

**DRAFT**  
**BWC Board of Directors**

Friday, October 31, 2008, 8:00 a.m.  
William Green Building  
Neil Schultz Conference Center  
30 West Spring Street, 2nd Floor (Mezzanine)  
Columbus, Ohio 43215

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Members Present: William Lhota, Chairman  
Charles Bryan  
David Caldwell  
Alison Falls  
Kenneth Haffey  
James Harris  
James Hummel  
Thomas Pitts  
Larry Price  
Robert Smith  
James Matesich

Members Absent: None.

**CALL TO ORDER**

Mr. Lhota called the meeting to order at 8 a.m.

**ROLL CALL**

Roll call was taken by the scribe. All members were present.

**SEPTEMBER 26, 2008 MINUTES**

Motion was made by James Harris, seconded by James Hummel, to approve the minutes, with changes as follows: on page three to reflect that the portfolio for the month to date has experienced a 3.7% decrease. On page five, to reflect that modeling is needed for a set of assumptions. Roll call was taken and the motion to approve the minutes passed 11-0.

The meeting agenda was reviewed. The Governance Committee was added to committee reports. There would be no need to call an Executive Session. It was agreed that the chairman would be permitted to recess the meeting as needed.

Larry Price expressed his gratitude to the Bureau staff and the Board of Directors for condolences concerning the passing of his mother.

## **COMMITTEE REPORTS:**

### **ACTUARIAL COMMITTEE**

Charles Bryan presented the Actuarial Committee report. Discussion was made of the selection of a discount rate for public employer taxing district rate indication. The Committee considered the Chief Actuarial Officer's recommendation to the Administrator, based on a range of indicated changes from Oliver Wyman. The Committee focused on analyses using both 5% and 4% discount rates, and different cost trends found in the Oliver Wyman supplied materials. The Committee discussed the need to make decisions on rates by looking at the actuarial assumptions and the resulting impact on Net Assets. The Funding Ratio proposed by Deloitte will help in this type of discussion in the future. Since we have not developed Net Asset policy, and because of their current level there was some sentiment to recommend no decrease. Mr. Bryan noted that a 1% decrease in the discount rate would raise the rate indication 9%. Motion was made by Mr. Bryan, seconded by David Caldwell, as follows: that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation concerning the public employer taxing district employer premium rates effective January 1, 2009. The resolution consents to the Administrator fixing public employer taxing district employer rates to achieve an overall decrease of five percent in the total collectible premium from the previous year, and consents to the Administrator preparing rate rules consistent with this policy. Roll call was taken and the motion passed 11-0.

Next month, the committee will consider two specific rules for rates for public employer taxing districts to implement the overall change approved today.

John Pedrick, Chief Actuarial Officer, discussed two caps and proposed rules for the first reading. The first cap would limit changes due to the experience of the employer. As the oldest year in the experience period falls away and a new year enters, employers can see very large increases in premium. This is particularly difficult for employers that are removed from groups. The first cap limits the change in experience modifier (EM) to 100%. The second cap would focus on premium changes due solely to changes in the credibility table. This cap would be 30%. Mr. Bryan noted we have used caps before. Mr. Pedrick discussed transition (to be complete by July 1, 2011) with respect to split experience rating, including annual review of the impact of and need for premium caps. Caps are expected to be in place until they have no substantial impact on premiums.

The committee charter has been approved for Governance Committee review. The Committee will continue to review reserves and quarterly reserve changes. The Oliver Wyman contract expires December 31, 2009. A request for proposal concerning a new contract is being developed. The committee should begin the RFP process by the first quarter of 2009. Finally, Mr. Bryan reported that the MIRA II implementation has proceeded with very few issues.

## **AUDIT COMMITTEE**

Kenneth Haffey presented the Audit Committee report. The meeting was held Tuesday, October 28 at the Mansfield Service Office. Motion was made by Mr. Haffey, seconded by Mr. Smith, as follows: that the Workers' Compensation Board of Directors approve the Administrator's recommendation to name Caren R. Murdock as the Bureau's Chief of Internal Audit. Roll call was taken and the motion passed 11-0. Marsha Ryan, Bureau Administrator, noted Ms. Murdock has successfully stepped into the role of the former Chief, Joe Bell. She has been very professional, with a seamless transition into the position. Ms. Ryan is confident in recommending Ms. Murdock to the position.

At the committee meeting presentation was made by Tom Sico, Assistant General Counsel, and Kim Robinson, Director of Policy, on the five year rule review of the claims procedure rules. Motion as was made by Mr. Haffey, seconded by Mr. Matesich, as follows: that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendations on the five year rule review of the rules of chapter 4123-3 of the Administrative Code, the claims procedure rules. The motion consents to the Administrator amending fourteen rules, rescinding four rules, adopting one new rule, and retaining without change eleven rules of chapter 4123-3 of the Administrative Code as presented and approved at the Audit Committee. Roll call was taken and the motion passed 11-0.

The second rule change addressed changes in the reimbursement for hospital inpatient services. Mr. Haffey reported that a number of questions concerning these changes were addressed to Bob Coury, Chief of Medical Services, and were answered to the committee's satisfaction. Motion was made by Mr. Haffey, seconded by Thomas Pitts, as follows: that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend rule 4123-6-37.1 of the Administrative Code, "Payment of hospital inpatient services." The motion consents to the Administrator amending rule 4123-6-37.1 as presented and approved at the Audit Committee. Roll call was taken and the motion passed 11-0.

The committee reviewed the committee charter with changes presented. The proposed changes shall be presented to the Governance Committee. There is a proposal to change the name of the committee to the Audit and Finance Committee, with expanded duties, including working directly with Tracy Valentino, Chief of Fiscal and Planning, concerning enterprise reporting. With respect to the external audit, there will be a full presentation November 20 by Schneider Downs. Ms. Valentino noted that the financial statements were prepared as of June 30, 2008 and signed September 30, 2008. As a

consequence of subsequent events, footnotes will be added to explain these events, and consequent financial changes.

### **INVESTMENT COMMITTEE**

Mr. Smith presented the Investment Committee report. The committee has no action items. The charter was reviewed, and forwarded to the Governance Committee for their consideration. Discussion was made of capital markets and the investment portfolio, including presentation by Mercer Consulting. The value of all funds is estimated at approximately \$15.3 billion dollars and net assets are estimated at approximately \$150 million dollars. Invested assets had an estimated negative return of 5.8% for calendar year 2008 ended in September, an estimated negative return of 8.5% October to date, and an estimated negative return of 14.3% calendar year to date. There was thorough discussion of capital markets, and portfolio rebalancing with Mercer Consulting. Bruce Dunn, Chief Investments Officer discussed securities lending at length. The Bureau will not be engaging in securities lending because of the current state of capital markets. There was an educational session concerning minority investment managers. Alison Falls noted there was a detailed discussion and evaluation of the issue of tactical versus strategic asset allocation. Mercer has evaluated this topic extensively, and recommends strategic management over tactical management. Mercer further recommends that portfolio balancing not be made under current market conditions. Mr. Smith announced that Mercer will begin introducing the asset liability modeling process at the November committee meeting. Charles Bryan asked if the level of net assets would create a problem with operating cash flow. Ms. Falls responded in the negative.

### **GOVERNANCE COMMITTEE**

Ms. Falls presented the report. There was no formal meeting this month. The committee is reviewing the Board Governance Guidelines and all committee charters as part of the required annual review of all charters. There has been and electronic and hard copy distribution of the Governance Guidelines and committee charters. Ms. Falls requested any comments or edits be provided to Don Berno, Board Liaison, by noon, November 6. The full Board will consider the proposed revisions at the November Board meeting.

### **MONTHLY FINANCIAL REPORT:**

The enterprise report was presented by Tracy Valentino, Chief of Fiscal and Planning. The Bureau has experienced \$155 million dollars in cash collections. This was an increase over projections due to the fact that the last day for reporting payroll and paying premiums was on a weekend. Therefore the cash collection impacted the September financial statements. Cash projections have been completed through January 2009. As a result, there will be a need to generate approximately \$150 million in December. Finance is working with Investments as this will be accomplished through call backs from the investment portfolio managers. The Investment Division will determine the most effective way to accomplish this. There has been a \$16 million dollar decrease in

premium and assessment collections due to safety council participation credits. Also, the last day for premium payments fell on a Saturday, so the book entry was made on Tuesday, September 4. There was an \$864 million dollar investment loss recorded in September 2008. Net assets as of September 30, 2008 were \$1.6 billion dollars, as of August 31, 2008, the amount was \$2.5 billion dollars. Ms. Ryan stated the Bureau clearly has the ability to pay all claims, and there is no need to increase premiums, as a result of successful long term management and planning on the part of the Bureau. Mr. Haffey stated he has weekly conversations with Ms. Valentino concerning the financial condition of the Bureau, and is diligently following the market impact on the Bureau. Mr. Matesich emphasized that money has not been lost by the Bureau, but rather, there has been a negative change in the value of the Bureau's assets. Mr. Price noted that there have been some realized losses in the investment portfolio. When asked, Ms. Valentino noted the Bureau has a competitive advantage, as a state monopoly, to withstand negative market impacts, as it is not regulated by the Department of Insurance, nor does the Bureau have minimum capital requirements. Mr. Smith noted there have been points in BWC's history where we had negative net assets. Mr. Bryan emphasized the importance of operating the Bureau on a fiscally sound basis. Ms. Valentino noted the Bureau has sufficient cash flow to satisfy operational expenses, pay claims, and provide services. Chairman Lhota noted we could not borrow money to help with cash flow issues which could result in selling securities at a loss. The Bureau is implementing various premium payment programs to encourage prompt payment. Ms. Ryan focused on premium payment packages that are available, in particular, enhancements designed to assist employers through the premium payment period. Ms. Falls would like to see the funded ratio added to the performance metrics of the enterprise reporting.

### **NCCI STATE OF THE LINE**

Mr. Pedrick and Liz Bravender, Director of Actuarial, made a presentation on various workers compensation statistics. A handout and power point presentation were included, and are incorporated by reference into the minutes. Comparative data was discussed at length by Ms. Bravender. There is a trend of decreasing premiums nationwide. The Bureau, has had some increase in rates in recent years. The Bureau's rates decreased in 2008. The Bureau is working on smoothing the peaks and valleys of premium changes. The Bureau is working towards achieving stability in rate making. Medical costs have increased as a percentage of the costs of lost time claims. Claim frequency is declining in both Ohio and nationwide. There has been a decrease in total claims, as well as severity, in Ohio, in recent years. The Bureau Actuary follows trends to assist projecting future claims frequency. Workplace safety has improved. The payroll mix by industry classification has changed. Payroll in the manufacturing classification has decreased over the years. Bob Coury, Chief, Medical Services and Compliance briefly discussed allowing pharmacy benefit managers to keep and manage rebates. This decreases the Bureau's cost of managing rebates.

Mr. Lhota recessed the meeting at 9:55 am. The meeting was reconvened at 10:10 am.

#### **ADMINISTRATOR BRIEFING:**

Ms. Ryan noted the meeting of the Workers' Compensation Council, Wednesday, October 29, 2008. There were two parts of a presentation by Deloitte. Part three shall be made either November or December 2008. October 23, Ms. Ryan spoke on regulatory reform before a special legislative committee session. There was discussion concerning what agencies are doing with regulatory reform. More specifically, Ms. Ryan discussed changes in the adjudicating process, public forums, checklists and discussions with stakeholders for rule changes. Discussion was made of the Cleveland area group rating case. Hearing has been held on a request for injunctive relief and a decision is awaited. There is a pending motion for certification of employers as a class. Steve Miller represents the Bureau's interests in the case. Restacking of the Bureau is going as planned. The restacking is creating a rational use of floor space, including space to be rented to other agencies. The call center is being relocated to the OCOSH facility in Pickerington. Much research went into this decision. Floors four, five, and six have been vacated for prospective renters. The Bureau will offer floor space at a competitive price. The Bureau will further make rational utilization of the vacant cafeteria in the William Green Building.

One relevant agenda item concerning the General Assembly is the creation of a line item to delineate funding of the Workers' Compensation Council. There has been follow up with phone calls to speakers at the self insurance public forum by the Self Insurance Department.

The greater Cleveland partnership event is scheduled for November 2008. It has been determined that Board members must pay to attend the event, in the event they choose to attend.

Discussion was made of public employer taxing districts. There are about 4900 public employer accounts. Some public employers are experiencing financial challenges. Many public employers experience a high frequency of claims, as well as turnover in management of workers compensation. There is an issue with consistency and focus in the management of their claims. The Bureau is working on improving the relationship it has with public employers. The Mansfield service office is working with cities on a program of "in service at the bureau". These programs utilize best practices, in addition to customized packages developed by all disciplines at the Bureau. The program has already begun to experience success.

#### **CALENDER MATTERS**

Don Berno, Board Liaison, made discussion of material preparation for Board meetings, including the desire of Board members to receive materials two weeks prior to the next month's scheduled meetings. There are several issues facing

the preparation of Board materials, including the consolidation of printing with the Department Administrative Services. This clearly impacts materials development. In order for the materials to be delivered two weeks in advance, the materials would need to be prepared the same day as the current Board meeting. It takes one week to complete the enterprise report. There will be short turnaround time for preparation of Board materials for the November and December meetings. Mr. Smith commended the Bureau staff with regard to efficient and timely preparation of Board materials. Mr. Matesich and Mr, Hummel expressed an interest in receiving the materials via electronic transmission. Mr. Price appreciates Ms. Ryan's monthly updates.

Upon motion by Mr. Harris, seconded by Mr. Smith to adjourn, the Board adjourned at 10:45 am. following a roll call vote that passed 11-0.

October 31 prepared by: Thomas Woodruff, Interim Director Self Insured Department

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