

Executive Summary

Introduction

The Ohio Bureau of Workers' Compensation (BWC) is engaged in an intensive reform effort to increase the stability, consistency, and competitiveness of workers' compensation insurance for Ohio's injured workers and employers. One aspect of this reform is to improve BWC's overall experience-rating methodology, create new performance-based incentive programs and strengthen Ohio's group-rating program.

Making meaningful improvements to Ohio's workers' compensation system requires the application of sound insurance-rating principles, industry best practices and appropriate performance measures. This includes better aligning premiums with the claims costs of individual employers. It also involves ensuring these discounts correspond with a measurable reduction in risk. The proposed recommendations reflect these considerations to enhance Ohio's workers' compensation system.

The following project plan envisions long-term evolutionary changes that will significantly increase equity while also reducing Ohio's base rates. The proposal recommends phasing in these refinements over time to accomplish meaningful changes and measuring their impacts while being sensitive to the potential consequences individual employers may face throughout implementation.

Overview

Current efforts to improve began in November 2007 when the BWC Board of Directors approved a 5-percent reduction to BWC's credibility table. This reduction lowered the maximum discount from 90 percent to 85 percent. The board's resolution also mandated BWC develop a long-term plan and present it to the board in June 2008. Specifically, it required BWC to consider whether Ohio should adopt a split experience-rating plan while also studying and reporting on group continuity and group rating rules (4.A, p. 10).

BWC staff embraced the board's charge and responded with more than just a proposal to implement a split experience-rating plan. BWC has outlined a greater array of programs and products to meet the dynamic needs of Ohio's diverse employers. These programs will enable Ohio's workers' compensation rating system to more effectively align premium with cost. Most importantly, these proposals aim to meet specific performance standards and ensure each policy pays the right rate for the individual risk it presents to the system.

Key recommendations

1. Implement a nationally tested, split experience-rating plan

BWC recommends a split experience-rating plan to improve the rating accuracy for individual employers and reduce the volatility of BWC's current experience-rating method. This plan would become effective July 1, 2011. This recommendation calls for reducing the maximum credibility level to 77 percent beginning July 1, 2009. In addition, BWC proposes a further reduction to 65 percent beginning July 1, 2010. Once BWC implements the final split plan, additional reductions may be appropriate.

Adopting a split experience-rating plan would be beneficial for Ohio employers. Used by at least 38 other states (4.E), the split plan rewards businesses that proactively embrace workplace safety and strive to prevent claims. A split plan still considers claim losses but emphasizes the frequency of claims, yielding a better indicator of future risk. By mitigating the impact of an individual claim, employers will see increased rate stability. Moreover, the introductions of new programs will complement a split-rating plan by encouraging employers to not only prevent claims but also effectively manage them should they occur.

2. Moderate premium volatility by capping or limiting potential premium increases

Transitional cap – BWC proposes to moderate the potential effects on employer premiums by capping increases that result from changes in the credibility table. BWC will cap all premium increases caused by changes to the credibility table at 20 percent beginning July 1, 2009. BWC will sustain this transitional cap in successive years until all employers graduate to their appropriate rate under a revised credibility table.

Global EM cap – BWC also proposes a global cap of 100 percent of an employer's experience modifier (EM) beginning July 1, 2009. This cap would significantly reduce premium increases resulting from loss of a group discount or other factors that cause significant volatility in employer premiums. BWC would leave the cap in place permanently to provide ongoing pricing stability.

Compared to prior changes in the credibility tables, these caps will enable BWC to more effectively reduce volatility and smooth the transitional impacts for Ohio businesses as it moves to a split-experience rating plan.

3. **Create new performance-based safety incentive and discount options for employers**

As BWC seeks to align premiums with the risk each employer brings to the system, it must also develop a broader menu of options for those companies that desire different pricing options. This includes development and implementation of performance-based options. Such options allow each employer to choose a level of risk bearing and risk sharing appropriate for their own business model. This may include a deductible program as well as incentive-based approaches such as shared savings and safety group plans.

Deductible – This program gives employers an option to control their costs by providing an incentive to promote workplace safety programs and services. Employers would receive a premium credit for the deductible selected, while assuming some liability for any losses. Employers would still submit claims, and BWC would continue managing them. However, the employer would pay all costs up to the selected deductible level. This allows BWC to bring medical-case management benefits to the employer and maintain an accurate database of claim activity in Ohio. BWC would like to implement this program July 1, 2009.

Group retro – Employers participating in this program would actively involve themselves with safety and claims management. Employers continue to pay their own individual premium. However, they would have the opportunity to receive future dividends based on the combined performance of the group. BWC would like to implement this program July 1, 2009.

Safety dividend – A safety-dividend program would provide incentive to businesses to manage costs and to improve workplace safety efforts. Employers would have the opportunity to receive potential future dividends based on the combined performance of the group. The strength of this program is that it would be performance based, and it can be inclusive of all employers. BWC would like to implement this program July 1, 2009.

Shared savings – This program encourages top performing employers to share some of their discounts as a way to improve the standing of the entire group. Poorer performing employers would receive some premium relief in exchange for implementing proven safety strategies to improve their individual performance. The group succeeds if it can improve the performance of their high loss members. BWC would like to report on the viability of this program by July 1, 2009.

4. **Further analysis of continuity strategies and group rating rules**

BWC explored multiple options to improve continuity among groups. Because of improvements resulting from the implementation of MIRA II, and the possible advent of new programs and products, BWC must analyze group-continuity options further. The performance of Ohio's workers' compensation system should improve significantly with adoption of the split experience-rating plan. Meanwhile, BWC will continue to examine and analyze the group-continuity issue, as well as the rules and requirements associated with the group-rating program. This will enable BWC to develop sound and viable approaches to improving performance of the group-rating program.

Testing and performance

It is also critical for BWC to define key performance measures associated with the current testing and analysis. These performance measures will determine whether all segments of employers — and all options that impact the amounts they pay into the Ohio State Insurance Fund — produce the same loss ratio. Loss ratios refer to the ratio of claim losses accrued to premiums collected over the period of one policy year. A higher ratio indicates that a risk incurs a higher rate of losses compared to the premiums paid. Achieving equal performance across any segment of employers indicates that a workers' compensation system is effectively charging employers an appropriate premium level relative to the risk they bring to the system.

Under this model of analysis, when two or more segments of employers in the Ohio State Insurance Fund do not produce the same loss ratio, BWC should determine whether the cause is:

- The random nature of claims in an insurance enterprise;
- An unidentified or under-recognized characteristic, or;
- A systemic issue.

In all but the first case, BWC should search for the underlying cause and identify appropriate potential adjustments.

By constantly scrutinizing Ohio's system, including current and new discount programs, BWC can effectively improve equity among employers and provide competitive rates for both established and developing industries across the state.

Key outcomes and conclusion

BWC believes fully implementing this plan will result in several positive outcomes for Ohio's employers and workers. Listed below are these positive outcomes.

Improving rating accuracy

Transitioning to a nationally tested experience-rating system that uses both frequency of claims and the severity of accidents as a measure of risk will provide better premium pricing for employers. Introducing the split plan and reducing the maximum discount level will better align premiums with costs. This also will improve pricing equity among employers.

Reducing premium volatility

Implementing a split experience-rating system will reduce the premium volatility for an employer that consistently maintains a safe workplace but has one random and costly accident. In addition, implementing both a transitional cap and a global EM cap will ensure that workers' compensation premiums do not suddenly skyrocket because of an isolated accident.

New programs and products

Going forward, BWC will work to provide employers with an array of performance-based programs and services. Businesses will have the benefit of selecting from a menu of options that align safety with financial rewards. These options would allow employers to take on additional risk or participate in performance-based programs where they could earn dividends. They would also complement the split experience-rating plan by encouraging employers to not only prevent claims but to also to manage them effectively should they occur.

Competitively priced workers' compensation system

As BWC establishes greater equity in pricing, Ohio's workers' compensation base rates will decline. By reducing base rates, BWC can become one of the most competitively priced workers' compensation systems in the Midwest. BWC expects the proposed changes to reduce base rates by approximately 23 percent to 27 percent (2.B) once implemented. These projections are based on testing performed using the current group composition. Any future changes to group membership could significantly impact these results.

Adopting these recommendations and continuing to test and monitor the system's performance will improve Ohio's workers' compensation system overall.

Proposed schedule of recommended deliverables

Implement a nationally tested, split experience-rating plan

- Implement a transitional reduction of maximum credibility level to 77 percent beginning July 1, 2009.
- Implement a second transitional reduction of maximum credibility level to 65 percent beginning July 1, 2010.
- Transition to a *split plan* by July 1, 2011, with an actuarially appropriate maximum credibility and appropriate corresponding parameters.

Moderate premium volatility by capping or limiting potential premium increases

- Implement an EM cap that prevents any individual employer's EM from increasing by more than 100 percent from one year to the next.
- Implement a 20-percent cap to moderate the potential effects on employer premiums by capping increases that result from changes in the credibility table.

Provide new performance-based safety incentives and discount options for employers

- Study how to implement a safety dividend program and report any findings to the board by Dec. 31, 2008, for implementation by July 1, 2009.
- Study how to implement a group retro program and report any findings to the board by Dec. 31, 2008, for implementation by July 1, 2009.
- Consider whether a shared savings plan would be viable in Ohio's market by July 1, 2009.
- Implement an actuarially sound deductible program that provides an appropriate discount for bearing a proportional amount of risk by July 1, 2009.

Continue ongoing analysis of continuity strategies and group rating rules.

- Study how to improve homogeneity and reporting any findings to the board by Dec. 31, 2008.
- Research additional strategies to improve group continuity and reporting any findings to the board by Dec. 31, 2008.
- Study strategies to improve group formation and report to the board by Dec. 31, 2008.
- Implement strategies to improve the re-rating and reporting any findings to the board by Mar. 31, 2009.
- Determine how to create a "How-to-Buy" guide for employers considering whether to join a group and reporting any findings to the board by Mar. 31, 2009.
- Consider how to enforce current group sponsor requirements and reporting any findings to the board by June 30, 2009.
- Review group employer requirements and reporting findings to the board by Sept. 30, 2009.
- Establish a complaint resolution process for group-rated issues and reporting the process to the Board by Dec. 31, 2009.