

BWC's rate reform



**Bureau of Workers'
Compensation**

Governor Ted Strickland
Administrator Marsha P. Ryan

"BWC is on a planned, direct course to ensure every Ohio employer pays premiums that are commensurate with the level of risk they bring to the workers' compensation system."

~ *BWC Administrator*
Marsha P. Ryan

Looking back: Why rate reform was necessary

The need for rate reform was apparent in the premium imbalance among employers in the same manual classification. This created an unpredictable situation with unstable premium fluctuations from one year to the next, making it difficult for many employers to plan for their workers' compensation costs.

Additionally, nine independent reviews by prominent insurance and financial consultants all pointed to actuarial problems with BWC's past rate-making practices. The problems impacted employers and hurt the prospects of attracting new business to Ohio.

With this in mind, the 127th General Assembly passed House Bill 100 (HB 100) to reform Ohio's workers' compensation system. The bill called for the creation of a new board of directors, implementation of an accurate, transparent individual claim reserving system and a comprehensive study of Ohio's workers' compensation system.

When the new BWC Board of Directors began its work in August 2007, BWC launched its rate-reform initiative to bring more equity and actuarial soundness to the rates you and your fellow employers pay for workers' compensation in Ohio.

Goals

- 1 Maintain stable, equitable and actuarially sound rates for Ohio employers
- 2 Achieve fiscally sound base rates at the lowest levels for all manual classifications
- 3 Offer rating programs that encourage workplace safety and allow employers to achieve lower workers' compensation costs
- 4 Create an attractive environment for future business investment



Results

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A stable, fair system

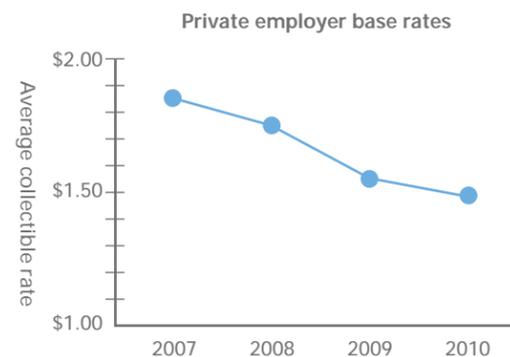
The main goal of our rate-reform initiative is to incorporate the best practices of the insurance industry into Ohio's workers' compensation system. This includes adopting sound actuarial methods for rate setting and implementing programs widely available in other states and in other types of insurance.

These rate-reform efforts are proving successful. Ohio employers now see more stable rates and predictable premiums. We have lowered the maximum discount for group-rated employers to be more in line with the costs they bring to the system, dropping from 90 percent in 2007 to 51 percent in 2010.

Other benefits of rate reform include:

- o More than half of Ohio's private employers sharing a premium reduction of \$139 million from policy year 2008 to 2009;
- o New rating programs are available to help employers achieve lower costs and to encourage safety for Ohio's work force.

Thanks to rate reform, Ohio's employers are seeing rates that are stable, fair and — in many cases — lower than they've been in years past.



This rate does not include the administrative cost fund or DWRF assessment.

Lowest base rates in 20 years

Three years of rate-reform efforts have dropped Ohio's workers' compensation average base rates to their lowest level in 20 years.

For the 2009 policy year, private employers saw a steep, 12-percent overall premium reduction. This was the result of base rate cuts in 433, or 83 percent, of Ohio's manual classifications. Effective July 1, 2010, the overall premium rate for Ohio's private employers will be an additional 3.9-percent lower, representing a reduction in 396, or 75 percent, of the manual classes. Since July 1, 2007, we have lowered average base rates by 35 percent for the majority of Ohio's private employers.

Industry group	Name	% change*
1	Agriculture	-16
2	Extraction	-16
3	Manufacturing	-17
4	Construction	-15
5	Transportation	-13
6	Utility	-6
7	Commercial	-12
8	Service	-19
9	High-risk commercial/service	-13
10	Office work/miscellaneous	-22

* Since 2008 policy year

Analysis by BWC's Actuarial Division reveals this decline in rates has carried over to the industry level as well. We categorize all manual classifications into 10 industry groups, covering everything from agriculture and manufacturing to transportation and office work. Since policy year 2008, the data reveals a significant decline in the average collectible rate for all 10 industry groups used in Ohio.

Flexibility for employers

As part of our rate-reform efforts, we have unveiled new, insurance industry-standard programs intended to help employers reduce costs by getting more involved with safety in the workplace.

Our **Small and Large Deductible Programs** give employers the opportunity to lower their workers' compensation premiums in exchange for paying a deductible. The **Group-Retrospective-Rating Program** offers employers the opportunity to have their premium adjusted after the policy year ends, based on their performance in controlling the frequency of injuries and managing claims for injuries that did occur.

We have also introduced our new **Drug-Free Safety Program (DFSP)** to promote the health of Ohio's work force by addressing and preventing substance abuse in the workplace. The DFSP is easy to understand and implement, has actuarially sound discounts, and offers improved evaluation tools to maintain effectiveness.

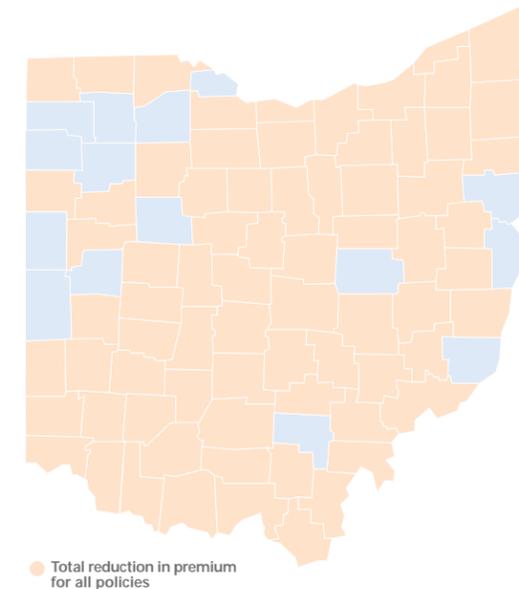
These new programs and others like them allow employers to tailor a workers' compensation program that meets their needs, potentially saves them money and promotes safe workplaces.

Making Ohio more competitive

Our successful reduction in base rates is making Ohio more competitive for new business investment, and now serves as an incentive to attract new employers and jobs to our state. When we compared Ohio to 42 other states, our data revealed Ohio's rates have gone from the nation's third highest in 2007 to 20th in 2010.

At the state level, employers in 73 of Ohio's 88 counties experienced a net reduction in total premium, with the majority of the largest state-fund employers seeing a premium decrease in policy year 2009.

In short, rate reform has already benefitted employers in almost every corner of Ohio.



Net premium change for private employers from 2008 to 2009 policy years. Based on 2008 payroll.

Looking ahead:

Beyond rate reform

When our rate-reform efforts began in 2007, the main goal was to bring common sense and insurance best practices to BWC's programs and the rates employers pay. Since then, we have taken great strides in making Ohio's premium rates more competitive, accurate and equitable. Now, with the foundation set by rate reform, it's time to look to future improvements.

In the coming year, you will hear more about our transition to the **Split-Experience-Rating Plan**, or "split plan." The split plan is a standard used in 38 states that places more emphasis on claim frequency than claim severity when calculating an employer's premium rates.

We will launch the split plan in July 2011. It will not affect your rates that year but will run as a "beta" version, giving us — and you — time and information to determine how this new method will affect your workers' compensation costs. It will be put into full production and affect your rates beginning July 1, 2012. We believe the split plan will offer a more reliable and stable calculation of your risk and your premium.

The goal with the split plan, as it was with our rate-reform efforts, is to help Ohio employers — the ones that are here now, and those who will be here in the future.

To receive future BWC announcements electronically, e-mail your request to BWCe-communications@bwc.state.oh.us.