BWC BOARD OF DIRECTORS

ACTUARIAL EDUCATION SESSION

WEDNESDAY, MARCH 23, 2011, 3:00 P.M.
WILLIAM GREEN BUILDING
30 WEST SPRING ST.2ND FLOOR (MEZZANINE)
COLUMBUS, Ohio 43215

Members Present:	Steve Lehecka, Chair Jim Matesich, Vice Chair James Hummel Thomas Pitts Nicholas Zuk, ex officio
Members Absent:	David Caldwell
Other Directors Present:	Mark Palmer, Robert Smith, & Dewey Stokes
Counsel Present:	Janyce Katz, Assistant Attorney General
Staff Present:	Steve Buehrer, Administrator John Pedrick, Chief Actuarial Officer Tracy Valentino, Chief, Fiscal & Planning Elizabeth Bravender, Actuarial Operations Director
Consultants Present:	Jan Lommele, Deloitte Consulting, LLC Dave Heppen, Deloitte Consulting, LLC
Scribe:	Larry Rhodebeck, Staff Counsel

CALL TO ORDER
Mr. Lehecka called the meeting to order at 3:00 p.m. and the roll call was taken.

AGENDA
Mr. Lehecka announced that this meeting would constitute an education session on actuarial matters. John Pedrick, Chief Actuarial Officer reported that it would be a high level review of balance sheet concepts, reserve setting, rate setting, and premium equity.

BALANCE SHEET CONCEPTS

Tracy Valentino, Chief, Fiscal & Planning, and Mr. Pedrick reviewed BWC financial statements including the balance sheet and "Statement of net assets – Combining Schedule" from the March, 2011 *Enterprise Report*.

Mr. Matesich asked if the standards of the Government Accounting Standards Board (GASB) will change if the Financial Accounting Standards Board adopts international standards in place of Generally Accepted Accounting Standards (GAAP). Ms. Valentino replied that from her reading and continuing education seminars, she has heard very little will change.

Mr. Zuk asked if the difference between the booked liabilities of $20.4 billion on the Statement of Net Assets and the $32.5 billion in the undiscounted reserve table is permitted by GASB. Ms. Valentino replied that discounting of liabilities is permitted, but not required by GASB Statement 10. Also, discounting is reflected in the Actuarial Standard of Practice #20. A more complete review of the discount rate will be discussed at the Audit Committee meeting of March 24. Mr. Pedrick noted the value of the 4% discount rate is approximately $12 billion.

Mr. Zuk asked how BWC accounted for lump-sum settlements. Mr. Pedrick replied that the settlements are included in the reserve analysis of Deloitte Consulting LLP. Mr. Zuk added that it seemed that lump-sum settlements are underestimated. Mr. Pedrick replied that settlements are difficult to estimate. One reason is that there have been several changes in lump-sum settlement procedures in recent years.

Mr. Pitts added settlements are a thorny issue. Even when the environment is favorable, they can be aggravating. Workers' compensation is not analogous to tort law because workers' compensation provides income replacement. The BWC philosophy has varied greatly in the past twelve to fifteen years.

Mr. Zuk added that as the administrator of a self-insuring program, he tries to settle as many claims as possible. Mr. Pitts replied that is one of the distinctions between self-insurance and claims under the State Insurance Fund.

Mr. Pedrick noted rather than asking "is the BWC over or under reserved", the question should be "is $20 billion in reserves enough to cover future costs including the risk that actual costs will exceed expected costs" due to unknown events such as court decisions, legislative changes and currently unknown liabilities that will surface 20 or 30 years from now – like asbestosis.

Mr. Pitts asked if the liability calculation includes catastrophic events. Mr. Pedrick replied reserves are the best estimate of injuries which have already occurred, but not of future events. The BWC does have catastrophic reinsurance coverage to address some worst case scenarios.

Mr. Stokes asked what is meant by the fifty year projection of liabilities. Mr. Pedrick replied that BWC projects some injuries arising today will result in claim payments as much as fifty years from now. BWC still pays claims with dates of injury during the 1950s. For Black Lung Fund, BWC must estimate future claims for miners who have contracted the disease now but do not know it, as well as retired miners who will develop the disease.

Mr. Stokes asked if changes from coal to green energy and nuclear energy have an effect on reserves. Mr. Pedrick replied that reserves do not reflect future changes in energy sources.

Mr. Smith asked about the differences in standards between BWC and a private carrier that allow the discounting of reserves. Mr. Pedrick replied one difference is that BWC is a government entity with power to obtain funds from every employer. Second, an insurance regulator would shut down an insurer whose reserves fell below a certain minimum threshold. Ms. Valentino added that there are different goals for government entity. GAPP accounting focuses on the entity as a going concern; statutory accounting is more concerned with solvency. BWC would be concerned because statutory accounting would require a complete change of the balance sheet.

Mr. Pitts stated that if BWC were to change accounting methods it would require an increase in premiums. Mr. Pedrick added that premiums are one source of funds and it would be difficult to raise additional premiums. Other sources of revenue would be needed, such as investments.

<u>RESERVE SETTING</u>

Jan Lommele, and Dave Heppen, Deloitte Consulting LLP presented a report, "Reserve Methodology," dated March 23, 2011. They discussed the actuarial process, life cycle of a claim, ultimate loss, the paid loss development method, the paid Bornhuetter-Ferguson method, tail, discount illustration, and historical reserves.

Mr. Zuk asked about MIRA. Mr. Pedrick replied the Micro Insurance Reserve Analysis is the proprietary reserving system that BWC has purchased from Fair Isaac.

Mr. Zuk asked why Deloitte uses data for only the past 32.5 years. Mr. Lommele replied that BWC only has reliable data for that period of time, although it may pay claims for more than fifty years.

Mr. Pitts observed that the description of long-tail of claims does not include those that become entitled to permanent total disability (PTD). Elizabeth Bravender, Actuarial Operations Director, replied that it takes from eight to ten years for a PTD claim to develop.

Mr. Palmer asked of open claims, how many are medical only. Mr. Lommele replied that medical only claims constitute the largest number, but have smallest cost.

Mr. Zuk asked why BWC cannot reserve medical only claims for 2010. Mr. Lommele replied they are reserved. Accounting rules do not allow for reserving of future medical-only claims. Ms. Bravender stated she could review statistics on incurred claims for 2010 and open claims and provide them to the Workers' Compensation Board.

Mr. Lehecka asked what the difference between accident year and calendar year is. Mr. Lommele replied that for the purposes of loss development, accident year is when the accident arises and calendar years are years of payment.

Mr. Matesich asked if anything is done to verify paid development factors. Mr. Lommele replied that Deloitte does that on a quarterly basis.

Mr. Smith observed that payroll decreased during a recession, which leads to less cost in the workplace. Mr. Lommele added that payroll is the best measure of exposure. Mr. Heppen added that BWC must set reserves in anticipation of payroll increases.

Mr. Pitts added that one of the unknown factors in claims expense is Medicare. The Medicare administration claims a right to payment for any medical condition which is allowed in a workers' compensation claim and for which Medicare reimbursement is sought. In the case of a lump-sum settlement, Medicare may refuse to reimburse for a condition where the injured worker has already received payment. Steve Buehrer, BWC Administrator, reported that because of the claim to payment, BWC is seeking a change in Medicare legislation.

RATE SETTING

Ms. Bravender continued with a report on "Rating Concepts" dated March 23, 2011. Of particular importance are the eight steps taken in March through July where BWC adopts new rates for the forthcoming policy year. The Workers' Compensation Board approved two of these steps: the overall rate indication and the base rate.

Mr. Smith asked if rate setting is a judgment issue. Mr. Pedrick replied that BWC uses a great deal of data in rate setting, but judgment is very much involved.

Mr. Zuk asked how $1.55 overall rate reflects the rates of individual industries. Mr. Heppen replied that the Deloitte Report, "Rate-Making Methodology" and the March 24 meeting will focus on overall processes. The base rates are determined later, but derived from the rate indication.

Mr. Zuk asked if safety is reflected in rate setting. Mr. Pedrick replied that safety is reflected in part. But BWC looks at historic data and the effect of safety efforts. Mr. Heppen also added that the experience modification becomes a factor in rate setting.

PREMIUM EQUITY

Mr. Pedrick stated the credibility is the beginning point in understanding premium equity. Credibility is a measure of the statistical reliability of an employer's data in setting a rate for that employer. A large employer with many employees and many claims will have a level of credibility that allows better estimation of and individual rate. A small employer does not develop much statistical credibility. For most workers' compensation rating systems, experience credits and debits produce a slight average credit overall, requiring a small offset such as 1.02 or 1.03. For Ohio, the large credits delivered in the group rating program have historically required a much larger offset. This adjustment was 1.5 for the 2008 policy year. It was reduced to 1.23 for the 2009 policy year due to lowering the maximum credibility factor to 77% and introducing of the break-even factor.

Mr. Stokes asked how far BWC had reduced the maximum credibility factor. Mr. Pedrick replied that it was reduced from 95% in 2005 to 65% in 2010. For the 95,000 employers in group rating, most have an effective credibility of 51% after factoring in the 65% maximum credibility for 2010 policy year and the break-even factors.

ADJOURNMENT

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

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BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

Thursday, March 24, 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, & Dewey Stokes
Counsel Present:	Janyce Katz, Assistant Attorney General
Staff Present:	Steve Buehrer, Administrator John Pedrick, Chief Actuarial Officer 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 Dave Heppen, Deloitte Consulting, LLC Bill Van Dyke, 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. Five members were present and constituted a quorum.

MINUTES OF FEBRUARY 23, 2010

Mr. Matesich moved to adopt the minutes of February 23, 2010. Mr. Pitts seconded and the minutes were adopted by a roll call vote of five ayes and no nays.

AGENDA

Mr. Lehecka moved the "Private Employer Rate Change Recommendation" and "Public Employer State Agency Rate Change" to "Discussion Items."

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

NEW BUSINESS/ACTION ITEMS

MOTION FOR SECOND 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 add 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. Glass reported that since the February 23 meeting of the Actuarial Committee, there had been no additional comments from stakeholders.

Mr. Caldwell and Mr. Stokes entered the meeting at 1:05 p.m.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-17-04 of the Administrative Code, "Classification of Occupations or Industries," to adopt new NCCI classifications. The motion consents to the Administrator amending Rule 4123-17-04 as presented here today. Mr. Pitts seconded and the motion was approved by a roll call vote of six ayes and no nays.

MOTION FOR SECOND 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 March 7, 2011. The amendment is required for two reasons: First, enable BWC to deny an aggregate limit for some employers when the selecting a discount that would exceed the maximum aggregate stop loss. Second, Appendix C is amended to reflect changes in the NCCI classifications as approved by the Actuarial Committee today.

Mr. Zuk asked if any employer has selected an excessive discount. Ms. Bush replied that BWC has looked at all eleven employers in the large deductible program and none has selected an excessive discount. BWC has merely identified a possible problem with the existing rule and proposes the change to avoid a potential future problem.

Mr. Matesich moved that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-17-72 of the Administrative Code, “Deductible Rule,” related to the aggregate stop loss of an employer’s premium in the program. The motion consents to the Administrator amending Rule 4123-17-72 as presented here today. Mr. Hummel seconded and the motion was approved by a roll call vote of six ayes and no nays.

DISCUSSION ITEMS

PRIVATE EMPLOYER RATE CHANGE RECOMMENDATION

John Pedrick, Chief Actuarial Officer, and Jan Lommele, Dave Heppen, and Bill Van Dyke, Deloitte Consulting LLP, presented the “Rate Recommendations for Private Employers,” dated March 14, 2011. The principle report used by Deloitte was the PowerPoint presentation, “Private Employer (PA) Rate Recommendations to be effective July 1, 2011.”

Mr. Heppen reported that Deloitte is recommending a range of rate change recommendations for policy year beginning July 1, 2011. The baseline loss cost scenario recommendation is to raise rates by an overall change of 1.3%. The optimistic loss cost scenario recommends reduction by 5.4%. The conservative loss cost scenario is to raise rates by 7.4%.

This recommendation is distinct from the reserve analysis. The rate recommendation estimates the costs for claims for injuries that occur next year. The chart on page 3 of the PowerPoint presentation shows that frequency has declined since 2000 and this is a trend similar to other states. While the decline has moderated, it is unlikely that claims will rise to the level of 2000 or 2001. This is an example of how the past is used to estimate future cost drivers.

Mr. Caldwell asked if any of the factors such as increased safety or loss of jobs can be separated. Mr. Heppen replied that Deloitte feels any one factor would have slight impact. Mr. Lommele added that NCCI research sees the same downward trend over time, and they believe the trend is due to increased safety rather than the loss of manufacturing jobs or a change in the mix of jobs.

Mr. Zuk asked if NCCI is predicting a downward trend for future years. Mr. Heppen replied that the industry trends are moderating, and in some cases spiking. Mr. Zuk then commented, so the trend is not down for the future. Mr. Pedrick replied that Ohio is measuring a slight uptick. For example, the frequency of injuries for 2010 is greater than 2009.

Mr. Matesich asked if there was analysis as to why the frequency is flattening or increasing. Mr. Pedrick replied that the NCCI and Deloitte are researching, but there is no single reason. This is because the issue is part of larger global questions. One of the prevailing thoughts is that as the economy declines, employment declines particularly for less experience workers, resulting in the retention of experienced, safety-conscious workers. Mr. Van Dyke added that

Deloitte sees similar trends in other states. NCCI will produce a new report in April on this topic.

Mr. Lehecka asked if Deloitte uses a range of trend factors in its research and Mr. Heppen confirmed the use of ranges.

Mr. Matesich urged the Workers' Compensation Board not to miss its focus on broader issues. It is true that the Board is involved in the change of rates and the use of investment revenue to finance workers' compensation obligations. The Board and BWC also need to advise employers on safety and reducing costs.

Mr. Heppen further reported on indemnity severity trends, which show cost trends for 2009 and 2010 slightly decreasing. The indication is for increasing trends but at a lower rate for 2011. Deloitte expects moderation, so is making lower estimates of severity than the NCCI. If the trend is compared to 2006, there is a steady upward trend. Medical severity increases are similar to the rest of industry estimates. Deloitte predicts 6% increase for 2011, which is equal to the estimate from NCCI.

Mr. Pitts asked what the effect of salary continuation is. Mr. Pedrick replied BWC is not noticing a change. Salary continuation is more prevalent among public employers. However, BWC is not seeing changes due to salary continuation in indemnity. That is, BWC cannot point to the data and state claim severity declined because of salary continuation.

Mr. Stokes asked what the driver of medical cost is. Mr. Heppen replied it is a combination of the costs of procedures and utilization. Mr. Pedrick added that this reflects a trend, over the years, of medical inflation in workers' compensation exceeding general medical inflation.

Mr. Smith asked if this is because of the nature of workplace injury. Mr. Pedrick replied that medical inflation costs also driven by new procedures. The consumer price index uses a market basket of goods method which does not respond well to new procedures. Also, utilization is harder to measure. Mr. Lehecka stated that for example an MRI costs more than X-rays.

Mr. Smith stated that in past discussions, Ohio utilization was found to be greater than other states. Mr. Pedrick replied that BWC is starting research on utilization, but has not developed any conclusions yet. Mr. Lommele added that workers' compensation insurers have not bargained down costs to the same effect as other insurers. Workers' compensation is more fragmented. Workers' compensation bargaining occurs, but is less effective than Medicare is for medical expenditure.

Mr. Pitts stated that an MRI is far better as a diagnostic tool than x-rays. He predicted that MRI will replace x-rays. Mr. Lehecka agreed.

Mr. Van Dyke stated that with respect to trends, the increased use of opiates as treatment for pain has been noticed nationally. The State of Washington looked at reducing prescriptions, which led to reduction in accidental deaths. Utilization review also needs to look at surgical procedures.

Mr. Pitts said it is also necessary to look at provider actions. For example, spinal cord stimulators are showing less use.

Mr. Heppen further reported that the page 6 chart is a map of frequency and severity from 1999 to 2010. The bar for 2011 is the range of rate recommendations.

Mr. Zuk asked for the overall premium rate for the optimistic and pessimistic point of recommendations. Mr. Heppen stated that the range is $2.12 for pessimistic and $1.87 optimistic. These are undiscounted rates. Mr. Lommele added that this is similar to the 2006 rates.

Mr. Heppen stated that the loss and MCO cost ratio chart on page 7 is a prediction of losses, depending on choice of the four indications. Mr. Pedrick stated this is an illustration of one year's impact. The BWC *Enterprise Report* covers all years.

Mr. Heppen stated page 8 is the discounted loss ratio. It includes investment assumptions. Mr. Lehecka observed that if the investment result is greater than 4%, net assets will increase.

Mr. Heppen reported that the chart on page 9 shows the effects on the funding ratio of the different rate indications. The range of the funding ratio is 1.25 to 1.27. There is little effect because of the magnitude of dollars carried on the balance sheet. The page 10 slide lists loss cost risk considerations. The more important ones are that estimate loss costs from recent years may be more indicative of future loss costs, even though the experience from recent years is immature. Also, future indemnity claim severity trends may not moderate as assumed.

The significant financial risks listed on page 11 are those that impact the rate decision. BWC's State Insurance Fund has $25 billion of undiscounted liabilities for unpaid claims and claim expenses. Net discounted liabilities total $16 billion. BWC carries $18.5 billion of cash and securities. Approximately $4.4 billion of net assets includes another $1.9 billion of mainly accrued premiums which are collected in arrears.

The overall observations of Deloitte summarized on page 12 are that the funding ratio is at a level that would support the range of rate change indications. The market value of securities has been quite volatile during the financial crisis to the extent that net assets for the State Insurance Fund dropped to $91 million in October 2008 as compared to $4.4 billion today. Finally, the selection of a rate change should consider that the financial strength of the State Insurance Fund, as measured by the Funding Ratio, is quite vulnerable to swings in the market value of securities.

Mr. Smith stated that it appears that BWC is highly leveraged.

Mr. Zuk asked about page 9 and how high or low to set rates in order to affect the funding ratio. Mr. Heppen replied that in isolation one policy year is not material. The funding ratio may be affected with other factors. Mr. Zuk also asked would private insurance see a similar change. Mr. Heppen replied it would.

Mr. Lommele stated that if it were to overstate premiums to build net assets, a private insurer would lose customers. If the insurer understates its premiums, it would lead to too many customers at inadequate prices.

Mr. Lehecka added that a private insurer is more focused on the income statement. Mr. Lommele replied that any cash flow change impacts use of assets to pay claims.

Mr. Smith asked if private insurance does not show different patterns of risk appetite. Mr. Lommele replied that the smaller the insurer, the more adverse it is to risk.

Mr. Caldwell left the meeting at 2:00 p.m.

Mr. Matesich asked if rate stability is a goal. Mr. Pedrick agreed stability is a goal. BWC expects claim cost trends over the next year to increase costs between 5% and 6%. If BWC chooses the baseline recommendation in 2011, premiums could see an uptick in 2012.

Mr. Zuk noted that in reference to pages 8—10 of the main report, it appears that in Ohio severity is more than other states. Mr. Pedrick replied he had been asked about those charts several times. There are many reasons for higher severity. These include different statutes, court decisions, and policies. If the underlying reasons can be identified and addressed, leading to lower costs, then premium rates could be lowered. Mr. Lommele added that the Deloitte report prepared pursuant to HB100 addresses this on claims management.

Mr. Pedrick directed the attention of the Actuarial Committee to the full Deloitte report for the rate indication. BWC is not coming to the Workers' Compensation Board with a recommendation this month because it is looking at several questions such as those raised by Mr. Zuk.

Mr. Stokes stated that severity rate is high, and asked what other states are doing. Mr. Lehecka added that one could look to Indiana and see it has very low rates. Mr. Pedrick replied that is an example of what BWC is looking at. Indiana by statute has much lower benefits. Mr. Lommele stated that there can be organizational differences as well. Some organizations process claims, others manage to achieve outcomes. The Ohio benefit structure is similar to other states. If dollars are higher, there may be other factors. Mr. Van Dyke added the outcome for BWC and its employers may be distinct from the outcomes for injured workers. However, addressing Ohio's higher costs can also mean better outcomes for injured workers.

Mr. Price cautioned the Actuarial Committee against jumping to conclusions. The committee should wait for BWC to come back with a recommendation.

Mr. Lehecka asked if this issue is broader than the mandate of the Actuarial Committee.

Mr. Buehrer stated that these charts summarize what BWC is missing. Employer costs are going through the roof and he is passionate about addressing these. The charts can drive BWC efforts to address costs. It is claims costs which drive rates and investment policy. Claims costs are fundamental.

PUBLIC EMPLOYER STATE AGENCY RATE CHANGE RECOMMENDATION

Mr. Pedrick reported that public employer state agencies include state universities and state university hospitals. State agencies are fundamentally on a "pay-as-you-go" basis. BWC can estimate losses, but not payroll. For example, payroll has just now become available for 2010. If payroll declines, then premium rates rise. Payments on behalf of public employer state agencies are increasing 2% per year. Additional discussion will be brought to the committee at the next month's meeting.

QUARTERLY RESERVE ANALYSIS FOR FINANCIAL REPORTING FOR FISCAL YEAR ENDING JUNE 30, 2011

Mr. Lommele, Mr. Heppen, and Mr. Van Dyke continued with a report on the "Ohio Bureau of Workers' Compensation December 31, 2010 Quarterly Reserve Update: Unpaid Loss and Loss Adjustment Expense of June 30, 2011", dated March 24, 2011.

Mr. Van Dyke stated that the purpose of the update was to assist BWC in determining a liability to be recorded on the June 30, 2011, financial statements to provide for future loss and loss adjustment expense payments associated with all claims occurring through June 30, 2011. The oldest claim on which BWC is paying benefits dates from 1940. Results are used in rating process to determine indicated rate changes for each fund.

The setting of the reserve is an ongoing, annual process. Similar to last year, Deloitte will use data as of March 31, 2011. All actuarial methods and assumptions will be evaluated and presented to the Actuarial Committee in June. Deloitte will prepare a revised annual analysis using data as of June 30. Assumptions are updated based on new data and the final report is presented to the Actuarial Committee in August. The subsequent quarterly update analysis uses data as of September 30. Assumptions are modified, if necessary, and presented to the Actuarial Committee in November.

Mr. Van Dyke reported from page 2 that the Deloitte current, June 30, 2011, discounted unpaid estimate of $20 billion is $20 million lower than the prior estimate at September 30, 2010, for all funds combined. This change is less than 0.1% of discounted reserves. The reserve is based on a discount rate of 4.0%. The current June 30, 2011, undiscounted unpaid estimate of $32.6 billion is $50 million lower than the prior estimate of September 30, 2010, for all funds combined.

There have been no significant changes in methodology, assumptions, or parameters from prior analysis. The change in the Deloitte estimate is driven by changes in data. Specifically, the estimate changes when actual payments varied from expected payments. Better than expected payments continued in the second quarter of fiscal year 2011, driven by fewer claims in recent accident years and fewer lump sum settlements. Deloitte anticipates certain assumptions and parameters will be modified in the Annual March Reserve Study, given the observed developments in the past two quarters. These modifications will likely lead to additional downward development.

The first steps in the actuarial process were covered in the education session of March 23. Additional steps listed on page 4 include separating unpaid loss and loss adjustment expense (LAE) estimates are determined for each of the eight funds. Within the State Insurance Fund, separate estimates are used for the four employer groups and expenses of the Health Partnership Program. Page 5 continues the description of the actuarial process by charting ultimate loss and payroll by fiscal injury year. The light blue bar shows declines, the dark blue bar shows increases.
Deloitte concludes the discounted unpaid loss and LAE was $20.045 billion for the combined funds. The State Insurance Fund component is 79% and the Disabled Workers’ Relief Fund (DWRF) component is 10%. The Deloitte discounted unpaid estimates anticipate $12.5 billion of future income earned on invested funds or collected in premium assessments for unfunded liabilities in order to provide sufficient funds to make all future claim payments associated with claims occurring on June 30, 2011, and prior years. Also, DWRF and the Administrative Cost Fund (ACF) are both pay-as-you-go funds.

Mr. Stokes asked if the premium rate can be reduced where Ohio losses no longer exceeds other states. Mr. Van Dyke replied that the rate indication is for the upcoming year. The reserve is only for past claims. Mr. Heppen added that losses for Ohio claims have been declining over the past ten years. However, Ohio losses have not fallen to the levels of the rest of industry.

Mr. Van Dyke further reported the page 7 charts shows another change in the June 30, 2011, reserve. The unpaid loss and LAE estimates have declined $28 million for the State Insurance Fund estimate. The decline is $30 million for all funds. As a discounted estimate, there is a $20 million decrease in Deloitte's unpaid estimate, primarily driven by a decrease in the State Insurance Fund of $17 million. Page 8 shows the $28 million decline as broken down by employer type, of which 78% is driven by private employers.

Page 9 has a chart with the drivers of change in the June 30, 2011, loss estimate of the State Insurance Fund: The September 30, 2010 analysis showed $15.033 billion as a total reserve for the three employer groups. It decreased by $16 million, to $14.997 billion in the December 31, 2010, analysis. Also, there was a decrease of $6 million in the ultimate losses from a lower projection of 2010 public employer state agency payroll, based on known information through January. January data showed a decline in payroll, whereas March payroll showed an increase due to such things as hiring at university hospitals.

Moreover, there was a decrease of $78 million in the Deloitte ultimate losses from lower than expected payments in the second quarter of fiscal year 2011 of $54 million. In addition, offsetting, the $84 million decrease in the ultimate losses is an increase of $58 million associated with a reduction in the expected full year 2011 fiscal year payments. This is driven by the lower than expected payments of $54 million and the corresponding decrease in the ultimate loss of $84 million. Finally, also offsetting the $84 million decrease is a reduction of $9 million for the discount associated with the decrease in the ultimate losses.

Mr. Van Dyke further reported that the chart on page 10 shows that in the second quarter, incurred losses are $240 million higher than expected due to a change in the permanent total disability (PTD) and death mortality factors. Actual versus expected losses for the three employer groups in the State Insurance Fund show total expected paid losses of $452 million by Deloitte, actual losses of $398 million, yielding a variance of $54 million less. The incurred loss was $452 million in expected losses, $692 million in actual losses and a $240 variance. For fiscal year 2011 to date, incurred losses are $468 million lower than expected. Page 11 shows the two main drivers in the decline in actual versus expected losses. First is medical expense in lost-time claims. Payments were $29 million lower than expected. Second, lump-sum settlements were $21 million lower than expected. This is derived from changes in frequency of lump-sum settlements.

There is little change in the other funds. The page 12 chart shows a current June 30, 2011, discounted unpaid estimate of approximately $4.1 billion for DWRF, the Coal Workers Pneumoconiosis Fund, the Self-Insuring Employers Guaranty Fund, and the ACF combined decreased by only $3 million in the September 30, 2010 evaluation. Page 13 shows that initial payroll indications for the first six months of 2010, exhibit a 3.1% reduction compared to 2009. The June 30, 2011, private employer unpaid loss estimate currently assumes no payroll change in 2010 and 2011 from 2009.

The principal reason for the payroll assumption is the Ohio monthly unemployment rate. According to the Bureau of Labor Statistics, the Ohio unemployment rate rose throughout 2009 and in the first part of 2010. The reduction in the payroll for the first half of 2010 over 2009 is consistent with the monthly increase in the unemployment rate. The Ohio monthly unemployment rate has been declining since April 2010. The unemployment rate reached 11.0% in March 2010 and is now at 9.4% at January 2011. New payroll information will be available at the end of March and used for the next update.

Mr. Van Dyke finally reported that Deloitte prepared an additional report that comprehensively describes its conclusions and observations, "State of Ohio Bureau of Workers' Compensation Unpaid Loss and LAE as of June 30, 2011," dated February 2, 2011. It consists of three volumes of which Volume 1 is the report and summary exhibits.

LEGISLATIVE DISCUSSION AND ANALYSIS

There was no discussion of pending legislation.

CAO REPORT

Mr. Pedrick reported that page one of his *CAO Report* has a summary of all activity of the near future. It can assist the Actuarial Committee in reviewing its calendar.

COMMITTEE CALENDAR

There were no comments or changes to the Actuarial Committee calendar.

EXECUTIVE SESSION

There was no executive session.

ADJOURNMENT

Mr. Pitts moved to adjourn. Mr. Matesich seconded and the meeting was adjourned by Mr. Lehecka after a roll call vote of five ayes and no nays.

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