

Preparing for Change

March 24, 2010



The Ohio Bureau of Workers' Compensation ("OBWC") is instituting major changes in the way it reserves claims which will have a significant impact on all employers that pay premiums to the state fund. The OBWC's rating system is based upon claims and payroll, comparing what it believes an average employer should lose (based upon a percentage of payroll or Expected Losses) and what the employer actually lost (payments of medical and compensation plus reserves). Under this system, an employer below average pays less than the base rate and an employer above average pays more.

A number of years ago, the OBWC went away from its standard reserving system (tabular reserving) to MIRA (an automated reserving system that looks at a large number of claim variables and formulates reserve predictions based upon past experience). MIRA reserves all claims, however, during this transition, the OBWC agreed to continue to allow employers to avoid reserves on certain claims. Two examples of this policy were:

1. Not reserving medical-only claims; *and*
2. Suppressing reserves in lost-time claims when the employer pays wage continuation.

Employers that participated in group rating and enjoyed lower costs benefited from not having reserves on those claims. Both of these two holdovers from the old reserving system are coming to an end.

Beginning in July 2010, when the 06/30/2010 reserves are published, medical-only claims will appear with reserves. These reserves will not immediately impact your rates and, in fact, will not become part of the rate-making process for private employers until 07/01/2011. However, this will require employers to focus settlement attention on reserves for medical only as well as lost-time claims, as the settlement deadline will remain 10/15/2010.

Note: There is an exemption for those employers participating in the 15k program. The 15k is a deductible where employers pay the first \$15,000 of each claim. In those cases, medical only claims will not be reserved until the claim penetrates the 15k or the employer stops paying and the BWC assumes responsibility.

Salary continuation will no longer suppress reserves for claims with a date of injury of 01/01/2011 or later. The old claims will be grandfathered in, but employers need to think about the value of using salary continuation for claims after 01/01/2011. It will be difficult to justify wage continuation on new claims because wages in lieu of compensation will not suppress a reserve. The only exception are those employers that are in benefits.

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In addition to changes in reserving, there are other changes that are coming this year and in 2011.

The OBWC has introduced a new large deductible program that will add deductible limits of 25k, 50k, 100k and 200k. Discounts will depend on the risk, but could work well for the largest state fund employers since discounts can range from the teens to a max that a few may qualify for of 77%. There are additional options of choosing an aggregate limit to cap your premium exposure.

The new Deductible Program has a number of restrictions and for employers looking at 100k or 200k limits, you will have to pass financial review by the OBWC. **The filing deadline is going to be last business day of April which this year is 04/30/2010.**

One final issue that is likely coming in 2011 is that the OBWC may be moving to a split risk rating system. Remember that the current rating system simply looks at a four-year history of claims and payroll and compares actual to average. Split risk rating takes a much different approach. The frequency of losses is weighted much greater than the severity of losses. In other words, a risk that has one bad claim under the current system may be overwhelmed by that loss and be put into a penalty for the one loss. Under split rating, the risk with a high-end loss will not be penalized as severely as the risk with a number of small claims. The frequency of the loss will carry much more weight in calculating the rate than the severity of a single loss.

All of these changes will require our clients to review their state fund program carefully over the next 12 months. All of these changes are “revenue neutral” to the OBWC, *i.e.* it won’t impact the overall premium collected. The changes will not be revenue neutral to the individual risk and will require review and management of claims to avoid the pitfalls of these changes.

For additional information, please contact a [millisor+nobil](#) attorney in the [Workers’ Compensation Department](#) at 800/800-8806 or click on the envelope to email:



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