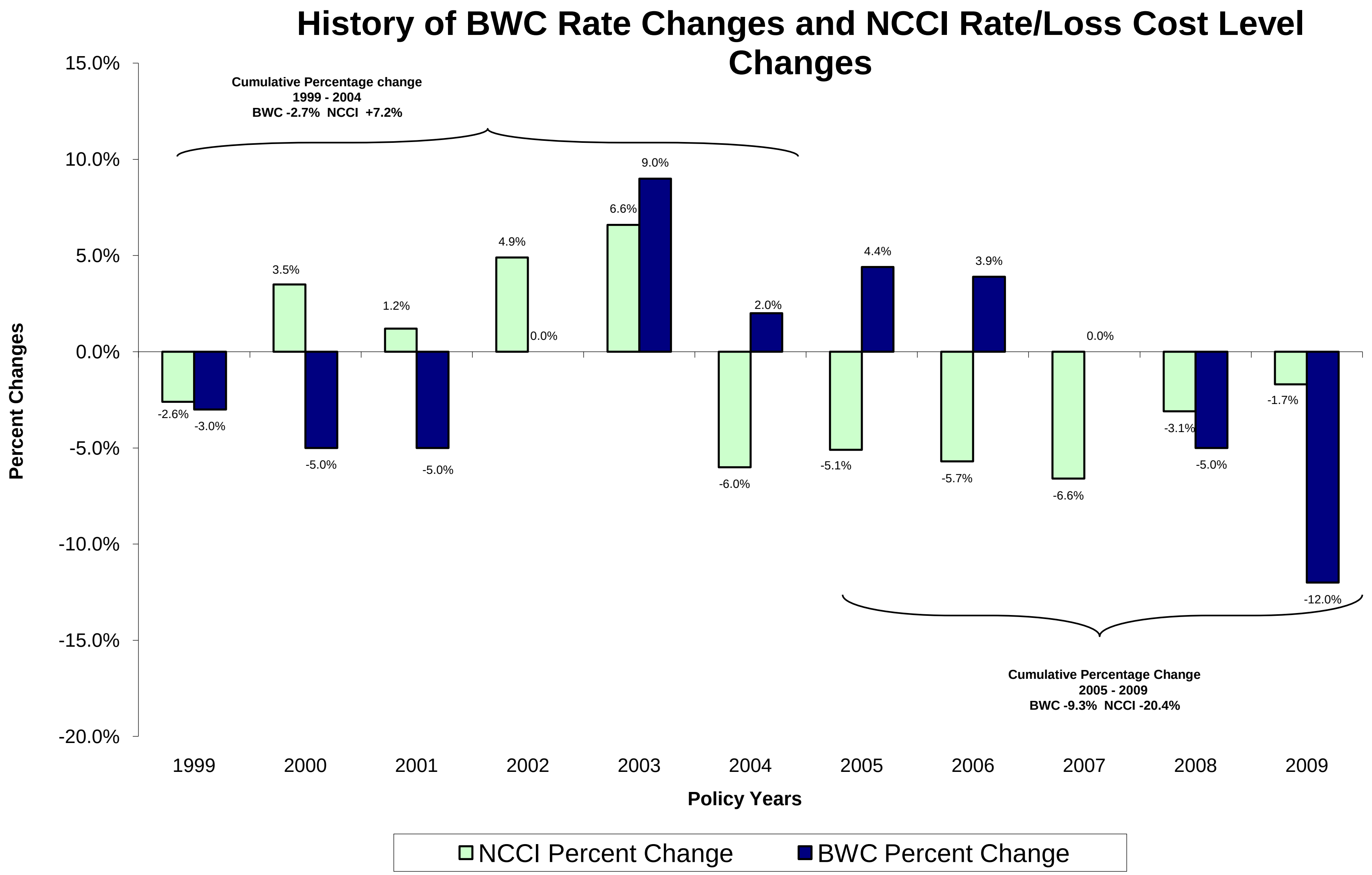
2/23/2010

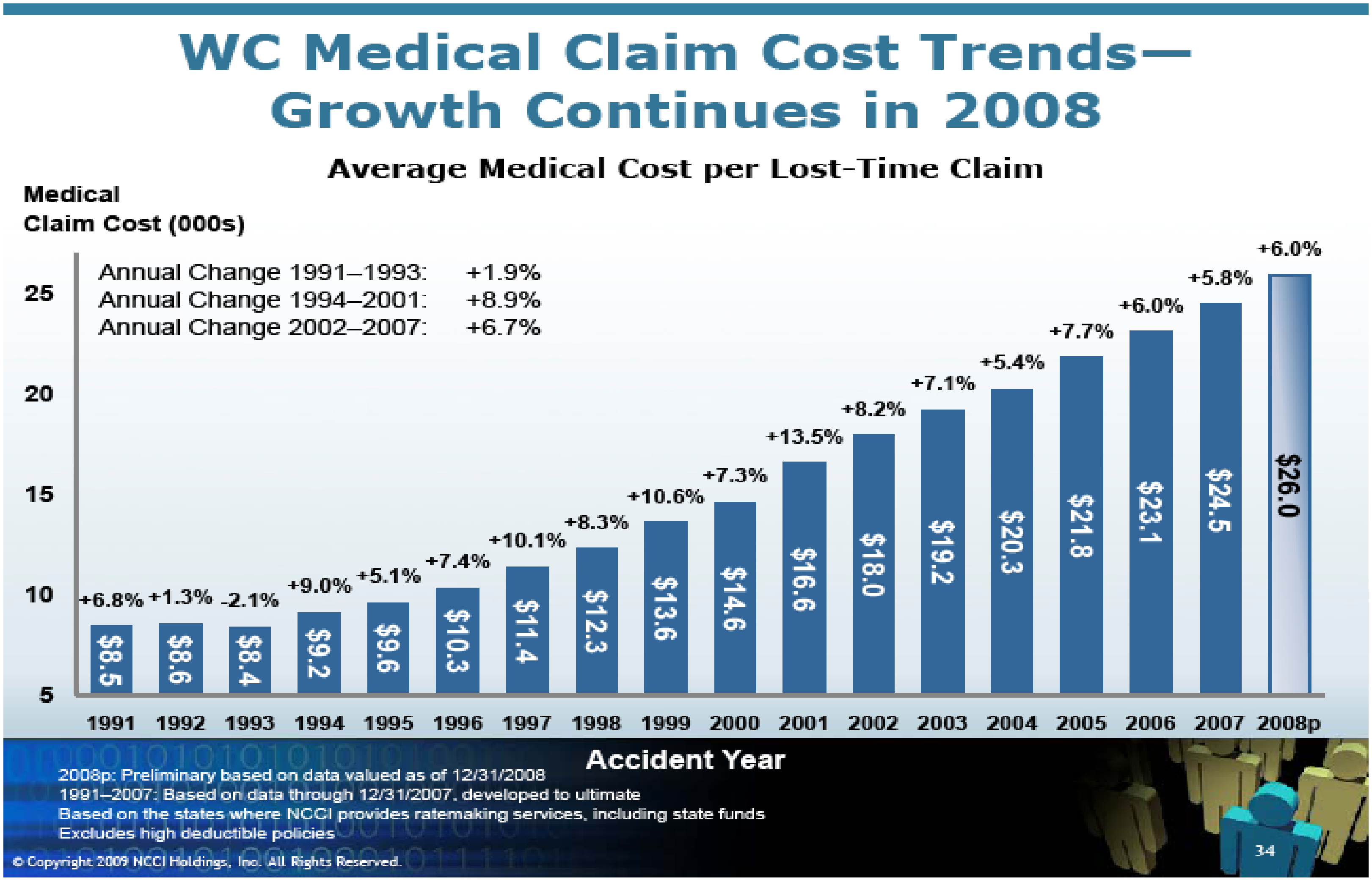
Workers Compensation Premium Continued to Decline in 2008




Ohio Bureau of Workers' Compensation
Accident Year Premium
Premiums
000,000's
Dollar Amount
2,500
2,000
1,500
1,000
500
0
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Accident Year
Preliminary
Private Employers
Public Employer Taxing Districts
Public Employer State Agencies

Ohio Bureau of Workers' Compensation




WC Medical Claim Cost Trends—
Growth Continues in 2008
Average Medical Cost per Lost-Time Claim
Medical
Claim Cost (000s)
Annual Change 1991–1993: +1.9%
Annual Change 1994–2001: +8.9%
Annual Change 2002–2007: +6.7%
25
20
15
10
5
+6.8% +1.3% -2.1% +9.0% +5.1% +7.4% +10.1% +8.3% +10.6% +7.3% +13.5% +8.2% +7.1% +5.4% +7.7% +6.0% +5.8% +6.0%
$8.5 $8.6 $8.4 $9.2 $9.6 $10.3 $11.4 $12.3 $13.6 $14.6 $16.6 $18.0 $19.2 $20.3 $21.8 $23.1 $24.5 $26.0
1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008p
Accident Year
2008p: Preliminary based on data valued as of 12/31/2008
1991–2007: Based on data through 12/31/2007, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies
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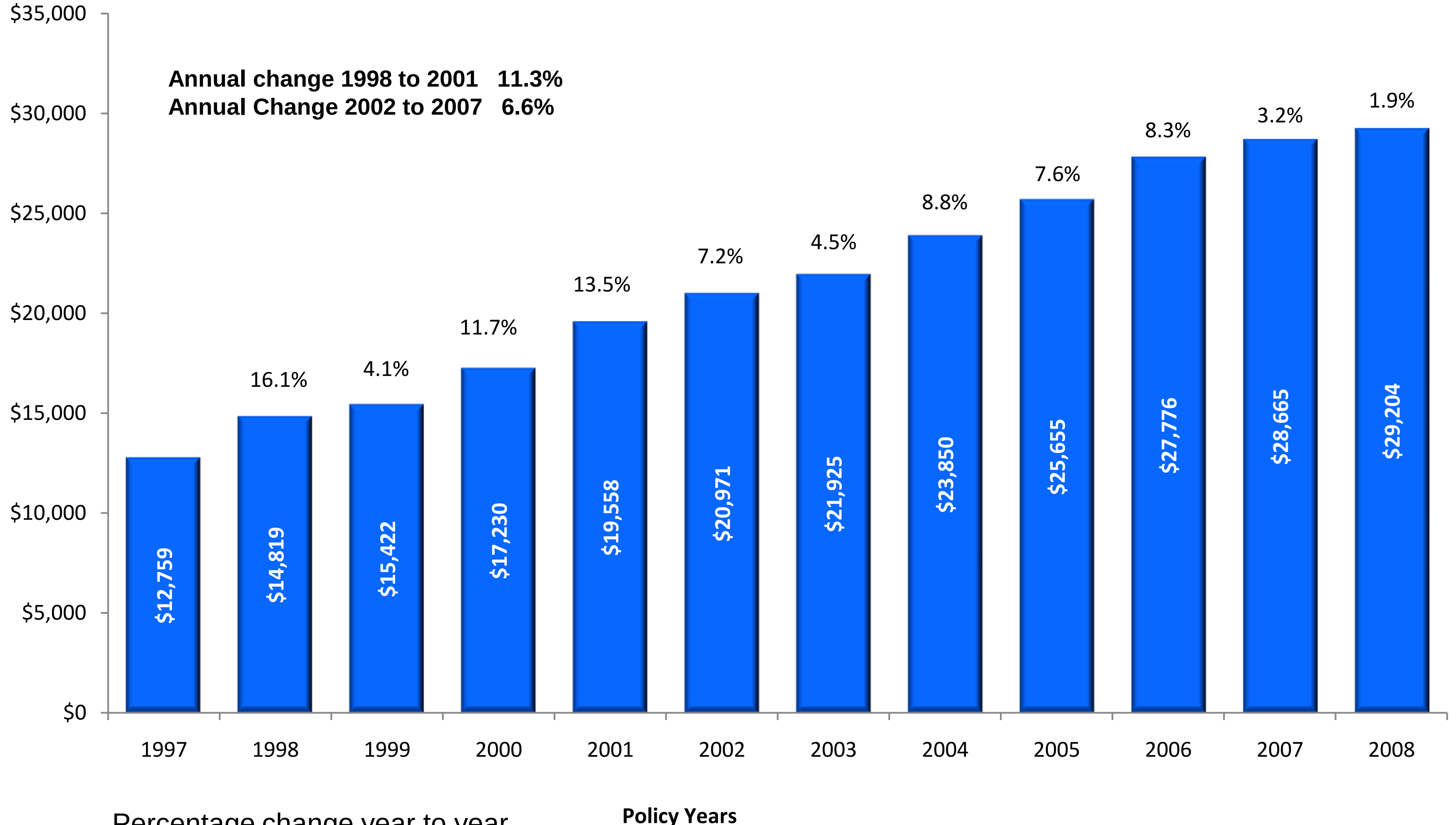
34

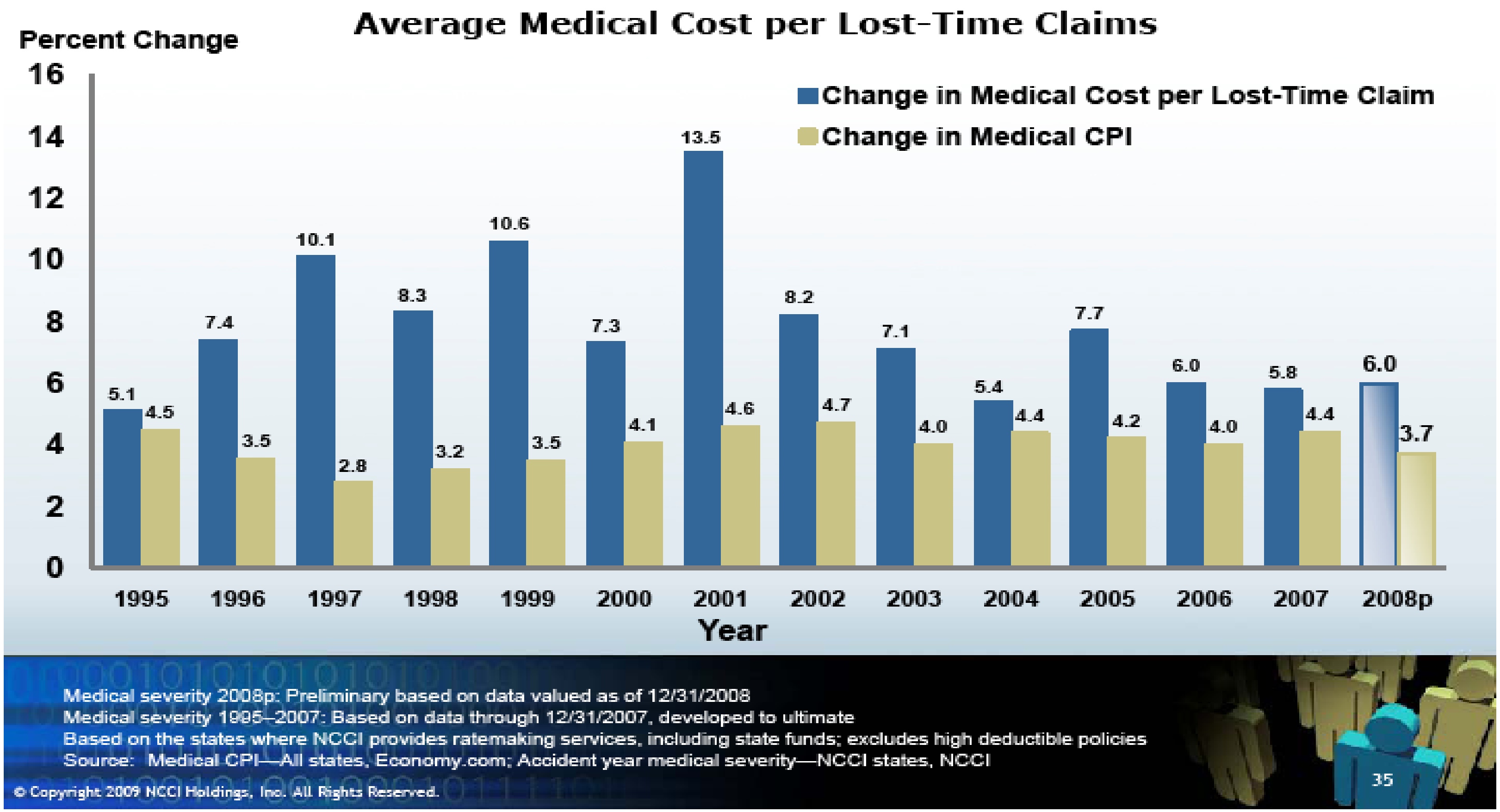
PA Discounted Average Claim Cost per Ultimate Lost Time Claim Count - Medical Costs



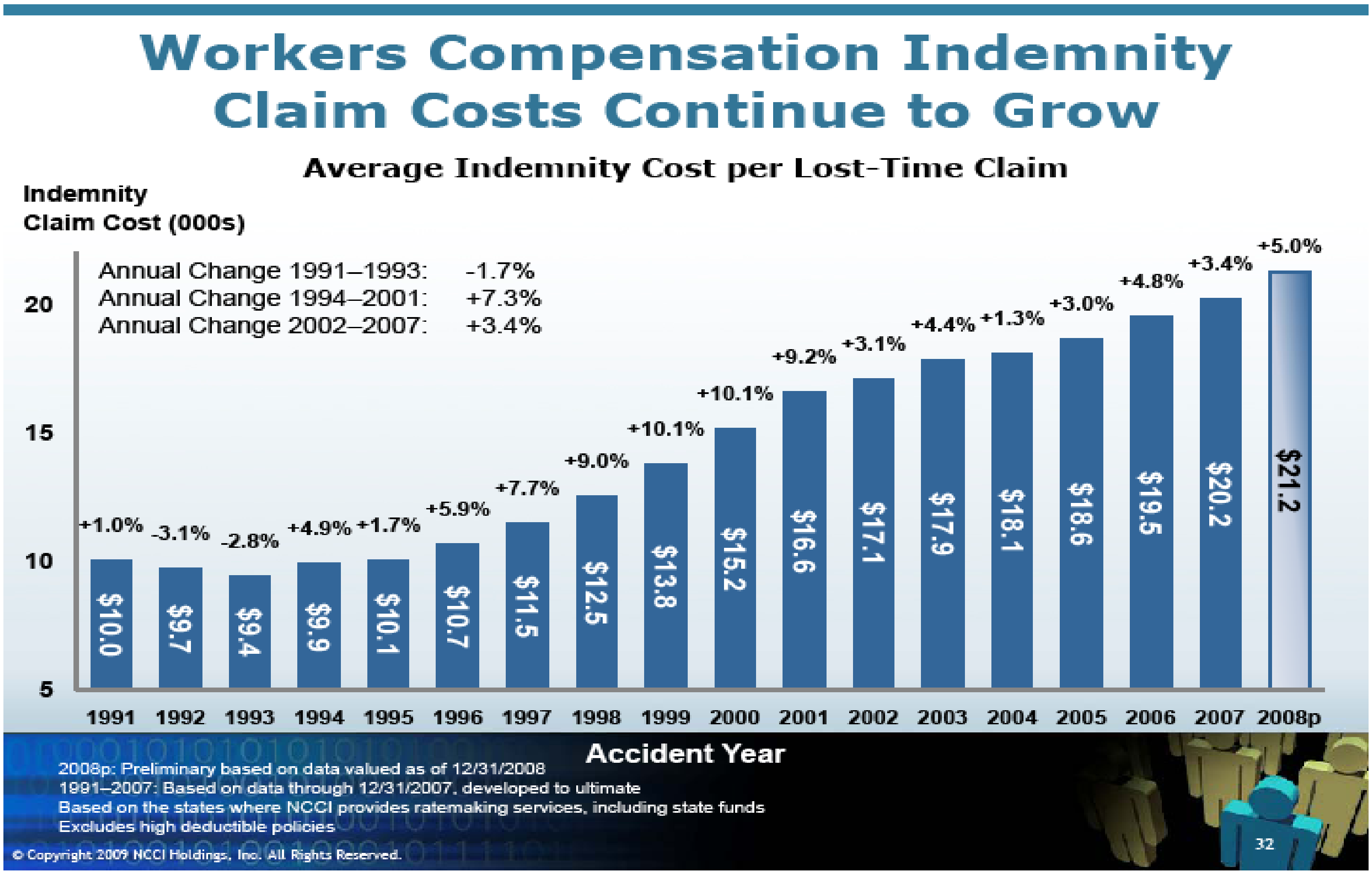
Percentage change year to year

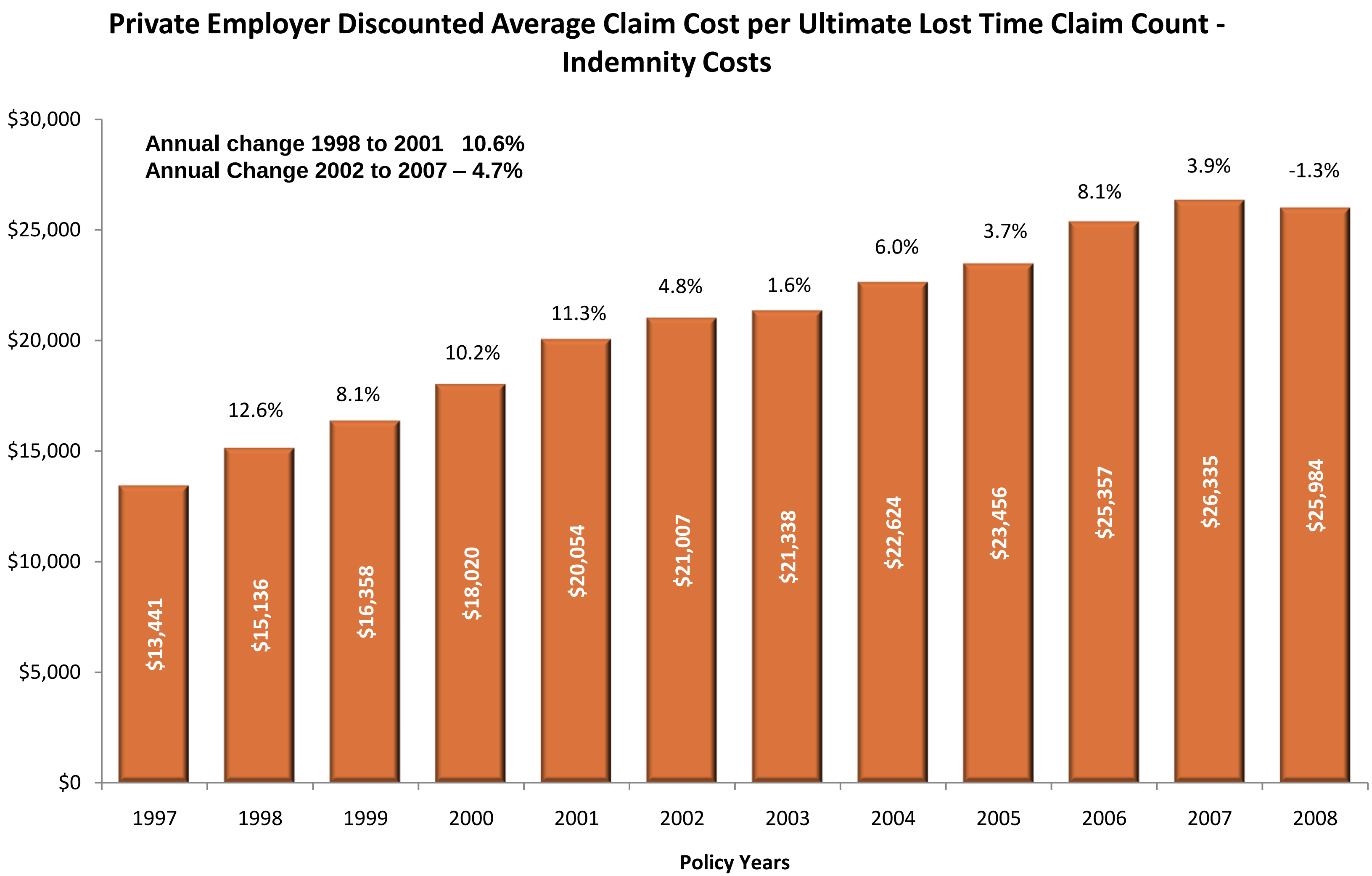
Ohio Bureau of Workers' Compensation

WC Medical Severity Still Growing Faster Than the Medical CPI



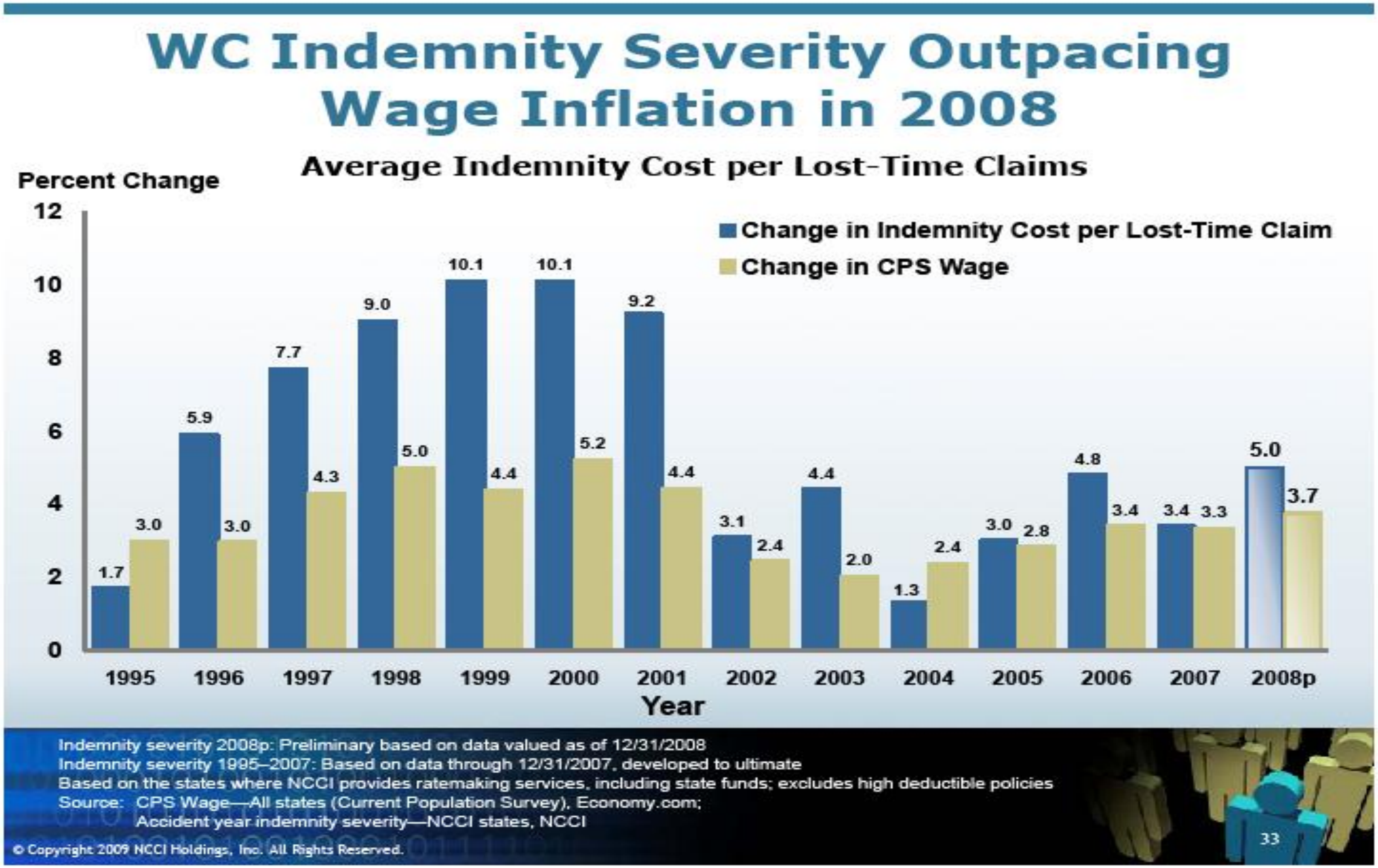
Ohio Bureau of Workers' Compensation



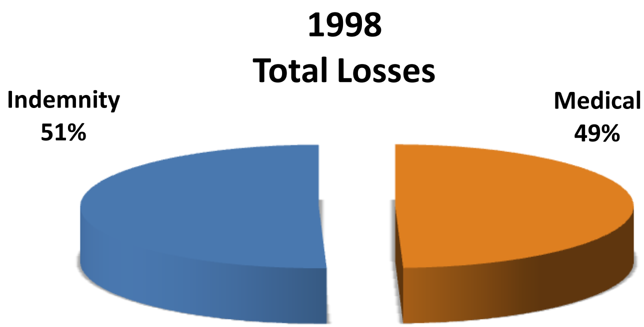


Includes percent change from year to year

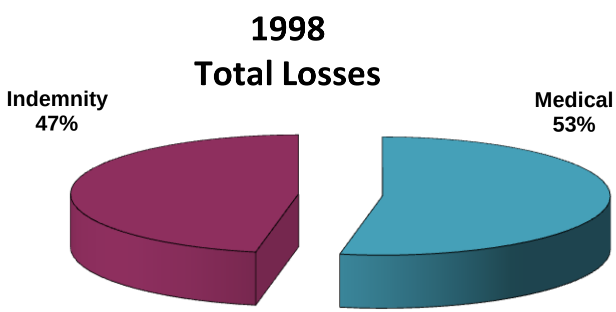
Ohio Bureau of Workers' Compensation

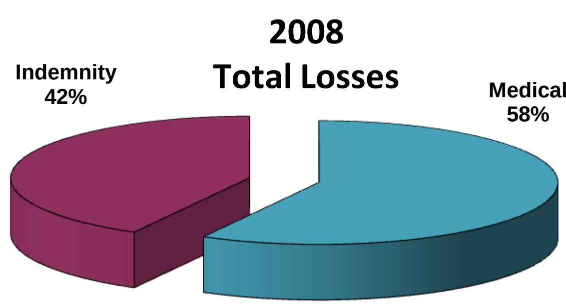


Ohio Bureau of Workers' Compensation Ratio of Discounted Indemnity and Medical Costs to Total Losses - For Accident Year 1998 and 2008



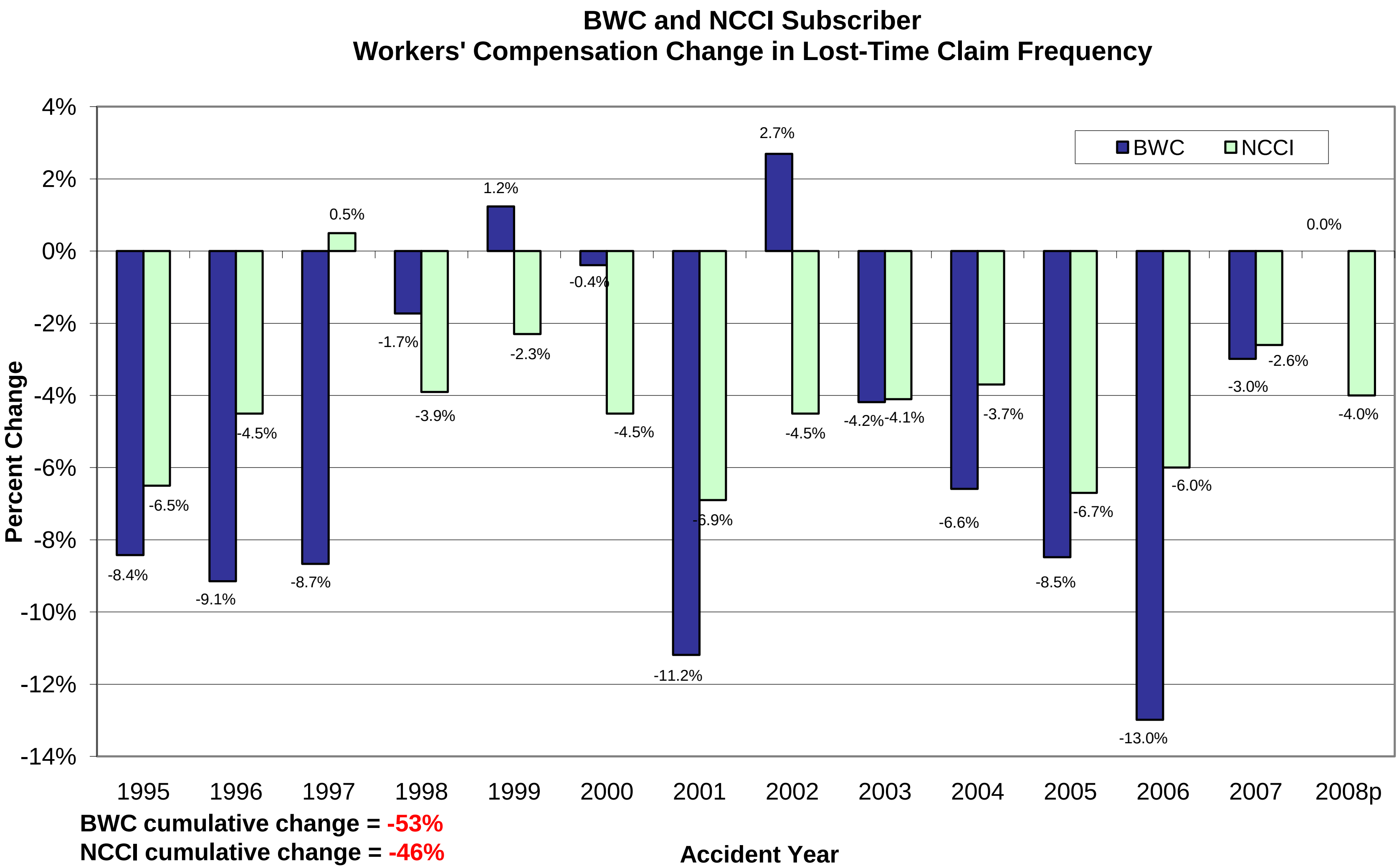
NCCI Ratio of Discounted Indemnity and Medical Costs to Total Losses - For Accident Year 1998 and 2008





State of the Line

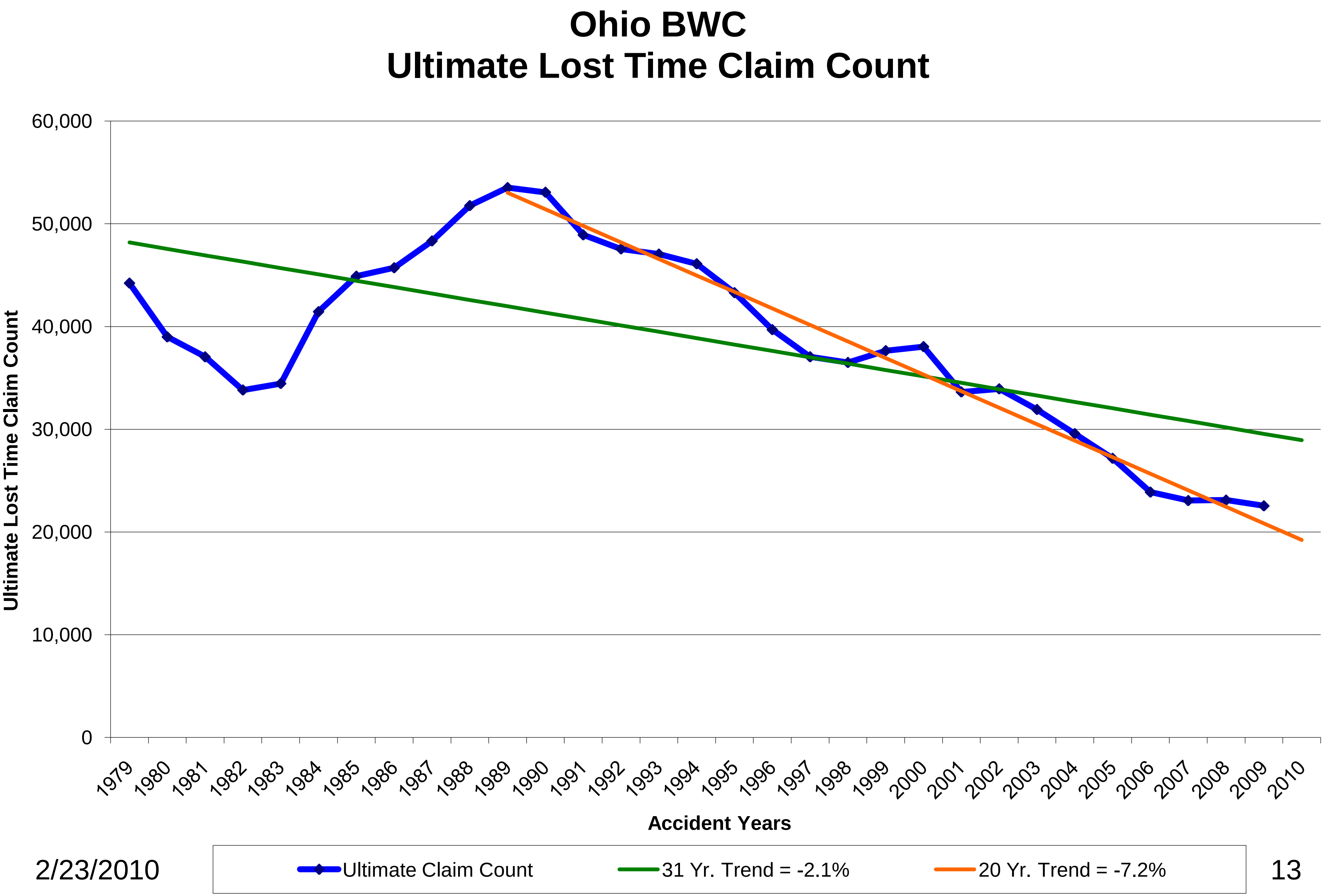
Ohio Bureau of Workers' Compensation



BWC cumulative change = -53%
NCCI cumulative change = -46%

Source is NCCI used with permission

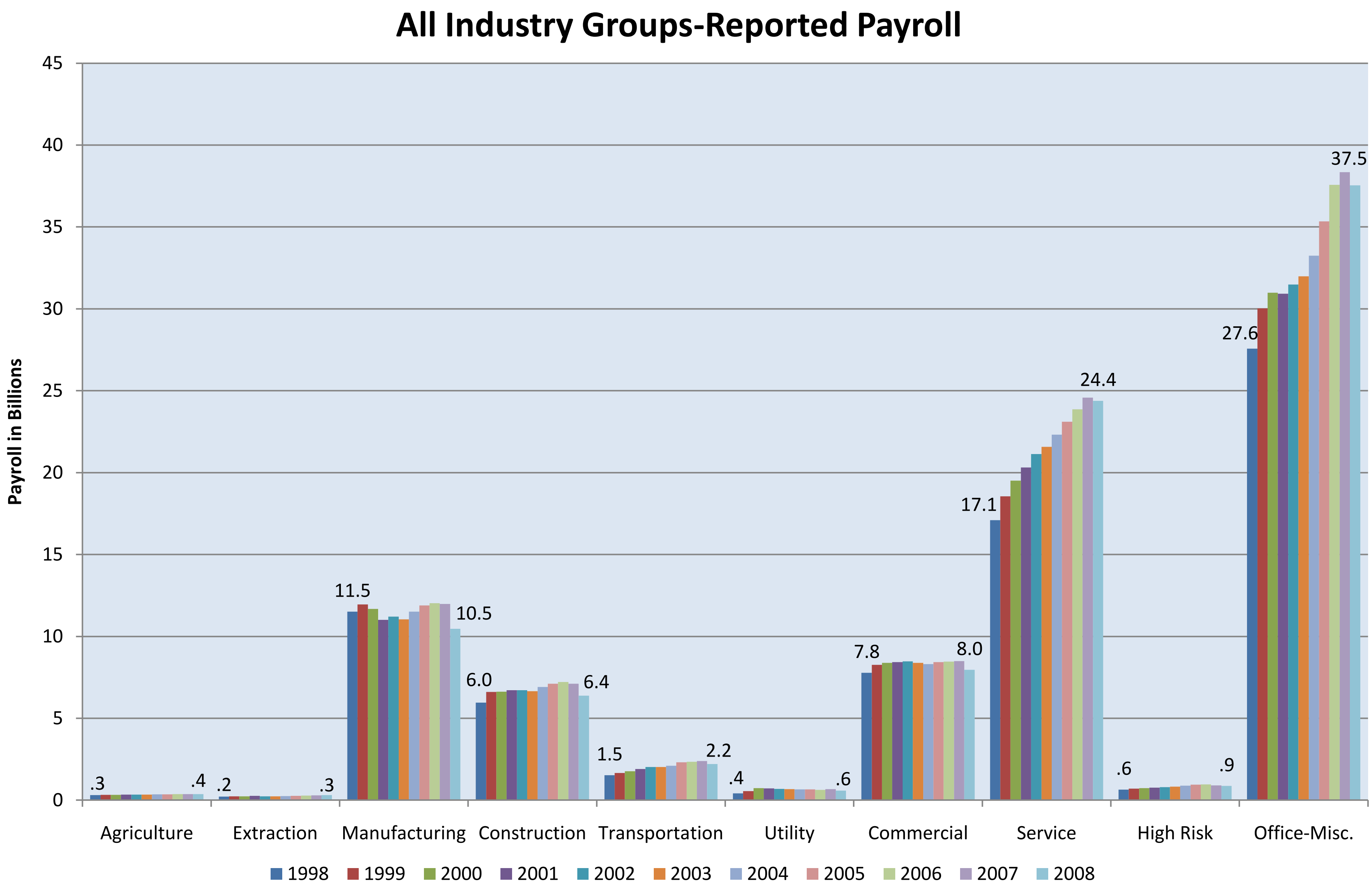
Ohio Bureau of Workers' Compensation



Claim Frequencies per 100,000 workers at 5th Report

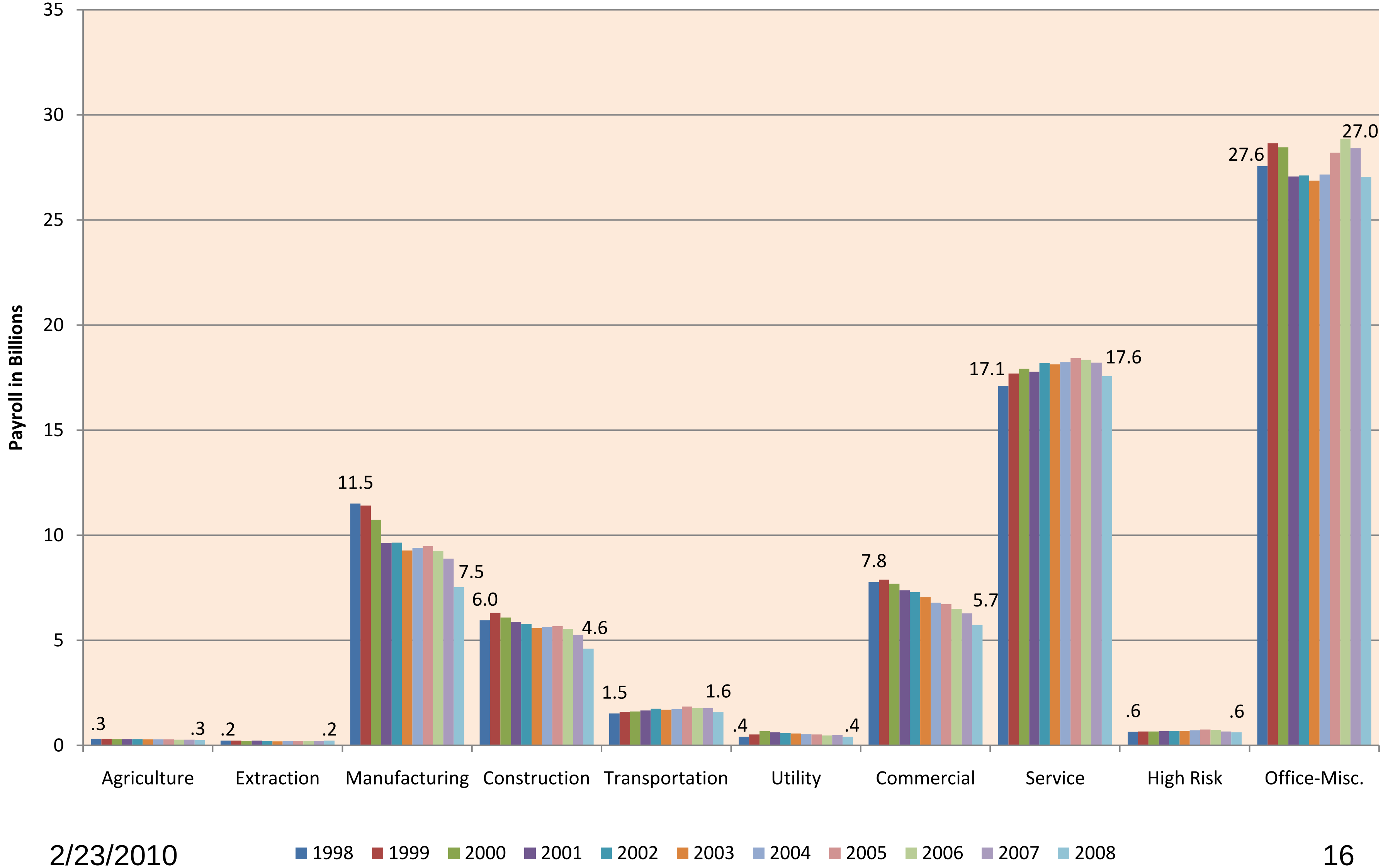
State	Policy Year	PTD per 100,000 workers	Lost time claims per 100,000 workers	Percent PTD
Illinois	4/04 to 3/05	13	1,156	0.011%
Indiana	7/04 to 6/05	2	883	0.002%
Kentucky	5/04 to 4/05	11	1,018	0.011%
Michigan	4/04 to 3/05	5	978	0.005%
Ohio	7/04 to 6/05	72	1,078	0.067%

Data is from the NCCI annual statistical bulletin

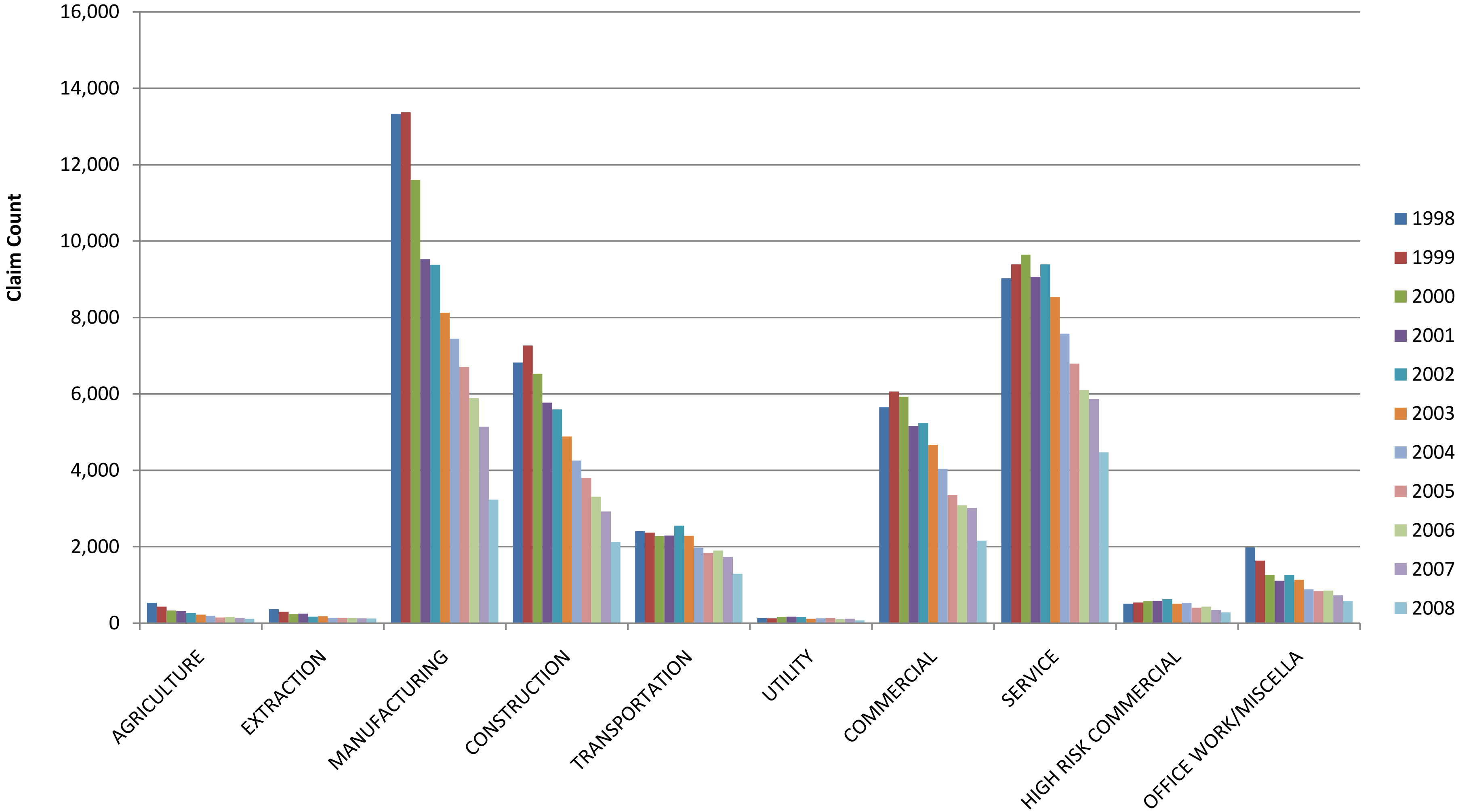


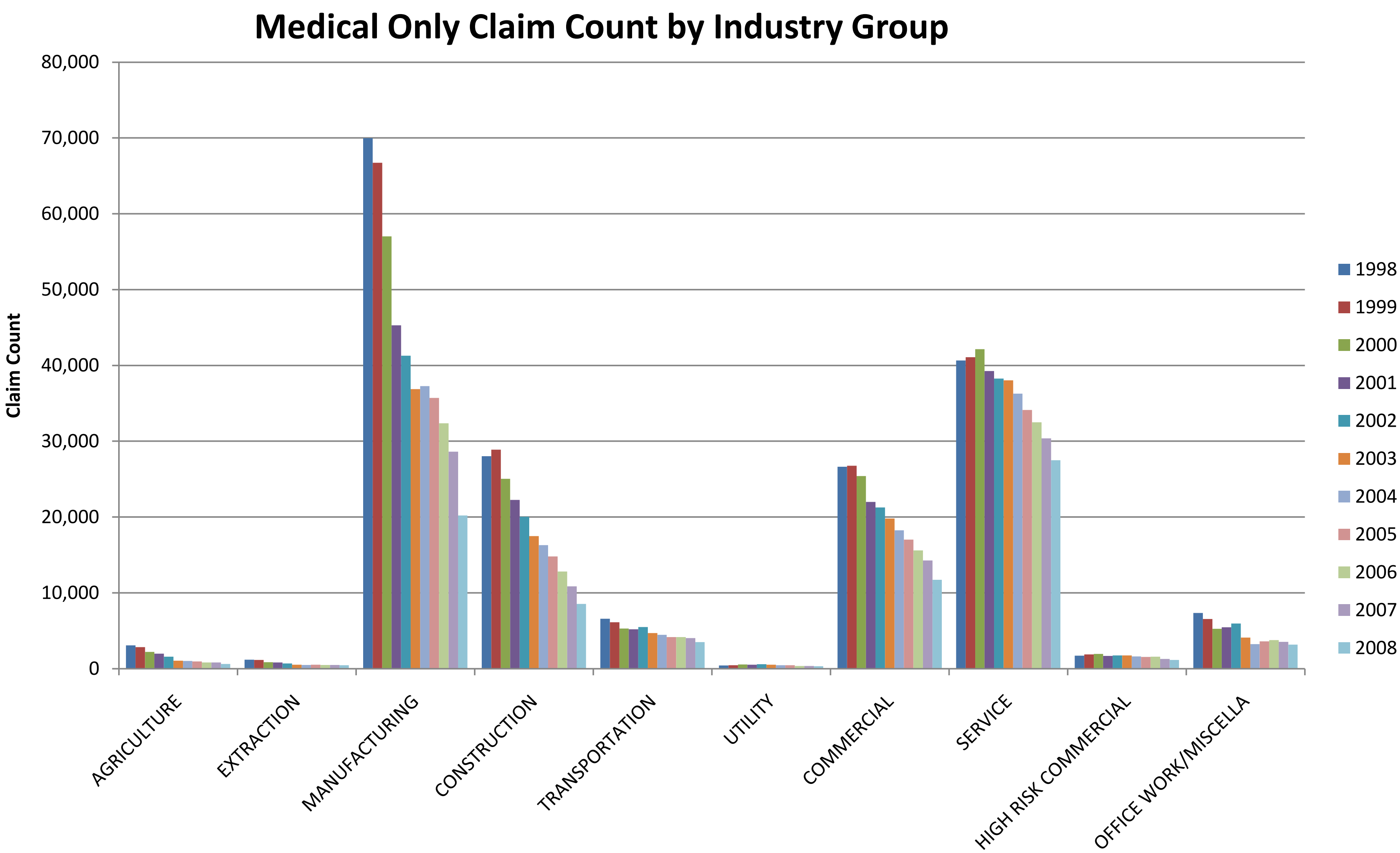
All Industry Groups-Reported Payroll
Payroll in Billions
45
40
35
30
25
20
15
10
5
0
.3
.4
.2
.3
11.5
10.5
6.0
6.4
1.5
2.2
.4
.6
7.8
8.0
17.1
24.4
.6
.9
27.6
37.5
Agriculture
Extraction
Manufacturing
Construction
Transportation
Utility
Commercial
Service
High Risk
Office-Misc.
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008

All Industry Groups-Wage Inflation Adjusted Payroll



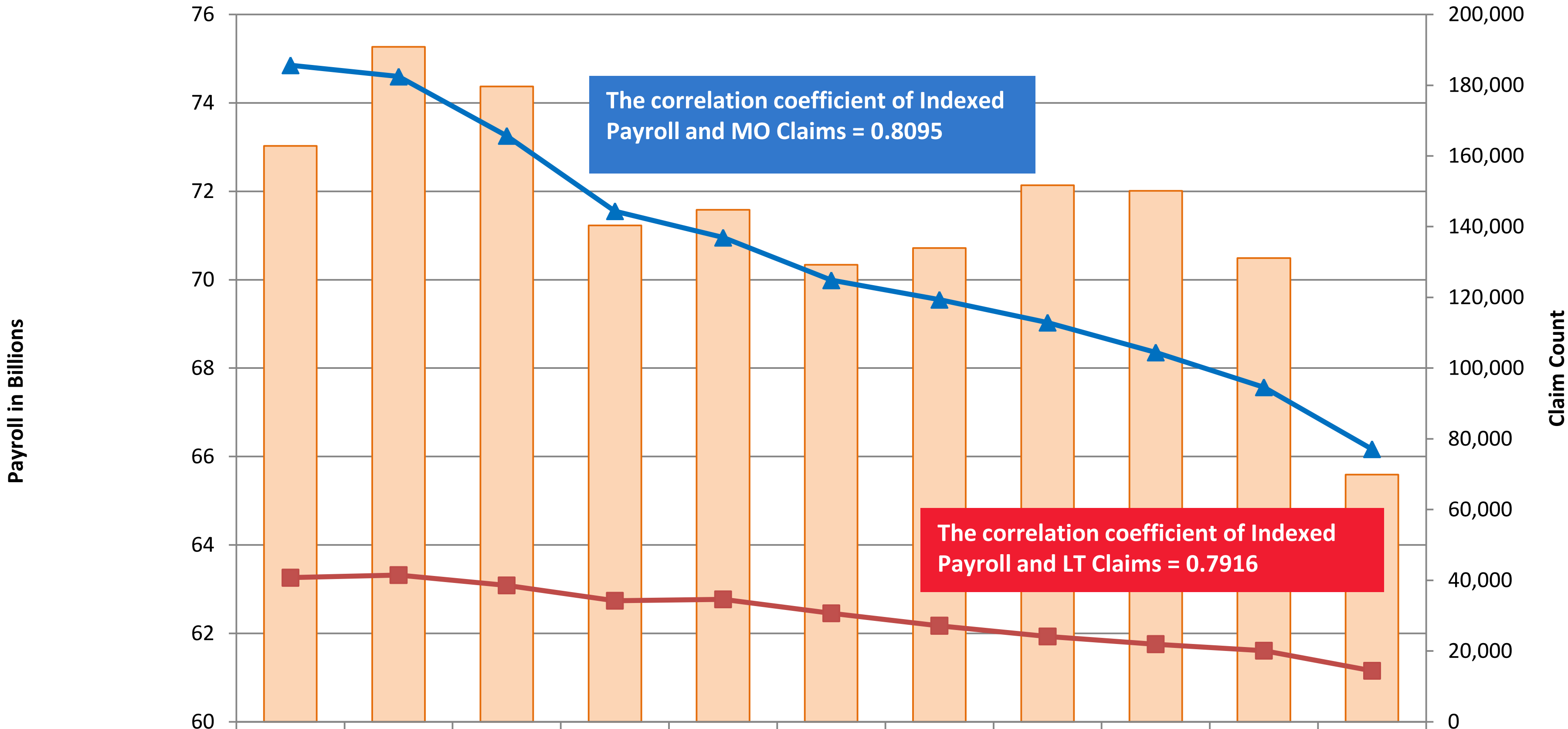
Lost Time Claim Count by Industry Group




Medical Only Claim Count by Industry Group
Claim Count
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
AGRICULTURE
EXTRACTION
MANUFACTURING
CONSTRUCTION
TRANSPORTATION
UTILITY
COMMERCIAL
SERVICE
HIGH RISK COMMERCIAL
OFFICE WORK/MISCELLA
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008

Ohio Bureau of Workers' Compensation

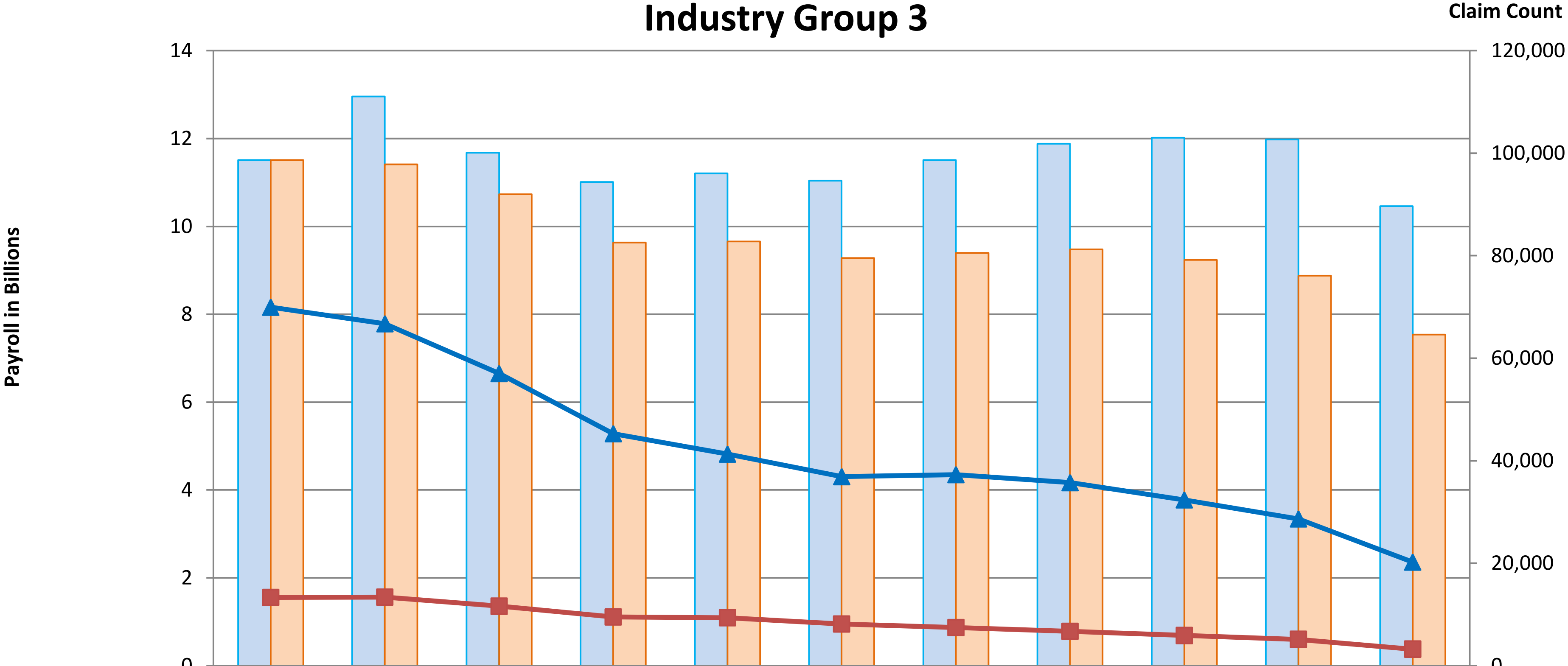
Total Wage Inflation Adjusted Payroll & Claims



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Indexed Payroll	73.03	75.27	74.37	71.23	71.58	70.34	70.72	72.14	72.01	70.49	65.59
Total LT Claims	40,747	41,491	38,544	34,245	34,627	30,650	27,159	24,141	21,945	20,123	14,433
Total MO Claims	185,664	182,471	165,714	144,413	136,925	124,859	119,364	112,894	104,458	94,607	77,106

*Indexed payroll is wage inflation adjusted payroll.

Manufacturing Payroll & Claims
Industry Group 3

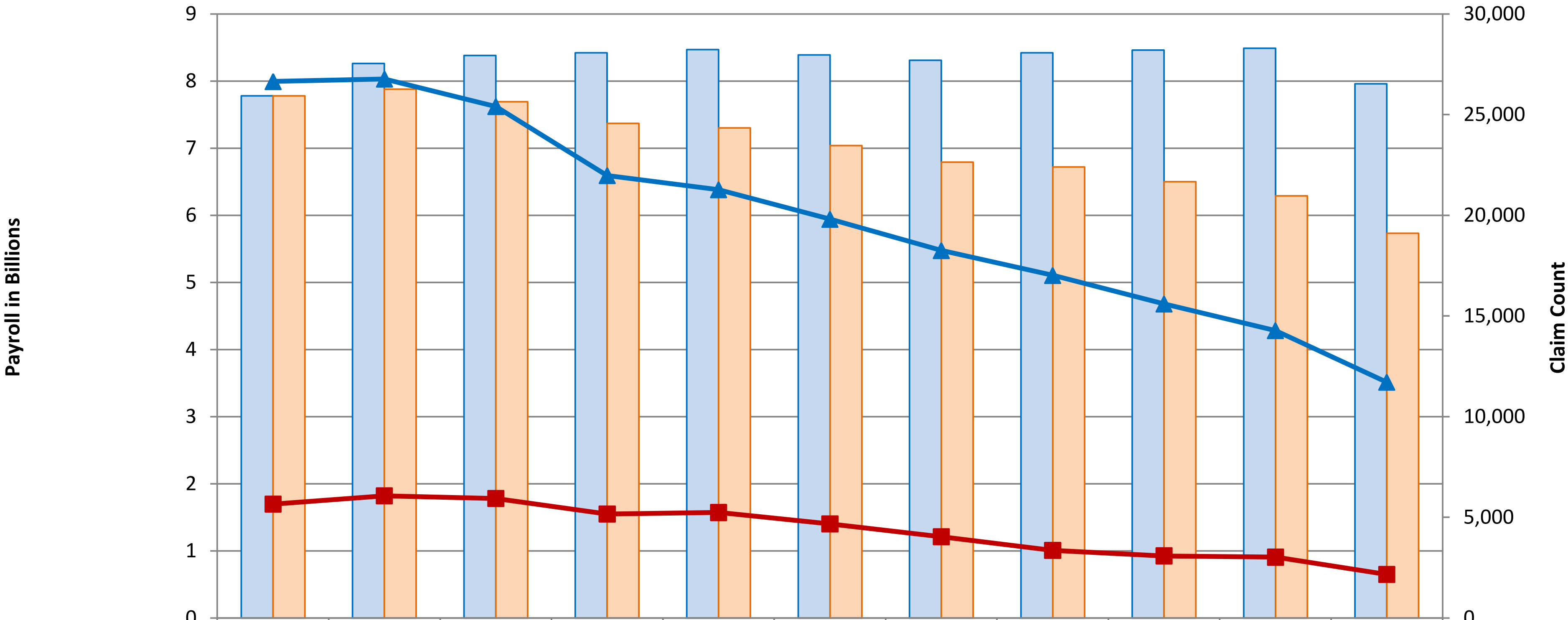


	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	11.51	12.96	11.68	11.01	11.21	11.04	11.51	11.88	12.02	11.98	10.46
Indexed Payroll*	11.51	11.41	10.73	9.63	9.66	9.28	9.40	9.48	9.24	8.88	7.54
LT Claims	13,329	13,372	11,606	9,527	9,378	8,128	7,442	6,702	5,889	5,140	3,233
MO Claims	69,972	66,747	57,019	45,279	41,294	36,884	37,278	35,715	32,351	28,635	20,197

*Indexed payroll is wage inflation adjusted payroll.

State of the Line

Commercial Payroll & Claims
Industry Group 7

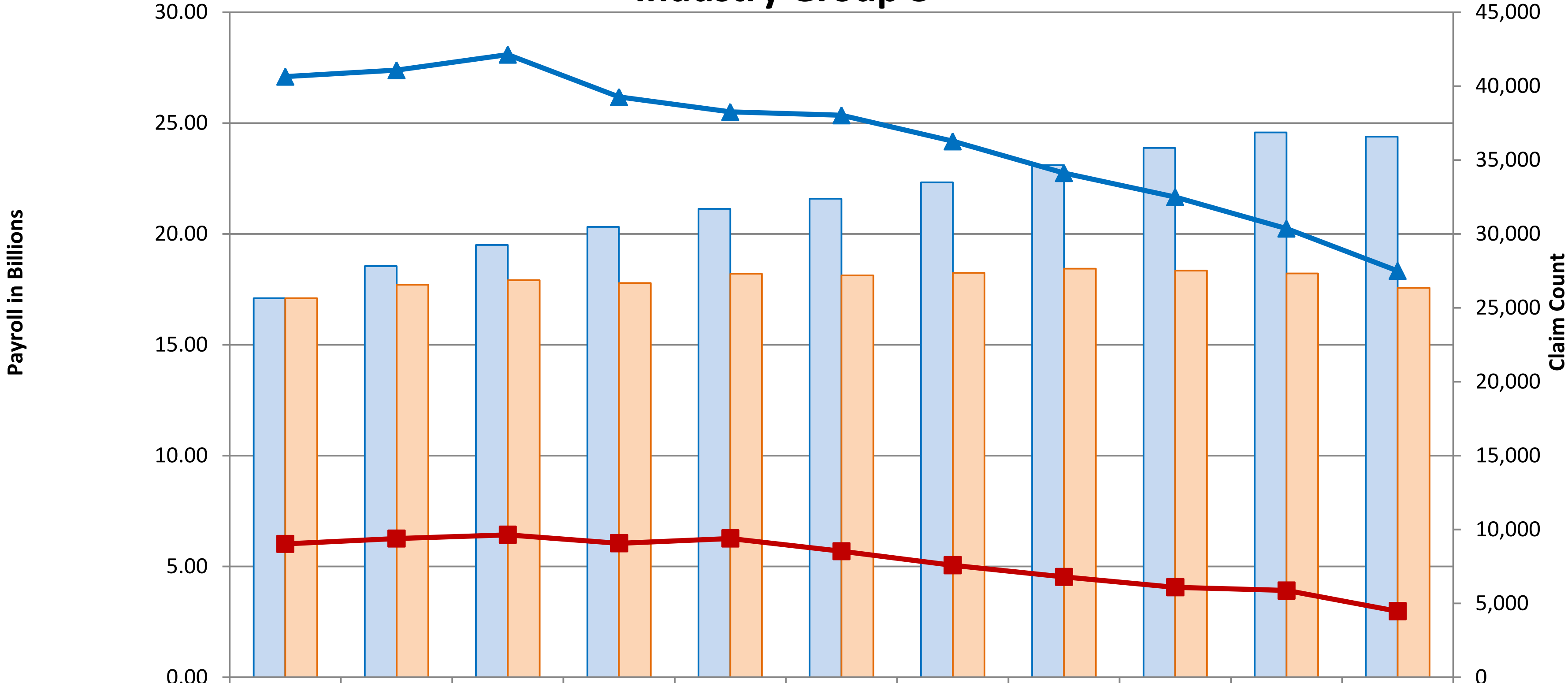


	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	7.78	8.26	8.38	8.42	8.47	8.39	8.31	8.42	8.46	8.49	7.96
Indexed Payroll*	7.78	7.88	7.69	7.37	7.30	7.04	6.79	6.72	6.50	6.29	5.73
LT Claims	5,649	6,065	5,928	5,164	5,234	4,665	4,035	3,352	3,081	3,016	2,160
MO Claims	26,645	26,770	25,405	21,978	21,274	19,804	18,251	17,015	15,598	14,276	11,713

*Indexed payroll is wage inflation adjusted payroll.

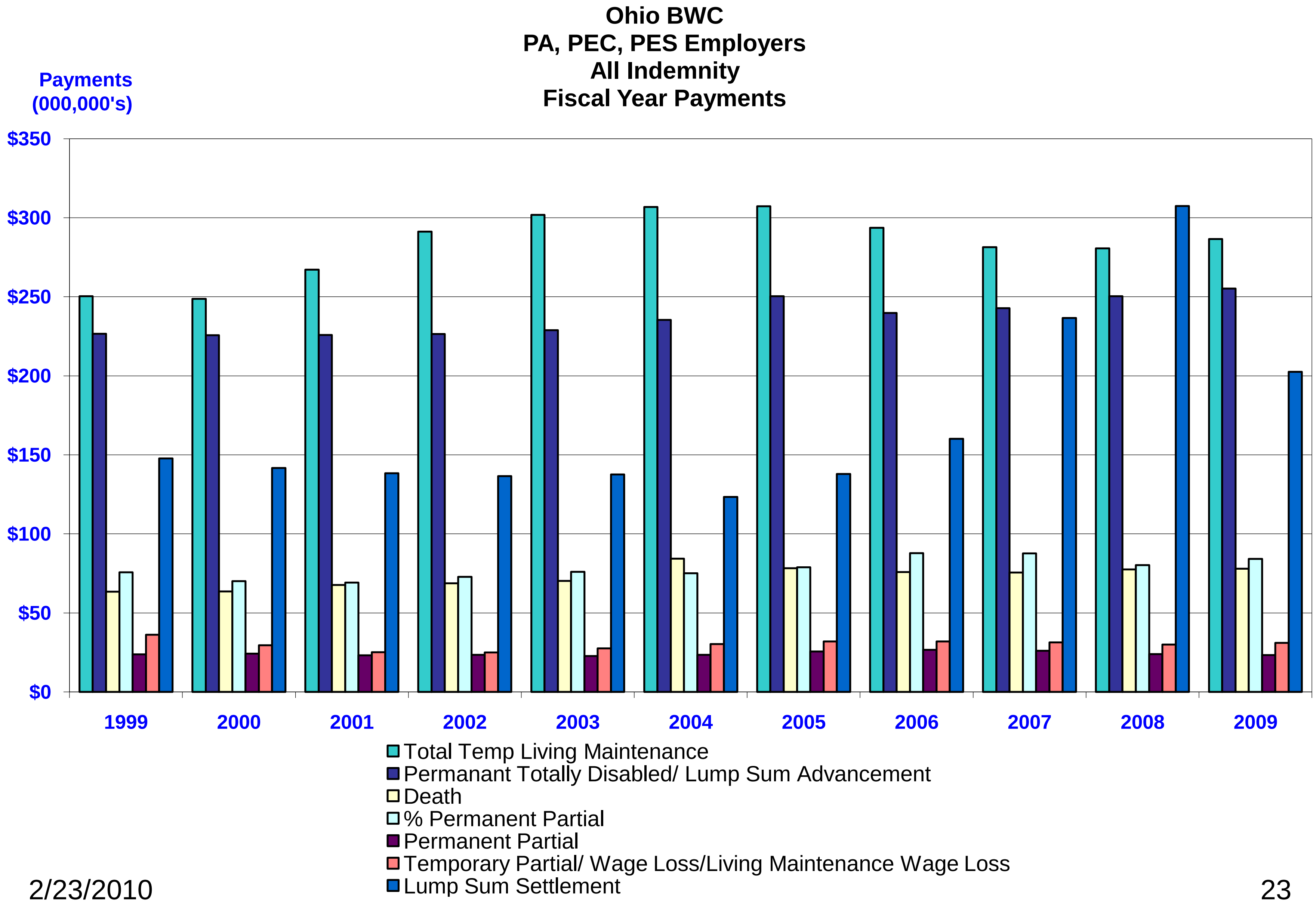
State of the Line

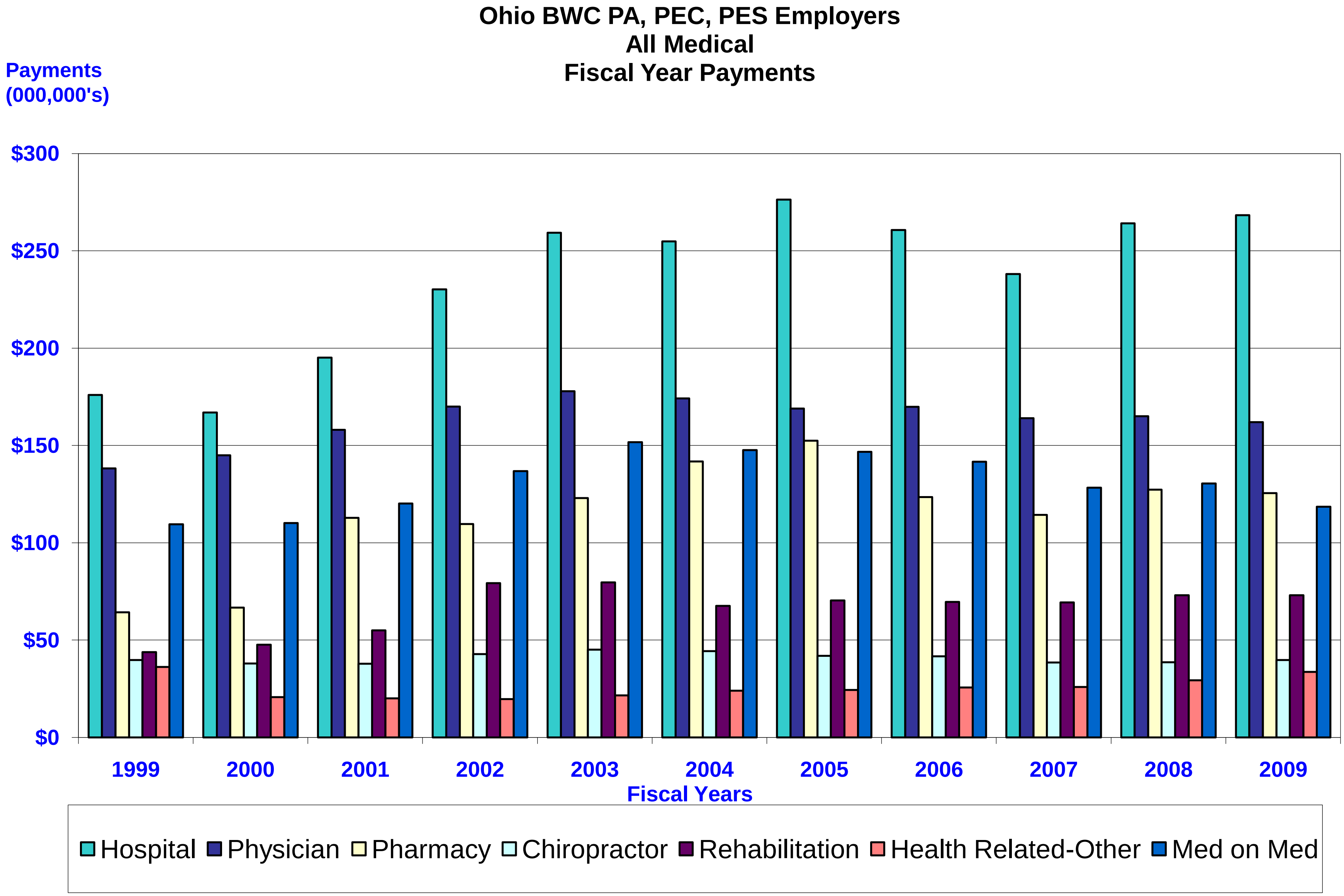
Service Payroll & Claims
Industry Group 8



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Payroll	17.10	18.55	19.50	20.31	21.13	21.58	22.32	23.10	23.87	24.57	24.39
Indexed Payroll*	17.10	17.70	17.91	17.78	18.20	18.13	18.24	18.43	18.34	18.21	17.57
LT Claims	9,029	9,390	9,643	9,068	9,394	8,531	7,581	6,792	6,093	5,868	4,472
MO Claims	40,642	41,080	42,132	39,260	38,257	38,028	36,264	34,120	32,493	30,362	27,501

*Indexed payroll is wage inflation adjusted payroll.


Ohio BWC
PA, PEC, PES Employers
All Indemnity
Fiscal Year Payments
Payments (000,000's)
$350
$300
$250
$200
$150
$100
$50
$0
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Total Temp Living Maintenance
Permanant Totally Disabled/ Lump Sum Advancement
Death
% Permanent Partial
Permanent Partial
Temporary Partial/ Wage Loss/Living Maintenance Wage Loss
Lump Sum Settlement


Ohio BWC PA, PEC, PES Employers
All Medical
Fiscal Year Payments
Payments (000,000's)
$300
$250
$200
$150
$100
$50
$0
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Fiscal Years
Hospital
Physician
Pharmacy
Chiropractor
Rehabilitation
Health Related-Other
Med on Med

Ohio | Bureau of Workers' Compensation
30 W. Spring St.
Columbus, OH 43215-2256

Governor **Ted Strickland**
Administrator **Marsha P. Ryan**
ohiobwc.com
1-800-OHIOBWC

To: Chuck Bryan, Chair, and
Members of the Actuarial Committee of the Board

From: John Pedrick, Chief Actuarial Officer

Date: February 25, 2010

Subject: Actuarial Analysis of Legislation

This memo summarizes the status of bills introduced in the legislature and actuarial analyses that may be required. For several of the bills mentioned we are unable to identify a "measurable financial impact" on the system.

Bills we have addressed:

SB 213: This bill prohibits the use of a break even factor and maintains a maximum discount for group employers of 65% for two years. It would also require that rules for any discount programs be adopted by the Board by September 1 preceding the policy year in which they would go into effect. We sent a memo to Senator Buehrer, Chair of the Workers Compensation Council regarding the impact this bill would have if enacted. The memo is attached.

HB 259: Legislation to modify the classes of investments in which BWC may invest. We sent a brief memo to Senator Buehrer, attached, that states, "A reduction in the return on investments could lead to upward pressure on rates since we set premiums with the assumption that they will be supplemented by earnings from our investment portfolio." However, there is no measurable financial impact from an actuarial perspective that can be directly attributed to the proposed changes.

SB 94 / HB 246: Legislation to create a rebuttable presumption that specified types of cancer and diseases contracted by firefighters, police, and emergency medical service workers are work related and compensable. In December 2009 we sent a memo to Senator Buehrer stating that we were working with our consultant, Deloitte, to better understand the financial implications of the bill. Deloitte sent a compilation of information from several states, which we incorporated in the preliminary report in the materials for the January 2010 committee meeting. Both of these documents are attached. We have contacted the public pension funds for additional information that may to add to our research and will provide a final report.

HB 216: This legislation changes the regulation of PEOs. We sent a memo to Senator Buehrer that discussed this bill along with HB 249. For HB 216 we stated, "The bill in its current form does not appear to have a substantial financial impact on the BWC or the funds for which it is responsible. However, significant issues regarding PEOs are under discussion by the National Association of Insurance Commissioners and the National Conference of Insurance Legislators. We are monitoring these developments and their implications for well functioning workers' compensation insurance systems throughout the United States."

HB 249: Legislation that modifies the definition of journalist. In the memo mentioned above to Senator Buehrer we stated, "The direct effect of this legislation is not clear. The indirect effect may be greater access to claimant information by those who will be allowed to identify themselves as journalists…While it is not clear that this bill will have a measurable financial impact, we will continue to review and monitor it and look into any additional issues it presents."

Bills related to workers' compensation we have not addressed:

SB 195: Legislation to create a uniform standard regarding who is an employee rather than an independent contractor. This bill does not produce a measurable financial impact from an actuarial perspective that can be directly attributed to the proposed changes.

Other bills identified by Workers' Compensation Council staff that we have not addressed:

HB 25, SB52: Executive Branch Reorganization
HB 230: Regulatory Process
HB 311, SB 3: Small Business
HB 318: Delay of Income Tax Reductions
HB 343: Government Efficiency Study
HJR 3: Health Care Amendment
SB 4: Performance Audits
SB 15: Discrimination in Health Insurance Policies
SB 134: Department of Health Care Amendment
SR 118: Privatization Study

While most of these are listed by WCC staff as bills to be watched, others (HB 230 SB 3 and SB 4) were identified for analysis. We have not analyzed them since they are not directly related to workers' compensation costs. We will continue to monitor developments on these existing bills and any new legislation.

Ohio | **Bureau of Workers' Compensation**
30 W. Spring St.
Columbus, OH 43215-2256

Governor **Ted Strickland**
Administrator **Marsha P. Ryan**
ohiobwc.com
1-800-OHIOBWC

January 15, 2010

Senator Steve Buehrer, Chair
Workers' Compensation Council
Statehouse-Senate Annex, 1st Floor
Columbus, OH 43215

Re: Senate Bill 213 – Actuarial Review

Dear Chairman Buehrer,

This letter concerns Senate Bill 213, which is currently under consideration in the Senate. This bill makes several changes that limit the Bureau's current effort to bring equity to the rates all Ohio employers pay for workers' compensation coverage.

The bill, in a new paragraph to Revised Code Section 4123.29 (C), requires the administrator to adopt rules that affect or implement discounts for programs or alternative premium plans by September 1, prior to the year in which the rules will go into effect. If SB 213 becomes effective prior to July 1, 2010, then the following programs and program changes would be affected:

- The new large deductible program, offering deductibles of $25,000, $50,000, $100,000, and $200,000, would not go into effect. This program is on the BWC Board of Directors' agenda for a possible vote in January, 2010.
- The 100% cap rule that limits the increase of an employer's experience modifier to 100% will not apply. That rule only affects policy year 2009, for private employers. We plan to modify the rule to remove specific dates, allowing it to apply every year, and have it scheduled for discussion with the Board this month anticipating a vote in February.
- The new, lower eligibility levels for experience rating would not go into effect. In October the Board approved lowering the eligibility from $8,000 of expected loss to $2,000. Over 45,000 employers that are currently base-rated will be experience rated under this change. Without it, they will continue to pay base rates without an experience adjustment. We expect the majority of these employers to receive an experience credit if the rule goes forward.

Section 3 of the bill would:

- Eliminate the break-even factor for two years,
- Maintain the maximum discount for group rated employers at 65%,
- Prohibit any changes to the group rating programs (there are two) for two years, and
- Require a study of the premium rating system and the forecast direction of premium rates.

These changes would stop BWC from making progress in its multi-year efforts to reform Ohio's rate setting systems. These efforts started before the current Board of Directors was established by House Bill 100, 127th GA. In 2005, the Bureau initiated a plan to lower the maximum discount for groups. In 2007, the Board of Directors charged Bureau staff to develop a plan to fix the problems associated with the group program. We are only part of the way on the path to full rate reform that will bring stability and equity to the rating system:

- Currently we know that group rated employers do not pay enough premium to cover the costs of their injured workers, and would pay even less without the break-even factor (BEF) we use to keep their rates close to the appropriate level.
- Eliminating the BEF for the 2010 policy year would bring group rates to a level that is lower than that for the 2009 policy year, and even further from the target for full equity in the system. A premium deficiency of at least $134 million would materialize. Logically, such low rates for group employers would certainly bring more employers into this program, and in turn, increase this deficiency. Table 1 demonstrates the structure of premium and assessments projected for policy year 2009, along with several scenarios for policy year 2010.

Table 1
Premium (with Assessments) Structure by Segment – Private Employers
Revenue Neutral Change for Policy Year 2010
($ Millions)

Segment	2009 Projected Premium	Target Premium For Full Equity*	2010 Proposed Premium**	2010 Proposed Premium Variance From Target	2010 Premium Without 1.275 Average BEF	2010 Premium Without BEF Variance From Target
Non-group	1,184.7	1,078.5	1,129.1	50.6	1,129.1	50.6
Group	565.3	671.5	620.9	-50.6	487.0	-184.5
Total	1,750.0	1,750.0	1,750.0	0	1,616.1	-133.9

* Group rate level at 0.80
** Group rate level at 0.71

- Changes in the credibility table are not enough to make the group rating program actuarially sound. All of the studies on group rating indicate that employers need to stay together in the same groups for many years to make the program sound. The annual churning of employers in and out of groups and from one group to another continues to undermine the improvements that changes in credibility would bring if groups remained continuous. Prohibiting changes to the group experience rating program and removing the break-even factors would not only allow the continued degradation in group premium adequacy, but would accelerate it.

  Table 2 shows that the reduction in maximum credibility has had less impact on the average group experience modifier (EM) than necessary to bring group rate levels to adequate levels. It is clear that without the break-even factor, group experience rate levels would fall rather than rise.

Table 2
Maximum Credibility and Group Experience

Year	Maximum Credibility / Maximum Discount	Average Group Experience Modifier (Including BEF in 2009 and 2010)	Group EM to Achieve Full Equity
2005	95%	0.24	
2006	93%	0.28	
2007	90%	0.31	
2008	85%	0.39	
2009	77%	0.380 x 1.311= 0.498	0.62
2010 projected	65%	0.428 x 1.275 = 0.546	0.62

- Loss ratios for group experience rated employers continue to be much higher than those of the non-group segment. Table 3 shows that the loss ratios for several policy years, each at an age of 21 months (policy year 2008 is measured at age 12 months – June 30, 2009). Claim costs for each year will continue to grow until they reach their ultimate values several decades from now (by a factor of approximately 3.2). The data shows that that group loss ratios continue to exceed those of the non-group segment by 70 percent to 85 percent. In a fully equitable system the loss ratios would be virtually the same. The consistently large gap in loss ratios through policy years 2007 and 2008 demonstrates that reductions in credibility alone have not brought group loss ratios in line with the non-group segment.

Table 3
Raw Loss Ratios* for Policy Years 2003 Through 2008
Valued at 21 Months (12 Months for 2008)

Policy Year	Evaluation Date	Maximum Credibility	Group Loss Ratio	Non-Group Loss Ratio	Group Loss Ratio Relative to Non-group Loss Ratio
2003	3/31/2005	100%	110.6%	58.4%	1.89
2004	3/31/2006	100%	93.6%	46.9%	1.99
2005	3/31/2007	95%	82.1%	44.2%	1.85
2006	3/31/2008	93%	68.4%	40.6%	1.68
2007	3/31/2009	90%	46.6%	26.3%	1.77
2008	6/30/2009	85%	28.4%	15.4%	1.84

* Raw loss ratios do not include loss development. Losses for a year at age 21 months are estimated to increase by a factor of 3.23. As a result, the loss ratios for 2007 will ultimately become 150.5% for group and 84.9% for non-group. This does not affect the relativity between the two, which remains at 1.77.

The group retrospective rating program also falls under the provisions of § 4123.29 (A)(4). Seven groups are now in place with a total enrollment of 365 employers. Key parameters for this existing program must be implemented within the next six months in order to give these employers full information regarding the future premium adjustments they face under this program. The bill would prevent this, forcing the Bureau to contemplate cancelling the premium refunds that some groups have earned.

I hope this information is helpful to you and the Workers' Compensation Council.

Respectfully yours,

John R. Pedrick, FCAS, MAAA
Chief Actuarial Officer

Ohio | **Bureau of Workers' Compensation**
30 W. Spring St.
Columbus, OH 43215-2256

Governor **Ted Strickland**
Administrator **Marsha P. Ryan**

ohiobwc.com
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December 7, 2009

Senator Steve Buehrer, Chair
Workers' Compensation Council
Statehouse-Senate Annex, 1st Floor
Columbus, OH 43215

Re: House Bill 259 – Actuarial Review

Dear Chairman Buehrer,

This letter concerns House Bill 259, which is currently under consideration in the House of Representatives. This bill places limitations on the types of investments in which the Bureau of Workers' Compensation may invest.

Revised Code § 4123.125, requires the Ohio Workers' Compensation Board of Directors to have a report prepared by or under the supervision of an actuary of any introduced legislation expected to have a measurable financial impact on the workers' compensation system. A limitation of investment strategies could reduce the BWC's rate of return on investments. A reduction in the return on investments could lead to upward pressure on rates since we set premiums with the assumption that they will be supplemented by earnings from our investment portfolio.

As we analyze the impact this change would have on our investment performance, we will update the Board of Directors and the Workers' Compensation Council and prepare a more thorough report.

Respectfully yours,

John R. Pedrick

John R. Pedrick, FCAS, MAAA
Chief Actuarial Officer

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Governor **Ted Strickland**
Administrator **Marsha P. Ryan**
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To: Actuarial Committee of the Board of Directors
From: John R. Pedrick, FCAS, MAAA, Chief Actuarial Officer
Date: January 12, 2010
Subject: Senate Bill 94

This memo gives a brief summary of the impact that SB 94 would have on the state insurance fund. In brief, we do not expect it to have more than a minor impact in costs, but have additional research to do before reaching a definitive conclusion.

The Legal Division's Assistant General Counsel, Tom Sico has prepared a legal summary of Senate Bill 94, which is attached to this memo. The most notable changes identified in the legal summary are that the bill:

- Adds scheduled diseases that were previously not scheduled (but currently possible for workers compensation). – *page 2, 3rd and last paragraph*
- Creates a presumption that the condition is due to employment, thereby relieving the worker of the necessity of proof of causation. – *page 2, last paragraph*
- Eases the burden of proof by the employee/injured worker and places the burden to disprove the claim onto the employer or BWC. – *page 4, 1st and 3rd paragraph*
- Establishes that the years of hazard duty for a firefighter or public emergency medical services worker is three years, but has no such requirement for years of duty for a police officer. – *page 4, 1st paragraph*
- Allows for an expanded ability for police and firemen to receive double benefit payments from the BWC and the Ohio Police and Fire Pension Fund. – *page 5, 1st paragraph*
- Applies to claims arising on or after the effective date of the Act – *page 5, 4th paragraph*
- Applies to any death claim made by dependents in which the date of death is after the effective date of this bill. – *page 5, last paragraph*

Benchmarking and Analysis of Senate Bill 94

Deloitte Consulting provided an existing report created by the Connecticut General Assembly's research department that detailed the coverage afforded to firefighters in other states. In summary, the report researches 15 states laws on the presumption for cancer and infectious diseases for police and firefighters. The only state with estimated costs is California. California laws require that the cancer conditions be funded by the Workers' Compensation system and the infectious diseases are funded through its retirement fund. "Until 1990, California paid approximately $4 million for the workers' compensation cancer presumption." (As quoted from OLR Research Report completed for the Connecticut General Assembly.) A copy of the report is attached. Additionally, the actuarial division located a matrix from the Fire Fighters Cancer Foundation web site listing all 50 states and the District of Columbia showing the presumptive disease legislation by state at the following web site http://www.ffcancer.org/?zone=/unionactive/view_page.cfm&page=Political20Action, this has a copyright and is not included in the documents.

To determine the potential level of exposure, we obtained data from all Ohio employer groups (Private and Public) and determined that the employment of police, firefighters and public emergency medical services worker is limited to the Public Employer Taxing District employer group. We further limited the claim data to only those classifications that would hire police, firefighters and public emergency medical services worker, such as cities, townships and volunteer emergency services. We further refined the data to claims with conditions listed in SB 94 with dates of injury from January 1, 2004 to December 31, 2009 and found that there are only 18 claims filed.

The data in the table below indicates minimal claim activity. The total incurred claim cost on the seven allowed claims below is $871,000 averaging approximately $124,000 per claim. It is difficult to anticipate what the increase in claim activity will be after passage of SB 94. BWC is actively seeking information on allowed disability retirement claims from the Ohio Police and Fire Pension Fund. If the BWC can obtain this information, we may be able to have a better idea of the potential Ohio exposure.

Senate Bill 94 – Public Employer Taxing District Claims						
Injury Year	Total Claims filed by entities that would hire Police, Firefighters and Emergency Medical Services	Potential SB 94 Claims filed	Percent of filed claims	Total **allowed** claims for entities that would hire Police, Firefighters and Emergency Medical Services	SB 94 claims already **allowed** by BWC	Percent of allowed claims
2004	17,224	6	0.03%	15,062	1	0.01%
2005	16,498	3	0.02%	14,543	2	0.01%
2006	14,982	0	0.00%	13,179	0	0.00%
2007	15,115	2	0.01%	13,369	1	0.01%
2008	14,439	5	0.03%	12,581	3	0.02%
2009	12,549	2	0.02%	10,491	0	0.00%
Totals	**90,807**	**18**	**0.02%**	**79,225**	**7**	**0.01%**

MEMORANDUM

To: Liz Bravender, Actuarial Director, BWC
From: Tom Sico, Assistant General Counsel, BWC
Subject: Legal Summary of S.B. 94
Date: January 11, 2010

This memorandum is a summary of the legal provisions of S.B. 94 of the 128th General Assembly. The bill would amend R.C. 742.38, 4123.57, and 4123.68 to provide that a firefighter, police officer, or public emergency medical services worker who is disabled as a result of certain types of cancer or contagious or infectious diseases is presumed to have incurred the disease in the course of employment for workers' compensation purposes and for disability under the Ohio Police and Fire Pension Fund.

Background Law

Under workers' compensation law, there are two types of allowance of an occupation disease claim: scheduled diseases, and non-scheduled diseases. The primary statute for occupational diseases is R.C. 4123.68, which states, in the first paragraph:

> Every employee who is disabled because of the contraction of an occupational disease or the dependent of an employee whose death is caused by an occupational disease, is entitled to the compensation provided by [the workers' compensation statutes] … .

The second paragraph of R.C. 4123.68 provides for the first type of occupational disease claims, scheduled diseases:

> The following diseases are occupational diseases and compensable as such when contracted by an employee in the course of the employment in which such employee was engaged and due to the nature of any process described in this section.

The balance of R.C. 4123.68 contains an extensive list of specific occupational diseases, ranging from anthrax to asbestosis. If an injured worker can show that he or she has the disease and has contracted it through the described process, then the disease is compensable. For example, under Division (C), if an employee has lead poisoning, and can prove that he or she contracted it from "any industrial process involving the use of lead or its preparations or compounds," the claim is compensable.

If an occupational disease is not specifically scheduled, a worker may still file a claim for the disease as a non-scheduled disease. The second sentence of the second paragraph of R.C. 4123.68 states:

> A disease which meets the definition of an occupational disease is compensable pursuant to this chapter though it is not specifically listed in this section.

The definition of a non-scheduled occupational disease is found in R.C. 4123.01(F):

> "Occupational disease" means a disease contracted in the course of employment, which by its causes and the characteristics of its manifestation or the condition of the employment results in a hazard which distinguishes the employment in character from employment generally, and the employment creates a risk of contracting the disease in greater degree and in a different manner from the public in general.

A non-scheduled disease is more difficult to establish under this definition. The injured worker must prove that the employment creates a hazard for the disease that is different than employment generally, and that the risk of contracting the disease in the employment is greater and different that the risk faced by the general public. Especially for some widespread infectious diseases, it is difficult to prove the unique or special exposure of one type of employment over the general public or other employment.

Current Law on Allowance of Cancer or Contagious Diseases Claims

S.B. 94 would add to the schedule of occupational diseases under R.C. 4123.68 certain cancers or contagious or infectious diseases of firefighters, police officers, or public emergency medical services workers. However, these diseases could be compensable under current law. Since these conditions are not listed as scheduled diseases under current R.C. 4123.68, a firefighter, police officer, or public emergency medical services worker would need to prove a cancer or contagious or infectious disease as a non-scheduled disease under the definition of an occupation disease in R.C. 4123.01(F).

As stated earlier, there is a higher burden of proof for a non-scheduled disease. Because of the unknown or multiple possible causes of certain cancers or contagious or infectious diseases, it may be difficult for a firefighter, police officer, or public emergency medical services worker to prove that the condition was the result of the employment. Even if there is proof of an employment relationship, the worker also needs to prove that the condition is due to an employment hazard for the disease different than other employments, and that the risk of the disease in the employment is greater and different than the risk faced by the public.

S.B. 94 Amendments

For the purpose of workers' compensation claims, S.B. 94 makes two significant changes that make it easier for a firefighter, police officer, or public emergency medical services worker to have an allowable claim for certain types of cancer or contagious or infectious diseases. The bill adds these conditions as scheduled diseases, and the bill creates a presumption that the disease is due to the employment, thereby relieving the worker of the necessity of proof of causation.

S.B. 94 would amend R.C. 4123.68 to add a new Division (X), which would create the following scheduled occupational diseases:

> (X)(1) Cancer or disease contracted by a firefighter, police officer, or public emergency medical services worker: Any of the following types of cancer or disease contracted by a firefighter, police officer, or public emergency medical services worker who, in the case of a firefighter or public emergency medical services worker, has been assigned at least three years of hazard duty as a firefighter or public emergency medical services worker, constitutes a presumption, which may be refuted by affirmative evidence, that the cancer or disease was contracted in the course of and arising out of the firefighter's, police officer's, or public emergency medical services worker's employment:
>
> (a) Cancer of the lung, brain, kidney, bladder, rectum, stomach, skin, or prostate;
> (b) Non-Hodgkins lymphoma;
> (c) Leukemia;
> (d) Multiple myeloma;
> (e) Testicular or colorectal cancer;
> (f) A contagious or infectious disease specified in rules adopted pursuant to division (F) of section 3701.248 of the Revised Code.

R.C. 4123.68(X)(1)(f) references an unspecified rule adopted by the Department of Health. The rule based upon R.C. 3701.248(F), the statute cited in the statute, is Rule 3701-3-02.2 of the Administrative Code. The rule lists "contagious or infectious diseases that the public health council, by rule, has specified as reasonably likely to be transmitted by air or blood during the normal course of an emergency medical services worker's duties." The list of 23 contagious or infectious diseases is in Paragraph (B) of that rule:

> (B) The following diseases are specified as reasonably likely to be transmitted by air or blood during the normal course of an emergency medical worker's duties:
> (1) Crimean-Congo hemorrhagic fever;
> (2) Diphtheria;
> (3) Ebola-marburg virus infection;
> (4) Fifth disease (human parvovirus infection);
> (5) Hansen's disease (leprosy);
> (6) Acute or chronic infection with hepatitis B virus;
> (7) Acute or chronic infection with hepatitis C virus;
> (8) Infection with delta hepatitis virus;
> (9) Human immunodeficiency virus (HIV) infection, including acquired immunodeficiency syndrome (AIDS) and AIDS-related illnesses;
> (10) Infection with human t-lymphotropic virus (HTLV-1 and HTLV-2);
> (11) Lassa fever;
> (12) Leishmaniasis, visceral (Kala-Azar);
> (13) Leptospirosis;
> (14) Listeriosis pneumonia;
> (15) Measles (rubeola);

(16) Meningococcal infection (neisseria meningitidis);
(17) Mumps (infectious parotitis);
(18) Pertussis (whooping cough);
(19) Pneumonic plague (yersinia pestis);
(20) Rabies;
(21) Rubella (German measles);
(22) Tuberculosis; and
(23) Varicella (herpes zoster) infection, including chicken-pox, disseminated varicella, varicella pneumonia, and shingles.

As scheduled occupational diseases, the cancers or contagious or infectious diseases listed in the statute or rule are easier to establish than under current law. Further easing the burden of proof is that the bill provides that there is a presumption that the disease is due to the occupation. For a firefighter or a public emergency medical services worker, the presumption applies if the firefighter or public emergency medical services worker has been assigned at least three years of hazard duty as a firefighter or public emergency medical services worker. For a police officer, the presumption applies without any employment time limit or hazard duty requirement.

It is not clear why the statute requires three years hazard duty for firefighters or public emergency medical services workers but not for police officers. Further, it appears that the three year hazard duty requirement for firefighters or public emergency medical services workers may apply even for a claim for a contagious or infectious disease under R.C. 4123.68(X)(1)(f), even though such claims do not necessarily develop over a period of time, but may be due to a single incident of exposure. For example, if an firefighter contracts HIV, one of the 23 contagious or infectious diseases listed at Rule 3701-3-02.2(B)(9), a strict reading of the statute would require that the firefighter or public emergency medical services worker must have three years hazard duty exposure for the presumption to apply. For a police officer exposed to and contracting HIV, there would not be a three year or a hazard duty requirement.

A presumption under the law addresses the issue of the burden of proof. Normally, an injured worker has the burden of proving entitlement to a claim by a preponderance of the evidence. With a presumption, the burden of proof is met by establishing the mere facts establishing the presumption. For example, for cancer of the lung, a police officer need only prove that he or she has cancer of the lung and that he or she is an employed police officer. In all cases, the presumption may be refuted by the employer or bureau by affirmative evidence to the contrary. In this example, it would be the burden of the employer or bureau to either show that the police officer does not have lung cancer or that the cancer was due to causes other than the employment. Just as under current law it is difficult in many cases for the injured worker to establish the causation of a cancer because of the unknown or multiple possible causes of certain cancers, for the employer or bureau to rebut the presumption, it would be difficult to prove that the cancer was not caused by the employment and that it was due by other causes.

Dual Recovery under the Ohio Police and Pension Fund and Workers' Compensation

S.B. 94 permits a police officer, firefighter, or public emergency medical services worker to receive both a disability benefit under the Ohio Police and Fire Pension Fund and workers' compensation benefits simultaneously without offset by either fund. Note that current law permits double payment, but the bill would expand the situations to include these additional conditions because in addition to adding the cancers and contagious or infectious diseases to the workers' compensation statutes, the bill amends R.C. 742.38 to add the same presumption for cancers and contagious or infectious diseases for the purposes of disability benefits under the Ohio Police and Fire Pension Fund.

Effective Date of Amendments

If S.B. 94 were to be enacted as written, uncodified Section 4 establishes that the amendments in the bill apply to claims filed on or after the effective date of the Act.

> Section 4. The amendments made by this act to sections 4123.57 and 4123.68 of the Revised Code apply only to claims pursuant to Chapters 4121. and 4123. of the Revised Code arising on and after the effective date of this section.

For workers' compensation purposes, Section 4 has little practical significance for cancer claims, but could have some impact on claims for exposure to contagious or infectious diseases. Since cancers generally develop over a period of time, so long as a police officer is employed on or after the effective date of the Act, and the diagnosis of a cancer disease occurs thereafter, Section 4 would not appear to bar a claim. For firefighters or public emergency medical services workers, Section 4 could be interpreted to require that the three years of hazard duty exposure as a firefighter or public emergency medical services worker occur after the effective date of the Act. If so, the impact for firefighters or public emergency medical services workers for cancer claims would be delayed. For contagious or infectious disease claims, Section 4 likely requires that the exposure must occur after the effective date of the Act for the claim to "arise on or after" the effective date of the Act.

Death Benefits

A death claims for dependents of a deceased worker is new causes of action, to be filed within two years of the date of death. It is likely that any claim for a police officer or firefighter or public emergency medical services worker allowed due to a cancer or exposure under the Act would also lead to death claim if the cause of death was related to the cancer or exposure. Also, since a death claim is a new cause of action, it is very possible that a death claim filed after the effective date of the Act could be covered by the presumptions in the Act, regardless of the date of onset of the cancer or the exposure.

Location:
DISEASES; FIRE DEPARTMENTS AND FIREMEN; WORKERS' COMPENSATION;

OLR RESEARCH REPORT

February 24, 2009 2009-R-0110

PRESUMPTION FOR CANCER AND INFECTIOUS DISEASE FOR FIREFIGHTERS

By: Laura Cummings, Legislative Fellow

John Moran, Principal Analyst

You wanted to know, from a sample of 15 states, how many have a rebuttable presumption for firefighters with cancer and infectious diseases under workers' compensation or disability retirement law, and the cost associated with the presumption.

SUMMARY

Of the 15 states surveyed, some provide legal presumptions for diseases under workers' compensation law and others under disability retirement. Of the states surveyed, only California provided data related to cost. Until 1990, the state paid approximately $ 4 million a year for its workers' compensation cancer presumption.

We obtained information by contacting each state and conducting legal and internet research. Table 1 shows the number of states with presumptions for these benefits and whether it is provided under workers' compensation or disability retirement law.

Table 1: Number of States Providing a Presumption for Benefits

	Infectious Disease	***Cancer***
Workers' Compensation	4	6
Disability Retirement	4	4
Number Providing No Presumption	7	5
Total Surveyed	15	15

A "rebuttable presumption" of the cause of an occupational disease means the disease is assumed to have an occupational cause unless there is evidence to the contrary. For example, a firefighter diagnosed with hepatitis is covered under such a presumption unless evidence is produced showing an exposure outside of work.

Under Connecticut workers' compensation law, an employee must prove his of her disease was due to work and not to outside work exposures. In many situations, such as emergency medical service or criminal apprehensions, employees may have difficulty meeting this burden because they do not know if the people involved are contagious.

STATES THAT PROVIDE A REBUTTABLE PRESUMPTION

California, Illinois, Maine, New York, Pennsylvania, Rhode Island, Virginia, and Washington all have rebuttable presumption for infectious disease. Four provide the presumption through workers' compensation benefits and four through disability retirement.

California, Illinois, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, Vermont, Virginia, and Washington all have rebuttable presumptions for cancer. Six provide the presumption through workers' compensation and four through disability retirement.

New York provides benefits for both cancer and infectious disease. However, the presumption is only available to firefighters who work in cities of more than one million people (i. e. , New York City).

Delaware, New Jersey, and Ohio were also surveyed, but do not have rebuttable presumptions for either category.

The laws vary as to how they are funded, which cancers and diseases are covered, and what firefighters are covered. Tables 2 though 5 describe these states' laws.

Table 2: Workers' Compensation Presumptions for Infectious Disease

State and Law Citation	***Covered Diseases***	***Requirements to Obtain Presumption***
Maine 39-A M. R. S. A. § 328-A	Hepatitis A, B, and C; meningococcal meningitis; and tuberculosis	Must give sufficient notice of the disease, sign a written affidavit stating the disease is work related, and test negatively for the disease in a pre-employment physical exam. Standard to Rebut: Not specified
Pennsylvania 77 P. S. § 413 and 77 P. S. § 27. 1	Hepatitis C	Must show that at, or immediately before, the date of disability the firefighter was "employed in any occupation or industry in which the occupational disease is a hazard. " Prescreening must show there was no prior job related exposure. Standard to Rebut:

		Not specified
Virginia VA ST § 65. 2-402	Hepatitis, meningococcal meningitis, tuberculosis, or HIV	Full-time or part-time firefighters who have documented exposure to blood or body fluids who, if requested of them, underwent a pre-employment physical examination. Standard to Rebut: Rebuttable by a preponderance of competent evidence
Washington RCWA § 51. 32. 185	HIV/AIDS, all strains of hepatitis, meningococcal meningitis, or mycobacterium tuberculosis	All full-time public firefighters or private sector firefighters of a department greater than 50. Standard to Rebut: Rebuttable by a preponderance of the evidence

Table 3: Disability Retirement Law Presumptions for Infectious Disease

State and Law Citation	***Covered Diseases***	***Requirements to Obtain Presumption***
California Cal. Gov. Code § 31720. 7	Blood-borne infectious disease or methicillin-resistant staphylococcus skin infection	Must be permanently incapacitated from the performance of duty as a result of the disease. Standard to Rebut: Rebuttable by other evidence.
Illinois 40 ILCS § 5/4-110. 1	Tuberculosis	Any active firefighter who has completed five or more years of service. Those firefighters entering service after August 27, 1971 must be examined by a physician and the result must show an absence of cancer. Standard to Rebut: Not specified
New York NY Gen Mun § 207-p	HIV, tuberculosis, or hepatitis	Any member who works in a city with a population of one million or more, who passed a medical exam upon entry into service that did not reveal such condition. Standard to Rebut: Rebuttable by competent evidence
Rhode Island RI ST § 23-28. 36-1	HIV, hepatitis B and C	Standard to Rebut: Not specified

Table 4: Workers' Compensation Presumptions for Cancer

State and Law Citation	***Covered Cancers***	***Requirements to Obtain Presumption***

California Cal. Labor Code § 3212. 1	All cancer, including leukemia	Active, volunteer, full-time, or part-time firefighters. Standard to Rebut: Rebutted by evidence that the primary site of the disabling cancer is not linked to any work-related exposure.
Maryland MD Code Labor and Employment, § 9-503	Leukemia, pancreatic, prostate, rectal, or throat cancers	Five years of service as a volunteer or full-time firefighter. Standard to Rebut: Not specified
New Hampshire N. H. Rev. Stat. § 281-A: 17	Any cancer which may be caused by exposure to heat, radiation, or a known or suspected carcinogen, as defined by the International Agency for Research on Cancer	Full-time, or volunteer member of a fire department who has recorded evidence that they were cancer-free upon entry into the profession. Retired members have a presumption up to five years from retirement. Standard to Rebut: Not specified

Table 4: -Continued-

State and Law Citation	***Covered Cancers***	***Requirements to Obtain Presumption***
Vermont VT ST T. 21 § 601	Leukemia, lymphoma, multiple myeloma, bladder, brain, colon, gastrointestinal, kidney, liver, pancreas, skin, or testicular cancer	Firefighters who (1) are under age 65, (2) served at least five years in Vermont, (3) are diagnosed with cancer within 10 years of the last active date of employment, and (4) have not used tobacco products within the last 10 years before diagnosis. Standard to Rebut: Rebuttable by a preponderance of the evidence
Virginia VA ST § 65. 2-402. 1	Leukemia, pancreatic, prostate, rectal, throat, ovarian, or breast cancer	Volunteer or full-time firefighter who have completed 12 years of continuous service and have contact with toxic substances in the line of duty. Standard to Rebut: Rebuttable by a preponderance of competent evidence
Washington RCWA § 51. 32. 185	Prostate in men younger than 50, brain cancer, malignant melanoma, leukemia, non-Hodgkin's lymphoma, bladder, ureter, colorectal, multiple myeloma, testicular, and kidney	Any active or formerly active full-time firefighter who served at least 10 years, and who submitted to a preemployment physical. Standard to Rebut: Not specified

Table 5: Disability Retirement Law Presumptions for Cancer

State and Law Citation	***Covered Cancers***	***Requirements to Obtain Presumption***

Illinois 40 ILCS § 5/4-110. 1	Any type of cancer that may be caused by exposure to heat, radiation, or a known carcinogen as defined by the International Agency for Research on Cancer	Any active firefighter who has completed five or more years of service. Those firefighters entering service after August 27, 1971 must be examined by a physician, and the result must show an absence of cancer. Standard to Rebut: Not specified
Massachusetts M. G. L. A 32 § 94B	Any cancer effecting the skin, central nervous, lymphatic, digestive, hematological, urinary, skeletal, oral, prostate, lung, or respiratory systems	Must successfully pass a physical exam upon entry to the profession. Standard to Rebut: Rebuttable by a preponderance of the evidence
New York NY Gen Mun § 207-kk	Lymphatic, digestive, hematological, urinary, neurological, breast, reproductive, prostate, or melanoma cancer	Must result in total or partial disability to a member who works in a city with a population of one million or more, who passed a medical exam upon entry into service that did not reveal such condition. Standard to Rebut: Rebuttable by competent evidence

Table 5: -Continued-

State and Law Citation	***Covered Cancers***	***Requirements to Obtain Presumption***
Rhode Island RI ST § 45-21. 2-9	Any cancer arising out of employment as a firefighter, due to injury from exposure to smoke or fumes or carcinogenic, poison, toxic, or chemical substances while in the performance of active duty	Any state or municipal firefighter who participates in the optional retirement fund for firefighters. Standard to Rebut: Not specified

REBUTTABLE PRESUMPTIONS

The presumption that the employee contracted an infectious disease or cancer through workplace exposure applies only to employees who meet the requirements set out in the “Requirements to Obtain Presumption” column in each table. This presumption does not guarantee the claimant will be given the benefit.

Presumptions are rebuttable by legitimate evidence to the contrary in several state statutes. New York requires a rebuttal be based on “substantial evidence to the contrary. ” Substantial evidence is generally defined as “more than a mere scintilla. It means such relevant evidence as a reasonable mind might accept as adequate to support a conclusion” (*Richardson v. Perales*, 402 U. S. 389, 401 (1971)).

Massachusetts, Vermont, Virginia, and Washington require a “preponderance of the evidence” to rebut the presumption. In these states, a city must prove it is more probable than not that a firefighter's illness is not work related.

COST

Tables 2 through 5 show benefits are afforded by states through one of two means. States using workers' compensation payouts rely on municipalities to pay premiums to insure against claims. Injured workers then submit a claim to the state workers' compensation board for an award. Some municipalities may self insure for workers' compensation so the employer pays the benefits directly.

States that afford benefits through retirement funding usually rely on workers and employers to pay contributions into the retirement system during the employee's career. An injured worker then petitions the retirement board for work related disability retirement. Generally the payout is a percentage of the firefighters pay either permanently or for a determined period of time.

California is the only state that provides a presumption for both cancer and infectious disease, but funds them differently. It funds cancer through its workers' compensation laws and infectious disease through its retirement fund.

According to Jason Dickerson of the Legislative Analyst's Office of the California General Assembly, controversy arose over the cancer presumption. Municipalities fought the law as an unfunded mandate, requiring them to pay higher workers' compensation premiums without state assistance. Initially, the presumption was deemed an unfunded mandate and California law at the time required the state to reimburse localities for costs related to the unfunded mandate. During this period of reimbursement, California paid approximately $ 4 million a year to municipalities. The policy of reimbursement was reversed in *City of Sacrament et al. v. State of California* (785 P. 2d 522 (1990)). As it stands today, municipalities are not reimbursed by the state for increased workers' compensation premiums created by law.

LC/JM: ts

Ohio | **Bureau of Workers' Compensation**
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Governor **Ted Strickland**
Administrator **Marsha P. Ryan**

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December 7, 2009

Senator Steve Buehrer, Chair
Workers' Compensation Council
Statehouse-Senate Annex, 1st Floor
Columbus, OH 43215

Re: House Bills 216 and 249 – Actuarial Review

Dear Chairman Buehrer,

This letter concerns House Bills 216 and 249, which are currently under consideration in the House of Representatives. The first makes changes to sections of the Revised Code that apply to professional employer organizations (PEOs) and their regulation by the Administrator of the Bureau of Workers' Compensation (BWC). The bill in its current form does not appear to have a substantial financial impact on the BWC or the funds for which it is responsible. However, significant issues regarding PEOs are under discussion by the National Association of Insurance Commissioners and the National Conference of Insurance Legislators. We are monitoring these developments and their implications for well functioning workers' compensation insurance systems throughout the United States.

The second bill modifies the provisions of Revised Code § 4123.88 regarding access to records held by the BWC and the Industrial Commission by journalists. The direct effect of this legislation is not clear. The indirect effect may be greater access to claimant information by those who will be allowed to identify themselves as journalists.

Revised Code § 4123.125, requires the Ohio Workers' Compensation Board of Directors to have a report prepared by or under the supervision of an actuary of any introduced legislation expected to have a measurable financial impact on the workers' compensation system. While it is not clear that these bills will have a measurable financial impact, we will continue to review and monitor them and look into any additional issues they present.

Respectfully yours,

John R. Pedrick, FCAS, MAAA
Chief Actuarial Officer

BWC Board of Directors
Actuarial Committee
CAO Report
John Pedrick, Chief Actuarial Officer
February 25, 2010

Calendar Preview

Over the next four months we will bring many rate and assessment related rules and recommendations to the Actuarial Committee. While they are mentioned in the committee calendar, I have provided additional information on some of this activity to help set the stage for a busy set of meetings. A table follows that summarizes the timing for first and second readings.

February:

- We will introduce the pricing for the new Drug Free Safety Program. The elements of the program itself will be discussed during the Medical Services and Safety Committee meeting immediately preceding the Actuarial Committee meeting. The order of these discussions reinforces a key strength of the process we have used to overhaul the Drug Free Workplace Program. Led by our Division of Safety and Hygiene, an examination of best practices resulted in a strong program that is likely to bring good results to employers, employees, and to Ohio. The second part of this process is to determine the price implications that follow from the elements of the program. Our actuarial consultants from Deloitte will discuss their findings and recommendations.
- We will also discuss loss development factors for the Group Retrospective Program. These are the last pieces of the puzzle needed to finalize how we'll retrospectively review performance. The first time these will be used is one year after the close of the current private employer policy year, or July 2011.

March:

- The private employer (PA) rate level change will be discussed (1^{st} reading) using Deloitte's analysis of the rate level indications. This is the remaining element of the overall rate structure for group and non-group employers. Last October, we presented a structure that contemplated no change to the overall rate level – it was a revenue neutral structure. The discussion in March and anticipated vote in April will address whether the overall change is an increase, a decrease, or will remain revenue neutral.
- We will present our recommendation for state agency (PES) rates (1^{st} reading). Recall that this segment is charged on a pay-as-you-go basis. The rates reflect the estimate of payments we'll make on their behalf during the upcoming policy year plus an adjustment to true up past estimates. Over the next year we will address the recommendation in the comprehensive study to modify our analysis. These future enhancements are not expected to change the answer but will give much better insight into the process.
- Deloitte will present its reserve analysis as of December 31, 2009.
- We will have second readings with the expectation for committee and board action on the Drug Free Safety Program discounts and the loss development factors for the Group Retrospective Program.

April:

- Along with the second reading for the overall PA rate level, we will present the resulting base rates by manual class for a first reading. This will also help to show the actual impact of the overall rate change.
- If a change to the Break Even Factors is required we will present it for a first reading. Group rosters are due to the BWC by February 26. In March we will review all of the changes to groups, including the movement of employers from one group to another, employers newly accepted in groups and employers rejected from groups by the sponsors. If this causes significant impact to the structure we anticipated and that was approved by the Board in October, we will bring the necessary BEF modifications. At this time, we do not expect to modify the BEFs but will keep a place-holder just in case.
- We will present the assessment rates needed for several statutory funds for a first reading: DWRF, MIF, and CWPF.

May

- There will be second readings and anticipated action on PA base rates, the PA BEF if needed, as well as DWRF, MIF, and CWPF assessments.
- We will present assessments as a first reading for the Administrative Cost Fund, the Safety and Hygiene Fund, and for Self-Insured employers.

June

- We plan second readings on ACF, S&H, and SI assessments.
- Any rate-related or assessment items that were delayed must be finalized this month. Rules that will go into effect on July 1, 2010 must be approved by the Board and filed by June 20.

Upcoming Rate Rules and Related Actions					
	February	March	April	May	June
100% EM Cap	2nd read				
Group Retro LDFs	1st read	2nd read			
DFSP Pricing	1st read	2nd read			
PA Rate Level		1st read	2nd read		
PES Rate Level		1st read	2nd read		
PA Base Rates			1st read	2nd read	
PA Break Even Factor – if change is needed			1st read	2nd read	
Disabled Workers Relief Fund Assessment			1st read	2nd read	
Marine Industry Fund Assessment			1st read	2nd read	
Coal-Workers Pneumoconiosis Fund Assessment			1st read	2nd read	
Administrative Cost Fund Assessments				1st read	2nd read
Safety & Hygiene Assessment				1st read	2nd read
Self-Insured Assessments				1st read	2nd read

Follow Up from Previous Meeting

100% Cap: Private employers are eligible to receive the 100% cap if they meet the following criteria:

1. Their EM must increase from a credit (less than 1.00) to a debit (at least 1.01);
2. The current EM must be based on an individual employer's experience (e.g., not a group or a PEO); and
3. They must participate in five of the ten steps in the Ten Step Business Plan for Safety during the first year and the remaining steps in the following year if the cap continues to apply.

The deadline to complete the third requirement is March 31. We will then review all of the submissions and expect to report on the results in May. A total of 1,700 employers were eligible for the cap; 1,363 submitted the agreement required. Of these, 243 will use a certified sponsor and the rest will use BWC resources. Of the remaining employers, 291 did not submit the required agreement and 46 withdrew.

Analysis of Legislation: During the last meeting there was discussion regarding the requirement for an actuarial analysis of legislation that would have a measurable financial impact. See the memo and attachments included with this month's committee materials.

Communications/Group Structure and Governance Team

Jeremy Jackson		
Task/Function	**Timeline**	**Status**
Communications, Outreach	8/1/2008 start	Ongoing
PEC and PA group rating structure	1/1/2009 start	Ongoing
Split Plan Discussions	Late 2009	Ongoing
Targeted Employer Communications	8/1/2008 start	Ongoing

- Training was provided to BWC staff about split plan
- A meeting was held February 10 to go over the split plan with outside parties. Additional meetings will continue throughout the spring and summer.

Capping/Split Plan Team

Terry Potts and Zia Rehman		
Task/Function	**Timeline**	**Status**
Capping strategy for PA employers effective	July 1, 2009	Completed
Capping strategy and Group Break Even Factor for PEC employers effective	January 1, 2010	Completed
Rating strategies for PA employers effective July, 2010	October, 2009	Completed
Split Plan parameters decided	Winter 2009-2010	In-Progress
Split plan development	September, 2009 to July, 2010	In-Progress
Split Plan implementation	July 1, 2011	

- The split plan programming development is continuing. Analysis also continues to determine the appropriate split points. We plan to run 2010 rates using the split plan to evaluate the affect on employers. This analysis should take place in the summer of 2010.
- A report on the split plan parameters and performance was received from Oliver Wyman.
- The BWC continues to evaluate group rating options for 2011 and beyond. The BWC is working with Deloitte Consulting, LLP to review ideas to determine the best course of action

New Products

Joy Bush and Jamey Fauque, Centric Consulting		
Task/Function	**Timeline**	**Status**
Small Deductible Plan Implemented	July, 2009	Completed
Group Retro Program Implemented	July, 2009	Completed
Research and Development of employer programs	Fall, 2009	In-Progress

- The large deductible program was approved at the January actuarial committee meeting.
- The draft Group Retrospective Loss Development Factors were received from Deloitte Consulting.
- The new Drug Free Safety Program will be presented at the Medical and Safety Committee meeting. The actuarial division has been consulting with Deloitte Consulting on the pricing of this program.

7/1/2011 Private Employer (PA) Rates

Terry Potts		
Task/Function	Timeline	Status
Private Employer Rate Calculation	January 2010 to July 2010	In-Process
Summary Payroll	January-February 2010	In-Process
Summary Losses	January – February 2010	In-Process
Rate Calculations	February – June 2010	
Rate recommendation received from Deloitte	March 2010	
Rate decision from WCB	April 2010	
Final Rates to WCB	June 2010	
Mailing of Employer Rate Letters	July 2010	

1/1/2010 Public Employer Taxing Districts (PEC) Rates

Terry Potts		
Task/Function	Timeline	Status
Public Employer Taxing District Rates	July 2009 to November 2009	Completed
Summary Payroll	July – August 2009	Completed
Summary Losses	August – September 2009	Completed
Rate Calculations	September 2009 to November 2009	Completed
Rate recommendation received from Oliver Wyman	July 30, 2009	Completed
Rate decision from WCB	September 2009	Completed
Final Rates to WCB	November 2009	Completed
Mailing of Employer Rate Letters	January, 2010	Completed

Deloitte Consulting Other Activity

- Deloitte has been requested to work with the actuarial division on researching an internal actuarial database.
- The BWC and Deloitte are using a SharePoint site. This site allows the BWC and Deloitte to transfer information quickly and collaborate using the same files.
- The BWC continues to transfer data to Deloitte to evaluate. Information provided recently included payment information for the 12/31/2009 time period, claim counts, and information on BWC special funds
- The BWC and Deloitte continue to have weekly phone conferences. During these calls the project plan is discussed and the completion dates of tasks have been finalized to ensure that information is presented to the actuarial committee timely.

12 - Month Actuarial Committee Calendar

Date	January 2010
1/21/2010	1. Quarterly Update on the H.B.100 Comprehensive report Deloitte recommendations
	2. Experience modifier capping rule 4123-17-03 – 1st reading
	3. Reserving education session
	4. Legislative analysis – possibly SB 94
Date	**February 2010**
2/25/2010	1. Group Retrospective Rating Loss Development Factors – 1st reading
	2. Experience modifier capping rule 4123-17-03 – 2nd reading
	3. State of the Line report
	4. Drug Free Safety Plan (plan to be presented at Medical Committee - need to discuss pricing here)
Date	**March 2010**
3/25/2010	1. Private employer rate change indication – 1st reading
	2. Public employer state agency rate change – 1st reading
	3. Group Retrospective Rating Loss Development Factors – 2nd reading (no rule)
	4. Quarterly reserve analysis for financial reporting for fiscal year ending June 30, 2010 based on data as of December 31, 2009
	5. Drug Free Safety Plan (plan to be presented at Medical Committee - need to discuss pricing here)
	6. 2010 NCCI Classification Code Changes
	7.
Date	**April 2010**
4/29/2010	1. Private employer rate change indication – 2nd reading
	2. Private employer base rates and expected loss rates – rules 4123-17-05 and 4123-17-06 – 1st reading
	3. Public employer state agency rate change – 2nd reading
	4. Disabled Workers' Relief Fund and Additional Disabled Workers' Relief Fund rule 4123-17-29 – 1st reading
	5. Marine Industry Fund – rule 4123-17-19 – 1st reading
	6. Coal-Workers' Pneumoconiosis Fund – rule 4123-17-20 – 1st reading
	7. Quarterly Update on the H.B.100 Comprehensive report Deloitte recommendations
	8. Private employer group breakeven factor rule 4123-17-64.1 (possible)
	9. 2010 NCCI Classification Code Changes
	10. Individual Incurred Retrospective Rating program – 2nd reading
Date	**May 2010**
5/27/2010	1. Private employer base rates and expected loss rates – rules 4123-17-05 and 4123-17-06 – 2nd reading
	2. Administrative Cost Fund - rule 4123-17-36 – 1st reading
	3. Disabled Workers' Relief Fund and Additional Disabled Workers' Relief Fund rule 4123-17-29 – 2nd reading
	4. Marine Industry Fund – rule 4123-17-19 – 2nd reading
	5. Coal-Workers' Pneumoconiosis Fund – rule 4123-17-20 – 2nd reading
	6. Reserve update for financial reporting for fiscal year ending June 30, 2010 and projection for June 30, 2011 based on data as of March 31, 2010
	7. Safety & Hygiene assessment- 1st reading
	8. Self-Insured assessments – rule 4123-17-32 – 1st reading

12 - Month Actuarial Committee Calendar

Date	June 2010
	1. Administrative Cost Fund - rule 4123-17-36 – 2nd reading
	2. Split plan rating rules – 1st reading
	3. Self-Insured Assessments – rule 4123-17-32 – 2nd reading
	4. Safety & Hygiene assessment- 2nd reading
Date	**July 2010**
7/28/2010	1. Reserve adjustments as of June 30, 2010 – discussion if necessary
	2. Private employer credibility table effective 7-1-2011 – rule 4123-17-05.1 – 1st reading
	3. Public employer taxing districts credibility table effective 1-1-2011- rule 4123-17-33.1 – 1st reading
	4. Public employer taxing districts group break even factor rule 4123-17-64.2 – 1st reading
	5. Public employer taxing districts capping recommendation – 1st reading (may not need if done in Jan)
	6. Quarterly Update on the H.B.100 Comprehensive Report Deloitte recommendations
	7. Split plan rating rules – 2nd reading
Date	**August 2010**
8/26/2010	1. Final Reserve Audit as of June 30, 2010
	2. Quarterly reserve true up for financial reporting for fiscal year ending June 30, 2010 and updated estimate for fiscal year ending June 30, 2011 based on data as of June 30, 2010
	3. Private employer credibility table effective 7-1-2011 – rule 4123-17-05.1 – 2nd reading
	4. Public employer taxing districts rate change – 1st reading
	5. Public employer taxing districts credibility table effective1-1-2011- rule 4123-17-33.1 – 2nd reading
	6. Public employer taxing districts group break even factor rule 4123-17-64.2 – 2nd reading (possible)
	7. Public employer taxing districts capping recommendation – 2nd reading (may not need if done in Jan)
	8. Annuity table rule 4123-17-60 – 1st reading
Date	**September 2010**
9/23/2010	1. Public employer taxing districts rate change – 2nd reading
	2. Public employer taxing districts draft base rates and expected loss rates
	3. Annuity table rule 4123-17-60 – 2nd reading
	4. Market results for the new deductible plan
Date	**October 2010**
10/21/2010	1. Public Employer Taxing Districts base rates and expected loss rates – rule 4123-17-33 and 4123-17-34 – 1st reading
	2. Quarterly Update on the H.B.100 Comprehensive report Deloitte recommendations
	November 2010
11/18/2010	1. Public Employer Taxing Districts base rates and expected loss rates – rule 4123-17-33 and 4123-17-34 – 2nd reading
	2. Quarterly reserve analysis for financial reporting for fiscal year ending June 30, 2011 based on data as of September 30, 2010
	December 2010
12/15/2010	