Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Sub. S.B. 213 of the 128th G.A.

Date: February 2, 2010

Status: As Passed by the Senate

Sponsor: Sen. Faber

Local Impact Statement Procedure Required: No — No local cost

Contents: Requires the Bureau of Workers' Compensation to make changes to the group rating and other alternative premium discount programs

State Fiscal Highlights

- The bill prohibits the Bureau of Workers' Compensation (BWC) from using a "break-even factor" in the determination of group plan discount rates and freezes premium discounts applied to employers enrolled in the group-rating plan for a period of two years. As a result of the moratorium, BWC would collect a reduced amount of premium income over this period.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

Overview

The bill affects the Bureau of Worker's Compensation (BWC) group-rating program by suspending the use of a "break-even factor" in calculating premium rates for employers participating in the group-rating program and freezing the program in its current state for a period of two years. The group-rating program is a premium discount program in which a group of employers who operate similar businesses band together to potentially achieve lower premium rates by sharing risks associated with injured workers. Under changes to the program in March 2009, the Bureau established a break-even factor on these employers to offset the impact of these premium discounts and bring premiums more in line with incurred liabilities, in effect reducing the size of these discounts. The two-year moratorium on these changes imposed by the bill will significantly reduce the premium income BWC collects from group-rated employers. Finally, the bill also prohibits BWC, unless authorized by the General Assembly, from refunding surplus premium income to employers in any year in which a gubernatorial election occurs.

Group-rated employers

The table below shows the number of groups and employers during the July 1, 2008 – June 30, 2009 period, policy year (PY) 2008, according to the discount that those employers were eligible to receive, determined by their type of business and other factors. The total number of group employers during PY 2008 was 100,786; nongroup employers numbered 161,465, bringing the total to 262,251. The maximum discount for group rating during PY 2008 was 85%. The discount for PY 2009 is 77%, and is scheduled to decrease to 65% in PY 2010.[1] Applying the break-even factor effectively reduces the discount to 51% in PY 2009 and 55% in PY 2010.

[1] Similar to the fiscal year, the BWC policy year runs from July 1 to June 30. The naming conventions differ, however, in that a policy year takes its name from the year in which it begins, as opposed to the year in which it ends. For example, July 1, 2009 through June 30, 2010 is BWC policy year 2009, but fiscal year 2010.

Table 1: Employers According to Maximum Possible Discount, PY 2008			
Discount Range	Number of Groups	Employers	% of Total Group Participation
85%	51	46,279	46%
75% to 84%	139	31,260	31%
65% to 74%	109	8,661	9%
55% to 64%	75	4,079	4%
45% to 54%	76	3,554	4%
35% to 44%	56	2,189	2%
0% to 34%	120	4,706	5%
-12% to 0%*	3	58	<1%
Total	**629**	**100,786**	**100%**

* Negative values indicate those group employers that do not receive a premium discount but, rather, pay what is known as a premium debit, i.e., additional premium.

Claims costs and premiums collected

Table 2 below shows the incurred costs for group and nongroup employers compared to premiums collected over a period of six years. Incurred costs represents "undeveloped" costs associated with benefit claims, with the idea that the estimated total cost of claims (or the claim reserve) generally increases over time and after further evaluation. To illustrate, initial benefits for a back injury may only include compensation for medical expenses and lost time. However, if further unanticipated treatment should prove to be necessary after a period of time has elapsed, such as physical therapy, the total estimated cost of the claim would increase. The loss ratio column divides costs incurred by premium collected. The premium column represents premium collected, but excludes administrative assessments. The data indicate that, over the six-year span, loss ratios (or costs incurred versus premium collected) for group employers are generally greater than those for nongroup employers.

Table 2: Incurred Costs v. Premium, PY 2003 – PY 2008						
Policy Year	Nongroup Employers			Group Employers		
	Incurred Costs	Premium	Loss Ratio	Incurred Costs	Premium	Loss Ratio
2003	$580,505,000	$993,358,000	58.4%	$446,305,000	$403,494,000	110.6%
2004	$511,977,000	$1,090,819,000	46.9%	$369,074,000	$394,339,000	93.6%
2005	$477,056,000	$1,078,165,000	44.2%	$319,526,000	$389,347,000	82.1%
2006	$438,056,000	$1,078,425,000	40.6%	$337,659,000	$493,814,000	68.4%
2007	$290,328,000	$1,104,181,000	26.3%	$262,884,000	$563,573,000	46.6%
2008	$168,838,000	$1,093,700,000	15.4%*	$176,223,000	$620,566,000	28.4%
Total	**$2,466,760,000**	**$6,438,648,000**	**n/a**	**$1,911,671,000**	**$2,865,133,000**	**n/a**

*Note: The loss ratio for PY 2008 is preliminary.

Premium discount notifications

The bill also requires BWC to set the discount for group-rating programs or alternative premium plans not later than the first day of September prior to the policy year in which the discount for programs or alternative premium plans is to be in effect. The Bureau's current policy is to announce discount rates six to eight months prior to the policy year in which the program will be in effect, that is, between November and January. Though the effect of this provision is not expected to be substantial, it may require BWC to determine premium rates with less data than current deadlines allow. It is not clear what effect this would have on premium collections.

Report and recommendations

During the two-year period in which the group-rating program is frozen, the bill requires BWC to collaborate with all stakeholders and study the premium rating system. The findings of this study are to be reported to the Governor, the President and Minority Leader of the Senate, the Speaker and Minority Leader of the House of Representatives, and the chairpersons of the standing committees of the House and the Senate that deal with workers' compensation laws. During the second year of this period, the BWC would be allowed to make those administrative rule changes necessary to implement the findings of the study. The premium study would generate minimal administrative costs for BWC.

Premium refund prohibition

Finally, the bill prohibits BWC from refunding surplus premium amounts to employers in any calendar year in which a gubernatorial election occurs, unless authorized by the General Assembly through legislation.

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