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# Analysis of OHI Workers' Compensation Trust Unpaid Loss and Allocated Loss Adjustment Expense As of December 31, 2010

Prepared for:  
**Board of Trustees &  
David I. Harvey, Ph. D., Administrator  
OHI Workers' Compensation Trust**

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WORKERS' COMPENSATION

APR 29 2011

SELF INSURANCE OFFICE

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April 19, 2011

Board of Trustees &  
David I. Harvey, Ph.D.  
Administrator  
OHI Workers' Compensation Trust  
357 Bay Road, Suite 4  
Queensbury, NY 12804

Dear David and Board Members:

Milliman, Inc. has completed its review of the loss and allocated loss adjustment expense claim liability, including unpaid assessments, of the OHI Workers' Compensation Trust as of December 31, 2010. This draft report discusses our conclusions, the data used in our analysis, the details of our analysis and the limitations on our results.

We appreciate the opportunity to be of continued assistance to the OHI Workers' Compensation Trust. Please feel free to call us if you have any questions or comments.

Sincerely,

Derek A. Jones, FCAS

Robert J. Meyer, FCAS

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WORKERS' COMPENSATION  
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## **Background and Scope**

The OHI Workers' Compensation Trust is comprised of employers in the heat, petroleum, gasoline, plumbing, auto (including auto dealers and repair shops), and home supply and related industries. These businesses service both residential and commercial clientele.

In response to the increasing cost of workers compensation insurance, the OHI Workers' Compensation Trust (OHIWCT) was formed on October 21, 1997. Through OHIWCT, the members self-insure their collective workers compensation costs. OHIWCT retained the services of Cody Management Services, Inc. (CMS) to assist them in their efforts to develop the OHIWCT and to administer the operations of OHIWCT. OHIWCT began operations on January 1, 1998 with 16 Founding Members; 3 Charter Members joined in its first year of operations, but subsequent to January 1, 1998. The Trust had 98 active members during 2009. Effective January 1, 2010, OHIWCT went into voluntary runoff, accepting no liability on claims related to accidents subsequent to December 31, 2009.

Milliman was retained by CMS on behalf of OHIWCT to perform an independent analysis of OHIWCT's unpaid loss, unpaid allocated loss adjustment expense (ALAE), and unpaid assessments as of December 31, 2010. Our analysis was performed based on data evaluated as of December 31, 2010 and other information provided to us through the date of this report. The purpose of this report is to assist OHIWCT management in its financial reporting responsibilities. This report summarizes our findings and includes important disclosures and limitations surrounding our review.

## **Disclosures**

### ***Intended Measure***

The claim liability estimates presented in this report are actuarial central value estimates. The phrase "actuarial central estimate," as used in this report, should be interpreted as an estimate of the expected value over the range of reasonably possible outcomes. The range of reasonably possible outcomes may not include all conceivable outcomes. For example, it would not include certain conceivable extreme events where the losses from such events are not reliably estimable. Our description of an actuarial central estimate is intended to clarify the concept rather than assign a precise statistical measure, as commonly-used actuarial methods typically do not result in a statistical mean.

We have also provided higher and lower actuarial estimates that form our range of reasonable unpaid claim estimates. Our actuarial central estimates rely on various actuarial judgments regarding the appropriateness of the methods and models used and the assumptions underlying such methods and models. Reasonable alternative sets of

assumptions and judgments would produce different estimates of the actuarial central estimate. We considered the sensitivity of our estimates to reasonable alternative assumptions and have identified a range of estimates that we consider reasonable. When our estimates are presented as "low" and "high" estimates, they indicate our view of the range of reasonable actuarial central estimates. Note that this range of reasonable estimates is narrower than the range of possible outcomes. It is possible that actual results will, perhaps materially, fall outside our range of reasonable estimates.

### ***Discount for the Time Value of Money***

We evaluated the unpaid loss and ALAE, as well as the unpaid assessments, on an undiscounted basis with respect to the time value of money. OHIWCT does not reduce reserves to reflect discounting.

### ***Recoveries***

The data underlying our review are net of collected salvage and subrogation and second injury fund recoveries. The resulting unpaid claim estimates are net of future salvage and subrogation and second injury fund recoveries.

The data underlying our review are gross of excess insurance recoveries. We have limited the claim data to reflect OHIWCT's per occurrence retention under its excess insurance program. The resulting unpaid claim estimates are net of future excess insurance recoveries. OHIWCT's carried reserves reflect anticipated excess insurance recoveries.

### ***Methodology***

This review is an update to our year-end 2009 report dated April 9, 2010 and reflects two revisions to the prior review.

With respect to unpaid New York workers compensation assessments, this review reflects a legislative change that became effective March 31, 2011 applicable to group self-insured trusts in runoff. In accordance with the current legislation, we estimated an assessment reserve only for the 50-5 fund, which is intended to address self-insured trusts that default.

In support of our unpaid claim estimates as of December 31, 2010, Milliman claims consultants performed a review of the individual open claims to produce independent estimates of the case reserves for each claim. We considered these indications when selecting our estimates of the aggregate ultimate loss for each fund year.

There have been no other material changes in procedures, methodology or significant assumptions used to produce our estimates.

### ***Loss Adjustment Expenses***

The claim data underlying our analysis includes allocated loss adjustment expenses (ALAE), which typically reflects the cost of defense and claim adjusting costs that can be allocated to individual claims. Our analysis does not reflect a provision for unallocated loss adjustment expenses (ULAE), which reflect the costs of third party claim administration.

### ***Qualifications***

The authors of this report are Fellows of the Casualty Actuarial Society and members of the American Academy of Actuaries. The authors meet the qualification standards of the American Academy of Actuaries to provide the estimates in this report.

### **Conclusions**

#### ***Estimated Unpaid Claim and Assessment Liabilities as of December 31, 2010***

Table 1 summarizes our low, central, and high estimates of the unpaid claim and assessment liabilities as of December 31, 2010 on an undiscounted basis.

***Table 1***  
***Estimated Undiscounted Unpaid Claim and Assessment Liabilities***  
***as of December 31, 2010***  
***Net of Excess Insurance***

	Low	Central	High
Loss and ALAE	\$2,459,508	\$3,285,194	\$4,261,503
Assessments	106,769	106,769	106,769
Total Unpaid	\$2,566,277	\$3,391,963	\$4,368,272

#### ***Estimated Payments during Calendar Years 2011-2015***

Table 2 summarizes our estimates of the future calendar year loss payments during 2011-2015.

**Table 2**  
**Estimated Calendar Year Claim Payments – 2011-2015**  
**Net of Excess Insurance**

2011	2012	2013	2014	2015
\$967,074	\$519,675	\$325,174	\$194,319	\$216,548

**Data**

Our analysis is based on the following data:

- (1) Premium and loss data for fund years 1998 through 2009 at historical December 31 evaluations provided by CMS.
- (2) Audited payroll by employer and by classification code.
- (3) State of New York Workers’ Compensation Board (WCB) assessment invoices provided by CMS.
- (4) Incurred and paid loss development factors from the New York Compensation Insurance Rating Board (NYCIRB) 2010 Financial Call Data.
- (5) Average annual trends in New York wages, claim frequencies and claim severities from the October 1, 2010 NYCIRB loss cost filing.
- (6) Excess loss and ALAE factors from NYCIRB’s New York Retrospective Rating Plan Manual effective January 1, 2008.

**Approach**

The scope of our work was to estimate the unpaid claim and assessment liabilities of OHIWCT as of December 31, 2010. Total unpaid loss and ALAE was estimated by subtracting cumulative paid losses and ALAE at December 31, 2010 from the estimated ultimate loss and ALAE amounts. In estimating OHIWCT’s ultimate loss and ALAE, we reviewed the historical loss, ALAE, claim count, and premium data as of December 31, 2010 provided by CMS. Unpaid assessments were estimated in a similar manner.

The methodology that underlies our estimates is discussed below.

## **Explanation of Exhibits**

### **Exhibit 1, Sheet 1**

*This exhibit summarizes the estimated unpaid claim and assessment liabilities as of December 31, 2010.*

This exhibit summarizes the unpaid liabilities separately for loss and ALAE (from Exhibit 3, Sheet 1) versus assessments (from Exhibit 1, Sheet 2).

### **Exhibit 1, Sheet 2**

*This exhibit summarizes the estimated future payout of unpaid claims as of December 31, 2010.*

This exhibit summarizes our estimates of the claim payments expected to be made during calendar years 2011-2015. Our estimates are based on a review by Milliman claims consultants of the individual open claims.

### **Exhibit 2**

*This exhibit summarizes our estimates of the unpaid assessments as of 12/31/10.*

To estimate OHIWCT's unpaid assessments, we applied the assessment rates from the most recent invoices from the WCB to the estimated unpaid indemnity loss as of December 31, 2010. For this review, we have not estimated assessment reserves for the 15-8, 25A, 151, or 151IDP funds in order to reflect recent workers compensation legislation that affects group self-insured trusts in runoff. Based on our discussions with the WCB, we understand this legislation, which became effective March 31, 2011, established that trusts in runoff are liable only for assessments related to the 50-5 fund.

### **Exhibit 3, Sheet 1**

*This exhibit summarizes our range of estimates of ultimate loss and ALAE, the resulting estimated unpaid amounts as of 12/31/10, and ultimate loss and ALAE ratios.*

Column (2) summarizes the loss and ALAE paid as of December 31, 2010. This is subtracted from the estimated ultimate loss and ALAE amounts in columns (3) – (5) to produce our range of unpaid estimates in columns (6) – (8).

Columns (3) – (5) show our low, central, and high estimates of the ultimate loss and ALAE. The central estimate shown in column (4) is from Sheet 2 of this exhibit. Columns (3) and (5) are selected judgmentally based on optimistic and pessimistic assumptions that we believe to be reasonable.

Columns (10) – (12) show the low, central, and high estimates of the ultimate loss and ALAE ratio implied by our estimated ultimate loss and ALAE amounts in columns (3) – (5).

### **Exhibit 3, Sheet 2**

*This exhibit breaks down our selected ultimate loss into its paid and unpaid components, together with the average outstanding claim size implied by our unpaid loss estimates.*

### **Exhibit 3, Sheet 3**

*This exhibit summarizes our ultimate loss and ALAE indications with the resulting selected ultimate loss and ALAE estimates and the implied ultimate loss and ALAE ratios and ultimate claim severities.*

Column 2 reflects the sum of paid loss and Milliman's individual case reserve estimates for all open claims.

Columns (3) – (5) summarize the ultimate loss and ALAE indications from our Bornhuetter-Ferguson (BF) and Cape Cod projection techniques from Sheets 4-6.

Column (6) shows our selected ultimate loss and ALAE based on the indications from columns (2) – (5). For the oldest accident years, we selected the case incurred losses because no additional development is expected.

Columns (9) and (10) show the ultimate loss and ALAE ratios and claim severities implied by our selected ultimate loss and ALAE.

### **Exhibit 3, Sheet 4**

*This exhibit shows the Bornhuetter-Ferguson projection method used to estimate ultimate loss and ALAE for accident years 2007-2009.*

The Bornhuetter-Ferguson (BF) method is a common actuarial approach that estimates unpaid or unreported loss and ALAE based on an a priori expected loss estimate and the expected percentage of ultimate loss and ALAE that is currently unpaid or unreported. This is a generally accepted actuarial approach for estimating ultimate losses when loss experience is immature and/or volume is low; both of these issues affect OHIWCT.

The expected ultimate loss is based on the product of an estimate of the ultimate number of reported claims (from Exhibit 5) and an expected ultimate average claim severity. The expected ultimate average claim severity is based on OHIWCT's historical claim severities and statewide industry information from the NYCIRB, adjusted for inflation.

In projecting the ultimate loss and ALAE for 2007-2009, we also adjusted for the expected impact of the 2007 legislative reform in New York based on information prepared by the NYCIRB.

### **Exhibit 3, Sheets 5 and 6**

*This exhibit shows the "Cape Cod" methodology used to produce indications of ultimate loss and ALAE.*

The Cape Cod method is a modified version of the BF method that relies on OHIWCT's own experience from its inception to determine the expected loss and ALAE estimates. On Sheet 5, the expected ultimate loss and ALAE is based on the product of earned premium and an expected loss and ALAE ratio. On Sheet 6, the expected ultimate loss and ALAE is based on the product of an estimate of the ultimate number of reported claims and an expected ultimate average claim severity.

### **Exhibit 4**

*This exhibit shows the source of the loss development factors used in Exhibit 3.*

The incurred loss and ALAE development pattern used in this analysis is based on data from the NYCIRB 2010 financial data call. The industry data excludes ALAE, but the omission of this data should have only a minor effect on the incurred loss development pattern.

Sheet 2 of this exhibit shows the percent change in the valuation of incurred medical losses from one calendar year to the next. For example, accident year 2006 incurred medical losses valued as of December 31, 2007 (24 months) are 38.0% larger than accident year 2006 incurred medical losses valued as of December 31, 2006 (12 months). The loss development factor is, therefore, expressed as 1.380. By looking at the loss development factors within a column, one can see several historical loss development factors that represent similar aging of the claims as they mature. Sheet 3 shows the development pattern for indemnity losses.

In each column, there are five historical factors shown. The two-year average factor and the five-year average factor are also shown. For both medical and indemnity losses, we selected the average of the latest five years. The cumulative products of the selected factors beginning with the tail factor at 120 months become the selected loss development factors to an ultimate loss level. We adjusted the otherwise indicated tail factor at 120 months to reflect OHIWCT's net retention. Also, we adjusted the 12 month-to-ultimate through 48 month-to-ultimate factors for indemnity loss to reflect the expected impact of the 2007 workers compensation reform.

On Sheet 1 of Exhibit 4, we calculate the weighted average of the two development patterns to determine a development pattern for medical and indemnity loss combined. For 2006 and prior, which are not affected by the 2007 legislative reform, we used weights of 65% for indemnity and 35% for medical. For 2007-2009, which are expected to be impacted by the duration caps on indemnity losses, we used weights of 55% for indemnity and 45% for medical. These loss development factors are used in Exhibit 3 for the calculation of the Cape Cod ultimate losses.

#### **Exhibit 5**

*This exhibit shows the estimated number of ultimate claims for fund years 1998-2009.*

Column (2) shows the number of claims reported for each fund year as of December 31, 2010.

Column (3) shows our estimate of the development on reported claims from one evaluation date to the next.

Column (4) shows our estimate of the ultimate development on reported claims based on Column (3).

Column (5) represents the percentage of the estimated ultimate number of claims that have been reported as of December 31, 2010.

Column (6) shows our estimate of the ultimate number of reported claims for fund years 1998-2009.

Column (7) shows the number of closed claims for each fund year as of December 31, 2010.

Column (8) shows our estimate of the number of outstanding claims implied by columns (6) and (7) for fund years 1998-2009.

#### **Exhibit 6**

*This exhibit provides a summary of the paid and incurred loss and ALAE through December 31, 2010, both gross and net of excess insurance.*

#### **Excess Insurance**

OHIWCT has historically purchased excess of loss insurance to limit the financial impact from large claims. OHIWCT's per occurrence retention has increased over time, as shown in Table 4.

**Table 4**  
**Summary of Excess Insurance Program**

Fund Year	Per Occurrence Retention
1998	\$250,000
1999	250,000
2000	200,000
2001	250,000
2002-2004	350,000
2005-2009	400,000

Our estimate of the unpaid loss and ALAE net of excess insurance assumes that all excess insurance is valid and collectible. We have not anticipated any contingent liabilities that could arise if the excess insurers do not meet their obligations to OHIWCT as reflected in the data and other information provided to us.

### **Potential Areas of Uncertainty in Our Analysis**

There are several assumptions underlying our work that have potential to either overestimate or underestimate the unpaid claim liabilities as of December 31, 2010.

#### *1. Incurred Loss Development Factor from 120 Months*

Exhibit 4 shows the industry loss experience in the development of incurred losses from 120 months to their ultimate reported values. Over the most recently available five years, this factor has ranged from 1.067 to 1.320 for indemnity and from 1.125 to 1.322 for medical. When insurers report loss data to the NYCIRB, they are permitted to report losses on a discounted basis to reflect the time value of money for lifetime annuity claims such as permanent total cases or fatal cases involving weekly benefits to widows and children. As these cases move from the reserve status to the payment status, the amount of discount that underlies the case reserves is unwound, which creates artificially higher loss development factors.

The impact of this overstatement is expected to be minimal, however, since permanent total claims represent a small portion of the total ultimate losses. Further, many insurers report the undiscounted case reserve, rather than the discounted amounts on these claims.

## *2. Incurred Loss Development Factors in General*

As stated above, the selected incurred loss development factors are based on NYCIRB data. Since the loss data underlying these development factors are prior to the limiting effect of excess of loss insurance, it includes the development of losses above OHIWCT's expected per occurrence retention of \$400,000. Loss development factors from incurred loss data which had individual claim amounts capped at \$400,000 per occurrence are expected to be lower than loss development factors produced from uncapped incurred loss data. We adjusted the industry tail factor used in our analysis to account for the \$400,000 per occurrence limit.

Due to the relative lack of relevant historical experience for OHIWCT, we utilized incurred loss and ALAE development patterns based on statewide New York data representing a broad spectrum of employment activity. This pattern may or may not be representative of the expected incurred loss and ALAE development of the OHIWCT.

## *3. Impact of 2007 Workers Compensation Legislative Reform*

In producing our estimates of the unpaid claim and assessment liabilities, it was necessary to reflect the impact of the 2007 legislative reform of the New York workers compensation system. The main components of this reform are:

- a) A cap has been placed on the duration of payments made for permanent partial claims occurring on or after March 13, 2007; this could decrease future losses for OHIWCT permanent partial disability claims.
- b) The maximum weekly benefit has been increased from \$400 to \$500 for claims occurring on or after July 1, 2007, to \$550 for claims occurring on or after July 1, 2008, and to \$600 for claims occurring on or after July 1, 2009. This will increase future loss costs of OHIWCT.
- c) The second injury fund will no longer be available as a reimbursement mechanism for claims that occur on or after July 1, 2007. This could increase the OHIWCT payments.

We relied on the statewide average impact estimated by the NYCIRB in adjusting historical loss estimates to the 2007 fund year level. Please note that it is premature to determine whether the reform's impact on OHIWCT will be different from the NYCIRB's estimates for the overall statewide New York workers compensation system.

#### *4. Medical Treatment Guidelines*

Effective December 1, 2010, the WCB issued Medical Treatment Guidelines, which apply to all workers compensation cases regardless of when the injury occurred. The recent implementation of these guidelines creates additional uncertainty in our estimates.

#### *5. Annual Wage Trend*

The annual wage trend is based on changes in the aggregate level of statewide New York wages based on information from historical NYCIRB loss cost filings. This annual wage trend may or may not be representative of the expected annual wage trend of the OHIWCT.

#### *6. Annual Loss Trend*

The annual loss trend is based on the NYCIRB rate filing effective October 1, 2010, which is based on statewide data for all class codes combined. This annual loss trend may or may not be representative of the expected annual loss cost trend of the OHIWCT.

### **Limitations**

#### ***Data***

In performing this analysis we have relied on data and other information provided to us by CMS. We have not audited or verified this data and other information. Such a review is beyond the scope of our assignment. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for values that are questionable or relationships that are materially inconsistent. Such a review is beyond the scope of our assignment.

#### ***Uncertainty***

The estimates contained in our report reflect our best professional judgment, based on our actuarial analysis of the available data. Our results reflect assumptions regarding loss development, loss trend and wage trend. All unpaid claim estimates inherently contain uncertainty. Actual future payments may differ materially, and in either direction, from

our estimates. This is particularly true for small insurance programs where actual results tend to vary considerably from year to year.

The causes of this inherent variability are numerous, and can include changes in the legal, social, or regulatory environment surrounding the claims process. Uncontrollable factors such as general economic conditions and random statistical variation also contribute to this variability. Factors such as changes in claim reserving or settlement practices, can also affect our estimates. Of course, uncontrollable factors such as general economic conditions and random statistical variation can also influence future claim amounts.

Our findings are based, in part, on assumptions we made with respect to the applicability of using industry data to estimate OHIWCT's loss and ALAE claim liability. To the extent that the risks faced by OHIWCT are different from those underlying the industry sources we used, additional uncertainty exists surrounding our estimates.

### ***Variability***

The sensitivity of key variables in the analysis was considered. Key variables include loss development factor selections, expected loss ratios and expected claim severities. The overall results are potentially sensitive to any of these items, and reasonable alternative selections could change the results either upward or downward.

The current and future financial position of the OHIWCT is the responsibility of OHIWCT and not Milliman. The current financial position of OHIWCT may restrict the Trust's ability to offer Section 32 settlements to claimants in order to reduce its claim liability.

### **Distribution and Use**

Milliman's work is prepared solely for the internal use of OHIWCT. No portion of Milliman's work may be provided to any other party without Milliman's prior written consent. If Milliman does consent, additional work may be required at additional expense. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work. Milliman's work may not be filed with the SEC or other securities regulatory bodies. In addition, references to Milliman or its estimates in securities filings, analyst meetings and press releases are not authorized.

Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Third Party Release Agreement, subject to the following exceptions:

- (a) OHIWCT may provide a copy of Milliman's work to the trust's administrator, Cody Management Services, Inc.

(b) OHIWCT may provide a copy of Milliman's work to its accountant, Fuller & LaFiura, to be used solely for accounting purposes.

(c) OHIWCT may provide a copy of Milliman's work, in its entirety, to governmental entities, as required by law.

In the event Milliman consents to release its work product, it must be provided in its entirety. We recommend that any such party have its own actuary or other qualified professional review the work product to ensure that the party understands the assumptions and uncertainties inherent in our estimates. No third party recipient of Milliman's work product should rely upon Milliman's work product.

### **Use of Milliman Name**

Milliman does not permit the use of Milliman's name, trademarks or service marks, or any reference to Milliman directly or indirectly in any media release, public announcement or public disclosure, including in any promotional or marketing materials, customer lists, referral lists, websites or business presentations without Milliman's prior written consent for each such use or release, which consent shall be given in Milliman's sole discretion.

**OHI Workers' Compensation Trust**  
Estimated Unpaid Loss, ALAE and Assessments as of December 31, 2010

		Undiscounted		
		Low	Central	High
(1)	Estimated Unpaid Loss and ALAE	2,459,508	3,285,194	4,261,503
(2)	Estimated Unpaid Assessments	106,769	106,769	106,769
(3)	Estimated Total Unpaid = (1) + (2)	2,566,277	3,391,963	4,368,272

Notes

- (1) From Exhibit 3, Sheet 1
- (2) From Exhibit 2

**OHI Workers' Compensation Trust**  
Estimated Payout - 2011 to 2015

(1)	(2)
<u>Calendar Year</u>	<u>Estimated CY Loss Payout</u>
2011	967,074
2012	519,675
2013	325,174
2014	194,319
2015	216,548

Notes

- (2) Based on projected payout of Milliman estimated case reserves for known, open claims

**OHI Workers' Compensation Trust**

Estimated Unpaid Assessments as of December 31, 2010

	<u>15-8</u>	<u>25A</u>	<u>151</u>	<u>151-IDP</u>	<u>50-5</u>	<u>Total</u>
(1) Assessment Base	2,135,376	2,135,376	2,135,376	2,135,376	2,135,376	
(2) Assessment Rate	NA	NA	NA	NA	5.0%	
(3) Estimated Assessments	NA	NA	NA	NA	106,769	106,769

**Notes**

- (1) Estimated as 65% of central estimate of unpaid loss from Exhibit 3. Estimated unpaid indemnity loss is used as the assessment base because the Trust voluntarily entered runoff effective December 31, 2009. The percentage allocation (65%) between indemnity and medical is based on case reserves.
- (2) Based on 2010 assessment reports from the State of New York Workers' Compensation Board (WCB). Per legislation effective 3/31/11 and discussions with the WCB, OHIWCT will be assessed only for the 50-5 fund.
- (3) [(1) × (2)]

**OHI Workers' Compensation Trust**  
Estimated Unpaid Loss and ALAE as of December 31, 2010  
Limited to Self-Insured Retention

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
					(3) - (2)	(4) - (2)	(5) - (2)
Fund Year	Paid Loss & ALAE as of 12/31/10	Estimated Ultimate Loss & ALAE			Estimated Unpaid Loss & ALAE as of December 31, 2010		
		Low	Central	High	Low	Central	High
1998	64,689	64,689	64,689	64,689	0	0	0
1999	79,162	79,162	79,162	79,162	0	0	0
2000	265,189	267,845	267,845	272,845	2,656	2,656	7,656
2001	408,523	465,862	465,862	487,983	57,339	57,339	79,460
2002	129,223	159,035	168,215	183,515	29,812	38,992	54,292
2003	199,651	199,651	199,651	199,651	0	0	0
2004	920,402	1,380,123	1,441,929	1,516,096	459,721	521,527	595,694
2005	929,020	1,153,454	1,252,632	1,368,339	224,435	323,612	439,319
2006	661,837	864,933	992,750	1,147,956	203,096	330,913	486,120
2007	791,350	1,093,393	1,270,999	1,470,806	302,043	479,649	679,456
2008	420,527	965,750	1,159,250	1,374,250	545,223	738,723	953,723
2009	544,677	1,179,860	1,336,460	1,510,460	635,183	791,783	965,783
Total	5,414,248	7,873,756	8,699,443	9,675,751	2,459,508	3,285,194	4,261,503
	(9)	(10)	(11)	(12)			
		(3) ÷ (9)	(4) ÷ (9)	(5) ÷ (9)			
Fund Year	Earned Premium	Estimated Ultimate Loss & ALAE Ratio					
		Low	Central	High			
1998	220,347	29.4%	29.4%	29.4%			
1999	231,045	34.3%	34.3%	34.3%			
2000	266,944	100.3%	100.3%	102.2%			
2001	442,419	105.3%	105.3%	110.3%			
2002	611,995	26.0%	27.5%	30.0%			
2003	812,550	24.6%	24.6%	24.6%			
2004	1,236,118	111.6%	116.6%	122.6%			
2005	1,652,958	69.8%	75.8%	82.8%			
2006	1,825,957	47.4%	54.4%	62.9%			
2007	2,220,079	49.3%	57.3%	66.3%			
2008	2,150,000	44.9%	53.9%	63.9%			
2009	1,740,000	67.8%	76.8%	86.8%			
Total	13,410,412	58.7%	64.9%	72.2%			

**Notes**

- (2) Based on claim list provided by Cody Management
- (3), (5) Selected judgmentally based on column (4) and actual claim experience to date
- (4) From Exhibit 3, Sheet 2
- (9) Based on data provided by Cody Management

**OHI Workers' Compensation Trust**  
Estimated Unpaid Loss and ALAE  
Limited to Self-Insured Retention

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<u>Fund Year</u>	<u>Estimated Ultimate Loss &amp; ALAE</u>	<u>Paid Loss &amp; ALAE as of 12/31/10</u>	<u>Inc. Loss &amp; ALAE as of 12/31/10</u>	<u>Case Reserves</u>	<u>Estimated IBNR as of 12/31/10</u>	<u>Total Unpaid as of 12/31/10</u>	<u>Estimated Number of O/S Claims</u>	<u>Estimated O/S Claim Severity</u>
1998	64,689	64,689	64,689	0	0	0	0	—
1999	79,162	79,162	79,162	0	0	0	0	—
2000	267,845	265,189	267,845	2,656	0	2,656	1	2,656
2001	465,862	408,523	465,862	57,339	0	57,339	1	57,339
2002	168,215	129,223	140,864	11,641	27,351	38,992	1	38,992
2003	199,651	199,651	199,651	0	0	0	0	—
2004	1,441,929	920,402	1,064,436	144,034	377,493	521,527	4	130,382
2005	1,252,632	929,020	1,076,883	147,864	175,748	323,612	4	80,903
2006	992,750	661,837	777,309	115,472	215,441	330,913	4	82,728
2007	1,270,999	791,350	937,053	145,703	333,946	479,649	4	119,912
2008	1,159,250	420,527	773,419	352,892	385,831	738,723	7	105,532
2009	1,336,460	544,677	886,004	341,328	450,455	791,783	12	65,982
<b>Total</b>	<b>8,699,443</b>	<b>5,414,248</b>	<b>6,733,177</b>	<b>1,318,929</b>	<b>1,966,265</b>	<b>3,285,194</b>	<b>38</b>	

Notes

- (2) From Exhibit 3, Sheet 3
- (3), (4) Based on Exhibit 6
- (5) (4) - (3)
- (6) (2) - (4)
- (7) (5) + (6)
- (8) From Exhibit 5
- (9) (7) ÷ (8)

OHI Workers' Compensation Trust  
Estimated Ultimate Loss and ALAE  
Limited to Self-Insured Retention

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) (5) ÷ (6)	(10) (5) ÷ (7)
Fund Year	Milliman Estimated Case Incurred	Bornhuetter- Ferguson	Loss Ratio Cape Cod	Severity Cape Cod	Estimated Ultimate Loss & ALAE	Earned Premium	Estimated Ultimate Number of Claims	Estimated Ultimate Loss & ALAE Ratio	Estimated Ultimate Claim Severity
1998	64,689		68,540	69,692	64,689	220,347	11	29.4%	5,881
1999	79,162		87,916	91,387	79,162	231,045	16	34.3%	4,948
2000	265,189		280,319	279,859	267,845	266,944	11	100.3%	24,350
2001	454,047		493,334	496,638	465,862	442,419	22	105.3%	21,176
2002	168,215		183,574	178,110	168,215	611,995	20	27.5%	8,411
2003	199,651		262,161	253,538	199,651	812,550	23	24.6%	8,680
2004	1,441,929		1,176,698	1,157,672	1,441,929	1,236,118	33	116.6%	43,695
2005	1,233,585		1,242,617	1,262,646	1,252,632	1,652,958	48	75.8%	26,096
2006	945,822		1,002,709	982,790	992,750	1,825,957	40	54.4%	24,819
2007	1,258,926	1,270,999			1,270,999	2,220,079	56	57.3%	22,696
2008	1,159,250	1,112,772			1,159,250	2,150,000	36	53.9%	32,201
2009	1,220,886	1,336,460			1,336,460	1,740,000	30	76.8%	44,549
<b>Total</b>	<b>8,491,351</b>				<b>8,699,443</b>	<b>13,410,412</b>	<b>346</b>		

Notes

- (2) Based on Milliman review of open claims
- (3) From Exhibit 3, Sheet 4
- (4) From Exhibit 3, Sheet 5
- (5) From Exhibit 3, Sheet 6
- (6) Selected based on columns (2) - (5)
- (7) Data provided by Cody Management
- (8) From Exhibit 5

**OHI Workers' Compensation Trust**  
Incurred Claim Severity Bornhuetter-Ferguson Method  
Limited to Self-Insured Retention

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
			(2) + (3)			(4) × (6)	(5) × (6)				(3) × (9) × (11)			[(12) × (13)] + (14)
Fund Year	Estimated Ultimate Loss & ALAE	Estimated Ultimate Number of Claims	Indic. Ult. Claim Severity OHI Data	Industry	On-Level Factor	Trended to AY 2007		Expected Claim Severity (Pre-Reform)	Estimated Impact of Reform	Selected Impact of Reform	Expected Ultimate Loss & ALAE	Estimated Unreported %	Case Inc. Loss & ALAE	Estimated Ultimate Loss & ALAE
			OHI Data	Industry		OHI Data	Industry							
1998	64,689	11	5,881		1.722	10,128								
1999	79,162	16	4,948		1.635	8,089								
2000	267,845	11	24,350	12,872	1.615	39,314	20,783							
2001	465,862	22	21,176	14,016	1.475	31,238	20,676							
2002	168,215	20	8,411	15,799	1.326	11,151	20,947							
2003	199,651	23	8,680	17,214	1.257	10,915	21,645							
2004	1,441,929	33	43,695	18,261	1.194	52,171	21,803							
2005	1,252,632	48	26,096	19,658	1.109	28,939	21,799							
2006	992,750	40	24,819	21,427	1.053	26,135	22,564							
2007		56						25,000	0.834	0.875	1,225,455	0.273	937,053	1,270,999
2008		36						26,500	0.820	0.865	825,226	0.411	773,419	1,112,772
2009		30						28,000	0.826	0.869	730,267	0.617	886,004	1,336,460

**Notes**

- (2) From Exhibit 3, Sheet 3
- (3) From Exhibit 5
- (5) Based on statewide industry claim size information from NCCI
- (6) Reflects severity trend of 5.9% (based on 2010 NYCIRB loss cost filing) and indexing to recognize changes in OHIWCT's self-insured retention.
- (9) AY 2007: Selected based on columns (7) and (8)  
AY 2008, 2009: Trended forward from 2007 at 5.9%
- (10) Based on analysis of statewide data by NYCIRB in its review of the impact of 2007 workers compensation reform.
- (11) We judgmentally reduced the impact of the reform by 25%.
- (13) Based on Exhibit 4, Sheet 1
- (14) Based on Exhibit 6

**OHI Workers' Compensation Trust**  
Incurred Loss & ALAE Loss Ratio Cape Cod  
Limited to Self-Insured Retention

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Fund Year	Premium at Current Rates and 2009 Wage Level	Loss Trend Index	SIR Index	Exposure Base	Portion of Ultimate Incurred Loss & ALAE as of 12/31/2010	Incurred Loss & ALAE as of 12/31/2010	Developed Loss to Exposure Ratio	Expected Loss to Exposure Ratio	Expected Ultimate Loss & ALAE	Expected IBNR Loss & ALAE	Indicated Ultimate Loss & ALAE
1998	365,018	0.745	1.004	273,286	0.968	64,689	0.245	0.434	118,675	3,851	68,540
1999	506,592	0.773	0.994	389,542	0.948	79,162	0.214	0.434	169,159	8,754	87,916
2000	517,956	0.802	0.946	393,239	0.927	267,845	0.735	0.434	170,765	12,474	280,319
2001	913,427	0.832	0.973	740,036	0.915	465,862	0.688	0.434	321,362	27,473	493,334
2002	1,094,057	0.863	1.018	961,551	0.898	140,864	0.163	0.434	417,556	42,710	183,574
2003	1,305,426	0.896	1.009	1,179,523	0.878	199,651	0.193	0.434	512,210	62,510	262,161
2004 *	1,933,530	0.929	0.998	1,793,858	0.856	693,349	0.452	0.434	778,987	112,262	1,176,698
2005	2,204,154	0.964	1.010	2,146,752	0.822	1,076,883	0.610	0.434	932,232	165,734	1,242,617
2006	2,316,250	1.000	1.000	2,316,250	0.776	777,309	0.433	0.434	1,005,837	225,401	1,002,709
<b>Total</b>	<b>11,156,410</b>			<b>10,194,038</b>		<b>3,765,614</b>			<b>4,426,783</b>	<b>661,169</b>	<b>4,797,870</b>

Notes

- \* Fund Year 2004 excludes claim WC03969 in (7); incurred loss limited to SIR and incurred ALAE for this claim added back in (12)
- (2) Premium at 2009 rates trended to 2009 wage level at an annual wage trend of 2.9%
- (3) Reflects 5.9% severity trend and -2.5% frequency trend based on data from NYCIRB
- (4) Estimated based on historical self-insurance retentions (SIRs) and excess loss pure premium factors effective January 1, 2008
- (5) = (2) × (3) × (4)
- (6) From Exhibit 4, Sheet 1
- (7) Based on claim list provided by Claim Services
- (8) = (7) + [(5) × (6)]
- Values which are boxed are used to calculate the values in (9).
- (9) Weighted average of (8) with weights equal to (5) × (6) × 1.0<sup>LAG</sup> where LAG = absolute value of difference in years. 9 years included in Column (9) calculation.
- (10) = (5) × (9)
- (11) = (10) × [1.0 - (6)]
- (12) = (7) + (11)

OHI Workers' Compensation Trust  
Incurred Loss & ALAE Severity Cape Cod  
Limited to Self-Insured Retention

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Fund Year	Ultimate Number of Reported Claims	Severity Index	SIR Index	Exposure Base	Portion of Ultimate Incurred Loss & ALAE as of 12/31/2010	Incurred Loss & ALAE as of 12/31/2010	Developed Loss to Exposure Ratio	Expected Loss to Exposure Ratio	Expected Ultimate Loss & ALAE	Expected IBNR Loss & ALAE	Indicated Ultimate Loss & ALAE
1998	11	0.609	1.004	7	0.968	64,689	9,941	22,924	154,177	5,003	69,692
1999	16	0.648	0.994	10	0.948	79,162	8,101	22,924	236,229	12,225	91,387
2000	11	0.689	0.946	7	0.927	267,845	40,276	22,924	164,464	12,014	279,859
2001	22	0.733	0.973	16	0.915	465,862	32,437	22,924	360,006	30,776	496,638
2002	20	0.780	1.018	16	0.898	140,864	9,878	22,924	364,138	37,246	178,110
2003	23	0.830	1.009	19	0.878	199,651	11,806	22,924	441,551	53,887	253,538
2004 *	32	0.883	0.998	28	0.856	693,349	28,704	22,924	646,966	93,236	1,157,672
2005	48	0.940	1.010	46	0.822	1,076,883	28,734	22,924	1,044,891	185,763	1,262,646
2006	40	1.000	1.000	40	0.776	777,309	25,045	22,924	916,949	205,482	982,790
Total	223			189		3,765,614			4,329,371	635,632	4,772,333

Notes

- \* Fund Year 2004 excludes claim WC03969 in (7); incurred loss limited to SIR and incurred ALAE for this claim added back in (12)
- (2) From Exhibit 5
- (3) Reflects 5.9% severity trend based on data for accident years 2005-2009 from NYCIRB
- (4) Estimated based on historical self-insurance retentions (SIRs) and excess loss pure premium factors effective January 1, 2008
- (5) = (2) × (3) × (4)
- (6) From Exhibit 4, Sheet 1
- (7) Based on claim list provided by Claim Services
- (8) = (7) ÷ [(5) × (6)]
- Values which are boxed are used to calculate the values in (9).
- (9) Weighted average of (8) with weights equal to (2) × (6) × 1.0<sup>LAG</sup> where LAG = absolute value of difference in years. 9 years included in Column (9) calculation.
- (10) = (5) × (9)
- (11) = (10) × [1.0 - (6)]
- (12) = (7) + (11)

**OHI Workers' Compensation Trust**  
Loss Development Factors to Ultimate

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Age	Medical		Indemnity		Weighted Average		Interpolated		
	LDF	% Reported	LDF	% Reported	% Reported	LDF	Maturity	% Reported	LDF
12	2.290	43.7%	2.947	33.9%	38.3%	2.610	12	38.3%	2.610
24	1.692	59.1%	1.704	58.7%	58.9%	1.698	24	58.9%	1.698
36	1.496	66.8%	1.289	77.6%	72.7%	1.375	36	72.7%	1.375
48	1.386	72.2%	1.134	88.2%	81.0%	1.235	48	81.0%	1.235
60	1.300	76.9%	1.283	77.9%	77.6%	1.289	60	77.6%	1.289
72	1.244	80.4%	1.202	83.2%	82.2%	1.216	72	82.2%	1.216
84	1.188	84.2%	1.158	86.4%	85.6%	1.168	84	85.6%	1.168
96	1.154	86.6%	1.131	88.4%	87.8%	1.139	96	87.8%	1.139
108	1.123	89.1%	1.109	90.2%	89.8%	1.114	108	89.8%	1.114
120	1.100	90.9%	1.090	91.7%	91.5%	1.093	120	91.5%	1.093
132	1.081	92.5%	1.078	92.8%	92.7%	1.079	132	92.7%	1.079
144	1.058	94.5%	1.053	95.0%	94.8%	1.055	144	94.8%	1.055
156	1.038	96.3%	1.031	97.0%	96.8%	1.034	156	96.8%	1.034

Notes

- (2) From Exhibit 4, Sheet 2. 132-ultimate and subsequent development factors were selected judgmentally based on the preceding pattern.
- (3) From Exhibit 4, Sheet 3. 132-ultimate and subsequent development factors were selected judgmentally based on the preceding pattern.
- (6) 12-48: 55% indemnity, 45% medical - these are for post-reform accident periods (2007 and subsequent)  
60 and subsequent: 65% indemnity, 35% medical

**OHI Workers' Compensation Trust**  
Case Incurred Loss Development\*  
Medical

Accident Year	Evaluation Months									
	24:12	36:24	48:36	60:48	72:60	84:72	96:84	108:96	120:108	ULT:120
1995										1.322
1996									1.029	1.217
1997								1.026	1.018	1.152
1998							1.021	1.020	1.017	1.213
1999						1.068	1.036	1.028	1.020	1.125
2000					1.051	1.040	1.025	1.031	1.020	
2001				1.097	1.044	1.048	1.033	1.035		
2002			1.048	1.033	1.059	1.028	1.031			
2003		1.091	1.073	1.067	1.024	1.051				
2004	1.202	1.161	1.104	1.070	1.046					
2005	1.382	1.112	1.078	1.064						
2006	1.380	1.141	1.095							
2007	1.414	1.151								
2008	1.387									
	24:12	36:24	48:36	60:48	72:60	84:72	96:84	108:96	120:108	ULT:120
2 year avg.	1.401	1.146	1.087	1.067	1.035	1.040	1.032	1.033	1.020	1.169
5 year avg.	1.353	1.131	1.080	1.066	1.045	1.047	1.029	1.028	1.021	1.206
Selected	1.353	1.131	1.080	1.066	1.045	1.047	1.029	1.028	1.021	1.100
Factor to Ultimate	2.290	1.692	1.496	1.386	1.300	1.244	1.188	1.154	1.123	1.100

Notes

\* Statewide industry loss development from the New York Compensation Insurance Rating Board.

**OHI Workers' Compensation Trust**  
Case Incurred Loss Development\*  
Indemnity

Accident Year	Evaluation Months									
	24:12	36:24	48:36	60:48	72:60	84:72	96:84	108:96	120:108	ULT:120
1995										1.320
1996									1.025	1.272
1997								1.018	1.017	1.067
1998							1.025	1.016	1.023	1.131
1999						1.036	1.007	1.015	1.008	1.111
2000					1.050	1.024	1.032	1.015	1.015	
2001				1.173	1.039	1.047	1.024	1.034		
2002			1.117	1.039	1.096	1.030	1.032			
2003		1.289	1.099	1.096	1.080	1.052				
2004	1.591	1.299	1.159	1.080	1.073					
2005	1.769	1.327	1.144	1.073						
2006	1.664	1.316	1.166							
2007	1.800	1.377								
2008	1.826									
	24:12	36:24	48:36	60:48	72:60	84:72	96:84	108:96	120:108	ULT:120
2 year avg.	1.813	1.347	1.155	1.077	1.077	1.041	1.028	1.025	1.012	1.121
5 year avg.	1.730	1.322	1.137	1.092	1.068	1.038	1.024	1.020	1.018	1.180
Selected	1.730	1.322	1.137	0.884	1.068	1.038	1.024	1.020	1.018	1.090
Factor to Ultimate	2.947	1.704	1.289	1.134	1.283	1.202	1.158	1.131	1.109	1.090

Notes

- \* Statewide industry loss development from the New York Compensation Insurance Rating Board.  
Note: the 48-60 loss development factor has been adjusted to reflect the expected impact of the 2007 reform

OHI reserves at 12-31-10 final.xlsm inc industry loss

4/19/2011 11:40 AM

**Milliman**

OHI reserves at 12-31-10 final.xlsm reported claims dev

4/19/2011 11:40 AM

**Milliman**