BWC Board of Directors

ACTUARIAL COMMITTEE

Thursday, May 27, 2010, 12:00 P.M.

William Green Building

30 West Spring St. 2nd Floor (Mezzanine)

Columbus, Ohio 43215

Members Present:	Charles Bryan, Chair Jim Matesich, Vice Chair David Caldwell James Hummel Thomas Pitts William Lhota, ex officio
Members Absent:	None
Other Directors Present:	Alison Falls, Kenneth Haffey, James Harris, Larry Price, and Bob Smith
Counsel present:	James Barnes, General Counsel
Scribe:	Larry Rhodebeck, Staff Counsel

CALL TO ORDER

Mr. Bryan called the meeting to order at 12:00 p.m. and the roll call was taken. Mr. Lhota reported to the meeting at 12:03.

MINUTES OF APRIL 29, 2010

Mr. Caldwell moved to approve the minutes of April 29, 2010. Mr. Matesich seconded and the minutes were approved by a roll call vote of five ayes and no nays.

AGENDA

Mr. Pedrick requested adding a sixth item for first readings on the deductible program because it requires a change before July. Mr. Matesich moved to adopt the agenda as amended. Mr. Pitts seconded and the amended agenda was adopted by a roll call vote of six ayes and no nays.

NEW BUSINESS/ACTION ITEMS

SECOND READING: PRIVATE EMPLOYER BASE RATES AND EXPECTED LOSS RATES, OHIO ADMINISTRATIVE CODE RULES 4123-17-05 & 4123-17-06.

John Pedrick, Chief Actuarial Officer, Elizabeth Bravender, Actuarial Director, and

Terrence Potts, Actuarial Operations Rates Supervisor, recommended amendment of Ohio Administrative Code Rules 4123-17-05 and 4123-17-06 to adopt the base rate and expected loss rate recommendation approved in April by the Workers' Compensation Board. The presentation included reference to "Executive Summary: Private Employer Contribution to the State Insurance Fund" of May 17, 2010. Mr. Bryan commented that setting of the individual rates is the last action to be taken, following approval of a 3.9% overall rate recommendation and changes in the credibility table. The rates are subject to a 30% cap on increases and a finding that the break even factor need not be changed.

Mr. Potts reported that preliminary rates were reported at the April meeting and no changes were needed, so the rates presented today are the same as those from last month. Of the classifications, 122 will experience base rate increases, 396 will experience decreases, and 13 will have no changes. Base rates are calculated using data from the oldest four of the previous five calendar years preceding the effective date of rates.

In response to Mr. Bryan's question, Mr. Potts confirmed the experience period was CY 2005 through 2008. Mr. Potts also stated the experience includes adjustments from claims payroll audits. The rates do not include employer's rating plans, such as group rating or retrospective rating.

Mr. Potts further reported that base rates and expected loss rates are used for two separate and distinct purposes. Base rates are used to insure BWC collects the necessary premium to cover the anticipated costs of claims incurred during the policy year and include assessments to fund the Division of Safety & Hygiene and for the Premium Payment Security Fund. Expected loss rates are used to determine whether a specific employer's loss is better or worse than average. If an employer has a better than average loss history, they will receive a credit applied to the base rate. Conversely, if an employer's loss history is worse than average, a debit will be applied to the base rate.

At the April meeting, the Actuarial Committee asked for the number of employers affected by changes. Page 19 of the materials available in the April and May executive summaries, shows a chart with the number of classifications affected by different base rate changes. New charts on pages 20 and 21 for the May executive summary include the number of employers assigned to manual classifications and the premiums the employers will pay for those manual classes. For example, manuals with a reduction of 50% to 86% affect 12 manual classes, 27 employers, and $79,000 in premiums. Reductions of 10% to 19% will affect 199,126 employers, 169 classes, and a little over $568 million in premiums.

Mr. Bryan asked if there are employers with more than one manual class. Mr. Potts confirmed and replied that the employer counts may be duplicated if an employer has employees in different manual classes.

Mr. Matesich asked how BWC is approaching employers with delivery of safety services for those experiencing high base rate increases. Mr. Pedrick reported that for both claim changes and experience modification increases, BWC is targeting employers for safety programs. Mr. Potts added this will affect 122 manual classes.

Mr. Bryan stated that an 86% change seems large when 60% of experience used for manual base rate determination is the same from one year to the next. Mr. Potts reported that the large particular decrease occurs in manual classification 4439, lacquer or spirit varnish manufacturing. Ohio has only one employer in this category. Mr. Pedrick added that, although there are still three years of claims in common in the experience period for a given year and the next year, the next year's data has also developed by a year. Most classes have enough employers and payroll to have full credibility. For some classes, the number of employers is so small the rate is set at the industry rate. Mr. Bryan commented that this still seems volatile. Mr. Pedrick replied that volatility in class rates causes him concern and that is why he and his staff will work with Deloitte Consulting LLC over the next year to investigate ways to reduce volatility and improve class rate setting methods. Manual 4439 is exceptional; because it has so little information, and it has no credibility. When deciding what the proper rate is for classes with little or no data, BWC staff examines rate calculations from previous years as well as the industry class rate. .

Mr. Price stated that he saw more classes in the chart where there were drastic changes. Mr. Pedrick responded that rates are predictions of the cost of next year's claims. Mr. Price pointed out that one example is manual 1430, where rates increase from $63 to $81 and were more of a concern because of the initial high rate. Mr. Pedrick stated when a rate increases 30%, it is likely that the increase would have been more. The next question is what the uncapped rate eventually be. Was there a 30% rise last year and could there be a 30% raise next year? Class 1430 shows how one large employer and payroll can affect business.

Mr. Harris stated that in small classes, an employer with several claims can affect rates materially, and result in volatility. That is just the nature of rate setting.

Mr. Pedrick confirmed to Mr. Smith that in pricing, when BWC has little information, it must set a base rate with the information it has.

Mr. Matesich reviewed a number of manual classes in beverage manufacturing, transportation, and sales. He is aware that consolidation of employers and reduction of employees has shrunk the industry. Should not BWC put these employers into fewer classes? Mr. Pedrick replied that the National Council on Compensation Insurance (NCCI) makes distinctions in classes because, on a national level, it sees significant differences in the data. Consolidating classifications must be balanced with the need to follow NCCI classifications wherever possible.

Mr. Matesich stated the smaller the employer, the greater the volatility, whereas, the larger the number of employers, and the fewer employees, safety culture differences have an effect in experience. Mr. Pedrick replied this statement articulates the rationale for predictability and stability in rate-making.

Mr. Hummel reported another example is lead smelting and a large employer leaves. Mr. Pedrick answered that this can affect the class rate and related his recent answer to an employer's questions. When staff calculated the hypothetical class rate without this employer's experience, the result would have been a lower rate for all other employers in the class.

Mr. Pedrick stated that if a manual class has low credibility, then BWC turns to the rate for the industry group to which the class belongs.

Mr. Lhota wondered how many classifications have only one employer.

Ms. Falls put the issue a different way. NCCI classes are widely used. Do other insurers using NCCI classifications see the same volatility and what in Ohio is increasing volatility? Mr. Pedrick answered that in the next year, BWC wants to look at these types of questions in the investigation of ways to increase class rate stability.

Marsha Ryan, BWC Administrator, asked when the NCCI sets rates, does it create rates for all states or individual states. Mr. Pedrick replied that it is state by state and submitted to state insurance regulators for approvals.

Mr. Bryan requested that BWC take this volatility issue into consideration when setting rates for July 1, 2011.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors consent to the Administrator's recommendation to amend private employer rate rules 4123-17-05 and 4123-17-06 of the Administrative Code, effective July 1, 2010. Mr. Pitts seconded and the motion was approved by a roll call vote of six ayes and no nays.

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

Mr. Pedrick recommended approval of rates for the Marine Industry Fund and amendments to Ohio Administrative Code Rule 4123-17-19. The presentation included reference to "Executive Summary, Marine Industry Fund (MIF)" of April 19, 2010. At the April meeting of the Actuarial Committee, BWC recommended a 25% reduction.

Mr. Hummel moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors consents to the Administrator's recommendation to amend rule 4123-17-19 of the Administrative Code, "Employer Contribution to the Marine Industry Fund," effective July 1, 2010. Mr. Caldwell seconded the motion.

Mr. Matesich requested time at the end of the meeting, if available, to discuss the terminology of HB562. (This discussion was not held due to lack of time.)

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

SECOND READING, DISABLED WORKERS' RELIEF FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-29

Mr. Pedrick recommended approval of Disabled Workers' Relief Fund rates and Ohio Administrative Code Rule 4123-17-29. The presentation included "Executive Summary, Disabled Workers' Relief Fund (DWRF I)."

Mr. Bryan asked why the Actuarial Committee needs a motion if the Administrator has recommended no change. Mr. Pedrick replied that rating rules need approval every year. James Barnes, General Counsel, added that because rates are new for each year, a motion should be approved.

Mr. Pitts moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors consents to the Administrator's recommendation to retain without change Rule 4123-17-29 of the Administrative Code, "Disabled Workers' Relief Fund: Employers' Assessments and Self-Insurer's Payments." This motion consents to the Administrator retaining without change Rule 4123-17-29 as presented here today. Mr. Matesich seconded the motion.

Mr. Pitts stated that a vote is necessary because a vote on the Administrator's recommendation, even if there is no change, indicates the Board's approval of the Administrator's proposed course of action.

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

SECOND READING, SPONSORSHIP CERTIFICATION REQUIREMENTS, OHIO ADMINISTRATIVE CODE RULE 4123-17-61.1

Tom Prunte, Director of Employer Management Services, and Sherri Simpson, Management Analyst Supervisor, requested amendment of Ohio Administrative Code Rule 4123-17-61.1 regarding sponsors. Ms. Simpson reported that the recommended changes make the rule more generic by removing references to specific policy years. At the April meeting, it was reported that there would be additional changes to the draft in paragraph (A), which have now been included. There has been a change in the marketing rule which prohibits marketing before adoption of the break even factors. BWC has received no additional feedback from stakeholders.

Mr. Matesich remarked that paragraph (D) requires safety data reports and asked if BWC can provide these to the Workers' Compensation Board. Ms. Simpson noted that the amendment requires additional reporting. Mr. Matesich stated that the rule required data reporting in the former version. Mr. Prunte stated that BWC can report on the data collected.

Mr. Bryan suggested the Medical Services and Safety Committee would be a better venue for a report of that nature. Mr. Harris, Chair of the Medical Services and Safety Committee, concurred.

Mr. Caldwell moved the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-17-61.1 of the Administrative Code, "Sponsorship Certification Requirements." The motion consents to the Administrator amending Rule 4123-17-61.1 as presented here today. Mr. Hummel seconded and the motion was approved by a roll call vote of six ayes and no nays.

FIRST READING, COAL WORKERS' PNEUMOCONIOSIS FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-20

Mr. Pedrick and Dave Heppen, Jan Lommele, and Bob Miccolis, Deloitte Consulting, presented the rate recommendation to the Coal Workers' Pneumoconiosis Fund and Ohio Administrative Code Rule 4123-17-20. Reference was made to Deloitte's report, "Coal Workers' Pneumoconiosis Fund ("CWPF") Recommendations to be Effective July 1, 2010," of May 27, 2010. Mr. Lommele reported that he and Dave Heppen were the lead analysts, and Bob Miccolis provided the peer review. Deloitte has made alternative recommendations, depending on decisions by BWC. Mr. Heppen recommended discontinuing the moratorium on premium collections begun in 1999. Currently, only coal miner operators joining the fund in 1999 and later pay premiums. The recommendation is based on promoting equity. If the moratorium is discontinued, premiums can be lowered by 20%. The alternate recommendation is to keep rates unchanged and maintain the moratorium.

Mr. Bryan asked how many employers are "new." Mr. Heppen replied that seventeen are new, of forty-six total employers covered by the CWPF. However, the seventeen have larger payrolls.

Mr. Smith commented that the old employers may argue they have already paid into the fund, so are entitled to the moratorium.

Ms. Ryan stated there should be much more work completed to review the customers and the structures of the customers.

Mr. Bryan asked if the Actuarial Committee should be requesting more information before acting on the recommendation. Ms. Ryan replied so much more work is necessary, especially under National Health Care Reform. So she is recommending preserving the status quo.

Mr. Hummel asked if the fund has been examined for old employers bringing in new claims.

Mr. Heppen reported that on page 3 of the report a chart showing that the fund has maintained net assets, but losses are increasing, so the fund is losing ground. Mr. Pedrick added that the question is what is the true exposure to the fund?

Mr. Lhota asked how does the transfer to the Ohio Department of Natural Resources (ODNR) affect the fund. Mr. Pedrick responded that it comes from the investment income. Tracy Valentino, Chief, Fiscal & Planning, added that the net operating income shown in Deloitte's presentation probably includes the transfer. Mr. Bryan requested research on that for the June meeting.
Mr. Caldwell suggested that the Actuarial Committee waive the second reading because the consensus is to continue the moratorium. Mr. Price stated his view is that when there is a change recommendation, that it have a second reading.

Mr. Caldwell moved to waive second reading. Mr. Pitts seconded.

Mr. Hummel asked will there be additional information presented by the June meeting. Mr. Pedrick replied he will have information on the impact of the transfer of funds to the ODNR in existing and future transactions. However, BWC cannot do more in-depth studies before the next meeting.

Ms. Valentino reported that audited financial statements of fiscal year 2009 show $4 million transferred for the safety program. Mr. Lhota commented that the transfer to the safety inspection program is an ongoing obligation.

In a roll call vote, Mr. Bryan, Mr. Caldwell, and Mr. Pitts voted to waive the second reading. Mr. Matesich and Mr. Hummel voted against waiving. Mr. Lhota did not vote because the Board's Governance Guidelines require him to abstain from voting if a tie vote could result. Mr. Bryan ruled that by a 3-2 vote, the requirement for a second reading was waived.

Mr. Pitts moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors consents to the Administrator's recommendation to retain without change Rule 4123-17-20 of the Administrative Code, "Employers' contribution to the Coal Workers' Pneumoconiosis Fund." This motion consents to the Administrator retaining without change Rule 4123-17-20 as presented here today. Mr. Caldwell seconded the motion.

Mr. Bryan asked how does the motion seek to advise and consent. Mr. Pitts replied that page 2 of the BWC "Executive Summary, Coal Workers' Pneumoconiosis Fund (CWPF)" advised no change from the past, so the Administrator recommends a moratorium.

In a roll call vote, Mr. Bryan, Mr. Caldwell, and Mr. Pitts voted to approve the motion. Mr. Matesich and Mr. Hummel voted against the motion. Mr. Lhota did not vote per the procedures in the Governance Guidelines. Mr. Bryan ruled that the motion was approved and that the Actuarial Committee will recommend to the Workers' Compensation Board that the moratorium be continued. (At the Board meeting, this recommendation was rejected by a vote of 6 to 5 and the matter was returned to the Actuarial Committee.)

FIRST READING, ADMINISTRATIVE COST FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-36

Ms. Valentino requested adoption of assessment rates for the Administrative Cost Fund (ACF) and amendment of Ohio Administrative Code Rule 4123-17-36. Reference was made to the report "7/1/10 Administrative Assessments Executive Summary" of May 21, 2010. The rates were calculated based on the results of the annual administrative cost allocation study. The principle followed in the cost allocation study is that administrative costs allocated to each employer group should be related to the level and type of service provided to the group by BWC, the Industrial Commission, and the Workers' Compensation Council. In the course of the study, types of services provided were identified, service levels were measured, and costs were distributed using available workload statistics. Each state fund employer group's rate is calculated as a percentage of that group's projected premium base. The Self-Insured employer rate is calculated as a percentage of paid compensation. Page 3 of the executive summary includes an historic review of rates. Over the past year, BWC lowered costs to $254 million from $273 million. For private employers and public employers, assessments are a percentage of premiums; for self-insuring employers, assessments are a percentage of paid compensation.

Mr. Matesich asked why the Industrial Commission is not doing as well as BWC in controlling costs. John Georgiton, Fiscal Officer, Industrial Commission, replied that the Industrial Commission is making improvements as well. Its budget for fiscal year 2010 is $62 million, but it spent only $52.7 million. It has thirty-one fewer employees and has closed four offices. The Industrial Commission still conducted 170,000 hearings because there is a lag-time between reductions of claims at BWC, and reductions in hearings.

Mr. Matesich asked why then is the budget still at $62 million. Mr. Georgiton replied the actual calculation is at $49.4 million.

Mr. Matesich asked what rates would be if the Workers' Compensation Council is abolished. Ms. Valentino replied that if it were abolished before July 1, the assessment can be removed. If after July 1, BWC will make the appropriate adjustment. BWC expects new information on the Workers' Compensation Council before the next reading of the rules, which will affect the rates. Page six shows the calculation for the fiscal year 2010 rates, which shows the collection more than projected expense. BWC also looks at the cash balance. If BWC has more than $45 million in unencumbered cash at the end of the fiscal year, it must be rolled into next year's budget. This year, that balance is $48 million. Page 6 also shows the decrease in the discount rate to 4%. For the Industrial Commission, there is no change. For the Workers' Compensation Council, BWC may reduce the assessment based on information received between now and the June meeting.

FIRST READING, SAFETY AND HYGIENE, OHIO ADMINISTRATIVE CODE RULE 4123-17-37

Ms. Valentino requested amendment of Ohio Administrative Code Rule 4123-17-37 regarding assessments for the Safety and Hygiene Fund. Reference was made to a report entitled, "Executive Summary, Public Employer State Safety and Hygiene Rate" of May 17, 2010. Ms. Valentino reported that there will be no change in the safety and hygiene rates for public employer taxing districts and private employers. There is a sufficient fund balance and rates are equitable.

Mr. Matesich asked if private employers pay the right amount because of use and are state agencies using the Safety and Hygiene Division less. Ms. Valentino replied that the rates charged are appropriate for the use by each group.

Mr. Harris asked how can the BWC maintain the level of services with reduction of rate and keep the same staff. Ms. Valentino stated that the recommendation reflects confidence of BWC in the rate recommendation. Ms. Ryan added that BWC starts with what the General Assembly appropriates.

FIRST READING, SELF-INSURED ASSESSMENTS, OHIO ADMINISTRATIVE CODE RULE 4123-17-32

Mr. Pedrick, Ms. Bravender, and Mr. Potts requested adoption of the self-insured assessment rates and amendment of Ohio Administrative Code Rule 4123-17-32. Reference was made to the report entitled, "Executive Summary, Self-Insured Employers Assessments" of May 17, 2010. Mr. Potts reported that there are 1,194 active self-insuring employers in Ohio, who pay four mandatory assessments and three optional assessments. The mandatory assessments are the Surplus Fund assessment for payment of claims for bankrupt employers who have defaulted on their claim obligations for injuries with dates of injury prior to 1987, the Self-Insuring Employers' Guaranty Fund for claims with dates of injury after 1986, the Administrative Cost Fund assessment, and the Safety and Hygiene assessment. The optional assessments are for rehabilitation, in which three employers are participating; the handicap reimbursement program, in which no employers participate; and the disallowed claim program, in which 519 employers participate.

Mr. Potts reported that rates are on page 5 of the report. The rate would be reduced for the mandatory surplus fund from .0935 to .0300 because workers' compensation claim payments decreased by $4M and BWC collected $2.5 million more from sureties last year. The Guaranty Fund assessment is increasing from .0527 to .1154 due to a $2M increase in claim payments for post 1986 claims. The ACF remains the same for BWC and the Industrial Commission. If funding for the Workers' Compensation Council changes, then BWC will adjust the rate. No changes are recommended on rehabilitation and handicap reimbursement, but the disallowed claim assessment is increasing to 0.0396.

Mr. Matesich commented that in paragraph H of the rule, BWC should delete "and" following "hundred."

Mr. Pitts stated that he was surprised by the number of bankruptcies.

FIRST READING, PUBLIC EMPLOYER TAXING DISTRICTS CREDIBILITY TABLE EFFECTIVE JANUARY 1, 2011, & PUBLIC EMPLOYER TAXING DISTRICTS GROUP BREAK-EVEN FACTOR, OHIO ADMINISTRATIVE CODE RULES 4123-17-33.1 & 4123-17-64.2

Mr. Pedrick requested adoption of the public employer taxing districts credibility table effective January 1, 2011, and public employer taxing districts group break-even factor, Ohio Administrative Code Rules 4123-17-33.1 & 4123-17-64.2. The report included reference to a PowerPoint presentation "Public Employer-Taxing Districts (PECs), 2011 Rate Structure—Credibility and Break Even Factors" of May 27, 2010; "Executive Summary, Public Employer Taxing Districts," of May 14, 2010; and "Executive Summary, Public Employer Break-Even Factor," of May 14, 2010.

BWC proposes that public employer taxing districts adopt the same credibility table as private employers. Also, BWC will change the break even factor table so that the group to non-group relativity remains at the target. Because adopting the new credibility table has a greater impact on group risk, this allows BWC to reduce the break-even factor table. Finally, BWC will adjust the off balance to achieve an overall 0.0% premium effect. When the start of the new PEC policy year is much closer and full data on payroll, claim costs, and group membership is available, BWC will look over the effects and make any necessary changes. BWC is selecting the break even factor now, so group sponsors can begin marketing. Page 3 of the PowerPoint shows the target relativities. Retrospective rating has a ten-year period to pay, so this program tends to pay the right premium. That is why the structural changes under discussion today apply to group and non-group employers. Page 4 has a summary of changes and shows the reduction of the break even factor for group-rated employers.

Mr. Price asked who the stakeholders at the meetings were. Mr. Pedrick replied that it was group sponsors and TPAs and that he would provide a list. BWC did not receive comments, but participants were glad to see the break even factor reduced. More on this proposal will be presented in June.

FIRST READING, DEDUCTIBLE PROGRAM RULE, OHIO ADMINISTRATIVE CODE RULE 4123-17-72

Mr. Pedrick requested a change to the deductible program and amendment of Ohio Administrative Code Rule 4123-17-72. The presentation included references to "Executive Summary, Deductible Program Rule Changes," of May 26, 2010. In April, the Workers' Compensation Board approved two changes to make the program compatible with the Drug Free Safety Program and for the large deductible portion. BWC found problems with the table in Appendix F approved at that time, so it is requesting approval of the rule without the table. BWC will fix the error in July and August and return to Workers' Compensation Board with corrected rates. Public employer state agencies enroll from September 1 to October, so there is time to revise.

Mr. Bryan asked if this affected private employers. Mr. Pedrick replied that the affect on private employers was theoretical, but it appears that no private employers will use the options that will be addressed in July and August.

In response to Mr. Bryan's question, Mr. Pedrick reported the problem was in the pricing. If an employer had $2 million in premiums and selected the $200,000 deductible with $600,000 aggregate stop-loss, it would receive a discount of at least 47%. As a result, the employer would receive a premium reduction of $940,000, but would never pay more than $600,000 regardless of claims losses due to the aggregate stop loss feature. This creates a negative incentive and is an error in the pricing.

Ms. Falls remarked that it appeared that the Workers' Compensation Board is voting four times on this rule before July 1. Mr. Pedrick replied this reflects the growing pains for new programs, plus staggered enrollment times for different programs.

DISCUSSION ITEMS

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

Bill Van Dyke, Mr. Lommele, Mr. Miccolis, and Mr. Heppen presented the reserve study on behalf of Deloitte Consulting. The presentation was based on "Ohio Bureau of Workers' Compensation March 31, 2010 Reserve Analysis: Unpaid Loss and Loss Adjustment Expense as of June 30, 2010."

Mr. Van Dyke reported that Deloitte has been retained by BWC to determine an actuarial central estimate of the unpaid loss and loss adjustment expense as of June 30, 2010. The annual evaluation used data as of March 31, 2010. This is the first annual evaluation by Deloitte (Oliver Wyman had provided previous evaluations) and is modified from December 2009 data. The Ultimate Loss Estimates are based on multiple actuarial methodologies that incorporate both incremental and cumulative to date accident year data as well as both paid losses and incurred losses. The selected ultimate losses are primarily based on methodologies that employ cumulative paid data, which are commonly used for workers' compensation. The Nominal Unpaid Loss Estimate is calculated as ultimate losses, less payments, projected through June 30, 2010. Projected payments from April 1, 2010, to June 30, 2010, are determined based on the historical payment pattern of BWC. The Discounted Unpaid Loss Estimates are determined as the undiscounted unpaid loss estimates adjusted for expected future investment income using a discount rate of 4.0%—not 4.5% as was used last year—and the historical payment pattern of BWC.

The preliminary reserve currently used by BWC as of June 30, 2010, of $19.3 billion is $530 million, or 3% below the discounted unpaid estimate by Deloitte of $19.8 billion based on data as of March 31, 2010. The discounted unpaid estimate is based on a discount rate of 4.0% and reflects $12.4 billion of future investment income, which must be realized to provide sufficient funds to make all future claim payments associated with claims occurring on June 30, 2010, and prior. The indicated unbilled premium receivable of $3.4 billion as of June 30, 2010, is approximately $190 million higher than the BWC recorded unbilled premium receivable as of June 30, 2009, of $3.21 billion.

The current June 30, 2010, discounted unpaid estimate of $19.8 billion is $848 million, or 4.5% higher than the prior discounted unpaid estimate by Deloitte of $19 billion based on data as of December 31, 2009. The discount rate change from 4.5% to 4.0% drives the change with a $965 million impact. The current June 30, 2010, unbilled premium receivable estimate of $3.4 billion is $238 million higher than the prior estimate of $3.2 billion based on data as of December 31, 2009.

For the State Insurance Fund only, the current discounted unpaid estimate of $15.7 billion is $593 million or 3.9% higher than the prior discounted unpaid estimate of $15.1 billion based on data as of December 31, 2009. The June 30, 2010, State Insurance Fund unpaid estimate decreased $100 million assuming a constant discount rate.

The December 31, 2009, analysis showed a reserve of $14.3 billion; the balance based on data through March 31, 2010, is $14.8 billion, a change of $553 million. The drivers of change are reduction of the discount rate to 4.0%, changes in ultimate losses (both changes in losses and parameter updates), changes in expected premiums paid at June 30, 2010, and change in the reserve discount rate. Expected paid loss for FY 2010 to date (July 1, 2009, to March 31, 2010) was $1.328 billion. Actual paid loss was $1.240 billion.

Mr. Bryan asked would this be because BWC is paying more slowly. Mr. Van Dyke replied it is because of decline in frequency. Also, the actual loss for the third quarter is $399 million, which is $52 million less than expected.

Mr. Van Dyke further reported that the other funds remain relatively stable. For DWRF, the current June 30, 2010 discounted unpaid estimate of $2.044 billion is $135 million higher than the prior estimate of $1.909 billion, driven primarily by the change in the discount rate. The Coal Workers Fund June 30 discounted unpaid estimate is $74 million, $10 million higher than the prior estimate of $65 million for December 31, 2009. Seven million dollars of the increase is from the change in the discount rate. The remaining $3 million is associated with change in the average age from 56 to 55. There are no changes in methodology or other changes in assumptions since the prior analysis. For the SIEGF, the current June 30, 2010, discounted unpaid estimate of $889 million is $69 million higher the prior estimate of $820 million for December 31, 2009. The increase is primarily driven by the change in the discount rate. For the ACF, the discounted unpaid estimate of $1,116 million is $41 million higher than the prior estimate of $1,074 million.

The June 30, 2010, roll-forward process begins in July. Deloitte does not anticipate any changes to the methodology or any significant change in the assumptions. If changes are noted, then Deloitte will conduct a deep dive to determine the reasons. Results will be communicated to the Bureau of Workers' Compensation Board of Directors in August.

LEGISLATIVE DISCUSSION AND ANALYSIS

There was no discussion of pending legislation.

CHIEF ACTUARY REPORT

Mr. Pedrick stated that since the last report, BWC has revised the plan for group rating and split-experience rating. Group rating should be self-supporting by July 1, 2012. BWC will be looking at group-rating with Deloitte. For split-experience rating, BWC will roll out a “beta” version in 2011, and will fully implement the new methodology by July 1, 2012.

COMMITTEE CALENDAR

Mr. Bryan asked for additions to the calendar and hearing none, made no changes.

EXECUTIVE SESSION

There was no executive session.

ADJOURNMENT

Mr. Pitts moved to adjourn and Mr. Caldwell seconded. Mr. Bryan adjourned the meeting at 2:25 p.m. after the motion was approved by a roll call vote of six ayes and no nays.

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May 4, 2010