LawTrends

A publication of Eastman & Smith Ltd.

EASTMAN & SMITH LTD.
ATTORNEYS AT LAW
Established 1844

April 2010
WC volume 2 number 1

Understanding MIRA II the BWC's Enhanced Claim Reserving System

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State-fund employers often struggle to understand exactly how their premium rates are determined by the Ohio Bureau of Workers' Compensation (BWC). Claim costs are just one of the factors used to determine premium rates. Claim costs consist of the medical and indemnity costs paid and reserves set for each claim. One of the most challenging aspects of the rate-making equation is understanding how reserves are established and how a reserve impacts an employer's premium. In July 2008, the BWC implemented the Micro Insurance Reserving Analysis II (MIRA II) system with the goal of developing a more accurate, comprehensible and equitable method of setting individual claim reserves for each employer.

What Is A "Reserve"?

A reserve is an estimate of the future cost of a claim at a given point in time. The reserve on a claim helps ensure that the BWC collects enough yearly premiums from employers to pay the future cost of a claim. During the life of a claim, the reserve prediction may increase or decrease based on activity in the claim. MIRA II predicts the total claim cost incurred for an individual claim, which is the estimated value of all claim payments through the life of the claim. The reserve is then established by subtracting the total claim payments (to date)

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from the total incurred claim cost as predicted by MIRA II. On December 31 of each year, the BWC looks at a "snapshot" of a claim history and uses that information to calculate premiums.

BWC's Rate-Making History

Prior to July 1, 2002, the BWC used a tabular system to establish claim reserves. This system would fit a claim into a certain category based primarily on the type, amount and date of the last compensation paid in the claim. Other significant factors that may have significantly impacted future costs of the claim were not considered under the tabular system.

In order to develop a more accurate estimate of the true cost of a claim, the BWC implemented the first MIRA system beginning July 1, 2002. When MIRA was implemented, the BWC provided little information about how an individual claim reserve was set. Moreover, the system lacked the artificial intelligence to update itself as elements of each individual claim changed. Instead, reserves were set in the aggregate based on data that was updated every three to five years, and costs were predicted for a large class of claims rather than for a particular claim. The secretive nature of the system and its inability to predict reserves made the original MIRA a less than ideal system for accurate prediction of claim reserves.

Why Was MIRA II Implemented?

In response to problems with the original MIRA system, the legislature passed House Bill 100, which mandated that the BWC implement a new claims reserving system by June 30, 2008. The BWC responded to this mandate by implementing MIRA II, which was touted as a "state of the art" web tool that offered a more accurate method of setting individual claims reserves for each employer. The BWC also emphasized MIRA II's ability to set reserves on individual claims, using recent claim history that is updated weekly if claim conditions change.

How Does MIRA II Work?

Step 1 – Injury Type Mapping: In the first phase of MIRA II, a claim is identified by severity of exposure. The injury type classifications are: death, permanent total disability (PTD), temporary total disability (TTD), permanent partial disability (PPD) and medical-only. Depending on the injury type classification, MIRA II will apply the appropriate start/stop logic criteria to determine whether a reserve should be set for the claim.

Step 2 – Start/Stop Logic: MIRA II uses start/stop logic, which is a set of rules or criteria to determine when the system sets the reserve for a claim or stops setting a reserve. As noted above, the start/stop criteria differ depending on the injury type classification at the time the reserve is being predicted.

Example: On May 1, 2010, a particular claim qualifies as a Type 5 Temporary Total Disability claim, meaning that the claimant has received TTD compensation, but has not yet received or applied for a PTD or PPD award. A reserve could be set for either medical or indemnity payments, or both. Regarding the medical prediction, once a medical expense is paid, the system "starts" by setting a reserve. The system will "stop" and eliminate the reserve, however, if one of the following has occurred: 1) the medical portion of the claim has been settled; 2) no medical expenses have been paid and more than 180 days have passed since the claim was filed; or 3) more than 180 days have passed since the last medical date of service. Regarding the indemnity prediction, the reserve will be eliminated if one of the following has occurred: 1) the compensation portion of the claim has been settled; 2) more than 90 days have passed since the claimant returned to work and no wage loss has been paid within the last 60 days; 3) more than 90 days have passed since the claimant's maximum medical improvement date and no wage loss has been paid within the last 60 days; 4) no compensation has been paid in the claim and more than 180 days have passed since the claim was filed; or 5) more than 180 days have passed since the last date TTD compensation or wage loss compensation was paid.

Why Is MIRA II Better?

The implementation of MIRA II provides many advantages over the original MIRA system for state-fund employers. MIRA II is a transparent system, meaning it can be accessed via the internet by an employer. This enables employers to view their experience modifier and reserves and better predict their future workers' compensation costs. Moreover, the start/stop logic used by MIRA II may eliminate a reserve by the time the BWC uses claim costs to calculate premiums. Under the original MIRA, a reserve remained on a claim until the point where there was no potential for future benefits (i.e. full and final settlement) or inactivity for 13 months. In contrast, MIRA II will eliminate a reserve if a claim has been inactive for a much shorter period of time (usually 90 to 180 days). This means that under MIRA II, reserves are much more likely to be eliminated due to inactivity when the BWC takes its December 31 snapshot of the claim. Also, MIRA II does not assign reserves to disallowed claims and will not set a reserve until a payment has actually been made in an allowed claim. These are just a few of the benefits of the MIRA II system. Since its implementation, MIRA II generally has been viewed as a success. Reserves generally have decreased and employers usually have a better understanding of how reserves are determined.

What Can An Employer Do To Help Eliminate Or Reduce Reserves?

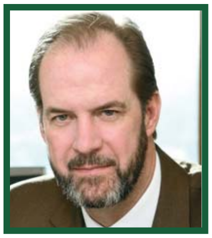
As noted above, the stop logic will eliminate a reserve after a certain number of days have passed since a significant event in a claim. Thus, it is imperative for employers to notify the BWC of significant events in a claim, such as a return to full duty work or a return to light duty work. Additionally, employers should pay close attention to the reserve on a claim and consider how long a claim has been inactive before making decisions regarding whether to object to requests for compensation (PPD, TTD, loss of use, etc.) or medical treatment. Delaying payment of compensation or medical treatment until after the BWC takes its snapshot on December 31 may be advantageous because there will not be a reserve on the claim when that "snapshot" is taken.

Upcoming Changes In Reserving Rules

Effective July 1, 2010, medical-only claims will be eligible for a reserve, unless the claim is in the $15,000 medical-only program, which is discussed later in this issue on page 17. This will impact employers' premiums for the July 1, 2011 policy year. Due to MIRA II's stop logic, however, the reserve on some medical-only claims may be eliminated by the time the claim enters an employer's experience. Salary continuation claims with a date of injury on or after January 1, 2011, will be eligible for an indemnity reserve. The same stop logic applied to claims where TTD is paid will be applied to these salary continuation claims. Thus, salary continuation may not provide the same claim cost management benefits it once did.

Conclusion

Even with the more transparent, user-friendly MIRA II, understanding the impact of claim costs and reserves is a daunting task. There are steps, however, that can make this aspect of claims management easier and more cost-effective. Accordingly, state-fund employers should remain in regular contact with both their third-party administrators and legal counsel to constantly assess claim costs and reserves and to develop strategies to manage them.



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