

BWC Board of Directors

Educational Session

Thurs., Feb. 28, 2008, 9:30 A.M.

William Green Building
The Neil Schultz Conference Center
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present: William Lhota, Chairman
James Harris, Vice Chairman
Charles Bryan
Alison Falls
Philip Fulton
Jim Matesich
Larry Price
Robert Smith
Kenneth Haffey
David Caldwell
James Hummel

Call to order

Mr. Lhota called the meeting to order at 9:30 AM Thursday, February 28, 2008 and roll call was taken. Mr. Lhota reminded members of financial disclosure form filing. Marsha Ryan, BWC Administrator, introduced the new Governor's office liaison, Renuka Mayadev. At 9:35 AM, Director Hummel joined the meeting.

Board Training, Feb. 28, 2008

House Bill 100 mandated training continued Thursday morning.

A presentation was made by Chief Operating Officer, Ray Mazzotta, and Chief of Fiscal and Planning, Tracy Valentino on measuring financial performance. A power point presentation was included, and incorporated by reference, into the minutes. Focus was made on financial soundness, and what constitutes the most valuable information to evaluate. Industry recognized metrics were discussed, including profitability, leverage, liquidity, loss reserve, benchmarking against similar funds, and the AM Best workers compensation composite. Ratios such as the combined, net loss, expense, and operating ratios were discussed. The goal of the combined ratio is 125% to maintain low premiums and solvency. Mr. Bryan inquired as to whether or not compensation expense is net of subrogation collections. Ms. Valentino indicated it is net of subrogation collections. The net loss ratio goal is 120%. The expense ratio goal is 5%. The operating ratio includes investment income from dividends and interest. The operating ratio goal is 100%. The operating cash flow goal is 118%. Ms. Valentino explained that the operating cash flow goal is 118% instead of 100% in order to minimize potential investment portfolio redemptions and to better manage cash flow. Bruce Dunn, Chief Investment Officer, discussed security sales for raising cash. Ms. Valentino stated the ultimate goal is to establish a range of expected results (net investment yield).

Investment to loss reserves goal is 110%. Securities are marked to market value. The next steps are to achieve financial and operational soundness. Ms. Valentino indicated she would deliver the financial report to the Board on Friday, February 29, 2008.

Ms. Ryan instructed Board members that they may have received e-mails that appear to be marked as a “complaint” with the Better Business Bureau of Central Ohio. She noted that BWC’s IT Division has identified these e-mails as “phishing” e-mails that could compromise BWC’s computer system. She asked that the Board members not open these e-mails and delete them.

Recess:

The meeting was recessed by Mr Lhota at 10:46 AM.

BWC Board of Directors

Fri, Feb. 29, 2008, 8:00 A.M.

William Green Building
The Neil Schultz Conference Center
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present: William Lhota, Chairman
James Harris, Vice Chairman
Charles Bryan
Alison Falls
Philip Fulton
James Hummel
Jim Matesich
Robert Smith
Kenneth Haffey
Larry Price
David Caldwell

Members Absent: None

Call to order

Mr. Lhota reconvened the meeting at 8:00 AM.

Roll call

Roll call was taken. All members except Larry Price and David Caldwell were present. Larry Price joined the meeting at 8:05 AM. David Caldwell joined the meeting at 8:25 AM.

Minutes of the Jan. 25, 2008 meeting

Upon motion by Mr. Bryan and seconded by Mr. Harris, the minutes were approved 9-0.

Mr. Lhota noted one addition to the agenda. Representatives from the Office of the Attorney General will be providing a litigation update to the Board at 9:30 AM. Because the update will address current court action, there will be a need for the Board to go into Executive Session.

Before proceeding to the next item on the agenda, Mr. Lhota noted for the record that Deloitte-Touche does his personal taxes, and that this was disclosed prior to BWC entering into an agreement with Deloitte-Touche to conduct the actuarial audit. Mr. Lhota indicated that Deloitte-Touche's contract is with BWC, not the Board of Directors, and so there is no conflict of interest. In addition, Mr. Lhota stated that he received an Ohio Ethics Commission opinion that found that it is permissible for him to be on both the BWC Board of Directors and the Ohio Chamber of Commerce Board. Nonetheless, Mr. Lhota announced that he has resigned from the Chamber's Board.

Committee reports

Actuarial Committee:

Mr. Bryan reported that the Actuarial Committee was introduced to the members of the Deloitte-Touche team who will be conducting the actuarial audit. In addition, BWC Actuarial staff gave presentations to the Actuarial Committee on the rate-making process.

Audit Committee:

Mr. Haffey discussed approval of eight administrative rules. Motion was made by Mr. Haffey and seconded by Mr. Fulton as follows: that the Bureau of Workers’ Compensation Board of Directors approve changes to eight rules of Chapter 4123-17 of the Administrative Code. The rule changes are a result of changes in HB 100 of the 127th General Assembly. The motion consents to the Administrator amending the eight rules of chapter 4123-17 presented here today to: change references from the “Workers’ Compensation Oversight Commission” to the “Bureau of Workers’ Compensation Board of Directors”; strike paragraph (F)(3) of rule 4123-17-03; change the rule reference in rule 4123-17-40 from paragraph (M) to paragraph (L) of rule 4123-19-03; and correct misspellings of “advice” in two rules.

The vote was as follows:

LHOTA	Y	FALLS	Y	HUMMEL	Y
MATESICH	Y	HARRIS	Y	CALDWELL	absent
FULTON	Y	PRICE	Y	BRYAN	Y
HAFHEY	Y	SMITH	Y		

The motion passed 10-0.

Mr. Haffey reported that there was discussion of possible underfunding of the Surplus Fund with Schneider Downs. He noted that there are legal issues that require more review on this matter. Joe Bell, Chief of Internal Audit, provided comments on outstanding internal audit matters and reviewed the audit project of the Office of Budget and Management. Finally, the Audit Committee went into Executive Session to discuss pending litigation.

Investment Committee:

Mr. Smith discussed the proposed Work Plan with Mercer Consulting. In addition, he noted the portfolio rebalancing protocols that Bruce Dunn, Chief Investment Officer, reviewed with the Investment Committee.

Motion was made by Mr. Smith and seconded by Mr. Price as follows: that the Bureau Board of Directors approve and adopt the recommendation of the Investment Committee to amend current Section III.B of the Statement of Investment Policy and Guidelines for the purpose of revising the responsibilities of the Bureau Investment staff.

The vote was as follows:

LHOTA	Y	FALLS	Y	HUMMEL	Y
MATESICH	Y	HARRIS	Y	CALDWELL	absent
FULTON	Y	PRICE	Y	BRYAN	Y
HAFFEY	Y	SMITH	Y		

The motion passed 10-0.

Motion was made by Mr. Smith and seconded by Ms. Falls as follows: that the Board of Directors approve and adopt the recommendation of the Investment Committee to amend the current Section III.E of the Statement of Investment Policy and Guidelines for the purpose of revising the reporting responsibilities of the Bureau’s Investment Consultant.

The vote was as follows:

LHOTA	Y	FALLS	Y	HUMMEL	Y
MATESICH	Y	HARRIS	Y	CALDWELL	absent
FULTON	Y	PRICE	Y	BRYAN	Y
HAFFEY	Y	SMITH	Y		

The motion passed 10-0.

BWC Ethics Website Demonstration

The Governance Committee Report was moved on the agenda to follow the demonstration of the BWC Ethics website. A presentation was made by Bob Coury, Chief Ethics Officer and Chief of Medical Services and Compliance, and Pamela Burton, Computer Education and Technology Manager, concerning ethics. Discussion of the BWC Ethics website was made. Mr. Coury emphasized that the interest of the public is paramount, and that the Bureau must be impartial and fair. Ms. Burton discussed a power point presentation on “Ethics 4 BWC”. Frequently asked ethics questions are posted on BWC’s website, and an example was discussed at length. Discussion was made of the Inspector Generals’ website, as well executive orders of Governor Ted Strickland. The Bureau offers monthly courses on ethics. Mr. Haffey asked how often BWC employees are accessing the frequently asked questions site. Mr. Coury stated that he didn’t have exact figures with him at the meeting, but noted that “hits” on the site increase contemporaneously with the release of policy revisions. Mr. Lhota requested that Mr. Coury provide updates to the Board from time to time on the frequency of BWC staff accessing the BWC Ethics website.

Governance Committee:

Alison Falls presented on Governance Committee matters. The Committee met Monday, February 25, 2008. A copy of the Governance Guidelines with revisions made since the Monday meeting was discussed. The Governance Guidelines incorporate HB 100 requirements, governance best practices, fiduciary responsibility, specific and general board duties, procedures, committee duties, ethics, and the oversight process. Fiduciary counsel Ronald O’Keefe provided assistance with the development of the materials. Mr. Price congratulated Ms. Falls on all of her hard work on these Guidelines, noting that the Governance Committee is moving the Board in the right direction. Ms. Falls noted that she expects the Governance Guidelines to be a useful tool in the future for orientation of new Board members. Motion was made by Ms. Falls, and seconded by Mr. Price, as

follows: that the Bureau of Workers' Compensation Board of Directors approve the Governance Guidelines, as recommended by the Governance Committee. The motion passed 11-0.

Mr. Fulton left the Board meeting table at 8:40 am, to recuse himself from a discussion of the process and form for the evaluation of the BWC Administrator. The Board is required by law to appraise the performance of the Administrator and to discuss said appraisal with the Governor. The discussion of the performance evaluation process and format shall be conducted in an open meeting. However, a discussion of the evaluation of BWC's Administrator shall be done in Executive Session. A form for the evaluation has been designed, and fiduciary counsel shall assist in the compilation of input.

The exact timing of the process was proposed as follows. By March 27, 2008 the Governance Committee will finalize the evaluation process and form. On March 28, 2008 the Governance Committee will make a presentation to the Board and request approval of the evaluation form. Once approved, each Board member will be given a copy for completion and return to fiduciary counsel by April 11, 2008. Fiduciary counsel will assist Board members should they have questions. The Administrator shall make a presentation in Executive Session to the Board at the March meeting regarding her performance. Fiduciary counsel shall compile the input of the individual Board members to provide to the Board for discussion in Executive Session at its April meeting. After the discussion in Executive Session at the April meeting, the Board will reconvene to an open meeting for a possible vote on the Administrator's performance evaluation report. In May 2008, the Board will schedule a meeting to discuss the Administrator's performance evaluation report with the Governor.

Mr. Bryan asked what precedent there is for this evaluation process of the Administrator. Ms. Ryan answered that it is her understanding that this is the first instance where the BWC Administrator will be evaluated by a Board. Ms. Ryan stated that the Board's feedback is important to her, and that she looks forward to input from the Board on her performance. Mr. Lhota applauded Ms. Ryan on her forthrightness with respect to this process. He also noted that the documents created will ultimately be public record at the conclusion of the review. Ms. Falls stated that the Governance Committee had discussed whether this process should be an oral evaluation or a structured written review. Ultimately, the Governance Committee favored the structured written evaluation process for the Administrator because of the openness it provided. Mr. Harris indicated that it is important to have an objective process in place for evaluating performance and decision making at BWC. Mr. Harris stated that accountability to the public is very important.

The evaluation of the Administrator will include consideration of the flexible performance agreement established by the Governor, characteristics of leadership, planning, integrity, interaction with the Board, interaction with external parties, the number one accomplishment in 2007, and the number one objective for 2008. Mr. Bryan expressed concern about the evaluation form lacking in numeric weighting, and asked whether accomplishments should include some of the financial performance measurements for the agency. Ms. Ryan noted that pursuant to the flexible performance agreement with the Governor, her evaluation should have a policy focus for the first year. This may change in the future, and she may be required to meet certain performance metrics at a later date. It was noted that the evaluation will include ranking on a scale of one through five, along with comments on evaluation points. Ms. Falls pointed out that the Board can modify or add to the current proposed questions. Mr. Smith complimented the Administrator and the Governor on their flexible performance agreement, noting that it is well-focused.

The discussion ended at 9:00 AM, and Mr. Fulton returned to the Board table. Discussion of the Governance Committee's calendar ensued. For the May meeting, the Governance Committee will address a self-assessment program for the Board.

Monthly Financial Report

Tracy Valentino, Chief of Fiscal and Planning, presented the monthly financial report to the Board. A power point presentation was included, and is incorporated by reference, into the minutes. Higher than expected participation in premium discount programs continue to contribute to the year-to-date unfavorable premium trends. Also impacting the monthly financial report is the lower discount rate being used by BWC and a contingent liability from the Ohio Hospital case. Discussion was made of the statement of operations, investment income, net assets, and cash flow. Additional discussion of projected operations, investment income, and cash flows was made. Insurance ratios were reviewed by Ms. Valentino. At this point, BWC is through seven months of the fiscal year, and has remained within its budget. Everything is on track financially with compliance on executive controls and personal service contracts.

Upon motion by Mr. Bryan, and seconded by Mr. Caldwell, the meeting recessed at 9:30 AM for a fifteen minute break. Roll call vote in favor of the break was 11-0.

Mr. Lhota reconvened the meeting at 9:45 AM.

Upon motion by Mr. Bryan, seconded by Mr. Matesich, the Board entered into Executive Session for the purpose of discussing with representatives of the Attorney General's office pending litigation involving BWC. Roll call was taken and motion passed 11-0. Executive session ended at 11:10 am, the meeting was reconvened by motion of Mr. Bryan and seconded by Mr. Caldwell. The roll call vote to reconvene was 11-0.

Deep Dive: Claims Management

Bob Coury, Chief of Medical Services and Compliance, and Stephanie Ramsey, Managed Care Services Director, gave a presentation on medical treatment and reimbursement, and their associated processes. A power point presentation was included, incorporated by reference, into the minutes. Medical management in Ohio workers' compensation claims is guided by the Ohio Revised Code and the Ohio Administrative Code. There are twenty-four Managed Care Organizations ("MCOs") that engage in services such as provider bill pay, authorization of medical services, and medical management. Ms. Ramsey discussed MCO process in detail. Prompt care and return to work are important. The framework for care authorization is based upon an Ohio court case known as the *Miller* case. Covered benefits were discussed at length. Discussion of vocational rehabilitation was also made. Activity and performance is the basis of the contract between the Bureau and the MCOs. Forty-five percent of payment is performance based. Mr. Fulton expressed concern over providers leaving the workers' compensation system, and asked whether BWC is going to address this issue. Mr. Coury stated that eliminating unnecessary barriers is very important to addressing this problem. He noted that blue ribbon panels will be utilized to facilitate assessing these issues.

Administrator Briefing

Ms. Ryan noted that there are plans to have the managed care organization league make a presentation to the Board at its April 2008 meeting. In addition, the next public forum will focus on providers. The Board's calendar of reports is a work in progress, as the Workers' Compensation Council is not complete. Mention was made of the Governor's directive concerning flex time work schedules for state employees. BWC will take a planful approach, and consider what is best for its customers. There will be a comprehensive evaluation. Ms. Ryan reminded the Board of the Safety and Hygiene Congress and Expo, held at the Columbus Convention Center. It is scheduled to be held this year from April 1 to April 3. This event is critical for evaluating, improving and facilitating safety. If interested in attending, Board members may contact Don Berno, Board Liaison, to schedule. The next Board meeting will focus on safety, and will be held at BWC's Pickerington office (OCOSH). Ms. Ryan also noted that it is a statutory duty of the Board to evaluate adjudication processes. BWC is currently working with a group to do a review of some of these processes. This review and its recommendations will be shared with the Board so that individual members can provide recommendations. Ms. Ryan thanked the Board members who were able to attend the Inspector General's recognition ceremony to honor contributions to the Inspector General's task force, which event was held February 27, 2008.

Mr. Matesich thanked Ms. Ryan for providing Board members with additional work space in the William Green Building to facilitate Board work.

Scheduling

The next Board meeting shall be held at OCOSH (13430 Yarmouth Drive, Pickerington OH, rooms D & E), March 28, 2008, 8:00 AM – 1:30 PM.

Adjournment

Upon motion by Mr. Smith, seconded by Mr. Bryan, the meeting was adjourned at 12:10 PM. Roll call was taken, and the motion passed 11-0.

Minutes taken by Tom Woodruff, BWC Staff Counsel