BWC BOARD OF DIRECTORS

ACTUARIAL COMMITTEE

THURSDAY, APRIL 28, 2011, 12:44 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:	John Pedrick, CAO Elizabeth Bravender, Director of Actuarial Operations Terrence Potts, Actuarial, Supervisor of Rates Tom Prunte, Executive Director, Employer Mgt. Services
Consultants Present:	Jan Lommele, Deloitte Consulting LLP Bob Miccolis, Deloitte Consulting LLP
Scribe:	Larry Rhodebeck, Staff Counsel

CALL TO ORDER

Mr. Lehecka called the meeting to order at 12:44 p.m. and the roll call was taken.

MINUTES OF MARCH 23, 2010

Mr. Matesich moved to approve the minutes of the actuarial education session of March 24, 2010. Mr. Pitts seconded and the motion was approved by a roll call vote of six ayes and no nays.

MINUTES OF MARCH 24, 2010

Mr. Matesich moved to approve the minutes of the regular Actuarial Committee meeting of March 24, 2010. Mr. Hummel seconded and the motion was approved by a roll call vote of six ayes and no nays.

AGENDA

Mr. Lehecka reported that the agenda consisted mostly of first readings of BWC rate recommendations for the policy year beginning July 1, 2011.
Mr. Matesich moved to adopt the agenda as proposed. Mr. Pitts seconded and the motion was approved by a roll call vote of six ayes and no nays.

Mr. Caldwell left the meeting at 12:50 p.m.

NEW BUSINESS/ACTION ITEMS

MOTIONS FOR SECOND READING

There were no items for a second reading.

MOTIONS FOR FIRST READING: PRIVATE EMPLOYER RATE CHANGE RECOMMENDATION, BASE RATES, AND EXPECTED LOSS RATES, OHIO ADMINISTRATIVE CODE RULES 4123-17-05 & 4123-17-06

John Pedrick, Chief Actuarial Officer first reported that Jan Lommele was retiring from Deloitte and that today was his last meeting. The Deloitte team will be lead hereafter by Bob Miccolis and Dave Heppen. Mr. Lommele added that it was a great pleasure to serve BWC, the Actuarial Committee, and the Workers' Compensation Board.;

Mr. Pedrick; Terrence Potts, Actuarial Supervisor of Rates; Mr. Lommele and Mr. Miccolis, Deloitte Consulting, LLP, recommended an overall reduction in rates for policy year 2011 for private employers. The recommended reduction is an average of 4% over rates for policy year 2010. The presentation includes reference to the Deloitte report "Rate Recommendations for Private Employers," of March 14, 2011, and the BWC Executive Summary, "Private Employer Industry Group and Limited Loss Ratio Tables," of April 28, 2011, with the amended Ohio Administrative Code Rules.

Mr. Pedrick reported that at the March meeting, BWC had presented an overall rate indication of an increase 1.3% as the baseline increase, a 5.4% decrease as the reasonable expectation – optimistic, and 7.4% increase as the reasonable expectation – conservative. Based on that range, Administrator Steve Buehrer has recommended a 4% decrease.

Mr. Pedrick further reported that for the 2010 policy year, the Workers' Compensation Board approved a maximum credibility of 65% and a table of group break-even factors to reduce the maximum group rating discount to 51%. The Workers' Compensation Board also approved continuing these limits for the 2011 policy year. The 4% average reduction applies to all employers, regardless of whether or not they are group-rated.

Some classifications will see increases in rates, some will see reductions, and some will see no change. Some of the proposals on rate stability from Deloitte were included in the recommendation. For example, there is a 25% cap on both increases and reductions in base rates that will be applied in a symmetrical manner. Thus, the 4% overall decrease results in a maximum base rate increase of 21% and maximum base rate decrease of 29%. Page 3 of the executive summary has the industry group table of rate changes. The 4% reduction anticipates investment income sufficient to supplement premium in order to pay the cost of claims.

Mr. Matesich asked if the rate reduction included the Investment Committee presentation on a proposal to add real estate as a fixed income investment. Mr. Pedrick replied that he did not incorporate that proposal into the rate recommendation. Rather, BWC looked at the fiscal year 2010 financial statements and extrapolated that income from the current portfolio. Moreover the 4% reduction is expected to have a neutral impact to net assets, apart from possible capital gains.

Mr. Pedrick further reported that the second reason for not changing the structural elements of rates is to create stability for employers. BWC will be able to evaluate the effect of the current rating structure for groups at several points during the second year when data is available.
The proposal was completed on April 27. There will be more detail available to the Board before the May meeting.

Mr. Smith asked if Mr. Pedrick could report that 2011 results for the group program showed improvement. Mr. Pedrick replied he could not report on the current policy year at this time, but that measures of the previous year showed an improved relationship between loss ratios for group and non-group. After September 2011, BWC will have more data to measure group rating performance under the new structure.

Mr. Smith asked if the goal is to achieve 0% loss ratio differential. Mr. Pedrick stated the goal is to make rates equitable, but that no performance metric has been identified in this goal.

Mr. Smith stated that one goal of Administrator Buehrer is to shorten the tail of Ohio claims. How would shortening the claims tail affect rates? Mr. Pedrick replied that reductions of costs will be used in future rate recommendations, but any change must reflect long-term changes.

Mr. Matesich noted that Deloitte had recommended a range from a 5.4% decrease to a 7.4% increase and asked why a 4% decrease was selected. Mr. Lommele replied that the 4% was within the reasonable range. No point on the range could be certain on matching costs with premiums. BWC selected 4% on the assumption there would be no change in the core investment assumptions. Mr. Miccolis added that the HB100 Comprehensive Study concluded that for the consulting actuary to merely provide a range of rate changes was not the best way to help BWC select a rate. So Deloitte has recommended that BWC use other factors, such as capital appreciation.

Mr. Smith asked then if net asset size makes 4% reasonable. Mr. Miccolis replied in the affirmative. In response to a question from Mr. Lehecka, the Deloitte consultants affirmed they were comfortable with the recommendation of the Administrator.

Mr. Pitts asked what is meant by reducing the long tail of claims. Mr. Pedrick replied that the Deloitte rate recommendation shows Ohio exhibits high severity in claims, when compared with the rest of the country. However, BWC is not sure of all the factors that would reduce severity. Claims settlement is widely discussed, but that should be one of several approaches and be part of a well-thought-out program. In answering the question of what is driving costs so high, the goals should be returning injured workers to work, with good medical care.

Mr. Smith asked what Deloitte sees other insurers doing. Mr. Lommele replied that other insurers focus on claims that could be long-tail. They must take care not just to instruct claims people to close them down.

Mr. Zuk asked about the effect of expected loss rates on base rates. Mr. Pedrick replied that expected loss rates predict average losses for the experience period, which is the oldest four of the previous five years. The base rate reflects the full costs for all claims.

Mr. Pedrick requested that questions from the Workers' Compensation Board on this issue be directed to Don Berno, Board Liaison, before the next meeting.

MOTIONS FOR FIRST READING: PUBLIC EMPLOYER STATE AGENCY RATE CHANGE RECOMMENDATION, OHIO ADMINISTRATIVE CODE RULE, 4123-17-35

Mr. Pedrick and Mr. Potts recommended amendment of Ohio Administrative Code Rule 4123-17-35 to raise public employer state agency rates by an average of 15%. During the recommendation, reference was made to the PowerPoint presentation, " Public Employer State Agency Contribution to the State Insurance Fund" of April 18, 2011, and the executive summary, " Public Employers State Agency Rate Recommendation" of April 18, 2011. Mr. Pedrick reported that this portion of the State Insurance Fund is a " pay-as-you-go" fund. The chart on page 5 of the PowerPoint shows that the current deficit of the state agency portion is $2.8 million and would grow to $5.6 million if there were no change. The difficulty is in setting rates to reflect all injuries in the past. When agencies had high employment, the agencies had more injuries. As the payroll declines, rates must be increased to cover costs.

Mr. Smith asked how BWC communicates the rate change to agencies. Mr. Pedrick responded this presentation was made to a forum of fiscal officers and workers' compensation administrators. Also, BWC maintains an open door policy for all agencies and provides rate information as early as possible. BWC also has a range of recommendations to change rates. If BWC were to raise the rates by over 30%, then the deficit would be reduced to zero by December 2011. BWC chose to target elimination of the deficit by December 2012 by raising rates by 15.12% in 2011 and 15% more in 2012. The proposal today is only for the first rate change. One year from now the deficit will be measured to determine progress in its elimination.

Mr. Matesich asked what the rate increases were in 2004 and 2005. Mr. Pedrick replied those are included on pages 4 and 5 of the PowerPoint report.

Mr. Smith asked if there has been an attempt to change the law so the agencies are charged costs and not charged a fee based on payroll. Mr. Pedrick replied there has been some discussion and the agencies are open to change. However, the payroll reporting system is set up to compute premiums based on rates and payroll. Mr. Pedrick agreed that a lump-sum payment assessment would be better for budgeting. Mr. Lehecka agreed that a cost-based charge would lead to predictability.

Mr. Pedrick next reported that the rate is set to collect $65 million in premium, which is a small increase.

Mr. Zuk asked how the rate of only 15% can be justified when, as a pay-as-you-go system, it should require a 30% raise. Mr. Pedrick replied that the statue is silent on how to deal with a deficit. When a statute is silent, this enables BWC to exercise discretion to collect sufficient premium.

Mr. Zuk asked Mr. Berno for more information on the legal requirements for funding the state agency portion of the State Insurance Fund.

Mr. Pedrick further reported that agencies are charged for Managed Care Organization fees and these are reflected in the blended rates. BWC will return to the Actuarial Committee in May for approval of the rates and rule.

MOTIONS FOR FIRST READING: MARINE INDUSTRY FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-19

Mr. Pedrick, Mr. Lommele, Mr. Miccolis, and Elizabeth Bravender, Director of Actuarial Operations, recommended amendment of Ohio Administrative Code Rule 4123-17-19 concerning the Marine Insurance Fund. The presentation made reference to the Deloitte PowerPoint report, "Marine Industry Fund (MIF) and Disabled Workers' Relief Fund (DWRF) Rate Recommendations to be Effective July 1, 2011" of April 28, 2011, and the executive summary "Marine Industry Fund (MIF)" released April 15, 2011. Ms. Bravender reported that the MIF is a federal program which requires employers with employees who work on or about navigable waters of the United States to purchase separate workers' compensation insurance. The State of Ohio has been offering the separate coverage since 1980. Currently, there are 70 subscribers and 173 active claims.

Mr. Miccolis reported that page 2 of the Deloitte report showed the indicated range of rate changes. The baseline loss cost scenario is a reduction of 32%; the optimistic loss cost scenario is a reduction of 41%; and the conservative loss cost scenario is reduction of 24%. There is a potential risk of increased MIF losses from HB562, effective January 1, 2009. Costs are expected to increase since injured workers covered under the MIF can no longer choose between filing a claim under the Jones Act or with the state insurance fund. In consideration of this risk and the volatility of past MIF results, the recommended range of rate changes is based on tempering the large indicated rate decreases. HB562 will lead to decreased costs, but it is too early to predict the effect. As shown on page 3, net assets have increased over time, while premiums have held steady, then recently dropped. The biggest concerns are that costs will increase, the failure to achieve a 4% return on invested assets, and other unexpected changes.

Ms. Bravender reported that the amended rule is in the executive summary.

Mr. Zuk asked is there a funding ratio policy for the MIF. Mr. Pedrick replied there is only a funding ratio policy for the State Insurance Fund.

MOTIONS FOR FIRST READING: DISABLED WORKERS' RELIEF FUND AND ADDITIONAL DISABLED WORKERS' RELIEF FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-29

Ms. Bravender recommended amendment of Ohio Administrative Code Rule 4123-17-29 for the DWRF funds. Her recommendation included reference to the Deloitte PowerPoint report used for the MIF presentation and an executive summary "Disabled Workers' Relief Fund (DWRF I)" of April 15, 2011. DWRF is a cost of living supplement for injured workers on permanent total disability (PTD) and is also funded on a pay as you go basis.

As shown on page 3 of the Deloitte report, Mr. Miccolis reported that DWRF I is funded by charging various rates per $100 of payroll of private employers, state agencies, and public employer taxing districts, whereas DWRF II is funded by classes of employers. The financial statements as of June 30, 2010, show total assets including $1.78 billion for future unbilled premiums, net assets of $1 billion. Without the unbilled premium assets, DWRF would have a deficit of over $700 million. Long-term legislative review is recommended to consider potential changes in state law to fund DWRF on an actuarially sound basis, rather than maintaining premiums on a terminal funding basis.

Deloitte recommends no rate changes for any employers. For DWRF II, the indicated rate is 1.6% of base-rated premiums. However, the DWRF II fund holds a cash surplus from its earliest days of operation, so BWC can only charge the minimum. Deloitte is currently conducting a study to determine the risks of terminal funding.

Ms. Bravender also reported that the Administrator is requesting approval of the recommended rates. DWRF I is for PTD claims arising before 1987; DWRF II applies to claims arising after 1986. DWRF I will eventually no longer be needed. DWRF II changed to terminal funding after an opinion from the Ohio Attorney General that it could not build cash reserves.

Mr. Miccolis reported that the size of future liabilities is $2.1 billion reserve, based on existing claims.

Mr. Smith asked what the plan is for DWRF under the HB100 study. Ms. Bravender reported that Deloitte is conducting a study. Mr. Miccolis stated that DWRF will need legislative changes, but the Workers' Compensation Board and BWC can make recommendations. Mr. Pedrick added that DWRF is affected by inflation, which is difficult to reliably predict.

Mr. Stokes asked how BWC would make up the deficit. Mr. Pedrick replied it would be made up with additional assessments. That is the only method now. Mr.

Stokes also asked if new claims will increase the deficit and Mr. Pedrick confirmed that statement. Mr. Pedrick added if the General Assembly changes the law to fully fund, then there is less a burden on future employers.

Mr. Lehecka added that running a deficit would not be allowed for a private insurer.

Mr. Pitts stated that the philosophical basis of DWRF differs from the rest of the insurance world. Most insurance does not permit cost of living adjustments. Also, DWRF only applied to a fraction of PTD recipients.

Mr. Pedrick added that it is very difficult to set a fully funded rate because of the need to predict future inflation. As a result, a significant provision for the risk of higher costs would be necessary.

Mr. Miccolis stated there is no easy solution. DWRF has some of the same issues as Social Security. BWC needs to bring DWRF funding to the forefront each year because of its growing significance. BWC could double the premium to solve the funding problem.

Mr. Stokes observed that when the Social Security Administration reduced benefits, then BWC should have raised DWRF. Mr. Pedrick replied that both SSA and BWC look at the Consumer Price Index, so if there is no change to Social Security, then there is none to DWRF.

Mr. Miccolis stated that some other states have cost of living adjustments; however, they are supported by actuarially sound funds.

Mr. Pitts reported that the combined income for an individual on PTD, and DWRF is about $14,000 per year, which is less than federal poverty guidelines.

MOTIONS FOR FIRST READING: COAL WORKERS' PNEUMOCONIOSIS FUND, OHIO ADMINISTRATIVE CODE RULE 4123-17-20

Ms. Bravender, Mr. Pedrick, Mr. Lommele, and Mr. Miccolis recommended amendment to Ohio Administrative Code Rule 4123-16-20. Reference was made to the Deloitte PowerPoint report, Coal Workers Pneumoconiosis Fund (CWPF) Rate Recommendations to be effective July 1, 2011" of April 28, 2011, and the executive summary "Coal-workers' Pneumoconiosis Fund (CWPF)" of April 18, 2011. Ms. Bravender reported that the program began in 1969 and applies only to injured workers with PTD claims and to death claims. Ohio began offering coverage in 1974. There are 39 employers participating under the Ohio plan, with 13 paying premiums since the moratorium went into effect in 1999. There 383 active claims.

Mr. Miccolis reported that Deloitte is recommending a freeze on current CWPF rates for two years; expanding the premium moratorium to all current subscribing employers; and requiring participation in the CWPF Employee Health Safety Data Program to be eligible for the premium moratorium. The recommendations will eliminate premiums for the one-third of current CWPF employers who pay premiums today. BWC is in need of enhanced data to better identify, monitor, and quantify future CWPF claim costs. Most employers keep this data anyway because of being self-insured or needing it for financial reports.

Page 3 of the Deloitte report contrasts payments and reserves. The average payout of the total reserves is approximately 25 years. However the estimated reserves are subject to volatility due to potential of increased awards as a result of the 2010 federal healthcare reform. Page 5 shows how funding is derived 90% from investments. Page 4 shows nominal reserves of $150 million, whereas discounted reserves are slightly more than $50 million.

The concern created by the Affordable Healthcare legislation is that if a miner has fifteen years employment, it is presumed he has exposure to coal dust. That assumption had been in the law until 1981, and then removed. The United States Department of Labor held a conference in 2010 on the impact of healthcare reform. BWC needs more data. BWC does not need additional premiums, but does need data to project costs.

Mr. Hummel asked if the data is being required for employers subscribing before 1999. Ms. Bravender replied it is, and that there are work groups begin formed by the Department of Labor, Bureau of Mines, and stakeholders to evaluate changes. BWC audits of payroll are enabling BWC to get the data. The mine owners are very cooperative.

Mr. Smith stated that he preferred to get data before making program changes. He asked how many employees are affected by this data requirement. Ms. Bravender replied BWC did not know.

Mr. Price asked if BWC had the authority to demand mine employment data. Ms. Bravender replied that if the rule is approved, there will be eight months before the next premium is due. That will create a financial incentive to report.

MOTIONS FOR FIRST READING: PROGRAM COMPATIBILITY, OHIO ADMINISTRATIVE CODE RULE 4123-17-74

Tom Prunte, Executive Director of Employer Management Services, offered amendment of Ohio Administrative Code Rule 4123-17-74 to effectuate the Administrator's proposal to include group rated employers in the Safety Council incentive program. The presentation included reference to the executive summary, “Employer Program Compatibility” of April 13, 2011. Group rated employers will be entitled to a 2% rebate if they qualify and achieve the performance requirements in the program by reducing frequency and severity for. Appendix C of the rule shows the amendment. BWC will report on stakeholder feedback further at the second reading of the rule. BWC will also be undertaking a review of compatibility as it impacts all programs to consider possible further revisions of the compatibility rule in coming months.

DISCUSSION ITEMS

LEGISLATIVE DISCUSSION AND ANALYSIS

The Actuarial Committee did not conduct a review of legislation.

CAO REPORT

Mr. Pedrick reported that his report this month is shorter than normal and consists chiefly of a calendar of discussions and votes.
Of chief interest is the retirement of Jan Lommele of Deloitte Consulting.

He also reported the decision to delay the implementation of the split experience rating by one year. As the new methodology was being planned, BWC expected to have conducted significant outreach by this time. However, the analysis to determine appropriate parameters has taken longer than expected. As a result, the original plan of one beta year starting in the summer of 2011, followed by implementation on July 1, 2012, is being extended to two beta years and implementation on July 1, 2013. This will give sufficient time for internal training and analysis during the first beta year and for outreach with all stakeholders during the second beta year. He said it is more important to get it right than to put it in place quickly.

COMMITTEE CALENDAR

Mr. Lehecka stated that the Committee Calendar was covered in the CAO report. Mr. Zuk asked if split-experience items should be removed from the Committee Calendar and Mr. Pedrick affirmed.

EXECUTIVE SESSION

There was no executive session for a litigation update.

ADJOURNMENT

Mr. Matesich moved to adjourn. Mr. Hummel seconded and Mr. Lehecka adjourned the meeting at 2:35 p.m. after a unanimous roll call vote.

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