Annual Report
Employer Programs Performance

Employer Programs Performance Annual Report

Prepared for the BWC Board of Directors

January 2014

Ohio Bureau of Workers' Compensation

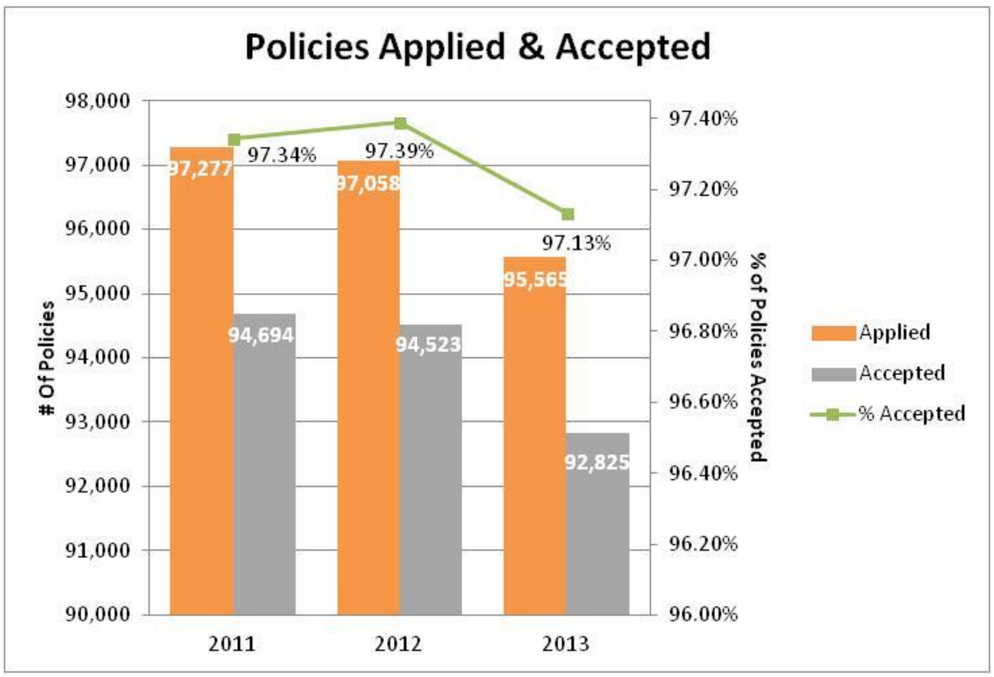
Contents

Pursuant to rule 4123-17-61.1 (Sponsorship Requirements), Paragraph (D) requires *that "Following the conclusion of the July 1, 2008 to June 30, 2009 policy year, the bureau will report annually on the aggregate performance of all groups."* In 2011 Employer Programs expanded the scope of the report to include information regarding other BWC discount and incentive programs.

Group Rating Program:

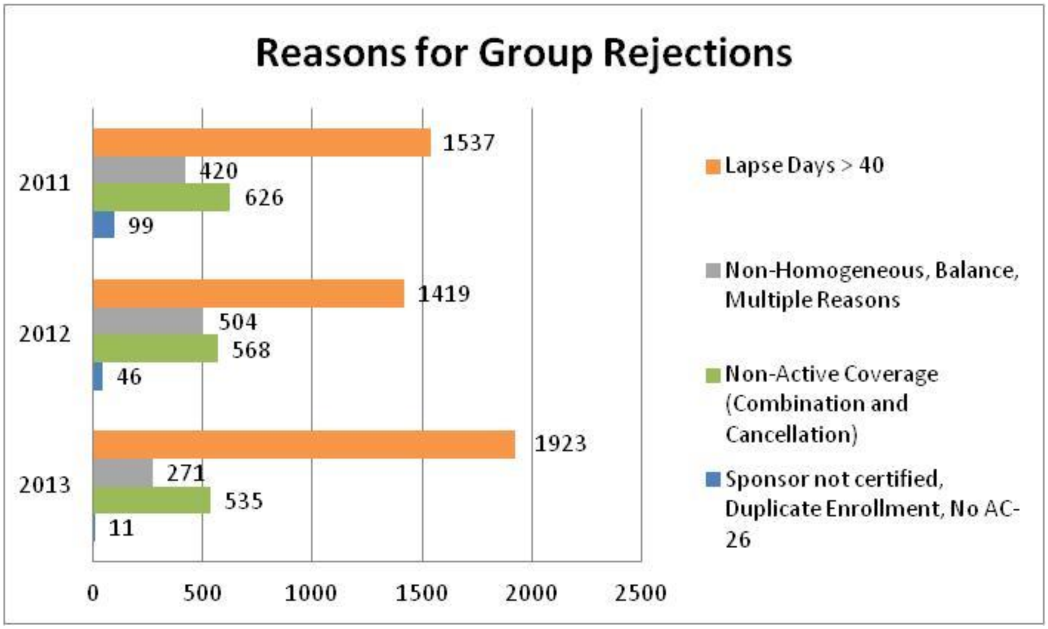
The Group Rating program has seen two years of rate stability as the maximum discount allowed (53%) has not changed. However, enrollment in Group Rating has been on the decline since the introduction of Group-Retrospective Rating in 2009 from 99,150 to 95,565.

Chart 1



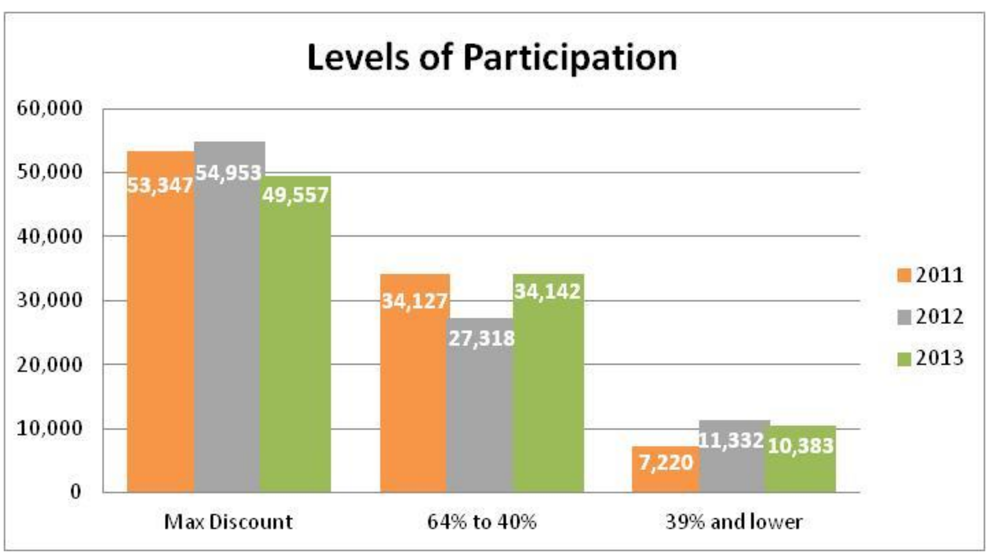
The percentage of accepted polices had been trending upward since 2010. That trend reversed for the 2013 enrollment as a larger percentage of employers were not eligible to participate due to having lapses in excess of 40 days as demonstrated in chart #2. In 2012 56% of polices that were disqualified for participation were due to excessive lapses. In 2013 that number increased to 70%.

Chart 2



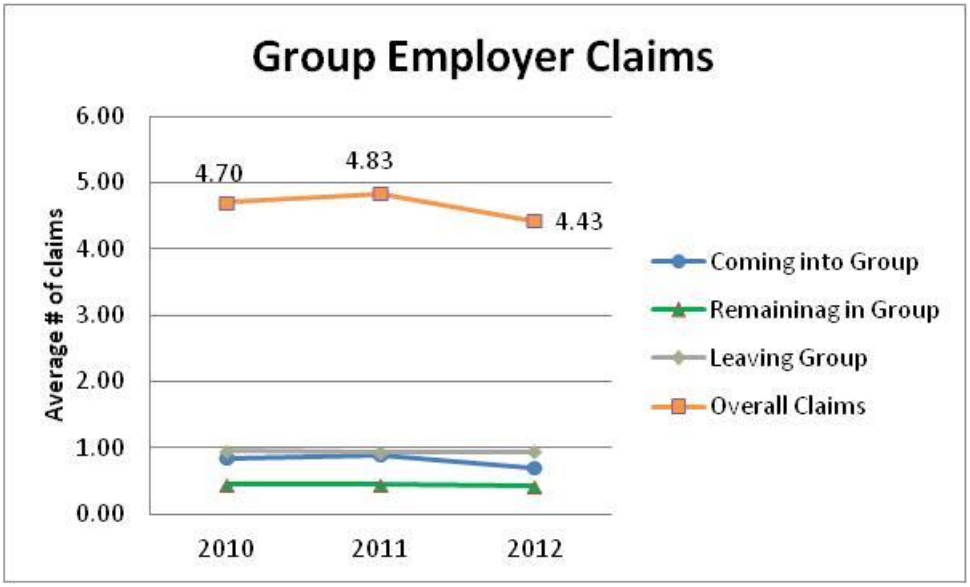
In 2010 and 2011, the maximum discount for group rated employers was 65% with a break even factor. In 2012 the maximum discount was reduced to 53% with no break even factor. Chart 3 demonstrates that as the maximum discount in the Group-Experience remained the same for 2013 as it was in 2012, we have seen a slight decrease in employers participating at the maximum discount from 59% of the accepted polices in 2012 to 53% in 2013, even as the number of polices accepted into Group has been on the decline. Conversely, the number of employers enrolled in groups with a discount of 40% to 52% increased compared to 2011 and 2012. In 2012, 88% of the policies that have been accepted into Group-Experience rating achieve a discount of greater than 40% while in 2013 that number increased to 90%.

Chart 3



Employers enrolling in group for the first time, remaining in group, or exiting group in 2010, 2011 and 2012 did not experience a significant change in the number of claims that they experienced. Overall, employers in the state of Ohio have seen a reduction in the number of claims filed. Employers enrolled in group tend to be smaller employers with fewer claims than the average employer. Over the past three years, employers that participated in group average less than one claim per year.

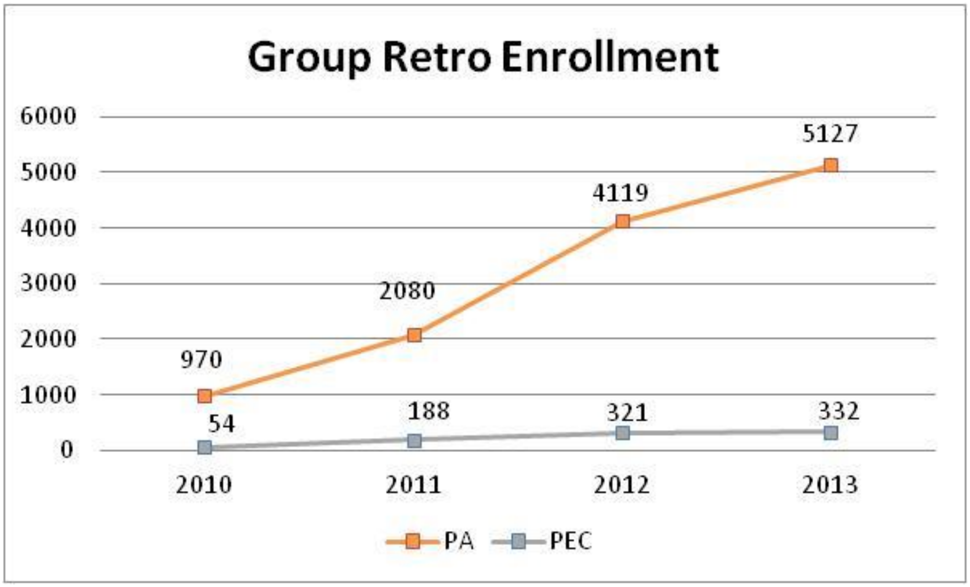
Chart 4



Group Retrospective Rating:

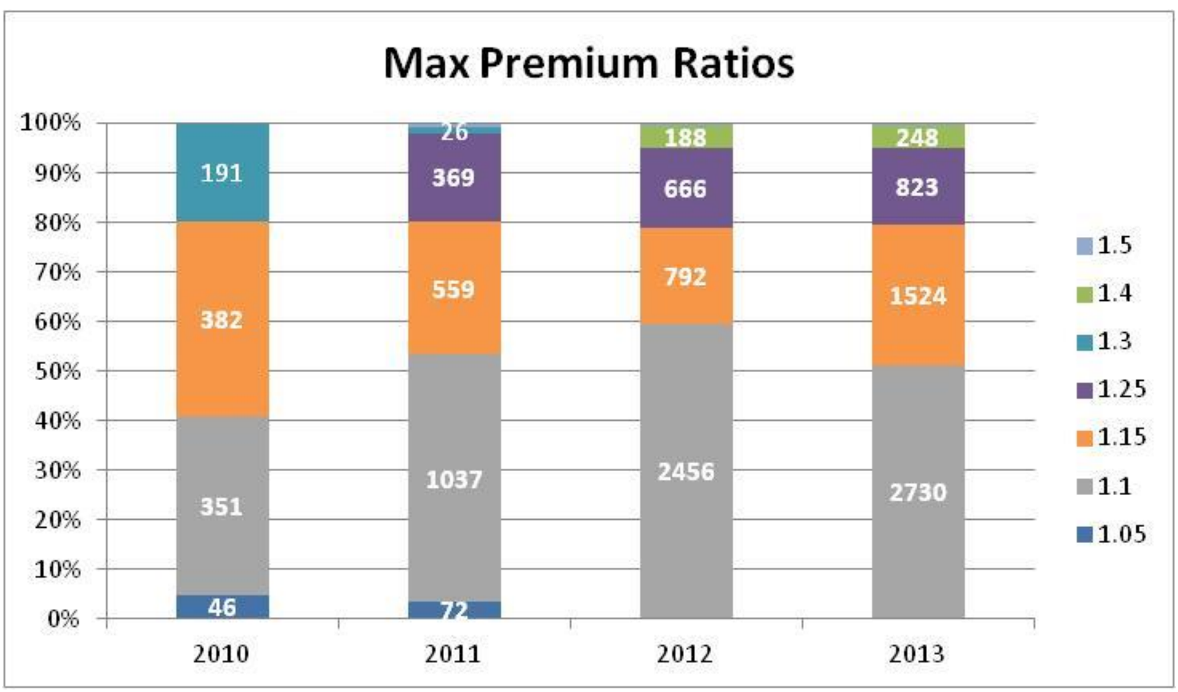
The Group Retrospective Rating program was introduced in 2009. Group Retro is similar to Group Experience rating by utilizing the concept of pooling similar employers and their experience to achieve reduced premiums. Group Retrospective rated groups must contain at least 2 employers and a minimum of $1,000,000 in premium. The main distinction between Group Retro and Group Experience is that employers in Group Experience rating see the premium benefit of participation when they initially pay their premium while the premium benefit achieved from participation is earned after the close of the participation year. Participation levels in Group Retro have increased in each year since 2009, more than doubling each year from 2009 to 2012 for private employers. Public employers have also seen an increase in the participation levels in Group Retro, but they have not matched the increases seen for PA employers.

Chart 5



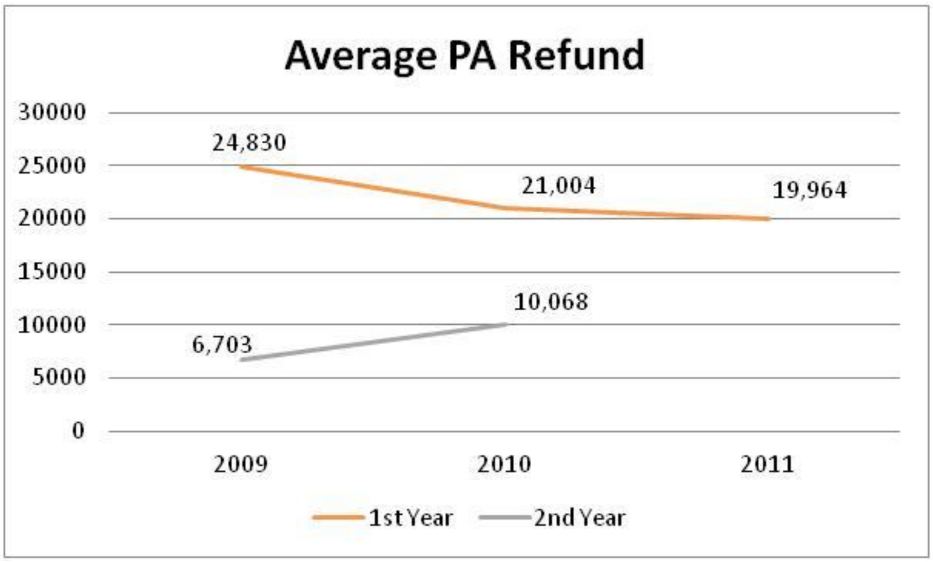
Even as the number of employers participating in Group Retro have increased, sponsors that form the groups have not taken on any additional risk. A max premium ratio of 1.25 means that an employer could not receive more than a 25% increase to their premium paid though participation in Group Retro. sponsors have remained somewhat conservative in that 80% of the participations in Group Retro have been enrolled with a max premium of 1.15 or below.

Chart 6



Group Retrospective rated groups are evaluated three times, at 12, 24, and 36 month intervals after the close of their policy year. When performing the annual evaluation, BWC reviews the premium paid in relation to the loses of the group. BWC then calculates what the premium should have been based upon the claims losses for the group. A vast majority of groups have received premium rebates; however the average refund earned by PA employers for the 12 month evaulation have decreased over the past three years. A positive sign is that employers have seen the average refund on the 24 evaluation increase indicating that those employers are effectively managing the claims that occurred during their the Group Retro year.

Chart 7



As the number of employers participating in Group Retro increased, the average premium paid by participating employers continues to decrease, while at the same time the average claims cost per employer has increased. This trend has a direct correlation with the reduction in the premium refund that PA employers in the program have received.

Chart 8

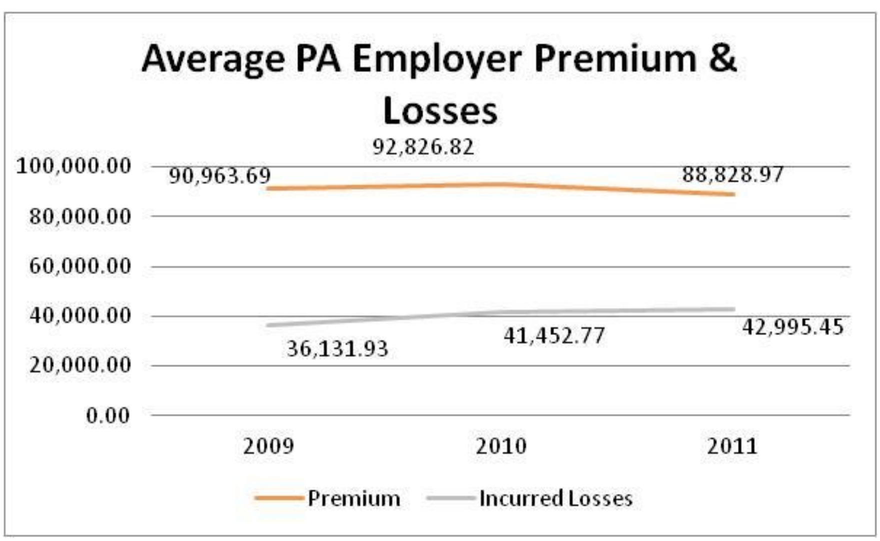
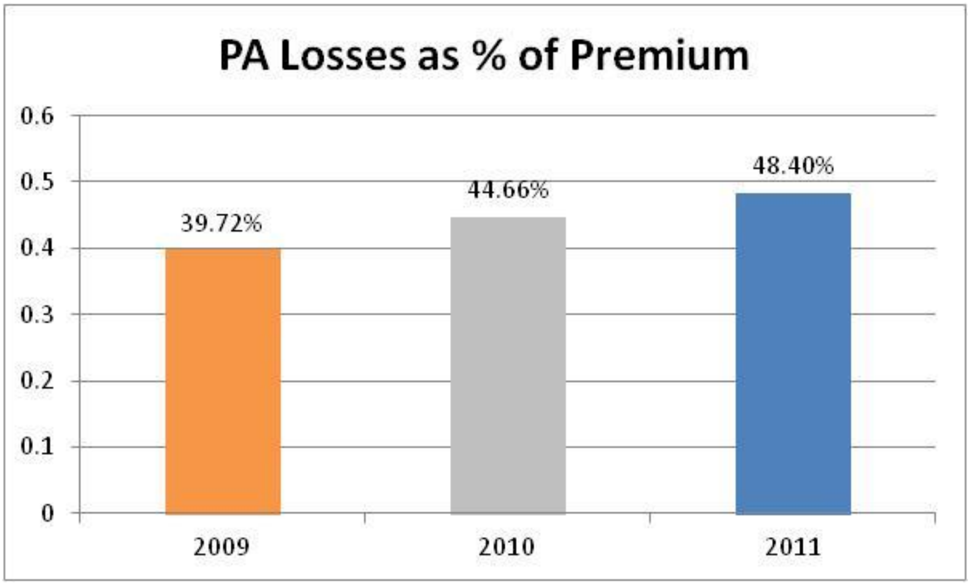


Chart 9



PEC employers have seen the opposite trends as PA employers. PEC employers participating in Group Retro have seen their claims losses decrease at a faster rate than the average premium paid. This has resulted in an increase to the premium refund that PEC employers have received.

Chart 10

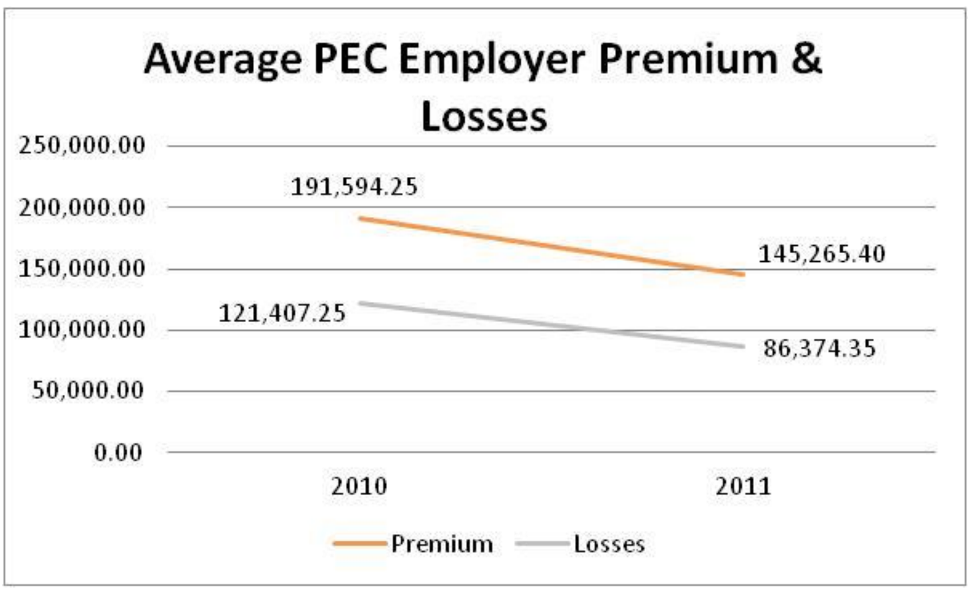


Chart 11

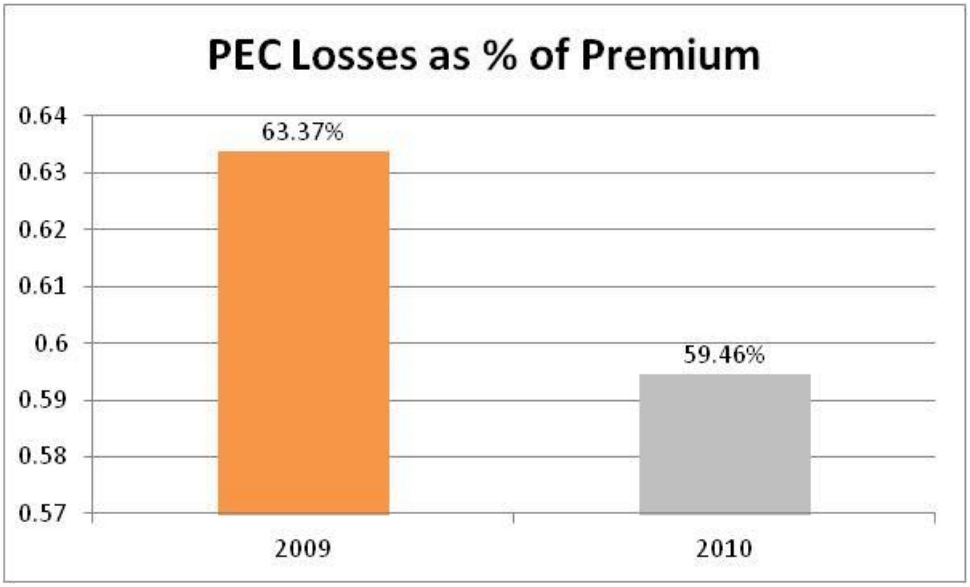
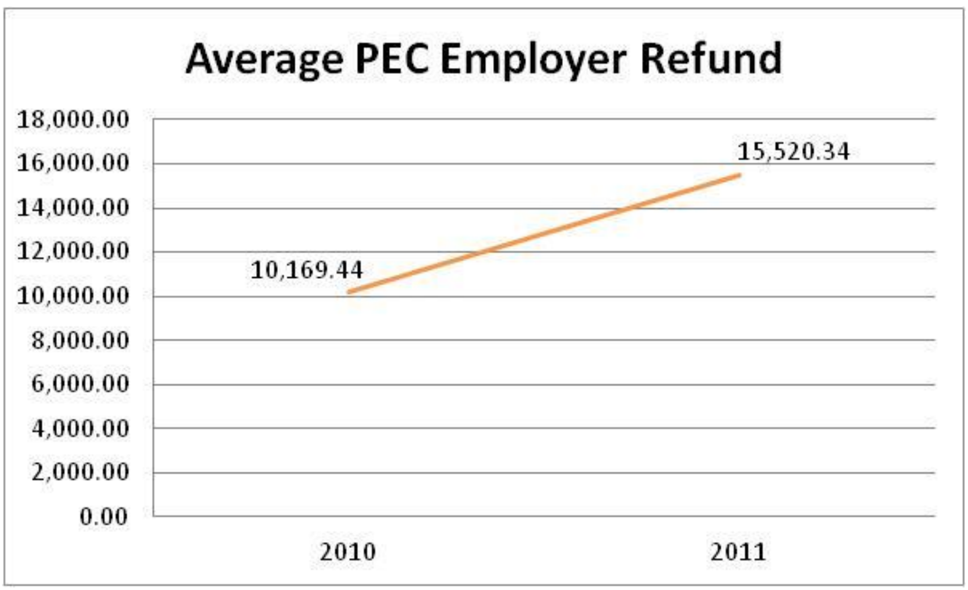
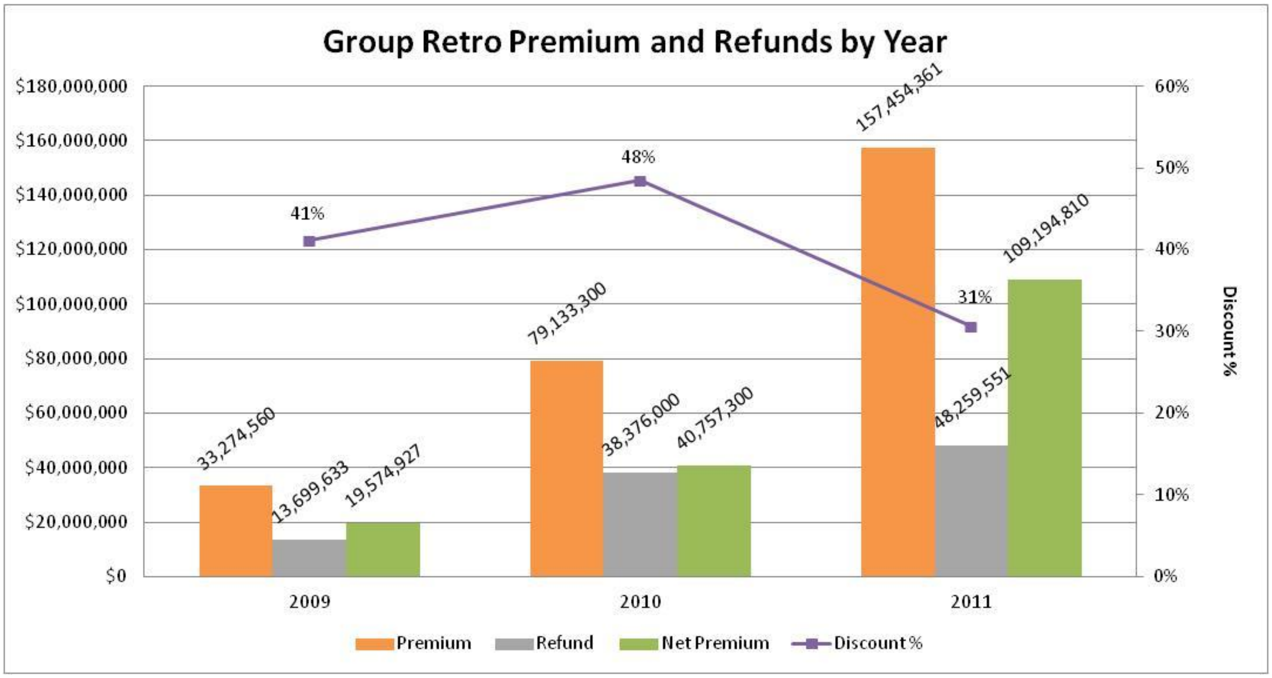


Chart 12



In the most recent Group Retro evaluation, BWC refunded $48,675,230.90. This was the first evaluation cycle that included a 12, 24 and 36 month evaluation for a program year. The 36 month evaluation was completed on the 2009 rating year, meaning that the 2009 Group Retro year has now been closed. The employers participating in the program for the 2009 rating year received a total refund of close to $13.7 million dollars. Of the $33.2 million in standard premium paid by employers in group for 2009, just over $19.5 million was refunded back to employers due to participation in Group Retro. The total overall discount for 2009 Group Retro employers equaled 41%. After two evaluations, the 2010 discount equals 48%, while the 2011 Group Retro year currently sits at a 31% discount with two evaluations remaining.

Chart 13



Individual Retrospective Rating:

BWC has offerd a paid loss retrospective rating since 1988. Eligible employers particpating in the program receive an up front discount in exchange for accepting the responsibilty of all claim costs up to the selected limit for 10 years. Participation in Individual Retrospective Rating is much lower than other programs; however, this program is designed for much larger employers and is considered a stepping-stone to Self Insurance. PA employers participating in the Individual Retrospective Rating program had an average expected experience premium of more than $500,000 and PEC employers of over $1,000,000. The charts on the next page display a breakdown of the levels of participation for 2011, 2012 and 2013 for both private and public employers. The majority of employers signing up for Individual Retrospective Rating, both PA and PEC, take on a moderate risk with few electing to take on high claim limts at the 200% maximum premium level; and even fewer electing unlimited claims losses.

Chart 14

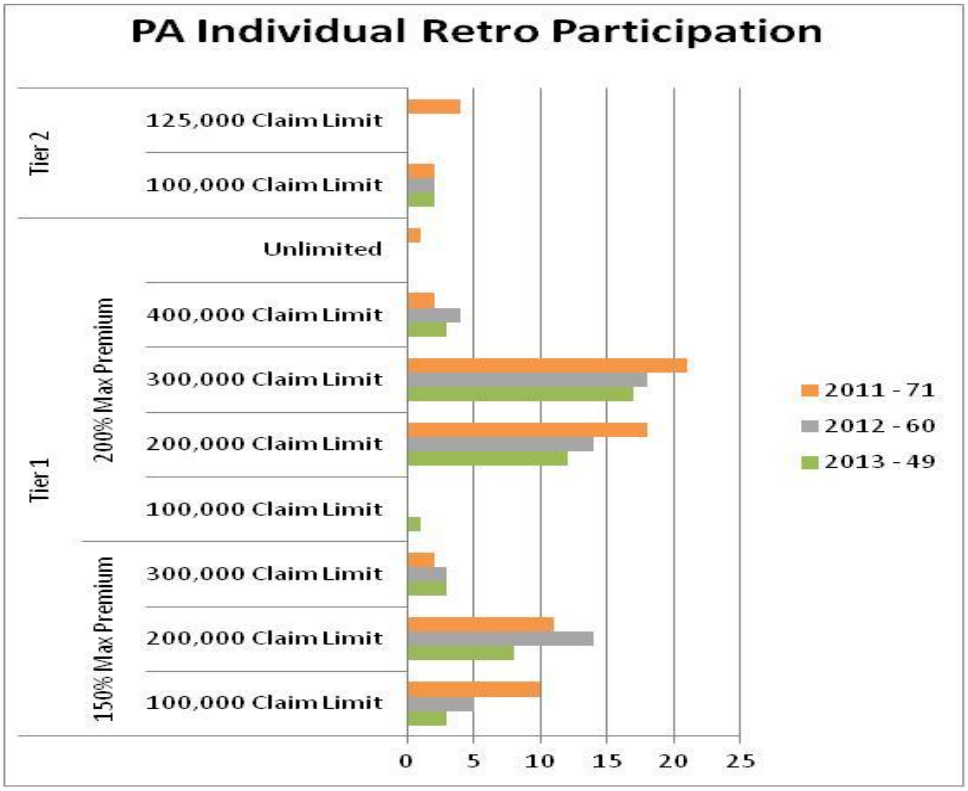
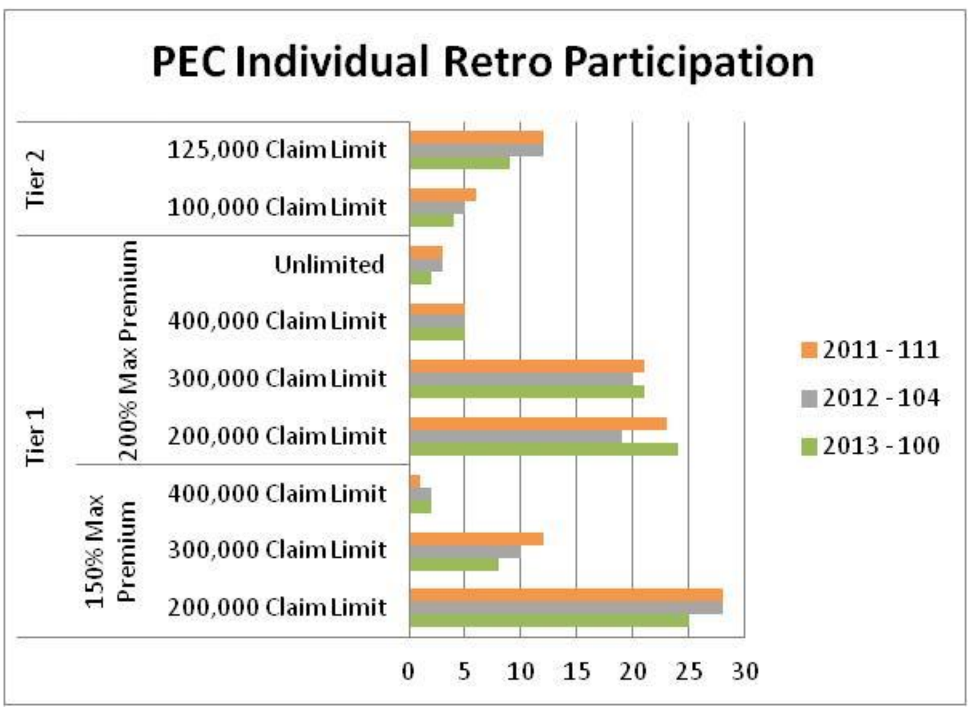


Chart 15



As expected, as the number of employers participating in Individual Retrospective rating declines, which has occurred over the past four years, the amount of expected premium and minimum premium paid has been on the decline as well. The level of discount earned will also decrease as employers remit payment for claims that occurred during the Retro participation year. The level of discount earned has a direct relationship with claims prevention and effective claims management in that if the employer is able to employ safety strategies that reduces the number of claims filed, or the severity of the claims that do occur, they will be able to minimize the amount of claims cost they reimburse BWC.

Chart 16

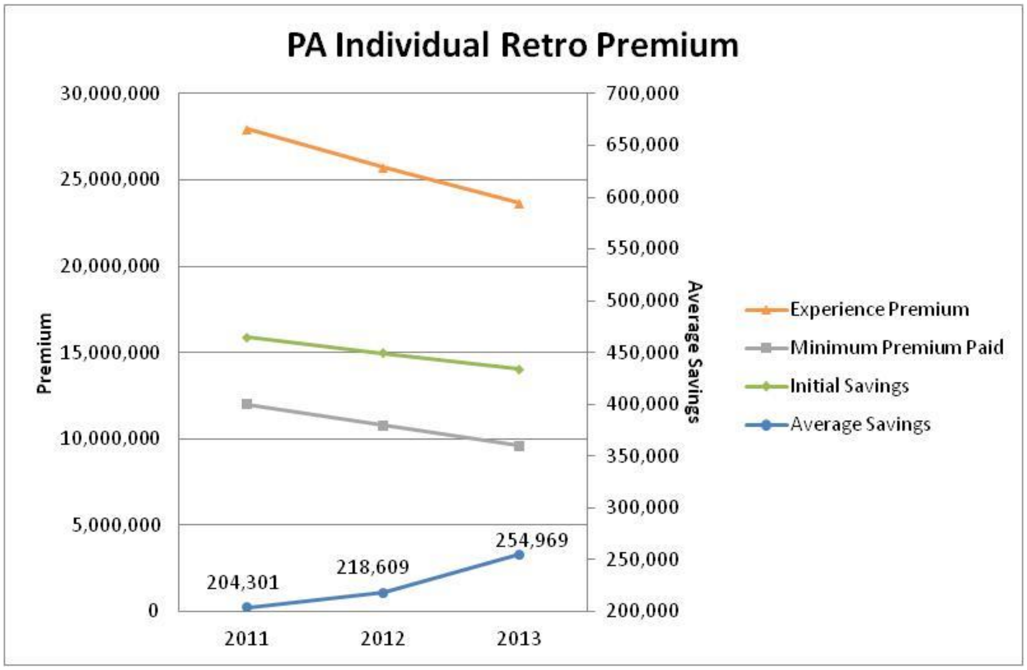
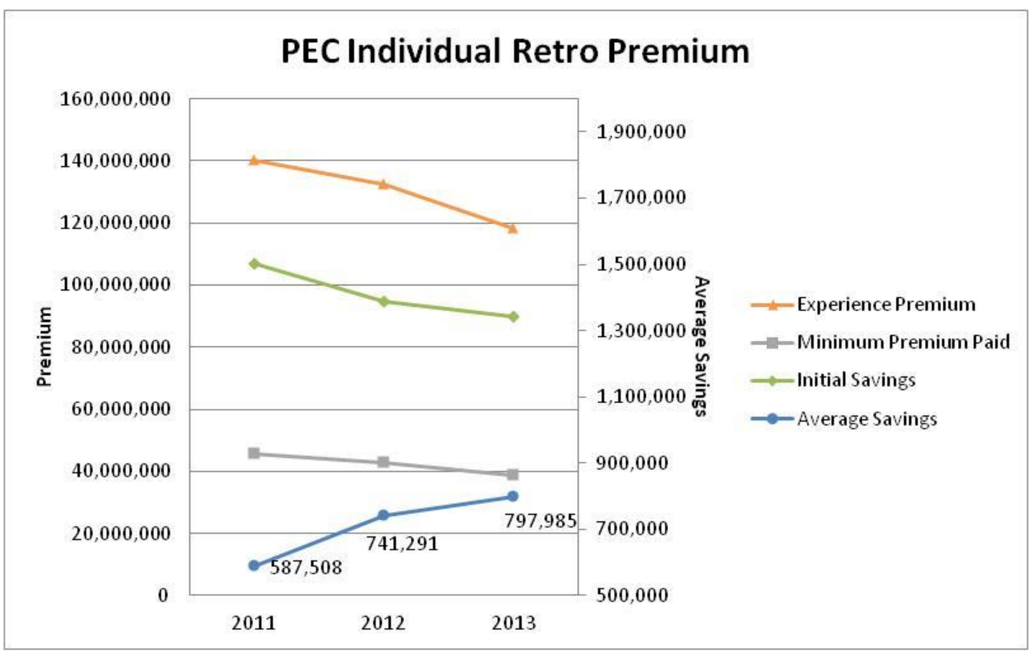
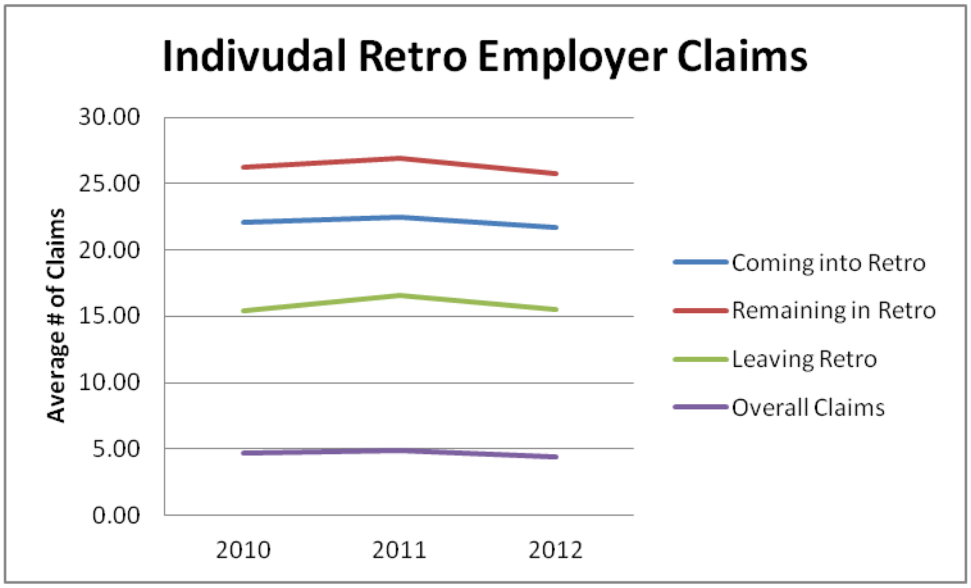


Chart 17



Claims prevention is a large factor in maximizing the financial benefit received while participating in Individual Retrospective Rating. Individual Retro is a program for larger employers in the state; as expected, employers participating in Retro experience a higher number of claims than the average employer in the state. Even though Retro employers typically experience a higher number of claims on average, they have closely followed the same claims trends as other employers in the state.

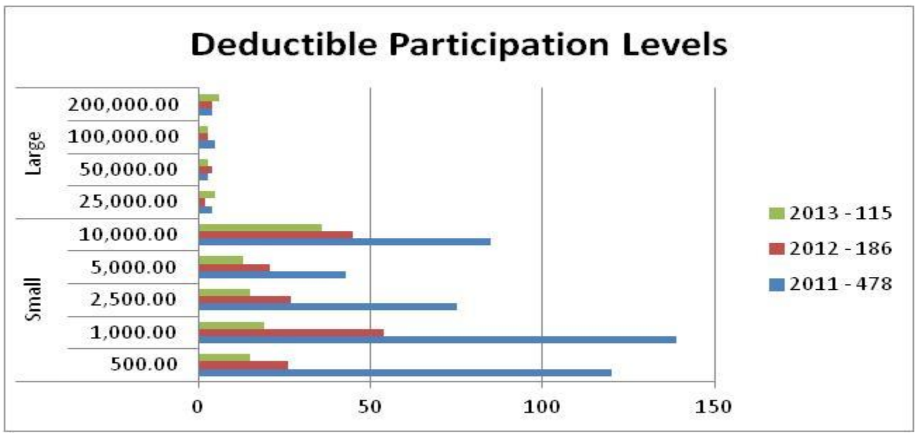
Chart 18



Claim Cost Deductible:

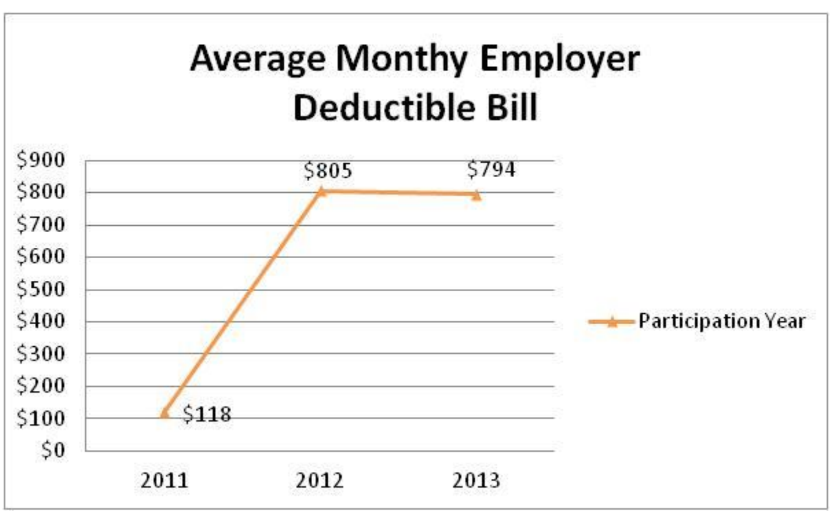
The Deductible program was introduced on July 1, 2009. Employers can achieve an upfront discount by taking on a per claim deductible. The larger risk the employer takes on, the larger the upfront discount they can achieve. The following chart illustrates the number of employers participating in the program, and their participation levels over the past three years. The number of employers participating at the small Deductible levels ($500 to $10,000 dollars) has been declining over the past four years. The largest impact came in the 2012 rating year when employers were no longer permitted to participate in both the Deductible and Group Rating programs. The number of employers participating in the Deductible program at larger levels has remained relatively static over the past four years.

Chart 19



Claims have a direct impact on the discount that employers participating in Deductible receive. Much like Individual Retrospective Rating, employers that do good job with injury prevention and claims management will see a greater savings from participating in Deductible than those employers that do not have effective claims prevention and management strategies in place. Employers participating in the Deductible program have been billed an average of $805 per month for the 2012 policy year. There has been a slight reduction in the average monthly Deductible billing for the first 6 months of the 2013 rating year.

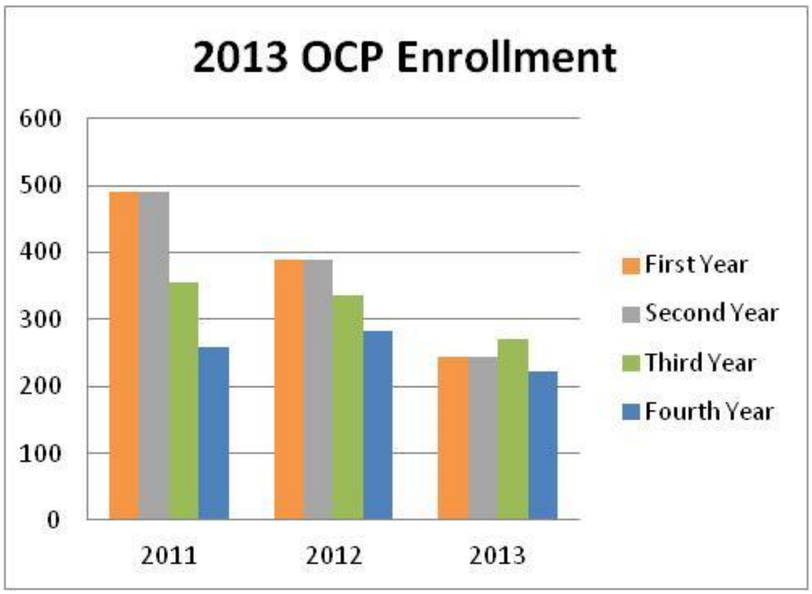
Chart 20



One Claim Program and 100% EM Capping:

The One Claim Program (OCP) helps minimize the financial impact to employers that are not renewed into the Group Experience Rating Program due to a significant claim that is entering into their experience. Policies are permitted to participate in OCP for up to four years, as long as they continue to meet the defined claims perimeters and complete the required safety training. Up until 7/1/12, employers achieved a 40% discount off of their base rates for each year of participation. Beginning with the 7/1/12 policy year, the discount levels changed to 20% for the first year of participation, 15% for the second, 10% for the third, and 5% for the final year. Chart 21 demonstrates that participation in OCP has been steadily declining the past three years.

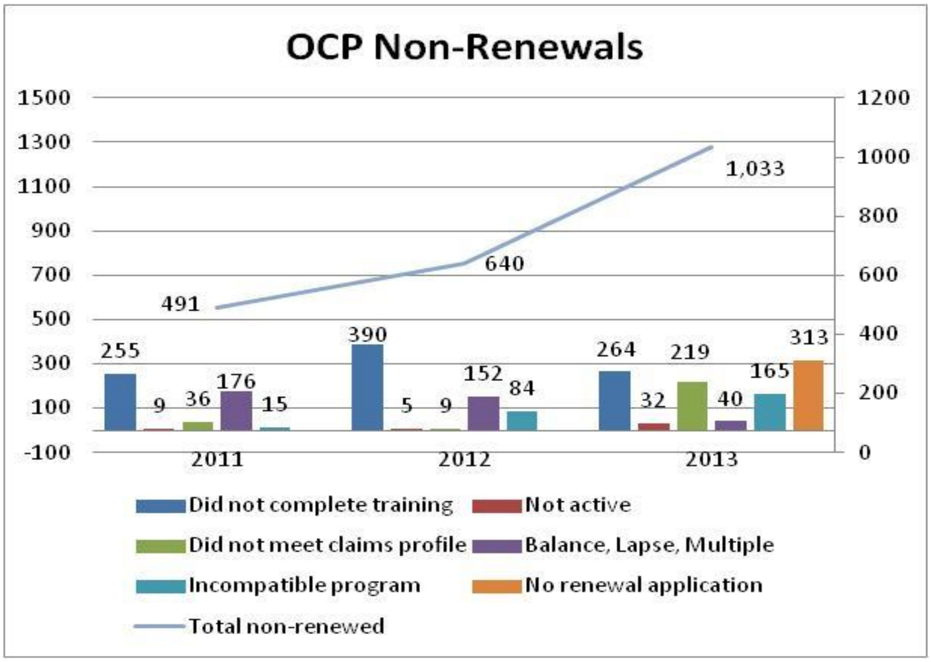
Chart 21



Non-renewal into the OCP program has been steadily increasing over the past three years. Even though the number of non-renewals in the program has increased overall, more employers completed the required training in 2012 in comparison to 2011. In 2011, 24% of employers that were participating in OCP did not renew into 2012 due to not completing the required education. In early 2013, the BWC Employer Programs department began an outreach program that includes sending additional notifications to employers and TPAs to remind program participants of approaching deadlines, in response to the additional outreach the percentage of employers that failed to meet the educational requirements fell from 24% to 21% non-renewals in 2013.

There was a change to the enrollment process for 2013, requiring employers re-enrolling into the program file an application. More than 19% of the employers participating in 2012 failed to submit a renewal application and were not re-enrolled for 2013.

Chart 22



For the 2013 rating year, only 20% of the employers currently participating in OCP have completed the required training. The deadline for completion is 3/31/14. Employers and TPAs will be sent notice of the upcoming deadline and reminders that in order to renew into OCP for 2014 the education requirement must be satisfied.

BWC introduced another cost containment measure for employers that have experienced a large increase to their EM beginning with the 7/1/09 policy year. The 100% EM Capping program limits the EM increase to no more that 100% of the previous year. This program is designed for employers that are not continuing in group from one year to the next but don't meet the claims profile to enroll in the One Claim program. Enrollment in EM Cap saw a tremendous increase in 2012 as a result of a change that now permitted employers that are either base or credit rated to participate in the program. After the large enrollment increase in 2012, enrollment decreased by 46% from 2012 to 2013. Many of the employers that would be eligible for EM Cap have enrolled in Group Retro as Group Retro may eventually provide larger savings in the future.

Chart 23

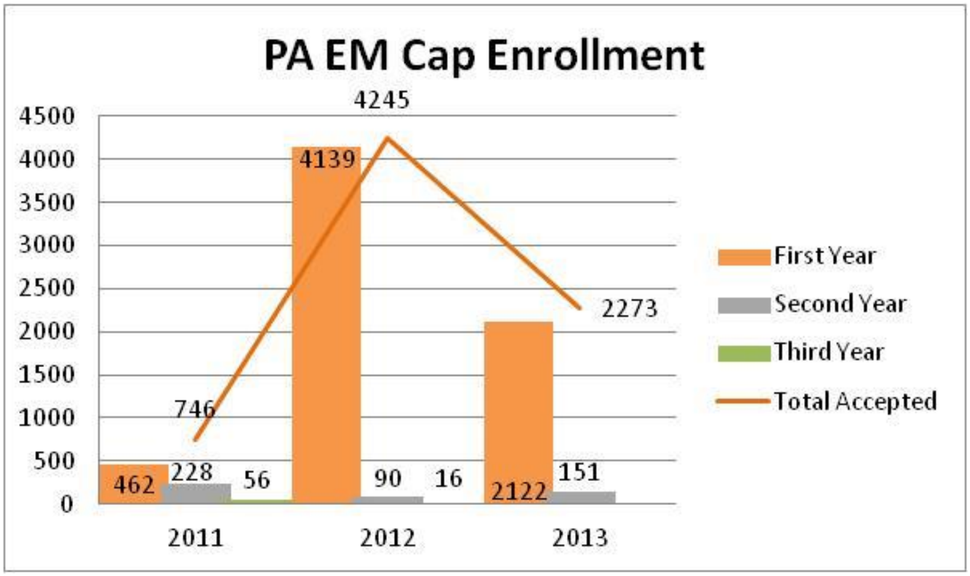
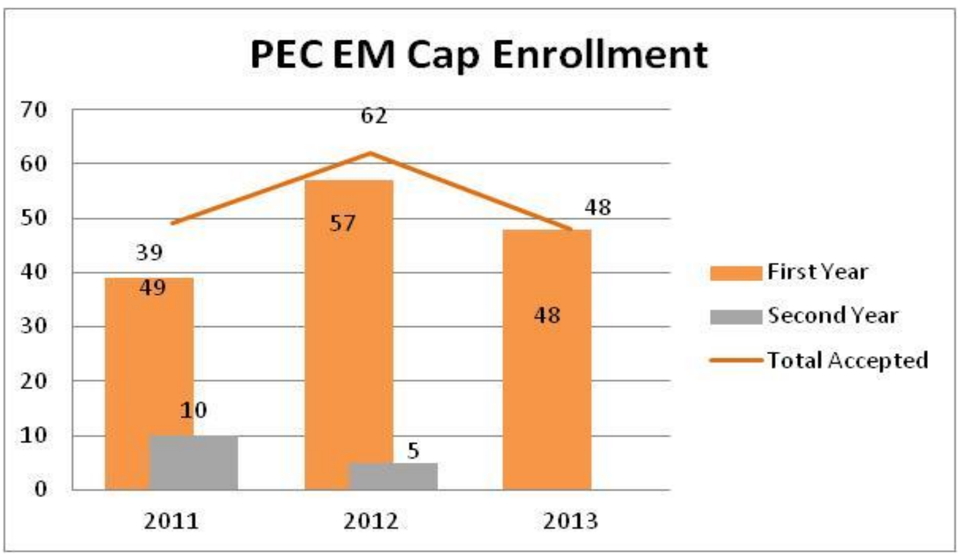
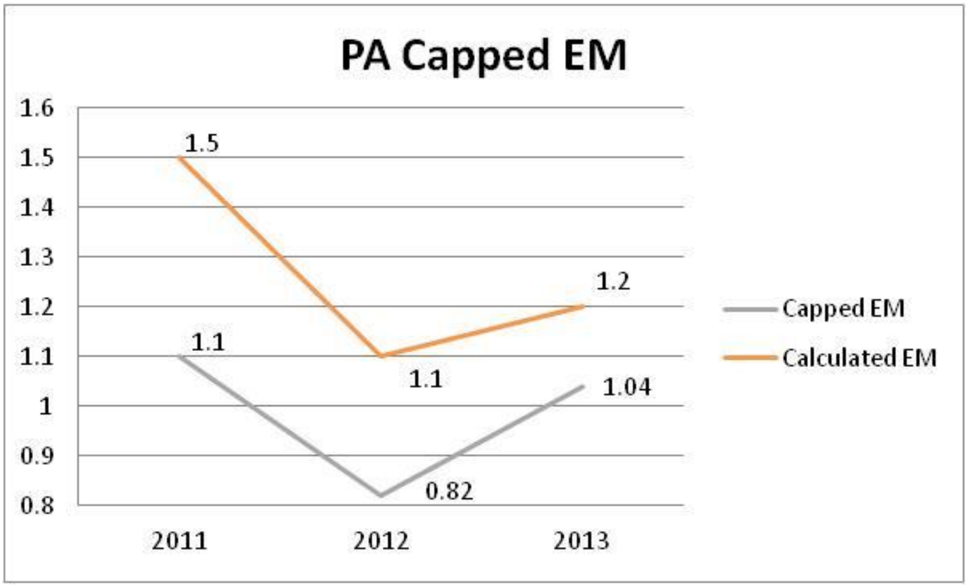


Chart 24



The gap between the earned EM and capped EM has decreased the past three years, as seen in Chart 25 on the next page. The average capped EM increased to 1.04 in 2013 from 0.82 in 2012. This is a result of a change in max group discount from 65% in 2011 to 53% in 2012. The decrease in the max available discount resulted in an increase to the minimum EM an employer can see in EM cap from 0.70 in 2012 to 0.94 in 2013.

Chart 25

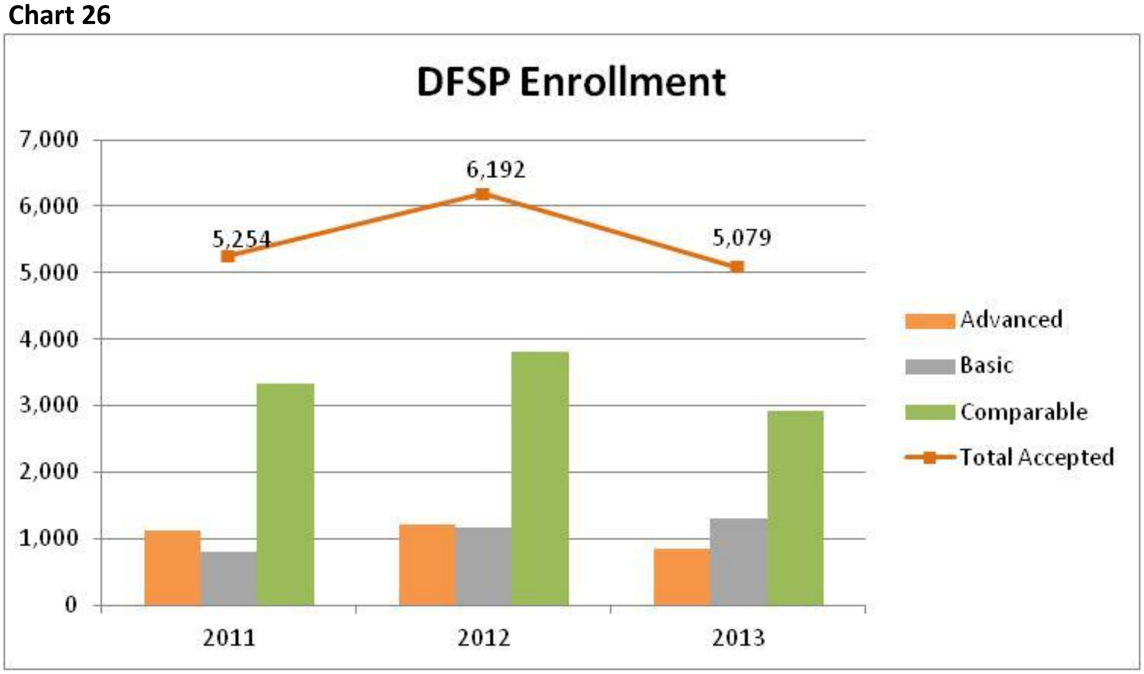


As a result of the decrease in the gap between earned EM and capped EM, the average saving achieved in EM Cap has decreased from 2010 to 2011, and is expected to fall again in 2012.

Drug Free Safety Program:

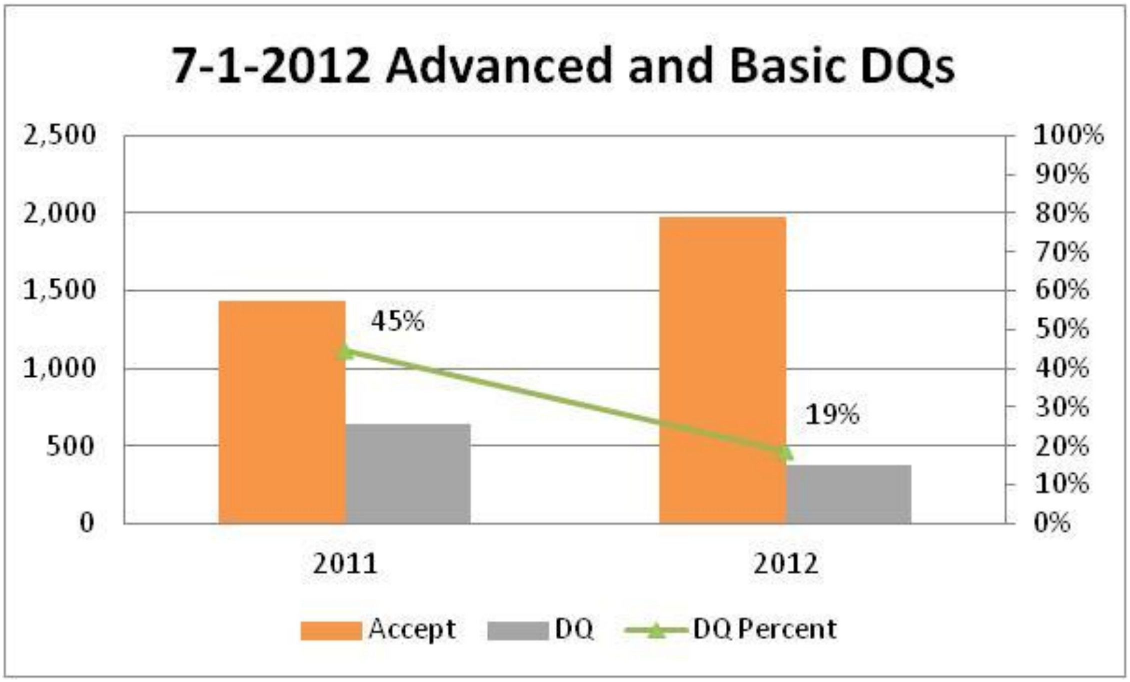
The Drug Free Safety Program (DFSP) is a reiteration of the old Drug Free Workplace Program with the goal of simplifying the process and promoting a safe workplace through the reduction of use and abuse of drugs and alcohol. The DFSP rule went into effect for the 7/1/10 policy year. After a one year enrollment increase in 2012, participation in DFSP fell to the same level it was in 2011. The number of participants enrolled in the Advanced and Comparable levels fell by 30% and 23% respectively while basic level participants increased by 12%.

Chart 26



Due in part to the contact efforts made BWC staff; the DFSP program saw a significant reduction number of disqualifications due to employers not meeting program requirements. Even though there were more participants in 2012 than in 2011, the number of disqualifications fell from 643 to 373 in 2012. In 2011, 45% of the employers the enrolled in the Advanced and Basic levels of DFSP were disqualified for not satisfying all program requirements, in 2012 the number fell 42% to a DQ rate of 19%.

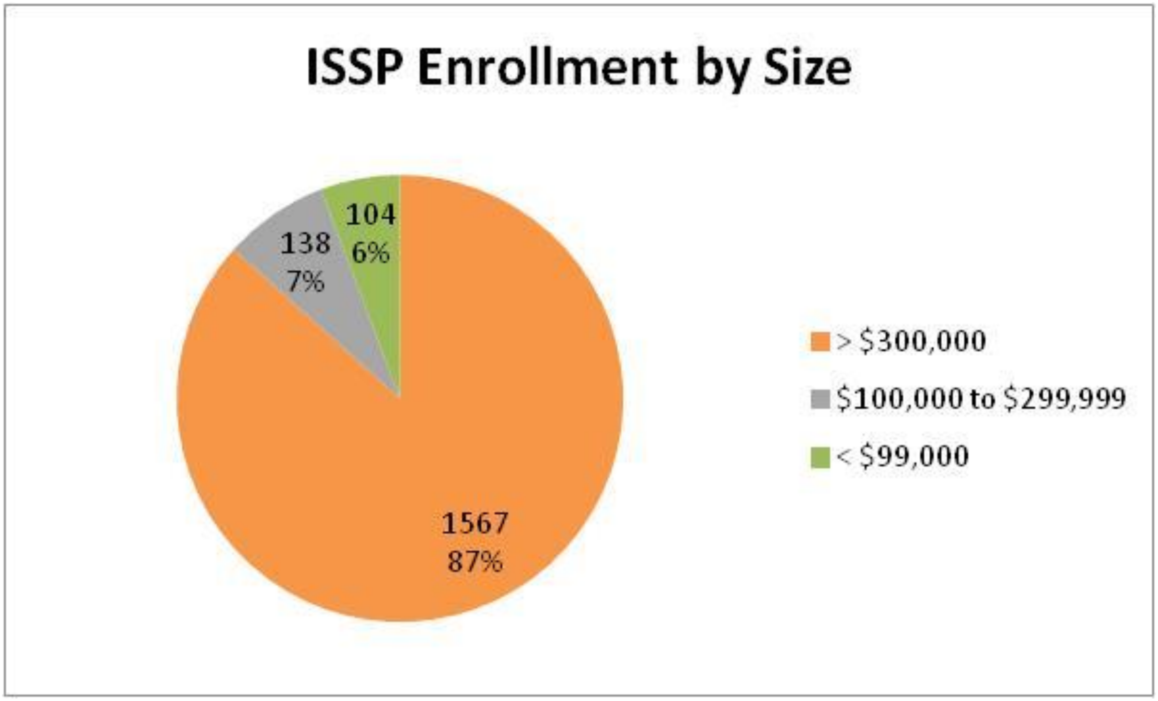
Chart 27



Destination: Excellence:

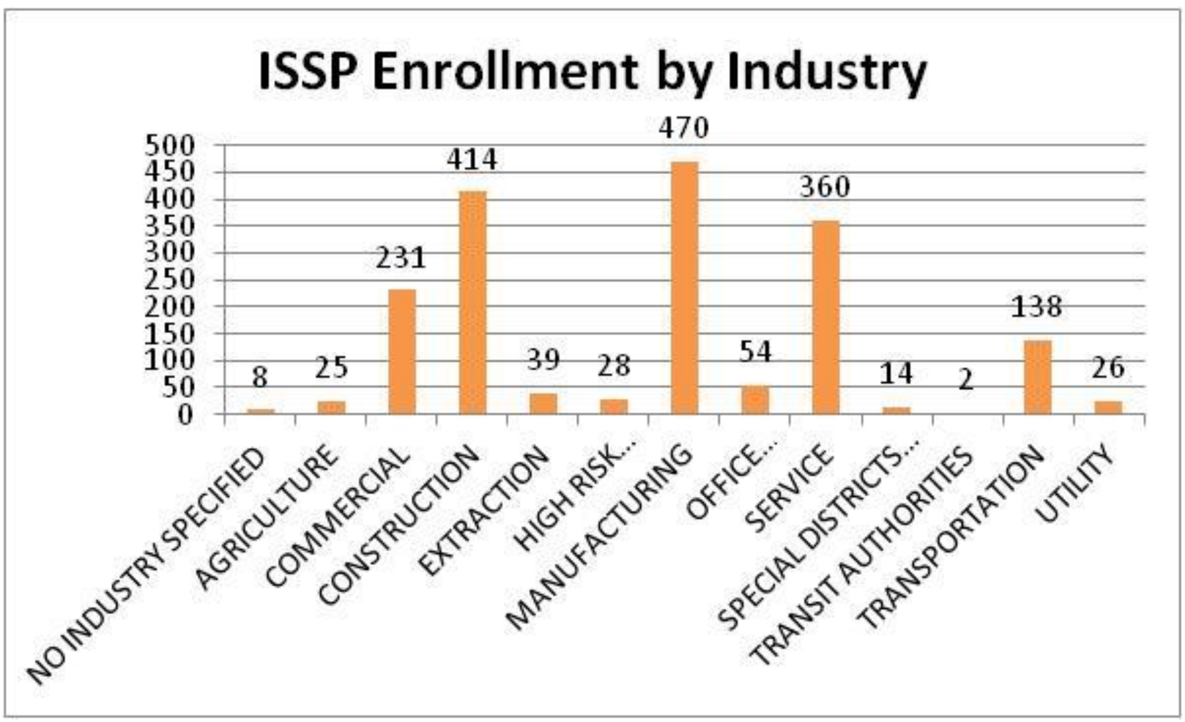
BWC introduced Destination: Excellence (D:E) for the 7/1/12 policy year. D:E is a cafeteria style program in which employers have the option to pick and choose which programs best fit their needs. D:E consists of six programs, each focusing on a different aspect of risk management. The Industry Specific Safety Program (ISSP) allows employers to achieve a 3% discount off of their premiums in exchange for completing a pre-determined number of safety activities. The employer can elect to attend training sponsored by the Division of Safety & Hygiene, have a safety Consultant perform a site visit, or attend the annual Safety Congress. Enrollment in ISSP has decreased in 2013 as compared to 2012. In 2012 2,526 PA employers enrolled in ISSP, in 2013 that number fell by 28% to an enrollment of 1,809. Similar to the 2012 enrollment, a vast majority of employers enrolled in ISSP have payroll greater than $300,000.

Chart 28



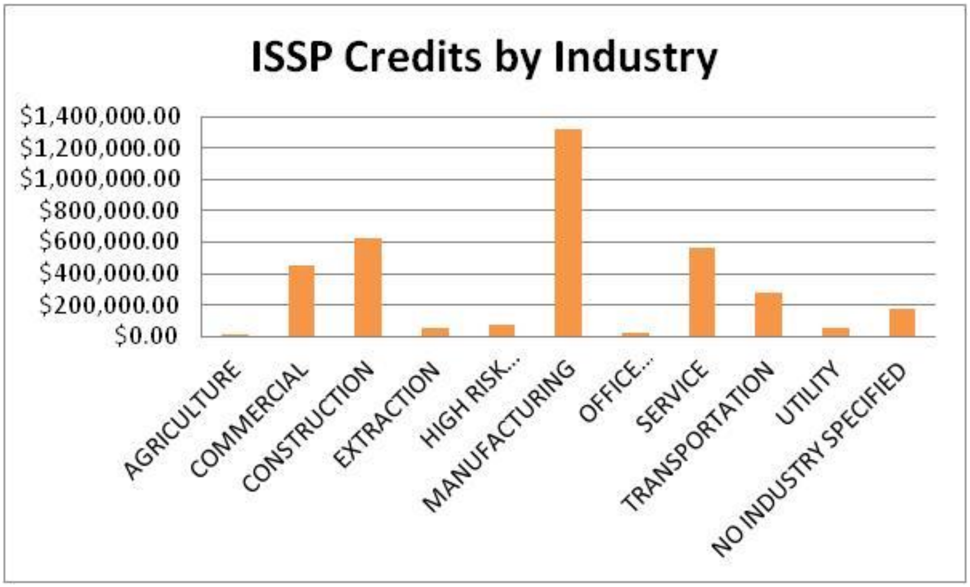
Similar to 2012, the manufacturing and construction industry accounts for nearly half of the participation in ISSP in 2013.

Chart 29



The first ISSP program year ended on 6-30-2013. Of the 2,526 employers that enrolled in ISSP, 63% of the employers completed all of the requirements. In September, BWC distributed premium credits to employers that satisfied the requirements of the ISSP program. BWC sent rebates totaling $3,622,918 to 1,583 employers across the state of Ohio.

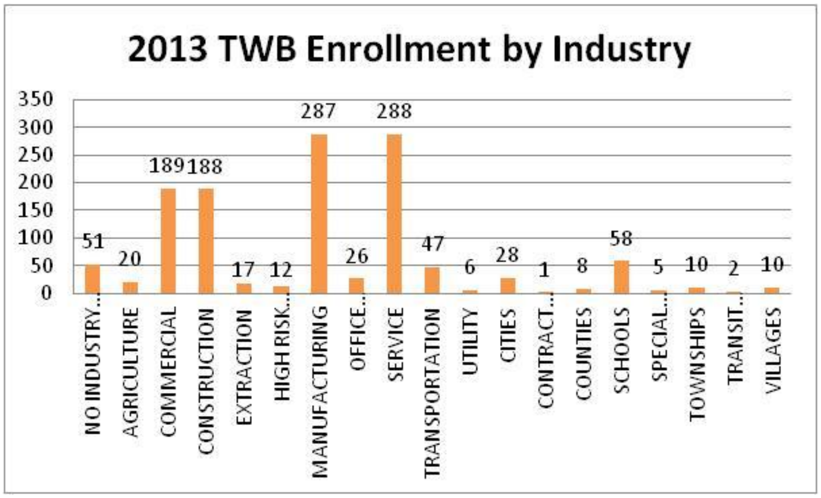
Chart 30



Transitional Work Bonus program (TWB) is designed to encourage employers to make use of their existing Transitional Work plans to increase the number of employers that return to the job. Employers with a Transitional Work plan in place can receive a bonus of to 10% of their premium for returning injured workers back to the job. In addition to the up to 10% premium bonus, both employers injured workers will see benefits when returned to the job.

Much like in ISSP, Manufacturing and Service companies make up nearly 50% of the enrollment in TWB. Construction and Commercial industries, in combination with Manufacturing and Service, make up the vast majority of the employer enrolled in TWB for 2013.

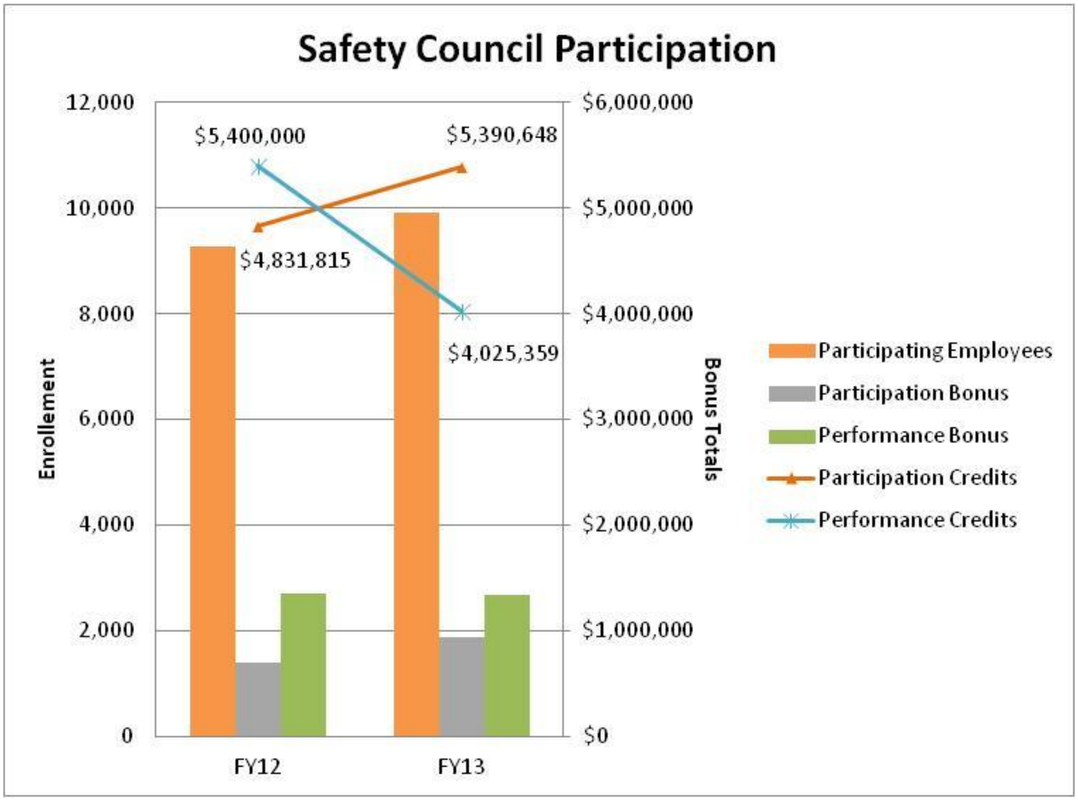
Chart 31



Premium rebates will be calculated based upon the number of claims that the employer utilized their existing transitional work program to return an injured worker back to work in January. BWC is scheduled to release the premium rebates in February or March of this year for the 7-1-2012 TWB participants

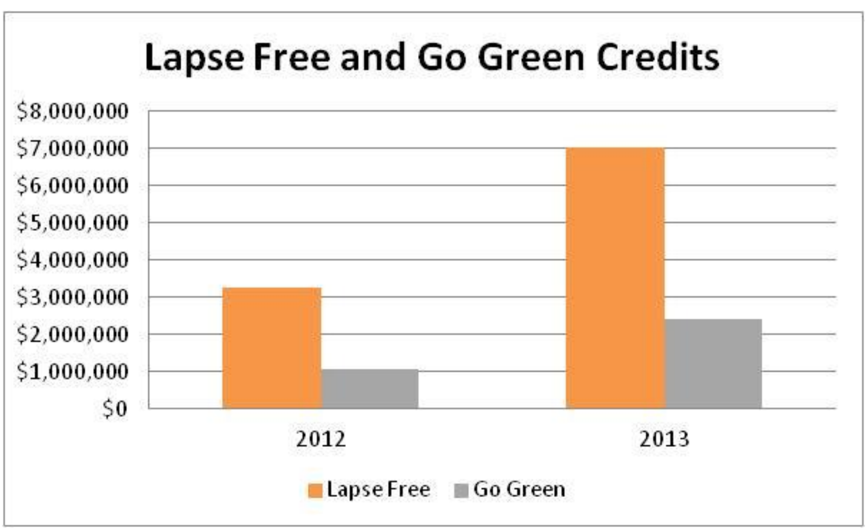
Along with DFSP, the Safety Council Participation and Performance bonuses are existing incentive based discount programs that have been included with the D:E package. To be eligible to receive the Safety Council Performance or Participation bonus, an employer must enroll with their local Safety Council. Once they have enrolled they are eligible to earn a 2% participation bonus if they attend at least 10 Safety Council events during the year of participation. To qualify for the 2% performance bonus, an employer must see a 10% reduction in either frequency or severity from the baseline year. For the 2012 fiscal year, 9,920 employers participated in Safety Council. Of that population, 1,403 received the participation bonus and 2,700 received the performance bonus. In fiscal year 2013, the number of employers that participated in Safety Councils fell to 9,571; however the number of employer that received the participation bonus increased to 1,882. The number of employers that earned the performance bonus reduced slightly from 2,700 to 2,685.

Chart 32



The last aspect of D:E are the Go-Green and Lapse Free discounts. Both are given as 1% rebates off from paid premium, and are automatically given to employers that meet the requirements. To earn the Lapse Free discount a policy must not lapse at any time over the past 5 years (60 months). A total of $7,020,295 was given to 86,629 employers. Employers are also eligible for the Go-Green Discount if they report their payroll and pay their premium timely through ohiobwc.com. A total of 28,360 employers received $2,399,576 by utilizing the BWC website to pay their premiums. This equates to nearly double the credits that were distributed through the Go Green and Lapse Free discounts compared to 2012.

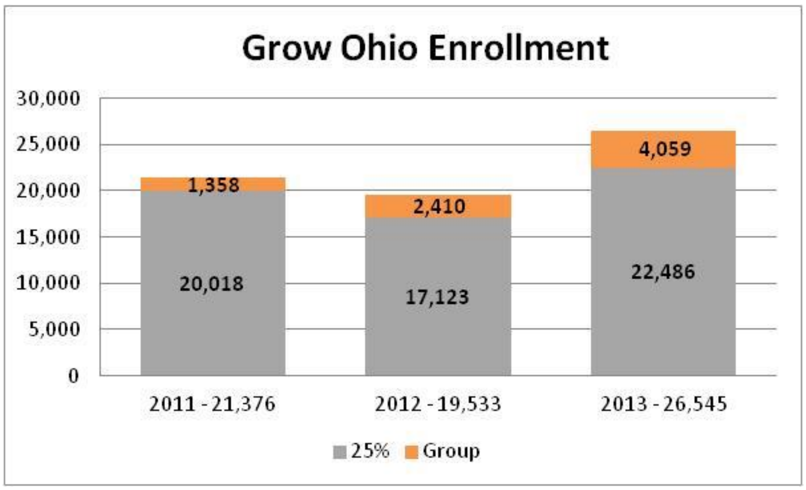
Chart 33



Grow Ohio:

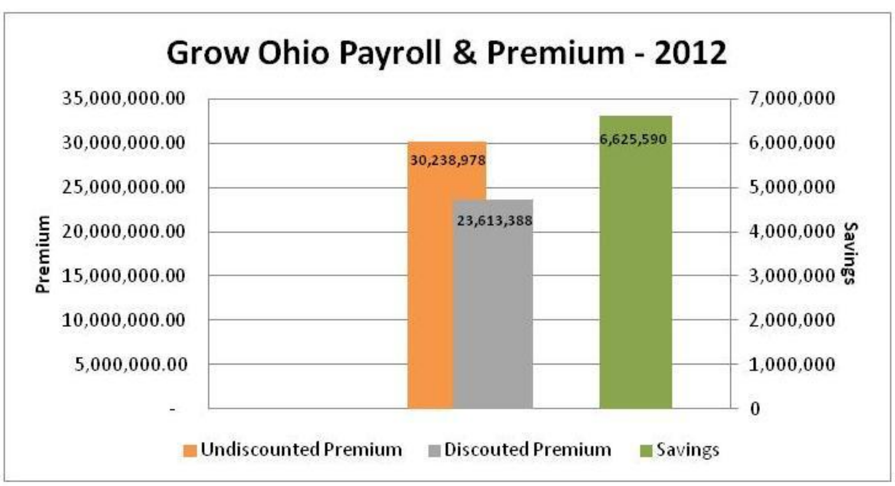
Grow Ohio was established in October of 2011 and made retroactive to July 2011. Grow Ohio was established to help generate new business in Ohio. Employers new to Ohio can receive either a 25% discount off of the base rates, or they can elect to immediately enroll into the group rating program. Participation in Grow Ohio has increased by 24% since the initial enrollment of 21,376 in 2011 to 26,545 in 2013. In addition to the overall growth of the Grow Ohio program, BWC instituted a policy and rule changed to help simplify the process employers follow to enroll into Group Rating through Grow Ohio which has spurred an increase to the number of employers that elect to join a group to maximize their premium savings. The number of employer electing to join group has nearly doubled since 2011 from 1,358 (6% of the Grow Ohio Population) to 4,059 (15% of the Grow Ohio population).

Chart 34



Even though Grow Ohio participation fell slightly in 2012 as compared to 2011, both premium paid and premium savings more than doubled in 2013. The average undiscounted premium increased from $686 per employer in 2011 to $1,548 in 2012. During that same timeframe the average savings increased from $142 per employer to $339 in 2012.

Chart 35



.99 EM Construction Cap:

Beginning with the 7/1/09 policy year, H.B. 15 established the .99 EM Construction Cap. This program establishes an EM of .99 for employers that are debit rated, but has an individual calculated EM of 1.5 or lower. Many contractors will not accept bids from construction companies that are debit rated. This program helps employers that are slightly debit rated remain competitive by allowing them to bid on a wider range of jobs. The only requirement employers must complete to remain in the .99 EM Construction Cap is submission of a completed SH-26. PY12 was the initial year that the employer was required to submit the SH-26 to remain in the .99 EM Construction Cap. The rate of employers successfully completing that requirement increased by 38% from 226 in 2012 to 312 in 2013.

Chart 36