

ACTUARIAL COMMITTEE

Thursday, October 21, 2010, 2:30 P.M.

William Green Building

30 West Spring St. 2nd Floor (Mezzanine)

Columbus, Ohio 43215

Members Present: Jim Matesich, Vice Chair
David Caldwell
James Hummel
Thomas Pitts
William Lhota, ex officio

Member Absent: Charles Bryan

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
Elizabeth Bravender, Director, Actuarial Department
Jon Turnes, Manager of Reserving
Terry Potts, Supervisor of Rates

Consultants present: Jan Lommele, Deloitte Consulting, LLP
Bob Miccollis, Deloitte Consulting, LLP
Dave Heppen, Deloitte Consulting, LLP

Scribe: Larry Rhodebeck, Staff Counsel

CALL TO ORDER

Mr. Matesich called the meeting to order at 2:15 p.m. and the roll call was taken. Five members were present, constituting a quorum.

MINUTES OF SEPTEMBER 23, 2010

Mr. Hummel moved to approve the minutes of September 23, 2010. Mr. Caldwell seconded and the minutes were approved by a roll call vote of five ayes and no nays.

AGENDA

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

NEW BUSINESS/ACTION ITEMS

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

Elizabeth Bravender, Director of Actuarial Operations, and Jan Lommele, Bob Miccolis, and Dave Heppen, Deloitte Consulting, LLP, recommended approval of Ohio Administrative Code Rule 4123-17-60, "Annuity Factors." The presentation made reference to the Executive Summary, "Annuity Factors" of September 10, 2010. The recommendation is based on the Deloitte mortality study of 2010.

Ms. Bravender reported that BWC needs the annuity table to set present values for the indemnity reserves on permanent total disability (PTD) and death claims. BWC has used a present value methodology since the 1960s. The oldest PTD claim dates from 1912. The reserves are needed for accurate projections of liability. The last study was completed ten years ago. The new one by Deloitte makes several changes for various ages, and was reviewed by Ms. Bravender.

Page 5 of the executive summary contains a graph comparing the 2001 study with the 2010 Deloitte study (reported at 4.5% discount rate) and the 2010 study (reported at a 4% discount rate). The table on Page 6 provides total changes in reserve for twenty years of injuries. Total reserves increase by \$200 million, due to the increase in longevity of Ohio PTD claimants. Notwithstanding the reserve increase, there is no impact on employers because the individual case reserve exceeds the maximum claim values used in the experience modifications. There is also no impact on injured worker benefits, financial statement items, or on collectible premiums.

Mr. Matesich asked if there is no affect on these various items, why BWC computes them. Ms. Bravender replied BWC needs the reserves to develop incurred (paid plus reserves) loss triangles, which will supplement the use of paid losses to develop our financial statement reserves. The use of multiple methods to develop reserves was a recommendation of the HB 100 Comprehensive Report and conforms to actuarial standards of loss reserving.

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 4123-17-60 of the Administrative Code, "Annuity Factors." The motion consents to the Administrator amending the rule as

presented today. Mr. Caldwell seconded and the motion was approved by a roll call vote of five ayes and no nays.

SECOND READING, PUBLIC EMPLOYER TAXING DISTRICTS RATE CHANGE

Jon Turnes, Manager of Reserving, recommended approval of changes to premium rates for public employer taxing districts to reduce overall rates by 5.5%. Reference was made to the Deloitte Consulting report entitled "Rate Recommendations for Public Employer Taxing District (PEC) to be Effective January 1, 2011" of September 22, 2010; and the memorandum of October 8, 2010, from John Pedrick, Chief Actuarial Officer, to Marsha Ryan, BWC Administrator. Mr. Turnes reported the only difference from the report to the Actuarial Committee at its September meeting is the changes in reduction percentages of the three employer groups that are the subsets of the Public Employer Taxing Districts: non-group, group, and retrospectively rated. This is the last step in the set of recommendations that include approval of the credibility table and break even factors by the Workers' Compensation Board in June.

Mr. Matesich asked what the changes to the three employer groups were. Mr. Turnes reported that in September, BWC projected a 7.1% rate reduction for non-group employers, and now it is a 7.7% reduction. For group employers, the change is from -2.2% to -1.0%, and for retro rated employers, the change is from -5.4 % to -4.9%. The overall change remains at -5.5%.

Mr. Hummel requested confirmation that the change is effective January 1, 2011, and that premiums are payable in 2012. Mr. Turnes confirmed those dates, and noted this is the third consecutive year of overall rate decreases for public employers.

Mr. Caldwell moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation concerning the public employer taxing district employer premium rates effective January 1, 2011. The resolution consents to the Administrator fixing public employer taxing district employer rates to achieve an overall decrease of five point five percent (5.5%) in the total collectible premium from the previous year, and consents to the Administrator preparing rate rules consistent with this policy. Mr. Pitts seconded and the motion was approved by a roll call vote of five ayes and no nays.

FIRST READING, PUBLIC EMPLOYER TAXING DISTRICT BASE RATES AND EXPECTED LOSS RATES, OHIO ADMINISTRATIVE CODE RULE 4123-17-33 & 4123-17-34

Ms. Bravender and Terry Potts, Supervisor of Rates, recommended approval of Ohio Administrative Code Rules 4123-17-33 and 4123-17-34, "Public Employer Taxing District Base Rates" and "Expected Loss rates". Reference was made to the Executive Summary of October 21, 2010. Mr. Potts reported that with respect to NCCI Classification Code 9439, Public Employer Emergency Service Organizations, Contract Coverage, each employer reports a minimum of \$300 per enrolled volunteer per year and a minimum payroll per year of \$4,500.

Mr. Matesich asked if the rate is high because the payroll is set low. Mr. Potts confirmed that observation because the rate is set to collect the amount of premiums needed to pay claims. Mr. Matesich asked how the \$300 minimum was selected. Mr. Potts stated that he recalled the minimum payroll in the early 1980s was \$150 with a minimum of 15 employees reporting. BWC decided to raise the amounts later on a judgmental basis.

Mr. Matesich asked how other states set rates for safety volunteers. Mr. Lommele replied he did not have information at hand, but could research it.

Ms. Ryan reported that in West Virginia there is a dispute between local governments and BrickStreet Insurance, the successor to the West Virginia monopolistic fund over volunteer worker rates. In West Virginia, the rates are seven times higher than Ohio and require subsidies from state government. Mr. Miccolis added that the rates are higher, in part, because communities are more remote and the terrain creates a greater hazard.

Mr. Pitts stated that he had little to add on these types of rates from his experience in his law practice in representing injured workers.

FIRST READING, COMMITTEE CHARTER

Don Berno, Board Liaison, and Ann Shannon, Legal Counsel, led a discussion on amendments to the Committee Charter. Mr. Berno reviewed all changes proposed to the Actuarial Committee prior to the meeting and then reviewed the changes requested by the directors of the Workers' Compensation Board at other committee meetings. He stated that after approval, the amended charter would be returned to the Governance Committee for another review, submitted to the Actuarial Committee for approval, and then transmitted to the Workers' Compensation Board.

Mr. Pitts moved that the Actuarial Committee of the Workers' Compensation Board of Directors refer the Actuarial Committee Charter to the Governance Committee to consider the recommended changes as discussed here today. Mr. Caldwell seconded and the motion was approved by a roll call vote of five ayes and no nays.

DISCUSSION ITEMS

LEGISLATIVE DISCUSSION AND ANALYSIS

There was no discussion of pending legislation.

CHIEF ACTUARY REPORT

Ms. Bravender recognized the Actuarial Department for its work on the split experience plan and especially the work by Rex Blateri, Larry King, and Terry Potts (the three supervisors); BWC Infrastructure and Technology; Joy Bush, Program Development Director; and Jon Turnes. She stated the project is on schedule for a first discussion by the Actuarial Committee at the January, 2011 meeting. The rates and payments systems have been programmed and testing is almost complete. Ms. Bush is leading the project for new products and is beginning modifications to the One-Claim program and group rating plan. BWC will present proposals on these in the spring of 2011. Ms. Bravender reported two new projects began on base-rate analysis and state agency premium calculations. There will be recommendations to the Actuarial Committee in January 2011. Page 4 of the CAO Report lists Deloitte Consulting projects, eight of which are complete and eight of which are "in-progress."

OREGON STUDY REPORT

Ms. Ryan reported on a recently received report on a new rate study from Oregon. She cautioned that her comments today are made without the opportunity to discuss the study with Mr. Pedrick or Ms. Bravender. The Oregon studies are used as bench-marks for workers' compensation premium rates. In the previous study performed, for the fifty most common classifications of Oregon industries, Ohio rates had ranked third. However, it was noted that this study compared some industries for which Ohio had few employers, such as lumbering. The new Oregon study is based on 2009 rates of the compared states. Ohio now ranks 17th, with rates falling between \$2 and \$2.49 per \$100 of payroll. Ms. Ryan reported, however, that current BWC rates are \$1.95.

COMMITTEE CALENDAR

Mr. Matesich reported that the next meeting of the Actuarial Committee will be November 18, 2010, and cover the second reading of PEC base and expected loss rates rules and the Actuarial Committee charter; market results for the new deductible plan; and the Quarterly Reserve Update. There were no changes to the Committee Calendar.

EXECUTIVE SESSION

There was no executive session.

VICE CHAIRMAN'S COMMENTS

Mr. Matesich thanked Mr. Bryan for the extraordinary work he did in the review of the mortality tables at the September meeting. He also thanked Ms. Bravender for her presentations today and the Deloitte Consulting team for its support.

ADJOURNMENT

Mr. Hummel moved to adjourn. Mr. Caldwell seconded and Mr. Matesich adjourned the meeting at 2:55 p.m. after a unanimous roll call vote.

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October 25, 2010