BWC Board of Directors

ACTUARIAL COMMITTEE

Thursday, September 23, 2010, 2:20 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
Staff present:	Marsha Ryan, Administrator John Pedrick, Chief Actuarial Officer Elizabeth Bravender, Director, Actuarial Department Jon Turnes, Manager of Reserving Tom Prunte, Executive Director, Employer Management Services Ron Suttles, Supervisor of Employer Programs
Consultants present:	Russell Menze, Deloitte Consulting, LLP Hui Shan, Deloitte Consulting, LLP Dave Heppen, Deloitte Consulting, LLP Bill Van Dyke, Deloitte Consulting, LLP
Scribe:	Larry Rhodebeck, Staff Counsel

CALL TO ORDER

Mr. Bryan called the meeting to order at 2:20 p.m. and the roll call was taken. Mr. Lhota reported to the meeting at 2:23 p.m.

MINUTES OF AUGUST 26, 2010

Mr. Hummel requested that on page 3, paragraph 2, the approval of the motion indicate that Mr. Caldwell seconded and the motion was approved by a roll call vote of five ayes and no nays.

Mr. Pitts moved to approve the minutes of August 26, 2010, as amended. Mr. Caldwell seconded and the amended minutes were approved by a roll call vote of six ayes and no nays.

AGENDA

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

NEW BUSINESS/ ACTION ITEMS

SECOND READING, PROGRAM COMPATIBILITY RULE CHANGES AND RULE CLEAN-UP, OHIO ADMINISTRATIVE CODE RULE CHAPTER 4123-17 AND RULE 4123-17-74

Tom Prunte, Executive Director, Employer Management Services, and Ron Suttles, Supervisor of Employer Programs, recommended amendment of several rules of Ohio Administrative Code Chapter 4123-17 and enactment of new rule 4123-17-74. Reference was made to the executive summary, " OAC Chapter 4123-17 Employer Program Rule Revisions," of September 13, 2010. Mr. Prunte reported that there is one change, based on stakeholder feedback on the retrospective rating rules. Mr. Suttles reported that there are twenty employers in the Tier 2 level of the retrospective rating program, of which four are public employers. The stakeholder recommended that employers failing to implement the Ten-Step Safety Program not be removed from retrospective rating. Instead, they should work with the Safety and Hygiene Division on an acceptable safety program that would provide all the benefits of the ten step safety program but be structured to better fit the company.

Mr. Bryan asked if the Safety and Hygiene Division supported that change and Mr. Suttles replied that the division did so. Mr. Prunte added that feedback from the Ohio County Commissioners Association indicated that removal from the retrospective rating program could create cash flow issues for a county.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend eight rules of Chapter 4123-17 of the Administrative Code; to rescind Rule 4123-17-42.1; and to adopt Rule 4123-17-74, " Deadline Dates and Compatibility Information for Employer Programs." The rule changes will provide employers with uniform application deadlines and program compatibility information in a single rule. The motion consents to the amendment, rescission, and adoption of ten rules as presented here today. Mr. Pitts seconded and the motion was approved by a roll call vote of six ayes and no nays.

FIRST READING, MORTALITY STUDY AND ANNUITY TABLE, OHIO ADMINISTRATIVE CODE RULE 4123-17-60

Mr. Bryan reported that the last time a mortality study was completed for BWC was 2002. A mortality study is usually developed by life actuaries. A current study is important for BWC as BWC develops reserve estimates for permanent total disability and survivor claims and other claims that use such a table. In the long run, it will enable the loss reserve estimates to use both an incurred and paid methods.

John Pedrick, Chief Actuarial Officer, stated that the mortality study computes annuity factors, which are then entered into MIRA II for use in estimation of benefits paid for permanent total disability (PTD) and death claims. The annuity factors are used in case reserving and in experience rating. However, PTD benefits are not usually granted until after the experience period, so they don't usually affect individual employer premiums to a large extent. To present the mortality study, Mr. Pedrick introduced Russell Menze, Hui Shan, Dave Heppen, and Bill Van Dyke, Deloitte Consulting, LLP. Mr. Menze also acknowledged assistance from Jan Lommele and Darryl Wagner of Deloitte and Elizabeth Bravender, BWC Actuarial Director. Reference was made to a PowerPoint presentation entitled " Ohio Bureau of Workers' Compensation 2010 Mortality Study" of September 23, 2010.

Mr. Menze reported that the scope of the project was to update annuity factors used in MIRA II system to determine PTD and death benefit case reserves. Specific annuity factors were determined for six groups, reflecting each group's specific mortality experience: public employers accident type, private employer accident type, occupational disease lung, occupation disease non-lung, public employer death, and private employer death. The mortality data period was from March 15, 1916, to March 15, 2010. The data elements included date of birth, sex, date of injury, date of death (if available), and other data. Discussions were held with Ms. Bravender in order to get the data into usable form for the study.

Deloitte followed several steps in its methodology: The first step was data cleansing, which is evaluation for data usability. Most data was usable, but some needed work. Second, Deloitte developed experience mortality rates. Third, data was organized by graduation and extrapolation of mortality rates. Fourth, the indicated mortality curve was subjected to a graduation approach and fitted to actual experience. Fifth the study determined group-specific annuity factors.

On page 4 of the presentation there is a schematic to illustrate the process for calculating the annuity factors. Page 5 shows the six steps of the data cleansing process, which excludes data which does not make sense. Three of the steps were exclusion of duplicate claims; calculating a birth date when one was not available; and excluding claims with erroneous negative ages at injury date.

Mr. Hummel asked what was meant by a negative age. Mr. Menze replied that was when the data showed the birth date of the injured worker was after his death.

Mr. Menze further reported that after cleansing, BWC would need at least one thousand cases in each of the six groups to achieve credible pools. These include PTD claims for public employers (4,355) and PTD claims for private employers (33,206). Deloitte could not use death claims for public employers because there were only 255 deaths during the experience period. Deloitte then plotted data on graphs to plot raw experience then smoothed the data to derive mortality curves.

Page 8 of the report has a summary of differences in data and methodology compared to the 2002 study. For example, the 2002 study only used data from 1981 to 2000. By using data from 1916 onward, the 2010 study has three times the data. In comparing the annuity factors of the prior study, the new study shows higher annuity factors for PTD claims of private employers until age 87, then lower ones for later ages. For death claims of private employers, the annuity factor was lower, which was derived from higher mortality.

Mr. Bryan asked how annuity factors affected reserves. Mr. Pedrick replied that page 11 of the Administrative Code Rule 4123-17-60 Appendix A illustrated survivor annuity factors for survivors of death claims. Page 4 of the Executive Summary provides a sample calculation. For example, if a widow was 25 and the compensation rate was $420, the calculation would be the annuity factor determined in the study of 1086 times $420 or $456,120 as the estimated reserve. This amount is calculated at a 4% discount rate. The 1086 annuity factor is the discounted value of $1 for each week of benefits.

Marsha Ryan, BWC Administrator, stated it was instructive that in the old chart, the number of weeks was 1,038. Mr. Menze added that by rough estimate there is a 10% increase overall for annuity factors.

Mr. Bryan asked when these factors will be loaded into MIRA II. Ms. Bravender replied they would be loaded on December 31, 2010.

Mr. Pitts asked how to compare the line graph with the table. Mr. Menze replied that the difference is the reduction of the discount rate from 4.5% to 4%.

Mr. Hummel asked what elements go into the overall study. Ms. Bravender answered this is selected PTD and death claims for twenty years. Jon Turnes, Manager of Reserving, added that this data included only indemnity costs and not medical.

Mr. Pedrick reported that on page 3 of the Executive Summary, the line graph compares factors. When looking at page 4 changes, this is the case reserves. What are not affected are the reserves for the financial statements because the financial statement reserves were determined from paid losses. Long term, the financial statement reserves will be affected when the reserve estimation process is able to use incurred losses in addition to paid losses

Mr. Matesich observed that the CSBR states that changes in the annuity factors do not affect benefits of injured workers. He asked if there was an impact on the employer rates. Mr. Pedrick replied that claims are mostly outside the five years of an employer's experience, so there is not usually a rate impact. Also, both studies exclude expenses more than the $250,000 catastrophe limit per claim for each claim.

Ms. Falls asked whether the new annuity tables would significantly impact any particular group of stakeholders. Mr. Pitts provided an example of a person who would be impacted: if he has a client who is a sixty-year-old widow on a self-insured claim, the effect of the new annuity tables is that a settlement offer from the employer will decline by $37,000. Mr. Pedrick added the new tables reflect death claims within five years of the date of injury.

Mr. Bryan stated that BWC is using paid loss methods when analyzing financial statement reserves because it is the best data available. In the long-term a historical dataset incurred losses will enable additional actuarial methodologies.

Mr. Pitts asked if tables have greater affect. Mr. Heppen replied the annuity tables only affect case reserves. Fewer payments on claims affect the financial statements.

Mr. Bryan asked if use of data from 1916 onward leads to understating of reserves. Mr. Menze replied that Deloitte chose to use more data to increase credibility. Because there is less old data, there is no distortion.

Mr. Hummel asked if there is any weighting of more recent data. Mr. Menze replied that more recent data is more plentiful, so it has greater impact on the result.

FIRST READING, PUBLIC EMPLOYER TAXING DISTRICTS RATE CHANGE

Mr. Pedrick, Mr. Heppen, and Mr. Van Dyke recommended changes to premium rates for public employer taxing districts. Reference was made to the Deloitte Consulting report entitled "Public Employer Taxing District (PEC) Rate Recommendations to be Effective January 1, 2011" of September 23, 2010. Mr. Pedrick stated that the presentation also included a memorandum from himself to Ms. Ryan with his recommendation to reduce overall rates by 5.5% and the formal report from Deloitte of September 22, 2010.

Mr. Heppen reported that the rate change recommendations are for the policy period starting January 1, 2011. The loss costs used to determine the rate change recommendations are derived from Deloitte's June 30, 2010 PEC reserve analysis. Rate projections are based on an analysis of historical loss cost trends for indemnity and medical losses separately. Deloitte's recommendations included a range from a 13.1% decrease (reasonable expectation optimistic, using a 4.5% discount rate) to a 0.6% increase (reasonable expectation conservative, using a 4.0% discount rate). The 5.5% decrease recommendation by Mr. Pedrick is consistent with the baseline indicated change using a 4.0% discount and Mr. Heppen concurs with the recommendation. If the BWC did not discount their reserves, the rate would be $1.74. With a 4.0% discount rate, the rate is $1.38. In other words, discounting lowers premium by approximately $130 million. In response to a question from Mr. Lhota, Mr. Heppen confirmed that the BWC discounting of reserves allowed a rate reduction of 25 to 30 percent. Mr. Bryan noted that, in a sense, the investment returns (as reflected in the use of aa discount rate)are returned to policyholders via lower rates rather than to shareholders.

Workplace safety in all employment classes has driven frequency down across the country for all injury types. Rate of frequency decrease has slowed in recent years, both for BWC and nationally. Deloitte projects a 0% change in frequency for 2010 to 2011, although the data is showing that a downward trend is possible. The BWC indemnity severity is variable, but matches the National Council on Compensation Insurance (NCCI) countrywide trend in recent years. The medical severity trend is the greatest concern and has not been as variable. Nevertheless, the medical severity trend has been slightly lower than the NCCI countrywide trend in recent years. Deloitte is selecting a medical trend of 6.0% for 2010 to 2011.

Mr. Hummel asked what is causing the medical severity trend. Mr. Heppen replied that it is normalized for changes in frequency by dividing expense by number of claims.

Mr. Heppen further reported that the overall loss experience (combining frequency and severity trends) in Ohio has improved relative to evaluations in prior years. BWC frequency and severity trends in PECs are consistent with those seen in countrywide data.

Mr. Pedrick stated that the BWC recommendation of a 5.5% reduction includes other changes also approved by the Workers' Compensation Board: revision of the credibility tables and adoption of break-even factors. The overall rate reduction is the last piece of the overall movement to make rates more equitable. The rate level indication is based on Deloitte's analysis of claim costs and trends and is derived from a range of claim cost projections. Projected claim costs for policy year 2011 indicate that a significant decrease will produce actuarially sound rates. At a 4.0% discount, the optimistic indication is a 10.3% reduction, the baseline reduction is 5.5%, and a conservative indication is an increase of 0.6%.

The rates and the resulting premiums are for claims arising between January 1, 2011, and December 31, 2011. BWC will maintain the target relative levels discussed in May and June 2010 when BWC adopted the 65% credibility table, capped the impact of rate changes, reduced the off-balance change, and changed the break-even factor table.

Mr. Pedrick further reported that in its analysis, Deloitte recommended a 5.5% rate reduction based on 6% medical inflation and flat frequency trend. In making his recommendation for a 5.5% decrease, he considered the potential for a rate increase one year from now if a larger rate decrease was taken effective January 1, 2011. Since BWC has seen medical inflation of approximately 4.5% over the past several years and frequency is still declining, he does not think an increase will be required next year. He added that another reason BWC is unlikely to come back for a rate increase, even if a small one is indicated, is the financial strength that BWC has built over the last three years and its disciplined approach to the net asset policy. This could allow BWC to keep rates stable and low.

Mr. Smith asked about the savings to PECs with a 5.5% reduction. Mr. Heppen replied it would be between $15 million and $20 million.

Mr. Harris stated that the goal of the Workers' Compensation Board is predictability and stability, so it would be harmful to increase rates in another year.

Ms. Ryan added that although the reduction goes to help local governments there is a time lag between when the rate is applied and when the premiums are due. Mr. Pedrick added that in 2009 BWC recommended a 17% decrease which is being applied to current premiums. Employer premium payments will not be made until May 2011. This 5.5% reduction will not be paid until May 2012.

Mr. Smith stated local government budget directors know about the reduction and can plan accordingly. This reduction gets headlines as the local governments adopt their budgets.

DISCUSSION ITEMS

LEGISLATIVE DISCUSSION AND ANALYSIS

There was no discussion of pending legislation.

CHIEF ACTUARY REPORT

Mr. Pedrick reported that the Actuarial Department has many projects in preparation. BWC is now testing a split experience plan, using Deloitte's recommendation in the HB100 Study. There is a substantial planning for proposals to be made in 2011.

BWC distributed the CD-ROM of the final revision of the Deloitte Reserve Analysis to the Directors. There are minor editorial changes.

Mr. Bryan commended Mr. Pedrick and the Actuarial staff for their work on today's presentations.

COMMITTEE CALENDAR

There were no changes to the Committee Calendar.

EXECUTIVE SESSION

There was no executive session.

ADJOURNMENT

Mr. Matesich moved to adjourn. Mr. Caldwell seconded and Mr. Bryan adjourned the meeting at 3:45 p.m. after a unanimous roll call vote.

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September 29, 2010