TO: Ohio's Self-Insuring Employers

The Bureau of Workers' Compensation (BWC) has been working with the self- insured community over the last year to design changes for determining amounts required to secure the obligations of the Self-Insuring Employers' Guaranty Fund (SIEGF). It is anticipated that these changes will affect some employers' security requirements beginning early in the Spring of 2011. This memorandum provides a general overview of the changes. BWC will participate in self-insured association meetings around the state to present the changes in more detail and to answer questions that employers might have. However, and as you will see, the basic structure for securing the obligations of SIEGF will not be changed.

SI Employer Contributions

BWC regulations require that SIEGF be funded at a level of at least 125 percent of the amount paid from the fund in defaulted claims during the immediately preceding year. The funding is exclusively from assessments paid by all self-insuring employers including additional assessments paid by high-risk employers. The new method for securing the obligations of SIEGF will not change the amount of the balance that is required to be maintained in the fund nor will it change the method of maintaining that balance through employer assessments.

High-Risk Assessment

Employers who are designated as high-risk employers are currently assessed a six percent penalty. While the financial tool or method used to identify those high-risk employers may change, the six percent assessment for such high-risk employers will not change.

Protests and Adjudication

Employers who are dissatisfied with a decision or order of the Self-Insured Department with regard to security requirements, SI renewals, the granting of applications for self-insurance, or like issues, may appeal the determination of the Department to the Self-Insured Review Panel (SIRP). Appeals from the decisions of SIRP may be taken to the administrator's designee The new method of securing the Fund will not change the right to challenge such administrative determinations nor will it change the method of appeal.

Identification of Employers Who Present a Risk of Default

Self-insuring employers who present a risk of default are required to provide letters of credit. The Altman Z-Score has been the principal financial tool used to predict the risk of an employer defaulting on its obligations. The Altman Z-Score has proven to not be as reliable a predictor as other methods. BWC will be using financial analytics tools from Moody's that will be used to identify employers who present a risk of default. There will be no essential change in concept: BWC will identify those employers who present a risk of default and will require those employers to provide security to protect SIEGF. BWC will simply use a more effective financial tool to identify those employers.

Security

Employers who have been asked to provide letters of credit as security have provided such letters of credit in accordance with a formula using a multiple of the prior year's payments of compensation and benefits as reported on the SI-40. That formula provided that the amount of the letter of credit would be the sum of: four times permanent total and death benefits paid; two times all other forms of compensation paid; and one and one-half times medical benefits paid. BWC believes that the amount reached using that formula may not accurately reflect the overall liability that an employer would present to SIEGF in the event of a default. The newly adopted method will still require letters of credit from those employers who are identified as presenting a risk of default. However, the amount of the letter of credit required will be based on the amount of the employer's self-reported reserves (subject to review by the BWC) and not on the amount of compensation and benefits paid over the last year. The amount of the letter of credit will vary with the degree of credit risk as determined using the Moody's Analytics tool and the degree of claims risk based on the size of employer's reserves. (See profile matrix below)

New Applications/Renewal Procedures

Employers will be notified in early January of their obligation to complete the SI-40 no later than February 28, 2011 on the BWC website. If your renewal date falls in the January and February timeframes, BWC will be providing temporary certificates to avoid any disruption to your self-insured status while we review your updated financials, paid compensation, and reserves as contained in the newly filed SI-40. Beginning in March 2011, and throughout the year, BWC will be applying the new methodology as renewals and new applications occur and working with self-insured entities to ensure a smooth transition to the new process.

SI Risk Profile Matrix

Effective January 2011

CREDIT RISK

CLAIMS RISK

Size Bucket	Reserve Minimum	LOC Size Factor		Moody's EDF Rating / LOC Rating Factor: A3 or Higher 0%	Baa1 0%	Baa2 0%	Baa3 25%	Ba1 50%	Ba2 75%	Ba3 100%	B1 or Lower 100%
10	$ 12,000,000	100%	LOC % of Reserve	0%	0%	0%	25%	50%	75%	100%	100%
9	$ 7,300,000	90%	LOC % of Reserve	0%	0%	0%	23%	45%	68%	100%	100%
8	$ 4,500,000	80%	LOC % of Reserve	0%	0%	0%	20%	40%	60%	100%	100%
7	$ 3,000,000	70%	LOC % of Reserve	0%	0%	0%	18%	35%	53%	100%	100%
6	$ 1,920,000	60%	LOC % of Reserve	0%	0%	0%	15%	30%	45%	100%	100%
5	$ 930,000	50%	LOC % of Reserve	0%	0%	0%	13%	25%	38%	100%	100%
4	$ 398,000	40%	LOC % of Reserve	0%	0%	0%	10%	20%	30%	100%	100%
3	$ 160,000	30%	LOC % of Reserve	0%	0%	0%	0%	0%	23%	100%	100%
2	$ 44,000	0%	LOC % of Reserve	0%	0%	0%	0%	0%	0%	0%	0%
1	$ -	0%	LOC % of Reserve	0%	0%	0%	0%	0%	0%	0%	0%

Risk profile of individual employers based on:

- **Claims Risk – Based on Reported Reserves (Trust and Verify)**
- **Credit Risk – Based on Moody's Expected Default Frequency (EDF)**

Highlighted areas represent profiles that exceed risk tolerance of SI Stakeholders
Minimum LOC $50,000 below that SIEGF assumes risk

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Example 1
Reserves are $1,000,000 and I have a Moody' rating of Baa2 (bucket 5). No LOC would be required.

Example 2
Reserves are $400,000 and I have a Moody's rating of Baa3 (bucket 4). My LOC requirement is $40,000 (400,000 x 10%) which is below $50,000 minimum. No LOC would be required.

Example 3
Reserves are $2,000,000 and I have a Moody's rating of Ba2 (bucket 6). My LOC requirement is $900,000 (2,000,000 x 45%).