BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

WEDNESDAY, February 23, 2011, 1:00 P.M.
WILLIAM GREEN BUILDING
30 WEST SPRING ST.2ND FLOOR (MEZZANINE)
COLUMBUS, Ohio 43215

Members Present:	Steve Lehecka, Chair Jim Matesich, Vice Chair David Caldwell James Hummel Thomas Pitts Nicholas Zuk, ex officio
Members Absent:	None
Other Directors Present:	Ken Haffey, Mark Palmer, Larry Price, Robert Smith, and Dewey Stokes
Counsel Present:	Janyce Katz, Assistant Attorney General Jason Rafeld, Chief Legal Officer
Staff Present:	Stephen Buehrer, Administrator/CEO John Pedrick, Chief Actuarial Officer Elizabeth Bravender, Actuarial Operations Director Tom Prunte, Executive Director, Employer Management Services Michael Glass, Director of Underwriting and Premium Audit Joy Bush, Program Development Director
Consultants Present:	Jan Lommele, Deloitte Consulting, LLC Bob Miccolis, Deloitte Consulting, LLC Dave Heppen, Deloitte Consulting, LLC Bill Van Dyke, Deloitte Consulting, LLC Dick Messick, Deloitte Consulting, LLC
Scribe:	Larry Rhodebeck, Staff Counsel

CALL TO ORDER

Mr. Lehecka called the meeting to order at 1:00 p.m. and the roll call was taken.

MINUTES OF DECEMBER 15, 2010

John Pedrick, Chief Actuarial Officer, requested that the first paragraph of "Agenda" on page 2 be changed to read ". . . why the *collectible* rate for Public Works Relief Workers

increased by 36% for the 2011 policy year, whereas the BWC cap on increases on *published based rate* is 30.%"

Mr. Matesich moved to adopt the minutes of December 15, 2010, as amended. Mr. Pitts seconded and the amended minutes were adopted by a roll call vote of six ayes and no nays.

AGENDA

Mr. Lehecka designated Mr. Matesich as chair to for the remainder of the meeting.

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

NEW BUSINESS/ ACTION ITEMS

MOTIONS FOR SECOND READING

Mr. Matesich reported that there were no items for a second reading.

MOTIONS FOR FIRST READING: 2011 NCCI CLASSIFICATION CODE CHANGES, OHIO ADMINISTRATIVE CODE RULE 4123-17-04

Tom Prunte, Executive Director, Employer Management Services, and Michael Glass, Director of Underwriting and Premium Audit, recommended amendment of Ohio Administrative Code Rule 4123-17-04 to adopt changes to classifications of the National Council on Compensation Insurance (NCCI). During their presentation, they made reference to "NCCI Scopes and Rule changes: 2011 Executive Summary." Mr. Prunte reported that Ohio adopted the NCCI classifications in 1997. NCCI is used by about forty states. The use of NCCI classifications is authorized by Ohio Revised Code § 4123.29.

Mr. Glass reported that BWC staff is recommending adoption of sixteen changes proposed by NCCI. The changes include seven new classifications, consolidation and discontinuance of eleven classifications, and modernization of language of five classifications. The chart on page 4 summarizes the changes. With respect to new codes, for example, manufacturing and set up of manufactured and modular homes codes are being split off from carpentry and cabinet works. Other new codes are created for snack chip manufacturing, superstore and warehouse clubs, and fiber optics and semiconductors. Consolidated and discontinued codes relate to residential carpentry, cabinet works, telecommunications, film exchanges, varnish manufactures, and cracker manufacturing. Classifications getting modernization include door installation and other construction industries.

Mr. Glass further reported that page 32 has a summary of stakeholder comment, which has been limited so far.

Mr. Hummel asked for a clarification on the statement that BWC would use data from previous classifications when making rates. Mr. Glass replied that BWC will use experience of prior classifications until it has enough data to create unique rates for the new codes.

Mr. Hummel asked if Ohio has its own codes for particular industries. Mr. Glass replied that Ohio has separate codes for public employers and a separate code for construction estimators.

Mr. Lehecka asked if all experience is carried forward from prior classifications. Mr. Glass replied that for some classifications, there is a one-to-one transfer, for others BWC is using a weighted average.

Mr. Caldwell asked if BWC contacted unions which provide workers for the changed classifications. Mr. Glass replied that for bakery operations, for example, BWC contacted the Retail Merchants Association. Mr. Pedrick added that the change in codes had no effect on benefits received by injured workers and only impacts the rates employers pay for coverage, so BWC did not include employee representatives such as unions among stakeholders for the change.

Mr. Zuk asked with respect to page 10 where rate for 8037 comes from. Mr. Glass replied most comes from retails stores, 8017.

Mr. Matesich reported that this was a first reading of the rule amendment and that the second reading and vote to approve would occur at the March meeting. Questions on this hand-out may be directed to Mr. Pedrick.

MOTIONS FOR FIRST READING: PRIVATE EMPLOYER DEDUCTIBLE PROGRAM, OHIO ADMINISTRATIVE CODE RULE 4123-17-72

Joy Bush, Actuarial Program Development Director, recommended amendment of Ohio Administrative Code Rule 4123-17-72 regarding the private employer deductible program. During her presentation, she referred to the executive summary "deductible Program Rules Changes" dated February 4, 2011.

Mr. Pedrick stated that deductible programs are one of several proposals brought to the Workers' Compensation Board over the past years for approval and fine tuning of its provisions. Ms. Bush reported that the deductible program was first adopted in 2009 with retention levels of $500 to $10,000 per claim. In 2010, it was expanded to include public employers and to offer large deductible options from $25,000 to $200,000. Today, BWC is requesting authority to deny an aggregate limit with a large deductible if amount of the associated discount would exceed the maximum aggregate stop-loss liability. For example a $2 million premium could lead to $960,000 discount, which is more than the employer's maximum liability of $600,000 with an aggregate stop loss. BWC is also adding and deleting classifications from hazard groups in accordance with the NCCI proposed changes.

Mr. Smith asked how BWC discovered the defects. Ms. Bush replied that they were discovered by internal discussions. There are eight employers currently with large deductible programs and so far their plans are not an issue.

Mr. Matesich reported that the second reading of the rule amendment and possible approval would occur at the March meeting.

DISCUSSION ITEMS

BASE RATE STABILITY ANALYSIS

Mr. Pedrick stated that BWC has looked for several years to improve base rate stability. Jan Lommele, Bob Miccolis, and Dave Heppen, Deloitte Consulting LLP presented a report, "Review of Base Rate Methodology." Mr. Heppen reported that Deloitte had undertaken a review of private employers and public employer taxing district class ratemaking. Deloitte is suggesting changes to the class ratemaking methodology in order to enhance stability and fairness in Ohio's base rates by class. The recommendations focus on two issues – caps and credibility.

The recommendations are separated into two stages: potential changes for the next policy year beginning July 1, 2011; potential changes for policy years beginning July 1, 2012 and later. The items included for the first stage relate to two of the findings from the House Bill 100 Comprehensive Study. The current base rate change is limited in Ohio to plus or minus 30%, which is higher than caps found in most states. For example, under the 30% capped rate, if the current base pure premium is $2.50, it can be raised to only $3.25 even if indicated pure premium is $3.30.

Mr. Smith asked how long the cap has been 30%. Elizabeth Bravender, Actuarial Operations Director, replied that it been 30% for more than twenty years. Mr. Heppen added that for 2009, the cap was applied only to increases.

Mr. Heppen discussed Deloitte's first recommendation to change the cap for the policy year beginning July 1, 2011 to plus/minus 25%. This is the cap commonly used in other states. BWC will apply the cap to class rates after loadings and assessments.

Mr. Matesich asked how the 25% affects individual employers. Mr. Heppen replied that it was applied to employer classes and not individual employers. Mr. Matesich asked if the cap spreads premiums to other employers. Mr. Pedrick confirmed that was true, but only to a small extent. An upper cap requires slightly higher rates to offset the shortfall from the classes in question, while a lower cap works in the opposite direction. Upper and lower caps together tend to bring balance, allowing the class rates that are not being capped to be set at their indicated levels.

Mr. Heppen reported the second major recommendation was to add transparency to the process for determining applying expense and other loadings. There are many components, but transparency was beneficial.

Additional improvements could be implemented for policy years beginning July 1, 2012, Most relate to credibility. BWC should further study adjustments to the procedure for determining the credibility assigned to the class pure premium. BWC should also explore the use of industry information from other states to supplement the base rate analysis for classes that are not fully credible.

Mr. Lehecka asked if BWC would still use claims expenditures as the measure and Mr. Heppen confirmed that they would.

Mr. Miccolis further reported on the impact of the 2010 class rates if a 25% cap had been used. For private employers, 36 classes have experienced decreases of more than 25% and 42 experienced increases of more than 25%. If rates are capped at 25%, then no class fits into either category.

STATE OF OHIO WORKERS' COMPENSATION REPORT

Ms. Bravender delivered the State of Ohio Workers' Compensation Report, using a presentation dated February 22, 2010. The report is based on several years' of BWC research and the NCCI annual State of the Line Report for countrywide developments. BWC information is based on its own data files and Deloitte's research.

The NCCI report shows that workers' compensation premiums continue to show a sharp decline countrywide. The countrywide decline began in 2006 and the overall decline since 1990 is 19%. The countrywide premium decline is due to change in lost costs, premium rate pricing, decrease in payroll and change in industry mix. Ohio data shows an overall 13.8% decline in premium from 2008 to 2009 for all state insurance fund employers. Separately, the private employers' premium decline was 16.53%. Public employer taxing districts was a decline of 4.65%. Public employer state agencies experienced a decline of 5.8%

In comparing Ohio and NCCI history of private employer rates, the rate change for the NCCI is a decline of 17.87% cumulatively from 2006 to 2010. For the same time period, Ohio's premium rate for private employers has declined by 16.53%

There are 2 main drivers of workers' compensation cost. One is claim frequency or the number of allowed claims. The second driver is claim severity measured by the cost of medical and indemnity payments made in a claim. NCCI countrywide data shows increasing severity through increases in both medical and indemnity cost per lost time claim. Ohio is experiencing the same increases in severity as countrywide. The workers' compensation medical inflation is more than general medical inflation and far more that the headline inflation and that is a concern for us as we move to looking at cost for the upcoming policy year.

From 2002 to 2008, indemnity claims costs countrywide increased by an annual rate of 4.0%. For Ohio, the annual change of 6.7%.Mr. Pitts asked if this figure included settlements. Ms. Bravender replied it did for Ohio, but she needed to research on other states.

Regarding frequency, there have been several years of decline in claims per 100,000 workers. Last year, NCCI warned that this declining trend would not continue, however, it did continue and is most likely caused by the most recent recession. As payroll decreases, so do claim counts. The projected claim frequency for Ohio for 2010 indicates an increase of 4.4%. This too causes us concern as payroll has remained relatively flat. As the economy continues to expand, this will also put pressure, increasing claim counts.

To combine all these items, the final slide illustrated wage adjusted payroll in Ohio along with the reported lost-time and medical-only claims. Medical-only claim frequency has declined sharply, indicating an improvement in workplace safety, change in industry mix

to lower hazardous jobs and lower exposure as reported by payroll. Lost-time claims have also declined over time. Lastly, Ms. Bravender stated that greater detailed information is included in the full report that was distributed to the Workers' Compensation Board.

Mr. Matesich asked what the overall conclusion should be given this information. Ms. Bravender replied that claims cost and frequency is of most concern. As the recession ends and the economy expands, BWC could experience greater expense due to the increase in claims incurred. Mr. Pedrick added that Ohio trends are similar to those countrywide. Frequency has been declining for a decade. If the frequency flattens or increases, costs will increase primarily because of the upward trend seen in the severity of claims.

Mr. Stokes asked if medical costs are the only factor. Mr. Pedrick replied it was especially the medical, but also wage increases.

Mr. Pitts asked if medical-only claims were more costly than lost time claims costs. Mr. Pedrick replied there is not an easy answer; medical in lost time claims is more stable than medical-only claims.

Mr. Matesich asked Abe Al-Tarawneh, Superintendent of Safety and Hygiene, to address safety issues that may result from increases in employment. Mr. Al-Tarawneh replied that the Division of Safety and Hygiene has been looking at data for six months for trends. The biggest change is a decline in manufacturing and an increase in knowledge and technology employment.

Mr. Matesich asked about the impact of a perfect storm affecting both premiums and assets. Mr. Pedrick replied that if frequency increases then costs will rise, requiring additional revenue — premiums and investments.

LEGISLATIVE DISCUSSION AND ANALYSIS

There was no discussion of pending legislation.

CAO REPORT

Mr. Pedrick stated that the February CAO Report was basically a summary of the schedule for rate making. Page 3 contains this month's discussion and planned ones for March and April. BWC will start with an overall decision on rates, and then determine base rates by manual classification. State agency rates are computed on a pay-as-you-go basis. March will have a quarterly report on reserves and will begin the process for the annual reserve audit. The bulk of this annual effort will commence when data through March 31 is ready, allowing discussion before the end of the fiscal year. When the June data is available it will be incorporated, allowing us to produce the final reserve figures for the fiscal year.

Mr. Smith requested further explanation of state agency rates. Mr. Pedrick replied state agencies are essentially self-insured. BWC pays claims on their behalf and charges the agencies for those costs. More precisely, BWC estimates the payments for the next year, and then sets a rate for each agency based on expected payments.

Mr. Stokes asked if rates are made in anticipation of interest lost. Mr. Pedrick replied rates are set in anticipation of interest to be earned. Mr. Haffey added that discount rate is what distinguishes BWC from a property and casualty insurance company. Mr. Pedrick added that private insurance does use interest income in setting rates. BWC puts a much greater reliance on investment earnings. Mr. Pitts stated that to put it another way, rates are based on losses and expected interest earnings.

Mr. Pedrick continued by noting upcoming activity regarding the Marine Industry Fund and the Coal Workers' Pneumoconiosis Fund. A report on the Black Lung Fund is on page 4. The rest of the CAO Report shows the timelines and status for various projects and initiatives.

COMMITTEE CALENDAR

Mr. Matesich reported that there would be two action items for the March meeting. He requested that Don Berno, Board Liaison, schedule two hours for the meeting and potentially a separate education session. Mr. Pedrick added that he would incorporate the rest of today's Deloitte report in the education session.

EXECUTIVE SESSION

There was no executive session.

ADJOURNMENT

Mr. Pitts moved to adjourn. Mr. Caldwell seconded and the motion was approved by a roll call vote of six ayes and no nays.

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