

# Ohio BWC

## Board of Directors

### Governance at the Bureau

Presented to the Competitive Workers'  
Compensation Task Force  
William J. Lhota, BWC Board Chair  
April 15, 2010



Bureau of Workers'  
Compensation

# Agenda

- Board Governance
  - Bill Lhota – Chair of the Board
  - Bob Smith – Chair of the Investment Committee
- Administration and Operation of BWC
  - Administrator Marsha Ryan

# **BWC Mission**

**The mission of BWC is to protect injured workers and employers from loss as a result of workplace accidents, and to enhance the general health and well-being of Ohioans and the Ohio economy.**

# Fiduciary Responsibility

- Safeguard and maintain the solvency of the state fund
- Approve rules developed by the Administrator governing rate revisions
- Advise the Administrator on policy and operational matters
- Provide independent verification of BWC's financial performance

# Fiduciary Responsibility

- Duty of loyalty
- Act in “good faith”
- Duty of care

# Board of Directors

- Eleven member professional board created by HB 100 (2007), appointed by the Governor and confirmed by the Senate
  - members serve 3 year staggered terms
  - Meets 2 days each month
    - One day for committee
    - One day for Board
- Provides greater professional expertise, strengthened accountability, transparency and broad representation of our customers

# Board Composition

- Three members represent employers
  - One for self-insuring employers
  - One for employers with more than 100 employees
  - One for employers with fewer than 100 employees
- Two members represent employee Organizations
- One member represents employees
- Two members are investment and securities experts
- One member is a certified public accountant
- One member is an actuary
- One public member

# Transparency

- All meetings are public
- Interested parties are regularly consulted
- Monthly Enterprise Report
- Strong system of checks and balances



# Committees

- HB 100 mandated three committees
  - Actuarial
  - Audit
  - Investment
- The Board created two additional committees
  - Governance
  - Medical Services and Safety Committee

# Actuarial Committee

- Monitors the actuarial soundness and financial conditions of the funds and reviews rates, reserves and the level of net assets
- Monitors the integrity of the actuarial process
- Monitors compliance with legal and regulatory requirements
- Monitors the design and effectiveness of the actuarial studies
- Confirms external actuarial consultants' qualifications and independence
- Reviews any independent external actuarial product

# Audit Committee

- Provides oversight of the integrity of the financial reporting process
- Ensures compliance with legal and regulatory requirements
- Monitors the design and effectiveness of the system of internal controls
- Reviews performance of the internal audit function and independent auditors

# Investment Committee)

- Assists the Board of Directors in the review and oversight of the State Insurance Fund and each Specialty Fund (collectively the Funds) assets
- Develops and monitors the implementation of the BWC Investment policy

# Investment Committee (Bob Smith)

- Significant accomplishments
  - Established low fees to outside investment firms
  - Rebalanced portfolio during 2008 financial crisis averting significant losses
  - Average return is a positive 4.1% per year for the past three years
  - Changed asset allocation to increase future returns without additional risk

# Investment Committee (Bob Smith)

- Significant accomplishments continued
  - Revised Investment Policy Statement
  - Reconstituted Investment Division
    - 7 of 9 are Chartered Financial Analysts
  - Contracted with Mercer Investments
  - Improved due diligence of portfolio management firms

# Medical Services and Safety

- Assists the Board of Directors in the development of strategic policy for the provision of quality, cost effective prevention, treatment, and rehabilitation services necessitated as the result of workplace injuries for the mutual benefit of injured workers and employers.
  - Created to provide more focus on the prevention of workplace incidents that lead to accidents and quality treatment once an accident resulting in injury occurs

# Governance Committee

- Reviews and recommends to the Board the adoption of governance guidelines and committee charters
- Oversees compliance with federal and state laws, regulations, policies and ethical requirements
- Develops and implements a Board self-assessment process of its performance and the performance of Board committees
- Oversees the process for orientation of new Board members and the continuing education program for all Board members



# Governance Committee (cont.)

- Makes recommendation for Board Vice-Chair, Committee Chairs and Vice-Chairs and Director assignments to Board committees for the Chair's consideration
- Coordinates the process and procedures for the Administrator's annual performance review
  - Created to emphasize the commitment to operate with the integrity appropriate to its fiduciary duties

# **BWC Design and Operations**

## **BWC Operations**

Marsha P. Ryan  
Administrator  
April 15, 2010



Bureau of Workers'  
Compensation

# Agenda

- Ohio's Design
- Landmark Legislation
- Ohio System Facts
- How Ohio Compares: Rates
- How Ohio compares: Benefits
- Low Cost Design
- Public System Characteristics
- Safety First
- “Operational excellence”
- Measuring Performance

# Uniqueness in Design

- Etched in the Ohio Constitution since 1912
  - Article II, Section 35
- No fault system guarantees coverage for all work-related injuries
- BWC
  - Provides claims administration, insurance and workplace safety service
- Industrial Commission
  - Handles claims adjudication

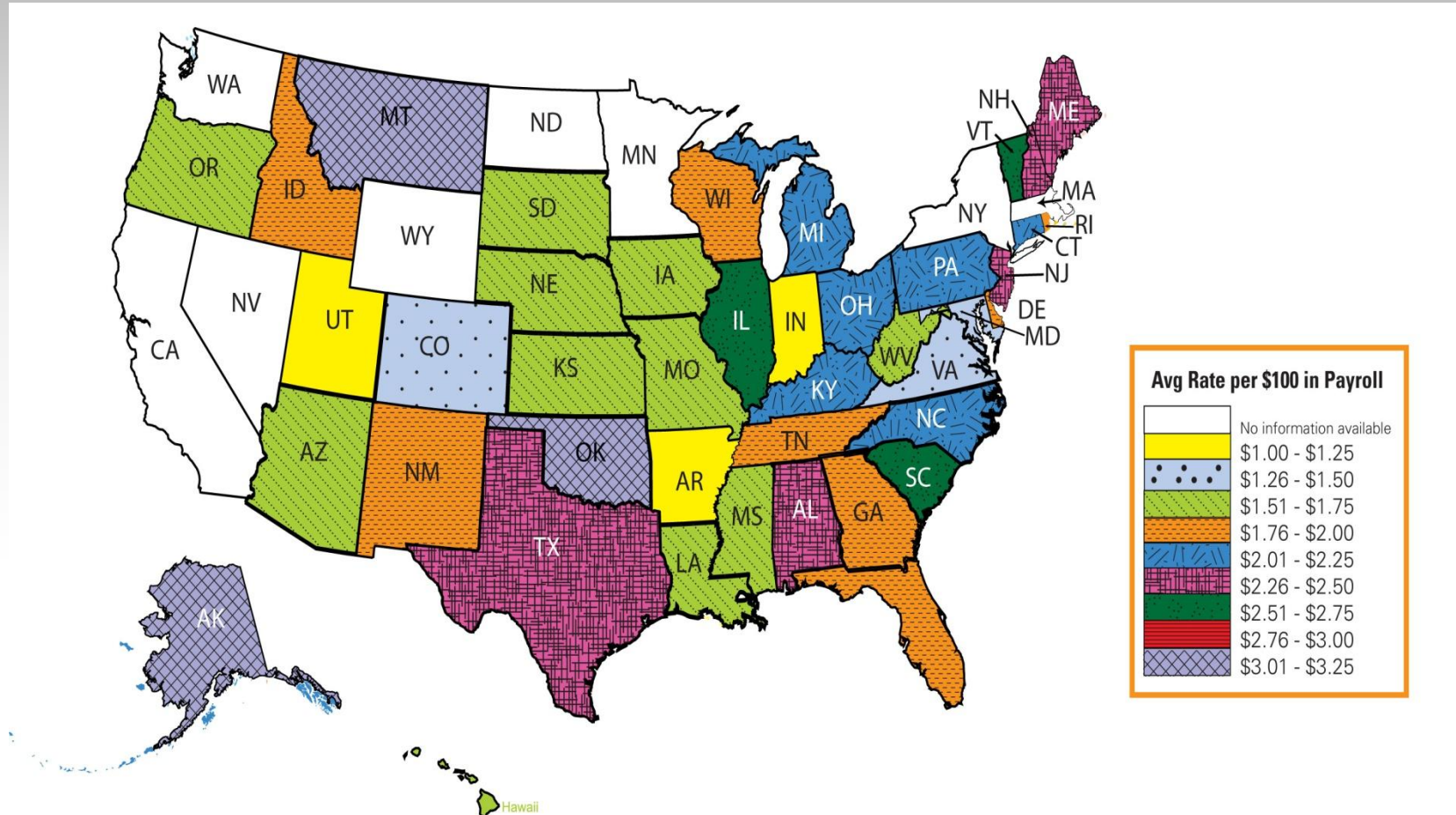
# Recent Landmark Legislation

- Stakeholder driven
  - HB 107 (1993)
    - Health Partnership Program design established current managed care system
  - HB 100 (2007)
    - Professional Board of Directors (fiduciaries)
    - Comprehensive study of rates and reserves
    - MIRA II reserving system

# Ohio System Facts

- Largest state fund in US
- \$2 billion premium collection
- 96% of premium goes towards claims & claims adjustment expenses
- 120,000 new claims a year
- 1.3 million open claims
- 2300 employees in 14 offices around the state

# How Ohio Compares: Rates



Compiled by BWC, Actuarial Division, 2009 Ohio data ,NCCI most recent filings

# How Ohio Compares: Benefits

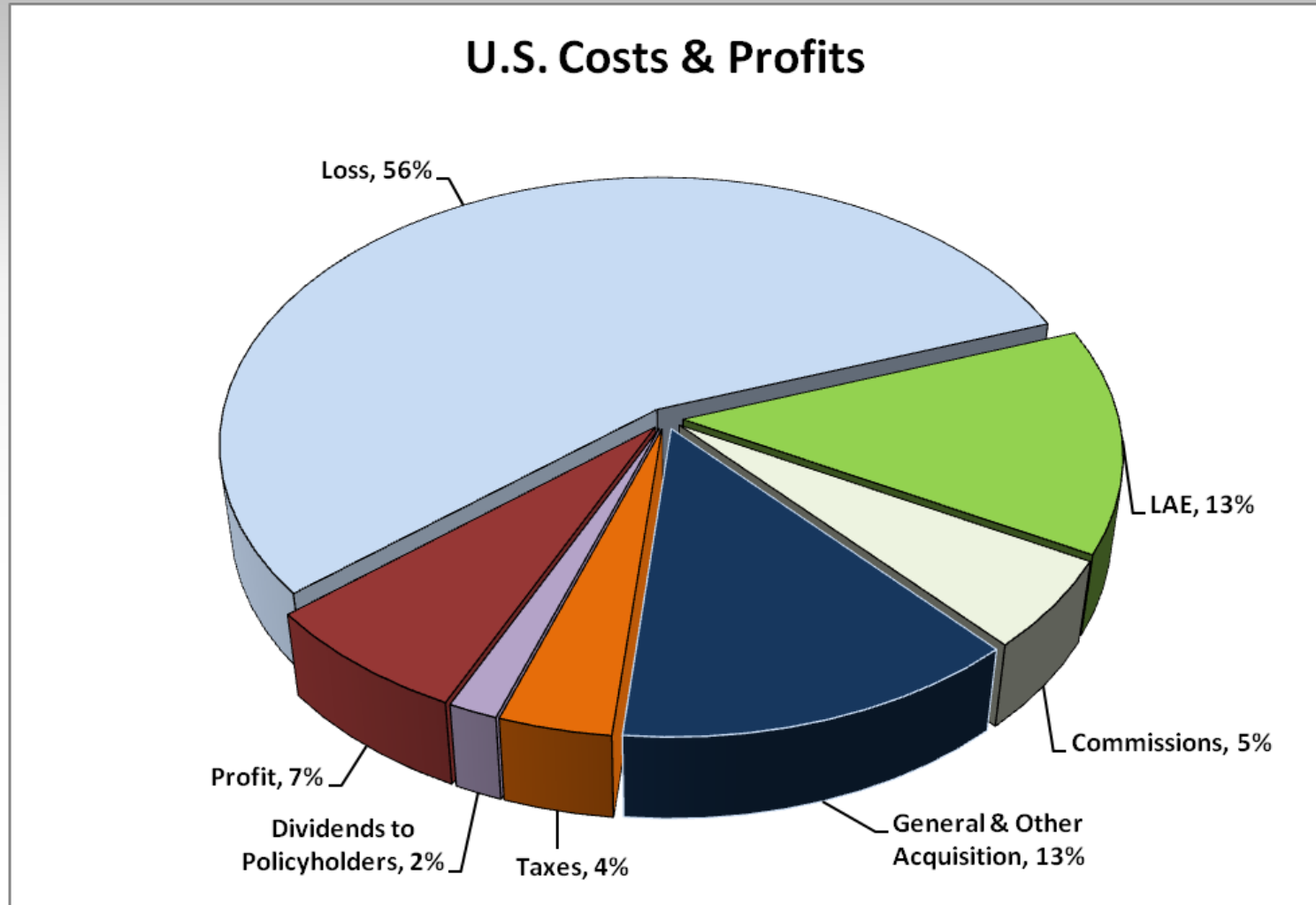
- Largely consistent with other states for benefits and compensation levels
- Number of benefit types is more extensive than found in most other jurisdictions
- No out-of-pocket costs to injured workers
- Medical charges controlled through cost containment programs
- One of 30 states that authorize the use of MCOs
- One of 19 states with a dedicated fund for rehabilitation expenses
- TTD benefits are slightly higher than in most other states
- PPD benefits for injuries in Ohio are consistent with most other states
- Fatality survivor benefits are in the middle (both mean & median) in eight peer state comparisons
- One of 18 states that have COLA for permanent disability cases
- 22 states, including Ohio, contain specific offset provisions to limit aggregate benefits received from other sources



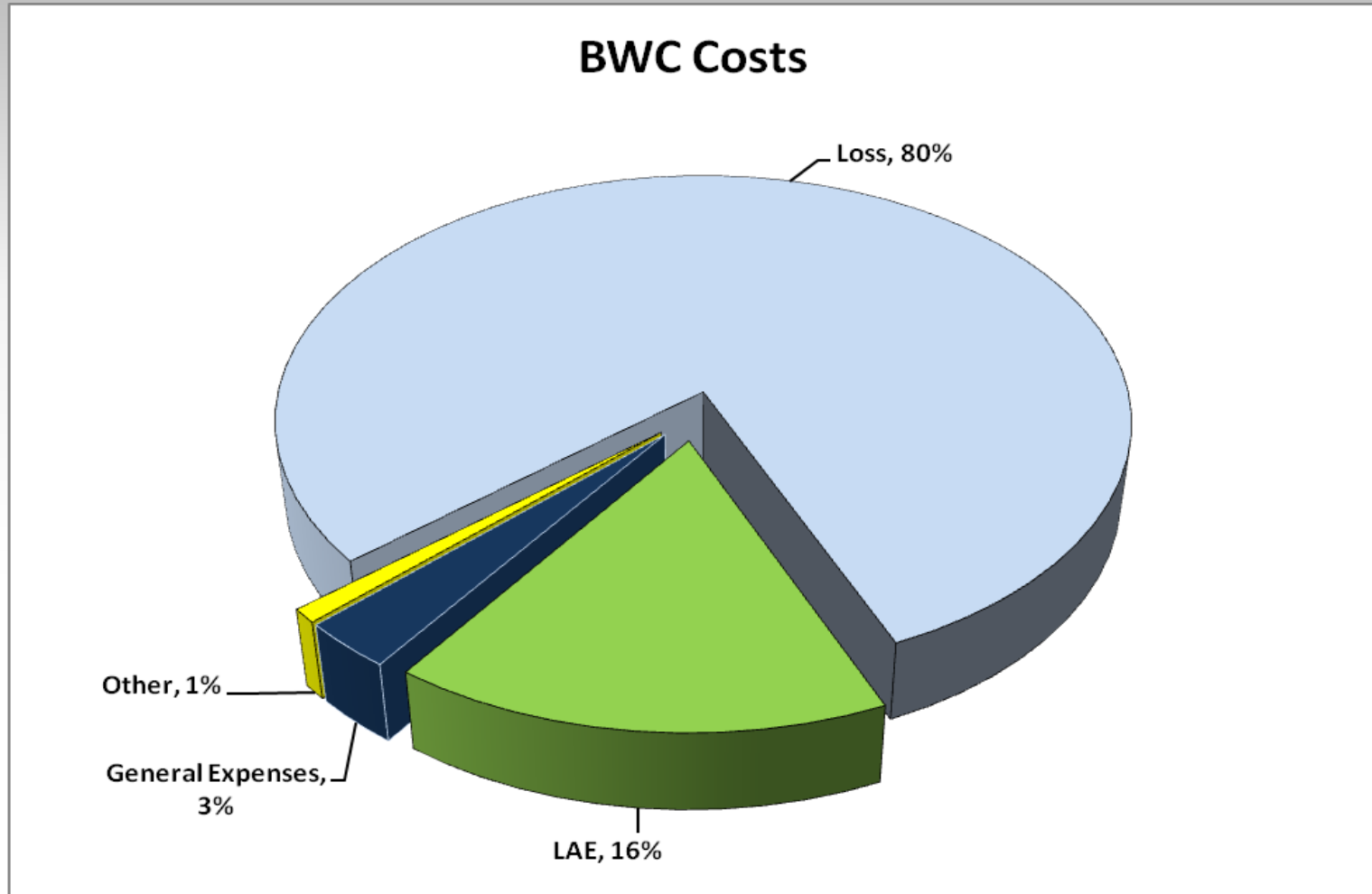
# Low Cost Design

- Low administrative costs-- .96 of every premium dollar devoted to claims (loss + loss adjustment expenses)
- Exempt from state and federal taxes
- Premium paid in arrears avoids payroll estimates
- Ability to discount loss reserves – requires less capital
- Exemption from Risk Based Capital and rating agency requirements
- Insulated from pricing cycles, BWC costs based on actual losses occurring in Ohio
- No profit motivation

# National Stats



# BWC Stats



# Public System Characteristics

- Transparency
  - Public meetings of Board online postings
  - Monthly Enterprise Report
  - Legislative Committee oversight
- Interested party access
- Lowest possible rates consistent with the maintenance of a solvent state insurance fund

# Public System Characteristics :

## Excerpts From Conning's Study of State Funds

- “the primary mission of state funds is support of local economies...”
- “state funds write approximately 25% or \$11.3 billion in premiums across the U.S.”
- “state funds now write 50% or more of the market in 8 states, whereas this number was only 4 in 1997”
- “state funds loss ratios are above those of the industry...state funds report lower expense ratios”
- “investment income for state funds has been strong”
- “reserves for our sample of state funds also have shown more stability over the underwriting cycle”

# Safety First

- Division of Safety and Hygiene (ORC 4121.37)
  - Engaged in leading edge research with the OMA, Restaurant Association, ODOT, NIOSH, OSHA
  - Offers wide variety of services at no additional cost to employers or employees
  - Over 20,000 employers directly access BWC's safety offerings each year
    - Safety education and training
    - OSHA on-site and field consulting
    - Safety grants, loans , discounts and rebates
    - Financial support for safety councils
    - On-site field consulting
    - Safety Congress and Expo

# “Operational Excellence”

- Stable costs
  - Lowest base rates in years
  - Split plan development
- Better services
  - New products: true deductibles, group retro
- Accurate rates
  - Right rate for the risk
  - MIRA II, accurate reserving
  - NCCI classifications
- Medical cost containment
- Streamlined processes

# Measuring Performance

- Base rate reductions of over 25% over last 3 years
- Disciplined investment guidelines
- Strong investment portfolio
- Focus on better care for injured workers
- Operating like an insurance business... with a public mission



# Questions and Discussion