BWC Board of Directors

ACTUARIAL COMMITTEE

Wednesday, December 15, 2010, 1:30 P.M.
William Green Building
30 West Spring St. 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present:	Charles Bryan, Chair Jim Matesich, Vice Chair David Caldwell James Hummel Thomas Pitts William Lhota, ex officio
Members Absent:	None
Other Directors Present:	Alison Falls, Ken Haffey, James Harris, Larry Price, and Bob Smith
Counsel present:	James Barnes, BWC Chief Counsel
Staff present:	Marsha Ryan, Administrator John Pedrick, Chief Actuarial Officer Tom Prunte, Executive Director of Employer Management Services Ron Suttles, Management Analyst Supervisor
Consultants present:	Jan Lommele, Bob Miccolis, Dave Heppen, Deloitte Consulting LLP
Scribe:	Larry Rhodebeck, Staff Counsel

CALL TO ORDER

Mr. Bryan called the meeting to order at 1:30 p.m. and the roll call was taken. Six members were present, constituting a quorum.

MINUTES OF NOVEMBER 18, 2010

Mr. Bryan requested that page 7, paragraph 7, be changed to add, "Mr. Pedrick emphasized that on page 5, the $32.6 billion *undiscounted* reserve is reduced . . . "

Mr. Matesich moved to approve the minutes of November 18, 2010, as amended. Mr. Caldwell seconded and the amended minutes were approved by a roll call vote of six ayes and no nays.

AGENDA

Mr. Bryan added "The Collectible Rate" report as a new discussion item after the Chief Actuarial Officer report. John Pedrick, Chief Actuarial Officer, stated this report addresses a question from November on why the rate for Public Works Relief Workers increased by 36% for the 2011 policy year, whereas the BWC cap on increases on collectable premiums is 30%.

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

NEW BUSINESS/ACTION ITEMS

Mr. Bryan reported there would be neither second readings nor first readings on motions before the Actuarial Committee.

DISCUSSION ITEMS

PROGRAMS UPDATE

Tom Prunte, Executive Director of Employer Management Services, and Ron Suttles, Management Analyst Supervisor, presented the "Annual Report, Employer Programs Performance," dated December 2010. Mr. Prunte stated that the report is made pursuant to the mandate of Ohio Administrative Code Rule 4123-17-61.1 that BWC will report annually on the aggregate performance of all groups. Furthermore, BWC is expanding the 2010 report to include the performance of other employer programs.

Mr. Suttles reported that as little as two years ago, BWC had five employer programs and now BWC has eight. With respect to group rating, BWC efforts in addressing rate reform have focused on development of a program that provides fair and equitable premiums. Chart 1 shows that from 2009 to 2010, the total policies applying for and accepted into group rating declined slightly. The number of employers that switched groups rose from 34,704 to 44,878. If a group loses more than 50% of its employer members, then it is treated as a new group. Chart 6 shows 41,036 employers participated at the 77% maximum discount level in 2009. When the maximum credibility was lowered to 65% in 2010, 46,360 employers participated at the maximum discount. Chart 7 shows that BWC only rejected 2,700 from group rating in 2010, with some reversed through the Adjudication process. Chart 8 shows that group rating premiums increased from

$617 million to $753 million in 2010, which illustrates that the level of participation is not impacted by the reductions in maximum credibility.

Mr. Bryan asked what the cause of the increase is. Mr. Suttles replied that as equilibrium between groups and non-groups is reached, the employers will pay premiums more in line with what is equitable.

Mr. Suttles further reported that the page 8 chart shows 35 sponsors were denied certification by BWC for 2010. Since that determination, six or seven applicants have qualified as sponsors.

Mr. Bryan asked if the bar marked 387 reflects the number of groups. Mr. Suttles replied that the 387 is composed strictly of sponsors.

Mr. Harris asked if BWC will report on the on-site reviews it took of six sponsors. Mr. Suttles replied that the data is being reviewed in the next month for presentation in the next quarter.

Mr. Matesich asked how the sponsors were selected. Mr. Suttles answered that they were selected randomly. However, future reviews will use a number of criteria. Mr. Bryan asked how BWC is reviewing sponsors and are safety plans being reviewed? Mr. Suttles replied that the Safety and Hygiene Division is reviewing all safety plans.

Mr. Pedrick stated the goal is getting groups to pay in accordance with level of risk presented. In 2008, BWC introduced the break-even factor to bring group rates closer to an equitable level. The growth in payroll also reflects the return of employers to groups with high EMs.

Mr. Suttles next reported that Exhibit 1 shows how the stratified break-even factors are implemented.

Mr. Pitts asked what the average number of employers per group is. Mr. Suttles replied he did not know, but could produce that number. For some, it is as few as 100; for others, it is many as 1,000. Mr. Pedrick added that chart 4 is derived strictly from group rosters submitted by sponsors. That is, if the sponsor did not include an employer, it is not recorded.

Marsha Ryan, BWC Administrator, added that although a sponsor may have omitted an employer, it is also possible the employer may have elected to join another group.

Mr. Bryan asked what is the largest BWC employer program? Mr. Suttles answered that group rating is still the largest program by the number of employers participating.

Mr. Suttles reported in the deductible programs, chart 9, there are 500 employers at various levels of participation. Chart 10 shows the potential savings for employers entering deductible programs in 2009 amount to $6 million. Some employers did not see savings, which has led field staff to contact them to discuss safety and claims management possibilities.

Mr. Bryan asked if the 500 employer participation is because the deductible program is new. Mr. Suttles replied that it is only in its second year and, also, group rating may offer greater savings.

Mr. Pedrick added that BWC will be making one more change in credits for the large deductible program, and then will leave the program in place. He also cautioned that the $6 million saving for 2009 will diminish in later years as claims costs continue to develop.

Mr. Matesich stated his calculation is that 9% of employers in deductible programs are not showing a saving. He asked whether the employer or BWC is the one reaching out for assistance. Mr. Suttles replied that BWC refers information to the field, but he does not know exactly how Employer Management Services is adding these employers to the "book of business."

Mr. Suttles continued with a description of the EM Cap Program. BWC believes that some employers opted-out of participation because their experience rating was better than the 100% cap. Others canceled their coverage, or did not want to participate in the ten-step business program.

Mr. Harris asked why an employer would use an outside vendor to apply for programs when the vendor charges a fee and BWC services are at no cost. Mr. Suttles replied he did not have an answer. However, many employers have existing relationships with a TPA and may feel more comfortable with the TPA.

Mr. Suttles reported that in 2010, 1885 employers participated in the one-claim program. Of those, 263 were employers who first participated in 2007. Mr. Bryan asked how this is distinct from the $15,000 medical-only program. Mr. Suttles replied the employer costs in the $15,000 medical-only program are not included in experience rating. Three thousand employers participate in the $15,000 medical-only program today. It is difficult for BWC to control because all employers could drop the program today and BWC would have to pick up the expense. Mr. Pedrick added that BWC plans to make modifications to the one-claim program in future months. The 60% experience modification no longer makes sense with the changes in the maximum credibility. In January, there may be a first reading of changes in the program.

Mr. Suttles reported that group retrospective rating is the fastest growing of the employer programs. BWC is coming up to the first evaluation year in June.

Mr. Bryan asked when employers will know their final costs. Mr. Suttles answered it would be after the third year. Mr. Bryan asked if it is possible to learn earlier. Mr. Suttles replied the first snapshot was taken September 30 and has led to sponsor inquiries. The program has grown from 365 in 2009 to 971 in 2010. Mr. Bryan asked why growth has been so good. Mr. Suttles answered it provides an opportunity of medium-sized employers to obtain premium savings. Mr. Bryan asked if there was any concern with the development factors. Mr. Pedrick replied that the program is new to BWC, so development factors for intermediate ages have not been created. The only loss development factors currently available are those for the 12-month, 24-month, and 36-month evaluations.

Mr. Suttles concluded with a description of the paid loss retrospective rating program, which has existed since 1988. It appeals to large employers and has a ten-year window for accruing losses. About 200 employers participate and the program approximates self-insurance. Employers know of the nature of the risk. The Deloitte Report for HB100 found it to be one of the better programs.

Mr. Prunte added that the eight employer programs complement each other. In order to have a full understanding of group rating, BWC must examine the others.

LEGISLATIVE DISCUSSION AND ANALYSIS

There was no discussion of pending legislation.

CHIEF ACTUARY REPORT

Mr. Pedrick reported that BWC has re-assessed the time-line for board sessions regarding the split-experience plan. BWC plans to present rules in May and June 2011. The revised schedule for board presentations is for two reasons: First, development will be enhanced by analysis of the impact to employers and stability of experience modifiers. Second, BWC wants more opportunity for out-reach and opportunities for training. As we meet today, Larry King, Manager of Research and Statistics, and Terry Potts, Rates Supervisor, are on the road to do training. In the summer of 2011, BWC will show employers their split experience rating modifiers and then implement it in 2012. So part two of the Workers' Compensation Board training has been postponed to a time closer to adoption, but the implementation schedule is unaffected and remains on target.

A chart in the CAO Report shows the next six months of activity. NCCI manual changes will have first and second readings in January and February. Also in that time, BWC will propose changes to the one claim program so it will no longer be a strategy for employers but rather a safety net. There will be a discussion of the base rate stability analysis in January. The chart omits the PES rates methodology from January. For February, we have currently scheduled discussions of the State Of The Line Report, Quarterly Reserve Update for December 31, 2010, and the Funding Ratio Review by Deloitte. March will begin the rate change cycle. March and April will begin split experience rating education.

COLLECTIBLE RATE

Mr. Pedrick reported that when BWC sets a base rate, it expects not to collect the full amount. For example for Public Works' Relief Employees, the base rate is set to $1.10, while BWC expects to collect $1.02. Employers enroll in programs and undergo experience modification changes after rates have been set. So BWC makes a premium slippage assumption in anticipation of these subsequent premium adjustments. In the case of PWRE, it is 7.5%. Another example of a factor is the change from the Drug-Free Workplace Program to the Drug-Free Safety Program.

Mr. Bryan stated that BWC needs to make this explanation more clearly to stakeholders.

Ms. Ryan added that the PWRE class is the only class in PEC rates where the collectible rate exceeded the cap. The collectible rate is only one of several problems with the PWRE class.

Mr. Pedrick added there was a typographical error in the rate report when the Workers' Compensation Board approved the rule. The report showed 36%, whereas the actual change in the collectible rate was 34%. Inasmuch as this is a small class, there is no material impact to overall PEC rates.

Mr. Harris stated that obviously "cap" has a different meaning to actuaries than it does to employers. Mr. Pedrick responded he absolutely agreed and would work to make that distinction part of BWC education.

COMMITTEE CALENDAR

There were no comments on the Actuarial Committee calendar.

EXECUTIVE SESSION

There was no executive session.

ADJOURNMENT

Mr. Bryan congratulated Mr. Matesich on the marriage of his daughter on December 12.

Mr. Pitts moved to adjourn. Mr. Matesich seconded and Mr. Bryan adjourned at 2:45 p.m. after a roll call vote of six ayes and no nays.

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December 20, 2010