

**BWC Board of Directors  
Governance Committee  
Thursday, May 28, 2008, 4:00 P.M.  
William Green Building  
Neil Schultz Conference Center  
30 W. Spring St., 2<sup>nd</sup> Floor (Mezzanine)  
Columbus, OH 43215**

Members Present: Alison Falls, Chair  
Bill Lhota  
Robert Smith

Member Absent: None

Other Directors Present: Kenneth Haffey  
James Harris  
James Hummel  
James Matesich  
Larry Price

Counsel Present: John Williams, Assistant Ohio Attorney General

### **Call to order**

Ms. Falls called the meeting to order at 4:00 p. m. and the roll call was taken.

### **Minutes of April 24, 2008 meeting**

Mr. Lhota moved that the minutes of the April 24, 2008 meeting, be approved. Mr. Smith seconded and the minutes were approved by a unanimous voice vote.

Mr. Lhota requested that an issue regarding the number of members of the Audit Committee be added to the agenda.

### **Discussion items**

#### **Review draft language concerning creation of subcommittees**

Members of the Governance Committee and other Directors discussed the proposed amendment to the committee charters which would allow the creation of subcommittees for each standing committee. Issues included whether to follow Robert's Rules of Order in appointing subcommittees and their chairs; whether the subcommittee members must be confined to members of the committees; and how the committee chair appoints the chair of the subcommittee.

Ms. Falls moved that the Governance Committee recommend to the chairs of the standing committees that language be added to the individual committee charters to provide authority and process for the creation of a subcommittee and that the Governance Committee add the same provision to its charter. Mr. Smith seconded and the motion was approved by unanimous voice vote.

### **Workers' compensation council report**

Marsha Ryan, BWC Administrator, presented a schedule of reports now required by the Ohio Revised Code from BWC to various entities, including the Governor, the legislature, and the Workers' Compensation Council (WCC). She emphasized that the schedule includes reports from various parts of the Revised Code, not just House Bill 100. Ms. Ryan further reported that the Workers' Compensation Council has now been fully appointed and that there may be a meeting during the summer recess of the Ohio General Assembly. She indicated she would be sending selected reports to the WCC members to apprise them of activities that have been accomplished by the Board of Directors and BWC to date. Ms. Ryan also reported that many of the reports on the schedule overlap one another because of being mandated in different legislation and at different times. Also, BWC produces many internal reports which need to be reviewed for continued utility, not just tradition.

After discussion, Ms. Falls stated that the Governance Committee should consider an oversight process to assure that all statutorily mandated reports were submitted to and reviewed by a committee of the Workers' Compensation Board before being released as public records. Furthermore, the committees should then submit the reports to the Workers' Compensation Board with comments. She asked that the document listing the various reports due be updated to include a column noting the responsible committee of the Board for each of the reports.

### **Audit committee membership**

At this point, Ms. Falls asked Mr. Lhota to share his thoughts on the number of Audit Committee members. Mr. Lhota noted the committee currently has only three members and could use the perspective of labor in its deliberations. Mr. Haffey, Chair of the Audit Committee, responded that he was in full agreement with the proposal to add members.

Mr. Lhota moved that the agenda of the May 30, 2008, meeting of the Workers' Compensation Board include an item to expand to five the membership of the Audit Committee and that the chair of the Workers' Compensation Board solicit Directors to add to the committee. Mr. Smith seconded and the motion was approved by unanimous voice vote. The additional members of the Audit Committee will be named at the June Board meeting.

### **Board self-assessment process**

Ms. Falls recommended that the Workers' Compensation Board undertake a self-evaluation process. Self-evaluation is not required by the Ohio Revised Code. However, the New York Stock Exchange requires Board self-evaluations, and this process is now considered a "best practice" among publicly traded companies. The Governance Committee then discussed an example of a self-

assessment form that was compiled from and tailored to the BWC Board from several different board self-assessments.

Mr. Smith commented that the survey has a nice balance of objective and subjective observations. Mr. Price also complimented the draft. Ms. Ryan recommended use of the form by the Workers' Compensation Board for this year. Mr. Haffey requested that the firm of F. Ronald O'Keefe, Fiduciary Counsel review the form. Mr. Hummel requested that there be action items flowing from the assessment. Further discussion was made concerning who would tabulate the results, specifically fiduciary counsel or the Board's legal counsel from the AG's office. The Board members will continue to review the draft questions in the self-assessment and provide feedback to Ms. Falls.

Ms. Falls suggested that members have suggested changes to the draft submitted to Don Berno, Board liaison in the next two weeks. He will incorporate the changes for approval by the Committee at the June meeting.

Mr. Smith moved that the Governance Committee recommend to the Workers' Compensation Board that it move forward with the board self-assessment process as presented today. Mr. Lhota seconded and the motion was approved by unanimous voice vote.

## **Calendar**

Ms. Falls reviewed the Governance Committee calendar for upcoming months. At the June meeting, the Committee will discuss the Board Education program, potential process improvements for the CEO evaluation, and consider the Board self-assessment form and process.

For the agenda of the June meeting of the Governance Committee, Ms. Falls asked that a summary and report of all education sessions conducted since inception of the Workers' Compensation Board be made.

Mr. Lhota recommended that in the annual review of the committee charters there be created a list of items to add or revise. For example, the charter of the Workers' Compensation Board requires use of Robert's Rules of Order; however, the committee charters make no mention of Robert's Rules.

There is no meeting scheduled for July.

## **ADJOURNMENT**

There was a motion by Mr. Lhota, second by Mr. Smith and adjournment by Ms. Falls at 5:45 pm.

Prepared by: Larry Rhodebeck, Staff Counsel  
H:\Word\ldr\WCB Govrnc 0508.doc  
June 4, 2008



4. I believe management's regular presentations on various aspects of the BWC's business are:
- Clear and understandable 1 2 3 4 5
  - Helpful in providing an accurate picture of the BWC's performance. 1 2 3 4 5

Comments:

5. The process by which the Board evaluates the Administrator's performance works well. 1 2 3 4 5

Comments:

6. I believe the rationale for proposed Board and Committee actions is adequately explained prior to action being taken. 1 2 3 4 5

Comments:

7. The pre-meeting reading materials are generally helpful and relevant. 1 2 3 4 5

Comments:

8. I am satisfied with the conduct of Board meetings in these respects:

- Agendas 1 2 3 4 5
- Opportunity for discussion 1 2 3 4 5
- Frequency 1 2 3 4 5

Comments:

9. Overall, I believe each of the Board's committees work well.

- Actuary Committee 1 2 3 4 5
- Audit Committee 1 2 3 4 5
- Investment Committee 1 2 3 4 5
- Governance Committee 1 2 3 4 5

Comments:

10. I believe the Board's review of the BWC's audit, audit process, accounting policies and financial statements enables me to gain a clear picture of the state of BWC's overall health. 1 2 3 4 5

Comments:

11. Overall, I believe I am provided the resources and tools I need to effectively exercise my fiduciary and oversight responsibilities. 1 2 3 4 5

Comments:

12. Overall, I believe the Board makes the appropriate use of the skills and experience of its members. 1 2 3 4 5

Comments:

13. Overall, I believe the Board engages in full and candid discussions of the issues before it and personally feel comfortable expressing my views at Board and Committee meetings. 1 2 3 4 5

Comments:

14. If there is one change I would make, it is . . .

---

Signature (Optional)

FOR DISCUSSION PURPOSES  
BWC BOARD OF DIRECTORS COMMITTEE ASSIGNMENTS

**Audit Committee** (increase from 3 to 5 members)

Ken Haffey, Chair  
Phil Fulton, Vice-Chair  
Jim Harris  
Bill Lhota  
Jim Matesich

**Actuary Committee**

Chuck Bryan, Chair  
Jim Matesich, Vice-Chair  
David Caldwell  
Phil Fulton  
Jim Hummel

**Governance Committee** (increase from 3 to 5 members)

Alison Falls, Chair  
Larry Price, Vice-Chair  
Jim Hummel  
Bill Lhota  
Bob Smith

**Investment Committee**

Bob Smith, Chair  
Alison Falls, Vice-Chair  
David Caldwell  
Jim Harris  
Larry Price

# STATUTORY REPORTS REQUIRED OF THE BOARD OF DIRECTORS

***HB 100 requires the BWC Board of Directors to submit six separate reports to the Governor, the General Assembly, and the Workers' Compensation Council***

1. The Board is required to submit the education program component to the WCC for approval.
2. An annual actuarial report prepared by a hired consultant
3. Annual Financial Report
4. An annual report on the value and performance of each investment class
5. An actuarial analysis prepared by an outside professional hired by the Board of legislation that "is expected to have a measurable financial impact" on the BWC
6. A five year actuarial investigation report prepared by an outside consultant hired by the Board
7. A 10 year fiduciary performance audit report of the investment program prepared by an outside consultant hired by the Board

The contents of the reports and their due dates are as follows:

1. R.C. §4121.12(F) (17) **Board Education Program** must be submitted to the Workers' Compensation Council for approval. (The curriculum was presented in June 08 to the WCC.) The statute states the curriculum is to consist of:
  - Orientation
  - Continuing education
  - Duties and responsibilities
  - Compensation and benefits
  - Ethics
  - Governance processes
  - Actuarial soundness
  - Investments
  - Other subject matter requested by the Board

2. R.C. §4121.125 (C)(1) **Annual Actuarial Report** that consists of an actuarial valuation of the assets, liabilities and funding requirements of BWC funds **due no later than September 1**, following the year for which the valuation was made, must be submitted to the legislative committees that hear BWC legislation as well as the WCC and the LSC. It must contain the following (R.C. §4121.125 (E)):

- Summary of compensation and benefits provisions evaluated
- Summary of census data and financial information used in the valuation
- Description of the actuarial assumptions, cost method, and asset valuation method used in the valuation
- Summary of findings that includes statement of actuarial accrued compensation and benefit liabilities and unfunded actuarial accrued compensation and benefit liabilities
- A schedule showing the effect of any changes in compensation and benefits, actuarial assumptions, or cost methods since the previous report.

3. The R.C. §4121.12(F) (3) **Annual Report** (Due date not specified in statute. A September submission coincides with required preparation time.) to the Governor, the President of the Senate and the Speaker of the House as well as the Workers' Compensation Council and include all of the following in that report:

- An evaluation of cost and quality objectives of the BWC
- Statement of the net assets available for compensation and benefits under Chapters 4123, 4127, and 4131 of the Revised Code as of the last day of the fiscal year.
- Statement of any changes that occurred in the net assets available, including employer premiums and net investment income, for the provision of compensation and benefits and payment of administrative expenses, between the first and last day of the fiscal year immediately preceding the date of the report.
- Report must include the following information for each of the six consecutive fiscal years previous to the report:
  - Schedule of net assets available for compensation and benefits
  - Annual cost of the payment of compensation and benefits
  - Annual administrative expenses incurred
  - Annual employer premiums allocated for the provision of compensation and benefits
- Description of significant changes that occurred during the previous six years that affect the Board's ability to compare that information from year to year.

4. R.C. §4121.12 (F)(12) **Annual Report to the Governor**, the President and Minority Leader of the Senate, and the Speaker and Minority Leader of the House of Representatives, on the value and performance of each investment class. (Due date not specified. A September submission coincides with availability of information.)

5. R.C. §4121.125(C)(6) **Actuarial Analysis**, prepared by an actuary, and submitted no later than 60 days following introduction of any legislation expected to have a measurable financial impact on BWC. Report to be submitted to the LSC, the standing committees of the House and the Senate with primary responsibility for workers' compensation legislation and the WCC. It must include (R.C. §4121.125 (G)):

- A summary of statutory changes being evaluated
- A description or reference to the actuarial assumptions and actuarial cost method used in the report
- A description of the participant groups used in the report
- A statement of financial impact of the legislation, including resulting increases, if any, in employer premiums, in actuarial accrued liabilities, and, if an increase in actuarial accrued liabilities is predicted, the per cent of premium increase that would be required to amortize the increase in those liabilities as a level per cent of employer premiums over a period not to exceed 30 years.
- A statement of whether the employer premiums paid to BWC after the proposed change is enacted is expected to be sufficient to satisfy the funding objectives as established by the Board.
- A statement of whether the employer premiums paid to BWC after the proposed change is enacted is expected to be sufficient to satisfy the funding objectives as established by the Board.

6. R.C. §4121.125 (C)(5) **Actuarial Investigation** at least once within a 5 year period that commences on the effective of the amendment, and once every 5 years thereafter, submitted to the WCC and the standing legislative committees that hear BWC legislation by November 1, following the 5<sup>th</sup> year studied and must include (R.C. §4121.125 (F)):

- Summary of relevant decrement and economic assumption experience
- Recommended changes in actuarial assumptions to be used in actuarial variations required under division (C)(1)
- Measurement of the financial effect of the recommended changes

7. R.C. §4121.125(I) **Fiduciary Performance Audit** of the investment program by an independent auditor is to be done at least once every ten years and include:

- An audit of the investment policies approved by the board and investment procedures of the BWC. A copy goes to the Auditor of State.

**Board of Directors  
Schedule of Mandatory Reports**

<b>Code Section</b>	<b>Board Report</b>	<b>Staff Member</b>	<b>Responsible Committee/ Month</b>	<b>Delivery Date</b>	<b>Submit To</b>
4121.12 (F)(17)	Education Program Approval	Berno/Concilla	Governance/ May	August	WCC
4121.125 (C)(1)	Annual Actuarial Report	J. Pedrick	Actuarial/ July	9/1/2008 (per HB 100)	LSC, standing legislative committees with primary responsibility for WC legis., WCC
4121.12 (F)(3)	Annual Financial Report	T. Valentino	Audit/ August	September	Gov, Sen. Pres, Speaker and WCC
4121.12 (F)(12)	Annual Report on the performance & value of each investment class	B. Dunn	Investment/ July	September	Gov, 4 legislative caucus leaders
4121.125(C)(6)	Actuarial Analysis of Legislation	J. Pedrick	Actuarial/ongoing	60 days after introduction	LSC, standing legislative committees with primary responsibility for WC legis., WCC
4121.125(C)(5)	Review of Actuarial Assumptions used in Annual Actuarial Audit	J. Pedrick	Actuarial	At least once by Nov, 2012, every 5 years after	standing legislative committees with primary responsibility for WC legis., WCC
4121.125 (I)	Fiduciary Performance Audit of BWC Investment Program	Chief Auditor	Audit/Investment	At least once every 10 years	Auditor of State
	<b>Administrator Reports</b>				
4123.22	Annual Report of BWC & IC operations, info from preceding year	M. Ryan	Audit	July	Governor and for public view
4121.37	Have Supt of Safety & Hygiene prepare annual report on purpose & amount of expenditures, research results and investigations.	M. Ryan	Audit	July	Governor
4123.47 (A)	At least once yearly arrange actuarial audits of all funds	M. Ryan	Actuarial	Not Specified	Audit Committee and (at cost) to the public

**BOARD OF DIRECTORS  
OHIO BUREAU OF WORKERS' COMPENSATION  
EDUCATIONAL COMPONENTS REPORT  
PREPARED FOR THE WORKERS' COMPENSATION COUNCIL  
PURSUANT TO ORC 4121.12 (F)(17)  
PREPARED JUNE 3, 2008**

***ORC section 4121.12(F)(16) outlines nine specific areas of education to be provided to the Board of Directors and requires the educational program to be submitted to the Workers' Compensation Council for approval. The curriculum is to consist of: orientation, continuing education, duties and responsibilities, compensation and benefits, ethics, governance processes, actuarial soundness, investments, and other subject matter requested by the Board.***

The staff at the Bureau is committed to providing as much information to the Board of Directors as possible and began the education components with the first meeting of the Board in August. Some of the subsequent topics were Board driven and others were anticipated by staff and scheduled in advance. Training was conducted by members of our staff, as well as private sector experts when necessary. We believe this process to be ongoing and have offered at least one topic per month to the Board and/or the individual committees.

We have met all the minimum education requirements set forth in the statute and conducted additional session topics that we believe have formed a well rounded curriculum for our Board. Additional topics covered an overview of the Workers' Compensation system, development of group coverage, understanding the monthly financial statement, the internal audit function at BWC, IT disaster readiness, and the application of different accounting principals.

Supporting documentation provided at the education sessions is available on our website, [www.ohiobwc.com](http://www.ohiobwc.com). Please note that not every presentation or education discussion topic had materials that became part of the permanent record. A more detailed compilation of materials and topics is available for your review in the BWC administration offices.

**BOARD OF DIRECTORS  
OHIO BUREAU OF WORKERS' COMPENSATION  
EDUCATION TOPICS  
AUGUST 2007 – MAY 2008**

***Required Areas Specified in HB 100:***

***Orientation***

- Review of HB 100 issues
- Administrative issues
- Review of 07 fiscal reports
- Open meeting basics
- Understanding the monthly financial statement
- Annual budget process
- Customer Contact Center demonstration and tour
- Division of Safety & Hygiene briefing
- Overview of BWC's internal audit function

***Duties and Responsibilities***

- Review of duties and other responsibilities of Board members
- Rule-making process
- Duties and responsibilities of committees

***Ethics***

- Ethics training by David Freel, Executive Director of the Ohio Ethics Commission
- Fraud, Ethics and Internal Control referral process

***Fiduciary Responsibilities***

- Fiduciary presentation by Thomas Anderson included governance of public funds and large institutional public funds.
- Fiduciary Counsel and the role of the Attorney General
- Fiduciary responsibility of board members with fiduciary counsel Ron O'Keefe

***Governance Process & Procedures***

- Governance training from Jeff Rodek of The OSU Fisher College of Business

***Compensation & Benefits***

- Claims related processes; life cycle of a claim
- Administrative appeals process presented by Tom Connor of the Industrial Commission
- Workers' compensation appeals to civil courts presented by Asst AG Mark Mastrangelo
- Presentations by PERS and Deferred Compensation representatives
- Compensation and benefits related to the Marine Fund, the Coal Miners Pneumoconiosis Fund, and the Self Insuring Guaranty Fund

## **Investments**

- Overview of current investment policy and market influences
- Investment basics and an overview of the proposal process used when contracting with outside vendors
- Investment reports and critical elements of an investment policy statement
- Fixed incomes
- Custodial Structure of investment accounts
- Asset/Liability Valuation Study, State Insurance fund, presentation by Mark Brubaker and Mike Patalsky, Wilshire Associates
- Securities lending
- Passive fixed income management
- Small ancillary trust funds investment strategy
- Securities lending overview
- Asset allocation review of BWC trust funds
- Asset classes
- Investment Topics, Mercer Investment Consulting, Inc.

## **Actuarial Soundness**

- Report from Aon Actuarial & Analytical Consulting which included the evaluation of historical BWC profitability, current surplus and premium ratemaking methodologies, as well as group rating issues and industry standards in ratemaking and reserve development.
- Medical cost increases: discussion of impact on rates and reserves; why and how to control costs
- Annuity factors
- Rate indicators for Personal Employer taxing districts
- Training session on base rate development and group rating.
- Rate making, group rating, and experience rating and credibility tables
- Explored the difference between audit reserves and summation of MIRA individual reserves
- Public Employer Taxing District Base Rate Rules
- Discount rate
- Monopolistic fund comparisons
- Comprehensive study section 512.50 of HB100
- MIRA II and NCCI Experience Rating
- Private Employer Ratemaking
- Split Plan Update, Oliver Wyman Actuarial Consulting. Inc.
- Deloitte Development briefing

## **Other areas not specified in HB100**

- Medical cost trends
- Historical perspective on the development of group coverage presented by Ohio Chamber of Commerce CEO Andrew Doehrel
- IT readiness and emergency plans
- Understanding Ohio's Health Partnership Program (HPP), George C. Smith, Executive Director, MCO League of Ohio

# 12-month Governance Committee Calendar

June		Notes
Wed. 25th	<ol style="list-style-type: none"> <li>1. Review Board education program, FY 08/09</li> <li>2. Possible review of committee assignments</li> <li>3. Potential process improvements for CEO evaluation</li> <li>4. Approve Board self-evaluation form &amp; process</li> </ol> <p style="text-align: right; margin-top: 10px;">4:00 pm, Columbus, Level 2, Room 3</p>	
July		
	No Meeting	
August		
Wed. 27th	<ol style="list-style-type: none"> <li>1. Placeholder to submit education report to WCC</li> <li>2. HB 100 annual review overview process</li> </ol> <p style="text-align: right; margin-top: 10px;">4:00 pm, Columbus, Level 2, Room 3</p>	
September		
Wed. 24th	<ol style="list-style-type: none"> <li>1. Meeting topics TBD</li> </ol> <p style="text-align: right; margin-top: 10px;">4:00 pm, Columbus, Level 2, Room 3</p>	
October		
Wed. 29th	No Meeting	
November		
Wed. 19th	<ol style="list-style-type: none"> <li>1. Governance Guidelines Review</li> <li>2. Committee Charter Review</li> </ol> <p style="text-align: right; margin-top: 10px;">4:00 pm, Columbus, Level 2, Room 3</p>	