BWC Board of Directors

ACTUARIAL COMMITTEE

Thursday, February 25, 2009, 2:43 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:	James Barnes, Chief Legal Counsel

CALL TO ORDER

Mr. Bryan called the meeting to order at 2:43 p.m. and the roll call was taken.

MINUTES OF JANUARY 21, 2010

Mr. Matesich moved to approve the minutes of January 21, 2010. Mr. Pitts seconded and the minutes were approved by a roll call vote of six ayes and no nays.

AGENDA

Mr. Matesich requested that the item concerning the Group Rating Loss Development factors be moved to New Business/Action Items for a first reading and in contemplation of waiving a second reading. Mr. Matesich moved to adopt the agenda as amended. Mr. Caldwell seconded and the amended agenda was adopted by a roll call vote of six ayes and no nays.

Mr. Bryan announced that he may be leaving at 4:00 PM, and that Mr. Matesich would preside in that event.

NEW BUSINESS/ ACTION ITEMS

RULE FOR SECOND 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. The amendments remove language that is specific to a particular policy year and inserts language that makes this rule refer to the current and prior policy years. The amendments pertain only to paragraph (G) regarding private employers and paragraph (H) regarding Public Employer Taxing Districts. BWC has received no additional comments since the January meeting. This includes the one stake-holder comment that BWC should use the prior year "effective" EM instead of the "published" EM.

Mr. Potts reported that the Actuarial Committee requested information on employers on meeting requirements for EM cap eligibility. At present the information is unknown because the deadline for action is March 31. BWC plans on review of reports in April and May and will be able to report to the Actuarial Committee in June. However, current data shows that of a total of 1,700 employers who were eligible for participation, 337 have opted-out or omitted the application. Of the remaining 1363, 1120 are working with BWC business consultants and 243 are working with certified sponsors.

Mr. Hummel remarked that the employer gets the discount now and asked what happens if the employer is unable to comply. Mr. Potts replied the amount of the discount will be charged back to the employer.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-17-03 of the Administrative Code, "Employer's Classification Rates," to amend the experience modifier caps in the rule. The motion consents to the Administrator amending Rule 4123-17-03 as presented here today. Mr. Hummel seconded and the motion was approved by a roll call vote of six ayes and no nays.

Mr. Bryan announced that the motion passed and that Mr. Matesich would report approval to the Workers' Compensation Board.

RULE FOR FIRST READING: DRUG FREE SAFETY PLAN PRICING, OHIO ADMINISTRATIVE CODE RULE 4123-17-72

John Pedrick, Chief Actuarial Officer, recommended amendment of Ohio Administrative Code Rule 4123-17-72 to adopt the Drug-Free Safety Program (DFSP). He was assisted by Elizabeth Bravender, Actuarial Director; Joy Bush, New Program Development Director; and Jan Lommele and Dave Heppen, Deloitte Consulting LLP. Mr. Pedrick noted this is the first presentation by Deloitte as the new actuarial consultant. Mr. Lommele stated this report concerned the pricing analysis and added that Bob Miccolis of Deloitte assisted in preparation of the reports.

Mr. Heppen noted that much of the report had been covered in the meeting of the Medical Services and Safety Committee. The Ohio program will consist of two levels. Most states which have a program provided a 5% discount. BWC provided data on two cohorts: Cohort 1 consists of 2,516 employers who participated in the Drug-Free Workplace Program (DFWP) from 2003 to 2007. Cohort 2 consists of 2,516 employers who did not participate in the DFWP, but have similar characteristics to Cohort 1. In both cohorts, individually-experience rated employers constitute 60% and were the most credible of five categories. Deloitte compared the policy years 2005—2007 loss ratios for the two cohorts under two approaches: reported loss ratios were divided by standard premium; developed loss ratios were divided by standard premiums. Approach 1 led to 3% better than the control; approach 2 led to 5% better than the control. For those reasons Deloitte recommends that the employers in the basic level of DFSP receive a discount from 3% to 5%. Employers who participate in the advanced level would obtain an additional 2% to 3% discount.

Mr. Bryan asked if either approach 1 or 2 took into account participation in DFWP 1 and DFWP 2. Mr. Heppen replied that the classification was limited to just participation in DFWP. Mr. Bryan further asked why Deloitte thought future participants will be similar in composition to the sample. Mr. Heppen replied that there would be uncertainty in predicting. However, Deloitte has a degree of comfort in that its study reached similar results as programs in other states. Mr. Lommele added that actual components of the DFWP are similar to the DFSP. Stream-lining is the chief difference. Ms. Bush added that the chief difference is in emphasis on safety.

Mr. Bryan asked if statistical coding was similar for each cohort. Mr. Pedrick replied that Actuarial Staff checked coding and it is similar.

Mr. Heppen further reported that combining the recommended basic and advanced rate enabled employers to obtain a savings rate of 5% or 8%. BWC recommends 4% for the basic program and 7% for the advanced program.
Ms. Falls asked how sure Deloitte could predict that this recommendation is the best. Mr. Heppen replied that there would be some uncertainty, but the recommended range is similar to those provided in other states and BWC can modify the discount as performance data on the new program becomes available.

Mr. Matesich asked what the financial impact of a 5% discount is. Mr. Lommele replied the HB100 Comprehensive Study has loss cost analysis of the impact. The financial impact for Ohio is determined in connection with other states. Mr. Matesich asked if Deloitte was aware of other programs and the participants in other states. Ms. Bush answered it is difficult to obtain data on other states. Many Ohio programs are not available in other states, such as the one-claim program and the $15,000 medical-only program. Some states offer small discounts.

Mr. Hummel asked how the DFSP relates to group rating reform. Mr. Pedrick replied that the DFWP discount was not available to group members. The basic level requires a safety program. Because group members have higher incentives than their performance indicates already, an additional 4% incentive is not justified. Advanced DFSP group participants will receive an additional 3%, which is the differential between Basic and Advanced. This will result in three different financial benefits related to premium: safety grants, improvement in experience modification because of safety, and the DFSP discounts. The three work in combination and combine up-front incentives with performance based rate adjustments.

Mr. Price asked how many employers in DFWP were able to reach the 20%. Ms. Bush replied most employers were able to qualify at the 10% and 15% level. Mr. Price asked how employers reached the 20% level. Ms. Bush answered the higher levels required random testing and the ten-step business program. Mr. Pedrick added that stacking of discounts has been a subject of much discussion, because the credibility rule requires a maximum 65% discount for all programs.

Mr. Pitts asked if BWC could offer group ratings with safety programs, excluding DFWP, but offer a discount. Mr. Pedrick replied that BWC could, but there would be no actuarial reason to do so. Safety has an inherent value and gain to employers. Mr. Pitts asked further if BWC could offer a token percentage to encourage some participation. Mr. Pedrick replied that Ohio has a low percentage of employers in DFWP and most had joined only when they had been dropped from group rating. Employers then dropped DFWP when able to participate in group. This has led to questions of motivation.

Mr. Price reported that some employers were adversely impacted when we prohibited stacking of the former DFWP program. Marsha Ryan, BWC Administrator, replied that this was the reason for the redesign of the program. BWC has expended one-half billion dollars over ten years through granting of the former discounts, and has little to show for this expenditure. Thus BWC has undertaken a redesign so it has a well-documented program, with a change in name to indicate its change in emphasis.

Mr. Harris observed that even if there is little participation by employers, should BWC consider even a small incentive. Mr. Smith observed that discounts in the past provided the financial incentive, but the impact on safety is not clear. Abe Al-Tarawneh, Superintendent of Safety & Hygiene, stated that using discounts for safety was a stop-gap until the employer develops a proper safety program. The DFSP is not equal to a safety program because drug-free programs only contain a small number of components. A full safety program will have twenty to one hundred elements, whereas the DFSP has only five to ten.

Ms. Falls asked, if after making a cohort, does not reduction of the cohort to 700 employers give the impression that BWC is not certain of the correct approach. Mr. Heppen replied that the number is small, but does encompass $250 to $300 million in premiums.

Mr. Pitts asked how BWC ensures safety in groups. Ms. Bush replied that Safety & Hygiene works with the sponsors. Group reform includes enhancing the accountability of sponsors. Mr. Pitts asked if safety should also include reaching a drug-free workplace. Ms. Bush replied a complete safety program would address all substance abuse issues.

Mr. Pedrick discussed the impact of discounts on group rating reform. One consequence of the discounts offered to the group membership in the DFWP was an increase in rates for all employers. Mr. Bryan responded that Mr. Pedrick overstated the consequence because safety lowers all costs. Mr. Pedrick respectfully disagreed in this instance because group discounts are far beyond the cost reductions they imply. He reminded the committee that a decision to provide a discount that is more than the expected cost reduction requires an increase above costs for those who do not participate. Mr. Lommele added that participation in the DFSP may affect experience rating, but the interaction of the two cannot always be measured.

Mr. Bryan summarized that BWC will change its DFWP to a DFSP with discounts of 4% and 7%, and only a 3% reduction available to group members that participate at the advanced level. A change for groups will require an evaluation of the impact of small incentives for groups in the basic program and require that BWC show incentives work.

Mr. Smith observed that the Workers' Compensation Board of Directors keeps asking that same question, and keeps getting the same answer.

Mr. Bryan asked about the actuarial soundness of offering a DFSP discount to group employers. Mr. Pedrick replied that the analysis shows that while group employers' experience improves when they participate in drug free programs, their loss ratios are still well above those of other employers.

Mr. Pitts stated that as the one who raised the issue of providing some incentives to all employers, the responses from staff now satisfy him. So he would vote for the proposal if set forth today. Mr. Price suggested that they post-pone the vote after the second reading because of the many outstanding questions. Mr. Bryan stated he would confer with Mr. Harris on placing this on the committees' agendas in March.

GROUP RETROSPECTIVE RATING LOSS DEVELOPMENT FACTORS, OHIO ADMINISTRATIVE CODE RULE 4123-17-73

Ms. Bush recommended amendment of Ohio Administrative Code Rule 4123-17-73 to include an appendix for loss development factors. The rule was amended in 2009 to provide for group retrospective rating for private employers and public employer taxing districts. The loss development factors will be used at the close of the twelve, twenty-four, and thirty-six month evaluation periods.

Mr. Heppen reported that a group retrospective loss development factors should reflect the following four features: losses are limited to $500,000 per claim; the group retro loss development factors are not applied to permanent totally disability (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; and losses underlying premium rates in Ohio are discounted and reflect in the group retro loss development factors. The approach of Deloitte Consulting for estimating group retro loss development factors consists of estimating unlimited discounted ultimate losses by accident year; limit incurred losses by accident year to $500,000 per claim; remove death/PTD/settlements limited to $500,000 per claim; and calculate group retro loss development factors by accident year. Ms. Bush added that BWC initially obtained estimated loss development factors from Oliver Wyman Consulting. Deloitte Consulting recommends lower factors. Mr. Heppen continued that Deloitte recommends six different factors—ranging from 1.349 to 2.014—for the end of each twelve-month period and for the two employer types (private employers and public employer taxing districts).

Mr. Hummel asked did employers understand the Oliver Wyman higher estimates. Ms. Bush replied that BWC conferred on the higher and lower rates and has chosen to use the lower ones.

Mr. Matesich asked about the incentive for employers to participate in group retrospective rating. Ms. Bush replied the program requires payment of full experience rated premiums at the beginning. Then employers may get refunds, or additional premiums, over the next three years.

Mr. Smith stated that this is a competitive program because it is available in other states and known by employers who operate outside of Ohio. Mr. Pedrick added that in a group retrospective program, the adjustment is based on the experience of the group. Membership depends on the risk appetite of the group. The test is whether groups form to bring lower costs.

Mr. Bryan summarized that the only change to the rule was the addition of Appendix C with the loss development factors. He solicited a motion to waive the second reading.

Mr. Pitts moved to waive the second reading of the amendment to Ohio Administrative Code Rule 4123-17-03. Mr. Matesich seconded and the motion was approved by a roll call vote of six ayes and no nays.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-17-73 of the Administrative Code, "Group Retrospective Rating Program," to adopt loss development factors in the rule. The motion consents to the Administrator amending Rule 4123-17-73 as presented here today. Mr. Hummel seconded and the motion was approved by a roll call vote of six ayes and no nays.

DISCUSSION ITEMS

STATE OF THE LINE REPORT

Elizabeth Bravender, Actuarial Director, delivered the State of the Line Report. The report provides a comparison of BWC data with countrywide data provided by the National Council on Compensation Insurance (NCCI), used with their permission. The NCCI data is from the NCCI Chief Actuary, Dennis Mealy. BWC information is from either the June 30, 2009 actuarial audit, or the BWC Data Warehouse. Countrywide data, which does not include Ohio, shows there has been a continuing decline in premiums between 2005 and 2008.

Mr. Bryan asked why this table does not include data from Ohio. Mr. Pedrick responded that in order for BWC to report data to NCCI, it would have to re-tool its data structures and reporting abilities to conform to NCCI standards at significant cost.

Ms. Bravender discussed rate changes for Ohio compared to NCCI. The BWC data excludes self-insuring employers who employ 40% of Ohio's workforce. The history of BWC rate changes and NCCI rate/loss cost level changes shows Ohio able to lower premiums more deeply. One reason is that the NCCI data is driven by costs in California and Florida. Regarding medical costs, the NCCI data shows continued increases in medical costs from 2002—2007 of about 6.7% per year. Over the same period, Ohio costs increased 6.6% per year. Workers' compensation medical costs per lost-time claim increased countrywide faster that the Medical Consumer Price Index. In response to a question from Mr. Smith, the difference could be benefits, treatments, severity or a number of other factors unique to workers' compensation claims.

Mr. Bryan asked if BWC enters into contracts with providers. Ms. Ryan replied that the right of free choice of providers of injured workers precludes provider contracts. But we do have fee schedules for providers. Mr. Pedrick added that comparing difference between the medical consumer price index and workers' compensation is difficult.

Ms. Bravender also reported that countrywide indemnity claim costs continue to grow at a rate of 3.4% from 2002—2007. In Ohio, the annual change for the same period declined 4.7%. Since 2001, workers' compensation indemnity severity and wage inflation were more similar because of political factors and the impact of 9-11. For 1998, the ratio of discounted indemnity and medical costs to total losses for 1998 was 51% to 49%. For 2008, it was 47% and 53%. Countrywide, the ratios were 47% and 53%; for 1998, and 42% and 58% for 2008. Lost-time claim frequency achieves a cumulative decline of 53% for Ohio and 46% countrywide. Compared to neighboring states, Ohio has many more PTD claims per 100,000 workers. Ohio's actual reported payroll is highest in manufacturing, service, and office work. Wage inflation adjusted payroll shows declines in all industries. Lost-time claims and medical-only claims in Ohio have declined in all industries. The correlation coefficient of indexed payroll and both medical and lost-time claims is just under one, implying strong correlation. An exception is manufacturing which shows a negative correlation. A negative correlation means there is a reverse relationship between payroll changes and claims. Declines in service industry payroll and claims show the impact of safety programs.

Finally, Ms. Bravender thanked Donna Ludwick, Underwriter, Actuarial Department, for her work in putting together the State of the Line Report.

LEGISLATIVE DISCUSSION AND ANALYSIS

Mr. Pedrick referred to his memorandum of February 25 concerning SB213. BWC has reviewed several bills with workers' compensation impact that will not receive comment from the Actuarial Department.

Mr. Bryan asked what would prompt identification of impact, but without an analysis. Mr. Pedrick replied that every bill is reviewed by the Legal Division and Legislative Affairs. Most do not need an actuarial analysis. One example is the HB259 to change the investment policy. HB213 received an actuarial analysis due to its clear impact. The Workers' Compensation Council may identify more bills that need review.

CAO REPORT

Mr. Pedrick reported that the CAO Report sets forth tasks for future months. The written report of Mr. Potts concerning employers affected by the premium cap is located on page 3.

COMMITTEE CALENDAR

Mr. Bryan stated that major features of the committee calendar had already been discussed in the CAO Report. No further comments or requests for change were raised.

Mr. Pedrick reported that BWC is working on organized schedules for due dates for employers, TPAs, and sponsors.

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
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March 5, 2010