

Self-Insurance Quarterly Workshop

September 20, 2017

**Governor's Hill/ Cincinnati Service
Office**



Agenda

- Self-Insured Financial review
- Self Insured Assessment rates for 2017-2018
- OAC 4123-6-01.1
- Miscellaneous



Self-Insured Financial Review

- ORC 4123.35 (B)
- New Application
- Annual Renewal
- Private and Public Employers



Financial Ability

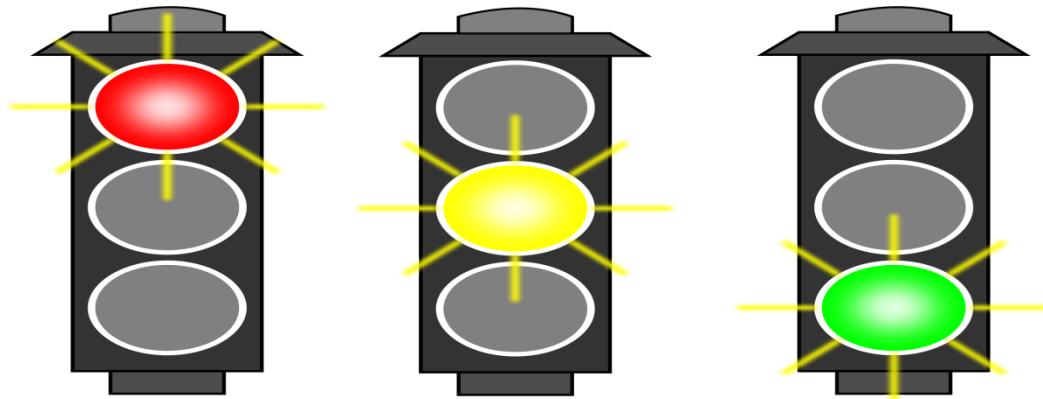
- ORC 4123-35 (B)
- SI employer must have sufficient ability to pay compensation and medical payments for their injured workers
- Must display sufficient financial and administrative ability to promptly meet all obligations for the workers' compensation program



Financial Underwriting Department

Self Insurance

Financial Renewal Review Process





What are our Underwriting Risks?

- Default Risk
 - Self-Insured Employer Stops Paying Claims
 - BWC takes over payment- funded through Surplus Fund and Self-Insured Guaranty Fund.
 - SI Assessments based on exposure to the funds



What are our Underwriting Risks?

- Claims Risk
 - Ultimate liability remaining after default.
 - How many claims remain within the statute of limitations
(May or may not be active)
 - Incurred But Not Reported



How is Default Risk rated?

Based off of Moody's Bond Rating System

| <u>Moody's Rating</u> | <u>Credit Risk Description</u> |
|-----------------------|------------------------------------|
| Aaa | Prime |
| Aa | High Grade |
| A | Upper Medium |
| Baa | Lower Medium |
| Ba | Non-Investment Grade – Speculative |
| B | Highly – Speculative |
| Caa1 | Substantial Risk |
| Caa2 and below | In Default |



SI Default Rating System

Default Risk Description

Low Risk

SI Rating

Aaa

Aa

A

Baa1

Baa2



SI Default Rating System

Default Risk Description

Medium Risk

SI Rating

Baa3

Ba1

Ba2



SI Default Rating System

Default Risk Description

High Risk

SI Rating

Ba3

B1

B2

B3

Caa1 and below



Resources used to Assess SI Default Risk

- Employer Financial Analysis Tools from ***Moody's Analytics, Inc***
 - RiskCalc™ - Privately-held Firms, Not-for-Profits, Other (604)
 - Credit Edge® - Publicly Held Firms (516)



Resources used to Assess SI Default Risk

- Investor Bond Ratings and Other
 - Moody's Investors Services (459+)
 - S&P Global Ratings (378)
 - A.M. Best, Fitch Ratings



Resources used to Assess SI Default Risk

- Financial Statement Review
 - Audit Opinion
 - Balance Sheet Review
 - Profit & Loss Review
 - Change in Equity/Surplus
 - Notes to the Financial Statements



Resources used to Assess SI Default Risk

- Other Sources
 - Company Website
 - Interim Reporting
 - News Articles
 - Ohio Related
 - Other Events



RiskCalc™ Models

- The Moody's Analytics RiskCalc™ suite is a collection of geographic- or industry-specific models for private firm default risk measurement.
- Combines **financial statement data** with systematic credit measures, equity market information, static and forward-looking dynamic drivers of recovery, and qualitative factors to produce a highly predictive measurement of standalone credit risk.
- Generates probability of default (PD) or **EDF™ (Expected Default Frequency)** credit measures for assessing private firms which is then mapped to an **EDF-implied rating**



RiskCalc™ Model

Credit Measures Generated

| <u>Category</u> | <u>Weight</u> | <u>Ratio</u> |
|------------------|---------------|--|
| Activity | 15% | Inventories to Sales Change in Working Capital over Sales Current Liabilities to Sales |
| Debt Coverage | 13% | EBITDA over Interest Expense |
| Growth | 9% | Sales Growth: $\text{Sales}(t)/\text{Sales}(t-1) - 1$ |
| <i>Leverage</i> | <i>26%</i> | <i>LTD to (LTD plus Net worth)</i> <i>Retained Earnings to Current Liabilities</i> |
| <i>Liquidity</i> | <i>20%</i> | <i>Cash and Marketable Securities to Total Assets</i> |
| Profitability | 11% | ROA/ Net Income to Total Assets Change in ROA |
| Size | 6% | Total Assets |



Credit Edge® Model

- CreditEdge provides **daily** Moody's Analytics **EDF™ (Expected Default Frequency)** credit measures for public companies and financial analysis data from a variety of forward-looking, timely sources to support credit analysis. The EDF is then mapped to an ***EDF-implied rating***.



Credit Edge® Model

Credit Measures Generated:

Public company EDF credit measures are based on collective, real-time intelligence from global markets. **A public firm's probability of default is calculated on three factors: the market value of its assets, its volatility and its current capital structure.** The EDF credit measures capture the credit insight of the equity market, combining it with a detailed picture of each company's capital structure.



Credit Edge® Model

Market Value of Assets - The market's view of the enterprise value of the firm as determined by the firm's equity value, equity volatility, and liability structure. Because the market value of assets is not directly observable, Moody's Analytics employs a proprietary option theoretic model to compute this value, which treats the firm's equity value as a call option on the firm's underlying assets.



Credit Edge® Model

Asset Volatility - A measure of the business risk of the firm. Technically, the **standard deviation** of the annual change in the market value of the assets, as measured against the firm's benchmark group. This volatility is expressed in percentage terms. The higher the asset volatility, the less certain investors are about the market value of the firm, and the more likely the firm's value will fall below its default point.



Credit Edge® Model

- **Market Leverage** - A ratio indicating how much of the market value of the firm's assets is financed by debt—calculated as the default point divided by the market value of assets. The higher the firm's market leverage, everything else equal, the higher the firm's EDF credit measure.



Investor Bond Ratings

- Private independent rating services such as, Moody's Investors Service, Standard & Poor's, and Fitch Ratings Inc. provide analysis of a bond issuer's financial strength, or its' ability to pay a bond's principal and interest in a timely fashion.
- The rating influences interest rates, investment appetite, and bond pricing. The independent rating agencies issue ratings based on future expectations and outlook. These are widely available to the public free of charge.



Investor Bond Ratings

- Individual analysts are generally specialists in the industries which their clients operate and are very well versed on the employers operations. The bond ratings and accompanying narratives provides a valuable source of timely insights on the financial impacts of ongoing operations and other investing activity. ***This is very useful source used in the underwriting process for existing or potential self insured employers.***



Financial Statement Review

- Determine if the financial statements are either audited or reviewed in accordance with generally accepted accounting principals (GAAP)
- Any deviations from GAAP accounting are evaluated to determine if they have a significant impact on the financial statement



Financial Statement Review

- Balance Sheet
- Cash to Total Assets, Credit Facilities
- Receivable for Related Parties
- Goodwill and Intangibles
- Long-term Debt/Leverage Trends
- Retained Earnings/Treasury Stock/Dividends
- Income Statement
- Revenue Trends
- Operating Income/Net Income Trends
- Material Non-operating Items



Financial Statement Compliance Review

- The review of the Notes to the Financial Statements is another key factor in the evaluation process.
- Material items that are pertinent to the risk evaluation are documented in the Financial Underwriting Report. Specific notes that may impact the risk rating include but are not limited to:
 - Credit Facilities, High interest rates, Violation of loan covenants
 - Stockholder/Owner transactions
 - Litigation Contingencies
 - Mergers and Acquisitions
 - Heavy concentration of customers
 - Discontinued operations
 - Subsequent events, Going concern disclosure



Claims Risk

- Two components of the ultimate outstanding claims risk.
 - Case Reserves - Reported on the SI 40 or Loss Run
 - Incurred But Not Reported (IBNR) – Calculated by Actuary



Claims Risk

○ Case Reserves

- Separate Calculation Need for Losses Prior to 1987
- Reported Annually on the SI-40
- Subject to a Adequacy Test
- Paid Compensation x 3.27
- Medical Paid x .26
- Used to Calculate LOC Requirement for Moderate and High Default Rated Employers
- Multiplied by Rating Factor in Lieu of Requiring an Actuary Study from All Employers
 - Factor Ranges from 50% to 150% depending on Default Risk



Claims Risk

○ Actuary Study

- Third-party review is superior to self-reporting reserves.
- Currently used with Default Risk of Caa1 or lower
- May be used where there is a discrepancy discovered during an audit
- Self-Insured Professional Employer Organizations (PEO) required to provide actuarial study every two years.

- Questions on financial reporting requirements?

Assessments

- Three main components
 - Calendar year compensation payments by self-insured employers to their injured workers, regardless of date of injury
 - Projected benefit payments to injured workers of defaulted self-insured employers in calendar year and related costs
 - Adjustments for other available revenue or shortfalls

Assessments

| Calendar Year | Paid Claim Costs | | |
|---|------------------|-------------------|-------------------|
| | Mandatory # | SIEGF | Total |
| 2014 | 12,198,840 | 19,142,648 | 31,341,488 |
| 2015 | 10,011,259 | 19,885,807 | 29,897,066 |
| 2016 | 10,741,078 | 17,765,950 | 28,507,028 |
| 2017* | 9,900,000 | 18,200,000 | 28,100,000 |
| 2018* | 9,100,000 | 18,000,000 | 27,100,000 |
| * Current & Projection for 2017 and 2018 | | | |
| # excludes cost of medical exams and prosthesis | | | |



Assessments

- Reported compensation has dropped 14% for the past 5 years and 26% over the past 10 years
- Number of SI employers has dropped by 3% over the past 10 years and 5% over the past 5 years
- Assessment rates are 1.3% lower from 10 years ago, but 9% higher over the past 5 years



Assessments

| Self-Insuring Employer Assessment History | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|
| Effective Calendar Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2017/2018 | |
| Effective Policy Year | 7-1-2013 | 7-1-2014 | 7-1-2015 | 7-1-2016 | 7-1-2017 | Dollar Change | Percentage Change |
| Mandatory | | | | | | | |
| Surplus Fund (Mandatory) | 0.0100 | 0.0630 | 0.0800 | 0.0600 | 0.0490 | -0.0110 | -18.3% |
| Self-Insuring Employer Guaranty Fund (SIEGF) | 0.1138 | 0.0470 | 0.0750 | 0.0950 | 0.1060 | 0.0110 | 11.6% |
| Total Rate | 0.1238 | 0.1100 | 0.1550 | 0.1550 | 0.1550 | 0.0000 | 0.0% |
| Administrative Cost Fund: <u>BWC</u> | 0.0889 | 0.0871 | 0.0889 | 0.0893 | 0.0893 | 0.0000 | 0.0% |
| Administrative Cost Fund: <u>IC</u> | 0.0696 | 0.0668 | 0.0668 | 0.0668 | 0.0668 | 0.0000 | 0.0% |
| Safety & Hygiene Fund | 0.0050 | 0.0050 | 0.0035 | 0.0030 | 0.0030 | 0.0000 | 0.0% |
| Total Required Assessments | 0.2873 | 0.2689 | 0.3142 | 0.3141 | 0.3141 | 0.0000 | 0.0% |
| Optional | | | | | | | |
| Surplus Fund for Disallowed Claims | 0.0238 | 0.0173 | 0.0400 | 0.0380 | 0.0050 | -0.0330 | -86.8% |



Low Back Treatment

- OAC 4123-6-32
- Effective 11/1/17
- Providers must comply with the new rule regarding lumbar fusion surgery
- Conservative care is expected at least 60 days before surgery will be approved
- Conservative care is outlined in the rule
- Be sure to understand the rule before denying treatment



Time to File a Claim

- With the 2017-18 Budget, an injury claim must be reported to SI employer within one year of the date of injury
- Does not apply to OD claims based on current language
- Applies to Death claims due to injury but not due to Occupational Disease

Auditing Stuff

- Remember to request wages for prior employers
- Document all time from date of injury to full duty release
- If on modified provide some form of documentation to show the claimant actually worked.
- When entering claim electronically, please select correct policy year.

Salary Continuation

- Provide documentation supporting wages in lieu of compensation and Sickness and Accident
- Shall continue without interruption beginning with the first day of disability and normal pay cycle
- Must ensure FWW and AWW are calculated to ensure the salary continuation payments are at least equal to the correct rate
- Complete C-55- including period of time, update every 45 days unless contractual agreement in place

Salary Continuation

- Sick leave may be considered at payment of salary continuation
- Is sick leave returned if used while on disability?
- Other forms of leave are not considered salary continuation
- Sickness and Accident must be a program fully funded by employer, is not sick time need documentation that the injured worker is aware it is being used

Contacting BWC

When contacting the BWC self-insured department, please include self-insured policy number

614-466-6773 or 1-800-OHIOBWC, select SI

30 W. Spring St., Level 22

Columbus, OH 43215

Email: SIINQ@bwc.state.oh.us

Next workshop
December or January?

Questions?

**Looking for reminders, updates, tips and
breaking news on workers' compensation?**

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efforts to detect and deter workers' compensation fraud**



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