BWC Board of Directors

ACTUARIAL COMMITTEE

Monday, July 26, 2010, 9:00 A.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:	James Harris
Counsel present:	James Barnes, General Counsel
Scribe:	Larry Rhodebeck, Staff Counsel

CALL TO ORDER

Mr. Bryan called the meeting to order at 9:00 a.m. and the roll call was taken. Mr. Caldwell reported to the meeting at 9:12 a.m.

MINUTES OF JUNE 17, 2010

Mr. Bryan requested that on page 2, paragraph 2, lines 3-4 be changed to read "and two *alternative* recommendations: reduce premium rates by 20%, contingent on BWC discontinuing the premium moratorium; *or* if the moratorium is retained,. . ." and line 7 is changed to read "rejected the *Actuarial Committee* recommendation." He requested that on page 3, paragraph 5, line 4 be changed to "~~collects~~ *results in*." He requested that page 5, paragraph 1, line 5, be changed to "*the* Industrial Commission." He requested that page 8, paragraph 2, line 1 be changed to, "Mr. Pedrick replied *that this approach* will add rate stability." He requested that page 10, paragraph 8, line 1 be changed "Mr. Pedrick reported that *this* study uses payroll rates for the classes." He requested that page 11, paragraph 2, line 4 be changed to read "in which rate stability can be ~~minimized~~ *maximized*" while still making rates responsive to experience. Some approaches to data for rates are required . . . ."

Mr. Matesich moved to approve the minutes of June 17, 2010, as amended. Mr. Pitts seconded and the amended minutes were approved by a roll call vote of five ayes and no nays.

AGENDA

Mr. Hummel moved to adopt the agenda. Mr. Pitts seconded and the agenda was adopted by a roll call vote of five ayes and no nays.

NEW BUSINESS/ACTION ITEMS

FIRST READING: PUBLIC EMPLOYER TAXING DISTRICTS DEDUCTIBLE TABLES, OHIO ADMINISTRATIVE CODE RULE 4123-17-72

John Pedrick, Chief Actuarial Officer, recommended amendment of Ohio Administrative Code Rule 4123-17-72 to add revised deductible tables for public employer taxing districts. Reference was made in the presentation to the executive summary, "Deductible Program Rule Changes," of July 23, 2010. The rule has been before the Actuarial Committee for the last several months. In June, the Workers' Compensation Board approved removing the large deductible table for taxing districts due to some errors found in the table. Enrollment in the deductible program for taxing districts is in September and October, so the revised and corrected table is before the committee with the expectation of having it available by then. Appendix F of the rule, which encompasses several pages, can be found at the end of the rule. The table was also extended to higher premium levels since some large municipalities and counties pay $10 to 15 million in premiums.

Mr. Bryan asked if the table is now correct. Mr. Pedrick replied that it was. For example, if an employer with $3 million in premiums chooses a $25,000 deductible with an aggregate of $75,000, it will receive an immediate 1% credit. Mr. Bryan stated this seems small. Mr. Pedrick added that 1% of $3 million is $30,000. For an employer with $5 million in premium, a 1% credit is $50,000. In both cases the aggregate limit keeps the maximum amount the employer would pay at $75,000. For even larger employers in this example, the premium reduction could approach or exceed the maximum obligation under the aggregate deductible. However, the dollar value of the discount should never be more than the maximum obligation under the aggregate deductible. The problem with the incorrect table was that it had several cases where the discounts allowed an employer to receive a premium reduction that amounted to more money than the employer would be required to pay under the aggregate. An aggregate limit introduces additional aspects to pricing. When there is no aggregate, there is no limit on the amount of claim costs the employer is obligated to pay below the deductible. The aggregate removes some of the risk.

Mr. Matesich stated that the table appears to limit the aggregate to $25,000. A layperson needs to see the aggregate in the table and not just be reading it in the rule. Mr. Pedrick replied that under the current structure, the aggregate will always be three times the deductible; however the rule can be made clearer. Mr. Matesich also asked how a private employer is advised regarding the selection of an aggregate limit, particularly in those cases where the discount is the same whether or not the aggregate limit is selected. Mr. Pedrick replied that staff would provide more information at next month's meeting, and that, as the deductible program becomes more familiar, TPAs are also becoming better advisers about the advantages and disadvantages of the program.

Mr. Bryan stated that employers may select the deductible program with an aggregate or no aggregate. They need education on the importance of careful selection. Mr. Pedrick replied this was just as important for private employers, and that BWC will review the tables for private employers for the same inconsistencies detected for the taxing districts before the June 2011 policy year. Once the tables are done, BWC will implement a three-year cycle to review the pricing for this program.

Mr. Bryan repeated that it would be prudent to advise employers regarding the differences between having an aggregate limit and having no limit. Mr. Pedrick replied that BWC will report next month regarding program advice to employers.

Mr. Pedrick further reported that the second amendment to the rule is revision of Appendix B, the summary of small deductible credits for taxing districts. The changes make the pricing for the small deductible and the large deductible consistent. The current proposals are based on work by Jon Turnes, BWC's Manager of Reserving, and Dave Heppen, Deloitte Consulting LLP.

Mr. Pedrick also reported that the third amendment is a clean-up of the hazard group table for private employers. The amendment strikes three manual classifications and adds four classifications.

Mr. Pitts asked if there were any changes to the text of the rule itself. Mr. Pedrick replied there were none.

Mr. Bryan stated that deductible programs enable employers to exercise more control over their premiums and take on greater risk. While some problems were detected, staff is working to make them accurate and clear.

FIRST READING, PRIVATE EMPLOYER CREDIBILITY TABLE EFFECTIVE JULY 1, 2011, OHIO ADMINISTRATIVE CODE RULE 4123-17-05.1; GROUP BREAK EVEN FACTOR, OHIO ADMINISTRATIVE CODE RULE 4123-17-64.1

Mr. Bryan reported that BWC should try to revise group rating as early as possible to enable marketing by group sponsors and their TPAs, which usually starts in the summer.

Mr. Pedrick reported that for policy year beginning July 1, 2011, BWC proposes to keep the maximum discount for groups at 51% (credibility factor times break even factor), which is the same as for the policy year beginning July 1, 2010. The first reason for doing so is that prior changes have moved group rate levels closer to the level of their claim costs. Second, the split experience program is due on line in 2012. BWC wants to keep group rating stable while turning full attention to testing and implementing the split experience rating plan. Third, recommending "no change" shows BWC is making an affirmative statement so that all interested parties have certainty with respect to the group rating program for the next policy year.

DISCUSSION ITEMS

RESERVE EDUCATION

Mr. Bryan stated that the recent change of the discount rate from 4.5% to 4% would, among other things, have a substantial impact on the carried reserves. So an education on reserving by Deloitte Consulting LLP, the new actuarial consultant, is appropriate at this time.

Mr. Pedrick reported that Deloitte had produced a reserve report using data through March 31, 2010 to project reserves for June 30, 2010. Any material changes that arose during the fourth quarter of the policy year would be reported in July, and the final reserve report, or "audit," will be presented in August. In light of this schedule, an education session is very timely.

Credentialed actuaries from Deloitte presenting and/or preparing the report, "Ohio Bureau of Workers' Compensation Educational Session—Reserve Methodology" of July 26, 2010, included Bill Van Dyke, Dave Heppen, Jan Lommele, Bob Miccolis, Pete Boyd, and John Slusarski. Also present were Mr. Pedrick and Mr. Turnes. Mr. Pedrick commented that including the Chair, there are nine credentialed actuaries at this meeting.

Mr. Van Dyke led the discussion. The session had nine sections: objectives and actuarial process; life cycle; ultimate loss; paid loss development method; paid Bornhuetter-Ferguson method; tail; uncertainty; Deloitte unpaid loss estimates;

and a discount illustration. The nine methodologies of determining ultimate losses are described in the report appendix and two (paid loss development and Bornhuetter-Ferguson) were described in detail. Among the unpaid loss estimates of Deloitte is that the discount rate of 4% reflects $12.4 billion of required future investment income, a total of 38.4% of the total nominal unpaid losses estimates. The change of the discount rate from 4.5% to 4% requires an increase in funding of $965 million.

Mr. Matesich asked if the reserve development gave any consideration to the same injury incurred by a 30 year old worker compared to a 60 year old worker, and the impact of the mortality tables on setting the reserve... Deloitte responded since Ohio has such a large data base and so much data, the age difference in injuries is automatically considered in the reserve analysis since these differences would be present in historical claims.

Mr. Bryan commented that even with reduction of the discount rate to 4%, there remain issues with respect to the possible range around a reasonable discount rate and the effect of a reduced discount rate on the solvency of the State Insurance Fund. Mr. Van Dyke replied that the current rate for a ten–year United States Treasury Note is 3%.

Mr. Bryan recommended committee members read the first volume of the Deloitte reserve report for more detail and indicated that this report was available either in a CD version or a paper version.

RESERVE ADJUSTMENTS AS OF JUNE 30, 2010

The report on lack of need for reserve adjustments is found in the " CAO Report."

LEGISLATIVE DISCUSSION AND ANALYSIS

There was no discussion of pending legislation.

CHIEF ACTUARY REPORT

Mr. Pedrick reported that there had been a calendar place-holder on discussion of reserve adjustments if Deloitte reported significant change from its March reserve report. He discussed the issue of materiality of changes. With $19.8 billion in total loss reserves, a 10% increase in reserves would be about $2 billion, and a 1% increase would be about $200 million. Since net assets at June 30, 2010 are at $3.8B,, a 10% decline in net assets would be approximately $400 million, while a 1% decline would be about $40 million. While this is a substantial amount of money, a change of this magnitude would not give rise to the need to specifically discuss and address it. With this perspective, there would be a change to the payroll assumption for 2010 and 2011. A reduced projection will have an impact on reserves, but it will not reach a level of materiality to net assets or to total reserves.

Mr. Pedrick also reported that the rest of first page of the CAO report has already been discussed in the meeting. Work that is continuing over the next two years is outlined in the rest of the report.

Mr. Bryan asked if BWC can create a separate project for rate stability with respect to individual premium payers. Mr. Pedrick replied the Actuarial Department has initiated such a project. This effort includes looking at the elements of rate making, and will be included as a separate item in future CAO reports.

COMMITTEE CALENDAR

Mr. Bryan noted that as a result of a recommendation in the Board self-assessment, a representative from Deloitte Consulting will be present at all Actuarial Committee meetings.

EXECUTIVE SESSION

There was no executive session or litigation update.

ADJOURNMENT

Mr. Pitts moved to adjourn. Mr. Matesich seconded and Mr. Bryan adjourned the meeting after a unanimous roll call vote.

H:\Word\ldr\WCB Actuarial Committee 0710.doc
July 28, 2010