# Ohio Legislative Service Commission

**Bill Analysis**                                      Julie A. Rishel

## H.B. 143
### 130th General Assembly
### (As Introduced)

**Reps.**    DeVitis and Butler, Retherford, Brenner, Boose, Young, Lynch, J. Adams, Sprague, Roegner, Becker, Romanchuk, Huffman, Blair, Gonzales

## BILL SUMMARY

- Requires the Administrator of Workers' Compensation to include in the notice of premium rate that is applicable to an employer for an upcoming policy year the mathematical equation used by the Administrator to determine the employer's premium rate.

- Requires the Administrator to define the variables used in the equation and to include the specific numbers applicable to the employer in the equation, with those numbers over which the employer has direct control highlighted.

## CONTENT AND OPERATION

### Equation for premium calculation

The bill requires the Administrator of Workers' Compensation to include all of the following information in the notice of premium rate that is applicable to an employer for the upcoming policy year:

- The mathematical equation, expressed algebraically, used by the Administrator to determine the employer's premium rate;

- A definition of each variable used in the mathematical equation;

- The mathematical equation with the specific numbers applicable to the employer included in the equation, with those numbers over which the employer has direct control highlighted.[1]

## Background – calculation of premium rates

Ohio law requires the Administrator to fix premiums "sufficiently large" to provide a fund for the benefits authorized in the Workers' Compensation Law and "to maintain a state insurance fund from year to year."[2] Subject to the approval of the Bureau of Workers' Compensation Board of Directors, the Administrator classifies occupations or industries with respect to their degree of hazard, determines the risks of different classes according to the categories the National Council on Compensation Insurance establishes, and fixes the premium rates for coverage of the risks based upon the total payroll in each classification.[3]

Premium rates are fixed for each classification based upon total payroll. The Administrator must establish a rate for each classification. The total losses compared with the total payroll of each classification establishes the rate of contribution from employers within that classification. The system includes two basic premium rates – the basic rate and the experience, or merit, rate (employers qualify for one or the other). The Administrator calculates the basic rate for each of the classifications of occupations, and the Administrator does not include any individual employer's experience when calculating basic rates. If an employer is experienced-rated, the employer's rate is determined by modifying the basic rate applicable to the employer by the employer's experience of losses incurred and premiums paid.[4] A premium is expressed as an amount for each $100 of payroll. Rates are revised annually on July 1, and employers pay premiums in accordance with the schedule specified in the Workers' Compensation Law and in rules adopted by the Administrator.[5]

According to the Bureau of Workers' Compensation (BWC), base rates are determined using the costs of all claims in each manual classification during the oldest

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[1] R.C. 4123.29(C).

[2] R.C. 4123.29(A).

[3] R.C. 4123.29(A) and Ohio Administrative Code (O.A.C.) 4123-17-04.

[4] Fulton, Philip J., *Ohio's Workers' Compensation Law*, § 14.4 (4th Ed. 2011).

[5] R.C. 4123.34 and 4123.35, not in the bill, and O.A.C. 4123-17-01 to 4123-17-04.

four of the most recent five years. BWC limits the average annual base rate increase or decrease to 25%.[6]

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## HISTORY

| ACTION | DATE |
|---|---|
| Introduced | 04-30-13 |

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[6] Ohio Bureau of Workers' Compensation, Job (Manual) Classification – NCCI Conversion, http://www.ohiobwc.com/basics/guidedtour/generalinfo/empgeneralinfo13.asp (accessed May 13, 2013).