



**Bureau of Workers'
Compensation**

30 W. Spring St.
Columbus, OH 43215-2256

Governor **Ted Strickland**
Administrator **Marsha P. Ryan**

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September 23, 2009

Dear Member:

HB 100 (127th GA) required the Ohio Bureau of Workers' Compensation (BWC) to commission an outside consulting firm to perform a comprehensive review of the base rate of premiums paid by employers and of all rating programs used by BWC to determine an employer's premium.

Following an extensive competitive bidding process, Deloitte Consulting LLC was awarded the study in January 2008. Following its year-long study, Deloitte's insurance experts unveiled details of this comprehensive review of Ohio's workers' compensation system to the Ohio General Assembly and the public in April 2009. Please see the attachment which summarizes the recommendations made in this comprehensive review. The complete report is available online at ohiobwc.com/deloitte.

Since April 2009, BWC has performed an intensive analysis of the recommendations detailed in the study. In our review, and in consultation with the Board of Directors, we are preparing a schedule which prioritizes the study's recommended changes.

Of the 146 recommendations detailed in the report, a number have already been implemented. These are detailed in the attachment which lists BWC's accomplishments to date and our Fiscal Year 2010 priorities. Recommendations implemented include rate making improvements and the recent adoption of a comprehensive rate reform plan. The rate reform plan has lowered base rates for Ohio employers each of the last two years. We have also added proven insurance products including a new deductible program and a group retrospective rating program to assist employers in managing their workers' compensation costs. With rate reform, BWC and our Board of Directors have significantly improved the fairness and equity of rates and premiums for group and non-group rated employers.

Under the Board's direction, recommendations from the comprehensive review will continue to help us set a solid course for the future. We will utilize the review findings to implement more insurance industry best practices, strengthen our actuarial functions, and bring more transparency and improved customer service to Ohio's workers' compensation system.

I look forward to working with you in the future. If you have any questions or comments regarding the comprehensive review or any other BWC-related issue, please feel free to contact Christina Madriguera at 614-728-7614 or Gregg Paul at 614-728-6197.

Sincerely,

Marsha P. Ryan
Administrator

MPR/cm

cc: Ohio Bureau of Workers' Compensation Board of Directors
Workers Compensation Council

September 22, 2009

Ohio Bureau of Workers' Compensation Comprehensive Review

Governor **Ted Strickland**
Administrator **Marsha P. Ryan**

 **Ohio** | Bureau of Workers'
Compensation

BWC Comprehensive Review

Performed by Deloitte Consulting LLC

Statutory Requirement per House Bill 100 (127th General Assembly)

SECTION 512.50. (A) The Administrator of Workers' Compensation shall commission a reputable outside consulting firm that the Bureau of Workers' Compensation has not retained to conduct similar reports over the five years prior to the effective date of this section to perform a comprehensive review of the base rate of premiums paid by employers and of all of the rating programs used by the Administrator to determine an employer's premium rate under Chapters 4121., 4123., 4127., and 4131. of the Revised Code. In conducting the review required under this section, the Administrator shall do all of the following:

- (1) Compare the rates and programs used in this state to the rates and programs used in other states;**
- (2) Study the effect of the rates in reducing the number and severity of workers' compensation claims in this state;**
- (3) Study the effect that saving money has had on safety in workplaces in this state;**
- (4) Identify methods of rate setting and reserving that the Administrator could use to make the rate setting and reserving process more transparent for employers and employees.**

Conclusions of the comprehensive study

- (1) Compare the rates and programs used in this state to the rates and programs used in other states.**

Base rate of premiums paid comparison

- "Ohio's base rates are much higher than those of other states, largely as a result of the significant off-balance created by group rating" (Deloitte, Ohio Bureau of Workers' Compensation Comprehensive Study: Report 1.1, p. 1).
- "The actuarial methodology for establishing classification rates is reasonable, but improvements could be made to the process" (Report 1.1 p. 2).

Rating programs used to determine premium rates

- "The overall statewide rate level indication process uses a fairly standard actuarial approach. However, there are significant differences in the methodology compared to peer states" (Executive Summary, p. 14).
- "Individual-experience-rating plan includes features that are inconsistent with industry practice. Nevertheless, our analysis indicates that the individual-experience-rating plan appears to perform adequately" (Executive Summary, p. 2).
- "In contrast to experience rating, the performance results of the group-rating program indicate a substantial lack of actuarial soundness with respect to equitable rating" (Executive Summary, p. 2). "The current pricing structure has created substantial inequity in the premiums paid by different employers in the state of Ohio" (Report 1.1, p.1). Policyholders "experience significant variability in their pricing as they move in to a group, to another group, or out of a group, which occurs frequently. We are unaware of any other state that has a program which functions as poorly as the existing group rating program does in Ohio" (Executive Summary, p. 12).
- "The other discount programs offered by BWC appear to be similar to those offered in other states, though in some cases the credits given by the BWC are much larger than in other states" (Report 1.1, p. 2). "[I]n general, these programs do not appear to be effective" (p. 2). "Premium slippage is charged to all policyholders to account for more rate discount being provided to program participants than is actuarially indicated from the resultant change in participants' loss ratios" (p. 2).

Performance assessment summary (Benefits and Compensation Industry Comparison, Report 2.2, p. 16).

- Effectiveness and efficiency - The benefit structure in Ohio is more complex than most with more specific benefit types and BWC administration associated with managing more MCOs than in most states.
- Financial strength and stability - Stability of benefits to injured workers is maintained consistent with other jurisdictions (e.g. annual average weekly wage, maximum rate and COLA adjustments). Benefit controls related to treatment ongoing benefit eligibility and duration are well institutionalized.

- Transparency - All benefits appear accessible to injured workers and their representatives, and to all constituents. The BWC Web site is a strong media for communicating benefits and changes.
- Ohio economic impact - Ohio's workers' compensation benefit structure appears to support the overall mission of providing adequate benefits to injured workers at a reasonable system cost.

Summary of benefits and industry comparison findings (Report 2.2, p. 16)

1. Ohio is largely consistent with other states with respect to benefit and compensation levels.
2. Ohio's number of benefit types is more extensive than found in most other jurisdictions.
3. Medical benefits provided in Ohio are generally consistent with other states.
4. Temporary total disability benefits are slightly higher than in most other states (maximum wage replacement rates and percentage-of-wage benefit calculations for first 12 weeks).
5. Permanent partial disability, fatality survivor benefits and scheduled loss of benefits align well with other jurisdictions.
6. Ohio is one of 30 states that authorize the use of Managed Care Organizations (MCOs)
7. Ohio is one of 19 states with a dedicated fund for rehabilitation expenses.
8. Permanent partial disability income benefits for injuries in Ohio are consistent with most other states.
9. For fatality survivor benefits, Ohio is in the middle (both mean and median) in eight peer state comparisons.
10. Ohio is one of 18 selected states that have cost of living adjustments for permanent disability cases.
11. Twenty-two states, including Ohio, contain specific offset provisions to limit aggregate benefits received from other sources.

(2) Study the effect of the rates in reducing the number and severity of workers' compensation claims in this state.

No apparent effect in Ohio. "We examined the impact of rates on frequency, severity and loss ratios by comparing results for private employers between policy years 2004 and 2005 for employers with large rate changes between years. We compared frequency, severity and loss ratios using both charged premium and base premium. Our findings suggest that there is no observable impact of large rate changes on frequency, severity, and loss ratios" (Report 3.1, p. 22)

(3) Study the effect that saving money has had on safety in workplaces in this state.

No apparent effect in Ohio. "Large changes in charged rates are associated with employers moving in and out of groups. The loss ratio differences using base premium indicate no real difference between employers who have had rate increases or decreases, regardless of the size of the change in charged rate" (Report 3.1, p. 27).

(4) Identify methods of rate setting and reserving that the Administrator could use to make the rate setting and reserving process more transparent for employers and employees.

More transparency

- Today's reserving rules suppress the reserves on medical-only claims. Deloitte warned, "[t]hese rules are not standard industry practice, potentially erode the effectiveness of experience rating, and contradict a key underlying premise of experience rating by ignoring the excluded claims" (Report 1.1, p. 49). To be more transparent and accurate, Deloitte recommended that BWC "prohibit the exclusion of claims from the experience rating calculation" (p. 53).
- Under current Ohio law, the Salary Continuation and \$15k programs allow Ohio employers to self-insure portions of their exposure to losses. However, they "have a potentially negative effect on productivity and the Ohio economy" (Report 1.1, p. 63). They are inconsistent with industry practices (p. 3). They allow employers to avoid reporting workers' compensation costs to the system (p. 63) which compromises rating accuracy and causes rating in-equity among employers (p. 64). They cause the possibility of reserve estimates being under-stated (p. 64). They forego opportunities for early medical intervention, effective claim management, and loss control techniques which increases the costs to employers in the state overall (p. 64). Salary continuation provides a financial disincentive for injured workers to return to work (p. 64). Deloitte recommends an appropriately priced deductible program as an industry standard alternative (p. 66). A deductible program accommodates employers who wish to self-insure a portion of their exposure to losses (p. 66) without compromising experience

rating integrity, accuracy, and equity. Employing the industry best practice of including medical-only claim costs in rate calculations (p. 53) makes the benefits of salary continuation and the \$15k program mute to the employer.

- “[T]he depth of detailed data desirable to do analysis is not typically and/or easily available” (Executive Summary, p. 2). Expanding the capability of the actuarial department and sound data management are among the highest priorities in order to assess the efficiency and effectiveness of the system and communicate information to the public (p.3).

(B) The Administrator shall commission a reputable outside consulting firm that the Bureau has not retained to conduct similar reports over the five years prior to the effective date of this section to perform a comprehensive review of the adequacy of the surplus fund created under section 4123.34 of the Ohio Revised Code and the general reserving methods used for the State Insurance Fund and all other funds specified in Chapters 4121., 4123., 4127., and 4131. of the Ohio Revised Code.

Conclusions of the comprehensive study

Adequacy of the surplus fund

- As of June 30, 2008, “BWC’s net assets currently do not indicate sufficient financial strength when compared to their peers” (Executive Summary, p. 4).
- “BWC should develop and implement a policy for the level of net asset to maintain for each fund” (Executive Summary, p. 5).
- BWC should “[c]onsider reinsurance to provide financial protection” (Executive Summary, p.6).
- As of June 30, 2008, “[t]here is significant uncertainty in the estimates used to select a reserve and therefore a relatively small percentage difference in the actual costs versus the estimate costs could consume the net asset of \$2.0 billion held as of that date. Therefore, formulating a reserve funding policy in conjunction with a net asset policy is of highest priority” (Executive Summary, p. 2).

General reserving methods used

- “The sole use of claim reserve predictions generated by MIRA II to set individual claim reserves is not an industry standard. Standard practice is to have a trained and supervised personnel is a claim function set claims reserves and settlement values” (Executive Summary, p. 2) using tools like MIRA II to assist.
- A number of rate-setting practices allow employers to avoid reporting workers’ compensation costs to the system (Report 1.1, p. 63), which compromises rating accuracy and causes rating inequity among employers (p. 64). These practices “have a potentially negative effect on productivity and the Ohio economy” (p. 63). They are inconsistent with industry practices (p. 3). They cause the possibility of reserve estimates being under-stated (p. 64). They forego opportunities for early medical intervention, effective claim management, and loss control techniques which increases the costs to employers in the state overall (p. 64).

(C) The Administrator shall provide a summary of the reviews required under this section and shall present recommendations based on the review to the General Assembly and the Bureau of Workers’ Compensation Board of Directors not later than two years after the effective date of this section.

- Presented to the Workers’ Compensation Council, Sept. 23, 2009.

(D) This section of law, as enacted by this act, is subject to the referendum. Therefore, under Ohio Constitution, Article II, Section 1c and section 1.471 of the Ohio Revised Code, this section takes effect on the 91st day after this act is filed with the Secretary of State. If, however, a referendum petition is filed against this section of law as enacted by this act, this section of law as enacted, unless rejected at the referendum, takes effect at the earliest time permitted by law.

BWC Comprehensive Review

September 2009

Executive Summary

Marsha P. Ryan, Administrator

Fast facts

There are seventeen reports and approximately 900 pages.

We will address 48 percent of 146 recommendations to be addressed in fiscal year 2010.

There are seventeen projects at a cost of \$ (to-be-determined).

Nine recommendations require statute change to be implemented.

Complete April 9, 2009, comprehensive study report available at www.ohiobwc.com/deloitte.

Accomplishments to date

Feasibility assessment of all recommendations complete.

Sixteen recommendations (11percent) implemented to date.

54 percent evaluating; 3 percent planning projects; 24 percent designing solutions; 6 percent implementing; 2 percent no action planned.

Enacted a policy for guiding net asset levels.

Non-group employer rates no longer inflated to cover shortages from group employer discounts.

Group employers' paid premiums now reflect costs they bring to the system.

Replaced ineffective programs (e.g. PDP+) with standard insurance products (e.g. deductible program).

Safety intervention grants now more accessible to more Ohio employers.

FY10 priorities (# recommendations)

Comprehensive rate reform: Group rating and Experience rating (25)

Financial stability: Catastrophic loss insurance and self-insured employers (14)

Quality care for injured workers: Managed care and MCO effectiveness (13)

Claims prevention through safety (3)

Accomplishments to date

Recommendations Implemented as of Aug. 30, 2009 • Direct impact ○ Indirect impact	Impact Category									
	Better services	Ops efficiency and effectiveness	Cost savings	Financial stability	Transparency and accountability	Actuarial soundness	Stable costs	Accurate rates	Ohio Economic impact	Safe workplaces
Net asset level - In July 2009, the BWC board of directors adopted a net assets policy. This policy contains guidelines to drive net asset level decisions as financial and market circumstances change (Comprehensive Study recommendations 2.4.1-4). Net asset levels determine the financial solvency of the state insurance fund's ability to cover the obligations for injured worker care.				●			●			
Comprehensive rate reform - Eliminated the employer off-balance adjustment factor for class base rates (1.1.7). Non-group employers are now paying fair premium.						●		●	●	
Group rating - Developed a group discount factor (1.1.16). Changed credibility for individual experience (1.1.30). Premiums are now more in line with loss exposure. Launched a group-retro plan as a group-rating alternative (1.1.27).	○					●		●	●	○
Safe workplaces - Eliminated the requirement to have a past claim to qualify for a Safety Intervention Grant (3.2.1). Added a requirement to submit an overall safety plan with a grant application (3.2.2).										●
Self-insurance participation requirements - Continuation of collecting security upon return to the self-insured program (1.4.11). Require organization documents for self-insured applications (1.4.9).				●						
Rating programs effectiveness - Eliminated the ineffective Premium Discount Program + (1.1.38). Un-stacked discounts for group rating participants (1.1.38). Developed an appropriately priced Deductible Program as an alternative to salary continuation and the \$15K Medical-Only program (1.1.37).	●		●			●	●	●	○	
MCO effectiveness - Sustained the trend of decreasing numbers of participating Managed care organizations (MCOs) from 25 to 18 (2.6.1). Adopted routine public forums as a means of collecting stakeholder input regarding MCO effectiveness (2.6.9).	●	○			●					
BWC actuarial capabilities - Expanded the Actuarial Division responsibilities and capabilities by adding actuarial analysis and reserving experts to the staff (4.4.5). Contracted with Deloitte as an external consultant to supplement internal actuarial resources (4.4.7).		●			○	●				
Premium auditing - Most employers audited every three to five years as part of our audit plan (4.1.3).				●				●		

Fiscal year 2010 priorities

Recommendation Implementation Plans To be addressed in fiscal year 2010 • Direct impact ° Indirect impact	Impact Category									
	Better services	Ops efficiency and effectiveness	Cost savings	Financial stability	Transparency and accountability	Actuarial soundness	Stable costs	Accurate rates	Ohio economic impact	Safe workplaces
Group Rating - The root cause of Ohio's unfavorable rates position is the group-rating design. Now that rate reform is addressing rating inequities, BWC's challenge is to design a group-rating structure based on sound actuarial science and insurance industry best practices. BWC and stakeholders are evaluating several alternative approaches recommended by Deloitte.	*	•		•	•	•	•	•	•	○
Experience rating - BWC will address unconventional claim cost reserving practices that compromise rate accuracy. New industry standard rating programs (e.g. split rating, retro, deductible) will allow BWC to better align with prevailing workers' comp practices and achieve more accurate rates for all Ohio employers.						•	•	•	○	
Managed care - BWC is adopting several recommendations to streamline treatment approval, improve managed care performance measurements, simplify dispute resolution, and control costs. MCO performance and payment metrics.	•	•	•		○				○	
Medical payments - Bringing fee schedules up to date allows BWC to remain responsive to market conditions and improve provider quality. Improving medical provider quality improves injured worker care and improves injured worker return to work. Strategies include the development of provider performance measures with the subsequent creation of commensurate performance incentives and compliance sanctions and the creation of a blue ribbon provider panel. In addition, BWC is focusing on cost-containment by improving clinical editing to ensure correct payment for the service provided.	•	•	•		○				○	
Self-insurance (SI) - BWC is working with the SI community to establish more objective criteria for granting the privilege of self insurance. Stronger entry requirements and more data for accurate underwriting will mitigate risk to the guarantee fund by preventing unqualified applicants into self insurance. A more contemporary method for collateralizing exposure SI's bring to the guarantee fund will also be addressed by the work group. BWC is evaluating re-insurance for catastrophic losses.		•		•	○		•		○	○
Safety Programs (DFWP) - Deloitte encouraged making BWC's safety programs more effective and more accessible to more Ohio employers. BWC's Drug-Free Workplace Program (DFWP) will be the first program BWC re-tools for this purpose. Benchmarking, academic research, integration with safety best practices, stakeholder involvement, performance monitoring and actuarially-based pricing will all be part of the DFWP re-tooling process.	•	•		○	○				○	•
Administrative costs - Deloitte found considerable variability in the loss adjustment expenses (LAE) proportion of the administrative cost fund. Current proportion is higher than industry standards. This proportion impacts the actuarial estimate of reserves for LAE and, thus, the level of net assets. BWC will re-evaluate the expense-allocation process to address the variability in LAE.				•	○					