

**WORKERS' COMPENSATION  
BOARD OF DIRECTORS**

**ACTUARIAL COMMITTEE**

**WEDNESDAY, SEPTEMBER 26, 2007, 2:00 P.M.  
WILLIAM GREEN BUILDING  
THE NEIL SCHULTZ CONFERENCE CENTER  
30 WEST SPRING ST., 2<sup>nd</sup> FLOOR (MEZZANINE)  
COLUMBUS, OHIO 43215**

Members Present: Charles Bryan, Chairman  
James Hummel  
Jim Matesich

Other Board Members Present:  
Bill Lohta  
Alison Falls  
Philip Fulton  
Larry Price  
Robert Smith

Members Absent: None

**CALL TO ORDER**

Mr. Bryan called the meeting to order at 2 P. M. and the roll call was taken.

**MINUTES OF AUGUST 24, 2007**

Mr. Matesich moved that the minutes of August 24, 2007, be approved. Mr. Hummel seconded and the minutes were approved by a unanimous roll call vote.

**NEW BUSINESS/ACTION ITEMS**

**ACTUARIAL COMMITTEE CHARTER**

Mr. Bryan recommended adoption of the Actuarial Committee Charter as distributed with the meeting materials, with these three changes:

- Under paragraph 1 of “Authority,” the Actuarial Committee shall, “Consult in the appointment of and oversee the work of *any* independent actuarial firm engaged by BWC . . . .”
- Under “Meetings,” “By majority vote the Committee *will recommend to the Board of Directors* their meeting schedule and how often they will report to the Board.”
- Under “Responsibilities,” a new paragraph 4 is added: “Coordinate with Investment and Audit Committees on issues of common interest.” The following two paragraphs are renumbered.

John Pedrick, Chief Actuarial Officer, also requested the striking of the following words in the second paragraph of “Composition”: “and within a year of appointment ... financially literate.”

Mr. Hummel moved that the Actuarial Committee Charter be adopted as amended. Mr. Matesich seconded and the motion was approved by unanimous voice vote.

## **RULE-MAKING PROCESS**

Tom Sico, Assistant General Counsel, conducted a presentation on the rule-making process.

## **RATE RECOMMENDATION FOR PUBLIC EMPLOYER TAXING DISTRICTS**

Mr. Pedrick presented the rate recommendation for Public Employer Taxing Districts. BWC recommends no change in the overall level of rates for the payroll reporting period January 1, 2008, to December 31, 2008. After approval by the Workers' Compensation Board, BWC staff will prepare new rates for each manual and each employer and present the amended rate rule for approval at the November meetings. Rates will vary by classification and industry group, with an overall average of zero.

Mr. Bryan requested that in the future the rate recommendation and calculation of employer rates be presented to the Workers' Compensation Board simultaneously in order to view the impact on employers. Mr. Pedrick replied that BWC has historically presented both recommendations at different months and, at present, the data collection requires separate presentation. In the future, BWC will try to accommodate that request.

Mr. Pedrick further reported that the recommendation applies to 3,800 employers. BWC will collect the premium in May and September 2009. Each employer will receive a letter with its new rate. Oliver Wyman Actuarial Consulting, Inc., supplied a recommendation using two different interest rate assumptions (4% and 5%) and three ranges of assumptions (optimistic, baseline, and conservative).

Mr. Matesich asked who determines the interest rate for the discount rate. Mr. Pedrick replied that it is the Chief Investment Officer, Chief Financial Office, the Administrator, and himself.

Mr. Pedrick reviewed the Oliver Wyman report, the range of premium rates, and the components of the rates, including the fee for the Health Partnership Program (HPP). BWC had requested a calculation based on two interest rates because prior years' rates had no contingency margin for catastrophic events which could be reasonably anticipated. Mr. Bryan asked if a contingency margin had been included in the past. Liz Bravender, Actuarial Director, replied that rates had been computed with margins about ten years ago.

Mr. Bryan asked what the history of discount interest rates was. Jeffery Scott, Oliver Wyman, replied that it was 7% in the early 1990s and had dropped gradually since then.

Mr. Matesich requested prior rate recommendation ranges for a period of ten years.

Mr. Bryan asked if the final rule is unsatisfactory to the Workers' Compensation Board, can it be changed. Mr. Pedrick replied that if submitted in October, there would be adequate time to recalculate new rates for the November meeting and still meet the deadline for the rate change.

Mr. Bryan asked for a motion that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve WCBOD Resolution 07-03 relating to the Public Employer Taxing District employer premium rates effective January 1, 2008. The resolution consents to the Administrator fixing Public Employer Taxing District employer rates to achieve an overall change of zero percent in the total collectible premium from the previous year, and consents to the Administrator preparing rate rules consistent with this policy. Mr. Hummel moved to adopt the recommendation, Mr. Matesich seconded, and the motion was passed by unanimous roll call vote.

## **ANNUITY TABLE**

Mr. Pedrick recommended changes to the annuity tables to reflect a change in the discount rate from 5.25% to 5%. The recommendation makes the tables consistent with the rate used in the financial statements and premium rate calculations.

Mr. Bryan asked if BWC has a report that correlates the balance sheet rate with the annuity tables. Ms. Bravender replied that Oliver Wyman has prepared one and it will be distributed to the Actuarial Committee.

Ms. Falls asked if the discount rate was approved by the Workers' Compensation Oversight Commission. Mr. Pedrick replied it was not approved by the Oversight Commission. Mr. Bryan stated that the discount rate is an issue for discussion between the Actuarial Committee and Investment Committee. Mr. Pedrick added that it has been BWC policy to use a consistent rate for all of its reports and calculations.

Mr. Bryan asked what would be the effect if the Workers' Compensation Board did not approve the annuity table change. Mr. Pedrick stated that then the reserves for individual claims will be more optimistic than those calculated for the financial statements.

Mr. Matesich asked what would be the consequences if the Actuarial Committee tables the recommendation to await a discussion with the Investment Committee. Ms. Bravender replied that BWC needs to target the December 31 implementation date. BWC will need two months to meet the date.

Mr. Bryan asked for a motion that the Actuarial Committee recommend that the Bureau of Workers' Compensation Board of Directors approve WCBOD Resolution 07-04 relating to the adoption of a rule amending the Bureau's Annuity Tables using a five percent discount factor. The resolution consents to the Administrator adopting Rule 4123-17-60 of the Administrative Code as presented today. Mr. Matesich so moved, Mr. Hummel seconded, and the resolution was approved by unanimous roll call vote.

## **DISCUSSION ITEMS**

### **PRIORITIZE ACTIONS FOR FUTURE COMMITTEE MEETINGS**

Mr. Bryan reported that the Actuarial Committee will use the October meeting to prioritize the ten items listed in the meeting materials as discussion issues.

### **MEDICAL COST INCREASES**

Robert Coury, Chief Medical Services and Compliance, and Greg Jewell, Medical Director, reported on medical cost trends. Dr. Jewell reported that provider costs dropped significantly after BWC adopted a Medicare "cost-to-charge" model of reimbursement in 2005.

Mr. Hummel asked for comments on the audit by BWC Internal Audit Division of ACS, the Pharmacy Benefits Manager. Mr. Coury reported that BWC had found twenty-five deficiencies. The Medical Management Division is finalizing its response to the audit report.

Mr. Hummel asked for a break-down of provider utilization by types of services.

Mr. Bryan asked how the medical cost trends impact premium rates. Mr. Pedrick replied that the United States workers' compensation medical inflation rate is 9% and BWC uses that in its calculations. This rate is twice that of the medical inflation rate of the Consumer Price Index. A decrease in medical payments over time will create a downward trend in the rate assumptions.

Mr. Coury reviewed the cost containment strategy of Marsha Ryan, BWC Administrator.

## **UPDATE ON MIRA II**

Mr. Pedrick reported on the adoption of MIRA II as the new reserving system. The data used in MIRA currently is from ten to twenty years old. For example, it contains nothing on HPP. BWC has issued a Request for Proposal for a new system and has a contract from the MIRA vendor, Fair Isaac Corporation. HB 100 requires additional duties from BWC on operating a reserving system and is required to have a new one in place by July 1, 2008. BWC recently conducted a forum for stakeholders. Mr. Hummel asked what the feed-back was. Mr. Pedrick reported there was a lot, mostly about disclosure on calculation of the reserves. Mr. Hummel asked if MIRA II will get updates. Mr. Pedrick replied that MIRA II will get quarterly updates.

## **RESPONSE TO INSPECTOR GENERAL REPORT IN RE: MANUAL OVERRIDE**

Mr. Pedrick reported that the Legal Division report on the response to the Inspector General's report was being made to the Audit Committee.

## **ADJOURNMENT**

There was a motion by Mr. Matesich, second by Mr. Hummel, and adjournment by Mr. Bryan.

Prepared by: Larry Rhodebeck, Staff Counsel  
H:\Word\ldr\WCB Actrl 0907.doc  
September 28, 2007