BWC Board of Directors

Actuarial Committee Agenda

Wednesday, June 15, 2011
William Green Building
Level 2, Room 3
8:30 a.m. to 10:00 a.m.

Call to Order
Stephen Lehecka, Committee Chair

Roll Call
Larry Rhodebeck, Scribe

Approve Minutes of May 26, 2011 meeting
Stephen Lehecka, Committee Chair

Review and approve Agenda
Stephen Lehecka, Committee Chair

Review and approve Consent Agenda
1. None

New Business/Action Items

Motions for Board Consideration:

A. For Second Reading

1. Administrative Cost Fund – Rule 4123-17-36
   Tracy Valentino, Chief Fiscal and Planning Officer
2. Safety & Hygiene Assessment – Rules 4123-17-34 and 4123-17-37
   Tracy Valentino, Chief Fiscal and Planning Officer
3. Self-Insured Assessments – Rule 4123-17-32
   Terrence Potts, Actuarial Supervisor of Rates
   Elizabeth Bravender, Director of Actuarial Operations
4. Program Compatibility – Rule 4123-17-74
   Tom Prunte, Director of Employer Management Services

B. For First Reading

1. PEC Credibility – rule 4123-17-33.1
   Jonathan Turnes, Manager of Reserving, Actuarial Analysis Operations
2. PEC Group Break Even Factor – rule 4123-17-64.2
   Jonathan Turnes, Manager of Reserving, Actuarial Analysis

Discussion Items

1. Actuarial Reserve Estimate, FY Ending June 30, 2011, Using Data Through March 31, 2011
   Deloitte Consulting LLP
2. Actuarial Division Report
   Elizabeth Bravender, Director of Actuarial Operations
3. Committee Calendar
   Stephen Lehecka, Committee Chair

Executive Session

Litigation update – if necessary

Adjourn

Stephen Lehecka, Committee Chair

Next Meeting: Thursday July 28, 2011

*Not all agenda items have material.

**Agenda Subject to change

Common Sense Business Regulation (BWC Rules)
(Note: The below criteria apply to existing and newly developed rules)
Rule 4123-17-36

Rule Review

1. ☒ The rule is needed to implement an underlying statute.
   Citation: __R.C. 4123.341, 4123.342____________________

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): _ The rule notifies employers of the administrative cost assessments applicable to the policy year 7/1/11 to 6/30/12

3. ☒ Existing federal regulation alone does not adequately regulate the subject matter.

4. ☒ The rule is effective, consistent and efficient.

5. ☒ The rule is not duplicative of rules already in existence.

6. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. ☒ The rule has been reviewed for unintended negative consequences.

8. ☒ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   Explain: BWC administrative cost assessments rules are developed based upon the BWC budget and a cost allocation study. We did not seek stakeholder input.

9. ☒ The rule was reviewed for clarity and for easy comprehension.

10. ☒ The rule promotes transparency and predictability of regulatory activity.

11. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost? ____________

13. ☒ The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

Bureau of Workers' Compensation Actuarial Committee
7/1/11 Administrative Assessments
Executive Summary

The agenda for the May meeting of the Actuarial Committee of the Bureau of Workers' Compensation Board of Directors includes the rules for the administrative assessments. The rates presented will be those recommended by the Administrator and the Chairman of the Ohio Industrial Commission for the approval of the Workers' Compensation Board of Directors. If consent is obtained, the rules will be filed with the Legislative Services Commission and the Secretary of State and will become effective July 1, 2011.

Employers in the State of Ohio pay annual assessments that are used to fund the operating expenditures of BWC, the Industrial Commission and the Workers' Compensation Council. Assessments for administrative rates are authorized by the Ohio Revised Code, which requires periodic studies and calculations in order to establish an assessment. The Ohio Revised Code establishes that a separate rate be calculated for BWC, the Industrial Commission and the Workers' Compensation Council.

The rates were calculated based on the results of the annual administrative cost allocation study. The principle followed in the cost allocation study was that administrative costs allocated to each employer group should be related to the level and type of service provided to that group by BWC and the Industrial Commission. 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.

Rule 4123-17-36 establishes the actual Administrative Cost Assessments for state-fund employers for rating year beginning July 1, 2011. The rule reflects separate rates for BWC, the Industrial Commission and the Workers' Compensation Council. Please note that the Self-Insured administrative assessment is not included in this rule but is included in Rule 4123-17-32 which is on the agenda for this meeting.

BWC
Administrative Cost Fund
Historical Information

Estimated Costs by Employer Group (before adjustment) -BWC

Employer Group	2008	2009	2010	2011	2012
Private	229,631,037	229,694,878	217,142,564	202,902,250	193,834,195
Public - State	10,220,182	7,528,633	8,376,907	8,453,180	7,548,099
Public Taxing Districts	32,158,330	25,521,804	29,291,798	28,004,400	28,050,033
Self-Insured	21,673,834	17,500,749	18,943,855	19,940,170	19,679,863
Total	$293,683,383	$280,246,064	$273,755,123	$259,300,000	$249,112,190

Allocation Base

Employer Group	7/1/07	7/1/08	7/1/09	7/1/10	7/1/11
Private	1,600,000,000	1,700,000,000	1,435,000,000	1,262,000,000	1,261,000,000
Public - State	70,800,000	66,400,000	61,500,000	61,325,275	66,600,000
Public Taxing Districts	363,000,000	359,000,000	353,000,000	289,067,022	273,0000,000
Self - Insured	218,000,000	219,000,000	213,000,000	202,000,000	191,000,000

Rate History- BWC

Employer Group	7/1/07	7/1/08	7/1/09	7/1/10	7/1/11
Private	14.09%	13.67%	14.01%	13.45%	13.45%
Public - State	12.43%	12.24%	12.85%	12.85%	11.31%
Public Taxing Districts	8.15%	8.05%	8.25%	8.25%	8.25%
Self - Insured	8.22%	8.47%	8.89%	8.89%	8.89%

Prepared by: Tracy Valentino, Chief Fiscal & Planning Officer
May 9, 2011

Industrial Commission
Administrative Fund
Historical Information

Estimated Costs by Employer Group (before adjustment) -IC

Employer Group	2008	2009	2010	2011	2012
Private	33,148,265	34,454,723	34,628,592	35,286,975	32,979,837
Public - State	2,012,677	2,221,355	2,246,446	2,439,498	2,617,675
Public Taxing Districts	5,765,420	6,427,285	6,980,028	7,411,529	7,667,586
Self-Insured	17,075,852	18,696,002	17,860,479	17,509,532	15,684,901
Total	$58,002,213	$61,799,365	$61,715,545	$62,647,534	$58,950,000

Rate History- IC

Employer Group	7/1/07	7/1/08	7/1/09	7/1/10	7/1/11
Private	2.25%	1.98%	2.10%	2.10%	2.10%
Public - State	3.14%	3.27%	3.31%	3.31%	3.31%
Public Taxing Districts	1.77%	1.75%	1.81%	1.81%	1.81%
Self - Insured	7.90%	8.34%	7.98%	7.98%	7.50%

Ohio Bureau of Workers' Compensation

Administrative Cost Fund (ACF) Model

Calculated Fiscal Year 2012 Rates

Employer Group	FY 2012 Estimated Costs	Annual Adjustment	Net FY 2012 Estimated Costs	Rate Allocation Base	FY 2012 Recommended Rate	FY 2011 Rates	% Change
Private (PA)	193,834,195	(24,229,695)	$169,604,500	1,261,000,000	13.45%	13.45%	0.00%
Public State (PS)	7,548,099	(16,971)	$7,531,128	66,600,000	11.31%	12.85%	-12.00%
Public Taxing Districts (PC)	28,050,033	(5,527,533)	$22,522,500	273,000,000	8.25%	8.25%	0.00%
Self-Insured (SI)	19,679,863	(2,699,963)	$16,979,900	191,000,000	8.89%	8.89%	0.00%
Total	$249,112,190	(32,474,162)	216,638,028				

NOTES:

1) Premium is the allocation base for PA, PS, and PC employers. Paid Compensation is the allocation base for SI employers.

2) The rates for PA, PS, and PC employers are a percentage of premium. SI employers are a percentage of paid compensation.

Prepared by: Paula Phillips, Director, Fiscal Operations
Date: May 9, 2011

Exhibit A

Industrial Commission of Ohio
Administrative Cost Fund (ACF) Model
Calculated 2012 rates

Employer Group	2012 Actual Budget	Adjustment	2012 Projected Revenue	Premiums or SI Actual Comp.	2012 Recommended Rates	2011 Rates	Rate Change
Private (PA)	$32,979,837	(6,450,000)	26,529,837	1,261,000,000	**2.10%**	2.10%	0%
Public State (PS)	$2,617,675	(416,000)	2,201,675	66,600,000	**3.31%**	3.31%	0%
Public Taxing Districts (PC)	$7,667,586	(2,718,000)	4,949,586	273,000,000	**1.81%**	1.81%	0%
Self-Insured (SI)	$15,684,901	(1,362,000)	14,322,901	191,000,000	**7.50%**	7.98%	-6.00%
Total	$58,950,000	($10,946,000)	48,004,000	1,791,600,000			

4123-17-36 Administrative cost contribution.

(A) The administrator of workers' compensation, with the advice and consent of the bureau of workers' compensation board of directors, has authority to calculate contributions to the administrative cost fund by employers pursuant to sections 4121.121, 4123.341, and 4123.342 of the Revised Code. The administrator hereby sets administrative cost rates as indicated in paragraph (D) of this rule for the bureau of workers' compensation and the bureau of workers' compensation board of directors. Based upon the information provided to the administrator by the industrial commission pursuant to section 4123.342 of the Revised Code, the administrator, with the approval of the chairperson of the industrial commission, hereby sets administrative cost rates as indicated in paragraph (E) of this rule for the industrial commission.

(B) The administrative cost rate for each employer's assessment, except for self-insuring employers, is calculated as follows:

(1) If the employer qualifies for experience rating, either as an individual or through participation in group rating, the assessment is calculated based on a percentage of the employer's experience rated premium.

(2) If the employer is not experience rated, the assessment is calculated based on a percentage of the employer's base rate premium.

(3) If the employer is retrospectively rated, the assessment is calculated based on a percentage of the employer's experience rated premium or base rated premium (but not the minimum premium percentage from the retrospective rating plan) that the employer would have paid if the employer were not participating in retrospective rating.

(4) For state agencies, including state universities and state university hospitals, the assessment is calculated based on a percentage of the employer's premium.

(C) Whenever administrative cost rates established under this rule and rule 4123-17-32 of the Administrative Code prove inadequate or excessive, the same may be adjusted at any time during the biennial period.

(D) Administrative cost rates for the bureau of workers' compensation and bureau of workers' compensation board of directors.

(1) Private employers: 13.45 per cent of premium effective July 1, ~~2010~~ 2011.

(2) Public employer taxing districts: 8.25 per cent of premium effective January 1, ~~2010~~ 2011.

(3) Public employer state agencies: ~~12.85~~ 11.31 per cent of premium effective July 1, ~~2010~~ 2011.

(E) Administrative cost rates for the industrial commission.

(1) Private employers: 2.10 per cent of premium effective July 1, ~~2010~~ 2011.

(2) Public employer taxing districts: 1.81 per cent of premium effective January 1, ~~2010~~ 2011.

(3) Public employer state agencies: 3.31 per cent of premium effective July 1, ~~2010~~ 2011.

(F) Administrative cost rates for the workers' compensation council.

(1) Private employers: ~~0.0429~~ 0.00 per cent of premium effective July 1, ~~2010~~ 2011.

(2) Public employer taxing districts: ~~0.0022~~ 0.00 per cent of premium effective January 1, ~~2010~~ 2011.

(3) Public employer state agencies: ~~0.0004~~ 0.00 per cent of premium effective July 1, ~~2010~~ 2011.

Promulgated Under: 111.15
Statutory Authority: 4121.12, 4121.121
Rule Amplifies: 4123.341, 4123.342
Prior Effective Dates: 7/1/90, 7/1/91, 7/1/91, 7/1/93, 7/1/94, 1/1/95, 7/1/95, 7/1/96, 7/1/97, 7/1/98, 7/1/99, 7/1/00, 7/1/01, 7/1/02, 7/1/03, 7/1/04, 7/1/06, 7/1/07, 7/1/08, 7/1/09, 7/1/10

Common Sense Business Regulation (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

Rule 4123-17-37

Employer Contribution to Safety and Hygiene Fund Update

Rule Review

1. ☒ The rule is needed to implement an underlying statute.

   Citation: __R.C. 4121.37 and 4123.34_____ ___

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): _ The rule establishes the premium rate paid by Ohio employers to the Safety and Hygiene fund.

3. ☒ Existing federal regulation alone does not adequately regulate the subject matter.

4. ☒ The rule is effective, consistent and efficient.

5. ☒ The rule is not duplicative of rules already in existence.

6. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. ☒ The rule has been reviewed for unintended negative consequences.

8. ☒ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   Explain: _____N/A Rate Rule________________________________

9. ☒ The rule was reviewed for clarity and for easy comprehension.

10. ☒ The rule promotes transparency and predictability of regulatory activity.

11. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost? ____________

13. ☒ The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

Safety and Hygiene Rate

Background Information

The Safety and Hygiene Fund (Fund), as defined in Ohio Revised Code 4121.37, is used solely for the purpose of investigation and prevention of workplace accidents and diseases. Funding supports the salaries of the Superintendent of the Safety & Hygiene Division and the necessary experts, engineers, staff and related operating costs for the operation of the Division of Safety and Hygiene. All employer groups support the fund through the contribution of no more than one percent of their premiums. Current rates are 1% for private employer and .5% for state agencies, public employer taxing districts and self insured employers.

Executive summary

Safety and Hygiene rates are reviewed annually in conjunction with BWC administrative cost allocation analysis. For the purposes of reviewing the rates for this Fund, the Safety and Hygiene Division budget, estimated collections and the Fund balance are all considered in the review. Safety and Hygiene and Field Operations staff provide data indicating the percentage of their time attributable to each employer group. This includes, but is not limited to, the number of dedicated staff to the various employer groups, site visits, site testing, and class attendance. For the purpose of calculating the rate, the portion of the Safety and Hygiene budget attributed to private employers, state agencies, and public taxing districts is divided by estimated premium collections from these employers. The Self Insured employer rate is charged as a percentage of its paid compensation. Estimated premium collections and paid compensation are calculated by BWC's Actuarial Division.

The annual review of the Safety and Hygiene rate indicated current contributions from all employer groups are appropriate. In addition, there is a significant Fund balance available. The excess Fund balance is sufficient enough to support maintaining rates for each employer group at the current level. The existing rate level will allow the Division of Safety and Hygiene to continue current services provided and staffing levels for the Safety and Hygiene Division, both now and in future years. Funding will also be available for modifications to services that may be proposed.

Based on this analysis, it is recommended that no change be made to the existing rates.

4123-17-37 Employer contribution to the safety and hygiene fund.

The administrator of workers' compensation, with the advice and consent of the bureau of workers' compensation board of directors, has authority to approve contributions to the state insurance fund by employers pursuant to sections 4121.121 and 4121.37 of the Revised Code. The administrator hereby establishes the amount of premium to be set aside to fund the division of safety and hygiene to be one half of one per cent of paid premium for public employer taxing districts, one half of one per cent of paid premium for public employer state agencies, and one per cent of paid premium for private employers.

Promulgated Under: 111.15
Statutory Authority: 4121.12, 4121.121, 4121.37, 4123.34
Rule Amplifies: 4121.37, 4123.34
Prior Effective Dates: 7/1/90, 7/1/93, 7/1/98, 7/1/99, 7/21/08, 1/1/10, 7/1/10

<u>Common Sense Business Regulation (BWC Rules)</u>

(Note: The below criteria apply to existing and newly developed rules)

Rule 4123-17-32

<u>Rule Review</u>

1. ☒ The rule is needed to implement an underlying statute.

   Citation: __R.C. 4121.37, 4121.66, 4123.34, 4123.342, 4123.343, 4123.35___

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): <u>This rule establishes the rates for self-insuring employers for the policy year 7/1/2011 through 6/30/2012.</u>

3. ☒ Existing federal regulation alone does not adequately regulate the subject matter. *(BWC rate rules are not a federal regulatory matter.)*

4. ☒ The rule is effective, consistent and efficient.

5. ☒ The rule is not duplicative of rules already in existence.

6. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. ☒ The rule has been reviewed for unintended negative consequences.

8. ☐ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   If no, explain: <u>BWC rate rules are developed using actuarial and insurance principles. We did not seek stakeholder input.</u>

9. ☒ The rule was reviewed for clarity and for easy comprehension.

10. ☒ The rule promotes transparency and predictability of regulatory activity.

11. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost?

13. ☒ The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

Self-Insured Employers Assessments

Description of Fund: The Self-Insured Employers Assessment Fund is established to support the safety and hygiene fund, the administrative cost fund, and the portion of the surplus fund that is mandatory as they relate to self-insured employers. The Self-Insured Employers Guaranty Fund (SIEGF) and the former Self-Insured Surety Bond Fund (SBF) provide for payment of compensation and benefits to injured workers of bankrupt self-insured employers. Claims with injury dates prior to 1987, self-insured employers provided security in the form of a letter of credit or a bond from private insurance carriers to cover the cost of claims in the event of bankruptcy or default. This is referred to as the Surety Bond Fund (SBF). It was replaced in 1993 by the Self-Insured Employers Guaranty Fund (SIEGF) for claims with injury dates after 1986.

Benefits provided by the SIEGF and SBF funds: All injured worker benefits (including DWRF) that would normally be paid by the self-insured employer that has defaulted.

SIEGF Rate Method: The BWC is to maintain a minimum balance of funds in the SIEGF at rates as low as possible to assure sufficient moneys to guarantee the payment of any claims against the fund. The Ohio Administrative Code 4123-19-15 (B) requires the SIEGF to maintain a minimum balance of 1.25 times the previous years annual claims disbursements. When the BWC determines that the SIEGF has insufficient funds, an assessment is necessary to ensure the minimum balance in the fund and will assess all self-insuring employers an annual contribution. New self-insuring employers will be assessed six percent of base rate premium as reported on the last two six month payroll reports for the first three years of self-insurance. When a self-insured employer defaults on its self-insured workers' compensation obligations, the BWC moves to recover monies paid from the SIEGF and SBF by filing bankruptcy claims and by drawing on additional security that may have been placed in BWC's favor by the defaulting employer.

The following is a list of the assessments:

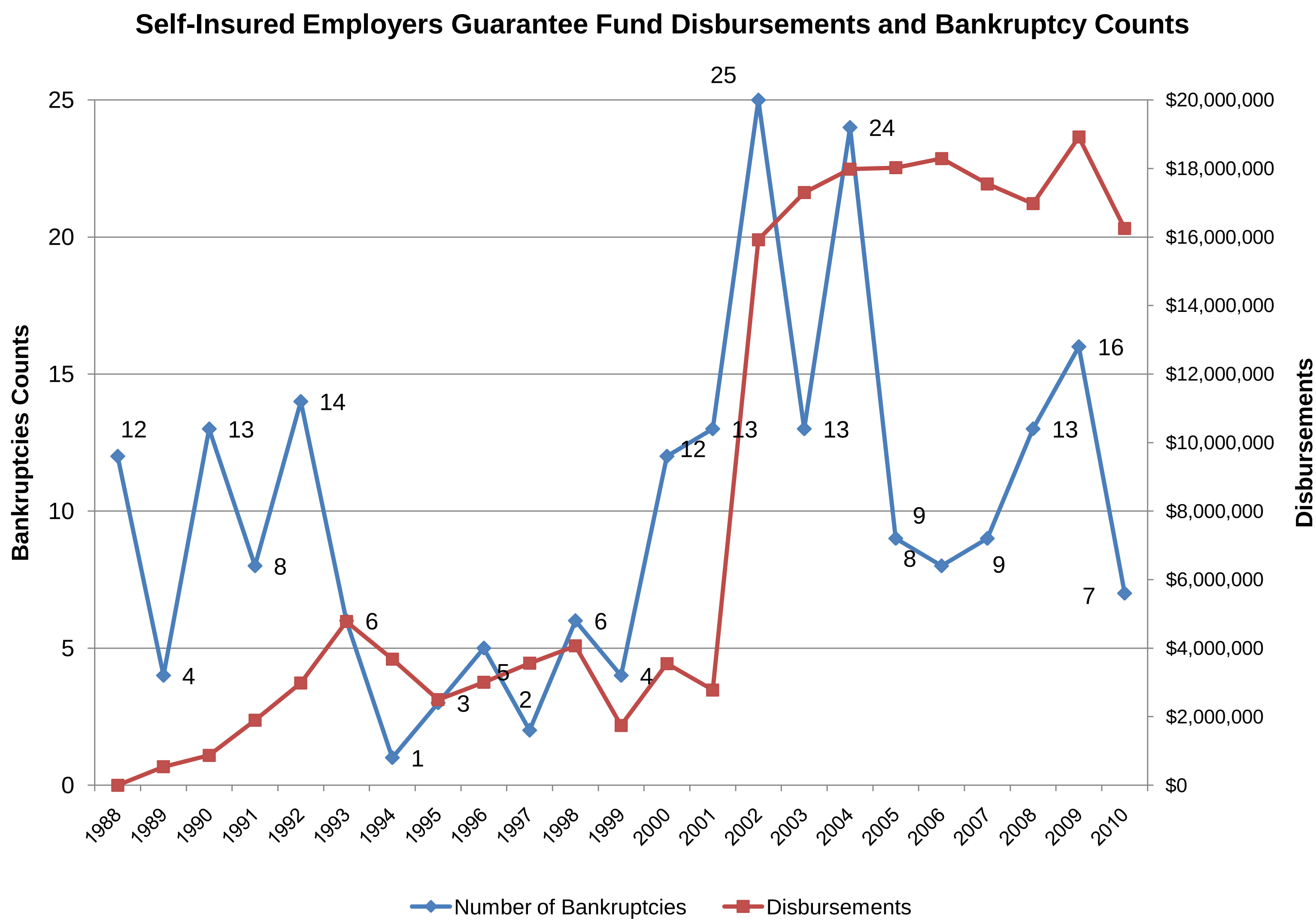
1. Mandatory Surplus Fund (SI Surplus Fund): This assessment is to fund costs charged to the Self-Insured Mandatory Surplus Fund which is an account of the Surplus Fund of the State Insurance Fund. These costs are primarily for claims with injury dates prior to 1987 of bankrupt self-insured employers and for specific medical costs such as some medical exams and prostheses.
2. Self-Insured Employers Guaranty Fund (SIEGF Fund): This assessment is to fund the costs charged to the SIEGF. These costs are for claims of bankrupt self-insured employers with injury dates after 1986, and for the costs of DWRF on all claims of bankrupt self- insured employers with any injury date.
3. Administrative Cost Fund (ACF): This assessment is to fund the administrative costs for the BWC, IC, and WCC for only the activities that support the self-insured employers.

4. Safety and Hygiene Fund (S&H Fund): This assessment is to fund the work of the Division of Safety and Hygiene for self-insured employers.
5. Optional Rehabilitation Program (SI Surplus Fund): This assessment mutualizes the costs of rehabilitation among the self-insured participants in this program. Currently, two self-insured employers participate.
6. Optional Handicap Program (SI Surplus Fund): This assessment mutualizes the costs of handicap claims among the self-insured participants of this program. Currently, there are no self-insured employers participating.
7. Optional Disallowed Claim Reimbursement Program (SI Surplus Fund): This assessment mutualizes the costs of disallowed claims among the self-insured employers in this program. This program is designed to reimburse self-insured employers for claim costs ordered to be paid by the Industrial Commission that were ultimately denied. Currently, five hundred thirty-eight self-insured employers participate.

Number of Bankrupt Ohio Employers: 291

Calendar Year	Number of Bankruptcies	Payment Amounts as of 5/17/2011 by bankruptcy year[1]	SIEGF Disbursements by calendar year[2]
1988	12	$25,878,653	
1989	4	$9,445,278	$536,613
1990	13	$23,335,302	$871,542
1991	8	$12,003,797	$1,893,236
1992	14	$27,506,518	$2,983,798
1993	6	$14,485,135	$4,775,129
1994	1	$543,830	$3,682,184
1995	3	$22,966,233	$2,495,841
1996	5	$6,977,866	$3,002,436
1997	2	$2,839,381	$3,560,750
1998	6	$3,360,007	$4,066,601
1999	4	$10,645,995	$1,742,639
2000	12	$8,865,456	$3,548,229
2001	13	$25,165,017	$2,779,046
2002	25	$102,351,885	$15,920,989
2003	13	$12,582,321	$17,295,253
2004	24	$30,339,881	$17,982,107
2005	9	$3,761,268	$18,021,985
2006	8	$3,968,693	$18,289,499
2007	9	$3,366,083	$17,547,887
2008	13	$7,526,681	$16,972,818
2009	16	$6,079,882	$18,916,292
2010	7	$992,260	$16,249,212
2011 to date	2	$1,195	

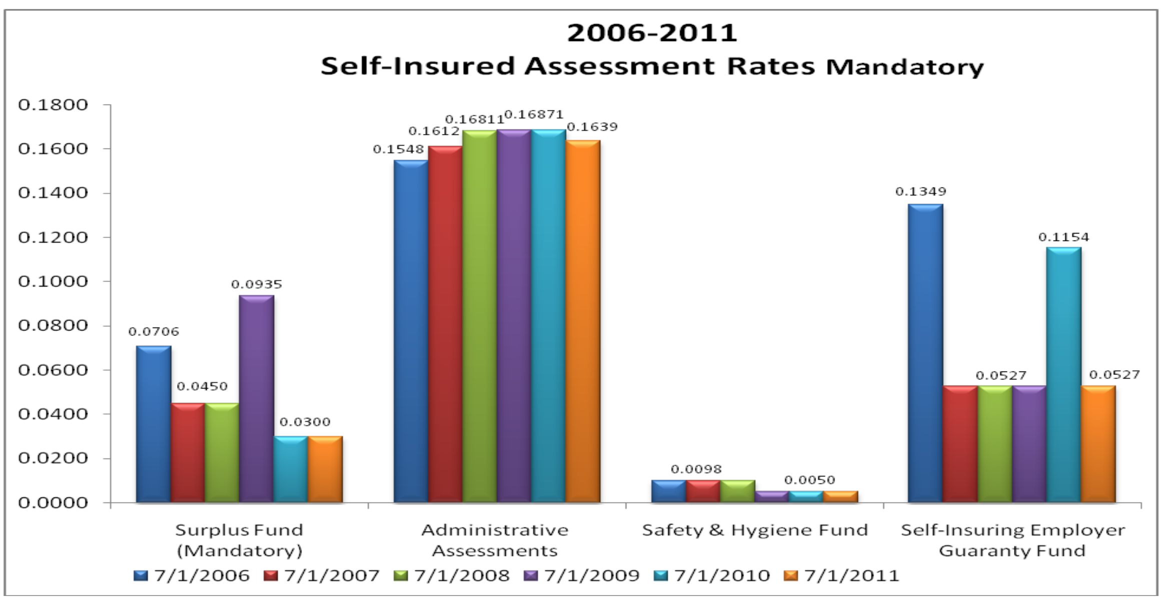
1. From Data Warehouse
2. From Cash Basis Financial Statements



Created by: Terry Potts
May 26, 2011

7/1/2011 Self-Insuring Employer Assessments

Self-Insuring Employer Assessment Funds	Assessment Rates Per $1.00 Paid Comp						
Mandatory	**7/1/2006**	**7/1/2007**	**7/1/2008**	**7/1/2009**	**7/1/2010**	**7/1/2011**	**2010/2011 Change**
Surplus Fund (mandatory)	0.0706	0.0450	0.0450	0.0935	0.03000	0.03000	+0.00000
Self-Insuring Employer Guaranty Fund	0.1349	0.0527	0.0527	0.0527	0.11540	0.05270	-0.06270
Administrative Cost Fund: BWC	0.0822	0.0822	0.0847	0.0889	0.08890	0.08890	+0.00000
Administrative Fund: IC	0.0726	0.0790	0.0834	0.0798	0.07980	0.07500	-0.00480
Administrative Cost Fund: WCC				0.00001	0.00001	0.00000	-0.00001
Safety & Hygiene Fund	0.0098	0.0098	0.0098	0.0050	0.00500	0.00500	+0.00000
Total Mandatory Assessments	0.3701	0.2687	0.2756	0.31991	0.31911	0.25160	-0.06751
Optional							
Surplus Fund (rehabilitation)	0.1300	0.1300	0.1300	0.1300	0.1300	0.13000	+0.0000
Surplus Fund (handicap)	0.2480	0.2480	0.2480	0.2480	0.2480	0.24800	+0.0000
Surplus Fund (disallowed claims)	n/a	0.0236	0.0285	0.0278	0.0396	0.03340	-0.0062



- Mandatory Assessment Rates based upon Paid Compensation of $191,000,000
- Surplus Fund (disallowed claims) Claim Disbursements are $2,078,000 and based upon paid compensation of $62,248,000
- SIEGF Total Assets as of December 31, 2010 are $45,223,000 and Current Year Disbursements are $21,337,000
- Projected Rehabilitation Reimbursements are $36,268 and based upon paid compensation of $278,982

4123-17-32 Self-insuring employer assessment based upon paid compensation

The administrator of workers' compensation, with the advice and consent of the workers' compensation board of directors, has authority to determine and levy against self-insuring employers amounts to be paid to support the safety and hygiene fund, the administrative cost fund, the portion of the surplus fund that is mandatory, the portion of the surplus fund that is used for rehabilitation reimbursement subject to the self-insuring employer's election under section 4121.66 of the Revised Code, the portion of surplus fund that is used for handicap reimbursement subject to the self-insuring employer's election under section 4123.343 of the Revised Code, and the portion of the surplus fund used for claims reimbursement for self-insuring employers under division (H) of section 4123.512 of the Revised Code, pursuant to sections 4121.12, 4121.37, 4121.66, 4123.34, 4123.342, and 4123.35 of the Revised Code in conjunction with rule 4123-19-01 of the Administrative Code. The administrator hereby sets the self-insuring employer assessments to be effective July 1, ~~2010~~ 2011, for the period July 1, ~~2010~~ 2011, to June 30, ~~2011~~ 2012, payable in two equal remittances by February 28, ~~2011~~ 2012, and August 31, ~~2011~~ 2012, as follows:

(A) The assessments shall be on the basis of the paid compensation attributable to the individual self-insuring employer as a fraction of the total amount of paid compensation for the previous calendar year attributable to all amenable self-insuring employers.

(B) Paid compensation means all amounts paid by a self-insuring employer for living maintenance benefits, all amounts for compensation paid pursuant to sections 4121.63, 4121.67, 4123.56, 4123.57, 4123.58, 4123.59, 4123.60 and 4123.64 of the Revised Code, all amounts paid as wages in lieu of such compensation, all amounts paid in lieu of such compensation under a non-occupational accident and sickness program fully funded by the self-insuring employer, and all amounts paid by a self-insuring employer for a violation of a specific safety standard pursuant to section 35 of article II, Ohio Constitution and section 4121.47 of the Revised Code. Any reimbursement received from the surplus fund pursuant to section 4123.512 of the Revised Code by a self-insuring employer for any such payments or compensation paid shall be applied to reduce the amount of paid compensation reported in the year in which the reimbursement is made. Any amount recovered by the self-insuring employer under section 4123.931 of the Revised Code and any amount that is determined not to have been payable to a claimant in any final administrative or judicial proceeding shall be deducted, in the year collected, from the amount of paid compensation reported.

(C) The assessments shall be computed for all self-insuring employers operating in Ohio by multiplying the following rates by the individual self-insuring employer's paid compensation for calendar year ~~2009~~ 2010:

(1) Safety and hygiene fund: .0050.

(2) Administrative cost fund, BWC: .0889.

(3) Administrative cost fund, IC: ~~.0798.~~ .0750.

(4) Administrative cost fund, WCC: ~~.00001~~ .00000.

(5) Surplus fund (mandatory): .0300.

(D) The assessment to fund the portion of the surplus fund that is used for rehabilitation reimbursement for all self-insuring employers who have not made an election to opt out of the rehabilitation reimbursement program under the provisions of section 4121.66 of the Revised Code shall be computed by multiplying the following rate by the individual self-insuring employer's paid compensation for calendar year ~~2009~~ 2010:

(1) Surplus fund (rehabilitation): .1300.

(E) The assessment to fund the portion of the surplus fund that is used for handicap reimbursement for all self-insuring employers operating in Ohio who have not made an election to opt out of the handicap reimbursement program under the provisions of division (G) of section 4123.343 of the Revised Code shall be computed by multiplying the following rate by the individual self-insuring employer's paid compensation for calendar year ~~2009~~ 2010:

(1) Surplus fund (handicap**): .**2480.

(F) The assessment to fund the portion of the surplus fund that is used for claims reimbursement for all self-insuring employers operating in Ohio who have not made an election to opt out of the right to reimbursement under the provisions of division (H) of section 4123.512 of the Revised Code shall be computed by multiplying the following rate by the individual self-insuring employer's paid compensation for calendar year ~~2009~~ 2010:

(1) Surplus fund (disallowed claims reimbursement): ~~.0396~~ .0334.

(G) An employer who no longer is a self-insuring employer in Ohio or who no longer is operating in this state shall continue to pay assessments for administrative costs and for the portion of the surplus fund that is mandatory. The assessments shall be computed by such employer by multiplying the following rates by the individual employer's paid compensation for calendar year ~~2009~~ 2010:

(1) Administrative cost fund, BWC: .0889.

(2) Administrative cost fund, IC: ~~.0798~~ .0750.

(3) Administrative cost fund, WCC: ~~.00001~~ .00000.

(4) Surplus fund (mandatory): .0300.

(H) If the paid compensation for a self-insuring employer for calendar year ~~2009~~ 2010 is less than ~~fourteen thousand seven hundred~~ fifteen thousand and ~~twenty six~~ eighty two dollars and ~~eighty two~~ ninety-six cents, the minimum assessments shall be paid as follows:

(1) Safety and hygiene fund: ~~$73.63~~$75.41.

(2) Administrative cost fund, BWC: ~~$1,309.21~~$1,340.88.

(3) Administrative cost fund, IC: ~~$1,175.20~~ $1,131.22.

(4) Administrative cost fund, WCC: ~~$0.15~~ $0.00.

(5) Surplus fund (mandatory): ~~$441.80~~ $452.49.

If the paid compensation for calendar year ~~2009~~ 2010 for a self-insuring employer which has not made an election to opt out of the rehabilitation reimbursement program effective on or before July 1, ~~2010~~ 2011 is less than fifteen thousand three hundred and eighty four dollars and sixty two cents, the minimum assessment for the surplus fund (rehabilitation) shall be two thousand dollars.

If the paid compensation for calendar year ~~2009~~ 2010 for a self-insuring employer which has opted to participate in the handicap reimbursement program is less than fifty thousand dollars, the minimum assessment for the surplus fund (handicap) shall be twelve thousand four hundred dollars.

Assessments are applicable only for the funds to which payments must be made based upon the status and the options exercised relative to the handicap reimbursement program and the rehabilitation reimbursement program.

An employer who no longer is a self-insuring employer in Ohio or no longer is operating in this state and who has less than ~~fourteen thousand seven hundred~~ fifteen thousand and ~~twenty six~~ eighty two dollars and ~~eighty two~~ ninety-six cents in paid compensation for calendar year ~~2009~~ 2010 shall have a reduced minimum assessment. The minimum assessment shall be ninety per cent of the above minimum assessments in this paragraph in the year after becoming inactive, eighty per cent in the following year, seventy per cent in the following year, and so forth, being reduced ten per cent each year, until the assessment is phased out over ten years.

(I) If an individual self-insuring employer has become self-insured in the last five years (on or after July 1, ~~2005~~ 2006) paid compensation shall be as defined in paragraph (B) of this rule and shall additionally include compensation paid in calendar year ~~2009~~ 2010 by the state insurance fund for claim costs directly attributable to the employer prior to becoming self-insured.

(J) The initial assessment to a self-insuring employer in its first calendar year of operation as a self-insuring employer shall be prorated to cover the time period that self-insurance was in effect, but shall not be less than the minimum assessment for a self-insuring employer as provided in paragraph (H) of this rule.

(K) Pursuant to rule 4123-19-15 of the Administrative Code, the following assessment, to be billed and payable in two equal remittances by February 28, ~~2011~~ 2012, and August 31, ~~2011~~ 2012, shall be computed for all self-insuring employers by multiplying the following rate by the individual self-insuring employer's paid compensation for calendar year ~~2009~~ 2010:

(1) Self-insuring employer guaranty fund: ~~.1154~~ .0527.

(L) If an employer fails to pay the assessment when due, the administrator may add a late fee penalty of not more than five hundred dollars to the assessment plus an additional penalty amount as follows:

(1) For an assessment from sixty-one to ninety days past due, the prime interest rate, multiplied by the assessment due;

(2) For an assessment from ninety-one to one hundred twenty days past due, the prime interest rate plus two per cent, multiplied by the assessment due;

(3) For an assessment from one hundred twenty-one to one hundred fifty days past due, the prime interest rate plus four per cent, multiplied by the assessment due;

(4) For an assessment from one hundred fifty-one to one hundred eighty days past due, the prime interest rate plus six per cent, multiplied by the assessment due;

(5) For an assessment from one hundred eighty-one to two hundred ten days past due, the prime interest rate plus eight per cent, multiplied by the assessment due;

(6) For each additional thirty-day period or portion thereof that an assessment remains past due after it has remained past due for more than two hundred ten days, the prime interest rate plus eight per cent, multiplied by the assessment due.

For purposes of this division, "prime interest rate" means the average bank prime rate, and the administrator shall determine the prime interest rate in the same manner as a county auditor determines the average bank prime rate under section 929.02 of the Revised Code.

OHIO BUREAU OF WORKERS' COMPENSATION
SELF INSURING EMPLOYERS' GUARANTY FUND (FORMERLY SURETY BOND FUND)
CASH BASIS FINANCIAL STATEMENTS
FOR THE 12 MOS ENDED DECEMBER 31 2010

Operating Statement

						***Estimate**	***Estimate**
	2006	2007	2008	2009	2010	2011	2012
Receipts:							
Assessments SIEGF rate	35,190,892	30,667,466	12,972,260	11,820,719	10,297,389	**22,041,400**	**10,072,920**
Assessment New Self Insured Policies	7,484,922	6,676,217	7,531,564	7,542,686	8,168,102	**8,168,102**	**8,168,102**
Investments	1,416,986	2,385,513	1,504,343	229,662	40,111		
Total Receipts	44,092,800	39,729,196	22,008,167	19,593,067	18,505,602	**30,209,502**	**18,241,022**
Disbursements:							
Surety Losses	18,289,499	17,547,887	16,972,818	18,916,292	16,249,212	**18,000,000**	**18,000,000**
MCO Fees Paid		6,187,535	1,074,199	1,142,010	1,255,711	**1,080,000**	**1,080,000**
Bank Fee	0	0	4,485	2,969	2,152	**0**	**0**
DWRF Losses	3,039,789	3,033,293	3,282,649	4,682,843	3,829,441	**3,829,441**	**3,829,441**
Total Disbursements	21,329,288	26,768,715	21,334,151	24,744,114	21,336,516	**22,909,441**	**22,909,441**
Net Receipts Over (Under)							
Disbursements	22,763,512	12,960,481	674,016	(5,151,047)	(2,830,914)	**7,300,061**	**(4,668,419)**
Beginning Net Asset Balance	16,806,579	39,570,091	52,530,572	53,204,588	48,053,541	**45,222,627**	**52,522,688**
Ending Net Asset Balance	39,570,091	52,530,572	53,204,588	48,053,541	45,222,627	**52,522,688**	**47,854,269**

*Does not include potential large bankruptcies

Created by: Terry Potts
May 26, 2011

2011 Common Sense Initiative Checklist (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

Rule Review

1. ☒ The rule is needed to implement an underlying statute.

   Citation: ORC 4123-17-74

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): Encourage increased use of safety programs in the workplace

3. ☒ The rule is effective, consistent and efficient.

4. ☒ The rule is not duplicative of rules already in existence.

5. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

6. ☒ The rule has been reviewed for unintended negative consequences.

7. ☒ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   Explain: see attached stakeholder grid

8. ☒ The rule was reviewed for clarity and for easy comprehension.

9. ☒ The rule promotes transparency and predictability of regulatory activity.

10. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

11. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost? _____________

Introduction

The proposed change will provide the opportunity for nearly 100,000 group rated employers to receive a 2-percent bonus through the Safety Council Rebate Incentive program. In order to receive the bonus, group experience rated employers must participate in the Safety Council Rebate Incentive program and demonstrate improvements in workplace safety. This rebate will be in addition to their group experience rating discount and allow employers to direct more resources into business growth and job creation.

Background Information

The existing rule 4123-17-74 Appendix (C) does not currently permit group rated employers to receive an additional discount for participation in the Safety Council Rebate Incentive program.

4123-17-74
Appendix (C)

Employer program compatibility

Program	**Compatible/ Discount stacking permitted**	**Incompatible/ Discount stacking NOT permitted**
Drug-Free Safety Program (as defined in OAC 4123-17-58)	Group Experience Rating[i] (advanced level only) Safety Council Salary Continuation[ii] (dates of injury prior to 1/1/2011) Small Deductible	EM Cap Fifteen Thousand Dollar Medical-Only Program Group Experience Rating Group Retrospective Rating Large Deductible One Claim Retrospective Rating Salary Continuation
EM Cap (as defined in OAC 4123-17-03 (G))	Fifteen Thousand Dollar Medical-Only Program Group Retrospective Rating Large Deductible Safety Council Salary Continuation Small Deductible	Drug-Free Safety Program Group Experience Rating One Claim Paid Loss Retrospective Rating
Fifteen Thousand Dollar Medical-Only Program (as defined in OAC 4123-17-59)	EM Cap Group Experience Rating One Claim Retrospective Rating Safety Council Salary Continuation	Drug-Free Safety Program Group Retrospective Rating Large Deductible Small Deductible
Group Experience Rating (as defined in OAC 4123-17-61 to 68)	Fifteen Thousand Dollar Medical-Only Program Drug-Free Safety Program[i] (advanced level only) Salary Continuation Small Deductible Safety Council (performance bonus only)	Drug-Free Safety Program EM Cap Group Retrospective Rating Large Deductible One Claim Retrospective Rating Safety Council (participation rebate)

Program	**Compatible/ Discount stacking permitted**	**Incompatible/ Discount stacking NOT permitted**
Group Retrospective Rating (as defined in OAC 4123-17-73)	EM Cap Salary Continuation	Drug-Free Safety Program Fifteen Thousand Dollar Medical-Only Program Group Experience Rating Large Deductible One Claim Retrospective Rating Safety Council Small Deductible
Large Deductible (deductible amounts of $25,000 or greater as defined in OAC 4123-17-72)	EM Cap One Claim Safety Council	Drug-Free Safety Program Fifteen Thousand Dollar Medical-Only Program Group Experience Rating Group Retrospective Rating Retrospective Rating Salary Continuation Small Deductible
One Claim (as defined in OAC 4123-17-71)	Fifteen Thousand Dollar Medical-Only Program Large Deductible Safety Council Salary Continuation Small Deductible	Drug-Free Safety Program EM Cap Group Experience Rating Group Retrospective Rating Retrospective Rating
Retrospective Rating (as defined in OAC 4123-17-41 to 54)	Fifteen Thousand Dollar Medical-Only Program Safety Council Salary Continuation	Drug-Free Safety Program EM Cap Group Experience Rating Group Retrospective Rating Large Deductible One Claim Small Deductible

Program	Compatible/ Discount stacking permitted	Incompatible/ Discount stacking NOT permitted
Safety Council	Drug-Free Safety Program EM Cap Fifteen Thousand Dollar Medical-Only Program Large Deductible One Claim Retrospective Rating Salary Continuation Small Deductible Group Experience Rating (performance bonus only)	Group Experience Rating (participation rebate) Group Retrospective Rating
Salary Continuation	Drug-Free Safety Program[ii] (dates of injury prior to 1/1/2011) EM Cap Fifteen Thousand Dollar Medical-Only Program Group Experience Rating Group Retrospective Rating One Claim Retrospective Rating Safety Council	Drug-Free Safety Program Large Deductible Small Deductible
Small Deductible (deductible amounts of $10,000 or less as defined in OAC 4123-17-72)	Drug-Free Safety Program EM Cap Group Experience Rating One Claim Safety Council	Fifteen Thousand Dollar Medical-Only Program Group Retrospective Rating Large Deductible Retrospective Rating Salary Continuation

[i] Group experience rated employers can participate at the advanced level of the DFSP and receive the incremental difference between the basic and advanced level benefits.

[ii] Claims with dates of injury prior to 1/1/2011 can continue to have salary continuation paid AND be eligible to participate in the new DFSP for the 7/10 policy year and all future policy years.

Stakeholder Feedback – Compatibility Rule

Rule #	Draft Rule Suggestions	Stakeholder Rationale/Suggestions	BWC Response	Resolution
4123-17-74 (C)	Allow group experience rated employers to participate in the safety council rebate incentive program.	Several sponsoring organizations and TPA's responded that they support the extension of the Safety Council performance incentive to Group Experience Rating employers. These organizations also requested that both elements of the Safety Council incentive (membership and performance) be extended to Group Retrospective Rating employers. It was suggested that the Safety Council membership discount would be an effective way to give Group Retro members some (much needed) up-front financial relief, as well as an incentive to join a valuable local safety education and networking organization. One organization stated that no employer is more active in preventing injuries, or more in need of the safety networking and education, than those in Group Retro, as any rebate they receive is a direct correlation to having better than expected loss experience. With county (and all employer/business) budgets being squeezed tighter every day, not only would the discount provide some welcome financial relief, the fact that there are safety councils throughout the state would help minimize mileage expense in traveling for valuable safety education and networking.	Since the first performance evaluation on each group retro would be completed two years after the group was formed (and a year after Safety Council Incentive would be refunded) it has not yet been determined how to sync those programs up.	Within the next several months BWC will be reviewing the topic of compatibility as a whole.

<u>Common Sense Business Regulation (BWC Rules)</u>

(Note: The below criteria apply to existing and newly developed rules)

PEC Credibility Table Rule

Rules 4123-17-33.1

<u>Rule Review</u>

1. ☒ The rule is needed to implement an underlying statute.

   Citation: <u>O. R.C. 4123.29, 4123.39, 4121.12 and 4121.121</u>

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): <u>This rule establishes the credibility table used for experience rating for public employer taxing districts for the policy year 1/1/2012 to 12/31/2012.</u>

3. ☒ Existing federal regulation alone does not adequately regulate the subject matter.

4. ☒ The rule is effective, consistent and efficient.

5. ☒ The rule is not duplicative of rules already in existence.

6. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. ☒ The rule has been reviewed for unintended negative consequences.

8. ☒ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   Explain: <u>See attached stakeholder feedback grid.</u>

9. ☒ The rule was reviewed for clarity and for easy comprehension.

10. ☒ The rule promotes transparency and predictability of regulatory activity.

11. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost? ____________

13. ☒ The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

Created by: Terry Potts
June 15, 2011

Board of Directors

Executive Summary

Public Employer Taxing District Credibility Table

Introduction

Rule 4123-17-33.1 establishes the public employer taxing districts credibility table used for experience rating. Public Employer Taxing Districts consist of approximately 3,900 cities, counties, villages, townships, schools, and miscellaneous special districts in Ohio who are provided workers' compensation insurance through the Ohio State Insurance Fund.

Background Information

At the June 2010 Workers' Compensation Board of Directors meeting, the board recommended setting the maximum credibility for public employer taxing district employers for the 1-1-2011 rating year at 65%. The recommendation of the administrator is to adopt the same credibility table for the rating year beginning January 1, 2012.

Although the credibility table used for experience rating does not need to be filed with the Secretary of State and Legislative Services Commission until December 20, 2011 to be effective January 1, 2012, this is being brought today to allow group administrators enough time to select their groups.

Base rates for all manual classifications will be calculated in the fall of 2011 using the adopted credibility table selected by the Workers' Compensation Board of Directors. Base rates for public employer taxing districts must be approved and filed with the Secretary of State and Legislative Services Commission on or before December 20, 2011, to be effective January 1, 2012. The consent of the Workers' Compensation Board of Directors is necessary for the adoption of base rates.

4123-17-33.1 **Public employer taxing districts credibility table.**

The administrator of workers' compensation, with the advice and consent of the bureau of workers' compensation board of directors has authority to calculate contributions made to the state insurance fund by employers pursuant to section 4121.121 of the Revised Code. The administrator hereby sets the credibility table part A, "credibility and maximum value of a loss," to be effective January 1, ~~2011~~ 2012, applicable to the payroll reporting period January 1, ~~2011~~ 2012, through December 31, ~~2011~~ 2012, for public employer taxing districts as indicated in the attached appendix A.

Effective: 01/01/2012

____
Certification

____
Date

Promulgated Under: 111.15
Statutory Authority: 4121.12, 4121.121
Rule Amplifies: 4123.39, 4123.40
Prior Effective Dates: 1/1/90, 1/1/91, 1/1/92, 1/1/93, 1/1/94, 1/1/95, 1/1/96 (Emer), 3/15/96, 1/1/97, 1/1/98, 1/1/99, 1/1/00, 1/1/01, 1/1/02, 1/1/03, 1/1/04, 1/1/05, 1/1/06, 1/1/07, 1/1/08, 1/1/09, 1/1/10, 1/1/11

TABLE 1

PART A

Credibility and Maximum Value of a Loss

Credibility Group	Expected Losses*	Credibility Percent	Credibility Group Maximum Claim Value
1	2,000	6%	12,500
2	4,000	9%	12,500
3	6,000	12%	12,500
4	8,000	16%	12,500
5	15,000	19%	12,500
6	27,000	22%	25,000
7	45,000	25%	37,500
8	62,500	27%	55,000
9	90,000	29%	75,000
10	122,500	31%	87,500
11	160,000	33%	100,000
12	202,500	35%	112,500
13	250,000	36%	125,000
14	302,500	38%	137,500
15	360,000	39%	150,000
16	422,500	41%	162,500
17	490,000	42%	175,000
18	562,500	44%	187,500
19	640,000	48%	200,000
20	722,500	53%	212,500
21	810,000	58%	225,000
22	902,500	63%	237,500
23	1,000,000	65%	250,000

Catastrophe value equals $250,000
*Expected losses are lower limits of credibility groups

Revised 6/3/2011

Stakeholder feedback on the Public Employer Taxing District Employer Credibility Table (4123-17-33.1)

Line	Rule #	Draft Rule Suggestions	Stakeholder Rationale/Suggestions	BWC Response	Resolution
1	4123-17-33.1	"The administrator will retain the use of a maximum credibility of 65% for experience rating as indicated in the attached Appendix A."	No responses	N/A	N/A

Prepared by: Jeremy Jackson
6/8/2011

Common Sense Business Regulation (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

PEC Break-Even Factor

Rule 4123-17-64.2

Rule Review

1. ☒ The rule is needed to implement an underlying statute.

   Citation: __R.C. 4123.29, 4123.39, 4121.12, 4121.121____________

2. ☒ The rule achieves an Ohio specific public policy goal.

   What goal(s): This revision allows BWC to set accurate, equitable rates for all public employer taxing districts (PECs).

3. ☒ Existing federal regulation alone does not adequately regulate the subject matter.

4. ☒ The rule is effective, consistent and efficient.

5. ☒ The rule is not duplicative of rules already in existence.

6. ☒ The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. ☒ The rule has been reviewed for unintended negative consequences.

8. ☒ Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

   Explain: See attached stakeholder feedback grid.

9. ☒ The rule was reviewed for clarity and for easy comprehension.

10. ☒ The rule promotes transparency and predictability of regulatory activity.

11. ☒ The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.

12. ☒ The rule is not unnecessarily burdensome or costly to those affected by rule.

    If so, how does the need for the rule outweigh burden and cost? _____________

13. ☒ The Chief Legal Officer, or his designee, has reviewed the rule for clarity and compliance with the Governor's Executive Order.

Created by: Terry Potts
June 15, 2011

BWC Board of Directors

Executive Summary

Public Employer Break-Even Factor

Introduction

Chapter 4123-17 of the Ohio Administrative Code contains BWC rules which enable the Administrator, with the advice and consent of the BWC Board of Directors, to set rates and calculate contributions to the State Insurance Fund pursuant to section 4121.121 of the Ohio Revised Code

Background Information

At the June 2010 Workers' Compensation Board of Directors meeting, the board recommended setting the stratified Break-Even Factors to achieve discount levels that enabled the bureau to set rate levels reflective of the established targets in the rate differential study.

The Public-Employer Taxing District Credibility Table (4123-17-33.1) results in discount levels for PECs participating in group-experience rating. However, BWC's desire to continue a stratified break-even factor will achieve discount levels that enable the bureau to set rate levels reflective of the targets established in the rate differential study. The recommendation of the administrator is to adopt the same stratified break-even factor table for the rating year beginning January 1, 2012.

BWC applied the same methodology to private-sector employers for the July 1, 2011, rating year. As such, this rule continues a stratified range of factors varying from 1.171 for PECs with a group experience modifier (EM) of 0.35 to a low of 1.003 for PECs participating in a group with an EM of .99. The average break-even factor is approximately 1.094 for the policy year 1/1/2012.

Created by: Terry Potts
June 15, 2011

4123-17-64.2 Public Employer Taxing District Group Rating Break Even Factor

The administrator will apply an adjustment factor to all group rated employer experience modifier (EM) as indicated in the attached Appendix A.

Appendix A of Rule 4123-17-64.2

Stratified Break Even Factors

Policy Year 1-1-~~2011~~ **2012** Group Rated Experience Modifier	Group Break Even Factor		Policy Year 1-1-~~2011~~ **2012** Group Rated Experience Modifier	Group Break Even Factor
0.35	1.171		0.68	1.084
0.36	1.168		0.69	1.082
0.37	1.166		0.70	1.079
0.38	1.163		0.71	1.076
0.39	1.160		0.72	1.074
0.40	1.158		0.73	1.071
0.41	1.155		0.74	1.068
0.42	1.153		0.75	1.066
0.43	1.150		0.76	1.063
0.44	1.147		0.77	1.061
0.45	1.145		0.78	1.058
0.46	1.142		0.79	1.055
0.47	1.139		0.80	1.053
0.48	1.137		0.81	1.050
0.49	1.134		0.82	1.047
0.50	1.132		0.83	1.045
0.51	1.129		0.84	1.042
0.52	1.126		0.85	1.039
0.53	1.124		0.86	1.037
0.54	1.121		0.87	1.034
0.55	1.118		0.88	1.032
0.56	1.116		0.89	1.029
0.57	1.113		0.90	1.026
0.58	1.110		0.91	1.024
0.59	1.108		0.92	1.021
0.60	1.105		0.93	1.018
0.61	1.103		0.94	1.016
0.62	1.100		0.95	1.013
0.63	1.097		0.96	1.011
0.64	1.095		0.97	1.008
0.65	1.092		0.98	1.005
0.66	1.089		0.99	1.003
0.67	1.087			

Stakeholder feedback on the Public Employer Taxing District Employer Break-Even Factor (4123-17-64.2)

Line	Rule #	Draft Rule Suggestions	Stakeholder Rationale/Suggestions	BWC Response	Resolution
1	4123-17-64.2	"The administrator will apply a group break-even factor to all group rated employer experience modifiers (EM) as indicated in the attached Appendix A."	County Commissioners Association of Ohio is fine with the expedited schedule without further discussion. We would welcome a roll-back of the break-even factor but expected there to be no changes based upon the private employer group's outcome.	None	BWC left its proposal intact.
2	4123-17-64.2	"The administrator will apply a group break-even factor to all group rated employer experience modifiers (EM) as indicated in the attached Appendix A."	Sheakley would like to see an extension of the marketing deadline for group-experience rating. Their concern is that the current restrictions on marketing until the BEF is approved limit public employer's timeframe to make the most effective decisions for their organization regarding group rating. Since quotes won't be mailed until after the Board meetings, public employers will have less time to make decisions regarding group participation. School districts almost always require that their Boards vote on any decision that impacts their vendor relationships, including who they will choose for group rating. Generally they have only one Board meeting per month, and some skip their Board meetings in the summer because of the school break.	This was an isolated request.	BWC left its proposal intact.

Prepared by: Jeremy Jackson
6/8/2011

Deloitte.

Ohio Bureau of Workers' Compensation
March 31, 2011 Reserve Analysis

Unpaid Loss and Loss Adjustment Expense as of June 30, 2011

Bill Van Dyke, ACAS, MAAA
Dave Heppen, FCAS, MAAA
Bob Miccolis, FCAS, MAAA

Deloitte Consulting LLP
June 15, 2011

March 31, 2011 Reserve Analysis

Purpose

- Provide BWC with an estimated amount to be recorded in the June 30, 2011 financial statements related to unpaid loss and loss adjustment expense (“LAE”) payment obligations associated with all claims occurring through June 30, 2011 in accordance with Ohio statutes.
- Provide a forecast estimate of the unpaid loss and LAE liability as of June 30, 2012.

Annual Process

- Annual analysis using data as of March 31st. A comprehensive evaluation of all actuarial methods and assumptions is performed. Presentation to Actuarial Committee in June.
- Revisions to annual analysis using data as of June 30th. Assumptions updated based on June 30th data. Presentation to Actuarial Committee in August.
- Statement of Actuarial Opinion issued in September regarding June 30th recorded reserves.
- Quarterly update analysis using data as of September 30th. Assumptions modified, if necessary. Presentation to Actuarial Committee in November.
- Quarterly update analysis using data as of December 31st. Assumptions modified, if necessary. Presentation to Actuarial Committee in February.

March 31, 2011 Reserve Analysis

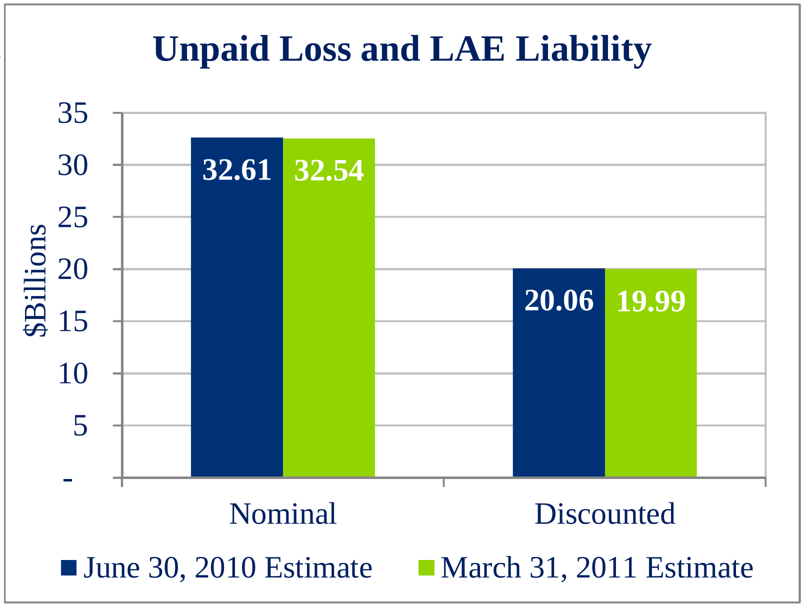
Key Observations

June 30, 2011 Discounted Unpaid Estimate is $20.0 billion

- $74 million lower than estimate at June 2010.
- $59 million lower than estimate at December 2010.
- 0.4% decrease from June 2010.

June 30, 2011 Nominal Unpaid Estimate is $32.5 billion

- $70 million lower than estimate at June 2010.
- $48 million lower than estimate at December 2010.
- 0.2% decrease from June 2010.



- Discounted unpaid estimates are computed using a discount rate of 4.0%.
- Better (lower) than expected payments continued in the 3rd quarter of Fiscal Year 2011 ($26 million in 3rd quarter and $97 million Fiscal Year 2011 to date). Driven by lower medical payments, both medical only and medical on lost time, and fewer lump sum settlements.
- The change in our estimate is driven by changes in loss and LAE data and updates to certain assumptions/parameters as part of our March detailed annual analysis. Assumption/parameter changes are discuss further later.
- No significant changes in methodology from prior analyses.

Actuarial Process

- The general process incorporated in our analysis to estimate discounted unpaid loss involves the following steps:
  1. Ultimate Loss Estimates – Utilize multiple actuarial methods that incorporate both incremental and cumulative to date accident (injury) year data as well as both paid losses and incurred (paid + MIRA reserves) losses. Our selected ultimate losses are primarily based on methods that employ cumulative paid data. Such methods are commonly used for workers compensation.
  2. Nominal Unpaid Loss Estimate – Calculated as ultimate losses less payments projected through June 30, 2011. Projected payments from April 1, 2011 to June 30, 2011 are determined based on the BWC's historical payment pattern.
  3. Discounted Unpaid Loss Estimate – Discounted unpaid losses are determined as the nominal (undiscounted) unpaid loss estimate adjusted to present value (reflecting anticipated future income from investment earnings or unbilled premium income) using a discount rate of 4.0% and the BWC's historical loss payment pattern.
- Separate estimates are determined for each accident year ("AY") from 1977 through 2011.
- For AYs 1976 and prior, unpaid loss estimates were determined based on analyzing historical incremental annual loss payments for AYs 1954 and subsequent.
- To estimate the LAE liability for the Health Partnership Program and Administrative Cost Fund, we analyzed the history of paid LAE to paid loss.

Actuarial Process (Continued)

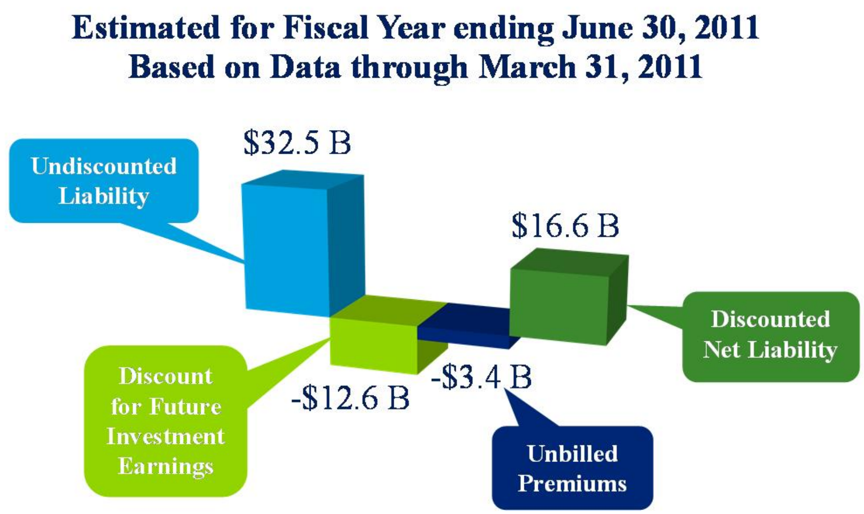
- Separate unpaid loss and LAE estimates are determined for each Fund:
  - State Insurance Fund (“SIF”)
  - Disabled Workers’ Relief Fund (“DWRF”);
  - Coal-Workers Pneumoconiosis Fund (“CWPF”);
  - Self-Insuring Employers Guaranty Fund (“SIEGF”);
  - Marine Industry Fund (“MIF”);
  - Public Work-Relief Employees’ Compensation Fund (“PWRE”); and
  - Administrative Cost Fund (“ACF”).
- Within the SIF, separate estimates are determined for the following:
  - Private Employers (“PA”)
  - Public Employer – Taxing Districts (“PEC”);
  - Public Employer – State Agencies (“PES”);
  - Self-Insured Surplus (“SIS”); and
  - Health Partnership Program loss adjustment expenses (“HPP”).

March 31, 2011 Reserve Analysis

June 30, 2011 Unpaid Estimates

Loss and LAE Liability Estimates ($ Millions)

	Nominal Unpaid Loss & LAE	Discounted Unpaid Loss & LAE	Unbilled Premium Receivable	Liability Net of Receivable
SIF	25,029	15,870	728	15,142
DWRF	3,505	2,008	1,686	323
CWPF	199	75	0	75
SIEGF	2,008	912	870	41
PWRE	5	3	0	3
MIF	3	2	0	2
ACF	1,789	1,117	97	1,019
All Funds	**32,539**	**19,986**	**3,381**	**16,605**



- Discounted unpaid estimates anticipate $12.6 billion of future income earned on invested funds and future collections from unbilled premiums on unfunded liabilities in order to provide sufficient funds to make the estimated total of future claim payments associated with claims occurring on June 30, 2011 and prior.
- $3.4 billion unbilled premium receivable (discounted) produces a net balance sheet liability of $16.6 billion.

Alternative Discount Rates Instead of 4.0%

- 3.0% Discount rate increases the discounted unpaid loss/LAE estimate by $2.0 billion (10%) to $22.0 billion.
- 5.0% Discount rate decreases the discounted unpaid loss/LAE estimate by $1.7 billion (8%) to $18.3 billion.
- The impact on net liability would be reduced (by approximately 20%) since there would be an offset by a corresponding increase/decrease in the unbilled premium receivable.

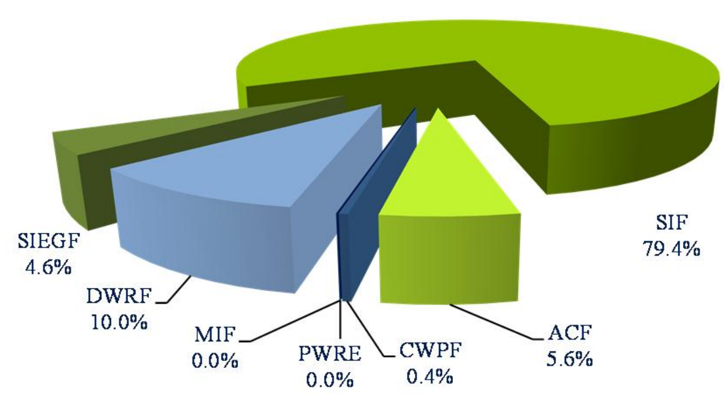
Change in June 30, 2011 Unpaid Estimates – By Fund

Change in Unpaid Loss and LAE Estimates ($ Millions)

	Nominal as of 6/30/2011					Discounted as of 6/30/2011				
	Evaluated @ 3/2011	Evaluated @ 6/2010	3/2011 - 6/2010	Evaluated @ 12/2010	3/2011 - 12/2010	Evaluated @ 03/2011	Evaluated @ 6/2010	3/2011 - 6/2010	Evaluated @ 12/2010	3/2011 - 12/2010
	(1)	(2)	(3) = (1)-(2)	(4)	(5) = (1)-(4)	(6)	(7)	(8) = (6)-(7)	(9)	(10) = (6)-(9)
SIF	25,029	25,144	*(115)*	25,121	*(92)*	15,870	15,928	*(58)*	15,913	*(44)*
DWRF	3,505	3,480	*25*	3,489	*17*	2,008	2,020	*(12)*	2,025	*(16)*
CWPF	199	182	*17*	175	*24*	75	72	*3*	69	*6*
SIEGF	2,008	1,983	*25*	1,984	*24*	912	905	*6*	904	*7*
PWRE	5	5	*0*	5	*0*	3	3	*0*	3	*0*
MIF	3	4	*(0)*	3	*(0)*	2	2	*(0)*	2	*(0)*
ACF	1,789	1,812	*(23)*	1,810	*(21)*	1,117	1,130	*(13)*	1,129	*(12)*
All Funds	**32,539**	**32,609**	***(70)***	**32,587**	***(48)***	**19,986**	**20,061**	***(74)***	**20,045**	***(59)***
All Funds Percent Change			***-0.2%***		***-0.1%***			***-0.4%***		***-0.3%***

- The $74 million decrease in the June 30, 2011 discounted unpaid estimate from the estimate as of June 30, 2010 is primarily driven by a decrease in the SIF of $58 million.
- The remaining decrease is driven by modest changes in DWRF of $12 million and the ACF of $13 million.

Percent of Total Unpaid Loss & LAE by Fund



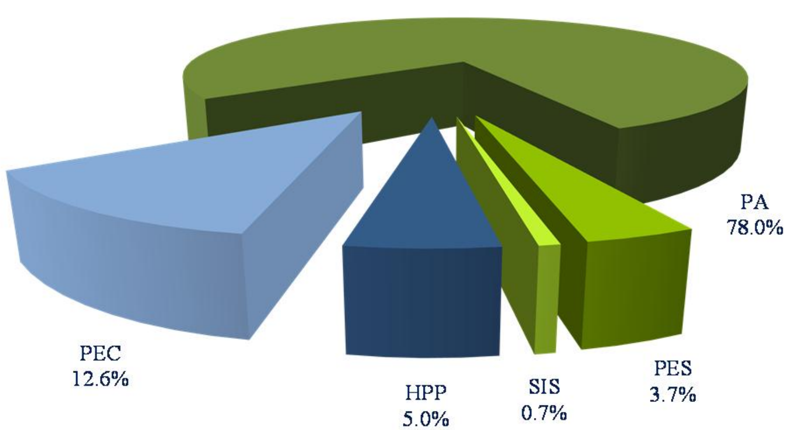
Change in June 30, 2011 Unpaid Estimates – SIF

SIF - Change in Unpaid Loss and LAE Estimates ($Millions)

	Nominal as of 6/30/2011					Discounted as of 6/30/2011				
	Evaluated @ 3/2011	Evaluated @ 6/2010	3/2011 - 6/2010	Evaluated @ 12/2010	3/2011 - 12/2010	Evaluated @ 03/2011	Evaluated @ 6/2010	3/2011 - 6/2010	Evaluated @ 12/2010	3/2011 - 12/2010
	(1)	(2)	(3) = (1)-(2)	(4)	(5) = (1)-(4)	(6)	(7)	(8) = (6)-(7)	(9)	(10) = (6)-(9)
PA	19,532	19,615	*(83)*	19,597	*(65)*	12,372	12,408	*(36)*	12,397	*(24)*
PEC	3,136	3,141	*(5)*	3,142	*(6)*	1,993	1,999	*(6)*	1,999	*(6)*
PES	930	944	*(15)*	940	*(10)*	594	604	*(10)*	601	*(7)*
SIS	176	182	*(6)*	182	*(6)*	114	118	*(4)*	118	*(4)*
HPP	1,256	1,262	*(6)*	1,261	*(5)*	796	799	*(3)*	799	*(3)*
SIF Total	**25,029**	**25,144**	**(115)**	**25,121**	**(92)**	**15,870**	**15,928**	**(58)**	**15,913**	**(44)**
Percent Change			**-0.5%**		**-0.4%**			**-0.4%**		**-0.3%**
PA, PEC, and PES	**23,597**	**23,700**	**(103)**	**23,678**	**(81)**	**14,960**	**15,011**	**(51)**	**14,997**	**(37)**

- The current discounted unpaid loss estimate for Private Employers (PA) of $12.4 billion represents 78% of the total SIF discounted unpaid estimate.

Percent of SIF Unpaid Loss & LAE



SIF - Drivers of Change in June 30, 2011 Loss Estimate

Drivers of Change - FY 2011 to Date ($Millions)

	FY 2011 to Date Change (3/2011-6/2010)			
	PA	PEC	PES	Total
6/30/2010 Analysis	**12,408**	**1,999**	**604**	**15,011**
Drivers of Change				
Change in Ultimate (Nominal)	(176)	(18)	(20)	(214)
Change in Payroll	*(15)*	*(0)*	*2*	*(13)*
Change in Losses 77 & Subs.	*(100)*	*(9)*	*(4)*	*(113)*
Parameter Updates 77 & Subs.	*(70)*	*(11)*	*(18)*	*(98)*
76 & Prior Change	*9*	*1*	*(0)*	*10*
Actual vs. Expected Payments	93	13	6	112
Change in Discount	48	(1)	5	52
Total Change FY to Date	**(36)**	**(6)**	**(10)**	**(51)**
3/31/2011 Analysis	**12,372**	**1,993**	**594**	**14,960**

Drivers of Change - FY 2011 3rd Quarter ($Millions)

	FY 2011 3rd Qrt Change (3/2011-12/2010)			
	PA	PEC	PES	Total
12/31/2010 Analysis	**12,397**	**1,999**	**601**	**14,997**
Drivers of Change				
Change in Ultimate (Nominal)	(92)	(11)	(12)	(115)
Change in Payroll	*(10)*	*(0)*	*8*	*(2)*
Change in Losses 77 & Subs.	*(21)*	*(2)*	*(2)*	*(25)*
Parameter Updates 77 & Subs.	*(70)*	*(11)*	*(18)*	*(98)*
76 & Prior Change	*9*	*1*	*(0)*	*10*
Actual vs. Expected Payments	27	5	2	34
Change in Discount	41	(1)	3	44
Total Change in Quarter	**(24)**	**(6)**	**(7)**	**(37)**
3/31/2011 Analysis	**12,372**	**1,993**	**594**	**14,960**

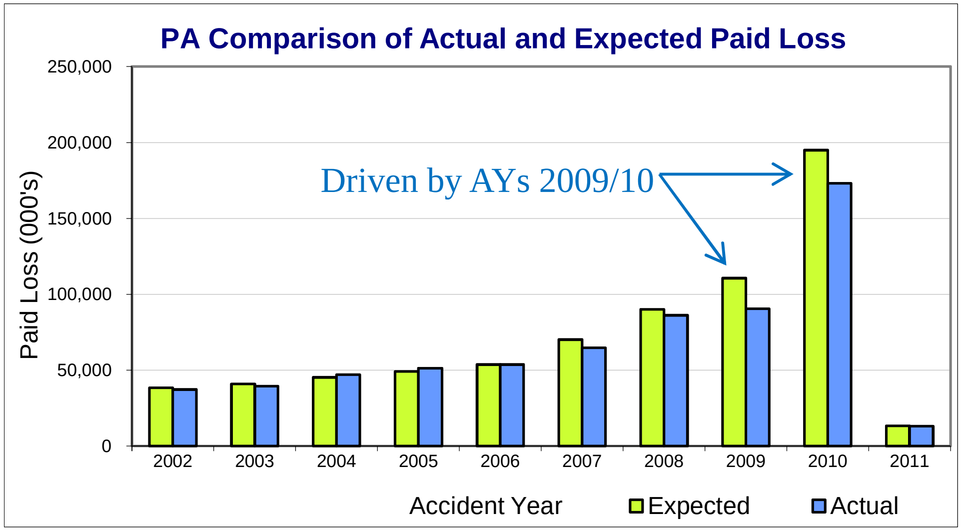
- Decrease of $214 million in estimated ultimate losses since June 2010, which consists of the following:
  - Decrease of $13 million for a change in payroll. PA decreased $15 million and PES increased $2 million;
  - Decrease of $113 million from fewer than expected loss payments during Fiscal Year 2011 of $97 million;
  - Decrease of $98 million for changes in assumptions/parameters in our March 31, 2011 analysis; and
  - Increase of $10 million in loss estimates for AYs 1976 & prior. PA, PEC & PES unpaid loss is $382m for 76 & prior.
- Partially offsetting the $214 million decrease in estimated ultimate losses is an increase of $112 million associated with a reduction in the expected full year 2011 Fiscal Year payments. Payments through March were $97 million lower than expected and expected payments in the 4th quarter are $15 million lower.
- Also partially offsetting the $214 million decrease in estimated ultimate losses, is a reduction of $52 million for the discount associated with the decrease in estimated ultimate losses.

PA, PEC & PES – Actual Versus Expected Losses

SIF Actual vs. Expected Payments ($ Millions)

	Incurred - 2011 FY to Date 7/1/2010 - 3/31/2011			Payments - 2011 FY to Date 7/1/2010 - 3/31/2011			Paid Loss - 3Q FY 2011 1/1/2011 - 3/31/2011			Change in Ultimate from 12/31/10 Eval. to 3/31/11 Eval.			
	Expected	Actual	Actual - Expected	Expected Paid	Actual Paid	Actual - Expected	Expected Paid	Actual Paid	Actual - Expected	Change in Losses	Parameter Updates	Other Changes	Total Change
PA	1,136	990	*(146)*	1,116	1,035	*(81)*	376	355	*(20)*	(100)	(70)	(6)	(176)
PEC	194	180	*(14)*	186	175	*(11)*	64	61	*(4)*	(9)	(11)	1	(18)
PES	67	56	*(12)*	60	55	*(5)*	21	19	*(2)*	(4)	(18)	2	(20)
Total	**1,397**	**1,225**	***(172)***	**1,362**	**1,265**	***(97)***	**461**	**435**	***(26)***	**(113)**	**(98)**	**(3)**	**(214)**
Percent Difference			***-12.3%***			***-7.1%***			***-5.7%***				

- Payments are $97 million or 7.1% lower than expected for FY 2011 through March and $26 million or 5.7% lower than expected in the 3rd quarter of FY 2011.
- Lower than expected payments in FY 2011 have led to a decrease in estimated ultimate losses of $113 million.
- Updates of certain parameters led to a further decrease of $98 million in estimated ultimate losses. Consideration given to new experience data.
- Changes in payroll data led to a reduction of $13million in estimated ultimate losses, which is partially offset by an increase of $10m for AYs 1976 & prior.



March 31, 2011 Reserve Analysis

PA, PEC & PES – Key Assumption/Parameter Updates

Paid development factors ("PDF") - key parameters in ultimate loss methods

- Measure future payments based on how historical payments have developed.
- Each type of loss has 34 separate paid development factors plus a tail factor (dev. past age 34).
- Small increase in PDFs from older ages/tail. Partially offset by lower PDFs at younger ages.

Expected Loss Rates used in BF method

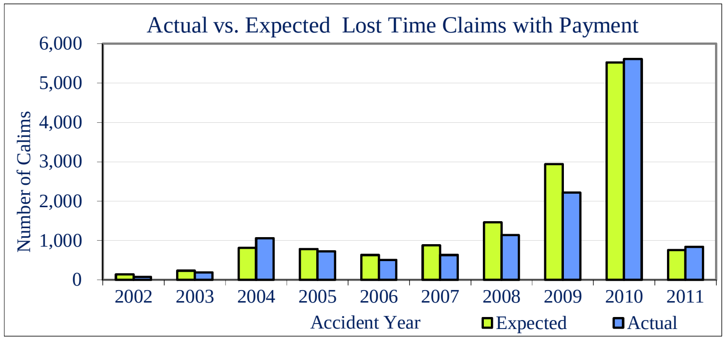
- Revised based on new experience data through March 2011.
- Considers prior AY ult. losses on-leveled to current year for wage, frequency and severity trends.
- Decrease in expected loss rates for younger AYs (2006-2011) driven by lower than expected payments and new lost time claims with payment.

Selection of ultimate losses from various methodology indications

- Reliance on Bornhuetter-Ferguson and Paid Development methods in our selections.
- As AYs mature we tend to apply more weight to Paid Development than Bornhuetter-Ferguson.

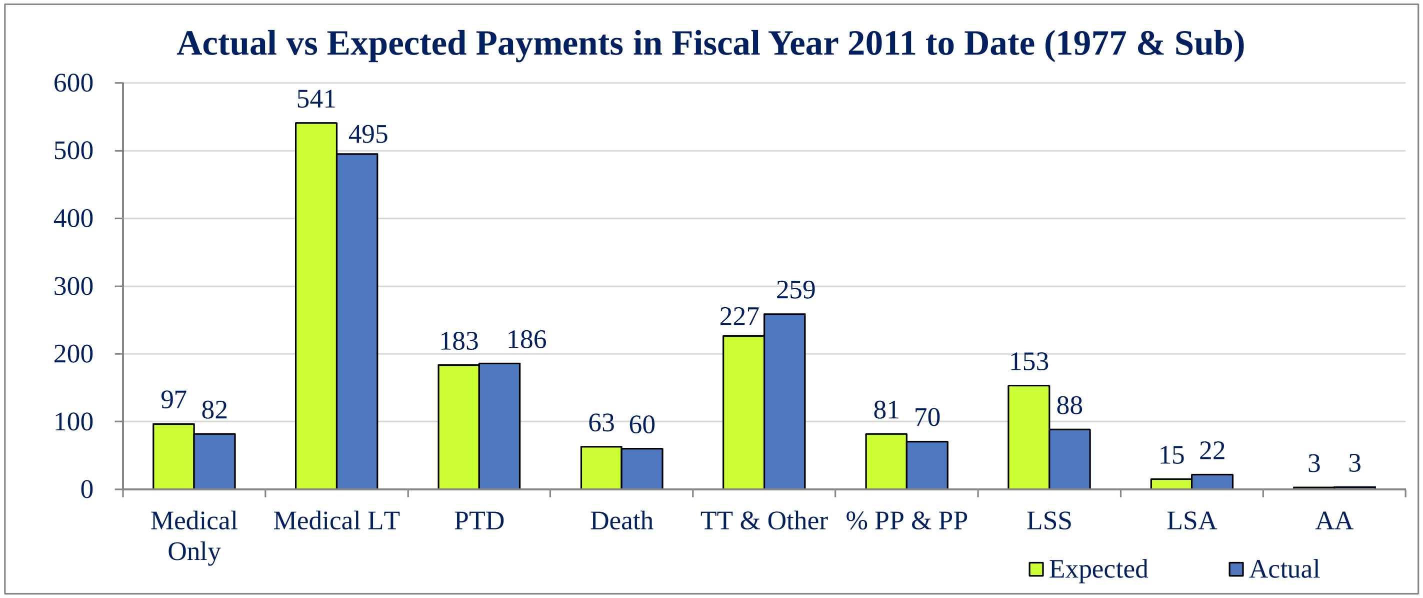
Change in Parameters

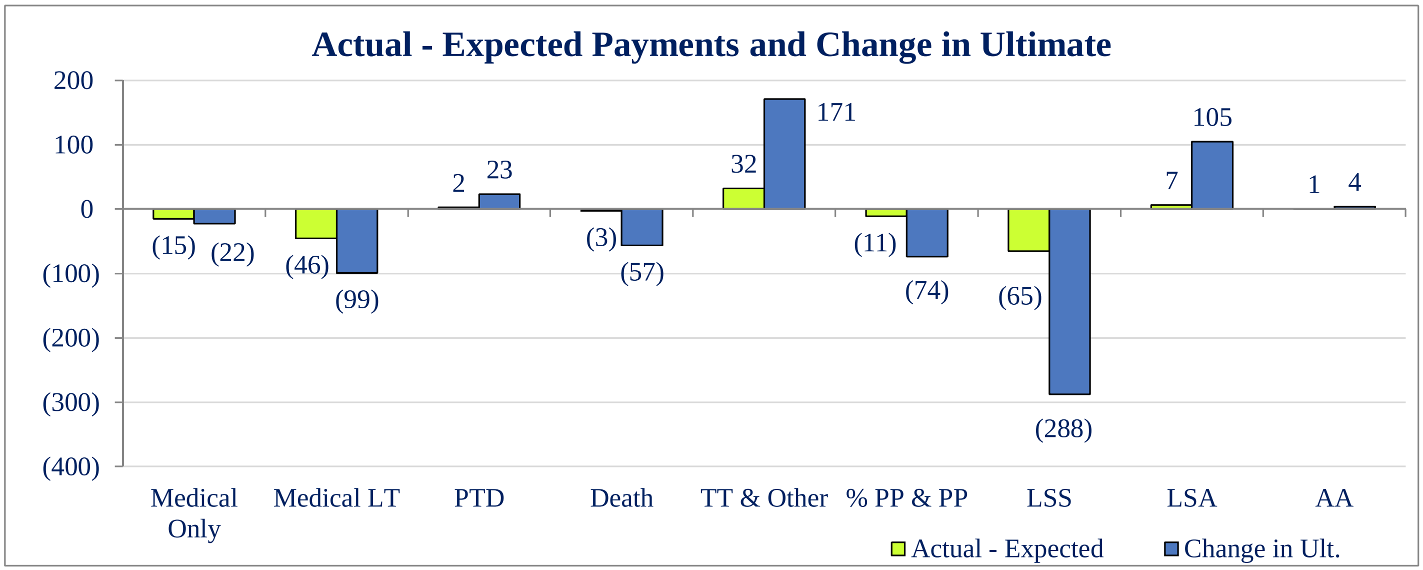
	PDF - Age 3.5 Yrs to Ult.			AY 2011 Expected Loss Rate		
	Current	Prior	% Change	Current	Prior	% Change
Medical	2.353	2.354	0%	0.12	0.12	-3%
Indemnity	3.953	3.829	3%	0.82	0.85	-3%
Total	2.979	2.932	2%	1.99	2.07	-4%



March 31, 2011 Reserve Analysis

PA, PEC & PES – Actual Versus Expected Losses ($Millions)

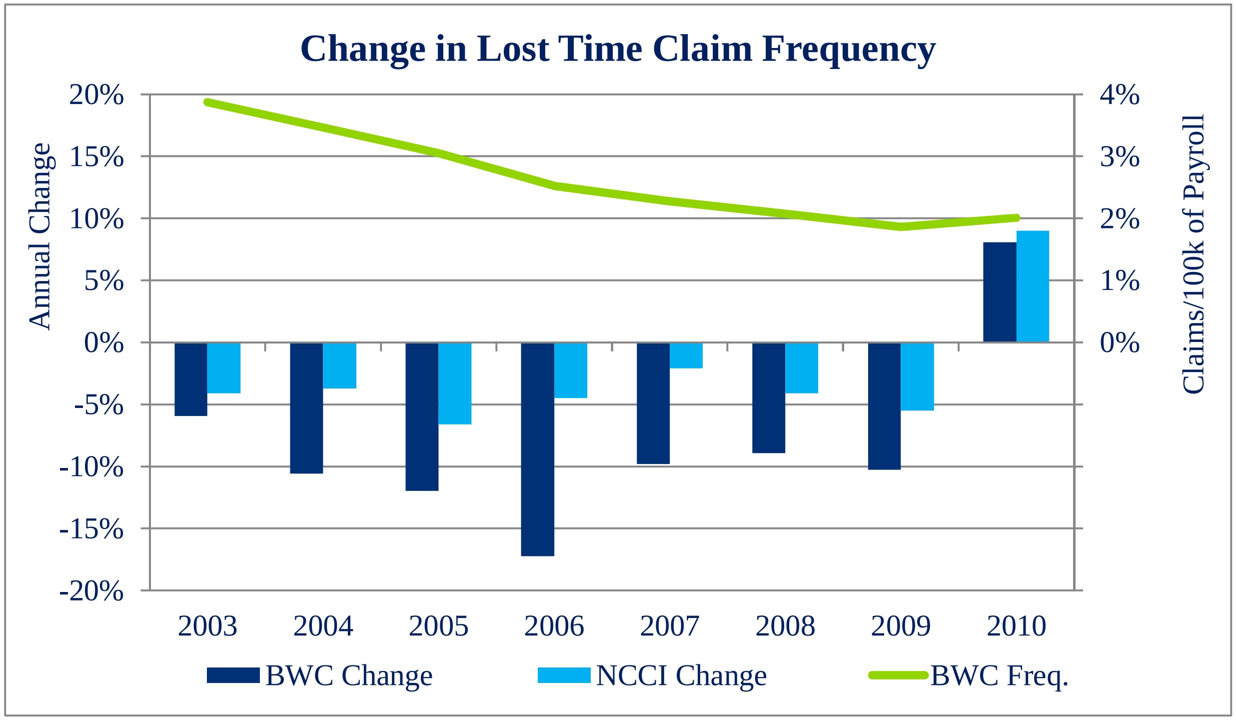




- Medical performing well. Payments are $60 million or 9% lower than expected.
- Indemnity performing well. Payments are $39 million or 5% lower than expected.
- LSS payments are $65 million or 42% lower than expected.
- TT/Other payments are $32 million or 14% higher than expected.
- LSA payments are $7 million or 43% higher than expected.
- PTD payments are $2 million or 1% higher than expected.
- Death payments are $3 million or 4% lower than expected.
- %PP/PP payments are $11 million or 14% lower than expected.

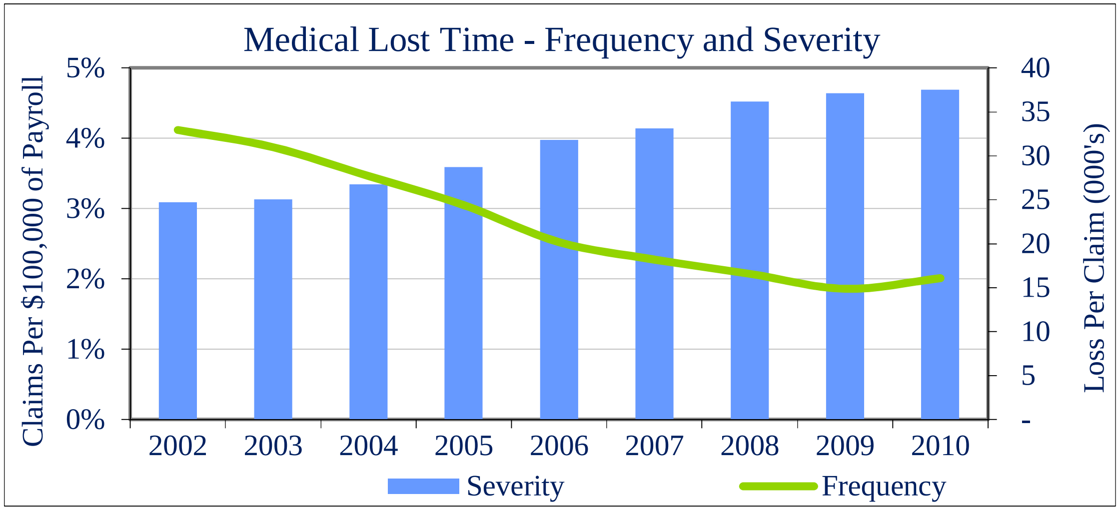
March 31, 2011 Reserve Analysis

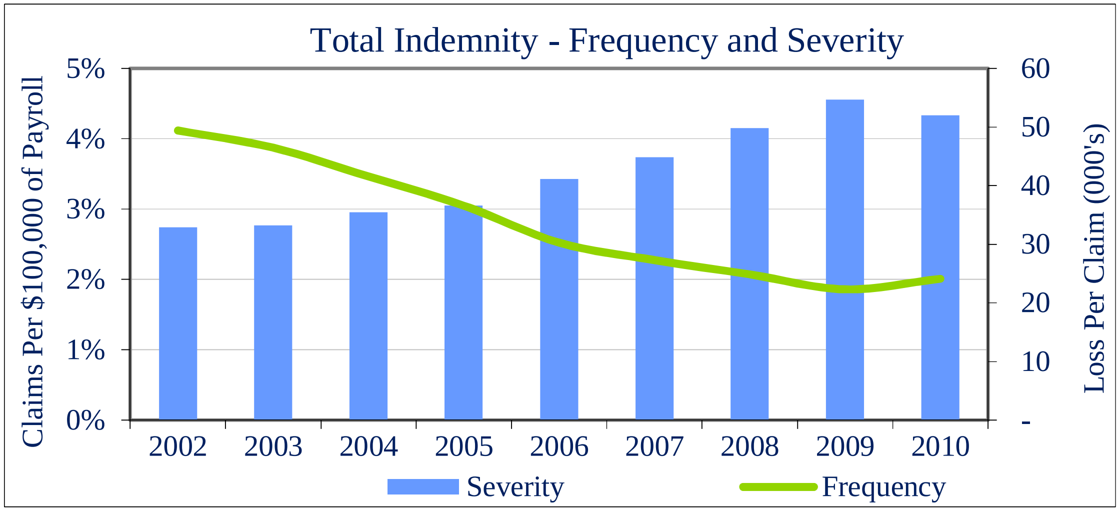
PA - Lost Time Frequency



- Industry lost time claim frequency (NCCI) has been consistently declining through 2009.
- Similar to NCCI, Ohio PA lost time claim frequency also has been declining with an average annual decrease of around 10% since 2003.
- Both Ohio PA and NCCI have experienced an increase in frequency in 2010 over 2009 (PA +8%, NCCI +9%).
- Reasons for increase may include, more willingness of workers to file less severe claims and a possible shift from medical only claims to lost time claims.

PA – Medical and Indemnity Severity





Medical Severity and Trend

- Historically Ohio PA medical severity has increased at an inflation rate of 6% to 7%.
- 2009 and 2010 Ohio PA severity only increased by 2.7% and 1.0%, respectively, while the medical CPI was over 3% in both 2009 and 2010.
- NCCI observed 5.4% and 2.0% increases in severity in 2009 and 2010, respectively.

Total Indemnity Severity and Trend

- Ohio PA indemnity severity is down by 5% in 2010 after increasing by 10% in 2009 and 11% in 2008.
- NCCI observed a decrease of 3% in 2010 after increases of 8.2% in 2008 and 0.8% in 2009.

Other Funds - Drivers of Change from June 30, 2010 Analysis

DWRF

- The current June 30, 2011 discounted unpaid estimate of $2.01 billion is $12 million or 0.6% lower than the prior estimate of $2.02 billion using data evaluated as of June 30, 2010. There have not been any changes in methodology but certain PDFs were updated which led to a small increase in estimated ultimate losses of $25 million, which is more than offset by more discount from the revised cash flow projections.
- Discounted unpaid estimate is consistent with the assumption that future inflation will be similar to actual inflation observed over the past 20 years of 2.5%.

CWPF

- The current June 30, 2011 discounted unpaid estimate of $75 million is $3 million higher than the prior estimate of $72 million using data evaluated as of June 30, 2010. This increase is primarily due to the incorporation of new mortality assumptions, which are based on Deloitte Consulting's 2010 mortality study of Ohio injured workers. There are no changes in methodology or other changes in key assumptions.

SIEGF

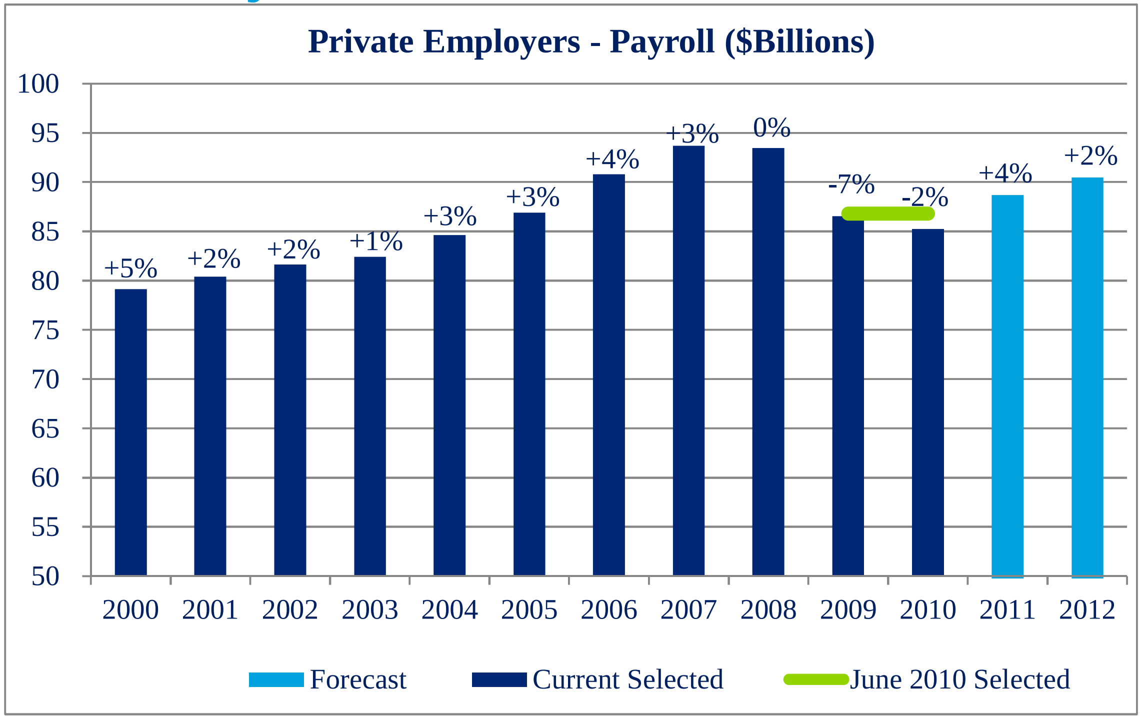
- For the SIEGF, the current June 30, 2011 discounted unpaid estimate of $912 million is $6 million or 0.6% higher than the prior estimate of $905 million using data evaluated as of June 30, 2010. This increase is driven by modest changes in certain parameters as well as an increase in the self-insured DWRF estimate. The approach and methods used by Deloitte Consulting were consistent with the June 30, 2010 analysis.

ACF

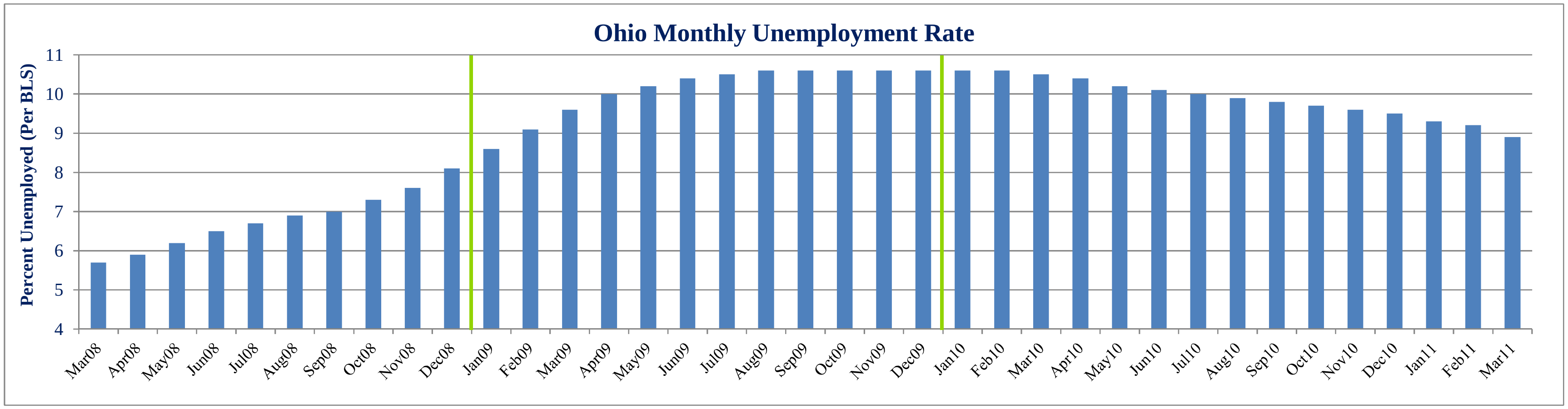
- For the ACF, the discounted unpaid estimate of $1.117 billion is $13 million or 1.2% lower than the prior estimate of $1.130 billion using data evaluated as of June 30, 2010. The decrease is primarily a result of a reduction in the PA, PEC and PES discounted unpaid loss estimates. There have not been any changes in methods or assumptions since the prior December 31, 2010 and June 30, 2010 analyses.

March 31, 2011 Reserve Analysis

PA – Payroll



- 2010 payroll was projected to be level with 2009 in the June 2010 analysis. However, actual payroll reported through March 2011 showed a continued decline of 2% for 2010 vs. 2009.
- The Ohio average monthly unemployment rate continued to rise through April 2010 and has since been declining each month.
- 2011 payroll is now projected to be 4% higher than 2010 given the improved Ohio unemployment rate since the middle of 2010. Slower payroll growth is expected for 2012.



June 30, 2012 Forecast of Unpaid Loss and LAE

June 30, 2012 Forecast of Unpaid Loss and LAE ($ Millions)

	Nominal Unpaid Loss & LAE			Discounted Unpaid Loss & LAE		
	Unpaid @ 6/2011	Unpaid @ 6/2012	FY 2012 Change	Unpaid @ 6/2011	Unpaid @ 6/2012	FY 2012 Change
SIF	25,029	25,449	*421*	15,870	16,155	*285*
DWRF	3,505	3,483	*(23)*	2,008	1,992	*(17)*
CWPF	199	199	*0*	75	75	*0*
SIEGF	2,008	2,059	*52*	912	940	*29*
PWRE	5	5	*0*	3	3	*0*
MIF	3	3	*0*	2	2	*0*
ACF	1,789	1,821	*31*	1,117	1,138	*21*
All Funds	**32,539**	**33,020**	***481***	**19,986**	**20,305**	***319***

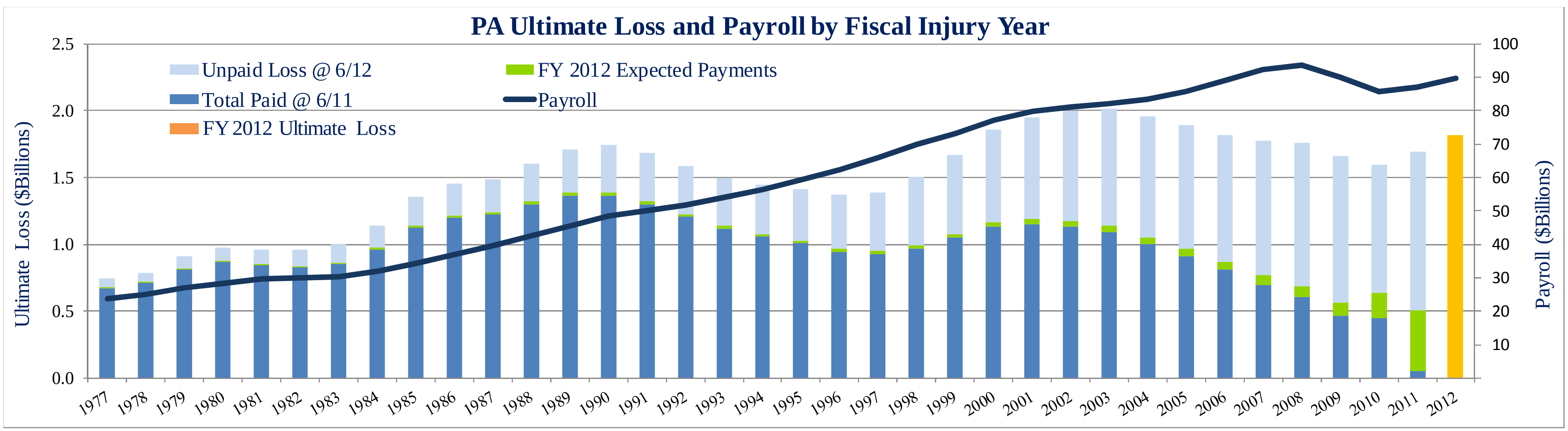
- On a discounted basis, the forecasted unpaid loss and LAE as of Fiscal Year-end 2012 of $20.3 billion is $319 million higher (1.6%) than the estimate for Fiscal Year-end 2011.
- PA, PEC and PES within the SIF account for $274 million of the increase in the discounted unpaid loss and LAE.
- This increase is anticipated given that losses tend to increase over time from medical and wage inflationary pressures. Further increases in 2011 and 2012 PA payroll over 2010 are anticipated in the estimates.

March 31, 2011 Reserve Analysis

June 30, 2012 Forecast of Unpaid Loss and LAE

Change in SIF Unpaid Loss and LAE from June 30, 2011 to June 30, 2012 ($ Millions)

	Discounted Unpaid at 6/30/11	6/11 - 6/12 Additional Ultimate	6/11 - 6/12 Additional Discount	6/11 - 6/12 Interest Accretion	6/11 - 6/12 Expected Payments	Discounted Unpaid at 6/30/12	Change 6/30/11 - 6/30/12
Private Employers	12,372	1,814	(602)	514	(1,534)	12,564	192
Public Employers - Taxing Districts	1,993	345	(115)	84	(258)	2,050	57
Public Employers - State Agencies	594	123	(39)	26	(85)	619	25
Total SIF Excluding SIS & HPP	**14,960**	**2,282**	**(755)**	**624**	**(1,878)**	**15,233**	**274**



June 30, 2011 Roll-forward Process

- Revise the June 30, 2011 nominal and discounted unpaid loss and loss adjustment expense estimate.
  - Based on data evaluated as of June 30, 2011.
  - Consider actual versus expected loss payments during the 4th quarter of Fiscal Year 2011.
  - No changes to methodology anticipated.
  - No significant changes in assumptions anticipated.

- The results of the June 30, 2011 roll-forward analysis will provide the basis for BWC in selecting Fiscal Year-end 2011 recorded reserves.

- The final results for Fiscal Year-end 2011 reserves will be communicated to the BWC Board of Directors in August.

Report

We have prepared a report that summarizes our conclusions and observations. This report is titled "State of Ohio Bureau of Workers' Compensation Unpaid Loss & LAE as of June 30, 2011 (Based on Data Evaluated as of March 31, 2011)". The report consists of the following volumes:

- Volume I – Report and Summary Exhibits;
- Volume II – Private Employer Detailed Analysis Exhibits;
- Volume III – Public Employer -Taxing Districts Detailed Analysis Exhibits;
- Volume IV – Public Employer - State Agencies Detailed Analysis Exhibits; and
- Volume V – Other Funds Detailed Analysis Exhibits.

Deloitte.

BWC Board of Directors
Actuarial Committee
Actuarial Division Report
Liz Bravender, Director Actuarial Operations
June 15, 2011

This report provides a brief review of the schedule of activity in the next months. The table that follows and the accompanying discussion are meant to serve as a guide for upcoming proposals and studies. The schedule is flexible for some items, while others must be completed by June 20, 2011 in order for the appropriate rules to be filed ten days before their effective date, July 1, 2011, as required.

Upcoming Rate Rules and Related Actions and Discussions	June	July	August
PA Rate Change Effective 7/1/11	Completed		
PES Rates Effective 7/1/11	Completed		
MIF Rates	Completed		
CWPF Rates	Completed		
DWRF Rates	Completed		
Compatibility Rule Changes	2nd read		
SI Assessments	2nd read		
ACF Assessment	2nd read		
S&H Assessment	2nd read		
Impact of Inflation on the DWRF	Completed		
Annual Reserve Audit @ 3/31/11	Discussion		
Unexpected Reserve Adjustments – If Necessary*		Discussion as is necessary	
June 30, 2011 Reserve Audit Roll-forward			Discussion
* Tentative schedule			

Compatibility Rule Changes: In April, we presented changes to the compatibility rule that would allow group rated employers to receive the 2% performance bonus for safety councils. This rule is scheduled for a second reading and vote.

SI Assessment: Assessments for self-insureds are reviewed annually. The assessment for costs of claims with injury dates prior to 1987, associated with bankrupt self-insured employers who have defaulted on their obligations, will remain at 3.0% of paid compensation. The assessment for costs of claims with injury dates since 1987 will decrease from 11.54% to 5.27% of paid compensation. This decrease is expected to reverse the rising balance in the SIEGF. Administrative cost and safety and hygiene assessments will be discussed separately by the Chief of Fiscal and Planning. Assessments for optional funds for rehabilitiation, handicap, and disallowed claims, will remain unchanged at 13.0%, 24.8%, and 3.34%, respectively.

ACF Assessment: Assessments for the Administrative Cost Fund are reviewed annually and will be calculated based on the Board-approved budget and projected premium.

S&H Assessment: Assessments for the Division of Safety and Hygiene are reviewed annually.

June

Annual Reserve Audit @ 3/31/11: This is the annual reserve estimate and will provide a preliminary figure for year-end reserves.

July

Unexpected Reserve Adjustments if Necessary – Since the major reserve analysis for June 30, 2011 will be developed using data through March 31, 2011, if there is a reason to make a significant change due to an event or other circumstances during the last quarter of FY 2011 we have scheduled discussion if necessary. The finalization of the reserve audit using data from the last quarter would normally make only a slight change in reserves.

August

The annual reserve audit will be completed using data through June 30, 2011. Since the major analysis will have been done using the previous quarter's data, this analysis is called a roll-forward, and will incorporate claim payment data from the final quarter of the fiscal year. The results of this analysis will be presented to the Board for inclusion in the financial statement for the fiscal year ending June 30, 2011.

Disabled Workers' Relief Fund (DWRF)

At the May Actuarial Committee meeting Vice-Chair Matesich requested additional information regarding the DWRF fund. Specifically, Mr Matesich requested an analysis of the fund for the last five years and the effect of the selected assessment rate to the fund. Deloitte and BWC staff offer the following information which is available in detail by employer group if desired.

History:

DWRF II was legislated with Senate Bill 307 in 1987 to address the concerns that the DWRF fund was operating in a deficit, due to legislative restrictions of a maximum rate of $0.10 per $100 of payroll. At that time, the deficit was $218 million dollars. The funding shortfalls beginning in 1976, necessitated periodic loans from the investment income of the SIF. SB 307 allowed for the creation of DWRF II with separate funding of post 1986 injuries. The BWC obtained a rate recommendation from Robert Finger, FCAS, and BWC actuarial consultant, providing the BWC with the rate necessary for a fully funded DWRF II as well as a pay-as-you-go funding level. The assessment rates adopted at the onset required the following rates: 2% of premium computed at basic rate for calendar year 1987; 3% for CY 1988; 4% for CY 1989 and 5% for CY 1990 all of which were intended to fully fund the DWRF liability. The rate remained at 5% for 1991 and 1992. In 1989, the BWC requested an opinion from the Attorney General's office due to inquiries from the BWC financial auditors Peat Marwick Main & Co. The AG's opinion dated May 17, 1993, stated that the DWRF II fund assessment should be set at pay-as-you-go rate. In 1993 the adopted rate was 0.1% of premium computed at base rate and has remained there ever since. Evidence in our files indicate that the rate was dropped to 0.1% due to the Attorney General's opinion and that it was the lowest rate possible that could be applied to the base rate and still have a collection rate appear on the payroll reports.

DWRF I and the DWRF II are combined in the financial statements for accounting purposes and as of the May 31, 2011 financial statements, the net assets were $1.2 billion. This bulk of this balance was created when legislation introduced the DWRF II fund and the BWC collected premiums at a level greater than the usual pay-as-you-go needed amount plus the investment returns. The balance sheet liabilities of the DWRF fund reflect the discounted value of the DWRF loss and loss expense reserves.

In the table below is the five year summary of receipts and disbursements for both DWRF I and II. DWRF I shows that over the 5 year period, the disbursements are less than the assessment receipts indicating that the adopted rate is adequate to cover expenses on a pay-a-you-go system. DWRF II receipts are less than the disbursements indicating that the adopted assessment rate is less than the amount necessary to cover the expenses in a given calendar year. To collect DWRF II at a true pay-as-you-go rate without using any of the $1.2B in net assets, the rates necessary are shown in the third table below.

DWRF I

	Receipts	**Disbursements**	**Difference: Receipts minus Disbursements**
CY 2010	$85,079,755	$87,447,958	($2,368,203)
CY 2009	$96,399,275	$92,386,882	$4,012,393
CY 2008	$104,194,349	$96,910,552	$7,283,797
CY 2007	$111,405,728	$101,223,673	$10,182,056
CY 2006	$107,428,512	$102,569,372	$4,859,140
Total	$504,507,619	$480,538,436	$23,969,182

DWRF II

	Receipts	**Disbursements**	**Difference: Receipts minus Disbursements**
CY 2010	$2,521,925	$24,836,265	($22,314,340)
CY 2009	$3,313,820	$19,995,253	($16,681,433)
CY 2008	$3,248,631	$21,710,916	($18,462,285)
CY 2007	$3,169,723	$18,270,471	($15,100,748)
CY 2006	$3,307,830	$14,945,763	($11,637,933)
Total	$15,561,929	$99,758,668	($84,196,739)

To adopt a true pay-as-you-go rate for DWRF II, the rates would have been as follows:

Employer Group	Adopted Rate for 2011	Pay-as-you-go rate (percent of premium at base rate)
Private Employer	0.1%	1.7%
Public Employer Taxing District	0.1%	1.1%
Public Employer State Agency	0.1%	1.4%

Actuarial Committee Calendar –2011

Date	June 2011
6/15/2011	1. Administrative Cost Fund - rule 4123-17-36 – 2nd reading
	2. Safety & Hygiene assessment rules 4123-17-34 and 4123-17-37 – 2nd reading
	3. Self-Insured Assessments – rule 4123-17-32 – 2nd reading
	4. Program Compatibility – rule 4123-17-32 – 2nd reading
	5. PEC Credibility – rule 4123-17-33.1 (request waiver of 2nd read)
	6. PEC Group Breakeven Factor – rule 4123-17-64.2 (request waiver of 2nd read)
	7. Reserve update for financial reporting for fiscal year ending June 30, 2011 and projection for June 30, 2012 based on data as of March 31, 2011
Date	**July 2011**
7/28/2011	1. Reserve adjustments as of June 30, 2011 – discussion if necessary
	2. PES rate methodology (as discussion)
Date	**August 2011**
8/25/2011	1. Final Reserve Audit as of June 30, 2011 and quarterly reserve true up for financial reporting for fiscal year ending June 30, 2011 and updated estimate for fiscal year ending June 30, 2012 based on data as of June 30, 2011
Date	**September 2011**
9/29/2011	1. Public employer taxing districts rate change – 1st reading
	2.
Date	**October 2011**
10/27/2011	1. PEC Base Rate and Expected Loss rates rule 4123-17-33 and 4123-17-34 – 1st reading
	2.
Date	**November 2011**
11/17/2011	1. Quarterly reserve update
Date	**December 2011**
Date	**January 2012**
Date	**February 2012**
Date	**March 2012**
Date	**April 2012**
Date	**May 2012**
Date	**June 2012**

Actuarial Committee Calendar –2011