

BWC Board of Directors Executive Summary Deductible Program

Overview

BWC will offer a small deductible program to all BWC employers. BWC will pay first dollar on all claims and bill the deductible amounts back to the insured on a periodic basis. Qualification criteria would be established to verify that the employer is in good financial standing with BWC and is an acceptable credit risk. Participants premium discounts will vary based on the risk assigned to the employers group. There are seven risk groups identified from “A” (least risk) to “G” (most risk). The premium discounts would range from 1.4% for the low risk employers (Hazard Group G, \$500), 9.4% in the mid-range (Hazard Group D, \$2,500), and 26% at the high end (Hazard Group A, \$10,000.)

Deductible Levels

The following deductible levels would be offered to Employers

- \$500 per claim
- \$1000 per claim
- \$2500 per claim
- \$5000 per claim
- \$10,000 per claim

Target Customer

Both group and non-group employers would be eligible to participate in the deductible program as long as they meet the qualification criteria. Individual employers within a group would have the opportunity to make their own election as to the adoption and level of a deductible plan.

Private and public (PA and PEC) employers would be eligible for the deductible plans and rules would apply equally across both segments. State government would not be eligible because they are “pay as you go”.

The premium reduction employers receive would be a percentage of premiums and will be a function of the level of deductible they chose and their NCCI hazard group. NCCI hazard groups are based on the employer’s primary operating manual classification. Therefore, the higher deductible they choose, the larger discount they will receive. We anticipate that such a small return for the additional risk of deductible charges would discourage very small employers from adopting the plan.

Qualification Criteria

The deductible level an employer chooses must be lower than 25 percent of their last year's premium. Therefore, a minimum of \$2,000 in annual premium is the lowest threshold given the lowest deductible amount is \$500. The enrollment period will occur once per year and the employer will commit to participate for the full duration of the policy year. A re-enrollment process will occur annually with BWC re-verifying that the employer is an acceptable credit risk and has paid their deductible payments on time. Emphasis will be put upon simplicity so that overhead related to the deductible program will not be a deterrent to adoption of the plan. Employers wishing to participate continuously in the program will not need to re-apply each year.

An employer must be in good standing with BWC (no pending balance, a history of timely payments, and other factors) and be considered an acceptable credit risk to participate in the Deductible Program. A further check of account standing will be made after the first half of the policy year. If they are not current on their deductible payments, BWC may remove the employer from the program for the second half of the policy year.

Pricing Structure

For opting to participate in the Deductible Program, the employer will receive a discount on their premium. The amount of discount will be dependent upon the NCCI Hazard Group the employer falls within and the level of deductible chosen.

Upon the confirmation of the high-level structure of the deductible program, BWC will work with Oliver Wyman to develop a detailed pricing structure. Actuarial best practices and NCCI resources will be utilized to determine the appropriate deductible discount levels.

Aggregate or stop-loss coverage is not a feature of the BWC deductible program at this time. Research shows that most deductible programs are offered without an aggregate limit, however BWC is still researching the demand and marketability for such an approach in the Ohio market.

Allowing group employers into deductible plans may have the affect of lowering the upfront discounts. If this theory bears out, we may consider separate deductible tables for group versus non-group employers.

Billing Structure

BWC paying first dollar on each claim will necessitate additional billing to employers. Billing for deductibles will occur monthly so that BWC does not have a significant cash flow or receivable issues. Also, employers will be able to pay down their deductible costs with greater frequency instead of building up one large bill.

All recorded costs under the defined deductible level will be charged to the employer each month, even if the claim remains open.

It will be evaluated whether an automatic withdrawal system would be appropriate to assist in the collection of deductible billing.

Benchmarking Information

Total Loss Elimination Ratios

Total Loss Elimination Ratios represent the portion of total loss eliminated per occurrence and are applicable by hazard group. This ratio is typically used as a starting point for developing deductible premium reduction percentages. The Premium Reduction is calculated by adding additional factors for profit, adverse selection, discounting, interest, and credit risk.

State	\$500/ Haz G	\$2,500/ Haz A	\$5,000/ Haz A	\$10,000/ Haz A
Ohio	1.5%	15.0%	19.4%	28.0%
Indiana	1.6%	24.6%	33.1%	
Kentucky	0.9%	10.7%	14.9%	20.6%
Missouri	1.4%	16.3%	23.7%	34.4%
Nebraska	1.1%	11.5%		
North Carolina	0.8%	9.9%	13.9%	
South Carolina	0.9%	10.9%		
Tennessee	1.3%	14.6%		
Virginia	1.1%	12.4%	17.0%	23.3%
West Virginia	2.0%	18.9%	28.7%	42.2%

*All values based on NCCI Advisory Loss Elimination Ratios

Premium Reduction Percentages

Premium Reduction Percentages the applicable amount that premium is deducted per the deductible level chosen and Hazard Group of the employer’s primary manual classification. In Ohio this percentage will be applied to the modified rate for experience rated employers and base rate for base rated employer.

State	\$500/ Haz G	\$2,500/ Haz A	\$5,000/ Haz A	\$10,000/ Haz A	Other
Ohio	1.4%	14.0%	17.9%	26.0%	
Indiana¹	1.6%	13.8%	18.6%	N/A	
Montana State Fund²	0.8%	9.6%			Medical Only
Oklahoma Compsource³					Do not use HG, \$500- 2.7%, \$2,500 - 5.4%

¹ NCCI Advisory deductible premium reduction percentage

² From www.montanastatefund.com

³ Per Janese Williams, Assistant Underwriting Manage at Compsource

Draft rule
Deductible Program

4123-17-72 Deductible program.

(A) As used in this rule:

(1) "Coverage period" means the twelve month period beginning July 1 through June 30 for private employers, and January 1 through December 31 for public employers. The deductible selected by the employer will apply only to claims with a date of injury within the coverage period defined in the deductible agreement.

(2) "Deductible" means a specified amount of money that the insured must pay on a claim before the bureau covers the costs of a workers' compensation claim.

(3) "Modified rate" means the rate that employers who are experience rated pay as a percentage of their payroll. This rate is calculated by taking the base rate and multiplying it by the employer's experience modification (EM) factor.

(4) "NCCI base rate" means the rate that employers who are not experience rated pay as a percentage of their payroll.

(5) "Policy in good standing" means the employer is current on all payments due to the bureau and is in compliance with bureau laws, rules, and regulations at the time of enrollment or reenrollment.

(6) "Premium" means money paid (due) from an employer for workers' compensation insurance. It does not include money paid as fees, fines, penalties or deposits.

(7) "Qualified employer" means an employer that has a bureau policy that is in good standing at the time of enrollment or reenrollment. Although the employer may be a qualified employer, the bureau may not accept the employer into the deductible program for other reasons set forth in this rule.

(B) Eligibility requirements.

Each employer seeking to enroll in the bureau deductible program shall have active workers' compensation coverage and shall meet the following standards:

(1) The employer shall have a bureau policy that is in good standing at the time of enrollment.

(2) The employer shall be a private state funded employer or public employer taxing district. A self-insuring employer or a state agency public employer shall not be eligible for participation in the deductible program.

(3) The employer shall be current on all premium payments and deductible billings as of the original application deadline or anniversary date of participation.

(4) The employer shall have active coverage as of the original application deadline or anniversary date of participation.

(5) The employer shall demonstrate the ability to make payments under the deductible program based upon a credit score established by the bureau on an annual basis which will be applicable to all applicants for the program year. The bureau shall obtain the credit reports from an established vendor of such information.

(6) The employer may not have cumulative lapses in workers' compensation coverage in excess of forty days within the twelve months preceding the original application deadline or subsequent anniversary deadline wherein the employer seeks renewal in the deductible program.

(C) In selecting an employer deductible program under this rule, the employer must select, on an application provided by the bureau, a per claim deductible amount, which shall be applicable for all claims with dates of injury within a one year coverage period. The employer shall choose one deductible level from the following:

(1) \$500.00.

(2) \$1,000.00.

(3) \$2,500.00.

(4) \$5,000.00.

(5) \$10,000.00.

(D) In choosing a deductible amount under paragraph (C) of this rule, the employer may not choose a deductible amount that exceeds twenty-five per cent of the total premium paid by the employer during the most recent full policy year. For a new employer policy, the deductible amount shall not exceed twenty-five per cent of the employer's expected premium.

(E) The employer shall file the application provided by the bureau and any other paperwork required for enrollment in the deductible program by the bureau by the appropriate enrollment period as follows:

(1) For a private employer, between April 1 and May 31 preceding a policy year that begins on July 1.

(2) For a public employer taxing district, between October 1 and November 31 preceding a policy year that begins on January 1.

(a) Where the due date falls on a weekend or holiday, the application and any related documentation must be received no later than the next business day following the deadline.

(b) Applications and any supporting documentation may be submitted by U.S. Postal Service, fax, e-mail containing scanned documentation, or online submission, so long as such paperwork is received by the bureau on or before the due date.

(3) The bureau shall not permit an employer to enroll in a deductible program outside of the deadlines set forth in this rule, except that the bureau will consider a new employer, establishing a policy in Ohio for the first time, for participation where the employer submits its deductible program application to the bureau within thirty days of obtaining coverage.

(F) Renewal in the deductible program at the same level for each subsequent year shall be automatic, subject to review by the bureau of the employer's continued eligibility under paragraph (B) of this rule, unless the employer notifies the bureau in writing that the employer does not wish to participate in the program or that the employer wants to change the deductible amount for the next coverage period. The employer shall provide such notice to the bureau within the time and in the manner provided in paragraph (E) of this rule.

(G) An employer shall not be permitted to withdraw from the deductible program during the policy year, and no changes shall be made with respect to any deductible amount selected by the employer within the policy year. However, the bureau shall have the option of removing an employer from the deductible program for any of the reasons described in paragraph (L) of this rule.

(H) The bureau shall pay the claims costs under a deductible program and the employer shall reimburse to the bureau the costs under the deductible program as follows:

(1) The bureau shall pay all claims costs in accordance with the laws and rules governing payment of workers' compensation benefits. The bureau shall include the entire cost in the employer's experience for the appropriate policy year.

(2) The bureau shall bill the employer on a monthly basis for any claims costs paid by the bureau for amounts subject to the deductible as elected by the

employer for the policy year. In addition to amounts paid by the bureau for which the bureau is seeking reimbursement from the employer, such monthly billings shall also reflect the payments to date for any claims to which a deductible is applicable.

(3) The employer shall pay all deductible amounts billed by the bureau within twenty-eight days of the invoice date. The employer will be subject to any interest or penalty provisions to which premiums are subject, including certification to the attorney general's office for collection.

(4) The employer shall continue to be liable beyond any deductible program period for billings covered under a deductible program for injuries that arose during any period for which a deductible is applicable, regardless of when payment was made by the bureau.

(I) The bureau will apply the premium reduction calculation under the deductible program directly to the NCCI base rate established for the policy year for base-rated employers, or after the modified premium rate is established for experience-rated employers, but prior to any other premium discounts, as well as DWRF and administrative expenses. An individual employer participating in both group rating under rules 4123-17-61 to 4123-17-68 of the Administrative Code and the deductible program under this rule may implement the deductible program and receive the associated premium discounts in addition to the group discount; provided, however, the combined discounts may not exceed the maximum discount allowed under the group rating plan. The bureau will calculate the reduction in accordance with appendix A of this rule, which takes into account both the deductible amount chosen by the employer and the applicable hazard group under the most current version of NCCI as established by the primary manual classification of the employer as determined at the end of the enrollment period for that year.

(1) In determining the primary manual classification and appropriate hazard group, the bureau shall utilize payroll for the rating year beginning two years prior to the period in which the employer is seeking to enroll in the deductible program.

(2) For new employers, the bureau shall base the appropriate primary manual classification and hazard group upon estimated payroll.

(J) Where there is a combination or experience transfer of an employer within a deductible program policy period, following the application of any other rules applicable to a combination or experience transfer, the employer may be eligible to remain in a deductible program as follows:

(1) Successor: Entity not having coverage

Predecessor: Enrolled in deductible program currently or in prior policy years

Where there is a combination or experience transfer, where the predecessor was a participant in the deductible program and the successor is assigned a new policy with the bureau, the successor shall make application for the deductible program within thirty days of obtaining a bureau policy, as set forth in paragraph (E)(3) of this rule. Notwithstanding this election, the successor shall be responsible for any and all existing or future liabilities stemming from the predecessor's participation in the deductible program prior to the date that the bureau was notified of the transfer as provided under paragraph (C) of rule 4123-17-02 of the Administrative Code.

(2) Successor: Enrolled In the deductible program
Predecessor: Not enrolled in the deductible program

Where there is a combination or experience transfer involving two or more entities, each having Ohio coverage at the time of the combination or experience transfer, and the successor policy is enrolled in the deductible program for the program year, the successor shall automatically remain in the deductible program for the program year and is subject to renewal in accordance with paragraph (F) of this rule.

(3) Successor: Not enrolled in deductible program
Predecessor: Enrolled In deductible program

Where there is a combination or experience transfer involving two or more entities, each having Ohio coverage at the time of the combination or experience transfer, and the successor policy is not enrolled in the deductible program, the predecessor shall not be automatically entitled to continue in the deductible program. The successor may make a formal application should it desire to participate in the deductible program for the next policy year. Whether or not the successor chooses or is otherwise eligible to participate in a deductible program, under paragraph (C) of rule 4123-17-02 of the Administrative Code, the successor remains liable for any existing and future liabilities resulting from a predecessor's participation in the deductible program.

(K) An employer participating in the deductible program shall be entitled to participate in any other bureau rate program, including group rating, concurrent with its participation in the deductible program, except that an employer cannot utilize or participate in, with respect to any injuries which occur during a period for which the employer is enrolled in a deductible program, the following bureau rate programs:

- (1) Retrospective rating, whether group or individual.
- (2) The \$15,000 medical-only program.
- (3) Salary continuation.

(L) The bureau may remove an employer participating in the deductible program from the program, effective the second half of the program year, with thirty days written notice to the employer based upon any of the following:

(1) Where the employer participates in any plan or program prohibited under paragraph (K) of this rule.

(2) Where the bureau certifies a balance due from the employer to the Attorney General during the program year.

(3) Where the employer makes direct payments to any medical provider for services rendered or supplies or to any injured worker for compensation associated with a workers' compensation claim.

(4) Where the employer engages in misrepresentation or fraud in conjunction with the deductible program application process.

(M) An employer who is removed from the deductible program under paragraph (L) of this rule shall be barred from participation in the deductible program for the following year, and shall be required to complete the application process thereafter should it desire to again participate in the deductible program.

Summary of Selected Deductible Credits

Deductible Amount	Hazard Groups						
	A	B	C	D	E	F	G
\$500	6.3%	4.1%	3.9%	3.9%	2.8%	2.0%	1.4%
\$1,000	9.5%	6.3%	6.0%	6.0%	4.4%	3.2%	2.3%
\$2,500	14.0%	10.0%	9.6%	9.4%	7.2%	5.5%	3.9%
\$5,000	17.9%	14.2%	13.7%	13.4%	10.3%	8.1%	5.8%
\$10,000	26.0%	21.2%	20.8%	19.9%	16.6%	12.9%	9.7%

The deductible credits include a recovery risk factor of 0.98 and an adverse selection factor of 0.95.

Common Sense Business Regulation (BWC Rules)

(Note: The below criteria apply to existing and newly developed rules)

Group Sponsor Rules

4123-17-61, 4123-17-61.1, and 4123-17-68

Rule Review

1. The rule is needed to implement an underlying statute.

Citation: R.C. 4123.29

2. The rule achieves an Ohio specific public policy goal.

What goal(s): R.C. 4123.29(A)(4) permits BWC to offer group rating plans. The group rating rules are revised to clarify responsibilities of sponsoring organizations and to improve the group rating rules.

3. Existing federal regulation alone does not adequately regulate the subject matter.

4. The rule is effective, consistent and efficient.

5. The rule is not duplicative of rules already in existence.

6. The rule is consistent with other state regulations, flexible, and reasonably balances the regulatory objectives and burden.

7. The rule has been reviewed for unintended negative consequences.

8. Stakeholders, and those affected by the rule were provided opportunity for input as appropriate.

Explain: BWC worked on the rules with input from a committee of the following: Central Ohio BX, CCI, COSE, CompManagement, County Commissioners' Association, Comprehensive Risk Management, Farm Bureau, Frank Gates, Greater Cleveland Auto Dealers' Association, Greater Cleveland Auto Dealers' Association, Gates McDonald, NFIB, Sheakley, Ohio Association of School Board Officials, Spooner, Ohio Manufacturers' Association, Workers' Comp Management Solutions, Ohio Retail Merchants, Ohio School Board Association.

9. The rule was reviewed for clarity and for easy comprehension.

10. The rule promotes transparency and predictability of regulatory activity.

11. The rule is based on the best scientific and technical information, and is designed so it can be applied consistently.