

BWC Board of Directors

ACTUARIAL COMMITTEE

Thursday, January 21, 2010, 2:24 P.M.

William Green Building

30 West Spring St. 2nd Floor (Mezzanine)

Columbus, Ohio 43215

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

Members Absent: None

Other Directors Present: Allison Falls, Kenneth Haffey, James Harris, Larry Price,
and Bob Smith

Counsel present: Ann Shannon, BWC Legal Counsel

CALL TO ORDER

Mr. Bryan called the meeting to order at 2:24 p.m. and the roll call was taken.

MINUTES OF DECEMBER 16, 2009

Mr. Caldwell moved to approve the minutes of the December 16, 2009 meeting.
Mr. Hummel seconded and the minutes were approved by a roll call vote of six
ayes and no nays.

AGENDA

Mr. Bryan reported there were no changes to the agenda. Mr. Caldwell moved to
adopt the agenda. Mr. Matesich seconded and the agenda was adopted by a roll
call vote of six ayes and no nays.

NEW BUSINESS/ACTION ITEMS

RULE FOR SECOND READING: LARGE DEDUCTIBLE PLAN, OHIO

ADMINISTRATIVE CODE RULE 4123-17-72

John Pedrick, Chief Actuarial Officer, and Joy Bush, New Program Development Director, recommended amendment of Ohio Administrative Code Rule 4123-17-72 to add a large deductible program. Ms. Bush reported that Tom Prunte, Employer Management Services Director, was available to answer questions about marketing. The presentation covers changes in the rule since the first reading, pricing, feedback from stakeholders, and marketing.

Ms. Bush first reviewed the changes from the version of the rule presented in December. In paragraph (A) (2), the definition of deductible is changed. Paragraph (A)(3) add a new definition of experience rated premium. Paragraph (B) (6) differentiates the lapse day requirement between the large and small deductible programs. Paragraph (D) specifies a minimum premium. Paragraph (F) has no changes and was derived from a presentation by Tracy Valentino, Chief, Fiscal and Planning. Paragraph (G) has changes in the application deadline to conform to other BWC programs. Paragraph (J) (3), as renumbered, clarifies language on collection efforts. Paragraph (K) clarifies the maximum discount with group rating will be the maximum credibility without the application of the breakeven factor and paragraph (M) says the large deductible and group experience rating are not compatible.

Ms. Bush also reported that the pricing tables are now more user-friendly. The first four columns of the tables show deductible levels without aggregate stop loss per claim. The next four show the deductible levels with aggregate stop loss which puts a limit on the amount an employer would pay for deductible costs of claims within the policy year. Discount levels are smaller for a program with an aggregate limit than for a program without an aggregate limit.

Mr. Bryan asked how the deductible affects the method of reserving. Ms. Bush replied there is no change. BWC built the deductible program to be compatible with its reserve methods.

Ms. Bush reported on interested party feedback. The major theme of many comments was a request to offer stop-loss coverage, which BWC has done. However, when interested parties suggested that BWC offer more than one aggregate stop-loss level, BWC rejected it at this time because it adds complexity to the plan and it is unclear whether there would be sufficient market demand to offer two or more aggregate stop loss limits. Right now, there is a need for a plan that is understandable. Enhancements can certainly be added in the future if justified.

Mr. Matesich commented that BWC should provide a premium estimation method. Ms. Bush responded that there is a rule provision that allows employers to estimate, if actual premium is not available. An employer's actual paid premium is a good way to estimate a level of risk it can reasonably afford and also adds protection for BWC.

Mr. Bryan commented that it is commendable for BWC to offer a basic program because such a program offers greater flexibility to the employers in determining their premium. Mr. Pedrick added that if an employer minimally qualifies, maybe it should not participate. While the discounts may be attractive to some, the program brings additional risks and financial responsibilities to the employer, so BWC should resist lowering the requirements for the deductible program it has now.

Ms. Bush reported that the last theme of interested party comments was that paid claims cost not be included in experience rating. However, based on the HB100 Study by Deloitte Consulting and other reviews, BWC must move away from programs that exclude claims costs from experience rating to assure actuarial soundness. Also, there were two comments from the Service Association of Ohio that the deductible plan should permit stacking of discounts. BWC has decided it is better to put in a program now, and consider stacking at a later time.

Mr. Matesich stated he was concerned about the timing of deadlines. The rule requires three years of certified financial statements and many employers with December 31 fiscal years may not have them. Ms. Bush replied that this problem has been discussed with Ms. Valentino and she believes the submission of the three most recent years' audited financial statements would be appropriate. Mr. Matesich commented that BWC should also not waive the three-year requirement if more than twelve months have elapsed since completion of the last audit. There was concurrence from the other Committee members on this point.

Mr. Bryan asked if the employer can submit reviewed financial statements. Ms. Bush replied that Ms. Valentino recommends a preference for audited financial statements; however, BWC will accept reviewed financial statements for the lower deductible programs (\$25,000 and \$50,000). Mr. Smith confirmed that for closely held corporations, for example, only reviewed statements may be available.

Ms. Bush reviewed the marketing plan and presented examples of the program brochures.

Finally, Ms. Bush reported on the Incurred Loss Retrospective program (ILR), which was part of the December presentation. Last month, BWC received the pricing analysis from Oliver Wyman Actuarial Consulting and decided to do more work on the program before introducing it. BWC will work with Deloitte and will

bring back the ILR to the Actuarial Committee at a later date. This additional review will delay the second reading.

Mr. Bryan asked if the report of William Hansen, Oliver Wyman Actuarial Consulting, was the actuarial source for the deductible program, and, if the answer is “yes”, whether Deloitte will be involved. Ms. Bush confirmed that Oliver Wyman had been the source and that BWC has forwarded the opinion and working papers to Deloitte for review. Mr. Pedrick added that the BWC actuarial staff had reviewed the Oliver Wyman recommendation, which includes an actuarial opinion from Mr. Hansen. BWC will eventually establish a cycle of program review and changes which will incorporate Deloitte opinions in the future.

Mr. Hummel moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-17-72 of the Administrative Code, “Deductible Rule,” to create a Large Deductible Program. The motion consents to the Administrator amending Rule 4123-17-72 as presented here today. Mr. Pitts seconded.

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

RULE FOR FIRST READING: EXPERIENCE MODIFIER CAP FOR POLICY YEAR BEGINNING JULY 1, 2010, OHIO ADMINISTRATIVE CODE RULE 4123-17-03

Terry Potts, Rates Supervisor, Actuarial Division, recommended amendment of Ohio Administrative Code Rule 4123-17-03 regarding employer experience modification (EM) caps. In summary, the only substantive change to the rule is in wording. The change removes the reference to specific policy years, and therefore permits a year to year use of the rule. . BWC has received no objections to the change in this rule. However, BWC did receive one suggestion that it should use the prior year “effective” experience modification in place of the “published” experience modification. Upon review, BWC will continue to use the prior year “published” EM.

Mr. Bryan requested an explanation of how the 100% cap worked.

Mr. Potts reported the purpose of the cap was to bring stability to individual employer rates. If an employer's experience modifier increased by more than 100% from the level in the prior year, and would result in a debit EM, (usually a result of the group sponsor or TPA removing the employer from a group), the increase would be capped at 100%. BWC estimates between 1,500 to 2,000 employers would qualify for the application of this 100% cap. BWC intends to keep the cap after rate reform is complete, since it promotes premium stability. Mr. Pedrick added that BWC is promoting rules that withstand the test of time. An

experience cap is good policy, especially with setting the credibility at a maximum of 65% in the future.

Mr. Bryan asked if the cap departs from the goal of non-group employers not subsidizing group employers. Mr. Pedrick responded that has been part of the discussion. If an employer gets a cap in one year, however, it is unlikely to see another 100% increase in EM the following year.

Mr. Smith commented that a cap to the experience modification provides the benefit of membership in the insurance pool.

Mr. Hummel asked how many employers who received the cap have completed the requirements of the ten-step business plan for safety. Mr. Potts replied there is a deadline of March 31 for employers to submit the required documentation and after BWC reviews the documentation provided, BWC will be able to provide the employer counts requested.

Mr. Potts stated that BWC will request approval of the cap rule at the February meeting.

DISCUSSION ITEMS

RESERVING EDUCATION SESSION

Jon Turnes, Actuarial Analysis Reserving Manager, conducted a third and final educational session on reserving. Particular emphasis was placed on the need for and the impact of consistent, professional actuarial judgment. The review showed several methods: incremental paid loss, cumulative paid loss, the Bornhuetter-Ferguson and the expected loss methods as analytical tools for the development of claims reserves. There was even spirited discussion about the inverse power curve.

Mr. Bryan stated these presentations on reserving will become important when the Committee receives its first quarterly reserve report from Deloitte Consulting. As indicated during the 3 education sessions, reserve development is science and art, combined with judgment. Mr. Pedrick reported that BWC expects Deloitte's report for reserve estimates as of December 31, 2009 will be available at the March meeting.

QUARTERLY REPORT ON THE HB100 COMPREHENSIVE REPORT BY DELOITTE CONSULTING

Jim Fograscher, Project Manager, HB100 Study, provided the quarterly report on the implementation of recommendations in the comprehensive report required by HB100. Work in progress includes implementation of the large deductible and the split plan; changes in the Drug Free Workplace Program; changes to self-insured eligibility and security; and adoption of new actuarial audit standards. Page 2 of the report has a pie chart which shows the stages of development, and the

percentage of completion of the 146 recommendations at each stage. The six stages are evaluation, planning, design, implementation, in place and no action. Since the October report, 4 additional recommendations are in place, 3 recommendations are moved to “no action” and 21 recommendations have moved closer to completion. Page 2 of the executive summary tabulates the stages of development.

All recommendations will be evaluated. If BWC were to take no action regarding a recommendation, it would be due to a determination that the status quo is best; that other recommendations are being followed; or that now is not the time for the change. Sixteen percent of the recommendations are in place; 48% are in process.

Mr. Haffey asked why BWC is including handicap reimbursement as a recommended change if statutory amendment is needed. Mr. Fograscher replied it is included because BWC is considering the possibility of a change.

LEGISLATIVE DISCUSSION AND ANALYSIS

Mr. Pedrick reported that BWC has prepared some material and submitted it to the Workers' Compensation Council. SB94 would create a rebuttable presumption that cancers of first-responders are caused by their occupation. BWC has evaluated the possible increase in claims, but has little data on which to base its conclusions. A report from Elizabeth Bravender, Actuarial Director, and Tom Sico, Assistant Legal Counsel, makes some estimates based on programs in other states if the legislation is implemented. BWC will bring additional information as it becomes available.

Mr. Bryan asked for a description of the legislative report process. Mr. Pedrick responded that HB100 requires that a bill that has substantial impact have a report within sixty days. BWC is unable to meet that requirement with present staffing, so BWC is working with the Workers' Compensation Council on preparation. The BWC analysis is not completed because BWC needs data from the Police and Fire Pension funds.

Mr. Bryan asked how an actuarial study reaches the Workers' Compensation Council. Mr. Pedrick replied that a report would be requested by the Workers' Compensation Board and then is delivered to the Workers' Compensation Council. The Workers' Compensation Council is the principal audience for these reports.

Mr. Bryan commented that BWC is not meeting the letter of the law. Mr. Pedrick acknowledged not meeting the deadline, but replied that BWC is able to provide meaningful information.

Ms. Ryan stated she believe that in enacting HB100, it was not contemplated how to meet the sixty-day requirement. BWC could contract \$500,000 to \$1,000,000 for each study. This would be a large burden on employers who end up paying the cost.

Mr. Bryan requested that the February meeting agenda include a report on a more definite approach to meeting the report requirements of HB100.

Mr. Pedrick reported that a study of HB213 was prepared. HB213 creates a two-year moratorium on rate changes and requires all discounts be set annually no later than September 1 of the year before they go into effect.

Mr. Harris asked what the status of HB94 is. Mr. Pedrick reported that it is in committee. Mr. Harris commented that HB100 contemplates spending large sums for proposals that are not passed by the General Assembly.

CAO REPORT

Mr. Pedrick discussed several reports from Deloitte Consulting that will be submitted over the next six months. The first will be the reserve study as of December 31, 2009. Next, Deloitte will use data from March 31 for the annual reserve audit. After June 30, Deloitte will use more recent data to update the final annual reserve audit, to be discussed in July and August. A fourth report will be the private employer overall rate change recommendation for discussion in March. The split-experience rating program is being developed. BWC will conduct a meeting in February with stakeholders. The large deductible plan was approved today. The Incurred Loss Retrospective plan may be ready by March. However, there is a chance BWC will not implement it this July, but possibly implement it in January 2011 for public employers

COMMITTEE CALENDAR

There was no discussion of the committee calendar.

EXECUTIVE SESSION

There was no executive session or litigation update.

ADJOURNMENT

Mr. Bryan asked if there were anything else to be discussed. Hearing none, Mr. Matesich moved to adjourn and Mr. Caldwell seconded. Mr. Bryan adjourned the meeting at 4:15 p.m. after the motion was approved by a roll call vote of six ayes and no nays.

Prepared by: Larry Rhodebeck, Staff Counsel
H:\Word\ldr\WCB Actuarial Committee 0110.doc
January 27, 2010