

Ohio Bureau of Workers' Compensation Board

Executive Summary: Comprehensive Study Group 1 Tasks

Jan Lommele, FCAS, MAAA, FCA

Bob Miccolis, FCAS, MAAA

Deloitte Consulting LLP

June 2008

Agenda

Introduction

Comprehensive Study Assessment Matrix

Executive Summary Conclusions

Next Steps

Appendix

Introduction

Introduction

Pursuant to House Bill 100, the BWC engaged Deloitte Consulting to perform a Comprehensive Study to:

Measure the performance of Ohio's workers' compensation system;

and

Compare Ohio's workers' compensation system to other state and private compensation systems.

Introduction

The Comprehensive Study includes 36 tasks described in the Actuarial Consulting Services RFP. Deloitte divided these tasks into the following categories:

- Pricing & Programs
- Loss Reserves
- Net Assets & Reinsurance
- Self-Insured Regulations
- Claims
- Underwriting
- Actuarial Department Functions & Resources

**The categories
organize the tasks
detailed in the RFP
into related work
streams**

Introduction

The tasks in the Comprehensive Study were prioritized and placed into 4 groups with the following scheduled completion dates:

Ranking	Areas Included	Completion Date
Group 1	Rating program review; rate setting; experience rating; group rating; MIRAMIRA II case reserving; subrogation; self-insurance; SIEGF assessments; salary continuation; and \$15,000 medical only program.	June 2008
Group 2	Actuarial reserves; payment projections; benefit comparison; medical payment structure comparison; net asset levels; administrative cost calculation; MCO effectiveness; and excess insurance/reinsurance needs.	August 2008
Group 3	PES rate setting; retrospective rating; Safety Grant program; safety & hygiene programs; and other cost controls.	October 2008
Group 4	NCCI classification system; minimum premium; Coal-Workers Pneumoconiosis Fund; Marine Industry Fund; Disabled Workers' Relief Fund; appeals process; out-of-state employers; handicap reimbursement; rehabilitation program; employer ownership versus tax ID; and Actuarial Department functions and resources.	December 2008

Comprehensive Study Assessment Matrix

Comprehensive Study Assessment Matrix

We are assessing the performance of the workers' compensation system for four overarching themes:

Effectiveness & Efficiency

How well does the Ohio workers' compensation system utilize its resources and administer benefits?

Financial Strength & Stability

Is the Ohio workers' compensation system fiscally sound? Does the system promote pricing stability?

Transparency

Can the public understand the workings of the Ohio workers' compensation system?

Ohio Economic Impact

Does the workers' compensation environment encourage business growth and development in Ohio?

Comprehensive Study Assessment Matrix

We have also mapped the various tasks in the RFP into several broad study elements:

- Ohio Benefit Structure
- Pricing Process
- Cost Controls
- Financial Provisions
- Actuarial Department Functions & Resources

The four themes can be overlaid onto Comprehensive Study Elements to create a matrix that displays their relationship.

Our performance assessment is made on each element in the context of its contribution to supporting the overarching themes.

Comprehensive Study Assessment Matrix

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Ohio Benefit Structure	<h1>Conclusions</h1>			
Pricing Process				
Cost Controls				
Financial Provisions				
Actuarial Dep't. Functions & Resources				

Note: Not all areas may involve specific conclusions/recommendations for each theme

Comprehensive Study Assessment Matrix

In the context of the matrix we provide the following high level summary conclusions, performance assessments, and comparison notes.

For performance assessments, the following scoring method applies:

	Strongly supports system performance
	Supports system performance
	Some support for system performance
	Some opportunity for system performance change/enhancement
	Significant opportunity for system performance change/enhancement

Executive Summary Conclusions

Executive Summary Conclusions

- Group 1 includes the following study elements:

Pricing Process	Cost Controls	Financial Provisions
<ul style="list-style-type: none">▪ Statewide Rate Level▪ Class Ratemaking▪ Group Rating▪ Experience Rating▪ MIRA II Reserving▪ Self-Insurance▪ Programs	<ul style="list-style-type: none">▪ Subrogation▪ \$15,000 Medical Only Program▪ Salary Continuation	<ul style="list-style-type: none">▪ SIEGF

- For each sub-heading, we will present:
 - The background situation;
 - A performance assessment for each applicable theme as compared to peers and industry standards; and
 - Our conclusions.

Executive Summary Conclusions

- The complexity of some of the areas reviewed has created the need to present additional detail in an “Analysis & Review” section.

Statewide Rate Level

The Situation:

- For private employers, overall rate indications are based on 10 years of historical loss costs derived from the actuarial reserve review.
- A baseline rate change indication is provided, along with a range of rate change indications termed “reasonable expectation optimistic” and “reasonable expectation conservative”.
- Historical loss costs in the overall rate study are presented on a discounted basis.
- The baseline rate change indication is based on the trend in the last 10 years of indicated discounted loss costs.
- The range of rate change indications is based on the variability of the discounted loss costs in the 10 year period.

Statewide Rate Level

Performance Assessment



Peers and Industry Standards Considered

NCCI, Indiana, Kentucky, Michigan, Pennsylvania, Washington, West Virginia.

Statewide Rate Level

Review & Analysis:

- The overall ratemaking process uses a fairly standard actuarial approach with typical assumptions. However, there are significant differences in methodology compared to peer states, particularly in estimating ultimate losses for past years.
- The process is not fully supported by detailed documentation which results in reduced actuarial transparency.
- The process incorporates more stability than necessary by using 10 years for the baseline indications.

Statewide Rate Level

Review & Analysis (continued):

- The methodology produces a broad range of “Reasonable” scenarios for “Optimistic” and “Conservative” based on standard deviation of loss cost estimates for prior years. There is no recognition of the financial strength of the system to absorb the variability indicated by the range.
- The rate level indications in the reserve audit report are not tested using alternative methods.
- We are currently reviewing the Oliver Wyman reserve audit process, which is a key input to the statewide rate level indication, and will report on our findings when our work is complete.

Statewide Rate Level

Deloitte Conclusions:

- Provide more responsiveness to Ohio trends by using fewer years, e.g., 3-5 years. Ohio data is very credible, and sufficient stability can be achieved.
- Include an alternative method, such as one based on incurred losses, in calculating an indicated rate change.
- Perform the baseline indication before discounting and then apply discounting in arriving at the final indicated rate change.
- Develop the range of indicated rate changes (Optimistic to Conservative) in light of the potential impact on net assets, i.e., what is the risk if actual experience is worse than expected, rather than using a variability measure (standard deviation) to arrive at the range of actuarially sound rate changes.

Statewide Rate Level

Deloitte Conclusions (continued):

- Display the historical loss costs at the proposed cost and wage levels by making explicit adjustments needed for loss trend, wage changes and benefit changes.
- Re-label the term “pure premium” as “loss cost” to better reflect the meaning of the amounts, and be more consistent with industry norms.
- Display the impact of collecting premium in arrears on the rate change indication.

Class Ratemaking

The Situation:

- Ohio uses the NCCI manual classification system for rating calculations.
- Manual classifications are divided into 10 industry groups for certain aspects of the class ratemaking process.
- Base rates and Expected Loss Rates (ELRs) are determined through the class ratemaking process.
- The experience period used to determine base rates is the oldest four of the last five years preceding the effective date of the rates.
- Incurred losses (paid plus case reserves) limited to \$250,000 per claim are developed to ultimate by class to calculate indicated class loss costs.

Class Ratemaking

The Situation (continued):

- Classifications are assigned credibility based on the volume of losses in the experience period; full credibility is used for classes with > \$1 million of losses.
- The complement of credibility is the prior year loss cost for the class, adjusted for the indicated change for the industry group to which the class belongs.
- The selected loss cost is loaded for several factors. Significant factors include the catastrophe factor, off-balance factor and rate change factor.

Class Ratemaking

Performance Assessment



Peers and Industry Standards Considered

NCCI, Illinois, Indiana, Kentucky, Michigan, New York, Pennsylvania, Virginia, West Virginia.

Class Ratemaking

Review & Analysis:

- Ohio base rates are much higher than peer states, primarily due to large off-balance factors resulting from experience rating (group rating in particular).
- Case reserves in the class ratemaking process are attributed to indemnity losses only, rather than divided between the indemnity and medical portions. This approach is not used elsewhere and is a potential source of bias.
- The class ratemaking process is complex relative to peer states and could be simplified to improve actuarial transparency.
- The experience period is consistent with industry practice.
- There is limited documentation provided for the adjustment factors that are applied to the class pure premiums to determine the class base rates.

Class Ratemaking

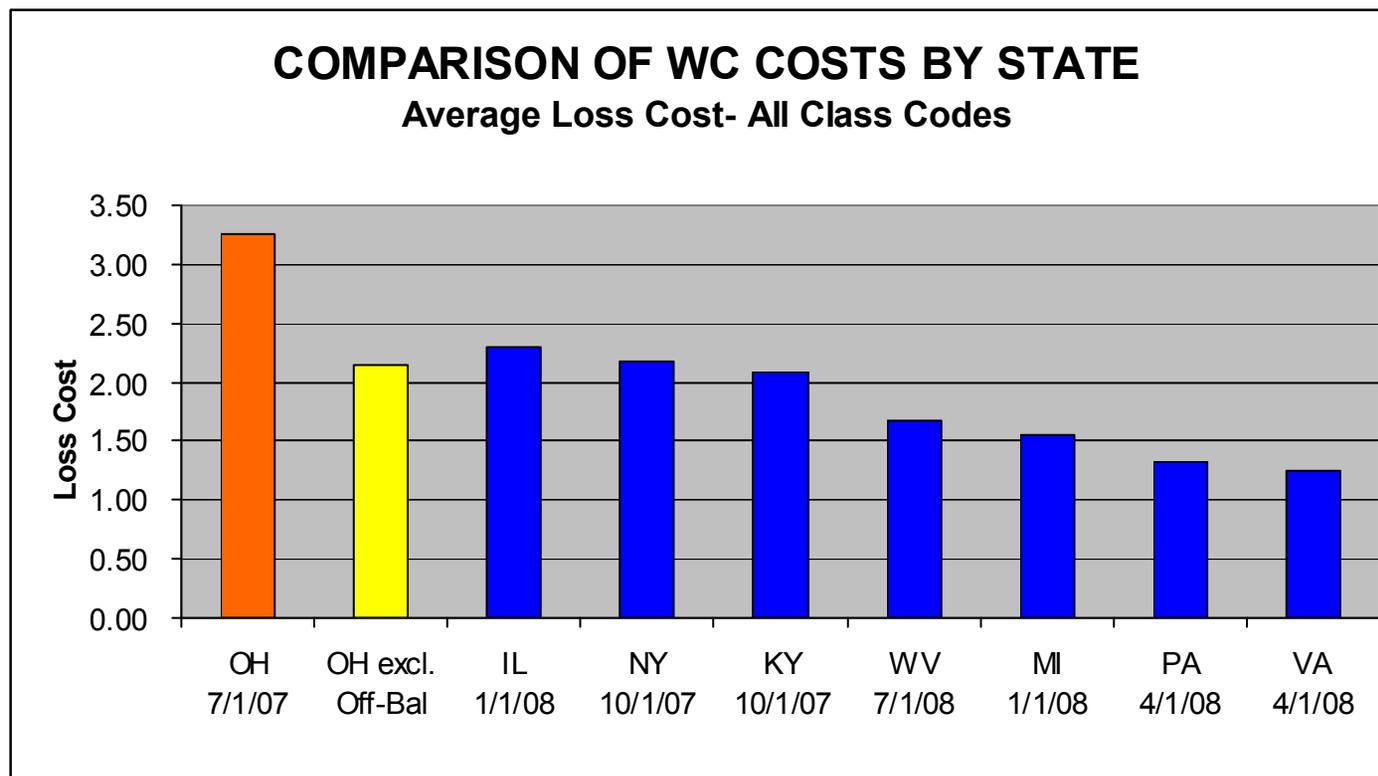
Review & Analysis (continued):

- The ELRs are relatively high compared to the peer states we reviewed; the comparison should be considered in the context of Ohio's benefit structure to other states. That work is part of the Comprehensive Study yet to be completed.
- The base rate change is limited to +/- 30%, which is at the upper end of the limits in the peer states we reviewed.

Class Ratemaking

Review & Analysis (continued):

Base Rate Comparison to Peer Group: All Classes



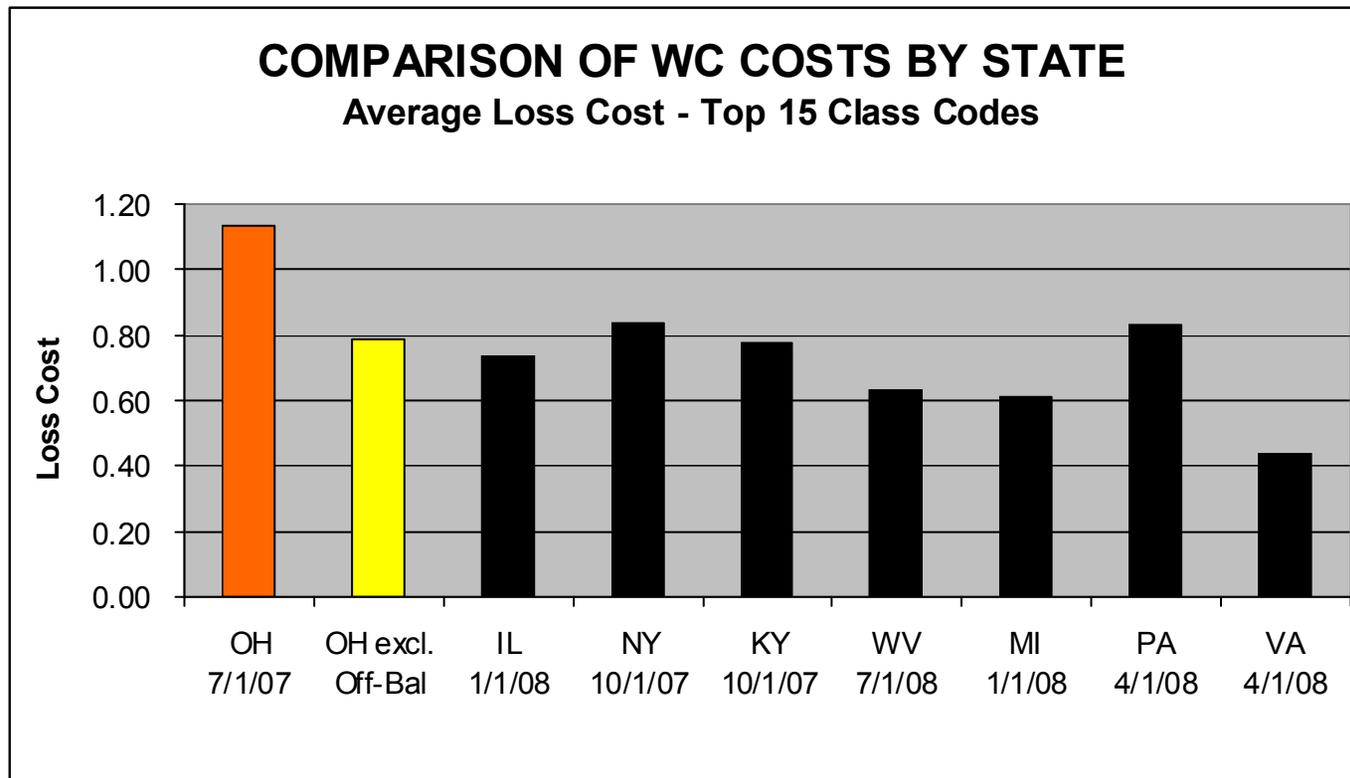
Average Loss Costs are payroll-weighted based on the latest OH experience period.
OH excl Off-Bal = OH loss cost excluding adjustment for Experience Rating Off-Balance.

Class Ratemaking

Review & Analysis (continued):

Base Rate Comparison to Peer Group: Top 15 Classes

(Top 15 classes based on raw losses used for 7/1/07 class ratemaking)



Average Loss Costs are payroll-weighted based on the latest OH experience period.

OH excl Off-Bal = OH loss cost excluding adjustment for Experience Rating Off-Balance.

Class Ratemaking

Review & Analysis (continued):

Conclusion:

- Ohio class loss costs would be more in line with peer states if the experience rating off-balance was not a significant factor in the class rates.

Class Ratemaking

Deloitte Conclusions:

- Separate case reserves between indemnity and medical for incurred losses in estimating the historical class loss costs.
- Use an alternative indication of class loss costs to credibility weight Ohio class loss costs, such as NCCI class relativities from other states and/or by comparisons to similar classes.
- Provide more detailed documentation for each adjustment factor, e.g. “rate change factor”.
- Eliminate the use of experience rating off-balance adjustment factor for class base rates.

Class Ratemaking

Deloitte Conclusions (continued):

- Modify the e-mod formula to apply the individual experience rating off-balance adjustment to individual experience rated risks only. (See separate recommendations for group rating off-balance.)
- Calculate the catastrophe factor by NCCI hazard group rather than industry group.

Group Rating

The Situation:

- Group rating allows employers of similar business types to be experience rated as if they were one employer.
- Combining experience allows small employers in a group who would otherwise be base rated or experience rated with minimal credibility to receive the maximum credibility available to an individual employer.
- There are over 500 groups in Ohio, and approximately 100,000 employers (private and public combined) participate in groups.

Group Rating

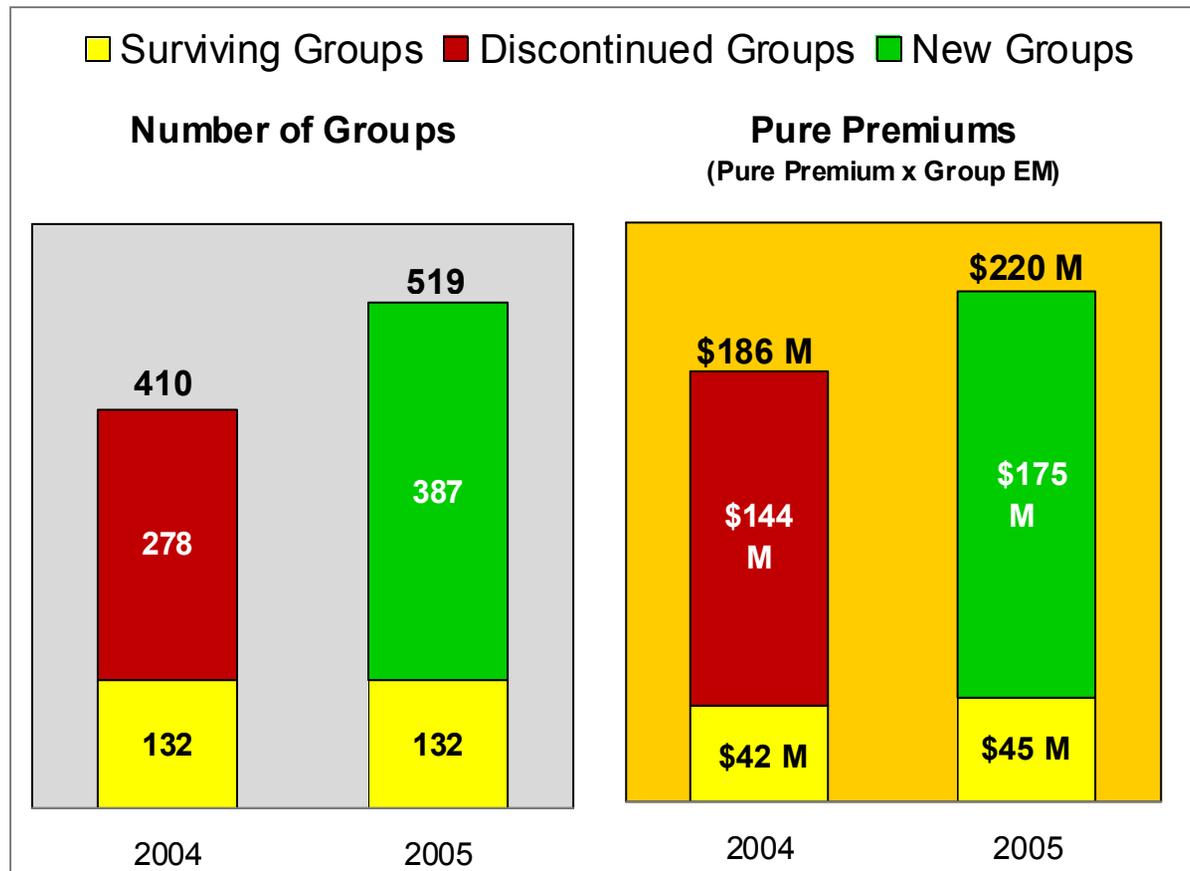
Review & Analysis:

- The group experience rating process is inconsistent with two basic tenets of an experience rating plan:
 - 1) The plan should produce post experience rated loss ratios which are closer to the overall average than before experience rating; and
 - 2) The plan should balance stability of price with responsiveness.
- Group experience rating accomplishes neither and in fact exacerbates the post experience rated loss ratios so that there is more dispersion about the average loss ratio than less.
- Policyholders in the group experience rating process 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 similarly to group rating as it exists in Ohio.

Group Rating

Review & Analysis (continued):

- The turnover of groups is very high at 75-80%.
- This lack of stability is indicative that groups are functioning poorly.

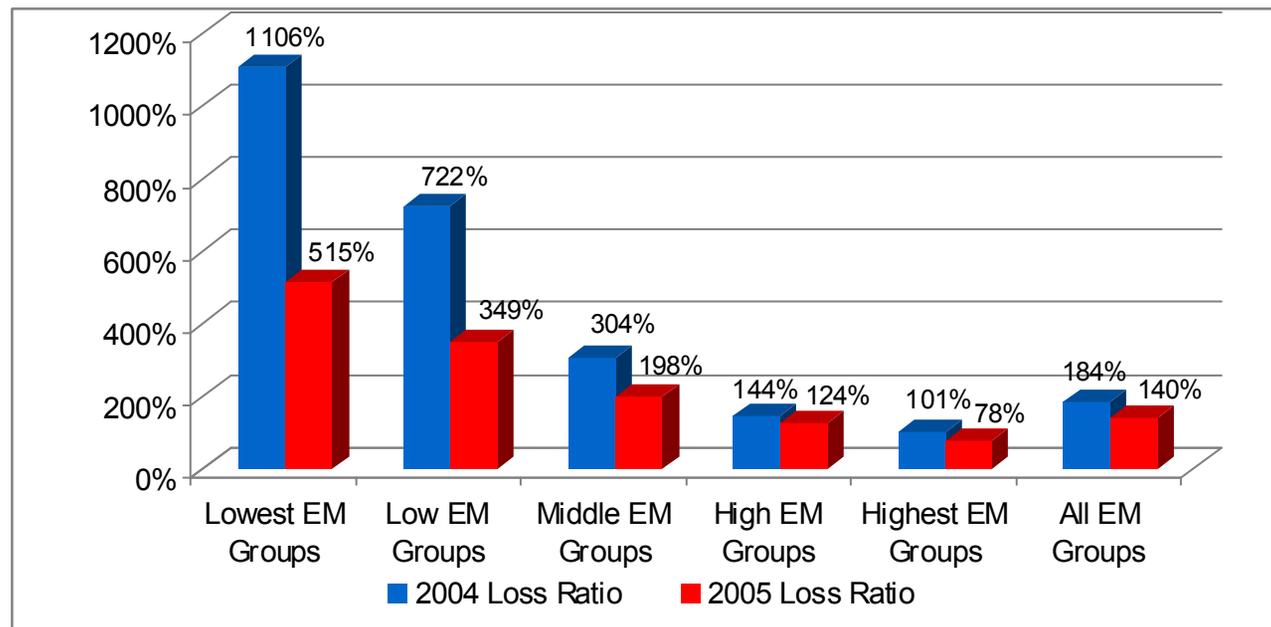


88% to 91% of group policies stayed in some group for 2004 to 2005.
 For group pure premiums, 68% to 80% of the premiums stayed in some group.

Group Rating

Review & Analysis (continued):

- Graph shows Group Loss Ratio Patterns by Low to High Group EM.
- Loss Ratios should be roughly equal if EMs are equitable.
- Such large dispersions indicate that group rating needs to be discontinued in its present form.



* Losses valued as of 12/07; 2005 Loss Ratios are 1 year less mature than 2004 Loss Ratios

Group Rating

Review & Analysis (continued):

GROUP RATING USING AN INDIVIDUAL EXPERIENCE RATING FORMULA

- Differences in the loss experience of individual employers are largely driven by the differences in the behavior of the management and employees of each employer, in terms of employee selection and training, safety programs, operating procedures, accident prevention, risk controls, etc.
- Such behaviors directly affect the frequency and severity of work injuries.
- Experience rating is a good predictor of future losses for an employer, because prior loss experience reflects an employer's oversight of such behaviors.

Group Rating

Review & Analysis (continued):

GROUP RATING USING AN INDIVIDUAL EXPERIENCE RATING FORMULA

- A group of employers will not have the same management influencing such behavior, and therefore an individual experience rating formula applied to a group is not generally predictive of future losses for that group, regardless of similarities in type of business and prior loss experience of the group members.
- Studies of BWC's group rating program have consistently demonstrated that applying the individual experience rating formula to group experience has resulted in significant under-prediction of losses for groups.
- The poor performance of the individual experience rating formula when applied to groups is evidence of the flaws in the current approach to group rating, and indicates a need for a different approach to group rating.

Group Rating

Review & Analysis (continued):

CONVERSION TO NCCI-TYPE SPLIT PLAN

- A split experience rating plan, with lower credibility assigned to group experience compared to the current plan, will mitigate some of the inequity currently produced by group rating.
- However, a split plan shares the same basic flaw as the current plan in that it applies a formula designed for an individual employer to a group of employers.
- The opportunity to manipulate the composition of a group in order to maximize discount will still be present under such a structure, and inequity will persist.

Group Rating

Performance Assessment



Peers and Industry Standards Considered

NCCI, Other State Funds, Actuarial Standards of Practice.

Group Rating

Deloitte Conclusions:

A group rating program should have a primary focus on safety, preventing injuries, and mitigating severity of work injuries. However, the current group rating formula has led to:

- Behaviors focused on achieving the maximum group credit
- Retaining “Loss-free” employers in groups
- Excluding employers from groups if their losses impact the group credit
- Churning of employers to different groups, new groups, or out of groups, driven by group rating impact
- Programs such as \$15,000 Medical Only and Salary Continuation, to keep claims out of group rating
- The One Claim Program, driven by reducing the premium impact between group and non-group status

Group Rating

Deloitte Conclusions (continued):

- Change the structure of group rating to mitigate the present inequities.
- Provide appropriate incentives for groups to focus primarily on accident prevention and loss mitigation activities.
- Eliminate the use of the individual e-mod formula for group rating.
- Determine group rating through the use of a group discount factor.
- Establish a minimum number of years of experience for a group to qualify for a discount factor, e.g. 3 years.

Group Rating

Deloitte Conclusions (continued):

- Develop a group discount formula based on the past performance of each group, with the goal of achieving equity between group rated and non-group rated employers, and equity between different groups.
- Apply a separate group rating off-balance adjustment to the group discount factors, rather than applying an overall off-balance adjustment to all employers through class rating.
- Develop the group discount factor based on the actual past performance of each specific group.
- In determining the group discount factor, include the experience of all group members only during the period when they were in the group, including members who leave the group.

Group Rating

Deloitte Conclusions (continued):

- Apply the group discount factor to the individual e-mod adjusted premium of each member of the group.
- Develop a group discount formula simpler than an e-mod formula, based on a loss ratio or loss rating approach.
- Vary the maximum discount factor with the premium size of the group, reflecting the credibility of the group size, but without a credibility formula.
- Apply a phase-in period of at least two years to new group members prior to receiving the full group discount, e.g. 1st year 25%, 2nd year 50%.

Group Rating

Deloitte Conclusions (continued):

Evaluate possible alternatives for group rating:

- **Group dividend plan**, in which dividends are credited to group members based on the actual profits generated by the group. Both new and established groups could be eligible for such a program.
- **Group retro plan**, in which premiums are adjusted upward or downward within certain limits depending on the actual loss experience of the group.
- **Per accident loss limitations (optional at different amounts)** for any group rating program, in which large losses are capped before being used in group rating.
- **Tiering** within a single group, with varying discounts by tier, where the average discount over all tiers equals the total discount for the group.

Experience Rating

The Situation:

- The purpose of an experience rating plan is to create equity amongst risks considering two basic tenets:
 - 1) the plan should produce post experience rated loss ratios which are closer to the overall average than before experience rating; and
 - 2) the plan should balance stability of price with responsiveness.
- The data used in the formula consists of paid data and MIRA claim reserves for the four years immediately preceding the latest available full year. Employers have had questions and concerns about the impact of claim level reserves on their experience modification factor.

Experience Rating

Performance Assessment



Peers and Industry Standards Considered

NCCI, State of West Virginia, Other State Funds,
Actuarial Standards of Practice.

Experience Rating

Review & Analysis:

- Credibility assigned to individual risk experience is higher than is typically seen in other states.
- Application of off-balance to class rates is standard NCCI practice, but typical off-balance factors in other states are very close to 1.0 in contrast to Ohio where the off-balance factor is approximately 1.5 for private employers.

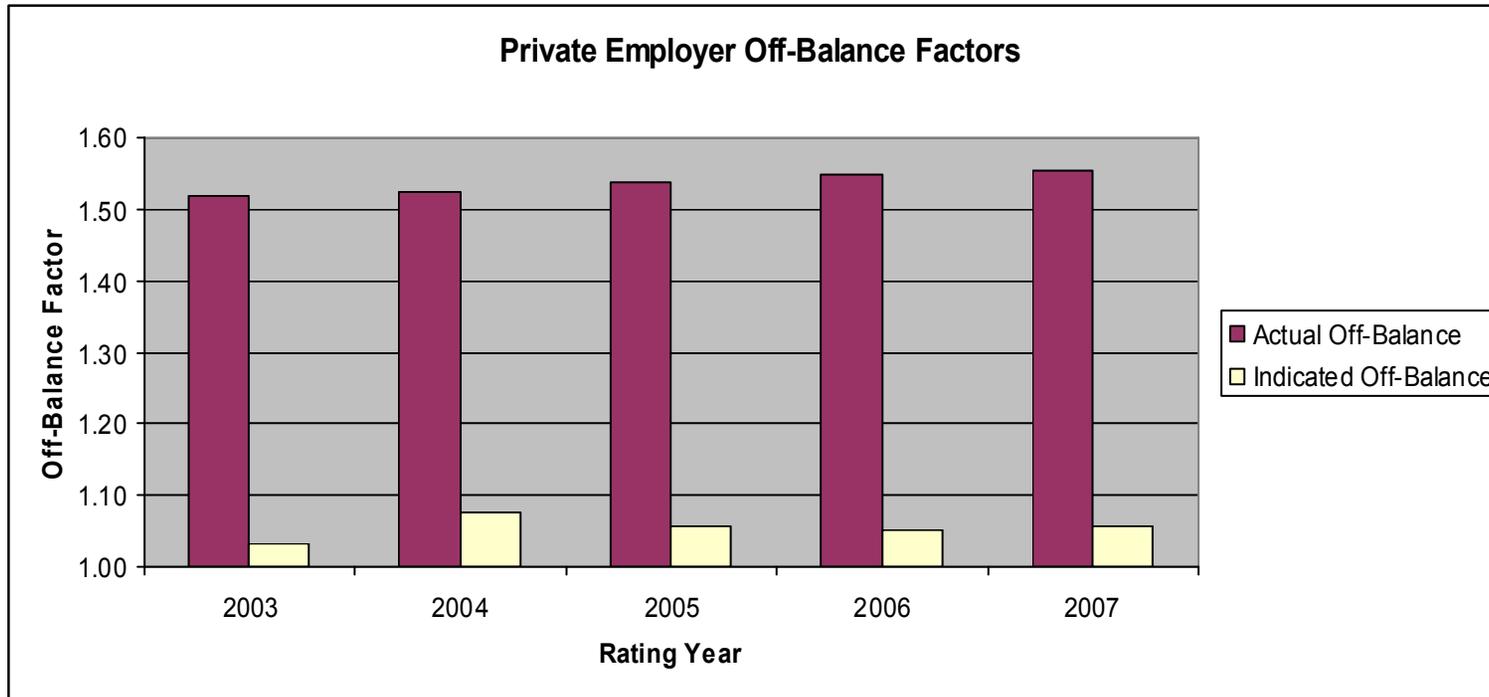
Experience Rating

Review & Analysis (continued):

- Certain rules and programs specific to Ohio result in the exclusion of claims, or portions of claims, from the experience rating process. These exclusions include handicap relief, salary continuation, and the 15K medical-only program. These 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.
- Despite inconsistencies with industry practice, our analysis indicates that the Ohio individual experience rating plan appears to meet the two basic tenets of experience rating when the experience rating formula is applied to individual employers only (removing the impact of group rating).

Experience Rating

Review & Analysis (continued):



- Indicated off-balance results from application of indicated individual e-mod to all experience-rated employers, including those in groups.
- The fact that the indicated off-balance factors are near 1.0 suggests that the experience rating plan is fairly balanced prior to the impact of group rating.

Experience Rating

Deloitte Conclusions:

- Change the credibility associated with an individual employer's experience to be in line with industry practices, e.g. through a split rating plan.
- Change the rules to prohibit the exclusion of claims from the experience rating calculation, particularly salary continuation and the 15K medical only claims, which is in line with industry practice.

MIRA II Reserving

The Situation:

- House Bill 100 requires the BWC to implement a new claims reserving system.
- BWC is planning a transition from the current MIRA system to MIRA II during 2008.
- MIRA II is a system designed to predict the total incurred cost of claims at the individual claim level.
- The present MIRA system used by BWC produces incurred values at the claim level, but is designed to predict the incurred cost of claims in the aggregate.
- The claims reserving system impacts employers through the class rating and the experience rating process.

MIRA II Reserving

Performance Assessment



*Given the recent introduction/implementation of MIRA II, we cannot assess its transparency at this time. Therefore, the Transparency category is not rated.

Peers and Industry Standards Considered

Other State Funds, Industry Practices.

MIRA II Reserving

Review & Analysis:

- The switch in emphasis from accuracy at the aggregate level (MIRA I) to accuracy at the individual claim level (MIRA II) is likely to result in transitional effects.
- Our expectation is that the aggregate incurred value of overall claims under MIRA II is likely to be lower than the aggregate incurred value of the same set of claims under MIRA I, as individual claim reserving tends to lead to under-estimation of claim values in the aggregate (this is true throughout the industry).
- Individual policyholders will experience changes in claim reserves for injured workers which will affect class, group and individual experience rating.

MIRA II Reserving

Review & Analysis (continued):

- While the MIRA system predicts objectively, it cannot reflect the human element of informed judgment for particular claim circumstances. The use of predicted reserves is not an industry standard practice to set case reserves and make settlements.
- Standard industry practice is to have a claim function set case reserves, and use tools, such as MIRA II, to assist in managing claims, particularly above some threshold, such as \$50,000 or \$75,000.

MIRA II Reserving

Deloitte Conclusions:

- Study the impact of new MIRA II claim reserves on class rates and on experience rating.
- Develop a long term alternative which uses MIRA II, or other claim predictive model, in conjunction with other processes and/or products to manage claims, in addition to being a means to set case reserve values. MIRA II could be used as input for managing claims, negotiating settlements and setting benchmarks for case reserve values.
- Determine where MIRA II claim values are most predictive, e.g. certain smaller, high volume claims, and determine a process for input from professional adjusters to best manage claims and to adjust the claim values.

Self-Insurance

The Situation:

- The rules, processes, and procedures for exiting the State Insurance Fund to self-insure are fairly comprehensive and robust, although requirements that could be used to collect information to better assess an employer's ability to self-insure could be strengthened. There are no explicit controls to prevent volatile industry segments from self-insuring.
- The rules, processes, and procedures for re-entering the State Insurance Fund are less complete. The securitization requirements for self-insurers terminating their self-insured status are not as firm as those of several other states; this difference being somewhat driven by the different competitive environment in other states. Currently very few employers return to the state fund due to the higher costs.

Self-Insurance

Performance Assessment



Peers and Industry Standards Considered

Details on Peers/Industry Standards used: thorough research of self-insurance processes of 13 states* (including Ohio) that are monopolistic, geographically close to Ohio, have an industry base similar to that of Ohio, and/or have a large state fund.

*States include: California, Illinois, Indiana, Kentucky, Michigan, Nebraska, New York, Ohio, Pennsylvania, Tennessee, Texas, Washington, and West Virginia.

Self-Insurance

Deloitte Conclusions:

Application/Approval Process:

- Objective metrics should be established for granting self-insurance privileges to ensure consistency in application processing.
- An actuarial study should be required for better understanding of the applicant's underlying exposure.
- Anti-fraud and safety program requirements should be considered.
- A homogenous group self-insurance program should be considered as an additional option.
- Industry-specific application criteria should be considered for employers in industries that might be less financially stable, more volatile and hence less fit to fund a self-insurance program.

Self-Insurance

Deloitte Conclusions (continued):

Self-Insurers Returning to the SIF:

- Security requirements tailored to a specific self-insured should be continued after a self-insurer returns to the State Insurance Fund.
- Rules and procedures should be developed and documented on how often an employer can transition to self-insurance and back to the SIF.

Programs

The Situation:

- Employers who meet various eligibility requirements can participate in one or more of several discount programs offered by the BWC. These programs include the Premium Discount Program (PDP), Drug-Free Workplace Program (DFWP), One Claim Program (OCP) and Safety Council program.

Programs

Review & Analysis:

- The discount programs offered in the state of Ohio are generally similar to those offered in other states.
- The magnitude of the credits available under these programs in some cases is out of line with other states. As an example, in the state of Washington, an employer with no compensable claims during the three year experience period used for experience rating can potentially earn a discount from 10-40%. In contrast, Ohio's One Claim Program offers a discount of 40% to certain employers with a significant compensable claim in the most recent policy period.

Programs

Review & Analysis (continued):

- Participation in the discount programs, is relatively low, both for private employers (“PA”) and, for the applicable programs, public entities (“PEC”).
- For the 7/1/04-05 period, PA policies that participate in the PDP and/or DFWP have, in general, higher loss ratios than PA policies that do not participate in either program or both programs (where loss ratios reflect the premium discounts provided under these programs).
- Loss Ratios for those PEC policies that participate in the PDP and/or DFWP are, in general, comparable to the PEC policies that do not participate in either program or both program

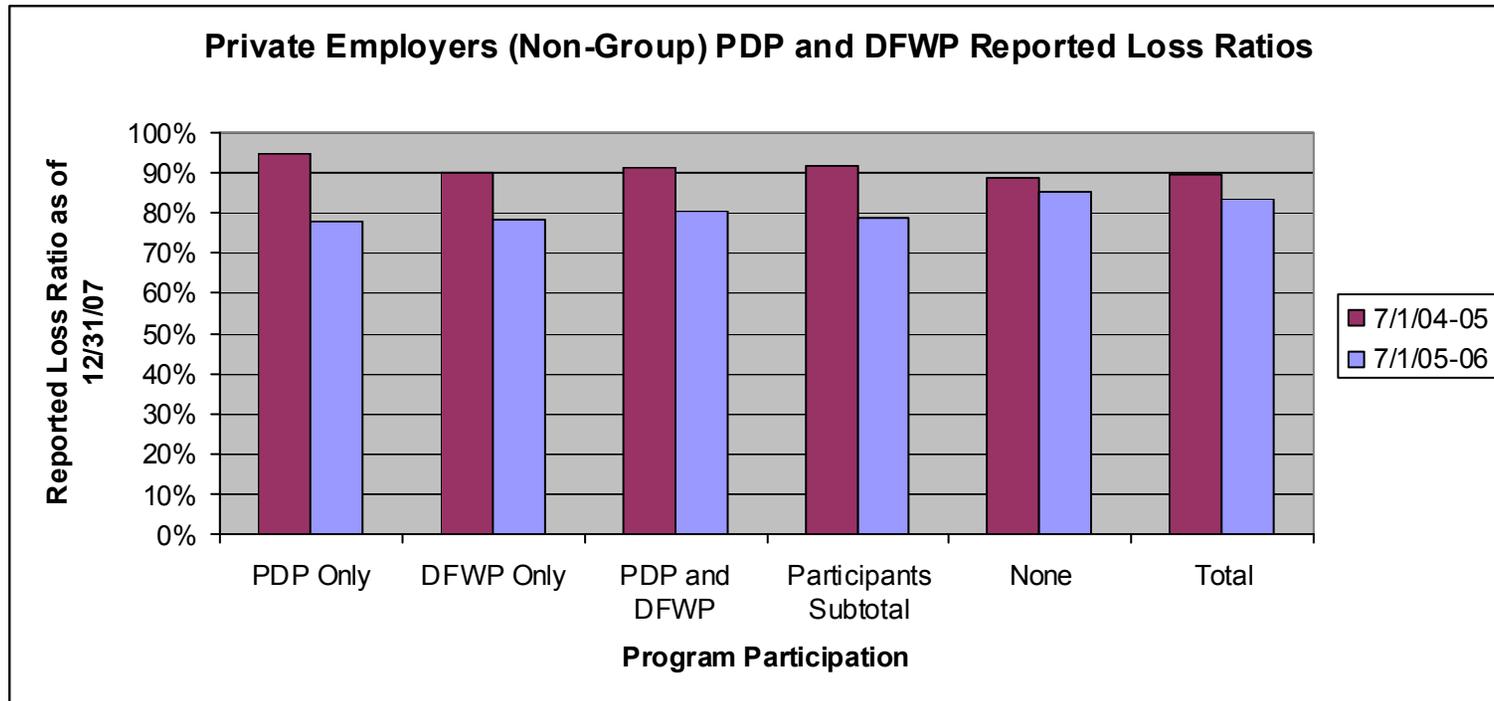
Programs

Review & Analysis (continued):

- OCP participants in the 7/1/05-06 policy period are producing loss ratios that compare favorably to experience rated policies. However, there are only a small number of participants in this program, and as such, no strong conclusions can be drawn.
- The safety council program, which offers a relatively low discount, has low participation to date and has not demonstrated a clear positive or negative impact on loss experience for those employers who have participated.

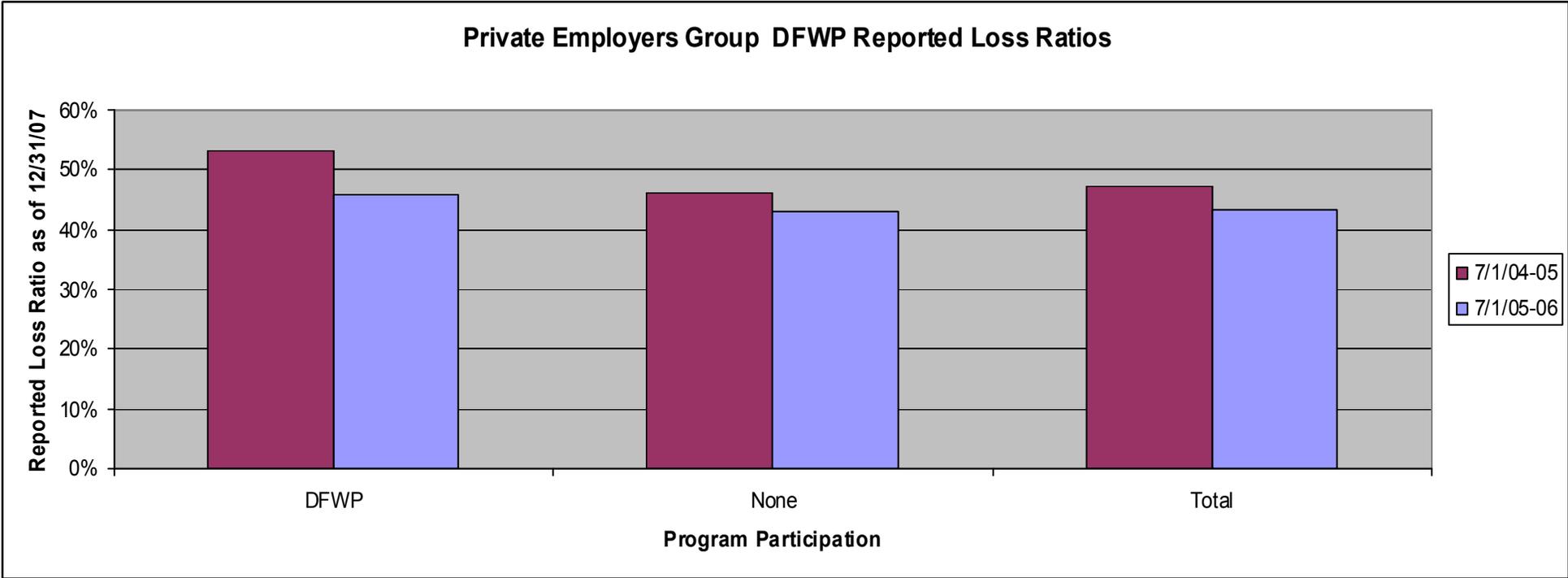
Programs

Review & Analysis: Non-Group PDP and DFWP



Programs

Review & Analysis: Group DFWP



Programs

Performance Assessment



Peers and Industry Standards Considered

NCCI, State of West Virginia, Other State Funds,
Actuarial Standards of Practice.

Programs

Deloitte Conclusions:

- The fact that a factor is loaded into the class ratemaking process in part for “premium slippage” resulting from employer participation in the discount programs suggests that the cost of the discounts outweigh the improvement to losses resulting from participation in the programs. Our analysis indicates that in general, this is indeed the case.
- For both PA and PEC policies, the PDP and DFWP appear to be functioning ineffectively. This conclusion holds, in general, for both group rated policies and non-group rated policies.

Programs

Deloitte Conclusions (continued):

- The results for OCP appear to be relatively favorable to date. However, as this program started in 2005, this program should be closely monitored for effectiveness. To the extent the structure of group rating is changed, this program may become unnecessary in its current form, as it is provided only for members who participated in groups in the prior policy period.

Subrogation

The Situation:

- Subrogation laws vary from state to state.
- Ohio laws are largely consistent with others with respect to statutes of limitations, statutory subrogation rights, attorney fees and costs, and allocation of recoveries.
- BWC generally applies reasonable practices for the recognition, determination, processing, and monitoring of subrogation.
- BWC staff is challenged with high caseloads.
- Technology is deficient in enabling operational efficiency and in generating robust performance metrics

Subrogation

Performance Assessment



Peers and Industry Standards Considered

Peers: 8 State Comparison – OH, IL, IN, KY, MI, NY, WA, WV
Referenced Standards – State Laws, Industry Leading Practices
References – Commercially available studies (e.g. Juris Publishing, International Risk Management Institute, US Chamber of Commerce, US Dept. of Labor), industry conference & internal insurance practice sources

Subrogation

Deloitte Conclusions:

- Build functionality in V-3 to fully manage subrogation claims
- Maintain staffing to ensure subrogation specialist caseloads do not exceed 400
- Establish a more robust set of program performance metrics
- Investigate utilization of text mining to augment existing business rules for subrogation referral of medical-only claims.

\$15,000 Medical Only Program

The Situation:

- The historical motivation for employers to participate in this program is to help preserve the employer's experience-rating credit, especially in a group.
- The program only applies to medical only claims.
- The BWC does not currently reserve for medical only claims in the experience-rating process.
- The \$15k program compromises application of leading industry practices for early intervention of medical management and oversight of the process by BWC.

\$15,000 Medical Only Program

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
\$15,000 Medical Only Program				

Peers and Industry Standards Considered

State Funds; Industry Practices

\$15,000 Medical Only Program

Review & Analysis:

- There are inherent costs incurred by the BWC by offering this type of program. Loss of certain claim economies is highly likely.
- Since there is no current requirement to report the dollars paid on these claims to the BWC the total cost of claims within this program is not known by BWC.

\$15,000 Medical Only Program

Deloitte Conclusions:

- This program does not appear to offer any appreciable benefits to employers or the BWC. As such we recommend terminating the program.

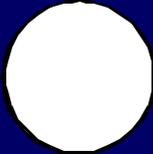
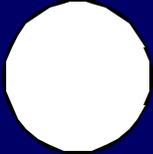
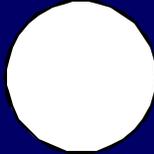
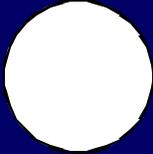
Salary Continuation

The Situation:

- The program allows employers to continue payment of full salary in lieu of filing TT claims against their policy.
- BWC will not include the MIRA reserve on that claim or the amount of salary paid to the injured worker in the experience rating modification calculation.

Salary Continuation

Performance Assessment

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Salary Continuation				

Peers and Industry Standards Considered

State Funds; Industry Practices.

Salary Continuation

Review & Analysis:

- Payment of full salary decreases the incentive to return to work.
- Payment of full salary, instead of TT limited benefits, increases costs to the State overall.
- Reserve estimates for BWC's TT program could be understated due to the lack of consideration of these claims.
- There are inherent costs incurred by the BWC by offering this type of program. Loss of certain claim economies is highly likely.
- The total cost of claims within this program is not directly known by BWC - any quantitative evaluation of the programs is very limited.

Salary Continuation

Deloitte Conclusions:

- By paying full salary and providing a disincentive for employees to return to work, this program appears to be detrimental to Ohio's economic system. As such we recommend terminating the program.
- An appropriately priced deductible program may serve as a reasonable alternative to employers who are interested in self-insuring a portion of their exposure to losses.

SIEGF

The Situation:

- Current assessments for SIEGF are based on prior calendar year payments and fluctuate from year to year and do not recognize future liabilities to SIEGF
- There is currently no significant difference in assessment rates based on the credit worthiness or financial strength of a self insured employer.
- The insolvency of a large self insured may result in a current increase in the financial burden on remaining self insured employers.
- Current quality of data collected does not easily facilitate the quantification of true self insurance exposure to risk.

SIEGF

Performance Assessment



Peers and Industry Standards Considered

Other States Security/Guaranty Fund Requirements.

SIEGF

Deloitte Conclusions:

- Consider a pre-assessment methodology to help improve ability of SIEGF to address the cost of future bankruptcies and mitigate the additional financial burden that this would pose to remaining self-insured employers
 - Methodology should allow for the pro-active identification of industries or characteristics of employers that might pose a particularly high risk of future exposure to the SIEGF.
 - Methodology may result in increase in overall costs to self-insured employers but would temper potential volatility in future assessments.

SIEGF

Deloitte Conclusions (continued):

- Enhance quality and quantity of data collected from self-insured employers to facilitate measurement of self-insurance exposure
 - Collect more detailed electronic data from all self-insured employers on an ongoing basis in electronic format and/or required actuarial reports.

Performance Assessment Summary

	Effectiveness & Efficiency	Financial Strength & Stability	Transparency	Ohio Economic Impact
Statewide Rate Level				
Class Ratemaking				
Group Rating				
Experience Rating				
MIRA II Reserving				
Self-Insurance				
Programs				
Subrogation				
\$15,000 Medical Only				
Salary Continuation				
SIEGF				

Performance Assessment Summary

Overarching Themes

Effectiveness & Efficiency	How well does the Ohio workers' compensation system utilize its resources and administer benefits?
Financial Strength & Stability	Is the Ohio workers' compensation system fiscally sound? Does the system promote pricing stability?
Transparency	Can the public understand the workings of the Ohio workers' compensation system?
Ohio Economic Impact	Does the workers' compensation environment encourage business growth and development in Ohio?

Scoring Method

	Strongly supports system performance
	Supports system performance
	Some support for system performance
	Some opportunity for system performance change/enhancement
	Significant opportunity for system performance change/enhancement

Next Steps

Next Steps

- Finalize documentation of the findings
- Continue work on other Group tasks

Appendix

Group 1 Study Elements

Pricing Process

Statewide Rate Level

- 1) Data
 - a) Data quality and reliability
 - b) Experience Period
 - c) Credibility
 - d) Payroll information
 - d) Paid versus incurred data

- 2) Methodology
- 3) Use of Reserves
- 4) ELR Comparison
- 5) Other

Class Ratemaking

- 1) Private Employer
- 2) Public Employer Taxing District
- 3) Rating Rules and Laws

Experience Rating

- 1) Grouping of employers for experience rating
- 2) Individual Experience Rating
- 3) Use of MIRA II
- 4) Possible Alternatives

Self Insurance

- 1) Approval Process
- 2) SIEGF assessments
- 3) Surplus Fund Assessments
- 4) Return to BWC

Programs

- 1) Premium Discount Program
- 2) Drug Free Workplace Program
- 3) Safety Council Program
- 4) One Claim Program

Alternative Pricing Methods

Cost Controls

Subrogation

\$15,000 Medical Only Program

Salary Continuation

Financial Provisions

SIEGF

- 1) Sufficiency Requirements
- 2) Contribution calculation methodology

Pricing Process Areas

Statewide Rate Level	Tasks Involved
1. Data	<p>1. Review and make written recommendations with regard to the private employer premium and public employer taxing district rate calculations. This review would include a complete analysis of the rating program including but not limited to the experience period, the credibility tables used, loss information including quality and reliability of the data, payroll information, the off-balance calculation, the expected loss rates, the grouping of employers for experience rating, the use of reserves in the rate calculation, the payroll inflation factors, rating rules and laws, the transparency of the rate making process, and all rating calculations. This analysis should compare the BWC's rating calculation to industry standards, other state insurance funds and monopolistic state insurance funds, actuarial ratemaking principles as promulgated by the Casualty Actuarial Society, and the Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries.</p>
a) Data quality and reliability	
b) Experience Period	
c) Credibility	
d) Payroll information	
e) Paid versus incurred data	
2) Methodology	<p>12. Review and make written recommendations on the reserving methodology used in the rate making process. This evaluation would include a review of the current MIRA reserving system, an evaluation of the new MIRA II Reserving system expected to be implemented in 2008 and alternative reserving methodologies that can be incorporated into the BWC experience rating system which will make the system more transparent. This evaluation would include the practice of reducing reserves due to certain compensation payments or the nonreserving of claims due to certain injury types.</p>
3) Use of Reserves	
4) ELR Comparison	<p>24. Conduct a study of the loss rates and base rates of the Ohio BWC as compared to other states. This study would evaluate the trends in Ohio as compared to industry peers.</p>
5) Other	<p>1. See above.</p>

Pricing Process Areas

Class Ratemaking	Tasks Involved
1. Private Employer	<p>1. Review and make written recommendations with regard to the private employer premium and public employer taxing district rate calculations. This review would include a complete analysis of the rating program including but not limited to the experience period, the credibility tables used, loss information including quality and reliability of the data, payroll information, the off-balance calculation, the expected loss rates, the grouping of employers for experience rating, the use of reserves in the rate calculation, the payroll inflation factors, rating rules and laws, the transparency of the rate making process, and all rating calculations. This analysis should compare the BWC's rating calculation to industry standards, other state insurance funds and monopolistic state insurance funds, actuarial ratemaking principles as promulgated by the Casualty Actuarial Society, and the Actuarial Standards of Practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries.</p>
2. Public Employer Taxing District	
3. Rating Rules & Laws	

Pricing Process Areas

Experience Rating	Tasks Involved
1. Grouping of employers for experience rating	6. Review and make recommendations to enhance the equity of the experience-rating system and the resulting rates (public and private), including, but not limited to, discounts and dividends. This review would include analysis of the Drug Free Workplace program, the One Claim Program, the Premium Discount Program, the group rating program, and the safety council program. The analysis should include a study of the cost effectiveness of each program and an evaluation of each program with respect to industry standards.
2. Individual Experience Rating	
3. Use of MIRA II	
4. Possible alternatives	

Pricing Process Areas

Self-Insurance	Tasks Involved
1. Approval Process	19. Evaluate the selection criteria used for self-insured employers. This evaluation would include the application of rules and laws in determining the employer's ability to manage and fund a self-insured program. The analysis will include suggestions for the financial evaluation performed upon application and the use of guarantees and securities to protect the Self-Insured Guaranty Fund (SIEGF).
2. SIEGF Assessments	11. Review and make written recommendations with regard to assessments for self-insured employers for the surplus fund and for the Self-Insuring Employers' Guaranty Fund. This review would include an analysis on the loss history used for the calculation, the paid compensation basis, the projected payout, and the methodology used to calculate the assessment rates.
3. Surplus Fund Assessments	
4. Return to BWC	18. Evaluate the BWC rules, laws, policies and procedures for rating an employer who is self-insured and desires to return to the state insurance fund. This evaluation would include the experience modifier selected, the use of self insured experience, and the future liability for Ohio.

Pricing Process Areas

Programs	Tasks Involved
1. Premium Discount Program	6. Review and make recommendations to enhance the equity of the experience-rating system and the resulting rates (public and private), including, but not limited to, discounts and dividends. This review would include analysis of the Drug Free Workplace program, the One Claim Program, the Premium Discount Program, the group rating program, and the safety council program. The analysis should include a study of the cost effectiveness of each program and an evaluation of each program with respect to industry standards.
2. Drug Free Workplace Program	
3. Safety Council Program	
4. One Claim Program	

Pricing Process Areas

	Tasks Involved
Alternative Pricing Methods (Described throughout)	35. Identify methods of rate setting and reserving, in addition to those already contemplated otherwise in the RFP that the administrator could use to make the rate setting and reserving process more transparent for employers and employees..

Cost Controls Areas

	Tasks Involved
Subrogation	8. Review and make written recommendations on the subrogation standards applied by the BWC. This review would include a review of legislation, the BWC subrogation collection process, the application of subrogation receipts to individual employer's experience, and the assigning of subrogated claims to individual employers.

Cost Controls Areas

	Tasks Involved
\$15,000 Medical Only Program	<p>22. Conduct a study on the payment of salary continuation by employers in lieu of temporary total compensation. This study would include an evaluation of the reserve calculation to determine if the premium collected by the BWC is appropriate for the liability presented and an evaluation to determine if salary continuation is a cost effective for employers. Conduct a study on the \$15,000 medical only program. This study would include an evaluation of the reserve calculation for claims in this program and an evaluation to determine if the premium collected by the BWC is appropriate, and if the program is a cost effective program for employers.</p>

Cost Controls Areas

	Tasks Involved
Salary Continuation	<p>22. Conduct a study on the payment of salary continuation by employers in lieu of temporary total compensation. This study would include an evaluation of the reserve calculation to determine if the premium collected by the BWC is appropriate for the liability presented and an evaluation to determine if salary continuation is a cost effective for employers. Conduct a study on the \$15,000 medical only program. This study would include an evaluation of the reserve calculation for claims in this program and an evaluation to determine if the premium collected by the BWC is appropriate, and if the program is a cost effective program for employers.</p>

Financial Provisions Areas

SIEGF	Tasks Involved
1. Sufficiency Requirements	20. Evaluate the SIEGF sufficiency requirements and recommend criteria to be used for determining the methodology for the Administrator to establish self insured employers contributions to the SIEGF pursuant to Ohio Revised Code 4123.351. This analysis would include analysis of the BWC's historical funding of the SIEGF and recommendations for funding the SIEGF particularly whether the fund should be pre-assessment or post-assessment.
2. Contribution Calculation Methodology	

Deloitte.