BWC Board of Directors

Board Meeting

Friday, December 18, 2008, 8:00 a.m.
William Green Building
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present:	William Lhota, Chair 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.

NOVEMBER 21, 2008 MINUTES
Motion was made by Mr. Caldwell, seconded by Mr. Haffey, to approve the minutes. Roll call was taken and the motion to approve the minutes passed 11-0.

The meeting agenda was reviewed. The Executive Session section was deleted. The agenda was further amended to include a break, if one was determined to be necessary. Motion was made by Mr. Pitts, seconded by Mr. Price to approve the agenda as amended. Roll call was taken and the motion passed 11-0.

COMMITTEE REPORTS:

ACTUARIAL COMMITTEE

Mr. Bryan presented the Actuarial Committee report. There were no action items. The committee had an educational session in the morning with the consultant, Deloitte Consulting LLP. The session presented the fourth part of their actuarial study. During the afternoon session, private employer rates for July 1, 2009 were discussed. Retrospective group rating plans were discussed. Legislation has passed that will continue prospective group rating for the time being. The committee has increased its attention with regard to the evaluation of reserves. Director Bryan complimented Tracy Valentino on her explanation of how the reserves as developed by Oliver Wyman are tied to the Bureau balance sheet. John Pedrick, Chief Actuarial Officer reported to the Committee that the MIRA II reserve system is functioning quite well.

AUDIT COMMITTEE

Mr. Haffey presented the Audit Committee report. Tom Coyle, Chief Information Officer, presented on disaster recovery and business continuity. Under good governance practices, this is a required annual presentation. Caren Murdock, Chief of Internal Audit, provided an internal audit update. Ann Shannon, Legal Counsel, discussed the annual report. Motion was made by Mr. Haffey, seconded by Mr. Smith, as follows: that the Bureau of Workers' Compensation Board of Directors approve the Bureau annual report for publication and release. Roll call was taken and the motion passed 11-0.

The committee reviewed three rules, including the first reading of the 50/50 program rule. Motion was made by Mr. Haffey, seconded by Mr. Harris, as follows: that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend rule 4123-17-14.2 of the Administrative Code, "Bureau Fifty-Fifty Program." The motion consents to the Administrator amending rule 4123-17-14.2, as presented at the Audit Committee. Roll call was taken and the motion passed 11-0.

Motion was made by Mr. Haffey, seconded by Mr. Matesich as follows: that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend rules 4123-17-14, 4123-17-17, and 4123-17-23 of the Administrative Code. These rules make changes relating to interstate jurisdiction to implement Senate Bill 334. The motion consents to the Administrator amending rules 4123-17-14, 4123-17-17, and 4123-17-23 as presented at the Audit Committee. Roll call was taken and the motion passed 11-0.

The committee had the second reading of the ambulatory surgical center fee schedule rule. Motion was made by Mr. Haffey, seconded by Mr. Harris, as follows: that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to adopt rule 4123-6-37.3 of the Administrative Code, "Payment of Ambulatory Surgical Center Services." The motion consents to the Administrator adopting rule 4123-6-37.3 as presented at the Audit Committee. Roll call was taken and the motion passed 11-0.

INVESTMENT COMMITTEE

Mr. Smith presented the Investment Committee report. Performance of the portfolio has improved since November 2008. The overall performance year to date has been good relative to industry standards. Motion was made by Mr. Smith, seconded by Ms. Falls as follows: that the Board of Directors approve and adopt the recommendation of the Investment Committee to replace current section IV.B of the Statement of Investment Policy and Guidelines regarding the rebalancing policy with language that is set forth in the Mercer memorandum dated December 8, 2008. The memorandum adopted as a result of this motion will be incorporated by reference in the minutes. Roll call was taken and the motion passed 11-0. Motion was made by Mr. Smith, seconded by Mr. Pitts, as follows: that the Bureau of Workers' Compensation Board of Directors adopt the recommendation of the Investment Committee to amend current section IV.C.iii of the State of Investment Policy and Guidelines regarding equity portfolio diversification, for the reasons set forth in the memorandum of the Chief Investment Officer dated December 8, 2008. The exact changes adopted as a result of this motion appear in the Mercer Memorandum of December 7, 2008 and will be incorporated in the minutes of this meeting of the Board. Roll call was taken and the motion passed 11-0.

The second presentation by Mercer Consulting on asset liability modeling was made. The study will either confirm the current model or provide direction as to what changes need to be made. Lee Damsel, Director of Investments, made a positive report on the custodial team. Mr. Haffey and Mr. Price commended Bruce Dunn, Chief Investment Officer, on the Investment Division's close monitoring and steady oversight of the investment portfolio during the recent extremely unsettling and volatile market environment and for providing the Board with more transparency on portfolio performance and valuation.

MONTHLY ENTERPRISE REPORT:

The enterprise report was presented by Tracy Valentino, Chief of Fiscal and Planning. Financial statements were reviewed and discussed at length. A report and power point presentation are incorporated by reference into the minutes. The Bureau shall redeem cash from the investment portfolio, to

meet operating expenses. $110 million in cash was redeemed by the end of November 2008, with an expectation of another $35 million in December 2008. This cash will be sufficient to meet the Bureau's needs through January 2009, when premium collections begin to accelerate. The Bureau intends to avoid the sale of investment securities to meet expenses. Detailed discussion was made on page nine with regard to the administrative cost fund budget. The Bureau is proactively managing this budget, anticipating a decline in premium collections in 2009. The funding ratio is 1.05. The next report shall include a projection of the funding ratio. Mr. Hummel inquired as to possible impacts of the 50/50 plan. Ms. Valentino indicated there will be no negative cash impacts on account of the 50/50 plan.

DEEP DIVE

Don Berno, Board Liaison, made a power point presentation on a schedule for the development of a net asset policy. The Bureau is required by law to maintain a solvent fund at the lowest possible premium rates. It is important for the agency to prepare for catastrophic events, including disasters and claims that could come in the future from latent, long term occupational diseases. Mr. Berno provided a strategic discussion of the issue, including calendar planning from January 2009 through June of 2009. Mr. Bryan and Ms. Falls entered into detailed discussion of the issue. Mr. Berno noted that an approved asset allocation will lead to the development of a funding ratio range. There was further discussion of the funding ratio range issue. In short, an approved net asset policy will include a funding ratio range and a strategy for strengthening the funding ratio range. Subsequently, discussion was made of the discount rate. A five percent discount rate shall be used for further evaluation and discussion at the February 2009 meeting. Mr. Bryan inquired about this issue. According to Mr. Berno, in March 2009, the discount rate to be used will be locked at a specified rate. In March 2009, a decision will be made to either maintain a five percent discount rate, or make a change to a different discount rate, so that Oliver Wyman may conduct further evaluation based upon a known discount rate at that point in time. John Pedrick, Chief Actuarial Officer, discussed reserve analysis, and that it can be done at different discount rates. The annual reserve audit review will be prepared using data through the end of March 2009, and updated with data through the end of June 2009. This will allow for full discussion of the assumptions and methods as the fiscal year end approaches. With respect to a date of March 31, 2009, the discount rate may be changed by then. Mr. Bryan inquired as to when a new discount rate will be determined. Marsha Ryan, Administrator indicated that a discount rate policy will be discussed at the January and February 2009 Board meetings. That policy will be used to determine a discount rate at the March meeting. June 2009 reserves shall be calculated based upon the discount rate that is approved at the March

Board meeting. Ms. Falls noted that a discount rate policy is good, and a discussion should be based on the outcome of policy. Mr. Bryan discussed the importance of setting a discount rate in place, and to then set liabilities. Ms. Ryan noted the discount rate policy needs clarity and transparency. A dynamic approach for setting the discount rate may be considered in the future, but for now, a static discount rate approach should be used. Mr. Haffey agreed. With regard to further evaluation of net asset policy, Mr. Berno noted that reinsurance shall be discussed in April 2009. In May 2009, there will be an annual review of the reserve estimate. The funding ratio equals assets (including premiums and investments) divided by liabilities (including discount rate reserves and catastrophic events). Mr. Smith noted that it is important to have a range since everything changes month to month. Ms. Falls wants discussion of the Bureau view on range in January of 2009, and for the Bureau to provide options on range. Regarding the catastrophic claims/reinsurance issue, Ray Mazzotta, Chief Operating Officer, noted that information on types of exposures for types of markets is being evaluated, as well as products available and the pricing associated with the products. There is further evaluation regarding the pros and cons of such products.

ADMINISTRATOR BRIEFING:
Ms. Ryan presented to the Board. Ms. Ryan emphasized the importance of facilitating full engagement on subjects during discussion. Ms. Ryan noted that activities with regard to budget shortfalls are at issue, and she participates in Cabinet level discussions on the issue. Fitch has changed the outlook for the Ohio economy from stable to negative, although Ohio continues to maintain AA and AAA general obligation and appropriation bond ratings. State agencies are looking to combine activities to protect essential services and limit layoffs. Agencies will look at immediate reductions in expenses to achieve this.

Ms. Ryan provided information regarding recently passed legislation. House Bill 79 originally involved investment policy and requirements. Language was removed, and the bill became a vehicle for changing language for group rating, and spending for the General Assembly's Workers' Compensation Council. RC 4123.29(A)(4)(c) simply provides that group rating is possible, and the word "retrospective" has been removed from the statute. By September 15, 2009, the Bureau must report a plan to address the equity and adequacy of rates. The Bureau shall move quickly to establish equity in group rating. The Workers' Compensation Council met. James Barnes, Chief Legal Officer, and John Pedrick, Chief Actuarial Officer, presented on group rating matters. The General Assembly has passed House Bill 79. It is anticipated that the Governor will sign the bill into law. Mr. Pitts inquired as to the removal of the word retrospective, and the idea that a group is treated as a single employer. Mr. Pitts further inquired as to whether the removal of the word will lead to new programs. Ms. Ryan responded yes, with an emphasis on continuity and homogeneity. Mr. Harris noted that the legislative report did not mention the contribution of John Pedrick to the Workers' Compensation Council meeting. Mr. Harris further noted

that Mr. Pedrick's contribution was significant and he should be mentioned in the report. It was noted that the Attorney General has filed an appeal in the group rating case, as well as a request for stay of execution.

Ms. Ryan noted that there was an unusual call to action on the part of the Bureau, more specifically the Customer Services Division, led by Tina Kielmeyer, Chief of Customer Services. The Ohio Department of Jobs and Family Services has been in need of assistance with respect to unemployment compensation extension benefit checks. Bureau employees assisted this fellow agency with calls associated with the extension checks, since ODJFS has been overburdened with new applications for unemployment compensation. It was noted by Ms. Ryan that Ms. Kielmeyer demonstrated great innovation in organizing one hundred Bureau employees for the handling of calls. The robust nature of the Bureau's telecommunication systems further enhanced the Bureau's ability to provide this assistance to approximately 70,000 unemployment compensation recipients. Ms. Ryan is proud of the OCSEA employees that volunteered to provide this help. Ms. Falls formally congratulated the Bureau staff on this effort and asked for a round of applause.

Ms. Ryan concluded her briefing by thanking the Board for its hard work over the past year. Mr. Lhota also provided his thanks to the Board, as well as the staff and his fellow directors.

Upon motion by Mr. Matesich, seconded by Mr. Haffey, the Board adjourned at 9:22 am. Roll call was taken, and the motion passed 11-0.

December 18 minutes prepared by: Thomas Woodruff, Interim Director Self Insured Department